



2014 Annual Issues Symposium

State of the Line

Kathy Antonello, FCAS, FSA, MAAA
NCCI Chief Actuary

May 8, 2014
Orlando, Florida



- **Property/Casualty Results**
- **Workers Compensation Results**
- **Concluding Remarks**

Property/Casualty (P/C) Results

P/C Industry Net Written Premium Increased for All Major Lines

Private Carriers

Line of Business (LOB)	2011 (\$Billions)	2012 (\$Billions)	2013p (\$Billions)	2012– 2013p Change (%)
Personal Auto	\$ 163.2	\$ 167.7	\$ 174.4	4.0%
Homeowners	\$ 63.4	\$ 67.9	\$ 72.8	7.2%
Other Liability (Incl Prod Liab)	\$ 38.9	\$ 40.7	\$ 44.3	9.0%
Workers Compensation	\$ 32.3	\$ 35.1	\$ 37.0	5.4%
Commercial Multiple Peril	\$ 29.6	\$ 31.0	\$ 32.3	4.2%
Fire & Allied Lines (Incl EQ)	\$ 24.6	\$ 24.7	\$ 25.7	4.1%
Commercial Auto	\$ 21.0	\$ 21.8	\$ 22.9	5.0%
All Other Lines	\$ 65.0	\$ 67.8	\$ 68.2	0.6%
Total P/C Industry	\$ 438.0	\$ 456.7	\$ 477.7	4.6%

p Preliminary

Sources: LOB, Annual Statement data
Workers Compensation (WC), NCCI; Total P/C Industry, Insurance Services Office, Inc. (ISO)

P/C Industry Achieved Overall Underwriting Gain

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year		
	2011	2012	2013p
Personal Auto	102%	102%	100%
Homeowners	122%	102%	90%
Other Liability (Incl Prod Liab)	100%	103%	99%
Workers Compensation	115%	108%	101%
Commercial Multiple Peril	113%	106%	96%
Fire & Allied Lines (Incl EQ)	102%	103%	84%
Commercial Auto	104%	107%	105%
All Other Lines	112%	100%	86%
Total P/C Industry	108%	103%	96%

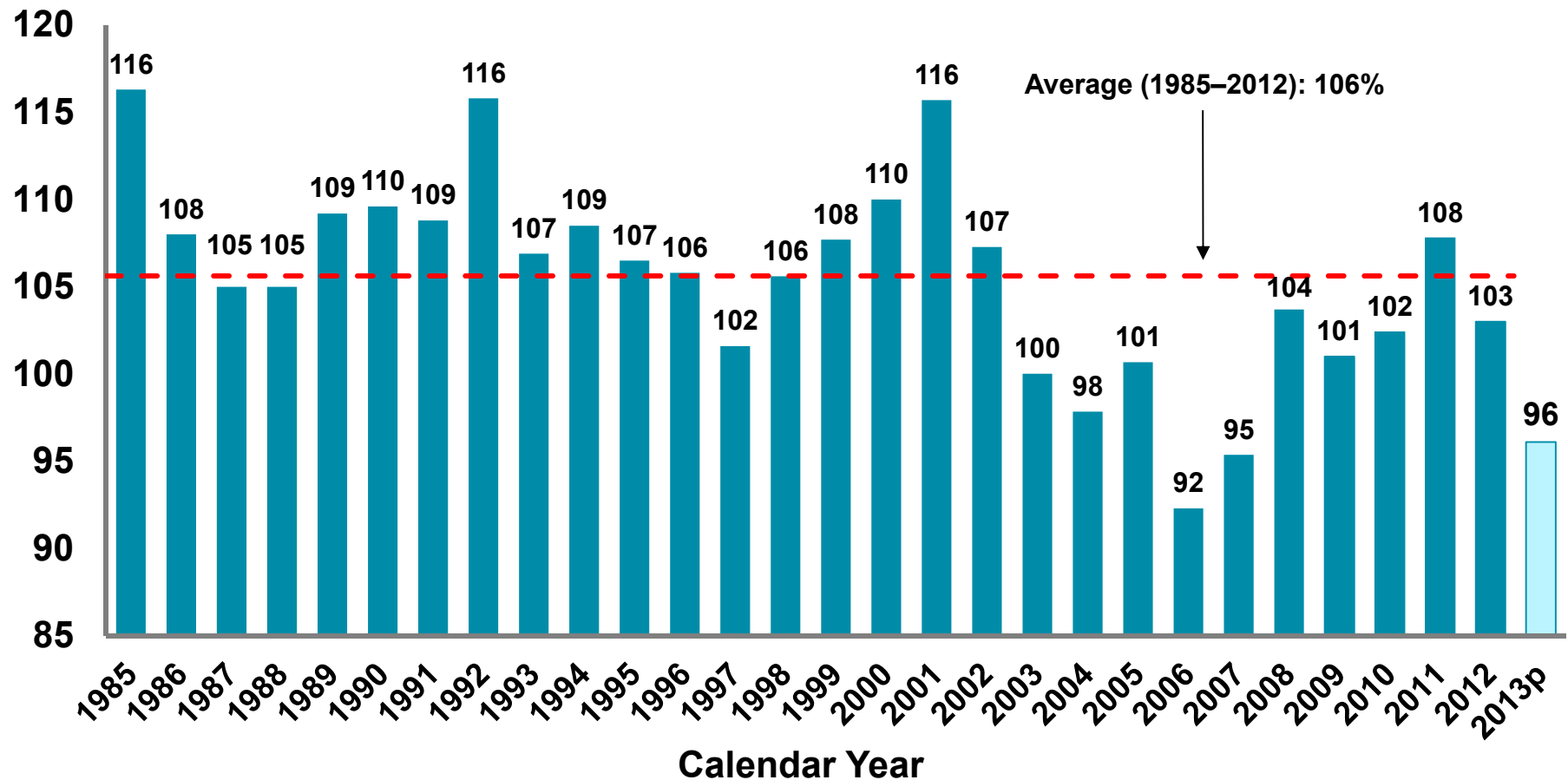
p Preliminary

Sources: LOB, Annual Statement data
Workers Compensation, NCCI; Total P/C Industry, ISO

P/C Industry Calendar Year Net Combined Ratios

Private Carriers

Percent



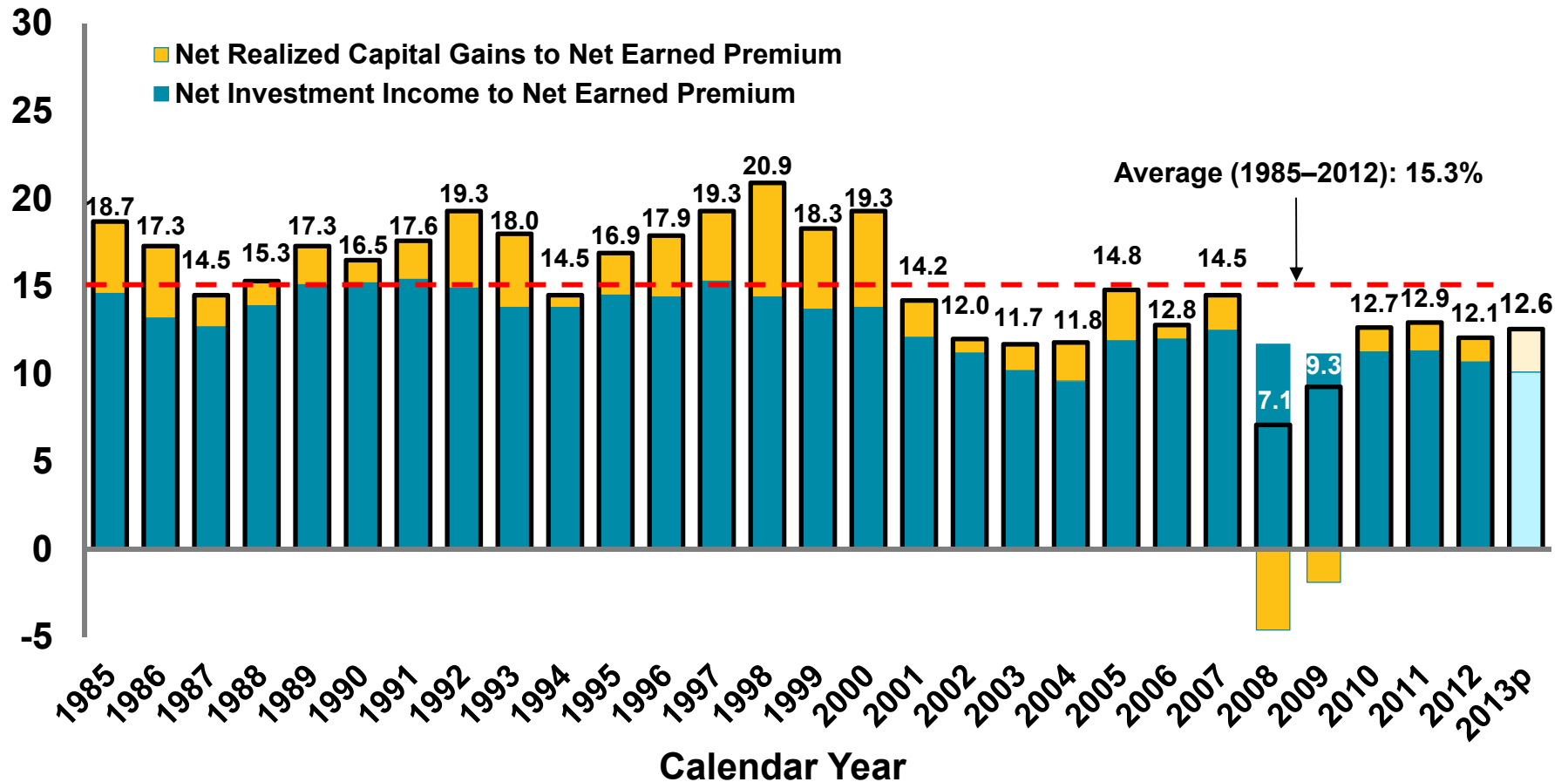
p Preliminary

Sources: 1985-2007, Annual Statement data; 2008-2013p, ISO

P/C Investment Gain Ratio Remained Steady

Private Carriers

Percent

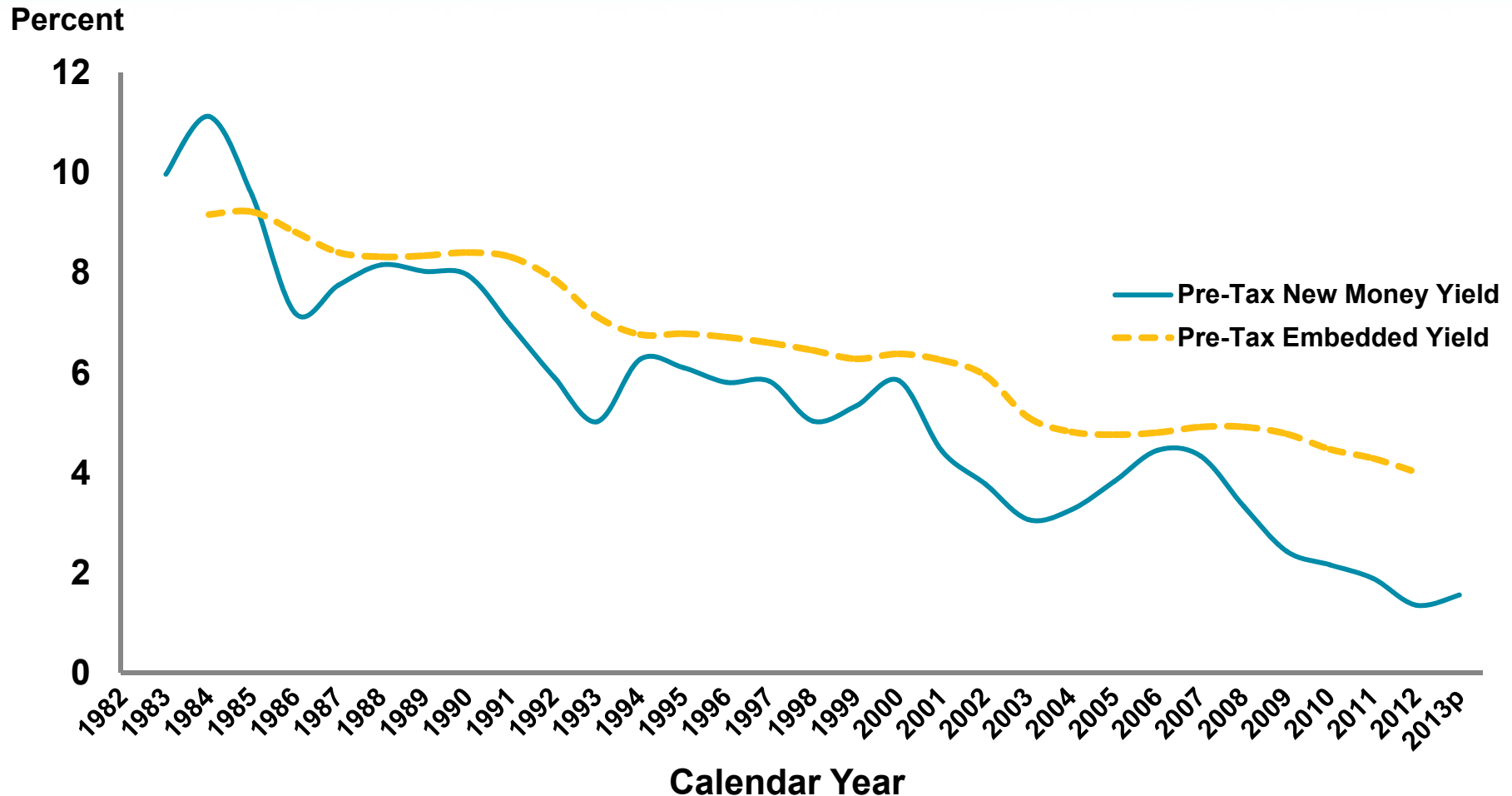


p Preliminary

Sources: 1985–2007, Annual Statement data; 2008–2013p, ISO

Embedded Yields Remained Notably Higher Than New Money Yields

P/C Industry—Annual Yield



p Preliminary

Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments

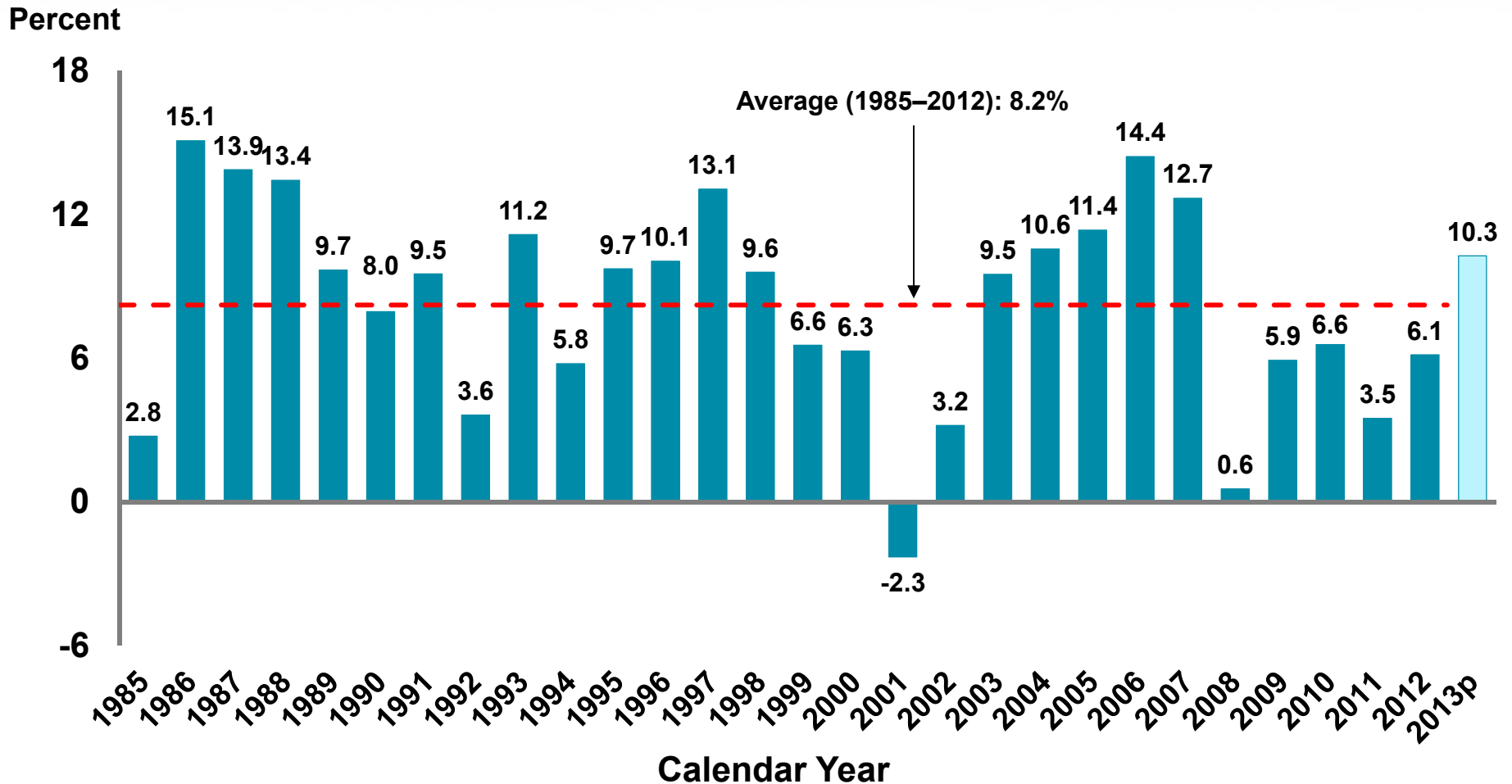
New Money Yield is the pre-tax yield on bonds

Sources: NCCI, *Best's Aggregates & Averages*, Federal Reserve Bank, ValueLine, Treasury Direct, Barron's

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P/C Industry Return on Surplus

Annual After-Tax Return on Surplus Private Carriers



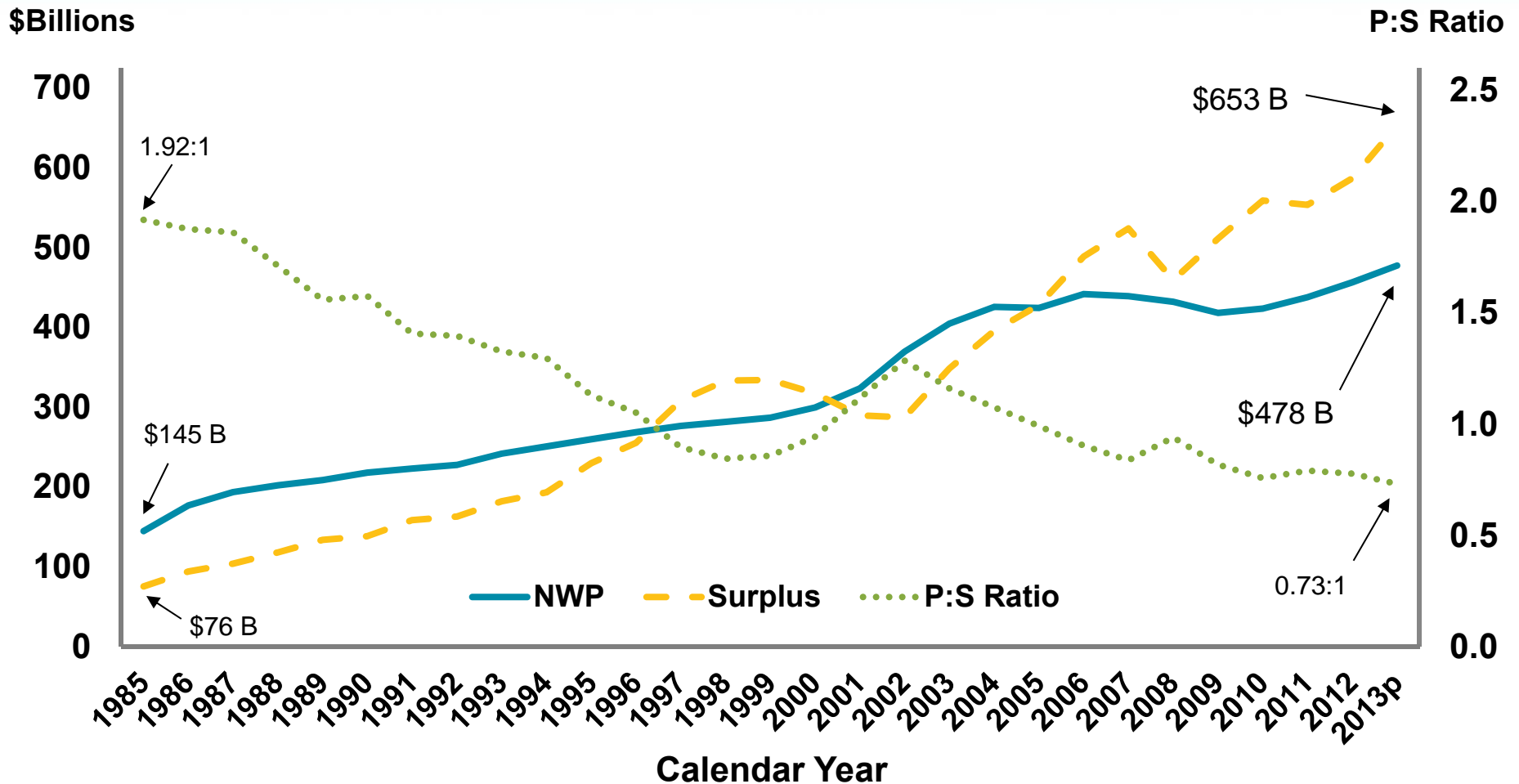
p Preliminary

After-tax return on average surplus, excluding unrealized capital gains

Sources: 1985–2007, Annual Statement data; 2008–2013p, ISO

P/C Industry Premium-to-Surplus Ratio at Historic Low

Private Carriers



p Preliminary

Sources: 1985–2007, Annual Statement data; 2008–2013p, ISO

P/C Industry Contributions to Surplus

Private Carriers

	(\$ Billions)		
	2011	2012	2013p
Underwriting Gains/Losses	(36.2)	(15.4)	15.5
Investment Income	49.2	48.0	47.4
Realized Capital Gains/Losses	7.0	6.2	11.4
Other Income	2.5	2.4	1.5
Unrealized Capital Gains/Losses	(4.4)	18.5	36.1
Federal Taxes	(3.0)	(6.1)	(12.0)
Shareholder Dividends	(25.9)	(23.8)	(28.3)
Contributed Capital	2.3	4.6	3.9
Other Changes to Surplus	3.1	(1.1)	(9.2)
Total	(5.4)	33.3	66.3

p Preliminary

Source: ISO

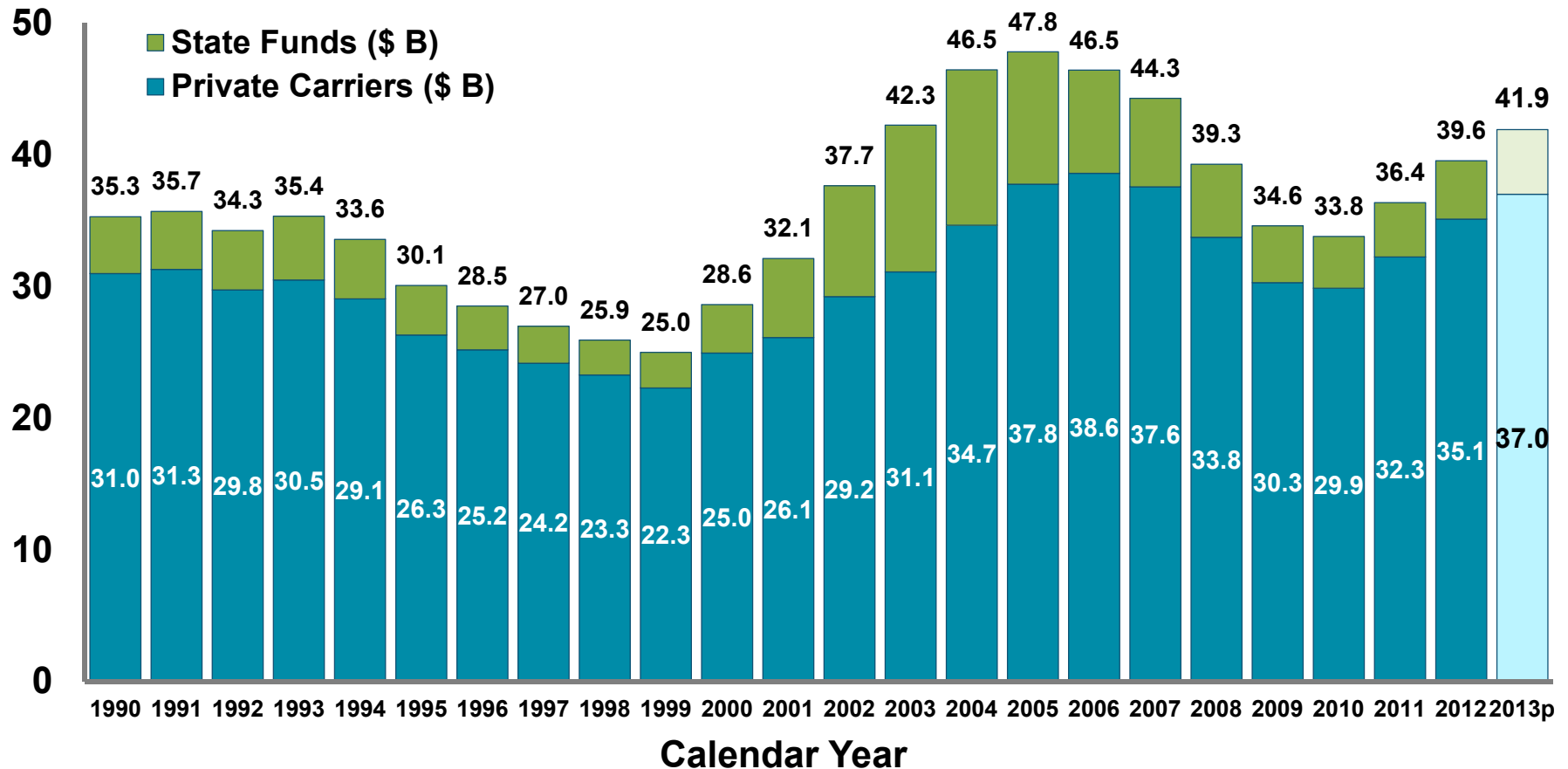
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Workers Compensation Results

Workers Compensation Premium Growth Continued

Net Written Premium

\$Billions



p Preliminary

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year

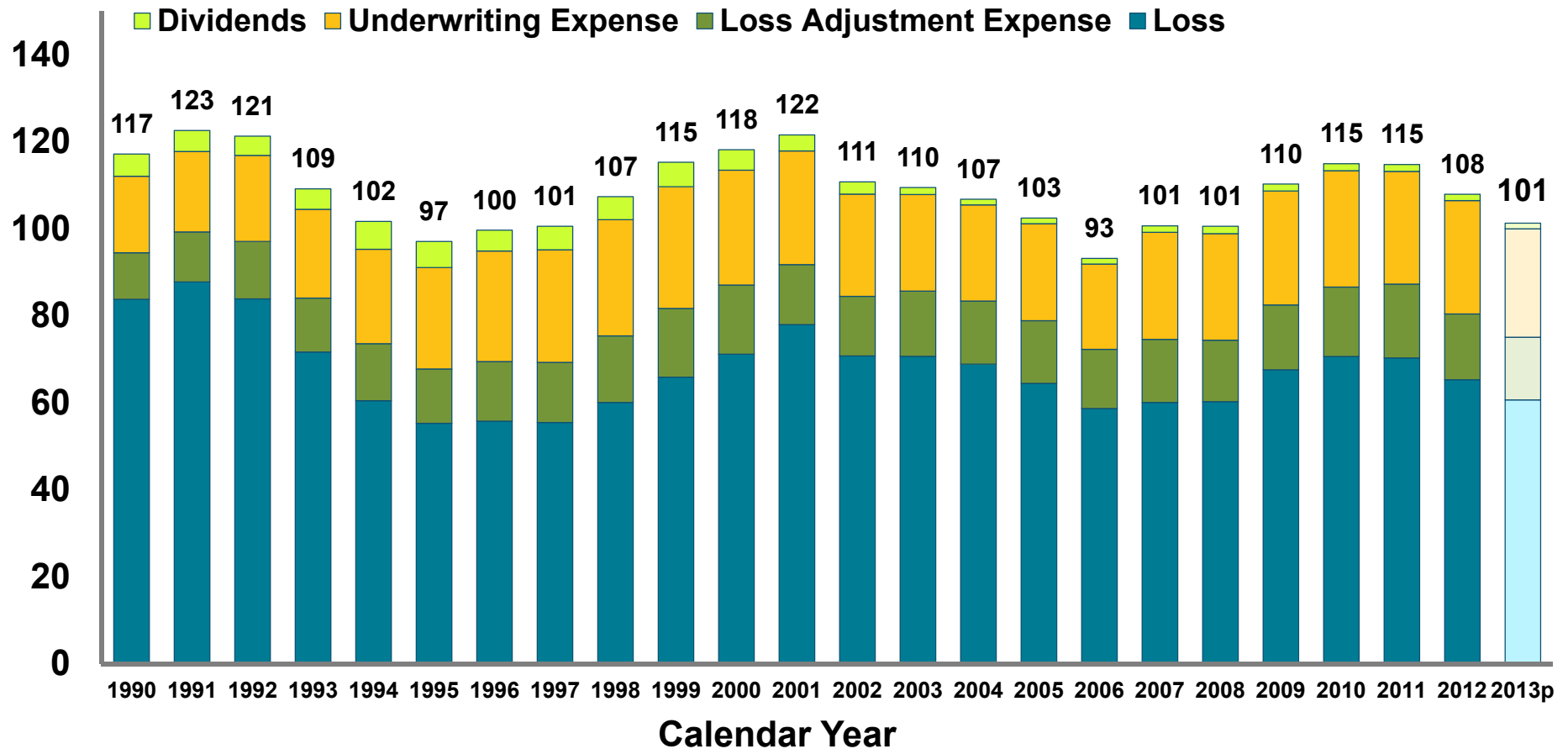
Sources: 1990–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Combined Ratio Improved Again

Private Carriers

Percent

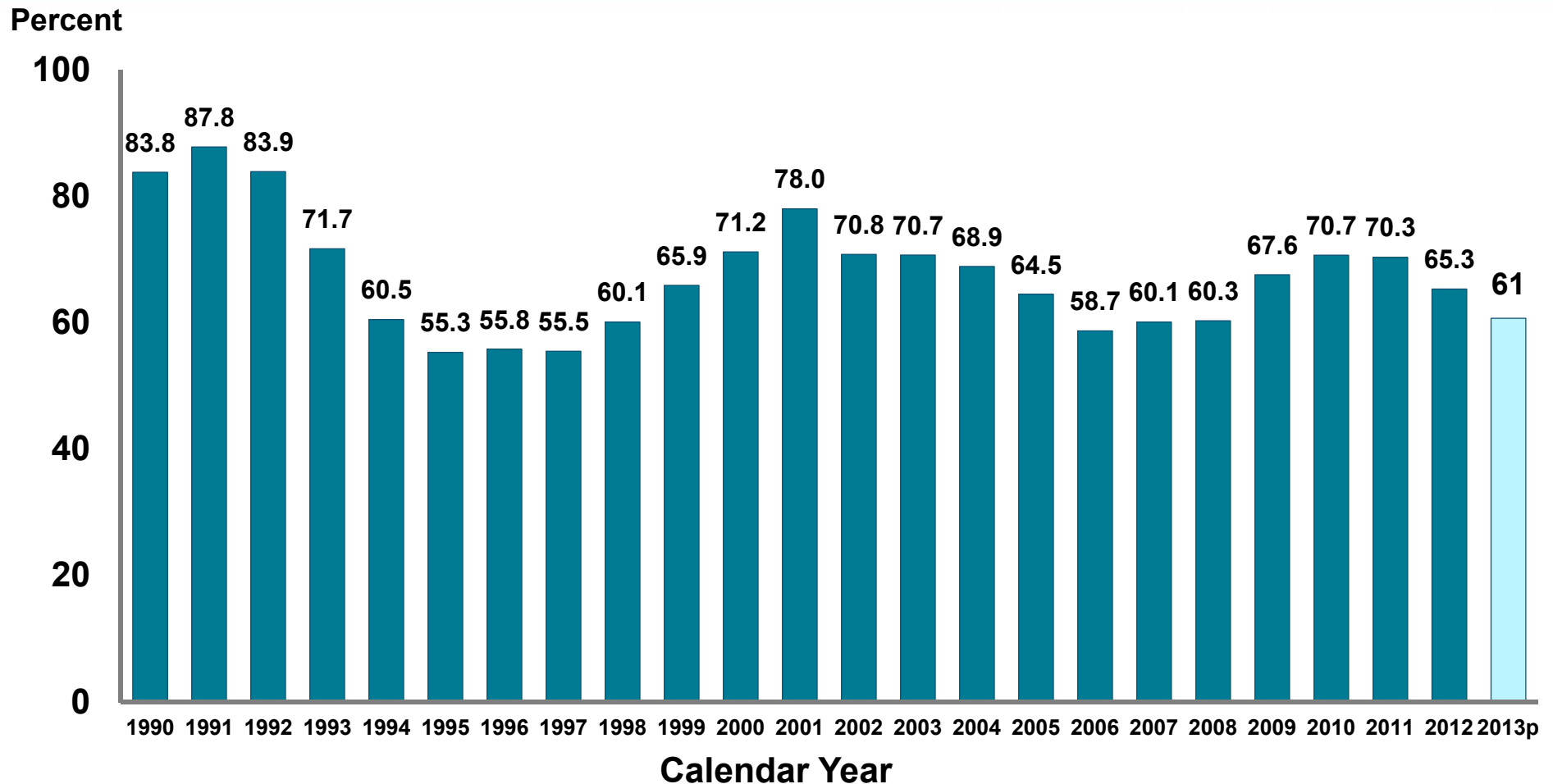


p Preliminary

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

Workers Compensation Calendar Year Loss Ratio

Ratio of Net Incurred Losses to Earned Premium—Private Carriers

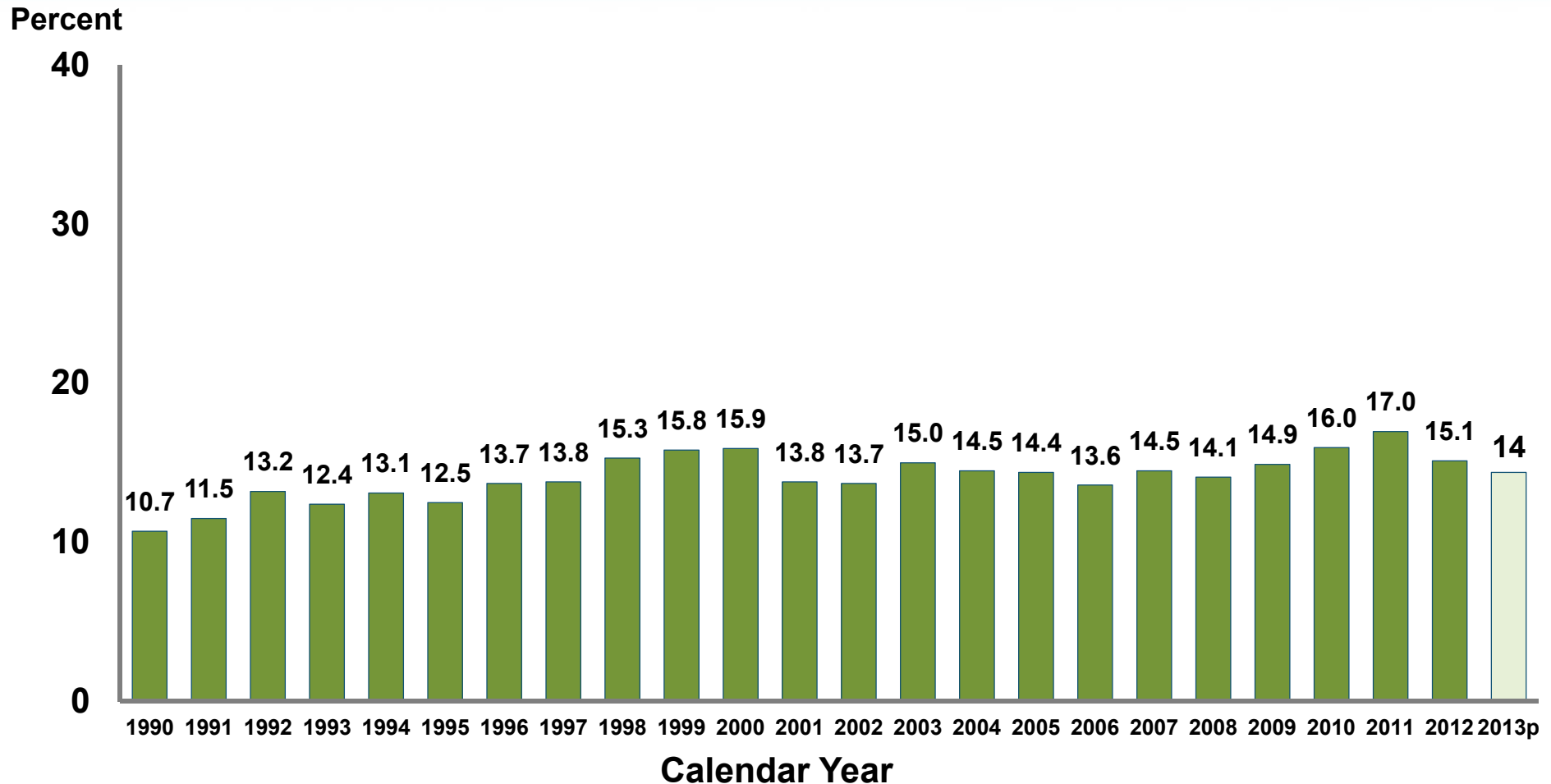


p Preliminary

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

Workers Compensation Calendar Year Loss Adjustment Expense (LAE) Ratio

Ratio of Net Incurred LAE to Earned Premium—Private Carriers



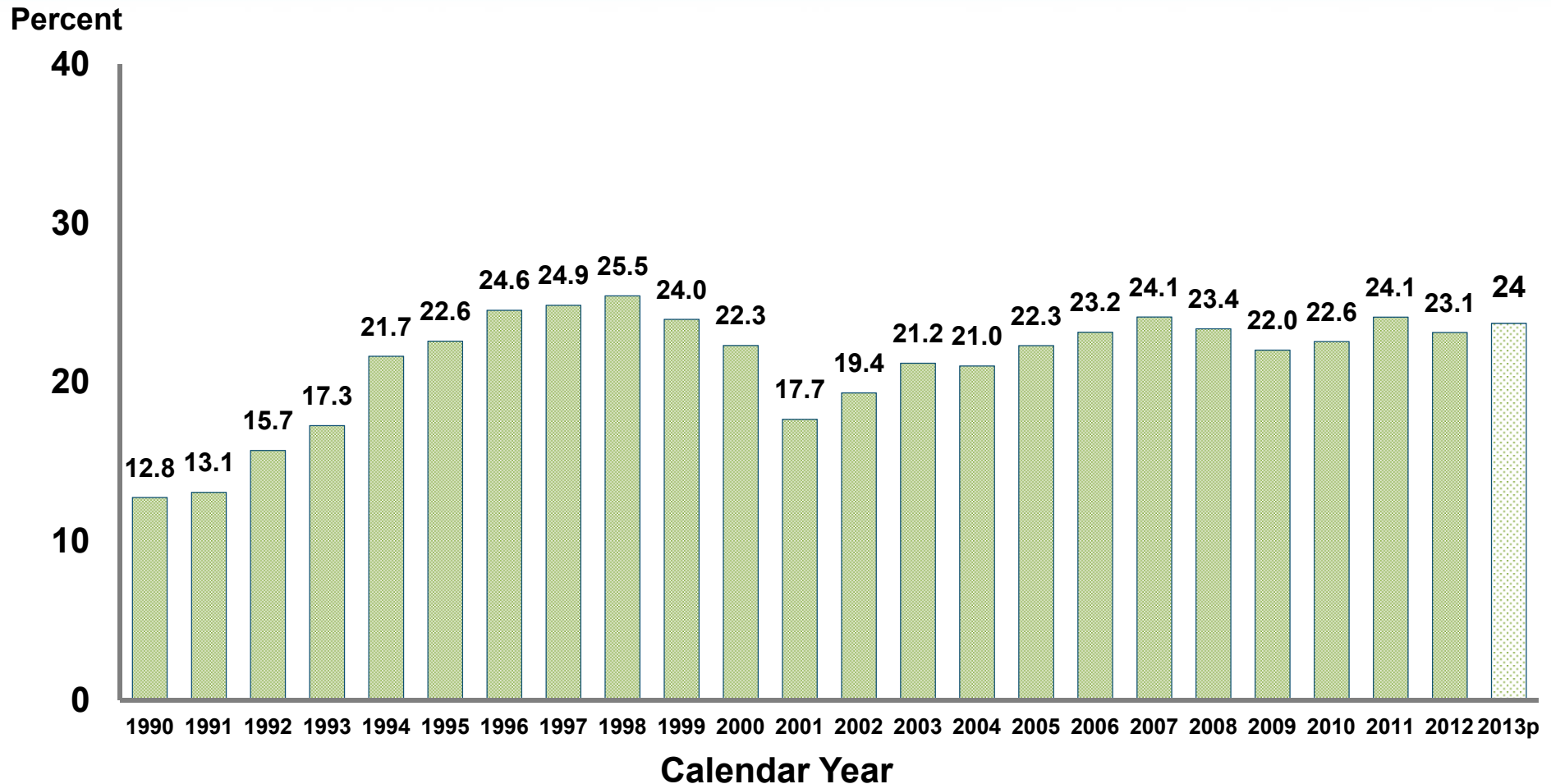
p Preliminary

Ratio of Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Earned Premium

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

Workers Compensation Calendar Year Loss Adjustment Expense to Loss Ratio

Ratio of Net Incurred LAE to Incurred Losses—Private Carriers



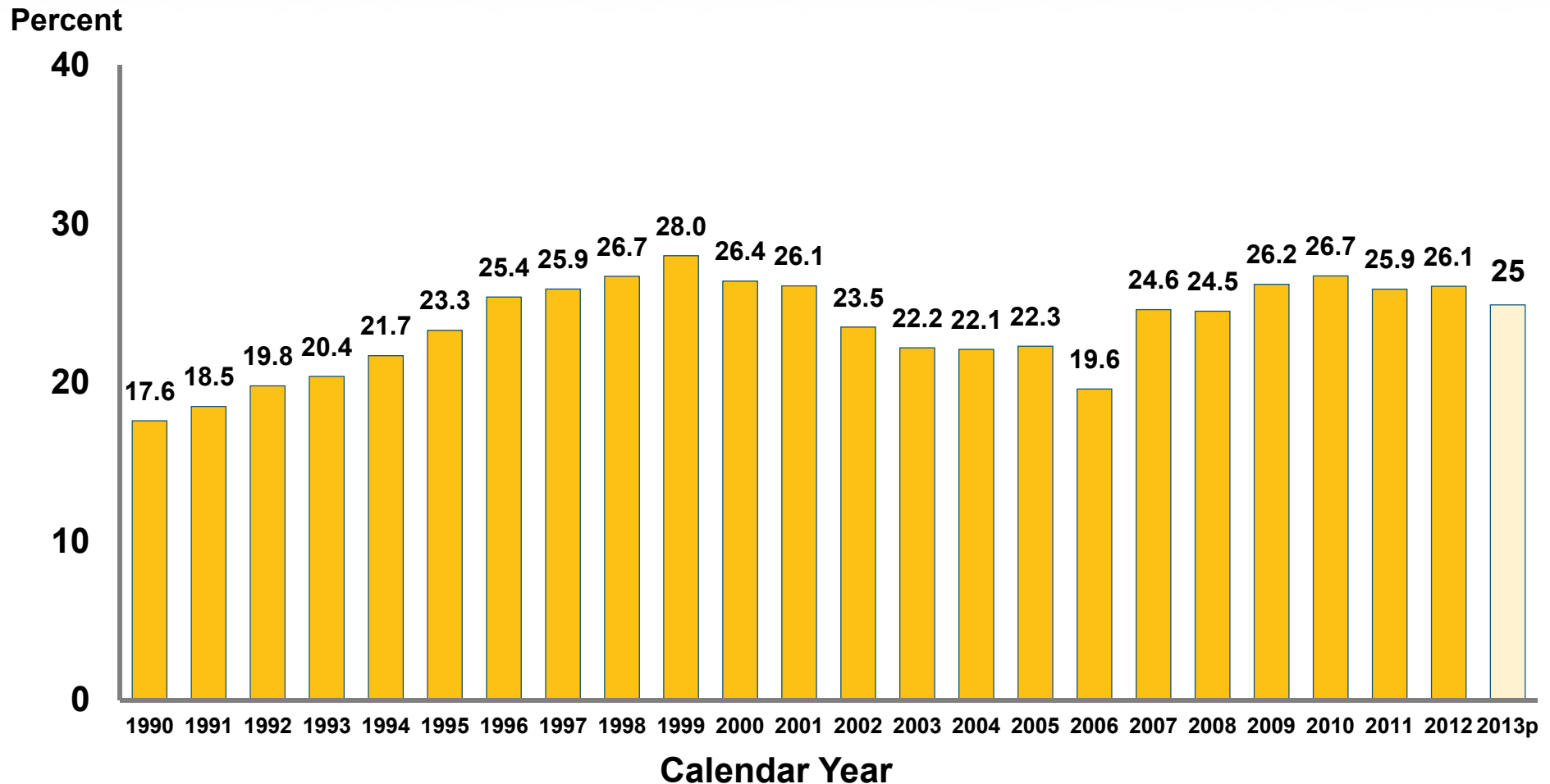
p Preliminary

Ratio of Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Incurred Loss

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

Workers Compensation Calendar Year Underwriting Expense Ratio

Ratio of Net Underwriting Expenses to Written Premium—Private Carriers



p Preliminary

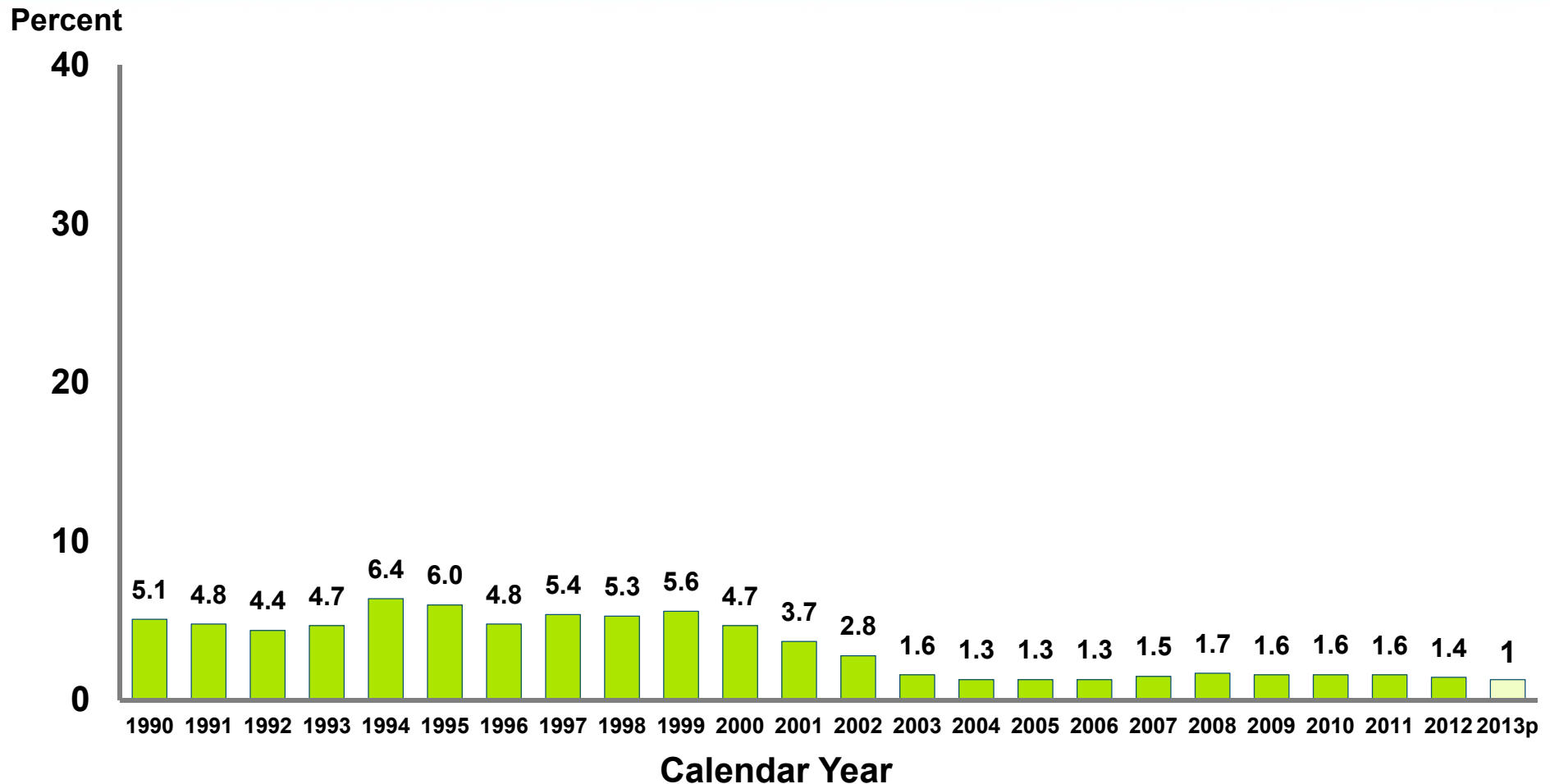
Ratio of Underwriting Expenses (Commission and Brokerage Expense, Taxes, Licenses and Fees, Other Acquisition and General Expenses Incurred) to Written Premium

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Calendar Year Policyholder Dividend Ratio

Ratio of Net Policyholder Dividends to Earned Premium—Private Carriers

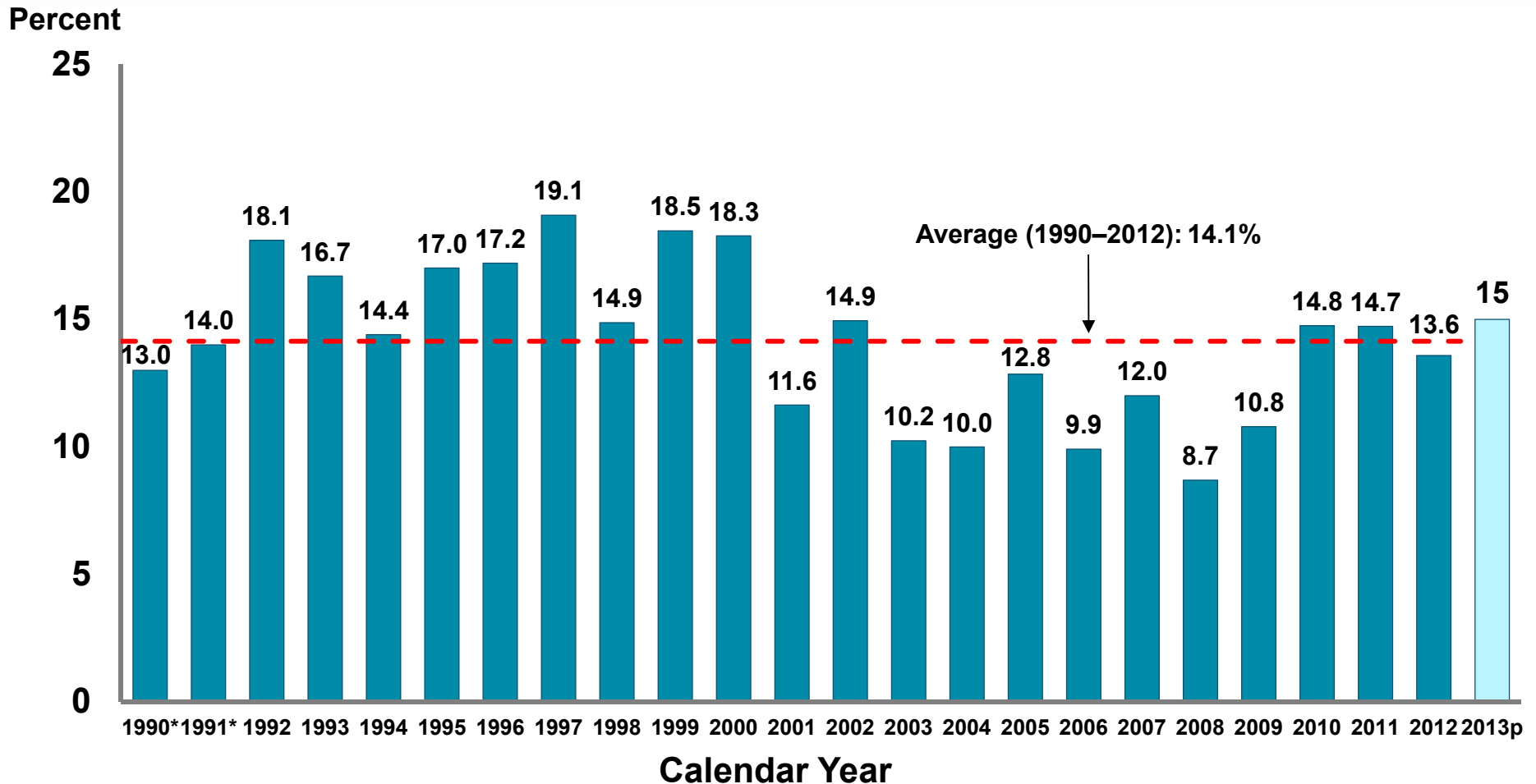


p Preliminary

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

Workers Compensation Investment Gain on Insurance Transactions

Ratio to Net Earned Premium—Private Carriers



p Preliminary

Investment Gain on Insurance Transactions includes Other Income

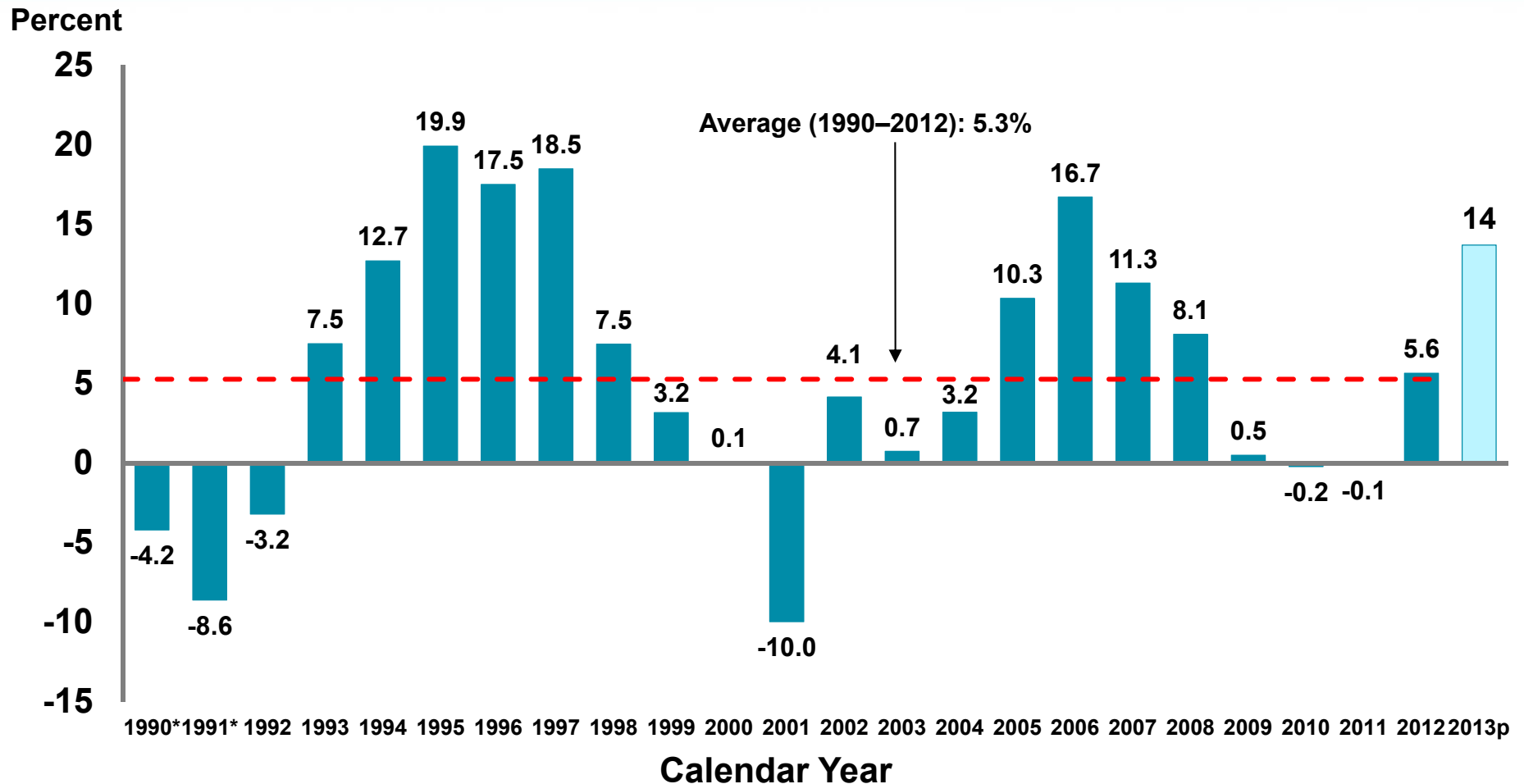
*Adjusted to include realized capital gains to be consistent with 1992 and after

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Operating Gain Rose Sharply

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

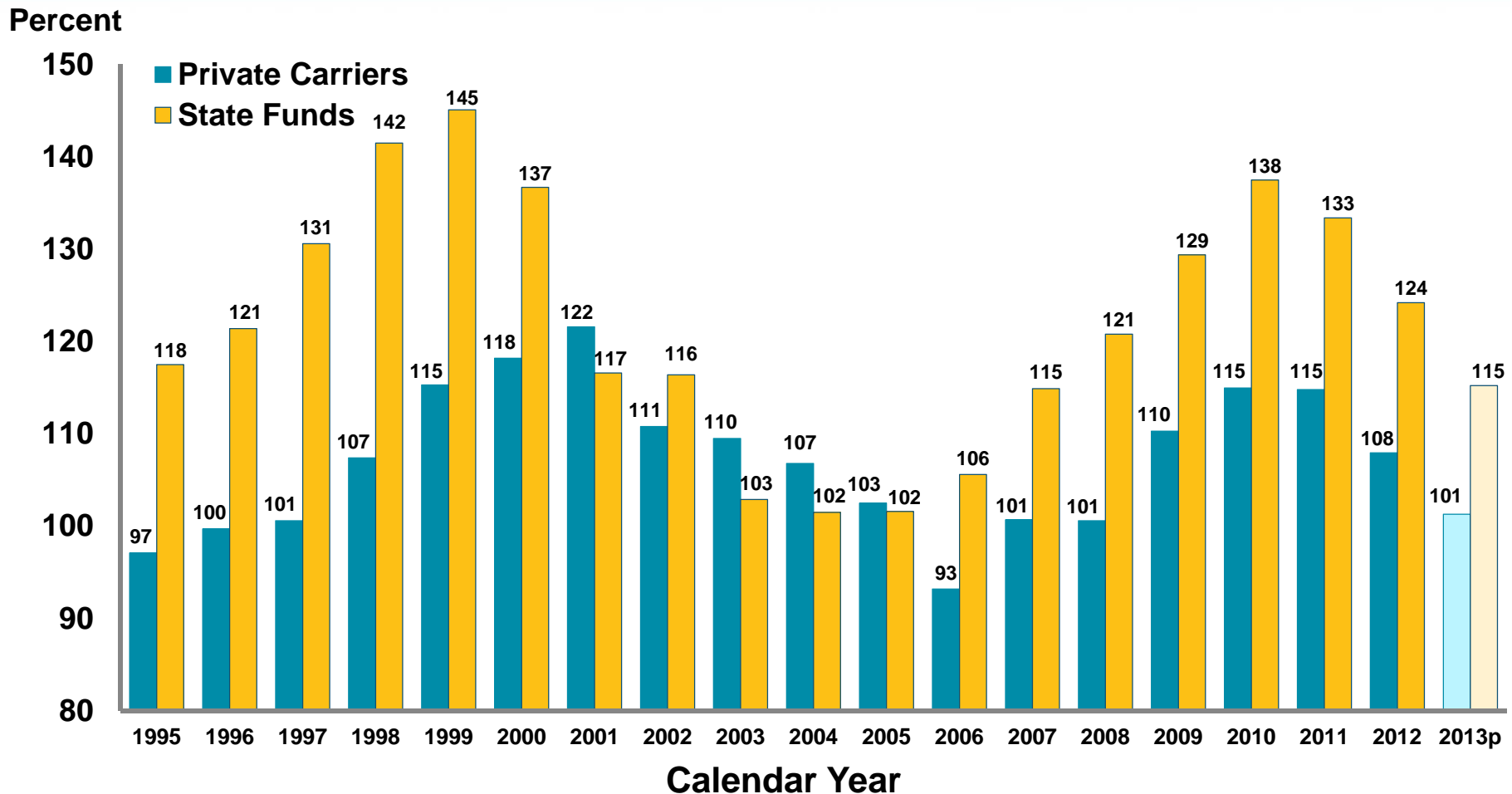
Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)

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

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Calendar Year Net Combined Ratios



p Preliminary

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

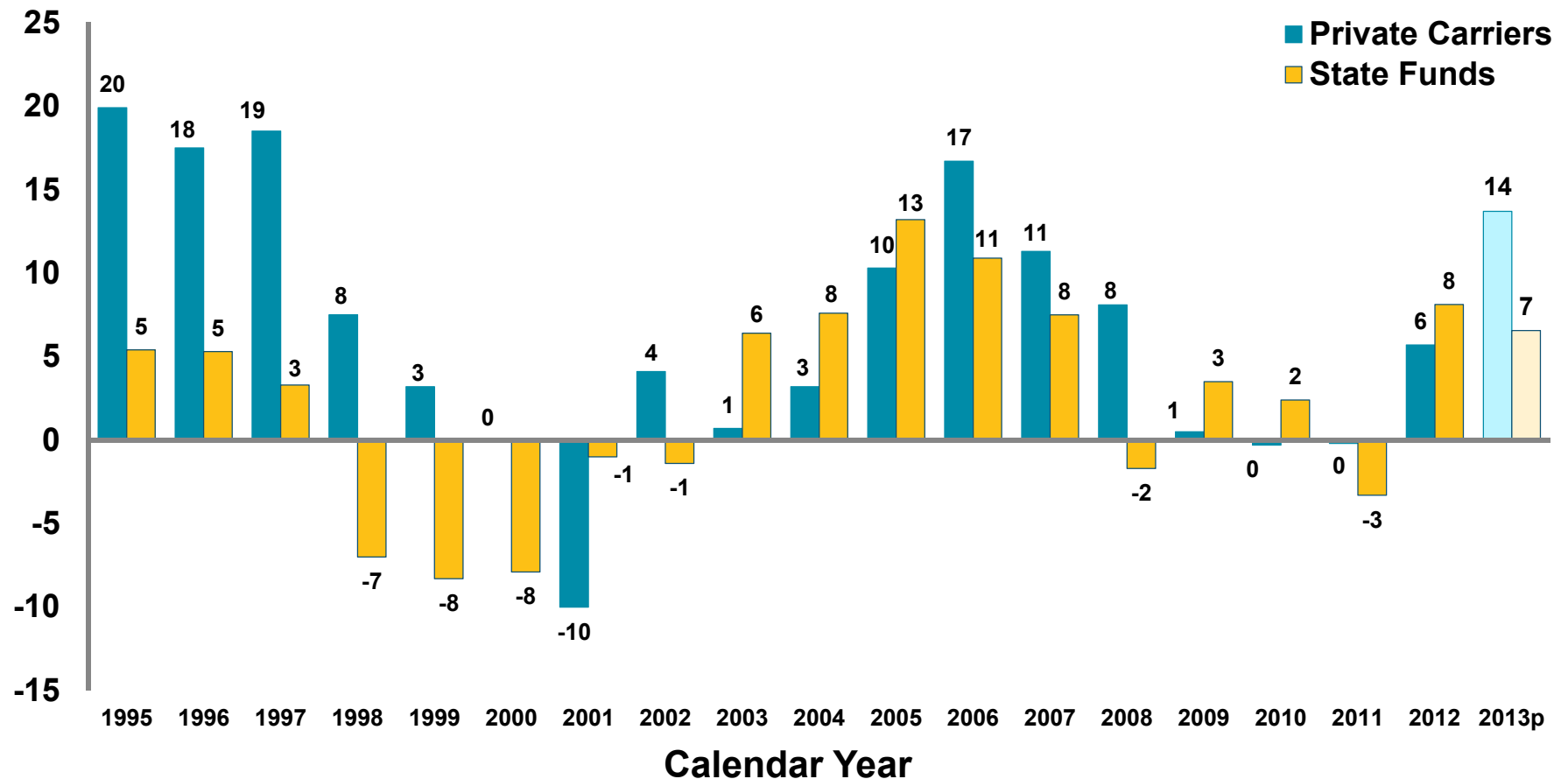
Each calendar year total for state funds includes all funds operating as a state fund in that year

Sources: 1995–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Pre-Tax Operating Gain Ratios

Percent



p Preliminary

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year

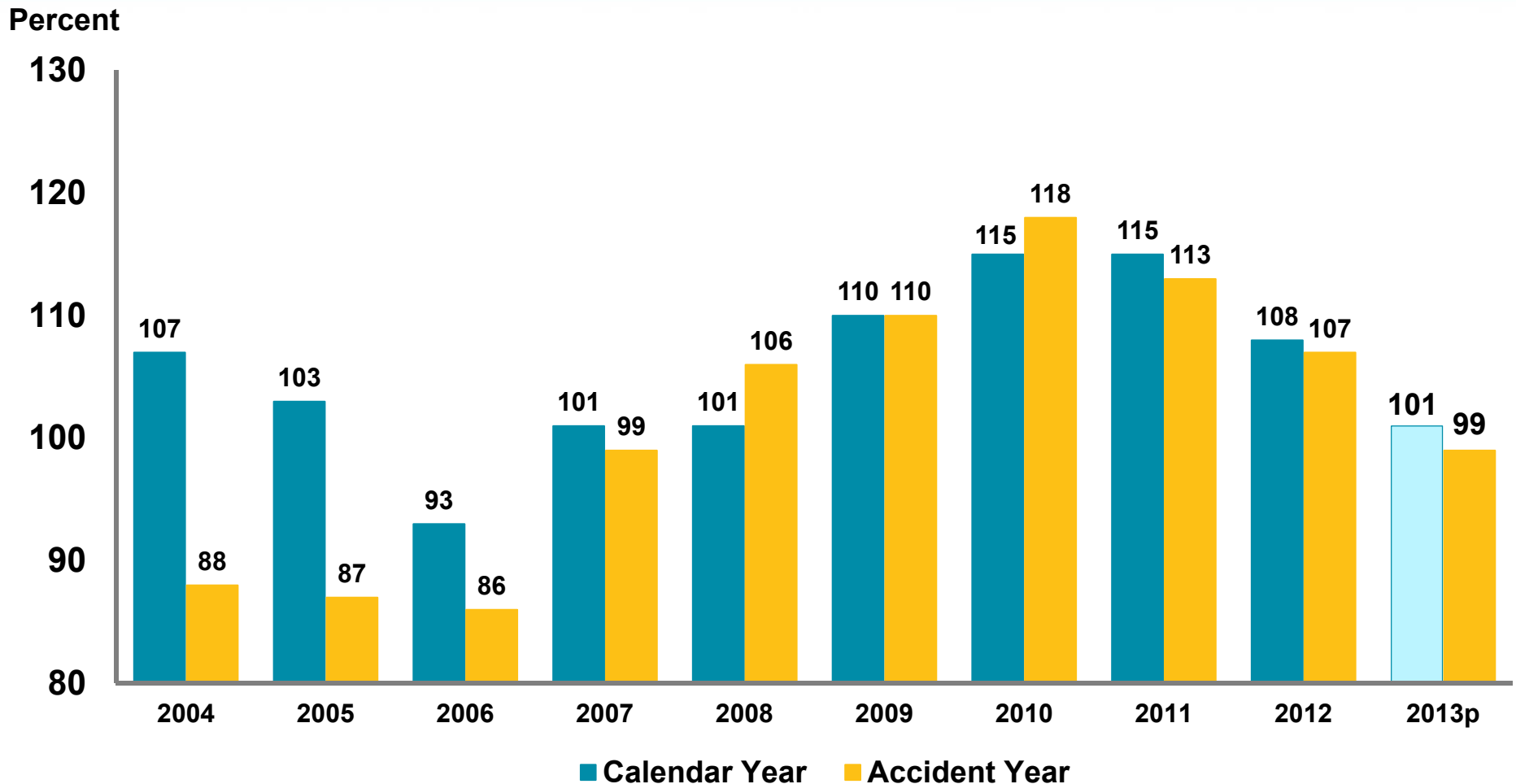
Sources: 1995–2012, Annual Statement data; 2013p, NCCI

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Workers Compensation Accident Year Results and Reserve Estimates

Workers Compensation Accident Year Net Combined Ratios

Calendar Year vs. Ultimate Accident Year—Private Carriers



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Accident Year data is evaluated as of 12/31/2013 and developed to ultimate

Sources: Calendar Years 2004–2012, Annual Statement data;

Calendar Year 2013p and Ultimate Accident Years 2004–2013, NCCI

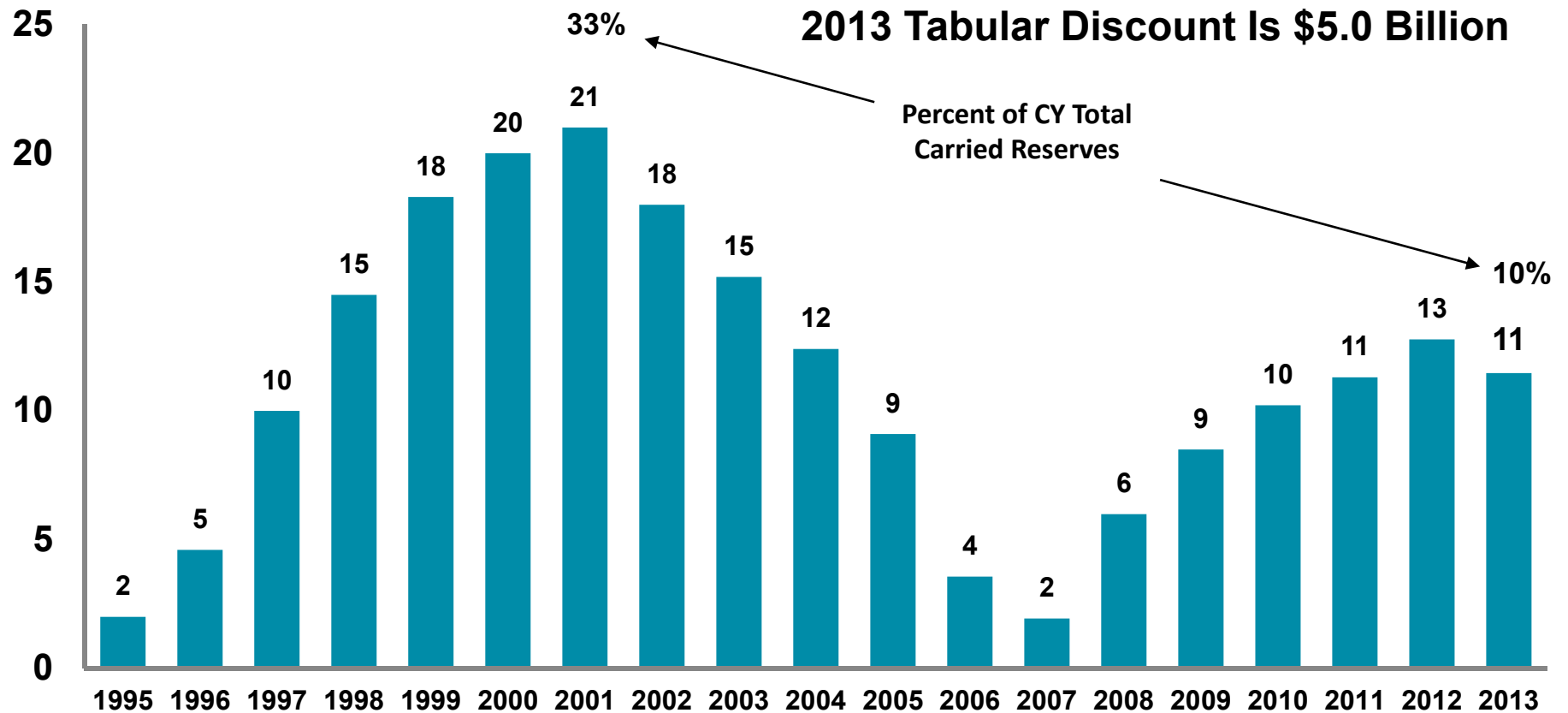
Includes dividends to policyholders

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Workers Compensation Loss and LAE Net Reserve Deficiencies

Private Carriers

\$Billions



Year-End Valuation

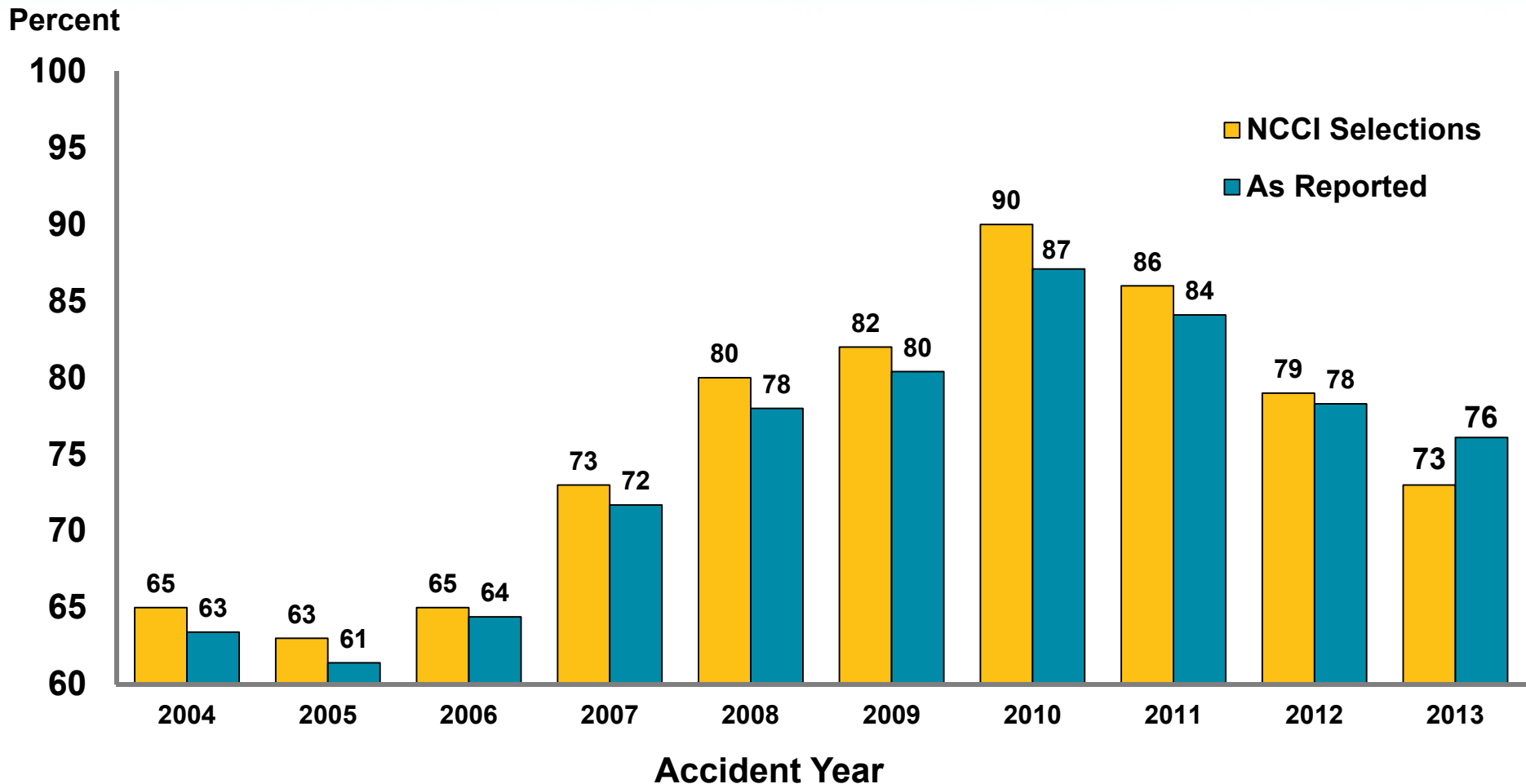
Loss and LAE figures are based on NAIC Annual Statement data for each year end valuation date and NCCI latest selections
Considers all reserve discounts as deficiencies

Source: NCCI

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Workers Compensation Accident Year Net Loss and LAE Ratios

NCCI Ultimate Selections vs. As Reported—Private Carriers



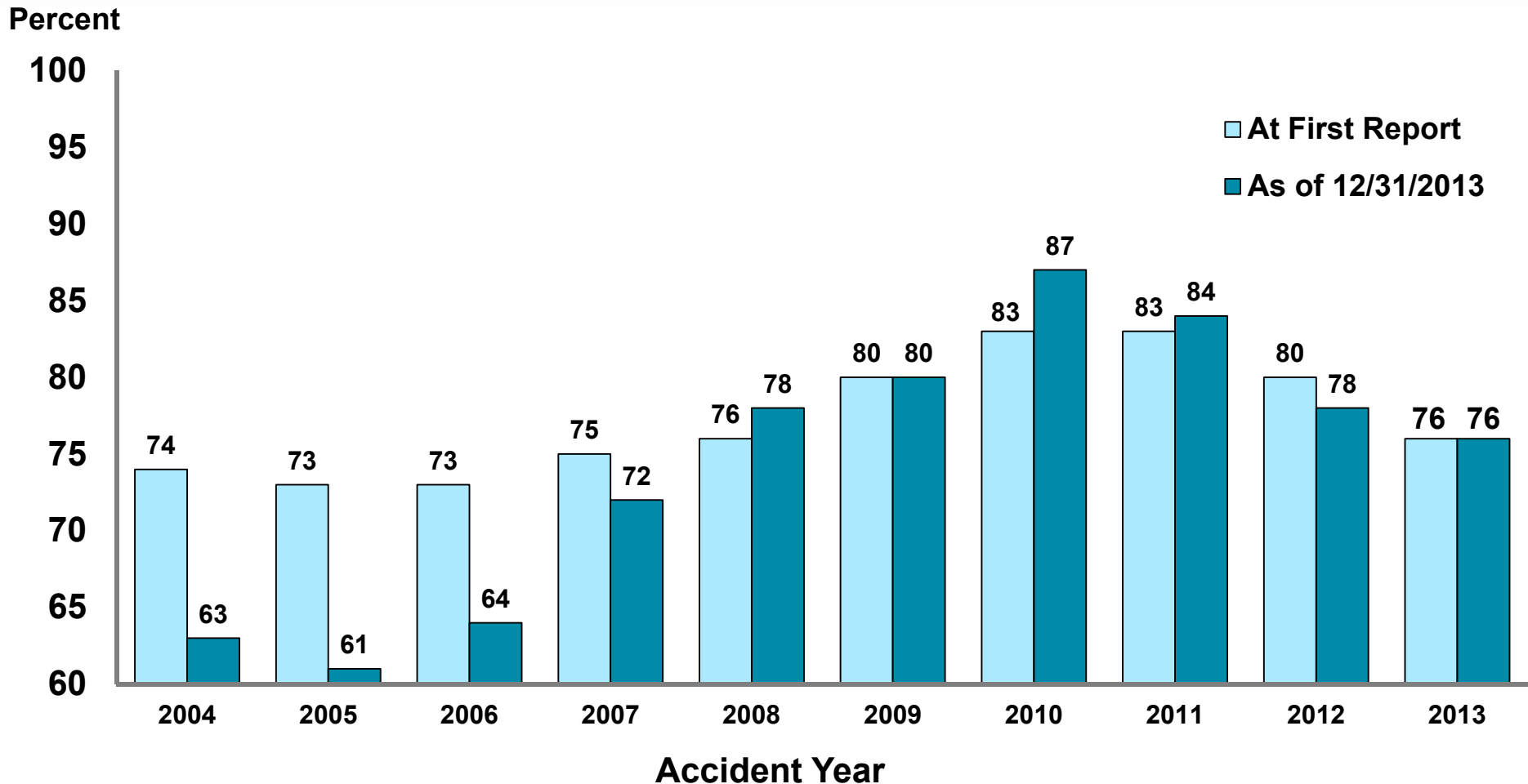
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

Sources: As Reported, Annual Statement Schedule P, Part 1D data as of 12/31/2013 by private carriers
NCCI Selections, NCCI Reserve Analysis

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Workers Compensation Accident Year Net Loss and LAE Ratios

As Reported—Private Carriers



As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

Source: Annual Statement Schedule P, Part 1D data as reported by private carriers

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Workers Compensation Premium Drivers

Workers Compensation Written Premium Change

Written Premium Change From 2012 to 2013

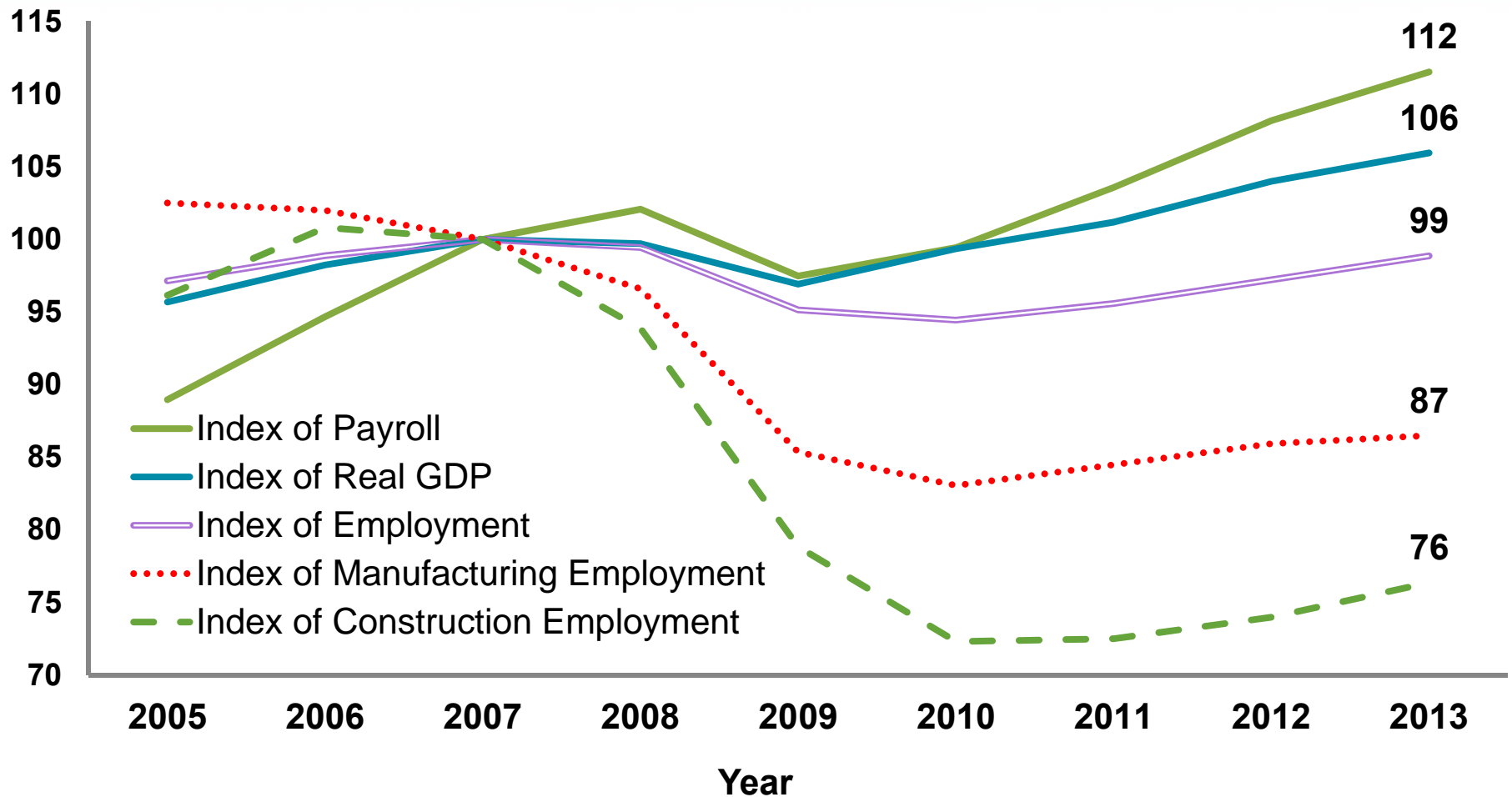
Net Written Premium—Countrywide	+ 5.4%
Direct Written Premium (DWP)—Countrywide	+ 7.8%
Direct Written Premium (DWP)—NCCI States	+ 7.3%
Components of DWP Change for NCCI States:	
Change in Carrier Estimated Payroll	+ 4.7%
Change in Bureau Loss Costs and Mix	– 0.3%
Change in Carrier Discounting	+ 2.3%
Impact of State Fund Conversion to Private Carrier	+ 1.0%
Change in Other Factors	– 0.5%
Combined Effect:	+ 7.3%

Sources: Countrywide: Annual Statement data, Private Carriers
NCCI States: Annual Statement Statutory Page 14, Private Carriers, NCCI's ratemaking states
Components: NCCI's policy data

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Employment Nears Prerecession Levels

Index: 2007 = 100

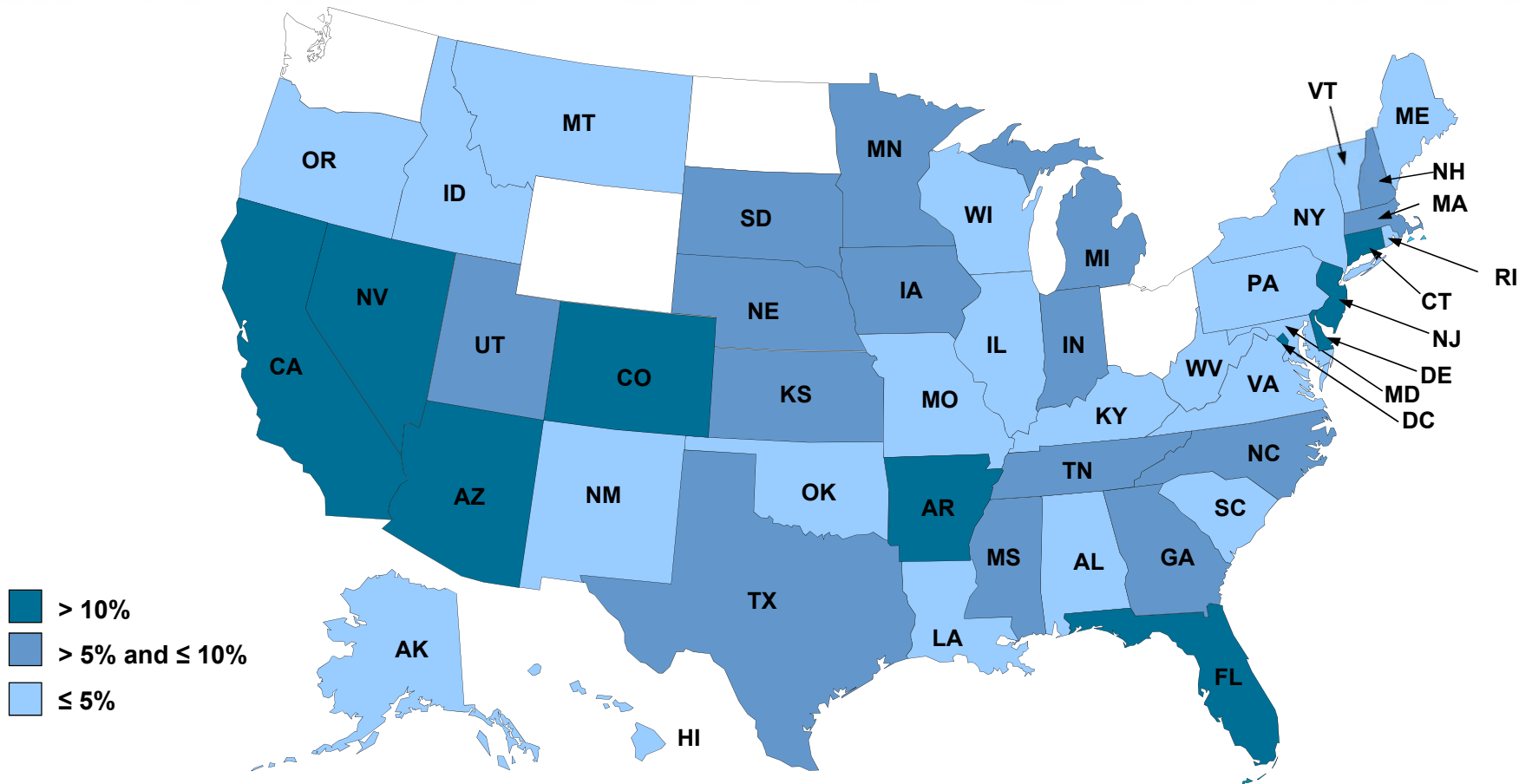


Sources: US Bureau of Labor Statistics (BLS); Bureau of Economic Analysis (BEA)

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2013 Workers Compensation Direct Written Premium Growth by State

Private Carriers



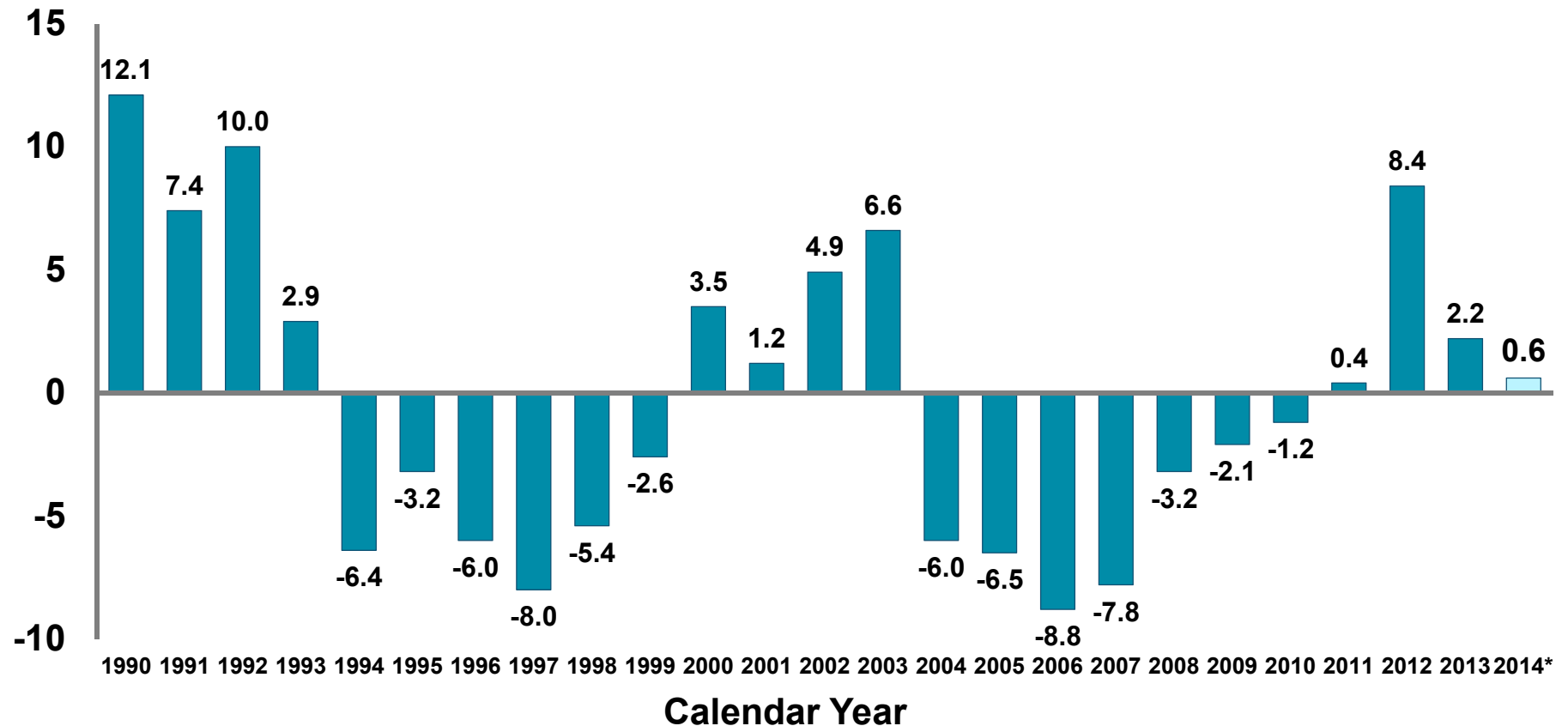
Source: 2013, 2012, Annual Statement data, Exhibit of Premiums and Losses (Statutory Page 14)

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Workers Compensation Approved Changes in Bureau Rates/Loss Costs

All States

Percent
Change



*States approved through 4/8/2014

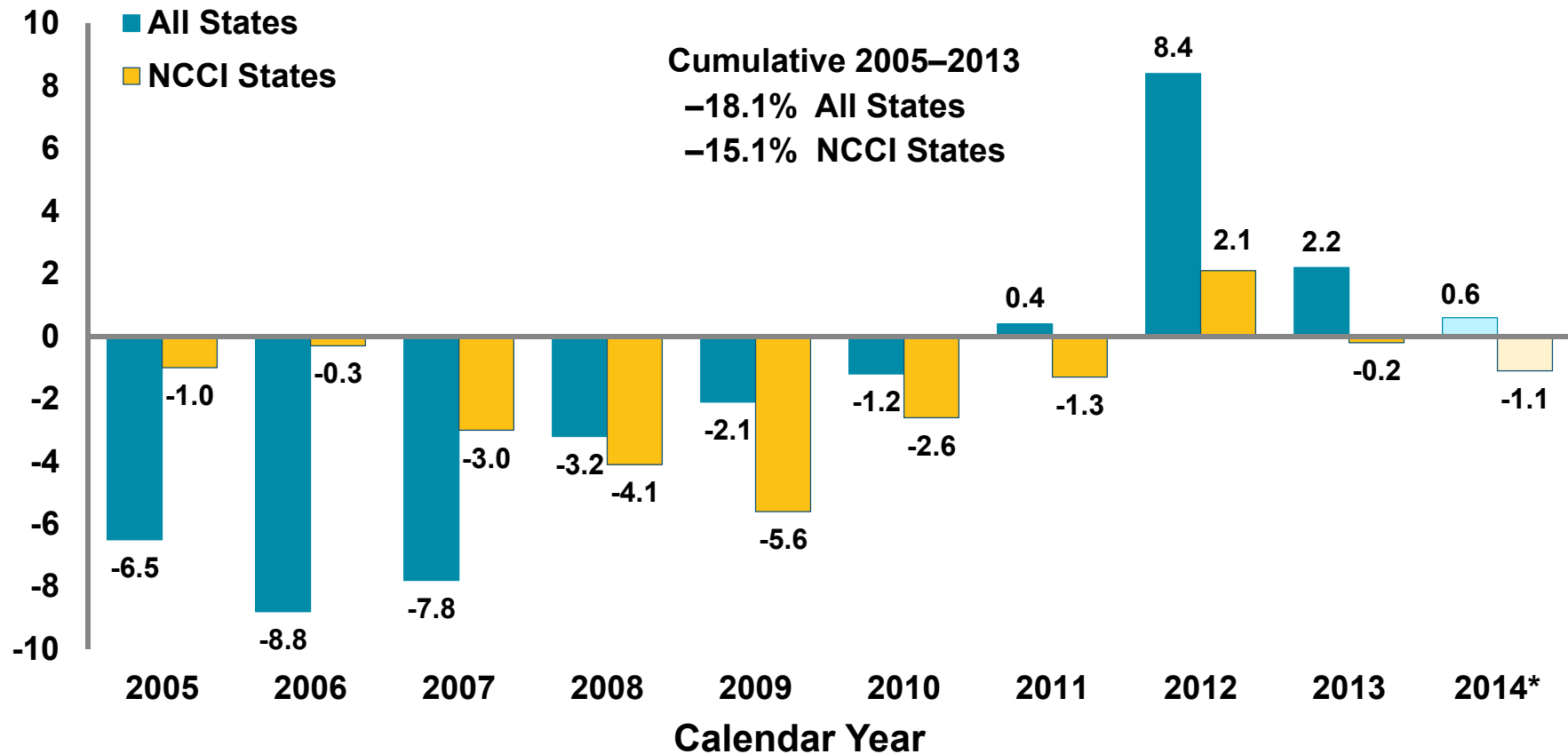
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization, relative to the previously filed rates

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Workers Compensation Approved Changes in Bureau Rates/Loss Costs

All States vs. NCCI States

Percent
Change



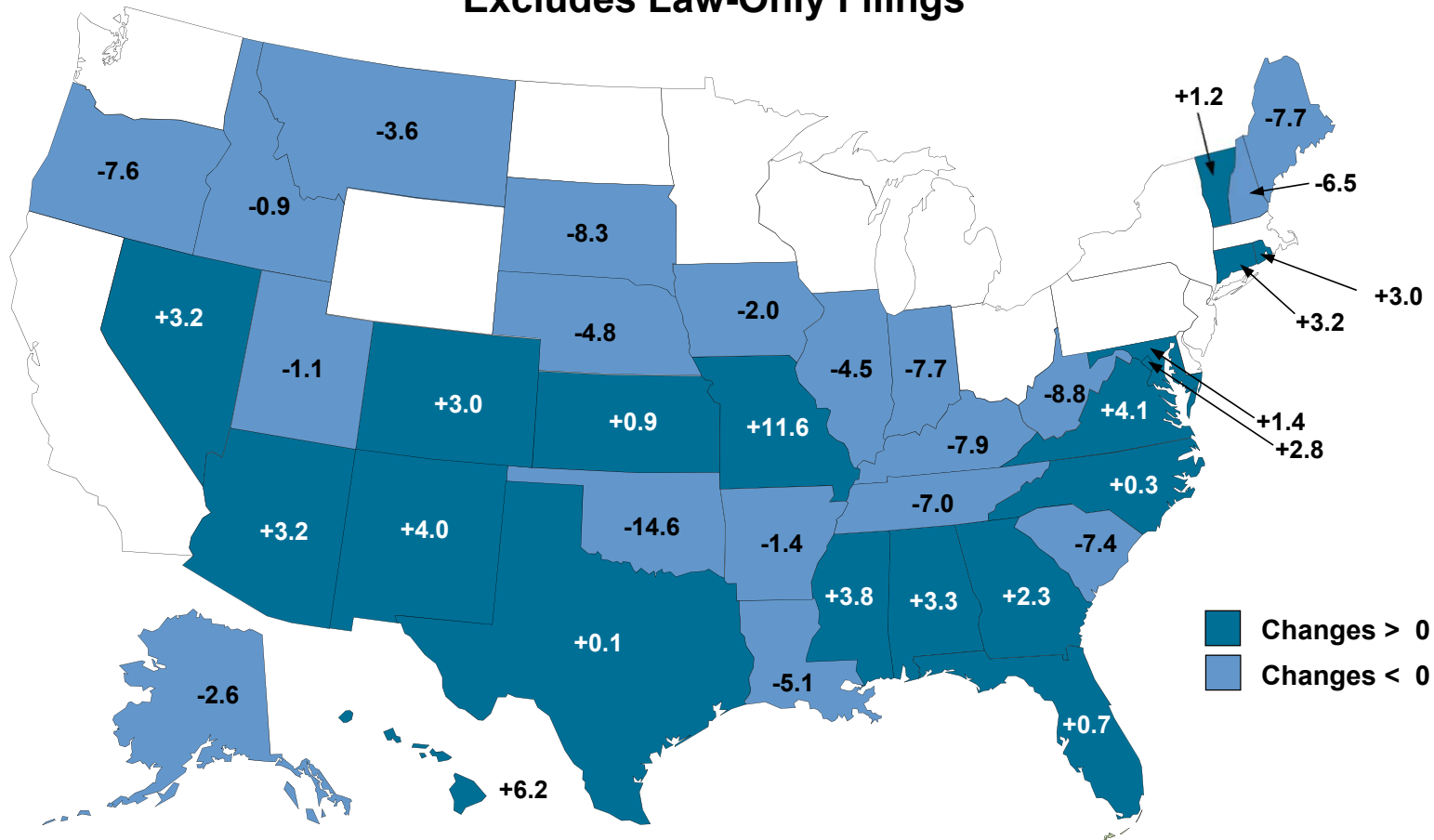
*States approved through 4/8/2014

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

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Current NCCI Voluntary Market Rate/Loss Cost Changes

Approved or Pending Rate/Loss Cost Changes
Excludes Law-Only Filings



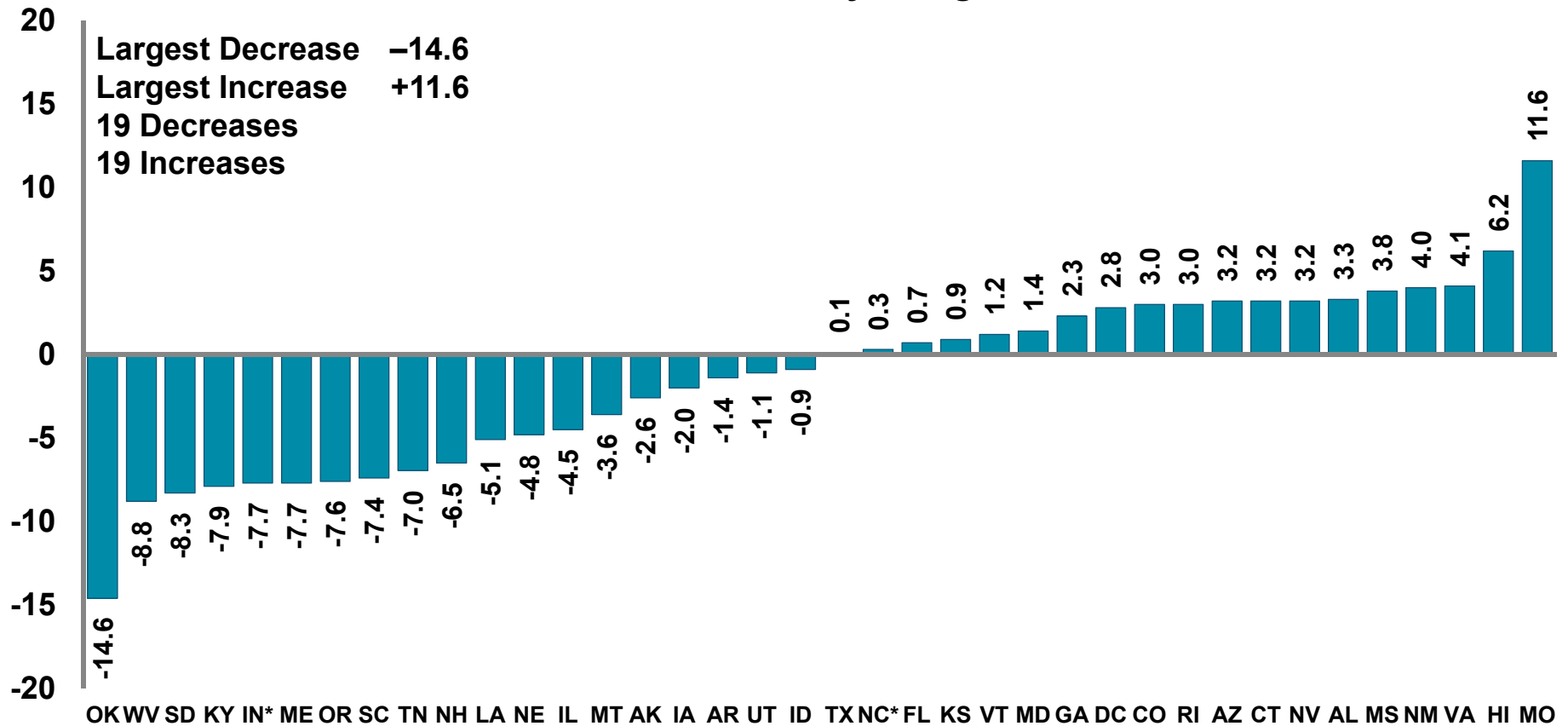
States approved or pending as of 4/8/2014

IN and NC filed in cooperation with state rating bureau

Current NCCI Voluntary Market Rate/Loss Cost Changes

Approved or Pending Rate/Loss Cost Changes
Excludes Law-Only Filings

Percent
Change



States approved or pending as of 4/8/2014

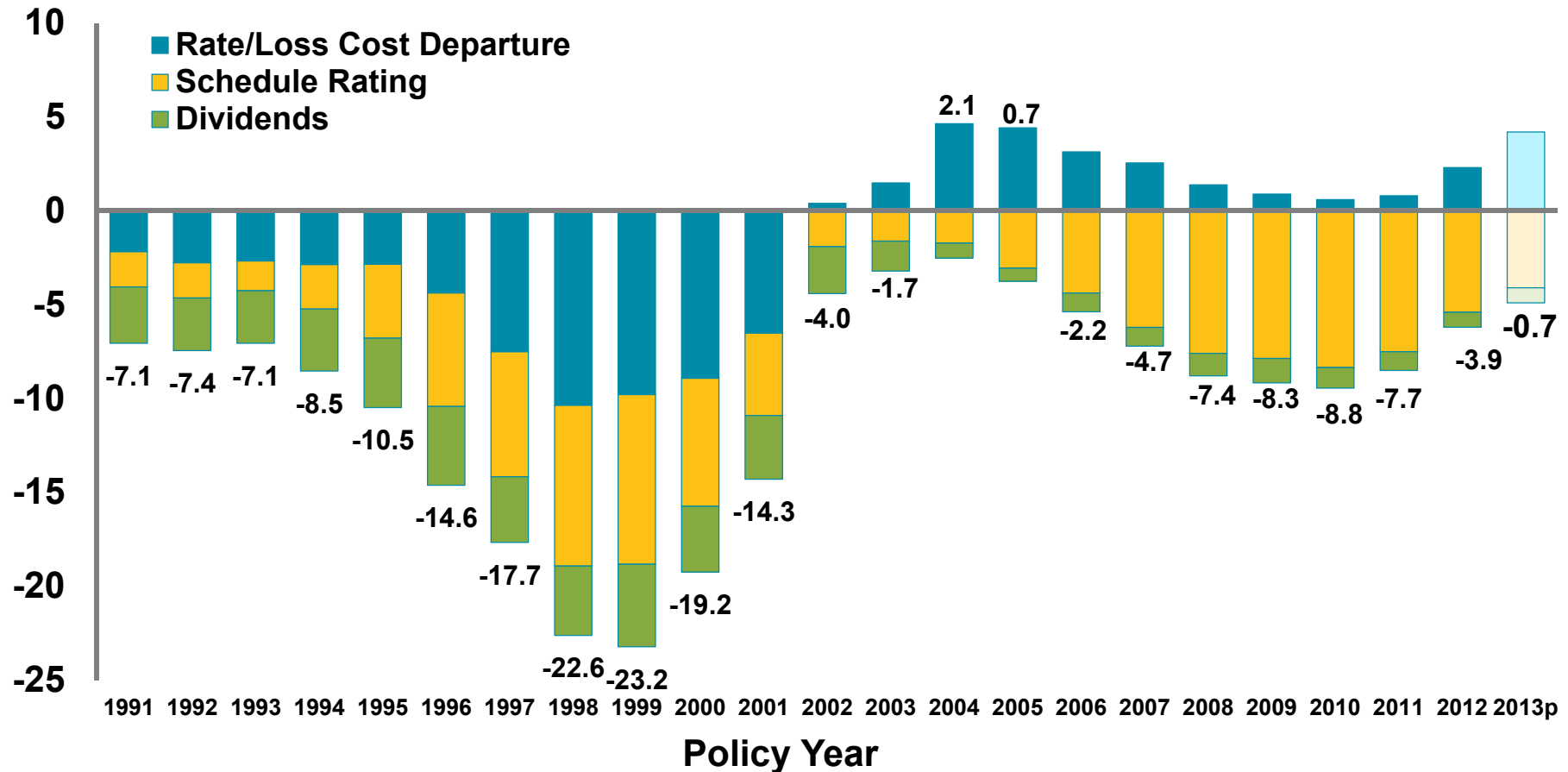
*IN and NC filed in cooperation with state rating bureau

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Workers Compensation Impact of Discounting on Premium

NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

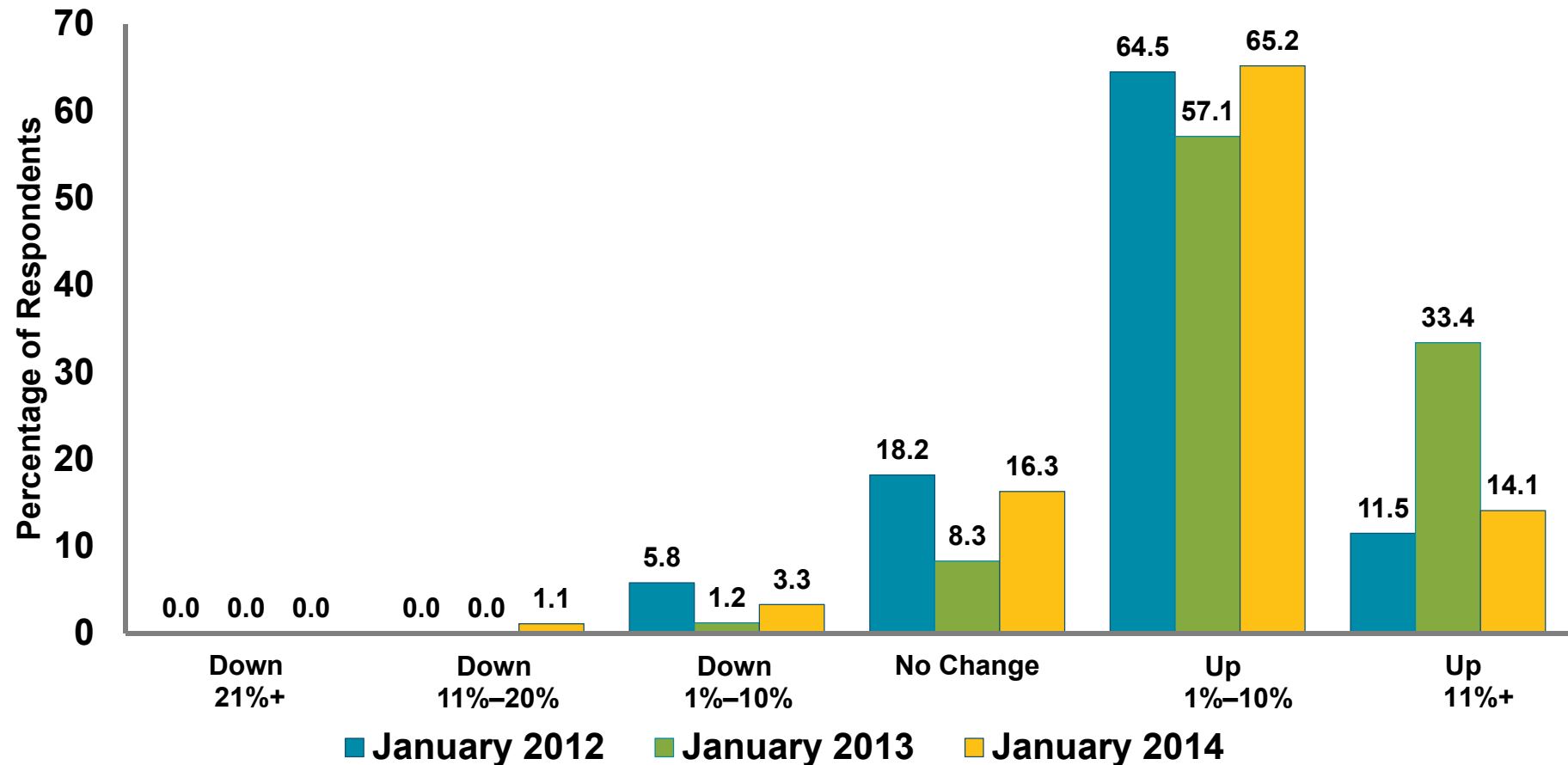
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2013 for the states where NCCI provides ratemaking services excluding TX

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Goldman Sachs Survey Indicates Price Increases Are Moderating

Agent Responses on Workers Compensation Rates on Renewals vs. 12 Months Prior

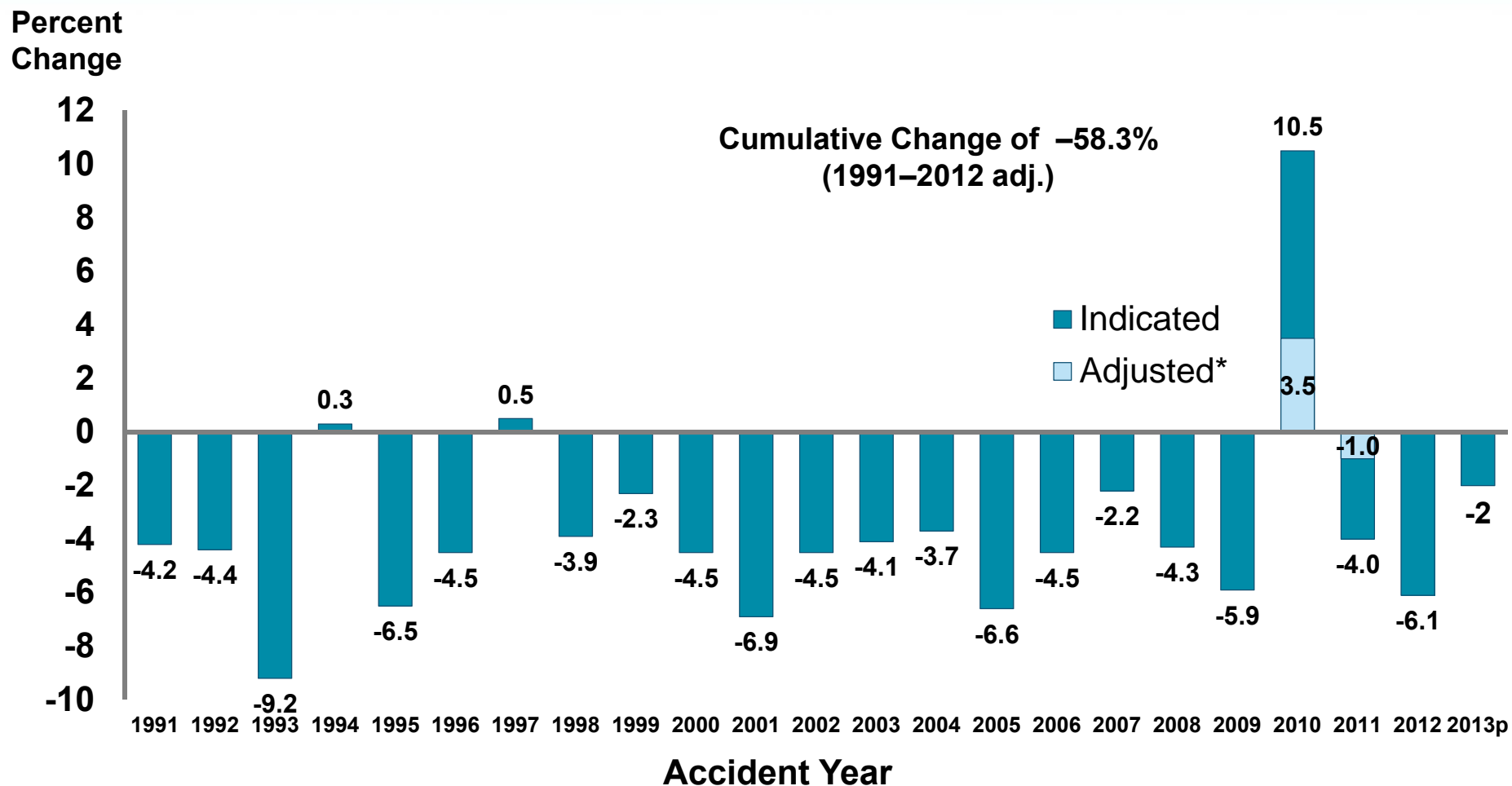


Source: Goldman Sachs Research, Proprietary Survey, "1H2014 P&C Pricing Survey"
(Exhibit 6, Workers' Compensation, Percentage of Respondents)

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Workers Compensation Loss Drivers

Workers Compensation Lost-Time Claim Frequency Downtrend Continues



*Adjustments primarily due to significant changes in audit activity

2013p: Preliminary based on data valued as of 12/31/2013

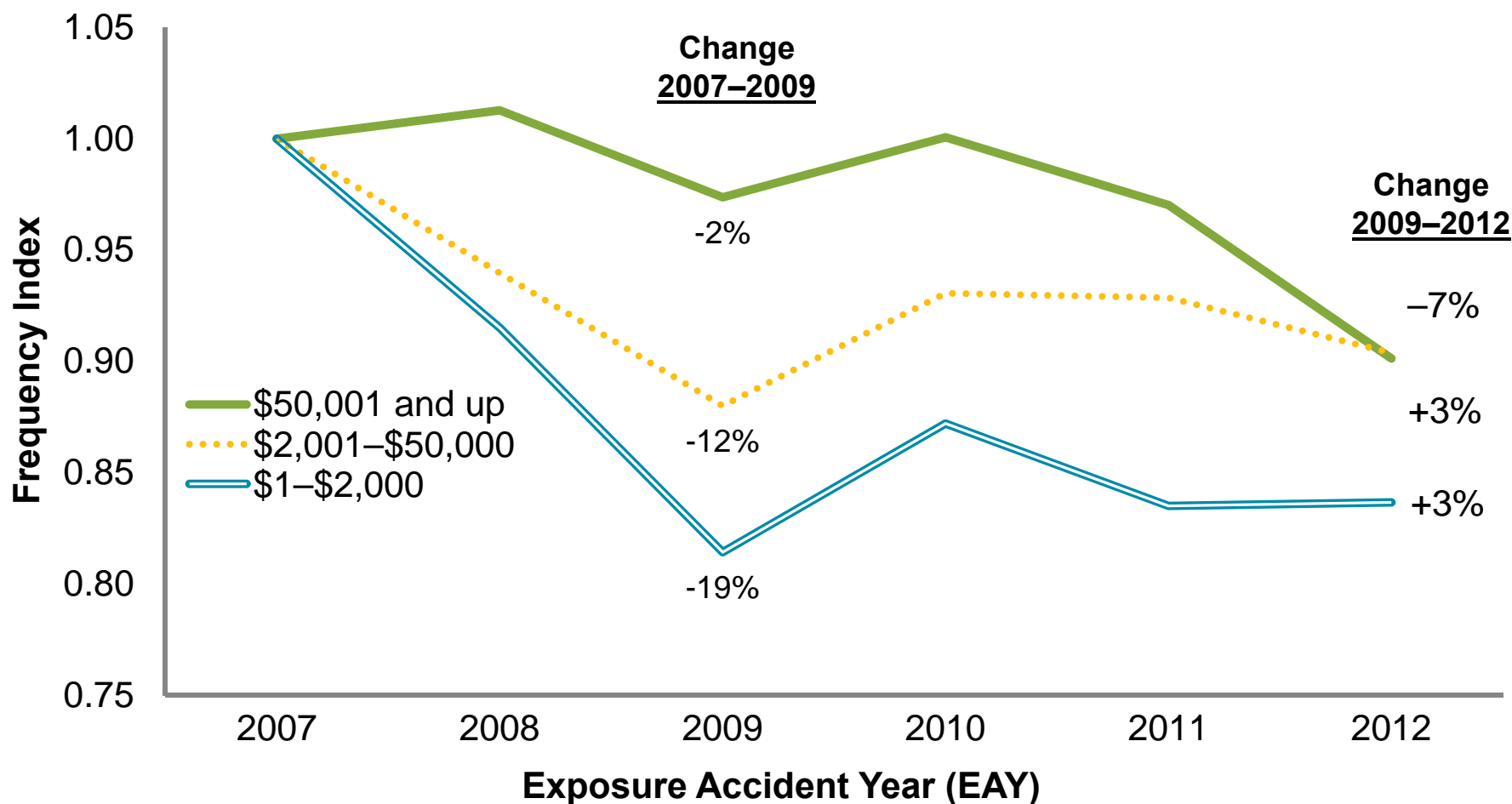
1991–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies

Average frequency for the states where NCCI provides ratemaking services, excluding WV; including state funds

Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

Workers Compensation Lost-Time Claim Frequency by Size of Total Loss

Indexed to 2007



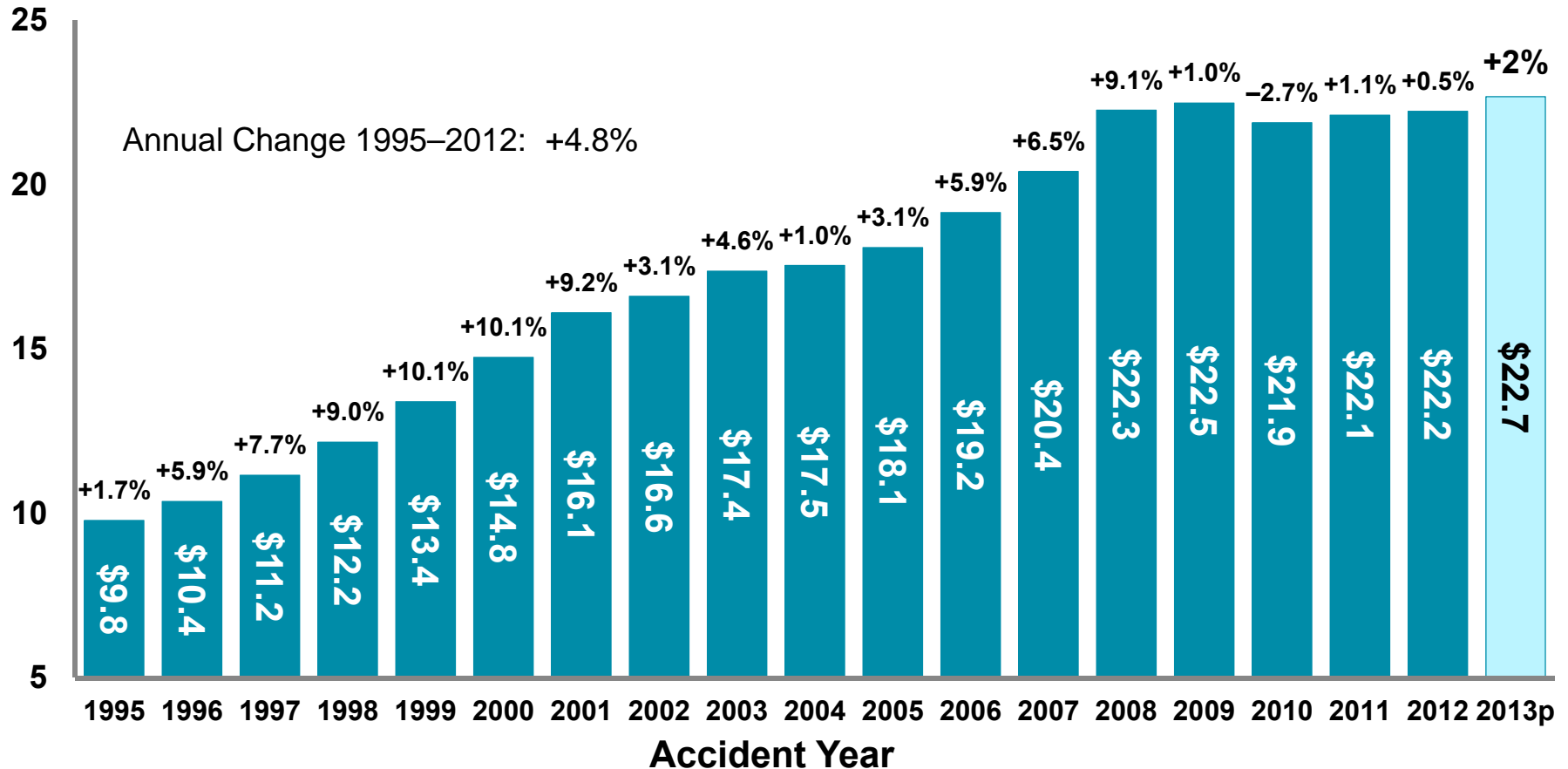
Lost-Time Frequency at 1st report per \$1M wage adjusted on-leveled premium, *Statistical Plan* data
 Premium is on-leveled to average carrier rate by state/class and wage adjusted by state to EAY 2012
 Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation to EAY 2012
 For all states where NCCI provides ratemaking services, excluding WV

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Workers Compensation Indemnity Claim Severity Increased Slightly

Average Indemnity Cost per Lost-Time Claim

Indemnity Claim
Severity (000s)



2013p: Preliminary based on data valued as of 12/31/2013

1995–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies

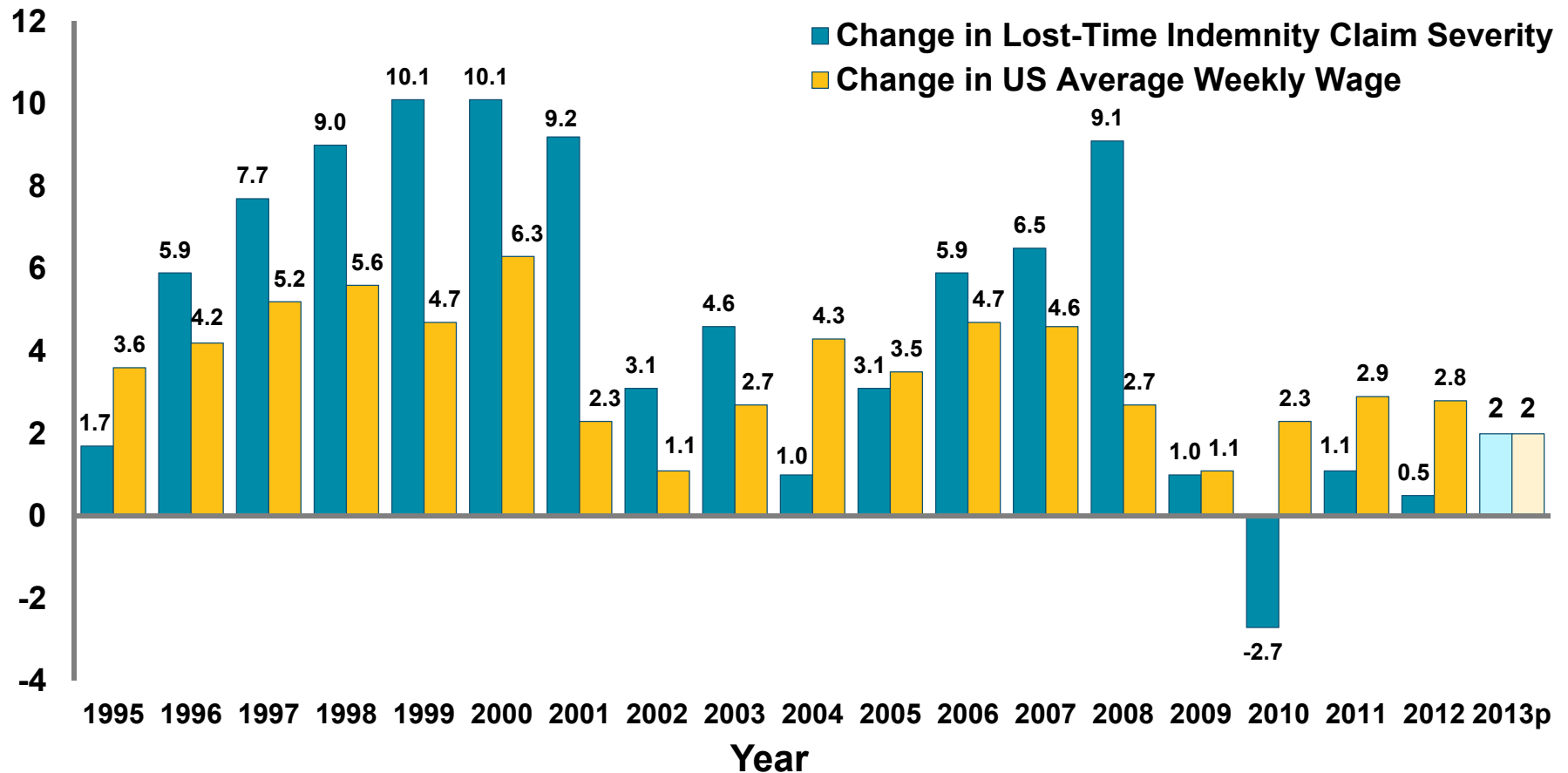
Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV

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Workers Compensation Change in Indemnity Claim Severity

Comparison to Change in Average Weekly Wage

Percent
Change

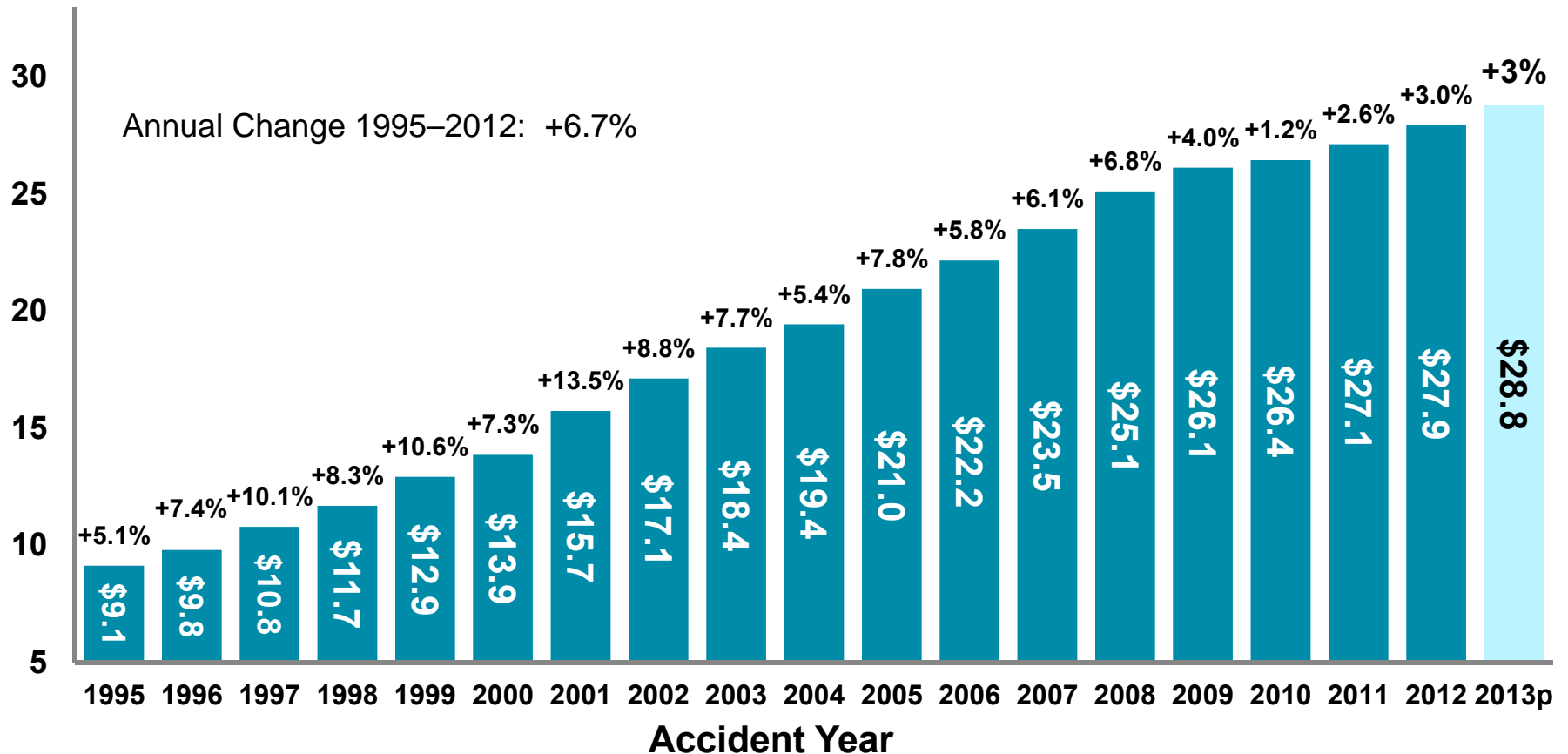


Change in lost-time indemnity claim severity, 2013p: Preliminary based on data valued as of 12/31/2013
 1995–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies
 Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV
 Sources: US Average Weekly Wage 1995–2007: Quarterly Census of Employment and Wages; 2008–2013p, NCCI
 Moody's Economy.com

Workers Compensation Medical Claim Severity Increased Moderately

Medical Claim
Severity (000s)

Average Medical Cost per Lost-Time Claim



2013p: Preliminary based on data valued as of 12/31/2013

1995–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies

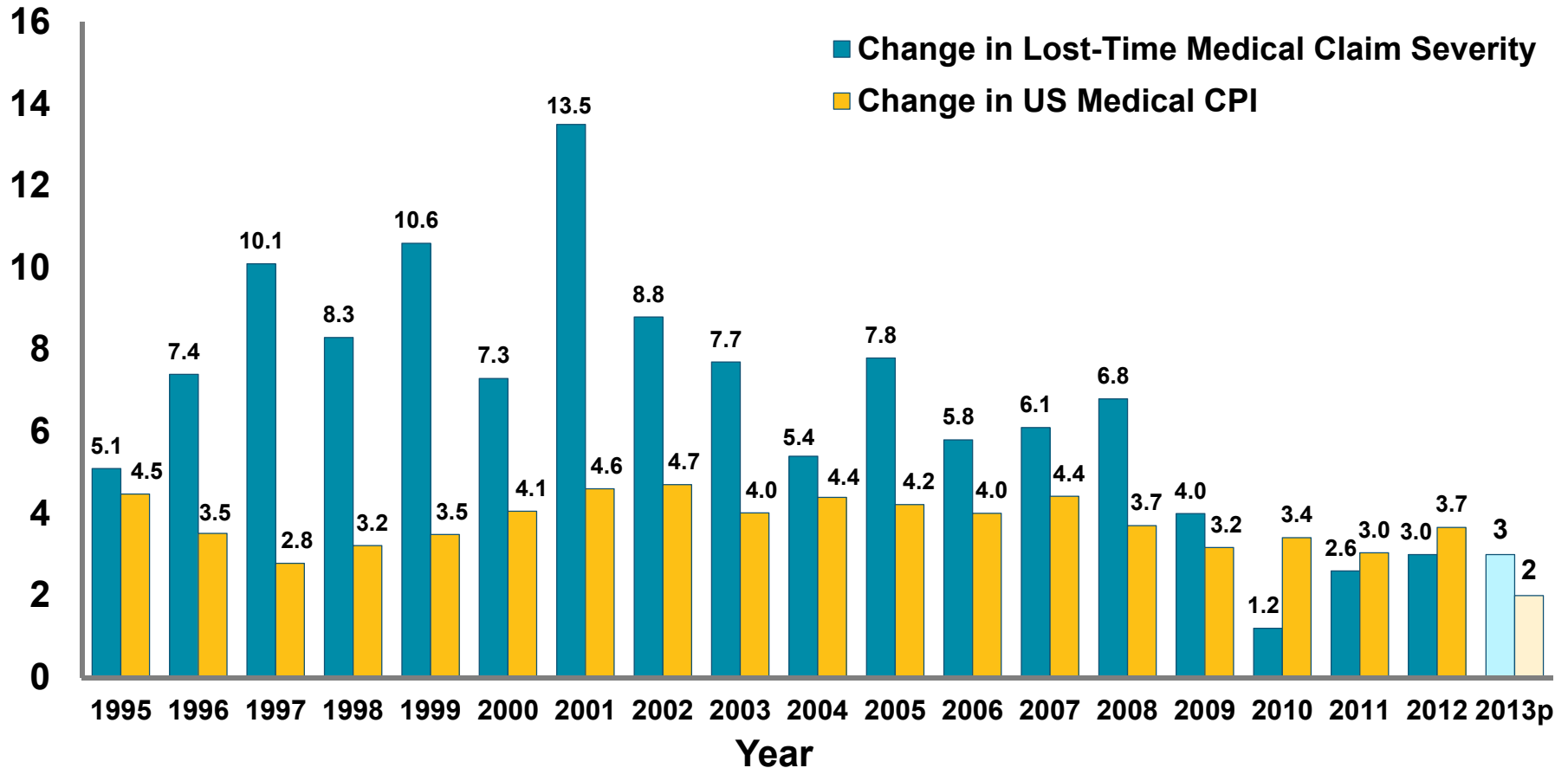
Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV

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Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)

Percent
Change



Change in lost-time medical claim severity, 2013p: Preliminary based on data valued as of 12/31/2013
 1995–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies
 Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV
 Sources: US Medical CPI: US Bureau of Labor Statistics (BLS)

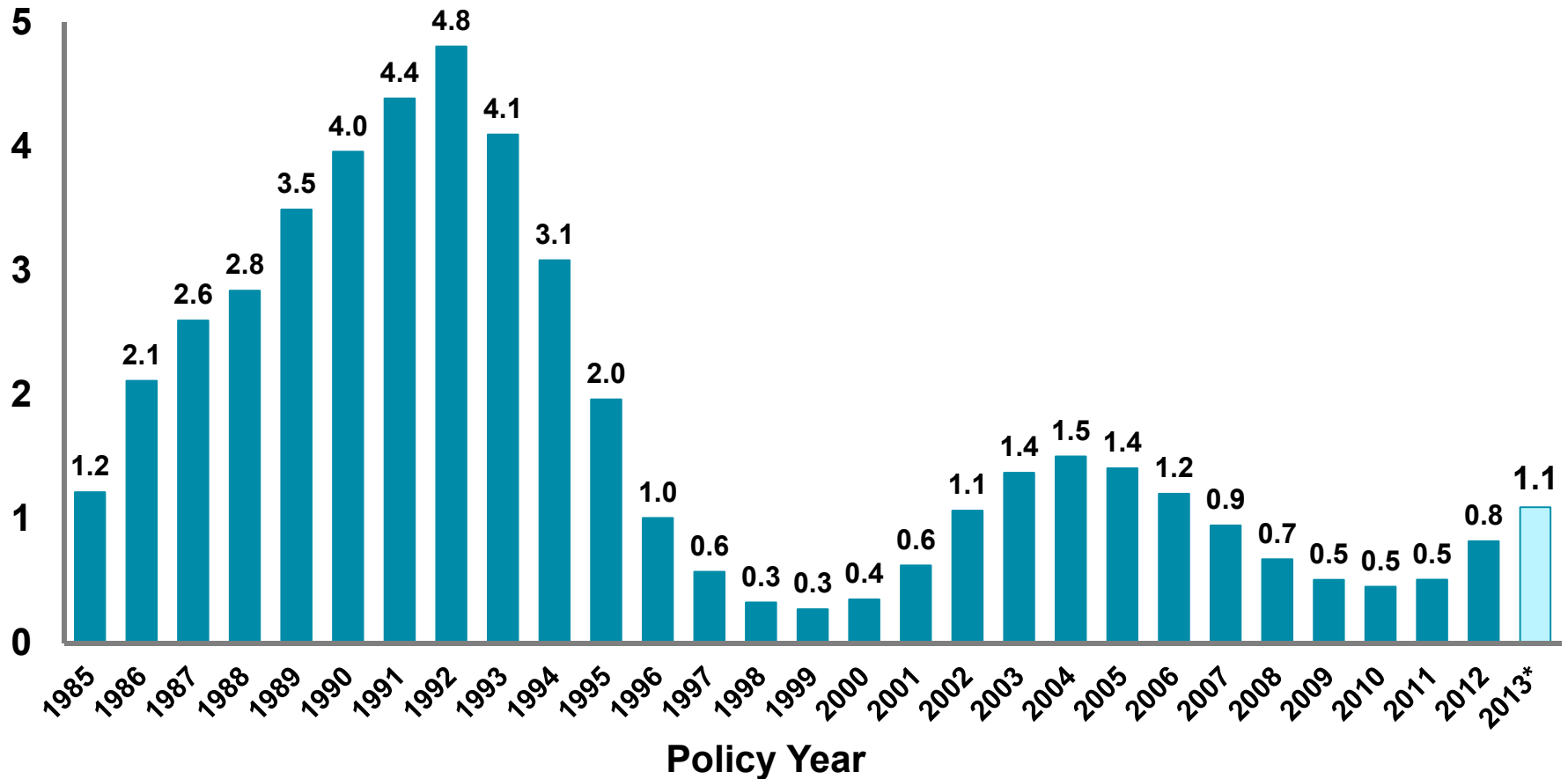
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Workers Compensation Residual Market

Workers Compensation Residual Market Premium

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2013

\$ Billions



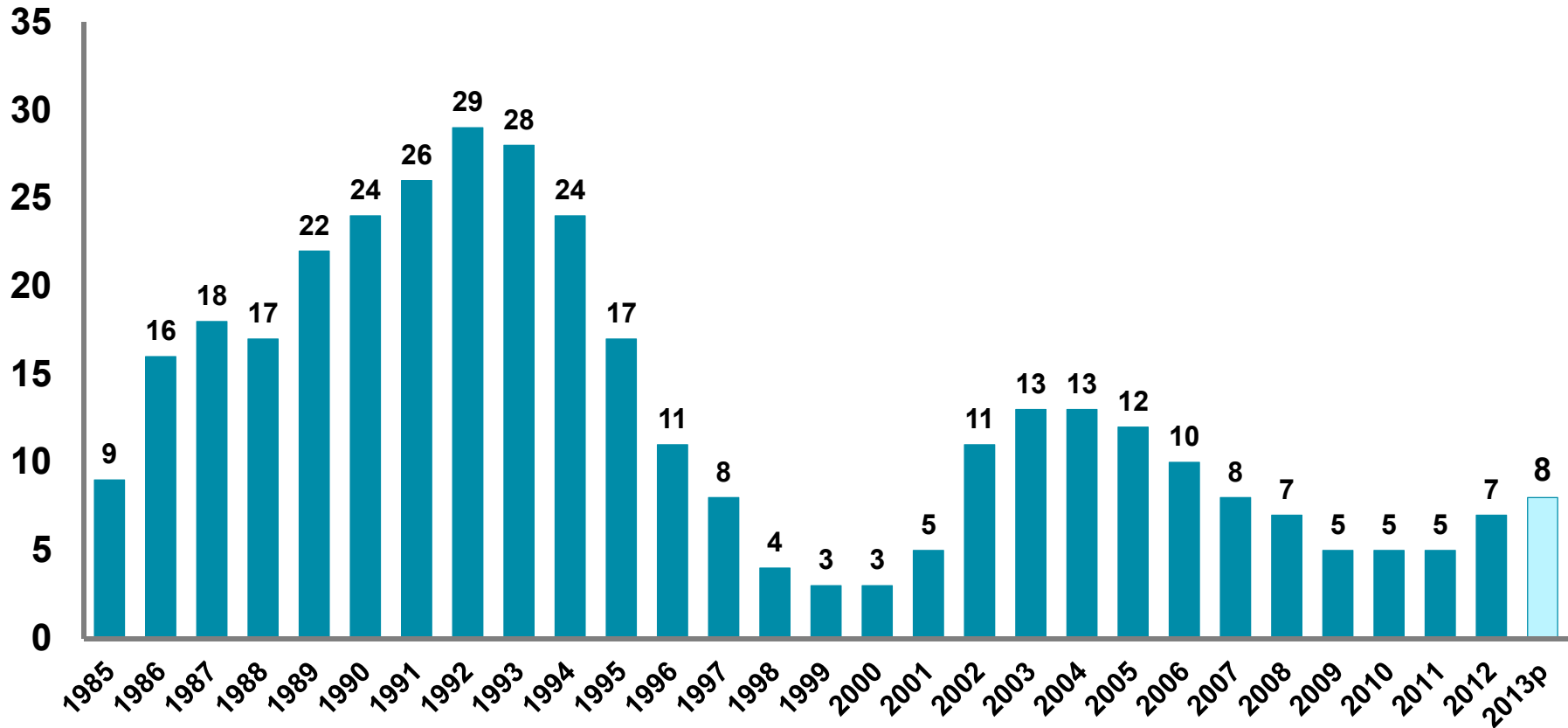
*Incomplete policy year projected to ultimate

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Workers Compensation Residual Market Share

Workers Compensation Insurance Plan States*

Percent



Calendar Year

p Preliminary

*States administered by NCCI

Source: NCCI, *Residual Market Management Summary*

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Workers Compensation Residual Market Growth by Policy Size

Size of Risk	2012	2013	Change
\$ 0 – \$ 2,499	89.3 M	105.3 M	18%
\$ 2,500 – \$ 4,999	50.3 M	60.9 M	21%
\$ 5,000 – \$ 9,999	64.2 M	83.1 M	29%
\$ 10,000 – \$49,999	179.9 M	238.2 M	32%
\$ 50,000 – \$99,999	79.3 M	104.7 M	32%
\$ 100,000 and greater	116.5 M	165.6 M	42%
Total	579.6 M	757.7 M	31%

Total estimated annual premium

Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, and WV

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Workers Compensation Residual Market Growth Slowed During the First Quarter

Size of Risk	Q1 2013	Q1 2014	Change
\$ 0 – \$ 2,499	24.3 M	28.2 M	16%
\$ 2,500 – \$ 4,999	14.4 M	16.4 M	14%
\$ 5,000 – \$ 9,999	20.5 M	23.0 M	12%
\$ 10,000 – \$49,999	59.7 M	68.3 M	14%
\$ 50,000 – \$99,999	26.2 M	28.3 M	8%
\$ 100,000 and greater	48.0 M	45.0 M	–6%
Total	193.2 M	209.1 M	8%

Total estimated annual premium

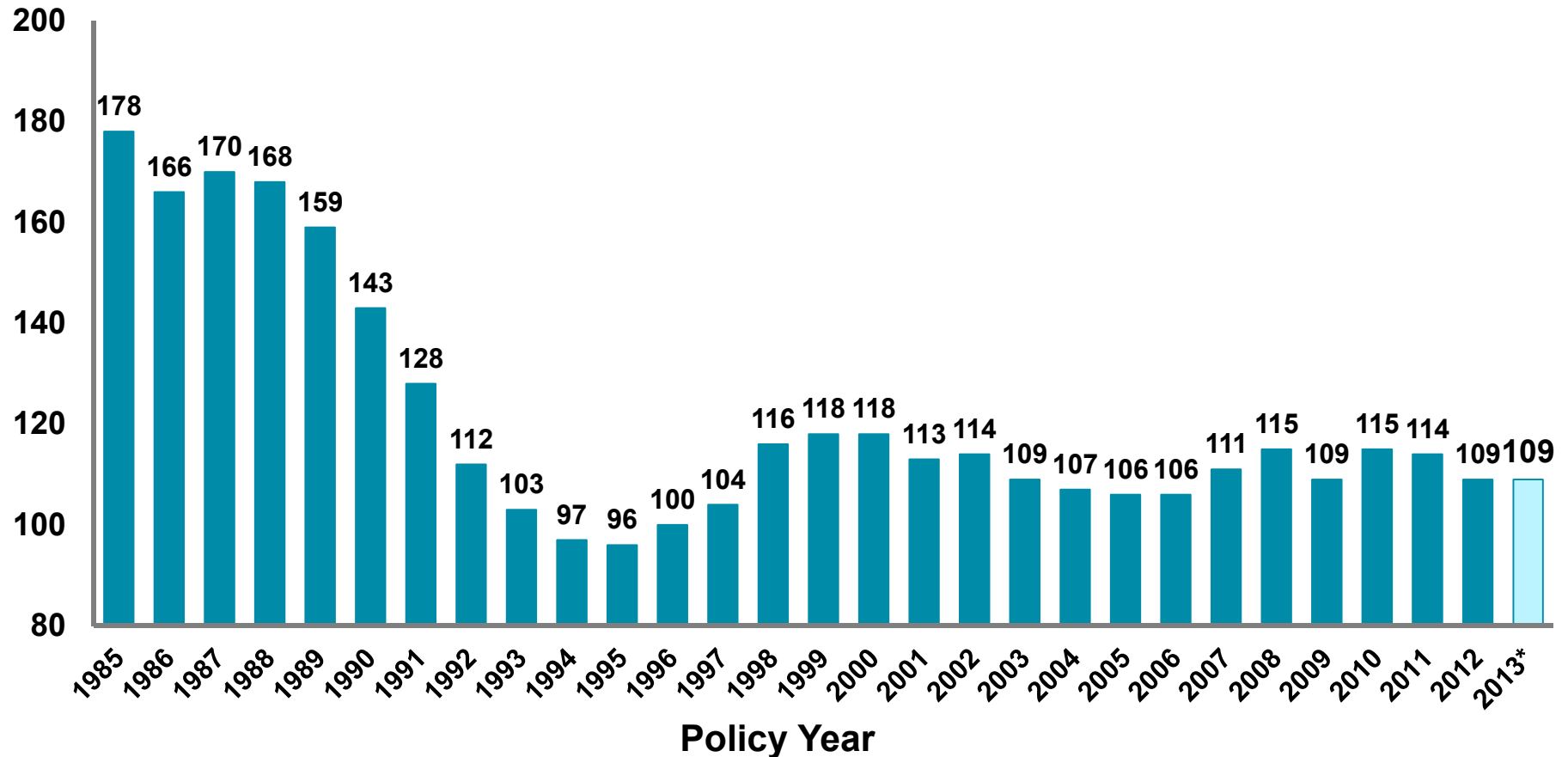
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, and WV

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Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2013

Percent

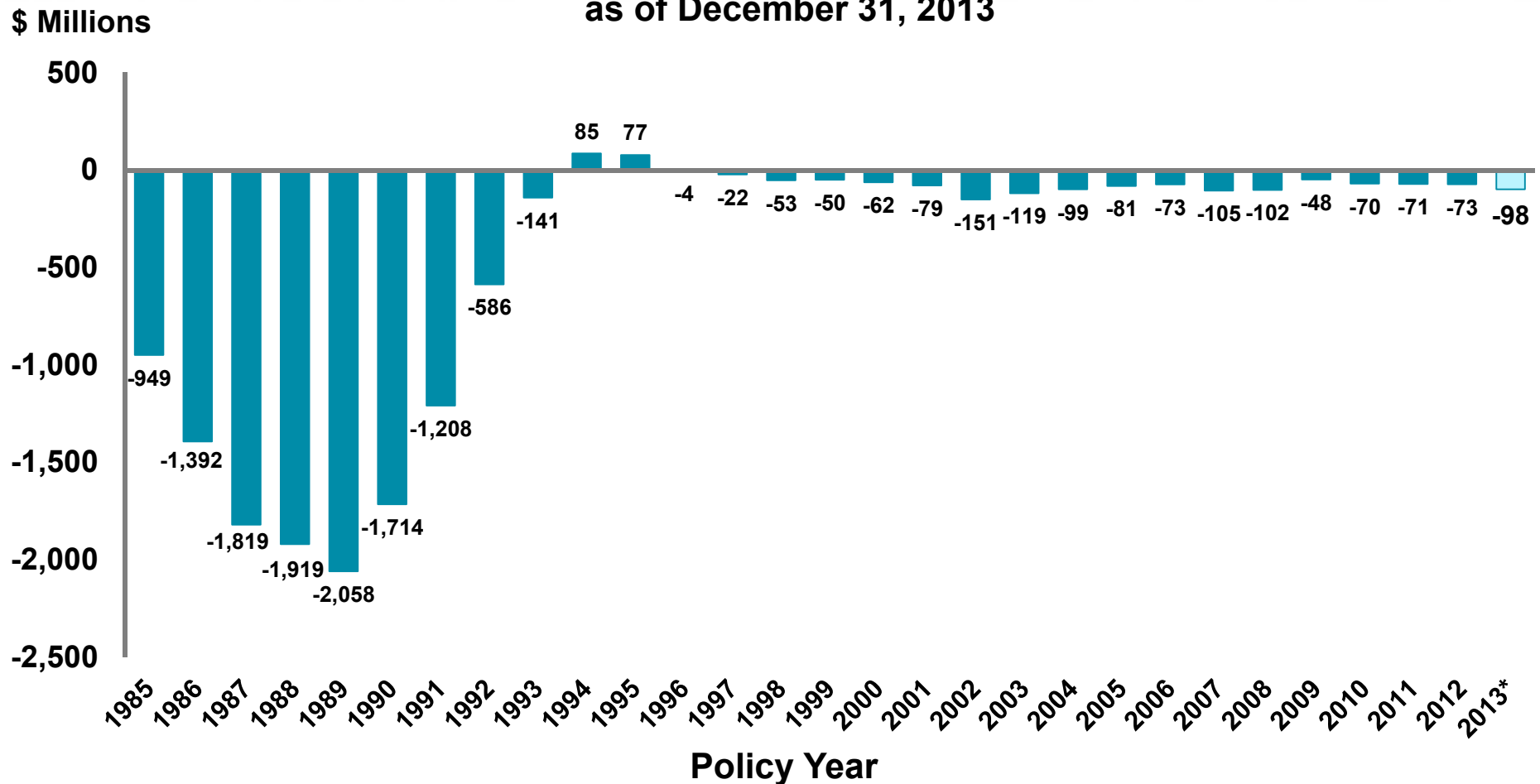


*Incomplete policy year projected to ultimate

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Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2013



*Incomplete policy year projected to ultimate

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Concluding Remarks

AIS Preview—NCCI Research

- Panel of experts discuss the Affordable Care Act and implications for workers compensation
- NCCI actuaries and economists present current NCCI research studies
 - Medicare set-asides
 - Post-reform monitoring analysis
 - Drivers of claim frequency

Questions and More Information

Questions on the State of the Line presentation?
Email us at stateoftheline@ncci.com.

Download the complete presentation materials
and watch a video overview of the State of the
Line at **ncci.com**.

Current State of the Line

Positives

- Improvement in underwriting results
- Strong investment income
- Industry's capital position
- Employment growth continues
- Frequency and severity well behaved

Negatives

- Low interest rate environment
- Embedded yields continue to decline
- Uncertainty surrounding TRIA renewal
- Construction & Manufacturing employment lagging
- Uncertain impact of healthcare reform