

Rep. Johnson, Chair: [00:00:00](#) Today's House Oversight and Reform Committee hearing. Thank you all for being here today, and thank you, members from coming to your district to take part in this important hearing. Don't forget to fill out the forms on your desk and return them to the chair. Today's Sergeant at Arms, if you could just throw your hand up when you're recognized. Jonas Cherry, Ray Cook, Mike Galloway, Todd Jordan, and Stafford Young. Thank y'all so much for being here and taking care of us.

[00:00:29](#) We're back here today to understand the North Carolina Motor Vehicle Reinsurance Facility. Do the costs of the Facility outweigh its benefits? Put another way, does North Carolina have some of the lowest premiums in the country because of or in spite of the Reinsurance Facility? If the Facility provides a net benefit to North Carolina drivers, then the story ends here. If it does not, there may be a case for reform and the next task would be to determine which reforms are most helpful. I hope today's session answers those questions.

[00:01:06](#) In the last meeting, it was alluded to that everyone who buys insurance has to pay recoupment fees to keep the Facility from losing money. Those fees are currently 13% of premiums and are hidden on insurance bills. Maybe the increase people are facing is in part due to higher fees for the Facility. Joanna Biliouris, am I saying that correctly? Thank you, ma'am. Joanna Biliouris, executive director of the Facility is here to hopefully shed light and answer other questions. Maybe we will finally understand how the Reinsurance Facility works and if it keeps rates lower for North Carolina drivers. Again, to be clear, our purpose is not to come here and abolish the Facility but to understand the benefits we receive from it and the cost we pay for it. If there are changes to be made, how would those changes affect premiums for drivers in the Facility currently and surcharges that all drivers across the state pay?

[00:02:04](#) Director Biliouris, you may provide an opening statement for up to five minutes, and you can continue on beyond that. If we're making progress, you can have up to ten minutes on that opening statement. Then, we'll open up the hearing to questions from committee members. Members, you'll have up to five minutes for the first round of questions, followed by a second round of questions if time permits. When we open that up, we will put you in a queue here and recognize you as we go through the list. If for whatever reason you feel like your time is being impeded, feel free to reclaim that time from the chair and we'll make that judgment call as we go.

[00:02:43](#) Now, Director Biliouris, if you will stand and raise your right hand. Do you affirm that your committee is the whole truth, justly the truth, the whole truth, and nothing but the truth? Thank you.

Joe Coletti: [00:02:58](#) Should we swear in our other folks, too?

Rep. Johnson, Chair: [00:03:00](#) Yes, and what we're going to go ahead and do just in case you reference some of your staff for questions, if you could also stand and raise your right hand. Do you affirm that your testimony is the truth, the whole truth, and nothing but the truth? Thank you. Director Biliouris, you may begin your testimony. Thank you.

Sumit Gupta: [00:03:21](#) They need to state their names on the record.

Rep. Johnson, Chair: [00:03:23](#) I'm sorry. On advice of counsel, you need to state your name for the record as well. If you could stand, and please state each of your names individually.

Mr. Collins: [00:03:32](#) My name's Terry Collins, chief operating officer.

Rep. Johnson, Chair: [00:03:35](#) Thank you.

Mr. Burns: [00:03:35](#) Tom Burns, director of auto operations.

Rep. Johnson, Chair: [00:03:37](#) Thank you, and let the record show that they have sworn to tell the truth, the whole truth and nothing but the truth. Thank you. Director Biliouris, you may begin. Thank you.

Director Biliouris: [00:03:44](#) Thank you. Thank you. Can everyone hear me okay? Thank you. Thank you for the opportunity to come speak with the committee. My goal today is to ensure that the committee has a good understanding of the costs and the benefits of the Reinsurance Facility as well as what a vital role it plays in the state's auto insurance market. The Facility's presence ensures that consumers get the auto liability insurance that our law requires and at one of the lowest rates in the country. It allows for consumer choice in what company writes that insurance, and it allows for insurance companies to transfer the risk of loss to the Facility on business they may find to be unacceptable from a rate perspective, risk, or simply it's not aligned with their business focus or capabilities.

[00:04:51](#) I want to address some common questions we get about the Facility, and first, let me note I'm talking about private passenger auto liability insurance. Private passenger auto is the

vast majority of business in the Facility. It constitutes about 90% of the premiums. Ninety-eight percent of the policies in the Facility are for private passenger auto liability.

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We're sometimes asked whether premiums in the Facility are lower than in the voluntary market, meaning do people pay less if they're in the Facility? The answer to that is no. On an apples-to-apples basis, no one ever pays less in the Facility than they would pay in the voluntary market. Auto liability rates in the Facility are either equal to or greater than the liability rates that companies are allowed to charge in the voluntary market. Because as outlined in my written testimony, liability rates are capped at the voluntary rate. There are surcharges assessed to all drivers based on the operation of the Facility, but those surcharges are applied to all policies, voluntary and ceded. So, any comparison of the total amount someone pays in the Facility to what they pay in the voluntary market shows that they pay more if they're in the Facility.

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We're also asked whether insurance companies make money from ceding risks to the Facility. Again, the answer is no. There's no monetary incentive to companies to cede business to the Facility. They cede to avoid losing money on a risk that they deem as unacceptable for whatever reason. When that policy is ceded to the Facility, all the liability premium is sent to the Facility. Companies are only reimbursed for their expenses for writing and servicing the policy, but there's no profit. The companies do have the opportunity to write the physical damage coverages on the policy, and they also have the option to pull that policy out of the Facility in the future and write it on their own book of business when they believe they can do so at an acceptable basis. Remember, insurance companies are competitive. They want to grow their business.

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We also hear the question, why are there so many drivers in the Facility? In general, about 20% of insured vehicles and 25% of auto insurance premiums are in the Facility. These are not new numbers. This has been true of the Facility essentially for the entire 50 years it's been in existence, even as the North Carolina market has grown substantially—almost tenfold since it was created in 1973. This is a result of a long-standing public policy and regulatory system for auto insurance in the state. Drivers in North Carolina have to buy auto liability insurance. On the regulatory side, the laws require that auto liability rates are set in the voluntary market, and it's based on losses and expenses of all drivers. All the drivers who are good risk or a low risk and even a high risk. The liability rates are effectively set at an

average level of risk of all drivers in the state. Then in our system, liability rates are capped at that level.

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Now, insurance companies are very good at assessing risk. That's the core of their business. When they're presented with drivers that they perceive pose a greater risk than what they're allowed to charge, they naturally and logically don't want to insure them, but our system doesn't give them the option to not insure them. If the applicant's an eligible risk under Facility laws, the company has to insure them, and then the law gives them a choice on keeping it on your books or ceding it to the Facility. North Carolina's auto insurance market is very competitive. Essentially, all national and many regional insurance companies are doing business here, and the overall distribution that results from all these legal, regulatory and competitive forces is, as I said earlier, about 20% of insured vehicles and 25% of auto premiums are in the Facility. And it's been this way since 1973 when the Facility was created.

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Most people understand that having a clean driving record reduces your insurance costs. However, a clean driving record doesn't always equate to a good risk because consequences of moving violations and accidents can be avoided through various legal maneuvers. Clean risks in the Facility are those with no SDIP points and more than two years driving experience. However, the voluntary market has information on waived violations and other factors they deem necessitate a higher premium due to the higher risk. The voluntary market cannot charge for these higher risk factors, so they choose to cede the clean risk to the Facility. The statutory definition of clean risk is only applicable to risks in the Facility. The voluntary market does not qualify a risk as clean or other-than-clean. The voluntary market classifies risk as a good risk or a not so good risk.

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What does all this mean for the citizens of North Carolina? Our state is growing and thriving. People want to be here and are moving here from all over the country and the world. When those people buy insurance, they get a policy from any company they want, the rates are among the lowest in the country, and drivers in North Carolina can have more confidence that their fellow drivers are insured. The Facility is just one component of the overall legal, regulatory, and physical environment that serves to hold liability rates in North Carolina to one of the lowest in the country. The combination of state laws, federal laws, DMV, DOT, DOI rules and regulations, the Facility itself, the North Carolina Rate Bureau, all of them coupled with

favorable demographics spread among large population centers, large swaths of rural areas with good roads and low snowfall amounts. These are all key to the outcome.

[00:11:24](#)

All of these institutions and factors contribute to the strong and vibrant auto insurance marketplace in North Carolina and as such, none of these should be looked at in a vacuum. The Facility serves North Carolina policyholders by ensuring they get the mandated liability coverage from a company they choose, and it provides an outlet for insurance companies to transfer risks that they deem unacceptable. This framework, in turn, supports affordable, competitive North Carolina Auto Market.

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So I'll leave you with three numbers: \$396, \$631, \$715. According to the Auto Insurance Report published last year, \$396 is the average auto liability rate in North Carolina, \$631 is the average liability rate countrywide in the US, \$715 is the average liability rate in South Carolina. The Facility cannot be credited with North Carolina having such low liability rates, but North Carolina's low liability rates can be attributed to the Facility being a part of the state's regulatory and statutory landscape. Thank you.

Rep. Johnson, Chair: [00:12:48](#)

Madam Director, thank you for your testimony. At this point, I would ask members of the committee make the chair aware if you'd like to ask questions. I have Co-Chair Warren in the queue. Don't see anyone else. Representative Dahle. Any other members of the committee? Representative Cleveland, Representative Cervania, Representative Willingham, Representative Humphrey, Representative Chesser. All right. Seeing no more, Representative Co-Chair Warren, you have up to five minutes. Thank you.

Rep. Warren: [00:13:26](#)

Thank you, Mr. Chair, and Ms. Biliouris, thank you again for being here this morning, and your team for accompanying you here. I just want to reiterate that the intention of the chairs is to lead this bipartisan committee in a nonpartisan examination of different departments, agencies, and program in the state to question their efficacy and their functionality. So, I have a few questions, and what I'd like to ask first of all is would you agree that the vast majority of North Carolinians don't even know the Facility exists?

Director Biliouris: [00:14:07](#)

I think that's a fair statement, but part of that is by design. The insurance company that the consumer chooses is the one that services the policy, answers question and essentially provides the coverage. The Reinsurance Facility is there to reimburse

that insurance company from any liability losses should they cede that risk to the Facility.

- Rep. Warren: [00:14:35](#) Well, considering that the surcharges that are applied to every policy, as you stated, across the state to make up the deficit that the Facility historically runs is subsidized by the people, by every policyholder, do you think in the interest of transparency that insurers should be educating their clients when they cede their policy to the Reinsurance Facility?
- Director Biliouris: [00:15:06](#) It's my understanding that when a policyholder is ceded to the Facility, they are notified of the fact that they are being reinsured through the Facility.
- Rep. Warren: [00:15:17](#) Are you aware of what that notification looks like?
- Director Biliouris: [00:15:21](#) If I may?
- Mr. Collins: [00:15:25](#) The insureds receive a-
- Rep. Warren: [00:15:26](#) Mr. Collins, is that correct?
- Mr. Collins: [00:15:27](#) Yes, sir.
- Rep. Warren: [00:15:29](#) Thank you.
- Mr. Collins: [00:15:29](#) Terry Collins. The insureds receive a notification of being ceded to the Facility and the renewal package they receive from their company, statute mandates that that notification is there. So, that notification does exist.
- Rep. Warren: [00:15:42](#) Thank you. Mr. Collins. Do you know if that notification actually explains what the Facility is?
- Mr. Collins: [00:15:49](#) I can't tell you that. It's been too long since I've read that.
- Rep. Warren: [00:15:51](#) Okay, thank you. In your written testimony... Thank you, sir. In your written testimony, Ms. Biliouris, you had mentioned the Facility recruitment team, the Facility board of governors. It led me to want to question how many employees, counting yourself and your team here, how many employees are in the Reinsurance Facility, and how are they compensated?
- Director Biliouris: [00:16:14](#) There are 21 team members in the Reinsurance Facility, not including me. I'm not 100% allocated to the Reinsurance Facility. They are compensated through the operating expenses of the Facility. So, those operating expenses, which do include

what it costs to have staff, have a building, have IT, all the systems that are required for companies to actually submit electronic transmissions to us of all the data, all the auditing, all of that is included in the Facility operating expenses.

- Rep. Warren: [00:16:55](#) Now, those operating expenses in the budget that you operate on, that's not subsidized by the state appropriations, is that correct?
- Director Biliouris: [00:17:02](#) That's correct.
- Rep. Warren: [00:17:03](#) So, where does that money come from? Is that calculated into the recoupment surcharge? Is that funded by the auto insurance company or by the auto insured?
- Director Biliouris: [00:17:15](#) Well.
- Mr. Collins: [00:17:16](#) Yes, that's included.
- Rep. Warren: [00:17:17](#) I'm sorry, Mr. Collins.
- Mr. Collins: [00:17:18](#) That's ultimately included in the results of the Facility, which it's rolled up with all the results for the statement of income for the Facility, and then the recoupment surcharges help pay for that. Absolutely.
- Rep. Warren: [00:17:31](#) Okay, just so I understand completely what you're saying is that the budget for the Reinsurance Facility is calculated into conjunction with the deficit that the Facility is running, and then that is divided among the policyholders in effect the policyholders across the state pay for the Facility. Is that correct?
- Mr. Collins: [00:17:51](#) Yes, sir. Yes, sir, that's correct.
- Rep. Warren: [00:17:52](#) Thank you. The ISO report that you included in your testimony, is that also come out of your budget then? So, we actually pay for that, too?
- Director Biliouris: [00:18:02](#) Yes.
- Rep. Warren: [00:18:03](#) And any expert, I don't want to say, any expert help that you need...
- Director Biliouris: [00:18:10](#) Yes.

- Rep. Warren: [00:18:10](#) ... would be figured into that budget. Do you operate on a specific budget, or does it just end up being what it is based on what you need to operate that year?
- Director Biliouris: [00:18:18](#) No, we have a finance group that supports the Reinsurance Facility as well as other organizations. We develop an operating budget every year in the fourth quarter in the fall, present that to the board of governors with all the specifics of what money we need to actually operate, and then that budget is either approved or not. The board has asked for revisions to that budget in the past, but otherwise the board of governors gives the approval of that operating expense for the coming year.
- Rep. Warren: [00:18:54](#) Thank you. Do you operate on a biennium budget like we do, or do you operate on an annual budget?
- Director Biliouris: [00:18:59](#) Annual budget.
- Rep. Warren: [00:19:00](#) Is it possible for us to get kind of a track record of what your budget's been for, let's say, the last five or 10 years?
- Director Biliouris: [00:19:08](#) Sure.
- Rep. Warren: [00:19:09](#) Thank you. The state requires motorists to maintain financial responsibility for the ownership, maintenance, and use of motor vehicles. Is auto insurance the only option they have to prove that they have financial responsibility, or they can meet the minimum standards of a \$30,000 and \$60,000 on a liability coverage that statute mandates? Or are there other alternatives besides liability insurance?
- Director Biliouris: [00:19:36](#) From my understanding, liability insurance is the prominent tool that most people use to meet those financial responsibilities. I do believe, and Terry can probably confirm, that you can post a bond. Individuals may post bonds to cover that liability risk as well, but I think that that's the exception rather than the rule.
- Rep. Warren: [00:20:01](#) Thank you for the clarification. As I read the statutes, I noticed they allude to premiums in there, but there is no mandate specifically that you have to purchase liability insurance, as I read it anyway. But I appreciate you clarifying that for me.
- [00:20:21](#) Now, companies can't refuse to write a policy, but they don't have to keep it, I think, is what you're saying.
- Director Biliouris: [00:20:27](#) That's correct.

Rep. Warren: [00:20:29](#) Does the Facility have to take every policy that's ceded to it?

Director Biliouris: [00:20:33](#) If it meets the eligibility requirements in the statute, yes.

Rep. Warren: [00:20:37](#) Okay. That's the way I read that, and I understood that, but there is a caveat in there that they have to meet that qualification of what defines an eligible. So, what happens if they write a policy and then they cede it to you? Is there a process in place to vet those policies ceded to you so you can reject them, and do you know if any have ever been rejected?

Director Biliouris: [00:21:00](#) Yes. I can't say it's on the front-end that...we don't check every single policy that's coming in, but we do have an audit team that audits every single carrier in the state who cedes business. That's one of the things they check for is, was the risk eligible? If it's not eligible, then that cession is essentially canceled and that risk reverts back to the carrier.

Rep. Warren: [00:21:28](#) I see, but the carrier is not required to keep that policy, is that correct?

Director Biliouris: [00:21:35](#) If they've written it, yes.

Rep. Warren: [00:21:37](#) Okay, thank you. You said in your testimony that the calculations are all done, and it includes a provision for fair profit. Could you tell me what percentage that is? What is considered a fair profit?

Director Biliouris: [00:21:50](#) In the voluntary market, the fair profit is a component of the rates that the Rate Bureau files. In our last filing, if you'll hold on one second, the... Where's profit? Hold on one sec. I brought that with me. The profit provision, I believe, was at 9.5%. That would be for the whole entire... Oh, there we go. For liability insurance, it was 8% of premium.

Rep. Warren: [00:22:41](#) Eight percent.

Director Biliouris: [00:22:44](#) There's a lot of differing opinions as to what is a fair profit. For most financial institutions—of which insurance companies are considered—the average profit I, last I saw, was about 14%. But average profit for other consumer goods and services is between 8 and 10%.

Rep. Warren: [00:23:06](#) Thank you very much. I've got lots more questions for you, but I'm going to stop here so my colleagues can have an opportunity to talk with you. Thank you.

Rep. Johnson, Chair: [00:23:18](#) We'll reserve the right for you to use your three minutes toward the end. Representative Dahle, you're recognized for up to five minutes.

Rep. Dahle: [00:23:27](#) Thank you, Mr. Chair, and thank you guys for coming. So, I'm still really confused, but I'm more confused about the numbers. So, on April 5, 2022, there was a presentation to the Joint Legislative Oversight Committee, and in it has the NCRF fiscal year income statement. I just need to know what these words mean. So, we have earned premiums. Now, those earned premiums, are those from ceded? What is an earned premium?

Director Biliouris: [00:24:05](#) You want to run through this?

Mr. Collins: [00:24:09](#) Sure. Think of it this way. If a policy is written January 1st for \$365, it's written January 1st, the company grants that coverage, and the Facility reinsures it for 365 days. So, each day that coverage is granted, there's a dollar of that premium is being earned.

Rep. Dahle: [00:24:30](#) Okay. Now—

Rep. Torbett: [00:24:34](#) Mr. Chairman? Mr. Chairman, point of information.

Rep. Johnson, Chair: [00:24:37](#) Recognize Representative Torbett.

Rep. Torbett: [00:24:38](#) For the record, when people are speaking to committee, would they please use their name so for the record knows and the people listening know who it is doing the speaking?

Rep. Johnson, Chair: [00:24:46](#) Yeah. Even though we have nameplates, yes, if you could recognize at the beginning of every statement, just so the audio picks it up. Thank you. Thank you, Representative Torbett.

Rep. Dahle: [00:24:54](#) Do we as representatives need to?

Rep. Johnson, Chair: [00:24:59](#) No, just the ones testifying.

Rep. Dahle: [00:25:01](#) All right. Now, we have the next one is clean risk recoupment.

Director Biliouris: [00:25:07](#) Okay.

Mr. Collins: [00:25:09](#) I'm Terry Collins. The clean risk recoupment is the percentage of the surcharge that is added to every policy in North Carolina, mine included, where the purpose of the clean risk surcharge is to cover the gap between the rates that are being... Okay. Good.

Rep. Dahle: [00:25:27](#) I don't mean to... I only have five minutes. All right. So, has anybody ever done a study on what, exactly what percentage that is, or what that equals out to be per human, or who has insurance in the State of North Carolina? Is it \$1.25? Is it \$5? Do we know what that would be? Is it based on my insurance rate?

Director Biliouris: [00:25:57](#) It's a portion. It's a percentage. When we do the clean risk recoupment percentage, it's a percentage of the liability portion of your auto premium. For example, when we talked about the average liability premium in North Carolina is \$396, if recoupment was at 10%, that would be \$39.60.

Rep. Dahle: [00:26:27](#) Okay, follow up. So, it's only the liability. It's not the collision, it's not the uninsured insurance that you can pay for?

Director Biliouris: [00:26:41](#) Uninsured is included in liability. Uninsured motorist is included in the liability premium, so it would be part of that.

Rep. Dahle: [00:26:47](#) All right, but it's not in the collision?

Director Biliouris: [00:26:49](#) Correct.

Rep. Dahle: [00:26:50](#) So, if you choose to buy collision or replacement value for your car, that's not included. It's only included in the liability insurance.

Director Biliouris: [00:26:58](#) Correct.

Rep. Dahle: [00:26:58](#) Which if I'm correct, liability insurance must be presented when you get a driver's license.

Director Biliouris: [00:27:07](#) Correct.

Rep. Dahle: [00:27:08](#) Is that correct?

Director Biliouris: [00:27:09](#) Yes.

Rep. Dahle: [00:27:09](#) Okay. All right, now that I've got all that straight in my head. Does anybody remember what the notification looks like on the document that you received from the insurance company? Does it have a little, "According to Statute 4422," whatever that is?

Mr. Collins: [00:27:32](#) No.

Rep. Dahle: [00:27:34](#) Okay.

Mr. Collins: [00:27:34](#) It would be a formal note.

Rep. Dahle: [00:27:37](#) All right. I'd like to cede my time to come back for more further questions, Mr. Chair.

Rep. Johnson, Chair: [00:27:52](#) Thank you, Representative Dahle. Representative Cleveland, you're recognized for up to five minutes.

Rep. Cleveland: [00:27:57](#) Thank you, Mr. Chairman. Would you define a clean risk for me?

Director Biliouris: [00:28:05](#) A clean risk as far as statutory definition is any risk that has more than two years driving experience and has no any violations that are classified as STIP violations.

Rep. Cleveland: [00:28:25](#) So, a clean risk individual does not have anyone in their family considered or their financial status considered or any other things?

Director Biliouris: [00:28:35](#) No, it is those two criteria.

Rep. Cleveland: [00:28:38](#) Okay. Do you know if insurance companies consider any of this... other criteria, excuse me, for clean risk when they put them in the Facility?

Director Biliouris: [00:28:48](#) Well, as I mentioned, the clean risk definition is only applicable to risk in the Facility. So, when a company is determining how much risk a policy may provide, they are looking at their motor vehicle record, which could show that while there's no SDIP points, maybe they had two prayers for judgments, or they had an accident, but it was under the threshold for an SDIP point. Something like that. So, there are certainly other underwriting factors that companies can consider when they're making the decision whether to keep that risk based in their book and in their voluntary business or if they choose to cede that risk.

Rep. Cleveland: [00:29:37](#) So, companies themselves can go outside of the clean risk definition to put people in the Reinsurance Facility.

Director Biliouris: [00:29:47](#) They can cede a risk to the Reinsurance Facility for any reason. The clean risk definition is solely applicable to the risk once it gets in the Reinsurance Facility to determine which rate is charged.

Rep. Cleveland: [00:30:02](#) All right. The Facility charges what I say the rack rate, what the rate is set by the state. And then when you get a policy from a company, you pay them a percentage of that rate, the rack rate, back to them for ceding the policy for administrative uses.

Director Biliouris: [00:30:23](#) For servicing and underwriting the policy, yes.

Rep. Cleveland: [00:30:26](#) Okay. What other things?

Director Biliouris: [00:30:27](#) It's a ceding expense allowance, if you will, that's a percentage of the liability premium that they remit.

Rep. Cleveland: [00:30:33](#) And it runs about 25% of what the policy charged.

Director Biliouris: [00:30:37](#) Most recently, I think it was 24.4%.

Rep. Cleveland: [00:30:41](#) That's close enough to 24.

Director Biliouris: [00:30:42](#) Yeah. But it fluctuates annually. We look at the average expense.

Rep. Cleveland: [00:30:46](#) And it fluctuates by company, I understand. Is that correct?

Director Biliouris: [00:30:49](#) Yes. Each company, we take the average expense for servicing that policy across the state, and then we look at each individual company. If they are below the average, they get reimbursed their percentage, but... They get reimbursed their percentage, but they can't be reimbursed more than that average, that's set each year.

Rep. Cleveland: [00:31:09](#) And then if there's a problem with the driver, if they have an accident or something, you also pay a percentage to the company to handle that. Correct?

Director Biliouris: [00:31:16](#) Yes. There's a claim allowance, as well.

Rep. Cleveland: [00:31:19](#) A claim allowance. Is the claim allowance the same for all companies?

Director Biliouris: [00:31:22](#) Yes.

Rep. Cleveland: [00:31:28](#) I'm not really familiar with the insurance industry across the board, but what is a designated agent business versus a insurance company?

Director Biliouris: [00:31:39](#) I'm going to defer that to Terry Collins.

Mr. Collins: [00:31:47](#) [inaudible 00:31:44] I'm sorry, I didn't hear that question.

Rep. Cleveland: [00:31:47](#) What is a designated agent business in relationship to a company? Because my information is that you pay them more to handle a policy than the company.

- Mr. Collins: [00:31:59](#) Yes, we do. Mr. Representative, the designated agent program is a program that was actually started back when the Facility was created at that point in time. For those of us who remember those days back in the early 70s, there was a real difficulty getting insurance coverage, finding a company or agent to write you. So, when they created the Facility, they created a designated agent program, which had, I think at that time, 200-something agents in it who were there to make certain that everyone could buy liability insurance.
- [00:32:29](#) Since that point in time, the insurance industry has changed, the market's changed, and the need for designated agents has dropped significantly. I believe we have six designated agents left in the state, and it's one of those, if you are a designated agent, you can actually inherit it from or bequeath it to your family. And so, some people are hanging onto it for whatever reason, but it's used very seldom today, very seldom. They're only two companies who actually operate with that, and each of the two companies, I believe, write roughly \$2 million total during the course of the year.
- Rep. Cleveland: [00:33:10](#) Okay.
- Mr. Collins: [00:33:15](#) Representative Cleveland, if I could add one thing about clean risk that I think might help with this, is that okay?
- Rep. Cleveland: [00:33:22](#) Go ahead.
- Mr. Collins: [00:33:22](#) And I wrote these down yesterday to try to help. We understand what a clean risk is, but when we talk about clean risk, a lot of us think of ourselves. So, here are three different clean risks.
- Rep. Johnson, Chair: [00:33:35](#) Mr. Collins, can you make sure the mic is picking up everything you're saying there?
- Mr. Collins: [00:33:38](#) Thank you.
- Rep. Johnson, Chair: [00:33:38](#) Absolutely. Just [inaudible 00:33:40].
- Mr. Collins: [00:33:41](#) Yeah, don't move my hands. So, here's one clean risk: 25 years of driving experience, no tickets, no citations, or accidents of any kind and drives a Camry. So, roughly 40-something years old, drives a late model car, clean risk all across the board. That's normally what I think of when I think of a clean risk, and I think most of us do.

[00:34:05](#) Here's another clean risk: four years driving experience, so, early 20s, one waived speeding ticket, three improper equipment citations, and the kid drives a Camaro. So, we know from what I've read in the news that improper equipment citations are kind of somewhat of a cottage industry as a way to get out of speeding tickets. So, there are no SDIP points on that, but an insurance company looks at it and goes, just like I would, three improper equipment citations, probably got caught speeding some more but had a good attorney.

[00:34:40](#) And then, driver number three: 10 years driving experience and has three cars. One policyholder, one person driving, but three cars. All three cars caused an at-fault accident. So, all three of his vehicles caused an at-fault accident, but he was not the driver. People borrowed the cars. So, the insurance company ended up paying for three at-fault losses, but there are no SDIP points because they go to the drivers, not the policyholder.

[00:35:13](#) So, those are three clean risks, but I think it's important to remember they're not what I think most of us would call, that's a clean risk. So, thank you for your patience.

Rep. Cleveland: [00:35:23](#) All right. The Insurance Facility at the end of the year basically charges back to all the insurance companies in the state an amount of money to recoup your losses. That to me is saying that the insurance companies are using the Reinsurance Facility as a way to mitigate their possible losses. So, we're sharing it across the entire industry instead of one company taking losses that they have incurred. Is that an honest statement?

Director Biliouris: [00:36:08](#) I wouldn't wholly agree with that statement.

Rep. Cleveland: [00:36:12](#) Tell me why, please.

Director Biliouris: [00:36:14](#) In North Carolina, as we've laid out, this is a take-all-comers state, right? So, we've said if somebody comes to an insurance company and says, I want coverage, they have to give them the liability coverage. It also says you have to give them the liability coverage and you can charge this much for it, which is the voluntary rate that's capped. So, an insurance company, what they're really good at is matching price to risk. If that risk is one of those situations that Terry laid out, has three at-fault accidents, yet no SDIP points, has 10 years' driving experience, they're locked into that voluntary rate to charge.

[00:37:01](#) And a good insurance company knows what the risk is worth and if they can't get the premium to offset the risk they're

taking on, the framework that we have developed in this state allows them to transfer that risk to the Reinsurance Facility. So, it's not necessarily that they're getting out of paying losses, necessarily. They are trying to ensure the risks they do take on have a chance of being profitable, and in some situations that's not the case.

- Rep. Cleveland: [00:37:39](#) I didn't say that they were trying to get out of paying losses. I said that the Reinsurance Facility is allowing them to spread possible losses they have across all the insurance companies in the state.
- Director Biliouris: [00:37:56](#) That's potentially a true statement. Yes.
- Rep. Cleveland: [00:38:00](#) Potentially. Okay.
- Director Biliouris: [00:38:01](#) Well, however—
- Rep. Johnson, Chair: [00:38:02](#) Representative Cleveland, the five minutes has expired. We'll have an additional follow-up three minutes for additional questions. Quick follow up.
- Rep. Cleveland: [00:38:10](#) Can the Reinsurance Facility do its function as provided by law if clean risks were not allowed to enter into it?
- Director Biliouris: [00:38:23](#) But clean risk is only a Facility term. In the voluntary market, if there was more flexibility in the rates the companies could charge, they would likely not send that risk to the Facility.
- Rep. Cleveland: [00:38:38](#) If clean risks were not allowed to come to the Facility, can the Facility function and do its legislative job?
- Director Biliouris: [00:38:46](#) If the Facility was able to determine the rates for any risk that came in, yes, but they are also bound by that voluntary rate that's set for any risk that's deemed clean.
- Rep. Johnson, Chair: [00:39:04](#) Representative Cleveland, I'm going to go ahead and put you in the queue for the follow-up three minutes when we open it back up towards the end of the meeting. And please add Representative Stevens to the original queue.
- [00:39:16](#) Representative Cervania, you're recognized for up to five minutes.
- Rep. Cervania: [00:39:19](#) Thank you so much for your presentation today. It's clarifying a lot of things, but I do have many questions.

Director Biliouris: [00:39:25](#) Okay.

Rep. Cervania: [00:39:27](#) And it's actually a stepping stone from Representative Cleveland's question. This Facility has been established since 1973, that's before some of us were born. And I'm just wondering, periodically, do you assess if this really is a benefit to our citizens, the structure versus being in an ARP structure as 48 other states are in?

Director Biliouris: [00:40:02](#) An assigned risk market?

Rep. Cervania: [00:40:03](#) Correct.

Director Biliouris: [00:40:04](#) Yes. Actually, from my understanding before I was born, too, was that North Carolina was under an assigned risk plan.

Rep. Cervania: [00:40:14](#) Yes.

Director Biliouris: [00:40:14](#) And I know in previous presentations to this group, Dr. Murphy had shared information about South Carolina's assigned risk market. In assigned risk market there's a lot more limitation on the number of carriers that are writing the business. The consumer does not have a choice on where they go. You'd have to look at the rate structure there of how you would charge assigned risk policies versus not. But really, the customer choice and the number of companies who would actually be insuring those risks are some of the limitations that I see.

[00:41:04](#) But yes, there's been 42 pieces of legislation since 1973 that have amended various components of the Reinsurance Facility, so, it is evolving and modernizing. Most recently, there was legislation to tighten up the eligibility requirements. I think everyone heard about tour buses in New York had North Carolina plates on them, so therefore they were insured in North Carolina through the Facility. They tightened up those eligibility requirements. The purpose was to benefit North Carolinians, not anybody who registered a car here.

Rep. Cervania: [00:41:53](#) So my question was more, and I think you sort of answered it in that if there's reassessments done periodically, but I'm going to go on to my further question. I know that you mentioned that audits are done once a policy goes from the voluntary market into the Facility, but it's only a small sample size.

Director Biliouris: [00:42:17](#) Correct.

Rep. Cervania: [00:42:18](#) So, I have a concern about that because we are taking on the responsibility of mitigating loss for a for-profit company. And it's not the insurance companies of your collection, but it's all of us as North Carolinians. So, is it just the sheer number that you can't do a secondary assessment of risk once it's from the voluntary, once it goes into the Reinsurance Facility?

Director Biliouris: [00:42:56](#) Well, statutes don't require that companies give a reason for ceding that risk. Statute says they have to insure it. So, the framework has, if you have to take it gives you an opportunity to either keep it or cede it. So, I'm not sure what assessment of risk we would do at that point because there's no standard for which they can turn it or not.

Mr. Burns: [00:43:30](#) I'll do that. Is this on?

Speaker 2: [00:43:30](#) Yes.

Mr. Burns: [00:43:33](#) Tom Burns, director of auto operations. So, the question comes back to the auditing piece is what I heard up front. My team actually is responsible for the auditing of the policies that come into the Facility. In fact, we actually audit policies that aren't even in the Facility to confirm that the companies are charging the proper amount of recoupment that's applied to these. But I can tell you that we audit every company that cedes business, we look at a portion of their files every year, and we look for eligibility. We look for proper rating, proper recoupment, and we verify that the proper claims are being paid, so, we go down through it.

[00:44:18](#) One thing that may give you a little bit of ease in thinking about this audit, especially on the private passenger auto side, is that when you look at the companies and how they write, and I'm a transplant from the companies in over three decades working with the companies, a lot of it's automated and system driven. So, if we find an error in the way a factor was applied, when we go back to the companies, we're going to say, "All right, how long has this been going on? How many policies, and how much is it going to be the difference?" And then we work with them to get the money back to us, and in some cases, we find that they were actually undercharging, we actually owe money back to the companies. It goes both ways.

[00:44:59](#) But I can assure you that we look at files, and it is a portion, but because of the way some of these systems are driven, if you find one, you can usually ask the question and find out how many.

Rep. Johnson, Chair: [00:45:10](#) Representative Cervania, your original time has expired. Would you like to be placed in the queue for a follow-up?

Mr. Burns: [00:45:16](#) I'll apologize because I think I took all her time.

Rep. Johnson, Chair: [00:45:19](#) We're making progress. I think we're going to have a second round. We'll go and put you in the queue for a second round of questions.

[00:45:24](#) Representative Willingham, you're recognized for up to five minutes.

Rep. Willingham: [00:45:29](#) Good morning. My question is, somebody mentioned points, and this is just for my benefit and also for people out listening. Could you elaborate on how the insurance point system in North Carolina works, and how you allocate risk for insurance companies? In other words, whether or not this system is the most effective tool for calculating whether an auto policy is a high risk or not?

Mr. Burns: [00:46:05](#) I'm not sure I understand.

Rep. Willingham: [00:46:06](#) I'm going to have to defer that to one of my [inaudible 00:46:08].

Mr. Burns: [00:46:11](#) Tom Burns. I'll try to answer this. Can I hear the question one more time?

Rep. Willingham: [00:46:15](#) Well, I'm asking about the point system. What is the point system, first of all?

Mr. Burns: [00:46:20](#) For the SDIP points, Safe Driver Insurance Plan, those points? It's actually in the Rate Bureau manual that is filed that the Facility adopts, and it assigns points based on the type of violations that you have and/or the type of accidents that you have. So, there's different ranging points that would impact your rate. So, a DWI would have a certain number of points versus a 15 mile and over speed, and those things are assigned into the rating factor when the policy's rated out.

Rep. Willingham: [00:46:58](#) And I would assume that there are a number of these are ones that are ceded to the Facility.

Mr. Burns: [00:47:07](#) So, that would be the other-than-clean portion, you heard clean risks, which makes up the majority of the Facility. The other-than-clean, I think, Terry, is 20%? It's about 20% of the Facility book is other-than-clean. So, I would say the majority of that is

actually staying in the voluntary market right now. But the Facility is made up majority of the clean risk that we explained earlier.

Rep. Willingham: [00:47:32](#) Okay. This is just completely different subject. I was looking that in North Carolina is about 7.4% uninsured motorist, and every person, driver has to have an insured motorist pay for that.

Mr. Burns: [00:47:51](#) Yes.

Rep. Willingham: [00:47:53](#) Do you think with that small percentage, is that something that we really need to happen? Everybody paying for somebody else who's not insured?

Mr. Burns: [00:48:08](#) I can tell you, being a North Carolinian and having lived in other states, lived here for 20 years, I'm glad I purchased the coverage, and I was much more nervous of having somebody that wasn't insured hit me in another state than I am here. So, I don't know whether I could offer the opinion of the Facility, but I can tell you that for my own self, I buy it, and I'm glad I've got it. I love to drive every place up and down the East Coast, and there's a good chance some time I may get in an accident where somebody else doesn't have it.

Rep. Willingham: [00:48:42](#) I guess what I'm asking, if that percentage was much lower, say it was 2%, I'm looking at how can we as insurers reduce the amount of money we're paying for insurance? It's kind of over-the-top right now. So, is that one area that we can look at, maybe perhaps, that we can make some adjustments?

Mr. Burns: [00:49:15](#) I think so. I don't think the majority of the premiums, when I look at my deck page and coverages, is coming out of that particular coverage. But if you look at liability or the comp and collision coverage, that's where the bulk of the premium is, and if I was to focus, that's probably the coverages I would try to look at more based on the percentage and the cost associated with it, if that makes sense.

Rep. Willingham: [00:49:39](#) Yeah. Okay. I know we have quite a few insurance companies in North Carolina, but have we had any insurance companies to leave North Carolina and not write insurance because of the way we run our insurance company here? The way we're set up?

Director Biliouris: [00:50:01](#) Not that I'm aware of, no. We haven't had any companies leave recently, I would say in the last 20 years.

- Rep. Willingham: [00:50:16](#) Okay. So, we haven't had any companies leave. So, everybody's happy with us. We're doing a great job.
- Director Biliouris: [00:50:24](#) Yeah. We have a very robust market. We have about 139 companies writing insurance in the state, and we haven't had any insolvencies, and we haven't had any companies exiting the state.
- Rep. Willingham: [00:50:40](#) Okay, thank you. This is one, I don't know, maybe you can answer, maybe you can't. But since the pandemic, have you noticed, or have the insurance industry noticed any difference in the driving behavior of our drivers after the pandemic? We're coming out of it now, but are we noticing any trends, anything that's happening that we are aware of?
- Director Biliouris: [00:51:11](#) One of the things that we do look at is the frequency and severity of claims, and both of those have increased since the pandemic. There have been more claims, and they're of a higher dollar amount. So, we've seen the auto market somewhat worsen since the pandemic. A lot of that's anecdotally what we're reading is distracted driving, more expensive vehicles, higher costs of repairs, all of those type things are driving those losses up.
- Rep. Willingham: [00:51:57](#) Okay, thank you.
- Rep. Johnson, Chair: [00:51:58](#) Thank you, Representative. Representative Humphrey, you are recognized for up to five minutes.
- Rep. Humphrey: [00:52:02](#) Thank you, Mr. Chairman, and thank y'all for being here. I may be one of the few members on this committee that has insurance experience. I've been an agent for 30 years, and I'll admit the Reinsurance Facility is confusing. I mean it is, and consumers and members of this committee are learning something new every day. But having said that, I'm just wondering, if we were to unwrap the Facility and take it away or change it or modify it, what would it do to insurance rates in North Carolina overall?
- Director Biliouris: [00:52:44](#) I'm not sure that I could answer that question. It's part of such a large framework that if you tried to take that one piece out, there's a lot of other things you'd have to close up. I do think that our regulatory framework and statutory framework, as we have it today, supports us having low rates. We do. All the rankings we've seen, North Carolina's in the bottom percentile, bottom 10, bottom 12, as far as insurance rates. And I have to

believe that the entire framework together is what supports that.

Rep. Humphrey: [00:53:31](#) I've been communicating with an agent down near South Carolina, and since the Facility was modified down there, he's telling me rates are up as high as 48% over what they were without the support system of the Facility, which is scary if we change this model here much. So, there's a misconception about Facility rates compared to voluntary rates. I think a lot of folks on this committee, and public, may think there's a gap that's doubled. That's not the case, right? What's the average? If Representative Dahle is in the Facility and I'm in the voluntary market, what's the average difference? We have a single car, clean risk. Give us an idea of what it may look like.

Mr. Collins: [00:54:31](#) This is Terry Collins. That's not really a number that we look at and compare on a regular basis at all. We do know that on the whole, the business that's retained, or voluntary, is going to have a much lower rate on average than the business in the Facility. I'm not sure what that percentage is, but obviously you also have the other-than-clean business in the Facility that doesn't have the driving experience or has SDIP points, which, of course, those rates are higher. So, the Facility rate and the voluntary rate, or retained rate, are the same until the companies apply deviations or discounts to those rates to make them lower. And that's what creates a difference between the Facility and what's being charged to people that are retained. And that's really a risk relation type difference.

Rep. Humphrey: [00:55:23](#) Yeah, I was just going to say, in my experience, the rates, if we're the exact same risk, the rate's not 50% higher.

Mr. Collins: [00:55:30](#) Oh, no.

Rep. Humphrey: [00:55:32](#) I may be paying \$20 lower. It's not crazy. But I think there's a misconception that if you get in a Facility you're just getting ripped off.

Mr. Collins: [00:55:41](#) I agree with that. I've heard that same misconception. Absolutely. And typically, what you are going to find when you talk to individuals, you're going to be talking about as low as \$15, maybe \$100 dollars when you're talking about a couple cars. So, it's not that dramatic difference that people think. Being in the Facility is not a bad thing from a premium standpoint at all.

Rep. Humphrey: [00:56:02](#) So, I'm going to move on here real quickly. So, we have 139 auto insurance companies in North Carolina, approximately. How many are—

Director Biliouris: [00:56:12](#) Rating. Yes.

Rep. Humphrey: [00:56:12](#) How many are in South Carolina? Do you have any idea what that number is?

Director Biliouris: [00:56:16](#) I do not. Unfortunately.

Rep. Humphrey: [00:56:16](#) There's only two in South Carolina that actually write business through their Facility. Only two companies take on their assigned risk.

Director Biliouris: [00:56:24](#) When they had a Facility, yes, they had two companies that would write it through them.

Rep. Humphrey: [00:56:30](#) In North Carolina, all 139.

Director Biliouris: [00:56:32](#) Yes.

Rep. Humphrey: [00:56:33](#) Right. So, you've got competition, you've got choices, you've got a robust market, like you said.

Director Biliouris: [00:56:38](#) Yes.

Rep. Humphrey: [00:56:39](#) All right, thank you very much.

Rep. Johnson, Chair: [00:56:42](#) Thank you, Representative Humphrey. Representative Chesser, you are recognized for up to five minutes.

Rep. Chesser: [00:56:47](#) Thank you, Mr. Chair. Just real quick, so, do you guys ever do like a peer review, look for other states that have structures similar to ours and compare ourselves to them?

Director Biliouris: [00:57:02](#) Rhode Island, from my understanding, is the only other state with a Reinsurance Facility. However, it's a little difficult without looking at the statutory framework to make apples to apples comparison. There are also different demographics there. It's a much smaller state. There's snowfall, there's a lot of different factors that may impact the insurance premiums and how insurance is written there. So, I can't say that we have, no.

Rep. Chesser: [00:57:35](#) So, earlier when you said we're consistently in the bottom 10 or 12, which is a good thing, we're looking to have the lowest premiums possible.

Director Biliouris: [00:57:43](#) Yes.

Rep. Chesser: [00:57:43](#) It would be impossible for all of the states that are lower than us in premiums to have a Facility, or a structure similar to ours, because there's only one other state that does?

Director Biliouris: [00:57:54](#) There's only one other state that we can compare ourselves to, as far as that's concerned.

Rep. Chesser: [00:57:59](#) So when you're looking at rates and what creates the low rates for our state, what are the metrics you're looking for other than just saying our entire regulatory structure and the Facility play a role? Is there any other factor that you think plays a role in that, a significant role? Like for instance, maybe the fact that we have contributory negligence laws here?

Director Biliouris: [00:58:24](#) That's certainly a positive influence on the rates. Yes. So, it is our legal framework, our statutory framework, the fact that we have a rate bureau that sets that voluntary rate, all of those contribute to the framework that we have today.

Rep. Chesser: [00:58:47](#) Okay. And so, my colleague, Representative Humphrey, was trying to get to the fear that if the Facility were to go away, we could see rate increases like we did in South Carolina. But the same could be said, I would almost guarantee would be said, if we lost contributory negligence laws that we currently have, we would see a drastic increase in our rates then.

Director Biliouris: [00:59:11](#) I don't disagree with that.

Rep. Chesser: [00:59:14](#) Just backing up, in your statement, I believe you said no one pays less and no one pays more to go into the Facility.

Director Biliouris: [00:59:23](#) They can pay more to go into the Facility, but on a clean risk, or what's defined as a clean risk, the voluntary rate has to be charged by the Facility and by the insurance company in the voluntary market. They may deviate below that voluntary rate, but they can't exceed it. And then the Reinsurance Facility has to charge that same rate.

Rep. Chesser: [00:59:49](#) Okay. So, on clean risk you cannot increase the rate?

Director Biliouris: [00:59:53](#) Correct.

Rep. Chesser: [00:59:54](#) Are they still notified that they've been pushed into the Facility?

Director Biliouris: [00:59:58](#) Yes.

Rep. Chesser: [00:59:58](#) And is that a voluntary notification or a mandatory notification?

Director Biliouris: [01:00:01](#) It's statutorily required.

Rep. Chesser: [01:00:03](#) What statute? If you don't mind.

Director Biliouris: [01:00:06](#) Do you have the statute?

Mr. Collins: [01:00:07](#) I can get that for you.

Rep. Chesser: [01:00:08](#) Thank you.

Director Biliouris: [01:00:08](#) I don't have it off the top of my head.

Rep. Cleveland: [01:00:11](#) Can I ask a question.

Rep. Chesser: [01:00:13](#) You want to ask a question? Go ahead. All right. Would I be able to yield my time to another member?

Rep. Johnson, Chair: [01:00:21](#) I believe he's already in the queue for a follow-up. Coming up soon.

Rep. Chesser: [01:00:25](#) I'll retain the rest of my time.

Rep. Johnson, Chair: [01:00:26](#) Perfect. Thank you, Representative Chesser. Representative Stevens, you are recognized for up to five minutes.

Rep. Stevens: [01:00:32](#) Thank you, Mr. Chair. Trying to make sure I get to the right microphone so I can be heard. I'm going to sort of go back to a little bit more basic. I have a traffic ticket, 15 miles over the speed limit. My insurance company has the right to charge me a higher premium. Is that correct?

Director Biliouris: [01:00:50](#) Correct.

Rep. Stevens: [01:00:51](#) Am I then classified as an other-than-clean risk, or I'm just a person with tickets?

Director Biliouris: [01:01:01](#) Well, if we're talking about the liability portion of your policy, if you have a violation that results in SDIP points—

Rep. Stevens: [01:01:11](#) Yes.

Director Biliouris: [01:01:12](#) ... the companies in the voluntary market may charge the rate that's been established for that. It's a published rate. If you have X amount of points or this amount of points, you can charge up to this amount. The Reinsurance Facility has a separate set of

rates for those risks that are deemed other-than-clean, meaning they have points or they have less than two years driving experience.

- Rep. Stevens: [01:01:38](#) Okay. So, then my next question is, we know that that's a risk that I've got a ticket for more than 15. Then you talked about other-than-clean risk, where are other-than-clean risk defined? Is there a specific definition?
- Director Biliouris: [01:01:53](#) There is. The definition of other-than-clean is that it doesn't meet the definition of clean.
- Rep. Stevens: [01:02:02](#) So, my [inaudible 01:02:04]-
- Director Biliouris: [01:02:03](#) So my book says anything meeting the clean risk definition is clean risk. Anything that does not meet that definition is considered other-than-clean.
- Rep. Stevens: [01:02:12](#) All right.
- Director Biliouris: [01:02:12](#) But again, these are only for Facility business as to which rates the Facility can charge.
- Rep. Stevens: [01:02:19](#) Right. It's just in the Facility.
- Director Biliouris: [01:02:19](#) Yes.
- Rep. Stevens: [01:02:20](#) So, the Facility decides what clean risk is.
- Director Biliouris: [01:02:26](#) Statutes define what clean risk is.
- Rep. Stevens: [01:02:29](#) And I've got the ticket for over 15 miles an hour, but I go to the court convincing I've got a clean driving record otherwise, and they dismiss it. My local people can't take that into effect. But they can send it to you, and you can?
- Director Biliouris: [01:02:45](#) No. The Facility cannot take that into effect. The Facility can only take into account whether you have points. If you do not have points, they can't charge you as if you do. The voluntary market, however, can make a risk-based assessment based on the fact that you had that ticket waived. But they cannot charge more than the Facility would charge.
- Rep. Stevens: [01:03:11](#) But with other-than-clean risk, I thought you said you could charge for it?

Director Biliouris: [01:03:14](#) But you are not an other-than-clean because you had that ticket dismissed, so therefore, you are considered, you have no SDIP points. So, you're considered the same whether you're in the voluntary market or the Facility.

Rep. Stevens: [01:03:30](#) All right, I didn't get it dismissed. I got an improper equipment. And you said that—

Director Biliouris: [01:03:34](#) Same result.

Rep. Stevens: [01:03:36](#) But you said a while ago those are things you could consider as other-than-clean.

Director Biliouris: [01:03:39](#) That's things that the insurance companies have insights into. For statutory definition, improper equipment does not result in any points, SDIP points, so therefore, you're not considered an other-than-clean risk, you're considered a clean risk.

Rep. Stevens: [01:03:57](#) So other-than-clean is anything but clean. A non-conviction or an improper equipment still keeps you clean.

Director Biliouris: [01:04:05](#) Correct.

Rep. Stevens: [01:04:06](#) But that may be why they cede it to the Facility because they tell you, here's the problems we've seen.

Director Biliouris: [01:04:12](#) They don't have to tell us anything. They make that decision in looking at it, and they may say, based on my assessment, this is a higher risk than this voluntary minimum rate allows for.

Rep. Stevens: [01:04:28](#) And so, would that also be because of age that they might cede it to you that it's an extremely young driver or an extremely old driver?

Director Biliouris: [01:04:36](#) Actually, age is not one of the components. Years driving experience is. So, somebody with less than two years driving experience, you sometimes incorrectly assume that they're a young driver, but it could be somebody that got licensed later in life, and they just are what they call inexperienced, not more than two year... If they have two years or less driving experience, they're considered an inexperienced driver.

Rep. Stevens: [01:05:05](#) So the insurance company can just consider anything they want, don't tell you anything, and send you a policy where you see nothing wrong with it. Is that right? You see it as a clean policy.

Director Biliouris: [01:05:20](#) Well, I am not sure on your policy that it would actually list anything on there. They would quote you for what they're willing to insure you for, what coverages you were willing to purchase, and then you have the opportunity to say, "Yes, I'll take that quote," or, "No, I'm going to continue to shop around."

Rep. Stevens: [01:05:38](#) No, no, no. I'm talking about though the insurance company says, "Oh, I know I've seen this kid driving around town, fishtailing and he's done all these other things. I don't want to insure him. I'm going to cede him to the Facility." Then all you know is that he's a clean driver, he doesn't have any points. He's been driving for more than two years or four years or eight years, whatever the new factor will be. You treat him as a clean driver.

Director Biliouris: [01:06:01](#) Yes.

Rep. Stevens: [01:06:02](#) You have no ability to charge him anything extra.

Director Biliouris: [01:06:05](#) Correct.

Rep. Stevens: [01:06:06](#) Okay.

Director Biliouris: [01:06:08](#) All right.

Rep. Stevens: [01:06:10](#) And then at the end of the year, if he's had accidents or other things have happened, local agent's off the hook, you're on the hook for what may be potential problems.

Director Biliouris: [01:06:20](#) Correct.

Rep. Stevens: [01:06:21](#) And then at the end of the year, you've put all that together and charge every individual a fee to recoup the cost of that.

Director Biliouris: [01:06:29](#) Correct.

Rep. Stevens: [01:06:31](#) And your profit.

Director Biliouris: [01:06:32](#) Excuse me?

Rep. Stevens: [01:06:33](#) And profit. You expect a profit.

Director Biliouris: [01:06:35](#) There's no profit now, and the Facility operates on a not-for-profit basis, meaning any rates that we establish for the other-than-clean or commercial, anything like that has to be done at no profit. But there is a gap between clean risk—I mean that's

the biggest component of the recoupment charges is on the clean risk. It's not necessarily loss recoupment, or it hasn't been historically. It's on that clean risk recoupment, recouping the difference between an actual actuarially sound rate and what the voluntary rate is for those risks in the Facility.

- Rep. Stevens: [01:07:18](#) But didn't you say earlier y'all make a profit?
- Director Biliouris: [01:07:21](#) No.
- Rep. Stevens: [01:07:22](#) Ten percent; you're talking about general insurance companies make a profit of 10.
- Director Biliouris: [01:07:26](#) Yeah. We were asked what the profit provision was for and the rates for insurance companies.
- Rep. Johnson, Chair: [01:07:32](#) Representative Stevens, your five minutes has expired, would you like to be put on the follow-up too?
- Rep. Stevens: [01:07:37](#) Yes, I may waive it, but...
- Rep. Johnson, Chair: [01:07:39](#) Perfect: add Representative Stevens. Representative Cunningham, you're recognized for up to five minutes.
- Rep. Cunningham: [01:07:45](#) Thank you. Mr. Chair. I only have two questions for you. Based on geographical location zones, how do we determine even population density taking that into consideration, the insurance rates, the variance of it. If I'm in Mecklenburg, I pay one rate, but if I'm in Stanly County, I pay another rate. If I'm in Robeson County, I pay another rate. What's that impact within the Facility?
- Director Biliouris: [01:08:20](#) Well, the rates are established by the North Carolina Rate Bureau, and it's a very in-depth analysis of expenses and losses across the entire state. And then it's also broken down by what we call territories. And those are broken down by county, zip codes, various things. Like you said, population density is an issue. The quality of the roads is an issue. All of what the climate is from one side of the state to the other has a factor on those rates. But it's also how many historical losses have been in that area. So, the rates are, instead of coming up with just one rate for everybody across the state, it is delineated by those territories.
- Rep. Cunningham: [01:09:13](#) So, if I'm at the beach or I have property at the beach and hurricane comes in every now and then, that significantly impacts what their rate is closer to the water.

- Director Biliouris: [01:09:27](#) Correct. And it can also impact your car because a lot of climate-related events impact your vehicle as well as your property.
- Rep. Cunningham: [01:09:36](#) But what does that do to your rates based on the impact that it has inside of the Reinsurance Facility? Is there a direct impact there?
- Director Biliouris: [01:09:47](#) No. The Reinsurance Facility uses the voluntary market rates. So, they use the same rates that as far as rate structure territories that companies do. Yes. Just for the clean risks.
- Rep. Cunningham: [01:10:07](#) So let's go back, and Representative Stevens was talking about the clean risk. So, even if you're at the water, at the beach, you are already paying more in the voluntary market. Now also, if you are not clean risk, doesn't that impact the Reinsurance Facility even though you are already in a territory that you're already paying increased rates based on geographics, based on population density?
- Director Biliouris: [01:10:42](#) I'm not sure I'm following that a hundred percent. But in the Reinsurance Facility, all those risks that don't meet the definition of clean, meaning they have SDIP points or they have less than two years driving experience, those risks are pulled together or really put together, and then the Reinsurance Facility sets the rates for that other-than-clean. They set their own rates based on their own losses and experience, and that is also territory based. So, there is a higher rate for those. But even outside the Facility, if you have points or all of these other factors, you're typically going to pay more for high-risk characteristics.
- Rep. Cunningham: [01:11:36](#) Thank you. So, even if you wasn't at the beach, can you determine how much of an entity or geographical area that is in the Facility, or is that just based on the agencies inside of the Facility? I'm looking at policyholders.
- Director Biliouris: [01:12:00](#) I'm not sure that we have information on, "Is there a specific territory that's represented more in the Facility than in the voluntary market?"
- Mr. Collins: [01:12:12](#) This is Terry Collins. No, we do not look at that because that is not really under our responsibility. Our responsibility really is to follow the statutes in terms of what we should be doing. Does that information exist? Sure, it exists, but it's not something that we look at because it does not impact what our function is.

- Rep. Cunningham: [01:12:35](#) Thank you. This is my last question right here. According to the data from the CMPD, since 2016, Charlotte alone has had hit-and-run collisions over 11,000 a year. It's over 11,000. What impact does those collisions have on the auto market as well as the insurance? As you are the Facility.
- Mr. Collins: [01:12:58](#) This is Terry Collins. Again, if they're hit-and-runs reported to the police, so, officially hit-and-runs, then obviously those would be uninsured motorist incidents. You're asking for an amount of detail that really, again, is not something that we're concerned with and because it really is not a function of what we do. Now, all that information is built into the rates that ultimately are filed by the Rate Bureau that we use. So, we are using that information in the rates, but it's not something that we have at hand, and so, I can't tell you what the impact is.
- Rep. Cunningham: [01:13:39](#) Thank you. Just to comment, Mr. Chair, my grave concern is that everybody is paying into it, and if you have a hit-and-run, there's a gap because even if they hit-and-run, you are covered, you got to go back and use your insurance, and your rates are, maybe, going up. But the consumer is still ending up paying on the short. They're still shorted. So, I'm not sure that the Insurance Facility, if it's something that we have to look at going forward is, okay, I'm covered, but that other person may not be covered. I'm already in the Facility. If I'm not clean risk, I'm already in the Facility with my policy. But still, it falls back on the policyholder that actually has cover. The person that did the hit-and-run really gets off, and we are still covering because they're not in the Facility, because they don't have no cover.
- Director Biliouris: [01:14:43](#) The coverage is the same, the policy is exactly the same whether you're in the Facility or you are not. So, it doesn't necessarily mean if you have points that you're in the Facility. If a company can charge the right rate for that risk, they'll keep it. But what we're saying is the coverage, the policy forms, everything that a consumer in North Carolina has, whether it's written through the Facility, reinsured on the back end through the Facility or through a company, are exactly the same. There's no diminished coverage when you're in the Facility.
- Rep. Cunningham: [01:15:23](#) Mr. Chair, I think what I'm saying is these people don't have insurance at all that did the hit- and-run, but the people that's in the Facility, even if they are not a clean driver or the agent who writes the policy, they still are off, and we are still as a policyholder are paying. That's what I'm saying. They don't have anything. They're not dealing with you all at all. Thank you, Mr. Chair.

- Rep. Johnson, Chair: [01:15:47](#) Thank you, Representative Cunningham. Representative Quick, you are recognized for up to five minutes.
- Rep. Quick: [01:15:51](#) Thank you, Mr. Chair, and good afternoon. Are acts of God factored in for drivers in the Facility at all? Someone hits a deer, does that change their rates?
- Director Biliouris: [01:16:05](#) If somebody hits a deer, that would typically be covered under your collision portion, and collision rates are not contemplated in the Facility. The Facility is just there to provide liability coverage.
- Rep. Quick: [01:16:19](#) Okay. Second question. North Carolina has a lot of roads, second to Texas. And at one point in time, we were known as the Good Roads state. How does that impact—the condition of North Carolina's roads and our road maintenance—how does that impact auto insurance rates, or does it at all?
- Director Biliouris: [01:16:38](#) I couldn't quantify that for you specifically, but certainly the better road conditions attributed to the DOT would have, I would think, a favorable impact on our insurance rates.
- Rep. Quick: [01:16:52](#) All right, and the last question I have is in our previous hearing we heard about the different percentages that some companies have with respect to how many of their policies are ceded to the Facility. However, do all companies who underwrite auto insurance handle their business the same? Is insurance an equally significant percentage of all companies business?
- Director Biliouris: [01:17:19](#) I'm not sure I understand that question. Are you asking what percentage of companies utilize the Facility to cede risk?
- Rep. Quick: [01:17:26](#) Sure, yeah.
- Director Biliouris: [01:17:27](#) That's about 99.8% of companies writing in the state have ceded risk to the Facility as well as written in the voluntary market. So, yes, it's utilized pretty extensively.
- Rep. Quick: [01:17:43](#) And finally, how important is it for controlling costs to allow insurers the flexibility to allocate policies in a way that works best for their business model?
- Mr. Collins: [01:17:58](#) This is Terry Collins. I don't know that it controls costs as much, but the insureds getting to pick the insurance company or agent that they want to have that relationship with and do business with and then they can bring, you would assume all whatever coverages or policies they have maybe under one roof if that's

what benefits them. But obviously giving them the choice as opposed to forcing them to go one way or the other. It is just, for me, it would be having that choice as opposed to being told.

Rep. Quick: [01:18:31](#) I'm sorry, one additional follow up. As I heard us talking about distracted drivers a little while earlier. We only touched on it briefly, but obviously, driving in from Greensboro today, I mean you can see it. All you have to do is look. Is there any consideration, no points are given now, I don't think. You have to do something in order to be charged with being a distracted driver now. Is that right? You have to get caught speeding, and the cop says, "Hey, I know that you're looking at your phone." Or you have an accident and the cop says, "Hey, I saw you looking at your phone." How was the prevalence of distracted driving, not only changing the way people drive, but how was it being factored into the way an insurance company look at charging rates for drivers? Is that something that's been studied? Is that something that's already having an impact?

Director Biliouris: [01:19:23](#) There's certainly been studies as to what may be causing shifts in claims and losses in the insurance industry and distracted driving is something that's typically referenced. I mean cars have a lot more features in them. You have your phone, all those. But rates are predominantly based on losses and loss experience. So, when distracted driving results in a loss, yes, that's captured and factored into insurance rates.

Rep. Quick: [01:19:54](#) But as of right now. So, we're all trying to limit distracted driving, but to your point, you've got your navigation system, you've got your cell phone, you've got whatever you have. I guess my question, maybe not even be a question, but it is something that I know that we're all concerned about. Is there anything that the insurance company is doing as far as educating drivers about it as far as working with law enforcement about how we can mitigate this in any way? Because my fear is that some people are thinking that they're becoming expert distracted drivers, that they can... I can handle my phone and drive, some people think.

Director Biliouris: [01:20:38](#) I can't speak on behalf of the insurance companies in the state as to what programs they may have in place for that. I mean there's certainly awareness out there about it, but as far as specific measures that insurance companies are taking, I really can't speak to that.

Rep. Johnson, Chair: [01:20:59](#) Thank you, Representative Quick. Are there any members of the committee who have not spoken for a first time that would like

to be recognized at this time? Representative Torbett, you're recognized for up to five minutes.

- Rep. Torbett: [01:21:09](#) Thank you. I just have a few questions-
- Director Biliouris: [01:21:10](#) Sure.
- Rep. Torbett: [01:21:12](#) ... and some are new, and I don't know if they've been asked or not. You mentioned two years for young drivers or earlier, and I'm guessing they're charged a higher rate for less time behind the wheel when they become drivers?
- Director Biliouris: [01:21:27](#) Yes.
- Rep. Torbett: [01:21:28](#) If they go through that probationary, for lack of a better term, period and come out the other side unscathed, they've had no claim or anything. Are they rebated any of that money that they had to pay as a surcharge because of their age, for example?
- Director Biliouris: [01:21:44](#) Not that I'm aware of, no. The rate is based on their driving experience. So, once they pay that premium for that coverage, when they're renewed, they start over.
- Rep. Torbett: [01:21:54](#) Okay. Second question I had; you mentioned the ... being a not-for-profit. So, I guess I'm trying to find this pre-COVID, post-COVID inflationary. I'm following in a lot of things that we do in government. So, I guess my question would be is that you have fixed costs, obviously. Those fixed costs probably have annual increases based on inflationary measures or whatever. If so, have you determined what that increase has been pre-COVID, post-COVID? The second issue I have is that if the costs are extreme, have you also adjusted salaries and or benefits to personnel of the not-for-profit? If so, by what percentage? Pre-COVID, post-COVID.
- Director Biliouris: [01:22:45](#) I can't say that we actually looked at pre-COVID, post-COVID because most of the work that we do, we were able to do during COVID. I mean people were still renewing their insurance policies, whether people were driving a lot and everything, they still had coverage, they still had policies. There were still sessions coming into the Facility. There were still files to be audited.
- Rep. Torbett: [01:23:07](#) Let me see if I can refine my question too. Just I'm looking at a differential of costs relative to the consumer, what it was 2019 versus what is 2023, for example.

Director Biliouris: [01:23:23](#) Well, as far as our operating costs, they didn't adjust significantly. However, losses that are paid out by the Facility certainly declined when there were less people driving during the pandemic. There was a decrease in the amount of loss recoupment and clean risk recoupment during that time. It has since picked back up. But yes, I mean we did see the shift for sure.

Rep. Torbett: [01:23:53](#) Final question, Mr. Chair, is that we understand the cost of uninsured drivers and when you track uninsured drivers, do you track those that are in this country legally versus folks that are in this country illegally?

Director Biliouris: [01:24:06](#) Well, we don't actually track uninsured drivers. Most of the information we have about who's uninsured comes from organizations that track that. But it's kind of hard to figure out who doesn't have something. So, we don't, the Reinsurance Facility doesn't have any statistics. We don't collect data nor report any data related to uninsured motorists.

Rep. Torbett: [01:24:34](#) Okay, so you basically on the uninsured motorists, you have no idea, just uninsured motorists?

Director Biliouris: [01:24:40](#) In the Reinsurance Facility?

Rep. Torbett: [01:24:41](#) Yeah.

Director Biliouris: [01:24:41](#) Correct.

Rep. Torbett: [01:24:46](#) Thank you.

Rep. Johnson, Chair: [01:24:47](#) Thank you. Are there any other members of the committee who would like to be recognized for a first time? Seeing none, we'll start with our follow-up. Co-chair Warren, you're recognized for up to three minutes.

Rep. Warren: [01:24:56](#) Thank you, Mr. Chair. Excuse me.

[01:25:03](#) Ms. Biliouris, you said we have some of the lowest rates in the state. Rates determine the premium. Would that not be correct?

Director Biliouris: [01:25:11](#) Rates determine the premium? Correct.

Rep. Warren: [01:25:13](#) Well, the amount of coverage-

Director Biliouris: [01:25:15](#) Yeah, I was just making sure I heard correct, yes.

- Rep. Warren: [01:25:18](#) Thank you. So, when we talk about our rates, does the rate calculation include—when we look back to see how we stack up against everybody else—does the rate calculation take into consideration the surcharge that we apply back to the policy holders, to their premiums? I mean, you should be able to engineer that backwards. If rates and your coverage determine the premium, then the premium actually paid divided backwards should be the actual rate. Does that make sense?
- Director Biliouris: [01:25:48](#) Yes.
- Rep. Warren: [01:25:49](#) I know I'm talking like an attorney may be picking those up.
- Mr. Collins: [01:25:52](#) This is Terry Collins. In essence, for the Facility, we do because we do have a loss of recoupment. So, if the Facility does lose money on their statement of income in the past, then in the future we recoup those losses. So, we have a little bit of an idea of how much we were losing at one time, but it's not as sophisticated as an actual insurance.
- Rep. Warren: [01:26:13](#) Excuse me. I've only got three minutes, but I think you misunderstand, or I'm not being clear. What I'm saying is when we say we have the lowest rates or some of the lowest rates, we're not taking into consideration anything other than what the rates are on that piece of paper. We're not taking into consideration what the actual rate is based on the surcharges, which include the Facility's budget, and remarkably, we're paying in that surcharge for insurance agents as well. So, that's what I wanted to know. So, you say in your testimony, Ms. Biliouris, that looking at the clean risk that we are, by your estimation, about 70% lower than what those clean risks should be paying at a rate increase. Is that not correct?
- Director Biliouris: [01:26:57](#) That's correct.
- Rep. Warren: [01:26:58](#) So, we have low rates because we're not charging enough and we're not calculating those rates correctly when we say this is our rate. We're talking about we have low posted rates, but that's not the lowest rate that you're actually going to pay.
- Director Biliouris: [01:27:13](#) Well, in the Reinsurance Facility, you have to pay, and in the voluntary market, you cannot pay more than the voluntary published rate. That's correct. For other coverages, your physical damage, comp collision, whatever you want to call it, there is the ability to—
- Rep. Warren: [01:27:32](#) I understand [inaudible 01:27:34].

Director Biliouris: [01:27:33](#) ... go above or below. We're just talking liability rates. But —

Rep. Warren: [01:27:37](#) I understand.

Director Biliouris: [01:27:38](#) Yes, liability rates, particularly in the Facility, are under-priced.

Rep. Warren: [01:27:42](#) Liability rates are what the surcharges go against. That's where you're running the deficit.

Director Biliouris: [01:27:47](#) Yes.

Rep. Warren: [01:27:47](#) Your folks were shaking their head yes. Did I hear you correctly say about 90% of the policies in the Facility are the clean risk?

Director Biliouris: [01:27:56](#) Seventy-eight percent.

Rep. Warren: [01:27:56](#) Seventy-eight percent. Thank you. Another question I have for you is that... So, actually my, the bottom line is we just have lower rates that we're charging. We don't necessarily really have the lowest rates. Can an insurer write a policy for the cap that might be actually higher than what they would charge if they were keeping as a voluntary or if they voluntarily kept a policy, could they write an insurance policy for the maximum cap and cede that to the Facility?

Director Biliouris: [01:28:31](#) If they cede it to the Facility, it is at the maximum capped rate. and that total amount of premium goes to the Reinsurance Facility.

Rep. Warren: [01:28:39](#) Okay. Follow up question to that would be —

Director Biliouris: [01:28:41](#) If they can deviate below that capped rate if they deem that risk and maybe coupled with the —

Rep. Warren: [01:28:50](#) I have to reclaim my time on that because you answered the question. So, the expense allowance, so we get back to then, is based on the premium, is it not?

Director Biliouris: [01:29:04](#) Yes.

Rep. Warren: [01:29:04](#) Okay. So, to your point, if they sent something to you at cap, but if they'd kept it, it could have been lower. The allowance coming back is based on that cap, which is higher.

Director Biliouris: [01:29:17](#) Correct.

- Rep. Warren: [01:29:18](#) Well, doesn't that leave a margin in there? Albeit small for an opportunity for profit in there because you're basing a credit back on a higher amount than they could have written the policy for if they decided to keep it.
- Mr. Collins: [01:29:33](#) This is Terry Collins, the—
- Rep. Warren: [01:29:36](#) Terry, can you get a little closer to mic, please.
- Mr. Collins: [01:29:38](#) Excuse me.
- Rep. Warren: [01:29:38](#) Thank you.
- Mr. Collins: [01:29:39](#) Thank you. The cap or the reimbursement to the companies for the service work they do on a ceded policy to the Facility, that is a ratio and that ratio is based upon all the business that they write. It's not a hard dollar number, like \$20. It's a percentage. And so, over the range of policies that they do write, that's the average. And so, the company gets that average, which is their rate, or the cap, whichever one is lower.
- Rep. Warren: [01:30:08](#) Okay. And I'll tell you where I'm coming from, Mr. Collins. I come from a every very eclectic work history. In one of those iterations of livelihood, I worked with a company who made millions of dollars based on pennies of profit at a time. So, if you take a look at a couple of companies we have in the state that run all their policies, a hundred percent of their business through the Facility, that would be across the board that margin. So, my point is, if you had all your business written at cap, but you didn't necessarily have to write it at cap, you would be making a profit on that by doing the business that way. So, the follow-up question I have along that line of thought is, you mentioned audits earlier, are there any audits that you've done that show what the individual companies... And I know when the commissioner was here, he provided us with, I think it was 63 companies or something and how many policies they had in there individually or their dollar amount. Does your auditing include anything of what type of policies or what type of caps that each company is doing to see if there is companies that put all of their business in there or 90% of their business is all written at cap? And do you look back to see if those policies could have been written lower and kept by the insurance—
- Mr. Collins: [01:31:26](#) There are three companies, and there are small regional insurance companies that cede over 90% of their business to the Facility, and they make up 3% of the premium that ceded to

the Facility. The rest of the writers that cede to the Facility write both voluntarily and cede.

Rep. Warren: [01:31:43](#) But to those audits, you don't do anything along those lines?

Mr. Collins: [01:31:44](#) We do, yes.

Director Biliouris: [01:31:47](#) We can't determine what a company would have charged somebody versus not. That's their individual underwriting policy. We set the premium and then set the rate and then they determine based on their risk, appetite for risk, whether they can write it at a certain amount or not. None of that is really involved with the Facility. That's really a company underwriting decision.

Rep. Warren: [01:32:16](#) Thank you.

Rep. Johnson, Chair: [01:32:19](#) Thank you. Representative Cleveland, you're recognized for up to three minutes.

Rep. Cleveland: [01:32:22](#) Thank you, Mr. Chairman. Following up with what Representative Warren said, those three companies that are ceding 90% or more of their business to the Facility are making a better profit than companies that are not because their profit is based on the rack rate and not what the market rate is.

Director Biliouris: [01:32:45](#) I can't speak to what their profitability is, I'm sorry.

Rep. Cleveland: [01:32:48](#) I understand that, but intuitively, that's obvious. I think it was mentioned by Mr. Collins, maybe, that clean risk policies that were ceded to the Facility only have a marginal increase in cost. I don't think that's true, and I'm basing that on personal experience.

[01:33:24](#) A number of years back, I was put into the Reinsurance Facility. I wasn't told I was put there. I got an insurance bill that increased from this point to this point by \$380. And I went to my insurance folks, and I said, "What the hell's going on?" And they said, "Oh, you were put in the Facility." I said, "Why?"

[01:33:49](#) And to Mr. Burns, because I turned age 80. That's illegal, I understand. Well, I raised sand with the attorney General's office who passed the buck to the insurance folks who said, "Oh, woe is us. Your insurance company shouldn't have done this." So, my insurance company said, "Yeah, we made a mistake. We'll take you back." And they did.

- [01:34:18](#) So, I thought I would walk and wander around town and talk to brokers. Every one of them told me that's a practice of numerous companies, to put people in the Facility at age 80. To Mr. Burns, when you do your audits do you look at that numeral?
- Mr. Burns: [01:34:36](#) That was a nicely-worded question. Tom Burns again. So, when we look at rating the policies, we're going to compare against the information that we get in for the policy. So, if you go with the 80-year-old, when we look at the manual and how it should be rated, if you've got somebody with more than three years driving experience, let's say a 25-year-old, they should have the same rate.
- [01:35:06](#) If everything else is the same, they're driving the same Camry, he lives in the house right next door, and we go down through the rates, so the same territory, same coverages, same everything, there's no SDIP points or anything, the manual allows for the same rate to be charged for that 25-year-old as the 80-year-old or the 40-year-old or the 50-year-old because age is not something that is built into the rating factors, that the rate bureau publishes or that the Facility uses because we adopt that.
- [01:35:36](#) So, that's what we would audit for. And we would ask for the MVR to look at how many years driving experience they have. We would look to see what they're using in their rating calculations. And when we find them, we ask back, this one looks like it might have the wrong factor in it. It might have the wrong territory, it might be whatever. But yes, Mr. Cleveland, we do audit for that.
- Rep. Cleveland: [01:35:58](#) If you do audit it, do you see a spike, or are there companies that you can identify that when a person crosses a certain age barrier, they've ceded policies to the Facility?
- Mr. Burns: [01:36:17](#) We have never looked at the age factor when looking at the policies or the ones that are ceded. No, I couldn't answer that.
- Rep. Cleveland: [01:36:25](#) Okay. That answers my first question. You don't look at the age factor. So, —
- Mr. Burns: [01:36:30](#) You're right. We don't look at the age factor. We look at driving experience.
- Rep. Cleveland: [01:36:33](#) So, that's how the insurance companies are getting away with sticking it to the old folks. Okay. Thank you, Mr. Burns.

[01:36:48](#) Mr. Chairman, I think I'll quit on that question.

Rep. Johnson, Chair: [01:36:51](#) Thank you, Representative Cleveland. Representative Cervania, you're recognized for a follow-up up to three minutes.

Rep. Cervania: [01:36:56](#) Thank you, Chair. And I have three distinct questions, and hopefully, it'll fit into three minutes.

[01:37:01](#) One of which is I'm going to follow up with my colleagues. In your report, your annual report, and also what was provided to us, you're saying that, as a group, clean risks should be paying rates approximately 70% higher than they're actually paying. And you're a non-profit, so, I assume it's zero balance.

[01:37:25](#) I want you to say to me, because I think I know the answer, who's paying for that gap when it comes to being able—

Director Biliouris: [01:37:34](#) It's included in the clean risk recoupment that is charged to every policyholder in the state.

Rep. Cervania: [01:37:42](#) So, every one of us who has a policy here—

Director Biliouris: [01:37:45](#) Yes.

Rep. Cervania: [01:37:46](#) ... in North Carolina is paying for that.

[01:37:47](#) Okay. Separate question. I'd like to come to your... I would love a day in the life with you, because I think a lot of us are asking questions on how a policy flows from voluntary to Facility. I know Mr. Collins had said it's systematic, and I have a concern that you all don't know the average rate within your Facility. That should be known. And how risk is assessed, how we know that the right clean risk recoupment is being charged to every one of us North Carolinians.

[01:38:28](#) I think, we have limited time here, but I think it would be very beneficial to see a flowchart on how that systematic assessment is done, how your audit system is done, what criteria, what percentage, how big your sample size are. And that if there's any report provided to anyone, be it Director Causey, I think that would provide us a lot more clarity in what you're doing, and clarity for North Carolinians to know. Is that available at all?

Director Biliouris: [01:39:03](#) We certainly have a lot of that information, yes. Have we put it in a report format for external parties? No. But I don't see why we can't.

Rep. Cervania: [01:39:15](#) And in ways, we're an internal party. And so, I am not sure I'm asking for it to be published to all North Carolinians, but a lot of our questions here is because of data and not... And I think that data would elicit like what you actually are doing, could show that you're doing an excellent job.

[01:39:35](#) So, I think you should all take that opportunity to put this on paper, and I would like to receive it, and I don't know if my colleagues would, too.

Director Biliouris: [01:39:43](#) Okay.

Rep. Cervania: [01:39:43](#) So, it'd be very appreciated. Thank you so much.

Rep. Johnson, Chair: [01:39:48](#) Thank you. Representative Stevens, would you like to be recognized for up to three minutes?

Rep. Stevens: [01:39:52](#) Thank you. I really do have just three questions. Maybe, more of a comment at times than questions.

[01:39:59](#) Other than clean risk... Again, we went to that definition, I looked it up, we talked about it. I send you a policy that appears to be clean risk. But there were factors there that the insurance company didn't want to take into account. You're not allowed to take those into account. Is that right?

Director Biliouris: [01:40:16](#) Correct.

Rep. Stevens: [01:40:17](#) And then, you have to send some money back to the agent for writing the policy to begin with?

Director Biliouris: [01:40:21](#) Correct.

Rep. Stevens: [01:40:22](#) Okay. So, you start off at a loss? Would it be helpful and useful... I guess for the purposes of what we're looking at, is that we require the insurance companies to give a reason for ceding a clean policy.

Director Biliouris: [01:40:41](#) Statutorily, it's not required. And—

Rep. Stevens: [01:40:45](#) I understand. It could be statutorily required. That's the thing I'm saying—

Director Biliouris: [01:40:48](#) If they could give a reason why—

Rep. Stevens: [01:40:51](#) You're ceding a clean policy?

Director Biliouris: [01:40:52](#) Yes.

Rep. Stevens: [01:40:55](#) You're talking to people who write the statutes. The question is would it be helpful to—

Director Biliouris: [01:40:59](#) I mean, it would be helpful to... I'm not sure that really makes a difference why they chose to cede versus not. They made an underwriting risk-based decision that the rate, or the risk, was not acceptable to them. As far as why, I'm not sure that that would—

Rep. Stevens: [01:41:23](#) They considered the number of tickets they had that were gone to improper equipment. They considered how they personally observed them driving. They considered these things. That wouldn't be—

Director Biliouris: [01:41:34](#) Sure.

Rep. Stevens: [01:41:34](#) ... important to you?

Director Biliouris: [01:41:35](#) Those things would be very insightful, but they don't have an impact on the rate that's charged.

Rep. Stevens: [01:41:39](#) So, you can only charge the one rate. Unless, they've got points, you can only charge the one rate.

Director Biliouris: [01:41:44](#) Correct.

Rep. Stevens: [01:41:44](#) You don't consider any other factors?

Director Biliouris: [01:41:46](#) Correct.

Rep. Stevens: [01:41:46](#) Okay. I just wanted to ask you about your board of governors.

Director Biliouris: [01:41:53](#) Mm-hmm.

Rep. Stevens: [01:41:54](#) Who appoints them and what do they do? How many are there?

Director Biliouris: [01:41:58](#) There are 12 representatives. Seven of them are appointed by the Commissioner of Insurance. Those seven, there are five insurance agents, two insurance companies. There are five insurance companies that are selected by the board, and there's... The commissioner is an ex-officio, non-voting member, and there are two public members that are appointed by the governor.

Rep. Stevens: [01:42:31](#) Okay. So, seven by the commissioner, you said five insurance companies.

Director Biliouris: [01:42:35](#) Five.

Rep. Stevens: [01:42:36](#) And then, two appointed by the governor. That's 14?

Director Biliouris: [01:42:38](#) Correct.

Rep. Stevens: [01:42:39](#) Okay. What do they do? What is their purpose, their role?

Director Biliouris: [01:42:43](#) Their goal is to oversee the operations of the Reinsurance Facility. So, they guide us in all of our statutory matters, and they ensure that... So, they look at the budget on a regular basis and determine where we're spending.

[01:43:03](#) They're involved with, potentially, space, where we are, what are IT projects that we're going to do, any expenditures. They also take recommendations from all the line committees. There's a task force on recoupment. There's a task force on expense allowance. There's a rating committee.

[01:43:25](#) There's all line committees that make recommendations up to the board of governors, and they would decide how they want to proceed with those recommendations to adjust recoupment, what to charge commercial rates, what to charge other-than-clean rates. Just, all of those factors.

Rep. Stevens: [01:43:49](#) I'm done.

Rep. Johnson, Chair: [01:43:49](#) All right. Thank you. Representative Dahle, you are recognized for a lenient three minutes because I made you wait. Thank you.

Rep. Dahle: [01:43:57](#) All right. You... I'm sorry, sir. Mr. Burns, is it?

Mr. Burns: [01:44:03](#) Yes, ma'am.

Rep. Dahle: [01:44:04](#) Okay. So, you were talking about we don't use age as a factor. However, we do use years of driving, correct?

Mr. Burns: [01:44:15](#) Up to three. After you get past three, the rates don't change.

Rep. Dahle: [01:44:20](#) Okay. So, —

Mr. Burns: [01:44:23](#) I probably mis— Because if we do look at age, if I see a 16-year-old rated on a policy that has three years driving experience, we looked at age.

[01:44:34](#) But if I see a 30-year-old with three years driving experience, then, the original date of license, which is on a North Carolina MVR, states that, then, that would flow pretty easily through when we audit and we would expect to see a certain rate.

Rep. Dahle: [01:44:51](#) However... Okay. Thank you very much sir. And I'm not sure if this is a directed question or a question for the universe or the ethos. But it appears to me that there are algorithms that insurance companies... I mean, when I go in, the first time I went in to buy my own insurance, they went, "Well, you're rated at blah, blah, blah," yeah, because they looked at... And so, there's a computer program that tells us.

[01:45:21](#) And there would be, my guess is because CDL drivers have to take defensive driving classes, that there is a rating for how, just like continuing ed for everything, those kind of things, to speak to the distracted driver point. You have nothing to do with any of that? No.

[01:45:43](#) So, we have an insurance company over here, and they write the policy. They keep the collision portion, which is usually their bread and butter, and they cede to you the liability coverage because maybe somebody doesn't have a clean record, maybe, they do. We don't know. I mean... But it's only the liability?

Director Biliouris: [01:46:12](#) Yes.

Rep. Dahle: [01:46:13](#) So, it is not—

Director Biliouris: [01:46:14](#) And they are still writing that entire policy.

Rep. Dahle: [01:46:17](#) Right.

Director Biliouris: [01:46:17](#) It's all on the back end that they actually reinsure or cede that risk. The liability risk.

Rep. Dahle: [01:46:25](#) Okay. And so, if somebody has to utilize that liability insurance, does it come out of this, your little company, or does it come out of the insurance carrier's world if there's a payout?

Director Biliouris: [01:46:43](#) Well, I mean, first semantics period, the company pays it out, and then, we would reimburse them for that loss.

Rep. Dahle: [01:46:52](#) Okay. So, in the end... At the end, you guys are?

Director Biliouris: [01:46:55](#) Yes, we're the ones taking the loss.

Rep. Dahle: [01:46:57](#) Okay. So, it appears to me, and this is a comment, so you can... It appears to me that this insurance works just like any other insurance.

Director Biliouris: [01:47:09](#) Yes.

Rep. Dahle: [01:47:09](#) That I, as a healthy human, am now paying for Chris, for Representative Humphrey, my unhealthy friend. No, I don't wish you to be unhealthy, but I'm paying... My best example is my 92-year-old mother, I'm paying as a healthy, whatever-old-I-am, paying into her, so that her claims could be paid. That's how insurance works.

[01:47:36](#) And I am very confused why we're tearing apart something that has served us well. Yes, we may need to tweak some of these things, we may need to look into different areas, but I'm not sure why this needs to be...

[01:47:56](#) I think it's a very confusing thing to try to... Unless, you understand the insurance companies. I have asked more questions today about insurance than I ever wanted to ask in my entire life. I guess what I'm trying to say is: how do we move forward, and this is also to the chairs. How do we move forward to make this clearer to those people who access insurance, and now, feel like they're getting ripped off?

[01:48:27](#) And to also those of us who, most of us probably, have college educations and should be able to... I mean, that's what I went to school for, was to learn how to take in information and be able to push it back out.

[01:48:43](#) So, how do we make this a better system for everybody to understand, instead of penalizing me if I get hit by an uninsured driver that's not insured. And I know there's no protection against people who try to break the law, but I feel like we're making it more confusing than it was before. But I'm not sure.

Rep. Johnson, Chair: [01:49:05](#) Did you just direct the Chair to fix the entire insurance system in the next five minutes?

Rep. Dahle: [01:49:10](#) I... Yeah.

Rep. Johnson, Chair: [01:49:10](#) Was that a request or—

Rep. Dahle: [01:49:12](#) No, the request is—

Rep. Johnson, Chair: [01:49:13](#) I don't want to let you down.

- Rep. Dahle: [01:49:15](#) The request is, how do we clarify this information so that the people of North Carolina understand what this agency does, and also, understand the fact that insurance companies make a good portion of their money on people like me who have not been in an accident who pay... I just looked up my insurance claim. I pay, I don't know, \$300 on my three-year-old car to hold collision.
- [01:49:43](#) I've been in no accidents. That's \$300. Well, \$300 every six months they earn off of me.
- Rep. Johnson, Chair: [01:49:51](#) Well, I will make a closing statement... When we get to the end, I'll make a closing statement that I hope will offer some clarity and a path forward.
- Rep. Dahle: [01:49:57](#) Okay.
- Rep. Johnson, Chair: [01:49:58](#) So, we'll bank on that. Representative Chesser, you are recognized for a brief follow-up, and then, Representative Warren is going to have a brief conclusion of remarks. And then, I'll close this out.
- Rep. Chesser: [01:50:09](#) Thank you, Mr. Chair. All right. So, brief. So, try to follow along, just nod if you agree, and throw your hand up if you disagree.
- [01:50:16](#) A lot of talk about whether or not you guys subsidize private industry, what the role of your Facility is. Just, I've been looking at this for a few months now. Like I said, I'm not a student of the industry. I'm learning as we're going. But I see a recurring problem and that is that I believe insurance rates are insufficient, and then, drivers apply, the insurance companies see that they can't cover the risk. You guys have said that several times. They cede the policy to you guys.
- [01:50:48](#) You guys end up with disproportionate amount of high-risk drivers end up having to pay claims, handle claims. That creates a deficit.
- Director Biliouris: [01:50:57](#) Correct.
- Rep. Chesser: [01:50:57](#) Okay. Then, we recoup funds from all policyholders across the state to pay for that deficit—
- Director Biliouris: [01:51:04](#) Correct.
- Rep. Chesser: [01:51:04](#) ... for policies that you were ceded. So, in your mind, is it a bigger problem that inadequate rates have been approved?

Director Biliouris: [01:51:15](#) That is certainly part of... I mean, as we said, the drivers that are ceded to the Facility are primarily ceded because it was too much risk for the company to take on for not enough price. It's price to risk.

Rep. Chesser: [01:51:30](#) So, it's slightly—

Director Biliouris: [01:51:30](#) We also said that—

Rep. Chesser: [01:51:31](#) ... higher. They may be more prone to keep some of those in house.

Director Biliouris: [01:51:35](#) Yes.

Rep. Chesser: [01:51:35](#) I mean, that's complete speculation, but it's also a business model.

Director Biliouris: [01:51:38](#) We've also put in our testimony that the clean risks in the Facility, those with no points and have driving experience, should be paying 70% more than what they're currently paying if you want the Facility to break even and not have... And I'm not going to say we will never have recoupment. I mean, for us to nail our expenses and premiums exactly right, it's probably never going to happen, but it—

Rep. Chesser: [01:52:05](#) Just for clarity—

Director Biliouris: [01:52:05](#) ... would be minimal.

Rep. Chesser: [01:52:06](#) ... and to close this out, who sets the rate?

Director Biliouris: [01:52:09](#) The North Carolina Rate Bureau proposes rates to the Commissioner of Insurance, who, then, has the ability to approve, deny, or potentially negotiate something in between.

Rep. Chesser: [01:52:22](#) And does the Rate Bureau sell insurance themselves?

Director Biliouris: [01:52:24](#) No.

Rep. Chesser: [01:52:26](#) They're not actively involved in the industry?

Director Biliouris: [01:52:28](#) They are a data collection organization, and they're statutorily-required to promulgate rates, rules, and forms for... One of the lines of business is the auto insurance business.

Rep. Chesser: [01:52:45](#) And who selects the members of the Rate Bureau or how is it constructed?

Director Biliouris: [01:52:52](#) The Rate Bureau has 12 insurance companies who serve on its board of governing committee. So, it's 12 insurance companies that are voted on by the members. So, the members of the Bureau select which members they want to represent them. There are two public members that are appointed by the governor.

Rep. Chesser: [01:53:20](#) That's all I had, Mr. Chair.

Rep. Johnson, Chair: [01:53:23](#) Thank you. Representative Cunningham, you're recognized for a brief follow-up.

Rep. Cunningham: [01:53:27](#) Thank you, Mr. Chair. Well, everybody else is talking beside me. Shhh! While we were talking about the data, I'm abstract, and I don't understand all this stuff y'all talking about. I'm learning it.

[01:53:43](#) But one of the things is the data. Now, do you all, or have you all collected any data since the beginning of the Facility?

Director Biliouris: [01:53:53](#) Yes.

Rep. Cunningham: [01:53:54](#) Yes. What type of data did you collect?

Director Biliouris: [01:53:58](#) Well, I mean, there's... Certainly, I can't say I've seen data back to 1973, but we do collect basic information on the policy to be ceded. We collect information on the premiums we bring in, the losses we pay out, of course.

Mr. Collins: [01:54:19](#) And this is Terry Collins —

Rep. Cunningham: [01:54:21](#) I don't want to lose my time. That data that you have collected, will you provide it to us? Because when we get ready to start looking at changing something, I think we'll move to evidence-based and data-driven.

[01:54:34](#) The other thing is you said that the data is collected by the Rate Bureau, right? A lot of the dat —

Director Biliouris: [01:54:41](#) For insurance rates.

Rep. Cunningham: [01:54:42](#) For the insurance rates. So, that's collected by them. So, when you send your data over, then, we need to probably request the data from the Rate Bureau, so we also have what they're looking at to compare it.

[01:54:57](#) So, if you all would send the data —

Director Biliouris: [01:54:58](#) All the data that the Rate Bureau has is inclusive of the data in the Reinsurance Facility.

Rep. Cunningham: [01:55:03](#) Okay. So, if I get your data, I got their data?

Director Biliouris: [01:55:07](#) Yes.

Rep. Cunningham: [01:55:07](#) Thank you.

Rep. Johnson, Chair: [01:55:10](#) Perfect. Thank you. And Co-Chair Warren, you're representative for some closing remarks.

Rep. Warren: [01:55:14](#) Thank you. I actually just have a couple of follow-up questions.

[01:55:18](#) You had pointed out 70% was the figure we were looking. How did you calculate that it was 70% lower than what we should be, the rate should be? How was that calculated?

Director Biliouris: [01:55:30](#) That calculation is looked at... It's actually outlined in my testimony how we developed the recoupment. So, we look at the current rates approved, and what's to be collected during a certain period, the amount to be recovered. And then, we look at the deficit during that same time period, and we determine what the recoupment is.

[01:55:58](#) So, there is essentially a 70% deficit between what was collected in premium, and what was paid out in losses. So, that gap there is determined [inaudible 01:56:12] a clean risk—

Rep. Warren: [01:56:13](#) Okay. So, it wasn't a calculation based on comparative rates across the states?

Director Biliouris: [01:56:17](#) Yeah.

Rep. Warren: [01:56:17](#) The other states or anything. It's simply, what we would need to meet the goal of breaking even—

Director Biliouris: [01:56:21](#) It's based on the Facility's actual results.

Rep. Warren: [01:56:24](#) Which to your point, will never happen because the calculation for surcharge at the very least would consider your budget and insurance agent's fees that are calculated in there as well.

Director Biliouris: [01:56:34](#) But this is just for clean risk rates.

Rep. Warren: [01:56:36](#) I understand.

Director Biliouris: [01:56:38](#) There is also a loss recoupment that allows us to collect any deficiency— Any losses in the last time period. So, there are two distinct recoupments.

Rep. Warren: [01:56:53](#) No, I understand—

Director Biliouris: [01:56:54](#) For the clean risk rate deficit, and one is for losses incurred by the Facility.

Rep. Warren: [01:56:58](#) Right. Now, if the rates were raised, and I believe you just answered Representative Chesser, that this would be within the scope of... authority of the commissioner. It doesn't require an act of the General Assembly to raise those rates?

Director Biliouris: [01:57:13](#) Correct.

Rep. Warren: [01:57:14](#) The commissioner could do that. If the rates were raised, do you anticipate that there would be a reduction in the number of policies ceded in the clean risk area to the Facility?

Director Biliouris: [01:57:26](#) I think that that's a fair deduction.

Rep. Warren: [01:57:29](#) And my final question... Thank you. And my final question to you is, does the Reinsurance Facility answer to anybody, or you just work under the umbrella of the insurance commissioner?

Director Biliouris: [01:57:41](#) We do not work under the umbrella of the insurance commissioner. We're regulated by statute, and we are responsible to the policy holders of North Carolina and the insurance companies of North Carolina as well. Equally.

Rep. Warren: [01:57:55](#) Well, I'd like to thank you all for coming here today. Appreciate your candor with the answers. I hope it's been a great experience for you. But, again, thank you so much, and I look forward to getting the budget numbers that I asked for.

Director Biliouris: [01:58:10](#) Okay.

Rep. Johnson, Chair: [01:58:11](#) Perfect. Madam Director, thank you so much for being here. And I just had a couple of quick follow-up questions for clarification. People have been texting me, and I've been listening to everything and making notes over here.

[01:58:23](#) Even when a policy is ceded to the Facility, if they have a claim to file, they have an insurance agent they call. They're not calling someone at the Facility, they are calling their agent that

knows their situation. I think that's important to point out from the customer service side.

Director Biliouris: [01:58:38](#) Yes.

Rep. Johnson, Chair: [01:58:41](#) I think what we need to probably look at going forward is, if there's a way to offer some flexibility to get the number of clean risk drivers out of the pool, out of the Facility. And I think we've got some legislation pending that may or may have already passed that would allow for that.

[01:58:59](#) So, we're looking forward to seeing if we can get that implemented and if that has the effect we desire. I guess what I'm weighing in my head, clearly, we have a lot of providers in North Carolina, that may not be the case in other states. People want to do business here. Everyone seems is paying, based on what I'm hearing, a little bit of a surcharge to cover that gap and that difference.

[01:59:21](#) Is the level of competition, which, I think is a good thing for pricing, offset or equal to, or less than or greater than the amount of the surcharge that's being paid, and that's something that I think, we as a committee, need to go do some deeper diving into and why we're requesting these numbers, and the legislation that we've passed, will it have the effect that we want to see going forward?

[01:59:47](#) But I just want to thank you for being here. I'm hoping we can do some things to accelerate this transition and get it moving faster. Want to thank all of our colleagues for being here and the respect that you showed to our guests. And if everyone... Yes. Megan's reminding me. If we could have those forms filled out and return back to the chair, that would be great.

[02:00:05](#) Thank you all so much. With no other business, committee's adjourned.

Director Biliouris: [02:00:08](#) Thank you.