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January 30, 2024

The Honorable Michael Yaworsky, Commissioner
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-0330

Re: **2024 Actuarial Peer Review of NCCI's Ratemaking Processes**

Dear Commissioner Yaworsky:

Please accept these comments relating to the January 2024 peer review report, prepared for the Florida Office of Insurance Regulation (OIR) by Oliver Wyman Actuarial Consulting Inc. ("Oliver Wyman"), regarding the ratemaking process of the National Council on Compensation Insurance ("NCCI"). NCCI is a Boca Raton-based rating organization that makes rate filings for workers compensation insurance. As such and pursuant to Section 627.285, Florida Statutes, NCCI participates in a peer review of its ratemaking processes at least every other year. The last actuarial peer review of NCCI's ratemaking processes was concluded in January 2022.

We are pleased to note Oliver Wyman's principal conclusions with respect to NCCI's ratemaking process in Florida:

- NCCI's ratemaking process is based on commonly applied actuarial methodologies that are supported in actuarial literature and frequently used by credentialed actuaries.
- NCCI's ratemaking process is based on data that is appropriate as respects the actuarial methodologies used.
- NCCI's ratemaking process is generally consistent over time.

Regarding specific recommendations and/or conclusions in the remainder of Oliver Wyman's review, NCCI offers the following comments:

Oliver Wyman's recommendation concerning the provision for terrorism-related exposure

NCCI regularly reviews different aspects of the ratemaking methodology to determine if improvements can be made and certainly will take Oliver Wyman's findings under advisement. As a result of NCCI's most recent analysis, Florida's terrorism rate per $100 of payroll was reduced from $0.02 to $0.01 and approved effective January 1, 2018. In support of that change, NCCI worked with extreme events modeling firms to assess the impact of terrorism risk on workers compensation insurance losses. The results included an estimated average terrorism workers compensation loss dollar amount per worker for each NCCI jurisdiction. NCCI converted the modeling firms' estimates to a loss cost per $100 of payroll using average weekly wage information and currently approved loss-based expense provisions, by jurisdiction. The currently approved terrorism rate is based on the indicated terrorism loss cost for Florida after incorporating expenses and rounding to the nearest penny.

Oliver Wyman's comments with respect to NCCI's trend selections

NCCI employs various techniques to examine historical trends and then uses actuarial judgment to select the going-forward trend assumption. As discussed in NCCI's historical comments relating to prior peer reviews, maintaining procedural flexibility allows for the selection of methodologies as indicated by diagnostic information.

The practice of applying trends based on historical data relies on the assumption that patterns observed in historical data are expected to continue into the future. While this may be a reasonable approach in general, it can be necessary and desirable to account for considerations that may not be represented in the historical data—or conversely, factors influencing the historical data that are not considered indicative of what is expected on a prospective basis. The trend selections in the latest rate filing reflect additional considerations such as:

- The one-time impact associated with the transition from a pre- to post-*Castellanos* workers compensation system (*Marvin Castellanos v. Next Door Company*).
- The ruling in the *Zenith* case (*Zenith Insurance Company v. Department of Financial Services, Division of Workers Compensation*) and related payments for hospital inpatient medical services that were based on the per-diem fee schedule rate rather than the higher stop-loss amount.
- Recent hospital inpatient fee schedule changes.
- Uncertainty around the extent to which data in recent policy years reflects indirect impacts of the COVID-19 pandemic and related considerations—such as economic conditions and the labor market. For example, unusually high wage growth in recent years has contributed to favorable loss ratios and may not persist indefinitely.

The trends in the most recent Florida rate filing represent what NCCI believes to be an appropriate balance between stability and responsiveness, in light of the historical data and considerations described above.

Oliver Wyman's concerns with NCCI's class ratemaking methodology

NCCI's position has not changed from the 2022 peer review with respect to our class ratemaking methodology. NCCI regularly reviews different aspects of the ratemaking methodology to determine if improvements can be made and certainly will take Oliver Wyman's findings under advisement. For several years after the implementation of the current class ratemaking methodology, NCCI studied the impact of the change on class rates and reported on this research to the OIR during the rate filing review process.

The class ratemaking methodology used in NCCI's Florida filings has been implemented and accepted in all other jurisdictions in which NCCI provides ratemaking services, as well as in several independent bureau states. The methodology, including the process of limiting large claims and applying expected excess provisions, is detailed in a paper written by Thomas V. Daley and accepted for publication in the Casualty Actuarial Society's peer-reviewed journal *Variance*.[1] Another

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[1] Daley, T.V., "Class Ratemaking for Workers Compensation: New Developments in Loss Development" Variance, Volume 6, Issue 2, 2012, pp.196-244. https://www.casact.org/sites/default/files/2021-07/Class-Ratemaking-Daley.pdf

Variance paper by John P. Robertson describes the manner in which classifications were assigned to hazard groups in 2007.[2]

Oliver Wyman's recommendation concerning the safety factor used in the calculation of small deductible credits

In Oliver Wyman's peer reviews of NCCI's ratemaking processes in 2015, 2020, and 2022, similar safety factor-related recommendations were made by Oliver Wyman. NCCI previously completed a full review of the calculation of the safety factor included in the determination of small deductible credits. That review culminated in NCCI providing thorough support to the OIR with respect to a proposed change to the then-current safety factor in Florida from 0.90 to 0.95 effective January 1, 2018. Not only was the proposed change reviewed and approved by the OIR, the 0.95 safety factor was approved in all NCCI jurisdictions in which it was filed.

NCCI appreciates the opportunity to comment on the final report and to have participated in the review. As we examine and consider suggestions for improvement, it is always NCCI's priority to maintain a stable and healthy workers compensation system. Please feel free to contact me or Dawn Ingham, State Relations Executive (dawn_ingham@ncci.com) with any questions. Thank you again for your consideration.

Sincerely,

Susan L. Donegan
Chief Regulatory Officer

cc: Greg Jaynes, Florida OIR
Dawn Ingham, NCCI

[2] Robertson, J.P., "NCCI's 2007 Hazard Group Mapping" Variance, Volume 3, Issue 2, 2009, pp.194-213. https://www.casact.org/sites/default/files/2021-07/NCCI-2007-Hazard-Robertson.pdf