



Workers Compensation Financial Update

YOUR WORKERS COMPENSATION RESOURCE—Comprehensive Data, Objective Analysis, Meaningful Results

November 2013

WC Financial Results Update

Results and reported data continue to support NCCI's preliminary estimates for 2012 that were delivered earlier this year at NCCI's **Annual Issues Symposium (AIS)**, and in fact, offer a slightly improved result in several categories. At the AIS, NCCI estimated an industrywide combined ratio for 2012 of 109. Actual data reported by the industry indicates a Calendar Year 2012 combined ratio of 108.1. The nearly one-point improvement was due to a small improvement in the underlying loss ratio as well as a slight decline in the dividend ratio.

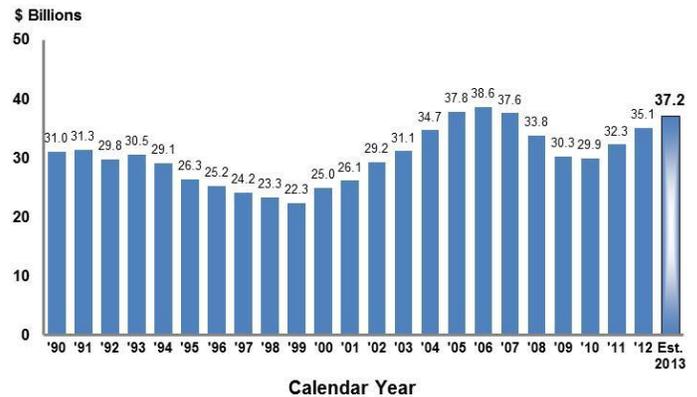
NCCI's preliminary estimate of the operating ratio was +5%, driven largely by a 14% investment gain ratio, which is higher than the historical average of 11.9% for Calendar Years 2001 to 2011. Final 2012 results revealed a +6.2% operating gain ratio as a result of the one-point improvement in the combined ratio and a 0.2% upward adjustment to the investment gain ratio.

NCCI has also evaluated data reported for the first half of Calendar Year 2013 to provide full-year estimates for written premium and the combined ratio. While still early, and subject to revision, our analysis suggests a modest increase in premium volume and a continued decline in the combined ratio. These results appear to be supported by the improving but sometimes rocky economic recovery. Approved bureau rate/loss cost changes for 2013 support the observed improvement in premium levels and underwriting results from Calendar Year 2012. At the same time, loss drivers such as frequency, severity, and wages show little cause to expect bigger year-end improvements in Calendar Year 2013 results.

NCCI will continue to update its projections as new data becomes available. Please be sure to check out the Research and Outlook section of ncci.com for the latest results, research, and discussion of key factors affecting workers compensation.

Projected net written premiums for workers compensation continue to show signs of growth, albeit at a more moderate pace than in Calendar Years 2011 and 2012. NCCI's current estimate for 2013 net written premium is \$37.2 billion, which represents 6.0% growth over 2012. This estimate is based on private carrier reported direct written premium and the historical relationship between direct and net written premium over the past decade. The estimate reflects actual reported data for the first six months of 2013.

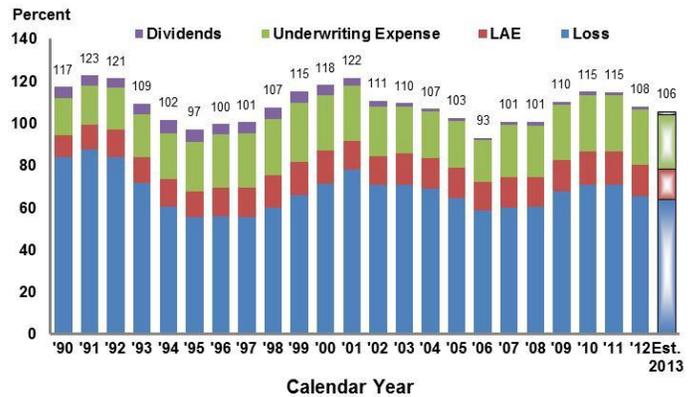
**Workers Compensation Premium:
Continued Premium Growth for 2013
Private Carriers**



Source: 1990-2012, Annual Statement data; 2013, NCCI estimate based on reported direct premium as of 2nd Quarter 2013

The net combined ratio for workers compensation is showing signs of improvement, with a projected second year of decline. The current estimate for Calendar Year 2013 is 106. This projection for 2013 is tempered by an improving but fragile economy. Additionally, loss drivers and market conditions, while still favorable, remain uncertain. The estimate for 2013 is based on private carrier direct calendar period losses incurred, direct earned premium, and the historical relationship between direct and net losses and premium. The estimate reflects actual reported data for the first six months of 2013.

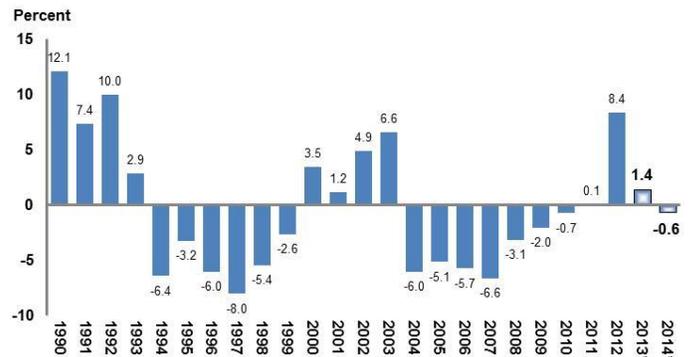
WC Calendar Year Combined Ratio: Modest Improvement for 2013 Private Carriers



Source: 1990-2012, Annual Statement data; 2013, NCCI estimate based on reported direct premium as of 2nd Quarter 2013

On average, the changes in countrywide-approved WC bureau rates/loss costs were material for 2012 and modest for 2013. The significant increase in 2012 marked the first major increase since 2003 and ended a long period of rate/loss cost reductions that resulted in a cumulative 26% decline. The more significant decreases during that period were largely driven by California. Based on approvals to date, rate and loss cost changes are not expected to be a materially contributing factor to 2014.

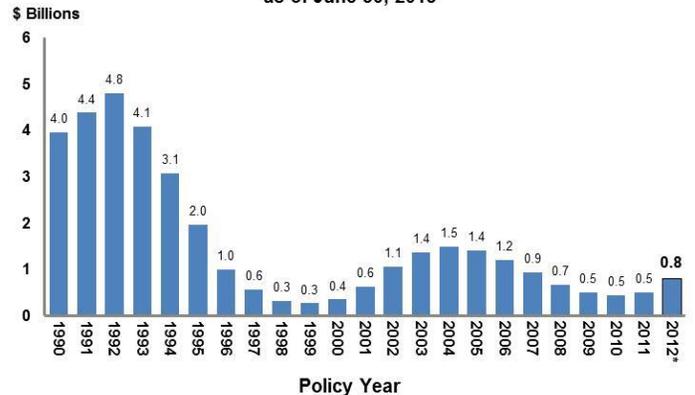
The Average Approved Bureau Rate/Loss Costs History of Average Bureau Rate/Loss Cost Level Changes



* States approved through October 4, 2013
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
The countrywide change is a weighted average of individual state changes based on state premium volumes and ignoring effective dates

The growth in residual market premium for Policy Year 2012 was the first material increase since 2002. Projections to ultimate, valued as of December 31, 2012, have seen a negligible increase over the most recently reported two quarters. Early indications for 2013 premiums continue the pattern of premium volume growth and increased assignments for the residual market, albeit at a more moderate pace. Despite the recent growth, the premium level remains low relative to historic levels.

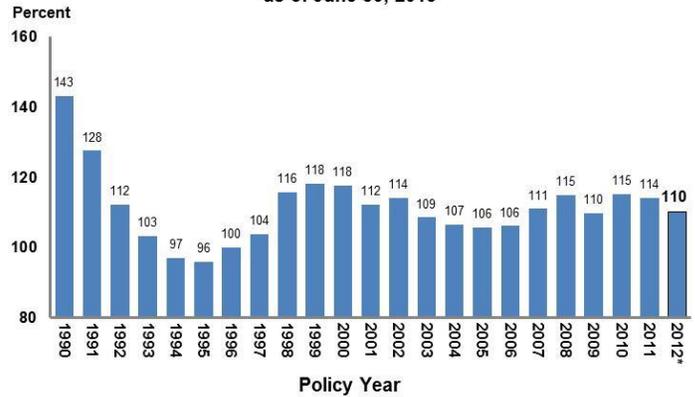
Workers Compensation Residual Market Premium Volume NCCI-Serviced Workers Compensation Residual Market Pools as of June 30, 2013



*Incomplete Policy Year Projected to Ultimate

The combined ratio for the residual market pools serviced by NCCI continued to decline for Policy Year 2012. The projected ultimate combined ratio of 112 for Policy Year 2012, valued as of December 31, 2012, fell modestly to 110 after two quarters of reporting in 2013. Policy Year 2011 saw a similar decrease, from 117 valued at December 31, 2012, to 114 valued as of June 2013. This marks two consecutive years of declines for the residual market combined ratio.

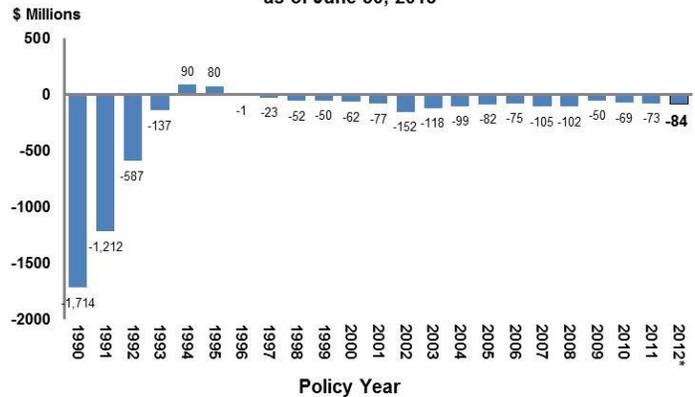
Workers Compensation Residual Market Combined Ratios
NCCI-Serviced Workers Compensation Residual Market Pools
 as of June 30, 2013



*Incomplete Policy Year Projected to Ultimate

The most recent underwriting results for residual market pools continue to remain comparable to results over the last decade, and are far more manageable than the debilitating levels of early 1990s. The most recent update to the underwriting results, valued as of June 2013, showed improvement, partially due to better-than-expected loss emergence in prior policy years during the first two quarters of 2013.

Workers Compensation Residual Market Underwriting Results Continue to Decline
NCCI-Serviced Workers Compensation Residual Market Pools
 as of June 30, 2013



*Incomplete Policy Year Projected to Ultimate



National Council on Compensation Insurance
 901 Peninsula Corporate Circle
 Boca Raton, Florida 33487-1362
 800-NCCI-123 (800-622-4123)
 ncci.com