

NORTH CAROLINA DEPARTMENT OF INSURANCE
RALEIGH, NORTH CAROLINA

STATE OF NORTH CAROLINA
COUNTY OF WAKE

BEFORE THE
COMMISSIONER OF
INSURANCE

IN THE MATTER OF:

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

COPY

Docket No. 2157

BEFORE: AMY FUNDERBURK, HEARING OFFICER

TRANSCRIPT
OF
HEARING

VOLUME XV - A.M. SESSION

Raleigh, North Carolina

December 2, 2024

9:05 a.m.

A P P E A R A N C E S

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I N D E X O F E X A M I N A T I O N S

THE WITNESS: LAUREN CAVANAUGH

Di rect Exami nati on by: PAGE

BY MR. FRIEDMAN. 2121

BY MR. FRIEDMAN 2157

Cross-Exami nati on by:

BY MR. SPIVEY 2172

REPORTER'S NOTE: Court was in confidential session from page 2124, line 5, through page 2156, line 14.

1 P R O C E E D I N G S

2 MS. FUNDERBURK: Good morni ng,
3 everyone.

4 MR. SPIVEY: Good morni ng.

5 MR. FRIEDMAN: Good morni ng.

6 MS. FUNDERBURK: Wel come back. I hope
7 everyone had a good break, a nice hol i day.

8 Today i s December 2nd. It' s 9:05 a. m. We
9 are back i n sessi on.

10 Are there any admini strati ve matters we need
11 to address before we proceed wi th wi tness testi mony?

12 MR. FRIEDMAN: Your Honor, only one
13 matter. We had advised you that this morni ng we woul d
14 go straight into closed sessi on, and as it turns out,
15 I' d like to ask the wi tness questi ons about four
16 questi ons in order to set the stage for what we' re
17 going to ask in the sealed, or the confi denti al
18 porti on of the testi mony, and then I have lumped
19 everythi ng that wi ll be confi denti al , i ncl udi ng
20 di fferent subj ects, that wi ll all be i n one nice
21 l i ttle chunk.

22 MS. FUNDERBURK: Madam Court Reporter,
23 can you hear okay?

24 THE COURT REPORTER: It' s a l i ttle
25 qui et.

1 MR. FRIEDMAN: All right. So
2 basically, what I was saying was that we are going to
3 do four or five preliminary questions to set the stage
4 for the confidential questions, and then the
5 confidential questions have been lumped together so
6 they will take place in one fell swoop, and we will
7 then let the Court unseal the courtroom, if you will.

8 MS. FUNDERBURK: Is there anybody on
9 the Webex or in the room that has not signed a
10 confidentiality provision?

11 Mr. Spivey, as far as the folks that you
12 have observing today, is there anyone -- and I'll do
13 what I did last time and list off everyone that's
14 here -- is there anyone who has not been a party?

15 MR. SPIVEY: Everyone we have here has
16 signed the confidentiality acknowledgment.

17 MS. FUNDERBURK: Okay. And I'll do the
18 same as before. I'll do a warning and do a roll call.

19 Mr. Friedman, is there anyone here on behalf
20 of DOI or anyone you don't recognize who has not
21 signed regarding the confidentiality provisions?

22 MR. FRIEDMAN: Your Honor, everybody
23 appears to have signed, including those DOI employees
24 who are on the link.

25 MS. FUNDERBURK: Okay. And

1 I understand Madam Court Reporter has signed as well.

2 Just a reminder -- and I'll read off the
3 names of the folks that are attending via Webex, and
4 then I'll ask everyone who's present to state their
5 name.

6 As a reminder, when we go into the
7 confidential session, you are bound by the provisions
8 of the protective order in this matter. Information
9 that is subject to the protective order is not to be
10 disclosed. If it is disclosed, then a referral may be
11 made to Wake County Superior Court for potential
12 contempt -- a potential contempt action, so it is
13 important that everyone here adhere to the provisions
14 of the protective order.

15 As to those attending remotely, I see
16 Dr. Zanjani, Mr. Inman, SH -- who is SH?

17 MS. WHARRY: Sherri Hubbard.

18 MS. FUNDERBURK: Sherri Hubbard, Allan
19 Schwartz, Paul Anderson, Garrett Halford are attending
20 remotely.

21 If I could get you to go just in order and
22 state your name for the record, please.

23 MR. SPIVEY: Micky Spivey.

24 MR. BEVERLY: Brian Beverly for the
25 Rate Bureau.

1 MR. ERICKSEN: Paul Ericksen from
2 Veri sk.
3 MR. APPEL: David Appel .
4 MS. MAO: Mi nchong Mao.
5 MS. WILLIAMS: Rebecca Williams.
6 MS. BILIOURIS: Joanna Bilioris.
7 MR. CHAPPELL: Jared Chappell .
8 MS. FUNDERBURK: Mr. Friedman?
9 MR. FRIEDMAN: Terence Friedman.
10 MS. CAVANAUGH: Lauren Cavanaugh.
11 MS. WHARRY: Shannon Wharry.
12 MR. CONLEY: Kevin Conley.
13 MS. THORNTON-HALL: Sharon
14 Thornton-Hall .
15 MR. FLOYD: Fred Floyd [phonetic].
16 MS. FUNDERBURK: Okay. Thank you. So
17 we have the names of everyone on the record in
18 attendance.
19 And again, I ask you to be mindful of the
20 provisions of the consent order that you have all
21 signed onto regarding the provisions of this hearing
22 and the evidence that will be confidential .
23 Oh, and Mr. Kohan is present, as well , and
24 Ms. Pierce. Thank you.
25 So as I understand it, we're going to have

1 Ms. Cavanaugh testify as to a few questions, and then
2 we will close the courtroom. That's correct,
3 Mr. Friedman?

4 MR. FRIEDMAN: Yes, ma'am.

5 MS. FUNDERBURK: Okay. Is there
6 anything else we need to address before we proceed?

7 I do have some questions about the handout,
8 Mr. Friedman. You said this is not an exhibit?

9 MR. FRIEDMAN: It is an -- the handout
10 was just so that -- it is included in what is marked
11 as Exhibit 6 in the notebook. Particularly, it's in
12 the -- in Exhibit 6, we put the confidential exhibits
13 on a Zip drive. It's among those confidential
14 exhibits.

15 The reason I printed it out -- or, rather,
16 Ms. Wharry printed it out -- is just so everyone can
17 have a hard copy in their hand at the same time that
18 she pulls up the document on screen. But it's not
19 meant to be entered as an exhibit. It's already in
20 Exhibit 6. It's just for point of reference of
21 something that you may not have time to go look in the
22 Zip drive.

23 MS. FUNDERBURK: All right. Exhibit 6
24 has not been entered into the record yet?

25 MR. FRIEDMAN: No.

1 MS. FUNDERBURK: Is the plan to enter
2 Exhibit 6 into the record?

3 MR. FRIEDMAN: Yes, your Honor. We
4 have a couple more talks due with opposing counsel,
5 and then what I was thinking was entering all of the
6 DOI's exhibits that we rely on on redirect of the
7 witness --

8 MS. FUNDERBURK: Okay.

9 MR. FRIEDMAN: -- Ms. Cavanaugh.

10 MS. FUNDERBURK: All right. So the
11 plan is that there will be a sort of global request
12 for admission of documents at some point that will
13 include this. So you are going to ask that officially
14 be brought into the record?

15 MR. FRIEDMAN: Yes, your Honor.

16 MS. FUNDERBURK: Okay.

17 Mr. Spivey, any commentary?

18 MR. SPIVEY: No, your Honor. My
19 understanding is that this is part of the discovery
20 responses that we provided, and it is within the
21 portion of those responses that are marked
22 confidential.

23 MS. FUNDERBURK: I just want to make
24 sure that if we're relying on something for testimony,
25 that it actually is part of the actual record.

1 All right. With there being nothing else
2 that we need to address, Mr. Friedman, please call
3 your witness.

4 MR. FRIEDMAN: I'd like to recall
5 Lauren Cavanaugh to the stand.

6 MS. FUNDERBURK: Ms. Cavanaugh, please
7 approach.

8 Whereupon,

9 LAUREN CAVANAUGH,
10 having first been duly affirmed,
11 was examined and testified as follows:

12 CONTINUED DIRECT EXAMINATION BY COUNSEL FOR THE
13 NORTH CAROLINA DEPARTMENT OF INSURANCE
14 BY MR. FRIEDMAN:

15 Q. Ms. Cavanaugh, good morning.

16 A. Good morning.

17 Q. Do you recall, right before we broke on
18 November 1st, 2024, that we were discussing the
19 validation efforts of the AIR and RMS models that
20 Ms. Mao testified she engaged in?

21 A. Yes.

22 MR. FRIEDMAN: And, your Honor, I don't
23 think we're going to quote from this, but just so
24 everyone knows where I am, I'm looking now at
25 Exhibit 12, pages 55 through 61. These are the ASOPs,

1 and in particular, this is ASOP 38.

2 BY MR. FRIEDMAN:

3 Q. My question is, does ASOP 38 set forth the
4 guidelines that actuaries should follow in using a
5 hurricane model?

6 A. Yes.

7 Q. Okay. And does ASOP 38 apply for the use of
8 a catastrophe model whether it's being used for
9 selecting a catastrophe provision or the net cost of
10 insurance or the compensation of assisted pricing?

11 A. Yes.

12 Q. And are you aware that Ms. Mao provided
13 certifications claiming she complied with ASOP 38 in
14 her use of the RMS and AIR models?

15 A. Yes.

16 Q. At page 59 of the ASOP 38, looking at
17 Exhibit 12, I'm going to read into the record the
18 Section 3.5, "Output Validation" (as read):

19 "The actuary should validate that
20 the output reasonably represents
21 that which is being modeled.

22 Depending on the intended purpose,
23 output validation may include the
24 following:

25 "a. comparing output to those of

1 an alternative model (s), where
2 appropriate;
3 "b. comparing the output produced
4 by the catastrophe model with
5 historical observations, if
6 applicable;
7 "c. comparing the consistency and
8 reasonableness of relationships
9 within the output; and
10 "d. evaluating the reasonableness
11 of changes in the output due to
12 variations in the user input."

13 Now, Ms. Cavanaugh, do you recall Ms. Mao
14 testifying about how she validated the RMS and AIR
15 models by comparing their results to results from
16 CoreLogic -- that's another model -- and Aon's own
17 hurricane model impact forecasting?

18 A. Yes.

19 Q. Okay. Do you recall that in validating the
20 AIR and RMS models, Ms. Mao reviewed the CoreLogic
21 output of frequency and severity for hurricanes?

22 A. Yes.

23 Q. Did -- are you aware of whether the Rate
24 Bureau provided the Department of Insurance any of the
25 CoreLogic frequency and severity results broken out?

1 A. It did not.

2 Q. Do you recall that Ms. Mao gave the
3 Commissioner of Insurance some aggregated information
4 comparing four models: AIR, RMS, Impact Forecasting,
5 and CoreLogic?

6 A. Yes.

7 Q. And did any of those numbers -- those
8 aggregated numbers -- analyze the separate components
9 of the models, including, for example, event
10 generation, local intensity and how to calculate it,
11 damage calculations, and loss calculations?

12 A. It did not.

13 Q. All right.

14 MR. FRIEDMAN: Your Honor, we'd like to
15 close the courtroom at this point.

16 MS. FUNDERBURK: I believe we've had
17 one additional person come in, but I believe you had
18 previously signed the consent agreement. Could you
19 just state your name, sir.

20 MR. CHAPPELL: Jared Chappell.

21 MS. FUNDERBURK: Thank you.

22 Again, as a reminder to everyone present,
23 including witnesses and court staff, the courtroom is
24 now closed. The information that will be discussed is
25 subject to the protective order signed by those

1 present, and violation of that consent order could
2 result in a referral for contempt to the Wake County
3 Superior Court.

4 Please proceed, Mr. Friedman.

5 (Beginning of Confidential Session.)

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14 MS. FUNDERBURK: And my apologies,
15 Madam Court Reporter, if you could notate the
16 transcript between where we began the confidential
17 session and where we ended the confidential session,
18 I would appreciate it. Thank you.

19 THE COURT REPORTER: Okay.

20 MS. FUNDERBURK: Thank you.

21 Please proceed, Mr. Friedman.

22 CONTINUED DIRECT EXAMINATION BY COUNSEL FOR THE
23 NORTH CAROLINA DEPARTMENT OF INSURANCE
24 BY MR. FRIEDMAN:

25 Q. Ms. Cavanaugh, could you turn to page 39 of

1 your prefile testimony.

2 A. Okay.

3 Q. I'm sorry, I misdirected you. It should be
4 page -- yes, page 39. Looking at line 2, is there a
5 correction you'd like to make to that, or a
6 clarification?

7 A. Yes, a clarification. The sentence now reads
8 "The exposure trends selected were set equivalent to
9 the premium trends selected are shown on D20 of the
10 filing."

11 I think it would be clearer if the word
12 "which" was added, so the new sentence would be "The
13 exposure trends selected were set equivalent to the
14 premium trends selected, which are shown on D20 of the
15 filing."

16 Q. All right. And would you turn to page 48 in
17 your prefile testimony. I'm particularly looking at
18 line 21. Is there a clarification you'd like to make
19 to that line?

20 A. Yes. I'd like to clarify the first sentence
21 to be "I note that the model results include perils
22 other than hurricanes."

23 Q. All right. Could you turn to LJC-14, which
24 is in your prefile testimony, Exhibit 2.

25 A. Okay.

1 Q. And on LJC-14, could you -- do you have a
2 clarification?

3 A. Yes. This exhibit is related to premium
4 trend factors, and there are a few labels that say
5 "Loss Trend" that should state "Premium Trend." So
6 just replacing where it says "Loss Trend" with
7 "Premium Trend" in the labels. The numbers stay the
8 same.

9 Q. Does that change -- affect any numbers
10 related to the calculation of premium trend?

11 A. No.

12 Q. Okay. Could you turn to LJC-20.

13 A. Okay.

14 Q. Do you want to make any clarifications to
15 that exhibit to your prefile testimony?

16 A. Yes. I realized that I did not provide the
17 source information for columns 1 through 3.

18 Q. All right. And was the source for those the
19 response from the Department -- excuse me, the
20 Bureau's response to the Department's Data Request
21 No. 1, Question 49?

22 A. Yes.

23 Q. Okay.

24 MR. FRIEDMAN: Your Honor, the Data
25 Request 1 is -- responses by the Bureau to the

1 Department's Formal Data Request 1 are at DOI-4, and
2 those are in Book 3.

3 BY MR. FRIEDMAN:

4 Q. I may have just asked this -- sorry if I'm
5 repeating myself -- but changing the labels for the
6 columns doesn't make any change to your calculation of
7 the premium trend?

8 A. No, it just states the source.

9 Q. Okay.

10 A. I'm sorry, you're asking about the premium
11 trend.

12 So going back to the prior exhibit, no
13 changes to my conclusions. It was just the labels.

14 Q. Okay. I had already asked that, excuse me.

15 So you testified in the first day of your
16 testimony about various consulting roles you've played
17 as an actuary. In providing consultation, have you
18 provided services to insurers?

19 A. Yes. While at Navigant and FTI, I provided a
20 variety of different services to insurance companies.
21 And in my current role, I provide services to
22 insurance companies, mostly in relation to audit
23 support.

24 Q. And at Navigant and FTI, did you also provide
25 services to reinsurers?

1 A. I did.

2 Q. And have you provided pricing analyses or
3 assisted in preparing indications used by insurers for
4 rate filings?

5 A. Yes. I have provided rate indication
6 analyses for commercial lines in providing services to
7 insurance companies as they prepare their rate
8 filings.

9 Q. Okay. Do you have experience providing
10 pricing analyses for reinsurers?

11 A. I do. So while at Navigant and FTI
12 Consulting, I provided what was usually termed as peak
13 season reinsurance pricing, where I would essentially
14 step into the role of the actuary for -- I did this
15 for three different global reinsurers. And in that
16 role, I reviewed reinsurance submissions, I worked
17 with the underwriters, and I ultimately provided an
18 estimate of the appropriate pricing for those
19 reinsurance treaties.

20 I also provided -- this was at FTI -- for a
21 reinsurer who acquired legacy books of business --
22 provided reinsurance pricing analyses for them as
23 well.

24 Q. Okay. Do you recall Ms. Mao testifying that
25 the actual premiums paid for reinsurance may not be

1 helpful to the Commissioner's actuaries?

2 A. I do recall that.

3 Q. Okay. Do you agree that actual premiums paid
4 for reinsurance would not have been helpful to you in
5 reviewing the modeled reinsurance that Ms. Mao
6 calculated?

7 A. No. And I reference this in my prefile
8 testimony.

9 Q. And turning to Exhibit 2, page 47, is that
10 specifically where you explain why actual reinsurance
11 premium data would be relevant?

12 A. Yes. And I'll just read what I stated in
13 prefile testimony.

14 So after referencing ASOP No. 29, starting
15 at line 29, I state that (as read):

16 "Consistent with this actuarial
17 standard and my experience,
18 insurers typically support this
19 expense" -- the reinsurance
20 expense -- "by disclosing the
21 reinsurance premiums actually
22 charged and offsetting by the
23 expected recoveries."

24 In addition, there's typically an allocation
25 of reinsurance costs of a particular program in a

1 state under review, and insurers commonly support that
2 allocation by disclosing the allocation formula and
3 how it was derived.

4 Q. Do you recall Mr. Ericksen testifying that --
5 well, let me strike that.

6 Do you recall Mr. Anderson testifying that
7 it would be laborious but still possible for the
8 Bureau to obtain reinsurance premium data information
9 from its members?

10 A. I believe so, yes.

11 Q. Okay. And do you recall Mr. Ericksen
12 ultimately agreeing with him?

13 A. Yes.

14 Q. Okay. Regardless of whether that data could
15 be compiled quickly -- and that is, specifically,
16 reinsurance premium data from the Rate Bureau
17 homeowners members -- would it have been helpful to
18 review that from at least, say, the top ten insurers
19 and then to compare -- to receive, for instance, that
20 list of the top ten insurers' actual premium costs so
21 that you could compare that to the reasonableness of
22 Ms. Mao's modeled reinsurance numbers?

23 A. Yes. So Ms. Mao uses a model to estimate
24 reinsurance premiums and to estimate a reinsurance
25 structure; and so even if all of the information

1 for -- I think it's 110 insurers, which is too
2 laborious -- even if we had the top ten insurers, we
3 could use that data to then validate, or see if
4 there's validation of the modeled results for both the
5 reinsurance structure as well as the estimated
6 premium.

7 Q. All right.

8 MR. FRIEDMAN: Your Honor, I'm going to
9 be going to the October 10th, 2024, transcript,
10 Volume IV, in the a.m. session. And on page 592,
11 particularly, I'm going to read an excerpt from
12 Ms. Mao's testimony at line -- beginning on line 5.

13 BY MR. FRIEDMAN:

14 Q. Ms. Mao testified that (as read):

15 "The data call would cause
16 significant delays in the data,
17 and by the time you would use the
18 data in the rate filing, the data
19 could be two and three years old."

20 Do you see that testimony, Ms. Cavanaugh?

21 A. I do.

22 Q. And do you understand that testimony to be
23 referring to actual reinsurance premium data from the
24 Rate Bureau members?

25 A. Yes.

1 Q. Okay. In your experience, when you're
2 reviewing filings for insurance officials, and you
3 request reinsurance information from an insurer, how
4 long does it typically take for that insurance company
5 to provide that information?

6 A. So in reviewing a filing, I would typically
7 provide that in the form of an objection, and it would
8 be returned in an average of one to two weeks.

9 Q. And is the reinsurance information you're
10 typically asking for specifically information about
11 the reinsurance premiums paid by the insurer?

12 A. Yes. And like I stated earlier, there would
13 typically be an allocation to the particular state or
14 program.

15 Q. Based on your experience, if the North
16 Carolina Rate Bureau were to ask its members, or at
17 least the top ten North Carolina homeowners insurers,
18 for data on actual reinsurance premiums, how long
19 should the Rate Bureau need to compile, review, and
20 provide that data to the DOI?

21 A. So my experience is based on one insurer at a
22 time, which I said was about one to two weeks. So if
23 requesting, let's say, ten, you know, maybe it would
24 take four to six weeks to compile that and provide it.

25 Q. Okay. Turning to Exhibit 12 -- and this will

1 be at page 92 of Exhibit 12. And specifically,
2 Section 3.6.2 of ASOP 56. And I'm going to read that
3 into the record. (As read):

4 "The actuary should validate that
5 the model output reasonably
6 represents that which is being
7 modeled."

8 So my question for you, Ms. Cavanaugh, is,
9 without any data showing the actual -- well, let me
10 ask this first: Did the Rate Bureau provide any data
11 showing the actual reinsurance structure and pricing
12 for any of its members?

13 A. No.

14 Q. And without that data, are you able to
15 validate Ms. Mao's model?

16 A. No. And that's related to this actuarial
17 standard. Model output validation is done with the
18 actual data.

19 Q. So you were unable to complete your own
20 duties under Section 3.6.2?

21 A. That's correct.

22 And I will mention that we did request the
23 information that Ms. Mao used, but it was stated, as
24 I recall, that it was proprietary information.

25 Q. Is it your opinion that Ms. Mao's models

1 determining the net cost of reinsurance are not
2 sufficiently supported?

3 A. My opinion is that they are not sufficiently
4 supported.

5 Q. Do you recall Mr. Ericksen's testimony that
6 it would allegedly be too difficult for the Rate
7 Bureau to ask members to allocate their reinsurance
8 premiums to North Carolina because the members might
9 use different allocation methods?

10 A. I recall that.

11 Q. Okay. Would it be possible for the Rate
12 Bureau to send in its data calls a request for
13 allocated reinsurance premiums and specify a
14 particular method that the members should use in
15 allocating those premiums?

16 A. Yes, I believe that would be possible.

17 Q. And I believe you've testified, as did
18 Mr. Anderson, that many national insurance companies
19 already have to provide those allocated numbers along
20 with their homeowners filings in other states?

21 A. Yes.

22 Q. So if we could turn to the transcript from
23 October 8th, 2024. And this is Volume II, in the p.m.
24 And we're going to page 288. I'm looking at lines 18
25 through 21. I'll read into the record Mr. Anderson's

1 testimony. (As read):

2 "It's not what actuaries do. We
3 don't introduce new data into a
4 filing that's already been
5 submitted. That's a whole
6 separate analysis. It's a whole
7 separate filing."

8 Is that consistent with your experience
9 reviewing -- or working on insurers' rate filings?

10 A. I believe Mr. Anderson is discussing from the
11 perspective of the filer. But from the perspective of
12 the reviewer, we often will request -- if we see that
13 there's some outdated data, we will request updated
14 data and use that in forming our conclusion on whether
15 or not the request is justified.

16 Oftentimes the filer will provide that with
17 no update to their filing, and it will be, you know,
18 approved accordingly. Sometimes filers will choose to
19 update their filing, but that's not necessary.

20 Q. Okay. Just generally, with regard to
21 Mr. Schwartz, did you coordinate the drafting of your
22 prefile testimony with Mr. Schwartz in any way?

23 A. No.

24 Q. Did you discuss what your indications -- or
25 your preliminary indications were with Mr. Schwartz at

1 all before the DOI submitted your prefile testimony
2 and Mr. Schwartz' prefile testimony to the hearing
3 officer?

4 A. No.

5 Q. And did you see a copy of his draft prefile
6 testimony before the Department submitted it to the
7 hearing officer?

8 A. No.

9 Q. Okay. Do you recall Mr. Ericksen's testimony
10 that because the Rate Bureau's indication for --
11 actually, let's just turn to the testimony. I think
12 it would be easier there.

13 So we're turning to the testimony from
14 October 24th, 2024. And this is in Volume XII, in the
15 a.m. And I'm turning to page 1135, beginning on
16 line 9. (As read):

17 "The premium side, which is the
18 exposure side, which is the other
19 half of it -- picture -- you need
20 to do rate analysis. That's where
21 it's not as simple as the
22 exposure. We do it on full -- we
23 look at it on a full coverage. So
24 on the loss side, it would be --
25 it could be isolated, but on the

1 full exposure side, I don't think
2 that the data is fairly available
3 to do that -- is my
4 understanding."

5 Ms. Cavanaugh, did you understand this
6 particular paragraph in Mr. Ericksen's testimony to be
7 referring to the possibility of breaking out the beach
8 plan exposure data from the voluntary market data?

9 A. Yes.

10 Q. Okay. Do you believe there are other
11 approaches the Rate Bureau could have taken to prepare
12 its indication so that it could split out the beach
13 plan exposure side from the voluntary market data?

14 A. Yes. As Mr. Ericksen testified, the Bureau
15 prepared their indication on a full coverage basis.
16 However, there are other approaches, such as splitting
17 out wind versus ex-wind; and I believe that if you did
18 that, then you could address the issue that he's
19 describing here.

20 Q. All right.

21 MR. FRIEDMAN: Your Honor, that's all
22 I have on direct for Ms. Cavanaugh.

23 MS. FUNDERBURK: Thank you.

24 Mr. Spivey, do you need a break before we
25 proceed with cross?

1 MR. SPIVEY: I think that would be
2 appropriate, your Honor.

3 MS. FUNDERBURK: Okay. Will ten
4 minutes be sufficient?

5 MR. SPIVEY: If that's what you want to
6 take for the morning break, that's fine.

7 MS. FUNDERBURK: Okay.

8 When you return, Ms. Cavanaugh, just a
9 reminder you will continue to be under oath when you
10 take the stand.

11 We are in recess for ten minutes. We will
12 return to hearing at 10:50. Thank you. We're in
13 recess.

14 (Recess taken from 10:39 a.m. to 10:52 a.m.)

15 MS. FUNDERBURK: Counsel, are you ready
16 to proceed?

17 MR. FRIEDMAN: Yes, your Honor.

18 MR. SPIVEY: Yes, your Honor.

19 MS. FUNDERBURK: Just before we resume
20 with your cross, where are we with the errata sheets?

21 MR. BEVERLY: Still on process, your
22 Honor. Several of our witnesses are complete, but a
23 number are not. But we remain engaged in that.

24 MR. FRIEDMAN: And I've already
25 submitted errata. There's other ones since I

1 submitted them three weeks ago that I've come upon,
2 but I don't know if it's too late to submit those.

3 MS. FUNDERBURK: We need them.

4 MR. FRIEDMAN: Okay. So you need the
5 additional ones I've come upon since?

6 MS. FUNDERBURK: Yes.

7 MR. FRIEDMAN: Okay. And to be clear
8 also, we waived the reading of the -- we are waiving
9 the reading of the transcripts by -- well, I guess
10 we'll talk when Ms. Cavanaugh is over. But we are not
11 responsible for reading the transcripts for those
12 Bureau witnesses that we called in our direct.

13 MS. FUNDERBURK: Thank you.

14 Is there anything we need to address before
15 we resume? Okay.

16 Ms. Cavanaugh, I'll remind you that you
17 continue to be under oath.

18 Mr. Spivey, please proceed with your cross.

19 (Continued on the following page.)

20 CROSS-EXAMINATION BY COUNSEL FOR THE

21 NORTH CAROLINA RATE BUREAU

22 MR. SPIVEY: Thank you, your Honor.

23 BY MR. SPIVEY:

24 Q. Good morning, Ms. Cavanaugh.

25 A. Good morning.

1 Q. It's been a while getting to this point.

2 A. Yes.

3 Q. Ms. Cavanaugh, when were you first contacted
4 about working for the North Carolina Department of
5 Insurance in connection with this rate filing?

6 A. I believe it was January or February of this
7 year.

8 Q. And who were you contacted by?

9 A. Terence Friedman.

10 Q. When were you actually retained by the
11 Department in connection with this rate filing?

12 A. I don't recall the exact date.

13 Q. Was it shortly after first being contacted,
14 or was there some period of time between those events?

15 A. There was a period of time, a couple of
16 months.

17 Q. Now, am I correct in assuming that you were
18 provided a copy of the homeowner rate filing that is
19 the subject of this proceeding?

20 A. Yes.

21 Q. And when was that?

22 A. I believe I received that in April -- maybe.
23 I don't want to speculate, but sometime in the spring
24 of this year.

25 Q. And I assume that would have been after you

1 had been retained? Strike that.

2 Do you have an actual written contract with
3 the Department?

4 A. Yes.

5 Q. Okay. So when I say "retained," assume we're
6 talking about when you have in place a signed
7 contract. Would you have been provided the filing
8 after that?

9 A. So I recall reviewing some public documents
10 before being retained.

11 Q. Okay. By "some public documents," to what
12 are you referring?

13 A. I'm just trying to recall if I reviewed the
14 public -- any public documents related to the rate
15 filing, and I honestly can't recall.

16 Q. Okay. By "public documents," are you
17 referring to the fact that this rate filing is
18 published on the Rate Bureau's website?

19 A. Yes.

20 Q. So is that where you would have accessed it?

21 A. Yes.

22 Q. When you were provided the copy of the rate
23 filing, did you receive a hard copy or an electronic
24 copy?

25 A. I believe I got the original copy from the

1 Rate Bureau's website, so it would have been
2 electronic.

3 Q. So that would have included the entirety of
4 it, which -- when I think of the hard-copy version,
5 there are two binders, one binder containing,
6 essentially, Section F of Exhibit RB-1, which is
7 primarily the model output. Do you recall what I'm
8 referring to?

9 A. Yes.

10 Q. So you obtained all of that?

11 A. Yes.

12 Q. Were you provided a copy of the document
13 titled "Notice of Hearing"?

14 A. Yes.

15 Q. Did you participate in any manner in the
16 preparation of that document?

17 A. I don't recall participating in that Notice
18 of Hearing document.

19 Q. Do you recall when you were first provided
20 that document?

21 A. I recall that was provided to me when it was
22 produced.

23 Q. So you received just a final copy of the
24 document that was issued?

25 A. Yes.

1 Q. Now, did you participate in any meetings with
2 Department personnel or consultants where the subject
3 of the meeting was this homeowner rate filing?

4 A. Yes.

5 Q. How many such meetings did you participate
6 in?

7 A. During what time period? Until today?

8 Q. Well, let's narrow it down. How many such
9 meetings did you participate in prior to submitting
10 your prefile testimony?

11 A. I don't recall the exact number of meetings.
12 And I should clarify, those were all virtual meetings.

13 Q. In the meetings that you're referring to,
14 were the same people in attendance from the Department
15 at each of those meetings?

16 A. Not the exact same in every single meeting,
17 no.

18 Q. Am I correct in assuming that some of the
19 meetings, or maybe all of the meetings, included
20 Department counsel?

21 A. Yes.

22 Q. And did any of the meetings include personnel
23 other than Department counsel?

24 A. Yes.

25 Q. And who were those?

1 A. I recall meeting with some of the actuaries
2 at the Department.

3 Q. Can you name those?

4 A. Kevin Conley and Garrett -- what's his last
5 name? -- Halford, I believe.

6 Q. Okay. Is that all? I mean, is that all the
7 actuaries?

8 A. I recall meeting with -- prior to being
9 retained, meeting with Rick, the chief actuary -- and
10 this was all, you know, with Department counsel
11 present -- and also Sherri Hubbard.

12 Q. Was Allan Schwartz present in any of the
13 meetings in which you participated with any of the
14 Department personnel?

15 A. There was, I believe, one or two meetings
16 where he was present.

17 Q. And we were just talking about the time
18 period prior to submitting your profile testimony.
19 Have there been any meetings of a group of Department
20 personnel with you subsequent to submitting your
21 profile testimony?

22 A. Yes.

23 Q. And would that have included anyone other
24 than Department counsel?

25 A. Yes.

1 Q. And who would be included in that group?

2 A. Kevin and Garrett. And then while we were at
3 hearing, I had discussions with Allan Schwartz, as
4 well. And Sherri Hubbard -- sorry, I'm just
5 recalling. And Sherri Hubbard was present at some of
6 those hearings, in addition to Department counsel.

7 Q. And were those meetings in person, virtual,
8 or a combination?

9 A. The only meetings that were in person was
10 when I was here earlier, at the hearing at the end of
11 October.

12 I believe Kimberly Pierce was also at a
13 couple of those meetings, as well.

14 Q. I'm sorry, who was that?

15 A. Kimberly Pierce.

16 Q. Do you have your profile testimony there
17 before you, Exhibit DOI-2?

18 A. Yes.

19 Q. I note in your testimony on page 1 that you
20 are active in the Actuarial Society; is that correct?

21 A. Yes.

22 Q. Do you attend meetings of the Casualty
23 Actuarial Society?

24 A. At times, I have, yes.

25 Q. And CAS is sort of a common acronym --

1 A. Yes.

2 Q. -- for that society; correct?

3 A. Yes.

4 Q. What types of meetings of the CAS do you
5 typically attend?

6 A. I have attended some of the annual meetings.
7 They typically have two, the fall and the spring
8 annual meeting. I have attended some of the other
9 special meetings, as well, and webinars, and I have
10 presented at some of those, as well. So they have a
11 loss reserve, a ratemaking, and a product meeting. So
12 I would say it's really a variety of those different
13 meetings that I have attended through the years.

14 Q. And have you attended what I think of or I've
15 heard referred to as the ratemaking meeting? Have you
16 attended that in the past?

17 A. Yes.

18 Q. How often?

19 A. A couple times, as I recall.

20 I should also mention -- you're asking about
21 the CAS meetings, but I've also attended the American
22 Academy of Actuaries annual meetings as well.

23 Q. So let's talk for a moment about the American
24 Academy of Actuaries. Is there a common shorthand
25 name for that group? I mean, I noticed you referred

1 to it as "the academy." Is that a common shorthand
2 name?

3 A. Yes. Either the academy or AAA.

4 Q. So do you attend meetings on some type of
5 periodic or regular basis of the American Academy of
6 Actuaries?

7 A. I do.

8 Q. Is there a particular type of meeting of the
9 academy that you attend more often than others?

10 A. The annual meeting, and then also webinars.
11 While I was -- while I held the role of VP Casualty,
12 I was involved in many of the webinars, moderating
13 them.

14 Q. Turn, if you would, to your CV, which is
15 attached to your profile testimony as Appendix 1.

16 A. Okay.

17 Q. Was your employment with Chubb Group your
18 first employment after college?

19 A. Yes.

20 Q. Your next job after working at Chubb Group
21 was at Navigant Consulting; correct?

22 A. Correct.

23 Q. And where were you located for that job?

24 A. In New Jersey. And a portion of that time,
25 the office was in Philadelphia.

1 Q. Did you work as an actuary at Navigant?

2 A. Yes. My title was managing consultant, and
3 I was a credentialed actuary providing actuarial
4 services at that time.

5 Q. What type of consulting work as an actuary
6 did you do while at Navigant?

7 A. It was a variety of different projects.
8 I did provide litigation support to insurance
9 companies, and I -- as I testified earlier, I provided
10 some peak season reinsurance pricing work while there.
11 We provided reserve analyses for reinsurance
12 companies. And there was -- like I said, it was a
13 variety of different work.

14 Q. You mentioned litigation support for
15 insurance companies. What type of litigation support
16 did you provide to insurance companies while you were
17 at Navigant?

18 A. A lot of it related to asbestos and
19 environmental liability estimation. I'm just trying
20 to recall. It's been some time since then. But
21 I know that there were some other cases.

22 And in my capacity, I did not provide expert
23 testimony, but I was on a team that was supporting the
24 expert testifier at that time.

25 Q. So the litigation that you're referring to in

1 the context of asbestos and environmental matters
2 would have been civil litigation and not rate filing
3 work at an insurance department; correct?

4 A. That's correct.

5 Q. So then 2009, according to your CV, you
6 became employed at Harleysville Insurance; correct?

7 A. That's correct.

8 Q. And you went from Navigant to Harleysville at
9 that time?

10 A. Yes.

11 Q. Where were you located for that job?

12 A. That was in Harleysville, Pennsylvania. And
13 then I -- part of that -- for part of that time,
14 I would work remote, maybe one day a week, and that
15 would be in New Jersey, at my home.

16 Q. Did you move your residence at any point from
17 New Jersey to Pennsylvania during that period?

18 A. No. I moved within New Jersey, but not
19 during -- yeah, not during the Harleysville -- while
20 I was working at Harleysville.

21 Q. So you did not reside in Pennsylvania while
22 you were working for Harleysville?

23 A. Correct.

24 Q. Now, according to your CV, your title at
25 Harleysville was statistician; correct?

1 A. That's correct.

2 Q. What was your work in that role?

3 A. So I was preparing predictive models for
4 business owner's policies -- BOP policies -- as well
5 as commercial auto.

6 Q. Any coverage other than commercial auto?

7 A. BOP -- the BOP policies, as well. I believe
8 I may have looked at some commercial, you know,
9 mid-size or larger commercial liabilities, as well.

10 Q. Did you perform any type of actuarial work at
11 Harleysville other than the work you're describing
12 there in terms of preparing predictive models for
13 those particular coverages?

14 A. So in addition to preparing the models,
15 I would participate in a variety of meetings that we'd
16 discuss the implications of those models and any other
17 insights we might draw from the data that we were
18 reviewing.

19 Q. Then you moved from Harleysville to FTI
20 Consulting in 2011; is that correct?

21 A. That's right.

22 Q. Where was your job with FTI Consulting
23 located?

24 A. For most of that time period, it was in New
25 York City. And then I converted to remote status.

1 Towards the end of, I think, 2021 and 2022 would have
2 been remote, in my home in New Jersey.

3 Q. And so did you commute into the city while
4 your office was in New York City?

5 A. Yes.

6 Q. And did you work as an actuary in your work
7 at FTI Consulting?

8 A. Yes.

9 Q. I mean, they have consulting professionals
10 other than actuaries there, do they not?

11 A. That is correct. Yes.

12 And so I would provide a variety of
13 different services. And I was a credentialed actuary
14 while I was there, providing actuarial services and
15 providing advice to insurers and reinsurers,
16 self-insureds, and other corporate entities, some of
17 which, I suppose, might be qualified by some as
18 non-actuarial services.

19 Q. And am I correct in understanding that you've
20 been employed with risk and regulatory consulting
21 since 2022?

22 A. That's correct.

23 Q. At what point in time did you obtain your
24 actuarial credentials?

25 A. I believe it's 2007.

1 Q. And in 2007, which credentials did you obtain
2 then?

3 A. Associate of the Casualty Actuarial Society.
4 And member of the American Academy of Actuaries may
5 have been in 2008. I could be wrong. One of those
6 two years for the member of the American Academy of
7 Actuaries.

8 Q. Okay. And at what point in time did you
9 become a Fellow of the CAS?

10 A. I believe that was 2008.

11 Q. So all of those credentials -- all of the
12 dates you've just described for obtaining your
13 actuarial credentials fell during the period of time
14 you were employed at Navigant Consulting; correct?

15 A. Yes.

16 Q. Now, turn, if you would, in your testimony
17 back to page 2.

18 A. Okay.

19 Q. And there at line 19, you list state
20 insurance regulators that you have served, do you not?

21 A. Yes.

22 Q. And when you say you have "served" state
23 insurance regulators, what do you mean by "served"?

24 A. I mean that I have provided actuarial
25 services related to the contracts that we have in

1 those states.

2 Q. Have you provided consulting services to the
3 North Carolina Department of Insurance prior to this
4 proceeding?

5 A. I have not, no.

6 Q. Now, you list a number of state regulators
7 there in your testimony, in lines 20 and 21, and then
8 you list various states, in your next answer, where
9 you describe reviewing rate filings. And I observed
10 that there are states listed in lines 20 and 21 that
11 are not included in your answer about states where
12 you've reviewed rate filings; correct?

13 A. Yes.

14 Q. So Connecticut, Illinois, Oklahoma, Oregon,
15 and Vermont would be states where you've provided
16 services other than something involving rate filings;
17 correct?

18 A. Correct.

19 Q. What types of services did you provide in
20 those states where you were not reviewing rate
21 filings?

22 A. It depends on the state, but it would include
23 providing actuarial specialist review related to
24 financial exams, market conduct exams, and other
25 special projects.

1 Q. So at lines 22 through 29 on that page 2, you
2 state that you oversee review of hundreds of
3 property/casualty rate filings on behalf of Alaska,
4 California, Georgia, Idaho, Minnesota, and New Jersey;
5 is that correct?

6 A. Yes.

7 Q. And you further state that those filings
8 include many filings for homeowners insurance;
9 correct?

10 A. Yes.

11 Q. Now, just to clarify, is this work -- when
12 you describe this, is this work that you are
13 performing at your -- in your role at RRC?

14 A. Yes.

15 Q. So this is the time period since you've
16 become employed at RRC?

17 A. Yes.

18 Q. You also state there that this review work
19 includes the review of the use of catastrophe models
20 and provisions for reinsurance costs, do you not?

21 A. Yes.

22 Q. Now, you reference in that answer, in lines
23 24 through 29, that you have a team that is doing this
24 work; correct?

25 A. Yes.

1 Q. For the review of the use of catastrophe
2 models, do you personally perform that work, or do you
3 have someone else on your team perform that work?

4 A. It's a mix. I have reviewed the catastrophe
5 provision and the support relating to catastrophe
6 models, and my team members have done that as well.
7 I sometimes review from a perspective of a peer-review
8 or oversight, but I've also done -- you know, provided
9 the primary review of those filings.

10 Q. So which specific catastrophe models have you
11 reviewed as part of your work that you describe in
12 that answer?

13 A. So I've reviewed the output of AIR and RMS
14 catastrophe models -- hurricane models, specifically.
15 I've reviewed the results of wildfire models.
16 Reviewed results for a number of other perils for AIR
17 and RMS models -- other perils. That's all I'm
18 recalling as I sit here today.

19 Q. So that's models for hurricane, wildfire, and
20 "other perils"?

21 A. Yes.

22 Q. Is that the way the model is described,
23 "other perils"?

24 A. No. I'm just stating that there have been
25 results for other perils that I've reviewed.

1 Q. What other perils would those include?

2 A. I'm just trying to recall. Obviously the
3 most prominent are the wildfire and hurricane. Severe
4 storms results. Earthquake. That's all I can recall
5 today. Winter storms. Sorry. Winter storms.

6 Q. So which states -- in the list that you
7 provide there at lines 24 and 25, which of those
8 states have you reviewed filings that included
9 provisions resulting from the running of hurricane
10 catastrophe models?

11 A. New Jersey and Georgia, definitely. And it
12 could be others, but I recall Georgia and New Jersey.

13 Q. And you described in your answer a few
14 moments ago that the models included the AIR and RMS
15 models. Is it true that you've reviewed results from
16 both of those models in New Jersey and in Georgia?

17 A. Yes.

18 Q. Would it be reasonable or correct for me to
19 assume that rate filings in the state of Idaho
20 typically do not include the running of a catastrophe
21 hurricane model?

22 A. Correct.

23 Q. What about Minnesota?

24 A. There have only been a few filings in
25 Minnesota that I've reviewed, but yes, I wouldn't

1 typically expect to see hurricane models be used in
2 support of a catastrophe provision.

3 Q. You say you don't recall them being used in
4 Minnesota?

5 A. Yes.

6 Q. What about Alaska?

7 A. Also I do not recall -- I do not usually see
8 hurricane model results being used in the Alaska rate
9 filings.

10 Q. Okay. Have you ever seen a filing in Alaska
11 that included a catastrophe hurricane model?

12 A. Not that I recall.

13 Q. What about in California?

14 A. Not that I recall.

15 Q. So in connection with your work overseeing
16 the review of rate filings in those six states that
17 you list on 25 of your prefile testimony on page 2, in
18 which of those states have the filings included
19 provisions for reinsurance costs?

20 A. In Alaska, Georgia, Idaho, New Jersey. And
21 I can't recall if I've reviewed net cost of
22 reinsurance provisions in California or Minnesota.

23 Q. So in Alaska, what type of reinsurance costs
24 were being included in a rate filing there, given that
25 you testified that they did not include the running of

1 a hurricane catastrophe model?

2 A. You're asking specifically related to
3 reinsurance costs?

4 Q. What reinsurance costs were being included?

5 A. So what I recall is, in reviewing NCCI
6 filings, this was workers' comp, so it would be a
7 workers' compensation insurance program.

8 Q. So if I understood you correctly, you said it
9 was a workers' comp filing. What type of reinsurance
10 costs were being included in a workers' comp filing in
11 Alaska?

12 A. It was related to the reinsurance structure
13 that was in place.

14 Q. And you said that was an NCCI filing?

15 A. NCCI.

16 Q. National Counsel on Compensation Insurance?

17 A. Yes.

18 Q. Was it a filing for loss costs or a filing
19 for full rates?

20 A. That portion was filing for full rates.

21 Q. Was that portion for the assigned risk market
22 only?

23 A. Yes.

24 Q. So what about in Idaho? What type of
25 reinsurance costs were being included in a filing in

1 Idaho?

2 A. As I recall, it would have been related to --
3 my memory is a little fuzzy, but as I recall, it was
4 related to catastrophe reinsurance, which would
5 have -- the peril would have primarily been wildfire
6 risk.

7 Q. Now, in your testimony a few moments ago, you
8 said you thought maybe California, but you couldn't
9 recall for sure?

10 A. That's right.

11 Q. Do you have any recollection of what
12 reinsurance costs may have been involved in any kind
13 of California filing that you were reviewing?

14 A. Yeah, I would expect it would be related to
15 earthquakes and wildfires. But catastrophe
16 reinsurance, I should specify.

17 Q. Now, you included Georgia in your list of
18 states where the rate filings included provisions for
19 reinsurance costs. What type of reinsurance costs
20 were being included in a filing in Georgia?

21 A. Catastrophe reinsurance.

22 Q. I'm sorry?

23 A. Catastrophe reinsurance.

24 Q. For what peril?

25 A. Chiefly, hurricane perils.

1 Q. Any others?

2 A. Not that I recall.

3 Q. What about New Jersey? You mentioned that in
4 your list of states where filings were reviewed and
5 included provisions for reinsurance costs. What type
6 of reinsurance costs?

7 A. Catastrophe reinsurance.

8 Q. For what peril?

9 A. Chiefly, hurricane. I have seen winter
10 storm, as well, for example, included in that
11 catastrophe reinsurance.

12 Q. So the filings in New Jersey, were those
13 filings made by individual companies or by some group
14 other than an individual company?

15 A. Both.

16 Q. What kind of group other than individual
17 companies have you reviewed filings in New Jersey for?

18 A. So I'm going to include in my answer reviewed
19 or oversaw the review of filings related to, in
20 addition to individual insurance companies, ISO and
21 perhaps another statistical organization. And also
22 there are some vendors that produce, you know, models
23 and file for those models, as well. So there are a
24 variety of different vendors where we reviewed those
25 rate filings in New Jersey.

1 Q. So what type of ISO filings made in
2 New Jersey have you reviewed?

3 A. I can't recall. You're asking for
4 specific --

5 Q. Were those filings for homeowners insurance?

6 A. I believe so. I can't recall.

7 Q. You believe so, but you don't recall for
8 sure?

9 A. So I want to clarify, also, that I've
10 reviewed ISO filings in relation to rate filing
11 reviews, as well as in relation to market conduct
12 analysis of ISO. And so for that latter, I do recall
13 reviewing homeowners filings -- ISO homeowners
14 filings.

15 Q. So in connection with a review for market
16 conduct purposes of an ISO filing, would that have
17 included review of some type of provision for
18 reinsurance costs?

19 A. Yes. Actually, I'm sorry, I don't believe
20 so, because they would have been loss cost filings,
21 and so the reinsurance costs would likely not be
22 included in the loss cost portion. So I just want to
23 revise my answer there.

24 Q. To your knowledge, does ISO make any filings
25 in the state of New Jersey for homeowners insurance

1 for full rates?

2 A. Not to my knowledge, but I don't really know.
3 I haven't looked into that.

4 Q. And just so that we can be clear between you
5 and me and the hearing officer, when I say "full
6 rates," I am distinguishing that from loss costs. Do
7 you understand that?

8 A. Yes.

9 Q. And can you describe the difference,
10 generally, between what a loss cost filing includes
11 and what a full rate filing includes?

12 A. Generally, a loss cost filing would just
13 include a provision for expected losses and
14 loss-related expenses, while a full rates filing would
15 include a provision for expenses and profit -- or
16 other expenses and profit.

17 Q. Then it would be correct -- strike that.

18 Am I correct now in understanding your
19 testimony as you have clarified it that any ISO
20 filings that you looked at that were submitted in the
21 state of New Jersey would not have included provisions
22 for reinsurance costs?

23 A. Yes.

24 Q. You mentioned that there were some vendor
25 filings in New Jersey; correct?

1 A. Yes.

2 Q. What types of vendors are you referring to?

3 A. Model vendors. And I also want to clarify
4 that those would not include provisions for
5 reinsurance costs. But yes, they are model vendors
6 for a variety of different uses by insurers.

7 Q. Just so that I'm clear, a few moments ago my
8 question to you was, for the state of New Jersey,
9 whether there had been filings that included
10 provisions for reinsurance costs, and you responded
11 yes, ISO filings and some vendor filings. Do you
12 recall saying that a few moments ago?

13 A. If I said that, let me clarify. My response
14 was -- I thought you were asking just review of
15 filings. If the question is related to specifically
16 review of filings that included provisions for
17 reinsurance costs, then my answer would be different.

18 Q. Okay. So what is your answer to the question
19 what filings in the state of New Jersey have you
20 reviewed that included provisions for reinsurance
21 costs?

22 A. That would be insurer filings. And at times,
23 they are a group of insurers, but it's within that
24 insurance group.

25 Q. And so I understand your answer there to be

1 individual insurance company filings and sometimes
2 groups of insurance companies; correct?

3 A. Yes.

4 Q. What types of groups of insurance companies
5 make rate filings in New Jersey, as a group?

6 A. So it would be affiliated companies that
7 would be filing as a group of insurance companies.

8 Q. So it would be a particular group of
9 companies that all fall under one particular holding
10 company or something of that nature?

11 A. Yes.

12 Q. You mentioned in your testimony about Alaska,
13 that you reviewed a filing by NCCI?

14 A. Yes.

15 Q. And that filing would have been on behalf of
16 all workers' comp writers in that particular state;
17 correct?

18 A. It would be for writers that used NCCI, yes.

19 Q. Have you reviewed any similar type filings by
20 an organization on behalf of a large group of
21 companies in New Jersey?

22 A. So by "similar," you mean that it would be
23 one entity providing a filing on behalf of multiple
24 unaffiliated insurance companies?

25 Q. Yes.

1 A. Yes, as I've testified earlier, I have
2 reviewed ISO filings that would be used by a number of
3 different unaffiliated insurance companies in
4 providing services to New Jersey.

5 Q. Okay. So that brings us back around to any
6 ISO filings in the state of New Jersey would not have
7 included reinsurance provisions; correct?

8 A. That's what I recall, yes.

9 Q. Is there a Rate Bureau or Rate Bureau-type
10 entity in New Jersey?

11 A. Not to my knowledge.

12 Q. In Georgia -- which you testified you've
13 reviewed rate filings made in the state of Georgia;
14 correct?

15 A. Yes.

16 Q. And you've testified that you've reviewed
17 filings in the state of New Jersey -- I'm sorry, in
18 the state of Georgia that included provisions for
19 reinsurance costs; correct?

20 A. Yes.

21 Q. Were the filings you reviewed in the state of
22 Georgia made by individual companies, or companies
23 within a single company group -- you know, holding
24 company -- or were they for an entity that was
25 providing rates for loss costs on behalf of a group of

1 unaffiliated carriers?

2 A. And I just want to ask that you clarify
3 whether you're referring to the filings where
4 I reviewed the net cost of reinsurance?

5 Q. Yes.

6 A. Yes. So, then, the answer would be that yes,
7 either individual insurers or a group of affiliated
8 insurers.

9 Q. In your prefile testimony at page 3, up at
10 the top, at lines 1 through 5, you state that while at
11 Navigant Consulting and FTI Consulting -- you state
12 that you led and prepared reinsurance pricing analyses
13 in connection with the services you provided to
14 reinsurer clients; correct?

15 A. Yes.

16 Q. All right. Have you personally prepared
17 reinsurance pricing analyses on behalf of a reinsurer
18 for excess of loss catastrophe reinsurance?

19 A. No, not that I recall. The services I am
20 referring to here are related to mostly casualty
21 reinsurance treaties.

22 Q. I'm sorry, could you repeat --

23 A. Mostly casualty reinsurance treaties. There
24 would have been some property involved in those, as
25 well, but not catastrophe excess of loss property

1 treaties.

2 Q. Have you led a team in preparing reinsurance
3 pricing analyses on behalf of a reinsurer for excess
4 of loss catastrophe reinsurance?

5 A. No.

6 Q. Have you ever testified in an insurance rate
7 hearing prior to this one?

8 A. No.

9 Q. Turn, if you would, to your CV again. This
10 is Appendix 1 to your prefile testimony. And there on
11 page 2, I see in the fourth bullet, under "Regulatory
12 Support," that you state (as read):

13 "Testifies in regulatory hearings
14 on matters related algorithmic
15 bias and unfair discrimination."

16 Did I read that correctly?

17 A. Yes.

18 Q. In what types of hearings do you present
19 testimony on matters related to algorithmic bias and
20 unfair discrimination?

21 A. This was in the context of hearings in
22 Colorado and in D.C. In Colorado, it was related to
23 regulations surrounding a law that's been put in place
24 in Colorado related to algorithm bias and
25 discrimination. And in D.C., it was related to the

1 research that they were doing related to algorithmic
2 bias and unfair discrimination for auto pricing.

3 Q. So how many such hearings have you presented
4 testimony on those matters in Colorado?

5 A. I believe it was just one or two.

6 Q. And when?

7 A. In 2022, I believe. Might have also been
8 2023.

9 Q. And how many in D.C.?

10 A. I believe it was two, in 2022. And also
11 maybe in 2023.

12 Q. All right. Again on page 2 of your CV, down
13 at the bottom, under the heading "Investigations and
14 Litigation Support, Including Expert Testimony," I see
15 there, in the first bullet, that you've provided
16 expert report, deposition, and trial testimony
17 concerning the pricing of a retroactive reinsurance
18 agreement related to title insurance; correct?

19 A. Yes.

20 Q. Where was that litigation?

21 A. That is the litigation that I referred to on
22 page 3; and that was in the Middle District of
23 Florida, Fort Myers Division.

24 Q. So when you refer to the matter on page 3, is
25 that the last item on page 3, "Testimony" --

1 A. Yes.

2 Q. -- "Prior Four Years"?

3 And maybe you said it and I missed it, but
4 when was that?

5 A. 2021 or 2022.

6 Q. Has that case been concluded?

7 A. I believe so, yes.

8 Q. And was your testimony given as an expert
9 witness there?

10 A. Yes.

11 Q. On page 3 of your CV there, at the top of the
12 page, there's four bullets that I gather are carrying
13 over from the heading at the bottom of page 2
14 regarding investigations and litigation support;
15 correct?

16 A. Yes.

17 Q. So the final bullet there is an item that
18 starts out "Provided litigation support"; correct?

19 A. Yes.

20 Q. Have any of those matters included testimony
21 by you?

22 A. This bullet is not referring to any matters
23 that I provided testimony for.

24 Q. Is this bullet referring to work being
25 performed by you or under your supervision at RRC?

1 A. No. It relates to work that I provided
2 litigation support for at FTI Consulting and Navigant
3 Consulting.

4 Q. Looking again at that final bullet on page 3,
5 the one that's in a larger font that says "Testimony -
6 Prior Four Years," has your CV been provided in
7 matters pending in federal court?

8 A. Not that I recall. And this was
9 United States Bankruptcy Court.

10 Q. So let me just verify. I'm familiar with
11 that type of heading regarding matters that are
12 pending in federal court, "Testimony - Prior Four
13 Years," and I was curious as to whether that's what
14 that denotes: testimony being provided in federal
15 court. Is that not what that is indicating here?

16 A. You're referring to the header "Testimony -
17 Prior Four Years"?

18 Q. Yes.

19 A. I'm referring to this case that I provided
20 testimony for.

21 Q. All right. And is it correct that that case
22 listed there under that one bullet under that heading
23 is a single case?

24 A. Yes.

25 Q. Ms. Cavanaugh, does your CV reflect every

1 entity with which you have been employed as an
2 employee over your adult life? And I say "employee"
3 as opposed to a consultant.

4 MR. FRIEDMAN: Your Honor, could we
5 just get some clarity on whether, when he says "adult
6 life," does that mean post-university? Or where she
7 may have worked in high school?

8 BY MR. FRIEDMAN:

9 Q. Ms. Cavanaugh, does your CV reflect every job
10 you've held as what you consider to be an adult?

11 A. No.

12 Q. All right. What other jobs have you held
13 that are not reflected on your CV?

14 A. So first, as an adult, I'm going to interpret
15 that as 18 years of age or older; and I did provide --
16 or I was an intern, while I was at college, at a
17 couple of different insurance companies.

18 Q. Any other jobs?

19 A. I also -- I did work at my college, RPI.

20 Q. While you were in college?

21 A. While I was in college, yes.

22 Q. All right. What about after you graduated
23 from college? Any other jobs?

24 A. No.

25 Q. Now, your CV reflects that you have a

1 bachel or of sci ence i n mathemat ics from RPI ; correct?

2 A. Yes.

3 Q. Do you have any other degrees from
4 educati onal i nsti tuti ons?

5 A. Higher educati onal , no. Thi s i s the only
6 one. And I have hi gh school di pl oma.

7 Q. Do you have any trai ni ng, educati on, or
8 experi ence as an engi neer?

9 A. I took a coupl e engi neeri ng classes i n
10 col l ege.

11 Q. Do you have any trai ni ng, educati on, or
12 experi ence as a meteorol ogi st?

13 A. No.

14 Q. Do you have any trai ni ng, educati on, or
15 experi ence as an atmospheri c scienti st or
16 cl i matol ogi st?

17 A. No.

18 Q. Have you had any trai ni ng or educati on to
19 become a l awyer?

20 A. No.

21 Q. Have you ever been empl oyed by a hurri cane
22 model i ng company?

23 A. No.

24 Q. Have you ever been engaged, i n any capaci ty,
25 by a company that has devel oped or owns a computer

1 simulation hurricane model ?

2 A. Can you repeat the question?

3 Q. I'm sorry?

4 A. Can you repeat the question, please?

5 Q. Sure. Have you ever been engaged, in any
6 capacity, by a company that has developed or owns a
7 computer simulation hurricane model ?

8 A. Your question is have I been engaged in any
9 capacity?

10 Q. Yes.

11 A. So I testified previously that I have been
12 engaged in a market conduct examination of ISO, which
13 is affiliated with AIR. And I believe that's the only
14 instance that I can recall.

15 Q. Were you engaged by ISO or Verisk in that
16 matter?

17 A. No.

18 Q. Have you ever constructed or developed a
19 damage function for use in a hurricane model ?

20 A. No.

21 Q. Have you ever constructed or developed a wind
22 field model for use in a hurricane model ?

23 A. No.

24 Q. Have you ever worked for the Florida
25 Commission On Hurricane Loss Projection Methodology,

1 either as an employee or a consultant?

2 A. No.

3 Q. Have you ever run a catastrophe model?

4 A. I've reviewed the results of catastrophe
5 models.

6 Q. So do I correctly interpret your answer to
7 mean that you have not run a catastrophe model?

8 A. So I've used the results of the catastrophe
9 model -- so I just want to make sure that I understand
10 what you mean by "run." I have used the results of --
11 you know, given particular data, the results of the
12 catastrophe model, which could be interpreted by some
13 as "running" the catastrophe model.

14 Q. Well, have you ever compiled input data for
15 the purpose of running that data through a catastrophe
16 model?

17 A. Not personally, no.

18 So what I have done is I've requested
19 certain data be used so that then I can review the
20 results of a catastrophe model.

21 Q. And in what circumstances have you requested
22 that certain data be compiled for the purpose of
23 running that data through a catastrophe model?

24 A. So as I recall, I have requested, through
25 objections in rate filings, information related to

1 model results; and I've also requested model results
2 related to the review of a potential acquisition for
3 my client that, you know, included the catastrophe
4 results.

5 Q. In the circumstances you just described,
6 where you requested through objection that various
7 model results be provided, was it your understanding
8 or your intent that catastrophe model be run for the
9 purpose of responding to your objection?

10 A. Yes. I should also clarify that I was
11 including examples. There are other examples of
12 reviewing catastrophe model output.

13 Q. So in the circumstances you were just
14 describing, what specific data did you request be
15 utilized in running a catastrophe model?

16 A. So the data would be -- so in the example of
17 rate filings, the data would be the subject exposures
18 that would be subject to the rates under review.

19 Q. But my question is what specific data were
20 you asking be put together and run through the model?

21 A. I believe just answered the question. It
22 would be the exposures that would be subject to the
23 rate request.

24 Q. And the examples you're referring to in your
25 response, did the rate filing not include model

1 results from the running of the model when the filing
2 was submitted?

3 A. What I am recalling is it would be, you know,
4 updates to the model results, if model results were
5 included in the initial filing.

6 Q. What type of updates are you referring to?

7 As I gathered from your testimony, filing
8 has been submitted; it included the results of a
9 hurricane model; and now you're posting an objection
10 requesting some other data be run through the model.

11 A. So one example that I could give is, if the
12 data was provided for, you know, all companies within
13 a group, I might ask for the results to be run for the
14 insurance company that is subject to the rates under
15 the filing, for example. That would be an example of
16 when I might request the specific catastrophe model
17 results with different data than was provided in the
18 original filing.

19 Q. And in those situations that you've just been
20 describing, your client would have been the regulator
21 for whom you were reviewing the filing; correct?

22 A. Yes, when I was reviewing rate filings, yes.

23 Q. Have you ever performed a review of a
24 hurricane catastrophe model under ASOP 38?

25 A. Can you repeat the question?

1 Q. Have you ever performed a review of a
2 hurricane catastrophe model under ASOP 38?

3 A. So as part of my review of catastrophe model
4 output, I do consider all relevant ASOPs, including
5 ASOP 38.

6 Q. The response you just gave indicates -- or at
7 least I interpreted it to be that you reviewed the
8 results of a catastrophe model as it was presented in
9 a rate filing, and that you consider your review to
10 have included all the applicable ASOPs, including
11 ASOP 38.

12 Did I correctly interpret your response?

13 A. I said what I said. I believe that that is
14 what I stated.

15 Q. Have you ever performed a review of a
16 hurricane catastrophe model under ASOP 38 for which
17 you completed an attestation regarding the review that
18 you performed?

19 A. So when I review model results, I do include
20 my qualifications, and I do discuss that actuarial
21 standards were considered. I don't recall providing a
22 separate attestation related to ASOP 38, specifically.

23 Q. So you've testified today, as well as in your
24 prefile testimony, that you oversee the review of rate
25 filings that sometimes include the use of catastrophe

1 model s. Do you see ASOP 38 reviews referenced or
2 included in those rate filings?

3 A. Just trying to recall. So there are some
4 rate filings that include discussion of the actuarial
5 standards considered. I can't recall. I mean,
6 obviously this one I, I remember reviewing that for
7 this rate filing. I can't recall for others. But
8 like I said, you know, some rate filings do discuss
9 the actuarial standards considered.

10 Q. So do I understand that you have reviewed
11 rate filings that included the use of catastrophe
12 models that did not include an ASOP 38 review?

13 A. So there have been filings I have reviewed
14 that haven't included a separate document that
15 separately attests to the review under ASOP 38.

16 Q. Have you ever worked as an employee of a
17 reinsurance company?

18 A. Yes.

19 Q. What company?

20 A. That is Munich Re. I worked as an intern at
21 Munich Re.

22 Q. Was that while you were in college?

23 A. Yes.

24 Q. Is that the only instance of working as an
25 employee of a reinsurance company?

1 A. Yes.

2 Q. Have you ever worked --

3 A. I'm sorry. Chubb also does provide
4 reinsurance, so I just want to clarify that. While
5 I was working at Chubb, there was some reinsurance
6 provided by Chubb Group.

7 Q. And that would presumably have been a
8 separate company within Chubb Group; correct?

9 A. I believe so.

10 Q. And were you employed by that separate
11 company?

12 A. No.

13 Q. Have you ever worked as an employee of a
14 reinsurance broker?

15 A. No.

16 Q. Have you ever worked as an employee of an
17 insurance company that purchased catastrophe
18 reinsurance?

19 A. Yes.

20 Q. What company?

21 A. Both Chubb and Harleysville purchased
22 catastrophe reinsurance, to my knowledge.

23 Q. While you were employed there as an employee,
24 were you involved, in any capacity whatsoever, in the
25 purchase of catastrophe reinsurance for that company?

1 A. My only involvement would be in considering
2 the reinsurance in place related to the programs that
3 I was reviewing.

4 Q. And that means you were not involved, in any
5 capacity, in the purchase of that reinsurance?

6 A. In the purchase, correct.

7 Q. Have you ever worked as a consultant of a
8 reinsurance company?

9 A. I've worked as a consultant for a reinsurance
10 company.

11 Q. What reinsurance company?

12 A. I believe that's proprietary information from
13 my prior employers.

14 Q. Who was your employer at the time?

15 A. FTI Consulting and Navigant Consulting.

16 Q. So what services did you personally provide
17 as a consultant to that reinsurance company?

18 A. There were multiple reinsurance companies,
19 and I testified to the types of services that
20 I provided earlier in my testimony related to
21 reinsurance pricing. And then I also have provided
22 services related to reserving, as well.

23 Q. Have you ever worked as a consultant for a
24 reinsurance broker?

25 A. Yes, I believe so.

1 Q. What broker?

2 A. That's proprietary information from my prior
3 employer.

4 Q. And who was your employer at the time?

5 A. FTI Consulting.

6 Q. FTI?

7 A. FTI.

8 Q. What services did you personally provide as a
9 consultant to that reinsurance broker?

10 A. My memory is a little fuzzy on this, but as
11 I recall, it was litigation support. So it was a
12 dispute between the broker and the reinsurer.

13 Q. Have you ever worked as a consultant of an
14 insurance company in connection with the purchase of
15 catastrophe reinsurance?

16 A. As I recall, in one of my reserve clients,
17 I provided some information to my client in response
18 to reinsurance -- reinsurers' questions.

19 Q. And with whom were you employed at that time?

20 A. FTI Consulting.

21 Q. Have you ever assisted in any manner in the
22 construction of a catastrophe reinsurance structure
23 for an insurance company?

24 A. No.

25 Q. Have you ever assisted in any manner in the

1 construction of a catastrophe reinsurance structure
2 for any other type of insurance organization?

3 A. Not that I recall.

4 Q. Have you ever assisted in any manner in the
5 pricing of catastrophe reinsurance on behalf of an
6 insurance company?

7 A. No.

8 Q. Have you ever assisted in any manner in the
9 pricing of catastrophe reinsurance on behalf of a
10 reinsurance company?

11 A. No.

12 Q. And have you ever assisted in any manner in
13 the pricing of catastrophe reinsurance on behalf of
14 any other type of insurance organization?

15 A. No.

16 Q. Looking again at page 3 of your CV, there's a
17 section there entitled "Predictive Modeling," is there
18 not?

19 A. Yes.

20 Q. And you testified on direct about work you
21 have done in the past regarding predictive modeling,
22 did you not?

23 A. Yes.

24 Q. And you indicated in that testimony that
25 you've done a lot of predictive modeling work during

1 your career; correct?

2 A. Yes.

3 Q. Is predictive modeling, in the sense that you
4 referenced it in your CV and as you've described it
5 and referenced it in your earlier testimony, the same
6 type of modeling that we are talking about when we
7 discuss the computer simulation models that AIR and
8 RMS have developed to provide estimates of hurricane
9 losses?

10 A. I consider the risk segmentation and
11 predictive models that I list here in my CV to be
12 different types of modeling than would be used by --
13 or different than catastrophe models, but that they
14 are both, you know, models used in insurance, and both
15 models used in developing rates for insurance
16 companies. So there are some similarities and some
17 differences.

18 MR. SPIVEY: Your Honor, if I may
19 suggest, this may be a good place to take the lunch
20 break.

21 MS. FUNDERBURK: I know we've usually
22 been doing about an hour and a half, but I'm mindful
23 of --

24 MR. SPIVEY: Maybe shorten it some?

25 MS. FUNDERBURK: Yes. Mindful of the

1 time that we're taking. So let's just do a little
2 over an hour. We'll recess until 1:30, and everybody
3 be back and ready to go, in your seats, at 1:30.

4 Ms. Cavanaugh, I'll remind you again, when
5 you return to the stand, you will continue to be under
6 oath.

7 Thank you. We're in recess until 1:30.
8 (Hearing adjourned at 12:26 p.m., with resumption
9 scheduled at 1:30 p.m.)

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1 STATE OF NORTH CAROLINA)
2 COUNTY OF ORANGE) C E R T I F I C A T E

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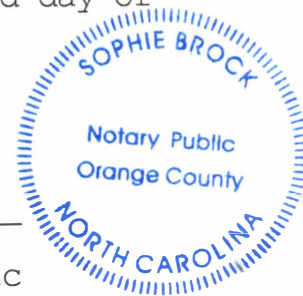
4 I, Sophie Brock, Notary Public in and for the
5 State of North Carolina, do hereby certify that the
6 above hearing was taken and transcribed by me; and that
7 the foregoing pages are a true and accurate transcript
8 of the testimony of said witnesses. I further certify
9 that the persons were present as stated

10 I further certify I am not of counsel for or
11 in the employment of any of the parties to this
12 action, nor am I interested in the result of said
13 action.

14 IN WITNESS WHEREOF, I have hereto set my hand
15 and affixed my official notarial seal, this 2nd day of
16 December, 2024.

17
18 Sophie Brock

19 Sophie Brock, Notary Public
20 Notary Number: 200834000001
21 My commission Expires: 12/3/2028



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