

In The Matter Of:
Commonwealth of Massachusetts
Division of Insurance, MPIUA Rate Filings

Fair Plan Hearings
Vol. 4
July 22, 2013
Docket No. R2013-01



DORIS O. WONG
ASSOCIATES, INC.

COURT REPORTERS

50 Franklin St., Boston, MA 02110
Phone (617) 426-2432

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Volume IV
Pages 4-1 to 4-135
Exhibits: See Index

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE
DOCKET NO. R2013-01

HEARING RE:

Application of the Massachusetts Property Insurance Underwriting Association for Approval of Rate Filings, Including Rate, Rule and Form Revisions, for Homeowners Multi-Peril Insurance, Dwelling Fire, Extended Coverage, Commercial Fire and Allied Lines Insurance, Each Filing to be Effective on and after July 1, 2013, held at the Division of Insurance, 1000 Washington Street, Boston, Massachusetts, on Monday, July 21, 2013, commencing at 10:05 a.m.

BEFORE: Jean F. Farrington, Presiding Officer
Stephen M. Sumner, Presiding Officer

APPEARANCES:

Meyer, Connolly, Simons & Keuthen LLP
(by Michael B. Meyer, Esq.)
12 Post Office Square, Boston, MA 02109,
mmeyer@meyerconnolly.com -and-
Tommasino & Tommasino (by Robert C. Tommasino,
Esq., and Michael W. Reilly, Esq.)
Two Center Plaza, Boston, MA 02108,
rct@tommasino.com, for the Massachusetts
Property Insurance Underwriting
Association.

State Rating Bureau (by Mary Lou Moran, Esq.,
Thomas F. McCall, Jr., Esq., and Matthew
Mancini, Esq.) 1000 Washington Street,
Boston, MA 02118,
mary.lou.moran@state.ma.us,
thomas.mccall@state.ma.us,
matthew.mancini@state.ma.us.

(Continued on Page 4-2)

1 APPEARANCES (Continued):

2 Office of the Attorney General
3 (by Peter Leight, Esq.)
4 1350 Main Street, Springfield, MA
5 01103-1629, peter.leight@state.ma.us.

6 * * * *

7 Carol H. Kusinitz
8 Registered Professional Reporter

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I N D E X

WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS
Paul E. Erickson (by Mr. Meyer)	4-7		4-103 4-123	
(by Ms. Moran)		4-11		
(by Mr. Leight)		4-45		4-128

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E X H I B I T S

NO.		ID.	EV.
15	Graph captioned "S&P Composite of Top Reinsurance Groups: Return on Average Shareholdes' equity"		4-7
16	Information requests from the State Rating Bureau and the Attorney General's Office, 25 pages	4-10	
17	Cover letter from Paul Ericksen to Michael Meyer dated July 17, 2013, with attachments comprising documentation of Mr. Ericksen's compliance with ASOP 38	4-11	
18	Document headed "Comparison of Gross Hurricane Loss and LAE Ratios based on AIR Model, Homeowners - Owners Forms"	4-22	
19	Cover letter from Michael B. Meyer to the Docket Clerkd ated April 22, 2013, with attached revised Pages 44 and 50 to Volume II of the MPIUA filing		4-33
20	Document headed "Homeownes - All Forms Loss Adjustment Expense Ratios"	4-72	
21	Document headed "MPIUA Hurricane & Reinsurance Provisions Loaded for MPIUA Profit"	4-93	

1
2
3
4
5
6
7
8
9
10
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14
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16
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E X H I B I T S (Continued)

NO.		ID.	EV.
22	Document with columns headed "MPIUA Owners' Forms Rate Indication" and "MPIUA Owners' Forms Rate Indication With No Profit Provision"	4-94	
23	Document headed "MPIUA Surplus"	4-99	
24	Cover letter from Michael B. Meyer to the Docket Clerk dated May 9, 2013, with attached Appendix I to Mr. Ericksen's homeowners report	4-104	

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

2 PRESIDING OFFICER FARRINGTON: Good
3 morning. Today is Monday, July 22nd, and we're
4 beginning the cross-examination of witnesses with
5 the FAIR Plan.

6 Before we begin, is there anything that
7 anybody wishes to raise?

8 MR. McCALL: Yes. One procedural thing. I
9 was going through the transcript from Mr. Wackerman
10 from, I think, last week, and the transcript
11 indicates that -- in various places it says, "in,"
12 i-n "LAE ratio." It should say, "and," a-n-d, "LAE
13 ratio." So I want to correct the record on that.

14 MR. MEYER: We agree to that correction.

15 PRESIDING OFFICER FARRINGTON: Okay. Do
16 you have it marked to make it easier to --

17 MR. McCALL: I can do that and then
18 circulate it.

19 PRESIDING OFFICER FARRINGTON: Well, no.
20 I was thinking of getting replacement pages or
21 something for the transcript. Is that possible?

22 MR. McCALL: I can print out the transcript
23 and then just mark where the issue is.

24 PRESIDING OFFICER FARRINGTON: I think it

1 would be nice to have it.

2 MR. McCALL: Yes. I can do that, and I'll
3 circulate that around.

4 MR. MEYER: In any case, we agree to what
5 Mr. McCall just said.

6 One other preliminary matter?

7 PRESIDING OFFICER FARRINGTON: Yes.

8 MR. MEYER: Left over from last Monday's
9 hearing, for the record, during Mr. Leight's
10 cross-examination of Mr. Wackerman, an issue arose
11 as to why the number on Page 282 in Mr. Wackerman's
12 prose testimony was different from a number on Page
13 365, which is the underlying exhibit. The reason
14 came out that the underlying exhibit had not been
15 updated, but the number in his prose testimony had.

16 The one-page document I've just handed out
17 is the updated Page 365 of Exhibit 3, which is of
18 Volume II of the MPIUA filing. I would ask that be
19 marked as the next exhibit.

20 PRESIDING OFFICER FARRINGTON: Any
21 objection?

22 MR. LEIGHT: No.

23 PRESIDING OFFICER FARRINGTON: This will be
24 Exhibit 15.

1 (Document marked as Exhibit 15
2 in evidence)

3 MR. MEYER: That's all I have.

4 PRESIDING OFFICER FARRINGTON: This is a
5 replacement to Page --

6 MR. MEYER: 365 of Volume II.

7 PRESIDING OFFICER FARRINGTON: Okay.

8 Could you swear the witness.

9 PAUL E. ERICKSEN, Sworn

10 DIRECT EXAMINATION

11 BY MR. MEYER:

12 Q. For the record, please state your name.

13 A. Paul Ericksen.

14 Q. Please state your office address.

15 A. 545 Washington Boulevard, Jersey City, New
16 Jersey.

17 Q. And please state your professional
18 position.

19 A. My title is Principal of Actuarial
20 Consulting.

21 Q. In Volume I of the MPIUA filing, Mr.
22 Ericksen, starting at Page 16 of the filing and
23 going over to Page 473 of the filing, is that your
24 prepared direct testimony in this case?

1 A. Actually, I don't have it in front of me.

2 (Document handed to the witness

3 by Mr. Meyer)

4 Q. Again, let me repeat the question for your
5 convenience. Starting at Page 16 and going over to
6 Page 473, is that your testimony in this case?

7 A. Yes, it is.

8 Q. Do you have any corrections to that
9 testimony at this time?

10 A. No.

11 Q. Do you adopt that testimony as true and
12 accurate and as your testimony under oath here this
13 morning?

14 A. Yes.

15 Q. I'd like to show you another document, Mr.
16 Ericksen, which I've also handed out to the parties
17 this morning -- it's got 25 pages in handwritten
18 numbers down at the bottom -- and ask if those are
19 the information requests that you received from me
20 in this case.

21 A. Yes, it is.

22 Q. And to the extent these were directed to
23 you, you have answered them to the best of your
24 knowledge and belief; is that right?

1 A. That's correct.

2 MR. MEYER: Madam Hearing Officer, earlier
3 the SRB's requests were numbered as Exhibit 6. This
4 includes those requests but also includes all of the
5 AG's requests. What I would suggest is this replace
6 the earlier version of Exhibit 6, if no one has an
7 objection, or we can give it a new number if people
8 wish to.

9 PRESIDING OFFICER FARRINGTON: So this is
10 all the discovery requests that have come from both
11 the AG and the SRB?

12 MR. MEYER: That is correct.

13 PRESIDING OFFICER FARRINGTON: And you sent
14 them over to be placed in the docket earlier on, but
15 those are separate requests; is that it?

16 MR. MEYER: No. Those were this same
17 document, but because they had not been marked as
18 exhibits and had only been filed in the docket, I
19 wanted this to be marked as an exhibit, parallel to
20 Exhibit 6. So I'm offering it now into evidence as
21 an exhibit.

22 MR. LEIGHT: I have no problem if for
23 identification. I would rather we postpone the
24 question as to whether it should be in evidence

1 until later on.

2 PRESIDING OFFICER FARRINGTON: I think my
3 preference would be to mark it as the next exhibit
4 for identification, rather than as a replacement.

5 MR. MEYER: Certainly.

6 PRESIDING OFFICER FARRINGTON: So we'll
7 mark this as Exhibit 16 for identification.

8 MR. MEYER: Thank you.

9 (Document marked as Exhibit 16
10 for identification)

11 BY MR. MEYER:

12 Q. And finally, Mr. Ericksen, I show you a
13 document dated July 17, 2013, and ask you to
14 identify that document, please.

15 A. That's the ASOP 38 review documentation
16 that I had prepared for the MPIUA.

17 Q. And you sent that to me on July 17th; is
18 that right?

19 A. That's correct.

20 Q. And you filed that in response to
21 Information Request SRB 22; is that correct?

22 A. That was my understanding, yes.

23 Q. Is this document true and accurate, to the
24 best of your knowledge and belief?

1 A. Yes.

2 Q. And, briefly, what does it contain, Mr.
3 Ericksen?

4 A. It just -- it outlines, for documentation
5 purposes, my ASOP 38 review performed with regards
6 to the MPIUA rate filing.

7 MR. MEYER: I would offer this as the next
8 exhibit, Exhibit 17, please.

9 PRESIDING OFFICER FARRINGTON: Any
10 objection?

11 MR. LEIGHT: No objection for
12 identification.

13 PRESIDING OFFICER FARRINGTON: We'll mark
14 it for identification.

15 (Document marked as Exhibit 17
16 for identification)

17 MR. MEYER: Thank you. The witness is
18 available for cross-examination.

19 CROSS EXAMINATION

20 BY MS. MORAN:

21 Q. Good morning, Mr. Ericksen.

22 A. Good morning.

23 Q. My name is Mary Lou Moran, and I'm
24 representing the SRB in this matter. I believe we

1 met last year.

2 A. Yes.

3 Q. So hello again. Could I ask you to turn in
4 Volume I -- I believe you have it -- to Pages 6 and
5 7. This section is entitled "Outline of Case:
6 Similarities and Dissimilarities to Previous Rate
7 Presentations."

8 Could I ask you, on Page 7, to just -- Page
9 7 indicates that you were responsible for the
10 calculations of the expected hurricane losses, net
11 of expected reinsurance recoveries. Would you agree
12 with that?

13 A. I'm sorry. Can you repeat that.

14 Q. Sure. On Page 7 the filing indicates that
15 you were responsible or are responsible for the
16 calculations of the expected hurricane losses, net
17 of expected reinsurance recoveries.

18 A. I think that would actually have been done
19 by AIR. They would have made that calculation.

20 Q. And you would have reviewed those?

21 A. I reviewed the output. I was provided with
22 the output.

23 Q. You reviewed the output from AIR?

24 A. Correct.

1 Q. Those measures?

2 A. That's correct.

3 Q. And on this page -- and I'm really looking
4 for more of a clarification. I believe that this
5 page indicates that the outputs that you reviewed
6 were from both RMS and AIR models?

7 A. No. Actually, that might be -- I didn't
8 prepare this page. That might be a typo. I only
9 received information from AIR.

10 Q. And you did not review the RMS model
11 information in preparation of your filing?

12 A. For this rate filing, no, I did not.

13 Q. And could you tell me, what is the
14 definition of a hurricane, as the term is used to
15 determine a provision for modeled hurricane losses
16 in your rate level -- your analysis?

17 A. At a high level, I would say it's a
18 hurricane event that would have been at hurricane
19 strength when it made landfall in the United States.

20 Q. Would you agree -- should only damage from
21 storms that are classified as hurricanes at the time
22 of landfall be included, or would you say that a
23 storm that bypassed would be included as well?

24 A. I believe I've read some things that a

1 storm that is near landfall, has been earmarked as a
2 hurricane that passes nearby, that there might be
3 some peripheral damage -- obviously it's not going
4 to be as much because it's not making landfall -- I
5 think I've read someplace where those events can be
6 included also.

7 Q. If I give you this situation, what if a
8 storm is classified as a hurricane when it makes
9 landfall somewhere along the Gulf of Mexico but has
10 weakened to a tropical storm designation at the time
11 it damages property in Massachusetts, would you
12 think that should be included?

13 A. It's my understanding that that is included
14 in the hurricane model results.

15 Q. If you know, is there a definition of
16 hurricane losses in applicable Massachusetts
17 statutes?

18 A. I'm not aware.

19 Q. And is there a definition of hurricane
20 losses in the MPIUA policy forms or endorsements?

21 A. I'm not knowledgeable of a definition.

22 Q. And is there a definition of hurricane
23 losses in the reports and associated testimony
24 provided by the AIR model?

1 A. You would have to ask that expert witness
2 to testify on that.

3 Q. I'm going to refer to the Karen Clark &
4 Company report. It's entitled "Hurricane Risk
5 Assessment: Final Report." It's in Volume I, and
6 it's on Page 632, Bates stamp 632.

7 A. Okay.

8 Q. Could you tell me when you first became
9 aware of this report that we're looking at on Page
10 632 that was produced by Karen Clark & Company.

11 A. I did have a discussion with the MPIUA
12 about -- it might have been a draft version of the
13 report, I don't recall exactly -- my guess is
14 probably in the February time -- I would say in the
15 January through March period. I don't recall the
16 exact date. But I have seen it.

17 Q. And do you know what date the final report,
18 the report by Karen Clark & Company, was delivered
19 to the MPIUA?

20 A. I don't have that information.

21 Q. Are you aware if there were any preliminary
22 versions of this report by Karen Clark & Company
23 that either you or the MPIUA or their consultants
24 reviewed prior to the final version being produced?

1 A. I believe I was provided with probably a
2 draft copy.

3 Q. Would you know about when? Could you give
4 us --

5 A. I don't recall. It -- I don't recall.

6 Q. At what point in the production of your
7 final rate filing report did you first review a
8 final report by Karen Clark & Company? I don't know
9 if you have already answered that. If you have, I
10 apologize.

11 A. I don't recall whether it was before I had
12 produced my initial draft, which was maybe a month
13 before my final report. I honestly don't recall if
14 it was before I issued my draft or after, but it was
15 in that general time period, I believe.

16 Q. Within a month or two of your final report?

17 A. I would say it was probably within about a
18 month or so, is my recollection.

19 Q. And did you, at any time, use the results
20 of this report -- again, referring to the Karen
21 Clark & Company report -- to corroborate the results
22 that you prepared -- that were prepared by AIR and
23 used in your rate level indications?

24 A. We reviewed -- I reviewed the draft version

1 of her report, and I've reviewed the final report.
2 We did not use the results in any way in my actual
3 testimony, in the actual analysis.

4 I did review her methodology at a high
5 level and the results, and I felt that it produced
6 an independent -- in my opinion, the way I would
7 characterize it would be a reasonability check on
8 the results of the AIR model. And I took that into
9 consideration in terms of assessing the
10 reasonability of the AIR results, but we did not in
11 any way actually use the output from her analysis.

12 Q. Also, can you show where in the rate filing
13 or testimony provided by the MPIUA that you
14 documented that you reviewed or utilized the Clark
15 report findings to evaluate the reasonability of the
16 AIR-modeled hurricane losses in your analysis?

17 A. That would be in the July 17th ASOP 38
18 review, and in particular it would appear on Page --
19 I think it's on Page 8, the handwritten Page 8.

20 Q. Mr. Ericksen, as far as you know, what was
21 the purpose of the MPIUA in hiring Karen Clark &
22 Company to produce this report?

23 A. I don't have that information.

24 Q. Did you provide Karen Clark & Company a

1 copy of the AIR model loss reports or summaries of
2 the detailed loss files at any time prior to the
3 production of her -- of the company's final report?

4 A. I didn't provide anything to her.

5 Q. Are you aware if AIR directly provided
6 their MPIUA reports or analysis to Karen Clark &
7 Company?

8 A. I'm not aware of what they provided to her.

9 Q. Are you aware if anyone from MPIUA provided
10 the AIR loss estimates to Karen Clark & Company
11 prior to them receiving her final report?

12 A. I have no information as to that.

13 Q. Regarding the Clark report, did you review
14 the assumptions and methodologies used to develop
15 the MPIUA hurricane losses?

16 A. I had reviewed the draft report more
17 closely, and to be honest, I more skimmed through
18 the final report. But I had gone through the
19 report, yes.

20 Q. And do you have any comments as to the
21 reasonableness of the assumptions and methodologies
22 used in the Karen Clark & Company report?

23 A. I don't have any comments.

24 Q. Do you have any comments as to the

1 reasonability of the hurricane loss estimates in the
2 report?

3 A. I don't have any comments.

4 Q. And why is there no mention of any of
5 your -- unless it is there -- let me rephrase that.

6 Is there any mention of your actual review
7 of the Clark report in any of your written report or
8 direct testimony?

9 A. I say, "I have reviewed the Hurricane Risk
10 Assessment report prepared by Karen Clark."

11 Q. And you're referring to -- you're reading
12 from?

13 A. The July 17th document.

14 Q. And that's on Page --

15 A. The sentence I read was on Page 8, and the
16 first sentence of the first complete paragraph.

17 Q. Thank you.

18 PRESIDING OFFICER SUMNER: Just for the
19 record, is that Exhibit 17 that we're talking about?
20 Page 8 of Exhibit 17?

21 MR. MEYER: Yes.

22 MS. MORAN: The exhibit number is 17, yes.
23 July 17th is the date on it.

24 Q. Mr. Ericksen, on Exhibit 5, Page 1, of your

1 analysis -- I think it's Page 56 in Volume I.

2 A. Okay.

3 Q. Can you provide the name or names of the
4 hurricanes that produced the losses and the LAE
5 amounts paid by the MPIUA shown in Columns 4 and 5?

6 A. I believe that's Hurricane Irene.

7 Q. And do you have any support for the
8 selected LAE ratio for hurricane losses of 10
9 percent, other than the experience shown on this
10 page?

11 A. Well, the experience shown on the page we
12 did consider shows a hurricane LAE ratio that's
13 significantly higher than what we selected, which
14 would have resulted in a higher indicated rate
15 change. We were not compelled to use -- rely upon
16 limited experience from a single hurricane event,
17 and we judgmentally selected the same lower 10
18 percent provision that had been used in the prior
19 rate analysis.

20 Q. Do you know the date that you received the
21 AIR model AAL output that you used in the rate level
22 indications?

23 A. I don't recall the date.

24 Q. On Page -- I ask you to look at Volume II

1 of the filing. I'm in Volume II on Page 210, the
2 report that begins on Page 210 and is included as --
3 this happens to also be included as an exhibit on
4 Mr. Lalonde's testimony.

5 Did you use the data shown in this report
6 in your rate level indications?

7 A. Yes, we did. I also received -- well, the
8 actual data we used was from Excel files that they
9 provided to us, but I believe that they should be
10 consistent with the data that shows up in their
11 report.

12 Q. And what is the date that this report that
13 we're looking at on Page 210 was produced?

14 A. It just says February 2013.

15 Q. That's your knowledge. Okay. I'd like to
16 have you look at what was marked as Exhibit 6, and
17 that is the original request of the SRB for
18 discovery. I just would ask you to look at Request
19 No. 21.

20 A. Okay.

21 MS. MORAN: And I'm going to ask that we
22 mark the response from the MPIUA as the next
23 exhibit. It is entitled "Comparison of Gross
24 Hurricane Loss and LAE Ratios based on AIR Model."

1 PRESIDING OFFICER FARRINGTON: This would
2 be Exhibit 18. Any objections?

3 MR. MEYER: No objection.

4 (Document marked as Exhibit 18
5 for identification)

6 Q. Looking at the response, Mr. Ericksen, now
7 marked as Exhibit 18, do you know what this document
8 is? Can you identify it? You're familiar with it?

9 A. Yes, I produced this document. It's
10 actually -- it's an exhibit that's also included in
11 my, I guess, Exhibit 17 document.

12 And this shows projected gross hurricane
13 loss and LAE ratios underlying the current
14 homeowners rate filing, and it compares those with
15 the corresponding gross hurricane loss and LAE
16 ratios from the previous -- underlying the previous
17 rate filing that was produced in 2011.

18 Q. And what does this exhibit tell you
19 regarding the AIR model losses used in your filing?

20 A. The conclusion that we reached by looking
21 at this is that there was a general -- a relative
22 similarity, that we were not seeing the AIR model
23 output fluctuating wildly; there was a certain sense
24 of consistency.

1 In general, for most territories, there was
2 actually a slight decline. Across statewide
3 average, there was a .3 percent decline. But given
4 the fact that there's two years' worth of
5 difference, roughly, between the exposures and, you
6 know, some model revisions, we viewed that
7 relatively small difference as a comforting fact.

8 Q. Mr. Ericksen, is what you've been
9 discussing the only reasonability test that you
10 performed when you reviewed the AIR model losses?

11 A. I think we did some other comparisons, but
12 they were more ad hoc. We didn't -- it wasn't
13 formal documents that were retained.

14 Q. And if I could ask you to look at -- I may
15 need you to look at Volume II, so if you want to
16 keep that, that's fine. But I would ask you to look
17 at your recently marked ASOP 38, and on Page 7, the
18 page I think we were looking on, you discuss your
19 review of the hurricane risk assessment report
20 prepared by Karen Clark & Company for the MPIUA; is
21 that correct?

22 A. I think that specifically appears on Page
23 8, but --

24 Q. Starting on 7 and going over to 8, I'm

1 sorry, and more detail on 8.

2 A. That's correct.

3 Q. And when did you review the Karen Clark
4 report?

5 A. It would have been when I received it.
6 Offhand, I don't recall. It was probably in the
7 February or March time period.

8 Q. And did you only review the final results
9 shown on Page -- go to Volume I, if you would --
10 Page 666.

11 A. I'm there. Can you repeat the question.

12 Q. Sure. I'm the one who's behind a bit here.
13 In looking at Page 666, did you review the final
14 results shown on this page in the box at the bottom
15 of the page?

16 A. I did review the results.

17 Q. And did you only review the final results
18 shown on Page 666?

19 A. No. What I had reviewed -- now this is,
20 again -- this would have been probably a month -- it
21 was the version that I had been provided, so it
22 might have been an earlier draft. I had actually
23 read through the full report, and I was aware of the
24 methodology. So I reviewed more than simply the

1 number.

2 Q. Would that be the complete detail of
3 everything that you reviewed in this report?

4 A. I didn't -- I read through the whole
5 report. I read through the description of the
6 methodology. I actually replicated some of the
7 calculations, because -- you know, I read the
8 formulas and the methodology, and to gain a certain
9 comfort level, I actually took some of the numbers
10 in her report, replicated them, to make sure that I
11 understood the methodology that she was using. I
12 was able to document her calculations, to gain an
13 understanding.

14 So it was more than simply looking at a
15 number. I did go through the calculations and the
16 underlying methodology.

17 Q. And based on your review, is it your
18 opinion that the relative similarity of the gross
19 and net hurricane loss estimates between the Clark
20 and the AIR report demonstrates that the AIR loss
21 estimates have been independently found to be
22 actuarially sound, accurate and reliable for use in
23 the MPIUA filing?

24 A. The way I would characterize it is, she did

1 it -- she had her own set of assumptions and her own
2 set of methodology, independent of AIR -- I believe
3 a reasonable set of assumptions, but those were her
4 assumptions. And that independent approach -- I
5 don't think she's making any opinion, expressing any
6 opinion about the AIR model. She is developing her
7 own independent set of calculations, which I had
8 reviewed.

9 And I believe that that corroborates -- it
10 generally produces an estimate of average annual
11 hurricane losses that is similar -- her report
12 actually shows a little bit higher, but I would say
13 in the same general ballpark as what the AIR model
14 produces. So that would be my response to that
15 question.

16 Q. And if you could look in Volume I at Pages
17 numbered 637 -- we're going to be looking at 637
18 through 642. Does the exposure used in the Clark
19 report reconcile to the data used in the AIR report?

20 A. That's something I did not reconcile. I
21 don't recall checking that.

22 Q. Looking at Page 646, can you tell us the
23 experience period that Clark used to evaluate
24 historical hurricane losses on the MPIUA exposure?

1 A. Maybe you can direct my attention to
2 what -- on Page 646.

3 Q. One moment. Mr. Ericksen, if I could ask
4 you to direct your attention to the second-to-the-
5 last paragraph, and I think we're looking for when
6 did this data -- what date would you say this
7 started?

8 A. I don't know what you mean by "this."

9 Q. Since 1900, the data on --

10 A. I thought you were talking about MPIUA
11 data. That's not mentioned here.

12 Q. Let me look at the question again. We're
13 asking what Clark -- I'm sorry. What I meant to ask
14 you was, what hurricane period did Ms. Clark and her
15 company look at in analyzing the hurricane data?
16 What was the period?

17 A. If you would like, I could read the
18 sentence from her report.

19 Q. That would be great.

20 A. The first sentence of the paragraph that
21 you directed me to simply says, "Meteorological data
22 on the landfalling hurricanes since 1900 is
23 available from several sources, but because there
24 are discrepancies between the different sources,

1 judgment is required to select the most reliable
2 parameters for each storm."

3 Q. And would you agree that the Karen Clark &
4 Company report looked at hurricanes between 1900 and
5 2012, if you know?

6 A. I'm not sure if you can draw that
7 conclusion from that sentence.

8 Q. Do you have any idea how many hurricane
9 seasons the Clark report reviewed?

10 A. It's not specified in that sentence,
11 certainly. I don't have that information. You
12 would have to ask her.

13 Q. I propose that if the Karen Clark & Company
14 report looked at hurricanes seasons between 1900 and
15 2012, would you agree that that would be about 113
16 hurricane seasons between 1900 and 2012?

17 A. So you're asking if that's what she looked
18 at?

19 Q. If that was.

20 A. So you're asking me if I take 2012 and
21 subtract 1900, I would get 112 or 113 years. That's
22 what arithmetic would show.

23 Q. Thank you. How many hurricanes does the
24 Clark report include in the historical record of

1 hurricanes that impacted Massachusetts?

2 A. I don't have that information.

3 Q. If I could direct you to Pages 647 through
4 661 in Volume I. Take a moment. Take your time.

5 A. (Reviewing document) Okay. What was your
6 question?

7 Q. How many hurricanes does the Clark report
8 include in the historical record of hurricanes that
9 impacted Massachusetts? Basically, how many
10 hurricanes did the Karen Clark report look at?

11 A. (Reviewing document) Well, she shows
12 information for selected hurricane events. She has
13 the 1938 Great New England, the 1944 unnamed 07,
14 1954 Carol, 1954 Edna, 1960 Donna, 1985 Gloria, 1991
15 Bob. I don't know whether there were other things
16 she looked at.

17 Q. Would you agree that that's seven that you
18 have just gone through?

19 A. I believe it was.

20 Q. Can you calculate the annual frequency of
21 hurricane events as presented in the Clark report of
22 hurricanes impacting Massachusetts?

23 A. Well, I'll just take a step back. These
24 are the hurricanes that she is showing specific

1 information for. I'm not commenting one way or the
2 other as to whether she looked at other events.
3 These are things that she documented in her report.
4 So maybe she looked at less, maybe she looked at
5 more. These --

6 Q. Based on what she has -- I'm sorry. I
7 didn't mean to interrupt.

8 A. If you want me to do the calculation that
9 you asked me to do, I can do.

10 Q. Based on the seven that the Karen Clark
11 report lists, the seven hurricanes --

12 A. Just taking seven --

13 Q. -- just taking the seven that were outlined
14 in the report, can you calculate the annual
15 frequency of hurricane events that impacted
16 Massachusetts. Take your time.

17 A. (Calculating) Just the seven storms that
18 are just shown here, 7 divided by 113 is .062.

19 Q. And if you reverse that calculation, Mr.
20 Ericksen, can you tell us on average how often a
21 hurricane event impacts Massachusetts, based on
22 that calculation?

23 A. Based upon a very limited 113-year time
24 period -- 113 divided by 7, 16.1.

1 Q. 16.1 years?

2 A. Yes.

3 Q. And based on the definition of "hurricane"
4 you described earlier for use in this filing, should
5 the MPIUA's losses due to Hurricane or Superstorm
6 Sandy that made landfall in late October of 2012 be
7 classified as hurricane losses in the future?

8 A. To the extent that they have losses from
9 Sandy, which they did, yes, that would be classified
10 as a hurricane, yes.

11 Q. And how about Irene in 2011 as it relates
12 to Massachusetts?

13 A. Yes, that's a hurricane event.

14 Q. Could you turn to Page 666 or back to Page
15 666 in Volume I. Looking at the box at the bottom,
16 the boxed area, it says, "Average Annual Loss
17 Estimates." That is shaded.

18 What do the numbers at the bottom of the
19 page in the shaded box represent? I'm talking about
20 the numbers next to the word "Gross" and next to the
21 words "Net of Reinsurance."

22 A. "Gross" would be the average annual gross
23 hurricane losses. That's just losses, no LAE. It's
24 before the application of reinsurance. And "Net of

1 Reinsurance," it would be the average annual loss
2 and LAE, in this case after reinsurance, net of
3 reinsurance. And she has a footnote that documents
4 that the net number includes LAE.

5 Q. And are those estimates of the hurricane
6 losses and the LAE that are intended to corroborate
7 the AIR model losses used in the MPIUA filing -- I'm
8 sorry. Are these the estimates of hurricane losses
9 and LAE that are intended to corroborate the AIR
10 model losses used in the MPIUA filing?

11 A. Those are the numbers that I referenced in
12 my ASOP 38 review.

13 Q. And can you cite, from the filing
14 materials, the gross hurricane loss and net
15 hurricane loss and LAE that were produced by the AIR
16 model and used in your report? I can break that
17 down for you.

18 A. I'm referring to my July 17th document,
19 because it's handy there.

20 Q. That's fine.

21 A. The AIR gross average annual hurricane
22 losses is \$37.5 million, and the net average annual
23 hurricane loss and LAE is \$26.9 million -- oh, no.
24 I'm sorry. That was Karen Clark. The AIR number is

1 \$25.2 million.

2 Q. And what is your conclusion regarding the
3 results of the Clark & Company report and the AIR
4 results used in your filing?

5 A. My opinion is that they fall within a
6 relatively similar magnitude.

7 MS. MORAN: I have a letter from Attorney
8 Meyer dated April 22nd, and attached to that are two
9 replacement pages that would go as part of Mr.
10 Lalonde's testimony. I would ask at this time this
11 be marked as an exhibit.

12 MR. MEYER: No objection. This is a
13 document, just for the record, that we would have
14 marked when Mr. Lalonde would be here, but we have
15 no objection to it being marked now.

16 PRESIDING OFFICER FARRINGTON: Exhibit 19.
17 (Document marked as Exhibit 19
18 in evidence)

19 Q. Mr. Ericksen, if you could look on Exhibit
20 19 that I just handed you, Page 44R. Looking at the
21 table, what information is included regarding this
22 stochastic storm set used in the AIR model?

23 A. I don't see a table.

24 Q. I'm sorry. If you look at -- if we start

1 on Page 44R and read the last sentence.

2 A. The last sentence says, "The following
3 table provides further details on the stochastic
4 damage estimates for the MPIUA book by
5 Saffir-Simpson Category as defined by wind speed."

6 Q. And then if you look at Page 45, the
7 regular 45 --

8 A. What page is that?

9 Q. That's Volume II, 45.

10 A. Do you know what stamped number?

11 Q. It's stamped 45. It's just the regular 45
12 as opposed to a replacement.

13 A. Okay.

14 Q. If you look at the table on 45, Page 45,
15 what information is included here regarding the
16 stochastic storm set used in the AIR model?

17 A. It shows average annual losses, frequency
18 and severity by Saffir-Simpson.

19 Q. And under the column labeled "Frequency,"
20 what is the total figure?

21 A. .1648.

22 Q. And how often on average should a hurricane
23 impact the MPIUA book of business, based on that
24 total frequency?

1 A. I'm not sure -- say that question again.

2 Q. Looking at the total frequency figure of
3 .1648, how often on average should a hurricane
4 impact the MPIUA book of business?

5 A. In 100 years, it would say 16.48 times.

6 Q. So what would the average interval be
7 between storms?

8 A. It would take 1 divided by that number.
9 (Calculating) 1 divided by .1648 is 6.1 years.

10 Q. And would that apply also to Saffir-Simpson
11 Scale storms falling into Category 0 through 5, that
12 they would also occur at the same frequency or
13 intervals?

14 A. That number I referred to is from a table
15 that had information from the Saffir-Simpson Scale
16 from 0 to 5.

17 Q. So you would agree?

18 A. That's what the table would suggest.

19 Q. And do you know the historical time period
20 that the AIR model used to develop the event
21 generation of simulated storms?

22 A. I have read it. I don't recall the exact
23 time. It's generally from the 1900 time period. I
24 don't recall the exact date.

1 Q. Could I ask you, Mr. Ericksen, to turn to
2 Page 14 in Volume II.

3 A. Okay.

4 Q. And looking under Question 30, if you could
5 look down in the answer to 30 and read beginning
6 with the word "We."

7 A. Yes, I see.

8 Q. Could you read that sentence, please.

9 A. "We currently rely primarily on the 1900 to
10 2008 historical period because the record is more
11 accurate post 1900."

12 Q. And how many years does that entail, that
13 period?

14 A. 2008 minus 1900 would be 108. So 109
15 years.

16 Q. Can you tell me what a Category 0 hurricane
17 is?

18 A. I don't have that information. It's
19 according to the Saffir-Simpson Scale.

20 Q. And do you know, from your review of the
21 Karen Clark report, if any Category 0 hurricanes
22 were included in that?

23 A. I don't know, and that would make it -- so
24 the comparison for me, it would be hard for me to

1 draw a comparison between the numbers from those two
2 sources.

3 Q. If I could ask you to look at Volume II,
4 Page 51. If you notice the table marked "MPIUA
5 Hurricane Losses," there is a Category 0 with a
6 footnote?

7 A. Yes.

8 Q. Could you read the footnote.

9 A. Okay. It says, "Bypasser hurricanes are
10 listed as Category 0 in the table above."

11 Q. Based on that clarification or definition,
12 do you know if the Karen Clark & Company report
13 included any Category 0 or bypasser storms in the
14 report?

15 A. I don't recall. Based on my review of the
16 report, I don't recall.

17 Q. Do you believe that Category 0 hurricanes
18 should be included in the MPIUA rate analysis?

19 A. From my perspective, it's simply a matter
20 of -- it is part of their model output. As to
21 whether -- so you're asking me the question whether
22 it should be or not? If these are events that
23 resulted in -- or if these types of events could
24 result in hurricane losses, I would think it's

1 appropriate to account for it.

2 Q. And could you turn to Page 48. At the top
3 of the page, according to Mr. Lalonde, how many
4 hurricanes made landfall during the historic period?
5 It's just at the very beginning. If you could read
6 that sentence.

7 A. At the very top of Page 48?

8 Q. The top of Page 48.

9 A. Well, the first sentence on Page 48 at the
10 top says, "Nine of the eleven storms making landfall
11 in the Northeast (New Jersey to Maine) during the
12 historical period made landfall in Long Island,
13 Massachusetts, Connecticut or Rhode Island."

14 Q. And the next sentence?

15 A. "The two storms that made landfall in New
16 Jersey and Maine did so as a Saffir-Simpson
17 Categories 1 and borderline Category 1-2 level storm
18 respectively."

19 Q. So would you agree that, according to Mr.
20 Lalonde, 11 storms made landfall during the
21 historical period?

22 A. That's what it would imply.

23 Q. Does the net hurricane average annual loss
24 used in the rate filing include the impact of demand

1 surge?

2 A. It's my understanding that demand surge is
3 included.

4 Q. And did you quantify the impact of
5 including demand surge on the net hurricane average
6 annual losses?

7 A. I was never provided with any model output
8 that excluded demand surge, so I could not isolate
9 the marginal impact of demand surge.

10 Q. Does Mr. Lalonde's testimony or exhibits
11 address the question of the inclusion or exclusion
12 of demand surge in the MPIUA's net hurricane average
13 annual losses?

14 A. My recollection, when I read Mr. Lalonde's
15 testimony, is that he did say demand surge was
16 included. I think he also said that the modeling
17 was only done using demand surge, so he wasn't in a
18 position to quantify the magnitude. But I think his
19 testimony included a general statement about the
20 impact of demand surge generally.

21 Q. Could I ask you to turn to Page 58, Mr.
22 Ericksen, and could I ask you to look at -- it's
23 Question 95 and then the answer to that. Could you
24 please read into the record the first full sentence

1 under the answer. It begins with "The MPIUA."

2 A. "The MPIUA 2013 CLAS report modeled losses
3 with demand surge. While" -- just that one
4 sentence?

5 Q. The second one too. I'm sorry.

6 A. "While it is impossible to quantify the
7 exact impact of demand surge without performing
8 additional analysis runs excluding demand surge,
9 AIR's industry estimates in Massachusetts indicate a
10 statewide average increase of roughly 5 to 19
11 percent when demand surge is applied."

12 Q. So according to Mr. Lalonde, would
13 including only a 5 percent demand surge adjustment
14 to the modeled loss be a reasonable estimate?

15 A. I would say no, without knowing additional
16 information.

17 Q. Mr. Ericksen, do you have an opinion as to
18 what a reasonable demand surge would be?

19 A. Well, I think Mr. Lalonde's testimony is
20 actually pretty good on this, because he says that,
21 on average, it's expected to be 5 to 19 percent.
22 But then it goes on to say, "While the exact impact
23 on the MPIUA portfolio may be outside this range, it
24 is expected that the demand surge would have a

1 similar magnitude impact to the MPIUA portfolio."

2 It's my understanding that the provision
3 can vary by territory. So the specific provision, I
4 think, is really dependent upon the specific
5 exposure characteristics of the MPIUA.

6 Q. And why do you believe it is reasonable to
7 assume demand surge will impact Massachusetts
8 hurricane losses?

9 A. Demand surge is a basic economic principle.
10 I think it would affect Massachusetts just like it
11 would affect any other state.

12 Q. I would like to ask you to go to Volume I,
13 Page 19. You state that your analysis was guided by
14 the applicable Actuarial Standards of Practice?

15 A. That's correct.

16 Q. Can you please state for the record which
17 ASOPs were applicable to this analysis.

18 A. I don't have the full list with me, but
19 there are ones on trend, expenses, credibility, data
20 quality, using models outside of an actuary's
21 expertise. I mean, there are others.

22 Q. And you were guided in those areas by --

23 A. We -- I would have taken into consideration
24 the suggested practices within those standards of

1 practice.

2 Q. If we could look -- if I could have you
3 direct your attention to the ASOP filing that we
4 just marked as an Exhibit 17, I believe. On Page 8,
5 could you read the third full paragraph.

6 A. It says, "I have reviewed output from the
7 AIR hurricane model and considered the consistency
8 and reasonableness of various output results. I
9 have also considered the sensitivity of the model
10 output to variations in the user input by comparing
11 the model output for different values associated
12 with several of the input variables."

13 Q. Can you show us where in the filing you
14 have documented the analysis you described in which
15 you considered the sensitivity of the model output
16 to the variations in the user input?

17 A. I don't have any exhibits with that. I
18 don't have any formal exhibits.

19 Q. What variables did you test in the user
20 input?

21 A. My recollection is that we had merged the
22 exposure file with the model output, and we looked
23 at relationships for a handful of the different
24 exposure fields. We had -- I think there was

1 construction type, deductible type. There were a
2 limited number, but the different exposure fields
3 that we had, we compared some results.

4 Q. How did you determine the various
5 alternative values associated with each input
6 variable that you tested?

7 A. We looked to see that things had the
8 general relationship that you would expect to see:
9 more highly protected structure, a masonry structure
10 versus a frame structure; higher deductibles, the
11 results should be different; geographical region.
12 And things fell into the right pattern. If
13 something looked like -- if we expected it to be
14 generally higher, it was generally higher.

15 Q. And what was the date or dates you
16 performed this sensitivity analysis?

17 A. I don't recall.

18 Q. I'm going to ask you to turn in Volume I to
19 Page 10. Three quarters of the way down the page,
20 beginning -- the paragraph beginning with, "Fifth,"
21 could you please explain the problem you have tried
22 to address with your change in methodology with
23 respect to allocating estimated non-hurricane
24 catastrophic losses to territories.

1 A. Let me first read -- do you want me to just
2 read it to myself or out loud or --

3 Q. You could read it out loud.

4 A. I'll read the paragraph. "Fifth, the
5 methodology used for allocating estimated
6 non-hurricane cat losses to territories has been
7 modified somewhat in response to issues raised by
8 other parties. Non-hurricane cat losses are
9 allocated to territory groups by taking average
10 non-hurricane cat loss to TIV ratios over the last
11 13 accident years (the most data the MPIUA has for
12 non-hurricane cat losses by territory) and using
13 those 13 year average ratios in the allocation."

14 Q. Mr. Ericksen, it may be easier if I just
15 rephrase. If you could address the issues that you
16 were trying to address by the change in methodology.

17 A. Yes. My recollection is that after last
18 year's filing was submitted, the 2011 filing, the
19 previous filing, was submitted, a question had come
20 into the MPIUA, and I don't know who, but a question
21 had come into the MPIUA I think asking the general
22 question as to whether it was appropriate to have --
23 to use one single non-hurricane cat provision for
24 the whole state. And I think the question was

1 probably more geared towards Territory 37, the
2 Coastal, whether that should have higher or lower
3 than statewide average.

4 So I think that was the general issue that
5 we wanted to address, to investigate whether it
6 would be appropriate to vary that provision
7 throughout the state, and that was our objective.
8 And we believe that it did make a refinement and an
9 improvement to the analysis.

10 MS. MORAN: Thank you, Mr. Ericksen.

11 PRESIDING OFFICER FARRINGTON: Would you
12 like a short break before Mr. Leight begins his
13 cross-examination?

14 THE WITNESS: I'm good for now.

15 MR. LEIGHT: That's fine.

16 CROSS EXAMINATION

17 BY MR. LEIGHT:

18 Q. As part of your review, Mr. Ericksen, of
19 the hurricane losses in the filing, is demand surge
20 one of the elements that ASOP 38 requires you to
21 consider?

22 A. I don't think it would require
23 consideration.

24 Q. And in the context of your review of

1 hurricane losses, did you actually review demand
2 surge in the AIR model?

3 A. I did not review anything specific to
4 demand surge, no.

5 Q. But if I understood your answer to Ms.
6 Moran's question, you believe that 5 percent demand
7 surge value was not reasonable; is that right?

8 A. My response was I didn't think it was
9 reasonable unless I had additional information.

10 Q. Okay. Did you think it was unreasonable,
11 or you just don't have any opinion?

12 A. Well, David Lalonde's testimony stated that
13 the appropriate provision depends upon the specific
14 characteristics of the MPIUA book of business. So
15 the inherent provision that's built in, David
16 Lalonde expects it to fall within the 5 to 19
17 percent range. He also says it could fall outside
18 of that range.

19 5 percent is within the range of what he
20 expects it would be for the industry, but I think --
21 my interpretation of his testimony is that the right
22 number is the right number for the MPIUA's book of
23 business. Maybe it's 5 percent, maybe it's less
24 than 5 percent, maybe it's more than 5 percent.

1 Q. What if it turns out that the demand surge
2 value in the AIR model for the MPIUA book of
3 business is 20 percent? Is that unreasonable?

4 A. Well, he said it could fall outside of that
5 range. So I wouldn't say that that's unreasonable.

6 Q. Well, I'm not asking you whether it could
7 or couldn't fall outside of the range, but whether,
8 if it does fall outside of that range, it's
9 reasonable or unreasonable. Do you have an opinion
10 on that?

11 A. I would say -- I don't think that he's
12 making the statement that the 5 to 19 is the range
13 of reasonable values. In fact his testimony says it
14 could fall outside of that range.

15 Q. And if it did fall outside that range, in
16 your view, it would be reasonable?

17 A. Yes, it would.

18 Q. And is there any way of determining, from
19 the model, what the actual value is?

20 A. My understanding is that it would be
21 possible, but it would require running the model
22 excluding demand surge and then comparing the
23 results.

24 Q. And how would one do that?

1 A. I think it would involve just simply
2 rerunning the model. It would be the same -- it
3 would simply rerun the model, but sort of turning
4 off the switch that says, "Do you want to include or
5 exclude demand surge?" You would just run it
6 excluding demand surge.

7 Q. So if you or I, an independent source, had
8 the model, that number could be determined?

9 A. I believe so.

10 Q. But as far as you know, that number has not
11 been determined for this filing?

12 A. I have not seen it at all. I'm not aware
13 that it has been previously determined.

14 Q. Can you tell us what a loss trend is.

15 A. A loss trend -- well, it's usually
16 expressed -- like, an annual loss trend, it would be
17 the annual rate of change that one would expect
18 losses would change by.

19 Q. And what about a premium trend?

20 A. Similar concept. It would be the annual
21 rate of change that one would expect premiums could
22 change.

23 Q. And why do premiums have a trend?

24 A. Well, the most common reason would be that

1 people would buy -- would change the amount of
2 insurance that they purchased. Maybe the Coverage A
3 limit would change over time, inflationary
4 influences. Maybe they bought a policy with
5 \$100,000 this year. Next year maybe they'll buy a
6 \$105,000 policy. And that would cause premiums to
7 increase, if they bought more coverage.

8 Q. What about house valuations? Does that
9 affect premium?

10 A. It could.

11 Q. How does the value of the house affect
12 premium?

13 A. Well, if the value of the house -- all else
14 equal, if the value of a house increased, you would
15 want -- it would be reasonable to expect a
16 policyholder would want to have coverage for the
17 value of their house. So if the value of the house
18 went up, one would expect that, on average, people
19 would buy more insurance.

20 Q. So in terms of the premium trend over time,
21 if house values generally are rising, you would
22 expect to see premium rise; is that right?

23 A. I think that's a reasonable conclusion.

24 Q. And the premium trend is independent of any

1 changes in rates; is that correct?

2 A. It depends how you measure the change in
3 premiums. If someone -- if rates increased, that
4 can increase the average premium. But we account
5 for that in our -- in our rate analysis, we account
6 for that change in premiums differently than what we
7 define as premium trend.

8 Q. So when you deal with premium trend, you're
9 dealing with a trend that's independent of any
10 changes in the rate?

11 A. That's correct.

12 Q. Is it correct that the rate need in the
13 filing is based on the assumption that rates will be
14 in effect for the annual period beginning 7/1/2013?

15 A. That's correct.

16 Q. And if you turn to Page 67 of the filing,
17 this page deals with the premium trend, correct?

18 A. That's correct.

19 Q. And can you tell us how the annual period
20 is reflected on this page.

21 A. I'm sorry. Can you repeat the question.

22 Q. Let me rephrase it. Can you explain to us
23 how the fact that the MPIUA rate filing will be in
24 effect for the year beginning 7/1/2013 is reflected

1 in the premium trend.

2 A. Well, we consider the number of years that
3 we're trending the premium, and we trend to a date
4 that's six months after the assumed effective date.
5 So the effective date is July 1st. There will be
6 policies written over a one-year time period. So on
7 average, the average policy will be written six
8 months after that date. So we trend to an average
9 effective date of January 1, 2014.

10 Q. So that assumes that policies are written
11 kind of randomly over the course of the year and you
12 trend to the midpoint of the year beginning
13 7/1/2013?

14 A. That's correct.

15 Q. And if you turn to Page 80, which is the
16 calculation of the loss trend factor, can you also
17 explain to us here how the policy year is taken into
18 account.

19 A. It's a similar concept. We assume the
20 average effective date of July 1, 2013. We assume
21 that the average policy will be written six months
22 after -- the average policy will be written six
23 months later, which is January 1, 2014, and the
24 average policy lasts for one year. So we assume

1 that the average accident date will be six months
2 after the effective date of the policy, which is a
3 total of one year after the effective date of the
4 filing. So we're trending to July 1, 2014.

5 Q. Now, if rates were going to be in effect
6 for more than one year, the premium projection
7 factor and the loss trend factors would be different
8 numbers, because you would be trending over a
9 different time period, correct?

10 A. That's correct.

11 Q. Do you know whether the MPIUA has a present
12 intention to file new rates for the period beginning
13 July 1, 2014?

14 A. I have not discussed that with them.

15 Q. Is it correct that if new rates are not
16 filed effective July 1, 2014, the trends in the
17 filing will produce a rate that is inaccurate?

18 A. Our analysis is calculating rates that
19 would be in effect for a one-year time period
20 starting July 1st. We're not making any opinion
21 about rates beyond that time period.

22 Q. Is that because you don't have an opinion
23 or just because the filing is based on a one-year
24 period?

1 A. My opinion is based upon the analysis that
2 we performed. And the analysis -- we're making an
3 opinion about rates that will be in effect during
4 that time period.

5 Q. Can you define for us the term "total
6 insured value."

7 A. It can be defined differently, but I think
8 the classical definition would be the sum of the
9 coverage limits for Coverage A, B, C and D, for a
10 homeowners policy at least.

11 Q. What about the term "non-hurricane
12 catastrophe"? What does that mean?

13 A. Again, it can mean different things to
14 different people, and I've seen different companies
15 define it differently. It would generally be an
16 event that causes losses to more than just one or
17 two policies. It's an occurrence that is impacting
18 multitudes of policies and that generally results in
19 a nontrivial amount of losses, something more than
20 some minimal threshold.

21 Q. And do you know what the minimal threshold
22 for a non-hurricane catastrophe is?

23 A. Again, it could depend upon -- it could be
24 a company-specific issue.

1 Q. What is it for the MPIUA?

2 A. I believe the MPIUA uses the Property Claim
3 Services, uses events that they classify as
4 catastrophes. So I think that they will assign a
5 catastrophe -- or an occurrence or a catastrophe
6 based upon events that the Property Claim Services
7 has earmarked as being a catastrophe.

8 Q. And what is the Property Claim Services?

9 A. It's an organization that collects and
10 publishes data related to -- they do publish and
11 collect data related to catastrophes. I don't
12 recall all their services. They are actually a
13 subsidiary of the organization I work for.

14 Q. And why would one rely on their particular
15 measurement? Is that the standard in the industry?

16 A. It is widely used and recognized within the
17 industry.

18 Q. Do you know of any other service that
19 collects this kind of data apart from PCS? PCS is
20 what Property Claim Services calls itself, correct?

21 A. Correct. Am I aware of other organizations
22 that do similar -- I have definitely seen things in
23 the news and things reported from entities that are
24 not Property Claim Services, so I'm sure that there

1 are other entities that do that. I'm not familiar
2 with them.

3 Q. Are losses generally a function of total
4 insured value?

5 A. They will be influenced by total insured
6 value.

7 Q. All else equal, lower total insured value,
8 lower losses; higher total insured value, higher
9 losses?

10 A. All else equal, yes.

11 Q. For non-hurricane catastrophe losses, you
12 assume a constant relationship between total insured
13 value and losses; is that right?

14 A. That's correct.

15 Q. And can you explain to us why.

16 A. Well, when coming up with the provision for
17 non-hurricane catastrophe losses, what we need to do
18 is we need to measure that expected hurricane loss
19 against some form of an exposure base. You could
20 use earned house-years. You could use different
21 measurements.

22 In fact many years ago, several years ago,
23 we actually used a different base. We used
24 non-hurricane losses -- or non-catastrophe losses,

1 I'm sorry, as the base. We related non-hurricane
2 catastrophe losses to non-catastrophe losses, and we
3 looked at that as a constant rate.

4 Actually I believe it was the SRB that
5 had -- their expert witness a number of years ago
6 commented that they thought that approach wasn't
7 good because it added in some added variability. My
8 recollection, it was Mark Brannon, I think the
9 actuary that they had, recommended to use total
10 insured value as the base.

11 We considered it between filings, and we
12 actually thought that was a good comment, and we
13 incorporated that into the analysis. Like I said,
14 ultimately what we need to do is select an exposure
15 base to measure, and we believe that total insured
16 value was appropriate.

17 Another reason that we considered that was
18 that we needed to have an exposure base that can go
19 back many years, over ten years. In this case we're
20 using 13 years. In the past we used 20 years. So
21 we would need to have a exposure base that is
22 available over that time period, and total insured
23 value is one of those bases that was available.

24 Q. Is it correct that a nor'easter that has

1 wind speed of 74 miles an hour would be considered a
2 non-hurricane catastrophe?

3 A. If the cutoff is 75 miles, and it's one
4 degree below, it would be a non-hurricane
5 catastrophe.

6 Q. But if you have a storm like Irene that
7 might have been a hurricane down South but has wind
8 speeds of, say, 50 when it hits Massachusetts,
9 that's considered a hurricane catastrophe, right?

10 A. For the purpose of this rate analysis and
11 for the purpose of modeling, that's correct.

12 Q. And is that the way PCS gathers its data as
13 well?

14 A. I believe it's generally consistent. If it
15 was a hurricane at some point in time when it made
16 landfall, they would earmark it as being a
17 hurricane, I think, generally, yes.

18 Q. So there may be -- when the storms are
19 actually in Massachusetts, there may be not all that
20 much difference between a hurricane and a
21 non-hurricane catastrophe?

22 A. That's correct.

23 Q. Are you familiar with the concept of
24 excessive rates?

1 A. Generally, yes.

2 Q. What does that mean, as you understand it?

3 A. I would say an excessive rate would be a
4 loss that's in excess of an expected loss amount or
5 fall outside the range of what the average expected
6 value of costs would be.

7 Q. Is it true that rates can be excessive on a
8 statewide level and also on a territorial level?

9 A. Is it possible for it to be on a statewide
10 and a territorial level?

11 Q. Can it be correct on a statewide level but
12 incorrect on a territorial level?

13 A. You could have that.

14 Q. And vice versa; it can be correct
15 territorially but --

16 A. You could have those types of situations.

17 Q. Is it correct that, assuming that all other
18 aspects of the rate are set correctly, a loss
19 provision in rates that is higher than expected
20 losses produces an excessive rate?

21 A. As part of my response, I said fall outside
22 of a reasonable range. So simply falling above
23 maybe the expected central estimate, I'm not sure if
24 that by itself would say the rates are excessive. I

1 would say it would have to fall outside of a
2 reasonable range.

3 Q. And how do you define the reasonable range?

4 A. Well, there could be different ways to
5 assess that. I mean, one could -- we didn't do that
6 as part of this analysis, but one could look at
7 various variability-type measures, standard
8 deviations, look at historical variability of the
9 loss experience, and one could generate some type of
10 a reasonable range, things like that.

11 Q. Are you familiar with the term "net trend"?

12 A. I am.

13 Q. What does that mean?

14 A. Well, as I've used the term, as I've seen
15 it used, it would compare the loss trend relative to
16 the premium trend; net, so it's loss net of premium
17 trend, loss trend net of premium trend.

18 Q. Is it true that, all else equal, if the net
19 trend is negative, rates should go down?

20 A. No.

21 Q. Why not?

22 A. Well, maybe the rates were deficient to
23 start with. And so if net trend is negative, the
24 rates are deficient to begin with, you still might

1 need a rate increase.

2 Q. What if rates were right to begin with?

3 A. If rates were right to again with, and then
4 what happened?

5 Q. A net downward trend.

6 A. There could be other -- I guess I'm not
7 really understanding the question.

8 Q. Let me ask you just a kind of general
9 question. Can rates ever go down?

10 A. Yes.

11 Q. And one of the ways rates can go down is
12 that the net trend is downward; is that right?

13 A. If, over time -- I would say over time, if
14 the net trend is negative, then over time that would
15 have a downward pressure on at least indicated
16 rates.

17 Q. The net trend is negative when the loss
18 trend is lower than the premium trend; is that
19 correct?

20 A. That's correct.

21 Q. Now, if you turn back to Page 67 -- we were
22 looking at that before -- the filing assumes a
23 premium trend of 2 1/2 percent, correct?

24 A. For homeowners-owners forms, correct.

1 Q. And that's based on MPIUA data alone; is
2 that right?

3 A. That is correct. We considered industry
4 data, but the selection was based upon Massachusetts
5 data -- MPIUA data.

6 Q. On Page 65 is where you considered the
7 industry data, correct?

8 A. That's where we calculated the number based
9 upon industry data, yes.

10 Q. And that produces an annual rate of change
11 of 4.6 percent; is that right?

12 A. Well, as calculated here, it would be 3.2
13 percent.

14 Q. The annual rate of change is 4.6 percent.
15 You then tempered that by 30 percent to reduce that
16 to 3.2 percent?

17 A. That's correct. That's a correct
18 statement.

19 Q. And how was the annual rate of change for
20 the industry calculated?

21 A. Before the tempering?

22 Q. Yes.

23 A. We looked at -- we generally replicated the
24 methodology that ISO uses in the ISO loss cost

1 filings, but it looks at changes in the average --
2 the average AOI, amount of insurance, relativity
3 over time historically.

4 Q. And what is the average AOI relativity?

5 A. I believe that would be comparable to sort
6 of the key factor, which would be -- there's a
7 curve, you know, as the amount of insurance -- for
8 each amount of insurance, there will be a factor
9 called the key factor that would be used in the
10 calculation of premiums. And I believe that the
11 average AOI relativity is a reflection of that
12 average factor.

13 Q. When ISO does a filing -- ISO does filings
14 in Massachusetts, does it not?

15 A. Correct.

16 Q. When ISO does a filing, is this the way it
17 would do the filing for Massachusetts?

18 A. Yes. We generally replicated the
19 methodology that they used.

20 Q. The 30 percent tempering that we see in
21 Line 10, can you tell us what the reason for that
22 is.

23 A. I believe the reason that's mentioned in
24 the ISO Circular -- there might be other reasons,

1 but at least one of the main reasons would be to
2 reflect changes in the building stock over time of
3 the set of companies.

4 The problem -- I don't think the Circular
5 says this, but as I view it, the problem with the
6 way that ISO is sort of forced to present the data
7 is -- the data in each of those years is five years
8 worth of experience. They don't necessarily
9 represent the same set of policies year in and year
10 out, and ISO doesn't have the means to really merge
11 the data and make it be an apples-to-apples
12 comparison.

13 So we look at five years, but there is --
14 there can be an inconsistency from year to year.
15 And the belief is that, to the extent that there's
16 an inconsistency, the new policies that are entering
17 into the system have a higher AOI, which is going to
18 drive up the indicated change. So the tempering is
19 needed to account for that.

20 Q. To your knowledge, is there any kind of
21 calculation that produces the tempering factor?

22 A. I believe it is based on judgment. I
23 believe that they've looked at -- I asked the
24 question, as part of this process, to the people at

1 ISO that would be responsible -- it's not something
2 that falls in my area -- and I think that it's
3 something that they've looked at over time, but they
4 have not recently evaluated that provision as part
5 of --

6 Q. The tempering factor has changed over time,
7 has it not?

8 A. I know that they will change it over time
9 and it has changed over time.

10 Q. And do you know if that's the result of
11 some calculation or whether that's also judgmental?

12 A. I think it's probably a combination of
13 both.

14 Q. Now, you've referred in past filings to the
15 MPIUA's effort to correct an undervaluation problem.
16 Do you recall that?

17 A. I do.

18 Q. And is it your understanding that, a few
19 years ago, the MPIUA aggressively reappraised
20 properties that it insured and that, as a result,
21 the premium trend factor was higher than it is now?

22 A. Well, the rates of change in their coverage
23 limits were much higher in the past.

24 Q. Well, was the premium trend higher in the

1 past?

2 A. I don't recall the numbers exactly, the
3 last filing, but if you go back in time, they would
4 have been higher.

5 Q. And does that partly at least reflect this
6 revaluation project?

7 A. Well, to the extent that we're relying upon
8 data that was based upon ratios in the Coverage A
9 and when they were showing -- when they were working
10 on improving that, the undervaluation problem, and
11 we were seeing higher changes in the Coverage A,
12 that would have had an upward influence on the
13 indicated premium trends, all else equal.

14 Q. And in the real world, those kinds of
15 valuation changes would be expected to produce
16 greater revenue for the MPIUA, all else equal?

17 A. That's correct.

18 Q. Are you aware that in July 2013, the values
19 of all MPIUA properties will be updated
20 automatically on an annual basis, using a software
21 program?

22 A. I was not aware of that.

23 Q. Are you aware generally of software
24 programs that do perform revaluations for insurance

1 companies?

2 A. Yes, I am.

3 Q. And typically these software programs
4 produce annual adjustments in property values?

5 A. That's correct.

6 Q. In calculating the premium trend, did you
7 take into account the impact of this software on
8 expected MPIUA premiums for the year beginning July
9 1, 2013?

10 A. No, I did not.

11 Q. Do you know whether there is any data
12 available on the impact of these kinds of programs
13 on property values?

14 A. Can you repeat the question.

15 Q. Do you know whether there's any data
16 available for the impact of automatic update
17 programs on property values?

18 A. I haven't seen it.

19 Q. Is it correct that if the software program
20 produces a bump-up in all property values beginning
21 July 1, 2013, that would be expected to affect the
22 premium produced by the MPIUA filing?

23 A. It's a hypothetical question, because I
24 don't know that there's going to be an increase --

1 an automatic increase. There might be, but I have
2 no information.

3 I will say, and this is just in other
4 states, I've worked with companies that have used
5 these, and there are times when they go up, and I've
6 also seen situations where they go down, the
7 automatic adjustment is downwards, because they take
8 into account lots of different characteristics of a
9 building.

10 So it can go up, it can go down, and I
11 actually don't have any information. It wasn't
12 something I had discussed with -- I definitely did
13 discuss the premium trend selections with the MPIUA
14 to get their input on that, but we did not discuss
15 anything that was automatic or anything that was
16 part of the software that they might be using.

17 Q. The filing uses an annual trend for losses
18 and LAE of 2 percent, correct?

19 A. That's correct. For owners forms, yes.

20 Q. And if you turn to Page 79, there's an
21 indication here that the trend is a weighted average
22 of the 2.2 percent value which is based on economic
23 indices and a 1.5 percent value based on MPIUA data,
24 correct?

1 A. That's correct.

2 Q. And in this calculation, 75 percent of the
3 weight is given to the economic indices and 25
4 percent to the MPIUA data, correct?

5 A. That's correct.

6 Q. And if you were to give 100 percent weight
7 to the MPIUA data in the loss trend, as you did in
8 the premium trend, that would produce an annual loss
9 trend of 1.5 percent; is that right?

10 A. Can you repeat the question.

11 Q. If you were to give 100 percent weight to
12 the MPIUA data, the way you did in the premium
13 trend, that would produce a loss trend of 1.5
14 percent?

15 A. That's an accurate statement.

16 Q. In both cases, whether we used a weighted
17 average annual trend of 2 percent or the MPIUA
18 annual loss trend of 1.5 percent, premiums are
19 increasing faster than losses; is that fair?

20 A. Yes.

21 Q. So the net annual trend is negative?

22 A. Yes. And we reflect -- that is built into
23 our indicated rate changes.

24 Q. And that's been true for a while; is that

1 correct?

2 A. It was definitely true with the prior
3 filing.

4 Q. Do you know whether it's been true since
5 2006?

6 A. It might be. I reviewed the net premium
7 trend as part of the last filing in my preparation
8 for this. It wouldn't surprise me if it was, but I
9 haven't looked at it recently.

10 Q. What trend is used for commissions and
11 administrative expenses in the filing?

12 A. We haven't calculated a trend for those
13 provisions.

14 Q. Do you know if those provisions are
15 trending up?

16 A. We haven't reviewed a trend in it.

17 Q. You didn't make any adjustment to the trend
18 to take into account the fact that MPIUA rates have
19 historically been effective for more than one year?

20 A. No. We are making an opinion, assuming
21 that they're in effect for a one-year time period.

22 Q. Now, if you turn to Page 56 of the filing,
23 this page and the following page deal with the loss
24 adjustment expenses, correct?

1 A. Correct.

2 Q. And there were two years in this period,
3 this data period, when the MPIUA had loss adjustment
4 expense related to hurricanes, right?

5 A. Yes. There is one event, Irene, but since
6 we show data on a -- this is data, I believe, for --
7 this is policy forms or fiscal year-ending -- I
8 think because of the nature of how this shows, it
9 shows up for two different -- oh, no. Yes. This is
10 showing sort of on a calendar year basis, so the one
11 event flows into two different years, right.

12 Q. Now, Irene was not actually a hurricane in
13 Massachusetts; it was one of those events that we
14 were talking about before that was a hurricane down
15 South, but by the time it got here, it was a
16 tropical storm or something with winds lower than 75
17 miles an hour?

18 A. That's an accurate statement.

19 Q. And in general, looking at the values that
20 appear on Pages 56 and 57, it appears that the FAIR
21 Plan's loss adjustment expenses for catastrophes
22 have been lower than its LAE for non-catastrophe
23 claims. Do you see that?

24 A. Well, it depends on the year. More years

1 than not -- well, there's five years -- when I look
2 at non-hurricane catastrophes, there's five years.
3 I think two of the years for non-hurricane
4 catastrophes it's higher, and for three of the years
5 it's lower.

6 But what I would say, rather than say one
7 is definitely higher or lower than the other, I
8 would also say, for the non-hurricane catastrophes,
9 they jump -- it's a much more wider range of values.
10 It fluctuates a lot more.

11 Q. The values you've selected show that the
12 non-hurricane catastrophe claims have lower loss
13 adjustment expenses than the non-catastrophe claims;
14 is that correct?

15 A. That's correct.

16 Q. And is that based on some kind of analysis
17 you did?

18 A. It's based upon the calculations on that
19 page.

20 Q. So the data generally show that the
21 non-hurricane catastrophe claims have lower loss
22 adjustment expenses than the non-catastrophe claims?

23 A. That's correct.

24 Q. Let me show you an exhibit that we

1 prepared.

2 MR. LEIGHT: I'd like to mark this for
3 identification as Exhibit 20.

4 PRESIDING OFFICER FARRINGTON: Any
5 objection?

6 MR. MEYER: No objection that it be marked
7 for identification.

8 (Document marked as Exhibit 20
9 for identification)

10 Q. This exhibit, Mr. Ericksen, combines the
11 catastrophe experience from Pages 56 and 57 for both
12 hurricane catastrophes and non-hurricane
13 catastrophes. Could you just look at the numbers
14 and make sure that these are right.

15 A. (Reviewing document) It generally does
16 look like that's the case.

17 Q. And the average loss adjustment expense for
18 all these catastrophe claims is about 11 percent.
19 Do you see that?

20 A. I do see 11.1. It says "Average." I don't
21 know how the average is being -- I don't know if
22 it's a straight average or weighted average.

23 Q. Straight average.

24 A. I'll accept that that's what you say it is.

1 I can't -- okay.

2 Q. You don't have to verify that right now.

3 I guess one thing I wanted to ask you is,
4 do you know why the MPIUA's loss adjustment expense
5 for catastrophes is lower than it is for
6 non-catastrophe losses?

7 A. Well, I think, as I pointed out before, at
8 two of the years it was higher and three of the
9 years it was lower. So I don't think one can make a
10 uniform, blanket statement that it's always lower,
11 because the data shows that that's not the case.

12 Q. Why did you adopt a lower value for the
13 loss adjustment expenses for catastrophe as compared
14 to non-catastrophe claims?

15 A. Well, we reflected and, in that particular
16 case, I think we selected the five-year straight
17 average, and the five-year straight average was
18 lower. But I don't think it's fair to say that it's
19 always lower, because the data shows it isn't.

20 Q. Do you know why it's lower on average?

21 A. I haven't done a study on that. I could
22 speculate, but I don't -- I haven't done any study
23 to support that.

24 Q. Do you know whether the MPIUA has a loss

1 adjustment expense control plan? Are you familiar
2 with that?

3 A. In concept and in general, yes, but
4 specifically for the MPIUA, I have not discussed
5 that with them.

6 Q. Are you familiar with the term "expected
7 ceded loss"?

8 A. Generally, yes.

9 Q. What does that mean?

10 A. Well, I'll use it in a way that's probably
11 consistent with this rate filing.

12 Q. That would be great.

13 A. Ceded with regards to reinsurance.
14 Oftentimes you think, if you're ceding or you're
15 passing on financial results to a reinsurer, you can
16 cede premiums and you can ceded losses. And those
17 would be the amounts that would be the
18 responsibility -- either paid to or the
19 responsibility of the reinsurer in this case.

20 Q. Is it correct that, over time, the
21 actuarial expectation is that the expected ceded
22 loss will be equal to the amount of hurricane
23 losses, in this case, paid by the reinsurer to the
24 MPIUA?

1 A. That would be the concept, yes.

2 Q. I think that in response to Ms. Moran's
3 question you indicated that the expected ceded loss
4 and the net hurricane loss as well in this filing
5 are based on the AIR model, right?

6 A. That's correct.

7 Q. And the RMS model was not used in the
8 filing?

9 A. That's correct.

10 Q. Do you know why, by the way?

11 A. No. I don't think -- I was involved with
12 discussions when they were sort of in that deciding
13 process, but, no, I was not -- it was not made aware
14 to me.

15 Q. Are you familiar with the term "non-modeled
16 hurricane loss"?

17 A. Generally, yes.

18 Q. What does that mean, in general?

19 A. It would be losses that one would expect to
20 be related or resulting from a hurricane that are
21 not being included within the model output.

22 Q. And are there any non-modeled losses,
23 hurricane losses, supported in the filing?

24 A. I don't believe we're including any -- that

1 I'm aware of -- that we're including any non-modeled
2 losses, and I think I even say that somewhere.

3 Q. For purposes of the net hurricane loss
4 provision in the filing, you reduced the total
5 amount of expected hurricane losses in the AIR model
6 by an amount that represented the amount of expected
7 ceded losses to the reinsurer, also based on the AIR
8 model, right?

9 A. The calculations were performed by AIR, but
10 that was the intent of what they did.

11 Q. Ms. Moran asked you some questions about
12 Page 7 of the filing. Could you turn back to that,
13 please. It says here that "The MPIUA points out
14 that the method of calculation used in this filing
15 and R2009-02," which is one of the prior filings,
16 "is mathematically equivalent to the calculations
17 performed and argued about in R2007-02... as
18 displayed by the following non-controversial
19 equation, which is the Law of Associativity," and
20 then there is a equation on the top of Page 8. Do
21 you see that?

22 A. I do.

23 Q. Do you agree with this statement and with
24 the equation?

1 A. Well, the equation I definitely -- it's
2 just a basic mathematical fact. It's the
3 associative property of addition. So I believe
4 that.

5 Q. That's been proven before?

6 A. I think it's a basic axiom.

7 Q. And the statement on the bottom of Page 7,
8 going over to Page 8, you agree with that statement?

9 A. According to my knowledge, yes, I believe
10 that's true.

11 Q. Which side of the equation on the top of
12 Page 8 is used in the current filing?

13 A. The right-hand side of the equation.

14 Q. And then in prior filings, the left-hand --
15 or in the 2007 filing?

16 A. I know -- I believe with the 2007 we were
17 using the left-hand side.

18 Q. Are you familiar with the term "net cost of
19 reinsurance"?

20 A. I'm familiar with that term.

21 Q. What does that mean?

22 A. The net cost is typically defined as the
23 gross cost of reinsurance, the amount they actually
24 pay to the reinsurer, minus the expected recoveries

1 that you expect to get back from the reinsurer.

2 Q. So minus the expected ceded loss?

3 A. Ceded loss and LAE.

4 Q. And where would that appear in the equation
5 on Page 8?

6 A. That would appear on the left-hand side,
7 what appears in the parentheses, the A minus C.
8 That would be the net cost of reinsurance.

9 Q. Would you agree generally that the total
10 amount of hurricane losses in the rate paid by
11 policyholders should not exceed B in that equation?

12 A. Can you repeat the question.

13 Q. Would you agree that the total amount of
14 hurricane losses in the rate paid by policyholders
15 should not exceed B in the equation on the top of
16 Page 8?

17 A. If you're just looking at hurricane losses,
18 I think that's a fair statement.

19 Q. What are the values of A, B and C that you
20 used in connection with the current filing?

21 A. Okay. A, as it says, is reinsurance
22 premiums gross. So that's the actual reinsurance
23 premiums that are being paid by the MPIUA to its
24 reinsurers. So that was a number provided to us by

1 Guy Carpenter.

2 Q. Where does that appear in the filing?

3 A. It would appear... (Reviewing document) We
4 calculate that number for all lines combined, first,
5 but I'll direct your attention to Page 409, the
6 stamped page, but in my analysis, it's Exhibit 21,
7 Page 2.

8 Q. So this Page 409 is the same as Page 130;
9 you actually performed the same calculation or
10 placed the same page here?

11 A. I'm sorry. I'm not sure if I understand.

12 Q. If you look at Page 130, I'm just asking if
13 it's the same calculation.

14 A. (Reviewing documents) You know what? I
15 think I jumped to -- you know what? When I turned
16 to 409, that was in the dwelling filing. I'm sorry.
17 130 would be the same. That would be the same
18 information. I really meant to go to 130 to focus
19 on homeowners, sure.

20 Q. So the value is roughly \$72.9 million?

21 A. That would have been the gross reinsurance
22 premium we would have used.

23 Q. Now, turning back to Page 8, so that's the
24 value for A, reinsurance premiums gross, correct?

1 A. Correct.

2 Q. What about for B and C?

3 A. We didn't calculate individual values for B
4 and C. I think what shows up on the report is the
5 value B minus C, which would be the net hurricane
6 loss and LAE.

7 Q. And what is the net hurricane loss and LAE?

8 A. That would be the expected hurricane loss
9 and LAE that would be retained by the MPIUA.
10 Mathematically it's the gross hurricane loss and
11 LAE, minus the ceded loss and LAE. But I don't
12 think that that's actually how it's calculated.
13 Like, AIR does not calculate B and C; they actually
14 calculate B minus C. That value is what they
15 calculate, and that's what was included in the
16 analysis.

17 Q. What is the expected hurricane loss gross
18 in the filing?

19 A. I think that that was the -- I could turn
20 to David Lalonde's testimony. I think it was \$37.5
21 million, but -- I apologize if I'm -- oh, that would
22 be just losses. That doesn't include the LAE. So
23 including LAE would be 10 percent higher than that.

24 Q. Let me ask you to turn to -- do you have

1 Volume II -- Page 206.

2 A. What page?

3 Q. 206.

4 A. Okay.

5 Q. If you look at the first panel, it says,
6 "Gross Total, Average Annual Loss & LAE." Do you
7 see that?

8 A. Yes.

9 Q. And that value is \$41.2 million, roughly.
10 Do you see that?

11 A. Correct.

12 Q. Is that consistent with your understanding
13 of the value of the expected hurricane loss gross in
14 the filing?

15 A. Yes, it is.

16 Q. You reviewed this material in connection
17 with the filing, did you not?

18 A. Yes, I did. These pages -- I'm just
19 looking through here. I definitely got the
20 information -- when I was preparing the analysis, I
21 used the Excel files that they had provided. I'm
22 not sure if I was referencing these. I certainly
23 expect these are consistent with what I was
24 provided, but I don't think I reviewed these pages

1 when I was preparing the rate filing.

2 Q. If we look at the value of the term C on
3 Page 8 of the first volume of the filing, expected
4 hurricane loss recoveries from reinsurers, is that
5 provided anywhere in the filing?

6 A. Whether or not it's included in Dave
7 Lalonde's testimony, I'll defer to Dave. With
8 regards to the information that was provided to me
9 when I was preparing the analysis, I did receive the
10 gross hurricane losses, and I did receive the net
11 hurricane losses after reinsurance.

12 So you could calculate C by subtracting the
13 amounts I was given. I don't believe that I was
14 ever given from them explicitly anything that was
15 the value of C.

16 Q. So if you take the gross hurricane losses
17 that were provided to you and subtract off the net
18 hurricane losses, that would produce the expected
19 ceded loss?

20 A. Which would be C, yes.

21 Q. Do you know what portion of the \$41.2
22 million gross loss is represented by LAE?

23 A. 10 percent -- well, we assumed that LAE is
24 equal to 10 percent of losses. So it would be .1

1 divided by 1.1, that percent.

2 Q. So once you receive the total loss, you
3 would then take 10 percent of that and add it on to
4 the loss?

5 A. Correct. Well, if I was trying to
6 calculate gross losses including LAE. We didn't do
7 that, so we didn't perform that calculation. But if
8 I was going to, that's what I would do.

9 Q. You referred earlier to the \$37 million
10 plus figure, and that was the AIR model loss without
11 LAE?

12 A. Correct. But just as a quick
13 clarification, we didn't use the gross numbers in my
14 analysis at all.

15 Q. But if one wanted to separate out the LAE,
16 that would be the base loss, and then the LAE would
17 be added to that?

18 A. If one was going to do that. We didn't
19 actually do that in the calculation.

20 Q. Are you familiar with the term "storm
21 surge"?

22 A. Generally, yes.

23 Q. What does that mean, or what did it mean in
24 connection with the filing?

1 A. Well, okay. Those are two separate
2 questions.

3 Q. Let me ask you what it means in connection
4 with the filing, then.

5 A. Well, it's my understanding storm surge is
6 not included in the model output. I believe that
7 was the information that was given to me. Do you
8 want to know what storm surge is?

9 Q. Well, yes.

10 A. So a storm surge would be -- it's
11 generally, at least my understanding, and I'm not a
12 claims adjustor, but it's my general understanding
13 it would be oftentimes like flood-related types of
14 losses that are related to when a hurricane event
15 happens and you have water come on land. It's
16 generally or oftentimes wouldn't be covered by a
17 typical homeowners policy if it's flood related.

18 Q. Is that the reason, as you understand it,
19 that storm surge is excluded in the filing?

20 A. I'm not sure if the MPIUA had other
21 reasons, but I think that would be a reason why I
22 think it would be reasonable to exclude it.

23 Q. Is there a place in the filing where you
24 calculate the percent represented by net hurricane

1 losses, the percent of premium represented by net
2 hurricane losses?

3 A. Yes, we do calculate that.

4 Q. Where is that?

5 A. Page 133, Exhibit 22.

6 Q. This is for the owners forms, correct?

7 A. Correct.

8 Q. And that value here is 9.6 percent?

9 A. That's the statewide average.

10 Q. Is there a separate calculation for each of
11 the forms? Is that the way you do it?

12 A. Yes.

13 Q. And what about the percent of premium
14 represented by reinsurance? Is that what appears on
15 Page 132?

16 A. Yes.

17 Q. And 26.9 percent for the owners forms?

18 A. That's the statewide average.

19 Q. And similarly you do a calculation for the
20 other forms, a similar calculation?

21 A. That's correct.

22 Q. Is it your understanding that, over the
23 last six years, the MPIUA has purchased in the \$70
24 million to \$80 million range of reinsurance

1 annually?

2 A. Yes. I think of it generally being in that
3 range. Whether six years is right, it's certainly
4 of that magnitude, yes. Give or take a year or so,
5 it's been over that time period.

6 Q. If you turn to Page 41 of the filing, in
7 the text under -- in the middle of the page with
8 respect to Exhibit 22, you indicate that "In order
9 to reflect the reinsurance purchased by the MPIUA,
10 Exhibit 22 shows expected hurricane loss and LAE
11 after making a reduction for the amount of loss and
12 LAE that is being transferred to the reinsurers."
13 Do you see that?

14 A. I listened to what you said, and I believe
15 that's an accurate --

16 Q. Why don't you read that. That's the second
17 sentence under the heading, "Provision for Expected
18 Net Hurricane Losses."

19 A. (Reviewing document) Yes, I agree with
20 that. Did you want me to read it out loud?

21 Q. No. I just wanted to make sure that you
22 understood it and agreed with it.

23 A. Yes, I do.

24 Q. And that is a statement in words of what

1 appears as B minus C on Page 8, is it not?

2 A. That's correct.

3 Q. What is the value that was used to -- that
4 was the reduction that you applied in Exhibit 22?

5 A. That calculation, that reduction was
6 performed by AIR. We didn't explicitly -- we didn't
7 calculate it.

8 Q. Did you see the calculation that AIR
9 performed?

10 A. I definitely did. In the information that
11 was provided to us, they provided the gross and the
12 net. Through my process, I did look at that.

13 Q. You checked the numbers to make sure they
14 were right?

15 A. I checked the numbers that they gave us,
16 and I looked at the relationships. I didn't check
17 the internal calculations that they did.

18 Q. Is it correct that the numbers that AIR
19 gave you were expected annual values for the period
20 July 1, 2013, through June 30, 2014?

21 A. Their analysis was based upon an in-force
22 exposure file as of, I believe, September 30, 2012.

23 Q. So the annual losses produced by their
24 model would have been for a period beginning

1 September 1, 2012?

2 A. Whenever you do hurricane modeling, you
3 always have to reflect a certain exposure file. You
4 have to input an exposure file. And they used --
5 when the process was started, I think that was the
6 most relevant -- the recent relative data that they
7 used that was available. So the modeling reflected
8 that in-force exposure file. Modeling always
9 reflects some in-force file. You can't model
10 exposures that you don't have in the future.

11 But what we do in the calculations in the
12 analysis is that we take the losses that are being
13 modeled based upon that in-force file, and we
14 compare that with the premiums for those exact same
15 policies, so we know that there is an absolute
16 apples-to-apples comparison going on.

17 Q. So the losses and the premium were for the
18 period beginning September 1, 2012?

19 A. Not for the period beginning that. It was
20 for the policies that were in force on that date.

21 Q. In force on that date?

22 A. That's correct.

23 Q. You indicate that Actuarial Standards of
24 Practice state that the actuary may elect whether to

1 include the cost of reinsurance in the rate,
2 correct?

3 A. I believe that's an accurate statement.

4 Q. So the inclusion of reinsurance is not
5 mandatory, based on the Actuarial Standards?

6 A. I think that's a reasonable interpretation.

7 Q. Is there a situation where an actuary may
8 decide to include part but not all of the
9 reinsurance costs?

10 A. There could be circumstances where a
11 actuary might want to do that.

12 Q. In situations where an actuary decides to
13 include the cost of reinsurance in the rates, do you
14 agree that the cost of reinsurance should be fair
15 and not excessive?

16 A. I think that's a generally good thing.

17 Q. Let me show you another exhibit that we
18 have prepared.

19 A. (Reviewing document)

20 Q. I would like to go through this exhibit
21 with you. This is something that we prepared, based
22 on the numbers in the filing. I want to make sure
23 that you're comfortable with the numbers here. We
24 have the filing references at the bottom if you want

1 to check them.

2 The annual expected hurricane loss and LAE
3 on Line 4 is the value that we looked at on Page 206
4 of the filing. Do you recall that?

5 A. I do.

6 Q. And the values on Lines 2 and 3 represent
7 the division of that value between the net hurricane
8 loss in the filing and the expected ceded hurricane
9 loss and LAE.

10 A. I do see those.

11 Q. Could you make sure that those are
12 accurate.

13 A. (Reviewing document) The numbers I'm
14 cross-referencing are to the nearest tenth of a
15 million, but it does reconcile with that.

16 Q. The gross cost of reinsurance on Line 5 is
17 the value that we saw before on Page 130, correct?

18 A. It is.

19 Q. And the net cost of reinsurance, which we
20 discussed before as a calculation from the equation
21 on Page 8 of A minus C, appears on Line 6 of the
22 filing. Do you see that?

23 A. I do.

24 Q. And that's your understanding of what that

1 would produce, correct?

2 A. Yes, it is.

3 Q. Line 7 is the gross cost of reinsurance,
4 together with the net hurricane loss and LAE,
5 correct?

6 A. Yes, it is. Oh, wait. Let me -- I just
7 want to double-check. (Reviewing document) Yes.

8 Q. So that's the sum of the gross cost of
9 reinsurance on Line 5, which is \$72.9 million,
10 roughly, and the annual expected net hurricane loss
11 on Line 2 of roughly \$25.1 million?

12 A. That's correct.

13 Q. Now, the values on Line 7 and the earlier
14 lines are subject to the profit provision in the
15 filing, correct?

16 A. That's correct.

17 Q. And the other variable expense provisions?

18 A. All variable expense provisions.

19 Q. And can you calculate for us whether --
20 make sure that the value on Line 9 is an accurate
21 reflection of the profit load that appears -- that
22 would be derived from Line 7.

23 A. So what is it that you -- so, profit
24 load --

1 Q. The profit in the filing is on Line 8C
2 here, which is roughly 7.64, for all lines. And I
3 just wanted you to confirm that the profit
4 attributable to the gross cost of reinsurance and
5 the net hurricane loss and LAE in the filing is the
6 value that appears on Line 9.

7 A. I looked at the formula, and the formula is
8 consistent with how I think one would calculate
9 that. Do you want me to actually calculate it or
10 just accept the formula?

11 Q. Why don't you just do the calculation, if
12 you can do it very quickly. If not, we can take a
13 break.

14 A. (Calculating)

15 PRESIDING OFFICER FARRINGTON: Do you want
16 to have this marked for identification?

17 MR. LEIGHT: Yes. I was going to say that.

18 PRESIDING OFFICER FARRINGTON: Any
19 objection?

20 MR. MEYER: No objection for
21 identification.

22 PRESIDING OFFICER FARRINGTON: That would
23 be 21.

24

1 (Document marked as Exhibit 21
2 for identification)

3 A. I think I must have just typed in something
4 wrong when I was going through it. I do accept the
5 formula. I do believe the formula.

6 Q. Maybe what we can do is, when we do take a
7 break, you can double-check that.

8 A. I can double-check it.

9 Q. Is it correct that in the last FAIR Plan
10 filing approved by the Commissioner, the profit
11 provision was zero percent?

12 A. Can you repeat the question.

13 Q. In the last FAIR Plan filing approved by
14 the Commissioner, the profit provision was zero
15 percent?

16 MR. MEYER: Objection. When you say
17 "approved by the Commissioner," do you include the
18 stipulation two cases ago which was approved by the
19 Commissioner?

20 MR. LEIGHT: Let's leave the stipulation
21 out of this.

22 Q. The last approved rate filing, apart from
23 the stipulation.

24 A. I actually -- I don't recall. I'm more

1 familiar -- my recent memory, I'm more familiar with
2 the most recent filing which was either disapproved
3 or it was stipulated going back. There was a time
4 when I believe they weren't using a profit
5 provision. I don't recall exactly when that was.

6 Q. Do you know what the indicated rate
7 increase in the current filing would be with a zero
8 percent profit provision?

9 A. I have not calculated that.

10 Q. Lucky boy.

11 (Document handed to the witness)

12 MR. LEIGHT: I'd like to mark this for
13 identification as Exhibit 22.

14 PRESIDING OFFICER FARRINGTON: Any
15 objections?

16 MR. MEYER: For identification, no
17 objection.

18 (Document marked as Exhibit 22
19 for identification)

20 Q. I'll just ask you again if you would look
21 at this exhibit and see whether this calculation is
22 consistent with your understanding of how one would
23 calculate the indicated rate change from these
24 provisions.

1 A. (Reviewing document) I am looking at the
2 formulas, the way it is generally structured --
3 obviously I'm not checking all the numbers -- but I
4 think this is a reasonable way of going about this.

5 Q. Is it consistent with your understanding
6 that the filing would have produced a zero percent
7 indicated rate change with a zero percent profit?

8 A. Well, that's what these calculations
9 suggest. Like I said, I didn't go through and check
10 everything. And I'm not making any opinion as to
11 whether it's reasonable to have a zero profit
12 provision. But if that's what was done, this is
13 what the calculation would yield.

14 Q. Do you recall what the net cost of
15 reinsurance in the last approved rate filing was?

16 A. What the net cost of reinsurance was?

17 Q. Yes.

18 A. I don't recall that.

19 Q. Does \$13 million refresh your recollection?

20 A. I don't recall.

21 MR. MEYER: Again, objection. Mr. Leight
22 is using the phrase "approved," but I think he's
23 excluding from that the case two years ago where the
24 Commissioner approved the stipulation. And the

1 answer would be very different depending on whether
2 he's including that or excluding that from his
3 question.

4 Q. Do you recall --

5 MR. LEIGHT: I don't know that the answer
6 would be different, because he said he didn't
7 recall, but I will ask it.

8 Q. Do you recall what the net cost of
9 reinsurance was in the last approved rate case,
10 apart from the stipulation?

11 A. No, I don't recall the specific numbers
12 from either of those filings. I'll just say I don't
13 recall, because I don't have any of the exhibits in
14 front of me, and I would be just working off memory
15 for something like that.

16 Q. Let me show you a copy of a document. I'm
17 not sure we have to actually put this into evidence
18 because it is a prior decision.

19 PRESIDING OFFICER FARRINGTON: We don't,
20 but if you want to distribute it for reference
21 purposes, that's fine.

22 Q. If you look at this document, on the second
23 page, in the last full paragraph, it states, "Only
24 the \$13 million which we found would be reasonable

1 is included in the MPIUA's revised filings." Do you
2 see that?

3 A. I do.

4 Q. Does that refresh your recollection that
5 the Commissioner, in the last approved rate filing
6 apart from the stipulation, approved a value of \$13
7 million?

8 A. This is going back to the 2006 time period.

9 Q. Right.

10 A. (Reviewing document) They are making the
11 statement that only \$13 million would be -- without
12 refreshing -- I'm not exactly sure what they're
13 referring to, but there's that sentence.

14 Q. So that does not really refresh your
15 recollection?

16 A. With regards to this decision and the
17 details, I really don't recall.

18 Q. Now, is it your understanding that the
19 MPIUA's surplus has increased over the last few
20 years?

21 A. I haven't studied it, but my general
22 understanding is it has been increasing.

23 Q. In connection with the work you do on the
24 rate filings, do you review the financial statements

1 of the MPIUA?

2 A. I rely upon certain pieces of information
3 from the financial statements. Surplus is not one
4 of them that I enter into my calculations.

5 Q. What are the pieces you rely on from the
6 financial statements?

7 A. We use the expense history. We look at
8 loss adjustment expenses. I think that those -- and
9 we also referenced some loss information in one of
10 the appendices when we did a reconciliation -- no,
11 no. That wasn't even from here.

12 We referenced some premium numbers for
13 reconciliation from the financial statements. But
14 as far as balance sheet items, which would be the
15 surplus, that's not something that we had
16 scrutinized as part of my work.

17 Q. Let me show you an exhibit that we
18 prepared. It was taken from the financial
19 statements.

20 MR. LEIGHT: I'd like to mark this for
21 identification as Exhibit 23.

22 PRESIDING OFFICER FARRINGTON: Any
23 objections?

24 MR. MEYER: No objection for

1 identification.

2 (Document marked as Exhibit 23
3 for identification)

4 Q. I would like to ask you first whether
5 you've seen these numbers before.

6 A. I probably have seen them in passing. I
7 mean, these are the surplus numbers. It's not
8 something I've analyzed or anything, but -- they've
9 been included in the financial statements that I
10 have used generally.

11 Q. As you can see from the footnotes, they've
12 also been included in the filing, I think, in
13 connection with the profit provision. Is that
14 something you reviewed?

15 A. I did not review the full report, but it is
16 my understanding that he would probably be
17 referencing the profit -- the surplus numbers in
18 what he does, what Richard Derrig does.

19 Q. In your experience, is the average return
20 during this period a fairly high return on surplus?

21 A. Compared to what measure?

22 Q. Compared to your experience of the returns
23 that other companies earn in the market.

24 A. I would say it generally would be higher.

1 Q. If one had included a 7.7 percent profit
2 provision in the rates during this entire period,
3 how would that have affected the surplus, all else
4 equal?

5 A. All else equal, it would have probably made
6 it be higher, if it was approved.

7 Q. Do you know whether, during this period,
8 the premium earned by the MPIUA was sufficient to
9 fund the reinsurance costs, together with the net
10 hurricane losses based on the AIR model, and still
11 increase surplus?

12 A. Could you repeat the question.

13 Q. Do you know whether, during this period,
14 the premium earned by the MPIUA was sufficient to
15 fund the MPIUA's purchase of reinsurance, together
16 with the net hurricane losses in the AIR model, and
17 still to increase surplus?

18 A. I haven't performed those calculations.

19 Q. You don't have a sense one way or another?

20 A. I don't have opinions. I haven't done the
21 calculations.

22 MR. LEIGHT: That's all I have. Thank you.
23 Perhaps we could -- if we do take a break, I wanted
24 the witness to check the calculation.

1 PRESIDING OFFICER FARRINGTON: I think we
2 should take a break. I know Mr. Sumner has some
3 questions, and I think I have some questions.

4 Do you want to take a lunch break at this
5 point?

6 MR. LEIGHT: Well, I don't know that we
7 need to, unless people have a lot of further -- I
8 don't know about Mr. Meyer.

9 MR. MEYER: It's at your convenience.

10 PRESIDING OFFICER FARRINGTON: I'm not sure
11 what the witness would like. I don't know what time
12 you got up this morning.

13 THE WITNESS: I think maybe as long as we
14 have at least a five-minute break so I could
15 stretch, I don't have -- I'll defer lunch to
16 everyone else.

17 MR. REILLY: I think we would rather keep
18 going.

19 PRESIDING OFFICER FARRINGTON: Why don't we
20 take a 15-minute break.

21 (Recess)

22 PRESIDING OFFICER FARRINGTON: Before we
23 ask any questions, I want to point out that on May
24 9th, we were sent a document called "Appendix to Mr.

1 Ericksen's Testimony."

2 MR. MEYER: You're absolutely right, and
3 that was been ignored by us and I apologize. May I
4 show this to Mr. Ericksen? I vaguely remember that
5 too.

6 THE WITNESS: (Reviewing document)

7 PRESIDING OFFICER FARRINGTON: What do you
8 want to do with it?

9 MR. MEYER: I think we should have him
10 adopt it here, because it was filed, unless there is
11 an objection, and mark it as an exhibit.

12 MR. LEIGHT: No problem.

13 PRESIDING OFFICER FARRINGTON: Do you have
14 an objection? Have you had an opportunity to review
15 it?

16 MR. LEIGHT: At some point. I think
17 marking it for identification is fine for now.

18 PRESIDING OFFICER FARRINGTON: But that's
19 the only copy I have.

20 MR. MEYER: The parties all have copies
21 back in their offices. I will supply copies to the
22 court reporter.

23 PRESIDING OFFICER FARRINGTON: Okay. If you
24 have a copy for the court reporter, that will be

1 fine.

2 MR. MEYER: If I may just redirect Mr.
3 Ericksen for one minute on that?

4 PRESIDING OFFICER FARRINGTON: Yes.

5 REDIRECT EXAMINATION

6 BY MR. MEYER:

7 Q. Mr. Ericksen, because of Hearing Officer
8 Farrington's courtesy, it's been called to my
9 attention that we filed a document before that we
10 didn't mention today. Do you have a document in
11 front of you, including a May 9th cover letter from
12 me, which is Appendix I to the homeowners report?

13 A. Yes, I do.

14 Q. And that was not included in your original
15 filing but was completed after your original filing;
16 is that correct?

17 A. That's right. I'm not sure if I referred
18 to it as Appendix I, but it was the supplemental
19 appendix-related follow-up, and I did prepare this,
20 yes.

21 Q. It would go at the end of the homeowners
22 appendices and before the dwelling fire report; is
23 that correct?

24 A. That's correct.

1 Q. Are the matters contained in that document
2 true and accurate to the best of your knowledge and
3 belief?

4 A. Yes.

5 MR. MEYER: May this be marked as the next
6 exhibit for identification, please.

7 PRESIDING OFFICER FARRINGTON: Any
8 objections?

9 MR. LEIGHT: No objection.

10 PRESIDING OFFICER FARRINGTON: 24.

11 (Document marked as Exhibit 24
12 for identification)

13 MR. MEYER: Thank you. No further
14 questions. I will circulate copies afterwards.

15 PRESIDING OFFICER SUMNER: Mr. Ericksen, I
16 just want to make sure this is correct. In your
17 filing this year, has Territory 37, Barnstable,
18 Dukes and Nantucket, always been treated as a
19 separate territory and not as one of the territorial
20 groups?

21 THE WITNESS: I think in the -- when we
22 look at the territorial groups, we consider that to
23 be at a group level, sort of a group and territory
24 level. I'm not sure if I understand your question.

1 PRESIDING OFFICER SUMNER: Was it treated
2 separately from Territorial Group 3 throughout your
3 rate filing?

4 THE WITNESS: Yes. I believe everywhere.

5 PRESIDING OFFICER SUMNER: All aspects?

6 THE WITNESS: Yes, that's correct.

7 PRESIDING OFFICER SUMNER: Are you familiar
8 with the wind deductibles that are in the MPIUA
9 policies?

10 THE WITNESS: Generally, yes.

11 PRESIDING OFFICER SUMNER: On Page 34 of
12 Volume I, you write about the 13-year average of the
13 ratio of non-hurricane catastrophe losses to total
14 insured value, and in the course of discussing that,
15 you say that "We adjusted this provision downward by
16 10 percent to account for the fact that the MPIUA
17 currently requires coastal policyholders to purchase
18 higher wind deductibles than what has been
19 historically purchased during the older portion of
20 the 13-year experience."

21 When did the MPIUA first start requiring
22 coastal policyholders to purchase higher wind
23 deductibles?

24 THE WITNESS: That's a good question. It

1 was a few -- my recollection, it was a few years
2 ago. I think they actually made one change, and
3 then maybe a couple of years after that they made a
4 revision; they increased the deductibles or the
5 requirement. But I think it was -- I'm going off
6 memory, so I could be wrong, but I thought it was in
7 the 2007 to 2009 period, but I could be wrong about
8 that.

9 PRESIDING OFFICER SUMNER: And what is the
10 higher wind deductible that is now required of
11 coastal policyholders?

12 THE WITNESS: It's not an exact number. It
13 depends upon location. I think that it's depending
14 upon the distance to the coast. And I think it also
15 depends on the Coverage A limit, is my recollection,
16 that the higher Coverage A limits might have a
17 different requirement.

18 So my recollection is it's sort of a grid
19 that, depending upon the location and the Coverage A
20 limit, there will be a minimum deductible that would
21 apply. So it's not a blanket statement.

22 PRESIDING OFFICER SUMNER: Can you state it
23 as a range?

24 THE WITNESS: I actually don't recall what

1 the low end is. I think it might go up to -- I
2 remember seeing the information that they gave me, I
3 guess, the letters that went out to the agents or
4 policyholders. I don't recall it offhand.

5 PRESIDING OFFICER SUMNER: Before 2007 or
6 2009, whichever date is correct, did the MPIUA
7 require a wind deductible in its policies?

8 THE WITNESS: My recollection is that,
9 prior to that, it would have just been the same AOP
10 deductible would have applied to wind. No, I guess
11 they always would have had a separate wind
12 deductible, because they were using ISO rules. I
13 think the minimum deductible is what would have
14 kicked in at that time.

15 PRESIDING OFFICER SUMNER: Can you state
16 what the minimum is?

17 THE WITNESS: Well, that's the thing where
18 it's a grid. I know that information is available,
19 because -- I know I have it. I don't recall the
20 number.

21 PRESIDING OFFICER SUMNER: Is the minimum,
22 then, what is required for non-coastal
23 policyholders?

24 THE WITNESS: I don't believe there's a

1 minimum requirement for non-coastal. My
2 recollection is that the minimums applied to coastal
3 business. That's my recollection. And that's why
4 we only apply that downward adjustment to Territory
5 37 and the Territorial Group 3.

6 PRESIDING OFFICER SUMNER: Are you able to
7 state, either as a number or as a percentage, the
8 non-coastal policyholders that have wind
9 deductibles?

10 THE WITNESS: No. I haven't reviewed that.

11 PRESIDING OFFICER SUMNER: How did you
12 arrive at the 10 percent figure as the appropriate
13 adjustment because of the higher required wind
14 deductible for coastal policyholders?

15 THE WITNESS: That was a judgmental number.
16 It's actually the same number that we've used in the
17 past. I think the past couple of filings we used
18 that same 10 percent downward adjustment.

19 It was judgmentally selected. We did look
20 at a couple of things. We looked at their
21 historical -- this is not part of the current
22 filing, but in prior filings what we had done is we
23 had looked at their historical loss experience from
24 non-hurricane catastrophes, as defined by Property

1 Claim Services, and we assigned each one to whether
2 it was a wind event, whether it was a winter
3 storm -- winter storm wouldn't apply, because it's
4 not wind -- and it varied quite a bit.

5 And when we were looking at that, we didn't
6 have that experience at the territorial level when
7 we were reviewing, because we were using financial
8 statements. So it was just statewide. But we did
9 get a rough idea as to how much of the losses were
10 coming from wind that would, in theory, be impacted
11 by the deductible, roughly how much of the losses
12 were coming from winter storms or things that
13 wouldn't be impacted.

14 And we made some just very rough
15 calculations, you know, because we didn't have the
16 exact deductible profile, but making certain
17 assumptions that a 10 percent downward adjustment is
18 actually a much bigger percentage reduction to just
19 the wind losses, because the non-hurricane
20 catastrophes include winter storms in addition to
21 wind. So it's more than a 10 percent adjustment to
22 just the wind component.

23 The other thing, when we did the analysis
24 this year, we kept the 10 unchanged. We didn't

1 change that assumption. But what we are
2 acknowledging, and I think we sort of hint at it
3 here, is that when we first introduced that 10
4 percent downward adjustment, I think it was around
5 the time that they were first introducing the
6 minimum deductibles. So all of the historical data
7 was under the old system. So we were doing an
8 adjustment.

9 Now, you know, of those 13 years, I would
10 say the bulk of them were prior to the change, but
11 we're now at the point where it's getting to be
12 several years that actually do reflect the wind
13 deductible and the experience. So because of that,
14 if 10 percent was the right adjustment in the past,
15 having something lower now would be appropriate.
16 But we've kept the adjustment at 10, which, if
17 anything, is maybe a little bit more aggressive than
18 what we did in the past.

19 PRESIDING OFFICER SUMNER: Does the wind
20 deductible in an MPIUA policy apply in the case of
21 wind damage from a hurricane?

22 THE WITNESS: Yes. You can have either a
23 hurricane deductible or a wind deductible, and a
24 wind deductible is more encompassing. It would be

1 for both hurricane and non-hurricane events.

2 PRESIDING OFFICER SUMNER: Did you
3 calculate the extent to which the wind deductibles
4 affect the amount of losses that MPIUA can expect
5 from wind events?

6 THE WITNESS: Well, for a hurricane, the
7 minimum wind deductibles would be reflected in their
8 exposure file. So all of the hurricane losses would
9 be reflecting their current deductibles that do
10 reflect the minimum. So that's all accurate in
11 there.

12 With regards to the non-hurricane
13 component -- non-hurricane catastrophe losses, the
14 tropical storms, those types of events, that's the
15 intent of this 10 percent provision. It's not
16 needed for the hurricane, because it's being done
17 precisely.

18 Smaller wind losses that wouldn't meet any
19 catastrophe event, for that we're using the
20 five-year experience period, which is going to be
21 mostly under the new scenario. So I think we're in
22 good shape with that.

23 PRESIDING OFFICER SUMNER: At Page 33 of
24 Volume I, under the heading "Provision for

1 Non-Hurricane Catastrophes (for HO3)," you comment
2 that "Examples of non-hurricane catastrophes are
3 tropical storms or winter storms. However, even a
4 significant thunderstorm event could reach the
5 status of a non-hurricane catastrophe."

6 What are the elements or characteristics
7 that are involved for a winter storm to be
8 classified as a non-hurricane catastrophe in the
9 MPIUA policy?

10 THE WITNESS: Specific to the MPIUA, I
11 don't think that the definition is specific to the
12 MPIUA. I believe the MPIUA is using events that PCS
13 would classify as a non-hurricane -- or just a
14 catastrophe.

15 When PCS does that, they will then say,
16 "This is a catastrophe," and they'll say what were
17 the perils that were involved. And they can say it
18 was hurricane. They can say it was specifically a
19 winter storm or snow or something like that. Or
20 they can say it was a thunderstorm. And oftentimes
21 a cat might involve more than one peril. It can be
22 a thunderstorm and rain or -- there could be a
23 number of perils that will be assigned to it.

24 But more generally, there are general

1 considerations that PCS has when they're assigning
2 an event to a catastrophe, and I'm not going to
3 necessarily be all encompassing, but I think there
4 is a minimum dollar threshold, industry dollar
5 threshold. I think it's \$25 million currently.

6 And there are some other requirements. It
7 can't be just one house that was a mansion that
8 burned down. That wouldn't qualify as a
9 catastrophe. It has to be spread over some number
10 of policies. So it has to be a somewhat --
11 something that affects multiple houses or structures
12 and a minimum industry dollar threshold.

13 PRESIDING OFFICER SUMNER: Would it be the
14 same threshold for each type of event --

15 THE WITNESS: I believe it is.

16 PRESIDING OFFICER SUMNER: -- or would it
17 vary from event to event?

18 THE WITNESS: I'm pretty sure they use the
19 same \$25 million threshold for both winter storms
20 and tropical storms, yes.

21 PRESIDING OFFICER SUMNER: On Page 57 of
22 Volume I, in Columns 4, 5 and 6 you show some
23 non-hurricane catastrophe claims in 2011 and 2012.
24 Can you identify what the events were that caused

1 those losses?

2 THE WITNESS: Offhand, I don't recall. I
3 would have reviewed that, because -- the actual --
4 those numbers would be coming from -- well, the
5 catastrophe experience was coming from the later
6 exhibits in their financial statement, where they
7 actually show by specific event. They give the
8 Property Claim Services cat code.

9 So they'll say, you know, Event 50, and
10 they'll even break it out by -- I think, it's by
11 policy year. So they'll say this event, by policy
12 year, and by annual statement line of business, so I
13 think homeowners separately from fire and allied
14 lines. And they give what these losses -- the paid
15 losses, the paid LAE, they give all of these
16 different amounts.

17 So that's where the numbers are all coming
18 from. And I know in the past I've sort of merged
19 those -- I have taken that information and compared
20 it with the cat events that are listed by Property
21 Claim Services to identify that, but offhand, I
22 don't -- I just don't recall what those events were.

23 PRESIDING OFFICER SUMNER: Thank you, Mr.
24 Ericksen.

1 PRESIDING OFFICER FARRINGTON: I just have
2 a few questions for you. In your introductory text
3 on Pages 4 and 5, where you are talking about the
4 various exhibits -- I may have misstated my pages,
5 but at some point you use the word "voluntary" --
6 "current amount factors based on voluntary market,"
7 and in the 2011 filing you used the word "industry
8 market."

9 Now, the exhibit to which you are
10 referring, which is Exhibit 8, you head the columns
11 "Industry" and "MPIUA." Is there any reason for
12 changing your terminology? Did you have something
13 different in mind when you said "voluntary"?

14 THE WITNESS: Generally, it would be
15 reasonable to think that industry is voluntary plus
16 MPIUA, but throughout my analysis, when I used the
17 word "industry," I really was using it to mean
18 voluntary companies. And industry, a better
19 definition is, what I really meant to say, it's the
20 ISO aggregate -- it's the statistical experience
21 that ISO receives.

22 So it's not even all voluntary insurers.
23 It's the voluntary insurers that report data to ISO.
24 So when I say "voluntary market," at least with

1 regard to any numbers I would have been referencing
2 from ISO information, it's simply voluntary
3 companies and just those voluntary companies that
4 report data to ISO.

5 PRESIDING OFFICER FARRINGTON: And are most
6 of those companies Massachusetts companies, writing
7 in Massachusetts or --

8 THE WITNESS: Oh, it could be -- it could
9 be countrywide. It could be Massachusetts specific.
10 But I'm pretty sure that all of the numbers would be
11 Massachusetts only. So if there was a multi-state
12 writer, a national writer, the experience that we
13 would be referencing would just be their
14 Massachusetts experience.

15 As an example, State Farm, they're a very
16 large writer countrywide. They don't report data to
17 ISO, but they're a very small company, if they write
18 anything, in Massachusetts. But we wouldn't have
19 data from State Farm. That would be an example.

20 PRESIDING OFFICER FARRINGTON: For example,
21 what you're describing -- this is on Page 30 of your
22 filing, where you're describing, "shows loss
23 development factors based on... voluntary insurers."

24 THE WITNESS: So what that really means --

1 if I said "industry" or "voluntary insurers," then
2 that would just be the voluntary insurers that
3 reported to ISO.

4 PRESIDING OFFICER FARRINGTON: And on your
5 description of Exhibit 12, Pages 31 and 32 of the
6 filing, you indicate that this year you assigned 75
7 percent weight to your annual loss trend based on
8 economic indices and 25 percent to the MPIUA
9 experience. In your 2011 filing you weighted them
10 50/50.

11 THE WITNESS: That's correct.

12 PRESIDING OFFICER FARRINGTON: And could
13 you let me know the reasons why you changed it,
14 please.

15 THE WITNESS: Yes. That was actually
16 something that I had discussed with the MPIUA, we
17 had gone back and forth on. The default assumption
18 really was to go 50/50. Generally, if that's what
19 we felt comfortable with in the past, that's a
20 starting point for this year.

21 But what we had actually looked at -- we
22 looked at it last year also, but I'm not sure if we
23 necessarily showed it -- that is the R-squared
24 provisions. The projected loss trends, whether they

1 were from Fast Track data or the economic indices or
2 the Massachusetts FAIR Plan data, they were all
3 calculated by fitting linear regressions or
4 exponential curve graphs. And the R-squared
5 statistic is sort of a measure of how good that fit
6 is. It's going to range from zero, meaning bad fit,
7 to 100 percent.

8 And the numbers for the Massachusetts FAIR
9 Plan, in this year's review, when we look at the
10 five-year time period, they were jumping all over
11 the place. So whatever trend is really being
12 indicated, there's really not a lot of confidence in
13 it.

14 And I think we even put -- this shows up on
15 Exhibit 12, Page 4; maybe it shows other places
16 too -- but the R-squared statistic for the
17 Massachusetts FAIR Plan was only 4 1/2 percent,
18 virtually close to zero. So the fact that we even
19 gave any weight to the Massachusetts FAIR Plan -- we
20 were even toying with should we even give any weight
21 to the FAIR Plan. But we thought giving some weight
22 was appropriate. 25 percent might be arguably high,
23 even though we gave 50 percent last year.

24 Ideally what we'd like to do is really give

1 100 percent weight. We would like to see a real
2 high R-squared statistic for the Massachusetts FAIR
3 Plan and rely upon that data to the best that we
4 can.

5 PRESIDING OFFICER FARRINGTON: And what
6 indices did you use? You just referred to indices.

7 THE WITNESS: Oh. Economic indices you
8 mean?

9 PRESIDING OFFICER FARRINGTON: Right.

10 THE WITNESS: We used the same information
11 that ISO uses when picking loss trend factors and
12 loss cost filings. And I'm not going to be exactly
13 right, but I think one is the Boeckh Residential
14 Index. There are a couple of economic indices that
15 are supposed to track essentially costs associated
16 with repairing homes. They're inflationary type
17 measures.

18 Let me see if I actually say what the
19 actual indices are. But the two main things to walk
20 away with is that we're using the same ones that ISO
21 uses in ISO loss cost filings, and they tend to be
22 economic measures of what it would cost to repair a
23 home.

24 PRESIDING OFFICER FARRINGTON: And these

1 are basically the same indices that you've used in
2 the past --

3 THE WITNESS: Oh, yes. Absolutely.

4 PRESIDING OFFICER FARRINGTON: -- just the
5 weighting has been different?

6 THE WITNESS: That's right.

7 Actually it says here, for homeowners, the
8 indices that show up -- which are indices that ISO
9 uses -- it's actually a weighting, it's a 55 percent
10 weight to the Boeckh Residential Index, which I had
11 said, and 45 percent weight to something called the
12 Modified Consumer Price Index. So the blending of
13 those two indices is what ISO believes is
14 appropriate to measure the costs of...

15 PRESIDING OFFICER FARRINGTON: You had some
16 discussion with Mr. Leight earlier on the subject of
17 premium trend and the value of the house and going
18 up. And I want to make sure that we're all talking
19 about the same measure. Whose measure is it?

20 THE WITNESS: What we're measuring -- yes,
21 different people can be measuring different things.
22 What we're capturing in the premium trend is not
23 necessarily the actual value of the house. What
24 we're actually measuring is the change in the

1 Coverage A limits being purchased.

2 My interpretation of what was being
3 discussed was that there should be a correlation
4 between -- if the value of the house is going up for
5 just market cost, that would generally influence the
6 policyholder to buy higher Coverage A limits, but
7 it's that that would flow into the premium trend.

8 So if house values were going down but
9 people were not lowering their coverage limits, we
10 would be showing a zero trend. We're going to show
11 the trend based upon what the actual practice of --
12 or the actual buying decisions of policyholders.

13 PRESIDING OFFICER FARRINGTON: But do you
14 have any sort of sense of what the policyholder is
15 viewing as value? In other words, the real estate
16 broker comes along and says, "Oh, you've got this
17 house, and I can easily sell it for \$400,000,
18 because property values are very high, and land is
19 worth X amount," et cetera. And then the tax
20 assessor comes along and says, "Well, here's the
21 land. It's valued at \$500 a square foot."

22 So the policyholder has got whole different
23 kinds of concepts of value, and what you really are
24 talking about, as far as I understand it, is what it

1 is going to cost to rebuild that house, the maximum
2 you're going to pay to rebuild that house in the
3 case that there is insured damage.

4 THE WITNESS: That's exactly what they
5 should be buying. That is what the insurance is
6 providing. The insurance is not providing market
7 value. It's not providing the mortgage value.
8 Homeowners insurance is covering the cost to repair
9 that structure, and that should be the basis upon
10 which the policyholders make their decision of what
11 their Coverage A limit is.

12 PRESIDING OFFICER FARRINGTON: But how does
13 a policyholder find out that piece of information?

14 THE WITNESS: That's a good question. I'll
15 bet you there are a lot of policyholders that are
16 not making good decisions, and realistically they
17 probably are buying something because their bank
18 says they need to have \$120,000.

19 In actual practice, and I can speak
20 firsthand, I know a few years ago, when I did some
21 construction on my house, I actually called my agent
22 up, and I said, "Hey, I did some construction. I
23 might know what my house could sell for, but I
24 wasn't really sure" -- this is actually what I did

1 about three or four years ago. I called my agent,
2 and they came by my house, and they told me, "You
3 need X dollars." That's what I did. And that's
4 what policyholders should do, probably.

5 PRESIDING OFFICER FARRINGTON: I have no
6 other questions for you. Thank you very much.

7 Would you like a short break?

8 MR. MEYER: No. I think we're ready to go.

9 FURTHER REDIRECT EXAMINATION

10 BY MR. MEYER:

11 Q. Just two very quick areas, Mr. Ericksen.
12 Very quickly, do you have Exhibit 23 available to
13 you, sir?

14 A. Yes.

15 Q. Looking at the "Surplus" column, Mr.
16 Ericksen, is this what you would expect to see in
17 surplus growth in years in which there was not a
18 major reinsured event?

19 A. Yes. For homeowners insurance that is
20 prone to catastrophes, you expect to have -- to earn
21 profit in years or higher than expected profits in
22 years when there isn't a hurricane, and you would
23 expect to see large losses or profits much lower
24 than expected in years where there are hurricane

1 events.

2 Q. Is there anything on Exhibit 23 in terms of
3 either the surplus figures themselves or the annual
4 change in surplus figures that leads you to believe
5 there's anything wrong with the FAIR Plan's rates?

6 A. Just by looking at this, I could definitely
7 not make that conclusion.

8 Q. Mr. Leight asked you quite a few questions
9 about underwriting profit provisions in these seven
10 years of surplus. Do you remember that series of
11 questions?

12 A. Yes.

13 Q. Do you know enough about the history of
14 rates for the FAIR Plan over these seven fiscal
15 years to know whether or not there were substantial
16 positive underwriting profit provisions in the rates
17 for the last three fiscal years?

18 A. My understanding is, as part of filing that
19 was submitted in 2009, there was a profit provision
20 that was included in indications, and in terms of
21 what was stipulated, there was an implicit profit
22 provision built in -- a substantial profit provision
23 included in the rates from that stipulation.

24 So since that went into effect sometime in

1 2010, I think it's accurate to say that the most
2 three years, years ending September 30, 2010,
3 through September 10, 2012, do include the effect of
4 either the approved or stipulated implied profit
5 provision.

6 MR. LEIGHT: I would like to move to strike
7 that question and answer, because -- I mean, we can
8 argue about this more later; I don't want to waste
9 the witness's time. But the stipulations explicitly
10 provide that they're not to be introduced for any
11 reason in the proceedings, and evidence as to what
12 was or was not stipulated to is not to be introduced
13 in this proceeding.

14 And to the extent that Mr. Meyer is
15 intending to introduce this evidence to establish
16 that there was a profit provision in the
17 stipulation, it's entirely inappropriate.

18 MR. MEYER: We can argue this, I agree,
19 when the witness isn't here, but the fact of the
20 matter is Mr. Leight opened this door by repeatedly
21 asking this question and implying to the Hearing
22 Officers and implying to the record that these seven
23 fiscal year figures included zero underwriting
24 profit provisions in rates.

1 If he's allowed to imply something that's
2 wrong, I'm allowed to put into evidence of that
3 which is right. Again, we can argue this at
4 everyone's convenience.

5 PRESIDING OFFICER FARRINGTON: I am aware
6 of the provisions in the stipulation.

7 MR. MEYER: Should I move on to the rest of
8 my redirect?

9 PRESIDING OFFICER FARRINGTON: Yes.

10 BY MR. MEYER:

11 Q. The second topic, Mr. Ericksen, you were
12 asked several questions by Mr. Leight about the
13 automatic updating of property values which might or
14 might not affect TIV. Do you remember that general
15 area of questioning?

16 A. Yes.

17 Q. Since you were asked those questions, have
18 you had an opportunity to find out whether that
19 program, that automatic computer program updating
20 has actually been put into effect yet or not?

21 A. During the break, I did discuss it with the
22 MPIUA, and I learned that there is the plan to
23 introduce that computer program type issue. It's
24 something that sounds like it's been in the works

1 for a couple of years, with continued delays due
2 to -- I don't know the exact reasons -- but various
3 implementation delays, and that apparently it's not
4 something that's going to be implemented at least
5 within the next six months. Based upon the history
6 of delays, that might be optimistic. But at least
7 within the next six months it sounds like it's not
8 going to be implemented.

9 Q. And finally, one last area of questioning,
10 Mr. Ericksen. You were asked several questions
11 about the inspection program which the MPIUA
12 initiated a while ago that had the effect, perhaps,
13 of increasing property values. Do you remember that
14 area of questioning?

15 A. Yes.

16 Q. Do you know whether or not that increased
17 attention to inspections started in 2004 or not?

18 A. My recollection, it was around the 2004
19 time period. It was a longer time ago.

20 MR. MEYER: Thank you. No further
21 questions.

22 MR. LEIGHT: I just have a couple -- did
23 you --

24 MS. MORAN: I'm all set.

1 Q. But is the answer to my question also yes?

2 A. Yes, there will be other factors
3 contributing to the change in surplus.

4 MR. LEIGHT: Thank you. That's all I have.

5 PRESIDING OFFICER FARRINGTON: Ms. Moran?

6 MS. MORAN: No.

7 PRESIDING OFFICER FARRINGTON: All right.

8 Thank you, Mr. Ericksen.

9 MR. LEIGHT: Before we close up -- I don't
10 know if you had something you wanted to say. I just
11 wanted to raise one thing, which is, some of the
12 exhibits that were produced by the next two
13 witnesses, the model witnesses, were lengthy
14 computer files. We're going to ask them some
15 questions about portions of them that we plan to
16 excerpt, but I also wanted to bring the entire
17 exhibits, so that if they wanted to look at them,
18 they could. But it's not practical unless we can --

19 PRESIDING OFFICER FARRINGTON: Are you
20 talking about --

21 MR. LEIGHT: I don't want to print them all
22 out. So what I thought I would do is bring them on
23 the computer and have them available for people to
24 look at. There won't be copies obviously for

1 everybody, and unless we can rig up something on the
2 system, everybody won't be able to look at them at
3 the same time. But if nobody has any problem with
4 that --

5 MR. MEYER: I don't have any problem in the
6 abstract with that, but I think we're all going to
7 have to be able to understand what the question is
8 referring to and what the answer is referring to.
9 So as long as that's worked out, in the abstract
10 what Mr. Leight suggests does not bother me.

11 PRESIDING OFFICER FARRINGTON: So far as
12 there is clarity, which is my concern, so that we
13 all know what we're talking about.

14 MR. LEIGHT: Right.

15 PRESIDING OFFICER SUMNER: There is the
16 ability, at least theoretically, in this room to
17 hook up a computer and have it show up on that
18 screen.

19 MR. LEIGHT: I understand that.

20 PRESIDING OFFICER SUMNER: We could have a
21 technical person here --

22 MR. LEIGHT: That also presents the same
23 problem with respect to actually memorializing what
24 it is that people are looking at.

1 I think we plan to actually excerpt
2 copies -- portions of the exhibits to mark into the
3 record, and then this would be available so that the
4 witnesses could make sure that we were actually
5 excerpting something that it was determined they
6 were familiar with and it would be available to
7 them.

8 I have certainly no problem if you can rig
9 something up.

10 MR. MEYER: Perhaps you could circulate
11 those exhibits ahead of time so we can make sure we
12 understand what portions they are -- from what
13 bigger document they are from.

14 MR. LEIGHT: Well, if we can get them
15 together in time, we certainly will.

16 MR. MEYER: I had one other matter, if
17 we're finished in this one.

18 PRESIDING OFFICER FARRINGTON: I think so.

19 MR. MEYER: We are now finished all the
20 MPIUA's witnesses other than the two hurricane
21 modeling witnesses. Traditionally in these cases,
22 we have waited until all of the industry's witnesses
23 are finished before we start the process of
24 preparing the AG's and the SRB's advisory filings,

1 the theory being they need, I don't know why, but
2 the theory is, they need the cross-examination
3 before they can do their filings.

4 Let's put that general issue aside.
5 Specifically, it seems to me that, for all issues
6 other than the hurricane modeling issues -- that
7 would mean the reinsurance issues testified to by
8 Mr. Wackerman and Mr. Ward and the traditional
9 actuarial issues testified to, for example, by Mr.
10 Ericksen -- that the AG and the SRB could begin
11 preparing their advisory filings in their areas now.

12 So what I would suggest is a scheduling
13 matter, particularly, again, because of the
14 Commissioner's expressed concern that we synchronize
15 the rate year with the reinsurance year, and
16 particularly because of the point Mr. Leight raised
17 this morning about the problems that result if rates
18 stay in effect for longer than one year, that that
19 is a problem in at least the AG's view actuarially,
20 that we try and accelerate the AG's and the SRB's
21 filings on all issues other than the hurricane
22 modeling issues which Mr. Lalonde and Ms. Clark are
23 going to testify to a couple of weeks down the road.

24 I just don't see the need for three more

1 weeks' delay. So I would suggest that to the
2 Hearing Officers and to the parties.

3 PRESIDING OFFICER FARRINGTON: You're
4 welcome to comment.

5 MR. LEIGHT: I mean, I haven't really
6 considered that. It would be tough for us to get
7 the filings together very quickly now anyway, since
8 we had anticipated that things would be done as they
9 always have been done in the past. And I can also
10 say that, at least as to the reinsurance and the
11 hurricane provisions, the filing materials are
12 interrelated. The filings are going to be about the
13 same issues.

14 So I'm not sure that that would make sense
15 anyway. I don't know how much you gain by just
16 doing earlier filings on some of the more minor
17 issues.

18 PRESIDING OFFICER FARRINGTON: Ms. Moran?
19 Mr. McCall?

20 MR. McCALL: I would agree with Mr.
21 Leight's comments.

22 PRESIDING OFFICER FARRINGTON: My
23 immediate -- my reaction to that is so much of this
24 does involve the integration of the hurricane

1 modeling process into what everybody else does that
2 I am not sure that it's a terribly practical
3 suggestion.

4 MR. MEYER: I would only make the point, in
5 response to what's been said, that what we're now
6 talking about is waiting three more weeks for Mr.
7 Lalonde's and Ms. Clark's testimony to be heard on
8 the record, and that that's going to start some next
9 clock, say, on any response that the AG might have
10 hypothetically, say, to loss trending or premium
11 trending. And I don't understand why that delay
12 makes sense.

13 But I've made the suggestion and people
14 have heard me. I leave it for what people --

15 PRESIDING OFFICER FARRINGTON: I think at
16 this point it would be premature to make any such
17 scheduling adjustment.

18 Okay. I guess that completes today's
19 testimony. Thank you.

20 (Whereupon the hearing was
21 adjourned at 1:30 p.m.)
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C E R T I F I C A T E

I, Carol H. Kusinitz, Registered
Professional Reporter, do hereby certify that the
foregoing transcript, Volume IV, is a true and
accurate transcription of my stenographic notes
taken on July 22, 2013.



Carol H. Kusinitz
Registered Professional Reporter

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	account (9) 38:1;50:4,5;51:18; 63:19;66:7;67:8; 69:18;105:16	24;70:3,21;71:13,22; 72:17;73:4,13;74:1; 98:8;108:4,13,18; 109:17,21;110:4,8,14, 16;134:17	14:24;16:22;17:8,10; 18:1,5,10;20:21; 21:24;22:19,22; 23:10;25:20,20;26:2, 6,13,19;32:7,9,15,21, 24;33:3,22;34:16; 35:20;42:7;46:2;47:2; 75:5;76:5,7,9;80:13; 83:10;87:6,8,18; 100:10,16	61:10,14,19;65:20; 66:4;67:17;68:8,17, 18,21;81:6;87:19,23; 90:2;91:10;114:12; 117:7;124:3
\$	accurate (15) 8:12;10:23;25:22; 36:11;68:15;70:18; 86:15;89:3;90:12; 91:20;104:2;111:10; 125:1;128:6;135:5	adjustments (1) 66:4	24;33:3,22;34:16; 35:20;42:7;46:2;47:2; 75:5;76:5,7,9;80:13; 83:10;87:6,8,18; 100:10,16	annually (1) 86:1
\$100,000 (1) 49:5	acknowledging (1) 110:2	adjustor (1) 84:12	AIR-modeled (1) 17:16	answered (2) 8:23;16:9
\$105,000 (1) 49:6	Across (1) 23:2	administrative (1) 69:11	AIR's (1) 40:9	anticipated (1) 133:8
\$120,000 (1) 122:18	Actual (12) 17:2,3;19:6;21:8; 47:19;78:22;114:3; 119:19;120:23; 121:11,12;122:19	adopt (3) 8:11;73:12;102:10	allied (1) 114:13	AOI (4) 62:2,4,11;63:17
\$13 (4) 95:19;96:24;97:6, 11	Actually (47) 8:1;12:18;13:7; 17:11;22:10;23:2; 24:22;25:6,9;26:12; 40:20;46:1;54:12; 55:23;56:4,12;57:19; 67:11;70:12;77:23; 79:9;80:12,13;83:19; 92:9;93:24;96:17; 106:2,24;108:16; 109:18;110:12;114:7; 117:15,21;119:18; 120:7,9,24;122:21,24; 126:20;128:6,12; 130:23;131:1,4	advisory (2) 131:24;132:11	allocated (1) 44:9	AOP (1) 107:9
\$25 (2) 113:5,19	Actuarial (6) 7:19;41:14;74:21; 88:23;89:5;132:9	affect (7) 41:10,11;49:9,11; 66:21;111:4;126:14	allocating (2) 43:23;44:5	apart (4) 54:19;93:22;96:10; 97:6
\$25.1 (1) 91:11	actuarially (2) 25:22;132:19	affected (1) 100:3	allocation (1) 44:13	apologize (3) 16:10;80:21;102:3
\$25.2 (1) 33:1	actuary (5) 56:9;88:24;89:7,11, 12	affects (1) 113:11	allowed (2) 126:1,2	apparently (1) 127:3
\$26.9 (1) 32:23	actuary's (1) 41:20	afterwards (1) 104:14	alone (1) 61:1	appear (6) 17:18;70:20;78:4,6; 79:2,3
\$37 (1) 83:9	ad (1) 23:12	AG (3) 9:11;132:10;134:9	along (3) 14:9;121:16,20	appears (8) 23:22;70:20;78:7; 85:14;87:1;90:21; 91:21;92:6
\$37.5 (2) 32:22;80:20	add (1) 83:3	Again (13) 8:4;12:3;16:20; 24:20;27:12;35:1; 53:13,23;60:3;94:20; 95:21;126:3;132:13	alternative (1) 43:5	appendices (2) 98:10;103:22
\$400,000 (1) 121:17	added (3) 56:7,7;83:17	against (1) 55:19	always (7) 73:10,19;88:3,8; 104:18;107:11;133:9	Appendix (3) 101:24;103:12,18
\$41.2 (2) 81:9;82:21	addition (3) 77:3;109:20;128:21	agent (2) 122:21;123:1	amount (17) 49:1;53:19;58:4; 62:2,7,8;74:22;76:5,6, 6;77:23;78:10,13; 86:11;111:4;115:6; 121:19	appendix-related (1) 103:19
\$500 (1) 121:21	additional (3) 40:8,15;46:9	agents (1) 107:3	amounts (4) 20:5;74:17;82:13; 114:16	apples-to-apples (2) 63:11;88:16
\$70 (1) 85:23	address (6) 7:14;39:11;43:22; 44:15,16;45:5	aggregate (1) 115:20	analysis (31) 13:16;17:3,11,16; 18:6;20:1,19;37:18; 40:8;41:13,17;42:14; 43:16;45:9;50:5; 52:18;53:1,2;56:13; 57:10;59:6;71:16; 79:6;80:16;81:20; 82:9;83:14;87:21; 88:12;109:23;115:16	applicable (3) 14:16;41:14,17
\$72.9 (2) 79:20;91:9	adjourned (1) 134:21	aggressive (1) 110:17	analyzed (1) 99:8	application (1) 31:24
\$80 (1) 85:24	adjusted (1) 105:15	aggressively (1) 64:19	analyzing (1) 27:15	applied (4) 40:11;87:4;107:10; 108:2
A	adjustment (23) 40:13;67:7;69:17,	ago (11) 55:22,22;56:5; 64:19;93:18;95:23; 106:2;122:20;123:1; 127:12,19	a-n-d (1) 5:12	apply (5) 35:10;106:21; 108:4;109:3;110:20
AAL (1) 20:21		agree (17) 5:14;6:4;12:11; 13:20;28:3,15;29:17; 35:17;38:19;76:23; 77:8;78:9,13;86:19; 89:14;125:18;133:20	annual (35) 26:10;29:20;30:14; 31:16,22;32:1,21,22; 34:17;38:23;39:6,13; 48:16,17,20;50:14,19;	approach (2) 26:4;56:6
ability (1) 130:16		agreed (1) 86:22		appropriate (9) 38:1;44:22;45:6; 46:13;56:16;108:12; 110:15;118:22; 120:14
able (4) 25:12;108:6;130:2, 7		AG's (4) 9:5;131:24;132:19, 20		approved (13) 93:10,13,17,18,22; 95:15,22,24;96:9; 97:5,6;100:6;125:4
above (2) 37:10;58:22		ahead (1) 131:11		April (1) 33:8
absolute (1) 88:15		AIR (45) 12:19,23;13:6,9;		area (5) 31:16;64:2;126:15; 127:9,14
absolutely (3) 102:2;120:3;128:22				
abstract (2) 130:6,9				
accelerate (1) 132:20				
accept (3) 72:24;92:10;93:4				
accident (2) 44:11;52:1				
according (5) 36:19;38:3,19; 40:12;77:9				

<p>areas (3) 41:22;123:11; 132:11</p> <p>arguably (1) 118:22</p> <p>argue (3) 125:8,18;126:3</p> <p>argued (1) 76:17</p> <p>arithmetic (1) 28:22</p> <p>arose (1) 6:10</p> <p>around (3) 6:3;110:4;127:18</p> <p>arrive (1) 108:12</p> <p>aside (1) 132:4</p> <p>ASOP (7) 10:15;11:5;17:17; 23:17;32:12;42:3; 45:20</p> <p>ASOPs (1) 41:17</p> <p>aspects (2) 58:18;105:5</p> <p>assess (1) 59:5</p> <p>assessing (1) 17:9</p> <p>Assessment (3) 15:5;19:10;23:19</p> <p>assessor (1) 121:20</p> <p>assign (1) 54:4</p> <p>assigned (3) 109:1;112:23;117:6</p> <p>assigning (1) 113:1</p> <p>associated (4) 14:23;42:11;43:5; 119:15</p> <p>associative (1) 77:3</p> <p>Associativity (1) 76:19</p> <p>assume (5) 41:7;51:19,20,24; 55:12</p> <p>assumed (2) 51:4;82:23</p> <p>assumes (2) 51:10;60:22</p> <p>assuming (2) 58:17;69:20</p> <p>assumption (3) 50:13;110:1;117:17</p> <p>assumptions (6) 18:14,21;26:1,3,4; 109:17</p> <p>attached (1)</p>	<p>33:8</p> <p>attention (6) 27:1,4;42:3;79:5; 103:9;127:17</p> <p>Attorney (1) 33:7</p> <p>attributable (1) 92:4</p> <p>automatic (6) 66:16;67:1,7,15; 126:13,19</p> <p>automatically (1) 65:20</p> <p>available (12) 11:18;27:23;56:22, 23;66:12,16;88:7; 107:18;123:12; 129:23;131:3,6</p> <p>average (53) 23:3;26:10;30:20; 31:16,22;32:1,21,22; 34:17,22;35:3,6; 38:23;39:5,12;40:10, 21;44:9,13;45:3; 49:18;50:4;51:7,7,8, 20,21,22,24;52:1; 58:5;62:1,2,4,11,12; 67:21;68:17;72:17, 20,21,22,22,23;73:17, 17,20;81:6;85:9,18; 99:19;105:12;128:18</p> <p>aware (15) 14:18;15:9,21;18:5, 8,9;24:23;48:12; 54:21;65:18,22,23; 75:13;76:1;126:5</p> <p>away (1) 119:20</p> <p>axiom (1) 77:6</p>	<p>10,21,23;31:3;34:23; 37:11,15;50:13; 52:23;53:1;54:6;61:1, 4,8;63:22;65:8;67:22, 23;71:16,18;75:5; 76:7;87:21;88:13; 89:5,21;100:10; 115:6;116:23;117:7; 121:11;127:5</p> <p>bases (1) 56:23</p> <p>basic (3) 41:9;77:2,6</p> <p>Basically (2) 29:9;120:1</p> <p>basis (3) 65:20;70:10;122:9</p> <p>Bates (1) 15:6</p> <p>became (1) 15:8</p> <p>begin (4) 5:6;59:24;60:2; 132:10</p> <p>beginning (14) 5:4;36:5;38:5; 43:20,20;50:14,24; 51:12;52:12;66:8,20; 87:24;88:18,19</p> <p>begins (3) 21:2;40:1;45:12</p> <p>behind (1) 24:12</p> <p>belief (4) 8:24;10:24;63:15; 104:3</p> <p>believes (1) 120:13</p> <p>below (1) 57:4</p> <p>best (4) 8:23;10:24;104:2; 119:3</p> <p>bet (1) 122:15</p> <p>better (1) 115:18</p> <p>beyond (1) 52:21</p> <p>bigger (2) 109:18;131:13</p> <p>bit (4) 24:12;26:12;109:4; 110:17</p> <p>blanket (2) 73:10;106:21</p> <p>blending (1) 120:12</p> <p>Bob (1) 29:15</p> <p>Boeckh (2) 119:13;120:10</p> <p>book (6)</p>	<p>34:4,23;35:4;46:14, 22;47:2</p> <p>borderline (1) 38:17</p> <p>both (7) 9:10;13:6;64:13; 68:16;72:11;111:1; 113:19</p> <p>bother (1) 130:10</p> <p>bottom (6) 8:18;24:14;31:15, 18;77:7;89:24</p> <p>bought (2) 49:4,7</p> <p>Boulevard (1) 7:15</p> <p>box (3) 24:14;31:15,19</p> <p>boxed (1) 31:16</p> <p>boy (1) 94:10</p> <p>Brannon (1) 56:8</p> <p>break (13) 32:16;45:12;92:13; 93:7;100:23;101:2,4, 14,20;114:10;123:7; 126:21;128:3</p> <p>briefly (1) 11:2</p> <p>bring (2) 129:16,22</p> <p>broker (1) 121:16</p> <p>building (2) 63:2;67:9</p> <p>built (3) 46:15;68:22;124:22</p> <p>bulk (1) 110:10</p> <p>bump-up (1) 66:20</p> <p>burned (1) 113:8</p> <p>business (7) 34:23;35:4;46:14, 23;47:3;108:3;114:12</p> <p>buy (4) 49:1,5,19;121:6</p> <p>buying (3) 121:12;122:5,17</p> <p>bypassed (1) 13:23</p> <p>Bypasser (2) 37:9,13</p>	<p>83:6;84:24;85:3;87:7; 91:19;92:8,9;94:23; 111:3</p> <p>calculated (8) 61:8,12,20;69:12; 80:12;94:9;118:3; 128:12</p> <p>Calculating (5) 30:17;35:9;52:18; 66:6;92:14</p> <p>bottom (25) 12:19;30:8,19,22; 51:16;62:10;63:21; 64:11;68:2;76:14; 79:9,13;83:7,19; 85:10,19,20;87:5,8; 90:20;92:11;94:21; 95:13;100:24;128:16</p> <p>calculations (16) 12:10,16;25:7,12, 15;26:7;71:18;76:9, 16;87:17;88:11;95:8; 98:4;100:18,21; 109:15</p> <p>calendar (1) 70:10</p> <p>called (6) 62:9;101:24;103:8; 120:11;122:21;123:1</p> <p>calls (1) 54:20</p> <p>came (2) 6:14;123:2</p> <p>can (80) 5:17,22;6:2,9;7; 12:13;14:5;17:12; 20:3;22:8;24:11; 26:22;27:1;28:6; 29:20;30:9,14,20; 32:13,16;36:16;41:3, 16;42:13;48:14;50:4, 19,21,22;51:16;53:5, 7,13;55:15;56:18; 58:7,11,14;60:9,11; 62:21;63:14;66:14; 67:10,10;68:10;73:9; 74:15,16;78:12; 91:19;92:12,12;93:6, 7,8,12;99:11;106:22; 107:15;110:22;111:4; 112:17,18,20,21; 113:24;119:4;120:21; 121:17;122:19;125:7, 18;126:3;129:18; 130:1;131:8,11,14; 132:3;133:9</p> <p>capturing (1) 120:22</p> <p>Carol (3) 29:14;135:2,10</p> <p>Carpenter (1) 79:1</p> <p>case (16)</p>
	B			
	<p>back (12) 29:23;31:14;56:19; 60:21;65:3;76:12; 78:1;79:23;94:3;97:8; 102:21;117:17</p> <p>bad (1) 118:6</p> <p>balance (1) 98:14</p> <p>ballpark (1) 26:13</p> <p>bank (1) 122:17</p> <p>Barnstable (1) 104:17</p> <p>base (8) 55:19,23;56:1,10, 15,18,21;83:16</p> <p>based (35) 21:24;25:17;30:6,</p>	<p>8:23;10:24;104:2; 119:3</p> <p>bet (1) 122:15</p> <p>better (1) 115:18</p> <p>beyond (1) 52:21</p> <p>bigger (2) 109:18;131:13</p> <p>bit (4) 24:12;26:12;109:4; 110:17</p> <p>blanket (2) 73:10;106:21</p> <p>blending (1) 120:12</p> <p>Bob (1) 29:15</p> <p>Boeckh (2) 119:13;120:10</p> <p>book (6)</p>	<p>34:4,23;35:4;46:14, 22;47:2</p> <p>borderline (1) 38:17</p> <p>both (7) 9:10;13:6;64:13; 68:16;72:11;111:1; 113:19</p> <p>bother (1) 130:10</p> <p>bottom (6) 8:18;24:14;31:15, 18;77:7;89:24</p> <p>bought (2) 49:4,7</p> <p>Boulevard (1) 7:15</p> <p>box (3) 24:14;31:15,19</p> <p>boxed (1) 31:16</p> <p>boy (1) 94:10</p> <p>Brannon (1) 56:8</p> <p>break (13) 32:16;45:12;92:13; 93:7;100:23;101:2,4, 14,20;114:10;123:7; 126:21;128:3</p> <p>briefly (1) 11:2</p> <p>bring (2) 129:16,22</p> <p>broker (1) 121:16</p> <p>building (2) 63:2;67:9</p> <p>built (3) 46:15;68:22;124:22</p> <p>bulk (1) 110:10</p> <p>bump-up (1) 66:20</p> <p>burned (1) 113:8</p> <p>business (7) 34:23;35:4;46:14, 23;47:3;108:3;114:12</p> <p>buy (4) 49:1,5,19;121:6</p> <p>buying (3) 121:12;122:5,17</p> <p>bypassed (1) 13:23</p> <p>Bypasser (2) 37:9,13</p>	<p>83:6;84:24;85:3;87:7; 91:19;92:8,9;94:23; 111:3</p> <p>calculated (8) 61:8,12,20;69:12; 80:12;94:9;118:3; 128:12</p> <p>Calculating (5) 30:17;35:9;52:18; 66:6;92:14</p> <p>bottom (25) 12:19;30:8,19,22; 51:16;62:10;63:21; 64:11;68:2;76:14; 79:9,13;83:7,19; 85:10,19,20;87:5,8; 90:20;92:11;94:21; 95:13;100:24;128:16</p> <p>calculations (16) 12:10,16;25:7,12, 15;26:7;71:18;76:9, 16;87:17;88:11;95:8; 98:4;100:18,21; 109:15</p> <p>calendar (1) 70:10</p> <p>called (6) 62:9;101:24;103:8; 120:11;122:21;123:1</p> <p>calls (1) 54:20</p> <p>came (2) 6:14;123:2</p> <p>can (80) 5:17,22;6:2,9;7; 12:13;14:5;17:12; 20:3;22:8;24:11; 26:22;27:1;28:6; 29:20;30:9,14,20; 32:13,16;36:16;41:3, 16;42:13;48:14;50:4, 19,21,22;51:16;53:5, 7,13;55:15;56:18; 58:7,11,14;60:9,11; 62:21;63:14;66:14; 67:10,10;68:10;73:9; 74:15,16;78:12; 91:19;92:12,12;93:6, 7,8,12;99:11;106:22; 107:15;110:22;111:4; 112:17,18,20,21; 113:24;119:4;120:21; 121:17;122:19;125:7, 18;126:3;129:18; 130:1;131:8,11,14; 132:3;133:9</p> <p>capturing (1) 120:22</p> <p>Carol (3) 29:14;135:2,10</p> <p>Carpenter (1) 79:1</p> <p>case (16)</p>
			C	
			<p>calculate (17) 29:20;30:14;79:4; 80:3,13,14,15;82:12;</p>	

6:4;7:24;8:6,20; 12:5;32:2;56:19; 72:16;73:11,16; 74:19,23;95:23;96:9; 110:20;122:3 cases (3) 68:16;93:18;131:21 cat (8) 44:6,8,10,12,23; 112:21;114:8,20 catastrophe (28) 53:12,22;54:5,5,7; 55:11,17;56:2;57:2,5, 9,21;71:12,21;72:11, 18;73:13;105:13; 111:13,19;112:5,8,14, 16;113:2,9,23;114:5 catastrophes (14) 54:4,11;70:21;71:2, 4,8;72:12,13;73:5; 108:24;109:20;112:1, 2;123:20 catastrophic (1) 43:24 Categories (1) 38:17 Category (9) 34:5;35:11;36:16, 21;37:5,10,13,17; 38:17 cause (1) 49:6 caused (1) 113:24 causes (1) 53:16 cede (1) 74:16 ceded (11) 74:7,13,16,21;75:3; 76:7;78:2,3;80:11; 82:19;90:8 ceding (1) 74:14 central (1) 58:23 certain (5) 22:23;25:8;88:3; 98:2;109:16 Certainly (6) 10:5;28:11;81:22; 86:3;131:8,15 certify (1) 135:3 cetera (1) 121:19 chance (1) 128:3 change (26) 20:15;43:22;44:16; 48:17,18,21,22;49:1, 3;50:2,6;61:10,14,19; 63:18;64:8,22;94:23;	95:7;106:2;110:1,10; 120:24;124:4;128:23; 129:3 changed (3) 64:6,9;117:13 changes (7) 50:1,10;62:1;63:2; 65:11,15;68:23 changing (1) 115:12 characteristics (4) 41:5;46:14;67:8; 112:6 characterize (2) 17:7;25:24 check (8) 17:7;87:16;90:1; 95:9;100:24;128:3,5, 6 checked (2) 87:13,15 checking (2) 26:21;95:3 Circular (2) 62:24;63:4 circulate (4) 5:18;6:3;104:14; 131:10 circumstances (1) 89:10 cite (1) 32:13 City (1) 7:15 Claim (8) 54:2,6,8,20,24; 109:1;114:8,21 claims (9) 70:23;71:12,13,21, 22;72:18;73:14; 84:12;113:23 clarification (3) 13:4;37:11;83:13 clarity (1) 130:12 Clark (35) 15:3,10,18,22;16:8, 21;17:14,21,24;18:6, 10,13,22;19:7,10; 23:20;24:3;25:19; 26:18,23;27:13,14; 28:3,9,13,24;29:7,10, 21;30:10;32:24;33:3; 36:21;37:12;132:22 Clark's (1) 134:7 CLAS (1) 40:2 classical (1) 53:8 classified (5) 13:21;14:8;31:7,9; 112:8	classify (2) 54:3;112:13 clock (1) 134:9 close (2) 118:18;129:9 closely (1) 18:17 coast (1) 106:14 Coastal (6) 45:2;105:17,22; 106:11;108:2,14 code (1) 114:8 collect (1) 54:11 collects (2) 54:9,19 column (2) 34:19;123:15 Columns (3) 20:5;113:22;115:10 combination (1) 64:12 combined (1) 79:4 combines (1) 72:10 comfort (1) 25:9 comfortable (2) 89:23;117:19 comforting (1) 23:7 coming (6) 55:16;109:10,12; 114:4,5,17 comment (3) 56:12;112:1;133:4 commented (1) 56:6 commenting (1) 30:1 comments (5) 18:20,23,24;19:3; 133:21 Commissioner (6) 93:10,14,17,19; 95:24;97:5 Commissioner's (1) 132:14 commissions (1) 69:10 common (1) 48:24 companies (10) 53:14;63:3,66:1; 67:4;99:23;115:18; 116:3,3,6,6 Company (18) 15:4,10,18,22;16:8, 21;17:22,24;18:7,10,	22;23:20;27:15;28:4, 13;33:3;37:12;116:17 company's (1) 18:3 company-specific (1) 53:24 comparable (1) 62:5 compare (2) 59:15;88:14 compared (6) 43:3;73:13;99:21, 22;114:19;128:14 compares (1) 22:14 comparing (2) 42:10;47:22 Comparison (5) 21:23;36:24;37:1; 63:12;88:16 comparisons (1) 23:11 compelled (1) 20:15 complete (2) 19:16;25:2 completed (1) 103:15 completes (1) 134:18 component (2) 109:22;111:13 computer (5) 126:19,23;129:14, 23;130:17 concept (5) 48:20;51:19;57:23; 74:3;75:1 concepts (1) 121:23 concern (2) 130:12;132:14 conclusion (5) 22:20;28:7;33:2; 49:23;124:7 confidence (1) 118:12 confirm (1) 92:3 Connecticut (1) 38:13 connection (6) 78:20;81:16;83:24; 84:3;97:23;99:13 consider (4) 20:12;45:21;51:2; 104:22 consideration (3) 17:9;41:23;45:23 considerations (1) 113:1 considered (10) 42:7,9,15;56:11,17;	57:1,9;61:3,6;133:6 consistency (2) 22:24;42:7 consistent (8) 21:10;57:14;74:11; 81:12,23;92:8;94:22; 95:5 constant (2) 55:12;56:3 construction (3) 43:1;122:21,22 consultants (1) 15:23 Consulting (1) 7:20 Consumer (1) 120:12 contain (1) 11:2 contained (1) 104:1 context (1) 45:24 continued (1) 127:1 contribute (1) 128:23 contributing (1) 129:3 control (1) 74:1 convenience (3) 8:5;101:9;126:4 copies (5) 102:20,21;104:14; 129:24;131:2 copy (5) 16:2;18:1;96:16; 102:19,24 correction (1) 5:14 corrections (1) 8:8 correctly (1) 58:18 correlation (1) 121:3 corresponding (1) 22:15 corroborate (3) 16:21;32:6,9 corroborates (1) 26:9 cost (22) 61:24;77:18,22,23; 78:8;89:1,13,14; 90:16,19;91:3,8;92:4; 95:14,16;96:8; 119:12,21,22;121:5; 122:1,8 costs (5) 58:6;89:9;100:9; 119:15;120:14
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<p>countrywide (2) 116:9,16</p> <p>couple (7) 106:3;108:17,20; 119:14;127:1,22; 132:23</p> <p>course (2) 51:11;105:14</p> <p>court (2) 102:22,24</p> <p>courtesy (1) 103:8</p> <p>cover (1) 103:11</p> <p>Coverage (15) 49:2,7,16;53:9,9; 64:22;65:8,11; 106:15,16,19;121:1,6, 9;122:11</p> <p>covered (1) 84:16</p> <p>covering (1) 122:8</p> <p>credibility (1) 41:19</p> <p>CROSS (2) 11:19;45:16</p> <p>cross-examination (5) 5:4;6:10;11:18; 45:13;132:2</p> <p>cross-referencing (1) 90:14</p> <p>current (7) 22:13;77:12;78:20; 94:7;108:21;111:9; 115:6</p> <p>currently (3) 36:9;105:17;113:5</p> <p>curve (2) 62:7;118:4</p> <p>cutoff (1) 57:3</p>	<p>20:20,23;21:12;27:6; 35:24;43:15;51:3,4,5, 8,9,20;52:1,2,3;88:20, 21;107:6</p> <p>dated (2) 10:13;33:8</p> <p>dates (1) 43:15</p> <p>Dave (2) 82:6,7</p> <p>David (3) 46:12,15;80:20</p> <p>deal (2) 50:8;69:23</p> <p>dealing (1) 50:9</p> <p>deals (1) 50:17</p> <p>decide (1) 89:8</p> <p>decides (1) 89:12</p> <p>deciding (1) 75:12</p> <p>decision (3) 96:18;97:16;122:10</p> <p>decisions (2) 121:12;122:16</p> <p>decline (2) 23:2,3</p> <p>deductible (15) 43:1;106:10,20; 107:7,10,12,13; 108:14;109:11,16; 110:13,20,23,23,24</p> <p>deductibles (10) 43:10;105:8,18,23; 106:4;108:9;110:6; 111:3,7,9</p> <p>default (1) 117:17</p> <p>defer (2) 82:7;101:15</p> <p>deficient (2) 59:22,24</p> <p>define (4) 50:7;53:5,15;59:3</p> <p>defined (4) 34:5;53:7;77:22; 108:24</p> <p>definitely (8) 54:22;67:12;69:2; 71:7;77:1;81:19; 87:10;124:6</p> <p>definition (10) 13:14;14:15,19,21, 22;31:3;37:11;53:8; 112:11;115:19</p> <p>degree (1) 57:4</p> <p>delay (2) 133:1;134:11</p> <p>delays (3)</p>	<p>127:1,3,6</p> <p>delivered (1) 15:18</p> <p>demand (26) 38:24;39:2,5,8,9,12, 15,17,20;40:3,7,8,11, 13,18,24;41:7,9; 45:19;46:1,4,6;47:1, 22;48:5,6</p> <p>demonstrates (1) 25:20</p> <p>depend (1) 53:23</p> <p>dependent (1) 41:4</p> <p>depending (3) 96:1;106:13,19</p> <p>depends (5) 46:13;50:2;70:24; 106:13,15</p> <p>derived (1) 91:22</p> <p>Derrig (1) 99:18</p> <p>described (2) 31:4;42:14</p> <p>describing (2) 116:21,22</p> <p>description (2) 25:5;117:5</p> <p>designation (1) 14:10</p> <p>detail (2) 24:1;25:2</p> <p>detailed (1) 18:2</p> <p>details (2) 34:3;97:17</p> <p>determine (3) 13:15;43:4;128:14</p> <p>determined (4) 48:8,11,13;131:5</p> <p>determining (1) 47:18</p> <p>develop (2) 18:14;35:20</p> <p>developing (1) 26:6</p> <p>development (1) 116:23</p> <p>deviations (1) 59:8</p> <p>difference (3) 23:5,7;57:20</p> <p>different (26) 6:12;27:24;42:11, 23;43:2,11;52:7,9; 53:13,14,14;55:20,23; 59:4;67:8;70:9,11; 96:1,6;106:17; 114:16;115:13;120:5, 21,21;121:22</p> <p>differently (3)</p>	<p>50:6;53:7,15</p> <p>DIRECT (8) 7:10,24;19:8;27:1, 4;29:3;42:3;79:5</p> <p>directed (2) 8:22;27:21</p> <p>directly (1) 18:5</p> <p>disapproved (1) 94:2</p> <p>discovery (2) 9:10;21:18</p> <p>discrepancies (1) 27:24</p> <p>discuss (4) 23:18;67:13,14; 126:21</p> <p>discussed (6) 52:14;67:12;74:4; 90:20;117:16;121:3</p> <p>discussing (2) 23:9;105:14</p> <p>discussion (2) 15:11;120:16</p> <p>discussions (1) 75:12</p> <p>displayed (1) 76:18</p> <p>Dissimilarities (1) 12:6</p> <p>distance (1) 106:14</p> <p>distribute (1) 96:20</p> <p>divided (5) 30:18,24;35:8,9; 83:1</p> <p>division (1) 90:7</p> <p>docket (2) 9:14,18</p> <p>document (43) 6:16;7:1;8:2,15; 9:17;10:9,13,14,23; 11:15;19:13;22:4,7,9, 11;25:12;29:5,11; 32:18;33:13,17;72:8, 15;79:3;86:19;89:19; 90:13;91:7;93:1; 94:11,18;95:1;96:16, 22;97:10;99:2; 101:24;102:6;103:9, 10;104:1,11;131:13</p> <p>documentation (2) 10:15;11:4</p> <p>documented (3) 17:14;30:3;42:14</p> <p>documents (3) 23:13;32:3;79:14</p> <p>dollar (3) 113:4,4,12</p> <p>dollars (1) 123:3</p>	<p>done (11) 12:18;39:17;73:21, 22;95:12;100:20; 108:22;111:16;113:8; 133:8,9</p> <p>Donna (1) 29:14</p> <p>door (1) 125:20</p> <p>double-check (3) 91:7;93:7,8</p> <p>down (13) 8:18;32:17;36:5; 43:19;57:7;59:19; 60:9,11;67:6,10; 70:14;121:8;132:23</p> <p>downward (8) 60:5,12,15;105:15; 108:4,18;109:17; 110:4</p> <p>downwards (1) 67:7</p> <p>draft (7) 15:12;16:2,12,14, 24;18:16;24:22</p> <p>draw (2) 28:6;37:1</p> <p>drive (1) 63:18</p> <p>due (2) 31:5;127:1</p> <p>Dukes (1) 104:18</p> <p>during (13) 6:9;38:4,11,20; 53:3;99:20;100:2,7, 13;105:19;126:21; 128:13,18</p> <p>dwelling (2) 79:16;103:22</p>
E				
<p style="text-align: center;">D</p> <p>damage (5) 13:20;14:3;34:4; 110:21;122:3</p> <p>damages (1) 14:11</p> <p>data (46) 21:5,8,10;26:19; 27:6,9,11,15,21; 41:19;44:11;54:10, 11,19;57:12;61:1,4,5, 5,7,9;63:6,7,11;65:8; 66:11,15;67:23;68:4, 7,12;70:3,6,6;71:20; 73:11,19;88:6;110:6; 115:23;116:4,16,19; 118:1,2;119:3</p> <p>date (21) 15:16,17;19:23;</p>	<p>earlier (9) 9:2,6,14;24:22; 31:4;83:9;91:13; 120:16;133:16</p> <p>earmark (1) 57:16</p> <p>earmarked (2) 14:1;54:7</p> <p>earn (2) 99:23;123:20</p> <p>earned (3) 55:20;100:8,14</p> <p>easier (2) 5:16;44:14</p> <p>easily (1) 121:17</p> <p>economic (8) 41:9;67:22;68:3; 117:8;118:1;119:7, 14,22</p>			

<p>Edna (1) 29:14</p> <p>effect (11) 50:14,24;52:5,19; 53:3;69:21;124:24; 125:3;126:20;127:12; 132:18</p> <p>effective (8) 51:4,5,9,20;52:2,3, 16;69:19</p> <p>effort (1) 64:15</p> <p>either (8) 15:23;74:18;94:2; 96:12;108:7;110:22; 124:3;125:4</p> <p>elect (1) 88:24</p> <p>elements (2) 45:20;112:6</p> <p>elevan (1) 38:10</p> <p>else (10) 49:13;55:7,10; 59:18;65:13,16; 100:3,5;101:16;134:1</p> <p>encompassing (2) 110:24;113:3</p> <p>end (2) 103:21;107:1</p> <p>ending (1) 125:2</p> <p>endorsements (1) 14:20</p> <p>England (1) 29:13</p> <p>enough (1) 124:13</p> <p>entail (1) 36:12</p> <p>enter (1) 98:4</p> <p>entering (1) 63:16</p> <p>entire (2) 100:2;129:16</p> <p>entirely (1) 125:17</p> <p>entities (2) 54:23;55:1</p> <p>entitled (3) 12:5;15:4;21:23</p> <p>equal (10) 49:14;55:7,10; 59:18;65:13,16; 74:22;82:24;100:4,5</p> <p>equation (10) 76:19,20,24;77:1, 11,13;78:4,11,15; 90:20</p> <p>equivalent (1) 76:16</p> <p>ERICKSEN (32)</p>	<p>7:9,13,22;8:16; 10:12;11:3,21;17:20; 19:24;22:6;23:8;27:3; 30:20;33:19;36:1; 39:22;40:17;44:14; 45:10,18;72:10; 102:4;103:3,7; 104:15;114:24; 123:11,16;126:11; 127:10;129:8;132:10</p> <p>Ericksen's (1) 102:1</p> <p>essentially (1) 119:15</p> <p>establish (1) 125:15</p> <p>estate (1) 121:15</p> <p>estimate (3) 26:10;40:14;58:23</p> <p>estimated (2) 43:23;44:5</p> <p>estimates (9) 18:10;19:1;25:19, 21;31:17;32:5,8;34:4; 40:9</p> <p>et (1) 121:19</p> <p>evaluate (2) 17:15;26:23</p> <p>evaluated (1) 64:4</p> <p>even (10) 76:2;98:11;112:3; 114:10;115:22; 118:14,18,20,20,23</p> <p>event (20) 13:18;20:16;30:21; 31:13;35:20;53:16; 70:5,11;84:14;109:2; 111:19;112:4;113:2, 14,17,17;114:7,9,11; 123:18</p> <p>events (18) 14:5;29:12,21;30:2, 15;37:22,23;54:3,6; 70:13;111:1,5,14; 112:12;113:24; 114:20,22;124:1</p> <p>everybody (3) 130:1,2;134:1</p> <p>everyone (1) 101:16</p> <p>everyone's (1) 126:4</p> <p>everywhere (1) 105:4</p> <p>evidence (8) 7:2;9:20,24;33:18; 96:17;125:11,15; 126:2</p> <p>exact (9) 15:16;35:22,24;</p>	<p>40:7,22;88:14; 106:12;109:16;127:2</p> <p>exactly (6) 15:13;65:2;94:5; 97:12;119:12;122:4</p> <p>EXAMINATION (6) 7:10;11:19;45:16; 103:5;123:9;128:1</p> <p>example (4) 116:15,19,20;132:9</p> <p>Examples (1) 112:2</p> <p>exceed (2) 78:11,15</p> <p>Excel (2) 21:8;81:21</p> <p>excerpt (2) 129:16;131:1</p> <p>excerpting (1) 131:5</p> <p>excess (1) 58:4</p> <p>excessive (6) 57:24;58:3,7,20,24; 89:15</p> <p>exclude (2) 48:5;84:22</p> <p>excluded (2) 39:8;84:19</p> <p>excluding (5) 40:8;47:22;48:6; 95:23;96:2</p> <p>exclusion (1) 39:11</p> <p>exhibit (64) 6:13,14,17,19,24; 7:1,9;3,6,19,20,21; 10:3,7,9;11:8,8,15; 19:19,20,22,24;21:3, 16,23;22:2,4,7,10,11, 18;33:11,16,17,19; 42:4;71:24;72:3,8,10; 79:6;85:5;86:8,10; 87:4;89:17,20;93:1; 94:13,18,21;98:17,21; 99:2;102:11;104:6, 11;115:9,10;117:5; 118:15;123:12;124:2; 128:4,7</p> <p>exhibits (11) 9:18;39:10;42:17, 18;96:13;114:6; 115:4;129:12,17; 131:2,11</p> <p>expect (13) 43:8;48:17,21; 49:15,18,22;75:19; 78:1;81:23;111:4; 123:16,20,23</p> <p>expectation (1) 74:21</p> <p>expected (35) 12:10,11,16,17;</p>	<p>40:21,24;43:13; 55:18;58:4,5,19,23; 65:15;66:8,21;74:6, 21;75:3;76:5,6;77:24; 78:2;80:8,17;81:13; 82:3,18;86:10,17; 87:19;90:2,8;91:10; 123:21,24</p> <p>expects (2) 46:16,20</p> <p>expense (7) 70:4;72:17;73:4; 74:1;91:17,18;98:7</p> <p>expenses (8) 41:19;69:11,24; 70:21;71:13,22; 73:13;98:8</p> <p>experience (19) 20:9,11,16;26:23; 59:9;63:8;72:11; 99:19,22;105:20; 108:23;109:6;110:13; 111:20;114:5;115:20; 116:12,14;117:9</p> <p>expert (2) 15:1;56:5</p> <p>expertise (1) 41:21</p> <p>explain (4) 43:21;50:22;51:17; 55:15</p> <p>explicitly (3) 82:14;87:6;125:9</p> <p>exponential (1) 118:4</p> <p>exposure (15) 26:18,24;41:5; 42:22,24;43:2;55:19; 56:14,18,21;87:22; 88:3,4,8;111:8</p> <p>exposures (2) 23:5;88:10</p> <p>expressed (2) 48:16;132:14</p> <p>expressing (1) 26:5</p> <p>extent (6) 8:22;31:8;63:15; 65:7;111:3;125:14</p>	<p>FAIR (16) 5:5;68:19;70:20; 73:18;78:18;89:14; 93:9,13;118:2,8,17, 19,21;119:2;124:5,14</p> <p>fairly (1) 99:20</p> <p>fall (11) 33:5;46:16,17;47:4, 7,8,14,15;58:5,21; 59:1</p> <p>falling (2) 35:11;58:22</p> <p>falls (1) 64:2</p> <p>familiar (14) 22:8;55:1;57:23; 59:11;74:1,6;75:15; 77:18,20;83:20;94:1, 1;105:7;131:6</p> <p>far (5) 17:20;48:10;98:14; 121:24;130:11</p> <p>Farm (2) 116:15,19</p> <p>FARRINGTON (60) 5:2,15,19,24;6:7,20, 23;7:4,7;9:9,13;10:2, 6;11:9,13;22:1,33;16; 45:11;72:4;92:15,18, 22;94:14;96:19; 98:22;101:1,10,19,22; 102:7,13,18,23;103:4; 104:7,10;115:1; 116:5,20;117:4,12; 119:5,9,24;120:4,15; 121:13;122:12;123:5; 126:5,9;129:5,7,19; 130:11;131:18;133:3, 18,22;134:15</p> <p>Farrington's (1) 103:8</p> <p>Fast (1) 118:1</p> <p>faster (1) 68:19</p> <p>February (3) 15:14;21:14;24:7</p> <p>fell (1) 43:12</p> <p>felt (2) 17:5;117:19</p> <p>few (7) 64:18;97:19;106:1, 1;115:2;122:20;124:8</p> <p>fields (2) 42:24;43:2</p> <p>Fifth (2) 43:20;44:4</p> <p>figure (4) 34:20;35:2;83:10; 108:12</p> <p>figures (4)</p>
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124:3,4;125:23; 128:14 file (9) 42:22;52:12;87:22; 88:3,4,8,9,13;111:8 filed (5) 9:18;10:20;52:16; 102:10;103:9 files (4) 18:2;21:8;81:21; 129:14 filing (96) 6:18;7:21,22,23; 11:6;12:14;13:11,12; 16:7;17:12;21:1; 22:14,17,19;25:23; 31:4;32:7,10,13;33:4; 38:24;42:3,13;44:18, 18,19;45:19;48:11; 50:13,16,23;52:4,17, 23;60:22;62:13,16, 17;65:3;66:22;67:17; 69:3,7,11,22;74:11; 75:4,8,23;76:4,12,14; 77:12,15;78:20;79:2, 16;80:18;81:14,17; 82:1,3,5;83:24;84:4, 19,23;86:6;89:22,24; 90:4,8,22;91:15;92:1, 5;93:10,13,22;94:2,7; 95:6,15;97:5;99:12; 103:15,15;104:17; 105:3;108:22;115:7; 116:22;117:6,9; 124:18;133:11 filings (20) 56:11;62:1,13; 64:14;76:15;77:14; 96:12;97:1,24; 108:17,22;119:12,21; 131:24;132:3,11,21; 133:7,12,16 Final (14) 15:5,17,24;16:7,8, 13,16;17:1;18:3,11, 18;24:8,13,17 finally (2) 10:12;127:9 financial (9) 74:15;97:24;98:3,6, 13,18;99:9;109:7; 114:6 find (2) 122:13;126:18 findings (1) 17:15 fine (6) 23:16;32:20;45:15; 96:21;102:17;103:1 finished (3) 131:17,19,23 fire (2) 103:22;114:13	first (15) 15:8;16:7;19:16,16; 27:20;38:9;39:24; 44:1;79:4;81:5;82:3; 99:4;105:21;110:3,5 firsthand (1) 122:20 fiscal (4) 70:7;124:14,17; 125:23 fit (2) 118:5,6 fitting (1) 118:3 five (4) 63:7,13;71:1,2 five-minute (1) 101:14 five-year (4) 73:16,17;111:20; 118:10 flood (1) 84:17 flood-related (1) 84:13 flow (1) 121:7 flows (1) 70:11 fluctuates (1) 71:10 fluctuating (1) 22:23 focus (1) 79:18 following (3) 34:2;69:23;76:18 follow-up (1) 103:19 foot (1) 121:21 footnote (3) 32:3;37:6,8 footnotes (1) 99:11 force (2) 88:20,21 forced (1) 63:6 foregoing (1) 135:4 form (1) 55:19 formal (2) 23:13;42:18 forms (8) 14:20;60:24;67:19; 70:7;85:6,11,17,20 formula (5) 92:7,7,10;93:5,5 formulas (3) 25:8;95:2;128:5 forth (1)	117:17 found (2) 25:21;96:24 four (1) 123:1 frame (1) 43:10 frequency (7) 29:20;30:15;34:17, 19,24;35:2,12 front (3) 8:1;96:14;103:11 full (6) 24:23;39:24;41:18; 42:5;96:23;99:15 function (1) 55:3 fund (2) 100:9,15 further (5) 34:3;101:7;104:13; 123:9;127:20 future (2) 31:7;88:10	giving (1) 118:21 Gloria (1) 29:14 goes (1) 40:22 Good (13) 5:2;11:21,22;40:20; 45:14;56:7,12;89:16; 105:24;111:22;118:5; 122:14,16 graphs (1) 118:4 great (3) 27:19;29:13;74:12 greater (1) 65:16 grid (2) 106:18;107:18 Gross (27) 21:23;22:12,15; 25:18;31:20,22,22; 32:14,21;77:23; 78:22;79:21,24; 80:10,17;81:6,13; 82:10,16,22;83:6,13; 87:11;90:16,91:3,8; 92:4 group (4) 104:23,23;105:2; 108:5 groups (3) 44:9;104:20,22 growth (1) 123:17 guess (7) 15:13;22:11;60:6; 73:3;107:3,10;134:18 guided (2) 41:13,22 Gulf (1) 14:9 Guy (1) 79:1	115:10 heading (2) 86:17;111:24 heard (2) 134:7,14 hearing (6) 6:9;9:2;103:7; 125:21;133:2;134:20 hello (1) 12:3 hereby (1) 135:3 here's (1) 121:20 Hey (1) 122:22 high (6) 13:17;17:4;99:20; 118:22;119:2;121:18 higher (30) 20:13,14;26:12; 43:10,14,14;45:2; 55:8,8;58:19;63:17; 64:21,23,24;65:4,11; 71:4,7;73:8;80:23; 99:24;100:6;105:18, 22;106:10,16;108:13; 121:6;123:21;128:15 highly (1) 43:9 hint (1) 110:2 hiring (1) 17:21 historic (1) 38:4 historical (11) 26:24;28:24;29:8; 35:19;36:10;38:12, 21;59:8;108:21,23; 110:6 historically (3) 62:3;69:19;105:19 history (3) 98:7;124:13;127:5 hits (1) 57:8 HO3 (1) 112:1 hoc (1) 23:12 home (1) 119:23 homeowners (10) 22:14;53:10;79:19; 84:17;103:12,21; 114:13;120:7;122:8; 123:19 homeowners-owners (1) 60:24 homes (1) 119:16 honest (1)
		G		
		gain (3) 25:8,12;133:15 gathers (1) 57:12 gave (5) 87:15,19;107:2; 118:19,23 geared (1) 45:1 general (17) 16:15;22:21;23:1; 26:13;39:19;43:8; 44:21;45:4;60:8; 70:19;74:3;75:18; 84:12;97:21;112:24; 126:14;132:4 generally (33) 26:10;35:23;39:20; 43:14,14;49:21; 53:15,18;55:3;57:14, 17;58:1,61:23;62:18; 65:23;71:20;72:15; 74:8;75:17;78:9; 83:22;84:11,16;86:2; 89:16;95:2;99:10,24; 105:10;112:24; 115:14;117:18;121:5 generate (1) 59:9 generation (1) 35:21 geographical (1) 43:11 given (5) 23:3;68:3;82:13,14; 84:7		
		H		
		handed (5) 6:16;8:2,16;33:20; 94:11 handful (1) 42:23 handwritten (2) 8:17;17:19 handy (1) 32:19 happened (1) 60:4 happens (2) 21:3;84:15 hard (1) 36:24 head (1)		

18:17 honestly (1) 16:13 hook (1) 130:17 hour (2) 57:1;70:17 house (18) 49:8,11,13,14,17, 17,21;113:7;120:17, 23;121:4,8,17;122:1, 2,21,23;123:2 houses (1) 113:11 house-years (1) 55:20 hurricane (122) 12:10,16;13:14,15, 18,18;14:2,8,14,16, 19,22;15:4;17:16; 18:15;19:1,9;20:6,8, 12,16;21:24;22:12, 15;23:19;25:19; 26:11,24;27:14,15; 28:8,16;29:12,21; 30:15,21;31:3,5,7,10, 13,23;32:5,8,14,15, 21,23;34:22;35:3; 36:16;37:5,24;38:23; 39:5,12;41:8;42:7; 45:19;46:1;55:18; 57:7,9,15,17,20; 70:12,14;72:12; 74:22;75:4,16,20,23; 76:3,5;78:10,14,17; 80:5,7,8,10,17;81:13; 82:4,10,11,16,18; 84:14,24;85:2;86:10, 18;88:2;90:2,7,8; 91:4,10;92:5;100:10, 16;110:21,23;111:1,6, 8,16;112:18;123:22, 24;128:9,13,17,21; 131:20;132:6,21; 133:11,24 hurricanes (18) 13:21;20:4;27:22; 28:4,14,23;29:1,7,8, 10,22,24;30:11; 36:21;37:9,17;38:4; 70:4 hypothetical (1) 66:23 hypothetically (1) 134:10	9:23;10:4,7,10; 11:12,14,16;22:5; 72:3,7,9;92:16,21; 93:2;94:13,16,19; 98:21;99:1,3;102:17; 104:6,12 identify (4) 10:14;22:8;113:24; 114:21 ignored (1) 102:3 II (9) 6:18;7:6;20:24; 21:1;23:15;34:9;36:2; 37:3;81:1 immediate (1) 133:23 impact (13) 34:23;35:4;38:24; 39:4,9,20;40:7,22; 41:1,7;66:7,12,16 impacted (5) 29:1,9;30:15; 109:10,13 impacting (2) 29:22;53:17 impacts (1) 30:21 implementation (1) 127:3 implemented (2) 127:4,8 implicit (1) 124:21 implied (1) 125:4 imply (2) 38:22;126:1 implying (2) 125:21,22 impossible (1) 40:6 improvement (1) 45:9 improving (1) 65:10 i-n (1) 5:12 inaccurate (1) 52:17 inappropriate (1) 125:17 include (11) 28:24;29:8;38:24; 48:4;80:22;89:1,8,13; 93:17;109:20;125:3 included (28) 13:22,23;14:6,12, 13;21:2,3;22:10; 33:21;34:15;36:22; 37:13,18;39:3,16,19; 75:21;80:15;82:6; 84:6;97:1;99:9,12;	100:1;103:14;124:20, 23;125:23 includes (3) 9:4,4;32:4 including (8) 39:5;40:13;75:24; 76:1;80:23;83:6;96:2; 103:11 inclusion (2) 39:11;89:4 inconsistency (2) 63:14,16 incorporated (1) 56:13 incorrect (1) 58:12 increase (10) 40:10;49:7;50:4; 60:1;66:24;67:1;94:7; 100:11,17;128:19 increased (5) 49:14;50:3;97:19; 106:4;127:16 increases (1) 128:9 increasing (4) 68:19;97:22; 127:13;128:20 independent (7) 17:6;26:2,4,7;48:7; 49:24;50:9 independently (1) 25:21 Index (3) 119:14;120:10,12 indicate (4) 40:9;86:8;88:23; 117:6 indicated (10) 20:14;60:15;63:18; 65:13;68:23;75:3; 94:6,23;95:7;118:12 indicates (4) 5:11;12:9,14;13:5 indication (1) 67:21 indications (4) 16:23;20:22;21:6; 124:20 indices (13) 67:23;68:3;117:8; 118:1;119:6,6,7,14, 19;120:1,8,8,13 individual (1) 80:3 industry (16) 40:9;46:20;54:15, 17;61:3,7,9,20;113:4, 12;115:7,11,15,17,18; 117:1 industry's (1) 131:22 inflationary (2)	49:3;119:16 influence (2) 65:12;121:5 influenced (1) 55:5 influences (1) 49:4 in-force (4) 87:21;88:8,9,13 information (32) 8:19;10:21;13:9,11; 15:20;17:23;18:12; 28:11;29:2,12;30:1; 33:21;34:15;35:15; 36:18;40:16;46:9; 67:2,11;79:18;81:20; 82:8;84:7;87:10;98:2, 9;107:2,18;114:19; 116:2;119:10;122:13 inherent (1) 46:15 initial (1) 16:12 initiated (1) 127:12 input (7) 42:10,12,16,20; 43:5;67:14;88:4 inspection (1) 127:11 inspections (1) 127:17 insurance (10) 49:2,19;62:2,7,8; 65:24;122:5,6,8; 123:19 insured (12) 53:6;55:4,5,7,8,12; 56:10,15,22;64:20; 105:14;122:3 insurers (5) 115:22,23;116:23; 117:1,2 integration (1) 133:24 intended (2) 32:6,9 intending (1) 125:15 intent (2) 76:10;111:15 intention (1) 52:12 internal (1) 87:17 interpretation (3) 46:21;89:6;121:2 interrelated (1) 133:12 interrupt (1) 30:7 interval (1) 35:6	intervals (1) 35:13 into (24) 9:20;17:8;35:11; 39:24;41:23;43:12; 44:20,21;51:17; 56:13;63:17;66:7; 67:8;68:22;69:18; 70:11;96:17;98:4; 121:7;124:24;126:2, 20;131:2;134:1 introduce (2) 125:15;126:23 introduced (3) 110:3;125:10,12 introducing (1) 110:5 introductory (1) 115:2 investigate (1) 45:5 involve (3) 48:1;112:21;133:24 involved (3) 75:11;112:7,17 Irene (5) 20:6;31:11;57:6; 70:5,12 Island (2) 38:12,13 ISO (22) 61:24,24;62:13,13, 16,24;63:6,10;64:1; 107:12;115:20,21,23; 116:2,4,17;117:3; 119:11,20,21;120:8, 13 isolate (1) 39:8 issue (6) 5:23;6:10;45:4; 53:24;126:23;132:4 issued (1) 16:14 issues (10) 44:7,15;132:5,6,7,9, 21,22;133:13,17 items (1) 98:14 IV (1) 135:4
J				
I				
idea (2) 28:8;109:9 Ideally (1) 118:24 identification (23)			January (3) 15:15;51:9,23 Jersey (4) 7:15,16;38:11,16 judgment (2) 28:1;63:22 judgmental (2) 64:11;108:15 judgmentally (2)	

20:17;108:19 July (18) 5:3;10:13,17;17:17; 19:13,23;32:18;51:5, 20:52:4,13,16,20; 65:18;66:8,21;87:20; 135:6 jump (1) 71:9 jumped (1) 79:15 jumping (1) 118:10 June (1) 87:20	40:12;46:16;132:22 Lalonde's (9) 21:4;33:10;39:10, 14:40:19;46:12; 80:20;82:7;134:7 land (3) 84:15;121:18,21 landfall (12) 13:19,22;14:1,4,9; 31:6;38:4,10,12,15, 20:57:16 landfalling (1) 27:22 large (2) 116:16;123:23 last (23) 5:10;6:8;12:1;27:5; 34:1,2;44:10,17;65:3; 69:7;85:23;93:9,13, 22;95:15;96:9,23; 97:5,19;117:22; 118:23;124:17;127:9 lasts (1) 51:24 late (1) 31:6 later (4) 10:1;51:23;114:5; 125:8 Law (1) 76:19 leads (1) 124:4 learned (1) 126:22 least (12) 53:10;60:15;63:1; 65:5;84:11;101:14; 115:24;127:4,6; 130:16;132:19; 133:10 leave (2) 93:20;134:14 Left (1) 6:8 left-hand (3) 77:14,17;78:6 LEIGHT (35) 6:22;9:22;11:11; 45:12,15,17;72:2; 92:17;93:20;94:12; 95:21;96:5;98:20; 100:22;101:6;102:12, 16;104:9;120:16; 124:8;125:6,20; 126:12;127:22;128:2; 129:4,9,21;130:10,14, 19,22;131:14;132:16; 133:5 Leight's (2) 6:9;133:21 lengthy (1) 129:13	less (2) 30:4;46:23 letter (2) 33:7;103:11 letters (1) 107:3 level (16) 13:16,17;16:23; 17:5;20:21;21:6;25:9; 38:17;58:8,8,10,11, 12;104:23,24;109:6 limit (4) 49:3;106:15,20; 122:11 limited (3) 20:16;30:23;43:2 limits (6) 53:9;64:23;106:16; 121:1,6,9 Line (13) 62:21;90:3,16,21; 91:3,9,11,13,20,22; 92:1,6;114:12 linear (1) 118:3 lines (5) 79:4;90:6;91:14; 92:2;114:14 list (1) 41:18 listed (2) 37:10;114:20 listened (1) 86:14 lists (1) 30:11 little (2) 26:12;110:17 load (5) 91:21,24;128:9,13, 21 loads (1) 128:18 location (2) 106:13,19 Long (3) 38:12;101:13;130:9 longer (2) 127:19;132:18 look (37) 20:24;21:16,18; 23:14,15,16;26:16; 27:12,15;29:10; 33:19,24;34:6,14; 36:5;37:3;39:22;42:2; 59:6,8;63:13;71:1; 72:13,16;79:12;81:5; 82:2;87:12;94:20; 96:22;98:7;104:22; 108:19;118:9;129:17, 24;130:2 looked (22) 28:4,14,17;29:16;	30:2,4,4;42:22;43:7, 13;56:3;61:23;63:23; 64:3;69:9;87:16;90:3; 92:7;108:20,23; 117:21,22 looking (24) 13:3;15:9;21:13; 22:6,20;23:18;24:13; 25:14;26:17,22;27:5; 31:15;33:20;35:2; 36:4;60:22;70:19; 78:17;81:19;95:1; 109:5;123:15;124:6; 130:24 looks (1) 62:1 loss (86) 18:1,2,10;19:1; 21:24;22:13,15; 25:19,20;31:16;32:1, 14,15,23;38:23; 40:14;44:10;48:14, 15,16;51:16;52:7; 55:18;58:4,4,18;59:9, 15,16,17;60:17; 61:24;68:7,8,13,18; 69:23;70:3,21;71:12, 21;72:17;73:4,13,24; 74:7,22;75:3,4,16; 76:3;78:2,3;80:6,7,8, 10,11,17;81:6,13; 82:4,19,22;83:2,4,10, 16;86:10,11;90:2,8,9; 91:4,10;92:5;98:8,9; 108:23;116:22;117:7, 24;119:11,12,21; 134:10 losses (93) 12:10,16;13:15; 14:16,20,23;17:16; 18:15;20:4,8;22:19; 23:10;26:11,24;31:5, 7,8,23,23;32:6,7,8,10, 22;34:17;37:5,24; 39:6,13;40:2;41:8; 43:24;44:6,8,12; 45:19;46:1;48:18; 53:16,19;55:3,8,9,11, 13,17,24,24;56:2,2; 58:20;67:17;68:19; 73:6;74:16,23;75:19, 22,23;76:2,5,7;78:10, 14,17;80:22;82:10,11, 16,18,24;83:6;84:14; 85:1,2;86:18;87:23; 88:12,17;100:10,16; 105:13;109:9,11,19; 111:4,8,13,18;114:1, 14,15;123:23 lot (4) 71:10;101:7; 118:12;122:15 lots (1)	67:8 Lou (1) 11:23 loud (3) 44:2,3;86:20 low (1) 107:1 lower (22) 20:17;45:2;55:7,8; 60:18;70:16,22;71:5, 7,12,21;73:5,9,10,12, 18,19,20;110:15; 123:23;128:15,18 lowering (1) 121:9 Lucky (1) 94:10 lunch (2) 101:4,15
K		M		
Karen (21) 15:3,10,18,22;16:8, 20;17:21,24;18:6,10, 22;19:10;23:20;24:3; 28:3,13;29:10;30:10; 32:24;36:21;37:12 keep (2) 23:16;101:17 kept (2) 109:24;110:16 key (2) 62:6,9 kicked (1) 107:14 kind (5) 51:11;54:19;60:8; 63:20;71:16 kinds (3) 65:14;66:12;121:23 knowing (1) 40:15 knowledge (6) 8:24;10:24;21:15; 63:20;77:9;104:2 knowledgeable (1) 14:21 Kusinitz (2) 135:2,10	Madam (1) 9:2 magnitude (4) 33:6;39:18;41:1; 86:4 main (2) 63:1;119:19 Maine (2) 38:11,16 major (1) 123:18 makes (2) 14:8;134:12 making (12) 14:4;26:5;38:10; 47:12;52:20;53:2; 69:20;86:11;95:10; 97:10;109:16;122:16 mandatory (1) 89:5 mansion (1) 113:7 many (8) 28:8,23;29:7,9; 36:12;38:3;55:22; 56:19 March (2) 15:15;24:7 marginal (1) 39:9 mark (11) 5:23;10:3,7;11:13; 21:22;56:8;72:2; 94:12;98:20;102:11; 131:2 marked (25) 5:16;6:19;7:1,9;17, 19;10:9;11:15;21:16; 22:4,7;23:17;33:11, 14,15,17;37:4;42:4; 72:6,8;92:16;93:1;			

<p>94:18;99:2;104:5,11 market (6) 99:23;115:6,8,24; 121:5;122:6 marking (1) 102:17 Mary (1) 11:23 masonry (1) 43:9 Massachusetts (29) 14:11,16;29:1,9,22; 30:16,21;31:12; 38:13;40:9;41:7,10; 57:8,19;61:4;62:14, 17;70:13;116:6,7,9, 11,14,18;118:2,8,17, 19;119:2 material (1) 81:16 materials (2) 32:14;133:11 mathematical (1) 77:2 mathematically (2) 76:16;80:10 matter (7) 6:6;11:24;37:19; 125:20;128:24; 131:16;132:13 matters (1) 104:1 maximum (1) 122:1 may (13) 23:14;40:23;44:14; 57:18,19;88:24;89:7; 101:23;102:3;103:2, 11;104:5;115:4 maybe (17) 16:12;27:1;30:4,4; 46:23,23,24;49:2,4,5; 58:23;59:22;93:6; 101:13;106:3;110:17; 118:15 McCALL (7) 5:8,17,22;6:2,5; 133:19,20 mean (19) 27:8;30:7;41:21; 53:12,13;58:2;59:5, 13;74:9;75:18;77:21; 83:23,23;99:7; 115:17;119:8;125:7; 132:7;133:5 meaning (1) 118:6 means (3) 63:10;84:3;116:24 meant (3) 27:13;79:18;115:19 measure (8) 50:2;55:18;56:15;</p>	<p>99:21;118:5;120:14, 19,19 measurement (1) 54:15 measurements (1) 55:21 measures (4) 13:1;59:7;119:17, 22 measuring (3) 120:20,21,24 meet (1) 111:18 memorializing (1) 130:23 memory (3) 94:1;96:14;106:6 mention (3) 19:4,6;103:10 mentioned (2) 27:11;62:23 merge (1) 63:10 merged (2) 42:21;114:18 met (1) 12:1 Meteorological (1) 27:21 method (1) 76:14 methodologies (2) 18:14,21 methodology (12) 17:4;24:24;25:6,8, 11,16;26:2;43:22; 44:5,16;61:24;62:19 Mexico (1) 14:9 MEYER (47) 5:14;6:4,8;7:3,6,11; 8:3;9:2,12,16;10:5,8, 11;11:7,17;19:21; 22:3;33:8,12;72:6; 92:20;93:16;94:16; 95:21;98:24;101:8,9; 102:2,9,20;103:2,6; 104:5,13;123:8,10; 125:14,18;126:7,10; 127:20;128:8;130:5; 131:10,16,19;134:4 middle (1) 86:7 midpoint (1) 51:12 might (21) 13:7,8;14:2;15:12; 24:22;57:7;59:24; 62:24;67:1,16;69:6; 89:11;106:16;107:1; 112:21;118:22; 122:23;126:13,14; 127:6;134:9</p>	<p>miles (3) 57:1,3;70:17 million (19) 32:22,23;33:1; 79:20;80:21;81:9; 82:22;83:9;85:24,24; 90:15;91:9,11;95:19; 96:24;97:7,11;113:5, 19 mind (1) 115:13 minimal (2) 53:20,21 minimum (10) 106:20;107:13,16, 21;108:1;110:6; 111:7,10;113:4,12 minimums (1) 108:2 minor (1) 133:16 minus (9) 36:14;77:24;78:2,7; 80:5,11,14;87:1; 90:21 minute (1) 103:3 misstated (1) 115:4 model (45) 13:10;14:14,24; 17:8;18:1;20:21; 21:24;22:19,22;23:6, 10;26:6,13;32:7,10, 16;33:22;34:16; 35:20;37:20;39:7; 42:7,9,11,15,22;46:2; 47:2,19,21;48:2,3,8; 75:5,7,21;76:5,8; 83:10;84:6;87:24; 88:9;100:10,16; 129:13 modeled (4) 13:15;40:2,14; 88:13 modeling (9) 39:16;57:11;88:2,7, 8;131:21;132:6,22; 134:1 models (2) 13:6;41:20 modified (2) 44:7;120:12 moment (2) 27:3;29:4 Monday (1) 5:3 Monday's (1) 6:8 month (4) 16:12,16,18;24:20 months (7) 51:4,8,21,23;52:1;</p>	<p>127:5,7 MORAN (11) 11:20,23;19:22; 21:21;33:7;45:10; 76:11;127:24;129:5, 6;133:18 Moran's (2) 46:6;75:2 more (32) 13:4;18:16,17; 23:12;24:1,24;25:14; 30:5;36:10;43:9;45:1; 46:24;49:7,19;52:6; 53:16,19;69:19; 70:24;71:9,10;93:24; 94:1;109:21;110:17, 24;112:21,24;125:8; 132:24;133:16;134:6 morning (7) 5:3;8:13,17;11:21, 22;101:12;132:17 mortgage (1) 122:7 most (8) 23:1;28:1;44:11; 48:24;88:6;94:2; 116:5;125:1 mostly (1) 111:21 move (2) 125:6;126:7 MPIUA (83) 6:18;7:21;10:16; 11:6;14:20;15:11,19, 23;17:13,21;18:6,9, 15;20:5;21:22;23:20; 25:23;26:24;27:10; 32:7,10;34:4,23;35:4; 37:4,18;40:1,2,23; 41:1,5;44:11,20,21; 46:14;47:2;50:23; 52:11;54:1,2;61:1,5; 64:19;65:16,19;66:8, 22;67:13,23;68:4,7, 12,17;69:18;70:3; 73:24;74:4,24;76:13; 78:23;80:9;84:20; 85:23;86:9;98:1; 100:8,14;105:8,16,21; 107:6;110:20;111:4; 112:9,10,12,12; 115:11,16;117:8,16; 126:22;127:11 MPIUA's (9) 31:5;39:12;46:22; 64:15;73:4;97:1,19; 100:15;131:20 much (11) 14:4;57:20;64:23; 71:9;109:9,11,18; 123:6,23;133:15,23 multiple (1) 113:11</p>	<p>multi-state (1) 116:11 multitudes (2) 53:18;128:22 must (1) 93:3 myself (1) 44:2</p> <hr/> <p style="text-align: center;">N</p> <hr/> <p>name (3) 7:12;11:23;20:3 names (1) 20:3 Nantucket (1) 104:18 national (1) 116:12 nature (1) 70:8 near (1) 14:1 nearby (1) 14:2 nearest (1) 90:14 necessarily (4) 63:8;113:3;117:23; 120:23 need (13) 23:15;50:12;55:17, 18;56:14,21;60:1; 101:7;122:18;123:3; 132:1,2,24 needed (3) 56:18;63:19;111:16 negative (5) 59:19;23:60;14,17; 68:21 net (47) 12:10,16;25:19; 31:21,24;32:2,4,14, 22;38:23;39:5,12; 59:11,16,16,17,18,23; 60:5,12,14,17;68:21; 69:6;75:4;76:3;77:18, 22;78:8;80:5,7;82:10, 17;84:24;85:1;86:18; 87:12;90:7,19;91:4, 10;92:5;95:14,16; 96:8;100:9,16 New (9) 7:15;9:7;29:13; 38:11,15;52:12,15; 63:16;111:21 news (1) 54:23 next (13) 6:19;10:3;11:7; 21:22;31:20,20; 38:14;49:5;104:5; 127:5,7;129:12;134:8</p>
---	---	---	---	--

<p>nice (1) 6:1 Nine (1) 38:10 nobody (1) 130:3 non-catastrophe (7) 55:24;56:2;70:22; 71:13,22;73:6,14 non-coastal (3) 107:22;108:1,8 non-controversial (1) 76:18 non-hurricane (33) 43:23;44:6,8,10,12, 23;53:11,22;55:11,17, 24;56:1;57:2,4,21; 71:2,3,8,12,21;72:12; 105:13;108:24; 109:19;111:1,12,13; 112:1,2,5,8,13;113:23 non-modeled (3) 75:15,22;76:1 nontrivial (1) 53:19 nor'easter (1) 56:24 Northeast (1) 38:11 notes (1) 135:5 notice (1) 37:4 number (29) 6:11,12,15;9:7; 19:22;25:1,15;32:4, 24;34:10;35:8,14; 43:2;46:22,22;48:8, 10;51:2;56:5;61:8; 78:24;79:4;106:12; 107:20;108:7,15,16; 112:23;113:9 numbered (2) 9:3;26:17 numbers (29) 8:18;25:9;31:18,20; 32:11;37:1;52:8;65:2; 72:13;83:13;87:13, 15,18;89:22,23; 90:13;95:3;96:11; 98:12;99:5,7,17; 114:4,17;116:1,10; 118:8;128:4,6</p>	<p>102:11,14;104:9 objections (4) 22:2;94:15;98:23; 104:8 objective (1) 45:7 obviously (3) 14:3;95:3;129:24 occur (1) 35:12 occurrence (2) 53:17;54:5 October (1) 31:6 off (4) 48:4;82:17;96:14; 106:5 offer (1) 11:7 offering (1) 9:20 Offhand (4) 24:6;107:4;114:2, 21 office (1) 7:14 OFFICER (84) 5:2,15,19,24;6:7,20, 23;7:4,7,9;2,9,13; 10:2,6;11:9,13;19:18; 22:1;33:16;45:11; 72:4;92:15,18,22; 94:14;96:19;98:22; 101:1,10,19,22;102:7, 13,18,23;103:4,7; 104:7,10,15;105:1,5, 7,11;106:9,22;107:5, 15,21;108:6,11; 110:19;111:2,23; 113:13,16,21;114:23; 115:1;116:5,20; 117:4,12;119:5,9,24; 120:4,15;121:13; 122:12;123:5;126:5, 9;129:5,7,19;130:11, 15,20;131:18;133:3, 18,22;134:15 Officers (2) 125:22;133:2 offices (1) 102:21 often (3) 30:20;34:22;35:3 Oftentimes (4) 74:14;84:13,16; 112:20 old (1) 110:7 older (1) 105:19 once (1) 83:2 One (56)</p>	<p>5:8;6:6;9:6;24:12; 27:3;30:1;40:3,5; 44:23;45:20;47:24; 48:17,21;49:18; 51:24;52:3,6;53:16; 54:14;56:23;57:3; 59:5,6,9;60:11;63:1; 69:19;70:5,10,13; 71:6;73:3,9;75:19; 76:15;83:15,18;92:8; 94:22;98:3,9;100:1, 19;103:3;104:19; 106:2;109:1;112:21; 113:7;119:13;127:9; 128:7;129:11;131:16, 17;132:18 one-page (1) 6:16 ones (2) 41:19;119:20 one-year (4) 51:6;52:19,23; 69:21 only (15) 9:18;13:8,20;23:9; 24:8,17;39:17;40:13; 96:23;97:11;102:19; 108:4;116:11;118:17; 134:4 opened (1) 125:20 opinion (14) 17:6;25:18;26:5,6; 33:5;40:17;46:11; 47:9;52:20,22;53:1,3; 69:20;95:10 opinions (1) 100:20 opportunity (2) 102:14;126:18 opposed (1) 34:12 optimistic (1) 127:6 order (1) 86:8 organization (2) 54:9,13 organizations (1) 54:21 original (3) 21:17;103:14,15 others (1) 41:21 out (21) 5:22;6:14,16;8:16; 44:2,3;47:1;63:10; 73:7;76:13;83:15; 86:20;93:21;101:23; 107:3;114:10;122:13; 126:18;128:17; 129:22;130:9 Outline (1)</p>	<p>12:5 outlined (1) 30:13 outlines (1) 11:4 output (16) 12:21,22,23;17:11; 20:21;22:23;37:20; 39:7;42:6,8,10,11,15, 22;75:21;84:6 outputs (1) 13:5 outside (11) 40:23;41:20;46:17; 47:4,7,8,14,15;58:5, 21;59:1 over (30) 6:8;7:23;8:5;9:14; 23:24;44:10;49:3,20; 51:6,11;52:8;56:19, 22;60:13,13,14;62:3; 63:2;64:3,6,8,9; 74:20;77:8;85:22; 86:5;97:19;113:9; 118:10;124:14 own (3) 26:1,1,7 owners (3) 67:19;85:6,17</p>	<p>15 panel (1) 81:5 paragraph (7) 19:16;27:5,20;42:5; 43:20;44:4;96:23 parallel (1) 9:19 parameters (1) 28:2 parentheses (1) 78:7 part (13) 33:9;37:20;45:18; 58:21;59:6;63:24; 64:4;67:16;69:7;89:8; 98:16;108:21;124:18 particular (3) 17:18;54:14;73:15 particularly (2) 132:13,16 parties (4) 8:16;44:8;102:20; 133:2 partly (1) 65:5 passes (1) 14:2 passing (2) 74:15;99:6 past (12) 56:20;64:14,23; 65:1;108:17,17; 110:14,18;114:18; 117:19;120:2;133:9 pattern (1) 43:12 PAUL (2) 7:9,13 pay (2) 77:24;122:2 PCS (6) 54:19,19;57:12; 112:12,15;113:1 people (12) 9:7;49:1,18;53:14; 63:24;101:7;120:21; 121:9;129:23;130:24; 134:13,14 percent (65) 20:9,18;23:3;40:11, 13,21;46:6,17,19,23, 24,24;47:3;60:23; 61:11,13,14,15,16; 62:20;67:18,22,23; 68:2,4,6,9,11,14,17, 18;72:18;80:23; 82:23,24;83:1,3; 84:24;85:1,8,13,17; 93:11,15;94:8;95:6,7; 100:1;105:16;108:12, 18;109:17,21;110:4, 14;111:15;117:7,8;</p>
O			P	
<p>oath (1) 8:12 objection (18) 6:21;9:7;11:10,11; 22:3;33:12,15;72:5,6; 92:19,20;93:16; 94:17;95:21;98:24;</p>			<p>Page (104) 6:11,12,17;7:5,22, 23;8:5,6;12:8,8,14; 13:3,5,8;15:6,9;17:18, 19,19;19:14,15,20,24; 20:1,10,11,24;21:1,2, 13;23:17,18,22;24:9, 10,13,14,15,18;26:22; 27:2;31:14,14,19; 33:20;34:1,6,8,14; 36:2;37:4;38:2,3,7,8, 9;39:21;41:13;42:4; 43:19,19;50:16,17,20; 51:15;60:21;61:6; 67:20;69:22,23,23; 71:19;76:12,20;77:7, 8,12;78:5,16;79:5,6,7, 8,8,10,12,23;81:1,2; 82:3;85:5,15;86:6,7; 87:1;90:3,17,21; 96:23;105:11;111:23; 113:21;116:21; 118:15 pages (13) 5:20;8:17;12:4; 26:16;29:3;33:9; 70:20;72:11;81:18, 24;115:3,4;117:5 paid (8) 20:5;74:18,23; 78:10,14,23;114:14,</p>	

<p>118:7,17,22,23;119:1; 120:9,11 percentage (2) 108:7;109:18 perform (3) 65:24;83:7;128:16 performed (10) 11:5;23:10;43:16; 53:2;76:9,17;79:9; 87:6,9;100:18 performing (1) 40:7 Perhaps (3) 100:23;127:12; 131:10 peril (1) 112:21 perils (2) 112:17,23 period (42) 15:15;16:15;24:7; 26:23;27:14,16; 30:24;35:19,23; 36:10,13;38:4,12,21; 50:14,19;51:6;52:9, 12,19,21,24;53:4; 56:22;69:21;70:2,3; 86:5;87:19,24;88:18, 19;97:8;99:20;100:2, 7,13;106:7;111:20; 118:10;127:19; 128:18 peripheral (1) 14:3 person (1) 130:21 perspective (1) 37:19 phrase (1) 95:22 picking (1) 119:11 piece (1) 122:13 pieces (2) 98:2,5 place (2) 84:23;118:11 placed (2) 9:14;79:10 places (1) 5:11;118:15 Plan (14) 5:5;74:1;93:9,13; 118:2,9,17,19,21; 119:3;124:14;126:22; 129:15;131:1 Plan's (2) 70:21;124:5 please (12) 7:12,14,17;10:14; 11:8;36:8;39:24; 41:16;43:21;76:13;</p>	<p>104:6;117:14 plus (2) 83:10;115:15 pm (1) 134:21 point (11) 16:6;57:15;101:5, 23;102:16;110:11; 115:5;117:20;132:16; 134:4,16 pointed (1) 73:7 points (1) 76:13 policies (11) 51:6,10;53:17,18; 63:9,16;88:15,20; 105:9;107:7;113:10 policy (16) 14:20;49:4,6;51:7, 17,21,22,24;52:2; 53:10;70:7;84:17; 110:20;112:9;114:11, 11 policyholder (5) 49:16;121:6,14,22; 122:13 policyholders (13) 78:11,14;105:17, 22;106:11;107:4,23; 108:8,14;121:12; 122:10,15;123:4 portfolio (2) 40:23;41:1 portion (2) 82:21;105:19 portions (3) 129:15;131:2,12 position (2) 7:18;39:18 positive (1) 124:16 possible (3) 5:21;47:21;58:9 post (1) 36:11 postpone (1) 9:23 practical (2) 129:18;134:2 Practice (5) 41:14;42:1;88:24; 121:11;122:19 practices (1) 41:24 precisely (1) 111:17 preference (1) 10:3 preliminary (2) 6:6;15:21 premature (1) 134:16</p>	<p>premium (38) 48:19;49:9,12,20, 22,24;50:4,7,8,17; 51:1,3;52:6;59:16,16, 17;60:18,23;64:21, 24;65:13;66:6,22; 67:13;68:8,12;69:6; 79:22;85:1,13;88:17; 98:12;100:8,14; 120:17,22;121:7; 134:10 premiums (13) 48:21,23;49:6;50:3, 6;62:10;66:8;68:18; 74:16;78:22,23; 79:24;88:14 preparation (2) 13:11;69:7 prepare (2) 13:8;103:19 prepared (10) 7:24;10:16,16,22, 22;19:10;23:20;72:1; 89:18,21;98:18 preparing (5) 81:20;82:1,9; 131:24;132:11 present (2) 52:11;63:6 Presentations (1) 12:7 presented (1) 29:21 presents (1) 130:22 PRESIDING (82) 5:2,15,19,24;6:7,20, 23;7:4,7,9,9,13;10:2, 6;11:9,13;19:18;22:1; 33:16;45:11;72:4; 92:15,18,22;94:14; 96:19;98:22;101:1, 10,19,22;102:7,13,18, 23;103:4;104:7,10, 15;105:1,5,7,11; 106:9,22;107:5,15,21; 108:6,11;110:19; 111:2,23;113:13,16, 21;114:23;115:1; 116:5,20;117:4,12; 119:5,9,24;120:4,15; 121:1,3;122:12;123:5; 126:5,9;129:5,7,19; 130:11,15,20;131:18; 133:3,18,22;134:15 pressure (1) 60:15 pretty (3) 40:20;113:18; 116:10 Previous (4) 12:6;22:16,16; 44:19</p>	<p>previously (1) 48:13 Price (1) 120:12 primarily (1) 36:9 Principal (1) 7:19 principle (1) 41:9 print (2) 5:22;129:21 prior (11) 15:24;18:2,11; 20:18;69:2;76:15; 77:14;96:18;107:9; 108:22;110:10 probably (13) 15:14;16:1,17;24:6, 20;45:1;64:12;74:10; 99:6,16;100:5; 122:17;123:4 problem (12) 9:22;43:21;63:4,5; 64:15;65:10;102:12; 130:3,5,23;131:8; 132:19 problems (1) 132:17 procedural (1) 5:8 proceeding (1) 125:13 proceedings (1) 125:11 process (6) 63:24;75:13;87:12; 88:5;131:23;134:1 produce (8) 17:22;52:17;65:15; 66:4;68:8,13;82:18; 91:1 produced (13) 15:10,24;16:12; 17:5;20:4;21:13;22:9, 17;32:15;66:22; 87:23;95:6;129:12 produces (6) 26:10,14;58:20; 61:10;63:21;66:20 production (2) 16:6;18:3 professional (3) 7:17;135:3,11 profile (1) 109:16 profit (25) 91:14,21,23;92:1,3; 93:10,14;94:4,8;95:7, 11;99:13,17;100:1; 123:21;124:9,16,19, 21,22;125:4,16,24; 128:14,19</p>	<p>profits (2) 123:21,23 program (6) 65:21;66:19; 126:19,19,23;127:11 programs (4) 65:24;66:3,12,17 project (1) 65:6 projected (2) 22:12;117:24 projection (1) 52:6 prone (1) 123:20 properties (2) 64:20;65:19 property (17) 14:11;54:2,6,8,20, 24;66:4,13,17,20; 77:3;108:24;114:8, 20;121:18;126:13; 127:13 propose (1) 28:13 prose (2) 6:12,15 protected (1) 43:9 proven (1) 77:5 provide (4) 17:24;18:4;20:3; 125:10 provided (18) 12:21;14:24;16:1; 17:13;18:5,8,9;21:9; 24:21;39:7;78:24; 81:21,24;82:5,8,17; 87:11,11 provides (1) 34:3 providing (3) 122:6,6,7 provision (29) 13:15;20:18;41:2,3; 44:23;45:6;46:13,15; 55:16;58:19;64:4; 76:4;86:17;91:14; 93:11,14;94:5,8; 95:12;99:13;100:2; 105:15;111:15,24; 124:19,22,22;125:5, 16 provisions (11) 69:13,14;91:17,18; 94:24;117:24;124:9, 16;125:24;126:6; 133:11 publish (1) 54:10 publishes (1) 54:10</p>
--	---	--	--	--

<p>purchase (3) 100:15;105:17,22</p> <p>purchased (5) 49:2;85:23;86:9; 105:19;121:1</p> <p>purpose (3) 17:21;57:10,11</p> <p>purposes (3) 11:5;76:3;96:21</p> <p>put (5) 96:17;118:14; 126:2,20;132:4</p>	<p>rates (31) 50:1,3,13;52:5,12, 15,18,21;53:3;57:24; 58:7,19,24;59:19,22, 24;60:2,3,9,11,16; 64:22;69:18;89:13; 100:2;124:5,14,16,23; 125:24;132:17</p> <p>rather (4) 9:23;10:4;71:6; 101:17</p> <p>ratio (5) 5:12,13;20:8,12; 105:13</p> <p>Ratios (6) 21:24;22:13,16; 44:10,13;65:8</p> <p>reach (1) 112:4</p> <p>reached (1) 22:20</p> <p>reaction (1) 133:23</p> <p>read (23) 13:24;14:5;19:15; 24:23;25:4,5,7,27;17; 34:1;35:22;36:5,8; 37:8;38:5;39:14,24; 42:5;44:1,2,3,4;86:16, 20</p> <p>reading (1) 19:11</p> <p>ready (1) 123:8</p> <p>real (3) 65:14;119:1;121:15</p> <p>realistically (1) 122:16</p> <p>really (17) 13:3;41:4;60:7; 63:10;79:18;97:14, 17;115:17,19;116:24; 117:18;118:11,12,24; 121:23;122:24;133:5</p> <p>reappraised (1) 64:19</p> <p>reason (10) 6:13;48:24;56:17; 62:21,23;84:18,21; 115:11;125:11; 128:20</p> <p>reasonability (5) 17:7,10,15;19:1; 23:9</p> <p>reasonable (21) 26:3;40:14,18;41:6; 46:7,9;47:9,13,16; 49:15,23;58:22;59:2, 3,10;84:22;89:6;95:4, 11;96:24;115:15</p> <p>reasonableness (2) 18:21;42:8</p> <p>reasons (6)</p>	<p>62:24;63:1;84:21; 117:13;127:2;128:22</p> <p>rebuild (2) 122:1,2</p> <p>recall (35) 15:13,15;16:5,5,11, 13;20:23;24:6;26:21; 35:22,24;37:15,16; 43:17;54:12;64:16; 65:2;90:4;93:24;94:5; 95:14,18,20;96:4,7,8, 11,13;97:17;106:24; 107:4,19;114:2,22; 128:10</p> <p>receive (3) 82:9,10;83:2</p> <p>received (5) 8:19;13:9;20:20; 21:7;24:5</p> <p>receives (1) 115:21</p> <p>receiving (1) 18:11</p> <p>recent (3) 88:6;94:1,2</p> <p>recently (3) 23:17;64:4;69:9</p> <p>Recess (1) 101:21</p> <p>recognized (1) 54:16</p> <p>recollection (15) 16:18;39:14;42:21; 44:17;56:8;95:19; 97:4,15;106:1,15,18; 107:8;108:2,3;127:18</p> <p>recommended (1) 56:9</p> <p>reconcile (3) 26:19,20;90:15</p> <p>reconciliation (2) 98:10,13</p> <p>record (13) 5:13;6:9;7:12; 19:19;28:24;29:8; 33:13;36:10;39:24; 41:16;125:22;131:3; 134:8</p> <p>recoveries (4) 12:11,17;77:24; 82:4</p> <p>RECROSS (1) 128:1</p> <p>redirect (4) 103:2,5;123:9; 126:8</p> <p>reduce (1) 61:15</p> <p>reduced (1) 76:4</p> <p>reduction (4) 86:11;87:4,5; 109:18</p>	<p>refer (1) 15:3</p> <p>reference (1) 96:20</p> <p>referenced (3) 32:11;98:9,12</p> <p>references (1) 89:24</p> <p>referencing (4) 81:22;99:17;116:1, 13</p> <p>referred (5) 35:14;64:14;83:9; 103:17;119:6</p> <p>referring (7) 16:20;19:11;32:18; 97:13;115:10;130:8,8</p> <p>refinement (1) 45:8</p> <p>reflect (7) 63:2;65:5;68:22; 86:9;88:3;110:12; 111:10</p> <p>reflected (5) 50:20,24;73:15; 88:7;111:7</p> <p>reflecting (1) 111:9</p> <p>reflection (2) 62:11;91:21</p> <p>reflects (1) 88:9</p> <p>refresh (3) 95:19;97:4,14</p> <p>refreshing (1) 97:12</p> <p>regard (1) 116:1</p> <p>Regarding (5) 18:13;22:19;33:2, 21;34:15</p> <p>regards (5) 11:5;74:13;82:8; 97:16;111:12</p> <p>region (1) 43:11</p> <p>Registered (2) 135:2,11</p> <p>regressions (1) 118:3</p> <p>regular (2) 34:7,11</p> <p>REILLY (1) 101:17</p> <p>reinsurance (37) 12:11,17;31:21,24; 32:1,2,3;74:13;77:19, 23;78:8,21,22;79:21, 24;82:11;85:14,24; 86:9;89:1,4,9,13,14; 90:16,19;91:3,9;92:4; 95:15,16;96:9;100:9, 15;132:7,15;133:10</p>	<p>reinsured (1) 123:18</p> <p>reinsurer (6) 74:15,19,23;76:7; 77:24;78:1</p> <p>reinsurers (3) 78:24;82:4;86:12</p> <p>related (7) 54:10,11;56:1;70:4; 75:20;84:14,17</p> <p>relates (1) 31:11</p> <p>relationship (3) 43:8;55:12;128:8</p> <p>relationships (2) 42:23;87:16</p> <p>relative (4) 22:21;25:18;59:15; 88:6</p> <p>relatively (2) 23:7;33:6</p> <p>relativity (3) 62:2,4,11</p> <p>relevant (1) 88:6</p> <p>reliable (2) 25:22;28:1</p> <p>rely (6) 20:15;36:9;54:14; 98:2,5;119:3</p> <p>relying (1) 65:7</p> <p>remember (5) 102:4;107:2; 124:10;126:14; 127:13</p> <p>repair (2) 119:22;122:8</p> <p>repairing (1) 119:16</p> <p>repeat (9) 8:4;12:13;24:11; 50:21;66:14;68:10; 78:12;93:12;100:12</p> <p>repeatedly (1) 125:20</p> <p>rephrase (3) 19:5;44:15;50:22</p> <p>replace (1) 9:5</p> <p>replacement (5) 5:20;7:5;10:4;33:9; 34:12</p> <p>replicated (4) 25:6,10;61:23; 62:18</p> <p>report (67) 15:4,5,9,13,17,18, 22;16:7,8,13,16,20, 21;17:1,1,15,22;18:3, 11,13,16,18,19,22; 19:2,7,10;21:2,5,11, 12;23:19;24:4,23;</p>
Q				
<p>qualify (1) 113:8</p> <p>quality (1) 41:20</p> <p>quantify (3) 39:4,18;40:6</p> <p>quarters (1) 43:19</p> <p>quick (2) 83:12;123:11</p> <p>quickly (3) 92:12;123:12;133:7</p> <p>quite (2) 109:4;124:8</p>				
R				
<p>R2007-02 (1) 76:17</p> <p>R2009-02 (1) 76:15</p> <p>rain (1) 112:22</p> <p>raise (2) 5:7;129:11</p> <p>raised (2) 44:7;132:16</p> <p>randomly (1) 51:11</p> <p>range (20) 40:23;46:17,18,19; 47:5,7,8,12,14,15; 58:5,22;59:2,3,10; 71:9;85:24;86:3; 106:23;118:6</p> <p>rate (47) 11:6;12:6;13:12,16; 16:7,23;17:12;20:14, 19,21;21:6;22:14,17; 37:18;38:24;48:17, 21;50:5,10,12,23; 52:17;56:3;57:10; 58:3,18,20;60:1; 61:10,14,19;68:23; 74:11;78:10,14;82:1; 89:1;93:22;94:6,23; 95:7,15;96:9;97:5,24; 105:3;132:15</p>				

25:3,5,10,20;26:11, 19,19;27:18;28:4,9, 14,24;29:7,10,21; 30:3,11,14;32:16; 33:3;36:21;37:12,14, 16,40;2:80;4:99;15; 103:12,22;115:23; 116:4,16 reported (2) 54:23;117:3 reporter (4) 102:22,24;135:3,11 reports (3) 14:23;18:1,6 represent (3) 31:19;63:9;90:6 represented (5) 76:6;82:22;84:24; 85:1,14 representing (1) 11:24 Request (3) 10:21;21:17,18 requests (6) 8:19;9:3,4,5,10,15 require (3) 45:22;47:21;107:7 required (4) 28:1;106:10; 107:22;108:13 requirement (3) 106:5,17;108:1 requirements (1) 113:6 requires (2) 45:20;105:17 requiring (1) 105:21 rerun (1) 48:3 rerunning (1) 48:2 Residential (2) 119:13;120:10 respect (3) 43:23;86:8;130:23 respectively (1) 38:18 response (10) 10:20;21:22;22:6; 26:14;44:7;46:8; 58:21;75:2;134:5,9 responsibility (2) 74:18,19 responsible (4) 12:9,15,15;64:1 rest (1) 126:7 result (4) 37:24;64:10,20; 132:17 resulted (2) 20:14;37:23	resulting (1) 75:20 results (19) 14:14;16:19,21; 17:2,5,8,10;24:8,14, 16,17;33:3,4;42:8; 43:3,11;47:23;53:18; 74:15 retained (2) 23:13;80:9 return (2) 99:19,20 returns (1) 99:22 reevaluation (1) 65:6 reevaluations (1) 65:24 revenue (1) 65:16 reverse (1) 30:19 review (26) 10:15;11:5;13:10; 16:7;17:4,18;18:13; 19:6;23:19;24:3,8,13, 16,17;25:17;32:12; 36:20;37:15;45:18, 24;46:1,3;97:24; 99:15;102:14;118:9 reviewed (25) 12:20,21,23;13:5; 15:24;16:24,24;17:1, 14;18:16;19:9;23:10; 24:19,24;25:3;26:8; 28:9;42:6;69:6,16; 81:16,24;99:14; 108:10;114:3 Reviewing (13) 29:5,11;72:15;79:3, 14;86:19;89:19; 90:13;91:7;95:1; 97:10;102:6;109:7 revised (1) 97:1 revision (1) 106:4 revisions (1) 23:6 Rhode (1) 38:13 Richard (1) 99:18 rig (2) 130:1;131:8 right (33) 8:24;10:18;43:12; 46:7,21,22;49:22; 55:13;57:9;60:2,3,12; 61:2,11;68:9;70:4,11; 72:14;73:2;75:5;76:8; 86:3;87:14;97:9; 102:2;103:17;110:14;	119:9,13;120:6; 126:3;129:7;130:14 right-hand (1) 77:13 rise (1) 49:22 rising (1) 49:21 Risk (3) 15:4;19:9;23:19 RMS (3) 13:6,10;75:7 road (1) 132:23 room (1) 130:16 rough (2) 109:9,14 roughly (8) 23:5;40:10;79:20; 81:9;91:10,11;92:2; 109:11 R-squared (4) 117:23;118:4,16; 119:2 rules (1) 107:12 run (1) 48:5 running (1) 47:21 runs (1) 40:8	second (4) 40:5;86:16;96:22; 126:11 second-to-the- (1) 27:4 section (1) 12:5 seeing (3) 22:22;65:11;107:2 seems (1) 132:5 select (2) 28:1;56:14 selected (7) 20:8,13,17;29:12; 71:11;73:16;108:19 selection (1) 61:4 selections (1) 67:13 sell (2) 121:17;122:23 sense (5) 22:23;100:19; 121:14;133:14; 134:12 sensitivity (3) 42:9,15;43:16 sent (3) 9:13;10:17;101:24 sentence (16) 19:15,16;27:18,20; 28:7,10;34:1,2;36:8; 38:6,9,14;39:24;40:4; 86:17;97:13 separate (6) 9:15;83:15;84:1; 85:10;104:19;107:11 separately (2) 105:2;114:13 September (5) 87:22;88:1,18; 125:2,3 series (1) 124:10 service (1) 54:18 Services (9) 54:3,6,8,12,20,24; 109:1;114:8,21 set (10) 26:1,2,3,7;33:22; 34:16;58:18;63:3,9; 127:24 seven (9) 29:17;30:10,11,12, 13,17;124:9,14; 125:22 several (6) 27:23;42:12;55:22; 110:12;126:12; 127:10 severity (1)	34:18 shaded (2) 31:17,19 shape (1) 111:22 sheet (1) 98:14 short (2) 45:12;123:7 show (18) 8:15;10:12;17:12; 28:22;42:13;70:6; 71:11,20,24;89:17; 96:16;98:17;102:4; 113:22;114:7;120:8; 121:10;130:17 showed (1) 117:23 showing (4) 29:24;65:9;70:10; 121:10 shown (8) 20:5,9,11;21:5; 24:9,14,18;30:18 shows (15) 20:12;21:10;22:12; 26:12;29:11;34:17; 70:8,9;73:11,19;80:4; 86:10;116:22;118:14, 15 side (4) 77:11,13,17;78:6 significant (1) 112:4 significantly (1) 20:13 similar (7) 26:11;33:6;41:1; 48:20;51:19;54:22; 85:20 Similarities (1) 12:6 similarity (2) 22:22;25:18 similarly (1) 85:19 simply (8) 24:24;25:14;27:21; 37:19;48:1,3;58:22; 116:2 simulated (1) 35:21 single (2) 20:16;44:23 situation (2) 14:7;89:7 situations (3) 58:16;67:6;89:12 six (9) 51:4,7,21,22;52:1; 85:23;86:3;127:5,7 skimmed (1) 18:17	
		S			
		Saffir-Simpson (6) 34:5,18;35:10,15; 36:19;38:16 same (26) 9:16;20:17;26:13; 35:12;48:2;63:9;79:8, 9,10,13,17,17;88:14; 107:9;108:16,18; 113:14,19;119:10,20; 120:1,19;128:15; 130:3,22;133:13 Sandy (2) 31:6,9 saw (1) 90:17 Scale (3) 35:11,15;36:19 scenario (1) 111:21 scheduling (2) 132:12;134:17 screen (1) 130:18 scrutinized (1) 98:16 seasons (3) 28:9,14,16			

<p>slight (1) 23:2</p> <p>small (2) 23:7;116:17</p> <p>Smaller (1) 111:18</p> <p>snow (1) 112:19</p> <p>software (6) 65:20,23;66:3,7,19; 67:16</p> <p>someone (1) 50:3</p> <p>someplace (1) 14:5</p> <p>sometime (1) 124:24</p> <p>somewhat (2) 44:7;113:10</p> <p>somewhere (2) 14:9;76:2</p> <p>sorry (12) 12:13;24:1;27:13; 30:6;32:8,24;33:24; 40:5;50:21;56:1; 79:11,16</p> <p>sort (11) 48:3;62:5;63:6; 70:10;75:12;104:23; 106:18;110:2;114:18; 118:5;121:14</p> <p>sound (1) 25:22</p> <p>sounds (2) 126:24;127:7</p> <p>source (1) 48:7</p> <p>sources (3) 27:23,24;37:2</p> <p>South (2) 57:7;70:15</p> <p>speak (1) 122:19</p> <p>specific (10) 29:24;41:3,4;46:3, 13;96:11;112:10,11; 114:7;116:9</p> <p>specifically (4) 23:22;74:4;112:18; 132:5</p> <p>specified (1) 28:10</p> <p>speculate (1) 73:22</p> <p>speed (2) 34:5;57:1</p> <p>speeds (1) 57:8</p> <p>spread (1) 113:9</p> <p>square (1) 121:21</p> <p>SRB (6)</p>	<p>9:11;10:21;11:24; 21:17;56:4;132:10</p> <p>SRB's (3) 9:3;131:24;132:20</p> <p>stamp (1) 15:6</p> <p>stamped (3) 34:10,11;79:6</p> <p>standard (2) 54:15;59:7</p> <p>Standards (4) 41:14,24;88:23; 89:5</p> <p>start (5) 33:24;59:23; 105:21;131:23;134:8</p> <p>started (3) 27:7;88:5;127:17</p> <p>starting (5) 7:22;8:5;23:24; 52:20;117:20</p> <p>state (14) 7:12,14,17;41:11, 13,16;44:24;45:7; 88:24;106:22;107:15; 108:7;116:15,19</p> <p>stated (1) 46:12</p> <p>statement (17) 39:19;47:12;61:18; 68:15;70:18;73:10; 76:23;77:7,8;78:18; 86:24;89:3;97:11; 106:21;114:6,12; 128:24</p> <p>statements (7) 97:24;98:3,6,13,19; 99:9;109:8</p> <p>States (3) 13:19;67:4;96:23</p> <p>statewide (9) 23:2;40:10;45:3; 58:8,9,11;85:9,18; 109:8</p> <p>statistic (3) 118:5,16;119:2</p> <p>statistical (1) 115:20</p> <p>status (1) 112:5</p> <p>statutes (1) 14:17</p> <p>stay (1) 132:18</p> <p>stenographic (1) 135:5</p> <p>step (1) 29:23</p> <p>still (3) 59:24;100:10,17</p> <p>stipulated (4) 94:3;124:21;125:4, 12</p>	<p>stipulation (9) 93:18,20,23;95:24; 96:10;97:6;124:23; 125:17;126:6</p> <p>stipulations (1) 125:9</p> <p>stochastic (3) 33:22;34:3,16</p> <p>stock (1) 63:2</p> <p>storm (19) 13:23;14:1,8,10; 28:2;33:22;34:16; 38:17;57:6;70:16; 83:20;84:5,8,10,19; 109:3,3;112:7,19</p> <p>storms (17) 13:21;30:17;35:7, 11,21;37:13;38:10,15, 20;57:18;109:12,20; 111:14;112:3,3; 113:19,20</p> <p>straight (4) 72:22,23;73:16,17</p> <p>strength (1) 13:19</p> <p>stretch (1) 101:15</p> <p>strike (1) 125:6</p> <p>structure (4) 43:9,9,10;122:9</p> <p>structured (1) 95:2</p> <p>structures (1) 113:11</p> <p>studied (1) 97:21</p> <p>study (2) 73:21,22</p> <p>subject (2) 91:14;120:16</p> <p>submitted (3) 44:18,19;124:19</p> <p>subsidiary (1) 54:13</p> <p>substantial (2) 124:15,22</p> <p>subtract (2) 28:21;82:17</p> <p>subtracting (1) 82:12</p> <p>sufficient (2) 100:8,14</p> <p>suggest (6) 9:5;35:18;95:9; 128:19;132:12;133:1</p> <p>suggested (1) 41:24</p> <p>suggestion (2) 134:3,13</p> <p>suggests (1) 130:10</p>	<p>sum (2) 53:8;91:8</p> <p>summaries (1) 18:1</p> <p>SUMNER (23) 19:18;101:2; 104:15;105:1,5,7,11; 106:9,22;107:5,15,21; 108:6,11;110:19; 111:2,23;113:13,16, 21;114:23;130:15,20</p> <p>Superstorm (1) 31:5</p> <p>supplemental (1) 103:18</p> <p>supply (1) 102:21</p> <p>support (2) 20:7;73:23</p> <p>supported (1) 75:23</p> <p>supposed (1) 119:15</p> <p>Sure (32) 12:14;24:12;25:10; 28:6;35:1;54:24; 58:23;72:14;79:11, 19;81:22;84:20; 86:21;87:13;89:22; 90:11;91:20;96:17; 97:12;101:10;103:17; 104:16,24;113:18; 116:10;117:22; 120:18;122:24;131:4, 11;133:14;134:2</p> <p>surge (31) 39:1,2,5,8,9,12,15, 17,20;40:3,7,8,11,13, 18,24;41:7,9;45:19; 46:2,4,7;47:1,22;48:5, 6;83:21;84:5,8,10,19</p> <p>surplus (18) 97:19;98:3,15;99:7, 17,20;100:3,11,17; 123:15,17;124:3,4,10; 128:9,20,23;129:3</p> <p>surprise (1) 69:8</p> <p>swear (1) 7:8</p> <p>switch (1) 48:4</p> <p>Sworn (1) 7:9</p> <p>synchronize (1) 132:14</p> <p>system (3) 63:17;110:7;130:2</p>	<p>35:14,18;37:4,10</p> <p>talking (10) 19:19;27:10;31:19; 70:14;115:3;120:18; 121:24;129:20; 130:13;134:6</p> <p>tax (1) 121:19</p> <p>technical (1) 130:21</p> <p>tempored (1) 61:15</p> <p>tempering (5) 61:21;62:20;63:18, 21;64:6</p> <p>ten (1) 56:19</p> <p>tend (1) 119:21</p> <p>tenth (1) 90:14</p> <p>term (11) 13:14;53:5,11; 59:11,14;74:6;75:15; 77:18,20;82:2;83:20</p> <p>terminology (1) 115:12</p> <p>terms (4) 17:9;49:20;124:2, 20</p> <p>terribly (1) 134:2</p> <p>territorial (8) 58:8,10,12;104:19, 22;105:2;108:5;109:6</p> <p>territorially (1) 58:15</p> <p>territories (3) 23:1;43:24;44:6</p> <p>territory (8) 41:3;44:9,12;45:1; 104:17,19,23;108:4</p> <p>test (2) 23:9;42:19</p> <p>tested (1) 43:6</p> <p>testified (2) 132:7,9</p> <p>testify (2) 15:2;132:23</p> <p>testimony (25) 6:12,15;7:24;8:6,9, 11,12;14:23;17:3,13; 19:8;21:4;33:10; 39:10,15,19;40:19; 46:12,21;47:13; 80:20;82:7;102:1; 134:7,19</p> <p>text (2) 86:7;115:2</p> <p>theoretically (1) 130:16</p> <p>theory (3)</p>
		T		
		table (8) 33:21,23;34:3,14;		

<p>109:10;132:1,2 thinking (1) 5:20 third (1) 42:5 though (1) 118:23 thought (6) 27:10;56:6,12; 106:6;118:21;129:22 Three (8) 43:19;71:4;73:8; 123:1;124:17;125:2; 132:24;134:6 threshold (7) 53:20,21;113:4,5, 12,14,19 throughout (3) 45:7;105:2;115:16 thunderstorm (3) 112:4,20,22 times (2) 35:5;67:5 title (1) 7:19 TIV (2) 44:10;126:14 Today (2) 5:3;103:10 today's (1) 134:18 together (5) 91:4;100:9,15; 131:15;133:7 told (1) 123:2 took (2) 17:8;25:9 top (7) 38:2,7,8,10;76:20; 77:11;78:15 topic (1) 126:11 total (19) 34:20,24;35:2;52:3; 53:5;55:3,5,7,8,12; 56:9,15,22;76:4;78:9, 13;81:6;83:2;105:13 tough (1) 133:6 towards (1) 45:1 toying (1) 118:20 Track (2) 118:1;119:15 traditional (1) 132:8 Traditionally (1) 131:21 transcript (5) 5:9,10,21,22;135:4 transcription (1)</p>	<p>135:5 transferred (1) 86:12 treated (2) 104:18;105:1 trend (60) 41:19;48:14,15,16, 19,23;49:20,24;50:7, 8,9,17;51:1,3,8,12,16; 52:7;59:11,15,16,17, 17,17,19,23;60:5,12, 14,17,18,18,23;64:21, 24;66:6;67:13,17,21; 68:7,8,9,13,13,17,18, 21;69:7,10,12,16,17; 117:7;118:11;119:11; 120:17,22;121:7,10, 11 trending (6) 51:3;52:4,8;69:15; 134:10,11 trends (3) 52:16;65:13;117:24 tried (1) 43:21 tropical (5) 14:10;70:16; 111:14;112:3;113:20 true (11) 8:11;10:23;58:7; 59:18;68:24;69:2,4; 77:10;104:2;128:24; 135:4 try (1) 132:20 trying (2) 44:16;83:5 turn (15) 12:3;31:14;36:1; 38:2;39:21;43:18; 50:16;51:15;60:21; 67:20;69:22;76:12; 80:19,24;86:6 turned (2) 79:15;128:17 turning (2) 48:3;79:23 turns (1) 47:1 two (19) 16:16;23:4;33:8; 37:1;38:15;53:17; 70:2,9,11;71:3;73:8; 84:1;93:18;95:23; 119:19;120:13; 123:11;129:12; 131:20 type (6) 43:1,1;59:9;113:14; 119:16;126:23 typed (1) 93:3 types (4)</p>	<p>37:23;58:16;84:13; 111:14 typical (1) 84:17 typically (2) 66:3;77:22 typo (1) 13:8</p> <p style="text-align: center;">U</p> <p>ultimately (1) 56:14 unchanged (1) 109:24 under (9) 8:12;34:19;36:4; 40:1;86:7,17;110:7; 111:21,24 underlying (5) 6:13,14;22:13,16; 25:16 understood (3) 25:11;46:5;86:22 undervaluation (2) 64:15;65:10 underwriting (3) 124:9,16;125:23 uniform (1) 73:10 United (1) 13:19 unless (6) 19:5;46:9;101:7; 102:10;129:18;130:1 unnamed (1) 29:13 unreasonable (4) 46:10;47:3,5,9 up (21) 21:10;49:18;55:16; 63:18;67:5,10;69:15; 70:9;80:4;101:12; 107:1;118:14;120:8, 18;121:4;122:22; 129:9;130:1,17,17; 131:9 update (1) 66:16 updated (3) 6:15,17;65:19 updating (2) 126:13,19 upon (22) 20:15;30:23;41:4; 46:13;53:1,23;54:6; 61:4,9;65:7,8;71:18; 87:21;88:13;98:2; 106:13,14,19;119:3; 121:11;122:9;127:5 upward (1) 65:12 use (17)</p>	<p>16:19;17:2,11; 20:15;21:5;25:22; 31:4;44:23;55:20,20; 56:9;74:10;83:13; 98:7;113:18;115:5; 119:6 used (47) 13:14;16:23;18:14, 22;20:18,21;21:8; 22:19;26:18,19,23; 32:7,10,16;33:4,22; 34:16;35:20;38:24; 44:5;54:16;55:23,23; 56:20;59:14,15;62:9, 19;67:4;68:16;69:10; 75:7;76:14;77:12; 78:20;79:22;81:21; 87:3;88:4,7;99:10; 108:16,17;115:7,16; 119:10;120:1 user (3) 42:10,16,19 uses (7) 54:2,3;61:24;67:17; 119:11,21;120:9 using (16) 25:11;39:17;41:20; 44:12;56:20;65:20; 67:16;77:17;94:4; 95:22;107:12;109:7; 111:19;112:12; 115:17;119:20 usually (1) 48:15 utilized (1) 17:14</p> <p style="text-align: center;">V</p> <p>vaguely (1) 102:4 valuation (1) 65:15 valuations (1) 49:8 value (45) 46:7;47:2,19;49:11, 13,14,17,17;53:6; 55:4,6,7,8,13;56:10, 16,23;58:6;67:22,23; 73:12;79:20,24;80:5, 14;81:9,13;82:2,15; 85:8;87:3;90:3,7,17; 91:20;92:6;97:6; 105:14;120:17,23; 121:4,15,23;122:7,7 valued (1) 121:21 values (21) 42:11;43:5;47:13; 49:21;65:18;66:4,13, 17,20;70:19;71:9,11; 78:19;80:3;87:19;</p>	<p>90:6;91:13;121:8,18; 126:13;127:13 variability (2) 56:7;59:8 variability-type (1) 59:7 variable (3) 43:6;91:17,18 variables (2) 42:12,19 variations (2) 42:10,16 varied (1) 109:4 various (6) 5:11;42:8;43:4; 59:7;115:4;127:2 vary (3) 41:3;45:6;113:17 verify (1) 73:2 versa (1) 58:14 version (5) 9:6;15:12,24;16:24; 24:21 versions (1) 15:22 versus (1) 43:10 vice (1) 58:14 view (3) 47:16;63:5;132:19 viewed (1) 23:6 viewing (1) 121:15 virtually (1) 118:18 Volume (24) 6:18;7:6,21;12:4; 15:5;20:1,24;21:1; 23:15;24:9;26:16; 29:4;31:15;34:9;36:2; 37:3;41:12;43:18; 81:1;82:3;105:12; 111:24;113:22;135:4 voluntary (13) 115:5,6,13,15,18, 22,23,24;116:2,3,23; 117:1,2</p> <p style="text-align: center;">W</p> <p>Wackerman (3) 5:9;6:10;132:8 Wackerman's (1) 6:11 wait (1) 91:6 waited (1) 131:22</p>
--	--	---	--	---

waiting (1) 134:6	18,22;106:10;107:7, 10,11;108:8,13;109:2, 4,10,19,21,22;110:12, 19,21,23,24;111:3,5, 7,18	19:7;51:6,7,10,21, 22	1.1 (1) 83:1	10:13;11:8,15; 19:19,20,22;22:11; 42:4
walk (1) 119:19	winds (1) 70:16	wrong (5) 93:4;106:6,7;124:5; 126:2	1.5 (4) 67:23;68:9,13,18	17th (5) 10:17;17:17;19:13, 23;32:18
Ward (1) 132:8	winter (8) 109:2,3,12,20; 112:3,7,19;113:19	Y	1/2 (2) 60:23;118:17	18 (3) 22:2,4,7
Washington (1) 7:15	wish (1) 9:8	year (32) 12:1;44:13;49:5,5; 50:24;51:11,12,17,24; 52:3,6,63;9,9,14,14; 66:8;69:19;70:10,24; 86:4;104:17;109:24; 114:11,12;117:6,20, 22;118:23;125:23; 132:15,15,18	1:30 (1) 134:21	19 (8) 33:16,17,20;40:10, 21;41:13;46:16;47:12
waste (1) 125:8	wishes (1) 5:7	year-ending (1) 70:7	10 (19) 20:8,17;43:19; 62:21;80:23;82:23, 24;83:3;105:16; 108:12,18;109:17,21, 24;110:3,14,16; 111:15;125:3	1900 (10) 27:9,22;28:4,14,16, 21;35:23;36:9,11,14
water (1) 84:15	Within (10) 16:16,17;33:5; 41:24;46:16,19; 54:16;75:21;127:5,7	years (49) 28:21;31:1;35:5,9; 36:12,15;44:11,51:2; 55:22,22;56:5,19,19, 20,20;63:7,7,13; 64:19;70:2,11,24; 71:1,2,3,4;73:8,9; 85:23;86:3,95:23; 97:20;106:1,3;110:9, 12;122:20;123:1,17, 21,22,24;124:10,15, 17;125:2,2;127:1; 128:13	100 (5) 35:5;68:6,11;118:7; 119:1	1938 (1) 29:13
way (17) 17:2,6,11;25:24; 30:1;43:19;47:18; 57:12;62:16;63:6; 68:12;74:10;75:10; 85:11;95:2,4;100:19	without (4) 40:7,15;83:10; 97:11	years' (1) 23:4	108 (1) 36:14	1944 (1) 29:13
ways (2) 59:4;60:11	witness (42) 7:8;8:2;11:17;15:1; 45:14;56:5;94:11; 100:24;101:11,13; 102:6;104:21;105:4, 6,10,24;106:12,24; 107:8,17,24;108:10, 15;110:22;111:6; 112:10;113:15,18; 114:2;115:14;116:8, 24;117:11,15;119:7, 10;120:3,6,20;122:4, 14;125:19	year's (2) 44:18;118:9	109 (1) 36:14	1954 (2) 29:14,14
weakened (1) 14:10	witnesses (7) 5:4;129:13,13; 131:4,20,21,22	yield (1) 95:13	11 (2) 38:20;72:18	1960 (1) 29:14
week (1) 5:10	witness's (1) 125:9	Z	11.1 (1) 72:20	1985 (1) 29:14
weeks (2) 132:23;134:6	word (5) 31:20;36:6;115:5,7, 17	zero (10) 93:11,14;94:7;95:6, 7,11;118:6,18; 121:10;125:23	112 (1) 28:21	1991 (1) 29:14
weeks' (1) 133:1	words (3) 31:21;86:24;121:15	0	113 (4) 28:15,21;30:18,24	1st (2) 51:5;52:20
weight (10) 68:3,6,11;117:7; 118:19,20,21;119:1; 120:10,11	worked (2) 67:4;130:9	0 (8) 35:11,16;36:16,21; 37:5,10,13,17	113-year (1) 30:23	2 (6) 60:23;67:18;68:17; 79:7;90:6;91:11
weighted (4) 67:21;68:16;72:22; 117:9	working (2) 65:9;96:14	062 (1) 30:18	12 (2) 117:5;118:15	2.2 (1) 67:22
weighting (2) 120:5,9	works (1) 126:24	07 (1) 29:13	1-2 (1) 38:17	20 (4) 47:3;56:20;72:3,8
welcome (1) 133:4	world (1) 65:14	1	13 (4) 44:11,13;56:20; 110:9	2004 (2) 127:17,18
weren't (1) 94:4	worth (3) 23:4;63:8;121:19	1 (16) 19:24;35:8,9;38:17; 51:9,20,23;52:4,13, 16;66:9,21;82:24; 87:20;88:1,18	130 (5) 79:8,12,17,18; 90:17	2006 (2) 69:5;97:8
what's (1) 134:5	write (2) 105:12;116:17		132 (1) 85:15	2007 (4) 77:15,16;106:7; 107:5
Whenever (1) 88:2	writer (3) 116:12,12,16		133 (1) 85:5	2008 (2) 36:10,14
Whereupon (1) 134:20	writing (1) 116:6		13-year (2) 105:12,20	2009 (3) 106:7;107:6;124:19
whichever (1) 107:6	written (6)		14 (1) 36:2	2010 (2) 125:1,2
whole (3) 25:4;44:24;121:22			15 (2) 6:24;7:1	2011 (6) 22:17;31:11;44:18; 113:23;115:7;117:9
who's (1) 24:12			15-minute (1) 101:20	2012 (10) 28:5,15,16,20;31:6; 87:22;88:1,18; 113:23;125:3
Whose (1) 120:19			16 (4) 7:22;8:5;10:7,9	2013 (9) 10:13;21:14;40:2; 51:20;65:18;66:9,21; 87:20;135:6
widely (1) 54:16			16.1 (2) 30:24;31:1	2014 (6)
wider (1) 71:9			16.48 (1) 35:5	
wildly (1) 22:23			1648 (3) 34:21;35:3,9	
wind (27) 34:5;57:1,7;105:8,			17 (8)	

51:9,23;52:4,13,16; 87:20	41 (1) 86:6	50:16;60:21	
206 (3) 81:1,3;90:3	44R (2) 33:20;34:1	7	
21 (5) 21:19;79:6;92:23; 93:1;128:4	45 (8) 34:6,7,9,11,11,14, 14;120:11	7 (13) 12:5,8,9,14;23:17, 24;30:18,24;76:12; 77:7;91:3,13,22	
210 (3) 21:1,2,13	473 (2) 7:23;8:6	7.64 (1) 92:2	
22 (8) 10:21;85:5;86:8,10; 87:4;94:13,18;135:6	48 (4) 38:2,7,8,9	7.7 (1) 100:1	
22nd (2) 5:3;33:8	5	7/1/2013 (3) 50:14,24;51:13	
23 (5) 98:21;99:2;123:12; 124:2;128:7	5 (18) 19:24;20:5;35:11, 16;40:10,13,21;46:6, 16,19,23,24,24;47:12; 90:16;91:9;113:22; 115:3	74 (1) 57:1	
24 (2) 104:10,11	50 (3) 57:8;114:9;118:23	75 (4) 57:3;68:2;70:16; 117:6	
25 (4) 8:17;68:3;117:8; 118:22	50/50 (2) 117:10,18	79 (1) 67:20	
26.9 (1) 85:17	51 (1) 37:4	8	
282 (1) 6:11	545 (1) 7:15	8 (18) 17:19,19;19:15,20; 23:23,24;24:1;42:4; 76:20;77:8,12;78:5, 16;79:23;82:3;87:1; 90:21;115:10	
3	55 (1) 120:9	80 (1) 51:15	
3 (5) 6:17;23:3;90:6; 105:2;108:5	56 (4) 20:1;69:22;70:20; 72:11	8C (1) 92:1	
3.2 (2) 61:12,16	57 (3) 70:20;72:11;113:21	9	
30 (8) 36:4,5;61:15;62:20; 87:20,22;116:21; 125:2	58 (1) 39:21	9 (2) 91:20;92:6	
31 (1) 117:5	6	9.6 (1) 85:8	
32 (1) 117:5	6 (7) 9:3,6,20;12:4; 21:16;90:21;113:22	95 (1) 39:23	
33 (1) 111:23	6.1 (1) 35:9	9th (2) 101:24;103:11	
34 (1) 105:11	632 (3) 15:6,6,10		
365 (3) 6:13,17;7:6	637 (2) 26:17,17		
37 (3) 45:1;104:17;108:5	642 (1) 26:18		
38 (6) 10:15;11:5;17:17; 23:17;32:12;45:20	646 (2) 26:22;27:2		
4	647 (1) 29:3		
4 (6) 20:5;90:3;113:22; 115:3;118:15,17	65 (1) 61:6		
4.6 (2) 61:11,14	661 (1) 29:4		
409 (3) 79:5,8,16	666 (5) 24:10,13,18;31:14, 15		
	67 (2)		