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January 29, 2020

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

Re: **2020 Actuarial Peer Review of NCCI's Ratemaking Processes**

Dear Commissioner Altmaier:

Please accept these comments relating to the peer review report prepared for your office 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.

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 as well as frequency of usage by credentialed actuaries.
- NCCI's ratemaking process is based on data that is appropriate as respects the actuarial methodologies used in the ratemaking process.
- NCCI's ratemaking process is generally consistent over time.

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

Oliver Wyman's recommendation that NCCI conduct a study to measure the impact of the Castellanos decision (Florida Supreme Court Decision, Marvin Castellanos v. Next Door Company April 28, 2016) on current and prior policy years for use in trend measurements

As stated in this year's peer review, NCCI recognizes that Oliver Wyman previously reviewed NCCI's calculation of the impact of the *Castellanos* decision and found it to be reasonable. Further, at the request of the Florida Office of Insurance Regulation (OIR), NCCI has regularly assessed (and continues to study) the emerging impact of the *Castellanos* decision on Florida's workers compensation marketplace as part of the two most recent Florida rate filing analyses. NCCI reviewed

carrier feedback, the change in claimant attorney fees, and the change in trend loss ratios that have occurred since the *Castellanos* decision. Individual feedback was obtained from the state's largest workers compensation writers reporting financial data to NCCI and provided valuable insight into how system participants continue to adapt to and determine how best to operate in Florida's current post-*Castellanos* workers compensation marketplace.

NCCI employs various techniques to examine historical trends and then uses actuarial judgment to select the going-forward trend assumption. Judgment is particularly appropriate in a state like Florida, where a steady-state environment is rarely observed. Maintaining procedural flexibility allows for the selection of methodologies as indicated by diagnostic information.

The trend approach proposed in the January 1, 2020 Florida rate filing illustrates the importance of procedural flexibility in the determination of trend with respect to potential distortion that Policy Year 2015 may have on mechanically-calculated trend measurements. During the January 1, 2020 Florida filing's trend review, the observed indemnity and medical loss ratio changes between 2015 and 2016 were deemed not representative of annual changes that may be expected going forward. It is reasonable to believe these changes were associated with the transition from a pre- to post-*Castellanos* workers compensation system and the time necessary for system stakeholders to adapt to the changing environment. As such, actuarial judgment was used to select the trend factors included in the filing.

Oliver Wyman's concerns with NCCI's 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 *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

Oliver Wyman's most recent peer review of NCCI's ratemaking processes was conducted four years ago. In that review, a similar safety factor-related recommendation was made by Oliver Wyman. In response, NCCI completed a full review of the calculation of the safety factor included in the

¹ Daley, T.V., "Class Ratemaking for Workers Compensation: New Developments in Loss Development" *Variance*, Volume 6, Issue 2, 2012, pp.196-244. <http://www.variancejournal.org/issues/06-02/196.pdf>

² Robertson, J.P., "NCCI's 2007 Hazard Group Mapping" *Variance*, Volume 3, Issue 2, 2009, pp.194-213. <http://www.variancejournal.org/issues/03-02/194.pdf>

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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,

A handwritten signature in black ink that reads "Susan L. Donegan". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Susan L. Donegan
Chief Regulatory Officer

cc: Greg Jaynes, Florida OIR
Dawn Ingham, NCCI