



ANNUAL
ISSUES
SYMPOSIUM
2017

STATE OF THE LINE REPORT

THE
SYSTEM
@WORK

KATHY ANTONELLO, FCAS, FSA, MAAA
CHIEF ACTUARY
NCCI



ANNUAL
ISSUES
SYMPOSIUM
2017

PROPERTY/CASUALTY (P/C) RESULTS

P/C Industry Net Written Premium Growth

Private Carriers

Line of Business	2015 (\$B)	2016p (\$B)	% Change From 2015
Personal Auto	192.8	207.3	7.5
Homeowners	79.4	80.6	1.5
Other Liability (Incl Prod Liab)	49.3	47.9	-2.8
Workers Compensation	39.7	40.1	1.0
Commercial Multiple Peril	34.7	33.8	-2.6
Fire & Allied Lines (Incl EQ)	26.2	26.3	0.4
Commercial Auto	27.6	28.2	2.2
All Other Lines	64.7	63.7	-1.5
Total P/C Industry	514.3	527.8	2.6

p Preliminary

Source: National Association of Insurance Commissioners' (NAIC's) Annual Statement data for individual carriers prior to consolidation of affiliated carriers; includes carrier data available as of 4/7/2017

P/C Industry Net Combined Ratio

Private Carriers

Line of Business	2015 (%)	2016p (%)	Difference From 2015
Personal Auto	105	106	1
Homeowners	92	93	1
Other Liability (Incl Prod Liab)	103	111	8
Workers Compensation	94	94	0
Commercial Multiple Peril	95	102	7
Fire & Allied Lines (Incl EQ)	86	90	4
Commercial Auto	109	111	2
All Other Lines	84	87	3
Total P/C Industry	98	101	3

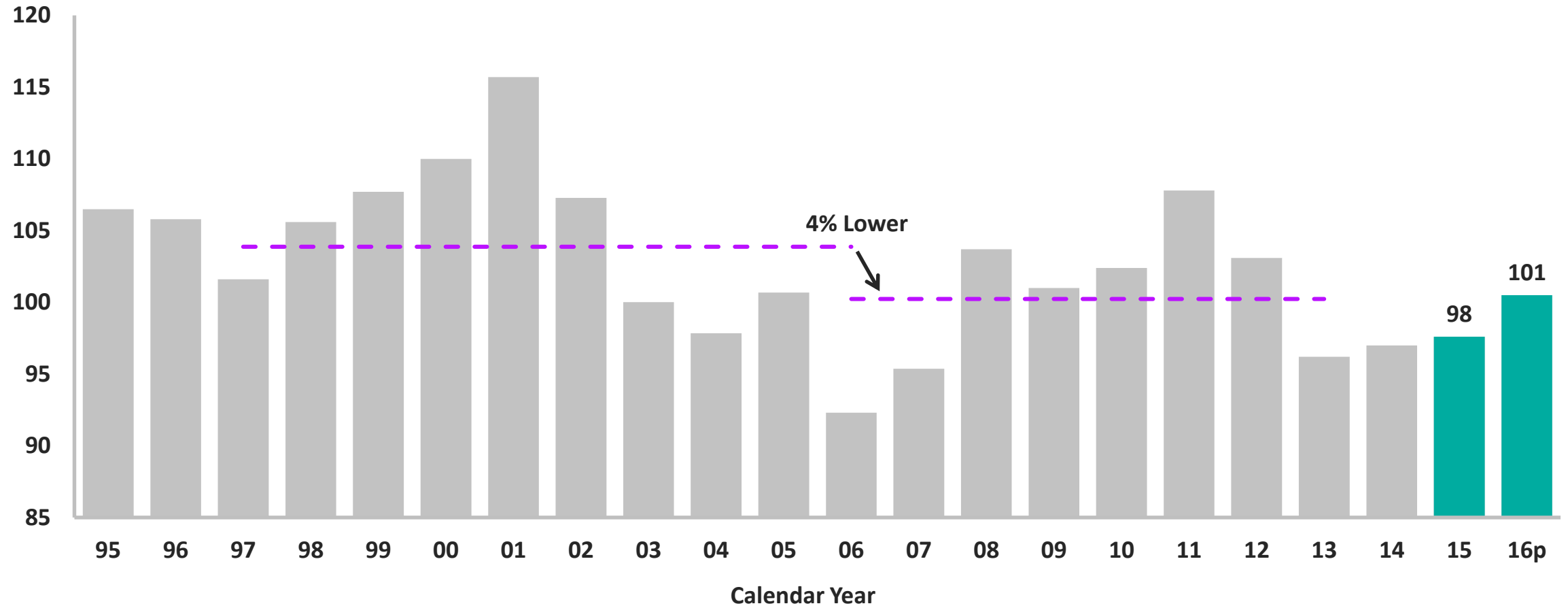
p Preliminary

Source: NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers; includes carrier data available as of 4/7/2017

P/C Industry Net Combined Ratio

Private Carriers

Percent



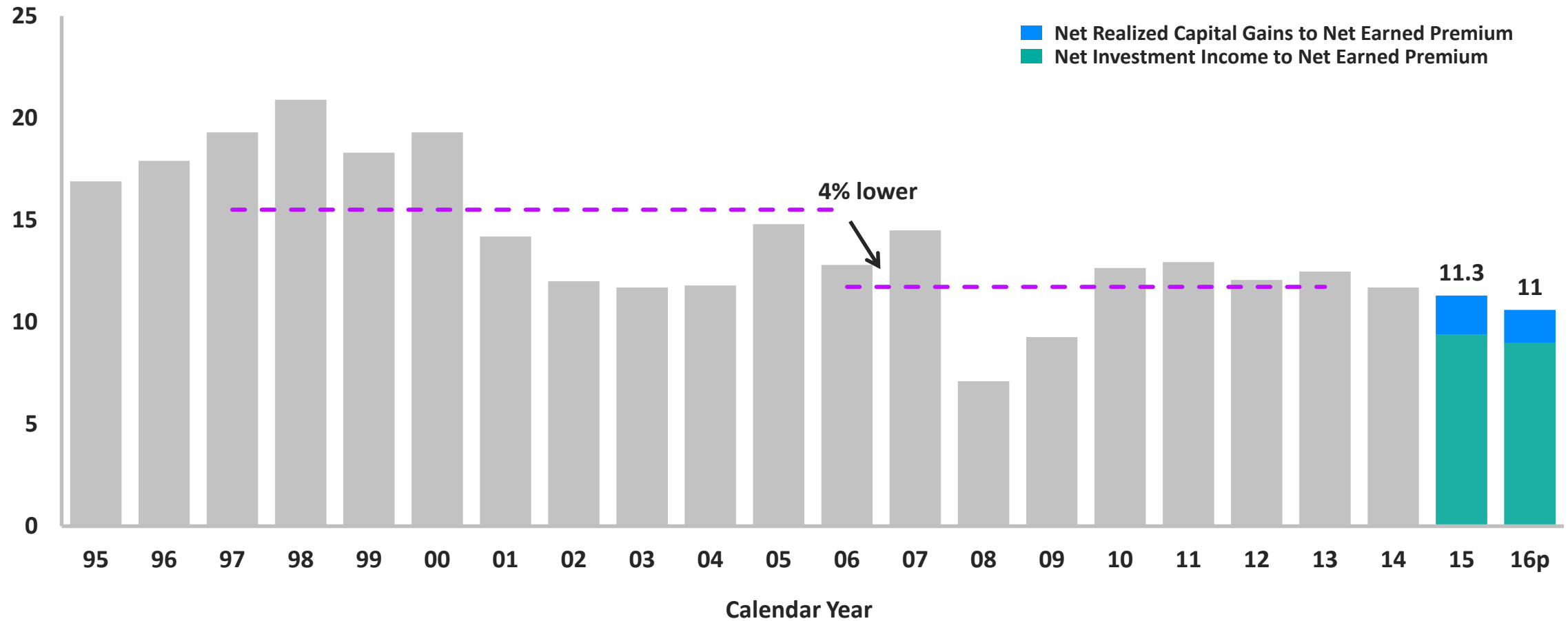
p Preliminary

Sources: 1995–2007 and 2012–2016p, NAIC's Annual Statement data
2008–2011, ISO

P/C Industry Investment Gain Ratio

Private Carriers

Percent



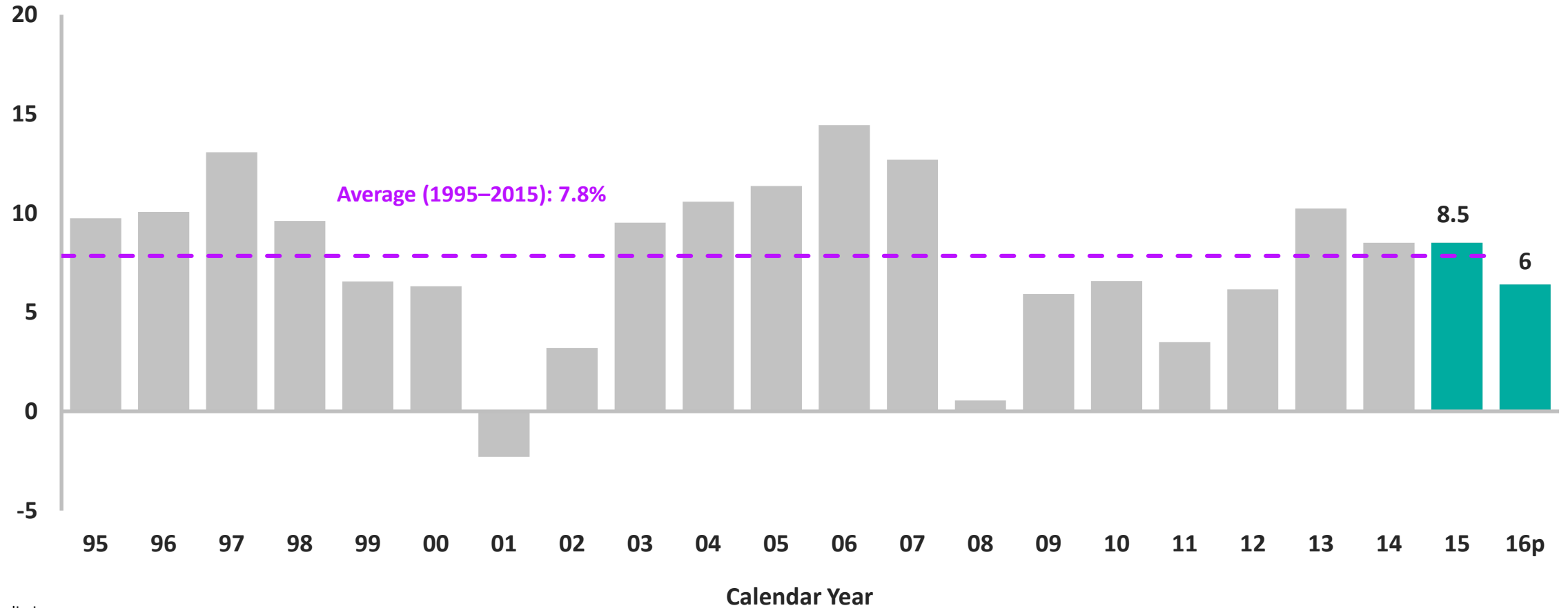
p Preliminary

Sources: 1995–2007 and 2013–2016p, NAIC's Annual Statement data
2008–2012, ISO

P/C Industry After-Tax Return on Surplus

Private Carriers

Percent



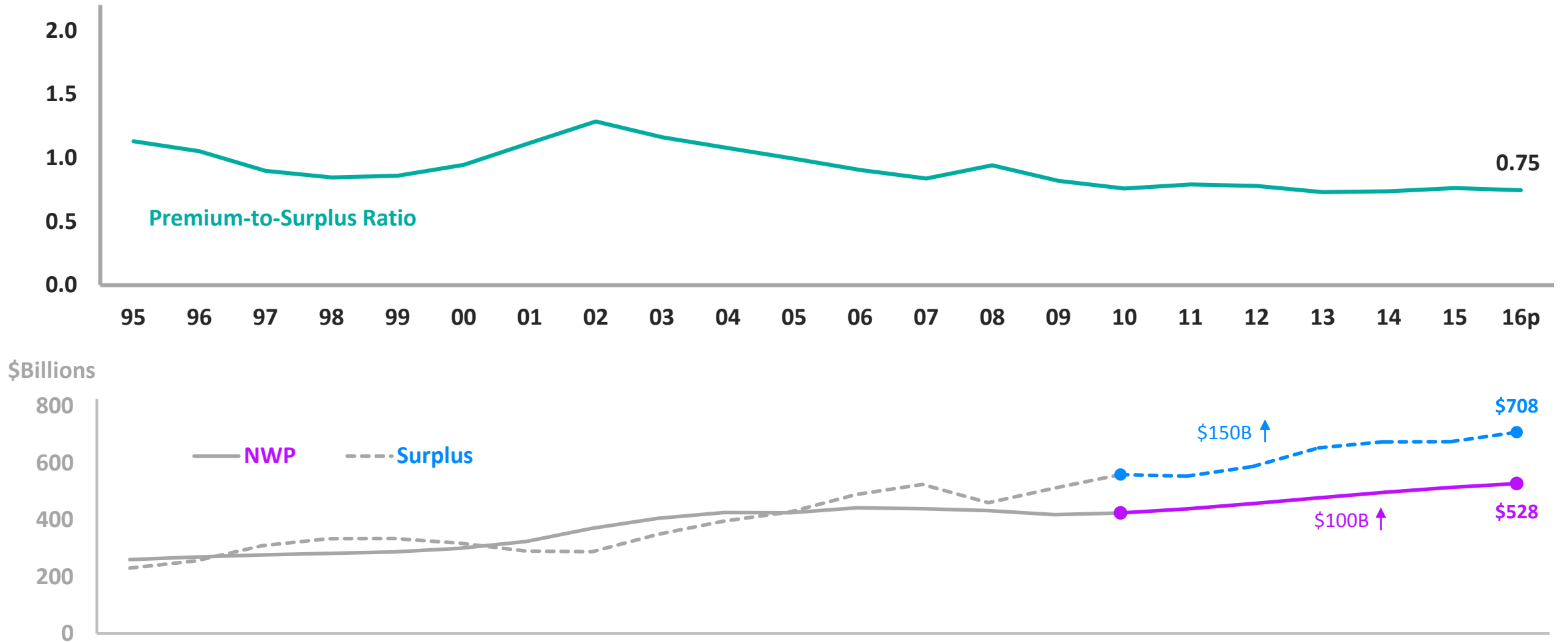
p Preliminary

Sources: 1995–2007 and 2013–2016p, NAIC's Annual Statement data
2008–2012, ISO

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

P/C Industry Premium-to-Surplus Ratio

Private Carriers



p Preliminary
 Sources: 1995–2007 and 2013–2016p, NAIC’s Annual Statement data
 2008–2012, ISO



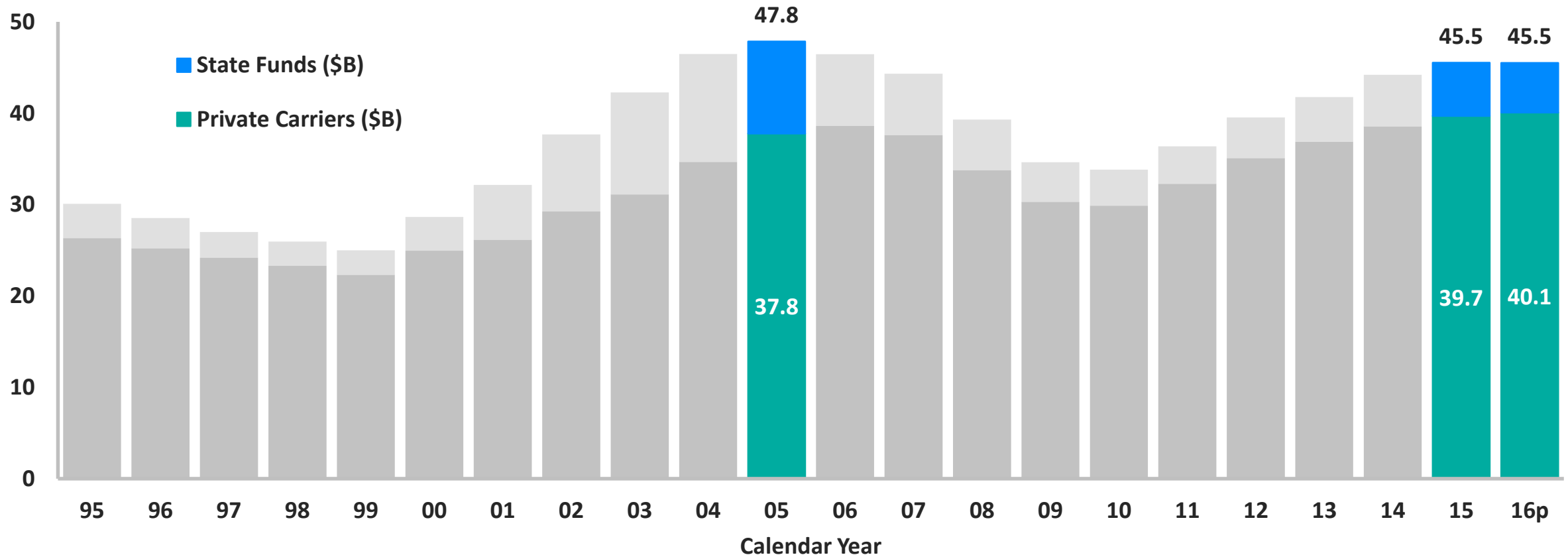
ANNUAL
ISSUES
SYMPOSIUM
2017

WORKERS COMPENSATION (WC) PREMIUM

WC Net Written Premium

Private Carriers and State Funds

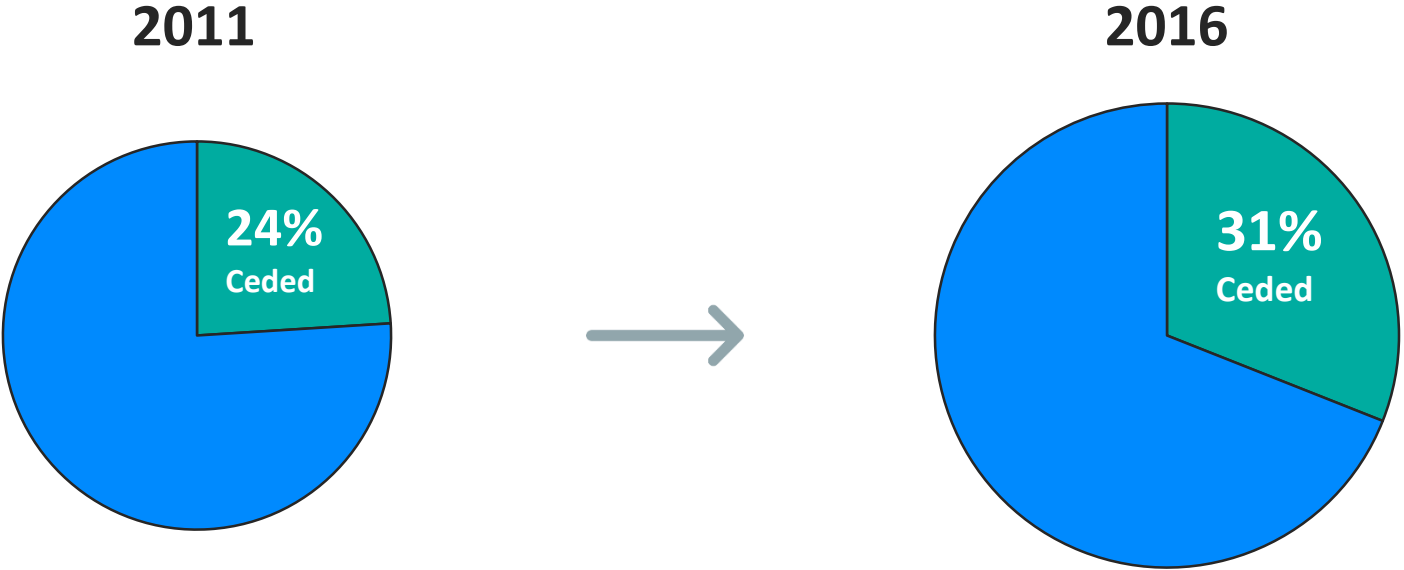
\$ Billions



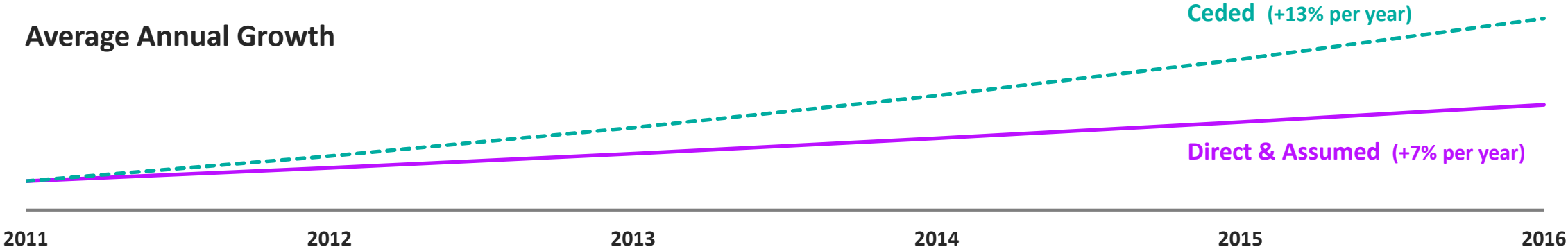
p Preliminary

Source: NAIC's Annual Statement data; 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

Proportion of Total WC Premium Ceded



Average Annual Growth



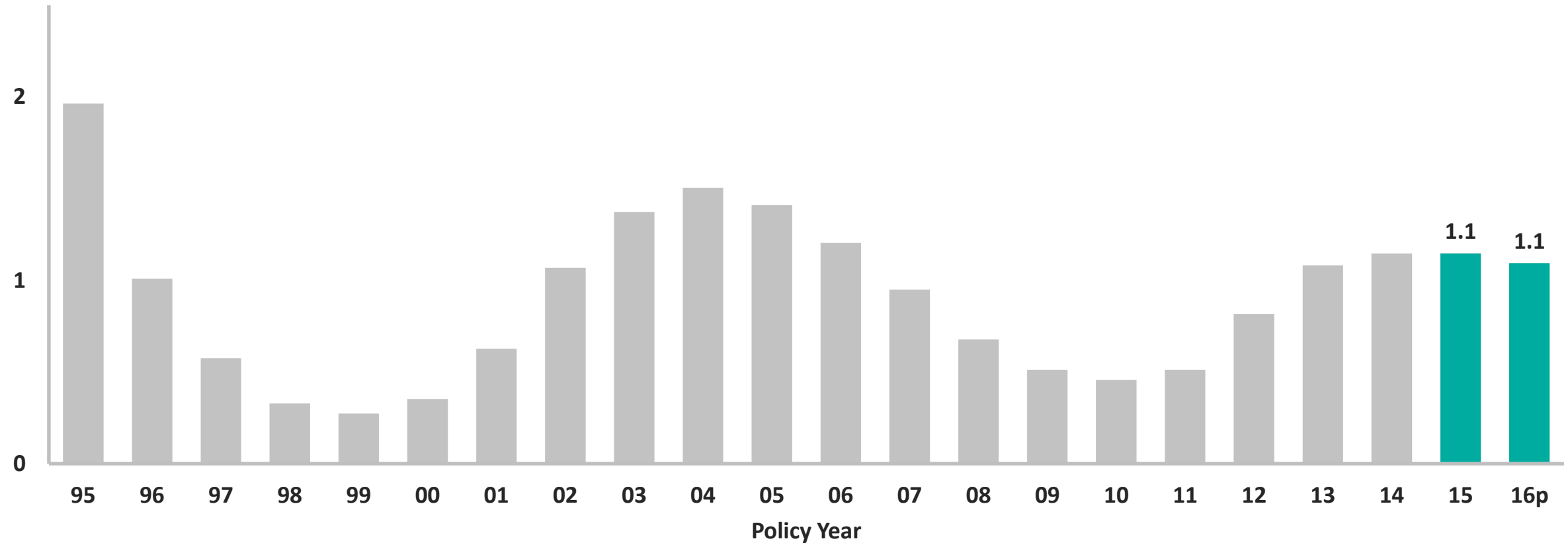
Source: NAIC's Annual Statement data

© Copyright 2017 NCCI Holdings, Inc. All Rights Reserved.

WC Residual Market Premium

NCCI-Serviced WC Residual Market Pools

\$ Billions

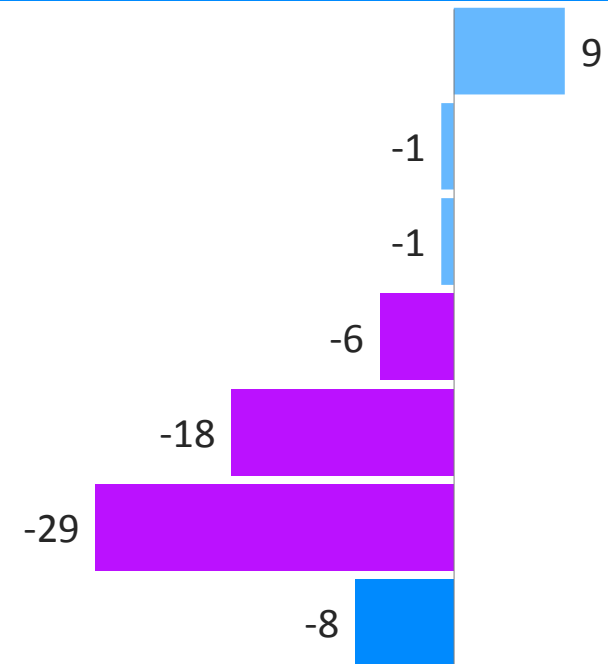


p Preliminary, incomplete policy year projected to ultimate
Includes Pool data for all NCCI-serviced WC Residual Market Pool states, valued as of 12/31/2016
Tennessee Reinsurance Mechanism premium is not included
Source: NCCI's *Residual Market Quarterly Results*

WC Residual Market Premium by Size of Risk

NCCI-Administered WC Residual Market Plan States

Size of Risk	Premium (\$ Millions)		% Change From 2016
	Q1 2016	Q1 2017	
\$ 0 – 2,499	34.1	37.0	9
\$ 2,500 – 4,999	19.6	19.5	-1
\$ 5,000 – 9,999	26.9	26.8	-1
\$ 10,000 – 49,999	68.6	64.3	-6
\$ 50,000 – 99,999	23.5	19.3	-18
\$ 100,000 and Over	33.3	23.6	-29
Total	206.0	190.4	-8

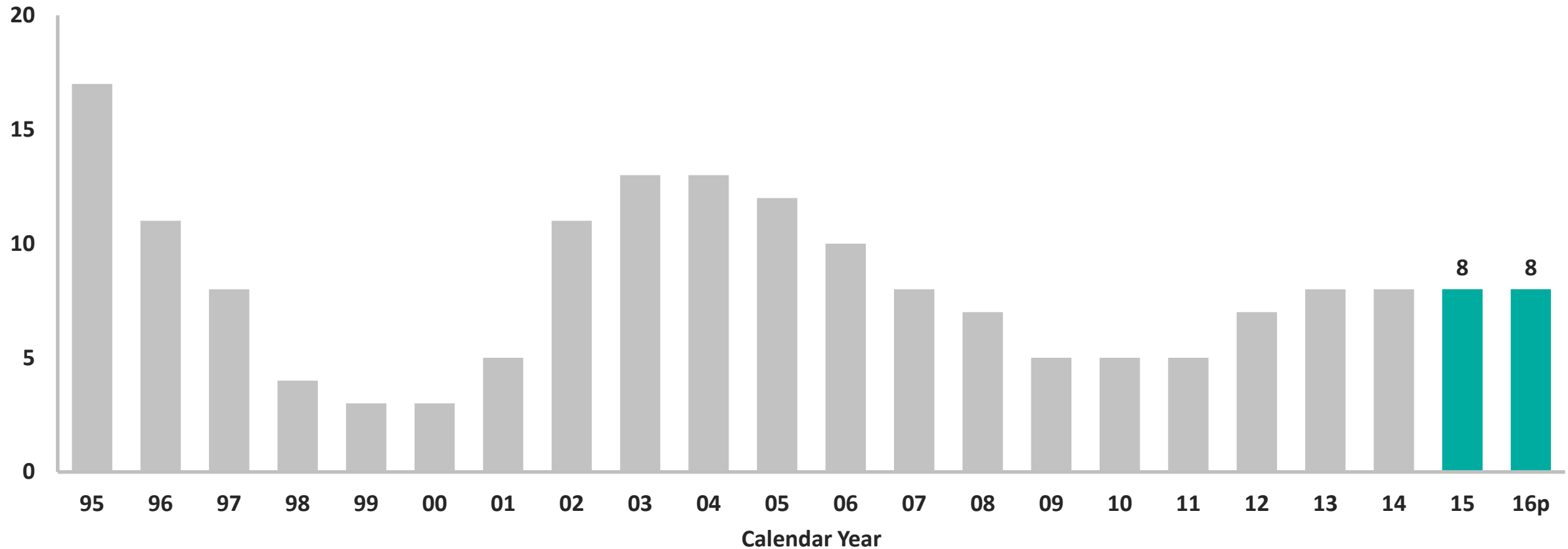


Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC Residual Market Plan states

WC Residual Market Share

NCCI-Serviced WC Residual Market Pools

Percent



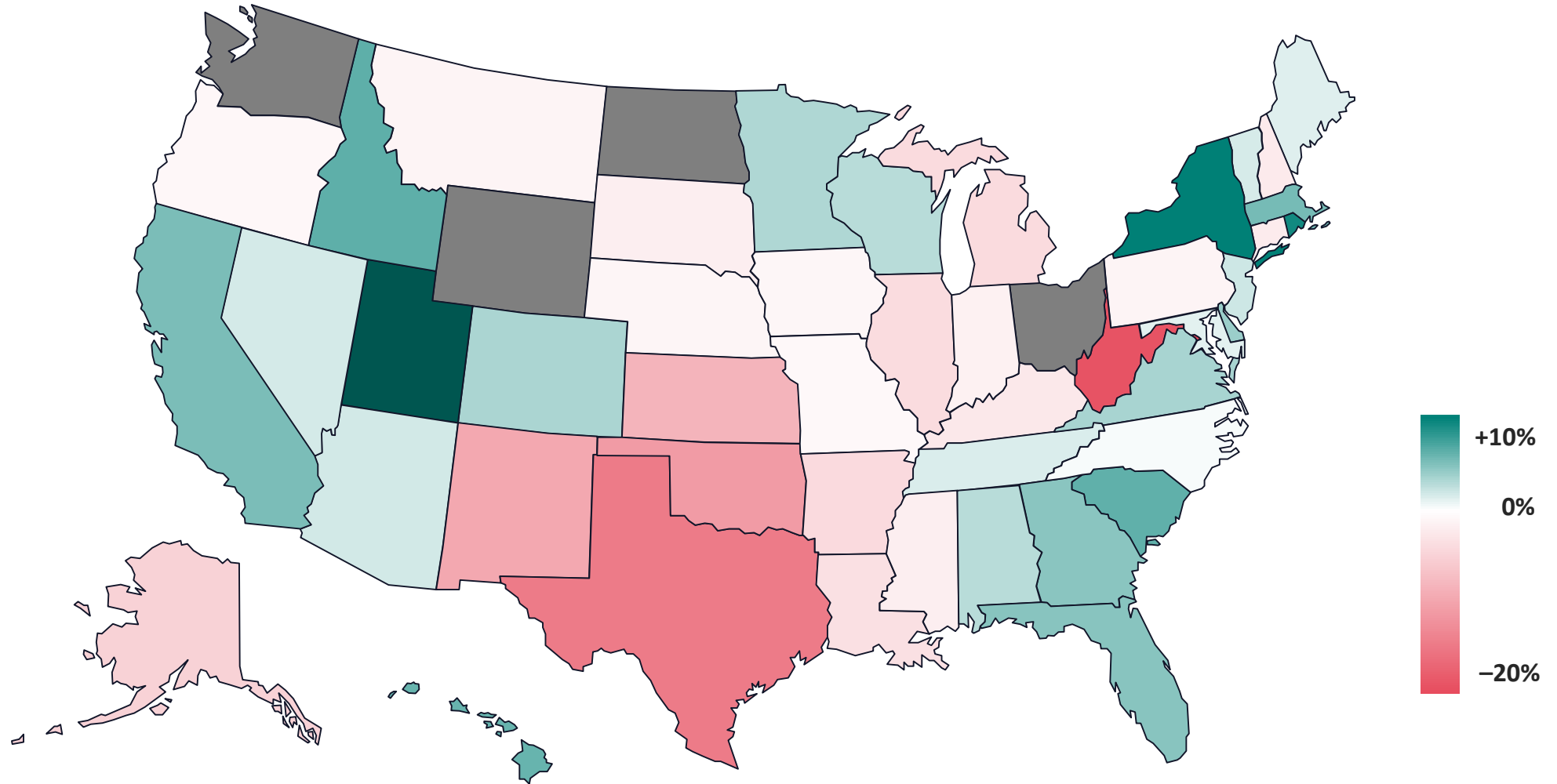
p Preliminary

Includes Pool and direct assignment data for all NCCI-serviced WC Residual Market Pool states

Source: NCCI's *Residual Market Management Summary*

WC Direct Written Premium 2016 Growth

Private Carriers



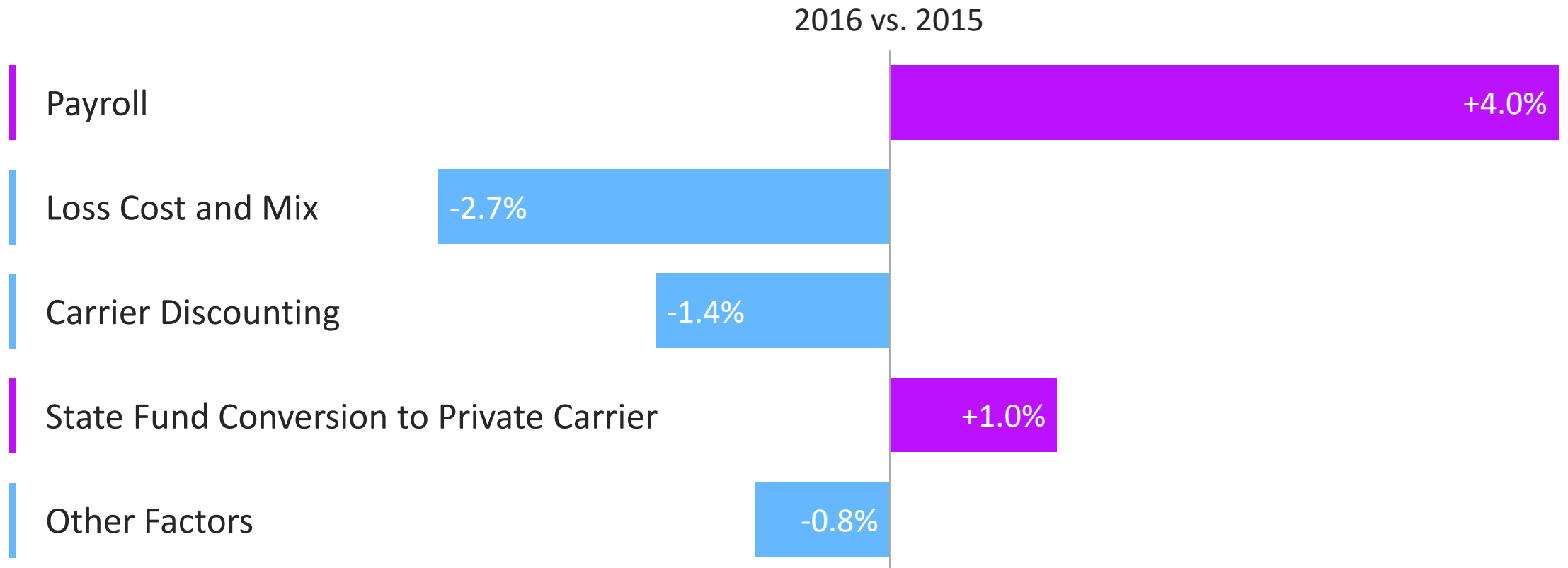
Source: 2015 and 2016, NAIC's Annual Statement Statutory Page 14

© Copyright 2017 NCCI Holdings, Inc. All Rights Reserved.

WC Direct Written Premium Change by Component

Private Carriers—NCCI States

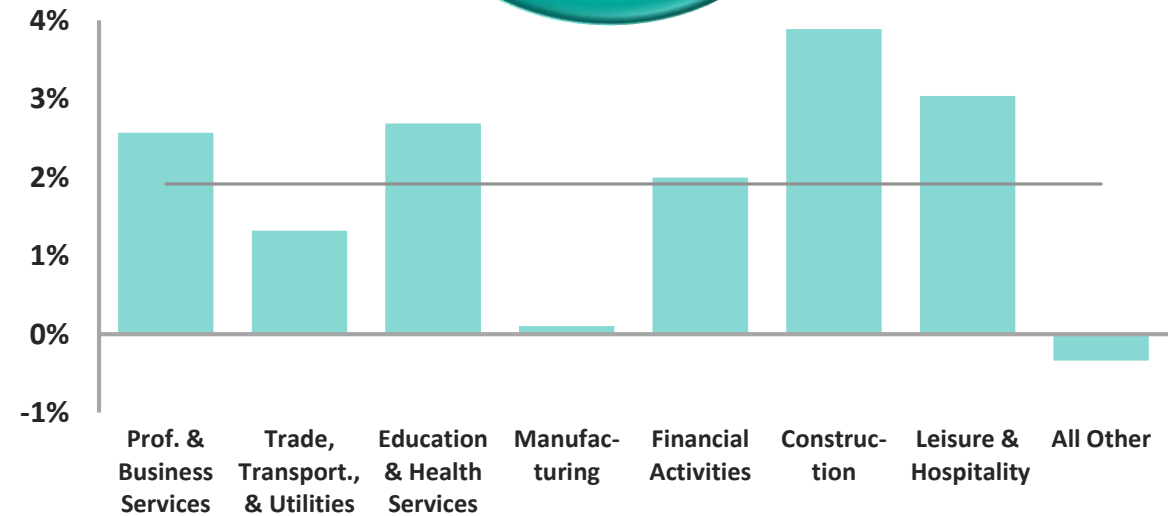
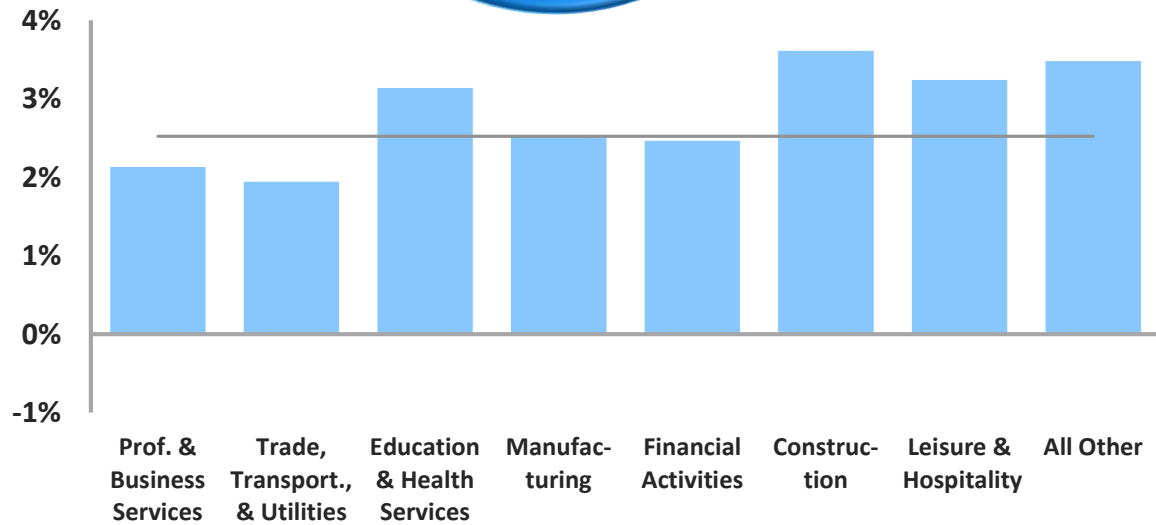
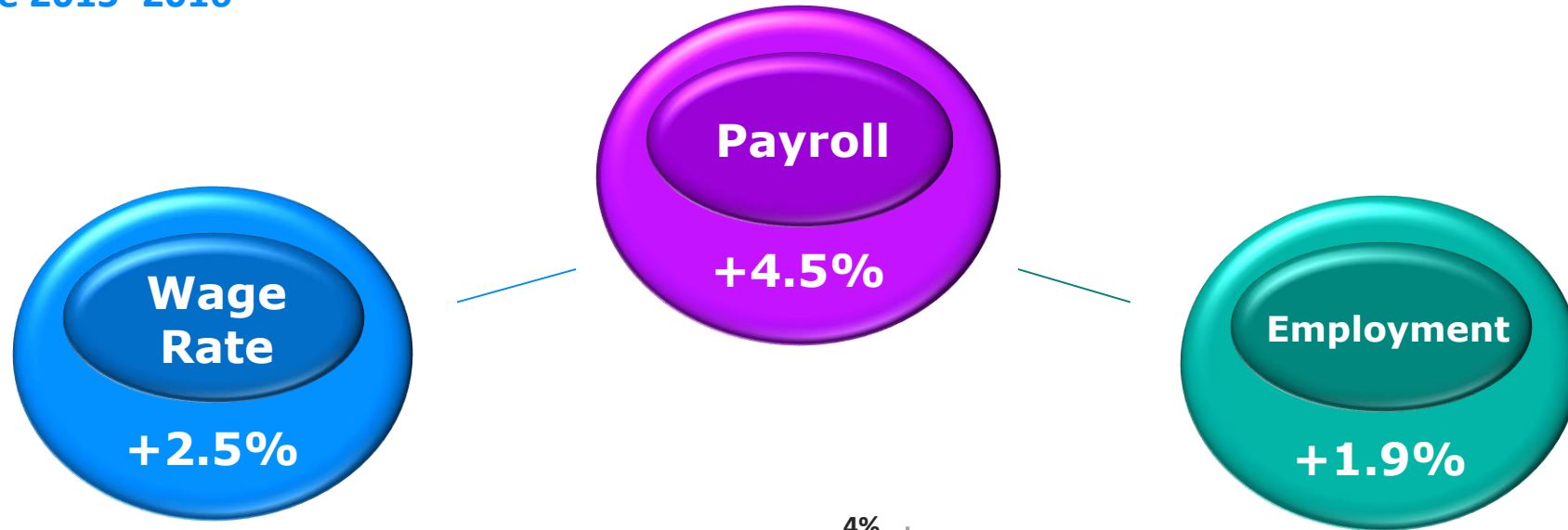
Change in Direct Written Premium: 0.0%



Sources: DWP Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services
Components: NCCI Policy data

Increases in Payroll Continue to Drive Premium Growth

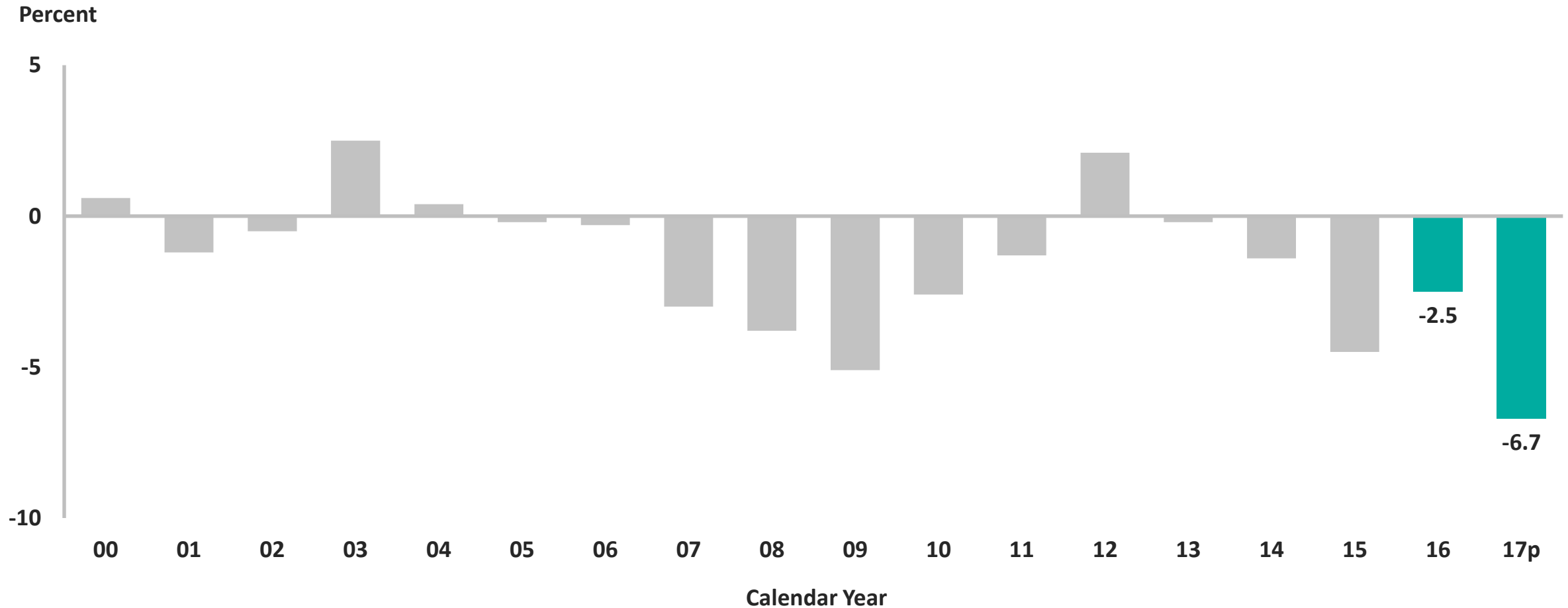
Forecast Change 2015–2016



Sources: Moody's Analytics and NCCI

WC Approved Changes in Bureau Premium Level

By Effective Year for NCCI States



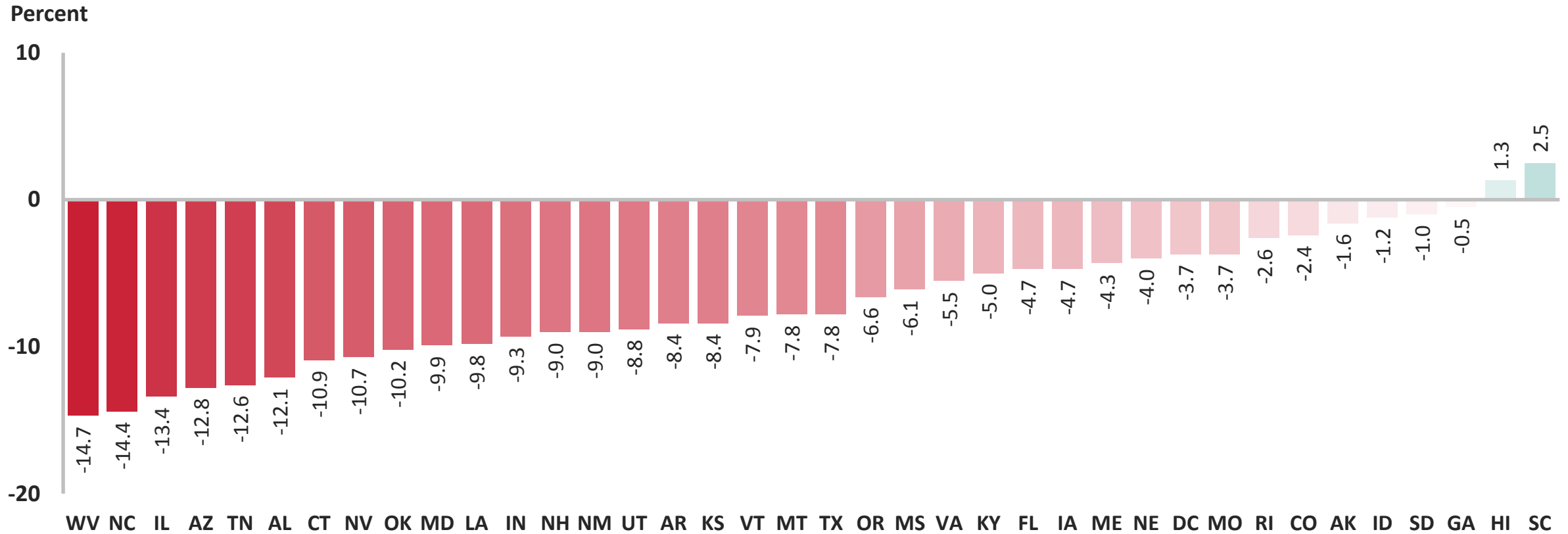
p Preliminary

Source: NAIC's Annual Statement Statutory Page 14

Bureau premium level changes reflect approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 5/12/2017, relative to those previously approved in NCCI states only
IN and NC are filed in cooperation with state rating bureaus

Latest Changes in Bureau Premium Level

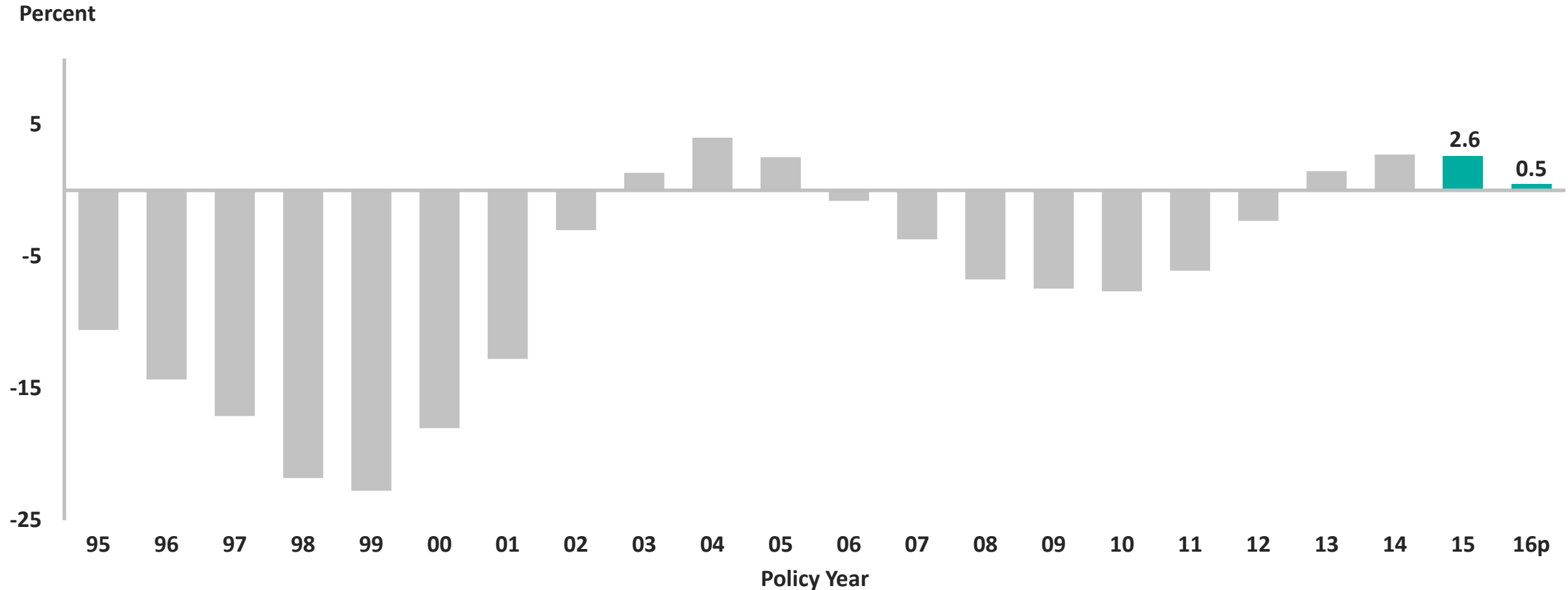
Voluntary Market, Excludes Law-Only Filings



Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 5/12/2017, as filed by the applicable rating organization, relative to those previously approved. IN and NC are filed in cooperation with state rating bureaus.

WC Impact of Discounting on Premium

Private Carriers—NCCI States

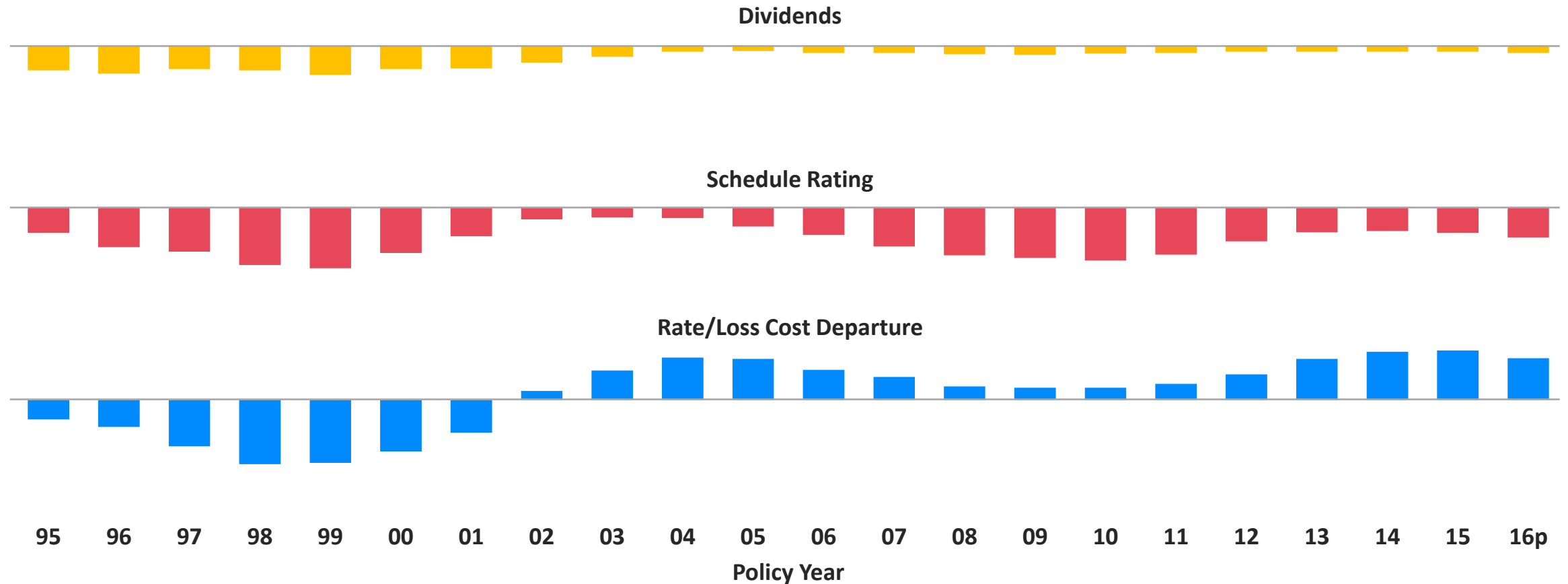


p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data
NCCI benchmark level does not include a profit and contingency provision or expense constant
Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Impact of Discounting on Premium

Private Carriers—NCCI States



p Preliminary

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

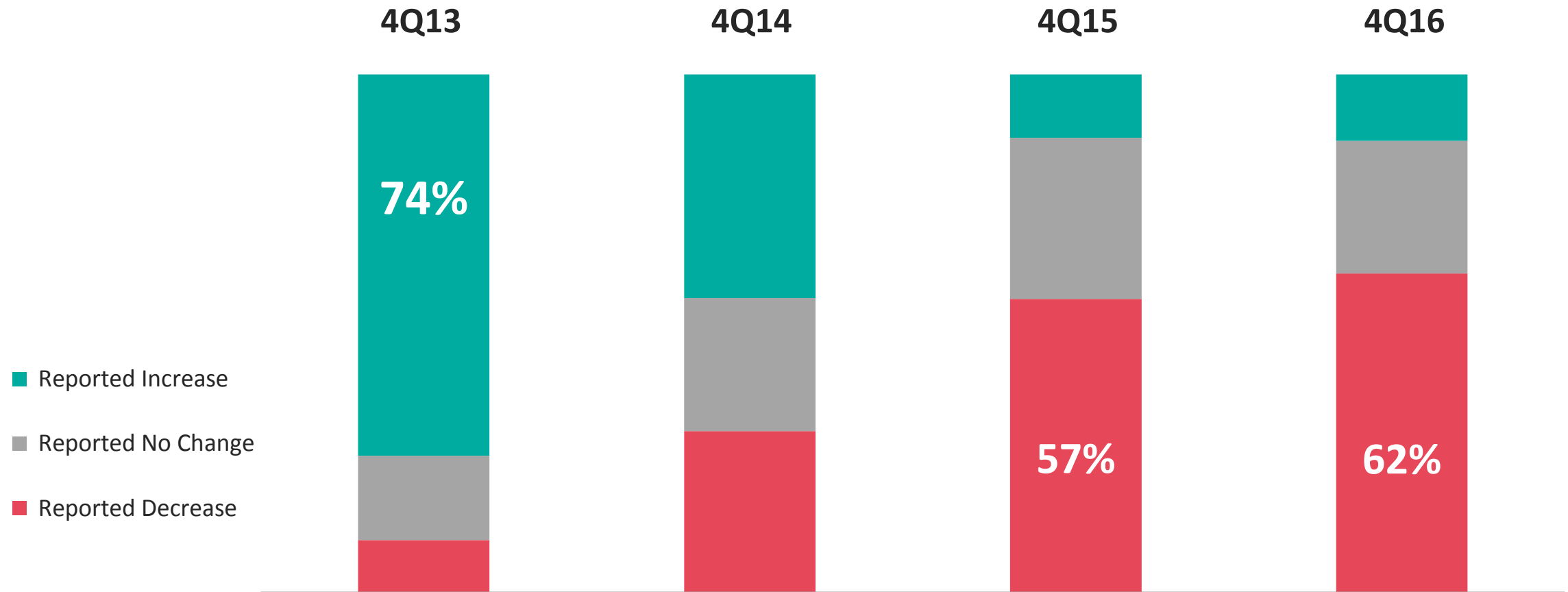
Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include a profit and contingency provision or expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Pricing—Market Index Survey

Percentage of Respondents



Sources: The Council of Insurance Agents & Brokers:

“Downward Trend in Commercial P/C Rates Continued in Fourth Quarter (of 2016)”

“Commercial P/C Pricing: Continued Decreases Across Most Lines (in Fourth Quarter of 2015)”

“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”

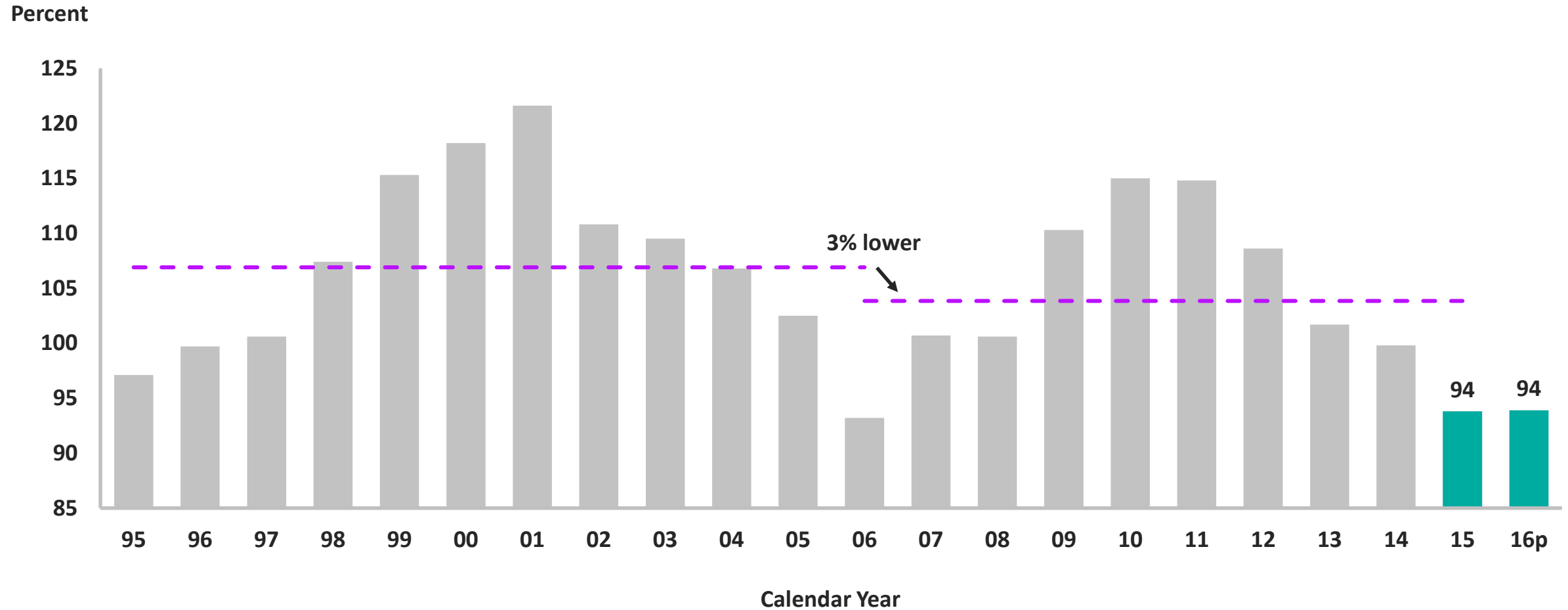


ANNUAL
ISSUES
SYMPOSIUM
2017

WORKERS COMPENSATION RESULTS

WC Combined Ratio—Underwriting Gain Achieved

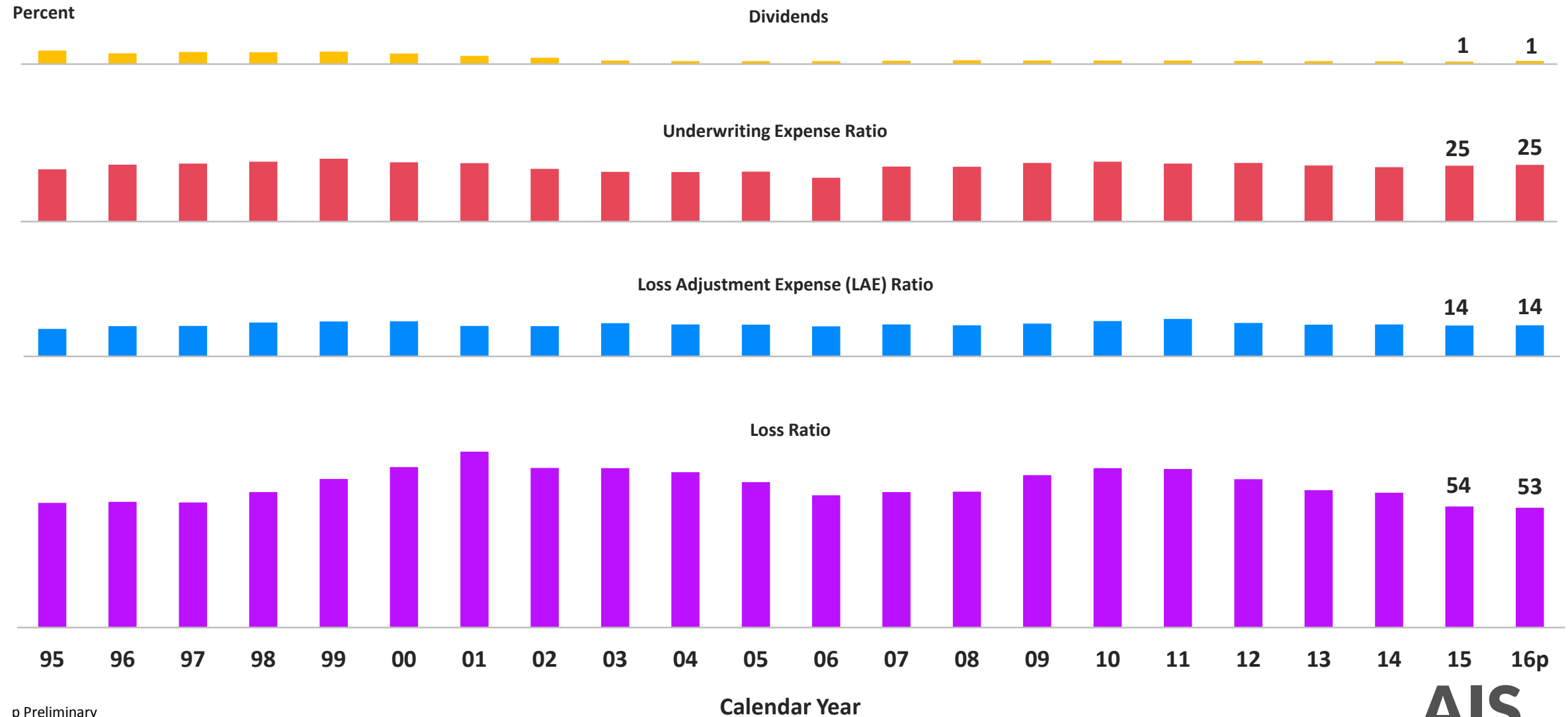
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data

WC Combined Ratio Components

Private Carriers

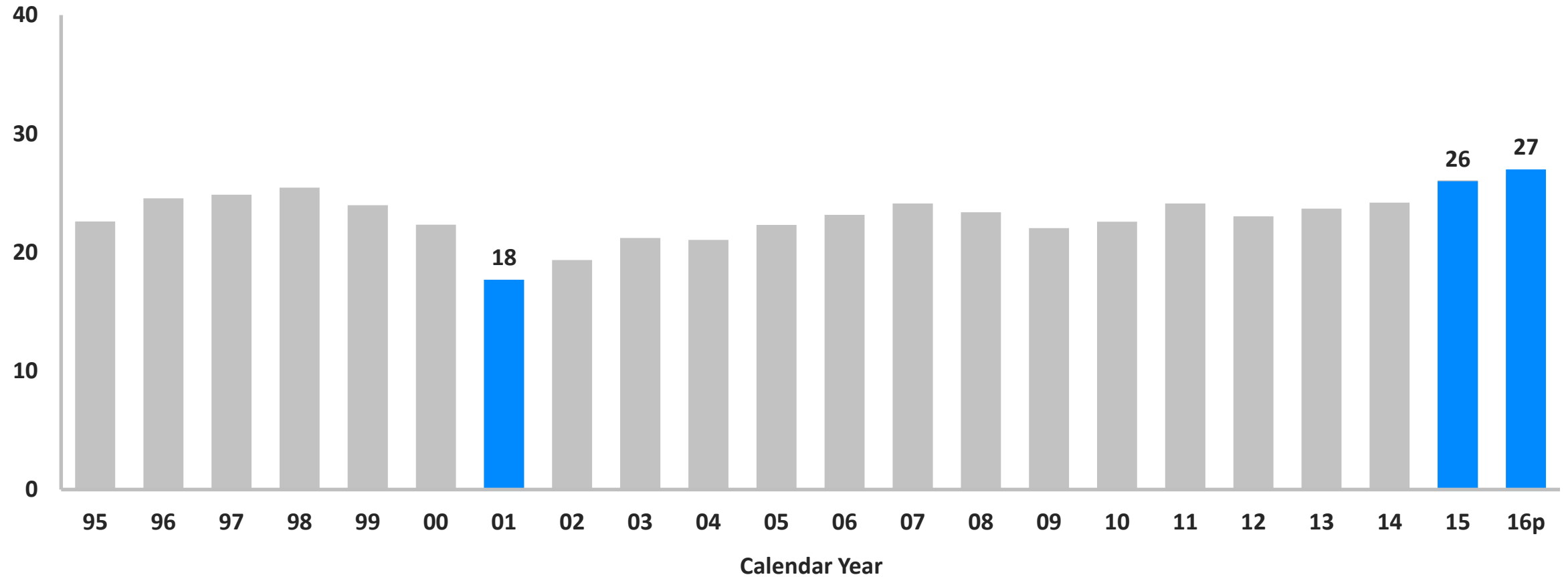


p Preliminary
Source: NAIC's Annual Statement data

WC LAE to Loss Ratio—Net Incurred LAE to Incurred Losses

Private Carriers

Percent



p Preliminary

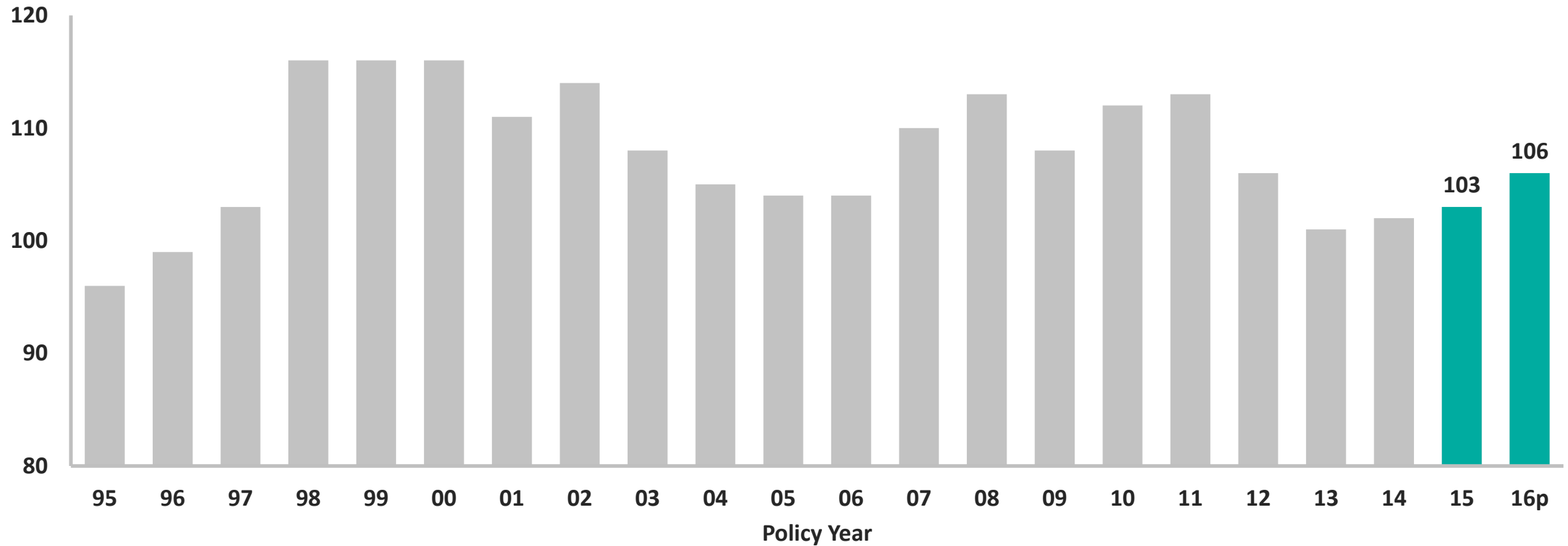
Source: NAIC's Annual Statement data

LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense

WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools

Percent



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 12/31/2016

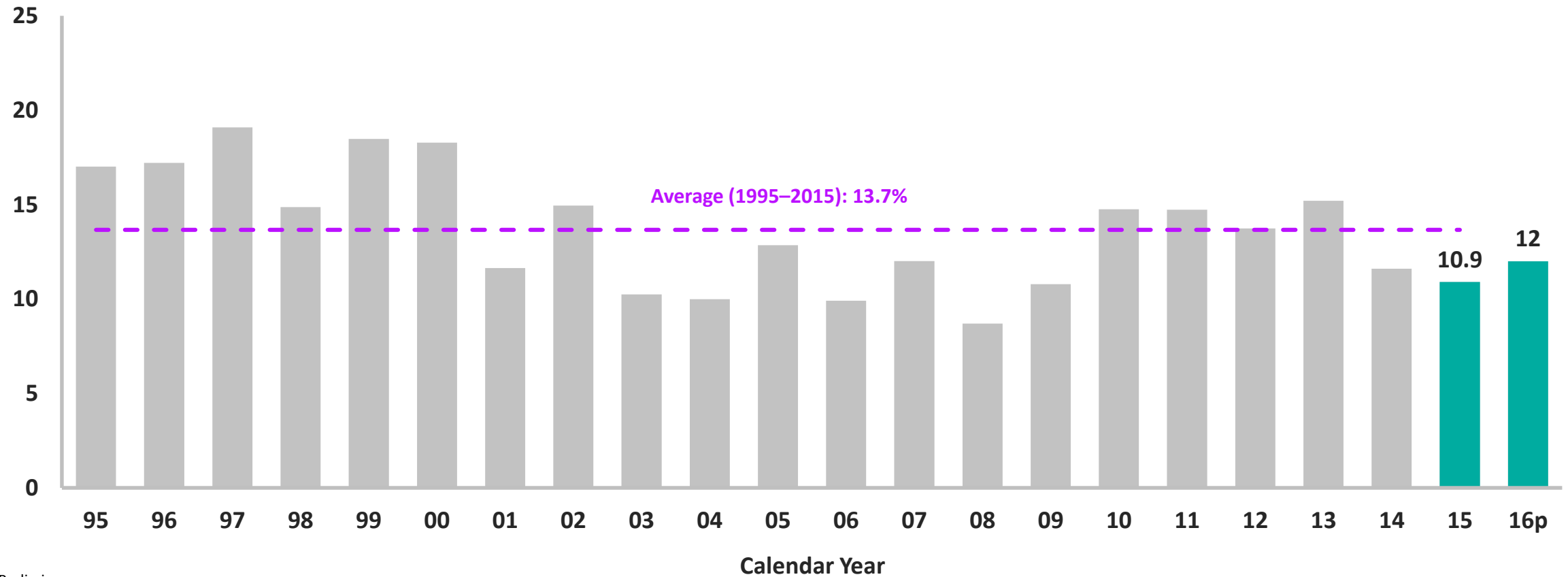
Tennessee Reinsurance Mechanism experience is not included in the combined ratios

Source: NCCI's *Residual Market Quarterly Results*

WC Investment Gain on Insurance Transactions Ratio to Net Earned Premium

Private Carriers

Percent



p Preliminary

Source: NAIC's Annual Statement data

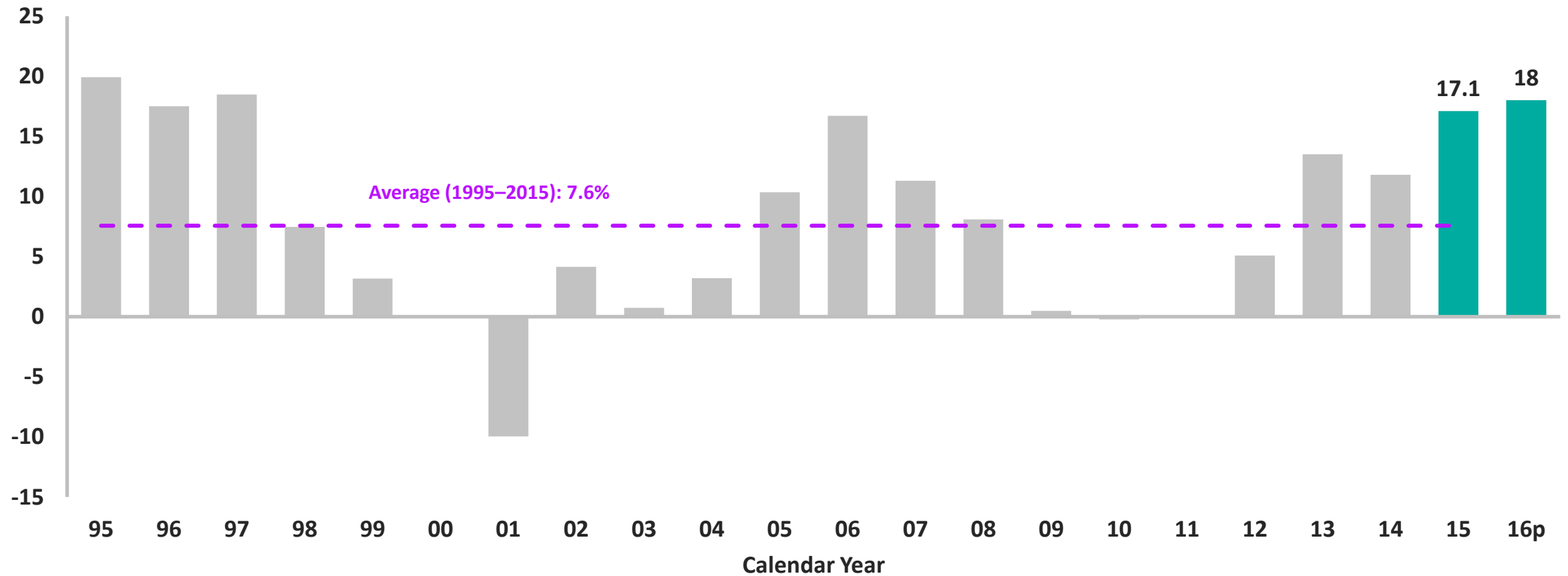
Investment Gain on Insurance Transactions includes Other Income

2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4

WC Pretax Operating Gain

Private Carriers

Percent



p Preliminary

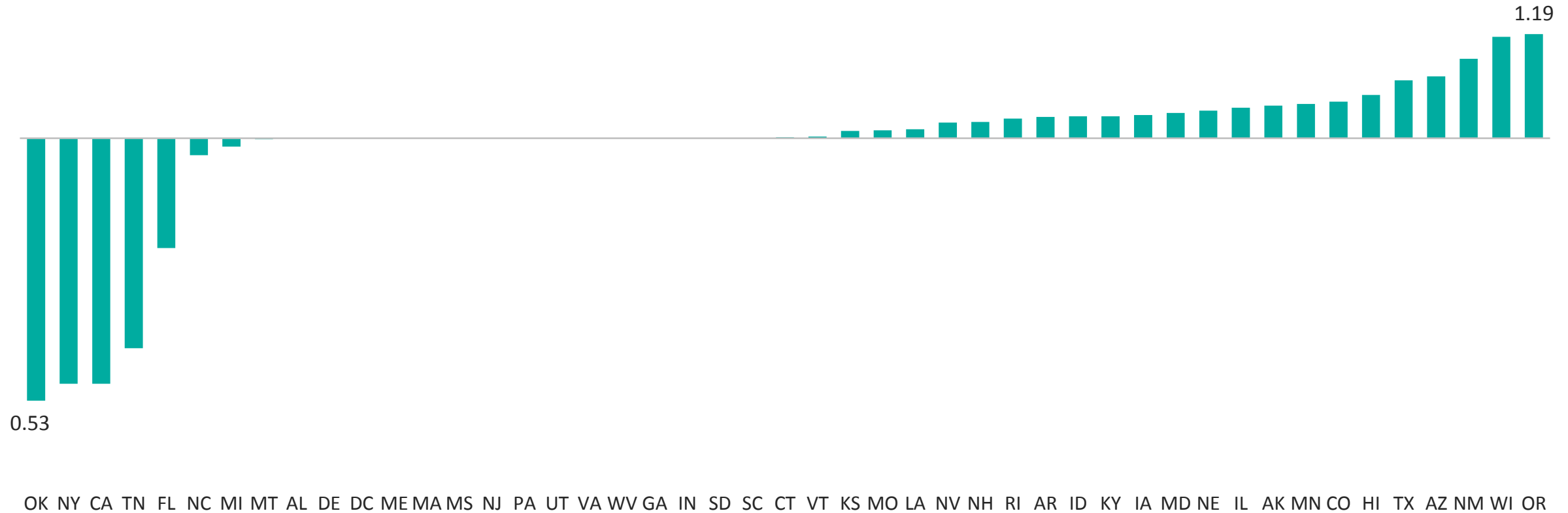
Source: NAIC's Annual Statement data

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

2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 17.7

Cumulative Permanent Partial Indemnity Benefit Change Indices

By State, 2000–2015

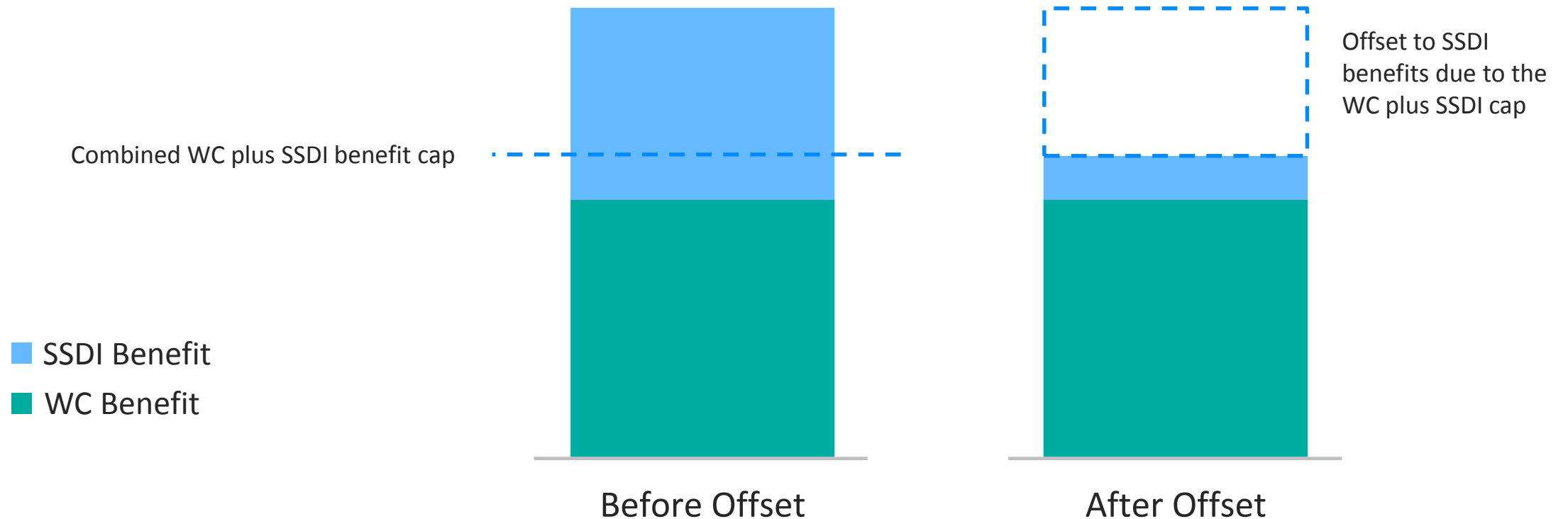


Source: NCCI's *Annual Statistical Bulletin*

Changes represent estimated impacts that could be quantified at the time of each legislative enactment or judicial decision and do not include the effects of wage inflation on weekly benefits.

WC and Social Security Disability Insurance (SSDI) Benefits

Comparison of Weekly PPD Benefits for a Dual Recipient Before and After the SSDI Offset



Illustrative example of initial benefits in a standard offset state for a dual recipient who previously earned the state median wage



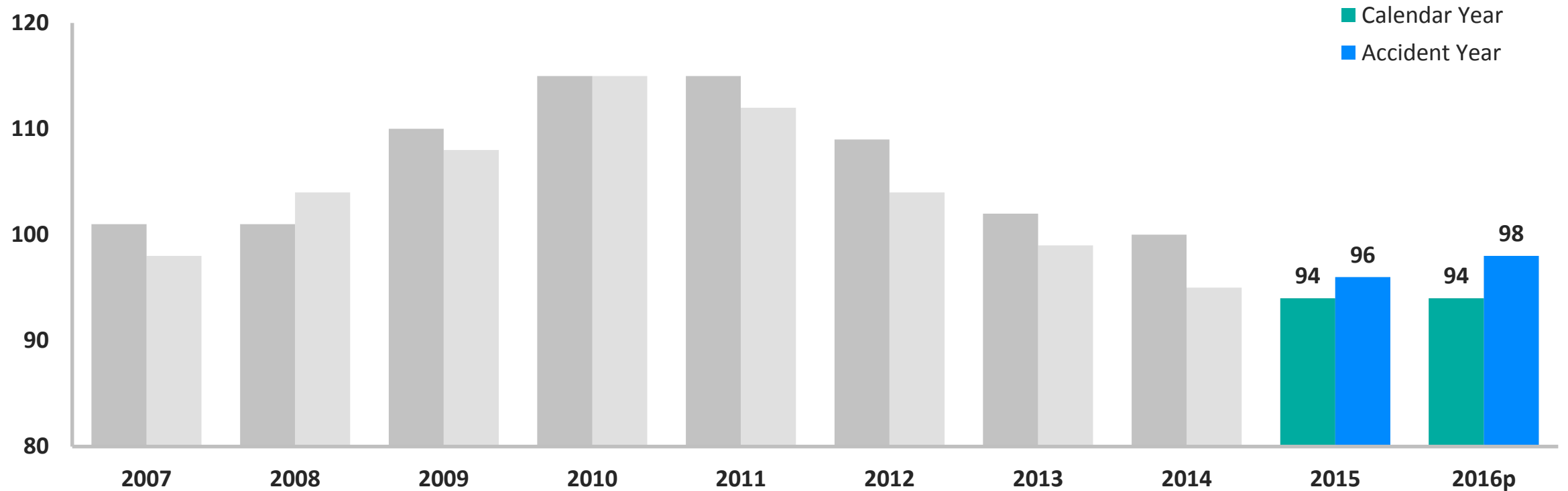
ANNUAL
ISSUES
SYMPOSIUM
2017

WORKERS COMPENSATION ACCIDENT YEAR RESULTS AND RESERVE ESTIMATES

WC Net Combined Ratios Calendar Year vs. Accident Year As Reported

Private Carriers

Percent

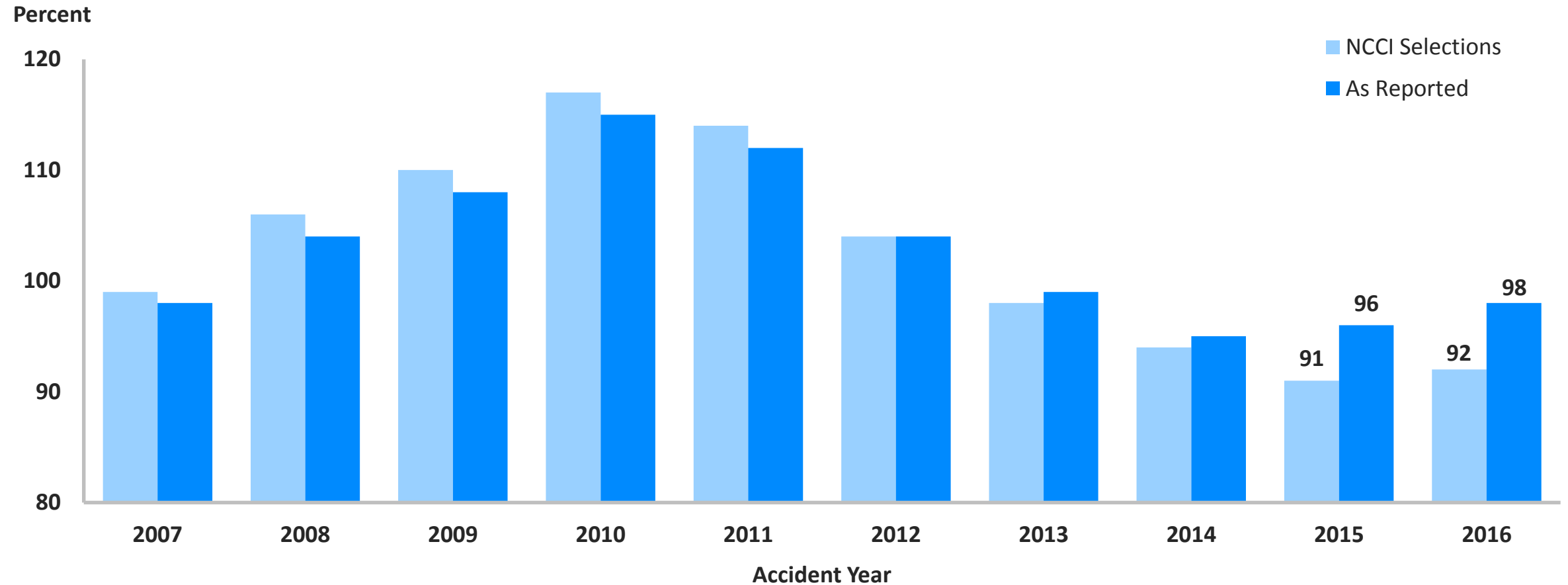


p Preliminary
Source: NAIC's Annual Statement data
Accident Year information is reported as of 12/31/2016
Includes dividends to policyholders

WC Net Combined Ratios

NCCI's Accident Year Selections vs. As Reported

Private Carriers

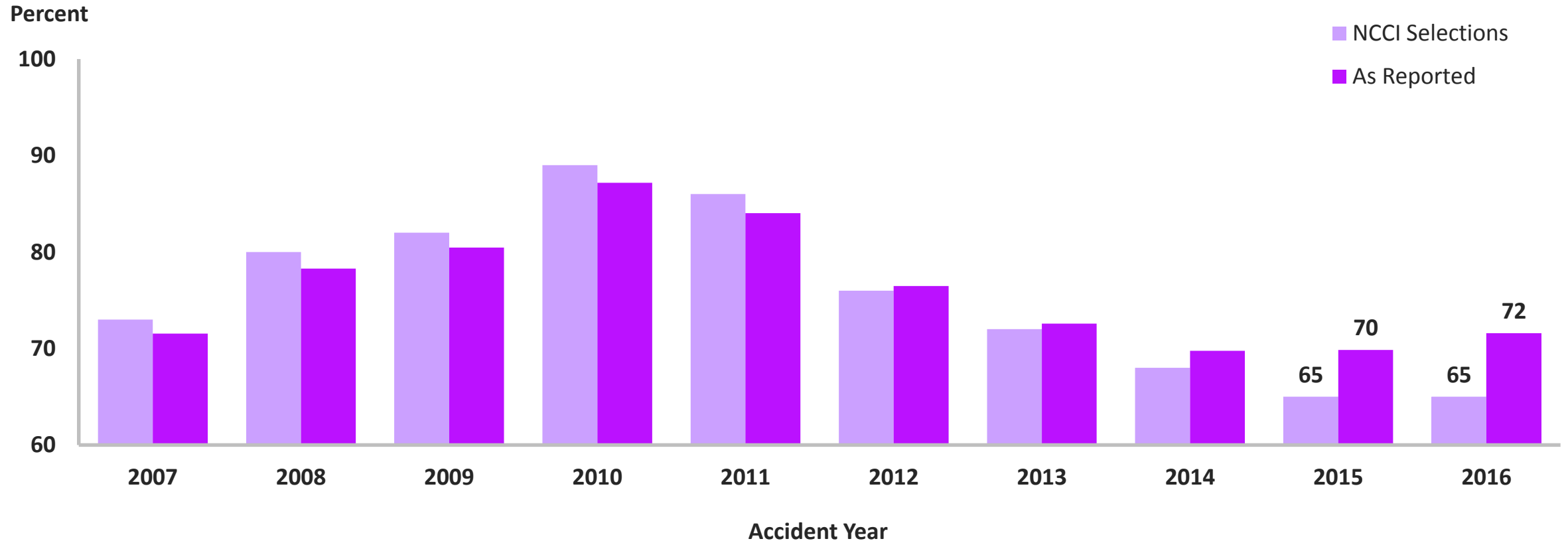


Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2016
NCCI Selections: NCCI analysis based on NAIC's Annual Statement data
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

WC Net Loss and LAE Ratios

NCCI's Accident Year Selections vs. As Reported

Private Carriers

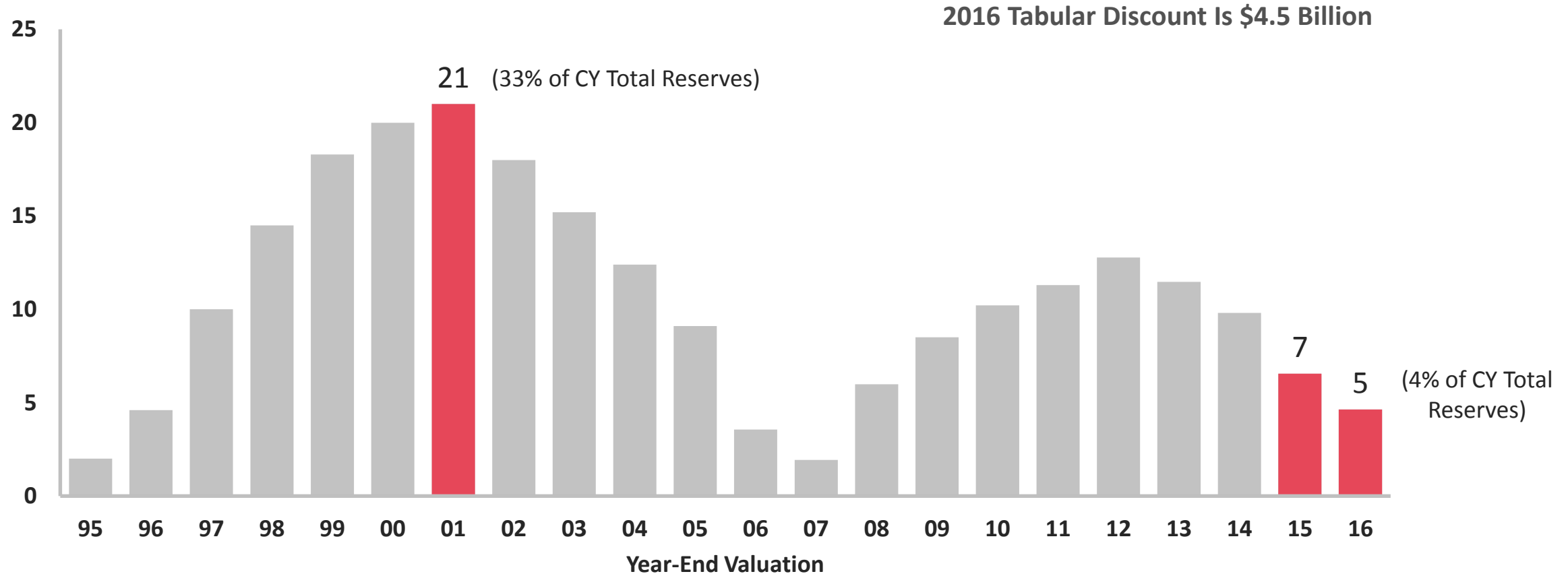


Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2016
NCCI Selections: NCCI analysis based on NAIC's Annual Statement data
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

WC Net Loss and LAE Reserve Deficiencies

Private Carriers

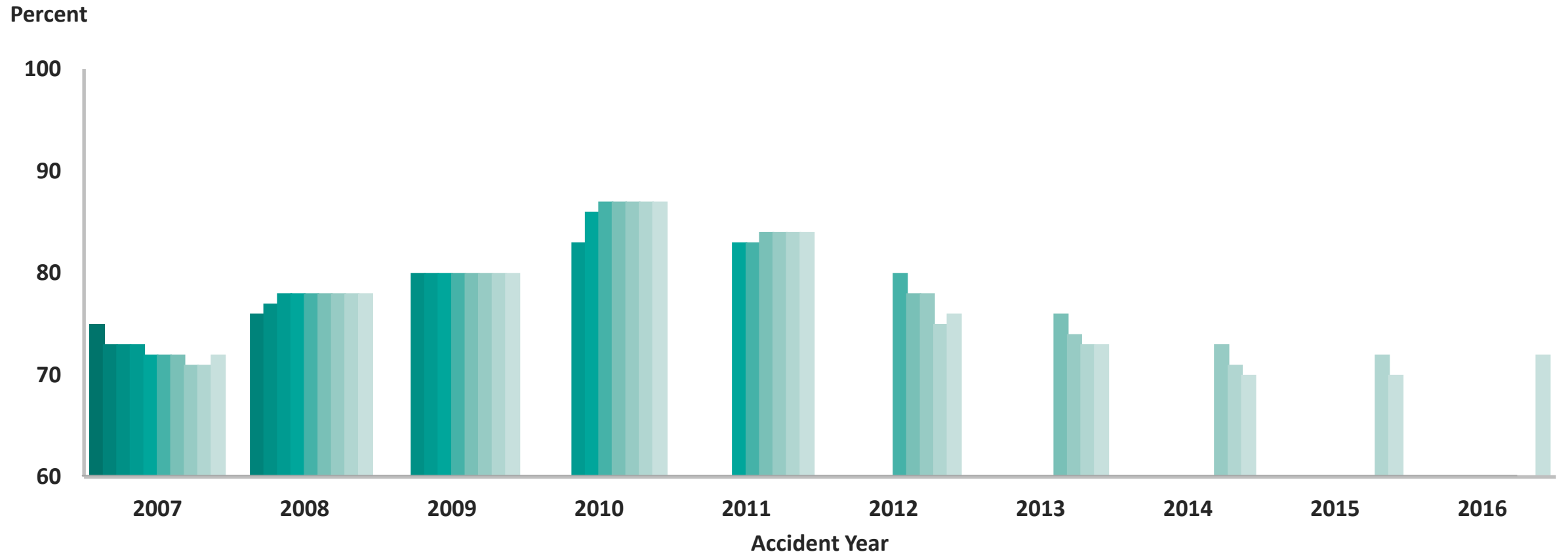
\$ Billions



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

WC Net Loss and LAE Ratio Emergence

Private Carriers



Source: NAIC's Annual Statement Schedule P—Part 1D data at year-end valuations
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

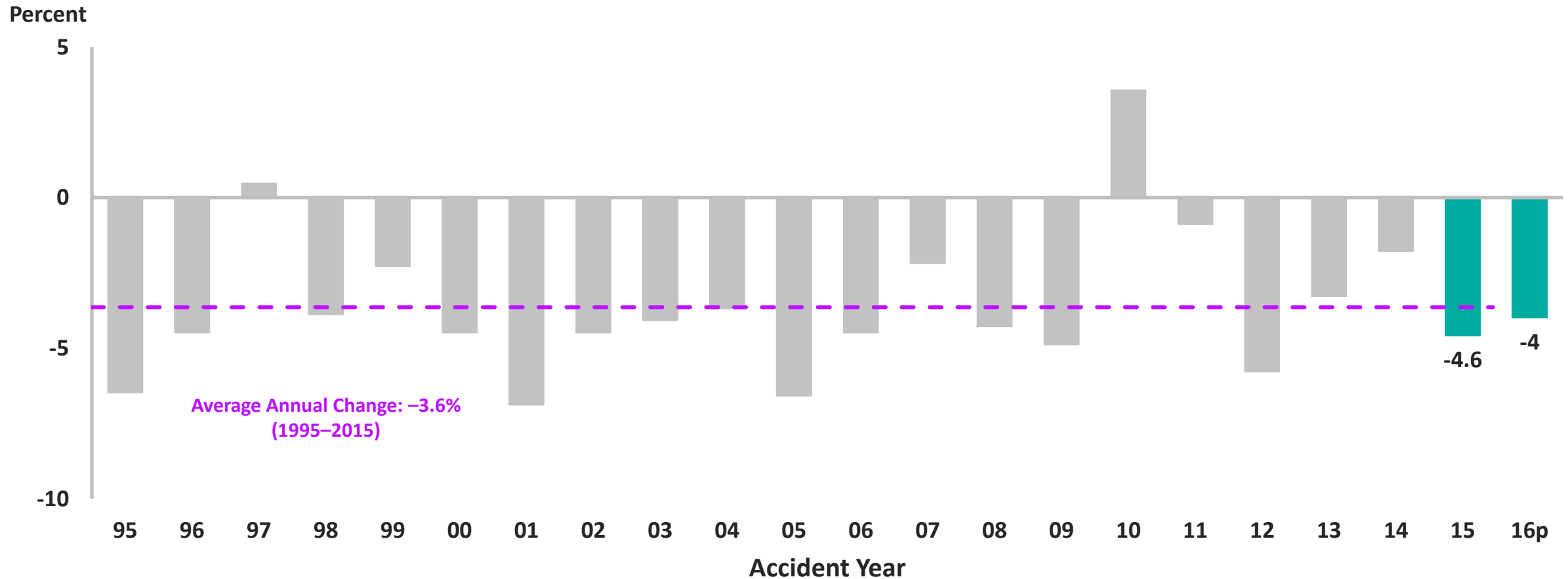


ANNUAL
ISSUES
SYMPOSIUM
2017

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



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary based on data valued as of 12/31/2016

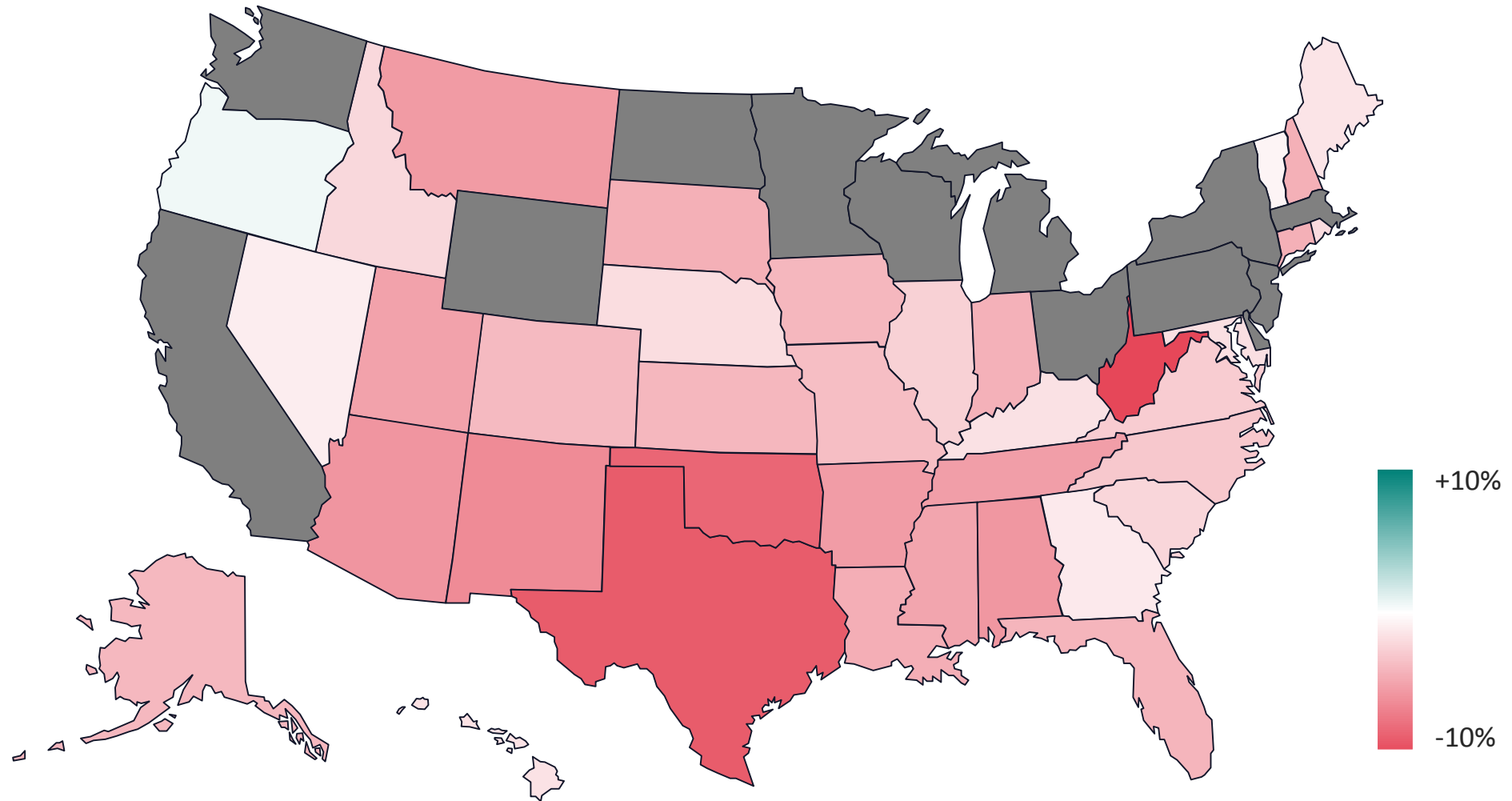
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2015

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2011

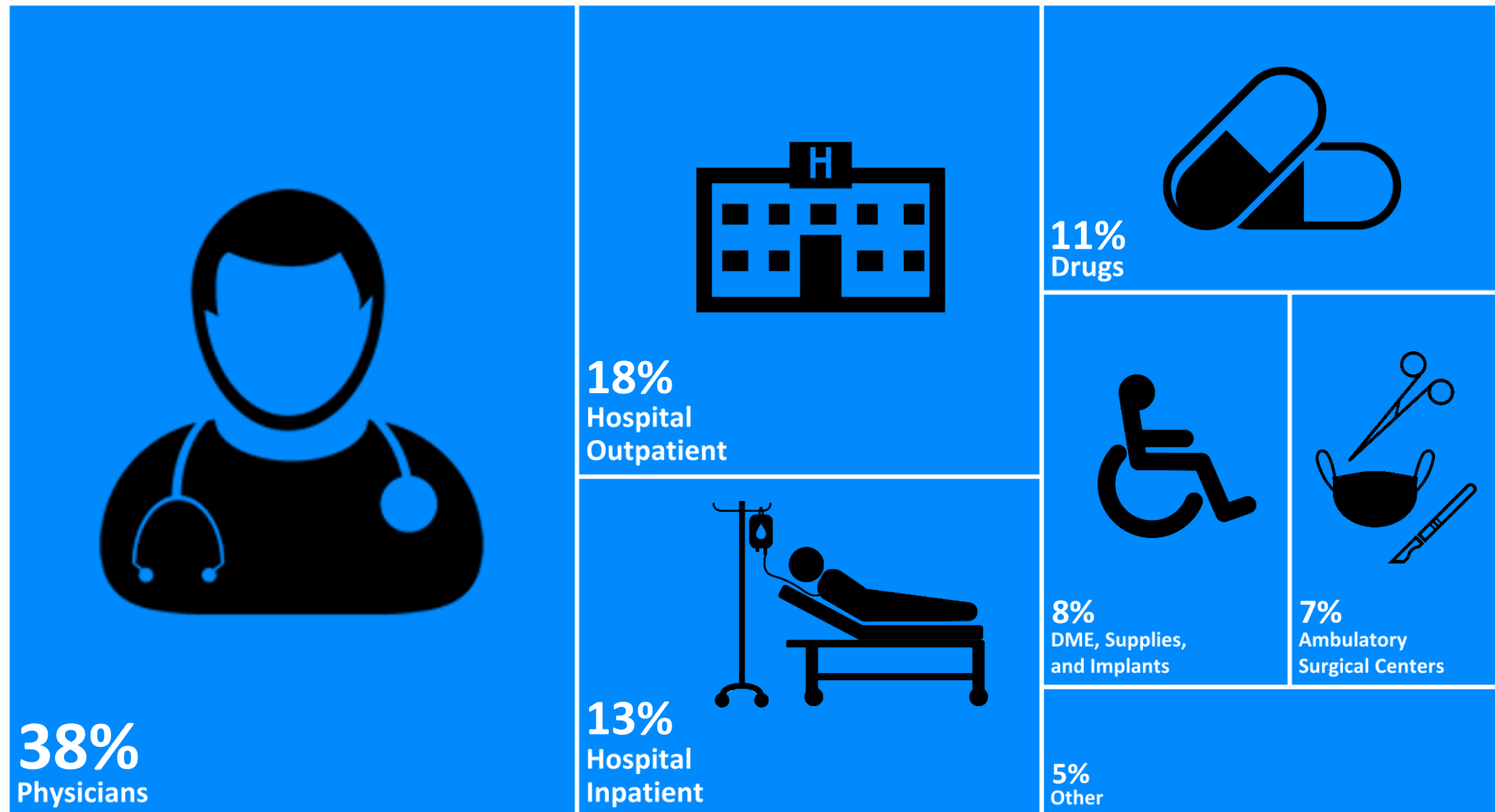
WC Lost-Time Claim Frequency

Average Annual Change 2011–2015



Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2015
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services

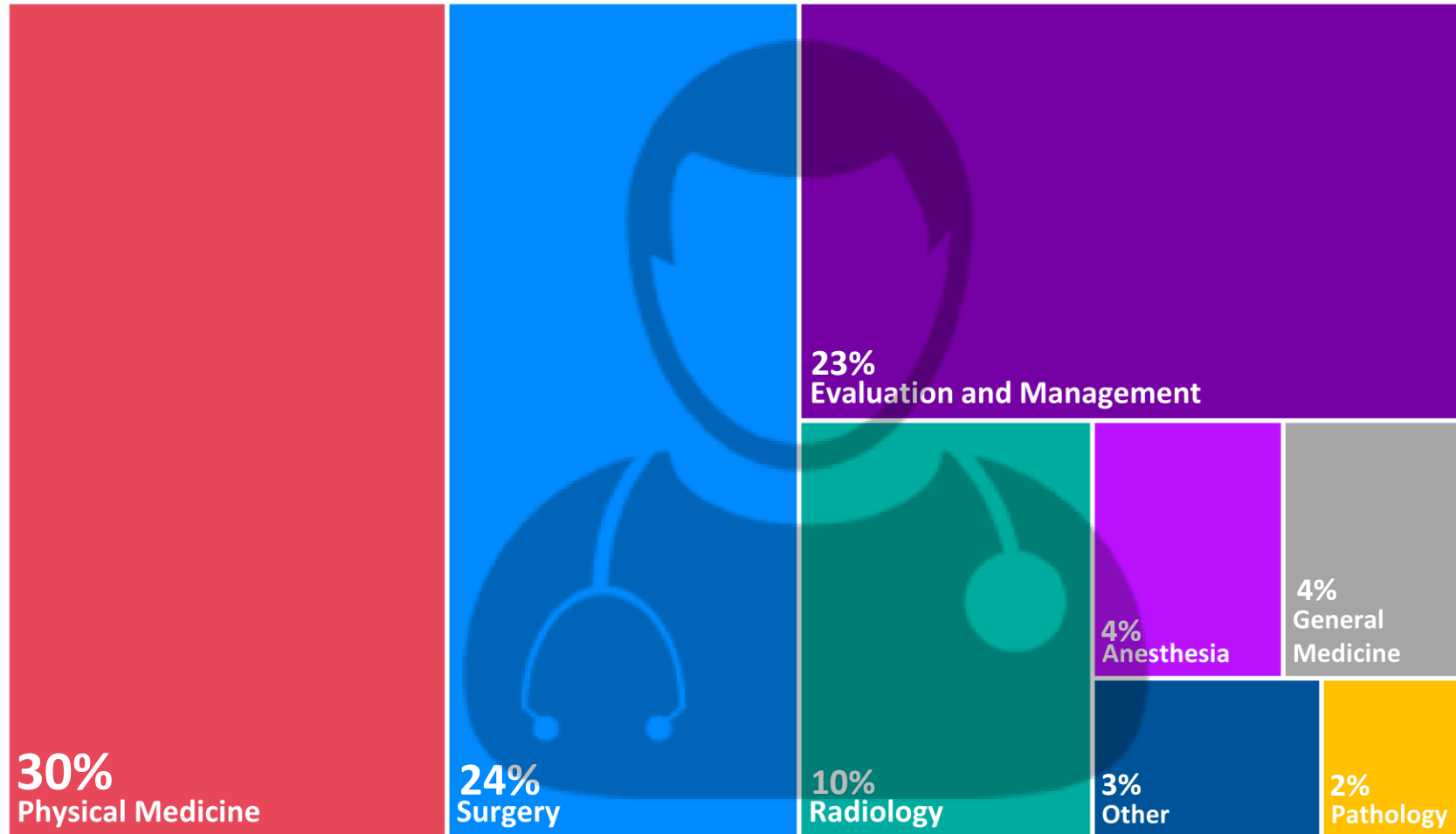
Distribution of Medical Costs



Service Year 2015

Source: Data underlying NCCI's State Medical Data Reports for all states where NCCI provides ratemaking services, excluding TX

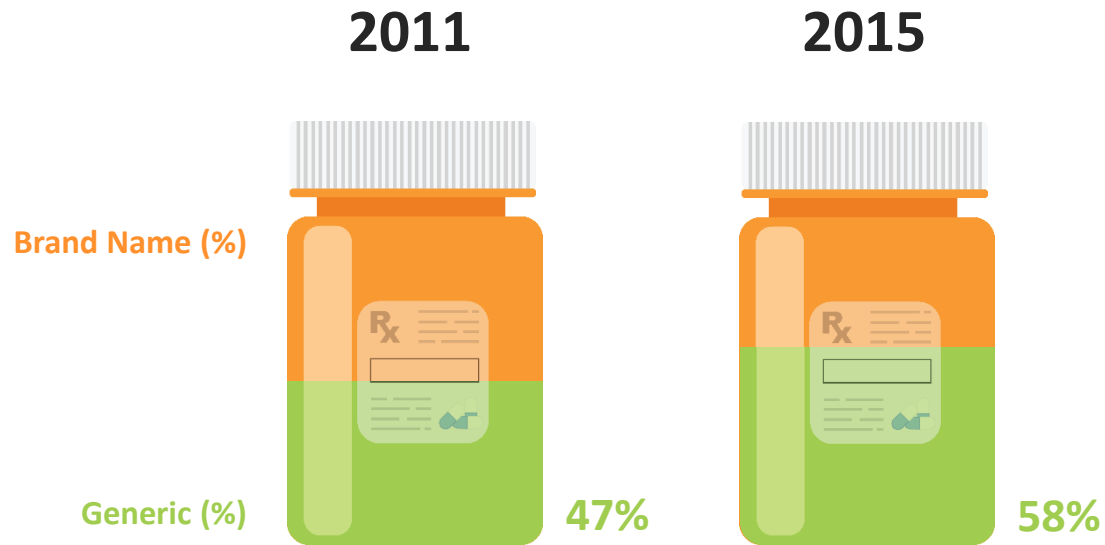
Distribution of Physician Costs



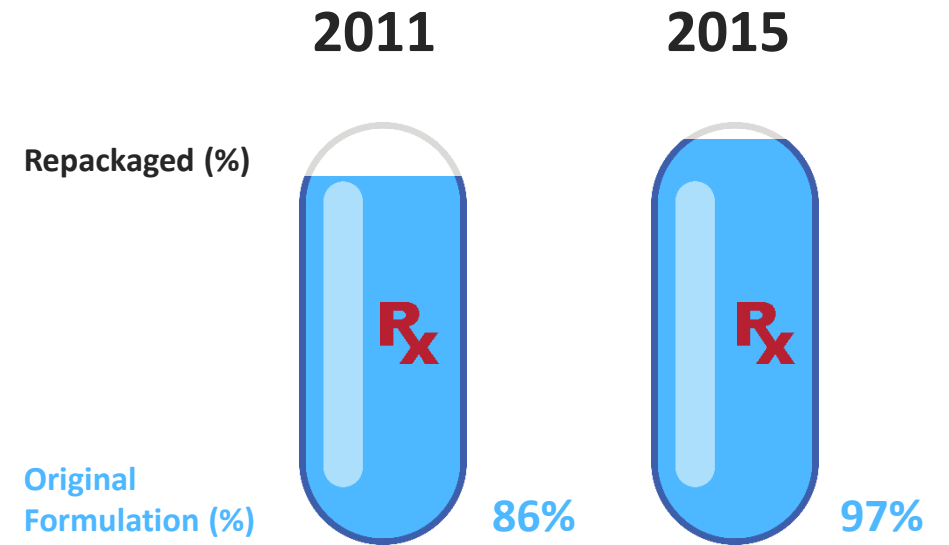
Service Year 2015

Source: Data underlying NCCI's State Medical Data Reports for all states where NCCI provides ratemaking services, excluding TX

Prescription Drugs—Changes Over Time



Generic equivalents now represent the majority of payments for drugs prescribed in workers compensation.



Repackaged drugs represent a very small proportion of overall drug payments.

Prescription Drug Fee Schedule Study

The Estimated Impact on WC Drug Costs Varies Based on the Type of Drug Fee Schedule Adopted

No Fee
Schedule



Low-Fee
Schedule

Cost
Savings

-9%

Transitioning from no fee schedule to a relatively low-fee schedule significantly reduces prices paid for prescription drugs.

No Fee
Schedule



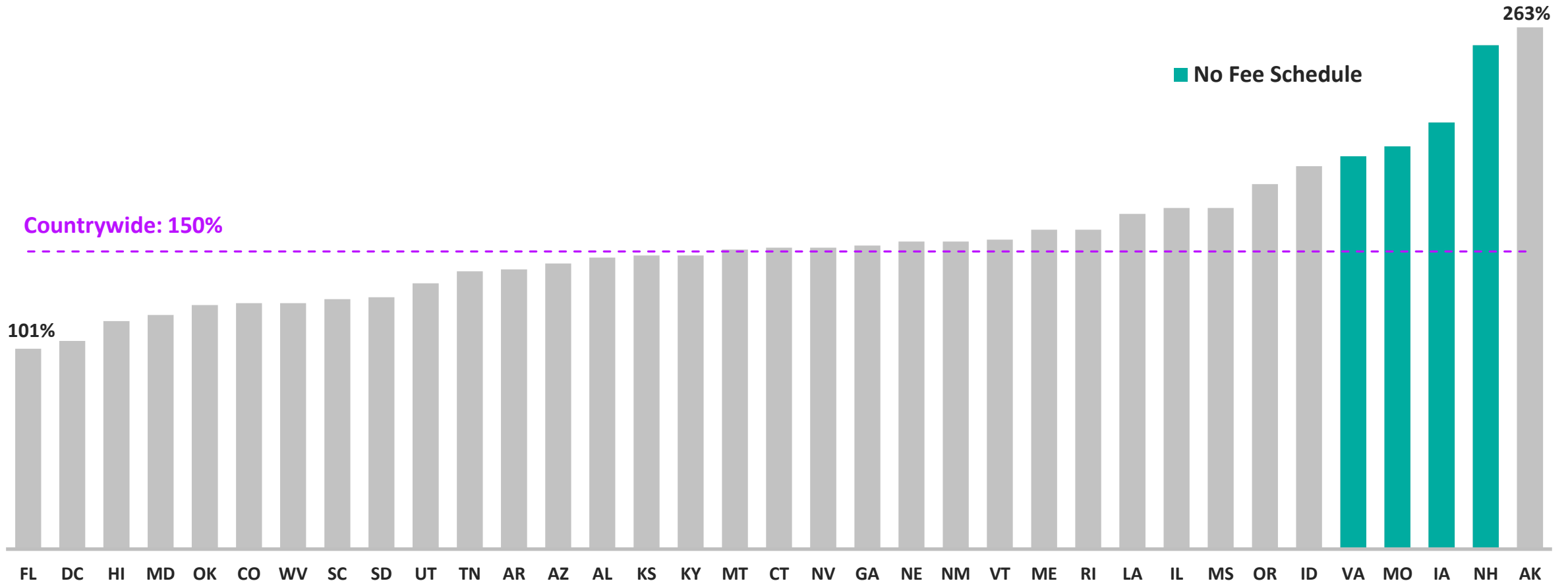
High-Fee
Schedule

Cost
Increase

+1%

Transitioning from no fee schedule to a relatively high-fee schedule may actually increase prescription drug costs.

Physician Payments as a Percentage of the Medicare Reimbursement Rate

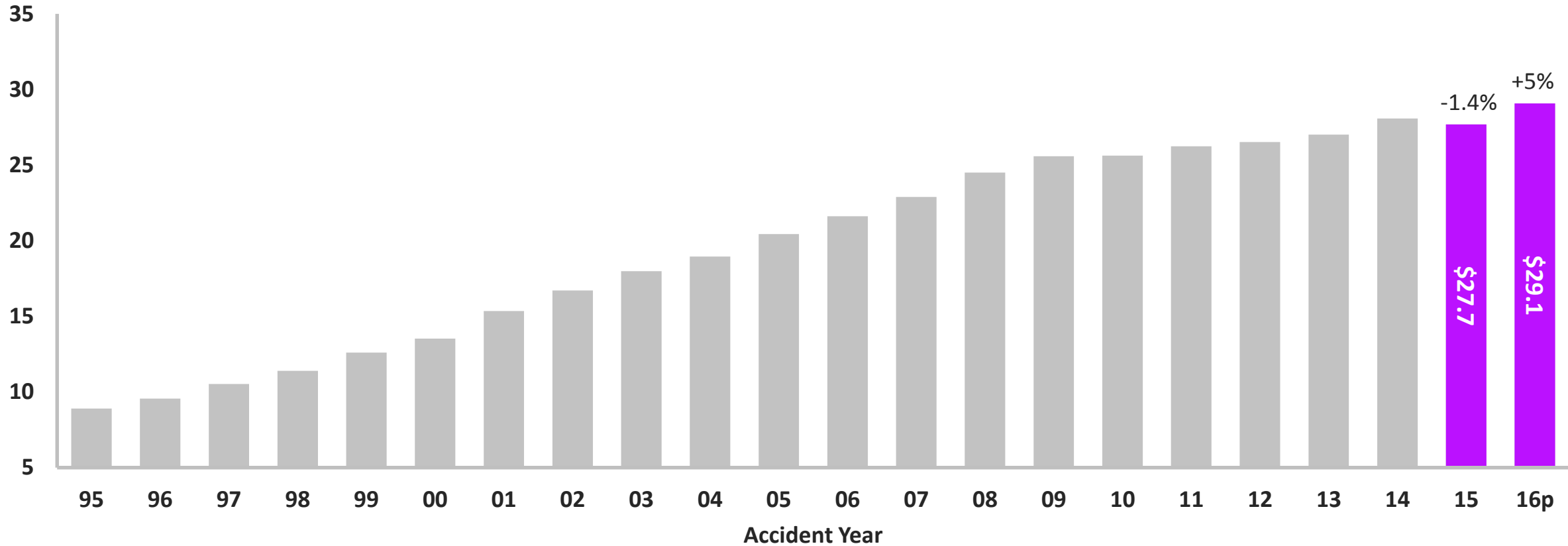


Service Year 2015
 Source: Data underlying NCCI's State Medical Data Reports

WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2016

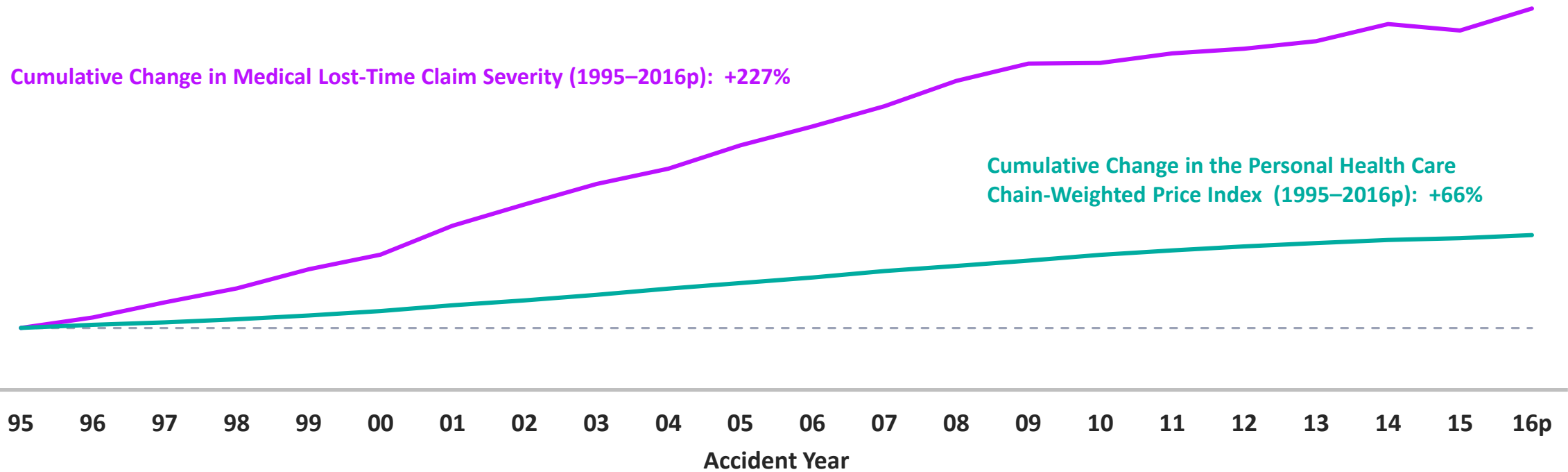
Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2016

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015

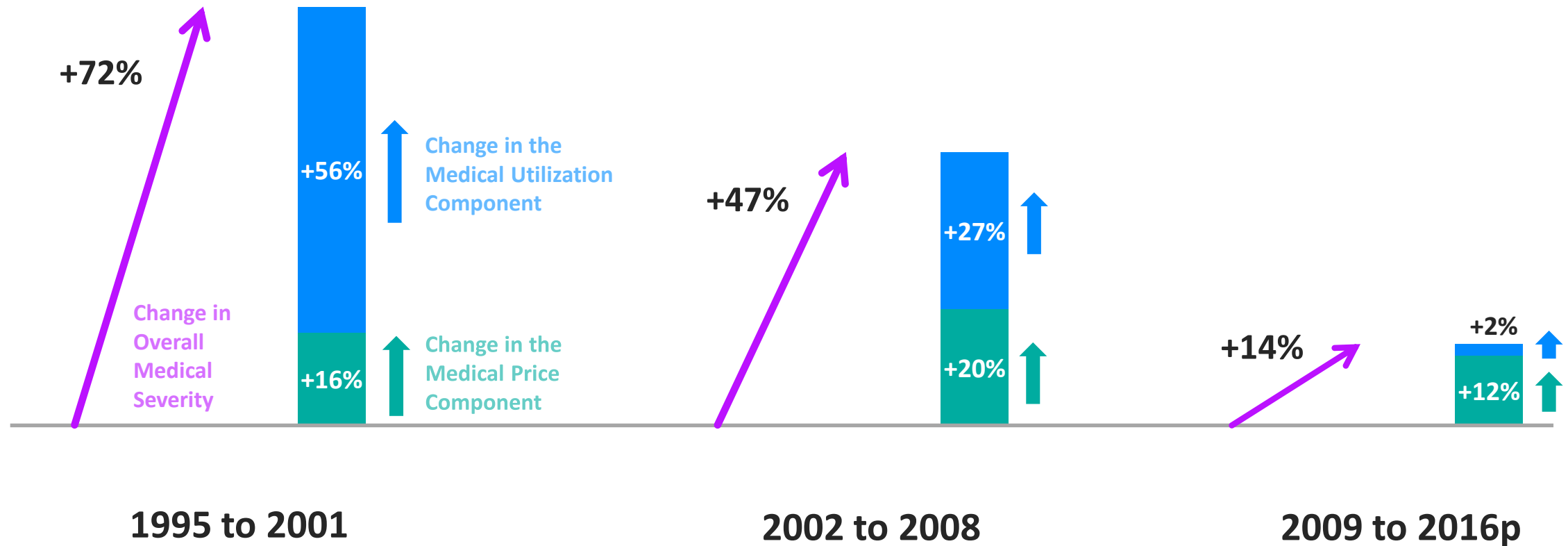
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

Personal Health Care (PHC) Chain-Weighted Price Index: Centers for Medicare & Medicaid Services

Changes in Medical Lost-Time Claim Severity by Component

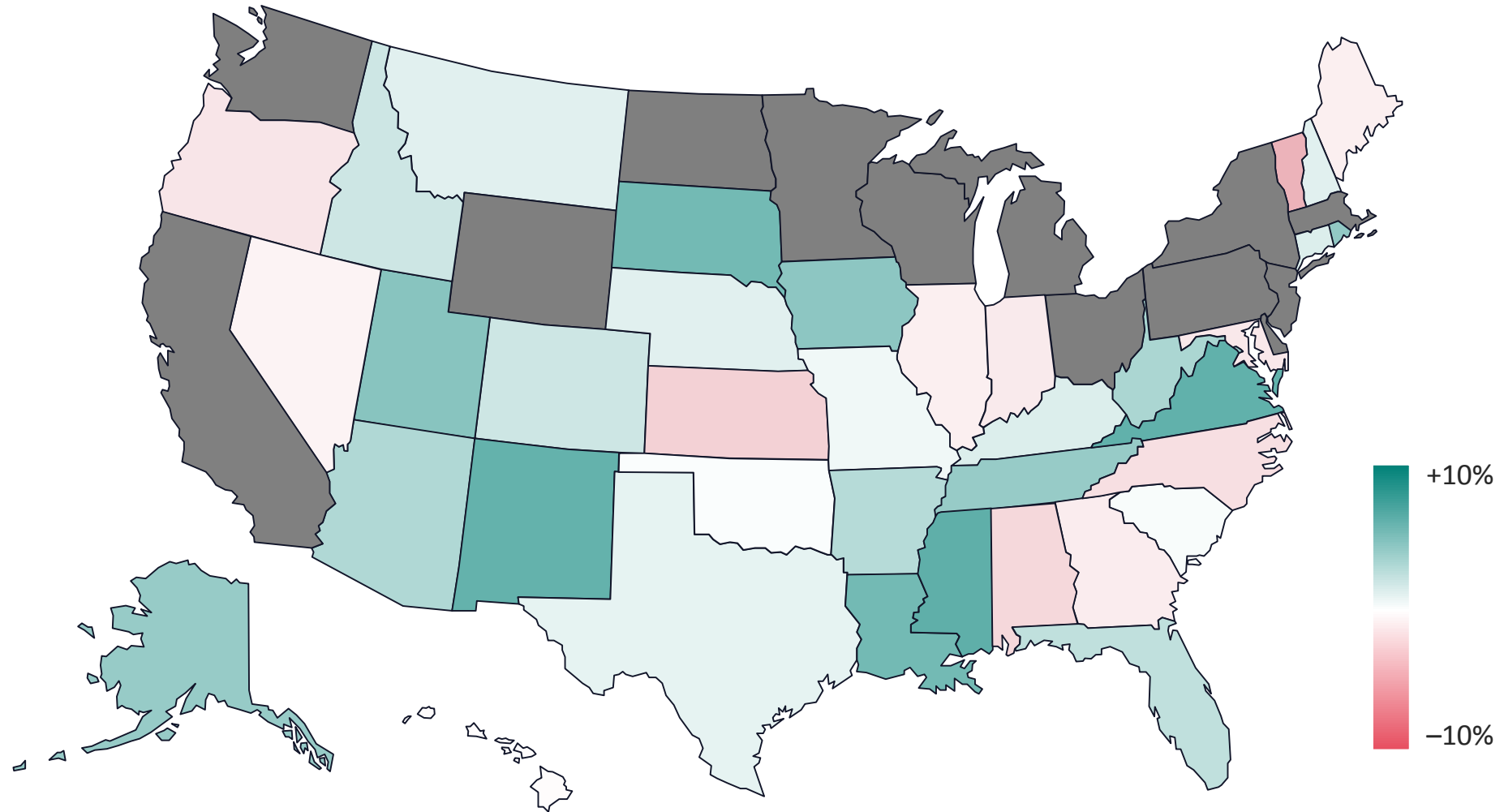
Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2016
 Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015
 Values displayed reflect the methodology underlying the most recent rate/loss cost filing
 Includes all states where NCCI provides ratemaking services; WV is excluded through 2007
 PHC Chain-Weighted Price Index: Centers for Medicare & Medicaid Services

WC Average Medical Lost-Time Claim Severity

Average Annual Change 2011–2015, Private Carriers and State Funds—NCCI States

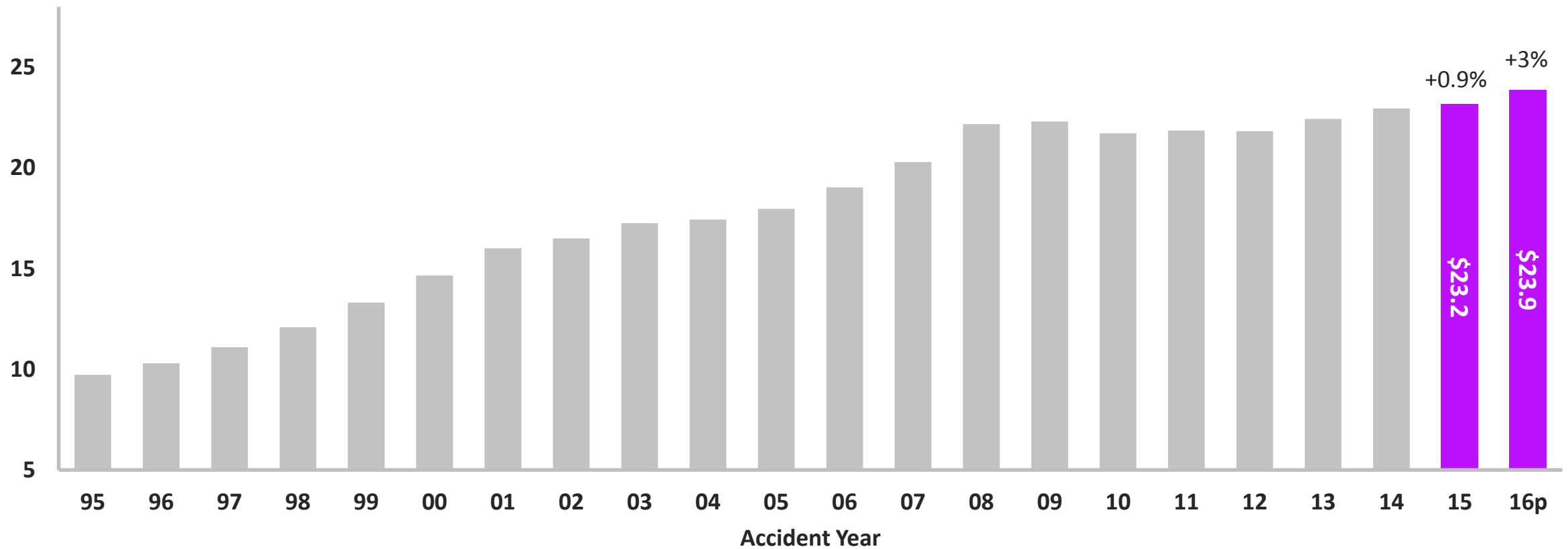


Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2016

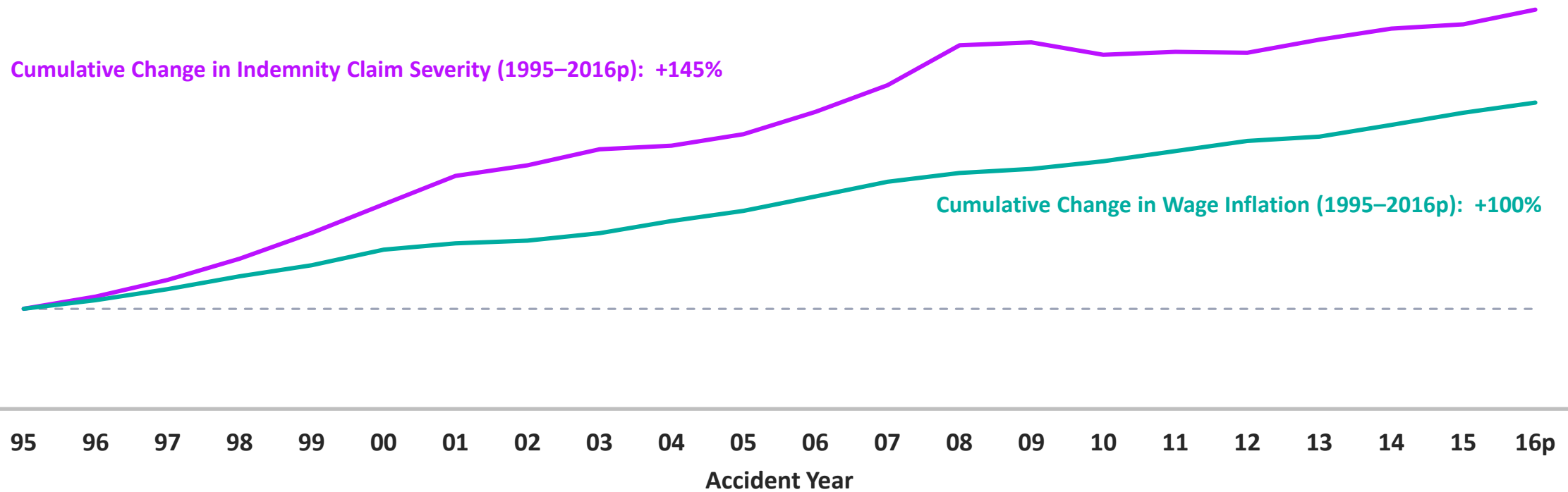
Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2016

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015

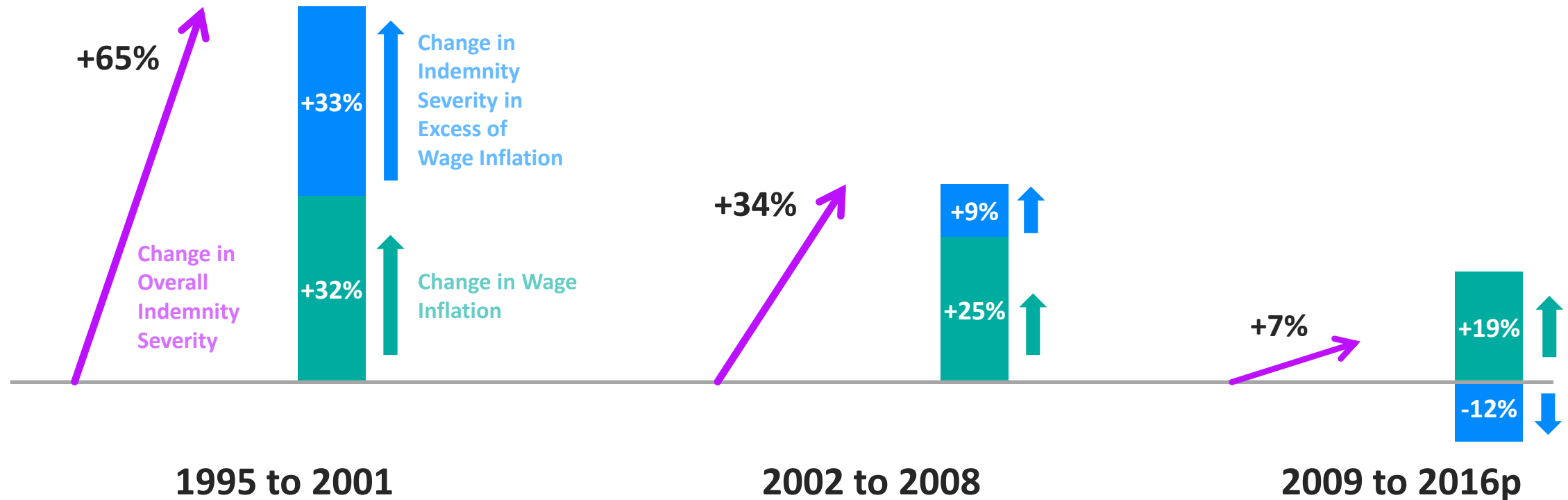
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1995–2007 and 2012–2015, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2016p, NCCI and Moody's Analytics

Relative Growth Rates—Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2016

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015

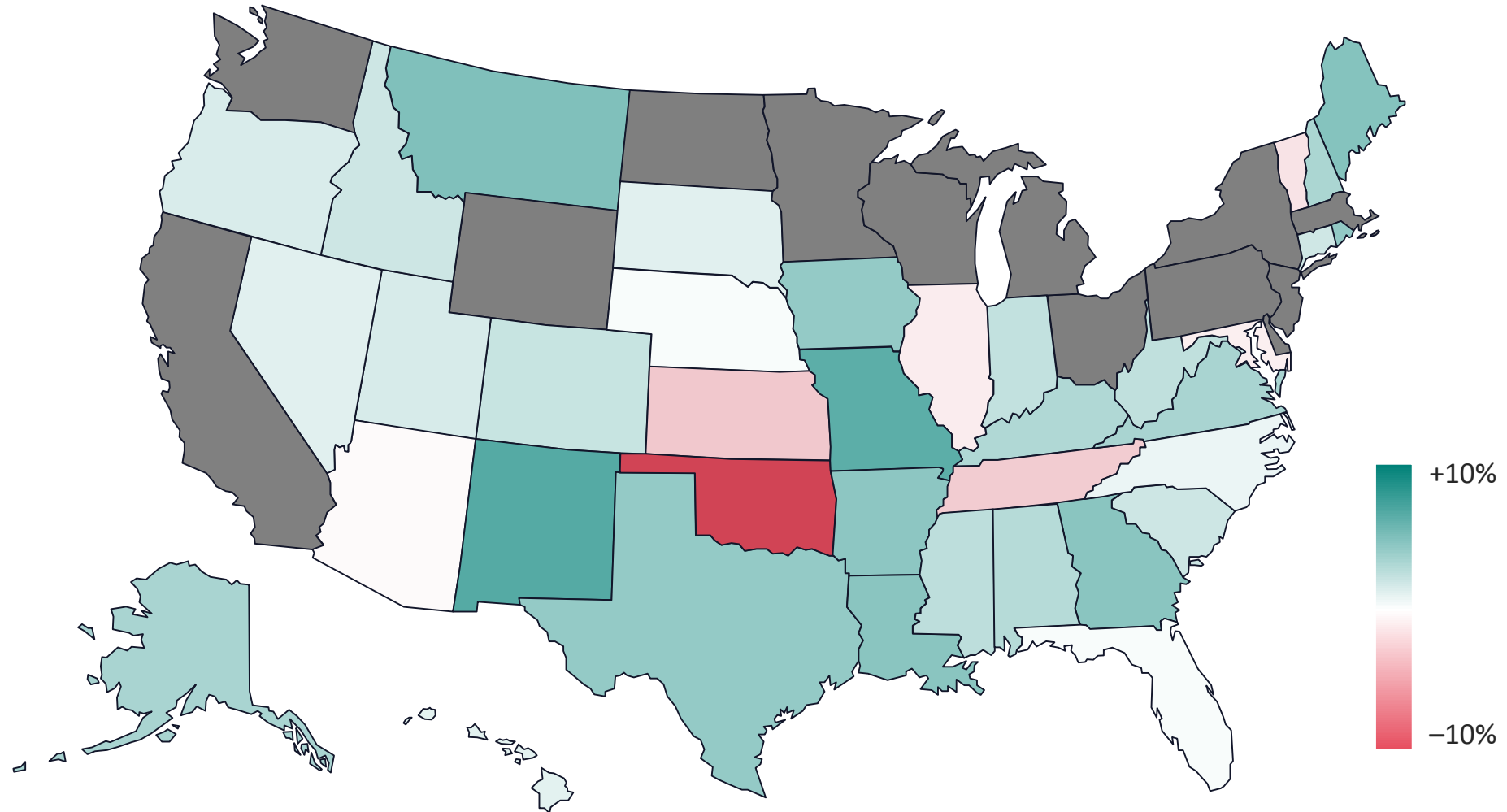
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1995–2007 and 2012–2015, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2016p, NCCI and Moody's Analytics

WC Average Indemnity Claim Severity

Average Annual Change 2011–2015, Private Carriers and State Funds—NCCI States



Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2015
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services



ANNUAL
ISSUES
SYMPOSIUM
2017

QUESTIONS
AND MORE
INFORMATION

Resources for the State of the Line Presentation

Full presentation on ncci.com

State of the Line Guide on ncci.com

stateoftheline@ncci.com