

NCCI Response to the 2008 Actuarial 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 were pleased to note that Oliver Wyman concluded that NCCI's ratemaking process in Florida is based on commonly applied actuarial methodologies that are supported in actuarial literature as well as frequency of usage by credentialed actuaries. With regard to some of the more specific points in the Oliver Wyman review, NCCI offers the following comments:

Regarding Oliver Wyman's comments on NCCI's use of judgment in analyzing trend

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 in the workers compensation system. Oliver Wyman also notes that given the material system changes that have occurred in Florida as a result of SB 50A, variation of specific methodologies, judgments and assumptions could be appropriate.

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 rapidly changing environment as has been the case in Florida recently.

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 strategies as indicated by diagnostic information. While NCCI might choose to implement a "standard method", the option must exist to deviate from that method – providing that a full explanation is made to the regulator – when conditions require.

Regarding Oliver Wyman's recommendation for additional studies on claim behavior

NCCI accepts that the additional investigation into claim behavior suggested by Oliver Wyman could be useful, and perhaps as Oliver Wyman suggests, might help NCCI better support its position in future rate forecasts. It should be noted though that NCCI has done a variety of claim studies in the last few years including, but not limited to, the impact of hurricanes and some aspects of SB 50A, and NCCI continues to add new research projects each year as new data and resources are available. The results of these analyses are shared with regulators, legislators, and other stakeholders in forums held every year and on our website.

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 achieve a stable and healthy workers compensation system.