

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 11 - A.M. SESSION

Raleigh, North Carolina

October 8, 2024

9:00 a.m.

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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 8th of October, 2024, at 9:00 a.m., before Renee M. Habrack, RPR, and Notary Public.

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

MS. FUNDERBURK: Good morning, everyone.

MR. BEVERLY: Good morning, Your Honor.

MR. FRIEDMAN: Good morning.

MS. FUNDERBURK: I am going to adjust my microphone a little bit. I understand I was still a little quiet yesterday.

Good morning. We are back on the record. It is Tuesday, October 8, 2024. We are 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.

I will remind everyone assembled that courtroom decorum is to be observed. This means noise is to be minimized. If you need to have conversation, please take that outside. Minimize any type of noise activities. Any noise that you can make can interfere with the witness's concentration, can interfere with the recording, and we want that minimized. If you have your cell phone with you, please put that on silent or vibrate or turn it completely off.

Counsel, before we resume the Rate Bureau's presentation, are there any housekeeping matters we need to address?

1 MR. FRIEDMAN: I think, Your Honor,
2 yesterday we discussed with opposing counsel, sort of,
3 after they've had a chance to review all of the
4 exhibits that we have given them, perhaps tomorrow or
5 Thursday, we would make sort of omnibus submission of
6 the exhibits to you. And if you'd be willing to take
7 them at that time all at once, that would be good. But
8 they still understand we need to review the ones that
9 we've given a copies of.

10 MS. FUNDERBURK: Mr. Spivey, any
11 comment?

12 MR. BEVERLY: No, we agree, Your Honor.
13 There is one interim matter, however, and that is
14 relative to witness George Zanjani. Dr. Zanjani
15 obviously finished his testimony yesterday. It was our
16 intention to introduce the exhibits relative to his
17 testimony at the time. I consulted with counsel and
18 with -- if Your Honor please, we would move to
19 introduce Exhibit RB-22, the prefiled testimony of
20 George Zanjani; RB-23, Dr. Zanjani's CV; RB-24, the pro
21 forma statutory rate of return; and RB-25, sample of
22 findings on the private company discount. We would
23 move those into evidence at this time.

24 MS. FUNDERBURK: Can I get those numbers
25 again?

1 MR. BEVERLY: Yes, ma'am. RB-22,
2 prefilled testimony; RB-23, Dr. Zanjani's CV; RB-24, the
3 pro forma statutory rate of return; and RB-25, sample
4 of findings on the private company discount.

5 MS. FUNDERBURK: Any objections,
6 Mr. Friedman?

7 MR. FRIEDMAN: None.

8 MS. FUNDERBURK: So admitted. Thank
9 you, Counsel.

10 (Exhibits RB-22 through RB-25 were
11 marked into evidence.)

12 MR. BEVERLY: Thank you, Your Honor.

13 MS. FUNDERBURK: And my understanding is
14 I will hear from the parties later regarding more of a
15 global request to admit all the exhibits once the Rate
16 Bureau has had an opportunity to review those things
17 presented by the Department of Insurance.

18 MR. BEVERLY: Yes, Your Honor.

19 MS. FUNDERBURK: Okay. Thank you.

20 Any other housekeeping matters we need
21 to address before resuming witness testimony?

22 MR. BEVERLY: None for the Rate Bureau,
23 Your Honor.

24 MR. FRIEDMAN: None.

25 MS. FUNDERBURK: Thank you.

1 Mr. Beverly, please proceed.

2 MR. BEVERLY: We would call Mr. Paul

3 Anderson, Your Honor.

4 PAUL ANDERSON,

5 having been duly sworn, was examined and testified as

6 follows:

7 DIRECT EXAMINATION

8 BY MR. BEVERLY:

9 Q. Good morning.

10 A. Good morning.

11 Q. Would you please state your full name for the
12 record?

13 A. Paul Anderson.

14 Q. How are you employed?

15 A. I am employed by Milliman, Inc.

16 Q. Have you been engaged by the North Carolina
17 Rate Bureau as a consulting actuary relative to this
18 filing?

19 A. Yes, I have.

20 Q. Did you supply prefiled testimony to this
21 connection with this filing?

22 A. Yes, I did.

23 Am I coming through on the mic?

24 THE REPORTER: Thank you.

25 A. Yes, I did.

1 Q. There is a notebook in front of you,
2 Mr. Anderson. Would you thumb to page -- I'm sorry, to
3 tab RB-19? Should be near the back.

4 A. I'm getting there.

5 Q. Take your time.

6 A. Okay.

7 Q. All right. Does Exhibit RB-19 appear to be a
8 complete copy of your prefiled testimony supplied in
9 this matter?

10 A. Yes.

11 Q. Would you continue and thumb to RB-20?

12 A. Okay.

13 Q. What is RB-20?

14 A. It's a copy of my CV.

15 Q. And would you, likewise, thumb to RB-21?

16 A. Okay.

17 Q. Would you identify that for the hearing
18 officer?

19 A. That's an exhibit that I put together to
20 support this filing. It relates to the contingency
21 provision.

22 MR. BEVERLY: Your Honor, at this time
23 we would move into evidence Exhibits RB-19,
24 Mr. Anderson's prefiled testimony; RB-20,
25 Mr. Anderson's CV; and RB-21, the exhibit relative to

1 the contingency provision that he prepared.

2 MR. FRIEDMAN: No objections, Your
3 Honor.

4 MS. FUNDERBURK: So admitted. Thank
5 you.

6 MR. BEVERLY: Thank you, Your Honor.

7 (Exhibits RB-19 through RB-21 were
8 marked into evidence.)

9 Q. Mr. Anderson, there are references in your
10 prefiled testimony to reliance on the work of
11 Dr. George Zanjani regarding the profit provision; is
12 that correct?

13 A. Yes, that is correct. I relied on
14 Dr. Zanjani's work related to the underwriting profit
15 provision.

16 Q. There were questions posed to Dr. Zanjani
17 yesterday regarding that reliance. Do you recall those
18 questions and Dr. Zanjani's responses?

19 A. Yes.

20 Q. Would you please tell the hearing officer
21 about your actuarial credentials?

22 A. Sure. I am a fellow of the Casualty
23 Actuarial Society, which means that I have demonstrated
24 the technical and subject matter expertise related to
25 property and casualty insurance to be fully

1 credentialed as a property and casualty actuary.

2 I'm also a member of the American Academy of
3 Actuaries, which means that I adhere to professional
4 standards and principles and code of conduct that the
5 Academy promulgates on behalf of actuaries in the
6 United States. And I am also a certified specialist in
7 predictive analytics, which is a -- demonstrates
8 specific expertise related to predictive modeling and
9 predictive analytics.

10 THE COURT REPORTER: I'm having a
11 difficult time hearing you. You're trailing off.

12 Q. I think when you turn your head, you may
13 trail off. Could you focus on speaking into the
14 microphone, please.

15 Mr. Anderson, did you adhere to those
16 actuarial principles you just described and
17 credentials, excuse me, that you just described in
18 connection with your work in this filing?

19 A. Yes, I did adhere to actuarial standards. In
20 fact, in my testimony I made reference to a few of
21 those. I referred to the statement of principles,
22 regarding property and casualty insurance rate making.
23 I also referred to Actuarial Standard of Practice
24 Number 29, which relates to expense provisions. And I
25 made reference to Actuarial Standard of Practice Number

1 30, which relates to profit and contingencies.

2 Q. You testified that you're employed by
3 Milliman, correct?

4 A. Yes, that's correct.

5 Q. Does Milliman have a peer-review process?

6 A. Yes, we do. We pride ourselves on a very
7 rigorous and consistent peer-review process.

8 Q. Would you describe that process with the
9 hearing officer?

10 A. Sure. Any work product that is developed by
11 a Milliman consultant, as part of our internal process
12 that requires an additional review by a colleague or a
13 consultant that has the relevant experience and
14 expertise related to that work product. And the
15 purpose of that, then, is to ensure reasonability of
16 that work product, as well as accuracy, and then, of
17 course, adherence to the Actuarial Standards of
18 Practice.

19 Q. And, for the record, what is Milliman?

20 A. Milliman is an international consulting firm.
21 We specialize on actuarial matters and other risk
22 related and financial concepts.

23 Q. Did you incorporate the peer-review process
24 you just described in connection with your work in this
25 filing?

1 A. Yes, I did. After drafting my testimony and
2 the exhibit that is in RB-21, I had one of my
3 colleagues peer review that. This colleague is another
4 consultant at Milliman who is familiar with North
5 Carolina property ratemaking. In fact, he works with
6 me on some of the other support and analysis that we do
7 for the North Carolina Rate Bureau. So he reviewed
8 that testimony to make sure that it was consistent with
9 the content of the filing and that it adhered to
10 Actuarial Standards of Practice.

11 Q. Is reliance on expertise of others described
12 in the Actuarial Standards of Practice?

13 A. Yes, it is. It's mentioned in several of the
14 Actuarial Standards of Practice. A couple examples are
15 in ASOP No. 1, which is an introductory ASOP; ASOP No.
16 23, which relates to data quality; and it's also
17 mentioned in ASOP No. 41, which relates to actuarial
18 communication, are just a few examples.

19 Q. When you refer to ASOPs, is that Actuarial
20 Standards of Practice?

21 A. Yes, it is.

22 Q. What are the requirements for relying on the
23 expertise of others relative to the ASOPs?

24 A. When one actuary relies on the expertise of
25 another, first they need to review that information or

1 that work product for reasonability, and then they need
2 to make sure that they communicate their reliance and
3 disclose that in an appropriate manner.

4 Q. And how did you comply with those
5 requirements in the work -- your work in this case?

6 A. So, in addition to relying on Dr. Zanjani, I
7 mentioned in my testimony that I also relied on
8 Ms. Mao, and their work products or their documentation
9 or their analysis was presented at several Rate Bureau
10 committee meetings. I participated in all of the
11 discussions at those Rate Bureau committee meetings
12 relevant to this filing. So by participating in those
13 discussions, I was able to review that their work
14 product was reasonable. So, that kind of met the first
15 standard there as far as relying on experts.

16 The other is to communicate my reliance
17 appropriately, which I did in my testimony. I
18 documented my reliance on both Ms. Mao and Dr. Zanjani
19 in my testimony.

20 Q. How many insurance rate reviews and rate
21 filings would you say you've been a part of?

22 A. Well, I've been a property casualty actuary
23 for over 31 years now. So, if I had to estimate a
24 number, I've worked on, either completed or assisted or
25 reviewed, in many hundreds of rate reviews or rate

1 filings, possibly even thousands of rate reviews or
2 rate filings.

3 Q. And in how many states have you worked on
4 rate reviews and rate filings, would you say?

5 A. I began -- real briefly, I began my career at
6 Allstate Insurance company, which is, obviously, a
7 large national writer. So, between my years at
8 Allstate and my years at Milliman, I've worked on rate
9 reviews and rate filings in every state in the country.

10 Q. And how long have you been performing or
11 assisting with rate reviews and rate filings of the
12 type at issue in this case?

13 A. I mentioned that my career so far has been
14 just over 31 years. I began in the pricing departments
15 at Allstate Insurance Company. So, in that role really
16 right out of the gate I was working on rate reviews and
17 rate filings, including homeowners' or property
18 insurance filings that would be comparable to the rate
19 filing that's applicable in this case.

20 Q. What observations are you seeing in other
21 states in recent years with respect to rate filings of
22 the type at issue here?

23 A. One of the noticeable changes, just in the
24 last few years, is a significant increase in the number
25 of rate filings. This may be initially observed coming

1 out of COVID, the number of auto filings increased
2 significantly. Companies were submitting multiple
3 filings a year, and I would say homeowners followed
4 suit shortly after that, for different reasons than
5 auto. But between the increase in severe weather
6 events, the inflationary market that we were in, and
7 just the significant increase in the replacement values
8 of homes, insurance companies needed to maintain an
9 adequate rate level, and they were submitting at least
10 annual filings, and in many instances, insurance
11 companies were submitting two or more rate filings a
12 year in states across the country.

13 Q. And, in your observation, how quickly do the
14 rate filings get approved elsewhere?

15 A. So, the time that it takes to review and
16 approve a rate filing really varies significantly from
17 state to state. That depends on the regulatory
18 requirements of the state, as well as, obviously, the
19 content of that rate filing. With -- based on publicly
20 available information, actually one of my colleagues at
21 Milliman just recently put together a database that
22 compiles all of the rate filings -- I forget what the
23 starting date is on that, but it's a number of years.
24 All rate filings for all lines of business for all the
25 states just to use for different analytic purposes.

1 And I filtered that dataset on homeowners' rate
2 increases in the last -- well, since 2020. So, it's
3 about four and a half years of filings for all the
4 states in the country. And some of the data that's
5 included in that is the date the filing is submitted,
6 and the date the filing is approved or the filing is
7 closed. There is different terminology that might be
8 used depending on the state. Then, of course, it has
9 the approved rate change in that. And, again, I was
10 focused on rate increases.

11 So, I reviewed that database for nine states
12 that are coastal states that would have similar
13 property ratemaking characteristics as North Carolina.
14 So, South Carolina, Georgia, Florida, some of the Gulf
15 Coast states, things like that, and I looked at the
16 average time from submission to approval among those
17 nine states during the four and a half year time
18 period, and the range on the average number of days was
19 from 45 days to 180 days. Of those nine states, seven
20 of them had an average less than 100 days.

21 Q. When was the last homeowners' rate filing in
22 North Carolina?

23 A. The last North Carolina homeowners' rate
24 filing was submitted on November 9th of 2020. So,
25 almost four years ago.

1 Q. And do you know when it was resolved?

2 A. It was settled on November 23, 2021. So,
3 more than a year after it was submitted to the
4 Department.

5 Q. And what was the effective date for the rates
6 included in that filing?

7 A. The effective date for that filing was
8 June 1, 2022.

9 Q. Are there any concerns raised by making a
10 rate filing, of the one at issue here, every four
11 years?

12 A. Yes, there are. Especially, I mentioned some
13 of the recent events in the homeowners' market and just
14 the industry in general about rising costs. We've seen
15 increases the last few years like we haven't seen in
16 the number of years prior to that. So, when trends are
17 increasing quickly and significantly, many insurance
18 companies will respond to that in a timely manner, and
19 they will submit rate filings, likely to increase the
20 rates on a regular basis. I mentioned that's typically
21 an annual process. So, when there is a lag of multiple
22 years between rate filings, there is definitely a
23 concern that the impacts of those trends are
24 compounding on each other year after year after year,
25 so that the effects of severe weather, the effects of

1 inflationary pressures, the effects of increasing home
2 values continue to build. To the point that when a
3 filing is eventually submitted after three or
4 four years, it's going to be a request for a very large
5 increase.

6 Q. Now, that's relative to timing of filings.
7 What about delays in the approval process, the review
8 process, do those have impact as well?

9 A. Yes. When an actuary prepares a rate
10 indication and submits a filing, they balance the
11 stability of the data with the responsiveness of the
12 data. So, that determines maybe how many years are
13 used and how much weight they give to the different
14 years. And once a filing is submitted, then, if there
15 is a delay in the review and approval of that, the
16 intended responsiveness of that filing really begins to
17 deteriorate, at least based on the data that was used
18 to support that rate filing.

19 So, to the extent trends are changing one way
20 or the other, as that filing is being reviewed, the
21 implementation of that filing cannot respond to those
22 changing trends.

23 In addition, part of the calculation process
24 for a rate indication is that actuaries will project
25 losses, expenses, and premium out into the future

1 based on a selected effective date. And when the
2 review process is delayed, that effective date often
3 can't be met because filing may still be under review,
4 which means that that projection of future costs and
5 future losses is inadequate. Now, losses and premiums
6 and exposures can trend at different rates, but that
7 whole projection process really falls short when there
8 is an increased delay in the review and approval
9 process.

10 MR. BEVERLY: Your Honor, may I approach
11 the witness?

12 MS. FUNDERBURK: Yes.

13 Q. Mr. Anderson, I'm handing you what was served
14 on the Rate Bureau earlier this year as the Notice of
15 Hearing in this case. Would you turn with me, please,
16 to page 4?

17 A. Okay.

18 Q. Would you, please, read for the record Item
19 Number 5 that appears near the top of the page?

20 A. Item 5 says, "The filing fails to adequately
21 document, explain, or justify the provisions for
22 general expenses, other acquisition expenses,
23 commissions and brokerage, taxes, licenses, and fees,
24 and loss adjustment expenses."

25 Q. With respect to the provision in this filing

1 for general expenses, was that data sufficient for your
2 review?

3 A. Yes, it was.

4 Q. Was the data in enough detail for you to
5 understand the calculations?

6 A. Yes, it was.

7 Q. With respect to the provision for commissions
8 and brokerage in this filing, was that data sufficient
9 for your review?

10 A. Yes, it was.

11 Q. And was the data in enough detail for you to
12 understand the calculations?

13 A. Yes.

14 Q. With respect to the provision for taxes,
15 licenses, and fees contained in this filing, was the
16 data provided for your review sufficient?

17 A. Yes, it was.

18 Q. And was the data in enough detail for you to
19 understand the calculations?

20 A. Yes.

21 Q. With respect to the provision for loss
22 adjustment expenses contained in this filing, was that
23 data sufficient for your review?

24 A. Yes, it was. For each of these expense
25 provisions, five years of historical experience was

1 compiled and presented and discussed among the Rate
2 Bureau committee. Five years is a common practice
3 within the industry to review that amount of historical
4 experience and the Rate Bureau or other companies will
5 often select either an average based on all five years
6 or a subset of that depending on what the indicated
7 expense provisions are. They may use the last three
8 years or they might remove some of the outliers there
9 to get a selection that represents the historical
10 average there. And that was true for all of the
11 expense provisions that we just mentioned.

12 Q. And, as you said, to put a finer point on it,
13 that was true for the loss adjustment expenses as well,
14 correct?

15 A. Yes, yes.

16 Q. So, in your expert opinion, Mr. Anderson, did
17 you feel the data and methodologies contained in the
18 filing were documented sufficiently?

19 A. Yes. The exhibit that presented the expense
20 information, historical expense experience, was
21 consistent with what I've observed in many, many
22 filings. That's a very common way that insurance
23 companies would display and present that type of
24 information.

25 Q. And were you able to understand the

1 methodologies used throughout the filing?

2 A. Yes, I was.

3 Q. Would you turn with me also in the Notice of
4 Hearing, please, to page 10.

5 A. Okay.

6 Q. And on -- in that -- on that page -- excuse
7 me -- in Section C, particularly paragraphs 1 and 2, is
8 the Notice of Hearing critical of the hurricane
9 modeling incorporated into this filing?

10 A. Yes, it is. I will just pull a few comments
11 out of the Section 2 there. It says, "The use of
12 AIR" -- I am going abbreviate a little bit -- "of the
13 AIR and RMS computer-simulation models" -- skipping a
14 little bit -- it says "the use of that is inappropriate
15 and lacks adequate explanation or justification."

16 Q. Do you work with hurricane models frequently?

17 A. Yes, I do. I will clarify that a little bit.
18 I work with the output of hurricane models on a regular
19 basis.

20 Q. Do you utilize model hurricane losses in the
21 rate reviews and rate filings work you perform for
22 other clients?

23 A. Yes, I do.

24 Q. And do you routinely see the inclusion of
25 model hurricane losses in the other rate reviews and

1 rate filings you work on?

2 A. Yes, I do. For companies in states that have
3 hurricane exposure, it is common practice within the
4 industry to rely on at least one hurricane model in
5 quantifying and estimating the risk associated with
6 hurricanes. I -- if you did the math on my years of
7 experience, I began my career in 1993, which was the
8 year after Hurricane Andrew, and then Hurricane Iniki
9 was also that year, and a couple years later was the
10 Northridge earthquake. So, not just hurricane models
11 but catastrophe models, in general, really became much
12 more prevalent in the mid-90s there. To the point,
13 that within several years, I would say, it was common
14 practice, and they were widely accepted as an
15 appropriate estimation of hurricane losses.

16 Q. Where more than one hurricane model is used,
17 how did companies incorporate the results of two
18 models?

19 A. Typically companies would use the simplest
20 approach, and they would take an average.

21 Q. Is that what was done in connection with the
22 Rate Bureau's 2024 homeowners' rate filing?

23 A. Yes, it is. The average -- the results of
24 the AIR and RMS model.

25 Q. Do you find that appropriate?

1 A. Yes, I do. Hurricane models are extremely
2 complex. Different models will use different
3 methodologies and different functions, but there have
4 been a number of presentations and articles either in
5 actuarial forms or in industry forms that communicate
6 that it's appropriate to consider multiple models
7 because these different perspectives really provide
8 added benefit to a risk that is difficult to quantify
9 hurricane risks. So, the different perspectives are a
10 benefit. All models are typically considered to be
11 equally credible and equally reliable. So to use an
12 average of two models is very appropriate.

13 Q. Would you turn with me in the Notice of
14 Hearing, please, to page 14.

15 A. Okay.

16 Q. And would you read for the record, please,
17 Item No. 8 that appears at the bottom of the page?

18 A. Yes. "The filing fails to justify and
19 demonstrate how the 1 percent contingency provision was
20 determined. The filing uses a completely unsupported
21 and arbitrary value. The contingency provision is
22 effectively an additional profit provision. The
23 calculations and the assumptions used by the Bureau in
24 support of the contingency provision were not
25 adequately justified and appear to be inappropriate."

1 Q. What's the purpose of a contingency provision
2 in a filing like this?

3 A. I actually discuss this in my testimony. So,
4 I will read a section of my testimony on page 12 in
5 RB-19. I make reference to ASOP, or the Actuarial
6 Standard of Practice Number 30, and in that it says,
7 "The actuary should include a contingency provision, if
8 the assumptions used in the ratemaking process produce
9 cost estimates that are not expected to equal the
10 average actual cost and if this difference cannot be
11 eliminated by changes in other components to the
12 ratemaking process."

13 So, the contingency provision accounts for
14 the difference between the estimated cost and the
15 average actual costs.

16 Q. So, can you explain, for the hearing officer,
17 some of the reasons that a contingency filing is
18 included here?

19 A. Sure. I actually mention some of those
20 reasons in my testimony as well. So, I will just read
21 that. Some of these reasons -- well, let me back up.
22 "There are several reasons why expected cost estimates
23 may not be equal to actual costs. Some of these
24 reasons include adverse court decisions, extension of
25 coverage for unforeseen or unintended exposures,

1 regulatory delay or reduction in filed rate changes,
2 and unexpected large losses not sufficiently recognized
3 in the normal ratemaking process. "

4 Q. And, for the record, were you reading from
5 page 12 of your prefiled testimony, Exhibit RB-19?

6 A. Yes, I was.

7 Q. Did you prepare an exhibit to illustrate your
8 testimony with regard to the contingency provision?

9 A. Yes, I did.

10 Q. And is that Exhibit RB-21 of the filing?

11 A. Yes, that's correct.

12 Q. Would you please explain for the hearing
13 officer what's illustrated on that exhibit?

14 A. Sure. So, on RB-21, I list all of the Rate
15 Bureau residential property filings since and including
16 2008. So, there should be 21 of them total. It
17 includes homeowners, dwelling, fire, and the two
18 different mobile home products that the Rate Bureau --
19 that the Rate Bureau promulgates.

20 So, first it identifies what the rate filing
21 is, when it occurred, what year. Then it identifies
22 some of the sub coverages and policy types that are
23 within each of those filings. For example, any
24 homeowners' filing, there is an owners and tenants and
25 condo policy forms that are part of that filing. I

1 then included just the premium volume of each segment
2 just to -- I'm going to use that later on to weight or
3 to average some of the numbers. So, that kind of
4 identifies the specific filing information or the
5 specific filings that I will be pulling information
6 from. Then, I have several columns of data related to
7 those filings.

8 The first column is the assumed effective
9 date. So, that's the effective date that the Rate
10 Bureau used to develop the rate indication. When the
11 calculations are being done, I mentioned earlier that
12 an assumed effective date needs to be selected for any
13 trends and projections. So, the first column
14 identifies that assumed effective date. The next
15 column identifies the actual effective date. So,
16 depending on the review process, any negotiations or
17 back and forth, what that settlement process might look
18 like, the assumed effective date could equal the actual
19 effective date or there might be a difference there.
20 So, the next column I calculate what that difference
21 is. I identify it as the number of months of delay,
22 which is the difference between the actual effective
23 date and the assumed effective date.

24 If you browse those 21 filings, it ranges
25 from 0 months, so there was no delay or no difference

1 in those effective dates for one of the filings, to the
2 largest value is 22 months, as far as the difference,
3 again, between the actual and assumed effective dates.
4 Most of those values are typically between three and
5 maybe 10 or 11 months for this sample of filings.

6 I, then, identify the selected loss trends
7 and the selected premium trends that were used in those
8 filings. So, again, that -- I mentioned about the
9 effect -- the assumed effective date is used to project
10 losses and exposures and premiums and expenses out into
11 the future. So, these selections, the selected loss
12 trend and selected premium trend are critical to that
13 process. As actuaries we often will compare the loss
14 trend and the premium trend and the difference, so the
15 loss trend minus the premium trend is what we call the
16 net trend. So if the loss trend is greater than the
17 premium trend, that would be a positive net trend,
18 which means that as we project the experience out into
19 the future, losses are increasing at a rate greater
20 than premium, which means that for each additional
21 month or each additional quarter, each additional year,
22 the impact on the rate indication is generally expected
23 that it would increase because, again, the losses are
24 exceeding the premium. The loss trend is exceeding the
25 premium trend going forward.

1 If the loss trend is less than the premium
2 trend, the opposite would be true. That would mean the
3 premiums are increasing at a rate greater than losses.
4 So, as we project those out into the future, if we
5 calculated the rate indication, we would expect that as
6 we move that projection date out further, that the rate
7 indication would decrease because, again, the projected
8 premiums are increasing at a rate greater than losses.

9 So, that net trend concept is important to
10 estimate what happens going out into the future. Are
11 losses greater than premiums or are premiums expected
12 to be -- premium trend expected to be greater than the
13 loss trend?

14 So, in quantifying that net trend in the
15 months of delay, I then estimate an impact of the delay
16 on the rate change or the needed rate change. And
17 because of the range of the number of months of delay
18 between, let's say, 3 and 12 months, and in many of the
19 instances that net trend is positive, the resulting
20 estimated impact on the rate filing is, oftentimes, a
21 slightly positive number. So, if this delay didn't
22 occur, which means if the assumed effective date
23 matched the actual effective date, or really because
24 they don't match, the effect of that net trend is --
25 well, it's really missing out on some small percentage

1 of rate need.

2 So, I average up those, the estimated rate
3 impact of this delay and averaging across all 21
4 filings, it's actually 1.0 percent. That number was
5 not planted or planned or anything, it actually worked
6 out to be 1 percent, which matches the contingency
7 provision.

8 Q. Is it correct that all of the filings you
9 examined and shown on Exhibit RB-21 are North Carolina
10 property filings?

11 A. Yes, they are.

12 Q. Does Exhibit RB-21 -- we talked earlier about
13 effects of delay, is RB-21 a real world example of the
14 effect of delay in rate reviews and approvals?

15 A. Yes, it is. It, specifically and directly,
16 quantifies at least one way to measure the impact of
17 that delay in the review and approval process.

18 Q. Is it true that the effects of delays in
19 review and approval process is only one possible
20 component of estimating of contingency factors?

21 A. Yes, that's correct. When I identified the
22 reasons for using contingency provision, regulatory
23 delay was one of those reasons. I listed several
24 other, another one was adverse judicial decisions, I
25 believe. So, yes, this was just one of several reasons

1 of using -- for using a contingency provision.

2 Q. Are those other reasons outlined in your
3 testimony?

4 A. They are, yes.

5 Q. Given that, how would you characterize the
6 one percent contingency factor you've arrived at in
7 this filing?

8 A. Yes. Since the regulatory delay is only one
9 possible component or one possible reason for a
10 contingency, and the fact that the estimated impact of
11 the delay in North Carolina property filings is equal
12 to 1 percent and the contingency provision is 1
13 percent, that means that the other reasons could
14 contribute something greater than the 1 percent
15 provision to that contingency factor. Therefore, I
16 would classify the 1 percent contingency provision as
17 conservative.

18 Q. And, in fact, how was the 1 percent arrived
19 at? Who actually selected the 1 percent?

20 A. The Rate Bureau committee makes that
21 selection.

22 Q. Have you included contingency provisions
23 routinely in your other rate review and rate filing
24 work for other clients?

25 A. Yes, I have. That's a common component

1 within rate filings.

2 Q. And have you observed their inclusion in
3 other filings you've reviewed and seen?

4 A. Yes, I have. Many, many insurance companies
5 use a contingency provision in their rate filings.

6 Q. Would you turn again, please, to page 14 of
7 the Notice of Hearing.

8 A. Okay.

9 Q. And, specifically, Item Number 8 near the
10 bottom of page, does it read in Item Number 8 that the
11 filing offers a contingency factor that's completely
12 unsupported and an arbitrary value?

13 A. That's what it says.

14 Q. Do you agree with that statement?

15 A. I do not agree with that statement. I
16 specifically provided support in Exhibit RB-21 that
17 documents and justifies a 1 percent contingency
18 provision. So, that selection is supported, and it is
19 not arbitrary given the fact that RB-21 supports a 1
20 percent provision, and that is what was selected in the
21 filing.

22 Q. Also, in Item Number 8 on page 14 of the
23 Notice of Hearing, does it read that the contingency
24 provision is effectively an additional profit
25 provision?

1 A. It does, yes.

2 Q. And do you agree with that assertion?

3 A. I do not agree with that statement either. I
4 mentioned, in explaining what a contingency provision
5 is, is that it quantifies the difference in the
6 estimated costs and the average actual costs. So, the
7 contingency provision directly relates to costs of the
8 homeowners' -- the underlying homeowners' risk. It
9 does not relate to profit.

10 MR. BEVERLY: May we have a moment, Your
11 Honor?

12 MS. FUNDERBURK: Yes.

13 MR. BEVERLY: Mr. Anderson, those are
14 all my questions for now. Department counsel may have
15 some questions for you.

16 THE WITNESS: Okay. Thank you.

17 MS. FUNDERBURK: Mr. Friedman, cross.

18 MR. FRIEDMAN: Good morning,
19 Mr. Anderson.

20 THE WITNESS: Good morning.

21 CROSS-EXAMINATION

22 BY MR. FRIEDMAN:

23 Q. So, first of all, as I'm asking you
24 questions, if at any time my question -- first of all,
25 if at any time you can't hear me because I'm not close

1 enough to the microphone, please tell me.

2 A. Okay.

3 Q. Second of all, if at any time my questions
4 are unclear, please feel free to ask me to clarify what
5 I've asked. Likewise, if my questions become too
6 long-winded, which is certainly known to happen, you
7 can please ask me to break up the question into
8 subparts.

9 A. Okay. Thank you.

10 Q. And, then, as I actually said to Dr. Zanjani,
11 I'm not an actuary, nor in his case an economist. So,
12 if I am misunderstanding some core actuarial issues,
13 feel free to explain your understanding.

14 A. Okay.

15 Q. So, let's --

16 MS. FUNDERBURK: Mr. Friedman, I think
17 we might need your microphone a little closer.

18 MR. FRIEDMAN: How's that?

19 MS. FUNDERBURK: Would it help to have
20 it bent up a little bit? That seem to help mine when
21 the microphone is bent towards me.

22 MR. FRIEDMAN: How's that?

23 MR. BEVERLY: That's better.

24 MS. FUNDERBURK: Thank you.

25 BY MR. FRIEDMAN:

1 Q. So, if you could turn to what should be up
2 there as Book 3.

3 MS. WHARRY: Your Honor, may I approach
4 the witness and give him the book, the witness the
5 book?

6 MS. FUNDERBURK: Yes, please approach.
7 Yes, please approach. I will need a copy as well.

8 Thank you, Ms. Wharry.

9 And, Counsel, to the extent it might be
10 helpful, I will, again, remind you, you have access to
11 the ELMO if you want to put anything on the screen.

12 MR. FRIEDMAN: If -- then Ms. Wharry
13 will be kind enough to project it. Ms. Wharry will be
14 kind enough to project it.

15 MS. FUNDERBURK: Thank you.

16 MR. FRIEDMAN: We've really got to get
17 longer extension cords here. Too many books in front
18 of me. So, should we wait a second until it is
19 projected?

20 MS. WHARRY: Which exhibit would you
21 like?

22 MR. FRIEDMAN: Exhibit 12.

23 MS. WHARRY: It's ready.

24 Q. That's it. And have you found your way to
25 the hard copy of Exhibit 12?

1 A. Yes, I have.

2 Q. Okay. So, I've got some questions about the
3 Actuarial Standards of Practice. So, in -- first of
4 all, at various times you've referred to the
5 principles, and then the actuarial standards of
6 process. I know I'm kind of unclear on whether the
7 ASOPs are technically considered part of the principles
8 or the principles are separate.

9 A. The principles are separate, and really there
10 is one primary principle that ratemaking actuaries
11 would rely on. It's the one that I referenced in my
12 testimony and earlier in my comments, the statement of
13 principles related to property and casualty insurance
14 ratemaking.

15 Q. Now, I understand that for a time that
16 principle was withdrawn but then later -- withdrawn
17 across the board, but then some years ago it was put
18 back into place by CAS?

19 A. That's correct.

20 Q. Okay.

21 A. I believe the intention was to -- the
22 information contained in that principle is critical to
23 the work that actuaries do, especially in the
24 ratemaking analyses. And, I believe, my understanding
25 was the intention was to roll that information into

1 another document. I forget exactly what document that
2 would have been, but the actuarial community resisted
3 that and voiced their concern and mentioned that we
4 specifically need to rely on the statement of
5 principles regarding property and casualty insurance
6 ratemaking, especially for things such as expert
7 testimony, which is why it was then reinstated.

8 Q. So, at page -- let's see -- 2 -- well,
9 actually, I'm sorry, at page 5. You will see the --
10 well, here they are one in the same, but I will be
11 referring to the bigger numbers that are at the bottom
12 of the pages when I get further on.

13 So, if you could review ASOP 3.1.5. Take all
14 the time, if you've already read it, just indicate.

15 A. Okay.

16 Q. Do you agree that, under that subsection of
17 ASOP 1, an actuary has to follow the law even if the
18 law conflicts with the guidance of an ASOP?

19 A. Yes, that's what that section says, the
20 middle sentence, "Where requirements of the law
21 conflict with the guidance of an ASOP, the requirements
22 of law shall govern."

23 Q. Okay. And you've discussed how you are
24 relying, for instance, on the work by Dr. Zanjani as
25 far as -- as far as, you know, your review of his work.

1 And when you are communicating about the work of
2 Zanjani in your report or otherwise, for instance, here
3 in the hearing, do you feel responsible for the other
4 actuaries who are the intended recipients or even the
5 Commissioner of Insurance to -- is it on you to
6 accurately reflect the law that you read in
7 Dr. Zanjani's testimony? In other words, you reviewed
8 his method and relied on it, I believe.

9 A. Yes, I reviewed his -- the results of his
10 analysis.

11 Q. Were you here yesterday?

12 A. Yes, I was.

13 Q. Okay. And he said he did not believe that
14 his paper or his findings were subject to the ASOPs
15 because they were an economic paper, not an actuarial
16 production. Do you recall that?

17 A. Yes.

18 Q. Okay. But you're an actuary, and when you
19 write your findings, correct me if I'm wrong, but you
20 have an obligation to talk about relevant law that may
21 be contradictory to anything mentioned in your report
22 to the intended recipients; is that correct?

23 A. Can you repeat that?

24 Q. Sure. So, Dr. Zanjani didn't -- he spoke
25 about one aspect of his calculation that was unlawful.

1 He said -- well, I take that back. He identified one
2 aspect of North Carolina law and said that he complied
3 with it, and that was specifically the bar on
4 consideration of capital and surplus. He also
5 testified that he could not remember the nuances of
6 court decisions that had interpreted that. Do you
7 recall that?

8 A. Yes.

9 MR. BEVERLY: Objection, Your Honor.
10 That's not exactly what he said, but we won't belabor
11 the point.

12 MR. FRIEDMAN: That he could not
13 remember or that they seemed contradictory to him.

14 MR. BEVERLY: I think he said they were
15 conflicting by his reading, I believe is what he said,
16 but we will proceed.

17 MR. FRIEDMAN: Sure. That's a fair --

18 MS. FUNDERBURK: Counsel, are we in
19 agreement that is a fair statement? We do have the
20 transcripts available from yesterday, should we need to
21 review them.

22 MR. FRIEDMAN: I think that
23 Mr. Beverly's summation is just fine.

24 MS. FUNDERBURK: Thank you, Mr. Beverly.

25 MR. BEVERLY: Thank you, both.

1 Q. You knew that your report, which said you
2 found Mr. -- Dr. Zanjani's report to be reasonable, was
3 going to, in turn, be relied upon by other actuaries;
4 did you not?

5 A. Can you repeat that again, please?

6 Q. Sure. Well, we will start with the simplest
7 question. You knew that your report was going to be
8 relied on by other actuaries, correct?

9 A. My report was developed after the rate review
10 process was completed and was included in the final
11 rate filing that was delivered to the Department. So,
12 to the extent actuaries would be reviewing that rate
13 filing, then, yes, my testimony would be relied on by
14 other actuaries.

15 Q. You knew that report would be relied upon by
16 regulatory officials other than actuaries; did you not?

17 A. To the extent that regulatory officials would
18 be reviewing the filing, yes, they would be relying on
19 my testimony.

20 Q. So, if you knew any law that was contrary to
21 anything in Dr. Zanjani's testimony, do you believe
22 that under the first standard we've already discussed,
23 Section 2.1 of the ASOP 1, that you had an obligation
24 to note that something he had done did not appear in --
25 consistent with the law, and then explain what was

1 consistent with the law?

2 A. Similar to Dr. Zanjani, I'm not a lawyer and
3 I can't provide legal opinions. We -- he, yesterday,
4 and I, today, relied on the Rate Bureau's counsel on
5 legal matters, specifically related to, you know,
6 accounting for investment income on capital and
7 surplus. If it was made to -- if my attention was
8 drawn to the fact that something in the rate filing did
9 not comply with laws, I would have been obligated to
10 speak up about that, presumably earlier in the process,
11 not at the time of filing. It is my understanding,
12 based on input from counsel, that Dr. Zanjani's work
13 product complied with the law and the Rate Bureau
14 committee then complied with the ASOP by also reviewing
15 an alternative method, which he talked about yesterday,
16 that corresponded with standard actuarial practice.
17 So, my understanding is that the Rate Bureau filing
18 complied with the law and it complied with the ASOPs.

19 Q. All right. If you could turn to --

20 MS. FUNDERBURK: Mr. Friedman, I think
21 we need you a little closer to the microphone.

22 MR. FRIEDMAN: Yes.

23 Q. If you could turn to ASOP 36, which is at --
24 it's not in order, but it is at page 94. And I've
25 actually included two copies of ASOP 36 because it

1 seems as if one expired on October 1st. Let me ask
2 what, in your reading, would the old ASOP 36 prior --

3 MR. BEVERLY: Your Honor, can
4 Mr. Friedman point us to which page it is again?

5 MR. FRIEDMAN: Sure. Absolutely. I am
6 on page 94 of Exhibit 12. That is the version of ASOP
7 36 that I understand expired on --

8 MR. BEVERLY: I don't have a page number
9 for it.

10 MS. FUNDERBURK: Yeah, I don't believe
11 that the pages are Bates stamped on our copies.

12 MS. WHARRY: Terence, can you get this?

13 MR. FRIEDMAN: Can I approach counsel
14 and just see that his page?

15 MS. FUNDERBURK: Please approach.

16 MR. FRIEDMAN: Can I -- do you mind if
17 we can go off the record for a moment to ask the clerk
18 something about her work on the notebooks, so I can
19 figure out whether anybody has them besides me?

20 MS. FUNDERBURK: I think we can just
21 check the notebooks. I don't have it either. Do you
22 want to check the witness's notebook? You may
23 approach.

24 THE WITNESS: I don't have the number,
25 but this is ASOP 36. I found it.

1 MR. FRIEDMAN: So, I guess I may be the
2 only person with --

3 MS. FUNDERBURK: Please make sure you're
4 at your microphone.

5 MR. FRIEDMAN: Well, I am sorry. It
6 seems as if everybody else -- all right. So, I have a
7 copy of all the ASOPs that has Bates stamps numbers on
8 it, but it appears that the -- nobody else's brief has
9 one with Bates stamps on it -- so -- or notebook has
10 one. So, what I will do is refer to -- I will help you
11 find where this is.

12 MS. FUNDERBURK: It sounds like we are
13 in need -- it sounds like we are in need of a copy of
14 that exhibit. Why don't we take about a ten-minute
15 recess. We will come back -- it is now 9:56. We will
16 come back at -- we will come back at quarter after 10.
17 So, a little bit longer, that should be time to obtain
18 that exhibit and get the copies back into the notebook.

19 MR. BEVERLY: Thank you, Your Honor.

20 MS. FUNDERBURK: Thank you. We are off
21 the record.

22 (Recess taken from 9:56 to 10:15.)

23 MS. FUNDERBURK: Counsel, we are back on
24 the record.

25 MR. FRIEDMAN: All right. Can everyone

1 hear me?

2 MS. FUNDERBURK: And do we have the --
3 we took the recess to obtain the exhibits Mr. Friedman
4 was referencing. Do we have those now available to --
5 okay. Thank you.

6 Mr. Beverly, you have your copy, I
7 think. I have my copy at the bench and a copy was
8 provided to the witness.

9 MR. FRIEDMAN: Those copies should have
10 the Bates numbers and the large numbers in the lower
11 right-hand corner.

12 MS. FUNDERBURK: Thank you, Counsel.
13 Please proceed with your cross.

14 Q. All right. So, Mr. Anderson, I'm going to be
15 talking about, first, ASOP 41, which starts at Bates
16 number 70.

17 MR. BEVERLY: For the record, Your
18 Honor, mine starts at 68. Is that where we are?

19 MR. FRIEDMAN: You're right.

20 MS. FUNDERBURK: Mine starts at 68 as
21 well. Is that the correct reference, Mr. Friedman?

22 MR. FRIEDMAN: I turned to the wrong
23 page.

24 Q. Mr. Anderson, could you review the definition
25 of actuarial communication under 2.1 on page 69? You

1 can review it to yourself.

2 A. Okay.

3 Q. Would you agree that your written -- I'm
4 going to call it a report because I'm used to saying
5 expert report -- but your written prefiled testimony
6 was an actuarial communication?

7 A. Yes, I would agree with that.

8 Q. Do you agree that your testimony today is
9 also an actuarial communication?

10 A. Yes, I agree with that.

11 Q. Now, looking at the same page, Section 2.7,
12 review that for a moment to yourself.

13 A. Okay.

14 Q. Under that Section 2.7 of ASOP 41, do you
15 agree that the Commissioner of insurance is an intended
16 user of your testimony?

17 MR. BEVERLY: Objection, Your Honor.

18 Can we read 2.7 into the record so we know what

19 Mr. Anderson is being asked?

20 Q. I can do that too. "Intended user, any
21 person who the actuary identifies as being able to rely
22 on the actuarial findings."

23 MR. BEVERLY: And can we repeat the
24 question, please?

25 MR. FRIEDMAN: Sure.

1 Q. Based on that definition, do you agree that
2 the Commissioner of Insurance is an intended user?

3 A. I think it depends on which of my actuarial
4 communications you're referring to. My testimony was
5 prepared for the Rate Bureau, so they were the intended
6 user of the written testimony, but this oral
7 communication, I'm not a legal expert. It certainly
8 seems to be intended for the Commission.

9 Q. Okay. As far as the filing, do you recall
10 that that was specifically directed to the attention of
11 the Commissioner of Insurance and that included your
12 testimony?

13 A. Yes.

14 Q. Okay. Did you not understand that your
15 filing, or rather your report, was going to be part of
16 a document that overall was being submitted for the
17 Commissioner of Insurance's consideration?

18 A. Can you repeat the beginning of that question
19 just so I have it?

20 Q. Sure. Did you understand that your report
21 was going to be part of a larger document that was
22 submitted specifically for the Commissioner of
23 Insurance's consideration?

24 A. Yes.

25 Q. Okay. So, did you not understand that he was

1 going to be an intended user of your report because he
2 was receiving it as part of the overall filing?

3 A. Yes, I am aware of that.

4 Q. And you knew that the Commissioner employs
5 both in-house and outside actuaries who would be
6 reviewing the filing; is that correct?

7 A. When the filing was submitted, I was aware
8 that there are internal actuaries employed by the
9 Commissioner. I did not know at the time if external
10 actuaries would be employed at any point in the review
11 process.

12 Q. Outside of, well, this filing, how long have
13 you worked on filings for the Bureau?

14 A. I first began working on projects that
15 supported Rate Bureau filings in 2008.

16 Q. Okay. And were you working all on
17 residential filings or also on auto filings?

18 A. The initial work in those first several years
19 was all related to residential property filings.

20 Q. Okay. Have you since come to work on auto
21 filings too?

22 A. Yes, I have.

23 Q. Okay. At any time in your review, have you
24 been aware that the hearing on the filing was imminent?
25 Have you had to begin hearing prep at any time?

1 MR. BEVERLY: Objection. Are we talking
2 about this hearing?

3 MR. FRIEDMAN: No.

4 Q. Any of your past filings, any of your past
5 filings that actually were scheduled for hearing, at
6 any point -- of any of those, did you come up to within
7 a month of the hearing?

8 A. No. For prior filings, there were notice of
9 hearings that were communicated. But in previous
10 filings, I did not get to a point of preparing for a
11 hearing. All those filings were settled before it got
12 to that point.

13 Q. At any time with regard to any of the
14 filings, other than this one, did you receive expert
15 reports from either Mr. Schwartz or Ms. O'Neil?

16 A. Based on my recollection, I believe I was in
17 more of a supporting role during the 2014 filing
18 process. So, I do recall seeing their testimonies to
19 give inputs and comments to other Milliman colleagues
20 involved in the rate hearing process.

21 Q. And at any time after that, did you receive
22 and review a written testimony by Ms. O'Neil and
23 Mr. Schwartz?

24 A. Not that I can recall.

25 Q. So, you weren't aware, as of 2014, that the

1 Department of Insurance was employing outside actuaries
2 as well, namely Mr. Schwartz and Ms. O'Neil?

3 A. Can you repeat the wording of that again?

4 Q. Sure. Were you aware -- you said you first
5 worked on that and you saw their reports in reviewing
6 the 2014 filing, the homeowners' filing, specifically?

7 A. Correct.

8 Q. Okay. So, as of that time, you were aware
9 that at least for that filing the Department of
10 Insurance did have outside actuaries?

11 A. That's correct. I was aware that the
12 Department employed outside actuaries for the 2014 rate
13 filing.

14 Q. How much were you involved in the 2014
15 filing?

16 A. Can you explain that question a little
17 further?

18 Q. Sure. You said you were, I understand, just
19 consulting on it. Did you submit written testimony in
20 that proceeding?

21 A. I did not submit written testimony.

22 Q. On what aspects of the proposed rate were you
23 consulting? For example, the profit or the loss trend
24 or the CAR or your contingency -- the contingency
25 provision?

1 A. I was asked to review and focus on actuarial
2 concepts. So, I believe, similar to this filing,
3 things like the profit provision and cost of capital
4 were -- were relied on the testimony of an economist
5 similar to Dr. Zanjani. So, I relied on the economist
6 to provide insights on those. So, my focus was on
7 actuarial concepts such as trends, modeled hurricane
8 provision, different actuarial components such as that.

9 Q. Although Dr. Appel is an economist, as we
10 clearly learned yesterday Dr. Zanjani is, the concept
11 of profit is still an actuarial one too, correct?

12 A. Yes. That would be one of the components
13 that are -- that is included in a calculation of an
14 inadequate premium.

15 Q. And non-economists, regular actuaries,
16 regularly compute the cost of capital; is that correct?

17 A. That's my understanding.

18 Q. Have you ever done so?

19 A. Yes, I have.

20 Q. Have you ever calculated the projected cost
21 of -- well, the projected net cost of reinsurance?

22 A. Excuse me. Not directly. So, I would have
23 had to rely on data and information from other
24 resources or other experts, such as Aon. I could
25 verify or duplicate those calculations, but I would

1 require information to be given to me to calculate a
2 net cost of reinsurance.

3 Q. What about loss trends, have you ever
4 calculated those yourself?

5 A. Yes.

6 Q. And it is my understanding from your
7 testimony, though I haven't touched on it yet, that in
8 the past you used to work on the cost or -- of an
9 assessment, for instance, the CAR for the Bureau, but
10 that's now being done by Ms. Mao and Aon; is that
11 correct?

12 A. That's correct.

13 Q. Have you ever, yourself, modeled hurricanes
14 to determine hurricane loss?

15 A. I have not. No, I have not run models or
16 simulated hurricane events. I rely on the output of
17 hurricane models for my work.

18 Q. And, just to be clear, Milliman doesn't have
19 its own catastrophe models?

20 A. That's correct.

21 Q. Does Milliman in analyses or that it
22 conducts, is there somebody else within Milliman who
23 does run catastrophe models?

24 A. One of our office has -- one of our offices
25 has licensed at least one of the models in the past,

1 just as an insurance company or a reinsurance broker
2 would license the model. I'm not sure if they are
3 still licensing that, but they would have staff
4 in-house that would understand how to do that, how to
5 change assumptions or to change inputs or selections.
6 So, there is -- we have done that in the past.

7 Q. Do you recall what model that was?

8 A. My recollection is it was the RMS model.

9 Q. Would that have included both the historical
10 and the medium-term RMS?

11 A. I am not sure. I would expect that it would.

12 Q. Have you ever offered an actuarial opinion
13 that was based on RMS modeled hurricane losses that was
14 conducted, those loss -- that modeling was conducted by
15 somebody in-house at Milliman?

16 A. No, I have not.

17 Q. Have you ever discussed hurricane modeling
18 with people who are responsible for running the models
19 at Milliman?

20 A. No, I have not.

21 Q. So, if you could turn now to 75, that is at
22 page -- well, it's page 8 of the ASOP 41, but it's on
23 Bates number 75.

24 MR. BEVERLY: Did you say 31, Mr.
25 Friedman?

1 MR. FRIEDMAN: No, 75. Page 75. It's
2 ASOP 41.

3 MR. BEVERLY: Thank you.

4 Q. And I'm going to read into the record, so as
5 not to make you have to do it, 4.2 A through C. If you
6 review it with me while I'm describing it, I'd
7 appreciate it. So, certain assumption or methods
8 prescribed by law, this is subsection 4.2 of ASOP 41.

9 "Wherein a material assumption or method was prescribed
10 by applicable law, statutes, regulations, and other
11 legally binding authority, the actuary should disclose
12 the following in the actuarial report: A, the
13 applicable law under which the report was prepared; B,
14 the assumptions or methods that are prescribed by the
15 applicable law; and C, that the report was prepared in
16 accordance with the applicable law."

17 Do you agree that your report had to be
18 prepared in accordance with the applicable law?

19 A. Yes.

20 Q. What investigation did you do on the
21 applicable law with regard to the treatment of
22 dividends by North Carolina, specifically?

23 A. When the committee discussed the dividend
24 provision, counsel would have been present in that
25 committee meeting.

1 Q. I don't need to hear counsel's advice.

2 A. I would have relied on counsel for their
3 interpretation or application of the law as to
4 discussions were occurring related to dividends.

5 Q. Do you review the 2014 homeowners' order
6 after it came out?

7 A. Yes, a number of years ago I would have
8 reviewed that.

9 Q. But you didn't return to it this time?

10 A. No, I did not.

11 Q. Did you --

12 MS. FUNDERBURK: Mr. Friedman, I realize
13 it's ironic that I'm the one saying this given how low
14 I could speak, but if you could speak more consistently
15 into the microphone, I appreciate it.

16 MR. FRIEDMAN: But it's so comfortable
17 to lean back.

18 Q. The -- did you review the Court of Appeals
19 decision on the 2014 Commissioner's summary order?

20 A. No, I did not.

21 Q. Okay. Do you recall that in the 2014
22 Commissioner's order the Commissioner found that as a
23 matter of law dividends were subtracted from the
24 profits and not included as an expense?

25 MR. BEVERLY: Objection, Your Honor, he

1 just said he didn't review it.

2 MR. FRIEDMAN: No, I'm talking about the
3 order, not the Court of Appeals case. He said he
4 reviewed the order.

5 MS. FUNDERBURK: Can you clarify what
6 your question is and allow Mr. Beverly an opportunity
7 to object?

8 MR. FRIEDMAN: Sure.

9 Q. So, my question is whether you recall how the
10 Commissioner treated dividends in the 2014 order?

11 A. Can you repeat the initial part of the
12 question again?

13 Q. Sure. Can you recall how the Commissioner
14 treated dividends in the 2014 order?

15 A. No, I don't recall that.

16 Q. Let me -- so, the Bureau's attorney is not
17 your attorney; is that fair?

18 A. My work products related to this case would
19 be prepared for the Rate Bureau.

20 Q. And does Milliman have its own attorneys?

21 A. Yes, we do.

22 Q. Do you think you have an obligation to
23 discuss applicable law with Milliman's own attorneys?

24 MR. BEVERLY: Objection. In connection
25 with?

1 Q. In connection with the North Carolina Rate
2 Bureau statutes?

3 A. I did not consider that --

4 MS. FUNDERBURK: Counsel, do you wish to
5 be further heard on that objection?

6 MR. BEVERLY: No, Your Honor.

7 MS. FUNDERBURK: And I will note that
8 we're getting into an area where I will ask counsel to
9 tread carefully to avoid revealing any attorney-client
10 privileged information. And should we need to have a
11 bench coverage, I would rather do that proactively than
12 risk breaking privilege.

13 MR. BEVERLY: Thank you, Your Honor.

14 Q. And, to be clear, I am not asking about that.
15 And so the witness can know, I do not want to know
16 anything that you actually discussed with Milliman's
17 counsel or that you actually discussed with the
18 Bureau's counsel. What I'm interested in strictly is
19 this first round of questions the fact of whether you
20 did but not what you said.

21 And then second of all -- like counsel
22 said -- and then, second of all, I will be asking you
23 about your knowledge of applicable law, but I will not
24 be -- you don't need to -- I mean, and asking where you
25 obtained that, but I don't -- is there -- I want to

1 make sure that I am not treading on the privilege when
2 I do that.

3 MS. FUNDERBURK: I suggest you go ahead
4 and proceed with your line of questioning, and I am
5 sure that Mr. Beverly will object as appropriate. And,
6 again, if we need have a bench conference, we can do
7 that.

8 Q. So, I think we were still at the question
9 whether you recall how the Commissioner of the 2014
10 homeowners' order treated dividends.

11 A. I do not recall that.

12 Q. Okay. Aside from whatever advice the
13 Bureau's attorney may have given you about the
14 treatment of dividends under North Carolina law, did
15 you consult with Milliman's attorneys about that issue,
16 don't want to know what they said, just the fact of
17 whether you talked to them or not?

18 A. I did not. I relied on Rate Bureau's
19 counsel. The nuances of North Carolina ratemaking are
20 very unique to this state, and my understanding is that
21 the Rate Bureaus' counsel have tremendous number of
22 years of experience, and I'm fairly certain that that
23 would exceed and surpass the North Carolina specific
24 experience of Milliman's attorneys. So, I relied on
25 and trusted the Rate Bureau's counsel.

1 Q. What is your practice in -- have you ever
2 sought outside help from Milliman's counsel with regard
3 to something that a client's attorney told you was the
4 law?

5 A. It's possible. I am not recalling anything
6 at the moment.

7 Q. Do you think you have a duty as an actuary
8 with a responsibility to know the law, where it
9 conflicts with an actuarial principle? You just -- if
10 the best practice is to simply accept whatever the
11 client's attorney describes is the law?

12 MR. BEVERLY: Objection. Compound
13 question.

14 MR. FRIEDMAN: Okay.

15 MS. FUNDERBURK: Please rephrase.

16 MR. FRIEDMAN: Absolutely.

17 Q. Do you -- as a -- generally simply accept
18 what your client's attorneys tell you is the applicable
19 law in their state?

20 A. I wouldn't word it like that. I don't just
21 simply accept it. You know, I accept their counsel and
22 their opinion based on their expertise, based on their
23 years of experience, based on, you know, prior
24 experiences similar to this. You know, I gave
25 consideration into the credibility of their counsel to

1 determine, you know, I assessed it for its reliability
2 and the ability to trust that before I trust in that.

3 Q. Do you think, as an actuary, you have any
4 responsibility to go beyond merely what your client's
5 attorney is telling you about the law?

6 A. In some situations that might be reasonable
7 and appropriate. In this situation, again, their North
8 Carolina specific knowledge was sufficient, and, again,
9 I am anticipating it exceeded some of the North
10 Carolina specific knowledge of Milliman's counsel or --
11 yeah, Milliman's counsel, but there may be instances
12 where, yes, you would need to pull in separate counsel.

13 Q. Where -- so, going back to the question of
14 dividends. What is your understanding of how
15 dividends, by their nature, are characterized under
16 North Carolina law?

17 MR. BEVERLY: Objection. Characterized?
18 Could you be more specific?

19 Q. For actuarial purposes what column do they
20 belong under, expenses, or should they be something
21 that's subtracted from costs? Do you have an
22 understanding on that? Which of those?

23 A. Did you say subtracted from costs or?

24 Q. Subtracted from profit.

25 A. From profit. Dividends would be treated as

1 an expense. As it is one of the costs of doing
2 business, a company would choose to issue that
3 dividend, and it would then be reflected similar to
4 other expenses that they incurred.

5 Q. Okay. So, you don't know whether North
6 Carolina requires that, in fact -- whether North
7 Carolina has held dividends are not expenses?

8 A. I have not reviewed North Carolina statute or
9 legislation recently as it pertains to this filing.
10 So, I would have to -- I'm sure I looked at that
11 several years ago, but I don't recall that.

12 Q. Okay. Going back to the ASOPs, so I'm going
13 to go next to ASOP 36. And there are actually two
14 versions of 36 here. And the reason they are -- let's
15 see. Toward the back at -- beginning at page 94, and
16 there are -- as I said, there are two versions of this
17 here. The first one begins at 94 and ends at 104. And
18 then the second more recent version begins -- well,
19 actually, the current version begins at 94 and runs
20 through 104 and the expired provision begins at 105 and
21 ends at 115.

22 Were you aware that Actuarial Standard of
23 Practice 36 was revised as of, I believe, October 1,
24 2024?

25 A. No, I was not.

1 Q. Okay. Assuming it was, are -- would you
2 consider yourself to be bound by the prior version as
3 far as your written report and then bound by the
4 current version as far as your oral testimony here?

5 A. These -- this ASOP, both the prior version
6 and the current version, do not apply to this matter.
7 This relates to reserving analyses that support
8 statements of actuarial opinions. This is not a
9 reserving analysis. This is not a statement of
10 actuarial opinion for NAIC property and casualty annual
11 statement. This is a ratemaking analysis. ASOP 36
12 does not apply in this instance.

13 Q. Okay. Okay. We will skip over any
14 questions, then, about 36.

15 I am going to go now to ASOP 17, and that is
16 beginning at page 18 and going through page 22. First
17 of all, does this ASOP apply to your testimony in this
18 case?

19 A. Yes, it does.

20 Q. I want to say I really do appreciate you
21 explaining to me 36. It was a nuance that I definitely
22 didn't pick up on.

23 So, 17, could you turn -- look at Section 3.4
24 on page 20?

25 A. Okay.

1 Q. This is similar to the conflict with laws
2 regulation -- with laws and regulations provision that
3 we looked at under ASOP 1, but Section 3.4 reads, "If
4 the actuary believes that a relevant law or regulation
5 contains a material conflict with the appropriate
6 actuarial practices, the actuary should disclose the
7 conflict subject to the requirements of the forum
8 including, without limitation, all rules of evidence
9 and procedure."

10 Would you agree that this applies not only to
11 whether you believe there is a conflicting law with
12 your contingency analysis, but it also places a
13 responsibility on you to disclose any conflict between
14 the law and the analyses by ISO, by Aon, or by
15 Dr. Zanjani in this case?

16 A. Are you asking that if there is a conflict
17 with the law in any of those matters, that it should be
18 disclosed?

19 Q. Well, you reference and state that you
20 believe that Mr. Zanjani's testimony, Ms. Mao's
21 findings, and ISO's findings are reasonable and
22 actuarially reasonable, is that correct, in your
23 report?

24 A. That's correct.

25 Q. Okay. Do you believe that in saying, for

1 example, that Dr. Zanjani's findings were actuarially
2 reasonable that if you knew of a law that conflicted
3 with his findings, you have a duty under ASOP 17 to
4 reveal that in your own report?

5 MR. BEVERLY: Objection. If he
6 determined Dr. Zanjani was somehow not complying with
7 law, would he have a duty to disclose?

8 MR. FRIEDMAN: Yes.

9 A. In that hypothetical situation, if
10 Dr. Zanjani was not complying with the law in his
11 analysis, yes, I would need to disclose that.

12 Q. Do you think that this ASOP, Section 3.4 of
13 ASOP 17, places any greater burden on you than to
14 accept an explanation of applicable laws from your
15 clients' attorneys? Do you have any responsibility to
16 go above and beyond what they tell you is the
17 applicable law and do your own research?

18 A. My expertise is actuarial and not legal. So,
19 in researching laws and their applicability, I would
20 rely on lawyers and trained experts in legal matters
21 and not an actuarial expert such as myself.

22 Q. But you do have an independent responsibility
23 to know if there is a conflict between the law and an
24 actuarial opinion that you're opining on, and that's
25 your own personal responsibility as an actuary,

1 correct?

2 A. As I read this ASOP, I would apply that if
3 I'm made aware of something that is illegal, then I
4 would need to communicate that.

5 Q. Okay. So --

6 A. I don't know that it obligates me to research
7 and search out the law for each component of the rate
8 filing.

9 Q. Okay. Going to ASOP 29, which is at --
10 starts at 43 and ends at 49. If you could, first of
11 all, look at 1.4 on page 43. Is it your understanding
12 that this version of the ASOP 29 is only applicable to
13 actuarial work performed after July 1st of this year?

14 A. That's the effective date on this ASOP, yes.

15 Q. And your -- again, your testimony here today
16 is actuarial work that you are performing after July 1,
17 2024?

18 A. Yes.

19 Q. If you could turn to page 46, subsection 3.7.
20 Who determined the dividend provision in the 2024
21 filing?

22 A. The selection of that provision for dividends
23 was made by the Rate Bureau committee.

24 Q. Okay. Who did the actuarial work to research
25 the data behind that selection?

1 A. The -- I'm hesitating because I know some of
2 the expense components were compiled by the Rate
3 Bureau. I believe dividends was compiled by ISO and
4 Verisk, so that would fall under Mr. Ericksen's
5 oversight.

6 Q. In your report you specifically said that
7 ISO's calculation of the dividends provision was
8 actuarially reasonable. Do you recall --

9 MR. FRIEDMAN: I can point you to it if
10 you need.

11 MR. BEVERLY: Would you, please?

12 MR. FRIEDMAN: So, give me a second
13 here. So, we are going to be in Book 1, and we are
14 going to be looking at Exhibit 19 in Book 1.

15 If you will give me a second, Your
16 Honor, I am looking for one different outline.

17 MS. WHARRY: Your Honor, may I approach
18 to give you your book, if you have it.

19 MS. FUNDERBURK: I do not have book one.

20 MS. WHARRY: May I approach to provide
21 it to you and to the witness?

22 MS. FUNDERBURK: Yes, please approach.

23 Mr. Beverly, do you have the relevant
24 book?

25 MR. BEVERLY: I have it on my laptop,

1 Your Honor.

2 MS. FUNDERBURK: Great.

3 MR. BEVERLY: Thank you.

4 Q. All right. So, is everybody at RB-19 in Book
5 1?

6 A. Yes.

7 Q. And can you turn to page 12 of your report,
8 Mr. Anderson?

9 A. Okay.

10 Q. At the top of page 12, do you see your
11 testimony about the dividends provision?

12 A. Yes, I do.

13 Q. And you found that the dividends provision
14 was reasonable and actuarially sound?

15 A. That's correct.

16 Q. All right. So, turning back to the ASOPs.
17 We are back in Book 3 on page 46 of Exhibit 12.

18 A. Okay.

19 Q. Under subsection 3.6 the -- oh, excuse me,
20 3.7. It states, "When developing an expense provision
21 for policyholder dividends, the actuary should take
22 into account the company's dividend payment history,
23 its current dividend policy of practice, whether
24 dividends are related to loss experience, investment
25 results, the capital and surplus of the company, and

1 other considerations affecting the payment of
2 dividends. "

3 Do you see that?

4 A. Yes, I see that.

5 Q. Okay. Do you know whether ISO's dividend
6 provision took into account, well, any actual dividend
7 payment history?

8 A. This was not ISO's dividend provision. This
9 was the Rate Bureau's dividend provision.

10 Q. The work that ISO did on the dividend
11 provision, did -- do you know whether in doing that
12 work ISO relied on actual data about policyholder
13 dividends from -- paid out by the North Carolina
14 homeowners' carriers?

15 A. My understanding is that ISO aggregates data
16 from the statistical data calls that were mentioned
17 yesterday. Among that data, presumably, is
18 policyholder dividends, so that would be aggregated
19 across the statistical agencies, and ISO would then
20 summarize that aggregated data containing the
21 dividends.

22 Q. Do you know for a fact that that dividend
23 data was produced by the Bureau to Mr. Ericksen if --
24 one way or the other, whether from a data call or
25 however else they obtained it?

1 A. I don't recall that off the top of my head.
2 I would have to verify the process of where that
3 specific data element came from.

4 Q. Okay. Do you know whether ISO, in its work,
5 took into account the current dividend policy or
6 practices of all of the 100-plus North Carolina
7 homeowners' carriers or at least those that are members
8 of the Bureau?

9 A. I don't know that.

10 Q. Have you ever seen that data provided?

11 A. What data?

12 Q. The actual practices or policies of the
13 Bureau's homeowner members?

14 MR. BEVERLY: With respect to dividends,
15 specifically?

16 MR. FRIEDMAN: Yes, with respect to
17 the -- specifically the policy or practice of those
18 100-plus members.

19 A. I have not seen the practices of 100-plus
20 member companies as they relate to dividends, no.

21 Q. Okay. Or their policies? By "policies," I
22 suppose this is referring to whether, for example, they
23 guarantee a dividend to the policyholder or not?

24 A. No, I have not seen individual company
25 dividend policies.

1 Q. As a general matter, for policyholder
2 dividends, not shareholder dividends, in your
3 experience are those guaranteed by homeowners' carriers
4 to their policyholders?

5 A. My experience is that they are not
6 guaranteed.

7 Q. Is your experience that only some homeowners'
8 carriers can afford to grant policyholder dividends?

9 MR. BEVERLY: Objection. "Afford to,"
10 can you --

11 MR. FRIEDMAN: Sure.

12 Q. Have you referred to more than one
13 homeowners' carrier? Have you represented or done work
14 for individual homeowners' carriers outside of North
15 Carolina?

16 A. Yes, I have worked for multiple homeowners'
17 carriers.

18 Q. And did some of those homeowners' carriers
19 grant dividends, and others not, to policyholders?

20 A. Yes, that's correct.

21 Q. Now, in your work outside of North Carolina
22 for homeowners' carriers, did they grant dividends to
23 all of their policyholders or only some of them?

24 A. I previously mentioned I have not reviewed
25 individual company policies, so I would not know who

1 they issued dividend to or how they issued those.

2 Q. So, you at least know that they did issue --
3 some of them issued dividends, some didn't, but you
4 don't know how they chose among their policyholders or
5 if they did?

6 A. That's correct. I don't know how they would
7 choose.

8 Q. Do you know how those dividends that you
9 evaluated for companies outside of North Carolina were
10 related to the loss experience of those companies?

11 MR. BEVERLY: Objection. I don't
12 believe he testified that he evaluated dividends for
13 companies outside of North Carolina.

14 MR. FRIEDMAN: Yes. And I was asking
15 about whether, in doing that, he knew whether the
16 dividends that he saw that had been granted were
17 related to loss experience.

18 MR. BEVERLY: He testified --

19 A. I believe you asked if I was aware of whether
20 companies issued dividends. I did not evaluate the
21 dividends. I was just aware the dividends were issued.
22 That's publicly available information in their
23 statutory annual statements.

24 Q. Okay. So, is it fair to say, then, you are
25 not aware for those dividends you've examined for

1 homeowners' carriers outside of North Carolina, you
2 aren't aware whether they related to loss experience?

3 A. That's correct.

4 Q. You aren't aware of whether they were related
5 to investment results?

6 A. That's correct.

7 Q. Were you aware of whether they related to the
8 capital and surplus of the relevant company?

9 A. Given dividends are an expense provision,
10 that seems like a mismatch there. The dividends would
11 not correspond to the capital and surplus. It would
12 relate to the insurance operations.

13 Q. Okay. But I'm reading from -- that is what
14 the ASOP says --

15 A. Okay.

16 Q. -- that the actuary needs to consider whether
17 or not the dividends are taken -- needs to take into
18 account the -- whether dividends are related to capital
19 and surplus of the company.

20 MS. FUNDERBURK: Mr. Friedman, can you
21 phrase that as a question for the witness?

22 MR. FRIEDMAN: Sure.

23 Q. Do you agree that the ASOP provision, 3.7 of
24 ASOP 29, states that an actuary needs to consider
25 whether dividend experience for policyholders is

1 related to the capital and surplus of the company?

2 A. Yes, that's listed among the considerations.

3 Q. After reviewing the dividend data from ISO in
4 the 2024 hearing, did you pose any additional questions
5 to them about that data?

6 A. I will clarify one thing. I am not certain
7 that the data came from ISO.

8 Q. Okay.

9 A. It may have come from the Rate Bureau.
10 That's publicly available so --

11 Q. But ISO did the work on the dividend
12 provision, correct?

13 A. They would have prepared the exhibit that was
14 then presented and discussed at the Rate Bureau
15 committee meeting.

16 Q. And you would have reviewed that exhibit?

17 A. Yes.

18 Q. Okay. Did you have any questions for them
19 about it when you reviewed it?

20 A. I don't recall any specific questions. It's
21 possible that if the historical experience reflected
22 something that was unique or different, certainly
23 questions would have been asked during review process
24 just to ensure understanding of the data.

25 Q. Do you recall asking them any of the

1 questions that are contemplated by 3.7? And I'm
2 speaking particularly about the relationship between
3 the payment history or the dividend history and how
4 they relate to loss experience investment results or
5 the capital and surplus of the company?

6 A. No. Those -- I mean, those types of
7 questions really wouldn't apply just based on the
8 nature of our analysis. The Rate Bureau's aggregating
9 data for all member companies for the entire state, and
10 some of these components relate to company specific
11 decisions as to whether those dividends are being
12 issued. The Rate Bureau is aggregating that data and
13 evaluating it to make selections.

14 Q. So, are you saying that the Rate Bureau only
15 has to derive the pure numbers of the dividend history,
16 and that it doesn't have to individually ask its
17 members about, for instance, whether their dividends
18 are related to loss experience, investment results, or
19 capital and surplus of the company?

20 MR. BEVERLY: Objection. You can answer
21 if you understand the question.

22 A. I don't know that.

23 Q. Okay. So you don't know my question, or
24 would you like me to restate the question?

25 A. Sure. You can restate the question.

1 Q. Okay. You just testified that in aggregating
2 the dividend data from the North Carolina Bureau
3 homeowners' carriers, the Bureau would be aggregating
4 the numbers, the numbers and dividends that overall
5 were handed out by the member companies; is that fair?

6 A. Yes, the Rate Bureau would be aggregating the
7 data for member companies.

8 Q. And because there were multiple member
9 companies, do you believe the Rate Bureau has to,
10 itself, inquire into whether those dividends are
11 related to loss experience, investment results, or the
12 capital and surplus of the individual companies?

13 A. I don't know if they make inquiries as to
14 that level of detail. My understanding is that the
15 data is reviewed for reasonability, the data is -- if
16 it came through the statistical plans, it would be
17 coming from multiple entities and that -- that level of
18 detail or follow-up is typically done when there is
19 something unusual or something that stands out that
20 would result in questions.

21 If the data looks reasonable, again, that
22 level of detail, to my understanding, wouldn't be
23 considered -- wouldn't be followed up on in a rate
24 review cycle.

25 Q. I am going to ask you a couple of

1 hypotheticals. If the -- even some of the member
2 companies were granting dividends based on their
3 available capital and surplus, in your understanding of
4 North Carolina law, would that be a violation?

5 A. I would need to consult the North Carolina
6 law or counsel to provide their perspective on North
7 Carolina law.

8 Q. So, aside from what ISO or the Bureau is
9 doing with regard to dividends, did you -- do you
10 believe that since you found that the dividend
11 provision was actuarially reasonable in your report,
12 you had any individual obligation to inquire about
13 whether the dividends were related to loss experience,
14 investment results, or capital and surplus?

15 A. I did not consider that obligation.

16 MR. FRIEDMAN: Your Honor, I don't know
17 if anybody needs a break. I'm happy to go on until 12,
18 whichever, but just inquiring.

19 MS. FUNDERBURK: We've only been back on
20 the record for about an hour. My preference is to go
21 through the lunch break unless counsel -- does counsel
22 need a break?

23 MR. FRIEDMAN: No, I'm good.

24 MS. FUNDERBURK: Counsel?

25 MR. BEVERLY: Fine, Your Honor.

1 MS. FUNDERBURK: Okay. Are you fine to
2 proceed? Yeah, let's proceed through lunch -- until
3 lunch.

4 Q. All right. So, going back to the ASOPs. So,
5 we are still under ASOP 29, and so we are in Book 3,
6 and in particular I am going to be referring to 3.15,
7 which is on page 48 of that exhibit.

8 A. Okay.

9 Q. Are you there?

10 A. Uh-huh.

11 Q. All right. Under documentation 3.15 of ASOP
12 29, it states, "The actuary should prepare and retain
13 documentation to support compliance with the
14 requirements of Section 3 and the disclosure
15 requirements of Section 4. The actuary should prepare
16 such documentation in a form such that another
17 qualified -- another actuary qualified in the same
18 practice could assess the reasonableness of the
19 actuary's work."

20 So, the only part of the filing that you
21 calculated yourself, was the contingency provision; is
22 that correct?

23 A. That's correct.

24 Q. And I'm happy to go back over your report,
25 but do you recall saying that -- maybe we can shortcut

1 this, that -- you have already testified that you said
2 that the dividend calculation was actuarially
3 reasonable. Do you recall saying that as well about
4 the profit provision? We will turn back to it then.

5 I'm not trying to at all trip anybody up. In
6 fact, why don't we go over each of the ones in there
7 that I understand you relied on.

8 I guess we'll start with page 3 of your
9 report, and this is, so everyone knows, back in Book 1,
10 Exhibit RB-19. On page 3 you state -- do you see where
11 you state in -- what paragraph?

12 MR. FRIEDMAN: Give me a second, Your
13 Honor. I know what I'm looking for. I'm just trying
14 to figure out which page it was on.

15 Q. On the top of page 4, second line, you state
16 that "The indicated rates reflect the expected value of
17 future costs associated with ensuring homeowners'
18 policies. These expected costs include claims, claim
19 settlement expenses, operational administrative
20 expenses, and the costs of capital."

21 By saying that the indicated rates do, in
22 fact, reflect the expected value of future costs, are
23 you saying that the indicated rates, as selected by the
24 Bureau and worked on by ISO, Aon, and Dr. Zanjani, are
25 actuarially reasonable?

1 A. Can you repeat the question?

2 Q. Sure. By saying that -- when you state that
3 the indicated rates reflect the expected value of
4 future costs associated with ensuring homeowners'
5 policies, does that mean that you believe that the work
6 done by ISO, Aon, and Dr. Zanjani is actuarially
7 reasonable?

8 A. That statement would suggest that the
9 indicated rates, to the extent they are relied on,
10 Dr. Zanjani and Ms. Mao and Mr. Ericksen, that the
11 indicated rates reflect the expected value of future
12 costs, doesn't say anything about reasonability in that
13 statement.

14 Q. But by saying that affirmatively they do
15 reflect the expected value, are you not giving any
16 opinion on whether or not the results of Aon,
17 Dr. Zanjani, and ISO were reasonable?

18 A. Yes. At the end of my testimony, I make
19 statements related to that. It says "If I assume the
20 provisions for profit, compensation for assessment
21 risk, and net cost of reinsurance are reasonable, that,
22 in my opinion, the overall homeowners' rate level
23 indication, and the indications by policy, form, and
24 territory for materials are reasonable and actuarially
25 sound."

1 Q. Okay. But I'm asking about a different --
2 this is a different question from the hypothetical that
3 you assumed at the end of the report. I'm asking about
4 the statement on the top of 4 where you said, "The
5 indicated rates do reflect the expected value of future
6 costs." I have a do there. By saying that, are you
7 implying without any assumptions or hypotheticals that
8 they are, in fact, the expected value of future costs?

9 A. Are you asking if the indicated rates are the
10 expected value of future costs, or are you asking if
11 they are reasonable?

12 Q. The first question.

13 A. Yes. I mean, this statement articulates
14 that. The indicated rates reflect the expected value
15 of future costs.

16 Q. And that's your actuarial opinion?

17 A. Yes, this is -- this is my opinion.

18 Q. And doesn't that -- by saying that they are
19 the expected value of future costs, aren't you, at the
20 very least, implying that the data from which the --
21 the data work done by Dr. Zanjani, Ms. Mao, and ISO are
22 actuarially reasonable?

23 A. Yes, I can make that extension. So, my
24 comment is on each of the individual components that
25 they are reasonable. So, I would be comfortable

1 saying that the aggregation of those components, so the
2 expected value of future costs reflecting their --
3 their work product, their inputs, is also reasonable.

4 Q. Okay. The next sentence in that same
5 paragraph, "These expected costs include claims, claim
6 settlement expenses, operational and administrative
7 expenses, and the cost of capital."

8 What do you mean when you say that the
9 expected costs include the cost of capital?

10 A. The cost of capital would be reflected in the
11 profit provision.

12 Q. Okay. So it's your understanding that, in
13 fact, the Bureau's profit provision takes into account
14 the cost of capital?

15 A. I believe Dr. Zanjani testified that in his
16 analysis he compared what the cost of capital was as it
17 corresponded to different underwriting profit
18 provisions, and that was the basis of the selection
19 process for the committee. So, he simply compared
20 underwriting profit provisions and the resulting cost
21 of capital. So, it wasn't the basis -- my
22 understanding it wasn't the basis of the cost of
23 capital, it was just a comparison that was presented to
24 the committee to make the selection.

25 Q. And that's your understanding after listening

1 to his testimony yesterday?

2 A. There was a lot of testimony yesterday.

3 Q. There was.

4 A. Yes, that's my understanding.

5 Q. What about at the time you wrote this report,
6 at that time, as an actuary, did you understand that
7 his calculation was based on the cost of capital?

8 A. I believe he said that his calculation --
9 yesterday he said his calculation was based on risk
10 premium method.

11 Q. But I am asking you when you wrote your
12 report that was submitted to the Bureau on January 3rd
13 of this year.

14 A. At that time I would have been aware of his
15 methodology and similar information to what he
16 presented yesterday.

17 Q. Did you believe at the time that the -- you
18 wrote this report that the indicated rates include --
19 reflect the expected value of future costs associated
20 with ensuring homeowners' policies and these expected
21 rates include claims, claim settlement expenses,
22 operational and administrative expenses, and the cost
23 of capital?

24 A. As I mentioned earlier --

25 Q. Did you -- maybe I will withdraw that

1 question.

2 How about this, did you appreciate the
3 nuances that Mr. -- that Dr. Zanjani attempted to draw
4 between his meaning of the cost of capital versus an
5 actuarial meaning at the time you wrote your report?

6 MR. BEVERLY: Objection.

7 Q. What is the actuarial meaning for cost of
8 capital?

9 A. I believe it will be consistent with what
10 Dr. Zanjani articulated yesterday where it's the
11 required return that investors, or those that provide
12 the capital, require, demand for contributing those
13 funds.

14 Q. And part of that required demand would
15 include what they expect to receive from capital and
16 surplus, is that correct, from an actuarial's
17 perspective?

18 MR. BEVERLY: Objection. Misstates
19 Dr. Zanjani's testimony, Your Honor.

20 MR. FRIEDMAN: No, I'm not talking
21 about --

22 MS. FUNDERBURK: Let Mr. Beverly finish.

23 MR. FRIEDMAN: Sorry.

24 MR. BEVERLY: I'm done, Your Honor. I
25 believe the foundation misstates his testimony.

1 Q. I'm not asking about Dr. Zanjani's
2 understanding of his use of the term "cost of capital."
3 I'm asking about you, as an actuary. And I believe you
4 said you have prepared cost of capital estimates
5 before?

6 A. I said I had calculated underwriting profit
7 provisions.

8 Q. Okay. And in calculating those, has it been
9 your understanding that the cost of capital would
10 include anticipated investment income from capital and
11 surplus?

12 A. My understanding, based on Dr. Zanjani's
13 testimony, is that the cost of capital is a requirement
14 or a demand from the investor and it's not identifying
15 or doesn't relate to the sources of that income or what
16 might provide that return.

17 Q. And is that your understanding aside from
18 Dr. Zanjani's testimony, because he was not testifying
19 as an actuary? Is that your understanding as an
20 actuary too?

21 A. Yes.

22 MR. FRIEDMAN: Give me a second, Your
23 Honor.

24 Q. From your actuary's perspective, does the
25 cost of capital include unrealized dividends that a

1 shareholder expects to receive?

2 A. I just mentioned that the -- my understanding
3 is the cost of capital is the required return. It's
4 not the individual components. It's the expectation or
5 the required return on providing capital or surplus to
6 an entity.

7 Q. Do you know whether the -- one of the methods
8 for calculating the cost of capital or the cost of
9 equity is the expected but unrealized returns on
10 shareholder dividends?

11 A. Can you repeat --

12 MR. BEVERLY: Objection. Return on
13 dividends, is that the question?

14 Q. Unrealized -- unrealized gains on dividends.

15 MS. FUNDERBURK: Can you repeat the
16 question?

17 MR. FRIEDMAN: Sure. I will tell you
18 what, I will table this and we will come back to it.

19 Q. So, going back to the ASOPs, I'm on ASOP --

20 MR. FRIEDMAN: Is everybody in Book 3?
21 And we are at Exhibit 12.

22 Q. And I am talking about ASOP 29, and in
23 particular on page 48, subsection 3.15. The second
24 sentence there reads, "The actuary should prepare such
25 documentation in a form such as that another actuary

1 qualified in the same practice area could assess the
2 reasonableness of the actuary's work."

3 My question is, with regard to the work that
4 Aon, Dr. Zanjani, and ISO prepared, were you obligated
5 under that ASOP to prepare your own documentation about
6 their work in a sufficient form that the Department's
7 actuaries qualified in the same practice area could
8 assess the reasonableness of it?

9 A. That was a long statement or question. Can
10 you please repeat that?

11 Q. Sure. I will break it up.

12 So, would you agree that under 3.15 Ms. Mao
13 and Mr. Ericksen were required to prepare their
14 documentation in a form such that the Department's
15 actuaries, who were qualified in the same practice
16 area, could assess the reasonableness of their work?

17 A. Yes.

18 Q. And by virtue of you having said that you
19 thought their work was actuarially reasonable, in your
20 report, did you have that same obligation to present
21 the documentation about the reasonability of their
22 work, knowing that your report is going to be relied on
23 by the Department's actuaries?

24 A. No, I don't believe so. This statement
25 refers to the actuary who completed the work is the one

1 preparing the documentation. In fact, I would be the
2 one on the receiving end of that. I would be the
3 actuary reviewing the other actuary's work.

4 Q. But if by approving of it in your report, do
5 you not have any additional duty to explain to the
6 Commissioner of Insurance and his actuaries why you're
7 approving it in your documentation? Do you have any
8 additional obligation to produce documentation showing
9 why you approved of the other actuary's communications
10 or work?

11 MR. BEVERLY: The question is whether he
12 has an obligation?

13 MR. FRIEDMAN: Yes. Or can he simply --

14 Q. Can you simply, Mr. Anderson, point to the
15 other actuaries and assume that they have provided such
16 documentation?

17 A. I was just reviewing my testimony to see how
18 much I discussed the review of Ms. Mao's work product
19 or Dr. Zanjani's. In reviewing their work for
20 reasonability, I believe it's sufficient to simply
21 state that the work is reasonable. I do articulate or
22 expand on several of the components, specifically the
23 work that Ms. Mao did. I believe I gave some more
24 discussion around just the review process that would
25 have supported that statement of being able to -- being

1 able to make the statement that it was reasonable.

2 Q. Is it fair to say that you believe that your
3 report reflects the extent of how much you need to
4 comply with 3.15? Does it -- in other words, does it
5 extend -- express the extent of all you believe you are
6 obligated to provide with regard to another actuary's
7 documentation?

8 A. 3.15 is referring to the documentation of an
9 actuary's work product. The only part of my testimony
10 or report that would fit with this is the discussion
11 around the contingency since that's the work that I
12 developed and that I did. So, the documentation that's
13 articulated here should be reflected in my report as it
14 relates to the contingency provision.

15 Q. Okay. So, in other words, you don't think
16 you have a responsibility to provide any documentation
17 in support of your statements that Ms. Mao's work,
18 Dr. Zanjani's work, and ISO's work were actuarially
19 reasonable?

20 MR. BEVERLY: Objection. Misstates his
21 testimony. I would also ask, Your Honor, counsel only
22 read half of 3.15. I would ask that the remainder of
23 it be read into the record, please.

24 MR. FRIEDMAN: Okay.

25 MS. FUNDERBURK: And we will read that

1 into the record.

2 Counsel, your response to Mr. Beverly's
3 objection.

4 MR. FRIEDMAN: Should I read it into the
5 record first so that I can ask a question?

6 MS. FUNDERBURK: Please go ahead and
7 read it into the record.

8 MR. FRIEDMAN: Absolutely. I didn't
9 understand you, Your Honor.

10 "The actuary" -- I will read it from the
11 start -- "should prepare and retain documentation to
12 support compliance with the requirements of Section 3,
13 and the disclosure requirements of Section 4. The
14 actuary should prepare such documentation in a form,
15 such that another actuary qualified in the same
16 practice could assess the reasonableness of the
17 actuary's work. The amount, form, and detail such
18 documentation should be based on the professional
19 judgment of the actuary and may vary with the
20 complexity and purpose of the actuarial services. In
21 addition, the actuary should refer to ASOP No. 41 for
22 guidance related to the retention of file material
23 other than that which is to be disclosed under
24 Section 4."

25 MS. FUNDERBURK: Thank you. Now we've

1 got that.

2 MR. BEVERLY: Thank you.

3 MS. FUNDERBURK: Let's ask your question
4 again.

5 MR. FRIEDMAN: Sure.

6 MS. FUNDERBURK: And we will give
7 Mr. Beverly an opportunity to object, if necessary, if
8 he has continued concerns about the characterization of
9 the prior testimony.

10 Please go ahead, Mr. Friedman.

11 Q. Based on all of the language I've just read,
12 do you believe you had any responsibility to provide
13 any documentation regarding Ms. Mao's work, ISO's work,
14 or Dr. Zanjani's work beyond what is actually contained
15 in your expert report?

16 A. So, this ASOP in this section of the ASOP
17 doesn't refer to reliance on other actuaries or other
18 experts. This -- again, this form of documentation
19 relates to work product specifically related to expense
20 provisions. In my comments in response to my counsel,
21 I articulated how, in relying on others, the
22 requirement is to identify that it's reasonable and to
23 disclose that reliance, which is done in my testimony.

24 Q. You're right. This reveals -- entirely
25 relates to expense provisions. And so, ISO developed

1 the -- or worked on the expense provisions, other than
2 loss adjustment expenses for hurricanes, is that your
3 understanding?

4 A. Again, they -- I believe they presented the
5 exhibit to the committee. I believe the Rate Bureau
6 may have actually aggregated some of the expense data.
7 But, yes, ISO would have presented the summarized
8 expense data to the committee.

9 Q. In your report, do you want me to point to
10 where you said that the expense trend was reasonable?

11 A. Can you repeat that question?

12 Q. Sure. I will tell you what, I will find it
13 in your report.

14 Are expense trends, ultimately, part of the
15 loss trend?

16 A. No.

17 Q. So, for general losses, they are a separate
18 factor, but they aren't technically part of the loss;
19 is that fair?

20 A. I'm not sure I understand your question. An
21 expense trend would apply to the underwriting expense
22 provisions, so general expense, other acquisition
23 expense. The loss trend is applied to losses.

24 Q. When you stated on page 4 that the indicated
25 rates in the whole filing reflected the expected value

1 of future costs, would that have included the indicated
2 rates that were chosen by the Bureau for expenses?

3 A. The indicated rates include provisions for
4 expenses. I'm not sure what your question was.

5 Q. That's -- I appreciate that. Just clarifying
6 that.

7 A. Okay.

8 MR. FRIEDMAN: Your Honor, I'm going to
9 try to wrap up discussion of the ASOPs before noon, if
10 I could.

11 Q. Going to ASOP 30, which is -- begins at
12 page 50 in Book 3, Exhibit 12.

13 A. Okay.

14 Q. This provision relates to the treatment of
15 profit and contingency provisions, correct?

16 A. That's correct.

17 Q. And you reviewed Dr. Zanjani's treatment of
18 profit and found it was actuarially reasonable,
19 correct?

20 A. That's correct.

21 Q. And you calculated the contingency provision,
22 or at least the data for it, that was eventually
23 selected by the Bureau, correct?

24 A. That's correct.

25 Q. Okay. Under Section 4.1, which is at

1 page 54.

2 A. Okay.

3 Q. With regard to profits and a contingency
4 provision, the -- it states that, "If a law or
5 regulation conflicts with the provision of this
6 standard, the actuary should develop a rate in
7 accordance with the law or regulation and disclose any
8 material difference between the rates so developed and
9 the actuarially determined rate to the client or
10 employer."

11 My question is with regard to your
12 development of the contingency provision, whether you
13 have an obligation to develop that rate in accordance
14 with North Carolina law including case decisions on the
15 contingency provision?

16 A. It's my understanding that the analysis I
17 presented to the committee did comply with North
18 Carolina law.

19 Q. Okay. And that analysis, was that based
20 solely on the word of the Bureau's attorneys?

21 A. Yes.

22 Q. Okay. And do you feel that you had --
23 because you have to actually calculate the contingency
24 provision in accordance with North Carolina law, you
25 had any additional responsibility to investigate what

1 that law was beyond --

2 MR. BEVERLY: Ob- -- I'm sorry, I will
3 let you finish your question.

4 MR. FRIEDMAN: That's the question.

5 MR. BEVERLY: Objection. Asked and
6 answered.

7 A. I guess I would clarify I did not calculate
8 the contingency provision. I calculated the impact of
9 one of the items that was identified as a reason for
10 having a contingency, so...

11 Q. And you did read the 2014 order, if I recall
12 correctly, at sometime in the past?

13 A. Sometime in the past.

14 Q. Also under ASOP 30, could you turn to 2.12.
15 The definition of total return is, "The sum of
16 operating profit and investment income on capital
17 usually after income taxes, often expressed in
18 percentage terms."

19 Is that your understanding, as an actuary, of
20 the meaning of the term "total return"?

21 A. That's this definition of "total return."

22 Q. Are you bound by this definition?

23 MR. BEVERLY: In terms of what? Bound
24 by in terms of what, please?

25 MR. FRIEDMAN: In terms of his

1 compliance with the -- that when he uses the term
2 "total return," this is its meaning.

3 MS. FUNDERBURK: Mr. Anderson, when
4 there's an objection or discussion amongst the parties,
5 you can wait to respond. It can go a couple different
6 ways. I can sustain the objection. You may not have
7 to respond. I may overrule it and you'll respond. I
8 may sustain it. You may hear one of the attorneys ask
9 to make, what's called, an offer of proof where you
10 would -- even though the objection would be sustained,
11 you might testify anyway, but you can hold your
12 testimony until we make a determination on that.

13 MR. FRIEDMAN: So, my question --

14 MS. FUNDERBURK: And, please, address
15 the Court.

16 MR. FRIEDMAN: Sorry. As --

17 MS. FUNDERBURK: If you could rephrase
18 your question.

19 Q. As an actuary, when you use the term "total
20 return," do you mean it to have the meaning in 2.12 of
21 ASOP 30?

22 MS. FUNDERBURK: And you may answer.

23 A. I mean, this is a definition of "total
24 return" in this ASOP. The term "total return" uses two
25 commonly used words that it's certainly perceivable

1 that I could use those two words together as total
2 return related to several different things. I mean,
3 this is specifically in the context of profit
4 provisions and contingency here.

5 Q. So, specifically in the context of profit
6 provisions, as an actuary, is that the meaning of
7 "total return" for you?

8 A. That's a -- yes, that's a meaning that I
9 would be comfortable using and articulating, if I'm
10 talking about the concepts described here.

11 Q. And, in fact, that's the meaning that you're
12 bound to apply unless you knew of a law that defined it
13 differently for the purposes of the profit provision,
14 correct?

15 A. Are you basing that off of this ASOP?

16 Q. Well, no, we can turn to -- back to ASOP 1.
17 I'm at page 6 of this Exhibit. 4.1 states that ASOPs
18 are binding upon actuaries. So, is that definition of
19 total return something you are bound to apply?

20 A. There is no action that's being required by
21 this. It's a definition.

22 Q. Right. And my question is, is that
23 definition the definition you are bound to apply under
24 the ASOPs? The definition we have just gone over of
25 "total return."

1 A. In the context of profit provisions, yes.

2 MR. FRIEDMAN: Your Honor, this is
3 probably the best breaking point before lunch for me.

4 MS. FUNDERBURK: Okay. Can you give me
5 a little bit of a roadmap? Are you finished with the
6 ASOP questions or do you anticipate -- it sounds like
7 you're telling me you're not concluded with
8 Mr. Anderson as a witness.

9 MR. FRIEDMAN: I am not meaning to at
10 all suggest that I am through with Mr. Anderson as a
11 witness. I think that other than referring back at
12 various times when we're going over his actual
13 testimony and the actual findings of the others who
14 worked on the filing, I may refer back to the ASOPs,
15 but as far as just questioning him about his
16 understanding of the plain language, I am through with
17 that.

18 MS. FUNDERBURK: Thank you. All right,
19 that does seem to be a good break point.

20 Counsel, are there any matters we need
21 to address before we recess?

22 MR. BEVERLY: Not from the Rate Bureau,
23 no.

24 MS. FUNDERBURK: Mr. Anderson, I will
25 remind you, you are still under oath when you come back

1 after lunch to take the stand. You will continue to be
2 under oath.

3 It is about five until 12. We will take
4 an hour and a half for lunch. We will come back at
5 1:30. I ask that counsel is ready to proceed, seated
6 and ready to proceed at 1:30, and anyone who will be
7 returning for the afternoon session is seated and ready
8 to go.

9 We are in recess. Thank you.

10 (Hearing adjourned at 11:57 a.m. with
11 resumption scheduled at 1:30 p.m.)

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