



State of the Line

Sean Cooper, FCAS, MAAA
Director & Actuary

June 1, 2015
NCCI Holdings, Inc.



Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.





Property/Casualty (P/C) Results

P/C Industry Net Written Premium All Major Lines Increased

Private Carriers

Line of Business	Calendar Year (\$ Billions)			Change (%) 2013– 2014p
	2012	2013	2014p	
Personal Auto	\$ 168.0	\$ 174.9	\$ 183.2	4.7%
Homeowners	\$ 66.9	\$ 71.9	\$ 76.9	6.9%
Other Liability (Incl Prod Liab)	\$ 41.7	\$ 45.6	\$ 47.6	4.3%
Workers Compensation	\$ 35.1	\$ 36.9	\$ 38.5	4.6%
Commercial Multiple Peril	\$ 31.4	\$ 33.2	\$ 34.3	3.4%
Fire & Allied Lines (Incl EQ)	\$ 25.9	\$ 27.0	\$ 27.1	0.5%
Commercial Auto	\$ 22.1	\$ 23.9	\$ 25.6	7.1%
All Other Lines	\$ 65.8	\$ 63.9	\$ 63.6	-0.5%
Total P/C Industry	\$ 456.8	\$ 477.3	\$ 496.9	4.1%

p Preliminary

Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers

Includes carrier data available as of 4/16/2015

P/C Industry Net Combined Ratio Overall Underwriting Gain

Private Carriers

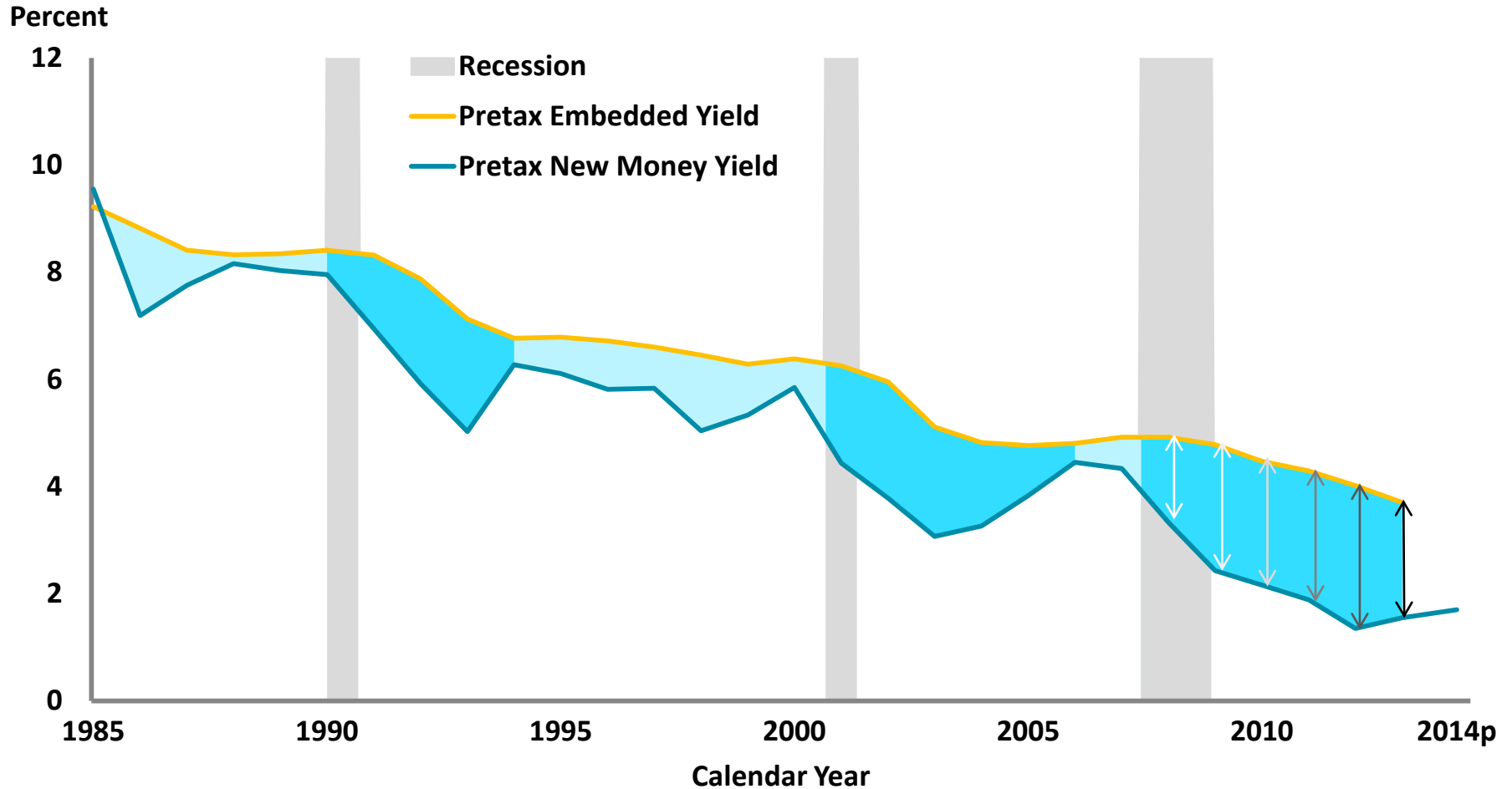
Line of Business	Calendar Year		
	2012	2013	2014p
Personal Auto	102%	102%	102%
Homeowners	104%	90%	92%
Other Liability (Incl Prod Liab)	104%	100%	102%
Workers Compensation	109%	102%	98%
Commercial Multiple Peril	107%	98%	99%
Fire & Allied Lines (Incl EQ)	103%	84%	87%
Commercial Auto	107%	107%	103%
All Other Lines	98%	83%	84%
Total P/C Industry	103%	96%	97%

p Preliminary

Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers

Includes carrier data available as of 4/16/2015

P/C Industry Embedded Yield Remains Higher Than New Money Yield



p Preliminary

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

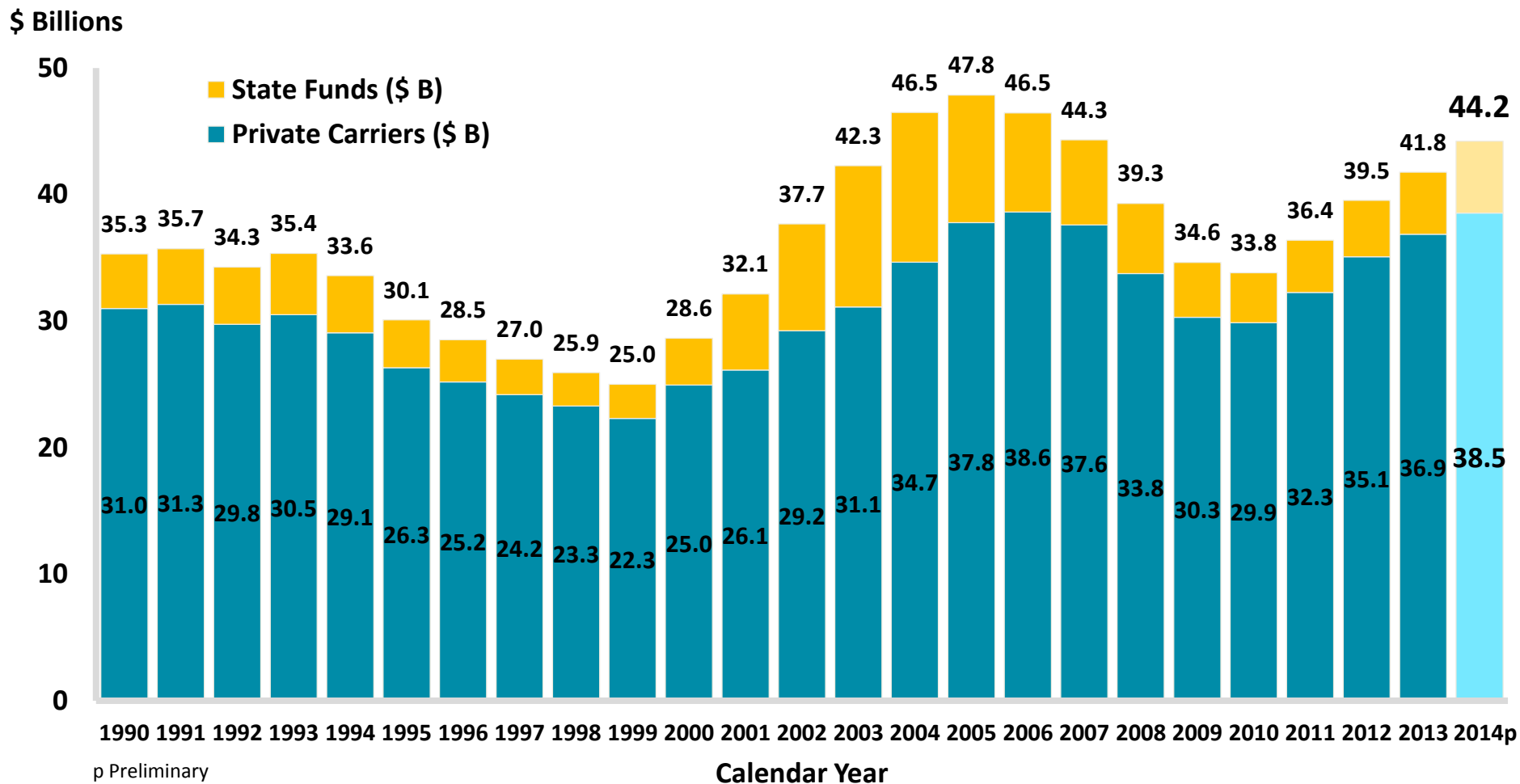
Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments

New Money Yield is the pretax yield on bonds

Workers Compensation (WC) Results

WC Net Written Premium Growth Continued

Private Carriers and State Funds



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

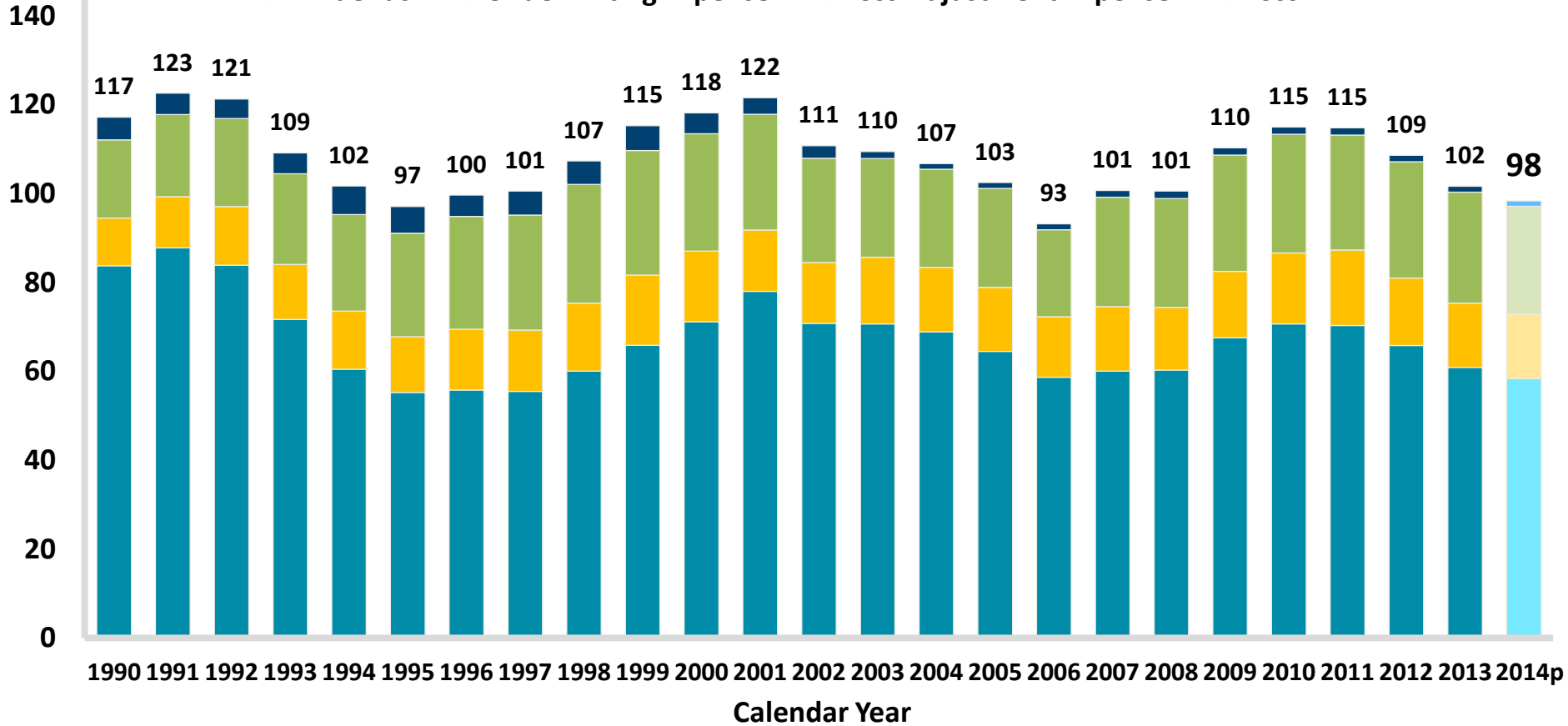
Each calendar year total for state funds includes all funds operating as a state fund in that year

WC Combined Ratio Underwriting Gain Achieved

Private Carriers

Percent

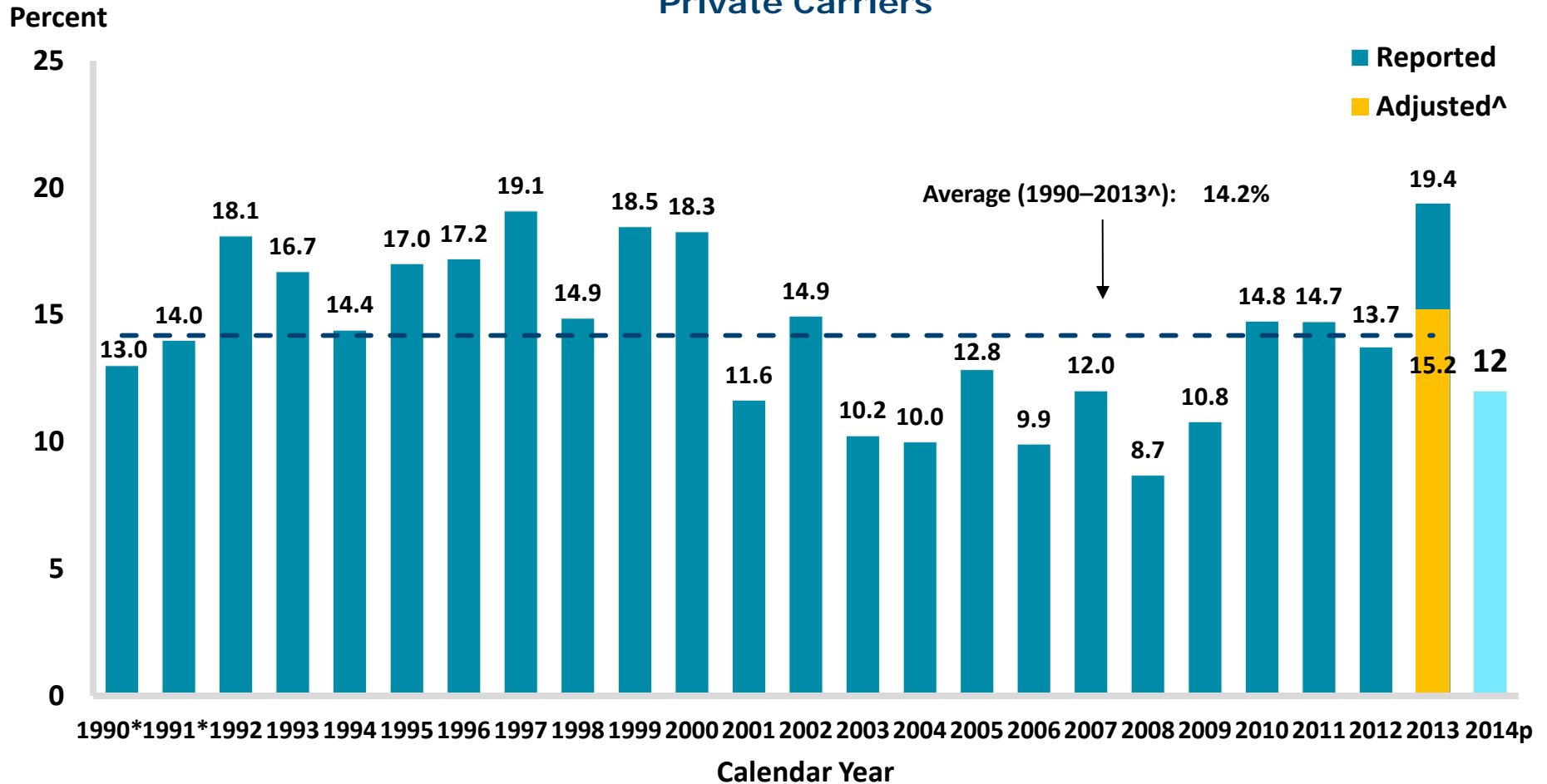
■ Dividends ■ Underwriting Expense ■ Loss Adjustment Expense ■ Loss



p Preliminary
Source: Annual Statement data

WC Investment Gain on Insurance Transactions Ratio to Net Earned Premium

Private Carriers



^p Preliminary

Source: Annual Statement data

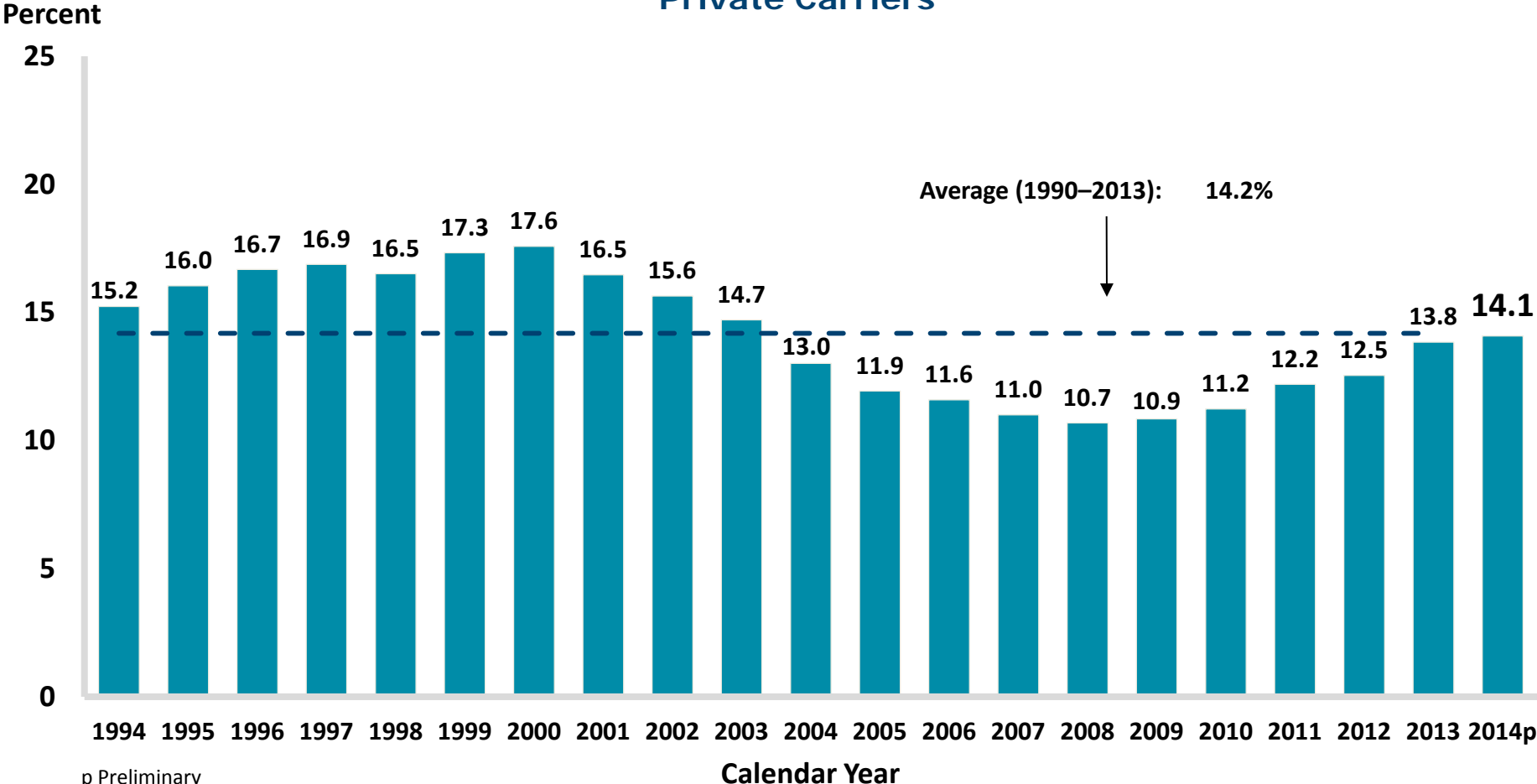
Investment Gain on Insurance Transactions includes Other Income

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

^2013 adjusted value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

WC Investment Gain on Insurance Transactions Five-Year Moving Average

Private Carriers



^p Preliminary

Source: Annual Statement data

Investment Gain on Insurance Transactions includes Other Income

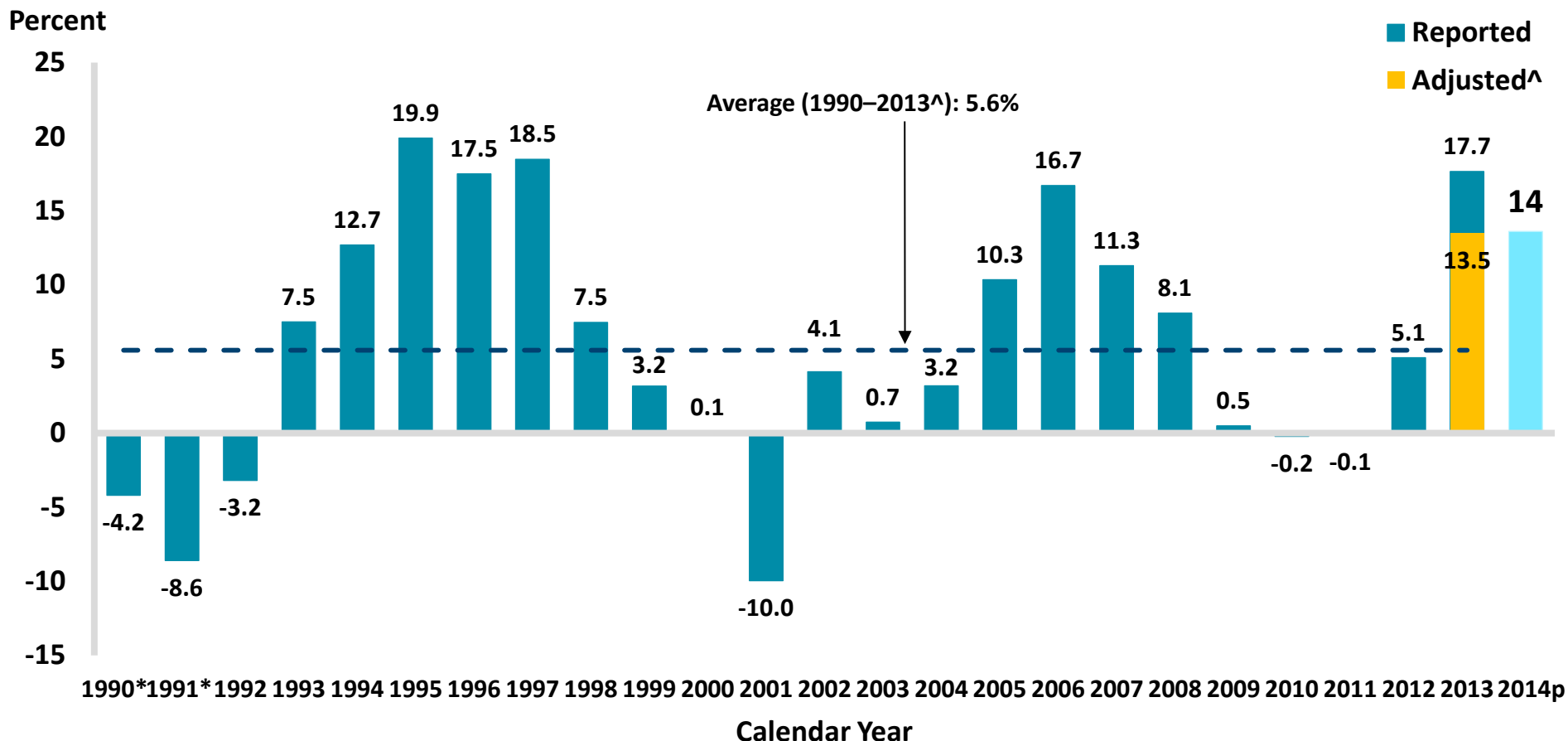
Averages reflect the following adjustments:

- 1990, 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

WC Pretax Operating Gain

Private Carriers



p Preliminary

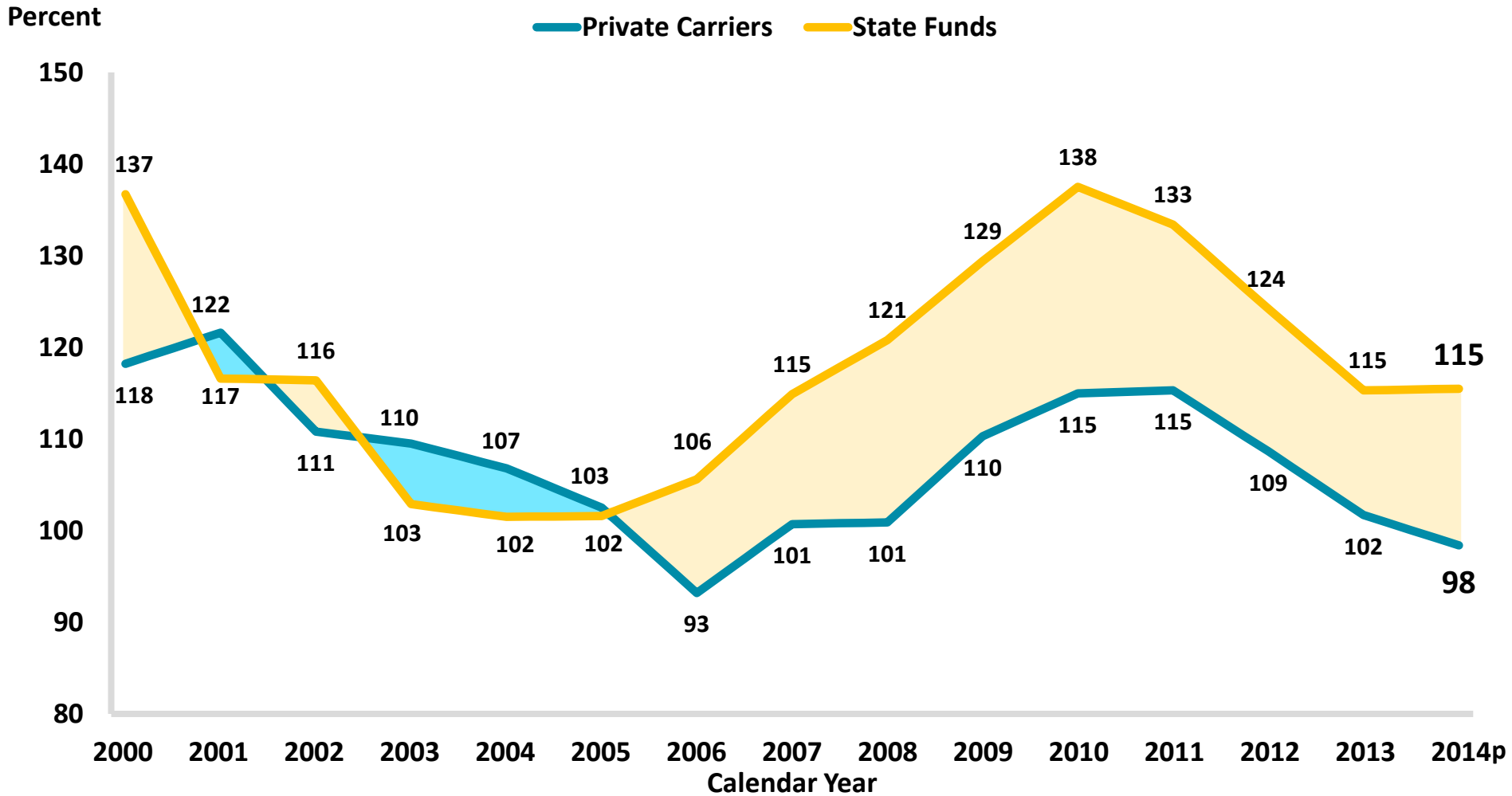
Source: Annual Statement data

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

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

[^]2013 adjusted value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

WC Net Combined Ratios



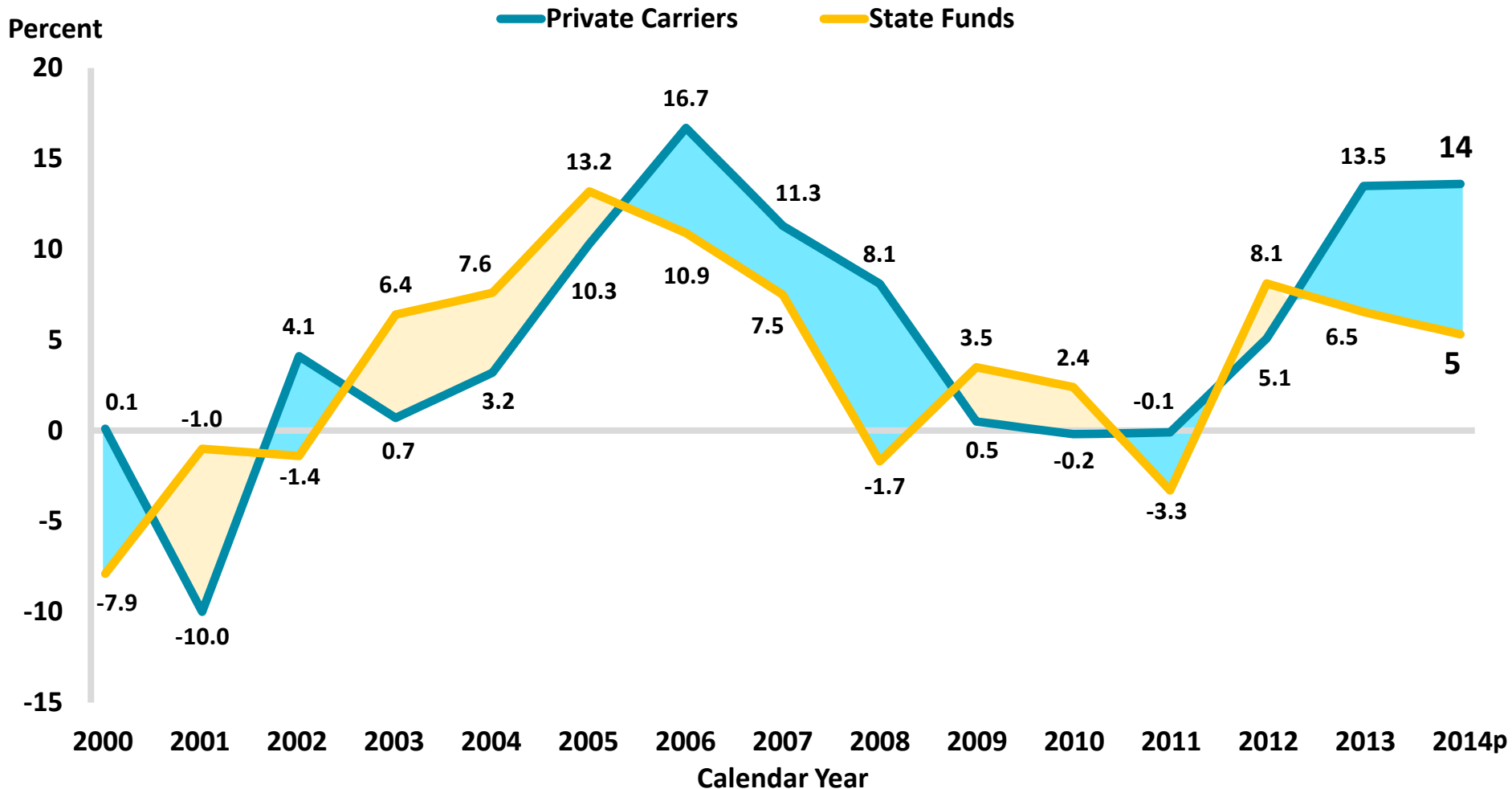
p Preliminary

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

WC Pretax Operating Gain Ratios



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

2013 private carrier value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

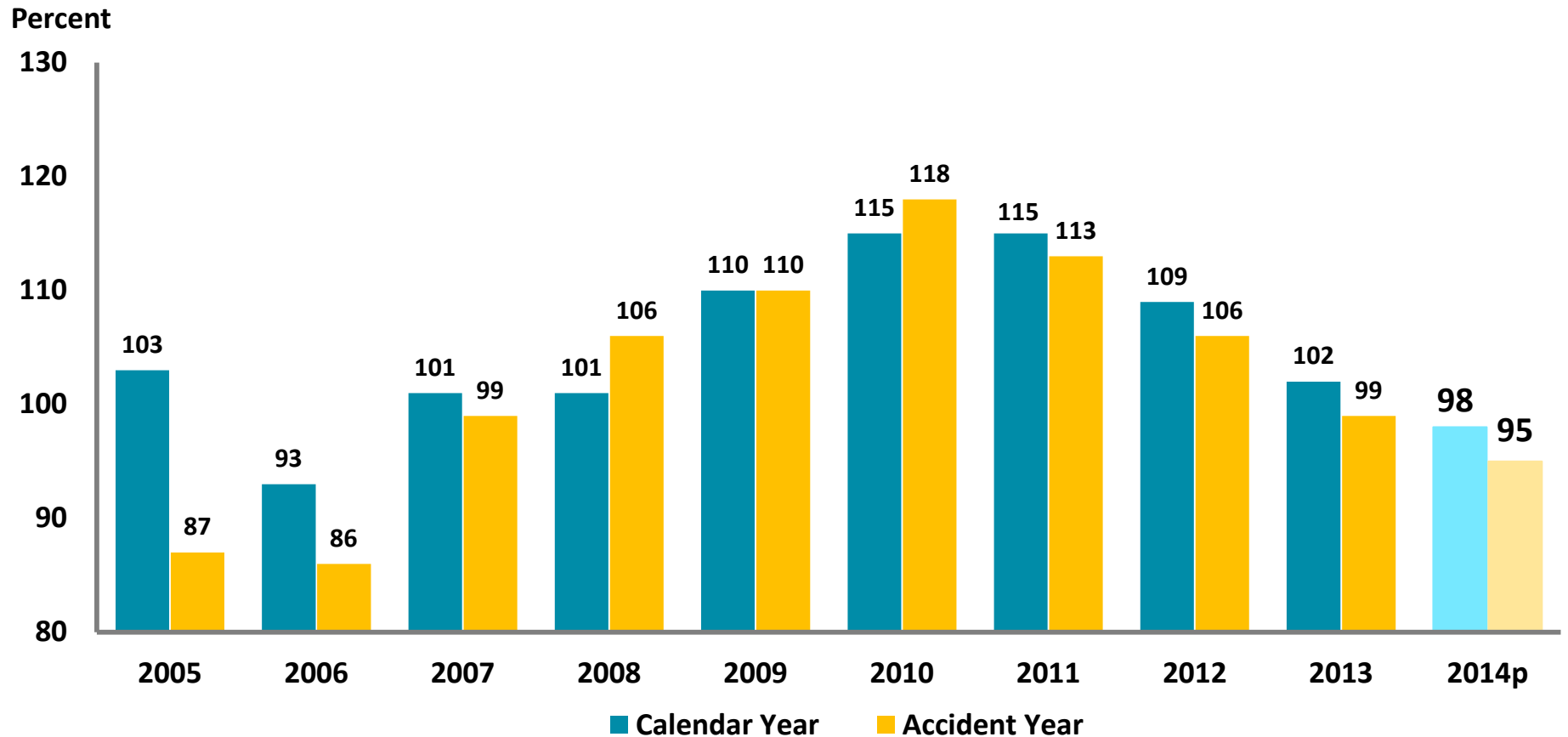


Workers Compensation Accident Year Results and Reserve Estimates

WC Net Combined Ratios

Calendar Year vs. Ultimate Accident Year

Private Carriers



p Preliminary

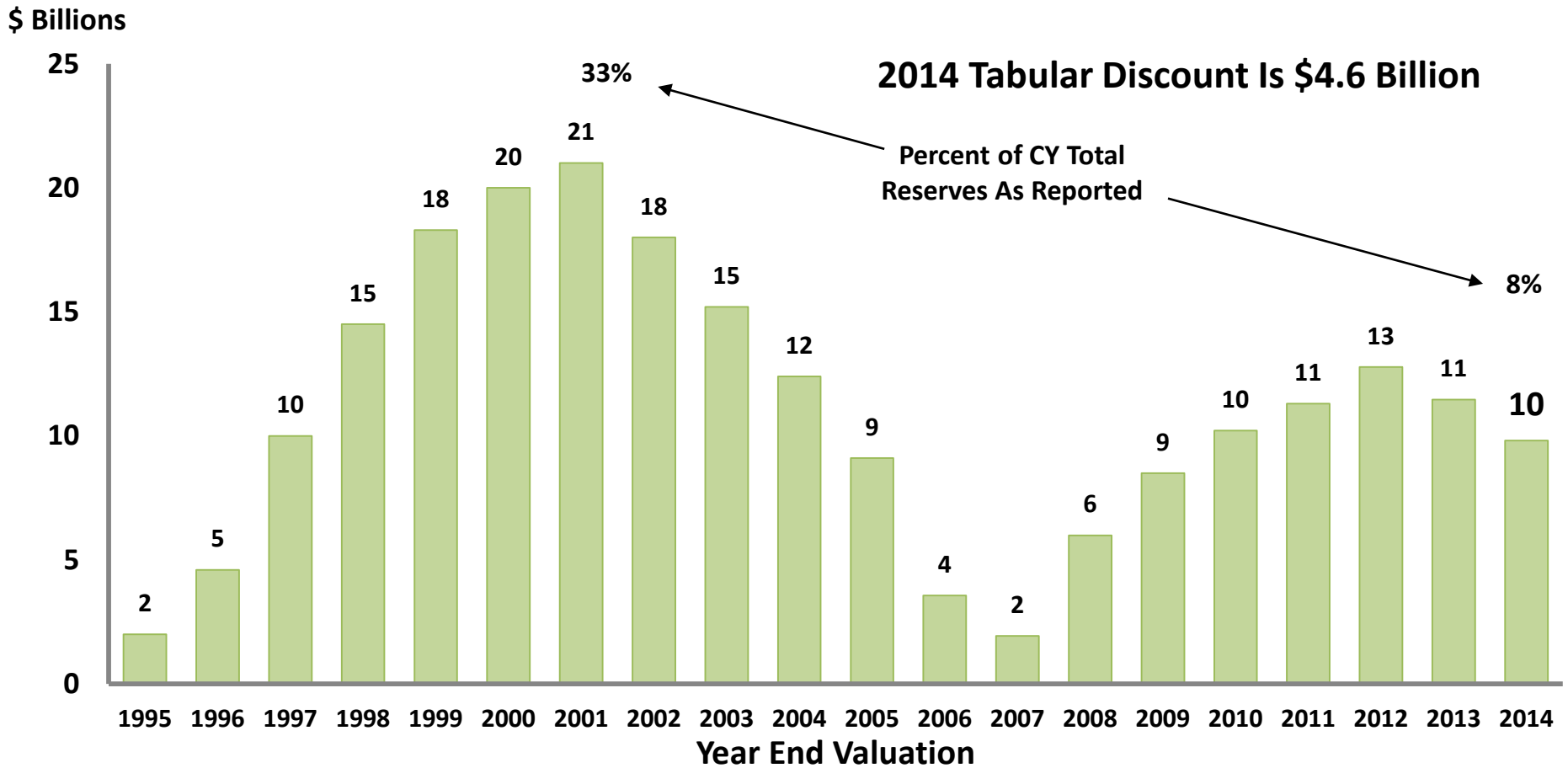
Source: NCCI analysis based on Annual Statement data

Accident year data is evaluated as of 12/31/2014 and developed to ultimate

Includes dividends to policyholders

WC Loss and LAE Net Reserve Deficiencies

Private Carriers

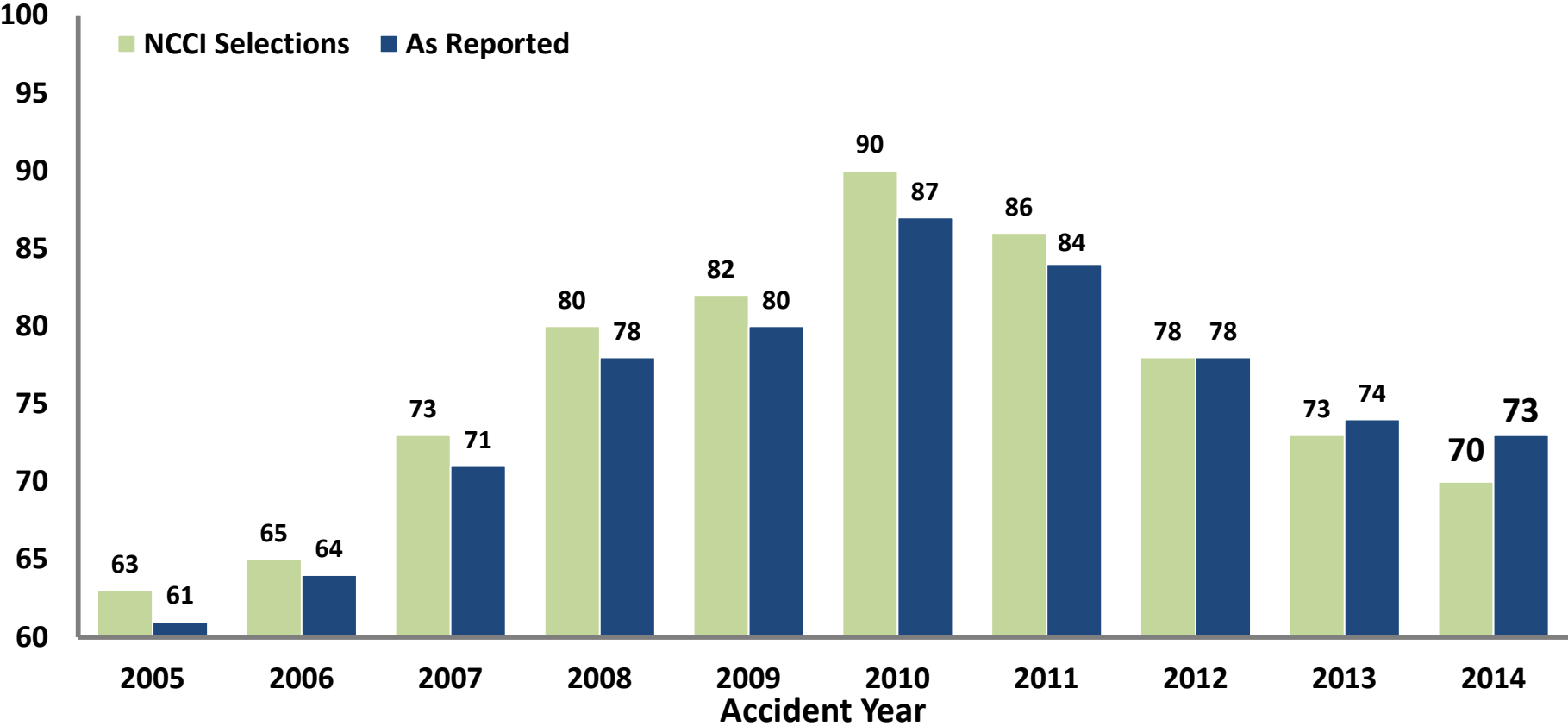


Source: NCCI analysis based on Annual Statement data
Considers all reserve discounts as deficiencies

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

Percent

Private Carriers



Sources: As Reported: Annual Statement Schedule P Part 1D data as of 12/31/2014

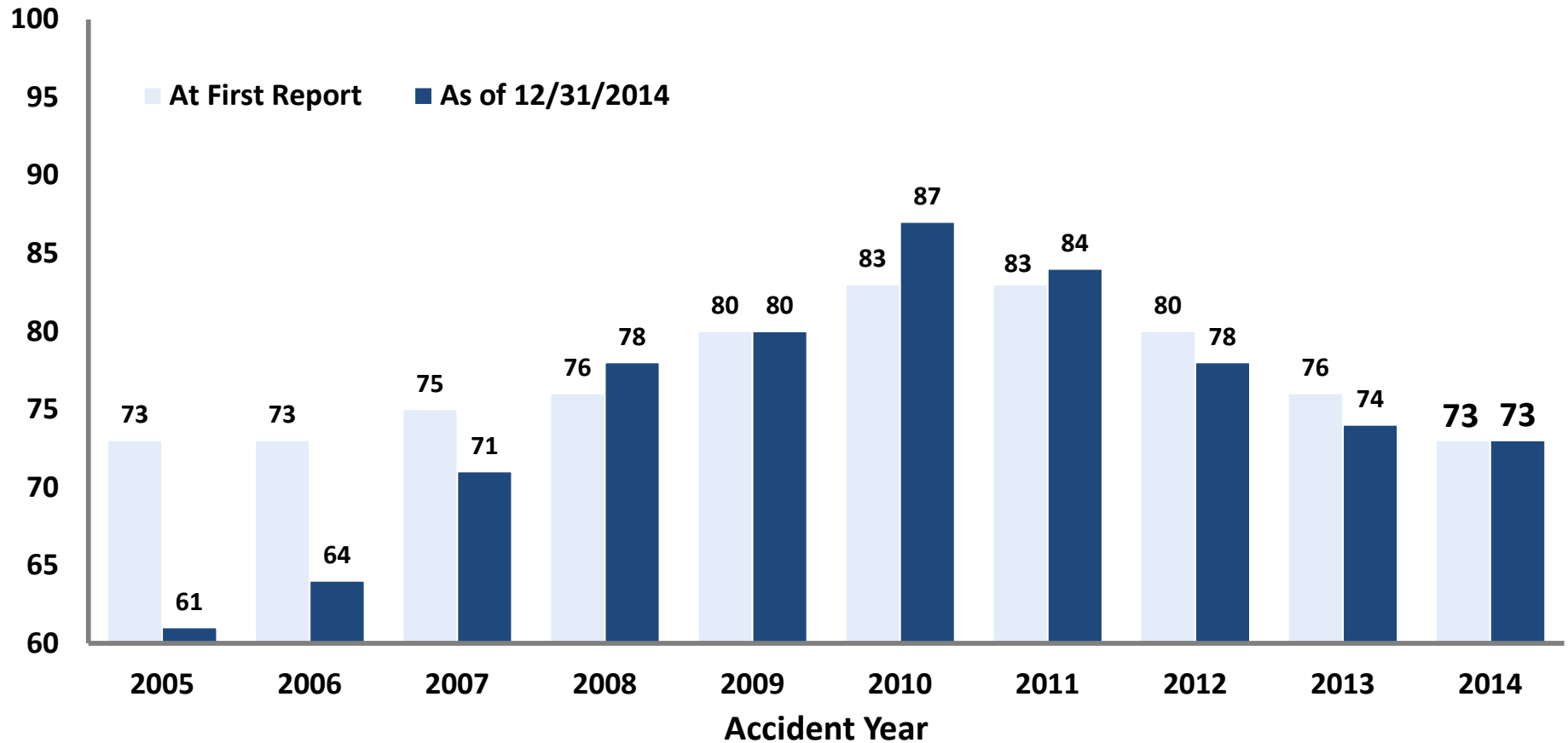
NCCI Selections: NCCI analysis based on Annual Statement data

As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts

WC Net Loss and LAE Ratios Accident Year As Reported

Private Carriers

Percent



Source: Annual Statement Schedule P Part 1D data

Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts



Workers Compensation Premium Drivers

WC

Components of Written Premium Change

Private Carriers

Written Premium Change From 2013 to 2014

Net Written Premium—Countrywide	+4.6%
Direct Written Premium (DWP)—Countrywide	+4.6%
Direct Written Premium (DWP)—NCCI States	+4.5%
Components of DWP Change for NCCI States:	
Change in Carrier Estimated Payroll	+4.7%
Change in Bureau Loss Costs and Mix	-1.4%
Change in Carrier Discounting	+0.4%
Change in Other Factors	+0.8%
Combined Effect:	+4.5%

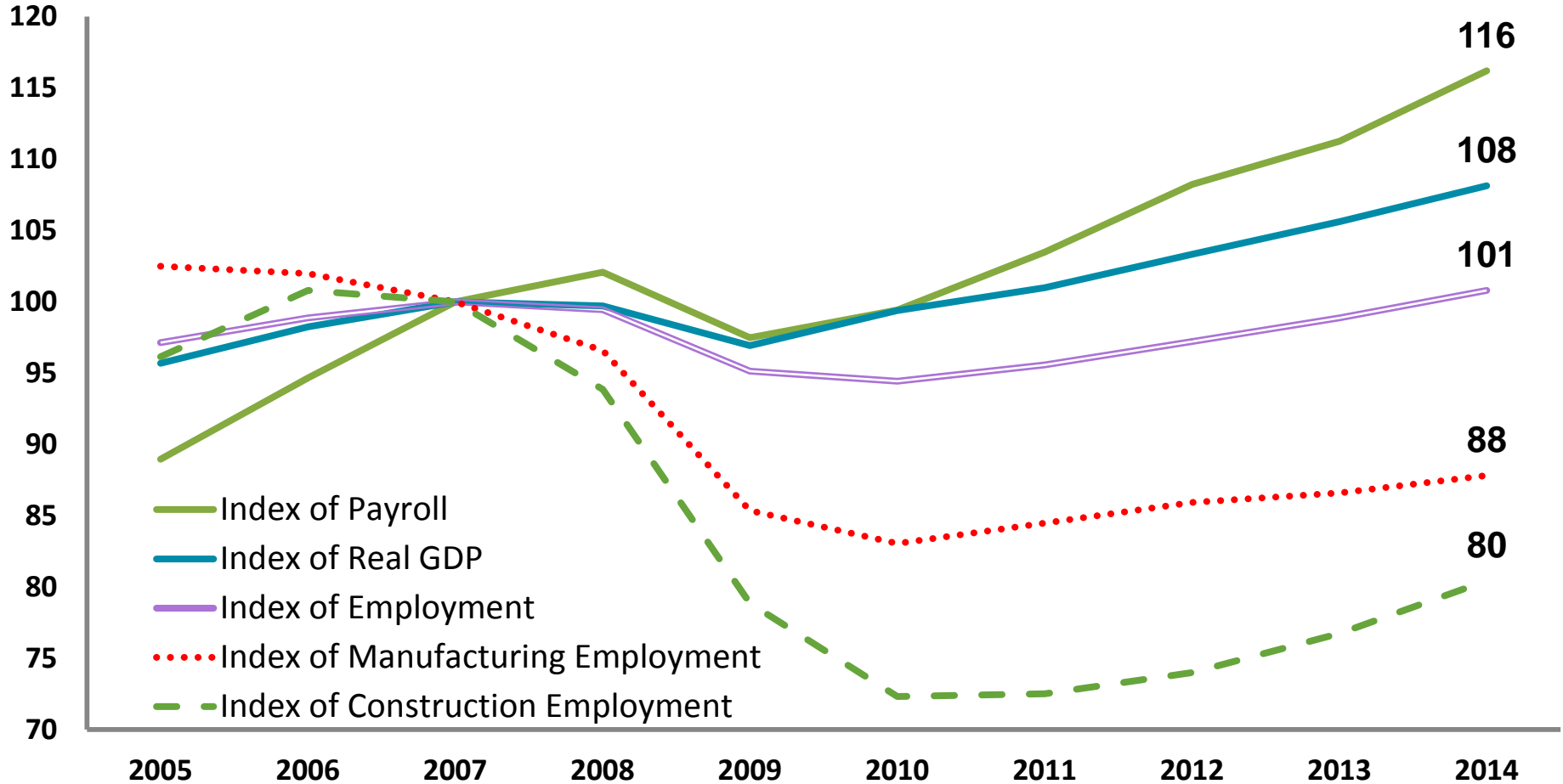
Sources: Countrywide: Annual Statement data

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services

Components: NCCI Policy data

US Employment Levels

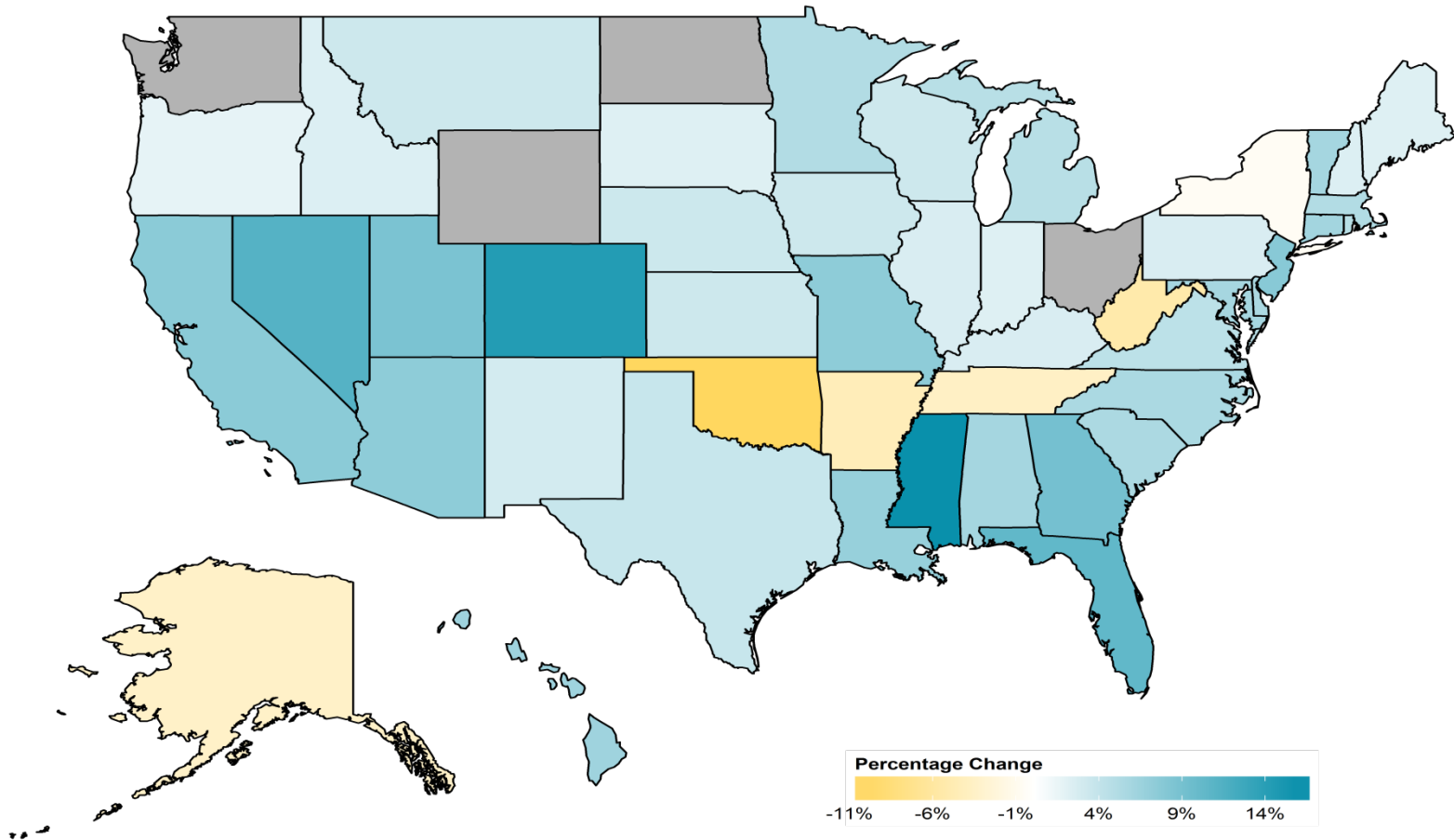
Index: 2007 = 100



Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis

WC Direct Written Premium 2014 Growth by State

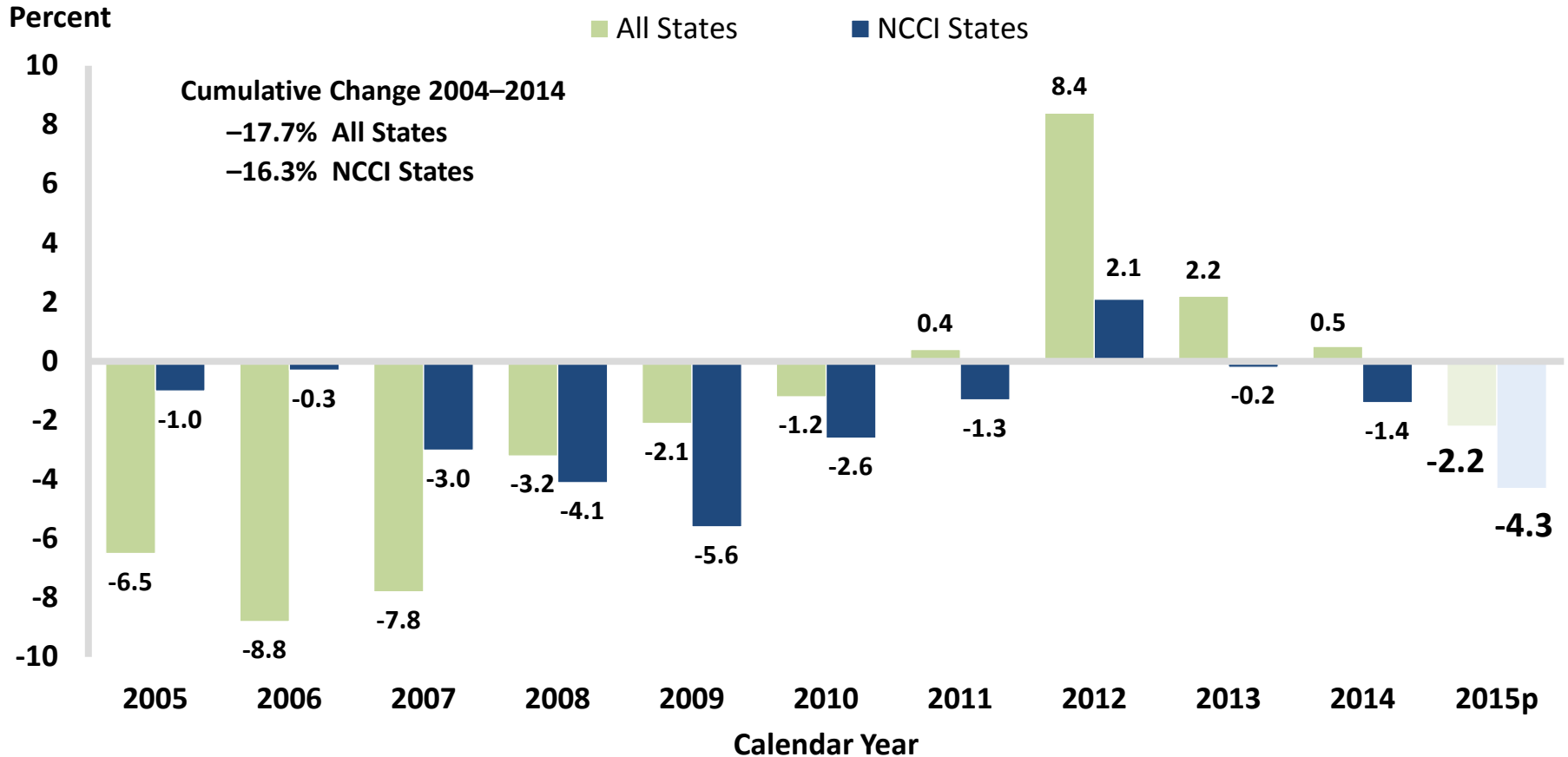
Private Carriers



Source: 2014, 2013, Annual Statement Statutory Page 14

WC Approved Changes in Bureau Premium Level

By Effective Date for Total Market



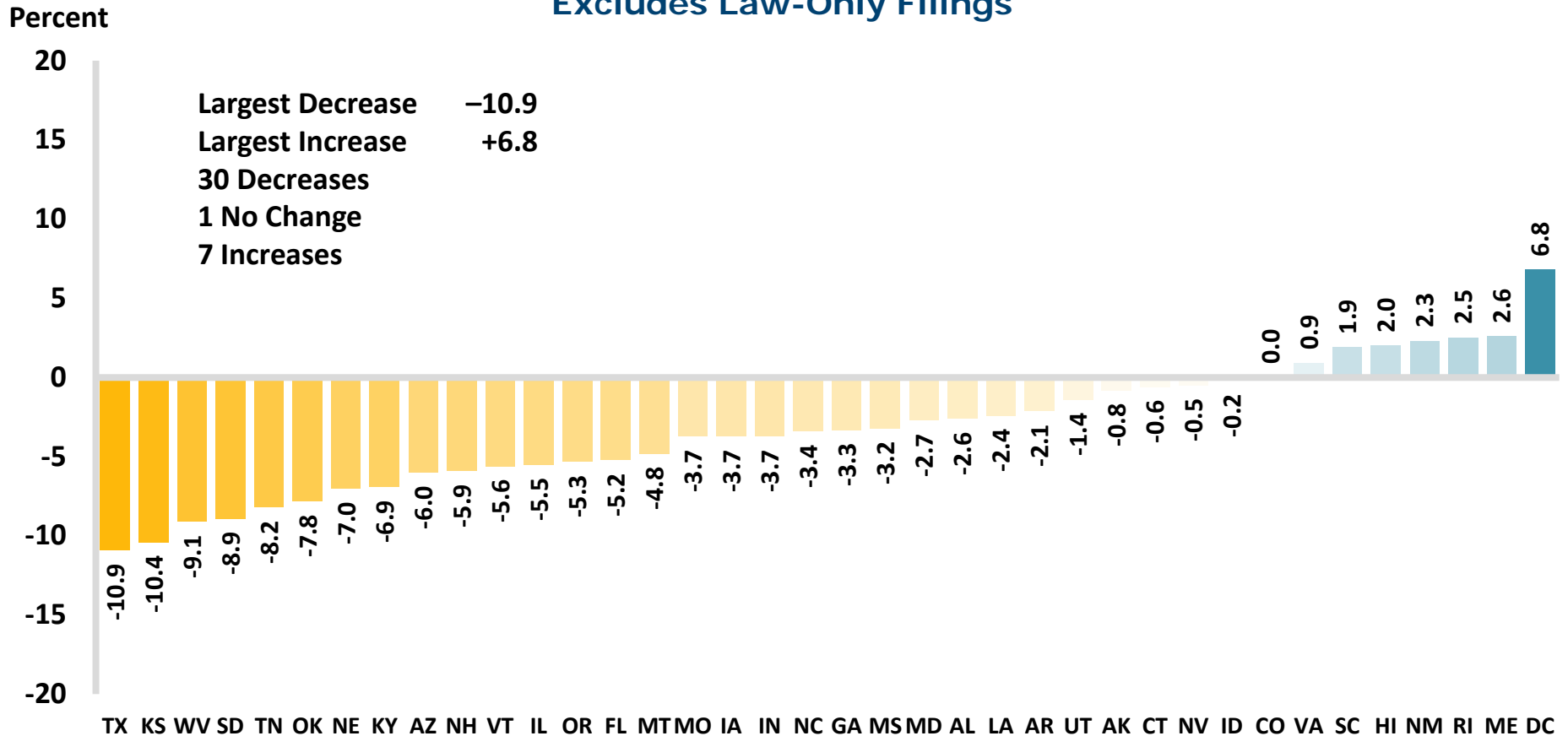
p Preliminary

Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for 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 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

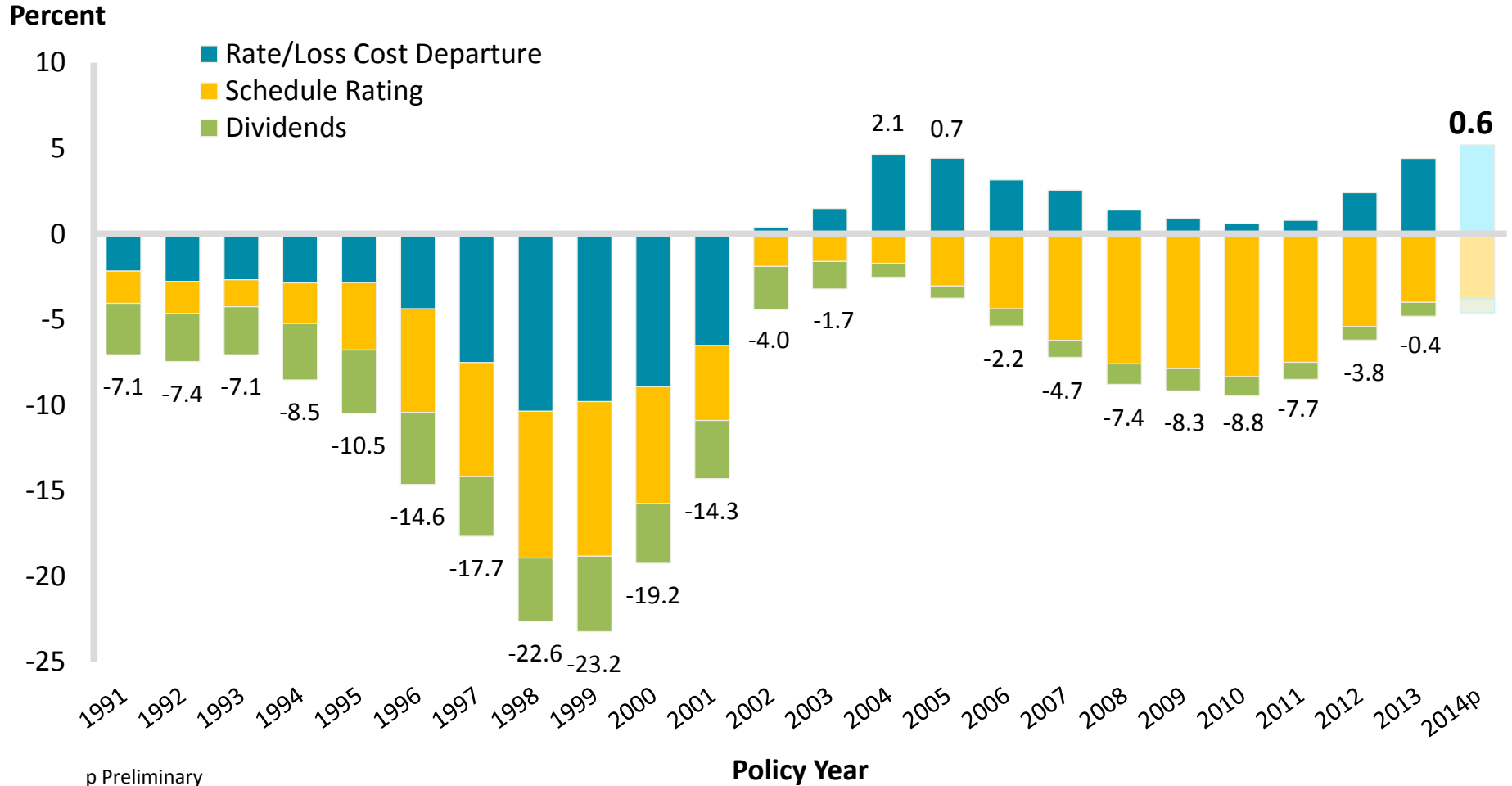
SC is filed and pending

IN and NC are filed in cooperation with state rating bureaus



WC Impact of Discounting on Premium NCCI States

Private Carriers



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 an underwriting contingency provision

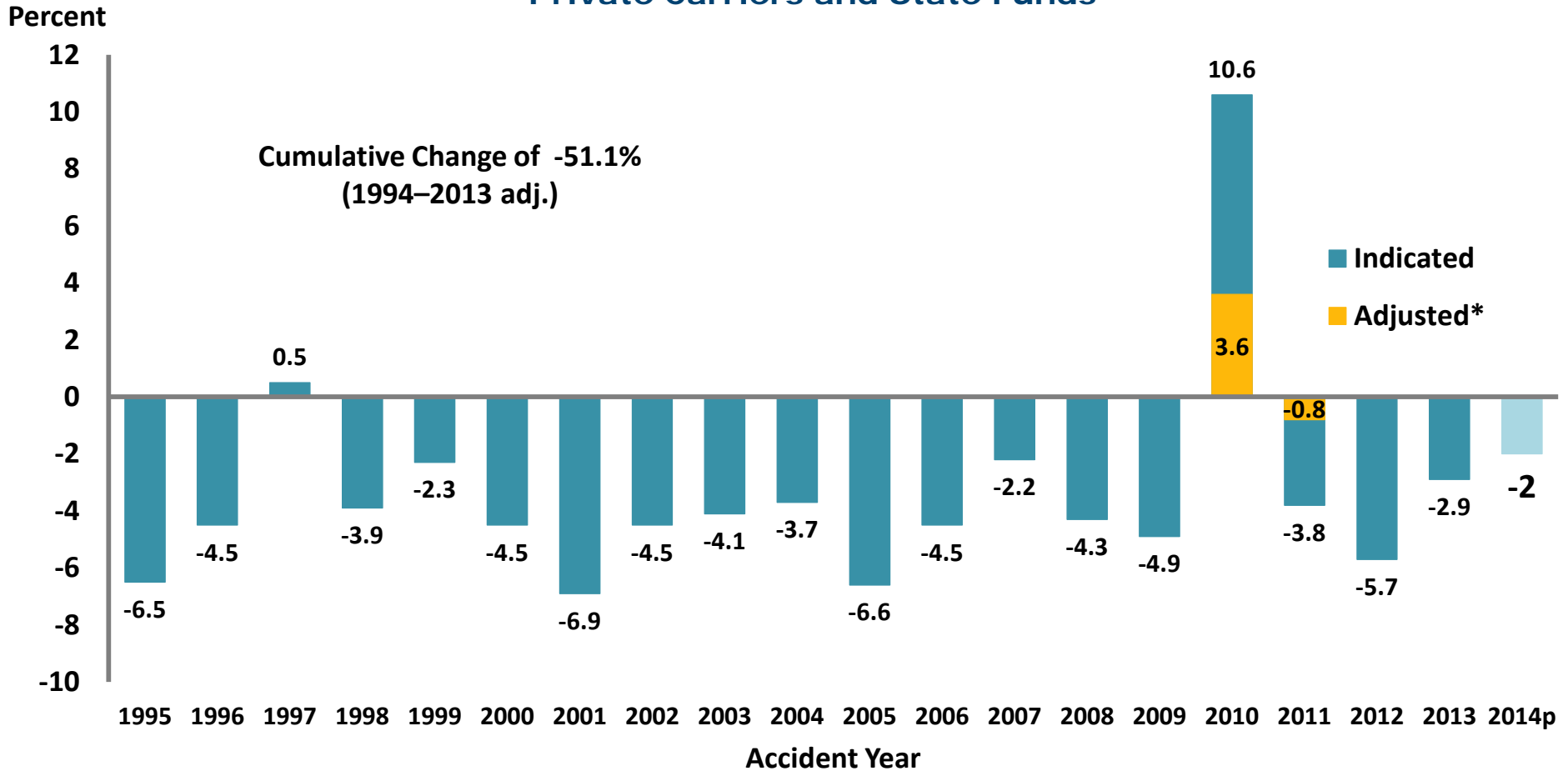
Based on data through 12/31/2014 for all states where NCCI provides ratemaking services, excluding TX



Workers Compensation Loss Drivers

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

Private Carriers and State Funds



*Adjustments primarily due to significant changes in audit activity

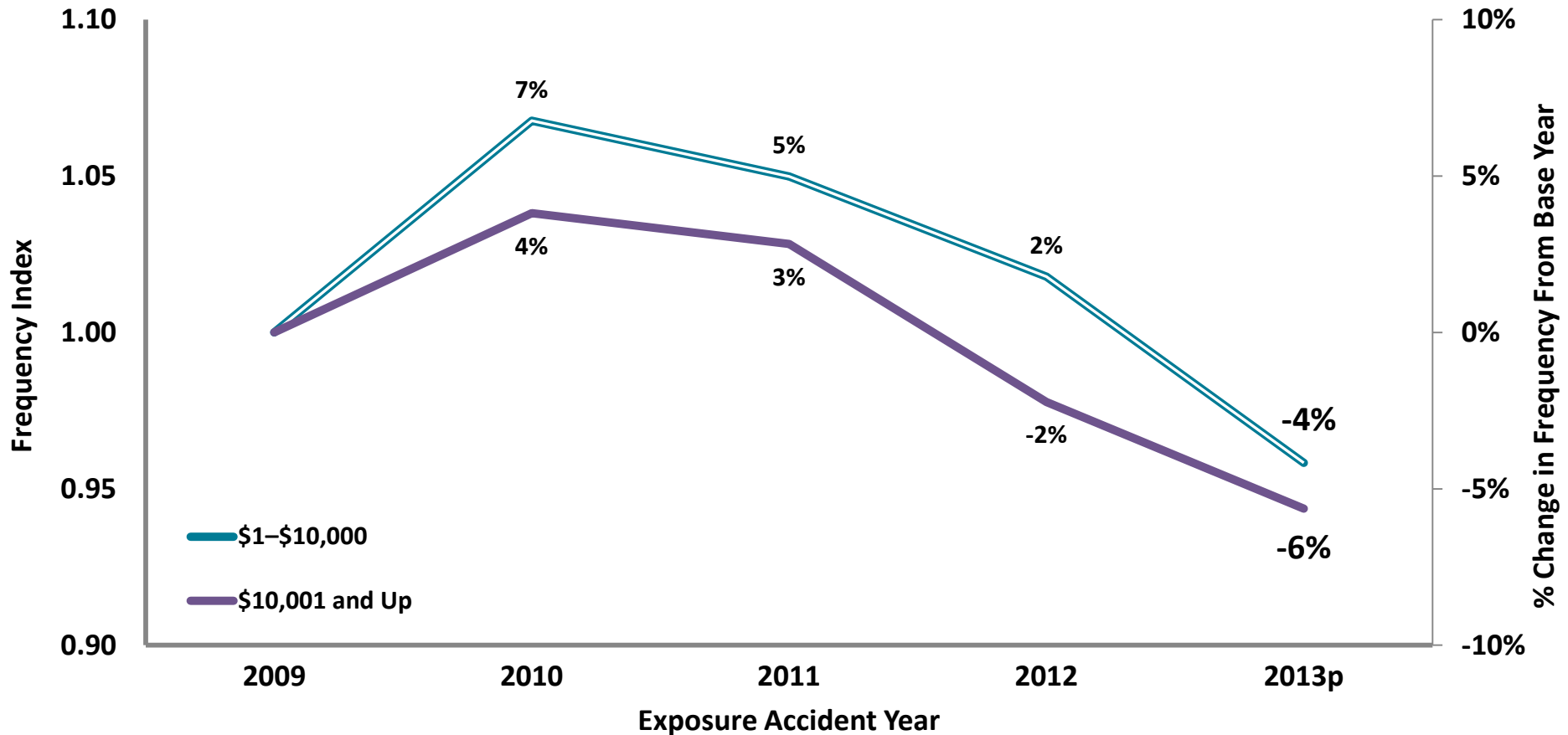
p Preliminary based on data valued as of 12/31/2014

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; excludes high deductible policies; 1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

WC Lost-Time Claim Frequency Changes by Total Size of Loss

Index: Exposure Accident Year 2009 = 1.00



p Preliminary

Source: NCCI Unit Statistical Plan data

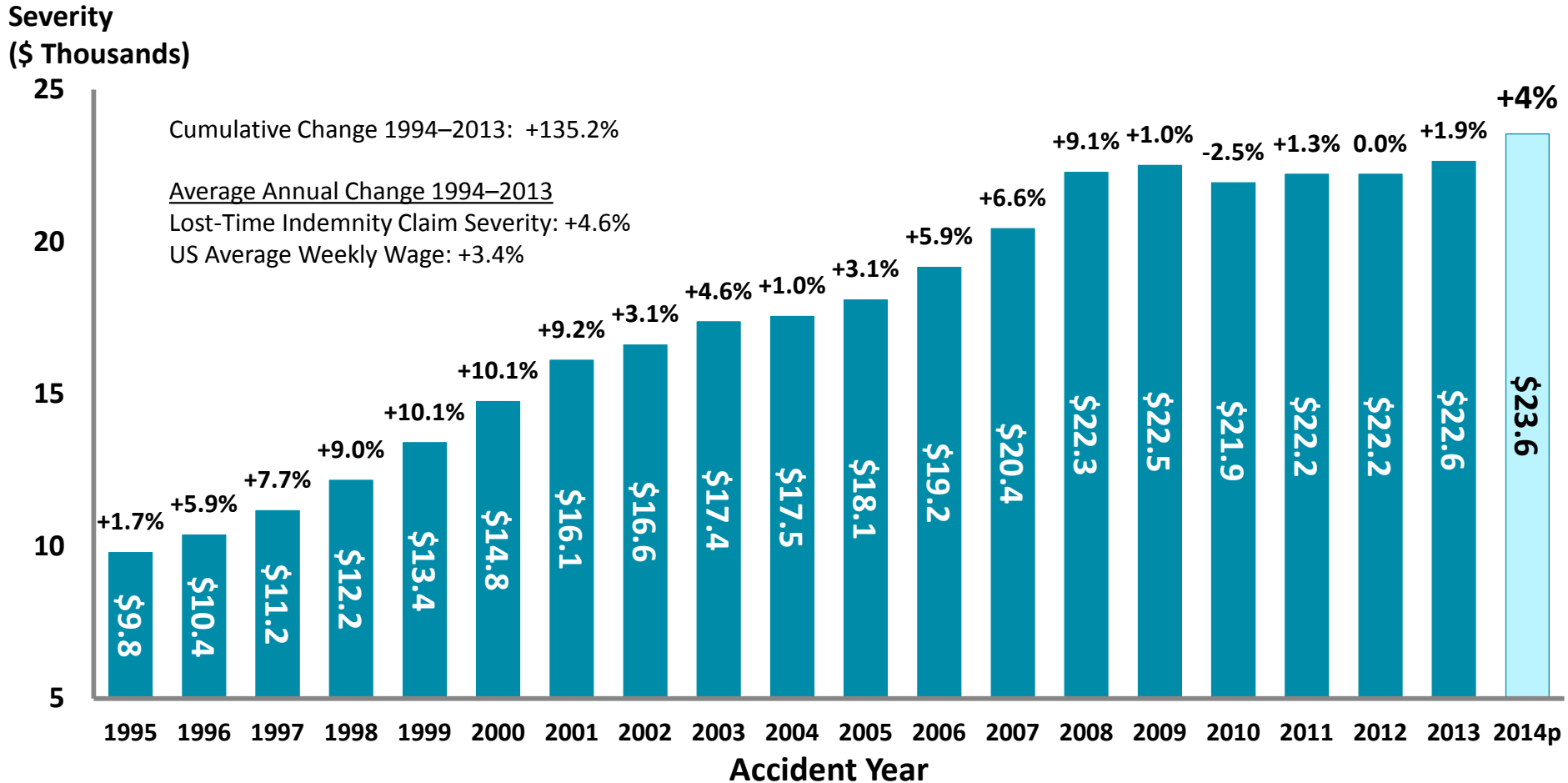
Frequency is the number of lost-time claims at 1st report per \$1M premium at current wage and average carrier rate level

Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation through 2013

For all states where NCCI provides ratemaking services

WC Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds



p Preliminary based on data valued as of 12/31/2014

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

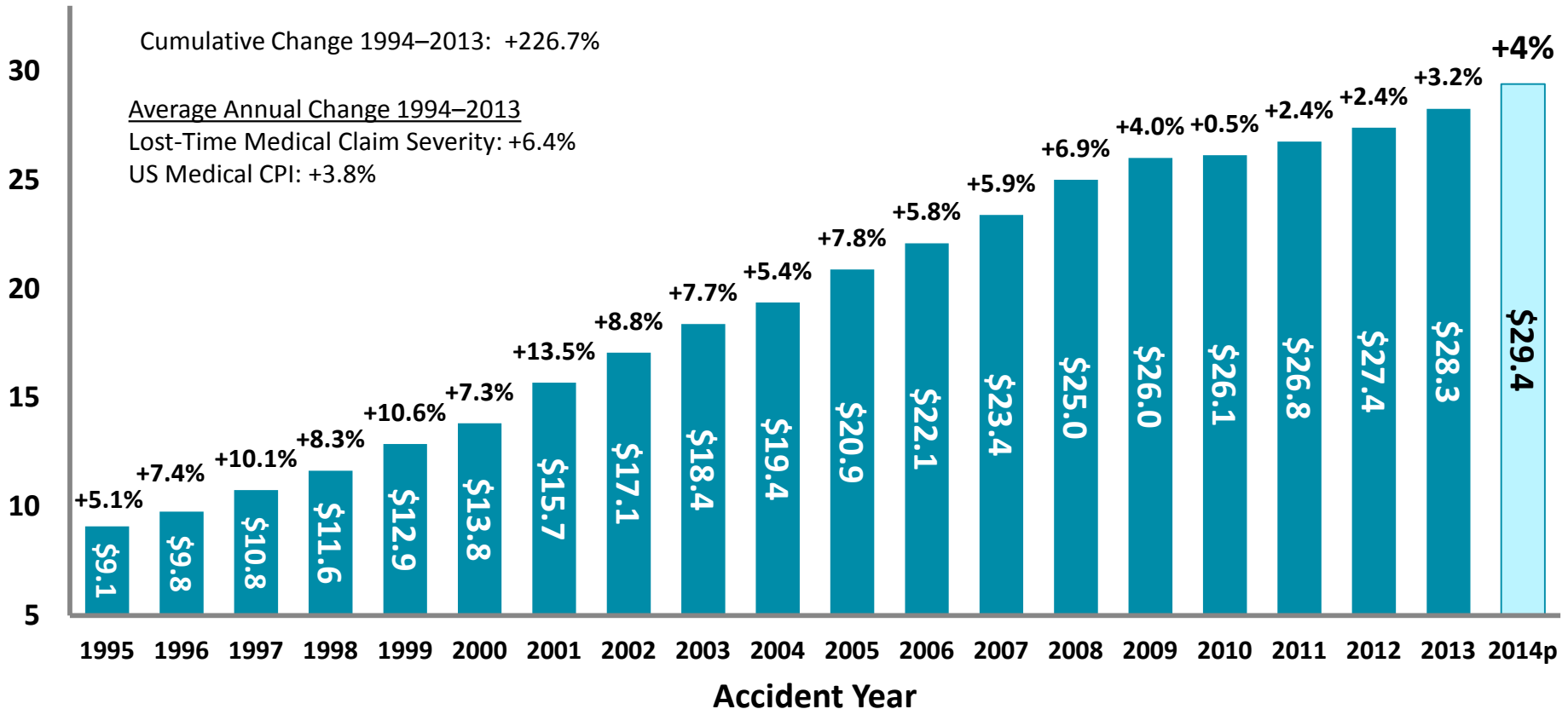
1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2014

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

1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

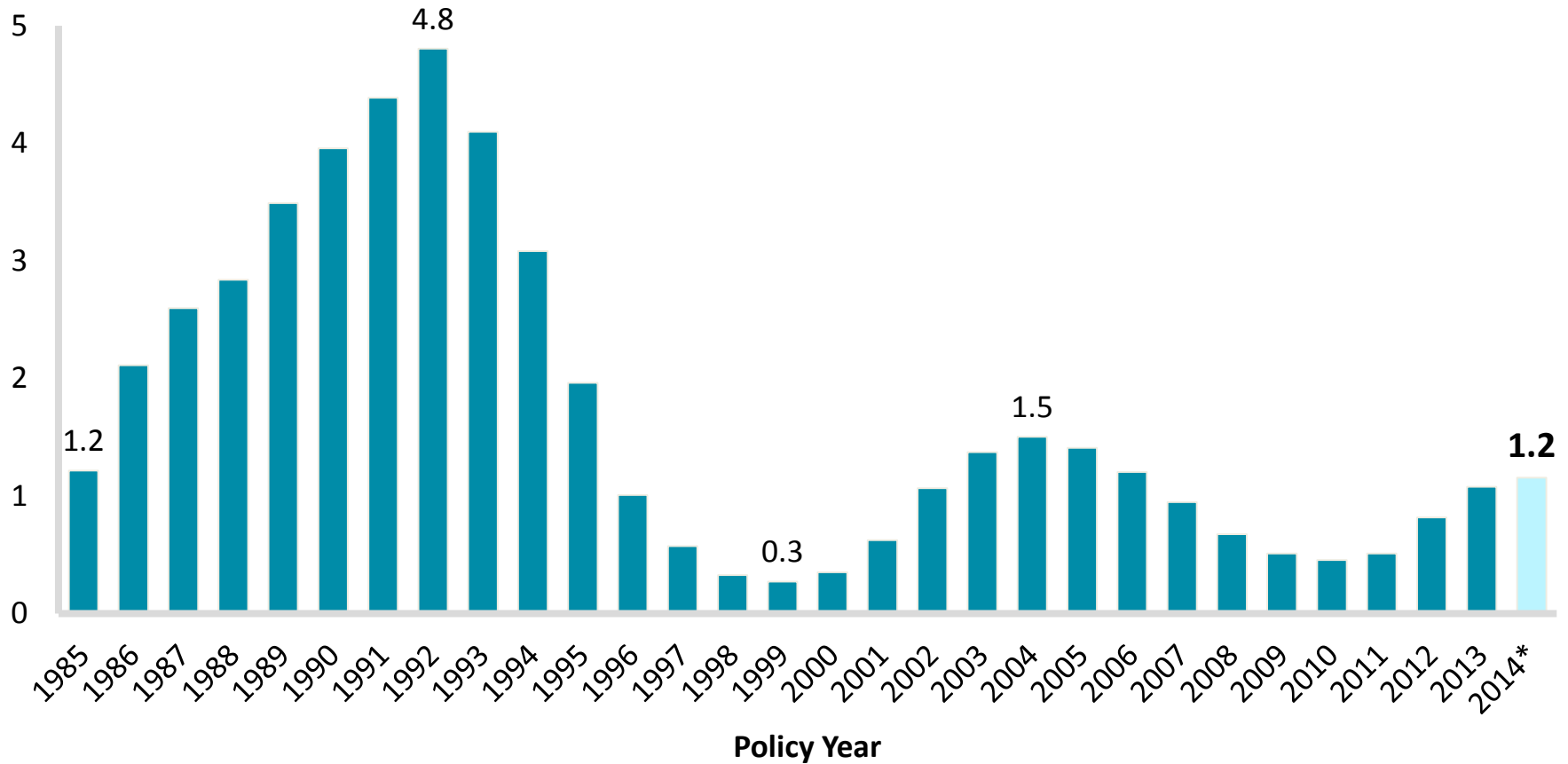


Workers Compensation Residual Market

WC Residual Market Premium

NCCI-Serviced WC Residual Market Pools

\$ Billions



*Incomplete policy year projected to ultimate

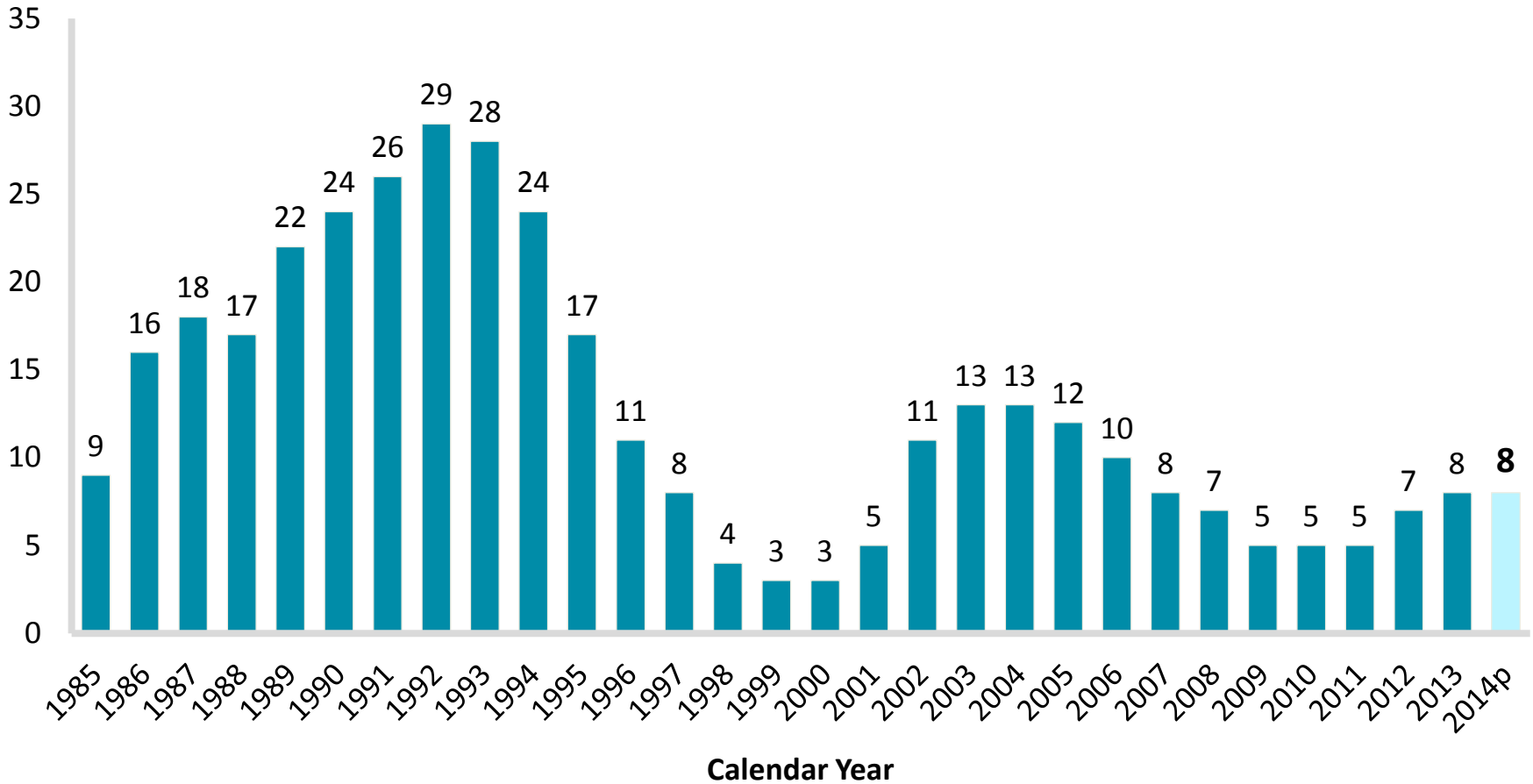
Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states

Source: NCCI, *Residual Market Quarterly Results*

WC Residual Market Share

NCCI-Serviced WC Residual Market Pools

Percent



p Preliminary

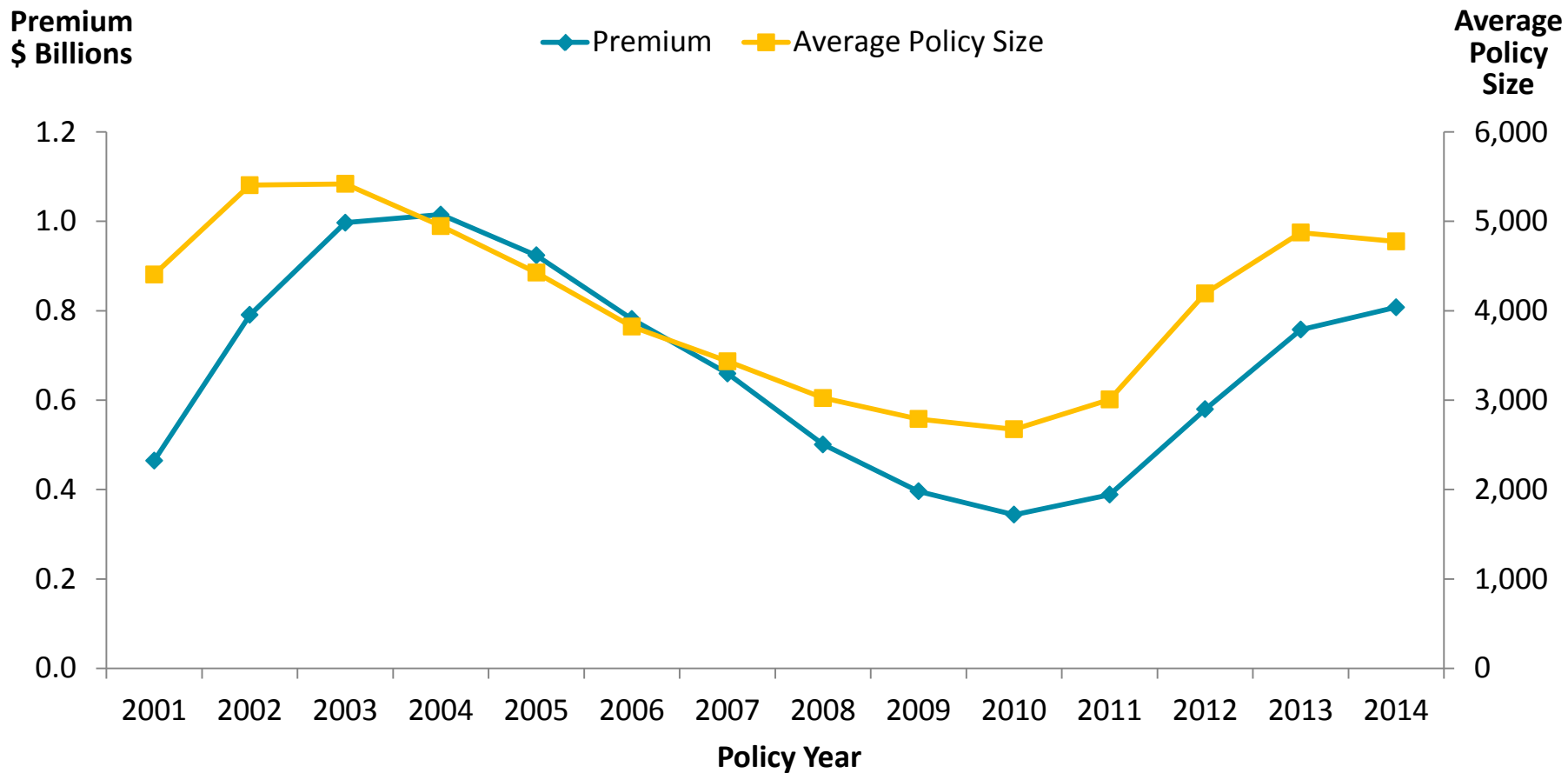
Includes pool and direct assignment data for all NCCI-serviced WC residual market pool states

Source: NCCI, *Residual Market Management Summary*

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

WC Residual Market Growth at First Quarter

NCCI-Administered WC Residual Market Plan States

Size of Risk		Q1 2014	Q1 2015	Change
\$ 0 – \$ 2,499	\$ 28.5M	\$ 30.1M	6%	
\$ 2,500 – \$ 4,999	\$ 16.6M	\$ 17.1M	3%	
\$ 5,000 – \$ 9,999	\$ 24.0M	\$ 24.4M	2%	
\$ 10,000 – \$ 49,999	\$ 73.5M	\$ 68.4M	-7%	
\$ 50,000 – \$ 99,999	\$ 30.2M	\$ 28.6M	-6%	
\$ 100,000 and Over	\$ 50.0M	\$ 38.4M	-23%	
Total	\$ 222.9M	\$ 206.9M	-7%	

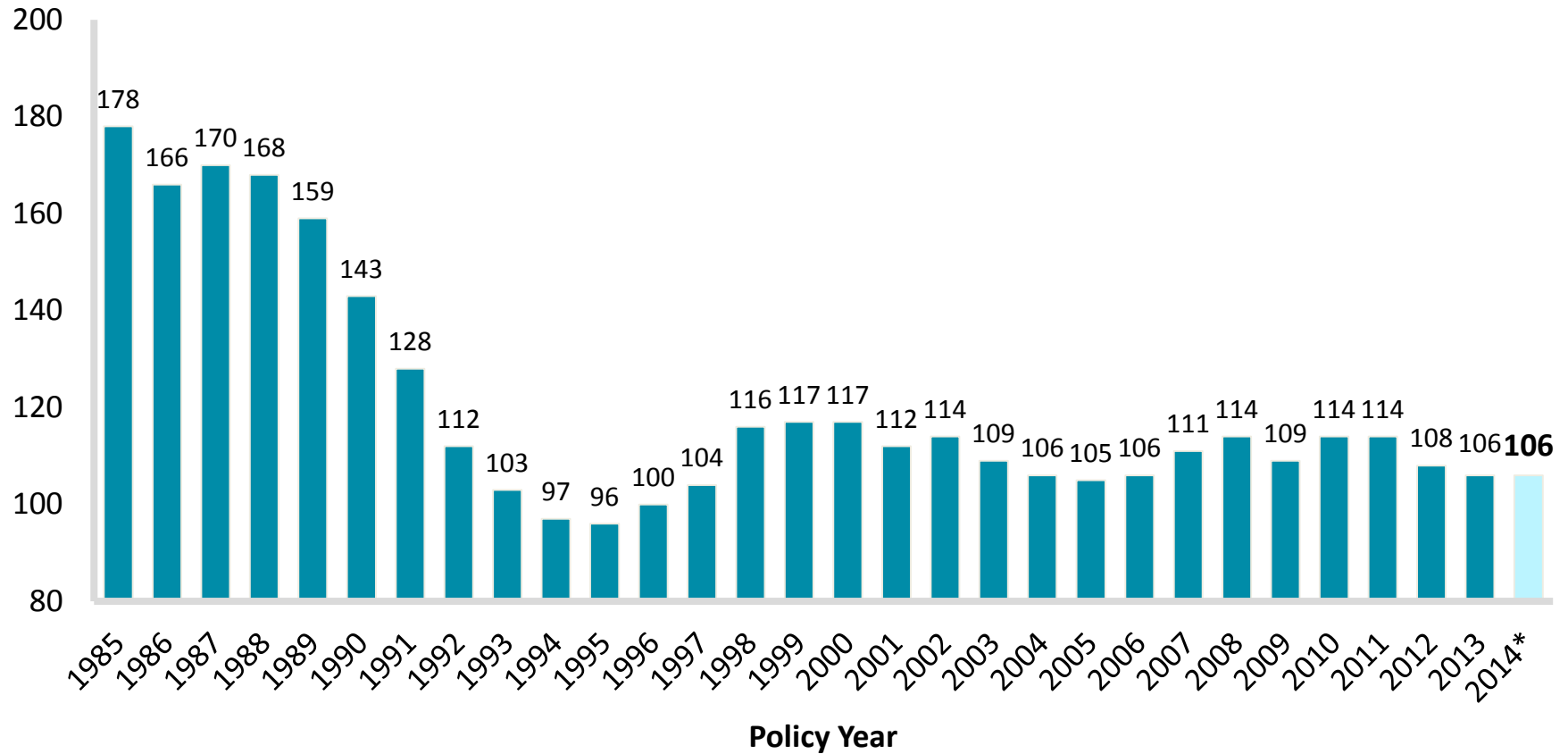
Total estimated annual premium

Includes pool and direct assignment data for all NCCI-administered WC residual market plan states

WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools

Percent



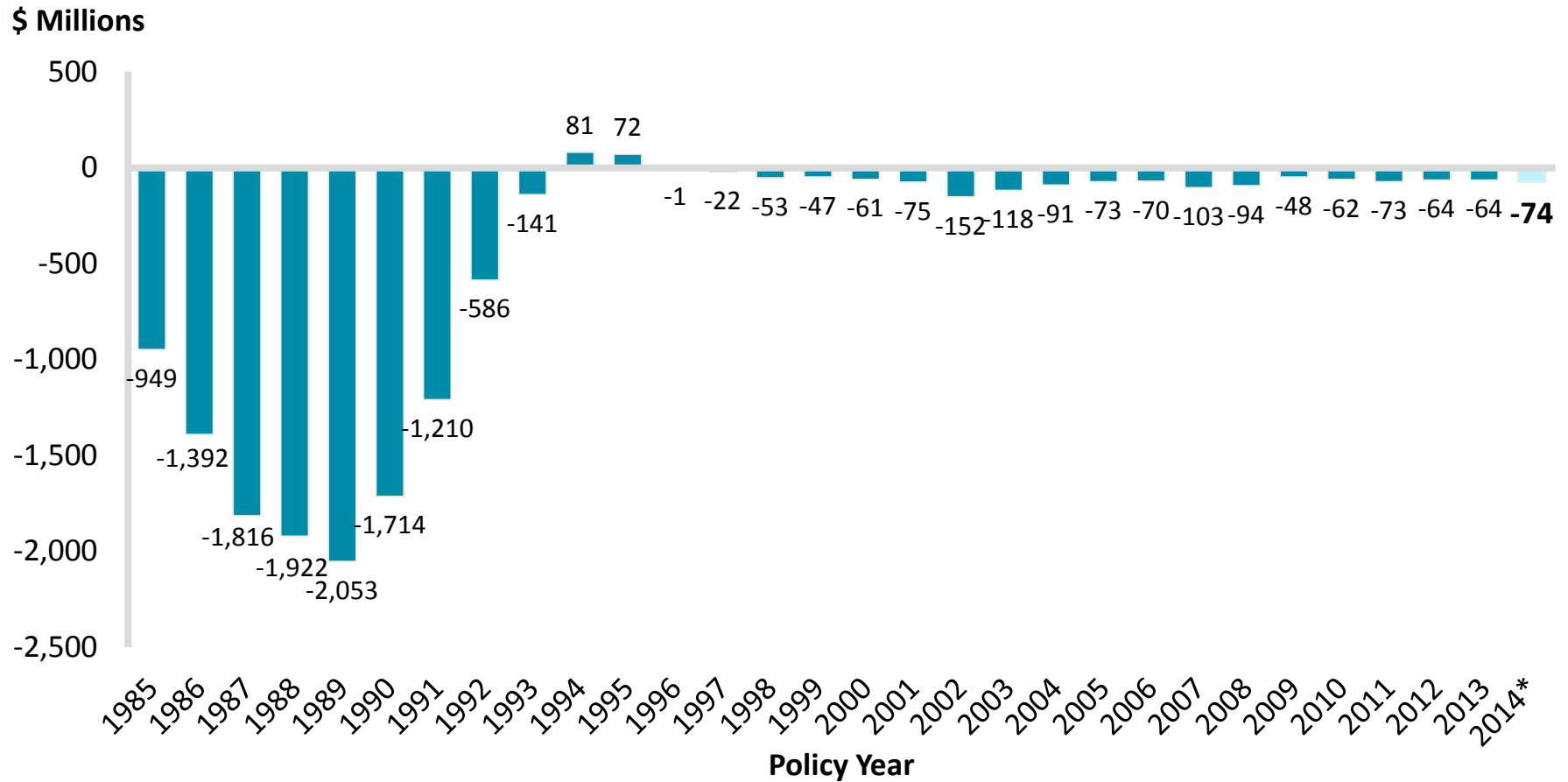
*Incomplete policy year projected to ultimate

Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states

Source: NCCI, *Residual Market Quarterly Results*

WC Residual Market Underwriting Results

NCCI-Serviced WC Residual Market Pools



*Incomplete policy year projected to ultimate

Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states

Source: NCCI, *Residual Market Quarterly Results*

Concluding Remarks

State of Workers Compensation

Premium Growth in the Latest Year

Underwriting Results Improved Again

Frequency Continues to Decline

Economic Recovery

Indemnity and Medical Severities Increased

NCCI Highlights

- Indexing the Experience Rating Premium Eligibility Thresholds
- The Impact of Claimant Age on Late-Term Medical Costs (*October 2014*)
- Medicare Set-Asides and Workers Compensation (*September 2014*)
- The Price Impact of Physician Fee Schedules (*April 2014*)

NCCI Research

- State Differences in the Treatment of Joint Injuries
- The Impact of Workers Compensation Rx Fee Schedules
- Time From Injury to Treatment in Workers Compensation
- Reporting Lag and Claim Severity