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MONTANA STATE FUND
OPERATIONAL EXCELLENCE
June 3, 2022

The Montana State Fund (MSF) Operational Excellence Committee meeting was held June 3, 2022 in the Skybridge I Room of the Doubletree Hotel, Billings, Montana and via Zoom.

Committee Members Attending

Dexter Thiel, Sidney
Michael Marsh, Billings
Jan VanRiper, Missoula – via Zoom

Board Members Attending

Richard Miltenberger
John Maxness, Helena – via Zoom

MSF Staff Attending

Laurence Hubbard, President/CEO
Kevin Braun, General Counsel
Julie Jenkinson, Insurance Operations VP
Matt Coy, Chief Information Officer
Will Anderson, Interim Operations VP
Kurstin Adamson, ERM Risk Manager
Verna Boucher, Spec Asst to Pres/CEO
Patti Grosfield, Internal Auditor
Darcie Dunlap, Internal Actuary
Matt Mandell, Interim Operations Support VP
Ethan Heverly, Director, Government Relations
Holly O'Dell, Incoming President/CEO

Others Attending

Russell Greig, WTW
Alex Turrell, WTW
Lauren Marsh, Midland Claims

I. Meeting Preliminaries

A. Call to Order
Chair Thiel called the meeting to order at 9:01 a.m.

B. Approval of February 4, 2022 Minutes.
Chair Thiel called for a motion to adopt the February 4, 2022 minutes of the Operational Excellence Committee meeting.

Mr. Marsh made a motion to adopt the February 4, 2022 minutes of the Operational Excellence Committee meeting. Ms. VanRiper seconded the motion.

II. Enterprise Risk Management Report – Kurstin Adamson

Ms. Adamson provided a report to address the questions that were asked at the December 2021 Board meeting. She took a moment to explain the purpose of MSF's Enterprise Risk Management (ERM) program. She said the definition of risk is an uncertain outcome in the future and risk management is designed to control that as much as possible. She clarified that although she would be speaking about activities that are done today to manage risks, she will not necessarily be talking about problems that exist today.

She explained MSF's focus groups for the identified service risks and the mitigating projects that have been developed to address those risks; such as PBRI, the producer portal accelerator and WorkSafe Champions and Growing a Safer Montana. She noted that the proper assessment and mitigation development for the customer service and claims risk is critical for MSF's ability to offer continued quality claims services.

Ms. Adamson provided a review of the remote work risk assessment and noted that key concerns were maintaining productive and connected employees without slippage of quality service and still maintaining data security. She noted this program was implemented quickly in March of 2020 and guidance was provided from varying departments to provide clarity and guidance on the new normal the COVID-19 lock down created. MSF was able to continue seamlessly and data does not indicate any decline or negative impact of service due to the rapid switch to remote processes.

She reviewed the risk oversight process for the Committee members and noted that the ERM Committee was working with the Annual Business Planning Committee to identify top risks and align future activities and projects with risk-mitigating efforts.

III. Structural Discussion – Jan VanRiper

Ms. VanRiper prepared and shared her recommended changes to the Charter of the Operational Excellence Committee that was proposed and adopted October 15, 2021. She reported that her intent was to narrow the scope of the Committee's structure to make it easier on MSF staff and the Committee members. This discussion was paused while staff sent the proposed changes to Committee members and staff.

Chair Thiel sought clarification regarding the process for smaller agents to write business with MSF and shared the frustrations that had been expressed to him regarding doing so.

Ms. Jenkinson said the requirements for writing business with MSF are not different based on the size of an agency. She clarified that if an agent is appointed by MSF, they have the same access as the larger agents such as a PayneWest, Hub or Leavitt; however, there are workers' compensation book size requirements to become an appointed agent. The agent must have a level of maturity with managing and writing workers' compensation and the level is $300,000 in worker's compensation premium. Some smaller agents do not have that level of workers' compensation premium; however, they do still have access to MSF by participating in the Public Risk Insurance Management (PRIM) program. The PRIM program submits the business to MSF on behalf of the agents after the agents have submitted the ACCORD application and submission and provided loss runs for the three previous years of insurance. She noted that the requirements are the same regardless of size. She clarified that this process does create a perception that there is a difference in the way MSF handles submitted business. She said every policy file, based on regulatory purposes, requires the same materials and information to assure the business is priced appropriately.

Committee members posed a number of questions regarding agents/producers and appointment or participation with MSF – MSF staff fielded the questions and provided background and information on future proposals that were being developed.

Chair Thiel noted that the Committee Charter had been distributed to the members and staff and asked Ms. VanRiper to continue her report.

Ms. VanRiper said she believed the Committee needed to change the charter and proposed that she provide a brief review and that any decisions be delayed until after the Committee members have time to review the proposed revisions. She said she believes the Committee charter needs clearer processes and procedures and that from meeting to meeting, allowing any member of the Committee to place items on the agenda puts the staff in a difficult place. She said staff scrambles to answer the random questions which sometimes take a lot of in-depth work. Her recommendation was that at some point during the year, the Committee as a whole determine the topics for review for the next year to narrow the scope and staff could have adequate time to address the information requests.

President Hubbard noted that this item was not noted for Committee action which does not allow opportunity for public input and he recommended that the Committee members review the proposal and prepare this for action at the next Committee meeting.

Chair Thiel requested that staff make this the first item on the next Committee meeting and then sought clarification from Ms. VanRiper if this would need to be addressed at one meeting or over several meetings.

Ms. VanRiper suggested that the Committee members review and exchange emails to develop and agree to proposed changes and set a specific time at the next meeting to complete the process.

IV. Introduction to Actuarial Principles Regarding Ratemaking, Pricing Equity and Dividends – Russell Greig, Consulting Actuary with WTW and Darcie Dunlap, Internal Actuary

Mr. Greig provided a review of the overall casualty ratemaking principles overall. He said Montana statute MCA §33-16-1021 states that rates may not be excessive, inadequate or unfairly discriminatory and must be reviewed and approved by the Commissioner of Securities and Insurance. He said an insurance company cannot charge more than is required for workers' compensation because the insurance is required. They cannot charge lower than is required for the coverage and they cannot charge two policyholders different rates unless the differences are based on provable insurance principles.

He stated that credibility is a measure of the predictive value that the actuary attaches to a particular body of data. He explained that actuarial equity means rate differences are based on characteristics of the insured and their loss experience; this is not necessarily the same as social equity.

Mr. Greig walked the Committee through the flow of key steps in determining workers' compensation premium and further explained the industry groups classification process. The classification codes are four-digit codes that group employees by their type of work and their exposure to the risk of a workplace injury. There are approximately 600 to 800 unique class codes for a given state.

He noted experience rating recognizes differences among qualifying employers with respect to safety and loss prevention. The process compares the loss experience of individual employers with the average employer in the same classification code. Each qualified employer's loss experience is assigned partial credibility based on their volume of payroll and losses. An experience rating modification (mod) to premium is derived based on this comparison. The application of the mod may result in an increase, decrease or no change in premium.

He noted that for the Montana Construction Premium Credit each qualified employer is assigned partial credit which affords a reduction in premium to insureds in the construction industry who pay their workers wages equal to or in excess of 1.168 times the state's average weekly wage.

Ms. VanRiper asked if Mr. Greig knew the history of how the construction premium credit came about?

Darcie Dunlap said the program came through the legislature and addressed the fact that since a construction company pays a higher wage, by default they pay a higher premium.

Ms. VanRiper asked Mr. Greig if this would be an example of social equity?

Mr. Greig said it could be construed as social equity. He added that the other side could argue that the construction industry pays higher wages because the work is more hazardous than working in an office/clerical position. Therefore, if a construction worker is injured, they receive higher benefits so this program turns out to be more actuarially fair.

Ms. Dunlap added that Montana is not the only state with this program and it is a very minor credit for MSF overall with only about 600 employees in it for a year.

Ms. VanRiper said she was not questioning the program, she just wanted to point out that MSF does engage in some social equity practices.

Mr. Greig continued his presentation and stressed that scheduled rating recognizes the differences among qualifying employers with respect to safety and loss prevention that is expected to impact their loss experience. MSF may modify the premium for an insured to acknowledge characteristics of the business that are not reflected in its experience. Those characteristics may include 1) the condition of the insureds' premises and worksites 2) peculiarities of classification 3) medical facilities 4) safety devices 5) employees and 6) management.

He said Montana Premium Discount is a volume discount applied to premiums that acknowledges the administrative cost savings associated with larger premiums and larger employers. Each qualified employer is assigned partial credibility.

Ms. Dunlap then provided an analysis of pricing by account size. She walked the Committee through a layering analysis of the various applied discounts and adjustments that are specific to MSF. The presentation she provided was designed to specifically provide responses to Committee members' questions about the inequitable treatment of small and large policyholders/businesses. She said the smaller the premium, the less credible the information is, which causes more variability.

She said it is not good enough to ensure MSF is charging the right premium overall; it is also necessary to make sure MSF is charging the right premium across various segments of its business. She said MSF is required by law to not be biased or unfairly discriminatory. She stated that if MSF is overpricing an account, that account will leave; if MSF were underpricing a segment of accounts, MSF would end up with more of those accounts which is not good for the bottom line.

Ms. Dunlap also provided some claim-specific details to illustrate the adequacy of MSF's pricing by policyholder. She stated that smaller account sizes have the highest average cost per claim and the highest frequency rate. She explained that small business claims cost more due to less availability of return-to-work (RTW) programs or modified duty opportunities and less money available to put in strong safety programs. Remote areas and lack of health care access also increase costs overall.
She provided a deeper dive into the tiered rating discussion and noted that very little of MSF's policies get assigned to Tier 1 and Tier 5. She said on a premium basis, most of MSF's premium collection is from Tier 3, followed by Tier 2 and 4. She noted that while tiered rating

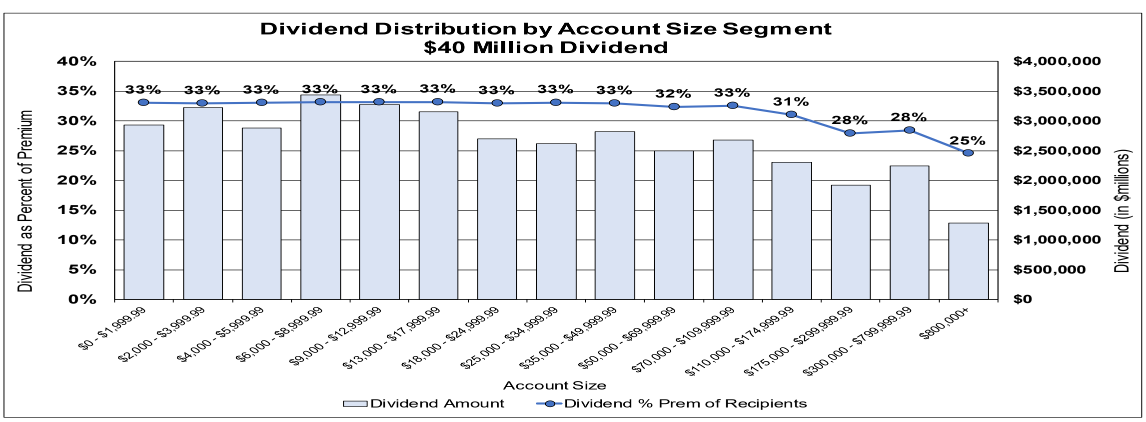
is designed to get MSF to a more equitable starting point in MSF's pricing, there are still more pricing components applied after tiered rating. She noted that Tiered Rating 2.3 reassignments that have been proposed should fix some of the inconsistent pricing concerns MSF was seeing historically.

Ms. Dunlap then moved onto the explanation of the insurance charge and MSF's dividend table structure. She explained that the insurance charge is the amount of profit the insurer has to retain on profitable accounts to pay for the unprofitable accounts. She provided an example of a company with a pure loss rate of $2.50 per employee at $40k of payroll, and $100,000 in premium. If four of those employees have a loss of $25,000 each for a total loss of $100,000, with $100,000 in premium and the same in losses, the lost ratio is 100 percent. This would be a breakeven situation and no profit from any other companies would be needed to cover the losses. She illustrated how the profit would be used if there were 100 companies with the same salary and premium charge.

She noted that with the small account example, the insurance charge is 100 percent. She said the average cost of a wage loss claim is currently $65,000. For a $1,000 account, it would take MSF over 65 years to get enough premium to cover one claim and its expenses, assuming there are no other claims over that 65 years. She explained that the smaller policyholder is, the less predictable their loss experience is. A small policyholder may be subsidizing other policyholder claims one year and be subsidized the next. Although there are some claims from small policyholders each year, it is random from one year to the next which small policyholder will have a claim.

Ms. Dunlap noted that a carrier needs to collect enough premium on everyone to also cover the costs of running an insurance company. She said the risk of losses spread across all policyholders is so no one policy has to cover its own costs exactly.

She moved to the dividend table structure and the required actuarial credibility that is used to develop the table. She noted that the table is set up with premium ranges that have about the same amount of premium in each row. The table tries to distribute about the same amount of dividend to each row. Moving to the right in a row towards higher loss ratios, the percentage factors decrease, which is intuitive if giving a dividend to reward safety. From the top of the table to the bottom the percentage factors increase, which is less intuitive; however, it has to do with both credibility and likelihood of the loss ratio results.



She provided the graph on the previous page which illustrates the dividend table flipped on its side and it shows the percentage of premium returned as a dividend to each account size is about the same – 33 percent. She further explained why the proposal from past Committee and

Board meetings to apply the same percentage to each column was not effective or actuarially approvable. It would violate the actuarial principles of equity, it would violate MSF's policy to have an actuarily sound table and it would not be equitable to the policyholders.

V. Management Process – Michael March

Mr. Marsh thanked President Hubbard and the MSF staff for answering his questions and noted that he did not have additional questions at this time about the numbers that were provided prior to the meeting and would need to study them further.

He asked for confirmation that based on the information he received, claims transfers have decreased in the past year.

Will Anderson confirmed that was accurate and noted that the "retirement bubble" that was experienced over the past few years had a detrimental effect on the number of claims that had to be transferred.

VI. Policy Underwriting and Billing System – Julie Jenkinson, Executive VP

A. Discussion with staff re: Scope and Timing of Implementation of Employer and Producer Portals

Ms. Jenkinson said the team was on target to move forward with implementing the policyholder and customer portals. The agent portal will be launched first in August. This is being launched a month ahead of the customer portal so the agents are well prepared for and comfortable with the system before the launch to policyholders who may have questions of their agents.

B. Updates from January to Employer and Producer Education and Training Opportunities Using Portals

1. Premium Audit
2. Policy Rating Changes (Class Code Example)
3. Safety
4. Claim Status and RTW

She noted that the Guidewire product was chosen for its flexibility and its quality of the main products of managing, writing and servicing policies. The Guidewire out-of-the-box portal products were less developed for agents and customers and those required a lot of customization and configuring for look and what was available. This is the beginning framework of how they can interact with MSF and what kind of business they can conduct with MSF online. At the moment they can report payroll and make some payments but cannot see a lot of documents or their policy, which are the items available to both customers and agents. The portals will allow them to see what their policies are, where they are in the renewal process and where new submissions are in the quoting process. They can make changes to their policy such as adjustments to payroll and classification codes that are assigned to their policies and can adjust policy limits for employers' liability and can request waivers of subrogation and can conduct most of the kinds of business that they currently must call MSF for. It is still not everything MSF would like it to be, such as quote submission through the portal – she said there is still an opportunity to fully realize more business value for our customers and MSF.

She noted that after the portals are launched and the IVANS program has been implemented, MSF will review what is needed further and begin building those possibilities out.
Chair Thiel reported that his agent was pretty complimentary of the new program and indicated it was working pretty well.

VII. Committee Chair's Items – Dexter Thiel
Chair Thiel had no items to discuss.

VIII. Executive Session - Dexter Thiel

A. Introduction – Notice of Closure of Meeting – Dexter Thiel, Chair of the Committee
Chair Thiel closed the meeting for Executive Session.

B. Meeting Closed to the Public for Executive Session
1. Litigation Status of PBRI Contracts
Chair Thiel reopened the meeting at 1:23 p.m.

Chair Thiel asked that the minutes for this meeting be turned around by the Thursday before the June 10, Board meeting.

President Hubbard indicated that timeframe was probably too tight; however, a report of the meeting could be drafted for Chair Thiel's report at the Board meeting.

Chair Theil asked that it be in his office by the morning of June 9. He than asked if MSF had a picture directory of employees and if he could receive one.

President Hubbard said Mr. Heverly would provide one for the Board members.

IX. Old Business/New Business
Chair Thiel called for old business or new business. There was none.

X. Public Comment
Chair Thiel called for public comment. There was none.

The meeting adjourned at 1:24 p.m. The next scheduled Board meeting will be held on Friday, June 10, 2022 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO