



NCCI's 2016 Annual Issues Symposium

State of the Line Report

Kathy Antonello, FCAS, FSA, MAAA
Chief Actuary
NCCI



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Property/Casualty (P/C) Results

P/C Industry Net Written Premium All Major Lines Increased

Private Carriers

Line of Business	2014 (\$B)	2015p (\$B)	% Change From 2014
Personal Auto	183.4	192.5	4.9
Homeowners	76.8	79.4	3.3
Other Liability (Incl Prod Liab)	47.8	49.3	3.1
Workers Compensation	38.5	39.7	2.9
Commercial Multiple Peril	34.3	34.6	1.0
Fire & Allied Lines (Incl EQ)	27.1	26.2	-3.4
Commercial Auto	25.7	27.6	7.3
All Other Lines	63.7	64.6	1.6
Total P/C Industry	497.3	513.8	3.3

p Preliminary

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

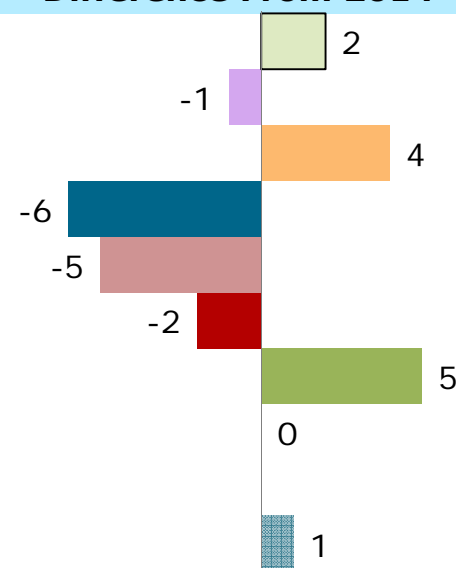
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P/C Industry Net Combined Ratio Overall Underwriting Gain

Private Carriers

Line of Business	2014 (%)	2015p (%)	Difference From 2014
Personal Auto	103	105	2
Homeowners	93	92	-1
Other Liability (Incl Prod Liab)	99	103	4
Workers Compensation	100	94	-6
Commercial Multiple Peril	100	95	-5
Fire & Allied Lines (Incl EQ)	88	86	-2
Commercial Auto	104	109	5
All Other Lines	84	84	0
Total P/C Industry	97	98	1



p Preliminary

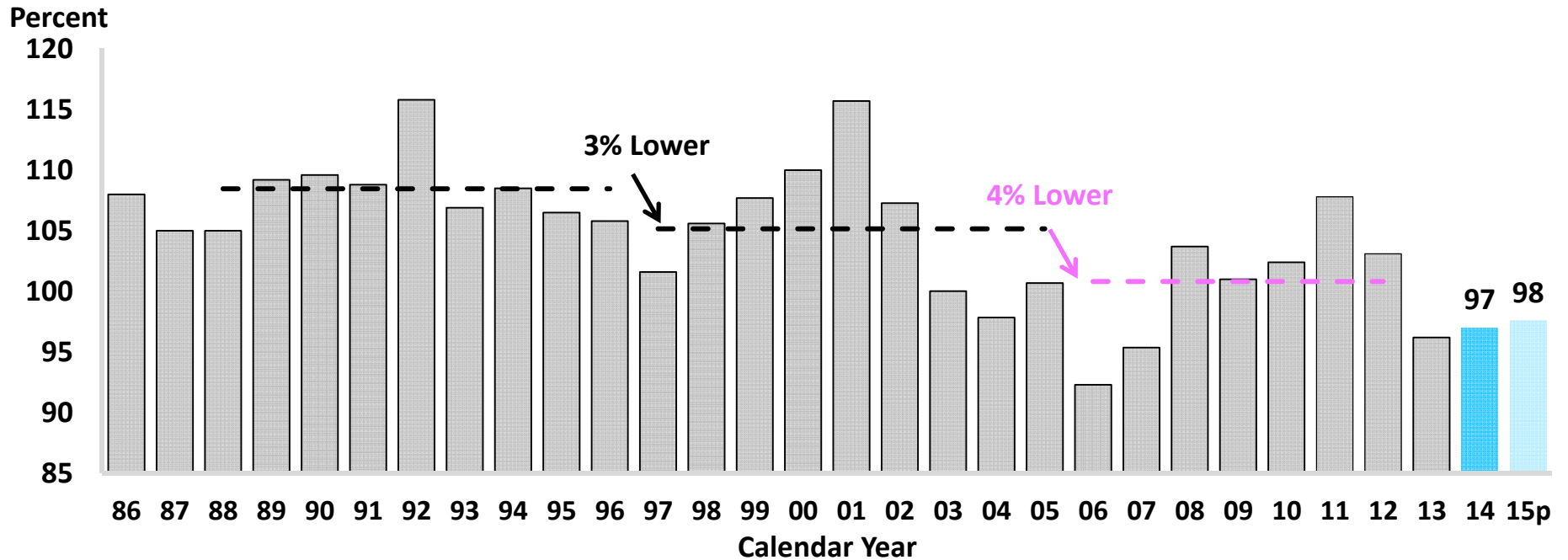
Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers
Includes carrier data available as of 4/14/2016

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P/C Industry Net Combined Ratios

Private Carriers

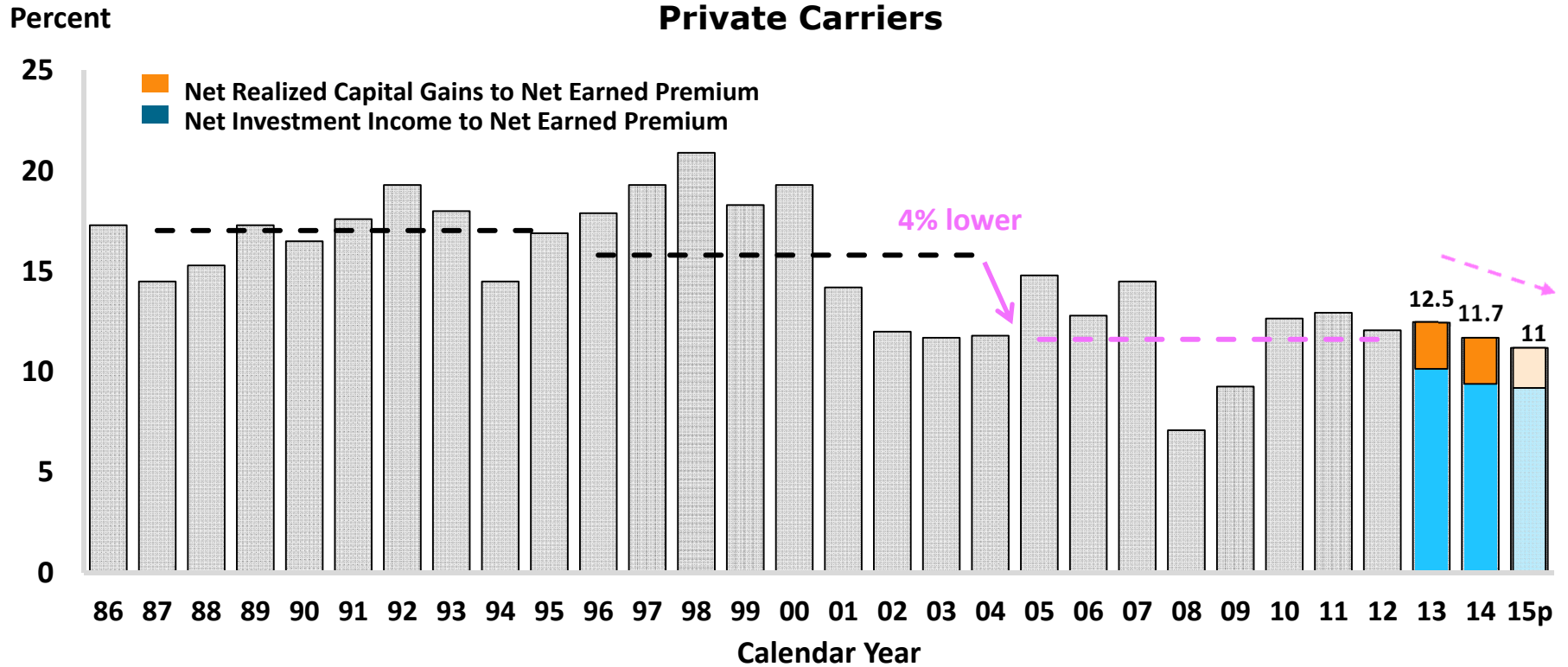


p Preliminary
 Sources: 1986–2007 and 2012–2015p, Annual Statement data
 2008–2011, ISO

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P/C Industry Investment Gain Ratio



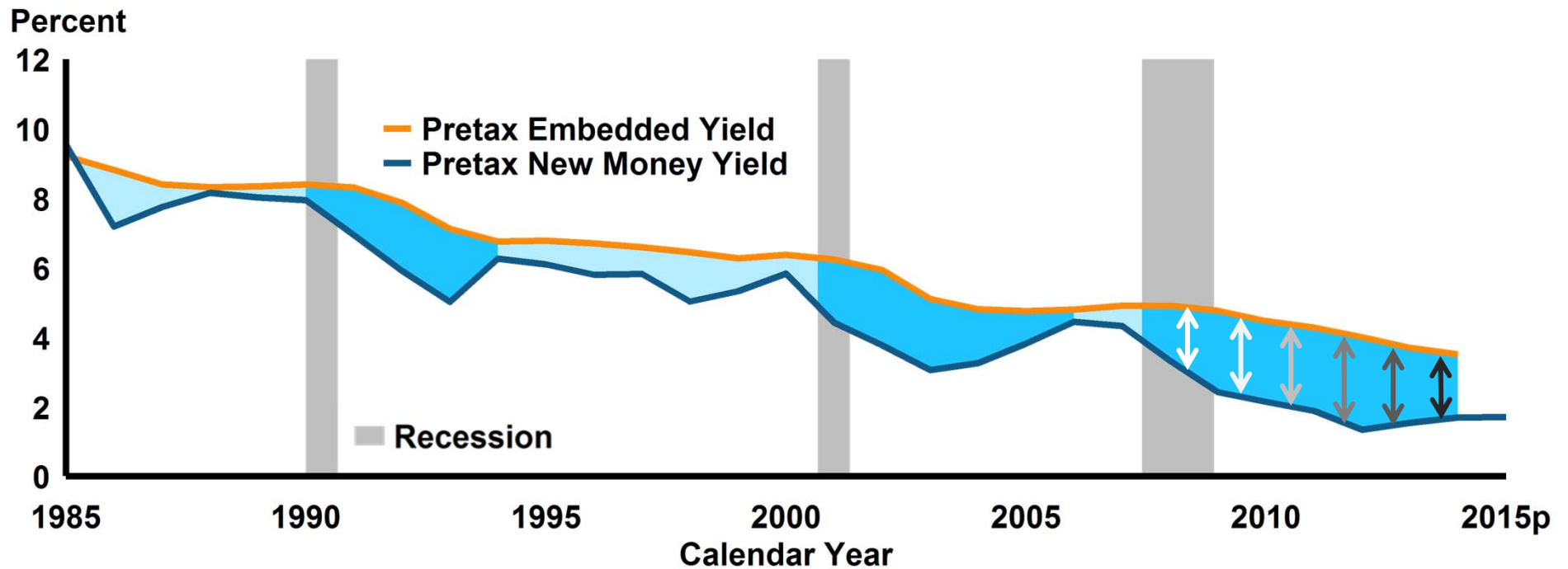
p Preliminary

Sources: 1986–2007, 2013–2015p, Annual Statement data
2008–2012, ISO

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P/C Industry Embedded Yield and New Money Yield



p Preliminary

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

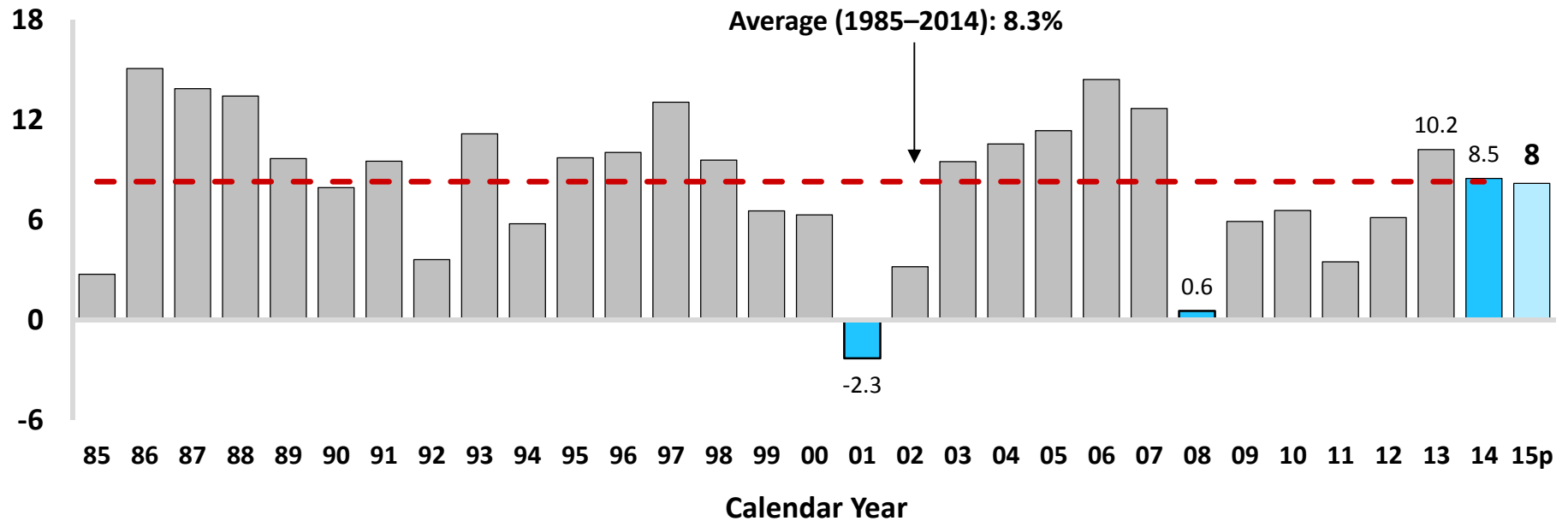
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P/C Industry After-Tax Return on Surplus

Private Carriers

Percent



p Preliminary

Sources: 1985–2007, 2013–2015p Annual Statement data
2008–2012, ISO

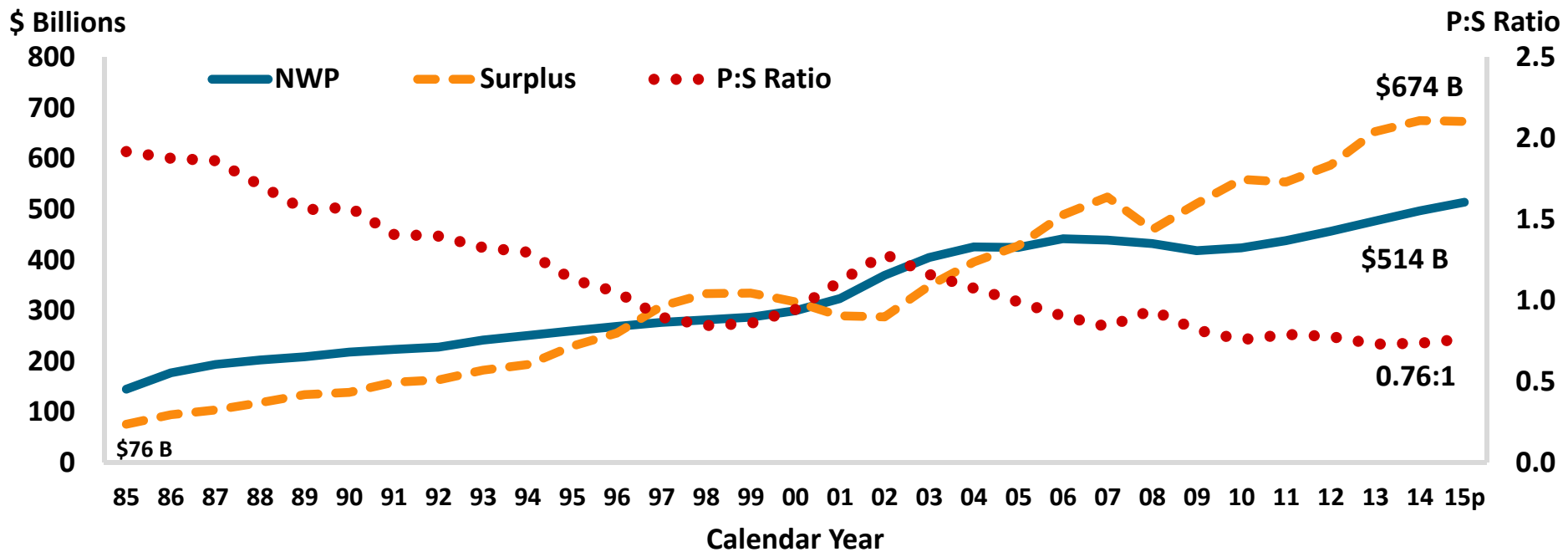
After-tax return on average surplus, excluding unrealized capital gains

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P/C Industry Premium-to-Surplus Ratio

Private Carriers



p Preliminary

Sources: 1985–2007, 2013-2015p Annual Statement data
2008–2012, ISO

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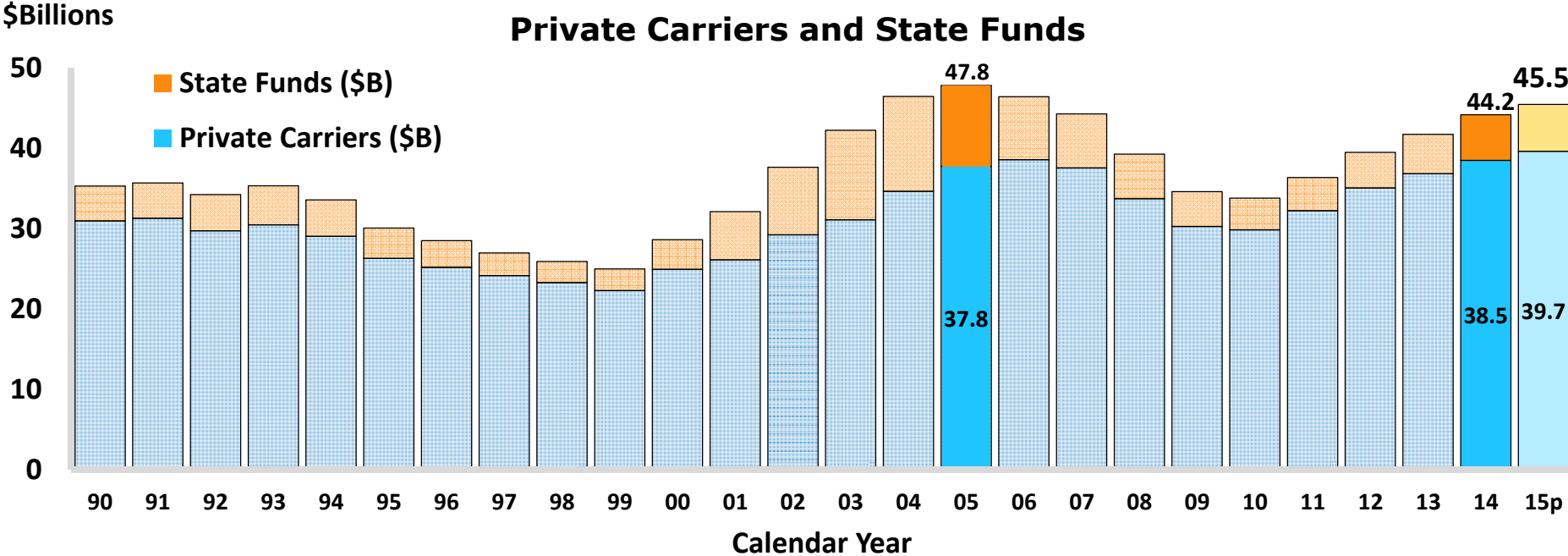




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Workers Compensation (WC) Premium

WC Net Written Premium Growth Continued

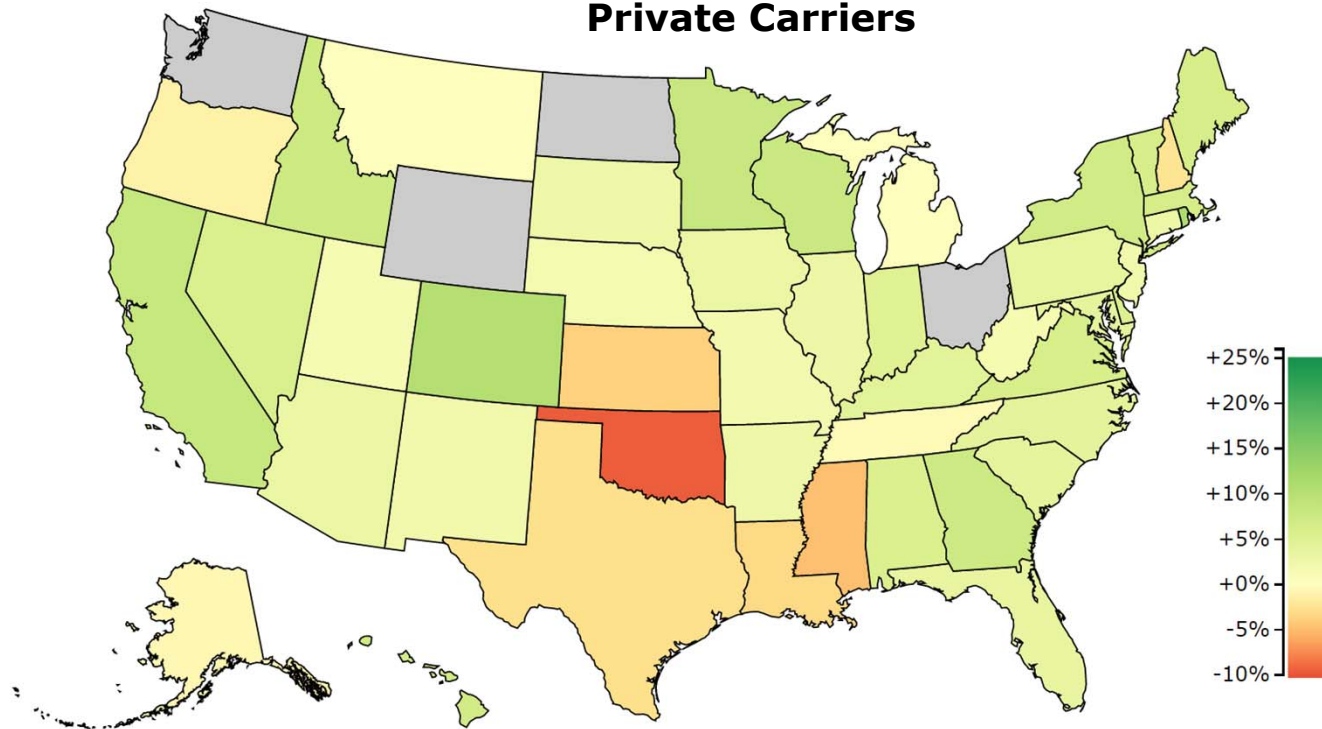


p Preliminary
 Source: Annual Statement data
 Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT
 Each calendar year total for state funds includes all funds operating as a state fund in that year
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WC Direct Written Premium 2015 Growth

Private Carriers



Source: 2014 and 2015, Annual Statement Statutory Page 14

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WC Components of Written Premium Change

Private Carriers

Written Premium Change From 2014 to 2015

Net Written Premium—Countrywide	+2.9%
Direct Written Premium (DWP)—Countrywide	+4.3%
Direct Written Premium (DWP)—NCCI States	+2.5%
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%

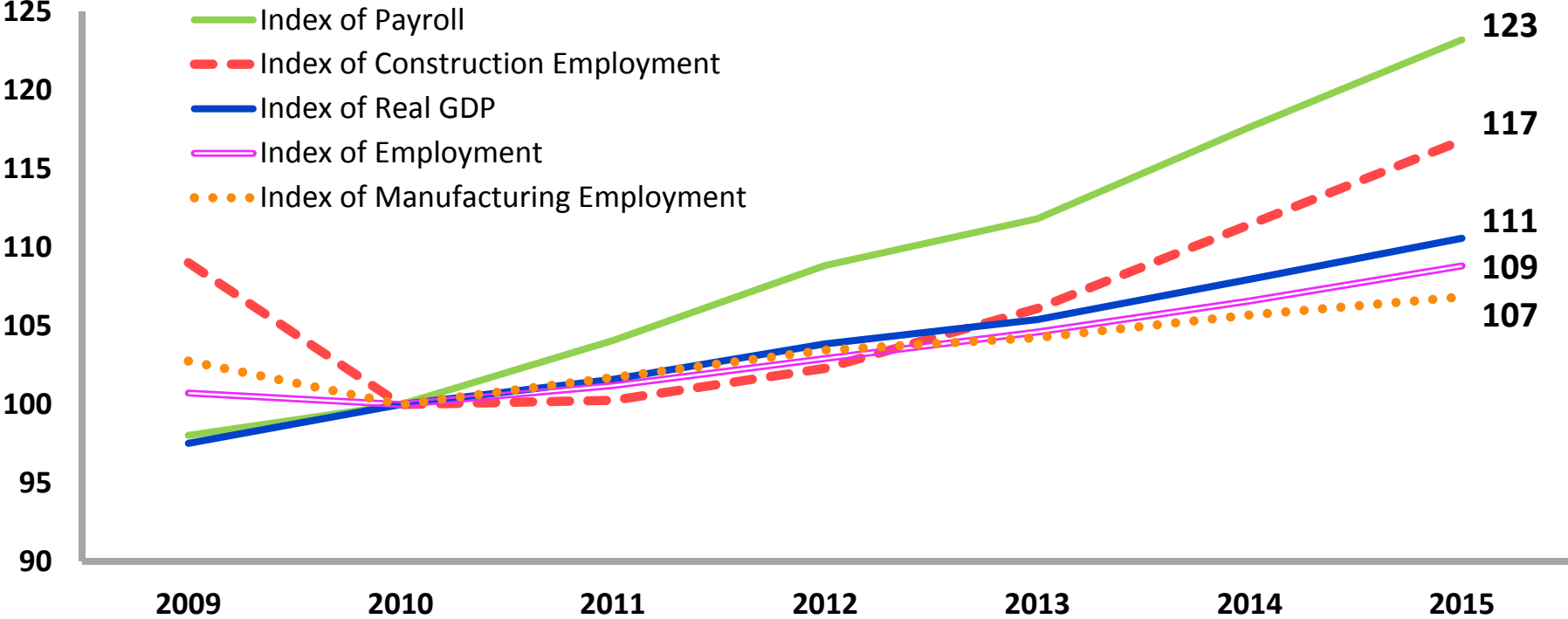
Sources: Countrywide: Annual Statement data
NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services
Components: NCCI Policy data

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US Employment Levels

Index: 2010 = 100

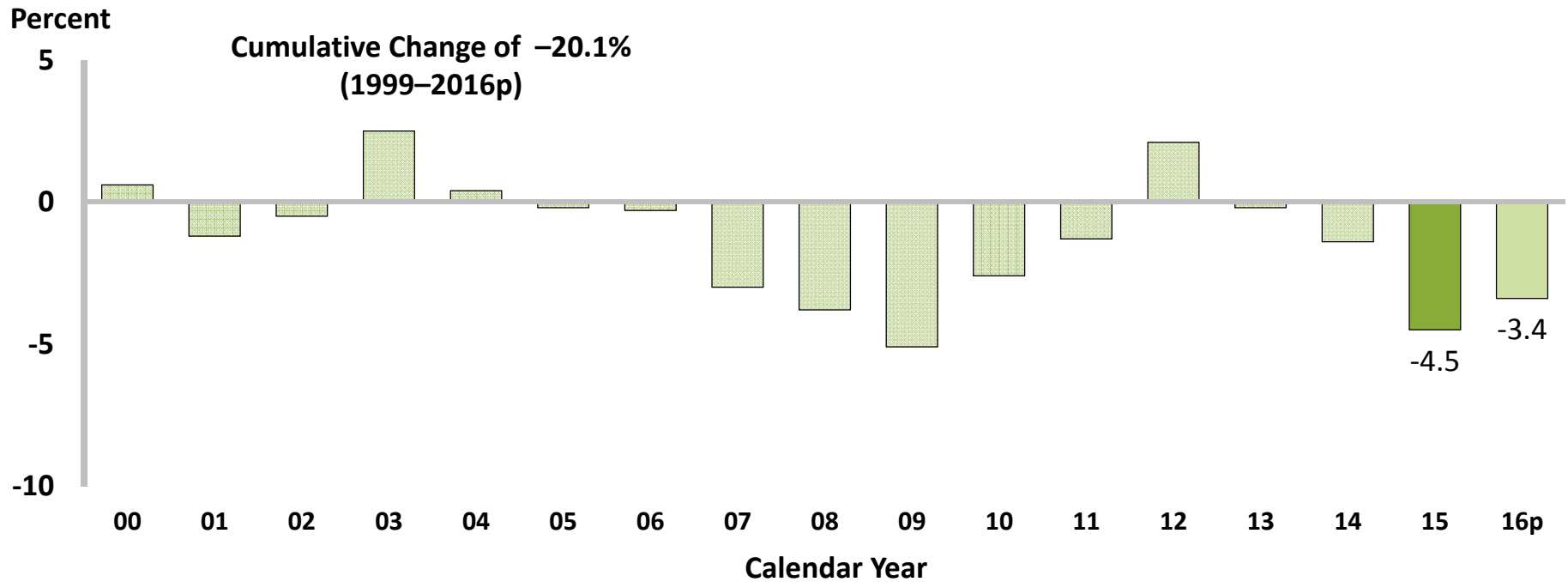


Sources: US Bureau of Labor Statistics and US Bureau of Economic Analysis
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WC Approved Changes in Bureau Premium Level

By Effective Year for NCCI States



p 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

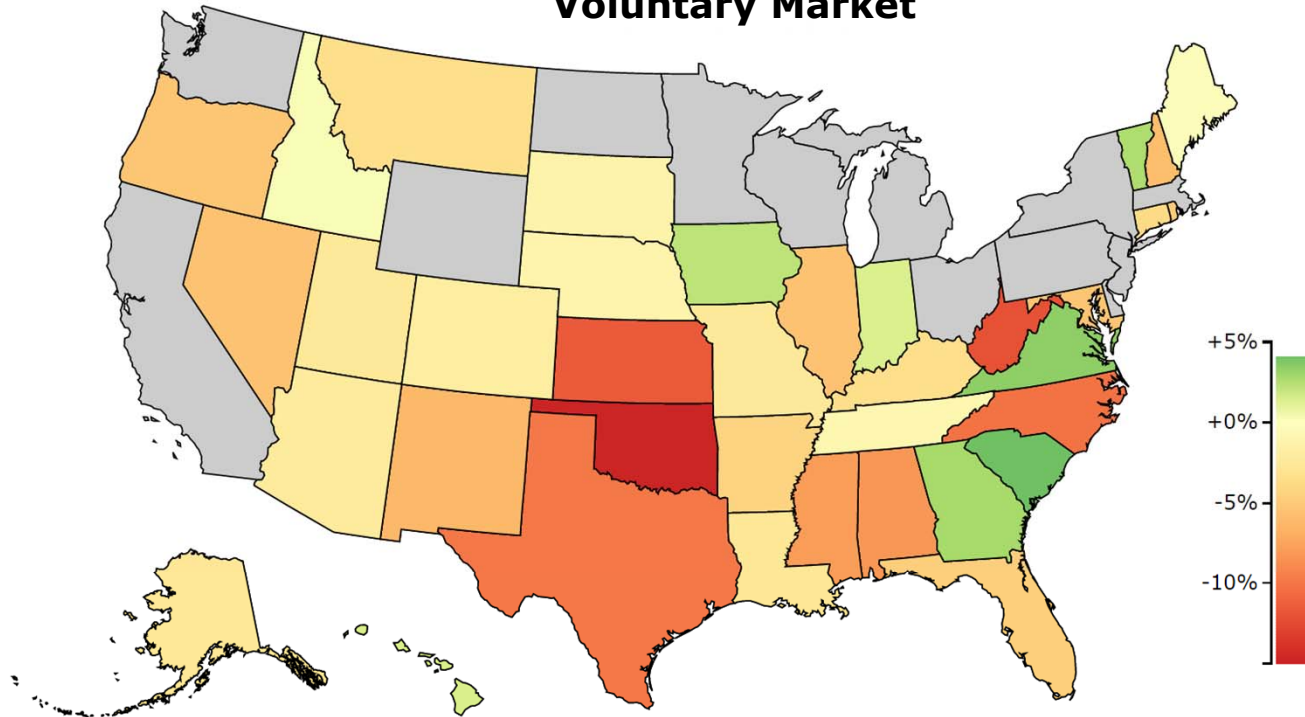
IN and NC are filed in cooperation with state rating bureaus

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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

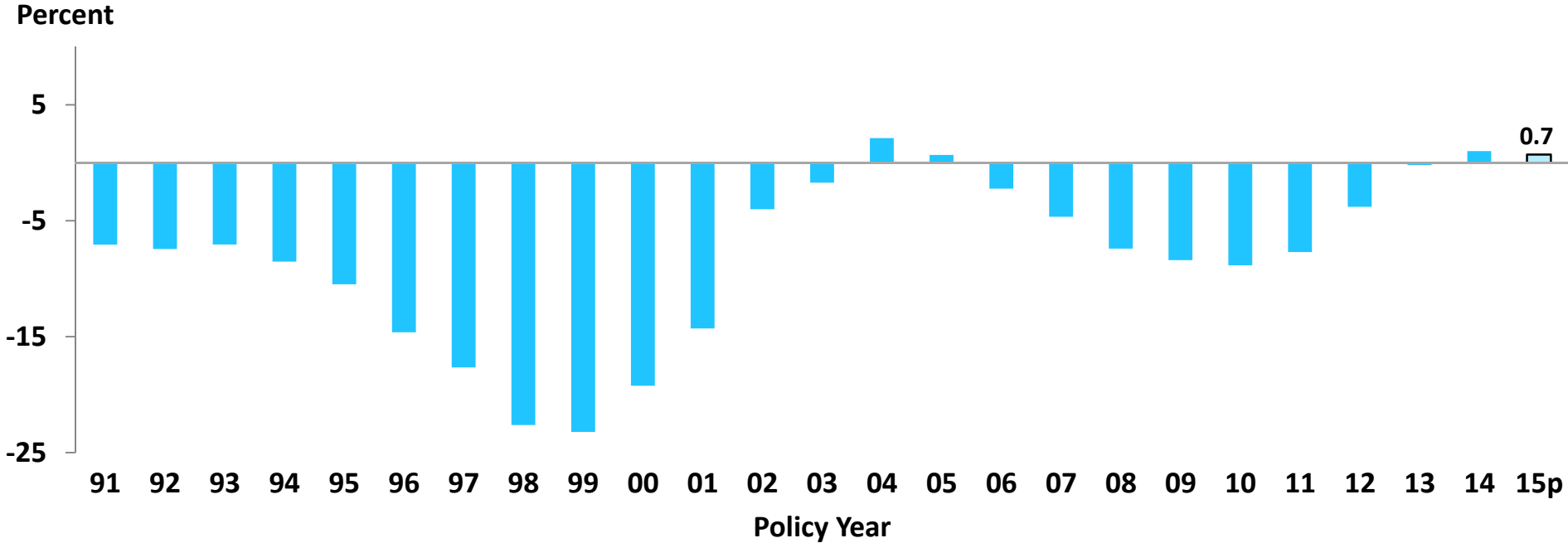
RI and SC are filed and pending

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



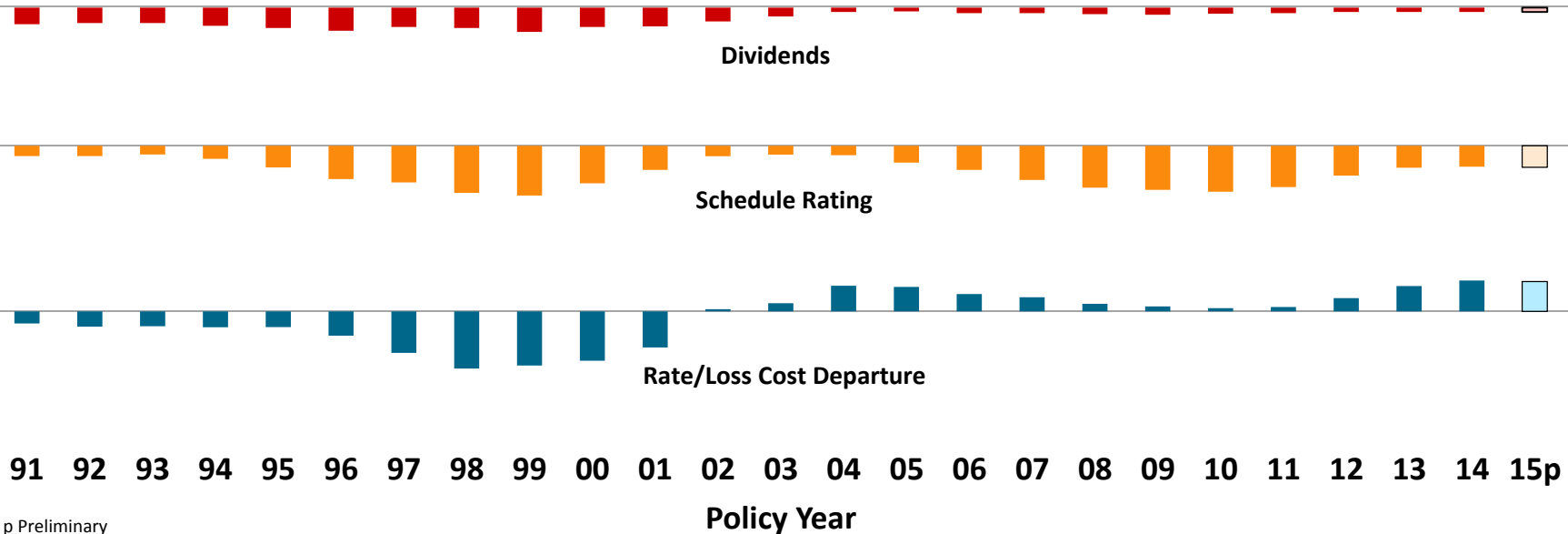
p Preliminary
Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data
NCCI benchmark level does not include a profit and contingency provision
Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking services, excluding TX

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WC Impact of Discounting on Premium

Private Carriers – NCCI States



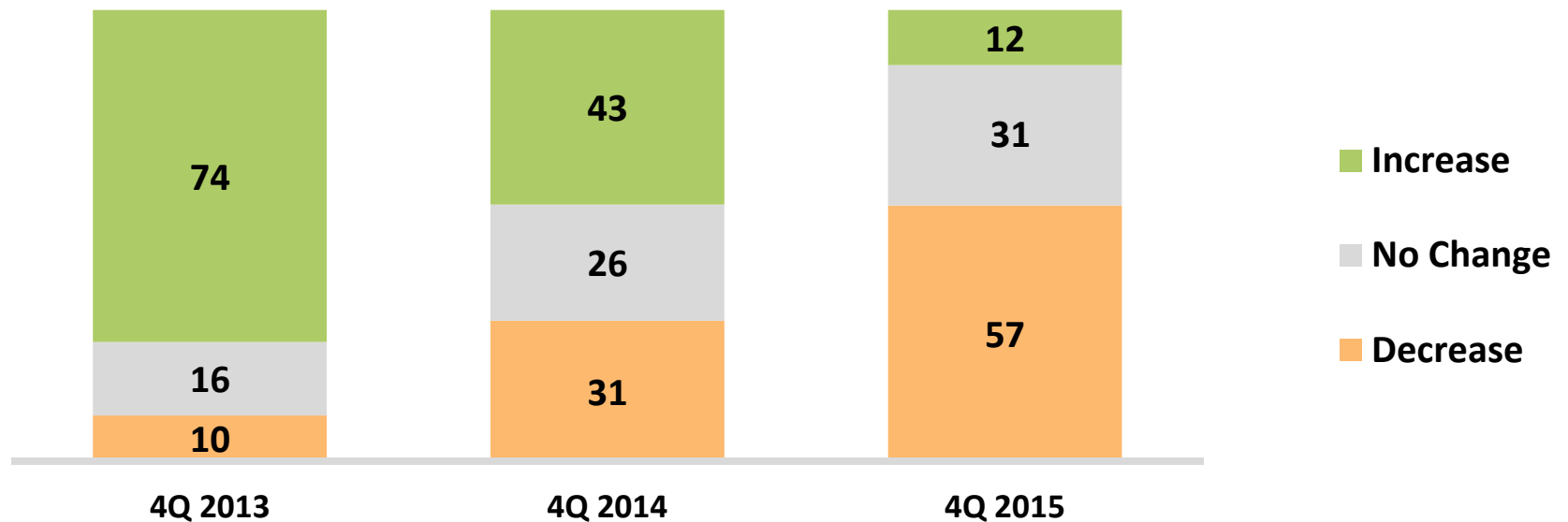
p Preliminary
 Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data
 Dividend ratios are based on calendar year statistics
 NCCI benchmark level does not include a profit and contingency provision
 Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking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

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WC Pricing – Market Index Survey

Percentage of Respondents



Sources: The Council of Insurance Agents & Brokers, "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"

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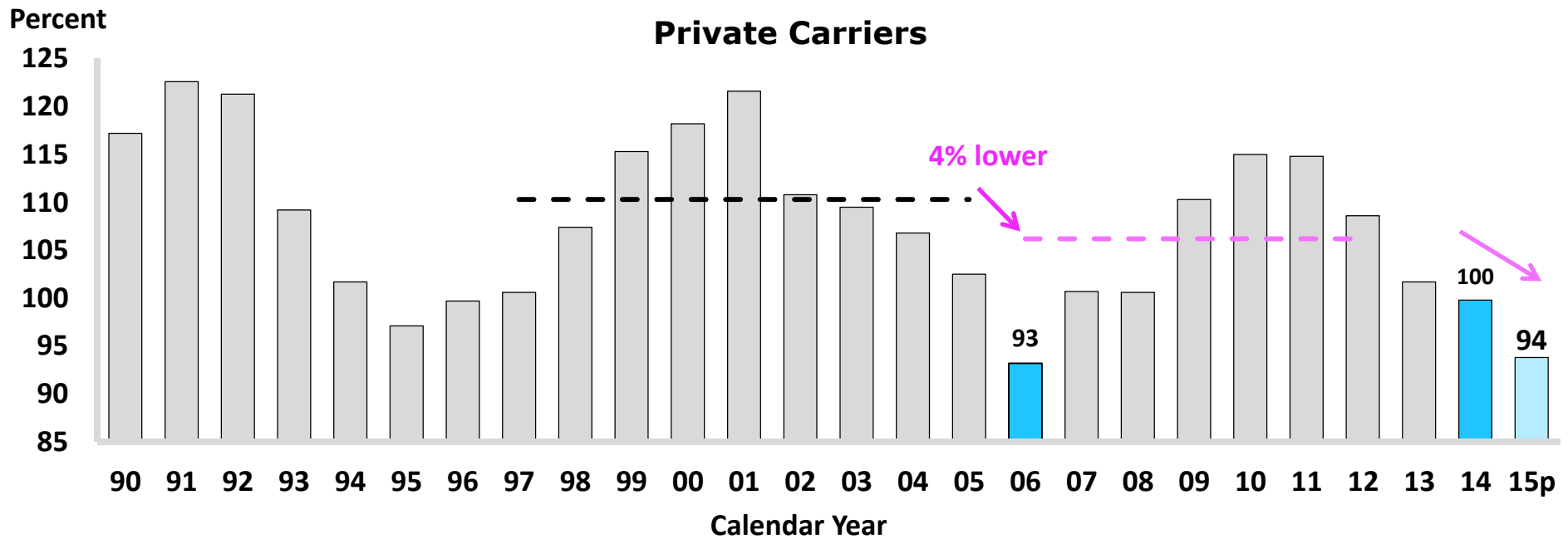




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Workers Compensation Results

WC Combined Ratio Underwriting Gain Achieved



p Preliminary

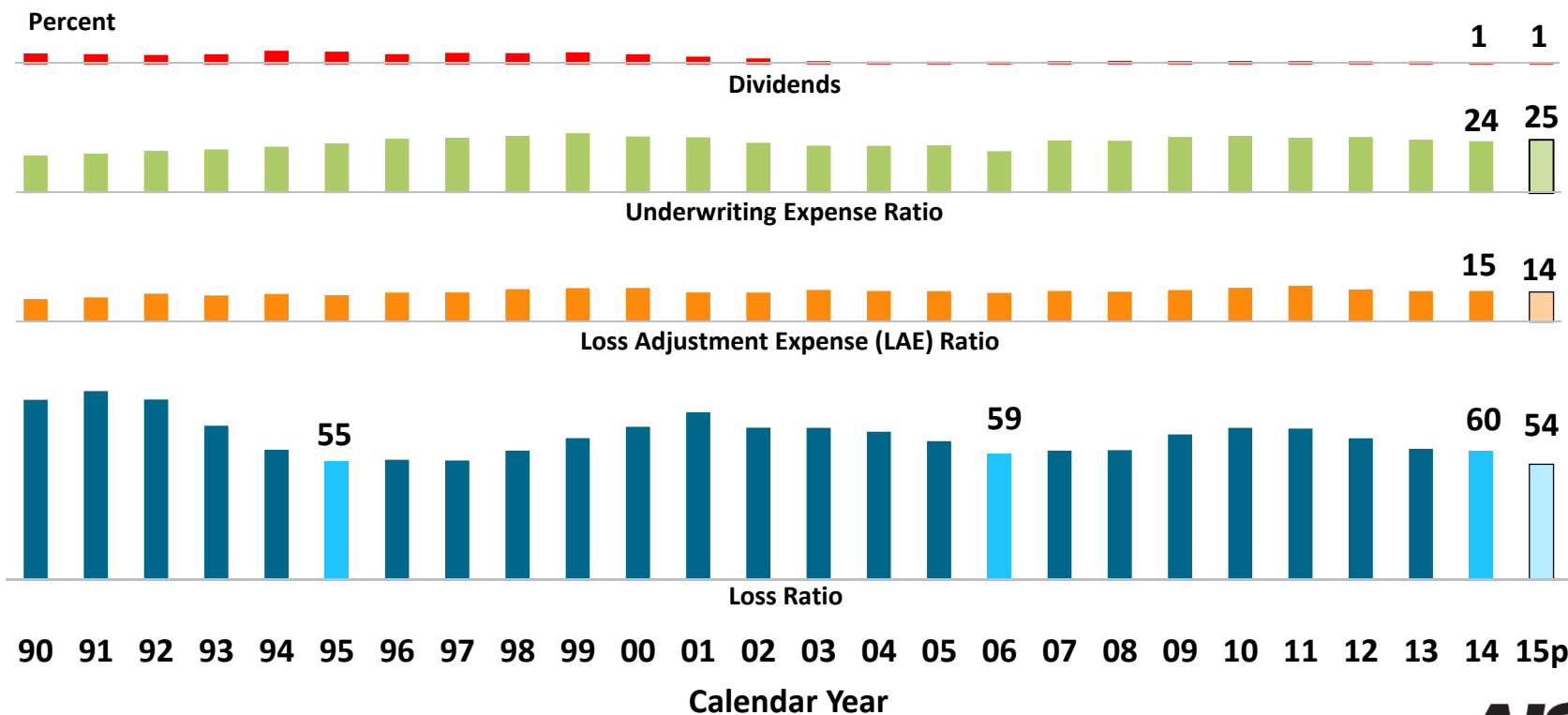
Source: Annual Statement data

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WC Combined Ratio Components

Private Carriers



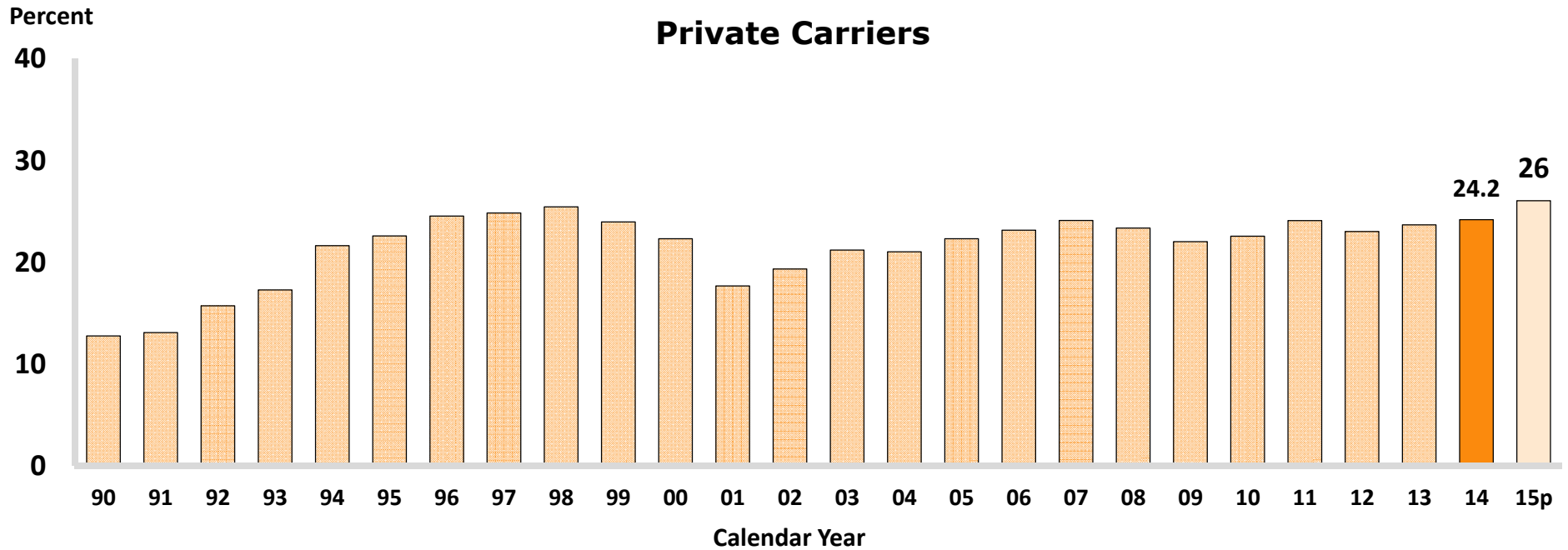
p Preliminary
Source: Annual Statement data

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WC LAE to Loss Ratio Net Incurred LAE to Incurred Losses

Private Carriers



p Preliminary

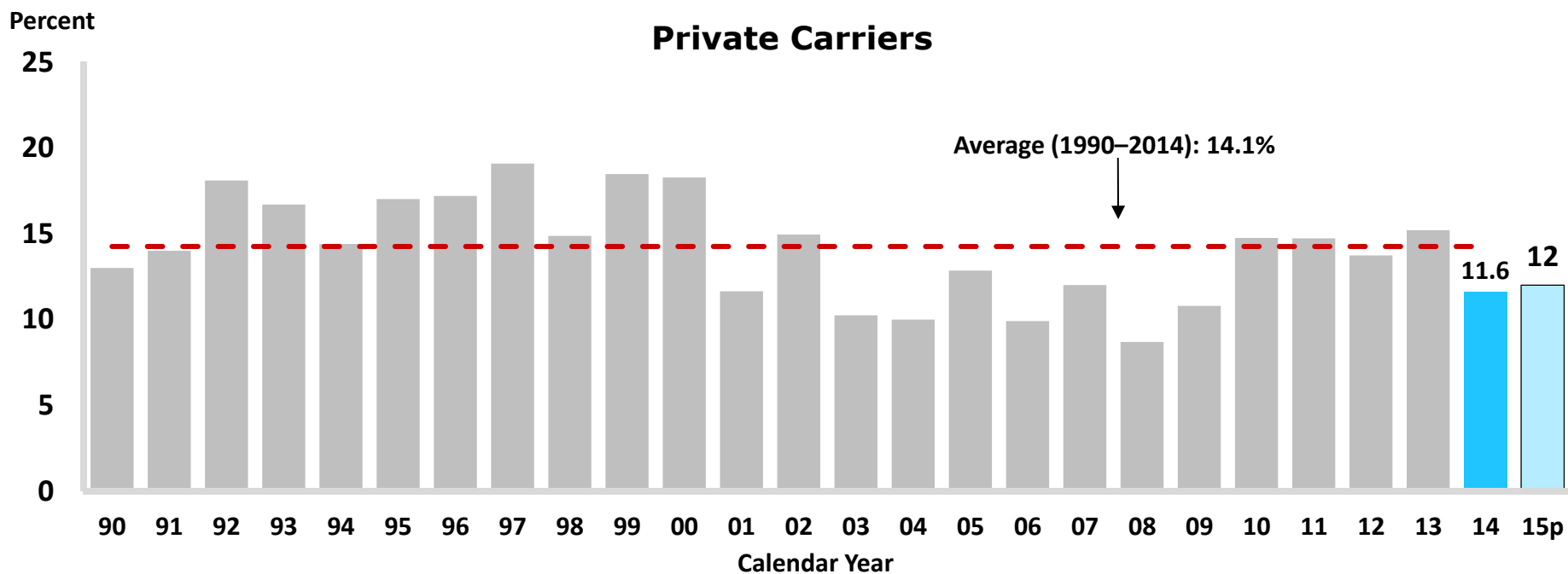
Source: Annual Statement data

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



p Preliminary

Source: Annual Statement data

Investment Gain on Insurance Transactions includes Other Income

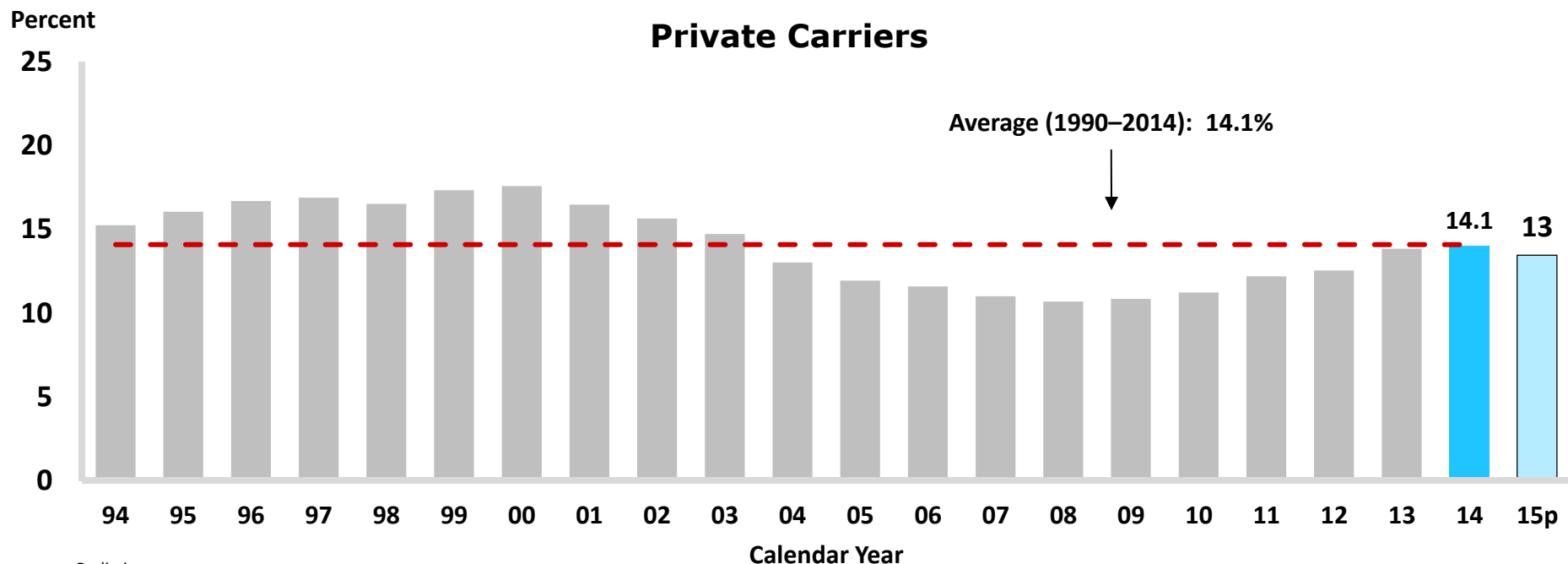
1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent

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



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

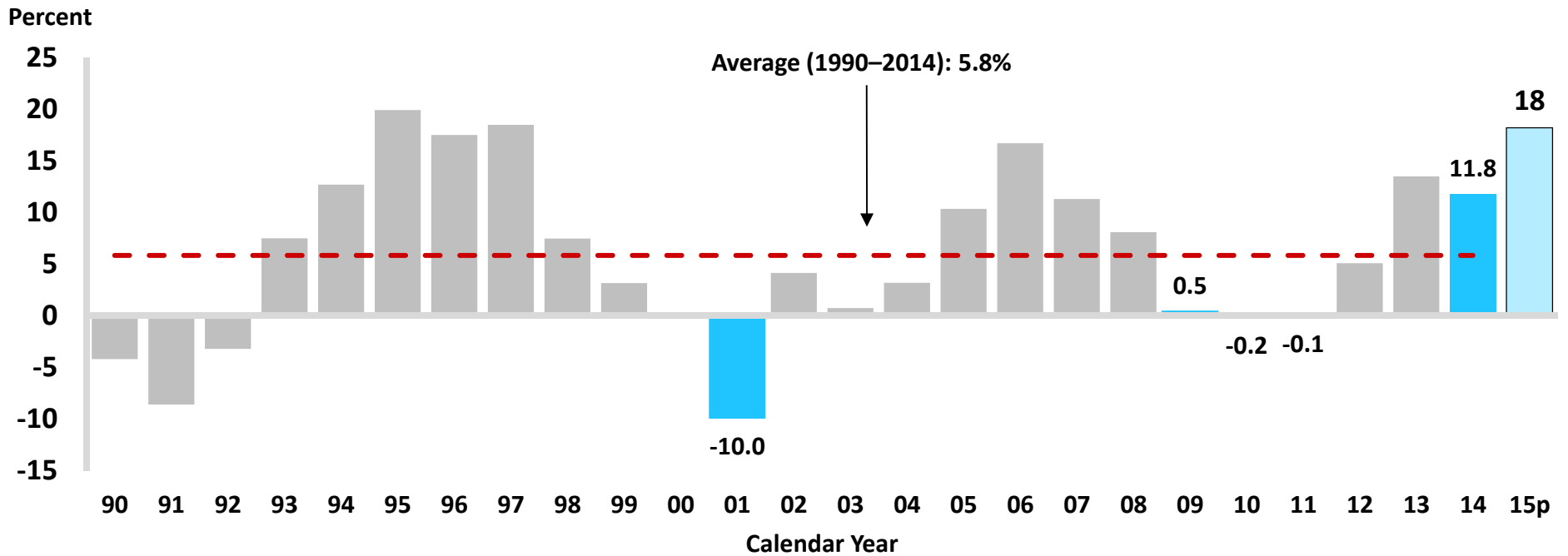
2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring

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WC Pretax Operating Gain

Private Carriers



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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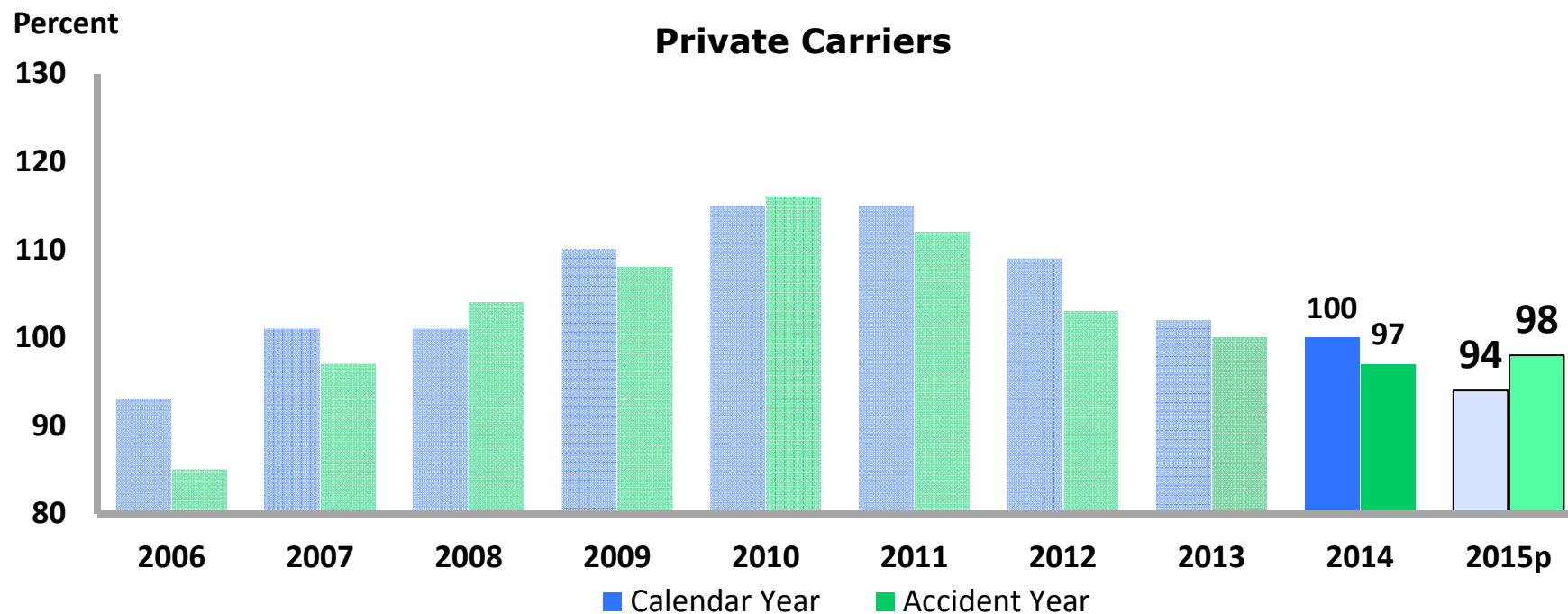




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Workers Compensation Accident Year Results and Reserve Estimates

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



p Preliminary

Source: NCCI analysis based on Annual Statement data

Accident Year information is reported as of 12/31/2015

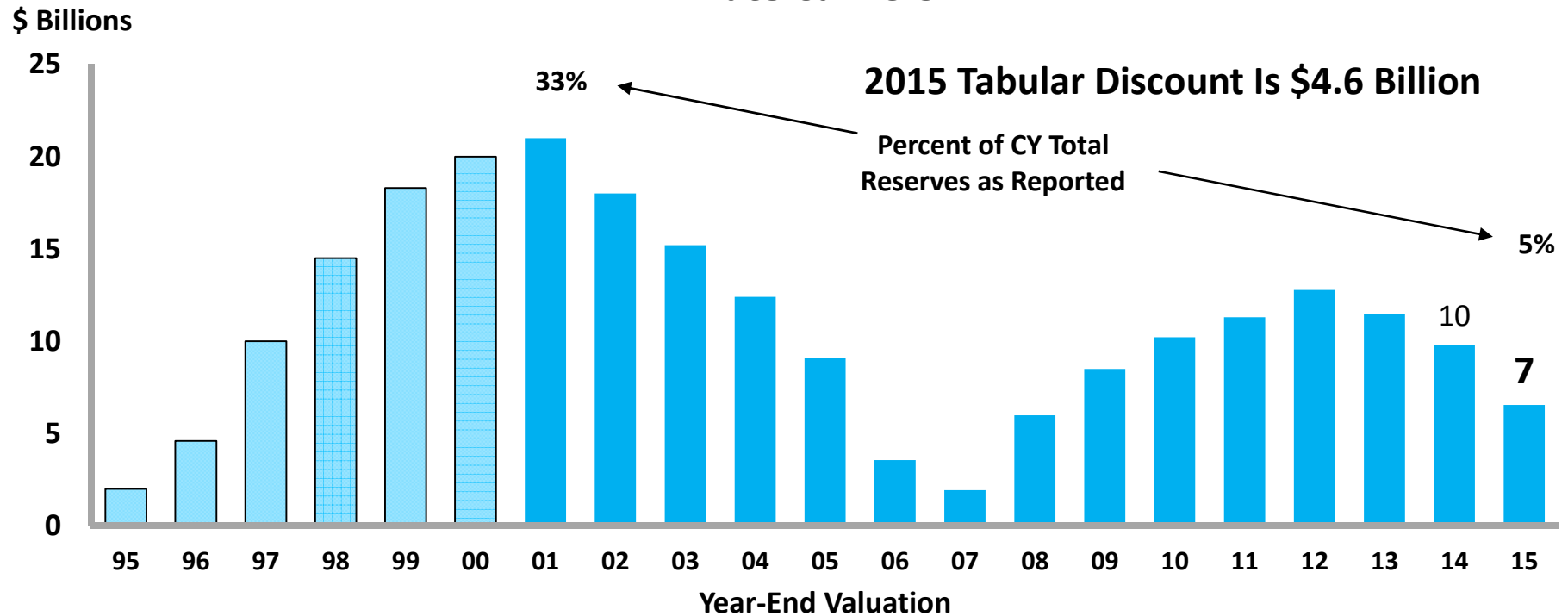
Includes dividends to policyholders

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WC Loss and LAE Net Reserve Deficiencies

Private Carriers

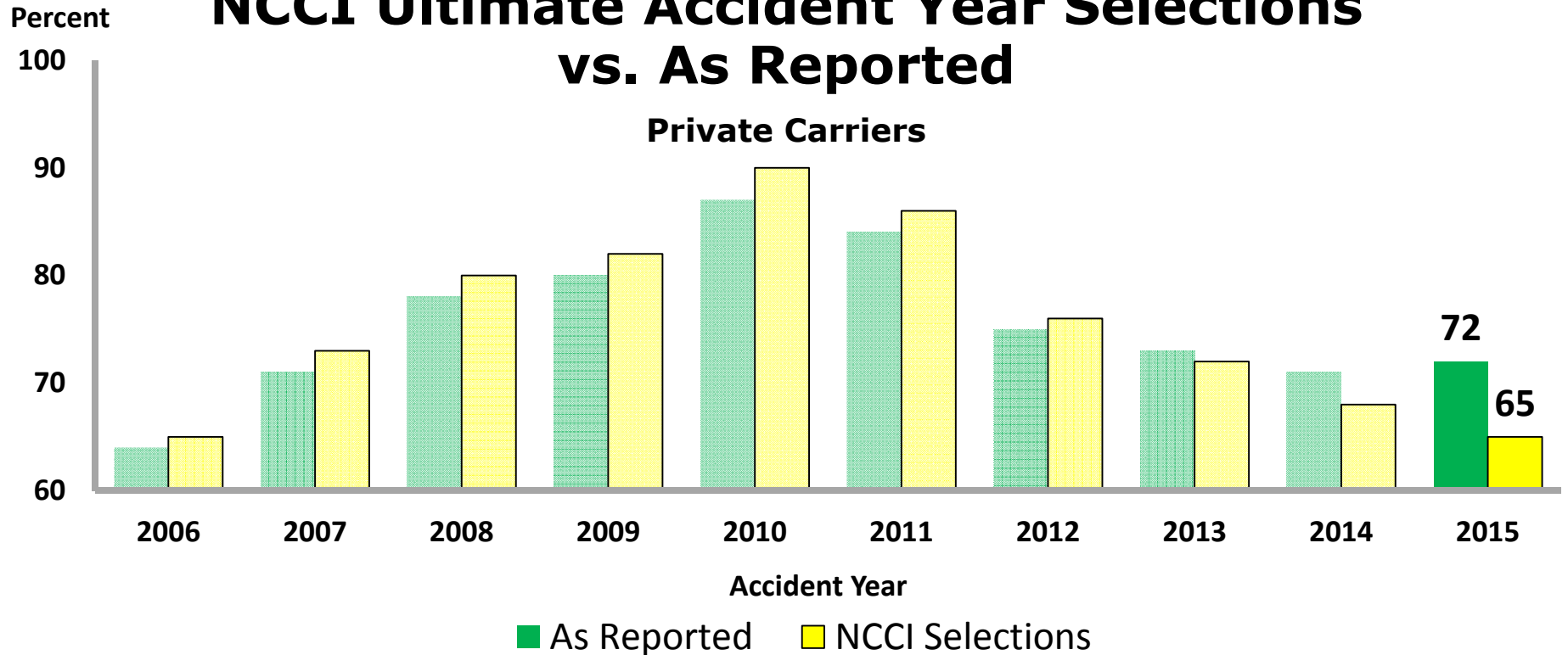


Source: NCCI analysis based on Annual Statement data
 Considers all reserve discounts as deficiencies

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



Sources: As Reported: Annual Statement Schedule P—Part 1D data as of 12/31/2015

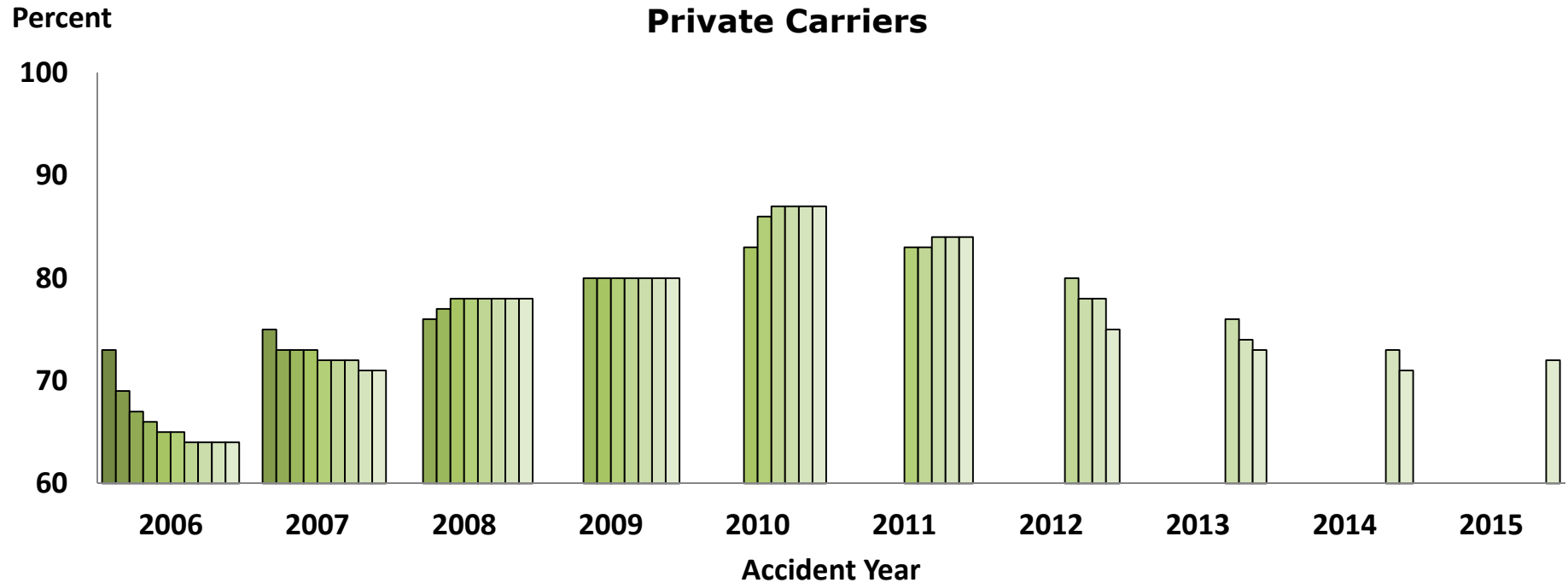
NCCI Selections: NCCI analysis based on Annual Statement data

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 Emergence



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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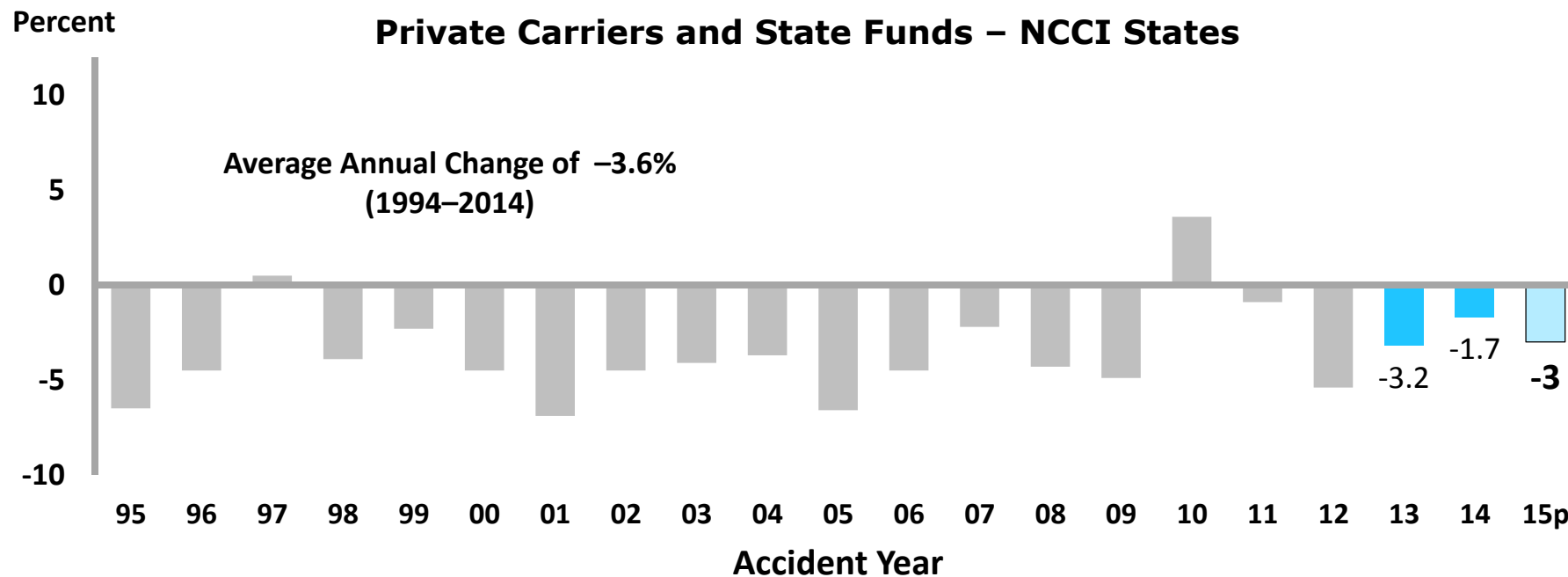


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Workers Compensation Loss Drivers

WC Lost-Time Claim Frequency

Change in Lost-Time Claims per \$1M Pure Premium



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

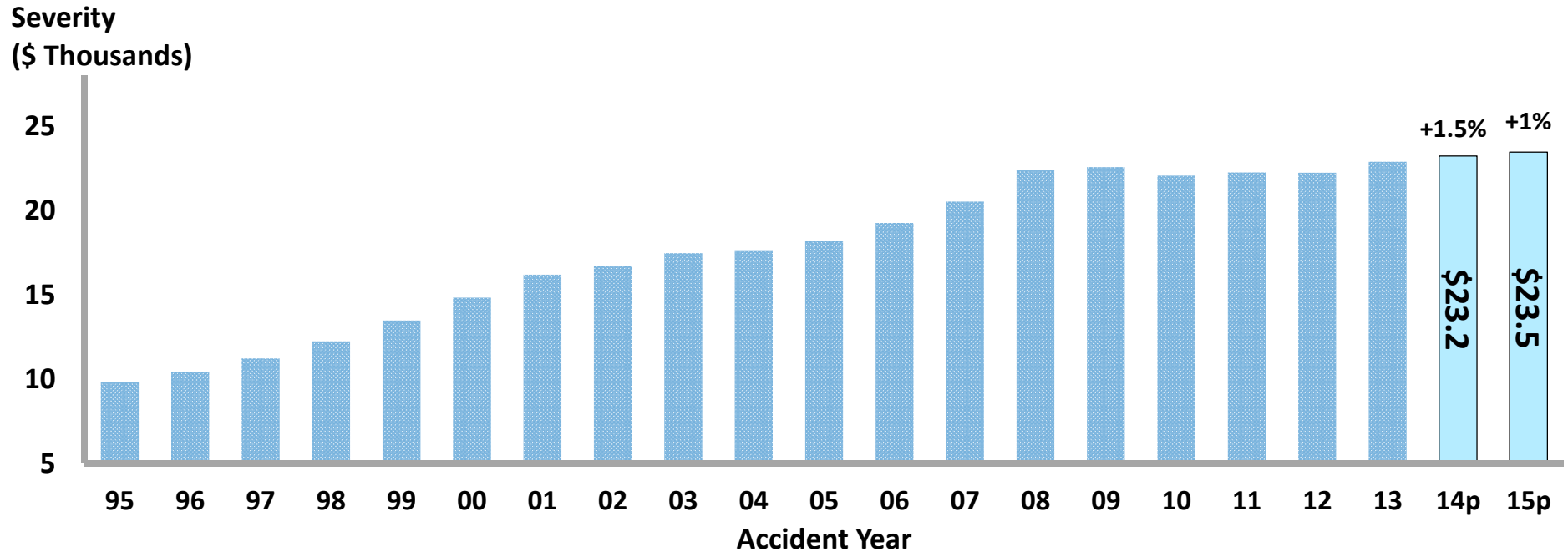
Includes all states where NCCI provides ratemaking services; WV is excluded through 2014, but included in 2015.

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WC Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States



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

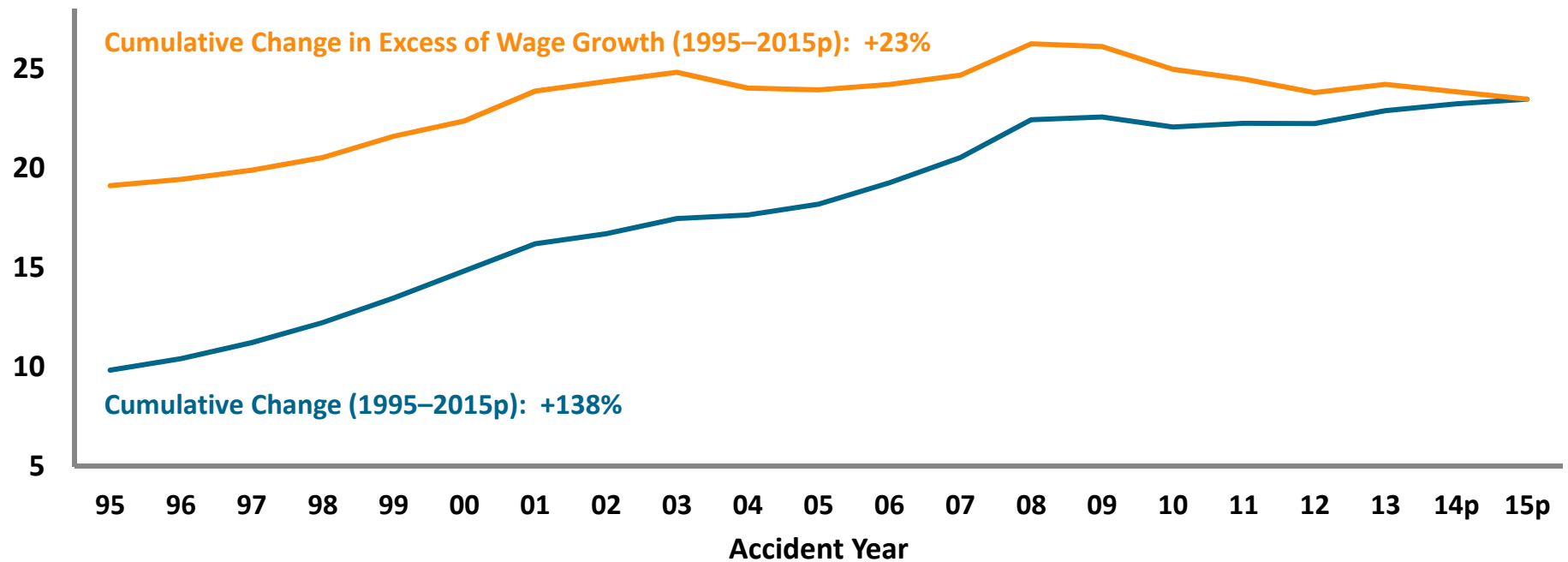
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WC Average Indemnity Cost per Lost-Time Claim

Severity
(\$ Thousands)

Private Carriers and State Funds – NCCI States



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

US Average Weekly Wage: 1994–2007 and 2012–2014, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2015p, NCCI and Moody's Economy.com

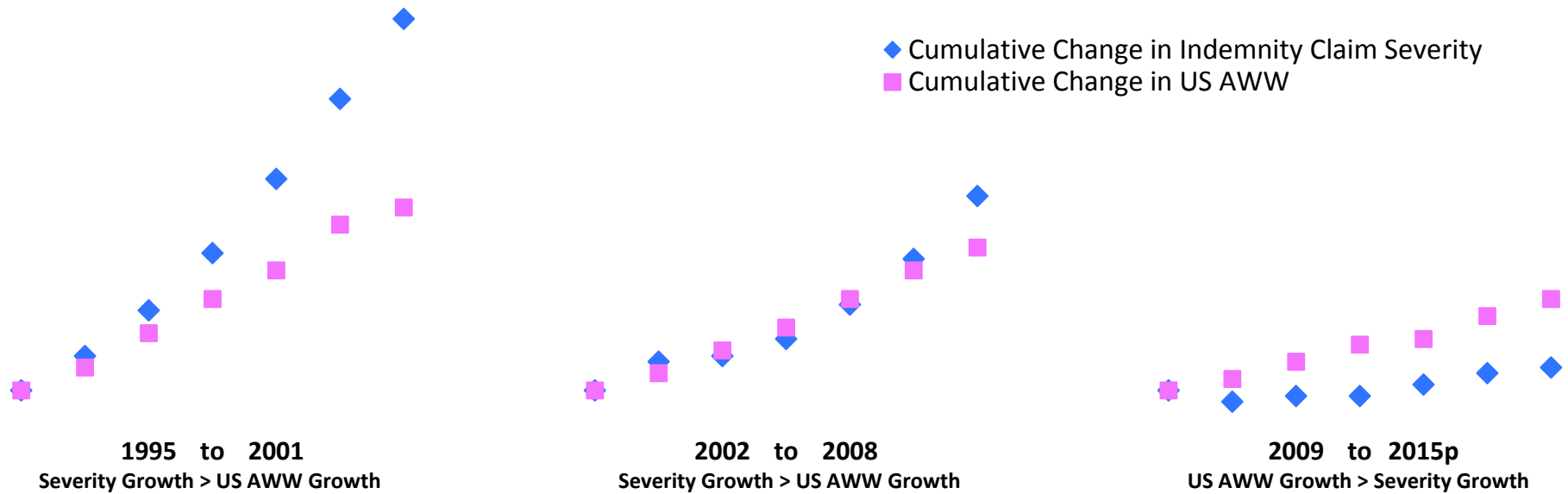
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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Relative Growth Rates Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds – NCCI States



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

US Average Weekly Wage: 1994–2007 and 2012–2014, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2015p, NCCI and Moody's Economy.com

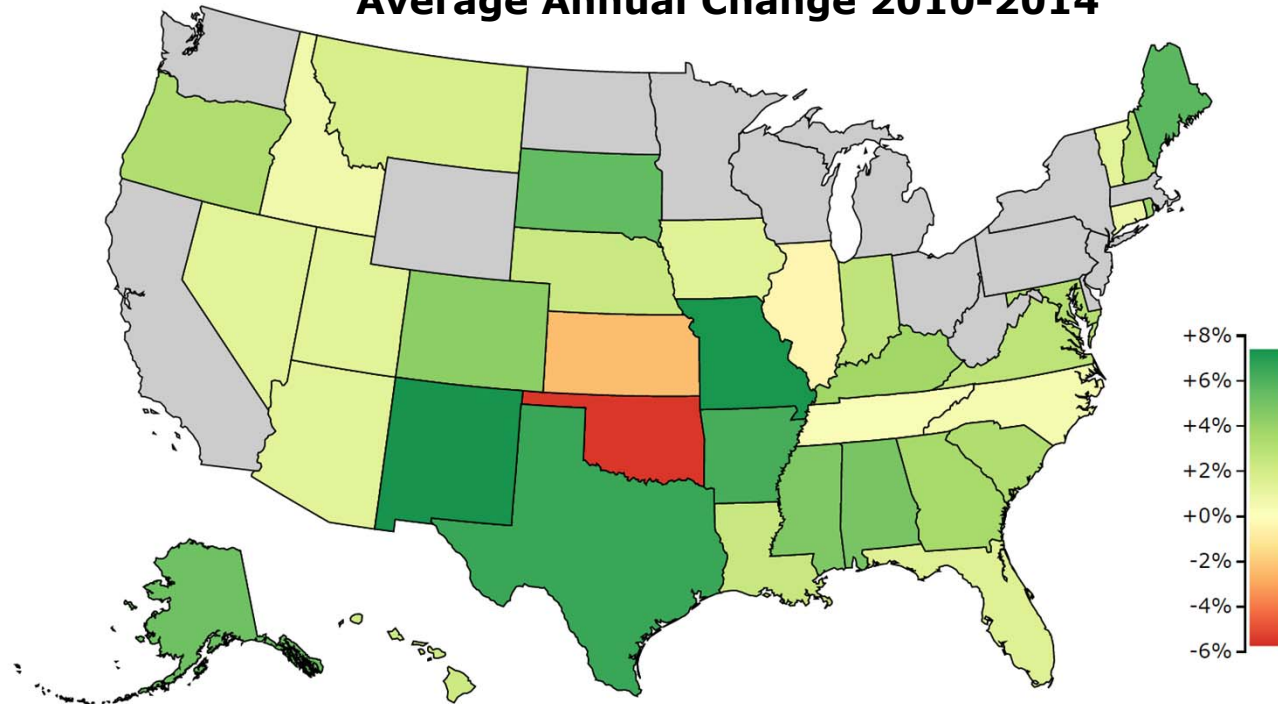
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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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

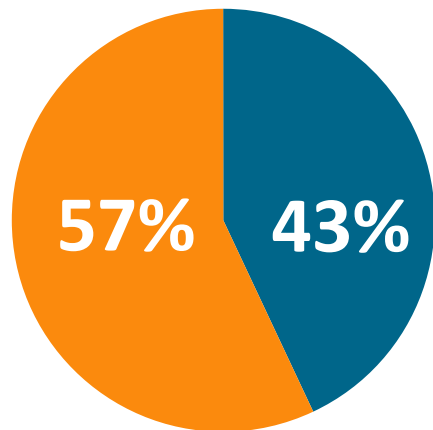
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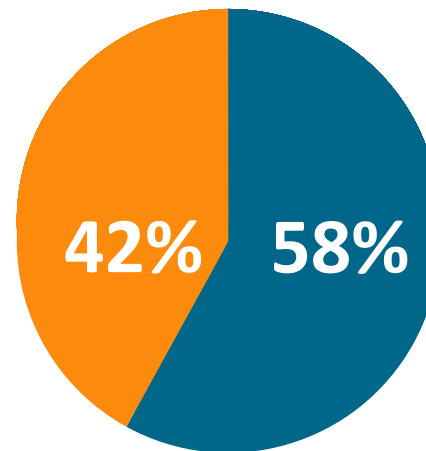
Indemnity/Medical Split Over Time

Private Carriers and State Funds – NCCI States

1981



2015p



■ Indemnity ■ Medical

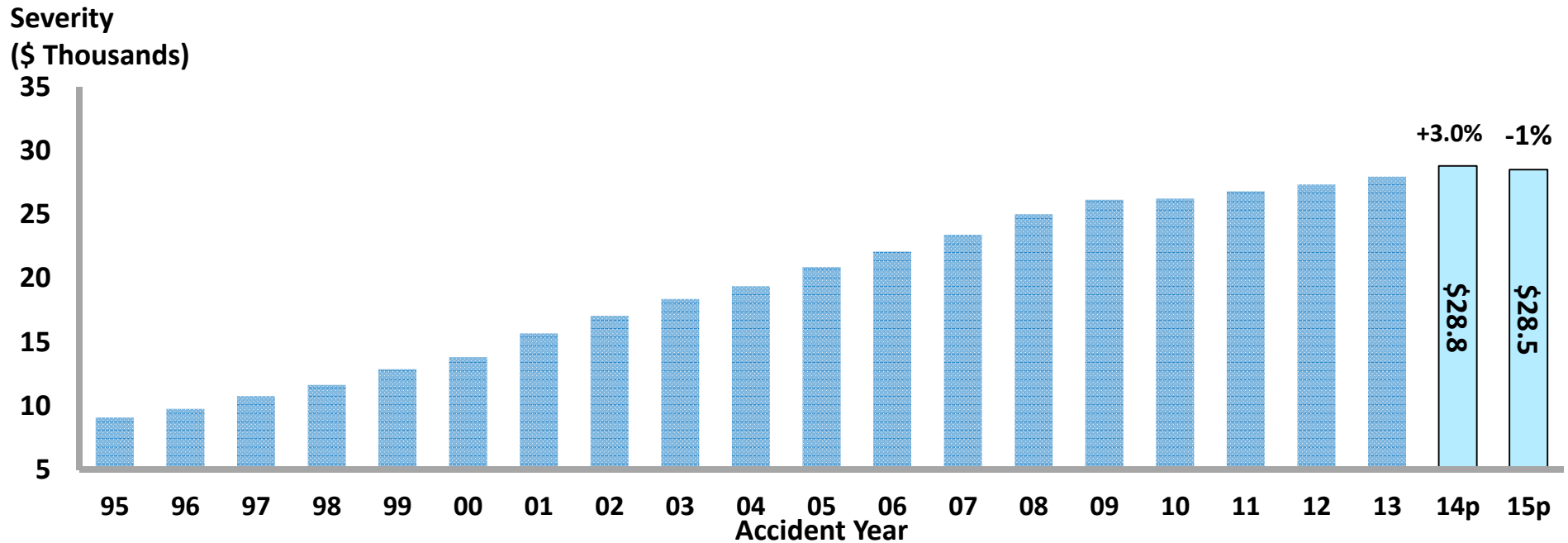
Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies

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WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States



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

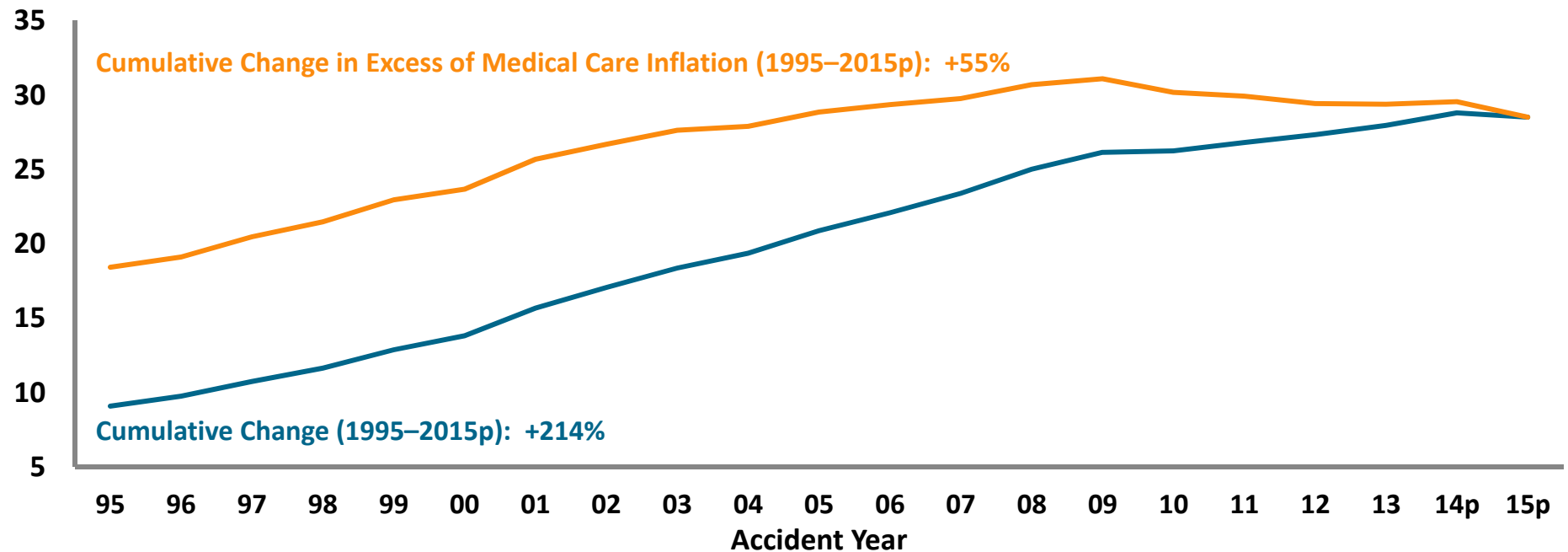
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WC Average Medical Cost per Lost-Time Claim

Severity
(\$ Thousands)

Private Carriers and State Funds – NCCI States



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

US Medical CPI: US Bureau of Labor Statistics

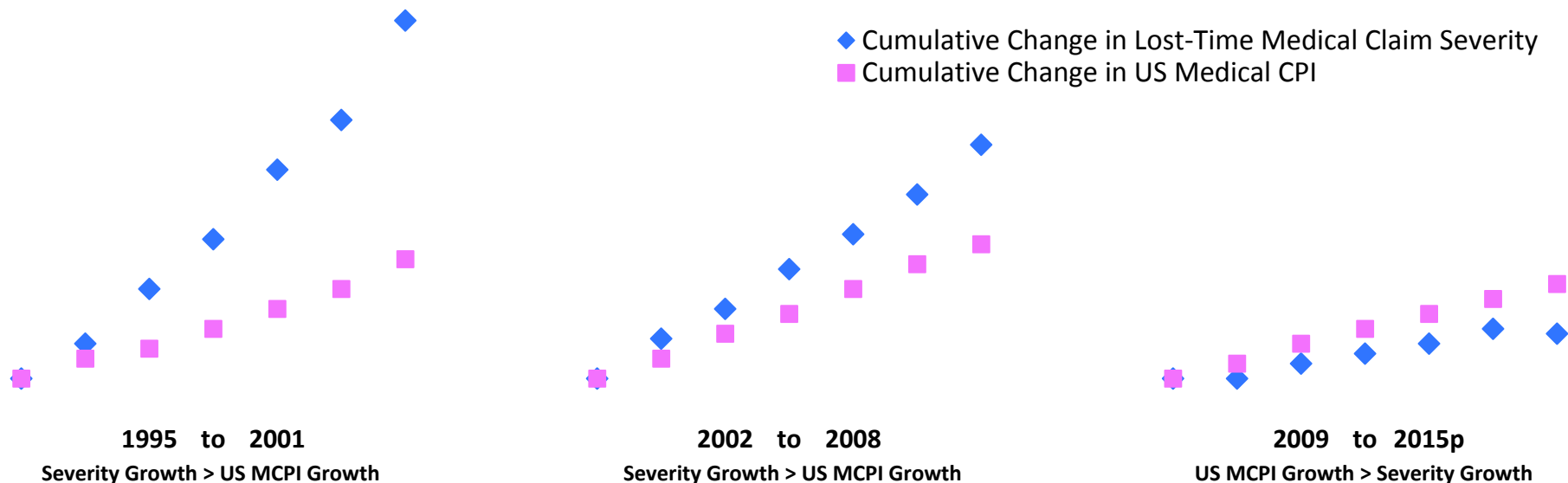
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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Relative Growth Rates Medical Severity vs. Medical Care Inflation

Private Carriers and State Funds – NCCI States



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

US Medical CPI: US Bureau of Labor Statistics

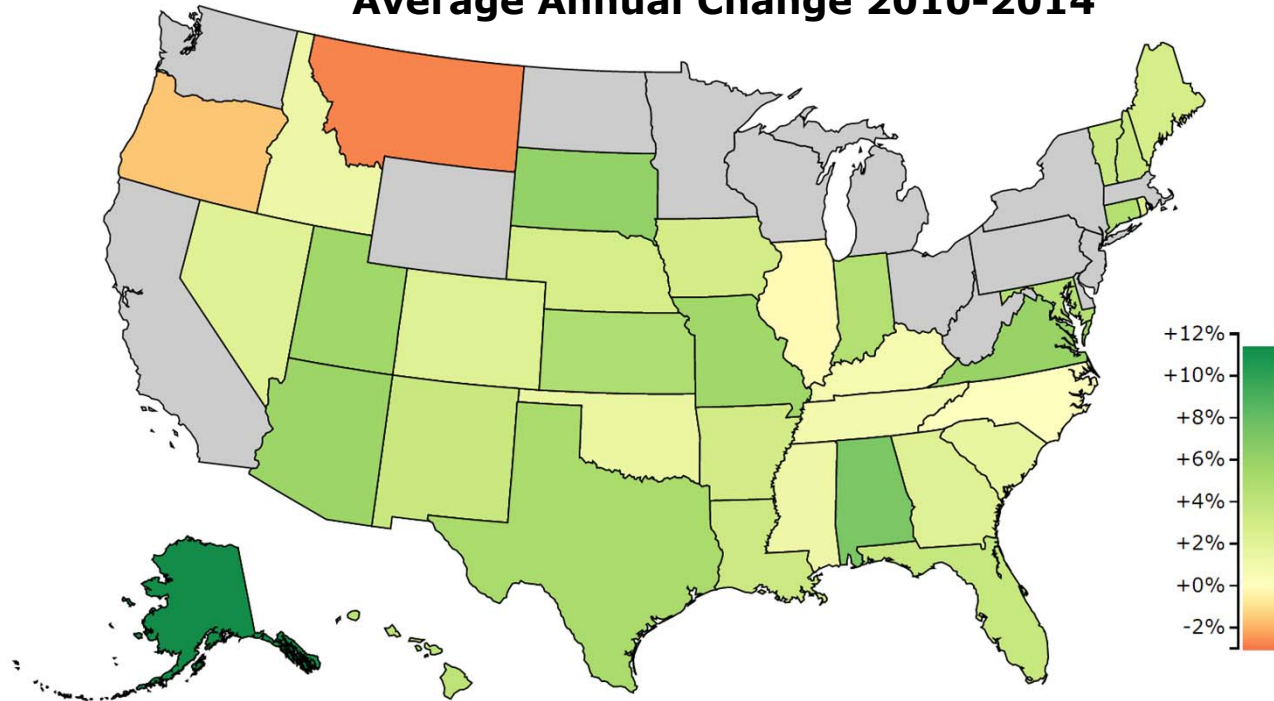
Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

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WC Lost-Time Medical Claim Severity

Average Annual Change 2010-2014



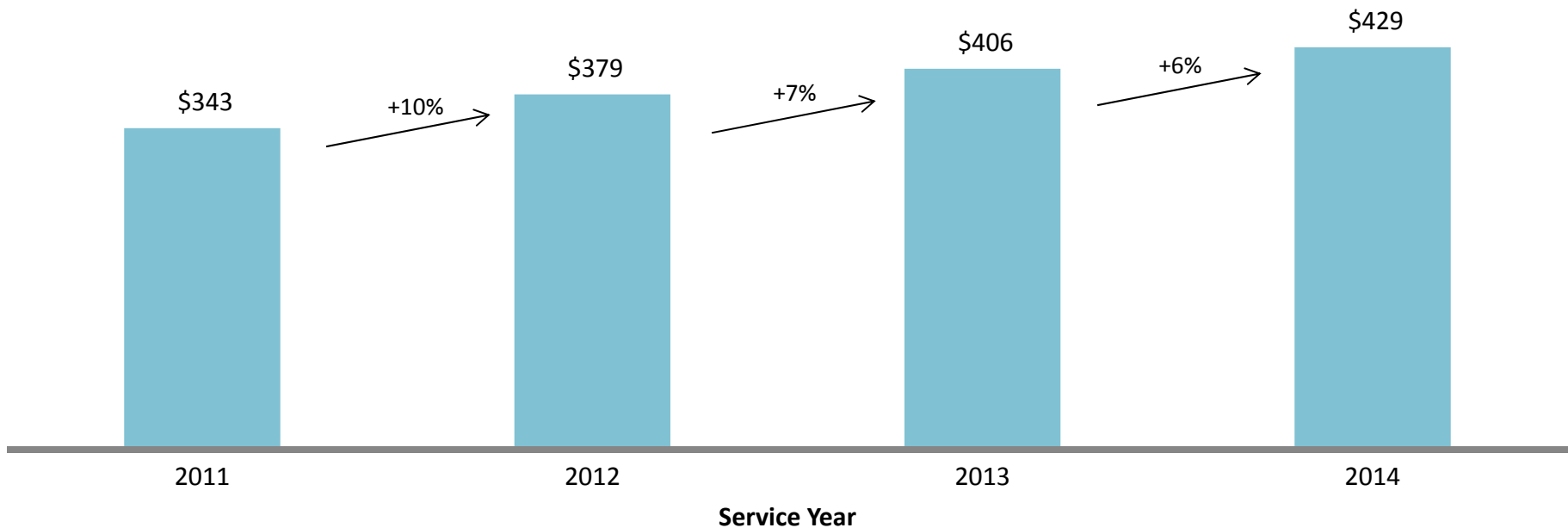
Source: "NCCI Countrywide Frequency and Severity Analysis Using Data Valued as of 12/31/2014" on ncci.com
Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
For all states where NCCI provides ratemaking services, excluding WV

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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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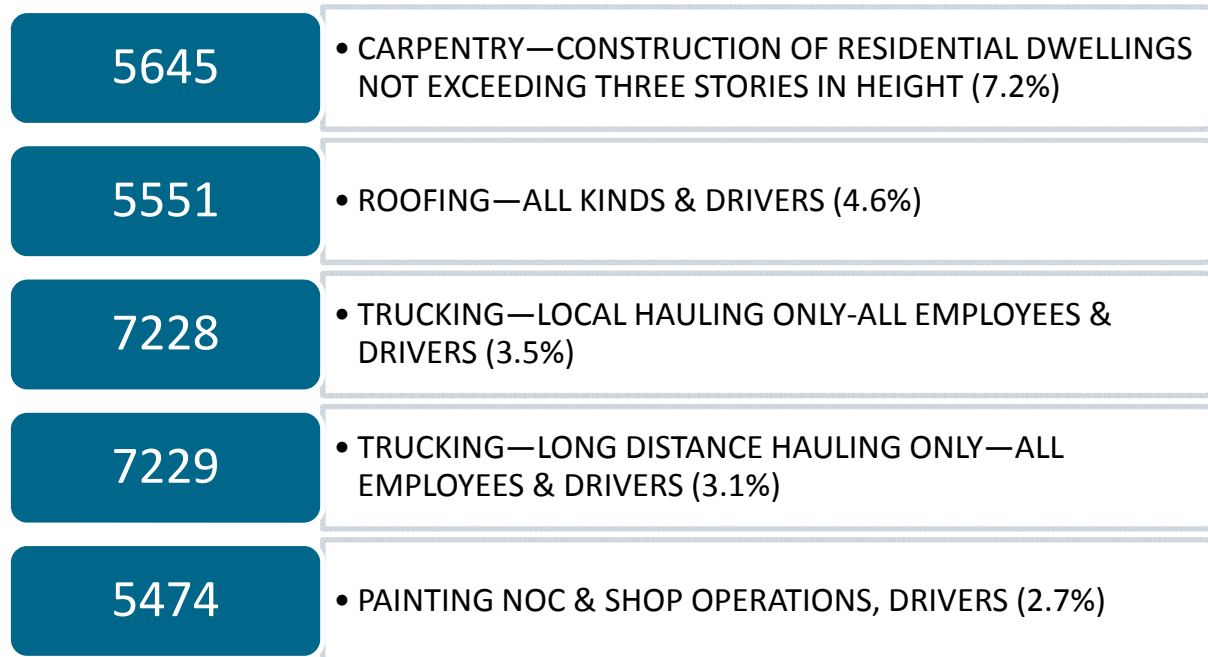




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Workers Compensation Residual Market

Top Class Codes Based on Residual Market Plan Total Written Premium



Top classification codes excluding the Standard Exception classifications

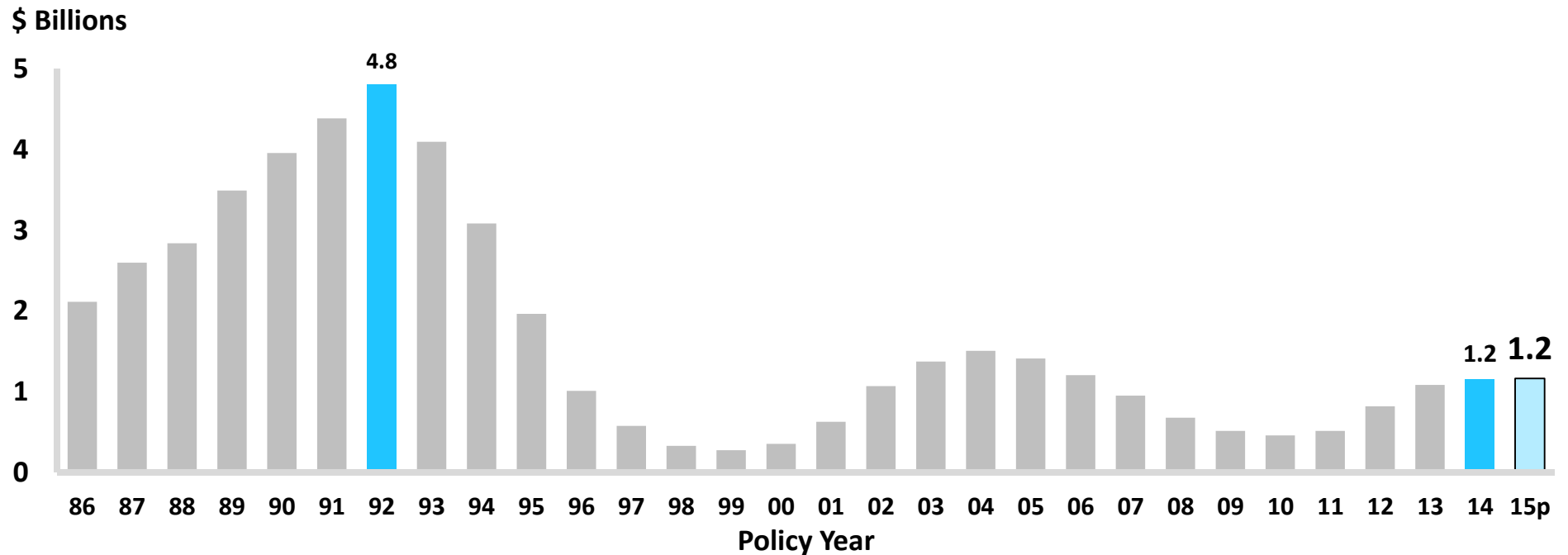
Results are based on manual premium volume for both intrastate policies and the state-specific portion of interstate policies

Source: NCCI Policy data

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WC Residual Market Premium

NCCI-Serviced WC Residual Market Pools



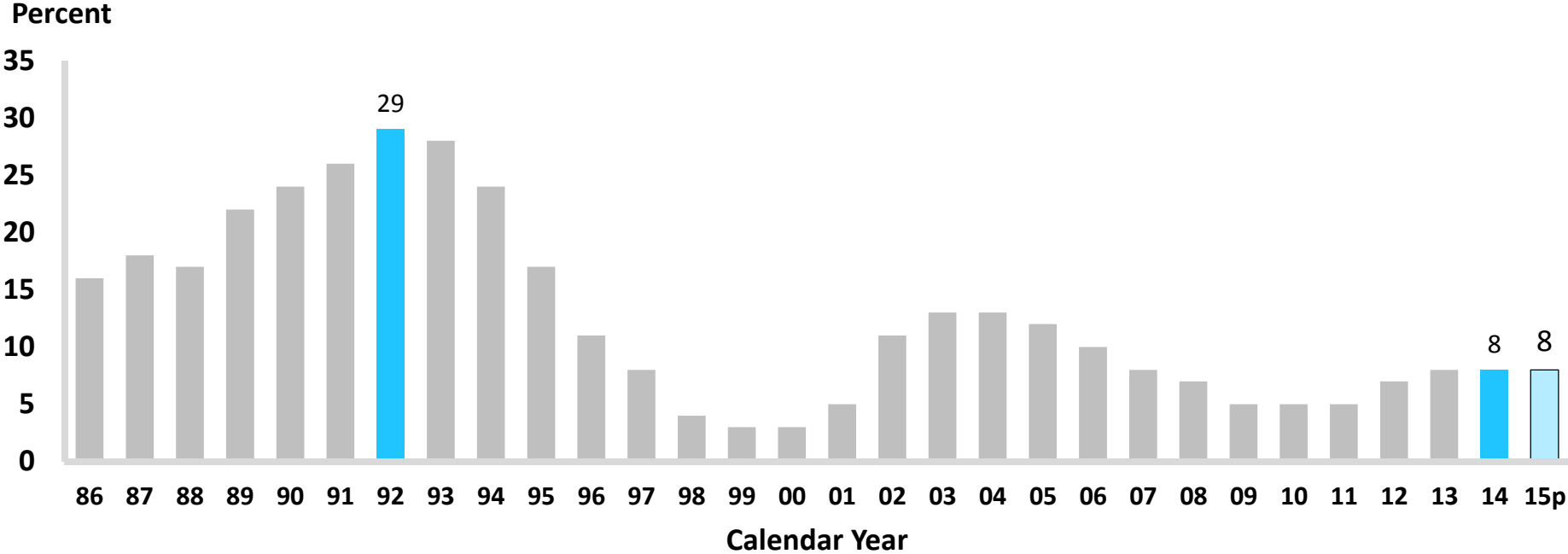
p Preliminary, incomplete policy year projected to ultimate
 Includes pool data for all NCCI-serviced WC residual market pool states valued as of 12/31/2015
 Tennessee Reinsurance Mechanism premium is not included
 Source: NCCI, *Residual Market Quarterly Results*

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WC Residual Market Share

NCCI-Serviced WC Residual Market Pools



p Preliminary
 Includes Pool and direct assignment data for all NCCI-serviced WC residual market pool states
 Source: NCCI, *Residual Market Management Summary*

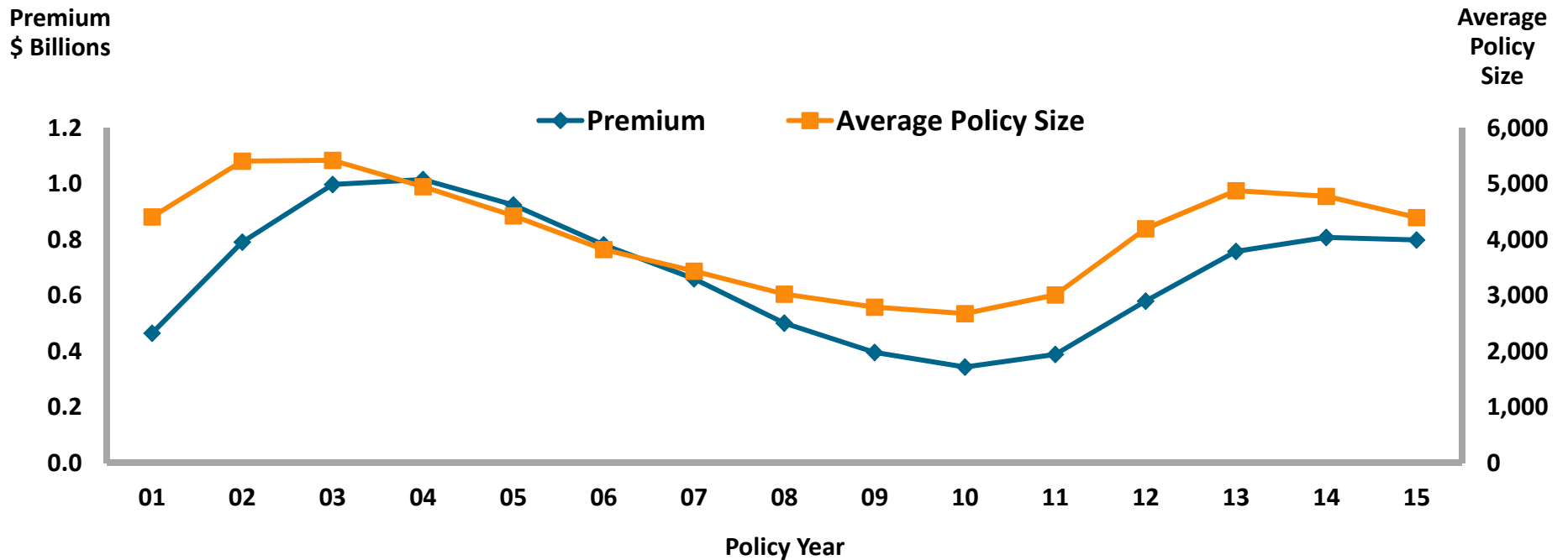
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WC Residual Market

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

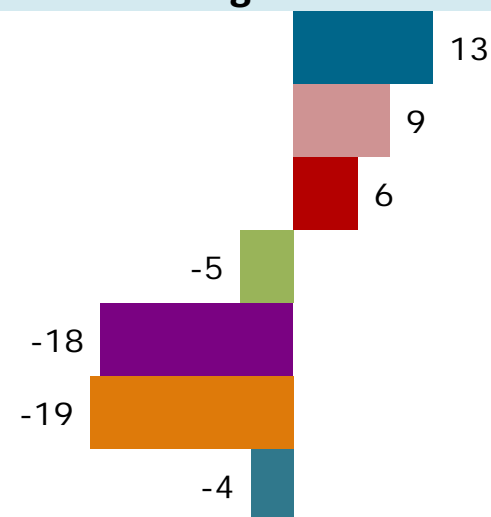
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WC Residual Market Growth at First Quarter

NCCI-Administered WC Residual Market Plan States

Size of Risk	Premium (\$ Millions)		% Change from 2015
	Q1 2015	Q1 2016	
\$ 0 – 2,499	30.1	34.1	13
\$ 2,500 – 4,999	18.0	19.6	9
\$ 5,000 – 9,999	25.4	26.9	6
\$ 10,000 – 49,999	72.3	68.6	-5
\$ 50,000 – 99,999	28.6	23.5	-18
\$ 100,000 and Over	41.1	33.3	-19
Total	215.5	206.0	-4



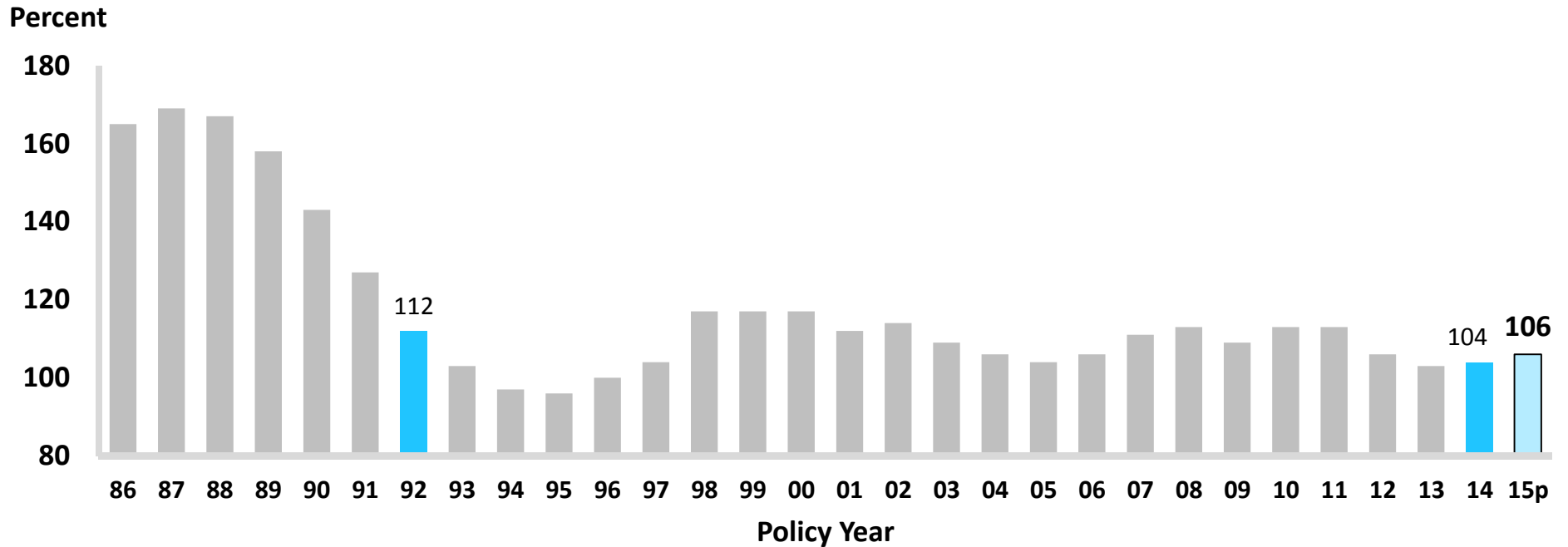
Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC residual market plan states

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WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools



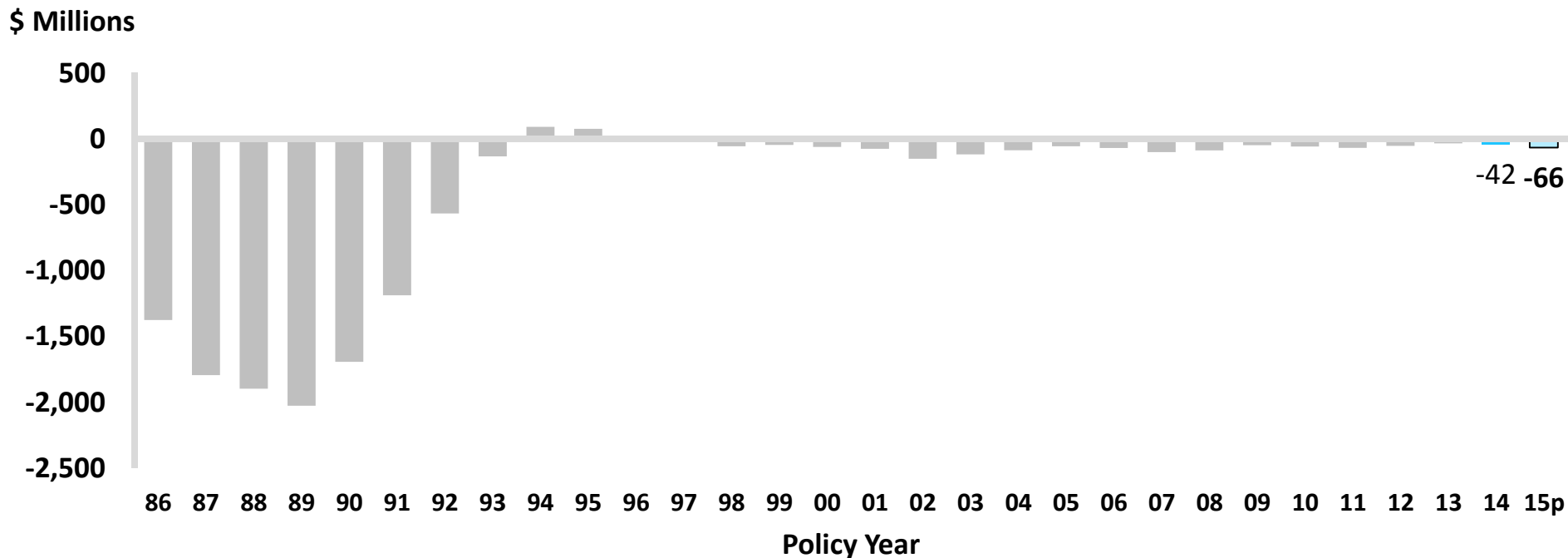
p Preliminary, incomplete policy year projected to ultimate
 Includes pool data and Plan expenses for pool members for all NCCI-serviced WC residual market pool states valued as of 12/31/2015
 Tennessee Reinsurance Mechanism experience is not included in the combined ratios
 Source: NCCI, *Residual Market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