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Victory Insurance Company is a workers' compensation insurance company and, to the best of my knowledge, is the only Montana private (Plan Two) insurance company with the specific purpose of providing workers' compensation coverage to Montana employers.

There are other Plan Two insurance companies that are domiciled in other states and certified by the Montana Insurance Commissioner to offer workers' compensation coverage in the State of Montana. Victory Insurance was issued its Certificate of Authority by Insurance Commissioner John Morrison in February of 2007. I think it's fair to say that of the Plan Two insurers only Liberty Northwest and Victory are actively pursuing a significant book of business or presence in the State of Montana.

Some of the reasons are:

- Out of state Plan Two insurers view the Montana State Fund in terms of having unfair monopolistic tendencies.
- The 68% premium volume market share held by the unregulated Montana State Fund is a major deterrent.
- Approximately 85% of all policyholders are insured by the State Fund which is also a major deterrent to market entry for out of state Plan Two insurers.
- State Fund premium pricing irregularities tend to create uncertainty in market strategies.

This is the first time I have been asked to be a part of this legislative discussion on workers compensation. In fact, I wouldn't even be here but I discovered that this committee was presenting a case study later this afternoon concerning the State Fund's pricing practices.

Victory Insurance Company is a full service insurance company with 19 employees of which 14 are based in Miles City. Victory is currently a small part of Montana's 350 to 400 million dollar workers compensation market. But Victory is growing. Victory insures over 200 Montana employers located throughout the State representing almost 100 million dollars in payroll and approaching 5 million dollars in annual premium sales.

Victory insures counties, school districts, restaurants, construction, transportation, agricultural risks, retail and many other businesses throughout the state. Also, Victory insures small, medium and very large employers. For example, approximately 15% of Victory's currently insured employers have premiums of less than \$5,000 per year.

Just for your information, I would like to let you know about my experience in workers' compensation insurance. I founded Valor Insurance Company, Inc. after the collapse of the Montana State Fund in 1989-1990. When I sold 100% ownership of that company in 1996, Valor had several million dollars in sales, and several million dollars in surplus, and was financially rated B+ or "excellent" by A M Best.

I sold Valor to a publicly traded, regional, multi-line insurance company with a governing insurance company based out of California. The purpose of the sale was to acquire the capital necessary to develop a permanent regional insurance company presence in Billings, Montana. When they left this market in 2002, they had over 12 million dollars in annual premium sales.

The legislative auditors and fiscal analysts have done a great job in providing differences between Plan Two – private carriers -- and Plan Three – the State Fund. With respect for their diligence and efforts, I will only provide some unique differences that Victory offers as a Plan Two carrier.

In my opinion, there are two major differences.

- Number One is the premium RATE variances allowed between plans.
- Number Two is the REGULATION of each plan type.

Regarding RATE variances, I have reviewed the committee's reports and materials. The preparers of the reports have done a wonderful job of explaining the complicated subject of rates. As you can surmise from their submissions, there are many factors to be considered.

The State Fund's Board of Directors utilizes a phenomenal and questionable actuarial range in establishing the Fund's rates. Plan Two insurers are required to base rate filings using the NCCI loss costs approved filing with limited scheduled crediting or debiting ability. The NCCI performs important tasks for workers compensation insurers and state regulators by gathering statistical data from all insurance companies. The results of this actuarial process provide competing Plan Two insurers with an even playing field that is actuarially and financially sound.

Victory complies with the NCCI filings approved by the Insurance Commissioner for use in Montana enabling us to properly rate and class employers fairly. These filings create financial stability for employers and insurance companies. Not adhering to this actuarial philosophy would, over time, tend to create significant cost variances or cycles.

Once a Plan Two insurer and the State Fund determine their individual manual premiums for an employer, both insurers may apply factors to determine final estimated premiums. The State Fund has much more flexibility in the factors that they may apply. In Victory's case, it would be a mistake to ignore the actuarial parameters established by the NCCI for proper rating and protection of equity. Plan Two insurers rarely deviate from the best actuarial information available because it is in the best interests of policyholders and claimants not to do so.

In my opinion, rates will not go down until the market allows the existence of open and fair competition. Without competition, current trends, which have Montana moving from the 12th highest in the nation for rates to the 8th to the 5th to currently the 2nd highest in the nation, leave us with only one more challenge – to be number one. The problem with being number one is that our Montana employers cannot afford the unnecessarily high cost of workers compensation insurance and they need your assistance to solve this problem.

Another big difference between Plan Two carriers and the State Fund is REGULATION:

Plan 2 insurers are regulated by Montana's Insurance Commissioner and they are required to file quarterly and annual financial statements. Victory Insurance Company has regulatory oversight at every level. Victory is regulated by the Montana Insurance Commissioner (DOI), the National Association of Insurance Commissioners (NAIC), the National Council on Compensation Insurance (NCCI) rating organization, and the Department of Labor (DOL).

Over the years I have been successfully regulated by Andrea Bennett, Mark O'Keefe, John Morrison, and Monica Lindeen. Commissioner Lindeen has been very fair in her regulation of Victory as a startup company.

Because of the materials provided, I am sure this committee is well aware of some other regulatory differences between Plan Two and the State Fund. For instance, Plan Two carriers pay Premium Tax, the State Fund doesn't. The State Fund is guaranteed the Montana state government book of business and Plan Two private carriers cannot insure that business.

There are some additional and unique differences between Victory and the State Fund.

- Victory gives smaller employers as little as \$2,500 in annual premiums the opportunity to be experience rated for good safety and loss experience.
- The State Fund requires \$5,000 or greater in annual premiums to qualify for experience rating.

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- Victory offers loss control to each employer that is insured. Victory currently has one loss control field representative per 200 employers.
 - The State Fund has approximately 16 loss control people for almost 29,000 employers.

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- Victory sells directly to employers and does not currently use agents. This eliminates commission expense and improves Victory's customer service. Victory is a direct writer.
 - The State Fund uses insurance agents and pays commissions.

Victory's mission is to provide professional insurance coverage and services. To accomplish this, Victory employs exemplary local underwriting, safety and claims services. Among Victory's consultants are some of the most reputable in the nation.

Montana didn't magically become the state with the 2nd highest rates overnight. To make this market more competitive, we will have to make some changes but it can be done. I appreciate the efforts of the committee. If I can be of assistance, please let me know.