



Workers Compensation Financial Update

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November 2015

Workers Compensation Financial Results Update

*At its **Annual Issues Symposium (AIS)** held in May 2015, NCCI presented *The State of the Line*—a comprehensive report of financial results for the workers compensation line of business. The results presented at **AIS** reflected the most up-to-date data available at the time, including NCCI's preliminary estimates for Calendar Year 2014. In this report, NCCI provides updated results for 2013 and 2014, as well as preliminary estimates for Calendar Year 2015.*

At **AIS 2015**, NCCI reported favorable industry results for Calendar Year 2014 in its State of the Line report, based on countrywide statutory data available as of April 16, 2015. This report highlighted the 2014 results, which showed the first underwriting gain for the workers compensation industry since 2006.

For Calendar Year 2014, NCCI initially estimated workers compensation premium volume net of reinsurance to be \$38.5 billion for private carriers, along with a combined ratio of 98. The updated data reported by the industry indicates no change to these preliminary estimates.

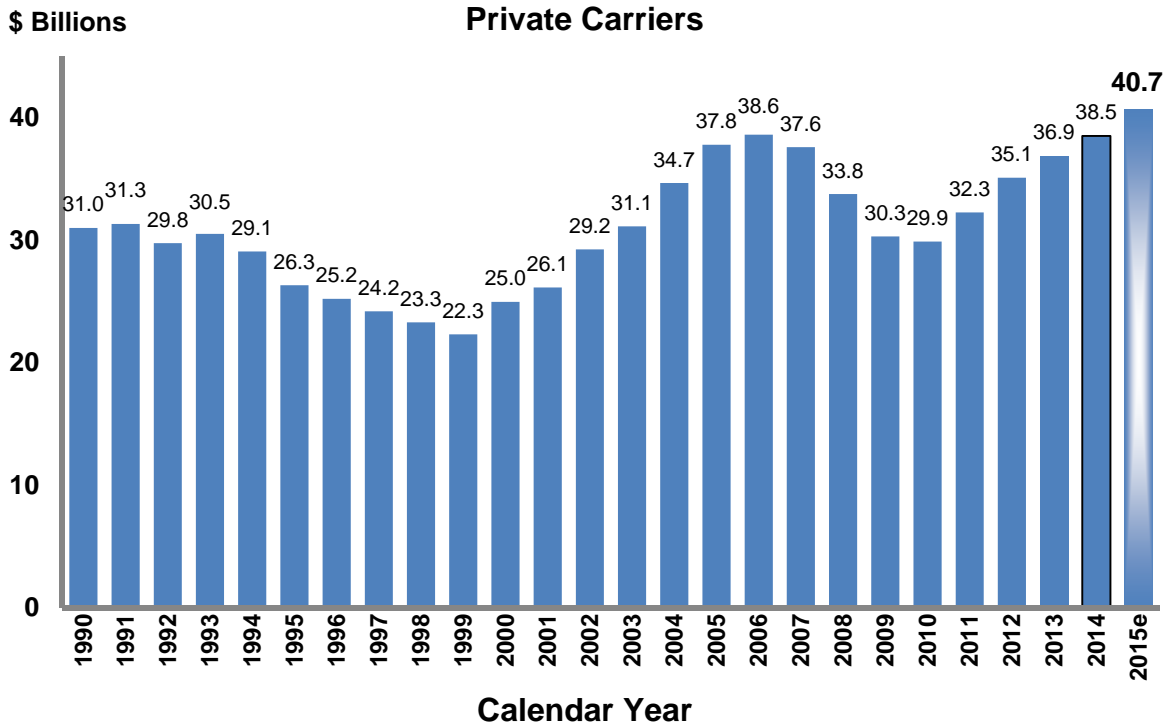
Updated results for 2014 show a lower investment gain on insurance transactions compared to the preliminary values shared at **AIS**. The investment gain is generally declining between 2010 and 2014, with a significant decrease in the latest year. The lower investment gain in 2014 is more than offset by the improved combined ratio, resulting in a higher workers compensation operating gain.

The residual market has experienced premium growth since 2010 but appears to be leveling off or possibly even decreasing in 2015. Although the residual market more than doubled in size between 2010 and 2014, the total market share and burden on the voluntary market remained quite manageable.

NCCI has also evaluated the data reported as of midyear 2015 to provide full-year estimates for written premium volume and the combined ratio. While still early and subject to revision, NCCI's analysis suggests another increase in written premium volume, as well as continued improvement in the combined ratio.

NCCI projects that net written premium for workers compensation will continue its upward trend in 2015. NCCI's current estimate for 2015 net written premium is \$40.7 billion, a new high-water mark for the workers compensation line. This represents 5.7% growth over the 2014 premium level and a more significant increase than the 4.3% growth observed in 2014. The 2015 estimate is based on private carrier-reported direct written premium and the historical relationship between direct and net written premium over the past decade.

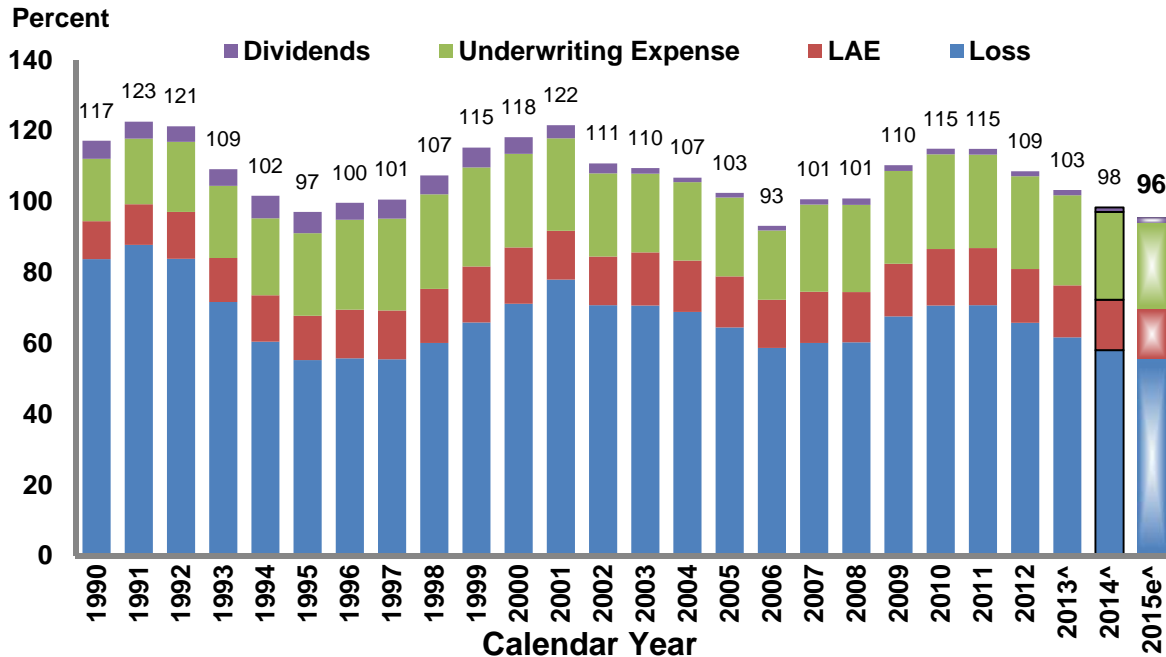
Workers Compensation Premium Continued Growth for 2015



2015e, NCCI estimate based on statutory data reported through 2nd Quarter 2015
 Source: 1990–2014, Annual Statement data

NCCI's preliminary estimate of the 2015 net combined ratio for workers compensation suggests a fourth consecutive year of improvement. NCCI's combined ratio estimate of 96, if realized, would mean two consecutive years of underwriting gains for an industry that has posted combined ratios of less than 100 in only two other years since 1990. The estimate for 2015 is based on private carrier direct calendar year incurred losses, direct earned premium, and historical net to direct ratios. The expected improvement in the combined ratio is derived primarily from the projected increase in written premium volume. It should also be noted that the previously reported results for 2013 and 2014 have been adjusted to reflect a data exclusion.

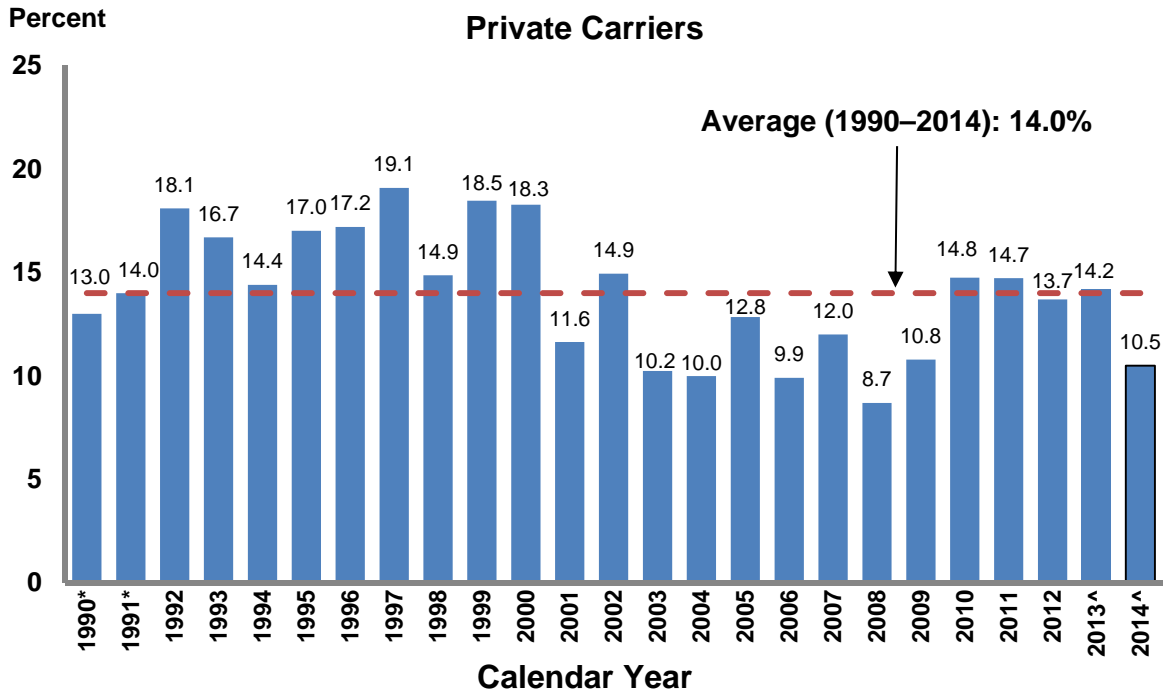
Workers Compensation Combined Ratio Underwriting Gain in 2015 Private Carriers



2015e, NCCI estimate based on statutory data reported through 2nd Quarter 2015
 ^2013–2015 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings
 Source: 1990–2014, Annual Statement data

NCCI's revised estimate of the workers compensation investment gain on insurance transactions (IGIT) for Calendar Year 2014 is 10.5% of net earned premium—the lowest result since 2008. The IGIT for both 2013 and 2014 are more than a point lower than the initial estimates due to the previously mentioned data adjustment. The 2013 investment gain is slightly higher than the long-term average of 14.0% since 1990, but the 2014 result fell short of this benchmark by three and one-half points.

Workers Compensation Investment Gain on Insurance Transactions Ratio to Net Earned Premium Private Carriers



Investment Gain on Insurance Transactions includes Other Income

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

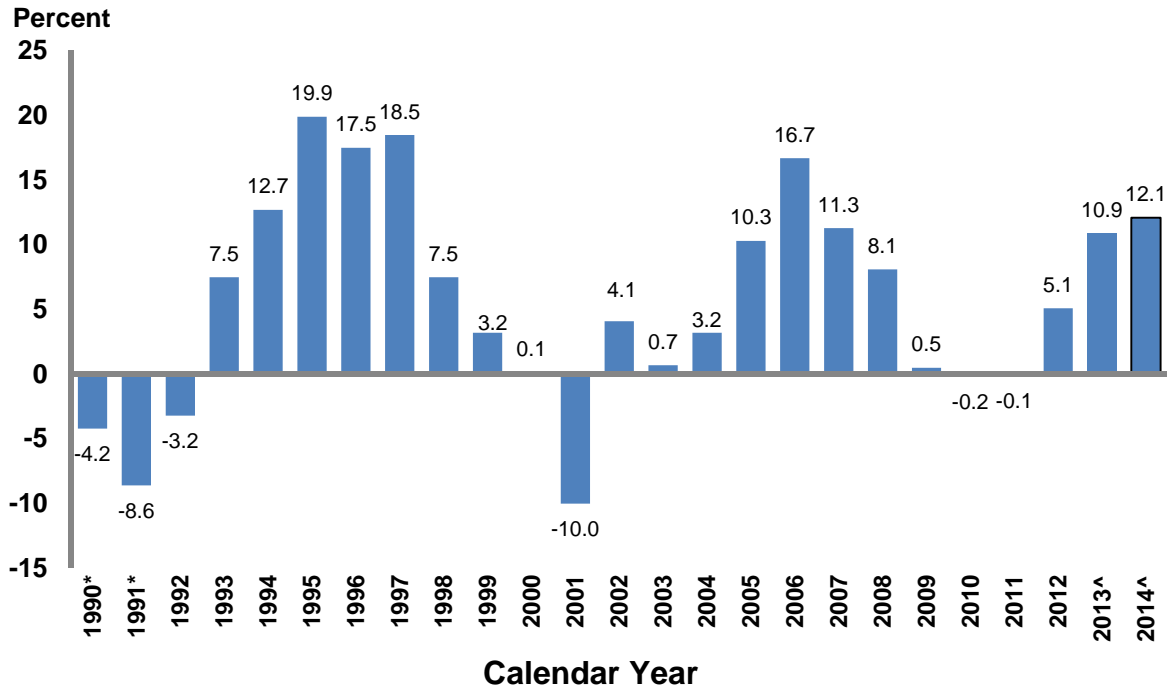
^2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data

The operating ratio incorporates the underwriting results and the investment results. At **AIS 2015**, NCCI presented a 14% operating gain for Calendar Year 2014, which was a half-point increase from the 2013 operating result. The combined impact of the adjustments previously discussed results in lower operating ratios for 2013 and 2014. The 2014 operating result is now a one-point increase over 2013.

Workers Compensation Pretax Operating Gain

Private Carriers



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 subsequent

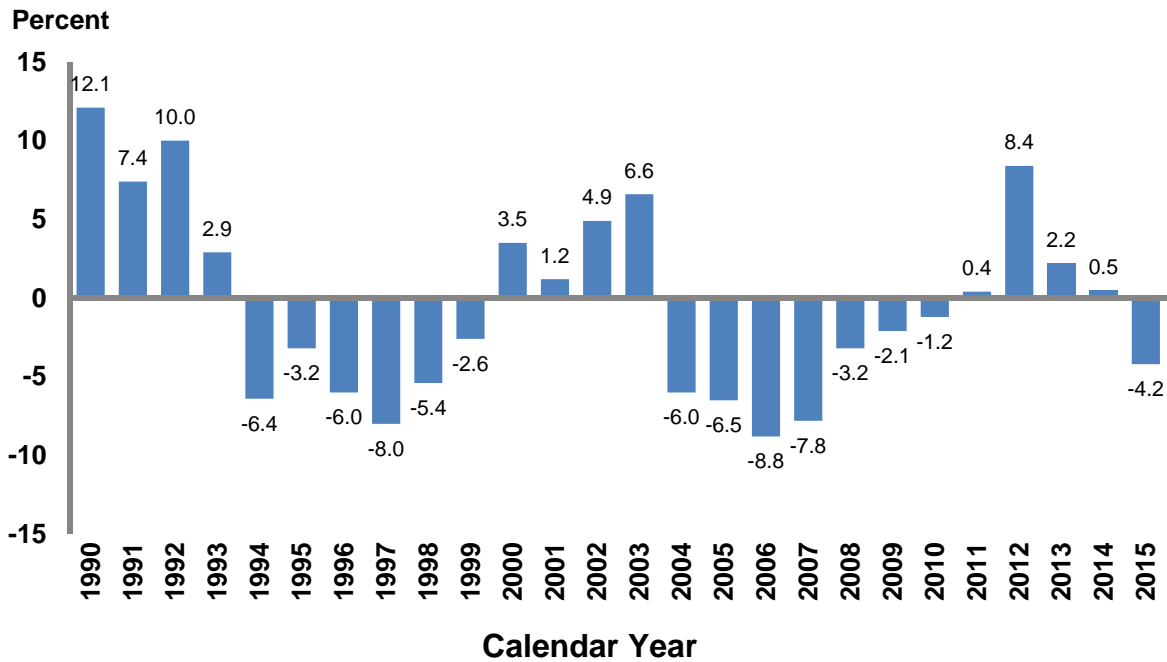
^2013-2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data

For the first time since 2010, workers compensation bureau rates/loss costs decreased in 2015, following modest increases in 2013 and 2014. This average decrease is the result of rate/loss cost decreases that have been filed and approved in 34 out of 46 states. Of the remaining twelve states, there were eight approved increases, two “no-filings”, one state filed with no change, and one state with a pending increase. Although 2015 shows a weighted average decrease of 4.2%, the rate/loss cost changes vary significantly by state, ranging from -12.1% to +5.9% in the voluntary market.

On average, rates/loss costs have decreased 14.6% since 1989. Most of this decrease can be attributed to improved experience driven by declines in lost-time claim frequency.

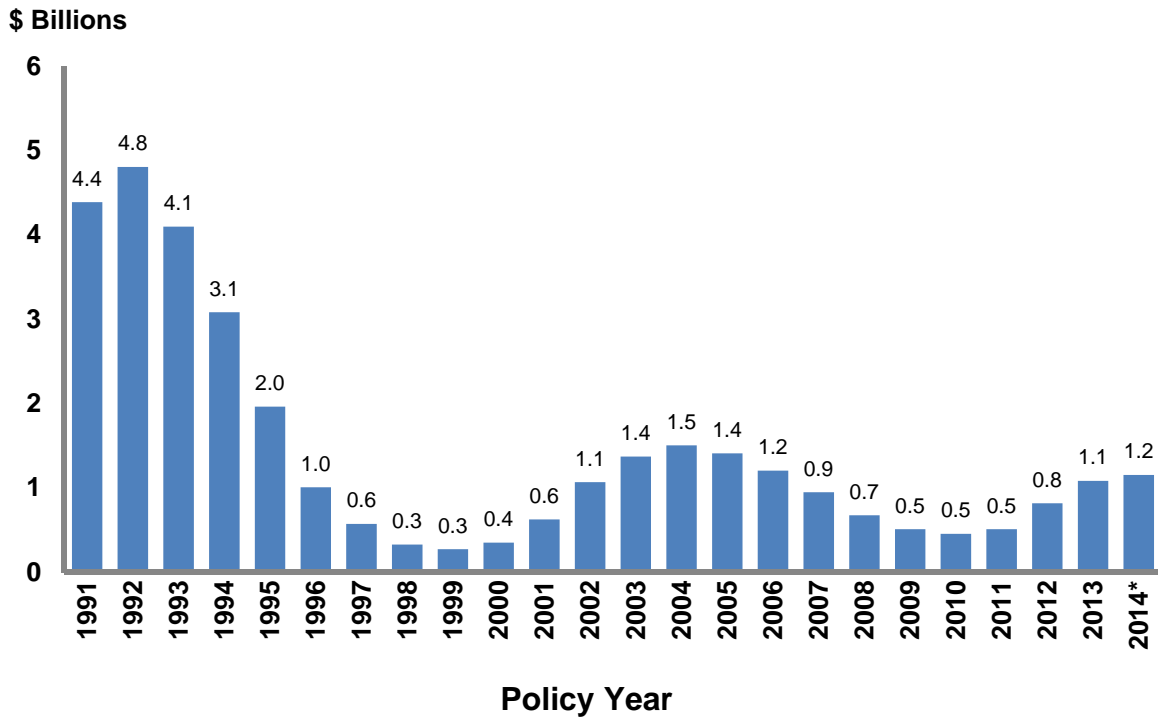
The Average Approved Changes in Bureau Rates/Loss Costs All States



States approved through October 31, 2015
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

Residual market premium showed continued growth in 2014, but the rate of growth is lower than the pace that was observed for the prior two years. Projections to ultimate, based on data valued as of June 30, 2015, show a negligible difference from the prior two quarterly estimates. Early indications suggest that residual market premium will either level off or decrease slightly in 2015.

Workers Compensation Residual Market Premium NCCI-Serviced Residual Market Pools

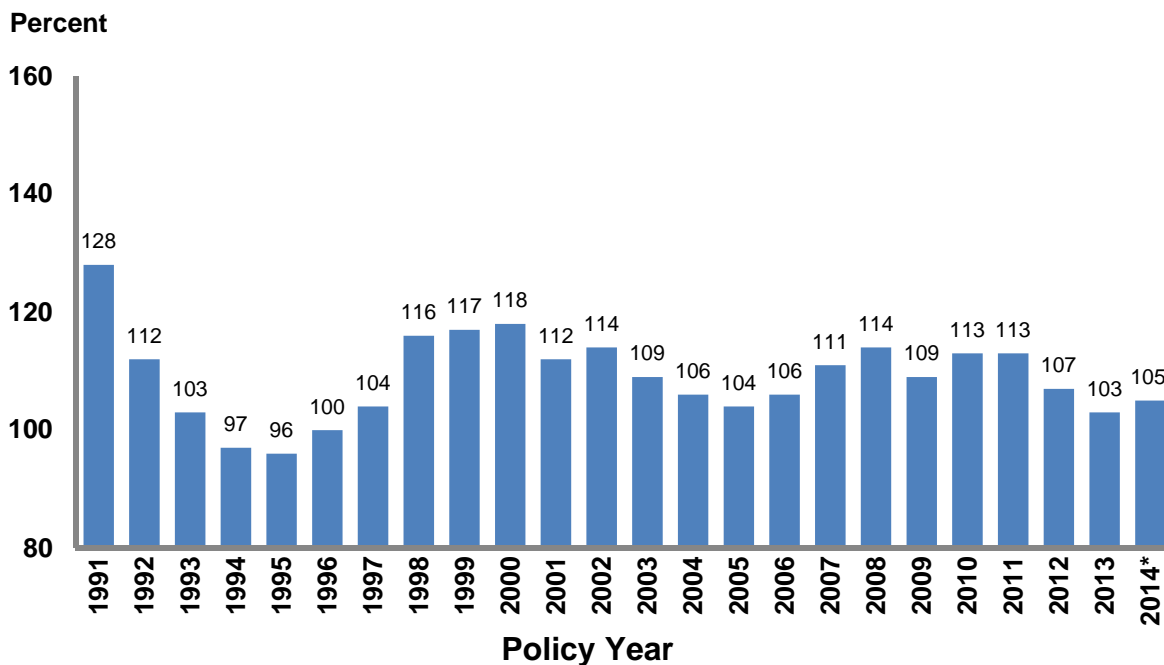


*Incomplete policy year projected to ultimate
Includes Pool data as of 6/30/2015 for all NCCI-serviced workers compensation residual market pool states
Source: NCCI, Residual Market Quarterly Results

The combined ratio for the residual market pools serviced by NCCI increased two points in Policy Year 2014, primarily driven by a \$27 million underwriting loss that is projected for the Massachusetts Workers' Compensation Assigned Risk Pool. Despite the 2014 increase, the recent combined ratios remain favorable, demonstrating the success of the industry's continued focus on self-funded residual markets. Policy Year 2013, in particular, boasts the lowest residual market combined ratio since 1996.

The projected underwriting result for Policy Year 2014 is a loss of \$57 million, which is comparable to the results experienced over the last decade and much more favorable than the large residual market deficiencies the industry faced in the early 1990s. For most policy years, these projections reflect a slight improvement from NCCI's previous estimates shared at **AIS**, which were based on data valued as of December 2014.

Workers Compensation Residual Market Combined Ratio NCCI-Serviced Residual Market Pools



*Incomplete policy year projected to ultimate
Includes Pool data as of 6/30/2015 for all NCCI-serviced workers compensation residual market pool states
Source: NCCI, Residual Market Quarterly Results

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



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