NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH, NC 27601

April 12, 2012

TO THE MEMBERS OF THE LEGISLATIVE RESEARCH COMMISSION:

Attached for your consideration is the report to the 2012 Regular Session of the 2011 General Assembly. This report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.17(1).

Senator Harry Brown
Co-Chair

Representative Jerry Dockham
Co-Chair

Co-Chairs
Committee on Property Insurance Rate Making
Legislative Research Commission

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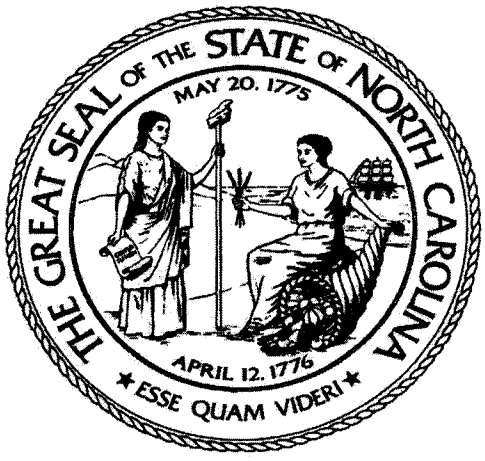
LEGISLATIVE RESEARCH COMMISSION

PROPERTY INSURANCE RATE MAKING COMMITTEE

NORTH CAROLINA GENERAL ASSEMBLY



REPORT TO THE 2012 SESSION of the 2011 GENERAL ASSEMBLY OF NORTH CAROLINA

MAY 8, 2012

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TRANSMITTAL LETTER

May 8, 2012

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TO THE MEMBERS OF THE 2012 REGULAR SESSION
OF THE 2011 GENERAL ASSEMBLY

The Legislative Research Commission herewith submits to you for your consideration its report and recommendations to the 2012 Regular Session of the 2011 General Assembly. The report was prepared by the Legislative Research Commission's Committee on Property Insurance Rate Making, pursuant to G.S. 120-30.70(1).

Respectfully submitted,

Senator Philip E. Berger
President Pro Tempore of the Senate

Representative Thomas R. Tillis
Speaker of the House of Representatives

Co-Chairs
Legislative Research Commission

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LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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2011 – 2012

President Pro Tempore of the Senate
Senator Philip E. Berger
Co-Chair

Senator Thomas M. Apodaca
Acting Co-Chair

Senator Peter S. Brunstetter
Senator Linda D. Garrou
Senator Martin L. Nesbitt, Jr.
Senator Richard Y. Stevens

Speaker of the House of Representatives
Representative Thomas R. Tillis
Co-Chair

Representative Timothy K. Moore
Acting Co-Chair

Representative John M. Blust
Representative Justin P. Burr
Representative Mike D. Hager
Representative Edith D. Warren

PREFACE

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The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is co-chaired by the President Pro Tempore of the Senate and the Speaker of the House of Representatives and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigation into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission authorized the study of Property Insurance Rate Making, under authority of G.S. 120-30.17(1). The Committee was chaired by Senator Harry Brown and Representative Jerry Dockham, Co-Chairs of the Committee. The full membership of the Committee is listed under Committee Membership. A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the **2011-2012** biennium.

COMMITTEE PROCEEDINGS

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The Legislative Research Commission's Committee on Property Insurance Rate Making met 4 times after the 2011 Regular Session. The Committee's Charge can be found here. The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library.

November 2, 2011

- Tim Hovis, Staff Attorney, Research Division, gave an overview of the proposed budget and Legislative Research Commission rules and reporting requirements.

- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau ("Rate Bureau"), presented information on the general operations of the Rate Bureau and the process used by the Rate Bureau to file rates with the North Carolina Department of Insurance (NCDOI).

- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, provided a brief history of property and casualty insurance rate making in North Carolina and summarized the role of NCDOI in the rate making process.

- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), gave background on the Beach and Fair Plans including: rate making by the Rate Bureau, conditions under which a surcharge may be assessed to a property owner, Plan market share, and premiums charged by the Plans.

December 1, 2011

- Ray Evans, General Manager, North Carolina Rate Bureau, continued the November Rate Bureau presentation by providing further details on the role of the Rate Bureau. Mr. Evans also explained the rate making formula and briefly went through the modeling used to calculate catastrophic events. Mr. Evans also reviewed property territories.

- Sue Taylor, Director of Insurance Operations, North Carolina Rate Bureau, supplied additional information on the residential property insurance market, including data on deductibles and Rate Bureau membership.

- Shantelle Thomas, Chair, Property Insurance Committee of North Carolina Rate Bureau and Senior Actuary for Allstate Insurance, made a presentation on catastrophe models and their role in damage estimations.

- Rose Vaughn-Williams, Legislative Counsel, North Carolina Department of Insurance, detailed the elements of premium determination and factors in rate and premium setting. Ms. Vaughn-Williams also explained the 2008 Rate Bureau homeowners filing, which resulted in a settlement.

- Susan Valauri, Senior Director of Government Relations, Nationwide Mutual Insurance Company, gave a presentation depicting catastrophic events in North Carolina occurring in the year 2011. She expressed concerns over the large impact the storms had on insurance carriers and on the property insurance climate in the State.

- Steve Carroll, Vice President and General Manager, Farm Bureau Mutual Insurance Company, expressed concerns over inland storms as well as coastal storms and their impact on carriers. Mr. Carroll explained that his company has had to cancel a large number of property policies statewide because the premium amount is too low.

- Don Griffin, Vice President, Personal Lines, Property Casualty Insurers Association of America, discussed House Bill 1305: Beach Plan Changes (2009) as well as the issues of territorial rating, risk-based pricing and the Rate Bureau's impact on property insurance rates.

- Lee Dunn, Assistant General Manager, North Carolina Insurance Underwriting Association (Beach Plan) and North Carolina Joint Underwriting Association (FAIR Plan), explained the commission's structure and the certification process required for agents working through the Associations.

- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, questioned whether the State was using the best system for setting property insurance rates. Her concerns included the Rate Bureau, the adequacy of the Commissioner of Insurance's role, and modeling processes.

- Robert Privott, Director of Codes and Construction, North Carolina Home Builder's Association, offered background on the State's building codes and highlighted recent changes to the residential building code.

- Tyler Newman, Governmental Affairs Director, Business Alliance for a Sound Economy, provided a comparison of his Wilmington homeowner's policy with those of a Raleigh homeowner's policy along with a list of recommendations to the Committee.

March 21, 2012

- Wayne Goodwin, Commissioner, North Carolina Department of Insurance, brought various recommendations to the Committee involving the following topics; transparency in rate filing, modeling, rating territories, authority of the Commissioner regarding rate setting, the Beach Plan, and tax credits for new property insurance business.

- Nancy Watkins, Principal and Consulting Actuary, Milliman, Inc., made a presentation regarding the impact of the House Bill 1305: Beach Plan Changes, as well as overall Beach Plan exposure. Ms. Watkins also analyzed the effect of the rate making process on the Beach Plan.

- Willo Kelly, President, NC-20, spoke about tax-free bonding to manage calculated losses, creating various deductibles (named stormed vs. hurricane), and a statewide catastrophe fund.

- Kathleen Riely, Director, Governmental Affairs, Wilmington Regional Association of Realtors, discussed concerns regarding whether the State was using the best system for setting property insurance rates and offered various suggestions for consideration by the Committee.

- Tim Hovis, Staff Attorney, Research Division, reviewed recommendations the Committee had heard over the course of its meetings. The Committee discussed proposed recommendations and agreed upon options to pursue.

April 12, 2012

- The Committee reviewed its report to the 2012 Session and approved the report for submission to the Legislative Research Commission.

FINDINGS AND RECOMMENDATIONS

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BRIEF OVERVIEW OF CURRENT LAW

Standard Market

Article 36 of Chapter 58 requires the N.C. Rate Bureau to file jointly for all insurers the proposed rates and rating plans for insurance against loss to residential real property. Within 50 days of the filing, the Commissioner may give written notice to the Bureau specifying in what respect the Commissioner believes the filing fails to comply with the Article and fixing a date for a hearing. If no notice of hearing is issued by the Commissioner within 50 days, the rate is deemed to be approved. If notice is given, the hearing must be held not less than 30 days from the date of the notice. The burden of proving that the rate meets the necessary standard of not being "excessive, inadequate, or unfairly discriminatory" is on the Rate Bureau. When deciding upon a rate, due consideration must be given to a number of factors including actual and prospective loss and expense experience within the State, the hazards of catastrophe, and a reasonable margin for underwriting profit. Companies may deviate downward from the approved rate. A rate up to 250% above the approved Bureau rate may also be charged, but only with the written consent of the policyholder. This is known as "consent to rate." The Commissioner has the authority to approve or disapprove the rate submitted in the filing, but does not have the authority to specify a rate other than the filed rate.

Beach Plan

The North Carolina Insurance Underwriting Association (NCIUA), known as the Beach Plan, provides property insurance for those homeowners in the beach and coastal areas of the State who are unable to purchase insurance through the standard or voluntary market. The Beach Plan is not a State entity, but is made up of all insurers authorized to write property and casualty insurance in the State. By statute, the Beach Plan covers two areas: (1) the barrier islands, referred to under the Plan as the beach area; and (2) 18 coastal counties, referred to as the coastal area. The Beach Plan offers homeowners, dwelling, and wind only coverage in the beach area, and homeowners and wind only coverage in the coastal area.

For certain residential policies, the Plan charges the standard market rate approved by the Commissioner, plus a differential or surcharge for wind and hail coverage. The surcharge is a percentage amount above the voluntary market rate approved by the Commissioner which all beach and coastal property owners must pay to purchase coverage through the Plan. By statute, the surcharge is 5% above the approved voluntary rate for separate wind and hail coverage, and 15% for wind and hail coverage as a part of a homeowner's policy purchased through the Plan.

Member companies share in the expenses and losses of the Plan. If the Plan generates surplus revenues in excess of claims paid, this surplus must be retained by the Plan and, by law, cannot be distributed to the member companies. Any accumulated surplus may then be used to cover Plan losses in those years in which claims filed are greater than premiums received.

If claims exceed Beach Plan premium revenues, retained surplus, and any applicable reinsurance purchased by the Plan, member companies are assessed by the Plan to pay claims. When assessments against insurers exceed $1B, the Association may, subject to verification of the amount of losses and expenses by the Commissioner, institute a catastrophe recovery charge on residential and commercial policyholders statewide to finance the remaining losses. This recovery charge, as prescribed by the Commissioner, shall not exceed an aggregate amount of 10% of the annual policy premium on any one policy of insurance.

BACKGROUND

(The following is a brief overview of issues discussed by the Committee. Detailed minutes of the Committee's meetings, including written remarks and handouts, are available in the Legislative Library.)

Over the course of four meetings, the Committee heard a number of presentations from representatives of the insurance industry, policyholder groups, the Department of Insurance, the North Carolina Rate Bureau and the North Carolina Joint Underwriting Association (NCJUA, also known as the Beach Plan). **Ms. Rose Vaughn-Williams, Legislative Counsel, Department of Insurance**, noted a number of factors submitted for consideration by the Rate Bureau to the Department in a rate filing. These factors include modeled and non-modeled losses, reinsurance costs, agents' commissions, the number of discounts given, fixed expenses, and profits. As noted by Ms. Williams, when reviewing a filing, the Department may not agree with the factors submitted by the Bureau or the weight attributed to a specific factor by the Bureau.

A number of the rating factors submitted by the Bureau raise concern among policyholders, particularly residential policyholders in the beach and coastal territories of the state. Of particular concern are modeled losses and reinsurance costs. With regard to modeled losses, **Ms. Kathleen Riely, Governmental Affairs Director, Wilmington Association of Realtors**, objected to the use of only one catastrophe model skewed, in her opinion, to justify higher coastal rates. Ms. Riely asked that additional models or a combination of models be required in rate filings. On the issue of reinsurance, **Ms. Willo Kelly, President, NC-20**, noted that, while profits of the Beach Plan are by law retained by the Plan and are no longer distributed to companies, the increasing dependence of the Beach Plan on the purchase of reinsurance was depleting Beach Plan reserves or surplus and may ultimately render the Beach Plan financially unstable. Of concern to Ms. Kelly, Ms. Riely and other beach and coastal representatives was the use of modeling and reinsurance costs to justify increasing premiums and rate increases in the beach and coastal areas, particularly when these increases in eastern territories were juxtaposed with

rate stability and even rate decreases in other areas of the State. Those expressing concern over rate hikes and premium increases asked for consideration of a number of reforms, including the issuance of tax-free bonds by the Beach Plan, the creation of a catastrophe fund, an overhaul of the current rate making system, increased public participation in rate making, recognition of building code changes in eastern territories of the State, and other institutional reforms.

Insurers sounded a common theme when speaking to the Committee. **Ms. Susan Valauri, Senior Director, Governmental Relations, Nationwide Insurance**, maintained that the State's property insurance market is a volatile and catastrophe prone market in which rates are too low to allow for adequate profit. **Mr. Don Griffin, Vice-President, Personal Lines, Property Casualty Insurance of America**, maintained that rates in the State are as much as 15-20% lower than in other states. Insurers pointed to inadequate rates as the main reason for their refusal to write new policies and their decision to non-renew existing policies in the beach and coastal areas. Citing his company's plans to eliminate up to 20% of their total policies statewide, **Mr. Steve Carroll, Vice-President, General Manager, Farm Bureau Mutual Insurance Company**, noted that, while the major areas of concern remain the beach and coastal areas, concern has begun to move inland as tornadoes and hailstorms affect areas west of the coast. Ms. Valauri also noted the increased risk posed in inland areas. Other reasons cited by insurers for their decision to refuse new coverage and to non-renew existing coverage include the unreliability of investment income in today's economy and the exposure of companies to $1 billion dollars in non-recoupable assessments under the State's Beach Plan. **Ms. Nancy Watkins, Principal, Milliman, Inc.**, speaking on behalf of Property Casualty Insurance of America, maintained that inadequate pricing in the beach and coastal areas increases the risk of an assessment under the Beach Plan and poses a significant financial risk to companies. Ms. Watkins also noted the need for a market driven approach to rate making rather than the current system and also expressed support for territorial deviations, and explicit recognition of reinsurance costs.

The Honorable Wayne Goodwin, Insurance Commissioner, stressed the importance of addressing problems in the homeowners' insurance market, particularly in the beach and coastal areas of the State. Commissioner Goodwin pointed out that, as Insurance Commissioner, he must protect consumers from excessive, inadequate, and unfairly discriminatory rates. However, he is also required to ensure that companies have the opportunity to make a fair and reasonable profit. His goal is to have more companies providing coverage in the beach and coastal areas and reduce homeowners' reliance in these areas on the Beach Plan. The Commissioner's recommendations to the Committee include the following: (1) requiring more outcomes when a catastrophe model is used to provide to project losses; (2) requiring specific cost data when reinsurance costs are included in rate calculations; (3) designation of public comments periods before rate hearings; (4) granting the Commissioner the authority to select a rate based on the evidence submitted in a rate filing, not just accept or reject the rate filed by the Rate Bureau; (5) expanding the number of rating territories along the coast; (6) further study of options other than reinsurance to deal with catastrophic or multiple storms, including tax exempt bonds; (7) tax credits for insurers writing new full coverage in the beach and coastal areas.

FINDINGS AND RECOMMENDATIONS

The Committee discussed the presentations above, including recommendations offered by the Commissioner and others, and approved the following findings and recommendations:

RECOMMENDATION I

The current law governing property insurance rate making gives the Commissioner authority to either accept or reject a rate filed by the Rate Bureau. The Commissioner lacks the authority to set a rate between the current rate and the rate filed. Furthermore, the Commissioner is unable to order a decrease in the current rate, if the evidence supports such a change.

At a time when insurers maintain rates are inadequate and property owners in the beach and coastal areas of the state oppose rate increases, the Committee finds that the Commissioner should be given greater flexibility and discretion in the rate making process. The Committee recommends legislation giving the Commissioner authority to select the appropriate rate based on the evidence, not just accept or reject the rate submitted by the Rate Bureau. (See Appendix D, Section 4 of proposed legislation)

RECOMMENDATION II

As evidenced by the discussion in Committee, the use of catastrophe modeling as a factor in property insurance rate filings is the subject of much debate. Insurers maintain that catastrophe models incorporate years of historical data and are the best way to achieve credible estimates of losses due to hurricanes. Property owners believe these models are often skewed to justify higher beach and coastal rates and are suspect of a model's relevance to actual losses in N.C. given recent premium and rate increases in beach and coastal areas juxtaposed with decreases in many areas west of the coast. The Commissioner in his remarks asked for more information on the estimated loss resulting from each of the more than 50,000 hurricanes simulated in a given model.

The Committee finds that more information about the specific model used in a rate filing submitted by the Bureau to the Commissioner is needed. Moreover, specific information concerning a simulated loss should be provided. To facilitate this, the Committee recommends legislation to do the following:

- Require a prehearing prior to a rate hearing giving the Department the authority to see and review all materials and documents pertinent to the catastrophe model or models used in a rate filing. The confidentiality of these materials and documents should be protected and the prehearing closed to the public. (See Appendix D, Section 4 of proposed legislation)
- Require any simulated loss from a catastrophe model to included specific information such as annual probability, the amount of N.C. damages before and after the application of any deductible, specific information concerning first N.C.

landfall or entry, windspeed, and other information. (See Appendix D, Section 5 of proposed legislation)

- Require the Bureau to submit data from more than one catastrophe model in a rate filing if modeled losses are used, in response to arguments that certain models may be skewed to justify higher beach and coastal rates. (See Appendix D, Section 1 of proposed legislation)

RECOMMENDATION III

The increasing cost of reinsurance is often cited by the Bureau as a contributing factor in filings for rate increases and a reason many insurers cannot afford to write coverage in the beach and coastal areas. The Department maintains, however, that insurers provide insufficient data on the cost of reinsurance in rate filings. According to the Department, they are unable to determine if reinsurance costs are reasonable for the specific coverage which is the subject of a requested rate increase.

The Committee finds that more information on the cost of reinsurance is needed. The Committee recommends legislation requiring information in a rate filing on the cost of reinsurance specific to N.C. and the line of business for which the filing is being made. (See Appendix D, Section 5 of proposed legislation)

RECOMMENDATION IV

As noted by several presenters, including the Commissioner, the public should be given input in property insurance rate filings. Often the public bears the burden of paying increasing property insurance premiums, but has no official venue in which to express their support of or objection to a specific filing. The current Commissioner has provided for public comment periods prior to giving notice of a rate hearing. However, no statutory requirement for such a public comment period exists.

To ensure that all future Commissioners will provide for and accept public input, the Committee finds a public comment period should be designated in statute by the General Assembly. The Committee recommends legislation requiring the Department to accept public comments prior to a notice of hearing in a property insurance rate filing. (See Appendix D, Section 4 of proposed legislation)

RECOMMENDATION V

S.L. 2009-472 (House Bill 1305) amended G.S. 58-36-10 to direct the NC Rate Bureau to revise, monitor and review existing territorial boundaries to ensure that policyholders in the beach and coastal areas are charged premiums that are commensurate with the risk of loss and that are actuarially correct. Any proposed change in territories under this section is subject to the Commissioner's approval. Since this language was enacted, the Bureau has not reported to the Department on any changes or requested approval of any changes by the Department.

Several presenters, including the Commissioner and insurers, expressed support for a study of possible changes to the territorial boundaries. The Committee finds that territorial boundaries, and the rates approved for certain territories, may not in all cases accurately reflect the risk associated with each area. Furthermore, new technology and date sources may make alternatives to the geographic territory system possible. While this issue is particularly important in the beach and coastal areas of the State, any study of the territorial boundaries should not be limited to just the beach and coastal areas, but should include the entire State.

The Committee recommends that the Rate Bureau, with the assistance of the Department, study these issues and report on any recommendations for change to the 2013 General Assembly. (See Appendix D, Section 6 of proposed legislation)

RECOMMENDATION VI

In its discussions, Committee members voiced the frustration of their constituents who are unable to obtain a homeowner's fire policy without wind and hail coverage. These constituents, who live primarily in the beach and coastal areas, are willing to personally assume the risk for loss due to wind and hail in hopes of being able to afford coverage insuring them against other risks. However, many companies refuse to provide this type of coverage.

The Committee agrees and finds that, in light of increasing premiums, insurers should offer a residential fire policy that excludes wind coverage to those property owners willing to assume the risk for wind losses. Accordingly, the Committee recommends legislation requiring the Bureau to develop for approval by the Commissioner a policy form that provides residential property insurance coverage without the coverage for the perils of windstorm or hail. (See Appendix D, Sections 2 and 3 of proposed legislation)

RECOMMENDATION VII

The Committee understands that the issues surrounding property insurance rate making are difficult and complex. As noted in this report, several issues discussed by the Committee require additional analysis and discussion which time did not permit prior to the 2012 Session of the General Assembly. These issues include the issuance of tax exempt bonds by the Beach Plan, the creation of a catastrophe fund, reforms to the current rate making system, tax credits to insurers for writing new coverage in the beach and coastal areas, the creation of a citizens' review board or other public body to participate in rate filings, changes to deductibles, and the effect of hazards and catastrophes in inland areas of the State on property insurance. These are only some of the remaining issues.

In light of these issues, the Committee recommends that the General Assembly continue the study of property insurance rate making for possible recommendations to the 2013 General Assembly.

COMMITTEE MEMBERSHIP

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2011-2012

President Pro Tempore of the Senate Appointments:

Senator Harry Brown, Co-Chair

Senator Thomas Apodaca
Senator Ralph Hise
Senator Wesley Meredith
Senator Stanford White

Speaker of the House of Representatives Appointments:

Representative Jerry Dockham, Co-Chair

Representative Frank Iler
Representative Jonathan Jordan
Representative Patricia McElraft
Representative Michael Wray

COMMITTEE CHARGE

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Property Insurance Rate Making – Study the adequacy of citizen input in property insurance rate making and the manner in which property insurance rates are proposed, reviewed, approved, and appealed. Specifically, the subcommittee may study the following:

(1) The feasibility and advisability of replacing the North Carolina Rate Bureau with a market based rate setting system or with a regulatory commission similar to the North Carolina Utilities Commission.
(2) The adequacy under current law of legislative oversight of the Rate Bureau, the North Carolina Joint Underwriting Association, and the North Carolina Insurance Underwriting Association.
(3) The adequacy under current law of Commissioner of Insurance duties pertaining to protection of policyholders and the public against the adverse effects of excessive, inadequate, or unfairly discriminatory rates.
(4) Whether North Carolina citizens and policyholders should be given a voice in rate appeals under G.S. 58-2-80 through creation of a board or office independent of the Commissioner with standing to advocate on behalf of citizens and policyholders.
(5) The adequacy of the review process afforded by G.S. 58-36-1(2) to persons affected by a rate or loss costs made by the Rate Bureau.
(6) Whether information provided to the public by the Commissioner and the Rate Bureau is adequate to allow reasoned review by interested citizens of the assumptions, modeling, and processes used in setting rates.

STATUTORY AUTHORITY

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NORTH CAROLINA GENERAL STATUTES
ARTICLE 6B.

Legislative Research Commission.

§ 120-30.17. Powers and duties.

The Legislative Research Commission has the following powers and duties:

(1) Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.

(2) To report to the General Assembly the results of the studies made. The reports may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations.

(3), (4) Repealed by Session Laws 1969, c. 1184, s. 8.

(5), (6) Repealed by Session Laws 1981, c. 688, s. 2.

(7) To obtain information and data from all State officers, agents, agencies and departments, while in discharge of its duty, pursuant to the provisions of G.S. 120-19 as if it were a committee of the General Assembly.

(8) To call witnesses and compel testimony relevant to any matter properly before the Commission or any of its committees. The provisions of G.S. 120-19.1 through G.S. 120-19.4 shall apply to the proceedings of the Commission and its committees as if each were a joint committee of the General Assembly. In addition to the other signatures required for the issuance of a subpoena under this subsection, the subpoena shall also be signed by the members of the Commission or of its committee who vote for the issuance of the subpoena.

(9) For studies authorized to be made by the Legislative Research Commission, to request another State agency, board, commission or committee to conduct the study if the Legislative Research Commission determines that the other body is a more appropriate vehicle with which to conduct the study. If the other body agrees, and no legislation specifically provides otherwise, that body shall conduct the study as if the original authorization had assigned the study to that body and shall report to the General Assembly at the same time other studies to be conducted by the Legislative Research Commission are to be reported. The other agency shall conduct the transferred study within the funds already assigned to it.

LEGISLATIVE PROPOSALS

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GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

U **D**

BILL DRAFT 2011-MHz-92 [v.2] (03/26)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/2/2012 12:46:26 PM

Short Title: Improve Property Insurance Rate Making. (Public)

Sponsors: .

Referred to:

A BILL TO BE ENTITLED

AN ACT, AS RECOMMENDED BY THE LEGISLATIVE RESEARCH COMMISSION COMMITTEE ON PROPERTY INSURANCE RATE MAKING, TO IMPROVE THE RATE MAKING PROCESS AND THE AFFORDABILITY OF PROPERTY INSURANCE FOR LOW INCOME HOMEOWNERS BY REQUIRING THAT MORE THAN ONE CATASTROPHE MODEL BE USED TO ESTIMATE POTENTIAL LOSSES FOR PURPOSES OF A RATE FILING; AND BY REQUIRING THAT THE RATE BUREAU CREATE A RATING PLAN FOR A PROPERTY INSURANCE POLICY THAT EXCLUDES COVERAGE FOR THE PERILS OF WINDSTORM AND HAIL; AND BY REQUIRING THE DEPARTMENT OF INSURANCE TO ACCEPT PUBLIC COMMENT ON ALL PROPERTY INSURANCE RATE FILINGS; AND BY PROVIDING FOR A PREHEARING CONFERENCE FOR THE COMMISSIONER OF INSURANCE TO SCRUTINIZE CATASTROPHE MODELING WHEN SUCH MODELING IS THE BASIS FOR ANY FACTOR IN A RATE FILING FOR WHICH THE COMMISSIONER HAS ISSUED A NOTICE OF HEARING; AND BY PROVIDING THE COMMISSIONER WITH THE POWER TO SPECIFY THE APPROPRIATE RATE LEVEL OR LEVELS UPON A FINDING THAT A RATE FILING DOES NOT COMPLY WITH APPLICABLE LAW; AND BY REQUIRING THAT, WHEN THE COST OF

REINSURANCE IS INCLUDED AS A FACTOR IN A PROPOSED RATE, CERTAIN SUPPORTING INFORMATION BE PROVIDED AND THAT THE FILING INCLUDE ONLY THE REINSURANCE COST SPECIFIC TO PROPERTY INSURANCE LOSSES IN NORTH CAROLINA; AND BY REQUIRING THAT THE RATE BUREAU AND THE DEPARMENT OF INSURANCE STUDY THE FAIRNESS AND EFFICACY OF THE CURRENT PROPERTY INSURANCE GEOGRAPHIC RATE TERRITORIES.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-36-10(3) reads as rewritten:

"**§ 58-36-10. Method of rate making; factors considered.**

The following standards shall apply to the making and use of rates:

(1) Rates or loss costs shall not be excessive, inadequate or unfairly discriminatory.

(2) Due consideration shall be given to actual loss and expense experience within this State for the most recent three-year period for which that information is available; to prospective loss and expense experience within this State; to the hazards of conflagration and catastrophe; to a reasonable margin for underwriting profit and to contingencies; to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers; to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State; to past and prospective expenses specially applicable to this State; and to all other relevant factors within this State: Provided, however, that countrywide expense and loss experience and other countrywide data may be considered only where credible North Carolina experience or data is not available.

(3) In the case of property insurance rates under this Article, consideration may be given to the experience of property insurance business during the most recent five-year period for which that experience is available. In the case of property insurance rates under this Article, consideration shall be given to the insurance public protection classifications of fire districts established by the Commissioner. The Commissioner shall establish and modify from time to time insurance public protection districts for all rural areas of the State and for cities with populations of 100,000 or fewer, according to the most recent annual population estimates certified by the State Budget Officer. In establishing and modifying these districts, the Commissioner shall use standards at least equivalent to those used by the Insurance Services Office, Inc., or any successor organization. The standards developed by the Commissioner are subject to Article 2A of Chapter 150B of the General Statutes. The

insurance public protection classifications established by the Commissioner issued pursuant to the provisions of this Article shall be subject to appeal as provided in G.S. 58-2-75, et seq. The exceptions stated in G.S. 58-2-75(a) do not apply. If the Rate Bureau presents any modeled losses with a property insurance rate filing, the Bureau shall present data from more than one catastrophe model.

SECTION 2. Article 36 of Chapter 58 of the General Statutes is amended by adding a new section to read:

"§ 58-36-42. Development of policy form or endorsement for residential property insurance that does not include coverage for perils of windstorm or hail.

With respect to residential property insurance under its jurisdiction, the Bureau shall develop an optional policy form or endorsement to be filed with the Commissioner for approval that provides residential property insurance coverage without coverage for the perils of windstorm or hail. Insurers that sell such policies shall comply with the provisions of G.S. 58-44-60 and through such compliance shall be deemed to have given notice to all insured and persons claiming benefits under such policies that such policies do not include coverage for the perils of windstorm or hail."

SECTION 3. G.S. 58-44-60 reads as rewritten:

"§ 58-44-60. Notice to property insurance policyholder about flood, earthquake, mudslide, mudflow, ~~and~~ landslide, and windstorm or hail insurance coverage.

(a) Every insurer that sells residential or commercial property insurance policies that do not provide coverage for the perils of flood, earthquake, mudslide, mudflow, ~~or~~ landslide or windstorm or hail shall, upon the issuance and renewal of each policy, identify to the policyholder which of these perils are not covered under the policy. The insurer shall print the following warning, citing which peril is not covered, in Times New Roman 16-point font or other equivalent font and include it in the policy on a separate page immediately before the declarations page:

"WARNING: THIS PROPERTY INSURANCE POLICY DOES NOT PROTECT YOU AGAINST LOSSES FROM [FLOODS], [EARTHQUAKES], [MUDSLIDES], [MUDFLOWS], ~~[LANDSLIDES].~~ [LANDSLIDES], [WINDSTORM OR HAIL]. YOU SHOULD CONTACT YOUR INSURANCE COMPANY OR AGENT TO DISCUSS YOUR OPTIONS FOR OBTAINING COVERAGE FOR THESE LOSSES. THIS IS NOT A COMPLETE LISTING OF ALL OF THE CAUSES OF LOSSES NOT COVERED UNDER YOUR POLICY. YOU SHOULD READ YOUR ENTIRE POLICY TO UNDERSTAND WHAT IS COVERED AND WHAT IS NOT COVERED."

(b) As used in this section, "insurer" includes an entity that sells property insurance under Articles 21, 45, or 46 of this Chapter."

SECTION 4. G.S. 58-36.20 reads as rewritten:

"§ 58-36-20. Disapproval; hearing, order; adjustment of premium, review of filing.

(a) ~~At any time within 50 days after the date of any filing, the Commissioner may give written notice to the Bureau specifying in what respect and to what extent the Commissioner contends the filing fails to comply with the requirements of this Article and fixing a date for hearing not less than 30 days from the date of mailing of such notice.~~ With respect to any property insurance rate filing, except as provided in G.S. 58-36-25, or any Workers' Compensation loss cost filing, a filing made by the Bureau under G.S. 58-36-15 is not effective until approved by the Commissioner or unless 50 days have elapsed since the making of a proper filing under that subsection and the Commissioner has not called for a hearing on the filing. If the Commissioner calls for a hearing, he must give written notice to the Bureau, specify in the notice in what respect the filing fails to comply with this Article, and fix a date for the hearing that is not less than 30 days from the date the notice is mailed. Once begun, hearings must proceed without undue delay. At the hearing the burden of proving that the proposed rates or loss costs are not excessive, inadequate, or unfairly discriminatory is on the Bureau. At the hearing the factors specified in G.S. 58-36-10 shall be considered. ~~If the Commissioner after hearing finds that the filing does not comply with the provisions of this Article, he may issue his order determining wherein and to what extent such filing is deemed to be improper and fixing a date thereafter, within a reasonable time, after which the filing shall no longer be effective. Any order issued after a hearing shall be issued within 45 days after the completion of the hearing. If no order is issued within 45 days after the completion of the hearing, the filing shall be deemed to be approved.~~

~~(b) In the event that no notice of hearing shall be issued within 50 days from the date of any such filing, the filing shall be deemed to be approved. If the Commissioner disapproves such filing pursuant to subsection (a) as not being in compliance with G.S. 58-36-10, he may order an adjustment of the premium to be made with the policyholder either by collection of an additional premium or by refund, if the amount exceeds five dollars ($5.00). The Commissioner may thereafter review any filing in the manner provided; but if so reviewed, no adjustment of any premium on any policy then in force may be ordered.~~

~~(c) For workers' compensation insurance and employers' liability insurance written in connection therewith, the period between the date of any filing and the date the Commissioner may give written notice as described in subsection (a) of this section and the period between the date of any filing and the deadline for giving notice of hearing as described in subsection (b) of this section shall be 60 days.~~

(d) All property insurance rate filings shall be open to the public except as provided in this Article where necessary to maintain the confidentiality of certain testimony. At least thirty (30) days before a notice of hearing issues the Department shall accept comments from the public regarding a property insurance

rate filing. The comments may be provided to the Department by email, mail, or in person at a time and place set by the Department. All public comments shall be shared with the Rate Bureau in a timely manner. Only comments from the public that are made a part of the Notice of Hearing may be considered by the Commissioner or his designated hearing officer during the hearing.

(e) With respect to any property insurance rate filing, except as provided in G.S. 58-36-30, where a catastrophe model is used in the calculation for any factor in the filing and where the Commissioner has called for a hearing, the hearing process shall proceed as follows:

(1) No earlier than 30 days after a Notice of Hearing is issued, the Commissioner shall schedule a prehearing which may be attended only by the parties to the case and any experts who will present testimony regarding the catastrophe model or models used in the filing. The prehearing shall be called solely for the purpose of providing the Department and its expert witnesses with the opportunity to see and review all materials and documents pertinent to the catastrophe model or models used in the property rate filing. Because the materials and documents subject to discovery may be confidential in nature, the prehearing shall be closed to the public. The Commissioner shall preside over the prehearing and shall resolve any disputes that arise between the parties. A proper record shall be kept at the prehearing and said record shall be treated as confidential unless a ruling from a court of competent jurisdiction determines that the record of the conference shall be available to the public. Discovery not related to the catastrophe model shall be conducted pursuant to normal hearing procedures.

(2) At the prehearing, the Rate Bureau and its experts shall present any relevant data, materials, computations, spreadsheets, or documents regarding the catastrophe model or models which were excluded from the filing. Copies of all materials presented at the prehearing shall be provided to the Department and its experts for further analysis. Any materials provided at the prehearing to the Department and its experts that is marked as confidential shall be treated as confidential unless a ruling from a court of competent jurisdiction determines that the materials shall be available to the public. Based upon the materials presented both in the filing and at the prehearing, the Department and its experts may request additional data, materials, computations, spreadsheets, or documents, or may make specific inquiries that require a written explanation in order to further understand the available materials.

(3) There shall be no limit on the number of discovery materials requested regarding the catastrophe model. However, the Commissioner may make a determination at the prehearing whether the requested materials are relevant, reasonable, and not unduly burdensome.

(4) The Commissioner shall set a date by which all discovery materials regarding the catastrophe model shall be delivered to the Department. All materials marked by the Rate Bureau as "confidential" shall be individually numbered by the Rate Bureau so that they may be referred to by number, if necessary, by the Commissioner in subsequent documents or orders. The Rate Bureau shall provide an index of the confidential documents marked confidential in order that the documents may be easily identified and referenced in subsequent pleadings, testimony and orders. All materials marked by the Rate Bureau as "confidential" shall be treated by the Department and its experts as confidential unless a ruling from a court of competent jurisdiction determines that the materials shall be available to the public. Once the requested discovery materials have been delivered to the Department as required, the Commissioner may schedule additional prehearings to address additional discovery materials that may be requested by the Department. Once all of the Department's discovery requests related to the catastrophe model or models have been finalized, the Commissioner shall schedule a final prehearing conference to ensure that there are no other discovery issues pending and that both parties are ready to proceed to hearing. All prehearings shall also be closed to the public in the event that potentially confidential materials may be discussed. Any data from catastrophe models that is not disclosed at the prehearing at least thirty (30) days prior to the submission of prefiled testimony of Department witnesses shall be inadmissible at the hearing on the filing.

(5) Once the discovery process for the catastrophe model has been completed, the hearing may proceed pursuant to statute. The Department witnesses shall file all prefiled testimony as required under G.S. 58-36-15(i). However, any prefiled testimony regarding the catastrophe model or models used in the filing shall be filed as a separate document and marked as "confidential." The prefiled testimony of the Department witnesses relating to the catastrophe models may contain references to data, testimony, or exhibits pertaining to confidential materials submitted by the Rate Bureau, and, therefore, shall be treated as "confidential" by the Department and its experts unless a ruling

from a court of competent jurisdiction determines that the prefiled testimony shall be made available to the public. All references to confidential materials used by the Department witnesses shall utilize the individual identification numbers assigned by the Rate Bureau in the discovery materials.

(6) Prior to commencement of the hearing, the Commissioner shall determine the order of testimony to be heard at the hearing. However, any oral testimony taken at the hearing on direct, cross-examination or on rebuttal with regards to the catastrophe model will be closed to the public, if necessary, in order to preserve confidentiality. Transcripts from hearing proceedings closed to the public shall be treated as "confidential" by the Department, its experts, and by the court reporters unless a ruling from a court of competent jurisdiction determines that the prefiled testimony shall be made available to the public.

(7) At the conclusion of the hearing, the Commissioner, in his final order, shall make his determination as to whether the catastrophe model is valid for the purpose it was used in the filing, the weight to be applied to the modeled results, and the extent to which the results of the model should be modified, if at all.

(f) If the Commissioner finds that a filing complies with the provisions of this Article, either after the hearing or at any other time after the filing has been properly made, he may issue an order approving the filing. If the Commissioner after the hearing finds that the filing does not comply with the provisions of this Article, he may issue an order disapproving the filing, determining in what respect the filing is improper, and specifying the appropriate rate level or levels that may be used by the members of the Bureau instead of the rate level or levels proposed by the Bureau filing, unless there has not been data admitted into evidence in the hearing that is sufficiently credible for arriving at the appropriate rate level or levels. Any order issued after a hearing shall be issued within 45 days after the completion of the hearing. If no order is issued within 45 days after the completion of the hearing, the filing shall be deemed to be approved. The Commissioner may thereafter review any filing in the manner provided; but if so reviewed, no adjustment of any premium on any policy then in force may be ordered. The escrow provisions of G.S. 58-36-25(b) apply to an appeal of any order of the Commissioner under this subsection."

SECTION 5. G.S. 58-36-15 reads as rewritten:

"**§ 58-36-15. Filing loss costs, rates, plans with Commissioner; public inspection of filings.**

(a) The Bureau shall file with the Commissioner copies of the rates, loss costs, classification plans, rating plans and rating systems used by its members. Each rate or loss costs filing shall become effective on the date specified in the filing, but not earlier than 210 days from the date the filing is received by the

Commissioner: Provided that (1) rate or loss costs filings for workers' compensation insurance and employers' liability insurance written in connection therewith shall not become effective earlier than 210 days from the date the filing is received by the Commissioner or on the date as provided in G.S. 58-36-100, whichever is earlier; and (2) any filing may become effective on a date earlier than that specified in this subsection upon agreement between the Commissioner and the Bureau.

(b) A filing shall be open to public inspection immediately upon submission to the Commissioner.

(c) The Bureau shall maintain reasonable records, of the type and kind reasonably adapted to its method of operation, of the experience of its members and of the data, statistics or information collected or used by it in connection with the rates, rating plans, rating systems, loss costs and other data as specified in G.S. 58-36-100, underwriting rules, policy or bond forms, surveys or inspections made or used by it.

(d) With respect to the filing of rates for nonfleet private passenger motor vehicle insurance, the Bureau shall, on or before February 1 of each year, or later with the approval of the Commissioner, file with the Commissioner the experience, data, statistics, and information referred to in subsection (c) of this section and any proposed adjustments in the rates for all member companies of the Bureau. The filing shall include, where deemed by the Commissioner to be necessary for proper review, the data specified in subsections (c), (e), (g) and (h) of this section. Any filing that does not contain the data required by this subsection may be returned to the Bureau and not be deemed a proper filing. Provided, however, that if the Commissioner concludes that a filing does not constitute a proper filing he shall promptly notify the Bureau in writing to that effect, which notification shall state in reasonable detail the basis of the Commissioner's conclusion. The Bureau shall then have a reasonable time to remedy the defects so specified. An otherwise defective filing thus remedied shall be deemed to be a proper and timely filing, except that all periods of time specified in this Article will run from the date the Commissioner receives additional or amended documents necessary to remedy all material defects in the original filing.

(d1) With respect to property insurance rates, the Bureau shall file no later than May 1, 2010, a schedule of credits for policyholders based on the presence of mitigation and construction features and on the condition of buildings that it insures in the beach and coastal areas of the State. The Bureau shall develop rules applicable to the operation of the schedule and the mitigation program with approval by the Commissioner. The schedule shall not be unfairly discriminatory and shall be reviewed by the Bureau annually, with the results reported annually to the Commissioner.

<u>(d2) The following supporting data, at a minimum, shall be included in any property insurance rate filing where a catastrophe model is used or where a factor</u>

for any costs of reinsurance is included in the rate calculations or where both a catastrophe model and a factor for costs of reinsurance are used.

(1) Any simulated loss from a catastrophe model should include the following:

a. An event identifier.

b. The simulation year.

c. The annual probability of occurrence for the event.

d. The gross amount of North Carolina damages before application of any deductible or other applicable policy provisions that impact the coverage, calculated with and without any applicable demand surge adjustments.

e. The net amount of North Carolina insured loss after application of any deductible or other applicable policy provisions that impact the coverage, calculated with and without any applicable demand surge adjustments.

f. The State and county of first and any subsequent landfalls.

g. The Saffir-Simpson category at first and any subsequent landfalls.

h. The maximum sustained windspeed at first and any subsequent landfalls.

i. The North Carolina county of first entry, if applicable, whether first entry is from water or land.

j. The Saffir-Simpson category at first entry into North Carolina, if applicable, whether first entry is from water or land.

k. The maximum sustained windspeed at first entry into North Carolina, if applicable, whether first entry is from water or land.

l. For storms with no landfall in North Carolina, the county of closest approach.

m. For storms with no landfall in North Carolina, the Saffir-Simpson Category at closest approach.

n. For storms with no landfall in North Carolina, the maximum sustained windspeed at closest approach.

o. Any other information required by rules promulgated by the Commissioner.

(2) Any factor for cost of reinsurance shall be based upon the aggregated property reinsurance costs of the member companies of the Bureau writing property insurance in North Carolina for the specific lines of insurance covered by the filing. The costs of reinsurance for the North Carolina Insurance Underwriting Association and North Carolina Joint Underwriting Association shall not be considered for any line of property coverage under

the jurisdiction of the Bureau. For each of the member companies, the costs of reinsurance that are specific to North Carolina and the line of business for which the filing is being made must be allocated using an appropriate method that shall be stated along with the applicable provisions for the current reinsurance contract that covers the North Carolina line of business for which the filing is being made. Any filing must also take into account expected recoveries from the reinsurance. Use of a model to make the allocation to the appropriate line of business and state shall not be permissible. The Commissioner may promulgate rules setting forth the information needed to evaluate reinsurance costs as well as the method used to determine the cost of reinsurance allocated to North Carolina.

(e) The Commissioner may require the filing of supporting data including:

(1) The Bureau's interpretation of any statistical data relied upon;

(2) Descriptions of the methods employed in setting the rates;

(3) Analysis of the incurred losses submitted on an accident year or policy year basis into their component parts; to wit, paid losses, reserves for losses and loss expenses, and reserves for losses incurred but not reported;

(4) The total number and dollar amount of paid claims;

(5) The total number and dollar amount of case basis reserve claims;

(6) Earned and written premiums at current rates by rating territory;

(7) Earned premiums and incurred losses according to classification plan categories; and

(8) Income from investment of unearned premiums and loss and loss expense reserves generated by business within this State.

Provided, however, that with respect to business written prior to January 1, 1980, the Commissioner shall not require the filing of such supporting data which has not been required to be recorded under statistical plans approved by the Commissioner.

(f) On or before September 1 of each calendar year, or later with the approval of the Commissioner, the Bureau shall submit to the Commissioner the experience, data, statistics, and information referred to in subsection (c) of this section and required under G.S. 58-36-100 and a residual market rate or prospective loss costs review based on those data for workers' compensation insurance and employers' liability insurance written in connection therewith. Any rate or loss costs increase for that insurance that is implemented under this Article shall become effective solely to insurance with an inception date on or after the effective date of the rate or loss costs increase.

(g) The following information must be included in policy form, rule, and rate or loss costs filings under this Article and under Article 37 of this Chapter:

(1) A detailed list of the rates, loss costs, rules, and policy forms filed, accompanied by a list of those superseded; and

(2) A detailed description, properly referenced, of all changes in policy forms, rules, prospective loss costs, and rates, including the effect of each change.

(h) Except to the extent the Commissioner determines that this subsection is inapplicable to filings made under G.S. 58-36-100 and except for filings made under G.S. 58-36-30, all policy form, rule, prospective loss costs, and rate filings under this Article and Article 37 of this Chapter that are based on statistical data must be accompanied by the following properly identified information:

(1) North Carolina earned premiums at the actual and current rate level; losses and loss adjustment expenses, each on paid and incurred bases without trending or other modification for the experience period, including the loss ratio anticipated at the time the rates were promulgated for the experience period;

(2) Credibility factor development and application;

(3) Loss development factor derivation and application on both paid and incurred bases and in both numbers and dollars of claims;

(4) Trending factor development and application;

(5) Changes in premium base resulting from rating exposure trends;

(6) Limiting factor development and application;

(7) Overhead expense development and application of commission and brokerage, other acquisition expenses, general expenses, taxes, licenses, and fees;

(8) Percent rate or prospective loss costs change;

(9) Final proposed rates;

(10) Investment earnings, consisting of investment income and realized plus unrealized capital gains, from loss, loss expense, and unearned premium reserves;

(11) Identification of applicable statistical plans and programs and a certification of compliance with them;

(12) Investment earnings on capital and surplus;

(13) Level of capital and surplus needed to support premium writings without endangering the solvency of member companies; and

(14) Such other information that may be required by any rule adopted by the Commissioner.

Provided, however, that no filing may be returned or disapproved on the grounds that such information has not been furnished if insurers have not been required to collect such information pursuant to statistical plans or programs or to report such information to the Bureau or to statistical agents, except where the Commissioner has given reasonable prior notice to the insurers to begin collecting and reporting such information, or except when the information is readily available to the insurers.

(i) The Bureau shall file with and at the time of any rate or prospective loss costs filing all testimony, exhibits, and other information on which the Bureau will rely at the hearing on the rate filing. The Department shall file all testimony, exhibits, and other information on which the Department will rely at the hearing on the rate filing 20 days in advance of the convening date of the hearing. Upon the issuance of a notice of hearing the Commissioner shall hold a meeting of the parties to provide for the scheduling of any additional testimony, including written testimony, exhibits or other information, in response to the notice of hearing and any potential rebuttal testimony, exhibits, or other information. This subsection also applies to rate filings made by the North Carolina Motor Vehicle Reinsurance Facility under Article 37 of this Chapter."

SECTION 6. The North Carolina Rate Bureau, with the assistance of the Department of Insurance, shall study the current geographic territories established by the Bureau for rating purposes. The study shall address the following issues:

(1) Whether risks of the same class and essentially the same hazard are charged premiums that are commensurate with the risk of loss, actuarially correct, and not unfairly discriminatory.

(2) Whether geographic territories in the beach and coastal areas (as defined in G.S. 58-45-5) currently meet the standards and mandates set forth in G.S. 58-36-10(6).

(3) Whether current technology and statistical data sources make possible any practical and cost-effective alternative to the geographic territory system for property insurance rate setting.

The Bureau shall submit a final report, including any recommendations for changes to the geographic territories or alternatives to the geographic territory rating system, to the 2013 General Assembly.

SECTION 7. Sections 2 and 3 of this act are effective December 1, 2012. Section 6 of this act is effective when it becomes law. The remainder of this act is effective July 1, 2012.