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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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)

APPEARANCES (Continued):

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

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Carol H. Kusinitz
Registered Professional Reporter

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I N D E X

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E X H I B I T S

E X H I B I T S (Continued)

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P R O C E E D I N G S

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

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

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

MR. MEYER: We agree to that correction.

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

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

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

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

PRESIDING OFFICER FARRINGTON: I think it would be nice to have it.

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

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

One other preliminary matter?

PRESIDING OFFICER FARRINGTON: Yes.

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

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

PRESIDING OFFICER FARRINGTON: Any objection?

MR. LEIGHT: No.

PRESIDING OFFICER FARRINGTON: This will be Exhibit 15.

(Document marked as Exhibit 15
in evidence)

MR. MEYER: That's all I have.

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

MR. MEYER: 365 of Volume II.

PRESIDING OFFICER FARRINGTON: Okay.

Could you swear the witness.

PAUL E. ERICKSEN, Sworn

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, please state your name.

A. Paul Ericksen.

Q. Please state your office address.

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

Q. And please state your professional position.

A. My title is Principal of Actuarial Consulting.

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

A. Actually, I don't have it in front of me.
(Document handed to the witness
by Mr. Meyer)
Q. Again, let me repeat the question for your convenience. Starting at Page 16 and going over to Page 473, is that your testimony in this case?
A. Yes, it is.
Q. Do you have any corrections to that testimony at this time?
A. No.
Q. Do you adopt that testimony as true and accurate and as your testimony under oath here this morning?
A. Yes.
Q. I'd like to show you another document, Mr. Ericksen, which I've also handed out to the parties this morning -- it's got 25 pages in handwritten numbers down at the bottom -- and ask if those are the information requests that you received from me in this case.
A. Yes, it is.
Q. And to the extent these were directed to you, you have answered them to the best of your knowledge and belief; is that right?

A. That's correct.

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

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

MR. MEYER: That is correct.

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

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

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

until later on.
PRESIDING OFFICER FARRINGTON: I think my preference would be to mark it as the next exhibit for identification, rather than as a replacement.
MR. MEYER: Certainly.
PRESIDING OFFICER FARRINGTON: So we'll mark this as Exhibit 16 for identification.
MR. MEYER: Thank you.
(Document marked as Exhibit 16 for identification)
BY MR. MEYER:
Q. And finally, Mr. Ericksen, I show you a document dated July 17, 2013, and ask you to identify that document, please.
A. That's the ASOP 38 review documentation that I had prepared for the MPIUA.
Q. And you sent that to me on July 17th; is that right?
A. That's correct.
Q. And you filed that in response to Information Request SRB 22; is that correct?
A. That was my understanding, yes.
Q. Is this document true and accurate, to the best of your knowledge and belief?

A. Yes.
Q. And, briefly, what does it contain, Mr. Ericksen?
A. It just -- it outlines, for documentation purposes, my ASOP 38 review performed with regards to the MPIUA rate filing.
MR. MEYER: I would offer this as the next exhibit, Exhibit 17, please.
PRESIDING OFFICER FARRINGTON: Any objection?
MR. LEIGHT: No objection for identification.
PRESIDING OFFICER FARRINGTON: We'll mark it for identification.
(Document marked as Exhibit 17 for identification)
MR. MEYER: Thank you. The witness is available for cross-examination.

CROSS EXAMINATION

BY MS. MORAN:
Q. Good morning, Mr. Ericksen.
A. Good morning.
Q. My name is Mary Lou Moran, and I'm representing the SRB in this matter. I believe we

met last year.
A. Yes.
Q. So hello again. Could I ask you to turn in Volume I -- I believe you have it -- to Pages 6 and 7. This section is entitled "Outline of Case: Similarities and Dissimilarities to Previous Rate Presentations."
Could I ask you, on Page 7, to just -- Page 7 indicates that you were responsible for the calculations of the expected hurricane losses, net of expected reinsurance recoveries. Would you agree with that?
A. I'm sorry. Can you repeat that.
Q. Sure. On Page 7 the filing indicates that you were responsible or are responsible for the calculations of the expected hurricane losses, net of expected reinsurance recoveries.
A. I think that would actually have been done by AIR. They would have made that calculation.
Q. And you would have reviewed those?
A. I reviewed the output. I was provided with the output.
Q. You reviewed the output from AIR?
A. Correct.

Q. Those measures?
A. That's correct.
Q. And on this page -- and I'm really looking for more of a clarification. I believe that this page indicates that the outputs that you reviewed were from both RMS and AIR models?
A. No. Actually, that might be -- I didn't prepare this page. That might be a typo. I only received information from AIR.
Q. And you did not review the RMS model information in preparation of your filing?
A. For this rate filing, no, I did not.
Q. And could you tell me, what is the definition of a hurricane, as the term is used to determine a provision for modeled hurricane losses in your rate level -- your analysis?
A. At a high level, I would say it's a hurricane event that would have been at hurricane strength when it made landfall in the United States.
Q. Would you agree -- should only damage from storms that are classified as hurricanes at the time of landfall be included, or would you say that a storm that bypassed would be included as well?
A. I believe I've read some things that a

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

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

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

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

A. I'm not aware.

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

A. I'm not knowledgeable of a definition.

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

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

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

A. Okay.

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

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

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

A. I don't have that information.

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

A. I believe I was provided with probably a draft copy.
Q. Would you know about when? Could you give us --
A. I don't recall. It -- I don't recall.
Q. At what point in the production of your final rate filing report did you first review a final report by Karen Clark & Company? I don't know if you have already answered that. If you have, I apologize.
A. I don't recall whether it was before I had produced my initial draft, which was maybe a month before my final report. I honestly don't recall if it was before I issued my draft or after, but it was in that general time period, I believe.
Q. Within a month or two of your final report?
A. I would say it was probably within about a month or so, is my recollection.
Q. And did you, at any time, use the results of this report -- again, referring to the Karen Clark & Company report -- to corroborate the results that you prepared -- that were prepared by AIR and used in your rate level indications?
A. We reviewed -- I reviewed the draft version

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

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

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

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

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

A. I don't have that information.

Q. Did you provide Karen Clark & Company a copy of the AIR model loss reports or summaries of the detailed loss files at any time prior to the production of her -- of the company's final report?

A. I didn't provide anything to her.

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

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

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

A. I have no information as to that.

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

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

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

A. I don't have any comments.

Q. Do you have any comments as to the

reasonability of the hurricane loss estimates in the report?

A. I don't have any comments.

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

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

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

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

A. The July 17th document.

Q. And that's on Page --

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

Q. Thank you.

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

MR. MEYER: Yes.

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

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

analysis -- I think it's Page 56 in Volume I.
A. Okay.
Q. Can you provide the name or names of the hurricanes that produced the losses and the LAE amounts paid by the MPIUA shown in Columns 4 and 5?
A. I believe that's Hurricane Irene.
Q. And do you have any support for the selected LAE ratio for hurricane losses of 10 percent, other than the experience shown on this page?
A. Well, the experience shown on the page we did consider shows a hurricane LAE ratio that's significantly higher than what we selected, which would have resulted in a higher indicated rate change. We were not compelled to use -- rely upon limited experience from a single hurricane event, and we judgmentally selected the same lower 10 percent provision that had been used in the prior rate analysis.
Q. Do you know the date that you received the AIR model AAL output that you used in the rate level indications?
A. I don't recall the date.
Q. On Page -- I ask you to look at Volume II

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

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

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

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

A. It just says February 2013.

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

A. Okay.

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

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

MR. MEYER: No objection.

(Document marked as Exhibit 18 for identification)

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

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

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

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

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

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

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

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

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

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

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

sorry, and more detail on 8.
A. That's correct.
Q. And when did you review the Karen Clark report?
A. It would have been when I received it. Offhand, I don't recall. It was probably in the February or March time period.
Q. And did you only review the final results shown on Page -- go to Volume I, if you would -- Page 666.
A. I'm there. Can you repeat the question.
Q. Sure. I'm the one who's behind a bit here. In looking at Page 666, did you review the final results shown on this page in the box at the bottom of the page?
A. I did review the results.
Q. And did you only review the final results shown on Page 666?
A. No. What I had reviewed -- now this is, again -- this would have been probably a month -- it was the version that I had been provided, so it might have been an earlier draft. I had actually read through the full report, and I was aware of the methodology. So I reviewed more than simply the

number.

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

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

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

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

A. The way I would characterize it is, she did it -- she had her own set of assumptions and her own set of methodology, independent of AIR -- I believe a reasonable set of assumptions, but those were her assumptions. And that independent approach -- I don't think she's making any opinion, expressing any opinion about the AIR model. She is developing her own independent set of calculations, which I had reviewed.

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

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

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

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

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

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

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

Q. Since 1900, the data on --

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

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

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

Q. That would be great.

A. The first sentence of the paragraph that you directed me to simply says, "Meteorological data on the landfalling hurricanes since 1900 is available from several sources, but because there are discrepancies between the different sources, judgment is required to select the most reliable parameters for each storm."

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

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

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

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

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

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

Q. If that was.

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

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

hurricanes that impacted Massachusetts?
A. I don't have that information.
Q. If I could direct you to Pages 647 through 661 in Volume I. Take a moment. Take your time.
A. (Reviewing document) Okay. What was your question?
Q. How many hurricanes does the Clark report include in the historical record of hurricanes that impacted Massachusetts? Basically, how many hurricanes did the Karen Clark report look at?
A. (Reviewing document) Well, she shows information for selected hurricane events. She has the 1938 Great New England, the 1944 unnamed 07, 1954 Carol, 1954 Edna, 1960 Donna, 1985 Gloria, 1991 Bob. I don't know whether there were other things she looked at.
Q. Would you agree that that's seven that you have just gone through?
A. I believe it was.
Q. Can you calculate the annual frequency of hurricane events as presented in the Clark report of hurricanes impacting Massachusetts?
A. Well, I'll just take a step back. These are the hurricanes that she is showing specific

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

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

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

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

A. Just taking seven --

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

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

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

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

Q. 16.1 years?
A. Yes.
Q. And based on the definition of "hurricane" you described earlier for use in this filing, should the MPIUA's losses due to Hurricane or Superstorm Sandy that made landfall in late October of 2012 be classified as hurricane losses in the future?
A. To the extent that they have losses from Sandy, which they did, yes, that would be classified as a hurricane, yes.
Q. And how about Irene in 2011 as it relates to Massachusetts?
A. Yes, that's a hurricane event.
Q. Could you turn to Page 666 or back to Page 666 in Volume I. Looking at the box at the bottom, the boxed area, it says, "Average Annual Loss Estimates." That is shaded.
What do the numbers at the bottom of the page in the shaded box represent? I'm talking about the numbers next to the word "Gross" and next to the words "Net of Reinsurance."
A. "Gross" would be the average annual gross hurricane losses. That's just losses, no LAE. It's before the application of reinsurance. And "Net of

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

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

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

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

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

Q. That's fine.

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

$25.2 million.
Q. And what is your conclusion regarding the results of the Clark & Company report and the AIR results used in your filing?
A. My opinion is that they fall within a relatively similar magnitude.
MS. MORAN: I have a letter from Attorney Meyer dated April 22nd, and attached to that are two replacement pages that would go as part of Mr. Lalonde's testimony. I would ask at this time this be marked as an exhibit.
MR. MEYER: No objection. This is a document, just for the record, that we would have marked when Mr. Lalonde would be here, but we have no objection to it being marked now.
PRESIDING OFFICER FARRINGTON: Exhibit 19.
(Document marked as Exhibit 19 in evidence)
Q. Mr. Ericksen, if you could look on Exhibit 19 that I just handed you, Page 44R. Looking at the table, what information is included regarding this stochastic storm set used in the AIR model?
A. I don't see a table.
Q. I'm sorry. If you look at -- if we start

on Page 44R and read the last sentence.
A. The last sentence says, "The following table provides further details on the stochastic damage estimates for the MPIUA book by Saffir-Simpson Category as defined by wind speed."
Q. And then if you look at Page 45, the regular 45 --
A. What page is that?
Q. That's Volume II, 45.
A. Do you know what stamped number?
Q. It's stamped 45. It's just the regular 45 as opposed to a replacement.
A. Okay.
Q. If you look at the table on 45, Page 45, what information is included here regarding the stochastic storm set used in the AIR model?
A. It shows average annual losses, frequency and severity by Saffir-Simpson.
Q. And under the column labeled "Frequency," what is the total figure?
A. .1648.
Q. And how often on average should a hurricane impact the MPIUA book of business, based on that total frequency?

A. I'm not sure -- say that question again.
Q. Looking at the total frequency figure of .1648, how often on average should a hurricane impact the MPIUA book of business?
A. In 100 years, it would say 16.48 times.
Q. So what would the average interval be between storms?
A. It would take 1 divided by that number. (Calculating) 1 divided by .1648 is 6.1 years.
Q. And would that apply also to Saffir-Simpson Scale storms falling into Category 0 through 5, that they would also occur at the same frequency or intervals?
A. That number I referred to is from a table that had information from the Saffir-Simpson Scale from 0 to 5.
Q. So you would agree?
A. That's what the table would suggest.
Q. And do you know the historical time period that the AIR model used to develop the event generation of simulated storms?
A. I have read it. I don't recall the exact time. It's generally from the 1900 time period. I don't recall the exact date.

Q. Could I ask you, Mr. Ericksen, to turn to Page 14 in Volume II.
A. Okay.
Q. And looking under Question 30, if you could look down in the answer to 30 and read beginning with the word "We."
A. Yes, I see.
Q. Could you read that sentence, please.
A. "We currently rely primarily on the 1900 to 2008 historical period because the record is more accurate post 1900."
Q. And how many years does that entail, that period?
A. 2008 minus 1900 would be 108. So 109 years.
Q. Can you tell me what a Category 0 hurricane is?
A. I don't have that information. It's according to the Saffir-Simpson Scale.
Q. And do you know, from your review of the Karen Clark report, if any Category 0 hurricanes were included in that?
A. I don't know, and that would make it -- so the comparison for me, it would be hard for me to

draw a comparison between the numbers from those two sources.

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

A. Yes.

Q. Could you read the footnote.

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

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

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

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

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

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

A. At the very top of Page 48?

Q. The top of Page 48.

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

Q. And the next sentence?

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

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

A. That's what it would imply.

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

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

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

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

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

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

Q. Could I ask you to turn to Page 58, Mr. Ericksen, and could I ask you to look at -- it's Question 95 and then the answer to that. Could you please read into the record the first full sentence under the answer. It begins with "The MPIUA."

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

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

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

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

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

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

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

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

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

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

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

A. That's correct.

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

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

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

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

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

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

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

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

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

A. My recollection is that we had merged the exposure file with the model output, and we looked at relationships for a handful of the different exposure fields. We had -- I think there was construction type, deductible type. There were a limited number, but the different exposure fields that we had, we compared some results.

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

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

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

A. I don't recall.

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

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

Q. You could read it out loud.

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

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

A. Yes. My recollection is that after last year's filing was submitted, the 2011 filing, the previous filing, was submitted, a question had come into the MPIUA, and I don't know who, but a question had come into the MPIUA I think asking the general question as to whether it was appropriate to have -- to use one single non-hurricane cat provision for the whole state. And I think the question was probably more geared towards Territory 37, the Coastal, whether that should have higher or lower than statewide average.

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

MS. MORAN: Thank you, Mr. Ericksen.

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

THE WITNESS: I'm good for now.

MR. LEIGHT: That's fine.

CROSS EXAMINATION

BY MR. LEIGHT:

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

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

Q. And in the context of your review of

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

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

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

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

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

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

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

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

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

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

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

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

A. Yes, it would.

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

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

Q. And how would one do that?

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

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

A. I believe so.

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

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

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

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

Q. And what about a premium trend?

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

Q. And why do premiums have a trend?

A. Well, the most common reason would be that people would buy -- would change the amount of insurance that they purchased. Maybe the Coverage A limit would change over time, inflationary influences. Maybe they bought a policy with $100,000 this year. Next year maybe they'll buy a $105,000 policy. And that would cause premiums to increase, if they bought more coverage.

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

A. It could.

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

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

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

A. I think that's a reasonable conclusion.

Q. And the premium trend is independent of any

changes in rates; is that correct?
A. It depends how you measure the change in premiums. If someone -- if rates increased, that can increase the average premium. But we account for that in our -- in our rate analysis, we account for that change in premiums differently than what we define as premium trend.
Q. So when you deal with premium trend, you're dealing with a trend that's independent of any changes in the rate?
A. That's correct.
Q. Is it correct that the rate need in the filing is based on the assumption that rates will be in effect for the annual period beginning 7/1/2013?
A. That's correct.
Q. And if you turn to Page 67 of the filing, this page deals with the premium trend, correct?
A. That's correct.
Q. And can you tell us how the annual period is reflected on this page.
A. I'm sorry. Can you repeat the question.
Q. Let me rephrase it. Can you explain to us how the fact that the MPIUA rate filing will be in effect for the year beginning 7/1/2013 is reflected

in the premium trend.

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

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

A. That's correct.

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

A. It's a similar concept. We assume the average effective date of July 1, 2013. We assume that the average policy will be written six months after -- the average policy will be written six months later, which is January 1, 2014, and the average policy lasts for one year. So we assume that the average accident date will be six months after the effective date of the policy, which is a total of one year after the effective date of the filing. So we're trending to July 1, 2014.

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

A. That's correct.

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

A. I have not discussed that with them.

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

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

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

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

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

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

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

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

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

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

Q. What is it for the MPIUA?
A. I believe the MPIUA uses the Property Claim Services, uses events that they classify as catastrophes. So I think that they will assign a catastrophe -- or an occurrence or a catastrophe based upon events that the Property Claim Services has earmarked as being a catastrophe.
Q. And what is the Property Claim Services?
A. It's an organization that collects and publishes data related to -- they do publish and collect data related to catastrophes. I don't recall all their services. They are actually a subsidiary of the organization I work for.
Q. And why would one rely on their particular measurement? Is that the standard in the industry?
A. It is widely used and recognized within the industry.
Q. Do you know of any other service that collects this kind of data apart from PCS? PCS is what Property Claim Services calls itself, correct?
A. Correct. Am I aware of other organizations that do similar -- I have definitely seen things in the news and things reported from entities that are not Property Claim Services, so I'm sure that there

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

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

A. They will be influenced by total insured value.

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

A. All else equal, yes.

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

A. That's correct.

Q. And can you explain to us why.

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

In fact many years ago, several years ago, we actually used a different base. We used non-hurricane losses -- or non-catastrophe losses, I'm sorry, as the base. We related non-hurricane catastrophe losses to non-catastrophe losses, and we looked at that as a constant rate.

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

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

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

Q. Is it correct that a nor'easter that has wind speed of 74 miles an hour would be considered a non-hurricane catastrophe?

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

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

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

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

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

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

A. That's correct.

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

A. Generally, yes.
Q. What does that mean, as you understand it?
A. I would say an excessive rate would be a loss that's in excess of an expected loss amount or fall outside the range of what the average expected value of costs would be.
Q. Is it true that rates can be excessive on a statewide level and also on a territorial level?
A. Is it possible for it to be on a statewide and a territorial level?
Q. Can it be correct on a statewide level but incorrect on a territorial level?
A. You could have that.
Q. And vice versa; it can be correct territorially but --
A. You could have those types of situations.
Q. Is it correct that, assuming that all other aspects of the rate are set correctly, a loss provision in rates that is higher than expected losses produces an excessive rate?
A. As part of my response, I said fall outside of a reasonable range. So simply falling above maybe the expected central estimate, I'm not sure if that by itself would say the rates are excessive. I

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

Q. And how do you define the reasonable range?

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

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

A. I am.

Q. What does that mean?

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

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

A. No.

Q. Why not?

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

need a rate increase.
Q. What if rates were right to begin with?
A. If rates were right to again with, and then what happened?
Q. A net downward trend.
A. There could be other -- I guess I'm not really understanding the question.
Q. Let me ask you just a kind of general question. Can rates ever go down?
A. Yes.
Q. And one of the ways rates can go down is that the net trend is downward; is that right?
A. If, over time -- I would say over time, if the net trend is negative, then over time that would have a downward pressure on at least indicated rates.
Q. The net trend is negative when the loss trend is lower than the premium trend; is that correct?
A. That's correct.
Q. Now, if you turn back to Page 67 -- we were looking at that before -- the filing assumes a premium trend of 2 1/2 percent, correct?
A. For homeowners-owners forms, correct.

Q. And that's based on MPIUA data alone; is that right?
A. That is correct. We considered industry data, but the selection was based upon Massachusetts data -- MPIUA data.
Q. On Page 65 is where you considered the industry data, correct?
A. That's where we calculated the number based upon industry data, yes.
Q. And that produces an annual rate of change of 4.6 percent; is that right?
A. Well, as calculated here, it would be 3.2 percent.
Q. The annual rate of change is 4.6 percent. You then tempered that by 30 percent to reduce that to 3.2 percent?
A. That's correct. That's a correct statement.
Q. And how was the annual rate of change for the industry calculated?
A. Before the tempering?
Q. Yes.
A. We looked at -- we generally replicated the methodology that ISO uses in the ISO loss cost

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

Q. And what is the average AOI relativity?

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

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

A. Correct.

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

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

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

A. I believe the reason that's mentioned in the ISO Circular -- there might be other reasons, but at least one of the main reasons would be to reflect changes in the building stock over time of the set of companies.

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

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

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

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

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

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

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

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

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

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

A. I do.

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

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

Q. Well, was the premium trend higher in the

past?
A. I don't recall the numbers exactly, the last filing, but if you go back in time, they would have been higher.
Q. And does that partly at least reflect this revaluation project?
A. Well, to the extent that we're relying upon data that was based upon ratios in the Coverage A and when they were showing -- when they were working on improving that, the undervaluation problem, and we were seeing higher changes in the Coverage A, that would have had an upward influence on the indicated premium trends, all else equal.
Q. And in the real world, those kinds of valuation changes would be expected to produce greater revenue for the MPIUA, all else equal?
A. That's correct.
Q. Are you aware that in July 2013, the values of all MPIUA properties will be updated automatically on an annual basis, using a software program?
A. I was not aware of that.
Q. Are you aware generally of software programs that do perform revaluations for insurance

companies?
A. Yes, I am.
Q. And typically these software programs produce annual adjustments in property values?
A. That's correct.
Q. In calculating the premium trend, did you take into account the impact of this software on expected MPIUA premiums for the year beginning July 1, 2013?
A. No, I did not.
Q. Do you know whether there is any data available on the impact of these kinds of programs on property values?
A. Can you repeat the question.
Q. Do you know whether there's any data available for the impact of automatic update programs on property values?
A. I haven't seen it.
Q. Is it correct that if the software program produces a bump-up in all property values beginning July 1, 2013, that would be expected to affect the premium produced by the MPIUA filing?
A. It's a hypothetical question, because I don't know that there's going to be an increase --

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

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

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

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

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

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

A. That's correct.

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

A. That's correct.

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

A. Can you repeat the question.

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

A. That's an accurate statement.

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

A. Yes.

Q. So the net annual trend is negative?

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

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

correct?
A. It was definitely true with the prior filing.
Q. Do you know whether it's been true since 2006?
A. It might be. I reviewed the net premium trend as part of the last filing in my preparation for this. It wouldn't surprise me if it was, but I haven't looked at it recently.
Q. What trend is used for commissions and administrative expenses in the filing?
A. We haven't calculated a trend for those provisions.
Q. Do you know if those provisions are trending up?
A. We haven't reviewed a trend in it.
Q. You didn't make any adjustment to the trend to take into account the fact that MPIUA rates have historically been effective for more than one year?
A. No. We are making an opinion, assuming that they're in effect for a one-year time period.
Q. Now, if you turn to Page 56 of the filing, this page and the following page deal with the loss adjustment expenses, correct?

A. Correct.
Q. And there were two years in this period, this data period, when the MPIUA had loss adjustment expense related to hurricanes, right?
A. Yes. There is one event, Irene, but since we show data on a -- this is data, I believe, for -- this is policy forms or fiscal year-ending -- I think because of the nature of how this shows, it shows up for two different -- oh, no. Yes. This is showing sort of on a calendar year basis, so the one event flows into two different years, right.
Q. Now, Irene was not actually a hurricane in Massachusetts; it was one of those events that we were talking about before that was a hurricane down South, but by the time it got here, it was a tropical storm or something with winds lower than 75 miles an hour?
A. That's an accurate statement.
Q. And in general, looking at the values that appear on Pages 56 and 57, it appears that the FAIR Plan's loss adjustment expenses for catastrophes have been lower than its LAE for non-catastrophe claims. Do you see that?
A. Well, it depends on the year. More years

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

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

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

A. That's correct.

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

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

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

A. That's correct.

Q. Let me show you an exhibit that we

prepared.

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

PRESIDING OFFICER FARRINGTON: Any objection?

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

(Document marked as Exhibit 20 for identification)

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

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

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

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

Q. Straight average.

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

I can't -- okay.

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

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

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

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

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

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

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

Q. Do you know whether the MPIUA has a loss adjustment expense control plan? Are you familiar with that?

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

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

A. Generally, yes.

Q. What does that mean?

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

Q. That would be great.

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

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

A. That would be the concept, yes.
Q. I think that in response to Ms. Moran's question you indicated that the expected ceded loss and the net hurricane loss as well in this filing are based on the AIR model, right?
A. That's correct.
Q. And the RMS model was not used in the filing?
A. That's correct.
Q. Do you know why, by the way?
A. No. I don't think -- I was involved with discussions when they were sort of in that deciding process, but, no, I was not -- it was not made aware to me.
Q. Are you familiar with the term "non-modeled hurricane loss"?
A. Generally, yes.
Q. What does that mean, in general?
A. It would be losses that one would expect to be related or resulting from a hurricane that are not being included within the model output.
Q. And are there any non-modeled losses, hurricane losses, supported in the filing?
A. I don't believe we're including any -- that

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

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

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

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

A. I do.

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

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

Q. That's been proven before?

A. I think it's a basic axiom.

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

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

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

A. The right-hand side of the equation.

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

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

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

A. I'm familiar with that term.

Q. What does that mean?

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

that you expect to get back from the reinsurer.
Q. So minus the expected ceded loss?
A. Ceded loss and LAE.
Q. And where would that appear in the equation on Page 8?
A. That would appear on the left-hand side, what appears in the parentheses, the A minus C. That would be the net cost of reinsurance.
Q. Would you agree generally that the total amount of hurricane losses in the rate paid by policyholders should not exceed B in that equation?
A. Can you repeat the question.
Q. Would you agree that the total amount of hurricane losses in the rate paid by policyholders should not exceed B in the equation on the top of Page 8?
A. If you're just looking at hurricane losses, I think that's a fair statement.
Q. What are the values of A, B and C that you used in connection with the current filing?
A. Okay. A, as it says, is reinsurance premiums gross. So that's the actual reinsurance premiums that are being paid by the MPIUA to its reinsurers. So that was a number provided to us by

Guy Carpenter.

Q. Where does that appear in the filing?

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

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

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

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

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

Q. So the value is roughly $72.9 million?

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

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

A. Correct.
Q. What about for B and C?
A. We didn't calculate individual values for B and C. I think what shows up on the report is the value B minus C, which would be the net hurricane loss and LAE.
Q. And what is the net hurricane loss and LAE?
A. That would be the expected hurricane loss and LAE that would be retained by the MPIUA. Mathematically it's the gross hurricane loss and LAE, minus the ceded loss and LAE. But I don't think that that's actually how it's calculated. Like, AIR does not calculate B and C; they actually calculate B minus C. That value is what they calculate, and that's what was included in the analysis.
Q. What is the expected hurricane loss gross in the filing?
A. I think that that was the -- I could turn to David Lalonde's testimony. I think it was $37.5 million, but -- I apologize if I'm -- oh, that would be just losses. That doesn't include the LAE. So including LAE would be 10 percent higher than that.
Q. Let me ask you to turn to -- do you have

Volume II -- Page 206.
A. What page?
Q. 206.
A. Okay.
Q. If you look at the first panel, it says, "Gross Total, Average Annual Loss & LAE." Do you see that?
A. Yes.
Q. And that value is $41.2 million, roughly. Do you see that?
A. Correct.
Q. Is that consistent with your understanding of the value of the expected hurricane loss gross in the filing?
A. Yes, it is.
Q. You reviewed this material in connection with the filing, did you not?
A. Yes, I did. These pages -- I'm just looking through here. I definitely got the information -- when I was preparing the analysis, I used the Excel files that they had provided. I'm not sure if I was referencing these. I certainly expect these are consistent with what I was provided, but I don't think I reviewed these pages

when I was preparing the rate filing.

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

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

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

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

A. Which would be C, yes.

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

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

divided by 1.1, that percent.
Q. So once you receive the total loss, you would then take 10 percent of that and add it on to the loss?
A. Correct. Well, if I was trying to calculate gross losses including LAE. We didn't do that, so we didn't perform that calculation. But if I was going to, that's what I would do.
Q. You referred earlier to the $37 million plus figure, and that was the AIR model loss without LAE?
A. Correct. But just as a quick clarification, we didn't use the gross numbers in my analysis at all.
Q. But if one wanted to separate out the LAE, that would be the base loss, and then the LAE would be added to that?
A. If one was going to do that. We didn't actually do that in the calculation.
Q. Are you familiar with the term "storm surge"?
A. Generally, yes.
Q. What does that mean, or what did it mean in connection with the filing?

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

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

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

Q. Well, yes.

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

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

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

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

losses, the percent of premium represented by net hurricane losses?
A. Yes, we do calculate that.
Q. Where is that?
A. Page 133, Exhibit 22.
Q. This is for the owners forms, correct?
A. Correct.
Q. And that value here is 9.6 percent?
A. That's the statewide average.
Q. Is there a separate calculation for each of the forms? Is that the way you do it?
A. Yes.
Q. And what about the percent of premium represented by reinsurance? Is that what appears on Page 132?
A. Yes.
Q. And 26.9 percent for the owners forms?
A. That's the statewide average.
Q. And similarly you do a calculation for the other forms, a similar calculation?
A. That's correct.
Q. Is it your understanding that, over the last six years, the MPIUA has purchased in the $70 million to $80 million range of reinsurance

annually?

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

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

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

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

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

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

A. Yes, I do.

Q. And that is a statement in words of what

appears as B minus C on Page 8, is it not?
A. That's correct.
Q. What is the value that was used to -- that was the reduction that you applied in Exhibit 22?
A. That calculation, that reduction was performed by AIR. We didn't explicitly -- we didn't calculate it.
Q. Did you see the calculation that AIR performed?
A. I definitely did. In the information that was provided to us, they provided the gross and the net. Through my process, I did look at that.
Q. You checked the numbers to make sure they were right?
A. I checked the numbers that they gave us, and I looked at the relationships. I didn't check the internal calculations that they did.
Q. Is it correct that the numbers that AIR gave you were expected annual values for the period July 1, 2013, through June 30, 2014?
A. Their analysis was based upon an in-force exposure file as of, I believe, September 30, 2012.
Q. So the annual losses produced by their model would have been for a period beginning

September 1, 2012?
A. Whenever you do hurricane modeling, you always have to reflect a certain exposure file. You have to input an exposure file. And they used -- when the process was started, I think that was the most relevant -- the recent relative data that they used that was available. So the modeling reflected that in-force exposure file. Modeling always reflects some in-force file. You can't model exposures that you don't have in the future.
But what we do in the calculations in the analysis is that we take the losses that are being modeled based upon that in-force file, and we compare that with the premiums for those exact same policies, so we know that there is an absolute apples-to-apples comparison going on.
Q. So the losses and the premium were for the period beginning September 1, 2012?
A. Not for the period beginning that. It was for the policies that were in force on that date.
Q. In force on that date?
A. That's correct.
Q. You indicate that Actuarial Standards of Practice state that the actuary may elect whether to

include the cost of reinsurance in the rate, correct?

A. I believe that's an accurate statement.

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

A. I think that's a reasonable interpretation.

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

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

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

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

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

A. (Reviewing document)

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

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

A. I do.

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

A. I do see those.

Q. Could you make sure that those are accurate.

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

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

A. It is.

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

A. I do.

Q. And that's your understanding of what that

would produce, correct?
A. Yes, it is.
Q. Line 7 is the gross cost of reinsurance, together with the net hurricane loss and LAE, correct?
A. Yes, it is. Oh, wait. Let me -- I just want to double-check. (Reviewing document) Yes.
Q. So that's the sum of the gross cost of reinsurance on Line 5, which is $72.9 million, roughly, and the annual expected net hurricane loss on Line 2 of roughly $25.1 million?
A. That's correct.
Q. Now, the values on Line 7 and the earlier lines are subject to the profit provision in the filing, correct?
A. That's correct.
Q. And the other variable expense provisions?
A. All variable expense provisions.
Q. And can you calculate for us whether -- make sure that the value on Line 9 is an accurate reflection of the profit load that appears -- that would be derived from Line 7.
A. So what is it that you -- so, profit load --

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

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

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

A. (Calculating)

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

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

PRESIDING OFFICER FARRINGTON: Any objection?

MR. MEYER: No objection for identification.

PRESIDING OFFICER FARRINGTON: That would be 21.

(Document marked as Exhibit 21 for identification)

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

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

A. I can double-check it.

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

A. Can you repeat the question.

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

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

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

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

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

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

A. I have not calculated that.

Q. Lucky boy.

(Document handed to the witness)

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

PRESIDING OFFICER FARRINGTON: Any objections?

MR. MEYER: For identification, no objection.

(Document marked as Exhibit 22 for identification)

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

A. (Reviewing document) I am looking at the formulas, the way it is generally structured -- obviously I'm not checking all the numbers -- but I think this is a reasonable way of going about this.
Q. Is it consistent with your understanding that the filing would have produced a zero percent indicated rate change with a zero percent profit?
A. Well, that's what these calculations suggest. Like I said, I didn't go through and check everything. And I'm not making any opinion as to whether it's reasonable to have a zero profit provision. But if that's what was done, this is what the calculation would yield.
Q. Do you recall what the net cost of reinsurance in the last approved rate filing was?
A. What the net cost of reinsurance was?
Q. Yes.
A. I don't recall that.
Q. Does $13 million refresh your recollection?
A. I don't recall.
MR. MEYER: Again, objection. Mr. Leight is using the phrase "approved," but I think he's excluding from that the case two years ago where the Commissioner approved the stipulation. And the

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

Q. Do you recall --

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

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

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

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

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

Q. If you look at this document, on the second page, in the last full paragraph, it states, "Only the $13 million which we found would be reasonable is included in the MPIUA's revised filings." Do you see that?

A. I do.

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

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

Q. Right.

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

Q. So that does not really refresh your recollection?

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

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

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

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

of the MPIUA?
A. I rely upon certain pieces of information from the financial statements. Surplus is not one of them that I enter into my calculations.
Q. What are the pieces you rely on from the financial statements?
A. We use the expense history. We look at loss adjustment expenses. I think that those -- and we also referenced some loss information in one of the appendices when we did a reconciliation -- no, no. That wasn't even from here.
We referenced some premium numbers for reconciliation from the financial statements. But as far as balance sheet items, which would be the surplus, that's not something that we had scrutinized as part of my work.
Q. Let me show you an exhibit that we prepared. It was taken from the financial statements.
MR. LEIGHT: I'd like to mark this for identification as Exhibit 23.
PRESIDING OFFICER FARRINGTON: Any objections?
MR. MEYER: No objection for

identification.

(Document marked as Exhibit 23
for identification)

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

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

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

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

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

A. Compared to what measure?

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

A. I would say it generally would be higher.

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

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

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

A. Could you repeat the question.

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

A. I haven't performed those calculations.

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

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

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

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

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

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

MR. MEYER: It's at your convenience.

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

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

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

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

(Recess)

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

Ericksen's Testimony."

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

THE WITNESS: (Reviewing document)

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

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

MR. LEIGHT: No problem.

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

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

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

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

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

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

PRESIDING OFFICER FARRINGTON: Yes.

REDIRECT EXAMINATION

BY MR. MEYER:

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

A. Yes, I do.

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

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

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

A. That's correct.

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

A. Yes.

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

PRESIDING OFFICER FARRINGTON: Any objections?

MR. LEIGHT: No objection.

PRESIDING OFFICER FARRINGTON: 24.

(Document marked as Exhibit 24 for identification)

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

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

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

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

THE WITNESS: Yes. I believe everywhere.

PRESIDING OFFICER SUMNER: All aspects?

THE WITNESS: Yes, that's correct.

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

THE WITNESS: Generally, yes.

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

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

THE WITNESS: That's a good question. It

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

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

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

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

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

THE WITNESS: I actually don't recall what the low end is. I think it might go up to -- I remember seeing the information that they gave me, I guess, the letters that went out to the agents or policyholders. I don't recall it offhand.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The other thing, when we did the analysis this year, we kept the 10 unchanged. We didn't change that assumption. But what we are acknowledging, and I think we sort of hint at it here, is that when we first introduced that 10 percent downward adjustment, I think it was around the time that they were first introducing the minimum deductibles. So all of the historical data was under the old system. So we were doing an adjustment.

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

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

THE WITNESS: Yes. You can have either a hurricane deductible or a wind deductible, and a wind deductible is more encompassing. It would be for both hurricane and non-hurricane events.

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

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

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

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

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

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

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

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

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

But more generally, there are general

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

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

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

THE WITNESS: I believe it is.

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

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

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

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

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

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

PRESIDING OFFICER SUMNER: Thank you, Mr. Ericksen.

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

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

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

So it's not even all voluntary insurers. It's the voluntary insurers that report data to ISO. So when I say "voluntary market," at least with regard to any numbers I would have been referencing from ISO information, it's simply voluntary companies and just those voluntary companies that report data to ISO.

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

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

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

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

THE WITNESS: So what that really means --

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

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

THE WITNESS: That's correct.

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

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

But what we had actually looked at -- we looked at it last year also, but I'm not sure if we necessarily showed it -- that is the R-squared provisions. The projected loss trends, whether they were from Fast Track data or the economic indices or the Massachusetts FAIR Plan data, they were all calculated by fitting linear regressions or exponential curve graphs. And the R-squared statistic is sort of a measure of how good that fit is. It's going to range from zero, meaning bad fit, to 100 percent.

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

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

Ideally what we'd like to do is really give

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

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

THE WITNESS: Oh. Economic indices you mean?

PRESIDING OFFICER FARRINGTON: Right.

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

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

PRESIDING OFFICER FARRINGTON: And these

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

THE WITNESS: Oh, yes. Absolutely.

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

THE WITNESS: That's right.

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

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

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

Coverage A limits being purchased.

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

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

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

So the policyholder has got whole different kinds of concepts of value, and what you really are talking about, as far as I understand it, is what it is going to cost to rebuild that house, the maximum you're going to pay to rebuild that house in the case that there is insured damage.

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

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

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

In actual practice, and I can speak firsthand, I know a few years ago, when I did some construction on my house, I actually called my agent up, and I said, "Hey, I did some construction. I might know what my house could sell for, but I wasn't really sure" -- this is actually what I did about three or four years ago. I called my agent, and they came by my house, and they told me, "You need X dollars." That's what I did. And that's what policyholders should do, probably.

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

Would you like a short break?

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

FURTHER REDIRECT EXAMINATION

BY MR. MEYER:

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

A. Yes.

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

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

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

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

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

A. Yes.

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

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

So since that went into effect sometime in

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

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

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

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

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

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

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

PRESIDING OFFICER FARRINGTON: Yes.

BY MR. MEYER:

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

A. Yes.

Q. Since you were asked those questions, have you had an opportunity to find out whether that program, that automatic computer program updating has actually been put into effect yet or not?

A. During the break, I did discuss it with the MPIUA, and I learned that there is the plan to introduce that computer program type issue. It's something that sounds like it's been in the works for a couple of years, with continued delays due to -- I don't know the exact reasons -- but various implementation delays, and that apparently it's not something that's going to be implemented at least within the next six months. Based upon the history of delays, that might be optimistic. But at least within the next six months it sounds like it's not going to be implemented.

Q. And finally, one last area of questioning, Mr. Ericksen. You were asked several questions about the inspection program which the MPIUA initiated a while ago that had the effect, perhaps, of increasing property values. Do you remember that area of questioning?

A. Yes.

Q. Do you know whether or not that increased attention to inspections started in 2004 or not?

A. My recollection, it was around the 2004 time period. It was a longer time ago.

MR. MEYER: Thank you. No further questions.

MR. LEIGHT: I just have a couple -- did you --

MS. MORAN: I'm all set.

RECROSS EXAMINATION

BY MR. LEIGHT:

Q. On the break, did you get a chance to check those numbers on Exhibit 21?

A. The formulas that I wanted to check I did check, and the numbers are actually accurate.

Q. Just one other thing. On Exhibit 23 Mr. Meyer asked you about the relationship between the increases to surplus and the hurricane load. Do you recall that?

A. Yes.

Q. Have you actually calculated what the hurricane load would have been during those years and compared them to the profit figures to determine whether they are higher or lower or the same?

A. I did not perform that calculation.

Q. And if it turned out that the hurricane loads during that period were lower on average than the increase in profit, that would suggest that the surplus was increasing for another reason in addition to the hurricane load, correct?

A. There's absolutely multitudes of reasons that will contribute to the change in surplus. So that's a true statement no matter what.

Q. But is the answer to my question also yes?
A. Yes, there will be other factors contributing to the change in surplus.
MR. LEIGHT: Thank you. That's all I have.
PRESIDING OFFICER FARRINGTON: Ms. Moran?
MS. MORAN: No.
PRESIDING OFFICER FARRINGTON: All right. Thank you, Mr. Ericksen.
MR. LEIGHT: Before we close up -- I don't know if you had something you wanted to say. I just wanted to raise one thing, which is, some of the exhibits that were produced by the next two witnesses, the model witnesses, were lengthy computer files. We're going to ask them some questions about portions of them that we plan to excerpt, but I also wanted to bring the entire exhibits, so that if they wanted to look at them, they could. But it's not practical unless we can --
PRESIDING OFFICER FARRINGTON: Are you talking about --
MR. LEIGHT: I don't want to print them all out. So what I thought I would do is bring them on the computer and have them available for people to look at. There won't be copies obviously for

everybody, and unless we can rig up something on the system, everybody won't be able to look at them at the same time. But if nobody has any problem with that --

MR. MEYER: I don't have any problem in the abstract with that, but I think we're all going to have to be able to understand what the question is referring to and what the answer is referring to. So as long as that's worked out, in the abstract what Mr. Leight suggests does not bother me.

PRESIDING OFFICER FARRINGTON: So far as there is clarity, which is my concern, so that we all know what we're talking about.

MR. LEIGHT: Right.

PRESIDING OFFICER SUMNER: There is the ability, at least theoretically, in this room to hook up a computer and have it show up on that screen.

MR. LEIGHT: I understand that.

PRESIDING OFFICER SUMNER: We could have a technical person here --

MR. LEIGHT: That also presents the same problem with respect to actually memorializing what it is that people are looking at.

I think we plan to actually excerpt copies -- portions of the exhibits to mark into the record, and then this would be available so that the witnesses could make sure that we were actually excerpting something that it was determined they were familiar with and it would be available to them.

I have certainly no problem if you can rig something up.

MR. MEYER: Perhaps you could circulate those exhibits ahead of time so we can make sure we understand what portions they are -- from what bigger document they are from.

MR. LEIGHT: Well, if we can get them together in time, we certainly will.

MR. MEYER: I had one other matter, if we're finished in this one.

PRESIDING OFFICER FARRINGTON: I think so.

MR. MEYER: We are now finished all the MPIUA's witnesses other than the two hurricane modeling witnesses. Traditionally in these cases, we have waited until all of the industry's witnesses are finished before we start the process of preparing the AG's and the SRB's advisory filings, the theory being they need, I don't know why, but the theory is, they need the cross-examination before they can do their filings.

Let's put that general issue aside. Specifically, it seems to me that, for all issues other than the hurricane modeling issues -- that would mean the reinsurance issues testified to by Mr. Wackerman and Mr. Ward and the traditional actuarial issues testified to, for example, by Mr. Ericksen -- that the AG and the SRB could begin preparing their advisory filings in their areas now.

So what I would suggest is a scheduling matter, particularly, again, because of the Commissioner's expressed concern that we synchronize the rate year with the reinsurance year, and particularly because of the point Mr. Leight raised this morning about the problems that result if rates stay in effect for longer than one year, that that is a problem in at least the AG's view actuarially, that we try and accelerate the AG's and the SRB's filings on all issues other than the hurricane modeling issues which Mr. Lalonde and Ms. Clark are going to testify to a couple of weeks down the road.

I just don't see the need for three more weeks' delay. So I would suggest that to the Hearing Officers and to the parties.

PRESIDING OFFICER FARRINGTON: You're welcome to comment.

MR. LEIGHT: I mean, I haven't really considered that. It would be tough for us to get the filings together very quickly now anyway, since we had anticipated that things would be done as they always have been done in the past. And I can also say that, at least as to the reinsurance and the hurricane provisions, the filing materials are interrelated. The filings are going to be about the same issues.

So I'm not sure that that would make sense anyway. I don't know how much you gain by just doing earlier filings on some of the more minor issues.

PRESIDING OFFICER FARRINGTON: Ms. Moran? Mr. McCall?

MR. McCALL: I would agree with Mr. Leight's comments.

PRESIDING OFFICER FARRINGTON: My immediate -- my reaction to that is so much of this does involve the integration of the hurricane modeling process into what everybody else does that I am not sure that it's a terribly practical suggestion.

MR. MEYER: I would only make the point, in response to what's been said, that what we're now talking about is waiting three more weeks for Mr. Lalonde's and Ms. Clark's testimony to be heard on the record, and that that's going to start some next clock, say, on any response that the AG might have hypothetically, say, to loss trending or premium trending. And I don't understand why that delay makes sense.

But I've made the suggestion and people have heard me. I leave it for what people --

PRESIDING OFFICER FARRINGTON: I think at this point it would be premature to make any such scheduling adjustment.

Okay. I guess that completes today's testimony. Thank you.

(Whereupon the hearing was adjourned at 1:30 p.m.)

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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