

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING	)	BEFORE THE COMMISSIONER
DATED JANUARY 3, 2014 BY THE	)	OF INSURANCE
NORTH CAROLINA RATE BUREAU)	
FOR REVISED HOMEOWNERS')	Docket No. 1719
INSURANCE RATES & HOMEOWNERS')	
INSURANCE TERRITORY DEFINITIONS)	

ORDER

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ORDER

THIS CAUSE was heard by the Honorable Wayne Goodwin, Commissioner of Insurance (hereinafter "Commissioner"), at a public hearing in Raleigh, North Carolina, beginning 20 October 2014 and concluding 12 November 2014. The public hearing was held pursuant to a Notice of Public Hearing (hereinafter "Notice") dated 19 February 2014 and the Amendment to the Notice of Hearing (hereinafter "Amendment") dated 14 July 2014. The hearing was subject to the provisions of Article 36 of Chapter 58 and Article 3A of Chapter 150B of the North Carolina General Statutes.¹

At the public hearing, the North Carolina Rate Bureau (hereinafter "Bureau") was represented by the firm of Young, Moore & Henderson through its attorneys Marvin M. Spivey, Jr., William M. Trott, R. Michael Strickland, and Glenn C. Raynor. The North Carolina Department of Insurance (hereinafter "Department") was represented by its attorney, Sherri L. Hubbard and by Assistant Attorney General, Robert D. Croom.

¹ The present hearing was the first full hearing by the North Carolina Department of Insurance resulting from a homeowners insurance filing by the North Carolina Rate Bureau in at least 20

PROCEDURE

Pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Bureau, on 03 January 2014, on behalf of its member companies, made a Homeowners' Insurance Rate Filing (hereinafter "the rate filing") seeking an overall statewide average rate increase of +25.3%. The Bureau also included within the rate filing a request to revise the Homeowners' Insurance Territory Definitions (hereafter "territory definitions"). The filed rate changes and territory revisions were to become effective on or after 01 August 2014.

As required by N.C.G.S. §58-36-15(b), the Department held a Public Comment Session on 24 January 2014 where oral comments regarding the pending rate filing could be made by members of the public. The public was also allowed to share written comments with the Department by mail or email. In total, the Department received in excess of 10,000 comments from the public.²

Following the submission of the filing by the Bureau, and pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Commissioner issued the Notice (Docket No. 1719), on 19 February 2014 specifying in what respect and to what extent the filing failed to comply with the requirements of Article 36 and fixing a date for the hearing to commence on 06

years. Each of the other homeowners insurance rate filings between that hearing and the present one were settled without a public hearing.

² Given that this is the first full hearing by the Department on a homeowners insurance filing in over 20 years, it is similarly noteworthy that beginning with his administration in 2009, Insurance Commissioner Goodwin ordered that public comment periods be required immediately following rate filings for automobile, homeowners and workers' compensation rate filings by the Bureau. Commissioner Goodwin successfully persuaded the North Carolina General Assembly to enact a statute providing for public comment periods so that future Commissioners of Insurance would be required to seek public comment on these types of filings. N.C. Gen. Stat. § 58-36-15(b).

August 2014. A copy of the Notice is attached hereto as *Exhibit 3* and incorporated herein by reference.

On 21 May 2014 the Department submitted objections to the proposed revisions to the territory definitions via SERFF, the electronic filing system which serves as the official conduit between the Department and the Bureau for rate and form filings. In response to the Department's objections, on 9 June 2014 the Bureau filed through SERFF new proposed revisions to the territory definitions which necessitated revisions to approximately 200 pages in the filing resulting in a minor adjustment in the requested overall average statewide rate increase to +25.6%.

On 14 July 2014, the Commissioner issued the Amendment continuing the date for the hearing to 20 October 2014 and the date for the Prehearing Conference to 10 October 2014. A copy of the Amendment is attached hereto as *Exhibit 4* and incorporated herein by reference.

On 23 July 2014 the Bureau filed through SERFF the prefiled testimony of Mr. Robert Newbold, which prefiled testimony was to replace the prefiled testimony of Mr. David Lalonde (hereinafter "Lalonde"), originally marked and filed as RB-5.

In accordance with the Notice and the Amendment, a Prehearing Conference was held on 10 October 2014 wherein the parties stipulated to the expertise of the witnesses as follows:

1. Bureau witnesses Robert J. Curry (hereinafter "Curry"), and Brian M. Donlan (hereinafter "Donlan") are expert property/casualty insurance actuaries.
2. Bureau witnesses James H. Vander Weide (hereinafter "Vander Weide") and David Appel (hereinafter "Appel") are experts in economics and finance and profit as regards to the property/casualty insurance industry.

3. Bureau witness Robert Newbold (hereinafter “Newbold”) is an expert in catastrophe modeling.
4. Department witnesses Allan I. Schwartz (hereinafter “Schwartz”) and Mary Lou O’Neil (hereinafter “O’Neil”) are expert property/casualty insurance actuaries.
5. Department witness Evan D. Bennett (hereinafter “Bennett”) is an expert in reinsurance.

In addition, the parties also stipulated to striking certain provisions in the Notice because the Department was no longer contesting those issues. All stipulations entered into at the Prehearing Conference are set forth in the Prehearing Order dated 10 October 2014, a copy of which is attached hereto as *Exhibit 5* and incorporated herein by reference.

A Public Hearing regarding the filing was held pursuant to the Notice and the Amendment. Both parties presented direct and rebuttal evidence, including the oral and written testimonies of the stipulated experts.³ The Commissioner, pursuant to his authority as the hearing officer and as Commissioner, also asked direct questions of the expert witnesses for both parties, and allowed counsel for the parties to follow up with additional questions they deemed necessary after the Commissioner concluded his questions.

The proposed effective date as set forth in the filing is 01 August 2014. However, the Bureau’s assumed effective date for purposes of the rate calculations is 01 July 2014. The testimony and exhibits at the hearing reflect the assumed effective date of 01 July 2014. Thus, 01 July 2014 is used as the basis for calculating the rates as set forth in this Order in *Exhibit 1*, a copy of which is attached hereto and incorporated herein by reference. However, because the

³ In the interest of transparency for all stakeholders – most especially consumers who are unable to attend hearings in Raleigh and who have a personal, financial interest in the outcome – the full, written transcript of each day’s testimony was posted by the next business day on the Internet via the Department’s website, www.ncdoi.com.

proposed effective had already passed before the hearing commenced, it was agreed at the conclusion of the hearing that the new effective date for the rates set forth in this Order shall be 01 June 2015. Thus, the Commissioner's ordered rates trended forward to the new effective date of 01 June 2015 are attached hereto as *Exhibit 2* and incorporated herein by reference.

SCOPE OF AUTHORITY

The office of Commissioner of Insurance is created by Article III, Section 7(1) of the North Carolina Constitution with the power and authority as delegated to and vested in the Commissioner by the General Assembly.

The Bureau is created by Article 36 of Chapter 58 of the North Carolina General Statutes. The functions of the Bureau are established under N.C.G.S. §58-36-1, including the obligation to promulgate and propose rates for insurance against loss to residential real property with not more than four housing units.

The General Assembly granted to the Commissioner the power to set rates for homeowners' insurance and to review territory definitions by the enactment of N.C.G.S. §58-36-15(a) and §58-36-20(a) set forth below in pertinent part:

§58-36-15(a): The Bureau shall file with the Commissioner copies of the rates, loss costs, classification plans, rating plans and rating systems used by its members. ...

§58-36-20(a): ...If the Commissioner after hearing finds that the filing does not comply with the provisions of this Article, he may issue his order determining wherein and to what extent such filing is deemed to be improper and fixing a date thereafter, within a reasonable time, after which the filing shall no longer be effective... In the event the Commissioner finds that the proposed rates are excessive, the Commissioner shall specify the overall rates, between the existing rates and the rates proposed by the Bureau filing, that may be used by the members of the Bureau instead of the rates proposed by the Bureau filing... Any order issued after a hearing shall be issued within 45 days after the completion of the hearing. If no order is issued within 45 days after the completion of the hearing, the filing shall be deemed to be approved.

The **factors** considered in setting homeowners' insurance rates in this State are set forth in N.C.G.S. §58-36-10(2) and a portion of §58-36-10(3), which read as follows:

(2) Due consideration shall be given to actual loss and expense experience within this State...; to prospective loss and expense experience within this State; to the hazards of conflagration and catastrophe; to a reasonable margin for underwriting profit and to contingencies; to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers; to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State; to past and prospective expenses specially applicable to this State; and to all other relevant factors within this State: Provided, however, that countrywide expense and loss experience and other countrywide data may be considered only where credible North Carolina experience or data is not available.

(3) In the case of property insurance rates under this Article, consideration may be given to the experience of property insurance business during the most recent five-year period for which that experience is available...

APPLICABLE NORTH CAROLINA LAW

The Commissioner is considered an expert in the field of insurance. *State ex rel. Comm'r of Ins. v. N.C. Automobile Rate Admin. Office*, 292 N.C. 1, 21, 231 S.E.2d 867, 878 (1977); *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 124 N.C. App. 674, 687, 478 S.E.2d 794, 803 (1996).

The burden of proof lies with the Bureau to show that the proposed rates meet the statutory standards. *N.C.G.S. §58-36-20(a)*; *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 300 N.C. 381, 453-455, 269 S.E.2d 547, 591-592 (1980); *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 75 N.C. App. 201, 208, 331 S.E.2d 124, 131 (1985).

If the Commissioner after a hearing finds the filing does not comply with the statutory provisions, he may issue an order determining wherein and to what extent the filing is deemed to be improper and he may specify the overall rates, between the existing rates and the rates proposed by the Bureau filing. *N.C.G.S. §58-36-20(a)*.

It is for the Commissioner in an adjudicatory proceeding to determine the weight and sufficiency of the evidence and the credibility of the witnesses, and he may accept or reject in whole or in part the testimony of any witnesses. 300 N.C. at 406, 269 S.E.2d at 565 (1980); *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 160 N.C. App. 416, 420, 586 S.E.2d 470, 474 (2003); 124 N.C. App. at 678, 478 S.E.2d at 797 (1996). For example, the credibility and weight of the evidence projecting trends into the future are to be determined by the Commissioner. *In re Filing by Fire Ins. Rating Bureau*, 275 N.C. 15, 36, 165 S.E.2d 207, 222 (1969). Moreover, what constitutes a fair and reasonable profit “is a question of fact to be determined by the Commissioner upon evidence.” *Id.* at 39.

A projection by the Commissioner of past experience and present conditions into the future is presumed to be correct and proper if supported by substantial evidence after taking into account all of the relevant factors required to be considered by statute. 275 N.C. at 35, 165 S.E.2d at 221 (1969); 292 N.C. at 21-22, 231 S.E.2d at 878 (1977). “Substantial” evidence is defined as “such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.” It is “more than a scintilla or a permissible inference.” *Comm'r of Ins. v. Automobile Rate Office*, 287 N.C. 192, 205, 214 S.E.2d 98, 106 (1975) (quoting *Utilities Commission v. Trucking Company*, 223 N.C. 687, 690, 28 S.E.2d 201, 203 (1943)); 160 N.C. App. 416, 420, 586 S.E.2d 470, 474 (2003); 124 N.C. App. 674, 678, 478 S.E.2d 794, 797 (1996).

“Any order or decision of the Commissioner, if supported by substantial evidence, shall be presumed to be correct and proper.” N.C.G.S. §58-2-80. (See also, *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 350 N.C. 539, 547, 516 S.E.2d 150, 155 (1999); 124 N.C. App. At 678, 478 S.E.2d at 797 (1996)). On appeal, the order of the Commissioner “shall be prima facie correct.” N.C.G.S. §58-2-90(e).

The “due consideration” required by N.C.G.S. §58-36-10 may be given by appropriate reflection of the factors in the ratemaking calculation, which factors can be expressed implicitly or explicitly therein. Due consideration may be given by the use of an explicit mathematical value or factor, which can be negative, positive or zero. The value used is determined by the relative merit, which is appropriate and fitting for the factor involved. However, “‘due consideration’ does not require that a numerical adjustment of the rates be made....” *350 N.C. at 546-547, 516 S.E.2d at 154-155 (1999)*.

Due consideration may also be given by the use of an implicit factor, where appropriate and fitting to do so, such as providing for an adequate margin in the rate for dividends and deviations. Providing for an implicit factor can be a judgmental determination based upon observation. When due consideration is given by allowing an implicit margin in the rate, historical results demonstrating the existence of such a margin arising from the use of a given methodology, together with reasonably expected future results, may be relevant. Ultimately, the appropriate value – positive, negative, or no allowance at all – is judged by the Commissioner, in his discretion, in view of establishing a rate level that is not inadequate, excessive, or unfairly discriminatory. *350 N.C. at 546-547, 516 S.E.2d at 154-155 (1999); 75 N.C. App. 201, 224-226, 331 S.E.2d 124, 141 (1985)*.

“Various standards exist for the making and use of insurance rates. In general, rates must not be excessive, inadequate, or unfairly discriminatory. Three basic principles of law pertain to the setting of insurance rates: (1) the Commissioner must set rates that will produce a fair and reasonable profit and no more; (2) what constitutes a fair and reasonable profit involves consideration of profits accepted by the investment market as reasonable in business ventures of comparable risk; and (3) the underwriting business, which includes the collection and investment of

premiums, is the only basis for calculating the profit provisions.” 350 N.C. at 541, 516 S.E.2d at 151 (1999) (citations omitted).

SUMMARY FINDINGS

The Bureau has the burden of proving that the proposed rates are not excessive, inadequate, or unfairly discriminatory. N.C.G.S. §58-36-20(a). All of the Bureau evidence in the record in this case is offered to justify an indicated rate increase of +39.3% for Owners forms, +89.0% for the Tenant form and +74.1% for the Condominium form. The overall indicated statewide average rate level change for all forms is +40.6%. However, as a result of the Bureau’s decision to “cap” the proposed rate increases for Owners, Tenants, and Condominiums by territory to +35.0, +55.0%, and +55.0%, respectively, the filed overall statewide average rate increase is +25.6%, which includes an increase of +24.8% for Owners’ forms, +54.9% for the Tenant form, and +50.0% for the Condominium form. The capped overall rate increase of +25.6% is significantly less than the indicated overall rate increase of +40.6% allegedly supported by the Bureau evidence.

The Department witnesses took issue with some of the methodologies and calculations in the filing. Those methodologies and calculations that were contentious, while few in number, amounted to over 50% of the Bureau’s indicated rate increase. Thus, the Department witnesses, instead, recommended overall statewide rate level decreases ranging from -11.7% to -13.6%.

The Commissioner does note there are some areas of agreement – actual and perceived - between the Bureau and the Department that must be recognized in this Order.

Based upon the Findings of Fact and Conclusions of Law set forth herein below, the Commissioner finds that the Bureau – on the whole - has not met its statutory burden of proving that the proposed rates by the Bureau are not excessive, inadequate or unfairly discriminatory.

As a result of the Bureau's failure to meet its burden of proof for its filed rate adjustments, the Commissioner disapproves herein the filed overall statewide average increase of +25.6% based upon the Findings of Fact and Conclusions of Law set forth below. Instead, pursuant to the Findings of Facts and Conclusions of Law, the Commissioner **orders** herein a total overall statewide average rate change of 0.0% which provides for a decrease of -0.3% for Owners forms, an increase of +9.9% for Tenant forms and an increase of +7.7% for Condominiums forms. Further, the Commissioner believes that the evidence in this case supports an overall statewide average rate change of less than 0.0% in 2014 and 2015; however, N.C.G.S. § 58-36-20(a) does not allow the Commissioner to set an overall rate less than 0.0%.

FINDINGS OF FACT

The Commissioner, sitting as hearing officer, received, read and heard all of the evidence of the Bureau and of the Department, and, based upon the record as a whole and all pertinent statutes and court decisions, the Commissioner makes the following Findings of Fact:

I. PRELIMINARY DISCUSSION

On 03 January 2014, the Bureau filed for an overall statewide average rate level increase of +25.3% for homeowners' insurance. Included as support of its request for a rate change, the Bureau submitted with its filing the prefiled testimonies of its experts, Curry, Donlan, Lalonde, Vander Weide and Appel. *RB-3; RB-4; RB-5; RB-7; RB-12.*

Subsequent to making its filing, the Bureau made two amendments to the filing. On 9 June 2014 the Bureau submitted approximately 200 amended pages to the filing in response to certain objections that the Department raised with regards to the proposed revisions to the territory definitions. The amended pages caused a slight change to the original requested increase so that the filing now requests an overall statewide average rate level increase of

+25.6%. In addition, on 23 July 2014, the Bureau submitted the prefiled testimony of Newbold to replace the testimony of Lalonde, which was originally filed as RB-5. As a result of the amendments to the filing, the Department, on 14 July 2014, issued an Amendment to the Notice continuing the hearing date to 20 October 2014.

On 29 September 2014, prior to the commencement of the hearing, the Department filed and served the prefiled testimonies of its own expert witnesses, Schwartz, O'Neil and Bennett. *DOI-9; DOI-10; DOI-11*. The Department's experts, Schwartz and O'Neil, reviewed and analyzed the filed rate indications and the supporting data; and, based upon the data and information contained in the filing and other internal and external sources, Schwartz and O'Neil made their own independent estimations of the needed rate level change. Schwartz' and O'Neil's overall statewide average rate recommendations for the three forms combined ranged from -11.7% to -13.6%. *DOI-9, Schwartz Prefiled Testimony, p. 7; DOI-10, O'Neil Prefiled Testimony, p. 4*.

The hearing began on 20 October 2014. In addition to the direct written prefiled testimony and exhibits received by the Commissioner prior to the hearing, both parties presented oral testimony and exhibits during the hearing. All witnesses were thoroughly cross-examined at the hearing by counsel.

During the hearing, the Commissioner heard evidence from eight witnesses and received 21 Department exhibits, 41 Bureau exhibits, and 1 COI exhibit into evidence. The hearing testimony alone produced 2,542 transcript pages – all of which are also available online for transparency purposes -- and officially concluded on 12 November 2014.

Based upon a review of the filing and all written and oral evidence, the major differences between the parties are found in the following areas: modeled hurricane loss costs, net cost of

reinsurance, compensation for assessment risk, profit, contingencies, loss trends and loss adjustment trends and deviations.

A. MODELED HURRICANE LOSS COSTS

The Bureau, as it has since 1993, utilized the AIR Worldwide (hereinafter "AIR") Atlantic Tropical Cyclone Model, (hereinafter "hurricane model") to provide the catastrophe loss estimates from hurricanes affecting North Carolina. The AIR hurricane model is a commercial model utilized extensively by the insurance and reinsurance industries to estimate potential losses from catastrophes in order to manage risk and price insurance products. The AIR hurricane model has allegedly been extensively peer reviewed and has been accepted for use in ratemaking in Florida by the FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY (hereinafter "the Florida Commission"), which assesses catastrophe models through the establishment of more than 40 standards all of which must be met before a model is acceptable for ratemaking purposes in Florida.

There were actually two AIR models employed in this case. The standard hurricane model (hereinafter, "STD") model, simulating 100,000 years of potential hurricane experience, was used to estimate the hurricane loss costs used in the rate calculations. Loss estimates using the warm sea surface temperature conditioned catalogue (hereinafter, "WSST") were utilized in the calculations of the net cost of reinsurance, the compensation for assessment risk, and the allocation to zone. *See RB-6A for STD model results and RB-6B for WSST model results.*

Both of the Department witnesses found the STD modeled hurricane loss cost estimates to be excessive, and, therefore, they reduced the output of the STD model by 10% to 25%. As a result of their reductions to the modeled losses, Schwartz and O'Neil found the Bureau's overall indicated rate level change to be overstated by +1.9% to +5.0 percentage points. *DOI-9,*

Schwartz Prefiled Testimony, p. 50, Schedule AIS-3; DOI-10, O'Neil Prefiled Testimony, p. 87, Exhibit 1, Page 2.

B. NET COST OF REINSURANCE

The evidence in this case is that North Carolina, because of its location on the Atlantic coast, is subject to exposure to hurricane peril. As a result, insurance companies writing business in hurricane prone areas routinely purchase reinsurance (defined as insurance for insurance companies) in order to manage their exposure to catastrophe risk. The reinsurer, for a price, will indemnify an insurance company against the riskiest portion of its hurricane losses.

The cost of reinsurance, depending upon the amount and level of coverage, can be substantial for an insurance company. Thus, the Bureau has included a provision in the rate filing to pass through the net cost of reinsurance (hereinafter "net cost") to the policyholders. The net cost is equivalent to the reinsurance premium less the expected loss and loss adjustment expenses (hereinafter "LAE") recoveries from the insurer. In this case, Bureau witness Appel created a model to estimate the net cost provision.

The Department witnesses, while agreeing that it may be reasonable to include some provision for the net cost in the rates, found the Bureau's net cost provision, which amounted to approximately +22.1% of the indicated base rate to be excessive. Thus, the Department witnesses offered alternative provisions to be included in the rate, ranging from 9% of O'Neil's estimated premium to Schwartz' 10% of current premium. As a result of their alternative calculations, the Department witnesses both found that the Bureau's overall indicated rate level change to be overstated by +21.9% (Schwartz) or 21.9 percentage points (O'Neil). *DOI-9, Schwartz Prefiled Testimony, p. 75, Schedule AIS-3; DOI-10, O'Neil Prefiled Testimony, p. 170, Exhibit 1, Page 2.*

C. COMPENSATION FOR THE RISK OF ASSESSMENT

The Bureau included a provision of +4.4% of 2013 manual premium in the rates to compensate the companies for the risk of potential assessment by the North Carolina Insurance Underwriting Association (NCIUA or hereinafter "Beach Plan") and North Carolina Joint Underwriting Association (NCJUA or hereinafter "FAIR Plan"). The Beach & FAIR Plans comprise the residual market for property insurance in North Carolina. All insurers licensed to write property insurance in the state (except town and country mutual insurance associations or assessable mutual companies) are required to be members of the Beach and FAIR Plans. In the event that losses and expenses of the Beach Plan exceed the surplus, reinsurance and other sources of funding of Beach Plan losses, the Beach Plan is authorized to issue a non-recoupable assessment not to exceed \$1 billion upon its members for losses incurred from any event or series of events that occurs in a given calendar year.⁴ *See N.C.G.S. §58-45-47(a)*. There is no corresponding provision in the Fair Plan statutes authorizing the Fair Plan to levy a nonrecoupable assessment not to exceed \$1 billion. *See Article 46 of Chapter 58 of the North Carolina General Statutes*.

There is no dispute that a factor to compensate for the risk of assessments should be considered in ratemaking given that N.C.G.S. §58-45-5(6c) expressly provides for the consideration of the companies' prospective exposure to nonrecoupable assessments by the Beach Plan. The Bureau included a provision per policy in the rates of \$24.80 (Owners), \$2.43

⁴ Heretofore, potential assessment of the companies was unlimited. The Commissioner, the North Carolina General Assembly, member companies, and the public collectively worked on a package of reforms in the 2009-2010 legislative sessions. The \$1 billion cap was one of the revisions or reforms in the law that addressed insurance industry concerns as part of a package alongside consumer protections. See House Bill 1305 from that session for further details.

(Tenants) and \$2.40 (Condominiums), to compensate the companies for the risk they bear for potential assessments by the Beach Plan of up to \$1 billion.

Department witnesses Schwartz and O'Neil took exception to the amount of the compensation, which Schwartz testified was approximately 53% profit. Schwartz, instead, included a provision per policy in the rates of \$9.87 (Owners), \$0.97 (Tenants), and \$0.96 (Condominiums), while O'Neil included a provision per policy in the rates of \$4.18 (Owners), \$0.41 (Tenants) and \$0.40 as appropriate compensation. As a result, the Department witnesses found that the Bureau's overall indicated rate change was overstated by +3.2% to +4.3 percentage points (O'Neil). *DOI-9, Schwartz Prefiled Testimony, pp. 56-57, Schedule AIS-3; DOI-10, O'Neil Prefiled Testimony, p. 175, Exhibit 1, Page 2.*

D. PROFIT

The main issue regarding profit in this case is whether the profit methodologies utilized by the Bureau and the Department comply with both statutory requirements and appellate court decisions. Both of the Department experts used essentially the same overall methodology, a comparable earnings analysis, to calculate the target return that the insurance companies should be allowed on the insurance business only. Conversely, by using the cost of capital as a measure of the returns earned in industries of comparable risk, the Bureau set a target return that is equivalent to the return earned by the insurance company as a whole, which would include an underwriting return and an investment return. The investment return includes the return from the investment of capital and surplus. In North Carolina, there is no prescribed method for determining a fair and reasonable profit level; however, the experts in this case agreed that due to the unusual requirements in this State, the types of profit methodologies that can be used are

limited to those that do not consider investment income from capital and surplus. The testimony in this case regarding profit is essentially the same as it has been in prior auto rate cases.

E. CONTINGENCIES

The Bureau included a +1.0%, judgmentally selected, contingency provision in the filing to compensate for the alleged “systematic bias” that causes the actual underwriting experience to be worse than what is assumed in the proposed rates. The systematic bias allegedly occurs as a result, for example, of changes in the law, jury determinations, and judicial interpretations that expand losses beyond what was contemplated when the subject policies were written. In addition, the Bureau claimed that while North Carolina is at risk for brush fires, the risk of brush fires isn’t reflected in the data and the contingency provision compensates for this, as well.

The Department witnesses claim that there is no need for a contingency factor, particularly given that their analyses show a need for a decrease in rates. Moreover, changes in law, jury determinations and judicial interpretations can just as easily benefit the industry. In addition, Department witness O’Neil testified that studies show that North Carolina is, indeed, at risk for wildfires and given that propensity, the data should reflect this risk. Finally, Department witness Schwartz testified that during the ten-year period from 2003-2012, homeowners’ insurance has been profitable which indicates that there is no systematic downward bias in the experience. Schwartz and O’Neil included a contingency factor of 0.0% in their rate calculations. *DOI-9, Schwartz Prefiled Testimony, p. 41; DOI-10, O’Neil Prefiled Testimony, p. 199.*

F. TRENDS

Prospective loss and expense experience and premium are considered in the ratemaking process through the use of trend. Trending is the process by which actual losses, expenses and

premiums are projected to future levels. In this filing, the Bureau's Property Rating Subcommittee (hereinafter the "Subcommittee") actually selected the trends used in the filing while Bureau expert Curry provided the justification in the filing for the selected trends. In this filing the assumed effective date for trending purposes is 01 July 2014.

Department witnesses, Schwartz and O'Neil took exception to the loss trend adjustment factor (hereinafter "LTA"), while O'Neil had an issue with the Current Cost Indices (hereinafter "CCI") loss projection factor and the fixed expense loading by form.

G. DEVIATIONS

The due consideration given to dividends and deviations has long been an issue between the parties. In past automobile (hereinafter "auto") ratemaking cases, the former Commissioner⁵ had ordered that no explicit factor for dividends and deviations should be included in the rate calculations because an average manual rate has within in it an implicit margin that can be used for dividends and deviations. The Department witnesses, Schwartz and O'Neil, this year calculated the implicit factor within the average manual rate to be approximately +5.0% to +6.0% of premium. *DOI-9, Schwartz Prefiled Testimony, p. 77, AIS-E, p. 9, AIS-23; DOI-10, O'Neil Prefiled Testimony, p. 210, Exhibit 12, p. 2.*

The Bureau included a zero factor for dividends in this filing however, as has been in prior cases, the Bureau did include an explicit factor in the rates of +5.0% for deviations. *RB-1, C-1, C-2, and C-3.*

The Department witnesses contend that including an explicit factor in the rates for deviations will result in excessive rates because the average manual rate already contains an

⁵ James (Jim) Long, Jr. served as North Carolina's ninth Commissioner of Insurance between 1985 and 2009, and is referenced on several occasions in this order as the "former Commissioner" or "previous Commissioner" to prevent any confusion with the present Commissioner.

implicit margin of +5.0% to +6.0% that can be used for deviations. Moreover, Schwartz and O'Neil opine that including an explicit factor in the rates will result in unfairly discriminatory rates as all policyholders will be subject to higher rates so that some policyholders can receive a discount.

The testimony in this case regarding deviations is essentially the same as it has been previously in prior auto rate cases.

II. JURISDICTION AND EVIDENCE

A. JURISDICTION

1. As provided for in Article 36 of Chapter 58 of the North Carolina General Statutes, on 03 January 2014, the Bureau submitted the rate filing for revisions to Homeowners' Insurance Rates and Homeowners' Territory Definitions. The filing requested an overall statewide average rate level increase of +25.3%. *RB-1 through RB-17*.

1a. It is significant to note that the Bureau made a rate filing for homeowners insurance on October 1, 2012, seeking a statewide overall average increase of 17.7%, and voluntarily settled that filing with the Commissioner on March 5, 2013 *for less than half* of that amount; specifically, a 7% statewide overall average increase and an effective date of July 1, 2013.⁶ At the time of the present filing by the Bureau in January 2014, perhaps half of the state's impacted homeowner consumers/policyholders had not even received notice of what their increase, if any, would be from the 2012 filing.

1b. Furthermore, testimony in the present hearing indicated that North Carolina's storm and hurricane seasons had not been as active since that 2013 settlement, and that there had

⁶ The Commissioner presumed that the Bureau would not have voluntarily entered into such a settlement agreement in 2013 if the Bureau did not expect that rate level to be sufficient to

not been any overwhelming change in claims payouts to policyholders by Bureau member companies, intervening significant catastrophes, or dramatic changes in company expenses due to claims since the 2013 settlement.

1c. Accordingly, given the short period of time between the last statewide Rate Bureau increase and the present rate filing, it is no surprise that the public and the Department are concerned about the timing of and necessity of the present rate filing at the significant statewide rate levels proposed by the Bureau. The Commissioner shares that concern about the timing in large part, but chose to call a full evidentiary hearing so that all relevant facts, data, arguments, methodologies and theories could be examined by the Department, the Commissioner and the public at large and so the Bureau could publicly present and argue why it believes its position is appropriate in every respect.⁷

2. On 19 February 2014, the Commissioner issued the Notice specifying in what respect the filing failed to comport with the applicable laws and requirements and setting the matter for a hearing to begin on 06 August 2014. *Exhibit 3*, attached hereto.

3. On 9 June 2014, in response to the Department's objections regarding the proposed revisions to the territory definitions, the Bureau submitted approximately 200 amended pages to the filing resulting in a change to the requested rate level increase. As a result of the

maintain solvency of the hypothetical one company for at least several years beyond 2013, assuming no intervening one or more catastrophic events and concomitant claims thereafter.

⁷ In addition to the substantive and procedural reasons for conducting a hearing (or trial) of this specific filing, the Commissioner firmly believes that it is necessary for all stakeholders (industry, regulators, consumers) to have a full evidentiary hearing because of the sheer passage of time since the last homeowners insurance hearing over twenty years ago. During that time, the state's population has grown, its insurance marketplace has undergone changes, and there are potentially factors, facts, methodologies and arguments that should be heard. Moreover, courts rely upon precedent but do benefit from an occasional review of principles and statutes from time to time; in this instance, *too much time has passed without a hearing* on the important subject of homeowners insurance, and the Commissioner found it necessary, proper and reasonable to order it to take place.

amended pages the Bureau is now seeking an overall statewide average rate level increase of +25.6% for all forms which includes a rate increase of +24.8% for the Owners' forms, a rate increase of +54.9% for the Tenant form and a rate increase of +50.0% for the Condominium form. *RB-1, A-1.*

4. On 14 July 2014 the Commissioner issued the Amendment continuing the hearing date until 20 October 2014. *Exhibit 4*, attached hereto. The Commissioner granted the hearing postponement because legal counsel for the parties indicated more time was needed to prepare for the hearing.

5. On 23 July 2014 the Bureau made a second amendment to the filing submitting the testimony of Newbold to replace the testimony of Lalonde, which was originally marked and filed as RB-5. Lalonde had recently retired and would no longer be testifying on behalf of AIR. Newbold's testimony was essentially substantively identical to Lalonde's. *RB-5, Newbold Prefiled Testimony; T.pp. 642-643.*

6. On 10 October 2014, a Prehearing Conference was held which resulted in a Prehearing Order with the Notice attached that included strike-outs to certain provisions that were no longer at issue between the parties. *Exhibit 5*, attached hereto.

7. The Notice attached to the Prehearing Order properly set forth the alleged deficiencies in the filing that would be at issue at the hearing. *Exhibit 5, attached hereto.*

8. A hearing was duly held beginning 20 October 2014, in accordance with the Amendment, and proceeded without undue delay to its conclusion on 12 November 2014. *T. p. 5, 2541.*

9. Pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Commissioner has jurisdiction to hear the Bureau's request for a rate change in Homeowners'

Insurance Rates and Homeowners' Insurance Territory Revisions, and, pursuant to N.C.G.S. § 58-36-20(a), has the authority to approve or to set his own overall rates between the rates proposed in the filing and the existing rates. The Commissioner has issued a proper Notice and has held a hearing pursuant to the Notice. Therefore, as a result of the hearing and based upon the evidence discussed hereinbelow, the Commissioner issues this Order setting forth the ordered rates, with an assumed effective date of 01 July 2014, per the *Exhibit 1*, attached hereto. Pursuant to the agreement reached at the hearing, the ordered rates trended forward to the new effective date of 01 June 2015, are attached hereto as *Exhibit 2*.

B. EVIDENCE

10. The Bureau submitted the prefiled testimony of Donlan, as a member of the Subcommittee, to propound the filing. *RB-4, Donlan Prefiled Testimony*. The Bureau also submitted the prefiled testimonies of four expert witnesses to support the filing. *RB-3, Curry Prefiled Testimony; RB-5, Newbold Prefiled Testimony; RB-7, Vander Weide Prefiled Testimony; RB-12, Appel Prefiled Testimony*. Each Bureau witness had personal knowledge of his own analysis, was subjected to cross-examination, and attempted to explain the data, assumptions, methods and factors used by the Bureau in the filing. In addition, Curry, Newbold, Vander Weide, and Appel provided oral rebuttal testimony and the Bureau offered Exhibits RB-19 to RB-41 (RB-35 omitted) to respond to the testimonies of the Department witnesses.

11. The Department employed two expert witnesses, Schwartz and O'Neil, to analyze the filing as to the appropriateness of the data and the material assumptions and methods underlying the Bureau's proposed rate level changes. Both witnesses performed his or her own independent analysis and made recommendations, where appropriate, as to alternative factors and methodologies to be considered by the Commissioner. *DOI-9, Schwartz Prefiled Testimony;*

DOI-10, O'Neil Prefiled Testimony. Each Department witness had personal knowledge of his/her own testimony, was subjected to cross-examination, and attempted to explain the data, assumptions, methods and factors that he/she used in his/her own analysis. Department witness O'Neil provided oral surrebuttal testimony and the Department offered Exhibits DOI-13 to DOI-21 (DOI-15 omitted) to respond to the rebuttal testimonies of the Bureau witnesses.

12. In addition, the Department employed an expert on reinsurance, Department witness Bennett, to review the net cost of reinsurance testimony of Bureau witness Appel and to provide general information on reinsurance. Bennett performed his own independent review of Appel's testimony. *DOI-11, Bennett Prefiled Testimony.* Bennett had personal knowledge of his own testimony and was subjected to cross-examination.

13. The three Department experts were provided complete copies of the filing, as well as copies of various statutes, court decisions, and other materials, and were requested to independently analyze the filing (Bennett analyzed only a portion of the filing) and to make observations and to recommend changes, where necessary. *DOI-9, Schwartz Prefiled Testimony; DOI-10, O'Neil Prefiled Testimony; DOI-11, Bennett Prefiled Testimony.*

14. To properly analyze the filing, it was necessary for the Department experts to submit data requests and discovery requests to the Bureau in order to understand the assumptions and methods utilized by the Bureau in the filing. These data requests and discovery requests and the responses thereto were admitted into evidence as *Exhibits DOI-5 through DOI-8.* The responses to the data requests and discovery requests, *Exhibits DOI-5 through DOI-8,* were necessary to further explain the data, material assumptions and methods adopted by the Bureau and to fully evaluate whether the filed rates were excessive, inadequate or unfairly discriminatory.

15. The Bureau's Exhibits RB-1 through RB-41 (RB-35 omitted) and the Department's Exhibits DOI-1 through DOI-21 (DOI-15 omitted), which include prefiled testimonies together with direct and rebuttal evidence upon which both parties relied in support of their various contentions, were admitted into evidence. *T. pp. 22, 24, 753, 1113, 1143, 1543, 1662, 1792, 1842, 2093, 2102, 2126, 2227, 2469, 2477, 2478.*

16. In addition, the Commissioner had his own exhibit, COI-1, which was information he had asked the Bureau to provide, admitted into evidence. *T.p. 2491.* The Commissioner requested this information because it came up during the hearing that ISO ("Insurance Services Office") had detailed data available about Consent-to-Rate (hereinafter "CTR") usage in North Carolina. The subject of CTR usage, data, and impact on ratemaking arose multiple times throughout the prefiled and live testimony.

17. At the hearing, the Commissioner took official notice of the 1993, 1998, 2002, 2005, 2006, 2008, 2012, and 2014 homeowners' rate filings with the concomitant Settlement Agreements, Consent Orders and press releases pertaining to those filings. *T.p. 25.*

18. The Commissioner also took official notice of a memorandum issued by the Department on 12 July 2013 regarding reinsurance programs. *T.p. 2087.*

19. Taking into consideration the filing (RB-1 through RB-17), the responses to the data requests and discovery requests (DOI-5 through DOI-8), and the oral and written testimonies and exhibits of all Bureau witnesses, the Commissioner makes the determination herein that the filing meets the minimum regulatory requirements for administrative review.

20. The Department experts provided the results of their analyses in their direct and rebuttal testimonies and exhibits, which are properly documented, and which are intended to demonstrate that certain of the Bureau's methods, calculations and ratemaking factors lead to

excessive and unfairly discriminatory rates. *See DOI-9, DOI-10, DOI-11, DOI-12 to DOI-21 (DOI-15 omitted).*

21. The Department experts produced material and substantial evidence sufficient to support the conclusions that the Bureau failed to adequately explain or legally support certain of its assumptions and methods and that the filed rate level change would lead to rates which are excessive and unfairly discriminatory. Moreover, the evidence that the Department experts presented demonstrates that the Bureau's profit methodology does not comport with North Carolina law. Furthermore, the Department's evidence showed that current existing rates are excessive and that overall rate reductions are required.

22. Having judged the weight and sufficiency of the evidence and its compliance with North Carolina law and the credibility of the witnesses on the issues raised at the hearing, the Commissioner finds for the reasons set forth herein that the Bureau has failed to meet its burden of proof to warrant unconditional approval of the filing.

23. Therefore, based upon the complete record, the Commissioner finds herein that it is appropriate to disapprove the Bureau's filed rate increases for the Owners forms of +24.8%, for the Tenants form of +54.9%, for the Condominiums form of +50.0% and for the overall statewide average of +25.6%. Moreover, as a result of the disapproval the Commissioner herein orders an increase in the Tenants form of +9.9%, an increase in the Condominiums form of +7.7%, and a decrease in the Owners forms of -0.3%, for a total overall statewide average rate change of 0.0%. The Commissioner finds that his ordered rates are not excessive, inadequate, nor unfairly discriminatory and are fully supported by material and substantial evidence.

24. Moreover, the request for a revision of the territory definitions was not challenged by the Department. Therefore, the Bureau's request for revisions to the territory definitions is

approved as currently filed and the revised definitions, the revised “current” rates, and the revised Homeowners’ Policy Program Manual are herein ordered as set forth in the filing in RB-1, F-A-1 through F-A-27, copies of which are attached hereto as *Exhibit 6* and incorporated herein by reference.

25. The results of these Findings will be set out in such detail as required by statute and case law in the subsequent sections of the Order below.

III. DATA QUALITY

26. Bureau witness Curry testified that the ratemaking experience reflected in RB-1 is, in general, supplied by the approximately 95 insurance companies that write homeowners insurance policies in North Carolina plus the loss and exposure experience from the Beach Plan. There are four licensed statistical organizations collecting data for the companies writing homeowners’ insurance, including Insurance Services Office (hereinafter “ISO”), the American Association of Insurance Services (hereinafter “AAIS”), the National Independent Statistical Service (hereinafter “NISS”) and the Independent Statistical Service (hereinafter “ISS”). The data from the insurance companies and the Beach Plan are collected and compiled by ISO and are consolidated into the necessary format and detail for ratemaking. *RB-3, Curry Prefiled Testimony, pp. 2-4.*

27. Bureau witness Curry further testified that the four statistical organizations subject the data that are reported to them to a series of verification edits. The statistical agents collect, review, compile and submit the data underlying the filing as a regular practice and in the regular course of their business responsibilities as licensed statistical agents in North Carolina. *RB-3, Curry Prefiled Testimony, p. 4.*

28. The editing procedures utilized by the four statistical agents are included in the filing at RB-1, E-346 through RB-1, E-351. There were data anomalies discovered for certain

companies, as well as data provided with insufficient detail, as discussed in RB-1, E-6. The result was that the premium/loss trend experience for multiple companies was excluded from the rate analysis. Moreover, the loss development factors used in the calculation of the rate indications were based only upon the ISO North Carolina experience and the experience of three major companies reporting to ISS. The non-excluded premium/loss trend experience represents 93.2% of the market, while the loss development factors were based upon the combined experience representing 75.6% of the market. *RB-1, E-6.*

29. There were no specific concerns raised by the Department regarding data quality nor were there any data errors or irregularities identified by either the Department or the Bureau during the review of the filing or during the hearing,

30. Therefore, the Commissioner hereby finds, based upon the evidence in the record, that the aggregate data included in this filing are of minimally sufficient quality to be used for ratemaking purposes.

IV. HOMEOWNERS RATEMAKING

31. The Homeowners' program in North Carolina consists of three types of forms: Owners, with a premium of \$2.26 billion, constitutes the vast majority of premium volume; Tenants, with a premium volume of over \$45 million; and Condominiums, with premium volume of \$22.6 million. The total premium received from writing all homeowners' forms is approximately \$2.326 billion. Given that the Owners forms constitute the majority of the premium volume, most of the testimony in this case refers to the Owners forms. *However*, the testimony regarding analyses and calculations, although specific to Owners forms, generally applies to Tenants and Condominium forms, except where specifically noted. *RB-4, Donlan Prefiled Testimony, p. 3; RB-3, Curry Prefiled Testimony, p. 6.*

32. There are approximately 95 companies writing homeowners' policies in North Carolina whose experience constitutes the composite experience in the filing. *RB-3, Curry Prefiled Testimony, p. 3; RB-4, Donlan Prefiled Testimony, p. 4.* (It is important to note that more companies are apparently licensed to write homeowners insurance in North Carolina but whose experience may very well not be part of the composite experience in the filing.)

33. In addition, the Beach Plan, by statute, writes homeowners' insurance in the 18 coastal counties. The North Carolina General Assembly statutorily defines the counties that comprise the "Coastal area" and "Beach area." N.C. Gen. Stat. § 58-45-5(2), (2b). The 18 coastal counties are comprised of the beach area, which consists of areas south and east of the Inland Waterway (known as the Outer Banks or barrier islands), and the coastal area which includes the remainder of those 18 counties. The Beach Plan writes full homeowners' policies at the Bureau manual rate plus a statutory surcharge of 15% and it writes policies with wind and hail coverage only at the Bureau manual rate plus a statutory surcharge of 5%. *RB-3, Curry Prefiled Testimony, p. 4; RB-4, Donlan Prefiled Testimony, pp. 12-13.* The Beach Plan was intended by the North Carolina General Assembly to be the "market of last resort." N.C. Gen. Stat. § 58-45-5(2c).

34. In the "beach" territories, 72% of the homeowners' premium is written by the Beach Plan and in the "coastal" territories over 40% of the homeowners' premium is written by the Beach Plan. On a statewide basis, 12% of homeowners' premium is written in the Beach Plan even though the Beach Plan is restricted to writing policies in the 18 coastal counties. *RB-4, Donlan Prefiled Testimony, pp. 13-14.* The primary reason given by some companies for not writing homeowners insurance in the coastal and beach areas of North Carolina (or for limiting the number of homeowners insurance policies written by those companies in the coastal and

beach areas) is that those insurance companies contend the manual rates are inadequate for those areas of the state. Instead, those insurance companies allow that potential policyholder business to flow to the Beach Plan which, according to the Rate Bureau and some member companies, charges less for premiums in some instances than the member companies believe they should be able to charge for similar coverages. However, given the decision by many insurance companies not to write along the coasts of the various states, there is no guarantee to North Carolina consumers that those companies would definitely resume writing homeowners insurance coverages where companies have pulled back in the Tar Heel coastal market *even if* the Rate Bureau received the revised rate levels it has requested.⁸

35. In North Carolina, the Bureau makes rates for a single, hypothetical company that is comprised of the aggregate book of business and experience of all homeowners' policies written in the voluntary market in the state. Those policies include attributes such as the amount of insurance written on each home, the territory in which each home is located, the type of construction, the deductible level, the type of coverage, and more. *RB-4, Donlan Prefiled, p. 11.*

36. In addition, because the Beach Plan writes a large number of the homeowners' policies in the beach and coastal areas, the Bureau has included the Beach Plan loss and exposure data in this filing *even though* the Beach Plan is neither a member of the Bureau nor does it write business in the voluntary market. The Bureau has also included consent-to-rate (hereinafter "CTR") data in the composite experience in the filing even though CTR policies are not written at voluntary market rates. *DOI-9, Schwartz Prefiled Testimony, pp. 16-17; RB-4, Donlan Prefiled Testimony, p. 11.*

⁸ A discussion on this very point occurred during the Department's hearing on Dwelling Fire coverages several years ago.

On the topic of CTR policies, it has been estimated that approximately one-third or more of homeowners insurance policies written in North Carolina are CTR policies. Consequently, policyholders who have consented to higher rates above the manual rate are already paying higher premiums to the one hypothetical company (that is, to the member companies), thus calling into question the impact and necessity of the present matter before the Commissioner.⁹

37. The concept of “exposures” in ratemaking is essentially the same as “book of business.” The Bureau believes that the single, hypothetical company for which rates are being made in this proceeding has the book of business of all the homeowners’ policies written in the State, whether written by the Bureau member companies or by the Beach Plan. *RB-4, Donlan Prefiled Testimony, pp. 11, 13.*

38. Ratemaking is prospective. The objective is to set rates at the level sufficient to pay expected losses, expected expenses, and leave a reasonable margin for profit. *RB-3, Curry Prefiled Testimony, p. 5.* The Commissioner, while meeting that objective, must simultaneously strike a balance such that policyholders are protected from excessive rates, inadequate rates, and rates based on unfair discrimination.

39. In ratemaking, the premiums should equal expected losses plus expected expenses and a fair and reasonable profit. *RB-4, Donlan Prefiled Testimony, p. 3.*

⁹ The Commissioner does note that the Rate Bureau contends CTR would not be used as much as it is now if homeowners insurance rates were significantly higher than the present. *Even if that were true*, the process for ratemaking that strikes the balance of consumer protection (affordability, accessibility, adequate insurance, etc.) and insurance industry/market needs (reasonable profit, solvency, etc.) requires that significant rate increases go through reasonable, efficient, regulatory scrutiny and oversight where the Rate Bureau has to make its case, instead of relying upon widespread CTR use to circumvent that process. The topic is perhaps best described as a Catch-22: MERRIAM-WEBSTER DICTIONARY defines a “Catch-22” as “a problematic situation for which the only solution is denied by a circumstance inherent in the problem or by a rule.” In other words, a solution to CTR appears paradoxical at the present.

40. In this instant case the required base rate per policy was developed by adding the appropriate profit and contingencies to the estimated costs associated with the policy. The required base rate is then compared to the current base rate to determine the indicated rate change. This ratemaking methodology is referred to as the pure premium method and it is the methodology used by both the Department witnesses and the Bureau. *DOI-9, Schwartz Prefiled Testimony, p. 10; DOI-10, O'Neil Prefiled Testimony, p. 5; RB-4, Donlan Prefiled Testimony, p. 3.*

41. In this filing, the Bureau has filed for an overall statewide average increase of +25.6% for all forms (the "filed rate"). However, the Bureau filing actually shows a need for an overall statewide average increase of +40.6% for all forms (the "indicated rate"). The indicated rate increase of +40.6% is the result of the actuarial calculations in the filing while the filed rate increase of +25.6% reflects the Bureau's decision to cap the rate increase at +35% at the territorial level for the Owners forms and cap the increase at +55% at the territory level for the Tenants and Condominiums form. *RB-4, Donlan Prefiled Testimony, p. 10.*

42. In this filing, the supporting data for the rate level changes are contained in Section C of the filing. Section C contains the most recent five years of experience, which in this case are the years 2007 through 2011. *RB-3, Curry Prefiled Testimony, p. 50.*

43. In the filing C-1 contains the statewide rate level calculations for the Owners forms, while C-2 and C-3 contain the calculations for the Tenants and Condominiums form, respectively. *RB-3, Curry Prefiled Testimony, p. 6.*

44. In making the filing, there were a number of Bureau committees involved in the process, to wit:

- The Governing Committee is the most senior committee within the Bureau committee hierarchy and it provides the direction for the Bureau. In the context of this filing, the Governing Committee, based on

recommendations from other committees, made the ultimate decision of what should be filed.

- The Property Committee is the next committee in the hierarchy which consists of approximately ten members with broad-based experience. The Property Committee receives input from subcommittees and, in this case, made the final recommendations to the Governing Committee regarding this filing.
- The Subcommittee, chaired by Bureau witness Donlan, is comprised of approximately ten members who are actuaries or are professionals experienced in ratemaking. The Subcommittee is responsible for determining appropriate methodologies, assumptions and inputs in the calculations to develop the rate indication. The Subcommittee makes all the selections for factors in the filing, including trend selections and profit selections. It is, generally, responsible for doing much of the actuarial review and decision-making and it makes the technical recommendations to the Property Committee.
- The Rating Methodology Task Force (hereinafter "Task Force") meets as necessary and it reviews all of the methodologies to be used in the various filings for all lines of business. The Task Force was not specifically involved with this homeowners filing.

RB-4, Donlan Prefiled Testimony, p. 2; Curry T.pp. 103-104; Donlan T.pp. 274-281.

45. The general process followed in Bureau filings is that ISO, at the direction of the Governing Committee, consolidates the premium, loss and expense data of the companies and

the Beach Plan (expenses for the Beach Plan are not included in the consolidated data) and furnishes it and the results of the hurricane simulation model to the Subcommittee for review. The Subcommittee also receives input from Bureau witness Appel regarding profit, net cost of reinsurance, and compensation for assessment risk (hereinafter "CAR"). The Subcommittee analyzes all of the information and makes selections based on the data and the expertise provided by Curry, Vander Weide, and Appel and formulates a final recommendation to the Property Committee which then makes a recommendation to the Governing Committee. Once all approvals have been received, ISO prepares the actuarial exhibits for the filing, the Bureau experts submit their testimonies and exhibits and the Bureau compiles all of the data, exhibits and documentation into the filing and submits the filing to the Commissioner for review. *RB-4, Donlan Prefiled Testimony, pp. 2-3; RB-3, Curry Prefiled Testimony, p. 2-4, 32.*

V. REQUIREMENTS OF N.C.G.S. § 58-36-10

A. DUE CONSIDERATION OF ACTUAL LOSS AND EXPENSE EXPERIENCE WITHIN THIS STATE FOR THE MOST RECENT THREE YEAR PERIOD FOR WHICH SAID INFORMATION IS AVAILABLE.

46. N.C.G.S. §58-36-10(2) requires that due consideration be given to actual loss and expense experience for the most recent three-year period for which that information is available.

47. N.C.G.S. §58-36-10(3) indicates that *for property insurance*, due consideration may be given to the most recent five-year period for which that information is available.

48. Traditional homeowners' ratemaking has relied upon the consideration of five years of weighted experience as the way to achieve a balance of stability and responsiveness. The weights used in the filing of .10, .15, .20, .25 and .30 (with the latter weight applied to the most recent year of data) are the weights used in previous Bureau homeowners' filings and are

used by ISO in all other jurisdictions where ISO makes homeowners' filings. *RB-3, Curry Prefiled Testimony, pp. 5-6; RB-4, Donlan Prefiled Testimony, pp. 3-4.*

1. AGE OF THE DATA

49. The Bureau purported to give due consideration to the most recent five year period by considering the loss data for the years ended 31 December 2007 through 31 December 2011. The Bureau also considered five years of loss adjustment expense including the years 31 December 2008 through 31 December 2012. *RB-3, Curry Prefiled Testimony, pp. 5, 16; RB-4, Donlan Prefiled Testimony, pp. 3, 5.*

50. The Bureau also purported to give due consideration to the most recent three years of data for expenses by considering fixed and variable expenses for the years 2010-2012. *RB-3, Curry Prefiled Testimony, pp. 24-25; Donlan Prefiled Testimony, pp. 4-5.*

51. The Department witnesses took exception to the age of the data in the filing. The filing was made 03 January 2014, yet the most recent data utilized for loss and premium experience was 2011, while the most recent expense data was 2012. The Department witnesses found the data to be outdated and opined that the loss experience through, at least, 2012 should be available. *DOI-9, Schwartz Prefiled Testimony, pp. 14-16; DOI-10, O'Neil Prefiled Testimony, p. 5.*

52. The problem with using outdated data is that it causes greater inaccuracy in the estimated rate level because the historical data are the basis for estimating future premium, loss and expense for the prospective rating period. The older the data, the longer the projection (trend) period. *DOI-9, Schwartz Prefiled Testimony, p. 15; DOI-10, O'Neil Prefiled Testimony, pp. 5-6; Curry T.p. 130.*

53. Moreover, Schwartz testified that later data including 2012 would have better reflected the more current impact of economic and other conditions than would the years 2007-2011, which were included in the filing. He further testified that homeowners insurance experience has improved considerably since 2011. *DOI-9, Schwartz Prefiled Testimony, p. 15.*

54. Neither of the Department witnesses were able to correct for the outdated data used in the filing *because* the Bureau did not provide more current data despite the request by the Department witnesses to do so. Thus, the Department witnesses were also required to use the outdated data in their rate level calculations. *DOI-9, Schwartz Prefiled Testimony, pp. 15; DOI-10, O'Neil Prefiled Testimony, p. 6.*

55. Bureau witness Curry testified that at the time ISO was working on the filing, around the summer of 2013, the latest data ISO had from the other three statistical agents was 2011. Data for 2012 was not due to be reported by the statistical agents to ISO until 1 December 2013, but, one of the statistical agents had some issues and ultimately did not report the 2012 data until 10 January 2014, one week after the filing was made. *Curry T.pp. 113-118.* Accordingly, if the Rate Bureau had filed later in 2014 instead of as early as it did in the year, then the newer data would have been reported and received for consideration. Newer data would have allowed the Commissioner to make a more precise decision.

56. Curry further testified that 2013 data is not yet available from the other statistical agents and isn't due to be submitted to ISO until 1 December 2014. *Curry T.p. 118.*

57. Donlan also testified that the data in the filing was the most recent data available at the time the filing was being prepared and that the committee was aware of this. *Donlan T.p. 310.*

58. Based upon the testimony of Curry and Donlan, the Commissioner finds that the most recent loss and premium experience available to the Bureau at the time the filing was made 2011. The Commissioner also notes that Schwartz and O'Neil, while not satisfied with the age of the data, both utilized the data in the filing for their analyses and calculations.

59. Thus, the Commissioner accepts the outdated data as minimally sufficient to form the basis of the underlying rate calculations. The Commissioner notes for future filings that the lack of availability of more recent data is within the Bureau's control and the Bureau should consider stepping up the date that statistical agents report data to ISO for filing purposes.

2. HISTORICAL EXPERIENCE DATA BASE COMPOSITION

60. The Department witnesses also took exception to the composition of the historical experience data base. *DOI-9, Schwartz Prefiled Testimony, pp. 16-19; DOI-10, O'Neil Prefiled Testimony, pp. 6-9.*

61. The filing contains the combined experience of the three market segments currently writing homeowners insurance in North Carolina. The three market segments include the voluntary market, for which the Bureau is statutorily authorized to promulgate rates. It also includes the experience of the Beach Plan over which the Bureau has no jurisdiction, and the experience for CTR policies, which are policies written outside of the Bureau's jurisdiction and control. *RB-3, Curry Prefiled Testimony, pp. 4-5; Curry T.p. 80.*

62. Schwartz testified that because CTR policies are not charged Bureau manual rates and can be charged rates significantly higher than Bureau manual rates, the experience under CTR policies is not representative of the experience from policyholders that are charged Bureau manual rates. Moreover, Schwartz opined that the policies in the Beach Plan are not issued by Bureau members and that the Beach Plan is neither a member of the Bureau nor under the

Bureau jurisdiction. Thus, Schwartz concluded that neither CTR nor Beach Plan experience should be included in the filing. *DOI-9, Schwartz Prefiled Testimony, pp. 16-17.*¹⁰

¹⁰ On the subject of CTR, the proliferation of CTR usage by insurance companies in North Carolina in recent years does not go unnoticed by the Commissioner. Though CTR is a valid procedure that has been available for use here for more than 50 years, it appears to the undersigned to be less and less of an underwriting tool and more of a pricing tool, and, more directly, is being relied upon by Bureau member companies to reach a desired price point without going through the review process and consumer protection process by the Department. It appears to the Commissioner that member companies of the Rate Bureau are relying more heavily on CTR for homeowners insurance and are benefiting greatly from the premiums paid by policyholders over the manual rate cap. Present statutes and regulations allow for insurance companies to charge up to 250% above the manual rate if the consumer consents and certain other requirements are met.

During the recent hearing, the Bureau contended that CTR usage has grown in North Carolina because of the Bureau's allegation and belief that homeowners insurance rates are inadequate in North Carolina, an assertion which suggests, hypothetically, if the rates were made more "adequate" or raised closer to or at the level sought by the Bureau then there would be no need for the CTR process in the manner it is presently being used. (Of course, that presumes the Bureau proves its case to the Commissioner, based on facts, data, appropriate projections, and the law.)

However, even if the Commissioner were to approve the rates sought by the Rate Bureau in the present filing, the "consent to rate" documents signed by policyholders are not terminated unilaterally by the companies if the rate levels reach those governed by the CTR document. (CTR documents appear to last in perpetuity unless a policyholder changes companies or the company chooses to change the relationship.) It also appears to the Commissioner that policyholders who have voluntarily entered into a CTR relationship with their respective insurance companies would potentially see the floor *and* the ceiling of that potential CTR amount raised, even though the CTR-set rates for those policyholders would not have been evaluated for actuarial validity by the Department. If that is the case, then insurance companies in those instances *may* arguably have double benefit or windfall. Any action outside of the standard ratemaking procedure that raises rates across a large spectrum or broad class of North Carolina policyholders, and not just among individual policyholders here and there as the CTR process was originally intended, would appear to be against good public policy.

Hypothetically, if a larger and larger swath of North Carolina policyholders enters into CTR arrangements in the future, it will further complicate the ratemaking process, assuming there are no intervening and substantial storm losses in the near future, or a dramatic increase in inflation and related indices. It is recommended that the Bureau and the Commissioner discuss this subject in greater detail in the future with the hope of a solution that addresses concerns by the Bureau member companies, the Commissioner and the Department, and North Carolina policyholders.

Consent-to-rate is a legitimate, lawful tool when used appropriately and for the purposes intended by the law.

63. Moreover, Schwartz also testified that the Bureau has not been consistent with its treatment of Beach Plan experience because the Beach Plan loss and exposure experience was included in the filing, but the Beach Plan expense experience was not. Schwartz indicated that his understanding is that the Beach Plan has relatively lower expenses than those of the voluntary market and had the Beach Plan expenses been included in the filing, the indicated rate level would be lower. *DOI-9, Schwartz Prefiled Testimony, p. 17.*

64. O'Neil testified that the purpose of the homeowners filing is to evaluate the voluntary market homeowners manual rates and that inclusion of the data for other market segments required further analysis and consideration. *DOI-10, O'Neil Prefiled Testimony, p. 6.*

65. Curry testified that the rationale for including the premium (exposures) and loss information from the Beach Plan in this filing was that the Bureau desires to develop a rate for all eligible risks in the state and that by including Beach Plan data in the filing, it provides the voluntary companies a benchmark rate that would allow risks, including those currently written in the Beach Plan, to be written at the Bureau manual rates. *RB-3, Curry Prefile Testimony, pp. 87-88.*

66. With regard to Beach Plan expense data, Curry indicated that he didn't believe the Bureau collected that data *but if* the Bureau manual rate were to be the starting point for voluntary companies to write policies, then he could see a rationale for not including the Beach Plan expense in the filing because it is a separate entity. Curry did allow that the Beach Plan "may have lower expenses" because that they didn't have to advertise for business. *RB-3, Curry Prefiled Testimony, pp. 87-88.*

67. With regard to CTR data, Curry stated that the losses, expenses and premium data are included in the filing. *RB-3, Curry Prefiled Testimony, pp. 91-92.*

68. The Department submitted several data requests asking for a split-out of the data by market segments, however, the Bureau responded that an accurate split of any of the statistical data that was reliant on exposures was not available. Thus, it was not possible for the Department witnesses to do a reliable direct calculation of the indicated rate level excluding CTR and Beach Plan data. *DOI-9, Schwartz Prefiled Testimony, pp. 17-18; DOI-10, O'Neil Prefiled Testimony, pp. 6-7. See also, for example, DOI-5, Data Request 1, Item 15.*

69. Department witness Schwartz further opined that he believed that the combined-experience database used by the Bureau in this filing is a sufficient reason, by itself, from an actuarial and insurance ratemaking perspective to disapprove the rate filing. *DOI-9, Schwartz Prefiled Testimony, p. 19.*

70. Curry's testimony that including Beach Plan data provides a high enough rate to allow companies to write current Beach Plan policies in the voluntary market sounds a great deal like a marketing ploy, pushing up rates to a higher level so that companies can grab market share from the Beach Plan. While it may be and is desirable to have more Beach Plan policies written in the *voluntary* market¹¹, using non-voluntary market data to push up voluntary rates is an inappropriate method to achieve the Bureau's purpose. Given Curry's testimony and other testimony on this matter, the Commissioner is inclined to agree with Schwartz that the filing should be disapproved in large part. However, rather than taking such a radical step with this filing by approving the rate filing wholly, the Commissioner, instead, will consider the inclusion of CTR and Beach Plan data in this voluntary market rate filing as negatively impacting the

¹¹ In the very near future, but in a different forum, the Commissioner will be addressing the subject of how to de-populate the Beach Plan and have more coastal and beach policies written by the voluntary market.

Bureau's overall credibility. The Commissioner urges the Bureau to take whatever steps necessary to split out that data in order to avoid disapproval of future filings.

71. Thus, the Commissioner finds that the combined database presented in this filing can be used to calculate rates for this filing but that the Bureau's indicated rate level produced from this combined data is less than 100% credible and provides sufficient reason for the Commissioner to order a rate different from that proposed by the Bureau.

3. ACTUAL LOSSES AND LOSS DEVELOPMENT

a. Actual Losses

72. The Bureau used five years of "accident year" loss experience in the filing. Losses are assigned to an "accident year" based upon the date the claim occurs as opposed to the date when the claim is paid. Curry testified that traditional homeowners' insurance ratemaking has relied on five years of experience with the weights of .10, .15, .20, .25, and .30 being given to each year respectively (oldest year to most recent year) as a way to balance the stability of the rates with the responsiveness to current conditions. Curry further testified that the accident year weights for homeowners insurance are generally accepted in all jurisdictions in which ISO makes homeowners' filings. *RB-3, Curry Prefiled Testimony, pp. 5-6; RB-4, Donlan Prefiled Testimony, p. 4.*

73. While Schwartz accepted the Bureau's weights, O'Neil took exception to the accident year weights used by the Bureau. O'Neil opined that the Bureau's weights were selected only because the values had been accepted for use in other jurisdictions or were commonly used by ISO. The Bureau did not supply any specific supporting documentation. O'Neil, instead, utilized actual data within the filing and selected weights based on the distribution of earned house years (defined as a policy insuring one home for one year) by year.

O'Neil indicated there was no reason to skew the indication toward more recent years and that if the Bureau wanted to make rates more responsive to current market conditions, it should use more current data in the filing. *DOI-10, O'Neil Prefiled Testimony, pp. 199-201.*

74. The difference between O'Neil's and the Bureau's selections for accident year weights is a 1.5 percentage point overstatement in the Bureau's indicated overall rate level change. *DOI-10, O'Neil Prefiled Testimony, p. 201, Exhibit 1, p. 2.*

75. The losses included in the filing in column 1 of page C-1 are the losses from all causes, except those losses identified as being caused by hurricanes, from insured events that occurred during each of the respective accident years. The loss figures include losses that have already been paid, losses that are not yet paid and are represented by outstanding claim reserves, and losses that have been incurred but have not been reported. The losses that have not been reported are included by an adjustment for IBNR (incurred but not reported) losses, which is accomplished through the use of loss development factors. *RB-3, Curry Prefiled Testimony, pp. 6-7.*

76. It is not necessary to go through the lengthy loss development process because *neither* Schwartz nor O'Neil contested the Bureau's loss development factors.

b. Actual Losses and Loss Development – Summary

77. The Commissioner notes herein the Bureau's lack of supporting documentation with regards to the accident year weights because documentation issues are a recurring problem throughout the filing as noted, *infra*. Moreover, the Commissioner agrees, generally, with O'Neil's criticism that unsupported judgment, tradition, or general acceptance is an insufficient rationale for the selection of weights in this case. However, the other three actuaries, Curry, Donlan and Schwartz all support the use of the filed weights. Thus, given that neither the

accident year weights nor the actual losses used in the filing are heavily contested issues, in this instance the Commissioner will bow to tradition and utilize the Bureau's accident year weights as used in the filing.

78. The Commissioner herein finds that the actual losses and loss development as presented in the Bureau's filing are reasonable and will not produce rates that are excessive, inadequate, or unfairly discriminatory.

4. ACTUAL EXPENSES

79. The actual expenses from the statutory experience period are costs associated with the transfer of risk in the insurance transaction.

80. The "actual" expenses in this filing which include LAE, General and Other Acquisition Expenses (hereinafter "G&OA") and variable expenses, all come from the Bureau's annual data call for expense-related data that is sent to member companies each year. *RB-3, Curry Prefiled Testimony, p. 15.*

81. The expense call for calendar years 2008 through 2012 show that, after dropping high and low values, the LAE averaged 12.9% for the period. LAE include items such as adjuster's salaries, rents and overhead items related to claims settlements. These items will vary as general economic trends vary. *RB-3, Curry Prefiled Testimony, pp. 15-16; RB-1, D-29-D-30.*

82. G&OA constitute what is referred to as "fixed" expenses. These items include office equipment, rent, and other overhead-type expenses. They are "fixed" in that they do not vary as a direct function of the premium dollar. The dollar value of the "fixed" expense per policy starts with the untrended general expense ratio and other acquisition expenses which are based on the rounded average of the 2010, 2011, and 2012 ratios. *RB-3, Curry Prefiled Testimony, pp. 23-24; RB-1, D-31.*

83. Variable expenses, like commissions and taxes, are expenses that rise and fall directly with premium. These expenses are calculated from the same annual data call as LAE and G&OA and are derived in RB-1, D-28 in the filing. *Curry Prefiled Testimony, p. 25; RB-1, D-7.*

84. Schwartz and O'Neil utilized the same G&OA and variable expenses proposed by the Bureau. O'Neil took exception to the Bureau's exclusion of high and low data in determining the LAE factor. *However*, there is no analysis in her testimony demonstrating why her analysis is more appropriate and the difference between her methodology and the Bureau's is de minimus. Thus, the Commissioner accepts the Bureau's LAE, G&OA, and variable expense levels as used in the filing. *DOI-9, Schwartz Prefiled Testimony, pp. 12-14, Schedule AIS-2, Sheets 1-2; DOI-10, O'Neil Prefiled Testimony, pp. 28-29, 201.*

85. Thus, the Commissioner finds herein that the actual expenses in the filing are reasonable and will not produce rates that are excessive, inadequate or unfairly discriminatory.

B. DUE CONSIDERATION OF PROSPECTIVE LOSS AND EXPENSE EXPERIENCE WITHIN THIS STATE (TRENDS)

1. GENERAL

86. Prospective loss and expense experience is considered in the ratemaking process through the use of trend.

87. The basic purpose of trending is using data from the past to predict the future. Losses and expenses need to be adjusted by trend to reflect the cost levels anticipated to prevail during the period that the proposed rates are expected to be in effect. *RB-3, Curry Prefiled Testimony, p. 12; Curry T.p. 175.*

88. For insurance ratemaking, or determining the rate or price of insurance in the next policy period, the pattern or change derived from a relevant data set is applied to current known statistics (like average claim costs) in order to estimate the value of those statistics (such as claim costs) in the future period when the new insurance rates will be used. *DOI-10, O'Neil Prefiled Testimony, p. 10.*

89. The first and best data set normally used to discern patterns or trend are the historical values for the data element (such as average claim costs) to be trended. The amount of trend is derived from the analysis of changes in the historical data set. *DOI-10, O'Neil Prefiled Testimony, p. 11.*

90. If an appropriate historical data set is not available, then it may be possible to utilize a data set which is known to correlate with the data element being trended. For example, for expenses, if appropriate historical expense data are not available, changes in the Consumer Price Index (or inflation) over time may be referenced in order to estimate future expenses.¹² The assumption is that the pattern of change in past Consumer Price Indices will continue into the future and will reasonably mimic the changes in the prospective insurance expense data. *DOI-10, O'Neil Prefiled Testimony, p. 11.*

¹² On this very point and the subsequent paragraph, the Commissioner spent considerable time during and after the hearing focused on projected inflation there may be for certain years into the near future, taking into account the testimony of record. *Hearing Transcript pp 1123-1124; 1522-1523; 1711; 1713.* That contemplation raised just as many questions as it answered. For example, in insurance ratemaking here in North Carolina is it better public policy to (a) assign the same inflationary rate flatly across-the-board statewide, (b) have the projected inflation rate weighted among the zones, (c) account for potential inflation cumulatively after a period of years have elapsed, or (d) account for potential inflation each year on its own when ratemaking? And what if the projected rate of inflation for a given year or years is found retrospectively to have been significantly incorrect? The Commissioner determined that more evidence is needed by the parties on this subject, and guidance by stakeholders (the Rate Bureau, member insurance companies, the Department, consumers, and experts such as economists, actuaries and attorneys), and the General Assembly and/or the courts.

90a. The pattern of change in such indices is one strong reason that the Commissioner posed a series of questions about rates of inflation, etc., to many of the witnesses. Inflation is a factor that is more likely to occur than a hurricane to make actual landfall in North Carolina. Bureau and Department witnesses agreed that annual inflation is approximately 2%.

91. For the property lines of insurance it's typical to look at some type of external index, like MSB/Boeckh, which is used in this filing, or government indices that track the cost of construction, materials, or labor that would be expected to impact claims. *Curry T.pp. 175-176.*

92. Generally, the elements of ratemaking which are trended include premiums, losses, and expenses. Modeled exposure is also trended. For insurance ratemaking, each data element must be trended so that it is representative of its value in the future rating period. *DOI-10, O'Neil Prefiled Testimony, p. 11; Curry T.p. 177.*

93. There are two aspects to the trend analysis: current cost and future projection. This applies to trend as it relates to premium, loss, and expense. For example, for loss trend, the data in the current filing are for the years 2007 through 2011. Because there are five years of historical experience, these data are not all on the same cost basis. That is, the observed average claim cost in 2007 might be quite different from the claim cost in 2011 even if all of the claims were identical. One difference that can be considered is *the time value of money*. In order to evaluate the historical information on a consistent basis, the trend in factors such as the time value of money can be measured and applied to each historical year such that costs from all years are on the same current basis. Then, these costs can be projected into the future rating or policy period. *DOI-10, O'Neil Prefiled Testimony, p. 12.*

94. For this filing, the assumed effective date for trending purposes is 01 July 2014. (The effective date for rate implementation, as indicated in the filing, is 01 August 2014). *RB-3,*

Curry Prefiled Testimony, p. 12. Although this effective date has since passed, all data is presented in the filing and addressed by the Department witnesses using an effective date of 01 July 2014.

95. Because the effective date in the filing of 01 July 2014 has already passed, the Commissioner's ordered rates will need to be trended further to reflect the new effective date agreed upon by the parties at the close of the hearing. *See Section VIII.*

2. LOSS TRENDS

96. Basically, Curry developed his loss trend using a two-step process.

- Step one is the development of a Current Cost Factor (hereinafter "CCF"), that, when applied to a given year's losses, adjusts these losses up to the cost level of the external Current Cost Index ("CCI," hereinafter) that is used as the basis for analysis of the loss trends. The CCF brings the losses from the cost levels corresponding to an average date of loss forward to the midpoint of the latest quarter of the external index at the time Curry prepared his testimony. *RB-3, Curry Prefiled Testimony, p. 14.*
- Step two is the development of a Loss Projection Factor (hereinafter "LPF") which projects the losses from the midpoint of the latest quarter of the external index to the average date of loss for policies which are assumed to be written at the proposed rates (i.e. one year beyond the assumed effective date of 01 July 2014). The development of the LPF comes from the CCI and the internal trend data. *RB-3, Curry Prefiled Testimony, pp. 12-14.*

97. The CCF is used to adjust losses from a number of prior periods to a common date after consideration of factors such as the time value of money. The CCF for losses in this filing is based upon changes in external Consumer Price Indices (hereinafter "CPI"). The CCF of 1.036 for 2011 is found on page RB-1, D-12 of the filing. *DOI-10, O'Neil Prefiled Testimony, p. 13.*

98. The LPF projects losses to the level anticipated one year beyond the assumed effective date (or 01 July 2014). It is derived in this filing by applying "curve fitting" to the observed CCI data points in order to estimate the annual change in costs which could be used to project costs into the future. In this case, the Bureau selected an annual rate of change in the CCI of +2.0% (Owners), which results in a total LPF of +4.9%, both of which are found on page RB-1, D-13 of the filing. *DOI-10, O'Neil Prefiled Testimony, p. 18.*

99. The Bureau used external index information to calculate the CCI and the LPF. The external indices the Bureau used were the Boeckh Residential Index (hereinafter "BRI") for North Carolina and the Modified Consumer Price Index (hereinafter "MCPI"). *RB-1, D-5; DOI-10 O'Neil Prefiled Testimony, pp. 14-15.*

100. O'Neil used the BRI and MCPI values as calculated by the Bureau to calculate the CCI and LPF which included fitting least squares exponential curves to different sets of historical data points in order to derive indicated annual changes in the indices. *DOI-10, O'Neil Prefiled Testimony, p. 15.*

101. The historical experience period that the Bureau used with the BRI and MCPI was through 31 March 2013, but these data were outdated by the time the filing was made. The Department, through Data Request 1, Items 74-76, obtained more current data from the Bureau

through 30 June 2014. O'Neil used the more recent data. *DOI-10, O'Neil Prefiled Testimony, p. 16.*

102. Because O'Neil based her derivation of the CCI values on later data, she had fifteen months of additional actual observations. O'Neil testified that it is important to use the most current available actual data whenever possible to avoid making estimates of that data. Because there were more actual data points available to O'Neil to calculate the CCI values, the remaining trend period which she used for application of the LPF was shorter than that used by the Bureau. *DOI-10, O'Neil Prefiled Testimony, pp. 16-17.*

103. As a result of using more recent data, O'Neil was able to observe that the indicated trend appeared to have decreased since the Bureau reviewed its earlier data. Thus, O'Neil selected slightly different CCIs than did the Bureau: A +1.5% factor for Owners (compared to the Bureau's +2.0%) and a 0.0% factor for Tenants and Condominiums (compared to the Bureau's +1.2%). *O'Neil Prefiled Testimony, pp. 18-19.*

104. Schwartz used the same factors as the Bureau. *DOI-9, Schwartz Prefiled Testimony, pp. 12-13; AIS-2, Sheet 1.*

105. Given that O'Neil reviewed more recent data than did the Bureau or Schwartz and that there is no disagreement between the parties that newer data generally provides better estimates for the future than older data, the Commissioner herein finds that O'Neil's CCIs for all three forms, based on more recent data, are more appropriate to use for the loss trend calculations. The Commissioner further finds that it is also appropriate to use O'Neil's trend period from the midpoint of the quarter ending 30 June 2014 (1.125 years) because this reflects and additional fifteen months of actual observations than what the Bureau used, resulting in a shorter time period in which she has to project trend into the future.

106. In addition to the CCI loss trend of +2.0%, the Bureau selected a LTA factor of +3.0%, which is an additional annual trend adjustment allegedly necessitated by the homeowners actual historical pure premium¹³ changes during the 2007-2011 experience period being higher than the observed annual changes in the external indices. Thus, the Bureau's selected annual loss trend is +5.0% to trend the prospective losses. The use by the Bureau of a loss trend adjustment factor larger than 0% results in a higher rate indication. *RB-3, Curry Prefiled Testimony, p. 14.*

107. Both Schwartz and O'Neil disputed the Bureau's use of a LTA and found that as a result of using the LTA, the Bureau's overall indicated rate level change was overstated. *DOI-9, Schwartz Prefiled Testimony, pp. 20-23; DOI-10, O'Neil Prefiled Testimony, pp. 19-25.*

108. O'Neil opined that as previously discussed, the CCI loss projection factor was based on external CPI trend data. It would be more appropriate to utilize historical insurance data as a basis to derive the expected annual rate of change in insurance costs. However, quarterly insurance trend data were not available. Consequently, the Bureau presented RB-1, D-16 which shows 'Annual Pure Premium and Severity Rates of Change' by cause of loss separately for Owners, Tenants, and Condominiums based on historical data for the five years 2007 through 2011, or five data points. These data were intended to provide information regarding the missing pure premium trend. The Bureau calculated indicated trend values based on the five data points by cause of loss and then based on these calculated values, the Rate Bureau selected a value to adjust the selected trend amount derived from the external trend data.

¹³ Pure premium is defined as the losses per insured exposure and is mathematically equivalent to the claim severity multiplied by the claim frequency. An exposure is essentially equivalent to an insured home for a period of one year. Therefore, the pure premium is the amount of loss per insured home-year. *DOI-9, Schwartz Prefiled Testimony, pp. 20-21.*

This trend 'adjustment' amount is known as the loss trend adjustment factor. *DOI-10, O'Neil Prefiled Tesimony, p. 19.*

109. As O'Neil explained, the Bureau compared the external index rates of change to the historical data. Based on the comparison stating that the historical pure premium experience "outpaced" the external indices, the Bureau added an additional factor to the applicable trend factor based on external trend data. No explanation or definition was provided for the term "outpaced" nor was any support provided for the specific values which were selected. *DOI-10, O'Neil Prefiled Testimony, pp. 20-21. See also RB-4, Donlan Prefiled Testimony, pp. 3-4; RB-1, D-5.*

110. O'Neil reviewed the five year internal data provided on RB-1, D-16 and the data provided in response to Data Request #1, Item 79. The data response contained data for the five year historical experience period of 2007 through 2011 by cause of loss and in total. *DOI-10, O'Neil Prefiled Testimony, p. 21.*

111. In reviewing the data, O'Neil found increases in pure premium for Owners and Condominiums for 2008 through 2010 and for Tenants for 2008 through 2009. However, despite these observations, O'Neil found that the data were not suitable for determining trend indications *because* the data were too old to be relevant and there were too few data points to derive a statistically reliable trend value. Specifically, the data presented by the Bureau at RB-1, D-16 and in Data Request #1, Item 79 were for five years 2007 through 2011, a time period that coincides with the economic crisis and housing market crisis. Further, there were only five historical data points, which are insufficient to derive a statistically reliable trend value because the fitted indications are too affected by aberrations arising from any single data point.

Moreover, the data suggested a possible turning point toward decreasing trend despite the observed increases. *DOI-10, O'Neil Prefiled Testimony, pp. 22-23.*

112. O'Neil also reviewed North Carolina Fast Track data Excluding Hurricanes (hereinafter "Fast Track") through 31 March 2014, which showed that beginning in 2012 homeowners pure premium began to decline and that the decline has accelerated. O'Neil does note that Fast Track data does suffer from a number of deficiencies for use as homeowner trend data, to wit: the differing mix of business over time for rating variables such as deductibles and amount of insurance, and, the treatment of wind losses. Although catastrophes are excluded from the data, other wind losses are included and may distort the observed patterns. *DOI-10, O'Neil Prefiled Testimony, p. 23.*

113. Despite the deficiencies, O'Neil notes that the Fast Track data are much more recent than the data used by the Bureau and that the Fast Track data support the observed possible turning point in the internal trend data. O'Neil, therefore, concluded that given the inadequacy of the historical pure premium data presented in the filing (which can easily point to flat or declining future trend) and the significant declines in internal trend supported by the additional information she reviewed, she set the LTA at 0.0% for all forms. *DOI-10, O'Neil Prefiled Testimony, p. 24.*

114. Schwartz took exception to the Bureau's LTA factor analysis mainly because of the old trend data relied upon by the Bureau. The data base used by the Bureau to analyze the LTA factor ended in 2011, more than two years ago. More recent experience would result in a more accurate and reliable rate indication. *DOI-9, Schwartz Prefiled Testimony, pp. 21-22.*

115. Schwartz also examined more recent trend data from two sources. Schwartz, like O'Neil, reviewed Fast Track data through 31 March 2014 in quarterly intervals. He was also

able to review trend data compiled by ISO as set forth in a confidential trend circular that Schwartz was unable to disclose because of a confidentiality agreement he had entered into with ISO. *DOI-9, Schwartz Prefiled Testimony, pp. 22-23.*

116. Like O'Neil, Schwartz also observed that the Fast Track data showed that 2011 was a highpoint for losses for North Carolina homeowners insurance and that losses have decreased significantly since 2011. Also, while he could not discuss the ISO circular data in any detail because of the confidentiality agreement, he was able to confirm that the ISO data was consistent with his conclusion that the LTA factor used by the Bureau is inflated. *DOI-9, Schwartz Prefiled Testimony, pp. 22-23.*

117. As a result of his review and analysis using the more recent Fast Track and ISO circular data, Schwartz selected a negative LTA of -5.0% (.950) for all forms.

118. Both Schwartz and O'Neil testified that the Bureau's selection of a loss trend combined with a loss trend adjustment above 0.0% results in an overstatement in the Bureau's proposed rate level calculations. *DOI-9, Schwartz Prefiled Testimony, pp. 23, Schedule AIS-3; DOI-10, O'Neil Prefiled Testimony, pp.25-26, Exhibit 1, p.2.*

119. Curry testified that the North Carolina pure premium data that the Bureau reviewed was changing at 8.0% to 8.5% annually compared to the 2% annual change in the external data. Curry indicated that one of the reasons for the disparity between the external indices and the internal pure premium data could be that the external indices just measure how the cost (severity) changes but doesn't measure whether the claims are increasing or decreasing (frequency). The pure premium combines both the frequency and severity aspects of the data. *Curry T.pp. 177-179.*

120. Curry further testified that the Subcommittee, in selecting a +3.0% LTA, also considered Fast Track data, which was only available at that time through first quarter of 2013. *Curry T.pp. 179-180.* However, the Subcommittee in reviewing the Fast Track data did note, like Schwartz and O'Neil, that pure premiums began to decline at the beginning of 2012, and that decline influenced the Subcommittee's selection of the LTA. *Curry T. p. 1806.*

121. On rebuttal Curry reviewed more recent Fast Track data than what had been available to the Department witnesses. He introduced RB-24, which included Fast Track through second quarter 2014. Curry indicated that he did not believe that the newer Fast Track data showed the declining trend that Schwartz had observed with the earlier data and that the data appear to be trending upward as compared to 2013. He also introduced RB-25, a very controversial exhibit that purported to be three pages taken from a much larger ISO circular in excess of 300 pages. *Curry T.pp. 1882, 1886.* However, the three pages were modified by Curry (and/or staff) to include three-year and four-year fits. During the modification process page numbers didn't copy over correctly and graphs were pointing to incorrect data so Curry introduced RB-25A, which corrected the problems. *Curry T.pp. 1814, 2220-2224.*

122. Exhibit RB-25(A) showed North Carolina pure premium data through 30 June 2013 which is later data than the 2011 data the Bureau used in the filing. Based on the more recent data it could be reasonable to think that the Subcommittee might have chosen a LTA of +2.5% with a basic annual trend of +1.5% for a total trend factor of +4.0% rather than the +5.0% currently used in the filing. Curry hastened to point out that the Subcommittee has not changed their proffered trend selections in the filing which were based on the older data. *Curry T.pp. 1814-1819.*

123. Given that the original Bureau LTA selection was based on older data and that data now available shows the Bureau's selection to be too high, the Commissioner finds the Bureau's +3.0% LTA will result in excessive rates. Taking into consideration the testimonies of the Department witnesses and Curry's rebuttal testimony including RB-24, RB-25 and RB-25A, the Commissioner herein finds that a LTA of +2.5% for Owners is appropriate and will result in rates that are neither excessive nor inadequate.

124. While Curry reviewed more recent data for the Owners form, he did not review more recent data for the Tenants and Condominiums form. O'Neil did look at more recent data as discussed *supra* and as a result she recommended a 0.0% LTA for Tenants and Condominiums. Thus, based on O'Neil's review of more recent data, the Commissioner herein finds a LTA of 0.0% for both Tenants and Condominiums is appropriate and will result in rates that are neither excessive nor inadequate.

125. The following table illustrates the various loss trend factors selected by the Bureau and the Department witnesses for Owners forms/Tenants form/Condominiums form.

	Bureau	O'Neil	Schwartz
Annual Loss Trend	+2.0%/+1.2%/+1.2%	+1.5%/0.0%/0.0%	+2.0%/+1.2%/+1.2%
Loss Trend Adjustment	+3.0%/+1.5%/+4.0%	0.0%/0.0%/0.0%	-5.0%/-5.0%/-5.0%

3. PREMIUM TRENDS

126. The premium trend is used to adjust the historical premium experience to the conditions expected during the prospective rate period.

127. Both Schwartz and O'Neil utilized the Bureau's premium trend selections for Owners, Tenants and Condominiums. *DOI-9, Schwartz Prefiled Testimony, Schedule AIS-7, Sheets 1-3; DOI-10, O'Neil Prefiled Testimony, pp. 27-28.*

128. The various premium trend selections by the Bureau, O'Neil and Schwartz are noted in the tables below:

	Bureau	O'Neil	Schwartz
Premium Trend Owners	+2.3%	+2.3%	+2.3%
Premium Trend Tenants	-1.0%	-1.0%	-1.0%
Premium Trend Condominiums	0.0%	0.0%	0.0%

4. EXPENSE TRENDS

129. The expense trend is used to adjust the LAE (loss adjustment expense) factor for changes in the cost level of items that go into LAE, and, to project the fixed expenses (G&OA). *RB-3, Curry Prefiled Testimony, pp. 16, 23-24; RB-1, D-31.*

130. As noted *supra* loss adjustment expenses are those costs associated with claims settlement, which includes adjuster's salaries, rent, and overhead. These expenses will not change as losses change but will change as general economic conditions change. *RB-3, Curry Prefiled Testimony, p. 16.*

131. G&OA are fixed expenses that do not vary as a direct function of premium, such as the cost of office equipment, rent and other overhead expenses. *RB-3, Curry Prefiled Testimony, p. 23.*

132. For LAE, the Subcommittee reviewed experience from 2008-2012, but removed the highest and lowest years. For the G&OA expenses, the Bureau reviewed experience from

2010-2012. *RB-3, Curry Prefiled Testimony, pp.15-16; RB-4, Donlan Prefiled Testimony, pp. 4-5; DOI-10, O'Neil Prefiled Testimony, pp. 109-110.*

133. The Bureau's expense trend is based on an analysis of external expense trend data including the Current Expense Index, which is an index based on a 50/50 weighting of the all-items CPI (less energy) and the latest available CCI for marine, fire and casualty insurance. *RB-3, Curry Prefiled Testimony, p. 16; DOI-10, Prefiled Testimony, p. 29.*

134. The Bureau selected on expense trend value of +2.0%. Both Department witnesses O'Neil and Schwartz concurred with this selection. *RB-3, Curry Prefiled Testimony, p. 16; RB-4, Donlan Prefiled Testimony, p. 5; DOI-9, Schwartz Prefiled Testimony, Schedule AIS-12; DOI-10, O'Neil Prefiled Testimony, p. 30.*

135. While O'Neil did use the Bureau's expense trend of +2.0%, she took exception to the Bureau's fixed expense loading by form calculated by the Bureau on RB-1, D-31. When O'Neil reviewed RB-1, D-31, she found what appeared to be unreasonable expense values for the Tenants and Condominiums form. *DOI-10, O'Neil Prefiled Testimony, p. 30.*

136. The data for the fixed expense loading comes from the Bureau's special call for expense data. That call does not have G&OA expense by form; it has it for all forms combined only. *Curry T.pp. 1829-1830.*

137. The expense loadings by form in the filing relied largely on an assumption in column (8), of RB-1, D-31 which was labeled "Selected Relativity for GE,OA dollars per policy" where the Bureau assumed that the G&OA dollars per policy for Tenants and Condominiums should be set at a loading of 50% of the Owners G&OA dollars per policy. This assumption was made without support in the filing. *DOI-10, O'Neil Prefiled Testimony, p. 30.*

138. The Department, through Data Request 1, Item 98 questioned the basis for the assumption. The Bureau responded that since G&OA expense information was not available separately for the Owners, Tenant and Condominium forms, it was necessary that the column (8) relativities be selected judgmentally. The Bureau further indicated that selections shown on RB-1, D-31 reflect the expectation that G&OA expenses for the Tenant and Condominium forms will have a significantly smaller average dollar value than would apply to the Owners forms. *DOI-10, O'Neil Prefiled Testimony, pp. 30-31; DOI-5, Data Request 1, Item 98.*

139. O'Neil developed a calculation that retained the data by form and omitted the 50% assumption. She later discovered that her calculation was the same as the calculation utilized by the Bureau in its filings for 2006 and prior. *DOI-10, O'Neil Prefiled Testimony, p. 31.*

140. O'Neil reviewed prior homeowners filings back to 2002 and found that the 2008 homeowners' rate filing was the first time that the Bureau began to apply the assumption that fixed expenses per policy for Tenants and Condominiums should be set at 50% of the loading for Owners forms. While the change in assumption was noted in the 2008 filing, no support was provided for the change. Further, this lack of support continues through the current filing. *DOI-10, O'Neil Prefiled Testimony, p. 31.*

141. O'Neil removed the 50% assumption from her calculations and applied the previous Bureau calculation as was done in the 2006 and prior filings. While there is no impact to the overall indicated rate as a result of the 50% assumption, O'Neil testified that the prior procedure results in more reasonable fixed expense loadings by form than the current Bureau procedure which results in a large overstatement for the Tenants and Condominiums form. *DOI-10, O'Neil Prefiled Testimony, p. 31.*

142. Curry testified on rebuttal that the all forms expense data is used to come up with the overall dollar loading for fixed expenses for all forms combined. This approach developed into an overall percentage that is applied to each policy. This was essentially what O'Neil did, but, the Subcommittee felt that this approach resulted in too few dollars of fixed expenses being allocated to the Tenants and Condominiums form. *Curry T.p. 1830.*

143. The Subcommittee felt, based on the company experience of committee members, that the dollar value of fixed expenses for Tenants and Condominiums should be 50% of what is loaded in for Owners forms. As a result, the Owners forms has less fixed expenses apportioned to it because more is apportioned to Tenants and Condominiums. Since we do not know the actual split of the G&OA expense loading between forms, the Bureau doesn't believe there is anything inappropriate with its methodology. *Curry T.pp. 1831-1833.*

144. While there is no impact on the overall indicated rates as discussed above, there is a significant impact on the rates by form and the methodology itself should, in this case, be revised. The Bureau selected a loading of G&OA expenses for Tenants and Condominiums of 50% of the dollars per policy of the Owners forms. This is a significant amount given that the required base rate for Tenants and Condominiums, as calculated by the Bureau at RB-1, C-2 and RB-1, C-3, is 16% to 18% of the required base rate for Owners, calculated by the Bureau at RB-1, C-1. As O'Neil notes, there was no support provided in the filing for this 50% assumption and the only support that Curry offered on rebuttal is the personal company experience that the Subcommittee members considered when making their decision.

145. The Commissioner, therefore, finds that *without more documentation* supporting the Subcommittee's judgmental selection to use 50% of the dollars per policy of the Owners forms as a G&OA expense loading for Tenants and Condominiums, the Bureau's methodology is

inappropriate and results in an overstatement of the Tenants and Condominium indicated rates. The Commissioner further finds that O'Neil's methodology, which was previously used by the Bureau, results in more reasonable expense values that are more befitting the much smaller market size of the Tenants and Condominiums property form.

5. TREND - SUMMARY

146. Trend selection ultimately involves actuarial judgment which makes trend selection ripe for disagreement. However, in this filing the Bureau and the Department witnesses were generally in agreement on trend selections for the premium and expense trends.

147. With regards to the loss trend the disagreement revolves around the age of the trend data. Both Schwartz and O'Neil looked at more recent trend data than the Bureau had available at the time it made its trend selections. On rebuttal, Curry reviewed more recent Fast Track and ISO internal North Carolina trend data than Schwartz and O'Neil had available to review. Based upon the more recent data, Curry modified his initial support of the Bureau selections and indicated that O'Neil's loss trend of +1.5% was appropriate and that an LTA of +2.5%, based on the newer data, was a better selection than the +3.0% in the filing for the Owners' forms.

148. The Commissioner herein accepts O'Neil's loss trend of +1.5% and a LTA of +2.5% for Owners forms based on Curry's review of more recent data. Moreover, since there is no review of newer data for the Tenants and Condominiums form, the Commissioner herein accepts O'Neil's LTA of 0.0% for both Tenants and Condominiums. The Commissioner finds that these selections will result in rates that are neither excessive nor inadequate.

149. With regards to the G&OA fixed expense loadings by form, the Commissioner herein accepts O'Neil's loadings, as discussed above, because the Bureau did not adequately

support its procedure. The Commissioner finds that this selection will result in rates that are neither excessive, nor inadequate nor unfairly discriminatory.

150. Therefore, based on all of the foregoing (Sections V.B.1., V.B.2., V.B.3., V.B.4.) the Commissioner herein finds that the Bureau's filed loss trends and LTAs are inappropriate and unsupported and would result in excessive rates. Further, the Commissioner finds that the Bureau's G&OA fixed expense loading is inappropriate, unsupported and would result in excessive and unfairly discriminatory rates for Tenants and Condominiums.

151. In addition, the Commissioner finds that the Bureau's expense and premium trends are appropriate and will result in rates that are neither excessive nor inadequate.

152. Finally, the Commissioner finds that loss trends of +1.5% (Owners) and 0.0% (Tenants and Condominiums) and a LTA of +2.5% (Owners) and 0.0% (Tenants and Condominiums) will result in rates that are neither excessive nor inadequate.

C. DUE CONSIDERATION OF THE HAZARDS OF CONFLAGRATION AND CATASTROPHE

153. Homeowners' insurance is subject to catastrophic losses from both hurricanes and other wind losses and, therefore, to ensure stability in rate levels while maintaining adequacy in the event of wide swings in hurricane and other wind losses, an excess wind procedure and a hurricane loss model have been used in this filing. The purpose in utilizing the excess wind procedure and the hurricane loss model is to avoid inordinate shifts, both upward and downward, in indicated rate levels which would result from reflecting large hurricane and other wind loss events only in the year in which they occur. *RB-1, D-3.*

154. As an example of how the excess wind procedure and hurricane loss model have helped to smooth the effects of the indications due to infrequent wind events, both hurricane and non-hurricane, Curry testified that 2011 was a particularly bad year for insurance companies in

North Carolina. Total losses from Hurricane Irene and a number of non-hurricane losses totaled over \$2.4 billion. The hurricane losses of \$484,167,794 were removed and replaced by the long-term average hurricane losses from the AIR model in the amount of \$311,413,578. Moreover, by using the excess wind factor for the non-hurricane wind losses, the Bureau was able to remove \$1,004,031,464 from the rate calculation and spread those losses over the long run. If the ratemaking procedure had used the actual hurricane and non-hurricane wind losses instead of the AIR model and the excess wind smoothing procedure, the statewide rate level indications would have been +54.4% rather than +40.6% *RB-3, Curry Prefiled Testimony, pp. 11-12.*

155. The incurred non-modeled excess losses are those losses that result from unusually severe wind activity (other than hurricanes). These excess losses are removed from the historical experience used in developing rates and replaced with an expected excess wind loss loading by application of the statewide “excess wind factor.” This procedure has been employed in past filings and is customarily employed to smooth out and properly reflect prospective non-hurricane wind losses. *RB-3, Curry Prefiled Testimony, pp. 9-12; RB-1, D-3.* Neither of the Department witnesses took issue with the excess wind procedure or the excess wind factors used in the filing.

1. HURRICANE LOSSES

156. Historically, because of the low frequency and high severity nature of catastrophes, rates fluctuated considerably from year to year. In order to omit these wide swings in rate indications, attempts were made to develop methodologies which would smooth the experience over a number of years. *DOI-10, O’Neil Prefiled Testimony, p. 40.*

157. Special treatment for catastrophes in ratemaking arose from the need to smooth the year-to-year fluctuations in indicated rates due to catastrophes. *DOI-10, O'Neil Prefiled Testimony, p. 41.*

158. Actual hurricane losses have also been excluded from the historical experience used in developing the rates, as well as the development of the indications by class and by territory, and, in the calculation of the non-hurricane excess loss factor. The amount of the actual hurricane losses for Owners' forms removed from the experience by year are: \$0.00 from 2007, \$0.00 from 2008, \$3,296,140 from 2009; \$12,568,770 from 2010; \$484,128,544 from 2011. *RB-3, Curry Prefiled Testimony, p. 11; RB-1, D-43.*

159. A simulation model was used to develop the hurricane losses because it is a more accurate way of including the exposure than using traditional insurance statistics. *RB-3, Curry Prefiled Testimony, p. 21.*

160. According to the Bureau witnesses, hurricanes are highly variable in frequency, intensity and place of occurrence and the simulation model allows for the smoothing out of the hurricane losses as well as better reflecting a more complete distribution of the types of hurricanes that could occur and the potential for losses from these hurricanes at a given location. *RB-3, Curry Prefiled Testimony, p. 21.* The simulation model provides a robust picture of the expected average loss potential in North Carolina and other hurricane-prone States. *RB-5, Newbold Prefiled Testimony, p. 10.*

161. The prospective hurricane losses were provided by AIR using the STD hurricane simulation model, version 14.0.1. *RB-3, Curry Prefiled Testimony, p. 21; RB-4, Donlan Prefiled Testimony, p. 4.*

162. The historical data that is used as the basis of the AIR model comes from a variety of sources including the Tropical Cyclone Data Tape for the North Atlantic Basin, or “HURDAT” for short. The HURDAT database is continuously updated, and currently includes years of data from 1900-2010, however, other data sources utilized by AIR have data from as early as 1851. As of 15 August, 2011, the date upon which the current version of the model is based, HURDAT had not yet updated its database to include more recent storms like Hurricane Irene or Hurricane Sandy. *RB-5, Newbold Prefiled Testimony, pp. 16-17, 220; Newbold T.p. 689.*

163. Newbold testified that as with all models, the AIR results are not exact; however, simulation is a far superior technique for estimating potential hurricane losses than the previous actuarial technique involving the analysis of actual dollars of losses paid by insurance companies. *RB-5, Newbold Prefiled Testimony, p. 26.*

164. The AIR model has been (purportedly) extensively reviewed by independent experts in the fields of meteorology, engineering, computer science, insurance, statistics, and finance, although little documentation was provided that would allow the Department to determine the extent and the results of the independent reviews. The AIR STD model has also been reviewed and approved each year since 1996 by the Florida Commission.¹⁴ AIR indicated that the most extensive peer review of the AIR model has been conducted by the Florida Commission; however, certification by the Florida Commission does not mean that the model is validated for use in other states. *RB-5, Newbold Prefiled Testimony, pp. 40-41; RB-6A, pp. 4-5.*

165. It should be noted that the AIR model underwent an actuarial review in 2010 and 2012 conducted by John Rollins. However, from responses to discovery, it appears that Mr.

¹⁴ The full title of the Commission is the FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY, enacted in Chapter 95-276, Laws of Florida.

Rollins is a former employee of AIR making his “independence” somewhat questionable. *RB-5, Newbold Prefiled Testimony, p. 38; DOI-6, RFPD-1, #28.*

166. Catastrophe modeling, according to AIR, has become widely used and accepted. The AIR model was first introduced to the insurance industry in 1987 and was first used in North Carolina in 1993. AIR provides catastrophe risk assessment products and services to primary insurers, reinsurers, intermediaries, residual market organizations, and state funds, among others. *RB-5, Newbold Prefiled Testimony, pp. 4, 9-10; RB-6A, p. 5.*

2. MODEL PERFORMANCE

167. AIR has prepared two reports specific to this filing:

a. The first report includes an analysis using a simulated sample of 100,000 “years” of potential hurricane experience based on AIR’s standard view of the hurricane risk, which is the STD model. This report is included in the filing as Exhibit RB-6A. *RB-5, Newbold Prefiled Testimony, p. 8.* It is this STD model that the Bureau Subcommittee instructed AIR to run to produce the modeled hurricane loss costs used in the rate calculations. In addition, the Subcommittee chose to employ the aggregate demand surge function, which accounts for the expected additional costs for supplies and labor if a very large hurricane event occurs. *RB-4, Donlan Prefiled Testimony, p. 4.*

b. The second report uses a simulated sample of 100,000 “years” of potential hurricane experience that estimates the potential impact of elevated sea surface temperatures (hereinafter “SSTs”) in the North Atlantic on hurricane activity, which is the WSST model. This report based on the WSST simulation catalogue is included in the filing as Exhibit RB-6B. *RB-5, Newbold Prefiled Testimony, p. 8.* The results from the WSST model, Exhibit RB-6B, were used by Appel in his determination of the net cost of reinsurance and the compensation for

assessment risk. Appel uses the WSST to calculate the net cost of reinsurance allegedly because some reinsurers utilize WSST models to price their reinsurance treaties with primary insurers. *RB-4, Donlan Prefiled Testimony, p. 7; RB-5, Newbold Prefiled Testimony, p. 14; RB-12, Appel Prefiled Testimony, p. 13.* Generally, the WSST produces higher loss estimates than the STD.

168. A simulated “year” in the context of hurricane modeling represents a hypothetical year of hurricane experience that could happen in the prospective year. *RB-5, Newbold Prefiled Testimony, p. 8.* In other words, the AIR model uses a simulated sample of 100,000 different scenarios of what could happen in the following year in order to derive average loss costs, which are produced in RB-6A and RB-6B. Included in the 100,000 different scenarios is the possibility of no hurricanes. The model simulates these events in proportion to their likelihood based on the underlying science and data. *RB-5, Newbold Prefiled Testimony, pp. 8, 12, 15; T.pp. 666-669.*

169. AIR has three different-sized catalogs consisting of ten thousand (10,000), fifty thousand (50,000) or one hundred thousand (100,000) simulated “years of hurricane activity in the Atlantic Basin.” As more simulations are used, the loss estimates become more robust. *RB-5, Newbold Prefiled Testimony, p. 14.*

170. Basically, a computer simulation model is a series of computer programs which describe or model the particular system under study. All of the subject system’s significant variables and interrelationships are included. A high-speed computer then “simulates” the activity of the system and outputs the measures of interest such as the average expected loss costs. Many simulations or iterations are performed to derive average loss costs. *RB-5, Newbold Prefiled Testimony, p. 12.* A computer simulation model is a particularly useful tool for the analysis of complex problems. *RB-5, Newbold Prefiled Testimony, p. 13.*

171. A natural hazard simulation model is a model of the natural disaster “system” where the primary variables are meteorological in nature. The primary variables used in the AIR hurricane model include landfall location, central pressure, radius of maximum winds, gradient wind reduction factor, peak weighting factor, forward speed, and track direction. *RB-5, Newbold Prefiled Testimony, p. 15.*

172. The AIR research team collects the available scientific data pertaining to the meteorological variables that are critical to the characterization of hurricanes, and, therefore, to the simulation process. Data sources used in the development of the AIR hurricane model include the most complete databases available from various agencies of the National Weather Service, including the National Hurricane Center. *RB-5, Newbold Prefiled Testimony, p. 15.*

173. AIR consistently follows a policy of cross-checking and verifying numbers for accuracy. The model and the underlying meteorological data are continually reviewed to ensure that the data have been input correctly. AIR also compares model-generated data with actual historical data to make sure there is a close match. *RB-5, Newbold Prefiled Testimony, p. 17.*

174. Despite all the cross-checking and verification, problems do crop up. Curry testified about a “glitch” that was discovered in the model in October 2010 prior to the Dwelling Fire & Extended Coverage hearing (hereinafter “Dwelling hearing”). The “glitch” was subsequently corrected and, to Curry’s knowledge, no further problems have occurred. *Curry T.p. 175.*

175. The AIR model simulates hurricanes affecting the U.S. and North Carolina by first determining the number of landfalls that occur during each simulated year. In those years in which a landfall occurs, the landfall location is generated. Having simulated the location, values for the primary variables are generated using probability distributions derived from historical

data and meteorological knowledge. As the hurricane moves from its landfall location, the track of the hurricane is simulated using probability distributions derived from historical data and meteorological knowledge. *RB-5, Newbold Prefiled Testimony, p. 26-27.*

176. The AIR model computes insured damages by virtue of mathematical functions, called damageability relationships, which describe the interaction between buildings and the local wind intensity to which they are exposed. Damageability relationships vary according to construction materials and occupancy. Losses are calculated by applying the appropriate damage function to the replacement value of the insured property. *RB-5, Newbold Prefiled Testimony, p. 34.*

177. AIR engineering experts have undertaken an extensive, peer-reviewed study to understand the large number of building codes and wind standards that exist in hurricane-prone states, including North Carolina. *RB-5, Newbold Prefiled Testimony, p. 49.*

178. The AIR damageability relationships incorporate the results of well-documented engineering studies, tests, and structural calculations. AIR engineers continually survey engineering literature and local building codes and consult with other experienced engineers to verify the damage functions. AIR also performs post-disaster field surveys and analyses for all U.S. landfalling hurricanes. AIR has analyzed billions of dollars of actual insurance claims data from hurricanes in order to validate damageability relationships in the model. The loss information is typically reviewed in numerous manners, including by zip code, coverage, and construction. *RB-5, Newbold Prefiled Testimony, p. 34.*

179. The approach used to develop the two reports was that of a computer simulation model. The Bureau provided exposure information such as number of risks, coverage, policy form group, construction type, year of construction, geography, and amounts of insurance, which

was input into the model to generate loss estimates. The data was geocoded by zip code. The model was then run, simulating potential future hurricane losses, and, in the process, applying policy conditions. The output of the model contains information such as average annual loss which is used in developing rates. *RB-5, Newbold Prefiled Testimony, p. 9.* The loss estimates are rolled up to the territory level for reporting purposes. *RB-5, Newbold Prefiled Testimony, p. 48.*

180. In this filing 100,000 simulated years were utilized in both the STD and the WSST models. This number of simulations is purportedly the most robust catalog and is commonly used in ratemaking. *RB-5, Newbold Prefiled Testimony, p. 14.*

181. The STD model results in 57,754 projected events causing loss in North Carolina during the 100,000 simulated years. This number of events consists of many different types of events, most of which are small in impact. A small number of those events are major hurricanes making landfall in North Carolina and causing significant loss and major hurricanes making landfall elsewhere but continuing on to make an impact on North Carolina. *RB-5, Newbold Prefiled Testimony, p. 21.*

182. The AIR model used in this filing is version 14.0.1, which was introduced subsequent to 2010 when a major and comprehensive update of many components of the model occurred. The changes to the model contained in version 14.0.1 include updates to the Stochastic Catalog based on HURDAT and NOAA databases valid as of August 2011, which include data from 1900-2010. *RB-5, Newbold Prefiled Testimony, pp. 35, 41-43.*

183. Data indicates that the areas of the state with the highest hurricane *frequency* are the beach and coastal zones, with the highest frequency of hurricanes occurring within the 100-

mile segment including Cape Lookout, Cape Hatteras and the Pamlico Sound. *RB-5, Newbold Prefiled Testimony, pp. 48-49.*

184. No changes have been made to the model specifically for North Carolina. The model version and settings used for North Carolina are the same as those accepted by the Florida Commission. *RB-5, Newbold Prefiled Testimony, p. 49.*

185. The Bureau opted to have the model run with the demand surge function for both the STD and WSST catalogues. Demand surge¹⁵ accounts for the sudden and usually temporary increase in the cost of materials, services, and labor due to increased demand following a catastrophe. Demand surge results in increased losses to insurers. *RB-5, Newbold Prefiled Testimony, p. 50.*

186. Demand surge effects do not occur following the majority of hurricanes, and the demand surge component of the model reflects this fact. Small hurricane events are not accompanied by demand surge. Thus, AIR's demand surge begins at an industry loss of \$5.5 billion. *RB-5, Newbold Prefiled Testimony, p. 51.*

187. AIR performed a "high-level analysis" without demand surge in order to quantify the impact of demand surge in the Bureau portfolio. The analysis showed that there is an increase of 5.7% in gross losses when demand surge is applied. *RB-5, Newbold Prefiled Testimony, p. 51.*

3. MODEL RESULTS

188. The results of the AIR model runs are provided in RB-6A for the STD model and RB-6B for the WSST model.

¹⁵ Demand surge, *at best*, is a function of supply and demand, quintessential components of basic economics; *at worst*, demand surge is a function of price gouging, lawbreaking and other mischief.

189. The basic results from both RB-6A and RB-6B show the following:

	Standard Model	WSST Model
Long-Term Average Annual Hurricane Loss (all forms)	\$316.1 million	\$445.6 million
Estimated Average Hurricane Loss (all forms)	\$547.3 million	\$637.5 million
Largest Simulated Hurricane Loss Including Demand Surge	\$42.3 billion	\$42.3 billion
10-Year Return Hurricane Loss	\$538 million	\$934 million
100-Year Return Hurricane Loss	\$5.7 BILLION	\$7.3 BILLION

190. For purposes of the ratemaking calculation, the long-term average annual hurricane losses from the STD model of \$316.1 million are utilized in the derivation of the statewide modeled hurricane base-class loss costs, calculated on RB-1, D-41. This calculation results in the modeled base class loss cost of \$78.73 (Owners forms), \$3.64 (Tenants form) and \$5.16 (Condominiums form) used in the rate calculations. *RB-1, C1-C3, D-41.*

4. O'NEIL TESTIMONY

191. O'Neil, after reviewing RB-5 through RB-6I, data and discovery requests and available literature on the subject of catastrophe modeling and model results, took exception to the AIR modeled results. *DOI-10, O'Neil Prefiled Testimony, pp. 73-87.*

192. First, O'Neil reviewed RB-6F, which shows the North Carolina landfalls by Saffir-Simpson Category, and determined that the STD model understates the frequency for Category 1 and 2 storms while overstating the more costly Category 3 and 4 storms. She further determined that the WSST model overstates the frequency for all categories except Category 2. *DOI-10, O'Neil Prefiled Testimony, p. 75.*

193. O'Neil also noted Newbold's testimony that the model simulates a small number of Category 5 storms even though there has never been a Category 5 storm to strike North Carolina in recorded history. O'Neil opines that from a modeling viewpoint a Category 5 storm is possible but that homeowners should not be required to pay for losses from a hypothetical event which has no basis in actual historical observation. *OI-10, O'Neil Prefiled Testimony, p. 76.*

194. O'Neil also considered the response to Data Request #1, Item 151 which indicates that the model takes into account landfalling hurricanes and bypassing hurricanes. *Bypassing* storms are defined as hurricanes that pass close enough to land to produce damaging winds less than 40 mph offshore. However, a storm is not designated a hurricane until wind speeds reach 74 mph. Thus, O'Neil noted that the losses generated by the AIR model include losses from storms that do not even produce hurricane force winds. *DOI-10, O'Neil Prefiled Testimony, pp. 76-77; DOI-5, Data Request 1, Item 151; RB-4, Newbold Prefiled Testimony, p. 18.*

195. As a result of her analysis of the frequency issues set forth in the above paragraphs, O'Neil concluded that the AIR frequency assumptions would result in overstated hurricane loss costs. *DOI-10, O'Neil Prefiled Testimony, p. 77.*

196. O'Neil also reviewed the AIR modeled severity, which Newbold indicated was based on seven primary variables. O'Neil reviewed the testimony regarding the primary variables and found some issues with uncertainty, conclusory statements without support and some instances of potentially offsetting errors. *DOI-10, O'Neil Prefiled Testimony, pp. 77-81.*

197. O'Neil reviewed Newbold's testimony on damages which does not detail how the damage functions and underlying engineering studies were based on North Carolina properties. O'Neil concluded that if the damage function is not based on North Carolina data or on an actual

engineering analysis of North Carolina properties, then the results of its application are likely not appropriate for North Carolina. *DOI-10, O'Neil Prefiled Testimony, p. 81.*

198. O'Neil also reviewed Newbold's testimony on demand surge. O'Neil noted that the demand surge validation studies are based on events that occurred in other states. She noted that no North Carolina events were studied and that North Carolina General Statute §75-38 specifically prohibits price gouging during states of disaster or emergency. As a result, O'Neil concluded that demand surge should not be included in the estimates of North Carolina hurricane loss. *DOI-10, O'Neil Prefiled Testimony, pp. 81-83.*

198a. The Commissioner agrees with O'Neil that the Demand Surge surcharge averaging 5.7% is not adequately supported by the Rate Bureau. He was able to review the demand surge impact on each of the 57,754 modeled losses. The Commissioner was surprised to find that nearly 40% of the modeled losses included additional losses due to demand surge. He finds that modeled events with loss amounts as low as \$6 statewide loss included demand surge.

198b. The Commissioner finds that nearly half of the total demand surge dollars (approximately \$17 million per year) arise from modeled events that make landfall in states other than North Carolina. Presumably the North Carolina portion of losses excluding demand surge from events that make landfall elsewhere are only a fraction of the total, and yet, the formula provides the same percentage load in each state's losses. It is not clear to the Commissioner why a major event in Florida that tracks into North Carolina doing relatively minor damage there should entail supply and demand problems in North Carolina.

198c. Whatever study was done to develop the model, no details other than a table of factors were presented into evidence by the Rate Bureau.

198d. AIR testified that it commonly runs the model either with or without demand surge, implying that it is not regarded by its end users as a necessary component of the model.

199. After completing her review, O'Neil concluded that the estimated hurricane losses were likely overstated for North Carolina for a number of reasons, such as overstatements in the underlying frequency of storms affecting North Carolina, the inclusion of damage related to wind speeds below 74 mph, and the inclusion of demand surge. *DOI-10, O'Neil Prefiled Testimony, p. 85.*

200. Because of the proprietary nature of the AIR model, it was not possible for O'Neil to directly derive her own estimate of North Carolina homeowners' hurricane loss. Thus, O'Neil reviewed the information available for the North Carolina Beach Plan for part of her analysis. She indicated that it is appropriate to utilize this information because the Beach Plan actually provides coverage for much of the North Carolina beach area. Specifically, O'Neil reviewed the Guy Carpenter results of the AIR model and the RMS model. These two modelers presented their results on the same basis. Despite covering the same exposures the two models produced *vastly different* estimated hurricane loss estimates. The AIR estimates were 27.4% higher than the average while the RMS estimates were 27.4% below the average. *DOI-10, O'Neil Prefiled Testimony, pp. 84-85.*

201. O'Neil posited that application of the average might be a way to create a blended model for estimated hurricane losses. The blending approach implied an overstatement in the loss estimates of +27.4%. In addition, O'Neil removed the demand surge from the AIR estimated loss by removing 5.7% of the estimated hurricane losses. The combined effect of these two adjustments was +35.0%.

202. O'Neil also testified that there should be some reduction in the AIR estimated losses related to losses calculated from wind speeds below 74 mph, and, there should be some reduction in the AIR estimated hurricane losses related to various issues regarding frequency. However, O'Neil was unable to quantify these two areas of difference. Thus, no additional adjustment was included in the estimated adjustment. *DOI-10, O'Neil Prefiled Testimony, p. 86.*

203. O'Neil conservatively applied an adjustment factor of +25% to the AIR estimated hurricane losses. Her adjustment of +25% to the hurricane losses corresponds to a 5 percentage point overstatement in the Bureau's proposed indicated rate level.

5. SCHWARTZ TESTIMONY

204. Schwartz also took exception to Bureau's hurricane modeled base class loss costs. Schwartz compared the AIR modeled hurricane losses in the current and previous Bureau filings over time to the actual hurricane losses for North Carolina for a twenty year period from 1992-2011. Schwartz observed that the actual losses during the period 1992 to 2011 are only about one-half of the value of the modeled losses. *DOI-9, Schwartz Prefiled Testimony, p. 43.*

205. In making his comparison of actual losses to the modeled losses, Schwartz also made two observations. First, Schwartz observed that the AIR modeled hurricane losses are based upon the values contained in the Bureau filings over time. Newer versions of the AIR model generally have higher projected losses, sometimes significantly higher, than the earlier versions reflected in prior Bureau filings. If the AIR modeled hurricane losses were based upon the higher projections from the current version of the model as opposed to the prior versions incorporated in the Bureau filings, the discrepancy between the actual hurricane losses and the AIR modeled hurricane losses would be even higher. *DOI-9, Schwartz Prefiled Testimony, p. 44.*

206. Schwartz' second observation was that out of this twenty year period, eighteen years, or 90%, were in warm sea surface temperature years according to AIR. According to the Bureau, the expected value for the actual losses should have been higher than the AIR projections based upon the STD model. According to the Bureau, the expected hurricane losses in WSST years are about 41% higher than the long term average. However, over the last 20 years, instead of the actual hurricane losses being 40% higher than the STD model projections, the actual hurricane losses were about 50% lower. *DOI-9, Schwartz Prefiled Testimony, p. 44.*

207. Schwartz also noted that the Bureau's projected hurricane losses in North Carolina have generally increased over time without an explanation for the increases. *DOI-9, Schwarz Prefiled Testimony, p. 45.*

208. Schwartz opined that there has not been an increase in the actual frequency of hurricanes from 2000 to the present compared to prior periods.¹⁶ During that period the North Carolina housing stock has not become more vulnerable to hurricane losses. *DOI-9, Schwartz Prefiled Testimony, p. 45.*

209. Schwartz further testified that a very small proportion of the overall number of modeled hurricane losses contributes to a very large amount to the overall projected losses from the AIR model. Utilizing data from the Bureau's response to Data Request 1, Item 151, Schwartz found that more than one-half of all the projected hurricane losses from the AIR model came from hurricane events that have a probability of 2.5% or less (i.e., a return period of 40 or more years). *DOI-9, Schwartz Prefiled Testimony, pp. 48-49.* While the very low probability events have a large impact on projected losses, these very low probability events have the most uncertainty about whether the results are accurate.

¹⁶ The Commissioner, on his own initiative, asked several witnesses about the frequency of hurricanes in and around North Carolina.

210. Schwartz also pointed to criticisms of modeling by Karen Clark, who was the founder of AIR. Clark supported Schwartz' concerns that catastrophe models are characterized by high uncertainty, and thus cannot:

- Produce accurate point estimates of infrequent events, such as the 1 in 100-year loss;
- Produce credible, robust estimates of losses at specific locations; and
- Predict near-term catastrophic losses.

DOI-9, Schwartz Prefiled Testimony, p. 49; DOI-12.

211. Schwartz corrected for his perceived problems with the AIR model by judgmentally reducing the value of the projected losses in the filing by +10%. Schwartz estimated that the indicated rate change was too high by 1.9% overall as a result of the inflated value for the hurricane modeled losses. *DOI-9, Schwartz Prefiled Testimony, pp. 49-50, Schedule AIS-3.*

6. CREDIBILITY

212. As mentioned, both Department witnesses Schwartz and O'Neil used the AIR model, to some extent, as a basis for their own calculations of the modeled hurricane losses to be included in the rate calculation. However, both O'Neil and Schwartz adjusted the modeled results downward as neither of them found the model to be 100% credible. Schwartz and O'Neil utilized the AIR model as a means to derive the estimated hurricane losses but they made adjustments to the modeled results based upon their own research and conclusions.

213. The issue for this Commissioner is whether the AIR results in this filing are 100% credible or less so. The answer to that question is an important one given that the modeled results are a major factor in the calculation of the indicated rates.

214. To determine the credibility of the model, the Commissioner must look to the testimony presented by both parties. And, to be fair, through the course of the live hearing testimony under oath and the pre-filed testimony, there were some credibility lapses on both sides of the equation, as noted below.

a. Department Credibility Issues

- ◆ Schwartz testified that the actual North Carolina losses from hurricanes over the twenty year period from 1992-2011 were significantly lower than the AIR modeled hurricane losses taken from the Bureau filings back to 1992. Schwartz produced a table on page 43 of DOI-9, his prefiled testimony, displaying his comparison of actual values to modeled values. The Bureau took exception to this comparison because four of the years, 2006-2008 and 2010, did not have AIR modeled losses displayed in the filings so Schwartz had to calculate those years by adjusting the 2011 year value downward for growth and inflation. Schwartz, however, did not note on the display that he had calculated the AIR modeled losses for those four years. The Bureau also noted that those four years had some of the biggest differences between actual and modeled losses. However, the size of the differences for those years is mostly due to the fact that the actual losses for those four years were either negligible or 0 and if Schwartz had just used the 2005 modeled loss values (which came from one of the filings) for those four years, the differences would still be equally large. The

Bureau also contested, among other things, some assumptions underlying Schwartz' comparison. The Bureau's point was that the comparison Schwartz made was too simplistic to be used as a basis to invalidate the model and that reviewing twenty years of losses does not give an indication of whether the average annual losses are accurate. While the Bureau may believe that twenty years of losses is too short of a time period to form any opinion, Karen Clark actually relied upon a review of actual losses over a period of five years and of ten years in her analysis, which was admitted into evidence as Exhibit DOI-12. Schwartz also countered by indicating he wouldn't dismiss the model entirely based upon his comparison but it provides some information regarding whether the model could be overestimating losses. With this statement, the Commissioner concurs. DOI-9, Schwartz *Prefiled Testimony, p. 43; T.pp. 927-947.*

- ◆ Schwartz, during cross-examination, also caught a couple of calculation errors on his table displaying U.S. landfalling hurricanes and dollars of losses versus the AIR long-term averages. After correcting the errors, Schwartz' comparison showed that over the 10-year period 2001-2010 the modeled average losses and actual average losses were on point. Over the five year period 2006-2010, however, the modeled average losses far exceeded the

actual average. *DOI-9, Schwartz Prefiled Testimony, pp. 45-46; T.pp. 951-956.*

- ◆ The Bureau also took issue with Schwartz' assertion that the projected losses should be discounted 10% because a large degree of the projected losses comes from infrequent events that have the most uncertainty. The Bureau argues that if there is a great amount of uncertainty about these larger events that uncertainty could be understating the losses just as well as overstating the losses. *DOI-9, Schwartz Prefiled Testimony, p. 50; T.pp. 973-981.* Moreover, Newbold hastened to point out that 60% of the loss distributions are comprised of years with no losses¹⁷ whatsoever so he does not believe that the losses are driven by the losses of infrequent events. *Newbold T.pp. 1728-1729.*
- ◆ With regards to O'Neil's testimony, the Bureau took issue with O'Neil's determination that the model overstates the frequency of Categories 3 and 4 storms by suggesting that the model simulates fewer hurricanes than have actually affected North Carolina historically. O'Neil agreed that RB-6E showed that modeled frequency for the STD model was consistently less than the actual but that doesn't negate her conclusion that the Categories 3 and 4

¹⁷ The AIR model anticipates 57,754 events in 100,000 years, but due to multiple events per year assuming negative binomial distribution, 58,823 years are anticipated to have no hurricane events.

frequencies are overstated which could overstate losses. *O'Neil T.pp. 1283-1288.*

- ◆ The Bureau took issue with O'Neil's conclusion that estimated hurricane losses are overstated due to the inclusion of a Category 5 storm in the estimated losses. O'Neil agreed that statistically and meteorologically a Category 5 could *possibly* strike North Carolina but given the uncertainty of this event she didn't believe the ratepayers should have to pay for this type of event. *O'Neil T.pp. 1288-1294.* This, then, is more of a policy call than an actuarial consideration.
- ◆ The Bureau took issue with the results of O'Neil's analysis of the differences between the Guy Carpenter model runs which used both the AIR and RMS models for the purpose of negotiating reinsurance. O'Neil didn't have personal knowledge of who ran the models or how the models were run to generate the results O'Neil used for her analysis. It should be noted, however, that the Bureau was comfortable enough with the Guy Carpenter loss runs to use *the same runs* for its CAR analysis. O'Neil was also mistaken when she tried to recall certain aspects of the models such as what versions of the two models were used and whether the models were STD or SST models. The models O'Neil compared were in fact SST models and she used that comparison to show that the differential between the two models could be

adopted to show that the AIR STD model results were also higher than RMS. O'Neil did counter the Bureau criticisms that she was trying to extrapolate the blending of the results from those two models to the estimated losses in this filing. She indicated that the Beach Plan used blended results¹⁸ to negotiate their reinsurance treaties and she believed that was relevant to the filing given that the Beach Plan writes the majority of the hurricane exposure in the State. *DOI-10, O'Neil Prefiled Testimony, p. 85, T.pp. 1309-1322.*

¹⁸ Prior to the instant filing and the hearing, the Commissioner expressed support for legislation that requires the Bureau to use models from two separate modeling companies, instead of only one, when making a homeowners insurance filing. (See House Bill 519 sponsored by Rep. Paul Tine et al. and Senate Bill 690 sponsored by Senators Sanderson and Cook et al. in the 2013 session of the North Carolina General Assembly.) It appears not uncommon in other states that insurance companies rely upon multiple models when making a rate filing. . Now that the present hearing has concluded and all evidence of record has been received, the Commissioner continues to favor such legislation and would support such in the 2015 session of the North Carolina General Assembly.

“Blending” of hurricane model results would provide greater consumer protection and greater precision for insurance companies, including the hypothetical one company utilized in North Carolina.

On the subject of prospective legislation, the Commissioner also supports a stronger mitigation program than currently exists in this state – a revised program that allows for greater premium credits, etc. for consumers whose primary residence is the coastal or beach areas of North Carolina. More fortified homes will result in fewer claims for damages, a consequence that homeowners insurance companies should favor.

Another item for potential consideration is whether the Rate Bureau should make biennial filings instead of often going years at a time without a review of rates by the Department. Annual modest rate filings by the Rate Bureau for auto and workers' compensation, for example, have, in small part, helped keep those rates and rate changes very low and minimal, and those insurance markets competitive. The Commissioner believes it meets the economic best interests of both consumers and the homeowners insurance industry if more regular filings seeking modest rate adjustments were made instead of regular filings always seeking very steep rate increases when the data and methodology are in great dispute. Obviously, if one or more major catastrophic events occurred in North Carolina then that would be an understandable, reasonable exception if a larger request is made by the Bureau and its member companies for consideration by the Commissioner.

- ◆ The Bureau also took issue with O’Neil’s proposed removal of demand surge losses from the AIR modeled loss estimates. O’Neil did admit that she did not dispute the demand surge phenomenon inasmuch as “[t]he forces of supply and demand will attempt to work if permitted to do so.” However, O’Neil indicated that the North Carolina statute prohibiting price-gouging (N.C.G.S. §75-38) was a legislative attempt to ameliorate any demand surge issue and that it is not at all clear whether the demand surge observations that AIR made in other states applied in North Carolina given the statute. *O’Neil T.pp. 1302.-1309.*

215. While O’Neil’s and Schwartz’ testimonies may have contained some documentation issues, and, even some unsupported assumptions, the Commissioner is not relying upon the specific numerical values of their calculations to set a rate. *Instead*, the Commissioner must determine whether the Bureau met its burden of proof for this filing. With regards to the modeled hurricane losses, which account for roughly 11.9% of the indicated Owners’ form base rate change, the Commissioner herein finds that there are also some credibility issues with the Bureau’s evidence on modeled hurricane losses as set forth below.

b. Bureau Credibility Issues

1) Bias

- ◆ AIR is a for-profit enterprise founded in 1987 by Karen Clark specifically to provide catastrophe loss estimates to the insurance industry. (*1993 Filing, RB-9, Clark Prefiled Testimony, p. 3; Curry T.p. 718.*) Currently, AIR has a large client list that includes

primary insurers, reinsurers, insurance intermediaries, residual markets, state funds, investment banks, investors in catastrophe bonds and rating agencies. *RB-5, Newbold Prefiled Testimony, pp. 4-5.* AIR does not have any regulatory agencies as clients. *Newbold T.p. 717.*

- ◆ AIR was sold by Karen Clark in 2002 and it is currently affiliated with ISO, an insurance industry organization. *DOI-10, O'Neil Prefiled Testimony, p. 43.*
- ◆ ISO previously used the catastrophe model from RMS in its ISO filings until ISO purchased AIR. Currently, ISO only uses AIR in its filings. *Curry T.pp. 78-79.*
- ◆ There are three large commercial modelers in the industry, RMS, AIR, and EQECAT. The three different models do not provide the same or similar results because the three modelers have different assumptions in the way they have interpreted the scientific data. In addition, the way they have created and validated their damage functions would lead to different loss numbers. The science behind the models can be interpreted and applied differently based on the scientific judgment, expertise and techniques of each modeling firm. *Newbold T.pp. 720-721; Curry T.pp. 80-83.*
- ◆ Some insurers license more than one model. When looking to choose between models, insurers look for things like validation, historical relevance to their own loss experience, whether or not

the model can be explained to parties both internal and external to the organization. Cost is also a factor. *Newbold T.pp. 721-722.*

- ◆ The AIR model has options that a client can choose to use depending upon its own sensitivities to risk. The client can choose to run one of three different sized catalogs: 10,000 simulated years, 50,000 simulated years or 100,000 simulated years. There is a difference in cost between these catalogues. Clients can also choose to run the STD model, which is AIR's standard risk model, or it can choose to run the WSST model, which takes into account sea surface temperatures in estimating losses. The client can also choose to include storm surge, demand surge, and individual building characteristics. *RB-5, Newbold Prefiled Testimony, pp. 14, 26, 50; T.pp. 657-661.*
- ◆ AIR at one time offered its clients a "near-term" or seasonal forecast model that would forecast what Atlantic sea surface temperatures would be over the next five years. However, the forecasting was subject to significant uncertainty so the near-term model was ultimately abandoned. *Newbold T.pp. 697-698.* Before the near-term model was abandoned, however, the Bureau made two filings, 2006 and 2008, where Appel used the near-term model in the calculation of the net cost of reinsurance. *See the 2006 and 2008 rate filings.*

- ◆ Company rating agencies also have an effect on the catastrophe models. Rating agencies are companies that assign credit ratings for insurance companies as well as other financial institutions. In order to maintain ratings companies must utilize the most recent catastrophe models to manage their catastrophe exposure. Rating agencies expect insurers to have a view of their loss potential and models are the most useful tool to help insurers to accomplish that. Thus, rating agencies' requirements have, in essence, created a captive market for the modeling companies. *DOI-10, O'Neil Prefiled Testimony, pp. 67-72; Newbold T.p. 719-720.*
- ◆ AIR specifically refutes that there could be any bias in the models because their clients are primary insurers and reinsurers have competing economic interests with regard to the output of the model. *RB-4, Newbold Prefiled Testimony, p. 6.*

2) **Documentation**

- ◆ The AIR model is proprietary, thus, the consultants were not able to review the model itself, but, were only able to review the results of the model for this filing. *DOI-10, O'Neil Prefiled Testimony, pp. 43,74.*
- ◆ The AIR model documentation provided in the filing consisted of a 14 page Executive Summary of the STD model results with three appendices (RB-6A); a 15 page Executive Summary of the WSST model results (RB-6B), with three appendices; 56 pages of prefiled

direct testimony from Bureau witness Newbold (RB-5); a 150 page marketing document on the AIR model, in general (RB-6C); and 6 graphic exhibits depicting various information (RB-6D) through (RB-6I).

- ◆ In order to properly review the model, the Department witnesses had to make numerous discovery and informational requests. *See DOI-5; DOI-6; DOI-7; DOI-8.*

3) WSST

- ◆ AIR has both a STD catalogue and a WSST catalogue that it can run to determine hurricane loss estimates. In this filing the Bureau utilized the STD model to estimate the hurricane losses; but, Appel used the WSST to estimate the net cost of reinsurance and compensation for risk of assessment. *RB-4, Donlan Prefiled Testimony, pp. 4, 7; Newbold T.p. 711.*
- ◆ The STD model is AIR's standard view of hurricane risk. Yet, AIR offers the WSST, which in this filing produced projected losses 41% higher than the STD model, as an alternative view of risk which the clients can elect to use. One of the possible reasons that reinsurers use the WSST is that the WSST produces higher loss estimates. There are no occasions where the WSST produces a lower estimate. *Newbold T.pp. 712-715.*
- ◆ The WSST has not been submitted to the Florida Commission for certification. The Florida Commission has not certified a WSST-

like model from any modeler because there are no standards in the Florida Commission that allow for anything other than the standard view of risk. *Newbold T.pp. 813, 815.*

- ◆ In an article dated March/April 2007, former AIR employee, Lalonde, wrote that the STD model, based on over 100 years of historical data and over 20 years of research and development, remains the most credible model. *See DOI-9, Schwartz Prefiled Testimony, pp. 46-47.*
- ◆ The WSST was originally developed as a near-term model. However, the forecasting component has since been removed and it is no longer used to forecast the near-term. *Newbold T.pp. 697-698.*
- ◆ There is also a great deal of dispute over whether there is any correlation between SSTs and hurricane activity in the Atlantic. In fact, RB-6B at page 5 indicates that the correlation between landfall frequency and SSTs is relatively weak. *DOI-10, O'Neil Prefiled Testimony pp. 49-50, 53-55, 59-63; Newbold T.p. 707.*
- ◆ Documents from the AIR website indicate that SST anomalies actually only account for about 25% of the variability in storm frequencies. Thus, any observed increase in frequency of hurricane formation during a period of warm sea surface temperatures is attributable to a variety of factors and not just SSTs. Moreover, the same document indicates there is less than

1% correlation between SSTs and hurricane landfalls. *Newbold T.pp. 705-707.* In addition, RB-6B (Page 5) indicates that the correlation between SST anomalies and landfall frequency is “relatively weak.” *RB-6B, p. 5.*

- ◆ The U.S. is currently in a period of warm sea surface temperatures and has been since at least the mid ‘90s. According to documentation on the AIR website, Hurricane Wilma was actually the last Category 3 or greater hurricane to make landfall in the U.S. and the last hurricane, of any category, to make landfall in Florida. *Newbold T.pp. 703-711, 738.*

4) Uncertainty and the Necessity of Validation

216. There is no dispute that there is uncertainty in modeling. Bureau witness Newbold testified that AIR’s simulation methodology is based upon mathematical/statistical models that are derived from and represent real-world systems. He indicated that as “with all models, these representations are not exact; however, simulation methodology is the best available technique for estimating potential hurricane losses...” (emphasis added). He also stated that modeling has limitations, that there is some uncertainty in modeling catastrophe risk and that the WSST is subject to more uncertainty than the STD model. *RB-5, Newbold Prefiled Testimony, p. 26; T.pp. 712, 716-717.*

217. Newbold’s statements echo O’Neil’s comments that model results are not precise. O’Neil notes that the most skilled meteorologists with the best instruments and models available cannot accurately predict the weather and weather is a fundamental factor in the system being modeled in this filing. *DOI-10, O’Neil Prefiled Testimony, pp. 36-38.*

218. O'Neil also reviewed literature, including statements by former AIR founder, Karen Clark, that reiterated that models in general and catastrophe models specifically contain uncertainty. *DOI-10, Prefiled Testimony, pp. 46-54, 63-66.*

218a. Due to the uncertainty, the Commissioner in judging the hurricane loss cost provision in the rate, which is based on the STD model, cannot simply accept the filed number because the provision was estimated by an organization that employs 70 PhDs and hundreds of other professionals with advanced degrees, as impressive as that may be. Nor is the Commissioner forced to approve the number as filed because neither he nor any of the consultants hired by the Department nor anyone on his staff has the expertise to evaluate the inner workings of the model.

218b. The Commissioner instead must rely on benchmarks that are offered in sworn evidentiary testimony. These benchmarks can be against results from other models, or against actual history. Each of the various benchmarks in the record has different evidentiary force that must be weighed.

218c. AIR, according to the evidentiary record, demonstrates that it knows that the estimates its models produce must be validated (benchmarked) against actual results so as to become confident that its multitudinous assumptions are reasonable at least in the aggregate. It is instructive for this proceeding to examine a benchmarking that was done by AIR in the filing about which additional details were obtained by the Department in discovery. AIR compared its model results against actual hurricane losses for several hurricanes on *RB-6C, AIR prefiled Testimony, page 141, figures 108 and 109.* The comparisons are shown in bar graphs. The Department asked for additional details about three specific hurricanes included on the graph that caused significant losses in North Carolina: Hugo (1989), Fran (1996), and Isabel (2003). *DOI-5,*

DR 1-156. To make the comparisons level in the 2009 analysis from which the bar graphs were drawn, AIR had to adjust the actual losses for “inflation and changes in exposure”. The Department asked what those adjustments were. The Department was informed that the assumed annual trend factor to account for both inflation and changes in exposure was 7%. It also learned that the figures included all lines of insurance, and not just homeowners: commercial, auto, dwelling, etc. The Commissioner calculates that the adjusted actual losses for Hugo, Fran, and Isabel combined was 7.9% HIGHER than the AIR model estimates, thereby offering some validity that the AIR model at least in 2009 was producing estimates that appeared to be about right, *not* biased high. However, the Commissioner notes that if the assumed trend were 5% and not 7%, one would find that the adjusted actual losses would turn out to be 21% LOWER than the AIR model estimates. Although it was not discussed in the hearing, inflation and home price indices are easily obtained, and once so, the Commissioner finds that an annual trend below 5% is indicated: in fact, a trend between 3.5% and 4%. Schwartz himself uses an even smaller trend for the same purpose on one of his exhibits. *DOI-9, Schwartz Prefiled Testimony, pp. 43, Schwartz T, pp. 929-931.*

218d. Frequency is easier to benchmark than losses because HURDAT catalogs hurricane locations and windspeeds (among other things) at six hour intervals but not loss amounts. In the 111 years of HURDAT data, there were 25 hurricanes that made landfall in North Carolina. *RB-5, Newbold prefiled testimony, p. 20.* This implies a long-term frequency of NC landfalls of 22.5%. The STD model output includes 21,633 hurricanes that make NC landfall at SS category 1 or greater. Over 100,000 years that implies a modeled frequency of 21.6%. If bypassers are included, the figures would be 29,056 and 29.1%. *DOI-5, DR-1.151.*

218e. O'Neil benchmarks the STD annual average losses per AIR of \$316.1 million by comparing a recent AIR estimate of hurricane losses for the Beach Plan's residential property exposures from a different modeling company, RMS. Her finding was that the RMS's estimate was \$141.0 million vs. AIR's of \$247.4 million, a ratio of 57%. Benchmarking against the average of the two estimates as O'Neill recommends shows a hurricane load that would be 21.5% LOWER than the filed hurricane load. *DOI-10, O'Neil prefiled testimony, p. 85*. In rebuttal, Newbold stated that this comparison is invalid in that it is not looking at the total market (Beach Plan only) and that that data shown is derived from WSST models, which are not used in the hurricane load. He stated that O'Neil would have been better off comparing STD model outputs, while faulting the comparison for other reasons. This STD benchmark he cited was RMS \$167.5 million versus AIR, 226.8 million, a ratio of 74%. Benchmarking against the average of these two estimates would indicate a hurricane load that should be 13.1% LOWER than the filed hurricane load *Newbold, T. p. 1751*.

218f. Schwartz provided a benchmark based on a comparison of actual hurricane losses in North Carolina homeowners versus various AIR projections using data gleaned from rate filings going back as far as 1998. From these sources Schwarz was about to tabulate such comparisons over the years 1992-2011 and showed that ratios of actual to modeled was 53% summed over the 20 years. *DOI-9, Schwartz Prefiled Testimony, pp. 43*. The Commissioner finds that Schwartz should have instead averaged the annual ratios of actual to expected to get a sounder benchmark. That would be 72% as opposed to 53%. The Commissioner thinks that an even sounder benchmark could have been developed had Schwartz's exhibit have been extended back to 1986 using data in the 1993 filing. That filing includes the years 1986-1990, during which period hurricane Hugo (1989) made landfall as a category 4 in South Carolina and

continued into North Carolina doing extensive damage. The Commissioner's own calculation including this data finds an average annual ratio of actual losses to modeled losses over the period 1986-2011 of about 80%.

218g. In summary, the Commissioner finds four available benchmarks, none of which on its own is completely reliable. These four benchmarks show that he should choose a provision in the rates for hurricanes that is somewhere between 13.1% and 21.5% lower than what was filed.

218h. The Commissioner finds the modified Schwartz benchmark the most persuasive of all. The period covered includes major hurricanes Fran and Hugo, as well as Irene, Floyd, and Isabel, so even though it is less than one quarter of the HURDAT database period of 111 years, the actual losses in the period appear to present a decent approximation of any long-term pattern. The other benchmarks either include other lines of business, or only a portion of the total market.

218i. The Commissioner finds it helpful to tabulate the STD model output in the following format. From here, it can be seen that eliminating three sources of losses that were disputed by the Department witnesses: 1) the demand surge component (\$17.0 million), 2) the losses arising from modeled CAT 5 events in North Carolina (\$14.0 million), and 3) the losses (\$12.8 million) arising from modeled hurricanes that make landfall somewhere other than the Carolinas, but which are presumed by the AIR model to continue into North Carolina with wind speeds below hurricane force, one would end up with an indicated average annual loss due to hurricanes of \$272.3 million, which is 13.9% below the filed amount, and within the range cited above. Table generated from data provided in *DOI-5, DR 1-151*:

	Number of Modeled Hurricanes	with DS Average Annual Loss (\$M)	no DS Average Annual Loss (\$M)	Demand Surge Avg Ann Loss (\$M)
NC Landfall CAT 5 (NC 1st)	89	12.8	11.2	1.6
NC Landfall CAT 5 (FL 1st)	24	2.5	2.2	0.3
NC Landfall CAT 1-4 (NC 1st)	4,211	166.9	159.5	7.4
NC Landfall CAT 1-4 (FL 1st)	17,309	35.1	32.2	2.9
NC Bypasser CAT 5	27	0.6	0.6	-
NC Bypasser CAT 1-4	7,396	10.8	10.7	0.1
SC Landfall CAT 3-5	2,952	57.3	53.6	3.7
SC Landfall CAT 1-2	8,082	16.4	16.3	0.1
All Other	17,664	13.7	12.8	0.9
	57,754	316.1	299.1	17.0
			272.3	

7. HURRICANE LOSSES – SUMMARY

219. The testimony in this case is that modeled hurricane losses comprise almost 11.9% of the indicated Owners form rate level. Given that the hurricane losses in this filing are modeled and not actual losses and given the magnitude of the impact that these modeled losses have on the rate indication, the evidence to support the use of a specific numerical value for the modeled losses in the rate calculation ought to be very certain. Such was not the case with this filing.

220. Hurricanes are low frequency-high severity events that require special treatment in ratemaking because rate indications can vary considerably from year to year depending upon

the catastrophe losses. In order to omit these wide swings in the rate level indications, methodologies have developed over time to smooth the loss experience over a number of years. Hurricane models arrived on the scene in the 1980s and they became more prevalent following Hurricane Andrew in 1992. Modeling was first used in a North Carolina property filing in 1993.

221. Hurricane models have become a widely accepted tool in the industry, particularly by insurers and reinsurers who are the primary clients of the commercial modelers, such as AIR, whose model was used in this filing. While it has not been disputed in this filing that modeling can be a useful tool to estimate hurricane losses, modeling is not without its flaws, as detailed in the testimonies of the Department witnesses.

222. Even with the flaws the Department witnesses both used the model as part of the basis for their hurricane loss recommendations; but, they didn't accept the modeled results absolutely. Instead they adjusted the results to a more reasonable level taking into account the inconsistencies and uncertainty detailed in their testimonies and partially set forth in this Order.

223. The Commissioner finds that the overall approach of the Department witnesses in this case is appropriate. The model provides useful information and certainly should be considered. However, models aren't perfect; the problems and uncertainties of the model should be considered as well. The Commissioner finds herein that it is both necessary and appropriate to reduce the Bureau's value for the modeled hurricane loss costs to a level that recognizes the bias and inherent uncertainty in modeling in general and catastrophe modeling, specifically.

224. Department witness Schwartz recommended a +10% reduction in the modeled hurricane losses while Department witness O'Neil recommended a +25% reduction to the estimate of trended modeled loss cost that is based on the AIR estimated hurricane losses used by the Bureau in the filing. Both witnesses adequately supported their cases for a reduction to the

modeled hurricane losses. The Commissioner finds that the average annual modeled hurricane losses of \$316.1 million used in support of the filed rates is excessive based on the evidence. He finds that a reduction in the modeled hurricane losses of 13.9% to \$272.3 million is supported in the evidence.

225. Thus, the Commissioner finds herein that the modeled hurricane losses utilized in the Bureau's indicated rate calculations are excessive and will result in excessive rates. The +13.9% reduction in hurricane losses as calculated above will result in rates that are neither excessive nor inadequate.

D. DUE CONSIDERATION OF A REASONABLE MARGIN FOR UNDERWRITING PROFIT AND TO CONTINGENCIES

1. UNDERWRITING PROFIT – LEGAL CONSIDERATIONS

226. N.C.G.S. §58-36-10 requires that due consideration be given to a reasonable margin for underwriting profit.

227. The testimony regarding underwriting profit in this case is extensive and in order to make proper findings of fact, it is necessary to set out the relevant definitions and legal requirements.

228. Profit is a general description of the amount of money an insurance company earns after the payment of losses and expenses. *DOI-9, Schwartz Prefiled Testimony, p. 23; RB-13, Appel Prefiled Testimony, p. 25.*

229. Previous court decisions support the notion that premium is the appropriate basis for measuring a reasonable profit rather than capital. The Department witnesses calculated rates of return as a percent of premium, while the Bureau employed capital as the basis for measuring

the profit. *DOI-9, Schwartz Prefiled Testimony, p. 32, 34, AIS-15; DOI-10, O'Neil Prefiled Testimony, Exhibit 7 p. 2.*

230. A total return is the total profit that an insurance company earns from all business activities, including both the investment and the insurance activities. *DOI-9, Schwartz Prefiled Testimony, p. 24; DOI-10, O'Neil Prefiled Testimony, p. 185; RB-13, Appel Prefiled Testimony, p. 5.*

231. The return on insurance operations is the profit that a company earns solely from its insurance business. The return on insurance operations is the sum of the underwriting profit, the investment income from reserves, and installment fee income, as described below:

- a) Underwriting profit is what companies earn after subtracting out losses, loss adjustment expenses, underwriting expenses and dividends from premiums. *DOI-9, Schwartz Prefiled Testimony, p. 23.* The underwriting profit is one of a number of important components of the indicated rates.
- b) Investment income from reserves is the income earned from investing the loss, loss expense, and unearned premium reserves. *DOI-9, Schwartz Prefiled Testimony, p. 25; RB-13, Appel Prefiled Testimony, p. 25.* North Carolina law requires that insurance premiums reflect the income to be obtained from investing these reserves, which are also known as policyholder-supplied funds. *N.C.G.S. §58-36-10(2).*
- c) Installment fee income is based on historical installment revenues. *RB-1, Appel Prefiled Testimony, p. 25.*

232. Surplus represents owners' equity which is placed at risk in order to provide the opportunity for reward and while it provides protection to policyholders and claimants, it doesn't

belong to them. *DOI-10, O'Neil Prefiled Testimony, p. 115 (citing Chapter 8, p. 115 of Actuarial Considerations Regarding Risk and Return in Property-Casualty Insurance Pricing).*

In other words, surplus in the insurance industry is the owner-supplied funds that support the writing of insurance policies.

233. The insurance industry generates income from two sources: (1) the collection and investment of insurance premiums (the insurance operations); and (2) the investment of capital and surplus funds. *350 N.C. at 542, 516 S.E.2d at 151-152 (1999); 300 N.C. at 446, 269 S.E.2d at 587 (1980).* These two sources of income combined generate a total return or profit to the insurance industry. Because the return on operations constitutes the profit from the insurance activity only, it is a partial profit to the insurance industry; the remainder of the profit to the insurance industry comes from the investment income from capital and surplus.

234. The law requires that the underwriting profit consider the amount of business done rather than its capital. *350 N.C. at 544, 516 S.E.2d at 153 (1999); 300 N.C. at 444, 269 S.E.2d at 586 (1980).* Furthermore, "it has never been the law in this jurisdiction that income from invested capital is to be considered in an insurance ratemaking case." *300 N.C. at 444, 269 S.E.2d at 586 (1980).*

235. In addition, profit should be determined on the basis of a percentage of premiums rather than on the basis of a rate of return on invested capital. *In re Filing by Automobile Rate Office, 278 N.C. 302, 314-315, 180 S.E.2d 155, 164 (1971); State ex rel Comm'r v. Attorney General, 19 N.C. App. 263, 268, 198 S.E.2d 575, 580 (1973); 350 N.C. at 544, 516 S.E.2d at 153 (1999); DOI-9, Schwartz Prefiled Testimony, p. 34.*

236. Thus, the law requires that profit be calculated solely on the insurance operations, not on the investment income from capital and surplus and that it be calculated as a percent of

premium. *DOI-9, Schwartz Prefiled Testimony, pp. 33-35; DOI-10, O'Neil Prefiled Testimony, pp. 178-185; DOI-20.*

237. In North Carolina there is no prescribed method for calculating profit. *350 N.C. at 542, 516 S.E.2d at 152 (1999); 300 N.C. at 449, 269 S.E.2d at 589 (1980).* The only requirement in calculating a profit is that investment income from capital and surplus not be considered.

238. The Commissioner's duty here is to determine a prospective profit for inclusion in the rates. *N.C.G.S. §58-36-10.* The calculation of profit is a complex procedure which requires the selection of a profit methodology and the consideration and calculation of many profit components.

239. The Bureau's profit methodology in this case is the same methodology that the Bureau has used in many prior cases, including the 2001 case. Bureau witness Vander Weide estimates the cost of equity capital (also known as the cost of capital), which is the rate of return expectation that is required in the marketplace on equity investments of comparable risk. Vander Weide uses the DCF method and the risk premium method to estimate the cost of capital. Vander Weide then recommends that his cost of capital range of +9.1% to +12.8% be used, without adjustment, as the fair return on equity. *RB-7, Vander Weide Prefiled Testimony, p. 5, 8, 22.*

240. Vander Weide has proffered cost of capital testimony in auto rate cases in this State for over 20 years. The analysis contained in his testimony, which includes the risk premium and DCF analysis, in this filing is essentially the same as it was in 1993 because the cost of capital concepts are standard methods of estimation and don't change over the years. *Vander Weide T.p. 407.*

241. Vander Weide has performed this analysis in other states in insurance cases and in cases involving other regulated industries. He does not recall whether any other states in which he has performed his cost of capital analysis has a law similar to North Carolina's law prohibiting the consideration of investment income from capital and surplus because he believes the cost of capital would be perfectly consistent with such a law. *Vander Weide, Tp. 405.*

242. Bureau witness Appel reviews Vander Weide's estimate of the cost of capital for reasonableness and considers whether other factors create additional sources of risk which affect insurers' cost of capital. He then analyzes the returns insurers would expect to earn from underwriting homeowners' insurance in North Carolina given that the filed underwriting profit provisions selected by the Bureau are realized. *RB-13, Appel Prefiled Testimony, p. 3; T.pp. 447-448.*

243. Schwartz testified that Appel's methodology is also the same methodology Appel has used in prior rate proceedings, including 2001. *DOI-9, Schwartz Prefiled Testimony, pp. 77-78.*

244. In this case, as in the 2001 case, Vander Weide, in his risk premium analysis, adds a bond return to the risk premium. The bond return is a proxy for the amount of investment income on capital and surplus earned by insurance companies. *RB-7, Vander Weide Prefiled Testimony, pp. 20-21; DOI-9, Schwartz Prefiled Testimony, pp. 29-30.*

245. Vander Weide also applies a DCF approach to two groups of companies to determine the cost of capital. He uses property/casualty insurance companies and the S&P 500 in his DCF analysis. The problem is that utilizing these two groups of companies inherently includes the return from all sources of income (total return), including investment income from capital and surplus, because Vander Weide isn't just looking at the insurance operations of those

businesses (non-insurance companies don't have anything equivalent to insurance operations). Instead he is looking at the earnings potential of those companies as a whole. *DOI-10, O'Neil Prefiled Testimony, p. 184.*

246. Moreover, in implementing the DCF model, Vander Weide uses projected earnings growth, which is the I/B/E/S forecast of future earnings growth. Analysts don't split out investment income from their forecasted growth rates, so clearly the earnings Vander Weide uses in his analysis are total earnings, which include investment income from capital and surplus. *DOI-9, Schwartz Prefiled Testimony, p. 29.*

247. Once Vander Weide estimates his cost of capital range, Appel utilizes that range as the target return against which he tests the Bureau's selected profit provisions. Appel tests the profit provisions to ensure that the resulting returns, both including and excluding investment income from capital and surplus, fall within the target range of returns of +9.1% to +12.8% recommended by Vander Weide. *RB-12, Appel Prefiled Testimony, pp. 26-27.*

248. Vander Weide's cost of capital is the rate of return expectation in the marketplace on equity investments of comparable risk. Vander Weide testified if an investor does not expect to earn a return on an equity investment in a firm that is at least as large as the return the investor could expect to earn on other investments of comparable risk, then the investor will not invest in that firm's shares. *RB-8, Vander Weide Prefiled Testimony, p. 5.*

249. Schwartz testified that total return and cost of capital measure the same thing. *DOI-9, Schwartz Prefiled Testimony, p. 24.* Vander Weide asserted that they do not measure the same thing because cost of capital is forward-looking and measures the expectations of future returns in the marketplace; whereas, the total return is a retrospective accounting measurement of the returns that a company has earned. *Vander Weide T.pp. 399-400.* However, this assertion

really just underscores a timing difference. Cost of capital measures future expectations of total returns (returns earned from all sources of income) in the market, while a total return measures what the returns from all sources of income would be if all elements of a proposed rate are realized. (*See RB-14, Exhibits 1 and 1A*).

250. Appel did admit that his total return is to be compared to Vander Weide's cost of capital, but, he argued the two do not measure the same thing. *Appel T.pp. 2025-2026*. In essence what Appel did in testing the underwriting profit provisions was to compare the total return resulting from the Bureau's selected underwriting profit provisions to the cost of capital (target total return). If the total return and cost of capital don't measure the same thing, this comparison, or test, would be meaningless.

251. Vander Weide testifies that the cost of equity couldn't include investment income from capital and surplus because the companies in the S&P 500 are non-insurance companies and don't have income from capital and surplus. He indicates that the return on all companies with the same risk, no matter what their source of income, should be the same. Thus, according to Vander Weide, the cost of capital cannot depend on the source of income. *Vander Weide T.pp. 397-440*.

252. However, the laws in North Carolina regarding profit methodology specifically do require a consideration of the source of income. The fact that S&P 500 companies don't have income from capital and surplus means that what is being considered is the income to be earned by the company as a whole (total return) – exactly what is prohibited under North Carolina law.

253. Appel does admit that the Subcommittee considers investment income from capital and surplus when making its decision because it selects an underwriting profit that produces a return on net worth that is at the lower end of fair and reasonable returns. Thus, there

is no dispute that the Bureau considers investment income from capital and surplus in making its profit selections. *Appel T.pp. 2024-2025; See RB-14, Page 1A.*

254. The Bureau witnesses deny that the Bureau methodology violates the prohibition against the consideration of investment income from capital and surplus. Instead, they claim that the methodology comports with the U.S. Supreme Court decisions in *Federal Power Comm. v. Hope Natural Gas Co.*, 320 U.S. 591, 64 S.Ct. 281 (1944) (“*Hope Natural Gas*”) and *Bluefield Waterworks and Improvement Company v. Public Service Commission*, 262 U.S. 679, 43 S.Ct. 675 (1923) (“*Bluefield Waterworks*”); *Appel T.pp. 2033-2034; Vander Weide T.pp. 396, 400-401.*

255. These two early U.S. Supreme Court cases indicate that the proper rate of return for regulated industries is a return commensurate with the returns that could be earned by industries of comparable risk. *Appel T.p. 2034; Vander Weide T.p. 396.*

256. Both Vander Weide and Appel claim that *Hope Natural Gas* and *Bluefield Waterworks* require a cost of capital analysis. *Vander Weide T.pp. 1695-1698; Appel T.p. 2034.* However, this cannot possibly be true because *Hope Natural Gas* was decided in 1944 and *Bluefield Waterworks* was decided in 1923. *Vander Weide T.p. 411; DOI-20.* Vander Weide and Appel acknowledge that in the early days of regulation a comparable earnings analysis, like the analyses proffered by Department witnesses Schwartz and O’Neil, was an accepted methodology until comparable earnings was abandoned in favor of market-based concepts like the cost of capital. *Appel T.pp. 2033-2034.* O’Neil notes that from 1921 through approximately the mid-1960’s, The 1921 NAIC Profit Formula, which allowed a pre-tax 5% of premium without consideration of investment income, was in use. *Exhibit DOI-20.* That 5% of premium has also been mentioned in an older North Carolina case as an amount “generally approved in the

industry.” 278 N.C. 302, 315; 180 S.E.2d 155, 164 (1971). A cost of capital analysis, then, was not even utilized in regulatory matters when *Hope Natural Gas* and *Bluefield Waterworks* were decided.

257. Moreover, North Carolina’s law prohibiting the consideration of investment income from capital and surplus is unique. *Appel T. p. 2043*. Yet Vander Weide indicates that in states that do not have the unique North Carolina prohibition, the cost of capital is used to determine a fair rate of return. *Vander Weide T.pp. 405-406*. Given the uniqueness of North Carolina’s law that includes a prohibition against consideration of investment income from capital and surplus, it is implausible that a profit methodology utilized in other states that do not recognize that prohibition could be appropriate here.

258. The fact that both Vander Weide’s and Appel’s profit analyses and methodologies in this case are essentially the same as in prior years is important because the methodologies in this filing were already litigated in the 2001 auto case. *160 N.C. App. 416, 586 S.E.2d 470 (2003)*. The Court of Appeals reviewed the profit issue in the 2001 case. The Court in rendering a judgment noted many of the former Commissioner’s findings of fact relating to the Bureau’s profit methodology and the former Commissioner’s selected methodology. As a result, the Court found that focusing on a return on operations, as the former Commissioner and the Department witnesses did, comported with the legal requirements. The Court of Appeals, thus, upheld the former Commissioner’s order in the 2001 auto case. *160 N.C. App. 416, 427, 586 S.E.2d 470, 474 (2003)*. The Supreme Court, after accepting briefs and hearing oral arguments on the profit issue, essentially allowed the ruling of the Court of Appeals to stand (“petition for discretionary review was improvidently granted”). *State ex rel. Comm’r of Ins. v. North Carolina Rate Bureau, 358 N.C. 539, 597 S.E.2d 128 (2004)*.

259. By utilizing a cost of capital that takes into account investment income from capital and surplus, as described above, and then utilizing that cost of capital to test profit provisions to ensure that concomitant returns (both including and excluding investment income from capital and surplus) fall within the target range, the Bureau has violated the prohibition that investment income from capital and surplus be excluded from consideration in setting a fair and reasonable profit. This is consistent with the order in the 2001 case and the rulings of the courts. *160 N.C. App. 416; 586 S.E.2d 470, (2003).*

260. Based on the above, the Commissioner finds that the profit methodology that the Bureau has presented in this case is essentially the same methodology presented in the 2001 auto case. Just as in 2001, it is clear that the Bureau's methodology includes consideration of investment income from capital and surplus, which is prohibited under North Carolina law. Just as in the 2001 auto case, the Commissioner finds that the Bureau's methodology violates the law in North Carolina and must be rejected.

2. PROFIT SELECTION

261. The preliminary issue in the calculation of profit is the selection of the appropriate rate of return methodology. A proper methodology: (1) identifies a target rate of return that satisfies the legal requirements in this State and is commensurate with the perceived risk of the homeowners insurance market; and, (2) generates profit provisions that, when included in the rate computations, will result in rates that are not excessive, inadequate or unfairly discriminatory. Thus, risk, rate of return, and profit provisions will be discussed below in Sections V.D.2.a., V.D.2.b., and V.D.2.b.3.

262. As noted previously, the Bureau's profit methodology in this case was the same methodology used in the 2001 auto case. That methodology was rejected as being violative of

the law because it takes into consideration investment income from capital and surplus. The Commissioner's Order rejecting that methodology was affirmed by the Court of Appeals and allowed to stand by the Supreme Court. *See 160 N.C. App. 416, 586 S.E.2d 470, (2003); 358 N.C. 539, 597 S.E.2d 128 (2004).* The Commissioner herein has again rejected the Bureau's profit methodology and, therefore, proceeds to review only the analyses offered by Department witnesses, Schwartz and O'Neil, in order to make a calculation of profit in this case.

a. Risk

263. In order to attract and retain capital, investors must be allowed the opportunity to earn a reasonable return for their financial commitment. The return allowed investors in a regulated industry is a return on investments commensurate with the returns from investments of similar risk. This ratemaking standard for regulated industries was enunciated in two U.S. Supreme Court decisions and the standard is applicable to ratemaking in North Carolina. *See Bluefield Water Works and Hope Natural Gas.*

264. Vander Weide testified that rational investors expect to receive comparable returns for comparable risks and if the returns are not equal, investors will reduce or completely eliminate their investments in activities yielding lower expected returns for a given level of risk and will increase their investments in activities yielding higher expected returns. *RB-7, Vander Weide Prefiled Testimony, p. 7.*

265. Vander Weide based his rate of return analysis on the presumption that the P&C industry is of no more than average risk, while Appel testified that Vander Weide's estimates are reasonable, albeit conservative, because he believes investors in the P&C industry are subject to an above average degree of risk. *RB-12, Appel Prefiled Testimony, p. 4.*

266. Bureau witness Appel proffered evidence (which was disputed) that due to non-diversifiable interest rate risk and the size distribution of insurers in North Carolina, an investment in the P&C industry is of above-average risk. *RB-12, Appel Prefiled Testimony, pp. 5-10.* However, Vander Weide's proposed target rate of return is based upon the assumption that the P&C industry is of average risk. *RB-12, Appel Prefiled Testimony, p. 4.* Moreover, Appel, even though he postulated that the P&C industry is of above average risk, used Vander Weide's recommended rate of return against which to measure the statutory return and the total return generated by the Bureau's selected profit provisions. *RB-12, Appel Prefiled Testimony, pp. 5, 26-27.* Therefore, Appel's testimony that the risk of the P&C industry is above average is not persuasive in this case.

267. If the P&C industry is of average risk, there is evidence in this case that homeowners' insurance, in general, is of higher risk than the P&C industry. There is also evidence that North Carolina homeowners' insurance, in particular, is of average to lower than average risk than countrywide homeowners. Schwartz based his analyses on the presumption that the P&C industry is of average risk while North Carolina homeowners is above average risk. *DOI-9, Schwartz Prefiled Testimony, pp. 30-32.*

268. Based upon the evidence in this case, the Commissioner finds that the P&C insurance industry is of average risk and the North Carolina homeowners' insurance industry is, conservatively of *above average risk*. The Commissioner further finds that the selected target rate of return should reflect no less than average risk while a target return reflecting above average risk could be appropriate.

b. Rate of Return Methodology

269. Having determined that North Carolina homeowners' insurance is, conservatively, of above average risk, the Commissioner must select a rate of return methodology that will generate the appropriate rate of return given the relevant level of risk. The selected methodology must also comply with the applicable legal requirements in this State.

270. Because North Carolina law is peculiar in that investment income on capital and surplus must not be considered when calculating profit, the cost of capital, which is a generally accepted economic model used for insurance ratemaking, may not be used in this State. *DOI-9, Schwartz Prefiled Testimony, p. 33; DOI-10, O'Neil Prefiled Testimony, pp. 183-184.* As a result, only a comparable earnings analysis has been proffered by the Department witnesses in this case.

1) The Department's Methodology

271. The Department witnesses both estimate a target rate of return using a comparable earnings analysis. A comparable earnings analysis involves the review of historical returns of firms with similar risk. Given that in North Carolina a total return, which includes investment income from capital and surplus, cannot be considered, both O'Neil and Schwartz reviewed historical data on the achieved returns on operations as a percent of premium for the P&C insurance industry. *DOI-9, Schwartz Prefiled Testimony, pp. 25-27; O'Neil Prefiled Testimony, pp. 175-179; Vander Weide T.pp. 1699-1704; Appel T.pp. 2032-2034.*

272. The Department witnesses utilized the (countrywide) P&C insurance industry as "firms of comparable risk" because they believed that the insurance operations of the North Carolina homeowners' market is *most comparable* to the insurance operations of the P&C

industry countrywide and because the P&C insurance industry is large enough to form a reliable basis for evaluating a fair and reasonable profit. *DOI-9, Schwartz Prefiled Testimony, p. 27.*

273. Schwartz reviewed historical operating rates of return on insurance operations by several groupings within the P&C insurance industry including Total Industry – All Lines, Homeowners (countrywide), Personal Lines, Fire Insurance, Allied Insurance, and All Property Lines Combined. Schwartz used data from an insurance publication (Best’s Aggregates & Averages, hereinafter “Best’s”) for the years 1988 through 2013 to calculate the twenty-five year average rate of return on insurance operations (as a percent of premium). The Best’s data showed that for all lines combined the *average profit* ranged from +4.7% to +7.2%, depending upon the time period used. However, to recognize that homeowners’ insurance in North Carolina has above average risk, Schwartz used his actuarial judgment to select a *higher operating return* of +8.0%. Schwartz also noted that during the twenty-five year time period resources did not leave the P&C industry and that the industry grew at a substantial rate, leading to his conclusion that investors consider the historical operating returns to be reasonable and adequate. *DOI-9, Schwartz Prefiled Testimony, pp. 26-28, AIS-15, AIS-16.*

274. O’Neil found support for her comparable earnings analysis in actuarial literature. O’Neil compiled thirty-seven years of historical data from Best’s for the years 1975 through 2011. The Best’s countrywide data for all companies and lines of business combined produced an average historical pre-tax return on operations of +5.1%. O’Neil also compiled data from the 2013, 2004, and 1994 NAIC Profitability Studies for the period 1985 through 2012 for all lines of business, a historical period of twenty-eight years. These data showed the average historical return on operations of +4.9% pre-tax or +3.2% after-tax. O’Neil concluded that thirty-seven years of results covering all lines of business in all states smoothed the aberrations in the profit

on the insurance transaction which are found on a state by line by year basis and that it, therefore, was reasonable to apply these results to North Carolina homeowners insurance. Thus, she selected a pre-tax return on operations of +5.0%. *DOI-10, O'Neil Prefiled Testimony, pp. 176-179, Exhibit 7, pp. 4-6. See also DOI-19.*

275. In essence, the Department witnesses independently calculated rates of return on insurance operations utilizing essentially the same body of data, that is, the historical returns of the P&C insurance industry as a whole. The range of target returns based on the calculations of the two witnesses is +5.0% to +8.0%.

2) The Bureau's Criticisms of the Department's Methodology

276. The Bureau's most significant criticisms of the comparable earnings analyses, which were proffered by the Department witnesses, appear to be theoretical rather than practical. Both Appel and Vander Weide were very vocal in their denunciation of a comparable earnings analysis as a methodology to estimate the required rate of return.

277. Bureau witness Vander Weide testified that the comparable earnings methodology is not widely accepted by economists because it looks at historical returns rather than estimating the required return. Vander Weide further testified that in the several hundred cases in which he has been involved, he doesn't recall comparable earnings as being a credible method of estimating the cost of equity. *Vander Weide T.pp. 1702-1705.* However, the Commissioner notes that the Department witnesses were specifically not attempting to estimate a cost of equity as that measurement includes consideration of returns on all company assets, including investment income from capital and surplus. Instead, the Department witnesses used comparable earnings to estimate a return on insurance operations only. *DOI-9, Prefiled Testimony, p. 25; DOI-10, O'Neil Prefiled Testimony, p. 176.*

278. Bureau witness Appel, echoing Vander Weide, testified that comparable earnings has largely been abandoned because: a) the returns analyzed are book returns not market returns; b) it assumes that historical returns were adequate when they were earned; c) it assumes that the risk of the industry has not changed from the historical period to the present; and d) it results in a circularity problem where, if the returns were excessive in the past and those returns are used as a basis to set the target return in the future, “excessivity” is built into the rates. *Appel T.pp. 2033-2038.*

279. Moreover, Appel testified that a “total return” methodology and an “operating return” methodology are arithmetically equivalent. *Appel T.pp. 2026-2031.* However, not only do the Department witnesses disagree with this assertion, but, certain actuarial literature that O’Neil proffered doesn’t support Appel’s assertion either. *DOI-9, Schwartz Prefiled Testimony, p. 35; DOI-10, O’Neil Prefiled Testimony, pp. 178-179; DOI-19, p. 4.*

280. The methodologies proffered in this case have been reviewed previously by the Court of Appeals in the 2001 auto case. That court upheld the previous Commissioner’s Order rejecting the Bureau’s cost of capital methodology and affirming Schwartz’ comparable earnings (return on operations) methodology. The former included a prohibited consideration of investment income from capital and surplus; the latter did not. The Supreme Court in the 2001 auto case allowed the Court of Appeals decision affirming the former Commissioner to stand. *160 N.C. App. 416; 586 S.E.2d 470 (2003); 358 NC 539, 597 S.E.2d 128 (2004).*

281. Thus, the Commissioner herein finds that the comparable earnings methodologies used by Department witnesses Schwartz and O'Neil to calculate a rate of return on insurance operations as a percent of premium comply with the legal requirements of this state.

282. As a result, the Commissioner selects a +8.0% pre-tax rate of return, as proffered by Department witness Schwartz.

283. The Commissioner finds that the pre-tax rate of return selection of +8.0% based upon a comparable earnings analysis comports with the legal requirements in this State, is consistent with the Commissioner's 2001 Order which was affirmed by the courts, and will result in rates that are not excessive, inadequate or unfairly discriminatory.

3) Underwriting Profit Provisions

284. After determining an appropriate rate of return that is commensurate with the above average level of risk of the North Carolina homeowners industry, the Commissioner must generate underwriting profit provisions that will be input into the ratemaking calculations.

285. Bureau witness Vander Weide did not calculate profit provisions because his particular expertise is in the analysis of the cost of equity capital.

286. The Bureau's underwriting profit analysis is really a combination of interrelated tasks performed by the Bureau Subcommittee and Bureau witnesses, Vander Weide and Appel.

287. Vander Weide's task was to calculate the cost of capital, which the Bureau adopted as its target rate of return as described more fully in Section V.D.1 above.

288. The Bureau Subcommittee's task was to select the proposed underwriting profit provision of +10.5%. The Subcommittee made its selection after a review of the estimated returns on equity associated with several alternative underwriting profit provisions, which were provided to the Subcommittee by Appel. Appel testified that he selected five or six values of

underwriting profit provisions to test and those selected values comprise a range of two to three percentage points. The Subcommittee then selected a provision within the range that was consistent with the cost of capital developed by Vander Weide. Appel testified that this selection method is perfectly appropriate and comports with Actuarial Standards of Practice #30. *RB-12, Appel Prefiled Testimony, pp. 26-29.*

289. Appel's task was to provide commentary on a number of issues and, ultimately, to test the statutory and total returns insurers would expect to earn given the Bureau's filed underwriting profit provisions. Appel tested the returns against Vander Weide's recommended cost of capital range. *RB-12, Appel Prefiled Testimony, pp. 3-5, 28-29.*

290. The problem with the selection method employed by the Bureau Subcommittee is that the selected underwriting profit provisions are consistent with the cost of capital, calculated by Vander Weide. As discussed previously in Section V.D.1. above, the cost of capital is a "total return" methodology which takes into consideration investment income from capital and surplus.

291. Moreover, the testing of the underwriting profit provisions using a target total rate of return, as Appel did here, is the same situation that resulted in the Supreme Court's remand of the Commissioner's Order in the 1996 auto case. In that case, the underwriting profit provisions were calculated without the consideration of investment income on capital and surplus; but, the total rate of return resulting from the Commissioner's ordered underwriting profit provisions was then tested against a target rate of return that did consider the prohibited investment income. The Court in that case did not distinguish between the calculation of the provisions and the testing of those provisions. *DOI-20; 350 N.C. at 542-543, 516 S.E.2d at 152-153 (1999); State ex rel. Comm'r of Ins. v. N.C. Rate Bureau 129 N.C. App. 662, 501 S.E.2d 681 (1998).* Thus, the courts' reasoning must also apply here to the Bureau's methodology.

292. Even if Appel's assertion that the method used to select profit provisions comports with Actuarial Standards of Practice, is correct, it is clear that the underwriting profit provision was selected by the Subcommittee after considering that the total return, including investment income from capital and surplus, produced by the underwriting profit provision fell within the range of returns proposed by Vander Weide. That is how the Bureau determined that the underwriting profit provision was not excessive or inadequate - by ensuring that the selected underwriting profit provision produced a total return that fell within Vander Weide's total return range. *RB-4, Donlan Prefiled Testimony, p. 5; RB-12, Appel Prefiled Testimony, pp. 5, 26-28; RB-14, p. 1A.*

293. Therefore, the Commissioner finds that the Bureau's selected underwriting profit provision of +10.5% violates the legal prohibition that investment income from capital and surplus may not be considered in the ratemaking process. The Commissioner, therefore, rejects the Bureau's underwriting profit provision herein. This finding is consistent with not only the evidence in this case but also the findings in the former Commissioner's Order in the 2001 case, which Order was upheld by the appellate courts.¹⁹ *See also 160 N.C. App. 416, 586 S.E.2d 470 (2003) and 358 N.C. 539, 597 S.E.2d 128 (2004).*

294. Department witness Schwartz calculated his underwriting profit provision in a very simple and straightforward manner. Basically, he started with the required rate of return on insurance operations of +8.0% of premium and he then subtracted out the investment gain on reserves (policyholder-supplied funds and installment fee income) in order to derive his

¹⁹ Because there have been no formal evidentiary hearings on homeowners insurance rate filings since 1992 there has been no opportunity for the courts either to further affirm their opinion on this point or to modify it, as it relates to homeowners insurance alone. Although the same principles about ratemaking appear in auto insurance cases as in homeowners, and decisions about one line of insurance most likely will impact decisions about the other line of insurance

underwriting profit provision of +5.3%. *DOI-9, Schwartz Prefiled Testimony, p. 25, AIS-6, Sheets 1-2.* This methodology is consistent with the calculations he performed in the 2001 case which was upheld by the appellate courts. *160 N.C. App. 416, 586 S.E.2d 470 (2003) and 358 N.C. 539, 597 S.E.2d 128 (2004).*

295. O'Neil's calculation of the underwriting profit provisions is a little more complex than Schwartz's calculation. O'Neil used a cash flow model to derive her investment income from reserves. The cash flow model requires an estimate of the timing of income and outgo, which involves a number of inputs and assumptions. In the cash flow model used to derive the investment income from reserves, O'Neil set the pre-tax rate of return on insurance operations to the judgmentally selected value of +5.0% and the model then calculated the underwriting profit provisions of +3.7%. *DOI-10, O'Neil Prefiled Testimony, pp. 176, 191-194, Exhibit 7, p. 2.*

296. Schwartz and O'Neil's calculations produce the same theoretical results, that is determining the underwriting profit provisions by subtracting the investment income from policyholder supplied funds and installment fee income from the return on insurance operations. As discussed in Section V.D.2.b. above, the return on operations is the appropriate return to use for the calculation of the underwriting profit in North Carolina.

297. Using Schwartz' more straightforward calculations including the investment income on policyholder supplied funds, discussed more fully in Section IV.F. below, the Commissioner herein finds that the underwriting profit provision of +5.3% is appropriate,

when ratemaking is involved, it is a fact that auto insurance cases have had more activity in the courts over the last fifteen years than homeowners insurance cases.

supported by evidence in this case, and will result in rates that are neither excessive, inadequate or unfairly discriminatory.²⁰

3. CONTINGENCIES

298. Contingencies are a recognized component of ratemaking and N.C.G.S. §58-36-10(2) requires that due consideration be given to “a reasonable margin for underwriting profit and to contingencies.”

299. The Bureau included a +1.0% margin for contingencies in this filing. The +1.0% factor was selected by the Bureau and it has been consistently employed in past Bureau filings as well as being used for many years in property ratemaking across the country. *RB-3, Curry Prefiled Testimony, p. 25; RB-4, Donlan Prefiled Testimony, p. 6.*

300. The Bureau included a factor for contingencies in the rates in order to recognize a systematic bias that causes actual underwriting experience to be worse than the provision assumed in the rates. *RB-3, Curry Prefiled Testimony, p. 25; RB-4, Donlan Prefiled Testimony, p. 6; Appel T.p. 218.*

301. The Bureau indicates that sources for the bias include judicial decisions that extend policy coverage beyond what was anticipated in the rates, legislative changes, regulatory delay or reduction of rate filings, and other factors. The Bureau noted that while these events are unpredictable, what is predictable is that the direction of the bias is virtually always upward in terms of expected loss costs or downward in terms of expected premium. *RB-3, Curry Prefiled Testimony, pp. 25-26; RB-4, Donlan Prefiled Testimony, p. 6.*

²⁰ Due to a minor change in one of the components, expected loss and loss adjustment expense, the Commissioner’s underwriting profit is +5.2%; more details in Exhibit 1, Section D., Page D-39.

302. In addition, Curry testified that property insurance involves many risks but not all of them are observable in the experience or adequately recognized in normal ratemaking. Curry offered as an example, brushfires, which are a significant risk in North Carolina that is not reflected in the loss data underlying this filing. *RB-3, Curry Prefiled Testimony, pp. 25-26.*

303. Curry also indicated that the contingency provision is intended to compensate for any component of the rate calculation that varies from what is expected and that variation could occur with the profit, loss or expense components, or even earnings from investment income. *Curry T.pp. 230-232.*

304. The Department witnesses argue that a contingency factor greater than 0.0% should not be included in the proposed rates. They further argue that the +1.0% contingency factor is a completely unsupported value. *DOI-9, Schwartz Prefiled Testimony, p. 38; DOI-10, O'Neil Prefiled Testimony, pp. 198-199.*

305. Schwartz testified that there is not a systematic bias in North Carolina causing experience to be worse than expected because the actual experience in North Carolina for homeowners insurance has been profitable, and, in fact, more profitable than on a countrywide basis. The after-tax return on net worth for North Carolina homeowners insurance over a ten-year period (2003-2012) has been about 10%. *DOI-9, Schwartz Prefiled Testimony, pp. 40-41.*

306. Schwartz also testified that Actuarial Standard of Practice No. 30 states that an actuary is supposed to evaluate whether the ratemaking process produces cost estimates that are not expected to equal average cost and, if so, to make a determination as to whether any differential can be eliminated by changes to other components. The Bureau did not perform this analysis nor did it provide any support or evidence regarding the alleged systematic bias. *DOI-9, Schwartz Prefiled Testimony, pp. 39-41.*

307. O'Neil also took exception to the Bureau's +1.0% contingency factor. She found there was no systemic bias in the ratemaking process warranting a positive contingency factor. *DOI-10, O'Neil Prefiled Testimony, pp. 196-198.*

308. O'Neil also found that North Carolina ranks second among the states in brushfire frequency for 2013, having moved from the third position in 2011. This indicates that, given the frequency of brushfires in North Carolina, the historical data should include losses from brushfires so that a separate contingency provision for brushfires is not necessary. *DOI-10, O'Neil Prefiled Testimony, p. 198.*

309. Moreover, O'Neil testified that the +1.0% contingency loading has been consistent through historical filings, back to at least 1993, although in prior filings (until 2006) the contingency provision was also purportedly to compensate the companies for the risk of assessment from the Beach Plan.²¹ Given that the filing now includes a separate provision for the compensation for assessment risk, that rationale no longer applies to the contingency provision. *DOI-10, O'Neil Prefiled Testimony, p.199; Curry T.pp. 198-200.*

310. Based on their analyses, neither Schwartz nor O'Neil included a positive (or negative) factor for contingencies in his/her testimony, but instead used the appropriate value of 0.0%. *DOI-9, Schwartz Prefiled Testimony, p. 41; DOI-10, O'Neil Prefiled Testimony, p. 199.*

²¹ The Commissioner also understood from the evidence of record that during the relevant time in question, the Beach Plan *surplus* had grown and continues to grow (thus countering the Bureau's apparent contention of an inability by the Beach Plan to handle an active hurricane season and remain financially solvent) and the cost for reinsurance globally had dropped (which has allowed for the purchase of even more reinsurance layers by the Beach Plan and/or growing of the Beach Plan surplus). Those facts necessarily and consequently mean there is a much less likely chance of the companies being assessed by the Beach Plan now or anytime in the near future, unless an extremely violent, expensive, highly unexpected storm season strikes North Carolina's coast or a there are back-to-back active seasons with major, costly hurricanes making landfall in North Carolina.

311. The testimony proffered by the Bureau witnesses regarding the alleged need for a contingency provision created some serious credibility concerns with both the Bureau filing and Bureau witnesses. The proposed contingency provision of +1.0% has absolutely no support other than undocumented anecdotal testimonies by Donlan and Curry that +1.0% or more is standard throughout the industry. Their testimonies as to why a contingency provision is necessary were neither specific to the present filing nor supported by any relevant evidence.

312. The Bureau's insistence on backing a +1.0% contingency factor in the rates without any attempt to support that factor casts some doubt on credibility in relation to other more significant issues in the filing.

4. UNDERWRITING PROFIT AND CONTINGENCIES - SUMMARY

313. With regards to the issue of profit, there appears to be no dispute that the Bureau's cost of capital methodology is the same methodology used in the 2001 auto case. Moreover, it is noted that Schwartz' methodology is the same as well, given that this was the methodology that the former Commissioner used in determining the appropriate profit provisions to be included in the rate level. *See 160 N.C. App. 416, S.E.2d 470 (2003).*

314. The former Commissioner's findings in the order for the 2001 auto case and the court decisions that followed that 2001 order are compelling. Since the former Commissioner found that the Bureau's methodology in the 2001 case violated North Carolina law with regards to the issue of profit, and the Commissioner's order was upheld on appeal, it is difficult for this Commissioner to decide differently in this case *without some compelling reason to do so*. The Bureau hasn't provided such a reason; it has simply reiterated its case from 2001. Thus, the Commissioner herein finds that based on the foregoing in Section V.D.1., the Bureau's profit

methodology in this case violates the prohibition against consideration of investment income on capital and surplus and must, therefore, be disapproved.

315. With regards to the issue of contingencies, the Bureau's +1.0% contingency provision is woefully unsupported. The persistent testimonies of the Bureau's actuarial experts were completely anecdotal without even an attempt to provide any analytical support, which reflects poorly on their credibility given that performing a rate analysis is a highly technical process. Thus, based on the foregoing in Section V.D.3, the Commissioner finds herein that the inclusion of an unnecessary and unsupported +1.0% provision for contingencies in the rates will lead to excessive rates.

5. SUMMARY

316. Based on all of the components discussed *supra*, and the discussion of the investment income from reserves discussed in more detail in Section V.F. below, the underwriting profit and contingency provisions calculated by the various witnesses and selected by the Commissioner are displayed below:

UNDERWRITING PROFIT AND CONTINGENCY FACTORS		
	UNDERWRITING PROFIT	CONTINGENCY
Bureau	+10.5%	+1.0%
Schwartz	+5.3%	0.0%
O'Neil	+3.7%	0.0%
Commissioner	+5.2%	0.0%

317. The Commissioner, therefore, finds that an underwriting profit factor of +5.2% and the 0.0% factor for contingency are appropriate and supported by the evidence. The Commissioner's calculation of these provisions is displayed in *Exhibit 1, Section C, pp. 11, 13*.

318. Based on all of the evidence, the Commissioner orders an underwriting profit provision of +5.2% and contingency provision of 0.0%, and finds these provisions to be fair and reasonable. The Commissioner further finds that these provisions will lead to rates which are not excessive, inadequate, or unfairly discriminatory.

E. DUE CONSIDERATION OF DIVIDENDS, SAVINGS, OR UNABSORBED PREMIUM DEPOSITS ALLOWED OR RETURNED BY INSURERS TO THEIR POLICYHOLDERS, MEMBERS, OR SUBSCRIBERS

319. No facts regarding unabsorbed premium deposits were put into evidence and, consequently, unabsorbed premium deposits are not an issue in this case. *Exhibit 5, attached hereto.*

320. According to Bureau witness Donlan, the “Statement of Principles Regarding Property & Casualty Insurance Company Ratemaking” provides that rates should contemplate the cost of policyholder dividends. *RB-4, Donlan Prefiled Testimony, p. 8.*

321. Since dividends have been negligible in recent years, a factor of zero (0.0%) for dividends was selected for this filing. *RB-4, Donlan Prefiled Testimony, p. 8.*

322. Deviations are defined by statute at N.C.G.S. §58-36-30(a) and are upfront variances from the approved Bureau manual rate.

323. Bureau witness Donlan contends that deviations are a cost of the risk transfer and therefore need to be contemplated according to the “Statement of Principles Regarding Property and Casualty Insurance Company Ratemaking.” As a result, the Bureau has included in the filing a provision for deviations of +5.0%. *RB-4, Donlan Prefiled Testimony, p. 8.*

324. Donlan and Curry indicate that the deviation factor chosen for this filing is consistent with findings by the former Commissioner that +5.0% of premium is an appropriate amount for deviations. Both Donlan and Curry recognized that the former Commissioner did not

include an explicit factor of +5.0% for deviations in his ordered rates; but, the Bureau found an explicit factor to be appropriate to reflect this alleged cost of doing business. *RB-4, Donlan Prefiled Testimony, p. 8; RB-3, Curry Prefiled Testimony, p. 28.*

325. The issue of the due consideration to be given to dividends and deviations in the ratemaking process has long been an issue between the Department and the Bureau and the conflict has resulted in numerous court decisions. *358 N.C. 539, 597 S.E.2d 128 (2004); 350 N.C. 539, 543 S.E.2d (1999); 160 N.C. App. 416, 586 S.E.2d 470 (2003); 124 N.C. App 674, 478 S.E.2 794 (1996).*

326. The evidence and arguments in this case have been presented in prior cases including the 2001 auto case, which was the last case in which the Supreme Court issued a ruling on the issue of dividends and deviations. *358 N.C. 539, 597 S.E.2d 128 (2004).*

327. While the Bureau's evidence in this case on deviations is sparse, the Department witnesses provided extensive testimony regarding the issue of dividends and deviations.

328. Department witness Schwartz enumerated seven reasons why he did not believe the manual rates should include an additional numeric provision for deviations:

- a. Deviations are voluntary programs within the total discretion of company management.
- b. Deviations are tactics which companies use to gain market share. Thus, the deviations should be paid out of stockholder funds and not charged to consumers.
- c. Allowing deviations to be passed through to policyholders, as the Bureau proposes, would tend to exacerbate the insurance industry underwriting cycle. If deviations were allowed to be built back into the rates insurers

would be more willing to use them to attract business. Any procedure that would increase the severity of the underwriting cycle is contrary to good public policy.

- d. Building deviations back into the rates is unfairly discriminatory because policyholders insured by companies with no deviations, or, with less than the average deviations, would have to pay higher rates without a corresponding benefit.
- e. Including deviations in the rates would tend to drive up rates to the level of the most expensive company which would lessen the incentive for companies to operate efficiently and would increase rates to consumers.
- f. The purpose of ratemaking is to test the adequacy of the manual rates in effect. The rate level calculation used by the Rate Bureau does not reflect the manual rates currently in effect in North Carolina.
- g. Certain reciprocal or mutual companies have accumulated surplus in excess of what is needed to operate. The policyholders in these companies are the owners of the surplus; thus, the additional surplus can be used to offer deviations.

DOI-9, Schwartz Prefiled Testimony, Appendix AIS-E, pp. 1-2.

329. Moreover Schwartz testified that when a company uses a deviation, the company can be considered to have waived part of its profit. *DOI-9, Schwartz Prefiled Testimony, AIS-E, p. 2.*

330. Deviations are essentially savings to consumers. By building these savings back into the rate level thereby increasing the rates, the savings to consumers are negated.²² Thus, there would be no real savings. *DOI-9, Schwartz Prefiled Testimony, AIS-E, p. 4.*

331. Some companies that are able to deviate below manual rates are more efficient (i.e., have lower costs). By passing the benefit of the lower costs on to the policyholders these companies are providing a true savings. The Bureau's procedure of loading deviations into the rates negates the savings to consumers and protects high cost (inefficient) companies. *DOI-9, Schwartz Prefiled Testimony, AIS-E, p. 7.*

332. Schwartz testified that even without an explicit provision in the rates for deviations, manual rates, based upon average cost projections, allow insurance companies to use deviations because there are a number of sources within an average rate that allow for deviations, such as:

- Expected losses for individual insurance companies that are lower than average;
- Expected expenses for individual insurance companies that are lower than average;
- A particular insurance company willing to accept a lower than expected average profit;
- The actual aggregate experience for a period turning out to be more favorable than expected; and,

²² Furthermore, whether an entity is in "the business of insurance" or is a non-insurance entity, a business decision to offer a deviation – that is, a discount – tells policyholders – that is, customers – that the business is giving up a certain level of profit in order to grow or maintain its market. To offer deviations or discounts on the one hand but then pass along the cost of those discounts back to the same customers appears disingenuous at best.

- The cost projections underlying the manual rates being favorable towards insurance companies.

DOI-9, Schwartz Prefiled Testimony, AIS-E, p. 9.

333. Based upon the first two factors enumerated above, Schwartz estimated that there is a provision within the average manual rate level of +5.0% to +6.0% of premium to use for dividends and deviations. *DOI-9, Schwartz Prefiled Testimony, p. 77; AIS-E, p. 9.*

334. Schwartz indicates that by including an explicit factor in the rates for deviations, the rate level indications are too high by +4.6%. *DOI-9, Schwartz Prefiled Testimony, p. 77; AIS-E, p. 10.*

335. On the issue of deviations, O'Neil disagreed with Bureau witness Donlan that deviations are a cost that must be built back into the rates. Instead, O'Neil determined that deviations are effectively the same as policyholder dividends except that distribution occurs at the beginning of the policy [deviation] instead of at the end [dividends]. *DOI-10, O'Neil Prefiled Testimony, p. 209.*

336. O'Neil determined that manual rates inherently represent average costs of individual insurers relative to the provisions included in the manual rate level. This difference in cost levels is a savings. *DOI-10, O'Neil Prefiled Testimony, p. 209.*

337. O'Neil indicated that the cost savings for companies choosing to deviate must be based on some combination of three factors:

- Company's expenses are less than those anticipated in the manual rate;
 - Company's claim experience is less than anticipated in the manual rate;
- and/or

- Company chooses to waive part of the profit included in the manual rate.

DOI-10, O'Neil Prefiled Testimony, p. 209.

338. Thus, O'Neil concluded there is a margin in the average manual rate for deviations in the form of savings. The savings can either be shared with policyholders in the form of deviations or retained in the company as profit. *DOI-10, O'Neil Prefiled Testimony, pp. 209-210.*

339. The cost savings calculated by O'Neil is, generally, close to +5.0% of premium. *DOI-10, O'Neil Prefiled Testimony, p. 210, Exhibit 12, p. 2.*

340. In addition to the cost savings in the annual rate, a company may also choose to waive part of its profit. This waiver of profit would be available to pay either dividends or deviations. *DOI-10, O'Neil Prefiled Testimony, p. 211.*

341. O'Neil also concluded that the Bureau's methodology of increasing rates for all insureds because some companies choose to deviate is unfairly discriminatory. *DOI-10, O'Neil Prefiled Testimony, p. 213.*

342. Having found that the average manual rate has within it a provision for dividends and deviations in the range of +5.0% to +6.0%, both O'Neil and Schwartz assigned a 0.0% explicit factor for both dividends and deviations in their rate calculations. *DOI-9, Schwartz Prefiled Testimony, pp. 77, AIS-E, p. 9, AIS-2, Sheets 1, 2, 3; DOI-10, O'Neil Prefiled Testimony, pp. 210-211, Exhibit 2, pp. 1-3.*

343. Essentially the same testimony in this case was heard previously in the 2001 auto case. *DOI-9, Schwartz Prefiled Testimony, p. 76.*

344. The testimony in this case indicates, as it did in prior cases, that including an explicit provision in the rates for deviations increases the rates unnecessarily because there is

already within the average manual rate a “savings” provision of +5.0% to +6.0% of premium to provide for deviations. Thus, the Commissioner finds the Bureau’s methodology of including an explicit provision in the rates for deviations will result in excessive rates.

345. The Commissioner finds herein that the issue of dividends and deviations in this case has been heard previously in prior cases, including the 2001 auto case where the former Commissioner found that including an explicit factor in the rates for dividends and deviations would result in excessive rates. The former Commissioner’s order on dividends and deviations was affirmed on appeal. *358 N.C. 539, 597 S.E.2d (2004)*.

346. The Commissioner is not bound by the rulings in the prior cases as those cases did not involve a methodology that violated State ratemaking laws, but, instead was dependent upon the evidence presented. Unfortunately in this case, the Bureau did not make much of an effort to present evidence on dividends and deviations. Moreover, the Commissioner is mindful of the testimony from Bureau witness Donlan that policyholders *in the coastal areas* could pay higher rates if a factor for deviations is included in the rates, but, they would not likely get a corresponding discount.

347. The Commissioner, therefore, finds that, based on the foregoing, the inclusion in the rates of an explicit factor for deviations will result in excessive and unfairly discriminatory rates and is, therefore, rejected.

348. The Commissioner further finds that the average manual rate has within it an implicit provision for “savings” of +5.0% to +6.0% that can be used for deviations.

F. DUE CONSIDERATION OF INVESTMENT INCOME EARNED OR REALIZED BY INSURERS FROM THEIR UNEARNED PREMIUM, LOSS, AND LOSS EXPENSE RESERVE FUNDS GENERATED FROM BUSINESS WITHIN THIS STATE

349. Investment income from unearned premium, loss and loss adjustment expense reserve funds is also referred to as investment income from reserves, investment income from insurance operations and investment income from policyholder-supplied funds. Investment income from reserves is distinguishable from investment income from capital and surplus in that it is included in the profit calculations to compensate policyholders for the lost opportunity cost stemming from the pre-payment of premiums and for the income arising from investing claims reserves held by the insurance company on behalf of the policyholders. Due consideration of investment income from policyholder-supplied funds is required by N.C.G.S. §58-36-10(2).

350. Investment income from policyholder-supplied funds, which is to be included in the underwriting profit calculations, is income that will be earned during the prospective period during which the new rates will be in effect.

351. Because investment income from policyholder-supplied funds is a component of the return from insurance operations, it has a direct impact on the underwriting profit provisions. If the prospective investment income is high, then insurers will require lower underwriting profit provisions in order to meet their projected return on operations. Conversely, if the prospective investment income is low, then insurers will require higher underwriting profit provisions in order to meet their projected return on operations.

352. The investment income that results from policyholder-supplied funds depends upon: (1) the amount of dollars subject to investment; (2) the length of time those dollars can be invested; and (3) the investment rate, or yield, at which those dollars can be invested during the investment period.

1. AMOUNT OF DOLLARS SUBJECT TO INVESTMENT

353. Two different methodologies were proffered regarding the calculation of the amount of unearned premium, loss and loss adjustment expense reserves that will be subject to investment.

354. Bureau witness Appel, as he has done in prior years, used the ISO State X model, with one modification. He removed the reduction for agents' balances from the State X calculation, and, instead included it in his rate of return calculation. ²³ *RB-12, Appel Prefiled Testimony, p. 26; RB-14, pp. 7-10.*

355. Schwartz used essentially the same State X model as Appel with one adjustment related to the deductions made from the unearned premium reserves available for investment. *DOI-9, Schwartz Prefiled Testimony, p. 32, AIS-6, Sheets 1 and 2.*

356. O'Neil utilized a cash flow model to estimate not only the amount of dollars subject to investment, but also the length of time those dollars can be invested. O'Neil's cash flow model measures the percent of premium dollars available for investment during the policy cycle by estimating the cash inflows and outflows of a given policy transaction. The cash inflows and outflows are estimated based upon a number of assumptions regarding the timing of both the receipt of income and the payment of losses and expenses. *DOI-10, O'Neil Prefiled Testimony, pp. 24-26, Exhibit 10.*

357. Conceptually the two methodologies are acceptable. However, the Commissioner will have to make certain modifications to the investment income calculations for agents' balances and prepaid expenses. The State X model is a traditional model used by Appel and Schwartz and the necessary modifications will be easier to make to the State X calculation than

²³ Appel makes a deduction for prepaid expenses in his State X model. *RB-14, p. 7, Lines 3 and 4.* Appel's deduction for agents' balances is not actually in his State X model; he, instead, makes the deduction to the amount of investment income from policyholder-supplied funds in his rate

to O'Neil's cash flow model. Thus, the Commissioner selects the State X model with appropriate adjustments discussed below to estimate the investment income on reserves.

2. THE LENGTH OF TIME THE DOLLARS ARE INVESTED

358. The timing of the investment dollars is reflected in the methodologies in different ways.

359. Appel does not assume that the full amount of reserves is available for investment for the entire prospective period in which the rates will be effective. He, therefore, makes two deductions to account for the unavailability of funds for investment. First, he makes a deduction in the ISO State X calculation from the unearned premium reserves for prepaid expenses, which are expenses that Appel assumes are paid in full at policy inception. Second, he makes a deduction for agents' balances from the amount of investment income from reserves in his rate of return calculation. *RB-12, Appel Prefiled Testimony, p. 26; RB-14, pp. 1, 7.*

360. Schwartz testified that in addition to agents' balances and prepaid expenses, there were other issues that impact the amount of funds that policyholders have to invest. He analyzed P&C industry data for the past nine years and concluded that 90% of the unearned premium reserve was invested and 10% was not invested. He, therefore, made a 10% deduction from the unearned premium reserves in order to determine the amount of funds available for investment.²⁴

DOI-9, Schwartz Prefiled Testimony, p. 33, AIS-14, Sheet 2.

361. O'Neil assumed that the full amount of unearned premium, loss and loss expense reserves were available for investment on Day One of the policy period and that expenses were

of return calculation. *RB-12, Appel Prefiled Testimony, p. 26; RB-14, p. 1, Line 7.* The impact is the same – it lowers the amount of investment income on reserves.

²⁴ Schwartz doesn't label his deduction as a deduction for "agents' balances and prepaid expenses" because he found that other issues impact the amount of investible funds. Thus, Schwartz' deduction is an undesignated deduction that, like Appel's, is meant to recognize that not all policyholder funds are available for investment.

paid over the term of the policy, which is twelve months. Thus, she made no deductions for prepaid expenses and agents' balances in her calculations. *DOI-10, O'Neil Prefiled Testimony, p. 193, Exhibit 7, p. 2.*

362. The Commissioner finds that some deduction from the unearned premium reserve is appropriate because both Schwartz and Appel provided testimony that not all premium is available at the beginning of the policy period for investment. However, while Schwartz analyzed industry data from Best's to select his 10% reduction, the sources for Appel's deductions are less clear. The sources for the prepaid expenses are found in the filing (see RB-1, D-28, RB-15, Sheet 2), however, the source of the deduction for agents' balances is nowhere to be found. Appel's Exhibit RB-14, p. 2, note 7 refers to pp. 7-13, but a review of those pages does not reveal a source for agents' balances.

363. What is particularly troubling is that Appel identifies prepaid expenses on RB-14, p. 8 as "Production costs and a large part of the other company expenses in connection with the writing and handling of homeowners' policies. . . .". The prepaid expenses Appel lists on RB-14, page 7 include basic operational expenses, except that he also makes a deduction of +23.87% for the cost of reinsurance. Reinsurance is not an expense associated with the writing and handling of homeowners' policies. An insurer can still operate, underwrite policies and collect premiums without paying for reinsurance. Reinsurance is insurance protection for the insurer, not an operational expense required for the day-to-day operation of the business. Moreover, as discussed *infra*, there is no evidence as to what the actual reinsurance cost is to the companies writing homeowners' insurance in North Carolina. Appel's cost of reinsurance is purely hypothetical.

364. As a result of the evidence presented on the issue of deductions to the unearned premium reserves, the Commissioner finds that Schwartz deduction of 10.0% is reasonable and verifiable.

3. THE INVESTMENT RATE AT WHICH THE DOLLARS CAN BE INVESTED.

365. The recommendations for the rate or (“yield”) at which policyholder-supplied funds can be invested were fairly consistent.

366. Appel utilized an average of the embedded and current yields resulting in a yield of +3.32%. Appel’s embedded yield of +3.94% is the sum of two ratios shown on RB-14, pages 12, 13. Appel estimated his current yield from the currently available rate of return (including income and expected capital gains) on the P&C industry investment portfolio. *RB-12, Appel Prefiled Testimony, p. 28; RB-14, p. 10.*

367. Schwartz used Appel’s yield of +3.32% (although Schwartz’ profit calculation shows 3.31%) in his own calculations. *DOI-9, Schwartz Prefiled Testimony, p. AIS-14, Sheet 1.*

368. O’Neil reviewed interest rates on various investments including five-year treasury bonds, state and local bonds and Aaa taxable corporate bonds. She also considered Appel’s calculations of the current and embedded yields. As a result, she utilized +3.5% as the expected investment yield.

369. This is not a significant issue and there is not a great amount of testimony to distinguish between the recommendations. The Commissioner, in prior orders, has ordered yields based on current market rates, but has also found that giving recognition to both current and embedded yields may be appropriate.

370. Considering the dearth of testimony on this issue, the Commissioner herein selects the Bureau's estimated yield of +3.32% because that figure is utilized by both the Bureau and Schwartz and it is very close to the +3.5% utilized by O'Neil. The Commissioner finds that a rate of +3.32% is an appropriate rate of return to apply to the investment of reserves.

4. SUMMARY

371. The Commissioner herein adopts a modified State X method, with an appropriate reduction of +10.0% to the unearned premium reserves, to calculate the amount of investment income. The Commissioner herein makes the deductions to the unearned premium reserves for the reasons discussed above and he includes the installment payment income of 0.53%, utilized by all three witnesses, as a source of funds available for investment. The Commissioner further adopts the Bureau's estimated investment yield rate of +3.32% to apply to the amount of reserves available for investment.

372. The Commissioner herein finds that the amount of investment income from reserves derived from the calculations in *Exhibit 1, Section D, p. D-39*, reasonably reflects the prospective amount of investment income on reserves, is supported by material and substantial evidence and will not lead to rates that are excessive, inadequate or unfairly discriminatory.

G. DUE CONSIDERATION OF PAST AND PROSPECTIVE EXPENSES ESPECIALLY APPLICABLE TO THIS STATE

373. Schwartz did not take issue with the expenses in the filing, other than with the age of the data, which only the Bureau can correct. O'Neil, however, took exception to the fixed expenses allocated to the Tenants and Condominium forms as set forth in Section V.A.4.

374. The expenses are also trended in order to estimate the prospective expenses anticipated to occur during the period for which we are setting rates. The Commissioner's decision on the expense trend is discussed *supra*, in Section V.B.4.

H. DUE CONSIDERATION OF ALL OTHER RELEVANT FACTORS WITHIN THIS STATE

1. NET COST OF REINSURANCE

a. Bureau's Case

375. Homeowners insurance is one of several lines of insurance that is subject to the potential for catastrophic loss. A catastrophic event can result in enormous losses, far in excess of what a typical insurer could bear. Thus, insurers in these lines of business routinely purchase reinsurance to manage their exposure to extreme events. *RB-12, Appel Prefiled Testimony, p. 10.*

376. Appel testified that reinsurance comes at a substantial cost because it covers the riskiest portion of the insurance loss distribution, which are the events that occur only rarely but are extremely costly. *RB-12, Appel Prefiled Testimony, p. 11.*

377. Appel contends that since all costs of the risk transfer should be included in the price of insurance and since reinsurance is a "cost" necessary to efficiently manage catastrophe risk, its net cost should be included in the rates for homeowners. *RB-12, Appel Prefiled Testimony, p. 11.*

378. The net cost of reinsurance refers to the expense and profit portion of the reinsurance premium since the loss costs are already included in the calculation of the direct premium. *RB-12, Appel Prefiled Testimony, p. 11.*

379. Bureau witness Appel developed a procedure to estimate the net cost of reinsurance and to incorporate that net cost as an expense into the rates. *RB-12, Appel Prefiled Testimony, p. 11.*

380. Appel's procedure begins with the standard ratemaking assumption used in North Carolina that there is a hypothetical, single company that is the composite of all carriers in this

state. Based on that assumption, Appel then assumes that the hypothetical, single company maintains a reinsurance program typical of property insurers writing in hurricane prone states such as North Carolina, with the following provisions:

- An attachment point equal to the one in ten year hurricane loss event (i.e. the 90th percentile of the statewide loss distribution from AIR). The attachment point is the loss level at which the reinsurer begins to share in the loss.
- A limit equal to the difference between the attachment point and the one in a hundred year event (the 99th percentile of the statewide loss distribution). The limit is the maximum loss amount which the reinsurer will pay under the contract.
- A 5% co-participation in the reinsured layer. Co-participation refers to a provision where the primary insurers share a specified percentage of the reinsured loss.
- Mandatory reinstatement of the original limit following insured events.

RB-12, Appel Prefiled Testimony, pp. 11-12.

381. Appel testified that the provisions of his assumed reinsurance program are based upon his personal experience working with actuaries, risk managers and reinsurance brokers familiar with these types of exposures. *RB-12, Appel Prefiled Testimony, p. 12.*

382. Given the assumed reinsurance program, Appel, using the AIR WSST model with demand surge, determined the amount of losses that would be subject to reinsurance coverage as a share of the total hurricane losses in the state. Based on the reinsured losses, Appel then developed a “competitive market” reinsurance premium. *RB-12, Appel Prefiled Testimony, p. 13.*

383. Once Appel determined the reinsurance premium, he subtracted expected losses and LAE from the premium to leave the net cost of reinsurance of \$569,312,117, which was added as a fixed expense in the rates. The net cost of reinsurance is the total reinsurance premium less the primary insurer's loss and LAE recovery, which is equal to the reinsurer's expense cost plus the cost of the reinsurer's capital. *RB-12, Appel Prefiled Testimony, pp. 13-14; Exhibit RB-15, Sheets 1 and 2.*

384. Appel's calculated net cost of reinsurance as a percent of direct premium is +17.5% and is comprised of reinsurance expense of +3.4% and the cost of reinsurer capital of +14.1%. *RB-12, Appel Prefiled Testimony, p. 13.*

385. Appel estimated that the total reinsurance premium is +23.9% of the statewide indicated direct premium, while the net cost is +17.5% of the indicated direct premium. *RB-12, Appel Prefiled Testimony, p. 14, Exhibit 15, Sheet 2.* The differential of +6.4% (of premium) between the total indicated direct premium and the net cost (+23.9% less +17.5) is what the primary insurers expect to recover from the reinsurers. In other words, according to Appel the primary insurer is paying +23.9% of premium and charging back +17.5% of premium to the policyholders in order to recover losses from rare events of +6.4% of premium. *Appel T.pp. 190-192.*

386. Appel contends that in the past he has compared his own estimates to the actual costs incurred by insurers, and he has found that his estimates are typically consistent with the portions of premium paid by primary insurers to obtain reinsurance coverage in catastrophe prone environments. Thus, Appel believes that his estimates are reasonable. *RB-12, Appel Prefiled Testimony, p. 14.*

387. Appel and Donlan both state that the AIR WSST model was used in the net cost analysis because that's what reinsurers use to price insurance. For that reason, they contend, the WSST is the right model to use. *RB-12, Appel Prefiled Testimony, pp. 12-13; RB-4, Donlan Prefiled Testimony, p. 7.*

388. Appel testified that his procedure to include the net cost of reinsurance in the proposed rate is conceptually the same as the procedure used in Florida. *RB-12, Appel Prefiled Testimony, p. 11.* But on cross-examination Appel indicated that what the insurers do differently in Florida is that they use *their own reinsurance costs* as the basis for the provision included in the rates, whereas, in this case Appel is advocating using a hypothetical model to estimate the net cost. *Appel T, pp. 480-482.* Thus, the net cost provisions that the insurers use in Florida are based on real reinsurance treaties with real costs as opposed to the theoretical reinsurance treaty with the estimated hypothetical cost developed by Appel for this case.

b. Department's Case

389. Department witness Schwartz estimated that the net cost component constituted approximately 22.1% of the indicated Owners base rate, the second biggest component of the indicated rate. *DOI-9, Schwartz Prefiled Testimony, p. 9, Schedule AIS-4, Sheet 16.*

390. Schwartz took exception to Appel's estimated net cost indicating that the main problem with the estimate was that it was "a completely made up value based upon unsupported hypothetical assumptions." *DOI-9, Schwartz Prefiled Testimony, p. 57.*

391. The Bureau was requested to provide copies of the actual reinsurance agreements for each company writing homeowners' insurance in North Carolina, but the Bureau replied that it did not have the documents. *DOI-6, RFPD #1, Item 46; DOI-9, Schwartz Prefiled Testimony, p. 57.*

392. Appel testified that his hypothetical reinsurance program is “typical” of property insurers in North Carolina. However, Appel failed to provide any documentation regarding actual reinsurance agreements or comparisons to actual reinsurance agreements. Instead Appel responded to RFPD #1, Item 48 that “there are no specific documents to provide” and that his testimony “reflects the many years of working experience in the area of Property and Casualty insurance.” Moreover, he admitted on cross-examination that he hadn’t “looked at the reinsurance programs in North Carolina for any of the companies.” It is **questionable** as to how Appel would know what a “typical” reinsurance program is for North Carolina homeowners if he hasn’t reviewed any of the reinsurance agreements for any of the companies. *DOI-9, Schwartz Prefiled Testimony, p. 59; RB-12, Appel Prefiled Testimony, p. 12; T.p. 513.*

393. In addition to not producing any reinsurance agreements, Schwartz opined that Appel was unable to produce any of the publicly available information or documents he allegedly reviewed in making his assumptions, nor was he able to produce the comparisons he made of his estimated net cost to the actual costs incurred by insurers. *DOI-6, RFPD #1, Item 48; DOI-9, Schwartz Prefiled Testimony, pp. 58-59.*

394. Schwartz testified that it is common practice in other states for companies to produce the reinsurance agreements when they have added a provision for net cost into the rate. He also stated that California has a regulation that requires submission of reinsurance agreements. *DOI-9, Schwartz Prefiled Testimony, p. 59.*

395. Schwartz contends that the net cost should not be included in the rates in this case because the documentation requirements of Actuarial Standards of Practice No. 29 and No. 41 have not been met. He found the complete lack of documentation for a component constituting

22.1% of the indicated rate (Owners form) to be astounding. *DOI-9, Schwartz Prefiled Testimony, pp. 60-62.*

396. Schwartz also claimed that many of Appel's assumptions and the results of his calculations were unreliable. For example:

- Appel relies on the results of the WSST hurricane model, which produces higher results than the STD model, because reinsurers use this model to price their product. *Appel T.pp. 509-511.*
- Appel claims reinsurer profit as a percent of premium should be +52.0% (RB-15, Sheet 2, Line 11) or more than one half the reinsurance premium. A profit provision of +52.0% means a combined ratio of reinsurance company losses and expenses of +48.0%. Schwartz testified that actual combined ratios are much higher, meaning that, in reality, reinsurer profit is lower than Appel claims.
- Appel's model is based upon the assumption that insurance companies make decisions by evaluating each line of business and each state separately. However, that is not how insurance companies evaluate reinsurance as a part of a complete risk management program. Instead companies evaluate the overall holistic nature of the risks undertaken, considering that adverse results in one state or line of business can be offset by favorable results in another state or line of business.
- According to Appel, reinsurance costs for North Carolina homeowners insurance increased by +57% from the 2008 filing to the 2012 filing (a change in the net cost of reinsurance per policy of \$90.68 to \$142.21), and then again by 3.0% from 2012 to the 2014 filing (\$142.21 to \$146.63). Schwartz testified that reinsurance

costs have been flat to decreasing for the past five years and that during the most recent periods in 2014 reinsurance costs have dropped in the range of 20.0%.

DOI-9, Schwartz Prefiled Testimony, pp. 63-64.

397. Schwartz' contention that insurance companies can offset adverse results in one state or one line of business by favorable results in another state or line of business would impact the appropriate amount of reinsurance to obtain. Schwartz indicated that the Bureau's reinsurance was assumed to attach at a 1 in 10 year event, (RB-12, Page 12), which is about \$629 million (\$538 million before trend). (*Response to DR#1, Item 170*). Schwartz then compared the \$629 million to various financial data for the Bureau companies writing homeowners insurance in North Carolina. He found that during 2012, the top 50 homeowners' insurers in North Carolina had:

- Net earned premiums of about \$114 billion. (RB-1, E-11). A \$629 million attachment point is 0.6% of this amount.
- Admitted assets of about \$317 billion. (RB-1, E-338). A \$629 million attachment point is 0.2% of this amount.
- Surplus of about \$131 billion. (RB-1, E-340). A \$629 million attachment point is 0.5% of this amount.

DOI-9, Schwartz Prefiled Testimony, p. 64.

398. Schwartz concluded that given the vast financial resources of insurance companies writing homeowners' insurance in North Carolina, a \$629 million attachment point appears low as it is less than 1% of various measures of financial strength for the composite company. A low attachment point increases the amount for the net cost of reinsurance. *DOI-9, Schwartz Prefiled Testimony, p. 65.*

399. Schwartz also provided support for his contention that reinsurance prices have been dropping by quoting commentary from Guy Carpenter, Willis Re. Aon Benfield, A.M. Best, and Lane Financial. *DOI-9, Schwartz Prefiled Testimony, p. 65-68.*

400. It is noted that Appel also acknowledged that prices have dropped in the market. However, when Appel was questioned on cross-examination on how the drop in price was reflected in his net cost recommendations, he indicated that his model doesn't "track the vicissitudes of the reinsurance market" and is "independent of the ups and downs of the market." Thus, the drop in reinsurance prices is not reflected in his model. *Appel T.pp. 609-610.*

401. Schwartz also noted that the cost of reinsurance for the Beach and FAIR plan has dropped dramatically in recent years. Reinsurance as a percent of premium for the Beach/FAIR Plan decreased by -24% from 2011 to 2012, -6% from 2012 to 2013 and -19% from 2013 to 2014. The cumulative decrease from 2011 to 2014 was -42%. *DOI-9, Schwartz Prefiled Testimony, p. 69.*

402. Schwartz also testified that the Bureau includes its own profit load on top of Appel's net cost. The Bureau is adding in additional profit for North Carolina homeowners' insurance companies of over \$65 million that is being charged to policyholders as a result of risk being transferred away from North Carolina homeowners' insurance companies to reinsurance companies. Schwartz complains that this doesn't make sense because reinsurance reduces risk for insurance companies, and, if anything, that should reduce the amount of profit that insurance companies can charge to policyholders. *DOI-9, Schwartz Prefiled Testimony, pp. 70-71.*

403. Schwartz also takes exception to Appel's statement regarding the reliance by reinsurers on hurricane models that use substantially higher frequencies and/or severities (WSST), to reflect the widespread recognition that we are currently in a phase of increased

activity in the hurricane cycle. Schwartz opines that while Appel claims to be aware of what reinsurers are doing, he hasn't provided documentation in the filing. Moreover, Schwartz argues that actual evidence shows that we are not in a period of increased hurricane activity. *DOI-9, Schwartz Prefiled Testimony, pp. 71-74.*

404. It should be noted that Appel admitted he doesn't have personal knowledge of what reinsurers do. *Appel T.pp. 509-511.* He also testified that he has no background in meteorology and cannot render an opinion as to whether 2014 is still in a period of warm sea surface temperatures. *Appel T.pp. 474-475, 510.*

405. Schwartz opines that given the complete lack of information and documentation regarding reinsurance costs for North Carolina homeowners that it would be appropriate to use a net cost of \$0.00 in the rate calculation. However, he indicates that if the Commissioner is inclined to include a net cost, he would recommend 10% of premium, which is consistent with historical data regarding the net cost of reinsurance for homeowners' insurance. Schwartz notes that the indicated rate change derived by the Bureau is overstated by 21.9% overall as a result of Appel's excessive net cost of reinsurance. *DOI-9, Schwartz Prefiled Testimony, pp. 74-75.*

406. Department witness O'Neil defined reinsurance simply as insurance for insurance companies and she provided some general background information on reinsurance and the net cost. *DOI-10, O'Neil Prefiled Testimony, pp. 87-92.*

407. O'Neil indicated that when a primary insurer purchases an insurance policy from a reinsurer, the primary insurer is transferring some of the risk which it accepted from its policyholders to the reinsurer. The policyholder has no knowledge of the reinsurance transaction and is not a party to the reinsurance transaction. *DOI-10, O'Neil Prefiled Testimony, p. 88.*

408. Catastrophe reinsurance is a particular type of reinsurance known as “property excess of loss occurrence based reinsurance.” It generally covers low frequency-high severity perils such as hurricanes, earthquakes, and or disasters. *DOI-10, O’Neil Prefiled Testimony, p. 89.*

409. The primary insurer pays for reinsurance by ceding a portion of the premium collected from its insureds to the reinsurer in return for payment of losses in accordance with the terms of the reinsurance agreement. *DOI-10, O’Neil Prefiled Testimony, p. 89.*

410. The net cost of reinsurance has been defined in the actuarial literature as the reinsurance premium less expected losses. *DOI-10, O’Neil Prefiled Testimony, p. 90.*

411. O’Neil indicated that historically the net cost of reinsurance was implicitly reflected in the direct ratemaking process. However, recent actuarial literature, which emerged along with the literature on catastrophe modeling, indicates that implicit recognition of the cost of reinsurance is insufficient and that an explicit provision should be passed along to the primary insureds. O’Neil stated that in high catastrophe states it may be reasonable to pass some of these costs directly to the primary insureds. *DOI-10, O’Neil Prefiled Testimony, p. 90.*

412. O’Neil, however, found that there were a number of reasons why it is not reasonable to include the estimated net cost of reinsurance in this filing as follows:

- As stated in the actuarial literature, the direct ratemaking process implicitly reflects reinsurance costs;
- It appears that there is no limit to the costs which an insurer may incur for reinsurance and then pass on to its primary policyholders;
- The amount of reinsurance purchased is highly dependent on modeled catastrophe losses. To the extent that modeled losses are incorrect, as was determined in this

case, the net cost of reinsurance would be incorrect as well. Any costs for unnecessary reinsurance should not be passed on to consumers.

- A measurement of the true net cost of reinsurance is unavailable, mainly because reinsurer data are not available which split the premium into its underlying components. Thus, the net cost must be estimated using a myriad of assumptions.

DOI-10, O'Neil Prefiled Testimony, pp. 91-92.

413. The Bureau only began to include a net cost for reinsurance in its filings in 2002.

DOI-10, O'Neil Prefiled Testimony, p. 92.

414. O'Neil reviewed the model created by Appel to estimate the net cost in this filing. She also reviewed discovery materials and related materials in prior filings beginning in 1998.

DOI-10, O'Neil Prefiled Testimony, pp. 92-93.

415. O'Neil found that Dr. Appel provided limited or no documentation regarding the data, assumptions, and methodologies underlying his analysis and that his net cost of reinsurance estimate is based on a proprietary model which was not available for review. There was no ability to test alternative assumptions or parameters. Many of the data responses were addressed through a numeric data output file from Dr. Appel's model. The data file added little insight into the derivation of the estimated net cost of reinsurance. *DOI-10, O'Neil Prefiled Testimony, p.*

94.

416. In reviewing prior filings back to 2002, O'Neil found a pattern of increasingly higher loadings in the base rates for the net cost. The loadings began small, about 4.0% in 2002 and 2005, but then increased dramatically approaching almost 28% in 2006. The loading for the net cost has remained at *high* levels since 2006. *DOI-10, O'Neil Prefiled Testimony, p. 95.*

417. O'Neil identified several issues regarding Appel's net cost including:
- a. Documentation and Support;
 - b. The Appel Proposed Reinsurance Program;
 - c. Utilization of the AIR WSST Model as a Basis for the Net Cost of Reinsurance.
 - d. Utilization of a 'Scaling' or Trend Factor;
 - e. The Values of Selected Parameters (such as the return on equity, return on surplus, and premium to surplus ratio);
 - f. Utilization of the 'Primary Company' Ratemaking Formula;
 - g. Formula for Inclusion of the Net Cost of Reinsurance in the Proposed Rate Bureau rates;
 - h. Reasonableness of the Resulting Net Cost of Reinsurance Value;
 - i. Interaction of the Net Cost of Reinsurance with the Beach Plan and Compensation for Assessment Risk;
 - j. The Derivation of the Expected Value of Total Indicated Premium; and,
 - k. Irrelevant from Market Conditions.

DOI-10, O'Neil Prefiled Testimony, pp. 96-97.

418. With regards to issue No. 1 (that is, "a"), Documentation and Support, O'Neil found that the net cost calculation lacked the basic documentation necessary for complete review. Specifically, O'Neil complained that request for assumptions, explanations, or formulas regarding the derivation of any numerical values in any data column were answered by reference to a massive data file with thousands of rows and multiple columns of numbers with no

corresponding explanation. Thus, the data files were not meaningful. *DOI-10, O'Neil Prefiled Testimony, pp. 97-99; T.p. 1342-1374.*

419. With regards to issue No. 2 (that is, "b"), The Appel Proposed Reinsurance Program, O'Neil analyzed the program and performed a comparative analysis with all prior filings beginning with 2002. O'Neil found that over the many filings:

- Appel's reinsurance program was not adequately documented or supported;
- That the changes to his program were not adequately documented or supported;
- That in 2012 Appel began incorporating a "scaling" or trend factor which may increase the net cost value;
- Appel's reinsurance program may be incomplete because it ignores inuring (or contributing) reinsurance from other contracts within the overall reinsurance program;
- There is no such thing as a "typical" reinsurance program; and
- Any publicly available information is not consistent with Appel's program.

420. With regards to issue No. 3 (that is, "c"), The Utilization of the AIR WSST Model as a Basis for the Net Cost of Reinsurance, O'Neil concluded that higher values produced by the WSST merely result in a higher net cost without justification, and, that generally the WSST should not be used to estimate hurricane loss values.

421. With regards to issue No. 4 (that is, "d"), Utilization of a 'Scaling' or Trend Factor, O'Neil concluded that due to lack of documentation, she could not fully evaluate this issue although the procedure appears inappropriate.

422. With regards to issue No. 5 ("e"), The Values of Selected Parameters, O'Neil reviewed a number of selected and calculated parameters from Appel's calculations on RB-15,

Sheet 1, page 1 and determined that many of the parameters were not adequately documented or were not appropriate. 423. With regards to issue No. 6 (“f”), Utilization of the ‘Primary Company’ Ratemaking Formula, O’Neil asserted that Appel attempts to apply the basic ratemaking formula for a ‘primary company’ to a reinsurer. After reviewing external sources she concluded that this application is contrary to standard practice for reinsurers’ catastrophe ratemaking.

424. With regards to issue No. 7 (“g”), Formula for Inclusion of the Net Cost of Reinsurance in the Proposed Rate Bureau Rates, O’Neil analyzed the formulas from each of the historical rate filings and compared the methodologies. O’Neil noted the various changes in the filings and the resulting changes to the net cost values. The values have increased dramatically since 2002 with the biggest jump occurring between the 2005 and 2006 filings.

425. With regards to issue No. 8 (“h”), Reasonableness of Resulting Net Cost of Reinsurance Value, O’Neil opined that Dr. Appel provided no documentation of his assertion that there was external support for the reasonableness of his net cost of reinsurance value. She, therefore, analyzed the cost of reinsurance for both Allstate and the Beach Plan and found that the net cost of reinsurance value as stated by Dr. Appel is unreasonable in magnitude.

426. With regards to issues No. 9 and 10 (“i” and “j”), Interaction with Beach Plan and Compensation for Assessment Risk, and the Derivation of the Expected Value of Total Indicated Premium, O’Neil compared the total indicated premium found on RB-15, Sheet 2, Line 11, with the values on RB-1, A1 multiplied by the indicated rate change and found the values nearly match. She concluded that the total indicated premium must include deviations and compensation for assessment risk.

427. With regards to issue No. 11 (“k”), Irrelevant from Market Conditions, O’Neil noted that it is well known that reinsurance rates have declined significantly. *DOI-10, O’Neil Prefiled Testimony, pp. 97-160.*

428. In general, O’Neil found that Appel made various changes to his model over time that were mostly undocumented and that resulted in significant increases in the estimated net cost from \$58 million in 2002 to \$569 million in 2014. She found that the significant increases (a ten-fold increase in reinsurance costs from 2002-2014) were not supported by external evidence. She concluded that the Bureau estimated net cost of reinsurance is overstated and out of touch with real world reinsurance pricing. *DOI-10, O’Neil Prefiled Testimony, pp. 160-163, Exhibit 10, pp. 1-2.*

429. O’Neil was not able to directly utilize Appel’s model to test the results because the model lacked adequate documentation. She did apply as many limited variations as possible in order to make her own estimate of the net cost. Ultimately, O’Neil reduced the net cost of reinsurance to \$50 per policy or an aggregate net cost of \$185 million. This value equates to about 9% of O’Neil’s projected premium. *DOI-10, O’Neil Prefiled Testimony, pp. 163-169.*

430. Department witness Bennett, the only witness in the case whose primary work experience over the last 32 years has been in the reinsurance industry, also reviewed Appel’s reinsurance program. He did not make his own estimate of the net cost of reinsurance but did provide some commentary on Appel’s program.

431. Bennett, like O’Neil and Schwartz, expressed concern over Appel’s lack of documentation in his testimony. Bennett opined that Appel seemed to be relying on his associations with other professionals to support the assumptions he made in developing his program. *DOI-11, Bennett Prefiled Testimony, p. 5.*

432. Bennett expressed concern over Appel's experience in the reinsurance field. He noted that Appel's educational and professional experience indicate he is an expert in economics, *not reinsurance*. His extensive list of papers and publications in his CV (curriculum vitae) are primarily related to workers' compensation. Bennett testified that Appel's background does not indicate that he has obtained the technical and practical expertise in the reinsurance industry to perform a "net cost of reinsurance" projection as he has done in this case. *DOI-11, Bennett Prefiled Testimony, p. 6.*

433. Bennett indicated that he would not stereotype an insurance company or its reinsurance program as "typical." Companies need to protect their policyholders' surplus from catastrophic losses, but, this would make them similar in their goals, not "typical." *DOI-11, Bennett Prefiled Testimony, p. 6.*

434. Bennett further indicated that Appel, in order to support his assumptions regarding a typical reinsurance program, would have had to demonstrate:

- That he reviewed/analyzed the reinsurance programs of other insurance companies in North Carolina, and
- That he compared and contrasted the reinsurance programs with his "typical" reinsurance program to ensure that his "typical" reinsurance program is representative of reinsurance programs for insurance entities writing property lines on business in North Carolina.

Appel did not present any evidence that he did either of these things. *DOI-11, Bennett Prefiled Testimony, p. 7.* In fact, as noted previously, Appel testified on cross-examination that he had not looked at the reinsurance programs in North Carolina for any of the companies. *Appel T.p. 513.*

435. Bennett noted that companies who write in what Dr. Appel labeled as “hurricane-prone” states do not all have similar insured risks and that, therefore, they would have different types of reinsurance programs. Dr. Appel, however, did not address this in his discussion regarding his identification of North Carolina as a “hurricane prone” state.

436. Bennett said that he would have compared and contrasted those companies who do write in coastal areas of North Carolina and he would have described the size of the insurer and types of business they write, where they write and their reinsurance programs. He would have also reviewed and described both:

- Large insurers (over a certain asset size) with reinsurance programs that are well capitalized such as State Farm, Allstate, and Nationwide who write both inside and outside of North Carolina, and in different areas of the state as well as in other states; and,
- Smaller insurers with reinsurance programs in the State who also may write in coastal and non-coastal areas – both inside/outside of the state.

DOI-11, Bennett Prefiled Testimony, p. 7.

437. Bennett testified that he could not ascertain whether Appel’s estimate of the cost of reinsurance was reasonable since Appel did not provide any support. Appel did not provide any details of comparisons to actual reinsurance costs in the marketplace. Appel did not perform a “needs analysis” regarding reinsurance which is a process that insurers go through annually to determine their reinsurance needs. Appel did not appear to review current market data which would have shown that the cost of catastrophe reinsurance appears to have been declining in recent years. *DOI-11, Bennett Prefiled Testimony, pp. 10-11.*

438. Bennett also summarized certain findings from a recent decision in a Massachusetts property case which he found instructive.²⁵ The presiding officers in the case found that the MPIUA failed to meet its burden of proof to:

1. "...demonstrate that the costs of reinsurance that were incorporated into its proposed rates fall within a range of reasonableness and will produce rate that are not excessive."
2. "The record does not demonstrate that the MPIUA engaged in a meaningful process to determine its reinsurance needs..."²⁶

439. Bennett indicated that, specifically, the following issues (among others), which are applicable to Dr. Appel's computation, were raised in the Massachusetts case:

- An analysis of the availability and price of reinsurance was not performed;
- A reinsurance needs analysis and how much to place was not performed;
- An analysis based on different categories of catastrophe events such as a 4 or 5 category hurricane was not performed; and
- An analysis which did not use a catastrophe model but utilized other factors was not performed.

DOI-11, Bennett Prefiled Testimony, p. 12.

²⁵ The Commissioner fully recognizes that the Massachusetts case referenced herein by the expert witness is merely instructive and potentially persuasive, but certainly not controlling legal precedent here in North Carolina.

²⁶ Decision and Order on the Massachusetts Property Insurance Underwriting Association 2013 Rate Filings, Docket No. R2013-01., pp. 24-31, 34.

440. Bennett summarized his testimony by indicating that he is not convinced that Appel's qualifications are sufficient to support his development of the reinsurance program he has recommended in this case. He also indicated that Appel did not provide sufficient information to allow a proper evaluation of his program, nor did he provide any indication that he compared his program and the cost of his program to other programs in the marketplace. *DOI-11, Bennett Prefiled Testimony, p. 13.*

c. Net Cost of Reinsurance – Summary

441. The evidence in this case is that the net cost of reinsurance is a large portion of the indicated rate, at approximately 22.1%. It is the second biggest component of the indicated base rate next to the actual non-hurricane losses at 32.1%. The net cost, consisting of reinsurer expenses and profit but not reimbursement to primary insurance companies for hurricane losses, is intended to allow companies to purchase reinsurance to cover some portion of the total hurricane losses. The net cost amount proposed by the Bureau is actually almost double the amount that the Bureau has included for hurricane losses (which is 11.9% of the indicated base rate). As noted previously, the Commissioner has found the hurricane loss projections to be overstated. Given the magnitude of the impact that this one factor has on the indicated rates, it would be expected that the documentation and testimony in support of the net cost would be complete and meticulous. Such was not the case with this filing. All three Department witnesses complained about the lack of documentation and provided numerous examples where documentation was lacking. *See DOI-9, DOI-10, DOI-11.*

442. Moreover, Appel was stipulated as expert in Economics. It is noteworthy by the Commissioner that in the approximately 150 cases in which Appel has appeared or provided testimony, it appears that Appel has *only* estimated the net cost of reinsurance in North Carolina.

The procedure he developed to estimate the net cost has *only* been used in North Carolina. *Appel T.pp. 470-471, 480.*

443. Appel testified that the provisions of his proposed reinsurance program were based upon his “experience working with actuaries, risk managers and reinsurance brokers familiar with these types of exposures.” However, when asked specifically who these professionals were that he had worked with, the only names he offered were Curry, Donlan, and Bryon Ehrhart (hereinafter “Ehrhart”). Appel admits that he didn’t speak with Ehrhart regarding this specific homeowners’ filing. However, on rebuttal, Appel testified that he relied upon Ehrhart’s review and rebuttal testimony in the 2011 Dwelling hearing, as well as conversations with Ehrhart outside of the Dwelling hearing as support for his proposed reinsurance program. The Bureau then, over objections by Department counsel, had the transcript of Ehrhart’s rebuttal testimony from the 2011 Dwelling hearing entered into evidence as Exhibit RB-41. *RB-12, Appel Prefiled Testimony, p. 12; T.pp. 470, 490-497; O’Neil T.pp. 2215-2216.*

444. Appel also introduced Exhibit RB-32 on rebuttal to support his net cost methodology. Exhibit RB-32 was a paper by an actuary, Eric Huls (hereinafter “Huls”), that O’Neil had actually reviewed for her testimony regarding reinsurance. Appel used the Huls paper to show that the method to include the net cost of reinsurance in the rates is exactly what Appel proposes in the filing. *Appel T.pp. 1983-1992.* O’Neil countered Appel’s rebuttal testimony by introducing Exhibit DOI-13 in her rebuttal. Exhibit DOI-13 consists of explanations as to why Appel’s methodology *differs* from the Huls paper, which is primarily due to the assumption underlying the Huls methodology that there is an insurer who has negotiated an actual reinsurance program with an actual reinsurance premium that was paid for by the

insurer. With Appel's reinsurance program and reinsurance, there are no actual values – everything is hypothetical. *O'Neil T, pp. 2254-2271.*

445. In addition to the documentation and testimonial issues, there is significant concern regarding Appel's use of the WSST model for the net cost of reinsurance. There has been a great deal of evidence that the STD modeled hurricane losses are overstated; the WSST results are 41% higher than the STD modeled hurricane losses in the filing. There was also evidence presented that the WSST was developed to capture the correlation of SSTs with hurricane activity – but the scientific underpinnings of this alleged correlation is still very much debated. AIR's own report indicates the correlation is weak. *See RB-6B, p. 5.* Furthermore, Appel's rationale for using this model is that reinsurers use the WSST model. Even if it were true, and Appel has no personal knowledge that it is, reinsurers would use the WSST as the basis for setting the price of reinsurance, but price is always negotiable. *Appel T.p. 514.* Consequently, there is no evidence that the primary insurers are actually paying the prices set by reinsurers based upon the WSST losses.

446. Appel introduced other Exhibits on rebuttal to support his proposed net cost of reinsurance, however, they don't need to be detailed here. Basically what the Commissioner was presented with in regards to the net cost of reinsurance was a hypothetical model, poorly documented, that was developed by an economist with no discernible background in reinsurance other than vague associations with other professionals who may have some reinsurance experience. Although market information was produced on rebuttal to support model input, the model does not reflect the significant price decreases in the market over the past couple of years because the model is not market-based. Moreover, the reinsurance model utilizes the AIR WSST model to estimate losses; however, the scientific underpinnings of the WSST are debatable and

the WSST results in significantly higher losses than the STD model, which produced losses in this filing that the Commissioner has already found excessive.

447. Given all of the issues set forth above, and the fact that the proposed net cost of reinsurance represents 22.1% of the base rate for Owners, the Commissioner can only conclude that the Bureau has not met its burden of proof with regards to the reinsurance component of the indicated rates. Schwartz recommended that, in light of the Bureau's failure to support its net cost of reinsurance provision, it would be appropriate to use a net cost of reinsurance of \$0 (zero). The Commissioner does agree the \$0 might be appropriate, *however, North Carolina is exposed to hurricanes* and, without a doubt, insurers have sought to protect themselves from hurricane claims in North Carolina by purchasing reinsurance, a fiscally prudent decision and sound business practice. Thus, the Commissioner considers it reasonable to include some factor above \$0 in the rate for the net cost of reinsurance.

447a. O'Neil states that the source cited by Rate Bureau expert Appel to support the premium to surplus ratio, which adds together the experience of about 65 U.S.-based reinsurers included one company that had such unusual data that excluding just that one company from the total produces a revised ratio of 0.482. *O'Neil, T. p. 2284.*

447b. The Commissioner finds upon analysis of RB-31, which shows financial data for the years 2007-2013 for about 20 Bermuda based reinsurers, that the average premium to surplus ratio (net written to beginning surplus) for those insurers writing at least 10 percent of their business in the property catastrophe market was 0.575 over the seven year period. Appel proffers that only reinsurers writing more than 60% of their business in the property cat market should be considered. The Commissioner calculates that the average net premium to beginning surplus for these companies averages 0.322 over the seven years, and 0.378 over the last two years, but

notes that *only two reinsurers satisfy this criterion*, and questions the reliability of averages based on only two companies. The Commissioner also notes the Rate Bureau in its support for its filed ratio 0.30 used a source that accumulated the experience of all US reinsurers whether they wrote any property catastrophe reinsurance or not.

447c. The Commissioner heard no evidence that the selected attachment and exhaustion points of \$538,296,809 and \$5,740,531,793, respectively, were the only ones that were possible or reasonable. The Commissioner calculates that the ceded STD losses, for example, would be \$121 million rather than \$158.1 million had the attachment point been \$750 million and the exhaustion point \$7.5 billion, with the same 5% retention as was assumed in the RB model. By formula, lower ceded losses would produce a lower net cost of reinsurance.

447d. The Rate Bureau trends the hurricane modeled losses by the same pure premium trends by form that are used elsewhere in the filing for non-hurricane losses. The Commissioner finds this practice highly questionable. The trends used on non-hurricane losses are based on patterns of actual loss history that do not include hurricane losses, actual or modeled.

448. Schwartz has proposed a factor of 10% of premium, based upon an analysis of historical countrywide data of the entire homeowners insurance industry over the last 28 years. This data shows that over the years 1992-2013 the average ratio of ceded premium to direct premium was 9.7%. *DOI-9 Schwartz prefiled testimony, AIS-21* Appel testified that 10% is too low because the data is countrywide and that North Carolina is riskier than the United States as a whole, meaning that North Carolina needs more catastrophe reinsurance than the average state and hence a higher ceded premium to direct premium ratio. However, the Commissioner notes that Appel testifies elsewhere that the standard deviation of losses is an accepted measure of risk, and that Schwartz shows that North Carolina had a standard deviation of its homeowners

operating results over the years 1985-2012 of 27.0, which is only slightly above the average standard deviation across all the states, which the Commissioner calculates to be 25.3. The range goes from 6.7 (Vermont) to 139.7 (Hawaii). . *Appel T.pp. 1996-1998.*

449. Schwartz, however, testified that pursuant to N.C.G.S. §58-36-10(2) countrywide data may be used where North Carolina experience is unavailable. The countrywide data that Schwartz used included all types of reinsurance, not just catastrophe insurance. Therefore, the data in DOI-9, AIS-21 sets an upper bound for catastrophe reinsurance. Thus, if catastrophe reinsurance were able to be separated out of the data, it would provide a lower number. *Schwartz T.pp. 1090-1091.*

450. In response to Schwartz' reliance on countrywide data, Appel proffered Exhibit RB-33 on rebuttal, which shows that the North Carolina Farm Bureau, which only writes policies in North Carolina, has paid in excess of 40% of direct premium for reinsurance. However, upon cross-examination it was determined that the data included large amounts of non-catastrophe reinsurance in all but one of the years shown rendering its usefulness for comparison purposes nil. *Appel T.pp. 1999-2000.*

451. The Commissioner, however, has concluded that it is not appropriate to set a provision for the net cost of reinsurance for the aggregate company used for ratemaking based upon data presented for only one company. Moreover, the Supreme Court determined that using the experience of one carrier does not establish the requisite composite of experience for all carriers. *See Foremost Insurance Co. v. Ingram, 292 N.C. 244, 232 S.E.2d 414 (1977).*

452. Schwartz provides a reasonable measure to set the net cost of reinsurance at 10% of premium given that we do not have actual composite North Carolina data available, and that

the countrywide data on DOI-9 AIS-21 provides a reasonable benchmark to North Carolina because of similar measures of risk. *Supra*, 448

453. Thus, based on the foregoing, the Commissioner finds that the Bureau's proposed net cost of reinsurance is excessive and will result in excessive rates.

454. The Commissioner, taking into account the above and the undisputed fact that North Carolina is a coastal state prone (like its sister states in the southeastern United States) to hurricanes and tropical storms, finds that a net cost of reinsurance of 10% of premium is reasonable and will result in rates that are not excessive nor inadequate.

2. ALLOCATION BY ZONE

455. Appel testified that while North Carolina is subject to substantial hurricane exposure, that catastrophe potential differs significantly from region to region within the State. Appel identified coastal counties as being at greater risk for hurricanes than the mountainous regions. Appel indicated that since the need for reinsurance arises as a result of catastrophe exposure, regional differences in relative risk should be taken into account when determining the allocation of reinsurance costs within the State. *RB-12, Appel Prefiled Testimony, p. 14.*

456. Appel developed a general simulation model that calculates regional differences in risk within North Carolina. He used this model to allocate both the net cost of reinsurance and the underwriting profit to the different homeowners' territories in the State. *RB-12, Appel Prefiled Testimony, p. 15.*

457. Appel, however, did not allocate the net cost and profit according to the territories that have been proposed in this filing. He instead created "zones" in which he aggregated the territories for purposes of allocating profit and net cost. *RB-12, Appel Prefiled Testimony, p. 15.*

458. Appel used a different zone configuration than was previously used in North Carolina property rate filings. In prior filings, three zones were used for allocation where a single Zone 1 included all the beach and coastal territories. However, the Subcommittee in reviewing more detailed territory level hurricane loss cost estimates, determined that there were significant differences in the expected loss costs between some of the territories in the beach and coastal areas, such that combining them into a single zone seemed inappropriate. The Subcommittee, therefore, decided to reconsider and ultimately amend the zone definitions to further partition the beach and coastal territories into two separate zones. *RB-12, Appel Prefiled Testimony, p. 15.*

459. As a result of the Subcommittee's decision to further partition the beach and coastal territories into two separate zones, Appel created the following zones: Zone 1a – beach (Territories 110, 120 and 140); Zone 1b – coast (Territories 130, 150, 160, 190 and 200); Zone 2 – central (Territories 170, 180, 210, 220, 230, 240, 250, 260, 270, 280, 290 and 300); and Zone 3 – mountains (Territories 310, 320, 330, 340, 350, 360, 370, 380 and 390). *RB-12, Appel Prefiled Testimony, p. 12.*

460. To analyze the regional differences in risk and allocate reinsurance costs and profit to zone, Appel developed another model, which he describes in his testimony. The Commissioner will *not* discuss the technical aspects of the model herein because the Commissioner finds that there is a problem with the creation of the zones.

461. Zone 1b, which Appel has named “coast” includes three counties, Columbus, Duplin, and Lenoir (Territories 190 and 200) that are not considered statutory Beach Plan counties pursuant to N.C. Gen. Stat. §58-45-5. Moreover, Carteret County (Territory 140) which is considered a “coastal” county under the statutory Beach Plan, was assigned to Zone 1a with

the “beach” areas under the statutory Beach Plan. This is a concern, particularly, for the three non-Beach Plan counties that have been moved into Zone 1b. The Beach Plan counties have protection from extreme rate increases by purchasing insurance through the Beach Plan, which can charge no more than a 15% surcharge above the Bureau manual rate. Counties that don’t fall under Beach Plan jurisdiction, however, are subject to consent-to-rate (hereinafter “CTR”) which allows companies to individually charge policyholders *up to 250%* above the manual rate. So, Columbus, Lenoir and Duplin counties -- by being grouped into Zone 1b -- are being treated like Beach Plan counties, but they *don’t* get the corresponding benefit of access to Beach Plan insurance. *See N.C.G.S. §58-45-5(2), (2b); N.C.G.S. §58-45-45(a1); 11 NCAC 10.0602(a)(4).*

462. Appel’s answer to this concern was that the terms “beach” and “coast” as used in his testimony were misinterpreted. He indicated that he did not mean to refer to the statutory terms of art utilized here in North Carolina and that had he actually meant the statutory “beach” and “coast” he would have capitalized both terms. *Appel T.pp. 585-587.*

463. Appel’s answer was disingenuous in that it doesn’t comport with prior filings where the “coastal” zone (uncapitalized) was comprised only of Beach Plan counties. It also doesn’t comport with references that Appel made in his own testimony in this filing, or with the Beach Plan statutes where “beach” and “coast” are found uncapitalized in numerous provisions. It also does not comport with common usage of those terms in this State.

464. Moreover, it is clear by Appel’s answer that neither he nor the Subcommittee gave any thought to whether it was fair to saddle non-Beach Plan counties with higher costs, which Appel testified are associated with “coastal areas” rather than “interior” areas. *RB-12, Appel Prefiled Testimony, pp. 14-15.*

465. In addition, O'Neil took exception to Appel's zone allocation. She found the allocation of more than 40% of the nearly \$1 billion of underwriting profit and net cost of reinsurance to Zone 1a to be unreasonable on its face. She also found that the zone allocation methodology adds yet another layer of simulation modeling, using an undocumented and flawed model, to the already predominantly modeled projected expected loss costs. The final projected expected loss costs may no longer have any resemblance to reality. *DOI-10, O'Neil Prefiled Testimony, p. 219.*

466. O'Neil also did not agree with the rationale for allocating profit and net cost to zone. O'Neil noted that from an overall level, the Bureau relates the amount of profit to the willingness of investors to supply capital. In that regard, investors are only concerned with overall company profit, not the specific areas from which it may arise. She concluded, therefore, that there is no need to further allocate profit in order to attract capital. *DOI-10, O'Neil Prefiled Testimony, p. 216.*

467. O'Neil also opined that, as with Appel's testimony on net cost, the model Appel used was not fully documented and that responses to discovery or data requests referenced the same massive data file provided for the net cost calculation. The data file provided no additional documentation regarding descriptions of data, assumptions, or methodologies underlying the allocation of zone. *DOI-10, O'Neil Prefiled Testimony, p. 218.*

468. Moreover, O'Neil noted that Appel's analysis in RB-16 relied upon the same proposed reinsurance program as the net cost and that the WSST model was used to derive certain values on RB-16. *DOI-10, O'Neil Prefiled Testimony, p. 218.* The reinsurance program and the WSST model were discussed above.

468a. The Commissioner finds that the filed distribution of the net cost is discriminatory in that it is based on a Monte Carlo simulation of losses that appears to understate significantly the loss variance in the less hurricane prone areas by means of significantly understating the assumed annual variance in non-hurricane losses. According to the simulation file that was provided to the Department by the Rate Bureau (*DOI-5, D.R 1.181-192*), the arbitrarily assumed ratio of the standard deviation to the mean (known in statistics as the coefficient of variation (C.V.)) is approximately 1% for non-hurricane losses. Data provided on *DOI-9, Schwartz prefiled testimony, AIS-18*, shows that the state with the smallest annual coefficient of variation in its loss ratio among the 50 states has a C.V. of approximately 12%. The Commissioner finds that a Monte Carlo simulation that assumes a standard deviation relative to the mean for non-hurricane losses of 1% produces results that cannot be relied upon in determining overall risk by zone.

469. Given Appel's lack of credibility on this particular issue and the Bureau's failure to recognize or address the fairness issue, the Commissioner herein orders that the net cost of reinsurance and underwriting profit will not be allocated to zones. Allocating the net cost and profit to zones as Appel recommends will result in rates that are unfairly discriminatory.

3. COMPENSATION FOR RISK OF ASSESSMENT

470. N.C.G.S. §58-45-6(c) provides, in pertinent part, that:

Prospective exposure to nonrecoupable assessments shall be considered as an appropriate factor in the making of rates by the North Carolina Rate Bureau.

471. Bureau witness Appel developed a procedure to incorporate a provision into the rates that compensates insurers for their risk of assessment from the Beach Plan. Appel developed a model that, first, quantifies the magnitude of the exposure and then determines the

fair compensation to be paid to insurers for bearing that risk. *RB-12, Appel Prefiled Testimony, p. 19.*

472. Appel's model resulted in a compensation for assessment risk (CAR) provision of 4.4% of manual premium that applies to every line of property coverage, including homeowners. *RB-12, Appel Prefiled Testimony, p. 24, Exhibit 17, pp. 1-8.*

473. Appel indicated on additional direct that the historical experience with regards to actual assessments is not relevant because there is not enough experience to present the true range of potential future events and because the circumstances and conditions under which those assessments arose are different than today. *Appel T.pp 443-445.*

474. Appel further testified on additional direct that House Bill 1305 put a \$1 billion cap on assessments which significantly limited the companies' exposure.²⁷ The impact of the \$1 billion cap is reflected in the estimate of the CAR factor contained in the filing. *Appel T.pp. 445-446.*

475. Appel's model to estimate the CAR factor utilizes the modeled hurricane losses run for the Beach and Fair plans regarding the reinsurance program in place for the 2013 storm season. While the Beach/Fair plans used two models, AIR and RMS, in their reinsurance analysis, Appel only obtained the AIR runs and he only used the WSST AIR run, not the run from the STD model. *Appel T.pp. 548-553.*

²⁷ On information and belief, no other state has this type of limitation or cap on insurance companies' exposures. Thus, it is reasonable that the \$1 billion cap on non-recoupable assessments provides significant cost savings both in actuality and in theory for the Bureau's one hypothetical company and the real member companies. Cost savings by the member companies should not translate to higher rates.

476. Schwartz took exception to Appel's provision for compensation for assessment risk. Schwartz acknowledged that including a provision for CAR was an accepted actuarial procedure and he cited Actuarial Standard of Practice No. 29. *DOI-9, Schwartz Prefiled Testimony, p. 51.* However, Schwartz testified that the Bureau used an inappropriate procedure to calculate the expected amount of assessments and that the Bureau adds in a huge profit load to the provision. *DOI-9, Schwartz Prefiled Testimony, p. 50.*

477. With regard to the inappropriate procedure that Schwartz testified that the Bureau used, Schwartz points to Appel's use of the WSST model in his procedure. *Schwartz T.pp. 51-52.* As discussed, *supra*, the WSST model produces higher losses than the STD model by about 41%. For the reasons discussed herein, the WSST is inappropriate for use in this ratemaking proceeding.

478. With regard to the issue of profit contained in the CAR provision, Schwartz indicated in his testimony that about 53% of the CAR provision was "hidden" profit, 32% was for projected assessments, and, 15% was for commissions and premium taxes. Schwartz considers the profit to be "hidden" because Appel's testimony and exhibits did not break down how much of its proposed CAR value is for the cost of assessments and how much is a profit loading. *DOI-9, Schwartz Prefiled Testimony, p. 52, AIS-22.*

479. In fact, on cross-examination Appel quibbled over Schwartz' "profit" label. Initially Appel, in orally going through his calculations in Exhibit RB-17, indicated that the "Indicated Profit Multiple" on RB-17, p. 5 was a factor by which the assessments are increased to include a provision for profit. But when asked how much of the \$92.98 "Cost of Providing Reinsurance" was profit, Appel indicated that it was profit to the investors who would be bearing

the risk of the billion dollars of exposure and that he preferred to call it compensation. *Appel T.pp. 563-567.*

480. Schwartz corrected for the use of the WSST model and for the inflated profit in the Bureau's compensation for assessment risk. As a result, Schwartz' factors for the compensation for assessment risk are \$9.87 (Owners), \$0.97 (Tenants), and \$0.96 (Condominiums). *DOI-9, Schwartz Prefiled Testimony, pp. 52, 56, Schedule AIS-22.*

481. O'Neil also took exception to the CAR factor as calculated by the Bureau. While O'Neil generally found the Bureau procedure to be reasonable she noted some issues. First, she noted that the Bureau assumed that the \$1 billion potential assessment risk represented \$1 billion in the first layer above the Beach Plan surplus. The statute at N.C.G.S. §58-45-27(a) states that the \$1 billion assessment would only occur *after all other resources are exhausted*, which means that the \$1 billion assessment should have been moved up to a higher layer. Moving the \$1 billion to a higher layer would have resulted in lower reinsurance costs. *DOI-10, O'Neil Prefiled Testimony, p. 173.*

482. Second, O'Neil noted that the majority of the costs that were calculated in RB-17 were already provided for in the calculation of the net cost of reinsurance. Appel's proposed reinsurance program attaches at \$629 million and O'Neil estimated that the limit that he assumed was about \$6 billion. This total market reinsurance program provides coverage for the \$1 billion layer above the Beach Plan surplus. Hence, there should be no charge in RB-17 for that layer. The only charge for a non-recoupable assessment should be for any losses above \$6 billion. *DOI-10, O'Neil Prefiled Testimony, pp. 173-174.*

483. Third, O'Neil found literature that indicated that applicable reinsurance programs cover the payment of assessments from residual market facilities, like the Beach Plan. So O'Neil

concluded that Appel's net cost of reinsurance should already include any possible assessments payable to the Beach Plan. *DOI-10, O'Neil Prefiled Testimony, p. 174.*

484. O'Neil testified that given her observations the CAR factor should be \$0, but, in order to be conservative, she selected a value of \$5 per policy to be split by forms as \$4.18 (Owners), \$0.41 (Tenants), and \$0.40 (Condominiums). *DOI-10, O'Neil Prefiled Testimony, p. 175, Exhibit 2, pp. 1-3.* As a result of the Bureau's calculations of the CAR factor, the rate change derived by the Bureau is too high by +3.2% to +4.3% overall. *DOI-9, Schwartz Prefiled Testimony, p. 57; DOI-10, O'Neil Prefiled Testimony, p. 175.*

485. Once again, the Commissioner finds issues with Appel's testimony. With regards to the compensation for assessment risk, Appel utilized only the AIR WSST modeled losses in his procedure, although it is unclear why. His rationale in using the WSST for net cost was that reinsurers use the WSST in pricing reinsurance. But CAR is related to the exposure of the primary insurance companies, not the exposure of reinsurance companies. In this case, the testimony was that the Beach Plan utilized the RMS and the AIR STD and WSST models in making its reinsurance decisions. Appel, however, only used the WSST model, which, as mentioned previously, produces higher losses, and is not what the Beach Plan relied upon in making its reinsurance decisions. Also, Appel used only the AIR model, which is contrary to the procedure used by the Beach Plan of using both the AIR and RMS models. As discussed previously, the AIR model applied to Beach Plan experience gives a higher result than the RMS model.

486. Appel also refused to identify how much of his CAR factor was profit, instead insisting that it was "compensation." As Schwartz indicated in his testimony, if the Bureau

believes the insurance companies need this additional profit, it should be reflected in the profit provision and not hidden in the compensation for assessment factor.

487. As a result, the Commissioner finds Appel's testimony on the compensation for assessment risk is not credible. He further finds that Appel's proposed factor will result in excessive rates.

487a. The Commissioner finds that the filing overstates the needed CAR by its reliance on the WSST model, by its incorrect analysis of the cost of capital, and by its failure to recognize that the BP's reinsurance layer that the insurers reinsure via CAR overlaps with its Net Cost of Reinsurance analysis, thereby essentially double counting reinsurance costs, resulting in excessive rates.

487b. The Commissioner finds that the assessment that any particular insurer could face is proportional to its premium. Evidence is that the total premium available to be assessed is approximately \$3.3 billion and the maximum total assessment is \$1 billion. *RB-17, Appel prefiled testimony, pp 4-8*. Therefore, no company could be assessed more than 30% of its premium. The typical premium to surplus ratio in the North Carolina homeowners insurance marketplace is 1 to 1. This means that there is already adequate funding between premium and surplus to cover this potential loss.

487c. The Commissioner agrees with O'Neil that the Rate Bureau fails to consider that there is an overlap between its Net Cost of Reinsurance Analysis and its calculation of the Compensation for Assessment Risk (CAR). The table below shows how the two reinsurance provisions, Net Cost, which is applied to the total market including the Beach Plan, and CAR, which is applied only to Beach Plan losses overlap using one particular event from the STD - catalog of modeled hurricane 57,754 modeled events. The Event ID below is #17245, which was a

Category 4 hurricane making landfall in Dare county. *RB-5, D.R. - 2.6, 1.151*. Because no data was provided in the hearing as to what portion of the total modeled losses by territory arose from Beach Plan exposures, it is impossible to calculate the amount of overlap with precision.

However, if the Commissioner assumes that 72% of each event's loss in the Beach area was from the Beach Plan, and 40% of each event's loss in the Coastal areas was from the Beach Plan (per *Newbold, prefiled testimony, p. 13*), the Commissioner can calculate that the losses in the Beach Plan assessment layer that would be calculated ignoring the Net Cost calculation should be reduced by approximately 75% if the Net Cost calculation were assumed to reduce Beach Plan losses in the same proportion as it reduces non-Beach Plan losses.

AIR STD Model incl Demand Surge (\$M): Event ID 17245							
Net Cost, Compensation for Assessment Risk Calculated Independently							
	S'wide Modeled Loss	Beach Plan Share	BP Modeled Loss	S'wide Ceded	S'wide Net	BP Ceded	BP Net
Beach	1,726	72%	1,243	1,298	428	693	549
Coast	852	40%	341	641	211	190	151
Other	3	0%	-	2	1	-	-
TOTAL	2,581		1,584	1,940	640	884	700
Total Ceded NCOR + BP						2,824	
Net After NCOR + BP						(243)	
Statewide Ceded per Net Cost of Reinsurance Formula							
Beach Plan Ceded assumes \$1 Million XS \$700,000 in Company Assessment Layer							

488. Instead, the Commissioner orders that Schwartz' factor, which corrects for the use of the WSST and utilizes the same profit provision of 5.2% that the Commissioner has already ordered in this case, should be included in the rate calculation to compensate insurers for the risk

of assessment by the Beach Plan. The Commissioner finds that Schwartz' provision is reasonable and will not result in excessive or inadequate rates.

488a. The Commissioner makes no adjustment to Schwartz's figures for any overlap because there was no testimony as to the amount of overlap and insufficient data to calculate it with precision.

489. The Commissioner also notes herein that N.C.G.S. §58-45-5(6c), which provides for the consideration of prospective exposure to non-recoupable assessments in ratemaking, is a *Beach Plan* statute only. There is no corresponding FAIR Plan statute allowing for consideration of non-recoupable assessments. Yet, Appel has clearly included FAIR Plan data in his calculation of the compensation for assessment risk. The FAIR Plan contribution to the 4.4% compensation for assessment risk is approximately 23%. Unfortunately there was not testimony on this issue during the proceedings; thus, the Commissioner is left to ponder whether this was merely an oversight on the Bureau's part or an intentional miscalculation that resulted in a higher factor.

4. REVISIONS TO TERRITORY DEFINITIONS

490. The Bureau included in the filing a proposal to revise territory definitions. After exceptions to the proposed territory definitions were provided for in the Notice, the Bureau filed amended proposed revisions to the territory definitions on 9 June 2014.

491. Neither of the Department witnesses took exception to the amended revisions to the territory definitions in their pre-filed testimonies, DOI-9 and DOI-10, so the exceptions in the Notice regarding the revisions to the territory definitions were stricken at the Prehearing Conference. The Notice with the strikeouts was attached to the Prehearing Order, attached

hereto as Exhibit 5. The proposed territory definitions were, accordingly, not at issue at the hearing.

492. Given that the Department did not raise any objections to the amended proposed territory definitions which are included in the filing at RB-1, F-A-1 through F-A-27, the Commissioner herein orders that the territory definitions and concomitant revisions to the Bureau Homeowners Policy Program Manual be revised as currently proposed in the filing. The new territory definitions and concomitant changes to the Bureau Homeowners Policy Program Manual as set forth in RB-1, F-A-1 through F-A-27 are attached hereto as *Exhibit 6* and incorporated herein by reference.

5. ADDITIONAL FINDINGS OF FACT

493. The Commissioner finds as a fact that there has been no highly significant, mostly unforeseen, intervening level of weather-related catastrophes – inclusive of hurricanes, tropical storms, tornadoes, etc. – in North Carolina in the short period of time since the 2013 settlement of the 2012 homeowners insurance filing by the Rate Bureau. In fact, expert witnesses testified on several occasions as to how calm or uneventful the hurricane seasons have been in North Carolina in recent years, especially the most recent year. Without data to suggest a magnified level of claims and claims payouts by the companies within the last year or so – not to mention any data that indicates a threat to company solvency or reasonable profitability within the last year or so -- it is very difficult to see how any homeowners insurance increase statewide is warranted for this year or the very near-term. It is concerning to the Commissioner that the Rate Bureau entered into a voluntary settlement in 2013 for 7% and then filed again in 2014, this time for an increase of 25.6% overall statewide average without any intervening events to warrant it.

494. Incorporating by reference the preceding paragraph, the Commissioner finds that there will be events and factors which may very well justify a rate increase in the future, but not now and not based on the evidentiary record presently before the Commissioner.

VI. SUMMARY CONCLUSION

495. Based on the foregoing it is clear that the Bureau has failed to meet its burden of proof regarding its *requested* increase. The Commissioner herein orders the following changes to the Bureau's indicated rates which will result in an overall statewide average rate level change of 0.0%:

- The Commissioner herein rejects the Bureau's CCI trends of +2.0% for Owners and +1.2% for Tenants and Condominiums. The Commissioner, instead, selects O'Neils' CCI trends of +1.5% for Owners and 0.0% for Tenants and Condominiums.
- The Commissioner herein rejects the Bureau's filed LTA of +3.0%. The Commissioner, instead, selects Curry's proffered LTA of +2.5% for Owners. In addition, the Commissioner selects O'Neil's LTA of 0.0% for Tenants and Condominiums.
- The Commissioner herein rejects the Bureau's assumption that fixed expenses per policy for Tenants and Condominiums should be set at 50% of the loading for the Owners form. The Commissioner, instead, utilizes O'Neil's calculation shown on DOI-10, Exhibit 6, p. 2, which is essentially the calculation the Bureau performed in 2006 and prior.
- The Commissioner herein rejects the Bureau's modeled hurricane losses which are used in the filing. Instead, the Commissioner selects an adjustment to the

modeled hurricane losses of --13.9%, which is between the recommendations of Schwartz and O'Neil.

- The Commissioner herein rejects the Bureau's use of the cost of capital as the target rate of return and the Bureau's selected profit provision which falls within the Bureau's cost of capital range. The Commissioner, instead, selects Schwartz comparable earnings analysis as an appropriate measurement of the target rate of return, which Schwartz calculates as +8.0% of premium. As a result, the Commissioner selects Schwartz' underwriting profit provision of +5.3% (modified to +5.2% as a result of Commissioner's statewide calculations of the forms). In addition, the Commissioner selects a contingency factor of 0.0% as recommended by O'Neil and Schwartz.
- The Commissioner herein rejects the Bureau's explicit +5.0% factor for deviations. The Commissioner, instead, recognizes that there is an inherent factor in an average rate of +5.0% to +6.0% with which the insurance companies can deviate or pay dividends. Thus, the Commissioner orders a 0.0% factor to be included in the rates for both dividends and deviations.
- The Commissioner herein rejects the Bureau's calculation of the investment income on reserves. The Commissioner, instead, selects Schwartz' methodology which includes a +10.0% reduction to the unearned premium reserves in recognition that not all premium is available for investment. The Commissioner also selects the installment fee income of +0.53% (used by Appel, Schwartz and O'Neil) as a source of funds for investment and the Commissioner adopts the estimated investment yield rate, utilized by both Schwartz and Appel, of +3.32%.

- The Commissioner herein rejects the Bureau's proposed net cost of reinsurance. The Commissioner selects Schwartz' calculation of the net cost of reinsurance of +10.0% of premium.
- The Commissioner herein rejects the Bureau's allocation of profit and the net cost of reinsurance to zone, and instead, orders that there will be no allocation to zone.
- The Commissioner herein rejects the Bureau's proposed compensation for assessment risk of +4.4% of manual premium. Instead, the Commissioner selects Schwartz' calculations resulting in the compensation for assessment risk of \$9.87 (Owners), \$0.97 (Tenants) and \$0.96 (Condominiums).
- The Commissioner herein orders that the territory definitions be revised as currently proposed in the filing.

496. The Commissioner finds the Bureau's *proposed* changes herein will result in rates that are excessive and/or unfairly discriminatory.

497. The Commissioner further finds the provisions and factors selected herein will result in rates that are neither excessive, nor inadequate nor unfairly discriminatory.

498. Thus, the Commissioner herein finds the Bureau did not meet its burden of proof with respect to the filed rate of +25.6% because the indicated rate as calculated by the Bureau is excessive and unfairly discriminatory as discussed in the Commissioner's Findings of Facts throughout this Order. Moreover, the Commissioner herein finds that based upon the evidence in the case, an overall statewide average rate level change of less than 0.0% is appropriate for 2014, and 2015 but is not allowed by law.

499. The Commissioner, therefore, *disapproves* the Bureau's filed overall rate level change of +25.6% herein and orders an overall statewide rate level change of 0.0%.

VII. ORDERED RATES

500. With respect to the filed rate level change of +25.6%, the Commissioner herein disapproves the requested rate level change because the Bureau has failed to meet its statutory burden of proof, as set forth above, and the Bureau's filed rate will result in excessive rates.

501. Thus, the Commissioner herein orders an **overall statewide rate level change of 0.0%**, with a decrease of -0.3% for Owners, an increase of +9.9% for Tenants and an increase of +7.7% for Condominiums

502. The overall statewide rate level change is calculated based on an assumed effective date of 01 July 2014. (*See Exhibit 1 attached*).

VIII. NEW EFFECTIVE DATE

503. Given that the Bureau's filed effective date of 01 August 2014 has already expired, by agreement of the parties the new effective date will be 01 June 2015 (*T.p. 2492*). However, the Commissioner's ordered rate level changes of -0.3% Owners, +9.9% Tenants and +7.7% Condominiums was based on the expired assumed date of 01 July 2014. As a result of the later effective date, the Commissioner's ordered rate level changes must be trended to the new effective date.

504. Based upon the new effective date, the Commissioner's overall statewide rate level change of 0.0% results in rate changes to Owners of -0.3%, to Tenants of +11.2% and to Condominiums of +8.1%. The Commissioner's ordered rates trended to the new effective date of 01 June 2015 is attached hereto as *Exhibit 2*.

CONCLUSIONS OF LAW

I. The rates calculated by the Bureau do not give due consideration to prospective loss and expense experience within this State (for the reasons set forth in Findings of Fact, Part

V, Section B, and elsewhere in this Order, which are incorporated herein by reference); to the hazards of conflagration and catastrophe (Part V, Section C and elsewhere in this Order, which are incorporated herein by reference); to a reasonable margin for underwriting profit and to contingencies (for the reasons set forth in Findings Part V, Section D and elsewhere in this Order, which are incorporated herein by reference); to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers (for the reasons set forth in Findings Part V, Section E, and elsewhere in this Order, which are incorporated herein by reference); to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within the state (for the reasons set forth in Findings Part V, Section F, and elsewhere in this Order, which are incorporated herein by reference); to prospective expenses especially applicable to this state (for the reasons set forth in Findings Part V, Section G, and elsewhere in this Order, which are incorporated herein by reference) and to all other relevant factors within this State, including the net cost of reinsurance, allocation to zone, compensation for assessment risk, and revisions to territory definitions (for the reasons set forth in Findings Part V, Section H. and elsewhere in this Order, which are incorporated herein by reference).

II. The Bureau's proposed overall statewide average rate level increase of plus twenty-five and six tenths percent (+25.6%) is excessive and unfairly discriminatory for the reasons set forth in the Summary Findings and the Findings of Fact, Part I through Part V and elsewhere in this Order, which reasons are incorporated herein by reference. Accordingly, the Bureau's request for an overall statewide average rate increase of plus twenty-five and six tenths percent (+25.6%) is herein denied and the filing with regards to the proposed rate level change is disapproved.

III. The Commissioner's ordered overall statewide average rate level change of zero percent (0.0%) is trended to the new effective date of 01 June 2015. The result of trending to the new effective date is that the Commissioner's ordered overall statewide average rate level change herein is 0.0% resulting in changes to Owners of -0.3%, to Tenants of +11.2%, and to Condominiums of +8.1%.

IV. Such rates as ordered by the Commissioner herein will provide an overall adequate and reasonable profit to the Bureau's member companies in the aggregate, and are approved.²⁸

NOW, THEREFORE, IT IS HEREBY ORDERED:

1. The Bureau's proposed overall statewide average increase of plus twenty-five and six-tenths percent (+25.6%) above the existing manual rate level is disapproved for the reasons set forth in this Order.

2. The Commissioner's ordered **overall statewide average rate change of 0.0%**, has been trended to the new effective date of 01 June 2015 resulting in a decrease of -0.3% to Owners, an increase of +11.2% to Tenants and an increase of +8.1% to Condominiums, which shall be put into effect.

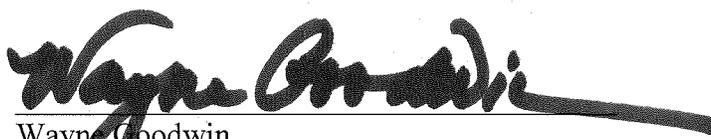
3. As stipulated at the close of the hearing, the effective date upon which the Bureau and its member companies shall put into effect the manual rate level changes for homeowners is 01 June 2015.

4. The applicable ordered rates are set forth in *Exhibit 2*, attached hereto. These rates are not excessive, inadequate or unfairly discriminatory and are hereby ordered.

²⁸ The Commissioner expects the Rate Bureau to make another rate filing in the near future if data, claims losses, catastrophic events, expenses and/or applicable laws change significantly and those changes and evidence warrant further rate changes, and if the Rate Bureau addresses the concerns raised herein.

5. These changes are applicable to all new and renewal policies becoming effective on or after June 1, 2015. No policy effective prior to June 1, 2015 shall be endorsed or cancelled and rewritten to take advantage of or to avoid the application of these changes except at the request of the insured and at the customary short rate charges as of the date of such request, but in no event prior to June 1, 2015.

Respectfully submitted this 18th day of December, 2014.


Wayne Goodwin
Commissioner of Insurance

CERTIFICATE OF SERVICE

We hereby certify that we have served copies of the foregoing Order on the following counsel of record via hand delivery:

Sherri L. Hubbard, Esq.
N.C. Department of Insurance
1201 Mail Service Center
430 N. Salisbury Street, 4th Floor Dobbs Building
Raleigh, North Carolina 27603-5926
Attorney for the N.C. Department of Insurance

Marvin M. Spivey, Jr., Esq.
R. Michael Strickland, Esq.
Young, Moore & Henderson, P.A.
3101 Glenwood Ave.
Raleigh, North Carolina 27622
Attorneys for the N.C. Rate Bureau

This the 18th day of December, 2014.

COMMISSIONER OF INSURANCE


Wayne Goodwin

NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: August 1, 2014

Assumed Effective Date: July 1, 2014

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NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: August 1, 2014

Assumed Effective Date: July 1, 2014

Section A: Summary of Revision

Indicated and Filed / Recommended / Ordered Statewide Rate Level Changes

Indicated and Filed / Recommended Territory Rate Level Changes

Filed / Recommended Territory Base Rates

Indicated and Ordered Territory Rate Level Changes

Ordered Territory Base Rates

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
STATEWIDE RATE LEVEL CHANGES

Assumed Effective Date: July 1, 2014

Exhibit 1
Section A
Page A-1

Form	2011 Earned Premium at Present Rates, Excluding Deviations	North Carolina Rate Bureau		AIS Risk Consultants		O'Neil Consulting Services		Commissioner of Insurance	
		Indicated Change	Filed Change	Indicated Change	Recommended Change	Indicated / Recommended Change	Indicated Change	Ordered Change	
Owners	\$2,257,970,589	39.3%	24.8%	-12.9%	0.0%	-14.0%	-5.1%	-0.3%	
Tenants	\$45,065,871	89.0%	54.9%	35.4%	0.0%	1.6%	9.9%	9.9%	
Condominiums	\$22,629,842	74.1%	50.0%	12.6%	0.0%	-0.6%	7.7%	7.7%	
All Forms	\$2,325,666,302	40.6%	25.6%	-11.7%	0.0%	-13.6%	-4.7%	0.0%	

Notes:

North Carolina Rate Bureau (NCRB): RB-1, A-1; DOI-5, Data Request #1, Item 1
 AIS Risk Consultants (AIS): DOI-9, Schedule AIS-1; DOI-9, Prefiled Testimony Page 81 of 81; Transcript, Volume V p.m., Pages 1116-1117
 O'Neil Consulting Services (OCS): DOI-10, Exhibit 1 Page 1
 Commissioner of Insurance (COI):
 Indicated Change: Exhibit 1, Section C, Page C-4, (28); Pages C-8 and C-12, (25); All Forms: Using 2011 Earned Premiums as Weights
 Ordered Change: Order, Part VII, Page 172

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE AND TERRITORY RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

New Territory	Current Territory	Indicated Rate Level Changes				Filed Rate Level Changes			
		Owners	Tenants	Condominiums	Owners	Tenants	Condominiums		
110	07	120.7%	194.4%	156.6%	35.0%	55.0%	55.0%		
120	08	133.4%	211.6%	177.9%	35.0%	55.0%	55.0%		
130	48	10.0%	73.7%	57.8%	10.0%	55.0%	55.0%		
140	52	138.7%	194.1%	166.3%	35.0%	55.0%	55.0%		
150	49	8.7%	52.8%	30.8%	8.7%	52.8%	30.8%		
160	52	-1.9%	60.0%	34.9%	-1.9%	55.0%	34.9%		
170	45	16.0%	74.1%	67.3%	16.0%	55.0%	55.0%		
180	45	26.2%	85.2%	69.4%	26.2%	55.0%	55.0%		
190	45	56.3%	100.0%	85.7%	35.0%	55.0%	55.0%		
200	41	44.1%	94.6%	92.3%	35.0%	55.0%	55.0%		
210	47	39.1%	92.2%	81.0%	35.0%	55.0%	55.0%		
220	34	33.6%	112.3%	55.8%	33.6%	55.0%	55.0%		
230	45	34.5%	155.6%	65.3%	34.5%	55.0%	55.0%		
240	41	22.6%	76.8%	69.2%	22.6%	55.0%	55.0%		
250	47	36.6%	94.1%	73.8%	35.0%	55.0%	55.0%		
260	46	53.1%	84.3%	71.4%	35.0%	55.0%	55.0%		
270	32	24.4%	113.0%	70.5%	24.4%	55.0%	55.0%		
280	53	83.0%	71.4%	71.4%	24.8%	55.0%	55.0%		
290	53	32.6%	115.0%	86.7%	32.6%	55.0%	55.0%		
300	47	17.7%	95.0%	37.8%	17.7%	55.0%	55.0%		
310	44	25.9%	70.6%	76.2%	25.9%	55.0%	55.0%		
310	36	48.6%	86.0%	73.2%	35.0%	55.0%	55.0%		
310	46	20.6%	72.7%	43.6%	20.6%	55.0%	43.6%		
310	57	11.8%	65.2%	27.3%	11.8%	55.0%	27.3%		
310	60	18.2%	72.7%	43.6%	16.2%	55.0%	43.6%		
320	57	32.4%	105.4%	64.7%	32.4%	55.0%	55.0%		
320	60	22.5%	65.9%	48.7%	22.5%	55.0%	48.7%		
330	57	39.6%	97.3%	70.6%	35.0%	55.0%	55.0%		
330	57	3.1%	61.4%	56.4%	3.1%	55.0%	55.0%		
340	38	14.5%	69.4%	45.2%	14.5%	55.0%	45.2%		
340	39	20.6%	102.4%	74.3%	20.6%	55.0%	55.0%		
340	60	27.1%	124.3%	79.4%	27.1%	55.0%	55.0%		
350	39	26.6%	87.8%	71.4%	26.6%	55.0%	55.0%		
350	60	33.3%	108.1%	76.5%	33.3%	55.0%	55.0%		
360	60	21.1%	54.1%	61.8%	21.1%	54.1%	55.0%		
370	60	33.6%	81.1%	79.4%	33.6%	55.0%	55.0%		
380	60	28.3%	75.7%	73.5%	28.3%	55.0%	55.0%		
390	60	25.9%	67.6%	67.6%	25.9%	55.0%	55.0%		
Statewide		39.3%	89.0%	74.1%	24.8%	54.9%	50.0%		

Source:

RB-1, A-2

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE AND TERRITORY CURRENT AND FILED BASE RATES (A) - NORTH CAROLINA RATE BUREAU
 Assumed Effective Date: July 1, 2014

New Territory	Current Territory	Current Rates			Filed Rates		
		Owners (B)	Tenants (C)	Condominiums (C)	Owners (B)	Tenants (C)	Condominiums (C)
110	07	\$1,613	\$107	\$106	\$2,178	\$166	\$164
120	08	\$1,823	\$112	\$113	\$2,461	\$174	\$175
130	48	\$1,021	\$76	\$83	\$1,123	\$118	\$129
140	52	\$1,140	\$85	\$83	\$1,539	\$132	\$129
150	49	\$871	\$72	\$78	\$947	\$110	\$102
160	52	\$1,140	\$85	\$83	\$1,118	\$132	\$112
170	45	\$595	\$54	\$49	\$690	\$84	\$76
180	45	\$595	\$54	\$49	\$751	\$84	\$76
190	45	\$595	\$54	\$49	\$803	\$84	\$76
200	41	\$755	\$56	\$52	\$1,019	\$87	\$81
210	47	\$486	\$51	\$42	\$656	\$79	\$65
220	34	\$599	\$65	\$62	\$800	\$101	\$81
220	45	\$595	\$54	\$49	\$800	\$84	\$76
230	41	\$755	\$56	\$52	\$926	\$87	\$81
240	47	\$486	\$51	\$42	\$656	\$79	\$65
250	47	\$486	\$51	\$42	\$656	\$79	\$65
260	46	\$398	\$46	\$44	\$495	\$71	\$68
270	32	\$443	\$47	\$49	\$553	\$73	\$76
270	53	\$417	\$40	\$45	\$553	\$62	\$70
280	53	\$417	\$40	\$45	\$491	\$62	\$62
290	47	\$486	\$51	\$42	\$612	\$79	\$65
300	44	\$481	\$50	\$41	\$649	\$78	\$64
310	36	\$369	\$44	\$39	\$445	\$68	\$56
310	46	\$398	\$46	\$44	\$445	\$71	\$66
310	57	\$383	\$44	\$39	\$445	\$68	\$56
310	60	\$336	\$37	\$34	\$445	\$57	\$53
320	57	\$383	\$44	\$39	\$469	\$68	\$58
320	60	\$336	\$37	\$34	\$454	\$57	\$53
330	57	\$383	\$44	\$39	\$395	\$68	\$60
340	38	\$373	\$49	\$42	\$427	\$76	\$61
340	39	\$354	\$41	\$35	\$427	\$64	\$54
340	60	\$336	\$37	\$34	\$427	\$57	\$53
350	39	\$354	\$41	\$35	\$448	\$64	\$54
350	60	\$336	\$37	\$34	\$407	\$57	\$53
360	60	\$336	\$37	\$34	\$449	\$57	\$53
370	60	\$336	\$37	\$34	\$431	\$57	\$53
380	60	\$336	\$37	\$34	\$423	\$57	\$53
390	60	\$336	\$37	\$34	\$423	\$57	\$53
Statewide		\$477	\$47	\$46	\$596	\$73	\$70

(A) Base Class is Protection Class 5, Frame
 (B) Rates are for \$75,000 Coverage A
 (C) Rates are for \$10,000 Coverage C

Source:
 RB-1, A-3

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE AND TERRITORY RATE LEVEL CHANGES - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

New Territory	Indicated Rate Level Changes				Recommended Rate Level Changes			
	Owners	Tenants	Condominiums	Statewide	Owners	Tenants	Condominiums	Statewide
110	-32.9%	-10.6%	-21.3%	-14.0%	0.0%	-0.6%	-14.0%	
120	-27.3%	-1.7%	-11.1%	-14.0%	0.0%	-0.6%	-14.0%	
130	-45.8%	-20.0%	-22.6%	-14.0%	0.0%	-0.6%	-14.0%	
140	-22.1%	-11.3%	-15.3%	-14.0%	0.0%	-0.6%	-14.0%	
150	-44.6%	-34.2%	-36.9%	-14.0%	0.0%	-0.6%	-14.0%	
160	-52.0%	-28.0%	-35.1%	-14.0%	0.0%	-0.6%	-14.0%	
170	-29.1%	-13.0%	-7.4%	-14.0%	0.0%	-0.6%	-14.0%	
180	-24.2%	-9.2%	-4.8%	-14.0%	0.0%	-0.6%	-14.0%	
190	-10.9%	-5.1%	-1.2%	-14.0%	0.0%	-0.6%	-14.0%	
200	-19.3%	-6.4%	-0.2%	-14.0%	0.0%	-0.6%	-14.0%	
210	-13.4%	-2.4%	4.9%	-14.0%	0.0%	-0.6%	-14.0%	
220	-16.9%	20.4%	-12.0%	-14.0%	18.3%	-0.6%	-14.0%	
230	-26.0%	-11.9%	-5.6%	-14.0%	0.0%	-0.6%	-14.0%	
240	-14.2%	0.6%	0.3%	-14.0%	0.0%	-0.6%	-14.0%	
250	-1.8%	-5.7%	-0.7%	-14.0%	0.0%	-0.6%	-14.0%	
260	-22.0%	14.8%	-2.3%	-14.0%	12.7%	-0.6%	-14.0%	
270	-19.7%	-5.1%	3.0%	-14.0%	0.0%	-0.6%	-14.0%	
280	-28.1%	-4.6%	-23.7%	-14.0%	0.0%	-0.6%	-14.0%	
290	-21.6%	-14.3%	1.6%	-14.0%	0.0%	-0.6%	-14.0%	
300	-3.6%	-3.4%	1.3%	-14.0%	0.0%	-0.6%	-14.0%	
310	-7.8%	2.1%	-3.6%	-14.0%	0.1%	-0.6%	-14.0%	
320	0.8%	9.0%	9.9%	-14.0%	6.9%	-0.6%	-14.0%	
330	-20.8%	-3.2%	5.6%	-14.0%	0.0%	-0.6%	-14.0%	
340	-9.0%	7.8%	2.9%	-14.0%	5.8%	-0.6%	-14.0%	
350	0.5%	18.1%	16.7%	-14.0%	15.9%	-0.6%	-14.0%	
360	-6.4%	-13.3%	10.0%	-14.0%	0.0%	-0.6%	-14.0%	
370	3.6%	8.7%	23.7%	-14.0%	21.0%	-0.6%	-14.0%	
380	-0.5%	6.6%	18.9%	-14.0%	4.6%	-0.6%	-14.0%	
390	-2.6%	3.2%	17.0%	-14.0%	1.4%	-0.6%	-14.0%	
Statewide	-14.0%	1.6%	-0.6%	-14.0%	1.6%	-0.6%	-14.0%	

Sources:

DOI-10, Exhibit 13 Pages 2, 4 and 6

New Territory	Current Rates			Recommended Rates		
	Owners (B)	Tenants (C)	Condominiums (C)	Owners (B)	Tenants (C)	Condominiums (C)
110	\$1,613	\$106	\$105	\$1,387	\$96	\$105
120	\$1,823	\$111	\$112	\$1,567	\$110	\$112
130	\$1,021	\$75	\$82	\$878	\$60	\$83
140	\$1,140	\$84	\$82	\$980	\$75	\$83
150	\$871	\$71	\$77	\$749	\$47	\$78
160	\$1,140	\$84	\$82	\$980	\$61	\$83
170	\$595	\$53	\$48	\$512	\$47	\$49
180	\$595	\$53	\$48	\$512	\$49	\$49
190	\$595	\$53	\$48	\$512	\$51	\$52
200	\$765	\$55	\$41	\$649	\$52	\$52
210	\$486	\$50	\$41	\$418	\$50	\$42
220	\$599	\$63	\$51	\$615	\$91	\$62
230	\$755	\$55	\$51	\$649	\$49	\$52
240	\$486	\$50	\$41	\$418	\$51	\$42
250	\$486	\$50	\$41	\$418	\$48	\$42
260	\$398	\$45	\$43	\$342	\$60	\$44
270	\$428	\$43	\$46	\$368	\$42	\$47
280	\$417	\$39	\$44	\$359	\$38	\$45
290	\$486	\$50	\$41	\$418	\$44	\$42
300	\$481	\$49	\$40	\$318	\$48	\$41
310	\$370	\$42	\$38	\$308	\$44	\$38
320	\$358	\$39	\$34	\$308	\$47	\$35
330	\$383	\$43	\$38	\$329	\$43	\$39
340	\$358	\$45	\$39	\$308	\$53	\$40
350	\$344	\$38	\$34	\$296	\$54	\$35
360	\$336	\$36	\$33	\$289	\$32	\$34
370	\$336	\$36	\$33	\$289	\$49	\$34
380	\$336	\$36	\$33	\$289	\$41	\$34
390	\$336	\$36	\$33	\$289	\$39	\$34
Statewide	\$477	\$46	\$45	\$410	\$47	\$46

(A) Base Class is Protection Class 5, Frame
 (B) Rates are for \$75,000 Coverage A
 (C) Rates are for \$10,000 Coverage C

Sources:

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE AND TERRITORY RATE LEVEL CHANGES - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

New Territory	Indicated Rate Level Changes			Ordered Rate Level Changes		
	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
110	-17.8%	5.7%	-8.8%	-10.0%	5.7%	-8.8%
120	-10.3%	16.3%	4.1%	-5.8%	16.3%	4.1%
130	-35.4%	-8.0%	-11.6%	-13.0%	-8.0%	-11.6%
140	-8.8%	-0.7%	-4.6%	-1.5%	-0.7%	-4.5%
150	-35.1%	-24.5%	-29.1%	-10.0%	-24.5%	-29.0%
160	-38.1%	-7.8%	-16.2%	-15.0%	-7.8%	-16.2%
170	-16.5%	-3.0%	-3.5%	-12.3%	-3.0%	-3.5%
180	-11.7%	1.9%	-0.2%	-7.2%	1.9%	-0.2%
190	-2.6%	6.6%	0.6%	2.3%	6.6%	0.6%
200	-10.2%	5.3%	6.0%	-5.7%	5.3%	6.0%
210	-1.7%	8.4%	15.4%	3.3%	8.4%	15.4%
220	-5.4%	32.2%	-3.3%	-0.6%	32.2%	-3.3%
230	-13.8%	-1.3%	4.4%	-9.5%	-1.3%	4.4%
240	-2.3%	11.6%	9.9%	2.6%	11.6%	10.0%
250	7.8%	4.6%	9.0%	13.3%	4.6%	9.0%
260	-12.0%	26.0%	6.4%	-7.5%	26.0%	6.4%
270	-8.8%	5.7%	11.5%	-4.2%	5.7%	11.5%
280	-18.2%	5.8%	-14.7%	-14.1%	5.8%	-14.7%
290	-8.6%	-4.7%	10.8%	-4.0%	-4.6%	11.3%
300	8.2%	7.1%	10.8%	13.7%	7.1%	10.8%
310	3.5%	11.5%	4.3%	0.3%	11.5%	4.3%
320	13.3%	19.6%	23.6%	19.0%	19.6%	23.6%
330	-11.3%	7.0%	14.5%	-6.8%	7.0%	14.5%
340	2.5%	18.7%	12.2%	0.2%	18.7%	12.2%
350	12.4%	27.9%	29.2%	18.1%	27.9%	29.2%
360	4.5%	-4.1%	19.4%	3.6%	-4.1%	19.4%
370	15.4%	19.5%	33.9%	21.3%	19.5%	33.9%
380	11.0%	17.4%	28.8%	16.6%	17.4%	28.8%
390	8.7%	13.6%	27.0%	14.1%	13.6%	27.0%
Statewide	-5.1%	9.9%	7.7%	-0.3%	9.9%	7.7%

Sources:

Exhibit 1, Section C, Pages C-19, C-26 and C-33; (12) and (13)

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE AND TERRITORY CURRENT AND ORDERED BASE RATES (A) - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

New Territory	Revised Current Rates			Ordered Rates		
	Owners (B)	Tenants (C)	Condominiums (C)	Owners (B)	Tenants (C)	Condominiums (C)
110	\$1,613	\$107	\$106	\$1,452	\$113	\$97
120	\$1,823	\$112	\$113	\$1,717	\$130	\$118
130	\$1,021	\$76	\$83	\$888	\$70	\$73
140	\$1,187	\$89	\$85	\$1,169	\$88	\$81
150	\$871	\$72	\$78	\$784	\$54	\$55
160	\$1,032	\$75	\$71	\$877	\$69	\$59
170	\$570	\$54	\$52	\$500	\$52	\$50
180	\$587	\$54	\$52	\$545	\$55	\$52
190	\$632	\$54	\$54	\$647	\$58	\$54
200	\$786	\$56	\$55	\$741	\$59	\$58
210	\$489	\$51	\$42	\$505	\$55	\$48
220	\$598	\$64	\$52	\$594	\$85	\$50
230	\$741	\$56	\$52	\$671	\$55	\$54
240	\$484	\$51	\$42	\$497	\$57	\$46
250	\$503	\$51	\$42	\$570	\$53	\$46
260	\$398	\$46	\$44	\$368	\$58	\$47
270	\$428	\$44	\$48	\$410	\$47	\$54
280	\$417	\$40	\$44	\$358	\$42	\$38
290	\$470	\$51	\$42	\$451	\$49	\$47
300	\$481	\$50	\$41	\$547	\$54	\$45
310	\$369	\$44	\$39	\$370	\$49	\$41
320	\$357	\$40	\$34	\$425	\$48	\$42
330	\$383	\$44	\$39	\$357	\$47	\$45
340	\$357	\$46	\$40	\$358	\$55	\$45
350	\$344	\$40	\$34	\$406	\$51	\$44
360	\$336	\$37	\$34	\$348	\$35	\$41
370	\$336	\$37	\$34	\$408	\$44	\$46
380	\$336	\$37	\$34	\$392	\$43	\$44
390	\$336	\$37	\$34	\$383	\$42	\$43
Statewide	\$477	\$47	\$46	\$476	\$51	\$50

(A) Base Class is Protection Class 5, Frame
 (B) Rates are for \$75,000 Coverage A
 (C) Rates are for \$10,000 Coverage C

Sources:

Exhibit 1, Section C, Pages C-19, C-26 and C-33; (4) and (14)

NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: August 1, 2014

Assumed Effective Date: July 1, 2014

Section B: Material To Be Implemented

Filed Revised Rules

Ordered Revised Rules

NORTH CAROLINA HOMEOWNERS INSURANCE
 HOMEOWNERS POLICY PROGRAM MANUAL - REVISED RULES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

REVISED RULES

1. Wind Exclusion credits are revised to reflect the filed rates. See page B-2 for the manual rule corresponding to this revision.
2. Wind Mitigation credits are revised to reflect the filed rates. See page B-2 for the manual rule corresponding to this revision.

ADDITIONAL RULE(S)

Rule A3.
 Windstorm or Hall Exclusion - Territories 110, 120, 130, 140, 150 and 160 Only

	Territory					
	110	120	130	140	150	160
All Forms Except HO 00 04 AND	\$1,885	\$2,174	\$1,004	\$1,272	\$668	\$827
HO 00 06						
HO 00 04	\$102	\$103	\$61	\$66	\$52	\$59
HO 00 06	\$103	\$114	\$75	\$75	\$50	\$53

Table A3. Wind or Hall Exclusion Credit

Rule A9.
 Windstorm Mitigation Program - All Forms Except HO 00 04 and HO 00 06

Mitigation Feature	Territory					
	110	120	130	140	150	160
Total Hip Roof	\$131	\$148	\$70	\$87	\$45	\$57
Opening Protection	\$133	\$152	\$70	\$88	\$43	\$57
Total Hip Roof and Opening Protection	\$264	\$299	\$140	\$175	\$89	\$114
IBHS Designation:						
Hurricane Fortified for Safer Living®	\$428	\$522	\$200	\$291	\$97	\$189
Hurricane Fortified for Existing Homes® Bronze Option 1	\$103	\$118	\$56	\$68	\$35	\$44
Hurricane Fortified for Existing Homes® Bronze Option 2	\$160	\$187	\$79	\$108	\$43	\$70
Hurricane Fortified for Existing Homes® Silver Option 1	\$257	\$315	\$112	\$177	\$46	\$115
Hurricane Fortified for Existing Homes® Silver Option 2	\$308	\$380	\$134	\$217	\$54	\$141
Hurricane Fortified for Existing Homes® Gold Option 1	\$328	\$401	\$150	\$221	\$69	\$144
Hurricane Fortified for Existing Homes® Gold Option 2	\$381	\$468	\$172	\$261	\$76	\$170

Table A9. Windstorm Loss Mitigation Credit

Sources:

RB-1, B-1 and B-2

NORTH CAROLINA HOMEOWNERS INSURANCE
HOMEOWNERS POLICY PROGRAM MANUAL - ORDERED REVISED RULES - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

ORDERED REVISED RULES

1. Wind Exclusion credits are revised to reflect the ordered rates. See Exh 1, Section B, Page B-2 for the manual rule corresponding to this revision.
2. Wind Mitigation credits are revised to reflect the ordered rates. See Exh 1, Section B, Page B-2 for the manual rule corresponding to this revision

ADDITIONAL RULE(S)

Rule A3.
Windstorm or Hail Exclusion - Territories 110, 120, 130, 140, 150 and 160 Only

	Territory					
	110	120	130	140	150	160
All Forms Except HO 00 04 AND HO 00 06	\$1,212	\$1,483	\$791	\$946	\$563	\$651
HO 00 04	\$78	\$90	\$37	\$51	\$23	\$28
HO 00 06	\$56	\$77	\$36	\$44	\$20	\$22

Table A3. Wind or Hail Exclusion Credit

Rule A9.
Windstorm Mitigation Program - All Forms Except HO 00 04 and HO 00 06

Mitigation Feature	Territory					
	110	120	130	140	150	160
Total Hip Roof	\$84	\$101	\$55	\$65	\$38	\$45
Opening Protection	\$86	\$103	\$55	\$66	\$36	\$45
Total Hip Roof and Opening Protection	\$170	\$204	\$110	\$131	\$75	\$90
IBHS Designation:						
<i>Hurricane Fortified for Safer Living®</i>	\$275	\$356	\$158	\$216	\$82	\$149
<i>Hurricane Fortified for Existing Homes®</i> Bronze Option 1	\$66	\$81	\$44	\$51	\$29	\$35
<i>Hurricane Fortified for Existing Homes®</i> Bronze Option 2	\$103	\$127	\$62	\$81	\$36	\$55
<i>Hurricane Fortified for Existing Homes®</i> Silver Option 1	\$165	\$214	\$89	\$132	\$39	\$91
<i>Hurricane Fortified for Existing Homes®</i> Silver Option 2	\$198	\$259	\$106	\$161	\$45	\$111
<i>Hurricane Fortified for Existing Homes®</i> Gold Option 1	\$211	\$273	\$118	\$164	\$58	\$113
<i>Hurricane Fortified for Existing Homes®</i> Gold Option 2	\$245	\$319	\$135	\$194	\$64	\$134

Table A9. Windstorm Loss Mitigation Credit

Sources:

Exhibit 1, Section C, Pages C-35, C and C-38, (5)

NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: August 1, 2014

Assumed Effective Date: July 1, 2014

Section C: Supporting Material

Calculation of Indicated Statewide Rate Level Changes

Calculation of Indicated, Filed / Recommended and Ordered Territory Rate Level Changes

Derivation of Filed and Ordered Revised Wind Exclusion Credits and Wind Mitigation Credits

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Excess Losses	(3) Excess Factor	(4) [(1)-(2)] x (3)	(5) Trended LAE Factor	(6) Losses with LAE (3) x LAE	(7) Current Cost / Amount Factor	(8) Composite Prof. Factor (Non-Hurricane)	(9) House- Years	(10) Trended Avg. Loss Cost [(6) x (7) x (8)] / (9)	(11) Average Rating Factor	(12) Trended Base-Class Loss Cost (10) / (11)	(13) Yearly Weights
2007	620,092,701	6,141,287	1.061	651,402,450	1.120	729,570,744							
2008	861,409,227	186,130,219	1.061	716,471,027	1.120	802,447,550							
2009	875,653,805	120,097,799	1.061	801,644,922	1.120	897,842,313							
2010	1,059,155,159	199,756,546	1.061	911,821,928	1.120	1,021,240,559							
2011	1,811,110,590	1,004,031,464	1.061	856,310,953	1.120	959,068,267							
Year													
2007	0.953	1.082	1,918,536	392.12	2.202	178.07						0.10	213.03
2008	0.969	1.082	1,906,487	441.30	2.266	194.75						0.15	78.73
2009	0.982	1.082	1,920,740	496.67	2.335	212.71						0.20	44.20
2010	0.994	1.082	1,954,722	561.90	2.403	233.83						0.25	33.21
2011	0.987	1.082	1,947,574	525.90	2.427	216.69						0.30	664.24
(14)	Weighted Trended Non-Hurricane Base-Class Loss Cost												
(15)	Credibility (9,648,771 House Years)												
(16)	Trended Modeled Hurricane Base-Class Loss Cost												
(17)	Trended Fixed Expense per Policy												
(18)	(14) + (16) + (17)												
(19)	Expected Loss and Fixed Expense Ratio												
(20)	Base Rate Excluding Compensation for Assessment Risk, Net Reinsurance Cost, Deviations, (18) / (19)												
(21)	Compensation for Assessment Risk per Policy												
(22)	Net Reinsurance Cost per Policy												
(23)	(20) + (21) + (22)												
(24)	Selected Deviation												
(25)	Deviation Amount per Policy, [(23) / [1.0 - (24)]] - (23)												
(26)	Required Base Rate, (23) + (25)												
(27)	Current Average Base Rate												
(28)	Indicated Rate Level Change, [(26) / (27)] - 1.0] x 100%												

Sources:

RB-1, C-1 and DOL-5, Data Request #1, Items 5-22

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - AIS RISK CONSULTANTS

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-2

Year	(1) Incurred Losses Excl. Hurricane	(2) Excess Losses	(3) Excess Factor	(4) [(1) - (2)] x (3)	(5) Trended LAE Factor	(6) Losses with LAE (4) x (5)	(7) Current Cost / Amount Factor	(8) Composite Prof. Factor (Non-Hurricane)	(9) House Years	(10) Trended Avg. Loss Cost [(6) x (7) x (8)] / (9)	(11) Average Rating Factor	(12) Tmd Base-Class Loss Cost (10) / (11)	(13) Yearly Weights
2007	620,092,701	6,141,287	1.061	651,402,450	1.145	745,855,805							
2008	861,409,227	186,130,219	1.061	716,471,027	1.145	820,359,326							
2009	875,653,805	120,097,799	1.061	801,644,922	1.145	917,883,436							
2010	1,059,155,159	199,756,546	1.061	911,821,928	1.145	1,044,036,108							
2011	1,811,110,590	1,004,031,464	1.061	856,310,953	1.145	980,476,041							
2007	0.953	0.893	1,918,536	330.85	2.202	150.25							0.10
2008	0.969	0.893	1,906,487	372.34	2.266	164.32							0.15
2009	0.982	0.893	1,920,740	419.07	2.335	179.47							0.20
2010	0.994	0.893	1,954,722	474.10	2.403	197.30							0.25
2011	0.987	0.893	1,947,574	443.72	2.427	182.83							0.30
(14)	Weighted Trended Non-Hurricane Base-Class Loss Cost												
(15)	Credibility (9,648,771 House Years)												
(16)	Trended Modeled Hurricane Base-Class Loss Cost												
(17)	Trended Fixed Expense per Policy												
(18)	(14) + (16) + (17)												
(19)	Expected Loss and Fixed Expense Ratio												
(20)	Base Rate Excluding Compensation for Assessment Risk, Net Reinsurance Cost, Deviations, (18) / (19)												
(21)	Compensation for Assessment Risk per Policy												
(22)	Net Reinsurance Cost per Policy												
(23)	(20) + (21) + (22)												
(24)	Selected Deviation												
(25)	Deviation Amount per Policy, [(23) / (1.0 - (24))] - (23)												
(26)	Required Base Rate, (23) + (25)												
(27)	Current Average Base Rate												
(28)	Indicated Rate Level Change, [(26) / (27)] - 1.0} x 100%												

Source:

DOI-9, Schedule AIS-2, Sheet 1

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-3

Year	(1) Incurred Losses Excl. Hurricane	(2) Excess Losses	(3) Excess Factor	(4) [(1) - (2)] x (3)	(5) Trended LAE Factor	(6) Losses with LAE (4) x (5)	(7) Current Cost / Amount Factor	(8) Composite Proj. Factor (Non-Hurricane)	(9) House Years	(10) Trended Avg. Loss Cost [(6) x (7) x (8)] / (9)	(11) Average Rating Factor	(12) Trended Base-Class Loss Cost (10) / (11)	(13) Yearly Weights
2011	1,811,110,590	1,004,031,464	1.061	856,310,953	1.119	958,211,956							
2010	1,059,155,159	199,756,546	1.061	911,821,928	1.119	1,020,328,737							
2009	875,653,805	120,097,799	1.061	801,644,922	1.119	897,040,668							
2008	861,409,227	186,130,219	1.061	716,471,027	1.119	801,731,079							
2007	620,092,701	6,141,287	1.061	651,402,450	1.119	728,919,342							
2011	0.973	1.008	1.947,574	482,555	2.427	198.83						0.20	
2010	0.981	1.008	1,954,722	516.16	2.403	214.80						0.20	
2009	0.969	1.008	1,920,740	456.17	2.335	195.36						0.20	
2008	0.956	1.008	1,906,487	405.24	2.266	178.83						0.20	
2007	0.941	1.008	1,918,536	360.38	2.202	163.66						0.20	
(14)	Weighted Trended Non-Hurricane Base-Class Loss Cost												
(15)	Credibility (9,648,771 House Years)												
(16)	Trended Modeled Hurricane Base-Class Loss Cost												
(17)	Trended Fixed Expense per Policy												
(18)	(14) + (16) + (17)												
(19)	Expected Loss and Fixed Expense Ratio												
(20)	Base Rate Excluding Compensation for Assessment Risk, Net Reinsurance Cost, Deviations, (18) / (19)												
(21)	Compensation for Assessment Risk per Policy												
(22)	Net Reinsurance Cost per Policy												
(23)	(20) + (21) + (22)												
(24)	Selected Deviation												
(25)	Deviation Amount per Policy, ((23) / [1.0 - (24)]) - (23)												
(26)	Required Base Rate, (23) + (25)												
(27)	Current Average Base Rate												
(28)	Indicated Rate Level Change, (((26) / (27)) - 1.0) x 100%												

Source:

DOI-10, OCS Exhibit 2 Page 1

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
Section C
Page C-4

Year	(1) Incurred Losses Excl. Hurricane	(2) Excess Losses	(3) Excess Factor	(4) [(1) - (2)] x (3)	(5) Trended LAE Factor	(6) Losses with LAE (4) x (5)	(7) Current Cost / Amount Factor	(8) Composite Prof: Factor (Non-Hurricane)	(9) House Years	(10) Trended Avg. Loss Cost [(6) x (7) x (8)] / (9)	(11) Average Rating Factor	(12) Trended Base-Class Loss Cost (10) / (11)	(13) Yearly Weights
2007	620,092,701	6,141,287	1.061	651,402,450	1.127	734,130,561	0.942	1.035	1,918,536	373.07	2.202	169.42	0.10
2008	861,409,227	186,130,219	1.061	716,471,027	1.127	807,462,847	0.956	1.035	1,906,487	419.07	2.266	184.94	0.15
2009	875,653,805	120,097,799	1.061	801,644,922	1.127	903,453,827	0.970	1.035	1,920,740	472.23	2.335	202.24	0.20
2010	1,059,155,159	199,756,546	1.061	911,821,928	1.127	1,027,623,313	0.981	1.035	1,954,722	533.78	2.403	222.13	0.25
2011	1,811,110,590	1,004,031,464	1.061	856,310,953	1.127	965,062,444	0.974	1.035	1,947,574	499.53	2.427	205.82	0.30
(14)	Weighted Trended Non-Hurricane Base-Class Loss Cost												202.41
(15)	Credibility (9,648,771 House Years)												1.00
(16)	Trended Modeled Hurricane Base-Class Loss Cost												64.42
(17)	Trended Fixed Expense per Policy												46.73
(18)	(14) + (16) + (17)												313.56
(19)	Expected Loss and Fixed Expense Ratio												79.4%
(20)	Base Rate Excluding Compensation for Assessment Risk, Net Reinsurance Cost, Deviations, (18) / (19)												394.91
(21)	Compensation for Assessment Risk per Policy												9.86
(22)	Net Reinsurance Cost per Policy												452.45
(23)	(20) + (21) + (22)												0.0%
(24)	Selected Deviation												0.00
(25)	Deviation Amount per Policy, ((23) / [1.0 - (24)]) - (23)												452.45
(26)	Required Base Rate, (23) + (25)												476.80
(27)	Current Average Base Rate												-5.1%
(28)	Indicated Rate Level Change, {[(26) / (27)] - 1.0} x 100%												

Notes:

- (1), (2), (3), (9), (11), (13), (27): RB1, C-1; Exn 1, Sect C, Page C-1, (1), (2), (3), (9), (11), (13) and (27)
- (5): Exhibit 1, Section D, Page D-12, COI, Owners J
- (7): Exhibit 1, Section D, Page D-7, COI, Owners (5)
- (8): Exhibit 1, Section D, Page D-9, COI, Owners, Non-Hurricane (5)
- (14): Trended Base-Class Loss Cost (12) and Weights (13)
- (16): Exhibit 1, Section D, Page D-20, COI, Owners, Trended Modeled Base-Class Loss Cost
- (17): Exhibit 1, Section D, Page D-17, (M) Owners
- (19): Exhibit 1, Section D, Page D-38, COI (5)
- (21): Exhibit 1, Section D, Page D-25, COI, Owners (9)
- (22): Exhibit 1, Section D, Page D-28, COI, Owners (9)
- (24): Exhibit 1, Section C, Page C-2 and C-3 (24)
- (27): RB-1, C-1, (24); Exhibit 1, Section C, Page C-1, (27)

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - NORTH CAROLINA RATE BUREAU

Exhibit 1
 Section C
 Page C-5

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	11,770,104	1.130	13,300,218	1.136	1.090
2008	14,387,052	1.130	16,257,369	1.117	1.090
2009	17,627,284	1.130	19,918,831	1.090	1.090
2010	19,501,973	1.130	22,037,229	1.068	1.090
2011	23,816,473	1.130	26,912,614	1.038	1.090
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trnd Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	167,156	98.52	3.957	24.90	0.10
2008	183,642	107.78	3.860	27.92	0.15
2009	206,064	114.85	3.770	30.46	0.20
2010	233,329	109.95	3.693	29.77	0.25
2011	265,991	114.48	3.616	31.66	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				
(12)	Credibility (1,056,182 House Years)				
(13)	Trended Modeled Hurricane Base-Class Loss Cost				
(14)	Trended Fixed Expense per Policy				
(15)	(11) + (13) + (14)				
(16)	Expected Loss and Fixed Expense Ratio				
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				
(18)	Compensation for Assessment Risk per Policy				
(19)	Net Reinsurance Cost per Policy				
(20)	(17) + (18) + (19)				
(21)	Selected Deviation				
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				
(23)	Required Base Rate, (20) + (22)				
(24)	Current Average Base Rate				
(25)	Indicated Rate Level Change, {[(26) / (27)] - 1.0} x 100%				

Sources:

RB-1, C-2 and DOI-5, Data Request #1, Items 23-39

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - AIS RISK CONSULTANTS

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	11,770,104	1.152	13,559,160	1.136	0.931
2008	14,387,052	1.152	16,573,884	1.117	0.931
2009	17,627,284	1.152	20,306,631	1.09	0.931
2010	19,501,973	1.152	22,466,273	1.068	0.931
2011	23,816,473	1.152	27,436,577	1.038	0.931
	(6)	(7)	(8)	(9)	(10)
<u>Year</u>	<u>House Years</u>	<u>Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)</u>	<u>Average Rating Factor</u>	<u>Trnd Base-Class Loss Cost (7) / (8)</u>	<u>Yearly Weights</u>
2007	167,156	85.79	3.957	21.68	0.10
2008	183,642	93.85	3.860	24.31	0.15
2009	206,064	100.00	3.770	26.53	0.20
2010	233,329	95.74	3.693	25.92	0.25
2011	265,991	99.68	3.616	27.57	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				
(12)	Credibility (1,056, 182 House Years)				
(13)	Trended Modeled Hurricane Base-Class Loss Cost				
(14)	Trended Fixed Expense per Policy				
(15)	(11) + (13) + (14)				
(16)	Expected Loss and Fixed Expense Ratio				
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				
(18)	Compensation for Assessment Risk per Policy				
(19)	Net Reinsurance Cost per Policy				
(20)	(17) + (18) + (19)				
(21)	Selected Deviation				
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				
(23)	Required Base Rate, (20) + (22)				
(24)	Current Average Base Rate				
(25)	Indicated Rate Level Change, {[(26) / (27)] - 1.0} x 100%				

Source:

DOI-9, Schedule AIS-2, Sheet 2

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - ONEIL CONSULTING SERVICES

Exhibit 1
 Section C
 Page C-7

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)	
2007	11,770,104	1.126	13,253,137	1.15	1.009	
2008	14,387,052	1.126	16,199,821	1.131	1.009	
2009	17,627,284	1.126	19,848,322	1.104	1.009	
2010	19,501,973	1.126	21,959,222	1.081	1.009	
2011	23,816,473	1.126	26,817,349	1.052	1.009	
	(6)	(7)	(8)	(9)	(10)	
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trnd Base-Class Loss Cost (7) / (8)	Yearly Weights	
2007	167,156	92.00	3.957	23.25	0.158	
2008	183,642	100.67	3.860	26.08	0.174	
2009	206,064	107.30	3.770	28.46	0.195	
2010	233,329	102.65	3.693	27.80	0.221	
2011	265,991	107.02	3.616	29.60	0.252	
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost					27.37
(12)	Credibility (1,056,182 House Years)					1.00
(13)	Trended Modeled Hurricane Base-Class Loss Cost					2.73
(14)	Trended Fixed Expense per Policy					5.23
(15)	(11) + (13) + (14)					35.33
(16)	Expected Loss and Fixed Expense Ratio					81.4%
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)					43.4
(18)	Compensation for Assessment Risk per Policy					0.41
(19)	Net Reinsurance Cost per Policy					3.62
(20)	(17) + (18) + (19)					47.43
(21)	Selected Deviation					0.0%
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)					0.00
(23)	Required Base Rate, (20) + (22)					47.43
(24)	Current Average Base Rate					46.69
(25)	Indicated Rate Level Change, [(26) / (27)] - 1.0] x 100%					1.6%

Source:

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-8

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	11,770,104	1.139	13,406,148	1.151	1.009
2008	14,387,052	1.139	16,386,852	1.131	1.009
2009	17,627,284	1.139	20,077,476	1.104	1.009
2010	19,501,973	1.139	22,212,747	1.081	1.009
2011	23,816,473	1.139	27,126,963	1.052	1.009
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trnd Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	167,156	93.14	3.957	23.54	0.10
2008	183,642	101.83	3.860	26.38	0.15
2009	206,064	108.53	3.770	28.79	0.20
2010	233,329	103.84	3.693	28.12	0.25
2011	265,991	108.25	3.616	29.94	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				28.08
(12)	Credibility (1,056,182 House Years)				1.00
(13)	Trended Modeled Hurricane Base-Class Loss Cost				2.96
(14)	Trended Fixed Expense per Policy				5.23
(15)	(11) + (13) + (14)				36.27
(16)	Expected Loss and Fixed Expense Ratio				79.4%
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				45.68
(18)	Compensation for Assessment Risk per Policy				0.97
(19)	Net Reinsurance Cost per Policy				4.67
(20)	(17) + (18) + (19)				51.32
(21)	Selected Deviation				0.0%
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				0.00
(23)	Required Base Rate, (20) + (22)				51.32
(24)	Current Average Base Rate				46.69
(25)	Indicated Rate Level Change, [(26) / (27)] - 1.0} x 100%				9.9%

Notes:
 (1),(6),(8),(10),(24): RB-1, C-2; Exhibit 1, Section C, Page C-5, (1), (6), (8), (10) and (24)
 (2): Exhibit 1, Section D, Page D-12, COI, Tenants J
 (4): Exhibit 1, Section D, Page D-7, COI, Tenants (11)
 (5): Exhibit 1, Section D, Page D-9, COI, Tenants, Non-Hurricane (5)
 (11): Trended Base-Class Loss Cost (9) and Weights (10)
 (13): Exht 1, Sect D, Page D-20, COI, Tenants, Trended Modeled Base-Class Loss Cost
 (14): Exhibit 1, Section D, Page D-17, (M) Tenants
 (16): Exhibit 1, Section D, Page D-38, COI (5)
 (18): Exhibit 1, Section D, Page D-25, COI, Tenants (9)
 (19): Exhibit 1, Section D, Page D-28, COI, Tenants (9)
 (21): Exhibit 1, Section C, Page C-6 and C-7 (21)
 (24): RB-1, C-2, (22); Exhibit 1, Section C, Page C-5, (24)

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	6,834,860	1.123	7,675,548	0.995	1.133
2008	7,636,476	1.123	8,575,763	1.011	1.133
2009	9,759,345	1.123	10,959,744	1.022	1.133
2010	11,242,319	1.123	12,625,124	1.026	1.133
2011	12,185,776	1.123	13,684,626	1.016	1.133
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trnd Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	64,159	134.87	6.255	21.56	0.10
2008	65,241	150.57	6.311	23.86	0.15
2009	67,729	187.37	6.366	29.43	0.20
2010	72,539	202.32	6.520	31.03	0.25
2011	74,424	211.66	6.576	32.19	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				
(12)	Credibility (344,093 House Years)				
(13)	Trended Modeled Hurricane Base-Class Loss Cost				
(14)	Trended Fixed Expense per Policy				
(15)	(11) + (13) + (14)				
(16)	Expected Loss and Fixed Expense Ratio				
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				
(18)	Compensation for Assessment Risk per Policy				
(19)	Net Reinsurance Cost per Policy				
(20)	(17) + (18) + (19)				
(21)	Selected Deviation				
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				
(23)	Required Base Rate, (20) + (22)				
(24)	Current Average Base Rate				
(25)	Indicated Rate Level Change, {[(26) / (27)] - 1.0} x 100%				

Sources:

RB-1, C-3 and DOI-5, Data Request #1, Items 40-56

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - AIS RISK CONSULTANTS

Assumed Effective Date: July 1, 2014

Exhibit 1
Section C
Page C-10

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Prof. Factor (Non-Hurricane)
2007	6,834,860	1.152	7,873,759	0.995	0.913
2008	7,636,476	1.152	8,797,220	1.011	0.913
2009	9,759,345	1.152	11,242,765	1.022	0.913
2010	11,242,319	1.152	12,951,151	1.026	0.913
2011	12,185,776	1.152	14,038,014	1.016	0.913
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trended Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	64,159	111.49	6.255	17.82	0.10
2008	65,241	124.46	6.311	19.72	0.15
2009	67,729	154.89	6.366	24.33	0.20
2010	72,539	167.25	6.520	25.65	0.25
2011	74,424	174.97	6.576	26.61	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				
(12)	Credibility (344,093 House Years)				
(13)	Trended Modeled Hurricane Base-Class Loss Cost				
(14)	Trended Fixed Expense per Policy				
(15)	(11) + (13) + (14)				
(16)	Expected Loss and Fixed Expense Ratio				
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				
(18)	Compensation for Assessment Risk per Policy				
(19)	Net Reinsurance Cost per Policy				
(20)	(17) + (18) + (19)				
(21)	Selected Deviation				
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				
(23)	Required Base Rate, (20) + (22)				
(24)	Current Average Base Rate				
(25)	Indicated Rate Level Change, {[(26) / (27)] - 1.0} x 100%				

Source:

DOI-9, Schedule AIS-2, Sheet 3

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - O'NEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-11

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	6,834,860	1.126	7,696,052	0.996	1.003
2008	7,636,476	1.126	8,598,672	1.012	1.003
2009	9,759,345	1.126	10,989,022	1.023	1.003
2010	11,242,319	1.126	12,658,851	1.027	1.003
2011	12,185,776	1.126	13,721,184	1.017	1.003
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Tmd Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	64,159	119.83	6.255	19.16	0.186
2008	65,241	133.78	6.311	21.20	0.190
2009	67,729	166.48	6.366	26.15	0.197
2010	72,539	179.76	6.520	27.57	0.211
2011	74,424	188.06	6.576	28.60	0.216
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				
(12)	Credibility (344,093 House Years)				
(13)	Trended Modeled Hurricane Base-Class Loss Cost				
(14)	Trended Fixed Expense per Policy				
(15)	(11) + (13) + (14)				
(16)	Expected Loss and Fixed Expense Ratio				
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				
(18)	Compensation for Assessment Risk per Policy				
(19)	Net Reinsurance Cost per Policy				
(20)	(17) + (18) + (19)				
(21)	Selected Deviation				
(22)	Deviation Amount per Policy, {(20) / [1.0 - (21)]} - (20)				
(23)	Required Base Rate, (20) + (22)				
(24)	Current Average Base Rate				
(25)	Indicated Rate Level Change, [(26) / (27)] - 1.0} x 100%				

Source:

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
CALCULATION OF INDICATED STATEWIDE RATE LEVEL CHANGE - COMMISSIONER OF INSURANCE

Exhibit 1
Section C
Page C-12

Assumed Effective Date: July 1, 2014

Year	(1) Incurred Losses Excl. Hurricane	(2) Trended LAE Factor	(3) Losses with LAE (1) x (2)	(4) Current Cost / Amount Factor	(5) Composite Proj. Factor (Non-Hurricane)
2007	6,834,860	1.139	7,784,906	0.996	1.003
2008	7,636,476	1.139	8,697,946	1.012	1.003
2009	9,759,345	1.139	11,115,894	1.023	1.003
2010	11,242,319	1.139	12,805,001	1.027	1.003
2011	12,185,776	1.139	13,879,599	1.017	1.003
	(6)	(7)	(8)	(9)	(10)
Year	House Years	Trended Avg. Loss Cost [(3) x (4) x (5)] / (6)	Average Rating Factor	Trnd Base-Class Loss Cost (7) / (8)	Yearly Weights
2007	64,159	121.21	6.255	19.38	0.10
2008	65,241	135.32	6.311	21.44	0.15
2009	67,729	168.40	6.366	26.45	0.20
2010	72,539	181.84	6.520	27.89	0.25
2011	74,424	190.23	6.576	28.93	0.30
(11)	Weighted Trended Non-Hurricane Base-Class Loss Cost				26.10
(12)	Credibility (344,093 House Years)				1.00
(13)	Trended Modeled Hurricane Base-Class Loss Cost				3.99
(14)	Trended Fixed Expense per Policy				4.94
(15)	(11) + (13) + (14)				35.03
(16)	Expected Loss and Fixed Expense Ratio				79.4%
(17)	Base Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations, (15) / (16)				44.12
(18)	Compensation for Assessment Risk per Policy				0.95
(19)	Net Reinsurance Cost per Policy				4.62
(20)	(17) + (18) + (19)				49.69
(21)	Selected Deviation				0.0%
(22)	Deviation Amount per Policy, [(20) / (1.0 - (21))] - (20)				0.00
(23)	Required Base Rate, (20) + (22)				49.69
(24)	Current Average Base Rate				46.15
(25)	Indicated Rate Level Change, [(26) / (27)] - 1.0] x 100%				7.7%

Notes:

- (1), (6), (8), (10), (24): RB-1, C-3; Exhibit 1, Section C, Page C-9, (1), (6), (8), (10) and (24)
- (2): Exhibit 1, Section D, Page D-12, COI, Condominiums J
- (4): Exhibit 1, Section D, Page D-7, COI, Condominiums (17)
- (5): Exhibit 1, Section D, Page D-9, COI, Condominiums, Non-Hurricane (5)
- (11): Trended Base-Class Loss Cost (9) and Weights (10)
- (13): Exh 1, Sect D, Page D-20, COI, Condominiums, Trended Modeled Base-Class Loss Cost

- (14): Exhibit 1, Section D, Page D-17, (M) Condominiums
- (16): Exhibit 1, Section D, Page D-38, COI (5)
- (18): Exhibit 1, Section D, Page D-25, COI, Condominiums (9)
- (19): Exhibit 1, Section D, Page D-28, COI, Condominiums (9)
- (21): Exhibit 1, Section C, Page C-10 and C-11 (21)
- (24): RB-1, C-3, (22); Exhibit 1, Section C, Page C-9, (24)

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	(1) Non-Hurricane Base-Class Loss Cost		(2) Five Year House-Years	(3) Creditability	(4) Creditability Weighted Base Loss Cost		(5) Modeled Hurricane Base Loss Cost		(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
	Loss	Cost			Loss	Cost	Loss	Cost				
110	154.14	38,395	0.70	159.94	668.81	828.75	3,467	291.76	1011.53			
120	142.83	51,948	0.90	145.90	910.16	1056.06	4,418	291.76	1289.00			
130	143.47	58,293	0.90	146.47	216.37	362.84	1,518	291.76	442.89			
140	148.02	405,126	1.00	148.02	530.52	678.54	2,839	291.76	828.31			
150	151.45	242,646	1.00	151.45	138.99	290.44	1,215	291.76	354.49			
160	154.28	174,662	1.00	154.28	166.73	321.01	1,343	291.76	391.83			
170	205.06	25,803	0.60	192.43	45.09	237.52	0,994	291.76	290.01			
180	177.75	273,749	1.00	177.75	95.11	272.86	1,141	291.76	332.90			
190	216.37	76,946	1.00	216.37	122.04	338.41	1,416	291.76	413.13			
200	297.01	36,239	0.70	259.95	132.89	392.84	1,643	291.76	479.36			
210	177.62	106,590	1.00	177.62	71.77	249.39	1,043	291.76	304.31			
220	226.93	308,459	1.00	226.93	69.37	296.30	1,240	291.76	361.78			
230	247.78	80,924	1.00	247.78	91.38	339.16	1,419	291.76	414.01			
240	191.36	365,755	1.00	191.36	53.45	244.81	1,024	291.76	298.76			
250	234.60	147,702	1.00	234.60	54.59	289.19	1,210	291.76	353.03			
260	147.21	128,293	1.00	147.21	25.23	172.44	0,721	291.76	210.36			
270	156.89	1,289,152	1.00	156.89	42.97	199.86	0,836	291.76	243.91			
280	139.80	190,384	1.00	139.80	32.16	171.96	0,719	291.76	209.78			
290	181.27	157,541	1.00	181.27	40.64	221.91	0,928	291.76	270.75			
300	240.27	74,026	1.00	240.27	32.43	272.70	1,141	291.76	332.90			
310	169.65	1,373,515	1.00	169.65	21.40	191.05	0,799	291.76	233.12			
320	184.18	677,794	1.00	184.18	13.73	206.17	0,862	291.76	251.50			
330	136.79	36,436	0.70	147.80	21.97	161.53	0,676	291.76	197.23			
340	164.02	1,506,216	1.00	164.02	15.32	185.99	0,778	291.76	226.99			
350	180.59	457,851	1.00	180.59	9.41	195.91	0,820	291.76	239.24			
360	166.42	979,018	1.00	166.42	6.89	205.07	0,736	291.76	214.74			
370	204.35	46,970	0.80	198.18	5.90	194.28	0,858	291.76	250.33			
380	188.38	163,800	1.00	188.38	4.92	192.89	0,813	291.76	237.20			
390	187.97	173,827	1.00	187.97	4.92	192.89	0,807	291.76	235.45			
Statewide	173.48	9,648,060	1.00	173.48	239.04	1,000	291.76	291.76	291.76			

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, RB-1, C-1, (11):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, RB-1, C-1, (13):

Sources:

RB-1, C-5; DOI-5, Data Request #1, Items 57-62.

213.03
 78.73

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate /[(1) + (2) x (4)] /[1.0 - (3)]	(6) Comp. for Amrt. Risk	(7) Net Reins. Costs	(8) (5) + (6) + (7)	(9) Selected Deviation {(8) / [(1.0 - (9))]	(10) Dollar Deviation Per Exposure {(8) / [(1.0 - (9))]	(11) Indicated Required Base-Class Rate (8) + (10)	(11a) (2011) Latest-Yr Earned Premium	(12) Indicated Rate Level Change [(11) / (4)] - 1.0	(13) Balanced Indicated Rate Change
110	1011.53	0.025	0.343	1,613.00	1,601.00	83.89	1,689.36	3,374.25	0.05	177.59	3,551.84	29,718,478	120.2%	120.6%
120	1289.00	0.024	0.343	1,823.00	2,028.54	94.81	1,909.84	4,033.19	0.05	212.27	4,245.46	47,123,668	132.9%	133.4%
130	442.89	0.036	0.292	1,021.00	677.47	53.10	334.76	1,065.33	0.05	56.07	1,121.40	35,840,449	9.8%	10.0%
140	828.31	0.038	0.343	1,140.00	1,326.68	59.29	1,183.99	2,579.96	0.05	135.79	2,715.75	232,776,905	138.2%	138.7%
150	354.49	0.054	0.292	871.00	567.12	45.30	285.53	897.95	0.05	47.26	945.21	100,270,222	8.5%	8.7%
160	391.83	0.046	0.292	1,140.00	627.50	59.29	373.85	1,060.64	0.05	55.82	1,116.46	84,286,560	-2.1%	-1.9%
170	290.01	0.085	0.260	595.00	460.25	30.95	163.28	654.48	0.05	34.45	688.93	6,414,052	15.8%	16.0%
180	332.90	0.084	0.260	595.00	517.41	30.95	163.26	711.62	0.05	37.45	749.07	69,347,961	25.9%	26.2%
190	413.13	0.086	0.292	595.00	655.79	30.95	195.06	881.80	0.05	46.41	928.21	18,503,479	56.0%	56.3%
200	479.36	0.063	0.292	755.00	744.24	39.27	247.56	1,031.07	0.05	54.27	1,085.34	12,125,010	43.8%	44.1%
210	304.31	0.108	0.260	486.00	482.16	25.28	133.33	640.77	0.05	33.72	674.49	20,631,127	38.8%	39.1%
220	361.78	0.091	0.260	598.54	562.50	31.13	164.22	757.85	0.05	39.89	797.74	70,794,207	33.3%	33.6%
230	414.01	0.070	0.260	755.00	630.89	39.27	207.18	877.34	0.05	46.18	923.52	23,658,304	22.3%	22.5%
240	298.76	0.102	0.260	486.00	470.72	25.28	133.36	629.36	0.05	33.12	662.48	77,498,219	36.3%	36.6%
250	353.03	0.106	0.260	486.00	546.68	25.28	133.33	705.29	0.05	37.12	742.41	31,480,548	52.8%	53.1%
260	210.36	0.102	0.260	398.00	339.13	20.70	109.23	469.06	0.05	27.69	493.75	28,173,390	24.1%	24.4%
270	243.91	0.095	0.260	428.05	384.56	22.26	117.49	524.31	0.05	22.80	551.91	298,408,018	28.9%	29.2%
280	209.78	0.081	0.260	417.00	329.13	21.89	114.44	465.26	0.05	24.49	489.75	52,165,934	17.4%	17.6%
290	270.75	0.085	0.260	486.00	421.70	25.28	133.37	580.35	0.05	30.54	610.89	39,988,392	25.7%	26.0%
300	332.90	0.109	0.260	481.00	520.71	25.02	131.99	677.72	0.05	35.67	713.39	14,736,955	48.3%	48.6%
310	233.12	0.125	0.223	369.54	359.97	18.22	42.65	421.35	0.05	22.18	443.53	227,089,510	20.0%	20.2%
320	251.50	0.133	0.223	358.04	384.97	18.62	41.32	444.91	0.05	23.42	468.33	108,007,558	30.8%	31.1%
330	197.23	0.115	0.223	383.00	310.52	19.92	44.21	374.65	0.05	19.72	394.37	6,726,746	3.0%	3.2%
340	226.99	0.114	0.223	344.31	344.82	18.61	41.31	404.54	0.05	21.29	425.83	293,398,915	19.0%	19.2%
350	239.24	0.133	0.223	354.31	366.84	17.91	39.75	424.50	0.05	22.34	446.84	74,551,001	29.8%	30.1%
360	214.74	0.122	0.223	336.00	329.13	17.48	38.78	385.39	0.05	20.28	405.67	173,354,504	20.7%	20.9%
370	250.33	0.108	0.223	336.00	368.88	17.48	38.78	425.14	0.05	22.38	447.52	9,284,828	33.2%	33.5%
380	237.20	0.109	0.223	336.00	352.41	17.48	38.78	408.67	0.05	21.51	430.18	32,767,597	28.0%	28.3%
390	235.45	0.096	0.223	336.00	344.54	17.48	38.79	400.81	0.05	21.10	421.91	38,937,036	25.6%	25.9%
Statewide	291.76	0.0925	0.269	476.80	459.59	24.80	146.64	631.03	0.05	33.21	664.24	2,257,970,593	39.0%	39.3%

(12a) Statewide Indicated Rate-Level Change, RB-1, C-1, (25) - 1.0: 39.3%

Sources:

RB-1, C-6; DOI-5, Data Request #1, Items 57-62
(13) = [(1.0 + (12a)) / (1.0 + SW(12))] x [1.0 + (12)] - 1.0

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
CALCULATION OF FILED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

New Territory	Current Territory	Indicated Rate Change New Territory	Current Average Rate New Territory	Current Rate Current Territory	Rate Change Current Territory $\frac{[(2)/(3)] - 1.0}{(1)}$	2011 Hse-Yrs In From Current Territory	2011 House-Yrs In New Territory	2011 Premium at Present Rates	Capped Filed Rate Level Change (at 35%)	Filed Base Rate $[1.0 + (8)] \times (3)$
110	07	120.7%	1613.00	1613.00	120.7%	7,189	7,189	29,718,478	35.0%	2,178
120	08	133.4%	1823.00	1823.00	133.4%	10,527	10,527	47,153,668	35.0%	2,461
130	48	10.0%	1021.00	1021.00	10.0%	12,270	12,270	35,840,449	10.0%	1,123
140	52	138.7%	1140.00	1140.00	138.7%	83,517	120,314	232,776,905	35.0%	1,539
150	49	8.7%	871.00	871.00	8.7%	49,846	49,846	100,270,222	8.7%	947
160	52	-1.9%	1140.00	1140.00	-1.9%	36,797	120,314	84,266,580	-1.9%	1,118
170	45	16.0%	595.00	595.00	16.0%	5,030	5,030	6,414,052	16.0%	690
180	45	26.2%	595.00	595.00	26.2%	54,721	54,721	69,347,961	26.2%	751
190	45	56.3%	595.00	595.00	56.3%	14,932	14,932	18,503,479	35.0%	803
200	41	44.1%	755.00	755.00	44.1%	7,084	7,084	12,125,010	35.0%	1,019
210	47	39.1%	486.00	486.00	39.1%	20,968	20,968	20,631,127	35.0%	656
220	34	33.6%	598.54	598.54	33.6%	52,405	59,533	61,281,513	33.6%	800
230	45	33.6%	598.54	598.54	33.6%	7,128	59,533	9,512,694	34.5%	800
240	41	22.6%	755.00	755.00	22.6%	15,652	15,652	23,658,304	22.6%	926
250	47	36.6%	486.00	486.00	36.6%	73,958	73,958	77,458,219	35.0%	656
260	46	53.1%	486.00	486.00	53.1%	31,024	31,024	31,490,548	35.0%	656
270	46	24.4%	398.00	398.00	24.4%	26,507	26,507	28,173,390	24.4%	495
280	32	29.2%	428.05	428.05	29.2%	113,341	264,099	126,194,416	24.8%	553
290	53	29.2%	428.05	428.05	29.2%	150,758	264,099	172,213,603	32.6%	553
300	53	17.7%	417.00	417.00	17.7%	39,412	39,412	52,155,934	17.7%	491
310	47	26.0%	486.00	486.00	26.0%	31,938	31,938	39,988,992	25.9%	612
320	44	48.6%	481.00	481.00	48.6%	14,794	14,794	14,736,955	35.0%	649
330	36	20.3%	369.54	369.54	20.3%	80,221	267,313	68,451,388	20.6%	445
340	310	20.3%	369.54	369.54	20.3%	3,591	267,313	3,814,900	11.8%	445
350	57	20.3%	369.54	369.54	20.3%	129,778	267,313	112,011,555	16.2%	445
360	60	20.3%	369.54	369.54	20.3%	53,718	267,313	42,807,863	32.4%	445
370	57	31.1%	358.04	358.04	31.1%	62,787	134,448	50,109,634	22.5%	469
380	60	31.1%	358.04	358.04	31.1%	71,860	134,448	58,055,295	35.0%	454
390	57	3.2%	383.00	383.00	3.1%	7,212	7,212	6,726,746	3.1%	395
Statewide		39.3%	476.80	476.80	39.3%	1,947,571	3,106,606	127,156,247	14.5%	427
							310,606	102,102,925	20.6%	427
							73,246	63,978,482	27.1%	427
							42,991	33,226,593	26.6%	448
							49,801	41,324,407	33.3%	448
							197,618	173,363,198	21.1%	407
							9,588	9,234,828	33.6%	449
							33,379	32,767,597	28.3%	431
							34,828	38,937,036	25.9%	423
								2,257,970,593	24.8%	595,74

Sources:

RB-1, C-7; DOI-5, Data Request #1, Items 57-62

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - O'NEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-16

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	154.14	38,395	0.70	159.94	501.61	661.55	2.845	249.35	709.40
120	142.83	51,948	0.90	145.90	682.62	828.52	3.563	249.35	888.43
130	143.47	58,293	0.90	146.47	162.28	308.75	1.328	249.35	331.14
140	148.02	405,126	1.00	148.02	397.89	545.91	2.348	249.35	585.47
150	151.45	242,646	1.00	151.45	104.24	255.69	1.100	249.35	274.29
160	154.28	174,662	1.00	154.28	125.05	279.33	1.201	249.35	299.47
170	205.06	25,803	0.60	192.43	33.82	226.25	0.973	249.35	242.62
180	177.75	273,749	1.00	177.75	71.33	249.08	1.071	249.35	267.05
190	216.37	76,946	1.00	216.37	91.53	307.90	1.324	249.35	330.14
200	297.01	36,239	0.70	259.95	99.67	359.62	1.547	249.35	385.74
210	177.62	106,590	1.00	177.62	53.83	231.45	0.955	249.35	248.10
220	226.93	308,459	1.00	226.93	52.03	278.96	1.200	249.35	299.22
230	247.78	80,924	1.00	247.78	68.54	316.32	1.360	249.35	339.12
240	191.36	365,755	1.00	191.36	40.09	231.45	0.995	249.35	248.10
250	234.60	147,702	1.00	234.60	40.94	275.54	1.185	249.35	295.48
260	147.21	128,293	1.00	147.21	18.92	166.13	0.714	249.35	178.04
270	156.89	1,289,152	1.00	156.89	32.23	189.12	0.813	249.35	202.72
280	139.80	190,384	1.00	139.80	24.12	163.92	0.705	249.35	175.79
290	181.27	157,541	1.00	181.27	30.48	211.75	0.911	249.35	227.16
300	240.27	74,026	1.00	240.27	24.32	264.59	1.138	249.35	283.76
310	169.65	1,373,515	1.00	169.65	16.05	185.70	0.799	249.35	199.23
320	184.18	677,794	1.00	184.18	16.49	200.67	0.863	249.35	215.19
330	136.79	36,436	0.70	147.80	10.30	158.10	0.680	249.35	169.56
340	164.02	1,506,216	1.00	164.02	16.48	180.50	0.776	249.35	193.50
350	180.59	457,851	1.00	180.59	11.49	192.08	0.826	249.35	205.96
360	166.42	979,018	1.00	166.42	7.06	173.48	0.746	249.35	186.02
370	204.35	46,970	0.80	198.18	5.17	203.35	0.875	249.35	218.18
380	188.38	163,800	1.00	188.38	4.43	192.81	0.829	249.35	206.71
390	187.97	173,827	1.00	187.97	3.69	191.66	0.824	249.35	205.46
Statewide	173.48	9,263,463	1.00	173.48	59.05	232.53	1.000	249.35	249.35

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, DOI-10, Exhibit 2 Page 1, (11):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, DOI-10, Exhibit 2 Page 1, (13):

Source:

190.30
 59.05

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED AND RECOMMENDED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base Loss Cost	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate {(1) + [(2) x (4)] /[1.0 - (3)]	(6) Comp. for Asmt. Risk Per Policy	(7) Net Rate Cost	(8) Base Rate Excluding Deviations {(5) + (6) + (7)}	(9) Selected Explicit Deviation	(10) Explicit Dollar Deviation Per Exposure {(8) / [(1.0 - (9))] - (8)}	(11) Indicated Required Base-Class Rate {(11) + (10)}	(12) Indicated Rate Level Change {(11) / (4)} - 1.0	(13) Recommended Rate Level Change SW(12)	(14) Recommended Base Rate [SW(11) / SW(4)] x (4)
110	709.40	0.027	0.186	1,613.00	925.00	14.16	142.80	1,081.96	0.00	0.00	1,081.96	-32.9%	-14.0%	1,386.56
120	888.43	0.025	0.186	1,823.00	1,147.43	16.00	161.40	1,324.83	0.00	0.00	1,324.83	-27.3%	-14.0%	1,567.07
130	331.14	0.038	0.186	1,021.00	454.47	8.96	553.70	553.70	0.00	0.00	553.70	-45.8%	-14.0%	877.66
140	585.47	0.041	0.186	1,140.00	776.57	10.01	101.00	887.68	0.00	0.00	887.68	-22.1%	-14.0%	979.96
150	274.29	0.057	0.186	871.00	397.96	7.64	77.27	482.87	0.00	0.00	482.87	-44.5%	-14.0%	748.97
160	299.47	0.049	0.186	1,140.00	436.52	10.01	101.15	547.68	0.00	0.00	547.68	-52.0%	-14.0%	980.29
170	242.62	0.090	0.186	595.00	363.85	5.22	52.91	421.98	0.00	0.00	421.98	-29.1%	-14.0%	511.64
180	267.05	0.089	0.186	595.00	393.13	5.22	52.82	451.05	0.00	0.00	451.05	-24.2%	-14.0%	511.64
190	330.14	0.091	0.186	595.00	472.09	5.22	52.82	530.13	0.00	0.00	530.13	-10.9%	-14.0%	511.64
200	385.74	0.067	0.186	595.00	536.03	6.63	66.85	609.51	0.00	0.00	609.51	-19.3%	-14.0%	649.22
210	248.10	0.115	0.186	486.00	373.45	4.27	43.24	420.96	0.00	0.00	420.96	-13.4%	-14.0%	417.91
220	299.22	0.097	0.186	595.54	438.92	5.25	53.11	497.28	0.00	0.00	497.28	-16.9%	-14.0%	514.68
230	339.12	0.074	0.186	755.00	485.25	6.63	66.75	556.63	0.00	0.00	556.63	-26.0%	-14.0%	649.22
240	248.10	0.108	0.186	486.00	369.27	4.27	43.25	416.79	0.00	0.00	416.79	-14.2%	-14.0%	417.91
250	295.48	0.112	0.186	486.00	429.87	4.27	42.99	477.13	0.00	0.00	477.13	-1.8%	-14.0%	417.91
260	178.04	0.108	0.186	398.00	271.53	3.49	35.32	310.34	0.00	0.00	310.34	-22.0%	-14.0%	342.24
270	202.72	0.101	0.186	428.05	302.15	3.76	37.86	343.77	0.00	0.00	343.77	-19.7%	-14.0%	368.08
280	175.79	0.085	0.186	417.00	259.50	3.66	36.80	299.96	0.00	0.00	299.96	-28.1%	-14.0%	358.58
290	227.16	0.091	0.186	486.00	333.40	4.27	43.15	380.82	0.00	0.00	380.82	-21.6%	-14.0%	417.91
300	283.76	0.115	0.186	481.00	416.55	4.22	42.83	463.60	0.00	0.00	463.60	-3.6%	-14.0%	413.61
310	199.23	0.132	0.186	369.54	304.68	3.24	32.72	340.64	0.00	0.00	340.64	-7.8%	-14.0%	317.77
320	215.19	0.141	0.186	368.04	326.98	3.14	31.53	361.05	0.00	0.00	361.05	0.8%	-14.0%	307.88
330	169.56	0.122	0.186	363.00	265.71	3.36	34.12	303.19	0.00	0.00	303.19	-20.3%	-14.0%	329.24
340	193.50	0.121	0.186	357.73	290.89	3.14	31.49	325.52	0.00	0.00	325.52	-9.0%	-14.0%	307.61
350	205.96	0.141	0.186	344.31	312.66	3.02	30.32	346.00	0.00	0.00	346.00	0.5%	-14.0%	296.07
360	188.02	0.129	0.186	336.00	281.77	2.95	29.67	314.39	0.00	0.00	314.39	-6.4%	-14.0%	288.83
370	218.18	0.115	0.186	336.00	315.50	2.95	29.75	348.20	0.00	0.00	348.20	3.6%	-14.0%	288.83
380	206.71	0.116	0.186	336.00	301.83	2.95	29.58	334.36	0.00	0.00	334.36	-0.5%	-14.0%	288.83
390	205.46	0.102	0.186	336.00	294.51	2.95	29.70	327.16	0.00	0.00	327.16	-2.6%	-14.0%	288.83
Statewide	249.35	0.098	0.186	476.80	363.73	4.18	42.09	410.00	0.00	0.00	410.00	-14.0%	-14.0%	409.86

Source:

DOI-9, OCS Exhibit 13 Page 2

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-18

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	154.14	38,395	0.70	159.94	575.84	735.78	3.101	266.83	827.44
120	142.83	51,948	0.90	145.90	783.65	929.55	3.918	266.83	1045.44
130	143.47	58,293	0.90	146.47	186.30	332.77	1.403	266.83	374.36
140	148.02	405,126	1.00	148.02	456.78	604.80	2.549	266.83	680.15
150	151.45	242,646	1.00	151.45	119.67	271.12	1.143	266.83	304.99
160	154.28	174,662	1.00	154.28	143.55	297.83	1.255	266.83	334.87
170	205.06	25,803	0.60	192.43	38.82	231.25	0.975	266.83	260.16
180	177.75	273,749	1.00	177.75	81.89	259.64	1.094	266.83	291.91
190	216.37	76,946	1.00	216.37	105.08	321.45	1.355	266.83	361.55
200	297.01	36,239	0.70	259.95	114.42	374.37	1.578	266.83	421.06
210	177.62	106,590	1.00	177.62	61.79	239.41	1.009	266.83	269.23
220	226.93	308,459	1.00	226.93	59.73	286.66	1.208	266.83	322.33
230	247.78	80,924	1.00	247.78	78.68	326.46	1.376	266.83	367.16
240	191.36	365,755	1.00	191.36	46.02	237.38	1.001	266.83	267.10
250	234.60	147,702	1.00	234.60	47.00	281.60	1.187	266.83	316.73
260	147.21	128,293	1.00	147.21	21.72	168.93	0.712	266.83	189.98
270	156.89	1,289,152	1.00	156.89	36.99	193.88	0.817	266.83	218.00
280	139.80	190,384	1.00	139.80	27.69	167.49	0.706	266.83	188.38
290	181.27	157,541	1.00	181.27	34.99	216.26	0.912	266.83	243.35
300	240.27	74,026	1.00	240.27	27.92	268.19	1.130	266.83	301.52
310	169.65	1,373,515	1.00	169.65	18.43	188.08	0.793	266.83	211.60
320	184.18	677,794	1.00	184.18	18.94	203.12	0.856	266.83	228.41
330	136.79	36,436	0.70	147.80	11.82	159.62	0.673	266.83	179.58
340	164.02	1,506,216	1.00	164.02	18.92	182.94	0.771	266.83	205.73
350	180.59	457,851	1.00	180.59	13.19	193.78	0.817	266.83	218.00
360	166.42	979,018	1.00	166.42	8.10	174.52	0.736	266.83	196.39
370	204.35	46,970	0.80	198.18	5.94	204.12	0.860	266.83	229.47
380	188.38	163,800	1.00	188.38	5.08	193.46	0.815	266.83	217.47
390	187.97	173,827	1.00	187.97	4.24	192.21	0.810	266.83	216.13
Statewide	173.48	9,263,463	1.00	173.48		237.24	1.000	266.83	266.83

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-4, (14):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-4 (16):

Notes

- (1), (2), (3): RB-1, C-5, (1), (2) and (3): DOI-5, Data Request #1, Items 57-62
- (4) = [(3) x (1)] + [(1.0 - (3)) x (1) SW]
- (5): Exhibit 1, Section D, Page D-21, COL (9)
- (6) SW = {Sum [5-Yr House Years x (5) x (5)yr C&C at Level of Latest Year]} / (2) SW

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-19

Territory	Indicated Statewide Base	Trended Expense Fixed	Variable Expenses, Profit, Contingency	Revised Current Base Class Rate	Indicated Net Based-Class Rate $\frac{(1) + [(2) \times (4)]}{(1.0 - (3))}$	Comp. for Asmt. Risk	Net Reins. Cost	$(5) + (6) + (7)$	Selected Deviation $\frac{(8) - (9)}{(1.0 - (9))}$	Dollar Deviation Per Exposure $\frac{(10) - (9)}{(1.0 - (9))}$	Indicated Required Base-Class Rate $(8) + (10)$	(2011) Latest-Yr Earned Premium	Balanced Indicated Rate Level Change	Adjusted Balanced Ordered Rate Level Change	Ordered Base Rate $(4) \times (1.0 + (13))$
110	827.44	0.027	0.206	1,613.00	1,096.97	33.34	160.99	1,291.30	0.00	0.00	1,291.30	29,718.478	-17.8%	-10.0%	1,452
120	1045.44	0.025	0.206	1,823.00	1,374.07	37.68	182.00	1,593.75	0.00	0.00	1,593.75	47,123.668	-10.3%	-5.8%	1,717
130	374.36	0.038	0.206	1,021.00	520.35	101.90	101.90	643.35	0.00	0.00	643.35	35,840.448	-35.4%	-13.0%	888
140	680.15	0.041	0.206	1,187.00	917.91	23.56	113.78	1,055.25	0.00	0.00	1,055.25	232,776.905	-8.8%	-1.5%	1,169
150	304.99	0.057	0.206	871.00	446.65	18.00	86.92	551.57	0.00	0.00	551.57	100,270.222	-35.1%	-10.0%	784
160	334.87	0.049	0.206	1,032.00	485.44	23.56	113.80	622.80	0.00	0.00	622.80	84,286.580	-38.1%	-15.0%	500
170	260.16	0.090	0.206	570.00	392.27	12.30	59.39	463.96	0.00	0.00	463.96	6,414.052	-16.5%	-12.3%	500
180	291.91	0.089	0.206	587.00	433.44	12.30	59.39	505.13	0.00	0.00	505.13	69,347.961	-11.7%	-7.2%	545
190	361.55	0.091	0.206	632.00	527.79	12.30	59.38	599.47	0.00	0.00	599.47	18,503.479	-2.6%	2.3%	647
200	421.06	0.067	0.206	786.00	479.91	15.61	75.36	687.60	0.00	0.00	687.60	12,126.010	-10.2%	-3.7%	741
210	268.23	0.115	0.206	489.00	409.91	10.05	48.50	468.46	0.00	0.00	468.46	20,631.127	-1.7%	-5.4%	505
220	322.33	0.097	0.206	598.00	479.01	12.37	58.73	551.11	0.00	0.00	551.11	70,794.207	-5.4%	-0.6%	594
230	367.16	0.074	0.206	741.00	531.48	15.61	75.36	622.45	0.00	0.00	622.45	77,486.219	-13.8%	-9.5%	671
240	267.10	0.108	0.206	484.00	402.23	10.05	48.50	460.79	0.00	0.00	460.79	31,490.548	-2.3%	2.6%	487
250	316.73	0.112	0.206	503.00	469.86	10.05	48.50	528.41	0.00	0.00	528.41	28,173.390	7.8%	13.3%	570
260	189.98	0.108	0.206	398.00	293.41	8.23	39.73	341.37	0.00	0.00	341.37	22,733.990	-12.0%	-7.5%	368
270	218.00	0.101	0.206	428.00	329.00	8.85	42.74	380.59	0.00	0.00	380.59	298,408.018	-8.8%	-4.2%	410
280	188.38	0.085	0.206	477.00	281.90	8.62	41.63	332.15	0.00	0.00	332.15	52,155.934	-18.2%	-14.1%	358
290	243.35	0.091	0.206	470.00	360.35	10.05	48.51	418.91	0.00	0.00	418.91	39,986.392	-8.6%	-4.0%	451
300	301.52	0.115	0.206	481.00	449.41	9.94	48.01	507.36	0.00	0.00	507.36	14,736.955	8.2%	13.7%	547
310	211.60	0.132	0.206	369.00	327.54	7.64	36.88	372.36	0.00	0.00	372.36	227,089.510	3.5%	0.3%	370
320	228.41	0.141	0.206	357.00	351.07	7.40	35.73	394.20	0.00	0.00	394.20	108,007.558	13.3%	19.0%	425
330	179.58	0.122	0.206	383.00	285.02	7.92	38.23	331.17	0.00	0.00	331.17	6,726.746	-11.3%	-6.8%	357
340	205.73	0.121	0.206	357.00	313.51	7.39	35.73	356.63	0.00	0.00	356.63	293,399.915	2.5%	0.2%	358
350	218.00	0.141	0.206	344.00	335.65	7.12	34.37	377.14	0.00	0.00	377.14	74,551.001	12.4%	18.1%	406
360	196.39	0.129	0.206	336.00	301.93	6.95	33.54	342.42	0.00	0.00	342.42	173,354.504	4.5%	3.6%	348
370	229.47	0.115	0.206	336.00	337.67	6.95	33.53	378.15	0.00	0.00	378.15	9,234.828	15.4%	21.3%	408
380	217.47	0.116	0.206	336.00	322.98	6.95	33.53	363.46	0.00	0.00	363.46	32,767.597	11.0%	16.6%	392
390	216.13	0.102	0.206	336.00	315.37	6.95	33.54	355.86	0.00	0.00	355.86	38,937.036	8.7%	14.1%	383
Statewide	266.83	0.098	0.206	477.30	394.97	9.86	47.68	452.51	0.00	0.00	452.51	2,257,970.583	-5.1%	-0.3%	476

(12a) Indicated Rate Level Change: -5.1%
 (13b) Ordered Rate Level Change: -0.3%

- Notes
- (1): Exhibit 1, Section C, Page C-18, (9)
 - (2): Exhibit 1, Section D, Page D-18, Owners, COI
 - (3): 1.0 - Expected Loss and Fixed Expense Ratio (Exhibit 1, Section D, Pages D-38, COI, (5))
 - (4): RB-1, F-A-16, Owners
 - (5): Exhibit 1, Section D, Page D-26, Owners, (11) COI
 - (6): Exhibit 1, Section D, Page D-29, (2)
 - (7): Exhibit 1, Section D, Page D-31, (10)
 - (8): Exhibit 1, Section C, Page C-4, (24)
 - (9): RB-1, D-44, (2); Exhibit 1, Section D, Page D-29, (2)
 - (10): Exhibit 1, Section C, Page C-4, (28)
 - (11a): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Owners
 - (12a): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Owners
 - (13b): Statewide: Exhibit 1, Section A, Page A-1, COI, Ordered Change, Owners

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	(1) Non Hurricane Base-Class Loss Cost		(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost		(5) Modeled Hurricane Base Loss Cost		(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	5.28	770	0.10	21.15	45.81	66.96	2.628	33.35	87.64			
120	21.64	1,952	0.10	22.78	56.10	78.88	3.096	33.35	103.25			
130	13.89	1,483	0.10	22.01	15.65	37.66	1.478	33.35	49.29			
140	18.51	28,101	0.60	20.27	29.65	49.92	1.959	33.35	65.33			
150	10.39	12,575	0.40	17.90	8.49	26.39	1.036	33.35	34.55			
160	27.44	11,231	0.30	24.27	11.22	35.49	1.393	33.35	46.46			
170	24.98	1,390	0.10	23.12	2.69	25.81	1.013	33.35	33.78			
180	20.74	31,281	0.60	21.61	5.61	27.22	1.068	33.35	35.62			
190	23.13	5,273	0.20	22.95	6.77	29.72	1.166	33.35	38.89			
200	030.20	1,514	0.10	23.64	7.31	30.95	1.215	33.35	40.52			
210	26.07	9,906	0.30	23.86	4.12	27.98	1.098	33.35	36.62			
220	54.82	28,187	0.60	42.06	3.73	45.79	1.797	33.35	59.93			
230	21.74	4,541	0.20	22.68	5.10	27.78	1.090	33.35	36.35			
240	28.77	23,030	0.50	25.84	3.24	29.08	1.141	33.35	38.05			
250	25.43	8,804	0.30	23.67	3.27	26.94	1.057	33.35	35.25			
260	41.45	8,735	0.30	28.47	1.60	30.07	1.180	33.35	39.35			
270	19.84	241,056	1.00	19.84	2.31	22.15	0.869	33.35	28.98			
280	16.37	39,844	0.70	18.33	1.75	20.08	0.788	33.35	26.28			
290	18.82	11,630	0.30	21.68	2.24	23.92	0.939	33.35	31.32			
300	33.94	3,678	0.20	25.12	1.83	26.95	1.058	33.35	35.28			
310	22.68	167,099	1.00	22.68	1.21	23.89	0.938	33.35	31.28			
320	22.50	48,134	0.80	22.58	1.25	23.83	0.935	33.35	31.18			
330	18.03	1,920	0.10	22.42	0.79	23.21	0.911	33.35	30.38			
340	26.17	234,600	1.00	26.17	1.21	27.38	1.075	33.35	35.85			
350	26.48	31,017	0.60	25.05	0.91	25.96	1.019	33.35	33.98			
360	15.71	83,212	1.00	15.71	0.52	16.23	0.637	33.35	21.24			
370	10.72	1,540	0.10	21.69	0.39	22.08	0.867	33.35	28.91			
380	17.95	7,971	0.30	21.42	0.35	21.77	0.854	33.35	28.48			
390	12.68	5,709	0.20	20.86	0.29	21.15	0.830	33.35	27.68			
Statewide	22.91	1,056,183	1.00	22.91		25.48	1.000	33.35	33.35			

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, RB-1, C-2, (9):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, RB-1, C-2, (11):

Sources:

RB-1, C-8; DOI-5; Data Response #1, Items 57-62

29.71
 3.64

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base	(2) Trended Fixed Expense	(3) Variable Expenses, Profit	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate / [(1) + (2) x (4)] / [1.0 - (3)]	(6) Comp. for Asmt. Risk	(7) Net Reins. Cost	(8) (5) + (6) + (7)	(9) Selected Deviation {(8) / [(1.0 - (9))] - (8)}	(10) Dollar Deviation Per Exposure {(9) / [(1.0 - (9))] - (8)}	(11) Indicated Required Base-Class Rate (8) + (10)	(11a) (2011) Latest-Yr Earned Premium	(12) Indicated Rate Level Change [(11) / (4)] - 1.0	(13) Balanced Indicated Rate Change
110	87.64	0.156	0.343	107.00	158.80	5.57	128.15	292.52	0.05	15.40	307.92	90,517	187.8%	194.7%
120	103.25	0.160	0.343	112.00	184.43	5.83	133.91	324.17	0.05	17.06	341.23	223,623	204.7%	212.0%
130	49.29	0.189	0.292	76.00	89.91	3.95	28.40	122.26	0.05	6.43	128.69	103,797	69.3%	73.3%
140	65.33	0.206	0.343	85.00	126.09	4.42	101.82	232.13	0.05	12.22	244.35	2,178,133	187.5%	194.4%
150	34.55	0.221	0.292	72.00	71.27	3.74	26.95	101.96	0.05	5.37	107.33	786,588	49.1%	52.7%
160	46.46	0.205	0.292	85.00	90.23	4.42	31.81	126.46	0.05	6.66	133.12	818,448	56.6%	60.3%
170	33.78	0.295	0.260	54.00	67.18	2.81	16.91	86.90	0.05	4.57	91.47	63,436	69.4%	73.4%
180	35.62	0.343	0.260	54.00	73.16	2.81	16.92	92.89	0.05	4.89	97.78	1,339,098	81.1%	85.4%
190	38.89	0.296	0.292	54.00	77.51	2.81	20.20	100.52	0.05	5.29	105.81	256,997	95.9%	100.6%
200	40.52	0.257	0.292	56.00	77.56	2.91	20.96	101.43	0.05	5.34	106.77	84,712	90.7%	95.2%
210	36.62	0.327	0.260	51.00	72.02	2.65	15.98	90.65	0.05	4.77	95.42	436,939	87.1%	91.6%
220	59.93	0.275	0.260	64.12	104.81	3.33	20.10	128.24	0.05	6.75	134.99	1,461,612	110.5%	115.5%
230	36.35	0.290	0.260	56.00	71.07	2.91	17.54	91.52	0.05	4.82	96.34	231,695	72.0%	76.1%
240	38.05	0.313	0.260	51.00	72.99	2.65	15.97	91.61	0.05	4.82	96.43	1,076,354	89.1%	93.6%
250	35.25	0.301	0.260	51.00	68.38	2.65	15.97	87.00	0.05	4.58	91.58	429,585	79.6%	83.9%
260	39.35	0.338	0.260	44.00	74.19	2.39	14.41	90.99	0.05	4.79	95.78	407,197	108.2%	113.2%
270	28.98	0.407	0.260	44.00	63.40	2.29	13.85	79.54	0.05	4.19	83.73	9,649,902	90.0%	94.5%
280	26.28	0.412	0.260	40.00	57.78	2.08	12.53	72.39	0.05	3.81	76.20	1,426,729	90.5%	95.0%
290	31.32	0.283	0.260	51.00	61.83	2.65	15.98	80.46	0.05	4.23	84.69	595,145	66.1%	70.1%
300	35.28	0.307	0.260	50.00	68.42	2.60	15.66	86.68	0.05	4.56	91.24	1,683,404	82.5%	86.9%
310	31.28	0.396	0.223	43.36	62.36	2.26	5.72	70.34	0.05	3.70	74.04	6,285,764	70.8%	74.9%
320	31.18	0.395	0.223	39.98	60.45	2.08	5.27	67.80	0.05	3.57	71.37	1,837,358	78.5%	82.8%
330	30.38	0.337	0.223	44.00	58.18	2.29	5.80	66.27	0.05	3.49	69.76	75,662	58.5%	62.3%
340	35.85	0.375	0.223	46.12	68.40	2.40	6.10	76.90	0.05	4.05	80.95	10,147,067	75.5%	79.7%
350	33.98	0.399	0.223	39.31	63.92	2.04	5.18	71.14	0.05	3.74	74.88	1,155,210	90.5%	95.0%
360	21.24	0.389	0.223	37.00	45.86	1.92	4.87	52.65	0.05	2.77	55.42	3,116,105	49.8%	53.4%
370	28.91	0.377	0.223	37.00	55.16	1.92	4.87	61.95	0.05	3.26	65.21	58,872	78.2%	80.4%
380	28.48	0.358	0.223	37.00	53.70	1.92	4.87	60.49	0.05	3.18	63.67	312,557	72.1%	76.2%
390	27.68	0.325	0.223	37.00	51.10	1.92	4.88	57.90	0.05	3.05	60.95	248,365	64.7%	68.6%
Statewide	33.35	0.3614	0.269	46.69	68.78	2.43	12.64	83.85	0.05	4.41	88.26	45,065,871	84.6%	89.0%

(12a) Statewide Indicated Rate-Level Change, RB-1, C-2: 89.0%

Source:
 RB-1, C-9; DOI-5, Data Request #1, Items 57-62
 (13) = (((1.0 + (12a)) / [(1.0 + SW/(12))]) x 11.0 - (12)) - 1.0

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF FILED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	New	Territory	Current	Territory	Indicated Rate Change New	Territory	Current Average Rate New	Territory	Current Rate Current	Territory	Rate Change Current Territory [(2)/(3)] - 1.0	Territory	2011 Hse-Yrs In New Terr From Current	Territory	House-Yrs 2011 In New Territory	Territory	2011 Premium at Present Rates	Territory	Capped Filed Rate Level Change (at 55%)	Territory	Filed Base Rate [1 + (8)] x (3)
110			07		194.5%		107.00		107.00		194.4%		221		221		90,517		55.0%		166
120			08		212.0%		112.00		112.00		211.6%		594		594		223,623		55.0%		174
130			48		73.4%		76.00		76.00		73.7%		325		325		103,797		55.0%		118
140			52		194.4%		85.00		85.00		194.1%		7,550		10,385		2,178,133		55.0%		132
150			49		52.7%		72.00		72.00		52.8%		2,921		2,921		786,588		52.8%		110
160			52		60.3%		85.00		85.00		60.0%		2,835		10,385		818,448		55.0%		132
170			45		73.4%		54.00		54.00		74.1%		298		298		63,436		55.0%		84
180			45		85.4%		54.00		54.00		85.2%		7,475		7,475		1,339,098		55.0%		84
190			45		100.7%		54.00		54.00		100.0%		1,223		1,223		256,997		55.0%		84
200			41		95.2%		56.00		56.00		94.6%		350		350		84,712		55.0%		87
210			47		91.6%		51.00		51.00		92.2%		2,299		2,299		436,939		55.0%		79
220			34		115.6%		64.12		65.00		112.3%		6,164		6,654		1,351,823		55.0%		101
220			45		115.6%		64.12		64.12		155.6%		490		109,789		109,789		55.0%		84
230			41		76.2%		51.00		51.00		76.8%		1,101		1,101		231,695		55.0%		87
240			47		93.6%		51.00		51.00		94.1%		5,445		5,445		1,076,354		55.0%		79
250			47		83.9%		51.00		51.00		84.3%		2,103		2,103		429,585		55.0%		79
260			46		113.2%		46.00		46.00		113.0%		2,282		2,282		407,197		55.0%		71
270			32		94.5%		44.06		47.00		83.0%		38,636		64,219		5,936,074		55.0%		73
270			53		94.5%		44.06		40.00		115.0%		25,582		64,219		3,713,828		55.0%		62
280			53		95.0%		40.00		40.00		95.0%		9,560		9,560		1,426,729		55.0%		62
290			47		70.0%		51.00		51.00		70.6%		2,651		2,651		595,145		55.0%		79
300			44		86.8%		50.00		50.00		86.0%		833		833		168,404		55.0%		78
310			36		74.9%		43.36		44.00		72.7%		20,274		40,492		3,039,305		55.0%		68
310			46		74.9%		43.36		46.00		65.2%		202		40,492		39,649		55.0%		71
310			57		74.9%		43.36		44.00		72.7%		16,467		40,492		2,652,953		55.0%		68
310			60		74.9%		43.36		37.00		105.4%		3,548		40,492		553,819		55.0%		57
320			57		82.9%		39.98		44.00		65.9%		4,993		11,638		816,263		55.0%		68
320			60		82.9%		39.98		37.00		97.3%		6,655		11,638		1,022,949		55.0%		57
330			57		62.3%		44.00		44.00		61.4%		410		410		75,662		55.0%		68
340			38		79.6%		46.12		49.00		69.4%		44,071		62,163		7,207,984		55.0%		76
340			39		79.6%		46.12		41.00		124.3%		11,946		62,163		1,989,620		55.0%		64
340			60		79.6%		46.12		37.00		124.3%		6,136		62,163		947,561		55.0%		57
340			39		95.0%		39.31		41.00		87.8%		4,235		7,364		661,804		55.0%		64
350			60		95.0%		39.31		37.00		108.1%		3,129		7,364		493,406		55.0%		57
360			60		53.4%		37.00		37.00		54.1%		19,554		19,554		3,116,193		54.1%		57
370			60		80.3%		37.00		37.00		81.1%		353		353		58,872		55.0%		57
380			60		76.2%		37.00		37.00		75.7%		1,819		1,819		312,557		55.0%		57
390			60		68.6%		37.00		37.00		67.6%		1,259		1,259		248,365		55.0%		57
Statewide					89.0%		46.69		46.69		89.0%		265,989		45,065,873				54.9%		72.61

Sources:

RB-1, C-10; DOI-5, Data Response #1, Items 57-62

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-23

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	5.28	770	0.10	21.15	34.36	55.51	2.165	30.10	65.17
120	21.64	1,952	0.10	22.78	42.08	64.86	2.530	30.10	76.15
130	13.89	1,483	0.10	22.01	11.74	33.75	1.316	30.10	39.61
140	18.51	28,101	0.60	20.27	22.24	42.51	1.658	30.10	49.91
150	10.39	12,575	0.40	17.90	6.37	24.27	0.947	30.10	28.50
160	27.44	11,231	0.30	24.27	8.42	32.69	1.275	30.10	38.38
170	24.98	1,390	0.10	23.12	2.02	25.14	0.980	30.10	29.50
180	20.74	31,281	0.60	21.61	4.21	25.82	1.007	30.10	30.31
190	23.13	5,273	0.20	22.95	5.08	28.03	1.093	30.10	32.90
200	030.20	1,514	0.10	23.64	5.48	29.12	1.136	30.10	34.19
210	26.07	9,906	0.30	23.86	3.09	26.95	1.051	30.10	31.64
220	54.82	28,187	0.60	42.06	2.80	44.86	1.750	30.10	52.68
230	21.74	4,541	0.20	22.68	3.83	26.51	1.034	30.10	31.12
240	28.77	23,030	0.50	25.84	2.43	28.27	1.103	30.10	33.20
250	25.43	8,804	0.30	23.67	2.45	26.12	1.019	30.10	30.67
260	41.45	8,735	0.30	28.47	1.20	29.67	1.157	30.10	34.83
270	19.84	241,056	1.00	19.84	1.73	21.57	0.841	30.10	25.31
280	16.37	39,844	0.70	18.33	1.31	19.64	0.766	30.10	23.06
290	18.82	11,630	0.30	21.68	1.68	23.36	0.911	30.10	27.42
300	33.94	3,678	0.20	25.12	1.37	26.49	1.033	30.10	31.09
310	22.68	167,099	1.00	22.68	0.91	23.59	0.920	30.10	27.69
320	22.50	48,134	0.80	22.58	0.94	23.52	0.917	30.10	27.60
330	18.03	1,920	0.10	22.42	0.59	23.01	0.897	30.10	27.00
340	26.17	234,600	1.00	26.17	0.91	27.08	1.056	30.10	31.79
350	26.48	31,017	0.60	25.05	0.68	25.73	1.004	30.10	30.22
360	15.71	83,212	1.00	15.71	0.39	16.10	0.628	30.10	18.90
370	10.72	1,540	0.10	21.69	0.29	21.98	0.857	30.10	25.80
380	17.95	7,971	0.30	21.42	0.26	21.68	0.846	30.10	25.46
390	12.68	5,709	0.20	20.86	0.22	21.08	0.822	30.10	24.74
SW	22.91	1,056,183	1.00	22.91	2.73	25.64	1.000	30.10	30.10

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, DOI-9, Exhibit 2 Page 2, (9): 27.37
 (11) Trended Modeled Hurricane Base-Class Loss Cost, DOI-9, OCS Exhibit 2 Page 2, (11): 2.73

Source:

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED AND RECOMMENDED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base Loss Cost	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate {(1) + [(2) x (4)]} / [1.0 - (3)]	(6) Comp. for Amt. Risk Per Policy	(7) Net Reins. Cost	(8) Base Rate Excluding Deviations {(5) + (6) + (7)}	(9) Selected Explicit Deviation	(10) Explicit Dollar Deviation Per Exposure {(8) / [1.0 - (9)]}	(11) Indicated Required Base-Class Rate {(8) + (10)}	(12) Indicated Rate Level Change {(11) / (4)} - 1.0	(13) Recommended Rate Level Change	(14) Recommended Base Rate
110	65.17	0.048	0.186	107.00	86.37	0.94	8.40	95.71	0.00	0.00	95.71	-10.6%	0.0%	95.55
120	76.15	0.049	0.186	112.00	100.29	0.98	8.85	110.12	0.00	0.00	110.12	-1.7%	0.0%	109.91
130	39.61	0.059	0.186	76.00	54.17	0.67	5.94	60.78	0.00	0.00	60.78	-20.0%	0.0%	60.48
140	49.91	0.064	0.186	85.00	68.00	0.75	6.66	75.41	0.00	0.00	75.41	-11.3%	0.0%	75.06
150	28.50	0.068	0.186	72.00	41.03	0.63	5.72	47.38	0.00	0.00	47.38	-34.2%	0.0%	47.38
160	38.38	0.064	0.186	85.00	53.83	0.75	6.65	61.23	0.00	0.00	61.23	-28.0%	0.0%	61.23
170	29.50	0.091	0.186	54.00	42.28	0.47	4.22	46.97	0.00	0.00	46.97	-13.0%	0.0%	46.97
180	30.31	0.106	0.186	54.00	44.27	0.47	4.30	49.04	0.00	0.00	49.04	-9.2%	0.0%	49.04
190	32.90	0.092	0.186	54.00	46.32	0.47	4.28	51.27	0.00	0.00	51.27	-5.1%	0.0%	51.27
200	34.19	0.101	0.186	56.00	47.51	0.49	4.40	52.40	0.00	0.00	52.40	-6.4%	0.0%	52.40
210	31.64	0.101	0.186	56.00	45.20	0.45	4.15	49.80	0.00	0.00	49.80	-2.4%	0.0%	49.80
220	52.68	0.085	0.186	64.12	71.41	0.56	5.21	77.18	0.00	0.00	77.18	20.4%	18.3%	91.30
230	31.12	0.090	0.186	56.00	44.42	0.49	4.43	49.34	0.00	0.00	49.34	-11.9%	0.0%	49.34
240	33.20	0.097	0.186	51.00	46.86	0.45	3.99	51.30	0.00	0.00	51.30	0.6%	0.0%	51.30
250	30.67	0.093	0.186	51.00	43.50	0.45	4.16	48.11	0.00	0.00	48.11	-5.7%	0.0%	48.11
260	34.83	0.105	0.186	46.00	48.72	0.40	3.68	52.80	0.00	0.00	52.80	14.8%	12.7%	59.51
270	25.31	0.126	0.186	44.00	37.91	0.39	3.50	41.80	0.00	0.00	41.80	-5.1%	0.0%	41.80
280	23.06	0.128	0.186	40.00	34.62	0.35	3.19	38.16	0.00	0.00	38.16	-4.6%	0.0%	38.16
290	27.42	0.088	0.186	51.00	39.20	0.44	4.06	43.71	0.00	0.00	43.71	-14.3%	0.0%	43.71
300	31.09	0.095	0.186	50.00	44.03	0.44	4.06	48.29	0.00	0.00	48.29	-3.4%	0.0%	48.29
310	27.69	0.123	0.186	43.36	40.57	0.38	3.32	44.27	0.00	0.00	44.27	2.1%	0.1%	44.31
320	27.60	0.122	0.186	39.98	38.90	0.35	3.31	43.56	0.00	0.00	43.56	9.0%	6.9%	46.57
330	27.00	0.104	0.186	44.00	38.79	0.39	3.41	42.59	0.00	0.00	42.59	-3.2%	0.0%	42.59
340	31.79	0.116	0.186	46.12	45.63	0.40	3.71	49.74	0.00	0.00	49.74	7.8%	5.8%	52.62
350	30.22	0.124	0.186	39.31	43.11	0.34	2.98	46.43	0.00	0.00	46.43	18.1%	15.9%	53.81
360	18.90	0.121	0.186	37.00	28.72	0.32	3.03	32.07	0.00	0.00	32.07	-13.3%	0.0%	32.07
370	25.80	0.117	0.186	37.00	37.01	0.32	2.90	40.23	0.00	0.00	40.23	8.7%	21.0%	48.68
380	25.46	0.111	0.186	37.00	36.32	0.32	2.82	39.46	0.00	0.00	39.46	6.6%	4.6%	41.08
390	24.74	0.101	0.186	37.00	34.98	0.32	2.90	38.20	0.00	0.00	38.20	3.2%	1.4%	38.54
Statewide	30.10	0.112	0.186	46.69	43.40	0.41	3.62	47.43	0.00	0.00	47.43	1.6%	1.6%	47.43

Source:

DOI9, OCS Exhibit 13 Page 4

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-25

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	5.28	770	0.10	21.15	39.44	60.59	2.190	31.04	67.98
120	21.64	1,952	0.10	22.78	48.30	71.08	2.569	31.04	79.74
130	13.89	1,483	0.10	22.01	13.47	35.48	1.282	31.04	39.79
140	18.51	28,101	0.60	20.27	25.53	45.80	1.655	31.04	51.37
150	10.39	12,575	0.40	17.90	7.31	25.21	0.911	31.04	28.28
160	27.44	11,231	0.30	24.27	9.66	33.93	1.226	31.04	38.06
170	24.98	1,390	0.10	23.12	2.32	25.44	0.919	31.04	28.53
180	20.74	31,281	0.60	21.61	4.83	26.44	0.956	31.04	29.67
190	23.13	5,273	0.20	22.95	5.83	28.78	1.040	31.04	32.28
200	030.20	1,514	0.10	23.64	6.29	29.93	1.082	31.04	33.59
210	26.07	9,906	0.30	23.86	3.54	27.40	0.990	31.04	30.73
220	54.82	28,187	0.60	42.06	3.21	45.27	1.636	31.04	50.78
230	21.74	4,541	0.20	22.68	4.39	27.07	0.978	31.04	30.36
240	28.77	23,030	0.50	25.84	2.79	28.63	1.035	31.04	32.13
250	25.43	8,804	0.30	23.67	2.82	26.49	0.957	31.04	29.71
260	41.45	8,735	0.30	28.47	1.38	29.85	1.079	31.04	33.49
270	19.84	241,056	1.00	19.84	1.99	21.83	0.789	31.04	24.49
280	16.37	39,844	0.70	18.33	1.51	19.84	0.717	31.04	22.26
290	18.82	11,630	0.30	21.68	1.93	23.61	0.853	31.04	26.48
300	33.94	3,678	0.20	25.12	1.58	26.70	0.965	31.04	29.95
310	22.68	167,099	1.00	22.68	1.04	23.72	0.857	31.04	26.60
320	22.50	48,134	0.80	22.58	1.08	23.66	0.855	31.04	26.54
330	18.03	1,920	0.10	22.42	0.68	23.10	0.835	31.04	25.92
340	26.17	234,600	1.00	26.17	1.04	27.21	0.983	31.04	30.51
350	26.48	31,017	0.60	25.05	0.78	25.83	0.934	31.04	28.99
360	15.71	83,212	1.00	15.71	0.45	16.16	0.584	31.04	18.13
370	10.72	1,540	0.10	21.69	0.34	22.03	0.796	31.04	24.71
380	17.95	7,971	0.30	21.42	0.30	21.72	0.785	31.04	24.37
390	12.68	5,709	0.20	20.86	0.25	21.11	0.763	31.04	23.68
Statewide	22.91	1,056,183	1.00	22.91		27.67	1.000	31.04	31.04
								28.08	
								2.96	

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-8, (11):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-8, (13):

Notes

- (1), (2), (3): Exhibit 1, Section C, Pages C-20 and C-23, (1), (2) and (3)
- (4) = [(3) x (1)] + [(1.0 - (3))] x (1) SW
- (5): Exhibit 1, Section D, Page D-22, COI (9)
- (6) SW = [Sum [5-Yr House Years x (5) x (5Yr C&C at Level of Latest Year)] / (2) SW

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
Section C
Page C-26

Territory	(1) Indicated Statewide Base Loss Cost	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Revised Current Base Class Rate	(5) Indicated Net Based- Class Rate / [(1) + ((2) x (4))] / (1.0 - (3))	(6) Comp. for Asml. Risk	(7) Net Reins. Cost	(8) (5) + (6) + (7)	(9) Selected Deviation	(10) Dollar Deviation Per Exposure - (8) / (1.0 - (9))	(11) Indicated Required Base-Class Rate	(11a) (2011) Latest-Yr Earned Premium	(12) Balanced Indicated Rate Level Change	(13) Adjusted Ordered Rate Level Change	(14) Ordered Base Rate (4) x (1.0 + (13))
110	67.98	0.048	0.206	107.00	92.09	2.21	10.68	104.98	0.00	0.00	104.98	90,517	5.7%	5.7%	113
120	79.74	0.049	0.206	112.00	107.34	2.32	11.16	120.82	0.00	0.00	120.82	223,623	16.3%	16.3%	130
130	39.79	0.059	0.206	76.00	55.76	1.57	7.56	64.89	0.00	0.00	64.89	103,797	-8.0%	-8.0%	70
140	51.37	0.064	0.206	89.00	71.87	1.76	8.47	82.10	0.00	0.00	82.10	2,178,133	-0.7%	-0.7%	88
150	28.28	0.068	0.206	72.00	41.78	1.49	7.18	50.45	0.00	0.00	50.45	786,588	-24.5%	-24.5%	54
160	38.06	0.064	0.206	75.00	53.98	1.76	8.47	64.21	0.00	0.00	64.21	818,448	-7.8%	-7.8%	69
170	28.53	0.091	0.206	54.00	42.12	1.12	5.38	48.62	0.00	0.00	48.62	63,436	-3.0%	-3.0%	52
180	29.67	0.106	0.206	54.00	44.58	1.12	5.38	51.08	0.00	0.00	51.08	1,339,098	1.9%	1.9%	55
190	32.28	0.092	0.206	54.00	46.91	1.12	5.38	53.41	0.00	0.00	53.41	256,997	6.6%	6.6%	88
200	33.59	0.080	0.206	56.00	47.95	1.16	5.08	54.69	0.00	0.00	54.69	84,712	5.3%	5.3%	59
210	30.73	0.101	0.206	51.00	45.19	1.05	5.08	51.32	0.00	0.00	51.32	436,939	8.4%	8.4%	55
220	50.78	0.085	0.206	64.00	70.81	1.33	6.40	78.54	0.00	0.00	78.54	1,461,612	32.2%	32.2%	85
230	30.36	0.090	0.206	56.00	44.58	1.16	5.58	51.32	0.00	0.00	51.32	231,695	-1.3%	-1.3%	55
240	32.13	0.097	0.206	51.00	46.70	1.05	5.08	52.83	0.00	0.00	52.83	1,076,354	11.6%	11.6%	57
250	29.71	0.093	0.206	51.00	43.39	1.05	5.08	49.52	0.00	0.00	49.52	429,585	4.6%	4.6%	53
260	33.49	0.105	0.206	46.00	48.26	0.95	4.56	53.79	0.00	0.00	53.79	407,197	26.0%	26.0%	58
270	24.49	0.128	0.206	44.00	37.83	0.91	4.41	43.15	0.00	0.00	43.15	9,649,902	5.7%	5.7%	47
280	22.26	0.088	0.206	40.00	34.48	0.83	3.99	39.30	0.00	0.00	39.30	1,426,729	5.8%	5.8%	42
290	26.48	0.095	0.206	51.00	39.00	1.05	5.08	45.13	0.00	0.00	45.13	595,145	-4.7%	-4.7%	49
300	29.95	0.085	0.206	50.00	43.70	1.03	4.98	49.71	0.00	0.00	49.71	1,68,404	7.1%	7.1%	54
310	26.80	0.123	0.206	44.00	40.32	0.90	4.33	45.55	0.00	0.00	45.55	6,285,764	11.5%	11.5%	49
320	26.54	0.122	0.206	44.00	40.32	0.83	3.99	44.39	0.00	0.00	44.39	1,837,358	19.6%	19.6%	48
330	30.51	0.104	0.206	44.00	39.57	0.91	4.39	43.71	0.00	0.00	43.71	75,662	7.0%	7.0%	47
340	25.92	0.116	0.206	46.00	38.41	0.95	4.61	50.71	0.00	0.00	50.71	10,147,067	18.7%	18.7%	55
350	28.99	0.124	0.206	40.00	42.76	0.81	3.92	47.49	0.00	0.00	47.49	1,155,210	27.9%	27.9%	51
360	18.13	0.121	0.206	37.00	28.47	0.76	3.69	32.92	0.00	0.00	32.92	3,116,105	-4.1%	-4.1%	35
370	24.71	0.117	0.206	37.00	36.57	0.76	3.69	41.02	0.00	0.00	41.02	58,872	19.5%	19.5%	44
380	24.37	0.111	0.206	37.00	35.87	0.76	3.69	40.32	0.00	0.00	40.32	312,557	17.4%	17.4%	43
390	23.66	0.101	0.206	37.00	34.53	0.76	3.69	38.98	0.00	0.00	38.98	248,365	13.6%	13.6%	42
Statewide	31.04	0.112	0.206	46.86	45.70	0.97	4.67	51.34	0.00	0.00	51.34	45,065,871	9.9%	9.9%	51

(12a) Indicated Rate Level Change: 9.9%
(13b) Ordered Rate Level Change: 9.9%

Notes

- (1): Exhibit 1, Section C, Page C-25, (9)
- (2): Exhibit 1, Section D, Page D-18, Tenants, COI
- (3): 1.0 - Expected Loss and Fixed Expense Ratio (Exhibit 1, Section D, Pages D-38, COI, (5))
- (4): RB-1, F-A-16, Tenants
- (5): Exhibit 1, Section D, Page D-26, Tenants, (15) COI
- (6): Exhibit 1, Section D, Page D-34, (10)
- (7): Exhibit 1, Section C, Page C-8, (21)
- (8): RB-1, D-45, (2); Exhibit 1, Section D, Page D-32, (2)
- (9): Exhibit 1, Section C, Page C-8, (25)
- (10): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Tenants
- (11a): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Tenants
- (12a): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Tenants
- (13b): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Tenants

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-27

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	17.86	1,217	0.10	21.19	34.31	55.50	2.144	34.20	73.32
120	22.58	6,761	0.30	21.87	49.73	71.60	2.766	34.20	94.60
130	14.61	947	0.10	20.87	20.00	40.87	1.579	34.20	54.00
140	18.18	24,918	0.70	19.19	27.29	46.48	1.795	34.20	61.39
150	12.86	2,919	0.20	19.82	8.10	27.92	1.078	34.20	36.87
160	11.30	4,043	0.20	19.51	10.74	30.25	1.168	34.20	39.95
170	28.74	6	0.00	21.56	2.65	24.21	0.935	34.20	31.98
180	20.37	5,021	0.30	21.20	5.05	26.25	1.014	34.20	34.68
190	9.83	91	0.00	21.56	7.09	28.65	1.107	34.20	37.86
200	032.89	17	0.00	21.56	8.31	29.87	1.154	34.20	39.47
210	28.62	308	0.00	21.56	4.27	25.83	0.998	34.20	34.13
220	26.28	6,479	0.30	22.98	2.82	25.80	0.997	34.20	34.10
230	50.42	363	0.00	21.56	5.44	27.00	1.043	34.20	35.67
240	19.81	1,214	0.10	21.39	3.06	24.45	0.944	34.20	32.28
250	11.16	316	0.00	21.56	2.52	24.08	0.930	34.20	31.81
260	22.66	102	0.00	21.56	1.62	23.18	0.895	34.20	30.61
270	26.60	46,757	0.90	26.10	2.10	28.20	1.089	34.20	37.24
280	11.28	13,065	0.50	16.42	1.71	18.13	0.700	34.20	23.94
290	21.89	5,151	0.30	21.66	2.15	23.81	0.920	34.20	31.46
300	21.10	147	0.00	21.56	1.94	23.50	0.908	34.20	31.05
310	18.51	47,599	0.90	18.82	1.14	19.96	0.771	34.20	26.37
320	18.05	9,889	0.40	20.16	1.20	21.36	0.825	34.20	28.22
330	8.59	173	0.00	21.56	0.90	22.46	0.858	34.20	29.69
340	21.88	112,901	1.00	21.88	1.10	22.98	0.888	34.20	30.37
350	21.86	6,295	0.30	21.65	0.89	22.54	0.871	34.20	29.79
360	20.08	37,994	0.80	20.38	0.44	20.82	0.804	34.20	27.50
370	31.76	3,032	0.20	23.60	0.36	23.96	0.925	34.20	31.64
380	25.28	3,682	0.20	22.30	0.35	22.65	0.875	34.20	29.93
390	26.87	2,685	0.20	22.62	0.30	22.92	0.885	34.20	30.27
Statewide	21.56	344,092	1.00	21.56		25.89	1.000	34.20	34.20

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, RB-1, C-3, (9);
 (11) Trended Modeled Hurricane Base-Class Loss Cost, RB-1, C-3, (11);

Sources:

RB-1, C-11; DOI-5, Data Response #1, Items 57-62

29.04
 5.16

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate {(1) + [(2) x (4)] /[1.0 - (3)]	(6) Comp. for Asmt. Risk	(7) Net Reins. Cost	(8) {(5) + (6) + (7)}	(9) Selected Deviation {(8) / [(1.0 - (9))] - (8)}	(10) Dollar Deviation Per Exposure {(9) / [(1.0 - (9))] - (8)}	(11) Indicated Required Base-Class Rate {(8) + (10)}	(11a) (2011) Latest-Yr Earned Premium	(12) Indicated Rate Level Change [(11) / (4)] - 1.0	(13) Balanced Indicated Rate Change
110	73.32	0.110	0.343	106.00	129.35	5.51	121.66	256.52	0.05	13.50	270.02	124,366.	154.7%	156.6%
120	94.60	0.095	0.343	113.00	160.33	5.88	129.76	295.97	0.05	15.58	311.55	959,511	175.7%	177.8%
130	54.00	0.112	0.292	83.00	89.40	4.32	29.88	123.60	0.05	6.51	130.11	102,714	56.8%	58.0%
140	61.39	0.124	0.343	83.00	109.11	4.32	65.29	208.72	0.05	10.99	219.71	2,403,360	164.7%	166.7%
150	36.87	0.106	0.292	78.00	63.75	4.06	28.04	95.85	0.05	5.04	100.89	336,569	29.3%	30.3%
160	39.95	0.130	0.292	83.00	71.67	4.32	29.84	105.83	0.05	5.57	111.40	412,277	34.2%	35.2%
170	31.98	0.254	0.260	48.00	60.04	2.55	12.36	74.95	0.05	3.94	78.89	167	61.0%	62.2%
180	34.68	0.215	0.260	48.00	61.10	2.55	14.74	78.39	0.05	4.13	82.52	303,264	68.4%	69.7%
190	37.86	0.182	0.292	49.00	66.07	2.55	18.29	86.91	0.05	4.57	91.48	4,597	86.7%	88.1%
200	39.47	0.234	0.260	52.00	72.94	2.70	19.17	94.81	0.05	4.99	99.80	1,089	91.9%	93.3%
210	34.13	0.194	0.260	42.00	57.13	2.18	12.69	72.00	0.05	3.79	75.79	21,039	80.5%	81.9%
220	34.10	0.166	0.260	52.00	57.75	2.70	15.65	76.10	0.05	4.01	80.11	502,362	54.1%	55.3%
230	35.67	0.240	0.260	52.00	65.07	2.70	15.75	83.52	0.05	4.40	87.92	86,077	71.9%	73.2%
240	32.28	0.179	0.260	42.00	53.78	2.18	12.63	68.59	0.05	3.61	72.20	86,077	69.0%	70.4%
250	31.81	0.179	0.260	42.00	53.15	2.18	12.68	68.01	0.05	3.58	71.59	24,431	70.5%	71.8%
260	30.61	0.235	0.260	44.00	55.34	2.29	13.02	70.65	0.05	3.72	74.37	4,200	69.0%	70.3%
270	37.24	0.183	0.260	47.46	62.06	2.47	14.30	78.83	0.05	4.15	82.98	3,405,159	74.8%	76.1%
280	23.94	0.174	0.260	45.00	42.93	2.34	13.34	58.81	0.05	3.10	61.91	930,848	37.6%	38.6%
290	31.46	0.223	0.260	42.00	55.17	2.18	12.63	69.98	0.05	3.58	73.66	284,556	75.4%	76.7%
300	31.05	0.198	0.260	41.00	52.93	2.13	12.54	67.60	0.05	3.56	71.16	8,022	73.6%	74.9%
310	26.37	0.235	0.223	38.69	45.05	1.84	4.89	52.54	0.05	2.77	55.31	2,278,622	43.0%	44.1%
320	28.22	0.258	0.223	35.33	48.05	1.84	4.47	54.36	0.05	2.66	57.22	462,267	62.0%	63.2%
330	29.69	0.245	0.223	39.00	50.51	2.03	4.88	57.42	0.05	3.02	60.44	7,929	55.0%	56.2%
340	30.37	0.214	0.223	40.13	50.09	2.09	5.08	57.31	0.05	3.02	60.33	7,131,581	50.3%	51.4%
350	29.79	0.263	0.223	34.71	50.09	1.81	4.39	56.29	0.05	2.96	59.25	308,647	70.7%	72.0%
360	27.50	0.232	0.223	34.00	45.54	1.77	4.30	51.61	0.05	2.72	54.33	2,023,966	59.8%	61.0%
370	31.64	0.242	0.223	34.00	51.31	1.77	4.30	57.38	0.05	3.02	60.40	1,502,289	77.6%	78.9%
380	29.93	0.249	0.223	34.00	49.42	1.77	4.30	55.49	0.05	2.92	58.41	1,75,259	71.8%	73.1%
390	30.27	0.207	0.223	34.00	48.02	1.77	4.30	54.09	0.05	2.85	56.94	158,596	67.5%	68.8%
Statewide	34.20	0.1934	0.269	46.15	59.02	2.40	14.93	76.35	0.05	4.02	80.37	22,629,844	72.8%	74.1%

(12a) Statewide Indicated Rate-Level Change, RB-1, C-3: 74.1%

Sources:

RB-1, C-12; DOI-5, Data Response #1, Items 57-62
(13) = (((1.0 + (12a)) / [1.0 + SW((12))]) * [1.0 + (12)]) - 1.0

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF FILED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	New	Territory	Current	Territory	Indicated Rate Change New	Territory	Current Average Rate New	Territory	Current Rate Current	Territory	Rate Change Current Territory [(1.0 + (1)) x (2) / (3)] - 1.0	Territory	2011 Hse-Yrs In New Terr From Current	Territory	House-Yrs In New	Territory	2011 Premium at Present Rates	Territory	Capped Filed Rate Level Change (at 55%)	Territory	Filed Base Rate [1 + (8)] x (3)
110	07	156.6%	106.00	106.00	156.6%	221	221	124,396	55.0%	164											
120	08	177.7%	113.00	113.00	177.9%	1,559	1,559	959,511	55.0%	175											
130	48	57.8%	83.00	83.00	57.8%	196	196	102,714	55.0%	129											
140	52	166.7%	83.00	83.00	166.3%	5,217	6,139	2,403,360	55.0%	129											
150	49	30.3%	78.00	78.00	30.8%	614	614	336,569	30.8%	102											
160	52	35.2%	83.00	83.00	34.9%	922	6,139	412,277	34.9%	112											
170	45	67.6%	49.00	49.00	67.3%	1	1	167	55.0%	76											
180	45	69.7%	49.00	49.00	69.4%	1,086	1,086	303,264	55.0%	76											
190	45	86.6%	49.00	49.00	85.7%	13	13	4,597	55.0%	76											
200	41	92.3%	52.00	52.00	92.3%	5	5	1,089	55.0%	81											
210	47	81.8%	42.00	42.00	81.0%	67	67	21,039	55.0%	81											
220	34	55.1%	52.00	52.00	55.8%	1,435	1,436	502,006	55.0%	81											
220	45	55.1%	52.00	49.00	69.2%	2	2	356	55.0%	76											
230	41	70.1%	52.00	52.00	69.2%	74	74	18,050	55.0%	81											
240	47	73.4%	42.00	42.00	73.8%	251	251	85,077	55.0%	85											
250	47	71.6%	42.00	42.00	71.4%	75	75	24,431	55.0%	85											
260	46	71.0%	44.00	44.00	70.5%	17	17	4,200	55.0%	68											
270	32	76.2%	47.46	49.00	71.4%	6,684	10,556	2,318,444	55.0%	76											
270	46	76.2%	47.46	45.00	86.7%	3,872	10,556	1,086,715	55.0%	70											
280	53	38.6%	45.00	45.00	37.8%	2,809	2,809	930,848	37.8%	62											
290	47	76.6%	42.00	42.00	76.2%	1,056	1,056	284,556	55.0%	65											
300	44	74.3%	41.00	41.00	73.2%	25	25	8,022	55.0%	64											
310	36	44.1%	38.69	39.00	43.6%	4,853	9,081	1,283,452	43.6%	56											
310	46	44.1%	38.69	44.00	27.3%	0	9,081	70	27.3%	56											
310	57	44.1%	38.69	39.00	43.6%	3,654	9,081	852,371	43.6%	56											
310	60	44.1%	38.69	34.00	64.7%	574	9,081	142,729	55.0%	53											
320	57	63.2%	35.33	39.00	48.7%	543	2,017	119,260	48.7%	58											
320	60	63.2%	35.33	34.00	70.6%	1,474	2,017	343,007	55.0%	53											
330	57	56.2%	39.00	39.00	56.4%	32	32	7,929	55.0%	60											
340	38	51.2%	40.13	42.00	45.2%	19,153	25,751	5,569,459	45.2%	61											
340	39	51.2%	40.13	35.00	74.3%	5,664	25,751	1,349,393	55.0%	54											
340	60	51.2%	40.13	34.00	79.4%	935	25,751	212,730	55.0%	53											
350	39	71.8%	34.71	35.00	71.4%	971	1,354	226,209	55.0%	54											
350	60	71.8%	34.71	34.00	76.5%	383	1,354	82,439	55.0%	53											
360	60	61.0%	34.00	34.00	61.8%	8,069	8,069	2,023,966	55.0%	53											
370	60	78.9%	34.00	34.00	79.4%	637	637	150,289	55.0%	53											
380	60	73.1%	34.00	34.00	73.5%	747	747	175,259	55.0%	53											
390	60	68.8%	34.00	34.00	67.6%	534	534	158,596	55.0%	53											
Statewide		74.1%	46.15	46.15	74.1%	74,424	22,629,846		50.0%	69.52											

Sources:

RB-1, C-13; DOI-5, Data Response #1, Items 57-62

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - O'NEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	17.86	1,217	0.10	21.19	25.73	46.92	1.845	28.61	52.79
120	22.58	6,761	0.30	21.87	37.30	59.17	2.327	28.61	66.58
130	14.61	947	0.10	20.87	15.00	35.87	1.411	28.61	40.37
140	18.18	24,918	0.70	19.19	20.47	39.66	1.560	28.61	44.63
150	12.86	2,919	0.20	19.82	6.08	25.90	1.018	28.61	29.12
160	11.30	4,043	0.20	19.51	8.06	27.57	1.084	28.61	31.01
170	28.74	6	0.00	21.56	1.99	23.55	0.926	28.61	26.49
180	20.37	5,021	0.30	21.20	3.79	24.99	0.983	28.61	28.12
190	9.83	91	0.00	21.56	5.32	26.88	1.057	28.61	30.24
200	032.89	17	0.00	21.56	6.23	27.79	1.093	28.61	31.27
210	28.62	308	0.00	21.56	3.20	24.76	0.974	28.61	27.87
220	26.28	6,479	0.30	22.98	2.12	25.10	0.987	28.61	28.24
230	50.42	363	0.00	21.56	4.08	25.64	1.008	28.61	28.84
240	19.81	1,214	0.10	21.39	2.30	23.69	0.932	28.61	26.66
250	11.16	316	0.00	21.56	1.89	23.45	0.922	28.61	26.38
260	22.66	102	0.00	21.56	1.22	22.78	0.896	28.61	25.63
270	26.60	46,757	0.90	26.10	1.58	27.68	1.088	28.61	31.13
280	11.28	13,065	0.50	16.42	1.28	17.70	0.696	28.61	19.91
290	21.89	5,151	0.30	21.66	1.61	23.27	0.915	28.61	26.18
300	21.10	147	0.00	21.56	1.46	23.02	0.905	28.61	25.89
310	18.51	47,599	0.90	18.82	0.86	19.68	0.774	28.61	22.14
320	18.05	9,889	0.40	20.16	0.90	21.06	0.828	28.61	23.61
330	8.59	173	0.00	21.56	0.68	22.24	0.875	28.61	25.03
340	21.88	112,901	1.00	21.88	0.83	22.71	0.893	28.61	25.55
350	21.86	6,295	0.30	21.65	0.67	22.32	0.878	28.61	25.12
360	20.08	37,994	0.80	20.38	0.33	20.71	0.814	28.61	23.29
370	31.76	3,032	0.20	23.60	0.27	23.87	0.939	28.61	26.86
380	25.28	3,682	0.20	22.30	0.26	22.56	0.887	28.61	25.38
390	26.87	2,685	0.20	22.62	0.23	22.85	0.899	28.61	25.72
SW	21.56	344,092	1.00	21.56	3.87	25.43	1.000	28.61	28.61

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, DOI-9, OCS Exhibit 2 Page 3, (9):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, DOI-9, OCS Exhibit 2 Page 3, (11):

Source:

DOI-9, OCS Exhibit 13 Page 5

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED AND RECOMMENDED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Territory	(1) Indicated Statewide Base Loss Cost	(2) Trended Fixed Expense	(3) Variable Expenses, Profit, Contingency	(4) Current Base Class Rate	(5) Indicated Net Based- Class Rate {(1) + [(2) x (4)] /[1.0 - (3)]}	(6) Comp. for Asmt. Risk Per Policy	(7) Net Reins. Cost	(8) Base Rate Excluding Deviations {5} + {6} + {7}	(9) Selected Explicit Deviation	(10) Explicit Dollar Deviation Per Exposure {8} / {1.0 - {9}}	(11) Indicated Required Base-Class Rate {8} + {10}	(12) Indicated Rate Level Change {11} / {4} - 1.0	(13) Recommended Rate Level Change SW {12}	(14) Recommended Base Rate {SW{11} / SW{4}}
110	52.79	0.061	0.186	106.00	72.80	0.93	9.66	83.39	0.00	0.00	83.39	-21.3%	-0.6%	105.40
120	66.58	0.053	0.186	113.00	89.15	0.99	10.33	100.47	0.00	0.00	100.47	-11.1%	-0.6%	112.36
130	40.37	0.062	0.186	83.00	55.92	0.73	7.56	64.21	0.00	0.00	64.21	-22.6%	-0.6%	82.53
140	44.63	0.069	0.186	83.00	61.86	0.73	7.71	70.30	0.00	0.00	70.30	-15.3%	-0.6%	82.53
150	29.12	0.059	0.186	78.00	41.43	0.69	7.14	49.25	0.00	0.00	49.25	-36.9%	-0.6%	77.56
160	31.01	0.072	0.186	83.00	45.44	0.73	7.72	53.89	0.00	0.00	53.89	-35.1%	-0.6%	82.53
170	26.49	0.141	0.186	49.00	41.03	0.43	3.93	45.39	0.00	0.00	45.39	-7.4%	-0.6%	48.72
180	28.12	0.119	0.186	49.00	41.71	0.43	4.51	46.65	0.00	0.00	46.65	-4.8%	-0.6%	48.72
190	30.24	0.101	0.186	49.00	43.23	0.43	4.75	48.41	0.00	0.00	48.41	-1.2%	-0.6%	48.72
200	31.27	0.129	0.186	52.00	46.66	0.46	4.80	51.91	0.00	0.00	51.91	-0.2%	-0.6%	51.71
210	27.87	0.107	0.186	42.00	39.76	0.37	3.94	44.07	0.00	0.00	44.07	4.9%	-0.6%	41.76
220	28.24	0.092	0.186	52.00	40.57	0.46	4.73	45.75	0.00	0.00	45.75	-12.0%	-0.6%	51.71
230	28.84	0.133	0.186	52.00	43.93	0.46	4.73	49.11	0.00	0.00	49.11	-5.6%	-0.6%	41.76
240	26.66	0.099	0.186	42.00	37.86	0.37	3.89	42.12	0.00	0.00	42.12	0.3%	-0.6%	41.76
250	26.38	0.099	0.186	42.00	37.52	0.37	3.80	41.69	0.00	0.00	41.69	-0.7%	-0.6%	43.75
260	25.63	0.130	0.186	44.00	38.51	0.39	4.07	42.97	0.00	0.00	42.97	-2.3%	-0.6%	47.19
270	31.13	0.101	0.186	47.46	44.13	0.42	4.32	48.87	0.00	0.00	48.87	3.0%	-0.6%	47.19
280	19.91	0.096	0.186	45.00	29.77	0.40	4.15	34.32	0.00	0.00	34.32	-23.7%	-0.6%	44.75
290	26.18	0.123	0.186	42.00	38.51	0.37	3.81	42.69	0.00	0.00	42.69	1.6%	-0.6%	41.76
300	25.89	0.110	0.186	41.00	37.35	0.36	3.81	41.52	0.00	0.00	41.52	1.3%	-0.6%	40.77
310	22.14	0.130	0.186	38.69	33.38	0.34	3.58	37.30	0.00	0.00	37.30	-3.6%	-0.6%	38.47
320	23.69	0.143	0.186	35.33	35.31	0.31	3.21	38.83	0.00	0.00	38.83	9.9%	-0.6%	35.13
330	25.03	0.135	0.186	39.00	37.22	0.34	3.61	41.18	0.00	0.00	41.18	5.6%	-0.6%	38.78
340	25.55	0.118	0.186	40.13	37.21	0.35	3.72	41.29	0.00	0.00	41.29	2.9%	-0.6%	39.90
350	25.12	0.145	0.186	34.71	37.04	0.31	3.17	40.51	0.00	0.00	40.51	16.7%	-0.6%	34.51
360	23.29	0.128	0.186	34.00	33.96	0.30	3.15	37.40	0.00	0.00	37.40	10.0%	-0.6%	33.81
370	26.86	0.134	0.186	34.00	38.59	0.30	3.18	42.06	0.00	0.00	42.06	23.7%	-0.6%	33.81
380	25.38	0.138	0.186	34.00	38.94	0.30	3.19	40.42	0.00	0.00	40.42	18.9%	-0.6%	33.81
390	25.72	0.115	0.186	34.00	36.40	0.30	3.09	39.78	0.00	0.00	39.78	17.0%	-0.6%	33.81
Statewide	28.61	0.107	0.186	46.15	41.21	0.40	4.28	45.89	0.00	0.00	45.89	-0.6%	-0.6%	45.89

Source:

DOI-9, OCS Exhibit 13 Page 6

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 CALCULATION OF INDICATED TERRITORY BASE-CLASS LOSS COSTS - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section C
 Page C-32

Territory	(1) Non Hurricane Base-Class Loss Cost	(2) Five Year House- Years	(3) Credibility	(4) Credibility Weighted Base Loss Cost	(5) Modeled Hurricane Base Loss Cost	(6) Total Loss Cost (4) + (5)	(7) Indicated Relativity (6) / SW (6)	(8) Indicated Statewide Base Loss Cost (10) + (11)	(9) Indicated Base Loss Cost [(7) / SW (7)] x (8)
110	17.86	1,217	0.10	21.19	29.54	50.73	1.947	30.09	58.59
120	22.58	6,761	0.30	21.87	42.82	64.69	2.483	30.09	74.71
130	14.61	947	0.10	20.87	17.22	38.09	1.462	30.09	43.99
140	18.18	24,918	0.70	19.19	23.50	42.69	1.639	30.09	49.32
150	12.86	2,919	0.20	19.82	6.98	26.80	1.029	30.09	30.96
160	11.30	4,043	0.20	19.51	9.24	28.75	1.104	30.09	33.22
170	28.74	6	0.00	21.56	2.35	23.91	0.918	30.09	27.62
180	20.37	5,021	0.30	21.20	4.35	25.55	0.981	30.09	29.52
190	9.83	91	0.00	21.56	6.10	27.66	1.062	30.09	31.96
200	032.89	17	0.00	21.56	7.16	28.72	1.102	30.09	33.16
210	28.62	308	0.00	21.56	3.68	25.24	0.969	30.09	29.16
220	26.28	6,479	0.30	22.98	2.43	25.41	0.975	30.09	29.34
230	50.42	363	0.00	21.56	4.68	26.24	1.007	30.09	30.30
240	19.81	1,214	0.10	21.39	2.63	24.02	0.922	30.09	27.74
250	11.16	316	0.00	21.56	2.17	23.73	0.911	30.09	27.41
260	22.66	102	0.00	21.56	1.40	22.96	0.881	30.09	26.51
270	26.60	46,757	0.90	26.10	1.47	27.91	1.071	30.09	32.23
280	11.28	13,065	0.50	16.42	1.47	17.89	0.687	30.09	20.67
290	21.89	5,151	0.30	21.66	1.85	23.51	0.902	30.09	27.14
300	21.10	147	0.00	21.56	1.67	23.23	0.892	30.09	26.84
310	18.51	47,599	0.90	18.82	0.98	19.80	0.760	30.09	22.87
320	18.05	9,889	0.40	20.16	1.03	21.19	0.813	30.09	24.46
330	8.59	173	0.00	21.56	0.77	22.33	0.857	30.09	25.79
340	21.88	112,901	1.00	21.88	0.95	22.83	0.876	30.09	26.36
350	21.86	6,295	0.30	21.65	0.77	22.42	0.861	30.09	25.91
360	20.08	37,994	0.80	20.38	0.38	20.76	0.797	30.09	23.98
370	31.76	3,032	0.20	23.60	0.31	23.91	0.918	30.09	27.62
380	25.28	3,682	0.20	22.30	0.30	22.60	0.868	30.09	26.12
390	26.87	2,685	0.20	22.62	0.26	22.88	0.878	30.09	26.42
Statewide	21.56	344,092	1.00	21.56		26.05	1.000	30.09	30.09
								26.10	
								3.99	

(10) Weighted Trended Non-Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-12, (11):
 (11) Trended Modeled Hurricane Base-Class Loss Cost, Exhibit 1, Section C, Page C-12 (13):

Notes

- (1), (2), (3): Exhibit 1, Section C, Pages C-27 and C-30, (1), (2) and (3)
- (4) = [(3) x (1)] + [(1.0 - (3)) x (1) SW]
- (5): Exhibit 1, Section D, Page D-22, COI (9)
- (6) SW = [Sum [5-Yr House Years x (5) x (5)Yr C&C at Level of Latest Year]] / (2) SW

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
CALCULATION OF INDICATED TERRITORY BASE CLASS RATES AND RATE LEVEL CHANGES - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
Section C
Page C-33

Territory	Indicated Statewide Base Loss Cost	Trended Fixed Expense	Variable Expenses, Profit, Contingency	Revised Current Base Class Rate	Indicated Net Based- Class Rate $\frac{\{(1) + \{(2) \times (4)\}}{\{(1) - (3)\}}$	Comp. for Asmt. Risk	Net Reins. Cost	$\{(5) + \{(6) + (7)\}$	Selected Deviation $\frac{\{(8) - \{(9)\}}{\{(10) - \{(9)\}}$	Dollar Deviation Per Exposure $\frac{\{(11) - \{(10)\}}{\{(11) - \{(9)\}}$	Indicated Required Base-Class Rate $\frac{\{(11) + \{(10)\}}{\{(11) - \{(9)\}}$	(2011) Latest-Yr Emerged Premium	Indicated Rate Level Change	Adjusted Balanced Ordered Rate Level Change	Ordered Base Rate $\{(4) \times [1.0 + (13)]\}$
110	58.59	0.061	0.206	106.00	81.93	2.19	10.59	94.71	0.00	0.00	94.71	124.396	-8.8%	-8.8%	97
120	74.71	0.053	0.206	113.00	101.64	2.34	11.29	115.27	0.00	0.00	115.27	959.511	4.1%	4.1%	118
130	43.99	0.082	0.206	83.00	61.88	1.72	8.31	71.91	0.00	0.00	71.91	102.714	-11.5%	-11.5%	73
140	49.32	0.069	0.206	85.00	69.50	1.72	8.29	79.51	0.00	0.00	79.51	2,403.360	-4.6%	-4.5%	81
150	30.96	0.059	0.206	78.00	44.79	1.61	7.80	54.20	0.00	0.00	54.20	336.969	-28.1%	-29.0%	55
160	33.22	0.072	0.206	71.00	48.28	1.72	8.29	58.29	0.00	0.00	58.29	412.277	-16.2%	-16.2%	59
170	27.62	0.141	0.206	52.00	44.02	1.01	4.12	49.15	0.00	0.00	49.15	167	-3.5%	-3.5%	50
180	29.52	0.119	0.206	52.00	44.97	1.01	4.89	50.87	0.00	0.00	50.87	303.284	-0.2%	-0.2%	52
190	31.96	0.101	0.206	54.00	47.12	1.01	5.08	53.21	0.00	0.00	53.21	4,587	0.6%	0.6%	54
200	33.16	0.129	0.206	55.00	50.70	1.07	5.33	57.10	0.00	0.00	57.10	1,089	6.0%	6.0%	58
210	29.16	0.107	0.206	42.00	42.39	1.07	4.22	47.48	0.00	0.00	47.48	21,039	-3.3%	-3.3%	48
220	29.34	0.092	0.206	52.00	42.98	1.07	5.20	49.25	0.00	0.00	49.25	502.362	15.4%	15.4%	50
230	30.30	0.133	0.206	52.00	46.87	1.07	5.23	53.17	0.00	0.00	53.17	18,050	4.4%	4.4%	54
240	27.74	0.099	0.206	42.00	40.17	0.87	4.20	45.24	0.00	0.00	45.24	86,077	9.9%	10.0%	46
250	27.41	0.099	0.206	42.00	39.76	0.87	4.21	44.84	0.00	0.00	44.84	24,431	9.0%	9.0%	46
260	26.51	0.130	0.206	44.00	40.59	0.91	4.33	45.83	0.00	0.00	45.83	4,200	6.4%	6.4%	47
270	32.23	0.101	0.206	48.00	46.70	0.98	4.75	52.43	0.00	0.00	52.43	3,405.159	11.5%	11.5%	54
280	20.67	0.096	0.206	44.00	31.35	0.93	4.50	36.78	0.00	0.00	36.78	930.848	-14.7%	-14.7%	38
290	27.14	0.123	0.206	42.00	40.69	0.87	4.20	45.76	0.00	0.00	45.76	284.556	11.3%	11.3%	47
300	26.84	0.110	0.206	41.00	39.48	0.85	4.16	44.49	0.00	0.00	44.49	8,022	10.8%	10.8%	45
310	22.87	0.130	0.206	39.00	35.19	0.80	3.86	39.85	0.00	0.00	39.85	2,278.622	4.3%	4.3%	41
320	24.46	0.143	0.206	34.00	36.93	0.73	3.53	41.19	0.00	0.00	41.19	462.267	23.6%	23.6%	42
330	25.79	0.118	0.206	39.00	39.11	0.81	3.85	43.77	0.00	0.00	43.77	7,929	14.5%	14.5%	45
340	26.36	0.118	0.206	40.00	39.14	0.83	4.01	43.98	0.00	0.00	43.98	7,131.581	12.2%	12.2%	45
350	25.91	0.145	0.206	34.00	38.84	0.72	3.47	43.03	0.00	0.00	43.03	308.647	29.2%	29.2%	44
360	23.98	0.128	0.206	34.00	35.68	0.70	3.40	39.78	0.00	0.00	39.78	2,023.966	19.4%	19.4%	41
370	27.62	0.134	0.206	34.00	40.52	0.70	3.40	44.62	0.00	0.00	44.62	1,502.289	33.9%	33.9%	46
380	26.12	0.138	0.206	34.00	38.81	0.70	3.40	42.91	0.00	0.00	42.91	1,752.259	28.8%	28.8%	44
390	26.42	0.115	0.206	34.00	38.20	0.70	3.40	42.30	0.00	0.00	42.30	1,583.966	27.0%	27.0%	43
Statewide	30.09	0.107	0.206	46.24	44.13	0.95	4.62	49.70	0.00	0.00	49.70	22,629,844	7.7%	7.7%	50

(12a) Indicated Rate Level Change: 7.7%
(13b) Ordered Rate Level Change: 7.7%

- Notes
- (1): Exhibit 1, Section C, Page C-32, (9)
 - (2): Exhibit 1, Section D, Page D-18, Condominiums, COI
 - (3): 1.0 - Expected Loss and Fixed Expense Ratio (Exhibit 1, Section D, Pages D-38, COI, (5))
 - (4): Rp-1, F-A-16, Unit Owners
 - (5): Exhibit 1, Section D, Page D-26, Condominiums, (19) COI

- (7): Exhibit 1, Section D, Page D-37, (10)
- (9): Exhibit 1, Section C, Page C-12, (21)
- (11a): Rp-1, D-46, (2); Exhibit 1, Section D, Page D-35, (2)
- (12a): Exhibit 1, Section C, Page C-12, (25)
- (13b): Exhibit 1, Section A, Page A-1, COI, Ordered Change, Condominiums

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF FILED WIND EXCLUSION CREDITS - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	L	d	F1	F2	F = F1 x F2	V	(1/V)	k	B	D	I	P	T	C
	<u>Owners</u>													
110	1,011.53	0.159	0.025	1,613	40.33	0.269	0.7310	0.191	83.89	0.05	2,178	1,006	1,001	1,885
120	1,289.00	0.112	0.024	1,823	43.75	0.269	0.7310	0.141	94.81	0.05	2,461	0.997	1,002	2,174
130	442.89	0.354	0.036	1,021	36.76	0.269	0.7310	0.404	53.10	0.05	1,123	1.223	0.999	1,004
140	828.31	0.190	0.038	1,140	43.32	0.269	0.7310	0.230	59.29	0.05	1,539	1.026	1.003	1,272
150	354.49	0.452	0.054	871	47.03	0.269	0.7310	0.516	45.30	0.05	947	1.070	1.001	668
160	391.83	0.409	0.046	1,140	52.44	0.269	0.7310	0.479	59.29	0.05	1,118	1.057	1.001	827
	<u>Tenants</u>													
110	87.64	0.306	0.156	107	16.69	0.269	0.7310	0.417	5.57	0.05	166	1.012	1.000	102
120	103.25	0.280	0.160	112	17.92	0.269	0.7310	0.386	5.83	0.05	174	0.988	1.000	103
130	49.29	0.566	0.189	76	14.36	0.269	0.7310	0.664	3.95	0.05	118	1.125	1.000	61
140	65.33	0.398	0.206	85	17.51	0.269	0.7310	0.525	4.42	0.05	132	0.987	1.000	66
150	34.55	0.650	0.221	72	15.91	0.269	0.7310	0.760	3.74	0.05	110	1.003	1.000	52
160	46.46	0.660	0.205	85	17.43	0.269	0.7310	0.753	4.42	0.05	132	0.993	1.000	59

Condominiums

110	73.32	0.374	0.110	106	11.66	0.269	0.7310	0.460	5.51	0.05	164	0.979	1.000	103
120	94.60	0.301	0.095	113	10.74	0.269	0.7310	0.372	5.88	0.05	175	0.982	1.000	114
130	54.00	0.499	0.112	83	9.30	0.269	0.7310	0.573	4.32	0.05	129	1.015	1.000	75
140	61.39	0.403	0.124	83	10.29	0.269	0.7310	0.489	4.32	0.05	129	0.978	1.000	75
150	36.87	0.694	0.106	78	8.27	0.269	0.7310	0.750	4.06	0.05	102	1.006	1.000	50
160	39.95	0.633	0.130	83	10.79	0.269	0.7310	0.711	4.32	0.05	112	0.930	1.000	53

Notes:

- RB-1, C-15 and C-16
 - L: RB-1, C-5, C-8 and C-11, (9) Indicated Base Loss Cost
 - d: Exhibit 1, Section C, Page C-36, (6)
 - F1: RB-1, C-6, C-9 and C-12, (2) Trended Fixed Expense
 - F2: RB-1, C-6, C-9 and C-12 (4) Current Base Class Rate
 - V: Variable Expense Ratio
- NCRB
 Underwriting Profit 0.105
 Contingencies 0.010
 Commission and Brokerage 0.128
 Taxes, Licenses and Fees 0.026
 V = Total 0.269

$k = \frac{[(1) \times (2)] + (5)}{[(1) + (5)]}$
 B: RB-1, C-6, C-9 and C-12, (6) Compensation for Assessment Risk
 D: RB-1, C-6, C-9 and C-12, (9) Selected Deviation
 I: RB-1, C-7, C-10 and C-13, (9) Filed Base Rate

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF ORDERED WIND EXCLUSION CREDITS - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
Section C
Page C-35

Territory	L	d	F1	F2	F = F1 x F2	V	(1-V)	k	B	D	I	P	r	C
	<u>Owners</u>													
110	827.44	0.179	0.027	1.613	43.55	0.206	0.7940	0.220	33.34	0.00	1.452	1.006	1.001	1,212
120	1,045.44	0.128	0.025	1,823	45.58	0.206	0.7940	0.164	37.68	0.00	1,717	0.997	1.002	1,483
130	374.36	0.386	0.038	1,021	38.80	0.206	0.7940	0.444	21.10	0.00	888	1.223	0.999	791
140	680.15	0.213	0.041	1,187	48.67	0.206	0.7940	0.266	23.56	0.00	1,169	1.026	1.003	946
150	304.99	0.484	0.057	871	49.65	0.206	0.7940	0.556	18.00	0.00	784	1.070	1.001	563
160	334.87	0.441	0.049	1,032	50.57	0.206	0.7940	0.514	23.56	0.00	877	1.057	1.001	651
	<u>Tenants</u>													
110	67.98	0.338	0.048	107	5.14	0.206	0.7940	0.385	2.21	0.00	113	1.012	1.000	78
120	79.74	0.310	0.049	112	5.49	0.206	0.7940	0.354	2.32	0.00	130	0.988	1.000	90
130	39.79	0.601	0.059	76	4.48	0.206	0.7940	0.641	1.57	0.00	70	1.125	1.000	37
140	51.37	0.434	0.064	89	5.70	0.206	0.7940	0.490	1.76	0.00	88	0.987	1.000	51
150	28.28	0.681	0.068	72	4.90	0.206	0.7940	0.728	1.49	0.00	54	1.003	1.000	23
160	38.06	0.691	0.064	75	4.80	0.206	0.7940	0.726	1.76	0.00	69	0.993	1.000	28
	<u>Condominiums</u>													
110	58.59	0.410	0.061	106	6.47	0.206	0.7940	0.469	2.19	0.00	97	0.979	1.000	56
120	74.71	0.333	0.053	113	5.99	0.206	0.7940	0.383	2.34	0.00	118	0.982	1.000	77
130	43.99	0.536	0.062	83	5.15	0.206	0.7940	0.585	1.72	0.00	73	1.015	1.000	36
140	49.32	0.439	0.069	85	5.87	0.206	0.7940	0.499	1.72	0.00	81	0.978	1.000	44
150	30.96	0.723	0.059	78	4.60	0.206	0.7940	0.759	1.61	0.00	55	1.006	1.000	20
160	33.22	0.666	0.072	71	5.11	0.206	0.7940	0.711	1.72	0.00	59	0.930	1.000	22

Notes:

- DOI-5, Data Request #1, Item 69
- L: Exhibit 1, Section C, Pages C-18, (25) and (32), (9) Indicated Base Loss Cost
- d: Exhibit 1, Section C, Page C-36, (8)
- F1: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (2) Trended Fixed Expense
- F2: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (4) Revised Current Base Class Rate
- V: Variable Expense Ratio
- COI
- Underwriting Profit 0.052
- Contingencies 0.000
- Commission and Brokerage 0.128
- Taxes, Licenses and Fees 0.026
- V = Total 0.206

$k = \frac{\{(1) \times (2)\} + (5)}{\{(1) + (5)\}}$
 B: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (6) Compensation for Assessment Risk
 D: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (9) Selected Deviation
 I: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (14) Ordered Base Rate
 p, r: RB-1, C-16, p and r; Exhibit 1, Section C, Page C-34, p and r

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF FILED REVISED WIND MITIGATION CREDITS - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

	Territory					
	110	120	130	140	150	160
(1) Current Wind Exclusion Credit	1,357	1,562	777	892	633	892
(2) Filed Wind Exclusion Credit	1,885	2,174	1,004	1,272	668	827
(3) Ratio of Filed and Current Wind Credits = (2) / (1)	1.389	1.392	1.292	1.426	1.055	0.927
(4) Current Wind Mitigation Credits						
Total Hip Roof	94	106	54	61	43	61
Opening Protection	96	109	54	62	41	62
Total Hip Roof and Opening Protection	190	215	108	123	84	123
IBHS Designation:						
Hurricane Fortified for Safer Living®	308	375	155	204	92	204
Hurricane Fortified for Existing Homes® Bronze Option 1	74	85	43	48	33	48
Hurricane Fortified for Existing Homes® Bronze Option 2	115	134	61	76	41	76
Hurricane Fortified for Existing Homes® Silver Option 1	185	226	87	124	44	124
Hurricane Fortified for Existing Homes® Silver Option 2	222	273	104	152	51	152
Hurricane Fortified for Existing Homes® Gold Option 1	236	288	116	155	65	155
Hurricane Fortified for Existing Homes® Gold Option 2	274	336	133	183	72	183
(5) Revised Wind Mitigation Credits = (4) x (3)						
Total Hip Roof	131	148	70	87	45	57
Opening Protection	133	152	70	88	43	57
Total Hip Roof and Opening Protection	264	299	140	175	89	114
IBHS Designation:						
Hurricane Fortified for Safer Living®	428	522	200	291	97	189
Hurricane Fortified for Existing Homes® Bronze Option 1	103	118	56	68	35	44
Hurricane Fortified for Existing Homes® Bronze Option 2	160	187	79	108	43	70
Hurricane Fortified for Existing Homes® Silver Option 1	257	315	112	177	46	115
Hurricane Fortified for Existing Homes® Silver Option 2	308	380	134	217	54	141
Hurricane Fortified for Existing Homes® Gold Option 1	328	401	150	221	69	144
Hurricane Fortified for Existing Homes® Gold Option 2	381	468	172	261	76	170

Source:

RB-1, C-17

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF ORDERED REVISED WIND MITIGATION CREDITS - COMMISSIONER OF INSURANCE

Exhibit 1
 Section C
 Page C-38 - Revised

Assumed Effective Date: July 1, 2014

	<u>Territory</u>					
	110	120	130	140	150	160
(1) Current Wind Exclusion Credit	1,357	1,562	777	892	633	892
(2) Ordered Wind Exclusion Credit	1,212	1,483	791	946	563	651
(3) Ratio of Ordered and Current Wind Credits	0.893	0.949	1.018	1.061	0.889	0.730
 (4) Current Wind Mitigation Credits						
Total Hip Roof	94	106	54	61	43	61
Opening Protection	96	109	54	62	41	62
Total Hip Roof and Opening Protection	190	215	108	123	84	123
 IBHS Designation:						
Hurricane Fortified for Safer Living®	308	375	155	204	92	204
Hurricane Fortified for Existing Homes® Bronze Option 1	74	85	43	48	33	48
Hurricane Fortified for Existing Homes® Bronze Option 2	115	134	61	76	41	76
Hurricane Fortified for Existing Homes® Silver Option 1	185	226	87	124	44	124
Hurricane Fortified for Existing Homes® Silver Option 2	222	273	104	152	51	152
Hurricane Fortified for Existing Homes® Gold Option 1	236	288	116	155	65	155
Hurricane Fortified for Existing Homes® Gold Option 2	274	336	133	183	72	183
 (5) Ordered Wind Mitigation Credits = (4) x (3)						
Total Hip Roof	84	101	55	65	38	45
Opening Protection	86	103	55	66	36	45
Total Hip Roof and Opening Protection	170	204	110	131	75	90
 IBHS Designation:						
Hurricane Fortified for Safer Living®	275	356	158	216	82	149
Hurricane Fortified for Existing Homes® Bronze Option 1	66	81	44	51	29	35
Hurricane Fortified for Existing Homes® Bronze Option 2	103	127	62	81	36	55
Hurricane Fortified for Existing Homes® Silver Option 1	165	214	89	132	39	91
Hurricane Fortified for Existing Homes® Silver Option 2	198	259	106	161	45	111
Hurricane Fortified for Existing Homes® Gold Option 1	211	273	118	164	58	113
Hurricane Fortified for Existing Homes® Gold Option 2	245	319	135	194	64	134

Notes:

- (1): RB-1, C-17 (1)
- (2): Exhibit 1, Section C, Page C-35, C
- (4): RB-1, C-17

AMENDED

NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: August 1, 2014

Assumed Effective Date: July 1, 2014

Section D: Other Relevant Material

Calculation of Current Cost Factors

Calculation of Loss Projection Factor and Total Period Loss Trend Adjustment

Calculation of Premium Projection Factor

Calculation of Current Cost / Amount Factor

Calculation of Composite Projection Factor

Derivation of Loss Adjustment Expense (LAE) Ratio and Trended LAE Factor

Derivation of Commission and Brokerage; Taxes, Licenses and Fees; and Fixed Expenses

Derivation of Statewide and Territory Trended Fixed Expenses

Derivation of Statewide and Territory Trended Modeled Hurricane Base-Class Lost Cost

Derivation of Statewide and Territory Compensation For Assessment Risk

Derivation of Statewide and Territory Net Cost of Reinsurance

Derivation of Expected Loss and Fixed Expense Ratio

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF CURRENT COST FACTORS (CCF) - OWNERS FORMS

Assumed Effective Date: July 1, 2014

	<u>North Carolina Rate Bureau</u>			<u>AIS Risk Consultants</u>		<u>O'Neil Consulting Services</u>		<u>Commissioner of Insurance</u>	
<u>Year</u>	<u>Calendar Year Average CCI</u>	<u>CCI</u>	<u>Ending 3/31/2013 = 744.9</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 3/31/2013 = 744.9</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 6/30/2014 = 756.0</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 6/30/2014 = 756.0</u>
2007	901.5	410.5		1.094		1.111		1.111	
2008	920.2	416.6		1.074		1.090		1.090	
2009	932.4	423.0		1.059		1.075		1.075	
2010	939.0	426.4		1.052		1.067		1.067	
2011	953.2	433.0		1.036		1.051		1.051	
<u>Weight</u>	<u>55%</u>	<u>45%</u>							

CALCULATION OF CURRENT COST FACTORS (CCF) - TENANTS FORM AND CONDOMINIUMS FORM

	<u>North Carolina Rate Bureau</u>			<u>AIS Risk Consultants</u>		<u>O'Neil Consulting Services</u>		<u>Commissioner of Insurance</u>	
<u>Year</u>	<u>Calendar Year Average CCI</u>	<u>CCI</u>	<u>Ending 3/31/2013 = 314.6</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 3/31/2013 = 314.6</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 6/30/2014 = 314.9</u>	<u>Current Cost Factors Based on Average CCI Value for Quarter</u>	<u>Ending 6/30/2014 = 314.9</u>
2007	306.1	1.028		1.028		1.029		1.029	
2008	307.1	1.024		1.024		1.025		1.025	
2009	309.1	1.018		1.018		1.019		1.019	
2010	307.3	1.024		1.024		1.025		1.025	
2011	309.5	1.016		1.016		1.017		1.017	

Notes:
 NCRB: RB-1, D-12 and D-14
 AIS: DOI-9, Schedule AIS-5, Sheets 1 and 2
 OCS: DOI-10, Exhibit 4 Pages 1 and 3
 CCI: OCS

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF LOSS PROJECTION FACTOR AND TOTAL PERIOD LOSS TREND ADJUSTMENT

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected CCI Annual Rate of Change	2.0%	2.0%	1.2%	1.2%	1.2%	1.2%
(2) Trend Period (Years)	2.375	2.375	2.375	2.375	2.375	2.375
From						
Feb 15, 2013						
To						
Jul 1, 2015						
(3) CCI Loss Projection Factor = $[1.0 + (1)] \wedge (2)$	1.049	1.049	1.029	1.029	1.029	1.029
(4) Annual Loss Trend Adjustment (LTA) Rate of Change	3.0%	3.0%	1.5%	1.5%	4.0%	4.0%
(5) Total Period LTA = $[1.0 + (4)] \wedge (2)$	1.073	1.073	1.036	1.036	1.098	1.098

AIS Risk Consultants

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected CCI Annual Rate of Change	2.0%	2.0%	1.2%	1.2%	1.2%	1.2%
(2) Trend Period (Years)	2.375	2.375	2.375	2.375	2.375	2.375
From						
Feb 15, 2013						
To						
Jul 1, 2015						
(3) CCI Loss Projection Factor = $[1.0 + (1)] \wedge (2)$	1.049	1.049	1.029	1.029	1.029	1.029
(4) Annual Loss Trend Adjustment (LTA) Rate of Change	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
(5) Total Period LTA = $[1.0 + (4)] \wedge (2)$	0.885	0.885	0.885	0.885	0.885	0.885

Sources:

NCRB: RB-1, D-13 and D-18
 AIS: DOI-9, Schedule AIS-6, Sheets 1 and 2; Schedule AIS-8, Sheets 1, 2, and 3

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF LOSS PROJECTION FACTOR AND TOTAL PERIOD LOSS TREND ADJUSTMENT

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected CCI Annual Rate of Change	1.5%	1.5%	0.0%	0.0%	0.0%	0.0%
(2) Trend Period (Years)	1.125	1.125	1.125	1.125	1.125	1.125
From	May 15, 2014	May 15, 2014	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015
To	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015
(3) CCI Loss Projection Factor = $[1.0 + (1)]^{\wedge} (2)$	1.018	1.018	1.000	1.000	1.000	1.000
(4) Annual Loss Trend Adjustment (LTA) Rate of Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(5) Total Period LTA = $[1.0 + (4)]^{\wedge} (2)$	1.000	1.000	1.000	1.000	1.000	1.000

Commissioner of Insurance

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected CCI Annual Rate of Change	1.5%	1.5%	0.0%	0.0%	0.0%	0.0%
(2) Trend Period (Years)	1.125	1.125	1.125	1.125	1.125	1.125
From	May 15, 2014	May 15, 2014	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015
To	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015	Jul 1, 2015
(3) CCI Loss Projection Factor = $[1.0 + (1)]^{\wedge} (2)$	1.017	1.017	1.000	1.000	1.000	1.000
(4) Annual Loss Trend Adjustment (LTA) Rate of Change	2.5%	2.5%	0.0%	0.0%	0.0%	0.0%
(5) Total Period LTA = $[1.0 + (4)]^{\wedge} (2)$	1.028	1.028	1.000	1.000	1.000	1.000

Notes:

OCS: DOI-10, Exhibit 4 Pages 1-4; Exhibit 5, Page 2

COI

(1): OCS, (1)

(2): OCS (2)

(4): Owners: Curry's Suggestion, Transcript Vol IX PM, pp 1817-1818
 Tenants and Condominiums: OCS (4)

NORTH CAROLINA HOMEOWNERS INSURANCE
CALCULATION OF PREMIUM PROJECTION FACTOR (AMOUNT RELATIVITY)

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected Premium Annual Rate of Change	2.3%	2.3%	-1.0%	-1.0%	0.0%	0.0%
(2) Latest Year Relativity Trended = (2a) x [(1.0 + (1)) ^ (2b)]	2.182	2.079	2.620	2.677	4.320	4.320
(a) Latest Year (2011) Relativity	2.079	2.125	2.677	2.125	4.320	2.125
(b) Trend Period (Years)	2.125		2.125		2.125	
From	Jan 1, 2011					
To	Feb 15, 2013					
(3) Premium Projection Factor = [1.0 + (1)] ^ (3a)	1.044	1.044	0.981	0.981	1.000	1.000
(a) Trend Period (Years)	1.875	1.875	1.875	1.875	1.875	1.875
From	Feb 15, 2013					
To	Jan 1, 2015					

AIS Risk Consultants

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected Premium Annual Rate of Change	2.3%	2.3%	-1.0%	-1.0%	0.0%	0.0%
(2) Latest Year Relativity Trended = (2a) x [(1.0 + (1)) ^ (2b)]	2.182	2.079	2.620	2.677	4.320	4.320
(a) Latest Year (2011) Relativity	2.079	2.125	2.677	2.125	4.320	2.125
(b) Trend Period (Years)	2.125		2.125		2.125	
From	Jan 1, 2011					
To	Feb 15, 2013					
(3) Premium Projection Factor = [1.0 + (1)] ^ (3a)	1.044	1.044	0.981	0.981	1.000	1.000
(a) Trend Period (Years)	1.875	1.875	1.875	1.875	1.875	1.875
From	Feb 15, 2013					
To	Jan 1, 2015					

Sources:

NCRB: RB-1, D-17-22
AIS: DOI-9, Schedule AIS-7, Sheets 1-3; Schedule AIS-8, Sheets 1-3

NORTH CAROLINA HOMEOWNERS INSURANCE
CALCULATION OF PREMIUM PROJECTION FACTOR (AMOUNT RELATIVITY)

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

Exhibit 1
Section D
Page D-5

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected Premium Annual Rate of Change	2.3%	2.3%	-1.0%	-1.0%	0.0%	0.0%
(2) Latest Year Relativity Trended = (2a) x [(1.0 + (1)) ^ (2b)]	2.245	2.079	2.589	2.677	4.320	4.320
(a) Latest Year (2011) Relativity	2.079	3.375	2.677	3.375	4.320	4.320
(b) Trend Period (Years)	3.375		3.375		3.375	
From	Jan 1, 2011					
To	May 15, 2014					
(3) Premium Projection Factor = [(1.0 + (1)) ^ (3a)]	1.014	1.014	0.994	0.994	1.000	1.000
(a) Trend Period (Years)	0.625	0.625	0.625	0.625	0.625	0.625
From	May 15, 2014					
To	Jan 1, 2015					

Commissioner of Insurance

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Selected Premium Annual Rate of Change	2.3%	2.3%	-1.0%	-1.0%	0.0%	0.0%
(2) Latest Year Relativity Trended = (2a) x [(1.0 + (1)) ^ (2b)]	2.244	2.079	2.588	2.677	4.320	4.320
(a) Latest Year (2011) Relativity	2.079	3.367	2.677	3.367	4.320	4.320
(b) Trend Period (Years)	3.367		3.367		3.367	
From	Jan 1, 2011					
To	May 15, 2014					
(3) Premium Projection Factor = [(1.0 + (1)) ^ (3a)]	1.014	1.014	0.994	0.994	1.000	1.000
(a) Trend Period (Years)	0.633	0.633	0.633	0.633	0.633	0.633
From	May 15, 2014					
To	Jan 1, 2015					

Notes:

- OCS: DOI-10, Exhibit 5 Pages 1 and 3
COI
(1): RB-1, D-17, Exhibit 1, Section D, Page D-4, NCRB and AIS (1); OCS (1)
(2a): Exhibit 1, Section D, Page D-7, COI (1), (7) and (13)
(2b): OCS (2b)
(3a): OCS (3a)

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF CURRENT COST / AMOUNT FACTOR

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

Year	Average Relativity	Owners					Tenants					Condominiums									
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)				
2007	1.901	1.148	1.148	1.094	0.953	2.894	0.905	0.905	1.028	1.136	2.620	4.181	1.033	1.033	1.033	1.028	0.995				
2008	1.969	1.108	1.108	1.074	0.969	2.857	0.917	0.917	1.024	1.117	2.620	4.265	1.013	1.013	1.024	1.011					
2009	2.025	1.078	1.078	1.059	0.982	2.804	0.934	0.934	1.018	1.090	2.620	4.336	0.996	0.996	1.018	1.022					
2010	2.063	1.058	1.058	1.052	0.994	2.731	0.959	0.959	1.024	1.068	2.620	4.329	0.998	0.998	1.024	1.026					
2011	2.079	1.050	1.050	1.036	0.987	2.677	0.979	0.979	1.016	1.038	2.620	4.320	1.000	1.000	1.016	1.016					
(6) Trended Avg. Rel. at Feb 15, 2013:		2.182					(12) Trended Avg. Rel. at Feb 15, 2013:					2.620					(18) Trended Avg. Rel. at Feb 15, 2013:				

ALS Risk Consultants

Year	Average Relativity	Owners					Tenants					Condominiums									
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)				
2007	1.901	1.148	1.148	1.094	0.953	2.894	0.905	0.905	1.028	1.136	2.620	4.181	1.033	1.033	1.033	1.028	0.995				
2008	1.969	1.108	1.108	1.074	0.969	2.857	0.917	0.917	1.024	1.117	2.620	4.265	1.013	1.013	1.024	1.011					
2009	2.025	1.078	1.078	1.059	0.982	2.804	0.934	0.934	1.018	1.090	2.620	4.336	0.996	0.996	1.018	1.022					
2010	2.063	1.058	1.058	1.052	0.994	2.731	0.959	0.959	1.024	1.068	2.620	4.329	0.998	0.998	1.024	1.026					
2011	2.079	1.050	1.050	1.036	0.987	2.677	0.979	0.979	1.016	1.038	2.620	4.320	1.000	1.000	1.016	1.016					
(6) Trended Avg. Rel. at Feb 15, 2013:		2.182					(12) Trended Avg. Rel. at Feb 15, 2013:					2.620					(18) Trended Avg. Rel. at Feb 15, 2013:				

Sources:

NCRB : RB-1, D-17-22
 AIS: DOI-9, Schedule AIS-7, Sheets 1-3; Schedule AIS-8, Sheets 1-3

NORTH CAROLINA HOMEOWNERS INSURANCE
CALCULATION OF CURRENT COST / AMOUNT FACTOR

Assumed Effective Date: July 1, 2014

Exhibit 1
Section D
Page D-7

ONell Consulting Services

Year	Owners					Tenants					Condominiums				
	(1) Average Relativity	(2) (6)/(1)	(3) Current Amount Factor	(4) Current Cost Factor	(5) Current Cost/Amt Factor	(7) Average Relativity	(8) (12)/(7)	(9) Current Amount Factor	(10) Current Cost Factor	(11) Current Cost/Amt Factor	(13) Average Relativity	(14) (18)/(13)	(15) Current Amount Factor	(16) Current Cost Factor	(17) Current Cost/Amt Factor
2007	1.901	1.181	1.181	1.111	0.941	2.894	0.895	0.895	1.029	1.150	4.181	1.033	1.033	1.029	0.996
2008	1.969	1.140	1.140	1.090	0.956	2.857	0.906	0.906	1.025	1.131	4.265	1.013	1.013	1.025	1.012
2009	2.025	1.109	1.109	1.075	0.969	2.804	0.923	0.923	1.019	1.104	4.336	0.996	0.996	1.019	1.023
2010	2.063	1.088	1.088	1.067	0.981	2.731	0.948	0.948	1.025	1.081	4.329	0.998	0.998	1.025	1.027
2011	2.079	1.080	1.080	1.051	0.973	2.677	0.967	0.967	1.017	1.052	4.320	1.000	1.000	1.017	1.017
(6) Trended Avg. Rel. at May 15, 2014: 2.245					(12) Trended Avg. Rel. at May 15, 2014: 2.589					(18) Trended Avg. Rel. at May 15, 2014: 4.320					

Commissioner of Insurance

Year	Owners					Tenants					Condominiums				
	(1) Average Relativity	(2) (6)/(1)	(3) Current Amount Factor	(4) Current Cost Factor	(5) Current Cost/Amt Factor	(7) Average Relativity	(8) (12)/(7)	(9) Current Amount Factor	(10) Current Cost Factor	(11) Current Cost/Amt Factor	(13) Average Relativity	(14) (18)/(13)	(15) Current Amount Factor	(16) Current Cost Factor	(17) Current Cost/Amt Factor
2007	1.901	1.180	1.180	1.111	0.942	2.894	0.894	0.894	1.029	1.151	4.181	1.033	1.033	1.029	0.996
2008	1.969	1.140	1.140	1.09	0.956	2.857	0.906	0.906	1.025	1.131	4.265	1.013	1.013	1.025	1.012
2009	2.025	1.108	1.108	1.075	0.97	2.804	0.923	0.923	1.019	1.104	4.336	0.996	0.996	1.019	1.023
2010	2.063	1.088	1.088	1.067	0.981	2.731	0.948	0.948	1.025	1.081	4.329	0.998	0.998	1.025	1.027
2011	2.079	1.079	1.079	1.051	0.974	2.677	0.967	0.967	1.017	1.052	4.320	1.000	1.000	1.017	1.017
(6) Trended Avg. Rel. at May 15, 2014: 2.244					(12) Trended Avg. Rel. at May 15, 2014: 2.588					(18) Trended Avg. Rel. at May 15, 2014: 4.320					

Notes:

- OCS: DOI-9, Exhibit 5 Page 3
COI
(1), (7), (13): RB-1, D-17, D-19, D-21, AVG. REL.; Exhibit 1, Section D, Page D-6, NCRB (1), (7) and (13)
(3) = (2), (9) = (8), (15) = (14)
(4), (10), (16): Exhibit 1, Section D, Page D-1, COI Current Cost Factors
(5) = [(4) / (3)]; (11) = [(10) / (9)]; (17) = [(16) / (15)]
(6), (12), (18): Exhibit 1, Section D, Page D-5, COI, (2)

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF COMPOSITE PROJECTION FOR LOSS RATIO

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Adjustment to Trend From First Dollar Loss	1.004	1.003	1.003	1.002	1.003	1.002
(2) CCI Loss Projection Factor	1.049	1.049	1.029	1.029	1.029	1.029
(3) Total Period Loss Trend Adjustment	1.073	1.073	1.036	1.036	1.098	1.098
(4) Premium Projection Factor	1.044	1.044	0.981	0.981	1.000	1.000
(5) Composite Projection Factor	1.082	1.081	1.090	1.089	1.133	1.132
	= [(1) x (2) x (3)] / (4)					

AIS Risk Consultants

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Adjustment to Trend From First Dollar Loss	1.004	1.003	1.003	1.002	1.003	1.002
(2) CCI Loss Projection Factor	1.049	1.049	1.029	1.029	1.029	1.029
(3) Total Period Loss Trend Adjustment	0.885	0.885	0.885	0.885	0.885	0.885
(4) Premium Projection Factor	1.044	1.044	0.981	0.981	1.000	1.000
(5) Composite Projection Factor	0.893	0.892	0.931	0.930	0.913	0.912
	= [(1) x (2) x (3)] / (4)					

Sources:

NCRB: RB-1, D-18, D-19 and D-20
 AIS: Schedule AIS-8, Sheets 1, 2 and 3

NORTH CAROLINA HOMEOWNERS INSURANCE
 CALCULATION OF COMPOSITE PROJECTION FOR LOSS RATIO

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Adjustment to Trend From First Dollar Loss	1.004	1.003	1.003	1.002	1.003	1.002
(2) CCI Loss Projection Factor	1.018	1.018	1.000	1.000	1.000	1.000
(3) Total Period Loss Trend Adjustment	1.000	1.000	1.000	1.000	1.000	1.000
(4) Premium Projection Factor	1.014	1.014	0.994	0.994	1.000	1.000
(5) Composite Projection Factor	1.008	1.007	1.009	1.008	1.003	1.002
	= [(1) x (2) x (3)] / (4)					

Commissioner of Insurance

	Owners		Tenants		Condominiums	
	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane	Non-Hurricane	Modeled Hurricane
(1) Adjustment to Trend From First Dollar Loss	1.004	1.003	1.003	1.002	1.003	1.002
(2) CCI Loss Projection Factor	1.017	1.017	1.000	1.000	1.000	1.000
(3) Total Period Loss Trend Adjustment	1.028	1.028	1.000	1.000	1.000	1.000
(4) Premium Projection Factor	1.014	1.014	0.994	0.994	1.000	1.000
(5) Composite Projection Factor	1.035	1.034	1.009	1.008	1.003	1.002
	= [(1) x (2) x (3)] / (4)					

Notes:

OCS: DOI-10, Exhibit 5 Page 4

COI

(1): RB-1, D-18, D-20 and D-22, (9), Exhibit 1, Section D, Page D-8, NCRB and AIS (1); OCS (1)

(2): Exhibit 1, Section D, Page D-3, COI (3)

(3): Exhibit 1, Section D, Page D-3, COI (5)

(4): Exhibit 1, Section D, Page D-5, COI (3)

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF LOSS ADJUSTMENT EXPENSE (LAE) TO INCURRED LOSS RATIO

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section D
 Page D-10

	2008					2009					2010					2011					2012					Total	Selected Ratio				
	Allocated LAE	Unallocated LAE	Total LAE	Incurred Losses	LAE to Inc. Loss Ratio	Allocated LAE	Unallocated LAE	Total LAE	Incurred Losses	LAE to Inc. Loss Ratio	Allocated LAE	Unallocated LAE	Total LAE	Incurred Losses	LAE to Inc. Loss Ratio	Allocated LAE	Unallocated LAE	Total LAE	Incurred Losses	LAE to Inc. Loss Ratio	Allocated LAE	Unallocated LAE	Total LAE	Incurred Losses	LAE to Inc. Loss Ratio		NCRB	AIS	OCS	COI	
Allocated LAE	12,796,509	99,966,085	112,762,594	832,589,013	0.135	14,288,754	102,839,709	117,128,463	924,672,437	0.127	14,388,058	113,651,607	128,039,665	1,027,937,087	0.125	19,303,414	177,050,675	196,354,089	2,077,932,641	0.094	17,101,314	111,589,727	128,691,041	946,345,673	0.136	5,809,476,851	0.118	0.123	0.121	0.118	0.129
Total LAE	112,762,594	117,128,463	128,039,665	1,027,937,087	0.118	117,128,463	128,039,665	128,691,041	946,345,673	0.118	128,039,665	128,691,041	128,691,041	946,345,673	0.118	196,354,089	128,691,041	325,045,130	2,077,932,641	0.129	128,691,041	128,691,041	257,382,082	946,345,673	0.129	0.129	0.129	0.118	0.129		
Incurred Losses	832,589,013	924,672,437	1,027,937,087	2,077,932,641	5,809,476,851	0.123	0.121	0.118	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	
LAE to Inc. Loss Ratio	0.135	0.127	0.125	0.094	0.118	0.123	0.121	0.118	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129	0.129		

Notes:

- NCRB: RB-1, D-29
- AIS: DOI-9, Schedule AIS-10
- OCS: DOI-10, Exhibit 6 Page 3
- COI: RB-1, D-29; NCRB and AIS

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF TRENDED LOSS ADJUSTMENT EXPENSE FACTOR

Exhibit 1
 Section D
 Page D-11

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

- A. Selected Annual Expense Trend Factor
- B. Midpoint of Historical LAE Experience (2008-2012)
- C. LAE Projected to One Year Past the Assumed Effective Date
- D. Number of Months between Midpoint and Projection Date
- E. Trend Factor for LAE dollars = $A \wedge (D/12)$

1.020
 Jul 1, 2010
 Jul 1, 2015
 60
 1.104

- F. 2010 Current Cost Factor
- G. Loss Projection Factor = $G1 \times G2 \times G3$
- G1. Loss Projection Factor
- G2. Total Period Loss Trend Adjustment
- G3. Adjustment To Trend From First Dollar Loss (Non-Hurricane)
- H. Trend Factor for Losses = $F \times G$
- I. Selected Average LAE/Loss Ratio
- J. Trended LAE Factor = $1.000 + [(1 \times E) / H]$

Owners	Tenants	Condominiums
1.052	1.024	1.024
1.130	1.069	1.133
1.049	1.029	1.029
1.073	1.036	1.098
1.004	1.003	1.003
1.189	1.095	1.160
0.129	0.129	0.129
1.120	1.130	1.123

AIS Risk Consultants

- A. Selected Annual Expense Trend Factor
- B. Midpoint of Historical LAE Experience (2008-2012)
- C. LAE Projected to One Year Past the Assumed Effective Date
- D. Number of Months between Midpoint and Projection Date
- E. Trend Factor for LAE dollars = $A \wedge (D/12)$

1.020
 Jul 1, 2010
 Jul 1, 2015
 60
 1.104

- F. 2010 Current Cost Factor
- G. Loss Projection Factor = $G1 \times G2 \times G3$
- G1. Loss Projection Factor
- G2. Total Period Loss Trend Adjustment
- G3. Adjustment To Trend From First Dollar Loss (Non-Hurricane)
- H. Trend Factor for Losses = $F \times G$
- I. Selected Average LAE/Loss Ratio
- J. Trended LAE Factor = $1.000 + [(1 \times E) / H]$

Owners	Tenants	Condominiums
1.052	1.024	1.024
0.932	0.913	0.913
1.049	1.029	1.029
0.885	0.885	0.885
1.004	1.003	1.003
0.980	0.935	0.935
0.129	0.129	0.129
1.145	1.152	1.152

Sources:

RB-1, D-30
 DOI-9, Schedule AIS-11

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF TRENDED LOSS ADJUSTMENT EXPENSE FACTOR

Exhibit 1
 Section D
 Page D-12

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

- A. Selected Annual Expense Trend Factor
- B. Midpoint of Historical LAE Experience (2008-2012)
- C. LAE Projected to One Year Past the Assumed Effective Date
- D. Number of Months between Midpoint and Projection Date
- E. Trend Factor for LAE dollars = $A \wedge (D/12)$

1.020
 Jul 1, 2010
 Jul 1, 2015
 60
 1.104

- F. 2010 Current Cost Factor
- G. Loss Projection Factor = $G1 \times G2 \times G3$
- G1. Loss Projection Factor
- G2. Total Period Loss Trend Adjustment
- G3. Adjustment To Trend From First Dollar Loss (Non-Hurricane)
- H. Trend Factor for Losses = $F \times G$
- I. Selected Average LAE/Loss Ratio
- J. Trended LAE Factor = $1.000 + [(1 \times E) / H]$

Owners	Tenants	Condominiums
1.067	1.025	1.025
1.022	1.003	1.003
1.018	1.000	1.000
1.000	1.000	1.000
1.004	1.003	1.003
1.090	1.028	1.028
0.118	0.118	0.118
1.119	1.126	1.126

Commissioner of Insurance

- A. Selected Annual Expense Trend Factor
- B. Midpoint of Historical LAE Experience (2008-2012)
- C. LAE Projected to One Year Past the Assumed Effective Date
- D. Number of Months between Midpoint and Projection Date
- E. Trend Factor for LAE dollars = $A \wedge (D/12)$

1.020
 Jul 1, 2010
 Jul 1, 2015
 60
 1.104

- F. 2010 Current Cost Factor
- G. Loss Projection Factor = $G1 \times G2 \times G3$
- G1. Loss Projection Factor
- G2. Total Period Loss Trend Adjustment
- G3. Adjustment To Trend From First Dollar Loss (Non-Hurricane)
- H. Trend Factor for Losses = $F \times G$
- I. Selected Average LAE/Loss Ratio
- J. Trended LAE Factor = $1.000 + [(1 \times E) / H]$

Owners	Tenants	Condominiums
1.067	1.025	1.025
1.050	1.003	1.003
1.017	1.000	1.000
1.028	1.000	1.000
1.004	1.003	1.003
1.120	1.028	1.028
0.129	0.129	0.129
1.127	1.139	1.139

Notes:

OCS: DOI-10, Exhibit 6 Page 3

COI

- A: RB-1, D-30, A: Exhibit 1, Section D, Page D-11, NCRB, AIS and OCS, A
- F: Exhibit 1, Section D, Page D-7, COI (4), (10) and (16)
- G1: Exhibit 1, Section D, Page D-3, COI (3)

- G2: Exhibit 1, Section D, Page D-3, COI (5)
- G3: Exhibit 1, Section D, Page D-9, COI (1)
- I: Exhibit 1, Section D, Page D-10, Selected Ratio, COI

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF COMMISSION AND BROKERAGE, TAXES, LICENSES AND FEES, AND FIXED EXPENSES

Assumed Effective Date: July 1, 2014

	2010-2012										Selected Ratio				
	2008 *	2009 *	2010	2011	2012	2008 - 2012	Average	NCRB	AIS	OCS	COI				
Written Premium Including Deviations	1,576,365,483	1,656,102,458	1,724,341,759	1,767,724,707	1,791,670,152	8,516,204,559									
Earned Premium at Current Manual Level	2,059,673,129	2,074,213,461	2,066,671,039	2,094,748,838	2,062,795,500	10,358,101,967									
Earned Premium Excluding Deviations	1,847,400,611	1,881,922,749	1,927,440,496	1,957,706,391	1,927,846,262	9,542,316,509									
Commission and Brokerage	213,066,921	222,717,232	227,648,735	222,869,584	225,107,387	1,111,409,859									
Other Acquisition Expense	106,539,162	111,443,074	121,568,295	118,846,200	126,796,960	585,193,691									
General Expense	70,158,993	83,620,899	80,255,121	84,016,909	90,595,044	408,646,966									
Taxes, Licenses and Fees	40,907,991	46,797,216	46,909,335	46,454,578	46,421,539	227,490,559									
Ratios to Written Premium Including Deviations															
Commission and Brokerage	0.135	0.134	0.132	0.126	0.126	0.131	0.128	0.128	0.128	0.128	0.128				
Taxes, Licenses and Fees	0.026	0.028	0.027	0.026	0.026	0.027	0.026	0.026	0.026	0.026	0.026				
Ratios to Earned Premium at Current Manual Level															
General Expense	0.034	0.040	0.039	0.040	0.044	0.039	0.041	0.041	0.041	0.041	0.041				
Other Acquisition Expense	0.052	0.054	0.059	0.057	0.061	0.056	0.059	0.059	0.059	0.059	0.059				

Notes:

* Only in DOI-10, OCS Exhibit 6 Page 4
 NCRB: RB-1, D-28; DR1, Item 94
 AIS: DOI-9, Schedule AIS-9
 OCS: DOI-10, OCS Exhibit 6 Page 4
 COI: NCRB, AIS and OCS

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE TRENDED FIXED EXPENSES

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

Exhibit 1
 Section D
 Page D-14

Calculation of Trend Factor for General Expense (GE), Other Acquisition Expense (OA) Dollars

- A. Selected Annual Expense Trend Factor 1.020
- B. Midpoint of Historical GE, OA Expense Experience (2010-2012) Jul 1, 2011
- C. GE, OA Expenses Projected to Six Months Past the Assumed Effective Date Jul 1, 2015
- D. Number of Months between Midpoint and Projection Date 42
- E. Trend Factor for GE, OA Expenses = $A \times (D / 12)$ 1.072

Calculation of Trend Factor for Premiums and Average All-Forms GE, OA Dollar Loading

	(1) 2011 Earned Premium	(2) 2011 Current Amount Factor	(3) Premium Projection Factor	(4) Trended Premium $(1) \times (2) \times (3)$	(5) 211 House- Years	(6) Trended Avg Rate $(4) / (5)$
Owners	2,257,970,589	1.050	1.044	2,475,187,360	1,947,574	\$1,270.91
Tenants	45,065,871	0.979	0.981	43,281,217	285,991	\$162.72
Condominiums	22,629,842	1.000	1.000	22,629,842	74,424	\$304.07
Total	2,325,666,302			2,541,098,419	2,287,989	\$1,110.63

F. All-Forms Premium Trend Factor = Total (4) / Total (1)
 G. Selected Average GE OA Ratio = $G(a) + G(b)$ 1.093

- a) Selected Average GE Ratio 0.041
- b) Selected Average AO Ratio 0.059

H. Trended GE OA Ratio = $G \times (E / F)$ 0.098
 I. All-Forms Dollar Loading for GE, OA = $H \times \text{Total (6)}$ \$108.84

Calculation of Base-Class GE, OA Dollar Loading by Form

	(7) 2011 House- Years	(8) Selected Relativity for GE, OA Dollars Per Policy	(9) Average GE, OA Loading $[(8) \times II] / \text{Total (8)}$	(10) 2011 Average Rating Factor	(11) 2011 Current Amount Factor	(12) Premium Projection Factor	(13) GE, OA Loading at Based-Class Level $(9) / [(10) \times (11) \times (12)]$
Owners	1,947,574	1.00	\$117.59	2.427	1.050	1.044	\$44.20
Tenants	265,991	0.50	\$58.79	3.616	0.979	0.981	\$16.93
Condominiums	74,424	0.50	\$58.79	6.576	1.000	1.000	\$8.94
Total	2,287,989		0.9256				

* Total (8) calculated as weighted average of the column (8) relativities by form using column (7) as weights

Source:

RB-1, D-31

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF STATEWIDE TRENDED FIXED EXPENSES

Assumed Effective Date: July 1, 2014

AIS Risk Consultants

Exhibit 1
Section D
Page D-15

Calculation of Trend Factor for General Expense (GE), Other Acquisition Expense (OA) Dollars

A. Selected Annual Expense Trend Factor	1.020
B. Midpoint of Historical GE, OA Expense Experience (2010-2012)	Jul 1, 2011
C. GE, OA Expenses Projected to Six Months Past the Assumed Effective Date	Jan 1, 2015
D. Number of Months between Midpoint and Projection Date	42
E. Trend Factor for GE, OA Expenses = $A \wedge (D / 12)$	1.072

Calculation of Trend Factor for Premiums and Average All-Forms GE, OA Dollar Loading

	(1) 2011 Earned Premium	(2) 2011 Current Amount Factor	(3) Premium Projection Factor	(4) Trended Premium (1) x (2) x (3)	(5) 211 House- Years	(6) Trended Avg Rate (4) / (5)
Owners	2,257,970,589	1.050	1.044	2,475,187,360	1,947,574	\$1,270.91
Tenants	45,065,871	0.979	0.981	43,281,217	265,991	\$162.72
Condominiums	22,629,842	1.000	1.000	22,629,842	74,424	\$304.07
Total	2,325,666,302			2,541,098,419	2,287,989	\$1,110.63

F. All-Forms Premium Trend Factor = Total (4) / Total (1)

G. Selected Average GE OA Ratio = G.a) + G.b)

a) Selected Average GE Ratio 0.041

b) Selected Average AO Ratio 0.059

H. Trended GE OA Ratio = G x (E / F)

I. All-Forms Dollar Loading for GE, OA = H x Total (6)

Calculation of Base-Class GE, OA Dollar Loading by Form

	(7) 2011 House- Years	(8) Selected Relativity for GE, OA Dollars Per Policy	(9) Average GE, OA Loading [(8) x II / Total (8)]	(10) 2011 Average Rating Factor	(11) 2011 Current Amount Factor	(12) Premium Projection Factor	(13) GE, OA Loading at Based-Class Level (9) / [(10) x (11) x (12)]
Owners	1,947,574	1.00	\$117.59	2.427	1.050	1.044	\$44.20
Tenants	265,991	0.50	\$58.79	3.616	0.979	0.981	\$16.93
Condominiums	74,424	0.50	\$58.79	6.576	1.000	1.000	\$8.94
Total	2,287,989	0.9256					

* Total (8) calculated as weighted average of the column (8) relativities by form using column (7) as weights

Source:

DOI-9, Schedule AIS-12

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE TRENDED FIXED EXPENSES

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

Calculation of Trend Factor for General Expense (GE), Other Acquisition Expense (OA) Dollars

- A. Selected Annual Expense Trend Factor 1.020
- B. Midpoint of Historical GE, OA Expense Experience (2010-2012) Jul 1, 2011
- C. GE, OA Expenses Projected to Six Months Past the Assumed Effective Date Jan 1, 2015
- D. Number of Months between Midpoint and Projection Date 42
- E. Trend Factor for GE, OA Expenses = $A \wedge (D / 12)$ 1.072

Calculation of Trend Factor for Premiums and Average All-Forms GE, OA Dollar Loading

	(2) 2011 Current Amount Factor	(3) Premium Projection Factor	(J) (2) x (3)	(F) Selected Premium Trend Factor	(H) [(G) x (E)] / (F) Trended GE, OA Ratio
Owners	1.080	1.014	1.095	1.095	0.098
Tenants	0.967	0.994	0.961	0.961	0.112
Condominiums	1.000	1.000	1.000	1.000	0.107

G. Selected Average GE, OA Ratio = G.a) + G.b) = 0.100

- a) Selected Average GE Ratio: 0.041
- b) Selected Average AO Ratio: 0.059

Calculation of Base-Class GE, OA Dollar Loading by Form

	(K) Average Current Base Rate	(L) (H) x (K) Indicated Fixed Expense Per Policy	(M) Selected Fixed Expense Per Policy
Owners	\$476.80	\$46.73	\$46.73
Tenants	\$46.69	\$5.23	\$5.23
Condominiums	\$46.15	\$4.94	\$4.94

Source:

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE TRENDED FIXED EXPENSES

Assumed Effective Date: July 1, 2014

Commissioner of Insurance

Calculation of Trend Factor for General Expense (GE), Other Acquisition Expense (OA) Dollars

- A. Selected Annual Expense Trend Factor 1.020
- B. Midpoint of Historical GE, OA Expense Experience (2010-2012) Jul 1, 2011
- C. GE, OA Expenses Projected to Six Months Past the Assumed Effective Date Jan 1, 2015
- D. Number of Months between Midpoint and Projection Date 42
- E. Trend Factor for GE, OA Expenses = $A \wedge (D / 12)$ 1.072

Calculation of Trend Factor for Premiums and Average All-Forms GE, OA Dollar Loading

	(2) 2011 Current Amount Factor	(3) Premium Projection Factor	(J) (2) x (3) Indicated Prem Trend Factor	(F) Selected Premium Trend Factor	(H) [(G) x (E)] / (F) Trended GE OA Ratio
Owners	1.079	1.014	1.094	1.094	0.098
Tenants	0.967	0.994	0.961	0.961	0.112
Condominiums	1.000	1.000	1.000	1.000	0.107

G. Selected Average GE OA Ratio = G.a) + G.b) = 0.100

- a) Selected Average GE Ratio: 0.041
- b) Selected Average AO Ratio: 0.059

Calculation of Base-Class GE, OA Dollar Loading by Form

	(K) Average Current Base Rate	(L) (H) x (K) Indicated Fixed Expense Per Policy	(M) Selected Fixed Expense Per Policy
Owners	\$476.80	\$46.73	\$46.73
Tenants	\$46.69	\$5.23	\$5.23
Condominiums	\$46.15	\$4.94	\$4.94

Notes

- A: RB-1, D-31, A, Exhibit 1, Section D, Pages D-14-16, NCRB, AIS and OCS, A
- (2): Exhibit 1, Section D, Page D-7, COI (3), (9) and (15)
- (3): Exhibit 1, Section D, Page D-5, COI (3)
- (K): RB-1, C-1 (24); RB-1, C-2 (22); RB-1, C-3 (22)

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF TERRITORY TRENDED FIXED EXPENSE RATIOS

Assumed Effective Date: July 1, 2014

Exhibit 1
Section D
Page D-18

Territory	Owners					Tenants					Condominiums				
	5-Year Avg Rate	NCRB	QCS	COI	COI	5-Year Avg Rate	NCRB	QCS	COI	COI	5-Year Avg Rate	NCRB	QCS	COI	COI
110	4038.23	0.025	0.027	0.027	0.027	406.17	0.156	0.048	0.048	0.048	520	0.110	0.061	0.061	0.061
120	4353.45	0.024	0.025	0.025	0.025	397.48	0.160	0.049	0.049	0.049	602	0.095	0.053	0.053	0.053
130	2830.74	0.036	0.038	0.038	0.038	335.44	0.189	0.059	0.059	0.059	511	0.112	0.062	0.062	0.062
140	2679.47	0.038	0.041	0.041	0.041	308.26	0.206	0.064	0.064	0.064	461	0.124	0.069	0.069	0.069
150	1913.33	0.054	0.057	0.057	0.057	287.59	0.221	0.068	0.068	0.068	540	0.106	0.059	0.059	0.059
160	2220.33	0.046	0.049	0.049	0.049	308.96	0.205	0.064	0.064	0.064	440	0.130	0.072	0.072	0.072
170	1201.88	0.085	0.090	0.090	0.090	215.34	0.295	0.091	0.091	0.091	225	0.254	0.141	0.141	0.141
180	1225.43	0.084	0.089	0.089	0.089	184.69	0.343	0.106	0.106	0.106	266	0.215	0.119	0.119	0.119
190	1193.55	0.086	0.091	0.091	0.091	214.29	0.296	0.092	0.092	0.092	314	0.182	0.101	0.101	0.101
200	1629.18	0.063	0.067	0.067	0.067	246.66	0.257	0.080	0.080	0.080	245	0.234	0.129	0.129	0.129
210	948.15	0.108	0.115	0.115	0.115	194.20	0.327	0.101	0.101	0.101	295	0.194	0.107	0.107	0.107
220	1124.37	0.091	0.097	0.097	0.097	230.36	0.275	0.085	0.085	0.085	345	0.166	0.092	0.092	0.092
230	1461.34	0.070	0.074	0.074	0.074	218.58	0.290	0.090	0.090	0.090	239	0.240	0.133	0.133	0.133
240	1009.67	0.102	0.108	0.108	0.108	202.35	0.313	0.097	0.097	0.097	319	0.179	0.099	0.099	0.099
250	971.24	0.106	0.112	0.112	0.112	210.86	0.301	0.093	0.093	0.093	319	0.179	0.099	0.099	0.099
260	1006.02	0.102	0.108	0.108	0.108	187.66	0.338	0.105	0.105	0.105	244	0.235	0.130	0.130	0.130
270	1081.80	0.095	0.101	0.101	0.101	155.81	0.407	0.126	0.126	0.126	313	0.183	0.101	0.101	0.101
280	1274.44	0.081	0.085	0.085	0.085	153.91	0.412	0.128	0.128	0.128	329	0.174	0.096	0.096	0.096
290	1201.06	0.085	0.091	0.091	0.091	224.35	0.283	0.088	0.088	0.088	257	0.223	0.123	0.123	0.123
300	943.73	0.109	0.115	0.115	0.115	206.49	0.307	0.095	0.095	0.095	289	0.198	0.110	0.110	0.110
310	821.20	0.125	0.132	0.132	0.132	160.32	0.396	0.123	0.123	0.123	244	0.235	0.130	0.130	0.130
320	772.08	0.133	0.141	0.141	0.141	160.56	0.395	0.122	0.122	0.122	222	0.258	0.143	0.143	0.143
330	894.42	0.115	0.122	0.122	0.122	188.30	0.337	0.104	0.104	0.104	234	0.245	0.135	0.135	0.135
340	900.59	0.114	0.121	0.121	0.121	169.15	0.375	0.116	0.116	0.116	268	0.214	0.118	0.118	0.118
350	771.41	0.133	0.141	0.141	0.141	158.89	0.399	0.124	0.124	0.124	218	0.263	0.145	0.145	0.145
360	840.23	0.122	0.129	0.129	0.129	163.05	0.389	0.121	0.121	0.121	247	0.232	0.128	0.128	0.128
370	948.77	0.108	0.115	0.115	0.115	168.24	0.377	0.117	0.117	0.117	237	0.242	0.134	0.134	0.134
380	937.95	0.109	0.116	0.116	0.116	177.13	0.358	0.111	0.111	0.111	230	0.249	0.138	0.138	0.138
390	1065.24	0.096	0.102	0.102	0.102	195.27	0.325	0.101	0.101	0.101	276	0.207	0.115	0.115	0.115
Statewide	1109.54	0.0925	0.098	0.098	0.098	175.52	0.3614	0.112	0.112	0.112	296	0.1934	0.107	0.107	0.107

Notes:

5-Yr Avg Rate: DOI-5, Data Request 1, Items 57-62
 NCRB: RB-1, C-6, C-9 and C-12; DOI-5, Data Request 1, Items 57-62
 OCS: DOI-10, Exhibit 13 Pages 2, 4 and 6
 COI
 Statewide Trended Fixed Expense Ratios: Exhibit 1, Section D, Page D-17, (H)
 Territory Trended Fixed Expense Ratios = (Statewide 5-Yr Avg Rate / Territory 5-Yr Avg Rate) x Statewide COI Trended Fixed Expense Ratio

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF STATEWIDE TRENDED MODELED HURRICANE BASE-CLASS LOSS COST

Exhibit 1
Section D
Page D-19

Assumed Effective Date: July 1, 2014

	North Carolina Rate Bureau			AIS Risk Consultants		
	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
a. Modeled Hurricane Losses	311,413,578	2,742,567	1,955,590	280,272,220	2,468,310	1,760,031
a1. Hurricane Loss Reduction Factor	1.036	1.016	1.016	10%	10%	10%
b. Latest-Year (2011) Current Cost Factor	1.129	1.068	1.132	0.932	0.913	0.913
c. Loss Projection Factor = c1 x c2 x c3	1.049	1.029	1.029	1.049	1.029	1.029
c1. CCI Loss Projection Factor	1.073	1.036	1.098	0.885	0.885	0.885
c2. Total Period Loss Trend Adjustment	1.003	1.002	1.002	1.003	1.002	1.002
c3. Adjmt. to Trend from First Dollar Loss (Mod. Hurricane)	1.120	1.130	1.123	1.145	1.152	1.152
d. Trended Loss Adjustment Expense Factor	1,947,574	265,991	74,424	1,947,574	265,991	74,424
e. Latest-Year House-Years	2,427	3,616	6,576	2,427	3,616	6,576
f. Latest-Year Average Rating Factor	1,050	0,979	1,000	1,050	0,979	1,000
g. Latest-Year (2011) Current Amount Factor	1,044	0,981	1,000	1,044	0,981	1,000
h. Premium Projection Factor						
Trended Modeled Base-Class Loss Cost	78.73	3.64	5.16	59.80	2.86	3.84
(a x b x c x d) / (e x f x g x h)						

Sources:

NCRB: RB-1, D41

AIS: a = NCRB a x a1; DOI-9, Prefiled Testimony Page 49; Schedule AIS-13

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE TRENDED MODELED HURRICANE BASE-CLASS LOSS COST

Exhibit 1
 Section D
 Page D-20

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

Commissioner of Insurance

	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
a. Modeled Hurricane Losses	N/A	N/A	N/A	268,127,091	2,361,350	1,683,763
a1. Hurricane Loss Reduction Factor	N/A	N/A	N/A	13.9%	13.9%	13.9%
b. Latest-Year (2011) Current Cost Factor	N/A	N/A	N/A	1,051	1,017	1,017
c. Loss Projection Factor = c1 x c2 x c3	N/A	N/A	N/A	1,049	1,002	1,002
c1. CCI Loss Projection Factor	N/A	N/A	N/A	1,017	1,000	1,000
c2. Total Period Loss Trend Adjustment	N/A	N/A	N/A	1,028	1,000	1,000
c3. Adjmt. to Trend from First Dollar Loss (Mod. Hurricane)	N/A	N/A	N/A	1,003	1,002	1,002
d. Trended Loss Adjustment Expense Factor	N/A	N/A	N/A	1,127	1,139	1,139
e. Latest-Year House-Years	N/A	N/A	N/A	1,947,574	265,991	74,424
f. Latest-Year Average Rating Factor	N/A	N/A	N/A	2,427	3,616	6,576
g. Latest-Year (2011) Current Amount Factor	N/A	N/A	N/A	1,079	0,967	1,000
h. Premium Projection Factor	N/A	N/A	N/A	1,014	0,994	1,000
h1. Selected Adjustment Factor	25.0%	25.0%	25.0%			
Trended Modeled Base-Class Loss Cost	59.05	2.73	3.87	64,42	2,96	3,99

Notes:

OCS

DOI-9, Prefiled Testimony, Page 86; Exhibit 2 Pages 1, 2 and 3

Modeled Base-Class Loss Cost = Exhibit 1, Section D, Page D-19, NCRB's Modeled Base-Class Loss Cost x (1.0 - h1)

COI

a: RB-1, D-41, a x COI a1

a1: Order, Page 94

b: Exhibit 1, Section D, Page D-7, COI (4), (10) and (16)

c1: Exhibit 1, Section D, Page D-3, COI (3)

c2: Exhibit 1, Section D, Page D-3, COI (5)

c3: Exhibit 1, Section D, Page D-9, COI (1)

d: Exhibit 1, Section D, Page D-12, COI J

e, f: RB-1, D-41, e and f

g: Exhibit 1, Section D, Page D-7, COI (3), (9) and (15)

h: Exhibit 1, Section D, Page D-5, COI (3)

Modeled Base-Class Loss Cost = (a x b x c x d) / (e x f x g x h)

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 DERIVATION OF TERRITORY MODELED HURRICANE BASE-CLASS LOSS COST

Exhibit 1
 Section D
 Page D-21

Assumed Effective Date: July 1, 2014

Territory	Loss Cost Per \$1,000	Total Limit Insurance- Years (000)	Modeled Hurricane Losses	Reduced Mod'd Hurricane Losses	Latest-Yr House- Years	Latest-Yr Avg. Rating Factor	Modeled Base-Class Loss Cost	Modeled Base-Class Loss Cost	Modeled Base-Class Loss Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(1) x (2)	(3) x [1.0 - (11)]			(3) / [(5) x (6)]		(4) / [(5) x (6)]
110	3,370.2	3,656,612	12,323,488	10,610,523	7,189,26	2,563	668.81	501.61	575.84
120	4,476.7	5,254,501	23,522,776	20,253,110	10,527,39	2,455	910.16	682.62	783.65
130	1,283.9	5,916,211	7,595,807	6,539,990	12,270.18	2,861	216.37	162.28	186.30
140	2,687.3	40,312,563	108,331,725	93,273,615	83,517.15	2,445	530.52	397.89	456.78
150	0,755.9	21,172,431	16,004,207	13,779,622	49,845.99	2,310	138.99	104.24	119.67
160	0,912.8	13,502,598	12,325,146	10,611,951	36,796.80	2,009	166.73	125.05	143.55
170	0,284.3	1,709,765	486,085	418,519	5,030.47	2,143	45.09	33.82	38.82
180	0,529.8	20,924,733	11,085,900	9,544,960	54,720.97	2,130	95.11	71.33	81.89
190	0,707.8	5,363,080	3,795,980	3,268,339	14,932.10	2,083	122.04	91.53	105.08
200	0,806.9	2,644,797	2,134,082	1,837,445	7,083.88	2,267	132.89	99.67	114.42
210	0,401.9	7,581,967	3,047,186	2,623,627	20,967.85	2,025	71.77	53.83	61.79
220	0,365.1	22,475,415	8,205,757	7,065,157	59,533.31	2,002	69.37	52.03	59.73
230	0,524.3	5,461,618	2,863,520	2,465,491	15,652.24	2,002	91.38	68.54	78.68
240	0,297.0	28,682,259	8,518,613	7,334,526	73,958.19	2,155	53.45	40.09	46.02
250	0,295.6	11,968,489	3,537,878	3,046,113	31,024.09	2,089	54.59	40.94	47.00
260	0,167.2	10,679,729	1,785,647	1,537,442	26,507.22	2,670	25.23	18.92	21.72
270	0,217.1	137,933,763	29,945,358	25,782,953	264,099.24	2,639	42.97	32.23	36.99
280	0,170.5	23,584,846	4,021,207	3,462,259	39,412.23	3,173	32.16	24.12	27.69
290	0,205.5	16,271,826	3,343,853	2,879,057	31,938.17	2,576	40.64	30.48	34.99
300	0,182.3	5,450,510	993,626	855,512	14,794.48	2,071	32.43	24.32	27.92
310	0,114.9	114,470,602	13,152,645	11,324,427	267,312.89	2,299	21.40	16.05	18.43
320	0,120.2	55,204,887	6,635,614	5,713,264	134,447.88	2,244	21.99	16.49	18.94
330	0,087.7	2,748,465	241,040	207,535	7,212.22	2,435	13.73	10.30	11.82
340	0,114.1	157,847,302	18,010,340	15,506,903	310,605.58	2,639	21.97	16.48	18.92
350	0,086.9	38,169,800	3,316,949	2,855,893	92,791.52	2,333	15.32	11.49	13.19
360	0,053.4	90,890,903	4,853,564	4,178,919	197,608.45	2,611	9.41	7.06	8.10
370	0,041.2	4,599,874	189,514	163,172	9,587.69	2,867	6.89	5.17	5.94
380	0,036.0	15,993,815	575,776	495,743	33,378.93	2,922	5.90	4.43	5.08
390	0,032.1	17,766,226	570,295	491,024	34,827.96	3,327	4.92	3.69	4.24
Statewide			311,413,578	268,127,091					

(10) OCS Selected Adjustment Factor: 25.0%
 (11) COI Hurricane Loss Reduction Factor: 13.9%

Notes:

- (1), (2), (5), (6): RB-1, D-35 and D-38; DOI-5, Data Request #1, Items 57 and 101
- (8) OCS = (7) x [1.0 - (10)]; DOI-10, Prefiled Testimony Page 86; DOI-10, Exhibit 13 Page 1 (5)
- (10): Exhibit 1, Section D, Page D-20, OCS (h1)
- (11): Exhibit 1, Section D, Page D-20, COI (a1)

Assumed Effective Date: July 1, 2014

Territory	(1) AIR Loss Cost Per \$1,000	(2) 2011 Total Limit Insurance- Years (000)	(3) (1) x (2) Modeled Hurricane Losses	(4) (3) x [1.0 - (11)] Reduced Mod'd Hurricane Losses	(5) (5) Latest-Yr House- Years	(6) (6) Latest-Yr Avg. Rating Factor	(7) NCRB Modeled Base-Class Loss Cost	(8) OCS Modeled Base-Class Loss Cost	(9) COI Modeled Base-Class Loss Cost
110	4.4773	8.655	38,751	33,365	221.39	3.821	45.81	34.36	39.44
120	5.4460	20.566	112,002	96,434	594.03	3.361	56.10	42.08	48.30
130	1.7106	12.495	21,374	18,403	324.57	4.208	15.65	11.74	13.47
140	3.0052	252,820	759,774	654,166	7,550.36	3.394	29.65	22.24	25.53
150	0.8635	107,393	92,734	79,844	2,921.21	3.740	8.49	6.37	7.31
160	1.1558	93,517	108,087	93,063	2,834.67	3.397	11.22	8.42	9.66
170	0.2891	10,941	3,163	2,723	298.04	3.942	2.69	2.02	2.32
180	0.5678	245,032	139,129	119,790	7,475.07	3.317	5.61	4.21	4.83
190	0.6985	46,107	32,206	27,729	1,222.55	3.893	6.77	5.08	5.83
200	0.8177	13,518	11,054	9,517	349.99	4.322	7.31	5.48	6.29
210	0.4121	85,599	35,275	30,372	2,299.45	3.726	4.12	3.09	3.54
220	0.3709	229,000	84,936	73,130	6,654.42	3.422	3.73	2.80	3.21
230	0.5236	40,283	21,092	18,160	1,100.87	3.758	5.10	2.80	4.39
240	0.3299	207,012	68,293	58,800	5,445.39	3.876	3.24	2.43	2.79
250	0.3292	83,796	27,586	23,751	2,102.91	4.006	3.27	2.45	2.82
260	0.1771	79,904	14,151	12,184	2,281.95	3.879	1.60	1.20	1.38
270	0.2322	2,167,291	503,244	433,294	64,218.60	3.399	2.31	1.73	1.99
280	0.1784	350,442	62,519	53,829	9,559.58	3.731	1.75	1.31	1.51
290	0.2204	118,685	26,158	22,522	2,651.44	4.401	2.24	1.68	1.93
300	0.1881	32,841	6,177	5,319	832.80	4.044	1.83	1.37	1.58
310	0.1200	1,455,711	174,685	150,404	40,491.71	3.577	1.21	0.91	1.04
320	0.1244	463,059	57,604	49,598	11,638.26	3.947	1.25	0.94	1.08
330	0.0895	15,244	1,364	1,175	410.22	4.192	0.79	0.59	0.68
340	0.1195	2,221,789	265,503	228,599	62,162.93	3.527	1.21	0.91	1.04
350	0.0910	292,641	26,630	22,929	7,363.61	3.992	0.91	0.68	0.78
360	0.0526	829,083	43,610	37,548	19,553.79	4.307	0.52	0.39	0.45
370	0.0423	14,691	621	535	352.79	4.510	0.39	0.29	0.34
380	0.0368	79,358	2,920	2,514	1,818.68	4.645	0.35	0.26	0.30
390	0.0328	58,650	1,924	1,656	1,259.31	5.330	0.29	0.22	0.25
Statewide			2,742,566	2,361,353					
(10) OCS Selected Adjustment Factor:			25.0%						
(11) COI Hurricane Loss Reduction Factor:			13.9%						

Notes:
 (1), (2), (5), (6): RB-1, D-36 and D-39; Data Request #1, Items 57 and 101
 (8) OCS = (7) x [1.0 - (10)]; DOI-10, Priefled Testimony Page 86; DOI-10, Exhibit 13 Page 3 (5)
 (10): Exhibit 1, Section D, Page D-20, OCS (h1)
 (11): Exhibit 1, Section D, Page D-20, COI (a1)

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 DERIVATION OF TERRITORY MODELED HURRICANE BASE-CLASS LOSS COST

Assumed Effective Date: July 1, 2014

Territory	(1) AIR Loss Cost Per \$1,000	(2) 2011 Total Limit Insurance- Years (000)	(3) (1) x (2) Modeled Hurricane Losses	(4) (3) x [1.0 - (11)] Reduced Mod'd Hurricane Losses	(5) Latest-Yr House- Years	(6) Latest-Yr Avg. Rating Factor	(7) NCRB Modeled Base-Class Loss Cost	(8) OCS Modeled Base-Class Loss Cost	(9) COI Modeled Base-Class Loss Cost
110	3,5906	11,214	40,265	34,668	220,93	5,312	34,31	25,73	29,54
120	5,1559	81,898	422,258	363,564	1,559,14	5,446	49,73	37,30	42,82
130	1,9622	12,614	24,751	21,311	196,35	6,303	20,00	15,00	17,22
140	2,4707	319,822	790,184	680,349	5,216,52	5,551	27,29	20,47	23,50
150	0,7371	47,436	34,965	30,105	614,18	7,026	8,10	6,08	6,98
160	0,9213	57,893	53,337	45,923	922,31	5,386	10,74	8,06	9,24
170	0,2300	40	9	8	0,84	4,045	2,65	1,99	2,35
180	0,5047	61,927	31,255	26,910	1,085,86	5,700	5,05	3,79	4,35
190	0,5751	1,156	665	572	13,49	6,952	7,09	5,32	6,10
200	0,7697	226	174	150	5,13	4,082	8,31	6,23	7,16
210	0,3655	5,857	2,141	1,843	67,30	7,443	4,27	3,20	3,68
220	0,2935	92,784	27,232	23,447	1,436,27	6,726	2,82	2,12	2,43
230	0,4852	3,893	1,889	1,626	74,50	4,659	5,44	4,08	4,68
240	0,2793	22,439	6,267	5,396	250,95	8,167	3,06	2,30	2,63
250	0,2761	5,316	1,468	1,264	75,30	7,725	2,52	1,89	2,17
260	0,1646	943	155	134	16,73	5,707	1,62	1,22	1,40
270	0,1951	771,967	150,611	129,676	10,556,28	6,787	2,10	1,58	1,81
280	0,1531	230,824	35,339	30,427	2,809,47	7,363	1,71	1,28	1,47
290	0,1930	75,346	14,542	12,520	1,055,86	6,417	2,15	1,61	1,85
300	0,1769	2,146	380	327	0,00,025,42	7,698	1,94	1,46	1,67
310	0,1013	660,620	66,921	57,619	9,080,78	6,487	1,14	0,86	0,98
320	0,1031	152,125	15,684	13,504	2,016,88	6,484	1,20	0,90	1,03
330	0,0814	2,237	182	157	31,60	6,894	0,90	0,68	0,77
340	0,0995	1,966,770	195,694	168,492	25,751,38	6,894	1,10	0,83	0,95
350	0,0805	98,817	7,955	6,849	1,353,65	6,567	0,89	0,67	0,77
360	0,0409	647,171	26,469	22,790	8,069,09	7,377	0,44	0,33	0,38
370	0,0365	43,492	1,587	1,367	636,91	6,940	0,36	0,27	0,31
380	0,0336	53,634	1,802	1,552	746,94	6,901	0,35	0,26	0,30
390	0,0312	45,154	1,409	1,213	534,27	8,731	0,30	0,23	0,26
Statewide			1,955,590	1,683,763					

(10) OCS Selected Adjustment Factor: 25.0%
 (11) COI Hurricane Loss Reduction Factor: 13.9%

- Notes:
 (1), (2), (5), (6): RB-1, D-37 and D-40; Data Request #1, Items 57 and 101
 (8) OCS = (7) x [1.0 - (10)]; DOI-10, Prefiled Testimony Page 86; DOI-10, Exhibit 13 Page 5 (5)
 (10): Exhibit 1, Section D, Page D-20, OCS (h1)
 (11): Exhibit 1, Section D, Page D-20, COI (a1)

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF STATEWIDE COMPENSATION FOR ASSESSMENT RISK (CAR) AND ITS BREAKDOWN INTO COMPONENTS

Exhibit 1
Section D
Page D-24

Assumed Effective Date: July 1, 2014

Component	North Carolina Rate Bureau			AIS Risk Consultants		
	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
(1) Current Base Rate	\$476.80	\$46.69	\$46.15	\$476.80	\$46.69	\$46.15
(2) NCRB Value for CAR as Percent of Premium	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
(3) Portion for Expected Losses	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%
(4) Portion for Underwriting Profit	62.7%	62.7%	62.7%	N/A	N/A	N/A
(5) Amount for Expected Losses	\$7.83	\$0.77	\$0.76	\$7.83	\$0.77	\$0.76
(6) Amount for Underwriting Profit	\$13.15	\$1.29	\$1.27	5.3%	5.3%	5.3%
(7) Commissions and Brokerage	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
(8) Premium Taxes, Licenses and Fees	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
(9) Indicated Compensation for Assessment Risk	\$24.80	\$2.43	\$2.40	\$9.87	\$0.97	\$0.96
(10) Underwriting Profit Percentage	53.0%	53.0%	53.0%	5.3%	5.3%	5.3%
(11) Statewide CAR of All Forms = Sum of (9)		\$29.63			\$11.80	

Sources:

NCRB (1), (2), (7), (8); RB-1, D-28; (9); RB-1, C-1, (18), C2-3, (16); DOI-5, Data Request #1, Items 19, 36 and 53
AIS: DOI-9, Schedule AIS-22, Sheets 1, 2 and 3

NORTH CAROLINA HOMEOWNERS INSURANCE
DERIVATION OF STATEWIDE COMPENSATION FOR ASSESSMENT RISK (CAR) AND ITS BREAKDOWN INTO COMPONENTS

Exhibit 1
Section D
Page D-25

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

Commissioner of Insurance

<u>Component</u>	<u>Owners</u>	<u>Tenants</u>	<u>Condominiums</u>	<u>Owners</u>	<u>Tenants</u>	<u>Condominiums</u>
(1) Current Base Rate	N/A	N/A	N/A	\$476.80	\$46.69	\$46.15
(2) NCRB Value for CAR as Percent of Premium	N/A	N/A	N/A	4.4%	4.4%	4.4%
(3) Portion for Expected Losses	N/A	N/A	N/A	37.3%	37.3%	37.3%
(4) Portion for Underwriting Profit	N/A	N/A	N/A	N/A	N/A	N/A
(5) Amount for Expected Losses	N/A	N/A	N/A	\$7.83	\$0.77	\$0.76
(6) Amount for Underwriting Profit	N/A	N/A	N/A	5.2%	5.2%	5.2%
(7) Commissions and Brokerage	N/A	N/A	N/A	12.8%	12.8%	12.8%
(8) Premium Taxes, Licenses and Fees	N/A	N/A	N/A	2.6%	2.6%	2.6%
(9) Indicated Compensation for Assessment Risk	\$4.18	\$0.41	\$0.40	\$9.86	\$0.97	\$0.95
(10) Underwriting Profit Percentage	N/A	N/A	N/A	5.2%	5.2%	5.2%
(11) Statewide CAR of All Forms = Sum of (9)		\$5.00			\$11.78	

Notes:

OCS

(11): DOI-9, Prefiled Testimony Page 175

(9): Applying the Ratio of [OCS (11) / NCRB (11)] = \$5.00 / \$29.63 to the NCRB's CAR (9) in Exhibit 1, Section D, Page D-24

COI

(1): RB-1, C-1, (24); C-2 and C-3, (22)

(2): RB-17, Page 8, Total CAR as % of 2013 Manual Premium

(3): Exhibit 1, Section D, Page D-24, AIS (3)

(5) = (1) x (2) x (3)

(6): Exhibit 1, Section D, Page D-38, COI (1) a)

(7), (8): Exhibit 1, Section D, Page D-13, Selected Ratio, COI

(9) = (5) / [1.0 - (6) - (7) - (8)]

(10): (6)

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF TERRITORY COMPENSATION FOR ASSESSMENT RISK (CAR) PER POLICY

Assumed Effective Date: July 1, 2014

- (1) Compensation for Assessment Risk Loading
 - (2) Commission & Brokerage
 - (3) Taxes, Licenses & Fees
 - (4) Portion for Expected Losses in CAR
 - (5) Amount for Underwriting Profit
- \$29.63
 4.4%
 12.8%
 2.6%
 37.3%
 5.2%

Territory	Owners					Tenants					Condominiums				
	(8) Current Base Class Rate	(9) NCRB Comp. For Asmt. Risk [(1) x (8)] / [1.0 - (2) - (3)]	(10) OCS Comp. For Asmt. Risk (9) x [7] / [6]]	(11) COI Comp. For Asmt. Risk	(12) Current Base Class Rate	(13) NCRB Comp. For Asmt. Risk [(1) x (12)] / [1.0 - (2) - (3)]	(14) OCS Comp. For Asmt. Risk (13) x [7] / [6]]	(15) COI Comp. For Asmt. Risk	(16) Current Base Class Rate	(17) NCRB Comp. For Asmt. Risk [(1) x (16)] / [1.0 - (2) - (3)]	(18) OCS Comp. For Asmt. Risk (17) x [7] / [6]]	(19) COI Comp. For Asmt. Risk			
110	1,613.00	83.89	14.16	33.34	107.00	5.57	0.94	2.21	106.00	5.51	0.93	2.19			
120	1,823.00	94.81	16.00	37.68	112.00	5.83	0.98	2.32	113.00	5.88	0.99	2.34			
130	1,021.00	53.10	8.96	21.10	76.00	3.95	0.67	1.57	83.00	4.32	0.73	1.72			
140	1,140.00	59.29	10.01	23.56	85.00	4.42	0.75	1.76	83.00	4.32	0.73	1.72			
150	871.00	45.30	7.64	18.00	72.00	3.74	0.63	1.49	78.00	4.06	0.69	1.61			
160	1,140.00	59.29	10.01	23.56	85.00	4.42	0.75	1.76	83.00	4.32	0.73	1.72			
170	595.00	30.95	5.22	12.30	54.00	2.81	0.47	1.12	49.00	2.55	0.43	1.01			
180	595.00	30.95	5.22	12.30	54.00	2.81	0.47	1.12	49.00	2.55	0.43	1.01			
190	595.00	30.95	5.22	12.30	54.00	2.81	0.47	1.12	49.00	2.55	0.43	1.01			
200	755.00	39.27	6.63	15.61	56.00	2.91	0.49	1.16	52.00	2.70	0.46	1.07			
210	486.00	25.28	4.27	10.05	51.00	2.66	0.45	1.05	42.00	2.18	0.37	0.87			
220	598.54	31.13	5.25	12.37	64.12	3.33	0.56	1.33	52.00	2.70	0.46	1.07			
230	755.00	39.27	6.63	15.61	56.00	2.91	0.49	1.16	52.00	2.70	0.46	1.07			
240	486.00	25.28	4.27	10.05	51.00	2.66	0.45	1.05	42.00	2.18	0.37	0.87			
250	486.00	25.28	4.27	10.05	51.00	2.66	0.45	1.05	42.00	2.18	0.37	0.87			
260	398.00	20.70	3.49	8.23	46.00	2.39	0.40	0.95	44.00	2.29	0.39	0.91			
270	428.05	22.26	3.76	8.85	44.06	2.29	0.39	0.91	47.46	2.47	0.42	0.98			
280	417.00	21.89	3.66	8.62	40.00	2.08	0.35	0.83	42.00	2.18	0.37	0.87			
290	486.00	25.28	4.27	10.05	51.00	2.66	0.45	1.05	45.00	2.34	0.40	0.93			
300	481.00	25.02	4.22	9.94	50.00	2.60	0.44	1.03	41.00	2.13	0.36	0.85			
310	369.54	19.22	3.24	7.64	43.36	2.26	0.38	0.90	38.69	2.01	0.34	0.80			
320	358.04	18.62	3.14	7.40	39.98	2.08	0.35	0.83	35.33	1.84	0.31	0.73			
330	383.00	19.92	3.36	7.92	44.00	2.29	0.39	0.91	39.00	2.03	0.34	0.81			
340	357.73	18.61	3.14	7.39	46.12	2.40	0.40	0.95	40.13	2.09	0.35	0.83			
350	344.31	17.91	3.02	7.12	39.31	2.04	0.34	0.81	34.71	1.81	0.31	0.72			
360	336.00	17.48	2.95	6.95	37.00	1.92	0.32	0.76	34.00	1.77	0.30	0.70			
370	336.00	17.48	2.95	6.95	37.00	1.92	0.32	0.76	34.00	1.77	0.30	0.70			
380	336.00	17.48	2.95	6.95	37.00	1.92	0.32	0.76	34.00	1.77	0.30	0.70			
390	336.00	17.48	2.95	6.95	37.00	1.92	0.32	0.76	34.00	1.77	0.30	0.70			
Statewide	476.80	24.80	4.18	9.86	46.69	2.43	0.41	0.97	46.15	2.40	0.40	0.95			

Notes:

NCRB: RB-1, C-6, C-9 and C-12; DOI-5, Data Request #1, Item 61
 OCS: DOI-10, Exhibit 13 Pages 2, 4 and 6

- COI
- (11) = [(1) x (4) x (8)] / [1.0 - (2) - (3) - (5)]
- (15) = [(1) x (4) x (12)] / [1.0 - (2) - (3) - (5)]
- (19) = [(1) x (4) x (16)] / [1.0 - (2) - (3) - (5)]

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE NET COST OF REINSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section D
 Page D-27

North Carolina Rate Bureau

AIS Risk Consultants

	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
(1) Estimated Reinsurance Dollars	555,437,112	8,534,085	5,340,918	N/A	N/A	N/A
(2) Latest-Year House Years	1,947,572	265,991	74,422	N/A	N/A	N/A
(3) Latest-Year Current Amount Factor	1.050	0.979	1.000	N/A	N/A	N/A
(4) Latest-Year Average Rating Factor	2.427	3.616	6.576	N/A	N/A	N/A
(5) Premium Projection Factor	1.044	0.981	1.000	N/A	N/A	N/A
(6) Variable Expenses, a) + b) + c) + d)	0.269	0.269	0.269	N/A	N/A	N/A
a) Profit		10.50%				
b) Contingencies		1.00%				
c) Commission and Brokerage		12.80%				
d) Taxes, Licenses and Fees		2.60%				
(7) Current Average Base Rate				476.80	46.69	46.15
(8) Selected Net Cost of Reinsurance Factor				10%	10%	10%
(9) Net Cost of Reinsurance per Policy	146.64	12.64	14.93	47.68	4.67	4.62
(10) Net Cost of Reinsurance per Policy of All Forms = Sum of (9)		174.21			56.97	

Notes:

- NCRB
 RB-1, C-1, C-2, C-3, D44-46; DOI-5, Data Request #1, Items 20, 37, 54, 111-120
 (9): NCRB: [(1) / (2)] / [(3) x (4) x (5)] / [1.0 - (6)]
- AIS
 DOI-9, Schedule AIS-2, Sheets 1, 2 and 3
 (8): DOI-9, Prefiled Testimony, Page 75 of 81; DOI-9 Schedule AIS-2, Sheets 1-3
 (9) = (7) x (8)

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF STATEWIDE NET COST OF REINSURANCE

Assumed Effective Date: July 1, 2014

O'Neil Consulting Services

Commissioner of Insurance

Exhibit 1
 Section D
 Page D-28

	Owners	Tenants	Condominiums	Owners	Tenants	Condominiums
(1) Estimated Reinsurance Dollars	N/A	N/A	N/A	N/A	N/A	N/A
(2) Latest-Year House Years	N/A	N/A	N/A	N/A	N/A	N/A
(3) Latest-Year Current Amount Factor	N/A	N/A	N/A	N/A	N/A	N/A
(4) Latest-Year Average Rating Factor	N/A	N/A	N/A	N/A	N/A	N/A
(5) Premium Projection Factor	N/A	N/A	N/A	N/A	N/A	N/A
(6) Variable Expenses, a) + b) + c) + d)	N/A	N/A	N/A	N/A	N/A	N/A
a) Profit						
b) Contingencies						
c) Commission and Brokerage						
d) Taxes, Licenses and Fees						
(7) Current Average Base Rate	N/A	N/A	N/A	476.80	46.69	46.15
(8) Selected Net Cost of Reinsurance Factor	N/A	N/A	N/A	10%	10%	10%
(9) Net Cost of Reinsurance per Policy	42.09	3.62	4.28	47.68	4.67	4.62
(10) Net Cost of Reinsurance per Policy of All Forms = Sum of (9)		50.00			56.97	

Notes:

- OCS
 DOI-10, Exhibit 2, Pages 1, 2 and 3.
 (9): OCS: [OCS (10) / Exhibit 1, Section D, Page D-27, NCRB (10)] x Exhibit 1, Section D, Page D-27, NCRB (9)
 COI
 (7): Exhibit 1, Section D, Page D-27, NCRB (7)
 (8): Exhibit 1, Section D, Page D-27, AIS (8)
 (9) = (7) x (8)

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section D
 Page D-29

Territory	All-Forms Net Reins. Cost by Zone	Latest -Year Earned Premium (2011)	All-Form Zone Earned Premium	Est's Reins. Dollars (1) x (2) / (3)	Latest-Yr House Years	Latest-Yr Avg. Rating Factor	Latest-Yr Current Amt Factor	Prem. Proj. Factor	Variable Expense	Net Reinsurance Cost, Base-Class [(4)/(5)]/[(6)x(7)x(8)] /11.0-(9)]
Zone 1A										
110	238,069,737	29,718,478	315,598,590	22,417,940	7,189	2,563	1,050	1,044	0,343	1,689,36
120	238,069,737	47,123,668	315,598,590	35,547,431	10,527	2,455	1,050	1,044	0,343	1,909,84
140	238,069,737	232,776,905	315,598,590	175,593,739	83,517	2,445	1,050	1,044	0,343	1,193,99
Zone 1B										
130	64,620,424	35,840,449	253,933,526	9,120,596	12,270	2,861	1,050	1,044	0,292	334,76
150	64,620,424	100,270,222	253,933,526	25,516,537	49,846	2,310	1,050	1,044	0,292	285,53
160	64,620,424	84,286,580	253,933,526	21,449,056	36,797	2,009	1,050	1,044	0,292	373,85
190	64,620,424	18,503,479	253,933,526	4,708,723	14,932	2,083	1,050	1,044	0,292	195,06
200	64,620,424	12,125,010	253,933,526	3,085,545	7,084	2,267	1,050	1,044	0,292	247,56
Zone 2										
170	168,309,606	6,414,052	756,131,374	1,427,724	5,030	2,143	1,050	1,044	0,260	163,28
180	168,309,606	69,347,961	756,131,374	15,436,376	54,721	2,130	1,050	1,044	0,260	163,26
210	168,309,606	20,631,127	756,131,374	4,592,346	20,968	2,025	1,050	1,044	0,260	133,33
220	168,309,606	70,794,207	756,131,374	15,758,300	59,533	1,987	1,050	1,044	0,260	164,22
230	168,309,606	23,658,304	756,131,374	5,266,175	15,652	2,002	1,050	1,044	0,260	207,18
240	168,309,606	77,458,219	756,131,374	17,241,663	73,958	2,155	1,050	1,044	0,260	133,36
250	168,309,606	31,490,548	756,131,374	7,009,578	31,024	2,089	1,050	1,044	0,260	133,33
260	168,309,606	28,173,390	756,131,374	6,271,201	26,507	2,670	1,050	1,044	0,260	109,23
270	168,309,606	298,408,018	756,131,374	66,423,558	264,099	2,639	1,050	1,044	0,260	117,49
280	168,309,606	52,155,934	756,131,374	11,609,550	39,412	3,173	1,050	1,044	0,260	114,44
290	168,309,606	39,988,392	756,131,374	8,901,139	31,938	2,576	1,050	1,044	0,260	133,37
300	168,309,606	14,736,955	756,131,374	3,280,344	14,794	2,071	1,050	1,044	0,260	131,99
Zone 3										
310	98,312,349	227,069,510	1,000,002,811	22,325,640	267,313	2,299	1,050	1,044	0,223	42,65
320	98,312,349	108,007,558	1,000,002,811	10,618,447	134,448	2,244	1,050	1,044	0,223	41,32
330	98,312,349	6,726,746	1,000,002,811	661,320	7,212	2,435	1,050	1,044	0,223	44,21
340	98,312,349	293,399,915	1,000,002,811	28,844,754	310,606	2,639	1,050	1,044	0,223	41,31
350	98,312,349	74,551,001	1,000,002,811	7,329,263	92,792	2,333	1,050	1,044	0,223	39,75
360	98,312,349	173,354,504	1,000,002,811	17,042,841	197,608	2,611	1,050	1,044	0,223	38,78
370	98,312,349	9,234,828	1,000,002,811	907,895	9,588	2,867	1,050	1,044	0,223	38,78
380	98,312,349	32,767,597	1,000,002,811	3,221,450	33,379	2,922	1,050	1,044	0,223	38,78
390	98,312,349	38,937,036	1,000,002,811	3,827,981	34,828	3,327	1,050	1,044	0,223	38,79
Statewide	569,312,116	2,257,970,593	2,325,666,301	555,437,112	1,947,572	2,427	1,050	1,044	0,269	146,64

Source:

RB-1, D-44

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - O'NEIL CONSULTING SERVICES

Exhibit 1
 Section D
 Page D-30

Assumed Effective Date: July 1, 2014

Territory	(1) Net Reinsurance Cost	(2) (2011) Latest-Year Earned Premium	(3)	(4) Est's Reins. Dollars [(2) / SW (2)] x SW (1)	(5) Latest-Yr House Years	(6) Latest-Yr Avg. Rating Factor	(7) (2011) Latest-Yr Current Amt. Factor	(8) Prem. Proj. Factor	(9) Variable Expense	(10) Net Reinsurance Cost, Base-Class [(4)/(5)]/[(6)x(7)x(8)]
110		29,718,478		2,342,763	7,189	2,563	1,080	1.014	0.186	142.80
120		47,123,668		3,714,846	10,527	2,455	1,080	1.014	0.186	161.40
140		232,776,905		18,350,234	83,517	2,445	1,080	1.014	0.186	101.00
130		35,840,449		2,825,369	12,270	2,861	1,080	1.014	0.186	90.27
150		100,270,222		7,904,487	49,846	2,310	1,080	1.014	0.186	77.27
160		84,286,580		6,644,467	36,797	2,009	1,080	1.014	0.186	101.15
190		18,503,479		1,458,663	14,932	2,083	1,080	1.014	0.186	52.82
200		12,125,010		955,837	7,084	2,267	1,080	1.014	0.186	66.85
170		6,414,052		505,632	5,030	2,143	1,080	1.014	0.186	52.91
180		69,347,961		5,466,828	54,721	2,130	1,080	1.014	0.186	52.70
210		20,631,127		1,626,390	20,968	2,025	1,080	1.014	0.186	43.24
220		70,794,207		5,580,838	59,533	1,987	1,080	1.014	0.186	53.11
230		23,658,304		1,865,028	15,652	2,002	1,080	1.014	0.186	66.75
240		77,458,219		6,106,175	73,958	2,155	1,080	1.014	0.186	43.25
250		31,490,548		2,482,458	31,024	2,089	1,080	1.014	0.186	42.99
260		28,173,390		2,220,960	26,507	2,670	1,080	1.014	0.186	35.32
270		298,408,018		23,524,056	264,099	2,639	1,080	1.014	0.186	37.86
280		52,155,934		4,111,549	39,412	3,173	1,080	1.014	0.186	36.80
290		39,988,392		3,152,359	31,938	2,576	1,080	1.014	0.186	43.15
300		14,736,955		1,161,741	14,794	2,071	1,080	1.014	0.186	42.83
310		227,089,510		17,901,886	267,313	2,299	1,080	1.014	0.186	32.72
320		108,007,558		8,514,436	134,448	2,244	1,080	1.014	0.186	31.53
330		6,726,746		530,282	7,212	2,435	1,080	1.014	0.186	34.12
340		293,399,915		23,129,258	310,606	2,639	1,080	1.014	0.186	31.49
350		74,551,001		5,876,993	92,792	2,333	1,080	1.014	0.186	30.32
360		173,354,504		13,665,856	197,608	2,611	1,080	1.014	0.186	29.67
370		9,234,828		727,999	9,588	2,867	1,080	1.014	0.186	29.75
380		32,767,597		2,583,130	33,379	2,922	1,080	1.014	0.186	29.58
390		38,937,036		3,069,479	34,828	3,327	1,080	1.014	0.186	29.70
Statewide	178,000,000	2,257,970,593		178,000,000	1,947,572	2,427	1,080	1.014	0.186	42.09

Source:

DOI-10, OCS Prefiled Testimony, Pages 163-170; OCS Exhibit 13, Page 2 (7)

NORTH CAROLINA HOMEOWNERS INSURANCE - OWNERS FORMS
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section D
 Page D-31

Territory	(1) Net Reinsurance Cost	(2) (2011) Latest-Year Earned Premium	(4) Est's Reins. Dollars [(2) / SW (2)] x SW (1)	(5) Latest-Yr House Years	(6) Latest-Yr Avg. Rating Factor	(7) (2011) Latest-Yr Current Amt. Factor	(8) Prem. Proj. Factor	(9) Comm & Brokerage + Taxes, Lic and Fees	(10) Net Reinsurance Cost Base-Class [(4)/((5))]/((6)x(7)x(8)) /[1.0-(9)]
110		29,718,478	2,745,602	7.189	2.563	1.079	1.014	0.154	160.99
120		47,123,668	4,353,616	10.527	2.455	1.079	1.014	0.154	182.00
140		232,776,905	21,505,568	83.517	2.445	1.079	1.014	0.154	113.78
130		35,840,449	3,311,193	12.270	2.861	1.079	1.014	0.154	101.90
150		100,270,222	9,263,668	49.846	2.310	1.079	1.014	0.154	86.92
160		84,286,580	7,786,987	36.797	2.009	1.079	1.014	0.154	113.80
190		18,503,479	1,709,482	14.932	2.083	1.079	1.014	0.154	59.38
200		12,125,010	1,120,194	7.084	2.267	1.079	1.014	0.154	75.36
170		6,414,052	592,575	5.030	2.143	1.079	1.014	0.154	59.39
180		69,347,961	6,406,852	54.721	2.130	1.079	1.014	0.154	59.39
210		20,631,127	1,906,049	20.968	2.025	1.079	1.014	0.154	48.50
220		70,794,207	6,540,467	1.987	1.987	1.079	1.014	0.154	59.73
230		23,658,304	2,185,721	15.652	2.002	1.079	1.014	0.154	75.36
240		77,458,219	7,155,135	73.958	2.155	1.079	1.014	0.154	48.51
250		31,490,548	2,909,318	31.024	2.089	1.079	1.014	0.154	48.50
260		28,173,390	2,602,856	26.507	2.670	1.079	1.014	0.154	39.73
270		298,408,018	27,569,032	264.099	2.639	1.079	1.014	0.154	42.74
280		52,155,934	4,818,532	39.412	3.173	1.079	1.014	0.154	41.63
290		39,988,392	3,694,409	31.938	2.576	1.079	1.014	0.154	48.51
300		14,736,955	1,361,504	14.794	2.071	1.079	1.014	0.154	48.01
310		227,089,510	20,980,126	267.313	2.299	1.079	1.014	0.154	36.88
320		108,007,558	9,978,498	134.448	2.244	1.079	1.014	0.154	35.73
330		6,726,746	621,464	7.212	2.435	1.079	1.014	0.154	38.23
340		293,399,915	27,106,348	310.606	2.639	1.079	1.014	0.154	35.73
350		74,551,001	6,887,546	92.792	2.333	1.079	1.014	0.154	34.37
360		173,354,504	16,015,709	197.608	2.611	1.079	1.014	0.154	33.54
370		9,234,828	853,178	9.588	2.867	1.079	1.014	0.154	33.53
380		32,767,597	3,027,301	33.379	2.922	1.079	1.014	0.154	33.53
390		38,937,036	3,597,277	34.828	3.327	1.079	1.014	0.154	33.54
Statewide	208,607,207	2,257,970,593	208,607,207	1,947,572	2.427	1.079	1.014	0.154	47.68

Notes:

- (1): Total Statewide (SW) Net Cost of Reinsurance: Using the Formula on RB-3, Page 28
- SW Net Cost of Insurance per Policy x House Yrs x Avg Rat. Factor x Current Amt. Factor x Prem. Proj. Factor x (1.0 - Comm and Brok - Taxes, Lic and Fees) =
- Exhibit 1, Section D, Page D-28, COI Owners (9) x SW (5) x SW (6) x SW (7) x SW (8) x [1.0 - SW (9)]
- (2), (5), (6): RB-1, D-44, (2), (5) and (6): Exhibit 1, Section D, Page D-29, (2), (5) and (6)
- (7): Exhibit 1, Section D, Page D-7, COI, Owners (3) 2011
- (8): Exhibit 1, Section D, Page D-5, COI, Owners (3)
- (9): Exhibit 1, Section D, Page D-38, COI (3) + (4)

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

Territory	All-Forms Net Reins. Cost by Zone	Latest -Year Earned Premium	All-Form Zone Earned Premium	Est's Reins. Dollars (1) x (2) / (3)	Latest-Yr House Years	Latest-Yr Avg. Rating Factor	Latest-Yr Current Amt. Factor	Prem. Proj. Factor	Variable Expense	(10) Net Reinsurance Cost, Base-Class [(4)/(5)]/[(6)x(7)x(8)] / [1.0-(9)]
Zone 1A										
110	238,069,737	90,517	315,598,590	68,281	221	3.821	0.979	0.981	0.343	128.15
120	238,069,737	223,623	315,598,590	168,689	594	3.361	0.979	0.981	0.343	133.91
140	238,069,737	2,178,133	315,598,590	1,643,060	7,550	3.394	0.979	0.981	0.343	101.62
Zone 1B										
130	64,620,424	103,797	253,933,526	26,414	325	4.208	0.979	0.981	0.292	28.40
150	64,620,424	786,588	253,933,526	200,169	2,921	3.740	0.979	0.981	0.292	26.95
160	64,620,424	818,448	253,933,526	208,277	2,835	3.40	0.979	0.981	0.292	31.81
190	64,620,424	256,997	253,933,526	65,400	1,223	3.893	0.979	0.981	0.292	20.20
200	64,620,424	84,712	253,933,526	21,557	350	4.322	0.979	0.981	0.292	20.96
Zone 2										
170	168,309,606	63,436	756,131,374	14,120	298	3.942	0.979	0.981	0.260	16.91
180	168,309,606	1,339,098	756,131,374	298,074	7,475	3.317	0.979	0.981	0.260	16.92
210	168,309,606	436,939	756,131,374	97,260	2,299	3.726	0.979	0.981	0.260	15.98
220	168,309,606	1,461,612	756,131,374	325,345	6,654	3.422	0.979	0.981	0.260	20.10
230	168,309,606	231,695	756,131,374	51,574	1,101	3.758	0.979	0.981	0.260	17.54
240	168,309,606	1,076,354	756,131,374	239,589	5,445	3.876	0.979	0.981	0.260	15.97
250	168,309,606	429,585	756,131,374	95,623	2,103	4.006	0.979	0.981	0.260	15.97
260	168,309,606	407,197	756,131,374	90,639	2,282	3.879	0.979	0.981	0.260	14.41
270	168,309,606	9,649,902	756,131,374	2,148,001	64,219	3.389	0.979	0.981	0.260	13.85
280	168,309,606	1,426,729	756,131,374	317,580	9,560	3.731	0.979	0.981	0.260	12.53
290	168,309,606	595,145	756,131,374	132,475	2,651	4.401	0.979	0.981	0.260	15.98
300	168,309,606	168,404	756,131,374	37,486	833	4.044	0.979	0.981	0.260	15.66
Zone 3										
310	98,312,349	6,285,764	1,000,002,811	617,966	40,492	3.577	0.979	0.981	0.223	5.72
320	98,312,349	1,837,358	1,000,002,811	180,634	11,638	3.947	0.979	0.981	0.223	5.27
330	98,312,349	75,662	1,000,002,811	7,438	410	4.192	0.979	0.981	0.223	5.80
340	98,312,349	10,147,067	1,000,002,811	997,579	62,163	3.527	0.979	0.981	0.223	6.10
350	98,312,349	1,155,210	1,000,002,811	113,571	7,364	3.992	0.979	0.981	0.223	5.18
360	98,312,349	3,116,105	1,000,002,811	306,351	19,554	4.307	0.979	0.981	0.223	4.87
370	98,312,349	58,872	1,000,002,811	5,788	353	4.510	0.979	0.981	0.223	4.87
380	98,312,349	312,557	1,000,002,811	30,728	1,819	4.645	0.979	0.981	0.223	4.87
390	98,312,349	248,365	1,000,002,811	24,417	1,259	5.330	0.979	0.981	0.223	4.88
Statewide	569,312,116	45,065,871	2,325,666,301	8,534,085	265,991	3.616	0.979	0.981	0.269	12.64

Source:

RB-1, D-45

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
Section D
Page D-33

Territory	(1) Net Reinsurance Cost	(2) Latest -Year Earned Premium (2011)	(3)	(4) Est's Reins. Dollars [(2) / SW (2)] x SW (1)	(5) Latest-Yr House Years	(6) Latest-Yr Avg. Rating Factor	(7) Latest-Yr Current Amt. Factor	(8) Prem. Proj. Factor	(9) Variable Expense	(10) Net Reinsurance Cost, Base-Class $\frac{[(4)/(5)][(6) \times (7) \times (8)]}{[1.0 - (9)]}$
110		90,517		6,026	221	3.821	0.967	0.994	0.186	8.40
120		223,623		14,886	594	3.361	0.967	0.994	0.186	8.85
140		2,178,133		144,997	7,550	3.394	0.967	0.994	0.186	6.66
130		103,797		6,910	325	4.208	0.967	0.994	0.186	5.94
150		786,588		52,363	2,921	3.740	0.967	0.994	0.186	5.72
160		818,448		54,483	2,835	3.40	0.967	0.994	0.186	6.65
190		256,997		17,108	1,223	3.893	0.967	0.994	0.186	4.28
200		84,712		5,639	350	4.322	0.967	0.994	0.186	4.40
170		63,436		4,223	298	3.942	0.967	0.994	0.186	4.22
180		1,339,098		89,143	7,475	3.317	0.967	0.994	0.186	4.30
210		436,939		29,087	2,299	3.726	0.967	0.994	0.186	4.15
220		1,461,612		97,298	6,654	3.422	0.967	0.994	0.186	5.21
230		231,695		15,424	1,101	3.758	0.967	0.994	0.186	4.43
240		1,076,354		71,652	5,445	3.876	0.967	0.994	0.186	3.99
250		429,585		28,597	2,103	4.006	0.967	0.994	0.186	4.16
260		407,197		27,107	2,282	3.879	0.967	0.994	0.186	3.68
270		9,649,902		642,386	64,219	3.399	0.967	0.994	0.186	3.50
280		1,426,729		94,976	9,560	3.731	0.967	0.994	0.186	3.19
290		595,145		39,618	2,651	4.401	0.967	0.994	0.186	4.06
300		168,404		11,211	833	4.044	0.967	0.994	0.186	3.82
310		6,285,764		418,438	40,492	3.577	0.967	0.994	0.186	3.32
320		1,837,358		122,311	11,638	3.947	0.967	0.994	0.186	3.31
330		75,662		5,037	410	4.192	0.967	0.994	0.186	3.41
340		10,147,067		675,482	62,163	3.527	0.967	0.994	0.186	3.71
350		1,155,210		76,901	7,364	3.992	0.967	0.994	0.186	2.98
360		3,116,105		207,437	19,554	4.307	0.967	0.994	0.186	3.03
370		58,872		3,919	353	4.510	0.967	0.994	0.186	2.90
380		312,557		20,807	1,819	4.645	0.967	0.994	0.186	2.82
390		248,365		16,533	1,259	5.330	0.967	0.994	0.186	2.90
Statewide	3,000,000	45,065,871		3,000,000	265,991	3.616	0.967	0.994	0.186	3.62

Source:

DOI-10, OCS Prefiled Testimony, Pages 163-170; OCS Exhibit 13, Page 4 (7)

NORTH CAROLINA HOMEOWNERS INSURANCE - TENANTS FORM
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Territory	(1) Net Reinsurance Cost	(2) Latest-Year Earned Premium	(3)	(4) Est's Reins. Dollars [(2) / SW (2)] x SW (1)	(5) Latest-Yr House Years	(6) Latest-Yr Avg. Rating Factor	(7) Latest-Yr Current Amt. Factor	(8) Prem. Proj. Factor	(9) Comm & Brokerage + Taxes, Lic and Fees	(10) Net Reinsurance Cost, Base-Class [(4)/(5)]/[(6)x(7)x(8)] /[1.0-(9)]
110		90,517		7,336	221	3.821	0.967	0.994	0.154	10.68
120		223,623		18,124	594	3.361	0.967	0.994	0.154	11.16
140		2,178,133		176,536	7,550	3.394	0.967	0.994	0.154	8.47
130		103,797		8,413	325	4.208	0.967	0.994	0.154	7.56
150		786,588		63,752	2,921	3.740	0.967	0.994	0.154	7.18
160		818,448		66,334	2,835	3.40	0.967	0.994	0.154	8.47
190		256,997		20,829	1,223	3.893	0.967	0.994	0.154	5.38
200		84,712		6,866	350	4.322	0.967	0.994	0.154	5.58
170		63,436		5,141	298	3.942	0.967	0.994	0.154	5.38
180		1,339,098		108,533	7,475	3.317	0.967	0.994	0.154	5.38
210		436,939		35,413	2,299	3.726	0.967	0.994	0.154	5.08
220		1,461,612		118,462	6,654	3.422	0.967	0.994	0.154	6.40
230		231,695		18,779	1,101	3.758	0.967	0.994	0.154	5.58
240		1,076,354		87,237	5,445	3.876	0.967	0.994	0.154	5.08
250		429,585		34,817	2,103	4.006	0.967	0.994	0.154	5.08
260		407,197		33,003	2,282	3.879	0.967	0.994	0.154	4.58
270		9,649,902		782,115	64,219	3.399	0.967	0.994	0.154	4.41
280		1,426,729		115,635	9,560	3.731	0.967	0.994	0.154	3.99
290		595,145		48,236	2,651	4.401	0.967	0.994	0.154	5.08
300		168,404		13,649	833	4.044	0.967	0.994	0.154	4.98
310		6,285,764		509,455	40,492	3.577	0.967	0.994	0.154	4.33
320		1,837,358		148,916	11,638	3.947	0.967	0.994	0.154	3.99
330		75,662		6,132	410	4.192	0.967	0.994	0.154	4.39
340		10,147,067		822,410	62,163	3.527	0.967	0.994	0.154	4.61
350		1,155,210		93,629	7,364	3.992	0.967	0.994	0.154	3.92
360		3,116,105		252,557	19,554	4.307	0.967	0.994	0.154	3.69
370		58,872		4,772	353	4.510	0.967	0.994	0.154	3.69
380		312,557		25,332	1,819	4.645	0.967	0.994	0.154	3.69
390		248,365		20,130	1,259	5.330	0.967	0.994	0.154	3.69
Statewide	3,652,544	45,065,871		3,652,544	265,991	3.616	0.967	0.994	0.154	4.67

Notes:

- (1): Total Statewide (SW) Net Cost of Reinsurance: Using the Formula on RB-3, Page 28
- SW Net Cost of Insurance per Policy x House Yrs x Avg Rat. Factor x Current Amt. Factor x Prem. Proj. Factor x (1.0 - Comm and Brok - Taxes, Lic and Fees) =
- Exhibit 1, Section D, Page D-28, COI Tenants (9) x SW (5) x SW (6) x SW (7) x SW (8) x [1.0 - SW (9)]
- (2), (5), (6): RB-1, D-45, (2), (5) and (6); Exhibit 1, Section D, Page D-32, (2), (5) and (6)
- (7): Exhibit 1, Section D, Page D-7, COI, Tenants (9) 2011
- (8): Exhibit 1, Section D, Page D-5, COI, Tenants (3)
- (9): Exhibit 1, Section D, Page D-38, COI (3) + (4)

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - NORTH CAROLINA RATE BUREAU

Assumed Effective Date: July 1, 2014

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	All-Forms Net Reins. Cost/By Zone	Latest-Year Earned Premium	All-Form Zone Earned Premium	Est's Reins. Dollars (1) x (2) / (3)	Latest-Yr House Years	Latest-Yr Avg. Rating Factor	Latest-Yr Current Amt. Factor	Prem. Proj. Factor	Variable Expense	Net Reinsurance Cost, Base-Class [(4)/(5)]/(6)x(7)x(8)] /[(1)-(9)]
Zone 1A										
110	238,069,737	124,396	315,598,590	93,837	221	5.312	1.000	1.000	0.343	121.66
120	238,069,737	959,511	315,598,590	723,801	1,559	5.446	1.000	1.000	0.343	129.76
140	238,069,737	2,403,360	315,598,590	1,812,959	5,217	5.551	1.000	1.000	0.343	95.29
Zone 1B										
130	64,620,424	102,714,000	253,933,526	26,138	196,000	6.303	1.000	1.000	0.292	29.88
150	64,620,424	336,569,000	253,933,526	85,649	614,000	7.026	1.000	1.000	0.292	28.04
160	64,620,424	412,277,000	253,933,526	104,915	922,000	5.386	1.000	1.000	0.292	29.84
190	64,620,424	4,597,000	253,933,526	1,170	13,000	6.952	1.000	1.000	0.292	18.29
200	64,620,424	1,089,000	253,933,526	277	5,000	4.082	1.000	1.000	0.292	19.17
Zone 2										
170	168,309,606	167	756,131,374	37	1	4.045	1.000	1.000	0.260	12.36
180	168,309,606	303,264	756,131,374	67,504	1,086	5.700	1.000	1.000	0.260	14.74
210	168,309,606	21,039	756,131,374	4,683	67	7.443	1.000	1.000	0.260	12.69
220	168,309,606	502,362	756,131,374	111,822	1436	6.726	1.000	1.000	0.260	15.65
230	168,309,606	18,050	756,131,374	4,018	74	4.659	1.000	1.000	0.260	15.75
240	168,309,606	86,077	756,131,374	19,160	251	8.167	1.000	1.000	0.260	12.63
250	168,309,606	24,431	756,131,374	5,438	75	7.725	1.000	1.000	0.260	12.68
260	168,309,606	4,200	756,131,374	935	17	5.707	1.000	1.000	0.260	13.02
270	168,309,606	3,405,159	756,131,374	757,965	10,556	6.787	1.000	1.000	0.260	14.30
280	168,309,606	930,848	756,131,374	207,200	2,809	7.363	1.000	1.000	0.260	13.54
290	168,309,606	284,556	756,131,374	63,340	1,056	6.417	1.000	1.000	0.260	12.63
300	168,309,606	8,022	756,131,374	1,786	25	7.698	1.000	1.000	0.260	12.54
Zone 3										
310	98,312,349	2,278,622	1,000,002,811	224,016	9,081	6.487	1.000	1.000	0.223	4.89
320	98,312,349	462,267	1,000,002,811	45,446	2,017	6.484	1.000	1.000	0.223	4.47
330	98,312,349	7,929	1,000,002,811	780	32	6.433	1.000	1.000	0.223	4.88
340	98,312,349	7,131,581	1,000,002,811	701,121	25,751	6.894	1.000	1.000	0.223	5.08
350	98,312,349	308,647	1,000,002,811	30,344	1,354	6.567	1.000	1.000	0.223	4.39
360	98,312,349	2,023,966	1,000,002,811	198,980	8,069	7.377	1.000	1.000	0.223	4.30
370	98,312,349	150,289	1,000,002,811	14,775	637	6.940	1.000	1.000	0.223	4.30
380	98,312,349	175,259	1,000,002,811	17,230	747	6.901	1.000	1.000	0.223	4.30
390	98,312,349	158,596	1,000,002,811	15,592	534	8.731	1.000	1.000	0.223	4.30
Statewide	569,312,116	22,629,844	2,325,666,301	5,340,918	74,422	6.576	1.000	1.000	0.269	14.93

Source:

RB-1, D-46

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - ONEIL CONSULTING SERVICES

Assumed Effective Date: July 1, 2014

Exhibit 1
Section D
Page D-36

Territory	Net Reinsurance Cost	Latest-Year Earned Premium (2011)	Est's Reins. Dollars (1) X (2) / (3)	Latest-Yr House Years (5)	Latest-Yr Avg. Rating Factor (6)	Latest-Yr Current Amt. Factor (7)	Prem. Proj. Factor (8)	Variable Expense (9)	Net Reinsurance Cost, Base-Class [(4)/(5)] / [(6) X (7) X (8)] / [1.0 - (9)] (10)
110		124,396	9,345	221	5,312	1,000	1,000	0.186	9.66
120		959,511	72,080	1,559	5,446	1,000	1,000	0.186	10.33
140		2,403,360	180,545	5,217	5,551	1,000	1,000	0.186	7.71
130		102,714,000	7,716	196,000	6,303	1,000	1,000	0.186	7.56
150		336,569,000	25,284	614,000	7,026	1,000	1,000	0.186	7.14
160		412,277,000	30,971	922,000	5,386	1,000	1,000	0.186	7.72
190		4,597,000	345	13,000	6,952	1,000	1,000	0.186	4.75
200		1,089,000	82	5,000	4,082	1,000	1,000	0.186	4.80
170		167	13	1	4,045	1,000	1,000	0.186	3.93
180		303,264	22,782	1,086	5,700	1,000	1,000	0.186	4.51
210		21,039	1,580	67	7,443	1,000	1,000	0.186	3.94
220		502,362	37,738	1436	6,726	1,000	1,000	0.186	4.73
230		18,050	1,356	74	4,659	1,000	1,000	0.186	4.73
240		86,077	6,466	251	8,167	1,000	1,000	0.186	3.89
250		24,431	1,835	75	7,725	1,000	1,000	0.186	3.80
260		4,200	316	17	5,707	1,000	1,000	0.186	4.07
270		3,405,159	255,802	10,556	6,787	1,000	1,000	0.186	4.32
280		930,848	69,927	2,809	7,363	1,000	1,000	0.186	4.15
290		284,556	21,376	1,056	6,417	1,000	1,000	0.186	3.81
300		8,022	603	25	7,698	1,000	1,000	0.186	3.81
310		2,278,622	171,175	9,081	6,487	1,000	1,000	0.186	3.58
320		462,267	34,726	2,017	6,484	1,000	1,000	0.186	3.21
330		7,929	596	32	6,433	1,000	1,000	0.186	3.61
340		7,131,581	535,739	25,751	6,894	1,000	1,000	0.186	3.72
350		308,647	23,186	1,354	6,567	1,000	1,000	0.186	3.17
360		2,023,966	152,044	8,069	7,377	1,000	1,000	0.186	3.15
370		150,289	11,290	637	6,940	1,000	1,000	0.186	3.18
380		175,259	13,166	747	6,901	1,000	1,000	0.186	3.19
390		158,596	11,914	534	8,731	1,000	1,000	0.186	3.09
Statewide	1,700,000	22,629,844	1,700,000	74,422	6,576	1,000	1,000	0.186	4.28

Source:

DOI-10, OCS Prefiled Testimony, Pages 163-170; OCS Exhibit 13, Page 6 (7)

NORTH CAROLINA HOMEOWNERS INSURANCE - CONDOMINIUMS FORM
 DERIVATION OF TERRITORY NET COST OF REINSURANCE AT BASE-CLASS LEVEL - COMMISSIONER OF INSURANCE

Assumed Effective Date: July 1, 2014

Exhibit 1
 Section D
 Page D-37

Territory	(1) Net Reinsurance Cost	(2) Latest Year Earned Premium	(3)	(4) Est's Reins. Dollars [(2) / SW (2)] x SW (1)	(5) Latest-Yr House Years	(6) Latest-Yr Avg. Rating Factor	(7) Latest-Yr Current Amt. Factor	(8) Prem. Proj. Factor	(9) Comm & Brokerage + Taxes, Lic and Fees	(10) Net Reinsurance Cost, Base-Class [(4)/(5)](6)(7)(8) / [1.0-(9)]
110		124,396		10,515	221	5,312	1,000	1,000	0.154	10.59
120		959,511		81,104	1,559	5,446	1,000	1,000	0.154	11.29
140		2,403,360		203,148	5,217	5,551	1,000	1,000	0.154	8.29
130		102,714,000		8,682	196,000	6,303	1,000	1,000	0.154	8.31
150		336,569,000		28,449	614,000	7,026	1,000	1,000	0.154	7.80
160		412,277,000		34,848	922,000	5,386	1,000	1,000	0.154	8.29
190		4,597,000		389	13,000	6,952	1,000	1,000	0.154	5.08
200		1,089,000		92	5,000	4,082	1,000	1,000	0.154	5.33
170		167		14	1	4,045	1,000	1,000	0.154	4.12
180		303,264		25,634	1,086	5,700	1,000	1,000	0.154	4.89
210		21,039		1,778	67	7,443	1,000	1,000	0.154	4.22
220		502,362		42,463	1436	6,726	1,000	1,000	0.154	5.20
230		18,050		1,526	74	4,659	1,000	1,000	0.154	5.23
240		86,077		7,276	251	8,167	1,000	1,000	0.154	4.20
250		24,431		2,065	75	7,725	1,000	1,000	0.154	4.21
260		4,200		355	17	5,707	1,000	1,000	0.154	4.33
270		3,405,159		287,827	10,556	6,787	1,000	1,000	0.154	4.75
280		930,848		78,682	2,809	7,363	1,000	1,000	0.154	4.50
290		284,556		24,053	1,056	6,417	1,000	1,000	0.154	4.20
300		8,022		678	25	7,698	1,000	1,000	0.154	4.16
310		2,278,622		192,604	9,081	6,487	1,000	1,000	0.154	3.86
320		462,267		39,074	2,017	6,484	1,000	1,000	0.154	3.53
330		7,929		670	32	6,433	1,000	1,000	0.154	3.85
340		7,131,581		602,809	25,751	6,884	1,000	1,000	0.154	4.01
350		308,647		26,089	1,354	6,567	1,000	1,000	0.154	3.47
360		2,023,966		171,079	8,069	7,377	1,000	1,000	0.154	3.40
370		150,289		12,703	637	6,940	1,000	1,000	0.154	3.40
380		175,259		14,814	747	6,901	1,000	1,000	0.154	3.40
390		158,596		13,406	534	8,731	1,000	1,000	0.154	3.40
Statewide	1,912,826	22,629,844		1,912,826	74,422	6,576	1,000	1,000	0.154	4.62

Notes:

(1): Total Statewide (SWM) Net Cost of Reinsurance: Using the Formula on RB-3, Page 28
 SW Net Cost of Insurance per Policy x House Yrs x Avg Rat. Factor x Current Amt. Factor x Prem. Proj. Factor x (1.0 - Comm and Brok - Taxes, Lic and Fees) =

Exhibit 1, Section D, Page D-28, COI Condominiums (9) x SW (5) x SW (6) x SW (7) x SW (8) x [1.0 - SW (9)]

(2), (3), (6), (9): RB-1, D-46, (2), (5) and (6); Exhibit 1, Section D, Page D-35, (2), (5) and (6)

(7): Exhibit 1, Section D, Page D-7, COI, Condominiums (15) 2011

(8): Exhibit 1, Section D, Page D-5, COI, Condominiums (3)

(9): Exhibit 1, Section D, Page D-38, COI (3) + (4)

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF EXPECTED LOSS AND FIXED EXPENSE RATIO

Assumed Effective Date: July 1, 2014

North Carolina Rate Bureau

AIS OCS COI

	Zone 1A	Zone 1B	Zone 2	Zone 3	Statewide	Statewide	Statewide	Statewide
(1) Underwriting Profit and Contingencies	18.9%	13.8%	10.6%	6.9%	11.5%			
a) Underwriting Profit					10.5%	5.3%	3.70%	5.2%
b) Contingencies					1.0%	0.0%	0.00%	0.0%
(2) Commission and Brokerage	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.80%	12.8%
(3) Taxes, Licenses and Fees	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.60%	2.6%
(4) Premium Finance Charge					0.0%	0.0%	0.53%	0.0%
(5) Expected Loss and Fixed Expense Ratio	65.7%	70.8%	74.0%	77.7%	73.1%	79.3%	81.4%	79.4%
	1.0 - [(1a) + (1b) + (2) + (3)] + (4)							

Notes:

- NCRB: RB-1, D-28
- AIS: DOL-9, Schedule AIS-9
- OCS: DOI-10, Exhibit 7 Page 1
- COI
- (1a): Exhibit 1, Section D, Page D-39, I
- (1b): AIS and OCS (1b)
- (2), (3): RB-1, D-28; NCRB, AIS and OCS, (2) and (3)
- (4): NCRB and AIS, (4)

NORTH CAROLINA HOMEOWNERS INSURANCE
 DERIVATION OF UNDERWRITING PROFIT FACTOR AND PROJECTED INVESTMENT EARNINGS ON LOSS, LOSS ADJUSTMENT
 EXPENSE AND UNEARNED PREMIUM RESERVES - COMMISSIONER OF INSURANCE

Exhibit 1
 Section D
 Page D-39

Assumed Effective Date: July 1, 2014

A. Unearned Premium Reserve			
(1) Direct Earned Premium for Accident Year			\$1,000,000
(2) Mean Unearned Premium Reserve (1) x	0.5237		\$523,700
(3) Pct. Of Unearned Premium Reserve Invested		90.00%	
(4) Invested Mean Unearned Premium Reserve (2) x (3)			\$471,330
B. Loss and Loss Adjustment Expense Reserves			
(1) Direct Earned Premium			\$1,000,000
(2) Expected Incurred Losses and Loss Adjustment Expenses (1) x	0.590		\$590,000
(3) Expected Mean Loss Reserve (2) x	0.3431		\$202,429
C. Total Reserves (A2) + (B3)			\$673,759
D. Average Rate of Return		3.32%	
E. Investment Earnings on Net Reserves (C) x (D)			\$22,369
F. Average Rate of Return as a Percent of Direct Earned Premium (E) / (A1)		2.2%	
G. Installment Fee Income		0.53%	
H. Operating Profit		8.0%	
I. Underwriting Profit Factor (H) - (G) - (F)		5.2%	

Notes:

- A.(2): RB-14, Page 7
- A.(3): Schedule AIS-14, Sheet 2
- B.(2) calculated as follows
- a) Weighted Trended Non-Hurricane Base-Class Loss Cost
- b) Trended Modeled Hurricane Base-Class Loss Cost
- c) Sum = a) + b)
- d) Required Base Rate
- e) Ratio = c) / d)
- f) Premium Weight
- g) Weighted e) = Exp Inc Losses & LAE
- B.(2) a), b), d): Exhibit 1, Section C, Page C-4 (14), (16) and (26); Pages C-8 and C-12 (11), (13) and (23)
- B.(2) f): Exhibit 1, Section A, Page A-1, 2011 Earned Premium
- B.(3): RB-14, Page 7, B3
- D: RB-14, Page 7, D
- G: RB-14, Page 3
- H: Schedule AIS-15

	Owners	Tenants	Condominiums
	202.41	28.08	26.10
	64.42	2.96	3.99
	266.83	31.04	30.09
	452.45	51.32	49.69
	0.59	0.605	0.606
	2,257,970,589	45,065,871	22,629,842
		0.590	

NORTH CAROLINA

HOMEOWNERS INSURANCE - JANUARY 3, 2014

Effective Date: June 1, 2015

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NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014
 STATEWIDE RATE LEVEL CHANGES

Exhibit 2
Page 1

Effective Date: June 1, 2015

Form	2011 Earned Premium at Present Rates, Excluding Deviations	Commissioner of Insurance	
		Indicated Change	Ordered Change
Owners	\$2,257,970,589	-4.2%	-0.3%
Tenants	\$45,065,871	11.2%	11.2%
Condominiums	\$22,629,842	8.1%	8.1%
All Forms	\$2,325,666,302	-3.8%	0.0%

Notes:

Indicated Change: Exhibit 1, Section C, Pages C-4, (28) ; Pages C-8 and C-12 (25) with the new effective date of June 1, 2015
 Ordered Change: Order, Part VIII, Page 172

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014

STATEWIDE AND TERRITORY RATE LEVEL CHANGES - COMMISSIONER OF INSURANCE

Effective Date: June 1, 2015

New Territory	Indicated Rate Level Changes				Ordered Rate Level Changes			
	Owners	Tenants	Condominiums	Statewide	Owners	Tenants	Condominiums	Statewide
110	-17.0%	6.9%	-8.5%	8.1%	-9.0%	6.9%	-8.5%	8.1%
120	-9.3%	17.6%	4.4%		-5.6%	17.6%	4.4%	
130	-34.8%	-7.1%	-11.3%		-12.0%	-7.1%	-11.3%	
140	-7.8%	0.4%	-4.3%		-1.0%	0.4%	-4.2%	
150	-34.5%	-23.6%	-28.9%		-11.0%	-23.6%	-28.8%	
160	-37.5%	-6.9%	-16.0%		-18.0%	-6.9%	-16.0%	
170	-15.7%	-1.8%	-3.1%		-12.3%	-1.8%	-3.1%	
180	-10.9%	3.1%	0.2%		-7.2%	3.1%	0.2%	
190	-1.7%	7.7%	1.0%		2.3%	7.8%	1.0%	
200	-9.3%	6.3%	6.5%		-5.6%	6.4%	6.5%	
210	-0.8%	9.7%	15.8%		3.2%	9.7%	15.8%	
220	-4.5%	33.8%	-2.9%		-0.6%	33.8%	-2.9%	
230	-13.0%	-0.2%	4.7%		-9.5%	-0.2%	4.7%	
240	-1.4%	12.9%	10.4%		2.6%	12.9%	10.4%	
250	8.8%	5.9%	9.4%		13.3%	5.9%	9.4%	
260	-11.2%	27.5%	6.7%		-7.6%	27.5%	6.7%	
270	-7.9%	7.0%	11.9%		-4.1%	7.0%	11.9%	
280	-17.5%	7.1%	-14.3%		-14.2%	7.1%	-14.2%	
290	-7.7%	-3.6%	11.8%		-3.9%	-3.6%	11.8%	
300	9.3%	8.4%	11.2%		13.8%	8.4%	11.2%	
310	4.5%	12.8%	4.7%		0.1%	12.8%	4.7%	
320	14.4%	21.1%	24.1%		19.0%	21.1%	24.1%	
330	-10.5%	8.3%	15.0%		-6.8%	8.3%	15.0%	
340	3.5%	20.1%	12.6%		0.2%	20.1%	12.6%	
350	13.5%	29.4%	29.7%		18.2%	29.4%	29.7%	
360	5.5%	-3.0%	19.9%		4.5%	-3.0%	19.9%	
370	16.6%	20.9%	34.4%		21.4%	20.9%	34.4%	
380	12.1%	18.7%	29.2%		16.7%	18.7%	29.2%	
390	9.7%	14.8%	27.4%		14.2%	14.8%	27.4%	
Statewide	-4.2%	11.2%	8.1%		-0.3%	11.2%	8.1%	

Sources:

Indicated Rate Level Changes: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (12) with the new effective date of June 1, 2015
 Ordered Rate Level Changes: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (13) with the new effective date of June 1, 2015

NORTH CAROLINA HOMEOWNERS INSURANCE - JANUARY 3, 2014

STATEWIDE AND TERRITORY CURRENT AND ORDERED BASE RATES (A) - COMMISSIONER OF INSURANCE

Effective Date: June 1, 2015

New Territory	Revised Current Rates			Ordered Rates		
	Owners (B)	Tenants (C)	Condominiums (C)	Owners (B)	Tenants (C)	Condominiums (C)
110	\$1,613	\$107	\$106	\$1,468	\$114	\$97
120	\$1,823	\$112	\$113	\$1,721	\$132	\$118
130	\$1,021	\$76	\$83	\$898	\$71	\$74
140	\$1,187	\$89	\$85	\$1,175	\$89	\$81
150	\$871	\$72	\$78	\$775	\$55	\$56
160	\$1,032	\$75	\$71	\$846	\$70	\$60
170	\$570	\$54	\$52	\$500	\$53	\$50
180	\$587	\$54	\$52	\$545	\$56	\$52
190	\$632	\$54	\$54	\$647	\$58	\$55
200	\$786	\$56	\$55	\$742	\$60	\$59
210	\$489	\$51	\$42	\$505	\$56	\$49
220	\$598	\$64	\$52	\$594	\$66	\$50
230	\$741	\$56	\$52	\$671	\$56	\$54
240	\$484	\$51	\$42	\$497	\$58	\$46
250	\$503	\$51	\$42	\$570	\$54	\$46
260	\$398	\$46	\$44	\$368	\$59	\$47
270	\$428	\$44	\$48	\$410	\$47	\$54
280	\$417	\$40	\$44	\$358	\$43	\$38
290	\$470	\$51	\$42	\$452	\$49	\$47
300	\$481	\$50	\$41	\$547	\$54	\$46
310	\$369	\$44	\$39	\$369	\$50	\$41
320	\$357	\$40	\$34	\$425	\$48	\$42
330	\$383	\$44	\$39	\$357	\$48	\$45
340	\$357	\$46	\$40	\$358	\$55	\$45
350	\$344	\$40	\$34	\$407	\$52	\$44
360	\$336	\$37	\$34	\$351	\$36	\$41
370	\$336	\$37	\$34	\$408	\$45	\$46
380	\$336	\$37	\$34	\$392	\$44	\$44
390	\$336	\$37	\$34	\$384	\$42	\$43
Statewide	\$477	\$47	\$46	\$476	\$52	\$50

- (A) Base Class is Protection Class 5, Frame
- (B) Rates are for \$75,000 Coverage A
- (C) Rates are for \$10,000 Coverage C

Sources:

Revised Current Rates: Exhibit 1, Section C, Pages C-19, C-26 and C-33; (4)
 Ordered Rates: Exhibit 1, Section C, Pages C-19, C-26 and C-33, (14) with the new effective date of June 1, 2015

NORTH CAROLINA HOMEOWNERS INSURANCE
HOMEOWNERS POLICY PROGRAM MANUAL - ORDERED REVISED RULES - COMMISSIONER OF INSURANCE

Effective Date: June 1, 2015

ADDITIONAL RULE(S)

Rule A3.
Windstorm or Hail Exclusion - Territories 110, 120, 130, 140, 150 and 160 Only

	Territory					
	110	120	130	140	150	160
All Forms Except HO 00 04 AND HO 00 06	\$1,225	\$1,485	\$801	\$949	\$551	\$615
HO 00 04	\$78	\$91	\$38	\$52	\$23	\$29
HO 00 06	\$56	\$77	\$37	\$44	\$21	\$23

Table A3. Wind or Hail Exclusion Credit

Rule A9.
Windstorm Mitigation Program - All Forms Except HO 00 04 and HO 00 06

Mitigation Feature	Territory					
	110	120	130	140	150	160
Total Hip Roof	\$85	\$101	\$56	\$65	\$37	\$42
Opening Protection	\$87	\$104	\$56	\$66	\$36	\$43
Total Hip Roof and Opening Protection	\$172	\$204	\$111	\$131	\$73	\$85
IBHS Designation:						
<i>Hurricane Fortified for Safer Living®</i>	\$278	\$357	\$160	\$217	\$80	\$141
<i>Hurricane Fortified for Existing Homes®</i> Bronze Option 1	\$67	\$81	\$44	\$51	\$29	\$33
<i>Hurricane Fortified for Existing Homes®</i> Bronze Option 2	\$104	\$127	\$63	\$81	\$36	\$52
<i>Hurricane Fortified for Existing Homes®</i> Silver Option 1	\$167	\$215	\$90	\$132	\$38	\$85
<i>Hurricane Fortified for Existing Homes®</i> Silver Option 2	\$200	\$260	\$107	\$162	\$44	\$105
<i>Hurricane Fortified for Existing Homes®</i> Gold Option 1	\$213	\$274	\$120	\$165	\$57	\$107
<i>Hurricane Fortified for Existing Homes®</i> Gold Option 2	\$247	\$320	\$137	\$195	\$63	\$126

Table A9. Windstorm Loss Mitigation Credit

Source:

Exhibit 1, Section B, Page B-2 with the new effective date of June 1, 2015

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING)	
DATED JANUARY 3, 2014 BY THE	)	NOTICE OF HEARING
NORTH CAROLINA RATE BUREAU)	
FOR REVISED HOMEOWNERS'	)	North Carolina General Statutes
INSURANCE RATES & HOMEOWNERS'	)	Chapter 58, Article 36
INSURANCE TERRITORY DEFINITIONS	)	Docket No. 1719

TO THE NORTH CAROLINA RATE BUREAU:

I. Pursuant to the North Carolina General Statutes Chapter 58, Article 36, and other pertinent North Carolina General Statutes, notice is hereby given that a hearing will be held beginning August 6, 2014, at 10:00 a.m., in the hearing room of the North Carolina Department of Insurance (hereinafter "the Department"), Third Floor, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, to consider the filing dated January 3, 2014 ("the filing") of the North Carolina Rate Bureau (hereinafter "the Bureau") for the revision of Homeowners' insurance rates and territory definitions.

II. At such hearing, the Commissioner will consider the standards specified in the North Carolina General Statutes Chapter 58, Article 36, and all other applicable standards as set forth in the North Carolina General Statutes for the making of property insurance rates.

III. As a whole, among other things, the filing suffers from significant deficiencies of the following character:

A. The data contained therein are so questionable that a proper evaluation of this filing, including its various components and methodologies, to determine whether it satisfies the rate

standards specified in N.C.G.S. §58-36-10, is obstructed. In many instances, the filing lacks the necessary data, documentation and explanations of methodology to meet the Bureau's statutory burden of proof. As a result, further data will be requested from the Bureau by the Department. As of the date of this notice, however, such data and information has not yet been formally requested and, as a result, biases and deficiencies beyond those evident at present may yet be detected.

B. The filing is not clear, concise, internally consistent or readily understandable. There is a pervasive lack of documentation, explanation and justification of both the data used, as well as the procedures and methodologies utilized in the filing.

As a consequence of the above described deficiencies in Section III, the proposed rates appear in their entirety to be excessive and unfairly discriminatory. The proposed territory definitions also result in rates that are unfairly discriminatory and otherwise in violation of the applicable statutory standards.

IV. The Department contends on information and belief, that the filing fails to comply with the requirements of Article 36 of Chapter 58 of the North Carolina General Statutes at least in the following respects and at least to the following extent:

A. Due consideration has not been given to actual loss and expense experience within this State for both the most recent three-year and five-year periods for which such information is available in that:

1. The use of combined experience for the voluntary market, consent to rate and Beach Plan is inappropriate and lacks adequate explanation or justification. Further, the loss, expense, and exposure experience provided on, for example, RB-1, pages C-1, C-2 and C-3 and elsewhere in the filing are outdated as the latest data included in the filing is only through 2011.

More recent data should be available and included in the analysis.

2. The failure to use actual data in various calculations, including but not limited to the modeled "compensation for assessment risk," the modeled "net cost of reinsurance," the trended modeled hurricane base-class loss costs, and the territory analysis, lacks adequate explanation or justification. The data, assumptions, and methodology underlying the modeled values were not provided.

3. The filing contains data and information that appear inconsistent, outdated, irrelevant, incomplete, or not in compliance with the statutory requirements of N.C. Gen. Stat. §58-36-10.

4. The derivations and/or selections of the loss development factors used in the filing are not properly documented, explained, or justified. Further, the use of data for only 76% of the overall market for loss development as described on RB-1, page E-6 of the filing calls into question the reliability and accuracy of the values used.

5. The filing fails to adequately document, explain, or justify the provisions for general expenses, other acquisition expenses, commissions and brokerage, taxes, licenses and fees, and loss adjustment expenses.

a. Only three years of data were used for some expenses, whereas five years of data were used elsewhere in the filing.

6. The apparent treatment and inclusion of dividends and deviations in the derivation of manual rates is unsupported by either theory or practice and is contrary to N.C. Gen. Stat. §58-8-25 and the decisions of the appellate courts of N.C.

7. The filing fails to give due consideration to observed changes in the loss

costs in establishing loss trends. The filing fails to provide proper data for calculating trends. Only five annual data points were provided whereas quarterly data points should have been provided. Data were provided only through 2011 but more recent data should be available and included in the analysis. Additional ratemaking data, trend data, and other relevant data should be available. Fast Track trend data is available and should be considered.

8. The filing fails to adequately explain how the common deductible was selected to which various data, including but not limited to data on RB-1, pages C-1, C-2, and C-3, were adjusted, how the adjustment was made, to provide any underlying calculations, or to explain its impact on the requested rate level change.

9. The "compensation for assessment risk" in RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but, instead, is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

a. With regards to the provision for "compensation for assessment risk," the filing appears to disregard the actual relevant assessment experience for North Carolina.

b. The "compensation for assessment risk" is, effectively, an additional profit provision. The filing has not justified the large profit component of the "compensation for assessment risk" and furthermore does not explain why this extra hidden profit provision is needed in addition to the explicit underwriting profit provision included in the filing.

10. The "net cost of reinsurance" on RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but instead is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

a. The filing does not support the numerical value of the provision for

the “net cost of reinsurance” included in the filing.

b. The “net cost of reinsurance,” provision in the filing appears to disregard the actual reinsurance experience in North Carolina.

c. The filing lacks relevant information for evaluating the provision for the “net cost of reinsurance”. Issues where the filing did not provide adequate information include, but are not limited to: (i) amounts actually paid or to be paid to reinsurers, (ii) ceding commissions paid or to be paid to insurers by reinsurers, (iii) expected reinsurance recoveries from actual, as opposed to hypothetical, reinsurance and (iv) North Carolina exposure to catastrophic events.

d. The “net cost of reinsurance” is, in large part, additional transfer of profit from policyholders to the insurance industry. The filing has not justified the extraordinarily high numerical value of the profit component of the “net cost of reinsurance”, which is 14% of the total premium proposed to be charged to policyholders. This is significantly larger than the explicit underwriting profit provision of 10.5% included in the filing. These two profit provisions included in the filing result in nearly 25% of the premium paid by policyholders effectively going to insurance industry underwriting profits.

e. Documentation and justification was not provided showing that the calculations underlying the “net cost of reinsurance” provision are based upon the data and experience for the relevant set of insurance companies.

11. The “trended modeled hurricane base-class loss cost” in RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but instead is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

12. The filing appears to disregard the actual hurricane loss experience in North

Carolina.

13. The filing does not demonstrate that various values, including but not limited to, the loss, expense, exposure and average rating factor information contained in the filing, accurately and reasonably reflect actual historical experience.

14. The filing does not demonstrate that the data, experience and values used are accurate, reliable or relevant.

B. Due consideration has not been given to prospective loss and expense experience within this State in that:

1. Trending procedures are not adequately documented, explained, or justified. Examples include the use of the modified consumer price index, BOECKH residential index, the all items less energy CPI, compensation cost index, the various annual loss trend adjustment factor and trend from first dollar. Moreover:

a. The annual loss trend adjustment factors of 3%, 1.5%, and 4% for Owners, Tenant, and Condominium forms, respectively, were not justified.

b. The data utilized for trend were inappropriate.

c. Only five annual data points were provided for the loss trend whereas quarterly data points should be provided.

d. Loss data were only through 2011 when more recent data should be available and included in the analysis. More recent external cost indices than those included in the filing are available. Fast Track trend data more recent than the trend data included in the filing are available and should be considered.

2. The filing fails to consider the effects on experience of past and prospective.

changes in relevant economic and other causal variables in selecting various trends, including but not limited to, the trends for losses and expenses. Further, the filing fails to give due consideration to observed trends in loss costs in establishing loss trends and to observed trends in expense costs in establishing expense trends.

3. The filing fails to provide the proper derivation of various factors, including but not limited to, the "current average base rate" shown, for example, on RB-1, pages C-1, C-2, and C-3. The filing does not provide the underlying data or numeric steps in the calculation of the current average base rates.

4. The filing has not supported the exposure trends used. The filing does not provide the underlying data or the numeric steps related to this ratemaking component.

5. The filing does not adequately justify the projected expense provisions used in the rate level calculation. The external BLS indices utilized to calculate expense trend were not substantiated for their relevance. The 2.0% selected expense trend was not justified or supported.

C. Due consideration has not been given to the hazards of conflagration and catastrophe in that:

1. The use of simulated data in the calculation of various values, including but not limited to catastrophe losses, net cost of reinsurance, compensation for assessment risk, excess losses, and territorial definitional changes, is not adequately explained or justified and may be incorrectly calculated.

2. The use of the AIR Worldwide Corporation (hereinafter "AIR") computer simulation model in the filing to derive the provisions for hurricane losses and for the "net cost of reinsurance," as well as other provisions elsewhere in the filing, is inappropriate and lacks adequate

explanation or justification.

3. The calculation in the filing of the excess loss factor on RB-1, page D-32 is inappropriate and lacks adequate explanation or justification.

4. The filing does not demonstrate that various provisions for hazards of conflagration and catastrophe such as the excess loss factor and AIR modeled losses do not overlap and result in an inflated overall rate provision.

5. The AIR computer model results are based upon outdated data and experience.

6. Documentation and justification were not provided showing that the data and experience relied upon in the AIR computer model results are accurate and reliable.

7. Documentation and justification were not provided showing that the various assumptions, parameters, formulas and other components underlying the AIR computer model are reasonable and appropriate for North Carolina.

8. Evaluating the validity of the AIR Model is impeded by the fact that numerous assumptions, parameters, formulas, data, and other components underlying that model have not been disclosed.

9. Documentation and justification were not provided showing that the calculations underlying the AIR computer model are based upon the data and experience for the relevant set of insurance companies.

10. Documentation was not provided regarding how the modeled losses from the AIR computer model compare to actual catastrophe losses in North Carolina.

11. Documentation was not provided regarding the changes in the AIR

computer model over time and how those changes impact the numerical value of the modeled losses. Documentation was not provided which appropriately supports the changes over time in the numeral value of the modeled losses.

12. Documentation was not provided to adequately explain or justify why two different AIR models were used in the filing. The standard AIR model was used to derive the provision for hurricane losses while the WSST model was used in the calculation of the "net cost of reinsurance" provision.

13. The inclusion of Beach Plan data and consent to rate data in the calculations is unsupported.

14. Actual conflagration and catastrophe experience and data for North Carolina homeowners insurance was not provided or used in the filing.

15. Documentation was not provided to adequately demonstrate that the model underlying the proposed changes to territory definitions is appropriate.

D. Due consideration has not been given to a reasonable margin for underwriting profit and to contingencies; to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers and to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State in that:

1. The profit model employed by the Bureau in the calculation of the filed underwriting profit provisions has been previously rejected by the Court of Appeals and, therefore, cannot be used to calculate the profit provisions in this filing.

2. The test employed by the Bureau to compare its calculation of projected

returns to the alleged cost of capital required by industries of comparable risks uses investment income from capital and surplus in violation of numerous court decisions.

3. The profit calculations in the filing are made using GAAP based accounting. However, two decisions by the Court of Appeals have held that SAP based accounting is appropriate for ratemaking purposes in North Carolina.

4. The filing appears to inappropriately evaluate various items, including but not limited to, the investment rate of return, investment expenses, taxes, investable funds, policyholder supplied funds, insurance company supplied funds, installment and other fees, and target profit.

5. The cost of capital, even if it was relevant and could be used in the profit calculation, appears to have been calculated improperly in the filing and is not adequately justified.

6. The filing fails to justify and to demonstrate how the 1% contingency provision was determined, as well as the allocation of this provision to territory.

7. The cost of capital standard employed in the filing as the basis for selecting the statewide provision for underwriting profit is inappropriate because it inherently contains income earned and realized from capital and surplus funds, and thus it violates North Carolina law. The filing does not use any standard for the contingency provision, but instead uses a completely unsupported and arbitrary value.

8. The filing fails to justify the 10.5% statewide underwriting profit provisions, as well as the allocation of this amount to territory. Support and documentation was not provided for the 10.5% value for the underwriting profit provision.

9. The filing has not explained why, in addition to the underwriting profit

provision and contingency provision, additional profit loadings are effectively included elsewhere in the filing, including but limited to “net cost of reinsurance” and “compensation for assessment risk”.

10. The filing appears to include profit loading from multiple factors within the filing including, at least, the following four: the explicit underwriting profit provisions, the contingency provision, the “net cost of reinsurance” provision, and the “compensation for assessment risk” provision. The inclusion of these multiple profit factors results in excessive and unfairly discriminatory rates.

11. The filing fails to justify various assumptions made by Dr. Vander Weide and Dr. Appel, including but not limited to the: (i) risk of the insurance business, (ii) appropriate target profit and (iii) projected revenue for insurance companies.

12. The filing fails to follow the 1999 N.C. Supreme Court decision that rejected the Bureau’s methodology of adding an explicit additional factor into the rates for policyholder dividends and deviations.

13. The filing fails to treat dividends and deviations as savings by negating whatever savings they reflect in that they are used to justify raising the rate level to offset their impact. The filing provides inadequate documentation and explanation as to how savings have been given due consideration in the filing.

14. The filing does not adequately support the projected magnitude of policyholder dividends and deviations.

15. The filing treats dividends and deviations inappropriately.

16. The filing does not reflect the payment of dividends from surplus as required

by N.C. Gen. Stat. §58-8-25.

17. The Bureau's treatment of policyholder dividends and deviations results in unfairly discriminatory and excessive rates.

18. The allocation of profit to territory in the filing is not accurately explained or justified.

E. Due consideration has not been given to past and prospective expenses specifically applicable to this State in that:

1. The filing fails to adequately document, explain, or justify the method by which insurance companies determined the amount of expenses to report as being applicable to North Carolina homeowners insurance, or the assumed split of those expenses between the various coverage forms.

2. The filing does not adequately justify the projected expense provisions used in the rate level calculation.

F. Due consideration has not been given to all other relevant factors within this State in that:

1. The filing inappropriately reflects the data and experience of the Beach Plan and consent to rate.

2. The filing fails to provide adequate justification to support the distribution of the rate changes by territory.

3. The filing fails to adequately document and justify the current cost factors, current amount factors, premium projection factors, loss projection factors, adjustments to trend from first dollar of loss, total period LTAs and composite projection factors for loss ratio used in

the rate level calculation.

4. The wind exclusion credits and wind mitigation credits set forth in the filing are not adequately documented or supported.

5. The revision of Homeowners' territory definitions was not supported.

6. The impact of the revision of Homeowners' territory definitions on the premiums charged to North Carolina policyholders was not supported or provided.

7. Due consideration was not given to the minimum number of exposures in the proposed realignment of homeowners' territories.

8. Due consideration was not given to the integrity of existing homeowners' territorial boundaries.

9. Due consideration was not given to the socio-economic compatibility between the proposed revisions to the homeowners' territories and the existing homeowners' territories.

10. Due consideration was not given to the compatibility of zip code based territories and county based territories.

11. The indicated rate level changes and filed rate level changes on page A-2 are not supported, are based upon unsound actuarial procedures and unsound ratemaking calculations, are contrary to the applicable statutory standards and inconsistent with relevant court decisions, and would result in excessive and unfairly discriminatory rates.

As a consequence of the above described deficiencies in Section IV., the proposed rates appear in their entirety to be excessive and unfairly discriminatory in violation of N.C.G.S. §58-36-10(1).

V. The Commissioner reserves the right to examine the impact of any state or federal legislation that will be implemented during the period when these rates are to be in effect; of any court decisions that may relate to the calculations or methodologies in the filing; of any data related to the filing supplied by the Bureau after the date of this Notice; and of the findings of any audit of a statistical agent, the Bureau or any insurer writing homeowners insurance to the extent that any such audit serves to call into question the integrity of any data contained in the filing.

VI. The Commissioner, in accordance with N.C. Gen. Stat. Chapter 58, Article 36, directs the representatives of the Department to file all prefiled testimony, exhibits and other information on which the Department will rely at the hearing in accordance with the pertinent statute.

VII. In accordance with N.C. Gen. Stat. Chapter 58, Article 36, the Commissioner directs the staff and consultants of the Bureau and Department to meet for a prehearing conference in the Commissioner's conference room at the Department, Fourth Floor, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina on July 24, 2014 at 10:00 a.m. The representatives of the Department are directed to obtain court reporting for the aforementioned prehearing conference and to record all proceedings of the prehearing conference. In accordance with N.C. Gen. Stat. Chapter 58, the representatives and consultants of the Bureau and the Department are directed to be prepared at the prehearing conference and to have met prior to the prehearing conference to compile the following information to be presented at that hearing:

- A. List of the names of all potential witnesses;
- B. Stipulations as to their qualifications as experts;
- C. Stipulations as to the sequence or appearance of witnesses;

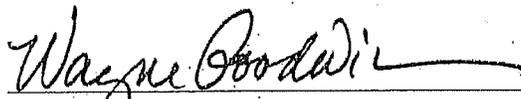
D. Such information relating to other matters and issues as may arise during the hearing, including but not limited to substantive and evidentiary matters;

E. The parties for both sides will identify the issues that will be presented at the hearing; and

F. Both parties will set forth specifically which issues can be eliminated that are included in this notice.

VIII. In accordance with the provisions of Chapter 58 of the General Statutes, the Bureau will make newspaper publications of the time and place of this hearing.

This the 19th day of February 2014.



Wayne Goodwin
Commissioner of Insurance for the
State of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Notice of Public Hearing was served on all counsel of record by hand delivery, this the 19th day of February 2014.

DEPARTMENT OF INSURANCE

By: 

Sherri L. Hubbard
Attorney for the
North Carolina Department of Insurance
Post Office Box 26387
Raleigh, N.C. 27611
Telephone: (919) 807-6090

SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
William M. Trott, Esq.
Marvin M. Spivey, Jr., Esq.
Attorneys for the North Carolina Rate Bureau
Post Office Box 31627
Raleigh, North Carolina 27622

THE NORTH CAROLINA RATE BUREAU
Raymond F. Evans, General Manager
Post Office Box 176010
2910 Sumner Blvd.
Raleigh, North Carolina 27619

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING)
DATED JANUARY 3, 2014 BY THE)
NORTH CAROLINA RATE BUREAU)
FOR REVISED HOMEOWNERS')
INSURANCE RATES & HOMEOWNERS')
INSURANCE TERRITORY DEFINITIONS)
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**AMENDMENT TO THE NOTICE
OF HEARING**

Docket No. 1719

TO THE NORTH CAROLINA RATE BUREAU:

Pursuant to the Order of Continuance issued by the Commissioner of Insurance (hereinafter "COI") on July 11, 2014, a copy of which is attached hereto, the Notice of Hearing dated 19 February 2014 in the above-captioned matter is hereby amended to change the dates of the commencement of the hearing and the prehearing conference as follows:

"I. Pursuant to the North Carolina General Statutes Chapter 58, Article 36, and other pertinent North Carolina General Statues, notice is hereby given that a hearing will be held beginning October 20, 2014, at 9:00 a.m., in the hearing room of the North Carolina Department of Insurance (hereinafter "the Department"), Third Floor, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, to consider the filing date January 3, 2014 ("the filing") of the North Carolina Rate Bureau ("the Bureau") for the revision of Homeowners' insurance rates and territory definitions.

VII. In accordance with N.C. Gen. Stat. Chapter 58, Article 36, the Commissioner directs the staff and consultants of the Bureau and Department to meet for a prehearing conference in the Commissioner's conference room at the Department, Fourth Floor, Dobbs

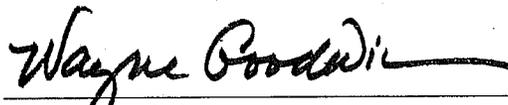
Building, 430 North Salisbury Street, Raleigh, North Carolina on October 10, 2014 at 10:00 a.m.

The representatives of the Department are directed to obtain court reporting for the aforementioned prehearing conference and to record all proceedings of the prehearing conference. In accordance with N.C. Gen. Stat. Chapter 58, the representatives and consultants of the Bureau and the Department are directed to be prepared at the prehearing conference and to have met prior to the prehearing conference to compile the following information to be presented at that hearing:

- A. List of the names of all potential witnesses;
- B. Stipulations as to their qualifications as experts;
- C. Stipulations as to the sequence or appearance of witnesses;
- D. Such information relating to other matters and issues as may arise during the hearing, including but not limited to substantive and evidentiary matters;
- E. The parties for both sides will identify the issues that will be presented at the hearing; and
- F. Both parties will set forth specifically which issues can be eliminated that are included in this notice.”

All other provisions of Notice of Hearing dated 19 February 2014 remain in full force and effect and are incorporated herein by reference.

This the 14th day of July 2014.

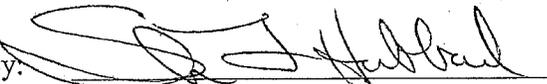


Wayne Goodwin
Commissioner of Insurance for the
State of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Amendment to the Notice of Hearing was served on all counsel of record by US Mail, this the 14th day of July 2014.

DEPARTMENT OF INSURANCE

By: 

Sherri L. Hubbard
Attorney for the
North Carolina Department of Insurance
Post Office Box 26387
Raleigh, N.C. 27611
Telephone: (919) 807-6090

SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
Marvin M. Spivey, Jr., Esq.
Attorneys for the North Carolina Rate Bureau
Post Office Box 31627
Raleigh, North Carolina 27622

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING	)	BEFORE THE COMMISSIONER
DATED JANUARY 3, 2014 BY THE	)	OF INSURANCE
NORTH CAROLINA RATE BUREAU)	
FOR REVISED HOMEOWNERS'	)	Docket No. 1719
INSURANCE RATES & HOMEOWNERS')	
INSURANCE TERRITORY DEFINITIONS	)	ORDER FOR CONTINUANCE
	)	OF HEARING

For good cause shown and by consent of the parties, the hearing in the above-captioned matter will commence on October 20, 2014.

This the 11th day of July, 2014.

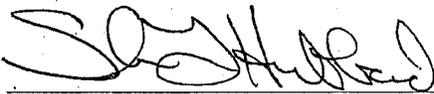


Wayne Goodwin,
Commissioner of Insurance for the State
Of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Order for Continuance of Hearing was served on the Counsel for the Rate Bureau by First Class Mail, this the 11th day of July, 2014.

DEPARTMENT OF INSURANCE

By: 

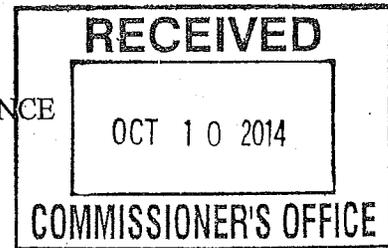
Sherri L. Hubbard
Attorney for the N.C. Department of Insurance
1201 Mail Service Center
Raleigh, N.C. 27699-1201
Telephone: (919) 807-6091
Fax: (919) 715-8889

SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
Marvin M. Spivey, Esq.
Attorneys for the North Carolina Rate Bureau
3101 Glenwood Avenue
Post Office Box 31627
Raleigh, North Carolina 27622

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA



IN THE MATTER OF THE FILING	)	BEFORE THE COMMISSIONER
DATED JANUARY 3, 2014 BY THE	)	OF INSURANCE
NORTH CAROLINA RATE BUREAU)	
FOR REVISED HOMEOWNERS'	)	PRE-HEARING ORDER
INSURANCE RATES AND TERRITORY	)	Docket No. 1719
DEFINITIONS)	

(1) Pursuant to the stipulation and consent of the parties, it is ordered that the following procedure be in force with respect to the hearing before the undersigned in connection with this case:

- (a) The pre-filed testimony of any witness may be identified by the witness, offered in evidence, and made a part of the record without formality or further explanation, and the witness immediately tendered for cross-examination.
- (b) It shall not be necessary for a party or that party's attorney to object to pre-filed testimony or exhibits or to object to testimony or exhibits presented at the hearing on this matter in order to preserve the right to object to the consideration of such evidence by the Commissioner of Insurance in making his final decision, or by the court on judicial review.
- (c) The North Carolina Rate Bureau (the "Bureau") will be allowed to introduce additional oral testimony as part of its direct case at the time its pre-filed testimony is offered into evidence, provided that such oral testimony shall relate to matters raised in the Notice of Hearing or data available since the filing was made.

- (d) The Department of Insurance (the "Department") will be allowed to introduce additional oral testimony as part of its direct case at the time its pre-filed testimony is offered into evidence, provided that such oral testimony relates to information available or matters raised after the filing of the pre-filed testimony.
- (e) For purposes of testimony offered at the hearing, the Bureau and the Department will present their cases using the filed effective date of August 1, 2014.
- (2) The witnesses which the Bureau presently intends to call as part of its case-in-

chief are:

Mr. Robert Curry

Mr. Brian Donlan

Mr. Robert Newbold

Dr. James H. Vander Weide

Dr. David Appel

It is stipulated by the Department that Mr. Curry and Mr. Donlan are expert property/casualty insurance actuaries, that Mr. Newbold is an expert in catastrophe modeling and that Dr. Appel and Dr. Vander Weide are experts in economics and finance and profit as regards the property/casualty insurance industry.

- (3) The witnesses which the Department presently intends to call as part of its case-in-chief are:

Mr. Allan I. Schwartz

Ms. Mary Lou O'Neil

Mr. Evan D. Bennett

It is stipulated by the Bureau that Mr. Schwartz and Ms. O'Neil are expert

property/casualty insurance actuaries and that Mr. Bennett is an expert in reinsurance.

(4) Either party may call such witnesses, including without limitation those listed above, as may be needed for rebuttal purposes.

(5) The issues before the Commissioner are those duly raised in the Notice of Hearing dated February 19, 2014, and the Amendment to the Notice of Hearing dated July 14, 2014, both as amended by strikeouts, and attached hereto as Exhibit A.

(6) The following are the broad topical issues that the Department contends are still before the Commissioner for consideration and decision in this case:

- (a) Modeled Hurricane Losses
- (b) Net Cost of Reinsurance
- (c) Compensation for Assessment Risk
- (d) Actual loss and expense experience
- (e) Prospective loss and expense experience
 - (1) Loss trends
 - (2) Premium trends
- (f) Trend selection procedures
- (g) Margin for underwriting profit and contingencies
 - (1) Methodology
 - (2) Underwriting profit factor
 - (3) Relative risk of North Carolina Homeowners' Coverage
- (h) Investment income on unearned premium, loss and loss expense reserves.
- (i) Deviations
- (j) Contingency Factor

(k) Allocation to Zone

This is a topical listing of the major issues only and does not set out all the underlying components of the issues listed nor does it indicate the abandonment of any issue not set forth herein but listed in the Notice of Hearing which was not expressly withdrawn by the Department or dismissed by the Hearing Officer.

(7) The following hearing schedule is proposed:

Monday, October 20, 2014 at 9:00 a.m. – 6:00 p.m. - Curry

Tuesday, October 21, 2014 at 9:00 a.m. – 6:00 p.m. – Curry/Donlan/Vander Weide

Monday, October 27, 2014 at 10:00 a.m. – 5:00 p.m. – Appel/Newbold

Tuesday, October 28, 2014 at 10:00 a.m. – 5:00 p.m. – Appel/Newbold/Schwartz

Wednesday, October 29, 2014 at 10:00 a.m. – 5:00 p.m. – Schwartz/O’Neil

Thursday, October 30, 2014 at 10:00 a.m. – 5:00 p.m. – Schwartz/O’Neil

Friday, October 31, 2014 at 9:00 a.m. – 1:00 p.m. – O’Neil

Monday, November 3, 2014 at 10:00 a.m. – 5:00 p.m. – Bennett

Tuesday, November 4, 2014 at 10:00 a.m. – 5:00 p.m. – Available

Wednesday, November 5, 2014 at 10:00 a.m. – 5:00 p.m. – Rate Bureau Rebuttal (if necessary)

Thursday, November 6, 2014 at 10:00 a.m. – 5:00 p.m. – Rate Bureau Rebuttal (if necessary)

Friday, November, 7, 2014 at 10:00 a.m. – 5:00 p.m. – Rate Bureau Rebuttal (if necessary)

Monday, November 10, 2014 at 10:00 a.m. – 5:00 p.m. – Department Rebuttal (if necessary)

Tuesday, November 11, 2014 at 10:00 a.m. – 5:00 p.m. – Department Rebuttal (if necessary)

Wednesday, November 12, 2014 at 10:00 a.m. – 5:00 p.m. – Closing Arguments
(if necessary)

The parties agree that if scheduling conflicts arise during the course of the hearing, the parties will confer with each other and with the Commissioner to resolve the conflicts and to make any necessary changes to the hearing schedule set forth above.

The parties agree that, should it be determined that rebuttal testimony is necessary, the parties will work with the Commissioner to provide for a mutually agreeable hearing schedule, which will allow the parties sufficient preparation time for rebuttal testimony.

(8) The witnesses shall appear in succession on the reserved hearing dates with the Bureau witnesses appearing first for direct and cross examination and the Department witnesses appearing immediately after the conclusion of the Bureau's direct case.

Provided, however, if additional direct testimony is offered, cross-examination of witnesses through whom such additional direct testimony is offered may be deferred to allow sufficient time for the preparation for cross-examination. Provided further that cross-examination of a witness shall be completed before the party conducting the cross-examination presents direct or further evidence.

9. At the close of the hearing, the parties shall confer and attempt to agree upon an effective date for the implementation of revised manual rates resulting from this proceeding. Unless the parties agree otherwise, any such new effective date shall be not less than 105 days from the anticipated date of the Commissioner's final order in this proceeding.

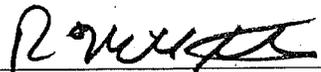
10. If, at the close of the hearing, the Commissioner desires proposed orders, he shall advise the parties and establish a time for submission of such proposed orders.

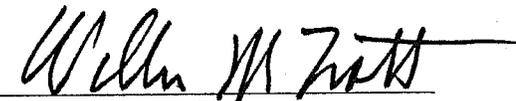
So ordered this 10th day of October, 2014 with the consent of all parties.


Wayne Goodwin,
Commissioner of Insurance

Consented to this the 10th day of October, 2014.

By: 
Sherri L. Hubbard
Attorneys for the North Carolina Department of Insurance

By: 
R. Michael Strickland, Esq.

By: 
William M. Trott, Esq.
Attorneys for the North Carolina Rate Bureau

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING)	
DATED JANUARY 3, 2014 BY THE	)	NOTICE OF HEARING
NORTH CAROLINA RATE BUREAU)	
FOR REVISED HOMEOWNERS'	)	North Carolina General Statutes
INSURANCE RATES & HOMEOWNERS'	)	Chapter 58, Article 36
INSURANCE TERRITORY DEFINITIONS	)	Docket No. 1719

TO THE NORTH CAROLINA RATE BUREAU:

I. Pursuant to the North Carolina General Statutes Chapter 58, Article 36, and other pertinent North Carolina General Statutes, notice is hereby given that a hearing will be held beginning August 6, 2014, at 10:00 a.m., in the hearing room of the North Carolina Department of Insurance (hereinafter "the Department"), Third Floor, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, to consider the filing dated January 3, 2014 ("the filing") of the North Carolina Rate Bureau (hereinafter "the Bureau") for the revision of Homeowners' insurance-rates and territory definitions.

II. At such hearing, the Commissioner will consider the standards specified in the North Carolina General Statutes Chapter 58, Article 36, and all other applicable standards as set forth in the North Carolina General Statutes for the making of property insurance rates.

III. As a whole, among other things, the filing suffers from significant deficiencies of the following character:

A. The data contained therein are so questionable that a proper evaluation of this filing, including its various components and methodologies, to determine whether it satisfies the rate

standards specified in N.C.G.S. §58-36-10, is obstructed. In many instances, the filing lacks the necessary data, documentation and explanations of methodology to meet the Bureau's statutory burden of proof. As a result, further data will be requested from the Bureau by the Department. As of the date of this notice, however, such data and information has not yet been formally requested and, as a result, biases and deficiencies beyond those evident at present may yet be detected.

B. The filing is not clear, concise, internally consistent or readily understandable. There is a pervasive lack of documentation, explanation and justification of both the data used, as well as the procedures and methodologies utilized in the filing.

As a consequence of the above described deficiencies in Section III, the proposed rates appear in their entirety to be excessive and unfairly discriminatory. ~~The proposed territory definitions also result in rates that are unfairly discriminatory and otherwise in violation of the applicable statutory standards.~~

IV. The Department contends on information and belief, that the filing fails to comply with the requirements of Article 36 of Chapter 58 of the North Carolina General Statutes at least in the following respects and at least to the following extent:

A. Due consideration has not been given to actual loss and expense experience within this State for both the most recent three-year and five-year periods for which such information is available in that:

1. The use of combined experience for the voluntary market, consent to rate and Beach Plan is inappropriate and lacks adequate explanation or justification. Further, the loss, expense, and exposure experience provided on, for example, RB-1, pages C-1, C-2 and C-3 and elsewhere in the filing are outdated as the latest data included in the filing is only through 2011. More recent data should be available and included in the analysis.

2. The failure to use actual data in various calculations, including but not limited to the modeled "compensation for assessment risk," the modeled "net cost of reinsurance," the trended modeled hurricane base-class loss costs, and the territory analysis, lacks adequate explanation or justification. The data, assumptions, and methodology underlying the modeled values were not provided.

3. The filing contains data and information that appear inconsistent, outdated, irrelevant, incomplete, or not in compliance with the statutory requirements of N.C. Gen. Stat. §58-36-10.

4. The derivations and/or selections of the loss development factors used in the filing are not properly documented, explained, or justified. Further, the use of data for only 76% of the overall market for loss development as described on RB-1, page E-6 of the filing calls into question the reliability and accuracy of the values used.

5. The filing fails to adequately document, explain, or justify the provisions for general expenses, other acquisition expenses, commissions and brokerage, taxes, licenses and fees, and loss adjustment expenses.

a. Only three years of data were used for some expenses, whereas five years of data were used elsewhere in the filing.

6. The apparent treatment and inclusion of dividends and deviations in the derivation of manual rates is unsupported by either theory or practice and is contrary to N.C. Gen. Stat. §58-8-25 and the decisions of the appellate courts of N.C.

7. The filing fails to give due consideration to observed changes in the loss costs in establishing loss trends. The filing fails to provide proper data for calculating trends. Only five annual data points were provided whereas quarterly data points should have been provided.

Data were provided only through 2011 but more recent data should be available and included in the analysis. Additional ratemaking data, trend data, and other relevant data should be available. Fast Track trend data is available and should be considered.

~~8. The filing fails to adequately explain how the common deductible was selected to which various data, including but not limited to data on RB-1, pages C-1, C-2, and C-3, were adjusted, how the adjustment was made, to provide any underlying calculations, or to explain its impact on the requested rate level change.~~

9. The “compensation for assessment risk” in RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but, instead, is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

a. With regards to the provision for “compensation for assessment risk,” the filing appears to disregard the actual relevant assessment experience for North Carolina.

b. The “compensation for assessment risk” is, effectively, an additional profit provision. The filing has not justified the large profit component of the “compensation for assessment risk” and furthermore does not explain why this extra hidden profit provision is needed in addition to the explicit underwriting profit provision included in the filing.

10. The “net cost of reinsurance” on RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but instead is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

a. The filing does not support the numerical value of the provision for the “net cost of reinsurance” included in the filing.

b. The “net cost of reinsurance,” provision in the filing appears to disregard the actual reinsurance experience in North Carolina.

c. The filing lacks relevant information for evaluating the provision for the “net cost of reinsurance”. Issues where the filing did not provide adequate information include, but are not limited to: (i) amounts actually paid or to be paid to reinsurers, (ii) ceding commissions paid or to be paid to insurers by reinsurers, (iii) expected reinsurance recoveries from actual, as opposed to hypothetical, reinsurance and (iv) North Carolina exposure to catastrophic events.

d. The “net cost of reinsurance” is, in large part, additional transfer of profit from policyholders to the insurance industry. The filing has not justified the extraordinarily high numerical value of the profit component of the “net cost of reinsurance”, which is 14% of the total premium proposed to be charged to policyholders. This is significantly larger than the explicit underwriting profit provision of 10.5% included in the filing. These two profit provisions included in the filing result in nearly 25% of the premium paid by policyholders effectively going to insurance industry underwriting profits.

e. Documentation and justification was not provided showing that the calculations underlying the “net cost of reinsurance” provision are based upon the data and experience for the relevant set of insurance companies.

11. The “trended modeled hurricane base-class loss cost” in RB-1, pages C-1, C-2, C-3 and elsewhere in the filing does not appear to be an actual value, but instead is a calculated hypothetical value that is inappropriate and lacks adequate explanation or justification.

12. The filing appears to disregard the actual hurricane loss experience in North Carolina.

13. The filing does not demonstrate that various values, including but not limited to, the loss, expense, exposure and average rating factor information contained in the filing, accurately and reasonably reflect actual historical experience.

14. The filing does not demonstrate that the data, experience and values used are accurate, reliable or relevant.

B. Due consideration has not been given to prospective loss and expense experience within this State in that:

1. Trending procedures are not adequately documented, explained, or justified. Examples include the use of the modified consumer price index, BOECKH residential index, the all items less energy CPI, compensation cost index, the various annual loss trend adjustment factor and trend from first dollar. Moreover:

a. The annual loss trend adjustment factors of 3%, 1.5%, and 4% for Owners, Tenant, and Condominium forms, respectively, were not justified.

b. The data utilized for trend were inappropriate.

c. Only five annual data points were provided for the loss trend whereas quarterly data points should be provided.

d. Loss data were only through 2011 when more recent data should be available and included in the analysis. More recent external cost indices than those included in the filing are available. Fast Track trend data more recent than the trend data included in the filing are available and should be considered.

2. The filing fails to consider the effects on experience of past and prospective changes in relevant economic and other causal variables in selecting various trends, including but not limited to, the trends for losses and expenses. Further, the filing fails to give due consideration to observed trends in loss costs in establishing loss trends and to observed trends in expense costs in establishing expense trends.

3. The filing fails to provide the proper derivation of various factors, including

but not limited to, the "current average base rate" shown, for example, on RB-1, pages C-1, C-2, and C-3. The filing does not provide the underlying data or numeric steps in the calculation of the current average base rates.

4. The filing has not supported the exposure trends used. The filing does not provide the underlying data or the numeric steps related to this ratemaking component.

5. The filing does not adequately justify the projected expense provisions used in the rate level calculation. ~~The external BLS indices utilized to calculate expense trend were not substantiated for their relevance. The 2.0% selected expense trend was not justified or supported.~~

C. Due consideration has not been given to the hazards of conflagration and catastrophe in that:

1. The use of simulated data in the calculation of various values, including but not limited to catastrophe losses, net cost of reinsurance, compensation for assessment risk, excess losses, ~~and territorial definitional changes~~, is not adequately explained or justified and may be incorrectly calculated.

2. The use of the AIR Worldwide Corporation (hereinafter "AIR") computer simulation model in the filing to derive the provisions for hurricane losses and for the "net cost of reinsurance," as well as other provisions elsewhere in the filing, is inappropriate and lacks adequate explanation or justification.

3. The calculation in the filing of the excess loss factor on RB-1, page D-32 is inappropriate and lacks adequate explanation or justification.

4. The filing does not demonstrate that various provisions for hazards of conflagration and catastrophe such as the excess loss factor and AIR modeled losses do not overlap and result in an inflated overall rate provision.

5. The AIR computer model results are based upon outdated data and experience.

6. Documentation and justification were not provided showing that the data and experience relied upon in the AIR computer model results are accurate and reliable.

7. Documentation and justification were not provided showing that the various assumptions, parameters, formulas and other components underlying the AIR computer model are reasonable and appropriate for North Carolina.

8. Evaluating the validity of the AIR Model is impeded by the fact that numerous assumptions, parameters, formulas, data, and other components underlying that model have not been disclosed.

9. Documentation and justification were not provided showing that the calculations underlying the AIR computer model are based upon the data and experience for the relevant set of insurance companies.

10. Documentation was not provided regarding how the modeled losses from the AIR computer model compare to actual catastrophe losses in North Carolina.

11. Documentation was not provided regarding the changes in the AIR computer model over time and how those changes impact the numerical value of the modeled losses. Documentation was not provided which appropriately supports the changes over time in the numeral value of the modeled losses.

12. Documentation was not provided to adequately explain or justify why two different AIR models were used in the filing. The standard AIR model was used to derive the provision for hurricane losses while the WSST model was used in the calculation of the "net cost of reinsurance" provision.

13. The inclusion of Beach Plan data and consent to rate data in the calculations is unsupported.

14. Actual conflagration and catastrophe experience and data for North Carolina homeowners insurance was not provided or used in the filing.

~~15. Documentation was not provided to adequately demonstrate that the model underlying the proposed changes to territory definitions is appropriate.~~

D. Due consideration has not been given to a reasonable margin for underwriting profit and to contingencies; to dividends, savings, ~~or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers~~ and to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State in that:

1. The profit model employed by the Bureau in the calculation of the filed underwriting profit provisions has been previously rejected by the Court of Appeals and, therefore, cannot be used to calculate the profit provisions in this filing.

2. The test employed by the Bureau to compare its calculation of projected returns to the alleged cost of capital required by industries of comparable risks uses investment income from capital and surplus in violation of numerous court decisions.

3. The profit calculations in the filing are made using GAAP based accounting. However, two decisions by the Court of Appeals have held that SAP based accounting is appropriate for ratemaking purposes in North Carolina.

4. The filing appears to inappropriately evaluate various items, including but not limited to, the investment rate of return, investment expenses, taxes, investable funds, policyholder supplied funds, insurance company supplied funds, installment and other fees, and

target profit.

5. The cost of capital, even if it was relevant and could be used in the profit calculation, appears to have been calculated improperly in the filing and is not adequately justified.

6. The filing fails to justify and to demonstrate how the 1% contingency provision was determined, as well as the allocation of this provision to territory.

7. The cost of capital standard employed in the filing as the basis for selecting the statewide provision for underwriting profit is inappropriate because it inherently contains income earned and realized from capital and surplus funds, and thus it violates North Carolina law. The filing does not use any standard for the contingency provision, but instead uses a completely unsupported and arbitrary value.

8. The filing fails to justify the 10.5% statewide underwriting profit provisions, as well as the allocation of this amount to territory. Support and documentation was not provided for the 10.5% value for the underwriting profit provision.

9. The filing has not explained why, in addition to the underwriting profit provision and contingency provision, additional profit loadings are effectively included elsewhere in the filing, including but limited to "net cost of reinsurance" and "compensation for assessment risk".

10. The filing appears to include profit loading from multiple factors within the filing including, at least, the following four: the explicit underwriting profit provisions, the contingency provision, the "net cost of reinsurance" provision, and the "compensation for assessment risk" provision. The inclusion of these multiple profit factors results in excessive and unfairly discriminatory rates.

11. The filing fails to justify various assumptions made by Dr. Vander Weide and Dr. Appel, including but not limited to the: (i) risk of the insurance business, (ii) appropriate

target profit and (iii) projected revenue for insurance companies.

12. The filing fails to follow the 1999 N.C. Supreme Court decision that rejected the Bureau's methodology of adding an explicit additional factor into the rates for policyholder dividends and deviations.

13. The filing fails to treat dividends and deviations as savings by negating whatever savings they reflect in that they are used to justify raising the rate level to offset their impact. The filing provides inadequate documentation and explanation as to how savings have been given due consideration in the filing.

14. The filing does not adequately support the projected magnitude of policyholder dividends and deviations.

15. The filing treats dividends and deviations inappropriately.

16. The filing does not reflect the payment of dividends from surplus as required by N.C. Gen. Stat. §58-8-25.

17. The Bureau's treatment of policyholder dividends and deviations results in unfairly discriminatory and excessive rates.

18. The allocation of profit to territory in the filing is not accurately explained or justified.

E. Due consideration has not been given to past and prospective expenses specifically applicable to this State in that:

1. The filing fails to adequately document, explain, or justify the method by which insurance companies determined the amount of expenses to report as being applicable to North Carolina homeowners insurance, or the assumed split of those expenses between the various coverage forms.

2. The filing does not adequately justify the projected expense provisions used in the rate level calculation.

F. Due consideration has not been given to all other relevant factors within this State in that:

1. The filing inappropriately reflects the data and experience of the Beach Plan and consent to rate.

2. The filing fails to provide adequate justification to support the distribution of the rate changes by territory.

3. The filing fails to adequately document and justify the current cost factors, current amount factors, premium projection factors, loss projection factors, adjustments to trend from first dollar of loss, total period LTAs and composite projection factors for loss ratio used in the rate level calculation.

4. The wind exclusion credits and wind mitigation credits set forth in the filing are not adequately documented or supported.

~~5. The revision of Homeowners' territory definitions was not supported.~~

~~6. The impact of the revision of Homeowners' territory definitions on the premiums charged to North Carolina policyholders was not supported or provided.~~

~~7. Due consideration was not given to the minimum number of exposures in the proposed realignment of homeowners' territories.~~

~~8. Due consideration was not given to the integrity of existing homeowners' territorial boundaries.~~

~~9. Due consideration was not given to the socio-economic compatibility between the proposed revisions to the homeowners' territories and the existing homeowners'~~

territories.

10. ~~Due consideration was not given to the compatibility of zip code based territories and county based territories.~~

11. The indicated rate level changes and filed rate level changes on page A-2 are not supported, are based upon unsound actuarial procedures and unsound ratemaking calculations, are contrary to the applicable statutory standards and inconsistent with relevant court decisions, and would result in excessive and unfairly discriminatory rates.

As a consequence of the above described deficiencies in Section IV., the proposed rates appear in their entirety to be excessive and unfairly discriminatory in violation of N.C.G.S. §58-36-10(1).

V. The Commissioner reserves the right to examine the impact of any state or federal legislation that will be implemented during the period when these rates are to be in effect; of any court decisions that may relate to the calculations or methodologies in the filing; of any data related to the filing supplied by the Bureau after the date of this Notice; and of the findings of any audit of a statistical agent, the Bureau or any insurer writing homeowners insurance to the extent that any such audit serves to call into question the integrity of any data contained in the filing.

VI. The Commissioner, in accordance with N.C. Gen. Stat. Chapter 58, Article 36, directs the representatives of the Department to file all prefiled testimony, exhibits and other information on which the Department will rely at the hearing in accordance with the pertinent statute.

VII. In accordance with N.C. Gen. Stat. Chapter 58, Article 36, the Commissioner directs the staff and consultants of the Bureau and Department to meet for a prehearing conference in the Commissioner's conference room at the Department, Fourth Floor, Dobbs Building, 430 North

Salisbury Street, Raleigh, North Carolina on July 24, 2014 at 10:00 a.m. The representatives of the Department are directed to obtain court reporting for the aforementioned prehearing conference and to record all proceedings of the prehearing conference. In accordance with N.C. Gen. Stat. Chapter 58, the representatives and consultants of the Bureau and the Department are directed to be prepared at the prehearing conference and to have met prior to the prehearing conference to compile the following information to be presented at that hearing:

- A. List of the names of all potential witnesses;
- B. Stipulations as to their qualifications as experts;
- C. Stipulations as to the sequence or appearance of witnesses;
- D. Such information relating to other matters and issues as may arise during the hearing, including but not limited to substantive and evidentiary matters;
- E. The parties for both sides will identify the issues that will be presented at the hearing; and
- F. Both parties will set forth specifically which issues can be eliminated that are included in this notice.

VIII. In accordance with the provisions of Chapter 58 of the General Statutes, the Bureau will make newspaper publications of the time and place of this hearing.

This the 19th day of February 2014.

Wayne Goodwin
Commissioner of Insurance for the
State of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Notice of Public Hearing was served on all counsel of record by hand delivery, this the 19th day of February 2014.

DEPARTMENT OF INSURANCE

By:

Sherri L. Hubbard
Attorney for the
North Carolina Department of Insurance
Post Office Box 26387
Raleigh, N.C. 27611
Telephone: (919) 807-6090

SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
William M. Trott, Esq.
Marvin M. Spivey, Jr., Esq.
Attorneys for the North Carolina Rate Bureau
Post Office Box 31627
Raleigh, North Carolina 27622

THE NORTH CAROLINA RATE BUREAU
Raymond F. Evans, General Manager
Post Office Box 176010
2910 Sumner Blvd.
Raleigh, North Carolina 27619

Building, 430 North Salisbury Street, Raleigh, North Carolina on October 10, 2014 at 10:00 a.m.

The representatives of the Department are directed to obtain court reporting for the aforementioned prehearing conference and to record all proceedings of the prehearing conference. In accordance with N.C. Gen. Stat. Chapter 58, the representatives and consultants of the Bureau and the Department are directed to be prepared at the prehearing conference and to have met prior to the prehearing conference to compile the following information to be presented at that hearing:

- A. List of the names of all potential witnesses;
- B. Stipulations as to their qualifications as experts;
- C. Stipulations as to the sequence or appearance of witnesses;
- D. Such information relating to other matters and issues as may arise during the hearing, including but not limited to substantive and evidentiary matters;
- E. The parties for both sides will identify the issues that will be presented at the hearing; and
- F. Both parties will set forth specifically which issues can be eliminated that are included in this notice.”

All other provisions of Notice of Hearing dated 19 February 2014 remain in full force and effect and are incorporated herein by reference.

This the ____ day of July 2014.

Wayne Goodwin
Commissioner of Insurance for the
State of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Amendment to the Notice of Hearing was served on all counsel of record by US Mail, this the _____ day of July 2014.

DEPARTMENT OF INSURANCE

By:

Sherri L. Hubbard
Attorney for the
North Carolina Department of Insurance
Post Office Box 26387
Raleigh, N.C. 27611
Telephone: (919) 807-6090

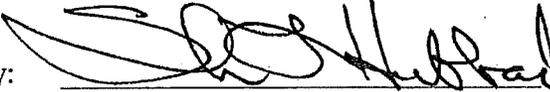
SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
Marvin M. Spivey, Jr., Esq.
Attorneys for the North Carolina Rate Bureau
Post Office Box 31627
Raleigh, North Carolina 27622

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Pre-Hearing Order was served on all counsel of record by hand delivery, this 10th day of October, 2014.

DEPARTMENT OF INSURANCE

By: 

Sherri L. Hubbard
Attorney for the
North Carolina Department of Insurance
1201 Mail Service Center
Raleigh, N.C. 27699-1201
Telephone: (919) 715-8967

SERVED ON:

YOUNG MOORE AND HENDERSON P.A.
R. Michael Strickland, Esq.
William M. Trott, Esq.
Attorneys for the North Carolina Rate Bureau
3101 Glenwood Avenue
Post Office Box 31627
Raleigh, North Carolina 27622

**NORTH CAROLINA
HOMEOWNERS INSURANCE**

SECTION F – REVISION OF HOMEOWNERS TERRITORY DEFINITIONS

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AMENDMENTS SUBMITTED JUNE, 2014

As a part of its review of the 2014 Homeowners Insurance Rate Filing, the Department provided the following comments/objections regarding the proposed revisions to the current territory definitions:

- *In the eastern half of the state, where the rate differentials between current territories are relatively large, this filing has too many counties from different current territories being joined into new territories, which could cause larger rate fluctuations. This is especially true in current territories 44, 45, 46 and 47.*
- *It would be better for any new territories to be subdivisions of current territories as much as possible, especially in the eastern half of the state. This was done in all previous HO territorial definition filings. Such a practice would allow future analysis of ratemaking across longer time horizons using older territorial definitions. Again, this is especially true in current territories 45, 46 and 47.*
- *There is a concern that some of the new filed territories have insufficient credibility. The best example of this is proposed new territory 105.*
- *Territory 101 as filed is too large.*
- *It would be better for the filing to display the proposed territory base rates for the new territories based on the current approved statewide rate level. Any changes to such base rates due solely to changes in territory definitions should be revenue-neutral (meaning that any increases are offset by decreases and there is no resulting rate level change on a statewide basis), and such increases and decreases should be minimized to the extent possible.*

The Bureau has considered these comments/objections in great detail, has performed additional analysis and submits these amendments to address the Department's comments/objections. Pages F-A-3 through F-A-6 show the revised manual rule (shown in underline/strikethrough format) for territory assignments and the revised territory definitions. Exhibit A on page F-A-7 shows a map of the new proposed territories. Exhibit B on pages F-A-8 and F-A-9 shows the pure premium by county for the inland counties.

Exhibit C on page F-A-10 shows a map of the revised coastal territories. The modeled hurricane pure premiums by ZIP code are displayed on the map on Exhibit D on page F-A-11 and in Exhibits E and F on pages F-A-12 through F-A-15. No changes have been made in this amendment to the territory definitions for the coastal territories; these exhibits simply reflect the new territory numbers.

It was noted in the original filing that the new territory numbering system in the filing was subject to change before being published to the NCRB member companies. With this amendment, new territory numbers have been determined and assigned. Generally, the new numbers start in the northeast corner of the state with 110 and move north to south across the state in increments of 10, ending with 390 in the southwest corner of the state. Where a territory has multiple base rates due to the Bureau's voluntarily-applied caps by territory, sub-territories will be created and the territory number will be changed in the third digit. For example, in territory 220, the two sub-territories will be numbered 221 and 222.

The amended territory scheme has a homogeneity index of 0.950. This is slightly less than the originally proposed territory scheme (0.968), but still significantly higher than the homogeneity index of the current territory scheme (0.703). This again demonstrates that the amended territory scheme continues to fit the pure premium data significantly better than does the current territory scheme.

In addition, proposed base rates for all of the amended territories are set forth on Exhibit G on page F-A-16. As noted in the report to the Legislature on property territory definitions, changes in territory boundaries logically and necessarily mean some changes in territory base rates; base rates for some territories increase and others decrease. This remains true with the amended territory definitions. However, the changes are revenue-neutral, meaning that the increases and decreases offset each other and there is no resulting rate level change on a statewide basis. Furthermore, in response to the Department's comments/objections, the increases and decreases from the current base rates have been minimized to the extent possible in these proposed base rates, while still moving those rates in the directions indicated by the pure premium data.

MISCELLANEOUS MANUAL RULES

Pages F-A-18 through F-A-27 show amended manual rules similar to those shown on pages F-26 through F-34. Page F-A-17 is an additional amended manual rule. The revisions shown here are solely those necessary to reflect the final territory numbers.

1. TERRITORY ASSIGNMENTS

If a territory shown is defined in terms of United States Postal Service (USPS) ZIP code:

A. Determine the applicable rating territory based on the location of the dwelling.

B. An insured's rates shall not be changed solely because the USPS changed his or her ZIP code and the physical boundaries of a rating territory shall be determined by the ZIP code boundaries in effect at the time of the latest rate filing defining the territory.

Territory boundaries in North Carolina are concurrent with USPS ZIP code boundaries in effect as of July 1, 2013. If the USPS introduces a new ZIP code or realigns a ZIP code boundary after July 1, 2013, the new ZIP code may not yet be listed in Rule 2.C.,. If this is the case, assign the rating territory based on the ZIP code boundary that formerly applied to the dwelling before the USPS changed the ZIP code.

12. TERRITORY DEFINITIONS – (For all Coverages and Perils Other than Earthquake).

Assign the applicable territory using the following order of priority:

A. Cities

<u>City of</u>	<u>County of</u>	<u>Code</u>
Charlotte	Mecklenburg	38
Durham	Durham	32
Greensboro	Guilford	36
Raleigh	Wake	32
Winston-Salem	Forsyth	36

BA. Other Than CitiesCounties

<u>County of</u>	<u>Code</u>
Alamance	31057
Alexander	34060
Alleghany	36060
Anson	30044
Ashe	36060
Avery	37060
Beaufort	15049
Bertie	18045
Bladen	23041
Brunswick	52
Buncombe	36060
Burke	36060
Cabarrus	32060
Caldwell	36060
Camden	15049
Carteret	52
Caswell	31046
Catawba	36060
Chatham	28053
Cherokee	39060
Chowan	15049
Clay	39060
Cleveland	35060
Columbus	20041
Craven	15049
Cumberland	22034
Currituck (other than Beach Areas)	13048
Dare (other than Beach Areas)	13048
Davidson	32057
Davie	31060
Duplin	19045
Durham	27053
Edgecombe	21047
Forsyth	31057
Franklin	24047
Gaston	35039
Gates	17045

Graham	<u>39060</u>
Granville	<u>26046</u>
Greene	<u>18045</u>
Guilford	<u>31057</u>
Halifax	<u>24047</u>
Harnett	<u>25047</u>
Haywood	<u>38060</u>
Henderson	<u>36060</u>
Hertford	<u>17045</u>
Hoke	<u>25047</u>
Hyde (other than Beach Areas)	<u>13048</u>
Iredell	<u>34060</u>
Jackson	<u>39060</u>
Johnston	<u>24047</u>
Jones	<u>15049</u>
Lee	<u>29047</u>
Lenoir	<u>19045</u>
Lincoln	<u>35060</u>
Macon	<u>39060</u>
Madison	<u>38060</u>
Martin	<u>18045</u>
McDowell	<u>36060</u>
Mecklenburg	<u>34039</u>
Mitchell	<u>37060</u>
Montgomery	<u>30044</u>
Moore	<u>29047</u>
Nash	<u>24047</u>
New Hanover	<u>52</u>
Northampton	<u>24047</u>
Onslow	<u>52</u>
Orange	<u>28053</u>
Pamlico	<u>13048</u>
Pasquotank	<u>15049</u>
Pender	<u>52</u>
Perquimans	<u>15049</u>
Person	<u>26046</u>
Pitt	<u>18045</u>
Polk	<u>36060</u>
Randolph	<u>32057</u>
Richmond	<u>30044</u>
Robeson	<u>23044</u>
Rockingham	<u>31060</u>
Rowan	<u>32060</u>
Rutherford	<u>35060</u>
Sampson	<u>22045</u>
Scotland	<u>25047</u>
Stanly	<u>34060</u>
Stokes	<u>31060</u>
Surry	<u>31060</u>
Swain	<u>38060</u>
Transylvania	<u>38060</u>
Tyrrell	<u>15049</u>
Union	<u>34039</u>
Vance	<u>26046</u>
Wake	<u>27053</u>
Warren	<u>26046</u>
Washington	<u>15049</u>
Watauga	<u>36060</u>
Wayne	<u>18045</u>
Wilkes	<u>34060</u>
Wilson	<u>21047</u>
Yadkin	<u>33057</u>
Yancey	<u>36060</u>

B. Beach Areas

Beach Area – Localities south and east of the Inland Waterway from the South Carolina Line to Fort Macon (Beaufort Inlet), thence south and east of Core, Pamlico, Roanoke and Currituck Sounds to the Virginia Line, being those portions of land generally known as the "Outer Banks."

Beach Areas in Currituck, Dare and Hyde Counties: 11007

Beach areas in Brunswick, Carteret, New Hanover, Onslow and Pender Counties: 12008

C. Other than Beach Areas of Brunswick, Carteret, New Hanover and Pender Counties

For areas of Brunswick, Carteret, New Hanover, Onslow and Pender Counties, other than the Beach Areas, refer to the following ZIP codes. If portions of these ZIP codes fall in Counties other than Brunswick, Carteret, New Hanover, Onslow and Pender Counties use the territory code for those Counties.

1. Eastern Coastal Territory

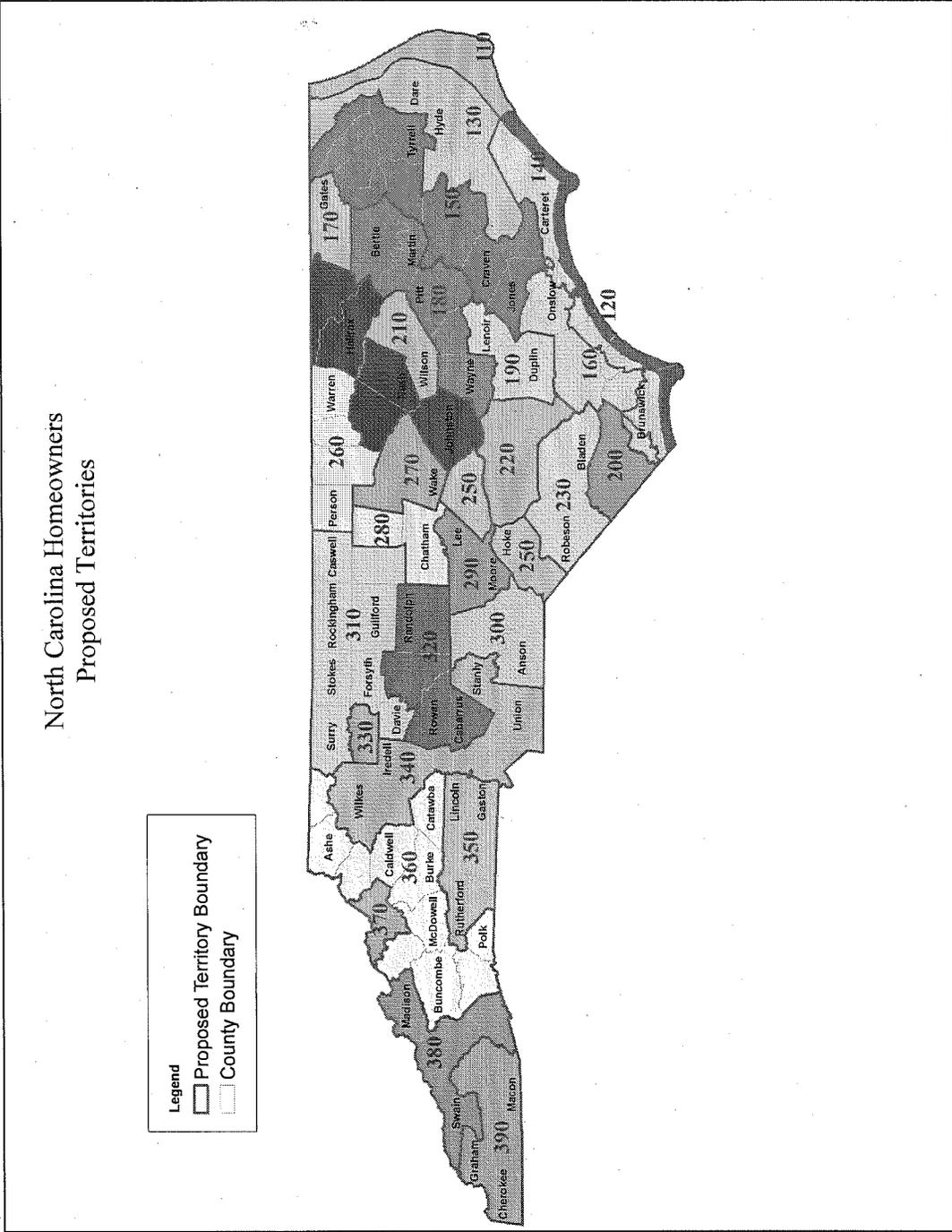
<u>ZIP Code</u>	<u>USPS ZIP Code Name</u>	<u>Code</u>
28403	Wilmington	140
28404	Wilmington	140
28405	Wilmington	140
28406	Wilmington	140
28407	Wilmington	140
28408	Wilmington	140
28409	Wilmington	140
28410	Wilmington	140
28411	Wilmington	140
28412	Wilmington	140
28422	Bolivia	140
28428	Carolina Beach	140
28443	Hampstead	140
28445	Holly Ridge	140
28459	Shallotte	140
28460	Sneads Ferry	140
28461	Southport	140
28462	Supply	140
28467	Calabash	140
28468	Sunset Beach	140
28469	Ocean Isle Beach	140
28470	Shallotte	140
28480	Wrightsville Beach	140
28511	Atlantic	140
28516	Beaufort	140
28520	Cedar Island	140
28524	Davis	140
28528	Gloucester	140
28531	Harkers Island	140
28532	Havelock	140
28533	Cherry Point	140
28539	Hubert	140
28553	Marshallberg	140
28557	Morehead City	140
28570	Newport	140
28577	Sealevel	140
28579	Smyrna	140

28581	Stacy	140
28584	Swansboro	140
28589	Williston	140

2. Western Coastal Territory

<u>ZIP Code</u>	<u>USPS ZIP Code Name</u>	<u>Code</u>
28401	Wilmington	160
28402	Wilmington	160
28420	Ash	160
28421	Atkinson	160
28425	Burgaw	160
28429	Castle Hayne	160
28435	Currie	160
28436	Delco	160
28447	Ivanhoe	160
28448	Kelly	160
28451	Leland	160
28452	Longwood	160
28454	Maple Hill	160
28456	Riegelwood	160
28457	Rocky Point	160
28466	Wallace	160
28478	Willard	160
28479	Winnabow	160
28518	Beulaville	160
28521	Chinquapin	160
28540	Jacksonville	160
28541	Jacksonville	160
28542	Camp Lejeune	160
28543	Tarawa Terrace	160
28544	Midway Park	160
28545	McCutcheon Field	160
28546	Jacksonville	160
28547	Camp Lejeune	160
28555	Maysville	160
28574	Richlands	160
28582	Stella	160

North Carolina Homeowners
Proposed Territories



Pure Premium By County

County/City	Revised Territory	Current Territory	Smoothed ¹ Non-Modeled Pure Premium	Modeled Hurricane Pure Premium	Total Pure Premium
Alamance County	310	57	119.16	20.64	139.80
Alexander County	340	60	145.43	10.43	155.86
Alleghany County	360	60	107.92	7.54	115.46
Anson County	300	44	165.40	22.68	188.08
Ashe County	360	60	123.96	6.12	130.08
Avery County	370	60	150.60	5.59	156.19
Bertie County	180	45	215.47	52.14	267.61
Bladen County	230	41	186.83	82.54	269.37
Buncombe County	360	60	115.71	5.63	121.34
Burke County	360	60	127.52	7.94	135.46
Cabarrus County	320	60	165.90	16.28	182.18
Caldwell County	360	60	126.72	8.04	134.76
Caswell County	310	46	155.73	16.90	172.63
Catawba County	360	60	120.62	11.55	132.17
Chatham County	280	53	90.90	24.52	115.42
Cherokee County	390	60	114.41	3.59	118.00
Clay County	390	60	85.74	4.15	89.89
Cleveland County	350	60	141.36	11.46	152.82
Columbus County	200	41	293.51	105.39	398.90
Cumberland County	220	34	179.14	48.44	227.58
Davidson County	320	57	161.30	15.88	177.18
Davie County	310	60	142.57	13.83	156.40
Duplin County	190	45	190.59	99.12	289.71
Durham County (Durham City)	270	32	111.17	24.73	135.90
Durham County (Remainder)	270	53	111.66	24.15	135.81
Edgecombe County	210	47	156.42	51.12	207.54
Forsyth County (Winston-Salem)	310	36	126.16	13.97	140.13
Forsyth County (Remainder)	310	57	133.22	14.04	147.26
Franklin County	240	47	146.14	30.75	176.89
Gaston County	350	39	146.91	12.74	159.65
Gates County	170	45	151.17	38.05	189.22
Graham County	390	60	74.80	3.51	78.31
Granville County	260	46	107.96	23.56	131.52
Greene County	180	45	187.56	76.61	264.17
Guilford County (Greensboro)	310	36	143.07	17.05	160.12
Guilford County (Remainder)	310	57	130.13	17.14	147.27
Halifax County	240	47	170.57	31.03	201.60
Harnett County	250	47	180.86	43.91	224.77
Haywood County	380	60	139.64	4.59	144.23
Henderson County	360	60	115.85	6.42	122.27
Hertford County	170	45	142.33	38.56	180.89
Hoke County	250	47	158.66	43.41	202.07
Iredell County	340	60	131.42	14.47	145.89
Jackson County	390	60	104.49	5.83	110.32
Johnston County	240	47	117.35	46.77	164.12

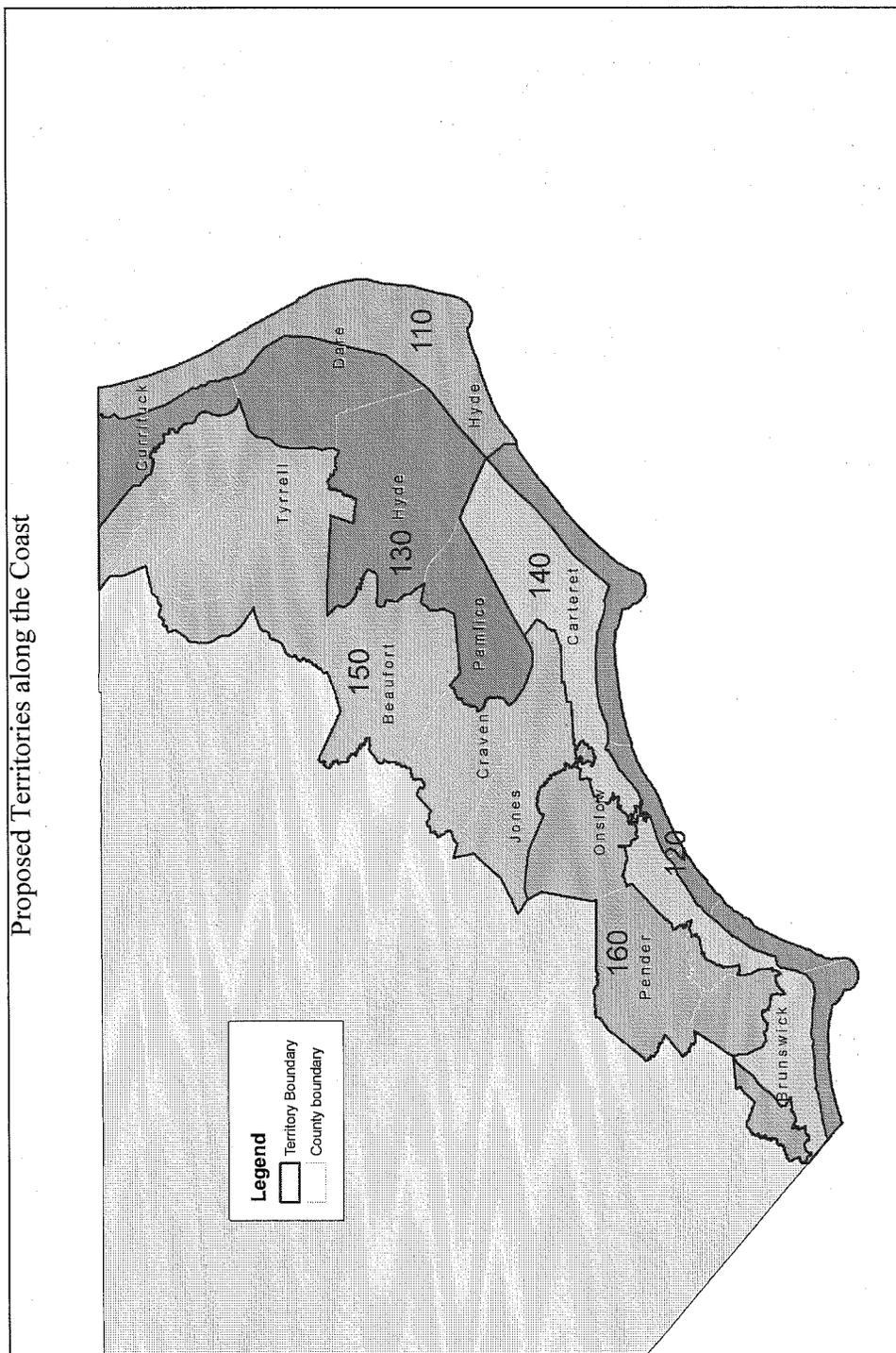
¹ Smoothed non-modeled pure premium is based on removing PCS losses and the year with highest pure premium from the 5 year average for the county.

Pure Premium By County (continued)

County/City	Proposed Territory	Current Territory	Smoothed ¹ Non-Modeled Pure Premium	Modeled Hurricane Pure Premium	Total Pure Premium
Lee County	290	47	139.22	30.08	169.30
Lenoir County	190	45	177.98	89.15	267.13
Lincoln County	350	60	150.62	13.57	164.19
McDowell County	360	60	114.63	6.34	120.97
Macon County	390	60	112.44	4.61	117.05
Madison County	380	60	139.95	4.67	144.62
Martin County	180	45	136.98	61.21	198.19
Mecklenburg County (Charlotte)	340	38	132.29	15.90	148.19
Mecklenburg County (Remainder)	340	39	120.77	15.89	136.66
Mitchell County	370	60	180.27	5.36	185.63
Montgomery County	300	44	168.13	20.57	188.70
Moore County	290	47	118.36	28.89	147.25
Nash County	240	47	121.31	45.41	166.72
Northampton County	240	47	107.04	30.58	137.62
Orange County	280	53	88.28	22.94	111.22
Person County	260	46	121.88	19.48	141.36
Pitt County	180	45	138.34	76.75	215.09
Polk County	360	60	116.46	7.32	123.78
Randolph County	320	57	154.01	19.36	173.37
Richmond County	300	44	182.55	28.37	210.92
Robeson County	230	41	187.98	64.09	252.07
Rockingham County	310	60	145.70	14.18	159.88
Rowan County	320	60	164.91	15.83	180.74
Rutherford County	350	60	144.94	8.19	153.13
Sampson County	220	45	158.39	73.49	231.88
Scotland County	250	47	226.56	43.55	270.11
Stanly County	340	60	125.91	20.42	146.33
Stokes County	310	60	145.80	11.19	156.99
Surry County	310	60	140.32	9.73	150.05
Swain County	380	60	134.70	3.80	138.50
Transylvania County	380	60	138.67	5.51	144.18
Union County	340	39	124.93	19.89	144.82
Vance County	260	46	136.90	24.94	161.84
Wake County (Raleigh)	270	32	110.21	32.25	142.46
Wake County (Remainder)	270	53	106.17	32.48	138.65
Warren County	260	46	96.01	24.87	120.88
Watauga County	360	60	129.58	5.92	135.50
Wayne County	180	45	131.72	73.96	205.68
Wilkes County	340	60	151.12	8.31	159.43
Wilson County	210	47	133.71	55.55	189.26
Yadkin County	330	57	101.83	11.82	113.65
Yancey County	360	60	96.42	5.04	101.46

¹ Smoothed non-modeled pure premium is based on removing PCS losses and the year with highest pure premium from the 5 year average for the county.

North Carolina Homeowners Proposed Territories along the Coast



Modeled Loss Cost¹ By ZIP code

ZIP Code	ZIP Name	Modeled Loss Cost	Revised Territory
28401	Wilmington	169.23	160
28403	Wilmington	286.83	140
28405	Wilmington	263.82	140
28409	Wilmington	523.39	140
28411	Wilmington	371.67	140
28412	Wilmington	380.38	140
28420	Ash	122.36	160
28421	Atkinson	107.78	160
28422	Bolivia	240.31	140
28425	Burgaw	122.86	160
28428	Carolina Beach	661.77	140
28429	Castle Hayne	152.74	160
28435	Currie	121.46	160
28436	Delco	117.18	160
28443	Hampstead	454.12	140
28445	Holly Ridge	304.37	140
28447	Ivanhoe	100.17	160
28448	Kelly	114.49	160
28451	Leland	145.74	160
28452	Longwood	124.47	160
28454	Maple Hill	121.32	160
28456	Riegelwood	123.13	160
28457	Rocky Point	138.26	160
28460	Sneads Ferry	467.28	140
28461	Southport	340.64	140
28462	Supply	356.96	140
28466	Wallace	112.37	160
28467	Calabash	232.24	140
28468	Sunset Beach	352.88	140
28469	Ocean Isle Beach	342.87	140
28470	Shalotte	262.61	140
28478	Willard	110.35	160
28479	Winnabow	155.16	160
28480	Wrightsville Beach	610.20	140
28511	Atlantic	835.63	140
28516	Beaufort	503.94	140
28518	Beulaville	112.45	160
28520	Cedar Island	916.68	140
28521	Chinquapin	108.79	160
28528	Gloucester	831.60	140
28531	Harkers Island	849.56	140
28532	Havelock	234.83	140
28539	Hubert	303.59	140
28540	Jacksonville	136.52	160
28542	Camp Lejeune	187.15	160
28543	Tarawa Terrace	140.21	160
28544	Midway Park	153.76	160

¹ Hurricane Loss Cost for HO-3 Base Exposure (Frame with \$135,000 total AOI)

Modeled Loss Cost¹ By ZIP code (continued)

ZIP Code	ZIP Name	Modeled Loss Cost	Revised Territory
28546	Jacksonville	135.57	160
28547	Camp Lejeune	151.08	160
28553	Marshallberg	821.12	140
28555	Maysville	134.47	160
28557	Morehead City	549.98	140
28570	Newport	333.93	140
28574	Richlands	110.54	160
28577	Sealevel	768.26	140
28579	Smyrna	752.78	140
28581	Stacy	703.82	140
28582	Stella	171.15	160
28584	Swansboro	380.08	140

¹ Hurricane Loss Cost for HO-3 Base Exposure (Frame with \$135,000 total AOI)

Modeled Loss Costs in Ascending Order

ZIP Code	ZIP Name	Modeled Loss Cost	Revised Territory
28447	Ivanhoe	100.17	160
28421	Atkinson	107.78	160
28521	Chinquapin	108.79	160
28478	Willard	110.35	160
28574	Richlands	110.54	160
28466	Wallace	112.37	160
28518	Beulaville	112.45	160
28448	Kelly	114.49	160
28436	Delco	117.18	160
28454	Maple Hill	121.32	160
28435	Currie	121.46	160
28420	Ash	122.36	160
28425	Burgaw	122.86	160
28456	Riegelwood	123.13	160
28452	Longwood	124.47	160
28555	Maysville	134.47	160
28546	Jacksonville	135.57	160
28540	Jacksonville	136.52	160
28457	Rocky Point	138.26	160
28543	Tarawa Terrace	140.21	160
28451	Leland	145.74	160
28547	Camp Lejeune	151.08	160
28429	Castle Hayne	152.74	160
28544	Midway Park	153.76	160
28479	Winnabow	155.16	160
28401	Wilmington	169.23	160
28582	Stella	171.15	160
28542	Camp Lejeune	187.15	160
28467	Calabash	232.24	140
28532	Havelock	234.83	140
28422	Bolivia	240.31	140
28470	Shallotte	262.61	140
28405	Wilmington	263.82	140
28403	Wilmington	286.83	140
28539	Hubert	303.59	140
28445	Holly Ridge	304.37	140
28570	Newport	333.93	140
28461	Southport	340.64	140
28469	Ocean Isle Beach	342.87	140
28468	Sunset Beach	352.88	140
28462	Supply	356.96	140
28411	Wilmington	371.67	140
28584	Swansboro	380.08	140
28412	Wilmington	380.38	140
28443	Hampstead	454.12	140

North Carolina
Homeowners

Exhibit F

ZIP Code	ZIP Name	Modeled Loss Cost	Revised Territory
28460	Sneads Ferry	467.28	140
28516	Beaufort	503.94	140
28409	Wilmington	523.39	140
28557	Morehead City	549.98	140
28480	Wrightsville Beach	610.20	140
28428	Carolina Beach	661.77	140
28581	Stacy	703.82	140
28579	Smyrna	752.78	140
28577	Sealevel	768.26	140
28553	Marshallberg	821.12	140
28528	Gloucester	831.60	140
28511	Atlantic	835.63	140
28531	Harkers Island	849.56	140
28520	Cedar Island	916.68	140

NORTH CAROLINA
HOMEOWNERS INSURANCE
REVISED "CURRENT" RATES ^{A, B}

<u>Revised Territory</u>	<u>Current Territory</u>	<u>Owners</u> ^C	<u>Tenants</u> ^D	<u>Unit Owners</u> ^D
110	7	1,613	107	106
120	8	1,823	112	113
130	48	1,021	76	83
140	52	1,187	89	85
150	49	871	72	78
160	52	1,032	75	71
170	45	570	54	52
180	45	587	54	52
190	45	632	54	54
200	41	786	56	55
210	47	489	51	42
220	34	598	64	52
220	45	598	64	52
230	41	741	56	52
240	47	484	51	42
250	47	503	51	42
260	46	398	46	44
270	32	428	44	48
270	53	428	44	48
280	53	417	40	44
290	47	470	51	42
300	44	481	50	41
310	36	369	44	39
310	46	369	44	39
310	57	369	44	39
310	60	369	44	39
320	57	357	40	34
320	60	357	40	34
330	57	383	44	39
340	38	357	46	40
340	39	357	46	40
340	60	357	46	40
350	39	344	40	34
350	60	344	40	34
360	60	336	37	34
370	60	336	37	34
380	60	336	37	34
390	60	336	37	34

(A) Revised "current" rates for newly-defined territories reflect a reallocation of the current approved rate level and do not include the rate changes proposed in other sections of Exhibit RB-1.

(B) Base Class is Protection Class 5, Frame

(C) Rates are for \$75,000 Coverage A

(D) Rates are for \$10,000 Coverage C

**Homeowners Policy Program Manual
Exception Pages**

**RULE A1.
SPECIAL STATE REQUIREMENTS**

B. Windstorm Exterior Paint And Waterproofing Exclusion Endorsement HO 32 86

Use this endorsement with all Homeowners policies in Territories 11007 and 12008.

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RULE A3.

WINDSTORM OR HAIL EXCLUSION – TERRITORIES 11007, 12008, 13048, 140, 15049 AND 52160 ONLY

- A. The peril of Windstorm or Hail may be excluded if:
1. The property is located in an area eligible for such coverage from the North Carolina Underwriting Association; and
 2. A Windstorm or Hail Rejection Form is secured and maintained by the company.
- Use Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94**.
- B. To compute the Base Premium:
1. Determine the appropriate Key Premium as described in Rule **301**.
 2. Subtract the Windstorm or Hail Exclusion credit shown on the state rate pages from the Key Premium.
 3. Multiply the Key Premium excluding Windstorm or Hail Coverage developed in Step 2. by the Key Factor for the desired limit of liability.
 4. For example:
Form **HO 00 02** Key Premium = \$1,310
Windstorm or Hail Exclusion Credit = \$1,131
Key Factor for \$100,000 = 1.109
Step 1. Determine the Key Premium
Key Premium = \$1,310
Step 2. Subtract Windstorm or Hail Exclusion
Credit from Key Premium
\$1,310 – \$1,131 = \$179
Step 3. Multiply Key Factor for desired limit
by amount in Step 2. \$179 x 1.109 =
\$198.51, round to \$199 = Base
Premium
- C. When Endorsement **HO 32 94** is attached to the policy, enter the following on the Declarations page:
"This policy does not provide coverage for the peril of Windstorm or Hail".
- D. When coverage for other specific structures or other structures rented to others is requested, refer to Rules **514.A.1.a.** and **514.A.2.a.(1)** in the state rate pages for the rates excluding windstorm or hail coverage.

**Homeowners Policy Program Manual
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**RULE A9.
WINDSTORM MITIGATION PROGRAM – ALL FORMS EXCEPT HO 00 04 AND HO 00 06**

A. Introduction

With respect to risks located in Territories 1107, 1208, 13048, 140, 15049 and 16052, premium credits shall be made available for insureds who build, rebuild or retrofit certain residential dwellings, in accordance with specified standards, to better resist hurricanes and other catastrophic windstorm events.

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RULE 302.
LOSS SETTLEMENT OPTIONS

Rule **302.** is replaced by the following:

A. Functional Replacement Cost Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only

3. Premium Computation

Develop the Base Premium in accordance with Rule **301.** for the amount of insurance selected for this option. However, if Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only.

B. Actual Cash Value Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only

3. Premium Computation

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

d. If Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049, And 16052 Only and multiply that Base Premium by the appropriate factor from Table **302.B.3.c.**

C. Special Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only

3. Premium Computation

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

- b. Develop a Base Premium in accordance with Rule **301**, for the amount of insurance computed in preceding Paragraph **a**. However, if Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3**. Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only for the amount of insurance computed in Paragraph **a**.

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RULE 303.
ORDINANCE OR LAW COVERAGE – ALL FORMS EXCEPT HO 00 08

Paragraph **B.2.a.** is replaced by the following:

B. Increased Amount Of Coverage

2. Premium Determination

a. Forms HO 00 02, HO 00 03 And HO 00 05

- (ii) If Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** applies, multiply the premium computed in accordance with Additional Rule **A3**. Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only, by the appropriate factor selected from the following table:

**Homeowners Policy Program Manual
Exception Pages**

**RULE 406.
DEDUCTIBLES**

C. Optional Higher Deductibles

3. Windstorm Or Hail Deductibles (All Forms Except HO 00 04 And HO 00 06)

When the policy covers the peril of Windstorm or Hail, the following deductible options may be used in conjunction with the deductible applicable to All Other Section I Perils.

a. Percentage Deductibles

(6) Deductible Factors

In Territories 11007, 12008, 13048, 140, 15049 and 16052 only, when the property is located in an area serviced by the North Carolina Insurance Underwriting Association (NCIUA), additional calculations must be performed to ensure that the premium credit applied to the deductible is **not** greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy.

(b) Property Is Located In Area Serviced by NCIUA

To determine if an "adjusted deductible credit" or the calculated deductible credit applies, complete each of the following steps:

- Step 1. Multiply the Windstorm or Hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only Base Credit, by the Key Factor, for the same amount of insurance used to determine the Base Premium.

b. Higher Fixed-dollar Deductibles

(6) Deductible Factors

In Territories 11007, 12008, 13048, 140, 15049 and 16052 only, when the property is located in an area serviced by the NCIUA, additional calculations must be performed to ensure that the premium credit applied to the deductible is **not** greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy.

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**RULE 406.
DEDUCTIBLES (Cont'd)**

(b) Property Is Located In Area Serviced By NCIUA

To determine if an "adjusted deductible credit" or the calculated deductible credit applies, complete each of the following steps:

- Step 1. Multiply the windstorm or hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only Base Credit, by the Key Factor, for the same amount of insurance used to determine the Base Premium.

D. Named Storm Percentage Deductible – Territories 11007, 12008, 13048, 140, 15049 And 16052 Only

- Step 1. Multiply the windstorm or hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 11007, 12008, 13048, 140, 15049, And 16052 Only Base Credit, by the Key Factor, for the same amount of insurance used to determine the Base Premium.

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**RULE 406.
DEDUCTIBLES (Cont'd)**

Territories <u>11007</u> , <u>12008</u> , <u>13048</u> , <u>140</u> , <u>15049</u> And <u>16052</u>				
Named Storm Deductible Percentage	All Other Perils Deductible Amount	HO 00 02, HO 00 03, HO 00 05 And HO 00 08	HO 00 04	HO 00 06
1%	\$ 100	1.06	-	-
	250	.97	-	-
	500	.94	.92	.91
	1,000	.89	.83	.80
	1,500	.85	-	-
	2,500	.75	.67	.62
	5,000	.64	-	-
	7,500	.59	-	-
	10,000	.55	-	-
2%	100	1.03	-	-
	250	.96	-	-
	500	.92	.91	.90
	1,000	.86	.82	.79
	1,500	.81	-	-
	2,500	.73	.66	.61
	5,000	.62	-	-
	7,500	.57	-	-
	10,000	.54	-	-
5%	100	1.01	-	-
	250	.94	-	-
	500	.90	.90	.89
	1,000	.84	.81	.78
	1,500	.79	-	-
	2,500	.71	.65	.60
	5,000	.60	-	-
	7,500	.56	-	-
	10,000	.52	-	-

Table 406.D.5. Named Storm Percentage Deductible

**Homeowners Policy Program Manual
Rate Pages**

**RULE 514.
OTHER STRUCTURES**

A. On-Premises Structures

1. Specific Structure – Increased Limits

a. Premium

Rate per \$1,000 for policies with windstorm or hail coverage – \$4

Territories 11007, 12008, 13048, 140, 15049 And 16052 Only – Rate per \$1,000 for policies excluding windstorm or hail coverage – \$2

2. Structure On The Residence Premises Rented To Others

a. Premium

(1) Rate per \$1,000 for policies with windstorm or hail coverage – \$5

Territories 11007, 12008, 13048, 140, 15049 And 16052 Only – Rate per \$1,000 for policies excluding windstorm or hail coverage – \$3
