



NCCI Holdings, Inc.

State of the Line

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NCCI Chief Actuary

May 5, 2005
Orlando, Florida

AIS
Annual Issues Symposium
2005

- I. Property & Casualty Results**
- II. Workers Compensation Results**
- III. Concluding Remarks**

Property & Casualty Results

P/C Industry Net Written Premium Growth By Line

Private Carriers

Line of Business (LOB)	2002	2003	2004p	2003-2004p Change
Personal Auto	\$139.5 B	\$151.0 B	\$157.2 B	4.1%
Homeowners	\$40.0 B	\$45.7 B	\$49.5 B	8.4%
Other Liability (Incl Prod Liab)	\$30.9 B	\$37.8 B	\$42.7 B	12.9%
Workers Compensation	\$29.2 B	\$31.1 B	\$34.5 B	10.9%
Commercial Multiple Peril	\$25.4 B	\$27.4 B	\$28.9 B	5.4%
Commercial Auto	\$24.5 B	\$25.4 B	\$26.8 B	5.4%
Fire & Allied Lines (Incl EQ)	\$15.4 B	\$17.6 B	\$18.0 B	2.3%
All Other Lines	\$64.9 B	\$69.0 B	\$65.9 B	-4.5%
Total All Lines	\$369.8 B	\$405.0 B	\$423.5 B	4.6%

p Preliminary

Source: 2002-2003, A.M. Best Aggregates & Averages; 2004p Total, ISO; 2004p LOB, NCCI

P/C Industry Net Combined Ratios Improved Modestly in 2004

Private Carriers

Line of Business (LOB)	2002	2003	2004p
Personal Auto	104%	98%	94%
Homeowners	109%	98%	95%
Other Liability (Incl Prod Liab)	137%	114%	117%
Workers Compensation	111%	109%	105%
Commercial Multiple Peril	105%	101%	100%
Commercial Auto	103%	95%	92%
Fire & Allied Lines (Incl EQ)	89%	79%	88%
All Other Lines	105%	100%	99%
Total All Lines	107%	100%	98%

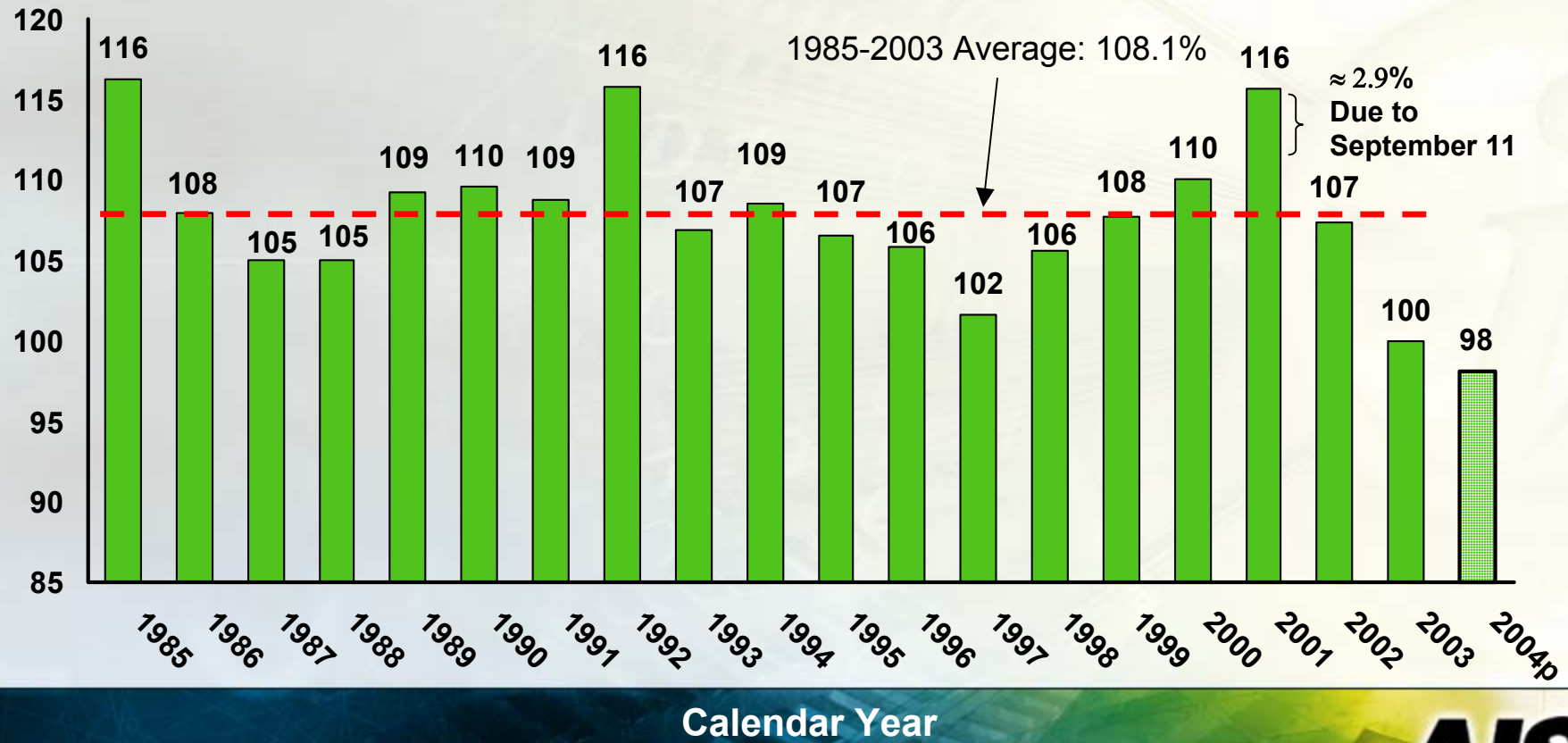
p Preliminary

Source: 2002-2003, A.M. Best Aggregates & Averages; 2004p Total, ISO; 2004p LOB, NCCI

P/C Industry Calendar Year Combined Ratios

Private Carriers

Percent

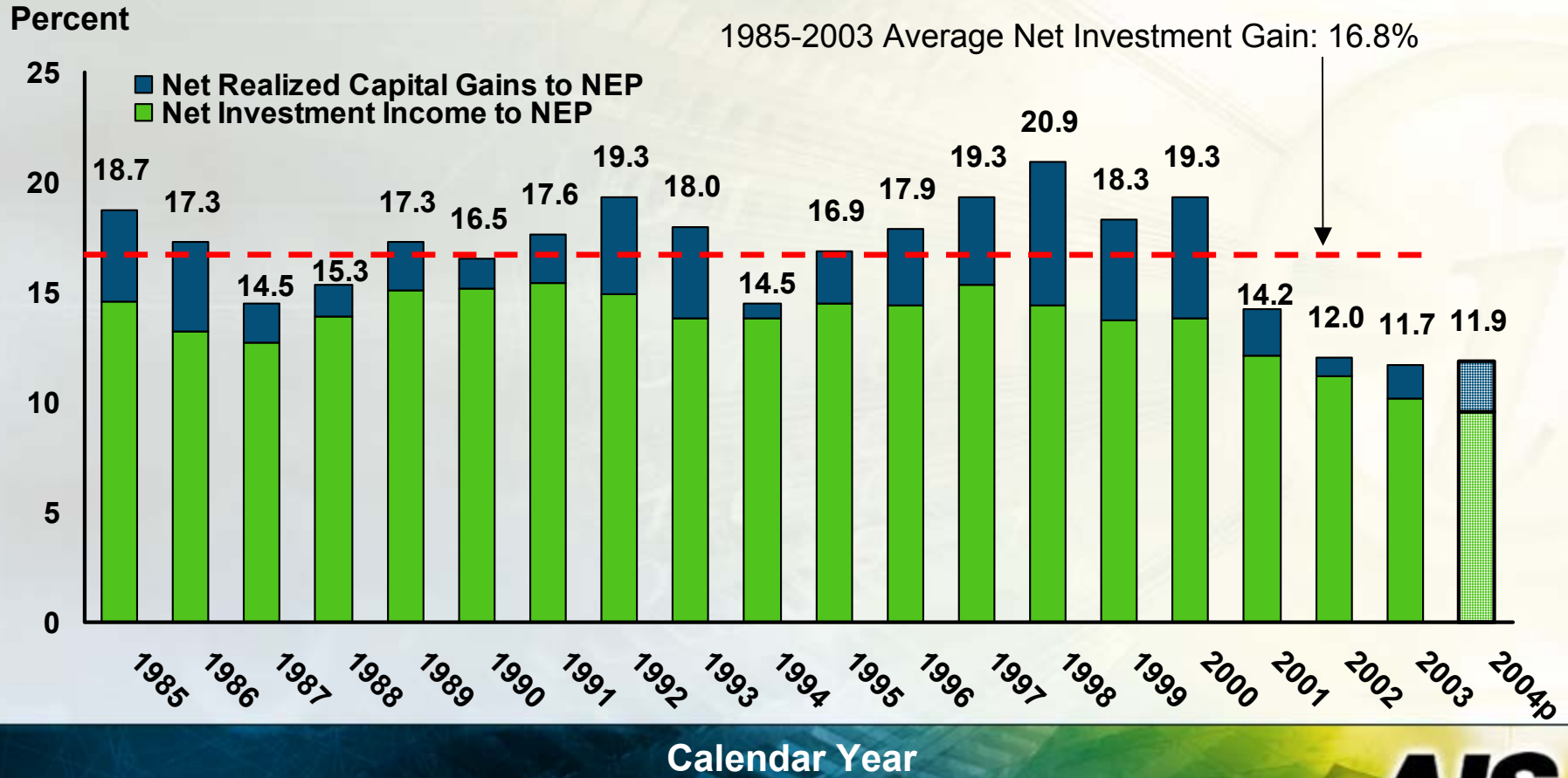


p Preliminary

Source: 1985-2003, A.M. Best Aggregates & Averages; 2004p, ISO

Investment Gain Ratio Remains Below Historical Averages

Private Carriers



p Preliminary

Source: 1985-2003, A.M. Best Aggregates & Averages; 2004p, ISO

Return on Surplus for P/C Industry Increased Slightly in 2004

Annual After-Tax Return on Surplus—Private Carriers

Percent



p Preliminary

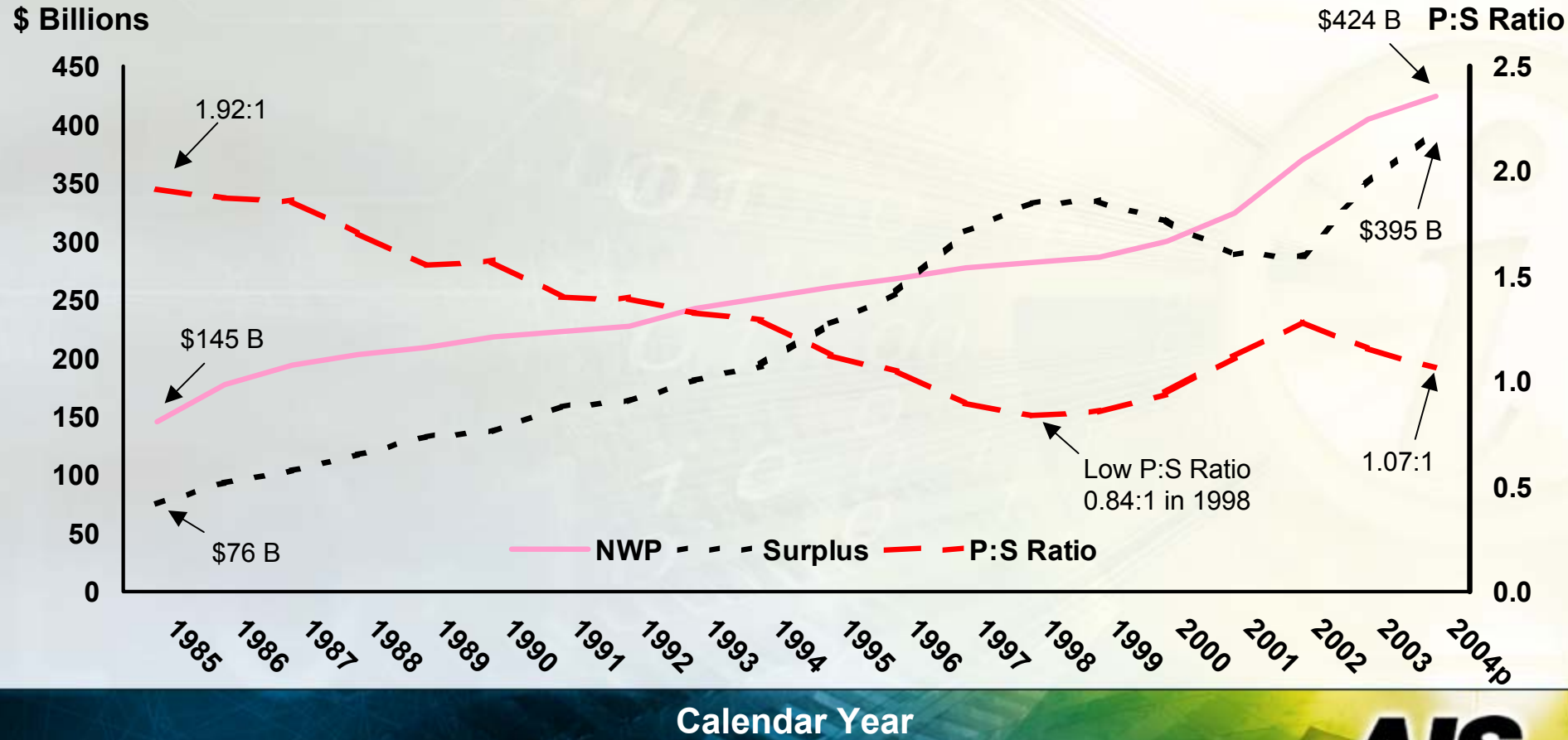
Source: 1985-2003, A.M. Best Aggregates & Averages; 2004p After-Tax Net Income, ISO;

2004p Surplus, 2003 A.M. Best Aggregates & Averages Private Carrier Surplus + 2004 ISO contributions to surplus

Note: After-tax return on average surplus, including realized capital gains 8

P/C Industry Premium and Surplus Continue to Increase

Private Carriers



p Preliminary

Source: 1985-2003, A.M. Best Aggregates & Averages;

2004p Surplus, 2003 A.M. Best Aggregates & Averages Private Carrier Surplus + 2004 ISO contributions to surplus

Another Large Increase in Surplus for 2004

Contributions to Surplus—Private Carriers

	2002	2003	2004p
Underwriting Losses	\$ (30.8) B	\$ (4.9) B	\$ 5.0 B
Investment Income	\$ 37.2 B	\$ 38.6 B	\$ 39.6 B
Realized Capital Gains	\$ (1.2) B	\$ 6.6 B	\$ 9.3 B
Other Income	\$ (0.8) B	\$ (0.0) B	\$ (0.5) B
Unrealized Capital Gains	\$ (20.8) B	\$ 25.0 B	\$ 9.9 B
Federal Taxes	\$ (1.3) B	\$ (10.4) B	\$ (14.7) B
Shareholder Dividends	\$ (7.1) B	\$ (9.1) B	\$ (13.3) B
Contributed Capital	\$ 18.8 B	\$ 11.3 B	\$ 8.3 B
Other Changes to Surplus	\$ 1.8 B	\$ 4.4 B	\$ 2.8 B
Total	\$ (4.2) B	\$ 61.6 B	\$ 46.5 B

p Preliminary

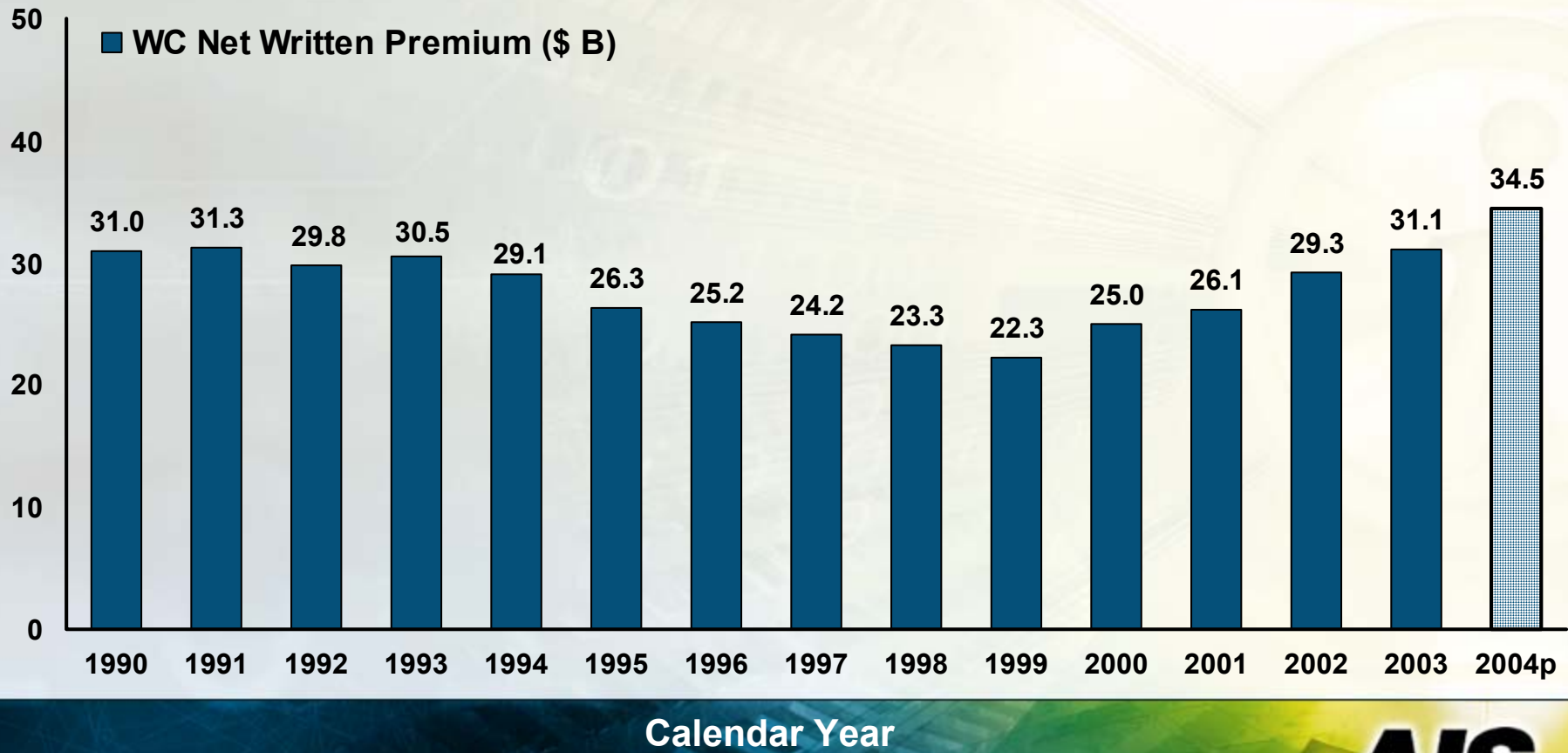
Source: ISO

Workers Compensation Results

Workers Compensation Premium Continued to Rise in 2004

Private Carriers

\$ Billions



p Preliminary

Source: 1990-2003, A.M. Best Aggregates & Averages; 2004p, NCCI

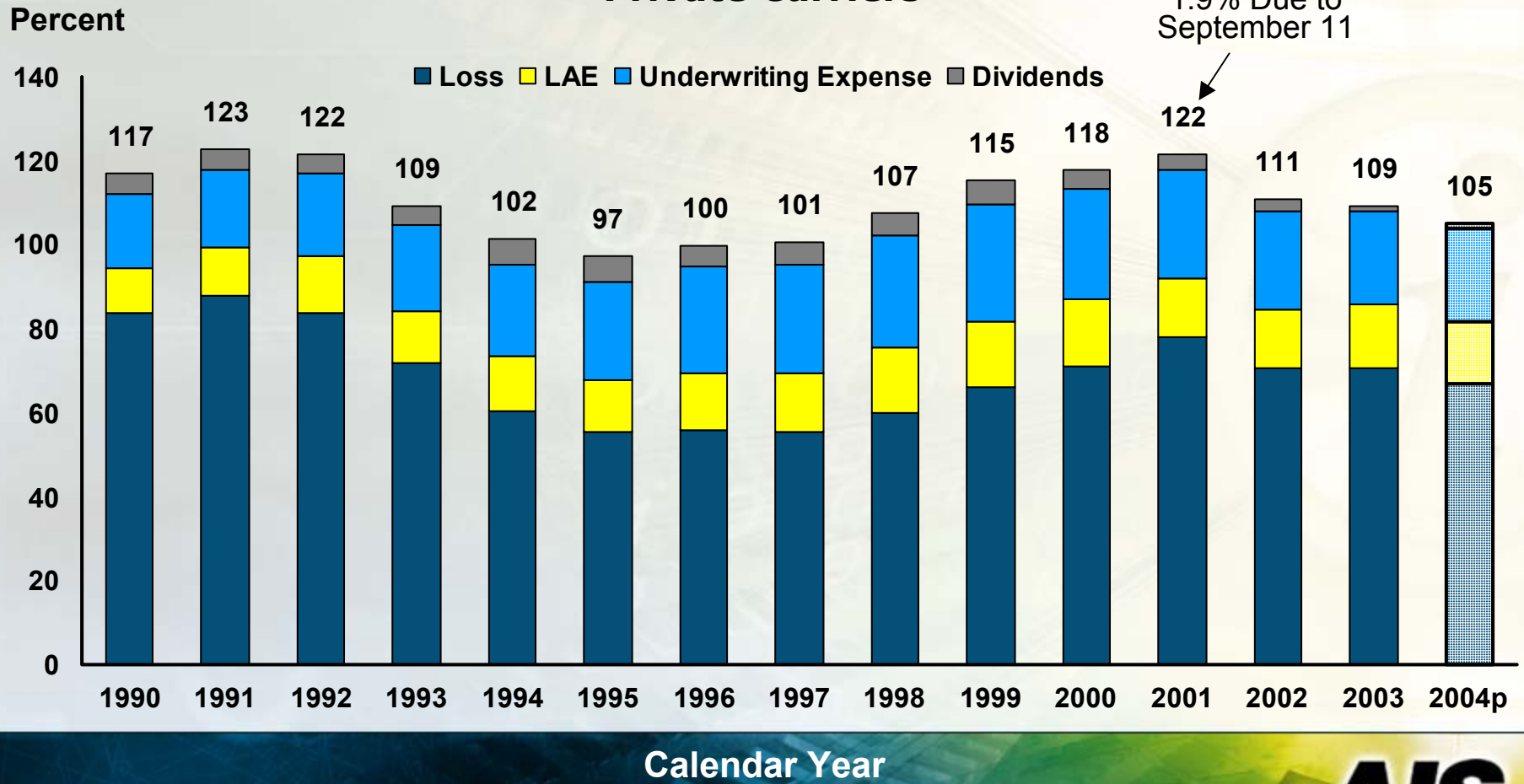
Last Year's AIS Survey Results

What will the workers compensation combined ratio be in 2004?

- A. 95%–100% (4%)**
- B. 101%–105% (56%)**
- C. 106%–110% (38%)**
- D. Over 110% (2%)**

WC Calendar Year Combined Ratio Continued Its Modest Decline in 2004

Private Carriers



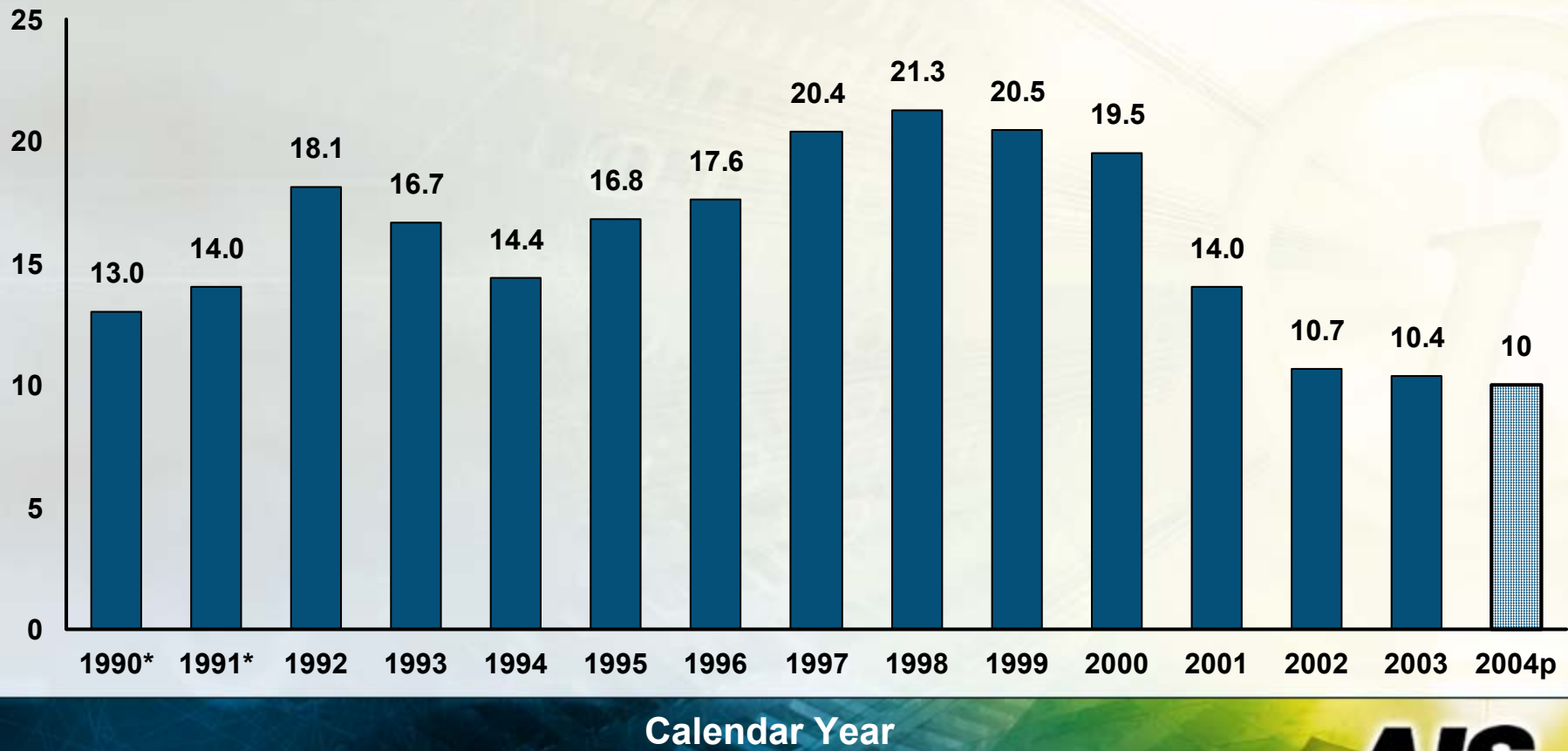
p Preliminary

Source: 1990-2003, A.M. Best Aggregates & Averages; 2004p, NCCI

Low Workers Compensation Investment Returns Continued in 2004

Investment Gain on Insurance Transactions to Premium Ratio Private Carriers

Percent



p Preliminary

* Adjusted to include realized capital gains to be consistent with 1992 and after

Investment Gain on Insurance Transactions includes Other Income

Source: 1990-2003, A.M. Best Aggregates & Averages; 2004p, NCCI

2004 Workers Compensation Results Improved Over 2003

Pre-Tax Operating Gain Ratio—Private Carriers

Percent



p Preliminary

* Adjusted to include realized capital gains to be consistent with 1992 and after

Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1990-2003, A.M. Best Aggregates & Averages; 2004p, NCCI

Workers Compensation Calendar Year Direct Combined Ratios

Countrywide and NCCI States—Private Carriers

Percent

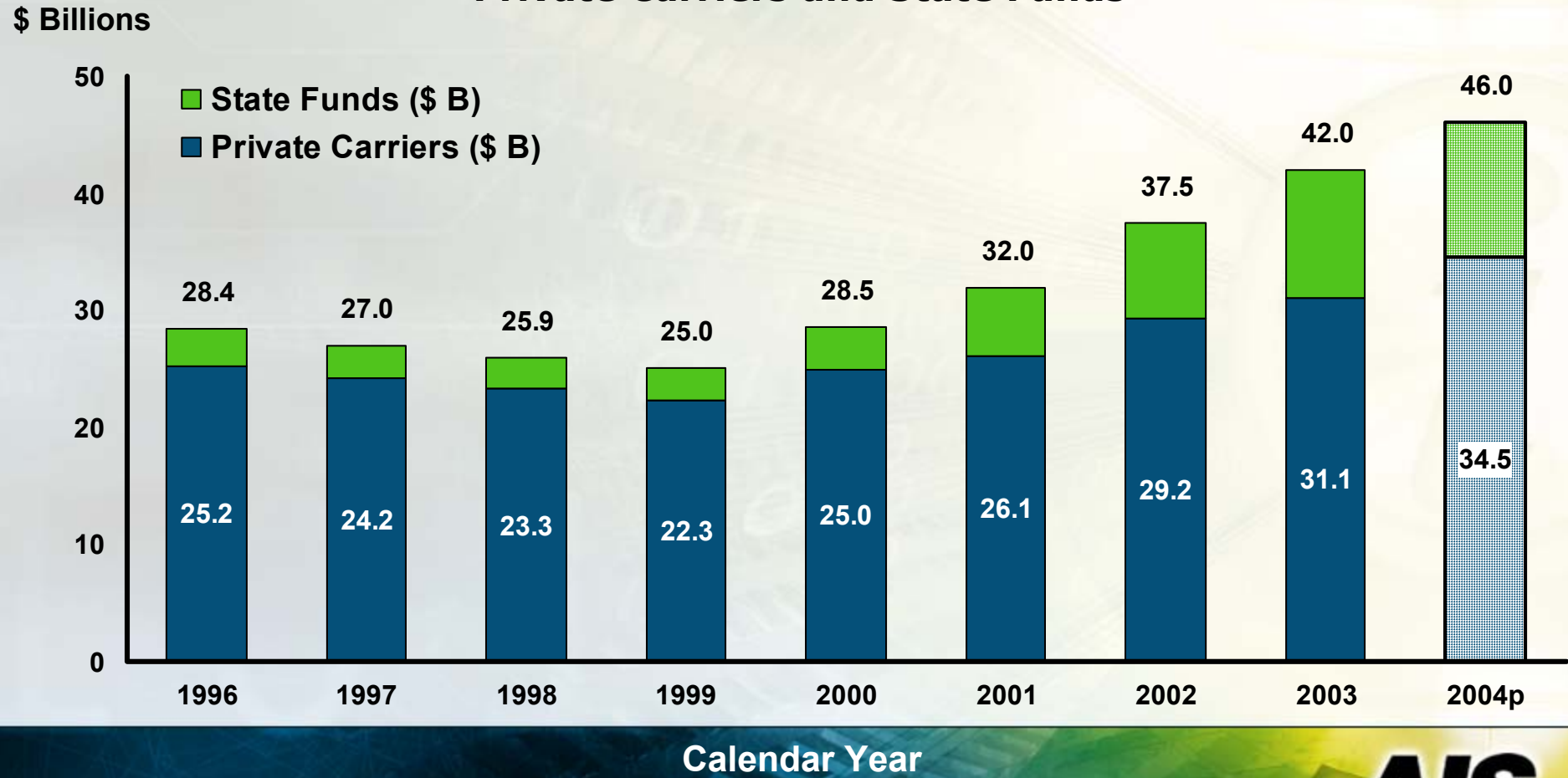


p Preliminary

Source: 1996-2003 Countrywide, A.M. Best Aggregates & Averages;
1996-2003 NCCI States, Statutory Page 14 and Insurance Expense Exhibit;
2004p, NCCI

Workers Compensation Premium Volume Continues to Grow

Private Carriers and State Funds



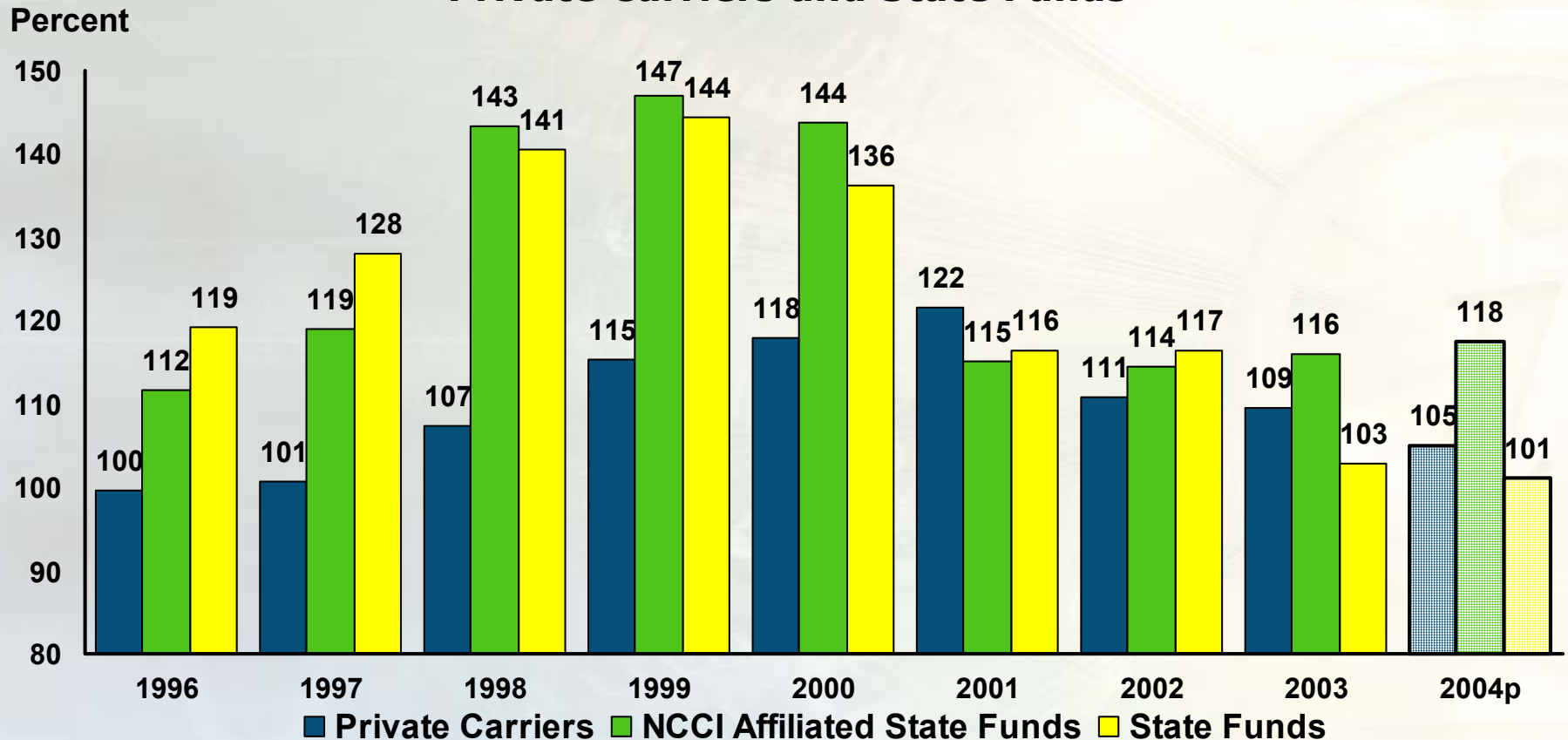
p Preliminary

Source: 1996-2003 Private Carriers, A.M. Best Aggregates & Averages; 2004p, NCCI

1996-2004p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds



Calendar Year

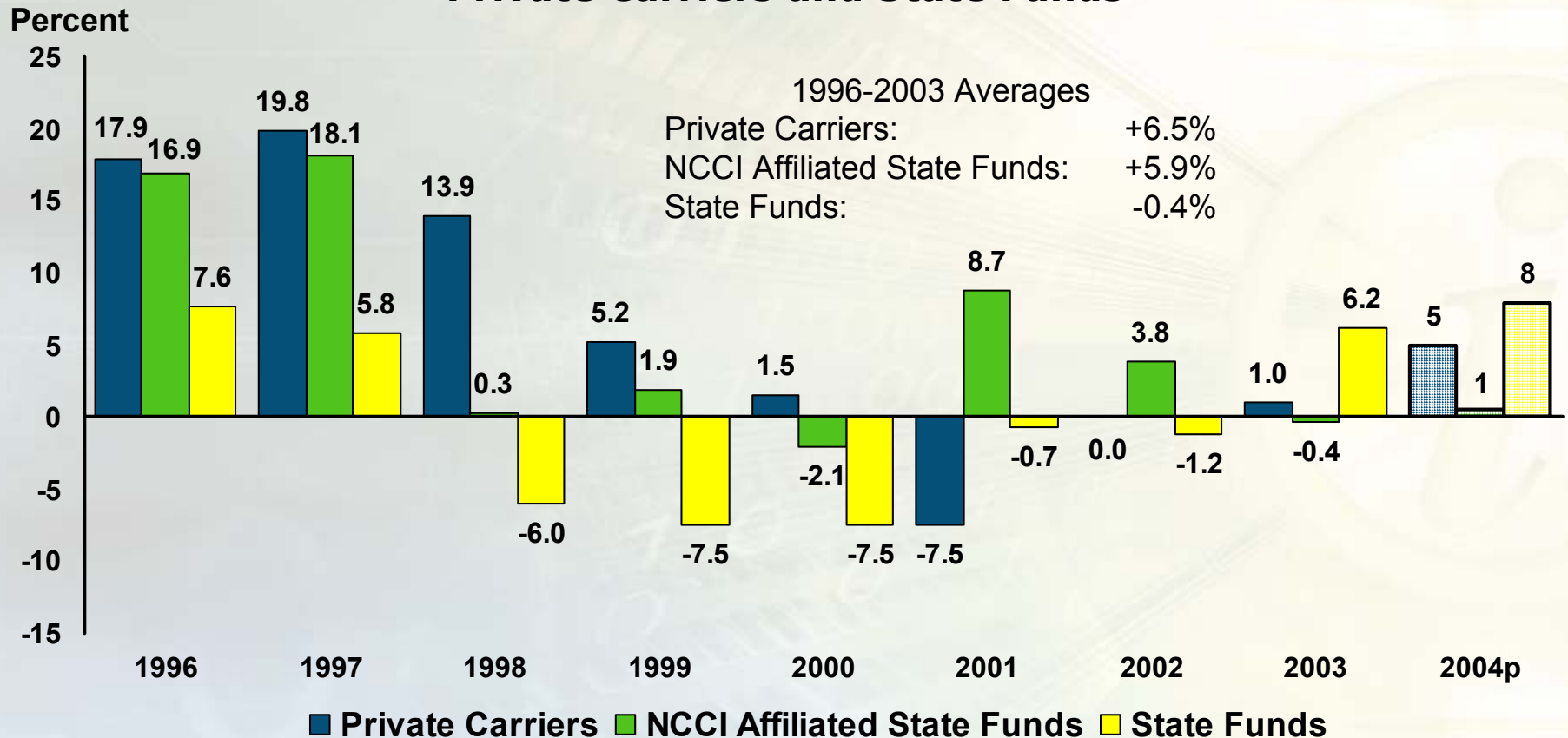
p Preliminary

Source: 1996-2003 Private Carriers, A.M. Best Aggregates & Averages; 2004p, NCCI

1996-2004p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Pre-Tax Operating Gain Ratios

Private Carriers and State Funds



p Preliminary

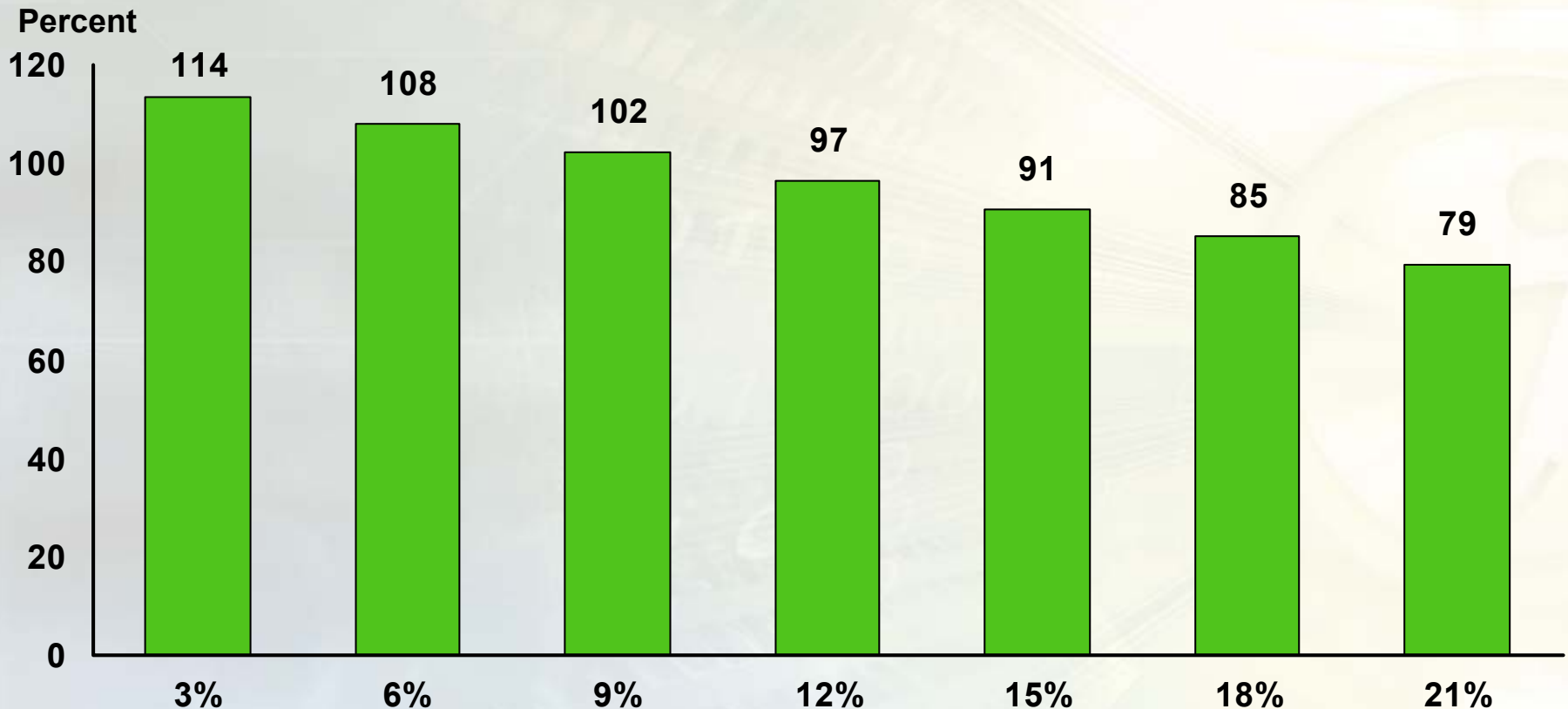
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1996-2003 Private Carriers, A.M. Best Aggregates & Averages; 2004p, NCCI

1996-2004p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Calendar Year

Workers Compensation Combined Ratios for Given Returns on Surplus



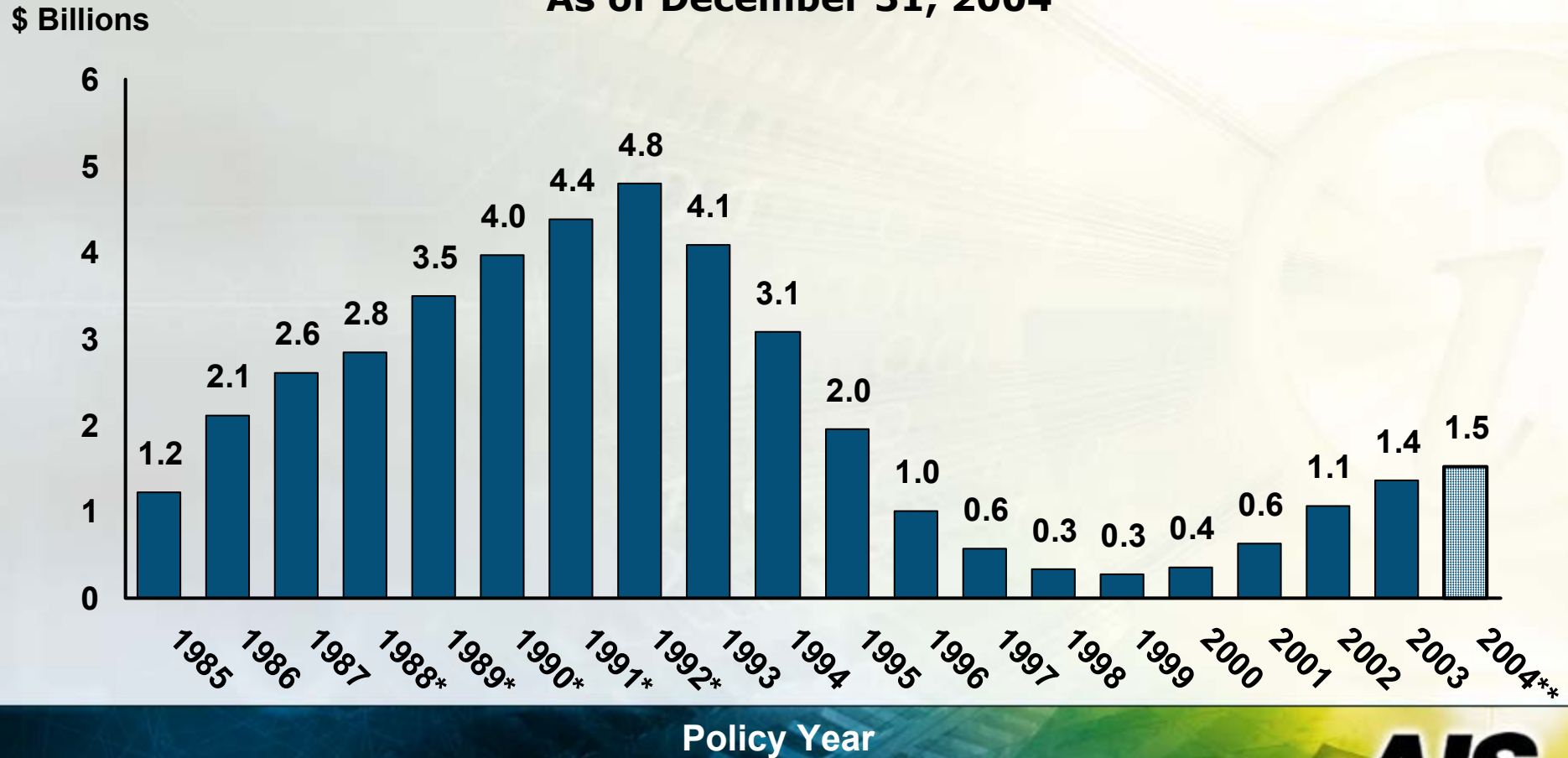
Return on Surplus

Assumptions: 4.2% Pre-Tax Investment Yield; 3.2% After-Tax Investment Yield
WC Premium to Surplus Ratio = 0.81; WC Reserves to Premium Ratio = 2.6

Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume

NCCI-Serviced Workers Compensation Residual Market Pools
As of December 31, 2004

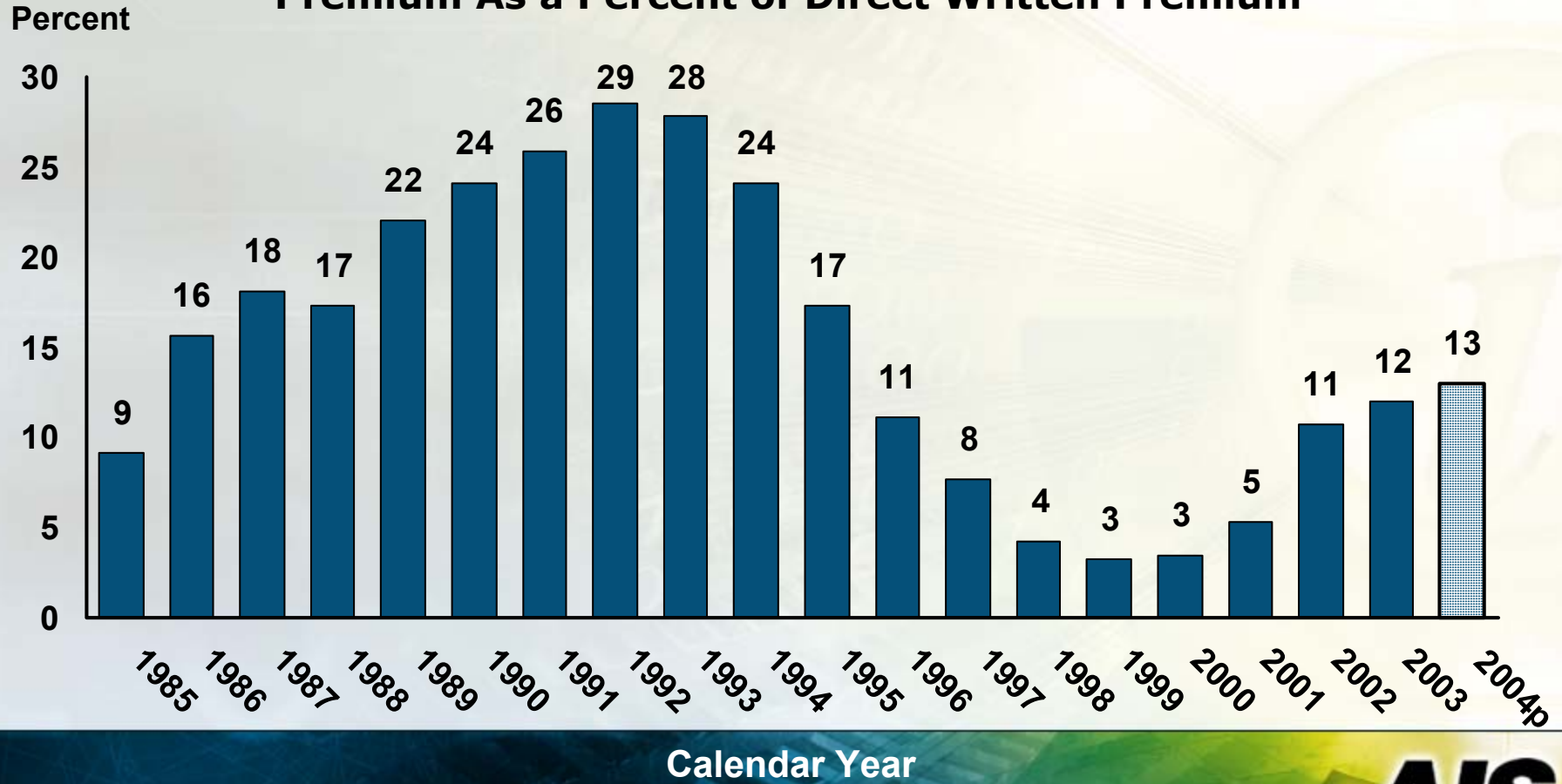


* Excludes Maine Residual Market Pool

** Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Shares Continue to Rise

Workers Compensation Insurance Plan States*
Premium As a Percent of Direct Written Premium



p Preliminary

* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

Workers Compensation Residual Market Combined Ratios

NCCI-Serviced Workers Compensation Residual Market Pools
As of December 31, 2004

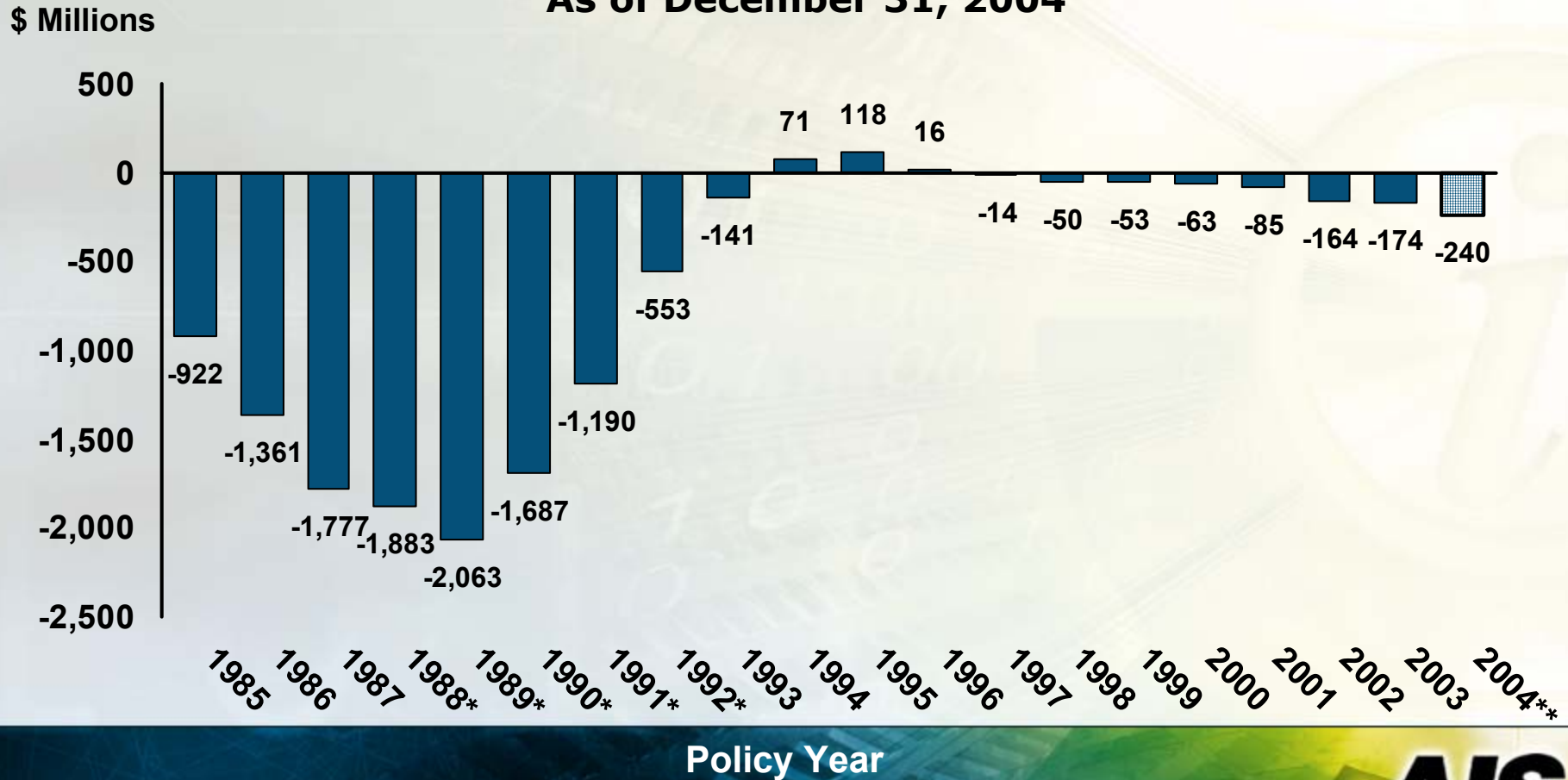


* Excludes Maine Residual Market Pool

** Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Underwriting Results

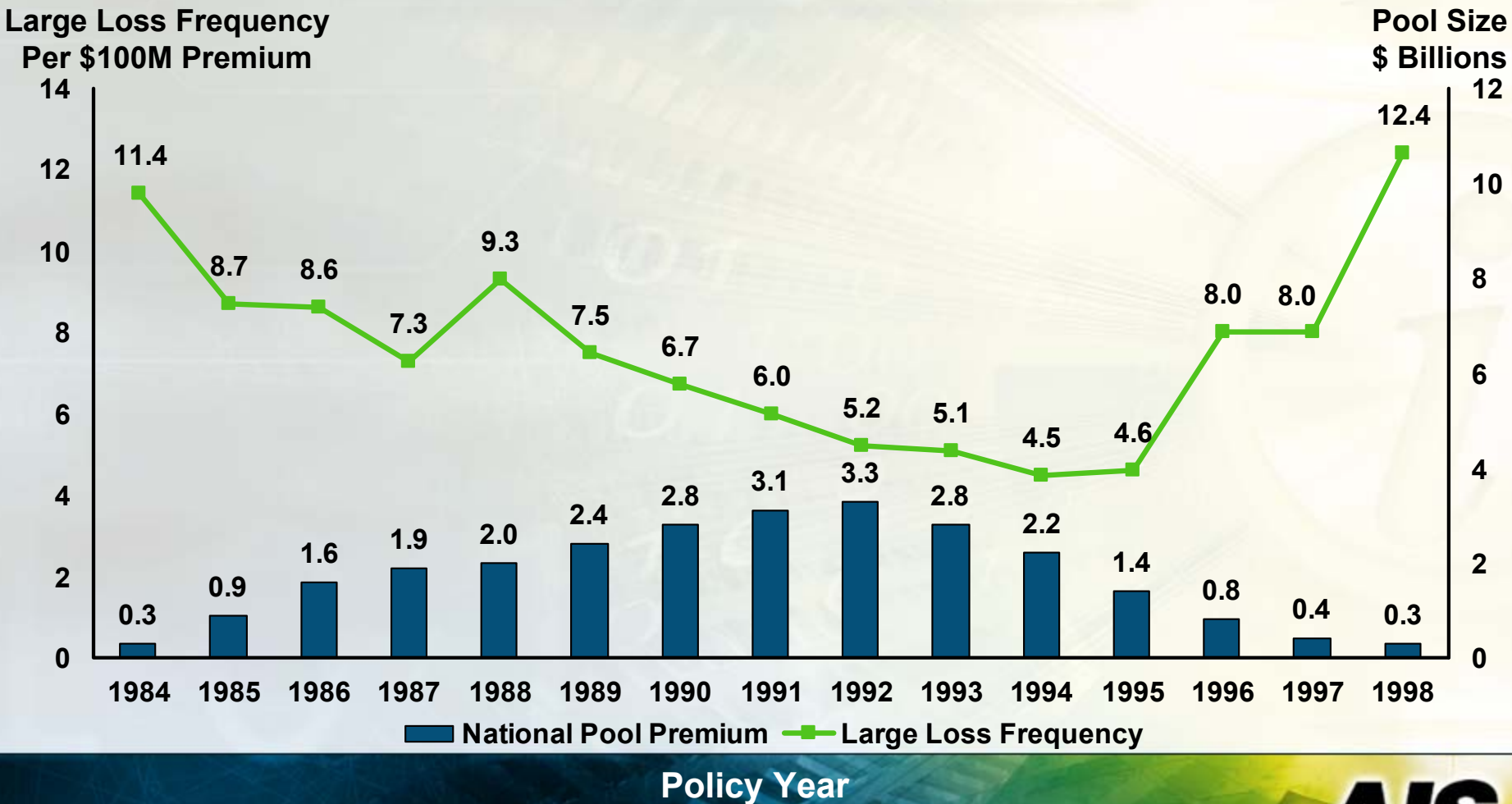
NCCI-Serviced Workers Compensation Residual Market Pools
As of December 31, 2004



* Excludes Maine Residual Market Pool

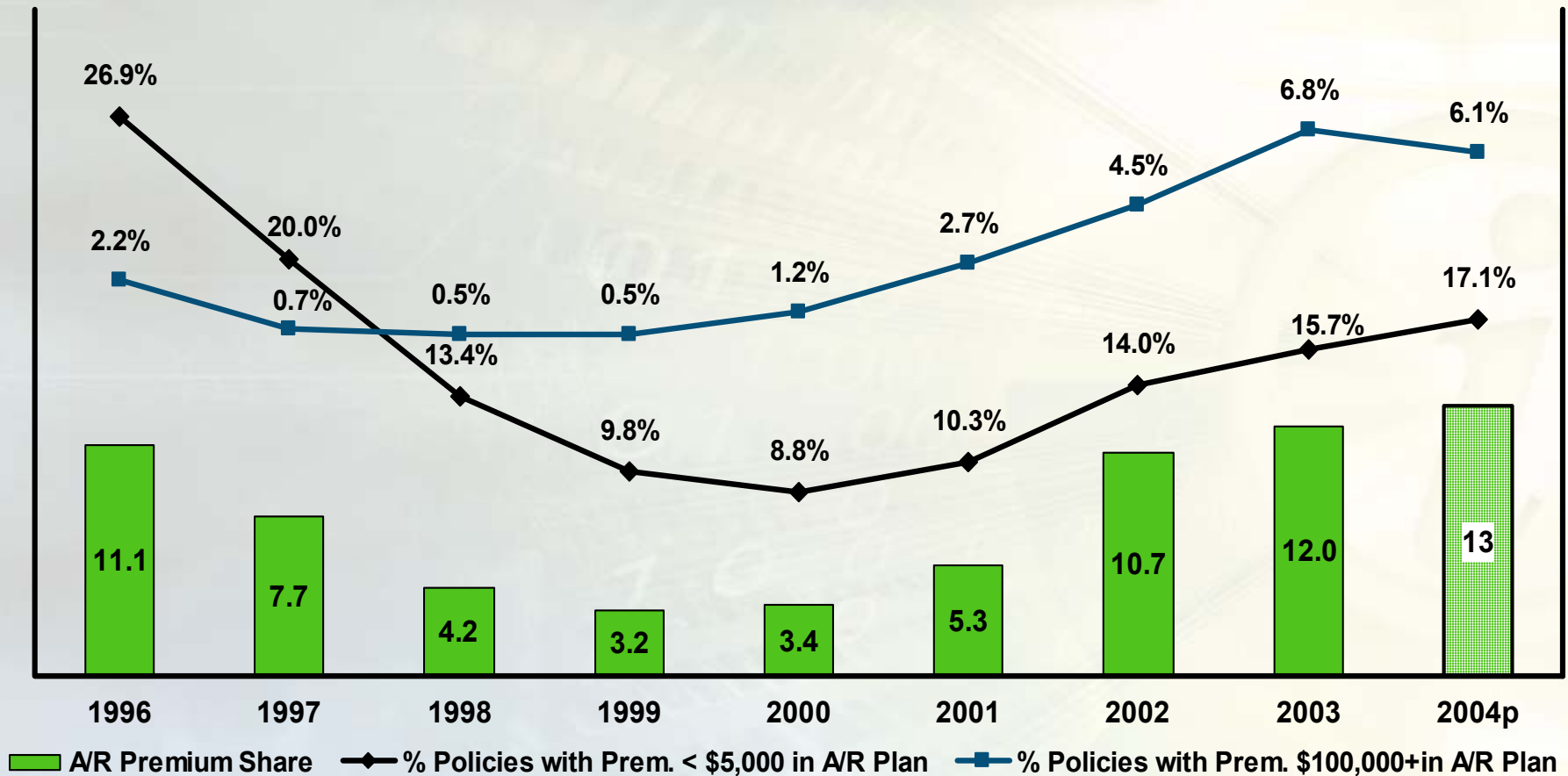
** Incomplete Policy Year Projected to Ultimate

WC Residual Market Frequency of Losses > \$500K vs. Pool Size



Source: NCCI Large Loss Call (Call #31)
Includes data reported by Servicing Carriers for National Pool States Only (excluding Florida)

Assigned Risk Market Premium Share vs. Policy Counts



p Preliminary

Residual Market Plan Policy Growth

First Quarter 2005 vs. First Quarter 2004

Size of Risk	2004	2005	Change
\$ 0 - \$ 2,499	31,892	34,060	7%
\$ 2,500 - \$ 4,999	5,652	6,140	9%
\$ 5,000 - \$ 9,999	3,838	4,080	6%
\$ 10,000 - \$49,999	4,183	3,970	-5%
\$ 50,000 - \$99,999	566	580	2%
\$ 100,000 and over	368	334	-9%
Total	46,499	49,164	6%

Total number of assigned risk policies in force

Includes residual market policies for:

AL, AK, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, NH, NM, NV, OR, SC, SD, VA, VT

Residual Market Programs Mitigate the Burden

Pricing Programs:

- Differential/Surcharge
- ARAP/SARAP
- Removal/Reduction of Premium Discount
- LSRP
- Two point or greater underwriting contingency provision
- Uncollectible premium provision

Depopulation Mechanisms:

- Take-Out Credit Program
- Voluntary Compensation Assistance Program

Improved Controls:

- Paid Loss Ratio Incentive Program
- Heightened carrier audit process

Improved Efficiency:

- Servicing carrier bid process

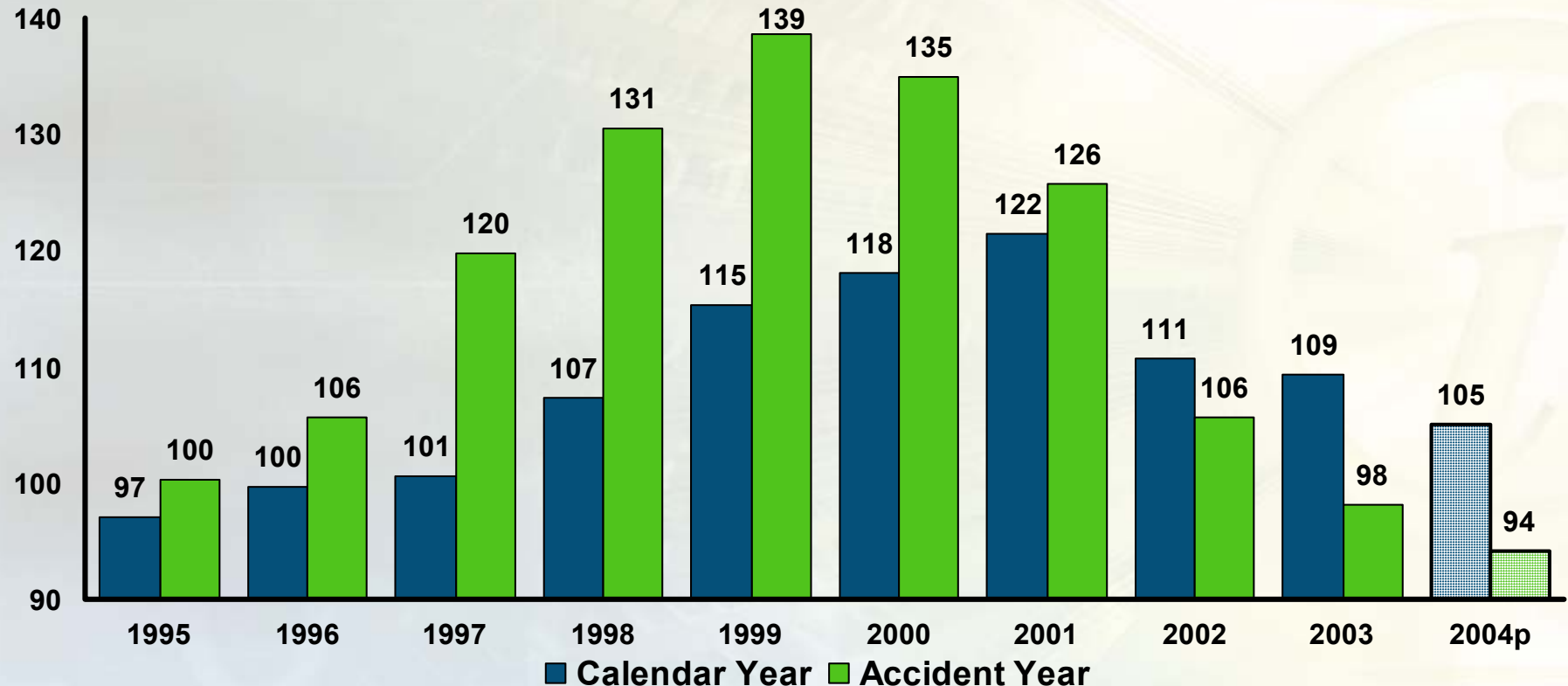
ARAP: Assigned Risk Adjustment Program
SARAP: Simplified Assigned Risk Adjustment Program
LSRP: Loss Sensitive Rating Plan

Workers Compensation Accident Year Results And Reserve Estimates

Accident Year Combined Ratio Another Underwriting Profit in 2004

**Workers Compensation Calendar Year vs.
Ultimate Accident Year – Private Carriers**

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/2004 and developed to ultimate

Source: Calendar Years 1995-2003, A.M. Best Aggregates & Averages;

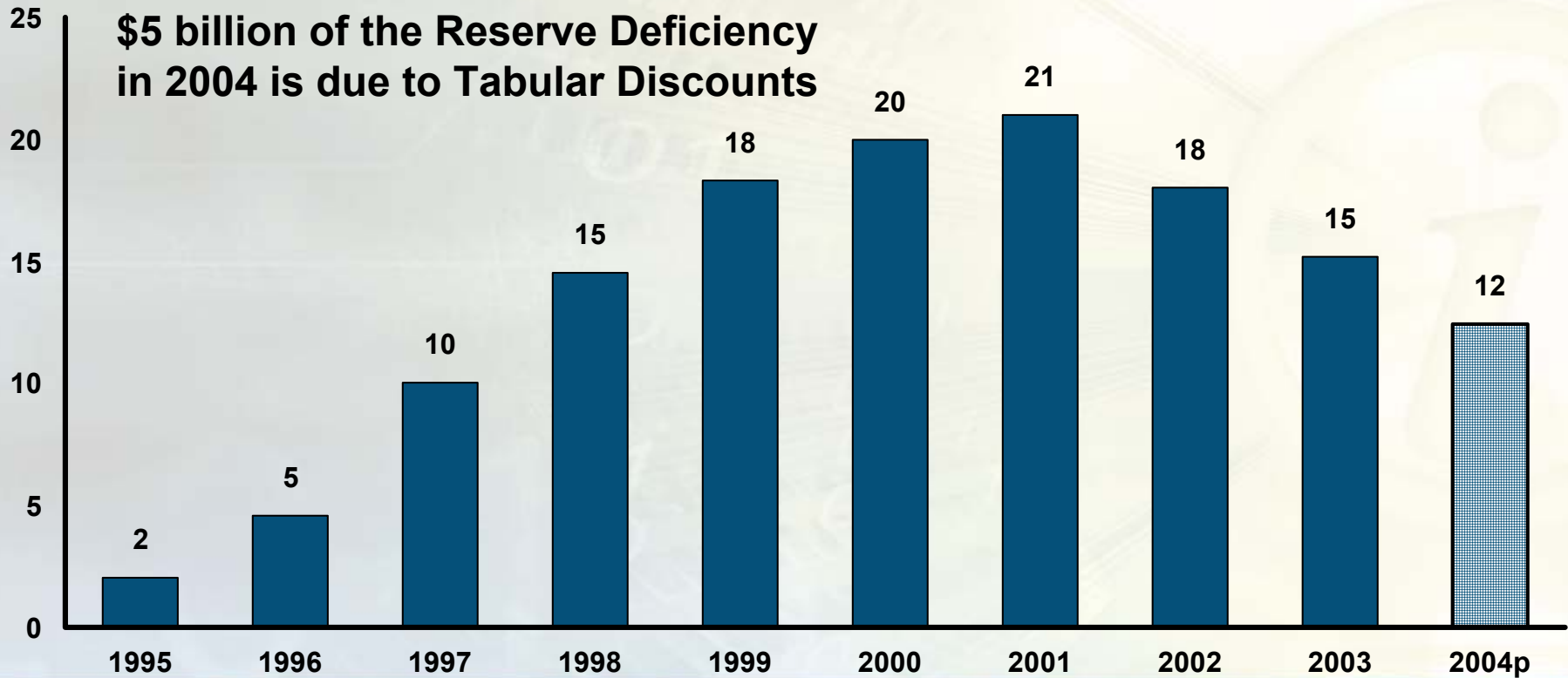
Calendar Year 2004p and Accident Years 1995-2004p, NCCI

Includes dividends to policyholders

Workers Compensation Reserve Deficiencies Continue to Decline

Private Carriers

\$ Billions



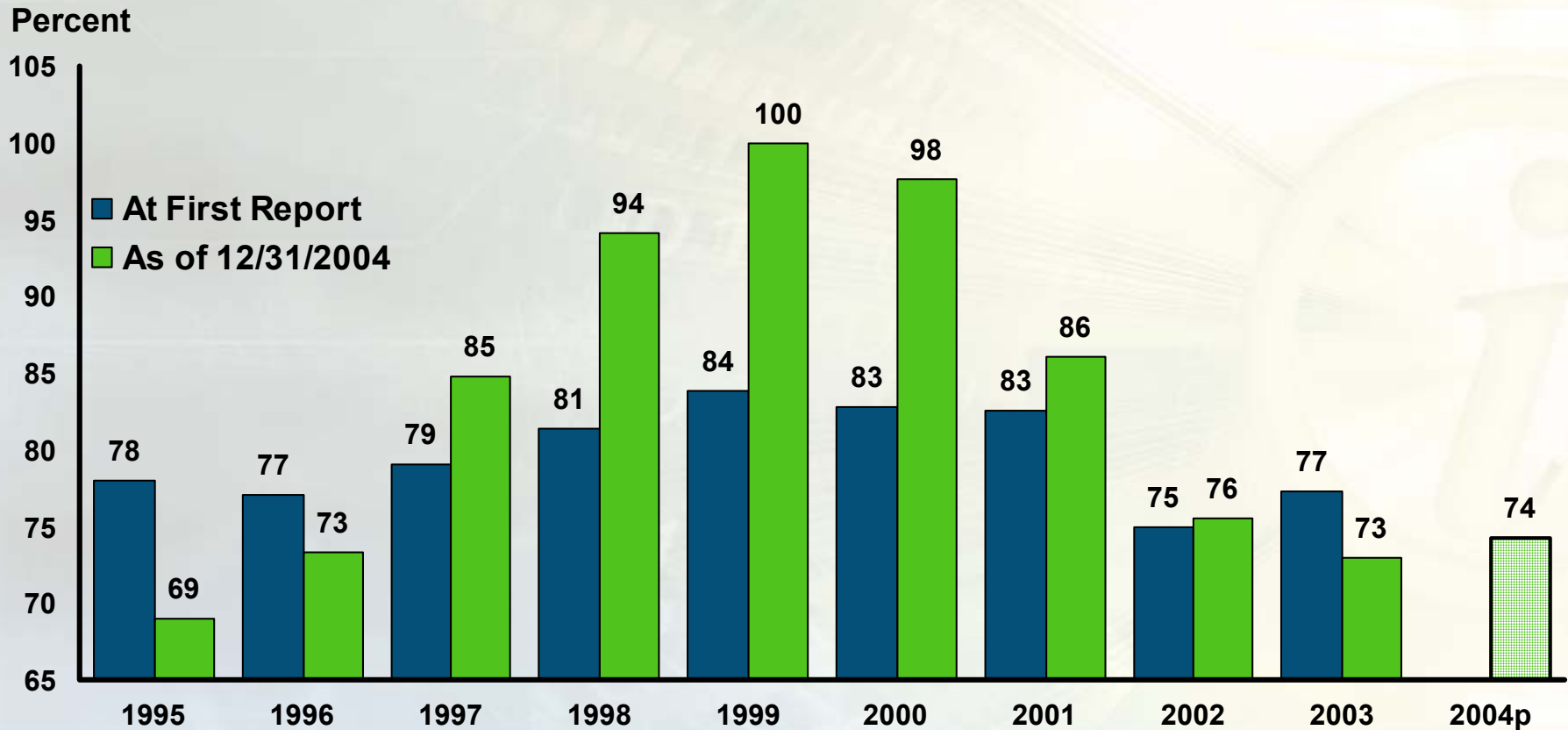
Loss and LAE Reserve Deficiency Through Year End

p Preliminary

Difference between NCCI estimated ultimate losses and LAE as of 12/31/2004 and reported in Schedule P

Workers Compensation Accident Year Loss & LAE Ratios

Private Carriers



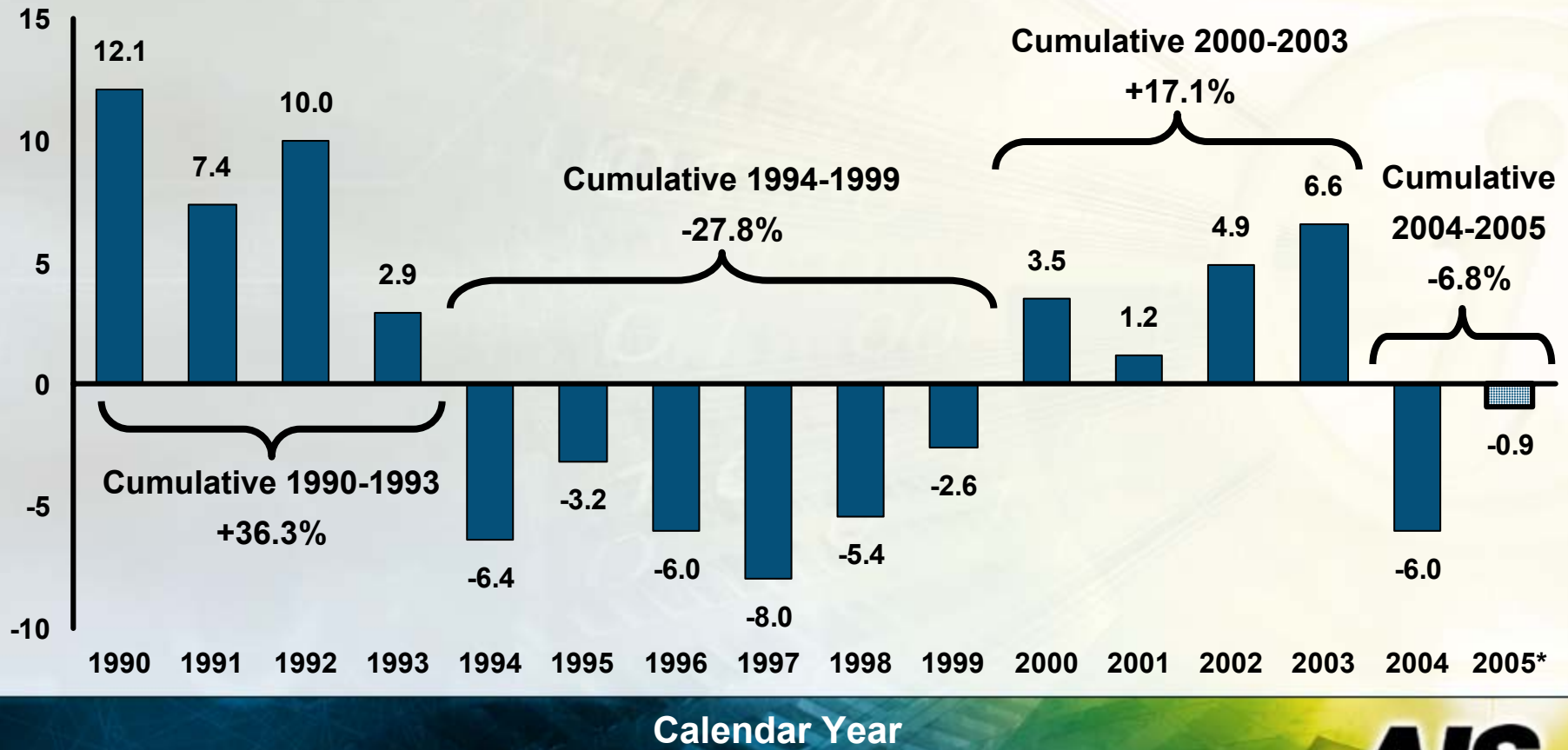
p Preliminary
 Reported Loss and LAE reserves from Schedule P
 Source: 1995-2004p, NAIC Annual Statement insurance data

Workers Compensation Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



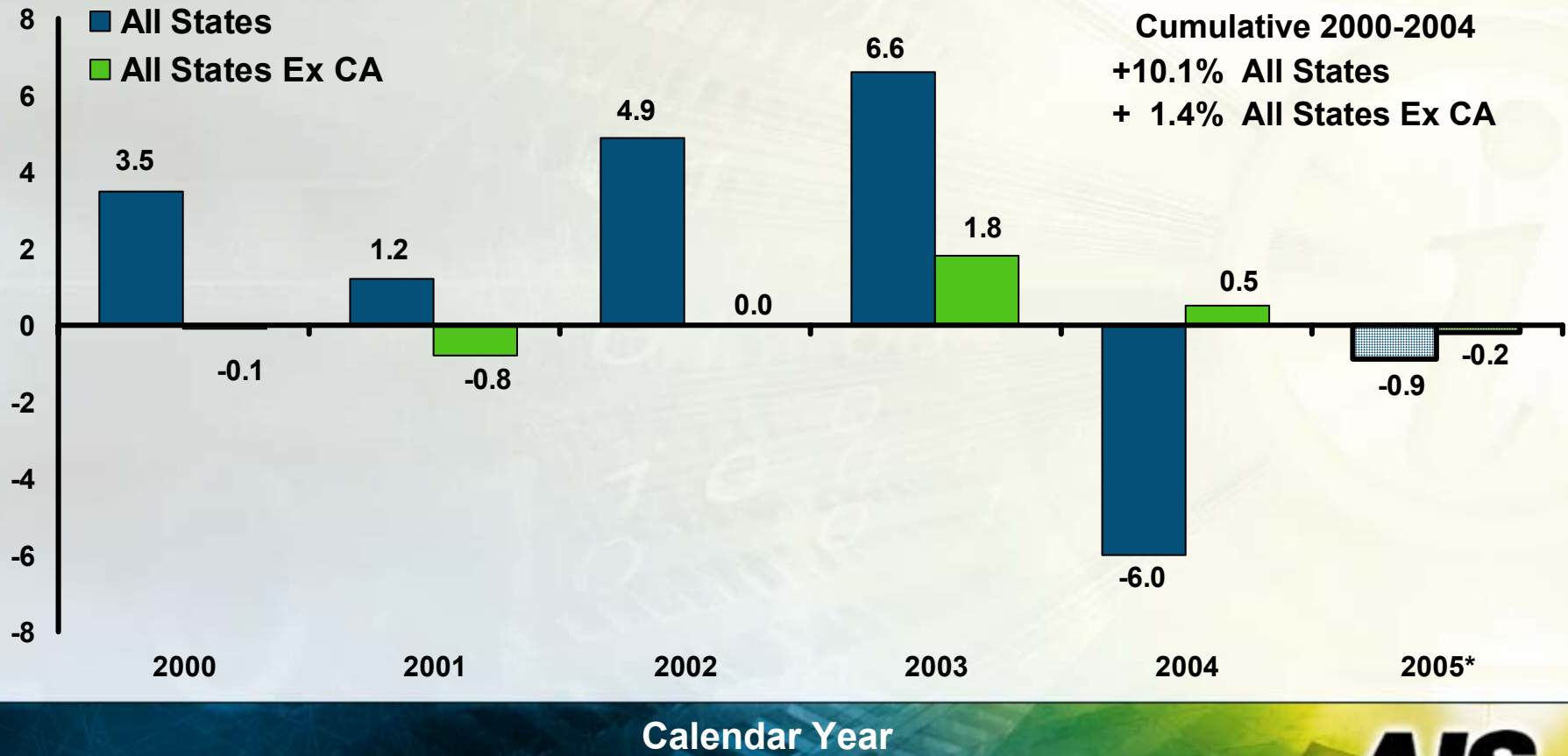
* States approved through 04/15/2005

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent



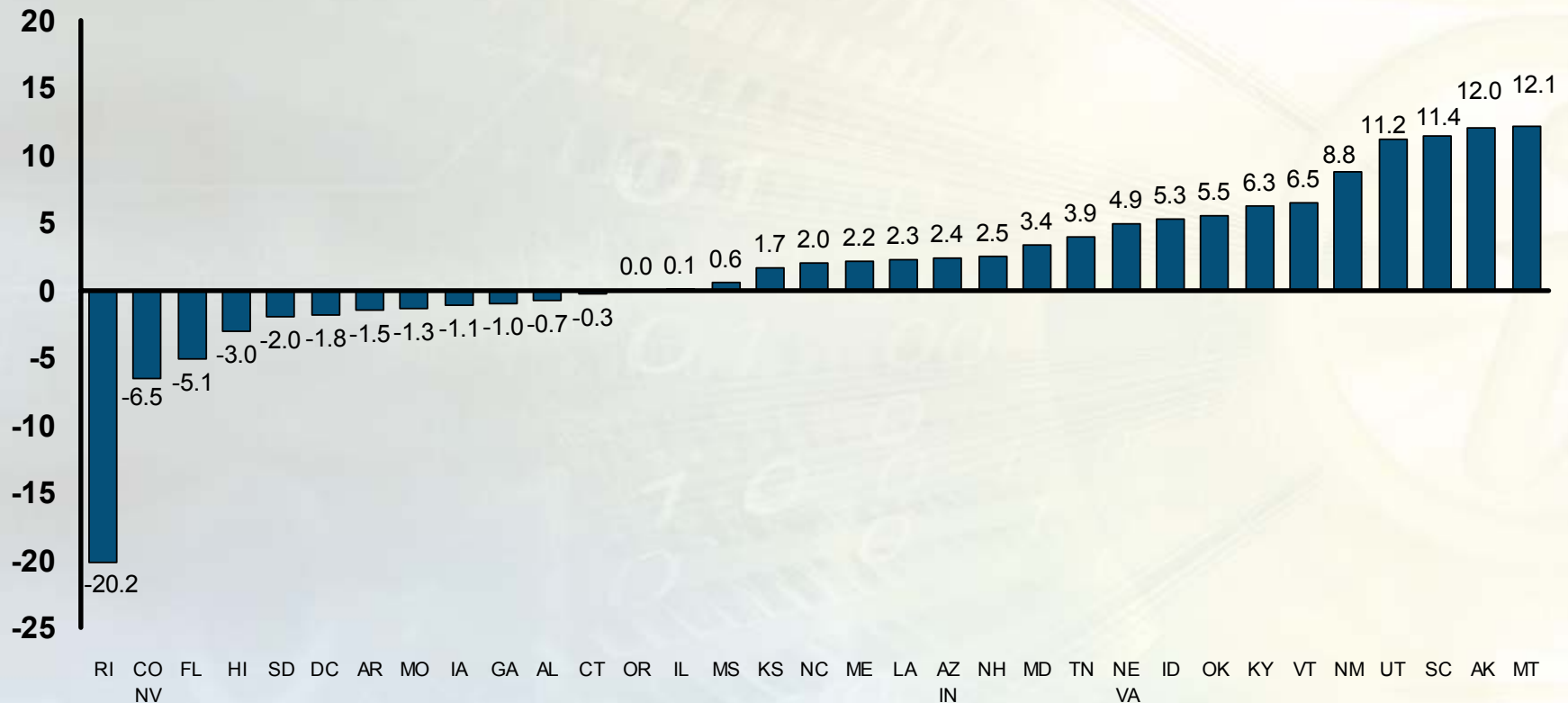
* States approved through 04/15/2005

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

Current NCCI Voluntary Market Approved Rate/Loss Cost Changes

Excludes Law-Only Filings

Percent

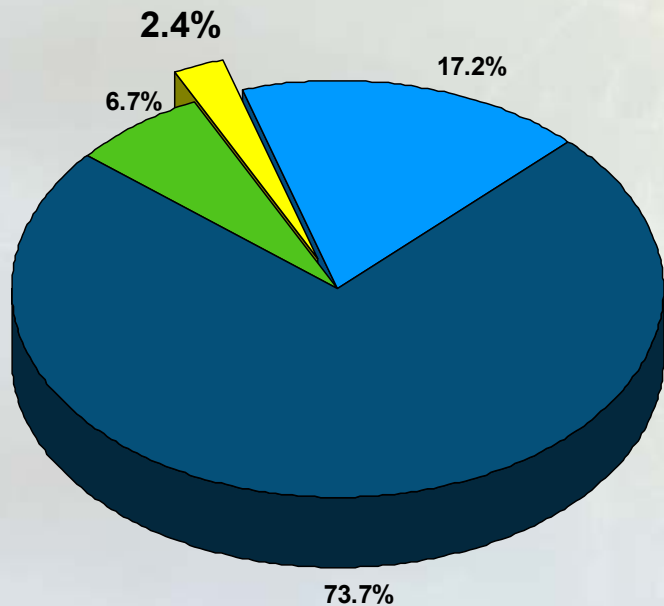


States approved through 04/15/2005

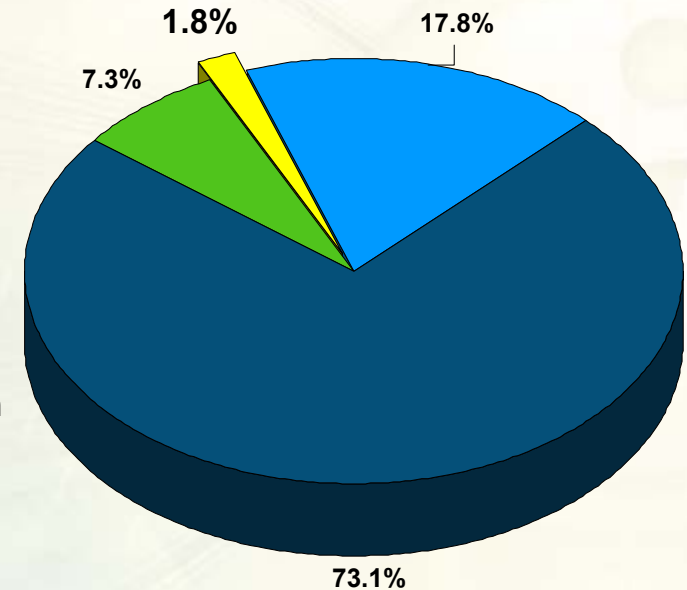
Employer Costs As Percentage of Total Compensation

Private Industry

1994



2004



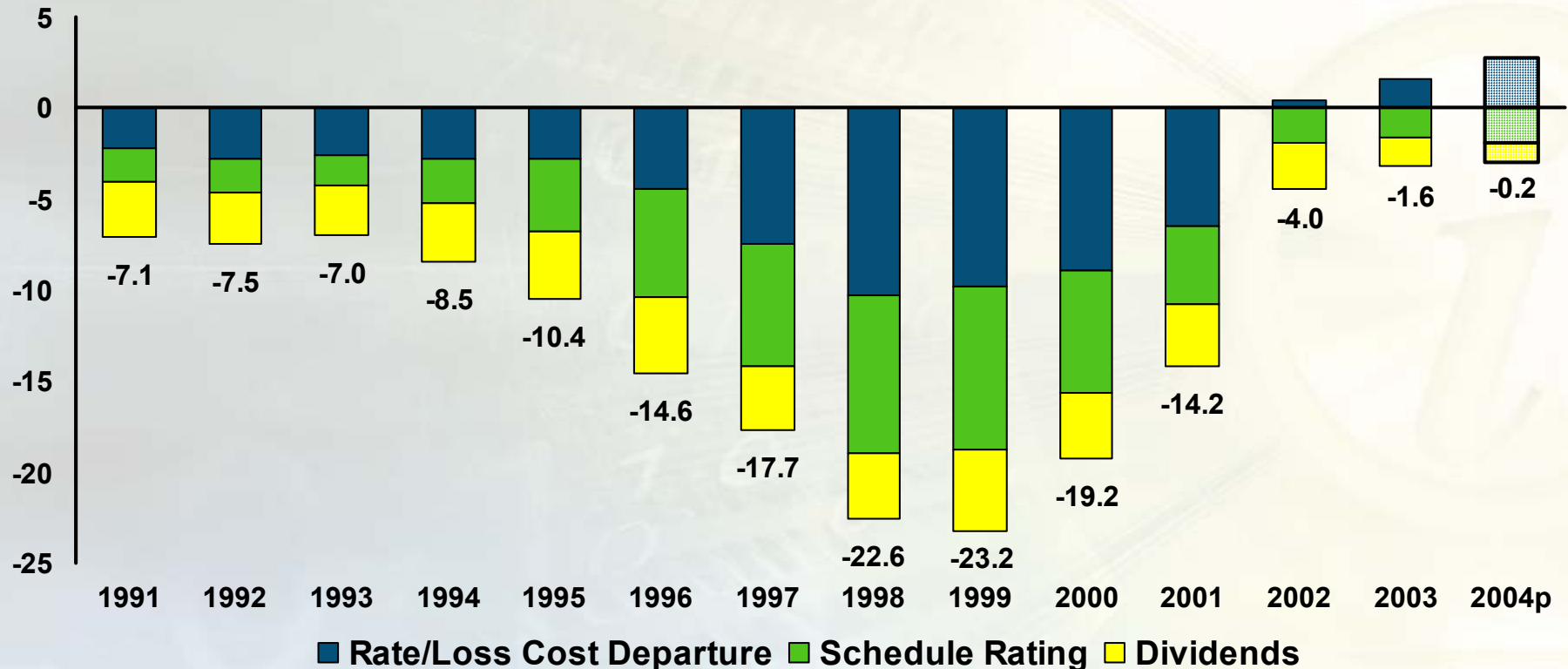
- Wages and Salaries
- Health Insurance
- Workers Compensation
- All Other

All Other includes Paid Leave, Insurance (other than Health), Social Security, Retirement and Savings
Source: U.S. Department of Commerce, Bureau of Labor Statistics

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent

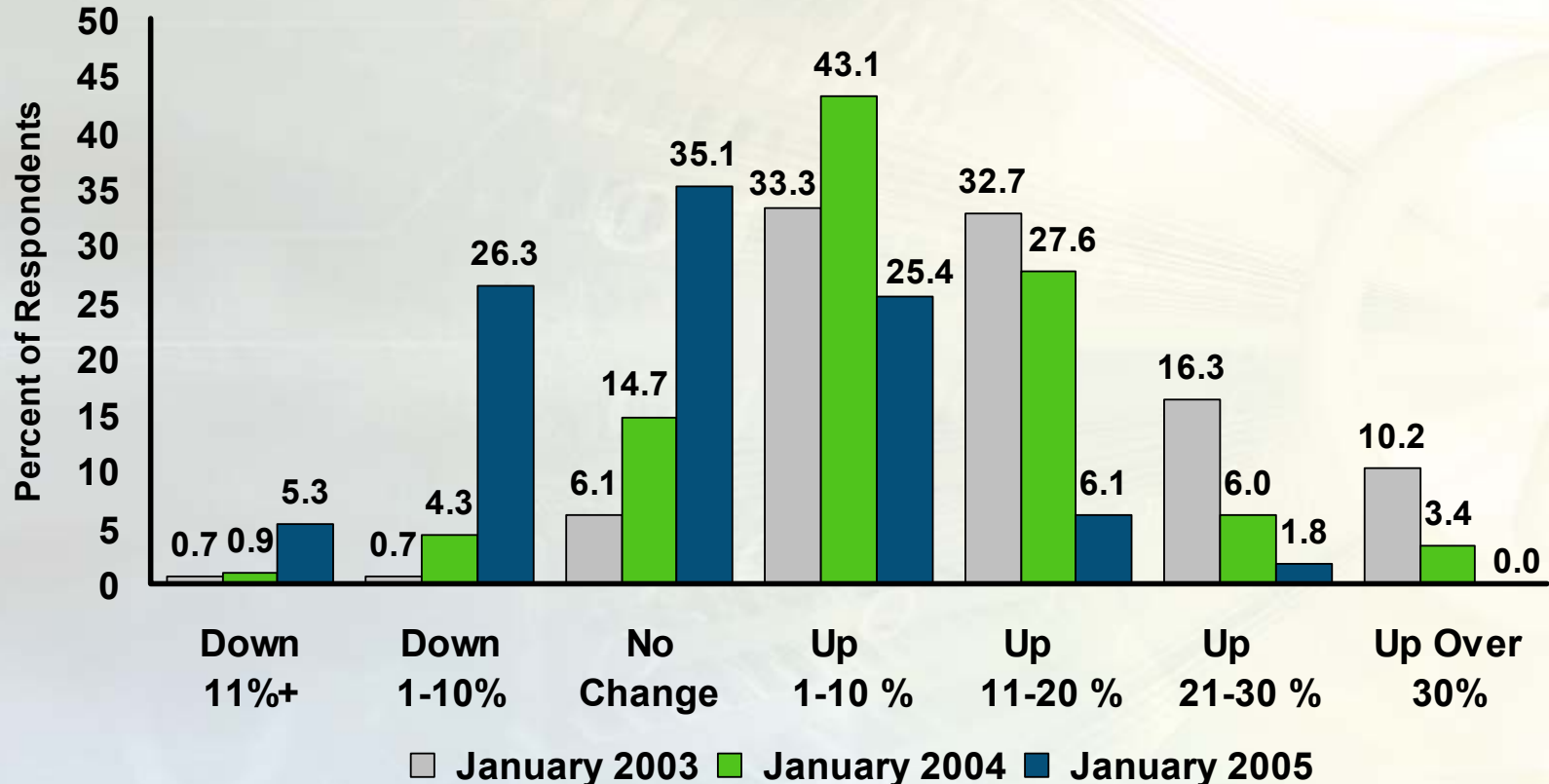


p Preliminary
 NCCI benchmark level does not include an underwriting contingency provision
 Dividend ratios are based on calendar year statistics
 Based on data through 12/31/2004 for the states where NCCI provides ratemaking services

Policy Year

According to Goldman Sachs, Most Survey Respondents See Flat WC Prices or Decreases in 2005

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior

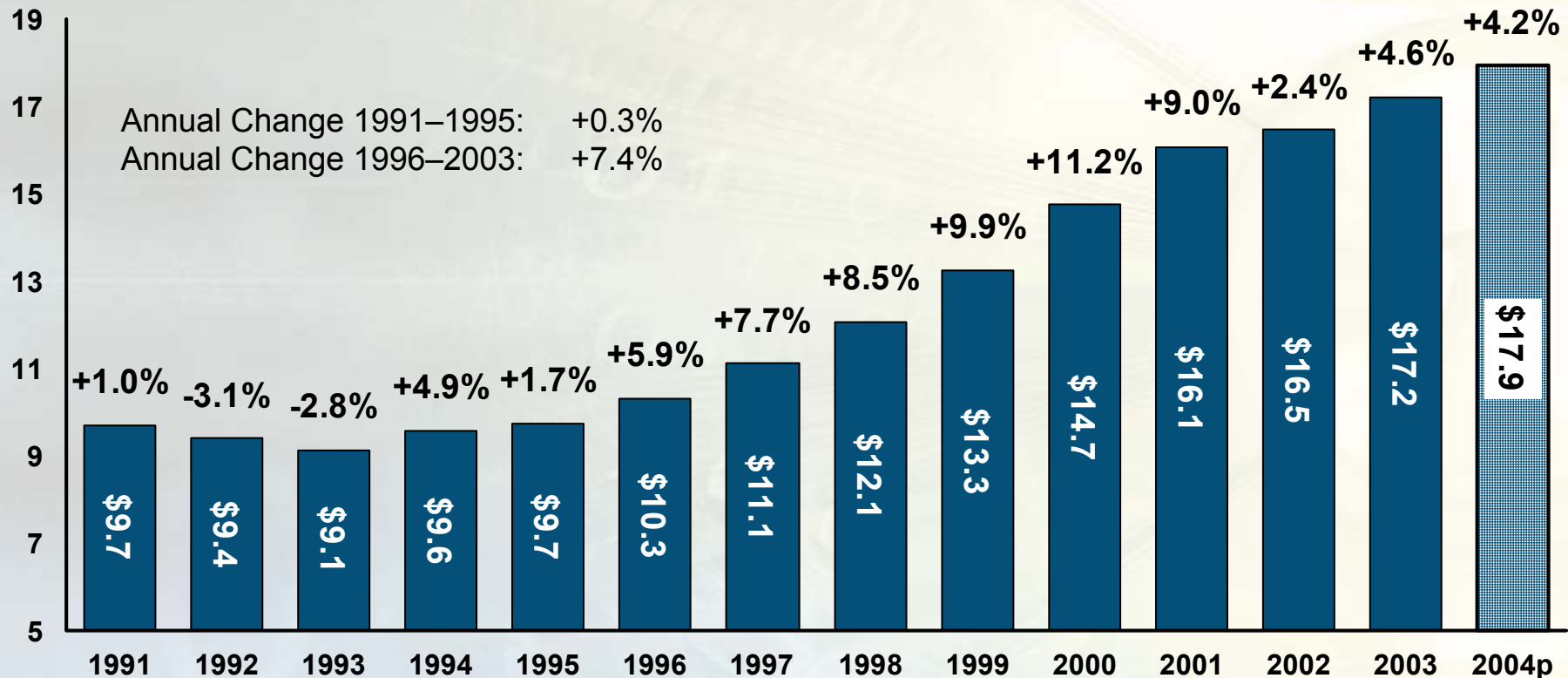


Workers Compensation Loss Drivers

The Growth in WC Indemnity Claim Costs Has Eased in Recent Years

Lost-Time Claims

Indemnity Claim Cost (000s)



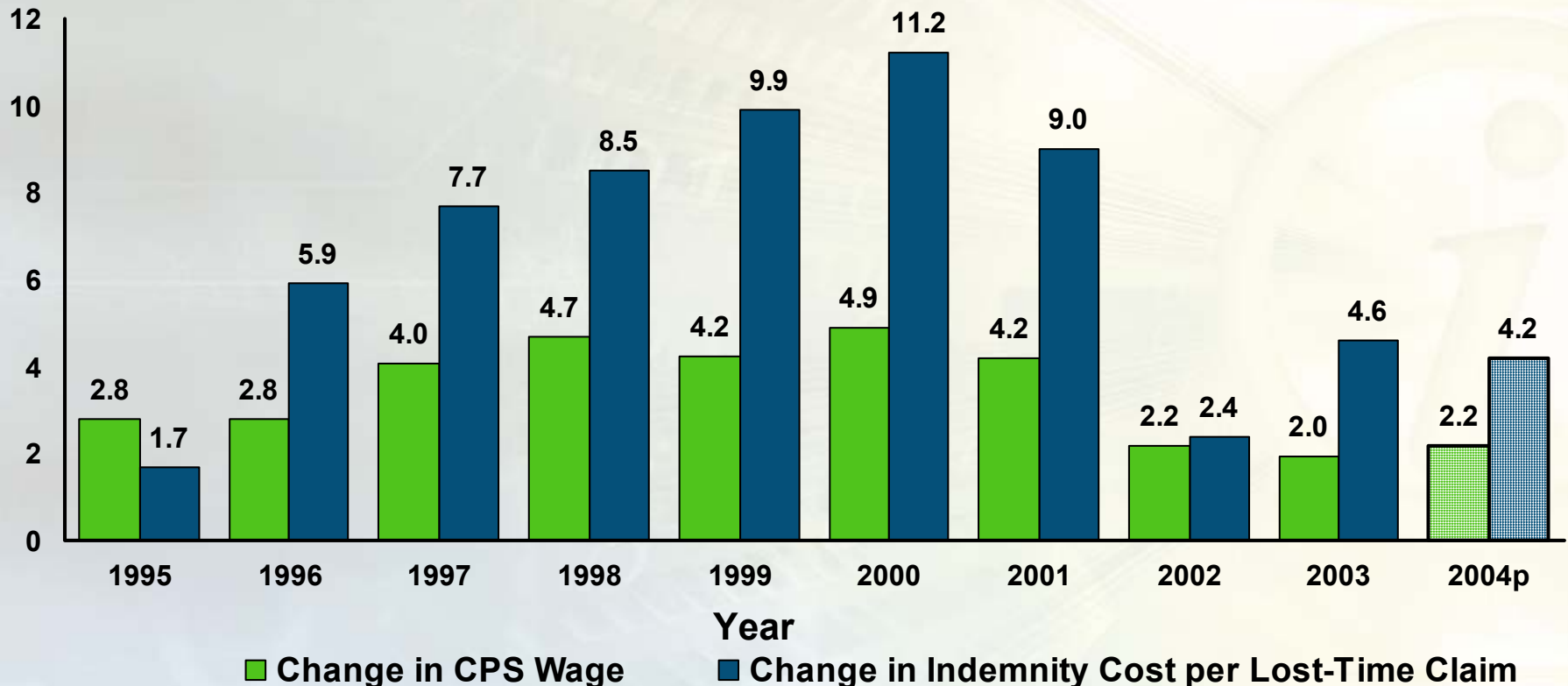
Accident Year

2004p: Preliminary based on data valued as of 12/31/2004
1991-2003: Based on data through 12/31/2003, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Workers Compensation Indemnity Severity Is Outpacing Wage Inflation

Lost-Time Claims

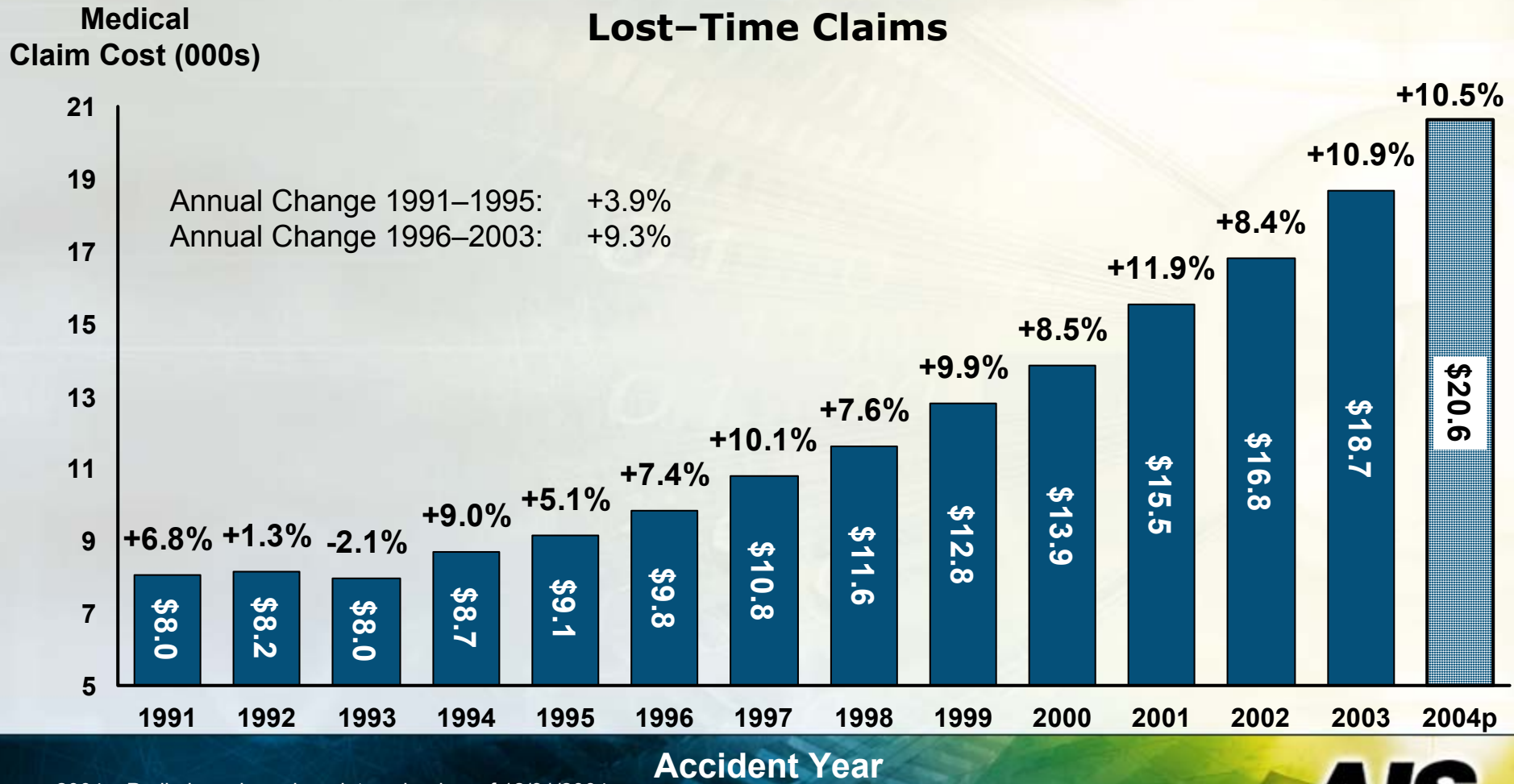
Percent Change



Indemnity severity 2004p: Preliminary based on data valued as of 12/31/2004
 Indemnity severity 1995-2003: Based on data through 12/31/2003, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Calendar year Current Population Survey, Economy.com; Accident year indemnity severity, NCCI

WC Medical Claim Cost Trends

Double-Digit Growth Continued in 2004

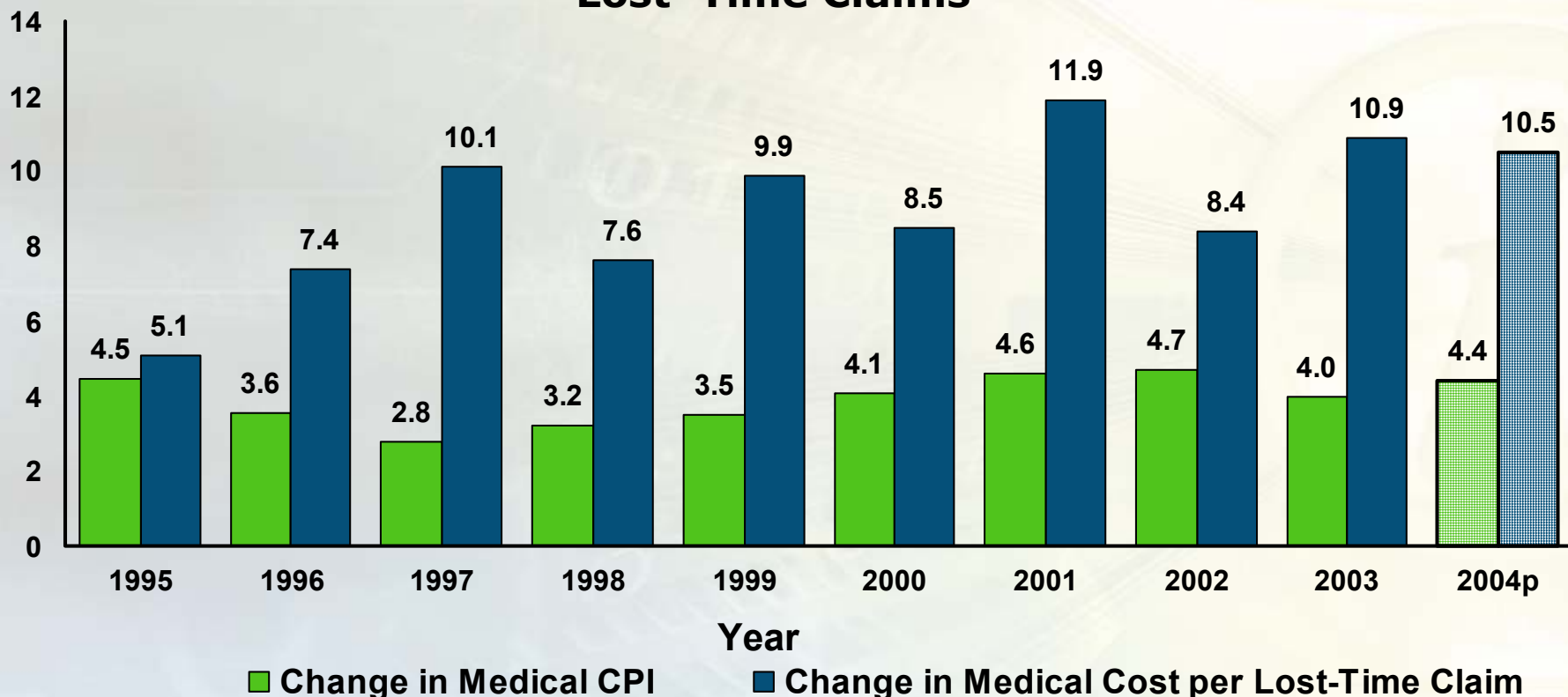


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 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Workers Compensation Medical Severity Has Been Growing Much Faster Than the Medical CPI

Percent Change

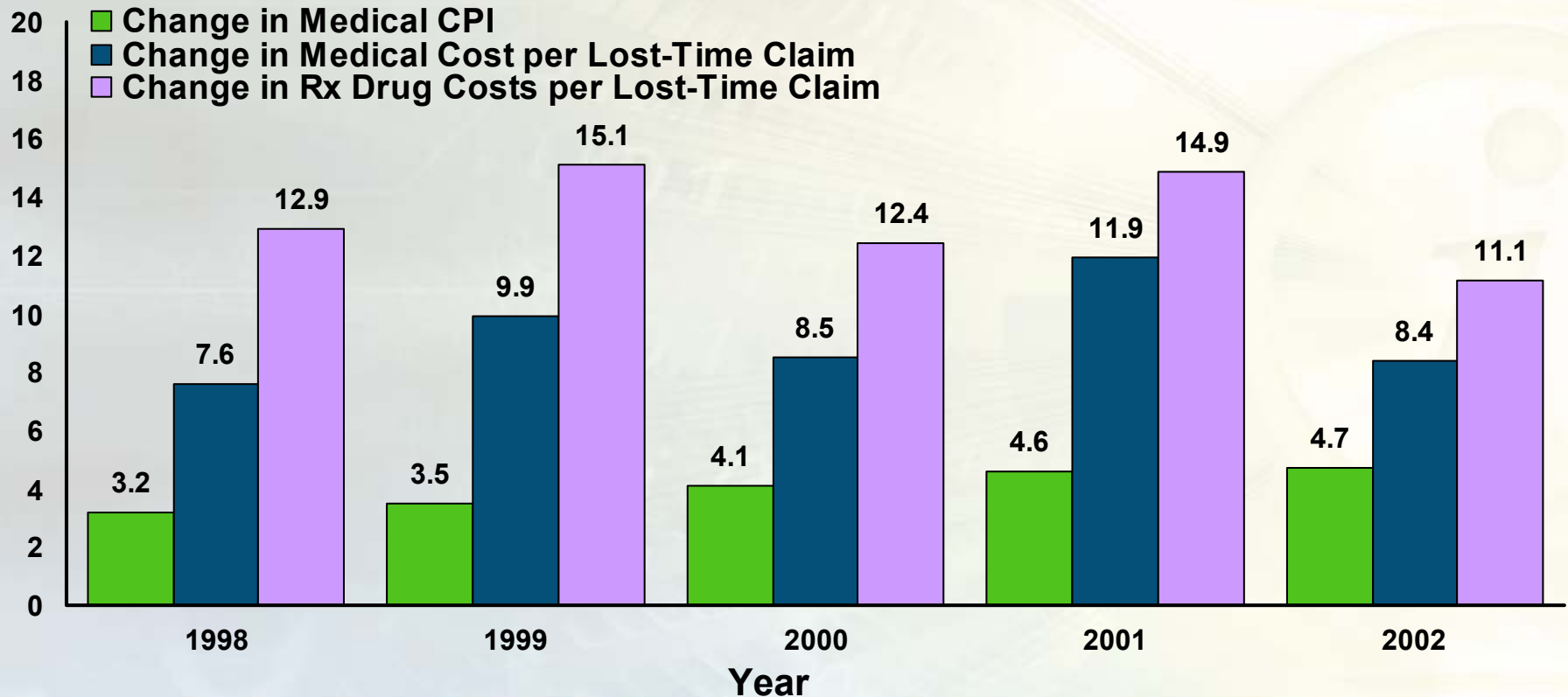
Lost-Time Claims



Medical severity 2004p: Preliminary based on data valued as of 12/31/2004
 Medical severity 1995-2003: Based on data through 12/31/2003, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Calendar year Current Population Survey, Economy.com; Accident year medical severity, NCCI

Drug Costs Are Increasing More Rapidly Than Total WC Medical Costs

Percent Change

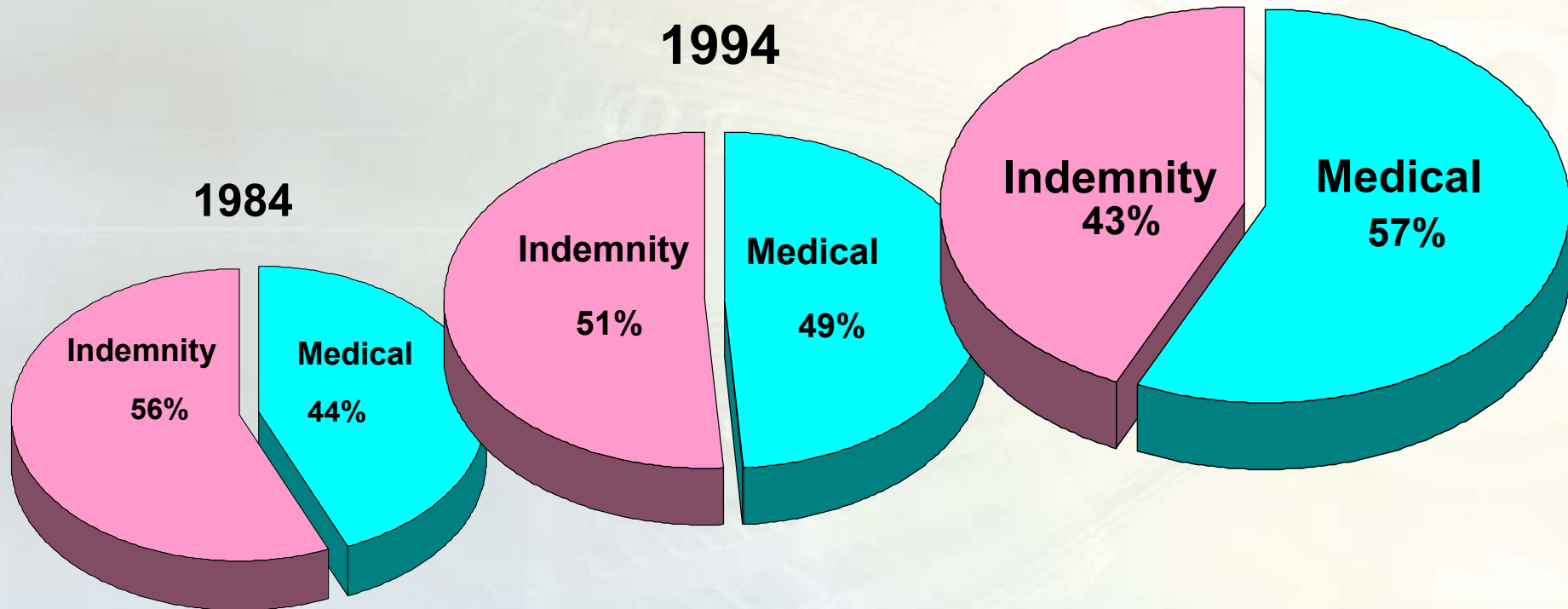


Medical severity: Based on data through 12/31/2003, developed to ultimate
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
Source: Calendar year Current Population Survey, Economy.com; Accident year medical severity, NCCI; Accident year
Rx Drug Costs, NCCI estimate based on sample data provided by carriers

Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2004p



2004p: Preliminary based on data valued as of 12/31/2004
1984, 1994: Based on data through 12/31/2003, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Last Year's AIS Survey Results

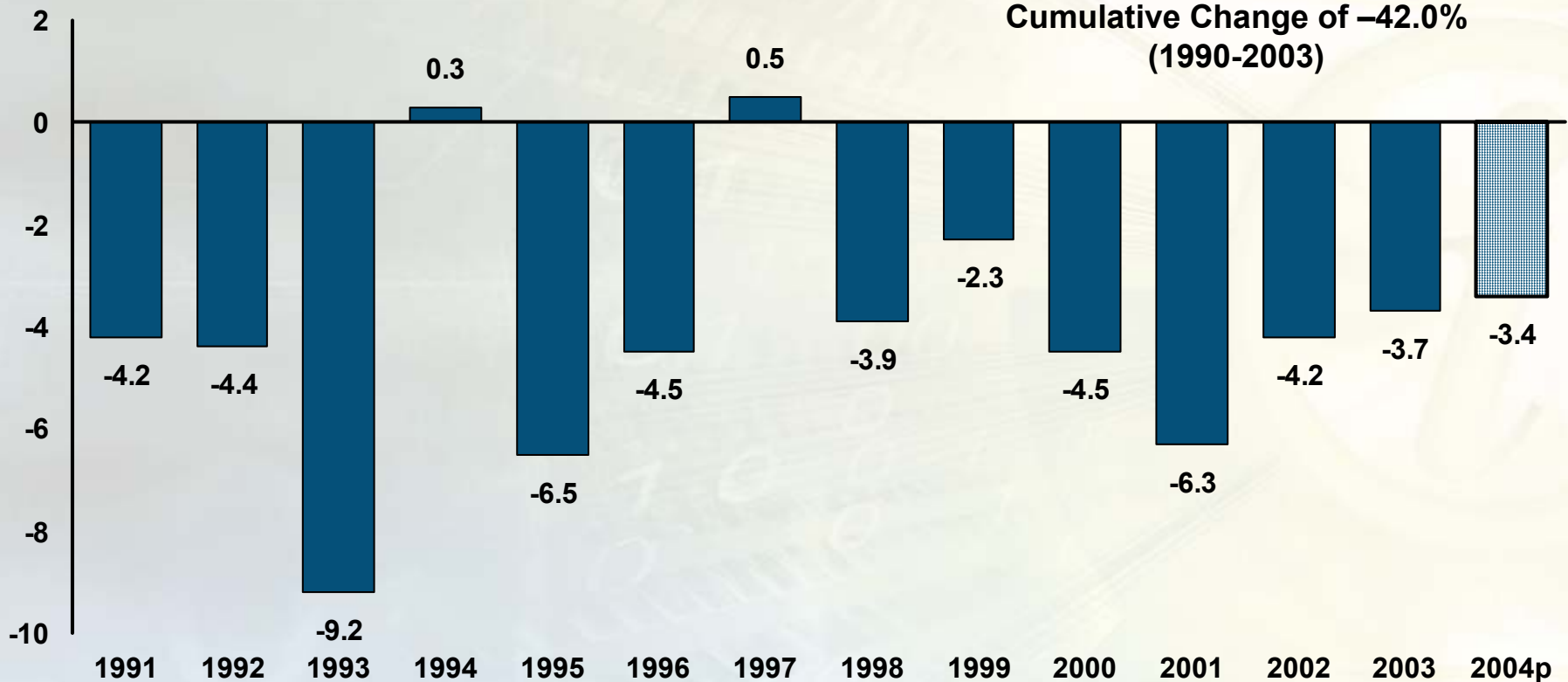
What will be the change in frequency in 2004?

- A. Decline More Than 4% (2%)**
- B. Decline 1-4% (58%)**
- C. No Change (31%)**
- D. Increase 1-4% (9%)**
- E. Increase More Than 4% (0%)**

Workers Compensation Lost-Time Claim Frequency Continues Its Decline

Lost-Time Claims

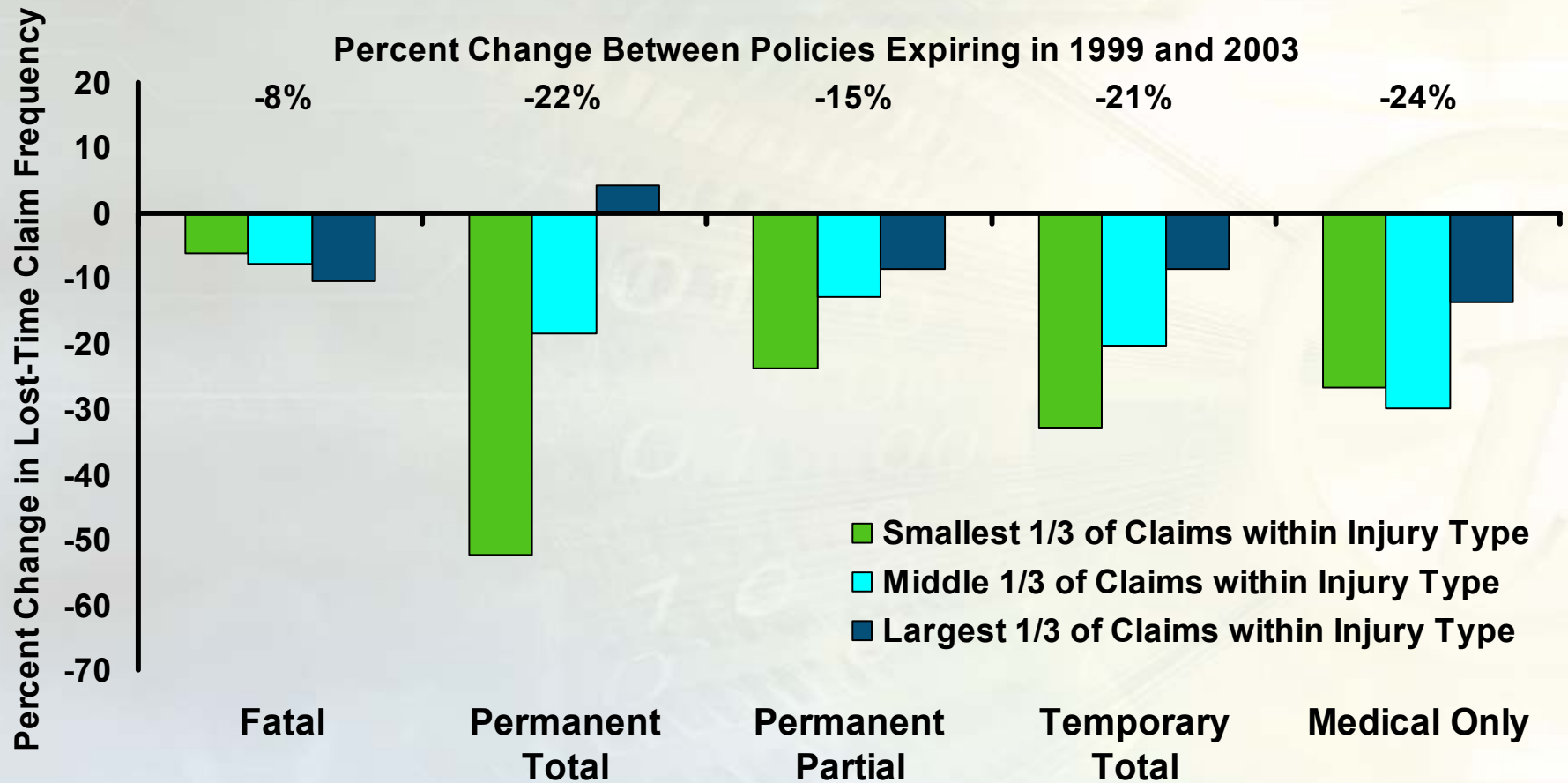
Percent Change



Accident Year

2004p: Preliminary based on data valued as of 12/31/2004
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 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Change in Lost-Time Claim Frequency By Injury Type and by Size of Loss Group

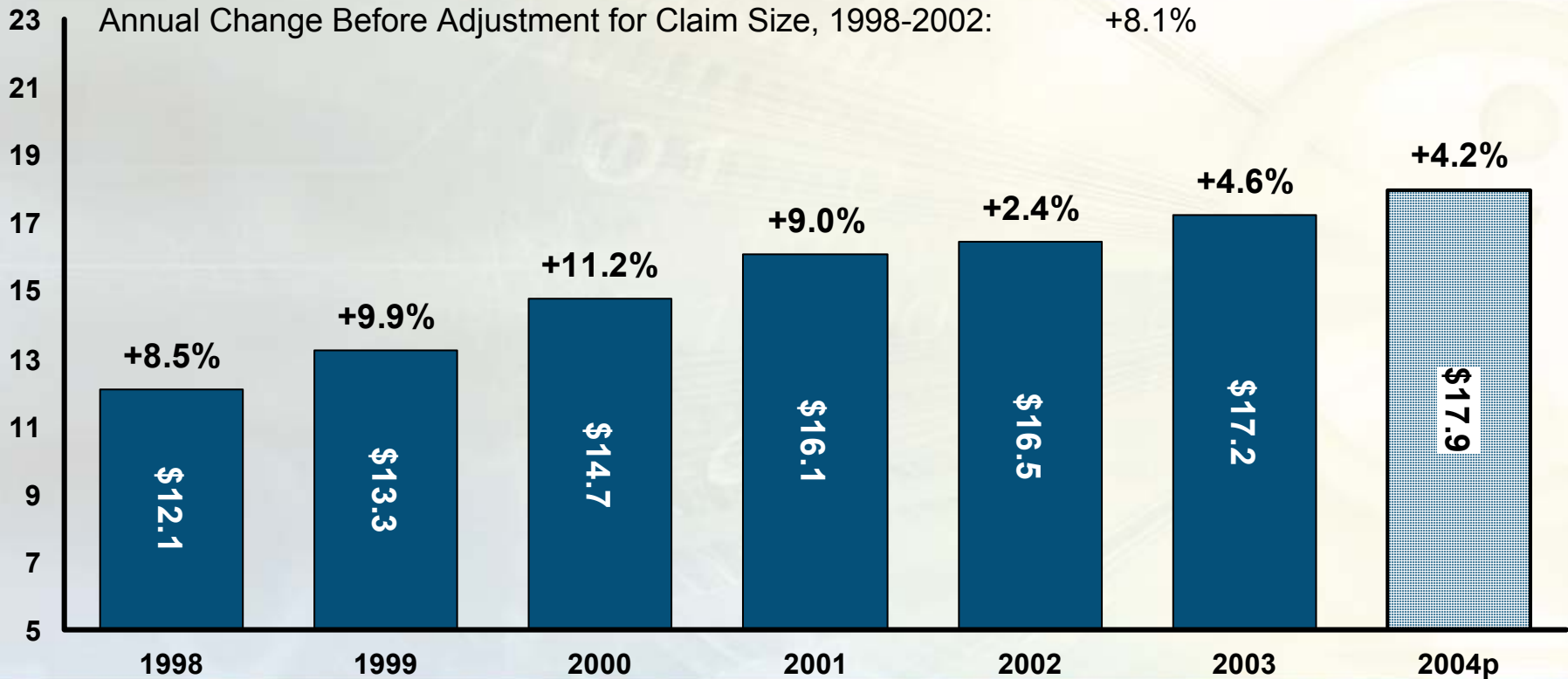


Loss Size Adjustments: 4.2% Indemnity, 7.4% Medical
 Frequency = Lost-time claims / payroll; Payroll adjusted for inflation
 Claim count determined at 1st report
 NCCI states only, excluding Texas

Workers Compensation Indemnity Claim Costs

Lost-Time Claims

Indemnity Claim Cost (000s)



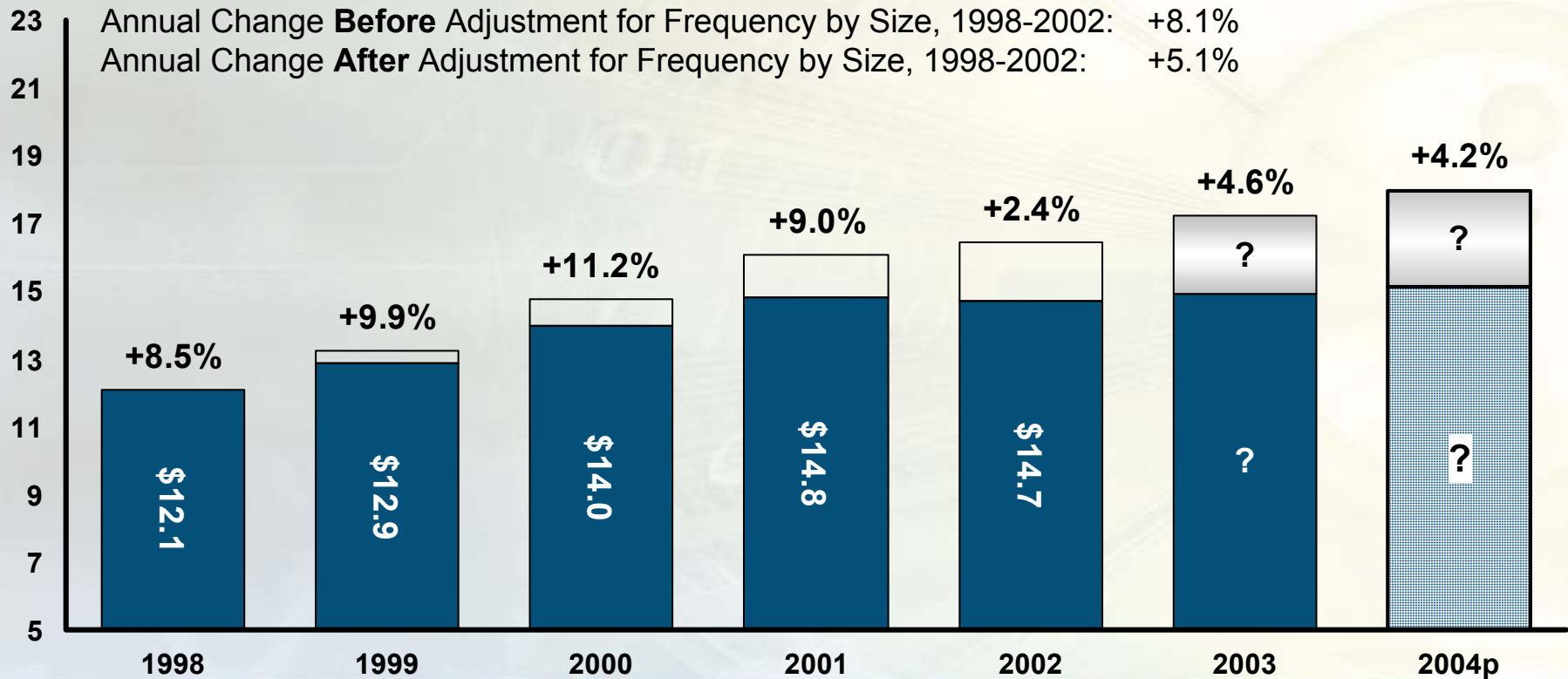
Accident Year

2004p: Preliminary based on data valued as of 12/31/2004
 1998-2003: Based on data through 12/31/2003, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Impact of Changes in Claim Size Distribution on Indemnity Claim Costs

Indemnity
Claim Cost (000s)

Lost-Time Claims



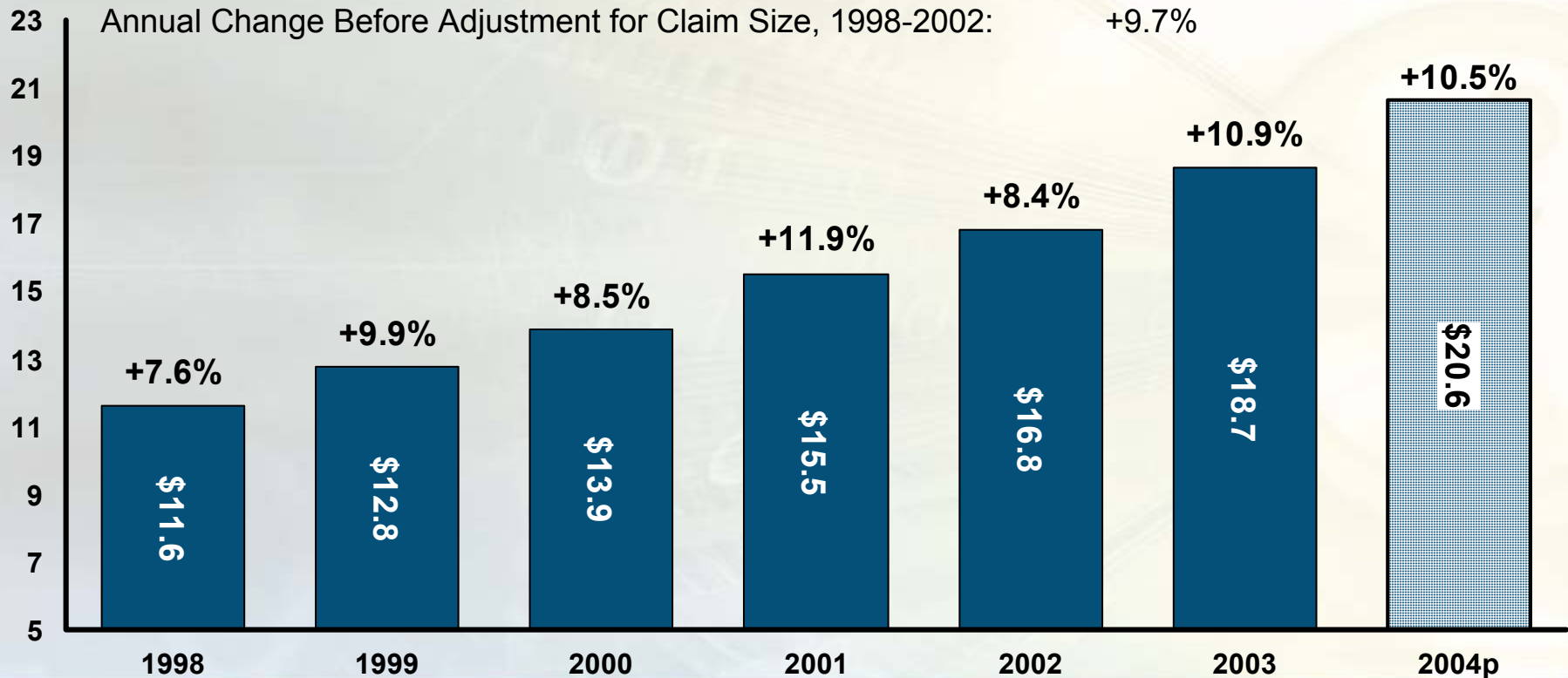
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Excludes the effects of deductible policies

Workers Compensation Medical Claim Costs

Medical Claim Cost (000s)

Lost-Time Claims



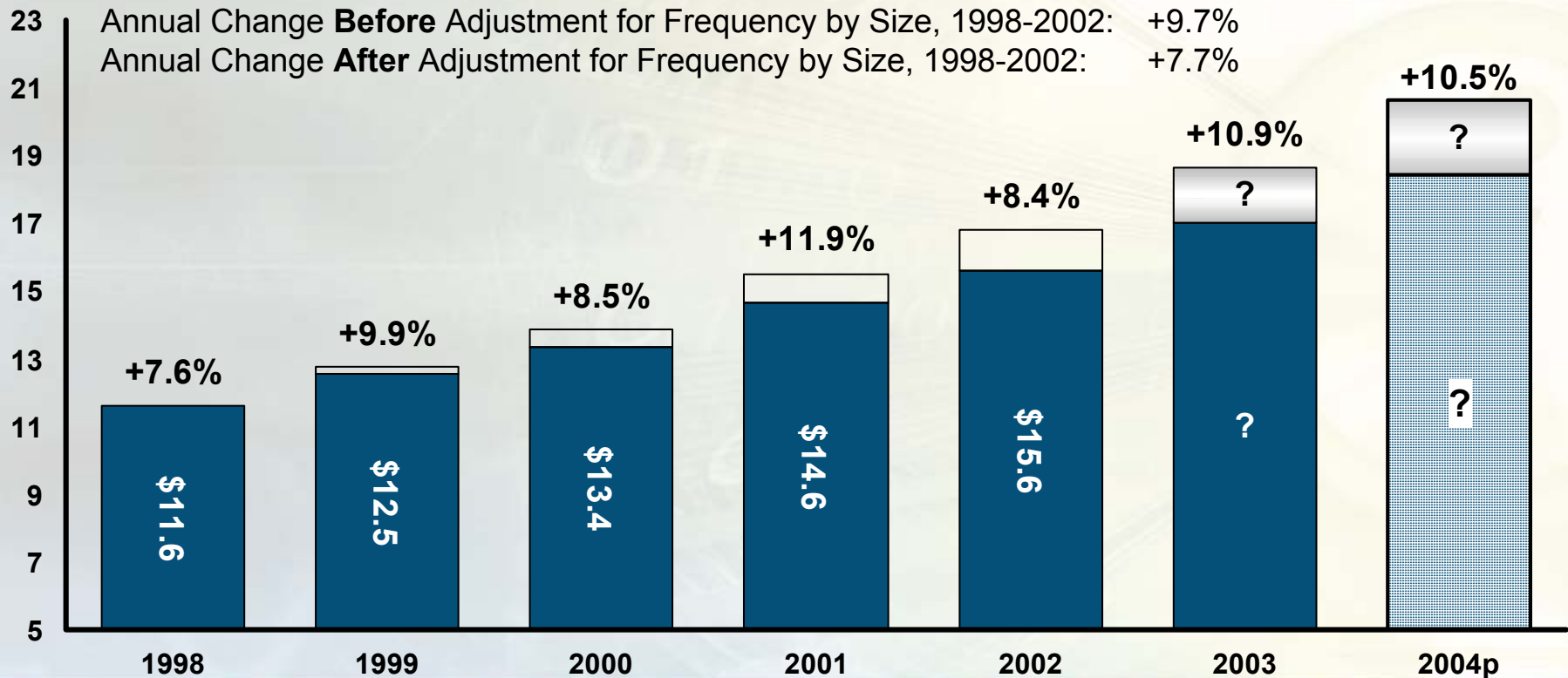
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Impact of Changes in Claim Size Distribution on Medical Claim Costs

Medical Claim Cost (000s)

Lost-Time Claims

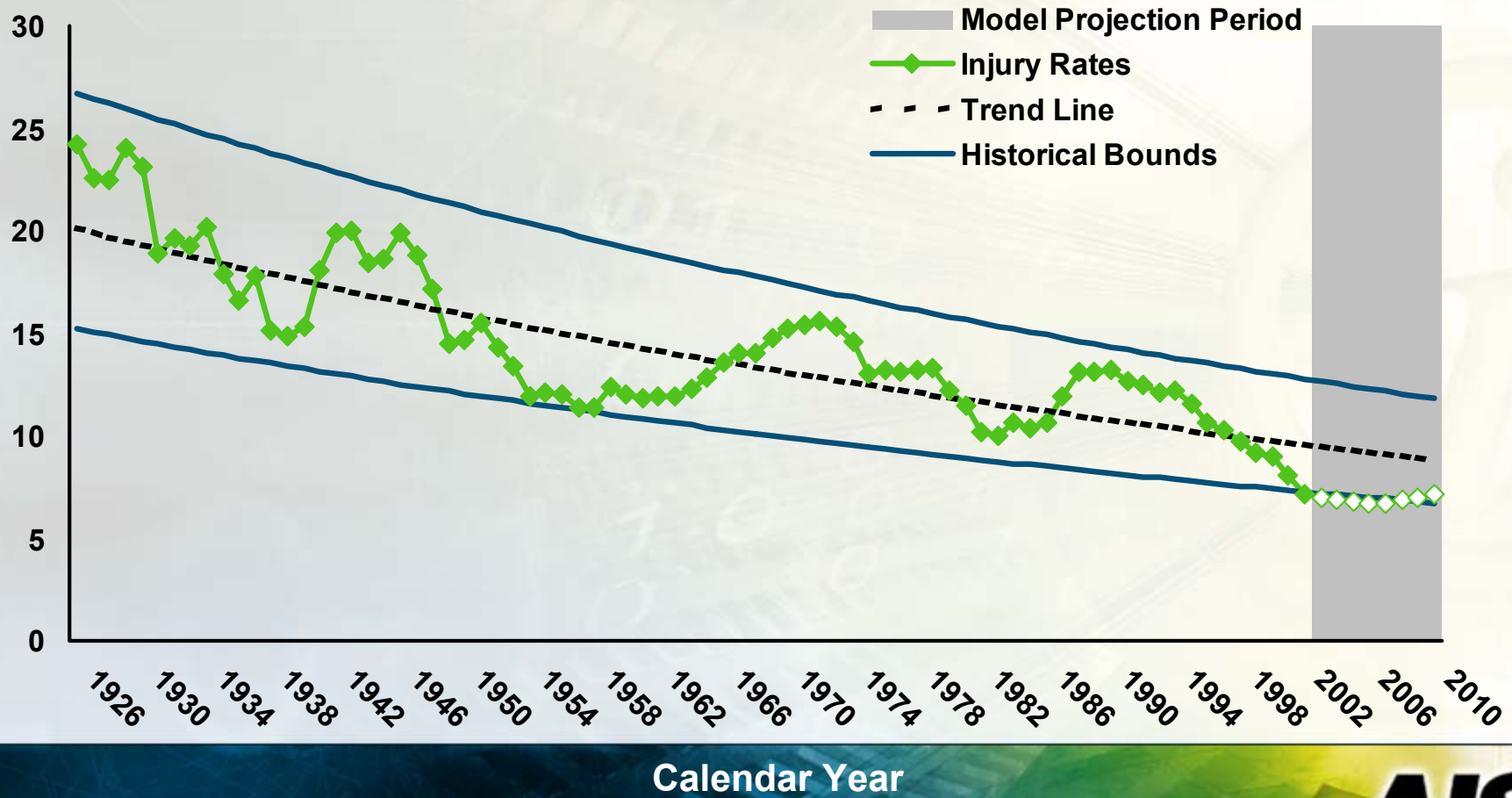


Accident Year

2004p: Preliminary based on data valued as of 12/31/2004
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 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Patterns in Historical Labor Statistics Underlie a Possible Modest Upturn

Manufacturing Injury Rates



Source: NCCI analysis of Bureau of Labor Statistics injury rates from 1926-2002

Impact of TRIA On Workers Compensation

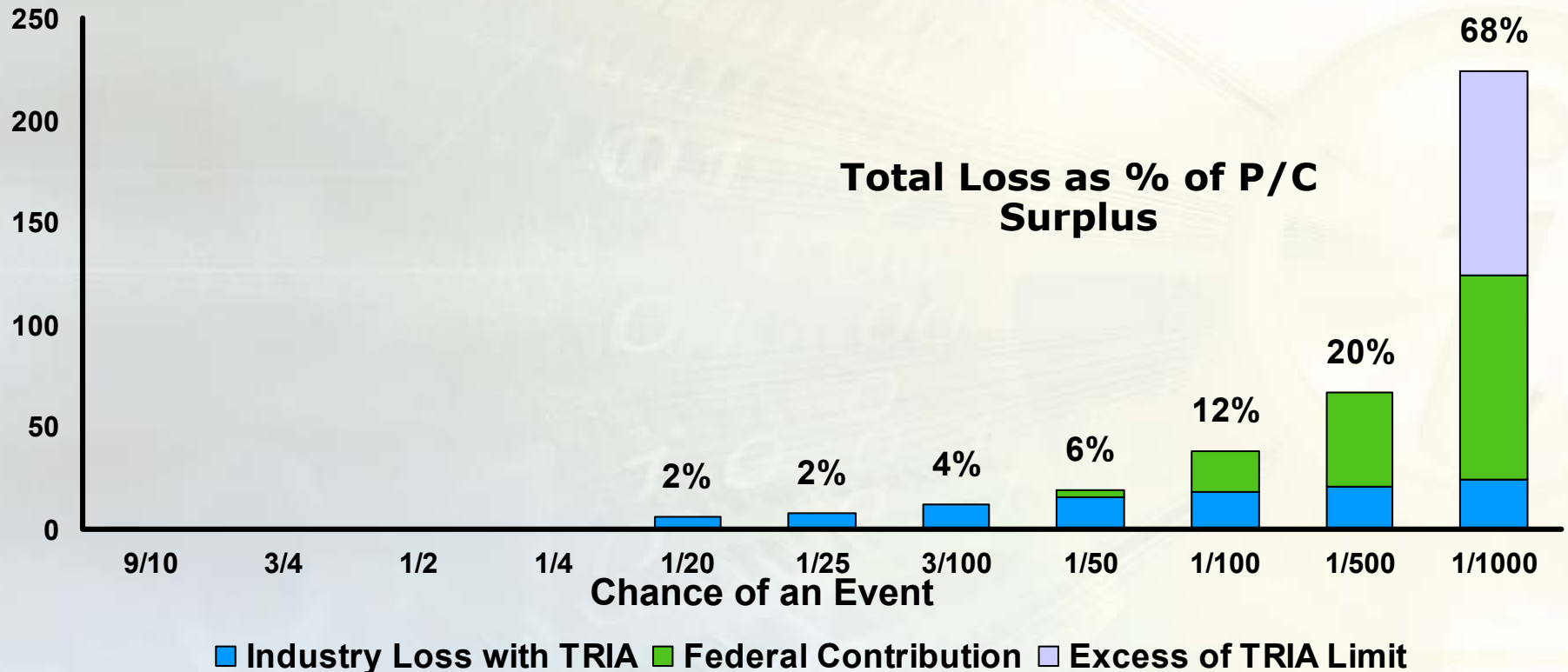
When Does TRIA Make a Difference?

- TRIA's direct financial impact is limited to infrequent extreme events
- TRIA is not triggered under approximately 98% of the modeled scenarios
- TRIA enables the P/C market to function effectively with minimal financial exposure to taxpayer funds

Under Most Scenarios TRIA Is Dormant, but When TRIA Is Triggered It Is Vital

P/C Underwriting Loss With and Without TRIA Support

U/W Loss (\$ B)



TRIA Supports Efficient, Competitive Insurance Markets

- Efficient, competitive markets have:
 - Many buyers and sellers
 - Available information to support estimates of costs, benefits and risks
- TRIA
 - Transforms the unknown into a quantifiable
 - Affordable pricing (e.g. NCCI's approved TRIA filings) allows for many buyers
 - Quantifiable, financially manageable "worst-case" scenarios allows for more sellers
- As with patents and copyrights TRIA is a "pro-market" government program

Concluding Remarks

In Summary

Positives

- Results are improving
- Frequency continues to decline
- Industry making progress on reserve deficiency
- Residual Market burden still manageable

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical severity continues rapid growth
- Calendar year results lag behind other lines
- Uncertainties surrounding TRIA extension

In 2004, These Were Our Priorities

- Trending methods
- Large loss procedure
- Catastrophe provisions
- Excess loss factors
- Classification ratemaking

Here's What We Accomplished

- Trending methods
Revamped econometric trending model
- Large loss procedure
Adopted in 30 states
- Catastrophe provisions
Approved in 30 states
- Excess loss factors
Adopted in 35 states
- Classification ratemaking
Expanded Unit Statistical Plan to 10 reports

What's Ahead for 2005

- Class ratemaking enhancements
 - Loss development by body part
 - Large loss capping
 - New credibility formulas
- Hazard Group remapping
- Econometric trending model using State Space modeling
- Terrorism provision response to TRIA

2004 AIS Survey Results

Who will win the 2004 Presidential election?

- | | |
|------------------------|--------------|
| A. George Bush | (65%) |
| B. John Kerry | (34%) |
| C. Ralph Nader | (0%) |
| D. Angela Davis | (1%) |
| E. Other | (0%) |

Questions and More Information

- “Meet The Experts”—see your program schedule
- Questions on the State of the Line presentation? E-mail us at stateoftheline@ncci.com
- Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**