

AGENDA
FINANCIAL SERVICES COMMISSION
Office of Insurance Regulation
Materials Available on the Web at:

<http://www.floir.com/Sections/GovAffairs/FSC.aspx>

November 01, 2011

MEMBERS

Governor Rick Scott
Attorney General Pam Bondi
Chief Financial Officer Jeff Atwater
Commissioner Adam Putnam

Contact: Ashlee Falco
(850-413-5069)

9:00 A. M.
LL-03, The Capitol
Tallahassee, Florida

<u>ITEM</u>	<u>SUBJECT</u>	<u>RECOMMENDATION</u>
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- | | | |
|----|--|--|
| 1. | Approval of the Office of Insurance Regulation to Contract with the Proposed Consultant to Conduct the Workers' Compensation Peer Review | |
|----|--|--|

Section 627.285, Florida Statutes, requires that the Financial Services Commission contract, at least once every other year, for an independent actuarial peer review and analysis of the ratemaking processes of any licensed rating organization that makes rate filings for workers' compensation insurance in Florida.

The National Council on Compensation Insurance (NCCI) is responsible for collecting statistical information and making workers' compensation rate filings on behalf of Florida's insurers. By law, the contract requires the submission of a final report to the Commission, the President of the Senate, and the Speaker of the House of Representatives by February 1, 2012.

On October 7, 2011, OIR, with the assistance of DFS Purchasing, issued and submitted a Statement of Work (SOW) and a Request for Quotes (RFQ) to three vendors for bid. The three vendors were Examinations Resources, LLC, Oliver Wyman Actuarial Consulting, Inc., and American Actuarial Consulting Group, LLC. We received one proposal on October 14, 2011 from Examinations Resources, LLC in the amount of \$490.

In order to meet this statutory requirement, it is recommended that the Office, on behalf of the Financial Services Commission, accept the Technical Proposal received by Examinations Resources, LLC to perform the required peer review.

(ATTACHMENT 1)

FOR APPROVAL

TECHNICAL PROPOSAL

FOR THE

**FLOIRDA DEPARTMENT OF FINANCIAL SERVICES,
OFFICE OF INSURANCE REGULATION**

FOR PROVIDING

**ACTUARIAL PEER REVIEW AND ANALYSIS OF THE
RATEMAKING PROCESS OF NCCI**

SUBMITTED: OCTOBER 14, 2011

EXAMINATION RESOURCES, LLC



3475 Piedmont Road, Suite 410

Atlanta, GA 30305

Phone - 404-816-6188

Fax - 404-816-6197

Email: toddfatzinger@examresources.net

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Mr. Richard Fox
State of Florida
Office of Insurance Regulation
200 E. Gaines St., Larson Building, Room 121
Tallahassee, FL 32399

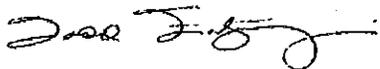
Dear Mr. Fox:

Examination Resources, LLC ("ER") is pleased to submit our proposal for actuarial services to conduct the peer review and analysis of the ratemaking processes of the National Council on Compensation Insurance, Inc. (NCCI). ER and our partner, Taylor-Walker & Associates, known as the ER Team, appreciate the opportunity to perform the peer review on behalf of the Department of Financial Services.

The ER Team is currently in the process of completing an examination of NCCI, which encompassed the standards listed in the Statement of Work. The ER Team will be able to leverage 100% off the current examination to complete the peer review.

We look forward to the opportunity to work with you and Jim Watford and if you have any questions, please contact me at 404-685-8494.

Sincerely,



Todd Fatzinger, CFE, CIE, FLMI
Managing Member

A. Corporate Background and Experience

Business Organization

Business Organization/Office Location	Authorized Negotiator/Expeditor
Examination Resources, LLC 3475 Piedmont Road, Suite 410 Atlanta, Georgia 30305	Todd Fatzinger, CFE, CIE, FLMI, Managing Member Phone Number – 404-816-6188 x 202
Federal Tax ID Number: 16-1675057	Email: toddfatzinger@examresources.net

Examination Resources, LLC (ER) is a Georgia corporation, authorized to conduct business in the State of Florida. ER is owned by 2 managing members, Todd Fatzinger and Rebecca Belanger-Walkins. There are no affiliated companies associated with ER or its owners.

Firm Experience

ER has been providing insurance regulatory examination services since the company's inception in 2002. The services include market conduct, data validation, operational review, information systems, financial and actuarial examinations. ER has worked with fourteen (14) States; Alabama, Colorado, Florida, Georgia, Idaho, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, North Dakota, Pennsylvania, and West Virginia. ER is also on the approved vendor list in California, Connecticut, District of Columbia, Maine, Mississippi, New Mexico, North Carolina, Puerto Rico, South Carolina, Tennessee Utah and Vermont.

ER has been working for the Florida Office of Insurance Regulation (Office) since 2003 and has performed over two hundred target market conduct exams on their behalf. The ER Team is currently in the process of completing an examination of NCCI, which encompassed all the standards listed in the Statement of Work.

B. Technical Approach

ER understands the Statement of Work includes Operational Standards 2, 3, 8 and 11 and Ratemaking Standard 1. ER will be able to leverage 100% off the current multi-state examination of NCCI to complete the peer review as required by section 627.285. ER will be able to meet the required deliverable by providing a final report by January 11, 2012.

ER will comply with the special conditions included in Section 14 of the Statement of Work. Additionally, ER and Taylor-Walker & Associates will participate in the federal E-Verify Program and agrees to provide proof of enrollment to Office.

C. Proposed Staffing

The following staff, including actuaries through our alliance with Taylor-Walker & Associates, will complete the peer review and supporting report.

Brent Sallay, FCAS, MAAA

Actuary

Location: Salt Lake City, UT

Experience

Began working for Taylor-Walker & Associates in December 2002. His regulatory experience includes providing actuarial support on numerous NAIC financial examinations of property and casualty insurers, on evaluations of rate filings, and on reviews of captive insurance company and risk retention group applications. Brent's industry experience includes providing actuarial support during the quarterly and year-end reserve analyses, and ratemaking analyses for property and casualty insurers and self-insured groups.

Education

BA, University of Utah, Mathematics/Statistics

Credentials

Fellow, Casualty Actuarial Society - 2007

Member, American Academy of Actuaries - 2006

Internet Address for Proof of Credentials

<https://actuarialdirectory.org/SearchDirectory/MemberDetail/tabid/249/Default.aspx?CustomerRecord=7k+pgZGkMREuphY2t4SL7H/5Pn5Y68qYyr8/NoCle7HSLsnPc/4dRA==>

Randall D. Ross, ACAS, MAAA

Actuary

Employment: Nonexclusive Subcontractor

Location: Salt Lake City, UT

Experience

Began working for Taylor-Walker & Associates, Inc. as an actuarial analyst in August 1990. His regulatory experience includes providing actuarial support on numerous NAIC financial examinations of property and casualty insurers, on evaluations of rate filings, and on reviews of captive insurance company and risk retention group applications. Randall's industry experience includes providing actuarial support during the quarterly

and year-end reserve analyses, and ratemaking analyses for property and casualty insurers and self-insured groups.

Education

BS, University of Idaho, Mathematics/Actuarial Science

Credentials

Associate, Casualty Actuarial Society - 2005
Member, American Academy of Actuaries - 2005

Internet Address for Proof of Credentials

<https://actuarialdirectory.org/SearchDirectory/MemberDetail/tabid/249/Default.aspx?CustomerRecord=2Yhj99K7xeCtXBR45k0dE0WkszvEKNwjLUNZMLE0bueQMTq1tvwxgQ==>

Doug Befort, CFE, CIE
Examiner-In-Charge/Participant
Employment: Exclusive Subcontractor
Location: Wilton Manors, FL

Experience

Doug has twenty four years of examination experience in the regulatory field with the Colorado Division of Insurance and was promoted to supervisor of examinations as EIC in 1984. Doug joined ER in 2006 and has been acting in a supervisory role since that time. He has broad experience in life/health, property/casualty, title, captives and health maintenance organizations. Doug has experience with Teammate, ACL as well as a variety of other Microsoft Office products.

Education

Bachelor of Science, Business Management Administration, University of Northern Colorado, 1980 – Graduated Cum Laude

Credentials

Certified Financial Examiner
Certified Insurance Examiner

D. Pricing

Our fees are based upon the estimated time required to complete the project, there are no expected travel related costs.

	Amount
Actuarial Fees	\$230
Examiner Fees	\$260
Total Costs	\$490

FLORIDA DEPARTMENT OF FINANCIAL SERVICES
OFFICE OF INSURANCE REGULATION

*Independent Actuarial Peer Review and Analysis of Ratemaking Processes of the
National Council on Compensation Insurance, Inc.*

Statement of Work and Request for Quotes

1. Purpose.

The Office of Insurance Regulation (Office) is issuing this Statement of Work ('SOW') to define the scope and requirements of this task order. This support is needed because section 627.285, Florida Statutes, requires the Financial Services Commission (Commission) to at least once every other year contract for an independent actuarial peer review and analysis of the ratemaking processes of any licensed rating organization that makes rate filings for workers' compensation insurance. The contract calls for submission of the final report to the Commission, the Senate and the House no later than February 1, 2012. This statute requires such an examination of National Council on Compensation Insurance, Inc. (NCCI).

2. Objectives.

At the end of this contract period, the Customer expects to achieve the following objectives: An independent actuarial peer review and analysis of the ratemaking processes of NCCI, and a final report on the review and analysis for submission to the Commission, the Senate and the House as required by section 627.285, Florida Statutes.

3. Scope of Work.

The scope of work to be performed includes the following:

The Contractor will review the following portions of the multi-state market conduct exam and use them to comply with the provisions of section 627.285, Florida Statutes., that require an independent peer review and analysis of the ratemaking processes of the NCCI. The review of the designated portions of the multi-state market exam shall remain confidential as provided in section 624.319, Florida Statutes, and the Contractor shall maintain such confidentiality, until the final report is filed with the Office. The Contractor will prepare a final report of its findings from the actuarial peer review and analysis of the ratemaking processes of NCCI that the Office can submit to the Commission, the Senate and the House.

(a) OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 2 - The advisory organization has implemented policies and procedures to ensure the development of prospective loss costs and/or rates in accordance with sound actuarial principles.

- Evidence is provided that each loss cost and/or rate filing is in compliance with applicable actuarial standards of practice.
- Data used to develop prospective loss costs and/or rates is applicable, complete and actuarially sound.

- Procedures are in place to test the soundness of data prior to use for development of prospective loss costs and/or rates.
- An advisory group of actuaries are consulted about the methods used in the development of prospective loss costs and/or rates.
- The actuarial advisory group meets regularly and keeps agendas and minutes.
- Recommendations of the actuarial advisory group are either implemented or detailed documentation concerning the reasons for non-implementation is made.
- Underlying studies for all methods used in the development of prospective loss costs and/or rates is available.

Standard 3 - The advisory organization adheres to applicable state filing and/or approval requirements prior to distribution of prospective loss cost and/or rates, policy forms, endorsements, factors, classifications or manuals.

- Filings are made on SERFF or other state approved filing systems or methods.
- Follows mandated time requirements (if applicable) following filing or approval before permitting use of materials.
- Is responsive to state filing analyst questions regarding filings.
- Distributed materials are the same as those filed with applicable Departments of Insurance.
- All negative actions are followed up to determine that safeguards are in place to prevent recurrence of the underlying problem(s).
- There is no concentration of warnings, fines, or other negative actions in a particular state or states above what could reasonably be expected.

Standard 8 - The advisory organization conducts ongoing research and review of state insurance law and insurance-related case law and makes appropriate changes in prospective loss costs/rates, policy forms, endorsements, factors, classifications or manuals, as necessary and applicable.

- Conducts research into law changes during regular and reasonable intervals.
- Identifies applicable materials impacted by law or case law changes.
- Makes appropriate modifications, additions, deletions or withdrawals as necessitated by law changes or case law and performs applicable filings and timely notifications to member or subscriber companies
- Sufficiently staffed and trained to handle the normal volume of relevant insurance statutory and case law changes for every state in which it is licensed.
- Subscribes to appropriate services providing printed or electronic access to relevant statutory and case law changes.

- Is proactive in informing member/subscriber companies of changes in loss costs/rates, policy forms, endorsements, factors, classifications, or manuals that have been made as a result of legislative or judicial action.

Standards 11 - When performing analysis and impact studies of proposed legislation, advisory organization presents thorough and objective information.

- Impact studies present information in an objective manner.
- Best estimates of impact are presented, using reasonable assumptions, research and data.
- Analyses and impact studies of proposed legislation are vetted internally and when appropriate with the actuarial advisory group.
- Analyses and impact studies of proposed legislation are prepared by personnel having the requisite education and experience.

(b)RATEMAKING

Standard 1 - The advisory organization submits filings and/or submissions to the state within the established time frame.

- Identify which filings and submissions are required by the state, along with any required time frames. For filings that are optional, but require prior approval by the state; identify the required waiting periods, if any, between approval and usage.
- Determine compliance with state statues, rules and regulations.
- Review regulators' requests for additional information and check for timeliness of the response to such requests.
- Prepares and disseminates information impacting the ratings of individual policies, such as experience rating modification factors, on a timely basis.
- Provides accurate information to subscribers relating to the states approval status and approved usage date of regulated materials and services such as forms and loss.

4. Responsibilities.

The tasks to be performed by the Contractor shall include the following:

- a) The Contractor will perform all the tasks set out in the Scope of Work, Section 3.
- b) Contractor will not attend Customer status meetings. The length of contract is too short to require status meetings.

5. Standards and Specifications.

All deliverables developed and work conducted by the Contractor pursuant to this SOW shall be performed in accordance with the Office of Insurance Regulation standards, and applicable specifications listed.

The work shall be completed in accordance with accepted actuarial practice and standards established by the Casualty Actuarial Society and the American Academy of Actuaries.

6. Deliverables and Acceptance Criteria.

The Customer will require the Contractor to provide the following:

Deliverable	Acceptance Criteria and consequences for non-performance for Each Deliverable	Fee	Price for Renewal Years 1, 2 & 3
There is one deliverable, the final report to be presented to the Commission, the Senate and the House.	<p>The final report must be in compliance with section 627.285, F.S. in that it must report on an independent review and analysis of the ratemaking processes of NCCI.</p> <p>The review and analysis must be done on the portions of the market conduct exam specified above.</p> <p>For non-performance: the financial consequences for non-performance by Contractor will be automatic deliverable rejection and the Contractor may not be invoiced or paid until correction of the task.</p>		N/A

7. Schedule.

The Contractor agrees to provide the services and deliverables according to the following schedule:

Deliverable	Due Date
The final report	January 11, 2012

8. Acceptance of Work and Performance Standards.

There is only one task. The Customer will use the above standards to determine when that task will be considered acceptable. The Contract Manager may provide additional acceptance criteria during the contract period to be used for the deliverable. Failure to accept a deliverable within twenty (20) days means automatic non-acceptance by the Customer unless stated otherwise by the Contract Manager in writing.

9. Facilities and Equipment.

- a. Business Unit shall provide: Business Unit will provide to contractor those portions of the market conduct exam as set forth above in Section 3.

10. Qualification Requirements for Contractor.

- a. The Contractor shall be an examination firm with personnel who have the actuarial qualifications to analyze the material and issue a report that meets the requirements of section 627.285, Florida Statutes. The review and analysis are to be undertaken by such qualified individuals.

11. Pricing and Invoicing.

- a. Contractor will be paid on a Time and Materials or hourly rate in accordance with the terms of this Agreement, subject to the conditions for the Acceptance Criteria as set forth in this SOW.
- b. Price is based on hourly rate proposed by Contractor.

- c. Total amount billed for the contracted period shall not exceed \$1,500 dollars.
- d. Rates are effective for work on a 24 X 7 basis.
- e. No travel expenses shall be paid.
- f. Invoicing shall be in arrears after acceptance and approval of services.
- g. An invoice shall be processed when received.
- h. An invoice shall be submitted upon completion of the project and submission to the Office of the final report. Invoices are submitted to:

Richard Fox
State of Florida, Office of Insurance Regulation
200 East Gaines St., Larson Bldg., Room 121, Tallahassee, FL 32399

12. Contract Period.

The contract period for this SOW begins upon issuance of the Direct Order and ends upon delivery of the final report (January 11, 2012) and the Office's acceptance of the final report.

13. Contract Manager.

All services will be performed under the direction and control of:

Jim Watford
Actuary
Property and Casualty Product Review

14. Special Conditions.

- a. Taxes: The Office is exempted from payment of Florida state sales and use taxes and Federal Excise Tax. The Office will provide its tax exemption certification.
- b. Sovereign Immunity: Nothing contained in the agreement shall constitute a waiver by either party of its sovereign immunity or the provisions of section 768.28, Florida Statutes. Contractor agrees to not seek indemnification from the Office for any costs or services.
- c. Public Records Act: Notwithstanding any provisions to the contrary, disclosure of any confidential information received by the State of Florida will be governed by the provisions of the Florida Public Records Act, Chapter 119, Florida Statutes.
- d. Governing law: With regard to limitation of actions, section 95.11, Florida Statutes, shall govern. Florida law shall govern the contract and jurisdiction shall be in Leon County, FL.
- e. Compliance with laws: The Vendor shall comply with all laws, rules, codes, ordinances, and licensing requirements that are applicable to the conduct of its business, including those of federal, State, and local agencies having jurisdiction and authority. By way of non-exhaustive example, Chapter 287 of the Florida Statutes and Chapter 60A-1 of the Florida Administrative Code govern this agreement. By way of further non-exhaustive example, the Vendor shall comply with section 247A(e) of the Immigration and Nationalization Act, the Americans with Disabilities Act, and all prohibitions against discrimination on the basis of race, religion, sex, creed, national origin, handicap, marital status, or veteran's status. Violation of such laws shall be grounds for termination.
- f. Termination: All services performed by the Contractor prior to the termination date of this Contract shall be professionally serviced to conclusion in accordance with the requirements of the Contract. Should the Contractor fail to perform all services under the Contract, the Contractor shall be liable to the Office for any fees or expenses that the Office may incur in securing a substitute provider to assume completion of those services. The Office may, in its sole discretion, provide notice and an opportunity to cure the default rather than exercise the remedy of termination. If the default or breach is not cured within fifteen (15) calendar days after written notice is given to the Contractor specifying the nature of the alleged default or breach, then the Office, upon giving written notice to the Contractor, shall have the right to terminate the Contract effective as of the date of receipt of the default notice. The Office shall have the right to unilaterally cancel or suspend the Contract, by providing

the Contractor fifteen (15) days written notice. The Contractor shall not perform any Services after it receives the notice of termination, except as necessary to complete the transition or continued portion of the Contract, if any.

- g. **Limitation of Liability:** No provision in this Contract shall require the Office to hold harmless or indemnify the Contractor, insure or assume liability for the Contractor's negligence, waive the Office's sovereign immunity under the laws of Florida, or otherwise impose liability on the Office for which it would not otherwise be responsible. Except as otherwise provided by law, the parties agree to be responsible for their own attorney fees incurred in connection with disputes arising under the terms of this contract. The Office's maximum liability for any damages, regardless of form of action, shall in no event exceed the fees actually paid to Contractor for the relevant products or services giving rise to the liability, prorated over a term from the date of performance of the applicable services.
- h. **Default:** The Customer reserves the right to perform the service or activity, directly or with another contractor, if service levels are not being achieved. Customer may, in addition to other remedies available to them at law or equity and upon notice to the Contractor, retain such monies from amounts due Contractor as may be necessary to satisfy any claim for damages, costs and the like asserted by or against them.
- i. **Independent Contractor:** The Contractor is an independent contractor, and is not an employee or agent of the Office. All services contracted for are to be performed solely by the Contractor and may not be subcontracted or assigned without the prior written consent of the Office.
- j. **State property:** Title to all property furnished by the Office under this Contract shall remain in the Office, and Contractor shall surrender to the Office all property of the Office prior to settlement upon completion, termination, or cancellation. The final report shall become and remain the Office's property upon receipt and acceptance. All work materials developed or provided by Contractor under this Contract and any prior agreement between the parties shall be deemed to be work made for hire and owned exclusively by the State of Florida, Office. .

15. Submission of Quote

- a. No travel expenses will be paid.
- b. If referenced in this SOW, the State Term Contract Number must be included on submission. Submissions will only be accepted from vendors who are properly licensed and insured to conduct such professional services.
- c. Please supply NO MORE than three (3) candidates from your company.
- d. Please submit all candidate resumes at same time with attachments.
- e. Please submit appropriate professional licensure number and proof of insurance. Ex. Proof of membership of the Casualty Actuarial Society.
- f. **Employment Eligibility Verification.**
 - 1) The Contractor must participate in the federal E-Verify Program for Employment Verification under the terms provided in the "Memorandum of Understanding" with the federal Department of Homeland Security governing the program, a copy of which will be provided by the Contract Manager upon request. The Contractor agrees to provide to the Office, within thirty days of the effective date of the contract, documentation of such enrollment in the form of a copy of the E-Verify "Edit Company Profile" screen, which contains proof of enrollment in the E-Verify Program.
 - 2) The Contractor further agrees that it will require each subcontractor that performs work under this contract to enroll and participate in the E-Verify Program. Participation in the E-Verify Program extends to the Contractor's and subcontractor's Florida employees and those employees hired to work directly on the contract. The Contractor shall obtain from

the subcontractor(s) a copy of the "Edit Company Profile" screen indicating enrollment in the E-Verify Program and make such record(s) available to the Office upon request.

3) Compliance with the terms of this Employment Eligibility Verification provision will be an express condition of the contract and the Office may treat a failure to comply as a material breach of the contract.

4) In the event legislation authorizes an alternative option as proof of legal status, the Contractor may use the process authorized by such legislation upon its passage.

The Contractor is responsible for payment of costs if any, and retaining records relating to, employment eligibility verification, which records are exempt from Chapter 119, Florida Statutes.

- g.** Proposals must be received by no later than 5:00 pm EDT on October 14, 2011. The Office assumes no responsibility for missing or delayed proposals. Please send submissions or questions via email to:

Richard Fox

Richard.Fox@flor.com

VENDOR AFFIDAVIT

**Regarding the Contract Between
[] (the "Contractor") and the Florida Office of Insurance Regulation**

Contract No.: [] dated [] (the "Contract")

Pursuant to section _____ of the Contract, the undersigned Contractor hereby attests that the Contractor is in compliance with the preferred-pricing clause contained in the Contract.

PRINT CONTRACTOR NAME: _____

By: _____ Date: _____
Signature of Authorized Representative

Print Representative's Name/Title: _____

STATE OF _____
COUNTY OF _____

Sworn to (or affirmed) and subscribed before me this _____ day of _____, by
_____.

Signature of Notary

(Print, Type, or Stamp Commissioned Name of Notary Public)

[Check One] _____ Personally Known OR _____ Produced the following I.D.

Vendor Name _____	_____
Vendor's Authorized Representative Name and Title _____	_____
Address _____	_____
City, State, Zip _____	_____
Phone Number _____	_____
Email Address _____	_____