

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

FAIR Plan Hearing
February 27, 2012
Docket No. R2011-02

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Attorney's Notes

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COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE
DOCKET NO. R2011-02

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, and Rate and Rule Revisions for Dwelling Fire and Extended Coverage and Commercial Fire and Allied Lines Insurance, Each Filing to be Effective on and after December 31, 2011, held at the Division of Insurance, 1000 Washington Street, Boston, Massachusetts, on Monday, February 27, 2012, commencing at 10:00 a.m.

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

APPEARANCES:

Meyer, Connolly, Simons and Keuthen LLP
(by Michael B. Meyer, Esq.)
12 Post Office Square, Boston, MA 02109
-and-

Tommasino & Tommasino
(by Robert C. Tommasino, Esq.)
Two Center Plaza, Boston, MA 02108,
for the Massachusetts Property Insurance Underwriting Association.

State Rating Bureau (by Thomas F. McCall, Jr., Esq., and Mary Lou Moran, Esq.)
1000 Washington Street, Boston, MA 02118.

(Continued on Page 2)

1				
2	WITNESS:	I N D E X		
3	James C. Wackerman	DIRECT	CROSS	RECROSS EXAMINATION
4	(by Mr. Meyer)	5		
5	(by Mr. McCall)		8	153
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7 * * *

8 E X H I B I T S

9	NO.		ID.	EV.
10	1A	Notice of hearing dated November 16, 2011		4
11	1B	Revised notice of hearing dated November 30, 2011		6
12	2	MPIUA rate filing dated November 10, 2011, Vols. I and II		6
13	3	Cover letter from Michael B. Meyer to Docket Clerk, Hearing & Appeals, Division of Insurance, dated November 15, 2011, with revised Page 1370 of the MPIUA rate filing		6
14	4	Cover letter from Michael B. Meyer to Docket Clerk, Hearing & Appeals, Division of Insurance, dated November 28, 2011, with revised Pages 1057, 1083, 1100-1107, 1110 and 1112 of the MPIUA rate filing		7
15	5	Page 0001 from the MPIUA response to AG's Discovery Request No. 24D	125	140

21 * * * *

APPEARANCES (Continued):

Office of the Attorney General
(by Peter Leight, Esq.)
1350 Main Street, Springfield, MA
01103-1629 -and-
(by Alex Klibaner, Esq.,
and Monica Brookman, Esq.)
One Ashburton Place, Boston, MA 02108.

* * * *

Carol H. Kusnitz
Registered Professional Reporter

* * * *

1 P R O C E E D I N G S
2 **PRESIDING OFFICER FARRINGTON:** Good
3 morning. This is the Division of Insurance Docket
4 No. R2011-02, a hearing on proposed rates filed by
5 the Massachusetts Property Insurance Underwriting
6 Association, more commonly known as the FAIR Plan.
7 Today is February 27, 2012, the date scheduled for
8 cross-examination of the first witness for the FAIR
9 Plan.

10 Before we begin, are there any issues that
11 any party wishes to bring to our attention?

12 **MR. MEYER:** No.

13 **MR. LEIGHT:** No.

14 **MR. McCALL:** No.

15 **PRESIDING OFFICER FARRINGTON:** It is our
16 custom to mark the Hearing Notice as the first
17 exhibit in these cases. The first notice was issued
18 on November 16th of 2011, and a revision
19 rescheduling the public comment hearing was issued
20 on November 30th. So, unless there is any
21 objection, I will mark them as Exhibits 1A and 1B.

22 (Documents marked as Exhibits
23 1A and 1B in evidence)

24 **PRESIDING OFFICER FARRINGTON:** Mr. Meyer.

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1 **MR. MEYER:** May the witness be sworn.
 2 JAMES C. WACKERMAN, Sworn
 3 **DIRECT EXAMINATION**
 4 **BY MR. MEYER:**
 5 Q. Please state your name for the record, sir.
 6 **A. James Craig Wackerman.**
 7 Q. And your office address, sir?
 8 **A. Merritt 7 Corporate Park, Norwalk,**
 9 **Connecticut.**
 10 Q. And your current job title, sir?
 11 **A. Managing Director of Guy Carpenter.**
 12 Q. And I show you a document that starts on
 13 Bates stamped Page 1193 of the FAIR Plan's filing
 14 and goes through Bates stamped Page 1464 and ask if
 15 that is a copy of your testimony in this case.
 16 **A. Yes, it is.**
 17 Q. And are the matters recited in your
 18 testimony, which goes from 1193 through 1204, true
 19 and accurate to the best of your knowledge and
 20 belief?
 21 **A. Yes, they are.**
 22 Q. And were the exhibits attached to your
 23 testimony assembled by you or by someone working
 24 under your supervision and control to document some

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1 of the things stated in your testimony?
 2 **A. Yes, they were.**
 3 **MR. MEYER:** May the FAIR Plan filing, which
 4 is actually two volumes, be marked as the next
 5 exhibit, Exhibit 2, please.
 6 **PRESIDING OFFICER FARRINGTON:** Any
 7 objections?
 8 **MR. LEIGHT:** No objection.
 9 **PRESIDING OFFICER FARRINGTON:** Yes, it will
 10 be so marked.
 11 (Document marked as Exhibit 2
 12 in evidence)
 13 **MR. MEYER:** And one other procedural
 14 matter. We filed, on November 15th, one corrected
 15 page, a page that had been mis-xeroxed, and that
 16 should probably be marked as the next exhibit,
 17 Exhibit 3, if there is no objection. There's a
 18 cover letter dated November 15th and then one
 19 corrected page. We ask that that be marked as
 20 Exhibit 3, please.
 21 (Document marked as Exhibit 3
 22 in evidence)
 23 **PRESIDING OFFICER FARRINGTON:** You had a
 24 second set of replacement pages as well?

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1 **MR. MEYER:** I did. They relate to Dr.
 2 Derrig's testimony, and I can either mark them now,
 3 or I can do it when Dr. Derrig is on the stand,
 4 whichever you may prefer.
 5 **PRESIDING OFFICER FARRINGTON:** I think it
 6 might be simpler just to have all the substitutions
 7 marked now, and then he can testify tomorrow.
 8 **MR. MEYER:** I request some replacement
 9 pages for Dr. Derrig's testimony, which I filed with
 10 the Docket Clerk and the parties on November 28,
 11 2001, be marked as the next exhibit, Exhibit 4,
 12 please.
 13 **PRESIDING OFFICER FARRINGTON:** Any
 14 objections?
 15 **MR. McCALL:** No objection.
 16 **MR. LEIGHT:** No objection.
 17 **PRESIDING OFFICER FARRINGTON:** Thank you.
 18 (Document marked as Exhibit 4
 19 in evidence)
 20 **MR. MEYER:** That completes my direct
 21 examination of Mr. Wackerman, and he's available for
 22 cross-examination.
 23
 24

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1 **CROSS EXAMINATION**
 2 **BY MR. McCALL:**
 3 Q. Good morning, Mr. Wackerman. My name is
 4 Tom McCall. I'm one of the attorneys for the State
 5 Rating Bureau.
 6 **A. Good morning, Tom.**
 7 Q. Could you please turn to Page 1194 of your
 8 filing. On this page you state that there were over
 9 80 companies and syndicates that were prospective
 10 participants in the MPIUA's reinsurance program; is
 11 that correct?
 12 **A. Correct.**
 13 Q. And out of those 80 companies and
 14 syndicates, 13 were selected to negotiate quotations
 15 for the MPIUA's reinsurance program; is that
 16 correct?
 17 **A. Correct.**
 18 Q. What criteria did Guy Carpenter use to
 19 choose the 13 companies that were ultimately
 20 selected to negotiate the quotes?
 21 **A. Typically they're the reinsurers that are**
 22 **actually our lead reinsurers; i.e., they are the**
 23 **ones that will set the price for reinsurance. And**
 24 **out of those that set the price for reinsurance, we**

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1 **try to choose the ones that will provide the most**
2 **competitive quotes for the pricing of the program.**
3 **And so those are the main criteria.**
4 **The other criteria would be the financial**
5 **considerations that are made by the MPIUA as far as**
6 **Best ratings or size of surplus or size of capacity**
7 **that they could commit to the program.**
8 Q. So the 80 companies and syndicates were
9 reviewed by the MPIUA prior to selection of the 13?
10 **A. In concert with Guy Carpenter, yes.**
11 Q. Which would be you, correct?
12 **A. Yes.**
13 Q. You also indicate in the filing, on the
14 same page, actually, that the MPIUA reinsurance
15 program was a traditional reinsurance program.
16 Could you explain what you mean by a traditional
17 reinsurance program.
18 **A. Well, for the traditional piece, we're**
19 **using that to distinguish the component that is**
20 **placed similarly to the rest of the reinsurance**
21 **entities that are buying reinsurance in the**
22 **marketplace from, let's say, a catastrophe bond,**
23 **which not everyone purchases. So we were trying to**
24 **come up with terminology that will simply**

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1 **distinguish the traditional placement versus the**
2 **component, let's say the cat bond or peril swap.**
3 Q. Which would be considered not traditional?
4 **A. Not necessarily non-traditional, but we**
5 **would distinguish them -- we just use that as the**
6 **verbiage to distinguish them.**
7 Q. And is this the same type of program that
8 was placed for the MPIUA that would be purchased by
9 Guy Carpenter's voluntary market clients? And by
10 "voluntary market clients," I mean non-FAIR Plan or
11 non-residual market entities.
12 **A. The traditional component?**
13 Q. Yes.
14 **A. Yes.**
15 Q. Could you please turn to Page 1203 of your
16 filing, and over on Page 1203 you indicate that Guy
17 Carpenter has over 1500 clients that it assists as a
18 reinsurance intermediary; is that correct?
19 **A. That's correct.**
20 Q. And of these 1500 clients, does Guy
21 Carpenter assist any other FAIR Plans or residual
22 market type carriers with the purchase of their
23 reinsurance plans?
24 **A. We do.**

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1 Q. And could you identify who those clients
2 are, and could you give me a summary or comparison
3 between their reinsurance programs and the MPIUA
4 program that you placed.
5 **A. I could list them. We work with TWIA,**
6 **Texas Windstorm Insurance Association. We work with**
7 **North Carolina. When I say "we," meaning Guy**
8 **Carpenter, not me personally. Rhode Island.**
9 **Alabama, I believe.**
10 Q. Are these all FAIR Plans?
11 **A. Some of them are windstorm associations.**
12 **Some of them are FAIR Plans. They're essentially**
13 **residual market mechanisms. We also work with the**
14 **State of Florida and the State of California. That**
15 **might not be an exhaustive list.**
16 Q. And you assist them as a reinsurance
17 intermediary?
18 **A. Guy Carpenter does, not necessarily me**
19 **personally.**
20 Q. Could you summarize the business objectives
21 that your non-FAIR Plan or residual market clients
22 would try to achieve through the purchase of a
23 reinsurance program.
24 **A. The ones that are -- not the clients that I**

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1 **work on?**
2 Q. No. I would say, like, the voluntary
3 market writers, which would be, like, a non-FAIR
4 Plan or a non-residual market carrier. What would
5 be the business objectives that those type of
6 entities would want to achieve through the purchase
7 of a reinsurance program?
8 **A. Well, for the purpose of a property**
9 **catastrophe reinsurance program, they would be**
10 **seeking typically to protect themselves from extreme**
11 **events, such as hurricanes, earthquakes or**
12 **tornadoes.**
13 Q. And protect in the sense of protecting
14 their assets that are available to pay claims?
15 **A. That could be one reason, yes.**
16 Q. Do you have any other reasons that they --
17 any other objectives that they may have?
18 **A. I mean, each company has their own unique**
19 **objectives. So...**
20 Q. So there are no common objectives that
21 voluntary market carriers would have in purchasing a
22 reinsurance program?
23 **A. Again, I believe it would be to protect --**
24 **as I just stated, would be to protect against**

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1 **extreme events.**
2 Q. Is the MPIUA trying to achieve the same
3 type of objectives through the purchase of its
4 reinsurance program?
5 **A. Yes.**
6 Q. And does the MPIUA have any different
7 objectives than other carriers out there, any
8 voluntary market carriers, anything that's unique to
9 them, versus --
10 **A. No.**
11 Q. So they have the same type of objectives as
12 voluntary market carriers?
13 **A. Yes.**
14 Q. In assisting the MPIUA with its reinsurance
15 program, do you account for the fact that the MPIUA
16 is a residual market FAIR Plan?
17 **A. Sorry. Can you repeat that, please.**
18 Q. Sure. When you assist the MPIUA in setting
19 up its reinsurance program, do you account for the
20 fact that the MPIUA is a FAIR Plan and a residual
21 market carrier, versus a non-residual market
22 voluntary carrier?
23 **A. I don't understand -- do we account for it?**
24 **I mean, they are a residual market --**

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1 Q. Does it make a difference in the type of
2 reinsurance program you set up for them?
3 **A. No.**
4 Q. Why is that?
5 **A. We would treat them in the same manner that**
6 **we would treat any other client. The process that**
7 **we would go through to determine their reinsurance**
8 **program or structure their reinsurance program would**
9 **be the same process we would follow for any other**
10 **client.**
11 Q. The MPIUA is able to assess its members for
12 losses; is that correct?
13 **A. That's correct.**
14 Q. And would you agree that its ability to
15 assess member companies is a major difference
16 between the MPIUA and other voluntary market
17 carriers?
18 **A. The ability to assess?**
19 Q. Yes.
20 **A. Yes.**
21 Q. Is this ability to assess taken into
22 consideration in determining a proper reinsurance
23 program for the MPIUA?
24 **A. Its ability to assess?**

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1 Q. Its member companies. Is that taken into
2 consideration when you determine what type of
3 reinsurance program the MPIUA should have?
4 **A. Yes.**
5 Q. And how is it taken into account?
6 **A. Well, the company decides to purchase the**
7 **limit and retention that it selects, and, again, we**
8 **would follow that process of pricing and placing**
9 **that program in the same manner that we would for**
10 **any other program.**
11 Q. But the fact that they can assess their
12 member companies, does that have any impact on the
13 type of program or the -- let's say, the attachment
14 point or any of the limits that you would recommend?
15 **A. No.**
16 Q. And why is that?
17 **A. Because it's still a net loss to the MPIUA**
18 **as an organization.**
19 Q. So the MPIUA can assess their members for
20 excessive losses, correct?
21 **A. That is correct.**
22 Q. And individual companies can't do that type
23 of thing; the losses they incur are the losses they
24 incur, correct?

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1 **A. That's correct.**
2 Q. Do you know whether the individual MPIUA
3 member companies may insure themselves against the
4 risk of being assessed by the MPIUA?
5 **A. They typically do.**
6 Q. And do you have any details as to what they
7 do or what type of programs they set up?
8 **A. It's typically included within their own**
9 **reinsurance program.**
10 Q. As a potential risk that they may have to
11 cover?
12 **A. Correct.**
13 Q. Could you turn over to Page 1197
14 essentially through 2000 of the filing. Here you
15 talk a little bit about the MPIUA's purchase of a
16 catastrophe bond, as well as a peril swap layer as
17 part of its reinsurance program?
18 **A. Correct.**
19 Q. Was this for Layer 3 of the program?
20 **A. Yes.**
21 Q. Could you explain what a catastrophe bond
22 is and what a peril swap layer is.
23 **A. Well, the catastrophe bond is essentially a**
24 **mechanism utilized to develop additional capacity**

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1 for the MPIUA, given the placement objectives to
2 complete the program. And so the mechanism of
3 setting up the catastrophe bond essentially provides
4 the MPIUA with nearly traditional reinsurance.
5 There's just a different process that is undertaken
6 to provide that capacity -- to create that capacity
7 and provide that capacity. And so it sits side by
8 side within that particular layer relative to the
9 traditional program to round out the placement.
10 And the peril swap was a similar scenario,
11 where we generated capacity, additional capacity
12 from a certain reinsurer with a swap transaction in
13 the background to allow them to write a larger line
14 for the MPIUA, to provide additional capacity to the
15 MPIUA.
16 Q. Who issues the catastrophe bond?
17 A. Essentially there's a special-purpose
18 vehicle that's set up to provide the capacity to the
19 MPIUA, and then there are investors that are set up
20 with a bond transaction behind that that provides
21 capacity to the MPIUA.
22 Q. Is this through the same 80 companies and
23 syndicates that you discussed?
24 A. No, it's not. It's typically a very

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1 different investor base.
2 Again, I must clarify that that portion of
3 the transaction is actually handled by our Guy
4 Carpenter Securities. So we do that in tandem with
5 one another, but I'm not involved in that. Other
6 than knowing what the structure is, I'm not involved
7 in that actual placement with those investors.
8 That's a different group of people within Guy
9 Carpenter.
10 Q. And why did Guy Carpenter recommend the
11 purchase of the catastrophe bond and the peril swap
12 layer, rather than just using traditional
13 reinsurance?
14 A. We felt, based upon the price points that
15 we had investigated, that it was the cheapest way to
16 get the most amount -- the desired amount of
17 capacity that MPIUA required for 2011.
18 Q. That was less expensive than going with
19 traditional reinsurance?
20 A. Correct. And remember, the cat bond was
21 placed originally in 2010, and then it continues to
22 roll.
23 Q. Each year?
24 A. Each year, correct.

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1 Q. Is there a lack of capacity for traditional
2 reinsurance at that layer?
3 A. It was not the layer that was most desired
4 by the traditional reinsurance marketplace, and the
5 capital markets had more of an appetite for that
6 particular layer at that particular time. So it
7 worked out to be much more efficient to place that
8 portion of the program with the cat bond investors
9 in 2010.
10 Q. Turn over to Page 1202 of the filing,
11 please. The last sentence in the first paragraph
12 there, you say that "Pricing neutral options such as
13 Shore Re in 2010 and the Swap Transaction were
14 accepted." Do you see that?
15 A. Yes.
16 Q. What do you mean by "pricing neutral
17 options" in that sentence?
18 A. Okay. So what I meant by "pricing neutral
19 options" there is that we obviously would not
20 consider something that was more expensive.
21 Q. So neutral --
22 A. So if it was price neutral, implicit within
23 that was, if it was price neutral or better, it
24 would be considered; otherwise it would be rejected

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1 by the Board and certainly by us. It wouldn't be
2 something that we would recommend if we found that
3 it was more expensive than to transfer risk by some
4 other mechanism. So --
5 Q. So it would be neutral as to transitional
6 reinsurance product; is that what you're saying?
7 A. The product that we would select, a risk
8 transfer mechanism that we would select would have
9 to be priced neutral or better; otherwise we would
10 not suggest to the MPIUA that they consider such
11 form of risk transfer.
12 Q. Neutral or better than traditional
13 reinsurance?
14 A. Correct.
15 Q. And then at the bottom of that page, could
16 you please read into the record the last section at
17 the bottom of Page 1202, starting with "The MPIUA's
18 program," and as well as the first two sentences on
19 the top of the next page, 1203.
20 A. You just want me to read my answer?
21 Q. If you could read your testimony into the
22 record, please.
23 A. "The MPIUA's program attaches at
24 approximately the 1 in 26 year return period and

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1 exhausts at the 1 in 113 year return period based on
2 an average of the RMS and AIR long-term hurricane
3 model. Insurance companies structuring reinsurance
4 programs between these return periods based upon
5 multiple models is common. It is also common to see
6 programs fully placed or nearly fully placed within
7 these return periods. MPIUA desired to place 100
8 percent of the traditional reinsurance program of
9 \$1 billion excess of \$200 million retention at
10 7/1/11, less the co-participation mandated by Shore
11 Re. In the end, the MPIUA procured \$863 million of
12 traditional reinsurance, \$96 million from the
13 catastrophe bond and \$25 million from the Peril
14 Swap. In short, MPIUA retains \$15.8 million
15 throughout all four layers of their reinsurance
16 program.
17 "In addition to common practice, rating
18 agencies such as AMBest strongly suggest that
19 insurers protect themselves to this level of loss.
20 While MPIUA may not be concerned with AMBest, their
21 member companies do depend on AMBest rating."
22 Q. Thanks. That statement that you just read
23 refers to voluntary market insurers, correct?
24 A. Which statement?

Page 22

1 Q. Well, basically the statement about A.M.
2 Best and their suggestion that insurers protect
3 themselves to this level of loss. That's referring
4 to voluntary market insurers, not FAIR Plans,
5 correct?
6 A. That's correct.
7 Q. Does the reinsurance program purchased by
8 the MPIUA generally cover the same type of losses
9 that are covered by the primary homeowner's policies
10 that are issued by the MPIUA?
11 A. Yes.
12 Q. Can you turn to Page 1218 of your filing.
13 Are you there?
14 A. Yes.
15 Q. What is this document on Page 1218?
16 Obviously we're in the middle of the document, but
17 what is it?
18 A. It is, as we're referring to it, the
19 traditional property catastrophe contract.
20 Q. It's the reinsurance contract between MPIUA
21 and the insurers, correct?
22 A. Correct.
23 Q. It's the one that's in effect --
24 A. And the reinsurers.

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1 Q. Reinsurers. I'm sorry. It's the one that's
2 in effect right now, correct?
3 A. Yes.
4 Q. Now, on that Page 1218, on section C.1.a.
5 through e., it lists various types of losses or
6 perils that MPIUA policyholders could experience,
7 correct?
8 A. Correct.
9 Q. And I'm going to just read of -- these
10 include losses or perils caused by windstorm, hail,
11 tornado, hurricane, cyclone, riot, riot attending a
12 strike, civil commotions, vandalism, malicious
13 mischief, earthquake, freeze, firestorms and brush
14 fires; is that correct?
15 A. Correct.
16 Q. And all these types of losses are covered
17 under the MPIUA's reinsurance contracts, correct?
18 A. Correct.
19 Q. Could you please turn to the previous page,
20 1217. And focusing on Section B, 1 through 8, this
21 page lists various costs and expenses that are
22 considered loss adjustment expenses; is that
23 correct?
24 A. Correct.

Page 24

1 Q. And could you just define or say, what is a
2 loss adjustment expense?
3 A. It's defined right there. Essentially it
4 means "costs and expenses incurred by the Company in
5 connection with the investigation, appraisal,
6 adjustment, settlement, litigation, defense or
7 appeal of a specific claim or loss."
8 Q. And those could be the losses that we just
9 talked about earlier, losses that derive from those
10 perils?
11 A. Loss adjustment expenses derived from those
12 types of losses, certainly.
13 Q. Exactly.
14 A. Yes.
15 Q. And these loss adjustment expenses are also
16 recoverable under the reinsurance contracts --
17 A. Correct.
18 Q. -- purchased by MPIUA, right?
19 A. Correct.
20 Q. Now, in your opinion, is it prudent and
21 reasonable for the MPIUA to purchase reinsurance
22 that covers the MPIUA for the types of losses and
23 loss adjustment expenses that are listed on 1217 and
24 1218 of the filing?

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1 **A. Yes.**
2 Q. And, in your opinion, is the coverage that
3 the MPIUA purchased for these types of losses and
4 LAE a valuable component of the reinsurance
5 contract?
6 **A. Yes.**
7 Q. Is it possible to price separately each of
8 the elements of coverage, or is it all just kind of
9 combined into one total price for the program? For
10 example, could you set a price just for the brush
11 fire peril or the earthquake peril and then relate
12 an LAE to go with it, or do you just kind of combine
13 it all together?
14 **A. We typically combine it all together, but**
15 **it's possible to price it separately. The issue is**
16 **typically you wouldn't receive much of a discount**
17 **for certain perils that certain reinsurers may not**
18 **perceive to be significant exposures to the MPIUA.**
19 **So, for example, if you ask them to take**
20 **out earthquake coverage, the MPIUA has, my**
21 **recollection is, very limited earthquake exposure.**
22 **If you ask them to remove that, the reinsurers would**
23 **not perceive that to be a significant exposure. So**
24 **they might price it differently for you, but the**

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1 **price differential would be minimal.**
2 Q. I guess my question was more, could it be
3 priced separately, not versus the perception of the
4 reinsurers?
5 **A. It can be priced separately, yes.**
6 Q. Was this done in the MPIUA's program, or
7 was it all priced together as one?
8 **A. It was priced together.**
9 Q. Would you turn over to Page 1195. In the
10 middle of the page there, about the middle of that
11 first full paragraph there, you state that "The
12 attachment point of \$200,000,000 and the exhaustion
13 point of \$1,200,000,000 remained stable"; is that
14 correct?
15 **A. Correct.**
16 Q. Now, prior to the -- the reinsurance
17 purchase was made on July 1, 2011; is that right?
18 **A. Yes.**
19 Q. Now, prior to making that purchase, did the
20 MPIUA management or Governing Committee or the other
21 individuals that may have been responsible for
22 purchasing the reinsurance program discuss the
23 reasonability of the \$1.2 billion exhaustion point?
24 **A. I believe it was discussed in one of the --**

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1 **I recall that it was discussed in one of -- in**
2 **several of the meetings leading up to the renewal**
3 **discussion. I can't recall which. But, yes, it was**
4 **certainly discussed.**
5 Q. And what were some of the specific factors
6 that were considered by the people making the
7 decision in selecting that exhaustion point of \$1.2
8 billion?
9 **A. Well, certainly it would be the number of**
10 **policies that are insured by the FAIR Plan.**
11 **Certainly it would be what the potential exposure to**
12 **those policies are from perils such as hurricanes.**
13 **They would certainly look at the values associated**
14 **with those.**
15 Q. Values of the property?
16 **A. Correct. The locations, concentration of**
17 **the risk, certainly the model results, things like**
18 **that.**
19 Q. And you provide advice to them or
20 counseling as far as the decision they made, or is
21 it something they decide on their own?
22 **A. Well, again, the Board -- several members**
23 **of the Executive Committee negotiate and place**
24 **reinsurance themselves. So they are very familiar**

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1 **with it. So there may be less discussion with it**
2 **because of the actual -- they know how to purchase**
3 **reinsurance and the relativities themselves, so we**
4 **may not have as much direct discussion about it.**
5 **And they may certainly have discussions that I'm not**
6 **privy to as well as far as that evaluation.**
7 Q. And the individuals you're talking about
8 that place it for their companies, those are all
9 voluntary market companies, right?
10 **A. Correct.**
11 Q. They're not residual market.
12 Was the \$1.2 billion exhaustion point also
13 selected in earlier years, do you know?
14 **A. I believe it was, yes.**
15 Q. Do you know when it was first selected?
16 **A. I don't recall specifically. I could look**
17 **it up, but...**
18 Q. Has the MPIUA book of business decreased or
19 increased over the last, say, two or three years, if
20 you know?
21 **A. It has decreased slightly.**
22 Q. Do you have a percentage?
23 **A. I don't recall specifically. A couple of**
24 **percentage points, perhaps.**

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1 Q. Based on your experience in the reinsurance
2 field -- how long have you been in the reinsurance
3 field?
4 **A. Since 1993.**
5 Q. And how long with Guy Carpenter?
6 **A. Since 1998.**
7 Q. Based upon that experience, do you have an
8 opinion as to the probability that a hurricane will
9 cause insured losses in excess of \$200 million for
10 the MPIUA policyholders?
11 **A. Do I have a personal opinion?**
12 Q. Yes.
13 **A. I don't have a personal opinion.**
14 Q. Do you have an opinion based upon your
15 experience in the reinsurance business?
16 **A. I have opinions based upon several**
17 **probabilities that have been discussed within the**
18 **modeling that's outlined in my testimony.**
19 Q. What would your opinion be, based upon
20 that?
21 **A. In round numbers, it would exhaust it at**
22 **approximately the 1-in-123-year return period, once**
23 **in 123 years, I believe.**
24 Q. What do you mean by a 1-in-123-year period?

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1 **A. Once every 123 years would be the**
2 **probability -- the annual probability of exhausting**
3 **the program.**
4 Q. And would that connote to more than a 5
5 percent probability of this level of loss occurring?
6 **A. To exhausting?**
7 Q. No, no. My question -- I guess maybe we
8 should clarify -- was whether you had an opinion as
9 to the probability that a hurricane will cause
10 insured losses in excess of \$200 million, not
11 exhaust the program.
12 **A. I don't have an opinion on that.**
13 Q. And based upon the data that you have in
14 your filing --
15 **A. It's certainly possible. I don't recall**
16 **what the specific probability of attaching and**
17 **exhausting the program is from the perspective**
18 **you're talking about.**
19 Q. Let's go back to the other question, then.
20 Do you have an opinion as to the probability that a
21 hurricane will cause insured losses in excess of
22 \$1.2 billion? Is that the 1 in 123 --
23 **A. Yes. That's the exhaustion point. That's**
24 **what I thought you were referring to earlier.**

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1 Q. Sorry. Is that a probability of occurring
2 of more than 1 percent, do you know?
3 **A. I don't recall specifically the math.**
4 Q. Let's move on. The reinsurance provided to
5 the MPIUA under the reinsurance contract is for
6 property primarily located in Massachusetts; is that
7 correct?
8 **A. Exclusively located in Massachusetts, yes.**
9 Q. And as we discussed earlier, you work with
10 a lot of different insurers and clients, many of
11 which are private insurers, correct?
12 **A. Public and private. Reinsurers.**
13 Q. Does Guy Carpenter have any other clients
14 that have a similar spread of risk; in other words,
15 insuring just properties in one state?
16 **A. Yes, we do.**
17 Q. Are those other of those FAIR Plans or wind
18 associations that you discussed?
19 **A. Yes. So those would certainly be some of**
20 **them, yes.**
21 Q. And do these clients that we discussed
22 earlier, the wind associations and the FAIR Plans,
23 do they purchase reinsurance program with attachment
24 and exhaustion points that are similar to what the

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1 MPIUA has purchased?
2 **A. That's my recollection, yes.**
3 Q. What about the voluntary market companies?
4 Do they purchase reinsurance programs with similar
5 attachment and exhaustion points as the MPIUA
6 purchased?
7 **A. Yes.**
8 Q. Last fall Tropical Storm Irene caused some
9 damage along the East Coast and in Massachusetts,
10 correct?
11 **A. Correct.**
12 Q. Do you have an estimate of the total damage
13 that was caused by Irene on the East Coast and/or in
14 Massachusetts?
15 **A. I don't know specifically. I recollect**
16 **it's approximately \$5 billion for the event. I**
17 **don't recall what the distribution of it was between**
18 **the various states.**
19 Q. That's for the entire storm and all aspects
20 of it. One of them is a hurricane versus --
21 **A. Correct.**
22 Q. Do you know whether MPIUA policyholders
23 suffered any loss as a result of Irene?
24 **A. I believe they did.**

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1 Q. And did the losses suffered by MPIUA
2 policyholders as a result of Irene trigger any
3 payments under the MPIUA's reinsurance program?
4 **A. No.**
5 Q. Do you happen to know what the level of
6 losses were by the MPIUA policyholders?
7 **A. I don't recall. I believe it was around**
8 **\$5 million, but I don't recall specifically.**
9 Q. The attachment point --
10 **A. I could look the number up. I just don't**
11 **recall specifically.**
12 Q. Did you say \$5 million?
13 **A. I believe it was approximately \$5 million.**
14 Q. And the attachment point for the
15 reinsurance was \$200 million?
16 **A. Correct.**
17 Q. Do you have Volume I of the filing in front
18 of you? If not, I have a copy of the page I want.
19 I can just give you the page.
20 This is Page 274 from Volume I of the MPIUA
21 filing, which is Exhibit 2. Have you had a chance
22 to take a look at that?
23 **A. Yes.**
24 Q. Now, basically this page just summarizes

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1 the total cost of the MPIUA's reinsurance program;
2 is that correct?
3 **A. Certainly the top part looks like it does,**
4 **yes.**
5 Q. Could you focus on Line 5, which is labeled
6 "Reinsurance commission reimbursement." Do you see
7 that?
8 **A. Yes.**
9 Q. And the value in that column or line is
10 \$5,125,352, correct?
11 **A. Correct.**
12 Q. Can you explain, in some detail if
13 possible, the purpose and effect of this
14 reimbursement.
15 **A. The reinsurance commission reimbursement?**
16 Q. Yes.
17 **A. I don't know that I've seen it titled**
18 **exactly that. I'm not precisely sure what that**
19 **number represents.**
20 Q. Was there a reinsurance commission
21 reimbursement?
22 **A. Is this with respect to Guy Carpenter and**
23 **MPIUA or --**
24 Q. Why don't I try the phrase "ceding

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1 commission." Does that sound more familiar to you?
2 Is this a ceding commission?
3 **A. I don't -- I don't know.**
4 Q. Did Guy Carpenter reimburse the MPIUA for
5 reinsurance commissions?
6 **A. Yes. It's typically not titled this.**
7 **That's why I'm not sure exactly how this exhibit is**
8 **capturing it. So I apologize for that.**
9 Q. But is this the value that they reimbursed
10 the MPIUA, the \$5,125,352?
11 **A. I believe it's similar to that number. I**
12 **don't recall the exact number.**
13 Q. The terminology is --
14 **A. I apologize. I'm trying to make sure I'm**
15 **on the same page.**
16 Q. Totally fine. Just what does this
17 represent, and what's the purpose and the effect of
18 the reimbursement?
19 **A. Well, essentially there is brokerage that**
20 **is paid by the reinsurers that is typically charged**
21 **at 10 percent on the reinsurance placement slip.**
22 **They typically factor those costs into the pricing**
23 **of the reinsurance program.**
24 **And then there's an arrangement that we**

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1 **might have with the MPIUA, based upon the -- our**
2 **relationship with that particular firm, where we**
3 **might share in the brokerage that we earn on the**
4 **account, based upon the size of the account. So in**
5 **essence we are being paid a fee on a net basis after**
6 **the application of that number for the handling of**
7 **their property cap program.**
8 Q. So it basically, like, offsets the MPIUA's
9 direct acquisition costs?
10 **A. They could use it -- it reduces the cost of**
11 **reinsurance for the MPIUA. That's what I would say.**
12 Q. So it lowers the premium on the total
13 program?
14 **A. It lowers the amount of money that they**
15 **have to pay for the transfer of risk.**
16 Q. And it lowers the MPIUA's direct policy
17 acquisition costs somewhat?
18 **A. They could theoretically utilize it to**
19 **offset that, yes.**
20 Q. The reinsurance program -- premiums,
21 rather, that the MPIUA pays include a provision for
22 the reinsurer's target profit on its portfolio; is
23 that correct?
24 **A. I'm sorry. Can you repeat that, please.**

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1 Q. The MPIUA pays a reinsurance premium,
2 correct?
3 **A. Yes.**
4 Q. Does part of that premium include a
5 provision or a factor for the reinsurer's target
6 profit on its portfolio?
7 **A. Typically it would, yes.**
8 Q. And did it in this instance?
9 **A. I believe so, yes.**
10 **MR. McCALL:** That's it. Thank you.
11 **MR. LEIGHT:** Before we start, we just
12 wanted to make sure it was okay with you that Mr.
13 Klibaner and I shared the questioning.
14 **PRESIDING OFFICER FARRINGTON:** Certainly.
15 **CROSS EXAMINATION**
16 **BY MR. KLIBANER:**
17 Q. Good morning, Mr. Wackerman. I am Alex
18 Klibaner, an Assistant Attorney General, and as Mr.
19 Leight was saying, I have some questions for you,
20 and then he's going to have some questions for you
21 as well.
22 **A. Okay.**
23 Q. There is a reinstatement provision in the
24 MPIUA's reinsurance program; is that correct?

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1 **A. Yes.**
2 Q. Does that reinstatement provision have an
3 automatic trigger, or can the MPIUA decide not to
4 reinstate the reinsurance?
5 **A. It's designed to be an automatic trigger.**
6 **So if there were a loss to the program, the MPIUA**
7 **would be bound by the contract to utilize the**
8 **reinstatement. They could, in theory, negotiate not**
9 **to do that, but that would be a negotiation that**
10 **would have to alter the terms and conditions of the**
11 **contract.**
12 Q. In the current contract, for example, if
13 the first hurricane that triggers reinsurance occurs
14 near the end of the hurricane season, and there are
15 no additional hurricanes in the forecast, the MPIUA
16 must still pay that reinstatement fee?
17 **A. Correct.**
18 Q. Now, the reinstatement -- let me start
19 again. Why don't I draw your attention to Page 1216
20 in the filing. Article 7 here discusses the
21 reinstatement provision; is that right?
22 **A. Correct.**
23 Q. And this deals with the reinstatement of
24 the policy limits and the four layers of traditional

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1 reinsurance, correct?
2 **A. Correct.**
3 Q. Is the reinstatement fee prorated based on
4 how much of the policy year remains at the time of
5 the reinstatement?
6 **A. Yes.**
7 Q. Is it prorated based on how much of that --
8 **A. How much of the limit is exhausted or**
9 **ostensibly -- I believe I thought you said how much**
10 **remains. It would be the inverse of the same**
11 **calculation, but --**
12 Q. I want to separate the two. One is how
13 much of the policy limit remains, and the other one
14 is how much of the policy year remains.
15 **A. Correct.**
16 Q. So is there any prorating that's done based
17 on how much of the policy year remains?
18 **A. No. Not in this circumstance, no.**
19 Q. Just to be clear about this, so for every
20 dollar of coverage used up by the first loss
21 occurrence, the MPIUA is paying, as its
22 reinstatement fee, the same reinsurance premium that
23 it had paid earlier for that same dollar of
24 coverage?

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1 **A. Correct. That's correct.**
2 Q. So even if the reinstatement occurs on the
3 second-to-last day of the policy term, the MPIUA
4 still pays the reinstatement fee based on the -- for
5 the same dollar of coverage as for the full year?
6 **A. That's correct. But the reason there's a**
7 **reinstatement premium negotiated into the contract**
8 **is because it lowers the up-front cost of the**
9 **reinsurance.**
10 Q. By how much does it lower the up-front cost
11 of the reinsurance?
12 **A. Typically 15 percent, maybe more.**
13 Q. How does Guy Carpenter know that? Is
14 there, like, a process of teasing that number out?
15 **A. Typically, yes. I mean, there's -- it**
16 **varies. The quotations you would get by reinsurer**
17 **would vary. But at the end of the day you could**
18 **settle on a scenario where you purchased reinsurance**
19 **without a reinstatement, and typically speaking, the**
20 **price would be higher without the reinstatement.**
21 Q. And why is the price higher without
22 reinstatement?
23 **A. Typically speaking, reinsurers view a**
24 **second attachment of the program to be somewhat**

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1 **remote. But typically they will offer an additional**
2 **limit so that the companies don't have to go out and**
3 **buy significant reinsurance right after an event so**
4 **they're not, for lack of a better expression, bare.**
5 **But in any event, under those circumstances**
6 **you have a reinsurer who feels that there may not be**
7 **a second attachment, a second attachment during the**
8 **course of the year. So under those circumstances,**
9 **they will provide a higher up-front cost if you do**
10 **not purchase a reinsurance -- a second limit, or**
11 **they will provide you a lower up-front cost, with**
12 **the ability to recapture a reinstatement premium in**
13 **the event of a loss.**
14 Q. Is there a reinstatement option available
15 in the market, as opposed to an automatic trigger?
16 A. Typically not.
17 Q. And if the reinstatement provision --
18 A. Can I rephrase that? It's potentially
19 available. It's typically not negotiated that way,
20 because there's typically a price associated with
21 doing it that way.
22 Q. But would the price be the appropriate
23 price for that option?
24 A. It might be the appropriate price, but it

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1 **might be higher than the lower cost associated with**
2 **buying a reinstatement and not having an event.**
3 Q. If the automatic reinstatement is
4 triggered, how would the MPIUA pay the reinstatement
5 fee? Is it paid from the premiums, from its own
6 reserves, from the reinsurance payment? How is it
7 paid?
8 A. It could be paid in a multitude of ways.
9 They could reduce loss recoveries by the amount of
10 reinstatement, or they could collect all the loss
11 recoveries and make the payment out of cash. They
12 have a whole host of ways potentially of paying.
13 Q. Is there a reinstatement provision in the
14 catastrophe bond layer?
15 A. There is not.
16 Q. Was there one available at that layer?
17 A. Typically not in the cat bond marketplace,
18 because they typically -- they will only provide one
19 limit. And under those circumstances, obviously the
20 cost made sense, made perfect sense to the MPIUA to
21 actually proceed with that coverage relative to
22 traditional insurance.
23 Q. How much cheaper was that catastrophe bond
24 process than -- compared to getting a traditional

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1 reinsurance with that reinstatement provision?
2 A. I don't recall specifically, but I could
3 look it up somewhere in here, like the rate on line
4 table. (Reviewing document)
5 I don't recall. And the reason I don't
6 recall is because the cat bond was priced in 2010
7 originally, and we don't have the 2010 direct
8 comparison in here. So I can't do that comparison.
9 But -- it was roughly 5 percent cheaper.
10 Q. So it was less than 15 percent cheaper,
11 right? Were you comparing it to traditional
12 reinsurance with the reinstatement or --
13 A. Oh, correct. That's correct. That's
14 correct. But that's also a different type of
15 reinsurance as well.
16 Q. What do you mean by "a different type of
17 reinsurance"?
18 A. In order to establish the cost comparison
19 you're speaking of, you would have to get a quote in
20 the cat bond marketplace with a reinstatement and
21 without a reinstatement, and you couldn't get a
22 quote with a reinstatement in the cat bond
23 marketplace, because they don't provide
24 reinstatements.

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1 Q. So --
2 A. So that's the cost comparison on an
3 apples-to-apples basis.
4 Q. So the apples-to-apples comparison would be
5 cat bond without reinstatement and traditional
6 reinsurance without reinstatement; is that right?
7 A. Correct.
8 Q. And that difference was 5 percent, right?
9 A. No. Sorry. That would be an apple and an
10 orange. Sorry. Because the traditional piece, you
11 would want to have -- the traditional piece has a
12 reinstatement.
13 Q. So traditional piece with the reinstatement
14 compared to cat bond without --
15 A. -- cat bond without a reinstatement. And
16 that cost comparison is already favorable, and it
17 would only get better if the cat bond were to have a
18 reinstatement.
19 Q. So the comparison that Guy Carpenter made
20 was between cat bond without reinstatement and
21 traditional reinsurance with reinstatement?
22 A. Correct.
23 Q. And even that comparison, the cat bond was
24 favorable --

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1 **A. Correct.**
2 Q. -- by about 5 percent?
3 **A. I believe -- that's my recollection.**
4 Q. Is there a reinstatement provision in the
5 swap layer?
6 **A. No, there is not.**
7 Q. And did Guy Carpenter do a comparison for
8 the swap layer between -- the swap layer without
9 reinstatement and traditional reinsurance with
10 reinstatement?
11 **A. I don't recall if we did a specific**
12 **comparison, but that particular stretch of coverage**
13 **was priced out in multiple ways several years ago,**
14 **and that was deemed to be the most efficient -- cost**
15 **efficient purchase at the time. And it's**
16 **essentially stayed in place each successive year.**
17 Q. Was some analysis done to determine that it
18 was cost favorable?
19 **A. Some cost comparisons, yes. So you can see**
20 **the cost comparison on Page 1435.**
21 Q. Can you please point out that cost
22 comparison of the swap layer for the traditional
23 reinsurance.
24 **A. The swap layer is listed at the top at 5.45**

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1 **rate on line, and the rate on line of the**
2 **penultimate layer is 6.15. So the rate on line is**
3 **lower for the swap layer. And that rate on line was**
4 **also lower -- that layer of -- the 5.45 was the**
5 **lowest price we got for that particular stretch of**
6 **coverage for the 25 xs 1.175 layer.**
7 Q. So the traditional reinsurance at the layer
8 of the swap was somewhere between 6.15 and 4.45; is
9 that right?
10 **A. I'm sorry. Can you repeat that, please.**
11 Q. Sure. Were you comparing the swap -- the
12 peril swap with traditional reinsurance at a
13 different layer, or were you comparing the peril
14 swap with the traditional reinsurance at the same
15 layer?
16 **A. Oh, I see. I don't believe the comparisons**
17 **of the 5.45 relative to other layers are included in**
18 **here.**
19 Q. Your recollection --
20 **A. That's my recollection, yes.**
21 Q. Does the MPIUA or Guy Carpenter anticipate
22 reinsurance rates rising in the coming year?
23 **A. In general?**
24 Q. Yes.

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1 **A. In general, they will certainly be stable,**
2 **potentially rising, through the rest of the year.**
3 Q. What do you mean by "stable, potentially
4 rising"?
5 **A. Well, I think -- they will certainly --**
6 **they're certainly going to be stable, and they have**
7 **the potential to go up. That's the general sort of**
8 **market cycle that we appear to be in right now.**
9 Q. Do you have an estimate of how much
10 reinsurance rates would rise in the coming year?
11 **A. I don't know. Somewhere between 5 and 15**
12 **percent, in general.**
13 Q. Is the reinstatement provision intended to
14 freeze the rates for reinsurance? Is that a benefit
15 that the MPIUA receives from the reinstatement
16 provision?
17 **A. No. I don't follow the question, but I**
18 **think the answer is no.**
19 Q. I'll ask it again so that, if your answer
20 is no, you mean it. Is one of the purposes of the
21 reinstatement provision to freeze reinsurance rates?
22 **A. No.**
23 Q. Do you know what the probability is that
24 the reinstatement provision will be triggered during

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1 the policy term?
2 **A. No.**
3 Q. If you take a look at Page 274 of the
4 filing, which you have in front of you on the side,
5 do you see where it has those Lines 6, 7 and 8 that
6 are labeled "Expected Average Annual Reinstatement
7 Premium"?
8 **A. I do see that.**
9 Q. Have you seen these numbers before?
10 **A. No.**
11 Q. Was there any analysis that you or Guy
12 Carpenter took into account in determining how the
13 reinstatement provision should be priced in the
14 reinsurance program?
15 **A. Meaning -- no. Not that I -- if I**
16 **understand you correctly, I believe the answer is**
17 **no.**
18 Q. Just to be clear, it's your understanding
19 that --
20 **A. The pricing mechanism for reinstatement**
21 **premiums -- in other words, reinstatements work in**
22 **this contract the way they work in every contract,**
23 **or most contracts, I would say. And so that**
24 **mechanism is not unique to the MPIUA.**

1 **So the question of whether or not there**
2 **would be a reinstatement premium and a reinstatement**
3 **in this particular contract was something that would**
4 **be discussed only if someone decided they wanted to**
5 **change the -- increase the up-front cost of the**
6 **reinsurance. And that was certainly not the**
7 **objective of the Board, to change the manner in**
8 **which they purchase reinsurance to increase the**
9 **cost.**

10 **So therefore they just left the**
11 **reinsurance -- the reinstatement premium as is, the**
12 **reinstatement feature as is. And therefore the**
13 **reinstatement premium is calculated automatically**
14 **off of whatever the up-front reinsurance premium is.**

15 Q. It's your understanding that there's
16 approximately a 15 percent discount on the
17 reinsurance premium because of the reinstatement
18 provision, correct?

19 **A. Correct.**

20 Q. Was there any analysis done to determine
21 whether the 15 percent discount was worth it for the
22 MPIUA?

23 **A. In other words, would you pay more --**

24 Q. Let me put it this way.

1 back, please.

2 (Question read)

3 Q. Is it your understanding, Mr. Wackerman,
4 that the expected average annual reinstatement
5 premium that is created by virtue of the
6 reinstatement provision in the reinsurance program
7 is determined in this filing by the RMS and AIR
8 models?

9 **A. I believe this is a notional premium that's**
10 **created by the calculations that were conducted by**
11 **whoever created this document, and that was the**
12 **number that was derived, probably based upon some**
13 **number -- some expected loss and then carrying out**
14 **the math associated with the reinstatement**
15 **provision, based upon a given loss size. That's my**
16 **interpretation of this.**

17 Q. And as a matter of math, would you agree
18 that the number at Line 8 of \$1,412,674 is greater
19 than 15 percent of the reinsurance premium?

20 **A. It's possible, but, again, this is assuming**
21 **that there's been a loss that's taken place. So**
22 **you're -- I don't know that that's the appropriate**
23 **comparison. This is assuming a loss has taken**
24 **place, not what the price of the contract would be.**

1 **A. I mean, the decision is, do I want -- if I**
2 **want to lower my up-front costs, I would leave the**
3 **reinstatement feature in; otherwise I would pay more**
4 **and not have a reinstatement.**

5 Q. Right.

6 **A. So most people would elect to pay less and**
7 **maintain the reinstatement feature in there, as most**
8 **companies do.**

9 Q. The reinstatement feature creates an
10 expected average annual reinstatement premium,
11 correct?

12 **A. It does, but that's -- I mean, I can't tell**
13 **you how that's calculated. This is just -- I don't**
14 **know how this is calculated.**

15 Q. The footnote says that it's based on the
16 RMS and AIR models, and you have now exhausted my
17 knowledge of how that number is calculated.

18 **MR. MEYER:** For the record, I would like to
19 point out this is an exhibit prepared by Mr.
20 Ericksen at ISO. It's an exhibit that Mr. Wackerman
21 did not prepare, and as far as I know, Mr. Wackerman
22 has never seen Page 274 before this morning. I
23 would just like to note that for the record.

24 **MR. KLIBANER:** May I have my question read

1 Q. Do you know whether Line 8 is the accurate
2 number for the expected average annual reinstatement
3 premium?

4 **A. I don't.**

5 Q. Did you or Guy Carpenter do any analysis as
6 part of the brokering of the reinsurance program to
7 determine an expected average annual reinstatement
8 premium?

9 **A. No.**

10 Q. If we assume that the reinstatement
11 provision has been triggered in a given policy year,
12 do you know what the probability is that there's a
13 second loss occurrence that causes more than \$200
14 million of loss and loss adjusted expenses to the
15 MPIUA?

16 **A. No.**

17 Q. Did you or Guy Carpenter do any analysis of
18 that probability in brokering the reinsurance
19 program for the MPIUA?

20 **A. As a matter of course, we would have**
21 **calculated it -- we would have utilized the models**
22 **to look at what the models would suggest that the**
23 **probability is.**

24 Q. Do you know what that probability is?

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1 **A. I don't recall.**
2 Q. In that probability, are the two loss
3 occurrence events independent of each other?
4 **A. They typically would be, yes.**
5 Q. So the second hurricane, so to speak, is
6 just as likely to occur as the first hurricane in
7 that analysis?
8 **A. Well, they're independent. I'm not**
9 **suggesting they're just as likely to occur.**
10 Q. What do you mean by "independent"?
11 **A. Well, I was simply just answering the**
12 **question. I thought that was the question you**
13 **asked.**
14 Q. You're making a distinction between
15 "independent" and "just as likely to occur," and I'm
16 trying to figure out what you mean by "independent."
17 If there are two hurricanes, then the probability of
18 them occurring is independent of each other.
19 **A. I believe that they're independent of each**
20 **other. The probability of the calculation of the**
21 **two events would be independent from one another,**
22 **yes.**
23 Q. Is it your understanding of "independent"
24 that just because one hurricane occurs makes it no

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1 more or less likely that the second hurricane will
2 occur?
3 **A. That's correct.**
4 Q. And in the scenario where the reinstatement
5 provision has been triggered, we know that there's
6 less time within that policy term in which a second
7 loss occurrence can occur; is that correct?
8 **A. Correct.**
9 Q. When did the MPIUA first obtain
10 reinsurance?
11 **A. I believe it was 2006.**
12 Q. July 1, 2006?
13 **A. Yes.**
14 Q. Did that first reinsurance program have a
15 reinstatement provision?
16 **A. Yes.**
17 Q. And did each reinsurance program that the
18 MPIUA had since then have a reinstatement provision?
19 **A. Yes.**
20 Q. Has the MPIUA ever paid a reinstatement
21 fee?
22 **A. No.**
23 Q. And that's because the reinstatement
24 provision has never been triggered; is that right?

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1 **A. Correct.**
2 Q. Now, let me ask you a few questions about
3 the loss adjustment expenses that are covered by the
4 reinsurance program. Is it correct that the
5 catastrophe bond layer covers LAEs at 6 percent?
6 **A. I believe that that's correct.**
7 Q. Does the peril swap layer cover LAEs?
8 **A. Yes. It covers it in the same manner that**
9 **traditional reinsurance covers it. So it would be**
10 **included.**
11 Q. Can you point me to where in the peril swap
12 contract that is that LAEs are included?
13 **A. Well, it's defined on Page 1264. And under**
14 **the "Definitions" article is where it indicates that**
15 **it's covered. So it's Article 7 on Page 1263.**
16 **"Such loss to include Loss Adjustment Expense."**
17 Q. Is there any limit on the loss adjustment
18 expense, or whatever the actual number is, that's
19 what's covered?
20 **A. Correct.**
21 Q. And that's the way all the layers work
22 other than the catastrophe bond?
23 **A. Correct.**
24 Q. Does Guy Carpenter receive a 10 percent

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1 commission for placing the MPIUA's reinsurance
2 program?
3 **A. Yes.**
4 Q. And then there's a commission reimbursement
5 that you testified about, correct?
6 **A. Correct.**
7 Q. Is there any structure to the commission,
8 other than it being a pure 10 percent calculation?
9 **A. Well, it's 10 percent -- we would get 10**
10 **percent of all brokerage for non-London-based, and**
11 **if there were reinstatement, we would get 5 percent**
12 **on the reinstatement. And then in London it's 15**
13 **percent up front and nil on reinstatement. And**
14 **that's traditional, all traditional compensation.**
15 Q. Does that structure create any incentive
16 for Guy Carpenter to prefer London reinsurers or
17 alternatively prefer non-London reinsurers?
18 **A. No.**
19 Q. Is the commission built into the premium
20 that the MPIUA pays?
21 **A. Yes.**
22 Q. Is it correct that the actual commission is
23 paid by the reinsurers to Guy Carpenter?
24 **A. Correct.**

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1 Q. Now, why is it that Guy Carpenter agreed to
2 reimburse the MPIUA part of its commission?
3 **A. That was based upon negotiations that I was**
4 **not directly part of.**
5 Q. Negotiations between whom and whom?
6 **A. Guy Carpenter and -- individual brokers are**
7 **not at liberty to negotiate or discuss compensation.**
8 **So I wasn't part of those discussions.**
9 Q. So somebody at Guy Carpenter negotiated
10 that reimbursement with the MPIUA?
11 **A. Correct.**
12 Q. In terms of your testimony that the amount
13 that the MPIUA is paying for its reinsurance program
14 is reasonable, is that including the reimbursement
15 of the commission?
16 **A. Yes.**
17 Q. And would it be unreasonable for the MPIUA
18 to pay for its reinsurance program if it weren't for
19 Guy Carpenter reimbursing approximately half of its
20 commission?
21 **A. I don't think it would be unreasonable.**
22 Q. So it would be reasonable either way; is
23 that your testimony?
24 **A. Yes.**

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1 Q. Let me draw your attention to your e-mail
2 that's found on Page 1438 in the filing. This
3 e-mail is dated May 5, 2011; is that right?
4 **A. Yes.**
5 Q. And I take it you're the author of this
6 e-mail, right?
7 **A. Correct.**
8 Q. The e-mail discusses an Option A, Option B,
9 Option C and Option D; is that right?
10 **A. Correct.**
11 Q. Can you describe for us how Option B is
12 different from Option A.
13 **A. Okay. I believe the primary difference**
14 **between Option A and Option B is that Option B**
15 **contemplates a 2 percent increase in the traditional**
16 **pricing. So for all the layers on a traditional**
17 **basis, we calculated a 2 percent increase to each**
18 **one of those layers and then did the math to**
19 **generate what the reinsurance premium would be.**
20 Q. When you say "increase to the traditional
21 pricing," you mean increase to the coverage that's
22 afforded by each layer?
23 **A. No, just an increase to the price.**
24 Q. To the premium?

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1 **A. To the premium. Sorry, yes.**
2 Q. Is it for the same coverage?
3 **A. Yes.**
4 Q. So is the only difference between Option A
5 and Option B that Option B is 2 percent more
6 expensive?
7 **A. Yes. I believe that's the case.**
8 Q. And Option B is what Guy Carpenter
9 recommended; is that right?
10 **A. That's correct.**
11 Q. And that recommendation was declined by the
12 MPIUA; is that correct?
13 **A. That's correct.**
14 Q. And the MPIUA went with Option A; is that
15 right?
16 **A. I believe that's correct.**
17 Q. So under Option B, Guy Carpenter's
18 commission would have been higher than under Option
19 A; is that right?
20 **A. Sorry. Can you repeat that.**
21 Q. Sure. Under Option B, Guy Carpenter's
22 commission would be higher than under Option A; is
23 that right?
24 **A. Oh. Yes.**

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1 Q. And in the e-mail --
2 **A. That's simply because the pricing of the**
3 **individual contract would be larger.**
4 Q. Right. And Guy Carpenter's commission is
5 merely a percentage of the premium, right?
6 **A. That's correct. But, remember, the other**
7 **objective of the MPIUA is to complete the placement.**
8 **And so we have to make a recommendation to the MPIUA**
9 **that we believe most efficiently accomplishes the**
10 **objective that was set out before us, which was to**
11 **complete the placement.**
12 Q. What was the objective in terms of
13 placement that the MPIUA set forth?
14 **A. To complete 100 percent of the placement.**
15 Q. 100 percent of the placement of what?
16 **A. Of each of the individual layers.**
17 Q. What were the layers that the MPIUA
18 determined as its objective?
19 **A. I mean, it's outlined throughout this**
20 **presentation. I believe it's on -- Page 1435 would**
21 **outline that. The point is that last year we were**
22 **in a market environment where prices were increasing**
23 **and capacity was reducing. And we had to make a**
24 **recommendation to the MPIUA that was going to**

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1 **satisfy the objective, which was to complete the**
2 **placement.**
3 **In so doing, that was why we recommended**
4 **Option B, because we didn't feel that, if the MPIUA**
5 **went out at flat pricing last year, they would**
6 **generate the capacity that they desired. So that's**
7 **why we made the recommendation with Option B.**
8 Q. Did the MPIUA have the opportunity to try
9 Option A, and if it didn't obtain the placement that
10 it wanted, then to fall back onto Option B?
11 A. **That option always exists, but given the**
12 **timing and the market situation, what happens**
13 **typically is, if you -- and several clients and**
14 **other entities in the marketplace tried this -- if**
15 **you go out and you don't succeed, then typically**
16 **going back to Option B is no longer an option. The**
17 **price becomes higher than that.**
18 Q. Why is that?
19 A. **The market conditions can change over time,**
20 **and they were changing fairly rapidly last year. So**
21 **generally speaking -- again, you're trying to give**
22 **your counsel and advice to the client to achieve the**
23 **most efficient cost of reinsurance, the lowest**
24 **possible price, all the time. And so if sometimes**

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1 **you recommend going at the lowest number and you're**
2 **not successful, the reinsurers may say -- they**
3 **may -- the price may move subsequent to that if you**
4 **don't generate the desired capacity.**
5 Q. Is it the fact that the price moves because
6 the reinsurance market is not purely competitive?
7 A. **No. The market moves -- the market pricing**
8 **moves all the time up and down.**
9 **Again, they move based upon the laws of**
10 **supply and demand. So that's typically why it's**
11 **important to get the pricing right the first time**
12 **when you're in an environment where prices are**
13 **rising and capacity is shrinking.**
14 Q. And in this environment of prices rising,
15 how fast were they rising?
16 A. **Between this particular time frame and the**
17 **negotiations of renewal last year, somewhere between**
18 **5 percent, maybe 10 percent, in that range.**
19 Q. 5 to 10 percent per year or per month?
20 A. **In the time frame in which we were**
21 **negotiating the program last year. So let's say**
22 **between February and June it could have been between**
23 **5 to 10 percent.**
24 Q. And when you refer to the importance to

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1 maintain capacity for MPIUA in this e-mail, are you
2 referring to that percentage of placement?
3 A. **That was exactly what I was referring to,**
4 **yes.**
5 Q. In that paragraph that talks about
6 maintaining capacity for MPIUA, do you see where,
7 above that last line -- in the second-to-last line
8 it talks about some technical analysis by the
9 reinsurers with which Guy Carpenter disagreed?
10 A. **Yes.**
11 Q. And what was that technical analysis, or in
12 some cases lack thereof?
13 A. **Well, we don't always agree with what the**
14 **reinsurers come up with. In fact, we rarely agree**
15 **with the prices that the reinsurers come up with.**
16 **And some base it upon a very technical analysis that**
17 **they can articulate and may articulate; and some**
18 **particularly, particularly when capacity --**
19 **particularly when the market conditions were such**
20 **that they were last year, they may simply just hold**
21 **out for a price of X.**
22 **And since they are the -- in certain**
23 **circumstances they can be the arbiter -- they always**
24 **are the arbiter of whether they deploy their**

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1 **capacity or not. They may give you technical**
2 **reasons for it, and they may not. And so that's**
3 **what that comment was simply referring to.**
4 Q. If one insurer decides to simply hold out
5 for a better price, in a competitive environment
6 wouldn't you expect another reinsurer to undercut
7 them?
8 A. **Sure.**
9 Q. Does that happen?
10 A. **It happens all the time.**
11 Q. So why are there reinsurers who hold out
12 for a better price at all, if other reinsurers can
13 come in and undercut them?
14 A. **Well, they hold out obviously to a degree.**
15 **It doesn't necessarily mean that everybody wants to**
16 **participate at the exact same price all the time.**
17 **So it's simply a matter of degrees.**
18 Q. Are you able -- do you understand the
19 technical analysis that they provide as their
20 rationale?
21 A. **I do understand a lot of the discussions**
22 **and a lot of the analyses that they do. They may**
23 **not be forthcoming with exactly how it is that**
24 **they've calculated their precise numbers, but in**

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1 **general I'm familiar with what they...**
2 Q. Can you give us an example of the technical
3 analysis that reinsurers provide as part of the
4 negotiating process?
5 **A. They won't provide specific information,**
6 **but we'll have negotiations around what perceptions**
7 **are regarding concentration, perceptions regarding**
8 **exposure, perceptions regarding the number of**
9 **programs that they may already be providing capacity**
10 **for in certain territories.**
11 **The amount of the premium that they may be**
12 **charging is commensurate with that or may not be**
13 **commensurate with that. We may get into discussions**
14 **around their view of modeled loss versus another**
15 **view of modeled loss versus some of the calculations**
16 **that we've done. Those are the types of discussions**
17 **that we typically have with reinsurers.**
18 **They don't all calculate it in the exact**
19 **same manner. So it's unique to each reinsurer, and**
20 **in many cases it's unique to each deal.**
21 Q. Guy Carpenter uses the RMS and AIR models
22 as part of its negotiations of reinsurance programs;
23 is that right?
24 **A. Not exclusively, but yes.**

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1 Q. What else does Guy Carpenter use?
2 **A. There are other models that we have. We**
3 **license other third-party models, such as EQE, for**
4 **example.**
5 Q. Are there any others?
6 **A. Not that I'm aware of for the peril of**
7 **hurricane.**
8 Q. So then there are three modelers?
9 **A. Three predominant modelers, yes.**
10 Q. Do the reinsurers use the same three
11 modelers?
12 **A. Generally speaking, yes. And they also**
13 **have their own views of the model.**
14 Q. So there are disagreements about how to
15 interpret the results of those models?
16 **A. Correct.**
17 Q. Do all the reinsurers use the latest RMS
18 and AIR models as part of their analysis?
19 **A. Typically speaking, that's what they try to**
20 **do, is our understanding, and we try to monitor**
21 **that. They don't all move to the newest model at**
22 **the same exact time.**
23 Q. Does Guy Carpenter keep track of which
24 models that reinsurers are using at what time?

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1 **A. Yes. Last year was -- there was**
2 **significant flux as to when people were -- when and**
3 **if people were migrating to Version 11 during the**
4 **course of last year's renewal season, or for that**
5 **matter AIR Version 12. There was migration going on**
6 **in the marketplace.**
7 Q. Do you have an estimate of what percentage
8 of reinsurers migrated to Versions 11 and 12 of
9 those models respectively?
10 **A. I believe now it's close to 100 percent.**
11 **During the course of the renewal last year, it**
12 **was -- fully migrated? This is a long discussion**
13 **for each individual reinsurer as to when they fully**
14 **migrated. I would say probably half. I don't**
15 **recall specifically the number, but it was probably**
16 **about half.**
17 Q. Does that mean that approximately half of
18 the reinsurers were using Versions 11 and 12, and
19 the other half were using older versions?
20 **A. Potentially. Some reinsurers don't focus**
21 **on one particular -- they may focus on RMS, they may**
22 **focus on AIR, they may focus on their own model as**
23 **well.**
24 **So, again, depending on each reinsurer,**

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1 **that discussion can take on a totally different --**
2 **have totally different meaning. Some may migrate to**
3 **RMS later because they're focusing on AIR. Some may**
4 **have their own model, so they're not particularly**
5 **focused on either one. And so you have a scenario**
6 **where you have various migrations of versions, as it**
7 **were.**
8 **Again, the other issue is reinsurers don't**
9 **rely exclusively on the models to price the**
10 **business. So it's just one component.**
11 Q. Is it correct that reinsurance transfers
12 risk from the MPIUA to the reinsurers?
13 **A. Yes.**
14 Q. And that transfer of risk is also from the
15 MPIUA members to the reinsurers; is that right?
16 **A. By way of their participation, yes.**
17 Q. Let me draw your attention to Page 1428 in
18 the filing. Near the top of Page 1428, do you see
19 the statement of the long-term strategic reinsurance
20 policy of the MPIUA?
21 **A. Yes.**
22 Q. And is that statement still in effect
23 today?
24 **A. I believe it is. I don't believe there's**

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1 **been any changes to it.**
2 Q. Did Guy Carpenter participate in any way in
3 the setting of this long-term strategic reinsurance
4 policy?
5 **A. Well, the policy was set by the Executive**
6 **Committee of the MPIUA. So --**
7 Q. I'm just asking if Guy Carpenter
8 participated in that process.
9 **A. We were present during some of the**
10 **discussions.**
11 Q. But the decision-making was of the MPIUA --
12 **A. We did not make that decision.**
13 Q. Did Guy Carpenter offer any
14 recommendations?
15 **A. We provided information to the Executive**
16 **Committee to make the decision. And, again, as I**
17 **mentioned before, they have a significant amount of**
18 **experience in their own right. So they've got their**
19 **own information as well.**
20 Q. As opposed to providing their information,
21 did Guy Carpenter make any recommendations to the
22 MPIUA?
23 **A. I don't recall making any specific**
24 **recommendations about the policy -- the specific**

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1 **setting of the policy; in other words, that it had**
2 **to be one thing or another. It was really -- the**
3 **idea was, simply saying, making the policy**
4 **transparent.**
5 Q. This long-term strategic policy, right?
6 **A. Right.**
7 Q. Do you know how the attachment level and
8 the exhaustion level in this strategic policy were
9 determined by the MPIUA?
10 **A. You mean of the specific number?**
11 Q. Yes.
12 **A. I believe that they conducted a study of**
13 **the members, of member companies, by way of a survey**
14 **that they conducted to determine generally what the**
15 **member companies were doing as far as from a modeled**
16 **probabilistic attachment point and exhaustion point.**
17 **And I believe they conducted that survey several**
18 **years ago.**
19 Q. And why was it relevant to the MPIUA what
20 their members were doing in terms of the members'
21 own reinsurance programs?
22 **A. I believe that they intend to set up a**
23 **reinsurance program that's similar or not**
24 **significantly different than the member companies**

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1 **set up. So it's an entity in and of itself seeking**
2 **to behave like the other entities that operate in**
3 **the space that they operate in.**
4 Q. So was it a situation of the MPIUA
5 following the lead of its members on the reinsurance
6 policy?
7 **A. I suppose you could characterize it that**
8 **way. I'm not sure that it was necessarily the lead**
9 **per se. I think they sat down to determine what a**
10 **prudent course of action would be to protect the**
11 **MPIUA from catastrophic loss, and they developed**
12 **that plan accordingly.**
13 Q. What guidance did Guy Carpenter receive
14 from the MPIUA in terms of how much reinsurance to
15 seek?
16 **A. We typically advised them as to what**
17 **various other entities in the industry would do to**
18 **protect their portfolio or their policies from risk**
19 **of extreme catastrophic loss. So we would provide**
20 **to them advice and counsel on that basis, or is what**
21 **they're doing any -- materially different from what**
22 **others are doing.**
23 Q. Is it important for the MPIUA to be doing
24 what other insurers were doing?

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1 **A. I think it's important to have -- it's**
2 **certainly important to have the perspective of what**
3 **others are doing, particularly other entities that**
4 **have had significant loss associated with their**
5 **portfolios.**
6 Q. Why is it important for the MPIUA to be
7 doing what other insurers are doing?
8 **A. Well, I think -- it's important for them to**
9 **have a perspective of what others are doing,**
10 **certainly because you don't want to end up in a**
11 **situation where you are not appropriately protected**
12 **or didn't make the right choice or didn't prudently**
13 **protect yourself from catastrophic risk. And I**
14 **think that's what the Board is trying to achieve by**
15 **looking at that, as well as -- again, other residual**
16 **market entities, as well as member companies.**
17 Q. Did the MPIUA ever indicate to Guy
18 Carpenter that it was looking to buy whatever
19 reinsurance it could get for approximately \$80
20 million of premium?
21 **A. I think there was some discussions at one**
22 **point, I seem to recall at the outset, about -- in**
23 **other words, this goes back to the discussion of how**
24 **much can you place, can you place 100 percent of the**

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1 program, and the objective was to place as much of
2 the program as possible. And I believe that the
3 number ended up being approximately \$80 million at
4 one point in time. So that certainly became part of
5 the discussions, I believe.
6 Q. How was the \$200 million attachment point
7 chosen?
8 A. Similarly to the manner in which the
9 exhaustion point was determined. There was heated
10 discussion amongst several of the member companies
11 to determine what an appropriate retention of the
12 program would be.
13 They certainly looked at various attachment
14 points that the models provide and also the amount
15 of TIV that would potentially be attached. So a
16 billion dollars of TIV is the exhaustion point.
17 That's about 1 percent. So one fifth of that is a
18 pretty small number, I think, that people felt
19 reasonably comfortable with as an attachment point,
20 the Board.
21 Q. Was 2 percent also considered, 2 percent of
22 TIV?
23 A. 2 percent of TIV as an exhaustion point?
24 Q. Yes.

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1 A. No. That would be -- I don't believe that
2 was considered. Not in my presence anyway.
3 Q. Is 2 percent too high?
4 A. It's a very concentrated portfolio, but it
5 would be a significant amount of limit to be
6 purchasing. So I don't think that the Board would
7 have considered that to be an appropriate economic
8 decision.
9 Q. Part of your testimony is that the amount
10 of reinsurance that the MPIUA purchased is a
11 reasonable amount, correct?
12 A. It certainly appears to be reasonable,
13 based upon the metrics of the reinsurance business.
14 Q. Do you have an opinion as to whether, if
15 the MPIUA had bought reinsurance equal to 2 percent
16 of TIV, whether that would have been reasonable?
17 A. I mean, it's hard to say whether that would
18 be reasonable, because the amount of capacity that
19 would be required could be significant.
20 Q. The capacity would be 2 percent of TIV,
21 right?
22 A. So you would be looking for \$2 billion
23 worth of capacity, which, again, that would be
24 larger than most companies -- that would be one of

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1 the largest placements in the world, under those
2 circumstances, and finding all of that capacity can
3 be challenging. So it might be a noble objective,
4 but...
5 Q. Does the reinsurance market lose its
6 competitiveness if you get to capacity that's too
7 high?
8 A. It's more that -- it loses its
9 availability.
10 Q. What do you mean by "availability"?
11 A. There's not enough capacity to generate --
12 there's just not that much capacity out there. I
13 mean, \$2 billion would be a significant amount of
14 capacity, probably more so than you could generate,
15 unless you spent -- you would have to go to multiple
16 sources of capacity.
17 Q. So there would be fewer sources of capacity
18 at the \$2 billion amount than there are at the \$1.2
19 billion amount?
20 A. There would be still -- you would be
21 maximizing the capacity from everybody at that
22 point. So eventually you're going to run out of
23 capacity.
24 Q. And that's assuming that the MPIUA would be

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1 willing to pay whatever premium is asked, right?
2 There would still be less capacity?
3 A. When you say "There would be less
4 capacity," you would have more capacity if you went
5 to \$2 billion.
6 Q. There are fewer reinsurers who would be
7 willing to place \$2 billion of capacity, right?
8 A. Sure.
9 Q. Regardless of the premium that's
10 determined, right?
11 A. Yes.
12 Q. Now, are there benefits to MPIUA members
13 from the MPIUA's placement of reinsurance?
14 A. Are there benefits to members?
15 Q. Yes. The MPIUA members, do they receive any
16 benefit from the fact that the MPIUA has a
17 reinsurance program?
18 A. Yes.
19 Q. One of the benefits is surplus relief; is
20 that correct?
21 A. Yes.
22 Q. So the MPIUA members need less surplus,
23 because the MPIUA has reinsurance, right?
24 A. They need to potentially protect a lesser

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1 **amount of their surplus.**
2 Q. Is it correct that they need less surplus
3 allocated towards potential assessments from the
4 MPIUA?
5 **A. Correct, because the MPIUA purchases**
6 **reinsurance. And they also have to purchase less**
7 **reinsurance accordingly.**
8 Q. So the MPIUA members have lower reinsurance
9 rates, because the MPIUA has --
10 **A. They don't necessarily have lower rates.**
11 **They get to purchase less reinsurance, because the**
12 **MPIUA purchases what it purchases.**
13 Q. Part of the reinsurance that MPIUA members
14 purchase includes coverage for assessments from the
15 MPIUA; is that right?
16 **A. That's correct.**
17 Q. And does the cost to the MPIUA members for
18 purchasing that coverage decrease as the MPIUA
19 increases its own reinsurance?
20 **A. It depends on how you're defining cost. I**
21 **will answer the question that way. They have to**
22 **purchase enough to protect their own assessment --**
23 **their own policyholders from loss. Let's just say**
24 **that's \$100 million. And they have to purchase**

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1 **protection to protect their assessments, which might**
2 **be an additional \$10 million. If the MPIUA**
3 **purchases that protection, then they don't have to**
4 **purchase that extra \$10 million.**
5 Q. So they pay less in premiums?
6 **A. They have to purchase -- they get to**
7 **purchase less reinsurance; therefore, their premiums**
8 **go down. But the rate that they pay is not**
9 **necessarily less. That's what I'm trying to**
10 **establish.**
11 Q. By "rate" you mean percentage for dollar of
12 coverage?
13 **A. Correct.**
14 Q. And does the cost of capital for MPIUA
15 members go down with the increase in MPIUA's
16 reinsurance?
17 **A. The cost of capital for the member**
18 **companies?**
19 Q. Yes.
20 **MR. MEYER:** I'm going to object at this
21 point. There is no foundation that Mr. Wackerman
22 knows what the cost of capital is for the MPIUA
23 member companies. There is no relevance to this
24 case, there is no foundation, and it's not a

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1 material issue.
2 **PRESIDING OFFICER FARRINGTON:** Did you want
3 to make a comment, Mr. Klibaner?
4 **MR. KLIBANER:** I am following up on Mr.
5 Wackerman's testimony that there are benefits to
6 MPIUA members from the purchase by the MPIUA of
7 reinsurance. Now, his answer could be, "I don't
8 know," and I'll move on. But if his answer is, "I
9 know," I would like to hear it.
10 **PRESIDING OFFICER FARRINGTON:** The
11 objection is overruled.
12 Q. Do you remember the question?
13 **A. You started with the question of whether**
14 **there's benefits.**
15 Q. Yes.
16 **A. And I thought we answered -- I answered the**
17 **question about whether there are benefits, because**
18 **there certainly are cost benefits.**
19 Q. Well, one benefit we talked about was the
20 reduction in the amount of reinsurance that MPIUA
21 members purchased, right?
22 **A. Correct.**
23 Q. And then I asked, was another benefit that
24 their cost of capital decreases?

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1 **A. I don't know the answer to that question.**
2 Q. Okay. Do you know whether their cost of
3 debt decreases?
4 **MR. MEYER:** Same objection. No foundation.
5 He doesn't know what the cost of debt is for the
6 MPIUA member companies.
7 **MR. KLIBANER:** Well, if he answers "I don't
8 know," I'll move on.
9 **PRESIDING OFFICER SUMNER:** Overruled. You
10 may answer the question.
11 **A. There we go. I don't know what the cost of**
12 **capital is, or debt.**
13 Q. So is it correct that you did not consider
14 the cost of capital to the MPIUA members or their
15 cost of debt in any way in the brokerage process of
16 the MPIUA's reinsurance program?
17 **A. We didn't, but I'm sure the member**
18 **companies probably had that discussion with**
19 **themselves. In other words, the member companies**
20 **and the Executive Committee certainly would be**
21 **cognizant of that issue. If they felt it was**
22 **problematic, I'm sure they would have raised that.**
23 **We didn't discuss that. That would be my**
24 **answer. We didn't discuss it with them.**

1 Q. Do you know of any discussion at the MPIUA
2 level of the benefits that the MPIUA members would
3 receive from the reinsurance program?

4 **A. We just talked about some of them. Not
5 that one in particular.**

6 Q. So not cost of capital and not cost of
7 debt, right?

8 **A. I didn't discuss that. I'm not saying it's
9 not necessarily a benefit. I'm saying I didn't
10 discuss it.**

11 Q. That's all I'm asking. Do you know of any
12 discussion at the MPIUA level --

13 **A. No.**

14 Q. Was the reduction in the reinsurance that
15 the MPIUA members purchase something that was
16 discussed at the MPIUA Board?

17 **A. Sorry. Repeat that again.**

18 Q. Was the benefit of the reduction in the
19 amount of reinsurance that MPIUA members purchase a
20 benefit of the MPIUA reinsurance program that was
21 discussed at the MPIUA Board?

22 **A. I'm sure it's been discussed. It's been a
23 known benefit at the outset, so it's been discussed.
24 Was it discussed specifically this year and**

1 Q. Is it your understanding -- strike that. Is
2 it your testimony that, on Page 1203, that there's a
3 benefit in terms of the A.M. Best rating for MPIUA
4 member companies?

5 **A. I'm sorry. Can you repeat that.**

6 Q. Sure. In terms of your testimony on Page
7 1203 where you make reference to the A.M. Best
8 rating, is it your testimony that there is a benefit
9 for the MPIUA members from the MPIUA having
10 reinsurance in terms of the ratings that the members
11 can get from A.M. Best?

12 **A. Well, I would agree with your statement,
13 but my testimony here specifically, it was simply
14 drawing a comparison to what A.M. Best suggests a
15 typical exhaustion point would be for a cat program.
16 That's what my comment specifically here was
17 referring to.**

18 Q. So your --

19 **A. So I would agree with your statement, but
20 I'm just making a distinction that that's not what
21 my testimony here was intended to do.**

22 Q. I appreciate that clarification.

23 So your testimony, at least as written, is
24 that the A.M. Best rating is relevant to the cat

1 **specifically in this context? I don't recall
2 specifically, but it's certainly been discussed over
3 time.**

4 Q. And other than the reduction in reinsurance
5 that the MPIUA members purchase, is there any other
6 benefit to MPIUA members from the MPIUA's purchase
7 of reinsurance, to your knowledge?

8 **A. Well, certainly they would benefit from the
9 recoveries that the MPIUA would make in the event of
10 a catastrophic loss. So they would certainly get
11 the benefit of those recoveries.**

12 Q. By that do you mean there is less chance of
13 an assessment against the member companies?

14 **A. They provide -- yes, that's correct. It
15 reduces the amount of the assessment.**

16 Q. Does the MPIUA's reinsurance program affect
17 the members' A.M. Best rating?

18 **A. I don't work for A.M. Best, but I know that
19 A.M. Best asks specifically about making certain
20 that the member companies provide information on how
21 large their assessment potential is for each -- of
22 the individual residual markets that they're part
23 of. And so I would logically assume from that that
24 it impacts -- or could impact their rating.**

1 bond layer?

2 **A. It's simply stating that -- the prior
3 question is referencing how much reinsurance is
4 purchased, in other words, from what attachment
5 point to what exhaustion point. And generally
6 speaking, A.M. Best, for example, they have specific
7 standards, and various entities around the country,
8 as it relates to where they exhaust and where they
9 attach.**

10 In general, companies receiving A.M. Best
11 ratings, A.M. Best -- I don't want to say they
12 prescribe, but they look favorably upon companies
13 that protect up to the 1-in-100-year event, as
14 defined by some model, for the peril of hurricane.
15 So it would not be unreasonable for a structure
16 similar to this to be looked upon favorably by A.M.
17 Best.

18 Q. So because of the amount of reinsurance
19 that the MPIUA purchased, its members can receive a
20 better A.M. Best rating than if MPIUA didn't
21 purchase any reinsurance, for example?

22 **A. I mean, in theory -- it would be looked
23 upon favorably by A.M. Best. Whether they would
24 receive a better rating or not, I don't know. It**

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1 **would have positively influenced the analysis that**
2 **A.M. Best conducts during its rating.**
3 Q. Is it fair to say that one benefit that
4 MPIUA members receive from the fact that MPIUA has
5 reinsurance is that they receive a more favorable
6 look from A.M. Best?
7 **A. Yes.**
8 Q. To your knowledge, does the MPIUA's filing
9 take into account those two benefits that we talked
10 about that MPIUA members receive from the
11 reinsurance program; namely, a reduction in the
12 amount of reinsurance that they purchase and a more
13 favorable look from A.M. Best?
14 **A. Does the MPIUA's rate filing take that into**
15 **consideration?**
16 Q. Yes.
17 **A. I don't know.**
18 Q. So when you testify that it's your opinion
19 that the amount of reinsurance that the MPIUA
20 purchased was reasonable, you are not considering
21 those two benefits that MPIUA members receive?
22 **A. Again, I thought you were asking the**
23 **question specifically whether they took it into**
24 **consideration in their rate filing. I don't know**

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1 **how they specifically might have taken it into**
2 **consideration in their rate filing. I would assume**
3 **they would have, but I don't know specifically how**
4 **they took it into consideration. That's what I'm**
5 **trying to get at.**
6 Q. When you testify to the reasonableness of
7 the MPIUA's purchase of reinsurance, are you taking
8 into account the benefits that the MPIUA members
9 receive from that reinsurance program?
10 **A. Sure. That would be certainly part of it.**
11 Q. And how are you taking those benefits into
12 account?
13 **A. I don't understand the connection to the**
14 **question. I'm sorry, I apologize.**
15 Q. That's all right. Let me try it this way:
16 In the MPIUA's filing, is the full cost of the
17 reinsurance program passed on to policyholders?
18 **A. Sorry. Say that one more time.**
19 Q. In the MPIUA's filing, is the full cost of
20 its reinsurance program passed on to the
21 policyholders?
22 **A. I believe that it is, but I'm not positive.**
23 **I don't know the entire construct of the rate**
24 **filing, but I believe that that's the intent,**

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1 **certainly.**
2 Q. And do you know of any contribution that
3 MPIUA members make towards the reinsurance program
4 of the MPIUA that benefits the MPIUA members?
5 **A. I don't understand the question.**
6 Q. Do the MPIUA members make any contribution
7 towards the MPIUA's reinsurance program?
8 **A. I don't know -- what do you mean by**
9 **"contribution"?**
10 Q. Do they make any payment to the MPIUA to
11 help the MPIUA pay for its reinsurance program?
12 **A. They are the member companies. So**
13 **essentially they're paying for -- they're paying for**
14 **it based upon their participation as a member**
15 **company within the MPIUA.**
16 Q. How much are they paying?
17 **A. They're paying their share of the --**
18 **essentially you would define it as they're paying**
19 **their share of the premium based upon their market**
20 **share of the construct of the MPIUA. Each member**
21 **company has a percentage share of the MPIUA, so that**
22 **would essentially be their -- could be viewed as**
23 **their contribution.**
24 Q. Has any MPIUA member made any payment to

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1 the MPIUA since the inception of the reinsurance
2 program on July 1st, 2006, to your knowledge?
3 **A. Not separate and apart -- not apart from**
4 **what their obligations are to the MPIUA. As a**
5 **member company of the MPIUA, they have certain**
6 **obligations, so they're making their payments to --**
7 **they're a contributing member of the MPIUA by**
8 **definition. So they're not separately paying any**
9 **reinsurance costs, if that's what you're getting at.**
10 Q. Are they making any payment to the MPIUA --
11 to your knowledge, has any MPIUA member made any
12 payment to the MPIUA, under its legal obligations or
13 not, from July 1st, 2006, to the present?
14 **A. Sorry, repeat the question. I'm just**
15 **trying to understand where you're going with the**
16 **question. I apologize.**
17 **The member companies are the member**
18 **companies in the MPIUA. So they're operating in a**
19 **normal fashion, as far as I know, as far as their**
20 **relationship with the MPIUA.**
21 Q. Does that normal fashion include any
22 transfer of money from the MPIUA member to the
23 MPIUA?
24 **A. I can't comment on the MPIUA members'**

1 **relationship with the MPIUA. It exists separate and**
2 **distinct from our relationship with the MPIUA.**

3 Q. Do you know whether any MPIUA member has
4 paid any money to the MPIUA since July 1, 2006?

5 **MR. MEYER:** Objection. Asked and answered.

6 **A. I would assume that they would have --**

7 **MR. MEYER:** Objection. Let the Hearing
8 Officers rule on it. We've been going around in
9 circles. The same question has been asked several
10 times.

11 **PRESIDING OFFICER FARRINGTON:** You may
12 answer the question.

13 **A. Sorry. Can you repeat the question.**

14 **MR. KLIBANER:** May I have the question read
15 back, please.

16 (Question read)

17 **A. I don't know.**

18 Q. Does it matter, to your opinion that the
19 MPIUA purchased a reasonable amount of reinsurance,
20 that the full cost of the reinsurance program is
21 passed on to MPIUA's policyholders?

22 **A. Sorry. Can you repeat that.**

23 **MR. KLIBANER:** Can I have it read back,
24 please.

1 **A. Well, prospectively you don't know. So**
2 **prospectively it's very difficult for anyone to say**
3 **what exactly is reasonable or unreasonable as it**
4 **relates to the amount of reinsurance purchased.**

5 Q. Well, your opinion --

6 **A. So therefore you would simply say what**
7 **might be prudent as to what you would purchase, and**
8 **based upon the determination of what's prudent, you**
9 **might look at what other companies are doing, and**
10 **you might look at what other residual markets are**
11 **doing, to figure out how much reinsurance to**
12 **purchase.**

13 Q. I apologize for interrupting. Are you
14 finished with your answer?

15 **A. Yes.**

16 Q. What do you take into consideration in
17 opining that the amount of reinsurance that the
18 MPIUA purchased was reasonable? You had mentioned
19 the prudence and what other companies have done?

20 **A. Sure.**

21 Q. And the fact that the MPIUA Board made a
22 decision. Are there any other factors that you take
23 into account?

24 **A. Well, I certainly listed them in my**

1 (Question read)

2 **A. No.**

3 Q. If the MPIUA had purchased less reinsurance
4 than it did, would that have been reasonable too, in
5 your opinion?

6 **A. It's possible, yes.**

7 Q. Why do you say it's possible, as opposed to
8 simply yes or no or you don't know?

9 **A. Well, the answer is yes.**

10 Q. If the MPIUA decided to purchase no
11 reinsurance, as it had before July 1, 2006, would
12 that have been a reasonable thing for the MPIUA to
13 do?

14 **A. Again, the Board needs to determine what**
15 **the amount of -- what is reasonable, based upon its**
16 **view of what reasonable companies do in the industry**
17 **to protect themselves against catastrophic risk.**
18 **Whether something is -- it's very difficult to say**
19 **what the precise magnitude of reasonableness is**
20 **under those circumstances.**

21 **If you have a loss that's a billion dollars**
22 **and you didn't buy a billion dollars worth of**
23 **reinsurance, it looks unreasonable.**

24 Q. But that's in retrospect, right?

1 **testimony, but one of them, you would certainly --**
2 **you could look at historical storms. In the case of**
3 **the MPIUA, you don't have any, so you would use a**
4 **model to potentially figure out what those**
5 **historical storms would do to their book of business**
6 **today. So that would be one thing you could do.**

7 **You look at all of those numbers, and you**
8 **end up making sure -- at least the Board's objective**
9 **or the Executive Committee's objective was to make**
10 **sure that certain of those storms were contained**
11 **within the program that they purchased.**

12 **You would look at certainly the total**
13 **insured value of the MPIUA, and certainly protecting**
14 **a mere 1 percent of the total insured value for a**
15 **concentrated portfolio like this is not**
16 **unreasonable.**

17 **Those would be, you know, sort of two main**
18 **things that you would look at.**

19 **Again, the other thing you would do is try**
20 **and get a sense for making sure you don't have**
21 **something significantly -- that you're purchasing**
22 **something significantly different than what**
23 **everybody else is doing. In the case of the MPIUA,**
24 **they're purchasing something similar to what the**

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1 **member companies are purchasing and certainly**
2 **something similar to what many residual markets are**
3 **purchasing.**
4 Q. Did you take into account, as part of your
5 opinion of the reasonableness of the amount of
6 reinsurance that the MPIUA purchases, how much it
7 costs?
8 **A. Sure.**
9 Q. And would you agree that if the MPIUA
10 purchased no reinsurance, it would cost less than if
11 it purchased reinsurance?
12 **A. Sure.**
13 Q. Would it be unreasonable, in your opinion,
14 for the MPIUA to purchase no reinsurance?
15 **A. Based upon the objectives that they've set**
16 **out, it would be unreasonable.**
17 Q. Are their objectives reasonable?
18 **A. Again, their objectives are not dissimilar**
19 **to what the other member companies are doing, and**
20 **not dissimilar to what A.M. Best would suggest that**
21 **other member companies do, and they're not**
22 **significantly different than what other residual**
23 **markets are doing. So from that perspective, it**
24 **would seem reasonable, they would seem reasonable,**

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1 **and they would seem prudent.**
2 Q. And if the MPIUA made a strategic policy
3 decision not to have reinsurance, would that be a
4 reasonable decision to make, in your opinion?
5 **A. It could be reasonable, but it wouldn't**
6 **seem reasonable based upon the objectives that were**
7 **set, and it wouldn't seem prudent.**
8 Q. Why would it not be prudent?
9 **A. You wouldn't be protected in the event of a**
10 **loss.**
11 Q. Well, the MPIUA can assess its members in
12 case of a loss; is that right?
13 **A. That's correct.**
14 Q. So how would the MPIUA not be protected in
15 the event of a loss?
16 **A. The individual insurance -- the individual**
17 **entities that make up the MPIUA would not be**
18 **protected. They might have coverage in their**
19 **reinsurance program, but they wouldn't have as much**
20 **coverage as needed in their reinsurance program. So**
21 **they would have to buy more reinsurance, subject to**
22 **the review of A.M. Best and/or other rating agencies**
23 **and/or internal constituents.**
24 Q. Does the purchase by MPIUA of reinsurance

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1 in effect transfer the cost of the MPIUA members
2 purchasing some amount of reinsurance from those
3 members to MPIUA's policyholders?
4 **A. Repeat that, please.**
5 **MR. KLIBANER:** Could I have the question
6 read back.
7 (Question read)
8 **A. Yes.**
9 Q. * If the MPIUA decided to transfer all of
10 its risk to reinsurers, would that be reasonable, in
11 your opinion, assuming that it got a competitive
12 price in the reinsurance market?
13 **A. That would typically not be reasonable,**
14 **because there is some amount of risk that all the**
15 **member companies could choose to bear upon -- to**
16 **keep net for themselves.**
17 Q. Can you explain what you mean by that.
18 **THE WITNESS:** Can you repeat his original
19 question. I'm sorry.
20 (* Question read)
21 **MR. MEYER:** I don't understand the
22 question.
23 **PRESIDING OFFICER FARRINGTON:** Let's let
24 the witness respond.

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1 **A. The MPIUA could choose to purchase 100**
2 **percent quota share for its entire book of business.**
3 **That's been done before.**
4 Q. And would that be reasonable, in your
5 opinion?
6 **A. Based upon -- again, based upon the**
7 **objectives that the MPIUA has set out for it, it**
8 **would not. But it's certainly possible.**
9 Q. Well, I'm asking assuming that the
10 objectives are different. Assume the objective is
11 not to -- is to transfer -- excuse me. I'll start
12 again.
13 If we assume that the objective of the
14 MPIUA is to transfer all its risk to reinsurers,
15 would it be reasonable for the MPIUA, then, to
16 purchase enough reinsurance to transfer all its risk
17 to reinsurers?
18 **A. If that's what the objectives are, it could**
19 **certainly -- there could be reasons to do that, yes.**
20 Q. And so would it be reasonable for the MPIUA
21 to do that?
22 **A. It could be reasonable. I'm not saying I**
23 **would recommend it. I'm saying it could be**
24 **reasonable, based upon certain circumstances.**

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1 Q. What are those circumstances?
2 **A. It could be set out as the objective. It**
3 **could be set up so that certain member companies**
4 **decide they want to take no risk. They could elect**
5 **to set up a scenario where all of the risk is -- all**
6 **of the risk for a hurricane is borne by reinsurers**
7 **and the appropriate price is charged for it. They**
8 **could decide that that's reasonable. It's not**
9 **something that I would necessarily recommend, but it**
10 **could certainly be decided to be reasonable.**
11 **MR. KLIBANER:** It's around noon, so I would
12 offer to take a break, if the Hearing Officers and
13 the other parties would wish to do so.
14 **PRESIDING OFFICER FARRINGTON:** How much
15 longer did you anticipate your set of questions
16 going? Quite a while?
17 **MR. KLIBANER:** I would estimate roughly 15
18 minutes to a half hour, but then I know there would
19 be more questions afterwards from Mr. Leight --
20 **PRESIDING OFFICER FARRINGTON:** No, no, I
21 understand. What I'm trying to see is if it makes
22 more sense to let you finish your block, and then
23 take a lunch break, and then we'll come back for Mr.
24 Leight.

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1 **MR. KLIBANER:** That's fine. I'm just
2 estimating 15 minutes to a half hour.
3 **PRESIDING OFFICER FARRINGTON:** Is that
4 acceptable?
5 **THE WITNESS:** That's acceptable. Can I
6 just ask for a refill on this water?
7 **PRESIDING OFFICER FARRINGTON:** Sure.
8 **BY MR. KLIBANER:**
9 Q. Besides Guy Carpenter's commission, are
10 there any other transaction costs to the MPIUA
11 purchasing reinsurance?
12 **A. There is associated with the cat bond, yes.**
13 **And those are outlined in one of the exhibits**
14 **that -- I wouldn't be able to speak offhand about**
15 **them, but they're outlined somewhere in here, I**
16 **don't remember exactly where. Other than that, no,**
17 **not for traditional fees.**
18 Q. Is it reasonable, in your opinion, for
19 MPIUA policyholders to pay for the transaction costs
20 of the MPIUA's risk transfer to reinsurers?
21 **A. It's a cost of doing business for the**
22 **MPIUA. So I would argue it would be reasonable,**
23 **yes.**
24 Q. And, in your opinion, is it reasonable

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1 regardless of the amount of reinsurance that the
2 MPIUA purchases?
3 **A. I apologize for the answer, but as long as**
4 **the costs are reasonable, then it would be**
5 **reasonable to pass those costs on to the**
6 **policyholder.**
7 Q. Is that 10 percent -- I'm sorry. Strike
8 that.
9 Is the brokerage commission, including the
10 reimbursement, is the brokerage commission a
11 reasonable expense for MPIUA policyholders to pay
12 for the transfer of risk from the MPIUA to
13 reinsurers, regardless of the amount of the actual
14 reinsurance that's purchased?
15 **A. Yes.**
16 Q. And am I correct to understand that it's
17 your testimony that the transaction costs are
18 reasonable because they are an expense of doing
19 business?
20 **A. And they're reasonable.**
21 Q. Well, what do you mean by "reasonable"?
22 Are you referring to the amount of the transaction
23 costs?
24 **A. They're not unreasonable; let's put it that**

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1 **way. So if it's not unreasonable, I would argue**
2 **it's reasonable to transfer those costs, as a cost**
3 **of doing business, to the policyholders.**
4 Q. So --
5 **A. That would be -- that's my answer. That's**
6 **my testimony.**
7 Q. When you say "not unreasonable," what do
8 you mean by that?
9 **A. They're reasonable.**
10 Q. So am I correct to understand, then, if the
11 MPIUA decided to buy a lot of reinsurance, then
12 paying the brokerage commission on that reinsurance
13 purchase would be reasonable for the policyholders
14 to do, and if the MPIUA decided to buy less
15 reinsurance, then paying the brokerage commission on
16 that smaller purchase is also reasonable for the
17 policyholders to do?
18 **A. I would argue that that's reasonable, yes.**
19 Q. And is the transfer of risk from the MPIUA
20 members to the international reinsurance market a
21 benefit to MPIUA's policyholders?
22 **A. The transfer of risk in and of itself is**
23 **the benefit. As long as it gets transferred to an**
24 **entity that people feel is creditworthy, the**

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1 **transfer of risk is a benefit.**
2 Q. How is the transfer of risk from one set of
3 insurance companies, the MPIUA members, to another
4 set of insurance companies, the reinsurers, a
5 benefit to the MPIUA policyholders?
6 **A. The same manner -- it's a benefit in the**
7 **same manner that it's a benefit to the policyholder**
8 **to transfer the risk to the MPIUA in the first**
9 **place. They've decided they don't want to take that**
10 **risk themselves; somebody else should take it in**
11 **exchange for a premium. So that -- it's presumably**
12 **the reason for the original policyholder purchasing**
13 **the policy to begin with, to transfer the risk.**
14 Q. But isn't there a cost to each transfer of
15 risk?
16 **A. Sure.**
17 Q. And the cost includes transaction costs,
18 right?
19 **A. Sure.**
20 Q. And each insurance company that agrees to
21 accept a transfer of risk loads into the premium
22 that it requests some profit provision, correct?
23 **A. Why wouldn't they?**
24 Q. Well, they do, right?

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1 **A. Yes. Sorry, I apologize. You're not**
2 **supposed to answer a question with a question.**
3 Q. So if we take this to its logical
4 extension, right, if each entity that accepted risk
5 transferred the risk, it would just add to the total
6 cost, would it not?
7 **A. Not necessarily.**
8 Q. What do you mean by that?
9 **A. It depends on the math behind it. I**
10 **mean -- so, in other words, you could certainly have**
11 **a scenario where premiums were transferred to the**
12 **MPIUA, and then a similar amount -- then for a**
13 **portion of that risk, premiums were transferred to**
14 **another entity, and the sum total of that premium**
15 **would be less than the amount of premium that the**
16 **MPIUA generates in the first place. So that could**
17 **certainly be a scenario where it's not additive.**
18 Q. And do you know whether that scenario is
19 reflected in the MPIUA's filing?
20 **A. I don't specifically know the details of**
21 **the rate filing to that degree.**
22 Q. And do you know what effect the MPIUA's
23 reinsurance program has on the MPIUA's profit
24 provision that's in its filing?

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1 **A. I don't.**
2 Q. Do you know whether the fact that the MPIUA
3 has a reinsurance program means that the MPIUA
4 policyholders are being asked to pay more than
5 merely the additional reinsurance premium?
6 **A. I do not know the details to that degree.**
7 Q. In opining that the amount of reinsurance
8 that the MPIUA purchases is reasonable, did you take
9 into account the effect that reinsurance program has
10 on the premiums that MPIUA policyholders pay?
11 **A. No.**
12 Q. Is it correct that in the long term, the
13 cost of reinsurance is greater than the expected
14 recovery from reinsurance?
15 **A. Yes.**
16 Q. Let me draw your attention to Page 1112R in
17 the filing.
18 **A. I'm sorry, what page?**
19 Q. 1112R, R only because it was replaced.
20 **A. I don't have that page, I believe. 1112?**
21 **MR. MEYER:** That's part of the profit
22 filing that Mr. Wackerman is not responsible for.
23 Q. Mr. Wackerman, I'm handing you what was
24 marked as Exhibit 4 this morning, and it includes

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1 Page 1112R from the filing. Have you seen this page
2 before today?
3 **A. No.**
4 Q. So independently of this page, do you have
5 any understanding of the magnitude by which the
6 long-term cost of reinsurance exceeds the long-term
7 expected recovery from reinsurance?
8 **A. No. I don't have any perspective on this**
9 **exhibit.**
10 Q. Independently of this exhibit, do you have
11 an understanding of the magnitude of the difference
12 between the long-term expected cost of reinsurance
13 and the long-term expected recovery from
14 reinsurance?
15 **A. No.**
16 **MR. KLIBANER:** I have no further questions
17 at this time. Thank you, Mr. Wackerman.
18 **PRESIDING OFFICER FARRINGTON:** Thank you.
19 All right. It's about a quarter past
20 twelve. Shall we take an hour's lunch break? I
21 think everybody knows there's a cafeteria on the
22 11th floor of this building.
23 **MR. MEYER:** Can we have how much Mr. Leight
24 has roughly, so we can plan.

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1 **MR. LEIGHT:** Not a huge amount. Maybe an
2 hour.
3 **MR. MEYER:** Thank you.
4 (Luncheon recess)
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1 AFTERNOON SESSION
2 **PRESIDING OFFICER FARRINGTON:** Back on the
3 record.
4 **CROSS EXAMINATION**
5 **BY MR. LEIGHT:**
6 Q. Mr. Wackerman, the testimony that's in
7 Exhibit 2 and the various exhibits and attachments
8 that relate to the reinsurance and the swap
9 transaction were for a purchase that began on July
10 1, 2011, and ended June 30, 2012; is that correct?
11 **A. Yes.**
12 Q. Is there any material in your testimony
13 that relates to reinsurance or to the swap layer to
14 be purchased for any time period after June 30th,
15 2012?
16 **A. No.**
17 Q. Now, MPIUA also purchased a catastrophe
18 bond in 2010 initially, correct?
19 **A. Correct.**
20 Q. Now, during what time period does that bond
21 remain in effect?
22 **A. It's a three-year incepting in 7/1/2010, so**
23 **it will expire 7/1/13.**
24 Q. And what is the annual premium for the

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1 bond?
2 **A. I don't recall specifically, but it's in my**
3 **testimony.**
4 Q. Is it paid on an annual basis?
5 **A. It's paid -- we looked at it annually. I**
6 **believe it's paid -- there's multiple installments**
7 **associated with it, I believe. I don't recall**
8 **specifically the installment plan associated with**
9 **it.**
10 Q. Would you look at Page 274, the single
11 sheet that's on the table right in front of you.
12 There is a line on that -- do you see Line 3,
13 "Reinsurance premium: CAT Bond"?
14 **A. Yes.**
15 Q. Is that number the accurate annual premium
16 for the cat bond?
17 **A. I believe it is, yes.**
18 Q. So that's about \$7.6 million, correct?
19 **A. Correct.**
20 Q. You mentioned earlier in your testimony
21 that the cat bond was set up by a special-purpose
22 vehicle, and I think you said that you were not
23 actually involved in that transaction; is that
24 right?

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1 **A. Correct.**
2 Q. Do you know anything about the special-
3 purpose vehicle?
4 **A. I have very limited knowledge, other than**
5 **that it was just generally set up in the customary**
6 **fashion that a catastrophe bond would be set up in,**
7 **based upon my knowledge.**
8 Q. Who set that up? Was that something that
9 Guy Carpenter set up?
10 **A. Correct. We have a team of people in Guy**
11 **Carpenter Securities that would be responsible --**
12 **that are responsible for that transaction.**
13 Q. And can you go through -- do you know how
14 the transaction was structured?
15 **A. I know how it was structured in relation to**
16 **where it fits in with the MPIUA's cat reinsurance**
17 **program, but I don't know how the deal was actually**
18 **structured, i.e., set up as far as the special-**
19 **purpose vehicle in that. The nuances of setting up**
20 **the special-purpose vehicle I'm not familiar with.**
21 Q. The special-purpose vehicle was set up in
22 the Cayman Islands; is that right?
23 **A. I believe that's correct.**
24 Q. And who were the investors in the special-

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1 purpose vehicle?
2 **A. I don't recall.**
3 Q. Did you at any time know who they were?
4 **A. I've seen a list.**
5 Q. Are any insurance companies investors, or
6 reinsurers?
7 **A. I don't recall.**
8 Q. Are these investors people that work with
9 or are clients of your firm?
10 **A. Not to my knowledge, but it's possible they**
11 **could be.**
12 Q. And is there any rating or any kind of
13 analysis of the special-purpose vehicle done to
14 determine how safe the investment is, to your
15 knowledge?
16 **A. I believe there is, but I'm not familiar**
17 **with the circumstances under which they would be**
18 **done.**
19 Q. In terms of the actual payment of premium,
20 do you know how that works? Presumably the MPIUA
21 pays the premium to -- does it go through your firm
22 to the special-purpose vehicle, or how does that
23 work?
24 **A. I don't recall specifically how that**

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1 **portion of it works, whether it goes through Guy**
2 **Carpenter or whether it's a direct payment to the**
3 **special-purpose vehicle.**
4 Q. The bond had some form of a start-up cost
5 initially, did it not?
6 **A. Yes.**
7 Q. And do you know how much that was?
8 **A. I don't recall specifically.**
9 Q. Is that amortized over the three-year
10 period as part of the premium?
11 **A. It was amortized over a three-year period**
12 **to do cost comparisons to traditional reinsurance.**
13 Q. Well, in terms of the amount we were
14 looking at before, the \$7.6 million, does that
15 include some prorated portion of the start-up?
16 **A. I believe it does.**
17 Q. And in terms of -- when I asked you about,
18 you know, the proration and whatnot, is it your
19 understanding that the amount was actually paid up
20 front, even though, for accounting purposes or
21 rating purposes or whatever, it's considered over
22 the three-year period?
23 **A. Certain components would have been paid up**
24 **front, yes.**

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1 Q. Do you know what the start-up payment is
2 paid for, what the purpose of that is?
3 **A. There's a number of start-up costs that are**
4 **associated with the cat bond. But, again, the**
5 **specific details behind that is not something I'm an**
6 **expert in.**
7 Q. Is one of the up-front costs a payment to
8 Guy Carpenter?
9 **A. I believe one of the up-front costs is an**
10 **annual cost to Guy Carpenter. So it would have been**
11 **part of the up-front cost, but it would have been --**
12 **I don't believe the entire fee was paid up front.**
13 Q. So if we're talking about the fee to Guy
14 Carpenter, that would have been paid on an annual
15 basis?
16 **A. Correct.**
17 Q. Before, when we were talking about the
18 amount of the commission, you mentioned 10 percent.
19 Is that applicable to all of these different forms
20 of reinsurance?
21 **A. No, that was just as it relates to**
22 **traditional reinsurance.**
23 Q. And how did the fee work for the cat bond?
24 **A. I believe it was based upon a percentage of**

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1 **the amount of reinsurance purchased by the bond, is**
2 **my recollection. So, in other words, it would be a**
3 **percentage of the \$94 million.**
4 Q. Do you know what percent that was?
5 **A. I don't recall specifically, but I believe**
6 **it's outlined as part of the cat bond testimony.**
7 Q. Do you want to point to that for us so we
8 can take a look at that?
9 **MR. MEYER:** If I may help Mr. Leight, it's
10 Page 1370.
11 **MR. LEIGHT:** You always help, Mike.
12 **MR. MEYER:** And that's one of the ones that
13 got amended because it was Xeroxed wrong.
14 Q. So we're looking at 1370R. Now, is it
15 correct that this is a page that refers to the cost
16 calculation for the cat bond?
17 **A. That's correct.**
18 Q. And the values at closing in the column
19 that's entitled "At Closing" were the up-front
20 costs; is that right?
21 **A. That's correct. And, again, I just want to**
22 **emphasize, I don't recall whether this is -- if this**
23 **was the actual cost at closing or the estimated cost**
24 **at closing. I know at the time this was provided, I**

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1 believe that they were -- some of the prices
2 associated with these were still being negotiated.
3 So I believe that this was an original estimate of
4 what those prices were to be.
5 Q. Well, let me just ask you if you know what
6 the amount of the commission on the cat bond was.
7 A. I don't recall specifically what it was.
8 Q. Do you recall what the -- if we're looking
9 at the value on Page 274, which was the single page
10 to your right there, what the total amount of the
11 commission included in the \$79,252,883 value on Line
12 9 is?
13 A. I don't know specifically what goes into
14 the calculation of the subelements, 6, 7 and 8, but
15 I'm assuming that that math just carries through to
16 result in the expected cost of reinsurance purchased
17 of \$79 million, roughly.
18 Q. So let me back up for a second. Is it your
19 understanding that, during this period, July 2011
20 through the end of June 2012, the FAIR Plan spent
21 \$79.25 million on reinsurance?
22 A. I believe that the amount spent was \$82.9
23 million. I believe that was the amount actually
24 spent, less the commission reimbursement. So it

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1 would have been roughly \$75 million -- excuse me,
2 \$77 million, roughly.
3 Q. So you think this number, 79.25, is
4 inaccurate, is not accurate?
5 A. I think it's accurate for -- I don't know
6 whether it's accurate relative to what's on this
7 page.
8 Q. Well, it refers -- it is referred to here
9 as "Expected total cost of reinsurance purchased."
10 Is it your understanding that that amount, \$79.25
11 million, was the expected total cost of reinsurance
12 purchased during the period July 2011 through June
13 2012?
14 A. Again, I don't know how you calculate the
15 expected average annual reinstatement premium at the
16 bottom there.
17 Q. Forget about that for a second. Just
18 answer my question. Do you know whether the value
19 \$79.25 million is the expected total cost of
20 reinsurance purchased for that period?
21 A. Again, I don't know if that's the case,
22 because I don't know how these three pieces are
23 calculated. So I would assume that that's the case,
24 based upon looking at this exhibit, yes.

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1 Q. But you don't know?
2 A. I don't know for certain.
3 Q. And in terms of the reimbursement, the
4 commission reimbursement, is that -- are those
5 dollars that are actually paid from Guy Carpenter to
6 the FAIR Plan?
7 A. I believe that they are, yes. I don't know
8 whether it comes by way of an actual payment from us
9 to the MPIUA or a reduction of the amount that the
10 MPIUA pays the reinsurers in its reinsurance
11 deposit; in other words, whether it's offset or not.
12 That's what I'm saying.
13 Q. Right. But either way it is a transaction
14 in which dollars flow from Guy Carpenter back to the
15 MPIUA?
16 A. Yes.
17 Q. And that means, roughly speaking, that the
18 commission is reduced from somewhere in the \$8
19 million range to somewhere in the \$3 million range;
20 is that approximately right?
21 A. Approximately, yes.
22 Q. Is the reinsurance reimbursement -- would
23 you consider that a rebate?
24 A. I would consider it a reinsurance

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1 commission reimbursement or a broker services
2 agreement. That's the definition that we typically
3 have for it.
4 Q. And is there an agreement -- is that part
5 of the reinsurance agreement?
6 A. Meaning the contract between reinsurers and
7 the MPIUA?
8 Q. Yes.
9 A. No.
10 Q. Is there a separate agreement between the
11 MPIUA and Guy Carpenter that deals with this return
12 of commission funds?
13 A. Yes.
14 Q. And is that in the filing?
15 A. I'm not certain if it's in the filing.
16 Q. Well, is it in your portion of the filing?
17 A. No, not that I recall.
18 Q. And what exactly -- have you seen that
19 document?
20 A. I have. I can't recall whether it's an
21 official document or just an agreement. But I
22 believe -- yes, I have seen it at some point, yes.
23 Q. It is a written document, though?
24 A. Correct.

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1 Q. So I guess when you said "official" --
2 **A. Well, I mean, again, it's not part of**
3 **this --**
4 Q. It's not part of the reinsurance --
5 **A. And it wasn't something that was created**
6 **this year.**
7 Q. When was it created?
8 **A. I believe in -- somewhere around 2006, or**
9 **2008, I apologize, somewhere around there.**
10 Q. But it is an agreement that covered the
11 purchase of the reinsurance during the policy year
12 July 2011 through 2012?
13 **A. Yes.**
14 Q. Do you recall what the agreement said?
15 **A. It basically outlined the amount of, for**
16 **lack of a better expression, sharing that would take**
17 **place between Guy Carpenter and the MPIUA as it**
18 **relates to the brokerage we would earn on a**
19 **particular contract.**
20 Q. Did it do so in terms of a percentage of
21 the commission that would be refunded to the MPIUA?
22 **A. Yes.**
23 Q. And do you recall what that percentage was?
24 **A. I believe it's a 75/25 percent split for**

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1 **amounts in excess of I believe it's a million, but I**
2 **don't recall specifically. But I believe that's**
3 **what it is.**
4 Q. Now, you don't have this in front of you.
5 I'll just show you my copy. This is the filing
6 that's been marked as Exhibit 2. If you just look
7 at Page 275, on this page it shows that the
8 reinsurance premium for the owners forms represents
9 29.4 percent of the total premium at year-end 2010
10 adjusted to current rates. Do you see that?
11 **A. I'm sorry. Where am I supposed to be**
12 **looking at.**
13 Q. Page 275.
14 **A. Okay. Sorry.**
15 Q. And for owners forms, the reinsurance
16 premium as a percent of direct premium, do you see
17 that, in Column 6 --
18 **A. Yes.**
19 Q. -- represents 29.4 percent of the premium?
20 **A. Uh-huh.**
21 Q. And for all forms, 28.2 percent of the
22 premium? Do you see that?
23 **A. Yes.**
24 Q. Were you aware of those numbers before you

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1 just looked at that page?
2 **A. No.**
3 Q. If you were to be advising an entity about
4 how much money the entity were to pay for
5 reinsurance, is one of the things you would consider
6 the percent of premium that was represented by the
7 reinsurance purchase?
8 **A. It certainly could be.**
9 Q. But you weren't aware of that when you were
10 advising the MPIUA?
11 **A. Not specifically in this manner, no.**
12 Q. Did you or anyone else at your firm perform
13 any kind of market analysis that shows the premium
14 used to purchase reinsurance for other companies in
15 the Massachusetts homeowners market?
16 **A. Not necessarily specific to the amount of**
17 **premium, but that information could certainly be**
18 **available.**
19 Q. Well, I'm not asking whether it could be
20 but whether you did perform an analysis that
21 essentially looked at other companies in the
22 Massachusetts market and determined what percentage
23 of their premium was used to purchase reinsurance.
24 **A. We did not do that in this circumstance.**

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1 Q. When you placed the FAIR Plan's
2 reinsurance, did you have direct contact with any
3 employees of reinsurers?
4 **A. Yes.**
5 Q. So you actually have interaction with
6 reinsurance people?
7 **A. Yes. Of reinsurers that are on the MPIUA's**
8 **program?**
9 Q. Yes.
10 **A. Yes.**
11 Q. And are those underwriters or account
12 executive?
13 **A. Underwriters typically.**
14 Q. And would you have interaction with
15 underwriters for each of the companies on the FAIR
16 Plan's program, or would there be kind of a lead one
17 that you would talk to mostly?
18 **A. Typically speaking, you would have --**
19 **whoever the underwriter is that is assigned to the**
20 **MPIUA account is the person that we would typically**
21 **discuss this account with, or their team of people,**
22 **if they had more than one person. And we would be**
23 **certainly speaking to those people on a fairly**
24 **regular basis.**

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1 Q. And would that be for numerous companies
2 or --
3 A. Yes.
4 Q. In the course of your contacts with these
5 individuals, did they show you the calculations they
6 used to price the premium for MPIUA's reinsurance?
7 A. No.
8 Q. Did you ask for those calculations?
9 A. Yes.
10 Q. And they refused to give them to you?
11 A. **They do not typically disclose all of the**
12 **calculations behind their rating.**
13 Q. When you asked for them, did they say, "No,
14 we're not going to share them with you"?
15 A. Yes.
16 Q. Isn't it the case that the primary purchase
17 of reinsurance -- and when I use that term, I'm
18 referring to all the various kinds, the swap layer,
19 the catastrophe bond -- is to provide coverage for
20 expected ceded losses?
21 A. **That would be one objective, yes.**
22 Q. Is there another?
23 A. **Well, the way you just defined that I**
24 **thought would be sort of from an actuarial**

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1 **perspective. But generally from an underwriting**
2 **perspective, it would be to cover the MPIUA for**
3 **hurricane losses, losses that might arise out of a**
4 **hurricane.**
5 Q. Right, so ceded hurricane losses?
6 A. Yes.
7 Q. As part of the process of purchasing the
8 reinsurance, did you or anyone at Guy Carpenter
9 perform a calculation of the amount of expected
10 hurricane losses that were to be ceded to the
11 reinsurers?
12 A. **Yes. We would have looked at expected**
13 **losses -- we would have looked at what the expected**
14 **loss to each layer would have been, as calculated by**
15 **the various models.**
16 Q. And that was something that -- would you
17 have done that, or was that something another
18 function within Guy Carpenter would have done?
19 A. **It would typically have been calculated as**
20 **part of another function of Guy Carpenter.**
21 Q. Were those numbers shared with you?
22 A. Yes.
23 Q. Are they in the filing?
24 A. **I don't believe so, because the MPIUA did**

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1 **its own calculation of those figures directly with**
2 **AIR and RMS.**
3 Q. Did you share the numbers that you
4 calculated with the MPIUA?
5 A. **Not -- we might have shared -- I don't**
6 **recall specifically if we shared the expected loss**
7 **to the layer with the MPIUA. I believe we did, but**
8 **I don't recall specifically.**
9 Q. Do you recall comparing the calculation you
10 did with the calculations that the MPIUA did?
11 A. **I recall looking at the -- not the expected**
12 **loss to the layer, but the distribution of losses;**
13 **in other words, the 1-in-100-year PMLs that were**
14 **produced by AIR directly and the calculations that**
15 **we utilized.**
16 Q. But you did not look at the total expected
17 losses?
18 A. **I did look at the expected losses that I**
19 **calculated, but I didn't compare those specific**
20 **losses to the MPIUA. But I did that in another way**
21 **by comparing the PMLs, so the 1 in 100, for example.**
22 Q. And what about the reinsurers'
23 calculations; did you look at those?
24 A. **We asked for those calculations as best we**

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1 **can, and, again, based upon my earlier testimony,**
2 **the reinsurers utilize different methods to**
3 **establish what the price is going to be, and not all**
4 **of them use each of the vendor models, or not all of**
5 **them use the vendor models in the same manner.**
6 Q. I was asking a simpler question.
7 A. **Sorry.**
8 Q. Did you look at the reinsurers'
9 calculations of expected losses?
10 A. **If they shared them with me, yes.**
11 Q. Well, did they share them with you?
12 A. **In some circumstances, yes.**
13 Q. And did you compare those to the
14 calculations that you had performed?
15 A. **Yes.**
16 Q. And were they the same numbers?
17 A. **In some cases yes, in some cases no.**
18 **Sometimes they were higher, and sometimes they were**
19 **lower.**
20 Q. And are those numbers anywhere in the
21 filing?
22 A. **No, I don't believe so.**
23 Q. What about at the MPIUA Board meetings that
24 you attended? The amount of expected ceded losses,

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1 was that a subject that was discussed with the
2 Board?
3 **A. Not that I recall.**
4 Q. Do you know whether the Board, to your
5 knowledge, whether the Board or the members of the
6 Board had knowledge of the expected ceded losses?
7 **A. I'm not sure.**
8 Q. You don't know?
9 **A. I don't know.**
10 Q. Let me just show you an exhibit. You may
11 not have seen this before. This was produced to us
12 by the MPIUA.
13 **MR. LEIGHT:** Can we mark this for
14 identification Exhibit 5.
15 **PRESIDING OFFICER FARRINGTON:** Any
16 objection?
17 **MR. MEYER:** No objection. Could you just
18 tell me on what question this was a response to,
19 what discovery response this is? You can do it off
20 the record.
21 **MR. LEIGHT:** We'll look it up.
22 (Document marked as Exhibit 5
23 for identification)
24 Q. Mr. Wackerman, have you had an opportunity

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1 to look over Exhibit 5?
2 **A. Briefly, yes.**
3 Q. Let me ask you first whether this or
4 something like this is something that you have seen
5 before.
6 **A. I've seen exhibits similar to this, but not**
7 **exactly like this.**
8 Q. Okay. This exhibit shows, in the column on
9 the right, the ceded hurricane loss and LAE. Do you
10 see that?
11 **A. Yes.**
12 Q. And if you add up all the forms there,
13 roughly, the amount of ceded losses will add up to
14 about \$18 million. Do you see that?
15 **A. Yes.**
16 Q. Is it your understanding that that \$18
17 million is a accurate representation of the ceded
18 hurricane losses under the MPIUA's reinsurance
19 program?
20 **A. I don't recall -- I don't know the ceded**
21 **loss number calculated by the models specific to**
22 **this rate filing. So I would hesitate to confirm**
23 **that.**
24 Q. Okay. Well, do you have a recollection, as

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1 you sit here today, of approximately what the ceded
2 hurricane losses were as you understood them at the
3 time the reinsurance was placed?
4 **A. This looks roughly in line with my**
5 **recollection of that.**
6 Q. Now, when you had discussions with the
7 reinsurers, did you ever discuss with them whether,
8 in their view, this was an accurate representation
9 of the losses that they were expecting to cover
10 under the reinsurance program?
11 **A. The discussion with reinsurers is typically**
12 **focused on understanding the --**
13 Q. I don't want to cut you off, but this is
14 basically a yes or no question.
15 **MR. MEYER:** May the witness be allowed to
16 answer the question, and we'll find out what the
17 answer is.
18 Q. Go ahead.
19 **A. The ultimate answer to the question is yes.**
20 **I'll just leave it at that for now.**
21 Q. And do you recall whether, in your
22 discussions concerning the ceded losses, the \$18
23 million number or something around that was also the
24 number that the reinsurers believed that they were

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1 covering under the reinsurance program?
2 **A. Therein lies the answer to my question I**
3 **was getting to. Not each reinsurer will utilize the**
4 **modeled output precisely from the vendors. They may**
5 **believe that it's too high or too low. There may be**
6 **other elements that they feel are not included in**
7 **the actual modeling result. So, as an example, some**
8 **reinsurers may say, "Well, the model doesn't include**
9 **tree damage, estimates associated with tree damage.**
10 **So we're going to factor that in," because it's**
11 **not -- the model will say it's not included.**
12 **So those are the types of discussions that**
13 **we seek to understand from the reinsurers to try and**
14 **understand whether they're pricing the business**
15 **appropriately and whether the numbers that they're**
16 **utilizing are something that makes sense to us in**
17 **relation to the number that we might have based upon**
18 **our calculation.**
19 Q. And is it also true that some of the
20 reinsurers use the so-called near-term models that
21 produce higher expected results?
22 **A. That is true, yes.**
23 Q. And would it be fair to say, as a general
24 matter, that, based on your discussions with the

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1 reinsurers, it appears that some or all of the
2 reinsurers would have come up with different
3 expected losses from the ones that you or the MPIUA
4 came up with?
5 **A. Yes.**
6 Q. Now, when you -- I take it you're not an
7 expert on the models yourself, right?
8 **A. Correct.**
9 Q. Or an expert on climatology or any of the
10 vulnerability functions and so forth that are part
11 of the model. You're not an expert on any of those?
12 **A. Correct.**
13 Q. Did you review -- in the process of placing
14 the reinsurance for the MPIUA, did you review the
15 frequencies of the hurricanes in the models?
16 **A. I did not, no.**
17 Q. And did you review any of the historical
18 data on Massachusetts or New England hurricanes in
19 that context?
20 **A. I have looked at the historical data for**
21 **Massachusetts.**
22 Q. And is one of the -- in the context of the
23 MPIUA purchase of reinsurance, did you compare the
24 historical data on Massachusetts and New England

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1 hurricanes with the model frequencies to determine
2 whether they were consistent?
3 **A. No, I did not do that specifically.**
4 Q. Did you examine the vulnerability functions
5 in the model to determine whether they were specific
6 to Massachusetts?
7 **A. No.**
8 Q. Did you review the models to determine
9 whether they reflect only hurricanes that made
10 landfall in Massachusetts or passed by so closely
11 that hurricane winds damaged property in
12 Massachusetts?
13 **A. No, I did not.**
14 Q. In determining the MPIUA reinsurance
15 premium, do you know whether the reinsurers charged
16 the MPIUA an extra amount of premium because the
17 MPIUA is a residual market as opposed to a voluntary
18 company?
19 **A. No, I do not.**
20 Q. Is that something you would have discussed
21 with the reinsurers or they would just not tell you?
22 **A. We attempt to spend a significant amount of**
23 **time highlighting all the reasons why the MPIUA is**
24 **like a member company to avoid any ability on their**

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1 **part or willingness on their part to price it as if**
2 **it were not.**
3 **So we are trying to highlight as many times**
4 **as we can the benefits of the MPIUA and the manner**
5 **in which it's structured and the manner in which**
6 **it's organized and the things that it does just like**
7 **member companies do, to attempt to negotiate the**
8 **best price for the MPIUA.**
9 Q. Let me ask you this: In your view, should
10 the MPIUA be charged more premium than a voluntary
11 market company in the same position?
12 **A. No, absolutely not.**
13 Q. But you don't know whether the reinsurers
14 share that view; is that fair?
15 **A. That's fair, although I believe that most**
16 **of them, because of their understanding of the MPIUA**
17 **now, do not price it significantly different than**
18 **the member companies.**
19 Q. And the same thing with respect to expected
20 ceded losses. Is it your view that the MPIUA --
21 assuming that we have an \$18 million expected ceded
22 loss here, that the MPIUA should be charged the same
23 premium for reinsuring that expected ceded loss as a
24 voluntary market company with the same expected

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1 ceded loss?
2 **A. Yes.**
3 Q. Are you familiar with the term "net cost of
4 reinsurance"?
5 **A. Very generally.**
6 Q. Well, are you generally familiar with the
7 fact that a reinsurance premium includes, in
8 addition to the expected cost of the ceded losses,
9 an additional amount that covers either expenses for
10 reinsurers or reinsurers' profit over and above the
11 amount of losses?
12 **A. Yes.**
13 Q. Now, the amount -- the total amount of the
14 premium we were looking at before that was on Page
15 274 was about \$79.25 million. Do you recall that?
16 **A. Yes.**
17 Q. And assuming once again, and I know that
18 this is not your number, but that the numbers on
19 Exhibit 5 accurately reflect the expected ceded
20 hurricane losses of roughly \$18 million, that would
21 represent between 22 and 23 percent of the
22 reinsurance premium? You're welcome to do that
23 calculation for yourself.
24 **A. It looks reasonable.**

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1 Q. And was that generally your knowledge of
2 the percentage that the ceded losses bore to the
3 total reinsurance premium at the time you purchased
4 the reinsurance?
5 **A. Again, I wasn't thinking of it in that**
6 **manner at that point in time. But, yes, it sounds**
7 **reasonable.**
8 Q. But that's roughly in line with --
9 **A. It's in line, yes.**
10 Q. Now, you had previously testified a couple
11 of years ago that you weren't sure exactly what the
12 reinsurers' expenses were, but you thought they were
13 somewhere between 8 and 15 percent of premium. Do
14 you recall that?
15 **A. I don't recall that.**
16 Q. Well, let me just ask you now. Do you have
17 any knowledge of what portion of the reinsurance
18 premium has to do with the reinsurers' expenses?
19 **A. It would be between those numbers, I would**
20 **agree.**
21 Q. And do you know what -- can you describe
22 generally what expenses those would cover, those
23 dollars?
24 **A. Certainly brokerage expense is paid by the**

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1 **reinsurer, so that's typically 10 percent. And then**
2 **they have other underwriting expenses that they**
3 **would attribute to any individual deal. That would**
4 **essentially make up the balance.**
5 Q. And how does the reimbursement, the
6 commission reimbursement, factor into that? Is it
7 the case -- let me --
8 **A. It doesn't.**
9 Q. So is this reimbursement arrangement an
10 unusual one, or is it the case that on most accounts
11 of any size, you would have some similar kind of
12 arrangement?
13 **A. It's my understanding that it would be**
14 **typical of large transactions of this nature, yes.**
15 Q. And that would tend to reduce, at least
16 from the client's standpoint, that would tend to
17 reduce the amount of the expenses in the rate?
18 **A. Correct.**
19 Q. What about the insurers' profit? Do you
20 know what portion of the premium is represented by
21 the insurers' profit?
22 **A. I do not.**
23 Q. To the extent that we're looking at, say,
24 22 percent ceded losses and roughly 10 percent of

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1 expenses, is the remainder of it profit?
2 **A. Sorry. Could you share those numbers**
3 **again.**
4 Q. Well, we looked at the expected losses,
5 which were about 22 percent of the reinsurance
6 premium?
7 **A. Uh-huh.**
8 Q. And you testified that the expenses
9 represented 8 to 15 percent, something in that
10 range. Is the remainder profit?
11 **A. It could be profit, or it could be, you**
12 **know, a risk charge.**
13 Q. But --
14 **A. Charge for taking -- I mean, again, the**
15 **exact component that each portion makes up for each**
16 **individual reinsurer may differ.**
17 **They may look at an expected loss -- even**
18 **though we've agreed on a common price, each**
19 **reinsurer has its own view of what the loss**
20 **potential is for the contract. They will have**
21 **obviously the expense portion, which is not the same**
22 **for every reinsurer, and they will have a risk**
23 **charge component that is not the same for every**
24 **insurer. And then they will also themselves have**

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1 **their own individual implied margins or yields that**
2 **they need to have, based upon the construct of their**
3 **own portfolio.**
4 Q. Let me ask you this --
5 **A. So my point is it's different for every**
6 **reinsurer. To suggest that every reinsurer does**
7 **this in the exact same manner is not the case. So**
8 **that's why, when I say to you I don't know exactly**
9 **what it is, that's what I mean. It's different for**
10 **every reinsurer.**
11 Q. Well, would you have the ability to
12 determine on average what the numbers are for all
13 the reinsurers?
14 **A. I don't know what the profit load is that**
15 **each individual reinsurer makes.**
16 Q. Do you know the profit load for any
17 individual reinsurer?
18 **A. I don't recall specifically.**
19 Q. Well, when you say you don't recall, would
20 that have been something that you would have
21 discussed with the reinsurers?
22 **A. It may have been something I tried to get**
23 **them to tell me specifically what it was. But,**
24 **again, it's because in each individual negotiation**

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1 **and each individual discussion, they would hesitate**
2 **to provide that information because it's not the**
3 **same to for every single entity, for the reasons**
4 **that I just described. They have different**
5 **concentrations and different appetites for different**
6 **risks. So it's all unique negotiation and**
7 **discussion.**
8 Q. And in terms of the placement of the
9 MPIUA's reinsurance, do you recall any of the
10 reinsurers telling you what the profit load in their
11 portion of the rate was?
12 **A. I don't recall specifically.**
13 Q. And the same question with respect to
14 expenses. Did you have that discussion with anyone?
15 **A. I don't recall specifically.**
16 Q. In your mind, is there a difference between
17 a risk load and a profit load?
18 **A. Well, the risk load would be the component**
19 **that the reinsurer is trying to charge for the**
20 **actual risk that they're taking.**
21 Q. Well, isn't that why -- I'm sorry.
22 **A. And then the profit component would be,**
23 **okay, I'm going to take this risk, so as part of**
24 **taking this risk, I should be paid some number to**

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1 **pay for a profit for actually taking that risk,**
2 **because there is risk associated with it.**
3 Q. But once you determine the expected ceded
4 losses, those losses are the risk that the reinsurer
5 is taking, are they not?
6 **A. Well, it's a representation of expected**
7 **risk. But the risk could be significantly higher.**
8 Q. Or lower, right?
9 **A. It could be lower or higher, yes, because**
10 **the expected is so much closer to the nominal --**
11 **it's closer to zero than it is to the limit of the**
12 **contract.**
13 Q. Well, that has to do with the probability
14 that there will be a loss. The probability that
15 there will be a loss is extremely low, right?
16 **A. There's a lot of volatility, yes.**
17 Q. And that's why, even for -- you could have
18 a \$1 trillion event with a probability of
19 1/1 trillion which is priced at \$1, right?
20 **A. In theory you could.**
21 Q. So I guess the question I was asking is, to
22 what extent -- isn't the profit that the reinsurer
23 is earning the correct payment for the risk?
24 **A. Is it the correct profit?**

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1 Q. Isn't the profit that's loaded into the
2 rate what the reinsurer expects to earn for taking
3 on the risk of the ceded losses?
4 **A. Well, I would argue that it's the risk**
5 **load -- I would argue that it's the risk load and**
6 **the profit margin combined would be the amount that**
7 **would be charged.**
8 Q. But you don't know what that number is for
9 any of the reinsurers?
10 **A. Not specifically, no.**
11 Q. And do you recall at any of the MPIUA Board
12 meetings whether any discussion of the reinsurers'
13 profit on the reinsurance transaction took place?
14 **A. Not specifically, no.**
15 Q. Did anyone on the Board of the MPIUA ask
16 you to obtain information about the portion of the
17 reinsurance premium that was represented by the
18 reinsurers' expenses or profit or risk load?
19 **A. No.**
20 Q. And as far as you are aware, when the Board
21 made the decision to purchase the reinsurance, it
22 didn't have this information, correct?
23 **A. I'm not sure whether it had the**
24 **information. I just know that it didn't ask -- that**

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1 **I wasn't involved in any discussions. I could not**
2 **assume whether they had that information or not.**
3 Q. You don't know whether they did or not?
4 **A. I don't.**
5 Q. But as far as your participation in the
6 Board meetings, you did not provide that information
7 and --
8 **A. Correct.**
9 Q. -- you did not hear any discussion of that
10 information?
11 **A. Correct.**
12 **MR. LEIGHT:** Thank you very much. That's
13 all I have.
14 **PRESIDING OFFICER FARRINGTON:** Did you want
15 to retain the ID note on Exhibit 5 or --
16 **MR. MEYER:** No, as long as they tell me off
17 the record where it came from, I have no problem
18 with it being an exhibit.
19 **MR. LEIGHT:** 24D.
20 **MR. MEYER:** Thank you.
21 (Document marked as Exhibit 5
22 received in evidence)
23 **PRESIDING OFFICER SUMNER:** I would like to
24 ask you a few questions about the reinstatement

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1 provision.

2 **EXAMINATION**

3 **BY PRESIDING OFFICER SUMNER:**

4 Q. You started discussing that on Page 1196 of

5 the filing, and you say the reinstatement premiums

6 are equal to the original premium paid by the MPIUA.

7 **A. Correct.**

8 Q. Is that the original amount reduced by the

9 reimbursements, or is that --

10 **A. How is it actually set, you mean? The way**

11 **the reinstatements work is once you set the up-front**

12 **premium for a contract, it essentially gives you the**

13 **option -- you're buying the second -- you have the**

14 **ability to buy the second limit at the same premium**

15 **that you've set for the original limit.**

16 **So that's just the way the reinstatements**

17 **work in general, and that's the way contracts are**

18 **typically structured, to include that reinstatement**

19 **provision, because if you didn't have the**

20 **reinstatement provision, then you wouldn't have that**

21 **second limit available, and you would essentially be**

22 **bare for the remainder of the year, and you might**

23 **not want to be.**

24 **But if you had to go out and negotiate**

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1 **another limit at that point in time, it would cost**

2 **you significantly more. So that's why people**

3 **typically have a reinstatement within the contract,**

4 **and it's simply just set at that point in time as**

5 **the equivalent price of the original.**

6 Q. Right, but the original premium includes

7 the commission to Guy Carpenter, does it not?

8 **A. Oh, yes.**

9 Q. So that's my question. You're giving back

10 some of that commission to the MPIUA.

11 **A. Correct.**

12 Q. For the original premium.

13 **A. Correct.**

14 Q. Will that also be true for the

15 reinstatement premium?

16 **A. Well, we wouldn't earn -- or for the**

17 **reinstatement provision, we would earn 5 percent**

18 **for -- so the answer is yes. Yes, it would. It**

19 **would operate in the same manner. It would just --**

20 **based upon the calculation that I advised before.**

21 **So yes, we would return revenue in the same manner.**

22 Q. One thing I'm not quite clear about is the

23 reinsurance attaches at \$200 million; is that

24 correct?

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1 **A. Yes.**

2 Q. So if there were a loss from one hurricane

3 of \$201 million, what would the reinstatement

4 premium be?

5 **A. It would be the percent -- whatever one**

6 **dollar part of the first layer, which is -- let me**

7 **make sure I get my numbers right. Hold on one**

8 **second. (Reviewing documents)**

9 Q. Would it just be the premium to

10 reinstate --

11 **A. It's just a percentage -- I'm just trying**

12 **to get the numbers correct, and I'm just forgetting**

13 **the exact number. What page was that on?**

14 **MR. TOMMASINO: 1405.**

15 **A. Okay, this makes it easier. The first**

16 **layer is a \$100 million stretch. I couldn't**

17 **remember the precise... So it would be one dollar**

18 **part of \$100 million, that ratio. That's the ratio**

19 **of the deposit premium that you would pay again.**

20 Q. I wasn't sure if that was clear from the

21 filing, but I just wanted to make sure that was

22 clear on the record.

23 **A. Okay.**

24 Q. Can you tell me, what's the philosophy of

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1 having 100 percent reinsurance at the higher level,

2 at the highest level layers of reinsurance?

3 **A. Well, it's an area that is typically fairly**

4 **remote, but it's also the area where the risk**

5 **transfer, if you will -- the economics of it are**

6 **most advantageous. It's the lowest rate on line**

7 **layer, so there's the most risk transfer, if you**

8 **will, there. So typically people place larger**

9 **amounts of the upper layers as a result of that,**

10 **again, with the objective still to be to protect to,**

11 **in this case, the 1-in-123-year event.**

12 Q. At Page 1195 of the filing, the answer to

13 the first question that's asked -- well, to the only

14 question that's asked on that page, you write, "The

15 MPIUA Executive Committee and Board evaluated severe

16 catastrophe loss potential by reviewing several

17 factors," and then you list some, saying this is

18 "including, but not limited to, MPIUA's unit count,

19 total insured value, geographical concentrations,

20 wind deductibles, and deterministic and

21 probabilistic catastrophe model outputs from AIR and

22 RMS."

23 Can you tell us what other factors were

24 considered?

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1 **A. I'm not aware of any other factors**
2 **specifically. It's just some of the other -- the**
3 **Executive Committee members could be using their own**
4 **judgment and experience based upon their views, and**
5 **I'm not aware of anything else specifically or I**
6 **can't think of anything else specifically off the**
7 **top of my head right now that was evaluated.**
8 **PRESIDING OFFICER FARRINGTON:** I have a few
9 **questions, Mr. Wackerman.**
10 **EXAMINATION**
11 **BY PRESIDING OFFICER FARRINGTON:**
12 **Q. Several times in the course of your**
13 **testimony, you referred to probabilistic and**
14 **deterministic modeling scenarios.**
15 **A. Right.**
16 **Q. What exactly do those two terms mean?**
17 **A. So the probabilistic loss scenario would be**
18 **what is the chance of a -- it would be the example**
19 **of a loss distribution, so at a 1-in-100 year**
20 **interval, you could estimate that the loss to the**
21 **layer would be this, and at a 1-in-50-year, it would**
22 **be that. So that would be a probabilistic loss**
23 **scenario over the course of a significant period of**
24 **time.**

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1 **A deterministic loss scenario would be**
2 **typically, okay, if I reevaluated the Hurricane of**
3 **1938, what kind of impact would that have on the**
4 **program. So it's looking at a specific storm and**
5 **asking the model to tell you what the estimate would**
6 **be based upon the storm characteristics of that**
7 **individual storm. So that would be deterministic.**
8 **Q. Do you know how the modelers reconcile**
9 **those two approaches to come up with the result?**
10 **A. Not necessarily reconcile. I'm not sure,**
11 **but they --**
12 **Q. Combine, whatever.**
13 **A. You typically would have -- I mean,**
14 **essentially those deterministic storms are included**
15 **within the storm set. So you will have a whole**
16 **bunch of storms of -- the actual storm that took**
17 **place will be part of the analysis that they have,**
18 **so historical storms that have specific known**
19 **characteristics. And then they're -- my**
20 **understanding is they're attempting to mimic those**
21 **types of storms and have different probabilities**
22 **associated with them. And they put all that**
23 **together, and that becomes what is the probabilistic**
24 **storm scenario.**

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1 **Q. You mention also in your paragraph on 1195**
2 **that "Supplemental underwriting information was**
3 **provided in April." I think that's of 2011. What**
4 **kind of supplemental information was that?**
5 **A. Can you just direct me where that is? Oh,**
6 **here it is. I got it.**
7 **Q. Around Line 4.**
8 **A. (Reviewing document) Okay. In this case**
9 **supplemental underwriting information was simply**
10 **meant to mean additional data from the MPIUA that we**
11 **used to compile the underwriting information that we**
12 **provided to reinsurers. So it would have been just**
13 **be a listing of the exposures by county, by ZIP**
14 **Code, what the final -- what the subject premium**
15 **was, what the estimated total insured value will be**
16 **prospectively, those types of things.**
17 **Q. I sense from your testimony, and whatever**
18 **history we have gathered over having these hearings,**
19 **that the MPIUA actually has never collected on a**
20 **reinsurance policy.**
21 **A. That is correct. The hurricane hasn't hit**
22 **yet, at least the big one.**
23 **Q. Does that sort of history -- how does that**
24 **affect the desirability of the risk?**

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1 **A. Well, we certainly make the argument that**
2 **it makes the risk more desirable from the**
3 **reinsurer's point of view. We tend to point out**
4 **pretty regularly that there haven't been that many**
5 **hurricanes hitting the Northeast.**
6 **Q. The other thing is, you talk about -- what**
7 **you refer to in your testimony is reinsurance to**
8 **cover catastrophic losses, but in terms of the**
9 **actual discussion that we're having, it seems to me**
10 **that we're considering those only as hurricane**
11 **losses; is that correct?**
12 **A. That seems to be the most likely severe**
13 **event that could take place. I mean, there could be**
14 **a riot that would be covered under the MPIUA's**
15 **policy. It's possible. The most likely outcome is**
16 **a hurricane. I mean, there could also be an**
17 **earthquake that would be covered if it were to**
18 **occur, but it doesn't seem to be likely in the**
19 **Northeast.**
20 **So those are the types of things that could**
21 **also be covered, but it's usually -- and also**
22 **tornado/hail events. Those would be covered, if**
23 **they were to occur similarly to the way they did in**
24 **Joplin earlier last year. If those types of events**

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1 came through Massachusetts, to that widespread of a
2 degree, they would be covered.
3 Q. When you indicated in your earlier
4 testimony that there was nothing particularly unique
5 about the MPIUA, is that -- do other insurers,
6 reinsurers, tend to cover for a single type of loss,
7 anticipated loss?
8 **A. There tends to be a primary peril that is**
9 **the one in consideration, similar to the**
10 **Massachusetts FAIR Plan.**
11 Q. You have mentioned two different return
12 periods. In your testimony you talk about 1 in 113
13 years, and then you mentioned 1 in 123 years today.
14 **A. I think it was 1 in 123 is what I intended**
15 **to say.**
16 Q. In your written testimony --
17 **A. I believe my written testimony says 1 in**
18 **123, does it not?**
19 Q. No, it says 1 in 113. Page 1202, the
20 bottom question, "attaches at 1 in 26 and exhausts
21 at 1 in 113."
22 **A. Okay, there you go. 1 in 113 is what I**
23 **intended to say, and thank you for your**
24 **clarification.**

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1 Q. So it is 1 in 113?
2 **A. My written testimony is correct.**
3 Q. How many reinsurers, to the best of your
4 knowledge, develop their own models for
5 catastrophes?
6 **A. There are several that create their own**
7 **model, and almost all of them create their own view**
8 **using the existing models.**
9 Q. Is there any sort of standard for the
10 amount of -- whether you reinsure to 1 percent of
11 your total insured value?
12 **A. There is no typical standard. It's that**
13 **you typically look to see how concentrated a**
14 **portfolio is to determine the reasonableness.**
15 Q. And is 1 percent a reasonable -- what you
16 consider a reasonable value for a concentrated
17 portfolio?
18 **A. When you have a highly concentrated**
19 **portfolio, that's reasonable.**
20 Q. And what happens in a less concentrated
21 portfolio?
22 **A. Well, typically in a less concentrated**
23 **portfolio, there would be a much higher amount of**
24 **TIV that would be spread out more. So you would**

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1 typically -- it would typically end up changing the
2 numbers in the manner that you would expect, so that
3 you wouldn't have the same calculation. It would
4 probably be a lesser percentage of TIV that people
5 would purchase to.
6 Q. And if you know, is that the sort of
7 standard that A.M. Best would apply when making some
8 kind of recommendation for what they would like to
9 see?
10 **A. I don't know that they would necessarily --**
11 **because they would be looking at so many different**
12 **entities with so many different concentrations, it**
13 **would probably be difficult for them to come up with**
14 **a standard per se. It would be simply more of a**
15 **reasonability test, I would suspect.**
16 Q. Looking back at Page -- there seemed to be
17 a number of times in which these models are
18 consulted in this process. I note that on Page
19 1370R, we have a -- as part of the closing fee,
20 there is, again, something that says AIR, \$112,500
21 for modeling. And my question is, why would there
22 be a different run for this particular cat bond fee?
23 **A. I believe the cat bond actually has**
24 **specific criteria, the investors have specific**

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1 **criteria under which they want the model to be run.**
2 **And so for clarification purposes, it is run in that**
3 **manner by -- essentially it has to be disclosed**
4 **exactly how the model was run and under the**
5 **prescriptions of what -- under what basis. So was**
6 **it near term or long term, was it AIR Version 11 or**
7 **Version 12, did it include demand surge or storm**
8 **surge. So that's specifically why it was outlined**
9 **in that particular exhibit.**
10 Q. You were asked some questions about the
11 reinsurers and their sort of profit model. Do the
12 calculations differ depending on what layer of
13 reinsurance you are looking at?
14 **A. Again, typically speaking, yes, because the**
15 **closer to risk that you are, in theory, the more**
16 **certain the outcome, and the further away you are,**
17 **the less certain the outcome. So typically the**
18 **profit margins might change accordingly.**
19 **PRESIDING OFFICER FARRINGTON:** That was all
20 my questions. Thank you.
21 Do you want a short break, Mr. Meyer?
22 **MR. MEYER:** No, thank you. No questions on
23 redirect.
24 **PRESIDING OFFICER FARRINGTON:** Mr. McCall?

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1 **MR. McCALL:** I just have a couple, I guess.
 2 RE CROSS EXAMINATION
 3 **BY MR. McCALL:**
 4 Q. Can you turn to Page 1203, please.
 5 In the first full paragraph there, you
 6 indicate that the MPIUA's total insured value as of
 7 9/30/2011 was \$98,207,533,264. Do you see that?
 8 **A. Yes.**
 9 Q. How was that value calculated?
 10 **A. It's provided by the MPIUA.**
 11 Q. And they provided it to you, and you
 12 included it in your testimony?
 13 **A. Correct.**
 14 Q. Is it possible for an insurer to insure its
 15 obligation to pay reinstatement premiums?
 16 **A. Yes.**
 17 Q. And is that something that the MPIUA has
 18 done before, do you know?
 19 **A. Yes.**
 20 Q. Did they do it this time?
 21 **A. No.**
 22 Q. Previous?
 23 **A. Previous, I believe in 2006 or '07. It was**
 24 **called an RPP, reinsurance premium protection**

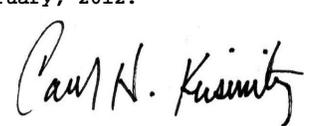
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1 **coverage.**
 2 Q. Not this year. Do you know why they didn't
 3 do it this year?
 4 **A. The Board felt that there was enough risk**
 5 **transfer based upon the placement totals, and they**
 6 **decided -- they elected not to purchase that.**
 7 Q. If the MPIUA were to pay a reinstatement
 8 fee, would the accounting treatment for this payment
 9 be the same as the treatment that would be applied
 10 when the MPIUA pays its first dollar of reinsurance
 11 premiums?
 12 **A. I believe so, yes.**
 13 Q. Could you turn over to Page 1272 of your
 14 testimony. And in Article 18, there's a reference
 15 to a federal excise tax in the paragraph. It's
 16 actually in Article B.1. Do you see that?
 17 **A. Yes.**
 18 Q. Could you please describe what this means.
 19 What is a federal excise tax?
 20 **A. It's just a tax on the premiums that are**
 21 **paid by the MPIUA.**
 22 Q. And who pays the tax?
 23 **A. The reinsurers.**
 24 Q. And do the reinsurers remit any applicable

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1 state premium tax back to Massachusetts that may be
 2 payable on the premiums that were paid?
 3 **A. I don't believe so.**
 4 Q. And do reinsurers provide any premium
 5 relief to the MPIUA to account for agent commissions
 6 that are paid on direct premium collected?
 7 **A. No.**
 8 **MR. McCALL:** That's it. Thank you.
 9 **PRESIDING OFFICER FARRINGTON:** Mr.
 10 Klibaner, Mr. Leight, do you have any follow-up?
 11 **MR. LEIGHT:** No.
 12 **MR. KLIBANER:** No, thank you.
 13 **PRESIDING OFFICER FARRINGTON:** Thank you
 14 all very much. Thank you, Mr. Wackerman. The
 15 testimony is concluded.
 16 Before we break, I just want to remind
 17 everybody that we are in the room next door
 18 tomorrow, which is much smaller. So we will try and
 19 bring another table to try to make you more
 20 comfortable, but it's going to be rather close
 21 quarters.
 22 **MR. MEYER:** Thank you.
 23 (Whereupon the hearing was
 24 adjourned at 2:47 p.m.)

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1 C E R T I F I C A T E
 2 I, Carol H. Kusinitz, Registered
 3 Professional Reporter, do hereby certify that the
 4 foregoing transcript, Volume I, is a true and
 5 accurate transcription of my stenographic notes
 6 taken on Monday, February, 2012.
 7
 8 
 9
 10 Carol H. Kusinitz
 11 Registered Professional Reporter
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	112:3	38:19		
\$	\$96 (1)	1217 (2)	2	4
	21:12	23:20;24:23		
\$1 (3)	\$98,207,533,264 (1)	1218 (4)	2 (14)	4 (4)
21:9;138:18,19	153:7	22:12,15;23:4;24:24	6:5,11;33:21;58:15,	7:11,18;103:24;147:7
\$1,200,000,000 (1)		123 (6)	17:59:5;73:21,21,23;	4.45 (1)
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51:18	07 (1)	1263 (1)	155:24	
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\$100 (3)	20:24;21:1;23:20;	13 (3)	54:11,12;88:2,13;	126:1;132:19;140:15,
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\$112,500 (1)	73:17;89:4;90:11;92:14;	1370 (1)	153:23	5.45 (3)
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\$15.8 (1)	13,14,17,19,20,21,22;	1370R (2)	117:9	
21:14	150:1,10,15	112:14;151:19	2010 (7)	6
\$18 (5)	1.175 (1)	1405 (1)	18:21;19:9,13;43:6,7;	
126:14,16;127:22;	46:6	143:14	106:18;118:9	6 (4)
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\$2 (5)	138:19	68:17,18	4:18;18:17;26:17;	118:17
74:22;75:13,18;76:5,7	10 (12)	1435 (2)	58:3;106:10;113:19;	6.15 (2)
\$200 (7)	35:21;55:24;56:8,9,9;	45:20;60:20	114:12;117:12;147:3	46:2,8
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33:15;52:13;73:6;	111:18;134:1,24	58:2	4:7;106:10,15;113:20;	7
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\$200,000,000 (1)	21:7;60:14,15;67:10;	5:14	22 (3)	7 (5)
26:12	72:24;96:1;123:21;	15 (11)	132:21;134:24;135:5	5:8;38:20;48:5;55:15;
\$201 (1)	144:1	40:12;43:10;47:11;	23 (1)	113:14
143:3	11 (4)	49:16,21;51:19;56:12;	132:21	7/1/11 (1)
\$25 (1)	67:3,8,18;152:6	97:17;98:2;133:13;	24D (1)	21:10
21:13	1112 (1)	135:9	140:19	7/1/13 (1)
\$3 (1)	103:20	1500 (2)	25 (1)	106:23
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\$5 (4)	103:16,19;104:1	15th (2)	26 (2)	106:22
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\$7.6 (2)	1193 (2)	18 (1)	274 (6)	114:3
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\$75 (1)	1194 (1)	1938 (1)	107:10;113:9;132:15	8
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