



## NCCI Response to the 2015 Actuarial Peer Review of the Ratemaking Process of NCCI

NCCI appreciates the opportunity to comment on the report compiled by Oliver Wyman Actuarial Consulting Inc. ("Oliver Wyman"), regarding the ratemaking process of the National Council on Compensation Insurance ("NCCI") in the State of Florida. We are pleased to note Oliver Wyman's principal conclusions that NCCI's ratemaking process in Florida is:

- 1) Based on commonly applied actuarial methodologies that are supported in actuarial literature as well as frequency of usage by credentialed actuaries.
- 2) Based on data that is appropriate as respects the actuarial methodologies used in the ratemaking process.
- 3) Generally consistent over time.

With regard to the specific recommendations in the Oliver Wyman review, NCCI offers the following comments:

### ***Regarding Oliver Wyman's recommendation that NCCI consider an actuarial methodology that quantitatively provides a trend selection based on observed empirical trends***

Oliver Wyman is recommending that NCCI select a trend methodology that would be "fixed over time unless there is a compelling reason to change." Oliver Wyman notes however that "there are arguments that fixing all aspects of ratemaking methodology may lead to illogical results when changes occur to the workers compensation system."

NCCI employs a number of 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.

In NCCI's opinion, adopting a rigid standard procedure precludes the use of an approach that is most appropriate to each state's condition. Maintaining procedural flexibility allows for the selection of methodologies as indicated by diagnostic information. While NCCI might choose to implement a "standard method," the option must exist to deviate from that method – provided that full explanation is made to the regulator – when conditions require.

### ***Regarding Oliver Wyman's recommendations related to NCCI's class ratemaking methodology***

NCCI regularly reviews different aspects of the ratemaking methodology to determine if improvements can be made and will take Oliver Wyman's recommendations under advisement.

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, except Texas, as

well as several other independent bureau states.<sup>1</sup> The methodology, including the process of limiting of 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*.<sup>2</sup> Another *Variance* paper by John P. Robertson describes the manner in which classifications were assigned to hazard groups in 2007.<sup>3</sup>

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

NCCI is currently in the process of reviewing the safety factor that is included in the calculation of small deductible credits.

NCCI is pleased to have participated in the review process conducted under the leadership of Scott Lefkowitz and Oliver Wyman. As we examine and adopt suggestions for improvement, NCCI will continue to make it our priority to support Florida's legislators and regulators as they seek to maintain a stable and healthy workers compensation system.

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<sup>1</sup> Texas presently utilizes an older class ratemaking methodology due to unit statistical data limitations.

<sup>2</sup> 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>

<sup>3</sup> 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>