



NCCI Holdings, Inc.

2011 Annual Issues Symposium

State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary
May 5, 2011
Orlando, Florida

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- I. Property/Casualty Results**
- II. Workers Compensation Results**
- III. Current Topics of Interest**
- IV. Concluding Remarks**

Property/Casualty Results

P/C Industry Net Written Premium Stable

Private Carriers

Line of Business (LOB)	2008	2009	2010p	2009–2010p Change
Personal Auto	\$158.0 B	\$156.5 B	\$159.1 B	1.6%
Homeowners	\$55.6 B	\$56.9 B	\$61.2 B	7.6%
Other Liability (Incl Prod Liab)	\$42.0 B	\$39.1 B	\$38.2 B	-2.4%
Workers Compensation	\$33.8 B	\$30.3 B	\$29.9 B	-1.3%
Commercial Multiple Peril	\$30.1 B	\$28.5 B	\$28.7 B	0.8%
Commercial Auto	\$23.7 B	\$21.8 B	\$20.9 B	-4.3%
Fire & Allied Lines (Incl EQ)	\$24.2 B	\$23.4 B	\$22.6 B	-3.4%
All Other Lines	\$67.7 B	\$61.9 B	\$61.6 B	-0.5%
Total P/C Industry	\$ 434.9 B	\$ 418.4 B	\$ 422.1 B	0.9%

p Preliminary

Source: Workers compensation (WC), NCCI; Total P/C Industry, ISO
Lines other than WC, 2008 and 2009 *Best's Review Preview*; 2010p Annual Statement Data

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P/C Underwriting Results

Mixed

Net Combined Ratio—Private Carriers

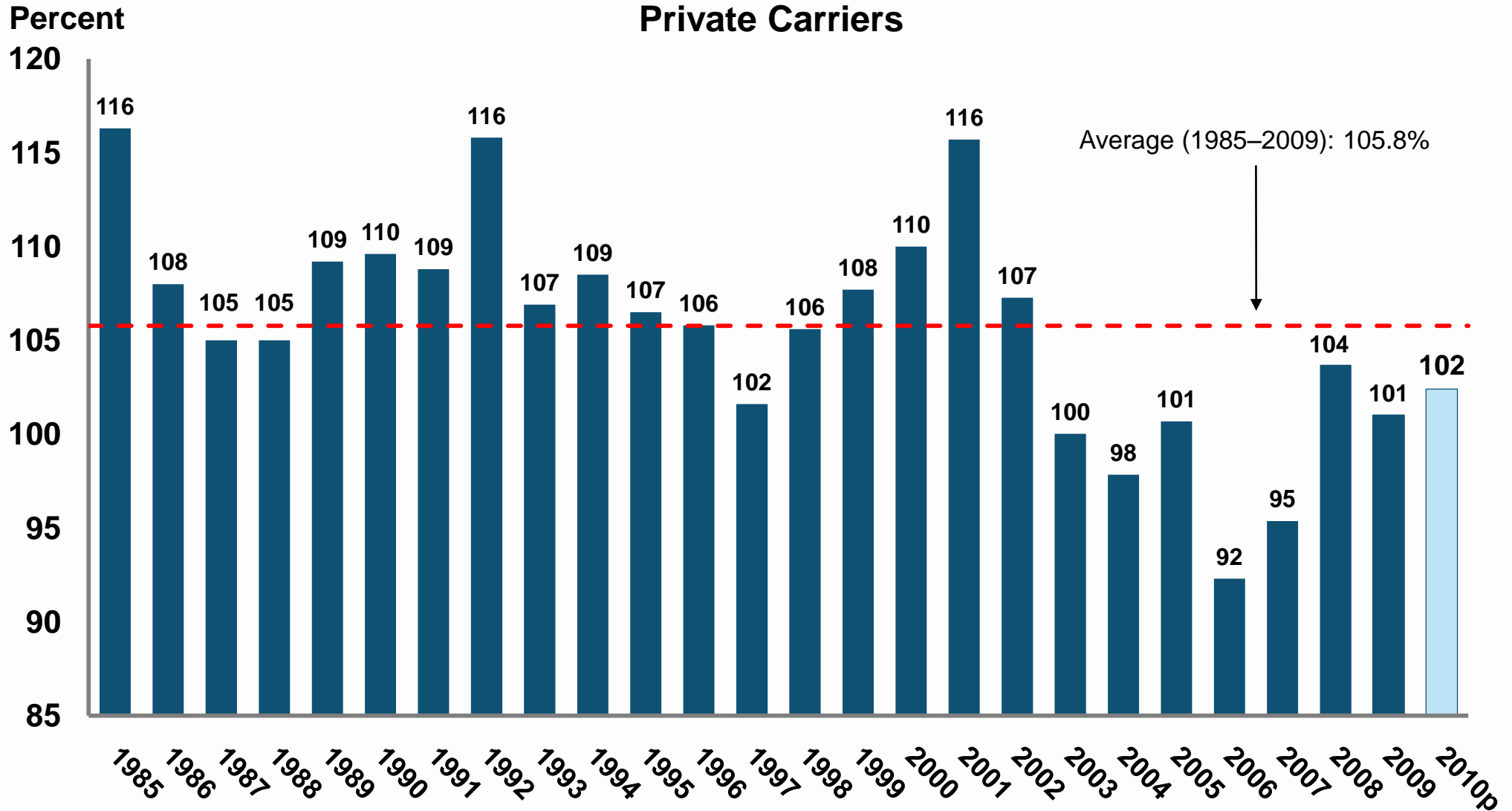
Line of Business (LOB)	Calendar Year		
	2008	2009	2010p
Personal Auto	100%	101%	101%
Homeowners	117%	105%	107%
Other Liability (Incl Prod Liab)	95%	105%	110%
Workers Compensation	101%	110%	115%
Commercial Multiple Peril	104%	97%	101%
Commercial Auto	97%	100%	98%
Fire & Allied Lines (Incl EQ)	99%	80%	83%
All Other Lines	113%	96%	101%
Total P/C Industry	104%	101%	102%

p Preliminary

Source: Workers compensation, NCCI;
Lines other than WC, 2008-2009 *Best's Review/Preview*; 2010p Annual Statement Data, Total P/C Industry, ISO.

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P/C Industry Calendar Year Net Combined Ratios



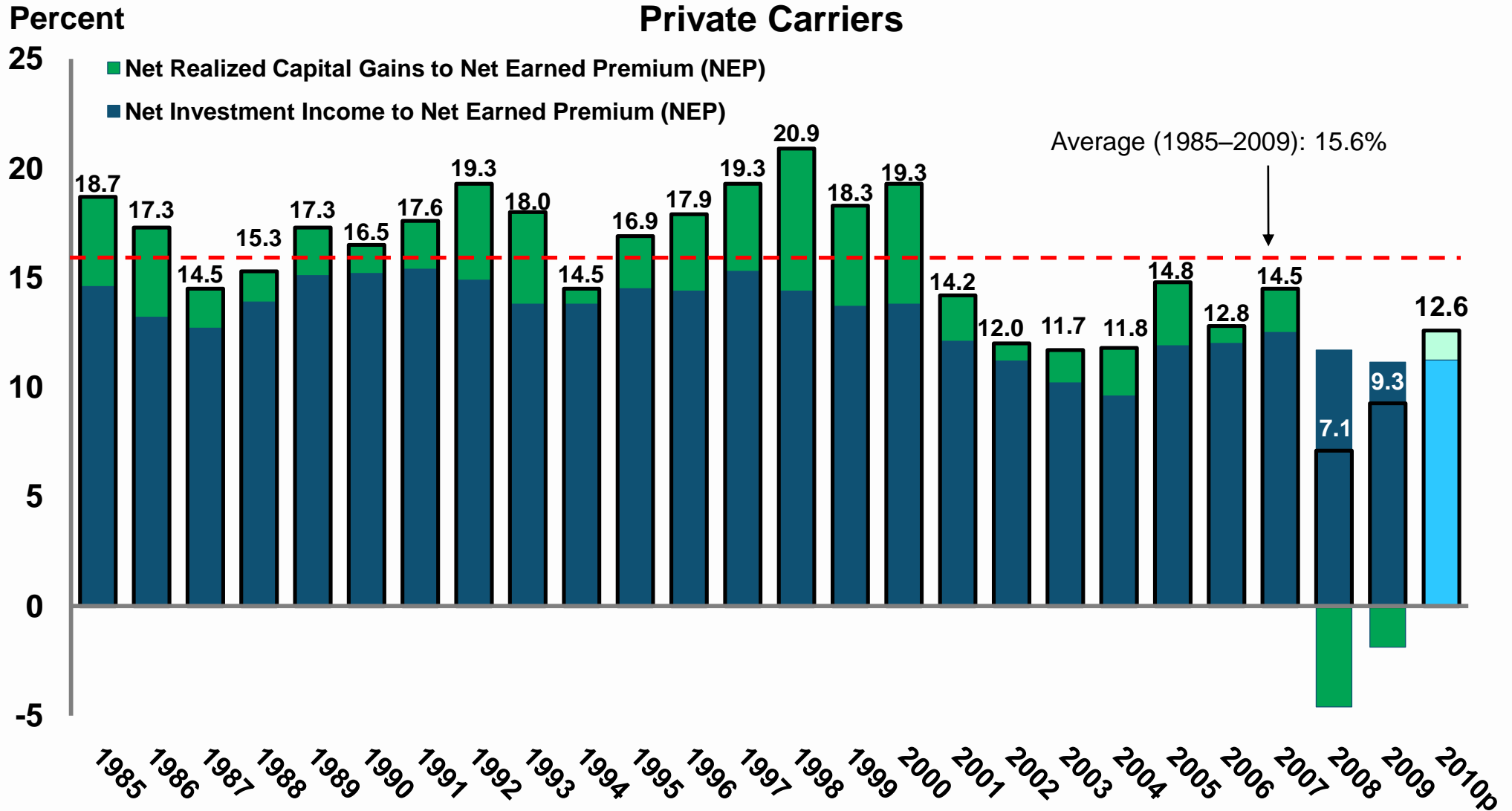
p Preliminary

Calendar Year

Source: 1985–2009, Annual Statement Data; 2010p, ISO



Investment Gain Ratio Rebounds



p Preliminary

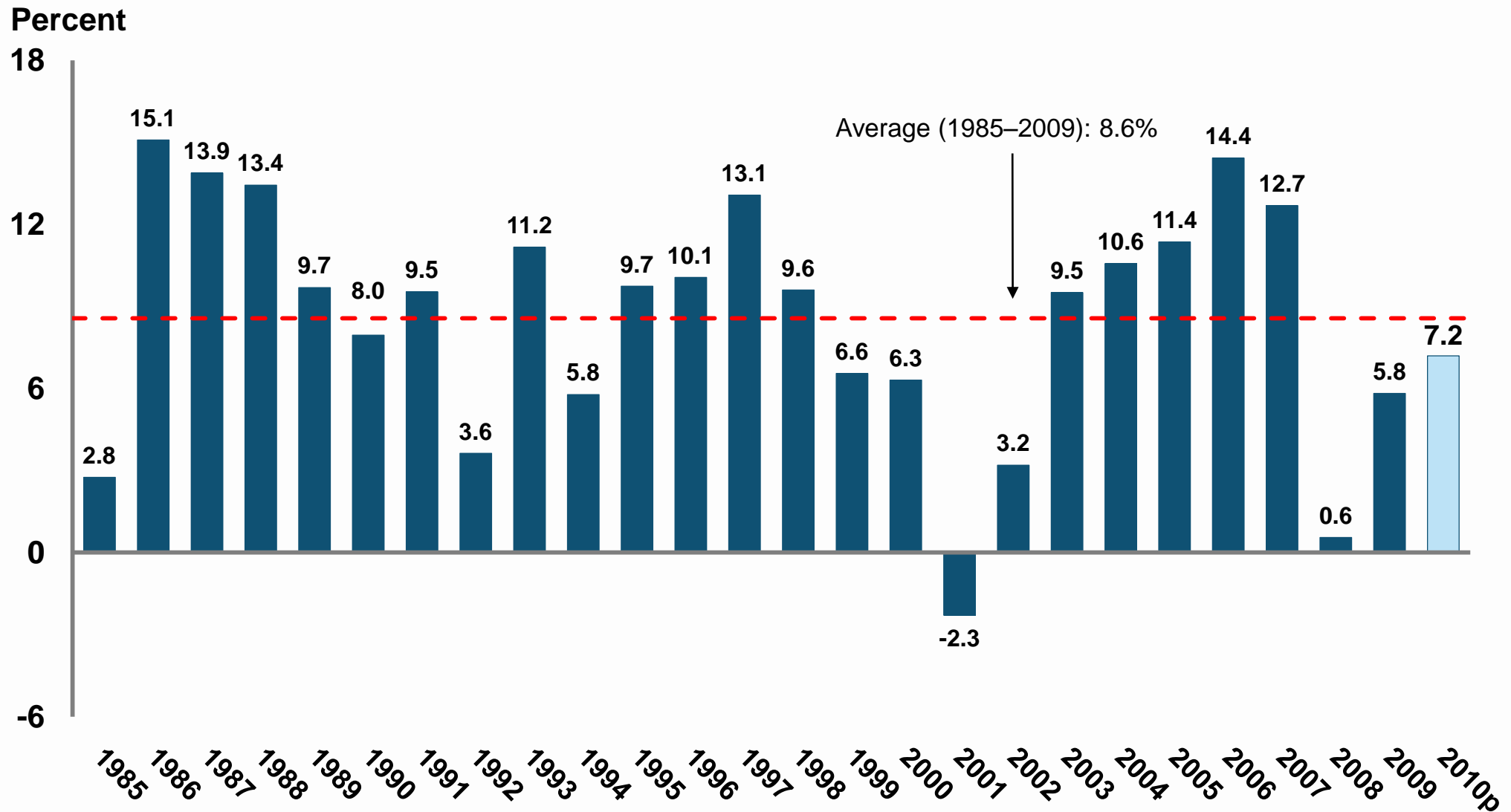
Calendar Year

Source: 1985–2009, Annual Statement Data; 2010p, ISO



P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



p Preliminary

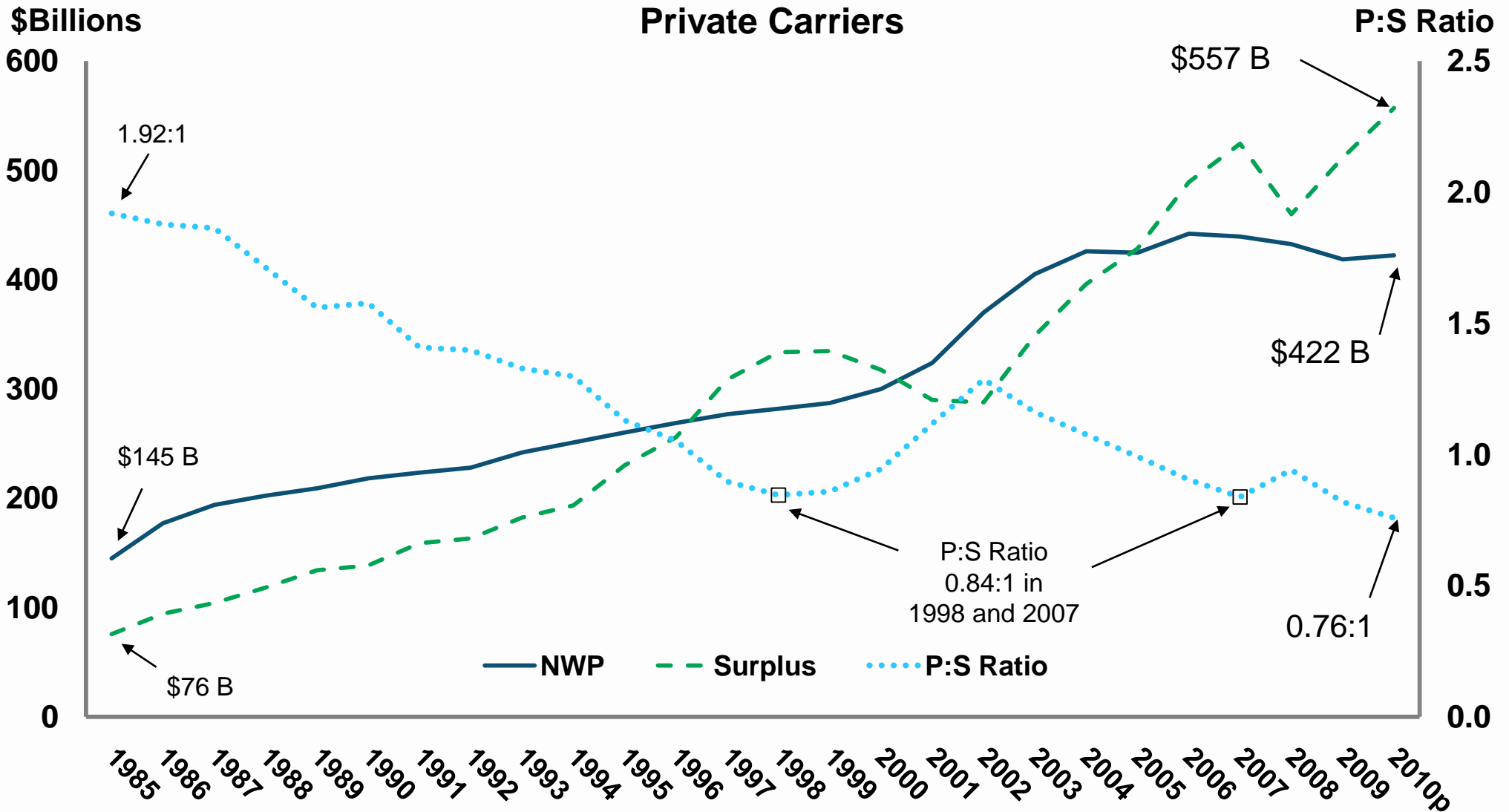
Note: After-tax return on average surplus, excluding unrealized capital gains

Source: 1985–2009, Annual Statement Data; 2010p After-Tax Net Income, ISO;

2010p Surplus, 2009 Annual Statement Data + 2010 ISO contributions to surplus

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P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary

Calendar Year

Source: 1985–2009, Annual Statement Data;
2010p Surplus, 2009 Annual Statement Data + 2010 ISO contributions to surplus



Contributions to Surplus

Private Carriers

	2008	2009	2010p
Underwriting Gains/Losses	\$ (21.2) B	\$ (3.0) B	\$ (10.4) B
Investment Income	\$ 51.5 B	\$ 47.1 B	\$ 47.2 B
Realized Capital Gains/Losses	\$ (19.8) B	\$ (7.9) B	\$ 5.7 B
Other Income	\$ 0.4 B	\$ 0.9 B	\$ 1.0 B
Unrealized Capital Gains/Losses	\$ (52.9) B	\$ 23.1 B	\$ 15.6 B
Federal Taxes	\$ (7.8) B	\$ (8.4) B	\$ (8.9) B
Shareholder Dividends	\$ (24.1) B	\$ (16.9) B	\$ (31.0) B
Contributed Capital	\$ 12.3 B	\$ 6.6 B	\$ 27.4 B
Other Changes to Surplus	\$ 1.1 B	\$ 12.6 B	\$ (1.2) B
Total	\$ (60.6) B	\$ 54.1 B	\$ 45.5 B

p Preliminary

Source: ISO

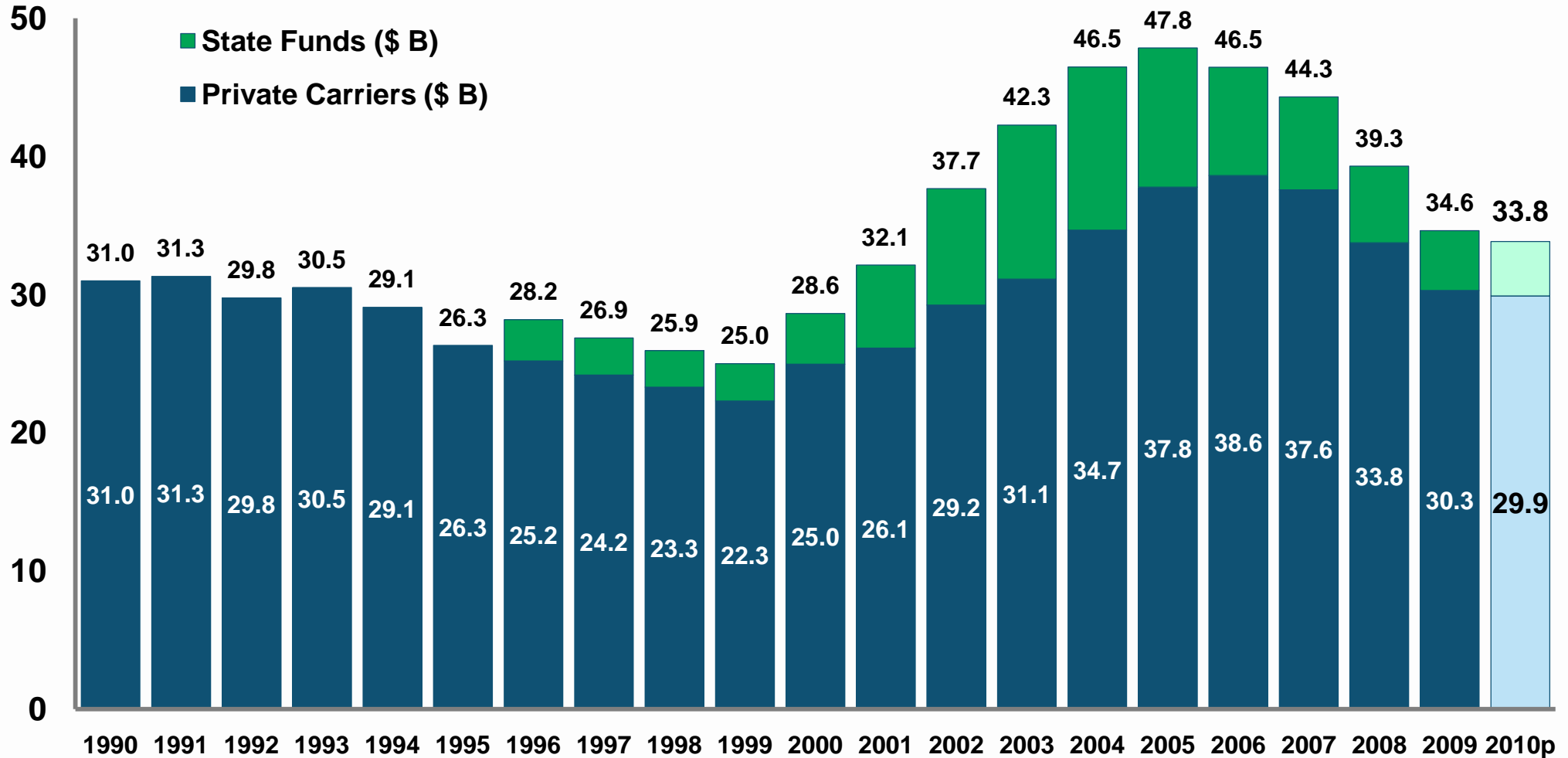
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Workers Compensation Results

Workers Compensation Premium Decline Moderates

Net Written Premium

\$ Billions



p Preliminary

Calendar Year

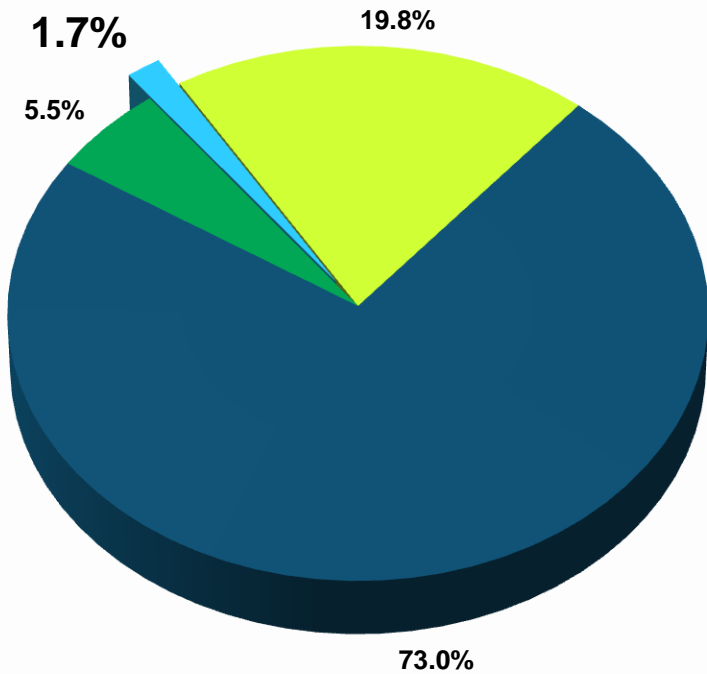
Source: 1990–2009 Private Carriers, Annual Statement Data; 2010p, NCCI
 1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent



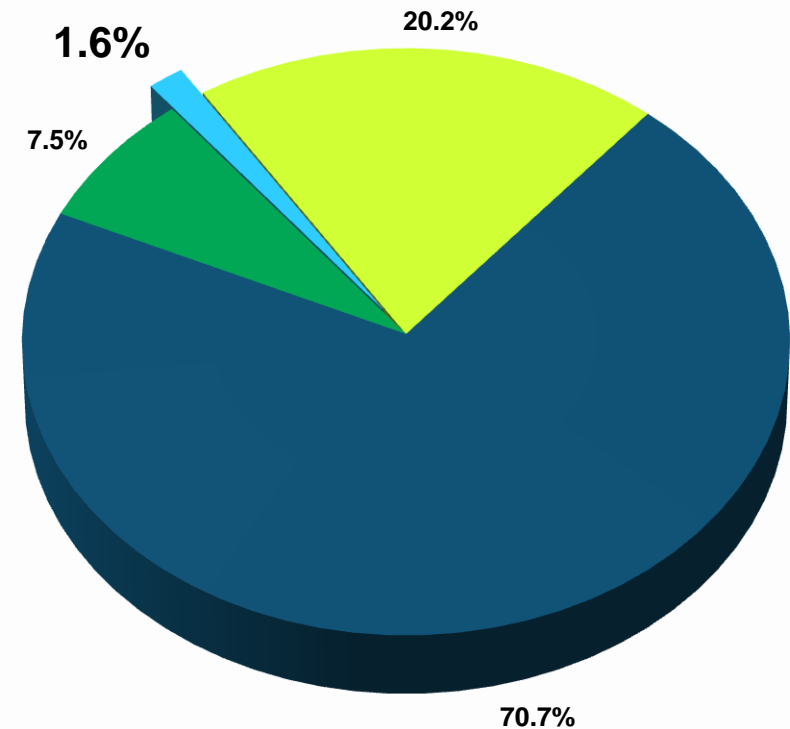
Employer Costs as Percentage of Total Compensation

Private Industry

2000



2010



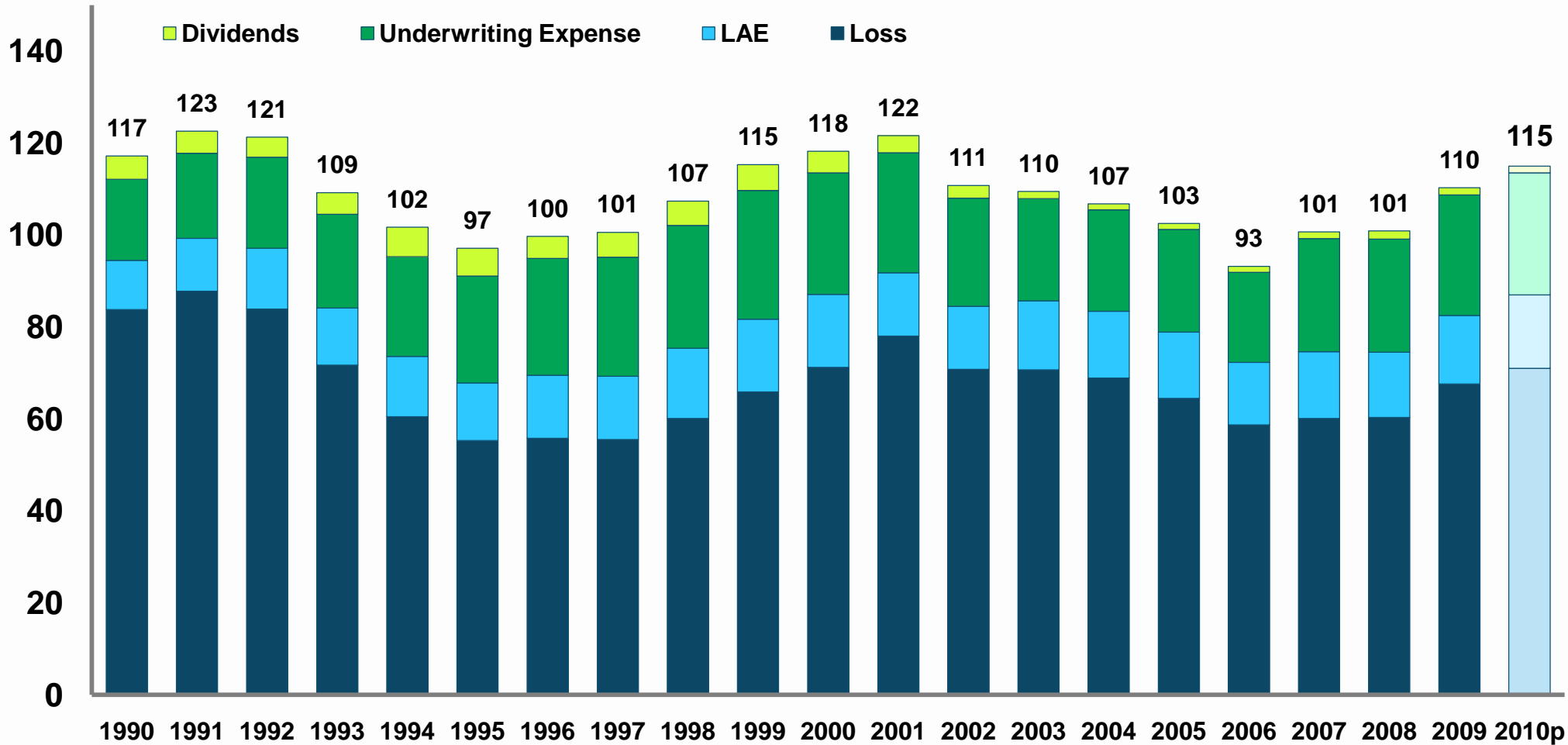
- Wages and Salaries
- Health Insurance
- Workers Compensation
- All Other

All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings
Source: US Department of Labor, Bureau of Labor Statistics

WC Calendar Year Combined Ratio Continues to Deteriorate

Private Carriers

Percent



p Preliminary

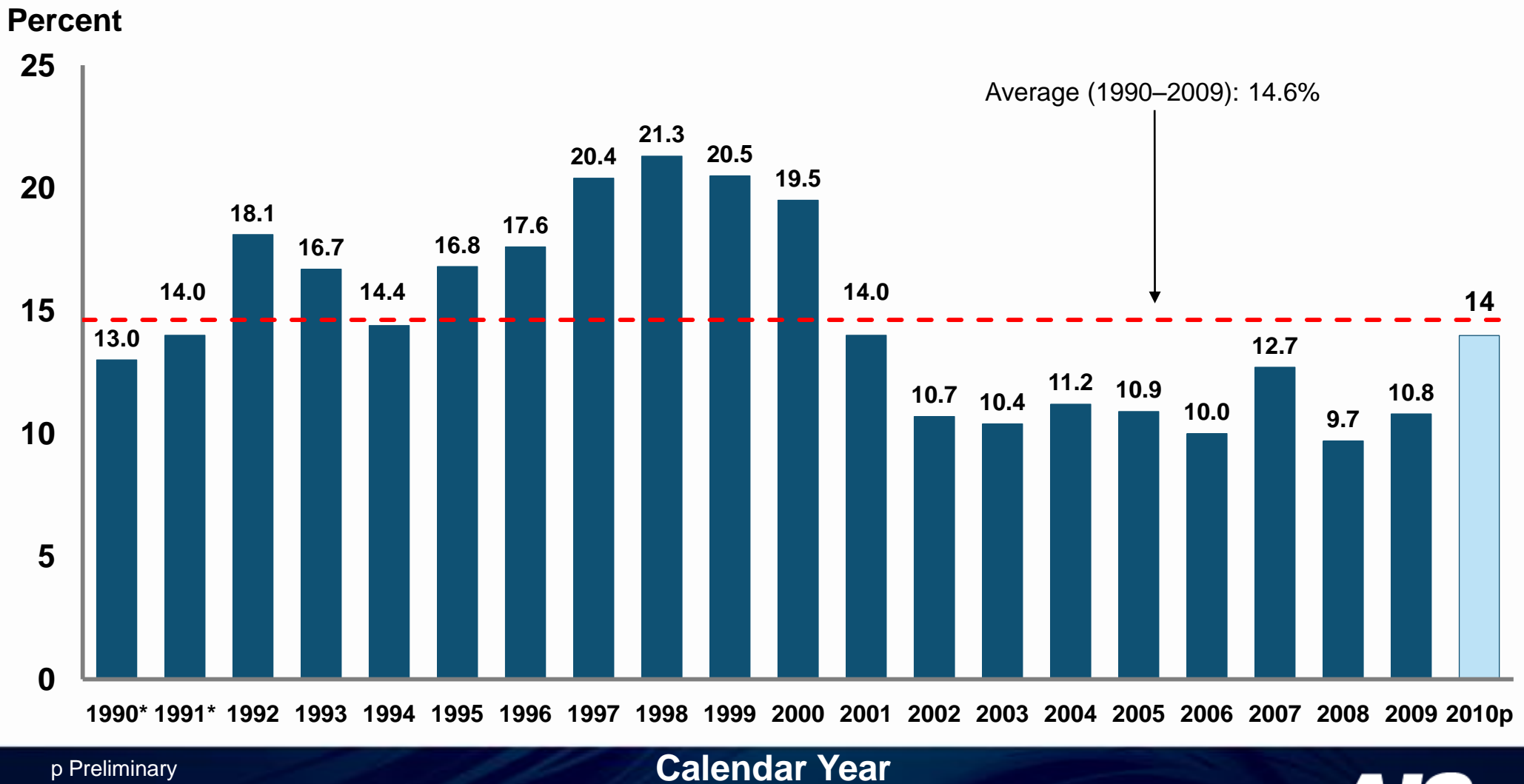
Calendar Year

Source: 1990–2009, Annual Statement Data; 2010p, NCCI



Workers Compensation Investment Returns

Investment Gain on Insurance Transactions-to-Premium Ratio Private Carriers



p Preliminary

Source: 1990–2009, Annual Statement Data; 2010p, NCCI

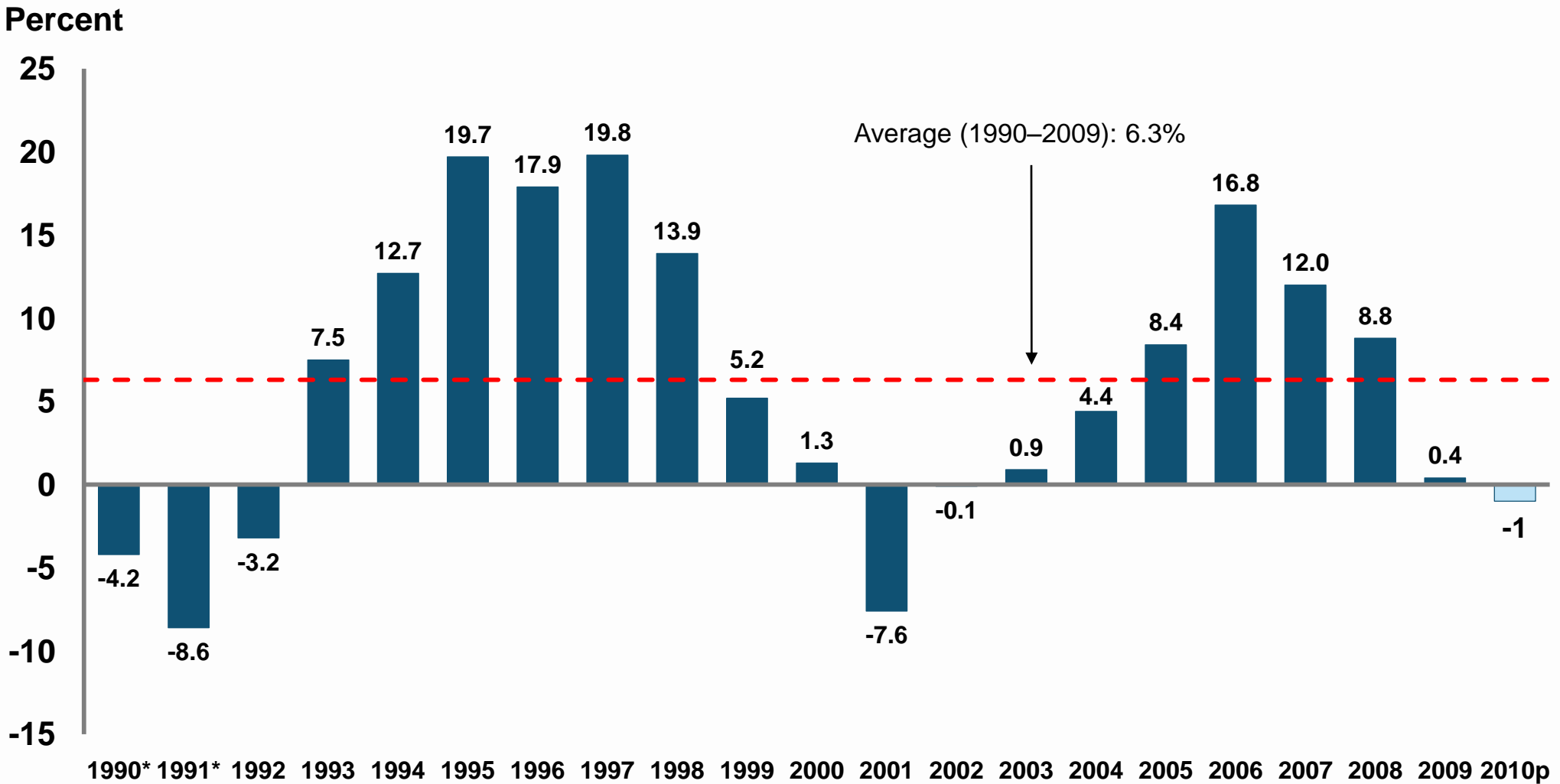
Investment Gain on Insurance Transactions includes Other Income

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

Workers Compensation Results

Modest Operating Loss

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

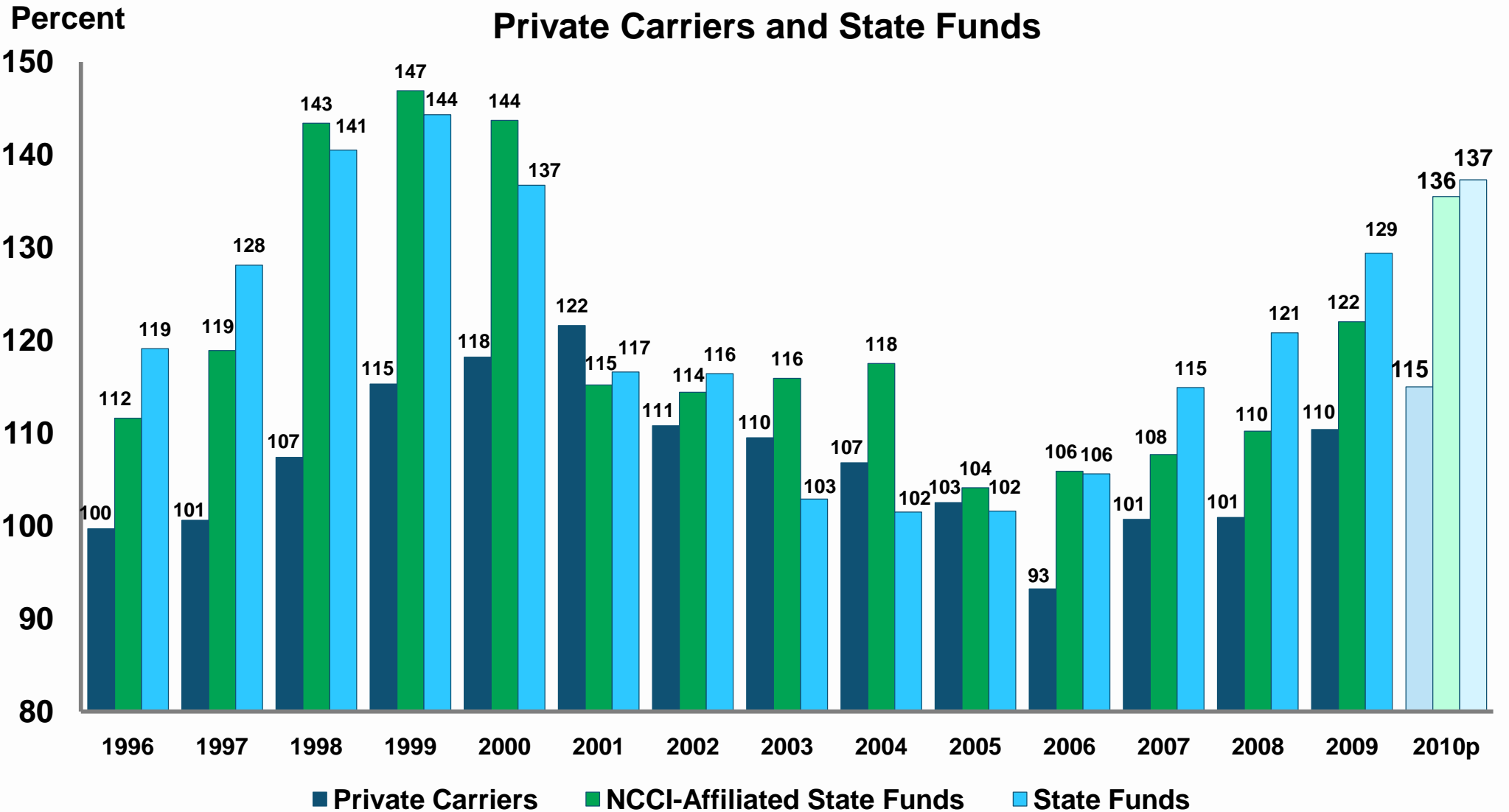
Source: 1990–2009, Annual Statement Data; 2010p, NCCI

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 after

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Workers Compensation Calendar Year Net Combined Ratios



p Preliminary

Calendar Year

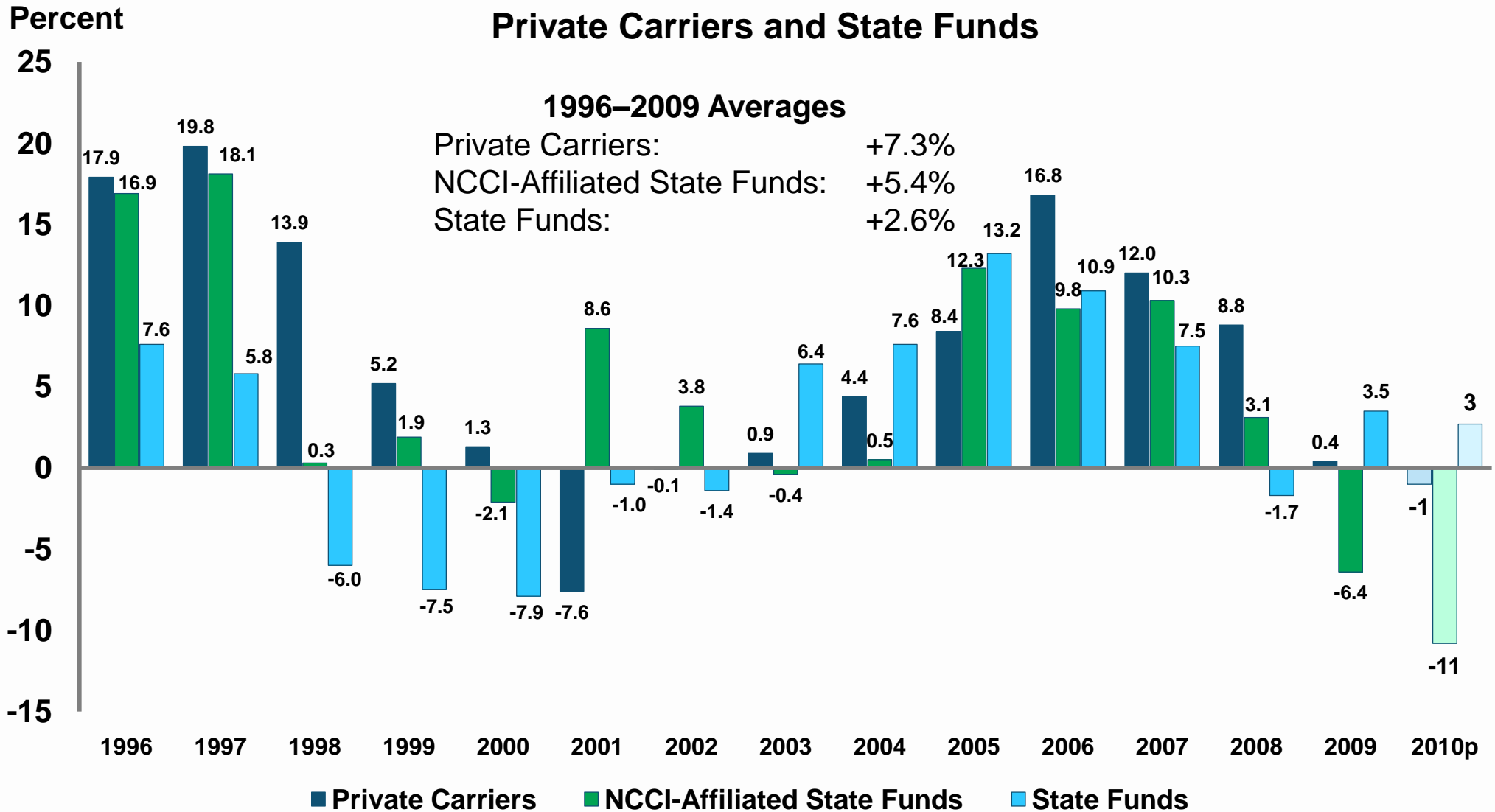
Source: 1996–2009 Private Carriers, Annual Statement Data; 2010p, NCCI

1996–2010p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Pre-Tax Operating Gain Ratios



p Preliminary

Calendar Year

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

Source: 1996–2009 Private Carriers, Annual Statement Data; 2010p, NCCI

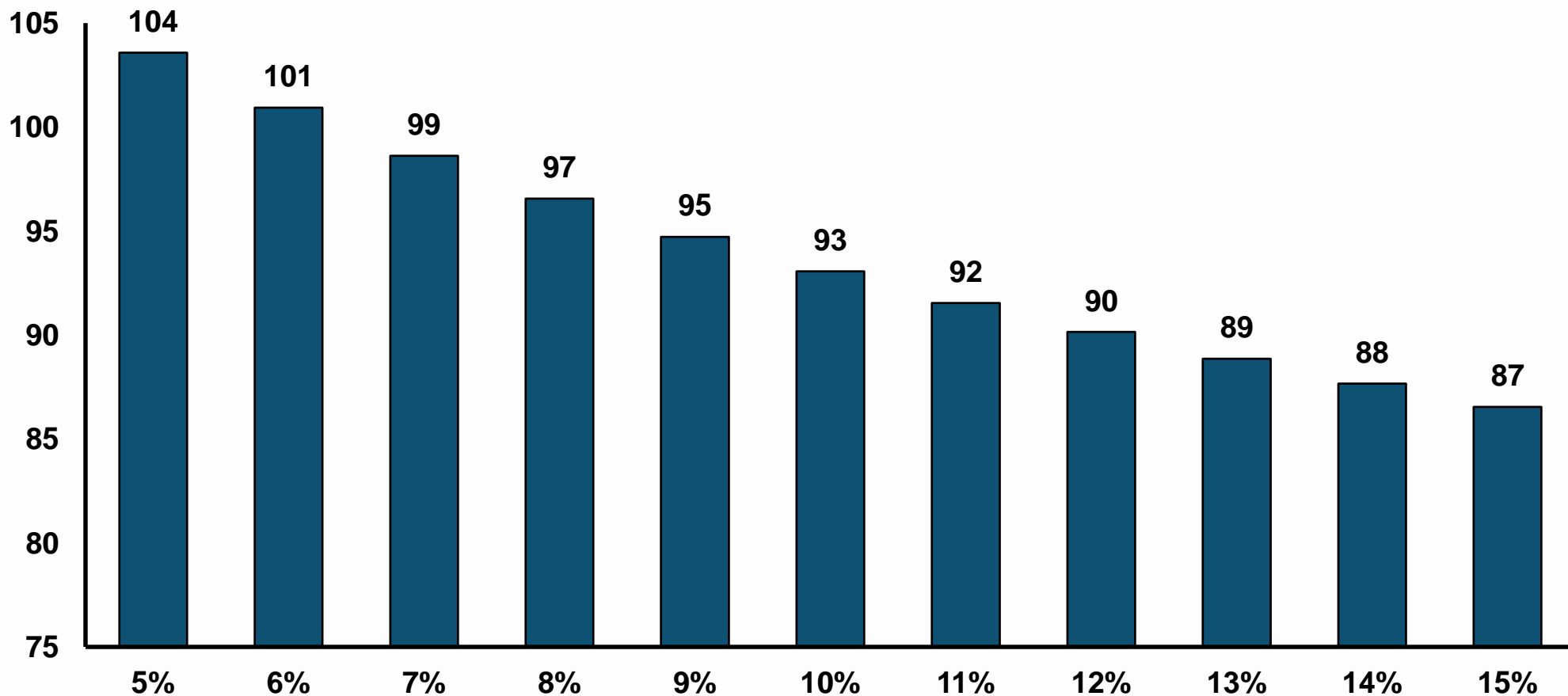
1996–2010p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Combined Ratio to Achieve Selected Cost of Capital

Percent



Cost of Capital

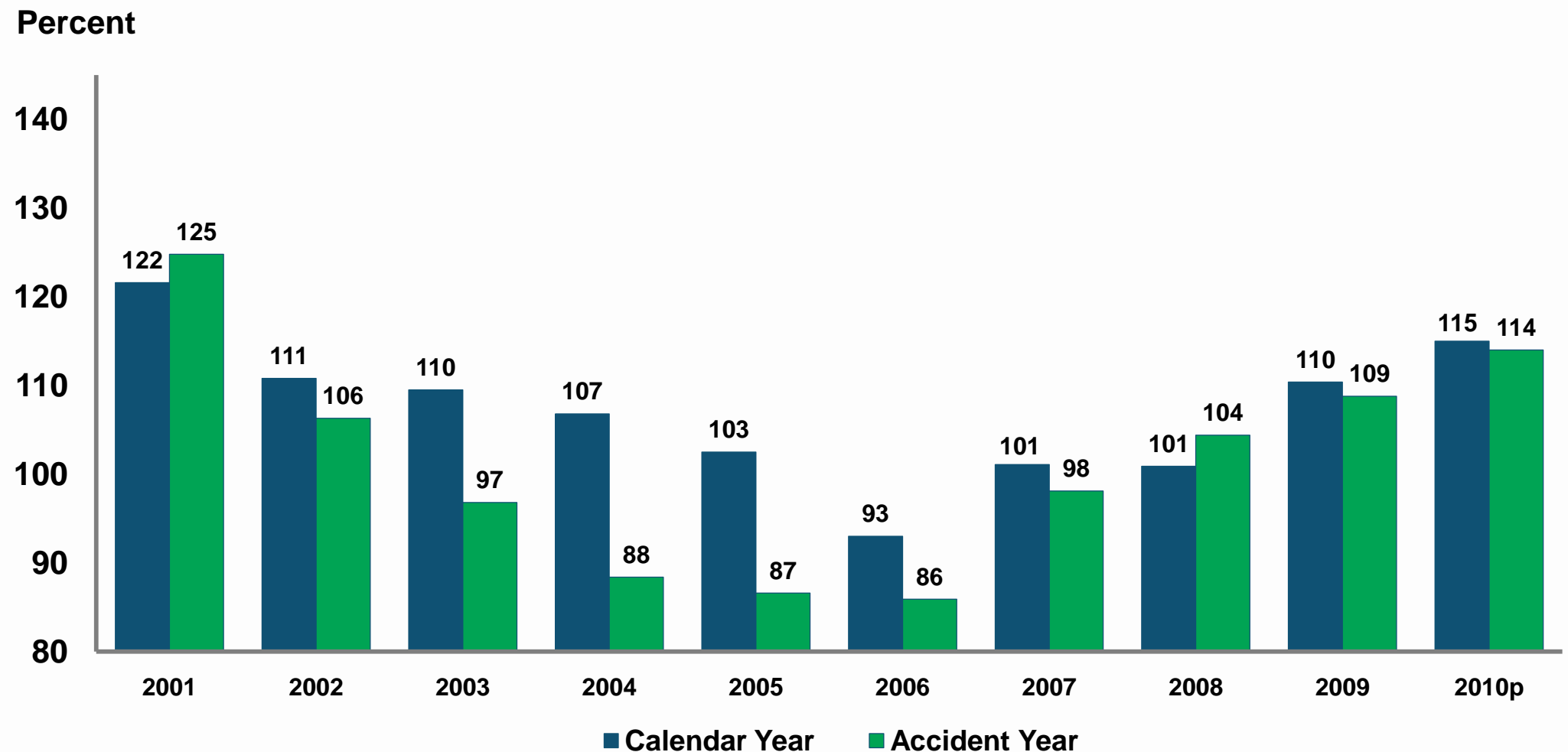
Assumptions: 3.8% Pre-Tax Investment Yield
2.8% After-Tax Investment Yield
WC Reserve to Surplus Ratio = 2.07
Based on NCCI's 2011 Internal Rate of Return Model

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Workers Compensation Accident Year Results and Reserve Estimates

Accident Year Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



p Preliminary

Accident Year data is evaluated as of 12/31/2010 and developed to ultimate

Source: Calendar Years 2001–2009, Annual Statement Data;

Calendar Year 2010p and Accident Years 2001–2010, NCCI analysis based on Annual Statement data

Includes dividends to policyholders

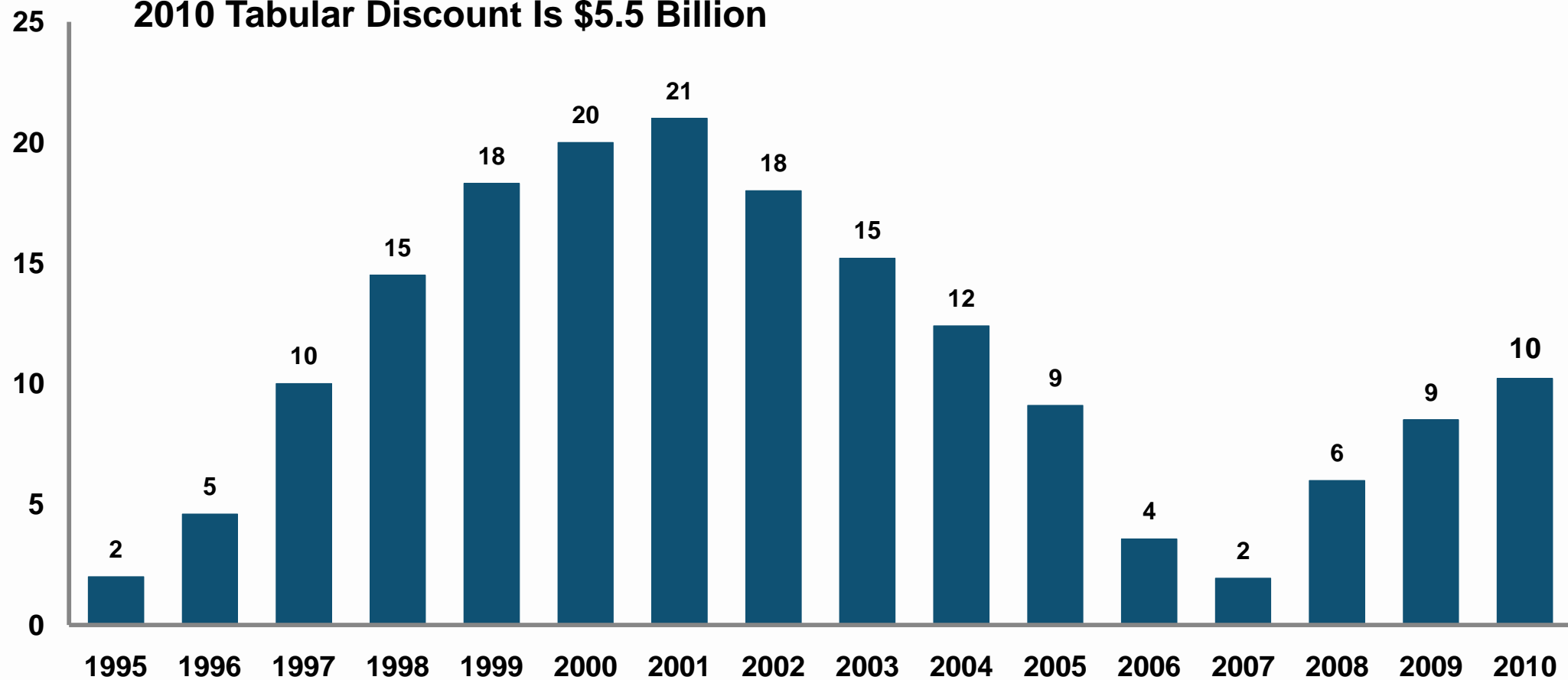
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Calendar Year Reserve Deficiencies

Workers Compensation Loss and LAE Private Carriers

\$ Billions

2010 Tabular Discount Is \$5.5 Billion



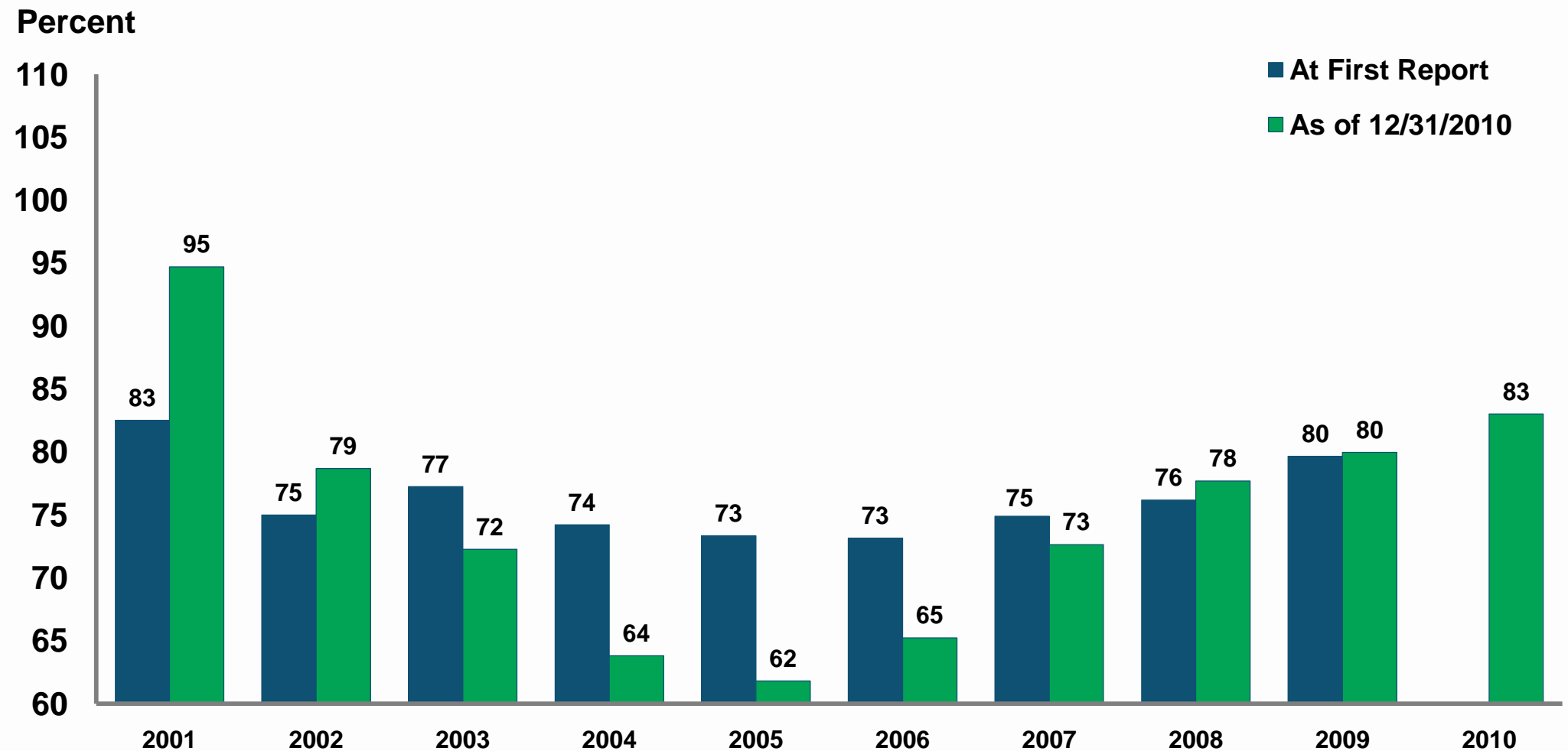
Calendar Year

Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis
Considers all reserve discounts as deficiencies

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Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers



Accident Year

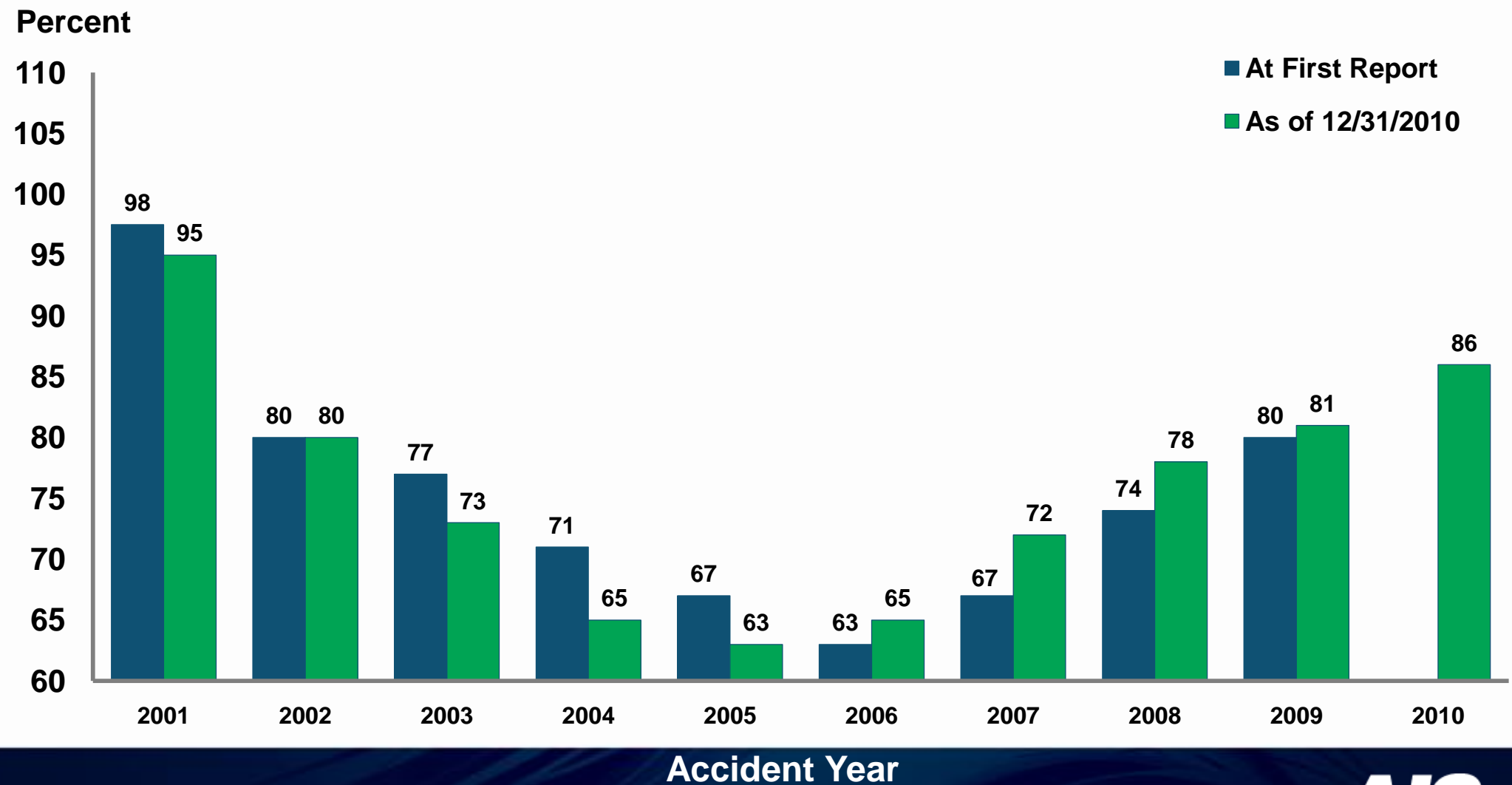
Reported Loss and LAE ratios

Source: NAIC Annual Statement, Schedule P data as reported by private carriers



Workers Compensation Ultimate Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



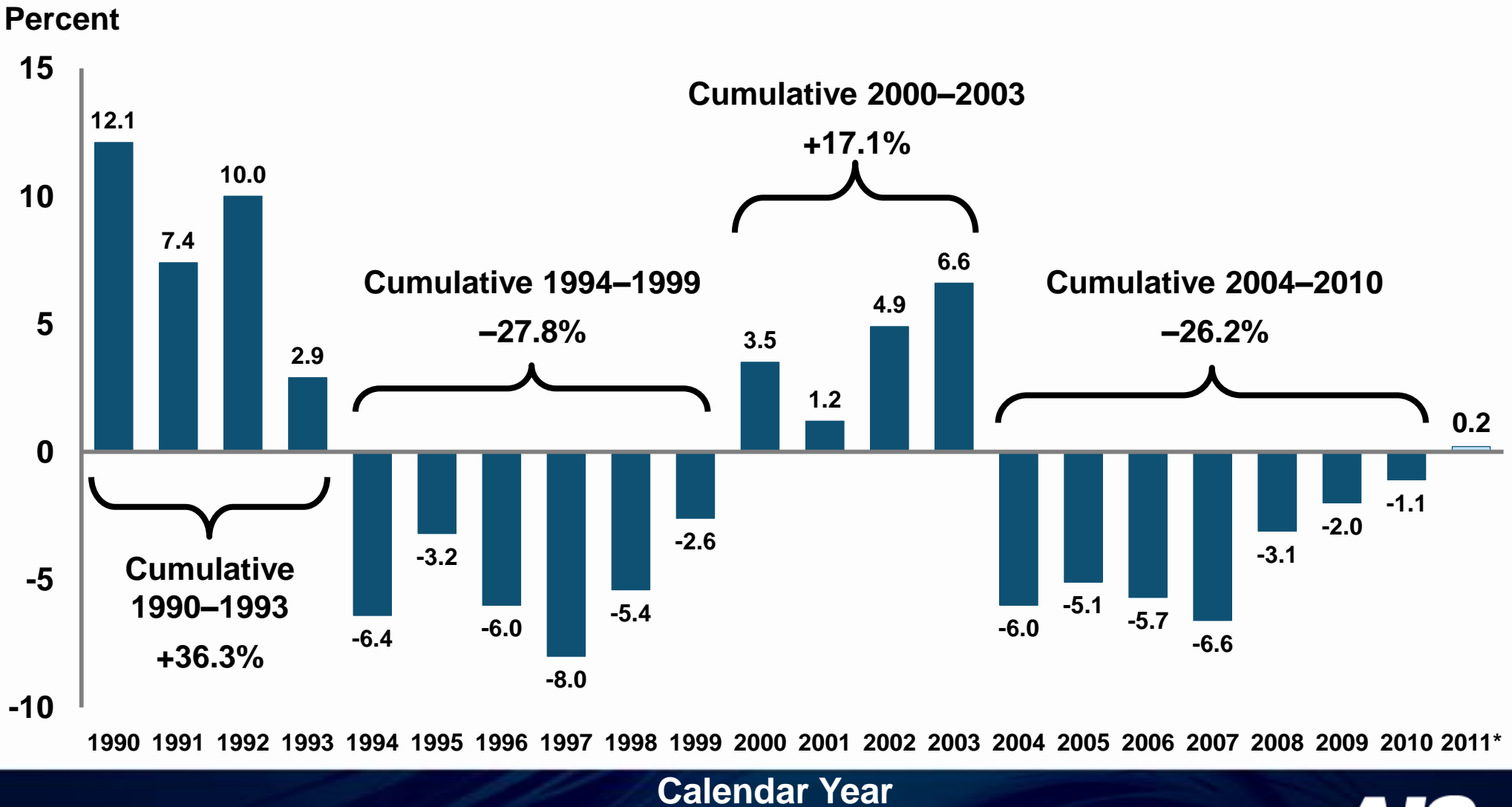
Selected Loss and LAE ratios
Source: NCCI Reserve Analysis

Workers Compensation

Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



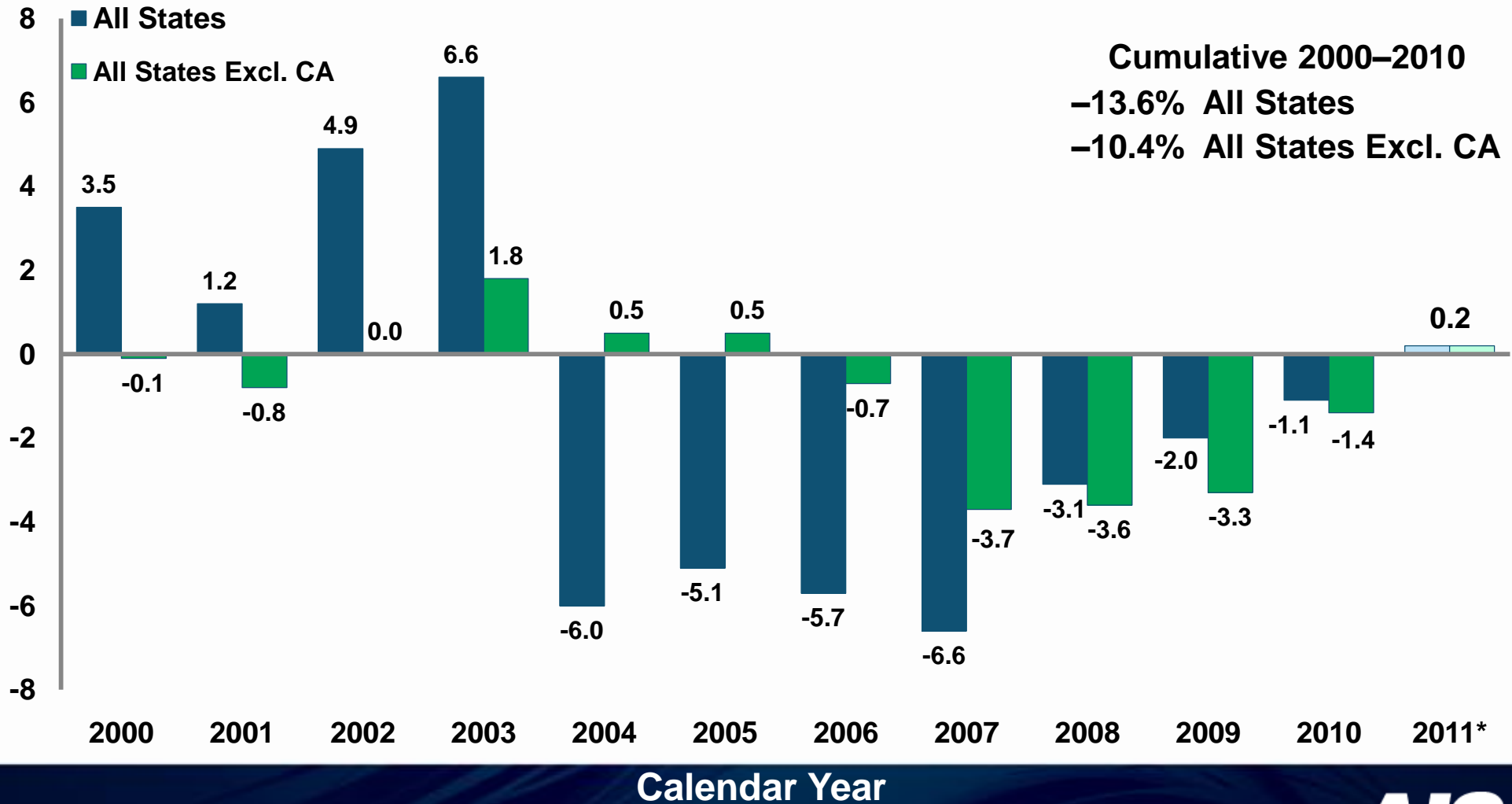
* States approved through 4/8/2011

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent



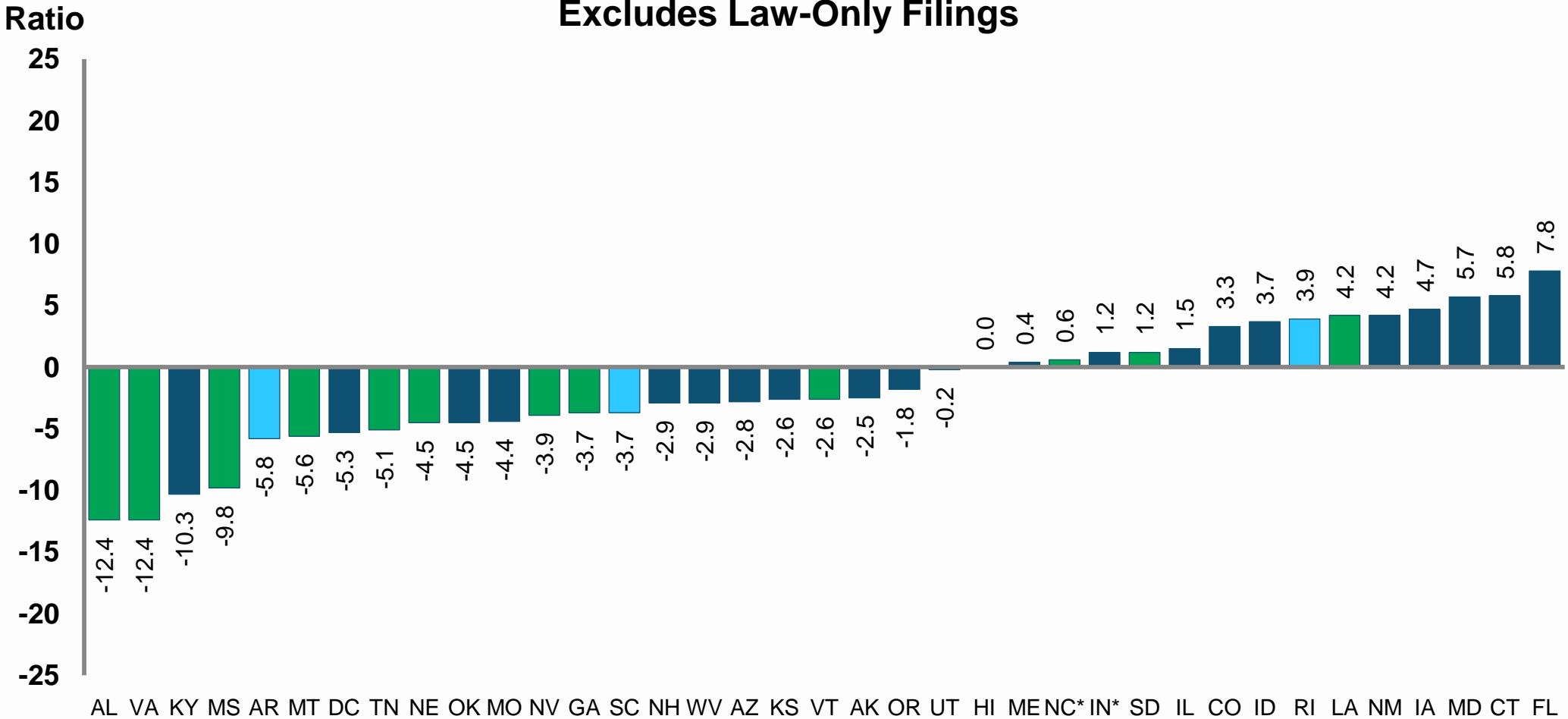
* States approved through 4/8/2011

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization



Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings



■ Effective Dates 1/1/2011 and Prior
 ■ Effective Dates Subsequent to 1/1/2011
 ■ Filed and Pending

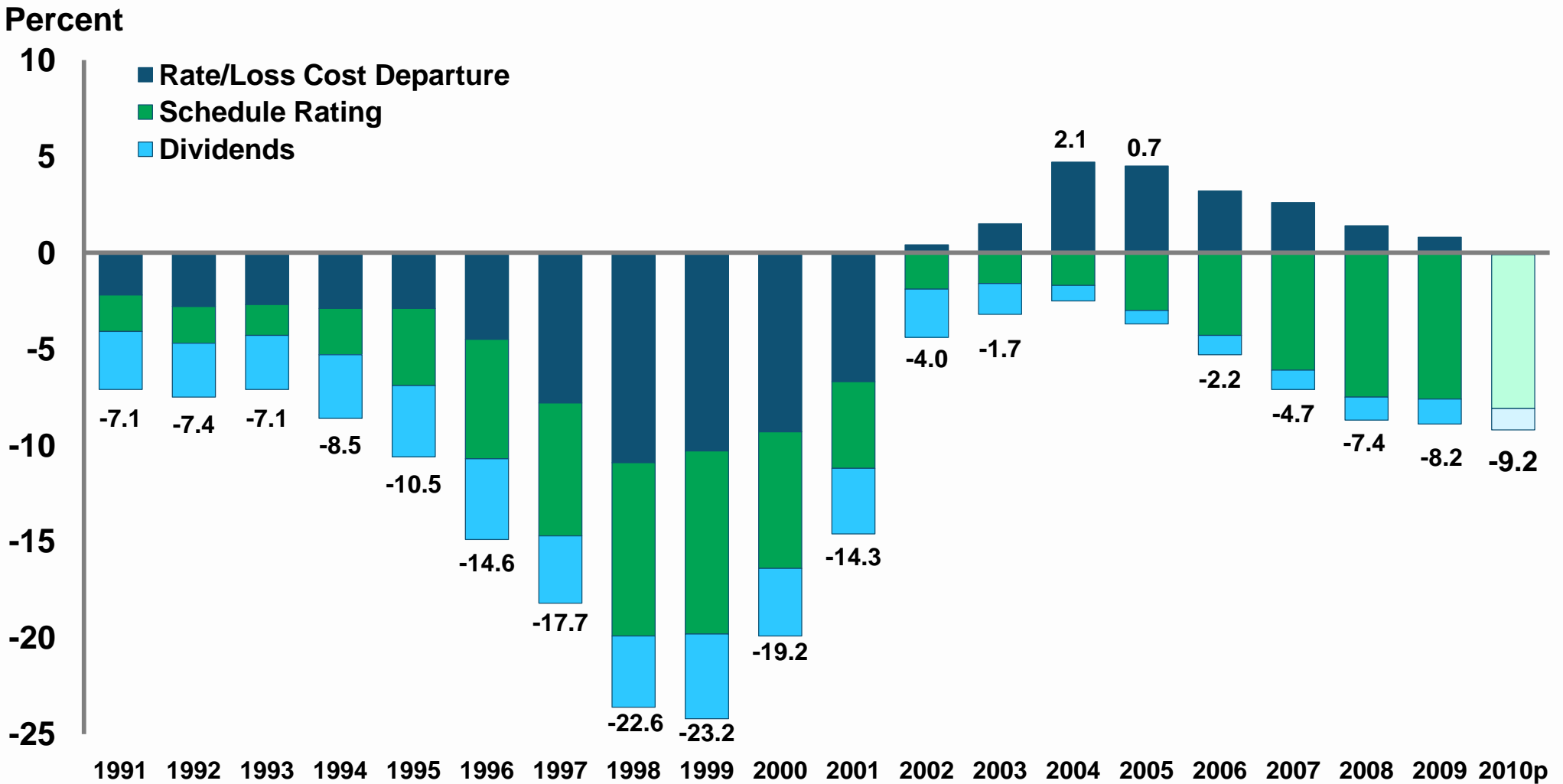
States filed through 4/15/2011

* IN and NC filed in cooperation with state rating bureau



Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers



p Preliminary

Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include an underwriting contingency provision

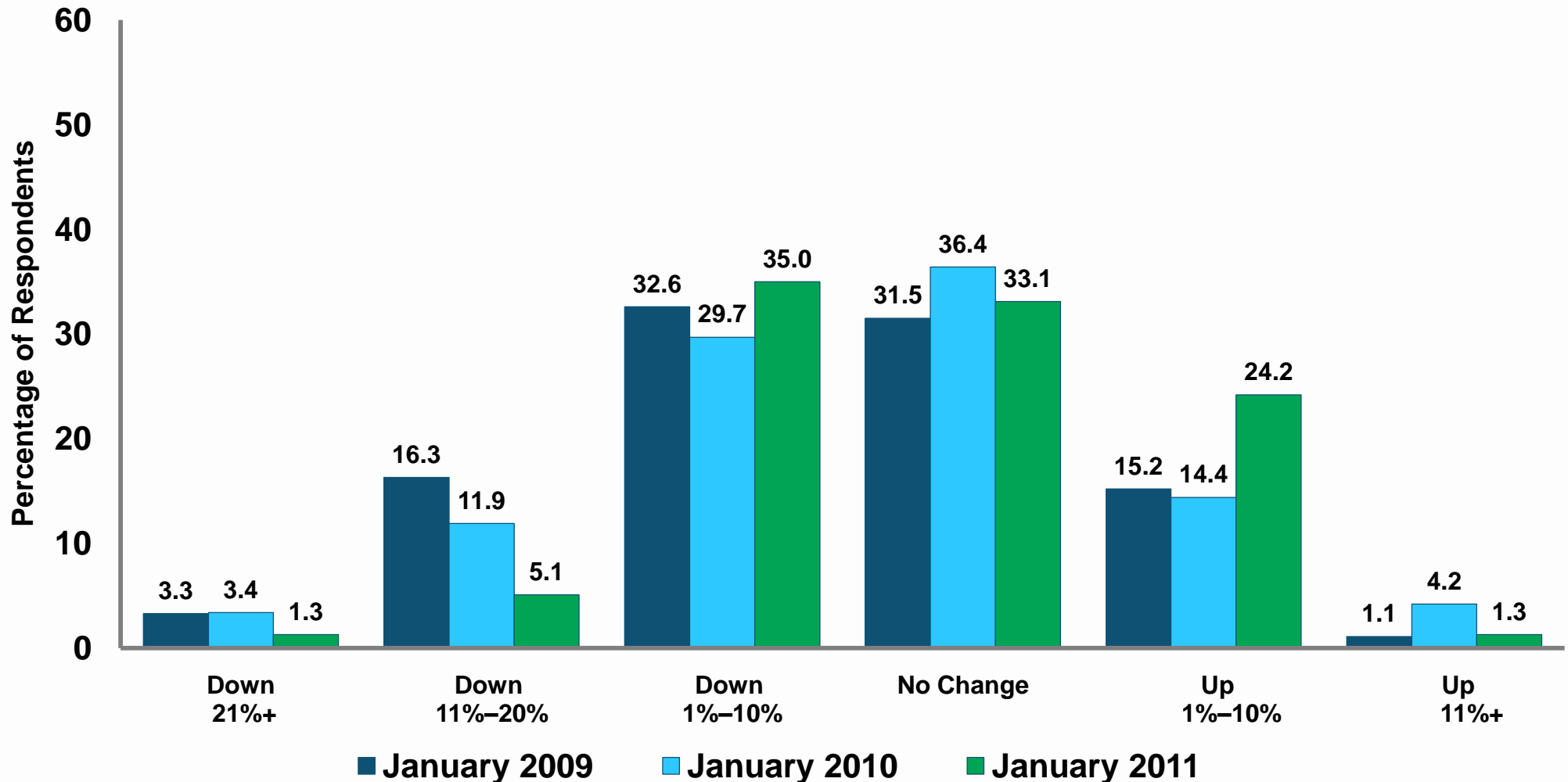
Based on data through 12/31/2010 for the states where NCCI provides ratemaking services

Policy Year

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According to Goldman Sachs, Pricing Declines Continue to Moderate

Agent Responses on WC Policy Renewal Premiums vs. 12 Months Prior



Calendar Year

Source: Goldman Sachs Research, Proprietary Survey, "January 2011 Pricing Survey, Insurance: Property & Casualty" (Exhibit 8, Workers' Compensation, Percentage of Respondents)

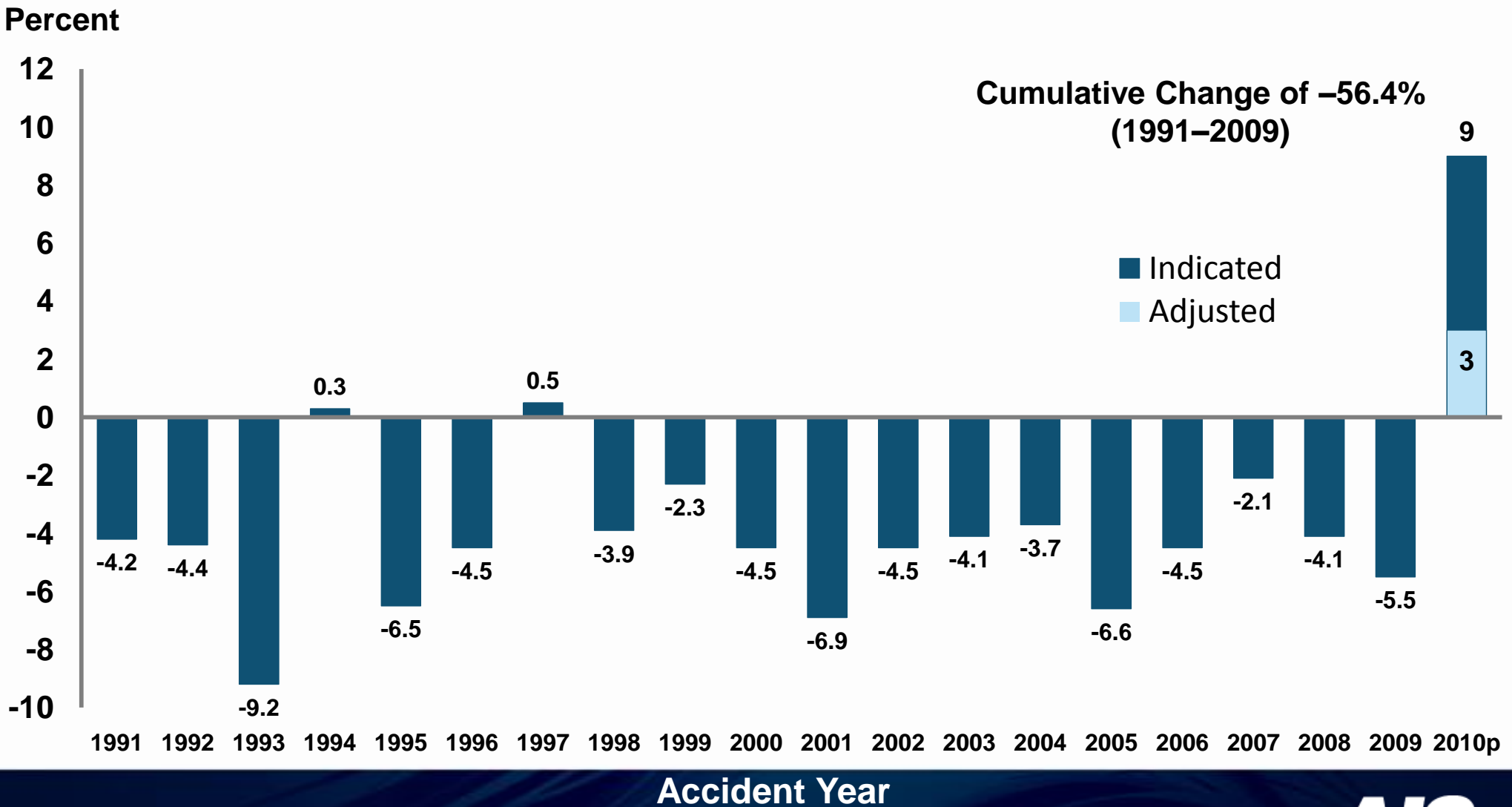
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Workers Compensation

Loss Drivers

Workers Compensation Lost-Time Claim Frequency Increased in 2010

Lost-Time Claims



2010p: Preliminary based on data valued as of 12/31/2010

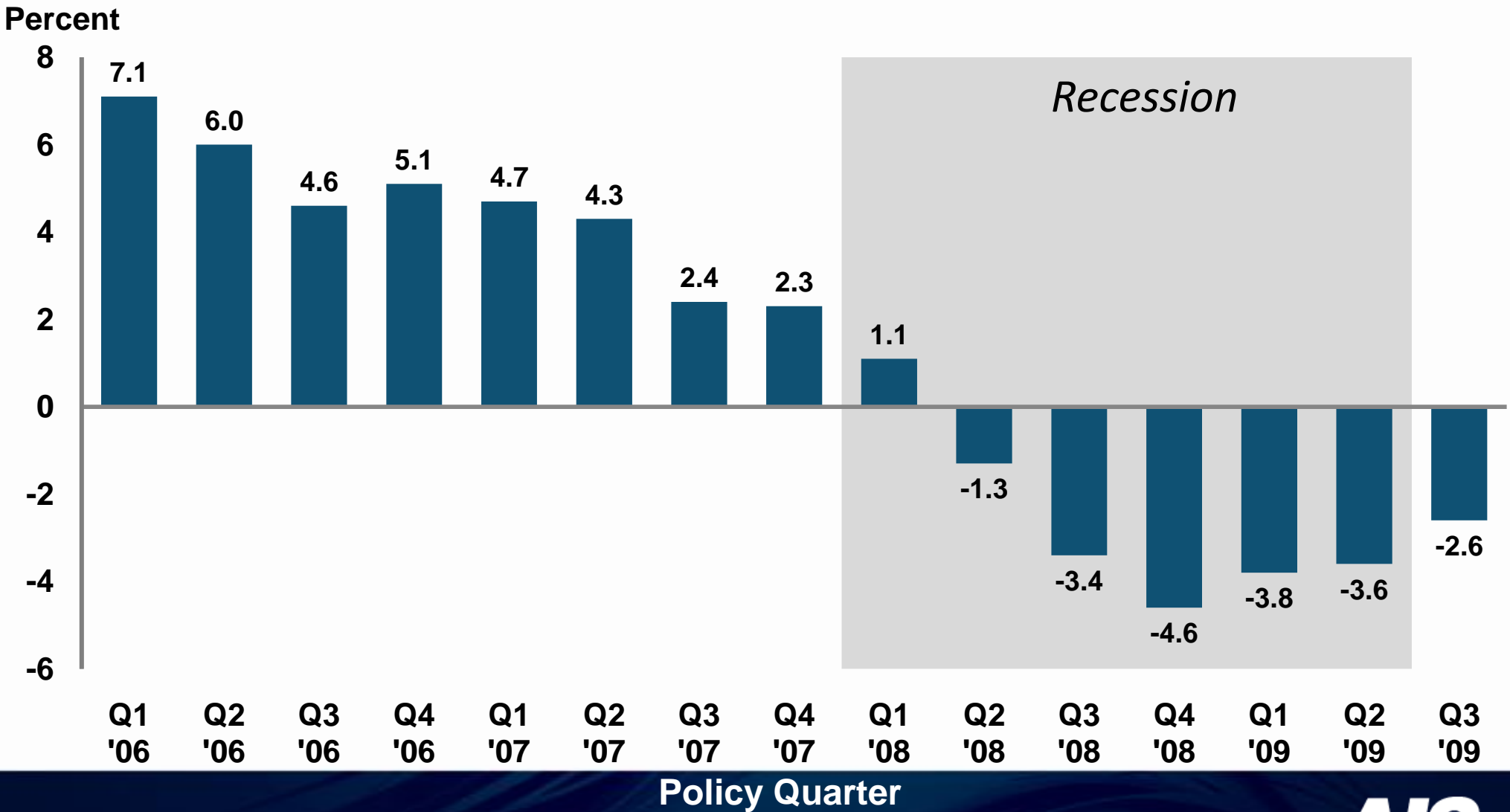
1991–2009: Based on data through 12/31/2009, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Frequency is the number of lost-time claims per \$1M wage-adjusted pure premium at current voluntary level.

The Recession Impacted Premium Audits

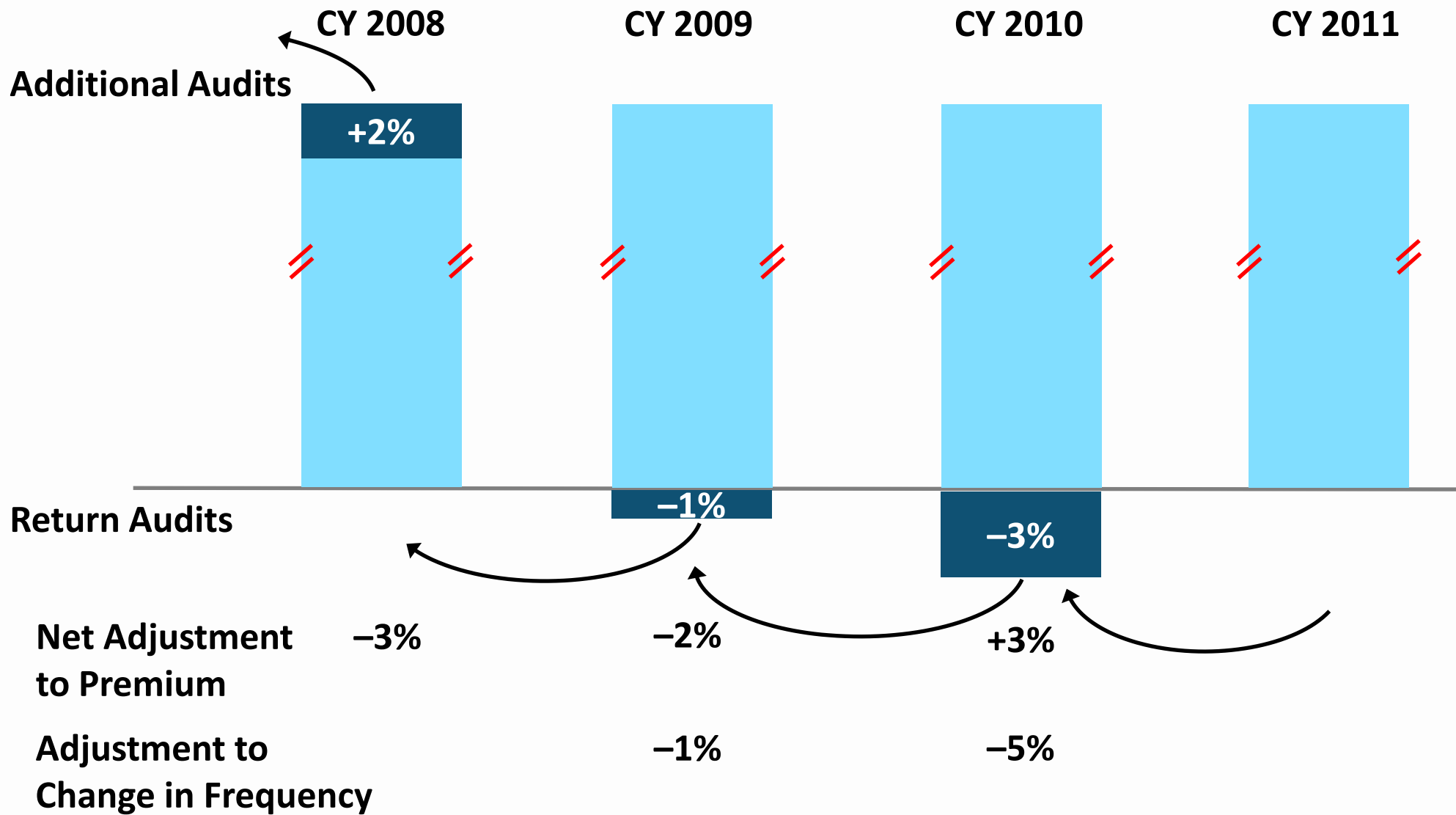
Final Premium vs. Estimated Premium by Policy Effective Quarter



Workers Compensation Statistical Plan audited premium compared to policy-estimated premium

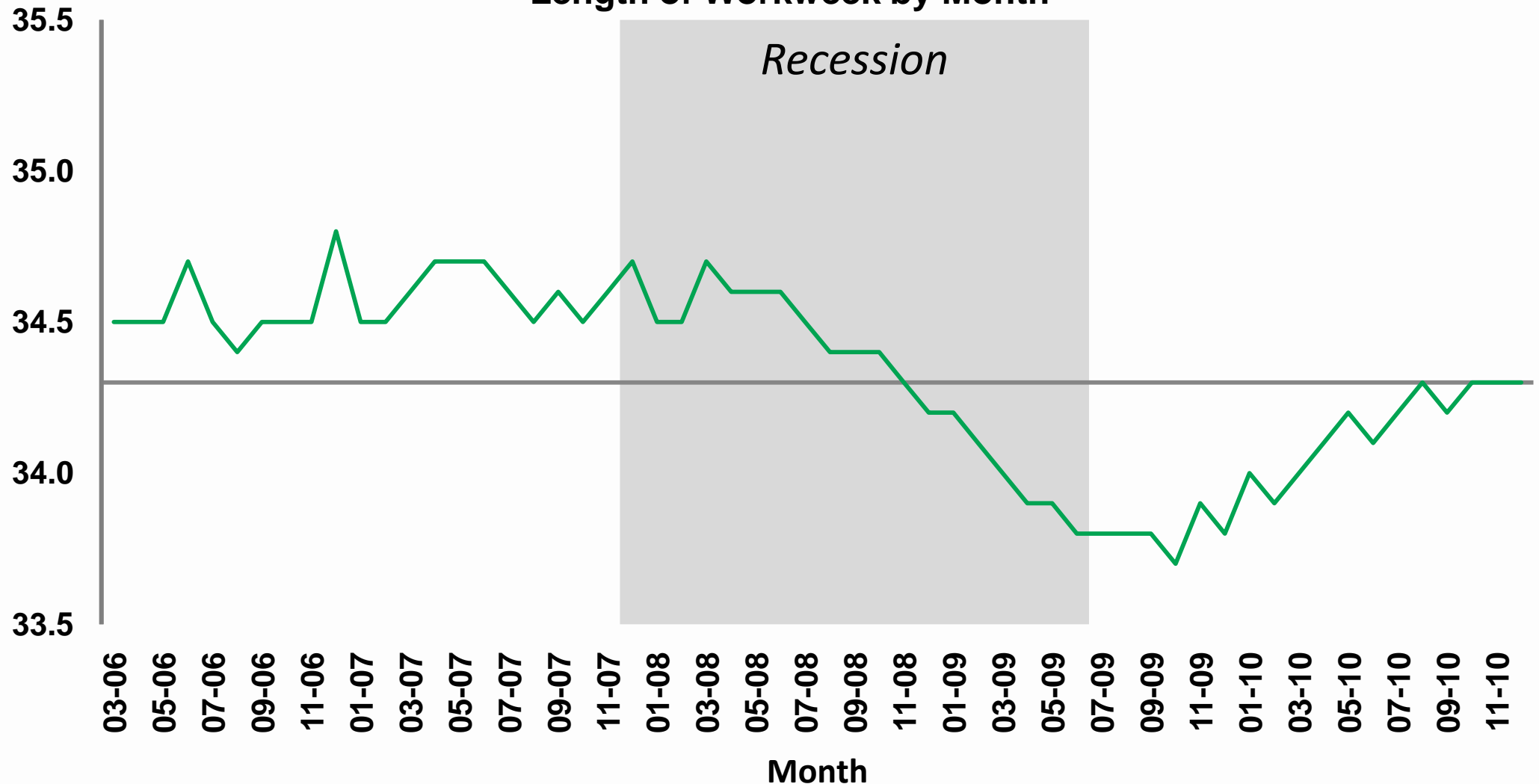
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies and mid-term cancellations

Impact of Premium Audits on Frequency



Average Workweek Also Impacted by Recession

Length of Workweek by Month



Source: BLS Employment, Hours, and Earnings from the Current Employment Statistics Survey (National)
All Workers Private Employment

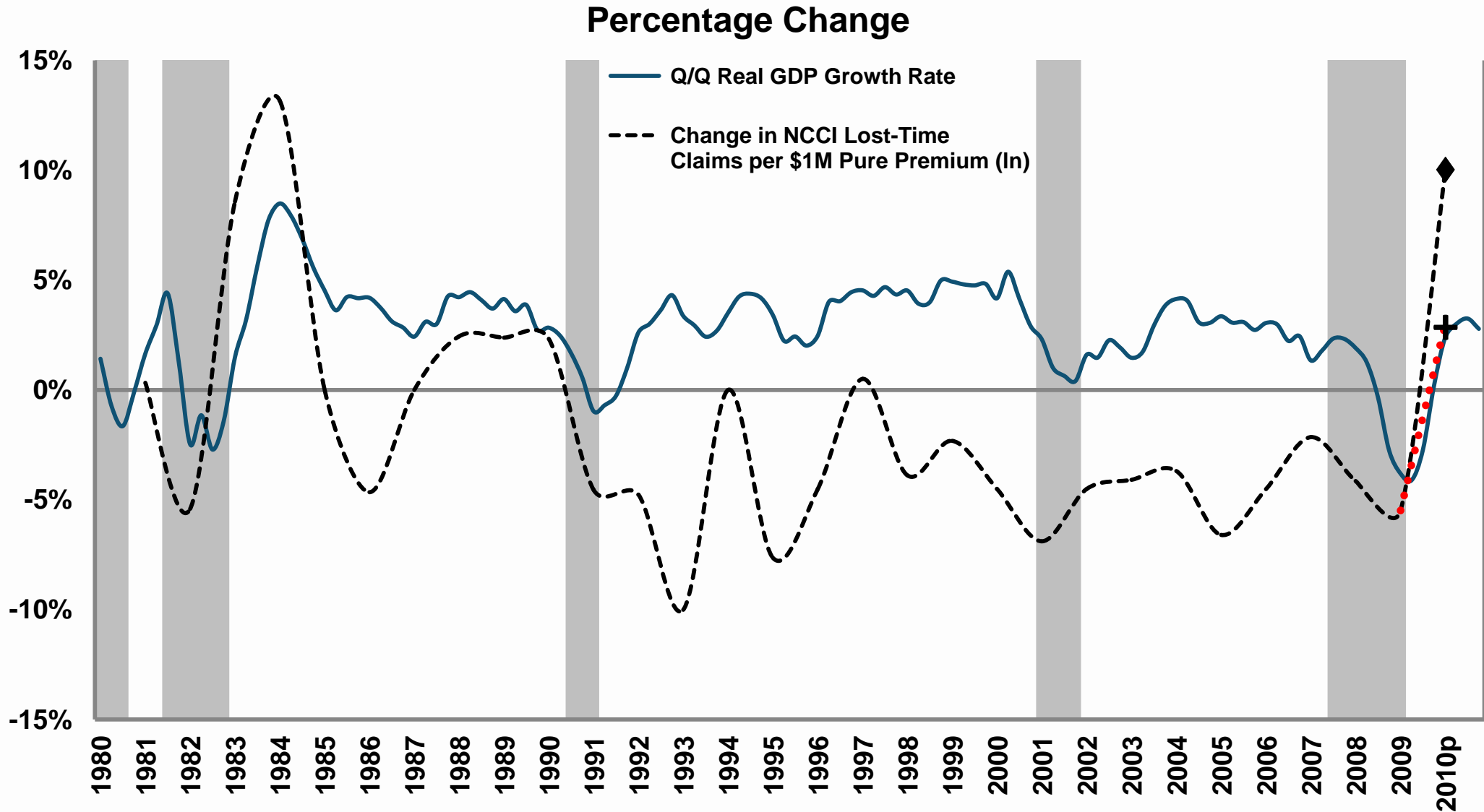
Adjustments to Indicated Change in Lost-Time Frequency

Accident Year 2009–2010

Estimated Adjustments to Frequency Change

	2009	2010
Unadjusted Frequency Change	-5%	+9%
CY Premium Adjustment	-1%	-5%
Workweek and Industry Group Mix	0%	-1%
Adjusted Frequency Change	-6%	+3%

WC Frequency Increases in the Early 80s Likely Reflect Strong Economic Growth



p Preliminary, + (adjusted frequency change), ♦ (indicated frequency change)

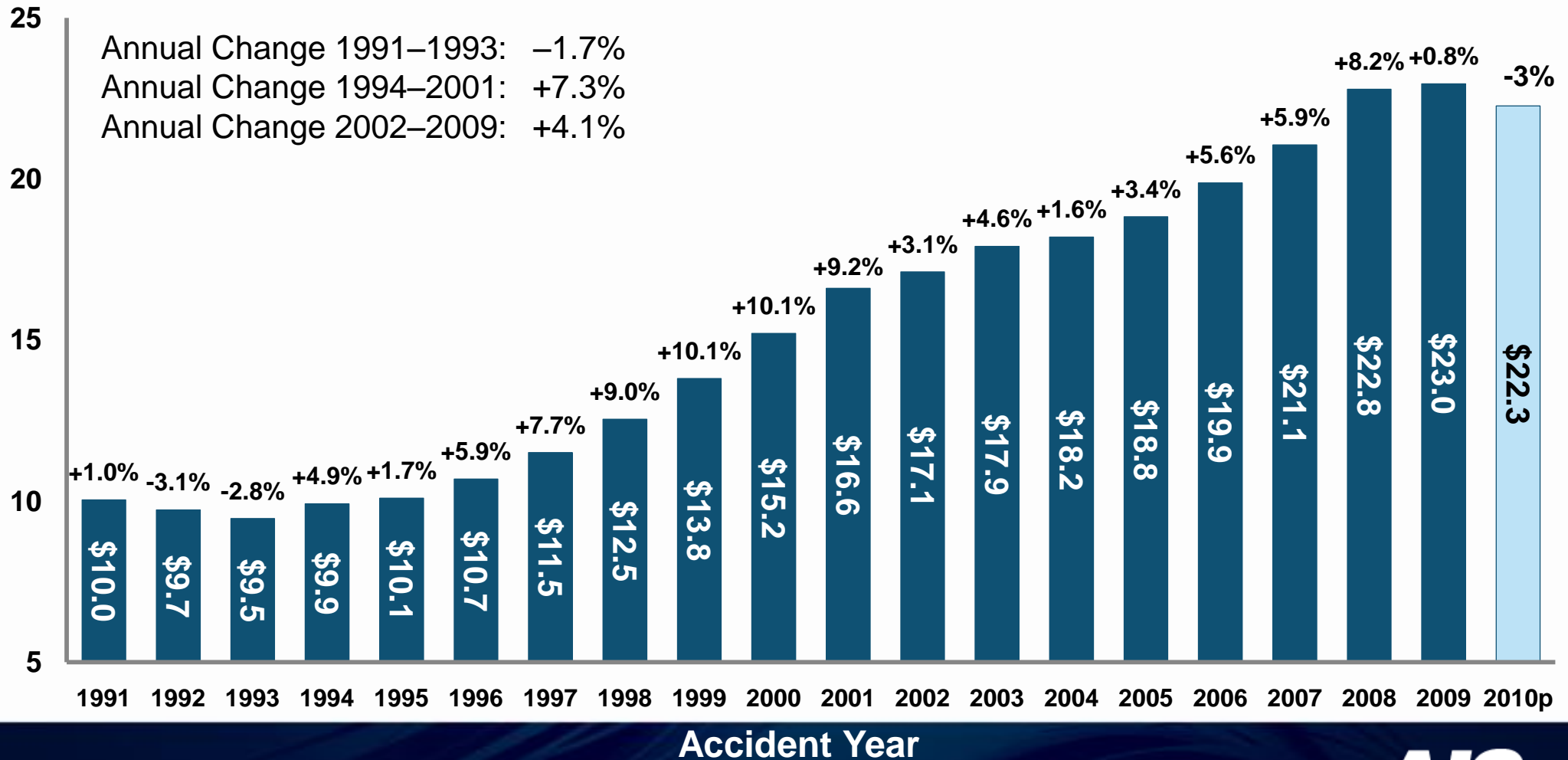
Source: GDP, Bureau of Economic Analysis (BEA)
NCCI Frequency and Severity Analysis; based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies



Workers Compensation Indemnity Claim Costs Decline in 2010

Average Indemnity Cost per Lost-Time Claim

Indemnity
Claim Cost (000s)



2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

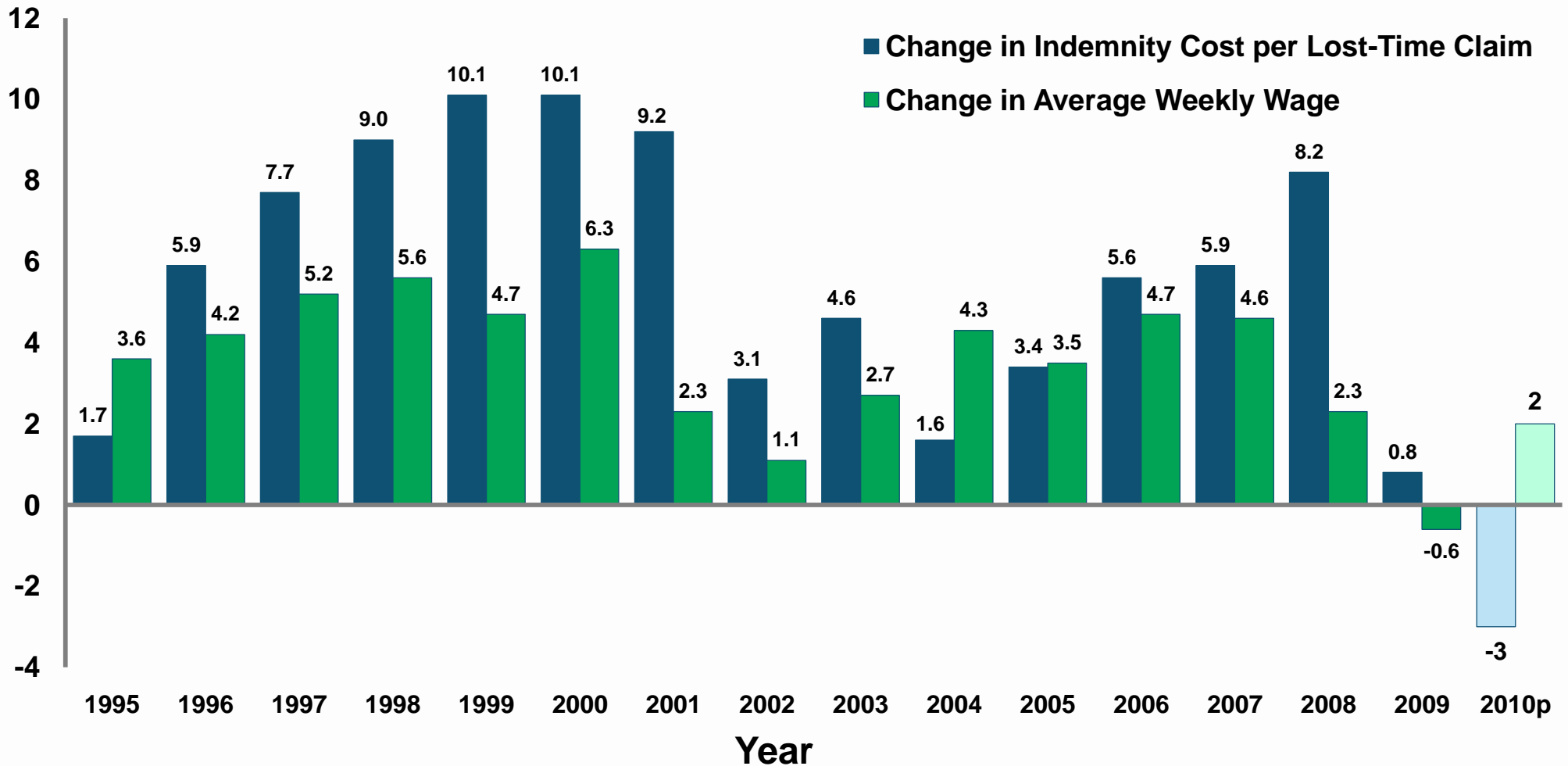
Accident Year

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WC Indemnity Severity Declines in Spite of Wage Recovery

Average Indemnity Cost per Lost-Time Claim

Percent Change



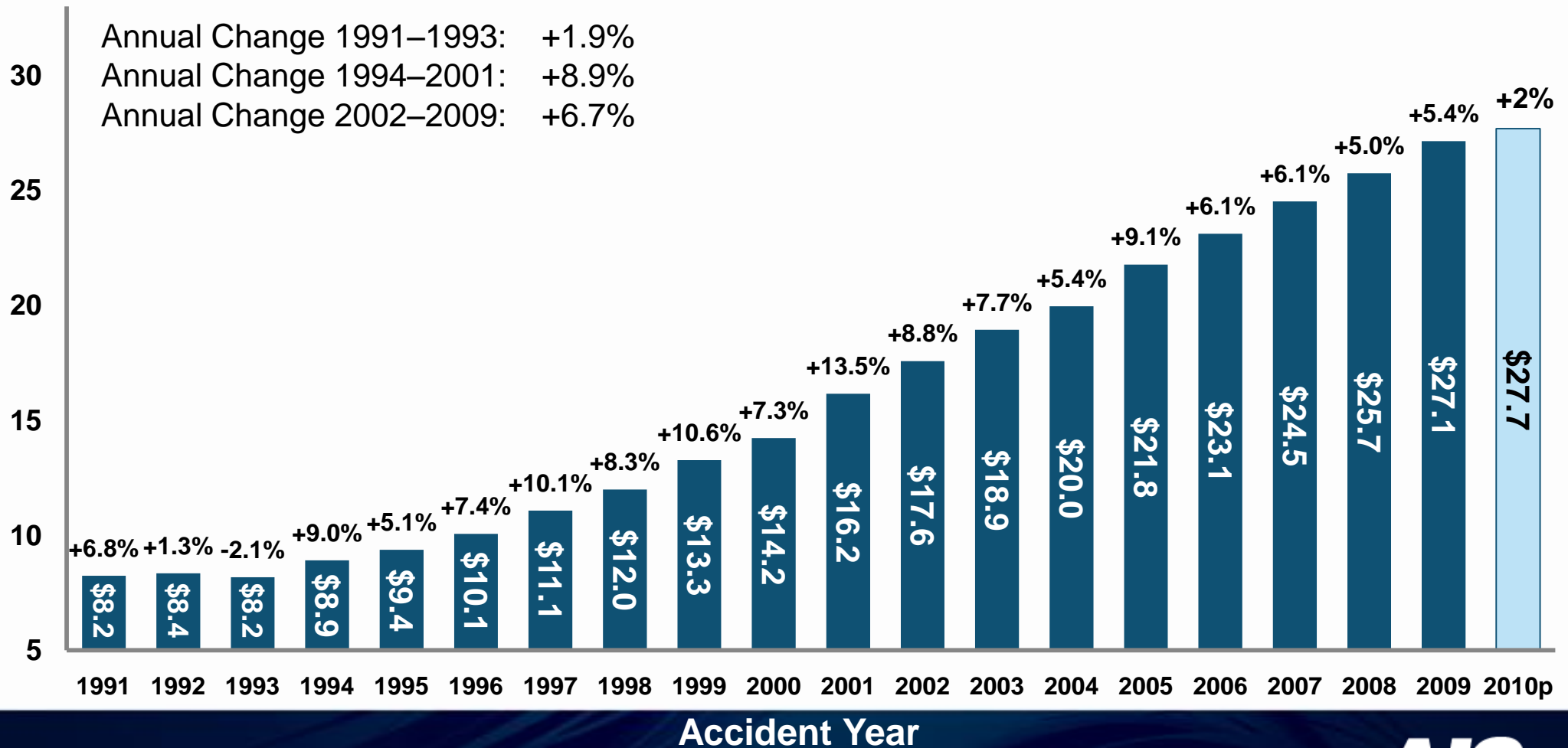
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
 Source: Average Weekly Wage 1995–2009: Quarterly Census of Employment and Wages, Economy.com; 2010p, NCCI
 Accident year indemnity severity—NCCI states, NCCI



WC Medical Claim Costs—Are Small Medical-Only Claims Becoming Lost-Time?

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (000s)



2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

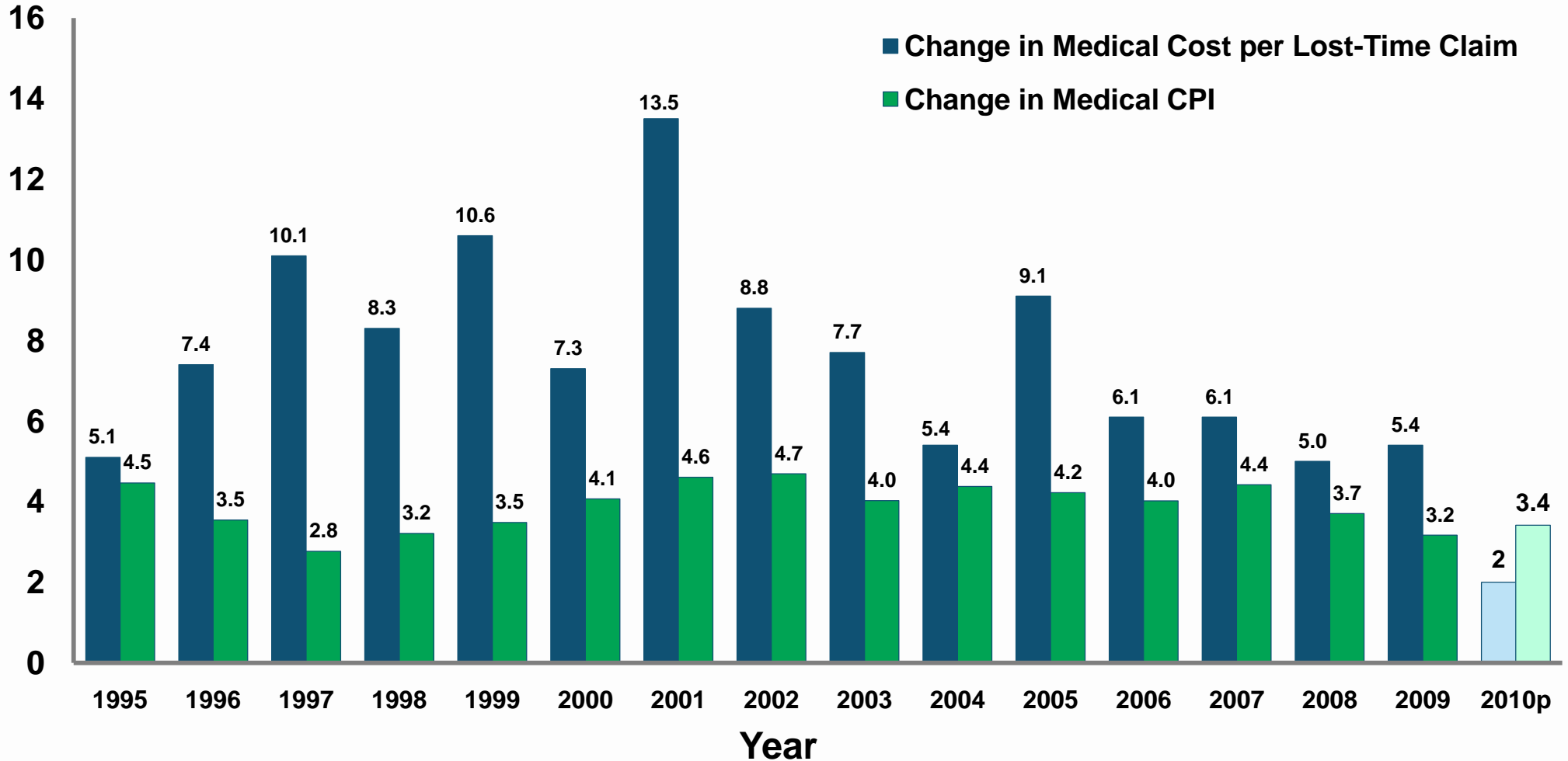
Accident Year

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WC Medical Severity Lags Medical Inflation

Average Medical Cost per Lost-Time Claim

Percent Change



Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
 Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

Summary of Loss Drivers

Frequency

- Economic recovery puts upward pressure on claim frequency
- The depth of the recession distorts some of the statistics used to measure frequency
 - Premium audits shifted from positive to negative
 - Average hours worked per week shifted from historical average
 - Rapid decline in manufacturing and contracting employment
- The estimated impact of these factors reduces the indicated change in frequency from 9% to 3% in 2010

Summary of Loss Drivers

Severity

- Changes in severity are the lowest since the reform days of the 1990s
- 2010 apparently produced an increased number of small lost-time claims that in previous years were likely medical-only claims
- Indicated severity change may not be indicative of underlying cost drivers
- The severity changes for lost-time claims for 2010 were:

-3%	Indemnity
+2%	Medical
<hr/>	
0%	Total

Summary of Loss Drivers

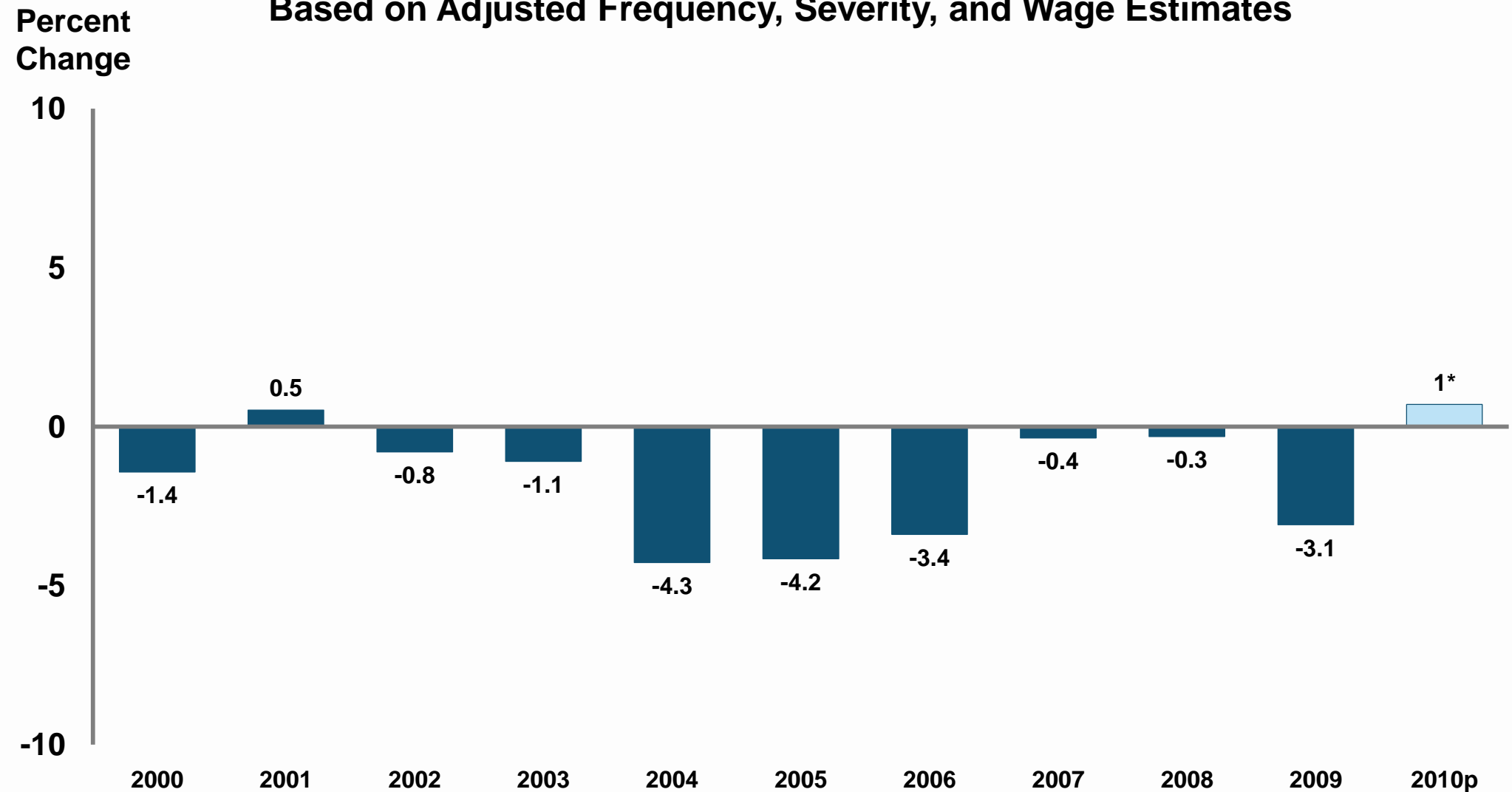
Estimated Impact on Loss Costs

- The net impact of changes in frequency, severity, and wage growth is a small increase in loss cost:

	Frequency	+3% (1.03)
x	Severity	0% (1.00)
<u>÷</u>	<u>Wage growth</u>	<u>2% (1.02)</u>
=	Net loss cost change	1% (1.01)

Impact of Indicated Changes on Loss Costs

Based on Adjusted Frequency, Severity, and Wage Estimates



2010p: Preliminary based on data valued as of 12/31/2010

2000–2009: Based on data through 12/31/2009, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

* Based on adjusted change in frequency (per \$1M pure premium).

Accident Year

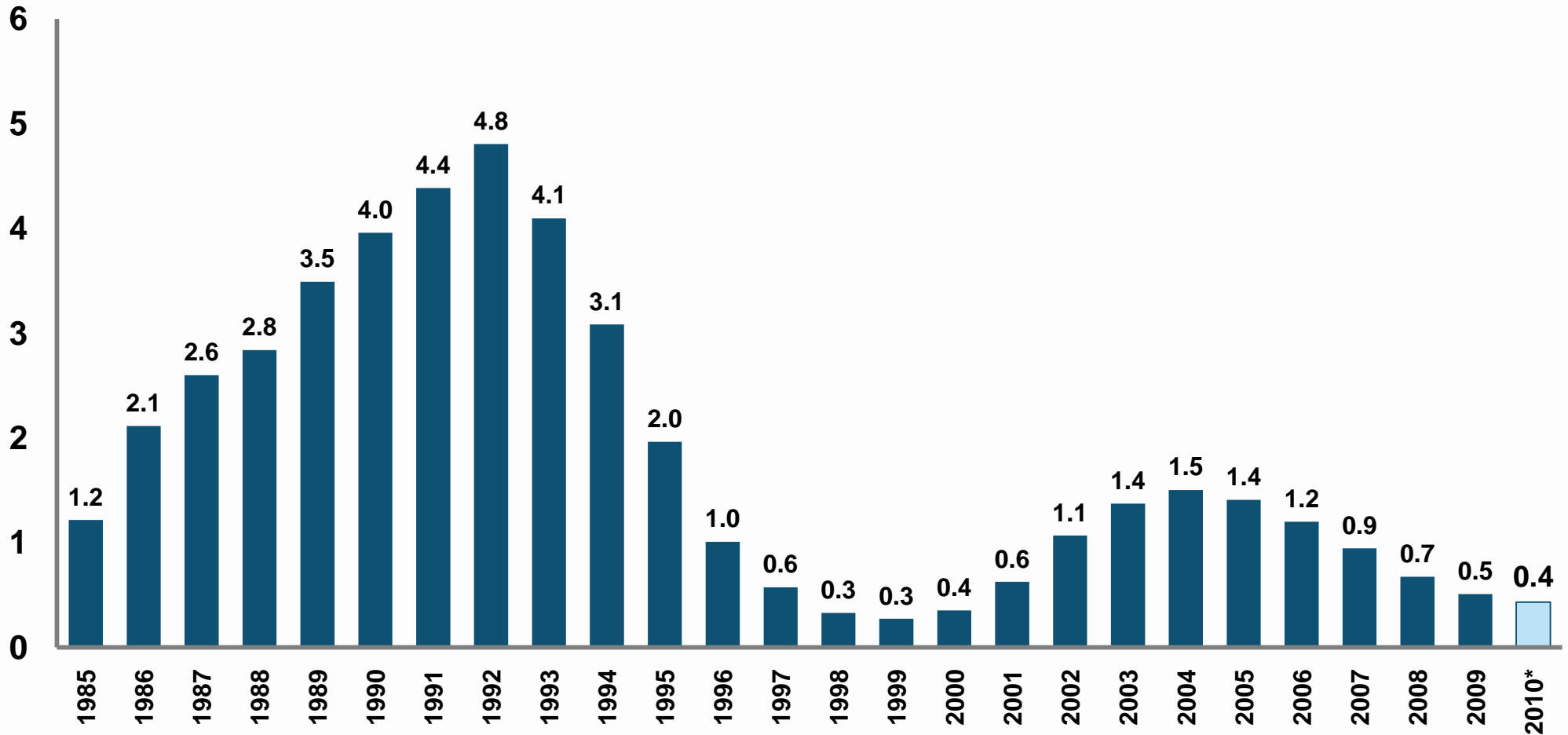
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Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2010

\$ Billions



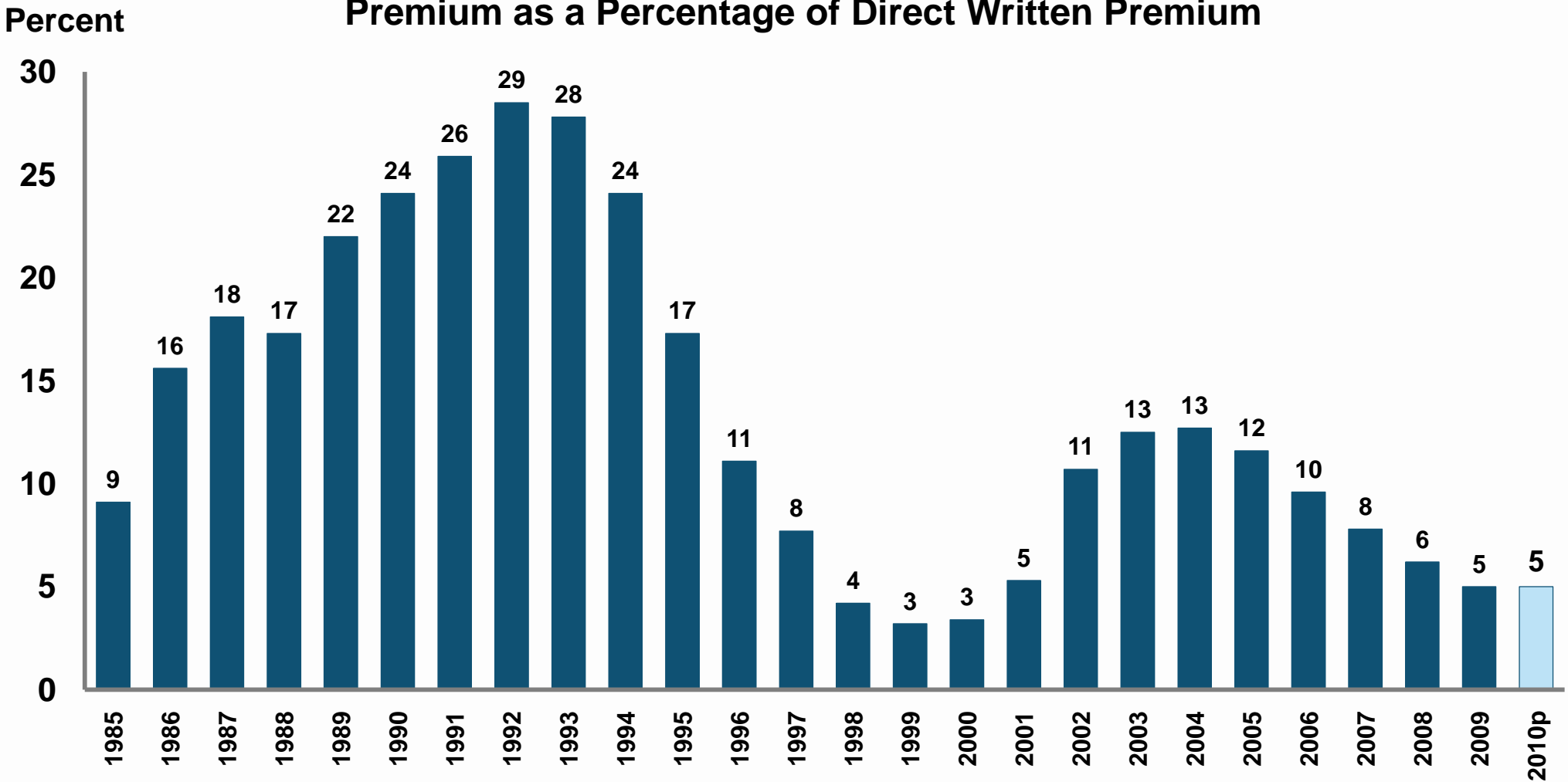
* Incomplete policy year projected to ultimate

Policy Year

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Workers Compensation Residual Market Share Holds Steady

Workers Compensation Insurance Plan States*
Premium as a Percentage of Direct Written Premium



p Preliminary

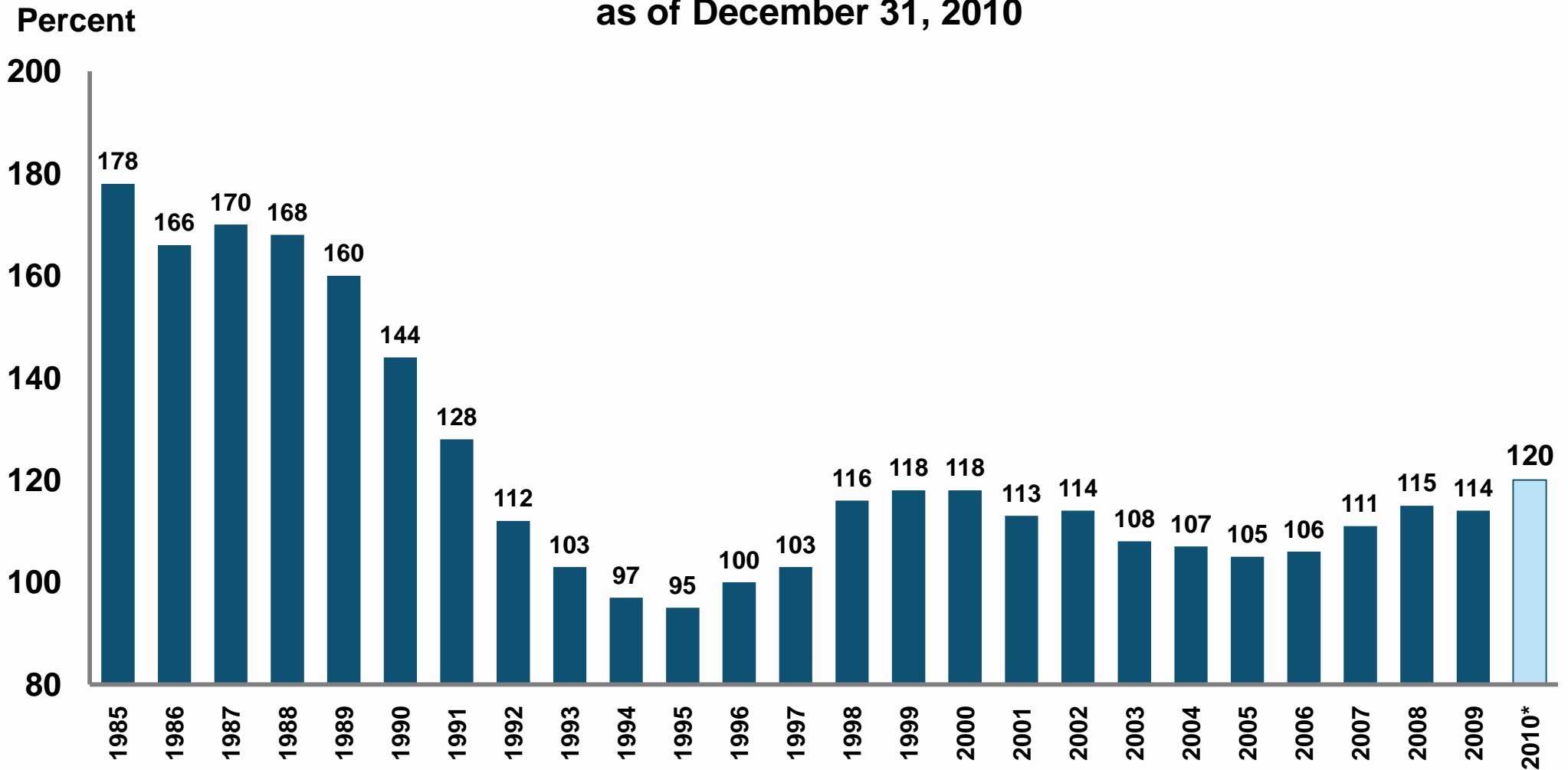
* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

Calendar Year



Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2010



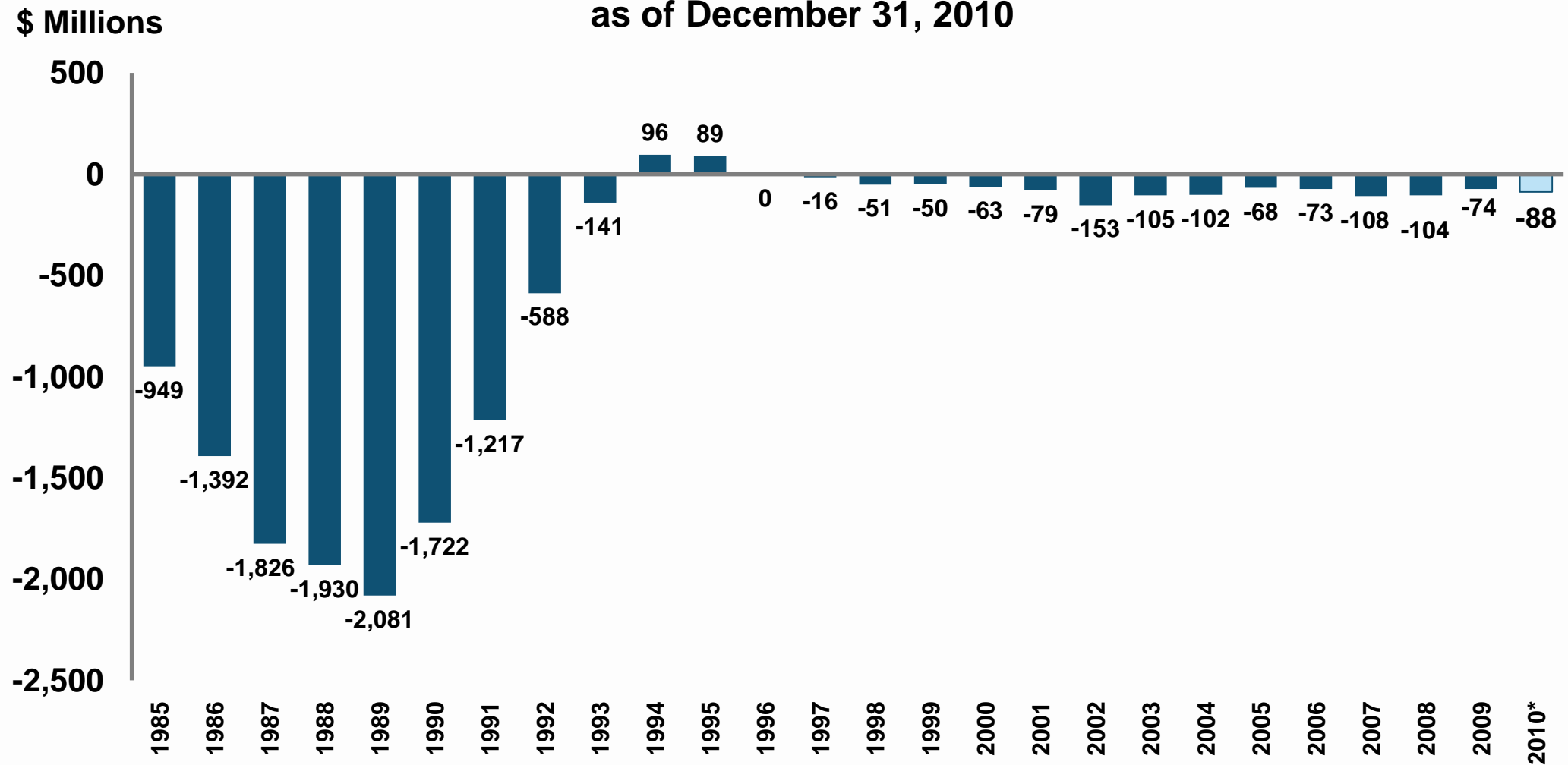
* Incomplete policy year projected to ultimate

Policy Year

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Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2010



* Incomplete policy year projected to ultimate

Policy Year



Residual Markets Continue to Depopulate

2009 vs. 2010

Size of Risk	2009	2010	Change
\$ 0 – \$ 2,499	90.1 M	83.0 M	-8%
\$ 2,500 – \$ 4,999	46.2 M	40.3 M	-13%
\$ 5,000 – \$ 9,999	54.8 M	47.0 M	-14%
\$ 10,000 – \$ 49,999	127.0 M	103.8 M	-18%
\$ 50,000 – \$ 99,999	41.4 M	36.0 M	-13%
\$ 100,000 and over	36.4 M	33.5 M	-8%
Total	396.0 M	343.7 M	-13%

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

Residual Market Depopulation Coming to an End?

First Quarter 2010 vs. First Quarter 2011

Size of Risk	2010	2011	Change
\$ 0 – \$ 2,499	20.4 M	19.8 M	-3%
\$ 2,500 – \$ 4,999	10.1 M	9.7 M	-4%
\$ 5,000 – \$ 9,999	12.0 M	11.9 M	-1%
\$ 10,000 – \$ 49,999	30.2 M	29.6 M	-2%
\$ 50,000 – \$ 99,999	11.0 M	10.0 M	-9%
\$ 100,000 and over	7.8 M	10.8 M	38%
Total	91.5 M	91.8 M	0%

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

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Current Topics of Interest

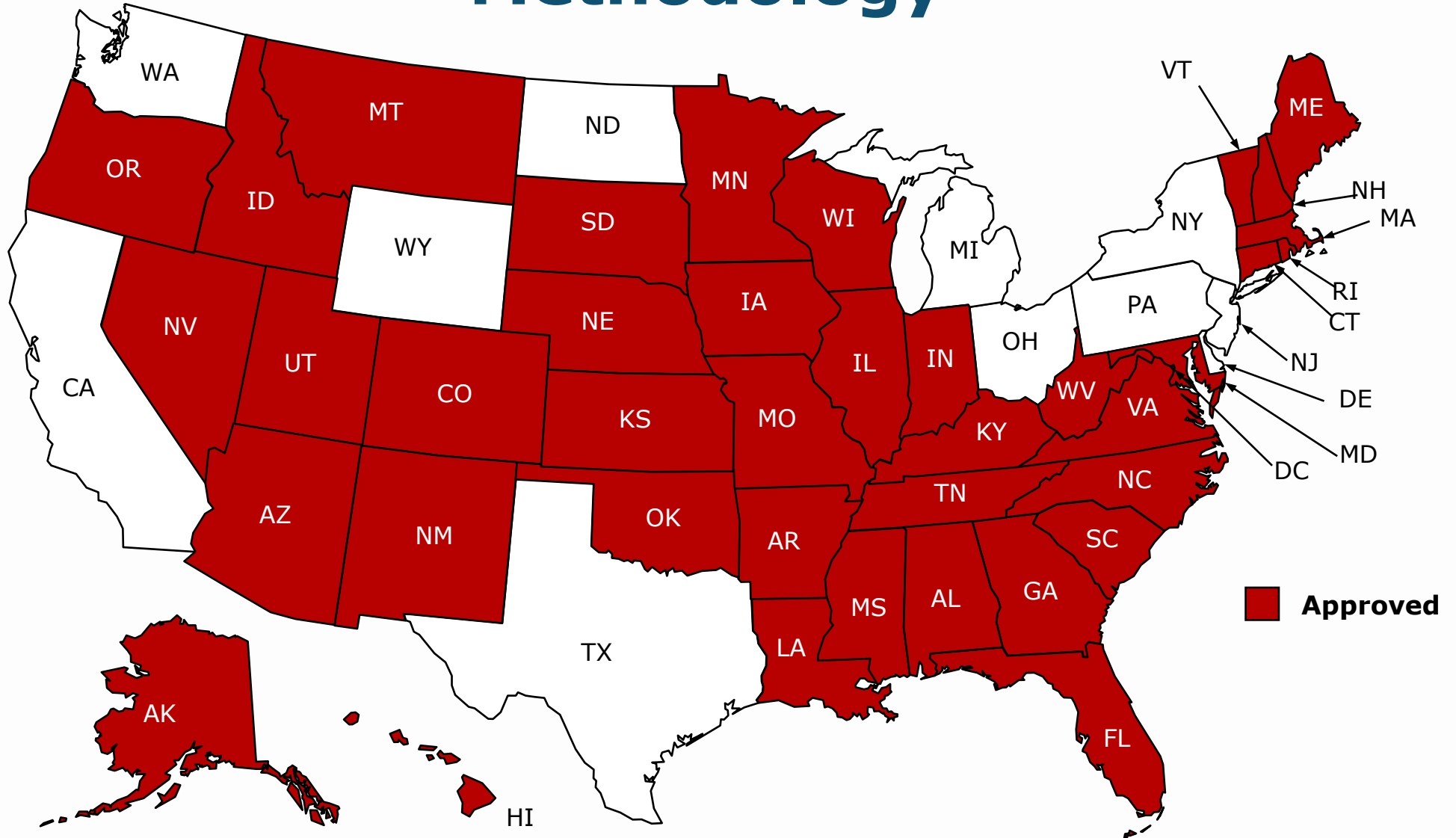
Experience Rating Plan Methodology Review

- The experience rating plan showed excellent results overall in performance testing for prior years
- An extensive review has been recently completed
- Number of years in the plan will remain the same
- We are increasing the split point from \$5,000 to \$15,000 (trended) over a three-year transition
- The split point will be indexed for claim inflation
- A filing for these changes will likely be made in 3rd quarter of this year (2011)

NCCI Developments in Class Ratemaking Methodology

- NCCI conducted a comprehensive review of all class ratemaking methodologies
- Implemented with filings effective October 1, 2009
- The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability
- The new methodology has been implemented in all NCCI states other than Texas

Adoption of New Class Ratemaking Methodology



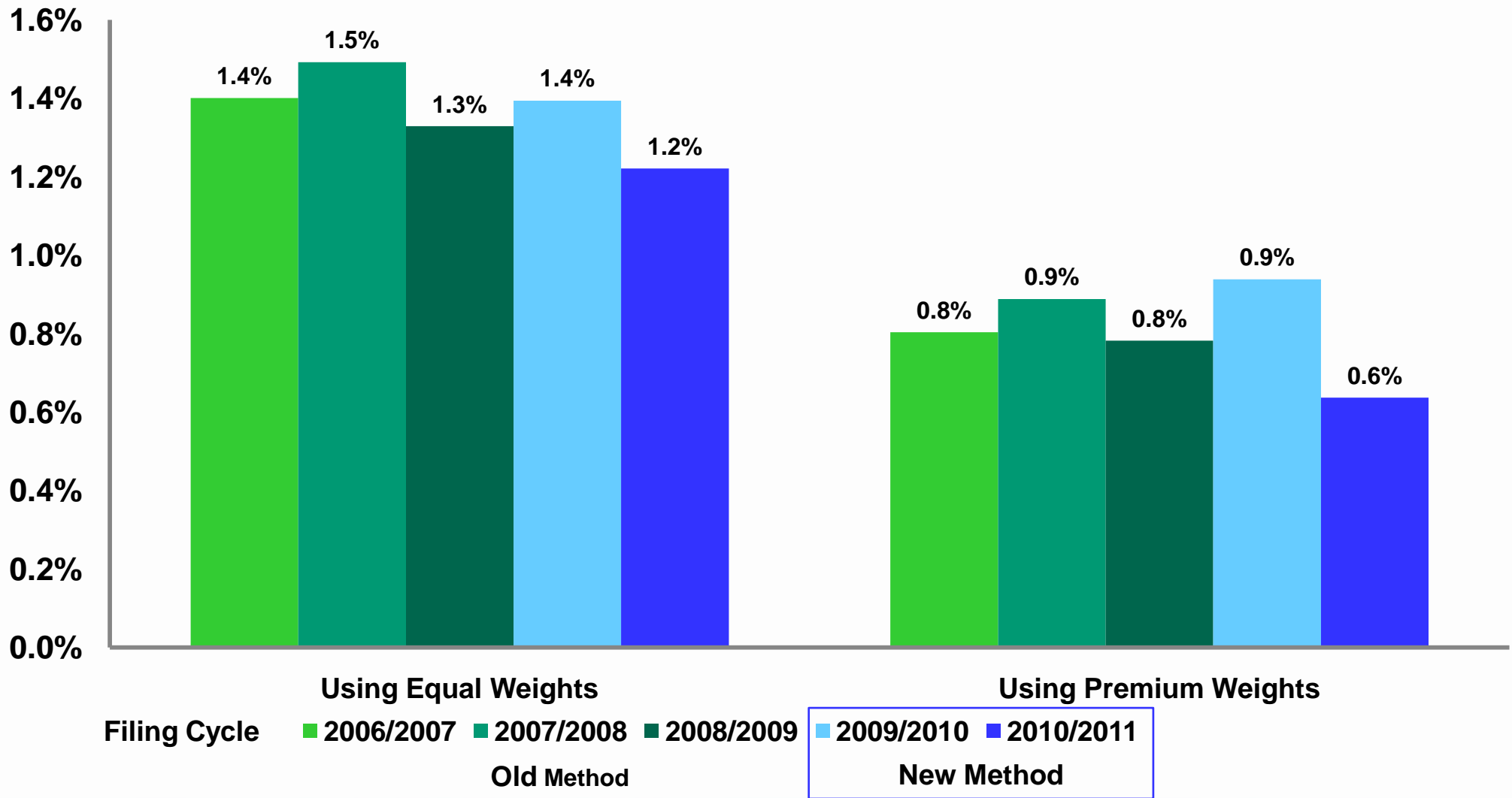
Swing Limits

	Filing Cycle	% of Classes Limited by Swing	% of Limited Classes Limited by Opposite Swing in Prior Cycle
New Method	2006/2007	11.4%	4.4%
	2007/2008	11.8%	5.1%
	2008/2009	10.6%	3.8%
	2009/2010	9.5%	5.3%
	2010/2011	8.2%	1.2%

Includes:

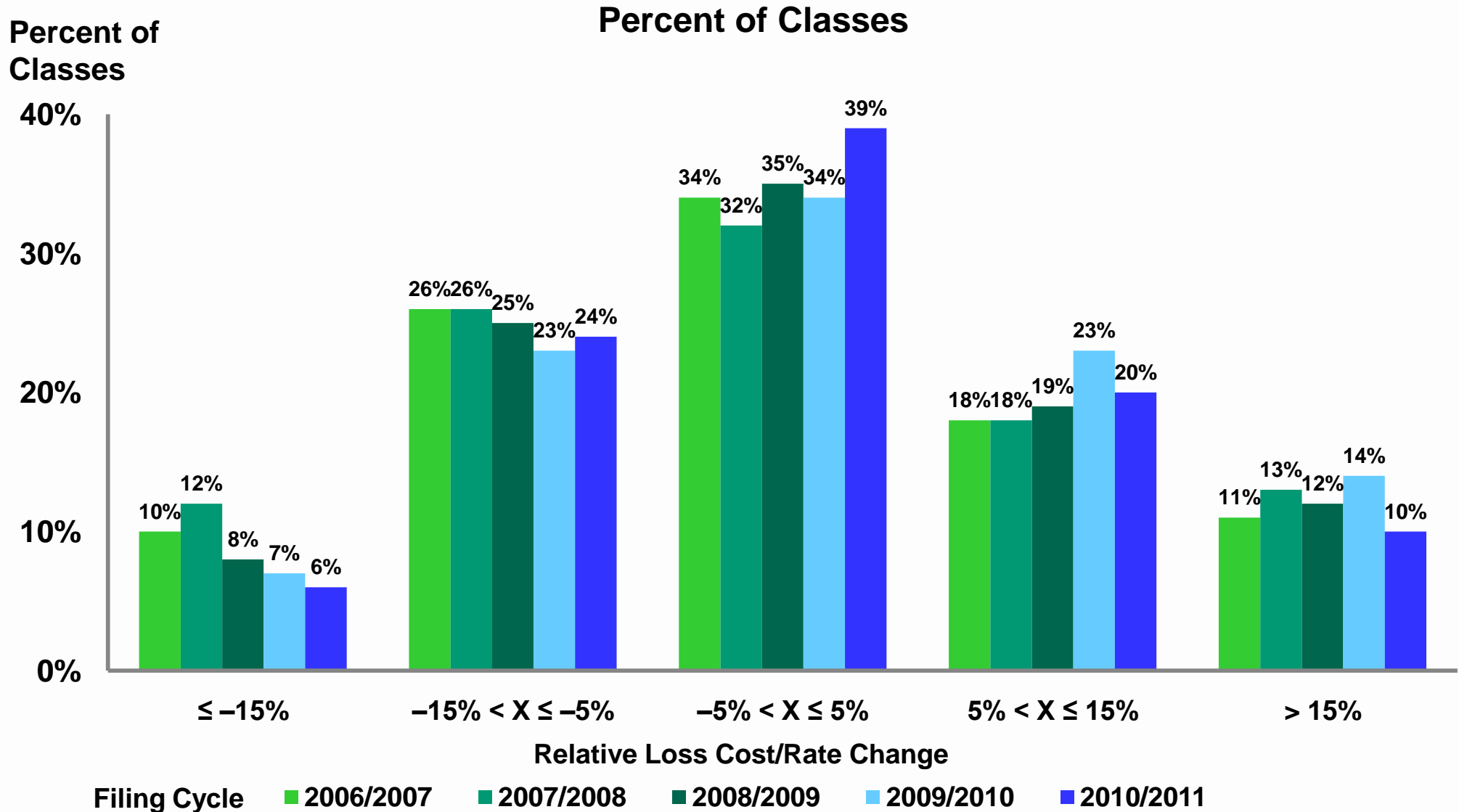
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

Variance of Loss Cost/Rate Change Around Statewide Average



Includes:
 AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD,
 ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

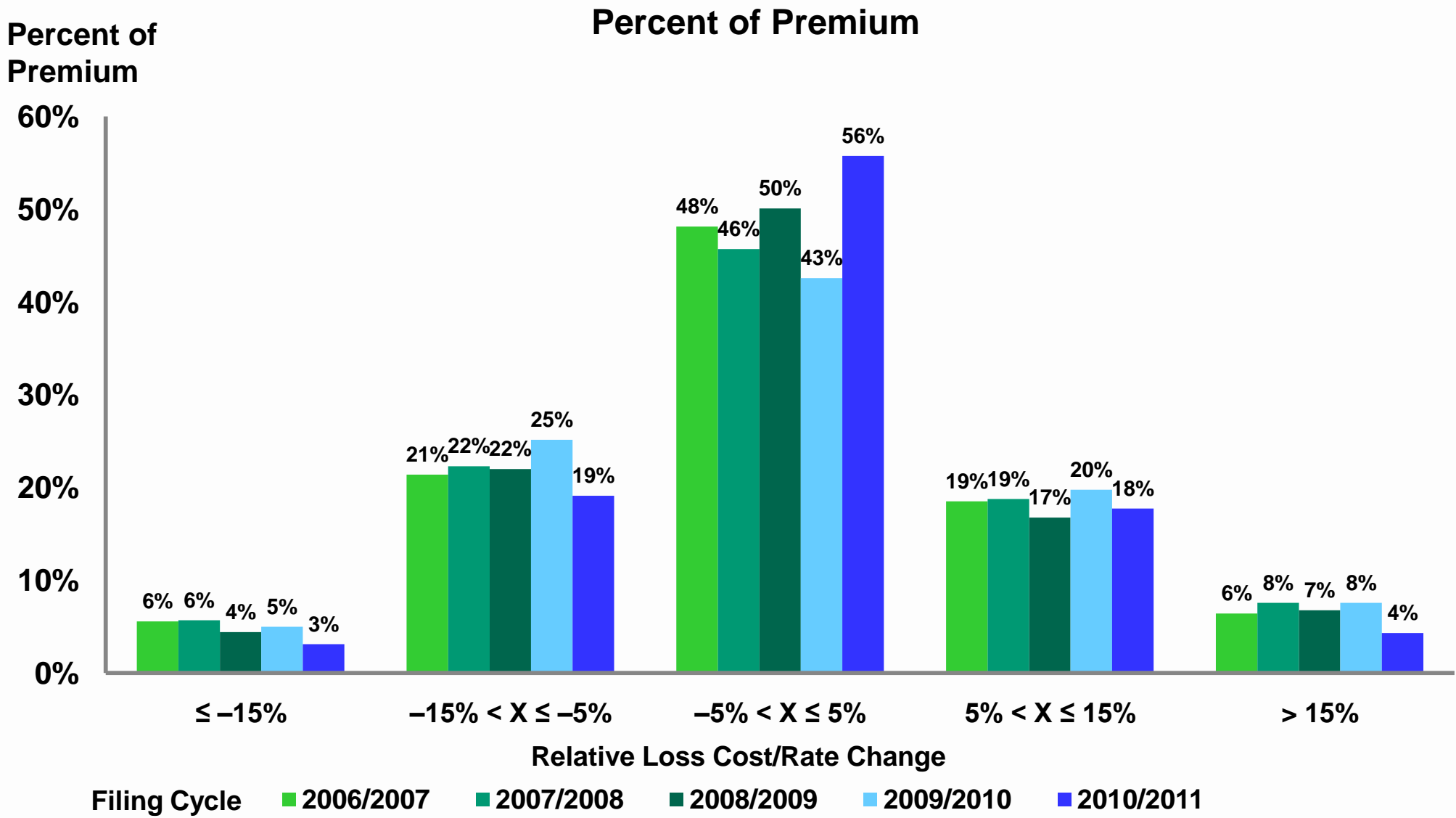
Distribution of Filed Loss Cost/Rate Changes Relative to Overall Change



Includes:

AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

Distribution of Filed Loss Cost/Rate Changes Relative to Overall Change



Includes:
 AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD,
 ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.



Concluding Remarks

In Summary

Negatives

- Frequency increases
- Underwriting results deteriorated
- Underwriting cycle
- Uncertain impact from Health Care reform
- Unknown scope of future Federal actions

Positives

- Severity flat
- Overall loss cost impact of frequency and severity minimal
- Industry's capital position
- Premium decline slowed materially

Questions and More Information

Questions on the State of the Line presentation?
E-mail us at stateoftheline@ncci.com.

Download the complete presentation materials and watch a video overview of the State of the Line at ncci.com.