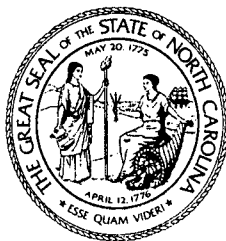


**2011-2012**

**PROPERTY INSURANCE  
RATE MAKING  
COMMITTEE**

**MINUTES**



**LEGISLATIVE RESEARCH COMMISSION**  
**COMMITTEE ON PROPERTY INSURANCE RATE**  
**MAKING**

**2011 – 2012 SESSION**

**SENATOR HARRY BROWN**  
**CO – CHAIR**

**REPRESENTATIVE JERRY C. DOCKHAM**  
**CO – CHAIR**

**Elise Quick**  
**Darryl Black**  
**Senate Committee Clerks**  
**Beth LeGrande**  
**House Committee Clerk**



Office of the Speaker  
North Carolina House of Representatives  
Raleigh, North Carolina 27601-1096

THOM TILLIS  
SPEAKER

September 12, 2011

As you prepare your agenda for the Legislative Research Commission (the "Commission"), pursuant to G.S. 120-30.17, I hereby authorize the Commission to appoint subcommittees to study the following matters during the interim. House appointees to each study committee are also identified. Please restrict each study committee to a maximum of four meetings unless additional meetings are pre-approved by my office.

**Studies Approved in Conjunction with the Senate:**

~~Property Insurance Rate Making~~ Study the adequacy of citizen input in property insurance rate making and the manner in which property insurance rates are proposed, reviewed, approved, and appealed. Specifically, the subcommittee may study the following:

- (1) The feasibility and advisability of replacing the North Carolina Rate Bureau with a marketbased ratesetting system or with a regulatory commission similar to the North Carolina Utilities Commission.
- (2) The adequacy under current law of legislative oversight of the Rate Bureau, the North Carolina Joint Underwriting Association, and the North Carolina Insurance Underwriting Association.
- (3) The adequacy under current law of Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate, or unfairly discriminatory rates.
- (4) Whether North Carolina citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.
- (4) The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss costs made by the Rate Bureau.
- (5) Whether information provided to the public by the Commissioner and the Rate Bureau is adequate to allow
- (6) reasoned review by interested citizens of the assumptions, modeling, and processes used in setting rates.

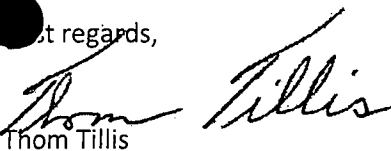
**Chair: Dockham (Brown)**

**Members: McElraft, Iler, Wray, Jordan (Apodaca, Meredith, Hise, White)**

I will look forward to reviewing the Commission's report regarding the study results, as well as any recommended legislation, prior to convening of the 2012 short session. Please let me know if my staff or I may be of assistance.

Thank you for your service.

Best regards,

  
Thom Tillis

## 2011-2013 Committee Budget Estimate

<b>1) Legislative Members Subsistence</b>	<b>\$6,240.00</b>
<div> <div>\$104.00</div> <div> <div>X</div> <div>10</div> </div> <div> <div>X</div> <div>1.5</div> </div> <div> <div>X</div> <div>4</div> </div> <div> <div>=</div> <div>\$6,240.00</div> </div> </div> <div> <div>Legislative Subsistence</div> <div>Number of Legislative members</div> <div>Half of Members using Two Days of Subsistence</div> <div>Number of Meetings</div> <div>Total Legislative Members Subsistence</div> </div>	
<b>2) Non-Legislative Members Subsistence</b>	<b>\$0.00</b>
<div> <div>\$116.00 *</div> <div> <div>X</div> <div>0</div> </div> <div> <div>X</div> <div>1.5</div> </div> <div> <div>X</div> <div>0</div> </div> <div> <div>=</div> <div>\$0.00</div> </div> </div> <div> <div>Non-Legislative Members Subsistence</div> <div>Number of Non-Legislative Members</div> <div>Half of Non-Legislative Members using Two Days Subsistence</div> <div>Number of Meetings</div> <div>Total Non-Legislative Members Subsistence</div> </div>	
* \$101.05 Daily Per Diem Rate Plus \$15 Committee Per Diem Rate (GS138-5)	
<b>3) Travel Expenses</b>	<b>\$2,800.00</b>
<b>a) Legislative Members</b>	
<div> <div>\$70.00</div> <div> <div>X</div> <div>10</div> </div> <div> <div>X</div> <div>4</div> </div> <div> <div>=</div> <div>#####</div> </div> </div> <div> <div>Round Trip Reimbursement (Based on 242 miles @ \$0.29 per mile*)</div> <div>Number of Legislative Members</div> <div>Number of Meetings</div> <div>Total Travel for Legislative Members</div> </div>	
<b>b) Non-Legislative Member</b>	
<div> <div>\$73.00</div> <div> <div>X</div> <div>0</div> </div> <div> <div>X</div> <div>0</div> </div> <div> <div>=</div> <div>\$0.00</div> </div> </div> <div> <div>Round Trip Reimbursement (Based on 242 miles @ \$0.30 per mile*)</div> <div>Number of Non-Legislative Members</div> <div>Number of Meetings</div> <div>Total Travel for Non-Legislative Members</div> </div>	
* 242 Miles is an Average per Member based on the Total Certified Round Trip Mileage	
<b>4) Clerical Staff</b>	<b>\$3,272.00</b>
<div> <div>\$818.00 *</div> <div> <div>X</div> <div>4</div> </div> <div> <div>=</div> <div>\$3,272.00</div> </div> </div> <div> <div>Average Salary with Benefits for 5 day work week</div> <div>Number of Meetings</div> <div>Total Clerical Staff</div> </div>	
* Average Weekly Wages for LA, CAI, CAII & CAIII with Fringes Added.	
<b>5) Professional Staff</b>	<b>\$0.00</b>
<b>6) Special Travel and Expenses</b>	<b>\$0.00</b>
<b>7) Postage and Telephone Expenses</b>	<b>\$0.00</b>
<b>8) Supplies</b>	<b>\$0.00</b>
<b>9) Coping and Printing</b>	<b>\$250.00</b>
<b>10) Reserve</b>	<b>\$0.00</b>
<b>Total</b>	<b>\$12,562.00</b>



## 2011-2013 Committee Budget Estimate

<b>1) Legislative Members Subsistence</b>		<b>\$6,240.00</b>
	\$104.00	Legislative Subsistence
X	10	Number of Legislative members
X	1.5	Half of Members using Two Days of Subsistence
X	4	Number of Meetings
=	<u>\$6,240.00</u>	Total Legislative Members Subsistence
<b>2) Non-Legislative Members Subsistence</b>		<b>\$0.00</b>
	\$116.00 *	Non-Legislative Members Subsistence
X	0	Number of Non-Legislative Members
X	1.5	Half of Non-Legislative Members using Two Days Subsistence
X	0	Number of Meetings
=	<u>\$0.00</u>	Total Non-Legislative Members Subsistence
* \$101.05 Daily Per Diem Rate Plus \$15 Committee Per Diem Rate (GS138-5)		
<b>3) Travel Expenses</b>		<b>\$2,800.00</b>
<b>a) Legislative Members</b>		
	\$70.00	Round Trip Reimbursement (Based on 242 miles @ \$0.29 per mile*)
X	10	Number of Legislative Members
X	4	Number of Meetings
=	<u>#####</u>	Total Travel for Legislative Members
<b>b) Non-Legislative Member</b>		
	\$73.00	Round Trip Reimbursement (Based on 242 miles @ \$0.30 per mile*)
X	0	Number of Non-Legislative Members
X	0	Number of Meetings
=	<u>\$0.00</u>	Total Travel for Non-Legislative Members
* 242 Miles is an Average per Member based on the Total Certified Round Trip Mileage		
<b>4) Clerical Staff</b>		<b>\$3,272.00</b>
	\$818.00 *	Average Salary with Benefits for 5 day work week
X	4	Number of Meetings
=	<u>\$3,272.00</u>	Total Clerical Staff
* Average Weekly Wages for LA, CAI, CAII & CAIII with Fringes Added.		
<b>5) Professional Staff</b>		<b>\$0.00</b>
<b>6) Special Travel and Expenses</b>		<b>\$0.00</b>
<b>7) Postage and Telephone Expenses</b>		<b>\$0.00</b>
<b>8) Supplies</b>		<b>\$0.00</b>
<b>9) Copying and Printing</b>		<b>\$250.00</b>
<b>10) Reserve</b>		<b>\$0.00</b>
<b>Total</b>		<b>\$12,562.00</b>

LEGISLATIVE RESEARCH COMMISSION COMMITTEE ON PROPERTY  
INSURANCE RATE MAKING

MEMBERSHIP LIST

2011 – 2012 SESSION

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(919) 733-5746

**NORTH CAROLINA GENERAL ASSEMBLY**

**LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING**

**2011-2012 SESSION**

<b><u>MEMBERS</u></b>	<b><u>ASSISTANT</u></b>	<b><u>PHONE</u></b>	<b><u>OFFICE</u></b>
<b>Sen. Harry Brown, Co-Chair</b>	Susanne Gunter	715-3034	300B LOB
	Darryl Black	715-3034	
	Elise Quick	715-3034	
	Committee Assistants		
<b>Rep. Jerry Dockham, Co-Chair</b>	Regina Irwin	715-2526	2204 LB
	Beth LeGrande	733-5746	1317 LB
	Committee Assistant		

**Senate Members**

<b>Sen. Tom Apodaca</b>	Carolyn Gooden	733-5745	2010 LB
<b>Sen. Ralph E. Hise, Jr.</b>	Shelly Carver	733-3460	1026 LB
<b>Sen. Wesley A. Meredith</b>	Debbie Lown	733-5776	2106 LB
<b>Sen. Stan M. White</b>	Brenda Lee	715-8293	1121 LB

**House Members**

<b>Rep. Frank Iler</b>	Carla Farmer	301-1450	632 LOB
<b>Rep. Jonathan C. Jordan</b>	Brian Mullis	733-7727	418C LOB
<b>Rep. Pat McElraft</b>	Nancy Fox	733-6275	637 LOB
<b>Rep. Michael H. Wray</b>	Lisa Brown	733-5662	502 LOB

**COMMITTEE COUNSEL**

Research Division:	Kory Goldsmith	733-2578	Room: 545 LOB
	Tim Hovis	733-2578	Room: 200 LOB
	Amy Jo Johnson	733-2758	Room: 545 LOB
Bill Drafting:	Jeff Cherry	733-6660	Room: 401 LOB

NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE RESEARCH COMMISSION COMMITTEE ON PROPERTY  
INSURANCE RATE MAKING

2011-2012 SESSION



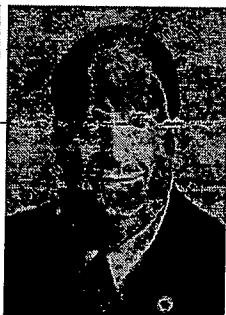
REP. DOCKHAM  
CO-CHAIR



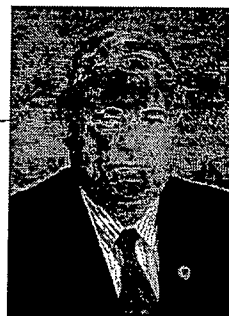
SEN. BROWN  
CO-CHAIR



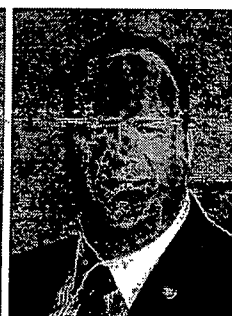
REP. ILER



REP. JORDAN



SEN. APODACA



SEN. HISE, JR.



REP. MCELRAFT



REP. WRAY



SEN. MEREDITH



SEN. WHITE

## ATTENDANCE

### LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

(Name of Committee)

<b>DATES</b>	11-12-2011		12-01-2011		03-21-2012		04-12-2012					
<b>MEMBERSHIP</b>												
Sen. Harry Brown – Co-Chair	X		X		X		X					
Rep. Jerry Dockham – Co-Chair	X				X		X					
<b>SENATE MEMBERS</b>												
Sen. Tom Apodaca												
Sen. Ralph E. Hise, Jr	X		X		X		X					
Sen. Wesley A. Meredith	X											
Sen. Stan M. White			X				X					
<b>HOUSE MEMBERS</b>												
Rep. Frank Iler	X		X		X		X					
Rep. Jonathan C. Jordan			X		X		X					
Rep. Pat McElraft			X		X		X					
Rep. Michael H. Wray	X		X		X							
<b>STAFF</b>												
Kory Goldsmith, Research Division	X		X				X					
Tim Hovis, Research Division	X		X		X		X					
Amy Jo Johnson, Research Division	X		X		X		X					
Jeff Cherry, Bill Drafting	X		X		X		X					
Daryl Black, Comm. Asst.	X		X		X		X					
Beth LeGrande, Comm. Asst.	X		X		X		X					

**Elise Quick (Sen. Brown)**

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**From:** Beth LeGrande (Rep. Keever)  
**Sent:** Wednesday, October 26, 2011 1:50 PM  
**To:** Beth LeGrande (Rep. Keever)  
**Subject:** REMINDER - Property Insurance Rate Making Committee Nov. 2, 2011  
**Attachments:** Property Insurance Rate 11-2 Agenda Rate Making.docx

## **NORTH CAROLINA GENERAL ASSEMBLY**

Raleigh, North Carolina 27601

**October 13, 2011**

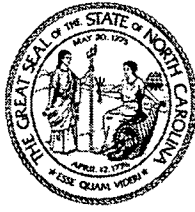
### **MEMORANDUM**

**TO:** Members of the Legislative Research Commission Committee on Property Insurance Rate Making  
**FROM:** Senator Harry Brown, Co-Chair  
Representative Jerry Dockham, Co-Chair  
**SUBJECT:** Meeting Notice

<b>DAY</b>	<b>DATE</b>	<b>TIME</b>	<b>ROOM</b>
Wednesday	November 2, 2011	1:00 p.m.	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting <http://www.ncleg.net/graphics/downtownmap.pdf>.

If you are unable to attend or have any questions concerning this meeting, please contact Beth LeGrande at 919-733-5746.



## LRC Committee on Property Insurance Rate Making

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### AGENDA

Wednesday, November 2, 2011, 1:00 p.m.  
Legislative Office Building: Room 544

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#### I. Welcome and Introductions

*Sen. Harry Brown, Co-Chair*

*Rep. Jerry C. Dockham, Co-Chair*

#### Adoption of Proposed Budget

#### III. Property Insurance Rate Making Procedure and Factors

1 ➤ **North Carolina Rate Bureau**

*Ms. Sue Taylor, Director, Insurance Operations*

2 ➤ **North Carolina Department of Insurance** (no presentation)

*Ms. Rose Vaughn-Williams, Legislative Counsel*

3 ➤ **North Carolina Insurance Underwriting Association (Beach Plan)**  
**North Carolina Joint Underwriting Association (FAIR Plan)**

*Mr. Lee Dunn, Assistant General Manager, Beach and Fair Plans*

#### IV. Committee Discussion and Directions to Staff

# **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.



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

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

## LRC Committee on Property Insurance Rate Making

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.

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

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.

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

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

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

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

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

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.

## LRC Committee on Property Insurance Rate Making

### *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.



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

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.

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

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.

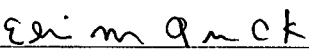
Mr. Dunn stated that would have to be done through the Rate Bureau or set in statute.

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

  
\_\_\_\_\_  
Darryl Black and Elise Quick, Committee Assistants

  
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Senator Harry Brown, Committee Chair

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

## **MINUTES**

**November 2, 2011**

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Attachment 1- LRC rules

Attachment 2- Proposed budget

Attachment 3- Authorizing legislation

Attachment 4- North Carolina Rate Bureau Presentation (Ms. Sue Taylor)

Attachment 5- North Carolina Department of Insurance Presentation (Ms. Rose Vaughn-Williams)

Attachment 6- North Carolina Insurance Underwriting Association/ the Beach Plan Presentation (Mr. Lee Dunn)

North Carolina Joint Underwriting Association/ the FAIR Plan Presentation (Mr. Lee Dunn)

**RULES FOR THE  
2011-12 LEGISLATIVE RESEARCH COMMISSION**

*[Adopted on September 14, 2011]*

1. **Legislative Research Commission; member; cochairmen; terms.**—As provided by statute, the Legislative Research Commission (hereinafter referred to as "Commission") shall consist of five Senators appointed by the President Pro Tempore of the Senate and five Representatives appointed by the Speaker of the House. The President Pro Tempore and the Speaker shall be ex officio members of the Commission and shall serve as the Cochairmen of the Commission. Each Cochairman, respectively, may appoint an acting chairman to act in his stead in all respects under these Rules, subject to applicable law (each, an "Acting Chairman"). Where applicable law requires the action of the Chairmen, the Acting Chairmen shall make nonbinding recommendations to the respective Chairmen for final action. The Cochairmen, or the Acting Chairmen as the case may be, shall set the agenda for the Commission's meetings and shall have the authority, in the absence of a Commission meeting, to allocate funds, to modify allocations of funds to the Commission's advisory committees (hereinafter referred to as "committees"), to direct studies to be conducted, and to request another State agency, board, commission or committee to undertake a study authorized by the Commission.
2. **Areas of study, duties of Commission members.**—The Commission shall determine which of the subjects it is authorized to study shall be funded and which the Commission shall request a more appropriate Study agency to study pursuant to G.S. 120-30.17(9). The subjects that the Commission decides to study shall be apportioned by the Cochairmen into ten areas of study, and each Commission member shall be designated by the Cochairmen to be responsible for the committees that are appointed to study the subjects in his study area. In this context, the duties of each Commission member include:
  - (a) Assuring that each study is conducted within its budget and within the timetables set forth in these rules;
  - (b) Requesting that additional funds be allocated by the Commission Cochairmen or the full Commission if the funds are necessary to complete a study;
  - (c) Presenting to the Commission at its meetings a review of the progress and financial condition of the committees under the member's charge and the reports of those committees;
  - (d) Generally serving as a liaison between the Commission and the committees for which the member is responsible.
3. **Committees; committee cochairmen; members.**—As provided by statute, the Cochairmen may appoint committees to conduct the studies that the Commission is authorized to undertake. The composition of each committee is at the discretion of the Commission Cochairmen, as advised by the Acting Chairmen. Upon agreement between the cochairmen, either or both of them shall call the meetings of their committee, set the agendas for the meetings, and preside over the meetings. Other duties

of the cochairmen include voting on all questions before their committees and signing and transmitting all reports of their committee to the Commission Cochairmen. The cochairmen should develop their agenda to insure that each committee meeting lasts not less than four hours.

4. **Procedure before the Commission and its committees.—**

- (a) **Commission meetings and presiding officer.** Commission meetings shall be called by both Cochairmen. The Speaker, or the Speaker's Acting Chairman, shall preside over Commission meetings in odd-numbered years, and the President Pro Tempore, or President Pro Tempore's Acting Chairman, shall preside in even-numbered years.
- (b) **Scheduling and notice of meetings.** The scheduling of meetings of the Legislative Research Commission and its committees wherever held, shall be coordinated through the Legislative Services Office. Notice of meetings of the Commission and its committees shall be posted on the press room door and delivered to the Legislative Services Office as early as possible prior to the meeting. The Legislative Services Office shall publish the official notice for meetings of this Commission and its committees. Any modification to the meeting schedule, as published, shall be made through that Office as soon as possible. Committees shall limit the number of meetings to no more than four (4) prior to the reconvening of the 2012 Session of the 2011 General Assembly, unless additional meetings are approved in advance by the Commission Cochairmen. The Commission Cochairmen shall direct the Acting Chairmen as to the number of committee meetings that may be held after the adjournment sine die of the 2011 General Assembly.
- (c) **Quorum.** As provided by statute, eight members, including ex officio members, shall constitute a quorum of the Commission. With respect to any committee a majority of the committee shall constitute a quorum of the committee.
- (d) **Voting.** All questions before the Commission or any committee shall be determined by a simple majority of the members present and voting. A two-thirds (2/3) vote of the members present shall be necessary to sustain any appeal from a ruling by the presiding officer.
- (e) **Closed sessions.** The Commission or any committee can hold an closed session only as provided by law.
- (f) **Review of Committees' progress.** The Commission members shall review for the Commission the progress and financial condition of the committees under each member's charge. These reviews shall occur at the Commission meetings upon the call of the cochairs.

5. **Members' terms, compensation, and duties.—**As provided by statute, Commission and committee members' terms shall begin on the day of appointment and shall end on January 15, 2013. The Commission shall hold its final meeting prior to that date. As provided by statute, Commission and committee members shall be compensated as follows: All Commission and committee members who are members of the General Assembly are eligible to receive a travel allowance of twenty-nine (29¢) per mile for

transportation by privately owned automobile and actual fare for any other conveyance. All others will receive mileage at the rate approved by the Office of State Budget and Management. The reimbursement to Commission and committee members for any mode of travel in-State shall not exceed the cost of travel by privately-owned automobile plus cost not exceeding one extra day per diem.

Members of the General Assembly shall receive a subsistence allowance of one hundred and four dollars (\$104.00) per day. Committee members who are not members of the General Assembly or State officers or employees shall receive compensation at the rate of fifteen dollars (\$15.00) per day. All non-legislator committee members shall receive a maximum subsistence allowance for each day of service of eighty-one dollars (\$81.00) when travelling in-State and ninety-three dollars (\$93.00) a day when travelling out-of-State. Costs of overnight lodging must be documented. All members, including committee members who are not legislators, shall vote on all questions before the Commission or committee. When attending a meeting each member should sit with the Commission or committee for at least three quarters of the time during which the Commission or committee is in session.

~~6. Staff.~~ Clerical assistance for the Commission and committees shall be determined and assigned by the Commission Cochairmen. The Director of Research shall coordinate the professional staffing of the committees by Legislative Services Office personnel or outside consultants, subject to the approval of the Commission Cochairmen. The costs of travel by a staff member on behalf of a committee shall be paid from the appropriate committee budget as approved by the cochairmen of the Commission. Committee clerks shall be authorized to work up to five days for each committee meeting, including the day of the meeting; provided that the Commission member responsible for the study shall be authorized, after consultation with either Commission Cochairman, to approve additional work time as the member deems to be necessary. Committee clerks shall remain under the supervision and control of the supervisor of clerks of the respective house.

**7. Reports of committees.—**

- (a) **Adoption by committee.** If a committee is to make recommendations to the Commission, the committee cochairmen shall insure that a draft of the committee report is sent to the committee members and the Commission member responsible for the study at least seven (7) days before the committee's meeting at which the report is to be approved. 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. With the approval of the committee cochairmen, typographical errors may thereafter be corrected, but no other change may be made in the report by any individual or committee.
- (b) **Transmittal to Commission.** Reports to the 2012 Session of the 2011 General Assembly shall be submitted to the Commission Cochairmen not later than Friday, April 27, 2012. Final reports to the 2013 General Assembly shall be transmitted to the Commission Cochairmen not later than Friday, January 4, 2013. The committee cochairmen shall

provide thirty (30) copies of each report to the Commission Cochairmen for distribution to the Commission members.

- (c) **Action by the Commission and transmittal to the General Assembly.** The Commission may accept for transmittal to the General Assembly the reports of its committees with whatever modifications to those reports the Commission deems to be appropriate. Such transmittals to the General Assembly are for its consideration of the recommendations of the committees and do not amount to endorsements of those recommendations.
- (d) **Printing, distribution, and summaries of reports.** The Director of Research shall prepare a publication summarizing the activities and recommendations of the committees that are contained in the reports that are transmitted to the General Assembly. Copies of this summary shall be distributed to all members of the General Assembly as soon as practicable after its printing.

## 2011-2013 Committee Budget Estimate

<b>1) Legislative Members Subsistence</b>		<b>\$6,240.00</b>
	\$104.00	Legislative Subsistence
X	10	Number of Legislative members
X	1.5	Half of Members using Two Days of Subsistence
X	4	Number of Meetings
=	<u>\$6,240.00</u>	Total Legislative Members Subsistence
<b>2) Non-Legislative Members Subsistence</b>		<b>\$0.00</b>
	\$116.00 *	Non-Legislative Members Subsistence
X	0	Number of Non-Legislative Members
X	1.5	Half of Non-Legislative Members using Two Days Subsistence
X	0	Number of Meetings
=	<u>\$0.00</u>	Total Non-Legislative Members Subsistence
* \$101.05 Daily Per Diem Rate Plus \$15 Committee Per Diem Rate (GS138-5)		
<b>3) Travel Expenses</b>		<b>\$2,800.00</b>
<b>a) Legislative Members</b>		
	\$70.00	Round Trip Reimbursement (Based on 242 miles @ \$0.29 per mile*)
X	10	Number of Legislative Members
X	4	Number of Meetings
=	<u>#####</u>	Total Travel for Legislative Members
<b>b) Non-Legislative Member</b>		
	\$73.00	Round Trip Reimbursement (Based on 242 miles @ \$0.30 per mile*)
X	0	Number of Non-Legislative Members
X	0	Number of Meetings
=	<u>\$0.00</u>	Total Travel for Non-Legislative Members
* 242 Miles is an Average per Member based on the Total Certified Round Trip Mileage		
<b>4) Clerical Staff</b>		<b>\$3,272.00</b>
	\$818.00 *	Average Salary with Benefits for 5 day work week
X	4	Number of Meetings
=	<u>\$3,272.00</u>	Total Clerical Staff
* Average Weekly Wages for LA, CAI, CAII & CAIII with Fringes Added.		
<b>5) Professional Staff</b>		<b>\$0.00</b>
<b>6) Special Travel and Expenses</b>		<b>\$0.00</b>
<b>7) Postage and Telephone Expenses</b>		<b>\$0.00</b>
<b>8) Supplies</b>		<b>\$0.00</b>
<b>9) Coping and Printing</b>		<b>\$250.00</b>
<b>10) Reserve</b>		<b>\$0.00</b>
<b>Total</b>		<b>\$12,562.00</b>

Updated 09/01/2011





**Office of the Speaker**  
**North Carolina House of Representatives**  
**Raleigh, North Carolina 27601-1096**

**THOM TILLIS**  
**SPEAKER**

September 12, 2011

As you prepare your agenda for the Legislative Research Commission (the "Commission"), pursuant to G.S. 120-30.17, I hereby authorize the Commission to appoint subcommittees to study the following matters during the interim. House appointees to each study committee are also identified. Please restrict each study committee to a maximum of four meetings unless additional meetings are pre-approved by my office.

**Studies Approved in Conjunction with the Senate:**

~~**Property Insurance Rate Making**~~ — Study the adequacy of citizen input in property insurance rate making and the manner in which property insurance rates are proposed, reviewed, approved, and appealed. Specifically, the subcommittee may study the following:

- (1) The feasibility and advisability of replacing the North Carolina Rate Bureau with a marketbased ratesetting system or with a regulatory commission similar to the North Carolina Utilities Commission.
- (2) The adequacy under current law of legislative oversight of the Rate Bureau, the North Carolina Joint Underwriting Association, and the North Carolina Insurance Underwriting Association.
- (3) The adequacy under current law of Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate, or unfairly discriminatory rates.
- (4) Whether North Carolina citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.
- (4) The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss costs made by the Rate Bureau.
- (5) Whether information provided to the public by the Commissioner and the Rate Bureau is adequate to allow
- (6) reasoned review by interested citizens of the assumptions, modeling, and processes used in setting rates.

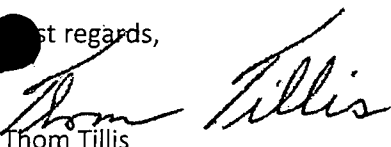
**Chair: Dockham (Brown)**

**Members: McElraft, Iler, Wray, Jordan (Apodaca, Meredith, Hise, White)**

I will look forward to reviewing the Commission's report regarding the study results, as well as any recommended legislation, prior to convening of the 2012 short session. Please let me know if my staff or I may be of assistance.

Thank you for your service.

Best regards,

  
 Thom Tillis

North Carolina Rate Bureau

**Presentation to the  
LRC Committee on  
Property Insurance Rate Making**

**By the  
North Carolina Rate Bureau  
November 2, 2011**

NCRB



## Purpose

- The purpose of this presentation is to inform, educate and provide facts and data as requested
- The Rate Bureau does not lobby or advocate any position other than assert the need for fair and adequate rates



# What is the North Carolina Rate Bureau?

- Created by state statute in 1977
- Not a state agency
- Unincorporated legal entity
- All insurance companies doing business in North Carolina
  - Total of 725 companies
    - 648 Automobile members
    - 621 Residential property members
    - 517 Workers' compensation members



## Our Mission

- Responsible for proposing rates and standard policy forms for:
  - Non-fleet Private Passenger Motor Vehicle Insurance
  - Residential Real Property Insurance
  - Workers' Compensation and Employers Liability Insurance
- Ensure that rates are adequate, not excessive and not unfairly discriminatory



# Statutory Responsibilities

## NCGS 58-36-1

– “There is hereby created a Bureau to be known as the  
‘North Carolina Rate Bureau,’ ...

- NCGS 58-36-1(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,...

- NCGS 58-36-1(3)

– “The Bureau shall promulgate and propose rates for  
insurance against loss to residential real property...,



# **Membership is Required**

**NCGS 58-36-5(a)**

Before the commissioner shall grant permission to any stock, nonstock, or reciprocal insurance company or any other insurance organization to write in this State. . it shall be a requisite that they shall subscribe to and become members of the Bureau.

## **Rate Bureau Constitution**

### **Article V**

Every insurance carrier so long as it is authorized to write Automobile Insurance, Property Insurance or Workers' Compensation Insurance in the State of North Carolina shall subscribe to and become a Member of the Bureau...



## How is the Rate Bureau Managed?

- Governing Committee
- Other Committees
- General Manager
- Each member shall be entitled to one representative and one vote in the administration of the affairs of the Bureau





## Role of the Rate Bureau

- It is the Bureau's responsibility to analyze, propose and assert the need for fair and adequate rates for residential property insurance in North Carolina
- The Bureau is *not* the spokesperson for the insurance industry
- The Bureau does *not* take positions as to legislative changes



## **Residential Property Defined**

**NCGS 58-36-1(3)**

- “The Bureau shall promulgate and propose rates for insurance against loss to residential real property with not more than four housing units located in this state and any contents thereof and valuable interest therein and other insurance coverages written in connection with the sale of such property insurance”



## **Types of Residential Property Insurance Policies**

- Homeowners (generally owner occupied)
  - Owners forms
  - Tenants
  - Condominium owners
- Dwelling Fire & Extended Coverage (generally not owner occupied)
- Mobile Home (two forms are available)



## **Flood Insurance**

**“WARNING: THIS PROPERTY INSURANCE POLICY DOES NOT PROTECT YOU AGAINST LOSSES FROM (FLOODS), (EARTHQUAKES), (MUDSLIDES), (MUDFLOWS, (LANDSLIDES). YOU SHOULD CONTACT YOUR INSURANCE COMPANY OR AGENT TO DISCUSS YOUR OPTIONS FOR OBTAINING COVERAGE FOR THESE LOSSES. THIS IS NOT A COMPLETE LISTING OF ALL OF THE CAUSES OF LOSSES NOT COVERED UNDER YOUR POLICY. YOU SHOULD READ YOUR ENTIRE POLICY TO UNDERSTAND WHAT IS COVERED AND WHAT IS NOT COVERED.”**



## **NORTH CAROLINA'S RESIDENTIAL MARKET**

• Homeowner owner policies	2,000,000
• Homeowner tenant policies	150,000
• Condominium policies	50,000
• Dwelling policies	550,000
• Mobile home policies	475,000



## The Ratemaking Process

- Data from member insurance companies are submitted to a statistical agency
- The data are aggregated as if from a single company
- Rates are developed and a filing is authorized by the Governing Committee
- A filing is made with the Commissioner of Insurance



## Public View

NCGS 58-36-15(b)

A filing shall be **open to public inspection** immediately upon submission to the Commissioner.

NCGS 58-36-120

Whenever the North Carolina Rate Bureau files for an increase in insurance rates for residential property insurance, the Bureau shall give public notice in at least **two newspapers** with statewide distribution and in the **North Carolina Register**, within 10 business days after the filing...



## **Ratemaking Formula (The insurance equation)**

$$\begin{array}{rcl} \text{Premium} & = & \text{Expected losses} \\ & & + \\ & & \text{Expected expenses} \\ & & + \\ & & \text{Reasonable profit} \end{array}$$





## Ratemaking Standards

NCGS 58-36-10. The following standards shall apply to the making and use of rates:

- (1) Rates or loss costs shall not be **excessive, inadequate or unfairly discriminatory**.
- (2) Due consideration shall be given to **actual loss and expense experience** within this State for the most recent three-year period for which that information is available; to **prospective loss and expense experience** within this State; to the hazards of conflagration and **catastrophe**; to a reasonable margin for underwriting **profit**...



## The Ratemaking Approval Process

- The filing is approved or disapproved by the Commissioner
- The Commissioner calls a public hearing if the filing is not approved
- At the conclusion of the public hearing the Commissioner issues an order
- The Rate Bureau can appeal this decision directly to the North Carolina Court of Appeals



## How is an Individual Premium Determined?

### Bureau Factors:

- Policy Form
- Amount of insurance (value of dwelling)
- Deductible
- Construction
- Fire protection class
- Territory
- Additional coverages

### Company factors:

- Discounts (deviations)
- Consent-to-rate



North Carolina Rate Bureau

**Thank you**

**[www.ncrb.org](http://www.ncrb.org)**

Sue Taylor – Director of Insurance Operations  
(919)-582-1050

Bill Trott – Counsel for Rate Bureau  
Young Moore & Henderson  
(919) 782-6860

NCRB



Thank Chairs

My name is Rose Vaughn Williams. I am Legislative Counsel to the Department of Insurance.

I've been asked today to give the committee background on the rate making system for property insurance in North Carolina and an overview about how rates are set.

I will start with a brief history and then briefly outline the ratemaking process.

### History of Property Insurance Legislation in NC

In 1913 the General Assembly enacted legislation that prohibited unfair discrimination in rates, required the licensing of insurance agents, and required ratemaking organizations to file information and rates with the Insurance Commissioner. The Commissioner was authorized to examine rates and hold hearings on policyholder complaints.

In 1915 the General Assembly required insurance adjusters to be licensed; required fire insurance companies to file rates with the Commissioner, who could hold a hearing about these rates; and enacted standard policy provisions for fire insurance into law.

In 1945 the federal McCarran-Ferguson Act exempted insurance ratemaking from federal antitrust laws to the extent insurance was regulated by the states. This ensured that insurance would be regulated by the states and not the federal government. The federal legislation was in response to a U.S. Supreme Court opinion that the operations of unregulated rating organizations violated the federal antitrust laws. The North Carolina Fire Insurance Rating Bureau was created by the General Assembly to collect data and file fire insurance rates with the Commissioner.

In 1969 coastal and urban property insurance was made available through Beach and FAIR Plans, which were created by the General Assembly. The Beach Plan was created to provide insurance coverage on the barrier islands because insurance companies were not willing to write property insurance for property on the barrier islands. The FAIR plan (short for Fair Access to Insurance Requirements) was created after the urban riots in the 1960's to help property owners in the riot areas obtain insurance because companies were not willing to write insurance policies on property in those areas. The FAIR plan makes property insurance available to property owners in non-coastal counties who cannot find an insurance company willing to write them insurance. You'll hear more about those programs when that organization speaks later today.

In 1977 a "file-and-use" system of rate regulation replaced "prior approval" in North Carolina; the three separate rating bureaus for automobile, fire, and workers' compensation insurance were consolidated into the N.C. Rate Bureau.

In 1979 the General Assembly enacted the "Readable Insurance Policies Act," which required specific tests for format and readability for homeowner's and other lines of insurance. The law required the Commissioner to review the forms to ensure that they are readable by a person of "average intelligence, experience, and education." Commissioner Goodwin chairs a national committee focused on helping consumers better understand their insurance policies.

In 1987 the General Assembly required the Beach Plan to issue separate policies of windstorm insurance to properties for which the basic property insurance was written by another company. At the time, the Beach Plan wrote property insurance only east of the Intracoastal Waterway. The new law allowed the insurance companies to write the basic property coverage, but send the wind risk to the Beach Plan.

In 1997 the General Assembly extended the jurisdiction of the Beach Plan to 18 counties west of the Intracoastal Waterway. Property owners in those 18 counties were finding it almost impossible to get insurance companies to write property insurance for them in those areas; and, of course, all lenders require mortgaged property to be insured.

In 2001 the General Assembly required the Beach Plan to begin writing full homeowners' policies (policies with all the bells and whistles, if you will) in the coastal counties. These homeowners' policies can be written only on principal residences.

In 2009 the General Assembly made substantial changes to the Beach Plan, which was renamed the Coastal Property Insurance Pool. If you want me to briefly summarize what that law did, I could do that....

### **The Ratemaking Process**

Let's talk ratemaking for property coverage. The laws that govern the process are spelled out in Chapter 58, Article 36 of the General Statutes.

In a very simple sense, this is how property insurance rates are made in North Carolina:

The Rate Bureau—which represents all of the insurance companies writing property business in North Carolina—submits a filing to the Department of Insurance requesting a rate change. (The Rate Bureau is not a state agency).

The Department's actuaries, attorney, and other professionals review the filing to see if the proposed rates meet statutory standards.

If they do, the Commissioner of Insurance may approve the requested rates.

If they don't, the Commissioner can enter into settlement negotiations with the Rate Bureau, or call a hearing in order to determine what rates will be allowed.

If the Commissioner fails to take any action within 50 days of receiving the filing, the requested rates automatically take effect.

Now let's go into a bit more detail of each step of that process.

## **The Filing (SHOW NOTEBOOK OF THE FILING)**

As I said, the Rate Bureau submits filings to the Department of Insurance on behalf of all property insurance companies writing business in the state.

Instead of getting multiple filings from hundreds of companies coming in at all times of year, the Department of Insurance can focus on reviewing this one, big filing. Otherwise the Department could receive more than 100 filings, which would require significantly more staff, if they were to be properly reviewed.

Therefore, the Commissioner considers rates for the industry as a whole.

By law, all the insurance companies must conform to the rates and classifications promulgated and filed by the Bureau.

The required financial and statistical information in a filing includes loss and claims data, money set aside to pay claims, overhead, premium income, investment income, etc.

(Note...the "investment income" considered is investment income on unearned premium reserves and loss expense reserves generated by business in this state...the "investment income" considered is not the investment income the companies make on all their investments.)

The filing also must include any testimony, exhibits or other information the Bureau would use during a hearing.

The Rate Bureau is required to make annual filings on some lines of insurance, but when it comes to homeowners insurance, it is not required to make a filing every year or at any set interval.

The Bureau is required to give the public notice any time it files for an increase in rates for residential property, and notice of a filing must also be posted on the Rate Bureau and Department of Insurance websites.

As soon as it is filed with the Commissioner, the filing is available for to the public for inspection.

## **The Review**

While the Commissioner's job is to balance the interests of the consumers with interests of the insurance companies by maintaining a solvent market and



keeping insurance companies willing to do business here, in ratemaking the Department of Insurance's mission is to protect the consumer, because the insurance companies are adequately protected by the Rate Bureau.

Once a filing is received, the Department reviews it to ensure that all supporting financial and statistical information required by law has been filed by the insurance companies based on state law.

If the Department finds that the proposed rates in the filing meet the statutory standards, the Commissioner may approve the filing.

So what are the statutory standards that must be met?

By law rates cannot be excessive, inadequate, or unfairly discriminatory. The Rate Bureau has the burden of proving that the proposed rates meet those standards.

A rate is inadequate if it is unreasonably low for the insurance provided and if the use or continued use of the rate has or will:

- Endanger the solvency of the insurer
- Destroy competition
- Create a monopoly
- Or violate actuarial principles, practices or soundness.

A rate is unfairly discriminatory in relation to another in the same class if it does not equitably reflect the differences in expected losses and expenses.

Rates are not unfairly discriminatory because different premiums result for policyholders with similar loss exposures but different expense factors, or similar expense factors but different loss exposures, as long as the rates reflect the differences with reasonable accuracy.

G.S. 58-36-10(2) enumerates the various actuarial and economic issues to which the Commissioner must give due consideration. One of those issues is profit. The courts have said that insurance companies are entitled to earn "a fair and reasonable profit".

If the Department finds that the rates requested in the filing do not meet the statutory standards or if the information presented is questionable, then the

Commissioner may either enter into settlement negotiations with the Bureau or call for a hearing.

Remember, if the Commissioner takes no action within 50 days after the filing is made, the filing is deemed to be approved by operation of law.

### **The Hearing**

If the Commissioner calls for a hearing, he issues a written notice that sets a date for the hearing and specifies in what respects and to what extent the filing fails to comply with law.

All issues to be raised at the hearing must be specifically stated in the hearing notice, or they may not be raised at the hearing.

Once notice is given, the Department retains independent experts to review the filing and make recommendations, if necessary.

At least 20 days before the start of a hearing, the Department must file all expert testimony, exhibits, and other information it will rely upon at the hearing.

The Commissioner then schedules a meeting between the parties to see if there are any issues that can be resolved by stipulation.

The Commissioner presides over the hearing.

The Commissioner listens to experts from the Rate Bureau and the Department of Insurance, and will ultimately decide what rate change, if any, is warranted.

Hundreds of pages of exhibits which include written testimony, calculations, tables, graphs, maps and charts are examined. **SHOW EXAMPLE**

### **Commissioner's Order**

G.S. 58-36-20(a) requires the Commissioner to issue an order within 45 days after the conclusion of a hearing. If he fails to issue an order within 45 days, the filing is deemed to be approved.

If the Commissioner finds, after a hearing, that the filing does not comply with the law, he may issue an order disapproving the filing and detailing how and why the filing is not in compliance.

While the Bureau has the burden of proving its filing, the Commissioner has the burden to ensure that material and substantial evidence exists in the record to support his findings.

If the Rate Bureau wants to dispute the Commissioner's order disapproving the filing, it can do so through the N.C. Court of Appeals.

G.S. 58-36-25 provides that after the Commissioner issues an order disapproving the filing, the companies have the option to use the filed rates pending judicial review.

If the companies elect to use the filed rates, they must escrow the difference between the filed rates and the existing rates.

Once the case is resolved in the appellate courts, if the Rate Bureau prevails, the escrowed funds are returned to the companies.

If the Commissioner prevails, the escrowed money is refunded to the policyholders.

If there is a refund, the refunds will bear interest for policy holders at the prime rate plus 3%.

### **Deviations and "Consent to Rate"**

Once rates are eventually established, that is not the end of the story.

Bureau rates are rates the companies may not exceed except in certain circumstances.

Under the law, companies may deviate downward from those rates. In other words, they can offer discounts to policyholders for certain things, such as smoke detectors, sprinklers, and security systems.

On the other hand, companies may charge more than the set rate, but only with the written consent of the policyholder. If the policyholder consents, the property insurance company may charge the policyholder a rate that is as much as 250% above the Bureau rate.

A lot of people do sign these forms consenting to pay a higher rate. Sometimes they do it because they like their agent...or they're with a company that covers other things for them (their car, their second home etc), or...sometimes, they

just do not realize what they are signing. The Commissioner has expressed concern about this practice.

### **Conclusion**

That is a brief history of the rate-making process in North Carolina, and a brief summary of the rate-making process from the Department's view.

**END**

**NORTH CAROLINA INSURANCE  
UNDERWRITING ASSOCIATION - NCIUA  
(Coastal Property Insurance Pool)**

**NORTH CAROLINA JOINT  
UNDERWRITING ASSOCIATION - NCJUA  
(FAIR Plan)**

## **AGENDA**

- **NCIUA – COASTAL PROPERTY INSURANCE POOL**  
(Commonly known as the Beach Plan)
- **NCJUA – FAIR PLAN**  
(Fair Access to Insurance Requirements)
- **MARKET SHARE INFORMATION**
- **REINSURANCE STRUCTURE**
- **2011 FISCAL YEAR FINANCIAL STATUS**

## **PURPOSE AND MEMBERS OF THE NCIUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-1(a)**
  - Created in 1969 by the General Assembly
  - Provides an insurance market for residents in the beach and coastal areas
  - Encouragement of economic development on the coast
  - Supported by nonrecoupable assessment to Member Companies – up to \$1B annually
- **NORTH CAROLINA GENERAL STATUTE 58-45-10**
  - Member Companies are all those authorized to write business within the State
    - Exceptions for Town and County Mutual Associations and Assessable Mutual Companies

## LEGISLATIVE HISTORY OF THE NCIUA

- Created in 1969 to provide essential coverage in the beach area for Dwelling Fire
- Expanded in 1988 to provide Wind/Hail only coverage in the beach area
- Expanded in 1998 to additionally provide Wind/Hail only in the coastal area
- Expanded in 2003 to provide all inclusive Homeowner coverage in the beach and coastal areas, also Homeowner Wind/Hail only was introduced



## **GOVERNING BOARD OF THE NCIUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-30(a)**
  - Board of Directors determined by the Plan of Operation as approved by the Commissioner of Insurance
  - Board of Directors consists of 14 Members
    - 7 – Insurance Industry Members
    - 4 – Agent Members
    - 3 – Public Members
  - Commissioner of Insurance appoints all Agent and Public Members
  - Insurance Industry Members are elected annually by the Member Companies

## **RATE DETERMINATION OF THE NCIUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-45(a)**
  - Most recent Manual Rates or Loss Costs legally in effect
    - North Carolina Rate Bureau – Personal Insurance
    - Insurance Services Offices (ISO) – Commercial Insurance
- The NCIUA does not set rates

## APPLICABLE SURCHARGES OF THE NCIUA

- NORTH CAROLINA  
GENERAL STATUTE  
58-45-45(a1)
  - Surcharges developed to assist in maintaining status as Market of Last Resort, General Statue 58-45-1(c)
  - The NCIUA does not set policy surcharges

Commercial Fire	ISO Manual Rate
Commercial Wind	ISO Manual Rate
Dwelling Fire	NCRB Manual Rate
Dwelling Wind	NCRB Manual Rate X 1.05 (5%)
Homeowner	NCRB Manual Rate X 1.15 (15%)
Homeowner Wind	NCRB Manual Rate X 1.05 (5%)

# **DETERMINATION OF POLICY FORMS FOR THE NCIUUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-45(a)**
  - Policy forms applicable are those most recently approved by the Commissioner of Insurance
  - Insurance Services Office (ISO) for Personal and Commercial business
  - North Carolina Rate Bureau for North Carolina specific forms but published by Insurance Services Office (ISO)
  - Separate Wind Hail policy forms must be approved by the Commissioner of Insurance and are modeled after Insurance Services Office (ISO)

## MINIMUM POLICY DEDUCTIBLES FOR THE NCIUA

- NORTH CAROLINA GENERAL STATUTE 58-45-45(a2)
  - Minimum of one percent (1%) of the insured value for Named Storm\*
  - Residential deductible options and rates are published by the North Carolina Rate Bureau
  - Commercial deductible options and rates follow the Insurance Services Office (ISO) rating plans
- The NCIUA does not set deductible options or rating

\*Named Storm includes hurricanes, tropical storms and tropical depressions if so named

## **MAXIMUM POLICY LIMITS FOR THE NCIUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-41**
  - Residential property building value \$750,000
  - Residential property contents 40% of building limit
  - Commercial property building \$3M per fire division subject to \$6M aggregate for multi-fire division structures
  - Excess coverage must be purchased to full value of the property insured for any risk that exceeds these limitations
- The NCIUA does not set coverage limitations

## **REGULATORY OVERSIGHT OF THE NCIUA**

- **NORTH CAROLINA GENERAL STATUTE 58-45-30**
  - Plan of Operation outlining written rules, practices and procedures as approved by the Commissioner of Insurance
  - Rules, practices and procedures not outlined in the Plan of Operation are filed and approved by the Commissioner of Insurance prior to implementation

## **PURPOSE AND MEMBERS OF THE NCJUA**

- **NORTH CAROLINA GENERAL STATUTE 58-46-1(a)**
  - Created in 1969 by the General Assembly
  - Provides a basic insurance market for residents outside the “beach area” defined in **GS 58-45-5(2)**
  - Encourage the improvement of properties
  - Arrest the decline of properties
  - Member Companies share in the expenses, income and losses  
**GS 58-46-5**
- **NORTH CAROLINA GENERAL STATUTE 58-46-10**
  - Member Companies are all those authorized to write basic property coverage within the State
    - Exceptions for Town and County Mutual Associations and Assessable Mutual Companies



## **GOVERNING BOARD OF THE NCJUA**

- **NORTH CAROLINA GENERAL STATUTE 58-46-20**
  - Board of Directors determined by the Plan of Operation as approved by the Commissioner of Insurance
  - Board of Directors consists of 14 Members
    - 7 – Insurance Industry Members
    - 4 – Agent Members
    - 3 – Public Members
  - Commissioner of Insurance appoints all Agent and Public Members
  - Insurance Industry Members are elected annually by the Member Companies

## **RATE DETERMINATION OF THE NCJUA**

- **NORTH CAROLINA GENERAL STATUTE 58-46-55**
  - Most recent Manual Rates or Loss Costs legally in effect
    - North Carolina Rate Bureau – Personal Insurance
    - Insurance Services Office (ISO) – Commercial Insurance
- The NCJUA does not set rates

## **APPLICABLE SURCHARGES OF THE NCJUA**

- NORTH CAROLINA GENERAL STATUTE 58-46-20
  - Substandard property conditions as outlined in the Plan of Operation
  - Approved as the Substandard Rating Plan by the Commissioner of Insurance
  - Surcharge(s) removed once the substandard condition(s) has been corrected

# DETERMINATION OF POLICY FORMS FOR THE NCJUA

- NORTH CAROLINA GENERAL STATUTE 58-46-55
  - Policy forms applicable are those most recently approved by the Commissioner of Insurance
    - Insurance Services Office (ISO) for Personal and Commercial business
    - North Carolina Rate Bureau for North Carolina specific forms but published by Insurance Services Office (ISO)

## **MINIMUM POLICY DEDUCTIBLES FOR THE NCJUA**

- **NORTH CAROLINA GENERAL STATUTE 58-46-20**
  - Minimum of one percent (1%) of the insured value for Named Storm as outlined in the Plan of Operation approved by the Commissioner of Insurance
    - Personal Lines applies in the coastal area
    - Commercial Lines applies statewide
      - Residential deductible options and rates are published by the North Carolina Rate Bureau
      - Commercial deductible options and rates follow the Insurance Services Office (ISO) rating plans
- The NCJUA does not set deductible rating calculations

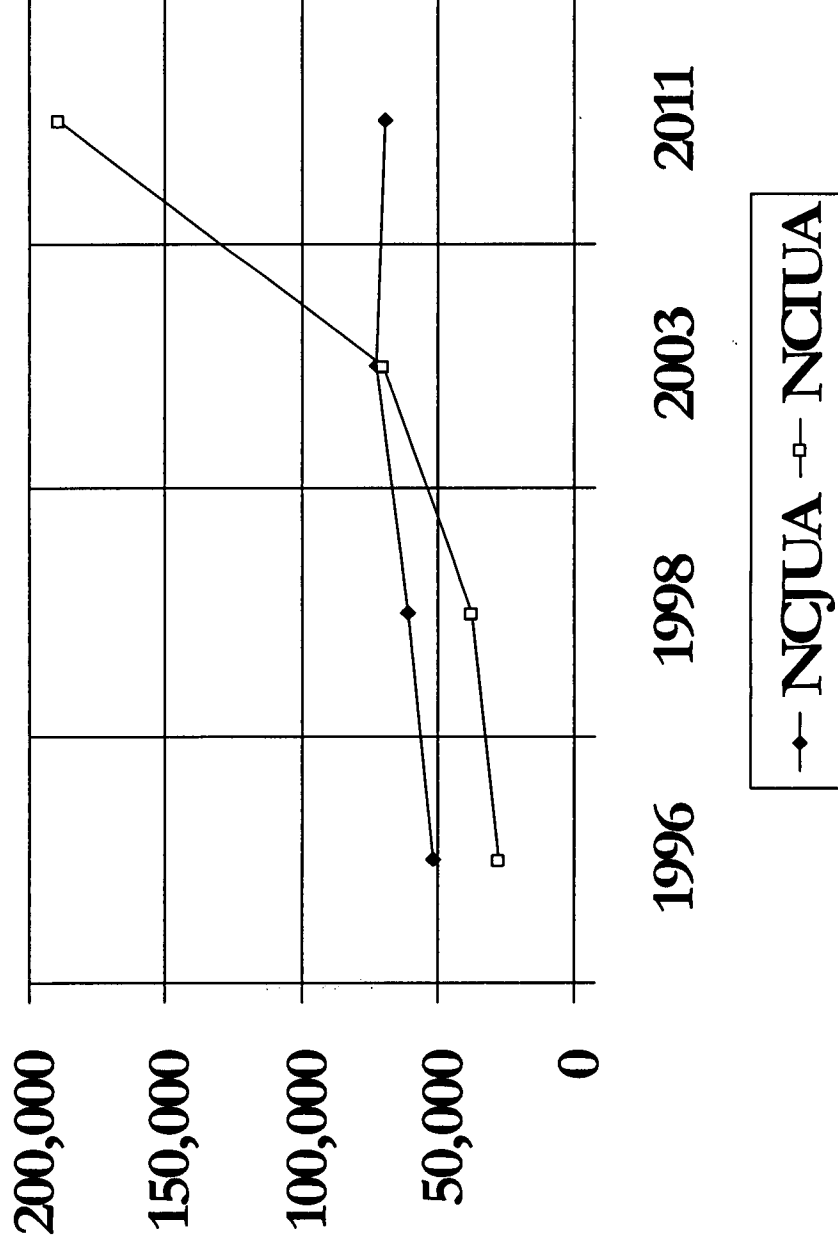
## **MAXIMUM POLICY LIMITS FOR THE NCJUA**

- **NORTH CAROLINA GENERAL STATUTE 58-46-20**
  - Limits are defined in the Plan of Operation and approved by the Commissioner of Insurance
    - Residential property building value of \$750,000
    - Residential property contents 40% of building limit
    - Commercial property building \$2.5M per fire division subject to \$6M aggregate for multi-fire division structures
    - Excess coverage must be purchased to full value of the property insured for any risk that exceeds these limitations
- The above limits were amended to be consistent with the NCIUA maximum limits as defined by General Statute

## **REGULATORY OVERSIGHT OF THE NCJUA**

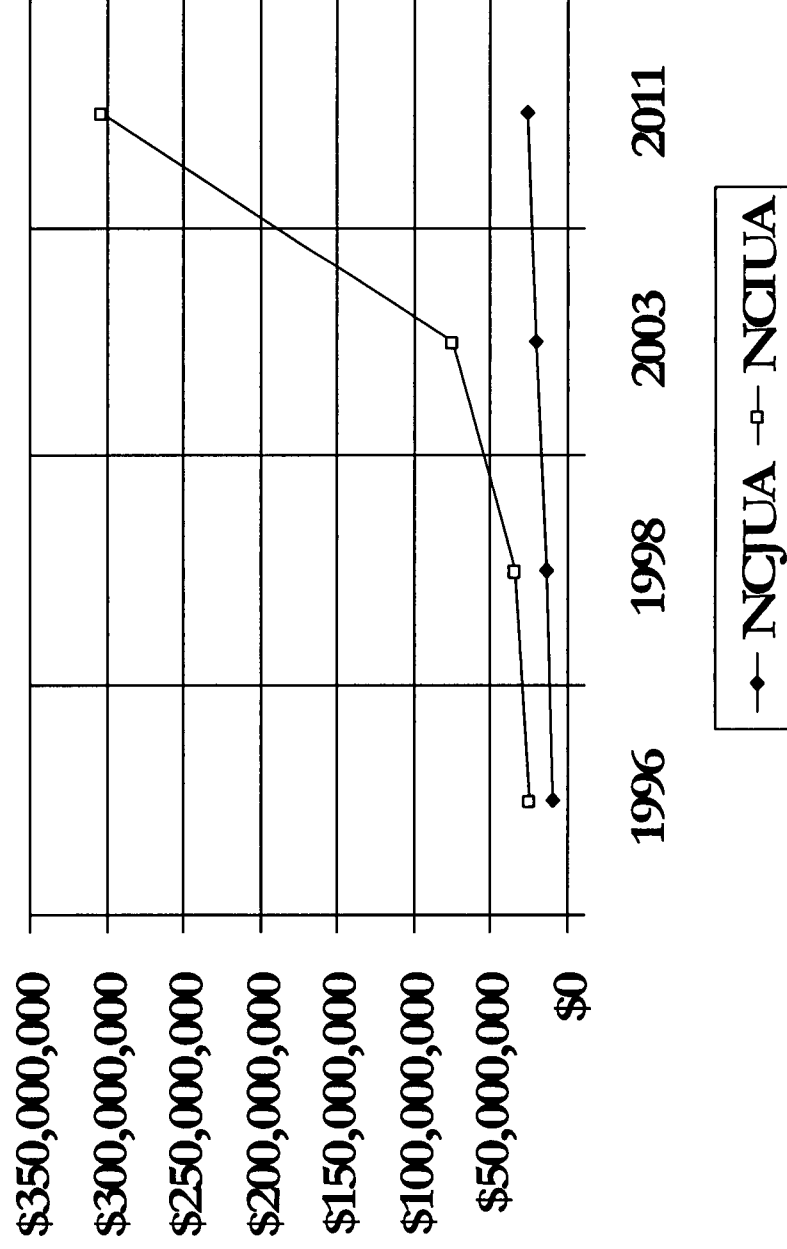
- **NORTH CAROLINA GENERAL STATUTE 58-46-20**
  - Plan of Operation outlining written rules, practices and procedures as approved by the Commissioner of Insurance
  - Rules, practices and procedures not outlined in the Plan of Operation are filed and approved by the Commissioner of Insurance prior to implementation

## NCJUA/NCIUA POLICY COUNT

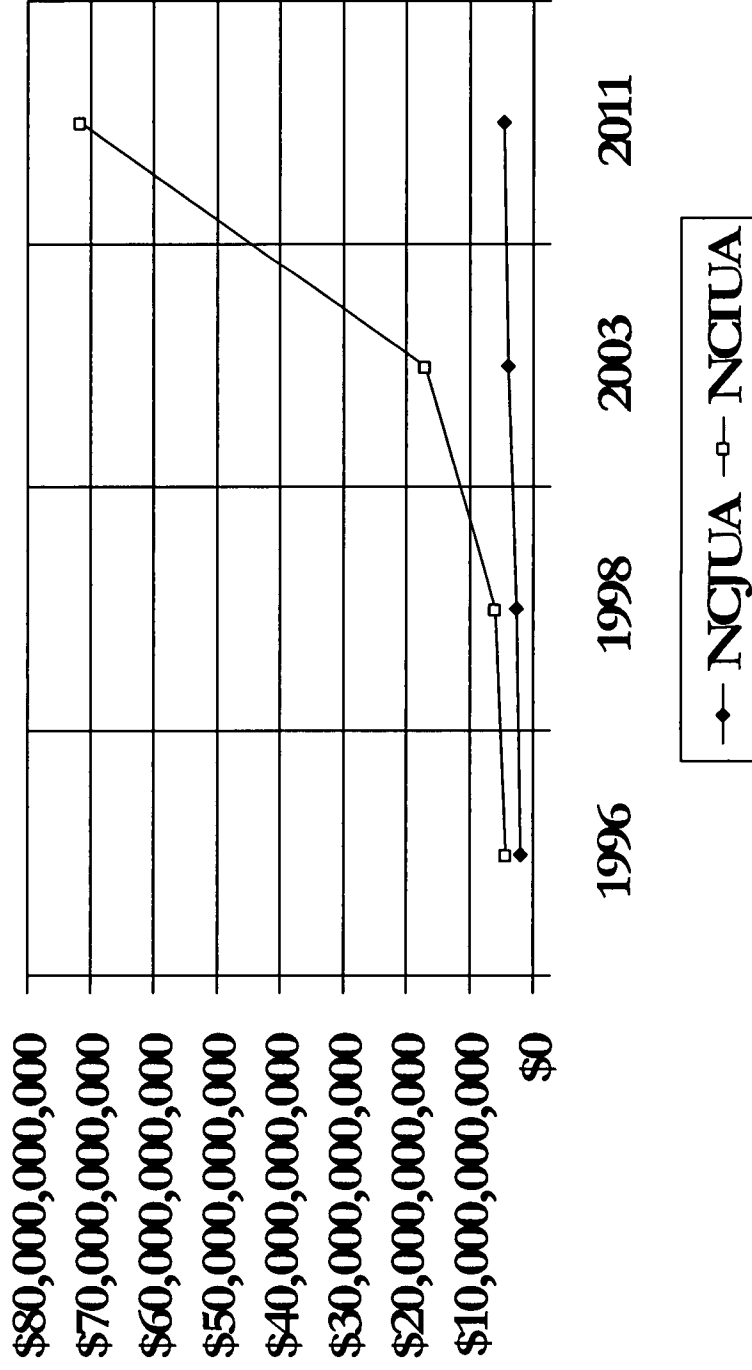




# NCJUA/NCIUA PREMIUMS



# NCJUA/NCIUA EXPOSURE



## NCJUA/NCIUA MARKET SHARE INFORMATION

- BEACH AREA 71%\*
- COASTAL AREA 37%\*
- STATEWIDE 13%\*

\*Based on reported premium writings for calendar year 2010

## 2011 REINSURANCE STRUCTURE

- \$4.0B TOTAL RISK FINANCING
  - \$750M NCIUA Retained Earnings
  - \$1B Member Company Non-Recoupable Assessments
  - \$2.25B Purchased Reinsurance
    - \$1.3B Attachment Point for Purchased Reinsurance
      - \$750M NCIUA Retained Earnings
      - \$550M Member Company Non-Recoupable Assessments

## 2011 FISCAL YEAR FINANCIAL STATUS

2011 FISCAL YEAR	NCJUA	NCIUA	COMBINED
PREMIUMS	\$25,589,193	\$303,724,266	\$329,313,459
PAID LOSSES INCLUDING EXPENSE *Data as of 9/30/11	\$(23,181,082)	\$(64,123,043)	\$(87,304,125)
OPERATING EXPENSE AGENT COMMISSION	\$(3,780,665)	\$(39,146,303)	\$(42,926,968)
OPERATING EXPENSE NCJUA/NCIUA OPERATIONS	\$(2,400,687)	\$(5,056,555)	\$(7,457,241)
OPERATING EXPENSE PREMIUM TAX	\$(697,226)	\$(8,459,328)	\$(9,156,555)
REINSURANCE EXPENSE	\$(12,387,488)	\$(208,817,651)	\$(221,205,139)
<b>PREMIUM REMAINING</b>	<b>\$(16,857,955)</b>	<b>\$(21,878,614)</b>	<b>\$(38,736,569)</b>

NCIUA NCJUA

END OF PRESENTATION

## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

November 2, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
MARK EDWARDS	NC DOI
Fred Fuller	NC DOI
BRUCE LEE	NCJUA/NCIVA
Alvin Ashworth	NCJUA/NCJUA
Jud Bore	Bore : Assn
DANIEL BAUM	TROTTMAN SAUDERS
JOE LANIER	NELSON MULLINS
DENNIS BURKE	REINSURANCE ASSN OF AMERICA (RAA)
Liz Reynolds	National Assoc. of Mutual Ins. Cos (NAMIC)
David Spollen	STONE FARM
LEE MORTON	NATIONWIDE

## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

November 2, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
Harry Lytle	MWC
John Peter	Capitol
Rebecca Williams	NCRB
Karen Waddell	NCDOI
Kelly Ricketts	NCDOI
Bryon Heckle	NCDOI
Kathy Southern	Nationwide
Tim Lucas	NC Rate Bureau
Karen Off	NC Rate Bureau
Mickey Spivey	Young Moore and Henderson
Mike Strickland	Young Moore and Henderson



## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

November 2, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
John McMillan	MF+S
Sara Fender	IFNC
Erin Engle	State Farm Ins.
Lynda Rogers	Nelson Mullin
Bill Tibbens	Farmers Group, Inc.
Michelle Frazier	MF+S
Sandy Sesh	un
Patrick Hammit	LIBERTY MUTUAL
Angel Sams	NSS
Debra	NSS
Sandy Dean	JHF

# VISITOR REGISTRATION SHEET

## LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

November 2, 2011

Name of Committee

**Date**

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO**  
**DARRYL BLACK OR ELISE QUICK**

NAME

**FIRM OR AGENCY AND ADDRESS**

Lois Piercy  
M. R. L.

Razdale Liggett

Red Call 9 Sharp

# Members' In-State Reimbursement Form

Form: PR008

Rev: 04/2008

Financial Services Use:  
Budget to Charge

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

LRC Committee on Property Insurance Rate Making

(**Complete** Name of Committee or Commission or Description of Meeting/Business)

Location of Meeting (City): Raleigh

Date(s) of Meeting: November 2, 2011

Member: Sen. Harry Brown

Total Number of day's subsistence claimed  
(This line **MUST** be completed to be reimbursed)

2

Arrived the day prior to meeting day  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☐

No ☒

Car Mileage (Round Trip)

250

Number of Round Trips

[Signature]  
(Member's Signature)

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

[Signature]  
(Approval Signature)

Names of other official legislative or state government meetings attended during this visit:

Economic Development on 11.3.11

Number of days subsistence claimed for other meeting(s)

Car Mileage claimed for other meeting

Yes ☐

No ☒

# Members' In-State Reimbursement Form

General Assembly

Form: PR008

Administrative Division

Rev: 04/2008

Financial Services Section

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

Financial Services Use:  
Budget to Charge

LRC Committee on Property Insurance Rate Making  
(**Complete** Name of Committee or Commission or Description of Meeting/Business)

Location of Meeting (City): Raleigh

Date(s) of Meeting: November 2, 2011

Member: Rep. Jerry Dockham

Total Number of day's subsistence claimed 1  
(This line **MUST** be completed to be reimbursed)

Arrived the day prior to meeting day  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☐

No ☒

Car Mileage (Round Trip)

230

Number of Round Trips

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

Jerry Dockham  
(Member's Signature)

[Signature]  
(Approval Signature)

Names of other official legislative or state government meetings attended during this visit:

Number of days subsistence claimed for other meeting(s) \_\_\_\_\_

Car Mileage claimed for other meeting

Yes ☐

No ☐

Members' In-State Reimbursement Form

General Assembly

Form: PR008

Administrative Division

Rev: 04/2008

Financial Services Section

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

Financial Services Use:  
Budget to Charge

LRC Committee on Property Insurance Rate Making  
(**Complete** Name of Committee or Commission or Description of Meeting/Business)

Location of Meeting (City): Raleigh

Date(s) of Meeting: November 2, 2011

Member: Sen. Ralph Hise

Total Number of day's subsistence claimed  
(This line **MUST** be completed to be reimbursed)

2

Arrived the day prior to meeting day  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☒ No ☐

Car Mileage (Round Trip)

on file

Number of Round Trips

1

Ralph Hise  
(Member's Signature)

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

[Signature]  
(Approval Signature)

Names of other official legislative or state government meetings attended during this visit:

Number of days subsistence claimed for other meeting(s) \_\_\_\_\_

Car Mileage claimed for other meeting

Yes ☐ No ☐

**Members' In-State Reimbursement Form**

General Assembly

Form: PR008

Administrative Division

Rev: 04/2008

Financial Services Section

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

Financial Services Use:  
Budget to Charge

LRC Committee on Property Insurance Rate Making  
(**Complete** Name of Committee or Commission or Description of Meeting/Business)

Location of Meeting (City): Raleigh

Date(s) of Meeting: November 2, 2011

Member: Rep. Frank Iler

Total Number of day's subsistence claimed  
(This line **MUST** be completed to be reimbursed)

1

Arrived the day prior to meeting day  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☐

No ☒

Car Mileage (Round Trip)

332

Number of Round Trips

Frank Iler

(Member's Signature)

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

[Signature]

(Approval Signature)

Names of other official legislative or state government meetings attended during this visit:

\_\_\_\_\_  
\_\_\_\_\_

Number of days subsistence claimed for other meeting(s)

\_\_\_\_\_

Car Mileage claimed for other meeting

Yes ☐

No ☐

**Members' In-State Reimbursement Form**

General Assembly

Form: PR008

Administrative Division

Rev: 04/2008

Financial Services Section

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

Financial Services Use:  
Budget to Charge

LRC Committee on Property Insurance Rate Making  
(**Complete** Name of Committee or Commission **or** Description of Meeting/Business)

**Location of Meeting (City):** Raleigh

**Date(s) of Meeting:** November 2, 2011

**Member:** Rep. Michael Wray

**Total Number of day's subsistence claimed**  
(This line **MUST** be completed to be reimbursed)

142

**Arrived the day prior to meeting day**  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☐

No ☒

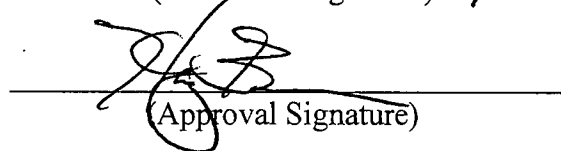
**Car Mileage (Round Trip)**

180

**Number of Round Trips**

  
(Member's Signature)

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

  
(Approval Signature)

**Names of other official legislative or state government meetings attended during this visit:**

\_\_\_\_\_  
\_\_\_\_\_

**Number of days subsistence claimed for other meeting(s)**

\_\_\_\_\_

**Car Mileage claimed for other meeting**

Yes ☐

No ☒

# Members' In-State Reimbursement Form

General Assembly

Form: PR008

Administrative Division

Rev: 04/2008

Financial Services Section

This form is used to request for in-state reimbursement for subsistence and travel for Committee, Commission or Other In-State Meetings/Legislative Business by members.

Financial Services Use:  
Budget to Charge

LRC Committee on Property Insurance Rate Making  
(**Complete** Name of Committee or Commission or Description of Meeting/Business)

**Location of Meeting (City):** Raleigh

**Date(s) of Meeting:** November 2, 2011

**Member:** Sen. Wesley Meredith

**Total Number of day's subsistence claimed**  
(This line **MUST** be completed to be reimbursed)

1

**Arrived the day prior to meeting day**  
(Claim one day for each meeting day you attended. If spending the night prior to the first meeting day, you are entitled to an extra day.)

Yes ☐

No ☒

**Car Mileage (Round Trip)**

\_\_\_\_\_

**Number of Round Trips**

1

W. A. Meredith  
(Member's Signature)

[Must be approved by Chairperson,  
Senate President Pro Tempore or  
House Speaker]

[Signature]  
(Approval Signature)

**Names of other official legislative or state government meetings attended during this visit:**

\_\_\_\_\_  
\_\_\_\_\_

**Number of days subsistence claimed for other meeting(s)**

0

**Car Mileage claimed for other meeting**

Yes ☐

No ☒



**Elise Quick (Sen. Brown)**

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**From:** Elise Quick (Sen. Brown)  
**Sent:** Tuesday, November 22, 2011 2:39 PM  
**To:** Elise Quick (Sen. Brown)  
**Subject:** REMINDER and Tentative Agenda- Property Insurance Rate Making Committee Dec. 1, 2011  
**Attachments:** 12-1 Agenda Property Insurance Rate Making.pdf

**NORTH CAROLINA GENERAL ASSEMBLY**

Raleigh, North Carolina 27601

**November 22, 2011**

**MEMORANDUM**

**TO:** Members of the Legislative Research Commission Committee on  
Property Insurance Rate Making

**FROM:** Senator Harry Brown, Co-Chair  
Representative Jerry Dockham, Co-Chair

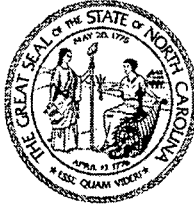
**SUBJECT:** Meeting Notice

<b>DAY</b>	<b>DATE</b>	<b>TIME</b>	<b>ROOM</b>
Thursday	December 1, 2011	1:00 p.m.	1128 LB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting <http://www.ncleg.net/graphics/downtownmap.pdf>.

If you are unable to attend or have any questions concerning this meeting, please contact Darryl Black or Elise Quick at (919)715-3034.

cc: Committee Record ☒   
Interested Parties ☒



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

**Thursday, December 1, 2011, 1:00 p.m.  
Legislative Building: Room 1027**

### **I. Opening Remarks and Approval of Minutes**

- Rep. Jerry C. Dockham, Co-Chair
- Sen. Harry Brown, Co-Chair

### **II. Modeling and Factors Associated with Rate-Making and Territories**

- **North Carolina Rate Bureau**  
Mr. Ray Evans, General Manager  
Ms. Shantelle Thomas, Chair, Property Insurance Committee
- **North Carolina Department of Insurance**  
Ms. Rose Vaughn Williams, Legislative Counsel

### **III. Industry Representatives**

- **Nationwide Mutual Insurance Company**  
Ms. Susan Valauri, Senior Director Government Relations
- **NC Farm Bureau Mutual Insurance Company**  
Mr. Steve Carroll, Executive Vice-President and General Manager
- **Property Casualty Insurers Association of America**  
Mr. Don Griffin, Vice-President, Personal Lines

### **IV. Agent's Commissions and the Financial Status of the Beach Plan**

- Mr. Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association

### **V. Wilmington Regional Association of REALTORS**

- Ms. Kathleen Riely, Director, Governmental Affairs

### **VI. North Carolina Home Builder's Association**

- Mr. Robert Privott, Director of Codes and Construction

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

## **MINUTES**

December 1, 2011

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### **Opening Remarks**

The LRC Committee on Property Insurance Rate Making was called to order by Senator Harry Brown at 1:03 PM in Room 1027 of the Legislative Building. There were seven members present including Senator Harry Brown (chair), Senator Ralph Hise, Senator Stan White, Representative Frank Iler, Representative Jonathan Jordan, Representative Pat McElraft 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.

### **Modeling and Factors Associated with Rate-Making Territories**

Senator Brown introduced Mr. Ray Evans, General Manager of the North Carolina Rate Bureau.

#### **North Carolina Rate Bureau**

Mr. Ray Evans introduced himself as the General Manager of the North Carolina Rate Bureau and explained the Rate Bureau will continue their presentation from the November 2, 2011 meeting. He stated Ms. Shantelle Thomas, Chair, Property Insurance Committee, and Ms. Sue Taylor, Director of Insurance Operations, will also present information to the committee on behalf of the Rate Bureau.

Mr. Evans explained the purpose of the Rate Bureau's presentation is to inform, educate and provide the committee with data from the Rate Bureau. He reminded the committee the Rate Bureau does not lobby or advocate for any position. He stated the Rate Bureau asserts the need for fair and adequate rates.

Mr. Evans then introduced Ms. Sue Taylor, Director of Insurance Operations at the Rate Bureau. He mentioned Ms. Taylor is responsible for overseeing ratemaking and rulemaking for worker's compensation insurance, private passenger automobile insurance and personal property insurance. He stated she will answer questions the Rate Bureau was unable to answer at the last meeting.

He then provided a brief outline of the Rate Bureau's presentation to the committee. He stated the presentation will include discussion of the ratemaking process, catastrophe modeling and House Bill 1305 (specifically, how territories are determined, aspects of hurricane mitigation credits).

He then thanked Senator Brown and the committee for allowing the Rate Bureau to speak at the meeting and re-introduced Ms. Sue Taylor as the Bureau's first speaker.

Ms. Taylor stated she intended to answer questions the committee had from the November 2 meeting and provide more information on the residential property insurance market.

She mentioned there are three types of residential property insurance policies in North Carolina: homeowners, dwelling fire and mobile home. She said there are approximately three million residential property insurance policies in the state.

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

She then referred to a question posed in the last meeting regarding deductibles, specifically percentage deductibles. She stated the Rate Bureau understands that the public may not understand deductibles and how they apply at the time of a loss.

Ms. Taylor referred to the deductible data provided in the Rate Bureau's presentation (see attachment 1) and the distribution of the deductibles for the voluntary market across the state. She emphasized the deductibles are strictly flat deductibles with no wind deductible. She said (based on the deductible data she presented) 90 percent of policyholders in the state have strictly a flat deductible and no wind deductible.

Ms. Taylor then discussed Rate Bureau membership. She provided an answer to a question asked in the last meeting regarding the actual number of companies writing residential property insurance in the state. She stated that of the 621 companies licensed to write residential property insurance, 97 write homeowners policies, 60 write dwelling policies and 15 write mobile home policies.

Ms. Taylor asked the committee if they had any questions based on the information she presented.

Senator Brown asked Ms. Taylor to discuss the 10 percent of policyholders who also have a wind deductible.

Ms. Taylor explained the answer to Senator Brown's question by using an example. She said that, of the 10 percent not mentioned in the Rate Bureau's data (see attachment 1), 6 percent of policyholders could have strictly flat deductibles less than \$250, 3 percent may have deductibles of \$100 and 1 percent of policyholders may have more than a \$2,500 deductible.

Ms. Taylor emphasized once the large deductibles and the miscellaneous deductibles that are not provided in the Rate Bureau's data are factored in (see attachment 1), only four percent of policies in the state have both a flat deductible and wind deductible in the voluntary market.

Senator Brown asked what types of deductibles are included in the four percent.

Ms. Taylor said the other deductibles are either wind deductibles (ranging from 1 to 2 percent) or flat deductibles (ranging from \$50-\$2,500).

Senator Brown asked if two percent was the maximum deductible for wind policies. Ms. Taylor responded that five percent is the maximum deductible.

Senator Brown asked if the 97 companies writing homeowners insurance include all of the coastal counties. Ms. Taylor answered that the 97 companies do include all of the coastal counties.

Senator Brown recognized Senator Hise for a question.

Senator Hise referred to the 1 percent 'Named Storm surcharge' mentioned in the November 2 meeting. He asked if the 1 percent surcharge applies to someone who has a \$500 flat deductible policy. Senator Hise asked if it would then become a \$500 deductible plus 1 percent of the damage if there is a Named Storm. Ms. Taylor said this scenario is possible but the numbers provided were strictly for policies with a \$500 deductible that did not have the 1 percent Named Storm surcharge applied.

Senator Brown referred back to his earlier question regarding the five percent maximum deductible for wind policies. He asked Ms. Taylor to explain how the deductible percentage is determined.

Ms. Taylor said the deductible is determined by the agent's suggestions to the policyholder, but the deductible percentage is ultimately determined by the policyholder.

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

Senator Brown asked for further questions. There were no other questions for Ms. Taylor and Mr. Ray Evans began a discussion of the ratemaking process.

Mr. Evans reminded the committee of the steps associated with the ratemaking process (see attachment 1).

Mr. Evans explained the ratemaking formula and stated that the ultimate product of insurance is the payment of a claim sometime in the future.

He explained each part of the ratemaking formula, starting with expected losses. Mr. Evans stated there are three components used to calculate expected losses. He described the first component as losses that are consistent throughout the state (for example, number of fires, dog bites, burglaries). He explained that historical record is a fair indication of these losses. Mr. Evans mentioned that unusual, but expected, weather events like hailstorms, thunderstorms and tornadoes are also factored in the calculation of expected losses. He said the average occurrence of these unusual, but expected, events is used when calculating this aspect of expected losses. Mr. Evans explained the final aspect of expected losses as rare, potentially catastrophic events that occur with some degree of regularity (for example, hurricanes). He stated that modeling is used to calculate these events and the modeling process will be discussed in further detail later in the Rate Bureau's presentation.

Senator Brown asked how much of the expected losses calculation is based on claim history.

Mr. Evans said all three components of expected losses are rooted in claim history. He explained that historical data, modeling and trending are used to determine expected losses.

Senator Hise asked how the Rate Bureau determines when a model has expired.

Mr. Evans said with residential property insurance, the Rate Bureau files a new rate level every two years and with homeowners insurance, the Bureau has been preoccupied with litigation and has not been able to stay consistent with a new rate filing every two years. He stated that a new rate level filing for homeowners insurance has not been made in the past six years due to litigation; a time period the Rate Bureau did not anticipate.

Senator Hise clarified his question and asked Mr. Evans if the rate is changed once it is approved.

Mr. Evans explained that the approved rate continues until another rate is approved.

Senator Hise asked Mr. Evans to define the factors used to determine rate levels.

Mr. Evans explained when expected losses, expected expenses and reasonable profits are calculated all 3 together become a 'premium pool'. He said the premium is then determined based on factors such as the territory the property is in, value of the property, location of the property, age of the property and type of construction of the property. He explained there are more than 15 components to determine rate for an individual property.

Senator Hise requested a list of those 15 components used to determine rate for individual properties.

Mr. Evans stated he would provide a list of the components at a later date.

He then defined expected expenses as the expenses related to what the insurance company spends adjusting claims, paying taxes, paying commission to agents or for general operations. He also defined a reasonable profit as the profit a company would have to make in order to keep investors motivated to invest in that company. Mr. Evans concluded by reiterating that expected losses, expected expenses and reasonable profit are all used in the calculation of a premium. He said a premium is further individualized for a specific home (based on construction, location and value).

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

Mr. Evans mentioned ratemaking standards as outlined in North Carolina General Statute 58-36-1 (see attachment 1).

Representative McElraft was recognized for a question. Representative McElraft asked Mr. Evans why modeling was based on Gulf Coast catastrophe history rather than on North Carolina catastrophe history.

Mr. Evans stated he did not think that modeling in North Carolina was based on the Gulf Coast. He also stated that the Rate Bureau would be discussing modeling in the next part of their presentation.

Mr. Evans introduced the next speaker for the Rate Bureau, Ms. Shantelle Thomas, a Senior Actuary for Allstate, Chair of the Rate Bureau's Property Insurance Committee, Board Member of the Beach Plan and Fellow of the Casualty Actuarial Society. He mentioned she graduated from Northwestern University and will explain hurricane modeling.

Ms. Shantelle Thomas thanked the committee for the opportunity to speak and started her presentation with a brief history of catastrophe models (see attachment 1). She mentioned AIR Worldwide was one of the first catastrophe models used and is still a leading model.

She then provided an example (naming a number of hurricanes since 1998) of why the Rate Bureau uses catastrophe models (see attachment 1).

She defined a catastrophe model and explained that the models are updated based on scientific knowledge (see attachment 1). Ms. Thomas provided an example of events that occurred in Mississippi to explain the function of a catastrophe model (see attachment 1). She referenced two models of Mississippi; one depicting storms over a 100,000 modeled year period of time and one depicting storms for a 100 year period. Ms. Thomas further explained that the 100,000 modeled year image represents simulated events from a model based on known characteristics of the actual storms in the 100 year image. She stated the 100 year image is based on actual historical data (actual catastrophes).

Ms. Thomas explained the limitations of historical data (see attachment 1) and connected these limitations to the need for catastrophe modeling. She said that the frequency of storms over time has not been constant so the historical record does not reflect the full range of possible hurricane events. Ms. Thomas continued by explaining historical record is not the only limitation for predicting catastrophic events. She said significant changes in the characteristics of a home, shifts in population and changes in policy coverage may all be limitations making historical loss data an unreasonable estimate for future losses (see attachment 1).

Ms. Thomas mentioned the model estimates damage based on engineering and changes in building codes over time.

She concluded by stating that catastrophe models are the best predictor of hurricane risk and are the best way to determine rates.

Senator Brown recognized Representative Iler for a question. Representative Iler asked how the Rate Bureau's models take into account damage inland, not just damage on the coast.

Ms. Thomas said the model considers where the storm makes landfall and the storm's track inland through the state. She said the model also considers wind speed when the storm makes landfall as well as wind speed as it travels inland in the state. She stated there is generally a decrease in cost associated with hurricane loss the more one travels inland in the state.

Representative Iler asked if a storm's landfall in South Carolina would affect the rates in Charlotte, North Carolina.

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

Ms. Thomas said when rates are set in North Carolina there would be no assessment of damage in South Carolina homes. She said, if a storm makes landfall in South Carolina and then travels up through North Carolina, losses would be assessed in North Carolina.

Representative Iler asked if the Rate Bureau is using any historical data (he used the example of Hurricane Hugo) for these models.

Ms. Thomas said the models are built around the history of hurricanes in North Carolina and in surrounding states. She said historical hurricane record allows the Rate Bureau to base ratemaking on aspects such as changes in wind speed as the hurricane moves inland.

Representative McElraft then asked a series of questions. She asked if modeling takes into account North Carolina's stringent 'set back laws', building codes and tie downs.

Representative McElraft also asked if the Rate Bureau provide a model for North Carolina. She stated she finds it difficult to explain to constituents that North Carolina's insurance rates have been based on Mississippi modeling.

Ms. Thomas explained she is aware it is commonly misconstrued that losses from other states are taken into account when rates are made in North Carolina. She said this is definitely not true. She explained the hurricane model from AIR shows the specifics from the building codes in North Carolina and the changes in code over time. Ms. Thomas apologized for including the Mississippi model in the presentation and explained this data was readily available at the time the presentation was prepared. She said she thought the Rate Bureau may have an opportunity to provide more specific data for North Carolina at a later date.

Representative McElraft thanked Ms. Thomas for this information.

Senator Hise was recognized for a question. Senator Hise asked what the model is based on- loss of policy over its lifetime or expected loss over a year.

Ms. Thomas responded that the Rate Bureau looks at the statewide average annual amount of loss.

Senator Hise asked if this calculation is based on 100,000 policy years. He said he thought the Rate Bureau would have to collect those premiums over the same time period to have a guaranteed 'balance out' for that year.

Ms. Thomas said there is a potential the losses could exceed the premiums insurance companies collected that year. She explained this is why companies purchase reinsurance.

Senator Brown asked how many companies in the state have purchased reinsurance.

Ms. Thomas stated she didn't know the answer. She said she guessed that most companies have purchased reinsurance.

Senator White asked about the geographic concentration model and how this model is calculated. He provided an example of a county on the coast.

Ms. Thomas said it is based on a measure of shifts in population, not geographic concentration. She stated it is calculated based on where the current policyholders are located.

Senator White clarified that Ms. Thomas said the geographic concentration model is based on the number of policies sold in a geographic location not solely based on geographic location.

Ms. Thomas said this model is only based on where homes are located in a certain geographic location.

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

Ms. Thomas concluded her presentation.

Mr. Ray Evans continued the Rate Bureau's presentation by asking Representative McElraft if he had answered her question from earlier in the presentation.

Representative McElraft requested (again) that the committee be presented information regarding modeling in the ratemaking process for the 20 coastal counties.

Senator Brown mentioned he would like to see the ratemaking models for the whole state.

Representative McElraft said she would like to see the models for the whole state in comparison to the 20 coastal counties. She also asked for statistics regarding types of damage experienced throughout the state (coastal versus inland damage and flood versus wind damage).

Representative McElraft asked the Rate Bureau for claim figures.

Mr. Evans said the Rate Bureau will compose reports for the next meeting in order to answer the committee's questions.

Mr. Evans then discussed House Bill 1305 and addressed questions the committee had from the last meeting (see attachment 1).

Mr. Evans explained a graph of coastal exposure. He pointed out that North Carolina has a significant amount of coastal exposure.

He said he believed this was a result of the current rate models not being adequate for the exposures which caused policies to migrate to the residual market.

Senator Brown asked how this data has changed since House Bill 1305 passed and placed a cap on exposure.

Mr. Evans said the Rate Bureau's data comes from the Beach Plan and deferred the question to the Beach Plan presenter. He said the Rate Bureau would find the information at a later date if a representative of the Beach Plan cannot answer the question.

He then discussed property territories (see attachment 1). He explained the Rate Bureau and Department of Insurance has been reviewing the property territories in the state for the past few years. He then discussed the requirements for determining a territory (for example, territories need to have similar exposures and losses).

Mr. Evans provided territory definitions and statutory definitions of terms from the North Carolina Insurance Underwriting Association/ Beach Plan (see attachment 1).

Representative Iler asked Mr. Evans about reviewing the territory that includes Brunswick County.

Mr. Evans stated this territory is being reviewed because the Rate Bureau is trying to determine how the territory may be separated into smaller territories with more homogenous characteristics. He said the Bureau is researching using Highway 17 as a territory boundary.

Representative Iler asked how dividing this territory will affect rates.

Mr. Evans stated if the Rate Bureau decided to create a coastal territory with Highway 17 acting as a geographical boundary, the people west of Highway 17 may have a lower rate but the people east of Highway 17 would have a higher rate.



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

Representative Iler asked if building codes for homes would be a rate-determining factor.

Mr. Evans stated that building codes influence rates/ modeling but the Rate Bureau can't assume that the homes east of Highway 17 are built one way and homes west of Highway 17 are built another way.

Representative McElraft asked if the Rate Bureau could give a mitigation credit for homes built at a higher standard than building code.

Mr. Evans agreed with Representative McElraft stating it is reasonable to give a mitigation credit (and lower premium) for homes that are built at a higher standard than building code.

He concluded the Rate Bureau's presentation by explaining the hurricane mitigation credit program (a result of House Bill 1305) (see attachment 1).

Mr. Ray Evans mentioned that Mr. Bill Trott of Young, Moore and Henderson and counsel to the Rate Bureau was available for questions.

Senator Brown asked for final questions for Mr. Ray Evans and the Rate Bureau. He recognized Representative Iler for a question.

Representative Iler asked if it is too early for his constituents to ask insurance companies for mitigation credits.

Mr. Evans said the mitigation program is fully operational.

Senator Hise asked about the concept of a 'zero sum formula' in regards to mitigation credits.

Mr. Evans stated that mitigation credits are not based on a 'zero sum formula'. He said building a home at a higher standard than building code reduces exposure which in turn reduces premium and future losses.

Mr. Evans said an expert on building codes would present later in the meeting to answer questions regarding building codes.

Senator White asked who determines the value of the mitigation credits.

Mr. Evans stated the Rate Bureau (through the Institute for Business and Home Safety, IBHS) determines the value of the mitigation credits based on extensive research.

Senator White reiterated his question by providing an example. He mentioned that he owns a construction company which uses standards higher than building code. He asked who determines the value applied as a mitigation credit based on the precautions an individual takes to prevent damage.

Mr. Evans responded by stating there is a group of licensed inspectors that evaluate and determine if the credit is appropriate for the building.

Representative McElraft mentioned her constituents have complained that they're paying around \$500 for an inspector to approve the construction of their home for mitigation credits when they're only saving five percent on their policy. She asked if her constituents could provide pictures of the construction of their homes to avoid paying \$500 for an inspectors visit.

Mr. Evans said that is an individual insurance carrier issue/ policy.

Representative McElraft stated she was specifically referring to the Beach Plan.

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

Mr. Evans deferred the question to a representative of the Beach Plan.

Representative McElraft asked if there is a mitigation credit for individuals who have not filed claims over a certain period of time.

Mr. Evans stated the insurance company decides whether to provide this credit or not. He said the mitigation credit is designed to reduce losses over a large population over a long period of time.

Representative McElraft clarified and stated she was referring to the \$500 inspection fee.

Mr. Evans said that is an individual insurance company policy and if any of the questions mentioned in their presentation are not addressed later in the meeting the Rate Bureau will be happy to find the answers for future meetings.

Senator Brown thanked Mr. Evans and the Rate Bureau for their presentation.

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

Senator Brown introduced Ms. Rose Vaughn-Williams to present on behalf of the Department of Insurance.

Ms. Rose Vaughn-Williams discussed the elements of premium determination (see attachment 2 a.) and factors in rate and premium setting (see attachment 2 b.).

She then presented a chart (see attachment 2 a.) showing the decomposition of rates for homeowners insurance from a 2008 Rate Bureau homeowners filing.

Ms. Vaughn-Williams mentioned the largest percent of the filing is a non-modeled base class loss cost (actual claims, expenses and the cost to adjust those claims). She also pointed out modeled loss cost (for hurricane modeled losses and Rate Bureau filings with the Department of Insurance), fixed expenses (for example, building mortgage, rent, salaries) and deviation (for example, discounts).

Representative Iler asked if reinsurance was offered by insurance companies to reduce their risk and wanted to know why consumers are paying for additional profit for reduced risk for insurance companies.

Ms. Vaughn-Williams said the chart represents the filing that was made but she did not know if the Department of Insurance agrees with the filing.

Representative Iler asked if the 2008 filing had been approved.

Ms. Vaughn-Williams explained the 2008 filing was a settlement and 13 percent of what the companies asked for was awarded to the insurance companies.

Representative Iler asked if the rates that are in effect now include reinsurance and, if so, why would these rates be legitimate.

Ms. Vaughn-Williams stated she didn't know how to answer the question further except she knew the Department doesn't agree with the filing for that portion of the pie chart. She reiterated this rate filing was a settlement.

Senator Hise asked if a company has to have assets available to cover risk if the company chooses not to reinsure its potential losses.

Ms. Vaughn-Williams said the individual insurance companies should be able to answer Senator Hise's question.

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

Ms. Vaughn-Williams then provided a chart of the Rate Bureau's Homeowners Territories prior to the Rate Bureau's redefinition of the territories in 2008.

Ms. Vaughn-Williams discussed the modeling process (see attachment 2 b.).

She then addressed a question from the previous meeting regarding how many companies actually write homeowners insurance in the state. She presented a chart entitled "North Carolina Residential Property Written Premiums, 2010") (see attachment 2 a.). Ms. Vaughn-Williams explained there are 63 insurance groups and 125 insurance companies actually writing insurance in the state. She defined the term "beach" as an area close to sand (for example, the outer banks) and the term "coastal" as an area inland. She said there are no companies writing more than \$10 million worth of premiums in the beach area and discussed the data for the policies in the beach and coastal counties (see attachment 2 a.). Ms. Vaughn-Williams mentioned there are more companies writing policies in inland coastal counties.

### *Questions for the Department of Insurance*

Representative McElraft asked how many companies are represented in the Beach Plan.

Ms. Vaughn-Williams referred this question to the representatives of the Beach Plan.

Mr. Alvin Ashworth, representing the Beach Plan, responded to Representative McElraft's question. He explained there are 176 companies participating in the Beach Plan across the state.

## **Industry Representatives**

### **Nationwide Mutual Insurance Company**

Senator Brown introduced Ms. Susan Valauri, Senior Director of Government Relations for Nationwide Mutual Insurance Company.

Ms. Valauri began her presentation by giving an overview of the history of Nationwide and providing statistics of the number of policies (over 700,000) and associates (1,200) the company has throughout the state (see attachment 3).

She then discussed homeowners insurance and the market dynamics for homeowners insurance (see attachment 3).

Ms. Valauri showed a presentation of the catastrophes North Carolina has faced in the past. She emphasized why companies do not invest in North Carolina. This presentation was not provided to the committee prior to or after the meeting.

The presentation included pictures from seven catastrophic events in 2011 in North Carolina (to date).

Senator Brown asked Ms. Valauri to mention the regions of the state where these catastrophes occurred.

She said the presentation depicts 7 storms that occurred throughout the state. She emphasized, of the 30 counties the committee members collectively represent, none of the counties the committee members represent are considered 'profitable' counties. She mentioned 18 of the counties have loss ratios greater than 100 percent and explained for every dollar in premium paid in, Nationwide paid out more than \$1 in premiums.

She defined a catastrophic event as an event in which a significant number of industry claims (thousands) are reported, a significant number of carriers are impacted and at least \$25 million in insurable damages are reported.

## LRC Committee on Property Insurance Rate Making

Ms. Valauri pointed out the nomenclature 'cat 53' means there were 53 catastrophes on a national scope in a year.

She mentioned 'cat 59' was Hurricane Irene and most of the other storms were wind and hailstorms. She also mentioned 'cat 42' and 'cat 43' as events that affected the central part of the state and 'cat 44' as a storm that affected the northeastern and southeastern regions of the state.

Ms. Valauri emphasized the presentation showed catastrophic events and does not include what Nationwide declares "baseline, regular" weather events.

She then explained why companies do not invest in North Carolina (see attachment 3).

Ms. Valauri discussed the long period of little/no storm activity, the business climate today and non-negotiable items for Nationwide (see attachment 3).

Ms. Valauri discussed coastal exposure, inland exposure and pricing as aspects for a desirable business climate in the state (see attachment 3).

She also thanked the General Assembly for passing House Bill 1305, allowing the insurance companies to know the risk from losses in the Beach Plan.

### *Questions for Nationwide Mutual Insurance Company*

Representative Iler asked for a county comparison of premiums versus claims filed throughout the state.

Ms. Valauri said the Rate Bureau should be able to provide that information. She said it would be inappropriate for her as a representative of Nationwide to provide that information.

Representative McElraft asked, of the 44,000 claims, how many were filed on the coast from Hurricane Irene and how many of those claims were wind claims.

Ms. Valauri stated they were all wind claims, mostly in the southeast. She clarified that the claims she referred to earlier were claims filed as a result of Hurricane Irene.

Senator Brown asked if most of the 13,000 claims were from the southeast.

Ms. Valauri confirmed that most of the 13,000 claims were in the southeast.

Senator Brown said that data was interesting because most of the storm damage was not in the southeast.

Representative McElraft requested that Nationwide provide the committee with data showing where the 13,000 claims were filed.

Ms. Valauri said she would provide that information at a later date.

Ms. Valauri stated that Senator Brown's county (Onslow County) is not having a 'good loss ratio' this year.

Senator Hise asked what Ms. Valauri meant in regards to her statement that "rates are significantly low". He asked if she based that statement on the idea that the model currently used in the state did not project losses or the fact that the state has had a lot of severe weather in the past year.

Ms. Valauri said it is a combination of both. She said rates may be lagging the actual experiences of the state.

There were no further questions for Ms. Valauri.

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

### **North Carolina Farm Bureau Mutual Insurance Company**

Senator Brown introduced Mr. Steve Carroll, Vice President and General Manager of Farm Bureau Mutual Insurance Company.

Mr. Carroll started with a brief introduction of the North Carolina Farm Bureau (see attachment 4).

Mr. Carroll discussed Farm Bureau's role in Property Insurance Rate Making (see attachment 4).

Mr. Carroll mentioned that North Carolina has experienced three of the six worst storms in the state's history solely in 2011. He emphasized that coastal areas are the Farm Bureau's major concern but their concern has moved inland as tornadoes and hailstorms have affected areas west of the coast.

He said North Carolina has been lucky that storms affecting the majority of the southeast did not affect our state in the last several years.

Mr. Carroll stated that the Farm Bureau will have to cancel 30,000 property policies statewide and eventually 20 percent (100,000 policies) of their total property policies because the premium amount does not support the Farm Bureau's cost of doing business.

He said 40 percent of premiums will go to reinsurance, 25 percent will go to expenses and 35 cents out of every dollar to pay everyday losses (non-catastrophe losses). Mr. Carroll stated that these figures will not allow the Farm Bureau to do competitive business in North Carolina.

He stated Farm Bureau's automobile insurance business subsidizes their property insurance business.

He mentioned the Beach Plan has \$800 million in reserves and will lose around \$150 million of surplus as a result of Hurricane Irene. He stated this will increase the cost of reinsurance.

He then discussed the committee's directives (see attachment 4).

### *Questions for North Carolina Farm Bureau Mutual Insurance Company*

Representative McElraft asked how many reinsurance companies are in business with Farm Bureau.

Mr. Carroll said the size of their program is large; every major reinsurance company in the world does business with Farm Bureau. He said their major partners are American Agriculture Reinsurance and Guy Carpenter. He stated they work with fifty carriers throughout the world.

He mentioned the Beach Plan and Farm Bureau are the top purchasers of reinsurance in the state.

Representative Wray asked Mr. Carroll if the Farm Bureau was really planning on eliminating 30,000 property insurance policyholders.

Mr. Carroll said the company started eliminating policies November 1, 2011. He stated unless something significantly changes in the next 3 to 4 years they will eliminate around 100,000 policies.

Representative Wray asked Mr. Carroll to explain the notification process for dropping a consumer's policy.

Mr. Carroll said the policy cancellation notice must be sent out 30 days prior to the policy renewal date. He mentioned the Farm Bureau gives 60 day's notice to its consumers and the insurance agents are aware of the elimination of the policy 90 days in advance.

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

Mr. Carroll emphasized the decision to eliminate policies is the hardest decision Farm Bureau has to make but the company would not be able to continue with business if the elimination process did not take place.

Senator Brown asked what premium amount it would take for Farm Bureau or Nationwide to write policies on the coast and stay in business without eliminating policies.

Mr. Carroll said it would take substantial rate increases but he couldn't answer Senator Brown's question at this time.

Ms. Susan Valauri of Nationwide also stated she did not have the answer to Senator Brown's question at this time.

Mr. Carroll mentioned the hailstorms and tornadoes that have recently affected the state as proof of the changing weather patterns throughout the southeast. He said if insurance companies in North Carolina plan to write property insurance policies in the future, our state will have to increase rates.

Representative Iler mentioned companies dropping property policies because consumers had two different carriers for automobile and property insurance. He asked if this will be a trend.

Mr. Carroll said this is becoming a trend nationally and in North Carolina.

Representative Jordan referred to an article from the *News & Observer* that discusses linking automobile and property insurance policies. He asked Mr. Carroll if he knew the companies noted for linking these policies.

Mr. Carroll stated he thought those companies were State Farm and Nationwide.

Ms. Susan Valauri of Nationwide emphasized that Nationwide does not link policies.

Ms. Erin Engle, a representative of State Farm, was recognized from the audience and stated that State Farm does not require its customers to link automobile and property insurance policies.

Mr. Carroll stated that Nationwide and State Farm have requirements on property insurance policies that Farm Bureau does not have.

Representative Jordan asked if there was a rate percentage increase in 2009 that would have helped the insurance business climate for insurance companies in the state.

Mr. Carroll said the full 19.5 percent increase that the Rate Bureau requested would have helped the Farm Bureau.

Representative McElraft mentioned she has a number of constituents who are unable to get homeowners/fire policies because they do not have wind policies. She asked if these constituents would be allowed to get fire policies if they are self-insuring for wind damage and have no wind policy from an insurance company.

Mr. Carroll explained if a customer does not purchase a wind policy through the Beach Plan, the Farm Bureau will not allow that customer to purchase a regular homeowners policy for other perils. He said this company policy is in place to protect agents and prevent errors.

Representative McElraft asked if a consumer could sign a waiver that exempts them from a wind policy. She mentioned this could be something the General Assembly could do through statute. Representative McElraft said if a consumer doesn't have a mortgage they should be able to self-insure for wind damage.

He stated if Farm Bureau was legislatively required to allow for a waiver they would, of course, follow those guidelines.

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

### **Property Casualty Insurers Association of America**

Senator Brown introduced Mr. Don Griffin, Vice President- Personal Lines, Property Casualty Insurance Association of America.

Mr. Griffin provided a brief introduction and stated he will be discussing the significance of House Bill 1305, the impact of the Rate Bureau and the importance of territorial rating and risk-based pricing (see attachment 5).

Mr. Griffin started by giving a history of rate suppression (see attachment 5).

Senator Brown said some areas of the state were given rate increases and some areas were given rate decreases in the last rate cycle. Senator Brown asked why some areas had their rates reduced.

Mr. Griffin said the companies writing insurance in certain areas of the state did not have losses or a history of losses like other areas.

He used the Rate Bureau's example of the industry basing calculations on a 'zero sum formula'; he stated that if the industry is paying out \$100 in losses they need to collect at least \$100 in premiums. He said, for instance, if every consumer is charged \$100, some consumers are paying \$75 and some are paying \$125.

Senator Brown mentioned Mecklenburg County had a rate decrease in the latest rate cycle. He said Hurricane Hugo affected Mecklenburg County and the hailstorms this year affected Mecklenburg County, yet, their rates decreased. Senator Brown said he did not understand the rate decrease in Mecklenburg County.

Mr. Griffin said he agreed with Senator Brown and that he thought actuaries of the Rate Bureau may be able to help him understand the rate decrease in Mecklenburg County.

Mr. Griffin then continued by discussing the significance of House Bill 1305 (see attachment 5).

He said North Carolina has historically enjoyed a fairly competitive marketplace and rates in the state are lower than in other states (by 15-20 percent). He also mentioned, prior to the passage of House Bill 1305, the Beach Plan was growing at a rate of \$1 billion per month. He stated House Bill 1305 slowed the growth of the Beach Plan and stabilized rates.

Mr. Griffin discussed the impact of the North Carolina Rate Bureau on property insurance rates highlighting the fact that North Carolina is the last state that uses this ratemaking process (see attachment 5).

He also mentioned he is worried that North Carolina will end up like Florida if rate suppression continues.

He then explained the importance of territorial rating and risk-based pricing and concluded PCI's presentation by highlighting the positive impacts of House Bill 1305. He mentioned the need for North Carolina to move toward a market-driven insurance industry (see attachment 5).

### *Questions for Property Casualty Insurers Association of America*

Representative Iler asked why his insurance on the coast increases up to \$500 annually.

Mr. Griffin said companies have the ability to increase premiums.

Representative Iler also referred to North Carolina General Statue 58-36-10 which states that rates "shall not be excessive, inadequate or unfairly discriminatory". He said he was concerned that rates on the coast are unfairly discriminatory.

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

Mr. Griffin said the statute Representative Iler referred to is a statute in virtually every state. He said the 'unfairly discriminatory' part is difficult because companies cannot rate one specific homeowner's policy. Mr. Griffin explained, in order to make rates unfairly discriminatory, homogeneous groups are created and similar rates are applied in those groups.

Representative Iler stated he is more concerned with unfair discrimination in rates in certain territories.

Senator Hise asked Mr. Griffin how the state can evaluate actuarially sound rates for every policy.

Mr. Griffin said companies cannot currently deviate from rates established by the Rate Bureau; he said a more open market would allow companies to be more competitive. He emphasized before this can happen an adequate rate has to be established.

Senator Brown closed the discussion.

### **Agent's Commissions and the Financial Status of the Beach Plan**

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

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

Mr. Dunn addressed questions raised at the last meeting. He addressed the number of policies exceeding \$750,000 in value. He said after House Bill 1305 was passed, the Beach Plan had 190,000 policies and only 3,000 of those policies exceeded \$750,000 in value. He said the FAIR Plan had 70,000 policies and only 25 of those policies exceeded \$750,000 in value.

Mr. Dunn mentioned that, at the time of House Bill 1305, the Beach Plan had \$72 billion in aggregate liability that covered both the coastal and beach areas. He said, after House Bill 1305 passed, the Beach Plan has grown 3 percent.

He also addressed a question posed in the last meeting regarding guidelines for mitigation credits.

He said the insured can provide photos for a credit for their roofing system and proof of installation for storm shutters but a building inspector must certify that the mitigation credit for property meets 'IBHS' (Institute for Business and Home Safety) guidelines.

Mr. Dunn also stated that the NCIUA/ NCJUA can provide the number of insurers writing coastal, Beach and FAIR Plan insurance at a later meeting.

He then emphasized that House Bill 1305 capped insurers' losses under the Beach Plan at \$1 billion annually and stated that the NCIUA/ NCJUA is at its maximum capacity in reinsurance.

Mr. Dunn referred to Representative McElraft's question regarding the number of reinsurers associated with the NCIUA/ NCJUA. He said there are 60 reinsurers associated with the NCIUA/ NCJUA.

He said, from a financial standpoint, the NCIUA/ NCJUA currently has protection for approximately \$4 billion of damage from a storm.

He also reiterated that the Beach Plan does not make rates; the Beach Plan applies the rates determined by the Rate Bureau.



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

Senator Brown asked for questions from the committee.

Representative McElraft asked if she was correct in stating that the Beach Plan spent \$150 million for Hurricane Irene.

Mr. Dunn said the damage projection for Hurricane Irene is between \$120 million and \$130 million.

Representative McElraft then asked how much is spent by the Beach Plan for reinsurance.

Mr. Dunn stated he will answer that question in a chart provided in the handout.

Mr. Dunn then explained agent's commissions and the 2011 Fiscal Year financial status for the NCIUA/ NCJUA (see attachment 6).

He pointed out the reinsurance expense for the 2011 Fiscal Year is approximately \$221 million (see chart in attachment 6).

Representative McElraft asked if the reinsurance expense amount changed annually.

Mr. Dunn said the reinsurance expense changes every year based on liability and the reinsurance market.

Senator Brown asked if the reinsurance companies will pay anything on North Carolina's losses.

Mr. Dunn said the companies will not pay anything on the state's losses this year.

Representative McElraft asked if reinsurance companies had to pay North Carolina anything out of the \$221 million spent in reinsurance this year.

Mr. Dunn stated reinsurance companies did not have to pay the state any amount out of the \$221 million expense; he said if the NCIUA/ NCJUA were to get more money in premiums, their retained earnings would increase.

Senator Brown asked Mr. Dunn to continue his presentation due to time constraints.

Mr. Dunn then discussed the commission structure for the NCIUA/ NCJUA and explained the certification process required for agents working for the NCIUA/ NCJUA (see attachment 6).

He concluded his presentation by providing additional information about the commission structure (see attachment 6).

### *Questions for the NCIUA/ NCJUA*

Senator Brown asked about the 12.2 percent commission for a wind policy.

Mr. Dunn said (in the Beach Plan) the commission for an agent for dwelling insurance is 13 percent.

Representative McElraft asked why agents are necessary when the payment for insurance goes directly to the NCIUA.

Mr. Dunn explained that there are no licensed agents at the NCIUA/ NCJUA; he said an insurance agent is a licensed professional that can explain individual need to the consumer. Mr. Dunn said the NCIUA/ NCJUA cannot give professional advice.

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

Senator Hise did not understand why two thirds of insurance money is used to insure for a catastrophe but in the private market 11 percent is too much for a catastrophe.

Mr. Dunn said most insurance companies can go outside of the state to help offset catastrophe costs, whereas the NCIUA/ NCJUA cannot.

Senator Brown asked what percentage of the state's insurance business is in the Beach Plan.

Mr. Dunn stated the NCIUA/ NCJUA has 73 percent in the beach area, 37 percent in the coastal counties and 13 percent statewide.

Representative McElraft asked if a consumer could be given a discount if they go directly to the NCIUA/ NCJUA instead of using an agent.

Mr. Dunn said he could not answer Representative McElraft's question.

Senator Brown thanked Mr. Dunn for his presentation and asked for approval of the committee's minutes from the November 2, 2011 meeting. Representative McElraft approved Senator Brown's motion and the committee unanimously approved the minutes from the previous meeting.

### **Wilmington Regional Association of REALTORS**

Senator Brown introduced Ms. Kathleen Riely as the Governmental Affairs Director for the Wilmington Association of REALTORS.

Ms. Riely introduced the 'key question' for her presentation (see attachment 7). She asked the committee if the system currently used to set property insurance rates is the best system for insurance companies and for all citizens in the state.

She asked the committee to look at how other states operate in regards to ratemaking.

She then briefly discussed six issues associated with the current ratemaking process (see attachment 7).

She first discussed replacing the Rate Bureau with a market-based rate setting system or with a regulatory commission similar to the current Utilities Commission in North Carolina (see attachment 7). She emphasized Florida's Hurricane Catastrophe Fund and provided links to information about their system.

Ms. Riely continued by mentioning legislative oversight of the Rate Bureau and the idea of eliminating the Rate Bureau in North Carolina (see attachment 7).

She then discussed the adequacy of the Insurance Commissioner's duties in regards to protecting policyholders against excessive, inadequate and unfairly discriminatory rates. Ms. Riely directed the committee to look at the Florida Sunshine Law which allows for public hearings in the event of a rate increase over 15 percent (see attachment 7). She said the main problems she sees in North Carolina involve transparency, responsibility and accountability (see attachment 7).

Ms. Riely discussed the modeling process used to determine rate increases or decreases. She said modeling alone is not sufficient (see attachment 7). She discussed two models used in other states: a 'RMS model' and an 'AIR model'. She explained that a RMS model looks at inland rates and normally results in higher inland rates. She explained an AIR model looks at coastal rates and results in higher coastal rates. Ms. Riely mentioned she found it interesting that North Carolina only uses the AIR model when determining rates and she does not understand why the state does not have a commission that researches modeling.

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

Ms. Riely discussed charts presenting data from the 2008 rate filing (see attachment 7 and link to chart).

She pointed out that the coastal counties faced rate increases and counties surrounding Mecklenburg County and Charlotte received rate decreases (see attachment 7 and link to chart). Ms. Riely said there was a very obvious geographic discrepancy in the rate filing. She said she further researched the discrepancy and found other data showing that rate increases in coastal areas and decreases in other areas of the state have become a trend. She presented data from a 1993 rate filing in which rates increased well over 100 percent in Brunswick, New Hanover and Carteret counties and rates decreased over 2 percent in Gaston, Mecklenburg and Union counties.

She then mentioned data of claims paid in 1986; she said the cumulative coastal county wind losses compared to state losses was 26 percent. Ms. Riely reiterated that she didn't understand why the eastern part (coast) of the state was paying higher rates while more losses are normally incurred inland (not just on the east coast) from Gulf Coast storms.

Ms. Riely stated she would like North Carolina to use a combination of models, data and science to develop a streamline, transparent and accountable system to determine rates.

### *Questions for the Wilmington Regional Association of REALTORS*

Representative Iler asked that the charts in Ms. Riely's presentation be made available to the committee.

## **North Carolina Home Builder's Association**

Senator Brown introduced Mr. Robert Privott, Director of Codes and Construction for the North Carolina Home Builder's Association.

Mr. Privott mentioned he will yield a portion of the end of his presentation to Mr. Tyler Newman, Governmental Affairs Director with Business Alliance for a Sound Economy.

Mr. Privott provided a brief background of the state's building code and the Council that sets North Carolina's building code (see attachment 8).

He explained that the Council focuses on ensuring the adequacy of the North Carolina State Building Code with regard to commercial and residential construction throughout the state. He emphasized that determining sufficient levels of protection requires balancing what is technically possible and economically feasible. He also stated that the code has been revised several times in response to new findings (see attachment 8). Mr. Privott pointed out that the Council has adopted significant changes to the North Carolina Residential Building Code in a recent code making cycle.

Mr. Privott then provided an explanation of mitigation credits and a list of recommendations from the North Carolina Home Builder's Association (see attachment 8).

Senator Brown asked Mr. Privott to provide the average cost of codes for a home on the coast compared to inland cost.

Mr. Privott said the cost varies (from \$20,000 to \$25,000 per structure).

Senator Brown asked how long the coastal code requirements have been in place.

Mr. Privott said coastal requirements have been in place for 15 to 20 years.

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

Senator Brown clarified that the coast has had a different set of building codes for (at least) 15 years costing \$20,000 more than inland structures per unit.

Mr. Privott said Senator Brown was correct.

Mr. Tyler Newman then discussed homeowners insurance from a coastal perspective.

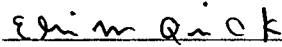
He used his own home, a 1992 brick frame house located 5 miles inland and west of Highway 17, as an example of how rates affect modest homes on the coast (not built directly on the water) (see attachment 9).

Mr. Newman provided a comparison of a Wilmington homeowners wind/hail policy and a Raleigh homeowners wind/hail policy. This comparison showed that coastal residents are paying more for homeowners' policies and wind/hail policies than inland residents (see attachment 9).

He then provided the committee with a list of recommendations to improve the issues with homeowners insurance throughout the state. He briefly mentioned that House Bill 1305 ensured the financial stability of the Beach Plan. He stated North Carolina needs to develop a way to provide more access to public record regarding past claims, storms and rates and also enable more companies to write insurance in the state (see attachment 9).

Senator Brown adjourned the meeting at 4:07 PM.

Respectfully submitted this 5th day of December, 2011



Elise Quick, Committee Assistant



Senator Harry Brown, Committee Chair

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

## **MINUTES**

**December 1, 2011**

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Attachment 1- North Carolina Rate Bureau Presentation (Mr. Ray Evans, Ms. Sue Taylor, Ms. Shantelle Thomas)

Attachment 2- a. North Carolina Department of Insurance Presentation (Ms. Rose Vaughn-Williams)

b. North Carolina Department of Insurance Remarks (Ms. Rose Vaughn-Williams)

Attachment 3- Nationwide Mutual Insurance Company Remarks (Ms. Susan Valauri)

Attachment 4- North Carolina Farm Bureau Mutual Insurance Company Presentation (Mr. Steve Carroll)

Attachment 5- Property Casualty Insurers Association of America Presentation (Mr. Don Griffin)

Attachment 6- North Carolina Insurance Underwriting Association/ the Beach Plan Presentation (Mr. Lee Dunn)

Attachment 7- Wilmington Regional Association of REALTORS Presentation (Ms. Kathleen Riely)

Attachment 8- North Carolina Home Builder's Association Presentation (Mr. Robert Privott)

Attachment 9- Business Alliance for a Sound Economy/ BASE Presentation (Mr. Tyler Newman)

**Presentation to the  
LRC Study Committee on  
Property Insurance Rate Making**

**By the  
North Carolina Rate Bureau  
December 1, 2011**



## Purpose

- The purpose of this presentation is to inform, educate, provide facts and data as requested
- As a reminder, the Rate Bureau does not lobby or advocate any position other than assert the need for fair and adequate rates



## Agenda

- Review of North Carolina Property Insurance Market
- Ratemaking Process
- Catastrophe Modeling
- “House Bill 1305”
  - Territory Determination
  - Hurricane Mitigation





North Carolina Rate Bureau

# The North Carolina Property Insurance Market

NCRB



# Types of Residential Property Insurance Policies

- Homeowners (generally owner occupied)
  - Owners forms
  - Tenants
  - Condominium owners
- Dwelling Fire and Extended Coverage (generally not owner occupied)
- Mobile Home (two forms are available)

# Homeowner Deductibles for North Carolina

- \$250 Deductible 16.5% of policyholders
- \$500 Deductible 50.6% of policyholders
- \$1,000 Deductible 22.2% of policyholders

# Rate Bureau Membership

- There are 725 companies that are members of the North Carolina Rate Bureau that are licensed to write one or more lines of insurance
- 621 companies are licensed to write residential property
- Companies writing residential property
  - Homeowners (includes tenant and condo) 97
  - Dwelling (extended coverage) 60
  - Mobile Home 15



North Carolina Rate Bureau

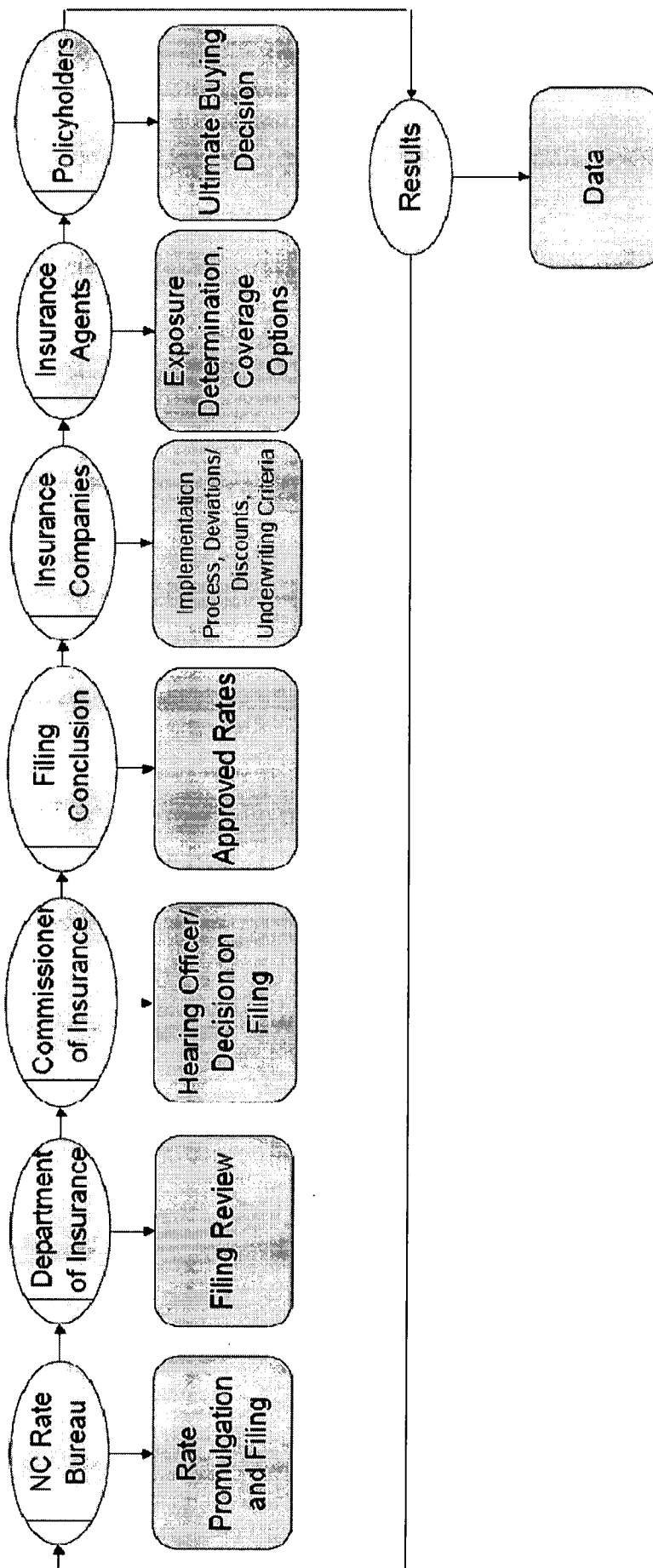
# Ratemaking Process



## The Ratemaking Process

- Data from all member insurance companies are submitted to a statistical agency
- The data are aggregated as if from a single company
- Rates are developed and a filing is authorized by the Governing Committee
- A filing is made with the Commissioner of Insurance

## Ratemaking Process



## **Ratemaking Formula (The insurance equation)**

$$\begin{array}{l} \text{Premium} = \text{Expected losses} \\ \quad + \\ \quad \text{Expected expenses} \\ \quad + \\ \quad \text{Reasonable profit} \end{array}$$





## Ratemaking Standards

NCGS 58-36-10. The following standards shall apply to the making and use of rates:

- (1) Rates or loss costs shall not be **excessive, inadequate or unfairly discriminatory.**
- (2) Due consideration shall be given to **actual loss and expense experience** within this State for the most recent three-year period for which that information is available; to **prospective loss and expense experience** within this State; to the hazards of conflagration and **catastrophe**; to a reasonable margin for underwriting **profit...**



# Hurricane Modeling



## Why does the Rate Bureau use catastrophe models?

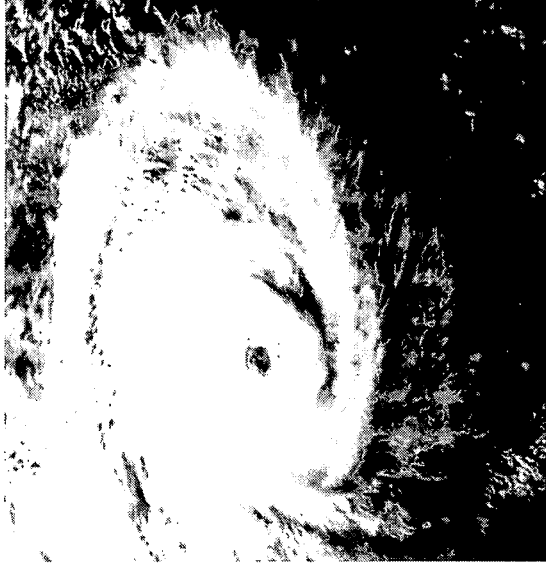
### Evolution of catastrophe models

- Prior to 1987, the US had not experienced a natural disaster with insured losses greater than \$1 billion
- The common belief by insurers was that the largest possible insured loss from a single hurricane was around \$8 billion
- In 1987, AIR Worldwide (AIR) estimated an industry loss greater than \$20 billion from a single hurricane

## Why does the Rate Bureau use catastrophe models?

Then....

- *Hurricane Hugo* (Sept 1989)
  - \$ 6.6 billion industry insured losses
- *Hurricane Andrew* (Aug 1992)
  - \$ 21.6 billion industry insured losses
- *Hurricane Katrina* (August 2005)
  - \$34.4 billion industry insured losses
- *Hurricane Ike* (Sept 2008)
  - \$12.5 billion industry insured losses

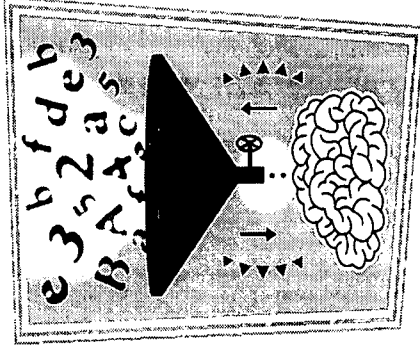


The severity of these catastrophes demonstrated the limitations of relying exclusively on historical insurance data

## What is a catastrophe model?

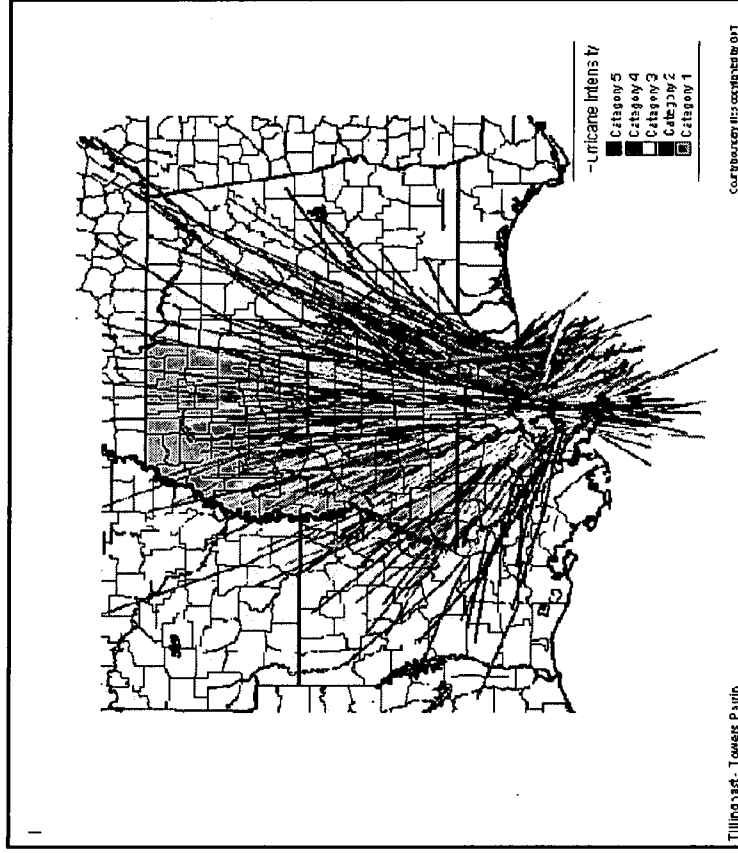
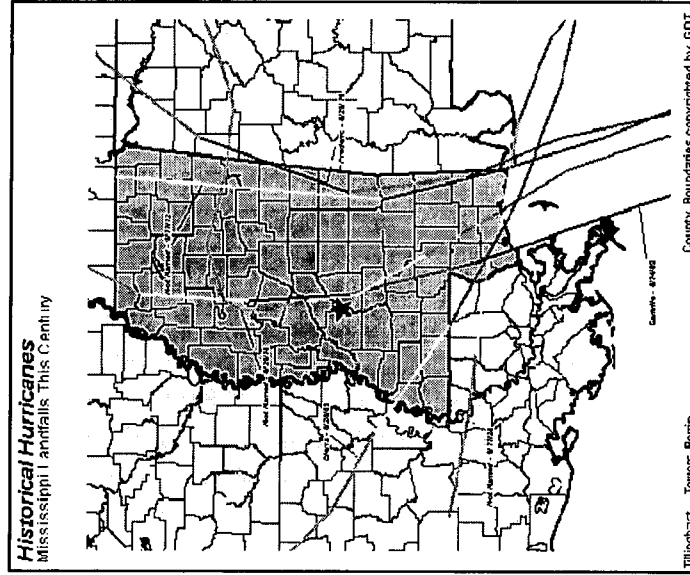
A catastrophe model is a computerized system that generates a set of simulated events which:

- Estimates the frequency, intensity and location
- Determines the amount of damage
- Calculates the insured loss



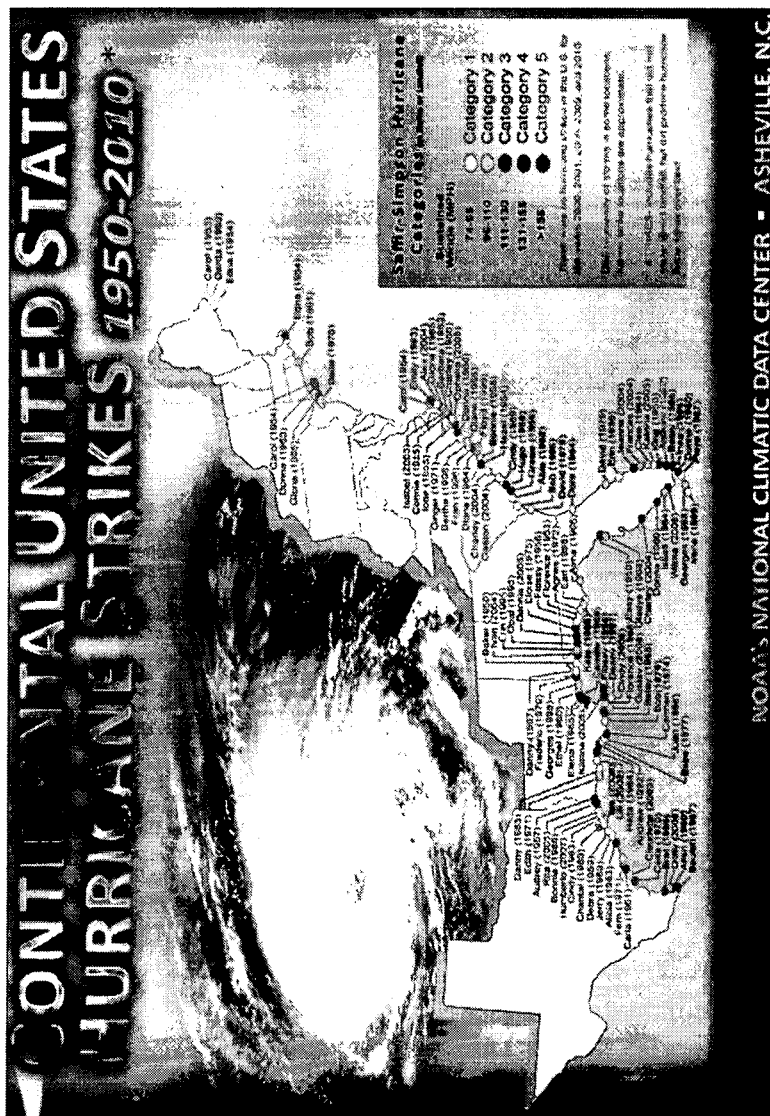
## How do catastrophe models work?

Historical event information is used.....to create a simulated set of events



## Why does the Rate Bureau use catastrophe models?

Limitations of historical data



- Catastrophic hurricanes are relatively rare, high severity events, and there are gaps in the historical record
- There are portions of the coast without historical events
- The frequency of hurricane activity has not been constant over time
- Therefore, the historical record does not reflect the full range of possible hurricane events

NCRB



NOAA'S NATIONAL CLIMATIC DATA CENTER - ASHEVILLE, N.C.

## Why does the Rate Bureau use catastrophe models?

### Limitations of historical data

- Property conditions have changed over the years:
  - Geographic concentration
  - Policy conditions and coverages
  - Building materials and building designs
  - Building codes
  - Costs of materials and labor
- These limitations make the historical insurance loss data unsuitable for directly estimating future losses



## **Why does the Rate Bureau use catastrophe models?**

- With models, we can simulate events using current property details
- The following limitations can be overcome with the use of catastrophe models:
  - Incomplete historical record of storms
  - Very short historical period of insurance losses
  - Constantly changing environment
  - Structure differences and building code changes
  - Population shifts
  - Policy differences
  - Costs of materials and labor



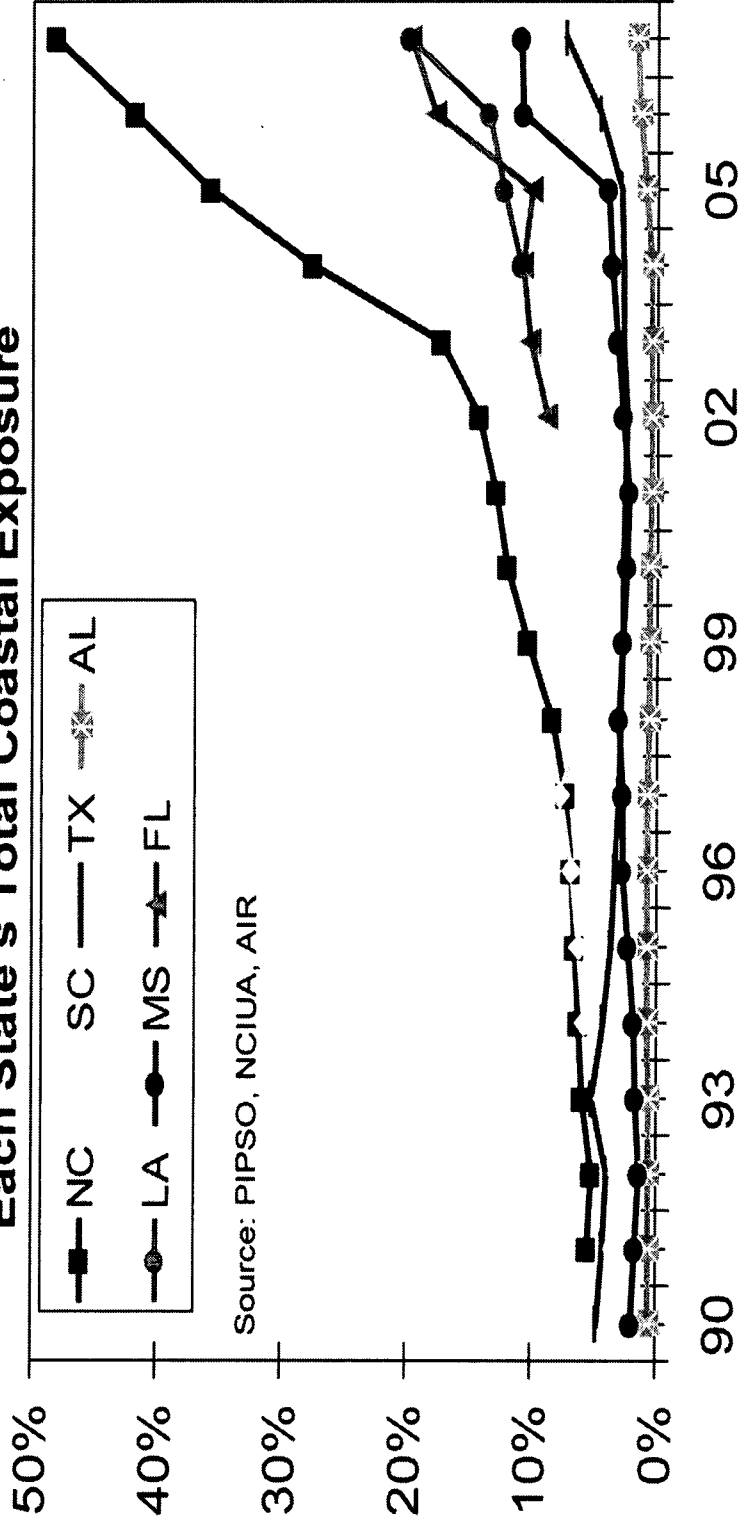
## “House Bill 1305”

- Review Property Territories
- Develop Hurricane Mitigation Program



# North Carolina Rate Bureau

**Beach and Windstorm Plans' Exposure As a Percentage of Each State's Total Coastal Exposure**



## Review Property Territories

- 2008 – Split northeastern coastal territory into two parts with approval of Department of Insurance
- 2011 – Reviewed southeastern coastal territory
  - Four counties (Brunswick, New Hanover, Pender, Onslow)
  - Reviewed ZIP codes
  - Reviewed geographical boundaries
  - Reviewed roads/highways
  - Still under review by Bureau and Department of Insurance



## Territory Definitions

- Definitive boundaries
- Homogeneous groupings
- Statutory definitions
- Data collection (measuring results)
- Zero sum

## **North Carolina Insurance Underwriting Association**

### **58-45-5 Definition of Terms**

(2) **Beach** area. All of that area of the State of North Carolina south and east of the **inland waterway** from the South Carolina line to Fort Macon (Beaufort Inlet); thence south and east of Core, Pamlico, Roanoke and Currituck sounds to the Virginia line, being those portions of land generally known as the Outer Banks.

(2b) **Coastal** area. All of that area of the State of North Carolina comprising the following counties: Beaufort, Brunswick, Camden, Carteret, Chowan, Craven, Currituck, Dare, Hyde, Jones, New Hanover, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Tyrrell, and Washington. "Coastal area" does not include the portions of these counties that lie within the beach area.



## North Carolina Rate Bureau

### North Carolina Rate Bureau Homeowners Territories (Effective May 1, 2009)



NCRB



## **Develop Hurricane Mitigation Credit Program**

- Effective May 1, 2011
- Coastal territories only (Beach Plan Territories)
- Available in Voluntary and Residual Markets
- Credits based on level of mitigation features on dwelling
- Credit increases as the amount of insurance increases
- Hip roof and/or opening protection lowest credits
- Higher credits for dwellings built at higher standard than building code
- Higher standards developed by Institute for Business and Home Safety (IBHS)
- Higher standards for new construction and retrofit dwellings



Thank you

[www.ncrb.org](http://www.ncrb.org)

(919) 783-9790

Ray Evans – NCRB General Manager

Sue Taylor – NCRB Insurance Operations Director

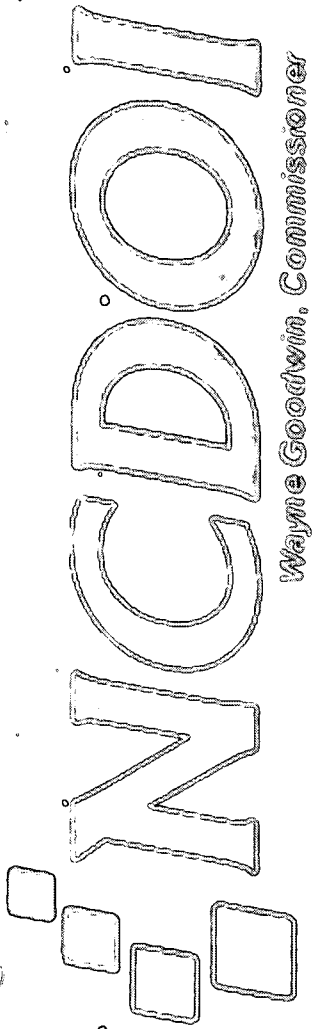
Tim Lucas – NCRB - Manager, Personal Lines

Shantelle Thomas – Senior Actuary

Allstate Insurance Company

Bill Trott – Counsel, Young, Moore & Henderson





# LRC Committee on Property Insurance Rate Making

December 1, 2011

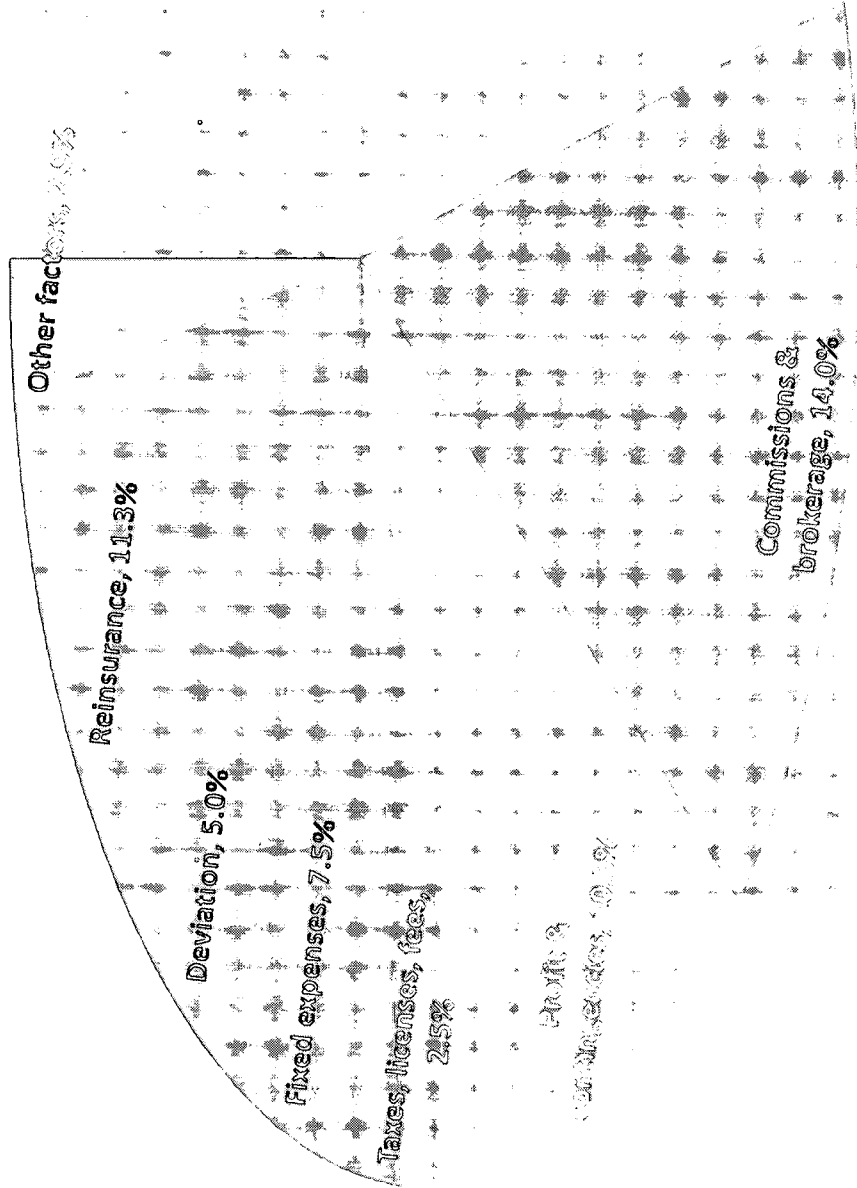
WCDOL

## Elements of Premium Determination

Elements used by homeowner's insurance companies in determining Homeowner's Insurance Premium:

- Territory Code (county or city locale)
- Protection Class (1-10)
- Construction of the home (frame or masonry)
- Type and extent of coverage
- Amount of insurance
- Amount of deductible
- Optional coverages

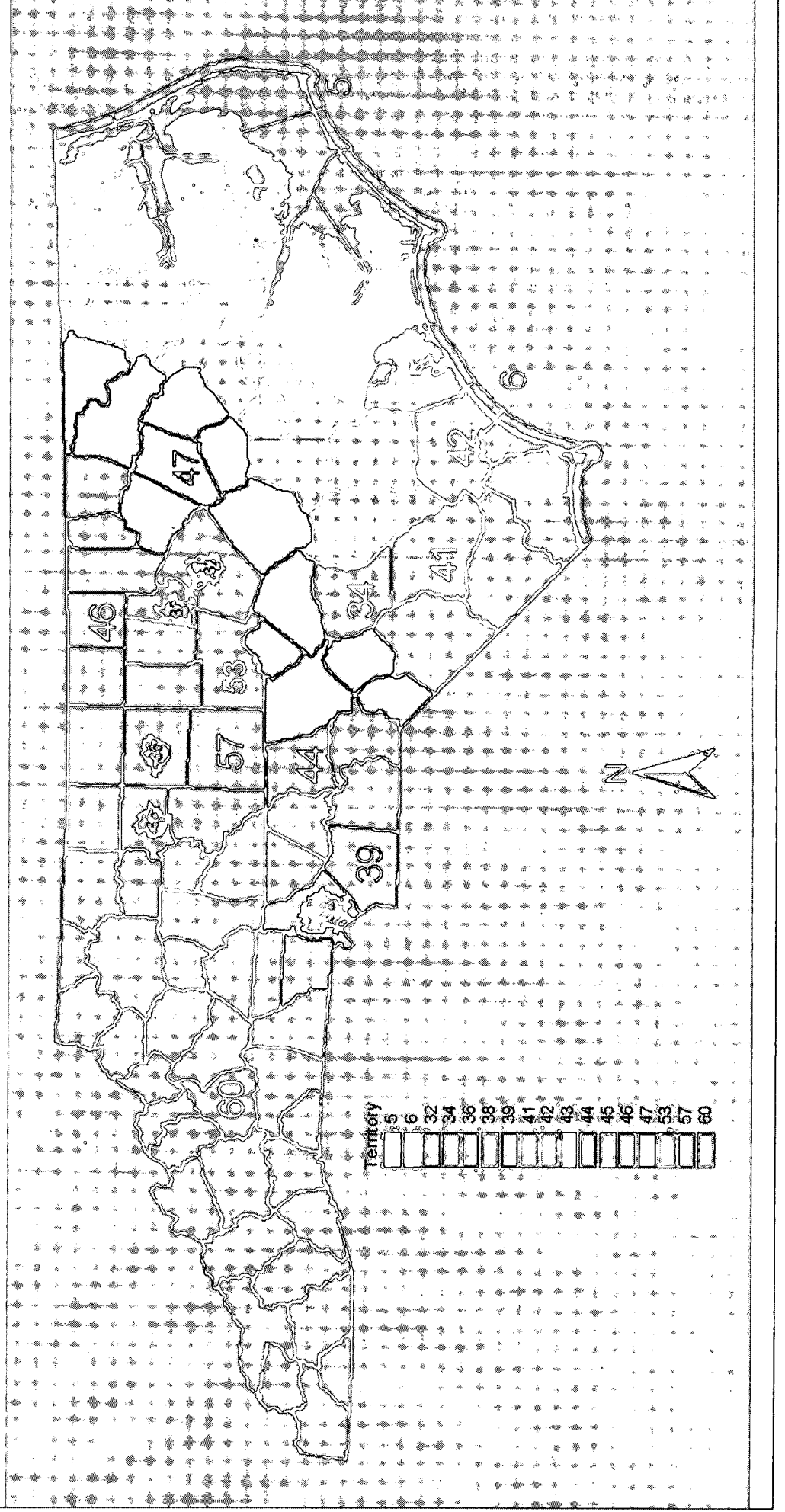
# Decomposition of Rates for Homeowners from 2008 NCRB Homeowners Filing



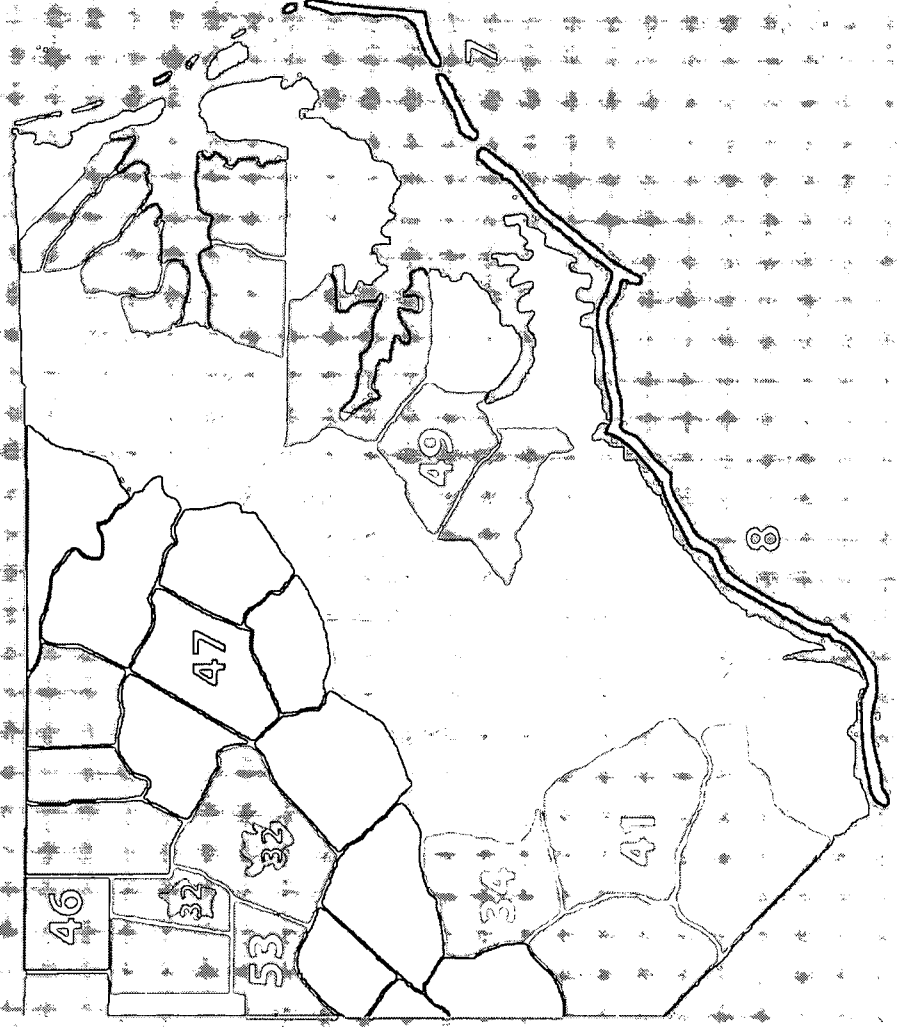
Reinsurance  
class loss cost:  
including LAE, \$4.23%

Reinsurance  
class loss cost:  
including LAE, \$4.23%

# North Carolina Rate Bureau Homeowners Territories (Effective August 1, 2002)



# North Carolina Rate Bureau Homeowners Territories (Effective May 1, 2009)



# North Carolina Residential Property Written Premiums, 2010

per Beach Plan Assessment Worksheets  
Voluntary Market Only (includes HO and Dwelling Forms)

Number of Insurers	Beach		Coast	
	Full	X Wind	Full	X Wind
WP > \$10 Million	0	0	4	2
WP \$1M to 410M	6	4	16	7
WP \$100K to \$1M	10	10	11	13

Thank you



December 1 Property Owner's Study Committee presentation by DOI:

Factors in Rate and Premium Setting.

Rate is what the Commissioner sets. Premium is what the companies actually charge the property owner.

Chart on what factors go into premium.

Pie chart on what factors go into rate.

Territories

At the same time as the last Homeowner's insurance filing in 2008, the Rate Bureau prepared and presented to the Department a revision of the rate territories in the state.

Chart of territories before the change.

Chart of territories after the change.

Modeling

The Rate Bureau first introduced data from modeling to the Department with a homeowner's rate filing in 1993. The Rate Bureau presents modeled losses for use in input into ratemaking to estimate hurricane losses. Modeling is not used for other losses.

The Department has never approved the Rate Bureau's model output explicitly and completely. Our actuaries try to temper the model, not to suppress them to an unsound level, but because the actuaries think they produce excessive rates. The statute requires rates that are neither inadequate nor excessive.

Rate making makes provisions for general losses, hurricane losses and what is called catastrophe wind losses...those are not hurricanes, but storms like tornadoes.

The model the Rate Bureau uses takes data from a data base called HURDAT, which includes storms from up and down the Atlantic Seaboard. The model uses that data to create a historical database of wind speeds, land falling locations, tracking patterns, etc. The modeling companies merge this database derived from historical hurricanes with engineering studies that attempt to measure the damage done by various wind speeds to different types of structures. Based on all of this information the modeling company creates a model for North Carolina that estimates expected annual insurance losses caused by hurricanes.

The model runs all the possibilities for storms involving North Carolina for 100,000 years. That is not looking at 100,000 years in the future to see what the storms will be. It means running the data over and over 100,000 times to see what could happen in any one given year.

The models look at all the probabilities and come up with estimates and average losses. The model the Rate Bureau uses says that over 100,000 scenarios there are 58,000 times that a hurricane will have some affect on NC.

A minority of these (about 18,000), are projected to hit the NC coast directly. Another 8,000 are projected to skirt the coast but come close enough to cause damage. The majority are projected to strike first in another state, and then track through NC with wind speeds of at least 40 mph. The modelers assume that lower wind speeds to no damage.

So, one run of the model may say that in one year no storms would hit NC, or that in one year three storms may start off the coast of Florida and move up the coast, bypass NC and then go to the Northeast. The next run may have a number of storms in the Atlantic Seaboard that year, but one would make landfall first North Carolina.

Numbers of HO companies actually writing in NC chart

Many companies write Homeowner's insurance in NC. Fewer write in the beach and coastal counties... Chart presented for reference.

**Nationwide Insurance Remarks  
LRC Study Committee on Property Insurance Ratemaking  
December 1, 2011**

**Opening Remarks**

- ♦ Thank you for the chance to talk with you today about the property insurance market in North Carolina.
- ♦ Nationwide has been doing business in North Carolina for more than 83 years. We remain committed to North Carolina. Our mission is to serve our policyholders here and across the United States when they need us most.
- ♦ We employ 1200 Associates, 381 principal agents, and 1600 associate agents in 592 different locations across the state.

**Homeowners Insurance: Market Dynamics in North Carolina and on the National Stage**

- ♦ The homeowners insurance market is fairly concentrated, both here in North Carolina and across all 50 states.
- ♦ Nationally, eighty-percent of the homeowners insurance market is concentrated in twenty-five (25) companies.
- ♦ In fact, 2/3 of all homeowners policies countrywide are placed in the top ten companies.<sup>1</sup>
- ♦ In North Carolina, eighty-three percent of all homeowners insurance is provided by just 10 insurance companies.<sup>2</sup>

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<sup>1</sup> Conning, The Homeowners Insurance Market The Eye of the Storm, September 2008. State Farm, Allstate, Farmers, Nationwide, Travelers, USAA, Liberty Mutual, Chubb, American Family, and the Hartford

<sup>2</sup> Ranked by Total 2007 Premiums Written, Property Insurance Report, September 29, 2008. State Farm, Nationwide, Farm Bureau, Allstate, Travelers, USAA, Erie, Liberty Mutual, Zurich, and Auto Owners.

- ♦ This large concentration of market share should give you pause and lead to other questions.

### **Why don't more companies make investments in North Carolina?**

- ♦ As you can clearly see from the slides presented, homeowners insurance is a **volatile** business venture. It requires a significant capital investment. Few carriers have an appetite for the level of risk versus return of this particular line of business – especially in **catastrophe-prone states, like North Carolina**.
- ♦ There are a number of factors we balance to manage our underwriting risk so that we can be here for our customers when they need us most AND maintain long-term viability:
  - Careful management of our rates.
  - Thoughtful management of our coastal exposure.
  - Positioning of a strong re-insurance structure, to help us pay policyholder claims and remain viable for major events.
  - Promotion of wind mitigation programs, strong planning and enforcement of coastal zoning codes, and on-site inspection of properties we underwrite.

### **The Good Old Days – Before 1989 (Hugo), 1991 (Andrew), et al**

- ♦ Long period of little/no storm activity.
- ♦ Sparse residential/commercial development in harm's way.
- ♦ Reliable investment income was available to boost company surplus.
- ♦ Pricing/Rating tools used by company actuaries were far less sophisticated – premiums were more of a shotgun approach.

### **Today's Business Climate – Frequent & severe weather, terrorism, & coastal growth**

- ♦ Storm activity across the country has increased.
- ♦ More residential/commercial development along the entire East coast.
- ♦ In the wake of Wall Street volatility, surplus from investments is no longer a reliable source of revenue.
- ♦ Our industry now has technology-driven tools that allow us to better understand the actual (and projected) impact of weather events.
- ♦ And, insurance market regulators and investment rating firms (particularly since the mortgage/banking failures) are far more sensitive to exposure management challenges.

### **Non-Negotiables for Nationwide**

- ♦ We must satisfy state regulators and rating companies (e.g., Moody's AM Best) that we are financially sound.
- ♦ Above all, we must have sufficient reserves to pay claims in all states to honor our promises to our policyholders.
- ♦ We must set aside funds to meet obligations from various state guaranty funds, and residual markets like the North Carolina Beach Plan.
- ♦ To secure reinsurance at a reasonable rate, we must have balanced "exposure" both within a state and across the country. Don't put all our eggs in one basket.
- ♦ And, importantly, we must be properly staffed to respond to catastrophic events and quickly help our customers recover. (You may be interested to know that Nationwide recently had close to 50,000 claims filed in the wake of Hurricane Irene in multiple states from landfall in North Carolina, all the way north to Vermont. And, in 2004, Nationwide experienced more than six years of claims in six weeks after 4 hurricanes in Florida.) This underscores the frequency of claims and volatility of this line of business.

### Is North Carolina A Good Place to do Business for a Homeowner's Writer?

- ♦ Coastal exposure – vulnerability; one of the top 5 states where storms are expected.
- ♦ Inland exposure – also vulnerable to catastrophic wind events.
- ♦ Pricing – rates are inadequate to the level of risk assumed.
- ♦ And, as an industry we assume 1-Billion of risk from the losses in the State's Beach Plan.

### What companies need

- ♦ A reasonable rate of return. Profits allow us to invest in resources such as the 600+ claims personnel in North Carolina who can quickly respond to customers in the wake of a storm.
- ♦ A reasonable rate of return requires an appropriate price for the risk assumed – Rate Adequacy.
- ♦ Predictability – Know with certainty what Nationwide's financial obligations are from any state mandated assessment. (This was the crux of HB 1305, and we are appreciative of the legislature's action.)

### Conclusion

- ♦ Nationwide remains committed to serving our policyholders in North Carolina.
- ♦ We welcome opportunities to meet with policymakers at all levels to develop plans and guidelines that protect property in all environments and that allow our state economy to expand and flourish.

Thank You.

**Property Insurance Rates - Legislative Research Commission Subcommittee  
NC Farm Bureau Discussion  
December 1, 2011**

**Introduction**

NCFBMIC appreciates the opportunity to address the NC Legislative Research Commission subcommittee to discuss property insurance rate making in the state.

We are the largest domestic property insurance writer in the state, and the third largest writer of property among all companies.

We have offices and serve North Carolinians in all 100 counties of our state.

**Property Insurance Rate Making**

In general, we believe that the current rate structure and approval process in North Carolina works well for lines of business outside of property. And the process itself functions adequately in property; the major issue is really about the rates that the Commissioner ultimately approves and whether adequate consideration has been given to the tremendous catastrophic exposure in property insurance and the cost of reinsurance.

To the question of catastrophic exposure and reinsurance costs, we do not believe that the Department of Insurance gives adequate consideration to these when evaluating property insurance rate requests. The decision to purchase reinsurance and to what level is a business decision. Statutorily, reinsurance is not required. But to operate without reinsurance or some other form of catastrophe protection is to operate recklessly and without regard to actually being solvent to pay claims to insureds when that catastrophe occurs. We will not and cannot operate in that manner.



North Carolina has two significant writers that operate solely in this state and thus cannot subsidize catastrophe risks with premiums and surplus built from other states: us, and the Beach Plan. Due to weather related losses in 2011, our reinsurance costs will almost double in 2012, approaching 40% of property premiums. Our reinsurance costs under current property rates cannot be supported. Farm Bureau provides employment to almost 2,500 citizens, has offices in all 100 counties, and pays over \$25 million in premium taxes to the state. But without adequate consideration of our true cost of doing business, we will be forced to reduce our property insurance writings, and with that, our presence in the state will also shrink. As we retract and other carriers withdraw from coastal areas, the Beach Plan will continue to grow, and the next hurricane will continue to deplete its surplus. Its cost of reinsurance, which already stands at 65% of its premium, will continue to increase.

#### **Specific Discussion Of Committee Directives**

We believe the current regulatory structure provides for an adequate voice to citizens and policyholders regarding rate appeals. Most importantly, the ultimate authority on rates is an official directly elected by the citizens of North Carolina, the Commissioner of Insurance. North Carolina is viewed as one of the most restrictive states in the nation as to the rate making and approval process. Over the last 20 years, there have been multiple mandatory auto insurance premium refunds from the industry to policyholders, as mandated by the Commissioner. This is concrete evidence that the Commissioner has the ability to protect the interests of consumers. In fact, we believe that regarding property insurance the primary issue is rate inadequacy rather than excessive or unfair premiums. The current structure provides balance between consumers and the industry.

Adding additional regulations, hearings, and panels will tip the scale of regulation to an excessive level. Rate increases and decreases take several years before they are fully in effect. The current process cannot be extended further without damaging the industry's ability to be responsive to market conditions.

An additional consideration is that individual citizens and policyholders may not have the breadth of knowledge possessed by the Commissioner and staff at the Department of Insurance. This is why the current structure has been established - to ensure that the policyholders and citizens who may not be sophisticated on insurance markets are protected.

The role of the Rate Bureau is to consolidate industry information and present it to the Department of Insurance as it relates to the adequacy or inadequacy of rates. The Department of Insurance advocates on behalf of the consumer, and the final decision is made by a directly elected official, the Commissioner of Insurance. It is unclear to us how this process could be deemed inadequate in protecting persons affected by rate increases.

We understand that there is concern from both the Department of Insurance and from regional associations regarding the use of models and reinsurance costs in establishing rates. We understand the concern about models and agree that they do not provide definitive results. They are designed to be and are used as risk management tools.

However, there is one component to them that is entirely real and valid: they are used extensively by reinsurers, and are the most critical component of the rates that they charge direct writers. We absolutely require a significant reinsurance program to allow us to offer property coverage in this state. There are no rate regulations over reinsurance. So, we are faced with this: the rates we may charge insureds are capped by the Commissioner. But the rates we must pay for reinsurance are uncapped and based on loss models. So the output of the loss models can be debated extensively, but no matter what we say about the models here in N.C., it does not and will not change the cost of our reinsurance. If the rates that we may charge do not factor in modeled losses or reinsurance costs, then a point will be

reached – and we are on the verge of it right now – where we have to severely restrict writing property coverage.

The same holds true for the Beach Plan as to their reinsurance cost, except they do not have the ability to withdraw from the market. This is why a failure to allow for models and reinsurance threatens all citizens, because if the Beach Plan fails, everyone will pay.

We are not opposed to offering more information to interested parties via the Rate Bureau or the Department of Insurance. We don't believe that such information will still get to the core problem in the property market: that the cost of weather related catastrophes and reinsurance are not adequately priced into property insurance rates.

Again, we appreciate the opportunity to discuss these issues with this legislative group, and will be glad to provide additional information upon request.



**Property Casualty Insurers  
Association of America**

**Shaping the Future of American Insurance**

**NORTH CAROLINA  
LEGISLATIVE RESEARCH COMMISSION SUBCOMMITTEE**

**SECOND MEETING**

**THURSDAY, DECEMBER 1, 2011**

**PCI STATEMENT REGARDING  
PROPERTY INSURANCE RATEMAKING  
IN NORTH CAROLINA**

Statement by Donald L. Griffin, CPCU, ARC, ARe, ARM, AU  
Vice President – Personal Lines  
Property Casualty Insurers Association of America (PCI)

**Property Casualty Insurers Association of America (PCI) Statement:  
Property Insurance Ratemaking in North Carolina**

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to provide testimony before the North Carolina Legislative Research Commission Subcommittee to discuss property insurance ratemaking in the state. PCI is the leading property casualty trade association, representing more than 1,000 insurers, the broadest cross-section of insurers of any national trade association. Our members write more than 38 percent of the property insurance in North Carolina and more than 35 percent countrywide.

Our comments will focus on the following points:

- The significance of House Bill 1305, passed in August 2009, in introducing reforms to the North Carolina Insurance Underwriting Association (i.e., Beach Plan).
- The impact of the North Carolina Rate Bureau on property insurance rates.
- The importance of territorial rating and risk-based pricing.

***The Significance of House Bill 1305 in Reforming the North Carolina Insurance Underwriting Association***

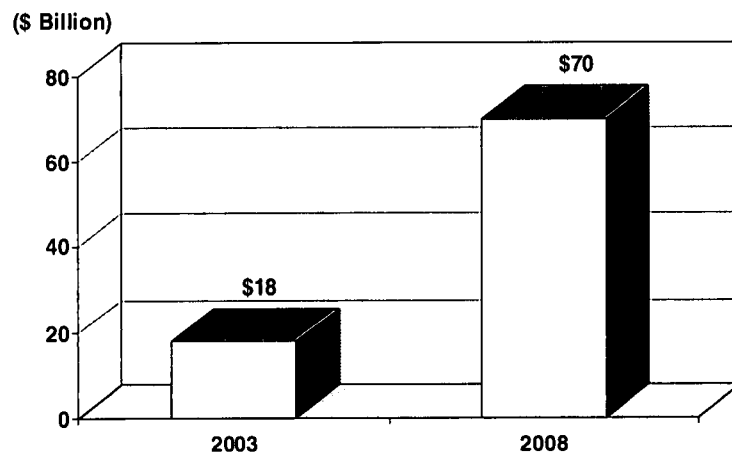
**Background of the NC Beach Plan**

The North Carolina Insurance Underwriting Association (NCIUA or Beach Plan) was created in 1969 to cover the barrier islands in the Atlantic Ocean. In 1998, it was expanded by the state's General Assembly to include 18 coastal counties for windstorm and hail coverage. Beginning on July 1, 2003, the legislature further authorized the plan to offer a typical homeowners policy, with low wind deductibles, instead of a more limited policy in coastal areas.

Both private market and Beach Plan rates are based on the same benchmark rates filed by the state Rate Bureau and approved by the Insurance Commissioner. Despite the fact that Beach Plan rates are required to be 15 percent above those charged by the private market for homeowners policies and 5 percent above for wind-only coverage, the rates are artificially suppressed and hence seriously inadequate for coastal risks.

Due to its generous coverage and low deductibles at artificially low rates, the Beach Plan became the first and only choice for coverage for most coastal homeowners. According to a leading modeling firm, Risk Management Solutions, Inc., insured windstorm damage in North Carolina could range from \$2.4 billion to \$6.5 billion, yet its capacity was significantly less than its coastal exposure. From 2003 to 2008, the number of Beach Plan residential policies doubled in size, resulting in insured property value along the coast to grow roughly four times in size, increasing almost \$1 billion a month. The Beach Plan was not financially prepared to withstand a major storm.

**North Carolina Beach Plan Insured Exposure  
Quadrupled in Five Years Pre-HB 1305**



A 2008 PCI-commissioned study by the independent actuarial consulting firm, Milliman, Inc.,<sup>1</sup> found that the Beach Plan's rates are 76 percent too low. While this benefits some homeowners in the short run, such undercapitalized liability could deal a serious blow to the entire North Carolina economy in the event of a major storm. Since private insurers in North Carolina are statutorily required to support the Beach Plan through rate subsidies and assessments, Milliman determined that a large event could easily result in insurance company assessments of approximately \$6.2 billion, while medium and small events could create assessments of \$2.9 billion and \$1.4 billion, respectively.

Moreover, an internal audit of the Beach Plan found that deficits could threaten the plan's ability to pay claims, bankrupt small insurers and force carriers out of the North Carolina

<sup>1</sup> *Analysis of the North Carolina Beach Plan for Property Casualty Insurers Association of America*, Milliman, Inc., October 10, 2008

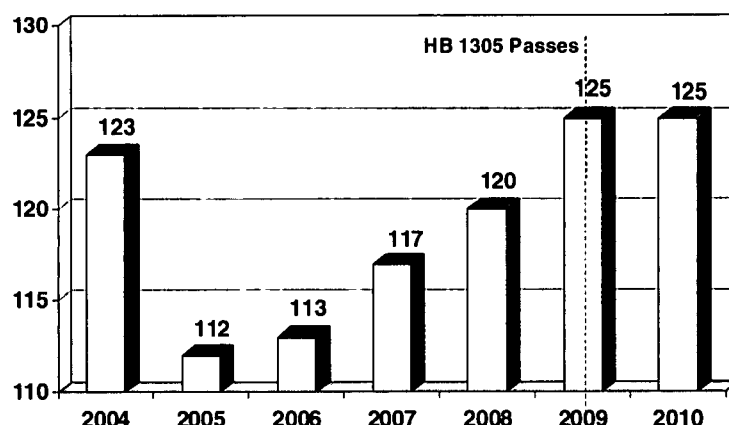
marketplace. Indeed, significant assessments did cause some private insurers to non-renew many of their policies in the state and stop writing new policies. Two companies withdrew from the North Carolina homeowners market in 2008, leaving thousands of coastal and inland residents without insurance.

### House Bill 1305

HB 1305, passed in 2009, recognized both the Beach Plan's role as the market of last resort and the higher risk of catastrophic loss to coastal territories. It also recognized the immediate need for the plan to build its reserves, purchase additional reinsurance to ensure solvency and allow it to fully pay claims after a storm. Among other reforms, the law imposed a cap on insurer assessments at \$1 billion following a storm, which promoted the availability of homeowners coverage in the private market, and established a catastrophic recovery surcharge (up to 10 percent of premium) to provide an additional layer of funding in the event of a mega catastrophe.<sup>2</sup>

Positive results appear to be taking place due to the passage of HB 1305. Additional reinsurance increased the 2011 claims-paying capacity, providing up to \$4.0 billion, double what was purchased in 2007. After a sharp decline in 2005, there are now more insurers in the North Carolina homeowners market than in the previous five years.<sup>3</sup>

**NC Homeowners Insurers are Returning**



<sup>2</sup> According to the actuarial consulting firm of Milliman, Inc., policyholders could have faced up to 200 percent increases in their premiums without the passage of HB 1305.

<sup>3</sup> National Association of Insurance Commissioners, Annual Statements, Highline Data

By all counts, HB 1305 has been successful in attracting more homeowners carriers to the state, stabilizing the Beach Plan, and helping consumers, lawmakers and insurers to realistically assess how to manage catastrophic risk.

Other positive benefits of HB 1305 include the following:

- HB 1305 encourages private market participation by financing Beach Plan deficits by using sources other than insurance industry assessments.
- H 1305 encourages private market participation by permitting insurers to collect surcharges on a pass through basis to policyholders.
- H 1305 responsibly reduces the overall risk exposure of the Beach Plan by: 1) requiring a minimum 1 percent named storm deductible, 2) decreasing the maximum available dwelling limits from \$1.5 million to \$750,000, and 3) limiting the maximum available contents coverage to 40 percent of the dwelling limit.
- H 1305 promotes mitigation by requiring that the Rate Bureau establish a voluntary mitigation program for both the residual and voluntary markets.

Clearly without reform, the state's current property insurance system could have resulted in unintended consequences that may have been harmful to all North Carolina consumers, the state's economy and future economic development.

### ***The Impact of the North Carolina Rate Bureau on Property Insurance Rates***

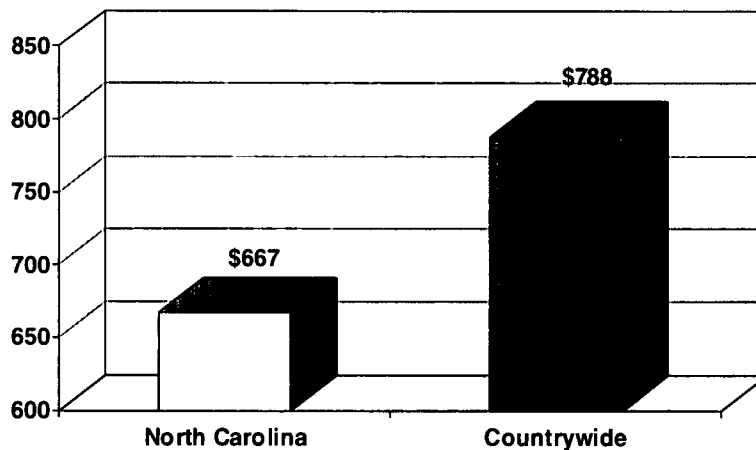
The North Carolina Rate Bureau is an independent state agency that develops and files the same proposed benchmark homeowners rates for both the private market and the Beach Plan. North Carolina is the last state in the country to use such a system for property ratemaking. Members of the Rate Bureau (i.e., all property insurance companies in the state) can differentiate from the Bureau plan approved by the Insurance Commissioner, but upward deviations are rarely granted to companies.

Most deviated homeowners rates filed by insurers are lower than Bureau rates. This largely explains why North Carolina has the 20<sup>th</sup> lowest average homeowners premium in the nation.



Residents in the state pay 15 percent less than the national average,<sup>4</sup> despite their high vulnerability to hurricanes and large losses resulting from severe windstorms. Even homeowners who live along the water are able to purchase coverage at much lower rates that are not commensurate to their level of risk.

**North Carolina vs. Countrywide  
Average Annual Homeowners Premium**



### ***The Importance of Territorial Rating and Risk-Based Pricing***

While the Beach Plan is more stable now, thanks to HB 1305, there is still more work to be done in ensuring that its rates – as well as non-Beach Plan rates – are actuarially sound and risk-based pricing is implemented fairly throughout the state.

Territorial rating, i.e., classifying risks by geographical location, has long been used in the pricing of insurance rates. Because of wide cost differences occurring in different areas due to events such as hurricanes, earthquakes and wildfires, insurance companies must be able to distinguish regions with greater loss potential from those with less.

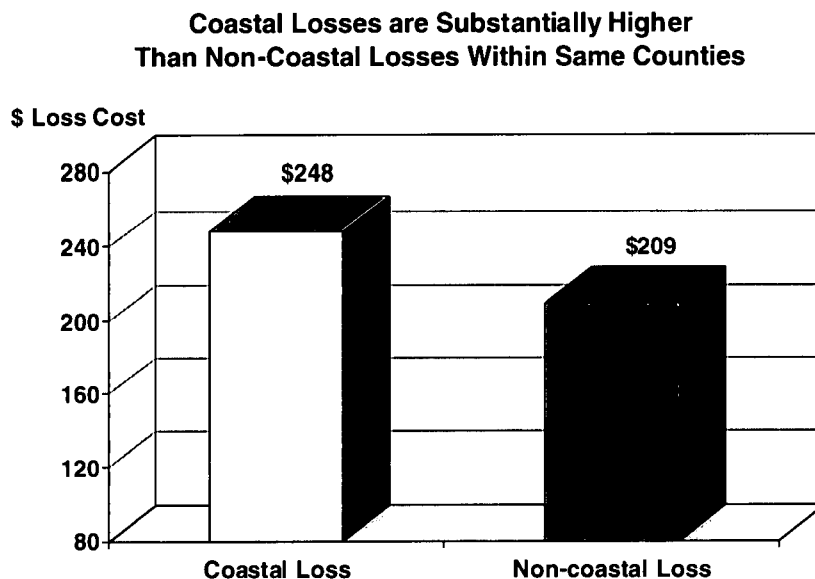
Catastrophe modeling is another tool that has been used, with increasing frequency, to determine maximum probable losses from a single event or multiple events in a single season. This important tool is helpful for insurers, the Plan and the buying public in estimating the exposure to loss from an event.

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<sup>4</sup> National Association of Insurance Commissioners, *2008 Dwelling Fire, Homeowners Owner-Occupied and Homeowners Tenant and Condominium/Cooperative Unit Owners' Insurance* (latest available year); average premiums reflect Dwelling and Homeowners Forms 1, 2, 3, 5 and 8 combined.

In order to achieve price equity among policyholders, companies must be able to rate on the basis of the risk insured. The greater the exposure to an insurable loss, the higher should be the premium. If rates do not reflect costs, subsidies will occur whereby lower-risk policyholders must pay more to offset the losses of higher-risk policyholders. This is precisely what has happened in North Carolina, since rates are the same for all residents of the same county.

Property losses incurred by coastal residents are significantly higher than inland residents. PCI has determined that the overall average homeowners loss cost (i.e., loss per housing unit) in the beach areas of Brunswick, Carteret, New Hanover, Onslow, and Pender Counties is roughly 20 percent higher than in the non-beach areas of these counties.<sup>5</sup>



**Note:** Total losses (wind/hail, water damage, fire, theft, etc.) reflect Forms 2, 3, 4 and 6.  
Counties are Brunswick, Carteret, New Hanover, Onslow, and Pender.

The cost differential between coastal and non-coastal areas during years of heavy storms is even more pronounced. In 2004, when Hurricanes Frances and Charley struck, the loss cost for wind/hail and water damage in the beach areas of the above counties was about 35 percent higher than the comparable loss cost in the non-beach areas of these same counties.<sup>6</sup>

<sup>5</sup> PCI, based on 2005-2009 data compiled by the Independent Statistical Service

<sup>6</sup> Ibid.

Clearly, while the Beach Plan provides less expensive coverage to coastal residents, it is harming the vast majority of residents who live inland – especially the ones with modest income – who are paying more to subsidize the losses of those living along the water.

The inequitable transfer of costs among policyholders results in market distortions. Prohibiting insurers from developing prices on the basis of risk may cause companies to withdraw from the coastal areas, bringing instability to the competitive market once again. More consumers along the water may not be able to obtain insurance in the voluntary market; they may have to go to the Beach Plan, hence reversing the positive effects of HB 1305.

### ***Conclusion***

In conclusion, HB 1305 has vastly improved the North Carolina Beach Plan, not only in terms of slowing its growth but in reforming its funding mechanism. The plan has returned to its intended role of the market of last resort; there is greater transparency to the state's coastal residual market insurance system; the financial resources of the Beach Plan are strengthened; a post-storm solvency plan for the state has been developed; and incentives for encouraging North Carolinians to make their homes more resistant to storm damage are established.

However, it is now time to take the next step and move toward a more market-driven approach to property insurance pricing. More must be done with respect to improving rate equity especially in the coastal counties of the state. Unless something is done to permit actuarially sound homeowners rates, there will continue to be forced subsidies for the vast majority of policyholders living inland at the expense of those living along the water.

PCI would like to thank you for holding this meeting to discuss the positive impact of HB 1305 and the topic of property insurance ratemaking, and for allowing us to testify on behalf of our members. We remain committed to working with North Carolina policymakers to ensure a healthy and stable insurance market and easy access to homeowners coverage at equitable and affordable prices. I am pleased to answer any questions which you may have.

December 1, 2011

NORTH CAROLINA INSURANCE UNDERWRITING  
ASSOCIATION - NCIUA  
(Coastal Property Insurance Pool)

NORTH CAROLINA JOINT  
UNDERWRITING ASSOCIATION - NCJUA  
(FAIR Plan)

Presented by Lee Dunn, Jr., Assistant General Manager

## AGENDA

- 2011 FISCAL YEAR FINANCIAL STATUS
  - Explanation of Agent's Commission
  - NCIUA/NCJUA Commission Structure
  - Other Information

# 2011 FISCAL YEAR FINANCIAL STATUS

2011 FISCAL YEAR	NCJUA	NCIUA	COMBINED
PREMIUMS	\$25,589,193	\$303,724,266	\$329,313,459
PAID LOSSES INCLUDING EXPENSE *Data as of 9/30/11	\$(23,181,082)	\$(64,123,043)	\$(87,304,125)
OPERATING EXPENSE AGENT COMMISSION	\$(3,780,665)	\$(39,146,303)	\$(42,926,968)
OPERATING EXPENSE NCJUA/NCIUA OPERATIONS	\$(2,400,687)	\$(5,056,555)	\$(7,457,241)
OPERATING EXPENSE PREMIUM TAX	\$(697,226)	\$(8,459,328)	\$(9,156,555)
REINSURANCE EXPENSE	\$(12,387,488)	\$(208,817,651)	\$(221,205,139)
PREMIUM	\$(16,857,955)	\$(21,878,614)	\$(38,736,569)

## COMMISSION EXPENSE

- NCIUA/NCJUA
  - Commissions for both the NCIUA and NCJUA are authorized by the respective Plans of Operation as approved by each Board of Directors and the Commissioner of Insurance
  - Commissions are that portion of individual policy premiums that are paid to agents for their work in handling the consumers' insurance affairs

# COMMISSION STRUCTURE NCIUA/NCJUA

Line of Business	NCIU A	NCJUA
Residential Dwelling	13%	15%
Commercial	13%	15%
Crime	10%	10%
Residential Homeowner	13%	NA

■ Certified and web agents are authorized for standard commission (majority)

■ Certified but non-web agents are authorized for 8% on all lines

■ Non-certified and non-web agents are authorized for 5% on all lines

■ The average standard market commissions used to determine manual rates by the North Carolina Rate Bureau are:

- Homeowners 14%
- Dwelling Fire (fire portion) 15%
- Dwelling EC (wind portion) 12.2%

(data provided by NCRB)



## COMMISSION OTHER INFORMATION

A homeowner policy in the NCIUA with an annual premium of \$2,000 would generate \$260 to the agent for handling the consumer's insurance affairs under the standard commission structure.

The Commission Operating Expense is a sum total of all written premiums based on the various commission structures for all agents on an fiscal year basis.

Any commission paid on a policy that is cancelled prior to the expiration date would have the pro-rated amount of commission returned to the Associations.

NCIU NCJUA

END OF PRESENTATION

**Kathleen Riely, Governmental Affairs Director Wilmington Regional Association of REALTORS®**

**Property Insurance Rate-Making**

***Key question: Is the system (which is now utilized) for setting rates for property insurance in North Carolina the best system for the insurance companies (as insurers) and for all the citizens of the state?***

**1. The feasibility and advisability of replacing the NCRB with a market based rate-setting system or with a regulatory commission similar to the NC Utilities Commission.**

- **Florida (FL)** allows insurers to file directly (can file on-line) with the Florida Office of Insurance Regulation (Commissioner of Insurance) to sell insurance in the state and (after rigorous review) is usually approved within 90 days. All insurance companies have to be a member of the FL Hurricane Catastrophe Fund (a tax exempt trust fund). FL also has an office of the Insurance Consumer Advocate (ICA) that promotes a viable insurance market responsive to needs of the consumer and assures rates are fair and justified. See # 4 for more details.
- **Texas (TX)** implements a system of file and use for insurers wanting to sell insurance in TX. They also have a Public Insurance Council which is an independent office that represents the interests of insurance consumers in TX. See #4 for more details.
- **Virginia (VA)** also implements a file and use system whereby each individual insurer sets its own rates and insurers can file on-line or via postal service and can start selling insurance with little to no waiting period. They license, regulate, investigate and examine insurance companies, agencies and agents and are self-supported thru insurance co. assessments. VA uses the "free market" as its own regulator.

**2. The adequacy under current law of legislative oversight of the Rate Bureau, The NCJUA and the NCIUA (a.k.a Beach Plan).**

- **Would NC be better off without a Rate Bureau** and thereby eliminating the need for legislative oversight? The NCRB was created by statute in 1977 and the insurance industry has changed and evolved in the last 35 years with most states now using direct file or file and use. Does keeping the NCRB benefit both insurers and property owners across the state? See NCRB outline for some basic facts.

- **The Beach Plan has a Board of Directors (Board)** who adopts the Plan of Operation and submits to the Commissioner of Insurance (Commissioner) for approval. The Board consists of 7 insurance industry members (elected annually by member companies), 4 agent members and 3 public members (**how many of the members are from the coast?**). There needs to be more input/oversight by the General Assembly and/or the Commissioner on which members serve on the Board as well as their Plan of Operation. Need more accountability and transparency with the Beach Plan.
- **VA and FL do NOT** have separate coastal wind pools (Associations) or an entity similar to the NCRB and therefore no legislative oversight is needed.
- **Texas has a Windstorm Insurance Association (TWIA) that:**
  1. Is a quasi-governmental entity with a Board of Directors nominated by insurance companies, insurance agents as well as consumer advocates. After nomination, the names have to be approved by the Commissioner of Insurance.
  2. Promotes consumer confidence in the Department of Insurance.
  3. Requires the disclosure of certain information by a presiding officer in a dispute between TWIA and a policyholder.
  4. Allows the commissioner of insurance to assign a new presiding officer in certain situations.
  5. Creates new standards of conduct for TWIA Board of Director ("Board") members and employees.
  6. Requires TWIA to file annual financial statements with TDI and the **State Auditor's office**.
  7. Requires TWIA to post on its website the salaries and any related compensation of individuals or entities paid more than \$100,000 in a calendar year.
  8. States that the commissioner shall appoint a panel of experts to advise TWIA concerning the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges.
  9. States that the panel shall consist of a number of experts to be decided by the commissioner with the commissioner appointing one member of the panel to serve as the presiding officer of the panel.
  10. Members of the panel must have professional expertise in, and be knowledgeable concerning, the geography and meteorology of the Texas seacoast territory, as well as the **scientific basis** for determining the extent to which damage to property is caused by wind, waves, tidal surges, or rising waters not caused by waves or surges.

11. The panel meets at the request of the commissioner or the call of the presiding officer of the panel. The cost and expense incurred by the panel associated with the work of the panel under this section is paid or reimbursed by TWIA.
12. At the request of the commissioner, the panel recommends to the commissioner **methods OR models** for determining the extent to which a loss to insurable property may be or was incurred as a result of wind, waves, tidal surges, or rising waters. After consideration of the recommendations made by the panel, the commissioner publishes guidelines that TWIA will use to settle claims.

**3. The adequacy under current law of the Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate or unfairly discriminatory rates.**

- **FL Applies the Florida Sunshine Law to public hearings for rate increases over 15%. The law requires open government for all public records, hearing etc. and allows public hearings to be televised all around the state. Consumers can testify at public hearings involving rate increase over 15%. NC needs a law similar to FL's law so consumers know what the Commissioner, the DOI, the NCRB and Beach Plan Board are doing.**
- **NC needs more transparency and accountability of HOW rates are approved.**
- **The use of modeling alone is not sufficient to determine rate increases/decreases across the state.**
  1. **FL has a Commission on Hurricane Loss Projection Methodology that uses modeling in addition to claims data and "sound scientific data."**
    - a. The models are subject to a "full review" and must be scientifically sound before they are accepted by the Department of Insurance.
    - b. The models are heavily vetted and are used in conjunction with other factors.
  2. TX also uses claims data and scientific analysis in addition to modeling as part of their rate making process.
- **The filing in 2008-see charts. Was it fair or unfairly discriminatory? What data was used in addition to modeling?**
- **A statistical analysis needs to be done evaluating the history of modeling and its accurateness in determining actual hurricanes and number of claims paid.**
- **In the U.S. thirty-nine states appoint their Commissioner-only eleven elect. Should the N.C. General Assembly or Governor appoint the Commissioner?**

4. **Whether the NC citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through the creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.**

- **Under the North Carolina Utilities Commission** there is a Public Staff which represents the interests of the using and consuming public in matters pending before the Commission. The Public Staff is an independent agency which is not subject to the supervision, direction, or control of the Commission. The Executive Director of the Public Staff is appointed by the Governor, subject to confirmation by the General Assembly, by joint resolution, for a term of six years.
- **FL has an office of the Insurance Consumer Advocate that:**
  - a. Is a government entity funded by general revenues appropriated by the Legislature but has the ability (by statute) to set own budget. It is a separate budgetary entity.
  - b. The Advocate (head of office) is appointed by the Chief Financial Officer of the FL Department of Financial Services (an elected position).
  - c. Works directly with the Department of Insurance and is part of the FL Commission on Hurricane Loss Projection Methodology.
  - d. Promotes a viable insurance market responsive to needs of the consumer **and** assures rates are fair and justified for **all** Floridians.
  - e. Examines rate and form filings to assure rate changes are justified and fairly apportioned and that policies clearly and accurately reflect coverage provided.
  - f. Represents Consumers in Rate and Form Filings and consumer interests in regulatory proceedings regarding all insurance activities conducted under jurisdiction of the Department of Financial Services and the Office of Insurance Regulation.
  - g. **Has authority to testify at the rate hearings on behalf of consumers.**
  - h. Has the ability to petition the Insurance Commissioner to investigate insurance matters related to market conduct.
- **TX Has an Office of Public Insurance Council which:**
  - a. Is an independent governmental agency (established by statute) that represents the interests of insurance consumers in TX (employs approx. 10 people).
  - b. Is run like a business in that it has to be cost effective (by statute).
  - c. Is funded by assessments on personal lines insurance policies which go directly into the general fund.
  - d. Works directly with the Department of Insurance and the Commissioner.
  - e. Has a statute (subchapter D Sec. 501.153) that gives **the public council the authority to appear, intervene or initiate proceedings on behalf of consumers i.e. the public counsel "may appear or intervene, as a party or otherwise, as a matter or right before the commissioner or department on**

**behalf of insurance consumers, as a class, in matters involving:... rates, rules, and forms affecting property and casualty insurance.**

- f. Under Section 501.155 states the public counsel “may recommend legislation to the legislature that the public counsel determines would positively affect the interests of insurance consumers.”
  - g. Under Section 501.156 states “the public counsel shall submit to the department for adoption a consumer bill of rights appropriate to each personal line of insurance regulated by the department to be distributed on issuance of a policy by an insurer to each policyholder under department rules.”
  - h. Under Section 501.202 Assessment. States “to defray the costs of operating the office, the comptroller shall collect assessments under this subchapter annually in connection with the collection of other taxes imposed on the insurer.
5. **The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss made by the NCRB.**
- **NC has NO review process for consumers affected by rate changes.**
  - **See Florida’s Insurance Consumer Advocate and Texas Office of Public Insurance Council.**
6. **Whether information provided to the public by the Commissioner and the NCRB is adequate to allow reasoned review by interested citizens of the assumptions, modeling and processes used in setting rates.**
- ***It is not. NC needs an entity that provides oversight, accountability and transparency in the rate-making process on behalf of the consumers.***
  - ***The process needs to be simplified and streamlined-NC needs a system that is cost effective and functional.***

Comments to the  
LRC Committee on Property Rate Making

by  
Robert Privott  
Director of Codes and Construction  
North Carolina Home Builders Association

1 December, 2011

Mr. Chairman, Members of the committee. I have given copies of my remarks for distribution to Committee Members and will be glad to summarize.

On behalf of the more than 13,600 member firms of the North Carolina Home Builders Association (NCHBA), I thank the Committee for the opportunity to share some brief observations regarding building code issues in coastal areas. We commend the General Assembly for focusing attention on the importance of ensuring the availability and affordability of insurance protection in North Carolina, particularly for coastal properties, and look forward to working with the Committee to that end.

With the Chairman's permission, I would like yield a portion of my time to Tyler Newman, Governmental Affairs Director with Business Alliance for a Sound Economy to summarize actual application of the Mitigation Credits following my comments.

### Background

In North Carolina, the entity created by the General Assembly and empowered to adopt and maintain a statewide, mandatory, and uniform building code is the North Carolina Building Code Council (hereinafter, the "Council"). The Council comprises 17 members appointed by the Governor from the public and private sectors and reflects a broad range of technical expertise and experience in the building sciences, including engineering, architecture, fire protection, local government and the building trades.

The North Carolina State Building Code is based on the International Code Council (ICC) family of "model" codes. In this, North Carolina is not unique. Most of the states that have a statewide building code do the same, but like North Carolina, no other state adopts the ICC codes without state amendments or the opportunity to make amendments. Such amendments to model codes are necessary to address each state's particular needs. While some would argue that North Carolina should adopt the ICC model codes without amendment, it is instructive to note that while all 50 states have adopted at least one of the ICC model codes, **none of the 48 states that have thus far adopted the ICC residential model code has done so without amendments** or the option of making amendments. This is not surprising since "one size fits all" model codes, whether developed by the ICC or other entities, cannot hope to address the myriad of local variations in construction materials and methods, regional



differences in physiography, climate, hydrology, and other physical risk factors prevalent across the nation, or even just across a state as varied as North Carolina.<sup>1</sup>

In the past there have been ill-advised attempts to mandate the adoption of ICC model codes without amendment, however, the North Carolina General Assembly has steadfastly refused to do so. In fact, the General Assembly amended the law some years ago to make clear that **“(t)he Council may use as guidance, but is not required to adopt, the requirements of the International Building Code of the International Code Council”** [N.C.G.S. § 143-138(c)].

### **Providing life safety and affordability**

For more than 40 years, the Council has developed and maintained a building code that has well served the needs of North Carolina and has devoted considerable attention to ensuring the adequacy of the North Carolina State Building Code with regard to commercial and residential construction throughout the state. In high wind areas and coastal construction in particular, the North Carolina Building Code Council has been an innovative leader since its inception, and continues to provide arguably one of the most effective codes in the nation without unnecessarily increasing the cost of housing. Determining what level of protection is sufficient requires balancing what is technically possible with what is economically feasible. At the same time, the Council has striven to ensure that new Code requirements do not unnecessarily increase the cost of housing in keeping with the General Assembly's mandate to consider the impact of its decisions on the cost of housing [SL1998-57] and in recognition that that “the affordability of housing” is “an important issue” [SL2004-155].

The Council has revised the Code many times in response to new findings and changes in building materials and methods to address wind, hail and wind-borne debris protection in the NC Building Code. In the most recent code making cycle, to further ensure adequate protection for construction in high wind zones, the Council adopted significant changes to the NC Residential Building Code to include: increased wall bracing requirements; new requirements for roof-to-wall connections at braced wall panels; increased fastener requirements for opening protection panels in wind-borne debris regions and a requirement for impact resistant glazing for glazed openings in garage doors in wind-borne debris regions.

### **Wind Mitigation Credits and NCHBA Recommendations:**

In regard to the credits for the presence of specified hurricane mitigation features on residential dwellings insured under the Homeowners and Dwelling Policy Programs in North Carolina as

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<sup>1</sup> For example, the Council amended the State Fire Prevention Code to exempt small churches from the ICC sprinkler requirement. This exemption was provided because many rural areas of North Carolina either are not served by a community water system or do not have the water pressure sufficient to support sprinkler systems, and without exception, the cost of such systems would be prohibitive.

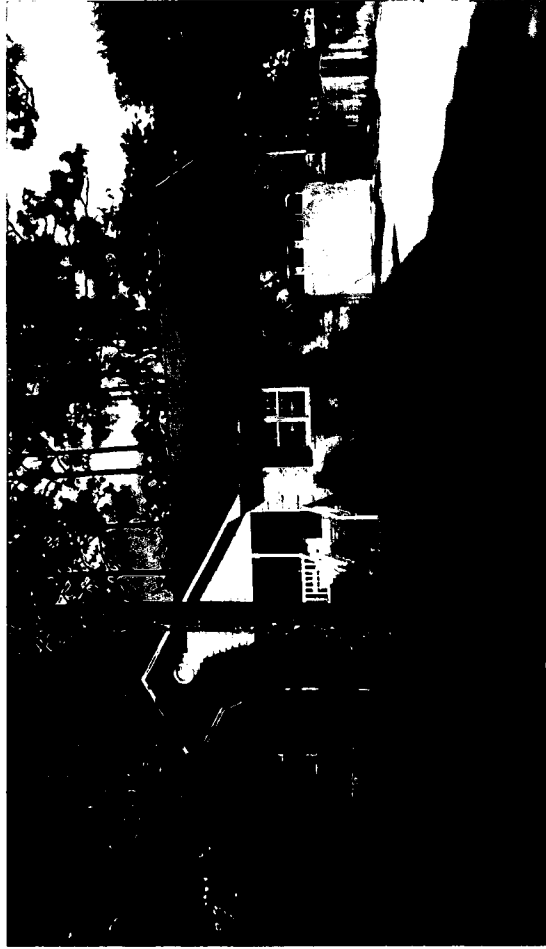
approved by the Commissioner of Insurance, NCHBA recommends that in the beach and coastal territories:

1. Consideration should be given to providing tax incentives or mandating reduced property insurance premiums for all new construction, rather than only those that meet IBHS program standards.
2. Consideration should be given to providing tax incentives or mandating reduced property insurance premiums to those who retrofit existing structures to meet or exceed the current Code.
3. Consideration should be given to providing tax incentives or mandating reduced property insurance premiums to those who reroof existing structures that provide secondary water protection and roof deck nailing as required by the current code.
4. Consideration should be given to establishing a designated source of funding for the North Carolina Building Code Council to support its administrative functions and an independent staff of technically competent and objective professionals without ties to the ICC.

## **Conclusion**

Thank you again for the opportunity to provide these brief observations and recommendations on behalf of NCHBA. We look forward to continuing to work with the Committee on these important issues.

# HOMEOWNERS INSURANCE: A COASTAL PERSPECTIVE



Tyler Newman  
Governmental Affairs Director  
Business Alliance for a Sound Economy (BASE)  
[www.ncbase.org](http://www.ncbase.org)

# Property Insurance

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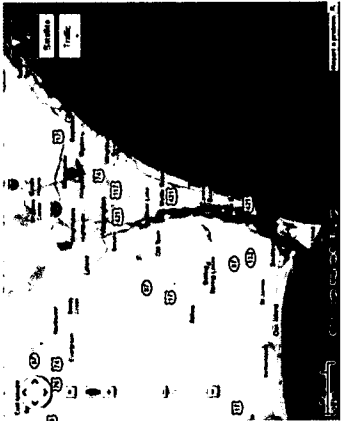
## HOMEOWNERS POLICY

### Perils Covered:

- Fire or lightning
- Windstorm or hail, unless specifically excluded
- Explosion
- Riot or civil commotion
- Impact by aircraft
- Impact by vehicle
- Smoke
- Vandalism or malicious mischief
- Theft
- Falling objects
- Weight of ice, snow, or sleet
- Accidental water discharge from plumbing or appliances
- Sudden tearing/bulging of heating or cooling systems
- Freezing of plumbing system
- Artificially generated electrical current (power surge)
- Volcanic eruption (excluding earthquake)

## WIND/HAIL POLICY: Private Market or NCIU/NCJUA

# 3 Year Snapshot



- 1992, Brick home
- 5 miles inland

## HOMEOWNERS

## WIND

2009	\$385	2009	\$1345
2010	\$382	2010	\$1245
2011	\$438	2011	\$1484

# Comparison?

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## WILMINGTON

HOMEOWNERS: \$438

WIND/HAIL: \$1484

\$1922

\*Situational: credit rating,  
coverage amount, deductible,  
package credit

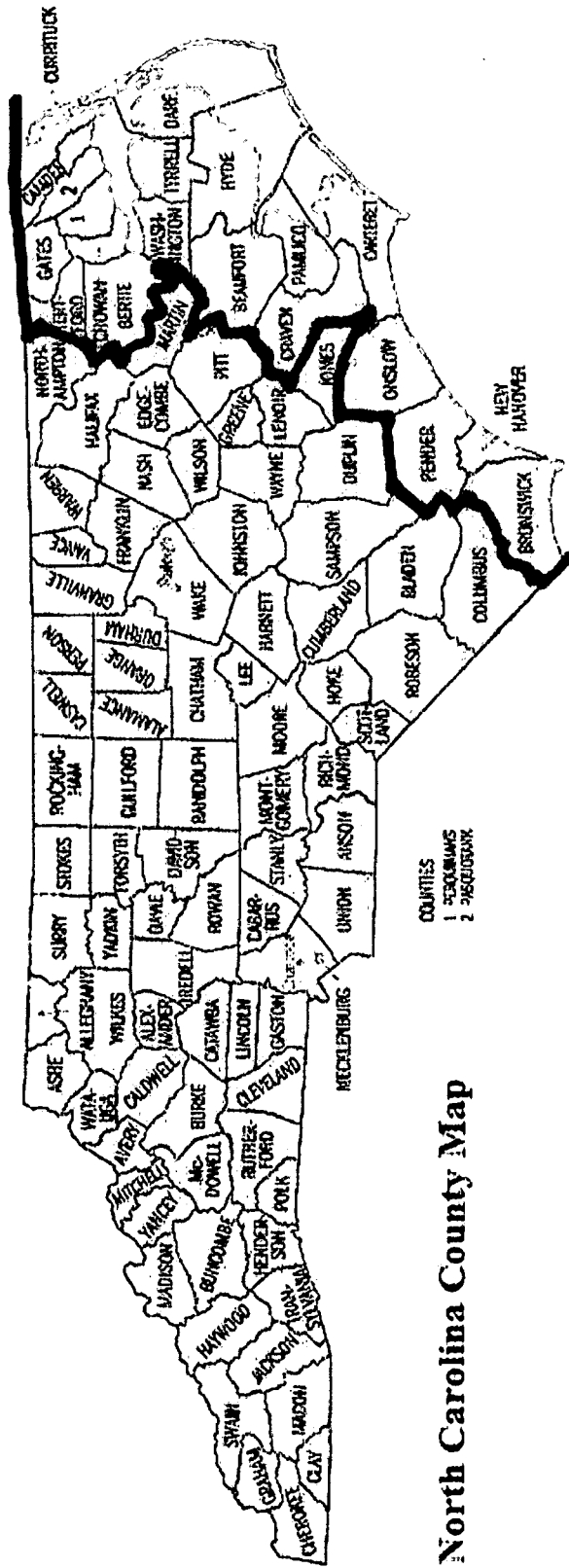
## RALEIGH AREA

HOMEOWNERS: \$460

WIND/HAIL: \$0

\$460\*

# Wind Losses Are Statewide



North Carolina County Map

## NORTH CAROLINA RESIDENTIAL PROPERTY 1992-2005\*

TOTAL STATE LOSSES DUE TO WIND AND HAIL: 2,438,459,621

BEACH AND COASTAL AREA LOSSES: 757,619,325

STATEWIDE EXCLUDING BEACH/COAST 1,681,840,296 (69% OF WIND AND HAIL LOSSES)

\*Information courtesy of NC Department of Insurance

# Property Insurance Continues To Increase

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Effective May 1, 2009, 63 Counties in North Carolina saw homeowners rates increase.

Rate Increases range from 2%-nearly 30%

Mainland New Hanover, Brunswick, Pender, Onslow and Carteret Counties homeowners insurance rates increased roughly 30% and 17.5% for the barrier islands.

## Historical Perspective:

Coastal homeowners got increases every rate cycle since 1992--including 2005 and 2007. Charlotte area rates remain unchanged since 1992.

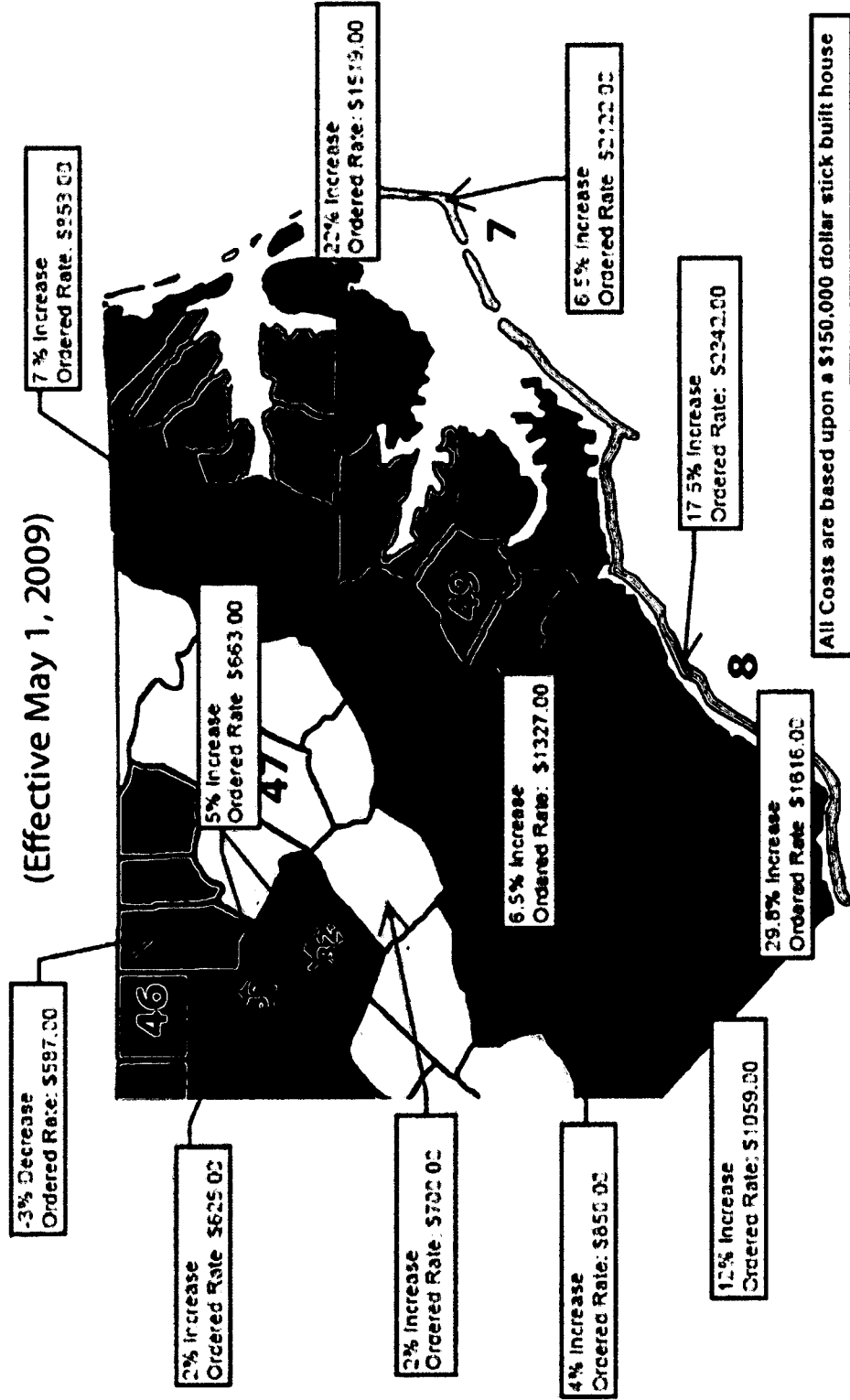
Over the last 6 years, the Department of Insurance estimates that homeowners insurance rates in the Beach Plan beach area have increased 90% and rates in the Beach Plan coastal area have increased 65%.



# 2009 "Negotiated" Increases

## North Carolina Rate Bureau Homeowners Territories

(Effective May 1, 2009)



# HB1305-Omnibus Beach Plan Changes

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Most critically, **ensures financial stability** of the Beach Plan (retaining surplus in the Plan--\$41 million out in 2006)

In the event of a loss to the Beach Plan, creates \$1B assessment to Insurance Companies before statewide assessments (effectively \$3.4 Billion damages before statewide impact). Previously this amount was a critical unknown which impacted their ability to quantify their risk in NC.

Protects policyholders statewide by providing financial stability for the plan which should encourage insurance companies to stay in North Carolina and continue to write policies **statewide**



# What to do?

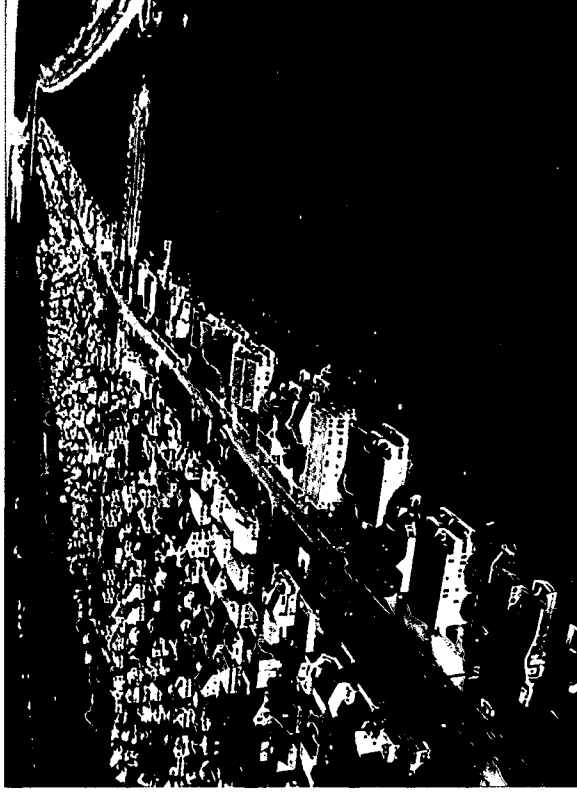
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## Generally:

1. Enhance Public Information
2. Analyze Structure, Policy and Procedure

## Specifically:

1. Expand Mitigation Credits to new structures that meet Building Code and retrofits to existing structures
2. Enable more companies to write policies along the coast and throughout North Carolina
3. Continue to build reserves in the Beach Plan (\$43 million on Agent Commissions in 2011?)



## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
Steve Candler	Brunswick County Association of Realtors 101 Stone Chimney road supply NC 28462
Kathleen Richy	Wilmington Regional Asso of Realtors 1826 Sir T, & Dr Wilmington NC 28405
Steve Candler	NC Farm Bureau Ins., Raleigh NC
Karen Ott	North Carolina Rate Bureau
Rebecca Williams	NCRB
Bo Healy	MWC
Frank Folger	Nationwide
Sherman Mcg	Nationwide
Daniel Baum	TROUTMAN SUNDERS
Lisa Martin	JNC Home Builders
Jessi Hayes	

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LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

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Date

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DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
Don Griffin	Prop. Cas. Ins. Assoc. of America
Tom J. [Signature]	FSP
[Signature]	NCSJA
John M. Ieffi	Travelers Ins.
Kristen Laster	FSP
Fred Fuller	NCAOI
Rose Williams	NCDJI
Bryan Hecker	NCDOI
Ernest L. Dickerson	NCDI
Micaela Isler	Property Casualty Insurers of America (PCI)
PATRICK HANNAH	LIBERTY

## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

Name of Committee

Date

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DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
Erin Engle	State Farm Insurance
Bill Tibbens	Farmers Group, Inc.
Mark Edwards	NC DOI
Louis Belo	NC DOI
JULIAN PHILPOT	NC FARM BUREAU MUTUAL INS. CO.
Alex Hovick	NC FARM BUREAU INSURANCE
Roger Battoff	"
Edith Davis	NCRB / NCRF
Dave Horn	Smith Anderson
Matthew Eisey	Smith Anderson
Mark	1/ANL

## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
ROBERT PRIVOTT	NCHBA
TYLER NEWMAN	BASE
<i>[Signature]</i>	<i>Bon's Assoc.</i>
Willie Kelly	OB#BA/ OB#R N/20
David McGowan	NC Realtors
Cady Thomas	~ ~
Sara Fender	IFNC
DAVID RICE	MANNING FULTON
DEMIUS BURKE	REINSURANCE ASS'N OF AMERICA
Liz Reynolds	NAMIC
Kim Conyers	State Farm

## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO  
DARRYL BLACK OR ELISE QUICK

NAME	FIRM OR AGENCY AND ADDRESS
Susan Valauri	Nationwide Ins.
Angie Harris	Williams Mullen
Robert Paschal	Young Men
Monteagan	NMRS
Alvin Ashworth	NCSUA/NCIUA
Bruce Lee	NCSUA/NCIUA
DEWEY MEBHAW	NCSUA/NCIUA



## VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

December 1, 2011

Name of Committee

Date \_\_\_\_\_

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO**  
**DARRYL BLACK OR ELISE QUICK**

NAME \_\_\_\_\_

FIRM OR AGENCY AND ADDRESS

Kelly Erline

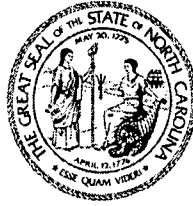
LIANC, Cary, NC

John Peter

Capstat

LESLIE MORTON

## NATIONWIDE



## **NORTH CAROLINA GENERAL ASSEMBLY**

Raleigh, North Carolina 27601

**February 13, 2012**

### **MEMORANDUM**

**TO:** Members of the LRC Committee on Property Insurance Rate Making

**FROM:** Senator Harry Brown, Co-Chair  
Representative Jerry Dockham, Co-Chair

**SUBJECT:** Committee on Property Insurance Rate Making Meeting Notice

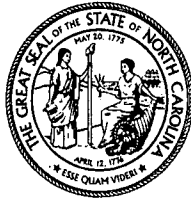
<b>DAY</b>	<b>DATE</b>	<b>TIME</b>	<b>ROOM</b>
Wednesday	March 21, 2012	1:00 pm	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting <http://www.ncleg.net/graphics/downtownmap.pdf>.

If you are unable to attend or have any questions concerning this meeting, please contact Beth LeGrande at 919-733-5746.

cc: Committee Record   X    
Interested Parties   X

STATE OF NORTH CAROLINA  
**LEGISLATIVE RESEARCH COMMISSION**  
STATE LEGISLATIVE BUILDING  
RALEIGH, NORTH CAROLINA 27603



**NORTH CAROLINA GENERAL ASSEMBLY**  
Raleigh, North Carolina 27601

March 15, 2012

**MEMORANDUM**

**TO:** Members, LRC Committee on Property Insurance Rate Making

**FROM:** Senator Harry Brown, Co-chair  
Representative Jerry Dockham, Co-chair

**SUBJECT:** Meeting Notice Reminder

DAY	DATE	TIME	ROOM
Wednesday	March 21, 2012	1:00 pm	544 LOB

Please see the attached Property Insurance Rate Making draft 12-01-2011 Meeting Minutes  
and

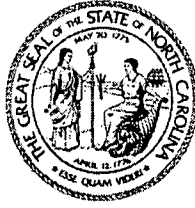
The 3-21-2012 Property Insurance Rate Making Meeting Agenda

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting <http://www.ncleg.net/graphics/downtownmap.pdf>.

If you are unable to attend or have any questions concerning this meeting, please contact Beth LeGrande at 919-733-5746.

cc: Committee Record ☒\_  
Interested Parties ☒\_





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

**Wednesday March 21, 2012 1:00 pm  
Legislative Office Building: Room 544**

- I. Opening Remarks and Approval of Minutes**
  - Rep. Jerry C. Dockham, Co-Chair
  - Sen. Harry Brown, Co-Chair
- II. The Honorable Wayne Goodwin, Commissioner  
North Carolina Department of Insurance**
- III. Property Casualty Insurers Association of America**
  - Ms. Nancy Watkins, FCAS, MAAA, Principal and Consulting Actuary, Milliman, Inc.
- IV. NC-20**
  - Ms. Willo Kelly, President, NC-20
- V. Wilmington Regional Association of REALTORS**
  - Ms. Kathleen Riely, Director, Governmental Affairs
- VI. Committee Discussion of Options for Recommendation**

**LRC Committee on Property Insurance Rate Making**  
**March 21, 2012**  
**Minutes**

Representative Dockham, chair, gave welcoming remarks and introductions. The Agenda was distributed (Refer to Attachment #1). The first order of business was approval of minutes. Representative McElraft moved the minutes from December 1, 2011 meeting be approved as read, seconded by Senator Brown (Refer to Attachment #2).

Members present were Representative Dockham, co-chair; Senator Brown, co-chair; Senator Hise, Representatives Iler, Jordan, McElraft, and Wray. The Committee Attendance Sheet is attached (Please refer to Attachment #3).

**Presentation by Commission Wayne Goodwin**

**North Carolina Department of Insurance (Refer to Attachment #4.)**

Insurance Commissioner Wayne Goodwin was recognized to speak on the coastal and beach homeowners' insurance crisis in this state. Mr. Goodwin stressed the complexity of this area and said it was a balance between protecting consumers and encouraging insurance companies to write policies in the coastal market. He cited the North Carolina Supreme Court case that forbids forcing insurance companies to do business in the state including the coastal and beach regions. He emphasized that insurance companies would leave the entire state unless there could be a balance. Commissioner Goodwin referred to House Bill 1305, which passed in 2009, and said it had capped assessments, offered mitigation credits to homeowners, requested revised territories from the Rate Bureau and slowed the growth of the Beach Plan.

Commissioner Goodwin proceeded to present the following recommendations for proposed legislation to be considered in the upcoming 2012 Short Session and other recommendations to be studied for consideration in the 2013 Long Session of the North Carolina General Assembly.

1. Recommended transparency in property rate filing.
  - (a) Have more from a catastrophe model or models used in a rate filing.
  - (b) Require supporting data when cost of reinsurance was included in rate calculations.
  - (c) Know the actual amounts spent for hurricane reinsurance.
  - (d) Legislation to require having public comment periods before rate hearings as was the practice now.
2. Recommended the Legislature give the Commissioner of Insurance the authority to select the rates if the change requested by the industry was different than the change justified by the evidence.
  - (a) Having the ability to order rate changes other than the current practice which was accept the exact request or accept nothing. It should not be one way or the other. It works for the Auto Industry and would work for homeowners.
3. Recommended the Rate Bureau move forward with expanding the number of coastal territories so coastal residents further inland may have lower rates than those homes on the sand closer to the water. Number of rate levels needed to be more than five rating territories.
4. Recommended requiring the Beach Plan and the Department of Insurance work with the Commissioner of Insurance to study a solution that addressed the possibility of multiple major storms in a year other than the purchase of reinsurance. This would help the surplus grow. The issue of tax exempt bonds is complicated and the Department of Insurance would help with all the intricate details while it was being studied.
5. Recommended tax credits for any new full coverage policy which included wind and hail on beach and coastal regions for the taxable year; which would encourage companies to write more on the coast and discourage growth of the residual market in the Beach Plan.

Commissioner Goodwin thanked members of the committee for looking into this complicated issue along with cautioning them about various studies, reports and recommendations that claim to be independent. He further encouraged the committee members to ask questions and check with the staff at the Department of Insurance, who had expertise in these areas, to determine any unintended results from these studies and reports.

**Representative Dockham invited questions from the committee for Commissioner Goodwin.**

Senator Brown, co-chair, commented that from his perspective of living on the coast this issue was the number one issue in his district. He said he knew it was a tough issue and that being in business he understood the insurance side of running a business.

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Senator Brown said he had a problem with the modeling theory that was being used and would like to revisit it.

Senator Brown also cited current decision-making which involved *loss history*. He gave the example of someone who had not had a claim in 30 years and recommended that this loss history be a determining factor in premium rates.

Senator Brown expressed concern with the way territories were set; and gave the example of someone who lived inland in Richlands, NC but had the same premium rate as someone who lived on the coast in Swansboro, N.C. He emphasized that these are two totally different risk areas in his county and that he would like to take another look at the way territories are configured.

Senator Brown said it had gotten to the point that these issues were hurting economic development on the coast. He cited his personal premium rates that had tripled in the last 6 years at his home in Jacksonville and emphasized the seriousness of this issue and the importance of addressing it.

Commissioner Goodwin responded that he shared Senator Brown's concerns of these high priority issues. He pointed out that modeling, loss history and territories were all issues within the jurisdiction of the legislature and had also been included in his recommendations.

Commissioner Goodwin explained that modeling was not required by this state but used by the Insurance Industry and relied upon very heavily not just in North Carolina, but in the other states.

The Commissioner responded to Senator Brown's concern that loss histories were not being used to determine premiums would require a statutory change.

In follow-up to Senator Brown's concern that territories needed to be drawn fair and appropriate on the coast and inland, the Commissioner cited the need to strike a balance with the insurance companies and noted that North Carolina has lower rates on the coast than any of the other southeastern states.

Senator Brown responded that he understood insurance was a shared risk, but thought that some parts of the state had benefited from what had happened on the coast and noted rate decreases in other parts of the state.

Mr. Goodwin responded that there was a difference in what had been requested and what had actually been put into place and that there had been no changes in rates. He again stressed not wanting to jeopardize insurance availability in the state.

Representative Dockham asked the Commissioner to give an update on insurance companies' activities in the state.

Mr. Goodwin responded that several companies as a business decision had reduced the number of policies written in the state. He added that some new companies had written policies on the coast and that North Carolina would like to see them have a bigger footprint. He expressed his main concern to be that major players had been scaling back, however he pointed out that HB1305 had slowed that "ticking time bomb". This issue he stressed still needed to be addressed because some companies had said they would only write on the coast of North Carolina with higher rates.

Representative McElraft expressed concern with companies that would only write wind and fire policies in coastal territory and said this had caused a hardship for many seniors who had paid off their mortgages and could not afford these higher premiums. She asked Commissioner Goodwin for a list of insurance companies that would write fire only policies without the wind pool.

Commissioner Goodwin responded that he thought this to be a property right issue for the many people who owned their own homes and wanted to self-insure for the wind risk and that it required legislation. The Commissioner agreed to provide, through his staff, the lists of companies requested.

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Representative McElraft recommended that \$240 million be put into a state catastrophe pool which in four years would add up to a billion dollars. She stressed that this would be a shared resource available to the entire state. The state she proposed would make the profit and not a reinsurance company, who in turn would leave the state.

Commissioner Goodwin responded that this proposal needed an actuarial analysis and that he was open to studying it to see the effect on rates and who would benefit, who would be harmed and what would be the impact on private companies writing in NC. He cautioned that when the state of Florida got into the insurance business, private insurance companies fled the state. He noted that there were some good components in it and he would furnish the data for a study. Chairman Dockham encouraged Representative McElraft to bring this issue forward for a recommendation.

Representative Jordan said that being from the mountains he would like to see data on regional cross subsidization that occurs in NC with insurance.

Commission Goodwin responded that data was available on earth activity in the western part of the state; but that currently the wind pool (Beach Plan) only pertained to the beach and coastal areas. It had been suggested that there was a need to look at hazard rates in other areas of the state as well he noted, while at the same time keeping a balance with private insurance companies.

Senator Hise expressed concern with the concept of regionalization and rates being made as a whole; and that the profitable way to be in the insurance market was to predict risks better than the state. He gave the example of a home that existed in a region that had less risk than the overall region it existed in and asked how we could move North Carolina toward a model that looked at every individual property, own its own, and calculated the risks to that property. This he said would result in the market being allowed to control risks which would ensure getting away from the concept that everything in a coastal territory was the same.

Commissioner Goodwin agreed with Senator Hise and noted that this was included in one of his recommendations; to get to a fairer rate you needed more data and the need for more data was closely tied to the risk which was the reason for more territories. He said the smaller the group of people to base the rate on, the better the underwriting.

Representative McElraft recommended credits be given for building codes, tie downs, roof structures, hurricane windows and set backs on the coast in North Carolina. She further recommended that the Insurance Industry and Department of Insurance sit down together and judge how rates are set.

Commissioner Goodwin responded that this was also one of his recommendations and referenced the current practice of either rejecting or accepting requests. He stressed that the law needed to be changed to allow hearing officers the authority to find a workable and lawful decision between the two parties, taking into consideration what the insurance industry wanted and what the other side had requested. He also said rate filings were not up to current date; the most recent rate hearing data was 08/09. Change in mitigation credits would be a first step and he expressed hope that additional mitigation data would be made part of a filing that did not deal with current dates; this would result in having the most complete year of data that was received.

**Property Casualty Insurers Association of America  
Ms. Nancy Watkins, FCAS, MSSS, Principal and Consulting Actuary, Milliman, Inc.  
(Refer to Attachment #5, PCI Statement Regarding Property Insurance Ratemaking in North Carolina.  
Refer to Attachment #6, North Carolina Beach Plan Presentation.)**

Representative Dockham welcomed, through video conferencing, Ms. Nancy Watkins, a Fellow of Casualty Actuarial Society and Principal with Milliman Inc. in San Francisco. Ms. Watkins pointed out that Milliman is an independent actuarial firm of 65 years that consults for PCI. In October 2008 Milliman presented a proposal to the Beach Plan. In 2009 she worked with HB 1305. PCI had asked Milliman to come back this year, 2012, and look at the effects of Beach Plan over the past 3 years. Ms. Watkins noted that Auditors for Beach Plan had

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expressed concern that the previous set up could have affected the solvency of insurers writing insurance North Carolina. Now she said she looked at Beach Plan in North Carolina and saw major improvements due to HB 1305.

Ms. Watkins pointed out that they were in agreement with Commissioner Goodwin's recommendations and proceeded to go over the handouts.

She noted the controversy around models and said that historical models were not good models. She noted in other states models were preapproved and had more information in prescreening or the rate-making process or both. She suggested that North Carolina needed a specified catastrophe recovery model in place before going to the bond market because other states might be involved as well. Please refer to Handout #6, North Carolina Beach Plan Presentation, which included Ms. Watkins' conclusions.

**Representative Dockham invited questions for Ms. Watkins from committee.**

Representative McElraft referred to the total amount of exposure and gave the example of Hurricanes Fran & Bertha; both were CAT 3, back to back in Carteret County. She felt that total exposure today, because of set-back laws and building codes would not be to the extent it was then and further assumed that today total loss would be from storm surge or a tsunami which would be covered under FEMA which would be different from the wind policy.

Ms. Watkins responded that storm surge exposure was significant for houses and that models now could either include storm surge or not to be reflected as part of the losses. She used Florida as a reference point and the amount it would cost to rebuild. She said the model would consider damageability to home and pardoning features and the model would also reflect those features in estimating damage. She noted that every big storm, examples given were Katrina and Andrew, hits property never having been hit before. Ms. Watkins said Representative McElraft had a legitimate question and that the vetting process for CAT models keeps the current building codes, how long it takes for full compliance and how they factor those into their model.

The presentation concluded without further questions. Rep. Dockham thanked Ms. Watkins for her presentation; along with Peter Capriglione, a member of the staff, for making the video conference possible.

**NC-20 Presentation**

**Willo Kelly, President of NC-20 (Refer to Attachments #7 "Twenty Counties ...One Voice) And Attachment #8, the Beach Plan Distributions and Assessments 1970-2011.)**

Representative Dockham introduced Willo Kelly, President of NC -20, which included 20 eastern NC counties. Ms. Kelly emphasized that NC-20 was dedicated to environmental and economic development issues. She referred the 2008 rate filing. She said NC-20 wanted insurance companies to be profitable and solvent but that due to the Beach Plan Insurance Companies now were saying that losses were too great and rates needed to go up 5% this year. She said that insurance companies in the United States held over \$500 billion in surplus to cover catastrophic event losses and believed that the role of insurance companies was decreasing risks and had shifted rates to taxpayers and consumers. She pointed to the higher rates in eastern NC since 1993 as opposed to the 33 counties in North Carolina, which also included the City of Charlotte that had been without a homeowner's insurance rate increase.

Ms. Kelly referred to Commissioner Goodwin's mention of the data included in 2008 rate filing that was 5 years old by the time of the filing and said she appreciated his comments and believed that there had been greater transparency under Commissioner Goodwin. She noted he had held the first public hearing; although declined comments in the dwelling rate filing.

Ms. Kelly expressed concern and noted that the key issue was the Beach Plan's lack of access of coverage and affordability of coverage. Press releases she noted over the past years had said we needed to raise rates to get good companies to write coverage in coastal North Carolina. She pointed out that QBE and Strickland Insurance Companies had left the area and insurance companies were dropping policy holders, leaving



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consumers on the coast nowhere to go. She continued by citing Farm Bureau's reduction and emphasized that the Beach Plan with wind coverage was now the only option on the coast. Ms. Kelly raised serious issues with regard to HB 1305. (Please Refer to Attachment #8, The Beach Plan Distributions and Assessments 1970-2011.)

Ms. Kelly recalled the past 44 years of the Beach Plan's history and pointed out that by general statute it had allowed the development of ocean front properties which had resulted in the North Carolina Insurance Underwriters Association, NCIUA. She claimed that HB 1305 does not touch its surplus but spends money on reinsurance, operating expenses and losses.

In 2009 NC-20 noticed the Beach Plan had started buying reinsurance in 2007. She said reinsurance is a great way to manage risk, but NC-20 noticed that reinsurance cost had gone up in the last 2 years, up to \$198 million at the end of fiscal year 2011, and said this was a vicious cycle which would result in instability of the Beach Plan. Ms. Kelly referenced the heavy dependence on the reinsurance market which she said was not regulated by Department of Insurance but went to foreign markets and suggested the possibility of Tax-Free Bonding to manage catastrophic loss; not if it happened but when it happened. (Please refer to NC-20 Attachment #7). Ms. Kelly concluded that Tax-Free Bonding would lower dependence on reinsurance, add more funds to the surplus, and would create more stability and less possibility of assessment to statewide policy holders which would bring in more companies to write insurance on the coast. She referred to the study released from *Consumer Federation of America*, published in February by Robert Hunter who had written several studies on the insurance industry and shifting of risks.

She also agreed with Representative McElraft's suggestion to take into account the stronger building codes, loss history and storm activity, and emphasized that coastal North Carolina had stronger building codes than most other eastern coastal states. She asked the committee to look at paying hurricane deductibles versus named storm deductions, to look at a statewide catastrophe fund and to look at allowing groups or individuals to be interveners in rate filings.

**Representative Dockham invited members to ask questions of Ms. Kelly.**

Senator Hise asked Ms. Kelly to explain in detail the Tax-Free Bonding and commented that it sounded like a certificate of participation. She said it was tax free and would look at selling bonds. She said that currently the state buys reinsurance and that tax free bonding could lower that dependence. Senator Hise asked in follow-up if this would be a debt issued by the state without voter approval.

Ms. Kelly responded that this is in the early stage of study needs intricate details worked out.

Representative Jordon was assured that taxes would not be involved in purchase of tax-free bonding.

Without further questions, Representative Dockham thanked Ms. Kelly for her presentation.

**Wilmington Association of Realtors Presentation by Kathleen Riely, representing members from south eastern North Carolina.**

**Please Refer to Attachment #9, Kathleen Riely, Governmental Affairs Director of Wilmington Regional Association of REALTORS.**

Representative Dockham introduced Ms. Riely, Wilmington Association of Realtors, representing members in south eastern North Carolina.

Ms. Riely referenced the lawsuit filed by Dare County and explained that she thought this was an issue with the Rate Bureau. She made the following points:

1. She concluded that an overhaul on how rates are made in North Carolina was needed. This, she said, needed to be studied along with why North Carolina was the only state in U.S. that had a Rate Bureau.
  - Another option was direct file. She noted that direct files allowed insurers to compete in the free market.

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2. She noted that SB395, created a third entity. She pointed out that In NC the Rate Bureau and the Commissioner of Insurance were the only ones who had a say in a rate filing and cited SC had a consumer advocate. She also recommended looking at Modeling in the Florida Catastrophe Category as a long term study.
3. Beach Plan Board members needed to be well-rounded and represent everyone.
4. 39 states out of 50 appointed their Commissioner of Insurance which resulted in oversight.

**Representative Dockham invited members to ask questions of Ms. Riely.**

Senator Brown asked about the Florida modeling. Ms. Riely said NCRB used the air model only, which she said was highly prejudicial for rate increases on coast and that most other states used blended models or more than one model, RMS. Ms. Riely recommended the need for a board or committee to look at modeling and see what was best for North Carolina.

Ms. Riely responded to Representative Jordon's question that the name of the lawsuit she referenced in Dare County was Dare County et al versus NC Department of Insurance.

Representative Dockham asked Ms. Riely how she saw the role of the consumer advocate playing in with the other parts of the puzzle.

Ms. Riely, an attorney, said it was a balance. She referenced SB395 and noted it had bits and pieces of other state's practices. She said this would permit the right of Judicial Review with the rate filing and stressed that NC needed a third entity to be involved in rate making who would be a consumer advocate. Representative Dockham asked Ms. Riely if she saw the Commissioner of Insurance as the guardian of fairness. Ms. Riely responded that she saw Mr. Goodwin as being fair.

Representative Dockham recognized Commissioner Goodwin who responded that the multiple lawsuits Ms. Riely referenced had all been resolved. Commissioner Goodwin addressed Ms. Riely's proposal for the Commissioner of Insurance to be appointed. Commissioner Goodwin said this would take away the voice of the people and would call for a constitutional amendment.

Representative McElraft asked how the Beach Plan Board was appointed and if members were from the coastal counties. It was explained that public members were appointed by the Commissioner of Insurance and those appointed all live in NC-20 counties.

The Commissioner pointed out that Commission members of Fair Plan served as alternates to the Beach Plan and members of the Beach Plan served as alternates to the Fair Plan. Representative McElraft asked if they all have insurance background. Commissioner said 7 appointments were from the industry, 7 appointments from public and of the public 4 were from the industry and all lived in the communities on the coast.

Senator Hise referenced NC-20 financials of Beach Plan (Refer to Attachment #8) and cited the growth of reinsurance cost each year and asked how big of an issue it had become and could reinsurance be included in the rates. Ms. Riely responded that reinsurance companies are off shore mostly in Bermuda because of the prohibitive tax consequences in the United States and that reinsurance covers catastrophic events worldwide. She continued that the reason reinsurance rates had gone up was because of the catastrophe in Japan. Without further questions, Representative Dockham thanked Ms. Riely for her presentation.

Representative Dockham recognized Tim Hovis, Counsel for the Committee, to go over options for committee recommendations (Attachment #10).

Mr. Hovis pointed out that under the LRC rules the report needs to be mailed out to the members 7 days before the next meeting on April 12. At the final meeting the report must be approved verbatim. Mr. Hovis stressed that opportunities for change would be limited; therefore discussion at this meeting would be important. He proceeded to list the options for recommendations based on discussion from the committee members, and noted

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that some of the recommendations had been already recommended by the Commissioner, Ms. Kelly and Ms. Riely.

1. Direct the Rate Bureau to study insurance territories including possible changes to these territories to better reflect claims risk and require them to report to the 2013 General Assembly. Similar language was included in HB 1305 but no direction or requirement that they report. Would work with the Department of Insurance on specific recommendations.
2. Prohibit the practice of linking property and auto coverage (legislation required) has been discussed by the committee.
3. Limit the amount of Agent's Commission paid by the Beach Plan (legislation required). He noted South Carolina limits commission to 10%.
4. Require a public hearing to receive public input on proposed rate increases (legislation required). Commissioner's recommendation.
5. Require insurers to offer a basic fire policy that excludes wind coverage. Work with Department on language.
6. Require a separate hearing for modeled losses. More data on models needed, supported data on reinsurance immediate recommendations.
7. Give the Commissioner authority to set a rate.

Possible issues to recommend for continued study.

- A. Cost of reinsurance
  - Authorize the issuance of bonds by the North Carolina Insurance Underwriting Association using some funds currently used to purchase reinsurance.
  - Establish a statewide catastrophe fund or a catastrophe fund specific to the Beach Plan using funds currently used to purchase reinsurance.
- B. Limit consideration of reinsurance costs in rate filings.

Representative Dockham encouraged members of the committee who had specific recommendations to make them at this time.

Senator Brown recommended looking at the blended model. Representative Iler agreed.

Senator Hise made the following recommendations for continued study:

1. Move to an approval of a model system, establish a standard and make sure Department of insurance had the expertise on staff to evaluate models.
2. Look at a timeline and regular submission from NCRB to change model rates which would open up allowing the Commissioner to make rate revision decisions because rate revisions were at infrequent and unusual intervals and rates were out of date as soon as they were approved.
3. Because the Beach Plan numbers were limited, consider looking at growing the reinsurance market and a percentage of that be reflected in the rates which would include smaller companies and result in more stable markets.

Mr. Hovis asked for clarification that these issues would be for continued study. Senator Hise agreed except for the need to move quickly on the specific model.

Representative McElraft questioned the policy of servicing fees. Representative Dockham recognized a member of the public, Mr. Fletcher Wiley, Wiley Agency, Nags Head, N.C., to respond to Representative McElraft's question. Mr. Wiley said that commission fees were different from service fees and that a service fee by state law is between the agent and the policy holder and would have to be clearly identified when a policy was written. Most agents who wrote the Beach Plan policy did not include a servicing fee. Mr. Hovis said this could be added to the list of issues to study.

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Representative Jordan expressed concern with property coverage and limiting the amount of an agent's commission paid by the Beach Plan. He did not think the General Assembly needed to get into that detail. He also expressed concern with requiring a separate hearing for modeled losses and limiting consideration of reinsurance costs in rate filings. Representative Jordan said he would not support the idea of linking property and auto.

Commissioner Goodwin explained that when auto insurance made a filing request for a rate adjustment, the Department can either accept the request or reject it or go through a hearing process based on evidence. He said that this had worked well with auto insurance. He cited the 1979 Supreme Court case and statute that said in a homeowner's filing the Commissioner could either accept or reject requests with no other option. Commissioner Goodwin recommended that instead of going through the expense of litigation; a hearing officer be allowed to base a decision on the evidence. This he said could also address rate inadequacy; in addition provide for more transparency. Representative Jordan requested a copy of the Supreme Court Case.

Representative McElraft also recommended that there needed to be a public comment period in the statute during the rate filing. She also recommended immediate action on requiring a basic fire policy without wind policy and noted this had consensus of the Commissioner and Senator Brown.

Senator Brown referenced the issue of an agent's commission and expressed concern that it was an incentive for an agent to shift the policy to the Beach Plan because it paid more and stressed that this drives more business to the Beach Plan when we were trying to get people off the Plan. He said he thought South Carolina's 10% commission was a fair number.

Senator Hise asked to know the value of having wind and fire policies linked. He expressed concern with a fire only policy rather than a wind and fire policy. Senator Hise was concerned that there might be a good reason for fire and wind to be linked and asked to have someone explain this reasoning. Both Representative McElraft and Senator Brown said that the hardship this had presented seniors was not acceptable.

Senator Hise questioned insurance agent's commissions. Senator Brown recommended debating this issue and also taking the incentive away. Mr. Wiley, from Nags Head, was recognized and referenced the 1994 & 1995 study done by an outside consultant to determine the correct commission for agents that write business in the Beach Plan. The study walked through the application process which included the time involved in inspecting property, determining the correct property value, photos of the property, and the service on claims. He noted that an extra charge should not be paid for a claim service that it should be included in the 13 % commission. Mr. Wiley continued that there is value to the consumer to provide those services for a Beach Plan policy holder.

Representative McElraft suggested that after the initial year the commissions be lowered to 8% or 10% when there wasn't a rewrite,

Mr. Wiley responded that fluctuation in the market and time spent communicating with the policy holder to ensure they had the correct amount of coverage warranted the current commission. Mr. Wiley addressed Senator Brown's concern that they would rather place business with companies that paid the standard market commission instead of Beach Plan, but said the situation on coast forced companies to do business with the Beach Plan because there were no other markets on the coast. Senator Brown asked if Mr. Wiley thought the commission drove insurance companies to the Beach Plan. Mr. Wiley responded that the Beach Plan is the only option on coast. Senator Brown said he understood that this was the case for property directly on the beach, but that it became a hard argument further inland. Mr. Wiley responded that almost all agents would prefer to write business with independent agents or private insurance companies. Representative Dockham recommended this go into a study.

Representative McElraft recommended that the public comment period have immediate legislative action and that the Department of Insurance and its experts look at all the possibilities that affect rate inadequacy and consumer fairness.

Senator Hise recommended the decision stay within goal posts of the current and proposed new rates.

*LRC Committee on Property Insurance Rate Making  
March 21, 2012  
Minutes*

Representative Dockham asked the Commissioner for comments. Commissioner Goodwin referred back to public decision and asked for same authority as for car insurance, flexibility based on evidence and the law.

Mr. Hovis, Counsel for the Committee, listed below the recommendations and items for study the committee had discussed.

1. Direct the Rate Bureau to study insurance territories including possible changes to these territories to better reflect claims risk and require the Bureau to report to the 2013 General Assembly.
2. Require a public hearing to receive public input on proposed rate increases.
3. Require insurers to offer a basic fire policy that excludes wind coverage.
4. Give the Commissioner the authority to set rates following a rate filing.
5. Require a separate hearing on modeled losses.
6. Require additional supporting data on models used and on reinsurance costs.
7. Require more than one catastrophe model to be used in a rate filing.
8. Continued study of the issue of property insurance rate making.

Senator Hise made a motion to approve the committee's recommendations for draft legislation and recommendations for studies. Representative Iler seconded the motion which passed by unanimous vote. Representative Dockham adjourned the meeting adjourned at 4:05 p.m.

Representative Jerry Dockham, Committee Chair

Beth LeGrande, Committee Clerk

Handwritten signature of Jerry C. Dockham in cursive script, written over a horizontal line.Handwritten signature of Beth LeGrande in cursive script, written over a horizontal line.

*Remarks by Insurance Commissioner Wayne Goodwin*

*LRC Committee on Property Insurance Rate Making*

*March 21, 2012, 1 p.m.*

Mr. Chairman, Members of the General Assembly, Staff,  
Members of the general public, Ladies and Gentlemen:

First of all, thank you for your work in understanding the issues in this area.

During the last four years as Insurance Commissioner, I have stressed time and time again that the crisis in insurance in this state is not with car insurance.

It's with homeowners insurance, particularly in the coastal and beach regions.

My job, ultimately, is a balancing act: By law I am to protect consumers from excessive insurance rates, inadequate rates, and unfair discrimination;

and I'm also required to make sure that companies who choose to do business here have the opportunity to make a fair and reasonable profit, are solvent in order to pay claims, and are free from fraud.

Consumers want to know that they're getting a fair insurance rate, particularly in the coastal areas of North Carolina ...

The insurance industry wants to know it has the opportunity to make a fair and reasonable profit.

We want more insurance companies to write policies here instead of withdrawing from the coastal market and forcing property

owners to go to the coastal wind pool or the excess and surplus lines market.

But I often have to remind constituents that the government cannot force insurance companies to do business here.

I can't ask you to pass a law requiring all homeowner's insurance companies who write in the state to write their fair share of homeowner's policies in the beach and coastal areas.

There is a North Carolina Supreme court case that forbids that, AND...these companies may just decide to stop doing business in North Carolina altogether.

Together over the last several years, we have made strides to relieve some concerns.

House Bill 1305 capped assessments, offered mitigation credits to homeowners, asked the Rate Bureau to further revise territories, and slowed rapid growth of the Beach Plan.

But there's still work to do.

I know you are about to enter into the short legislative session. I believe some of my recommendations could be considered and acted upon this year, and others could be worked on in the interim in preparation for consideration by the General Assembly for the 2013 long session.

**My first set of recommendations involves the need for more transparency in property rate filings.**

When the Rate Bureau prepares a property rate filing, it uses a model that simulates more than 50,000 hurricanes doing damage in North Carolina.

Do you know how many numbers we actually get to see from that model?

8.

We only get to see the worst loss, the average loss, and a handful of other numbers.

We are kept in the dark about wind speeds, hurricane paths, and how many years have more than one hurricane. We need this information on each and every one of the 50,000 storms when the filing is made or before a filing is made.

We need transparency; having eight numbers is not good enough.

The law should also be changed to require specific supporting data when the cost of reinsurance is included in rate calculations.

We would like to see the actual amounts spent for hurricane reinsurance in North Carolina.

That way it can be determined if the reinsurance costs are reasonable in relation to the line of business for which rates are being set.

I also believe that part of transparency is giving the public a voice in the process, and I would support the General Assembly designating public comment periods before rate hearings, as I



have done voluntarily during my time as Insurance Commissioner.

**Second, I recommend that the Legislature give the Commissioner of Insurance the authority to select his own rates if the change requested by the industry is different than the change justified by evidence.**

Currently, the Insurance Commissioner can do that in auto insurance rate hearings. However, when it comes to homeowners insurance, the Commissioner is forced to either accept or reject the exact change requested by the Rate Bureau.

In the recent dwelling fire rate case, the insurance companies filed for about a 40% average increase in wind premium for the coastal counties.

I didn't approve of that... so I was forced to give them nothing at all. Now some companies are threatening to reduce property writings on the coast.

It shouldn't have to be one or the other. It's only fair that the Commissioner, relying on experts and based on the evidence, have the option to order rate changes other than exactly what was requested or zero change.

If the General Assembly accepts this recommendation, it will help address some industry concerns about adequate rates and help provide consumers and the regulator with a fairer process.

**Third, I recommend that the Rate Bureau move forward with expanding the number of coastal territories so coastal**

**residents further inland may have lower rates than those homes on the sand, closer to the water.**

The number of rate levels along the coast was increased from two to five a couple years ago. I think having more than five rating territories may be an improvement.

I think this is going to be a recommendation of this committee and I think it is a good one. I am prepared to work with the Rate Bureau to move forward on this as soon as possible.

**Fourth, I recommend that the Beach Plan and the companies work with the Department of Insurance to study a solution to address the possibility of multiple major storms in a year.**

I support and commend the Beach Plan's efforts to try to think of ways to do this other than through the purchase of reinsurance, so that the surplus may grow.

I know that leaders within the Beach Plan – a board comprised of both industry and public members - want to consider the issuance of tax exempt bonds.

This and other ideas have merits, but also have intricate details involving multiple stakeholders and state agencies. The Department of Insurance and I will do all we can to provide technical support and feedback as ideas are studied.

**Finally, I'd like to discuss a recommendation involving tax credits.**

Due to the current condition of the state budget, I realize this recommendation is not likely to come to fruition.

However, I'd like to recommend that for any new full coverage policy—including wind and hail—a licensed insurer writes in the beach and coastal regions for the taxable year, the insurer be allowed to claim a non-refundable credit against the premium tax imposed for the policy.

As it is in South Carolina, the tax credit could only be claimed once for a structure regardless of the number of policies written on the structure.

This recommendation would help encourage companies to write more on the coast and discourage the growth of the residual market in the Beach Plan.

I commend you for the work and effort you've given these complicated and important issues.

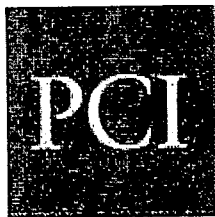
And, as I close, during this meeting and at other times you will have been presented reports, studies or recommendations that purport to be independent.

I respectfully encourage you to ask questions about such claims, and who pays for them, and to determine what the intended or unintended consequences would be if such alleged proposals were put in place.

Who actually benefits? Who is harmed? What are the probable results? My experts at the Department of Insurance I ask those questions, and we find that it is a very helpful and enlightening exercise and duty.

Thank you for allowing me the time to share with you today.

# # #



Property Casualty Insurers  
Association of America

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Shaping the Future of American Insurance

**NORTH CAROLINA  
LEGISLATIVE RESEARCH COMMISSION SUBCOMMITTEE**

**MARCH 21, 2012**

**PCI STATEMENT REGARDING  
PROPERTY INSURANCE RATEMAKING  
IN NORTH CAROLINA**

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to submit written testimony before the North Carolina Legislative Research Commission Subcommittee on property insurance ratemaking in the state. PCI is the leading property casualty trade association, representing more than 1,000 insurers, the broadest cross-section of insurers of any national trade association. Our members write more than 38 percent of the property insurance in North Carolina and more than 40 percent of all the property casualty insurance in the state.

North Carolina House Bill (HB) 1305, as passed in 2009, contained a number of provisions that helped to make significant improvements to the North Carolina Beach Plan. Specifically, the provisions of HB 1305 improved the long-term viability of the NC Beach Plan by: 1) slowing the growth in exposure, 2) increasing surplus, 3) strengthening reinsurance requirements, and 4) limiting member liability through the assessment plan. While HB 1305 made great strides toward improving the insurance marketplace, PCI respectfully recommends that the Legislative Study Committee consider additional policy solutions to further strengthen the North Carolina insurance market.

PCI agrees with and strongly supports the conclusions presented by Nancy Watkins, with Milliman, at the meeting today. Specifically, it was noted that rate levels have been suppressed for Homeowners and Dwelling insurance. Artificially suppressed rates discourage insurers from writing new business policies in North Carolina.

The Committee should consider implementation of a flex-rating program. Flex-rating programs permit insurers to increase or decrease rates within a certain percentage without seeking formal approval from the insurance commissioner. Such a program would provide more flexibility to insurers already doing business in North Carolina; likely attract more insurers to the state, increase competition, and lower insurance premiums for many policyholders.

However, PCI believes that such a program is just the beginning. We believe that the flex-rating provision should sunset after a period of 5 years and be replaced by an "open rating" environment in North Carolina. PCI believes that during the flex-rating term, an insurer's

dependence and use of the North Carolina Rate Bureau should diminish and when the move to an "open rating" environment is made, use of the NCRB should be optional for all insurers. At that time, the insurers that truly bear the risk of loss should have the freedom (and the experience) to establish their own rates in North Carolina. North Carolina is the only state that has a rate bureau for property insurance. An open rating system would maximize competition, and is consistent with the rate making process currently in place everywhere else in the country.

Territorial rating, i.e., classifying risks by geographical location, has long been used in the pricing of insurance rates. Because of wide cost differences occurring in different areas due to events such as hurricanes, earthquakes and wildfires, insurance companies must be able to distinguish regions with greater loss potential from those with less.

In order to achieve price equity among policyholders, companies must be able to rate on the basis of the risk insured. The greater the exposure to an insurable loss, the higher should be the premium. If rates do not reflect costs, subsidies will occur whereby lower-risk policyholders must pay more to offset the losses of higher-risk policyholders. This is precisely what has happened in North Carolina, since rates are the same for all residents of the same county.

Therefore, PCI supports territorial deviations from, with actuarial justification, the North Carolina Rate Bureau established territories. Again, a significant number of policyholders would benefit from such flexibility.

Catastrophe modeling is another tool that has been used, with increasing frequency, to determine maximum probable losses from a single event or multiple events in a single season. This important tool is helpful for insurers, the Plan and the buying public in estimating the exposure to loss from an event.

Catastrophe modeling results when combined with appropriate reinsurance purchases should be accepted and recognized as part of the ratemaking process. These tools provide forward-looking protection for insurers, and in turn, the policyholders. Catastrophe models allow

insurers to appropriately reflect the risk assumed and reinsurance allows insurers to write more business while assuring the policyholders and the state that the company will be able to respond to its obligations following a major catastrophic event.

Automatic approval of rate changes reflecting Beach Plan assessments as well as a method, such as post-event bonds, to address losses in excess of available funds for significant catastrophes should also be part of the Committee's recommendations.

### **Conclusion**

In order to limit further marketplace disruption, now time to take the next step and move toward a more market-driven approach to property insurance pricing. More must be done with respect to improving rate equity especially in the coastal counties of the state. Unless something is done to permit actuarially sound homeowners rates, there will continue to be forced subsidies for the vast majority of policyholders living along the coast at the expense of those living inland.

PCI would like to thank you for holding these meetings to discuss the topic of property insurance ratemaking, and for allowing Ms. Watkins to testify.

PCI recognizes the complexity of issues involved with the ratemaking process, and appreciates the opportunity to work with the Legislative Study Committee on promoting a viable private insurance market in North Carolina.

Respectfully submitted:

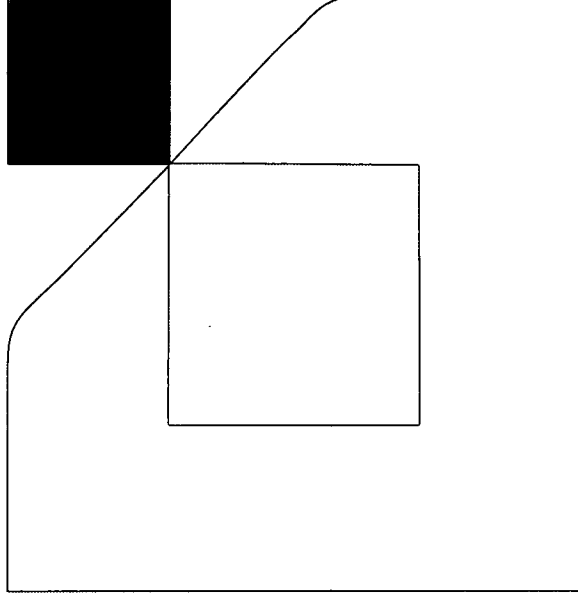
Donald L. Griffin, CPCU, ARC, ARe, ARM, AU  
Vice President, Personal Lines  
Property Casualty Insurers Association of America  
2600 S. River Road  
Des Plaines, IL 60018

# North Carolina Beach Plan Presentation

Presentation to the North Carolina  
Legislative Research Commission  
Subcommittee on Property Insurance  
Ratemaking

March 21, 2012

Prepared by  
Nancy P. Watkins, FCAS, MAAA  
Max H. Mindel, FCAS, MAAA





# Overview of Presentation

- Introduction
- Background
- Overview of Milliman Analysis
- Major Findings
  - Beach Plan exposure
  - Comparison with Prior Report
  - North Carolina rate level
  - Potential impacts on NC insurance industry
- Conclusions
- Limitations

# Introduction

- Beach Plan Analysis for PCI
  - Conducted by Milliman – Independent actuarial consulting firm
  - Purpose and Scope
    - Analyze the impact of HB 1305 on Beach Plan funding of hurricane exposures and the residual exposure to the NC Property insurance industry.
    - Analyze the overall Beach Plan exposure and the effect of North Carolina's rate level
  - Basis
    - Publicly available data from Beach Plan and other sources.
  - Milliman is available to answer any questions regarding the analysis

# Introduction

- Prior Milliman Report
  - Commissioned by PCI
  - Dated October 10, 2008
  - Presented to the North Carolina General Assembly on October 16, 2008
- General Results:
  - Showed Beach Plan was susceptible to severe hurricane events that could result in billions of non-recoupable assessments to voluntary property insurers. These assessments could be large enough to threaten the solvency of smaller insurers.
  - Showed there was no system in place to finance large surplus deficits and gave examples of the effect of recouping deficits using varying assessment bases.

# Introduction

## North Carolina House Bill (HB) 1305 – Passed in 2009

- Provisions that affect the Beach Plan's exposure to hurricane loss include:
  - *Surplus must be retained to maintain Beach Plan operations*
    - *Pay losses*
    - *Purchase reinsurance*
    - *Pay operating expenses*
    - *May not be distributed to member companies.*
  - *Minimum named storm deductible for wind and hail coverage of 1%.*
  - *Maximum coverage limits of \$750,000 for homeowners and dwelling policies (previously set at \$1.5M)*
  - *Contents coverage reduced to 40% of building value (previously 70%).*
  - *Beach Plan rate level set at 5% above approved voluntary market rates for separate wind and hail coverage and 15% for wind and hail as a part of a homeowner's policy.*
  - *Beach Plan may institute a Catastrophe Recovery Charge that will apply to all NC property policyholders (including Beach Plan) subject to the following:*
    - *Catastrophe Recovery Charge may only be implemented through the NC Insurance Commissioner.*
    - *Charge may only be proposed once member companies have paid \$1 billion in assessments.*
    - *Charge shall not exceed 10% of the annual policy premium.*

# Background

## North Carolina Beach Plan

- North Carolina Insurance Underwriting Association (NCIUA)
- Formed in 1969 (along with FAIR Plan) to make property insurance available to NC residents unable to purchase insurance through the standard insurance market.
- Available only in the Beach and Coastal areas.
- All P&C insurance companies who do business in North Carolina participate in funding the plan and sharing any losses or profits.
  - Deficits must be funded via assessments on insurers and the Catastrophe Recovery Charge.
  - No mechanism currently exists for insurers to recoup amounts assessed.
  - The practical implementation, timing, and initial financing of Catastrophe Recovery Charge has not been determined.

# Overview of Milliman Analysis

## 2011 Milliman Analysis

- Update of 2008 Milliman analysis.
- Estimate 2011 hurricane losses to Beach Plan under 7 scenarios using RMS catastrophe model.
- Estimate losses retained after reinsurance is applied based on 2011-2012 reinsurance program.
- Project Beach Plan surplus as of September 30, 2011
- Subtract retained hurricane losses from projected surplus to estimate final surplus or deficit.
- Estimate impact to voluntary insurers based on current assessment structure as described in HB 1305.

## Beach Plan Issues

Issues identified in the 2008 Beach Plan analysis:

- Relatively low surplus
  - Moderate severity storms would result in deficit.
- Inadequate reinsurance coverage
  - Prior coverage was at 1-in-49 year PML with the majority covered by member companies.
- Increasing volume
  - From 2004 – 2008 insured values grew an average of 40% a year.
- Unlimited assessments on member companies
  - Large assessments could threaten solvency of some insurers.

## Beach Plan Issues

2009 NC legislation has addressed some major issues:

- Restrictions on distribution of profits to member companies increases available surplus.
- Resources available to purchase greater reinsurance coverage.
- Coverage restrictions and mandatory deductibles lower modeled PML.
- Limiting coverage amounts to \$750,000 makes some risks ineligible (\$1.5 million limit prior) and further reduces PML.
- Assessments to member companies are now limited.

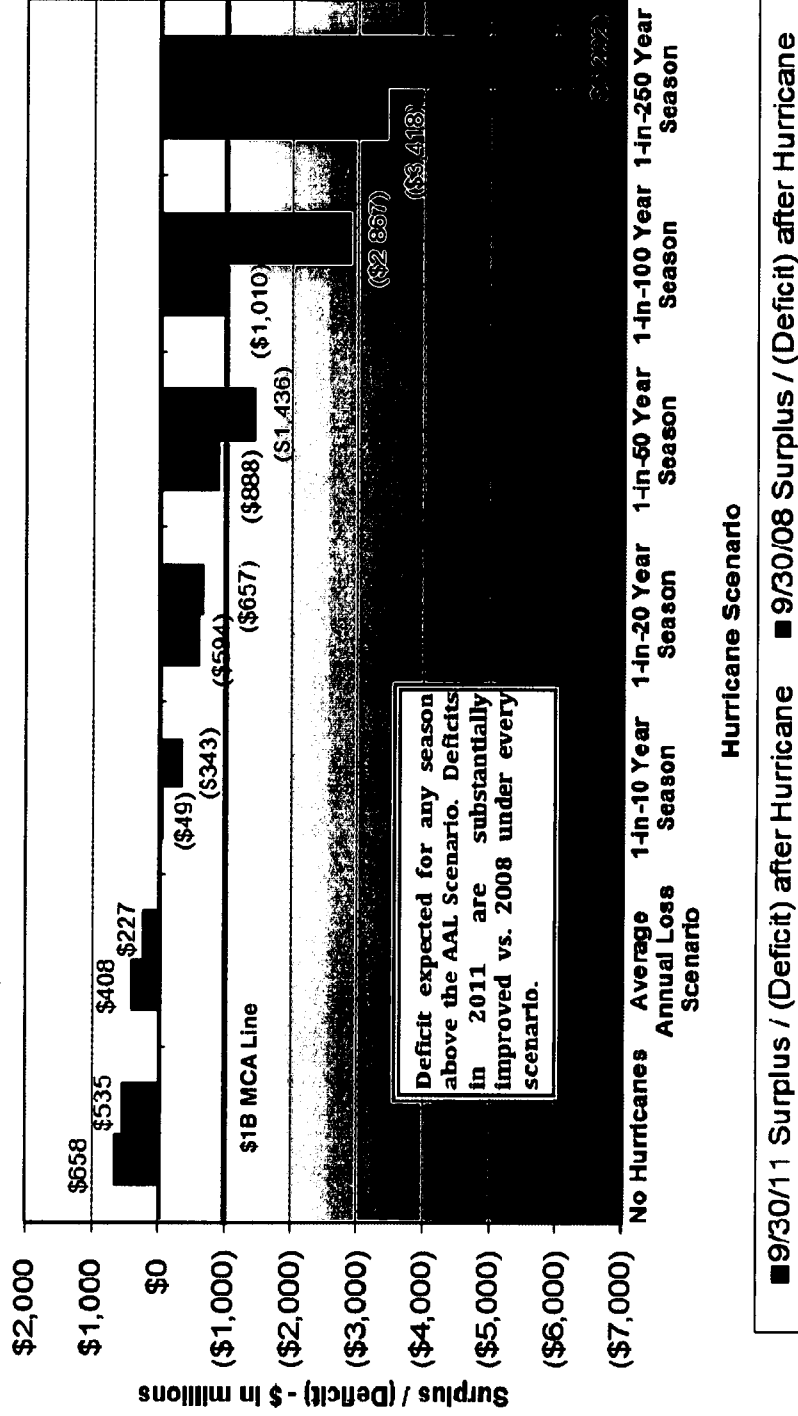
These actions have limited the rate of growth, but have not significantly reduced the overall Beach Plan volume, which in 2011 is about 50% of NC coastal insured value.



# Comparison with Prior Report

## Beach Plan Deficits

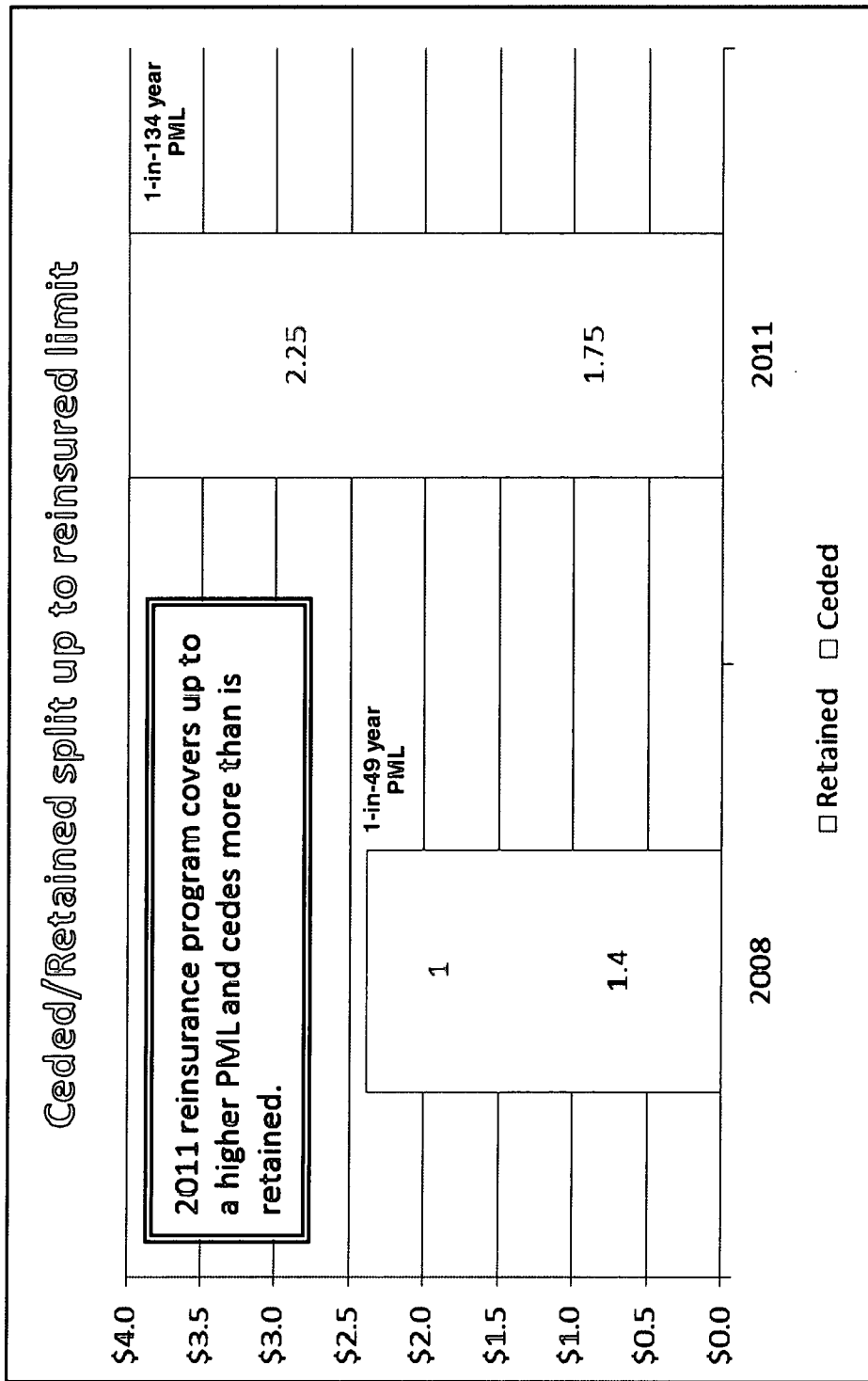
Surplus / (Deficit) after Hurricane at Fiscal Year-End 2008 and 2011  
North Carolina Beach Plan



2011 deficits taken from current Milliman analysis using the current reinsurance program and current estimates of surplus and hurricane losses.  
2008 deficits taken from prior Milliman analysis using the 2008 reinsurance program and prior estimates of surplus and hurricane losses.

# Comparison with Prior Report

## Reinsurance Program

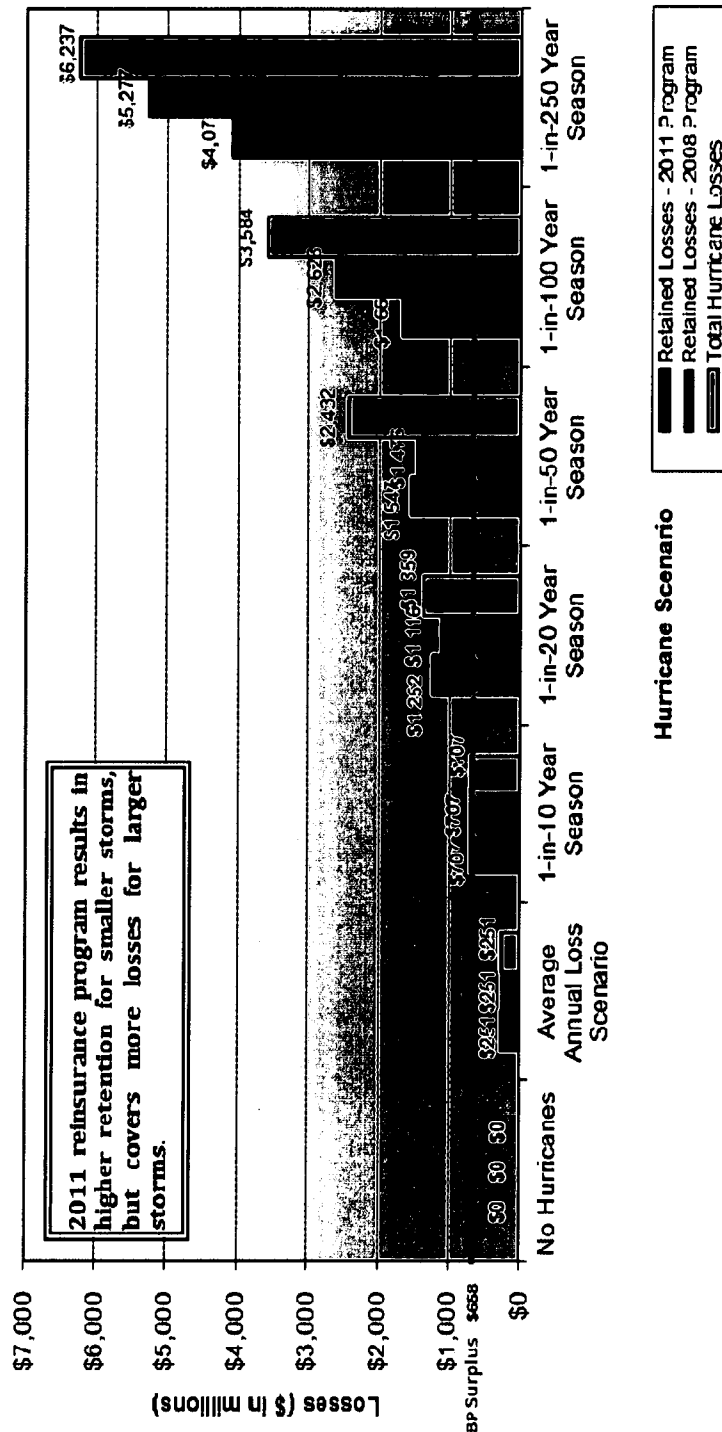


Structures are simplified for comparison purposes. Retained layers include member company assessments and co-participation.

# Comparison with Prior Report

## Reinsurance Program

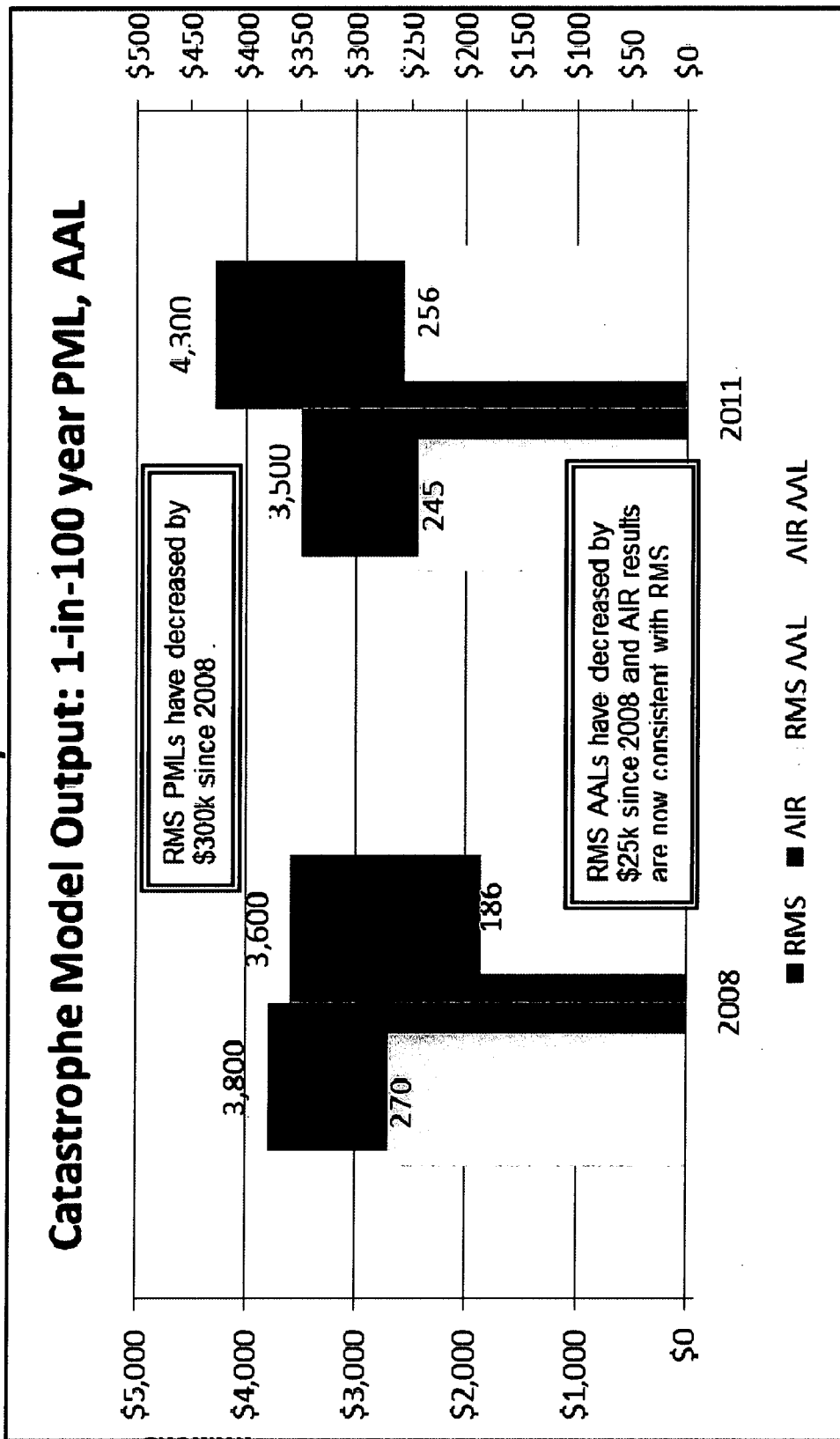
Estimated 2011 Hurricane Losses by Scenario  
North Carolina Beach Plan



Comparison of 2008 and 2011 reinsurance programs assuming the current modeled losses. Ceded amounts for Beach Plan may be less than the maximum indicated by the reinsurance program which also covers the FAIR Plan.

# Comparison with Prior Report

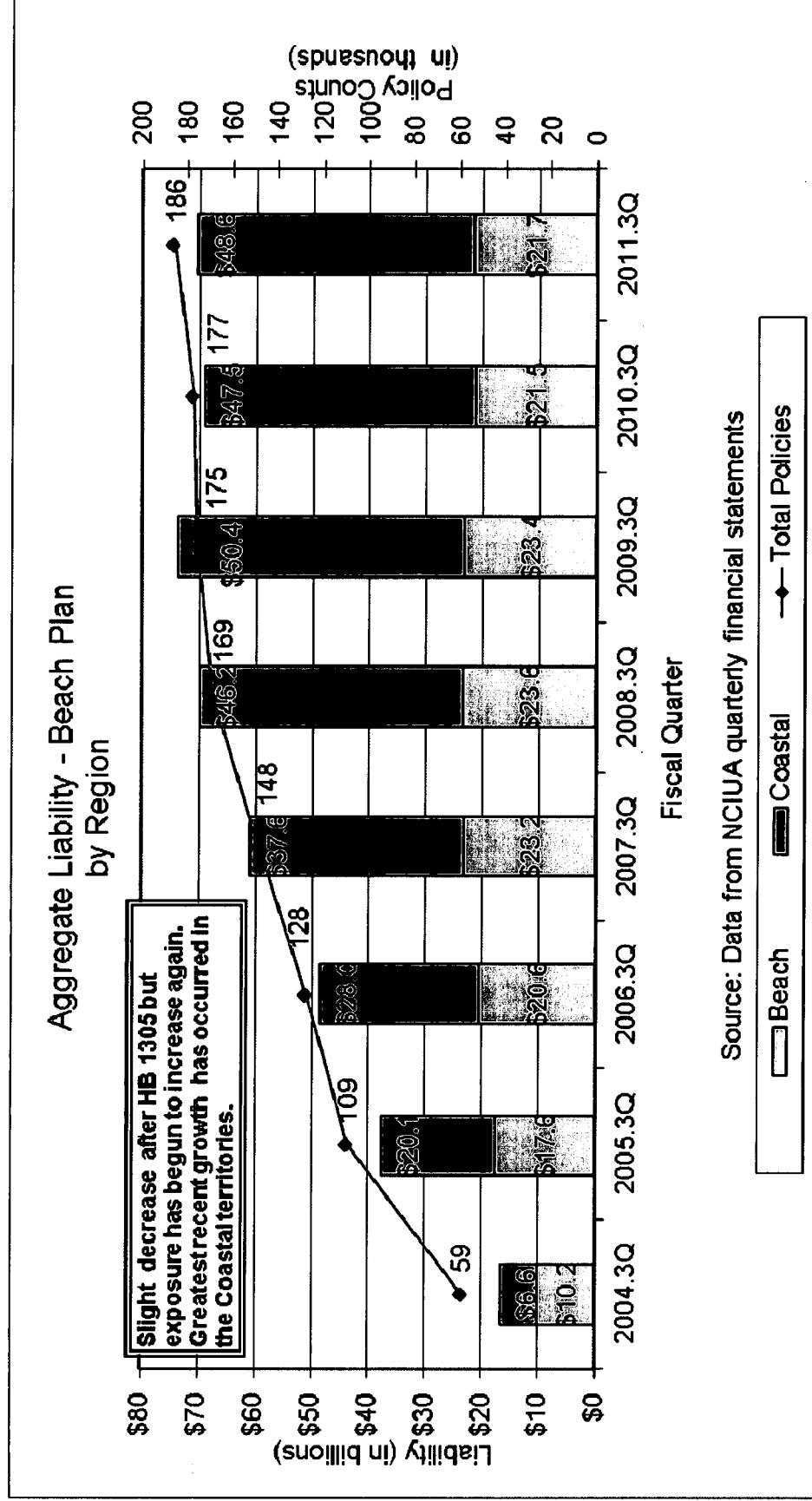
## Catastrophe Model



Milliman analyses in both 2008 and 2011 are based on RMS model. Deficits by scenario and comparison over time would be different if based on AIR output. The RMS and AIR model versions were not specified by the Beach Plan.

# Beach Plan Exposure

## Aggregate Liability



# Beach Plan Market Share

## Homeowners

Rank	Company Group	Homeowners Direct Written Premium			Market Share		
		2010	2007	2004	2010	2007	2004
	Total Private & Beach	2,105,449	1,776,342	1,386,932	100.0%	100.0%	100.0%
	Total Private	1,904,765	1,645,599	1,345,637	90.5%	92.6%	97.0%
1	State Farm Mutl Automobile Ins	377,816	314,171	254,736	17.9%	17.7%	18.4%
2	Nationwide Mutual Group	274,058	257,955	223,385	13.0%	14.5%	16.1%
3	NC Farm Bureau Mutual Ins Co.	263,888	213,326	173,650	12.5%	12.0%	12.5%
4	NC Beach Plan	200,684	130,743	41,295	9.5%	7.4%	3.0%
5	Allstate Corp.	166,028	172,715	130,495	7.9%	9.7%	9.4%
6	USAA Insurance Group	95,553	80,282	55,686	4.5%	4.5%	4.0%
7	Liberty Mutual	90,893	67,049	53,366	4.3%	3.8%	3.8%
8	Travelers Companies Inc.	89,478	87,326	69,796	4.2%	4.9%	5.0%
9	Erie Insurance Group	81,891	63,021	56,595	3.9%	3.5%	4.1%
10	Auto-Owners Insurance Co.	65,473	54,359	45,780	3.1%	3.1%	3.3%

### Notes:

1. Data from 2004 - 2010 Annual Statements
2. Data includes DWP from the Homeowners Multi-Peril line of business.
3. Market Share is measured against the combined private and Beach Plan written premium.

## North Carolina Rate Level

Rate level in North Carolina is set by NC Department of Insurance (NC DOI) based on industry rate filings submitted by the North Carolina Rate Bureau (NCRB).

- In the Beach and Coastal areas, the NC DOI has approved rate changes significantly lower than those indicated or proposed by the NCRB.
- The residual rate indications are far greater in the Beach and Coastal areas than in the more inland regions of the state.
- One likely driver of high Beach Plan volume is that the rate level in the Beach and Coastal areas is too low for voluntary writers to accept the risk.

# North Carolina Rate Bureau

## North Carolina Rate Bureau

- Created by the North Carolina General Assembly.
- Promulgates rates for residential property, private passenger auto, worker's compensation, and employer's liability.
- All voluntary insurance carriers are required to be members of the NCRB.
- Historically, Homeowners and Dwelling filings submitted every few years.
- Beach Plan is not a member of the NCRB; however, Beach Plan rates are set by statute at 5% above the approved NCRB rate for wind-only policies and 15% above the NCRB rate for full-coverage policies.
- By state statute, NCRB is required to establish Beach and Coastal territorial definitions so that they can be used to establish Beach Plan premiums that are commensurate with the risk of loss and premiums that are actuarially correct.



# 2008 NCRB Homeowners Rate Filing Statistics

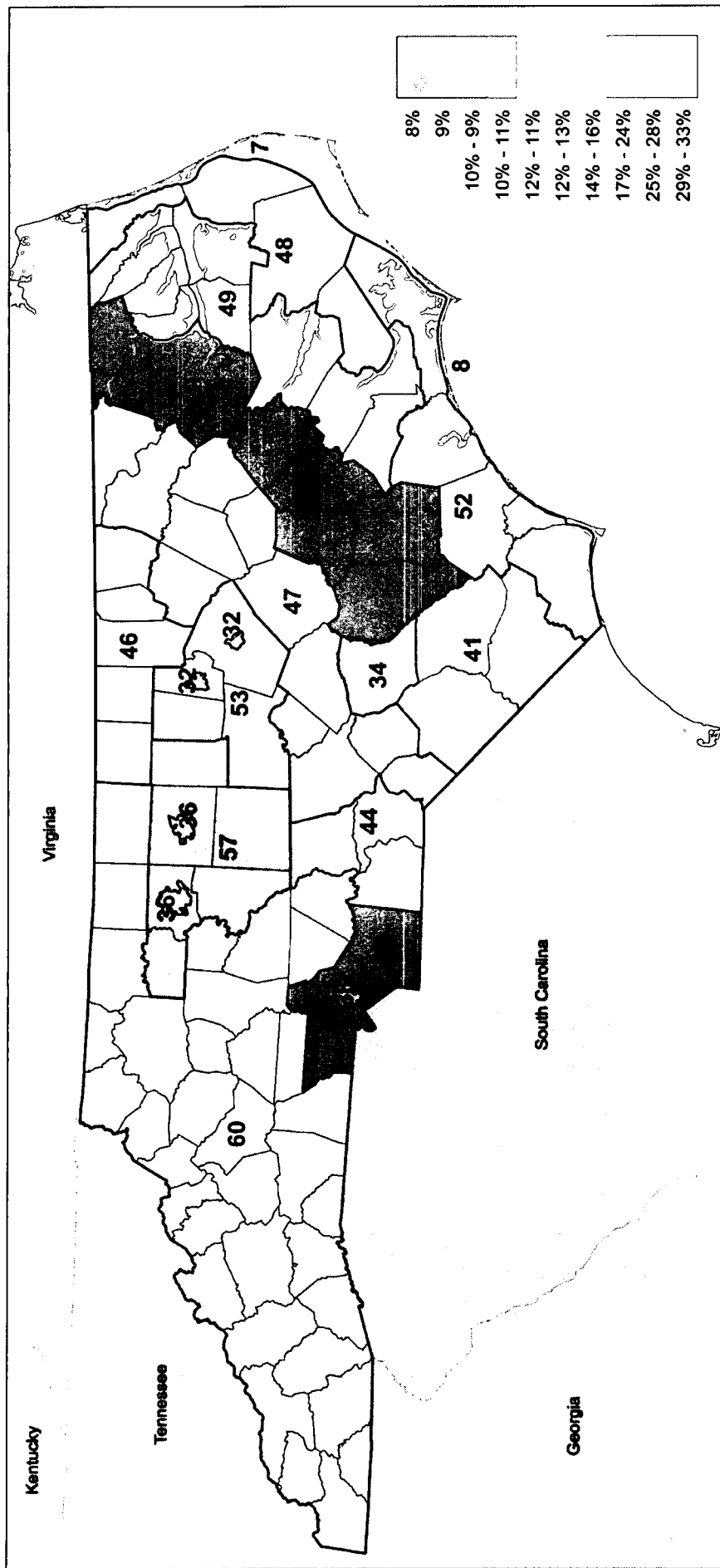
(1)	(2)	(3)	(4)	(5)	(6)
5-year House-years (Note 2)	Indicated Rate Level Change (Note 1)	Requested Rate Level Change (Note 1)	Approved Rate Level Change (Note 1)	Residual Indicated Level Change (Note 3)	Average
Beach 83,420	39.9%	39.9%	11.1%	25.9%	> 29.9%
Coastal 641,358	56.7%	56.7%	20.2%	30.4%	
Central 2,837,443	17.4%	17.4%	3.7%	13.2%	
West 5,015,356	8.5%	8.5%	-1.0%	9.6%	> 10.9%
<b>8,577,577</b>	<b>19.5%</b>	<b>19.5%</b>	<b>4.1%</b>	<b>14.4%</b>	

Using NCRB indications, 2008 NCRB approved rates in the Beach and Coastal areas were estimated to be deficient by approximately 30%, whereas rates in the remainder of the state were 11% deficient.

## Notes:

1. Data from NCRB's 2008 Homeowners Rate Filing, effective 5/1/09, which is the latest available.
2. House years are for the calendar years ending 12/31 for 2001 -2005.
3. (5) =  $[1 + (2)] / [1 + (4)] - 1$
4. Beach: Terr 7, 8  
Coastal: Terr 48, 49, 52  
Central: Terr 32, 34, 41, 45, 46, 47, 53  
West: Terr 36, 38, 39, 44, 57, 60

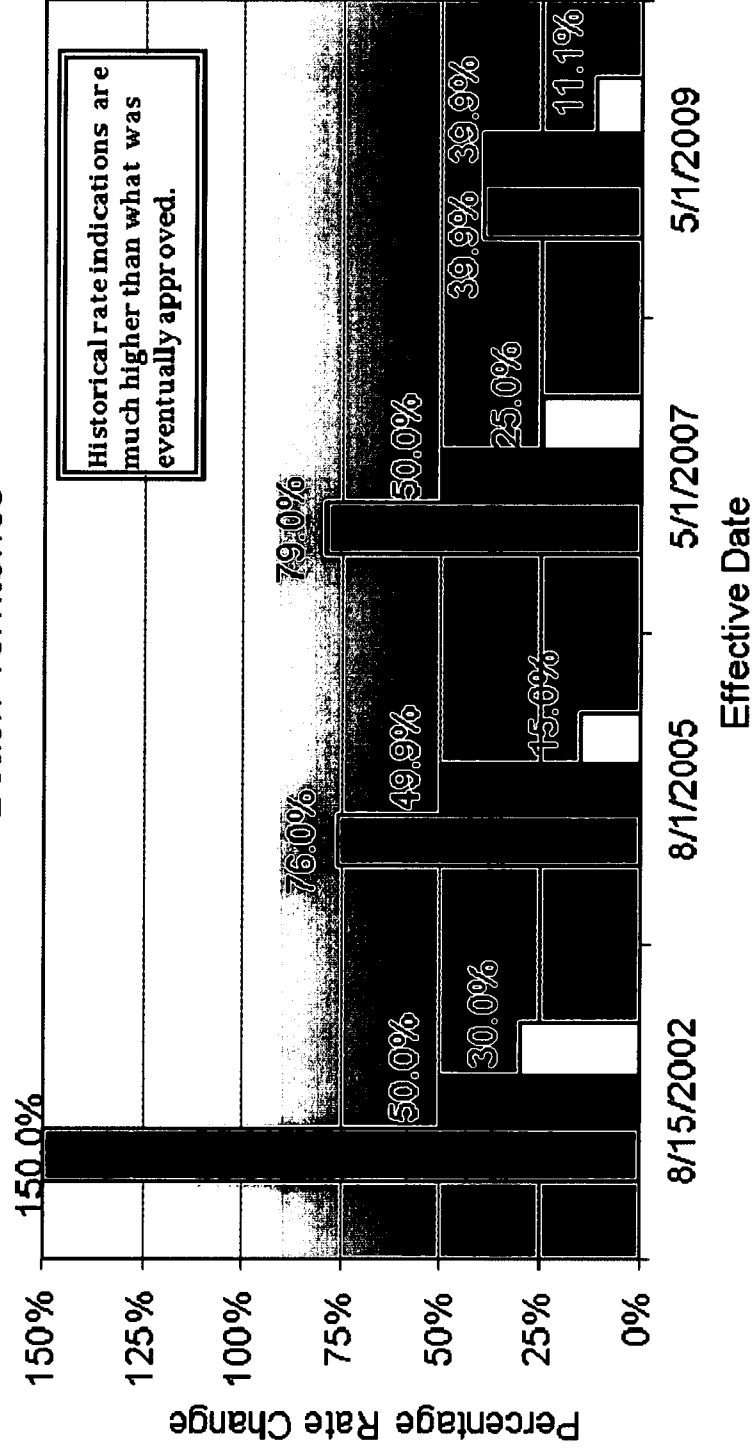
# Residual Rate Indication by Territory



Source: 2008 NCRB Homeowners Rate Filing effective 5/1/09

# North Carolina Rate Level

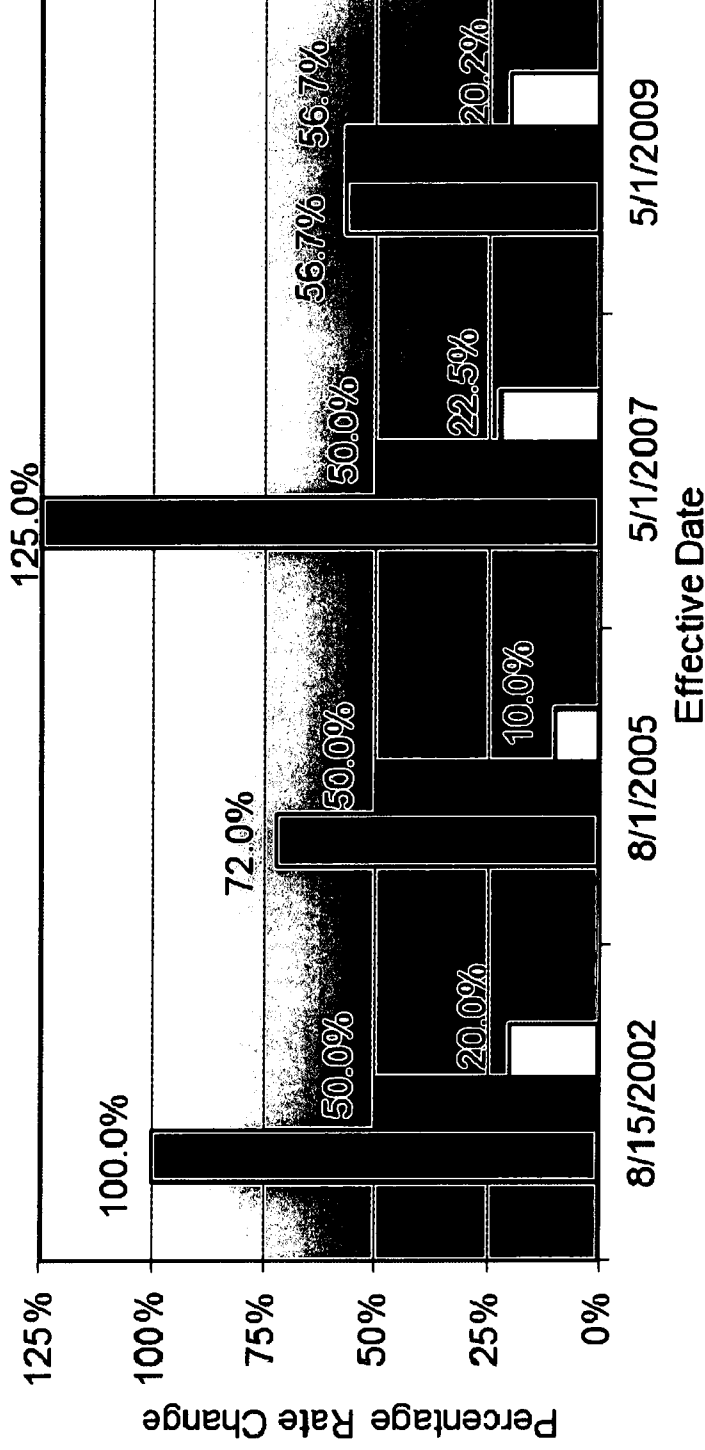
Homeowners Rate Change History  
Beach Territories



☐ Indicated for Beach  
 ☒ Requested by NCRB  
 ☐ Approved by NC DOI

# North Carolina Rate Level

Homeowners Rate Change History  
Coastal Territories



## North Carolina Rate Level

Latest HO rate filing was effective 5/1/2009. Since then rate need has likely increased due to:

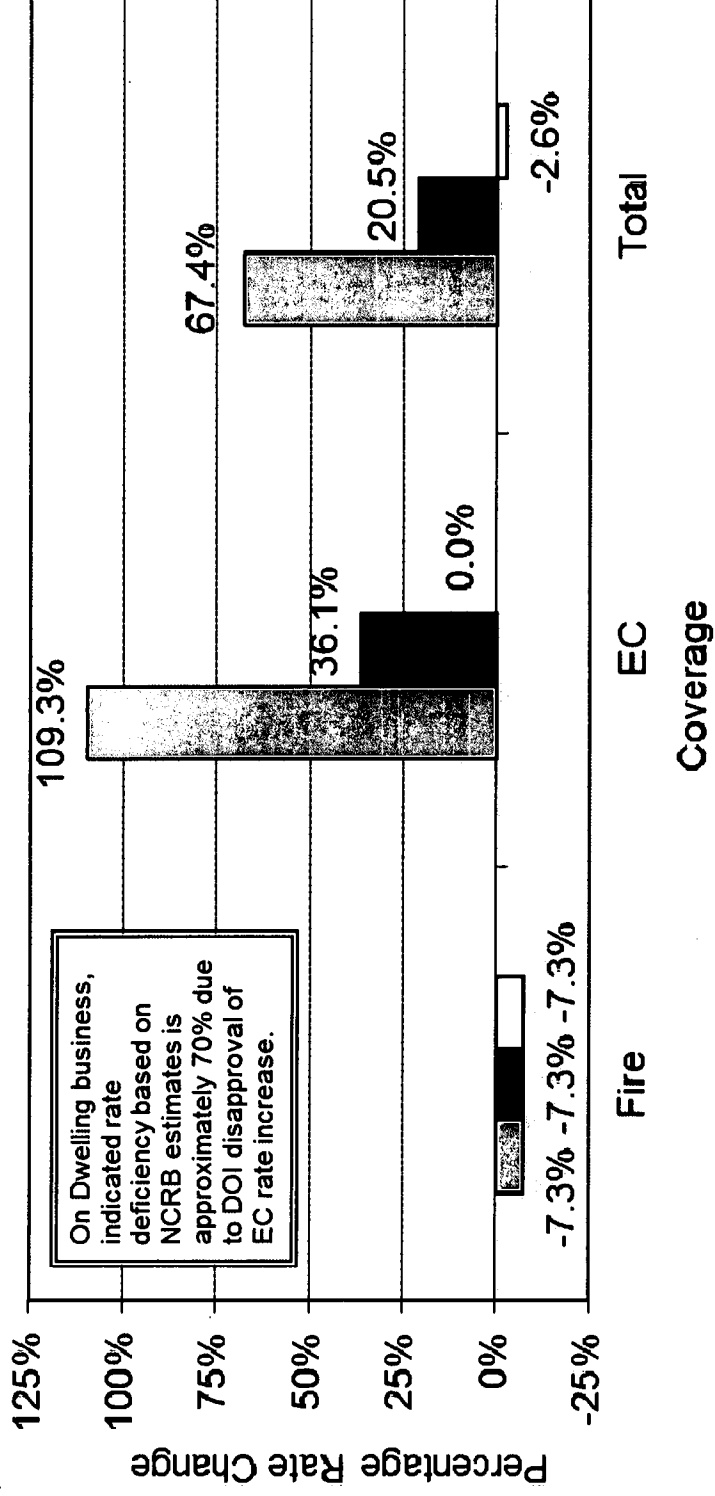
- Loss trend of 5 – 10% a year (based on ISS Fast Track)
- Changes in catastrophe models
- Increased reinsurance costs

Recent NCRB Dwelling rate filing, effective 5/1/2012, received much less than requested from the NC DOI:

- Fire and Extended Coverage (EC) perils analyzed separately
  - EC primarily covers losses from windstorms but also covers theft, vandalism, and other miscellaneous perils.
- Approved rate decrease proposed for Fire
- Disapproved rate increase proposed for EC

# North Carolina Rate Level

Rate Change Comparison  
Dwelling Fire and EC - Effective 5/1/2012



□ Indicated for DF   ■ Requested by NCRB   □ Approved by NC DOI

# North Carolina Department of Insurance

## Department Rate Filing Review

- NCRB Dwelling Fire and EC rate filing, effective 5/1/2012
  - From the NC DOI order
    - “...the Beach Plan is not a member of the Bureau nor does the Bureau have jurisdiction over the rates that the Beach Plan charges; therefore the Beach Plan program is **irrelevant** to this filing which proposes rates for the voluntary market, which is under the jurisdiction of the Bureau. Moreover, there was evidence in this case from both parties that the Beach Plan’s exposures along the coast are significantly greater than the exposures of the voluntary market. Thus, the Beach Plan reinsurance requirements [are] not comparable to the requirements for the voluntary market and would also seem to be irrelevant.”

# North Carolina Department of Insurance

## Consequences of Department Rate Filing Review

- Ignores statutory connection between NCRB rates and Beach Plan rates.
- Economic realities of catastrophic risk and reinsurance cost are not reflected in approved NCRB HO and Dwelling rates.
- “Catch-22” – Rates in Beach and Coastal areas too low for voluntary market but NC DOI won’t increase rates because voluntary market doesn’t write in the Beach and Coastal areas.
- Resulting imbalance in Beach and Coastal pricing leads to greater risk of assessment through the Beach Plan.
- Catastrophe Recovery Charge is essentially the subsidization of Beach and Coastal policyholders by inland policyholders.



# Insurance Industry Effect

How does perceived rate level in North Carolina affect insurer actions? NC Farm Bureau Example:

- About the company:
  - Mutual insurer domiciled in NC; incorporated in 1953; rated A by A.M. Best; writes only in NC.
  - #3 in NC Homeowners market share in 2010 with \$200 million of HO DWP (12.5% of NC DWP including Beach Plan).
- Announcement (Insurance Journal 12/29/2011)
  - NC Farm Bureau will nonrenew up to 28,000 stand alone homeowners policies with recent claims.
  - In addition, NC Farm Bureau is considering nonrenewing up to 70,000 additional Homeowners policies unless legislature makes changes that would allow higher rates.
  - The 98,000 policies represent about 20% of NC Farm Bureau's book of business.

# Insurance Industry Effect

## NC Farm Bureau Example cont'd:

- Announcement (News & Observer 2/28/12)
  - Removing discounts on 382,000 HO policies (avg. 6% rate increase).
  - Seeking similar increases for Dwelling policies.
  - Excluding wind damage in 15,000 coastal HO and Dwelling policies.
  - Company cited increases in reinsurance costs, concerns over low rate level in NC, and threat to financial stability.
- NC DOI quotes:
  - “We have been hearing from agents that this has been contemplated by other companies.”
  - “Ultimately these are business decisions that companies are allowed to make.”

## Another Example (News & Observer 2/28/12):

- Allstate (#5 in NC HO market) will nonrenew all NC homeowners policies without supporting auto coverage. These underwriting changes are attributed by the company to concerns over profitability.

# Conclusions

## HB 1305 has led to improvement in Beach Plan:

- Slowed exposure growth
- Increased surplus
- Shifted more risk through reinsurance
- Limited member liability through assessment plan

## Beach Plan exposure remains high:

- Covers approximately half of coastal insured property
- At current rate level, private insurers appear unwilling to cover wind exposure in the Beach and Coastal territories.
- Moderately severe storms result in Beach Plan deficits
- Beach and Coastal policyholders subsidized by inland policyholders through Catastrophe Recovery Charge
- Beach Plan continues to pose significant financial risk to member companies and the policyholders in remainder of state.

## Conclusions

- NC property writers are signaling concern over profitability of NC as a whole:
  - Rate levels have been suppressed for Homeowners and Dwellings.
  - Beach and Coastal areas most underpriced based on rate filings.
  - Companies must manage their catastrophe risk in order to stay financially stable and fulfill obligations to policyholders.
  - Exposure reductions of larger insurers may shift more risk to Beach Plan and smaller insurers.
  - Chronic underpricing in other states has kept residual market risk unacceptably high.

### Other issues post HB 1305

- No recoupment mechanism for Beach Plan assessments.
- No facility specified for Beach Plan Catastrophe Recovery Charge.

# Conclusions

Actions that could potentially address the issues identified:

1. Flex Rating Program: Allow automatically approved deviations within some specified band, such as +/-10%.
2. Territorial Deviations: Allow company specific territory definitions with actuarially justified rate deviations.
3. Reinsurance Costs: Enable explicit recognition of reinsurance costs in rates.
  - Net expense: Premium less expected reinsurance recoveries.
  - Necessary to increase insurance capacity.
  - Larger risk margins are needed due to the level of risk and the amount of capital that needs to be held.

## Conclusions

4. Catastrophe models: Accept catastrophe models for ratemaking purposes.
  - Models incorporate years of historical hurricane data including frequency, hurricane paths, and property damage.
  - Developed by experts in meteorology and insurance.
  - Estimate of losses due to hurricanes based on up to a million iterations of the model, allowing even companies with low volume to achieve credible results.
5. Beach Plan Assessments: Allow recoupment of \$1 billion paid by Beach Plan member companies through automatic approval of rate changes due only to the impact of Beach Plan assessments.
6. Establish Catastrophe Recovery Charge bonding and recovery process.

# Limitations

## *Limitations and Qualifications:*

**Use of Report.** The data and exhibits in this report are provided to support the conclusions contained herein, limited to the scope of work specified by PCI, and may not be suitable for other purposes. Milliman is available to answer any questions regarding this report or any other aspect of our review.

**Distribution.** This report was prepared solely for the use and benefit of PCI, and is only to be relied upon by PCI. Although we have agreed to allow distribution of this report to outside parties, Milliman does not intend to benefit any third party recipient of its work product. In the event this report is distributed to third parties, the report must be provided in its entirety. We recommend that any such party have its own actuary review this report to ensure that the party understands the assumptions and uncertainties inherent in our estimates. This report may not be filed with the SEC or other securities regulatory bodies. In addition, references to Milliman or its estimates in communication with third parties are not authorized.

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# Limitations

## *Limitations and Qualifications (continued):*

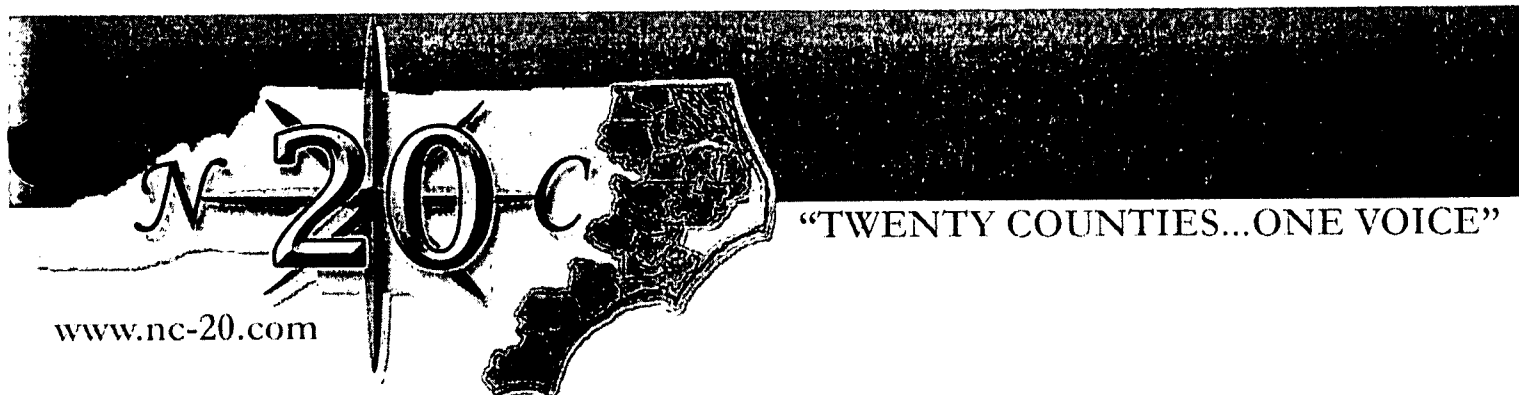
**Data Reliances.** In performing this analysis we relied upon data and other information provided to us by PCI, the NCIUA and other publicly available sources. We did not audit or verify this data and information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

If there are unexplained material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a detailed review was beyond the scope of our assignment.

**Uncertainty.** We based our results on generally accepted actuarial procedures, the information available to us, and our professional judgment. Our results reflect assumptions such as catastrophe projections, policy exposure growth, loss trend, exposure trend, and risk-sharing associated with the NCIUA and the insurance industry. However, due to the uncertainty associated with the estimation of these assumptions, the effect of other factors such as political and legislative issues, and the inherent limitations of the data, actual results will not develop exactly as projected and may, in fact, significantly vary from the projections.

**Reinsurance.** Our projections are provided both gross and net of reinsurance. We relied upon the accuracy of reinsurance contract provisions provided via publicly available information sources to determine the extent of recoverables. We assumed that all reinsurance is valid and collectible. We did not examine the various reinsurance contracts to verify the coverage terms. Contingent liability exists with respect to insurance balances that would become liabilities of the NCIUA in the event that any of the reinsurance companies were unable to meet their obligations under existing contracts.





TO: North Carolina Department of Insurance  
RE: Beach Plan Reinsurance and Tax-Free Bonding

February 7, 2012

On Wednesday, February 1<sup>st</sup>, I met with Gina Schwitzgebel, the new General Manager of the FAIR and Beach Plans. Also attending the meeting with Ms. Schwitzgebel was Alvin Ashworth, Accounting Manager of the FAIR and Beach Plans. Duke Geraghty, Legislative Chair of the Outer Banks Home Builders Association and Michael Davenport, President of the Outer Banks Association also sat in on the meeting.

Ms. Schwitzgebel requested the meeting to discuss a particular issue that was raised in a memo I sent to the NC Department of Insurance by email on Monday, December 12th. The memo questioned why the Coastal Property Insurance Pool spent such a high percentage (68.75% - almost \$209 million) of the \$304 million in premiums earned last year on reinsurance and the impact that could have.

With the passage of House Bill 1305 – Beach Plan Changes, the Coastal Property Insurance Pool could no longer make distributions from the surplus and could only spend revenues (premiums/investment income) on claims, operating expenses and reinsurance. Prior to House Bill 1305 being ratified, the Coastal Property Insurance Pool surplus accrued by \$95 million in fiscal year 2006; \$135 million in 2007; and \$145 million in 2008. Those involved in the passage of HB 1305 firmly believed that if the surplus continued to accrue at such a high rate - combined with higher premium rates and deductibles going into effect and distributions no longer being allowed - the Coastal Property Insurance Pool would be so fiscally strong in just a few short years of low losses that the threat of non-recoupable and recoupable assessments would be a moot point.

Ms. Schwitzgebel pointed out that modeled annual average losses are expected to be \$200 million – this includes good loss years, bad loss years and “the Big One” losses averaged out over a long period of time. The Coastal Property Insurance Pool collected over \$304 million in premiums last year. However, due to the high reinsurance expense, losses last year (especially those from Hurricane Irene) – which totaled less than \$200 million – required monies to be withdrawn from the surplus to pay claims. Reinsurance could not be used to pay any of those claims because it does not even become effective

until losses reach an inordinately high “catastrophic” amount. The 2011 attachment point for reinsurance was \$1.3 billion in losses.

With a diminishing surplus (or one that is not accruing), the risk that NCIUA member companies would be assessed and policyholders statewide would be surcharged becomes greater. A diminishing surplus creates the need for a greater amount of reinsurance thus creating a cycle that would potentially lead to instability of the Coastal Property Insurance Pool.

Ms. Schwitzgebel stated that modeled potential losses show the Coastal Property Insurance Pool at risk of \$4 billion in losses in any given year if a major hurricane, “the Big One”, hits the coast. According to Ms. Schwitzgebel, there is an approximate 3 percent possibility of having a storm of that magnitude - one that would exceed the ability of the Coastal Property Insurance Pool to pay policyholder claims without the purchase of reinsurance.

Although the risk is only 3%, the Coastal Property Insurance Pool needs to ensure that funds are available if and when “the Big One” does happen. Current surplus funds added to the \$1 billion assessment companies pay in the event of a major catastrophe plus funds derived from a catastrophe recovery charge (recoupable assessment) do not total \$4 billion. Therefore, the Coastal Property Insurance Pool purchases reinsurance to cover the difference. ***Not only are policyholders paying higher premiums in eastern NC if a major hurricane hits, but the Beach Plan itself is paying out a tremendous amount of money based on a “what if”, 3% chance scenario. This needs to change.***

Approximately \$742 million has been paid by the Coastal Property Insurance Pool for reinsurance in just five years – almost three-fourths of a billion dollars out of the pockets of Coastal Property Insurance Pool policyholders that is gone for good. The majority of the money spent on reinsurance was sent overseas to foreign reinsurers. Coastal Property Insurance Pool incurred losses in the last five years – 2007 thru 2011 - have only totaled \$219 million. Although recognizing that a modeled 3% catastrophic risk exists, there must be a better way to manage that risk than sending hundreds of millions of dollars out of the country year after year. There needs to be another revenue source tool in the toolbox, so to speak.

Ms. Schwitzgebel shared information on an option being used in other states to address this issue – a means that would allow monies spent on reinsurance to stay in NC. **Tax-free bonding** has been approved in California, Texas, Louisiana and Florida as a means to manage future potential catastrophic losses while reducing the dependency on costly reinsurance. With less spent on reinsurance, the Coastal Property Insurance Pool surplus could accrue each year thus creating stronger fiscal stability and further insulating member companies from a \$1 billion assessment.

By purchasing reinsurance to cover potential catastrophic losses, the Coastal Property Insurance Pool essentially manages funds annually based on a “***what if the worst storm possible happens***” scenario. Tax-free bonding would replace the need to purchase such a large amount of reinsurance. Instead of “***if***” it happens, tax-free bonding would be utilized “***when***” the worst storm possible happens. A catastrophe recovery charge (CRC) could then be utilized for bond repayment, just as is permitted now with “recoupable assessments”. By allowing the Coastal Property Insurance Pool to utilize tax-free bonding

and access a source of revenue *after* a catastrophic event has actually occurred, total reinsurance expense could be greatly reduced. Millions of dollars being spent on reinsurance could be added to the surplus each year.

To summarize, the heavy reliance on reinsurance is not conducive to the long-term health of the Coastal Property Insurance Pool. The cost of reinsurance continues to rise each year and is dictated by the foreign market. It is also of great concern that, unlike voluntary market insurers in NC, foreign reinsurance companies are not regulated by the NC Department of Insurance. Reducing the amount of reinsurance expense would greatly improve the overall sustainability of the Coastal Property Insurance Pool.

Tax-free bonding appears to be a "win" for all involved: the Coastal Property Insurance Pool becomes more stable; insurance companies become better insulated against a \$1 billion assessment; the lower risk of assessment increases the market thus bringing about more competition; and, overall transparency is improved. A large amount of monies paid to foreign reinsurers would stay in North Carolina.

Legislation would need to be passed by the General Assembly to allow the use of tax-free bonding. On behalf of NC-20, the Outer Banks Association of Realtors and the Outer Banks Home Builders Association, I strongly urge the NC Department of Insurance to consider this option and support such legislation if in agreement with the above.

Willo Kelly  
President, NC-20

#### **Board Members**

Bill Price   Bob Slocum   Bud Stilley   Larry Baldwin   Missy Baskervill   Rudi Rudolph   Willo Kelly   John Droz  
Tom Thompson   Daniel Scanlon   Frank Heath   Randy Keaton   David Peoples   Tim Buck   Russell Overman  
Mazie Smith   Randell Woodruff   William Cowan   Bobby Outten   David Burton   Fred Bone   Kathleen Riely

**705 Page Road   Washington, North Carolina 27889**  
**Office: (252)946-3970   Fax: (252)946-0849**

# Beach Plan Distributions and Assessments 1970 - 2011

YEAR	Losses (inc)	Exposure	Equity	Assessments	Distributions
1970	\$53,438	\$10,232,718	-\$1,393	\$55,423	
1971	52,415	38,231,135	57,153	74	
1972	99,279	63,481,257	356,106		
1973	181,761	83,404,331	536,824		-363,791
1974	198,402	85,630,393	1,299,791		
1975	218,414	81,309,109	2,061,771		
1976	338,991	89,626,174	2,215,786		-464,981
1977	278,728	119,377,871	3,074,362		
1978	532,624	150,389,395	3,271,326		-674,832
1979	492,492	202,946,798	4,822,178		
1980	599,910	289,175,399	5,542,882		-1,328,368
1981	207,897		8,000,566		-819,496
1982	636,572	267,914,000	10,552,868		-897,549
1983	564,524	306,046,000	12,575,892		-1,083,986
1984	5,495,814	327,972,000	8,874,766		-1,810,875
1985	829,453	548,277,000	9,568,101		-2,412,579
1986	251,601	1,059,148,000	13,273,767		-2,901,304
1987	857,397	1,211,121,000	20,090,168		-3,351,697
1988	885,044	1,083,953,000	14,368,464		-16,828,114
1989	2,858,884	1,511,724,000	11,736,677		-10,509,954
1990	2,682,475	1,768,362,000	9,734,839		-10,278,722
1991	1,337,578	1,971,835,989	14,034,691		-6,021,452
1992	522,564	2,076,080,256	17,858,238		-7,496,291
1993	15,290,133	2,529,148,574	3,773,914		-9,132,226
1994	2,638,122	3,092,083,317	8,746,052		-5,941,583
1995	832,220	3,632,666,088	22,626,479		-3,241,019
1996	128,723,623	4,208,378,160	51,822,239	152,647,363	
1997	61,129,354	4,849,556,566	23,198,764	479,913	
1998	80,919,213	6,098,538,087	-39,388,650		-1,721,795
1999	114,822,176	7,710,320,192	-42,301,766	80,222,525	
2000	-19,614,733	9,904,651,435	16,867,435		-715,456
2001	4,579,483	11,299,226,958	54,862,995		-1,982,745
2002	4,160,761	13,352,737,436	98,098,067	827,059	
2003	61,746,184	17,038,331,383	92,267,791	4,332,791	
2004	31,868,561	28,905,006,918	134,476,173	4,004,538	
2005	70,546,474	41,304,716,800	154,946,695	91,555	
2006	1,164,414	52,011,170,240	249,982,407		-41,427,003
2007	9,757,690	64,056,581,691	385,001,757		
2008	11,154,608	72,454,379,274	530,208,750		
2009	6,312,706	74,041,498,841	649,608,419		-16,460,085
2010	12,823,444	68,127,909,310	718,507,846	16,636,167	
2011	164,804,305	71,747,092,278	632,009,952		
Totals	\$783,834,995			\$259,297,408	-\$147,865,903



**Beach Plan Financials - Fiscal Year 2004 - 2011**  
**Fiscal Year October 1 - September 30**

	2004	2005	2006	2007	2008	2009
<b>Premiums Earned</b>	<b>\$87,341,137</b>	<b>\$111,328,193</b>	<b>\$150,607,305</b>	<b>\$195,022,246</b>	<b>\$255,294,739</b>	<b>\$282,940,703</b>
<b>Reinsurance</b>				\$32,327,854	\$78,097,116	\$147,205,642
<b>Losses Incurred</b>	<b>\$31,868,561</b>	<b>\$70,546,474</b>	<b>\$1,164,414</b>	<b>\$9,757,690</b>	<b>\$11,154,608</b>	<b>\$6,312,706</b>
<b>Net Underwriting Gain/(Loss)</b>	<b>\$36,317,313</b>	<b>\$14,263,848</b>	<b>\$122,260,679</b>	<b>\$113,902,820</b>	<b>\$118,289,093</b>	<b>\$77,240,858</b>
<b>Net Income/(Loss)</b>	<b>\$38,133,009</b>	<b>\$20,596,817</b>	<b>\$136,454,790</b>	<b>\$135,362,539</b>	<b>\$145,117,727</b>	<b>\$103,139,627</b>
<b>Assessments</b>	<b>\$4,004,538</b>					
<b>Distributions/Profit Sharing</b>			<b>\$41,427,003</b>			<b>\$16,460,085</b>
<b>Change in Equity</b>	<b>\$42,208,382</b>	<b>\$20,470,522</b>	<b>\$95,035,712</b>	<b>\$135,019,350</b>	<b>\$145,206,993</b>	<b>\$119,399,669</b>
<b>Surplus</b>	<b>\$134,476,173</b>	<b>\$154,946,695</b>	<b>\$249,982,407</b>	<b>\$385,001,757</b>	<b>\$530,208,750</b>	<b>\$649,608,419</b>
<b>Exposure</b>	<b>\$28,905,006,918</b>	<b>\$41,304,716,800</b>	<b>\$52,011,170,240</b>	<b>\$64,056,581,691</b>	<b>\$72,454,379,274</b>	<b>\$74,041,498,841</b>

**Definitions:**

*Net Underwriting Gain* : Premiums earned less reinsurance, losses incurred, loss expense, operating expenses, taxes

*Net Income*: Net Gain plus investment income, miscellaneous income

*Change in Equity*: Net Income: - distributions or + assessments, +/- adjustments, +/- change in assets not admitted, - pension liability

*Members Equity*: The prior period members' equity plus positive change in equity (surplus/profit). Beach Plan Board member companies agreed not to make any further distributions from the equity fund after 2006.



**Kathleen Riely, Governmental Affairs Director Wilmington Regional Association of REALTORS®**

***Key question: Is the system (which is now utilized) for setting rates for property insurance in North Carolina the best system for the insurance companies (as insurers) and for all the citizens of the state?***

**Long term study issues:**

- 1. The feasibility and advisability of replacing the NCRB with a market based rate-setting system:**

***The process needs to be simplified and streamlined-NC needs a system that is cost effective and functional***

- **Direct file** allows insurers to compete in the free market.
  - **Having the Rate Bureau (RB)** allows the DOI to review only **one** filing instead of several hundred but DOI can hire outside consulting company to do rate filing analysis.
  - **Look at who is writing policies in NC** and who is not. If they are not then why?
  - **How accurate has the RB** been in the "claims frequency" which is the no. of claims per 100 or 1000 policies per year.
  - **How accurate has the RB** been in **trending** i.e. how much are the costs changes (high or low).
  - **Give tax incentives** to insurers who write policies along the coast.
- 2. Whether the NC citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through the creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders. NC needs an entity that provides oversight, accountability and transparency in the rate-making process on behalf of the consumers.**
    - **Create a Property Insurance Rate Review Board (PIRRB) (S395)** that, among other responsibilities:
      - a. Follows-up on the accuracy of the insurers in regard to their claims frequency.
      - b. Has a modeling review board or committee to determine which models are most suited for NC. See e.g. Commission on Hurricane Loss Projection Methodology.
      - c. Reviews the NC statutes regarding what and how models are used. See Florida's Catastrophe Model power point.
      - d. Funding for the position comes from insurance assessments under the DOI.
    - **Create a Consumer Advocate** position that:
      - a. Is under the Consumer Protection division (NC DOJ) similar to SC which has their Consumer Advocate under the SC Dept. of Consumer Affairs.

- b. Works directly with the Department of Insurance and Commissioner.
- c. Is funded by assessments on personal lines insurance policies which go directly into the general fund or fund from ins. assessments under the DOI then a "budget proviso" so the Dept. (NCDOJ) gets the money.
- d. Examines rate and form filings to assure rate changes are justified and fairly apportioned and that the policies clearly and accurately reflect coverage provided.
- e. Represents Consumers in Rate and Form Filings and consumer interests in regulatory proceedings regarding all insurance activities conducted under jurisdiction of the Department of Insurance.
- f. Has authority to testify at the rate hearings on behalf of consumers.
- g. Has the ability to petition the Insurance Commissioner to investigate insurance matters related to market conduct.
- h. Has authority to recommend legislation to the legislature that the public advocate determines would positively affect the interests of insurance consumers.
- i. Works directly with a hurricane commission in reviewing the models used.
- j. Has right to judicial review of the final decision or order.
- **Create legislation that allows consumers** (either through a board or advocate) to participate in public hearings for rate increases over a certain % (e.g. FL is 15%). Allow open government for all public records, hearing etc. and allow public hearings to be televised all around the state. NC needs a law similar to FL's Sunshine Law so consumers know what the Commissioner, the DOI, the NCRB and Beach Plan Board are doing. See Florida Sunshine Law.

**3. The adequacy under current law of legislative oversight of The NCJUA and the NCIUA (a.k.a Beach Plan). *The Beach/Fair Plan needs more oversight by a variety of individuals.***

- **Divide the responsibility for appointing the board members.** Giving separate appointments to the insurance commissioner, governor, and majority and minority leadership of both houses of the legislature will assure a well-rounded board.
- **Make sure the members brought onto the board have professional experience** in the insurance industry or a record of scholarship, study and/or advocacy about insurance-related issues.

**4. Consider appointing the Commissioner of Insurance rather than electing: *The Commissioner needs to spend all or most of his/her time looking for ways to improve the rate-making process in NC.***

- Thirty-nine states in the U.S. appoint their Commissioners of Insurance including South Carolina (only eleven elect)
- Appointing the Commissioner of Insurance would allow the Commissioner more time to dedicate to his/her position rather than raising funds for re-election.

## **Possible Options for Recommendation**

1. Direct the Rate Bureau to study insurance territories including possible changes to these territories to better reflect claims risk and require them to report to the 2013 General Assembly. (legislation required)
2. Prohibit the practice of linking property and auto coverage (legislation required)
3. Limit the amount of Agent's Commission paid by the Beach Plan (legislation required)
4. Require a public hearing to receive public input on proposed rate increases (legislation required)
5. Require insurers to offer a basic fire policy that excludes wind coverage (legislation required)
6. Possible issues to recommend for continued study
  - A. Cost of reinsurance
    - Authorize the issuance of bonds by the North Carolina Insurance Underwriting Association using some funds currently used to purchase reinsurance.
    - Establish a statewide catastrophe fund or a catastrophe fund specific to the Beach Plan using funds currently used to purchase reinsurance
  - B. Require a separate hearing for modeled losses
  - C. Limit consideration of reinsurance costs in rate filings



# VISITOR REGISTRATION SHEET

LRC Committee on Property Insurance Rate Making

March 21, 2012

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

STARLON CREDE	Beaufort County Board of Realtors 110 S Main St Bath NC 27808
Teray EVAN	Century 21 The Realty Group 27887 162 W MAIN ST Washington NC
Tom Thompson	NC-20 705 Page Rd., Washington 27889
Sam Leary	NMRS
Harry Leary	MWC
David Golden	State Farm
LEE Dunn	NCJUA/NCIUA
JULIAN PHILPOT	NCFB
Bobby Outlen	Dare Co.
Warren Edge	Dare Co

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LRC Committee on Property Insurance Rate Making

March 21, 2012

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NAME

FIRM OR AGENCY AND ADDRESS

Cady Thomas

NCAR

TYLER NEUMANN

BASE

Mark Mason

Robert PASCHKE

Young Moore

Dave Hume

Smith Anderson

Tim Lucas

NC Rate Bureau

Tricia Ford

NC Dept of Ins.

Kerry Hall

NCDOI

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NAME

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Sherri Hubbard	Dept of Ins
Bryan Heekle	NC DOI
Edith Davis	NC Reinsurance Facility
DAVID SINK	N.C RATE BUREAU
Mike Strickland	Young, Moore & Henderson PA
RAY EVANS	NCRB
Bill Trotty	Young Moore
ART LYON	GMAC Insurance
Roger Baldoff	NC Farm Bureau
Fred Fuller	NCDOI
KEVIN CONLEY	NCDOI

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FIRM OR AGENCY AND ADDRESS

John Rode	BCS
Susan Valauri	Nationwide
Sara Fender	IFNC
Laura W. Bone	Bone and Associates, LLC
STUART POWELL	ILPAK
Barbara Candler	B&C
Winston Morris	Nationwide
Michelle Frazier	MF+S
Ray Farmer	AIA
Bin Tibbens	Farmers Group, Inc.
Liz Reynolds	NAMIC

# VISITOR REGISTRATION SHEET

LRC Committee on Property Insurance Rate Making

March 21, 2012

Name of Committee

Date

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK**

NAME

FIRM OR AGENCY AND ADDRESS

Mark Edwards

NC DOI

Amy Powell

Nationwide

Alvin Ashworth

NCJUA/NCIUA

Martin Brunkley

Smith Anderson / NCIUA - NCJUA

Eric Schwartzgebor

NCJUA/NCIUA

Bob Eades

NCJUA/NCIUA

Spida Willey

Independent Agent Dare County

Heather Willey

The Willey Agency Regis Head

Frank Folger

Nationwide

## VISITOR REGISTRATION SHEET

LRC Committee on Property Insurance Rate Making

March 21, 2012

Name of Committee

Date /

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK**

NAME \_\_\_\_\_

**FIRM OR AGENCY AND ADDRESS**

Willie Kelly

NC-20 PD Brox 1104  
Kelli David Bells, NC 27948

CS Hall, 5

TSS

DEL MYNED

GRAM : Assoc

John McMillan

MFS

Bo Haid

Moore W. J.

# VISITOR REGISTRATION SHEET

Name of Committee

Date

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK**

NAME

FIRM OR AGENCY AND ADDRESS

Rose Williams	NCDOT
Lisa Martin	NC Home Builders
James McCall	Republican for Insurance Commissioner
Eden James	ISMAC Ins -
Kathleen Riech	URAs
Cyano A. Snell	Property Casualty Insurers Association of America (PCI)
Jon Hannah	State Farm Insurance
Heather Jones	Williams Mullen

STATE OF NORTH CAROLINA  
**LEGISLATIVE RESEARCH COMMISSION**  
STATE LEGISLATIVE BUILDING  
RALEIGH, NORTH CAROLINA 27603



**NORTH CAROLINA GENERAL ASSEMBLY**  
Raleigh, North Carolina 27601

April 5, 2012

**MEMORANDUM**

**TO:** Members, LRC Committee on Property Insurance Rate Making  
**FROM:** Senator Harry Brown, Co-chair  
Representative Jerry Dockham, Co-chair  
**SUBJECT:** Meeting Notice

DAY	DATE	TIME	ROOM
Thursday	April 12, 2012	1:00 pm	643 LOB

Attached please find for your review the draft Report of the LRC Property Insurance Rate Making Committee to the 2012 Session of the 2011 General Assembly. The report will be considered by the Committee at its meeting on April 12, 2012 at 1:00 a.m. in Room 643 of the LOB. The minutes from the March 21<sup>st</sup> meeting are also attached.

Please note that, under rules adopted by the Legislative Research Commission, the actual text of the Committee's report to the LRC must be adopted by the Committee at this meeting. Therefore, any changes to the report must be made by written amendment with copies to the Committee members.

If you have questions or would like to make changes to the report, please contact Tim Hovis in the Research Division at 919-733-2578.

Sent by Beth LeGrande, Committee Clerk, 919-733-5746

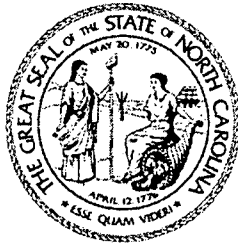




**2011-2012**

**PROPERTY INSURANCE  
RATE MAKING  
COMMITTEE**

**MINUTES**



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

**Thursday April 12, 2012, 10:00 am  
Legislative Office Building, Room 643**

- I. Opening Remarks and Approval of Minutes**
  - Sen. Harry Brown, Co-Chair
  - Rep. Jerry C. Dockham, Co-Chair
  
- II. Overview of Report to 2012 Session and Proposed Legislation**
  - Tim Hovis, Research Division, Committee Counsel
  - Jeff Cherry, Bill Drafting Division, Committee Counsel
  
- III. Discussion and Approval of Report to 2012 Session**
  
- IV. Adjournment**

**Minutes**  
**Property Insurance Rate Making Legislative Research Commission Committee**  
**April 12, 2012**

Senator Brown called the meeting to order at 10:00 a.m. and gave welcoming remarks and introductions. He clarified that this Committee had worked to come up with recommendations to carry to the Short Session to debate and move through the process. He conceded that it is a very tough issue and stressed how important it was to get information on this issue out for debate and come up with recommendations that make sense as we move forward.

Representative Dockham reiterated that this was a starting point and recognized the concerns. He said it has to go through the legislative process to get all the scrutiny it deserves. He thanked the Committee members for their efforts.

Senator Brown asked for a motion to approve the minutes from the March 21, 2012 meeting. Senator Hise moved the minutes be approved. The Committee voted by unanimous approval.

The first order of business was the overview of the Property Insurance Rate Making Committee Report. Tim Hovis, Committee Senior Counsel, was recognized to review the report. He briefly went through the recommendations of the report. He noted that page 14 included a brief overview of the current law both of the Standard Law and the Beach Plan and an overview of issues from general Committee discussions. The first paragraph of each Finding started on page 17 and was explained to be background information with the actual Findings and Recommendations included in the last paragraph of each of the seven Recommendations. Mr. Hovis proceeded to review the recommendations as follows:

**Recommendation 1**

**Gives Discretion to Commission on Rate Setting** - The committee finds that the Commissioner should be given greater flexibility and discretion in the rate making process. The Committee recommends legislation giving the Commissioner authority to select the appropriate rate based on the evidence, not just accept or reject the rate submitted by the Rate Bureau. Mr. Hovis noted that the bill did allow for a decrease in the current rate if the evidence warrants.

**Recommendation II**

**Catastrophe Modeling** - The Committee finds that more information about the specific model used in a rate filing submitted by the Bureau to the Commissioner is needed. The three bullet points with this are summarized.

- Require a prehearing prior to a rate hearing giving the Department the authority to see and review all materials and documents pertinent to the catastrophe model.
- Require any simulated loss from a catastrophe model to include specific information such as annual probability, the amount of N.C. damages before and after the application of any deductible, specific information concerning first N.C. landfall or entry, wind speed, and other information.
- Require the Bureau to submit data from more than one catastrophe model in a rate filing if modeled losses are used. Mr. Hovis pointed out a typo in this bullet (See Appendix D, Section 1 and not 4).

**Minutes**  
**Property Insurance Rate Making Legislative Research Commission Committee**  
**April 12, 2012**

**Recommendation III**

**Reinsurance** - The Committee finds that more information on the cost of reinsurance is needed. The Committee recommends legislation requiring information on the cost of reinsurance specific to N.C. and the line of business for which the filing is being made to be submitted in a rate filing.

**Recommendation IV**

**Public Input** - Stipulating that if there is no statutory requirement for such that all future Commissioners will provide for and accept public input, the Committee finds a public comment period should be designated in statute by the General Assembly. The Committee recommends legislation requiring the Department to accept public comments prior to a notice of hearing in a property insurance rate filing.

**Recommendation V**

**Territorial Boundaries** – The Committee finds that territorial Boundaries, and the rates approved for certain territories, may not in all cases accurately reflect the risk associated with each area. Furthermore, new technology and data sources may make alternatives to the geographic territory system possible. While this issue is particularly important in the beach and coastal areas of the State, any study of the territorial boundaries should not be limited to just the beach and coastal areas, but should include the entire State. The Committee recommends that the Rate Bureau, with the assistance of the Department, study these issues and report on any recommendations for change to the 2013 General Assembly.

**Recommendation VI**

**Fire Only Policy** – The Committee agrees and finds that, in light of increasing premiums, insurers should offer a residential fire policy that excludes wind coverage to those property owners willing to assume the risk for wind losses. Accordingly, the Committee recommends legislation requiring the Bureau to develop for approval by the Commissioner a policy form that provides residential property insurance coverage without the coverage for the form that provides residential property insurance coverage without the coverage for the perils of windstorm or hail. Mr. Hovis noted that this would require the Bureau to develop the policy, but it does not require insurers to offer it. He said requiring insurers to offer it would cause problems under current case law.

**Recommendation VI I**

**Conclusion**

Mr. Hovis said the Committee understands additional analysis and discussion is needed. In the first paragraph he listed the issues of concern to the Committee. "In light of these issues, the Committee recommends that the General Assembly continue the study of property insurance rate making for possible recommendations to the 2013 General Assembly.

Mr. Hovis concluded his review of the Committee Recommendations. Jeff Cherry, Legislative Bill Drafting Division Counsel, was introduced to review the proposed legislation resulting from Committee Recommendations. Mr. Cherry explained he would go through the specifics of bill and point out which Recommendations each Section was based on beginning on Page 24 of the Committee Report. His summary continues as follows:

**Minutes**  
**Property Insurance Rate Making Legislative Research Commission Committee**  
**April 12, 2012**

**Section 1** was explained to be language fulfilling the 3<sup>rd</sup> bullet point under Recommendation II and required the Bureau to provide data from more than one catastrophe model in a rate filing if modeled losses are used.

**Section 2 and 3** of the bill, Mr. Cherry noted, resulted from Recommendation VI and both involved changes to the statute in Article 36, the Rate Bureau Article.

**Section 2** calls on the Rate Bureau to develop policy that does not include wind and hail.

**Section 3** goes along with developing policy not including wind and hail. He noted that Article 44 which deals with requirements for insurance policy language requiring property insurance to list property not included in policy wind and hail policy will also be part of notification language.

**Section 4** of the bill resulted from Recommendation IV, which would require public comment to be in the statute in the property rate filing and hearing process prior to the notice of the hearing and adjusts the timeline in Section 4, Subsection (d) in light of public comment. Mr. Cherry noted Section 4, Subsection (e) resulted from the 1<sup>st</sup> bullet point of Recommendation II, the prehearing in a property rate filing that includes catastrophic modeling data and provides for confidentiality and also outlines the data the Department can request and make use of. Section 4, Subsection (f) is the result of Recommendation I in the Committee Report that said if the Commissioner found the filing does not comply with this article the Commissioner can issue an order that sets the rate based on the evidence, not just accept or reject the rate submitted by the Rate Bureau, if the data supports it could be a reduction in the rate.

**Section 5** was the result of the 2nd bullet point under Recommendation II, which required the Rate Bureau to submit data from more than one catastrophe model to include certain supporting data that is specified in the Provision of Section 5, (d2) of sub subsection (1). Section 5, (d2) sub subsection (2) is the result of Recommendation III requiring additional information to be provided on the cost of reinsurance in a property rate filing case.

**Section 6** was the result of Recommendation V in the Committee Report regarding territorial boundaries to be studied and report back with recommendations for changes to the 2013 General Assembly.

**Section 7** included the enacting date that said the effective date for Sections 2 and 3 is December 1, 2012, because as Mr. Cherry noted, the Department is dealing with policy and this gives them more time to deal with that. Section 6 would be effective when the legislation becomes law and the remainder of the act is effective immediately.

Senator Hise was recognized for comments. He noted three areas that he wanted to point out and discuss before final legislation is approved.

1. Rates - When giving the Commissioner the ability to accept or deny rates there is a necessity to put the new rate in between the current rate and the proposed rate. He expressed concern with the Rate Bureau needing to more frequently update rates. He stressed the need for boundaries if recommendations show they are needed using the example, 0-10 or take no action.
2. Modeling –Senator Hise referred to the Committee discussion about appropriate types of models and the impact of our current model and how it was developed. He noted the role for Commissioners and others to approve mode prior to usage and said that you cannot go back afterwards and say it did not return the results it should have returned. He summarized that the average of 2 models not accurate and that each model has its own variances and factors that needed to be considered.
3. Public Input – Senator Hise said he supported public input and said there is a need to look at shortening the time of the process to make it more efficient as a whole.

**Minutes**  
**Property Insurance Rate Making Legislative Research Commission Committee**  
**April 12, 2012**

Senator Brown thanked Senator Hise for his comments and said that part of the problem with the process taking so long was because insurance should be a shared risk issue but that the burden now was on the coast. He noted the push across the state to have no rate increases and even some decreases and compared that with how the cost of insurance on the coast had tripled in the last 5 or 6 years.

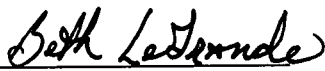
Representative McElraft was recognized and responded to Senator Brown that she thought the Commissioner should have the authority based on the data to do what he needed to do as with Auto Insurance.


Senator Hise commented on the need to increase the rates to match the risk. He said the gold post method of a recommendation of increase or decrease at the hearing should be the limitation of the Commissioner. Senator Brown recommended caution when looking at rate decreases in certain areas and repeated that he believed this had resulted in more pressure on the coast; although said he thought it was a good point that needed to be debated and recommended getting politics out of the decision making.

Representative Jordan questioned staff about Section 4 in the proposed legislation and expressed concern with the timeline of the Hearings saying they should be more fairly timed. Mr. Hovis explained the timeline had not changed and that Subsection D is a restatement of the current law and under current law it was open ended with the only time limit being not less than 30 days. He further said that the Commissioner would have to set the public input time period. Representative Jordan cited the 2011 Filing in January that had not been heard until December of that year. Senator Brown said that it may need another look in an effort to shorten the time frame.

Senator Brown, co-chair, asked Representative Dockham, co-chair, for any further comments. Representative Dockham had no further comments. The members were asked for further comments and/or questions; without further discussion Senator Brown recognized Representative McElraft who moved that the Committee Report on Property Insurance Rate Making to the Legislative Research Commission be accepted. The Motion passed by unanimous vote. Senator Brown thanked the Committee members for their hard work and stressed the value of the information that had come out of the Committee discussions and said that further debate on issues would be forthcoming. Senator Brown adjourned the meeting at 11:00 a.m.

Respectively submitted by,

  
Beth LeGrande  
Committee Assistant

  
Senator Harry Brown  
Chairman

\_\_\_\_\_  
Representative Jerry Dockham  
Chairman

**Minutes**  
**Property Insurance Rate Making Legislative Research Commission Committee**  
**April 12, 2012**

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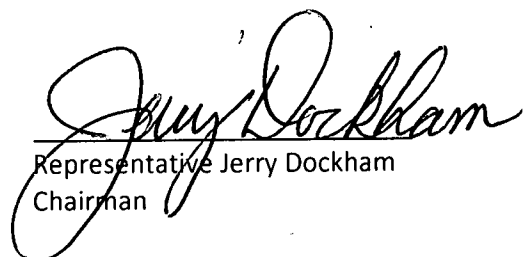
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Respectively submitted by,

  
Beth LeGrande  
Committee Assistant

\_\_\_\_\_  
Senator Harry Brown  
Chairman

  
Representative Jerry Dockham  
Chairman

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NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH, NC 27601



April 12, 2012

TO THE MEMBERS OF THE LEGISLATIVE RESEARCH COMMISSION:

Attached for your consideration is the report to the 2012 Regular Session of the 2011 General Assembly. This report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.17(1).

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Senator Harry Brown  
Co-Chair

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Representative Jerry Dockham  
Co-Chair

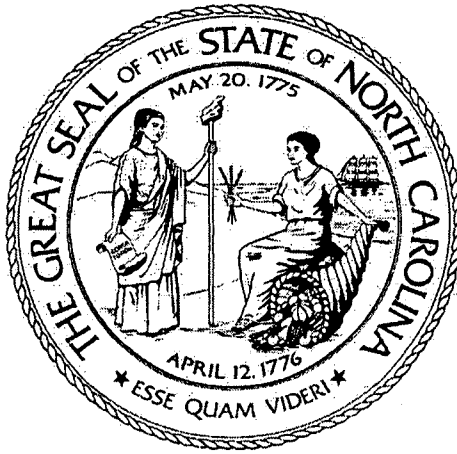
Co-Chairs  
Committee on Property Insurance Rate Making  
Legislative Research Commission



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LEGISLATIVE RESEARCH COMMISSION  
PROPERTY INSURANCE RATE MAKING  
COMMITTEE  
NORTH CAROLINA GENERAL ASSEMBLY



REPORT TO THE  
2012 SESSION  
of the  
2011 GENERAL ASSEMBLY  
OF NORTH CAROLINA

APRIL, 2012

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## TRANSMITTAL LETTER

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April 12, 2012

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TO THE MEMBERS OF THE 2012 REGULAR SESSION  
OF THE 2011 GENERAL ASSEMBLY

The Legislative Research Commission herewith submits to you for your consideration its report and recommendations to the 2012 Regular Session of the 2011 General Assembly. The report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.70(1).

Respectfully submitted,

---

Senator Philip E. Berger  
President Pro Tempore of the Senate

---

Representative Thomas R. Tillis  
Speaker of the House of Representatives

Co-Chairs  
Legislative Research Commission

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## LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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2011 – 2012

**President Pro Tempore of the Senate**

Senator Philip E. Berger

Co-Chair

Senator Thomas M. Apodaca

Acting Co-Chair

Senator Peter S. Brunstetter

Senator Linda D. Garrou

Senator Martin L. Nesbitt, Jr.

Senator Richard Y. Stevens

**Speaker of the House of Representatives**

Representative Thomas R. Tillis

Co-Chair

Representative Timothy K. Moore

Acting Co-Chair

Representative John M. Blust

Representative Justin P. Burr

Representative Mike D. Hager

Representative Edith D. Warren



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## PREFACE

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The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is co-chaired by the President Pro Tempore of the Senate and the Speaker of the House of Representatives and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigation into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission authorized the study of Property Insurance Rate Making, under authority of G.S. 120-30.17(1). The Committee was chaired by Senator Harry Brown and Representative Jerry Dockham, Co-Chairs of the Committee. The full membership of the Committee is listed under [Committee Membership](#). A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the **2011-2012** biennium.

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## COMMITTEE PROCEEDINGS

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The Legislative Research Commission's Committee on Property Insurance Rate Making met 4 times after the 2011 Regular Session. The Committee's Charge can be found [here](#). The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library.

### November 2, 2011

- Tim Hovis, Staff Attorney, Research Division, gave an overview of the proposed budget and Legislative Research Commission rules and reporting requirements.
- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau ("Rate Bureau"), presented information on the general operations of the Rate Bureau and the process used by the Rate Bureau to file rates with the North Carolina Department of Insurance (NCDOI).
- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, provided a brief history of property and casualty insurance rate making in North Carolina and summarized the role of NCDOI in the rate making process.
- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), gave background on the Beach and Fair Plans including: rate making by the Rate Bureau, conditions under which a surcharge may be assessed to a property owner, Plan market share, and premiums charged by the Plans.

### December 1, 2011

- Ray Evans, General Manager, North Carolina Rate Bureau, continued the November Rate Bureau presentation by providing further details on the role of the Rate Bureau. Mr. Evans also explained the rate making formula and briefly went through the modeling used to calculate catastrophic events. Mr. Evans also reviewed property territories.
- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau, supplied additional information on the residential property insurance market, including data on deductibles and Rate Bureau membership.

- Shantelle Thomas, Chair, Property Insurance Committee of North Carolina Rate Bureau and Senior Actuary for Allstate Insurance, made a presentation on catastrophe models and their role in damage estimations.
- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, detailed the elements of premium determination and factors in rate and premium setting. Ms. Vaughn-Williams also explained the 2008 Rate Bureau homeowners filing, which resulted in a settlement.
- Susan Valauri, Senior Director of Government Relations, Nationwide Mutual Insurance Company, gave a presentation depicting catastrophic events in North Carolina occurring in the year 2011. She expressed concerns over the large impact the storms had on insurance carriers and on the property insurance climate in the State.
- Steve Carroll, Vice President and General Manager, Farm Bureau Mutual Insurance Company, expressed concerns over inland storms as well as coastal storms and their impact on carriers. Mr. Carroll explained that his company has had to cancel a large number of property policies statewide because the premium amount is too low.
- Don Griffin, Vice President, Personal Lines, Property Casualty Insurers Association of America, discussed House Bill 1305: Beach Plan Changes (2009) as well as the issues of territorial rating, risk-based pricing and the Rate Bureau's impact on property insurance rates.
- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), explained the commission's structure and the certification process required for agents working through the Associations.
- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, questioned whether the State was using the best system for setting property insurance rates. Her concerns included the Rate Bureau, the adequacy of the Commissioner of Insurance's role, and modeling processes.
- Robert Privott, Director of Codes and Construction, North Carolina Home Builder's Association, offered background on the State's building codes and highlighted recent changes to the residential building code.
- Tyler Newman, Governmental Affairs Director, Business Alliance for a Sound Economy, provided a comparison of his Wilmington homeowner's policy with those of a Raleigh homeowner's policy along with a list of recommendations to the Committee.

### March 21, 2012

- Wayne Goodwin, Commissioner, North Carolina Department of Insurance, brought various recommendations to the Committee involving the following topics; transparency in rate filing, modeling, rating territories, authority of the Commissioner regarding rate setting, the Beach Plan, and tax credits for new property insurance business.
- Nancy Watkins, Principal and Consulting Actuary, Milliman, Inc., made a presentation regarding the impact of the House Bill 1305: Beach Plan Changes, as well as overall Beach Plan exposure. Ms. Watkins also analyzed the effect of the rate making process on the Beach Plan.
- Willo Kelly, President, NC-20, spoke about tax-free bonding to manage calculated losses, creating various deductibles (named stormed vs. hurricane), and a statewide catastrophe fund.
- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, discussed concerns regarding whether the State was using the best system for setting property insurance rates and offered various suggestions for consideration by the Committee.
- Tim Hovis, Staff Attorney, Research Division, reviewed recommendations the Committee had heard over the course of its meetings. The Committee discussed proposed recommendations and agreed upon options to pursue.

### April 12, 2012

- The Committee reviewed its report to the 2012 Session and approved the report for submission to the Legislative Research Commission.

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## FINDINGS AND RECOMMENDATIONS

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### BRIEF OVERVIEW OF CURRENT LAW

#### *Standard Market*

Article 36 of Chapter 58 requires the N.C. Rate Bureau to file jointly for all insurers the proposed rates and rating plans for insurance against loss to residential real property. Within 50 days of the filing, the Commissioner may give written notice to the Bureau specifying in what respect the Commissioner believes the filing fails to comply with the Article and fixing a date for a hearing. If no notice of hearing is issued by the Commissioner within 50 days, the rate is deemed to be approved. If notice is given, the hearing must be held not less than 30 days from the date of the notice. The burden of proving that the rate meets the necessary standard of not being "excessive, inadequate, or unfairly discriminatory" is on the Rate Bureau. When deciding upon a rate, due consideration must be given to a number of factors including actual and prospective loss and expense experience within the State, the hazards of catastrophe, and a reasonable margin for underwriting profit. Companies may deviate downward from the approved rate. A rate up to 250% above the approved Bureau rate may also be charged, but only with the written consent of the policyholder. This is known as "consent to rate." The Commissioner has the authority to approve or disapprove the rate submitted in the filing, but does not have the authority to specify a rate other than the filed rate.

#### *Beach Plan*

The North Carolina Insurance Underwriting Association (NCIUA), known as the Beach Plan, provides property insurance for those homeowners in the beach and coastal areas of the State who are unable to purchase insurance through the standard or voluntary market. The Beach Plan is not a State entity, but is made up of all insurers authorized to write property and casualty insurance in the State. By statute, the Beach Plan covers two areas: (1) the barrier islands, referred to under the Plan as the beach area; and (2) 18 coastal counties, referred to as the coastal area. The Beach Plan offers homeowners, dwelling, and wind only coverage in the beach area, and homeowners and wind only coverage in the coastal area.

For certain residential policies, the Plan charges the standard market rate approved by the Commissioner, plus a differential or surcharge for wind and hail coverage. The surcharge is a percentage amount above the voluntary market rate approved by the Commissioner which all beach and coastal property owners must pay to purchase coverage through the Plan. By statute, the surcharge is 5% above the approved voluntary rate for separate wind and hail coverage, and 15% for wind and hail coverage as a part of a homeowner's policy purchased through the Plan.

Member companies share in the expenses and losses of the Plan. If the Plan generates surplus revenues in excess of claims paid, this surplus must be retained by the Plan and, by law, cannot be distributed to the member companies. Any accumulated surplus may then be used to cover Plan losses in those years in which claims filed are greater than premiums received.

If claims exceed Beach Plan premium revenues, retained surplus, and any applicable reinsurance purchased by the Plan, member companies are assessed by the Plan to pay claims. When assessments against insurers exceed \$1B, the Association may, subject to verification of the amount of losses and expenses by the Commissioner, institute a catastrophe recovery charge on residential and commercial policyholders statewide to finance the remaining losses. This recovery charge, as prescribed by the Commissioner, shall not exceed an aggregate amount of 10% of the annual policy premium on any one policy of insurance.

## BACKGROUND

*(The following is a brief discussion of issues discussed by the Committee. Detailed minutes of the Committee's meetings, including written remarks and handouts, are available in the Legislative Library.)*

Over the course of four meetings, the Committee heard a number of presentations from representatives of the insurance industry, policyholder groups, the Department of Insurance, the North Carolina Rate Bureau and the North Carolina Joint Underwriting Association (NCJUA, also known as the Beach Plan). **Ms. Rose Vaughn-Williams, Legislative Counsel, Department of Insurance**, noted a number of factors submitted for consideration by the Rate Bureau to the Department in a rate filing. These factors include modeled and non-modeled losses, reinsurance costs, agents' commissions, the number of discounts given, fixed expenses, and profits. As noted by Ms. Williams, when reviewing a filing, the Department may not agree with the factors submitted by the Bureau or the weight attributed to a specific factor by the Bureau.

A number of the rating factors submitted by the Bureau raise concern among policyholders, particularly residential policyholders in the beach and coastal territories of the state. Of particular concern are modeled losses and reinsurance costs. With regard to modeled losses, **Ms. Kathleen Riely, Governmental Affairs Director, Wilmington Association of Realtors**, objected to the use of only one catastrophe model skewed, in her opinion, to justify higher coastal rates. Ms. Riely asked that additional models or a combination of models be required in rate filings. On the issue of reinsurance, **Ms. Willo Kelly, President, NC-20**, noted that, while profits of the Beach Plan are by law retained by the Plan and are no longer distributed to companies, the increasing dependence of the Beach Plan on the purchase of reinsurance was depleting Beach Plan reserves or surplus and may ultimately render the Beach Plan financially unstable. Of concern to Ms. Kelly, Ms. Riely and other beach and coastal representatives was the use of modeling and reinsurance costs to justify increasing premiums and rate increases in the beach and coastal areas, particularly when these increases in eastern territories were juxtaposed with

rate stability and even rate decreases in other areas of the State. Those expressing concern over rate hikes and premium increases asked for consideration of a number of reforms, including the issuance of tax-free bonds by the Beach Plan, the creation of a catastrophe fund, an overhaul of the current rate making system, increased public participation in rate making, recognition of building code changes in eastern territories of the State, and other institutional reforms.

Insurers sounded a common theme when speaking to the Committee. **Ms. Susan Valauri, Senior Director, Governmental Relations, Nationwide Insurance**, maintained that the State's property insurance market is a volatile and catastrophe prone market in which rates are too low to allow for adequate profit. **Mr. Don Griffin, Vice-President, Personal Lines, Property Casualty Insurance of America**, maintained that rates in the State are as much as 15-20% lower than in other states. Insurers pointed to inadequate rates as the main reason for their refusal to write new policies and their decision to non-renew existing policies in the beach and coastal areas. Citing his company's plans to eliminate up to 20% of their total policies statewide, **Mr. Steve Carroll, Vice-President, General Manager, Farm Bureau Mutual Insurance Company**, noted that, while the major areas of concern remain the beach and coastal areas, concern has begun to move inland as tornadoes and hailstorms affect areas west of the coast. Ms. Valauri also noted the increased risk posed in inland areas. Other reasons cited by insurers for their decision to refuse new coverage and to non-renew existing coverage include the unreliability of investment income in today's economy and the exposure of companies to \$1 billion dollars in non-recoupable assessments under the State's Beach Plan. **Ms. Nancy Watkins, Principal, Milliman, Inc.**, speaking on behalf of Property Casualty Insurance of America, maintained that inadequate pricing in the beach and coastal areas increases the risk of an assessment under the Beach Plan and poses a significant financial risk to companies. Ms. Watkins also noted the need for a market driven approach to rate making rather than the current system and also expressed support for territorial deviations, and explicit recognition of reinsurance costs.

**The Honorable Wayne Goodwin, Insurance Commissioner**, stressed the importance of addressing problems in the homeowners' insurance market, particularly in the beach and coastal areas of the State. Commissioner Goodwin pointed out that, as Insurance Commissioner, he must protect consumers from excessive, inadequate, and unfairly discriminatory rates. However, he is also required to ensure that companies have the opportunity to make a fair and reasonable profit. His goal is to have more companies providing coverage in the beach and coastal areas and reduce homeowners' reliance in these areas on the Beach Plan. The Commissioner's recommendations to the Committee include the following: (1) requiring more outcomes when a catastrophe model is used to provide to project losses; (2) requiring specific cost data when reinsurance costs are included in rate calculations; (3) designation of public comments periods before rate hearings; (4) granting the Commissioner the authority to select a rate based on the evidence submitted in a rate filing, not just accept or reject the rate filed by the Rate Bureau; (5) expanding the number of rating territories along the coast; (6) further study of options other than reinsurance to deal with catastrophic or multiple storms, including tax exempt bonds; (7) tax credits for insurers writing new full coverage in the beach and coastal areas.

## **FINDINGS AND RECOMMENDATIONS**

The Committee discussed the presentations above, including recommendations offered by the Commissioner and others, and approved the following findings and recommendations:

### ***RECOMMENDATION I***

The current law governing property insurance rate making gives the Commissioner authority to either accept or reject a rate filed by the Rate Bureau. The Commissioner lacks the authority to set a rate between the current rate and the rate filed. Furthermore, the Commissioner is unable to order a decrease in the current rate, if the evidence supports such a change.

At a time when insurers maintain rates are inadequate and property owners in the beach and coastal areas of the state oppose rate increases, the Committee finds that the Commissioner should be given greater flexibility and discretion in the rate making process. The Committee recommends legislation giving the Commissioner authority to select the appropriate rate based on the evidence, not just accept or reject the rate submitted by the Rate Bureau. (See Appendix D, Section 4 of proposed legislation)

### ***RECOMMENDATION II***

As evidenced by the discussion in Committee, the use of catastrophe modeling as a factor in property insurance rate filings is the subject of much debate. Insurers maintain that catastrophe models incorporate years of historical data and are the best way to achieve credible estimates of losses due to hurricanes. Property owners believe these models are often skewed to justify higher beach and coastal rates and are suspect of a model's relevance to actual losses in N.C. given recent premium and rate increases in beach and coastal areas juxtaposed with decreases in many areas west of the coast. The Commissioner in his remarks asked for more information on the estimated loss resulting from each of the more than 50,000 hurricanes simulated in a given model.

The Committee finds that more information about the specific model used in a rate filing submitted by the Bureau to the Commissioner is needed. Moreover, specific information concerning a simulated loss should be provided. To facilitate this, the Committee recommends legislation to do the following:

- Require a prehearing prior to a rate hearing giving the Department the authority to see and review all materials and documents pertinent to the catastrophe model or models used in a rate filing. The confidentiality of these materials and documents should be protected and the prehearing closed to the public. (See Appendix D, Section 4 of proposed legislation)
- Require any simulated loss from a catastrophe model to included specific information such as annual probability, the amount of N.C. damages before and after the application of any deductible, specific information concerning first N.C.



landfall or entry, windspeed, and other information. (See Appendix D, Section 5 of proposed legislation)

- Require the Bureau to submit data from more than one catastrophe model in a rate filing if modeled losses are used, in response to arguments that certain models may be skewed to justify higher beach and coastal rates. (See Appendix D, Section 4 of proposed legislation)

### ***RECOMMENDATION III***

The increasing cost of reinsurance is often cited by the Bureau as a contributing factor in filings for rate increases and a reason many insurers cannot afford to write coverage in the beach and coastal areas. The Department maintains, however, that insurers provide insufficient data on the cost of reinsurance in rate filings. According to the Department, they are unable to determine if reinsurance costs are reasonable for the specific coverage which is the subject of a requested rate increase.

The Committee finds that more information on the cost of reinsurance is needed. The Committee recommends legislation requiring information on the costs of reinsurance specific to N.C. and the line of business for which the filing is being made to be submitted in a rate filing. (See Appendix D, Section 5 of proposed legislation)

### ***RECOMMENDATION IV***

As noted by several presenters, including the Commissioner, the public should be given input in property insurance rate filings. Often the public bears the burden of paying increasing property insurance premiums, but has no official venue in which to express their support of or objection to a specific filing. The current Commissioner has provided for public comment periods prior to giving notice of a rate hearing. However, no statutory requirement for such a public comment period exists.

To ensure that all future Commissioners will provide for and accept public input, the Committee finds a public comment period should be designated in statute by the General Assembly. The Committee recommends legislation requiring the Department to accept public comments prior to a notice of hearing in a property insurance rate filing. (See Appendix D, Section 4 of proposed legislation)

### ***RECOMMENDATION V***

S.L. 2009-472 (House Bill 1305) amended G.S. 58-36-10 to direct the NC Rate Bureau to revise, monitor and review existing territorial boundaries to ensure that policyholders in the beach and coastal areas are charged premiums that are commensurate with the risk of loss and that are actuarially correct. Any proposed change in territories under this section is subject to the Commissioner's approval. Since this language was enacted, the Bureau has not reported to the Department on any changes or requested approval of any changes by the Department.

Several presenters, including the Commissioner and insurers, expressed support for a study of possible changes to the territorial boundaries. The Committee finds that territorial boundaries, and the rates approved for certain territories, may not in all cases accurately reflect the risk associated with each area. Furthermore, new technology and data sources may make alternatives to the geographic territory system possible. While this issue is particularly important in the beach and coastal areas of the State, any study of the territorial boundaries should not be limited to just the beach and coastal areas, but should include the entire State.

The Committee recommends that the Rate Bureau, with the assistance of the Department, study these issues and report on any recommendations for change to the 2013 General Assembly. (See Appendix D, Section 6 of proposed legislation)

#### ***RECOMMENDATION VI***

In its discussions, Committee members voiced the frustration of their constituents who are unable to obtain a homeowner's fire policy without wind and hail coverage. These constituents, who live primarily in the beach and coastal areas, are willing to personally assume the risk for loss due to wind and hail in hopes of being able to afford coverage insuring them against other risks. However, many companies refuse to provide this type of coverage.

The Committee agrees and finds that, in light of increasing premiums, insurers should offer a residential fire policy that excludes wind coverage to those property owners willing to assume the risk for wind losses. Accordingly, the Committee recommends legislation requiring the Bureau to develop for approval by the Commissioner a policy form that provides residential property insurance coverage without the coverage for the perils of windstorm or hail. (See Appendix D, Sections 2 and 3 of proposed legislation)

#### ***RECOMMENDATION VII***

The Committee understands that the issues surrounding property insurance rate making are difficult and complex. As noted in this report, several issues discussed by the Committee require additional analysis and discussion which time did not permit prior to the 2012 Session of the General Assembly. These issues include the issuance of tax exempt bonds by the Beach Plan, the creation of a catastrophe fund, reforms to the current rate making system, tax credits to insurers for writing new coverage in the beach and coastal areas, the creation of a citizens' review board or other public body to participate in rate filings, changes to deductibles, and the effect of hazards and catastrophes in inland areas of the State on property insurance. These are only some of the remaining issues.

In light of these issues, the Committee recommends that the General Assembly continue the study of property insurance rate making for possible recommendations to the 2013 General Assembly.

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## COMMITTEE MEMBERSHIP

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2011-2012

**President Pro Tempore of the Senate**  
**Appointments:**

Senator Harry Brown, Co-Chair

Senator Thomas Apodaca  
Senator Ralph Hise  
Senator Wesley Meredith  
Senator Stanford White

**Speaker of the House of Representatives**  
**Appointments:**

Representative Jerry Dockham, Co-Chair

Representative Frank Iler  
Representative Jonathan Jordan  
Representative Patricia McElraft  
Representative Michael Wray

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## COMMITTEE CHARGE

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**Property Insurance Rate Making** – Study the adequacy of citizen input in property insurance rate making and the manner in which property insurance rates are proposed, reviewed, approved, and appealed. Specifically, the subcommittee may study the following:

- (1) The feasibility and advisability of replacing the North Carolina Rate Bureau with a market based rate setting system or with a regulatory commission similar to the North Carolina Utilities Commission.
- (2) The adequacy under current law of legislative oversight of the Rate Bureau, the North Carolina Joint Underwriting Association, and the North Carolina Insurance Underwriting Association.
- (3) The adequacy under current law of Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate, or unfairly discriminatory rates.
- (4) Whether North Carolina citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.
- (5) The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss costs made by the Rate Bureau.
- (6) Whether information provided to the public by the Commissioner and the Rate Bureau is adequate to allow reasoned review by interested citizens of the assumptions, modeling, and processes used in setting rates.

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## STATUTORY AUTHORITY

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### NORTH CAROLINA GENERAL STATUTES ARTICLE 6B.

#### **Legislative Research Commission.**

##### **§ 120-30.17. Powers and duties.**

The Legislative Research Commission has the following powers and duties:

- (1) Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.
- (2) To report to the General Assembly the results of the studies made. The reports may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations.
- (3), (4) Repealed by Session Laws 1969, c. 1184, s. 8.
- (5), (6) Repealed by Session Laws 1981, c. 688, s. 2.
- (7) To obtain information and data from all State officers, agents, agencies and departments, while in discharge of its duty, pursuant to the provisions of G.S. 120-19 as if it were a committee of the General Assembly.
- (8) To call witnesses and compel testimony relevant to any matter properly before the Commission or any of its committees. The provisions of G.S. 120-19.1 through G.S. 120-19.4 shall apply to the proceedings of the Commission and its committees as if each were a joint committee of the General Assembly. In addition to the other signatures required for the issuance of a subpoena under this subsection, the subpoena shall also be signed by the members of the Commission or of its committee who vote for the issuance of the subpoena.
- (9) For studies authorized to be made by the Legislative Research Commission, to request another State agency, board, commission or committee to conduct the study if the Legislative Research Commission determines that the other body is a more appropriate vehicle with which to conduct the study. If the other body agrees, and no legislation specifically provides otherwise, that body shall conduct the study as if the original authorization had assigned the study to that body and shall report to the General Assembly at the same time other studies to be conducted by the Legislative Research Commission are to be reported. The other agency shall conduct the transferred study within the funds already assigned to it.

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## LEGISLATIVE PROPOSALS

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GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2011

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BILL DRAFT 2011-MHz-92 [v.2] (03/26)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)  
4/2/2012 12:46:26 PM

Short Title: Improve Property Insurance Rate making.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED  
2 AN ACT, AS RECOMMENDED BY THE LEGISLATIVE RESEARCH  
3 COMMISSION COMMITTEE ON PROPERTY INSURANCE RATE  
4 MAKING, TO IMPROVE THE RATE MAKING PROCESS AND THE  
5 AFFORDABILITY OF PROPERTY INSURANCE FOR LOW INCOME  
6 HOMEOWNERS BY REQUIRING THAT MORE THAN ONE  
7 CATASTROPHE MODEL BE USED TO ESTIMATE POTENTIAL LOSSES  
8 FOR PURPOSES OF A RATE FILING; AND BY REQUIRING THAT THE  
9 RATE BUREAU CREATE A RATING PLAN FOR A PROPERTY  
10 INSURANCE POLICY THAT EXCLUDES COVERAGE FOR THE PERILS  
11 OF WINDSTORM AND HAIL; AND BY REQUIRING THE  
12 DEPARTMENT OF INSURANCE TO ACCEPT PUBLIC COMMENT ON  
13 ALL PROPERTY INSURANCE RATE FILINGS; AND BY PROVIDING  
14 FOR A PREHEARING CONFERENCE FOR THE COMMISSIONER OF  
15 INSURANCE TO SCRUTINIZE CATASTROPHE MODELING WHEN  
16 SUCH MODELING IS THE BASIS FOR ANY FACTOR IN A RATE  
17 FILING FOR WHICH THE COMMISSIONER HAS ISSUED A NOTICE OF  
18 HEARING; AND BY PROVIDING THE COMMISSIONER WITH THE  
19 POWER TO SPECIFY THE APPROPRIATE RATE LEVEL OR LEVELS  
20 UPON A FINDING THAT A RATE FILING DOES NOT COMPLY WITH  
21 APPLICABLE LAW; AND BY REQUIRING THAT, WHEN THE COST OF

1 REINSURANCE IS INCLUDED AS A FACTOR IN A PROPOSED RATE,  
2 CERTAIN SUPPORTING INFORMATION BE PROVIDED AND THAT  
3 THE FILING INCLUDE ONLY THE REINSURANCE COST SPECIFIC TO  
4 PROPERTY INSURANCE LOSSES IN NORTH CAROLINA; AND BY  
5 REQUIRING THAT THE RATE BUREAU AND THE DEPARMENT OF  
6 INSURANCE STUDY THE FAIRNESS AND EFFICACY OF THE  
7 CURRENT PROPERTY INSURANCE GEOGRAPHIC RATE  
8 TERRITORIES.

9 The General Assembly of North Carolina enacts:

10 **SECTION 1.** G.S. 58-36-10(3) reads as rewritten:

11 **"§ 58-36-10. Method of rate making; factors considered.**

12 The following standards shall apply to the making and use of rates:

- 13 (1) Rates or loss costs shall not be excessive, inadequate or unfairly  
14 discriminatory.
- 15 (2) Due consideration shall be given to actual loss and expense  
16 experience within this State for the most recent three-year period  
17 for which that information is available; to prospective loss and  
18 expense experience within this State; to the hazards of  
19 conflagration and catastrophe; to a reasonable margin for  
20 underwriting profit and to contingencies; to dividends, savings,  
21 or unabsorbed premium deposits allowed or returned by insurers  
22 to their policyholders, members, or subscribers; to investment  
23 income earned or realized by insurers from their unearned  
24 premium, loss, and loss expense reserve funds generated from  
25 business within this State; to past and prospective expenses  
26 specially applicable to this State; and to all other relevant factors  
27 within this State: Provided, however, that countrywide expense  
28 and loss experience and other countrywide data may be  
29 considered only where credible North Carolina experience or  
30 data is not available.
- 31 (3) In the case of property insurance rates under this Article, consideration  
32 may be given to the experience of property insurance business during  
33 the most recent five-year period for which that experience is available.  
34 In the case of property insurance rates under this Article, consideration  
35 shall be given to the insurance public protection classifications of fire  
36 districts established by the Commissioner. The Commissioner shall  
37 establish and modify from time to time insurance public protection  
38 districts for all rural areas of the State and for cities with populations  
39 of 100,000 or fewer, according to the most recent annual population  
40 estimates certified by the State Budget Officer. In establishing and  
41 modifying these districts, the Commissioner shall use standards at least  
42 equivalent to those used by the Insurance Services Office, Inc., or any  
43 successor organization. The standards developed by the Commissioner  
44 are subject to Article 2A of Chapter 150B of the General Statutes. The

insurance public protection classifications established by the Commissioner issued pursuant to the provisions of this Article shall be subject to appeal as provided in G.S. 58-2-75, et seq. The exceptions stated in G.S. 58-2-75(a) do not apply. If the Rate Bureau presents any modeled losses with a property insurance rate filing, the Bureau shall present data from more than one catastrophe model.

SECTION 2. Article 36 of Chapter 58 of the General Statutes is amended by adding a new section to read:

**"§ 58-36-42. Development of policy form or endorsement for residential property insurance that does not include coverage for perils of windstorm or hail.**

With respect to residential property insurance under its jurisdiction, the Bureau shall develop an optional policy form or endorsement to be filed with the Commissioner for approval that provides residential property insurance coverage without coverage for the perils of windstorm or hail. Insurers that sell such policies shall comply with the provisions of G.S. 58-44-60 and through such compliance shall be deemed to have given notice to all insured and persons claiming benefits under such policies that such policies do not include coverage for the perils of windstorm or hail."

SECTION 3. G.S. 58-44-60 reads as rewritten:

**"§ 58-44-60. Notice to property insurance policyholder about flood, earthquake, mudslide, mudflow, ~~and~~ landslide, and windstorm or hail insurance coverage.**

(a) Every insurer that sells residential or commercial property insurance policies that do not provide coverage for the perils of flood, earthquake, mudslide, mudflow, ~~or~~ landslide or windstorm or hail shall, upon the issuance and renewal of each policy, identify to the policyholder which of these perils are not covered under the policy. The insurer shall print the following warning, citing which peril is not covered, in Times New Roman 16-point font or other equivalent font and include it in the policy on a separate page immediately before the declarations page:

"WARNING: THIS PROPERTY INSURANCE POLICY DOES NOT PROTECT YOU AGAINST LOSSES FROM [FLOODS], [EARTHQUAKES], [MUDSLIDES], [MUDFLOWS], [~~LANDSLIDES~~].—[LANDSLIDES], [WINDSTORM OR HAIL]. YOU SHOULD CONTACT YOUR INSURANCE COMPANY OR AGENT TO DISCUSS YOUR OPTIONS FOR OBTAINING COVERAGE FOR THESE LOSSES. THIS IS NOT A COMPLETE LISTING OF ALL OF THE CAUSES OF LOSSES NOT COVERED UNDER YOUR POLICY. YOU SHOULD READ YOUR ENTIRE POLICY TO UNDERSTAND WHAT IS COVERED AND WHAT IS NOT COVERED."

(b) As used in this section, "insurer" includes an entity that sells property insurance under Articles 21, 45, or 46 of this Chapter."

SECTION 4. G.S. 58-36.20 reads as rewritten:



1 **"§ 58-36-20. Disapproval; hearing, order; adjustment of premium, review of**  
2 **filing.**

3 ~~(a) At any time within 50 days after the date of any filing, the~~  
4 ~~Commissioner may give written notice to the Bureau specifying in what respect~~  
5 ~~and to what extent the Commissioner contends the filing fails to comply with the~~  
6 ~~requirements of this Article and fixing a date for hearing not less than 30 days~~  
7 ~~from the date of mailing of such notice. With respect to any property insurance~~  
8 ~~rate filing, except as provided in G.S. 58-36-25, or any Workers' Compensation~~  
9 ~~loss cost filing, a filing made by the Bureau under G.S. 58-36-15 is not effective~~  
10 ~~until approved by the Commissioner or unless 50 days have elapsed since the~~  
11 ~~making of a proper filing under that subsection and the Commissioner has not~~  
12 ~~called for a hearing on the filing. If the Commissioner calls for a hearing, he must~~  
13 ~~give written notice to the Bureau, specify in the notice in what respect the filing~~  
14 ~~fails to comply with this Article, and fix a date for the hearing that is not less than~~  
15 ~~30 days from the date the notice is mailed. Once begun, hearings must proceed~~  
16 ~~without undue delay. At the hearing the burden of proving that the proposed rates~~  
17 ~~or loss costs are not excessive, inadequate, or unfairly discriminatory is on the~~  
18 ~~Bureau. At the hearing the factors specified in G.S. 58-36-10 shall be considered.~~  
19 ~~If the Commissioner after hearing finds that the filing does not comply with the~~  
20 ~~provisions of this Article, he may issue his order determining wherein and to what~~  
21 ~~extent such filing is deemed to be improper and fixing a date thereafter, within a~~  
22 ~~reasonable time, after which the filing shall no longer be effective. Any order~~  
23 ~~issued after a hearing shall be issued within 45 days after the completion of the~~  
24 ~~hearing. If no order is issued within 45 days after the completion of the hearing,~~  
25 ~~the filing shall be deemed to be approved.~~

26 ~~(b) In the event that no notice of hearing shall be issued within 50 days~~  
27 ~~from the date of any such filing, the filing shall be deemed to be approved. If the~~  
28 ~~Commissioner disapproves such filing pursuant to subsection (a) as not being in~~  
29 ~~compliance with G.S. 58-36-10, he may order an adjustment of the premium to be~~  
30 ~~made with the policyholder either by collection of an additional premium or by~~  
31 ~~refund, if the amount exceeds five dollars (\$5.00). The Commissioner may~~  
32 ~~thereafter review any filing in the manner provided; but if so reviewed, no~~  
33 ~~adjustment of any premium on any policy then in force may be ordered.~~

34 ~~(c) For workers' compensation insurance and employers' liability insurance~~  
35 ~~written in connection therewith, the period between the date of any filing and the~~  
36 ~~date the Commissioner may give written notice as described in subsection (a) of~~  
37 ~~this section and the period between the date of any filing and the deadline for~~  
38 ~~giving notice of hearing as described in subsection (b) of this section shall be 60~~  
39 ~~days.~~

40 (d) All property insurance rate filings shall be open to the public except as  
41 provided in this Article where necessary to maintain the confidentiality of certain  
42 testimony. At least thirty (30) days before a notice of hearing issues the  
43 Department shall accept comments from the public regarding a property insurance

1 rate filing. The comments may be provided to the Department by email, mail, or  
2 in person at a time and place set by the Department. All public comments shall be  
3 shared with the Rate Bureau in a timely manner. Only comments from the public  
4 that are made a part of the Notice of Hearing may be considered by the  
5 Commissioner or his designated hearing officer during the hearing.

6 (e) With respect to any property insurance rate filing, except as provided in  
7 G.S. 58-36-30, where a catastrophe model is used in the calculation for any factor  
8 in the filing and where the Commissioner has called for a hearing, the hearing  
9 process shall proceed as follows:

10 (1) No earlier than 30 days after a Notice of Hearing is issued, the  
11 Commissioner shall schedule a prehearing which may be  
12 attended only by the parties to the case and any experts who will  
13 present testimony regarding the catastrophe model or models  
14 used in the filing. The prehearing shall be called solely for the  
15 purpose of providing the Department and its expert witnesses  
16 with the opportunity to see and review all materials and  
17 documents pertinent to the catastrophe model or models used in  
18 the property rate filing. Because the materials and documents  
19 subject to discovery may be confidential in nature, the prehearing  
20 shall be closed to the public. The Commissioner shall preside  
21 over the prehearing and shall resolve any disputes that arise  
22 between the parties. A proper record shall be kept at the  
23 prehearing and said record shall be treated as confidential unless  
24 a ruling from a court of competent jurisdiction determines that  
25 the record of the conference shall be available to the public.  
26 Discovery not related to the catastrophe model shall be  
27 conducted pursuant to normal hearing procedures.

28 (2) At the prehearing, the Rate Bureau and its experts shall present  
29 any relevant data, materials, computations, spreadsheets, or  
30 documents regarding the catastrophe model or models which  
31 were excluded from the filing. Copies of all materials presented  
32 at the prehearing shall be provided to the Department and its  
33 experts for further analysis. Any materials provided at the  
34 prehearing to the Department and its experts that is marked as  
35 confidential shall be treated as confidential unless a ruling from a  
36 court of competent jurisdiction determines that the materials shall  
37 be available to the public. Based upon the materials presented  
38 both in the filing and at the prehearing, the Department and its  
39 experts may request additional data, materials, computations,  
40 spreadsheets, or documents, or may make specific inquiries that  
41 require a written explanation in order to further understand the  
42 available materials.

- 1           (3) There shall be no limit on the number of discovery materials  
2           requested regarding the catastrophe model. However, the  
3           Commissioner may make a determination at the prehearing  
4           whether the requested materials are relevant, reasonable, and not  
5           unduly burdensome.
- 6           (4) The Commissioner shall set a date by which all discovery  
7           materials regarding the catastrophe model shall be delivered to  
8           the Department. All materials marked by the Rate Bureau as  
9           "confidential" shall be individually numbered by the Rate Bureau  
10          so that they may be referred to by number, if necessary, by the  
11          Commissioner in subsequent documents or orders. The Rate  
12          Bureau shall provide an index of the confidential documents  
13          marked confidential in order that the documents may be easily  
14          identified and referenced in subsequent pleadings, testimony and  
15          orders. All materials marked by the Rate Bureau as "confidential"  
16          shall be treated by the Department and its experts as confidential  
17          unless a ruling from a court of competent jurisdiction determines  
18          that the materials shall be available to the public. Once the  
19          requested discovery materials have been delivered to the  
20          Department as required, the Commissioner may schedule  
21          additional prehearings to address additional discovery materials  
22          that may be requested by the Department. Once all of the  
23          Department's discovery requests related to the catastrophe model  
24          or models have been finalized, the Commissioner shall schedule  
25          a final prehearing conference to ensure that there are no other  
26          discovery issues pending and that both parties are ready to  
27          proceed to hearing. All prehearings shall also be closed to the  
28          public in the event that potentially confidential materials may be  
29          discussed. Any data from catastrophe models that is not disclosed  
30          at the prehearing at least thirty (30) days prior to the submission  
31          of prefiled testimony of Department witnesses shall be  
32          inadmissible at the hearing on the filing.
- 33          (5) Once the discovery process for the catastrophe model has been  
34          completed, the hearing may proceed pursuant to statute. The  
35          Department witnesses shall file all prefiled testimony as required  
36          under G.S. 58-36-15(i). However, any prefiled testimony  
37          regarding the catastrophe model or models used in the filing shall  
38          be filed as a separate document and marked as "confidential."  
39          The prefiled testimony of the Department witnesses relating to  
40          the catastrophe models may contain references to data,  
41          testimony, or exhibits pertaining to confidential materials  
42          submitted by the Rate Bureau, and, therefore, shall be treated as  
43          "confidential" by the Department and its experts unless a ruling

1 from a court of competent jurisdiction determines that the  
2 prefiled testimony shall be made available to the public. All  
3 references to confidential materials used by the Department  
4 witnesses shall utilize the individual identification numbers  
5 assigned by the Rate Bureau in the discovery materials.

6 (6) Prior to commencement of the hearing, the Commissioner shall  
7 determine the order of testimony to be heard at the hearing.  
8 However, any oral testimony taken at the hearing on direct,  
9 cross-examination or on rebuttal with regards to the catastrophe  
10 model will be closed to the public, if necessary, in order to  
11 preserve confidentiality. Transcripts from hearing proceedings  
12 closed to the public shall be treated as "confidential" by the  
13 Department, its experts, and by the court reporters unless a ruling  
14 from a court of competent jurisdiction determines that the  
15 prefiled testimony shall be made available to the public.

16 (7) At the conclusion of the hearing, the Commissioner, in his final  
17 order, shall make his determination as to whether the catastrophe  
18 model is valid for the purpose it was used in the filing, the weight  
19 to be applied to the modeled results, and the extent to which the  
20 results of the model should be modified, if at all.

21 (f) If the Commissioner finds that a filing complies with the provisions of  
22 this Article, either after the hearing or at any other time after the filing has been  
23 properly made, he may issue an order approving the filing. If the Commissioner  
24 after the hearing finds that the filing does not comply with the provisions of this  
25 Article, he may issue an order disapproving the filing, determining in what respect  
26 the filing is improper, and specifying the appropriate rate level or levels that may  
27 be used by the members of the Bureau instead of the rate level or levels proposed  
28 by the Bureau filing, unless there has not been data admitted into evidence in the  
29 hearing that is sufficiently credible for arriving at the appropriate rate level or  
30 levels. Any order issued after a hearing shall be issued within 45 days after the  
31 completion of the hearing. If no order is issued within 45 days after the completion  
32 of the hearing, the filing shall be deemed to be approved. The Commissioner may  
33 thereafter review any filing in the manner provided; but if so reviewed, no  
34 adjustment of any premium on any policy then in force may be ordered. The  
35 escrow provisions of G.S. 58-36-25(b) apply to an appeal of any order of the  
36 Commissioner under this subsection."

37 **SECTION 5. G.S. 58-36-15 reads as rewritten:**

38 **"§ 58-36-15. Filing loss costs, rates, plans with Commissioner; public**  
39 **inspection of filings.**

40 (a) The Bureau shall file with the Commissioner copies of the rates, loss  
41 costs, classification plans, rating plans and rating systems used by its members.  
42 Each rate or loss costs filing shall become effective on the date specified in the  
43 filing, but not earlier than 210 days from the date the filing is received by the

1 Commissioner: Provided that (1) rate or loss costs filings for workers'  
2 compensation insurance and employers' liability insurance written in connection  
3 therewith shall not become effective earlier than 210 days from the date the filing  
4 is received by the Commissioner or on the date as provided in G.S. 58-36-100,  
5 whichever is earlier; and (2) any filing may become effective on a date earlier than  
6 that specified in this subsection upon agreement between the Commissioner and  
7 the Bureau.

8 (b) A filing shall be open to public inspection immediately upon submission  
9 to the Commissioner.

10 (c) The Bureau shall maintain reasonable records, of the type and kind  
11 reasonably adapted to its method of operation, of the experience of its members  
12 and of the data, statistics or information collected or used by it in connection with  
13 the rates, rating plans, rating systems, loss costs and other data as specified in  
14 G.S. 58-36-100, underwriting rules, policy or bond forms, surveys or inspections  
15 made or used by it.

16 (d) With respect to the filing of rates for nonfleet private passenger motor  
17 vehicle insurance, the Bureau shall, on or before February 1 of each year, or later  
18 with the approval of the Commissioner, file with the Commissioner the  
19 experience, data, statistics, and information referred to in subsection (c) of this  
20 section and any proposed adjustments in the rates for all member companies of the  
21 Bureau. The filing shall include, where deemed by the Commissioner to be  
22 necessary for proper review, the data specified in subsections (c), (e), (g) and (h)  
23 of this section. Any filing that does not contain the data required by this subsection  
24 may be returned to the Bureau and not be deemed a proper filing. Provided,  
25 however, that if the Commissioner concludes that a filing does not constitute a  
26 proper filing he shall promptly notify the Bureau in writing to that effect, which  
27 notification shall state in reasonable detail the basis of the Commissioner's  
28 conclusion. The Bureau shall then have a reasonable time to remedy the defects so  
29 specified. An otherwise defective filing thus remedied shall be deemed to be a  
30 proper and timely filing, except that all periods of time specified in this Article  
31 will run from the date the Commissioner receives additional or amended  
32 documents necessary to remedy all material defects in the original filing.

33 (d1) With respect to property insurance rates, the Bureau shall file no later  
34 than May 1, 2010, a schedule of credits for policyholders based on the presence of  
35 mitigation and construction features and on the condition of buildings that it  
36 insures in the beach and coastal areas of the State. The Bureau shall develop rules  
37 applicable to the operation of the schedule and the mitigation program with  
38 approval by the Commissioner. The schedule shall not be unfairly discriminatory  
39 and shall be reviewed by the Bureau annually, with the results reported annually to  
40 the Commissioner.

41 (d2) The following supporting data, at a minimum, shall be included in any  
42 property insurance rate filing where a catastrophe model is used or where a factor

1 for any costs of reinsurance is included in the rate calculations or where both a  
2 catastrophe model and a factor for costs of reinsurance are used.

3 (1) Any simulated loss from a catastrophe model should include the  
4 following:

- 5 a. An event identifier.
- 6 b. The simulation year.
- 7 c. The annual probability of occurrence for the event.
- 8 d. The gross amount of North Carolina damages before  
9 application of any deductible or other applicable policy  
10 provisions that impact the coverage, calculated with and  
11 without any applicable demand surge adjustments.
- 12 e. The net amount of North Carolina insured loss after  
13 application of any deductible or other applicable policy  
14 provisions that impact the coverage, calculated with and  
15 without any applicable demand surge adjustments.
- 16 f. The State and county of first and any subsequent landfalls.
- 17 g. The Saffir-Simpson category at first and any subsequent  
18 landfalls.
- 19 h. The maximum sustained windspeed at first and any  
20 subsequent landfalls.
- 21 i. The North Carolina county of first entry, if applicable,  
22 whether first entry is from water or land.
- 23 j. The Saffir-Simpson category at first entry into North  
24 Carolina, if applicable, whether first entry is from water or  
25 land.
- 26 k. The maximum sustained windspeed at first entry into  
27 North Carolina, if applicable, whether first entry is from  
28 water or land.
- 29 l. For storms with no landfall in North Carolina, the county  
30 of closest approach.
- 31 m. For storms with no landfall in North Carolina, the  
32 Saffir-Simpson Category at closest approach.
- 33 n. For storms with no landfall in North Carolina, the  
34 maximum sustained windspeed at closest approach.
- 35 o. Any other information required by rules promulgated by  
36 the Commissioner.

37 (2) Any factor for cost of reinsurance shall be based upon the  
38 aggregated property reinsurance costs of the member companies  
39 of the Bureau writing property insurance in North Carolina for  
40 the specific lines of insurance covered by the filing. The costs of  
41 reinsurance for the North Carolina Insurance Underwriting  
42 Association and North Carolina Joint Underwriting Association  
43 shall not be considered for any line of property coverage under

the jurisdiction of the Bureau. For each of the member companies, the costs of reinsurance that are specific to North Carolina and the line of business for which the filing is being made must be allocated using an appropriate method that shall be stated along with the applicable provisions for the current reinsurance contract that covers the North Carolina line of business for which the filing is being made. Any filing must also take into account expected recoveries from the reinsurance. Use of a model to make the allocation to the appropriate line of business and state shall not be permissible. The Commissioner may promulgate rules setting forth the information needed to evaluate reinsurance costs as well as the method used to determine the cost of reinsurance allocated to North Carolina.

- (e) The Commissioner may require the filing of supporting data including:
- (1) The Bureau's interpretation of any statistical data relied upon;
  - (2) Descriptions of the methods employed in setting the rates;
  - (3) Analysis of the incurred losses submitted on an accident year or policy year basis into their component parts; to wit, paid losses, reserves for losses and loss expenses, and reserves for losses incurred but not reported;
  - (4) The total number and dollar amount of paid claims;
  - (5) The total number and dollar amount of case basis reserve claims;
  - (6) Earned and written premiums at current rates by rating territory;
  - (7) Earned premiums and incurred losses according to classification plan categories; and
  - (8) Income from investment of unearned premiums and loss and loss expense reserves generated by business within this State.

Provided, however, that with respect to business written prior to January 1, 1980, the Commissioner shall not require the filing of such supporting data which has not been required to be recorded under statistical plans approved by the Commissioner.

(f) On or before September 1 of each calendar year, or later with the approval of the Commissioner, the Bureau shall submit to the Commissioner the experience, data, statistics, and information referred to in subsection (c) of this section and required under G.S. 58-36-100 and a residual market rate or prospective loss costs review based on those data for workers' compensation insurance and employers' liability insurance written in connection therewith. Any rate or loss costs increase for that insurance that is implemented under this Article shall become effective solely to insurance with an inception date on or after the effective date of the rate or loss costs increase.

(g) The following information must be included in policy form, rule, and rate or loss costs filings under this Article and under Article 37 of this Chapter:

- 1 (1) A detailed list of the rates, loss costs, rules, and policy forms
- 2 filed, accompanied by a list of those superseded; and
- 3 (2) A detailed description, properly referenced, of all changes in
- 4 policy forms, rules, prospective loss costs, and rates, including
- 5 the effect of each change.
- 6 (h) Except to the extent the Commissioner determines that this subsection is
- 7 inapplicable to filings made under G.S. 58-36-100 and except for filings made
- 8 under G.S. 58-36-30, all policy form, rule, prospective loss costs, and rate filings
- 9 under this Article and Article 37 of this Chapter that are based on statistical data
- 10 must be accompanied by the following properly identified information:
- 11 (1) North Carolina earned premiums at the actual and current rate
- 12 level; losses and loss adjustment expenses, each on paid and
- 13 incurred bases without trending or other modification for the
- 14 experience period, including the loss ratio anticipated at the time
- 15 the rates were promulgated for the experience period;
- 16 (2) Credibility factor development and application;
- 17 (3) Loss development factor derivation and application on both paid
- 18 and incurred bases and in both numbers and dollars of claims;
- 19 (4) Trending factor development and application;
- 20 (5) Changes in premium base resulting from rating exposure trends;
- 21 (6) Limiting factor development and application;
- 22 (7) Overhead expense development and application of commission
- 23 and brokerage, other acquisition expenses, general expenses,
- 24 taxes, licenses, and fees;
- 25 (8) Percent rate or prospective loss costs change;
- 26 (9) Final proposed rates;
- 27 (10) Investment earnings, consisting of investment income and
- 28 realized plus unrealized capital gains, from loss, loss expense,
- 29 and unearned premium reserves;
- 30 (11) Identification of applicable statistical plans and programs and a
- 31 certification of compliance with them;
- 32 (12) Investment earnings on capital and surplus;
- 33 (13) Level of capital and surplus needed to support premium writings
- 34 without endangering the solvency of member companies; and
- 35 (14) Such other information that may be required by any rule adopted
- 36 by the Commissioner.

37 Provided, however, that no filing may be returned or disapproved on the grounds  
38 that such information has not been furnished if insurers have not been required to  
39 collect such information pursuant to statistical plans or programs or to report such  
40 information to the Bureau or to statistical agents, except where the Commissioner  
41 has given reasonable prior notice to the insurers to begin collecting and reporting  
42 such information, or except when the information is readily available to the  
43 insurers.



(i) The Bureau shall file with and at the time of any rate or prospective loss costs filing all testimony, exhibits, and other information on which the Bureau will rely at the hearing on the rate filing. The Department shall file all testimony, exhibits, and other information on which the Department will rely at the hearing on the rate filing 20 days in advance of the convening date of the hearing. Upon the issuance of a notice of hearing the Commissioner shall hold a meeting of the parties to provide for the scheduling of any additional testimony, including written testimony, exhibits or other information, in response to the notice of hearing and any potential rebuttal testimony, exhibits, or other information. This subsection also applies to rate filings made by the North Carolina Motor Vehicle Reinsurance Facility under Article 37 of this Chapter."

**SECTION 6.** The North Carolina Rate Bureau, with the assistance of the Department of Insurance, shall study the current geographic territories established by the Bureau for rating purposes. The study shall address the following issues:

- (1) Whether risks of the same class and essentially the same hazard are charged premiums that are commensurate with the risk of loss, actuarially correct, and not unfairly discriminatory.
- (2) Whether geographic territories in the beach and coastal areas (as defined in G.S. 58-45-5) currently meet the standards and mandates set forth in G.S. 58-36-10(6).
- (3) Whether current technology and statistical data sources make possible any practical and cost-effective alternative to the geographic territory system for property insurance rate setting.

The Bureau shall submit a final report, including any recommendations for changes to the geographic territories or alternatives to the geographic territory rating system, to the 2013 General Assembly.

**SECTION 7.** Sections 2 and 3 of this act are effective December 1, 2012. Section 6 of this act is effective when it becomes law. The remainder of this act is effective July 1, 2012.

# VISITOR REGISTRATION SHEET

## LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
Joe Taylor	NC Rate Bureau
Michael Strickland	Young, Moore & Henderson
Erin Engle	State Farm
David Stollen	State Farm
DAVID SINK	NC RATE BUREAU
Tim Lucas	NC Rate Bureau
Bill Trotter	Young, Moore
MARK EDWARDS	NC DOT
Edith Davis	NC Rate Bureau

VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
Kim Conyers	Stat = farm
Bill Tibbens	Farmers Group, Inc.
Liz Reynolds	NAMIC
DENNIS BURKE	RAA REINSURANCE ASSN OF AM.
David Horn	SA

VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
ANT LYON	GMA Insurance
<u>Mark Farnigan</u>	Smac Insurance
John McMillan	MSI
Tom Tege	NMRS
Chuck Stone	SEARC
Roger Batdorff	NC Farm Bureau
RAY EVANS	NCRB
REBECCA WILLIAMS	NCRB
Mickey Spivey	Young Moore and Henderson

VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
TYLER NEWMAN	BASE
David McGowan	NCAR
DOUG HERON	WILLIAMS MURKIN
Daniel Bann	TROTTER SANDERS
John Bode	BCS
Ken Melton	K.M.A
Beth Young	FPLC
Al Ripley	NC Justice Ctr
Steve Power	11 AVE

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

**VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK**

[illegible]

VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
<i>Mary E. [unclear]</i>	
<i>Bob [unclear]</i>	<i>Bob [unclear] Asso.</i>
<i>Harry [unclear]</i>	<i>MWC</i>
<i>Jh Peters</i>	<i>Capstat</i>
<i>Michelle Frazier</i>	<i>MF+S</i>
<i>Sara Fender</i>	<i>IFNC</i>
<i>Winston Morris</i>	<i>Nationwide</i>
<i>Susan Valauri</i>	<i>Nationwide</i>
<i>FRANK FOLGER</i>	<i>NATIONWIDE</i>

VISITOR REGISTRATION SHEET

LRC COMMITTEE ON PROPERTY INSURANCE RATE MAKING

APRIL 12, 2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY & ADDRESS
Robert + Barbara	Young Moore
Bryan Hecker	NCDOI
Bob Mack	NCDOI
Kathleen Rief	URAR
Rose Williams	NCDOI
Celia Zhou	Martin Middle School
Alvin Ashworth	NCJUA/NCIUA
Lee E. Dunn, Jr	NCJUA/NCIUA
Gina Schweitzer	NCJUA/NCIUA





**NORTH CAROLINA GENERAL ASSEMBLY**  
Raleigh, North Carolina 27601

**April 13, 2012**

**MEMORANDUM**

**TO:** Members, LRC Property Insurance Rate Making Committee

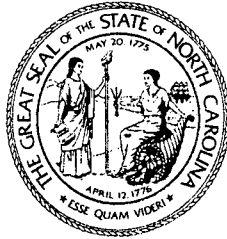
**FROM:** Senator Harry Brown  
Representative Jerry Dockham

**SUBJECT:** Property Insurance Rate Making Committee Final Report Draft

The Final Report Draft is attached.  
Thank you.

Beth LeGrande, 919-733-5746

cc: Committee Record ☒   
Interested Parties ☒



**NORTH CAROLINA GENERAL ASSEMBLY**  
Raleigh, North Carolina 27601

April 16, 2012

**MEMORANDUM**

**TO:** Members, LRC Committee on Property Insurance Rate Making

**FROM:** Senator Harry Brown  
Representative Jerry Dockham

**SUBJECT:** 2012 FINAL REPORT of the Legislative Research Commission's Committee  
on Property Insurance Rate Making

The Draft of the Final Report was sent on Friday, April 13, 2012.

Attached is the FINAL REPORT of the LRC Committee on Property Insurance Rate Making.

If you have any questions, please contact Beth LeGrande at 919-733-5746.

cc: Committee Record   X

# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING


RALEIGH, NC 27601

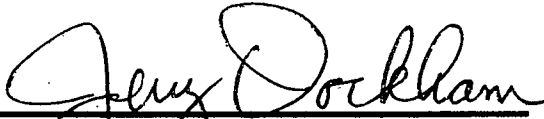


April 12, 2012

TO THE MEMBERS OF THE LEGISLATIVE RESEARCH COMMISSION:

Attached for your consideration is the report to the 2012 Regular Session of the 2011 General Assembly. This report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.17(1).

  
\_\_\_\_\_  
Senator Harry Brown  
Co-Chair

  
\_\_\_\_\_  
Representative Jerry Dockham  
Co-Chair

Co-Chairs  
Committee on Property Insurance Rate Making  
Legislative Research Commission

# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH, NC 27601



April 12, 2012

TO THE MEMBERS OF THE LEGISLATIVE RESEARCH COMMISSION:

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---

Senator Harry Brown  
Co-Chair

---

Representative Jerry Dockham  
Co-Chair

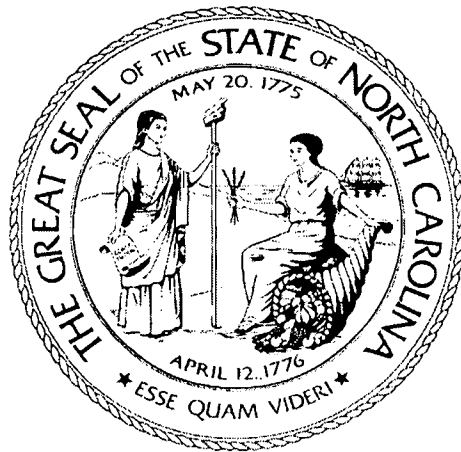
Co-Chairs  
Committee on Property Insurance Rate Making  
Legislative Research Commission

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LEGISLATIVE RESEARCH COMMISSION

**PROPERTY INSURANCE RATE MAKING  
COMMITTEE**

**NORTH CAROLINA GENERAL ASSEMBLY**



**REPORT TO THE  
2012 SESSION  
of the  
2011 GENERAL ASSEMBLY  
OF NORTH CAROLINA**

**MAY 8, 2012**

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## TRANSMITTAL LETTER

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May 8, 2012

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TO THE MEMBERS OF THE 2012 REGULAR SESSION  
OF THE 2011 GENERAL ASSEMBLY

The Legislative Research Commission herewith submits to you for your consideration its report and recommendations to the 2012 Regular Session of the 2011 General Assembly. The report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.70(1).

Respectfully submitted,

---

Senator Philip E. Berger  
President Pro Tempore of the Senate

---

Representative Thomas R. Tillis  
Speaker of the House of Representatives

Co-Chairs  
Legislative Research Commission

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## LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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2011 – 2012

**President Pro Tempore of the Senate**

Senator Philip E. Berger

Co-Chair

Senator Thomas M. Apodaca

Acting Co-Chair

Senator Peter S. Brunstetter

Senator Linda D. Garrou

Senator Martin L. Nesbitt, Jr.

Senator Richard Y. Stevens

**Speaker of the House of Representatives**

Representative Thomas R. Tillis

Co-Chair

Representative Timothy K. Moore

Acting Co-Chair

Representative John M. Blust

Representative Justin P. Burr

Representative Mike D. Hager

Representative Edith D. Warren

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## PREFACE

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The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is co-chaired by the President Pro Tempore of the Senate and the Speaker of the House of Representatives and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigation into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission authorized the study of Property Insurance Rate Making, under authority of G.S. 120-30.17(1). The Committee was chaired by Senator Harry Brown and Representative Jerry Dockham, Co-Chairs of the Committee. The full membership of the Committee is listed under [Committee Membership](#). A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the **2011-2012** biennium.

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## COMMITTEE PROCEEDINGS

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The Legislative Research Commission's Committee on Property Insurance Rate Making met 4 times after the 2011 Regular Session. The Committee's Charge can be found [here](#). The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library.

### November 2, 2011

- Tim Hovis, Staff Attorney, Research Division, gave an overview of the proposed budget and Legislative Research Commission rules and reporting requirements.
- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau ("Rate Bureau"), presented information on the general operations of the Rate Bureau and the process used by the Rate Bureau to file rates with the North Carolina Department of Insurance (NCDOI).
- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, provided a brief history of property and casualty insurance rate making in North Carolina and summarized the role of NCDOI in the rate making process.
- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), gave background on the Beach and Fair Plans including: rate making by the Rate Bureau, conditions under which a surcharge may be assessed to a property owner, Plan market share, and premiums charged by the Plans.

### December 1, 2011

- Ray Evans, General Manager, North Carolina Rate Bureau, continued the November Rate Bureau presentation by providing further details on the role of the Rate Bureau. Mr. Evans also explained the rate making formula and briefly went through the modeling used to calculate catastrophic events. Mr. Evans also reviewed property territories.
- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau, supplied additional information on the residential property insurance market, including data on deductibles and Rate Bureau membership.

- Shantelle Thomas, Chair, Property Insurance Committee of North Carolina Rate Bureau and Senior Actuary for Allstate Insurance, made a presentation on catastrophe models and their role in damage estimations.
- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, detailed the elements of premium determination and factors in rate and premium setting. Ms. Vaughn-Williams also explained the 2008 Rate Bureau homeowners filing, which resulted in a settlement.
- Susan Valauri, Senior Director of Government Relations, Nationwide Mutual Insurance Company, gave a presentation depicting catastrophic events in North Carolina occurring in the year 2011. She expressed concerns over the large impact the storms had on insurance carriers and on the property insurance climate in the State.
- Steve Carroll, Vice President and General Manager, Farm Bureau Mutual Insurance Company, expressed concerns over inland storms as well as coastal storms and their impact on carriers. Mr. Carroll explained that his company has had to cancel a large number of property policies statewide because the premium amount is too low.
- Don Griffin, Vice President, Personal Lines, Property Casualty Insurers Association of America, discussed House Bill 1305: Beach Plan Changes (2009) as well as the issues of territorial rating, risk-based pricing and the Rate Bureau's impact on property insurance rates.
- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), explained the commission's structure and the certification process required for agents working through the Associations.
- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, questioned whether the State was using the best system for setting property insurance rates. Her concerns included the Rate Bureau, the adequacy of the Commissioner of Insurance's role, and modeling processes.
- Robert Privott, Director of Codes and Construction, North Carolina Home Builder's Association, offered background on the State's building codes and highlighted recent changes to the residential building code.
- Tyler Newman, Governmental Affairs Director, Business Alliance for a Sound Economy, provided a comparison of his Wilmington homeowner's policy with those of a Raleigh homeowner's policy along with a list of recommendations to the Committee.

### **March 21, 2012**

- Wayne Goodwin, Commissioner, North Carolina Department of Insurance, brought various recommendations to the Committee involving the following topics; transparency in rate filing, modeling, rating territories, authority of the Commissioner regarding rate setting, the Beach Plan, and tax credits for new property insurance business.
- Nancy Watkins, Principal and Consulting Actuary, Milliman, Inc., made a presentation regarding the impact of the House Bill 1305: Beach Plan Changes, as well as overall Beach Plan exposure. Ms. Watkins also analyzed the effect of the rate making process on the Beach Plan.
- Willo Kelly, President, NC-20, spoke about tax-free bonding to manage calculated losses, creating various deductibles (named stormed vs. hurricane), and a statewide catastrophe fund.
- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, discussed concerns regarding whether the State was using the best system for setting property insurance rates and offered various suggestions for consideration by the Committee.
- Tim Hovis, Staff Attorney, Research Division, reviewed recommendations the Committee had heard over the course of its meetings. The Committee discussed proposed recommendations and agreed upon options to pursue.

### **April 12, 2012**

- The Committee reviewed its report to the 2012 Session and approved the report for submission to the Legislative Research Commission.



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## FINDINGS AND RECOMMENDATIONS

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### BRIEF OVERVIEW OF CURRENT LAW

#### *Standard Market*

Article 36 of Chapter 58 requires the N.C. Rate Bureau to file jointly for all insurers the proposed rates and rating plans for insurance against loss to residential real property. Within 50 days of the filing, the Commissioner may give written notice to the Bureau specifying in what respect the Commissioner believes the filing fails to comply with the Article and fixing a date for a hearing. If no notice of hearing is issued by the Commissioner within 50 days, the rate is deemed to be approved. If notice is given, the hearing must be held not less than 30 days from the date of the notice. The burden of proving that the rate meets the necessary standard of not being “excessive, inadequate, or unfairly discriminatory” is on the Rate Bureau. When deciding upon a rate, due consideration must be given to a number of factors including actual and prospective loss and expense experience within the State, the hazards of catastrophe, and a reasonable margin for underwriting profit. Companies may deviate downward from the approved rate. A rate up to 250% above the approved Bureau rate may also be charged, but only with the written consent of the policyholder. This is known as “consent to rate.” The Commissioner has the authority to approve or disapprove the rate submitted in the filing, but does not have the authority to specify a rate other than the filed rate.

#### *Beach Plan*

The North Carolina Insurance Underwriting Association (NCIUA), known as the Beach Plan, provides property insurance for those homeowners in the beach and coastal areas of the State who are unable to purchase insurance through the standard or voluntary market. The Beach Plan is not a State entity, but is made up of all insurers authorized to write property and casualty insurance in the State. By statute, the Beach Plan covers two areas: (1) the barrier islands, referred to under the Plan as the beach area; and (2) 18 coastal counties, referred to as the coastal area. The Beach Plan offers homeowners, dwelling, and wind only coverage in the beach area, and homeowners and wind only coverage in the coastal area.

For certain residential policies, the Plan charges the standard market rate approved by the Commissioner, plus a differential or surcharge for wind and hail coverage. The surcharge is a percentage amount above the voluntary market rate approved by the Commissioner which all beach and coastal property owners must pay to purchase coverage through the Plan. By statute, the surcharge is 5% above the approved voluntary rate for separate wind and hail coverage, and 15% for wind and hail coverage as a part of a homeowner's policy purchased through the Plan.

Member companies share in the expenses and losses of the Plan. If the Plan generates surplus revenues in excess of claims paid, this surplus must be retained by the Plan and, by law, cannot be distributed to the member companies. Any accumulated surplus may then be used to cover Plan losses in those years in which claims filed are greater than premiums received.

If claims exceed Beach Plan premium revenues, retained surplus, and any applicable reinsurance purchased by the Plan, member companies are assessed by the Plan to pay claims. When assessments against insurers exceed \$1B, the Association may, subject to verification of the amount of losses and expenses by the Commissioner, institute a catastrophe recovery charge on residential and commercial policyholders statewide to finance the remaining losses. This recovery charge, as prescribed by the Commissioner, shall not exceed an aggregate amount of 10% of the annual policy premium on any one policy of insurance.

## BACKGROUND

*(The following is a brief overview of issues discussed by the Committee. Detailed minutes of the Committee's meetings, including written remarks and handouts, are available in the Legislative Library.)*

Over the course of four meetings, the Committee heard a number of presentations from representatives of the insurance industry, policyholder groups, the Department of Insurance, the North Carolina Rate Bureau and the North Carolina Joint Underwriting Association (NCJUA, also known as the Beach Plan). **Ms. Rose Vaughn-Williams, Legislative Counsel, Department of Insurance**, noted a number of factors submitted for consideration by the Rate Bureau to the Department in a rate filing. These factors include modeled and non-modeled losses, reinsurance costs; agents' commissions, the number of discounts given, fixed expenses, and profits. As noted by Ms. Williams, when reviewing a filing, the Department may not agree with the factors submitted by the Bureau or the weight attributed to a specific factor by the Bureau.

A number of the rating factors submitted by the Bureau raise concern among policyholders, particularly residential policyholders in the beach and coastal territories of the state. Of particular concern are modeled losses and reinsurance costs. With regard to modeled losses, **Ms. Kathleen Riely, Governmental Affairs Director, Wilmington Association of Realtors**, objected to the use of only one catastrophe model skewed, in her opinion, to justify higher coastal rates. Ms. Riely asked that additional models or a combination of models be required in rate filings. On the issue of reinsurance, **Ms. Willo Kelly, President, NC-20**, noted that, while profits of the Beach Plan are by law retained by the Plan and are no longer distributed to companies, the increasing dependence of the Beach Plan on the purchase of reinsurance was depleting Beach Plan reserves or surplus and may ultimately render the Beach Plan financially unstable. Of concern to Ms. Kelly, Ms. Riely and other beach and coastal representatives was the use of modeling and reinsurance costs to justify increasing premiums and rate increases in the beach and coastal areas, particularly when these increases in eastern territories were juxtaposed with

rate stability and even rate decreases in other areas of the State. Those expressing concern over rate hikes and premium increases asked for consideration of a number of reforms, including the issuance of tax-free bonds by the Beach Plan, the creation of a catastrophe fund, an overhaul of the current rate making system, increased public participation in rate making, recognition of building code changes in eastern territories of the State, and other institutional reforms.

Insurers sounded a common theme when speaking to the Committee. **Ms. Susan Valauri, Senior Director, Governmental Relations, Nationwide Insurance**, maintained that the State's property insurance market is a volatile and catastrophe prone market in which rates are too low to allow for adequate profit. **Mr. Don Griffin, Vice-President, Personal Lines, Property Casualty Insurance of America**, maintained that rates in the State are as much as 15-20% lower than in other states. Insurers pointed to inadequate rates as the main reason for their refusal to write new policies and their decision to non-renew existing policies in the beach and coastal areas. Citing his company's plans to eliminate up to 20% of their total policies statewide, **Mr. Steve Carroll, Vice-President, General Manager, Farm Bureau Mutual Insurance Company**, noted that, while the major areas of concern remain the beach and coastal areas, concern has begun to move inland as tornadoes and hailstorms affect areas west of the coast. Ms. Valauri also noted the increased risk posed in inland areas. Other reasons cited by insurers for their decision to refuse new coverage and to non-renew existing coverage include the unreliability of investment income in today's economy and the exposure of companies to \$1 billion dollars in non-recoupable assessments under the State's Beach Plan. **Ms. Nancy Watkins, Principal, Milliman, Inc.**, speaking on behalf of Property Casualty Insurance of America, maintained that inadequate pricing in the beach and coastal areas increases the risk of an assessment under the Beach Plan and poses a significant financial risk to companies. Ms. Watkins also noted the need for a market driven approach to rate making rather than the current system and also expressed support for territorial deviations, and explicit recognition of reinsurance costs.

**The Honorable Wayne Goodwin, Insurance Commissioner**, stressed the importance of addressing problems in the homeowners' insurance market, particularly in the beach and coastal areas of the State. Commissioner Goodwin pointed out that, as Insurance Commissioner, he must protect consumers from excessive, inadequate, and unfairly discriminatory rates. However, he is also required to ensure that companies have the opportunity to make a fair and reasonable profit. His goal is to have more companies providing coverage in the beach and coastal areas and reduce homeowners' reliance in these areas on the Beach Plan. The Commissioner's recommendations to the Committee include the following: (1) requiring more outcomes when a catastrophe model is used to provide to project losses; (2) requiring specific cost data when reinsurance costs are included in rate calculations; (3) designation of public comments periods before rate hearings; (4) granting the Commissioner the authority to select a rate based on the evidence submitted in a rate filing, not just accept or reject the rate filed by the Rate Bureau; (5) expanding the number of rating territories along the coast; (6) further study of options other than reinsurance to deal with catastrophic or multiple storms, including tax exempt bonds; (7) tax credits for insurers writing new full coverage in the beach and coastal areas.

## FINDINGS AND RECOMMENDATIONS

The Committee discussed the presentations above, including recommendations offered by the Commissioner and others, and approved the following findings and recommendations:

### ***RECOMMENDATION I***

The current law governing property insurance rate making gives the Commissioner authority to either accept or reject a rate filed by the Rate Bureau. The Commissioner lacks the authority to set a rate between the current rate and the rate filed. Furthermore, the Commissioner is unable to order a decrease in the current rate, if the evidence supports such a change.

At a time when insurers maintain rates are inadequate and property owners in the beach and coastal areas of the state oppose rate increases, the Committee finds that the Commissioner should be given greater flexibility and discretion in the rate making process. The Committee recommends legislation giving the Commissioner authority to select the appropriate rate based on the evidence, not just accept or reject the rate submitted by the Rate Bureau. (See Appendix D, Section 4 of proposed legislation)

### ***RECOMMENDATION II***

As evidenced by the discussion in Committee, the use of catastrophe modeling as a factor in property insurance rate filings is the subject of much debate. Insurers maintain that catastrophe models incorporate years of historical data and are the best way to achieve credible estimates of losses due to hurricanes. Property owners believe these models are often skewed to justify higher beach and coastal rates and are suspect of a model's relevance to actual losses in N.C. given recent premium and rate increases in beach and coastal areas juxtaposed with decreases in many areas west of the coast. The Commissioner in his remarks asked for more information on the estimated loss resulting from each of the more than 50,000 hurricanes simulated in a given model.

The Committee finds that more information about the specific model used in a rate filing submitted by the Bureau to the Commissioner is needed. Moreover, specific information concerning a simulated loss should be provided. To facilitate this, the Committee recommends legislation to do the following:

- Require a prehearing prior to a rate hearing giving the Department the authority to see and review all materials and documents pertinent to the catastrophe model or models used in a rate filing. The confidentiality of these materials and documents should be protected and the prehearing closed to the public. (See Appendix D, Section 4 of proposed legislation)
- Require any simulated loss from a catastrophe model to include specific information such as annual probability, the amount of N.C. damages before and after the application of any deductible, specific information concerning first N.C.

landfall or entry, windspeed, and other information. (See Appendix D, Section 5 of proposed legislation)

- Require the Bureau to submit data from more than one catastrophe model in a rate filing if modeled losses are used, in response to arguments that certain models may be skewed to justify higher beach and coastal rates. (See Appendix D, Section 1 of proposed legislation)

### ***RECOMMENDATION III***

The increasing cost of reinsurance is often cited by the Bureau as a contributing factor in filings for rate increases and a reason many insurers cannot afford to write coverage in the beach and coastal areas. The Department maintains, however, that insurers provide insufficient data on the cost of reinsurance in rate filings. According to the Department, they are unable to determine if reinsurance costs are reasonable for the specific coverage which is the subject of a requested rate increase.

The Committee finds that more information on the cost of reinsurance is needed. The Committee recommends legislation requiring information in a rate filing on the cost of reinsurance specific to N.C. and the line of business for which the filing is being made. (See Appendix D, Section 5 of proposed legislation)

### ***RECOMMENDATION IV***

As noted by several presenters, including the Commissioner, the public should be given input in property insurance rate filings. Often the public bears the burden of paying increasing property insurance premiums, but has no official venue in which to express their support of or objection to a specific filing. The current Commissioner has provided for public comment periods prior to giving notice of a rate hearing. However, no statutory requirement for such a public comment period exists.

To ensure that all future Commissioners will provide for and accept public input, the Committee finds a public comment period should be designated in statute by the General Assembly. The Committee recommends legislation requiring the Department to accept public comments prior to a notice of hearing in a property insurance rate filing. (See Appendix D, Section 4 of proposed legislation)

### ***RECOMMENDATION V***

S.L. 2009-472 (House Bill 1305) amended G.S. 58-36-10 to direct the NC Rate Bureau to revise, monitor and review existing territorial boundaries to ensure that policyholders in the beach and coastal areas are charged premiums that are commensurate with the risk of loss and that are actuarially correct. Any proposed change in territories under this section is subject to the Commissioner's approval. Since this language was enacted, the Bureau has not reported to the Department on any changes or requested approval of any changes by the Department.

Several presenters, including the Commissioner and insurers, expressed support for a study of possible changes to the territorial boundaries. The Committee finds that territorial boundaries, and the rates approved for certain territories, may not in all cases accurately reflect the risk associated with each area. Furthermore, new technology and data sources may make alternatives to the geographic territory system possible. While this issue is particularly important in the beach and coastal areas of the State, any study of the territorial boundaries should not be limited to just the beach and coastal areas, but should include the entire State.

The Committee recommends that the Rate Bureau, with the assistance of the Department, study these issues and report on any recommendations for change to the 2013 General Assembly. (See Appendix D, Section 6 of proposed legislation)

#### ***RECOMMENDATION VI***

In its discussions, Committee members voiced the frustration of their constituents who are unable to obtain a homeowner's fire policy without wind and hail coverage. These constituents, who live primarily in the beach and coastal areas, are willing to personally assume the risk for loss due to wind and hail in hopes of being able to afford coverage insuring them against other risks. However, many companies refuse to provide this type of coverage.

The Committee agrees and finds that, in light of increasing premiums, insurers should offer a residential fire policy that excludes wind coverage to those property owners willing to assume the risk for wind losses. Accordingly, the Committee recommends legislation requiring the Bureau to develop for approval by the Commissioner a policy form that provides residential property insurance coverage without the coverage for the perils of windstorm or hail. (See Appendix D, Sections 2 and 3 of proposed legislation)

#### ***RECOMMENDATION VII***

The Committee understands that the issues surrounding property insurance rate making are difficult and complex. As noted in this report, several issues discussed by the Committee require additional analysis and discussion which time did not permit prior to the 2012 Session of the General Assembly. These issues include the issuance of tax exempt bonds by the Beach Plan, the creation of a catastrophe fund, reforms to the current rate making system, tax credits to insurers for writing new coverage in the beach and coastal areas, the creation of a citizens' review board or other public body to participate in rate filings, changes to deductibles, and the effect of hazards and catastrophes in inland areas of the State on property insurance. These are only some of the remaining issues.

In light of these issues, the Committee recommends that the General Assembly continue the study of property insurance rate making for possible recommendations to the 2013 General Assembly.



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## COMMITTEE MEMBERSHIP

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2011-2012

**President Pro Tempore of the Senate**  
**Appointments:**

Senator Harry Brown, Co-Chair

Senator Thomas Apodaca  
Senator Ralph Hise  
Senator Wesley Meredith  
Senator Stanford White

**Speaker of the House of Representatives**  
**Appointments:**

Representative Jerry Dockham, Co-Chair

Representative Frank Iler  
Representative Jonathan Jordan  
Representative Patricia McElraft  
Representative Michael Wray



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## COMMITTEE CHARGE

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**Property Insurance Rate Making** – Study the adequacy of citizen input in property insurance rate making and the manner in which property insurance rates are proposed, reviewed, approved, and appealed. Specifically, the subcommittee may study the following:

- (1) The feasibility and advisability of replacing the North Carolina Rate Bureau with a market based rate setting system or with a regulatory commission similar to the North Carolina Utilities Commission.
- (2) The adequacy under current law of legislative oversight of the Rate Bureau, the North Carolina Joint Underwriting Association, and the North Carolina Insurance Underwriting Association.
- (3) The adequacy under current law of Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate, or unfairly discriminatory rates.
- (4) Whether North Carolina citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.
- (5) The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss costs made by the Rate Bureau.
- (6) Whether information provided to the public by the Commissioner and the Rate Bureau is adequate to allow reasoned review by interested citizens of the assumptions, modeling, and processes used in setting rates.

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## STATUTORY AUTHORITY

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### NORTH CAROLINA GENERAL STATUTES ARTICLE 6B.

#### **Legislative Research Commission.**

##### **§ 120-30.17. Powers and duties.**

The Legislative Research Commission has the following powers and duties:

- (1) Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.
- (2) To report to the General Assembly the results of the studies made. The reports may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations.
- (3), (4) Repealed by Session Laws 1969, c. 1184, s. 8.
- (5), (6) Repealed by Session Laws 1981, c. 688, s. 2.
- (7) To obtain information and data from all State officers, agents, agencies and departments, while in discharge of its duty, pursuant to the provisions of G.S. 120-19 as if it were a committee of the General Assembly.
- (8) To call witnesses and compel testimony relevant to any matter properly before the Commission or any of its committees. The provisions of G.S. 120-19.1 through G.S. 120-19.4 shall apply to the proceedings of the Commission and its committees as if each were a joint committee of the General Assembly. In addition to the other signatures required for the issuance of a subpoena under this subsection, the subpoena shall also be signed by the members of the Commission or of its committee who vote for the issuance of the subpoena.
- (9) For studies authorized to be made by the Legislative Research Commission, to request another State agency, board, commission or committee to conduct the study if the Legislative Research Commission determines that the other body is a more appropriate vehicle with which to conduct the study. If the other body agrees, and no legislation specifically provides otherwise, that body shall conduct the study as if the original authorization had assigned the study to that body and shall report to the General Assembly at the same time other studies to be conducted by the Legislative Research Commission are to be reported. The other agency shall conduct the transferred study within the funds already assigned to it.

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## LEGISLATIVE PROPOSALS

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GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2011

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D

BILL DRAFT 2011-MHz-92 [v.2] (03/26)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)  
4/2/2012 12:46:26 PM

Short Title: Improve Property Insurance Rate Making.

(Public)

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Sponsors:

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT, AS RECOMMENDED BY THE LEGISLATIVE RESEARCH  
3 COMMISSION COMMITTEE ON PROPERTY INSURANCE RATE  
4 MAKING, TO IMPROVE THE RATE MAKING PROCESS AND THE  
5 AFFORDABILITY OF PROPERTY INSURANCE FOR LOW INCOME  
6 HOMEOWNERS BY REQUIRING THAT MORE THAN ONE  
7 CATASTROPHE MODEL BE USED TO ESTIMATE POTENTIAL LOSSES  
8 FOR PURPOSES OF A RATE FILING; AND BY REQUIRING THAT THE  
9 RATE BUREAU CREATE A RATING PLAN FOR A PROPERTY  
10 INSURANCE POLICY THAT EXCLUDES COVERAGE FOR THE PERILS  
11 OF WINDSTORM AND HAIL; AND BY REQUIRING THE  
12 DEPARTMENT OF INSURANCE TO ACCEPT PUBLIC COMMENT ON  
13 ALL PROPERTY INSURANCE RATE FILINGS; AND BY PROVIDING  
14 FOR A PREHEARING CONFERENCE FOR THE COMMISSIONER OF  
15 INSURANCE TO SCRUTINIZE CATASTROPHE MODELING WHEN  
16 SUCH MODELING IS THE BASIS FOR ANY FACTOR IN A RATE  
17 FILING FOR WHICH THE COMMISSIONER HAS ISSUED A NOTICE OF  
18 HEARING; AND BY PROVIDING THE COMMISSIONER WITH THE  
19 POWER TO SPECIFY THE APPROPRIATE RATE LEVEL OR LEVELS  
20 UPON A FINDING THAT A RATE FILING DOES NOT COMPLY WITH  
21 APPLICABLE LAW; AND BY REQUIRING THAT, WHEN THE COST OF

1 REINSURANCE IS INCLUDED AS A FACTOR IN A PROPOSED RATE,  
2 CERTAIN SUPPORTING INFORMATION BE PROVIDED AND THAT  
3 THE FILING INCLUDE ONLY THE REINSURANCE COST SPECIFIC TO  
4 PROPERTY INSURANCE LOSSES IN NORTH CAROLINA; AND BY  
5 REQUIRING THAT THE RATE BUREAU AND THE DEPARMENT OF  
6 INSURANCE STUDY THE FAIRNESS AND EFFICACY OF THE  
7 CURRENT PROPERTY INSURANCE GEOGRAPHIC RATE  
8 TERRITORIES.

9 The General Assembly of North Carolina enacts:

10 **SECTION 1.** G.S. 58-36-10(3) reads as rewritten:

11 **"§ 58-36-10. Method of rate making; factors considered.**

12 The following standards shall apply to the making and use of rates:

13 (1) Rates or loss costs shall not be excessive, inadequate or unfairly  
14 discriminatory.

15 (2) Due consideration shall be given to actual loss and expense  
16 experience within this State for the most recent three-year period  
17 for which that information is available; to prospective loss and  
18 expense experience within this State; to the hazards of  
19 conflagration and catastrophe; to a reasonable margin for  
20 underwriting profit and to contingencies; to dividends, savings,  
21 or unabsorbed premium deposits allowed or returned by insurers  
22 to their policyholders, members, or subscribers; to investment  
23 income earned or realized by insurers from their unearned  
24 premium, loss, and loss expense reserve funds generated from  
25 business within this State; to past and prospective expenses  
26 specially applicable to this State; and to all other relevant factors  
27 within this State: Provided, however, that countrywide expense  
28 and loss experience and other countrywide data may be  
29 considered only where credible North Carolina experience or  
30 data is not available.

31 (3) In the case of property insurance rates under this Article, consideration  
32 may be given to the experience of property insurance business during  
33 the most recent five-year period for which that experience is available.  
34 In the case of property insurance rates under this Article, consideration  
35 shall be given to the insurance public protection classifications of fire  
36 districts established by the Commissioner. The Commissioner shall  
37 establish and modify from time to time insurance public protection  
38 districts for all rural areas of the State and for cities with populations  
39 of 100,000 or fewer, according to the most recent annual population  
40 estimates certified by the State Budget Officer. In establishing and  
41 modifying these districts, the Commissioner shall use standards at least  
42 equivalent to those used by the Insurance Services Office, Inc., or any  
43 successor organization. The standards developed by the Commissioner  
44 are subject to Article 2A of Chapter 150B of the General Statutes. The

1 insurance public protection classifications established by the  
2 Commissioner issued pursuant to the provisions of this Article shall be  
3 subject to appeal as provided in G.S. 58-2-75, et seq. The exceptions  
4 stated in G.S. 58-2-75(a) do not apply. If the Rate Bureau presents any  
5 modeled losses with a property insurance rate filing, the Bureau shall  
6 present data from more than one catastrophe model.

7 **SECTION 2.** Article 36 of Chapter 58 of the General Statutes is  
8 amended by adding a new section to read:

9 **"§ 58-36-42. Development of policy form or endorsement for residential**  
10 **property insurance that does not include coverage for perils of**  
11 **windstorm or hail.**

12 With respect to residential property insurance under its jurisdiction, the Bureau  
13 shall develop an optional policy form or endorsement to be filed with the  
14 Commissioner for approval that provides residential property insurance coverage  
15 without coverage for the perils of windstorm or hail. Insurers that sell such  
16 policies shall comply with the provisions of G.S. 58-44-60 and through such  
17 compliance shall be deemed to have given notice to all insured and persons  
18 claiming benefits under such policies that such policies do not include coverage  
19 for the perils of windstorm or hail."

20 **SECTION 3.** G.S. 58-44-60 reads as rewritten:

21 **"§ 58-44-60. Notice to property insurance policyholder about flood,**  
22 **earthquake, mudslide, mudflow, ~~and~~ landslide, and windstorm or**  
23 **hail insurance coverage.**

24 (a) Every insurer that sells residential or commercial property insurance  
25 policies that do not provide coverage for the perils of flood, earthquake, mudslide,  
26 mudflow, ~~or~~ landslide or windstorm or hail shall, upon the issuance and renewal of  
27 each policy, identify to the policyholder which of these perils are not covered  
28 under the policy. The insurer shall print the following warning, citing which peril  
29 is not covered, in Times New Roman 16-point font or other equivalent font and  
30 include it in the policy on a separate page immediately before the declarations  
31 page:

32 "WARNING: THIS PROPERTY INSURANCE POLICY DOES NOT  
33 PROTECT YOU AGAINST LOSSES FROM [FLOODS], [EARTHQUAKES],  
34 [MUDSLIDES], [MUDFLOWS], ~~[LANDSLIDES]~~.—[LANDSLIDES],  
35 [WINDSTORM OR HAIL]. YOU SHOULD CONTACT YOUR INSURANCE  
36 COMPANY OR AGENT TO DISCUSS YOUR OPTIONS FOR OBTAINING  
37 COVERAGE FOR THESE LOSSES. THIS IS NOT A COMPLETE LISTING OF  
38 ALL OF THE CAUSES OF LOSSES NOT COVERED UNDER YOUR  
39 POLICY. YOU SHOULD READ YOUR ENTIRE POLICY TO UNDERSTAND  
40 WHAT IS COVERED AND WHAT IS NOT COVERED."

41 (b) As used in this section, "insurer" includes an entity that sells property  
42 insurance under Articles 21, 45, or 46 of this Chapter."

43 **SECTION 4.** G.S. 58-36.20 reads as rewritten:

1 **"§ 58-36-20. Disapproval; hearing, order; adjustment of premium, review of**  
 2 **filing.**

3 (a) ~~At any time within 50 days after the date of any filing, the~~  
 4 ~~Commissioner may give written notice to the Bureau specifying in what respect~~  
 5 ~~and to what extent the Commissioner contends the filing fails to comply with the~~  
 6 ~~requirements of this Article and fixing a date for hearing not less than 30 days~~  
 7 ~~from the date of mailing of such notice. With respect to any property insurance~~  
 8 ~~rate filing, except as provided in G.S. 58-36-25, or any Workers' Compensation~~  
 9 ~~loss cost filing, a filing made by the Bureau under G.S. 58-36-15 is not effective~~  
 10 ~~until approved by the Commissioner or unless 50 days have elapsed since the~~  
 11 ~~making of a proper filing under that subsection and the Commissioner has not~~  
 12 ~~called for a hearing on the filing. If the Commissioner calls for a hearing, he must~~  
 13 ~~give written notice to the Bureau, specify in the notice in what respect the filing~~  
 14 ~~fails to comply with this Article, and fix a date for the hearing that is not less than~~  
 15 ~~30 days from the date the notice is mailed. Once begun, hearings must proceed~~  
 16 ~~without undue delay. At the hearing the burden of proving that the proposed rates~~  
 17 ~~or loss costs are not excessive, inadequate, or unfairly discriminatory is on the~~  
 18 ~~Bureau. At the hearing the factors specified in G.S. 58-36-10 shall be considered.~~  
 19 ~~If the Commissioner after hearing finds that the filing does not comply with the~~  
 20 ~~provisions of this Article, he may issue his order determining wherein and to what~~  
 21 ~~extent such filing is deemed to be improper and fixing a date thereafter, within a~~  
 22 ~~reasonable time, after which the filing shall no longer be effective. Any order~~  
 23 ~~issued after a hearing shall be issued within 45 days after the completion of the~~  
 24 ~~hearing. If no order is issued within 45 days after the completion of the hearing,~~  
 25 ~~the filing shall be deemed to be approved.~~

26 (b) ~~In the event that no notice of hearing shall be issued within 50 days~~  
 27 ~~from the date of any such filing, the filing shall be deemed to be approved. If the~~  
 28 ~~Commissioner disapproves such filing pursuant to subsection (a) as not being in~~  
 29 ~~compliance with G.S. 58-36-10, he may order an adjustment of the premium to be~~  
 30 ~~made with the policyholder either by collection of an additional premium or by~~  
 31 ~~refund, if the amount exceeds five dollars (\$5.00). The Commissioner may~~  
 32 ~~thereafter review any filing in the manner provided; but if so reviewed, no~~  
 33 ~~adjustment of any premium on any policy then in force may be ordered.~~

34 (c) ~~For workers' compensation insurance and employers' liability insurance~~  
 35 ~~written in connection therewith, the period between the date of any filing and the~~  
 36 ~~date the Commissioner may give written notice as described in subsection (a) of~~  
 37 ~~this section and the period between the date of any filing and the deadline for~~  
 38 ~~giving notice of hearing as described in subsection (b) of this section shall be 60~~  
 39 ~~days.~~

40 (d) All property insurance rate filings shall be open to the public except as  
 41 provided in this Article where necessary to maintain the confidentiality of certain  
 42 testimony. At least thirty (30) days before a notice of hearing issues the  
 43 Department shall accept comments from the public regarding a property insurance

1 rate filing. The comments may be provided to the Department by email, mail, or  
2 in person at a time and place set by the Department. All public comments shall be  
3 shared with the Rate Bureau in a timely manner. Only comments from the public  
4 that are made a part of the Notice of Hearing may be considered by the  
5 Commissioner or his designated hearing officer during the hearing.

6 (e) With respect to any property insurance rate filing, except as provided in  
7 G.S. 58-36-30, where a catastrophe model is used in the calculation for any factor  
8 in the filing and where the Commissioner has called for a hearing, the hearing  
9 process shall proceed as follows:

10 (1) No earlier than 30 days after a Notice of Hearing is issued, the  
11 Commissioner shall schedule a prehearing which may be  
12 attended only by the parties to the case and any experts who will  
13 present testimony regarding the catastrophe model or models  
14 used in the filing. The prehearing shall be called solely for the  
15 purpose of providing the Department and its expert witnesses  
16 with the opportunity to see and review all materials and  
17 documents pertinent to the catastrophe model or models used in  
18 the property rate filing. Because the materials and documents  
19 subject to discovery may be confidential in nature, the prehearing  
20 shall be closed to the public. The Commissioner shall preside  
21 over the prehearing and shall resolve any disputes that arise  
22 between the parties. A proper record shall be kept at the  
23 prehearing and said record shall be treated as confidential unless  
24 a ruling from a court of competent jurisdiction determines that  
25 the record of the conference shall be available to the public.  
26 Discovery not related to the catastrophe model shall be  
27 conducted pursuant to normal hearing procedures.

28 (2) At the prehearing, the Rate Bureau and its experts shall present  
29 any relevant data, materials, computations, spreadsheets, or  
30 documents regarding the catastrophe model or models which  
31 were excluded from the filing. Copies of all materials presented  
32 at the prehearing shall be provided to the Department and its  
33 experts for further analysis. Any materials provided at the  
34 prehearing to the Department and its experts that is marked as  
35 confidential shall be treated as confidential unless a ruling from a  
36 court of competent jurisdiction determines that the materials shall  
37 be available to the public. Based upon the materials presented  
38 both in the filing and at the prehearing, the Department and its  
39 experts may request additional data, materials, computations,  
40 spreadsheets, or documents, or may make specific inquiries that  
41 require a written explanation in order to further understand the  
42 available materials.

- 1           (3) There shall be no limit on the number of discovery materials  
2           requested regarding the catastrophe model. However, the  
3           Commissioner may make a determination at the prehearing  
4           whether the requested materials are relevant, reasonable, and not  
5           unduly burdensome.
- 6           (4) The Commissioner shall set a date by which all discovery  
7           materials regarding the catastrophe model shall be delivered to  
8           the Department. All materials marked by the Rate Bureau as  
9           "confidential" shall be individually numbered by the Rate Bureau  
10           so that they may be referred to by number, if necessary, by the  
11           Commissioner in subsequent documents or orders. The Rate  
12           Bureau shall provide an index of the confidential documents  
13           marked confidential in order that the documents may be easily  
14           identified and referenced in subsequent pleadings, testimony and  
15           orders. All materials marked by the Rate Bureau as "confidential"  
16           shall be treated by the Department and its experts as confidential  
17           unless a ruling from a court of competent jurisdiction determines  
18           that the materials shall be available to the public. Once the  
19           requested discovery materials have been delivered to the  
20           Department as required, the Commissioner may schedule  
21           additional prehearings to address additional discovery materials  
22           that may be requested by the Department. Once all of the  
23           Department's discovery requests related to the catastrophe model  
24           or models have been finalized, the Commissioner shall schedule  
25           a final prehearing conference to ensure that there are no other  
26           discovery issues pending and that both parties are ready to  
27           proceed to hearing. All prehearings shall also be closed to the  
28           public in the event that potentially confidential materials may be  
29           discussed. Any data from catastrophe models that is not disclosed  
30           at the prehearing at least thirty (30) days prior to the submission  
31           of prefiled testimony of Department witnesses shall be  
32           inadmissible at the hearing on the filing.
- 33           (5) Once the discovery process for the catastrophe model has been  
34           completed, the hearing may proceed pursuant to statute. The  
35           Department witnesses shall file all prefiled testimony as required  
36           under G.S. 58-36-15(i). However, any prefiled testimony  
37           regarding the catastrophe model or models used in the filing shall  
38           be filed as a separate document and marked as "confidential."  
39           The prefiled testimony of the Department witnesses relating to  
40           the catastrophe models may contain references to data,  
41           testimony, or exhibits pertaining to confidential materials  
42           submitted by the Rate Bureau, and, therefore, shall be treated as  
43           "confidential" by the Department and its experts unless a ruling



1 from a court of competent jurisdiction determines that the  
2 prefiled testimony shall be made available to the public. All  
3 references to confidential materials used by the Department  
4 witnesses shall utilize the individual identification numbers  
5 assigned by the Rate Bureau in the discovery materials.

6 (6) Prior to commencement of the hearing, the Commissioner shall  
7 determine the order of testimony to be heard at the hearing.  
8 However, any oral testimony taken at the hearing on direct,  
9 cross-examination or on rebuttal with regards to the catastrophe  
10 model will be closed to the public, if necessary, in order to  
11 preserve confidentiality. Transcripts from hearing proceedings  
12 closed to the public shall be treated as "confidential" by the  
13 Department, its experts, and by the court reporters unless a ruling  
14 from a court of competent jurisdiction determines that the  
15 prefiled testimony shall be made available to the public.

16 (7) At the conclusion of the hearing, the Commissioner, in his final  
17 order, shall make his determination as to whether the catastrophe  
18 model is valid for the purpose it was used in the filing, the weight  
19 to be applied to the modeled results, and the extent to which the  
20 results of the model should be modified, if at all.

21 (f) If the Commissioner finds that a filing complies with the provisions of  
22 this Article, either after the hearing or at any other time after the filing has been  
23 properly made, he may issue an order approving the filing. If the Commissioner  
24 after the hearing finds that the filing does not comply with the provisions of this  
25 Article, he may issue an order disapproving the filing, determining in what respect  
26 the filing is improper, and specifying the appropriate rate level or levels that may  
27 be used by the members of the Bureau instead of the rate level or levels proposed  
28 by the Bureau filing, unless there has not been data admitted into evidence in the  
29 hearing that is sufficiently credible for arriving at the appropriate rate level or  
30 levels. Any order issued after a hearing shall be issued within 45 days after the  
31 completion of the hearing. If no order is issued within 45 days after the completion  
32 of the hearing, the filing shall be deemed to be approved. The Commissioner may  
33 thereafter review any filing in the manner provided; but if so reviewed, no  
34 adjustment of any premium on any policy then in force may be ordered. The  
35 escrow provisions of G.S. 58-36-25(b) apply to an appeal of any order of the  
36 Commissioner under this subsection."

37 **SECTION 5.** G.S. 58-36-15 reads as rewritten:

38 **"§ 58-36-15. Filing loss costs, rates, plans with Commissioner; public**  
39 **inspection of filings.**

40 (a) The Bureau shall file with the Commissioner copies of the rates, loss  
41 costs, classification plans, rating plans and rating systems used by its members.  
42 Each rate or loss costs filing shall become effective on the date specified in the  
43 filing, but not earlier than 210 days from the date the filing is received by the

1 Commissioner: Provided that (1) rate or loss costs filings for workers'  
2 compensation insurance and employers' liability insurance written in connection  
3 therewith shall not become effective earlier than 210 days from the date the filing  
4 is received by the Commissioner or on the date as provided in G.S. 58-36-100,  
5 whichever is earlier; and (2) any filing may become effective on a date earlier than  
6 that specified in this subsection upon agreement between the Commissioner and  
7 the Bureau.

8 (b) A filing shall be open to public inspection immediately upon submission  
9 to the Commissioner.

10 (c) The Bureau shall maintain reasonable records, of the type and kind  
11 reasonably adapted to its method of operation, of the experience of its members  
12 and of the data, statistics or information collected or used by it in connection with  
13 the rates, rating plans, rating systems, loss costs and other data as specified in  
14 G.S. 58-36-100, underwriting rules, policy or bond forms, surveys or inspections  
15 made or used by it.

16 (d) With respect to the filing of rates for nonfleet private passenger motor  
17 vehicle insurance, the Bureau shall, on or before February 1 of each year, or later  
18 with the approval of the Commissioner, file with the Commissioner the  
19 experience, data, statistics, and information referred to in subsection (c) of this  
20 section and any proposed adjustments in the rates for all member companies of the  
21 Bureau. The filing shall include, where deemed by the Commissioner to be  
22 necessary for proper review, the data specified in subsections (c), (e), (g) and (h)  
23 of this section. Any filing that does not contain the data required by this subsection  
24 may be returned to the Bureau and not be deemed a proper filing. Provided,  
25 however, that if the Commissioner concludes that a filing does not constitute a  
26 proper filing he shall promptly notify the Bureau in writing to that effect, which  
27 notification shall state in reasonable detail the basis of the Commissioner's  
28 conclusion. The Bureau shall then have a reasonable time to remedy the defects so  
29 specified. An otherwise defective filing thus remedied shall be deemed to be a  
30 proper and timely filing, except that all periods of time specified in this Article  
31 will run from the date the Commissioner receives additional or amended  
32 documents necessary to remedy all material defects in the original filing.

33 (d1) With respect to property insurance rates, the Bureau shall file no later  
34 than May 1, 2010, a schedule of credits for policyholders based on the presence of  
35 mitigation and construction features and on the condition of buildings that it  
36 insures in the beach and coastal areas of the State. The Bureau shall develop rules  
37 applicable to the operation of the schedule and the mitigation program with  
38 approval by the Commissioner. The schedule shall not be unfairly discriminatory  
39 and shall be reviewed by the Bureau annually, with the results reported annually to  
40 the Commissioner.

41 (d2) The following supporting data, at a minimum, shall be included in any  
42 property insurance rate filing where a catastrophe model is used or where a factor

1 for any costs of reinsurance is included in the rate calculations or where both a  
2 catastrophe model and a factor for costs of reinsurance are used.

3 (1) Any simulated loss from a catastrophe model should include the  
4 following:

- 5 a. An event identifier.
- 6 b. The simulation year.
- 7 c. The annual probability of occurrence for the event.
- 8 d. The gross amount of North Carolina damages before  
9 application of any deductible or other applicable policy  
10 provisions that impact the coverage, calculated with and  
11 without any applicable demand surge adjustments.
- 12 e. The net amount of North Carolina insured loss after  
13 application of any deductible or other applicable policy  
14 provisions that impact the coverage, calculated with and  
15 without any applicable demand surge adjustments.
- 16 f. The State and county of first and any subsequent landfalls.
- 17 g. The Saffir-Simpson category at first and any subsequent  
18 landfalls.
- 19 h. The maximum sustained windspeed at first and any  
20 subsequent landfalls.
- 21 i. The North Carolina county of first entry, if applicable,  
22 whether first entry is from water or land.
- 23 j. The Saffir-Simpson category at first entry into North  
24 Carolina, if applicable, whether first entry is from water or  
25 land.
- 26 k. The maximum sustained windspeed at first entry into  
27 North Carolina, if applicable, whether first entry is from  
28 water or land.
- 29 l. For storms with no landfall in North Carolina, the county  
30 of closest approach.
- 31 m. For storms with no landfall in North Carolina, the  
32 Saffir-Simpson Category at closest approach.
- 33 n. For storms with no landfall in North Carolina, the  
34 maximum sustained windspeed at closest approach.
- 35 o. Any other information required by rules promulgated by  
36 the Commissioner.

37 (2) Any factor for cost of reinsurance shall be based upon the  
38 aggregated property reinsurance costs of the member companies  
39 of the Bureau writing property insurance in North Carolina for  
40 the specific lines of insurance covered by the filing. The costs of  
41 reinsurance for the North Carolina Insurance Underwriting  
42 Association and North Carolina Joint Underwriting Association  
43 shall not be considered for any line of property coverage under

the jurisdiction of the Bureau. For each of the member companies, the costs of reinsurance that are specific to North Carolina and the line of business for which the filing is being made must be allocated using an appropriate method that shall be stated along with the applicable provisions for the current reinsurance contract that covers the North Carolina line of business for which the filing is being made. Any filing must also take into account expected recoveries from the reinsurance. Use of a model to make the allocation to the appropriate line of business and state shall not be permissible. The Commissioner may promulgate rules setting forth the information needed to evaluate reinsurance costs as well as the method used to determine the cost of reinsurance allocated to North Carolina.

- (e) The Commissioner may require the filing of supporting data including:
- (1) The Bureau's interpretation of any statistical data relied upon;
  - (2) Descriptions of the methods employed in setting the rates;
  - (3) Analysis of the incurred losses submitted on an accident year or policy year basis into their component parts; to wit, paid losses, reserves for losses and loss expenses, and reserves for losses incurred but not reported;
  - (4) The total number and dollar amount of paid claims;
  - (5) The total number and dollar amount of case basis reserve claims;
  - (6) Earned and written premiums at current rates by rating territory;
  - (7) Earned premiums and incurred losses according to classification plan categories; and
  - (8) Income from investment of unearned premiums and loss and loss expense reserves generated by business within this State.

Provided, however, that with respect to business written prior to January 1, 1980, the Commissioner shall not require the filing of such supporting data which has not been required to be recorded under statistical plans approved by the Commissioner.

(f) On or before September 1 of each calendar year, or later with the approval of the Commissioner, the Bureau shall submit to the Commissioner the experience, data, statistics, and information referred to in subsection (c) of this section and required under G.S. 58-36-100 and a residual market rate or prospective loss costs review based on those data for workers' compensation insurance and employers' liability insurance written in connection therewith. Any rate or loss costs increase for that insurance that is implemented under this Article shall become effective solely to insurance with an inception date on or after the effective date of the rate or loss costs increase.

(g) The following information must be included in policy form, rule, and rate or loss costs filings under this Article and under Article 37 of this Chapter:

- 1 (1) A detailed list of the rates, loss costs, rules, and policy forms
- 2 filed, accompanied by a list of those superseded; and
- 3 (2) A detailed description, properly referenced, of all changes in
- 4 policy forms, rules, prospective loss costs, and rates, including
- 5 the effect of each change.
- 6 (h) Except to the extent the Commissioner determines that this subsection is
- 7 inapplicable to filings made under G.S. 58-36-100 and except for filings made
- 8 under G.S. 58-36-30, all policy form, rule, prospective loss costs, and rate filings
- 9 under this Article and Article 37 of this Chapter that are based on statistical data
- 10 must be accompanied by the following properly identified information:
- 11 (1) North Carolina earned premiums at the actual and current rate
- 12 level; losses and loss adjustment expenses, each on paid and
- 13 incurred bases without trending or other modification for the
- 14 experience period, including the loss ratio anticipated at the time
- 15 the rates were promulgated for the experience period;
- 16 (2) Credibility factor development and application;
- 17 (3) Loss development factor derivation and application on both paid
- 18 and incurred bases and in both numbers and dollars of claims;
- 19 (4) Trending factor development and application;
- 20 (5) Changes in premium base resulting from rating exposure trends;
- 21 (6) Limiting factor development and application;
- 22 (7) Overhead expense development and application of commission
- 23 and brokerage, other acquisition expenses, general expenses,
- 24 taxes, licenses, and fees;
- 25 (8) Percent rate or prospective loss costs change;
- 26 (9) Final proposed rates;
- 27 (10) Investment earnings, consisting of investment income and
- 28 realized plus unrealized capital gains, from loss, loss expense,
- 29 and unearned premium reserves;
- 30 (11) Identification of applicable statistical plans and programs and a
- 31 certification of compliance with them;
- 32 (12) Investment earnings on capital and surplus;
- 33 (13) Level of capital and surplus needed to support premium writings
- 34 without endangering the solvency of member companies; and
- 35 (14) Such other information that may be required by any rule adopted
- 36 by the Commissioner.
- 37 Provided, however, that no filing may be returned or disapproved on the grounds
- 38 that such information has not been furnished if insurers have not been required to
- 39 collect such information pursuant to statistical plans or programs or to report such
- 40 information to the Bureau or to statistical agents, except where the Commissioner
- 41 has given reasonable prior notice to the insurers to begin collecting and reporting
- 42 such information, or except when the information is readily available to the
- 43 insurers.

1 (i) The Bureau shall file with and at the time of any rate or prospective loss  
2 costs filing all testimony, exhibits, and other information on which the Bureau will  
3 rely at the hearing on the rate filing. The Department shall file all testimony,  
4 exhibits, and other information on which the Department will rely at the hearing  
5 on the rate filing 20 days in advance of the convening date of the hearing. Upon  
6 the issuance of a notice of hearing the Commissioner shall hold a meeting of the  
7 parties to provide for the scheduling of any additional testimony, including written  
8 testimony, exhibits or other information, in response to the notice of hearing and  
9 any potential rebuttal testimony, exhibits, or other information. This subsection  
10 also applies to rate filings made by the North Carolina Motor Vehicle Reinsurance  
11 Facility under Article 37 of this Chapter."

12 **SECTION 6.** The North Carolina Rate Bureau, with the assistance of  
13 the Department of Insurance, shall study the current geographic territories  
14 established by the Bureau for rating purposes. The study shall address the  
15 following issues:

- 16 (1) Whether risks of the same class and essentially the same hazard  
17 are charged premiums that are commensurate with the risk of  
18 loss, actuarially correct, and not unfairly discriminatory.  
19 (2) Whether geographic territories in the beach and coastal areas (as  
20 defined in G.S. 58-45-5) currently meet the standards and  
21 mandates set forth in G.S. 58-36-10(6).  
22 (3) Whether current technology and statistical data sources make  
23 possible any practical and cost-effective alternative to the  
24 geographic territory system for property insurance rate setting.

25 The Bureau shall submit a final report, including any recommendations  
26 for changes to the geographic territories or alternatives to the geographic territory  
27 rating system, to the 2013 General Assembly.

28 **SECTION 7.** Sections 2 and 3 of this act are effective December 1,  
29 2012. Section 6 of this act is effective when it becomes law. The remainder of this  
30 act is effective July 1, 2012.