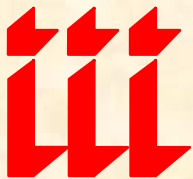


Financial Crisis, Economic Stimulus & the Future of the P/C Insurance Industry

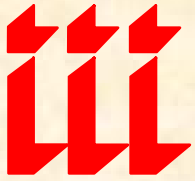
Trends, Challenges & Opportunities

**NCCI Holdings Inc.
Annual Issues Symposium
Orlando, FL**

May 7, 2009



Robert P. Hartwig, Ph.D., CPCU, President
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 346-5520 ♦ bobh@iii.org ♦ www.iii.org

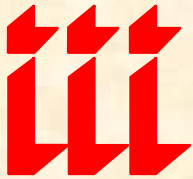


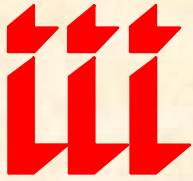
Presentation Outline

- **Financial Crisis & The Weakening Economy**
- **Labor Market Trends: Exposure Implications for WC**
- **Aftershock: P/C Insurance *After* the Financial Crisis**
- **9 Key Threats and Issues Facing P/C Insurers Through 2015**
- **Green Shoots: Signs of Recovery?**
- **Economic Stimulus Package: Insurer Impacts**
- **Financial Strength & Ratings**
- **P/C Insurance Industry Overview & Outlook**
 - Profitability
 - Premium Growth
 - Underwriting Performance
 - Financial Market Impacts
- **Capital & Capacity**
- **Key Emerging Risks in Workers Comp**

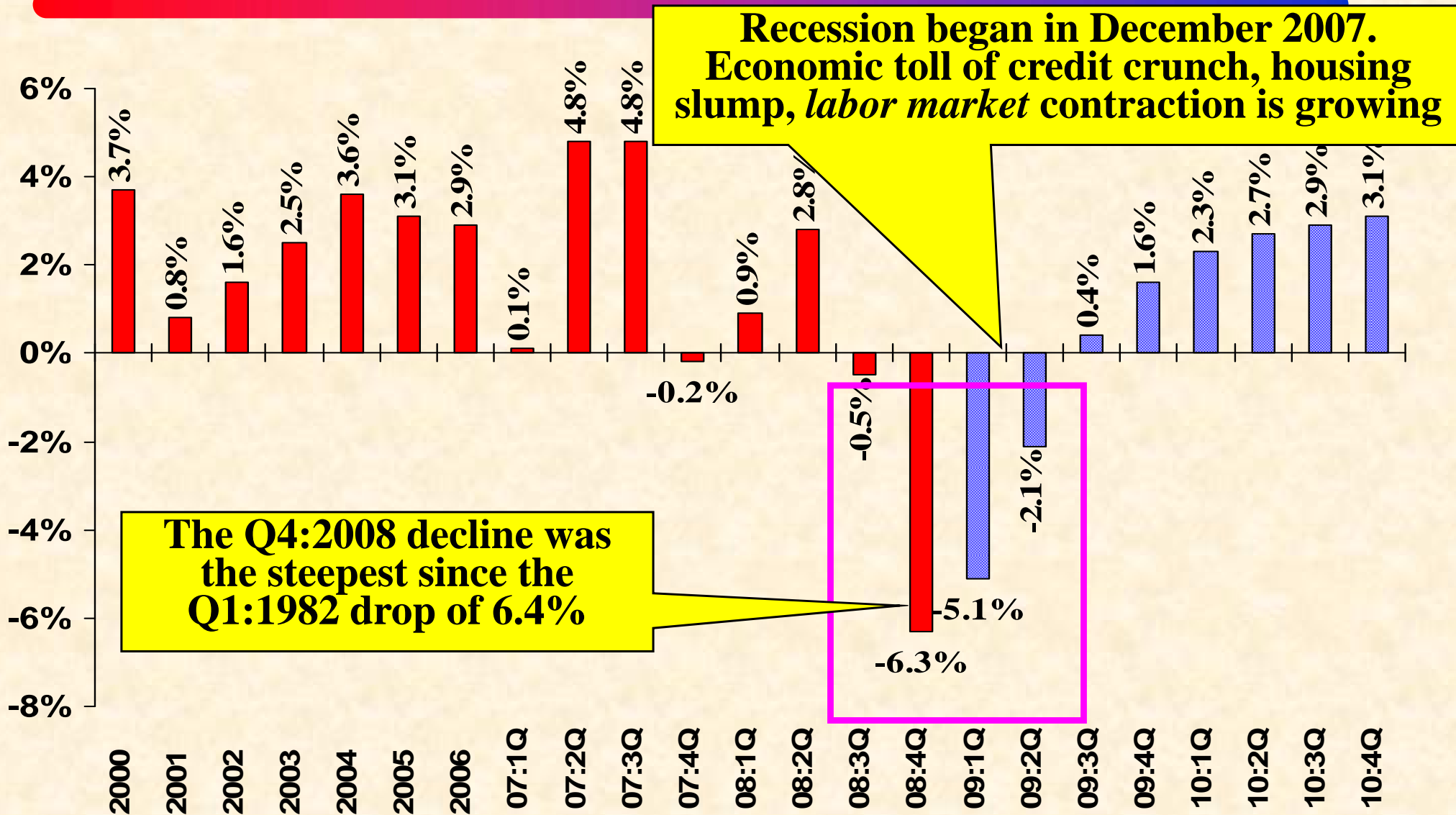
THE ECONOMIC STORM

*What the Financial Crisis and
Deep Recession Mean for the
P/C Insurance Industry*



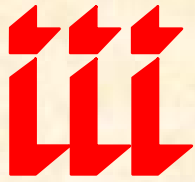


Real GDP Growth*



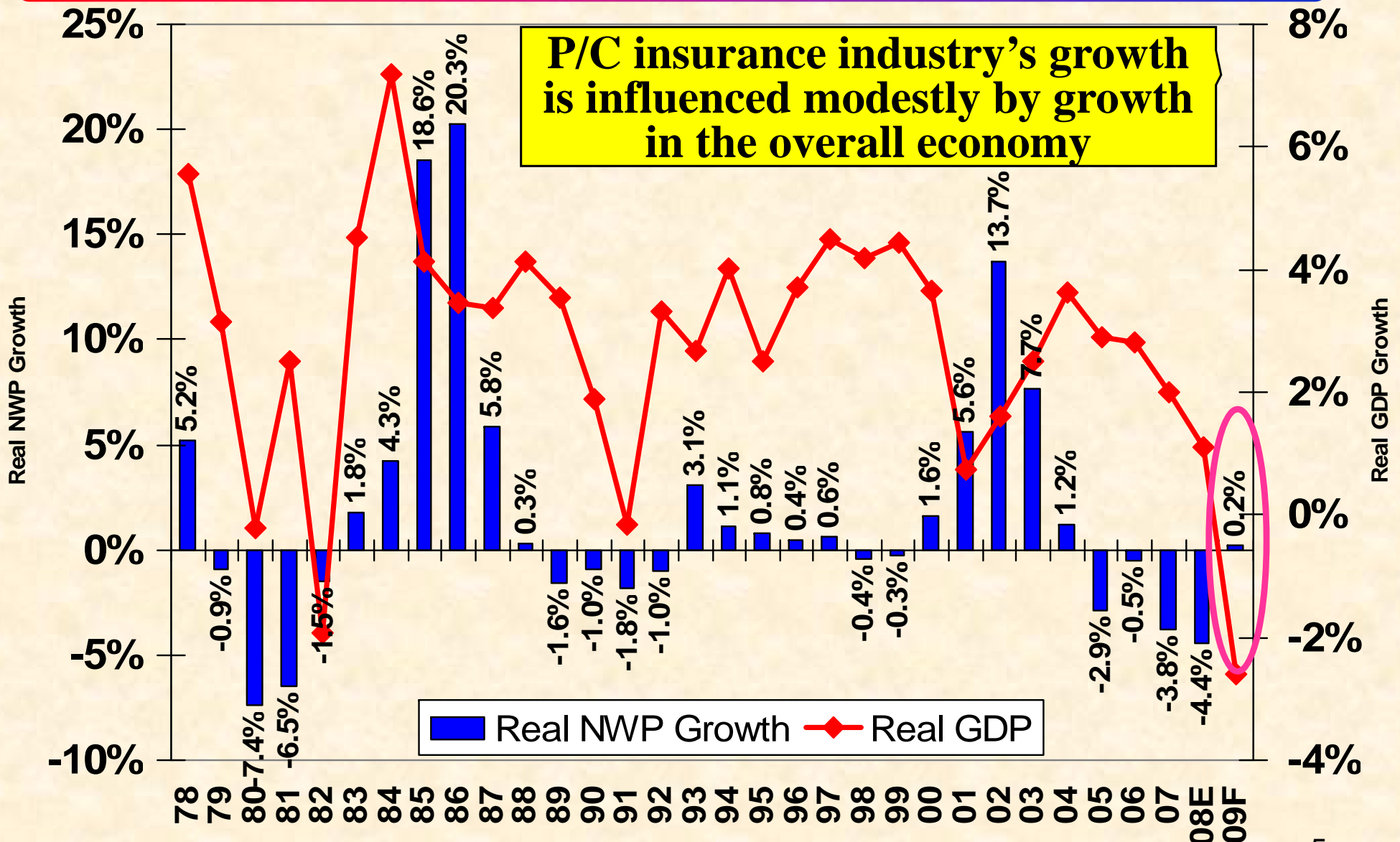
*Yellow bars are Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/09; Insurance Information Institute.

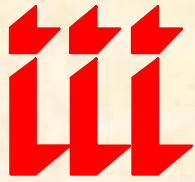


Real GDP Growth vs. Real P/C

Premium Growth: Modest Association



Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 4/09; Insurance Information Inst.



Length of US Recessions 1929-Present*

Months in Duration

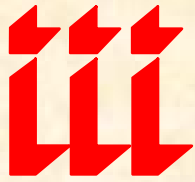


"We will rebuild. We will recover."
--President Barack Obama
addressing a joint session of
Congress
February 24, 2009

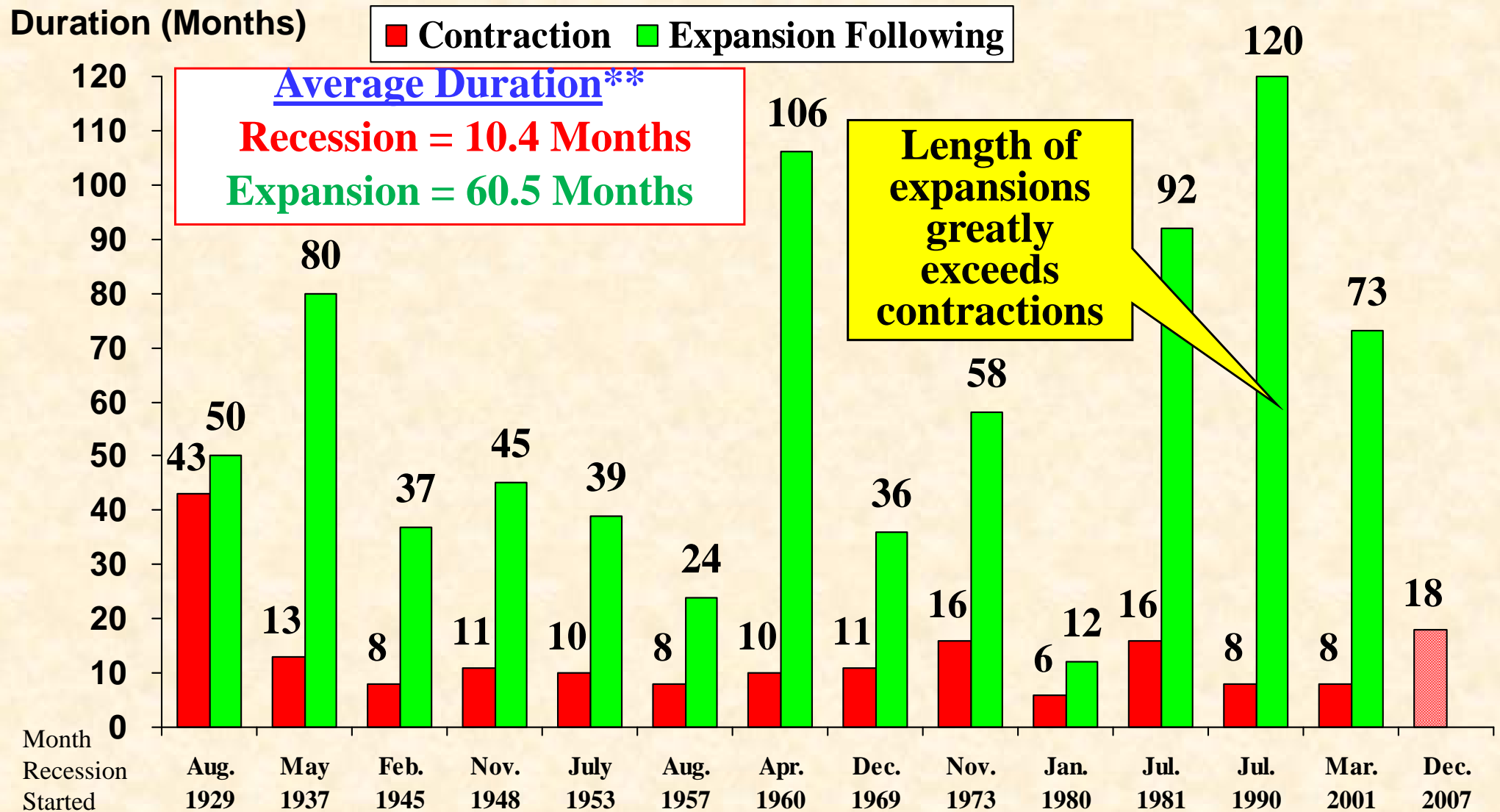
Current recession began in Dec. 2007 and is already the longest since 1981. It is now also the longest recession since the Great Depression.

* As of May 2009, inclusive

Sources: National Bureau of Economic Research; Insurance Information Institute.

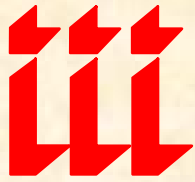


Length of U.S. Business Cycles 1929-Present*

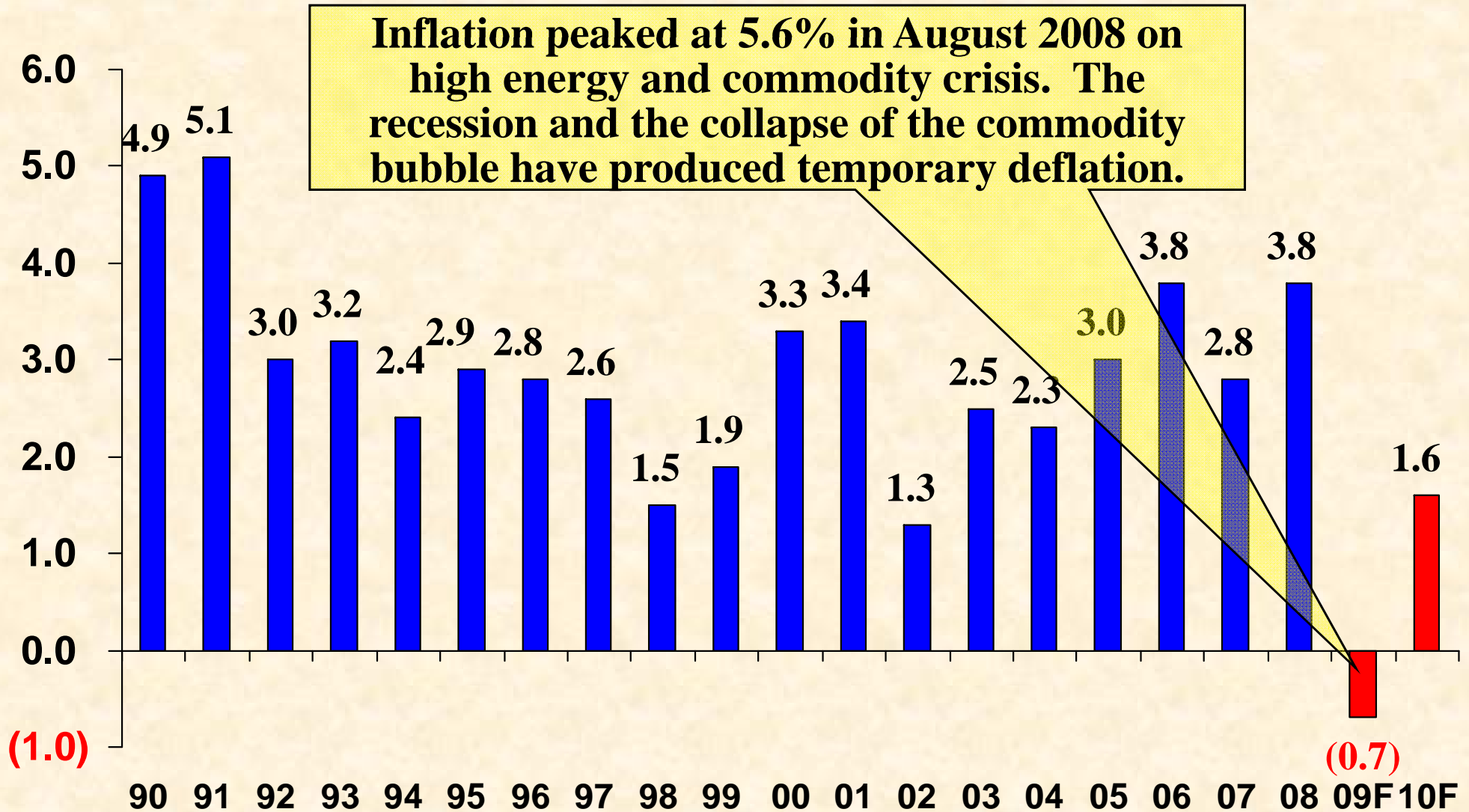


* As of May 2009, inclusive; **Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; Insurance Information Institute.

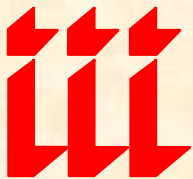


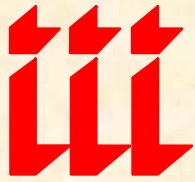
Annual Inflation Rates (CPI-U, %), 1990-2010F



LABOR MARKET TRENDS

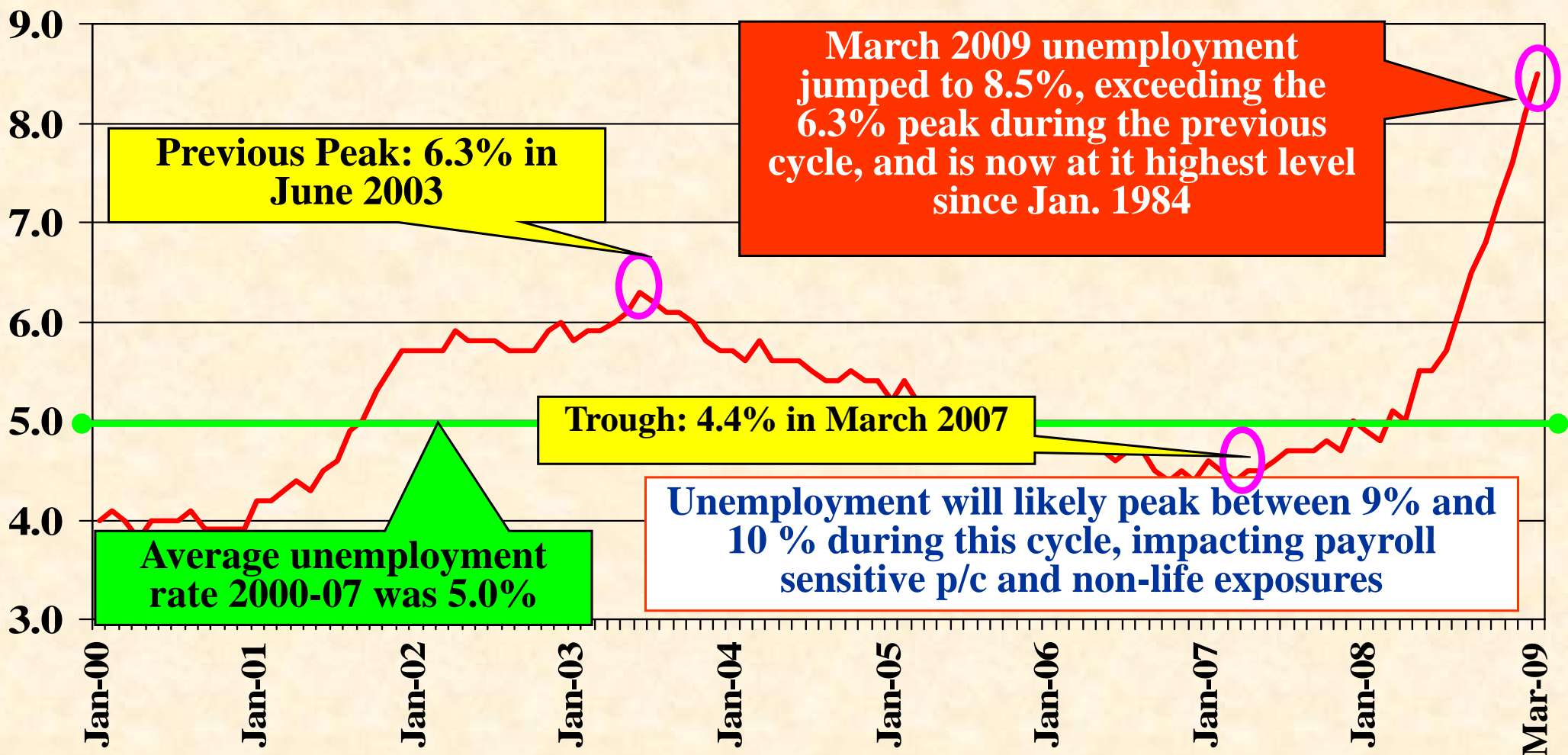
*Fast & Furious: Massive Job
Losses Sap the Economy and
Workers Comp Exposure*

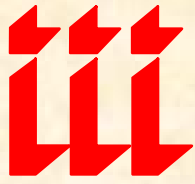




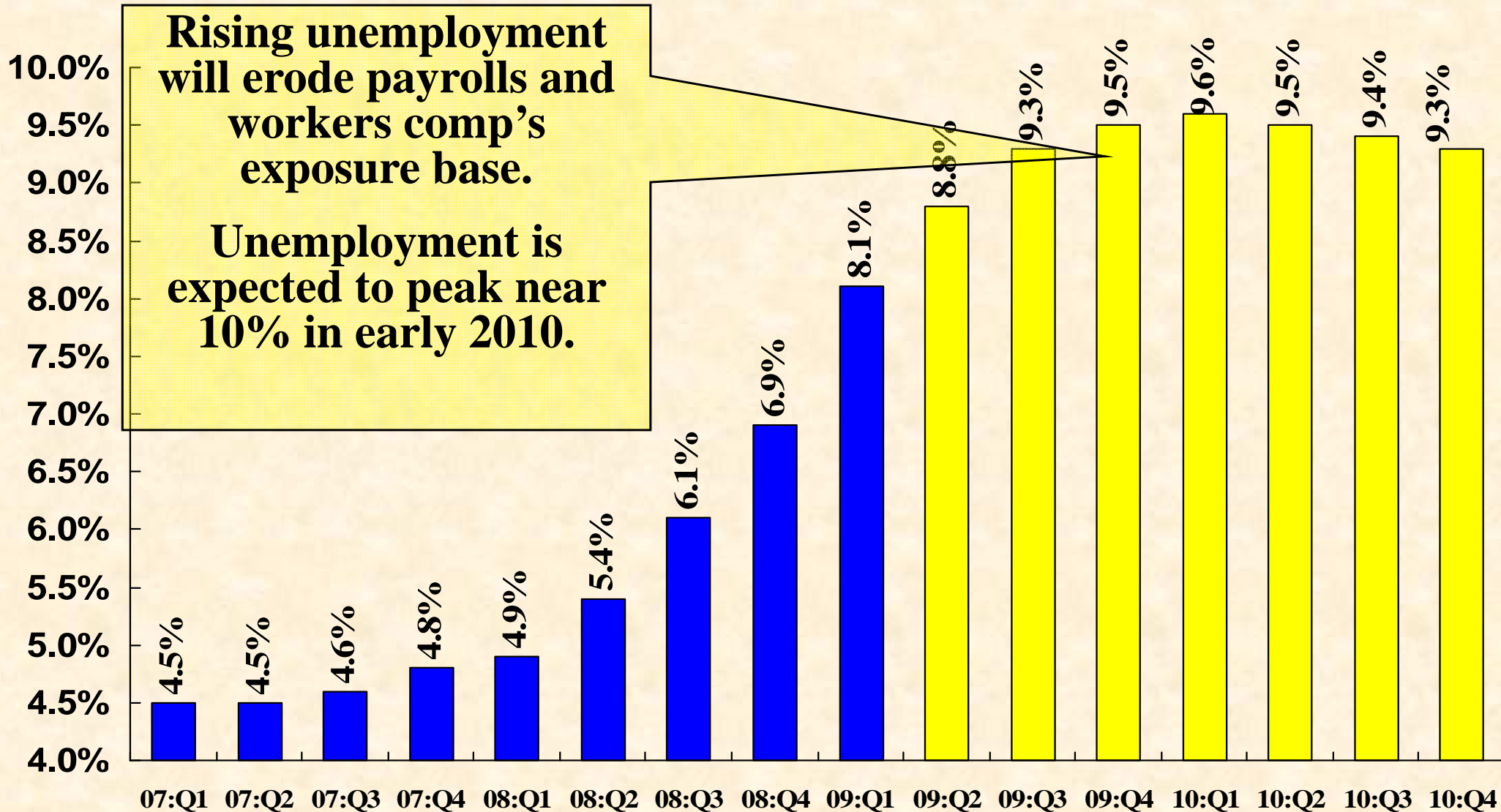
Unemployment Rate: On the Rise

January 2000 through March 2009



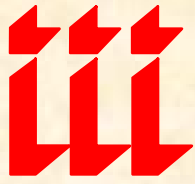


U.S. Unemployment Rate 2007:Q1 to 2010:Q4F*

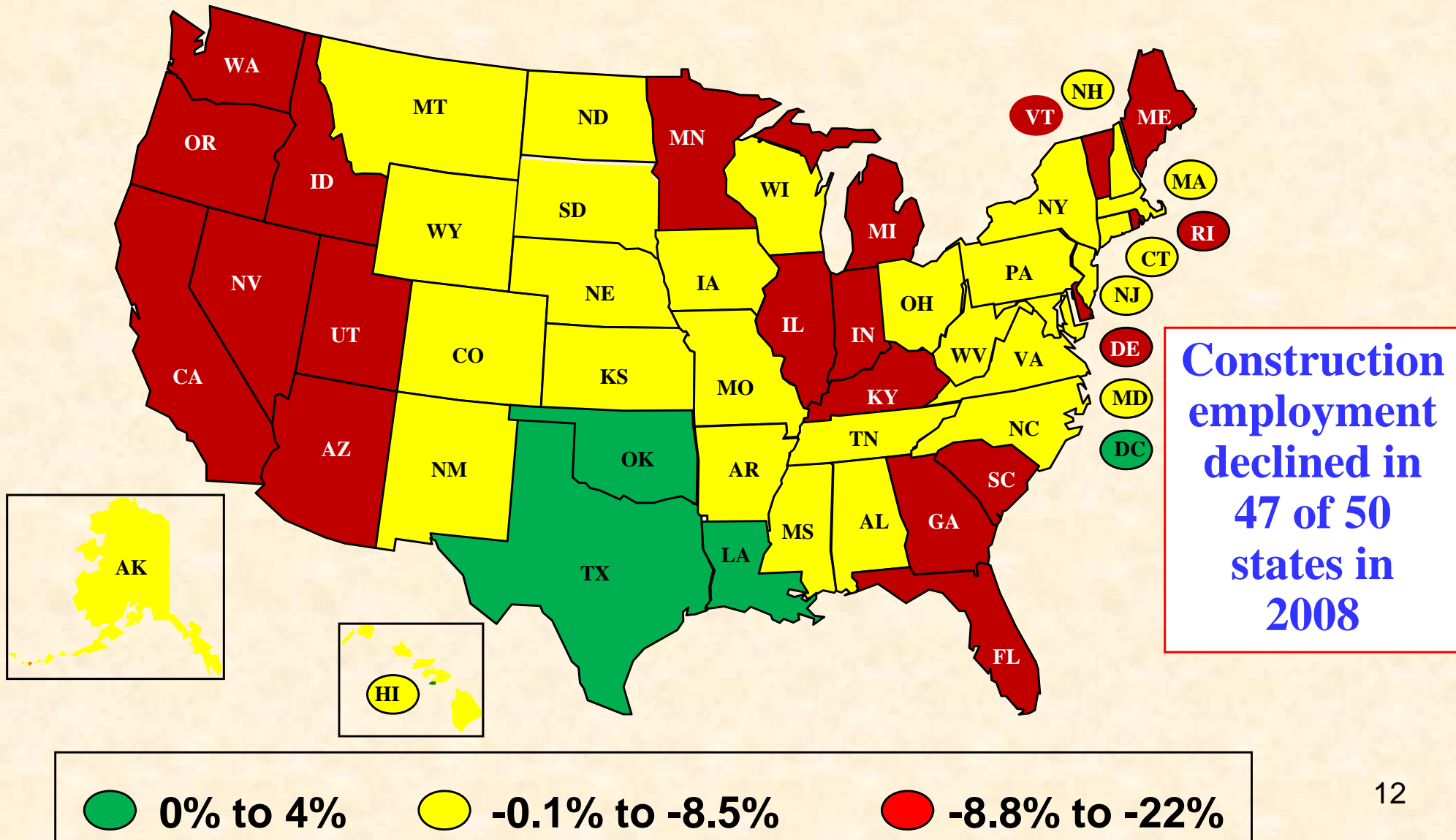


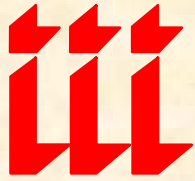
* Blue bars are actual; Yellow bars are forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/09); Insurance Info. Inst.



State Construction Employment Dec. 2007 - Dec. 2008



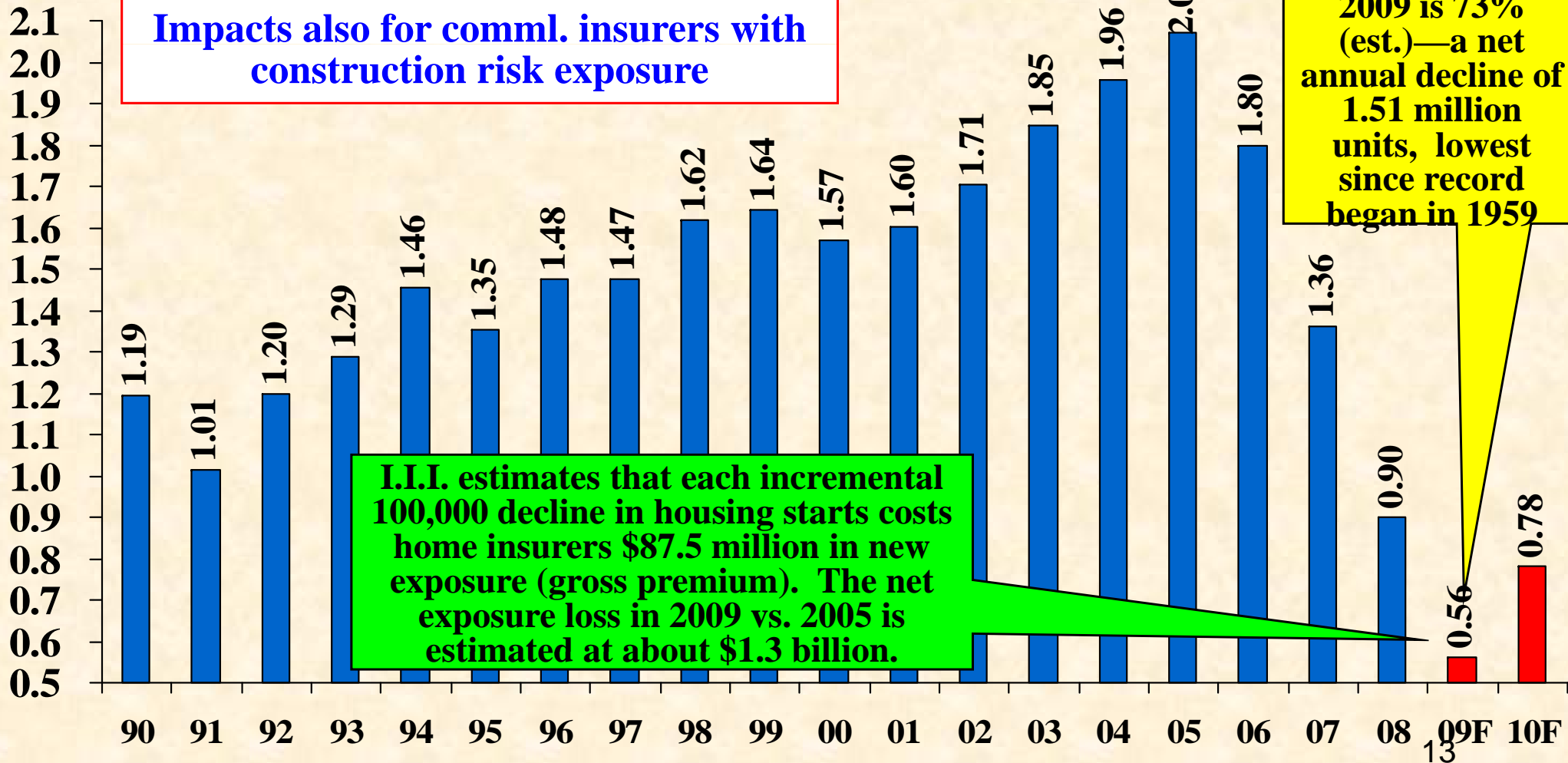


New Private Housing Starts, 1990-2010F (Millions of Units)

Exposure growth forecast for HO insurers is dim for 2009 with some improvement in 2010.

Impacts also for comml. insurers with construction risk exposure

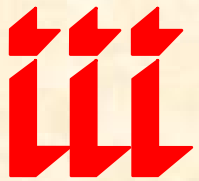
New home starts plunged 34% from 2005-2007; Drop through 2009 is 73% (est.)—a net annual decline of 1.51 million units, lowest since record began in 1959



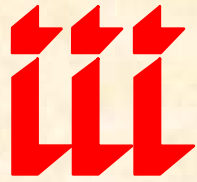
I.I.I. estimates that each incremental 100,000 decline in housing starts costs home insurers \$87.5 million in new exposure (gross premium). The net exposure loss in 2009 vs. 2005 is estimated at about \$1.3 billion.

AFTERSHOCK

What Will the P/C Insurance Industry Look Like After the Crisis?



Six Key Differences



Six Key Differences: P/C Insurance in the Post-Financial Catastrophe World

- 1. The P/C Insurance Industry Will Be Smaller: The Industry Will Have Shrunk by About 3% in Dollar Terms and by 8% on an Inflation Adjusted Basis, 2007-09**
 - Falling prices, weak exposure growth, increasing government intervention in private (re)insurance markets, large retentions and alternative forms of risk transfer have siphoned away premium
 - There will be fewer competitors after a mini consolidation wave
- 2. P/C Industry Will Emerge With Its Risk Mgmt. Model More Intact than Most other Financial Service Segments**
 - Benefits of risk-based underwriting, pricing and low leverage clear
- 3. There Will Be Federal Regulation of Insurers: Now in Waning Months of Pure State-Based Regulation**
 - Federal regulation of “systemically important” firms seems certain
 - Solvency and Rates regulation, Consumer Protection may be shared
 - Dual regulation likely; federal/state regulatory conflicts are likely
 - With the federal nose under the tent, anything is possible



Six Key Differences: P/C Insurance in the Post-Financial Catastrophe World

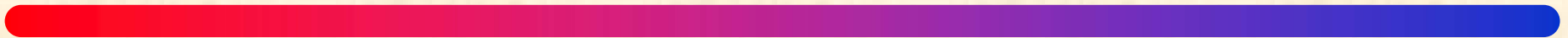
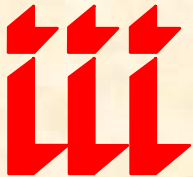
4. **Investment Earnings Will Shrink Dramatically for an Extended Period of Time: Federal Reserve Policy, Shrinking Dividends, Aversion to Stocks**
 - Trajectory toward lower investment earnings is being locked in

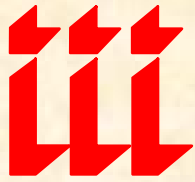
5. **Back to Basics: Insurers Return to Underwriting Roots: Extended Period of Low Investment Exerts Pressure to Generate Underwriting Profits Since 1960s**
 - Chastened and “derisked” but facing the same (or higher) expected losses, insurers must work harder to match risk to price

6. **P/C Insurers: Profitable Before, During & After Crisis: Resiliency Once Again Proven**
 - Directly the result of industry’s risk management practices

NINE KEY THREATS FACING INSURERS AMID FINANCIAL CRISIS

**Challenges for the
Next 5-8 Years**

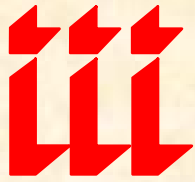




Important Issues & Threats Facing Insurers: 2009- 2015

1. Erosion of Capital

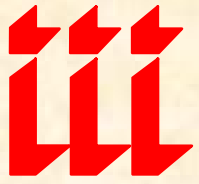
- Losses are larger and occurring more rapidly than is commonly understood or presumed
- Surplus down 13%=\$66B since 9/30/07 peak; 12% (\$80B) in 2008
- P/C policyholder surplus could be even more by year-end 2009
- Some insurers propped up results by reserve releases
- Decline in PHS of 1999-2002 was 15% over 3 years and was entirely made up and then some in 2003. Current decline is ~13% in 5 qtrs.
- During the opening years of the Great Depression (1929-1933) PHS fell 37%, Assets fell 28% and Net Written Premiums fell by 35%. It took until 1939-40 before these key measures returned to their 1929 peaks.
- **BOTTOM LINE:** Capital and assets could fall much farther and faster than many believe. It will take years to return to the 2007 peaks (likely until 2011 with a sharp hard market and 2015 without one).



Important Issues & Threats Facing Insurers: 2009 - 2015

2. Reloading Capital After “Capital Event”

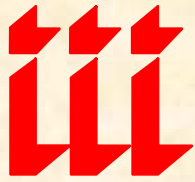
- Continued asset price erosion coupled with major “capital event” could lead to shortage of capital among *some* companies
- Possible Consequences: Insolvencies, forced mergers, calls for govt. aid, requests to relax capital requirements
- P/C insurers have come to assume that large amounts of capital can be raised quickly and cheaply after major events (post-9/11, Katrina).
 - *This assumption may be incorrect in the current environment*
- Cost of capital is *much* higher today, reflecting both scarcity & risk
- Implications: P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital & generate internally. Already a reality for some life insurers.



Important Issues & Threats Facing Insurers: 2009 - 2015

3. Long-Term Loss of Investment Return

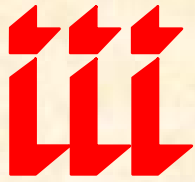
- Low interest rates, risk aversion toward equities and many categories of fixed income securities lock in a multi-year trajectory toward ever lower investment gains
- Price bubble in Treasury securities keeps yields low
- Many insurers have not adjusted to this new investment paradigm of a sustained period of low investment gains
- *Regulators will not readily accept it; Many will reject it*
- **Implication 1:** Industry must be prepared to operate in environment with investment earnings accounting for a smaller fraction of profits
- **Implication 2:** Implies underwriting discipline of a magnitude not witnessed in this industry in more than 30 years. Yet to manifest itself.
- Lessons from the period 1920-1975 need to be relearned



Important Issues & Threats Facing Insurers: 2009 – 2???

4. Regulatory Overreach

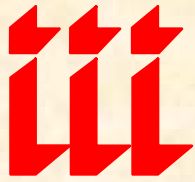
- Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)
- Danger is high as feds get their nose under the tent
- Status Quo is viewed as unacceptable by all
- Pushing for major change is not without significant risk in the current highly charged political environment
- Insurance & systemic risk
- Disunity within the insurance industry
- Impact of regulatory changes will be felt for decades
- **Bottom Line: Regulatory outcome is uncertain and risk of adverse outcome is high**



Important Issues & Threats Facing Insurers: 2009 - 2015

5. Creeping Restrictions on Underwriting

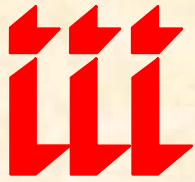
- **Attacks on underwriting criteria such as credit, education, occupation, territory increasing**
- **Industry will lose some battles**
- **View that use of numerous criteria are discriminatory and create an adverse impact on certain populations**
- **Impact will be to degrade the accuracy of rating systems to increase subsidies**
- **Predictive modeling also at risk**
- **Current social and economic environment could accelerate these efforts**
- **Danger that bans could be codified at federal level during regulatory overhaul**
- **Bottom Line: Industry must be prepared to defend existing and new criteria indefinitely**



Important Issues & Threats Facing Insurers: 2009 - 2015

6. Exploitation of Insurance as a Wealth Redistribution Mechanism

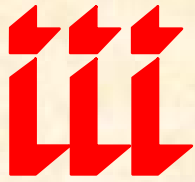
- **There is a longstanding history of attempts to use insurance to advance wealth redistribution/economic agendas**
- **Urban subsidies; Coastal subsidies are old; Could be extended to workers comp in variety of ways**
- **Insurer focus on underwriting profitability (resulting in higher rates) coupled with poor economic conditions could raise profile of affordability issue**
- **Calls for “excess profits tax” on insurers**
- **Increased government involvement in insurance (including ownership stakes) make this more likely**
- **Federal regulation could impose such redistribution schemes**
- **Bottom Line: Expect efforts to address social and economic inequities through insurance**



Important Issues & Threats Facing P/C Insurers: 2009 - 2015

7. Mega-Catastrophe Losses

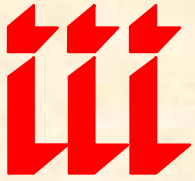
- **\$100B CAT year is not improbable over the next 5-7 year**
- **Severity trend remains upward**
- **Frequency trends highly variable but more prone to spikes**
- **FINANCING: Unclear if sufficient capital exists to finance mega-cats in current capital constrained environment**
- **Concern over reinsurance capacity and pricing**
- **Alternative sources of CAT financing have dried up**
- **Some regulators will continue to suppress rates**
- **Residual markets shares remain high**
- **Loss of volume for private insurers in key states (e.g., FL)**
- *Serves as entry point for socialization of insurance*
- **Bottom Line: Capacity to finance mega-cats is diminished. Government may fill the void, sometimes with the industry's support; sometimes in spite of opposition**



Important Issues & Threats Facing Insurers: 2009 -2015

8. Creeping Socialization and Partial Nationalization of Insurance System

- **CAT risk is, on net, being socialized directly via state-run insurance and reinsurance mechanisms or via elaborate subsidy schemes involving assessments, premium tax credits, etc.**
- **Some (life) insurers seeking TARP money**
- **Efforts to expand flood program to include wind**
- **Health insurance may be substantively socialized**
- **Terrorism risk—already a major federal role backed by insurers**
- **Eventually impacts for other lines such as personal auto, WC?**
- **Feds may open to more socialization of private insurance risk**
- **Ownership stakes in some insurers could be a slippery slope**
- **States like FL will lean heavily on Washington in the event of a mega-cat that threatens state finance**
- **Bottom Line: Additional socialization likely. Can insurers/will insurers draw the line?**



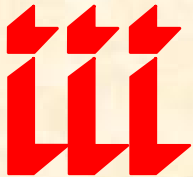
Important Issues & Threats Facing Insurers: 2009 -2015

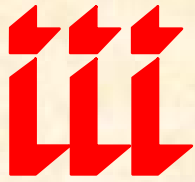
9. Emerging Tort Threat

- **No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration**
- **Erosion of recent reforms is a certainty (already happening)**
- **Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability**
- **Torts twice the overall rate of inflation**
- **Influence personal and commercial lines, esp. auto liab.**
- **Historically extremely costly to p/c insurance industry**
- **Leads to reserve deficiency, rate pressure**
- **Bottom Line: Tort “crisis” is on the horizon and will be recognized as such by 2012-2014**

GREEN SHOOTS

**Is the Recession
Nearing an End?**



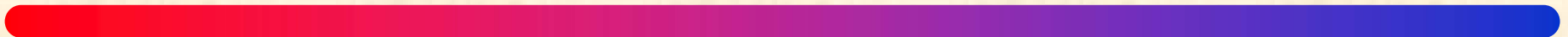
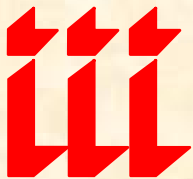


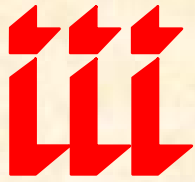
Hopeful Signs That the Economy Will Begin to Recover Soon

- **Recession Appears to be Bottoming Out, Freefall Has Ended**
 - Pace of GDP shrinkage is beginning to diminish
 - Pace of job losses is leveling off
 - Major stock market indices well off recent lows, anticipating recovery
 - Some signs of retail sales stabilization are evident
- **Financial Sector is Stabilizing**
 - Banks are reporting quarterly profits
 - Many banks expanding lending to credit worthy people & businesses
- **Housing Sector Likely to Find Bottom Soon**
 - Home are much more affordable (attracting buyers)
 - Mortgage rates are at multi-decade lows (attracting buyers)
 - Freefall in housing starts and existing home sales is ending
- **Inflation & Energy Prices Are Under Control**
- **Consumer & Business Debt Loads Are Shrinking**

THE \$787 BILLION ECONOMIC STIMULUS

**Sectoral Impacts & Implications
for P/C Insurance**



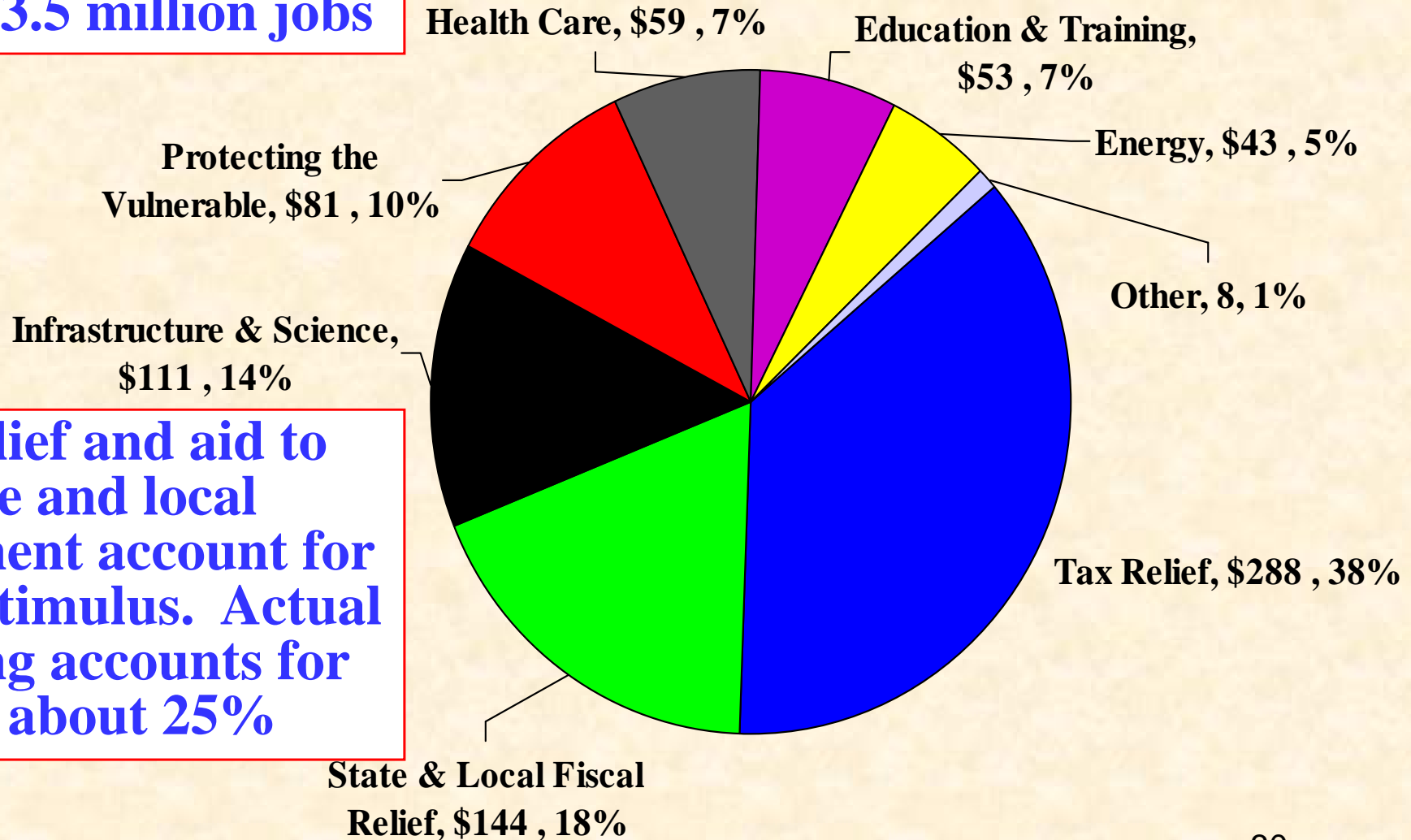


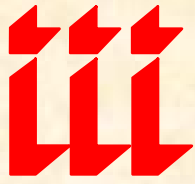
Economic Stimulus Package: Where the \$787B Goes

Objective is to create or preserve 3.5 million jobs

Tax relief and aid to state and local government account for 56% of stimulus. Actual spending accounts for only about 25%

\$ Billions

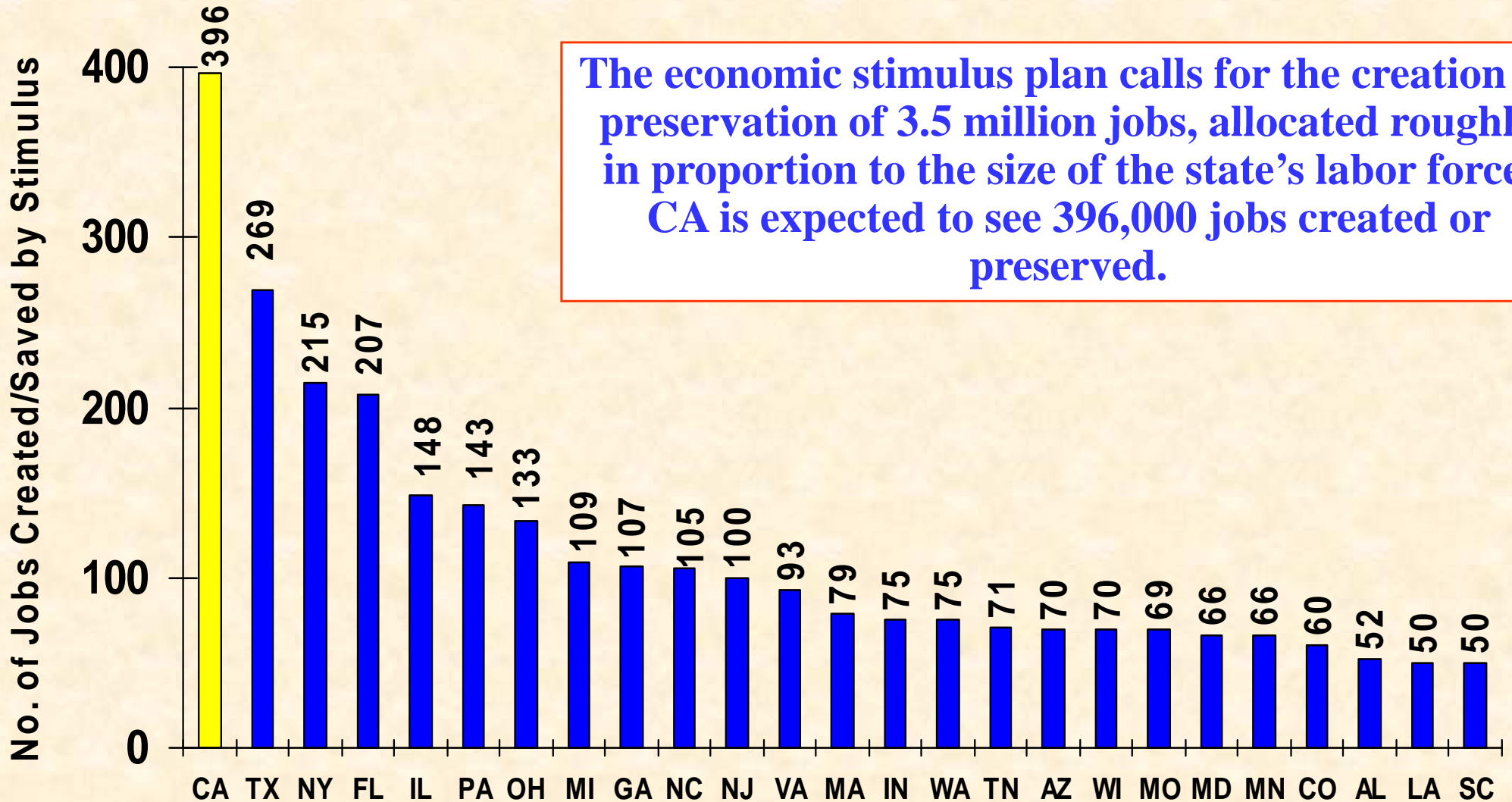




Estimated Job Effect of Stimulus Spending By State: Top 25 States

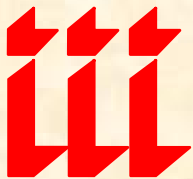
(Thousands)

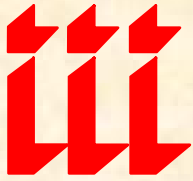
The economic stimulus plan calls for the creation or preservation of 3.5 million jobs, allocated roughly in proportion to the size of the state's labor force. CA is expected to see 396,000 jobs created or preserved.



FINANCIAL STRENGTH & RATINGS

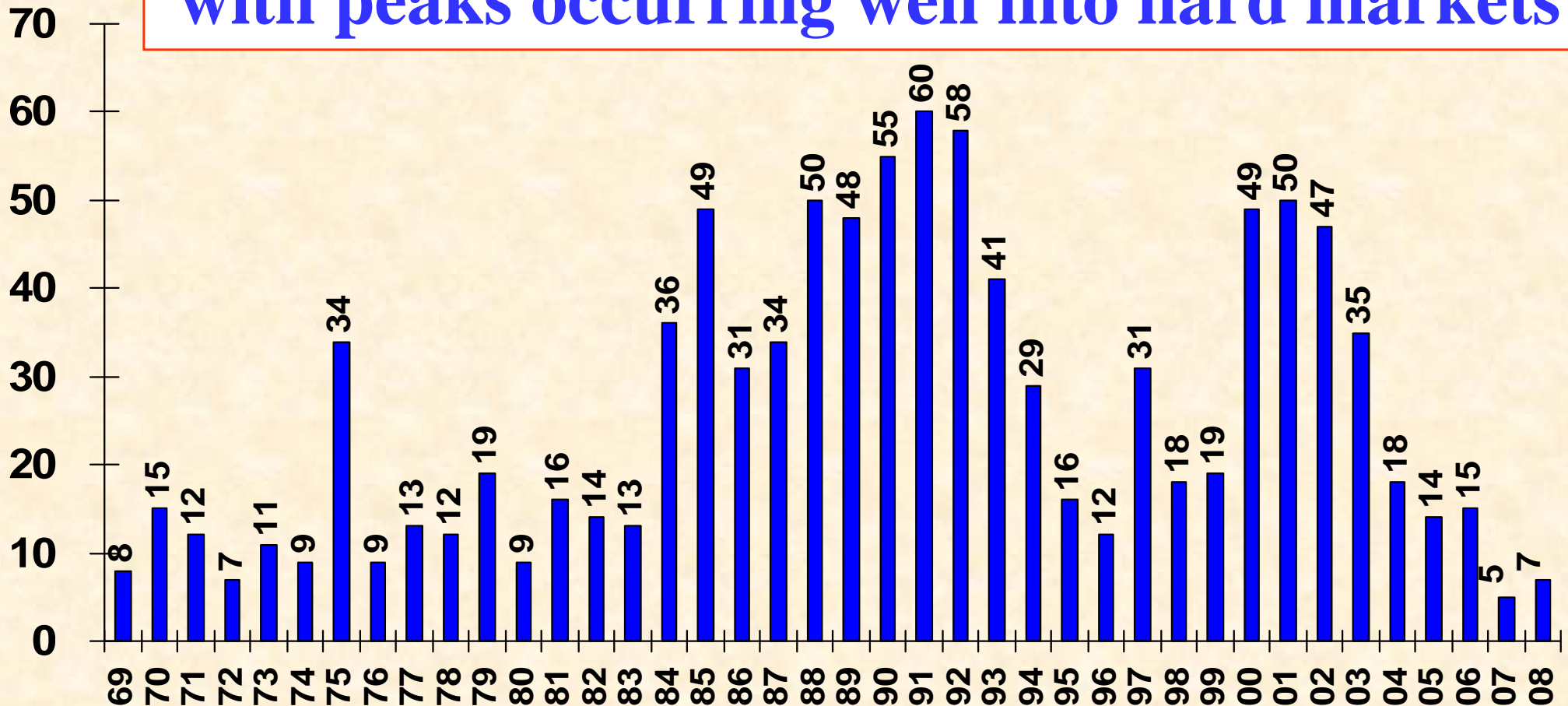
**Industry Has Weathered the
Storms Well**

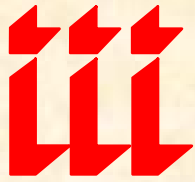




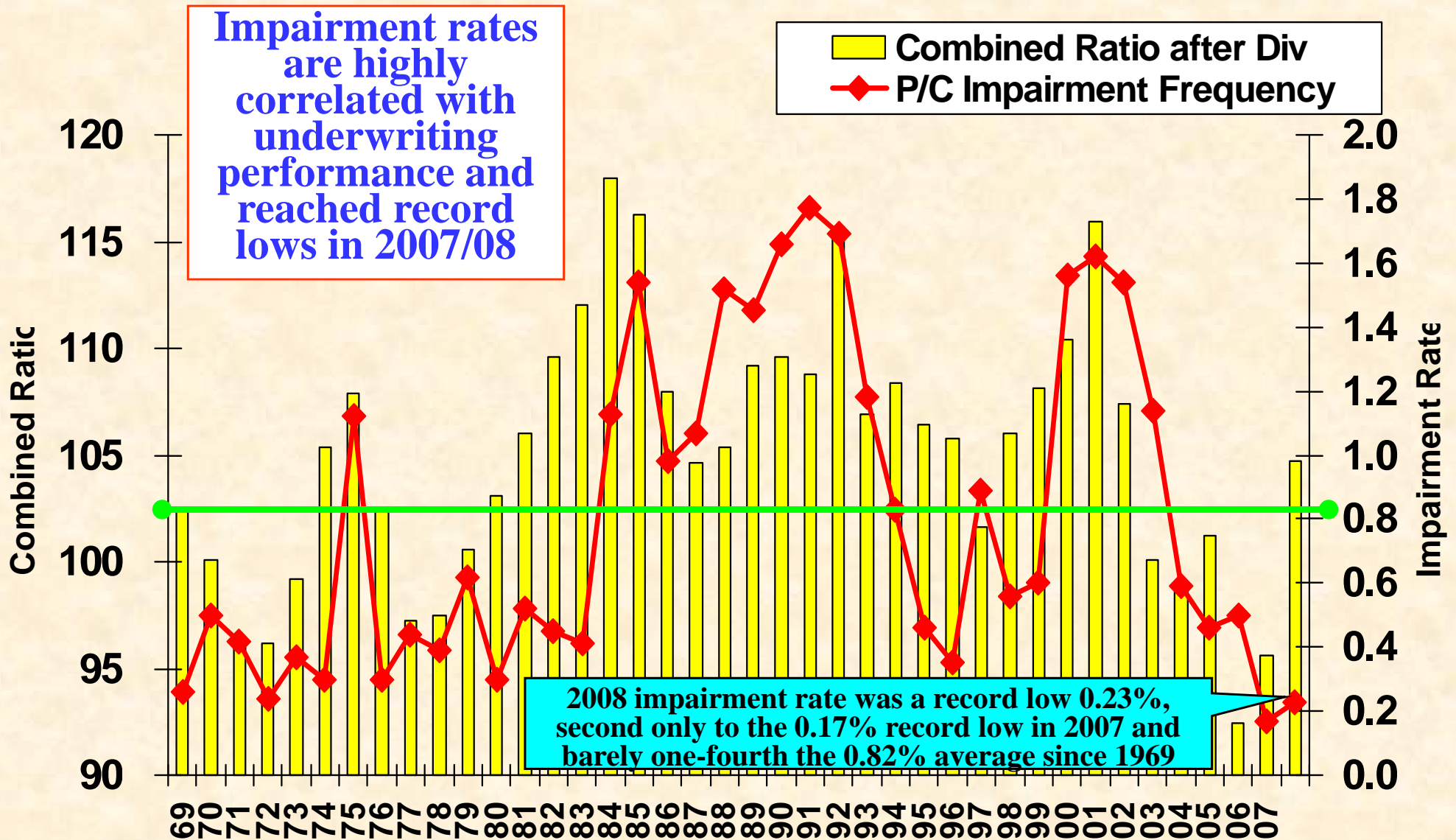
P/C Insurer Impairments, 1969-2008

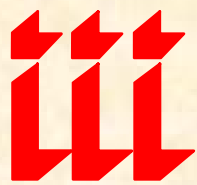
The number of impairments varies significantly over the p/c insurance cycle, with peaks occurring well into hard markets





P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2008

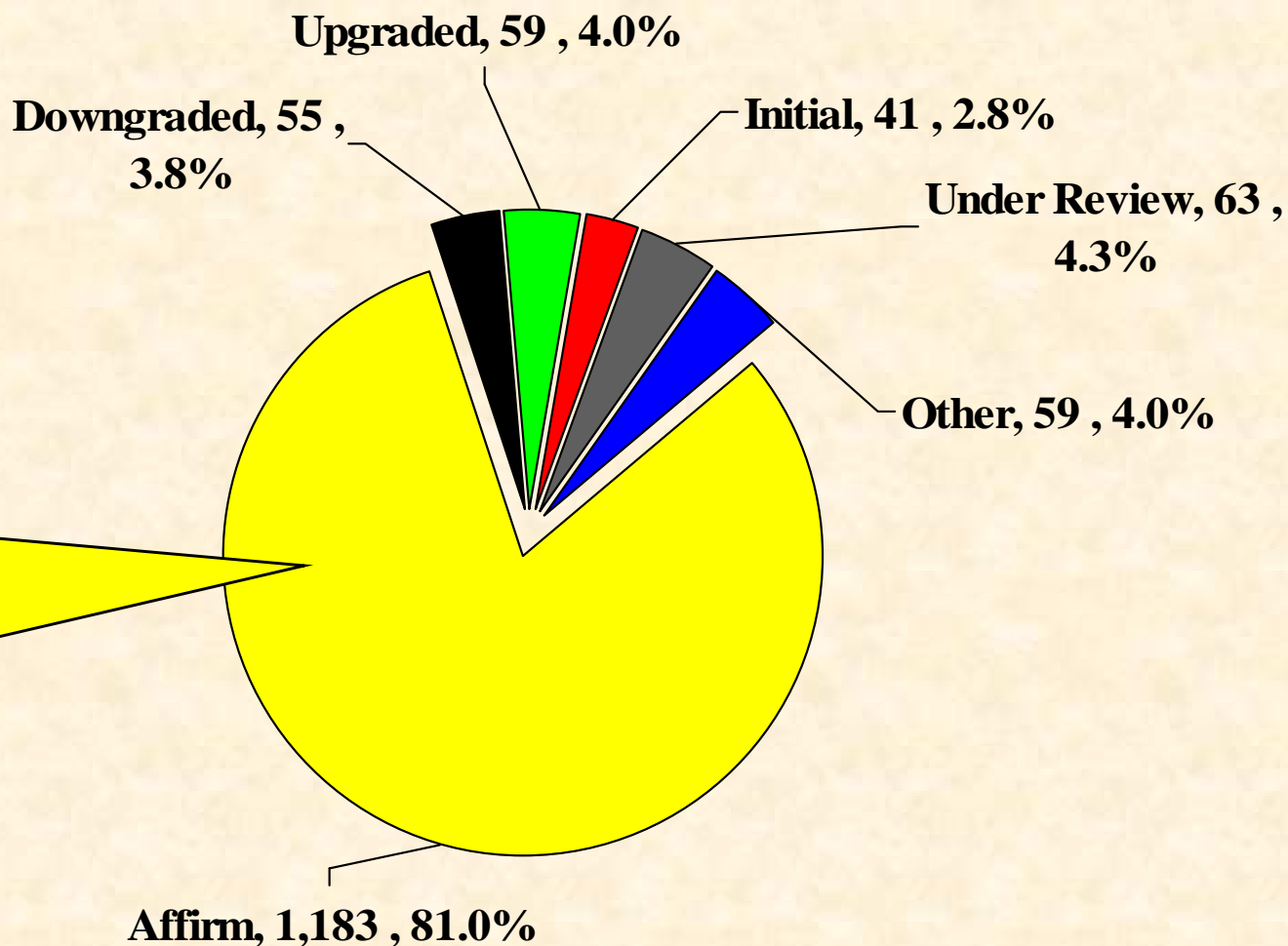


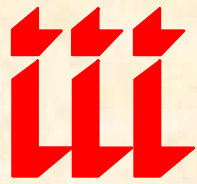


Summary of A.M. Best's P/C Insurer Ratings Actions in 2008*

P/C insurance is by design a resilient in business. The dual threat of financial disasters and catastrophic losses are anticipated in the industry's risk management strategy.

Despite financial market turmoil, high cat losses and a soft market in 2008, 81% of ratings actions by A.M. Best were affirmations; just 3.8% were downgrades and 4.0% upgrades





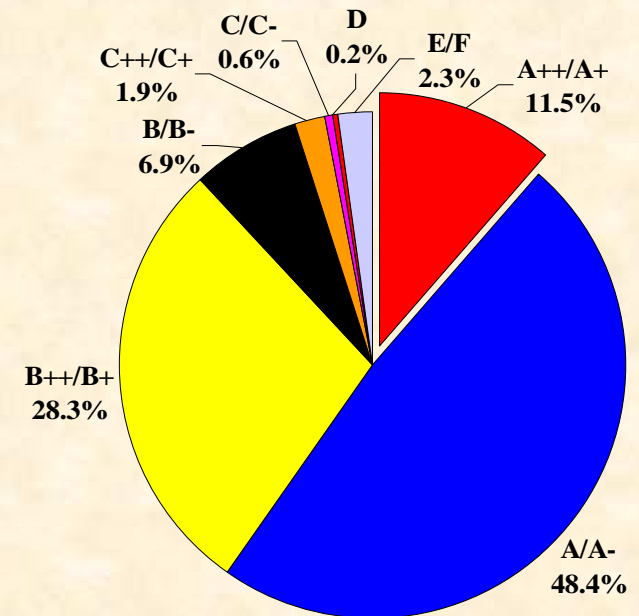
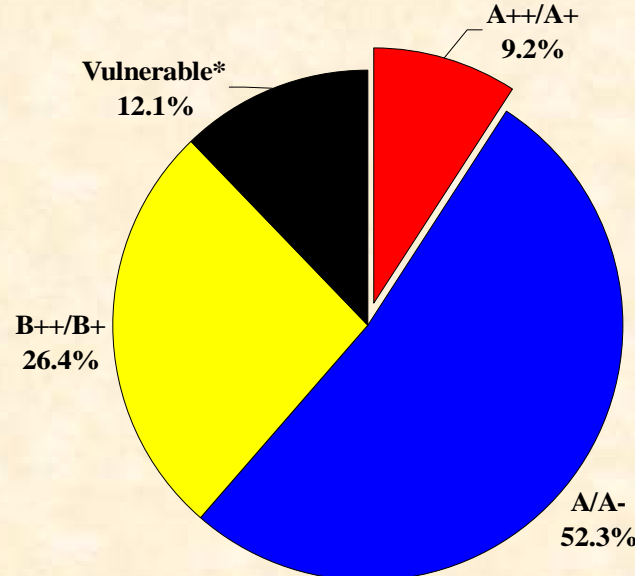
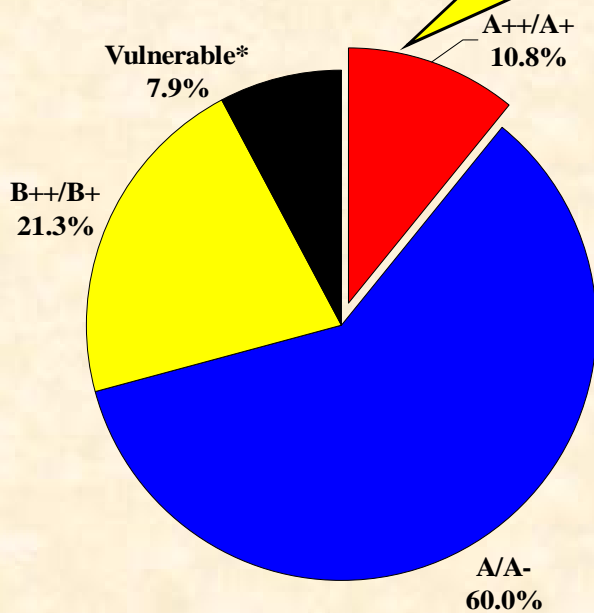
Historical Ratings Distribution, US P/C Insurers, 2008 vs. 2005 and 2000

2008

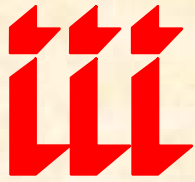
**A++/A+ and
A/A- gains**

2005

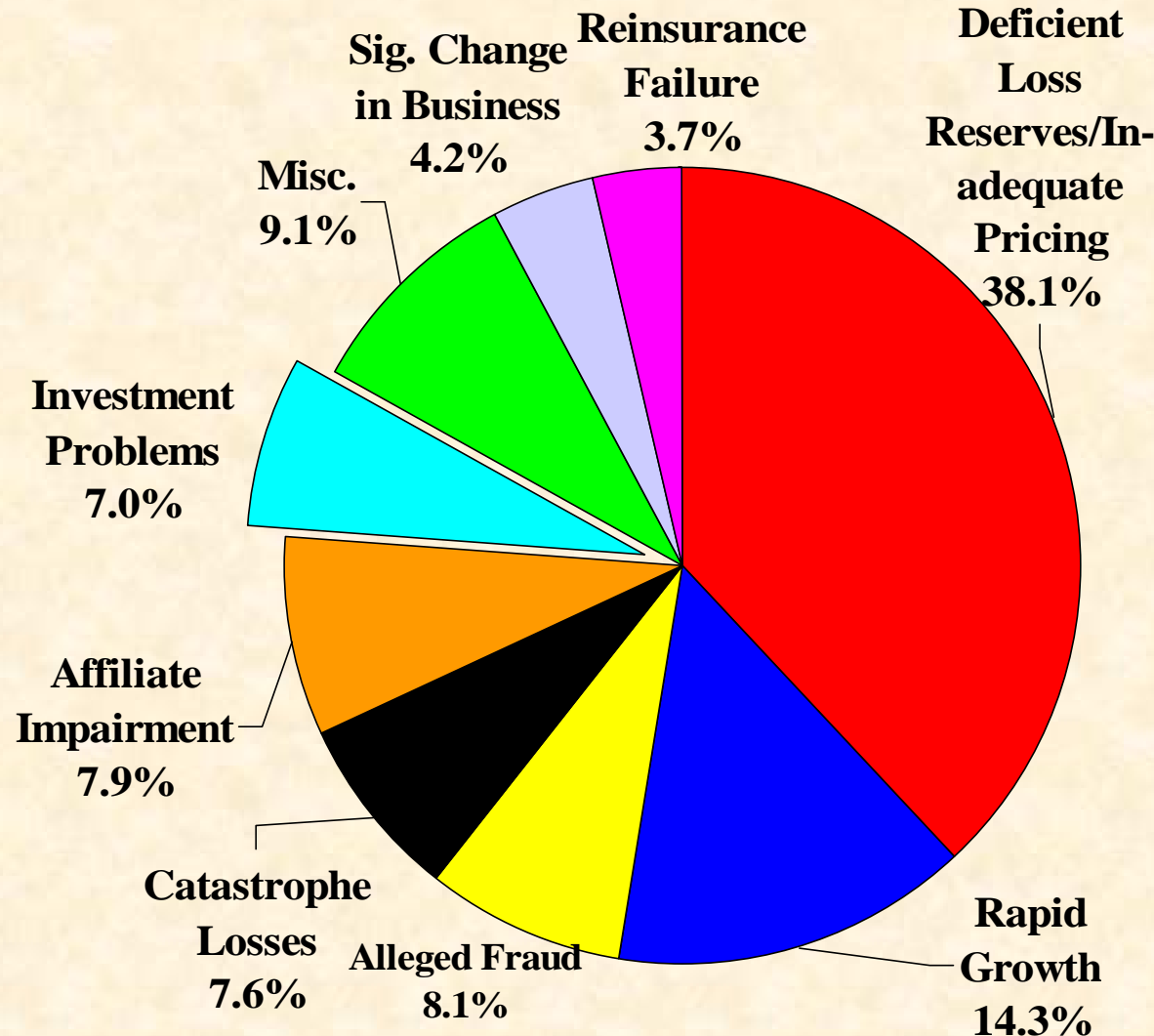
2000



**P/C insurer financial strength
has improved since 2005 despite
financial crisis**



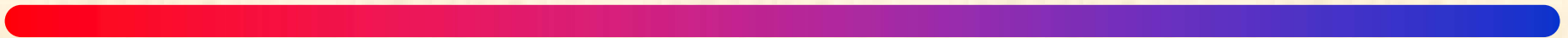
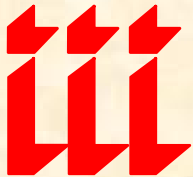
Reasons for US P/C Insurer Impairments, 1969-2008

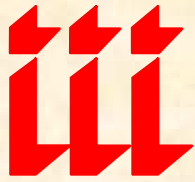


Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the importance of discipline. Investment catastrophe losses play a much smaller role.

Critical Differences Between P/C Insurers and Banks

**Superior Risk Management Model
& Low Leverage Make
a Big Difference**

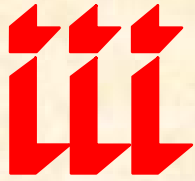




How Insurance Industry Stability Has Benefitted Consumers

BOTTOM LINE:

- **Insurance Markets—Unlike Banking—Are Operating *Normally***
- **The Basic Function of Insurance—the Orderly Transfer of Risk from Client to Insurer—Continues *Uninterrupted***
- **This Means that Insurers Continue to:**
 - **Pay claims (whereas 57 banks have gone under as of May 1)**
 - *The Promise is Being Fulfilled*
 - **Renew existing policies (banks are reducing and eliminating lines of credit)**
 - **Write new policies (banks are turning away people who want or need to borrow)**
 - **Develop new products (banks are scaling back the products they offer)**

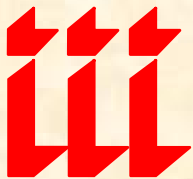


Reasons Why P/C Insurers Have Fewer Problems Than Banks: A Superior Risk Management Model

- **Emphasis on Underwriting**
 - Matching of risk to price (via experience and modeling)
 - Limiting of potential loss exposure
 - *Some banks sought to maximize volume and fees and disregarded risk*
- **Strong Relationship Between Underwriting and Risk Bearing**
 - **Insurers always maintain a stake in the business they underwrite, keeping “skin in the game” at all times**
 - *Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences—straightforward moral hazard problem from Econ 101*
- **Low Leverage**
 - Insurers do not rely on borrowed money to underwrite insurance or pay claims → *There is no credit or liquidity crisis in the insurance industry*
- **Conservative Investment Philosophy**
 - High quality portfolio that is relatively less volatile and more liquid
- **Comprehensive Regulation of Insurance Operations**
 - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives—CDS’s)
- **Greater Transparency**
 - Insurance companies are an open book to regulators and the public

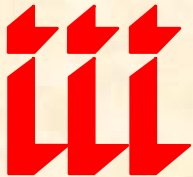
P/C INSURANCE FINANCIAL PERFORMANCE

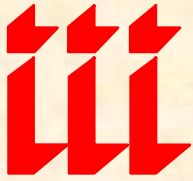
**A Resilient Industry in
Challenging Times**



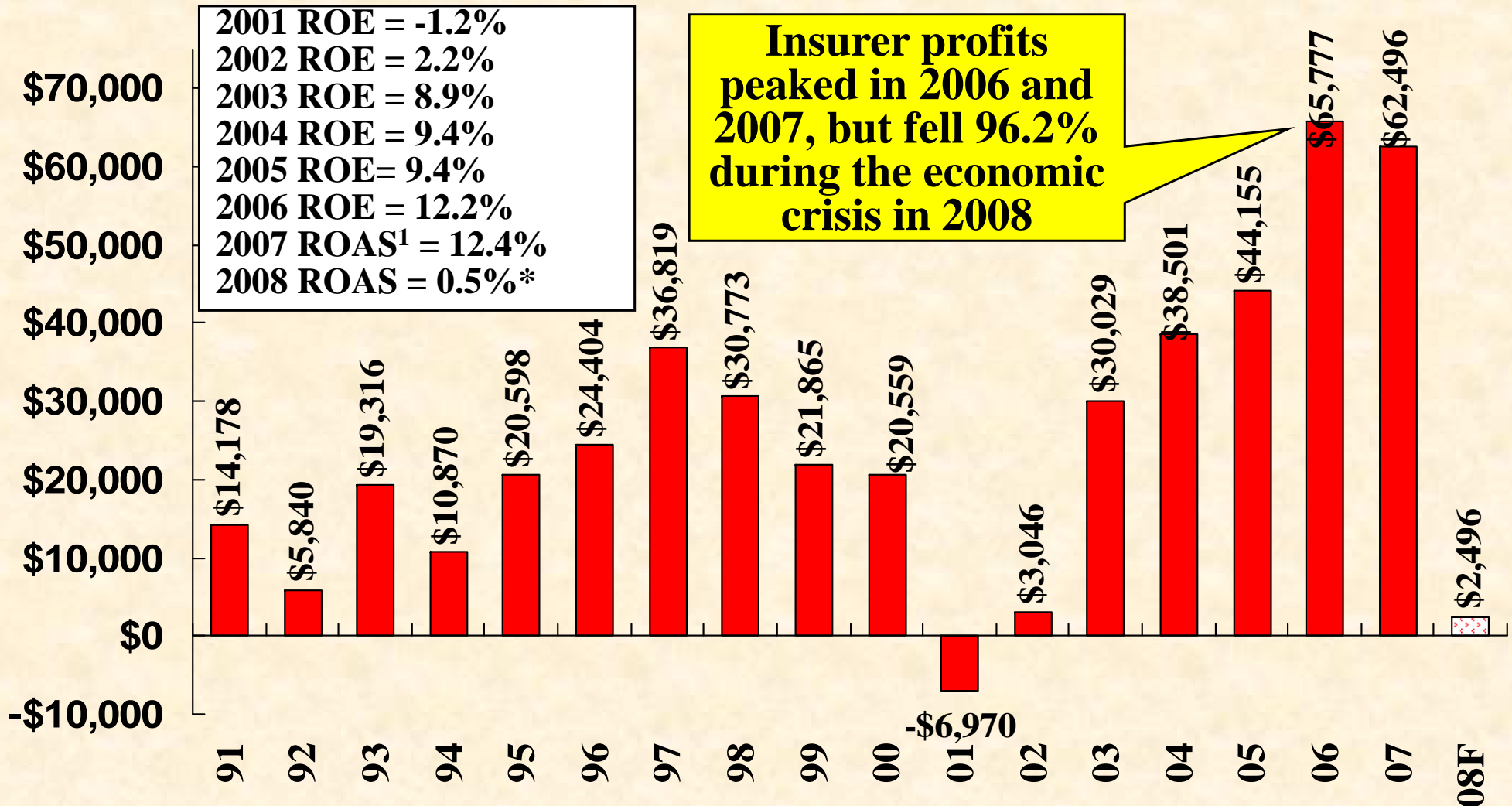
Profitability

Historically Volatile



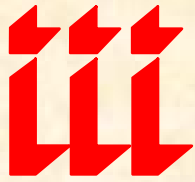


*P/C Net Income After Taxes 1991-2008F (\$ Millions)**

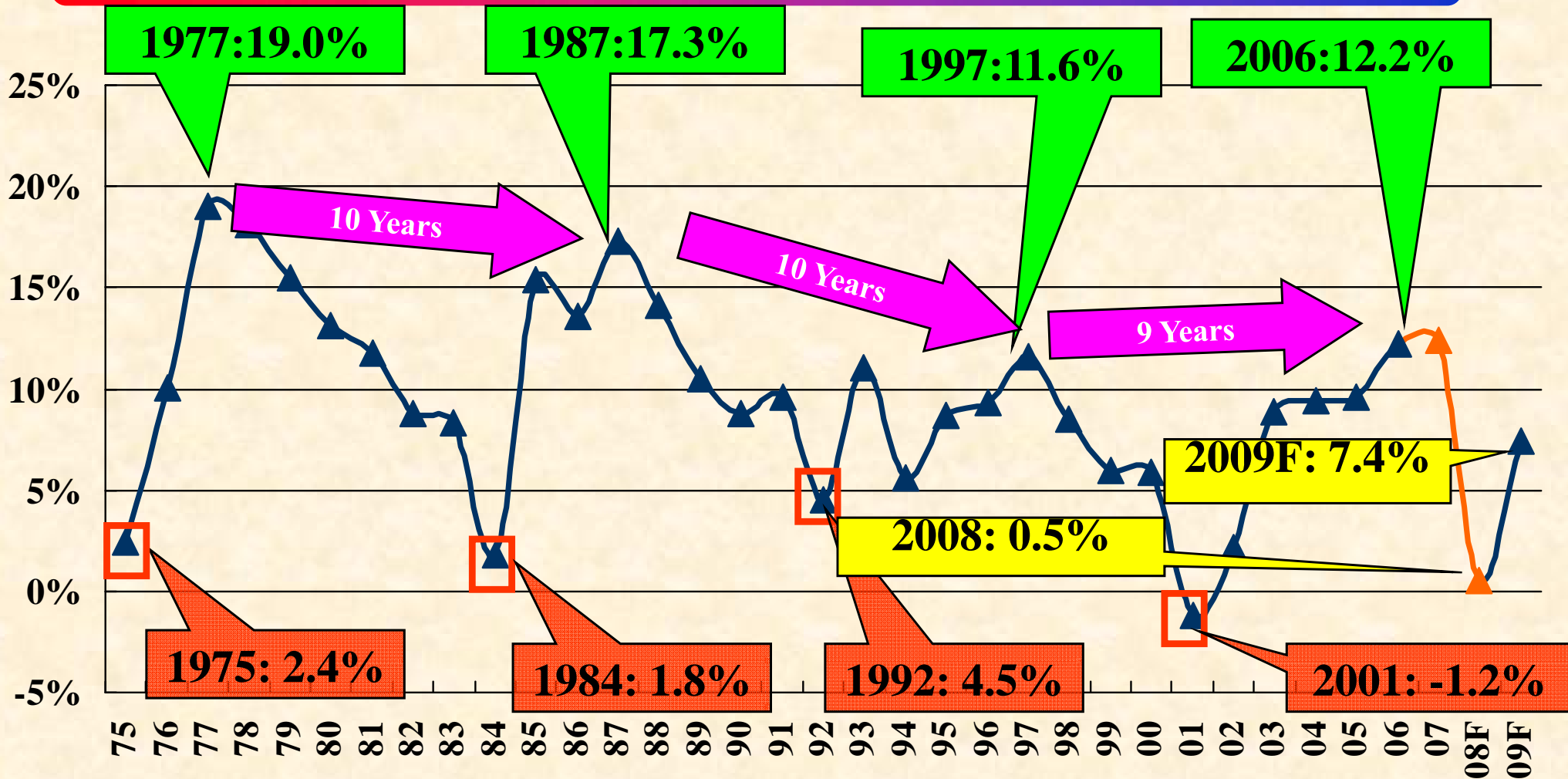


*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guarantee insurers yields a 4.2% ROAS for 2008.

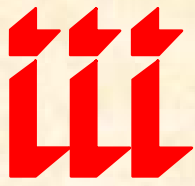
Sources: A.M. Best, ISO, Insurance Information Inst.



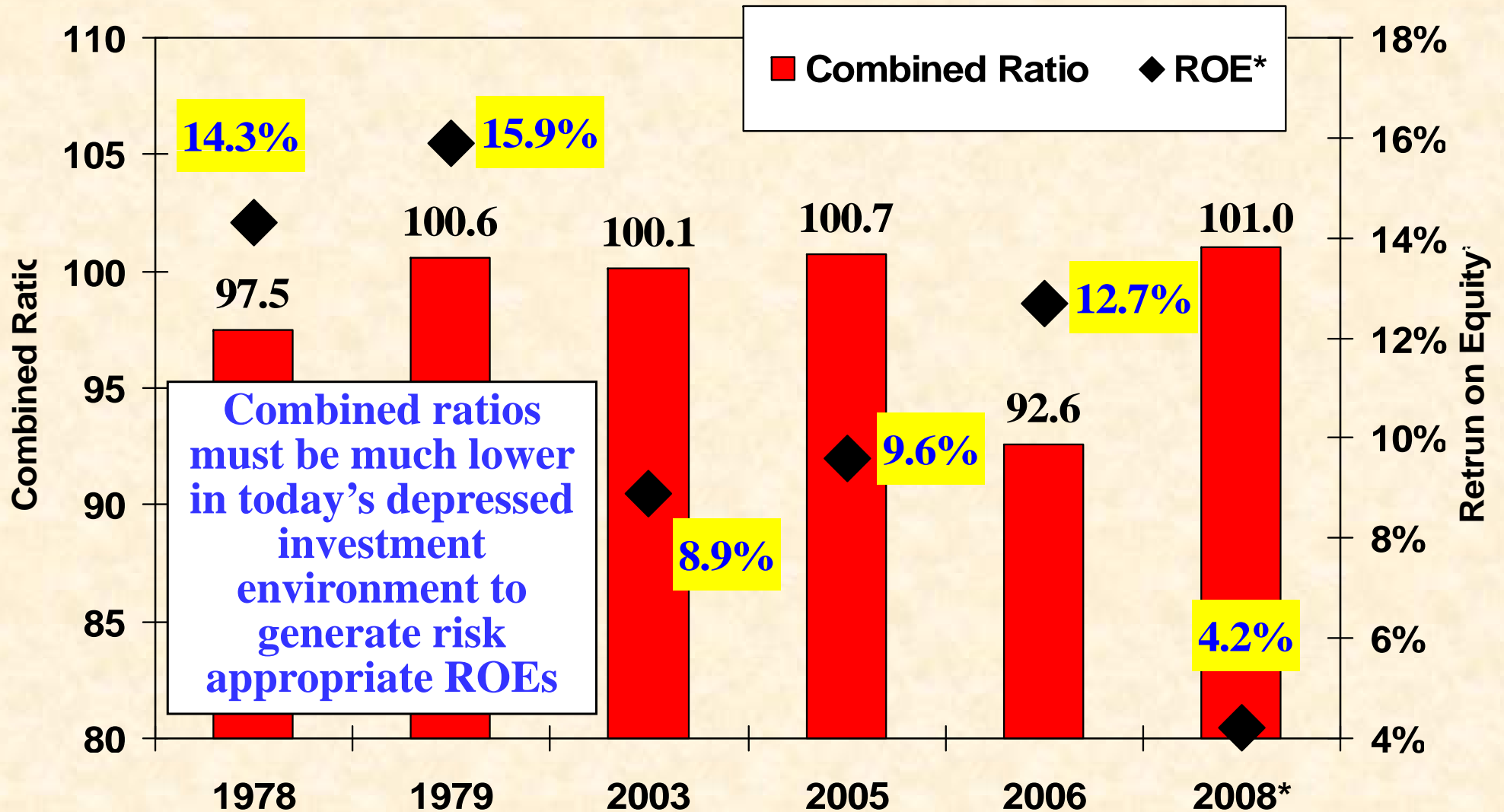
P/C Insurance Industry ROEs 1975 – 2009F*



Note: 2008 result excluding Mortgage & Financial Guarantee insurers is 4.2%.
Sources: ISO; A.M. Best (2009F); Insurance Information Institute.



A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At

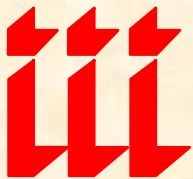


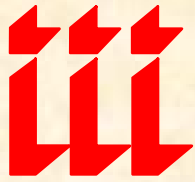
* 2008 figure is return on average statutory surplus. Excludes mortgage and financial guarantee insurers.

Source: Insurance Information Institute from A.M. Best and ISO data.

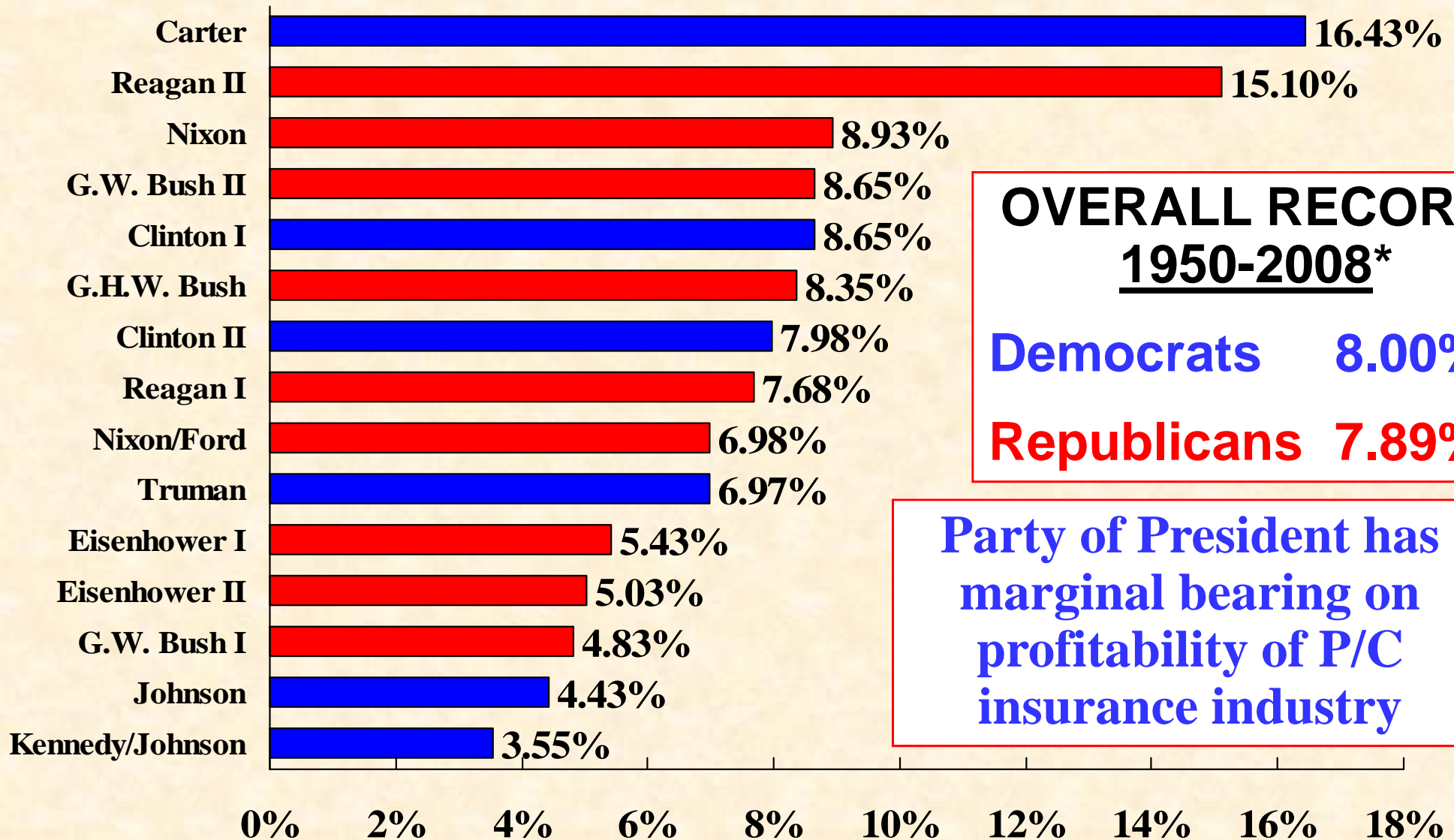
Presidential Politics & P/C Insurance

How is Profitability Affected by the President's Political Party?





*P/C Insurance Industry ROE by Presidential Administration, 1950-2008**

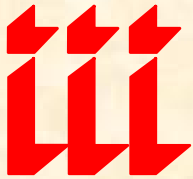


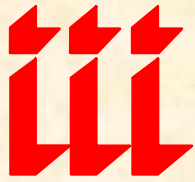
*Truman administration ROE of 6.97% based on 3 years only, 1950-52.

Source: Insurance Information Institute

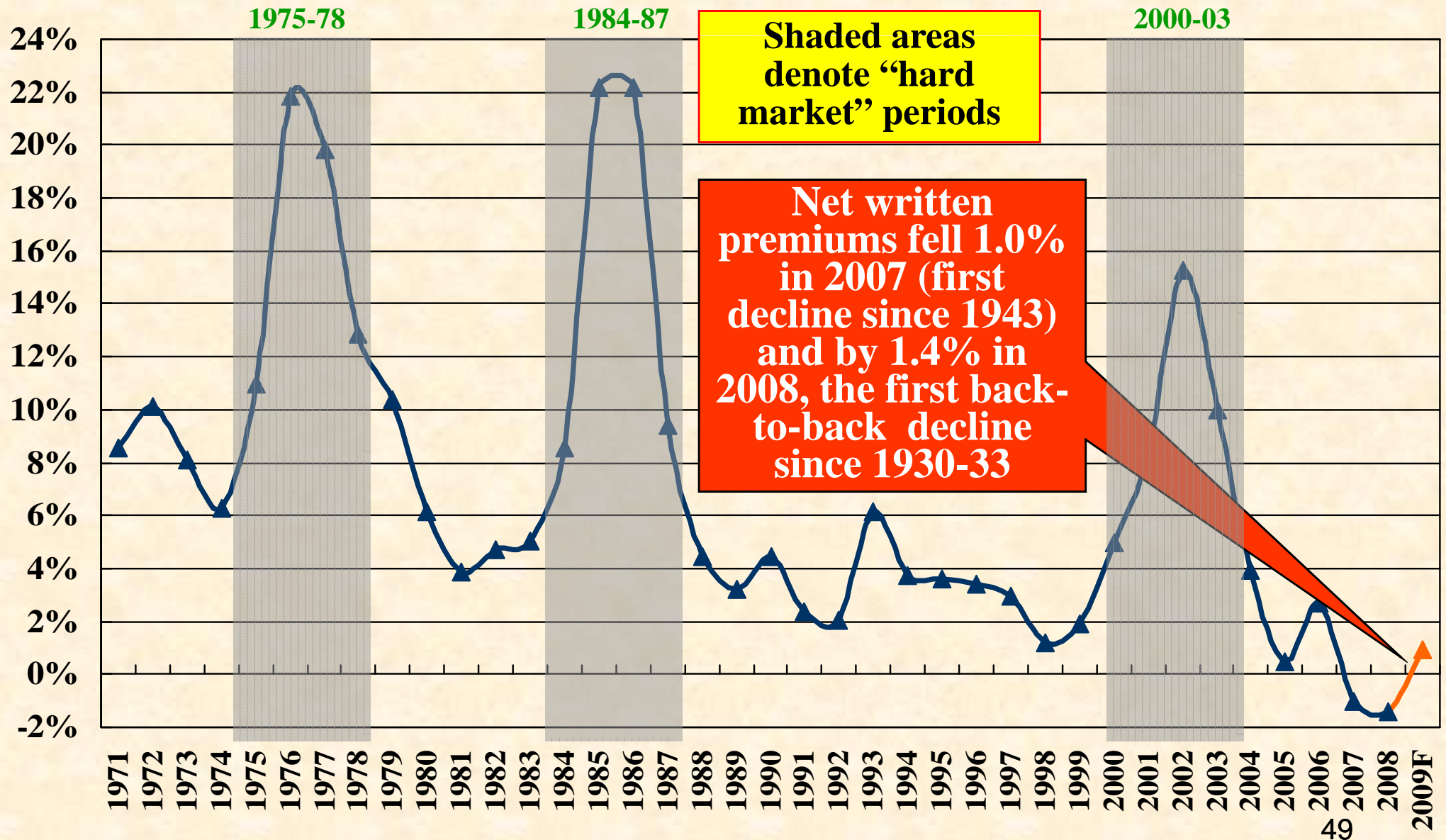
P/C Premium Growth

**Primarily Driven by the Industry's
Underwriting Cycle, Not the
Economy**





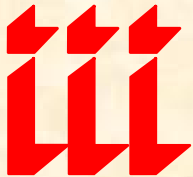
Strength of Recent Hard Markets by NWP Growth

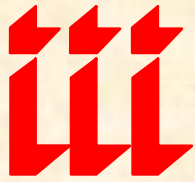


Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute

Capital/ Policyholder Surplus

Shrinkage, but Capital is
Within Historic Norms



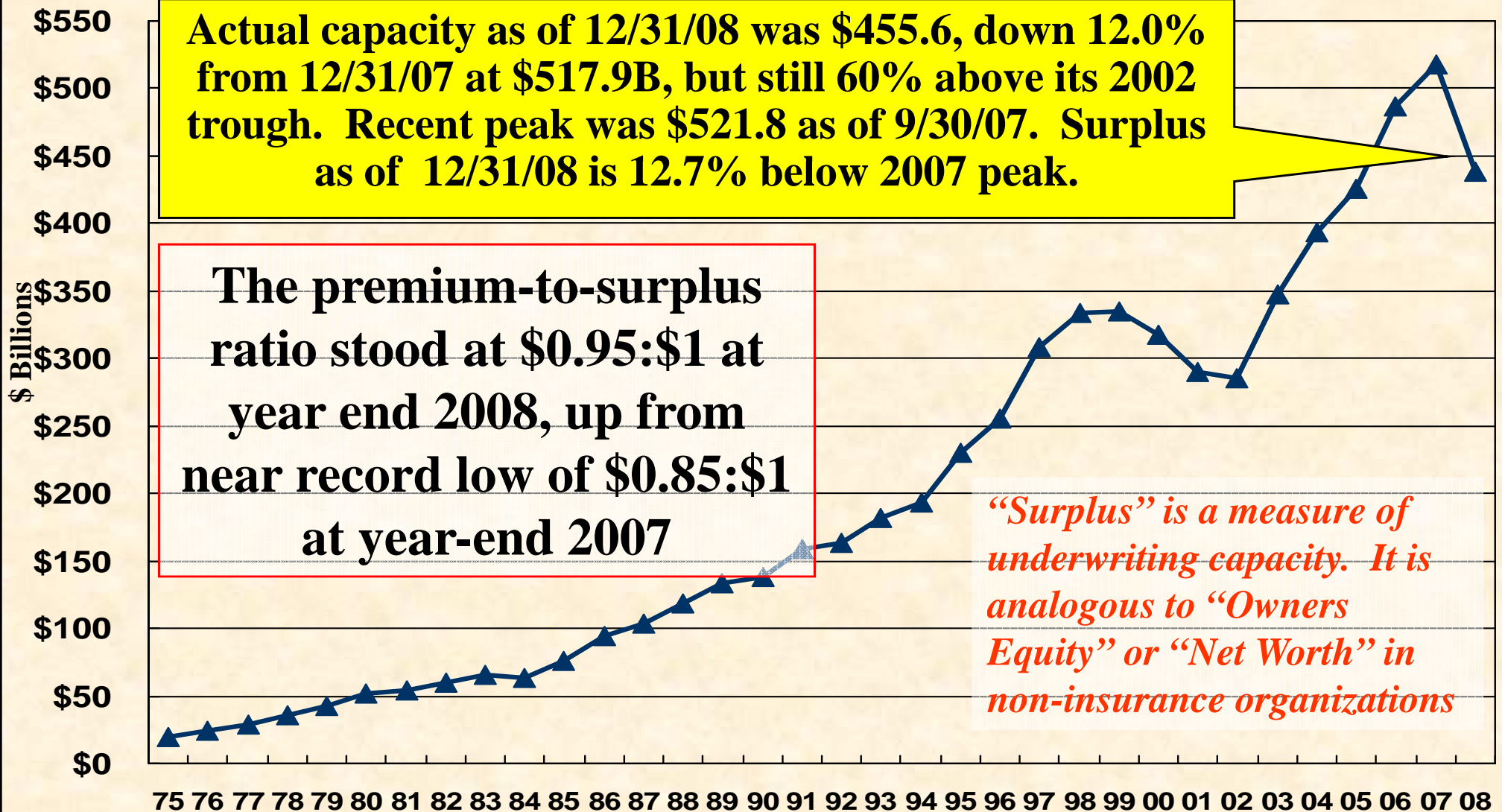


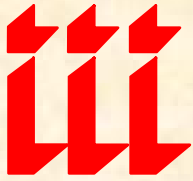
U.S. Policyholder Surplus: 1975-2008*

Actual capacity as of 12/31/08 was \$455.6, down 12.0% from 12/31/07 at \$517.9B, but still 60% above its 2002 trough. Recent peak was \$521.8 as of 9/30/07. Surplus as of 12/31/08 is 12.7% below 2007 peak.

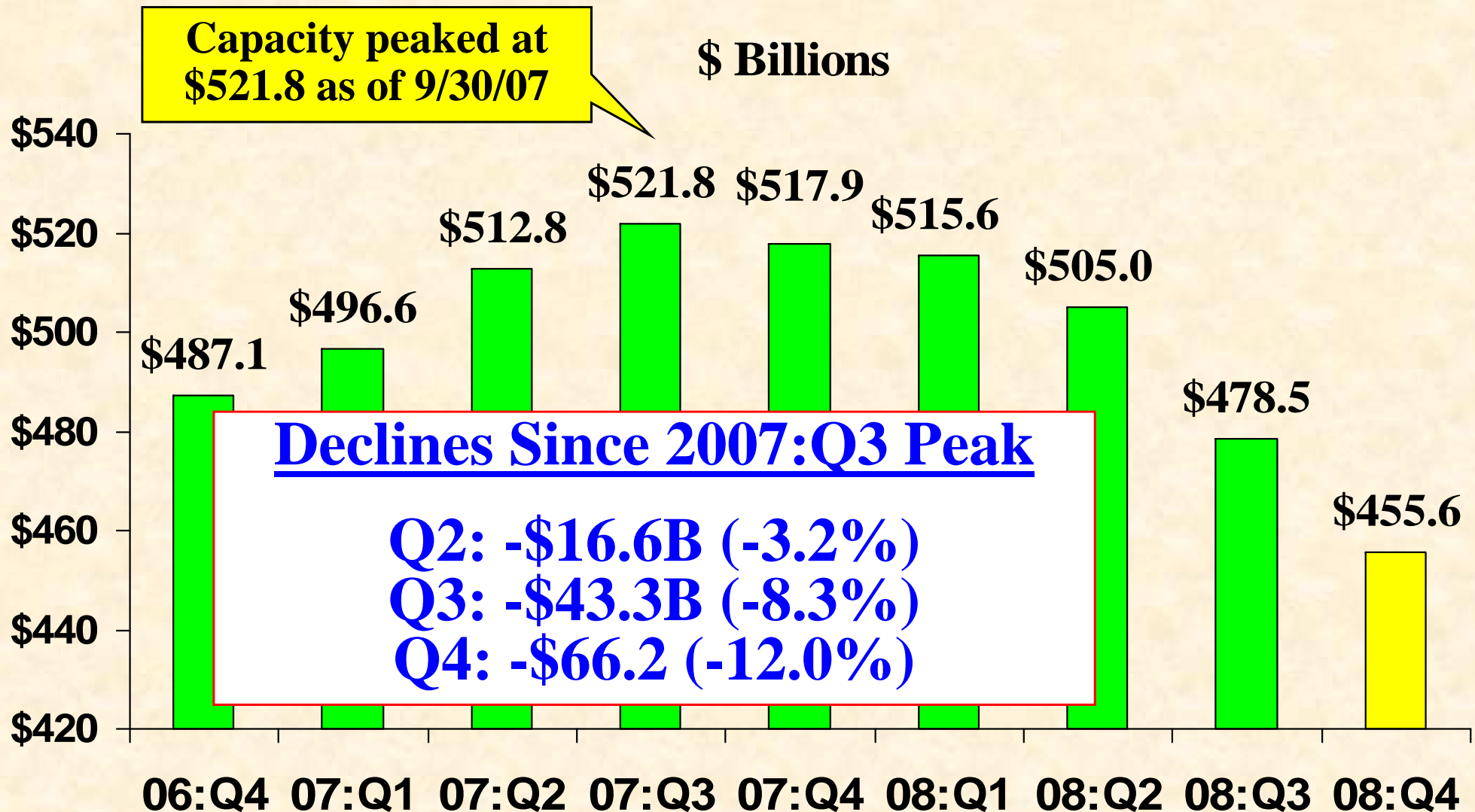
The premium-to-surplus ratio stood at \$0.95:\$1 at year end 2008, up from near record low of \$0.85:\$1 at year-end 2007

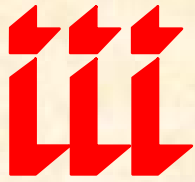
“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations



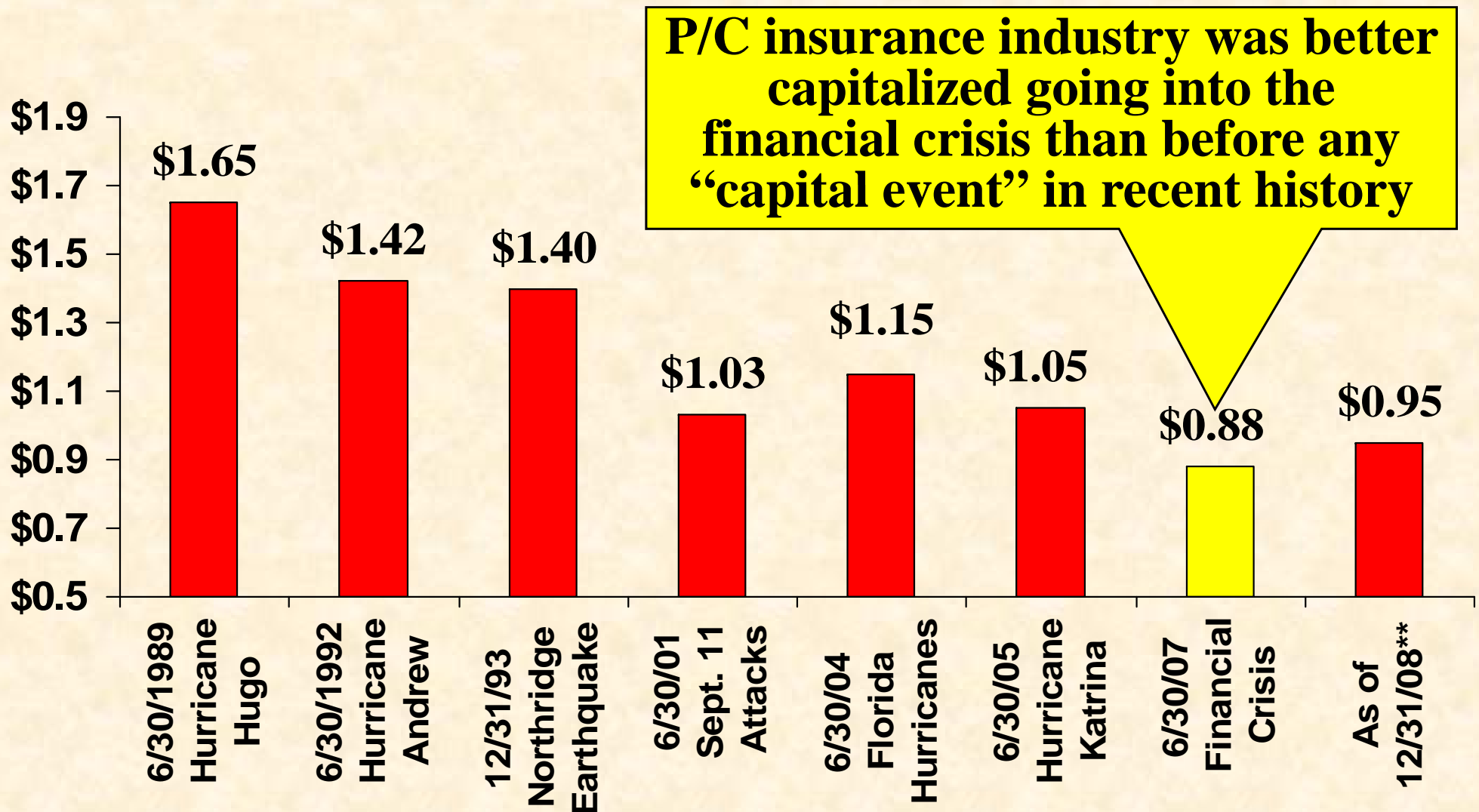


Policyholder Surplus, 2006:Q4 – 2008:Q4





Premium-to-Surplus Ratios Before Major Capital Events*

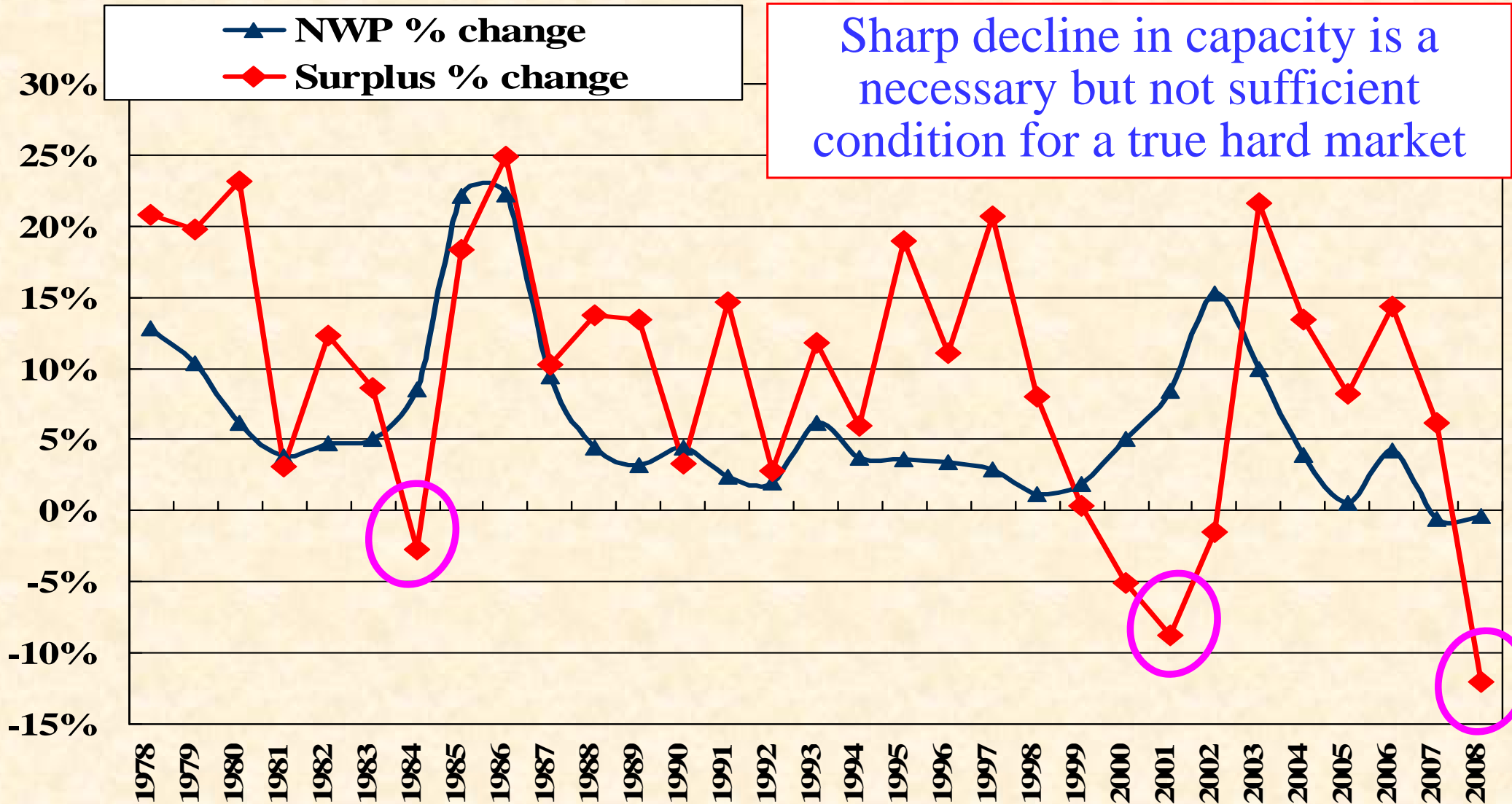


*Ratio is for end of quarter immediately prior to event. Date shown is end of quarter prior to event.

**Latest available

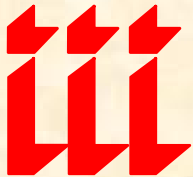
Source: PCS; Insurance Information Institute.

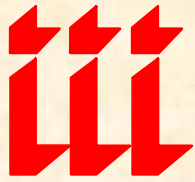
Historically, Hard Markets Follow When Surplus "Growth" is Negative



Investment Performance

*Investments are the Principle Source
of Declining Profitability*



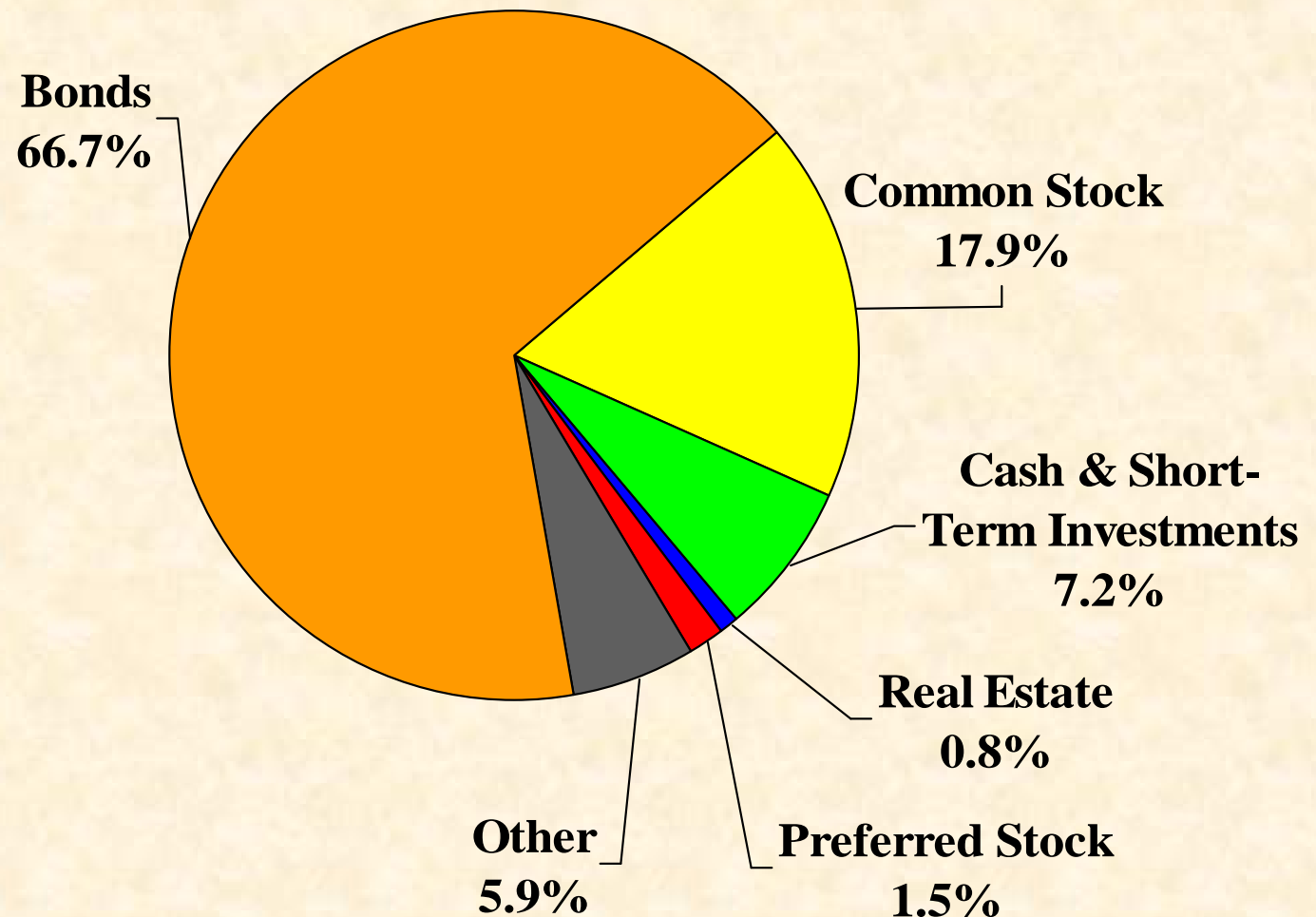


Distribution of P/C Insurance Industry's Investment Portfolio

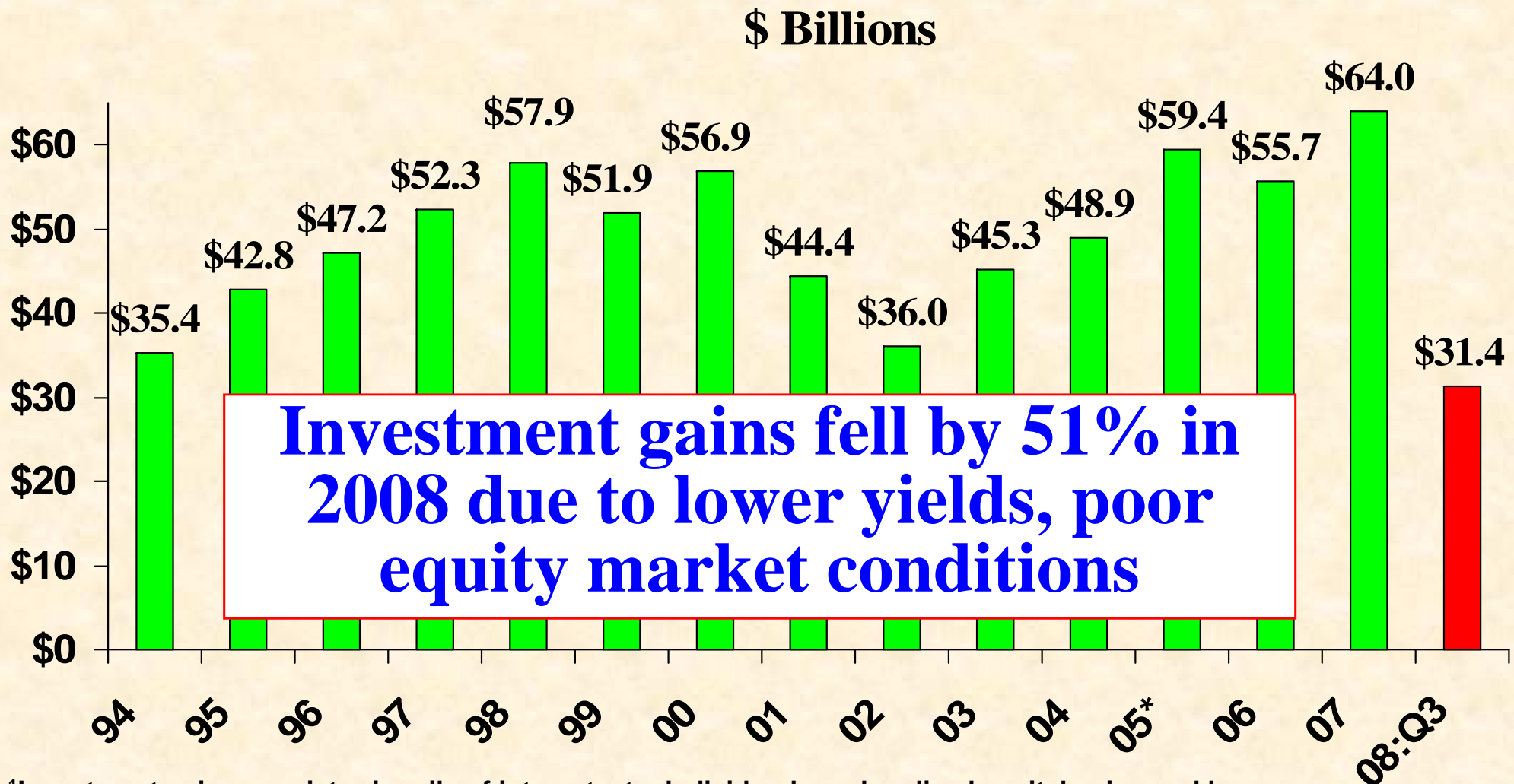
As of December 31, 2007

Portfolio Facts

- Invested assets totaled \$1.3 trillion as of 12/31/07
- Insurers are generally conservatively invested, with 2/3 of assets invested in bonds as of 12/31/07
- Only about 18% of assets were invested in common stock as of 12/31/07
- Even the most conservative of portfolios was hit hard in 2008



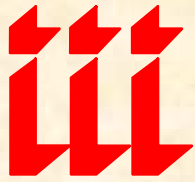
Property/Casualty Insurance Industry Investment Gain: 1994-2008¹



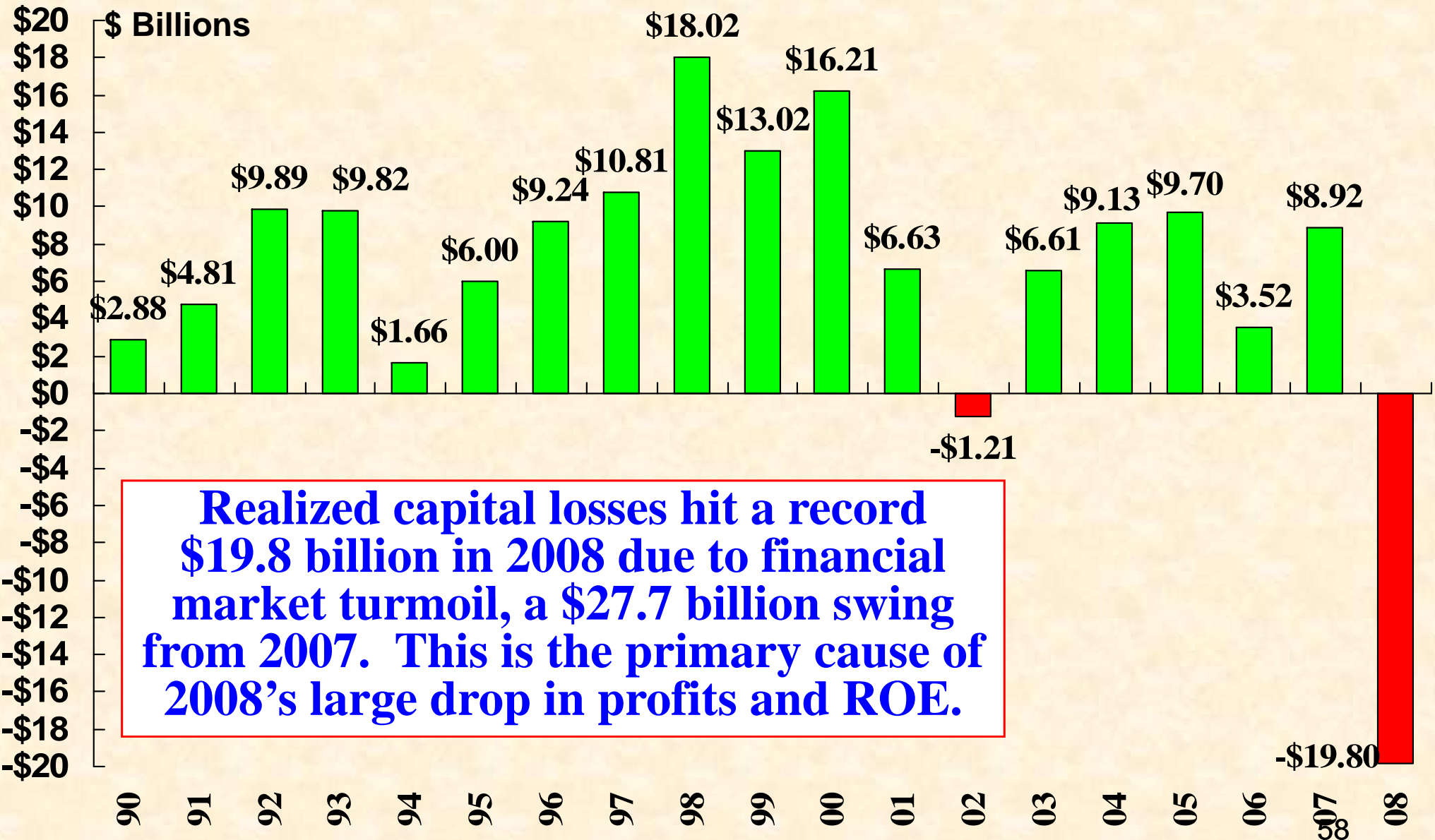
¹Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of \$52.3B net investment income and \$3.4B realized investment gain.

*2005 figure includes special one-time dividend of \$3.2B.

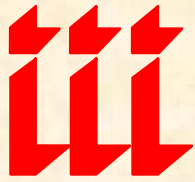
Sources: ISO; Insurance Information Institute.



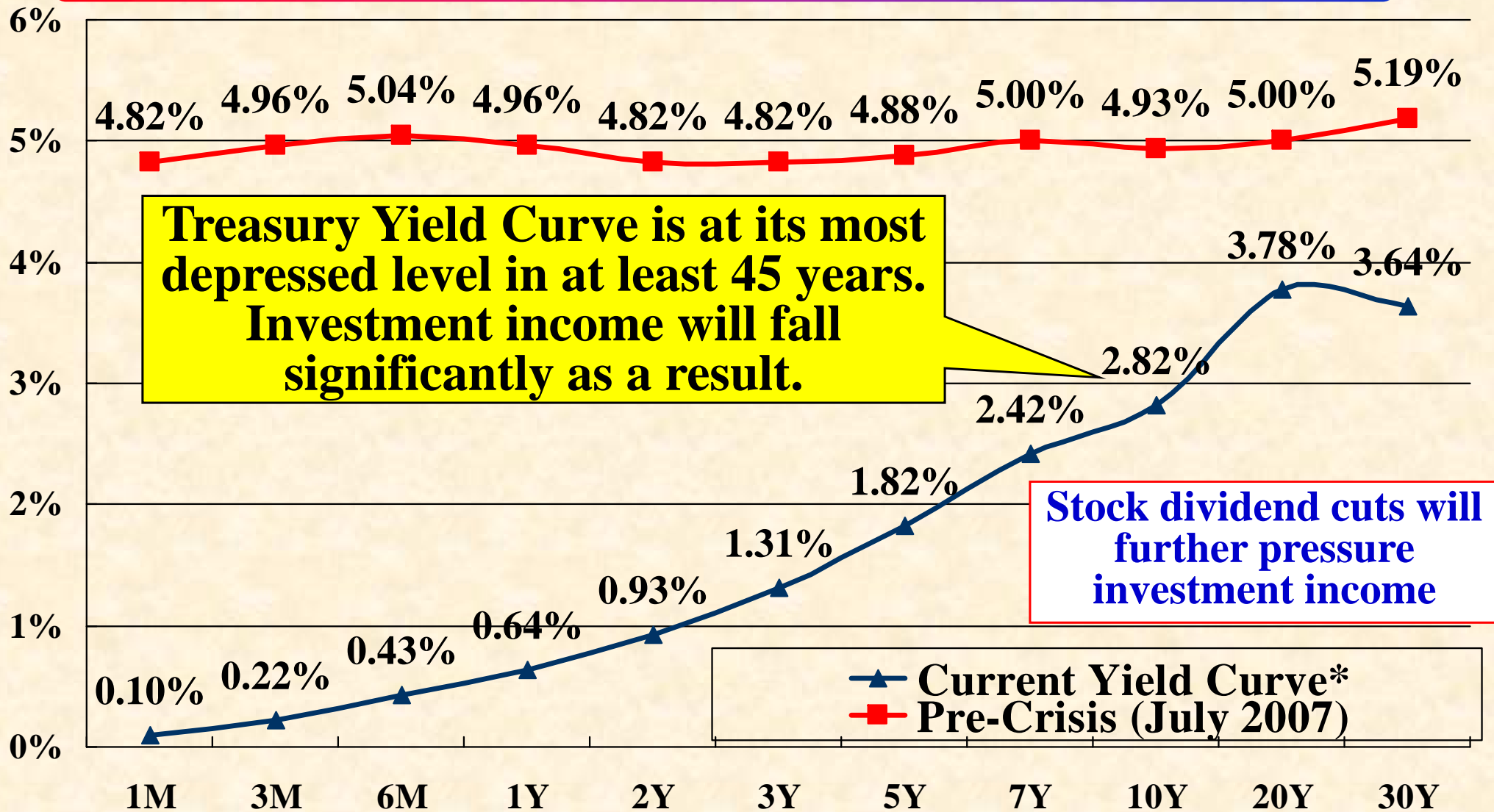
P/C Insurer Net Realized Capital Gains, 1990-2008



Sources: A.M. Best, ISO, Insurance Information Institute.



Treasury Yield Curves: Pre-Crisis vs. Current*



Treasury Yield Curve is at its most depressed level in at least 45 years. Investment income will fall significantly as a result.

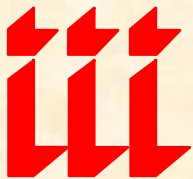
Stock dividend cuts will further pressure investment income

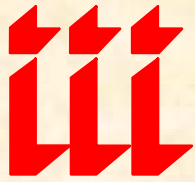
*March 2009.

Sources: Federal Reserve; Insurance Information Institute.

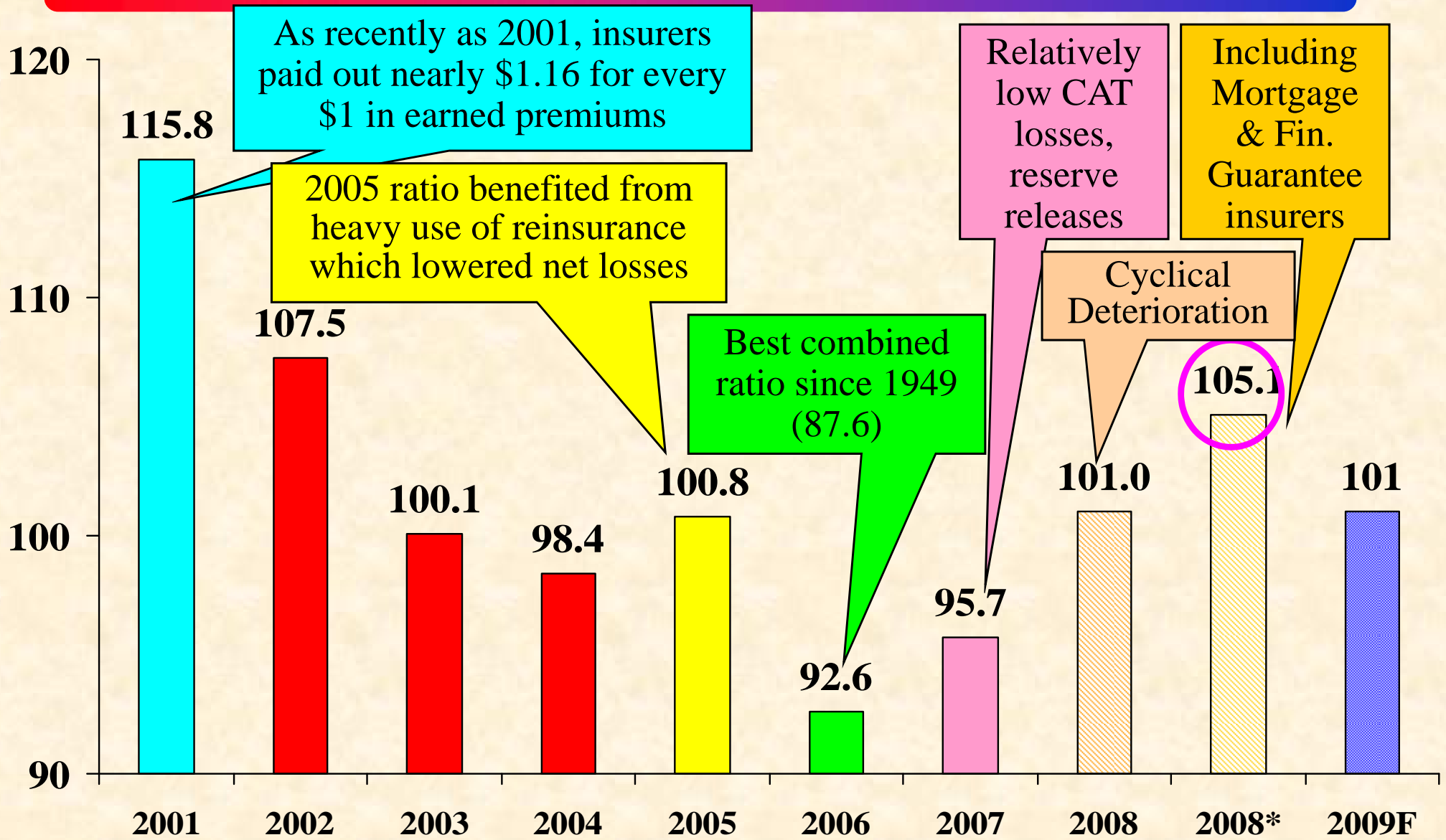
Underwriting Trends

**Financial Crisis Does *Not* Directly
Impact Underwriting Performance:
Cycle, Catastrophes Were
2008's Drivers**



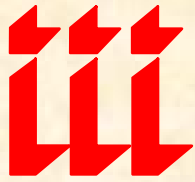


P/C Insurance Industry Combined Ratio, 2001-2009E

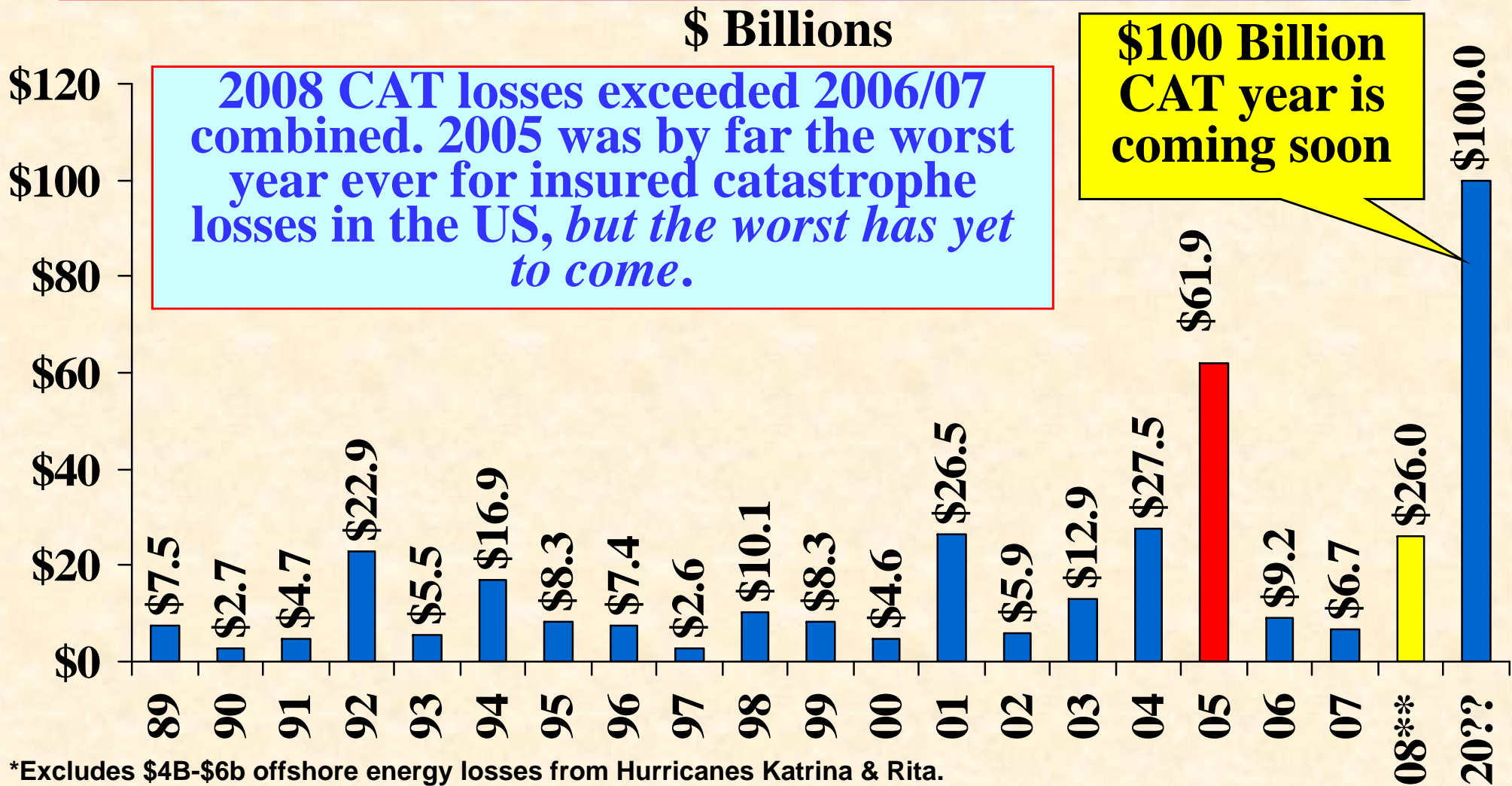


*Includes Mortgage & Financial Guarantee insurers.

Sources: A.M. Best.



U.S. Insured Catastrophe Losses*

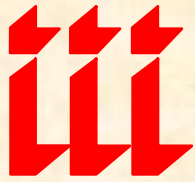


*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

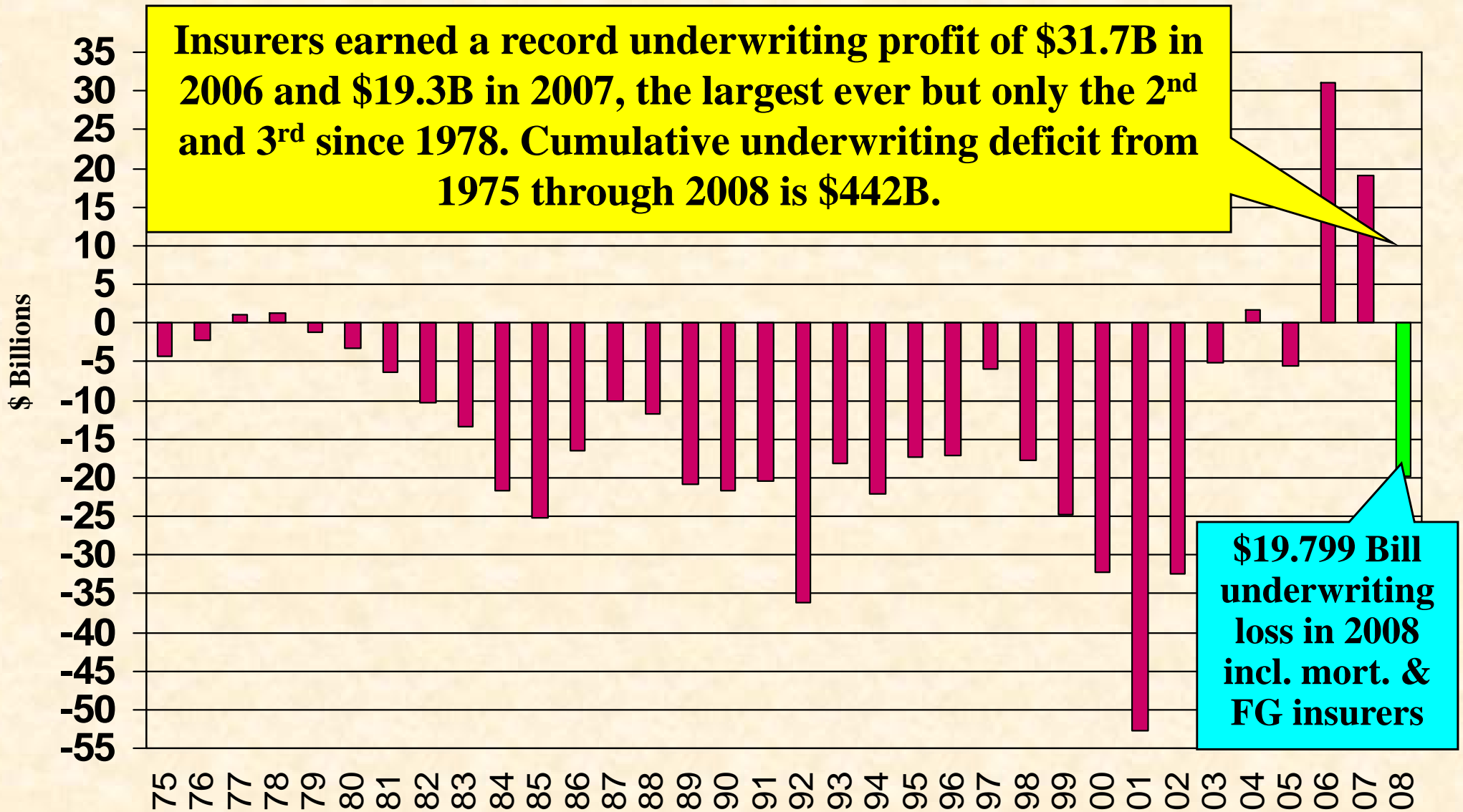
**Based on PCS data through Dec. 31. PCS \$2.1B loss of for Gustav. \$10.655B for Ike of 12/05/08.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Source: Property Claims Service/ISO; Insurance Information Institute

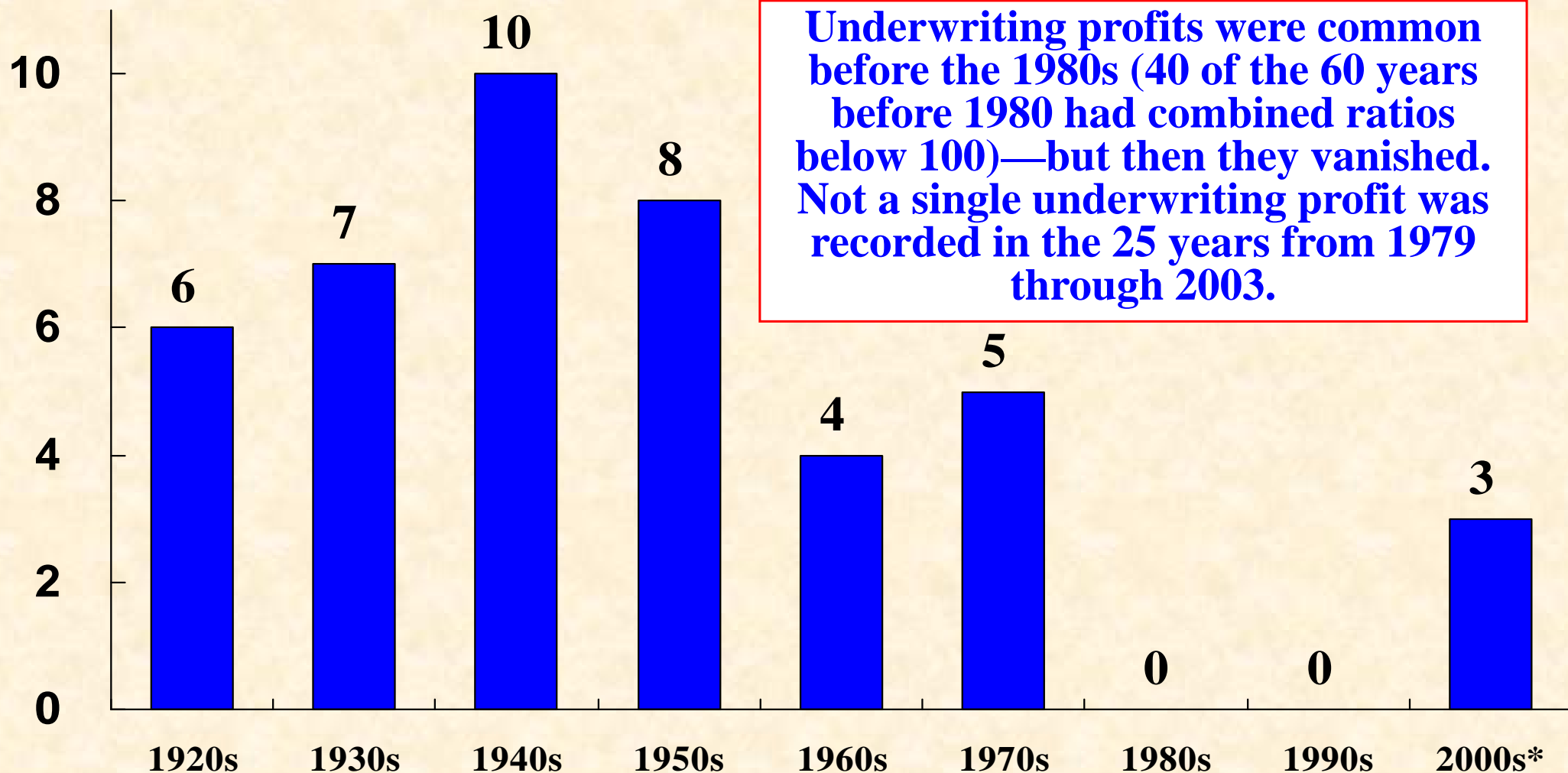


Underwriting Gain (Loss) 1975-2008*



Number of Years With Underwriting Profits by Decade, 1920s -2000s

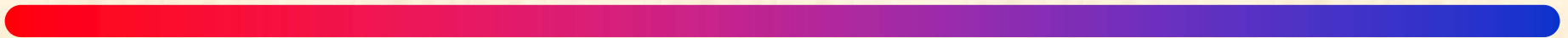
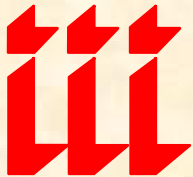
Number of Years with Underwriting Profits

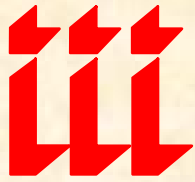


Note: Data for 1920 – 1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.

COMMERCIAL LINES

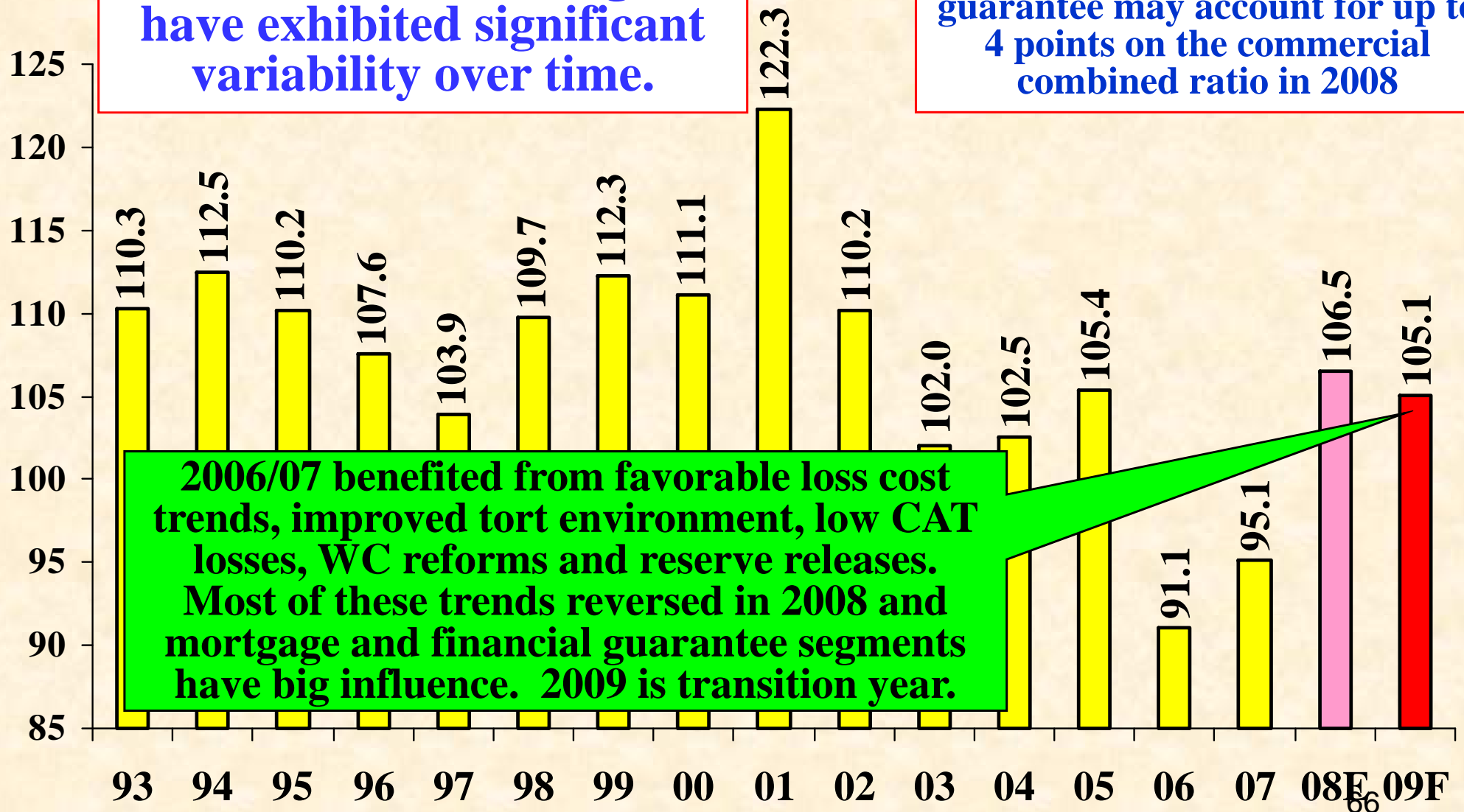




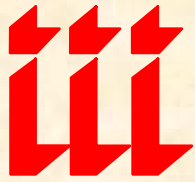
Commercial Lines Combined Ratio, 1993-2009F

Commercial coverages have exhibited significant variability over time.

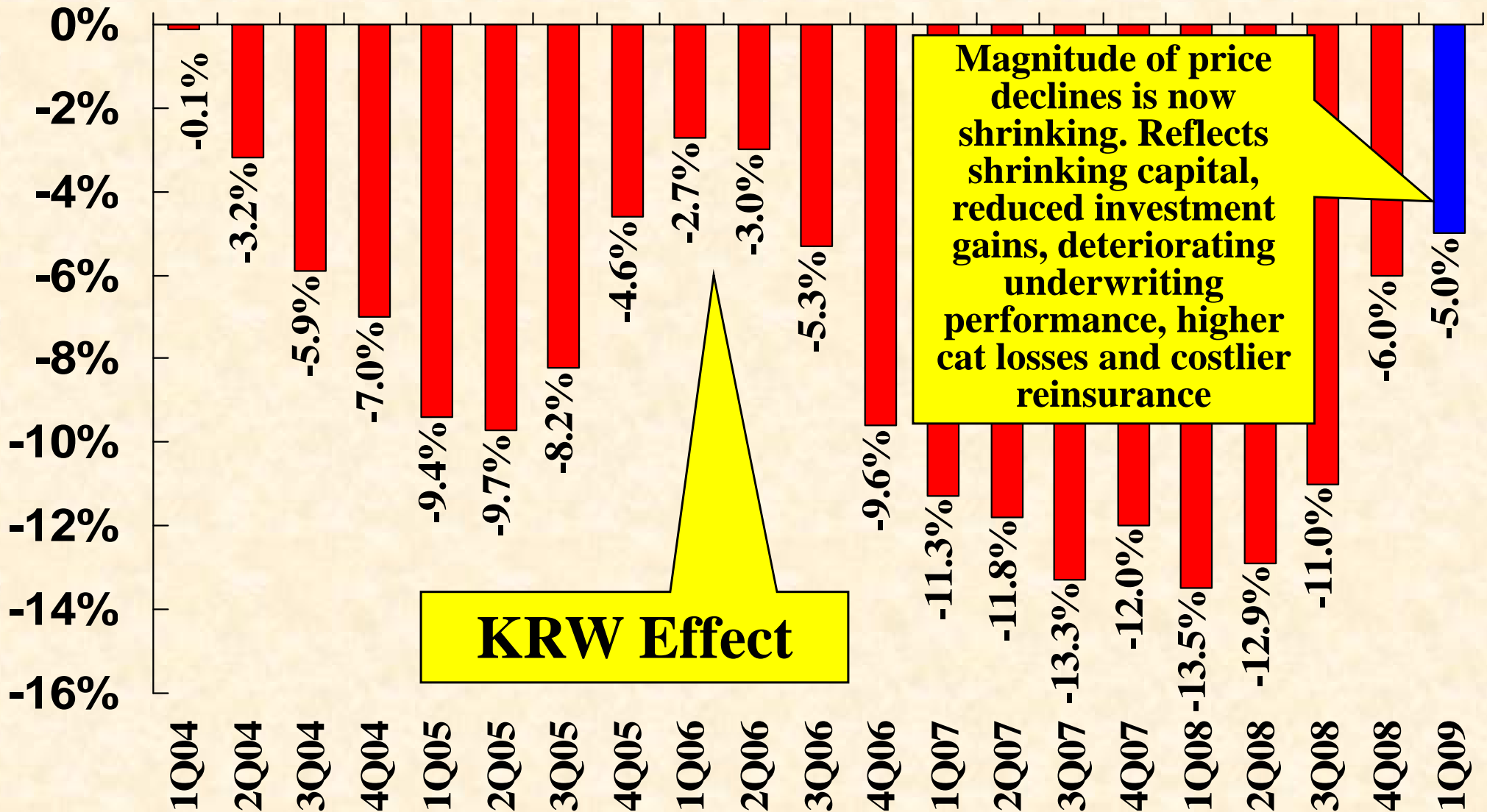
Mortgage and financial guarantee may account for up to 4 points on the commercial combined ratio in 2008



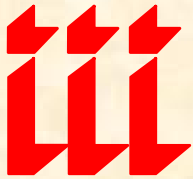
2006/07 benefited from favorable loss cost trends, improved tort environment, low CAT losses, WC reforms and reserve releases. Most of these trends reversed in 2008 and mortgage and financial guarantee segments have big influence. 2009 is transition year.



Average Commercial Rate Change All Lines (1Q:2004 -1Q:2009)



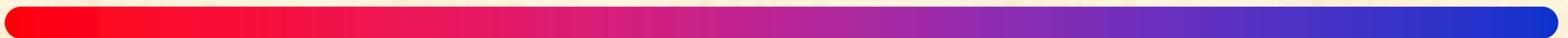
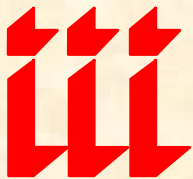
EMERGING TRENDS & CHALLENGES IN WORKERS COMP

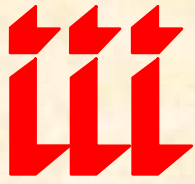


#1

Emerging (Mega) Trend

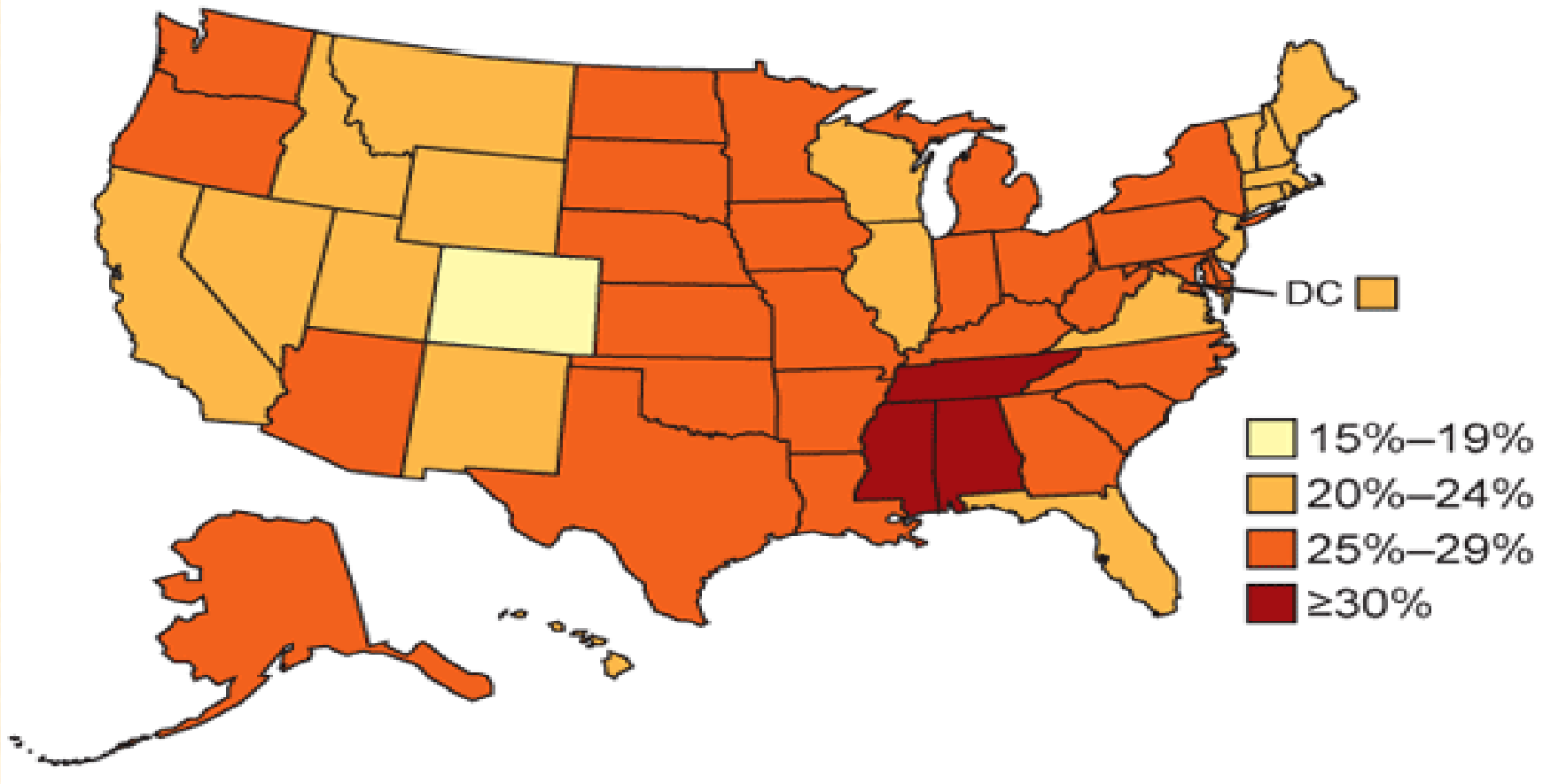
The Obesity Epidemic



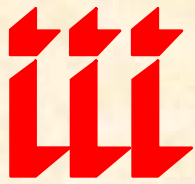


In Every State (except Colorado), Over 20% of the Adult Population is Obese

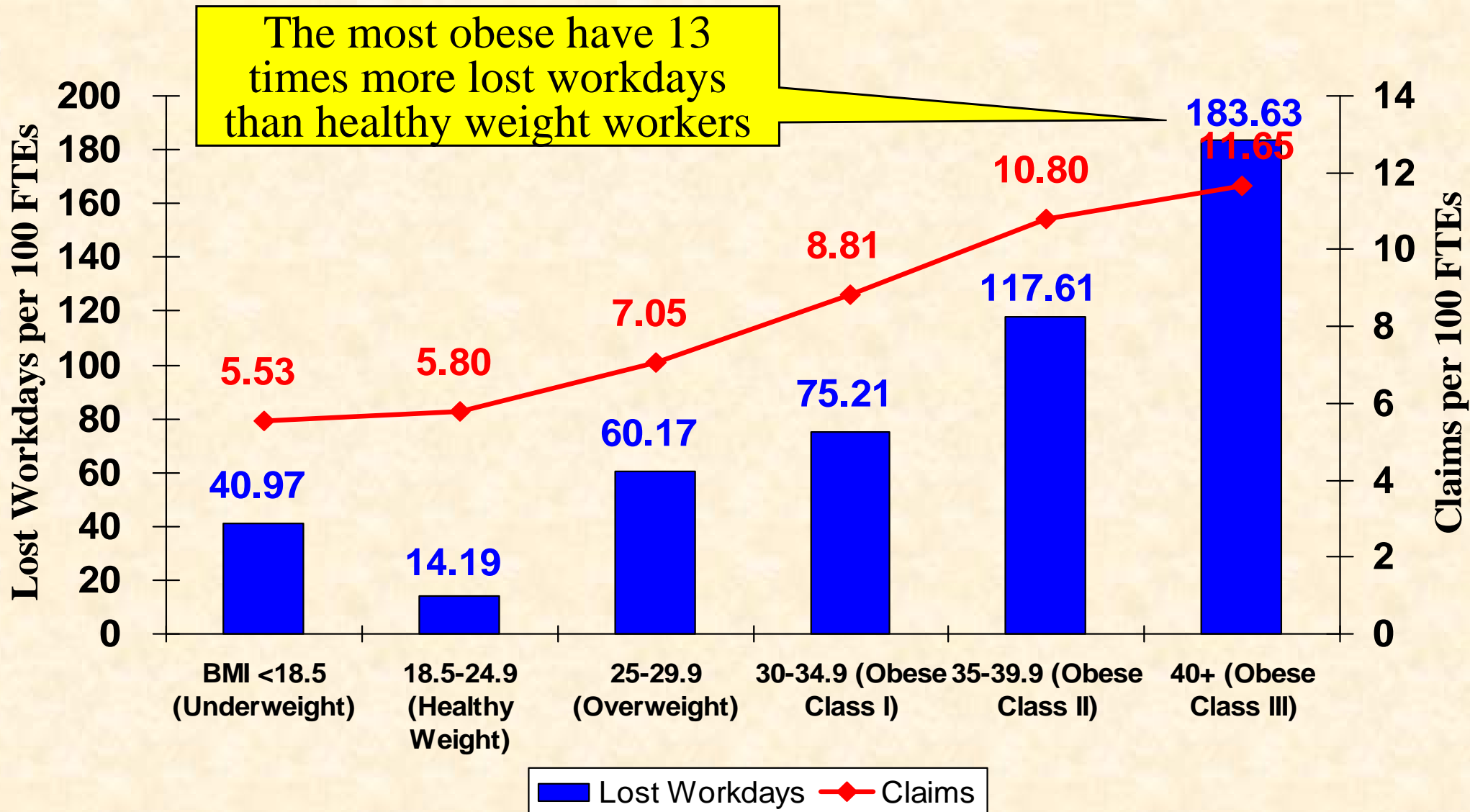
The Prevalence of Obesity (BMI ≥ 30) Among U.S. Adults, 2007

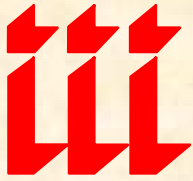


Source: Centers for Disease Control and Prevention, Behavioral Risk Factor Surveillance System
www.cdc.gov/Features/dsObesity

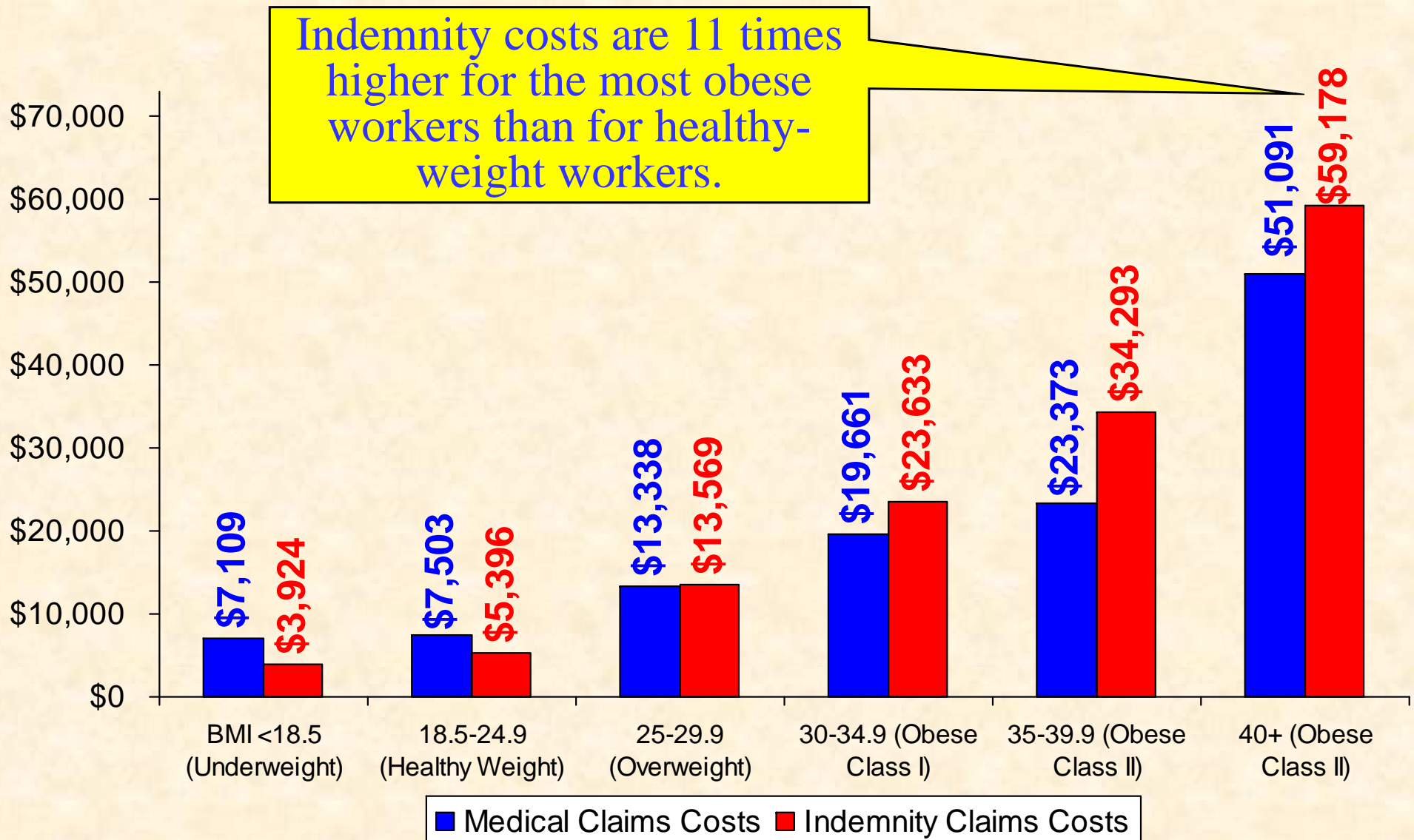


The Most Obese Workers File Twice as Many WC Claims as Healthy-Weight Workers





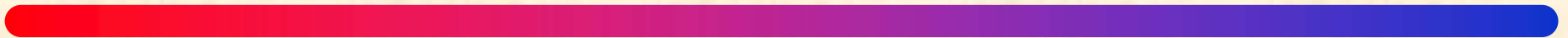
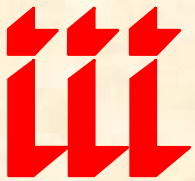
WC Medical Claims Costs are 6.8x Higher for the Most Obese Workers

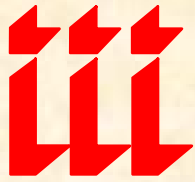


#2

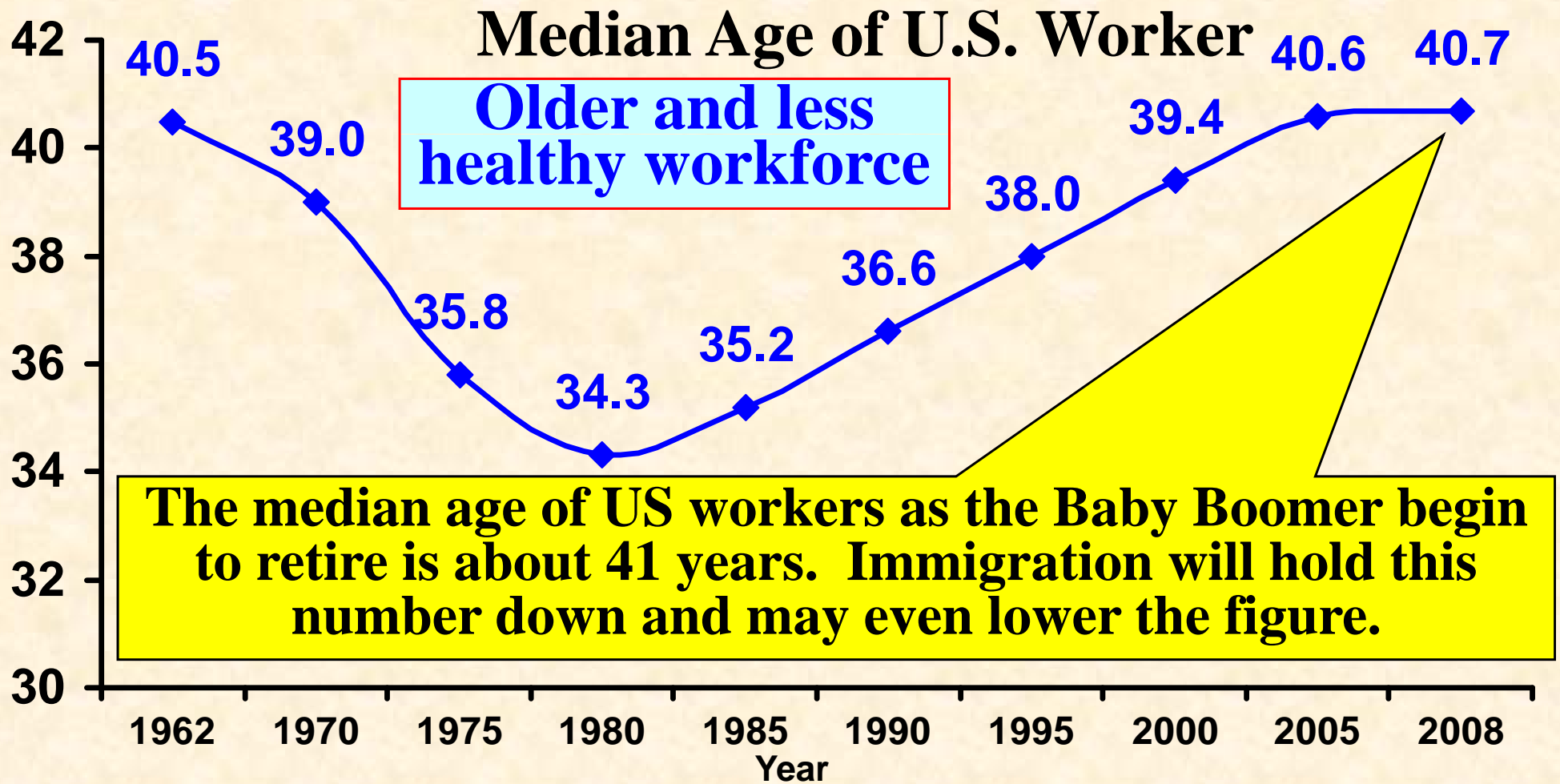
Emerging (Mega)Trend

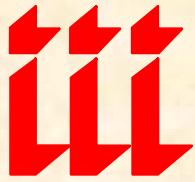
The Aging Workforce





U.S. Workforce is Aging: Significant Implications for Workers Comp

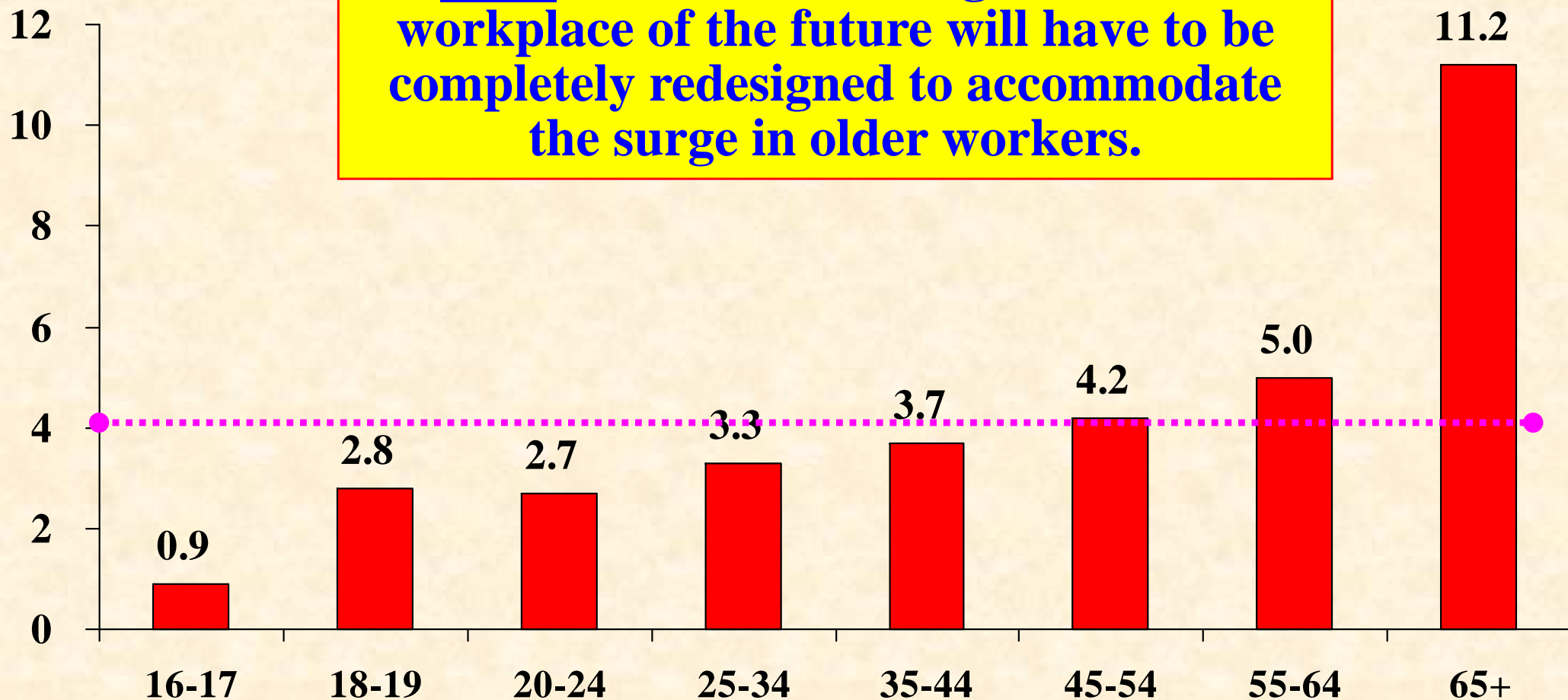


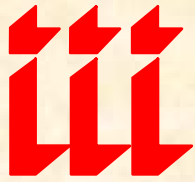


Fatal Work Injury Rates Climb Sharply With Age

Fatal Work Injuries
per 100,000
Workers (2006)

The fatality rate for workers 65 and older is *triple* that of workers age 35-44. The workplace of the future will have to be completely redesigned to accommodate the surge in older workers.



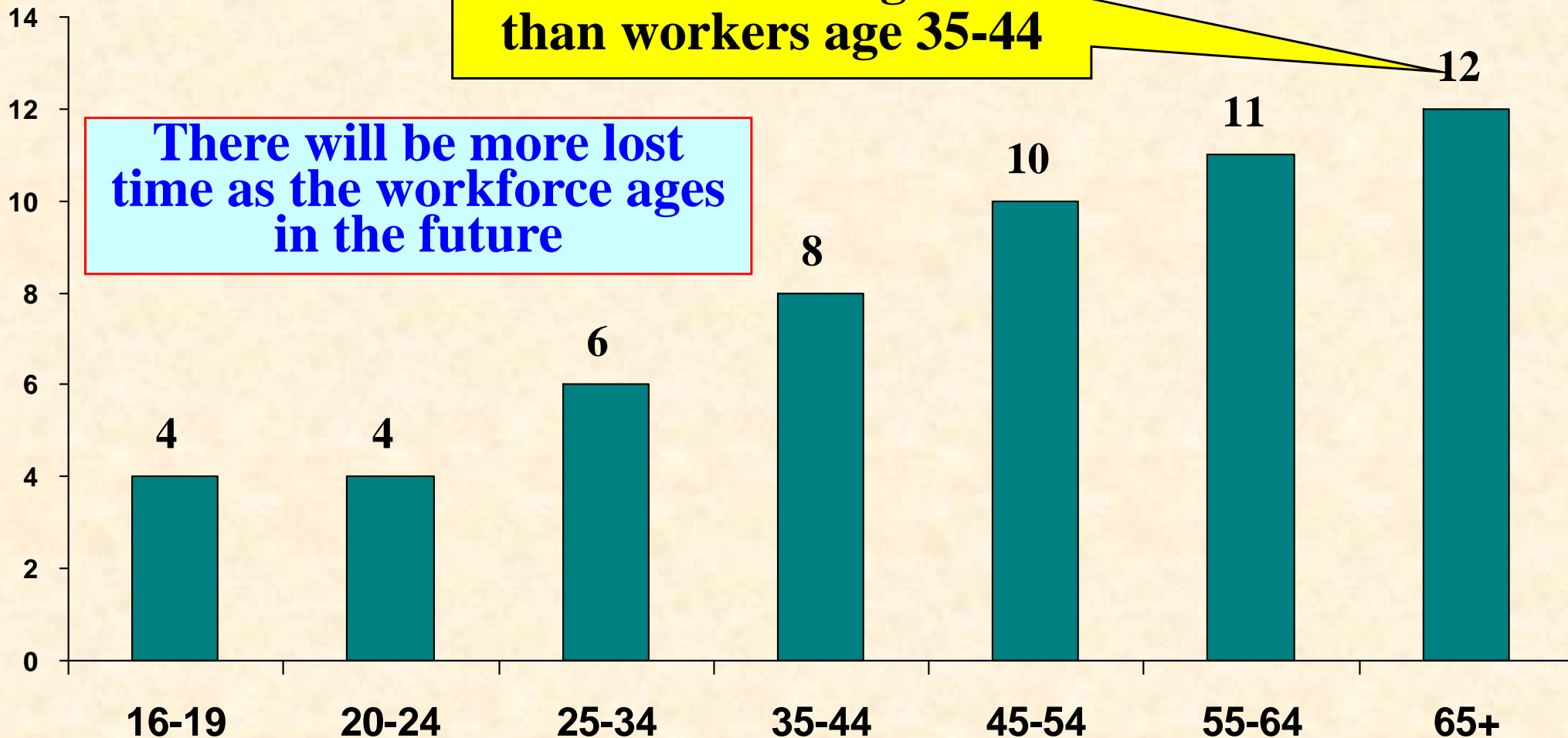


Older Workers Have More Lost Time from Work Due to Injury or Illness

Age 65+ workers median lost time is 50% greater than workers age 35-44

There will be more lost time as the workforce ages in the future

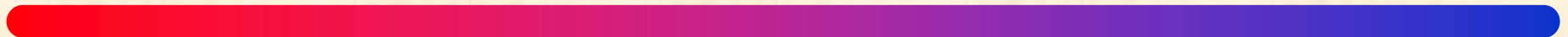
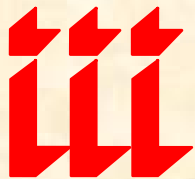
Median Days Away From Work (2005)

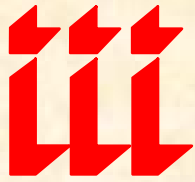


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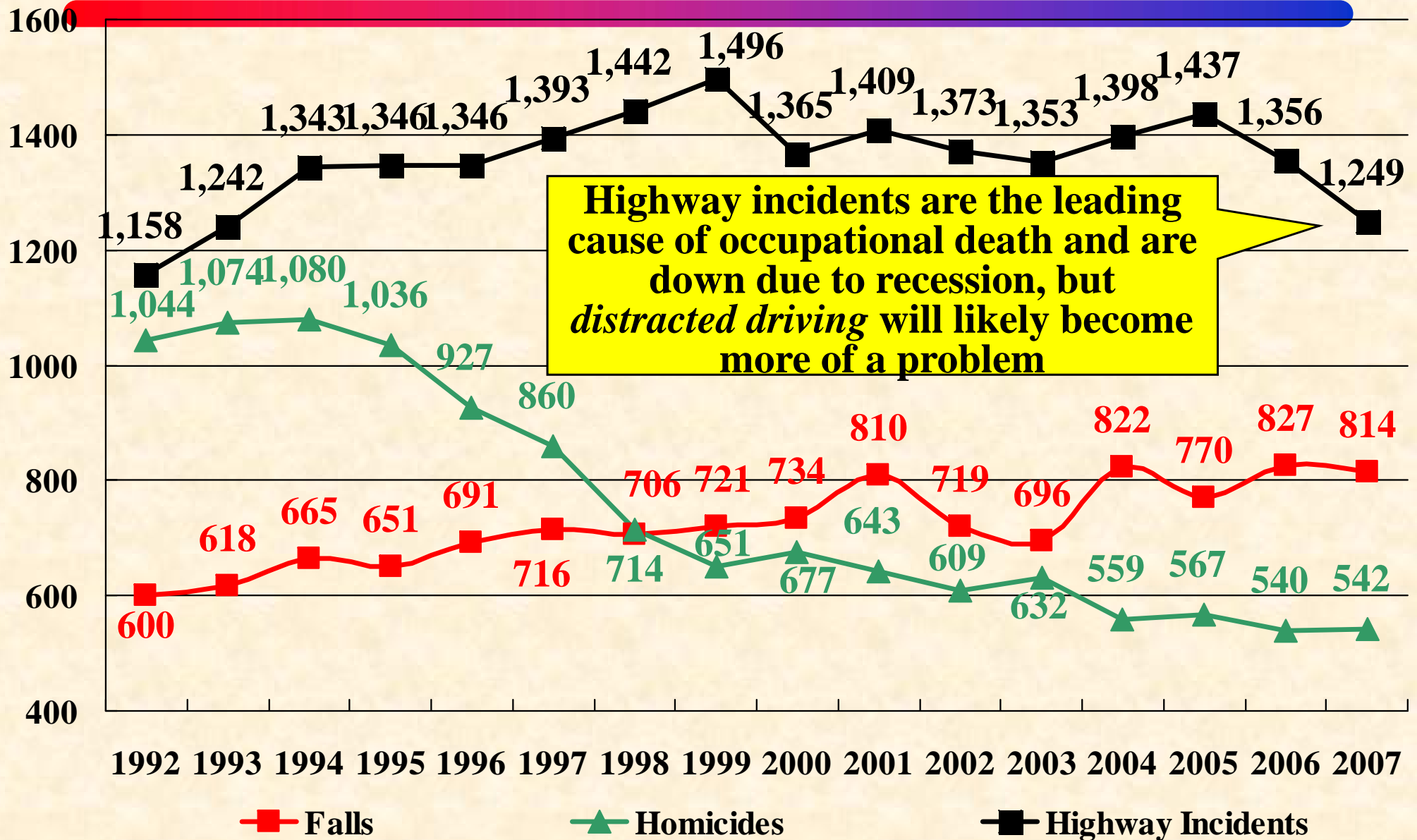
Emerging (Mega) Trend

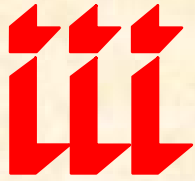
**Distracting Driving/ Equipment
Operation**





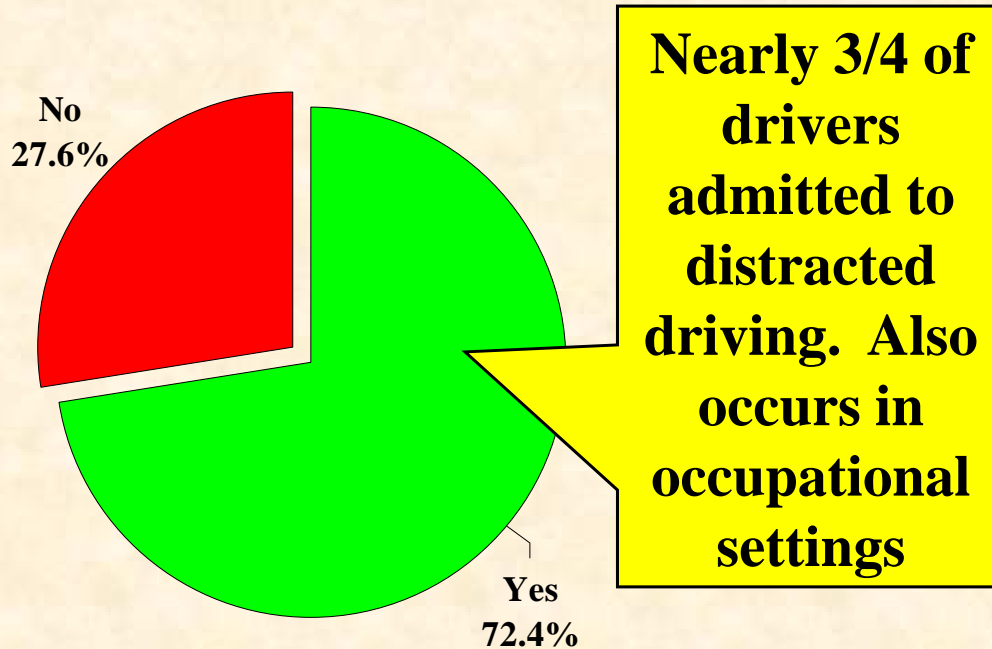
Four Most Frequent Work-Related Fatal Events, 1992-2006





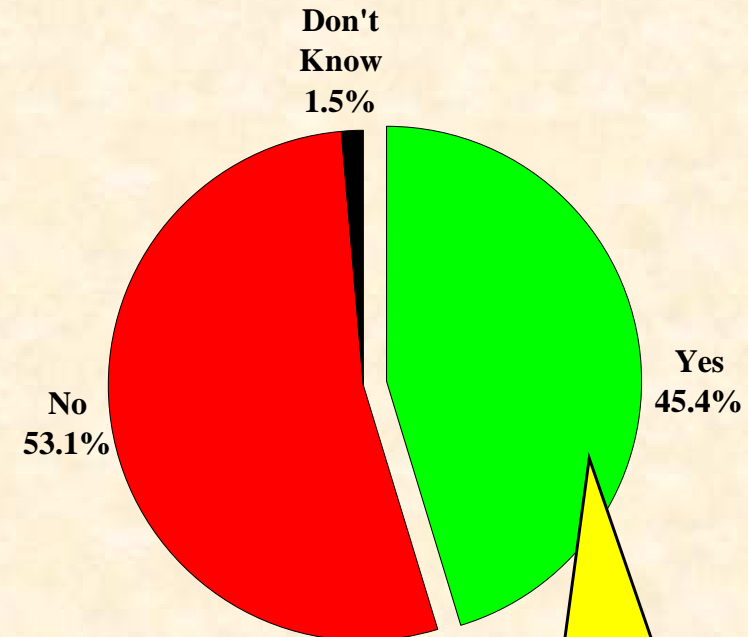
Distracted Driving/Equipment Operation is a Growing in General and Therefore for WC Too

Q. Do you ever do other tasks like talk on cell phones, eat or drink while driving?

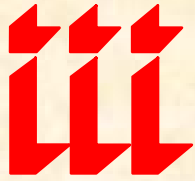


Distracted driving and equipment operation while working is a major and rapidly growing problem but is largely unquantified

Q. Have you ever been hit or nearly hit by someone talking on a cell phone?

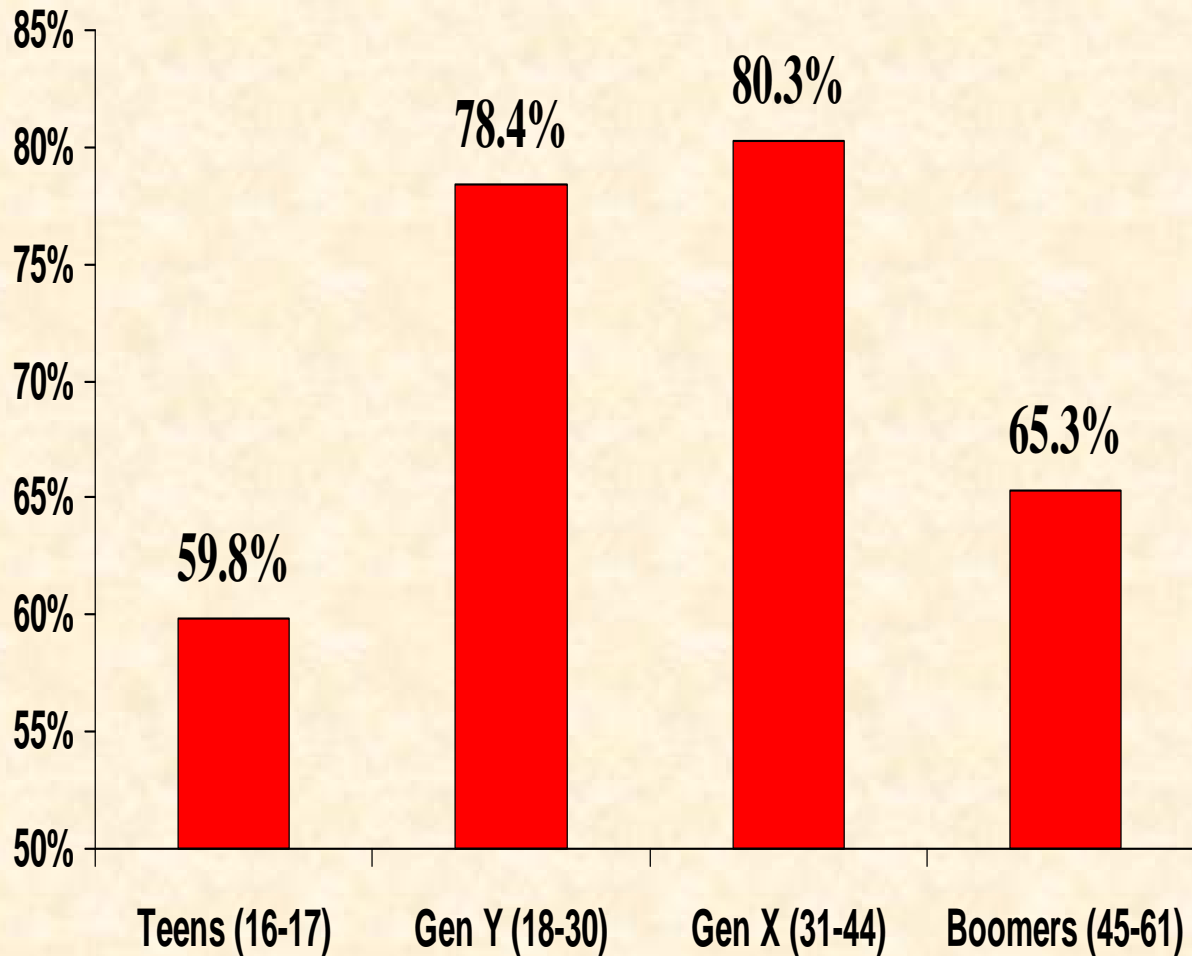


Nearly half have been hit or nearly hit



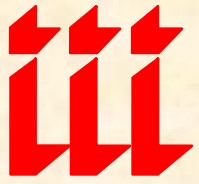
Who's Driving While Distracted? Everyone!

Median Days Away
From Work (2005)



Examples of Occupational Settings Involving Actual Distraction Incidents

- Taxi Drivers
- Truck Drivers
- Crane Operators
- Farm Equipment
- Landscaping Equipment
- Heavy Equipment Operators
- Paving Equipment
- Watercraft & Aircraft
- Fork Lift
- Trains/Mass Transit



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***THANK YOU FOR YOUR TIME AND
YOUR ATTENTION!***