

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 I - A.M. SESSION

Raleigh, North Carolina

October 7, 2024

10:01 a.m.

A P P E A R A N C E S:

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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 7th of October, 2024, at 10:01 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. I'm going to ask everyone to take your seats at this time.

Madam Court Reporter, Madam Clerk, we are on the record.

Good morning everyone and welcome.

AUDIENCE: Good morning.

MS. FUNDERBURK: Thank you. I hereby call to order our scheduled hearing for today, October 7, 2024, in the matter of the filing dated January 3, 2024, by the North Carolina Rate Bureau for the revision of homeowners' insurance rates.

My name is Amy Funderburk. I serve as general counsel for the North Carolina Department of Insurance, and I have been appointed as hearing officer today by Commissioner Mike Causey. I've been told I have a tendency to speak in a low voice. I will ask the court reporter, the clerk, and counsel to let me know if my voice does drop off or if you have any difficulty hearing me.

I will remind counsel that your microphones have been adjusted. It's a natural response to try to grab it and bring it towards you

1 to be heard, please don't do that. If the clerk or
2 the court reporter have difficulty hearing you,
3 they will let you know and let you know to adjust
4 your microphone.

5 There are a couple housekeeping issues
6 I'd like to cover. First of all, the full
7 transcript of the hearing will be available on the
8 Department of Insurance website the following
9 morning. This is a pretty monumental task for the
10 court reporters to accomplish, and I appreciate
11 your efforts in that regard.

12 The hearing is expected to last multiple
13 weeks. They will not necessarily be consecutive
14 weeks, in order to meet the schedules of counsel
15 and the witnesses. We do expect to hold court
16 every day this week, schedules could, of course,
17 fluctuate, but we do expect to hold court every day
18 this week.

19 The hearing will be conducted very much
20 in the way you are familiar with hearings taking
21 place. Counsel will call witnesses. They will
22 produce exhibits that the witnesses may reference.
23 The public comment has already taken place in this
24 hearing, so that only individuals presenting
25 information and questioning witnesses will be

1 members of counsel .

2 And, Counsel , you may choose to present
3 exhibits in the traditional way by handing them up
4 to your witnesses, you may choose to use the new
5 technology and present the exhibits for viewing on
6 the screens. I will leave that completely up to
7 counsel .

8 All right. This is a courtroom.
9 Courtroom decorum is to be followed. I ask that,
10 for purposes of minimizing noise, you minimize
11 entering and exiting the room. If you have a cell
12 phone with you, which I assume everybody does,
13 please turn that off now or place it on vibrate or
14 silent. If you have a need to have a conversation,
15 please take that into the hallway. I appreciate,
16 in advance, your efforts to minimize noise so that
17 we cannot interfere with the recording or -- and,
18 therefore, not interfere with transcript that the
19 court reporter needs to make.

20 We are here today because earlier this
21 year the North Carolina Rate Bureau filed a request
22 to raise rates with the North Carolina Department
23 of Insurance. The Rate Bureau is not part of the
24 Department of Insurance. The Department of
25 Insurance is not part of the Rate Bureau.

1 Objections were raised to the filing,
2 which led to a public comments period, and then led
3 us to the hearing today. The filings are, I would
4 say, for the minimum, they are complicated
5 containing quite a bit of data, as well as opinions
6 from actuarial experts.

7 Now, Counsel, there may be times when I
8 will ask a witness or the attorneys questions, but
9 I will generally leave it to the attorneys to
10 present their case and advocate their position
11 without interrupting and without breaking the flow
12 of your witness presentation. There may be
13 requests for procedural rulings from the parties
14 from time to time, and those may or may not be
15 ruled on today. They may be preserved to a later
16 date.

17 We will take brief recesses. We will
18 try to schedule those so as not to interrupt the
19 flow of witness testimony. Likewise, we will break
20 for lunch each day, and we will attempt to do that
21 at a time that does not interrupt the flow of
22 witness testimony.

23 We have 45 days after the final
24 conclusion of the hearing to issue an order, which
25 then may be appealed by the parties.

1 At this time, I will ask the attorneys
2 to introduce themselves, and whom they represent in
3 this case. I will start with the Bureau.

4 MR. FRIEDMAN: Terence Friedman for the
5 Department of Insurance.

6 MS. FUNDERBURK: Thank you,
7 Mr. Friedman.

8 MS. WHARRY: Shannon Wharry, Department
9 of Insurance.

10 MS. FUNDERBURK: Thank you, Ms. Wharry.

11 MR. SPIVEY: Mickey Spivey for the Rate
12 Bureau.

13 MS. FUNDERBURK: Thank you.

14 MR. BEVERLY: I am Brian Beverly for the
15 Rate Bureau.

16 MS. FUNDERBURK: Thank you, Counsel.

17 And, for the record, I'd like to
18 recognize, in particular, Ms. Pearce, who is -- I'm
19 sorry.

20 MS. LEEAPHORN: Lisa Leeaphorn for the
21 Rate Bureau.

22 MS. FUNDERBURK: Thank you. I'm so
23 sorry to interrupt. Thank you very much.

24 I'd like to recognize Ms. Pearce, who
25 serves clerk in this matter. She's been

1 instrumental in the logistics for this complex
2 process. There are several members of the DOI
3 staff that have also been instrumental in the
4 process. For the sake of brevity, although you
5 know how are, I will not try to name everyone for
6 accidentally leaving anyone off. There are many
7 things that had to be arranged to accomplish this
8 process, from getting chairs in place, from
9 arranging a potential overflow space, arranging
10 lunches, arranging parking, arranging to have the
11 court reporter in place. Logistically, it was a
12 heavy lift, and I do appreciate everyone's efforts
13 to help us have a smooth hearing process.

14 I will now ask legal counsel for the
15 Rate Bureau and the Department of Insurance to
16 proceed. Counsel, are there any preliminary or
17 housekeeping matters to take care of before we
18 commence?

19 MR. FRIEDMAN: No, Your Honor.

20 MR. BEVERLY: If it please the Court,
21 Your Honor, Brian Beverly for the Rate Bureau.
22 Your Honor, in compliance with the Court's
23 instructions relative to publication of the notice
24 of this hearing, I wanted to apprise the Court that
25 notice was published in the Raleigh News and

1 Observer and the Charlotte Observer. I have
2 affidavits of publications should the hearing
3 officer wish to see those, but just wanted to
4 advise you that that mandate was met.

5 MS. FUNDERBURK: Thank you.

6 Mr. Friedman, do you have any concerns about the
7 publication?

8 MR. FRIEDMAN: No, ma'am.

9 MS. FUNDERBURK: Okay. Any other
10 housekeeping or preliminary matters we need to
11 address?

12 MR. SPIVEY: Not from the Rate Bureau.

13 MS. FUNDERBURK: Mr. Friedman, from the
14 Department of Insurance, are there any matters we
15 need to address before we commence?

16 MR. FRIEDMAN: No. Not that I am aware
17 of, Your Honor.

18 MS. FUNDERBURK: And I'll ask counsel
19 have any of the issues in the Notice of Hearing
20 been pared down, or are we still addressing the
21 full range of issues raised in the Notice of
22 Hearing?

23 MR. FRIEDMAN: I am afraid that the
24 Department has not been able to pare down anything.
25 There is still a great number of disputed facts.

1 MS. FUNDERBURK: Counsel, would you like
2 to make opening statements?

3 MR. SPIVEY: Yes, Your Honor.

4 MS. FUNDERBURK: Please proceed.

5 MR. SPIVEY: Your Honor, homeowners'
6 insurance provides protection against a whole host
7 of different kinds of losses. A homeowners'
8 insurance policy provides protections against a
9 whole host of different kinds of damage or loss.
10 But probably the most important protection that the
11 homeowners' policy provides is protection for
12 damage to what is likely the single most valuable
13 asset that most of us own, our house, our home we
14 live in.

15 Here in North Carolina today, our homes
16 are being subjected to damage from all kinds of
17 perils but especially catastrophic storms that are
18 getting worse and worse. Here in North Carolina
19 today, everything is more expensive. Over the past
20 several years, we've had inflation at the highest
21 levels we've had in over 40 years. And in North
22 Carolina today, we have not had an increase in
23 homeowners' insurance rates in several years. The
24 last Rate Bureau filing for a homeowners' insurance
25 rate increase, before this filing, was the one

1 submitted in November 2020, almost four years ago.
2 On that filing the Commissioner approved only a
3 small part of the requested increase, and even that
4 increase was conditioned on the Rate Bureau not
5 filing another request until this year.

6 As a result of all of these things, the
7 Rate Bureau's filing in this case shows, and the
8 evidence that we present during this hearing will
9 show, that homeowners' insurance rates in North
10 Carolina today are severely inadequate. That is
11 what the data tell us, and that is what the
12 marketplace is telling us. And that's why this
13 rate hearing in front of you, rate filing in front
14 of you in this hearing, is requesting an increase
15 of 42.2 percent. That's a big number, but that is
16 what is needed.

17 We, here in North Carolina, are not
18 alone. Homeowners' insurance rates have gone up
19 and are continuing to go up all around the country.
20 But, again, as I said, while rates have been going
21 up most everywhere else, here in North Carolina we
22 have not had a rate increase in several years.

23 Now, what happened over those last
24 several years? Again, we had a period -- a period
25 of the highest inflation we have had since the

1 1970s. Prices have gone up on pretty much
2 everything. Especially they have gone up on
3 construction materials and building supplies. The
4 very things that insurance companies have to pay
5 for when they are repairing homes that have been
6 damaged by fire or hail storms and hurricanes.

7 Now, fortunately, for all of us, the
8 rate of inflation is coming back down some. Let's
9 not forget, though, that doesn't mean that prices
10 have come down. Prices of construction materials,
11 for example, they have not come back down to what
12 they were several years ago. That's not what
13 inflation coming down means. When inflation is
14 cited, and we see the news that inflation is coming
15 down, that simply means that the rate at which
16 prices are increasing have slowed down some. When
17 prices go up on the things that insurance pays for,
18 it's only logical that insurance rates have to go
19 up as well. And the inflation and the cost of
20 consumer goods and construction materials, et
21 cetera, that we are talking about there, that's
22 just one of many things that impact the cost of
23 insurance.

24 Another one of those things is the
25 catastrophic storms I mentioned. Hurricane Helene

1 made landfall on the Gulf Coast of Florida on
2 September 26th, just very recently, obviously, and
3 it made landfall there as a large Category 4
4 hurricane. It devastated the beach and coast where
5 it hit Florida, but then Helene continued northward
6 where it hit North Carolina with only tropical
7 storm force wind and, then, large amounts of rain.
8 And, as we all know, the result has been historic
9 loss of life and damage that is described as
10 apocalyptic. The dollar amount of that damage in
11 North Carolina is not known to this point, but it
12 will be many billions of dollars.

13 Hurricane Florence hit North Carolina on
14 the North Carolina coast six years ago in September
15 of 2018. Recall, Florence approached the North
16 Carolina coast as a large Category 4 hurricane,
17 then, almost miraculously, that storm weakened, and
18 when it made landfall, it was a Category 1 storm.
19 Even as a much weakened hurricane, Florence caused
20 billions of dollars of damage in North Carolina and
21 a significant portion of those dollars were paid by
22 insurance companies on homeowners' insurance
23 policies.

24 Now, whether you want to call it climate
25 change or not, there is no denying that we are

1 having bigger, stronger, and more costly
2 catastrophic storms than we have seen in any of our
3 lifetimes.

4 Now, none of us like to have to pay more
5 for things that we have to buy. Whether it's our
6 groceries, our clothing, our mobile phones, or our
7 insurance, rising prices are not welcomed, and we
8 get upset when we have to pay those higher prices.
9 But homeowners' insurance companies are just like
10 our grocery stores, our clothing stores, the mobile
11 phone companies, they are businesses that need to
12 be able to charge a fair price for the products
13 they provide. The insurance companies, providing
14 homeowners' insurance here in North Carolina, are
15 providing a valuable, needed product, and they
16 should not be demonized for asking for a fair rate.

17 Your Honor, your statutory charge in
18 this rate hearing is to set rates that are not
19 excessive but which are also not inadequate or
20 unfairly discriminatory. So, what does that mean?
21 One way of saying it is that rates must be
22 sufficient that homeowners' insurance will be
23 available, that people should be able to buy it
24 from a company that they wish to do business with.
25 It means that the rates must be sufficient so that

1 the companies that sell insurance using those rates
2 will be around to pay the claims if and when a big
3 hurricane hits. The statutory rate standard is
4 there to protect both the policyholders and the
5 companies writing coverage.

6 Companies that want to do business here
7 in North Carolina have to utilize the rates that
8 are set in this proceeding, that's what the Rate
9 Bureaus charge is in the statutes, to promulgate
10 rates that meet that statutory standard and that
11 its member companies are to use those rates. If
12 those rates do not allow them to earn the fair
13 profits that they are entitled to earn under the
14 laws, companies have two alternatives. One, they
15 can use the consent to rate procedures. They are
16 allowed by law, and if they use those procedures
17 and the policyholder agrees, then they can charge
18 rates higher than the rates set in this proceeding.
19 Or, secondly, they can simply choose not to sell
20 homeowners' insurance here in North Carolina at
21 all. Those decisions are individual company
22 matters. The Bureau is not involved in those
23 decisions.

24 Now, those alternatives, that's not just
25 an academic discussion. We all know from the data

1 in this case, and from what we see and hear in the
2 media, and what we hear anecdotally in our
3 workplaces and in our neighborhoods, is that more
4 and more policyholders are getting their
5 homeowners' insurance through the consent to rate
6 procedure. We know that policyholders at the beach
7 and coast typically get their insurance coverage,
8 certainly the wind coverage, in the Beach Plan.

9 We were also seeing in the news, and
10 some of us perhaps even from firsthand accounts,
11 firsthand experience, that some companies in North
12 Carolina are pulling back, and they are writing
13 fewer policies than they've written in the past.
14 Your Honor, the homeowners' insurance market in
15 North Carolina is very competitive. It's not like
16 the power company where everyone has to buy their
17 power from the same company. There are
18 approximately 110 companies operating here for
19 homeowners' insurance, there are many more that are
20 authorized to write, but they are not currently
21 actively writing. But these market actions, you
22 know, using consent to rate, not writing the
23 coverage voluntarily at the beach and coast,
24 pulling back, those actions are clear indicators
25 from this competitive marketplace that the current

1 homeowners' rates are severely inadequate.

2 In the statutes, our Legislature decreed
3 that the Beach Plan should be the market of last
4 resort for policyholders in the beach and coastal
5 areas. That indicates a clear legislative intent
6 that the majority of the policyholders in those
7 areas should be able to purchase insurance in the
8 voluntary market. Today, however, the Beach Plan
9 is clearly not the market of last resort. The vast
10 majority of homeowners' policies in the beach
11 territories is written in the Beach Plan. And
12 around half of the -- in the coastal areas of the
13 Beach Plan is written in the Beach Plan.

14 And, as you know, Your Honor, there is
15 no residual market for homeowners' insurance
16 outside of the beach and coastal territories. In
17 those other 82 counties, if companies believe that
18 the current Rate Bureau rates are not adequate and
19 don't provide them the opportunity to earn a fair
20 profit, they have the two options I just described.
21 They could either write the business on a consent
22 to rate basis or choose not to write it at all.
23 The difference there, for the policyholders in
24 these other 82 counties, is that if they want a
25 homeowners' policy, there is not a residual market

1 that they can look to to get that coverage.

2 So, what's happening in those areas
3 outside the beach and coastal territories? Data
4 collected by the insurance department show that the
5 percentage of homeowners' insurance premium written
6 on a consent to rate basis continues to grow. Now,
7 again, please understand that the Rate Bureau is
8 not involved in any way in whether companies write
9 insurance using the Bureau rates or write the
10 insurance using consent to rate procedures, choose
11 not to write on the beach and coast, and have
12 business written through the Beach Plan, those
13 matters are individual company decisions, and the
14 Rate Bureau has no authority, whatsoever, over
15 them.

16 Furthermore, those individual company
17 decisions and how they are made are not at issue in
18 this hearing. But it is apparent that companies
19 are using these alternatives more and more. And,
20 again, those actions are a clear indicator that
21 current Rate Bureau rates are inadequate.

22 Now, in the face of this market reality,
23 what the Department witnesses are recommending to
24 you in this case is either that the current rates
25 ought to be reduced, or they should be increased by

1 less than 3 percent. To put it bluntly, Your
2 Honor, that just does not make sense. The rates
3 recommended by the Department witnesses are not
4 going to result in less business being written in
5 beach -- in the Beach Plan, and they are not going
6 to reduce the amount of business being written
7 using consent to rate procedures. Now, I mean, the
8 Department witnesses can make these rash
9 recommendations. I mean, they have that luxury.
10 They are not putting their money at risk writing
11 homeowners' insurance in North Carolina.

12 What I would ask you to do is that over
13 the coming days and weeks of this hearing, you're
14 going to hear evidence on a whole host of issues
15 involving setting homeowners' insurance rates, and
16 you will hear Department witnesses recommend
17 numbers lower than the Rate Bureau's numbers on
18 many of those issues. As you consider those
19 recommendations, keep in mind that the credibility
20 of those numbers and the weight you should give
21 that evidence has to take into account the fact
22 that those numbers are part and parcel of their
23 recommendation, on an overall basis, that the rates
24 should either be lowered or, if they are raised,
25 raise them by less than 3 percent. Those

1 recommendations simply cannot be squared with what
2 is happening in the marketplace here in North
3 Carolina.

4 Let me mention another point. Someone
5 may think about insurance here and they might say,
6 hey, these insurance companies, they write
7 insurance in other states, maybe all across the
8 United States, and they make plenty of money in
9 those states that they can use to pay the losses we
10 have here. And what I say to you, Your Honor, is
11 obviously it's the case that many companies write
12 insurance in multiple states. But that's not the
13 way we set homeowners' insurance rates here in
14 North Carolina. Our rates are not set based on any
15 assumption that our losses here in North Carolina
16 will be paid from premiums that are paid by
17 policyholders in other states, any more than we
18 don't assume that setting the rates we set here --
19 that when we set the rates we are setting, we are
20 not assuming that our North Carolina citizens are
21 paying premiums that are going to be used to pay
22 the losses in Tennessee or South Carolina or
23 Florida or wherever. That's not the way this
24 works. The Rate Bureau's evidence will show that
25 the rate need here in North Carolina is driven

1 entirely by what is happening here in North
2 Carolina.

3 Now, let me please address a few of the
4 issues you're going to hear about in the case. Our
5 most significant peril here in North Carolina
6 that's covered in a homeowners' insurance policy,
7 in terms of the potential losses in any given year,
8 is hurricane wind. This rate filing uses the most
9 advanced computer hurricane modeling available to
10 measure the hurricane losses to which companies
11 writing homeowners' insurance in North Carolina are
12 exposed. The evidence will show that hurricane
13 modeling is widely accepted to be the most accurate
14 means of measuring the prospective risk of
15 hurricane losses. The Department witnesses have no
16 expertise, no experience in hurricane modeling.
17 Neither of them is an expert in that field.
18 Nonetheless, in their recommendations in this case,
19 they alter or reject the results of the models in
20 coming to the non-credible rate levels that they
21 are recommending to you.

22 Another key issue is reinsurance.
23 Reinsurance is insurance that insurance companies
24 buy for themselves to protect themselves from
25 insolvency in the face of potentially massive

1 catastrophic losses. If and when a hurricane hits,
2 policyholders rightfully expect that their
3 insurance company is going to be there to pay the
4 claims. So, let's put this in perspective. The
5 total annual premium for homeowners' insurance here
6 in North Carolina is approximately three and a half
7 billion dollars. If a major hurricane hits North
8 Carolina, the losses from that one hurricane alone,
9 not counting all of the other losses that
10 homeowners' insurance companies and their policies
11 are going to cover every year, you know, the
12 typical fire losses, the water leaks, things like
13 that, just the losses from that one hurricane alone
14 would be several times that annual total premium of
15 three and a half billion dollars. And because of
16 the potential for such incredibly large losses from
17 a single catastrophic event, it's necessary for
18 insurance companies to buy reinsurance. And the
19 cost of that reinsurance has to be factored into
20 the rates we are setting here.

21 The cost of reinsurance, generally, has
22 three components. There is the catastrophe losses
23 that are transferred to the reinsurance company,
24 there is the expenses of the reinsurance company,
25 and the profit of the reinsurance company. Now,

1 catastrophe losses themselves are already included
2 in our rate calculations. We present those as part
3 of the case, the direct case. They are the model
4 losses. Since those losses are already in rate
5 calculations, we net those out. And so, what we
6 include as a factor in the rates is what we all
7 call the net cost of reinsurance.

8 The evidence will show you that the net
9 cost of reinsurance has increased significantly
10 since the Rate Bureau's last homeowners' filing.
11 The Department witnesses will tell you that the net
12 cost of reinsurance is a much smaller expense for
13 companies in North Carolina than is actually the
14 case. Their recommended net cost of reinsurance
15 provision have no connection whatsoever to the
16 reality of what it costs to buy reinsurance for
17 hurricane losses covered on homeowners' insurance
18 policies in North Carolina. And, again, there are
19 provisions for this very significant expense, very
20 significant component of our rate filing. Their
21 suggestions there are just part and parcel of their
22 non-credible recommendations that homeowners' rates
23 don't need to go up. The Rate Bureau's evidence,
24 on the other hand, will show you convincingly that
25 rates must increase and that reinsurance costs are

1 a major reason why.

2 Another significant issue is profit.
3 The law is that insurance companies are entitled to
4 a fair and reasonable profit. The United States
5 Supreme Court itself has established what is
6 typically considered a Constitutional standard for
7 what that means. However, the Department
8 witnesses, and even the Department itself, have
9 developed a twisted interpretation of that law, and
10 they will actually say that that standard does not
11 apply here in North Carolina. They also
12 selectively display historical experience to leave
13 out the years when companies suffered massive
14 losses here due to hurricanes, and, thus, try to
15 make it appear that companies actually have been
16 more profitable historically than is actually the
17 case. Those are just some of the ways that the
18 Department witnesses try to justify recommending to
19 you that our severely inadequate homeowners'
20 insurance rates do not need to go up.

21 There is another aspect of the system we
22 have here in North Carolina for property insurance
23 that I want to point out. I described the Beach
24 Plan for you generally, a few moments ago, and,
25 again, rather than being the insurer of last

1 resort, as it is legislatively intended to be, the
2 Beach Plan is writing the vast majority of
3 insurance on the beach and coast for wind losses.
4 If a major hurricane hits North Carolina here, or
5 if even multiple minor hurricanes hit us in a
6 single year, the Beach Plan's losses would very
7 likely mildly exceed their surplus and reinsurance.
8 And the Beach Plan in that situation would have to
9 borrow money to pay the claims. When that happens,
10 it is the people of North Carolina who buy property
11 insurance of any kind, whether it's homeowners',
12 dwelling insurance, or mobile home insurance, it is
13 those people, and all of them, that are ultimately
14 the reinsurers of the Beach Plan. By law, that
15 borrowed money must be paid back. When the Beach
16 Plan's resources are exhausted, that borrowed money
17 would then have to be paid back by all the property
18 insurance policyholders in North Carolina, not just
19 the people at the beach and coast.

20 So, in a very real sense, suppressing
21 the rates, especially in the 18 beach and coastal
22 counties, below the level that's indicated by the
23 risk in those areas, ultimately results in the
24 policyholders across the whole state further
25 subsidizing the beach and coastal properties.

1 Now, there are lots of other issues in
2 this case, and I will not take time now to try to
3 address all of them. Some of them, like hurricane
4 modeling and reinsurance that I have mentioned,
5 those are specific to property insurance. There
6 are others, such as trends, profit, contingencies,
7 that are common to virtually all Bureau filings.
8 The Department would have you believe that some of
9 these issues have already been decided because of
10 the way the Commissioner ruled on them in some
11 prior case. That is simply not the case. As a
12 lawyer, yourself, and with your legal experience,
13 you are well aware that factual issues have to be
14 decided based on the evidence presented in the
15 particular case.

16 As the hearing officer here, you must
17 consider all of the evidence presented in this case
18 and make your decision based on that evidence. We
19 are confident that you will find that the evidence
20 fully supports the Rate Bureau's requested rate
21 increase. As you weigh all of the evidence, we,
22 again, ask that you recognize that the evidence
23 shows that the Beach Plan is already much larger
24 than it should be, the evidence shows that the
25 consent to rate is having to be used by companies

1 more and more, and more than ever in the past, and
2 these market signals are clearly indicating that
3 the current rates are not adequate.

4 With those facts and all of the other
5 evidence you see in the Bureau's filing, you must
6 ask yourself whether you can possibly find credible
7 any witness or any argument that seeks to convince
8 you that the current rates do not need to be
9 increased. We submit to you that the answer to
10 that question is a resounding no. The credible
11 evidence in this case will show you that the Rate
12 Bureau's requested rate changes are fully
13 supported, that they satisfy all the requirements
14 under the laws of North Carolina, and that they
15 should be approved. Thank you, Your Honor.

16 MS. FUNDERBURK: Thank you, Counsel.

17 Mr. Friedman, do you have an opening
18 statement?

19 MR. FRIEDMAN: I do, ma'am.

20 May it please the Court, they say that
21 the definition of insanity is doing the same thing
22 over and over again, failing at it, and then doing
23 it again hoping for a different result. And the
24 Bureau's filing for the homeowners' rate increases
25 here is yet another attempt by the Bureau to pedal

1 many of the same methods and calculations that have
2 been rejected by commissioners of insurance and the
3 state's courts in the past.

4 Now, I'm not suggesting that the Bureau
5 or its actuaries are, in fact, insane. To the
6 contrary, I think it's entirely by design that the
7 Bureau keeps using the same rejected methods and
8 making the same rejected arguments to support the
9 inflated rate increases they always seek. As to
10 why they keep doing this, I can't read the Bureau's
11 mind, but I have three guesses. They are either
12 hoping that this time they will slide something
13 past the hearing officer and the courts, or they
14 are hoping that this court will decide that all of
15 the prior commissioner of insurance decisions and
16 the courts of appeals decisions simply got it wrong
17 on the law, or, third reason that they may keep
18 making the same already failed arguments, is that
19 they just can't bring themselves to calculate their
20 rate increases in the way the commissioners of
21 insurance and the courts of appeals have told them
22 to calculate them because it simply wouldn't give
23 them the profit that they want.

24 But the thing is, homeowners' insurance
25 companies in North Carolina are not like a normal

1 company. Normal companies are free to try to
2 achieve as much money as possible. In North
3 Carolina, however, for the public good, insurance
4 companies are a regulated industry. And that means
5 that they cannot pursue the most money possible,
6 but all they are entitled to under the law is to
7 learn -- earn a fair and reasonable profit, which
8 is not the determined by the commissioners,
9 actuaries, and economists, but rather by the
10 Commissioner and later by the courts if the
11 Commissioner's decision is appealed.

12 Now, on the issue of whether the law, in
13 fact, is contrary to their current arguments, the
14 Bureau has already previewed that they are going to
15 be arguing that the past decisions all involved
16 case-specific facts that were unique to the prior
17 filings, and that the facts here are new and
18 distinguishable from the prior facts. But the
19 decisions I am going to be pointing Your Honor's
20 attention to, in the prior commissioner of
21 insurance and courts of appeals cases, don't simply
22 focus on the facts from those particular prior
23 filings. Rather, they actually define the legal
24 parameters of what sorts of actuarial methods are
25 per se illegal under North Carolina law. They set

1 definitions, essentially, for what the nature of
2 certain actuarial factors is and explain that,
3 given that nature of certain of the factors for
4 which the Bureau is requesting an increase, they
5 are not entitled to it if they measure those
6 factors in the wrong way. So, no matter how many
7 new facts or words or new verbiage they add this
8 time, the fact is that the Bureau's methods are,
9 ultimately, exactly the same methods in this case
10 that have been ruled illegal in prior cases.

11 Now, I'm getting to know the field of
12 actuarial science, and there is -- I have noticed
13 there is a matter that makes the majority of
14 this -- of the witnesses in this case unique from a
15 laypersons. The majority of the witnesses are
16 going to be actuaries. And actuaries not only have
17 to do their math for their calculations correctly,
18 but they also have a code of professional conduct,
19 the Actuarial Standards of Practice, which I'm
20 going to refer to as the ASOPs. And the ASOPs
21 actually dictate that many of the methods, as well
22 as the professional standards, that the actuaries
23 have to abide by when they are giving testimony and
24 when they are publishing actuarial reports, for
25 example, in the form of the prefilled testimonies in

1 this case.

2 The most important fact from those ASOPs
3 that I gather is that they require actuaries,
4 unlike many other learned professions, to
5 proactively familiarize themselves with individual
6 state's law so that they know whether the state's
7 legal method for calculating rates is contrary to
8 the method that the ASOPs would otherwise require.
9 And if the actuary determines that there is a
10 contrary law, such as with regard to the
11 calculation of profits, then the actuaries have a
12 full duty under the ASOPs to investigate,
13 determine, and then identify the state law to the
14 Commissioner and to his actuaries. After they've
15 fully determined it and identified it in their
16 reports, the actuaries have to follow the state law
17 in calculating their indicated rate increases.
18 That's not to say they can't also acknowledge what
19 the ASOPs otherwise say about the ASOPs correct
20 method for calculating rate increases, they can do
21 that on the side. But the ASOPs make clear that
22 the first thing they have to do is actually follow
23 the state law and calculate the different rate
24 increases than the ASOPs normal processes would be.

25 And that's what we contend is the

1 problem with many of the Bureau's actuaries. They
2 have simply ignored the applicable law, and gone on
3 and used the same methods they've been told time
4 and again are unlawful. Plus, they haven't
5 acknowledged the full extent of North Carolina law
6 on rate filings in their reports to the
7 Commissioner of Insurance and his actuaries. So,
8 on top of potentially violating their professional
9 codes, the Bureau's actuaries have used outdated
10 data, or else not focused on the correct data
11 repeatedly, and that affects the credibility and
12 the numbers leading to their ultimate request for
13 an average 42.2 percent increase in homeowners'
14 policy rates.

15 The Commissioner has warned the Bureau
16 repeatedly in the past that relying on such data
17 affects the credibility of the Bureau's requested
18 increases, but they are -- in this filing they are
19 continuing on using the same methods regardless of
20 the Commissioner's admonition.

21 I've got to say, I'm surprised that the
22 issue of Helene, the new, the recent hurricane, was
23 brought up here. First, on a personal level, I
24 just consider it unfortunate that the tragedy of so
25 many peoples' deaths in Western North Carolina is

1 being used as grounds to raise the homeowners'
2 rates on those very same people or the survivors in
3 those regions. But, more importantly, just as a
4 legal matter, it's disingenuous to mention the fact
5 that the prices for insurance will increase in --
6 as a result of that disaster. And the reason it's
7 disingenuous is because homeowners' policies, which
8 is all we are talking right now, don't include
9 flooding coverage. Flood coverage is an entirely
10 separate policy that the insurance companies make
11 consumers buy, and we are not here discussing
12 the -- we are not here discussing the price of
13 flood insurance.

14 Finally, I will just say this, this case
15 is going to be long and very dense at times.
16 Understanding actuarial methods is not an easy
17 thing, or at least not for me, and I don't do math
18 well. So, I'd ask the hearing officer to have
19 patience with both the DOI's and Bureau's counsel,
20 as well as with our witnesses as we try to make the
21 evidence and our arguments as clear as possible.

22 And if it weren't clear, we believe that
23 the Rate Bureau's requested rates are inflated and
24 that our actuaries will demonstrate to the Court
25 that there are alternative recommended rates that

1 will allow the Bureau's members to earn what their
2 constitutionally entitled to, only a fair and
3 reasonable profit. Thank you.

4 MS. FUNDERBURK: Thank you,
5 Mr. Friedman.

6 Counsel, are you prepared to proceed?

7 MR. BEVERLY: Yes, Your Honor. We call
8 our first witness Joanna Biliouris.

9 MS. FUNDERBURK: Thank you.

10 MR. BEVERLY: Apologies, Your Honor,
11 it's muscle memory, I stand.

12 MS. FUNDERBURK: And that's fine. If
13 you choose to stand, I don't have a preference. I
14 will just direct you that if you approach, as you
15 would in general practice, that you ask to approach
16 before you approach the witnesses or the bench.

17 MR. BEVERLY: Most certainly.

18 MS. FUNDERBURK: But standing or
19 sitting, whatever is more comfortable.

20 MR. BEVERLY: Ms. Biliouris, would you
21 come around, please.

22 JOANNA BILIOURIS,
23 having been duly sworn, was examined and testified as
24 follows:

25 DIRECT EXAMINATION

1 BY MR. BEVERLY:

2 Q. Good morni ng.

3 A. Good morni ng.

4 Q. Would you pull that microphone closer to you?

5 A. Yes. Is that good? Can you hear me?

6 Q. I think we are good.

7 A. Closer. I will -- okay. Is that better?

8 Q. Would you please state your full name for the
9 record?

10 A. Joanna Biliouris.

11 Q. And how are you employed?

12 A. I'm employed at the North Carolina Rate
13 Bureau as the general manager.

14 Q. How long have you been the general manager?

15 A. Since April of '22, so about two and a half
16 years.

17 Q. Did you have any positions prior to that?

18 A. Yes. I was the chief operating officer of
19 the Rate Bureau for a little over seven years.

20 Q. Are you familiar with the Rate Bureau's 2024
21 homeowners' filing?

22 A. Yes.

23 MR. BEVERLY: Your Honor, may I approach
24 the witness?

25 MS. FUNDERBURK: Yes.

1 Q. Ms. Billiouris, I'm going to place before you
2 two notebooks. Just briefly flip through them, if you
3 would, please. Just familiarize yourself with those.
4 Do those notebooks appear to contain the Rate Bureau's
5 2024 homeowners' rate filing?

6 A. Yes, they do.

7 Q. Would you agree, just by observation, they
8 appear to be four to five inches thick each?

9 A. Yes, that's correct.

10 Q. And you will have to trust me, but if you
11 counted them, would you find that they number over
12 2,000 pages combined in the two notebooks?

13 A. Yes, they do.

14 Q. And do those 2,000 pages represent prefilled
15 testimony, data, and other supporting material for the
16 filing?

17 A. Yes.

18 Q. Before 2024, when was the last Rate Bureau
19 homeowners' filing?

20 A. That would have been November of 2020.

21 Q. In Notebook No. 1 you have in front of you,
22 do you see that there is an Exhibit RB-4?

23 A. Yes.

24 (Exhibit RB-4 was marked for
25 identification.)

1 Q. What is that?

2 A. That's my prefiled testimony. It was
3 included in the filing made on January 3rd of 2024.

4 Q. Is your prefiled testimony contained in the
5 filing true to the best of your knowledge, information,
6 and belief?

7 A. Yes. There is one item to note. We did have
8 to reference my professional address in there, and the
9 Bureau's lease expired this year, and I moved to a new
10 business location. So, that was -- it's been updated,
11 but other than that, it's true and accurate.

12 MR. BEVERLY: Your Honor, the Rate
13 Bureau would offer Exhibit RB-4 into evidence.

14 MS. FUNDERBURK: Any objection?

15 MR. FRIEDMAN: None.

16 MS. FUNDERBURK: So admitted.

17 (Exhibit RB-4 was admitted into
18 evidence.)

19 Q. Now, Ms. Biliouris, in February of this year,
20 did the Rate Bureau receive a document entitled "Notice
21 of Hearing"?

22 A. Yes.

23 MR. BEVERLY: Your Honor, may I approach
24 the witness?

25 MS. FUNDERBURK: Yes.

1 MR. BEVERLY: Mr. Friedman, can we agree
2 on that?

3 MR. FRIEDMAN: Sure.

4 Q. Ms. Billiouris, I'm going to hand you what was
5 received by the Rate Bureau as the Notice of Hearing.
6 Have you reviewed that at some point?

7 A. Yes.

8 Q. Would you turn to page 3, please, of the
9 Notice of Hearing.

10 A. Okay.

11 Q. And in section Roman numeral five, capital
12 A1, would you please read the last two highlighted
13 sentences?

14 A. Yes. "Further the loss spends, expense, and
15 exposure experience provided on, for example, RB-1,
16 pages C-2, C-3, C-4, and elsewhere in the filing are
17 outdated, as the latest data included in the filing is
18 only through 2021. More recent data should be
19 available and included in the analysis."

20 Q. Would you, likewise, turn with me to page 4,
21 please, of the Notice of Hearing. And would you kindly
22 read the last two sentences in Subsection 7 that I have
23 highlighted.

24 A. "Further, the data that was provided was only
25 through 2021, but more recent data should be available

1 and included in the analysis. Additional ratemaking
2 data, trend data, and other relevant data should be
3 available."

4 Q. And would you turn with me to page 9 of the
5 Notice of Hearing, and in Section 1b -- I'm sorry.

6 A. That's all right. Got it.

7 Q. In Section 1b does it read, "The data
8 utilized for trend were inappropriate, insufficient,
9 outdated, and incomplete"?

10 A. Yes, that's correct.

11 Q. Still on page 9, a little further down in
12 subsection d, does that entry read, "Loss data, even
13 when provided, were only through 2021 when more recent
14 data should be available and included in the analysis."

15 A. Yes.

16 Q. Are there any references in the Notice of
17 Hearing, Ms. Billiouris, to the Beach Plan?

18 A. Yes.

19 Q. Specifically, if you will turn with me again
20 to page 3, section Roman numeral VA1, is there a
21 reference to the Beach Plan there?

22 A. Yes.

23 Q. Is the Beach Plan a member company of the
24 Rate Bureau?

25 A. No. The Beach Plan is not a member company.

1 They are an organization that provides residual market
2 property insurance in the coastal areas.

3 Q. Is the Beach Plan affiliated at all with the
4 Rate Bureau?

5 A. No. They are a separate organization. They
6 are not affiliated with the Bureau. They have separate
7 ownership. And I understand the Commissioner of
8 Insurance sits on the Beach Plan board.

9 Q. Are you generally familiar with the FAIR
10 Plan?

11 A. Yes.

12 Q. Is the FAIR Plan a member of the Rate Bureau?

13 A. No. Like the Beach Plan, they are part of
14 the residual market for property insurance in North
15 Carolina, not a member of the Rate Bureau. But it is
16 my understanding that the Commissioner oversees the
17 FAIR Plan. The Beach Plan also sits on their board as
18 well.

19 Q. Is the FAIR Plan affiliated with the beach --
20 I'm sorry. Is the FAIR Plan affiliated with the Rate
21 Bureau at all?

22 A. No, they are a separate organization.

23 Q. So, the Beach Plan and the FAIR Plan are not
24 members of the Bureau. Who are the members of the
25 Bureau?

1 A. The members of the Bureau are insurance
2 companies currently writing property insurance,
3 residential property insurance, private passenger
4 automobile insurance, and workers' compensation
5 insurance in North Carolina.

6 Q. How many members of the Rate Bureau write
7 homeowners' insurance, approximately?

8 A. Approximately about 110.

9 Q. How is the Rate Bureau governed?

10 A. The Rate Bureau is governed by its
11 constitution, and that constitution established a
12 governing committee to oversee the administration of
13 the Bureau and also supervise and direct all the
14 activities of the Bureau committees.

15 Q. What committees are standing committees of
16 the Bureau?

17 A. The constitution and the governing committee
18 established a property committee, an automobile
19 committee, a workers' comp committee, as the line
20 committees for the three lines of businesses the Bureau
21 has jurisdiction. And then there are also, below that,
22 line subcommittees that report up and report findings
23 and proposals up to those line committees.

24 Q. Let's talk about the process for preparing a
25 rate review of the type that you have in front of you.

1 Are you generally familiar with that process?

2 A. Yes, generally.

3 Q. Are the Rate Bureau committees involved in
4 the process of preparing a rate review of this type?

5 A. Yes. Typically the line committee, in this
6 case the property committee, would have directed -- the
7 governing committee would have directed the property
8 committee, who would then direct the property rating
9 subcommittee to work on the filings, or preparing a
10 rate review is probably a better characterization.

11 Q. Okay. Property rating subcommittee?

12 A. Yes.

13 Q. How is that committee constituted, who is on
14 it?

15 A. All of our committees consist of members of
16 the Rate Bureau. So, the members of the Rate Bureau
17 would assign representatives or employees of the
18 company to serve on the various committees based on
19 their backgrounds. The property rating subcommittee
20 does most of the heavy lifting, if you will, on the
21 rate review. They are predominantly actuaries on that
22 committee. They would look at all the data that's
23 prepared for the rate review, and then make a
24 recommendation to the property committee on the results
25 of a rate review.

1 Q. So, the property rating subcommittee, I think
2 you said, are mostly actuaries?

3 A. Yes. I think out of the 11 members on that
4 committee, don't quote, five or six, I believe, are
5 actuaries.

6 Q. What's -- of the committees you have
7 described, property rating subcommittee, property
8 committee, governing committee, what's the hierarchy of
9 those various committees?

10 A. The hierarchy is the -- in this case with the
11 property rate review, the property rating subcommittee
12 would be the one that does most of the actuarial work,
13 makes selections, reviews the data, and determines the
14 inputs, if you will, for the rate review. Once that
15 rate review is completed, they would make a
16 recommendation to the property committee, the review
17 was complete and their findings, what their indications
18 would be. The property committee then receives it,
19 reviews it itself, and determines whether to recommend
20 that rate review for consideration by the governing
21 committee.

22 And, then, the governing committee would
23 actually be the group that would review all of that
24 information and make the decision on whether to turn
25 that rate review into a rate filing and submission to

1 the Commissioner of Insurance.

2 Q. In this rate review process, does the Rate
3 Bureau also rely on consultants?

4 A. Yes. We rely on ISO, Insurance Services
5 Office, for actuarial support, Milliman for actuarial
6 support, and also for ISO for actual presentation,
7 collection and validation of all the data that's used
8 within the rate review.

9 Q. How long does the process of preparing a rate
10 filing of the type you have in front of you generally
11 take?

12 A. Several number of months. Typically, you
13 know, the first step is to actually receive all the
14 data from the statistical agents, aggregate all of that
15 data, review it for any anomalies, make sure that it is
16 credible, then that information is presented to our
17 committees, several times. They actually look at
18 different facets of that data throughout the process.

19 I think with this filing the property rating
20 subcommittee started reviewing and meeting on this
21 filing in May of 2023. They concluded, made a
22 recommendation to the property committee in November,
23 and then the property committee reviewed it and made a
24 recommendation to the governing committee in December.

25 But before all those meetings took place, a

1 lot of the manual work is done by ISO many months
2 before that.

3 Q. It sounds like a very deliberate process.
4 Would you agree?

5 A. Yes.

6 Q. Once the governing committee receives
7 recommendation from the property committee, which in
8 turn receives the recommendation from the property
9 rating subcommittee, how long is it before a decision
10 to file is typically made?

11 A. The decision to file is typically made in the
12 meeting itself by the governing committee. It's
13 usually a pretty lengthy meeting. We present all the
14 various components of the filing, a summary of all the
15 in books into the rate review, what the resulting
16 indications were, and then if the governing committee
17 does decide to move forward and turn that rate review
18 into a filing, that usually happens in one meeting.
19 Then the Rate Bureau would usually need about 30 to
20 45 days to actually compile all this data that you see
21 in front of you here.

22 Q. And then the filing can be made?

23 A. Yes.

24 Q. Were the notebooks that you have in front of
25 you, were those available for the governing committee?

1 A. No. These aren't prepared until the
2 governing committee instructs us to turn that rate
3 review into a filing, then all of this material is
4 prepared. But the governing committee does have a
5 pretty detailed summary of all the components of the
6 filing so they can make an informed decision.

7 Q. Now, earlier, you mentioned ISO, Insurance
8 Services Office --

9 A. Yes.

10 Q. -- is that correct?

11 And you generally described what ISO is, but
12 how is ISO involved in a property review like the one
13 in front of you?

14 A. Well, ISO is, first and foremost, a
15 statistical agent, meaning they collect data from the
16 various insurance companies in North Carolina. There
17 are several other licensed and approved statistical
18 agents in North Carolina, but ISO is who the Bureau
19 works with. So, they would compile their data, then
20 they reach out to the other statistical agents, ask for
21 their data, and then it's all aggregated, validated,
22 and then that data is compiled for presentation to our
23 committees.

24 Q. Does ISO do other things for the Rate Bureau?

25 A. Yes. They provide actuarial consulting for

1 us in the rate review. They prepare a lot of the
2 filing pages and data that you will see in this filing.
3 They participate in our committee meetings, in case
4 there are any questions about the data or any of the
5 information that they are compiled for presentation.
6 They also provide a consulting actuary, who also makes
7 sure that everything that we are processing is
8 accurate. And that if there is any questions from the
9 committees, they also provide prefiled testimony in the
10 filing as well.

11 Q. Would they also work with Rate Bureau staff
12 and perhaps answer questions of staff?

13 A. Yes.

14 Q. Let me turn attention back to the Notice of
15 Hearing for a moment, Ms. Biliouris. We read several
16 passages earlier that seemed to be critical of the data
17 in the filing. Do you recall those?

18 A. Yes.

19 Q. Does the Rate Bureau collect any of the
20 statistical data that we were referencing in those
21 critiques?

22 A. No.

23 Q. Does the Rate Bureau appoint statistical
24 agents?

25 A. No. That's handled by the Commissioner of

1 Insurance is my understanding.

2 Q. Does the Rate Bureau develop the statistical
3 plans under which the statistical agents collect data?

4 A. No. From -- again, my understanding of the
5 process is the statistical agents are appointed, then
6 submit a stat plan, if you will, for approval from the
7 Commissioner of Insurance. So, the Bureau is not
8 involved in that process.

9 Q. In fact, does the Rate Bureau have any
10 authority over the statistical agents?

11 A. No, none. It's all the Commissioner of
12 Insurance.

13 Q. Does the Rate Bureau tell the member
14 companies which statistical agents they should report
15 to?

16 A. No. From my general understanding of the
17 process is that insurance companies are required to
18 report their statistical data, but who they -- but they
19 can choose who they submit that data to. The Bureau
20 has no say in that matter.

21 Q. And to put a final point on it, does the Rate
22 Bureau have any authority over the timing under which
23 the statistical agents receive that data?

24 A. No. That's all part of the statistical plan
25 that they submit and have approved, which is handled by

1 the Commissioner of Insurance.

2 MR. BEVERLY: May I have a moment, Your
3 Honor?

4 MS. FUNDERBURK: I'm sorry?

5 MR. BEVERLY: May I have a moment?

6 MS. FUNDERBURK: Yes.

7 MR. BEVERLY: Ms. Biliouris, Department
8 counsel may have some questions for you, but those
9 are all my questions. Thank you.

10 THE WITNESS: Thank you.

11 MS. FUNDERBURK: Cross, Counsel?

12 MR. FRIEDMAN: Yes, ma'am.

13 CROSS-EXAMINATION

14 BY MR. FRIEDMAN:

15 Q. Ms. Biliouris, I believe that you have
16 already agreed to be a witness in the Department's case
17 in chief. And so, for that -- because of that, I'm
18 going to reserve most of my questions for you then, but
19 I have just a very few questions about what you've just
20 testified.

21 You were talking about how long it takes for
22 each stage of the rate review, and then eventually
23 decisions and then eventually creating the filing. In
24 this case, you're -- I am sure you recall, the filing
25 was made on January 3, 2024. About how long before

1 that did ISO begin working on accumulating the data for
2 the filing?

3 A. I would say it would have probably been
4 November, December, of 2022. They would have started
5 combining the most recent years' data that they have,
6 and then they work on validating that data and
7 preparing it for a presentation to our committees in
8 early to mid 2023.

9 Q. And then at what point there do the other
10 actuaries or outside actuaries, I guess I should say,
11 that the Bureau employees begin reviewing ISO's data?

12 A. They are really involved from the beginning.
13 So, ISO has a consulting actuary that works on our rate
14 reviews, Milliman, provides an actuary as well. That's
15 kind of a second review, if you will, and they are
16 typically involved with Bureau staff. We set up -- you
17 know, once we kind of kick off a rate review, if you
18 will, we put together a project plan or a schedule of,
19 you know, different milestones, when the data is going
20 to be ready, when it's reviewed by who, when it's going
21 to be presented to committees. So, all of that is
22 usually published at the beginning of the process so
23 everyone understands the timelines and the different
24 committee meetings that will be held.

25 Q. And when you said that ISO presents an

1 actuary during the course of the data consideration or
2 collection consideration, was that actuary
3 Dr. Ericksen, a witness in this case?

4 A. He is the consulting actuary on the actual
5 rate filing and the rate review. I'm not -- I would
6 just be -- I don't know what his role is on the
7 statistical data collection side. I'm sorry, I don't.

8 Q. And, then, when you testified Milliman, from
9 the time ISO begins gathering and analyzing data, is
10 also involved. Do you know whether Mr. Anderson was
11 involved in some way in Milliman's initial review?

12 A. Yes.

13 Q. Okay.

14 A. Again, I'm not sure what their role is as far
15 as the statistical collection of the data and
16 aggregation. But once it's aggregated and validated,
17 they are involved in reviewing that data.

18 Q. Okay. Is it fair to say, then, that -- well,
19 let's -- after the actuaries have analyzed the data and
20 run their own -- or calculated their own indicated
21 rates and recommended rates, how long does it take to
22 present those to the various committees of the board,
23 the three that you have discussed?

24 MR. BEVERLY: Object to form. I think
25 he said, Your Honor, that the actuaries calculate

1 their own recommendations. I don't believe that's
2 a matter of record.

3 Q. To do their calculations, Ms. Biliouris, how
4 long does it take them to present them to the board
5 committees?

6 A. Well, the committees actually do selections
7 of all the inputs in there and do the calculations. It
8 can take, depending on what portion of the filing we
9 are working on, it can take a couple months for the
10 various actuaries to review.

11 Q. And at what point -- I think, would you
12 agree, you so far explained about five to six months
13 worth of work for this filing?

14 A. It really just depends. Sometimes it can
15 be -- we've had filings go out in six to seven months,
16 others take longer, maybe nine months. If there is any
17 issues with getting the data from the other statistical
18 agents or there is any data anomalies that have to be
19 researched or data needs to be resubmitted potentially
20 by an insurance company, that can elongate the process.

21 Q. Just to clarify, that six to seven months,
22 the start of that would be when ISO first begins
23 gathering data; is that right?

24 A. That would start when we advise ISO that we
25 want to initiate a rate review. At that point,

1 whatever the most recent data they have, that's what
2 they start working with. But we do, you know, ask ISO
3 to, kind of, keep the data up-to-date. So, theirs is,
4 I think, probably more up-to-date at any given time,
5 but they have to aggregate the other stat agent data
6 within that. So, that may take a little while.

7 Q. Well, how many months would you estimate it
8 is since -- from when ISO begins collecting data for
9 the 2024 filing until the data and recommendations are
10 ready to be presented to the committees?

11 A. Again, I can't say that I'm familiar with the
12 statistical plans. So, I don't believe, when we go to
13 ISO, that they, then, tell all the companies we are
14 ready for your reported data. That data is reported on
15 whatever schedule is outlined within the statistical
16 plan. So, whatever data they have available at that
17 time would be available, and then they'd have to reach
18 out to the other stat agents. And depending on the
19 timing of whatever is in their stat plans, it all comes
20 together at that point.

21 So, I would probably say worst case it can
22 take nine to -- months for the whole process to work
23 through. If the data is in good shape and we get quick
24 responses from the stat agents and any anomalies, it
25 can probably be as short as six months.

1 Q. And after those six to nine months, how long
2 do the committees tend to take in evaluating the data
3 and then making their recommendations, subcommittee to
4 the property committee, and then the property committee
5 to the general committee?

6 A. For this filing there were four meetings of
7 the property rating subcommittee between May and
8 November. And then the property committee had one
9 meeting in November in which they reviewed the
10 recommendations from the property rating subcommittee.
11 And then in December the governing committee reviewed
12 the filing as -- or reviewed the review as well. It
13 was presented to them, and then they made a decision in
14 early December of '23 to turn that review into a filing
15 and submit it as early as possible in '24.

16 Q. So, are some of those meetings taking place
17 while the data is still being collected and reviewed or
18 are they after? I'm just trying to figure out the
19 timeline in between when the data and recommendations
20 are able to be made to the committees and then when,
21 ultimately, they vote on the recommended rate.

22 A. Well, the rate review starts with, you know,
23 whatever data is the most current data that's available
24 at the time. So, the data is received, aggregated,
25 validated before the rate review process starts, as far

1 as presenting to our committees.

2 Q. After the committees vote on a recommended
3 rate or, I guess, the general committee votes on one,
4 how long does it take to physically put together the
5 filing?

6 A. Typically to -- once the governing committee
7 authorizes a filing to actually get all the required
8 exhibits together and formulate them, it's usually 30
9 to 45 days.

10 Q. So, you testified that, to your knowledge,
11 ISO began its work on this property matter in
12 November 2022; is that right?

13 A. Sounds about right.

14 Q. And that up until -- is it true that up
15 until -- strike that.

16 And the filing was ultimately made on
17 January 3, 2024?

18 A. Correct.

19 Q. Okay. So, is it fair to say, then, that
20 there was roughly a 14-month process to put together
21 the filing?

22 A. It's probably closer to 12 or 13. I don't
23 know exactly.

24 MR. FRIEDMAN: Okay. Those are all the
25 questions I have for you now. Thank you.

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THE WITNESS: Thank you.

MS. FUNDERBURK: Redirect?

MR. BEVERLY: May I have a moment, Your Honor?

MS. FUNDERBURK: Yes.

MR. BEVERLY: Nothing further, Your Honor.

Thank you, Ms. Biliouris.

MS. FUNDERBURK: I will remind the witness, I believe you may be called later in the hearing. For purposes of this hearing, you remain under oath.

THE WITNESS: Thank you.

MS. FUNDERBURK: Thank you.

(Ms. Biliouris stepped down from the witness stand.)

MR. BEVERLY: Your Honor, may I retrieve those notebooks?

MS. FUNDERBURK: Yes, please.

Counsel, are you prepared to call your next witness?

MR. SPIVEY: Yes, Your Honor. Rate Bureau would call Dr. George Zanjani.

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DR. GEORGE ZANJANI ,

Having been duly sworn, was examined and testified as follows:

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

MS. FUNDERBURK: Yes.

MR. SPIVEY: Your Honor, may I approach before we begin the questioning? I just want to put the file in front of Dr. Zanjani .

MS. FUNDERBURK: Please approach.

DIRECT EXAMINATION

BY MR. SPIVEY:

Q. Could you please state your name for the record?

A. George Zanjani . That's Z-A-N-J-A-N-I.

Q. And what is your business address?

MS. FUNDERBURK: Counsel , if I could ask the witness to speak up.

Or, Madam Court Reporter, would you like that they adjust the microphone?

THE WITNESS: Would you like me to repeat?

MR. SPIVEY: I will repeat that last question.

MS. FUNDERBURK: Please proceed.

1 Q. And would you state your address for the
2 record?

3 A. 1074 Alderwood Lane, Marietta, Georgia 30068.

4 Q. Dr. Zanjani, did you prepare a prefilled
5 testimony and exhibits that were included in the Rate
6 Bureau's homeowners' insurance rate filing dated
7 January 3, 2024?

8 A. Yes, I did.

9 Q. And are those exhibits included in the volume
10 there that I placed in front of you?

11 A. Yes, they are.

12 Q. Dr. Zanjani, are there any places in your
13 prefilled testimony that you found need to be corrected?

14 A. Yes. There is a typo in a formula, the
15 second formula on page 9.

16 Q. And in that formula, can you describe or
17 point out the correction or the typo that occurred?

18 A. In each of the parentheses, the first
19 being -- the first surrounding one plus pi subscript A,
20 and the second being one plus pi subscript G, there
21 should be an exponent above the right parenthesis, in
22 each case, of T.

23 MR. SPIVEY: Your Honor, I have provided
24 counsel -- I, literally, e-mailed them copies of
25 those corrections last evening and provided copies

1 thi s morni ng.

2 Q. Dr. Zanjani , are there any other corrections
3 other than that typo?

4 A. No.

5 MR. SPIVEY: Your Honor, for the record,
6 the parties have stipulated that Dr. Zanjani is an
7 expert in economics and finance and profit as
8 regards to the property casualty insurance
9 industry.

10 May I approach?

11 MS. FUNDERBURK: Yes, please.

12 Q. Dr. Zanjani , I am handing you a copy of a
13 document entitled "Notice of Hearing." Have you had
14 occasion to see that document prior to today?

15 A. I have.

16 Q. Dr. Zanjani , would you please turn to
17 paragraph Roman numeral 4D5 on page 14 of that
18 document.

19 A. I'm there.

20 Q. Do you see the allegation there that -- and I
21 quote, "The cost of capital standard employed in the
22 filing as the basis for selecting the statewide profit
23 provision for underwriting profit is inappropriate
24 because it inherently contains income earned and
25 realized from capital and surplus funds, and thus

1 violates North Carolina law."

2 Do you see that?

3 A. I do.

4 Q. Dr. Zanjani, do you understand that the rates
5 set in this proceeding are to be set such that the
6 insurance company using those rates should have the
7 opportunity to earn a fair and reasonable profit?

8 A. That is my understanding.

9 Q. What is your understanding of what
10 constitutes a fair and reasonable profit?

11 A. My understanding is that a fair and
12 reasonable profit is profit that produces a return that
13 would give investors an adequate return based on what
14 the market offers for investments in other enterprises
15 of comparable risk.

16 Q. Now, is it correct, Dr. Zanjani, that you
17 describe in your prefiled testimony that how you
18 determined what you believe is a reasonable rate of
19 return on capital and that that is creating estimates
20 of the cost of capital for the North Carolina
21 homeowners' insurance market?

22 A. Yes, that's described in my testimony.

23 Q. And would you please explain to the hearing
24 officer why you performed that analysis?

25 A. So, as stated before, my view is that the

1 fair and reasonable profit is that which delivers or
2 produces a return, ultimately, to investors that they
3 would receive in the marketplace, or a fair and
4 reasonable return in the marketplace, and the cost of
5 capital is the estimate of what that fair rate of
6 return is.

7 Q. So, is it correct, then, that in your
8 prefiled testimony you go on to explain how you went
9 about estimating that cost of capital?

10 A. Yes.

11 Q. Now, in the process of performing that
12 analysis, have you made any distinction between
13 underwriting profit or investment income from reserves
14 or investment income from capital surplus?

15 A. No, I have not. So, those distinctions would
16 not be relevant for a cost of capital analysis.

17 Q. Well, you state that they are not relevant.
18 Can you explain why it is that for a cost of capital
19 analysis those various components are not relevant to
20 determining the cost of capital?

21 A. Right. So, the cost of capital concerns the
22 return that investors need to make an investment in an
23 insurance company or a business of similar risk.
24 Accounting returns concern versus components of -- that
25 you mentioned, so operating returns and investment

1 income on policyholder funds and investment income on
2 capital surplus. So, the analysis of the return that
3 investors require is connected to the capital
4 appreciation and dividends that they receive on an
5 investment that they make. So, the source of that
6 capital appreciation and dividends just is not
7 relevant. It's not met.

8 Q. Now, looking again at the document filed,
9 Notice of Public Hearing, again page 14, in the
10 allegation in paragraph 5 there, part of the allegation
11 there is that the cost of capital standard is
12 inappropriate because it inherently contains income
13 earned and realized from capital and surplus funds.

14 Do you see that?

15 A. Uh-huh. Yes.

16 Q. Does your application of the cost of capital
17 in this case reflect income earned and realized from
18 capital and surplus funds?

19 A. No, it does not. So, as you can see in my
20 testimony, the two pieces of my analysis are first to
21 calculate the return, the accounting return that is
22 generated by the selected profit factor, which I
23 believe is in the neighborhood of 7.4 percent, and I
24 then compare that to the cost of capital, which is the
25 return that investors require to support investments in

1 insurance companies. The investment income on capital
2 and surplus is explicitly excluded from the analysis of
3 the accounting return, and as previously described, the
4 cost of capital is a return concept for investors in
5 the capital marketplace. It's not connected to any
6 particular sources of accounting income.

7 Q. So, again, looking at, again, at the Notice
8 of Public Hearing and, again, on page 14 there, look at
9 paragraph 7. Do you see there the allegation that the
10 filing fails to justify the 9 percent statewide
11 underwriting profit provision?

12 A. I do.

13 Q. Now, would you explain, you know, your role
14 in the rate review and the rate filing as it relates to
15 the profit provision that is included in the filing?

16 A. So, I analyzed the various accounting returns
17 that we -- would be produced, associated with different
18 profit provisions and produced an array of -- an array
19 showing the connection between different profit
20 provisions and different accounting returns. And I
21 also provided the committee with various estimates of
22 the cost of capital, and the committee ultimately made
23 the selection.

24 Q. So, it's -- just to make it clear here, did
25 you select the 9 percent underwriting profit provision?

1 A. No, I did not.

2 Q. And who made that selection?

3 A. The committee made the selection.

4 Q. Again, looking at the Notice of Hearing, in
5 terms of page 15 this time, you see there in paragraph
6 number 11 the allegation that, "The filing fails to
7 justify various assumptions made by Dr. Zanjani
8 including but not limited to," and then went on with
9 "the risk of the insurance business."

10 Do you see that?

11 A. I do.

12 Q. In the analysis that you are describing, what
13 assumption did you make with regard to the risk of the
14 property and casualty insurance business?

15 A. Well, I don't make any assumptions regarding
16 the risk of the property casualty insurance business
17 and cost of capital analysis. I'm just using market
18 data to let the market speak for itself and determine
19 what the risk of that business is. So, I'm not making
20 assumptions.

21 Q. And what is your conclusion regarding the
22 appropriateness of the Rate Bureau's selected
23 underwriting profit provision of 9 percent?

24 A. So, the analysis detailed in my testimony
25 indicates that that provision provides an accounting

1 return of 7.4-some percent to 7.7-some percent,
2 depending on the assumptions you use, without
3 consideration of investment income on capital and
4 surplus. And that accounting return is not excessive
5 when viewed against the various estimates of cost of
6 capital, which indicate the return investors require
7 for an investment -- a capital investment into the
8 insurance company.

9 Q. So, in simple terms, then, is it your opinion
10 that the underwriting profit provision is not excessive
11 in this case?

12 A. Not excessive under North Carolina law, yes.

13 MR. SPIVEY: May we have a moment, Your
14 Honor?

15 MS. FUNDERBURK: Yes.

16 MR. SPIVEY: Your Honor, at this time, I
17 have no further questions for Dr. Zanjani.

18 MS. FUNDERBURK: Thank you.

19 Mr. Friedman, cross?

20 MR. FRIEDMAN: Yes, ma'am.

21 CROSS-EXAMINATION

22 BY MR. FRIEDMAN:

23 Q. Good morning, Dr. Zanjani. How are you?

24 A. Good morning. I'm well. Thank you.

25 Q. Do you need to -- I'm going to be going over,

1 first of all, your resumé. Do you need me to refer you
2 to a copy of it?

3 A. I think it's in the file.

4 Q. It is. It is.

5 MR. FRIEDMAN: So, Your Honor, so
6 everybody knows, I am looking at what is exhibit
7 RB-23 to Mr. Zanjani's testimony or his prefilled
8 testimony.

9 Q. First of all, if I ask any questions that are
10 unclear or too convoluted, by all means ask me to
11 clarify, and take as long to answer a question as you
12 need. And so there is no confusion, I may be referring
13 to your prefilled testimony at times as simply "your
14 report" or "your expert report." And, then, finally,
15 I'm not an economist or an actuary, so you're going to
16 need to have some patience with me.

17 So, you have the PhD in economics?

18 A. Yes.

19 Q. All right. And when you started your career,
20 you worked for approximately four years as an actuarial
21 analyst?

22 A. Well, I had several positions. I started as
23 an actuarial analyst and finished as a senior actuarial
24 analyst.

25 Q. What certification did you obtain in that

1 time as far as with the Casualty and Actuarial Society?

2 A. I received an ACAS, which is an
3 associateship, in 1994.

4 Q. What's the current status of your ACAS
5 certification?

6 A. So, I maintain the credential, but I'm not a
7 practicing actuary.

8 Q. By maintaining the credential or because you
9 maintain the credential, do you consider yourself
10 subject to the actuarial standards of practice?

11 A. I pay attention to actuarial standards of
12 practice, such as ASOP 30, for example, but I do not
13 regard the work that I am doing as being subject to
14 Actuarial Standards of Practice.

15 Q. Are you aware that the work you have done in
16 your report is being reviewed by actuaries, whether the
17 Bureau's actuaries or the Commissioner's actuaries, who
18 are subject to the Actuarial Standards of Practice?

19 A. I am aware that my report is reviewed by
20 people and that could include actuaries, yes.

21 Q. In fact, the filing is directed to the
22 Commissioner; is that not right?

23 A. You would have to ask the Bureau about that.
24 Yes, that sounds right.

25 Q. Is it your understanding that it is

1 specifically directed to the Commissioner because the
2 Commissioner sets the rates?

3 A. That is my understanding, yes.

4 Q. Okay. Would you agree, then, that your
5 report is directed to the Commission?

6 A. Yes.

7 Q. Okay. And you're aware because the
8 commissioners had two actuaries or, better said, the
9 Department had two actuaries file testimony in this
10 case that it was -- ultimately your report was reviewed
11 by at least two actuaries?

12 A. I did not know at the time I filed my report
13 who would review it. Past history suggested to me that
14 at least one of the people who reviewed it would be an
15 actuary.

16 Q. Okay. Now, as far as your course of
17 preparation of the report, were you in contact with
18 Mr. Ericksen, Mr. Anderson, or Ms. Mao?

19 A. I don't think we ever had any direct contact.
20 So, there was several committee meetings in which we
21 jointly participated and various inputs -- well, let me
22 amend that. I believe in the case of Mr. Anderson, in
23 this filing -- and, sorry, because I'm involved in a
24 number -- he may have sent the work that he does,
25 that's relevant for what I do, directly to me. I don't

1 recall interacting directly with the other two.

2 Q. Okay. Have you read Mr. Ericksen's report?

3 A. Mr. Ericksen's report, could you refresh my
4 memory as to which one that is?

5 Q. Sure. That is, if you have the filing in
6 front of you, that would be, let's see here, Exhibit
7 RB-5.

8 A. No, I don't recall reading this report.

9 Q. All right. Would you take a second to read
10 it, or I could point you specifically to the page to
11 read. Would you like to read the whole thing yourself,
12 or I could point you specifically to the page that I am
13 going to be asking about?

14 A. Why don't we start with you pointing me to
15 the page?

16 Q. If you could turn to page 24. The -- about
17 midway down, I think the third full paragraph beginning
18 with the 9 percent underwriting profit provision. Do
19 you see that?

20 A. I do.

21 Q. All right. And do you see that Mr. -- so,
22 "Mr. Zanjani states in his report that the 9 percent
23 underwriting profit provision was selected by the
24 Bureau's committees based on reviewing the analyses by
25 Dr. George Zanjani. This filing also contains a

1 1 percent provision for contingencies."

2 After reading that, do you understand that,
3 at the very least, Mr. Ericksen has cross-referenced
4 your profit provision in his testimony?

5 A. He's definitely cross-referenced my profit --
6 well, not my profit provision but the committee's
7 profit provision.

8 Q. But the committee's profit provision was
9 based on your recommendation?

10 A. Well, as I described, it was not based on any
11 recommendation I made. As I described in my direct
12 testimony, I created an array of mapping profit
13 provisions to various accounting returns and also
14 provided them with various estimates of the cost of
15 capital, and they made a decision.

16 Q. If you could turn to -- next we are going to
17 see Mr. Anderson's testimony. And that is at
18 Exhibit RB-19.

19 A. I'm there.

20 Q. All right. Have you reviewed, Doctor --
21 excuse me, Mr. Anderson's prefiled testimony before?

22 A. I have not.

23 Q. Okay. Could you turn to page 13, and I guess
24 in the first question posed in bold, do you see that?

25 "Are you providing expert testimony concerning the

1 underwriting profit provision?"

2 A. I do.

3 Q. And do you see that Mr. Anderson's answer is
4 that he is not providing expert testimony concerning
5 profit provision but is relying on the work and opinion
6 of Dr. Zanjani as to the underwriting profit provision?

7 A. I see that.

8 Q. Okay. Have you worked on past Bureau filings
9 with -- that included testimony from Mr. Anderson?

10 A. Yes.

11 Q. Okay. Have you reviewed his reports in those
12 cases?

13 A. I don't know if I have ever read the
14 testimony -- his filed testimony. I don't recall
15 reviewing.

16 Q. But at least here you're now aware that
17 Mr. Anderson relied on your work as to the underwriting
18 profit provision?

19 A. Well, I am -- that's what it says in the
20 report, yes.

21 Q. Whether or not you personally are responsible
22 for abiding by the ASOPs, based on your continued
23 status as an ACAS, do you feel any responsibility for
24 presenting data that actuaries may rely on? Do you
25 have any responsibility toward the actuaries who may

1 rely on your data?

2 A. I think I have a responsibility to do a good
3 analysis, and I have a responsibility to -- I'm not
4 sure I understand what you are asking.

5 Q. Do you have any responsibility to, that's
6 what I am asking?

7 A. Any responsibility to?

8 Q. To those actuaries who will rely on your
9 analysis.

10 A. Responsibility for what, specifically? So,
11 I, in general, I think I have a responsibility to
12 provide a thorough and, to the best of my abilities, an
13 accurate analysis.

14 Q. Okay. Do you feel you have any
15 responsibilities to provide an analysis that will allow
16 those actuaries to rely on your work in conformance
17 with the ASOPs?

18 A. Well, my understanding is that an actuary
19 discloses reliances, Mr. Anderson did in this report,
20 on assumptions where they are relying on assumptions
21 provided by other -- other experts or other actuaries,
22 other people. So, again, I think I have a
23 responsibility to provide a thorough analysis and data
24 in -- as requested, to allow actuaries to do the work
25 as if they were using my analysis.

1 Q. And that work includes them complying with
2 the ASOPs?

3 A. Well, I don't think it's my responsibility to
4 make sure other actuaries comply with ASOPs.

5 Q. Do you attempt to, at least, be informed by
6 the ASOPs when you're preparing testimony that will --
7 or data that will be relied on by actuaries?

8 A. The specific ASOP that I pay attention to is
9 ASOP 30 regarding the treatment of profit and
10 contingencies provisions. And I have -- again, I'm
11 not -- I don't view myself as being necessarily bound
12 by every aspect of that statement, but I do pay
13 attention, of course, to the principles on cost of
14 capital, on profit factors, and the general guidance
15 laid out regarding the calculations of those items in
16 that standard. But, for example, on the disclosure
17 requirements regarding actuarial communications, I do
18 not necessarily study those -- that aspect of the ASOP.

19 Q. So, you consider yourself bound by only
20 part -- not bound, let me withdraw that.

21 Is it not my understanding that you attempt
22 to at least conform with part of ASOP 30?

23 A. Well, I wouldn't say that I attempt to
24 conform with part of ASOP 30. I have read the
25 statement, and I agree with much of the guidance that's

1 given in ASOP 30, particularly its guidance regarding
2 prospective costs, which is something that's adhered to
3 in my profit calculations, that is not always adhered
4 to in the profit calculations.

5 So, I think the guidance in ASOP 30 is --
6 much of it is a sensible -- a sensible roadmap for how
7 to calculate profit contingencies factors and cost of
8 capital to test profit and contingencies factors with
9 respect to the cost of capital that -- or with respect
10 to the return that they generate in terms of comparing
11 that to costs of capital.

12 Q. And let me better understand, is your
13 testimony that you don't consider yourself bound by the
14 ASOPs based on either -- or is it based on the fact
15 that you are an inactive member of the CAS?

16 A. Well, I do not believe I am bound by ASOPs.
17 So, I'm not sure that I'm not in compliance with ASOP,
18 so let me state up-front with that. I -- if I were
19 bound by them, which I don't regard myself as being
20 bound by them, but -- I'm sorry. I forgot the
21 question.

22 Q. Sure. The question is, is one of the reasons
23 that you don't consider yourself bound by them because
24 your status as an ACAS is inactive?

25 A. Well, I am testifying, as I stated in my

1 testimony, as a financial economist with expertise as
2 insurance. So, I do not represent myself as an actuary
3 to my clients. I make clear to them that I don't sign
4 statements of actuarial opinion. And so, when I write
5 my reports, I am not making sure that they comply with
6 ASOPs because they are not actuarial reports, right?
7 They are -- they are just reports.

8 Q. So, is this understanding fair, you don't
9 consider your -- this report bound by the ASOPs because
10 this report, according to your definition, is not an
11 actuarial report?

12 A. I produced this report to be consistent with
13 my understanding of economic -- financial and economic
14 principles, and it -- I did not pay specific attention
15 to ASOPs when producing the report.

16 Q. But does the report still contain any
17 actuarial analysis?

18 A. Does the report -- what is -- can you define
19 "actuarial analysis," please?

20 Q. Not very easily. It seems to be a very broad
21 topic. But, very roughly, the consideration of
22 historical data in order to make projections about
23 future trends in the context of the insurance market.
24 Is that a fair definition, or would you have a better
25 one for it?

1 A. Could you repeat the original question,
2 please?

3 Q. Sure. Do you consider your report to contain
4 any actuarial content?

5 A. Well, again, making clear this report was not
6 an actuarial report. I do not represent myself as an
7 actuary. Some of the analysis in the report would also
8 appear in an actuarial report done by another actuary.
9 Or an actuary, I should say, not another actuary.
10 However, I emphasize that the analysis that I have done
11 here both -- both concerning the calculation of the
12 accounting return connected with the underwriting
13 profit provision, also the cost of capital analysis has
14 been done in the past by people without actuarial
15 credentials in this seat.

16 Q. But --

17 A. So, one, actuaries aren't the only ones
18 allowed to do that analysis.

19 Q. Understood. If you could turn --

20 MR. FRIEDMAN: Your Honor, I am about to
21 go down a lengthy road. I don't know at what time
22 you were thinking to break for midday.

23 MS. FUNDERBURK: When you describe "a
24 lengthy road," are we talking a half hour, an hour,
25 five hours?

1 MR. FRIEDMAN: Could be an hour or more.

2 MS. FUNDERBURK: Counsel, then it would
3 seem that this is a good time for a break point.

4 MR. SPIVEY: This is fine, yes, Your
5 Honor.

6 MS. FUNDERBURK: All right. It is just
7 before noon, I will call us into recess at this
8 time. We will come back on the record at 1:30 here
9 in this room. I ask everyone to be prepared and be
10 seated at that time.

11 And I will remind everyone, sound
12 carries very strongly in this room. And if there
13 are any conversations that need to take place --
14 for those assembled -- that needs to be outside of
15 this room. All right.

16 We are in recess, and I will see you all
17 back prepared to begin at 1:30 p.m.

18 And I will remind, Dr. Zanjani, that
19 when you return you will continue to be under oath.
20 Thank you.

21 (Hearing adjourned at 12:00 p.m.)
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25

1 STATE OF NORTH CAROLINA)
) C E R T I F I C A T E
 2 COUNTY OF CABARRUS)
 3

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

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

14 IN WITNESS WHEREOF, I have hereunto
 15 subscribed my name, this 7th day of October, 2024.



16 *Renee M. Habrack*
 17 _____

18 RENEE M. HABRACK, CCR, RPR
 19 Notary #20041960006
 My Commission Expires: 7/20/29
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 24
 25