

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

STATE OF NORTH CAROLINA
COUNTY OF WAKE

COPY

IN THE MATTER OF:

BEFORE THE
COMMISSIONER OF INSURANCE

THE FILING DATED
JANUARY 3, 2024 BY
NORTH CAROLINA RATE BUREAU
FOR THE REVISION OF
HOMEOWNERS INSURANCE RATES

DOCKET NO. 2157

BEFORE: AMY FUNDERBURK, HEARING OFFICER

TRANSCRIPT

OF

HEARING

VOLUME IX - P. M. SESSION

Raleigh, North Carolina

October 28, 2024

1:22 p.m.

Reported by: Audra Smith, RPR, CRR, FCRR

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Hearing in the matter of the filing dated January 3, 2024, by the North Carolina Rate Bureau for Revised Homeowners Insurance Rates, at the North Carolina Department of Insurance, 3200 Beechleaf Court, Raleigh, North Carolina, on the 28th day of October, 2024, at 1:22 p.m., before Audra Smith, RPR, CRR, FCRR and Notary Public.

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P R O C E E D I N G S

MS. FUNDERBURK: We are back on the record.

Before we resume Mr. Wierzbicki's testimony, are there any matters we need to address?

MR. FRIEDMAN: No, Your Honor, not from the Rate Bureau.

MS. FUNDERBURK: Thank you.

MR. FRIEDMAN: I was going to ask if there are any changes to the schedule I could convey to my people coming.

MS. FUNDERBURK: Not yet. I'm still waiting for information.

MR. FRIEDMAN: Thank you.

MS. FUNDERBURK: Thank you. I'll remind you that you continue to be under oath.

Please resume.

DIRECT EXAMINATION (CONT'D)

BY MR. FRIEDMAN:

Q When you reviewed Mr. Anderson's summary of alleged regulatory delays, did you understand "regulatory delay" to refer only to delay that was caused by the department or by -- or also

1 to refer to delay that could be caused by the Rate
2 Bureau?

3 A I don't have specific knowledge of
4 exactly what the calculation did. My understanding
5 was that it simply took the implementation date and
6 the original effective date of the filing and
7 utilized that as the time delimiter.

8 Q Would you agree that some of what
9 Mr. Anderson characterized as regulatory delay could
10 also be due to -- could be due to the Rate Bureau's
11 handling of the case?

12 A Is there a specific instance or
13 objection that you're referring to?

14 Q No, I -- honestly, Mr. Anderson
15 testified to him it didn't matter whether the
16 regulatory delay was due to the bureau or to the
17 department, that he still believed it was supportive
18 of the 1 percent contingency, and I was simply
19 trying to figure out whether you had an
20 understanding of whether that regulatory delay -- or
21 whether the regulatory delay should be attributed or
22 fall on the backs of the consumer regardless of what
23 caused it?

24 A I mean, in general, the support is
25 of -- you know, there's a difference between the

1 time that, you know, we -- or the Rate Bureau
2 originally wanted to implement the filing and the
3 filing's actual implementation date. So I didn't
4 drill down into, you know, who was at fault. It
5 does, you know, infer that at the -- the same kind
6 of trend penalty in terms of the rates needed to be
7 higher as long as there's a positive net trend in
8 the rate filing.

9 Q During the course of this filing, at
10 any time on either of the committees that you serve
11 on, did any committee members inquire about whether
12 the bureau or ISO's processing of the data could be
13 accomplished more quickly?

14 A Not that I recall.

15 Q Okay. I'm going to move on to the part
16 of the database that includes the combined CTR loss
17 experience, the combined manual rate loss
18 experience, and the combined Beach Plan loss
19 experience; that is, the three of those are
20 combined. Is that your understanding?

21 A To the best of my understanding, yes,
22 that's what happens.

23 Q Are you aware of whether the
24 commissioner or the department has ever expressed
25 any concern about the fact that the Rate Bureau

1 combines CTR manual rate and Beach Plan data without
2 separating them out?

3 A I'm not aware of any particular
4 conversations that have happened as a result of
5 that.

6 Q In any of the time that you served on a
7 committee, whether for property, dwelling, or mobile
8 home, has any committee member ever questioned the
9 bureau staff or the bureau's experts about those
10 three elements being combined into one sum? Or one
11 database, better said.

12 A Not to the best of my recollection. I
13 think, you know, when you're looking at how we're
14 trying to set -- or how the NCRB is trying to set
15 rates, they would do it for the entire market. So
16 the specific flags in terms of beach, consent to
17 rate, or standard, you would want all of that
18 information in your ratemaking methodology.

19 Q Would you also want all expense
20 information from those three markets?

21 A What expense information are you
22 specifically talking about?

23 Q Any expense information at all from the
24 Beach Plan. In an ideal world, putting aside
25 practicalities here, perhaps, for you, as an

1 actuary, if you saw a database that combined the
2 loss experience and the expenses from CTR and the
3 manual rate, would you expect to also see the
4 expenses from the Beach Plan alongside the Beach
5 Plan's losses?

6 A So I guess in terms of looking at
7 information, I think always more information is
8 better. Again, in your question you asked me to set
9 aside practicality, and so from that standpoint,
10 yes, more information is better.

11 That being said, if there is a
12 reasonable proxy or a reasonable way to determine an
13 expense provision -- so a lot of these numbers are
14 percentage-based. And if you assume that the
15 percentage is consistent -- so, you know, in a sense
16 of commission, is a percentage of the policy
17 premium -- unless you have something systemic in
18 your -- in this case beach business, that would
19 charge -- or provide a different commission, the
20 percentage is more than enough to just generalize
21 across the two business types.

22 So that, I guess, would be my, you
23 know, thought, as an actuary, is, you know, does the
24 information that's being used readily generalized to
25 the end answer.

1 Q So putting aside loss adjustment
2 expenses, are you aware of any practical impediment
3 to the bureau obtaining the other expenses from the
4 Beach Plan, alongside the Beach Plan's losses and
5 its exposures?

6 A As we established, I'm not exactly an
7 expert in the data collection. Therefore, I don't
8 have any firsthand knowledge of the practicality or
9 impracticality of getting that data and generating
10 it appropriately. So at least in my role, I utilize
11 what was available.

12 Q In the time that you've been serving on
13 committees for the Rate Bureau with regard to
14 property filings, not with regard to -- not with
15 regard to PPA or Workers' Comp, but with regard to
16 property filings, has any committee member ever
17 inquired about whether the Beach Plan expenses are
18 included in the database?

19 A Not to my recollection.

20 Q Are you familiar in this case with how
21 the bureau has set the percentage of fixed expenses
22 for tenants in condominium forms versus owners
23 forms?

24 A Off the top of my head, I don't know
25 the exact provisions.

1 Q Okay. Are you aware that it has set
2 those expenses for tenants and condominiums at
3 50 percent of the fixed expenses for homeowners? If
4 you don't recall, that's fine.

5 A I don't recall. If you have the
6 exhibit, if that's what the numbers are saying,
7 then, you know, in general, I would probably say
8 that, you know, a tenant's fixed expense ratio
9 that's lower -- is that what you said, "lower"?

10 Q Yes. It's definitely half.

11 A -- lower than the homeowners would make
12 sense.

13 The tenants is, in general, less things
14 to monitor about the property as you're only
15 covering the contents of the renter, and the
16 homeowners you'd want to look at structural issues
17 with the house, condition of the house on the
18 outside to understand what risk as a company you're
19 taking on, so that would lead to more expenses, at
20 least in my general understanding.

21 Q With regard to this filing or the 2020
22 homeowners filing, I believe you did say you
23 participated in the later?

24 A No.

25 Q You didn't? Okay.

1 So with regard to this filing, do you
2 recall any committee members questioning how the
3 proposed fixed expenses for tenants and condominiums
4 were calculated?

5 A Not that I recall.

6 I would like to remind you, though,
7 this is, like, roughly a year and a half ago, and,
8 you know, in general, I'm not going to recall every
9 detail of the specific meeting. So it may have come
10 up, but I do not recall.

11 Q I don't judge you for lack of recall.
12 I have problems recalling something that happened
13 yesterday.

14 So regarding profit, are you aware of
15 any North Carolina restrictions on how to calculate
16 profit for the hypothetical one?

17 A I am not.

18 Q Okay. Are you aware that the law is
19 that investment income from capital and surplus
20 cannot be included in the calculation of profit
21 factor?

22 A I'm not aware of specific legal
23 statutes on there. I do understand that in all the
24 North Carolina meetings that we have with the member
25 companies, counsel is there for questions and

1 understanding if -- we do rely on them to ensure
2 that some of these things are in compliance with
3 legal statutes, but I do not know the specific
4 statute or stuff that you're citing.

5 Q Are those committee meetings or just
6 general meetings among NCRB and all of its however
7 many members want to show up where that's been
8 discussed?

9 A I didn't say it's been discussed. I
10 said they would be there if there was something that
11 we were proposing that would be against a specific
12 law or statute. But we -- in general, I don't
13 recall any specific conversation on any legal
14 statute with respect to a profit provision.

15 Q What do you recall about
16 Professor Zanjani's presentation of his profit
17 analysis to either of the committees?

18 A The general recollection I have is that
19 they used essentially some of the similar math that
20 we utilize at our company to calculate a profit
21 profession. Obviously, some of the inputs would be
22 different since, you know, you're trying to generate
23 an industry number versus a number specific to a
24 certain company. But in general, that's where, as a
25 committee member, I was of the mindset that the

1 process that they were going through to obtain the
2 profit provision was reasonable.

3 Q At Allstate itself, does your group
4 calculate the profit provision?

5 A I don't calculate it, but I do
6 understand most of the basic inputs to it.

7 Q Okay. When you say you understand it,
8 are you also testing it for testing the provisions
9 that are validating the provisions that are
10 calculated by whoever else in Allstate?

11 A There's -- we have a fairly defined
12 process that we go through to update our profit
13 calculations that are, you know, driven by usually
14 both market information and company-specific
15 information. So there sometimes is discussion on if
16 things had changed from the prior update, if there's
17 a reason we need to modify any of our selections or
18 assumptions. And from there, we make a
19 determination on the profit provision that will be
20 filed. But, again, there's a separate team that
21 does that calculation and that investigation.

22 Q Does Allstate calculate profit
23 provisions for filings by homeowners' carriers in
24 other states based -- for namely Allstate's own
25 business writing homeowners in other states, does it

1 calculate its profit provisions based, at least in
2 part, on the cost of capital?

3 A Yes, that is an input into the process.

4 Q At Allstate, do you interchangeably use
5 the terms "cost of equity" and "cost of capital," or
6 are those different concepts?

7 A I'd have to look at the specific
8 exhibits. I would say that we're fairly clear in
9 our exhibits on labeling what each metric is, but I
10 don't know off the top of my head if we interchange
11 at any certain point.

12 Q Do you consider those two terms to be
13 separate metrics?

14 A Off the top of my head, I don't exactly
15 know which, I guess, terminology you're working
16 with, but I don't know that I have an opinion unless
17 I researched it further.

18 Q Okay. Does Allstate refer to total
19 returns in calculating its profit provisions for
20 homeowners?

21 A I haven't heard that terminology.

22 Q Are you familiar with that term in any
23 other context?

24 A No.

25 Q When Dr. Zanjani presented his profit

1 analysis to either of the commissions, did he
2 indicate in any way whether his analysis was
3 consistent with past analyses by the bureau or
4 inconsistent with?

5 A I don't recall a comparison to prior
6 analysis, but if there's a -- was there an exhibit
7 or something that shows a comparison? I can take a
8 look at it.

9 Q Now, did Dr. Zanjani make presentations
10 both to the property rating committee and then to
11 the property committee, or only to the property
12 rating committee, that then passed on its vote to
13 the property committee, if you recall?

14 A I don't recall in particular. I do
15 recall a presentation. I don't know which group it
16 was with. You know, if I had to -- I guess I would
17 think it was the rating subcommittee; that would be,
18 again, as I stated earlier, a little more in the
19 weeds on what the provision was, so that's the more
20 actuarial group. The business group would be the
21 property committee, and I don't know that they would
22 have had the expertise to utilize the presentation
23 for determination of reasonability or not.

24 Q Roughly, what is -- I mean in terms of
25 actuaries versus nonactuaries -- the makeup of the

1 property committee?

2 A I don't know off the top of my head. I
3 don't know people's individual designations or
4 backgrounds.

5 Q When Dr. Zanjani made his presentation
6 to at least the property rating subcommittee, do you
7 recall whether the members of the subcommittee had
8 any questions for him about his method?

9 A I do recall some questions, some
10 discussion. I don't recall specific questions or
11 any specific -- yeah, I don't recall any specific
12 questions that came out of it.

13 And, again you know, we are relying on
14 an expert in this case. We are attempting to
15 understand -- as the committee, we are attempting to
16 reference it towards, you know, what we know of our
17 individual companies to say if this is a reasonable
18 provision on the end of it. But to the expertise
19 question, I would say I wouldn't be an expert in the
20 methodology. That's what the Rate Bureau hired
21 Dr. Zanjani for.

22 Q Moving on to the issue of hurricane
23 losses. Is it your understanding that in this
24 filing the modeled hurricane losses were accepted at
25 100 percent or, in other words, accepted exactly as

1 they came out of the model?

2 A I don't know exactly what they did with
3 the hurricane losses. I do know that they were
4 modeled losses. If there are specific adjustments
5 or specific, you know, selections in terms of model
6 version or expense factors added on to it, I don't
7 know exactly what was selected and at what
8 percentage.

9 Q Do you have any familiarity with
10 Allstate's use of hurricane models for homeowners
11 filings in states other than North Carolina?

12 A Again, you know, I do represent the
13 filings that are in there. We do rely on our own
14 internal experts on some of the hurricane models
15 that are there. But I would say I have a strong
16 understanding of many of the basics of the model.

17 Q What models does Allstate use?

18 A To cite them off the top of my head,
19 they use a couple versions of them. It's mostly
20 through the AIR company that we give them our
21 exposures. They send us back modeled losses, and we
22 utilize those. We have a team that intakes
23 reasonability checks the information that's coming
24 to, and then we score that on our individual states,
25 and from there we utilize the output of that model.

1 Q Does Allstate also use an RMS model ?

2 A I do believe we've purchased it in the
3 past to try and understand what multiple estimates
4 were saying, but I don't believe we have as strong
5 of a relationship with that company as we do with
6 AIR.

7 Q So you don't recall, it may have been
8 used for validation, is that fair, but it wasn't
9 used as the actual, submitted modeled losses for
10 filings?

11 A I can't speak for every single state.
12 If there was a state that we were required to use
13 RMS or that was the approved model loss, we probably
14 used it. But in general, our preferred methodology,
15 I believe, is the AIR model.

16 Q Do you know whether, to determine the
17 losses, Allstate uses AIR Standard or AIR WSST or
18 some combination of the two?

19 A It depends on the state. Our preferred
20 method is the Warm Sea Surface Temperature
21 adjustment, which would be the WSST that you alluded
22 to.

23 Q Now, in this case, is it your
24 understanding that Ms. Mao calculated the demand
25 surge based on Aon's standard version and RMS's

1 historical version?

2 A I did not go that far into the exact
3 specifications of what was utilized in the hurricane
4 model. Seemingly, that would be a reasonable -- a
5 reasonable selection to make.

6 Q Are you aware of whether different AIR
7 and RMS models were used to calculate the net cost
8 of reinsurance and the CAR?

9 A I, again, did not dive that far into
10 the calculation. You know, we, as a committee, are
11 looking for the reasonability of the outputs, and we
12 do rely on the experts to make some of the more
13 granular decisions.

14 Q Do you recall any questions from
15 members of either committee to Ms. Mao or ISO
16 about -- or staff, for that matter, about the models
17 used for demand surge, net cost of reinsurance, or
18 CAR?

19 A I don't recall any specific
20 conversation on which particular models were used.

21 Q Do you recall any particular
22 conversation or questions asked by committee members
23 of either committee regarding the calculation of
24 demand surge?

25 A No.

1 Q With regard to hurricane losses --
2 stepping back a moment -- does Allstate ever receive
3 the modeled losses and then moderate them in some
4 way based on actual hurricane experience?

5 A No, not to the best of my knowledge, at
6 least. The benefit of the model is that, you know,
7 hurricanes are very infrequent in high severity.
8 The three miles to the left, three miles to the
9 right can have very significant impacts in terms of
10 properties damaged, and that's where the models --
11 you know, we believe -- are usually superior to
12 actual information and that it can encompass a wide
13 range of outcomes that we may or may not have in our
14 actual database. As a result of that, we tend to
15 want to utilize the best estimate which we believe
16 will be the models in this case.

17 Q Has Allstate, in the filings you're
18 aware of, ever validated demand surge -- the demand
19 surge calculations of whatever model it used?

20 A Not in my role. I haven't seen
21 anything that we have done. However, we do have an
22 entire catastrophe modeling team that interacts more
23 closely with our vendors, and that would be, you
24 know, likely part of their reasonability checks of
25 the information in terms of seeing what has happened

1 versus what, you know, a model would say for a
2 specific event.

3 Q Moving on to the net cost of
4 reinsurance. In your experience, does Allstate rely
5 on entirely modeled data to determine that?

6 A To the best of my knowledge, yes.

7 Q Have you worked on filings where a
8 state has requested that Allstate provide some
9 evidence of its actual premiums for reinsurance?

10 A I'm sorry, I'm trying to understand
11 your question.

12 Have they asked us what --

13 Q Are you actually paying in any one
14 state for reinsurance, as opposed to what the model
15 says you ought to be paying?

16 A The premium side, we provide what we
17 have allocated to a specific state for the premium
18 that we paid to reinsurers, and then the net cost of
19 reinsurance calculation would subtract out the
20 modeled losses and the remainder would be the net
21 cost.

22 Q How does Allstate go about determining
23 the allocation of the net cost of reinsurance for
24 any one state?

25 A We look at the modeled loss for the

1 state and assume that the premium would follow that
2 general pattern. So most of our reinsurance
3 policies are on a country-wide basis and, therefore,
4 you get premium -- or you pay premium to the
5 reinsurer, and as a result of that, you know, it
6 would cover certain loss scenarios.

7 And the model loss, again, is probably
8 our best estimate of what that would be. So we
9 utilize that modeled loss to allocate the
10 reinsurance premium.

11 Q In doing that, let's say that on a
12 national basis you're paying \$1 million for your
13 reinsurance, and do you determine the modeled
14 hurricane losses and then determine the net by
15 reference to some portion of that \$100 million?

16 A I don't follow the question. Could
17 you --

18 Q I guess at any point in that, are you
19 actually looking at the million dollars that you're
20 paying in actual premiums; at any point in applying
21 the modeled losses to that, are you looking at
22 what's actually being paid by Allstate?

23 A So you're asking, this million dollars
24 is -- in your hypothetical example, it is the
25 premium Allstate has paid a reinsurer?

1 Q Yes.

2 A And you are asking me if we have looked
3 at what we pay per state?

4 Q No. I guess I should say this: I'm
5 asking whether in the process of allocating the net
6 to a particular state, does that 1 million national
7 premium cost get taken -- find its way into that
8 analysis in any way?

9 I can give you some other examples. So
10 my understanding -- in this case, my understanding
11 of the testimony so far has been that Ms. Mao has
12 testified that Aon, in modeling the net, took into
13 account some of the actual treaties and the actual
14 premium costs for those treaties of Aon customers,
15 and that that somehow worked its way into whether
16 the modeled net cost was reasonable.

17 I think there's some uncertainty, at
18 least from my perspective, about whether or not
19 those were Aon clients in North Carolina. But
20 putting that aside, she's testified somewhere in
21 either validating the net cost of reinsurance or in
22 setting it, some Aon client's actual premiums for
23 reinsurance were taken into account or used to
24 validate.

25 So my question is --

1 A Okay.

2 Q -- is Allstate -- is Allstate doing
3 that in any manner when it calculates the net cost
4 of reinsurance for a filing?

5 A So I guess -- I think I understand
6 maybe a little bit more now.

7 Allstate takes the amount of money that
8 we would pay reinsurers. Those are our actual
9 contracts. Allstate specifically has purchased this
10 cover through reinsurers. We know our costs. And
11 then from there, we would allocate those premium
12 dollars to states by expected recoveries from those
13 treaties. The difference there being, again, the
14 net cost of reinsurance.

15 And maybe what we're kind of getting at
16 is the net cost of reinsurance has -- the reinsurer
17 has expenses that they pay. They need a staff.
18 They need a building. They need to operate their
19 business. They also require a return as part of
20 that. Access to capital, things like that cost
21 money. And so those reinsurers, then, price that
22 into the risk transfer cost for Allstate, and that's
23 our premium.

24 We understand that we're going to
25 recover some money from that in the long run because

1 we can't have storms that, you know, have losses in
2 excess of our threshold of coverage. And so the --
3 having actual treaties, actual costs, makes the
4 process a little bit easier on Allstate's side
5 because we know our cost.

6 To look at that at an industry level,
7 you have to assume different risk thresholds for
8 your companies. Allstate being a multinational --
9 or a multi-state carrier is going to have a higher
10 risk threshold because they're a bigger company. A
11 smaller company may have a different risk threshold.

12 So when you kind of look across the
13 industry, the Rate Bureau needs to do what would be
14 almost like an average cover for a company. And
15 they do that by utilizing what Ms. Mao had been
16 saying in terms of they look at some actual
17 reinsurance treaties, and have the cost associated
18 with them, so it's more of like a hypothetical price
19 that you would get for a reinsurance contract that
20 would then provide the cover that is in the Rate
21 Bureau's filing.

22 Q And the process by which Allstate
23 allocates the cost of the reinsurance policies or
24 treaties that it has to a particular state, any idea
25 about how long that takes?

1 A I do not know the exact timing.
2 Allstate's yearly update usually happens around the
3 middle of the year. So I believe roughly six months
4 for Allstate's internal data to be produced.

5 Q About just the allocated net or about
6 all of the internal data?

7 A When you say "all of the internal
8 data," what are you --

9 Q Well, I guess does it take six months
10 just to determine the allocable portion of the net
11 to a particular state?

12 A And I may not be a complete expert on
13 this topic, but my understanding is that Allstate
14 takes a snapshot of its in-force exposures. We send
15 that data off to our model company so that they
16 calculate the average annual loss, all the different
17 metrics of the model, and then they send that back
18 to us. And from there, we validate that information
19 and we make sure that, you know, we're checking on,
20 you know, how has this changed from last year? Does
21 it make sense? Do we feel comfortable? Do we have
22 questions we would ask the vendor of the model?

23 And ultimately, when the product is
24 ready for -- or the end product being the new,
25 updated hurricane modeled loss, and then

1 subsequently the cost of reinsurance, the net cost
2 of reinsurance is ready to be published, it's
3 roughly six months.

4 Q Are you aware of how the commissioner
5 in past years has evaluated the bureau's calculation
6 of its modeled net costs?

7 A I'm not familiar with a specific
8 back-and-forth.

9 Q Okay. Are you familiar with any
10 general holdings by the commissioner or positions
11 taken by the department with regard to the
12 calculation of the net using a model?

13 A I don't know off the top of my head any
14 particular interactions I've had on the net cost of
15 reinsurance calculation.

16 Q Do you recall whether Ms. Mao, in
17 presenting her calculations of net cost of
18 reinsurance to either of the committees you're on,
19 discussing any of the actual reinsurance experience
20 of any Aon clients?

21 A In specific, I think I touched on most
22 of what I have heard in terms of, you know, them
23 attempting to do kind of like a hypothetical market
24 that would exist so that you could calculate the net
25 cost of reinsurance. But we did not drill down into

1 specific treaties that would be associated with that
2 or anything because I believe that would be more on
3 the, like, proprietary information side of things
4 for them.

5 Q Moving on to the CAR. Could you define
6 that acronym for me?

7 A Yes. I believe -- I get it wrong
8 myself, but it's the calculation of the risk of an
9 assessment by either of the residual North Carolina
10 markets.

11 Q Okay.

12 A There's another word -- I forget what
13 the "C" stands for there.

14 Q Are you aware the bureau performs that
15 exercise?

16 A Yes. There's a provision for
17 assessment risk and the indication. I'm aware of
18 that.

19 Q Are you aware of any North Carolina law
20 on what can or can't be included in that provision?

21 A I have not reviewed North Carolina law
22 on that provision.

23 Q But the property filings you've been
24 involved with, have any committee members ever
25 questioned any of the experts about the North

1 Carolina law on what can be included in the CAR
2 provision?

3 A I recall some general discussion on
4 what the assessment risk provision was for, but not
5 any conversation on the legality of that.

6 Again, we do rely on our experts to
7 make sure we are within the bounds of the law, and
8 that is why the counsel is also present for any
9 discussion on that to make sure we're staying within
10 at least legal requirements.

11 Q Are you aware North Carolina has two
12 residual plans?

13 A I'm not aware on any of the specifics
14 to them.

15 Q Are you aware we have a Beach Plan and
16 a FAIR Plan?

17 A Yes.

18 Q Okay. And is it your understanding
19 that for calculating the CAR, Ms. Mao took into
20 account the potential for assessment by both the
21 Beach Plan and the FAIR Plan?

22 A I did not personally go down into the
23 calculation at that level.

24 Q Did anyone on either of the committees
25 you're on question Ms. Mao about which of those two

1 plans' risk of assessment was included in the CAR?

2 A I don't recall.

3 Q Are you aware that in this case, the
4 filing requests, first of all, that it treats
5 dividends as expenses?

6 A What are we talking about? What
7 dividends and what expenses?

8 Q So whether -- first of all, the filing
9 takes into account dividends paid to policyholders
10 and seeks some part of the rate to compensate the
11 companies for those dividends.

12 A I'm unclear on that part.

13 Q Okay. Do you recall anybody on either
14 of the committees with regard to this filing
15 questioning ISO, or any of the experts, about any
16 provision in the filing for dividends, policyholder
17 dividends?

18 A I do not recall.

19 Q In North Carolina, does Allstate
20 regularly issue dividends to homeowners
21 policyholders?

22 A I'm not aware if we do or do not.

23 Q Are you aware of whether you do in
24 other states?

25 A No, I'm not aware of that practice.

1 MR. FRIEDMAN: That's all I have for
2 Mr. Wierzbicki -- I'm sorry, I may have it
3 wrong again, but --
4 THE WITNESS: "Wierzbicki."
5 MR. FRIEDMAN: Thank you.
6 MS. FUNDERBURK: Thank you.
7 Cross?
8 MR. BEVERLY: Your Honor, may we have a
9 five-minute recess?
10 MS. FUNDERBURK: Yes. We're recessed
11 for five minutes. Thank you.
12 (A recess was taken from 2:16 p.m. to
13 2:23 p.m.)
14 MS. FUNDERBURK: Thank you, Counsel.
15 MR. BEVERLY: Very brief -- sorry, Your
16 Honor.
17 MS. FUNDERBURK: We're fine to proceed.
18 Thank you.
19 MR. BEVERLY: Just a very brief cross,
20 Your Honor.
21 MS. FUNDERBURK: Please proceed.
22 And I remind the witness you do
23 continue to be under oath. Thank you.
24 CROSS-EXAMINATION
25 BY MR. BEVERLY:

1 Q Sir, you were asked some questions on
2 direct examination about whether Allstate would ever
3 amend or revisit a filing if presented with new
4 information. Do you recall that line of
5 questioning?

6 A Yes.

7 Q Can you elaborate under what
8 circumstances that might ever be done?

9 A Yeah. So to what I was testifying
10 to -- or at least the individual example -- was that
11 we were requested to update some underlying loss
12 data in the exhibit, not necessarily a full refresh
13 of everything in the process.

14 So to the extent that, you know, if
15 Allstate wanted to update things like the hurricane
16 modeled provision with new exposure data, that would
17 be problematic in terms of the timeline I laid out
18 in one of my previous responses; in that taking from
19 the exposure data gathering to, you know, the
20 process where we actually had modeled losses that
21 were reviewed, validated, and ready for publication.
22 That process would take very long in terms of
23 roughly the, you know, six months, if not more,
24 because of the unscheduled nature of the ask to the
25 modeling company.

1 But, again, what I was kind of
2 testifying to was portions of the underlying loss
3 data that, at least from one company -- Allstate --
4 could be done in not necessarily quick order but at
5 least, you know, have the ability to update it in a
6 reasonable amount of time, that specific portion.

7 Q And can you compare the amount of time
8 that exercise would take Allstate, the one you just
9 described; to what amount of time, for example, a
10 Rate Bureau exercise of that type would take?

11 A Yeah. So with one company, you know,
12 you have your own individual process, your own
13 individual data. You go through a process where you
14 pull your data, you validate your data, and you have
15 it ready for use.

16 If you were to then talk about, you
17 know, a Rate Bureau, those steps don't go away for
18 each individual company. Each individual company
19 has to do the same thing. So pull the data,
20 validate the data, and then send it to the
21 aggregation business entity, whether that's ISO or
22 the NCRB. And after doing that, I guess I will say
23 Allstate, being a larger company, has a lot of
24 processes put in place, such that we may be faster
25 on that than some smaller carriers who don't have an

1 entire organization that is dedicated to pulling
2 data and putting it in the right format. Perhaps
3 that's an actuary taking time out of his other
4 responsibilities to comply with a data request.

5 So you still have all of that
6 information that needs to be gathered. And then on
7 top of that, then once it's aggregated, you would
8 have to go through the same data quality checks to
9 ensure that the information that's coming in is
10 usable.

11 Q Is it fair to say the exercise you
12 described when presented with new information for
13 Allstate being relatively quicker would, in fact, be
14 a long, drawn out, protracted process for the Rate
15 Bureau?

16 A Yes. That would be my understanding of
17 it, is, you know, in general, again, added steps to
18 what Allstate would have to have and being in
19 addition to not just what Allstate is doing.

20 Q You were asked some questions on direct
21 regarding your participation in committee meetings
22 relative to this filing. Do you recall those?

23 A I do.

24 Q At the lunch break, did you have an
25 opportunity to investigate how many committee

1 meetings you did participate in?

2 A Yes. And I believe I forgot one. So I
3 think there were four property rating subcommittee
4 meetings and then one property committee meeting
5 that I was the chair in.

6 MR. BEVERLY: Thank you, sir. Those
7 are all my questions.

8 MS. FUNDERBURK: Thank you, Counsel.
9 Mr. Friedman, redirect?

10 MR. FRIEDMAN: Very brief.

11 REDI RECT EXAMI NATION

12 BY MR. FRIEDMAN:

13 Q So you spoke about an instance when
14 Allstate updated a filing to add some more, as I
15 understood it, recent loss data?

16 A Yes.

17 Q Okay. And you said that did not
18 require a full reset?

19 A So in some of the exhibits you have
20 underlying loss data that is then trended,
21 developed, a lot of actuarial assumptions are put on
22 to it, you know, to make sure that it is ready to
23 project into the future the loss cost that you
24 expect for the filing date.

25 In certain filings, portions of that

1 filing can be updated in terms of potentially using
2 the same trend selections, the same underlying loss
3 development selections. If you're talking about an
4 ideal world, it would be useful to look at what the
5 data has said in that context, refresh. Is the
6 trend information still appropriate? Is the -- has
7 there been a change in development patterns?

8 In doing that, that would be, you know,
9 kind of the right thing to do upon looking at new
10 data.

11 However, in this particular case, it
12 was -- I don't remember the exact state, but I
13 remember the general nature of it is they wanted
14 more recent data, and we were able to pull that data
15 internally and then put that into the filing.
16 Again, only the loss component and the premium
17 component, not, you know, rewriting hurricane models
18 or anything like that, and just providing a closer
19 snapshot of the information.

20 But, again, to -- you know, the larger
21 point is that's one company doing it on a scale of
22 Allstate not necessarily aggregating information
23 from 100 companies for a unscheduled data -- data
24 update.

25 Q You talked about this not being

1 hurricane loss data, so this was regular loss data?

2 A Correct. Underlying data in a rate
3 filing would be either, you know, certain premium
4 components, whether that's like fire losses, weather
5 losses that are not hurricane. We have specific
6 methodologies for how to handle, you know, some of
7 the perils that are more catastrophe-based as well,
8 such that we look them over a longer period of time.
9 So a data update may not provide as much insight.

10 But getting the more recent data is
11 definitely possible on the Allstate side of things
12 to respond to an objection, which, like I said in, I
13 think, my original answer, we don't necessarily want
14 to do it, but if that's what the requirement is from
15 the Department of Insurance, we will do our best to
16 work through the request.

17 Q Okay. And in that instance you're
18 talking about did including that new data result in
19 any change to the loss trend ratio?

20 A So what I kind of said was we utilized
21 the same trend. So we had filed our trend
22 information that says -- I don't know exactly what
23 the trends were, but, hypothetically, we will say
24 losses were increasing at 5 percent rate. We
25 updated the data. That would update the amount of

1 time that you need to trend that data to get to the
2 filing effective period. But in that process, we
3 would have had a shorter trend need because the data
4 was more recent.

5 Q And as it happened, that particular
6 data supported the trend you had already indicated,
7 albeit based on a prior period?

8 A Yes.

9 Q Does loss trend development include in
10 any manner changes in the rate of inflation?

11 MR. BEVERLY: Objection, Your Honor. I
12 think we're bleeding beyond the scope of
13 cross, but I'll yield.

14 MR. FRIEDMAN: I mean, he talked about
15 what -- he better specified what was updated,
16 and I'm just simply trying to -- in light of
17 his better specification -- ask him about
18 whether -- I can keep it to that particular
19 instance, if that's okay. If I could
20 rephrase then.

21 MR. BEVERLY: Withdrawn objection.

22 MS. FUNDERBURK: Please rephrase and be
23 specific as to your question and keep it
24 within cross.

25 BY MR. FRIEDMAN:

1 Q What components of the loss projection
2 in this one instance you've discussed were updated?

3 A So it's taking the same underlying
4 data. So you would have your raw loss data. You
5 would add on, say, an additional quarter to that
6 information, and that would then change the date
7 you're trending your losses from. The date you're
8 trending your losses to would still be the same.
9 But you would essentially have losses that are just
10 more recent in that data.

11 Q And would that more recent data have
12 included newer inflationary trends?

13 A In this particular instance, it
14 supported the trend selections that we had, so the
15 answer didn't change very much. And as a result of
16 that, yes, it included the continued rate of change
17 of insurance loss cost.

18 Q I may have misunderstood. Did that
19 updated information include updated information on
20 inflation trends and how those affected loss costs?

21 A So, I mean, I think what you're getting
22 at is if the loss trend changed, would it be
23 different -- would the answer be different?

24 Q No. I'm not asking about how it
25 changed the loss trend, but did the updated data

1 include updated experience with inflation?

2 A So -- and that's where our measure
3 of -- our measure of inflation would be our trends.
4 In this particular case, we kept our trend selection
5 the same and filed that updated underlying data to
6 it.

7 So if you're asking if I updated the
8 trend data as well, the answer is no.

9 Q Okay. So what was -- when you speak of
10 "raw losses," I think that was the term you used for
11 what was actually updated. What does -- I mean,
12 could you explain to me what's contained within this
13 idea of raw losses, what elements?

14 A So it would be incurred loss data for
15 this particular one, and "incurred loss data"
16 evaluated and through a different date that is
17 basically more current.

18 So if our filing was data evaluated and
19 through, you know, 3/31, this would be that same
20 data evaluated and through 6/30. And that would be
21 the data that is before adjustments.

22 So if you look at a filing exhibit, you
23 have your incurred losses, then you have, like, a
24 loss development factor, a loss trend factor, maybe
25 an unallocated loss adjustment factor, and you

1 multiply those together, and you get your ultimate
2 loss.

3 So the data that we were talking about
4 updating was just that base incurred loss, so the
5 actual loss. And this filing, it was, I guess, the
6 underlying data, so there was no adjustment for
7 excluding catastrophes or anything like that, other
8 than excluding hurricane.

9 Q And the duration of the time of this
10 updated incurred loss data, how long was it? A
11 year's worth? Half a year's worth?

12 A So in this particular case, I believe
13 it was a couple quarters because between the time
14 the filing was submitted and the time the filing was
15 looked at, about half the year had elapsed.

16 Q Would that have been based in part on
17 FastTrack data?

18 A No. Allstate uses its own internal
19 data.

20 MR. FRIEDMAN: Those are all the
21 questions I have, Your Honor.

22 MR. BEVERLY: Nothing further, Judge.

23 MS. FUNDERBURK: Thank you, Counsel.

24 You're free to step down, thank you.

25 MR. FRIEDMAN: The department calls

1 Mr. Rick Pierce.

2 MS. FUNDERBURK: Mr. Pierce, please
3 take the stand.

4 RICK PIERCE,
5 having been first duly sworn, was examined and testified as
6 follows:

7 DIRECT EXAMINATION

8 BY MR. FRIEDMAN:

9 Q Afternoon, Mr. Pierce.

10 A Afternoon.

11 Q Could you tell me who you work for?

12 A Yes. I work for Allstate Insurance,
13 but I actually directly work for a subsidiary, which
14 is National General Insurance. National General was
15 acquired by Allstate in January of 2021.

16 Q '21, okay.

17 So had you worked for National General
18 before that?

19 A Yes, sir.

20 Q For how long, sir?

21 A A very long time. I am in my 43rd year
22 with National General, and throughout those years,
23 I've always been in or a part of North Carolina.

24 Q And could you, I guess -- how long have
25 you been participating in bureau matters, whether on

1 behal f of both National General and Allstate?

2 A Speci fi cally, I'll give you a quick
3 background --

4 Q Yes, si r.

5 A -- on that.

6 We had a gentleman that was in -- for
7 the record, National General was formerly known as
8 GMAC Insurance, formerly known then as Integon,
9 prior, and you will often see Integon in various
10 records of the bureau explaining who we are, and
11 that's -- Integon is still a legal entity of the
12 company.

13 A gentleman retired that worked closely
14 with the bureau, all forms of the bureau, Rate
15 Bureau, et cetera, and the facility, for many, many
16 years, and I assumed his role about three years ago.

17 Q Three years ago, okay.

18 Before that, whether for National
19 General or -- I guess I'm still unclear on at some
20 point you worked for them versus Integon versus --
21 but had you been involved on bureau commi ttees or
22 subcommi ttees before three years ago?

23 A No subcommi ttees wi th the bureau,
24 speci fi cally subcommi ttees. I would occasi onally
25 stand in as a representative when our representative

1 couldn't be there for GMAC or National General, or
2 Integon at the time, but never on a subcommittee.

3 Q What about the general committee?

4 A Pardon me?

5 Q What about other committees -- full
6 committees? What about full committees? Have you
7 ever served on any of those?

8 A Only the governing committee when our
9 former representative retired.

10 Q And that was three years ago?

11 A Yes.

12 Q Thank you.

13 A Now, let me, if I may --

14 Q Please. I appreciate the education.

15 A Okay. Our former representative
16 retired in '21, and that was when National
17 General -- I mean, when Allstate acquired National
18 General. So at that time, you could only have one
19 representative from the company, the parent company
20 or a subsidiary. So it was determined at that point
21 that Allstate would be the representative with the
22 vote on the Rate Bureau, if that makes sense.

23 Q It does.

24 Could you walk me through your
25 successive responsibilities, whatever the job title,

1 over your years with National General, whichever was
2 the predecessor to that, and then now Allstate?

3 A This may take a little while. So, no,
4 I --

5 Q You don't have to --

6 A It's quite all right.

7 Q What I'd be more interested in -- I
8 know that you're an advanced -- well, why don't you
9 explain to me what your current job is.

10 A Okay, sure. My current job is -- I am
11 a director level at the company, and my principal
12 responsibility is industry affairs, and specifically
13 at North Carolina. And that would include being
14 Allstate's representative on the Rate Bureau, as
15 well as the reinsurance facility, and also the
16 insurance guaranty associations.

17 So, really, my focus is North Carolina.
18 And that largely comes from my experience in the
19 state, my dealings with all folks in the regulatory
20 community as well as the legislature, the Rate
21 Bureau. Pretty much everybody that works to make
22 all of North Carolina kind of come together.

23 Prior to this, I've had a number of
24 roles going back to far less sophisticated days of
25 product management. Early on, company operations.

1 I worked within the company, just the operational
2 aspects of running an insurance company and working
3 closely with the requirements.

4 North Carolina is far different than
5 any other state that our company does business with.
6 So it kind of takes a unique subset as to understand
7 how things work with the Rate Bureau, how things
8 work with the reinsurance facility. It's just
9 dramatically different than any other state.

10 And so through that, many sales,
11 marketing-related roles as well, leading into this
12 much -- much of a liaison role, if you will, between
13 the actuarial, the product, the pricing people, the
14 legal people and the regulatory environment and the
15 bureau-type of environment.

16 Q Prior to your current position in
17 industry affairs as the director, did any of your
18 other jobs intersect specifically with the Rate
19 Bureau's rate determination?

20 A No, it did not.

21 Q Okay. So I believe you said you worked
22 in internal operations. That didn't involve
23 determining or contributing to the Rate Bureau's
24 filings for --

25 A No, sir. No, sir.

1 Q So is it fair to say truly no
2 intersection with the rates until the last
3 three years?

4 A True.

5 Q Okay. Now, when you took over this
6 position, how did you go about educating yourself
7 with regard to both the law on the bureau's setting
8 of rates or the bureau's calculation of indicated
9 rates, and then also just simply how that worked in
10 practice?

11 A Sure. Well, leading into my
12 predecessor's retirement, I pretty much shadowed him
13 for a couple of years. He had held, certainly, the
14 chairmanship multiple times, I suppose, over the
15 years, understood very well the legal environment of
16 North Carolina, the statutes, as well as what we
17 would call the rules or the roles of the Rate
18 Bureau. And I basically had a mentorship for two
19 full years.

20 But, again, over the last 40 years,
21 there's been a -- even within the operations of
22 understanding rate changes, specific -- I would say
23 statutory adherence that North Carolina requires
24 when it comes to anything related to the rating of
25 policies, whether it's bureau rates, deviated rates,

1 whether it's consent to rate, all of that is coming
2 together.

3 So he coached me along the way. We
4 collaborated to understand how things were going.
5 We would talk about items coming before the Rate
6 Bureau that were to be decided and ultimately what
7 would be determined.

8 Most of my experience has been with
9 automobile. As you know, the Rate Bureau -- you
10 have one role as a governing committee member, but
11 you have multiple lines of business. National
12 General's specialty is automobile insurance.
13 Allstate had the position on the Rate Bureau up
14 until -- well, for a two-year chairmanship on the
15 Rate Bureau. And when the chairman was reassigned
16 to another role at Allstate, we needed to find a
17 replacement person, so I have replaced him from the
18 period of October of '23 through October of '24.

19 Q You spoke about prior experience with
20 rating before you became involved with the Rate
21 Bureau. Are you speaking about rating from the
22 perspective of what rates the National General was
23 going to quote as opposed to what rates the bureau
24 was going to propose?

25 A Sure. Well, decision-making for --

1 decision-making on what would be written at bureau
2 rates, what would be written at deviated rates, or
3 what would be consent to rate is all -- would factor
4 into that. I wouldn't necessarily make those picks
5 or those selections. Those were made by other
6 people, but I was aware and understood that. And
7 certainly from a market competitive position, I
8 would understand that.

9 Q A little bit off the wall, but does
10 Allstate in North Carolina -- you're doing business
11 now under Allstate or still under National General?

12 A We're doing business under National
13 General, but I am representing Allstate as the
14 parent company on the Rate Bureau.

15 Q Okay. Whether Allstate or National
16 General, does it seek to gain more business in the
17 Beach Plan territories? Is that a goal?

18 A I cannot really answer that for
19 Allstate. I cannot.

20 Q Do you have any idea about whether or
21 not the voluntary market has been steadily gaining a
22 share of the market in the beach territories over,
23 say, the last ten years?

24 A I know there have been carriers that
25 have focused on the beach market from out of state.

1 I just know that from my experience in the marketing
2 space and field experience is that I do hear of
3 carriers that are particularly focused on coastal
4 business.

5 Q Is National General /Allstate in North
6 Carolina focused on the beach territories?

7 A I can't say that I know that Allstate
8 is focused on that as a strategy to grow. I can't
9 say that.

10 Q Since you assumed your current role,
11 have you only been on the governing committee or --
12 I think you said only the governing committee, but
13 then you sat previously for one meeting here and
14 there on other committees, but not subcommittees; is
15 that correct?

16 A Correct. I would shadow oftentimes
17 on -- for the governing committee, but not for
18 the -- for the property committee or the property
19 subcommittee, no, rating committee.

20 Q When you were shadowing and working
21 with your predecessor in those -- I think you said a
22 couple years when you were "being learned" -- did
23 that include the 2020 homeowners filing?

24 A It did not.

25 Q So whether gained by virtue of your

1 current position or in some manner by your prior
2 positions, do you have an understanding of how the
3 commissioner or the department have previously
4 evaluated the Rate Bureau's database for homeowners?

5 A I do not.

6 Q Do you, as part of -- well, let me ask
7 you this: At what level does the governing
8 committee hear the detail of the proposed elements
9 or factors in a proposed rate?

10 A Well, we can be specific on the current
11 filing.

12 Q Yes, sir, that would be fine.

13 A That was presented prior to a meeting
14 on December the 5th of '23, which was -- and I
15 believe I have that rate [sic] right -- that date
16 right. Materials were distributed prior to that
17 meeting. I would call it -- based on the testimony
18 that I've heard today, I would call it far more of
19 an executive summary of experts as opposed to the
20 deep dive in the specifics of the expert derivatives
21 to get us to those trends and ultimately the final
22 indication.

23 So myself, as well as the governing
24 committee members, would have probably gotten that
25 about a week before. And with that meeting called

1 for -- I believe, it was December the 5th.

2 Q And was that the first time the
3 governing committee had been apprised of the process
4 in developing the 2024 proposed rate?

5 A To my recollection, we were aware that
6 a review was being -- was being assembled, and that
7 we were expecting to have a committee meeting in
8 December for review of that, and ultimately a
9 decision on the rate filing.

10 Q Is it fair to say that substantively
11 the general -- excuse me -- the governing committee
12 hadn't yet learned any of the conclusions from the
13 data, the analyses prior to December?

14 A To my knowledge, no. That was all
15 handled through committees.

16 Q Who made the presentation about the
17 proposed 2024 filing to the governing committee?

18 A It was made by the staff. I was trying
19 my best to remember, but I am positive that it was
20 made by the staff. I did go back and look at the
21 minutes to see who attended that meeting, and it was
22 staff presentation.

23 Q Are you familiar with who the bureau's
24 expert witnesses have been in this filing?

25 A I've been following that, yes, I have,

1 and they were not present in that meeting.

2 Q Not present, okay.

3 So did staff address separate elements
4 of the rate? For example, the calculations of the
5 net cost of reinsurance, for example, hurricane
6 losses?

7 A To my recollection, we -- on that
8 particular day, there were a number of things on the
9 agenda that day, but we did dive specifically into
10 each element on it. Not of great detail of how it
11 was developed. But it was in comparison, as best I
12 recall, to the last review.

13 And I do actually remember you
14 specifically mentioned "reinsurance." And I do
15 remember that that was a stand-out feature on that
16 particular review; that the net cost of reinsurance
17 was higher.

18 Q When you say "last review," you're
19 talking about the review that would have led to the
20 2020 filing?

21 A Yes, I believe that would be correct.

22 Q What do you recall being presented --
23 you said you do recall specifically discussion about
24 the net cost of reinsurance. Do you recall any
25 discussion about the loss trend?

1 A I do not.

2 Q Do you recall any discussion -- by
3 "discussion," I mean by the staff or between members
4 of the governing committee and the staff during
5 their presentation?

6 A What I remember distinctly was
7 discussion in the room just in a general area of the
8 condition of the industry, the challenges of
9 inflation, how long it had been since a rate
10 revision in North Carolina, and that -- let's call
11 it tension in the room around the need for a rate,
12 and how long it had been, and that the conditions of
13 the economy, in general, with the inflation factors.
14 I absolutely remember that.

15 And also from the aspect of
16 reinsurance, that I remember people talking clearly
17 about the escalation cost of reinsurance. I
18 couldn't say what my company's cost was, but I
19 recall that distinctly.

20 Q When you say there was -- as I
21 understood you just now -- tension generally about
22 the need for a rate increase, could you describe
23 that tension?

24 A I guess it was mostly dialogue just in
25 general about the inflationary factors of what

1 homeowners has had. The labor cost; in particular,
2 roofing cost, the presence of a driving factor of
3 roof replacements driven by hail, driven by
4 prospecting by roofing companies, and so forth and
5 that there was just -- for lack of a better term --
6 is these were business people largely just talking
7 about the difficulty of writing profitably
8 homeowners insurance and that there was a rate need
9 in North Carolina.

10 Q When you said "tension," were there any
11 members of the staff or members of the committee
12 that disagreed about the extent of a need for a rate
13 increase?

14 A You know, the interesting thing here
15 was the discussion, knowing that the indication
16 is -- I think it was forty-two six, as best I
17 recall; that it was a large number, and everyone
18 realized that number was large.

19 And the interesting thing about the
20 governing committee is I've never sort of found the
21 governing committee to sort of be "let me sort of
22 undo what the committees may have decided." The
23 experts had worked on it. I think it was reflective
24 of what the committee members were seeing in their
25 worlds as well. And so I think it was -- always the

1 confirmation is the circumstances that they were
2 experiencing is reflected in the indication.

3 Q Are you aware of whether in prior
4 filings, homeowners or the bureau, the bureau had
5 ever -- I'm going to use the word "capped," but by
6 that I mean asked for a recommended rate that was
7 less than the indicated rate?

8 A I don't have specifics, but I know that
9 that has been a circumstance in the past.

10 Q Was there any discussion at the
11 governing committee about doing so in this case?

12 A Again, I'll say, it's been nearly a
13 year ago.

14 Q That's fine.

15 A But I know that was a discussion around
16 the table about that as a possibility. To my
17 recollection, it was -- the tenor in the room was
18 that the need was so great from the perspective of
19 the members, is that this was not a time to develop
20 a different number or come up with a compromised
21 number, is that I recall saying we should file the
22 indication.

23 Q Regarding the net cost of reinsurance,
24 I believe you said that the consensus was that there
25 really had been a hard market for reinsurance

1 among -- the business people, as you say, who are on
2 the governing committee?

3 A Yes.

4 Q Was there any questions about how the
5 net cost of reinsurance had been determined by the
6 Rate Bureau's experts or how had it been addressed
7 by any of the lesser committees?

8 A I don't recall that.

9 Q Do you recall any conversation about
10 whether, in fact, the North Carolina homeowners
11 market had been profitable in the last five years?

12 A I don't recall a specific conversation
13 around that.

14 Q Are you aware of whether it has been?

15 A I do not believe -- and this is simply
16 from trades, et cetera, not a compilation, but it
17 has not been an openly stated thing that it has been
18 profitable. I don't know of anyone who has said,
19 This is a really profitable state and a place to do
20 business because you make a lot of money. You don't
21 hear that.

22 Q I guess I discern between "profitable"
23 versus "really profitable."

24 A Oh.

25 Q But are you familiar with the NAIC

1 measures of profitability for homeowners writers in
2 each state?

3 A I am not.

4 Q Was there any discussion at the
5 governing committee meeting about whether the
6 various ratios, determinations that were being
7 presented to you were in keeping with prior
8 commissioner decisions?

9 A I don't recall that conversation at
10 all.

11 Q Are you aware of any respect in which
12 they were or weren't?

13 A No, I'm not.

14 Q Are you aware of any of the outcomes of
15 the 2014 homeowners decision by the commissioner or
16 the decision by the Court of Appeals affirming that?

17 A I am not.

18 Q In the context -- you said that you, in
19 your prior jobs, worked largely with PPA; is that
20 fair -- is that correct?

21 A Yes, sir.

22 Q In that context, were you familiar with
23 any of the commissioner orders, the Courts of
24 Appeals' orders on proposed bureau PPA rates?

25 A I have been involved in those where

1 there were disagreements, and they did go to the
2 court system, yes.

3 Q How were you involved in those?

4 A Principally, it was my operation days
5 and it involved the escrow. So we were escrowing
6 the difference between the commissioner's order and
7 our implemented rate.

8 Q Okay.

9 MR. BEVERLY: For the record,
10 Your Honor, could counsel just state for the
11 record what he means by "PPA"?

12 MS. FUNDERBURK: I'm sorry, I didn't
13 hear your last word.

14 MR. BEVERLY: Could counsel state for
15 the record what he's referring to by "PPA"?

16 MS. FUNDERBURK: Please do so.

17 BY MR. FRIEDMAN:

18 Q "Personal private automobile," is that
19 your understanding as well, sir?

20 A We call it private passenger auto.

21 Q Thank you. I keep so many acronyms; so
22 little time.

23 So were -- in that capacity where you
24 were responsible for escrowing -- that was escrowing
25 the premium during the pendency of an appeal. Am I

1 correct?

2 A Correct.

3 Q Were you ultimately made aware of the
4 outcomes of those appeals?

5 A I know that there were -- there was a
6 settlement, and there were checks issued as a result
7 of that. Yes, I do remember that. Specifics on the
8 numbers and percentages, I do not recall that.

9 Q Would you have been doing that work as
10 far back as 2001, if you can recall?

11 A I would -- probably.

12 Q Okay. In 2001, were you aware that the
13 commissioner, at least in part, rejected the
14 bureau's proposed rates for PPA?

15 A I don't remember the specifics, but in
16 principle, yes, I know it was a rejection.

17 Q And were you aware about whether the
18 Court of Appeals affirmed the commissioner's
19 rejection?

20 A I do not remember the exact decision on
21 that.

22 Q Do you recall whether in the
23 commissioner's order or the Court of Appeals' order
24 discussion of the Rate Bureau's proposed profit
25 provision?

1 A No, I do not.

2 Q Does the governing committee vote on
3 proposed settlements?

4 A Yes.

5 Q Do other lesser committees vote on
6 those first?

7 A That, I don't know. I believe that --
8 I really don't know.

9 Q When the data for this filing was
10 presented to the governing committee, were you
11 informed of the outcomes of the votes by the lesser
12 committees?

13 A No, we just received the data, as I
14 mentioned, in sort of the executive format, and then
15 there was a recommendation from the property
16 committee that we filed the indicated number.

17 Q Okay. So you had said before that the
18 Rate Bureau staff did the presentation. Were there
19 also members of the property committee present that
20 were aiding in some way in that?

21 A I don't recall any members there. I do
22 remember the governing committee and I remember the
23 staff, but I don't recall other property committee
24 members. I do not know every property committee
25 member.

1 Q But you were aware of what the property
2 committee had approved?

3 A Yes.

4 Q Have you sat on the governing committee
5 with regard to -- with regard to any other property
6 filings besides this homeowners, such as dwelling,
7 homeowners?

8 A I am trying to recall. I know that the
9 dwelling filing -- I'm trying to remember whether I
10 was a voting member or whether I was observing. I
11 can't recall.

12 Q In either context, do you recall any
13 greater discussion between the staff and the
14 governing committee members than took place in the
15 homeowners vote?

16 A I don't understand the question. Could
17 you phrase it again?

18 Q So you described, I think pretty well,
19 your recollection about -- I don't know your true
20 recollection, but you described to my satisfaction
21 what you remember about the participation and just
22 how much inquiry went on by the governing committee
23 of the staff during the December homeowners meeting.

24 Do you recall whether for any --
25 whether any committee meeting you attended, whether

1 as a voting member or not, there being any more
2 discussions in any dwelling filing, more
3 interaction, if you will, between the governing
4 committee members --

5 A I don't recall.

6 Q I guess the same question for
7 homeowners?

8 A No, I don't recall.

9 Q Have you ever been responsible for --
10 in your prior capacities for -- or even in your
11 current one -- for responding to any Rate Bureau
12 data calls?

13 A No, I have not.

14 Q Have you ever been responsible in your
15 career for tabulating data that was reported to the
16 commissioner or to the Rate Bureau?

17 A I have not.

18 Q Does the governing committee have any
19 role in selecting what the effective date for the
20 filing will be?

21 A I know we discussed this at the
22 December 5th meeting, and I know one of the items,
23 whether it's on the -- regarding the property or
24 whether it's regarding auto, is the time frame for a
25 company to be able -- once a circular is

1 distributed, for them to actually get it into their
2 systems and programmed so that it's done on the
3 date.

4 And in this case, there was a desire,
5 as soon as we could. And I recall that 8/1 was the
6 date that we developed -- or that we agreed was the
7 right date to give everyone enough time to do that.
8 And so I know -- I do recall 8/1/23 was the plan --
9 or '24, excuse me.

10 Q So there was discussion around whether,
11 for the purposes of inputting new rate information
12 to the members' computer programs or other programs
13 as that -- that having a bearing on the selection of
14 the August 1, 2024, effective date? The desire to
15 have the data so that you could have sufficient
16 time -- the desire to have an effective rate by that
17 date so that the companies would have sufficient
18 time to --

19 A That's correct, yes.

20 Q -- program it into their systems?

21 A Yes, sir.

22 Q Okay. Do you recall any discussions
23 about whether there was any expectation that the
24 filing would actually be resolved by August 1, 2024?

25 A I do not recall those discussions, no.

1 Q Do you recall any discussions at the
2 meeting about recent or ongoing North Carolina
3 litigation that might affect the rate in some way?

4 A Can you be more specific?

5 Q Sure. Was there any discussion of a
6 recent jury verdict, for example, that would affect
7 the rate in any way, or that might lead to an --
8 might justify some provision of the rate filing?

9 A I don't recall anything.

10 Q Okay. And then was there any
11 discussion of ongoing -- an ongoing class of
12 litigation or type of litigation that might lead to
13 that?

14 A I don't recall any.

15 MR. FRIEDMAN: Your Honor, can I have a
16 five-minute recess? I think I'm near the
17 end. I just want to double-check.

18 MS. FUNDERBURK: We're in recess for
19 five minutes.

20 (A recess was taken from 3:23 p.m. to
21 3:31 p.m.)

22 MS. FUNDERBURK: Mr. Pierce, I remind
23 you, you remain under oath.

24 Counsel, please proceed.

25 BY MR. FRIEDMAN:

1 Q Mr. Pierce, with regard to the
2 effective date, is that first proposed by the staff
3 and then considered by the governing committee or
4 the other way around?

5 A I don't recall at this specific time.
6 But I know in most governing committee meetings that
7 we have when we are determining an effective date,
8 we do talk about -- it's a variety of companies that
9 are writing business that will have to make changes,
10 and some are more sophisticated than others and some
11 are complex.

12 I know that we -- the staff always
13 works and discusses with the governing committee the
14 complexity of change or whatever, and we end up
15 arriving at a date. I know -- will this be enough
16 time?

17 I don't recall for this specific one,
18 is how detailed we went there, but I know that we
19 arrived at an 8/1 effective date, and we felt like
20 that would be adequate to -- for companies to make
21 the changes.

22 Q Okay. In the course of that discussion
23 about the effective date, was there any discussion
24 about -- I guess I would say whether the data
25 supporting the filing could encompass an earlier or

1 later effective date, or was it just focused on, as
2 you say, the time needed to input the new rate
3 information?

4 A All I recall is the logistics of
5 getting it done by the carriers.

6 Q Okay. Do you have any understanding of
7 what effect a later effective date would have on the
8 availability of data for -- in support of a filing?

9 A I don't know. No, I do not.

10 MR. FRIEDMAN: Your Honor, that's all I
11 have for Mr. Pierce.

12 MS. FUNDERBURK: Thank you.

13 We're getting a little bit of noise
14 from next door. Is that going to bother you?

15 MR. BEVERLY: Not in the least,
16 Your Honor.

17 MS. FUNDERBURK: Okay. Please proceed.

18 MR. BEVERLY: Very, very brief cross.

19 CROSS-EXAMINATION

20 BY MR. FRIEDMAN:

21 Q Mr. Pierce, you were asked questions
22 about information you received during governing
23 committee meetings.

24 Do you recall those questions?

25 A I'm sorry, I didn't quite understand

1 the question.

2 Q No worries.

3 You were asked some questions about
4 information that you routinely received during
5 governing committee meetings.

6 Do you recall those?

7 A So counsel is always at our governing
8 committee meetings, and one thing you were --
9 counsel was asking me about any updates or cases
10 that might come before. We are always briefed of
11 anything that is relevant to what we might be doing
12 that day. And actually it may cross over
13 occasionally from auto to property. It might be
14 relevant to one or the other or both, and so we
15 always get a fair briefing of things.

16 There was most recently a case
17 involving perhaps the enforceability of a mailed
18 document to someone that was about a cancellation.
19 And that, in and of itself, if it was deemed that
20 just mailing a document and having proof of mailing
21 was not acceptable, that it had to be proven to be
22 received by a customer, that could have an enormous
23 impact on the industry.

24 So that's just an example of something
25 that's been brought to our attention. And every

1 governing committee meeting we get a briefing by
2 counsel on any pending litigation or decisions that
3 are made by the courts.

4 MR. BEVERLY: No further questions,
5 Your Honor.

6 MR. FRIEDMAN: No redirect, Your Honor.

7 MS. FUNDERBURK: Thank you, Counsel.

8 Mr. Pierce, you may step down.

9 THE WITNESS: Thank you.

10 MS. FUNDERBURK: Mr. Friedman, I
11 believe your remaining witnesses are
12 Mr. Schwartz and Ms. Cavanaugh? And we've
13 only got about 25 minutes left in our planned
14 day, and I don't believe they are here
15 regardless, correct?

16 MR. FRIEDMAN: I think Mr. Schwartz is
17 only just touching down.

18 MS. FUNDERBURK: Okay. Are there any
19 administrative or procedural matters we need
20 to address before we recess for the day?

21 MR. BEVERLY: Not from the Rate Bureau,
22 Your Honor.

23 MR. FRIEDMAN: Not aware of any here,
24 Your Honor.

25 MS. FUNDERBURK: Thank you. I will

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recess us at 3:35 p.m. Thank you. And I
will see you-all at 9:00 a.m. tomorrow
morning.

MR. BEVERLY: Thank you, Judge.

(The hearing adjourned at 3:37 p.m.)

1 STATE OF NORTH CAROLINA)

2 COUNTY OF FORSYTH)

3 REPORTER'S CERTIFICATE

4 I, Audra Smith, Registered Professional Reporter
5 in and for the above county and state, do hereby certify that
6 the hearing was taken before me at the time and place
7 hereinbefore set forth; that the proceedings were transcribed
8 and recorded by me by means of stenotype; which is reduced to
9 written form under my direction and supervision, and that this
10 is, to the best of my knowledge and belief, a true and correct
11 transcript.

12 I further certify that I am neither of counsel to
13 either party nor interested in the events of this case.

14 IN WITNESS WHEREOF, I have hereto set my hand this
15 28th day of October, 2024.

16 
17 _____

18 Audra Smith, RPR, CRR, FCRR

19 Notary Number: 201329000033

20 Commission Expires: June 26, 2025

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