

NORTH CAROLINA DEPARTMENT OF INSURANCE
RALEIGH, NORTH CAROLINA

STATE OF NORTH CAROLINA
COUNTY OF WAKE

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

COPY

DOCKET NO. 2157

**CONTAINS EXTRACTED CONFIDENTIAL TESTIMONY PER
TERMS OF THE PROTECTIVE ORDER **

BEFORE: AMY FUNDERBURK, HEARING OFFICER

TRANSCRIPT

OF

HEARING

VOLUME VI - A.M. SESSION

Raleigh, North Carolina

October 23, 2024

9:05 a.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 23rd day of October, 2024, at 9:05 a.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: I'll call us back into session. I first have a few announcements to make.

Today is Wednesday, October 23. It's 9:05 a.m. We're back on the record, in the matter of: The filing dated January 3, 2024, by the North Carolina Rate Bureau for the Revision of Homeowners Insurance Rates.

Ms. Pearce had been serving as our clerk. She needed to be out of the office today, and we're very fortunate that Ms. Benjamin will be assisting us today. I do appreciate her help in stepping in.

And just to refresh where we were when we recessed, Mr. Spivey, you had concluded your direct and the cross was included and the recross, I believe, with Ms. Mao.

MR. SPIVEY: That's correct.

MS. FUNDERBURK: You're still presenting your direct case?

MR. SPIVEY: That's correct.

MS. FUNDERBURK: Before I swear the witness in, do we have any administrative

1 matters we need to take care of this morning?

2 MR. SPIVEY: Yes, Your Honor. As you
3 just noted, we concluded Ms. Mao's testimony
4 as we finished up the day on -- I think it
5 was Friday the 11th. And in our haste to get
6 out of here that day, I think I neglected to
7 offer the exhibits related to her testimony
8 into evidence. I want to go ahead and do
9 that.

10 So those would be Exhibit RB-7 through
11 18. They were all included in the rate
12 filing, and I can go through and identify
13 them if you'd like, Your Honor, but it's 7
14 through 18.

15 MS. FUNDERBURK: I have a list, but for
16 purposes of the record, if you will just go
17 ahead and identify them, I'd appreciate it.

18 MR. SPIVEY: Exhibit RB-7 is Ms. Mao's
19 prefiled testimony.

20 Exhibit RB-8 is her CV.

21 Exhibit RB-9 is an exhibit showing the
22 modeled hurricane losses.

23 Exhibit RB-10 is a copy of -- I'm
24 sorry, a copy of ASOP 38.

25 Exhibit RB-11 is Ms. Mao's ASOP 38

1 attestation related to the AIR model.

2 Exhibit RB-12 is Ms. Mao's ASOP 38
3 attestation with regard to the RMS model.

4 Exhibit RB-13 is the reinsurance
5 structure.

6 Exhibit RB-14 is the reinsurance
7 program summary.

8 Exhibit RB-15 is the catastrophe LAE
9 factor and the support for that factor.

10 Exhibit RB-16 is the Reinsurance Cost
11 Allocation.

12 Exhibit RB-17 is the Reinsurance Margin
13 Allocation.

14 Exhibit RB-18 is the Compensation for
15 Assessment Risk Analysis.

16 And that's -- we would offer those into
17 evidence.

18 MS. FUNDERBURK: Thank you.

19 Mr. Friedman, any objections?

20 MR. FRIEDMAN: No, Your Honor. I
21 also -- I think we're at a point --

22 MS. FUNDERBURK: Let's finish up this
23 first. Exhibit 7 -- or Rate Bureau Exhibit
24 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, and
25 18 are so admitted.

1 Thank you, Mr. Spivey.

2 (RB Exhibit Numbers 7 through 18 were
3 received into evidence.)

4 MR. SPIVEY: Thank you.

5 MS. FUNDERBURK: Mr. Friedman, you have
6 something to address?

7 MR. FRIEDMAN: I was going to go
8 through some index -- the index of some
9 exhibits that I think we agreed on are -- can
10 be entered into the record, if Your Honor
11 chooses. I was going to address that and
12 also address the scheduling of witnesses. So
13 if it's okay, I'll go with the exhibits right
14 now so we can get that taken care of.

15 MS. FUNDERBURK: These are DOI
16 exhibits?

17 MR. FRIEDMAN: They are. The only
18 exhibits I am moving to have entered now are
19 purely -- they are, if your court file --
20 (Reporter requested clarification.)

21 MR. FRIEDMAN: The court file, what I
22 would consider usually the record.

23 MS. FUNDERBURK: If you can speak a
24 little louder into your microphone, that
25 would be great.

1 MR. FRIEDMAN: Basically the record,
2 and I was going to go through each of those
3 in order that we understand they are
4 uncontested.

5 First of all --

6 MS. FUNDERBURK: Are these exhibits
7 that have been referenced already?

8 MR. FRIEDMAN: No, but they are part of
9 the record. And we may not, in the end,
10 reference anything in them, but we have
11 agreed -- they show everybody the -- namely,
12 those are our two filed testimonies, the Rate
13 Bureau's responses to our informal data
14 request, et cetera. Their data request
15 responses and their discovery responses.

16 MS. FUNDERBURK: I'm trying to figure
17 out exactly where we are. There had been
18 some discussion about possibly admitting all
19 of the exhibits at once. Some of the
20 exhibits from the Rate Bureau had been
21 admitted as we went. You had referenced some
22 and said, well -- that you had talked with
23 opposing counsel about addressing all of
24 those at the end.

25 So it sounds like at this point, you

1 want to admit exhibits that are contained in
2 the exhibit books but that have not been
3 referenced in testimony yet, but your
4 representation is that those are uncontested
5 exhibits to be entered into the record?

6 MR. FRIEDMAN: Yes, only those, but
7 they aren't all. There are still remaining
8 things in the exhibit book 3 and 3A that will
9 be authenticated through our witnesses.

10 MS. FUNDERBURK: Mr. Spivey.

11 MR. SPIVEY: Your Honor, we don't -- as
12 we've already discussed with Mr. Friedman, we
13 don't anticipate having any objection to
14 these things. Quite frankly, I'm not sure
15 that it's necessary for you to introduce them
16 during our case at this point. We can wait
17 until you start your case.

18 MR. FRIEDMAN: If that's easier.

19 MS. FUNDERBURK: Or if they're
20 referenced on cross and you want to introduce
21 them at that time.

22 Right now, I've got your list of
23 exhibits that you referenced on cross. I
24 don't believe -- I don't have notations about
25 them being admitted, but I've got reference

1 to the ones that you did reference on cross.

2 Let's address your exhibits when you
3 put on your direct. We should be starting
4 today, I'm presuming.

5 MR. FRIEDMAN: Well, that was the next
6 thing we were going to talk about, the -- was
7 the proposed schedule that the parties sent
8 to Ms. Pearce, and that anticipated two days
9 with Mr. Ericksen, and then starting with my
10 case with Ms. Biliouris on Friday, with the
11 ultimate finishing everything in our cases in
12 chief by next week.

13 There's been one change to that, in
14 that the Rate Bureau has a new exhibit
15 addressing concerns the Court had about the
16 interrelationship between manual rate and
17 CTR, and they were going to have Mr. Anderson
18 address that as -- Mr. Ericksen, excuse me.

19 Address that.

20 And they will -- that may -- may --
21 it's kind of complex, so it may push him a
22 little bit into Friday morning, but I -- if
23 we can stay all of Friday, I promise we'll
24 end with Ms. Biliouris that day and would
25 leave the last two -- my two witnesses that

1 are bureau officials for Monday, and then
2 give the Rate Bureau two days with our last
3 two witnesses, two days with Ms. -- four days
4 in all, two days with Mr. Schwartz and two
5 full days with Ms. Cavanaugh.

6 MR. BEVERLY: May we approach, Your
7 Honor?

8 MS. FUNDERBURK: Please do.

9 (A bench conference was had off the
10 stenographic record.)

11 MS. FUNDERBURK: Thank you, Counsel.
12 Any other preliminary matters we need to
13 address before we begin this morning?

14 MR. SPIVEY: I think the only other
15 thing I mentioned, Your Honor, is that we
16 introduced you to Mr. Cary Davis prior to
17 going on the record. Perhaps we want to have
18 him introduce himself on the record.

19 MS. FUNDERBURK: Yes.

20 MR. DAVIS: Cary Davis with Robinson
21 Bradshaw, Charlotte office. Pleasure to be
22 here today. I'm representing the witness,
23 Paul Ericksen, and ISO. Thank you.

24 MR. FRIEDMAN: Your Honor, I just
25 wanted to also -- so after their initial

1 direct of Mr. Ericksen, I decided, just to
2 get it out the way, to go straight to the one
3 document that has been marked confidential,
4 and get that over with first thing in the
5 morning so that we wouldn't have worry --

6 (Reporter requested clarification.)

7 MR. FRIEDMAN: We wouldn't have to
8 worry about the logistics of that.

9 So I wanted to be certain that
10 everybody who is going to remain in the
11 courtroom for that has signed the Exhibit A
12 to the protective order. We sent one to the
13 stenographer, and I don't know whether
14 Mr. Ericksen's counsel has gotten one.

15 MR. BEVERLY: Yes.

16 MR. FRIEDMAN: He has, okay.

17 MR. DAVIS: He has executed one.

18 MS. FUNDERBURK: Mr. Davis -- or,
19 Mr. Spivey, could you turn the microphone on
20 by Mr. Davis?

21 Thank you. Thank you, madam clerk.

22 MR. FRIEDMAN: Ms. Benjamin, have you
23 signed the confidentiality agreement?

24 MS. FUNDERBURK: We'll take care of
25 that before the testimony.

1 MR. FRIEDMAN: Okay. Then that's all I
2 have, Your Honor.

3 MR. DAVIS: Thank you, Your Honor.

4 MS. FUNDERBURK: We may need to take a
5 brief recess before the introduction of that
6 document to work out the logistics of exactly
7 how we're going to handle the Webex and the
8 recording and who is in the courtroom, and
9 we'll take care of that.

10 Any other preliminary matters we need
11 to address?

12 MR. SPIVEY: No, Your Honor.

13 MS. FUNDERBURK: Okay. And if you'll
14 call your first witness, I will swear him in.

15 MR. SPIVEY: Yes. With that, we're
16 ready to call Mr. Paul Ericksen.

17 MS. FUNDERBURK: Thank you, Mr. Spivey.
18 The witness has been sworn in. Please
19 proceed.

20 MR. SPIVEY: Thank you, Your Honor.

21 PAUL ERICKSEN,
22 having been first duly sworn, was examined and testified as
23 follows:

24 DIRECT EXAMINATION (Continued)

25 BY MR. SPIVEY:

1 Q Good morning, Mr. Ericksen, would you
2 please state your name and business address for the
3 record?

4 A My name is Paul Ericksen. I work at
5 Verisk. The address is 545 Washington Boulevard
6 Jersey City, New Jersey 07310.

7 (Reporter requested clarification.)

8 BY MR. SPIVEY:

9 Q Mr. Ericksen, did you prepare a
10 prefiled testimony that is included in the Rate
11 Bureau's 2024 homeowners rate filing?

12 A Yes.

13 Q And is it correct that your testimony
14 and CV are included in that filing as Exhibits RB-5
15 and RB-6?

16 A Yes, it is.

17 MR. SPIVEY: Your Honor, Mr. Ericksen
18 has been stipulated in -- among the parties
19 and in the prehearing order as an expert
20 property casualty actuary. And at this time,
21 we will go ahead and offer into evidence
22 Exhibits RB-5, Mr. Ericksen's prefiled
23 testimony and Exhibit RB-6, his CV.

24 MS. FUNDERBURK: Mr. Friedman, any
25 objection?

1 MR. FRIEDMAN: No.

2 MS. FUNDERBURK: Rate Bureau's Exhibits

3 5 and 6 are so admitted. Thank you.

4 (RB Exhibit Number 5 was received into
5 evidence.)

6 (RB Exhibit Number 6 was received into
7 evidence.)

8 BY MR. SPIVEY:

9 Q Mr. Ericksen, are you aware that in
10 February of this year, a document titled "Notice of
11 Hearing" was issued setting this hearing to begin
12 October 7th of this year?

13 A Yes.

14 Q And have you read that document?

15 A Yes, I have.

16 Q I guess we need that document in front
17 of you. I don't know that RB-26 is in front of you
18 at the moment, is it?

19 A I don't have it.

20 MR. SPIVEY: May I obtain that and
21 approach?

22 MS. FUNDERBURK: Yes, please approach.

23 BY MR. SPIVEY:

24 Q Mr. Ericksen, I have obtained and
25 placed in front of you there a copy of

1 Exhibit RB-26. Is that the document I just asked
2 you about that's titled "Notice of Hearing"?

3 A Yes.

4 Q Would you please turn to page 3 in that
5 document. And look at the allegations in paragraph
6 V(A)(1).

7 Do you see the allegations there in the
8 last two sentences of that paragraph to the effect
9 that certain data in the rate filing are outdated
10 and that more recent data should be available and
11 included in the analysis?

12 Do you see those allegations?

13 A I see those sentences.

14 Q Similarly, do you see in paragraph 3,
15 at the bottom of that same page, the allegation that
16 the filing contains data and information that, among
17 other things, are outdated?

18 A Yes, I see the sentence.

19 Q Mr. Ericksen, how long have you been
20 employed at Verisk, or ISO?

21 A I started working at Verisk, or
22 Insurance Services Office, in 1992, 32 years ago. I
23 left Verisk for one year to work at Milliman. So
24 I've been at Verisk for 31 years.

25 Q Now, based on your long experience at

1 ISO, do you know whether ISO has been licensed as a
2 statistical agent in the state of North Carolina by
3 the Commissioner of Insurance here?

4 A Yes, that's true.

5 Q And as a statistical agent licensed by
6 the Department of Insurance, do you know whether ISO
7 has filed and obtained approval of a statistical
8 plan for homeowners insurance in the state of North
9 Carolina?

10 A That's my understanding, yes.

11 Q Did you participate in the Rate Bureau
12 committee meetings where the rate review for
13 homeowners insurance was conducted during 2023?

14 A Yes. I believe I attended every
15 committee meeting where it was discussed.

16 Q What was your role in those meetings?

17 A So I'm a consulting actuary at ISO. I
18 lead the consulting unit and --

19 (Reporter requested clarification.)

20 A I lead the actuarial consulting team
21 within Verisk, and we provide services to the NCRB.
22 All of the actuarial consulting work for the
23 homeowners rate filing was done under my general
24 direction. At those committee meetings, I was
25 available to answer questions and provide comments

1 and feedback on different topics that were
2 discussed.

3 MS. FUNDERBURK: I'm sorry to
4 interrupt, Counsel.

5 Mr. Ericksen, do you mind if I adjust
6 your microphone a little bit? Do you mind if
7 I come adjust your microphone?

8 THE WITNESS: Oh, sure, sure.

9 MS. FUNDERBURK: I get fussed at for
10 not speaking loudly enough, but I want to
11 make sure we can hear you on the record.

12 THE WITNESS: I'll try to do better.

13 BY MR. SPIVEY:

14 Q Yeah. Mr. Ericksen, I have found that
15 I have to lean into mine for it to pick me up.

16 MS. FUNDERBURK: And the same, same in
17 my case. We actually during the break moved
18 some of the cables, so we've pulled it a
19 little bit closer. So my apologies. Anyone
20 that works here can tell you how often they
21 tell me please get closer to the mike and
22 speak up.

23 A Hopefully I'll get better as time goes
24 on.

25 MS. FUNDERBURK: Take your time.

1 Relax. I just wanted to get that adjusted so
2 we can hear you better. I appreciate it.

3 Thank you.

4 BY MR. SPIVEY:

5 Q Mr. Ericksen, do you recall generally
6 when the first committee meeting occurred in
7 connection with the rate review that ultimately led
8 to the Rate Bureau's 2024 homeowners rate filing?

9 A My recollection is the first meeting --
10 yeah, it is louder. Better.

11 MS. FUNDERBURK: Perfect.

12 A My recollection, it was May 25th, was
13 the first meeting.

14 BY MR. SPIVEY:

15 Q As part of your preparation today, have
16 you -- for today, have you refreshed your
17 recollection of the committee process in that rate
18 review by reviewing the committee meetings minutes,
19 agendas, et cetera?

20 A I did. I went through the agendas and
21 the material that was provided in the minutes.

22 Q And are those committee meeting agendas
23 and minutes, et cetera, included in the filing?

24 A Yes, it is. It's excluded in the
25 material that was submitted as part of the filing.

1 Q If you would, please turn to
2 Exhibit RB-1, page E-397.

3 A What book would that be? I have
4 Book 3.

5 MS. FUNDERBURK: To the extent it might
6 be helpful, Mr. Spivey, if you've got it
7 electronically and want to plug it in, you
8 can try sending it to his monitor, if that
9 might be easier for review.

10 MR. SPIVEY: Give me just a moment and
11 we'll get that pulled up here, Your Honor.

12 MS. FUNDERBURK: Yes.

13 (Pause.)

14 MS. FUNDERBURK: I'll have to turn it
15 on. I have to remind everyone. Is your
16 Outlook off?

17 MR. SPIVEY: Yes.

18 MS. FUNDERBURK: Okay. And what I can
19 see is the property rating subcommittee
20 meeting agenda. Is that what you were
21 intending?

22 MR. SPIVEY: Correct.

23 MS. FUNDERBURK: Is that what you see,
24 Mr. Ericksen?

25 THE WITNESS: (Nonverbal response.)

1 MS. FUNDERBURK: Great.

2 Thank you, Counsel .

3 BY MR. SPIVEY:

4 Q Now, Mr. Ericksen, you have there on
5 the screen in front of you, page E-397 in
6 Exhibit RB-1, and it should be a copy of the meeting
7 agenda for the property rating subcommittee, dated
8 May 25, 2023?

9 A Yes.

10 Q If you would, just scroll through. The
11 materials in the filing following that agenda
12 include the agenda, whatever exhibits were included
13 with that agenda related to this filing and then the
14 meeting minutes of that particular meeting.

15 So based on the information in the
16 materials here in the filing, can you describe for
17 us what the first step in the rate review process
18 was for the committee's work on the homeowners rate
19 review?

20 A So the main objective in that first
21 meeting would be to select what's called exposure
22 trends. Just putting things into perspective,
23 there's many steps throughout the process for the
24 rate filing, for the rate analysis. The exposure
25 trend is where we would select the amount that would

1 be used to trend the exposures that would be used
2 subsequently for the hurricane model. So that step
3 needed to be done very early in the process so that
4 Aon could conduct the hurricane modeling in the
5 months to come.

6 Q And can you describe for the hearing
7 officer what you mean by "exposure"?

8 A So exposure would represent, in this
9 case, the amount of insurance that -- the aggregate
10 amount of insurance that's being written in the
11 state. So, for example, if I have -- if I'm
12 insuring my house for \$200,000, that would be
13 \$200,000 of exposure. Just put it very simply,
14 simple terms. And we would add up that \$200,000 for
15 each policy throughout the state so we -- the goal
16 of exposure trend is to identify how that covers
17 when it's growing over time.

18 Q Based on your review of the committee
19 meeting materials and based on your recollection, do
20 you recall when the next committee meeting was held
21 at which the homeowners rate level review was
22 discussed?

23 A My recollection -- I don't recall the
24 exact date but I believe it was in October.

25 Q And let's scroll through in the filing

1 to page E-404.

2 MR. SPIVEY: And the materials from
3 page E-404 through E-441, Your Honor.

4

5 BY MR. SPIVEY:

6 Q I believe those deal with that next
7 meeting. So we've scrolled to there, Mr. Ericksen.

8 Do you see on the screen in front of
9 you a meeting agenda for the property rating
10 subcommittee dated October 18, 2023?

11 A Yes. That was the next meeting.

12 Q And is it correct that item 4 in the
13 agenda is the 2024 homeowners rate level review?

14 A Yes.

15 Q And correct, is it not, that it
16 describes there in the agenda what the committee is
17 going to review in connection with that rate review
18 during that particular meeting?

19 A Yes.

20 Q Based on your review of these
21 materials, your recollection and your understanding
22 of the 2024 homeowners rate level review process,
23 what was the latest year of data available for your
24 committees to review as part of the rate review?

25 A The most recent data that would have

1 been available to review was calendar accident year
2 2021.

3 Q Now, you testified a few moments ago
4 that ISO has filed and obtained approval of a
5 statistical plan for homeowners data in North
6 Carolina. And that ISO is an approved statistical
7 agent in North Carolina.

8 Do you know whether there are other
9 statistical agents for the state of North Carolina
10 for homeowners insurance?

11 A Yes. There will be three other
12 statistical agents.

13 Q Can you identify them, please.

14 A Sure. This is testing my memory a
15 little bit on all the initials, but I believe it's
16 IIS, Independent Statistical Services; NISS,
17 National Independent Statistical Services; and AAIS,
18 American Association of Insurance Services.

19 Q Do you have general knowledge as to the
20 manner in which the homeowners statistical data is
21 collected and aggregated for use by the Rate Bureau
22 in a rate review such as the one that was performed
23 in 2023 for homeowners insurance?

24 A Yes. I have general knowledge of the
25 process.

1 Q And would you please describe that
2 process.

3 A So in the case -- if we're looking at
4 the most recent year for 2021, it's accident year
5 2021, so there's -- the data needs to be evaluated
6 as of some later date. In this case, it's March 31
7 of 2022. So that would be the cutoff date for the
8 evaluation of that data. So it would be some period
9 of time after March 31st of 2022 that individual
10 insurers would begin to report that data to the
11 statistical agents.

12 Each of the individual statistical
13 agents would go through some level of editing, data
14 review, and aggregate and compile it. That
15 information from each of those other three
16 statistical agents send on an aggregate --
17 aggregated basis to ISO -- the fourth statistical
18 agent -- their aggregated experience. And that data
19 is generally -- would be received by ISO from those
20 other statistical agents by the end of November. In
21 this case, November of 2022.

22 Q All right. Part of your testimony
23 there, explain that. You now mentioned the term
24 "calendar accident year data."

25 Can you explain what you mean by that

1 term?

2 A Sure. So calendar year sort of refers
3 to, you know, the period from January 1st to
4 December 31st. The accident year is a way of
5 organizing the loss experience. So it's -- in
6 particular, we call it an "accident year" because we
7 classify individual claims based on the accident
8 date. So we would look at -- we would aggregate
9 together all of the claims that occurred during
10 accident year 2021.

11 Now, just because an accident happened
12 in 2021, doesn't mean it was necessarily reported
13 and known as of the end of that year. And that is
14 why we typically will have an evaluation date a few
15 months later, three months later, to allow some
16 initial recording of those late claims.

17 Q And just for general information and
18 comparison, we sometimes in places we'll see the
19 term "policy year data."

20 Can you describe that and how it
21 differs?

22 A So policy year data is simply another
23 way of organizing experience. In this case, it
24 would be organized based upon the effective date
25 that the policy was written. So you would look at

1 any policy that would be written within a certain,
2 say, calendar year, and then look at the lifespan of
3 that policy.

4 For purposes of our rate analysis,
5 that's not how we organize the data. It was
6 organized by accident year.

7 Q I believe you testified just a moment
8 ago that companies report their data to their
9 statistical agent which then do whatever review they
10 do, and then those statistical agents send their
11 respective aggregated data to ISO typically by the
12 end of November. In this case, November of 2022.
13 Correct?

14 A That's correct.

15 Q What does ISO do when it receives that
16 data from each of those statistical agents?

17 A So then ISO would do additional data
18 review checks, not -- both on the aggregated data
19 from those statistical agents, along with detailed
20 data quality review of the insurers that send data
21 directly to ISO.

22 That data review would look at a number
23 of, you know, relationships and, you know, shifting
24 of exposure-type information to identify any
25 potential anomalies.

1 In addition, the bureau sends out audit
2 letters to the top 10 writers for them to verify
3 that the statistical data that's actually being used
4 is correct.

5 So there's a multitude of different
6 levels of review, both through the audit review
7 process and just data quality evaluation, which can
8 and usually does identify certain anomalies that
9 would need to be addressed or corrected, and that
10 process can take a wide range of time, depending
11 upon the level of corrections that need to be
12 addressed.

13 Q Is it fair to characterize it as taking
14 up certainly a matter of months at a minimum?

15 A Yes. The process would definitely take
16 a matter of months, yes.

17 Q So it is the case, then, that in
18 October of 2023, when the bureau committees were
19 meeting as part of the rate review process for this
20 homeowners rate review, the most recent data that
21 had been through that entire validation process was
22 the calendar accident year 2021 date?

23 A That's correct. And in addition, the
24 2022 data, ISO wouldn't even have received it from
25 the other statistical agents during meetings that

1 took place in October and November because we would
2 have received it at the end of November 2023.

3 Q Now, in connection with the rate review
4 the Rate Bureau was conducting in 2023, do you know
5 why the committee -- in this case, the property
6 rating subcommittee -- did not perform its rate
7 review until late in the year 2023?

8 A My understanding is that as a part of
9 the prior settlement of the 2020 rate filing, part
10 of the agreement was that the NCRB would not submit
11 a subsequent filing until 2024. So because of that
12 length of time that rates couldn't be changed, it
13 was deemed important to file -- to submit a filing
14 as soon as possible once 2024 came about. So the
15 objective was to submit a filing early in January of
16 2024.

17 So in terms of when the committee was
18 meeting during 2023, it was really counting
19 backwards from when the objective of making the
20 filing. Of course, we wouldn't want to make
21 selections and do announcements too early in 2023
22 because there could be other information, economic
23 indices and such, that wouldn't be available until
24 later in the year.

25 Q You mentioned just a moment ago that

1 when the property rating subcommittee was meeting in
2 October of 2023, that the calendar accident year
3 data for the year 2022 would not have even been
4 received by ISO from the other stat agents at that
5 point in time?

6

7 THE STENOGRAPHER: From the what
8 agents? I'm sorry. I didn't hear you.

9 MR. SPIVEY: From the other statistical
10 agents.

11 A Yes. That's correct.

12 BY MR. SPIVEY:

13 Q Just as a general statement then,
14 Mr. Ericksen, is it correct that the bureau
15 committees completed their rate review work in
16 October and November of 2023 and the matter was
17 presented to the Rate Bureau's governing committee
18 at a meeting in early December of 2023?

19 A Yes, that's consistent with my
20 recollection of the timing.

21 MR. SPIVEY: And, Your Honor, I believe
22 the record reflects that this filing was
23 dated January 3, 2024.

24 BY MR. SPIVEY:

25 Q So, Mr. Ericksen, is it correct that

1 the -- what we would call the big book, the volume
2 that contains the rate filing, when was it actually
3 put together?

4 A It would have been in that December
5 time period.

6 Q Is it fair to say it would have been
7 between the time when the governing committee
8 approved the making of the filing and the submission
9 of the filing in early January?

10 A That's correct. It would have been --
11 yes, it would have been in those two- or three-week
12 time period.

13 Q Mr. Ericksen, please turn now back to
14 Exhibit RB-26 and turn to page 8 of that document.
15 If you would, look at paragraph 11(b) on that page
16 8.

17 And is it correct that the allegation
18 there states, and I quote: "The filing appears to
19 disregard the actual hurricane loss experience in
20 North Carolina"?

21 A I see the sentence.

22 Q And then please also look at paragraph
23 12 immediately following that.

24 And is it correct that that paragraph
25 states, and I quote: "The filing does not

1 demonstrate that various values -- including but not
2 limited to, the loss, expense, exposure, hurricanes,
3 other catastrophes, reinsurance, assessments, and
4 average rating factor information -- contained in
5 the filing accurately and reasonably reflect actual
6 historical experience."

7 Do you see that?

8 A Yes, I saw that sentence.

9 Q Do you work with hurricane models on a
10 regular basis in your work?

11 A Yes, I do.

12 Q In your work outside of your work on
13 this rate review and this rate filing, have you
14 determined for yourself that it is reasonable to
15 rely on output from the hurricane models for the
16 purpose of projecting expected hurricane losses?

17 A Yes. I have concluded that.

18 Q Mr. Ericksen, I'm going to ask you to
19 turn to Exhibit RB-6, which is a copy of your CV,
20 and we're pulling it up on the screen for you.

21 Is it showing there?

22 A Yes.

23 Q Can you please point us to other work
24 that you have done, as reflected there in your CV,
25 where you have determined that it is reasonable to

1 rely on the output from hurricane models for the
2 purpose of projecting expected hurricane losses?

3 A Sure. I believe -- maybe later in the
4 document I listed a couple relevant prior work
5 experiences.

6 Okay. Yes. So let me see here.

7 Our consulting practice at ISO has done
8 a number of projects involving a lot of coastal
9 areas. Probably the largest client that we worked
10 on for a number of years -- going back to early
11 2000s -- was Citizens Property Insurance of Florida.
12 So I was their appointed actuary for four years, and
13 I handled most of their rate filing work for a
14 period of maybe about a half a dozen years. And I
15 still continue to work for them.

16 As part of that particular project, we
17 would regularly review hurricane model output and
18 incorporate it into rate filings for multiple
19 models. Another example would be -- I'm the
20 rate-making actuary for the Massachusetts Property
21 Insurance Underwriting Association, the FAIR Plan in
22 Massachusetts, where it has gone to a number of rate
23 hearings over the years. And I've conducted an
24 ASOP 38 review as part of that practice, and we have
25 regularly used, in that case, even both the RMS and

1 AIR hurricane models.

2 (Reporter requested clarification.)

3 A I'm sorry. Both the RMS and AIR
4 hurricane models.

5 BY MR. SPIVEY:

6 Q Am I correct in understanding that any
7 of your work that involves property insurance
8 ratemaking where hurricane wind is a known peril,
9 that that work involves the use of computer
10 hurricane models?

11 A In all coastal states, that would be
12 the standard of practice that we would apply.

13 Q Did you specifically determine in this
14 case -- this case being the Rate Bureau's 2024
15 homeowners rate filing -- that you believe it is
16 reasonable to rely on the output of hurricane models
17 for the purpose of projecting expected hurricane
18 losses in North Carolina?

19 A Yes.

20 Q And can you describe what you did in
21 reaching that determination?

22 A Well, first and foremost, I relied upon
23 the testimony and the ASOP 38 -- the comprehensive
24 ASOP 38 review that was conducted by Minchong Mao at
25 Aon. In addition, I reviewed -- for purposes of

1 this specific filing, I reviewed the hurricane
2 output that was included as part of the filing
3 material.

4 And ISS, I compared the results, the
5 model output with the actual hurricane experience in
6 North Carolina over the past 20 years, and my
7 conclusion was that the frequencies and the
8 severities that were being outputted from the model
9 were consistent with lost -- actual loss experience
10 in North Carolina.

11 Q Did you describe that work in your
12 prefilled testimony?

13 A I made reference to that conclusion
14 at -- I believe it was at the bottom of page 21 of
15 my testimony.

16 Q Mr. Ericksen, please turn now to
17 page 13 in Exhibit RB-26, the Notice of Hearing.
18 And let's look at the allegation in paragraph 18,
19 near the top of the page, and I will read it, quote:
20 "The filing has not provided annual, historical
21 exposure, and hurricane loss data by territory for
22 1987 through 2000 and has not shown that this data
23 is not reasonably available."

24 Do you see that allegation?

25 A Yes.

1 Q Can you explain why hurricane loss data
2 by territory for the years 1987 through 2000 are not
3 available?

4 A My understanding, and this is something
5 that I recently tracked, is that the underlying data
6 files corresponding to the findings of that time
7 period are not -- just don't exist.

8 Q Is it correct, Mr. Ericksen, that this
9 is not a new issue, this has been the state of
10 affairs for a number of years now?

11 A Yes. This is -- I believe -- this
12 exact issue was raised at the prior hearing. It is
13 not a new issue.

14 Q Now please turn back to page 3 of
15 Exhibit RB-26, the Notice of Hearing, and look,
16 again, at the allegation paragraph V(A)(1) There at
17 the beginning of that paragraph, you see where it
18 states that the use -- and I'm quoting: "The use of
19 combined experience for the voluntary market,
20 consent to rate and Beach Plan is inappropriate and
21 lacks adequate explanation or justification."

22 Do you see that?

23 A Yes.

24 Q And similarly, please turn to page 16.
25 And look at paragraph (F)(1) at the bottom of that

1 page. Do you see the allegation there, and I quote:
2 "The filing inappropriately reflects the data and
3 experience of the Beach Plan and consent to rate."

4 Do you see that?

5 A Yes.

6 Q Mr. Ericksen, when we speak of the
7 voluntary market in this context, what is it that we
8 are referring to?

9 A It would be individual insurance
10 companies that are rating policies at their choice.
11 It would be not including the Beach Plan.

12 Q And does it include consent to rate?

13 A It would include consent to rate, yes.

14 Q Well, I guess it includes consent to
15 rate in the sense that, what? That companies are
16 writing it "voluntarily," correct?

17 A Correct. I suppose you could use the
18 word "voluntarily" in a different context. So it's
19 in the voluntary market, but it's not being written
20 voluntarily at the NCRB promulgated rates.

21 Q So when we see allegations such as this
22 that reference voluntary market or consent to rate
23 market or Beach Plan market or business, in that
24 context, voluntary is not including consent to rate;
25 is that correct?

1 A That would be correct.

2 Q Then when we speak to consent to rate
3 business, what is it that we're referring to?

4 A So a consent-to-rate policy would be a
5 situation where a private insurer, not the Beach
6 Plan, a private insurer is unwilling to write a risk
7 because the perceived loss experience is greater
8 than the premiums promulgated by the Bureau. So
9 they wouldn't be willing to write it at voluntary
10 NCRB rate. However, they would be willing -- they
11 may be willing to write it at a higher rate, but
12 they would -- that is consistent with their expected
13 loss and expense experience.

14 (Reporter requested clarification.)

15 BY MR. SPIVEY:

16 Q And as part of that process, the
17 company can propose to an applicant or a
18 policyholder such higher rate that it proposes to
19 charge, and then if the policyholder agrees or
20 consents to that, the company would then write that
21 policy under that consent to rate process, correct?

22 A That's correct. That is possible that
23 the insured might get multiple quotes from insurers
24 even in the consent to rate. So even if an insurer
25 was not being written at the NCRB's rate and they

1 were -- ended up being written in a consent to rate,
2 they might get multiple quotes from multiple
3 insurers at different levels of consent to rate. So
4 it still would be a competitive market for that
5 business.

6 Q Can a company use the consent-to-rate
7 procedures to charge just whatever it wants to
8 charge and force the policyholder to pay a rate
9 higher than the Bureau manual rate?

10 A Well, they can't force the insured to
11 do that. It's ultimately up to the insured then,
12 and I would expect insureds are shopping around, and
13 they could get multiple quotes. So, no, an
14 individual insurer would not be able to simply
15 charge anything that they would want because the
16 insurance market is a competitive market, and there
17 will be other insurers that will, you know -- that
18 could offer potentially a cheaper rate.

19 Q Am I correct in understanding that
20 there may be other insurance companies who assess
21 the potential exposure of a particular policyholder
22 differently than, say, the first company that
23 proposes a consent-to-rate price for that risk?

24 A Yes. Different insurers could have
25 different interpretations and assessments of risk

1 and could challenge different premiums.

2 Q And when we speak in this context of
3 the Beach Plan, or Beach Plan experience, what is it
4 that we are referring to?

5 A So the Beach Plan is the residual
6 market insurer that would offer insurance to
7 insureds that could not purchase it in the voluntary
8 market.

9 Q Does the Beach Plan operate statewide
10 in North Carolina for homeowners insurance?

11 A No. The Beach Plan is limited to, I
12 believe, it's 18 counties along the coast. So the
13 Beach Plan only writes in the most coastal --
14 generally the most coastal region of the state.

15 Q Mr. Ericksen, is the loss experience
16 associated with the voluntary market that you've
17 just described for us, is that loss experience part
18 of the actual loss experience within this state?

19 A Yes.

20 Q Is the loss experience associated with
21 consent-to-rate policies part of the actual loss
22 experience within this state?

23 A Yes.

24 Q Is the loss experience associated with
25 Beach Plan policies part of the actual loss

1 experience within this state?

2 A Yes.

3 Q You understand, do you not, that in
4 setting rates here in North Carolina, we're to view
5 the Rate Bureau as if it were a single company with
6 a composite experience of all companies writing
7 homeowners insurance in North Carolina?

8 A Yes, that's my understanding.

9 Q And further, in setting rates here in
10 North Carolina, the Rate Bureau is establishing
11 effectively a uniform rate schedule for all
12 companies; is that correct?

13 A Correct.

14 Q And in effect, that uniform rate
15 schedule is the average rate for all of the
16 policyholders in North Carolina?

17 A That's correct.

18 Q Is it correct that when set
19 appropriately that average rate, therefore, includes
20 enough premium to pay the expected losses and the
21 expected expenses of the average risk in the state
22 and leave an amount for profit that presumably has
23 been determined to be a fair and reasonable profit?

24 A Yes, that's correct.

25 Q Are the expected losses that are

1 associated with policies that are written in the
2 Beach Plan generally considered to be average or
3 below average or above average when compared to the
4 expected losses for the rest of the state?

5 A Since that business would have been not
6 written in the voluntary market and written in the
7 Beach Plan, the expectation, it would be the higher
8 level of loss experience.

9 Q As a general proposition, are the
10 expected losses associated with policies that are
11 written using the consent-to-rate procedures
12 considered to be average or below average or above
13 average when compared to the rest of the state?

14 A For a similar reason, a business that's
15 written in the -- as consent to rate, which is at a
16 higher premium level than the standard bureau rate,
17 the expectation is the loss experience would be
18 higher.

19 Q If the losses that are associated with
20 Beach Plan business and consent-to-rate business
21 were not included in this rate filing, would the
22 losses portion of the rate that is set here be
23 sufficient to cover the average expected losses of
24 all of the homeowners business in North Carolina?

25 A No, it would not because it would be --

1 in that hypothetical situation, it would only be
2 representing sort of the superior group of policies.

3 Q Mr. Ericksen, there's been testimony
4 and discussion in this case regarding whether the
5 use of consent-to-rate procedures have been changing
6 over recent years.

7 Are you generally familiar with that
8 testimony and discussion?

9 A Yes.

10 MS. FUNDERBURK: Mr. Ericksen, you've
11 been on the stand about an hour now. Do you
12 need a break or are you good to continue?

13 THE WITNESS: Thank you for asking.
14 I'm good to go.

15 MS. FUNDERBURK: Thank you.

16 MR. SPIVEY: Your Honor, when we last
17 met on Friday, October 11th, you requested
18 that we provide you information on
19 consent-to-rate usage, or CTR usage, and how
20 it has progressed. So we have put together
21 some information about that. And I'm going
22 to explore that now with this witness, with
23 your permission.

24 MS. FUNDERBURK: Yes, please, proceed.
25 Thank you.

1 BY MR. SPIVEY:

2 Q Mr. Ericksen, are you aware of a data
3 source for identifying consent-to-rate data and the
4 amount of business written using consent-to-rate
5 procedures in North Carolina?

6 A Am I aware of a data source?

7 Q Yes.

8 A Yes, I am.

9 Q And what is that source?

10 A So the insurance department does an
11 annual data call on the topic, does a
12 consent-to-rate data call. I believe that specific
13 one has been available for the past six years, from
14 2018 through 2023.

15 Q Do you recall whether there are just
16 one data call or two different data calls that the
17 department promulgates?

18 A So there is a second data call, which
19 is currently going on, and it started earlier. It's
20 a beach and coastal data call. But as part of that
21 data call, there's information that's asked about
22 consent to rate policies. That data, my
23 recollection, is it goes back to 2015.

24 Q Does the department publish the results
25 of those data calls, and where do they publish them?

1 A They're on their website. Anyone could
2 publicly download it.

3 MR. SPIVEY: May I have just a moment,
4 Your Honor? I want to potentially get an
5 exhibit here in front of everyone, so --

6 MS. FUNDERBURK: Yes. You can use
7 paper, the computer, or the projection,
8 whichever is easiest.

9 MR. SPIVEY: We have both paper and we
10 also have it -- we have both paper copies and
11 we have an electronic copy.

12 I'm going to take a moment to hand
13 these out.

14 MS. FUNDERBURK: Mr. Spivey, do you
15 have one for the clerk?

16 MR. SPIVEY: I do. Thank you, Your
17 Honor. I think I've handed out hard copies
18 of that to pretty much everyone now,
19 including the clerk, Mr. Kohan, the reporter,
20 the witness, and counsel.

21 (RB Exhibit Number 30 was identified as
22 of this date.)

23 MS. FUNDERBURK: I'll distribute those
24 electronically as well. Thank you for
25 putting it on the screen. RB-30.

1 MR. SPIVEY: Are you seeing the
2 electronic version as well?

3 MS. FUNDERBURK: I am. I went ahead
4 and cleared, while you were saying that, so I
5 can see it, just in case something
6 accidentally got put up that it shouldn't
7 have, and I'm redistributing it now.

8 MR. SPIVEY: Thank you.

9 BY MR. SPIVEY:

10 Q Mr. Ericksen, I've now handed out hard
11 copies of a document marked Exhibit RB-30, and I
12 believe it's also showing on your screen.

13 Is that correct?

14 A Yes.

15 Q Is this document -- I think it totals
16 maybe 19 pages. Does that include copies of the
17 aggregated results of the department's two data
18 calls for consent-to-rate data over the years 2015
19 to 2023, plus four -- I'll call them -- slides that
20 portray some of those results in a visual manner?

21 A Yes, that's correct. As you pointed
22 out, the pages at the back of the package are
23 essentially the exact downloads that are available
24 from the department's website.

25 Q And is it correct that when you go to

1 the website, you can see a page showing those
2 aggregated results, and they're -- excuse me --
3 essentially contained in what can be printed on a
4 single page, as we've shown here?

5 A Correct.

6 Q Now, let me point you to the first page
7 of Exhibit RB-30, which is a slide showing a bar
8 graph, and let me point you specifically to the
9 source notes below that graph.

10 Does that note describe the sources of
11 the information shown in the bar graph?

12 A Yes, it does. And it identifies those
13 two different data calls that I had referred. So
14 there's the CTR data summaries for the 2018 to 2023
15 time period, and then the beach and coastal data
16 call was used for the earlier three years on this
17 table.

18 Q On this first page, which at the top
19 has a label that reads: "CTR Premium as Percentage
20 of Overall Premium."

21 Can you explain what this page shows?

22 A Sure. The first thing I'll point out
23 is that it's only for voluntary insurers. So the
24 Beach Plan's data is not included in this -- in this
25 exhibit. So it will just be the voluntary insurers.

1 What this is, it's a ratio -- it's --
2 the percentage is a ratio of two numbers. It's the
3 numerator -- it's the total consent-to-rate premium
4 and it's being divided by the total premium for the
5 entire state, both consent to rate and voluntary
6 level.

7 So the percentages represent the
8 percent of total premium that's being written at a
9 consent-to-rate level. What the table alleged to do
10 is sort of track how those percentages have changed
11 over the past several years.

12 Q So is it correct that the bar graphs
13 are color coded by year?

14 A Yes.

15 Q Let me direct your attention to the
16 left side or left half of that bar graph. Beneath
17 the bar, I see a label that says first page: "Rest
18 of State (82 Counties Outside of Beach Plan)."

19 Can you describe what that is
20 portraying?

21 A So that -- that data would be -- yeah,
22 so it would be rest of state outside of those 18
23 coastal counties.

24 You want me to walk through the --

25 Q Now, when we see a percentage there --

1 I may have misheard you, but I want to understand
2 what these percentages are, what the fraction is
3 here. I'm understanding that you have said that the
4 numerator is the amount of CTR premium, and the
5 denominator is total premium. But what is the total
6 premium for rest of state?

7 A So rest of state total premium would be
8 for all of those 82 counties outside of those --
9 outside of the coastal region. These represent full
10 policies for both wind and nonwind coverage is
11 included.

12 Q When we look at the right side of that
13 page, the right side of that bar graph, the label
14 beneath the bar says: "Total All 100 Counties."

15 Am I correct in understanding that
16 that's percent of CTR premium across all 100
17 counties as percentage of total premium across all
18 100 counties for full coverage policies and ex-wind
19 policies for the owner's forms?

20 A That is correct. I'll mention that, as
21 you pointed out, it includes ex-wind policies, which
22 would probably explain why the percentages are
23 somewhat lower for the entire state than on the
24 left-hand side where it was just outside of the
25 coastal region.

1 In the coastal region, many insurers in
2 the voluntary market are writing ex-wind policies,
3 which are likely not to be consent to rate at the
4 same level. So that's why these would be somewhat
5 lower percentages on the right-hand side relative to
6 the left.

7 Q Now, I believe you testified that the
8 data here do not include any policies written by the
9 Beach Plan, correct?

10 A Correct.

11 Q Does the Beach Plan use consent-to-rate
12 procedures or write any consent-to-rate policies?

13 A No.

14 Q Again, just to make sure we're
15 understanding what's shown here, these are
16 identified as "owners policies." Can you explain
17 what that means?

18 A So an owner's policy would be your
19 traditional home that you're insuring. It would
20 exclude an H0-4-type policy for renters or an H0-6
21 policy for condos. It would also exclude mobile
22 homes.

23 So oftentimes -- yeah, the owners
24 policies represents the vast majority of overall
25 homeowners' business in the state.

1 Q In the results that the department
2 publishes from its data policy, do they display the
3 results split out between owner's forms and tenant
4 and condo forms?

5 A So for the consent-to-rate data
6 summary, which is used for the most recent six
7 years, my recollection is the data -- only shows
8 data for owner's forms.

9 Q And you also mentioned ex-wind
10 policies. Just to make sure we're clear, what is an
11 ex-wind policy?

12 A Sure. An ex-wind policy would be a
13 policy that covers all perils except the peril of
14 wind. On the other hand, a full policy, which is
15 referred to here, too, it would be a full policy
16 that includes both wind and nonwind perils.

17 The expectation is that if a
18 policyholder has an ex-wind policy in the voluntary
19 market, they would likely have a wind-only policy
20 from the Beach Plan.

21 Q Is it correct that when we review the
22 data, that it is -- appears that consent to rate is
23 not used as much or is not used in quite the same
24 way in the Beach Plan territories as it is used in
25 the rest of state?

1 A That's what it appears because the
2 percentages are somewhat lower on the right side,
3 and my presumption of the reason for that is that in
4 the beach regions -- I was hinting at this before.
5 In the most coastal areas, many voluntary insurers
6 will write just the ex-wind portion. And that
7 wouldn't necessarily have the same need for consent
8 to rate as if they had the full wind coverage that
9 was being provided.

10 Q And is it correct under the procedures
11 that if a policyholder in the beach territories
12 can't find a homeowners policy at bureau manual
13 rates, that they always have the option to obtain a
14 policy in the residual market, which is the Beach
15 Plan?

16 A Correct. And because the Beach Plan
17 writes a significant amount of wind coverage in
18 those beach areas, and since they're not writing on
19 a consent-to-rate basis, that explains why consent
20 to rate isn't as prevalent in that most coastal
21 area.

22 Q Mr. Ericksen, looking at this first
23 page, the one labeled "CTR Premium as Percentage of
24 Overall Premium," do the data, as depicted in these
25 bar graphs, reflect a general trend in CTR premium?

1 A Yes. And --

2 Q And what is that trend?

3 A So the general trend is upwards, and,
4 again, sort of to comment a little bit on this. It
5 does jump up and down a little bit from year to
6 year, and I'll first point out that the general --
7 the general pattern is an upward. And we can see,
8 for 2023, the percentage -- if we're looking at the
9 total state on the right-hand side, it's at
10 53.8 percent. So over half of the premium is
11 consent to rate.

12 If we looked at going back to, say,
13 2020, it was as low as, you know, 46.2 percent. So
14 it increased from 46.2 all the way up to 53.8 over
15 that three-year time period. When I see the
16 chart -- you'll see every so often there's, you
17 know, in years 2018, 2020, 2022, we see that the bar
18 charts dropped a little bit at the same time that
19 there was a rate increase approved and implemented
20 for the bureau.

21 Q So are those rate changes shown on the
22 bar graph in the white boxes?

23 A Correct. So I'm looking at the chart
24 on the right-hand side, in 2018, for example, there
25 was a 4.4 percent rate increase that was implemented

1 in 2018.

2 Q And just to try and make sure it's
3 clear, you referred just there to the 2018 change of
4 4.4 percent shown on the right side of the page. We
5 see on the left side of the page for 2018 a white
6 box that says 4.1 percent rate.

7 Do you see that?

8 A Yes.

9 Q And can you explain the difference
10 between those numbers?

11 A Sure. So on the right-hand side, that
12 was the average change for the entire state, whereas
13 on the left-hand side, the 4.1 percent would be the
14 weighted average rate change for the 82 counties
15 outside of the coastal. So it was a little bit of a
16 smaller increase than for the state as a whole.

17 Q And is the same true for the other --
18 I'll refer to them as the white boxes showing rate
19 changes. Do the numbers differ slightly on the left
20 side of the bar graph from what was shown on the
21 right side, correct?

22 A That's correct, yeah. And the
23 number -- the percent increases were always a little
24 bit higher for the state as a whole because the
25 coastal regions generally received a little bit of a

1 higher increase.

2 MS. FUNDERBURK: And I apologize if I'm
3 breaking your flow, but I wanted to ask this
4 while it's fresh in my mind. You're
5 referencing the -- when there's a rate
6 increase -- and correct me if I'm
7 mischaracterizing your testimony. But it
8 sounds like you're saying when there's a rate
9 increase there's a corresponding decrease in
10 the percentage of consent to rate; is that
11 correct?

12 THE WITNESS: Exactly. That's what I
13 was -- exactly. I'm glad you brought me back
14 because that was what I was starting to get
15 at.

16 MS. FUNDERBURK: So, for instance,
17 there's a notation, there's a 2018, a
18 4.1 percent rate increase. And that's on the
19 left-hand side of the page. When did that
20 increase actually take effect? When did
21 policyholders have that effect? Because I
22 also understand there was -- was it 2020 or
23 2022 there was the settlement regarding rate
24 increases? Because I know that there's a
25 rate increase here. I'm just trying to make

1 sure that I have the timeline consistent and
2 clear in my mind.

3 Does that make sense, or do I need to
4 try to explain that a little better?

5 THE WITNESS: So my understanding --
6 and I don't have the exact dates. But my
7 understanding is that those years represent
8 the year that the rate change went into
9 effect and not necessarily when the rate
10 filing was submitted.

11 So a good example would be the 2022
12 percent change because I believe that would
13 have corresponded to the 2020 rate filing
14 that was implemented in 2022.

15 MR. SPIVEY: And, Your Honor, your
16 question is a good question. We have that
17 information, and we'll locate it and provide
18 it to you. Each of those rate changes became
19 effective on a particular date, and it would
20 have been from that date forward that
21 policies written would be using that rate
22 change.

23 The rate change -- I think I'm correct
24 in saying that none of them became effective
25 literally on January 1. It's sometime during

1 the year. But we'll get those dates for you.

2 MS. FUNDERBURK: Thank you. And this
3 may be a -- just a question to think about
4 and consider later, and I think that
5 Mr. Friedman may have alluded to this in one
6 of your crosses, and you sort of alluded to
7 this concept earlier today. One of the
8 things I have in mind as we're looking at
9 consent to rate is if the Rate Bureau --
10 let's say you have the entire increase that
11 you requested. Does that provide a
12 reasonable profit margin that would negate
13 the need for a consent to rate on any
14 policies in North Carolina?

15 MR. SPIVEY: We will --

16 MS. FUNDERBURK: And I'm not asking you
17 to respond to that. I'm just giving you
18 insight into a question as you discuss these
19 things and you say, when there's a rate
20 increase, it decreases consent to rate. Are
21 you -- is the Rate Bureau's position that
22 what you have requested at this point would
23 provide a reasonable rate across the board
24 with a reasonable profit, and there would not
25 need to be any corresponding consent to rate?

1 I'm not asking you to respond, I'm just
2 giving you an idea of questions that pose in
3 my mind as I review everything. That is not
4 a preview on any type of decision-making.
5 It's a question in my mind as I hear things
6 from the parties and listen to
7 cross-examination questions and whatnot.

8 If you're telling me consent to rate
9 has an impact and it decreases premiums, I'm
10 curious just to what extent that would be
11 extrapolated and expect to have a
12 corresponding decrease.

13 Thank you, Counsel. I'm sorry to
14 interrupt your flow.

15 MR. SPIVEY: That's fine. I am making
16 notes of that inquiry.

17 MS. FUNDERBURK: Thank you.

18 And I believe right now the consent to
19 rate can go up to 250 percent, correct?

20 MR. SPIVEY: That's correct.

21 MS. FUNDERBURK: And, again, just
22 thoughts that cross my mind, you know, I
23 ponder your asking in some instances for a
24 99 percent increase. You already have
25 policies in those areas -- I shouldn't say

1 "you" because the Rate Bureau does not do
2 consent to rate. My apologies.

3 But are those rates already, in certain
4 areas, well above 99 percent of what the rate
5 increase would be? Are those policies
6 already written at 200 or 250 percent of the
7 manual rate?

8 So those are some of the things I
9 ponder as I'm listening to your witness'
10 testimony and the overall rate impact this
11 could have on the people of North Carolina.

12 Mr. Ericksen, my apologies for breaking
13 your flow.

14 THE WITNESS: No, thank you. These are
15 good thoughts.

16 It's not a full answer to the question
17 because it's an in-depth question. But I
18 think what this exhibit at least illustrates
19 is that there's a correlation between when
20 there is a rate increase and then a
21 corresponding reduction in the CTR.

22 (Reporter requested clarification.)

23 THE WITNESS: A reduction in the
24 consent-to-rate percentages.

25 One thing that is not shown on this

1 exhibit is what the indication -- indicated
2 rate was for each of those. So in 2018, the
3 4.1 percent on the left-hand side, if the
4 indication was significantly higher than
5 that, that might also explain why we wouldn't
6 have seen, you know, a very drastic drop in
7 consent to rate.

8 The other, just general trend, you
9 know, I would say there's two phenomenon that
10 really stand out. One we talked about, that
11 there's a drop in the consent to rate in the
12 years where there was a rate increase. The
13 other is just -- general trend is that we do
14 see an upward pattern.

15 So if you'll look at the years where,
16 let's say, there wasn't a rate increase -- so
17 in this case, it would be years 2017, 2019,
18 2021, and 2023, so every other year -- those
19 numbers are steadily increasing. So in the
20 absence of rate increases and the little dips
21 down toward, there does appear to have been a
22 general trend upwards in the consent to rate,
23 which is highly noticeable on the most recent
24 year where the percent really does explode.

25 (Reporter requested clarification.)

1 A In the most recent year where the
2 percent explodes.

3 BY MR. SPIVEY:

4 Q I guess just to state the obvious,
5 Mr. Ericksen, is it correct that the latest year of
6 data in the department's data call is 2023 and that
7 the bar graphs reflect that the use of consent to
8 rate or the -- maybe I should say -- the percentage
9 of CTR premium as a percentage of overall premium is
10 the greatest in that year of any of the years shown
11 on these -- on this graph?

12 A Yes, that's correct.

13 Q And if you would, turn to the second
14 page of this exhibit, the page that's labeled
15 Average Premium Increase on CTR Policies Above the
16 Manual Rate. Can you please explain what this page
17 is showing?

18 A Sure. First, I'll point out that
19 there's four sets of bars on that throughout, and
20 they just represent different regions of the state.
21 So the beach territories, the coastal territories,
22 the rest of the state, which would be excluding
23 beach and coastal, and then the total state on the
24 right-hand side. Each of those tables is set up in
25 a similar way. So what does this represent?

1 So this is trying to answer the
2 question: For policies that are consent to rate,
3 how much additional premium are they paying on
4 average?

5 So based upon the data call, from the
6 insurance department, it provides four policies that
7 were consent to rate, not only what was that actual
8 premium at the consent to rate, but it also shows
9 what the premiums would have been if those
10 consent-to-rate policies had been written at the
11 manual NCRB level.

12 Just taking the difference in those two
13 premium amounts and dividing by the number of
14 policies that are being consent to rate, you can
15 calculate what the average excess amount of premium
16 per policy for consent to rate.

17 We show those numbers here and there
18 and there. I think they might be readily -- they
19 might be shown directly on the data call, at least
20 for this data call.

21 Q So, Mr. Ericksen, if you would, let's
22 turn to -- I believe it would be the fifth page in
23 this Exhibit RB-30. It would be the first page --
24 at least as I've characterized it, the first page
25 that is essentially a copy of the data shown on the

1 department's website.

2 Do you see that page?

3 A Yes.

4 Q Can you essentially point us to the
5 numbers shown here that you were just describing?

6 A Sure, yeah. So on that fifth page, the
7 number at the bottom right-hand corner, so column 8
8 all the way at the bottom, the \$447, it's calculated
9 on the data call from the insurance department. And
10 that 447 corresponds to slide 2, the number all the
11 way on the right-hand side, that green bar.

12 Q And are there columns within this
13 exhibit, the fifth page, that show the amount of CTR
14 premium and manual premium and the numbers you were
15 just describing from which the difference can be
16 determined?

17 A Yes. So columns 3, 4, and 5, show
18 information specifically for consent-to-rate
19 policies. Column 4 shows the manual premium be
20 approved, NCRB rate level premium, would be for
21 those policies. Column 5 shows the actual premiums
22 that were charged on a consent-to-rate basis.

23 So the excess premium, the amount above
24 the NCRB level, would become --

25 (Reporter requested clarification.)

1 THE WITNESS: The excess premium would
2 be column 5 minus column 4, and then that
3 amount divided by column 3, which is the
4 number of policies subject to consent to
5 rate.

6 BY MR. SPIVEY:

7 Q And are those -- is the formula that
8 you just described literally shown on the exhibit on
9 the department's website and on this page?

10 A Yes. This -- and the heading for
11 column 8 shows the formula.

12 Q So do I correctly understand, then,
13 that we could see -- the total numbers we see on the
14 second page of this exhibit in the rightmost bars,
15 we could see those numbers if we page through the
16 copies of the data call that follow the slides?

17 A That's correct.

18 Q Is it correct, then, that the numbers
19 shown on the bars for the -- sort of the breakouts
20 within the state, either the beach or the coastal or
21 the rest of state, would be a determination made
22 from these data call results from grouping those
23 territories and making the calculation of what the
24 average for that particular subset of the whole
25 state would be?

1 A That's correct.

2 Q Mr. Ericksen, do the bars on the graph
3 shown on the second page of this exhibit, the one
4 showing average premium increase on CTR policies
5 above the manual rate, do they reflect any type of
6 trend?

7 A They do. Here, the trends seem even
8 maybe a little bit more clearer than on the first
9 page. But it's an upward increase. And as --
10 certainly for -- you know, when we look at the total
11 state as a whole, as we saw on the prior page, that
12 the bar is the highest for 2023. So it's sort of a
13 double whammy. You know, not only is it -- as we
14 saw on the first page, it's the highest level of
15 percent of total premium that's written at consent
16 to rate, but in addition, what we see here is that
17 the average dollar surcharge of those
18 consent-to-rate policies is also at a high. So both
19 the occurrence of consent to rate and the dollar
20 impact, both seem to be spiking in 2023.

21 Q If we look at the rest of state group
22 on page 2 here of this Exhibit RB-30, can you
23 determine or calculate for us what the percentage
24 increase from the \$364 shown in the blue bar for the
25 year 2022 is to the \$448 shown in the green bar for

1 the year 2023?

2 A So it was from -- what was the starting
3 point? Starting year?

4 Q I'm asking you what percentage change
5 is from the \$364 shown for 2022 to \$448 shown for
6 2023.

7 A Sure. So from 364 to 448 represents a
8 23.1 percent increase.

9 Q What about the change from the
10 \$320 shown for the year 2021 to the \$448 shown for
11 2023?

12 A That would be a 40 percent increase.

13 Q And what about the change from the
14 \$275 shown for 2020 to the \$448 shown for 2023?

15 A Just about 63 percent.

16 Q Are the percentage changes for the
17 total statewide group to the far right of this graph
18 pretty similar to those we just discussed for the
19 rest of state group?

20 A The dollar amounts look very close, so
21 yes, I would say the percentages would be very much
22 similar.

23 Q All right. Let's turn now to the third
24 page of this exhibit. This is the one labeled "Full
25 Coverage Beach Policies: Voluntary versus Consent

1 to Rate. "

2 Are you there?

3 A Yes.

4 Q First, which of the data calls is the
5 source of the data in this graph?

6 A So this is coming from the beach and
7 coastal data call.

8 Q Can you explain what policies are being
9 looked at when we describe them or they're described
10 as "full coverage beach policies"?

11 A So full coverage refers to when both
12 wind and nonwind is included. So it's the full
13 policy, including coverage for wind.

14 Beach policies, meaning it's in the --
15 the beach coastal area.

16 Q All right. Let's clarify that. This
17 says "beach policies." And if we just look ahead
18 briefly, the fourth page is "coastal policies."

19 So what area are we referring to here
20 for beach policies?

21 A So for beach -- beach and coastal
22 represents the coastal region of the state where the
23 Beach Plan offers insurance. Beach is the most
24 coastal. It corresponds to territories 110, 120.
25 The coastal territories would be 130, 140, 150, 160.

1 Q And just sort of thinking what the
2 North Carolina coast looks like, is it correct that
3 territories 110 and 120 are literally the outer
4 banks and this very narrow strip, this right on the
5 beach?

6 A That's correct. So the beach would be
7 the most exposed to hurricane winds. Coastal would
8 be -- the coastal counties are -- coastal
9 territories are so highly exposed but they're
10 slightly inland from the beach territories.

11 Q Then next, these bars are showing what
12 for each year? When we see each of these bars, what
13 is being depicted?

14 A Okay. So first of all, the axis is
15 number of policies, so we're looking at number of
16 policies. And these are policies that are being
17 written not by the Beach Plan, so it's by private
18 insurance companies.

19 Each bar has two parts: a bottom solid
20 part and then sort of a striped part at the top.
21 The solid part is the number of policies that are
22 written at the voluntary NCRB promulgated rate
23 level. And the striped part at the top represents
24 the number of policies that are being written at the
25 consent-to-rate higher level.

1 Q And is it again the case, as it was in
2 previous exhibits, that these are only policies
3 written by companies and do not include any policies
4 written by the Beach Plan?

5 A That's correct.

6 MR. FRIEDMAN: I was going to ask if
7 this might be a good time for a -- if this
8 might be a good time for a bathroom break?

9 MR. SPIVEY: That's fine.

10 MR. FRIEDMAN: Would that be
11 acceptable, Your Honor?

12 MS. FUNDERBURK: At this point, we'll
13 go into recess for 10 minutes. It is
14 10:45 a.m. So I'll ask everyone to be back
15 and ready to proceed and in their seats at
16 10:55 a.m. Thank you. We're in recess.

17 Mr. Ericksen, I'll remind you, you do
18 continue to be under oath, and when you
19 return, you'll be under oath. Thank you,
20 sir.

21 (A recess was taken from 10:45 a.m.
22 to 10:56 a.m.)

23 MS. FUNDERBURK: It is 10:56. We are
24 back on the record.

25 Mr. Ericksen, you continue to be under

1 oath.

2 MR. FRIEDMAN: Before Mr. Spivey gets
3 underway, just a quick housekeeping measure.
4 I understand that at some time he's going to
5 finish with the direct of Mr. Ericksen, and
6 I'll do my cross. I wasn't clear whether the
7 hearing officer or the clerk had copies of
8 the fifth day's transcript from that morning.
9 It had been posted online. I had sent around
10 to everybody, the court reporter, yourself,
11 an electronic copy of that fifth day's
12 transcript.

13 MS. FUNDERBURK: The October 11th
14 transcript? What day is that?

15 MR. FRIEDMAN: Yes. October 11th. So
16 just to make sure when I -- either this
17 afternoon or this morning -- verge into that
18 transcript, everybody had a copy.

19 MR. SPIVEY: I did receive a copy.

20 Mr. Spivey, Mr. Beverly, do you have
21 your copies?

22 MR. FRIEDMAN: Yes. We did receive
23 that by email.

24 MS. FUNDERBURK: Okay. Thank you.

25 Any other matters to take care of?

1 Mr. Spivey, please proceed.

2 MR. SPIVEY: Thank you, Your Honor.

3 First, I'd like to provide you -- you
4 asked about the dates those rate changes
5 became effective.

6 MS. FUNDERBURK: Yes.

7 MR. SPIVEY: And by "those," I'm
8 referring to the ones in Exhibit RB-30 that
9 are shown in the white boxes.

10 So the change that's shown for 2018
11 became effective October 1 of 2018. The
12 change shown for the year 2020 became
13 effective May 1 of 2020. And the change
14 effective in 2022 became effective June 1,
15 2022.

16 MS. FUNDERBURK: The effective date
17 strikes me as a little late in the year to
18 have that type of impact. Was it anticipated
19 that it was going to go into effect?

20 You may not have the answer on that,
21 but it sounds like what you're saying is a
22 change that was effective October 1, 2018,
23 caused a reduction in the number of premiums
24 written on a consent-to-rate basis for 2018.

25 MR. SPIVEY: Yeah. Obviously, Your

1 Honor, the timing doesn't line up very well
2 between calendar year and when these rates
3 became effective. But what I can tell you is
4 that when a change is approved, it is
5 announced. It is published to the industry
6 several months in advance, so -- because
7 companies are receiving applications in
8 advance. They're renewing policies often 60
9 or 90 days in advance of the renewal date.
10 So we get it out to them as early as we can.
11 So they have noticed that those changes are
12 becoming effective on those dates.

13 But, again, in terms of when the actual
14 rates change, it matches -- that will be on
15 the dates that I just provided.

16 MS. FUNDERBURK: Thank you, Mr. Spivey.

17 BY MR. SPIVEY:

18 Q Mr. Ericksen, we were looking at the
19 third page of Exhibit RB-30 when we broke, and
20 that's the page labeled "Full Coverage Beach
21 Policies: Voluntary versus Consent to Rate."

22 On that exhibit, if you look at the bar
23 for the year 2023, what does that bar show in terms
24 of -- what I'll refer to as the split between
25 policies written voluntary and policies written

1 consent to rate?

2 A So in that bar, it would show
3 54 percent of the policies were written at the
4 voluntary NCRB rate level, and 46 percent of the
5 policies were written on a consent-to-rate basis.

6 Q And as you look at the bar for the year
7 2022, what does the bar show in that same regard for
8 the split between voluntary and consent to rate?

9 A In 2022, it was -- a relatively much
10 higher percent was written on the voluntary rate
11 level at 94 percent and only 6 percent on a
12 consent-to-rate basis.

13 Q So that indicates -- I mean, I guess
14 the obvious indication there is that the relative
15 portion of CTR policies in 2023, as compared to
16 2022, increased very significantly, correct?

17 A That's correct. So if we're focused on
18 the percent of the total policies that are written
19 on a consent-to-rate basis. It went from 6 percent
20 to 46 percent. So more than seven times the amount.

21 In addition, I'll just mention for --
22 if we're comparing those two columns --

23 (Reporter requested clarification.)

24 A If we're comparing those two columns,
25 one other important thing to point out is that just

1 the absolute value of the height of the total bars,
2 that it actually dropped from 2022 to 2023, and
3 that's indicating a reduction in the number of
4 policies that private companies are writing in the
5 beach territories.

6 So there's a combination of two things:
7 The voluntary market pulling back and not writing as
8 much in those regions, and the business that is
9 remaining that they're writing is now at a much
10 higher consent-to-rate basis.

11 BY MR. SPIVEY:

12 Q So if we're looking at this graph in
13 its entirety, can you describe what's been happening
14 to the total number of full coverage policies over
15 the time period depicted on this graph, which is
16 essentially 2015 through 2023?

17 A Sure. Yeah. So the issue I was
18 starting to get at in terms of the absolute value of
19 the height of the total bar, and if we look over the
20 past four years, we see that it was stable at --
21 between 2020, 2021, and just eyeballing it, you
22 know, it looks like it was probably around 23-,
23 24,000 policies. And then it drops in 2022. Again,
24 so above 20,000, but it dropped. And then in 2023,
25 it continued to decline. You know, now we're just

1 eyeballing it, it looks like it's about 18,000 or so
2 policies.

3 Q All right. So you were describing the
4 total number of policies that are full coverage
5 policies written in the beach territory. How did
6 the number of voluntary policies -- what kind of
7 trend or movement do we see there?

8 A So there we see a much bigger trend, or
9 decline. So, again, you know, in 2020, 2021. So
10 now I'm just focusing on that green, solid part
11 that's the voluntary. Again, stable in 2020 and
12 2021. Dropped somewhat in 2022, you know, from
13 roughly -- roughly 22,000 or so to 20,000. But then
14 it just got cut in half. It's now a little bit
15 under 10,000 in 2023.

16 Q All right. So the numbers you just
17 mentioned, am I correct in understanding from the
18 bar for the year 2022, that right at 20,000 policies
19 were written in voluntary full coverage in the beach
20 territories.

21 A Yes.

22 Q And then that number dropped below
23 10,000 in the year 2023?

24 A Yes, that's correct.

25 Q Is there any other drop of that

1 magnitude shown in the exhibit on this bar graph?

2 A No. I mean, there was a drop in 2018.
3 There was a drop in 2022, but not anywhere near that
4 order of magnitude. It was 2023.

5 Q Now, please turn to page 4 of this
6 exhibit. That's the page that has the heading "Full
7 Coverage Coastal Policies: Voluntary vs. Consent to
8 Rate," correct?

9 A Yes.

10 Q And can you describe what this page
11 shows?

12 A So this page is set up in the exact
13 same structure, but now we're looking at the coastal
14 policies instead of the beach territory. So these
15 would be not those two territories right on the
16 coast but at the four territories slightly inland,
17 and so high coastal exposure.

18 Q Is this, once again, showing the
19 relative split between voluntary and consent-to-rate
20 policies for each of the years shown?

21 A Yes.

22 Q And is it correct that we see a
23 similar -- I'll call it a trend in the number of
24 full coverage coastal policies increasing up to
25 about 2021 and then declining from there?

1 A Correct. The pattern is very similar.
2 The decline -- it's not as dramatic as we saw for
3 the beach because -- which makes sense, this is a
4 little bit more inland, so it might not be as
5 sensitive. But the general pattern that we're
6 seeing is very similar.

7 Q Again, that shows a fairly significant
8 decrease in the total number of policies as well as
9 significant decrease in the number of voluntary
10 policies, correct?

11 A That's correct. So if we look at 2021
12 to 2023, there is a sizable drop in the total number
13 of policies that were written by private companies
14 in the coastal territories.

15 MR. SPIVEY: Just a moment, Your Honor.

16 MS. FUNDERBURK: Yes.

17 MR. SPIVEY: Your Honor, that concludes
18 my questions for this witness, but I will go
19 ahead and offer into evidence Exhibit RB-30.

20 (RB Exhibit Number 30 was received into
21 evidence.)

22 MS. FUNDERBURK: Any objections on the
23 introduction of RB-30, Mr. Friedman?

24 MR. FRIEDMAN: No, ma'am.

25 MS. FUNDERBURK: So admitted. Thank

1 you.

2 (RB Exhibit Number 30 was received into
3 evidence.)

4 MS. FUNDERBURK: Mr. Friedman, are you
5 prepared to proceed with your cross?

6 MR. FRIEDMAN: I am, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. FRIEDMAN:

9 Q So good morning, Mr. Ericksen. Good
10 seeing you, all last week. I get to formally talk
11 to you.

12 MS. FUNDERBURK: If you could scoot a
13 little closer to your microphone. I'm sorry,
14 I did not turn my microphone on. If you can
15 scoot a little closer to your microphone, I
16 would appreciate it, thank you.

17 BY MR. FRIEDMAN:

18 Q Mr. Ericksen, with regard to what's
19 been marked as RB-30, are there any other work
20 papers, spreadsheets, similar documents, or notes
21 that you created for, I guess, pages 1 through 4
22 that are not attached to this exhibit?

23 A Just to be completely clear, "these
24 exhibits," the exhibits at the end are just
25 downloads from the insurance department. But the

1 first four bar charts were technically prepared by
2 NCRB staff. So I didn't prepare them myself.

3 Q Okay. You reviewed those?

4 A Yeah. And --

5 Q You reviewed the underlying data the
6 NCRB provided in making these charts or the charts
7 were created by NCRB?

8 A I was provided a copy and I reviewed
9 the PowerPoint slides. I don't have the Excel files
10 that might have been used.

11 (Reporter requested clarification.)

12 BY MR. FRIEDMAN:

13 Q Okay. So you basically -- the RB-30,
14 you received a copy of this from the Rate Bureau
15 based in exactly the form that it's been introduced,
16 then reviewed it and are testifying to it?

17 A That's right. I might have seen like a
18 preliminary version. But it was substantially the
19 same.

20 Q Did you specifically see a preliminary
21 version?

22 A I believe I did.

23 Q Did you ask for any of the work papers
24 NCRB might have had in arriving at the first four
25 pages? Those are the pages with the pie charts or

1 graphs?

2 A I did not ask for that. I'll caveat
3 that I discussed the information with the Rate
4 Bureau staff, and I'm familiar with the data calls.
5 And even, you know, I guess moving forward as we
6 pointed out where several of the numbers were coming
7 directly from. So I'm generally familiar with how
8 it was calculated.

9 Q Is every number necessary to arrive at
10 the charts on pages 1 through 4 reflected somewhere
11 from page 5 onward?

12 A That's my understanding. My
13 understanding is that 100 percent of the bars were
14 derived directly from the material from the
15 insurance department's website. There were
16 selections and no external data. It was simply from
17 that.

18 Q So my question --

19 A The rate changes came from another
20 source, but all the bars came directly from that.

21 Q Okay. Did you go through pages 5
22 through the end of the exhibit and see whether all
23 of those numbers were reflected in some way on
24 pages 1 through 4?

25 A I think I spot-checked. I did not

1 duplicate the analysis myself.

2 Q So you don't know, in fact, whether,
3 for example, looking at the first page, the far
4 right column, in the All 100 Categories. I'm not
5 very good with colors, but I think that's gray or
6 brown. But in any case, 53.8 percent.

7 Did you do the math?

8 A For that one, I did.

9 Q Okay. What about the other side of
10 that second grouping, the 47.6?

11 A I just don't recall. Like I said, I
12 spot-checked some of the calculations. I don't
13 recall that number.

14 Q When you spot -- how much of the
15 calculations, just percentage-wise, would you
16 estimate you spot-checked?

17 A I don't recall.

18 Q I'm going to put aside, Mr. Ericksen,
19 any further discussion of RB-30 and proceed with
20 other topics today.

21 Now, if you could turn to your report,
22 it's in Book 1. Have you found it in Book 1, or I
23 can point you to it?

24 MS. FUNDERBURK: Get a little closer to
25 the microphone.

1 A I have Book 1.

2 BY MR. FRIEDMAN:

3 Q Do you have your report?

4 A My testimony?

5 Q Yes.

6 A Yeah, RB-5.

7 Q Sorry. If I confuse you at any time,
8 if I'm referring to "your testimony" as your report,
9 that's my own prior practice of referring to my
10 expert reports.

11 A No problem.

12 Q And I did want to make something also
13 clear, that if at any time you need to consult
14 with -- or I'm beginning to inquire about something
15 that would be a communication between either the ISO
16 attorney or the NCRB's attorneys or that you need
17 clarification, please state so or say "I think I
18 need to clarify that," and I'll let you do that.

19 A Okay. I appreciate that, thank you.

20 Q Similarly, as I was reminded very
21 fairly during the first part of this hearing, if I
22 ask a compound question that gets just too long,
23 feel free to ask me to break it up or restate it.

24 A (Nonverbal response.)

25 Q I believe your testimony is at

1 Exhibit -- is that RB-5? Are you there?

2 A Yes, RB-5.

3 Q Perfect. If you could turn to page 27
4 of your testimony.

5 -- Looking at, I guess, the middle of
6 the page, the short paragraph beginning with "Bureau
7 relies upon the data." I'll read that into the
8 record.

9 "The bureau relies upon the data that
10 Aon has accumulated as to be the actual cost of
11 purchasing reinsurance in the current reinsurance
12 market. Aon is one of the largest reinsurance
13 brokers."

14 So it's my understanding that -- well,
15 let me ask you this. I see that that's phrased in
16 terms of what the bureau relies on. What parts of
17 Ms. Mao's calculations have you relied on in your
18 prefiled testimony?

19 A So there were a number of items that we
20 relied upon from Aon: the gross hurricane model
21 output, the provision for the net cost of written,
22 and the car, the compensation for assessment risk
23 provision.

24 (Reporter requested clarification.)

25 Q And would the gross loss include the

1 calculation of the demand surge?

2 A Demand surge was included in model
3 output that she provided -- or that Aon provided,
4 yes.

5 Q Okay. And then you relied on her
6 calculation of the demand surge?

7 A Well, it wasn't her calculation. It
8 was the model's output. But, yes, I relied upon the
9 model output as provided by Aon.

10 Q Okay. Did you -- are you also relying
11 on Ms. Mao's testimony in this case, at least with
12 regard to demand surge?

13 A Yes.

14 Q So I'm going to be referring now,
15 Mr. Ericksen, to the transcript from the fifth day
16 of the hearing in this matter.

17 Do you have a copy of that transcript,
18 whether electronic or hard copy?

19 A I have not reviewed it, but it looks
20 like it might be showing up on my screen here.

21 Q Okay. Were you present for her
22 testimony that day?

23 A Yes, I was.

24 Q Could you turn to page 799. Well,
25 actually, let's start a little sooner than that.

1 Starting on 791. Excuse me, sorry, 790.

2 Do you see in the first paragraph
3 where, on 790, where Ms. Mao is discussing the --
4 any differentiation for the demand surge function in
5 both -- well, actually, she happens -- I think she's
6 discussing it for both RMS and AIR.

7 Is that your understanding just by
8 reading that paragraph?

9 A Just so I'm looking at the exact same
10 thing, are there specific rows that you want me to
11 focus on?

12 Q It would be rows 2 through 12.

13 A Give me a minute.

14 Okay. I am a slow reader, but I've
15 read through.

16 Q Do you understand her to be speaking
17 about the demand surge functions for both the RMS
18 historical and the AIR standard?

19 A It's possible that's what she was
20 referring to, but I don't think I see demand surge
21 being referenced here.

22 Q All right. Actually, it's a carryover
23 from the prior page. I'll just ask it more simply.

24 Does -- do you know whether the AIR
25 demand surge function makes any distinction in the

1 percentage of demand surge it assigns to a state
2 based on whether that state was the state of first
3 landfall, or whether that state simply wasn't a
4 landfall state at all?

5 A So it's a tricky question, and there's
6 probably a very short answer and maybe a little bit
7 of a longer answer that I think would address it.

8 Q However you'd like.

9 A So I think it's important to sort of
10 take a step back -- although I should step forward
11 to the microphone.

12 I think it's important to take a step
13 back and understand how the model is run for the
14 purposes of producing results. So -- and I'll get
15 back exactly to the question you're asking.

16 But the hurricane models will simulate,
17 you know, 100,000 years' worth of experience, and
18 the idea is that, you know, any one of those
19 hurricanes is not going to produce the result for
20 next year. But when looking at the results over
21 100,000 years, or tens of thousands of years, and
22 averaging it, we're going to produce credible
23 estimates.

24 Demand surge, in my opinion, is one of
25 those elements that if you look at any one storm,

1 the impact of that demand surge isn't necessarily
2 going to be the same as if you average it over all
3 100,000 years.

4 The demand surge function is calibrated
5 based upon aggregate experience. So if we track one
6 storm -- I think this is getting to your question --
7 if we track one storm and say, "Well, are we
8 applying the same demand surge at the beginning of
9 the storm as we would apply at the end of the
10 storm," my understanding is they are. They are
11 applying the same aggregate demand function for that
12 storm. But there will be other storms that make
13 landfall in different locations and track
14 differently. So that when averaging across all
15 100,000 storms, the effect of demand surge is
16 appropriately reflected in each specific region.

17 Q Is the demand surge function -- first
18 of all, I don't know whether that function is
19 considered to have modules. Does it? Modules in
20 the sense that there are modules in the models, an
21 engineering module, for example.

22 A I don't have that level of detail.

23 Q What do you know about the assumptions
24 in the demand surge functions of either RMS or AIR?

25 A I have some knowledge about the

1 process.

2 Q Are those assumptions based on actual
3 demand surge experience from actual storms?

4 A I have to be careful with my answer
5 because I have a general understanding, and I can
6 state my general understanding. But the actual
7 specifics of how the models are calibrated and the
8 functions, I -- could be different. So I can give
9 my opinion as a non-developer of the model.

10 Q Whatever actual knowledge you have.

11 A My understanding is that there are ways
12 to identify the cost of construction, the cost of
13 labor before and after hurricane events, to quantify
14 the effect of the demand surge. And, in fact, that
15 is something that I have reviewed specifically in
16 the North Carolina area in prior -- not -- as part
17 of -- in the past few years. It's something that I
18 have reviewed. So that information would be
19 available -- let me take a step back.

20 It is possible to identify, before a
21 catastrophe event and after a catastrophe event and
22 the immediate months following, changes in the cost
23 of supplies and labor to estimate what was that
24 inflationary effect that was due to demand surge
25 resulting from a catastrophe.

1 And I have reviewed that type of
2 information to sort of prove to myself that demand
3 surge is a real element and not a hypothetical
4 element.

5 Q Luckily I'm not discussing whether or
6 not demand surge is a phenomenon. I'm more
7 interested in the percentage of demand surge that
8 the models assign to a particular modeled event.

9 And so my question there is: You
10 stated there are ways to identify the cost of
11 construction and the cost of labor, the surges in
12 those after an actual event, by using the model; is
13 that correct?

14 A Not by using the model. By -- there
15 are sources of cost of materials and labor that are
16 available separate from the models. That's
17 information that I have reviewed to assess the
18 reasonability of demand surge. And it's information
19 that certainly modelers would have access to.

20 Q Do you know -- well, let's start with
21 AIR. AIR is owned by Verisk.

22 A Yes.

23 Q And you're employed by Verisk?

24 A Yes. That is true. Just a caveat.
25 Verisk is a holding company with multiple

1 subsidi ari es. I' m employed by Insurance Servi ces
2 Offi ce, whi ch i s part of Veri sk. AIR i s a separate
3 enti ty al so owned by Veri sk.

4 Q Do you work wi th AIR?

5 A I have done projects that I worked wi th
6 AIR.

7 Q Do you have access to use the AIR
8 model s i f you feel you need to?

9 A I do not have the AIR model i nstalled
10 for my abi lity to run the model . I f I so request
11 i t, I probabl y coul d.

12 Q Have you ever run i t yoursel f?

13 A Personall y, no, I have not run the
14 model . I' ve worked wi th peopl e that have run the
15 model s.

16 Q In the course of your work wi th the AIR
17 di vi sion of Veri sk or any other peopl e that may be
18 out of that di vi sion but have run the AIR model s, at
19 any time -- do you have any understandi ng or di d you
20 gai n any understandi ng wi th al l that work about
21 wheth er the AIR model s speci fi call y have assumpti ons
22 based on the actual data for constructi on costs and
23 costs of labor that you menti oned j ust now you coul d
24 fi nd?

25 A I don' t have -- I don' t have that

1 information.

2 Q Okay. So you don't know, in fact,
3 whether or not the AIR engineers incorporate into
4 the assumptions of their demand surge function any
5 actual experience in the cost of construction and
6 cost of labor after a hurricane event?

7 A Let me just clarify. I have not been
8 part of the model development at AIR, and I don't
9 have that information, period. But my point -- my
10 response before was along the lines of it is
11 possible to develop demand surge based on actual
12 information.

13 Q But you don't know whether the AIR
14 engineering experts, or whomever, has actually
15 relied on those in the creation of the AIR demand
16 surge function?

17 A I don't have that information for AIR
18 or RMS.

19 Q When did you look at those other
20 sources for actual cost of construction and cost of
21 labor and compare them to -- I don't know -- would
22 you compare them to an AIR and RMS results from the
23 demand surge function or only to AIR?

24 A My recollection, when I performed that
25 exercise, it was not part of this rate hearing. It

1 was part of the 2020 rate filing -- that almost went
2 to a rate hearing. I recall performing that
3 exercise.

4 Q Did you do so from those actual
5 sources? Did you compare those to both the AIR and
6 the RMS models?

7 A My recollection -- and keep in mind,
8 this is four years ago, so my recollection was the
9 available information I had -- which was publicly
10 available. It was publicly available information I
11 was able to cost the information.

12 The information I was reviewing was
13 just -- it was a specific catastrophic event that
14 had occurred. I don't remember which hurricane or
15 catastrophic event. But the idea was to just see
16 what was the inflationary effect that was observed
17 for a real event and just align that with what the
18 demand surge component was for the model output to
19 see if it looked reasonable.

20 Obviously, I was only looking at, I
21 believe, just one event. So by no means would it --
22 should it -- match exactly, you know, the average
23 for demand surge over many hurricane events. But my
24 conclusion was, was that it aligned reasonably
25 close.

1 Q Was the actual event you looked at a
2 North Carolina landfall hurricane?

3 A I honestly can't remember, but I was
4 performing this exercise in regards to the NCRB rate
5 analysis four years ago. I was also limited to what
6 was publicly available. So I -- it would have been
7 my objective to focus on North Carolina
8 specifically. I just don't recall whether, in fact,
9 it was or not.

10 I believe it was, but I'm not --
11 because it was my objective to focus, but I was at
12 the mercy of the data that was available.

13 Q I only smile because I love hearing
14 from actuaries about their love of data.
15 Mr. Anderson, I believe said it best when he says
16 there's no bad data to an actuary, more data is
17 always great.

18 So when you looked at that, do you
19 remember seeing any different percentages of demand
20 surge among another state than North Carolina?

21 A I don't recall observing anything like
22 that, or if I even had the information.

23 Q So do you recall whether you were
24 looking -- I guess this is at the specific demand --
25 the specific rate of inflation from the demand surge

1 in North Carolina, or is it possible you were
2 looking at the specific percentage of demand surge
3 among North Carolina and one or more other sites?

4 A I just don't recall.

5 Q Are you aware of any differences in the
6 manners in which AIR's demand surge function and
7 RMS's demand surge function operate or have any
8 differences in their assumptions?

9 A My recollection is I have read some
10 material on this, but I just don't recall. No, I
11 wouldn't be able to specify the differences.

12 MR. FRIEDMAN: So, Your Honor, at this
13 point, I'm going to be turning to a
14 confidential document, and so I want to be
15 certain that everybody in the room has signed
16 a -- has signed the Exhibit A to the
17 protective order.

18 And also as far as the two people that
19 I'm aware of that are listening in via a
20 link, they have signed it, and that would be
21 Allan Schwartz, and Sherri -- I'm blanking on
22 Sherri's last name.

23 MS. FUNDERBURK: I also have a Kevin on
24 the --

25 MR. FRIEDMAN: Kevin has signed it as

1 well .

2 MS. FUNDERBURK: Kevin has signed it as
3 well .

4 MR. FRIEDMAN: So I would hope that
5 they could continue with their access.

6 MS. FUNDERBURK: So -- let me put it up
7 on the screen real quick.

8 Thank you for mentioning that because
9 we haven't had an abundance of attendance.
10 We have not let that room in, so we'll get
11 there. But thank you for mentioning that.

12 MR. FRIEDMAN: And other than that, I
13 can say that my understanding is that
14 Ms. Benjamin has signed that exhibit this
15 morning, and that the court reporter has as
16 well. I'm aware that, on our side, Fred,
17 yourself.

18 MS. FUNDERBURK: Do we need to take a
19 brief recess to do a head count?

20 MR. FRIEDMAN: Why don't we do that?

21 MS. FUNDERBURK: Let's do that, and for
22 clarity when we go back on the record, when
23 you come back, can you verify that the
24 violation of that contempt authority will
25 result in a referral to Wake County for a

1 contempt? Is that as -- and I apologize, I
2 didn't reread it -- are the consequences for
3 violating that consent order regarding
4 confidentiality or referral for contempt to
5 the Wake County Superior Court?

6 Is this accurate?

7 MR. BEVERLY: That is accurate, in
8 addition to other sanctions, but subject to
9 that.

10 MS. FUNDERBURK: I think the worst one
11 would be having to go to see Judge Ridgeway.

12 MR. BEVERLY: No one would want that.

13 MS. FUNDERBURK: No one would want
14 to --

15 (Overlapping speakers.)

16 MS. FUNDERBURK: I'm sorry?

17 MR. FRIEDMAN: I don't even know who
18 that is.

19 MS. FUNDERBURK: He's the senior
20 resident.

21 MR. FRIEDMAN: Ah.

22 MS. FUNDERBURK: I'm going to take a
23 brief recess, a five-minute recess at this
24 point for the parties to confer. If you come
25 back earlier than that, great. Let's go

1 ahead and get a head count and make sure that
2 everyone's here. Everyone who is going to
3 continue to be present or continue to be on
4 the call has, in fact, signed that document.
5 And I will give direction for contempt and
6 other sanctions when we are back on the
7 record.

8 We're off the record at 11:41, thank
9 you.

10 (A recess was taken from 11:41 a.m. to
11 11:49 a.m.)

12 MS. FUNDERBURK: For purposes of your
13 testimony, Counsel, you are ready to proceed?

14 MR. SPIVEY: We are, Your Honor.

15 MS. FUNDERBURK: Okay. And have you
16 verified that everyone present has signed the
17 acknowledgment of the protective order?

18 MR. SPIVEY: We verified that everyone
19 on this side of the room, the side behind me
20 has signed it, yes, ma'am.

21 MS. FUNDERBURK: Okay. So before we
22 proceed, just a couple comments. As we
23 talked about, I believe, in the prehearing
24 conference, I do take very seriously that
25 this is a hearing that affects the people of

1 North Carolina very greatly.

2 I understand there are confidential
3 provisions, and Mr. Davis and Mr. Ericksen, I
4 certainly do not want you to reveal anything
5 that is confidential. But I also take it
6 very seriously that this is a hearing that
7 impacts all of North Carolina, and
8 information that can be available to the
9 public should be available to the public.

10 I also take very seriously that there
11 is information you cannot reveal. There is a
12 protective order in place. Sanctions will be
13 handed down, including potential referrals to
14 Wake County Superior Court for contempt if
15 the consent order is violated.

16 To make it clear who is present, I'm
17 going to ask -- I'm going to just state who's
18 on the Webex call to make it clear. But I'm
19 going to ask either the folks that are
20 present in the room, either identify
21 themselves, or Mr. Spivey, if you want to
22 identify them, who continues to remain, that
23 is perfectly fine. Let me just verify on my
24 end who is here for the Webex.

25 We have Mr. Allan Schwartz on the

1 Webex. We have Ms. Sherri Hubbard on the
2 Webex.

3 Can you tell me Kevin's last name?

4 MR. FRIEDMAN: Kevin Conley.

5 MS. FUNDERBURK: And Mr. Kevin Conley
6 is on the Webex as well. Mr. Friedman, they
7 have signed the protective order?

8 MR. FRIEDMAN: It's my understanding,
9 yes, that they have.

10 MS. FUNDERBURK: Okay. And, of course,
11 we have Ms. Benjamin, myself, Mr. Erickson,
12 our court reporter, Audra Smith, present.

13 Mr. Spivey, could you identify who's
14 present for the Rate Bureau, who has signed
15 the consent order?

16 MR. SPIVEY: I will try to -- I'll
17 probably forget someone's name.

18 MS. FUNDERBURK: I'm putting you on the
19 spot now.

20 Now you're going to know how well he
21 knows you.

22 MR. SPIVEY: So we have myself, Mickey
23 Spivey; cocounsel, Brian Beverly; Lisa
24 Leeaphorn. We have Cary Davis, ISO counsel.
25 We have Paul Anderson, David Appel, Minchong

1 Mao, Rebecca Williams, Joanna Biliouris,
2 Jarred Chappell, Hayley Emblee, and Andy
3 Montana. And my information is that all of
4 those folks have signed the necessary
5 documents.

6 MS. FUNDERBURK: Thank you.

7 Mr. Friedman, if you could identify
8 who's here with you?

9 MR. FRIEDMAN: Ms. Shannon Wharry and
10 Garrett Halford. And then also I did want to
11 say that I'm aware that Rick Kohan, who is
12 behind you, had been mentioned before, has
13 signed this as well.

14 MS. FUNDERBURK: Yes. Thank you.

15 And Mr. David stepped out just to make
16 sure we don't have anyone inadvertently enter
17 the courtroom. And I'll let him know when we
18 conclude, and he can come in.

19 MR. FRIEDMAN: It is my understanding
20 he hasn't signed it, so...

21 MS. FUNDERBURK: He can help us out
22 from the hallway and making sure we don't
23 have anybody inadvertently come in.

24 All right. Thank you for your
25 indulgence on clarifying that.

1 Mr. Friedman, please proceed. And if
2 you could identify the information clearly
3 that is confidential because, as reflected in
4 the consent protective order, there will
5 be -- even though the information identified
6 may be confidential, it may still need to, in
7 the event of an appeal, be submitted to the
8 Court of Appeals and will need to be clearly
9 identified at that time and will also need to
10 be able to be clearly identified in the
11 transcript.

12 As you all know, we are posting those
13 transcripts online. So I'm going to ask that
14 when there is confidential information we
15 identify it so that we can take appropriate
16 precautions as to that information.

17 MR. FRIEDMAN: So a couple points with
18 regard to that, Your Honor. It's my
19 understanding that the -- I don't know
20 whether the fifth day's transcript is posted
21 online, and obviously at some point this one
22 will be posted.

23 MS. FUNDERBURK: Correct.

24 MR. FRIEDMAN: So obviously before it's
25 posted, we will all make sure that it does

1 not include any of the pages to deal with
2 what I'm about to question Mr. Ericksen
3 about.

4 And then, second of all, all of my
5 questions for Mr. Ericksen are going to come
6 directly from language in the document and
7 the entire document has been marked
8 "Confidential." So I don't know that I will
9 be able to identify anything that I'm asking
10 him. I don't know what his response is
11 obviously, but that wouldn't be considered
12 confidential.

13 MS. FUNDERBURK: For purposes of the
14 court reporter being able to clarify in the
15 transcript where the confidential information
16 begins and ends, would it be appropriate to
17 just make a global notation now, and then you
18 can let me know when that global notation
19 ends.

20 Is that acceptable, Ms. Smith?

21 THE REPORTER: Yes. You'll let me know
22 when it starts and it ends, each and every
23 time.

24 MR. FRIEDMAN: That would be the
25 easiest. And then obviously, once I finish

1 cross-examining Mr. Erickson about the
2 confidential information, it may be that the
3 bureau does redirect later on about that, in
4 which case there might need to be another --

5 MS. FUNDERBURK: Yeah. And if that's
6 the case, I'll just ask you to clearly notate
7 that so we can appropriately have the
8 transcript notated and allow Ms. Smith to do
9 her work in the most straightforward way
10 possible.

11 MR. SPIVEY: We will do that,
12 Your Honor.

13 MS. FUNDERBURK: Okay. Thank you.

14 Mr. Friedman, please proceed.

15 (Confidential portion proceeds on
16 following pages:)

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(Confidential portion will continue
into Volume VI P.M. Session.)

1 MS. FUNDERBURK: I understand. It
2 sounds like there are still concerns about
3 confidentiality, and you're expecting in the
4 realm of about a half hour or less?

5 MR. FRIEDMAN: Yes, ma'am.

6 MS. FUNDERBURK: Are the parties able
7 to continue for another half hour before we
8 break for lunch, or do you need a break?

9 THE REPORTER: I just want to just note
10 that I'll be here for the afternoon as well.

11 MS. FUNDERBURK: Oh. Okay. Well, we
12 got lucky today. Thank you.

13 MR. FRIEDMAN: With that, this is a
14 perfectly fine time to...

15 MS. FUNDERBURK: Are you at a
16 transition point to be able to -- or not a
17 transition point, but you're at a good
18 endpoint to be able to recess for the lunch
19 hour?

20 MR. FRIEDMAN: Yes, ma'am.

21 MS. FUNDERBURK: Okay. All right.
22 Then I'm going to recess us for an hour and a
23 half for lunch. We will return promptly at
24 2:00 p.m., and I'll ask that the attorneys be
25 seated and ready to go.

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I will also remind the attorneys to verify that we have the same -- or fewer people in attendance when we come back because the protective order does still continue.

Mr. Ericksen, you will remain under oath when we're called back into session.

Thank you, Madam Court Reporter, you've made things much simpler for us for the afternoon.

We are in recess. Thank you.

(The morning session recessed for lunch from 12:31 p.m. to 2:05 p.m.)

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STATE OF NORTH CAROLINA)
COUNTY OF FORSYTH)

REPORTER'S CERTIFICATE

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

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

IN WITNESS WHEREOF, I have hereto set my hand this 23rd day of October, 2024.



Audra Smith

Audra Smith, RPR, CRR, FCRR
Notary Number: 201329000033
Commission Expires: June 26, 2025