State of the Line Report

Kathy Antonello, FCAS, FSA, MAAA
Chief Actuary
NCCI
Property/Casualty (P/C) Results
## P/C Industry Net Written Premium
### All Major Lines Increased

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2014 ($B)</th>
<th>2015p ($B)</th>
<th>% Change From 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>183.4</td>
<td>192.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Homeowners</td>
<td>76.8</td>
<td>79.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Other Liability (Incl Prod Liab)</td>
<td>47.8</td>
<td>49.3</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Workers Compensation</strong></td>
<td><strong>38.5</strong></td>
<td><strong>39.7</strong></td>
<td></td>
</tr>
<tr>
<td>Commercial Multiple Peril</td>
<td>34.3</td>
<td>34.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Fire &amp; Allied Lines (Incl EQ)</td>
<td>27.1</td>
<td>26.2</td>
<td>-3.4</td>
</tr>
<tr>
<td>Commercial Auto</td>
<td>25.7</td>
<td>27.6</td>
<td>1.0</td>
</tr>
<tr>
<td>All Other Lines</td>
<td>63.7</td>
<td>64.6</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total P/C Industry</strong></td>
<td><strong>497.3</strong></td>
<td><strong>513.8</strong></td>
<td>3.3</td>
</tr>
</tbody>
</table>

**p** Preliminary
Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers
Includes carrier data available as of 4/14/2016

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## P/C Industry Net Combined Ratio
### Overall Underwriting Gain

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2014 (%)</th>
<th>2015p (%)</th>
<th>Difference From 2014</th>
<th>% of Private Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>103</td>
<td>105</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Homeowners</td>
<td>93</td>
<td>92</td>
<td>-1</td>
<td>9%</td>
</tr>
<tr>
<td>Other Liability (Incl Prod Liab)</td>
<td>99</td>
<td>103</td>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Workers Compensation</strong></td>
<td><strong>100</strong></td>
<td><strong>94</strong></td>
<td><strong>-6</strong></td>
<td><strong>-6%</strong></td>
</tr>
<tr>
<td>Commercial Multiple Peril</td>
<td>100</td>
<td>95</td>
<td>-5</td>
<td>10%</td>
</tr>
<tr>
<td>Fire &amp; Allied Lines (Incl EQ)</td>
<td>88</td>
<td>86</td>
<td>-2</td>
<td>8%</td>
</tr>
<tr>
<td>Commercial Auto</td>
<td>104</td>
<td>109</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>All Other Lines</td>
<td>84</td>
<td>84</td>
<td>1</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total P/C Industry</strong></td>
<td><strong>97</strong></td>
<td><strong>98</strong></td>
<td><strong>1</strong></td>
<td><strong>1%</strong></td>
</tr>
</tbody>
</table>

p Preliminary
Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers
Includes carrier data available as of 4/14/2016
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P/C Industry Net Combined Ratios

Private Carriers

Percent

Calendar Year

85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

3% Lower

4% Lower

Sources:
- 1986–2007, Annual Statement data
- 2008–2011, ISO

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p Preliminary
P/C Industry Investment Gain Ratio

Private Carriers

Percent

Calendar Year

- Net Realized Capital Gains to Net Earned Premium
- Net Investment Income to Net Earned Premium

Sources:
- 2008–2012, ISO

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P/C Industry Embedded Yield and New Money Yield

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

New Money Yield is the pretax yield on bonds.

Sources: NCCI, Best’s Aggregates & Averages, Federal Reserve Bank, Value Line, TreasuryDirect, Barron’s, Bloomberg.

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P/C Industry After-Tax Return on Surplus

Private Carriers

Average (1985–2014): 8.3%

p Preliminary
2008–2012, ISO
After-tax return on average surplus, excluding unrealized capital gains
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P/C Industry Premium-to-Surplus Ratio

Private Carriers

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>NWP</th>
<th>Surplus</th>
<th>P:S Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>$76 B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>86</td>
<td></td>
<td></td>
<td></td>
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<td>87</td>
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</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15p</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

2008–2012, ISO

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Workers Compensation (WC) Premium
WC Net Written Premium Growth Continued

Private Carriers and State Funds

$Billions

Calendar Year

State Funds ($B)  Private Carriers ($B)

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## WC Components of Written Premium Change

### Private Carriers

<table>
<thead>
<tr>
<th>Written Premium Change From 2014 to 2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Written Premium—Countrywide</td>
<td>+2.9%</td>
</tr>
<tr>
<td>Direct Written Premium (DWP)—Countrywide</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Direct Written Premium (DWP)—NCCI States</td>
<td>+2.5%</td>
</tr>
</tbody>
</table>

### Components of DWP Change for NCCI States:

- Change in Carrier Estimated Payroll: +4.8%
- Change in Bureau Loss Costs and Mix: −4.0%
- Change in Carrier Discounting: −0.3%
- Change in Other Factors: +2.2%

### Combined Effect: +2.5%

Sources: Countrywide: Annual Statement data  
NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services  
Components: NCCI Policy data  
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US Employment Levels

Index: 2010 = 100


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WC Approved Changes in Bureau Premium Level

By Effective Year for NCCI States

Cumulative Change of –20.1%
(1999–2016p)

Calendar Year

Percent

-10 -5 0 5

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16p

Preliminary

Bureau premium level changes reflect approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/15/2016, relative to those previously approved in NCCI states only.

IN and NC are filed in cooperation with state rating bureaus.

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Latest Changes in Bureau Premium Level

Voluntary Market

Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 4/15/2016, as filed by the applicable rating organization, relative to those previously approved.

RI and SC are filed and pending.
IN and NC are filed in cooperation with state rating bureaus.

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WC Impact of Discounting on Premium

Private Carriers – NCCI States

Percent

Policy Year

91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

0.7

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p Preliminary

Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data

NCCI benchmark level does not include a profit and contingency provision

Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking services, excluding TX
WC Impact of Discounting on Premium

Private Carriers – NCCI States

Dividends

Schedule Rating

Rate/Loss Cost Departure

Policy Year

91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

p Preliminary
Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data
Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include a profit and contingency provision
Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking services, excluding TX

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WC Pricing – Market Index Survey

Percentage of Respondents

<table>
<thead>
<tr>
<th></th>
<th>4Q 2013</th>
<th>4Q 2014</th>
<th>4Q 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>74</td>
<td>43</td>
<td>12</td>
</tr>
<tr>
<td>No Change</td>
<td>16</td>
<td>26</td>
<td>31</td>
</tr>
<tr>
<td>Decrease</td>
<td>10</td>
<td>31</td>
<td>57</td>
</tr>
</tbody>
</table>

“Commercial P/C Pricing Lowered Slightly in Fourth Quarter of 2014”
“Commercial P/C Pricing Increases Slow in Fourth Quarter of 2013”
Results for “All Regions”

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Workers Compensation Results
WC Combined Ratio
Underwriting Gain Achieved

Calendar Year

Percent

Private Carriers

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

4% lower

p Preliminary
Source: Annual Statement data

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WC Combined Ratio Components

Private Carriers

Loss Ratio

Loss Adjustment Expense (LAE) Ratio

Underwriting Expense Ratio

Dividends

Calendar Year

Percent

p Preliminary
Source: Annual Statement data
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WC LAE to Loss Ratio
Net Incurred LAE to Incurred Losses

Private Carriers

Percent

Calendar Year

0 10 20 30 40

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

24.2 26

Preliminary
Source: Annual Statement data
LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense

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WC Investment Gain on Insurance Transactions
Ratio to Net Earned Premium

Private Carriers

Average (1990–2014): 14.1%

Percent

Calendar Year

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

11.6 12

Preliminary
Source: Annual Statement data
Investment Gain on Insurance Transactions includes Other Income
1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent
2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4

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WC Investment Gain on Insurance Transactions
Five-Year Moving Average

Private Carriers

Average (1990–2014): 14.1%

- Photograph of a bar chart showing the investment gain on insurance transactions from 1994 to 2014, with an average of 14.1%

p Preliminary
Source: Annual Statement data
Investment Gain on Insurance Transactions includes Other Income
Averages reflect the following adjustments:
1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent
2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring

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WC Pretax Operating Gain
Private Carriers

Average (1990–2014): 5.8%

p Preliminary
Source: Annual Statement data
Operating Gain Equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent
2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 17.7

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Workers Compensation Accident Year Results and Reserve Estimates
WC Net Combined Ratios
Calendar Year vs. Accident Year as Reported

Private Carriers

Percent

130
120
110
100
90
80


Calendar Year  Accident Year

p Preliminary
Source: NCCI analysis based on Annual Statement data
Accident Year information is reported as of 12/31/2015
Includes dividends to policyholders
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WC Loss and LAE Net Reserve Deficiencies

Private Carriers

2015 Tabular Discount Is $4.6 Billion

Percent of CY Total Reserves as Reported

Source: NCCI analysis based on Annual Statement data
Considers all reserve discounts as deficiencies

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WC Net Loss and LAE Ratios
NCCI Ultimate Accident Year Selections vs. As Reported

Private Carriers

Sources: As Reported: Annual Statement Schedule P—Part 1D data as of 12/31/2015
NCCI Selections: NCCI analysis based on Annual Statement data
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts
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WC Net Loss and LAE Ratios
Accident Year Year Emergence

Private Carriers

Source: Annual Statement Schedule P—Part 1D data
Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts
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Workers Compensation
Loss Drivers
WC Lost-Time Claim Frequency
Change in Lost-Time Claims per $1M Pure Premium

Private Carriers and State Funds – NCCI States

Average Annual Change of –3.6%
(1994–2014)

2010 and 2011 adjusted primarily for significant changes in audit activity
p Preliminary based on data valued as of 12/31/2015
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level, excludes high deductible policies;
1994–2014: Based on data through 12/31/2014
Includes all states where NCCI provides ratemaking services; WV is excluded through 2014, but included in 2015.

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WC Average Indemnity Cost per Lost–Time Claim

Private Carriers and State Funds – NCCI States

Severity ($ Thousands)

Accident Year

95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14p 15p

$23.2 $23.5

+1.5% +1%

Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014 Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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WC Average Indemnity Cost per Lost–Time Claim

Private Carriers and State Funds – NCCI States

<table>
<thead>
<tr>
<th>Severity ($ Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>


Accident Year

Sources:
- Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014
- Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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Relative Growth Rates
Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds – NCCI States

- Cumulative Change in Indemnity Claim Severity
- Cumulative Change in US AWW

1995 to 2001
Severity Growth > US AWW Growth

2002 to 2008
Severity Growth > US AWW Growth

2009 to 2015p
US AWW Growth > Severity Growth

P Preliminary based on data valued as of 12/31/2015
Sources: Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994-2013: Based on data through 12/31/2014
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent
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WC Indemnity Claim Severity
Average Annual Change 2010-2014

Source: “NCCI Countrywide Frequency and Severity Analysis Using Data Valued as of 12/31/2014” on ncci.com
Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services, excluding WV
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Indemnity/Medical Split Over Time
Private Carriers and State Funds – NCCI States

1981
57%  43%

2015p
42%  58%

Indemnity  Medical

Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies

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WC Average Medical Cost per Lost–Time Claim

Private Carriers and State Funds – NCCI States

Severity
($ Thousands)

Accident Year

95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14p 15p

5 10 15 20 25 30 35

+3.0% -1%

$28.8 $28.5

p Preliminary based on data valued as of 12/31/2015
Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States

Severity
($ Thousands)

Cumulative Change in Excess of Medical Care Inflation (1995–2015p): +55%


Accident Year

p Preliminary based on data valued as of 12/31/2015
Sources: Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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Relative Growth Rates
Medical Severity vs. Medical Care Inflation
Private Carriers and State Funds – NCCI States

Cumulative Change in Lost-Time Medical Claim Severity
Cumulative Change in US Medical CPI

1995 to 2001
Severity Growth > US MCPI Growth

2002 to 2008
Severity Growth > US MCPI Growth

2009 to 2015p
US MCPI Growth > Severity Growth

p Preliminary based on data valued as of 12/31/2015
Sources: Severity: NCCI Financial Call data, developed to ultimate; excludes high deductible policies; 1994–2013: Based on data through 12/31/2014
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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WC Lost-Time Medical Claim Severity
Average Annual Change 2010-2014

Source: “NCCI Countrywide Frequency and Severity Analysis Using Data Valued as of 12/31/2014” on ncci.com
Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
For all states where NCCI provides ratemaking services, excluding WV
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Rx Costs per Active Claim Continue to Grow

2011 to 2014 Cumulative Change Is 25%

NCCI analysis based on Medical Data Call, for prescription drugs with a National Drug Code provided in Service Years 2011 to 2014. Active Claim is a claim with at least one medical service during the Service Year.

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Workers Compensation
Residual Market
Top Class Codes Based on Residual Market Plan
Total Written Premium

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Premium %</th>
</tr>
</thead>
<tbody>
<tr>
<td>5645</td>
<td>CARPENTRY—CONSTRUCTION OF RESIDENTIAL DWELLINGS NOT EXCEEDING THREE STORIES IN HEIGHT</td>
<td>7.2%</td>
</tr>
<tr>
<td>5551</td>
<td>ROOFING—ALL KINDS &amp; DRIVERS</td>
<td>4.6%</td>
</tr>
<tr>
<td>7228</td>
<td>TRUCKING—LOCAL HAULING ONLY—ALL EMPLOYEES &amp; DRIVERS</td>
<td>3.5%</td>
</tr>
<tr>
<td>7229</td>
<td>TRUCKING—LONG DISTANCE HAULING ONLY—ALL EMPLOYEES &amp; DRIVERS</td>
<td>3.1%</td>
</tr>
<tr>
<td>5474</td>
<td>PAINTING NOC &amp; SHOP OPERATIONS, DRIVERS</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Top classification codes excluding the Standard Exception classifications
Results are based on manual premium volume for both intrastate policies and the state-specific portion of interstate policies
Source: NCCI Policy data

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WC Residual Market Premium

NCCI-Serviced WC Residual Market Pools

$ Billions

Policy Year

86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

4.8

1.2 1.2

p Preliminary, incomplete policy year projected to ultimate
Includes pool data for all NCCI-serviced WC residual market pool states valued as of 12/31/2015
Tennessee Reinsurance Mechanism premium is not included
Source: NCCI, Residual Market Quarterly Results

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WC Residual Market Share
NCCI-Serviced WC Residual Market Pools

Percent

Calendar Year

86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15p

p Preliminary
Includes Pool and direct assignment data for all NCCI-serviced WC residual market pool states
Source: NCCI, Residual Market Management Summary
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WC Residual Market
Residual Market Premium vs. Average Policy Size

NCCI-Administered WC Residual Market Plan States

Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC residual market plan states

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## WC Residual Market Growth at First Quarter

**NCCI-Administered WC Residual Market Plan States**

<table>
<thead>
<tr>
<th>Size of Risk</th>
<th>Premium ($ Millions)</th>
<th>% Change from 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0 –</td>
<td>2,499</td>
<td>30.1</td>
</tr>
<tr>
<td>$ 2,500 –</td>
<td>4,999</td>
<td>18.0</td>
</tr>
<tr>
<td>$ 5,000 –</td>
<td>9,999</td>
<td>25.4</td>
</tr>
<tr>
<td>$ 10,000 –</td>
<td>49,999</td>
<td>72.3</td>
</tr>
<tr>
<td>$ 50,000 –</td>
<td>99,999</td>
<td>28.6</td>
</tr>
<tr>
<td>$ 100,000 and Over</td>
<td>41.1</td>
<td>33.3</td>
</tr>
<tr>
<td>Total</td>
<td>215.5</td>
<td>206.0</td>
</tr>
</tbody>
</table>

Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC residual market plan states

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WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools

Legend:
- Gray bars represent historical data.
- Blue bars represent preliminary, incomplete policy year projected to ultimate.

Preliminary, incomplete policy year projected to ultimate
Includes pool data and Plan expenses for pool members for all NCCI-serviced WC residual market pool states valued as of 12/31/2015
Tennessee Reinsurance Mechanism experience is not included in the combined ratios
Source: NCCI, Residual Market Quarterly Results

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WC Residual Market Operating Results

NCCI-Serviced WC Residual Market Pools

$p$ Preliminary, incomplete policy year projected to ultimate
Includes pool data and Plan expenses for pool members for all NCCI-serviced WC residual market pool states valued as of 12/31/2015
Tennessee Reinsurance Mechanism experience is not included in the operating results
Source: NCCI, *Residual Market Quarterly Results*

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Questions and More Information

Questions on the State of the Line presentation?
- State of the Line Guide on ncci.com
- For additional questions, email us at stateoftheline@ncci.com