



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

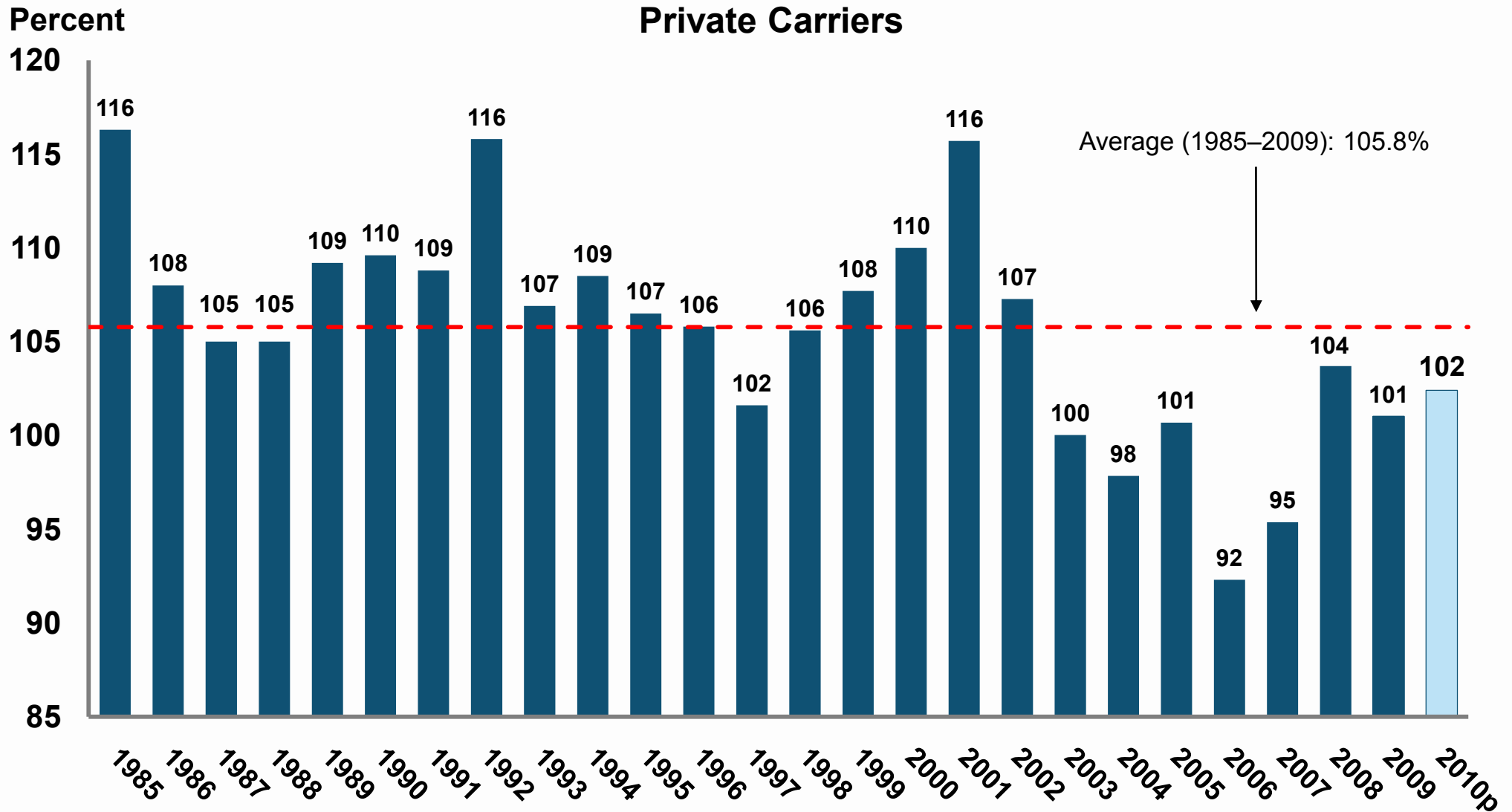
Line of Business (LOB)	Calendar Year		
	2008	2009	2010p
Personal Auto	100%	101%	101%
Homeowners	117%	105%	107%
Other Liability (Incl Prod Liab)	95%	105%	110%
Workers Compensation	101%	110%	115%
Commercial Multiple Peril	104%	97%	101%
Commercial Auto	97%	100%	98%
Fire & Allied Lines (Incl EQ)	99%	80%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



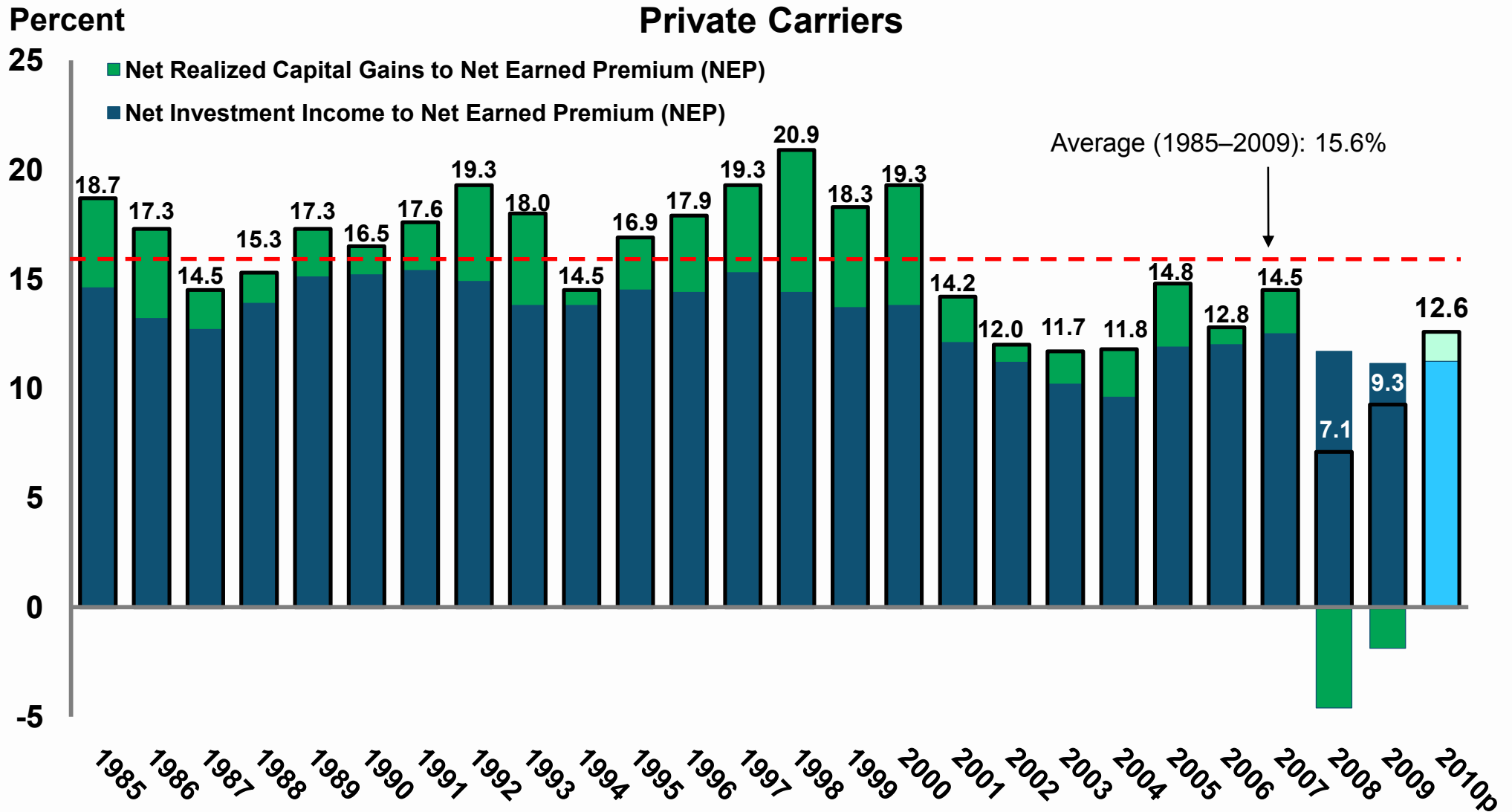
p Preliminary

Calendar Year

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



Investment Gain Ratio Rebounds



p Preliminary

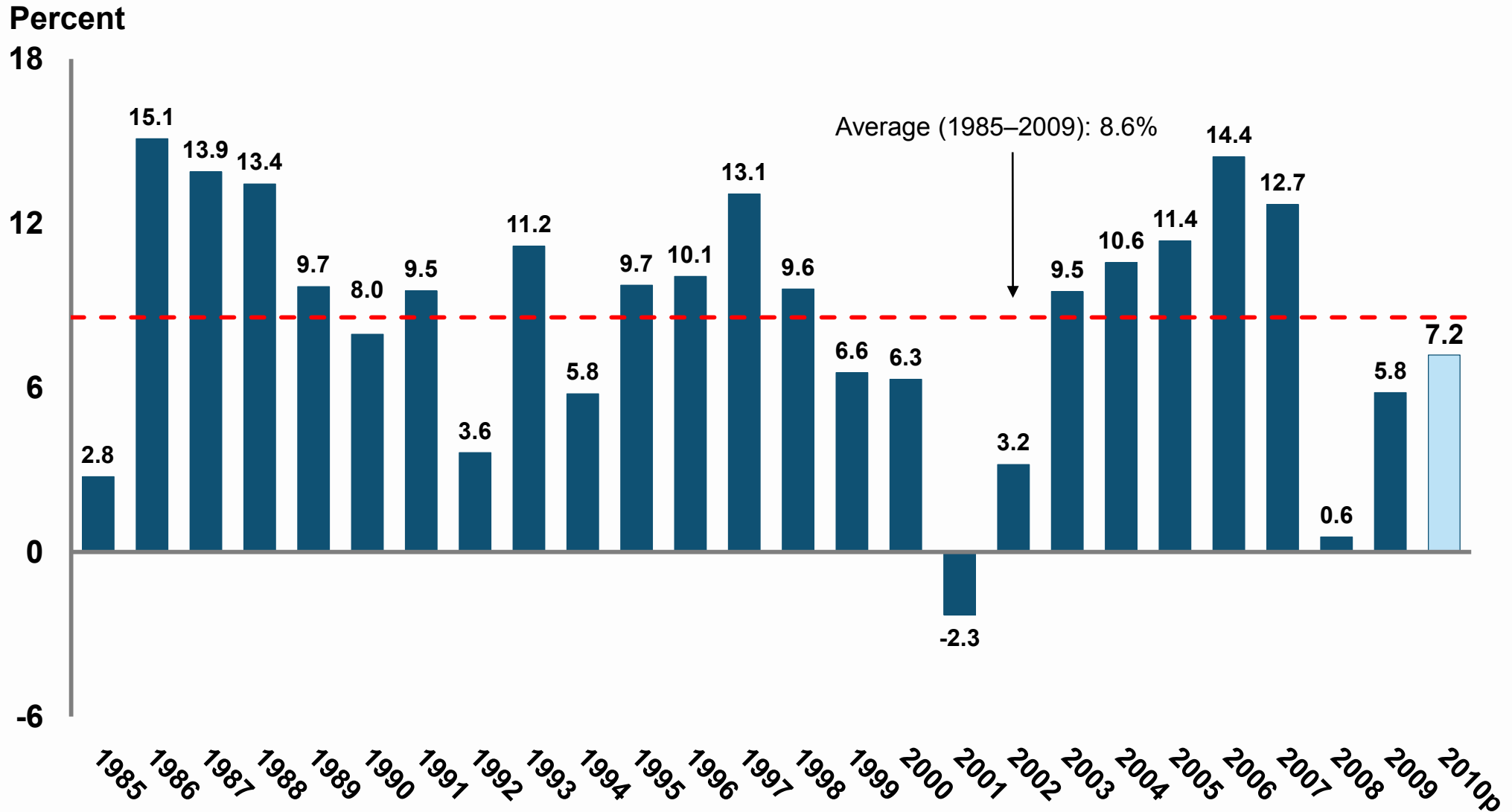
Calendar Year

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

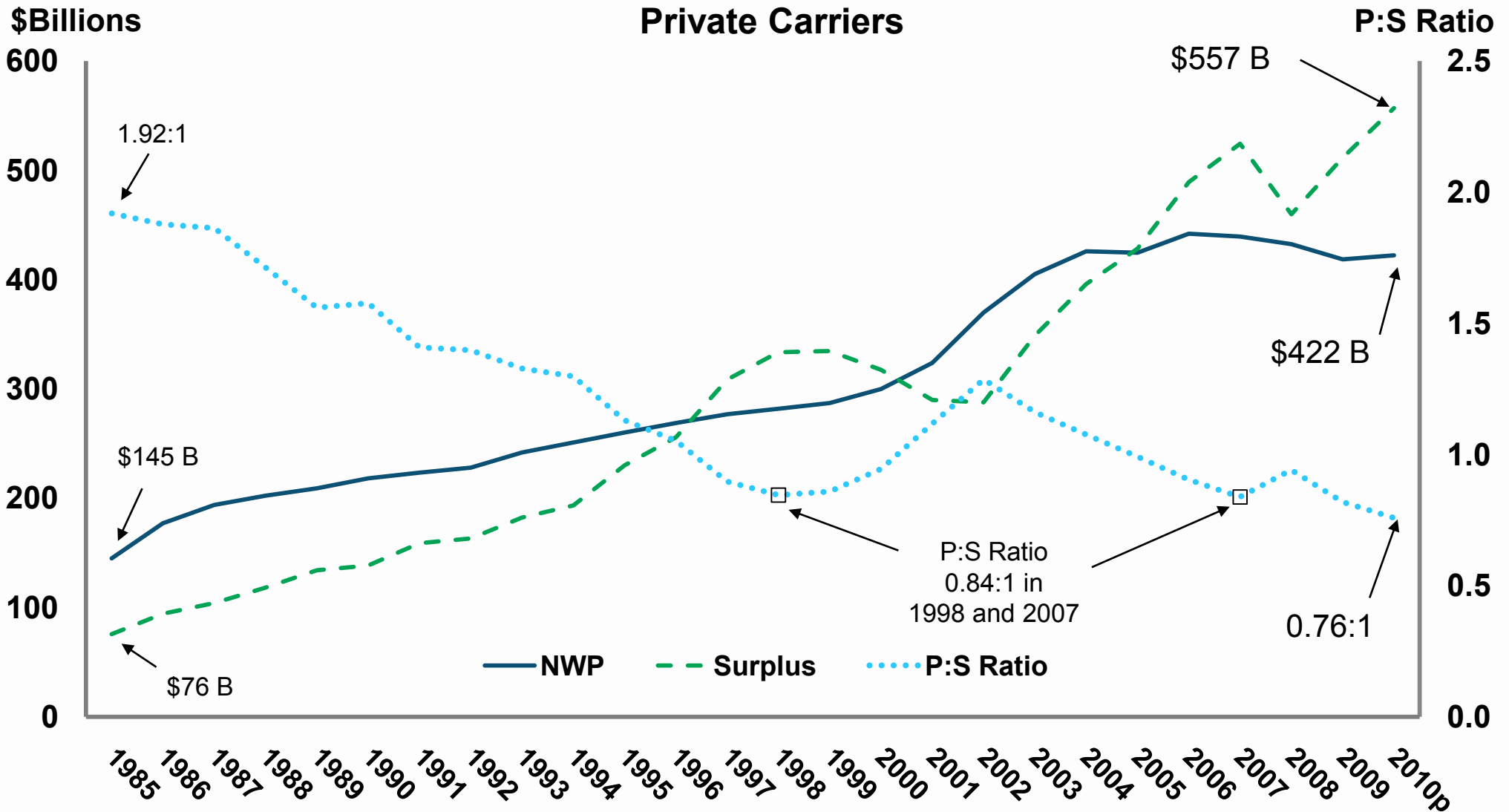
Source: 1985–2009, Annual Statement Data; 2010p After-Tax Net Income, ISO;

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

Calendar Year

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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

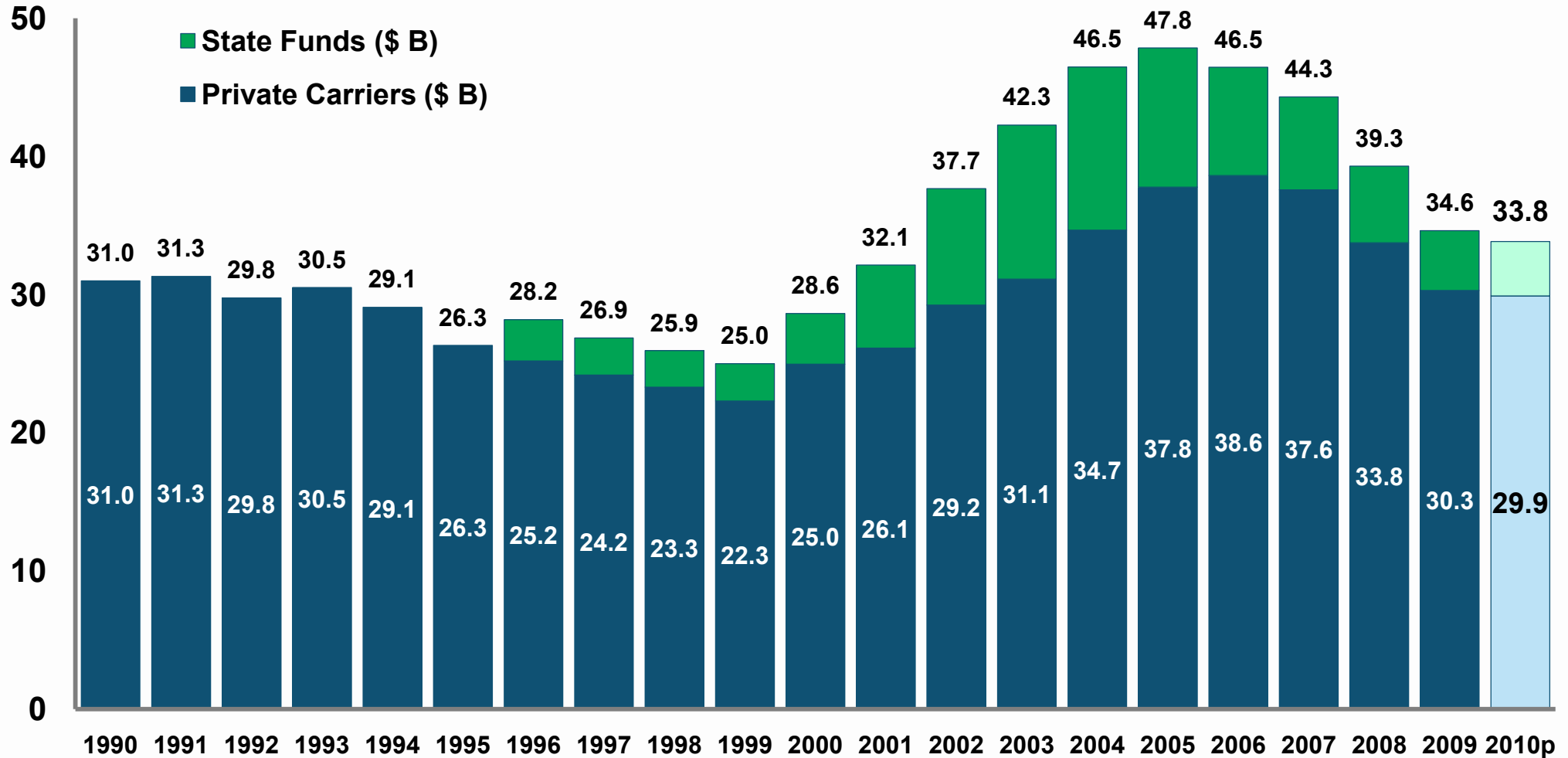
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Workers Compensation Results

Workers Compensation Premium Decline Moderates

Net Written Premium

\$ Billions



p Preliminary

Calendar Year

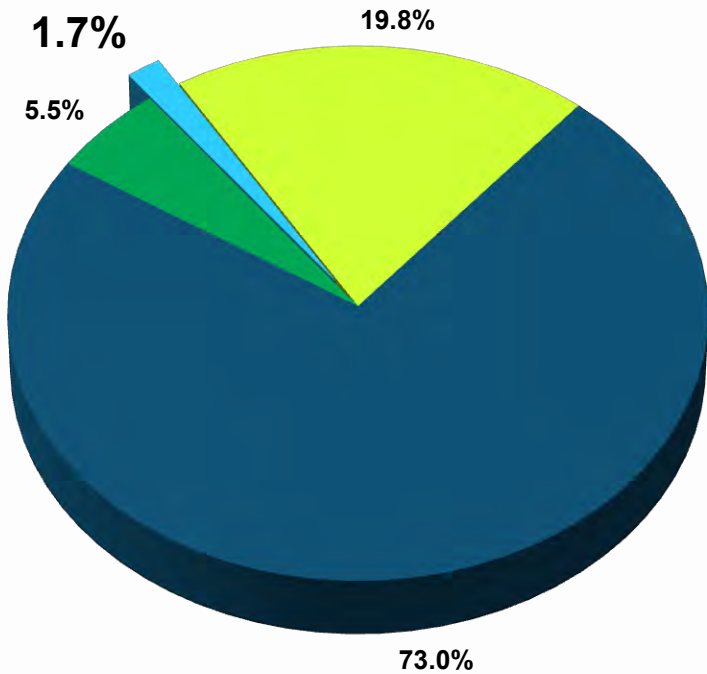
Source: 1990–2009 Private Carriers, Annual Statement Data; 2010p, NCCI
 1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent



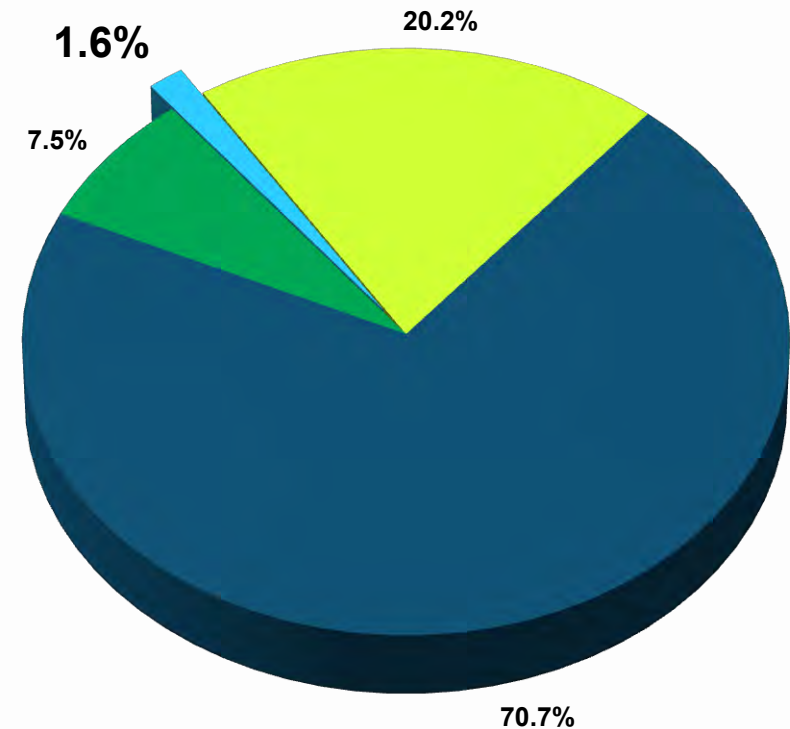
Employer Costs as Percentage of Total Compensation

Private Industry

2000



2010



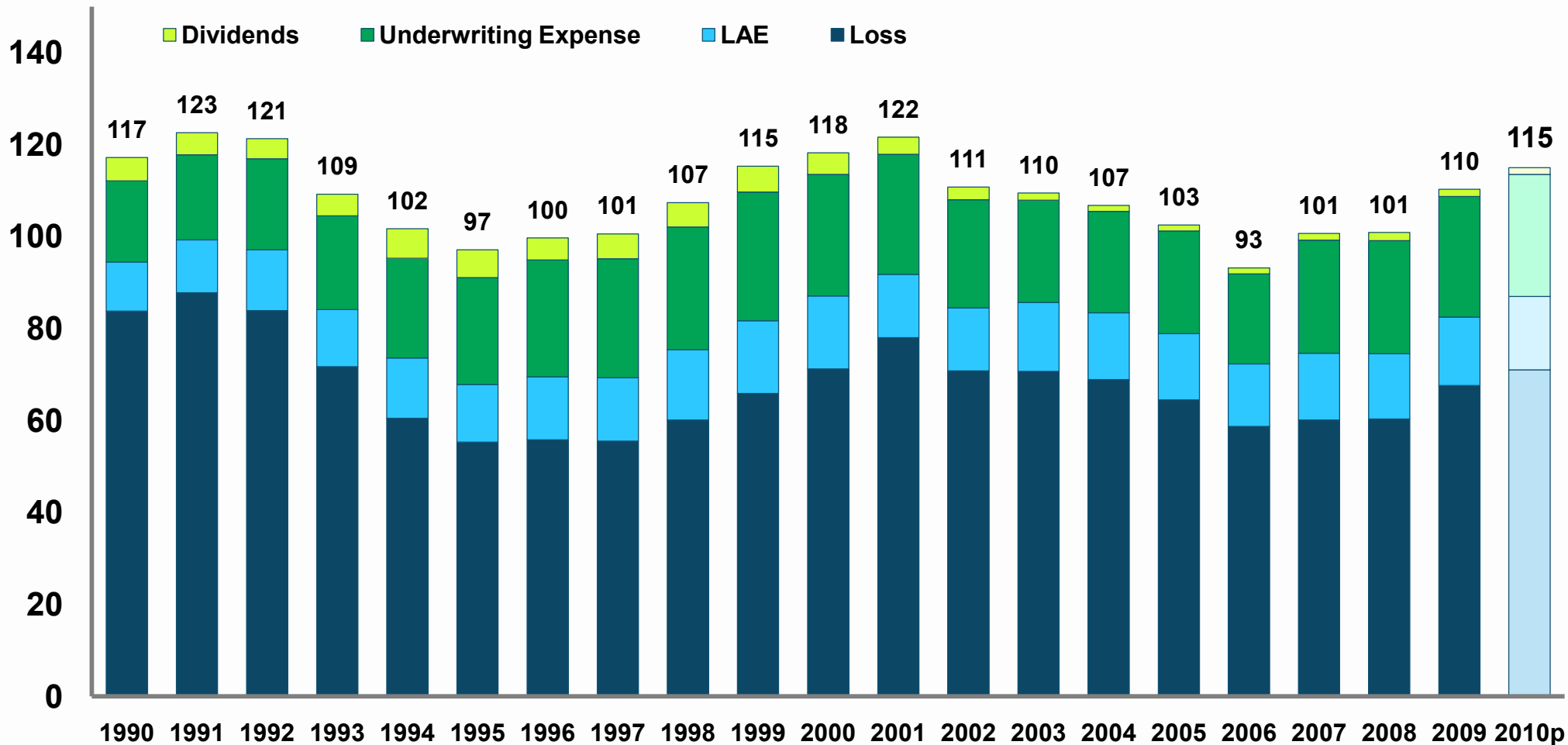
- Wages and Salaries
- Health Insurance
- Workers Compensation
- All Other

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

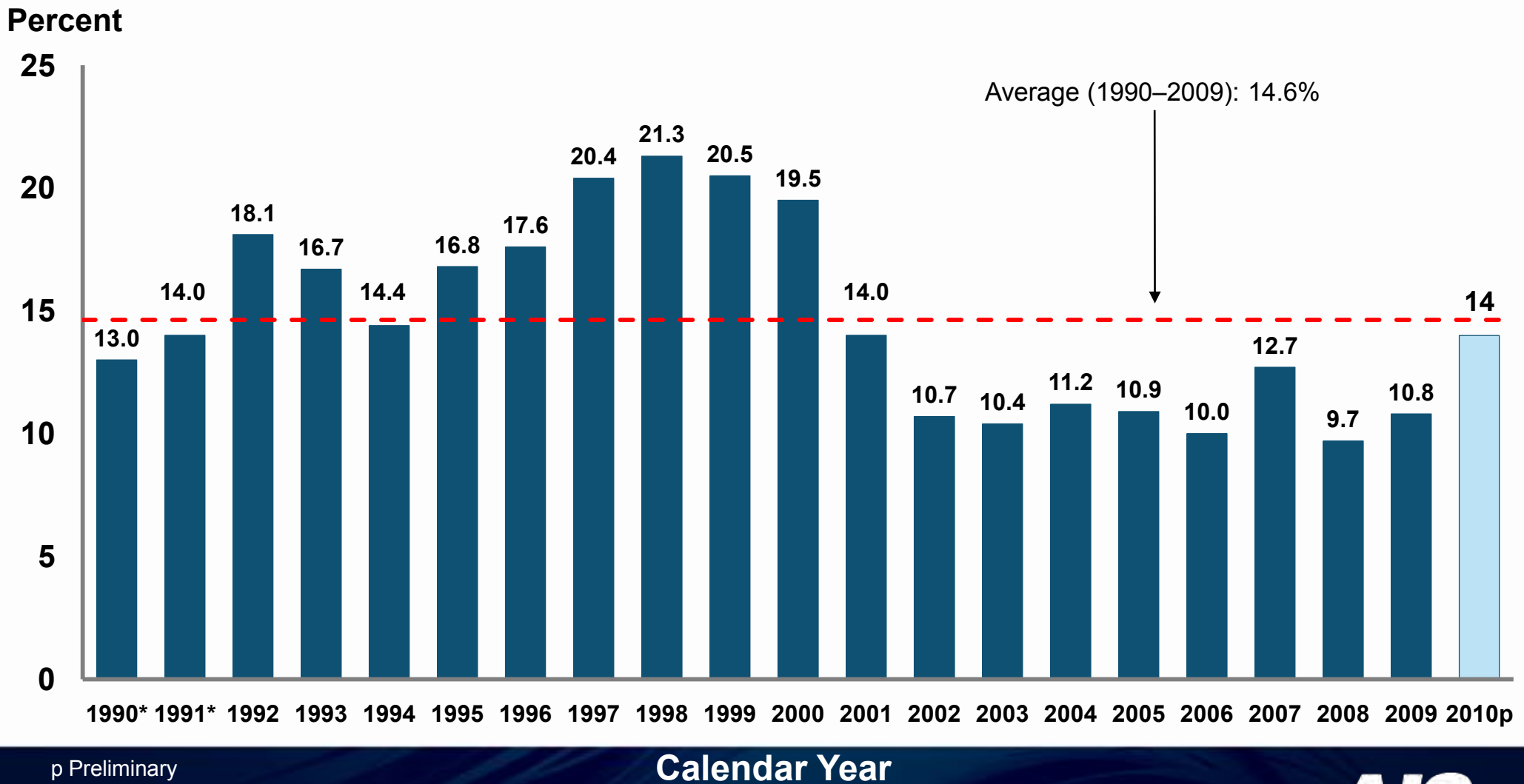
Calendar Year

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

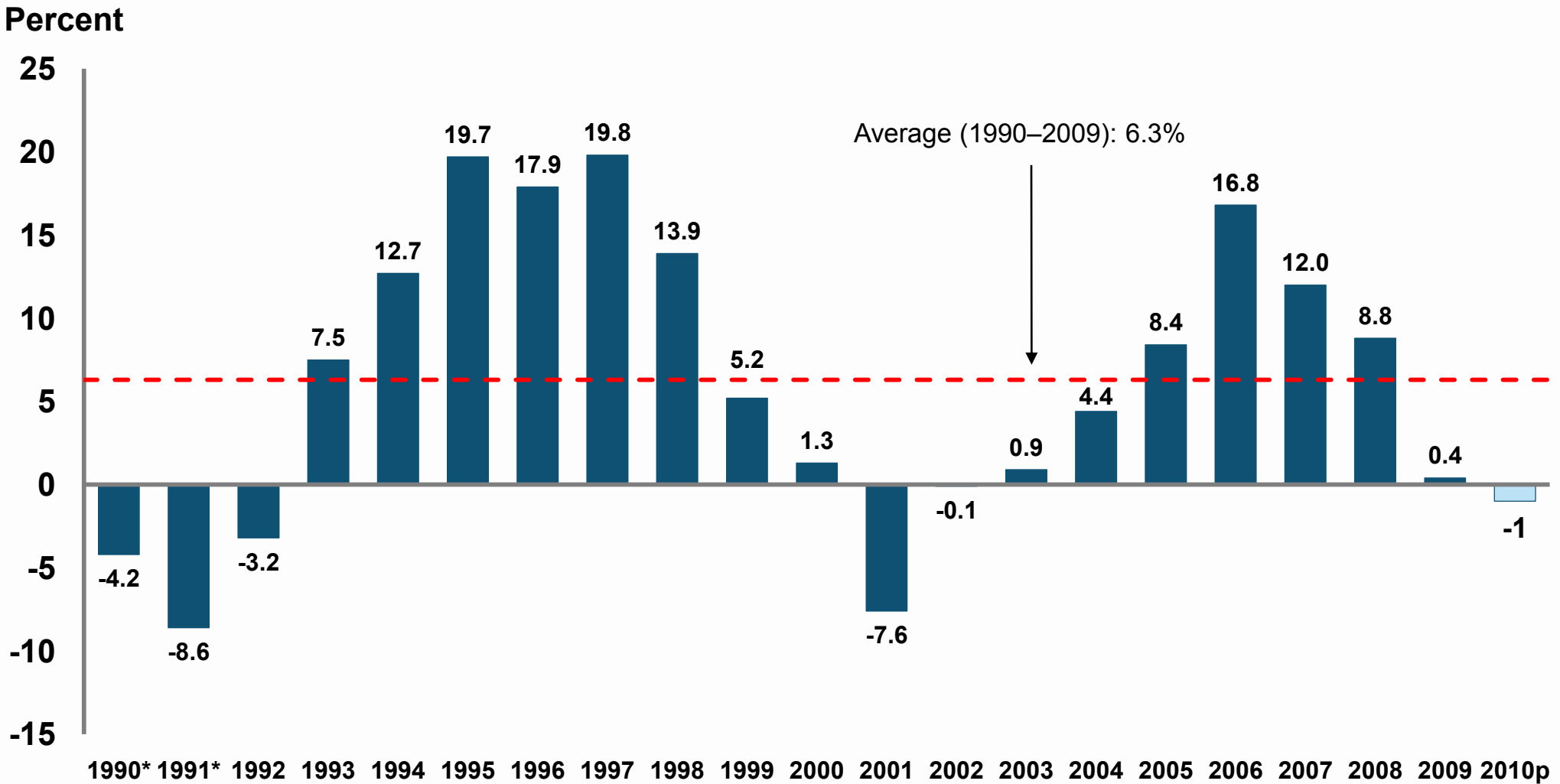
* Adjusted to include realized capital gains to be consistent with 1992 and after

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Workers Compensation Results

Modest Operating Loss

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

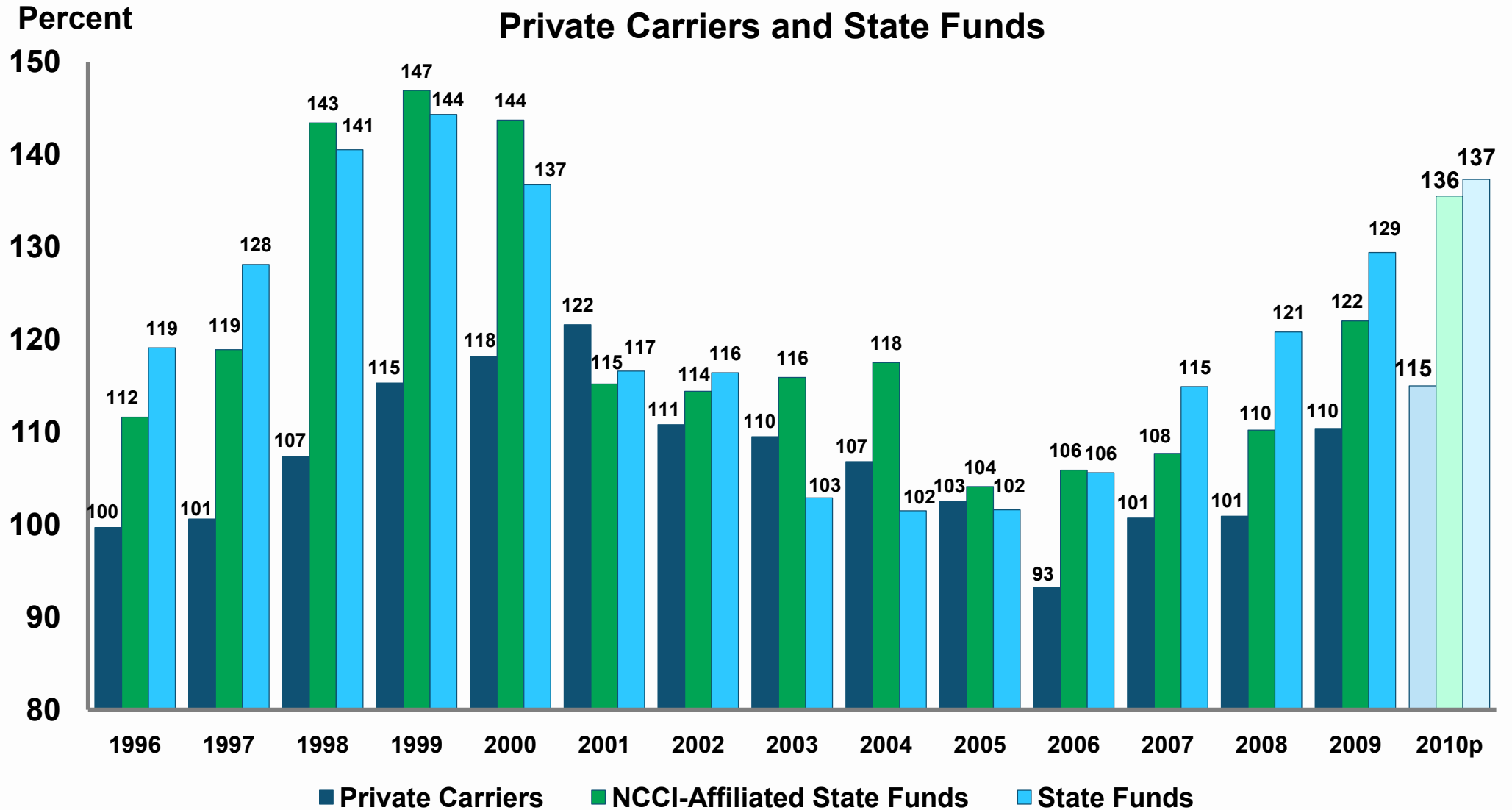
Source: 1990–2009, Annual Statement Data; 2010p, NCCI

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



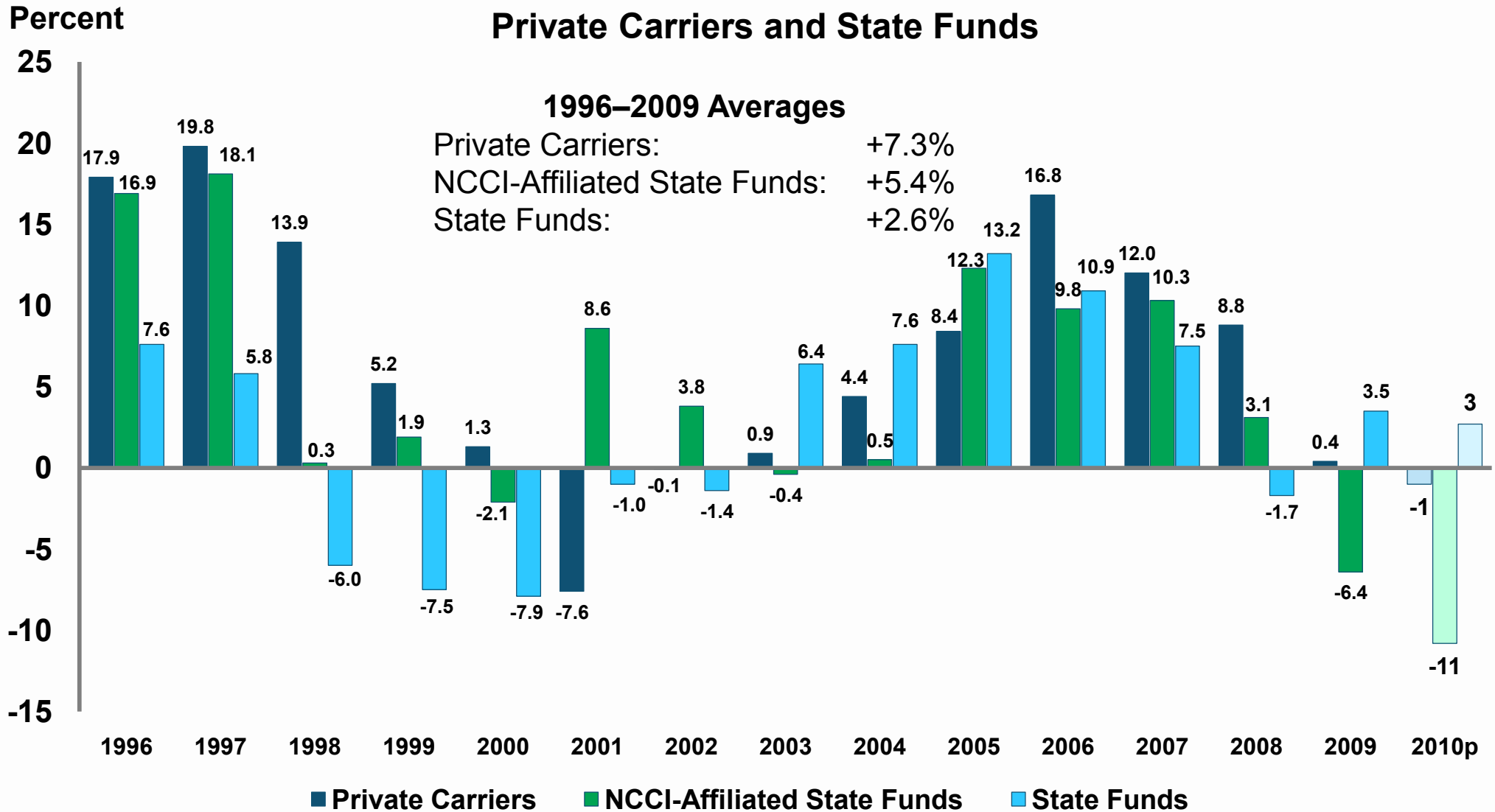
p Preliminary

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



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)

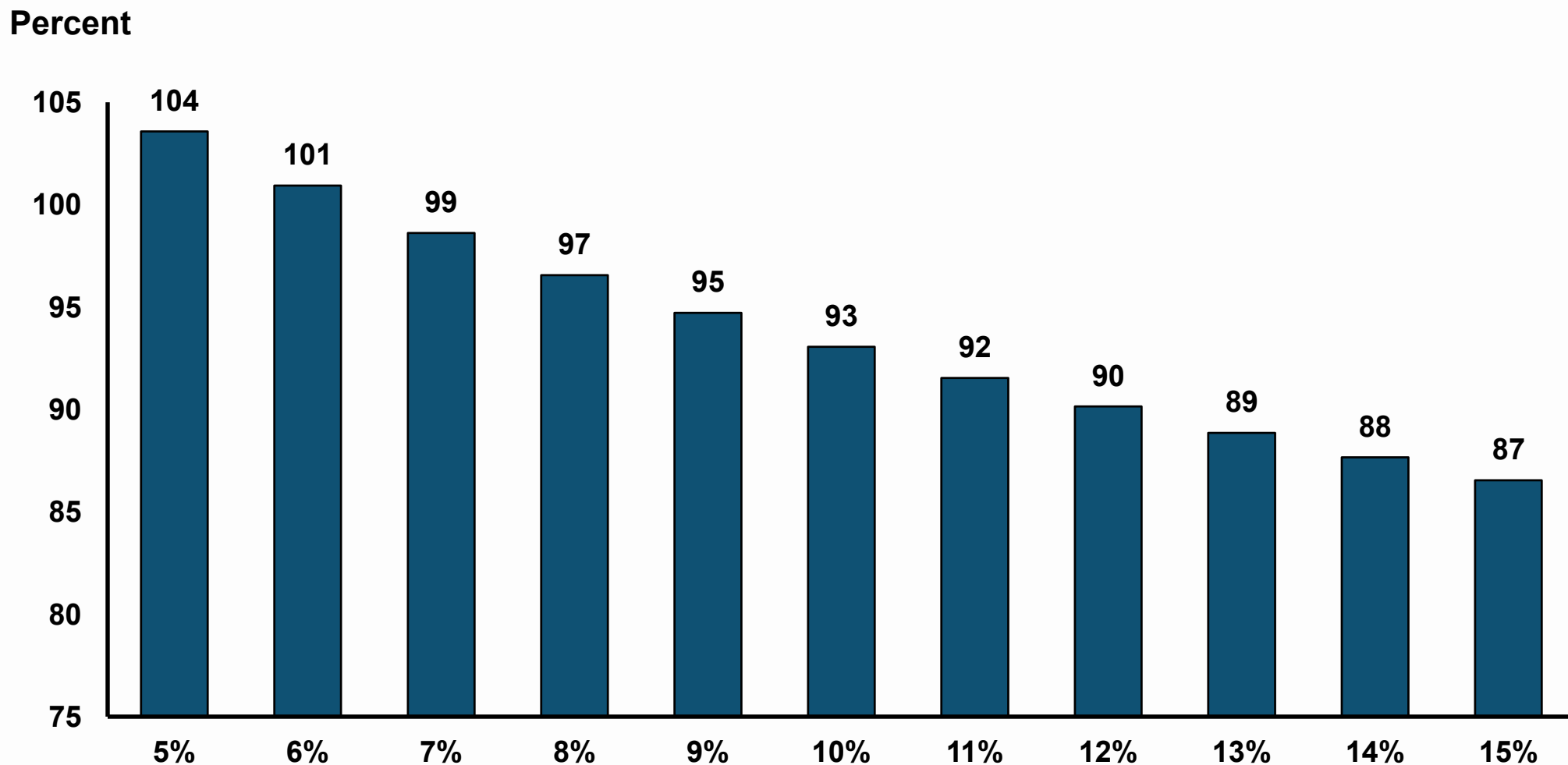
Source: 1996–2009 Private Carriers, Annual Statement Data; 2010p, NCCI

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



Cost of Capital

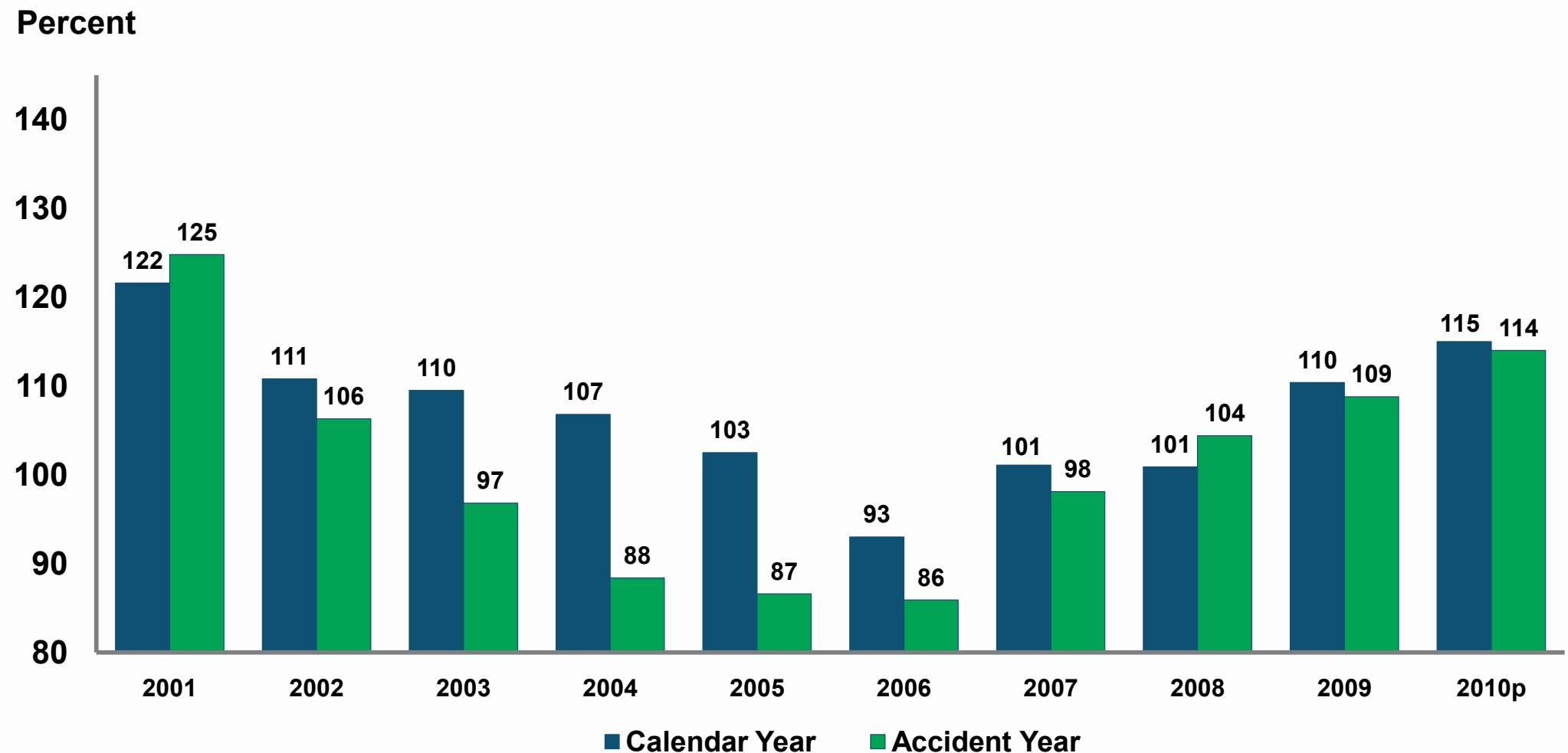
Assumptions: 3.8% Pre-Tax Investment Yield
2.8% After-Tax Investment Yield
WC Reserve to Surplus Ratio = 2.07
Based on NCCI's 2011 Internal Rate of Return Model

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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

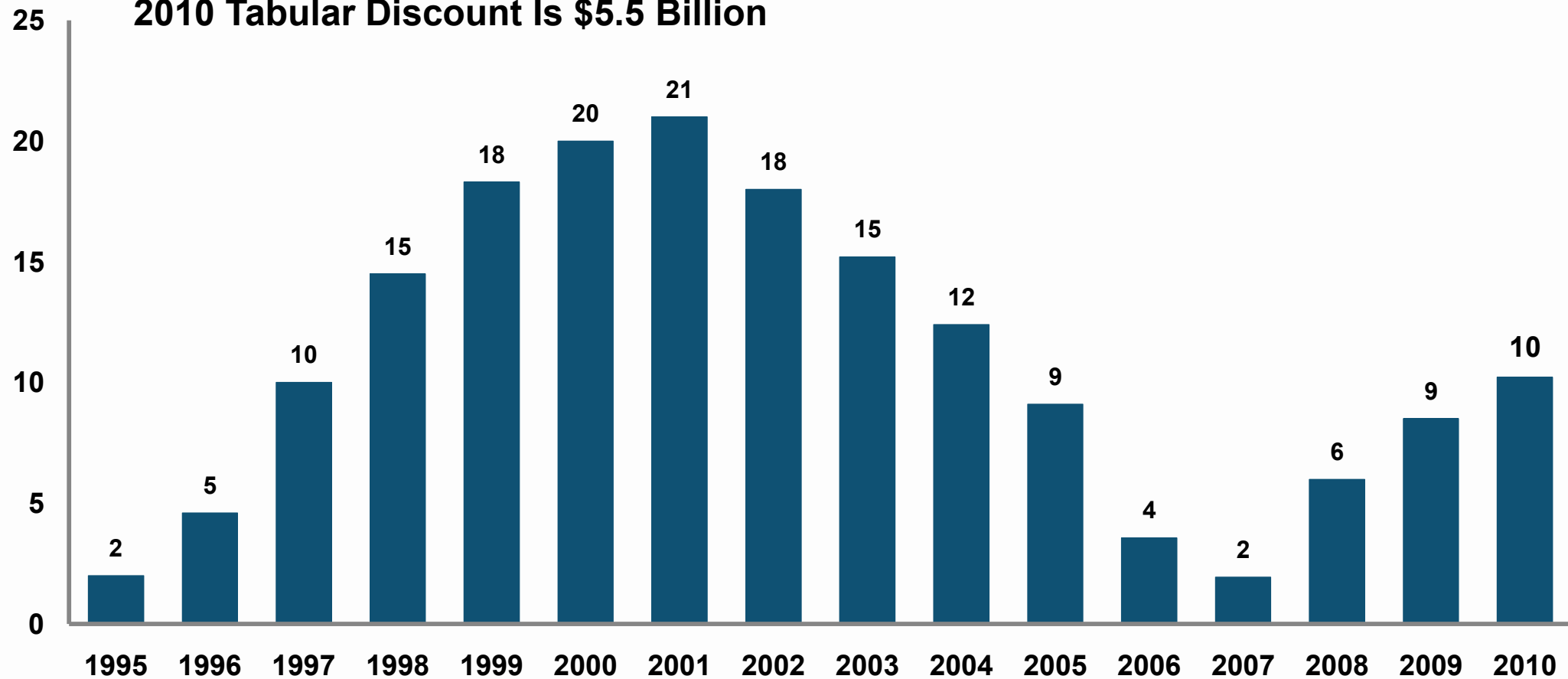
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Calendar Year Reserve Deficiencies

Workers Compensation Loss and LAE Private Carriers

\$ Billions

2010 Tabular Discount Is \$5.5 Billion



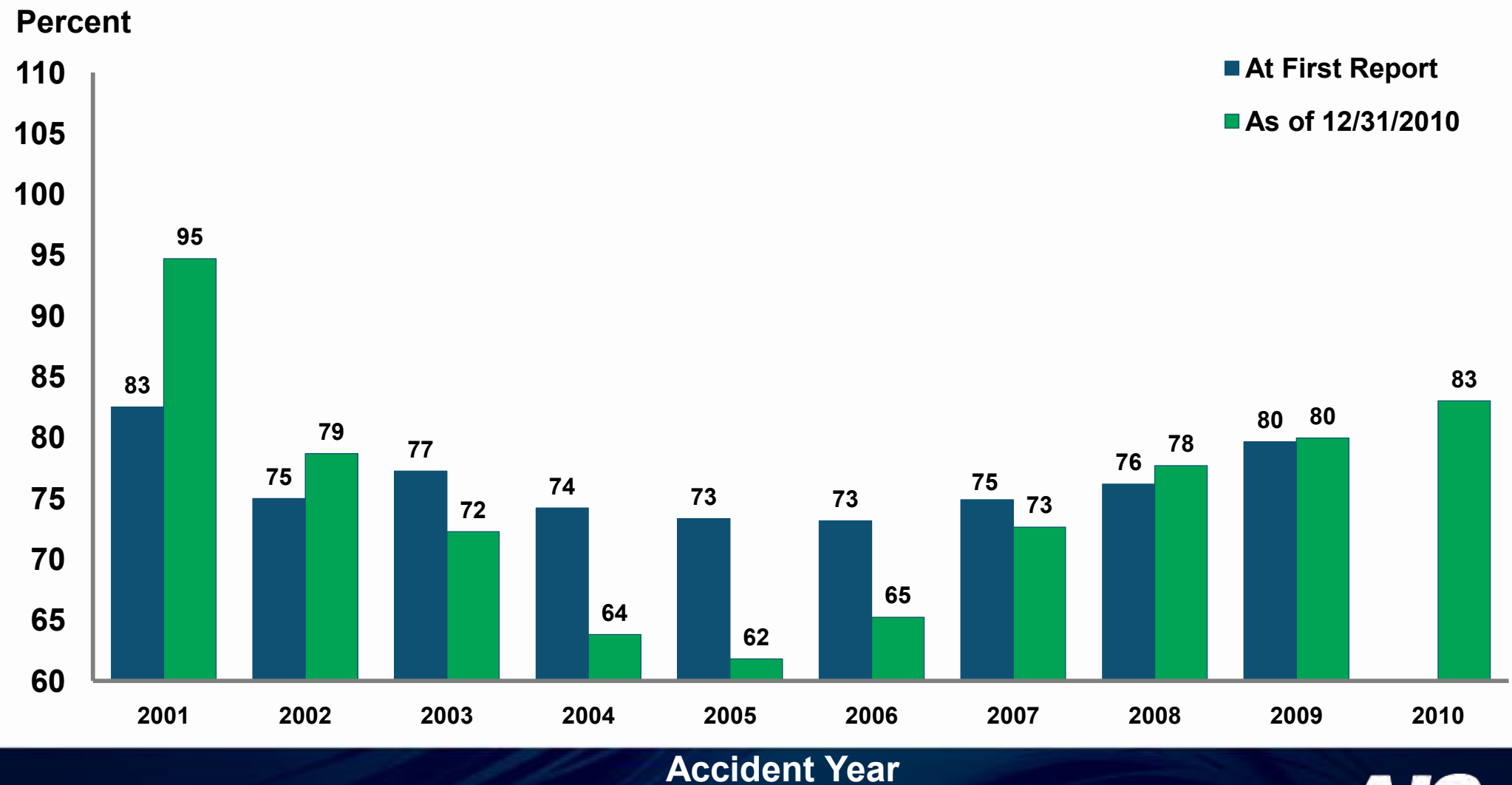
Calendar Year

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

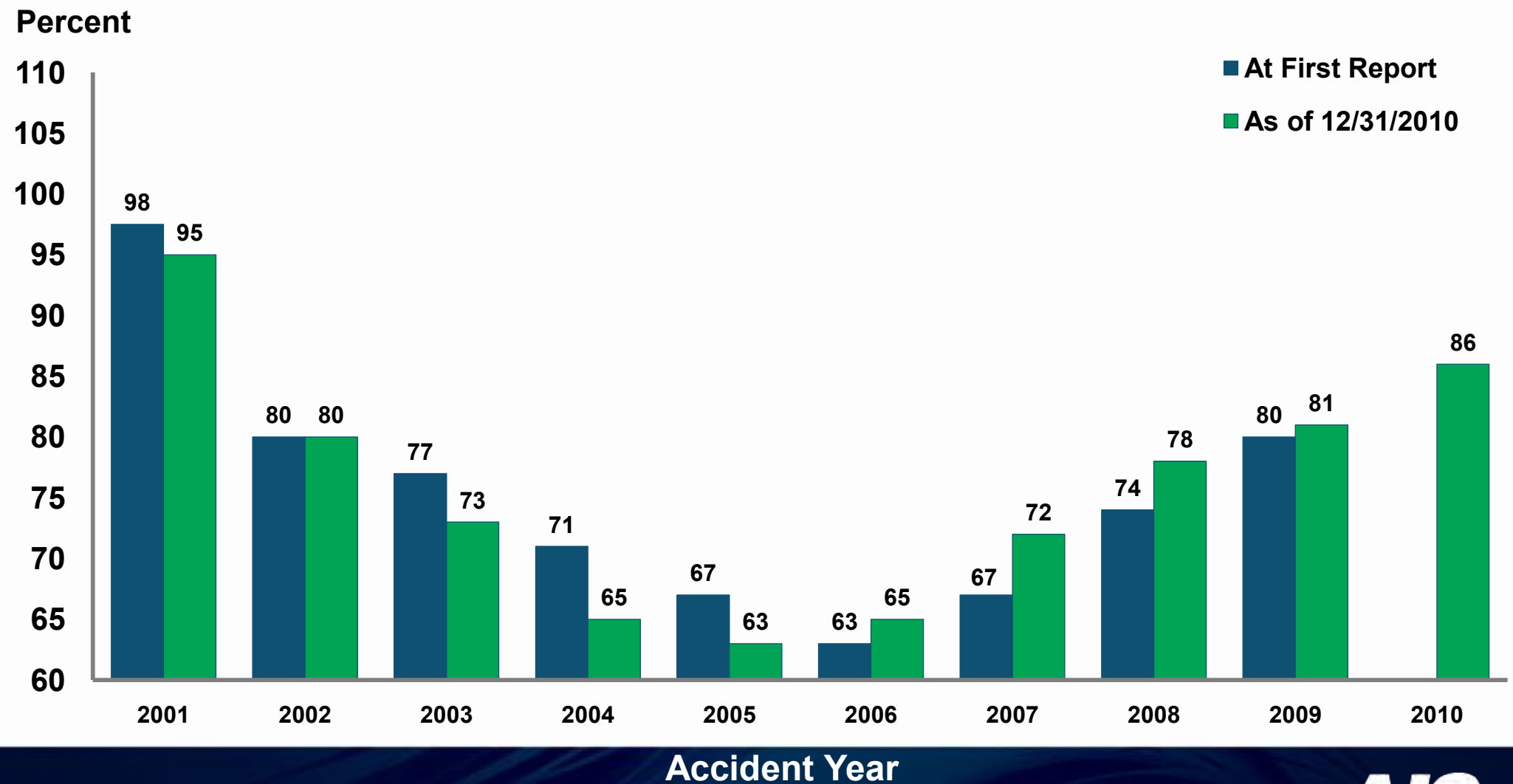
As Reported—Private Carriers



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

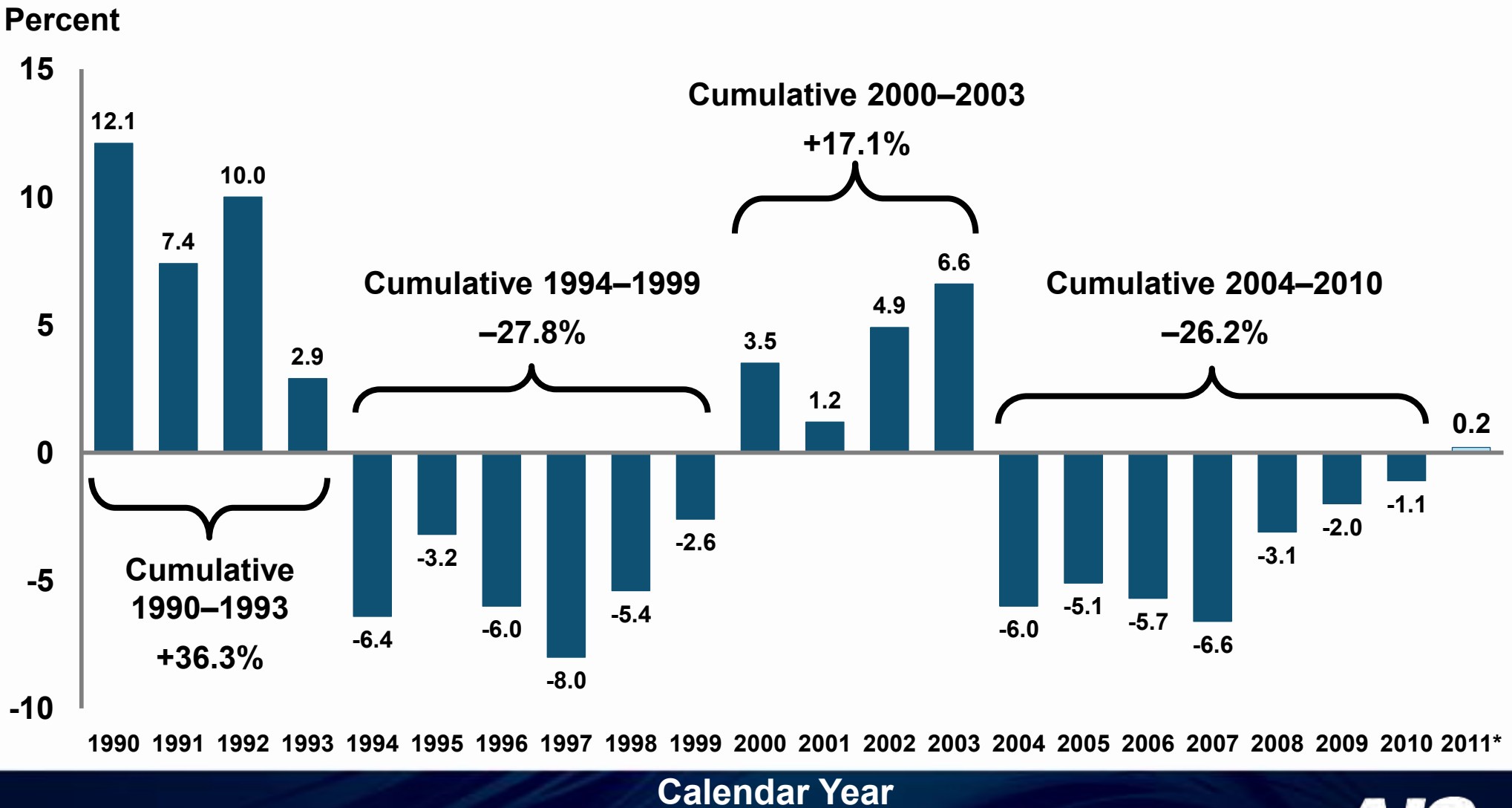
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Workers Compensation

Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



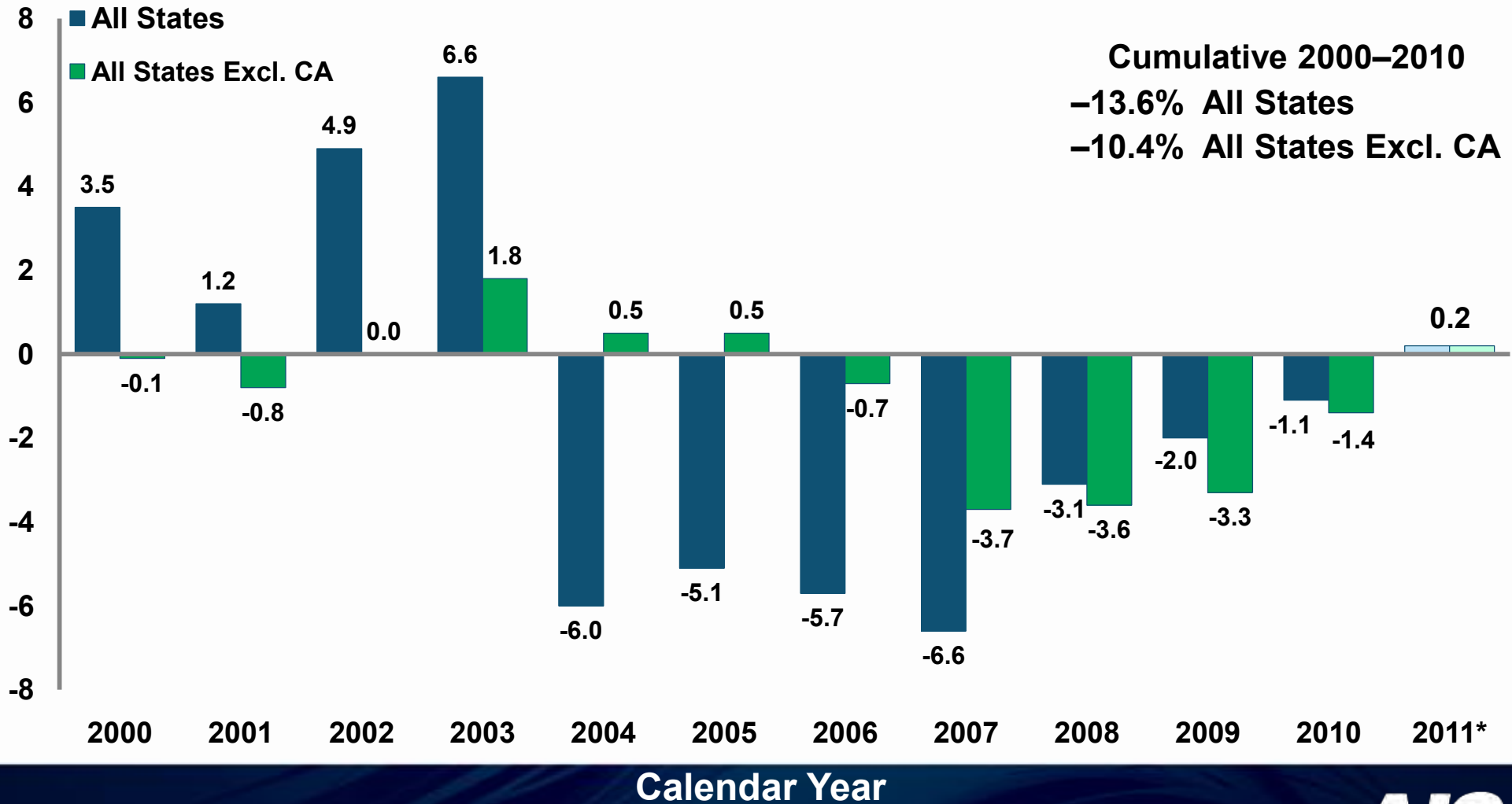
* States approved through 4/8/2011

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



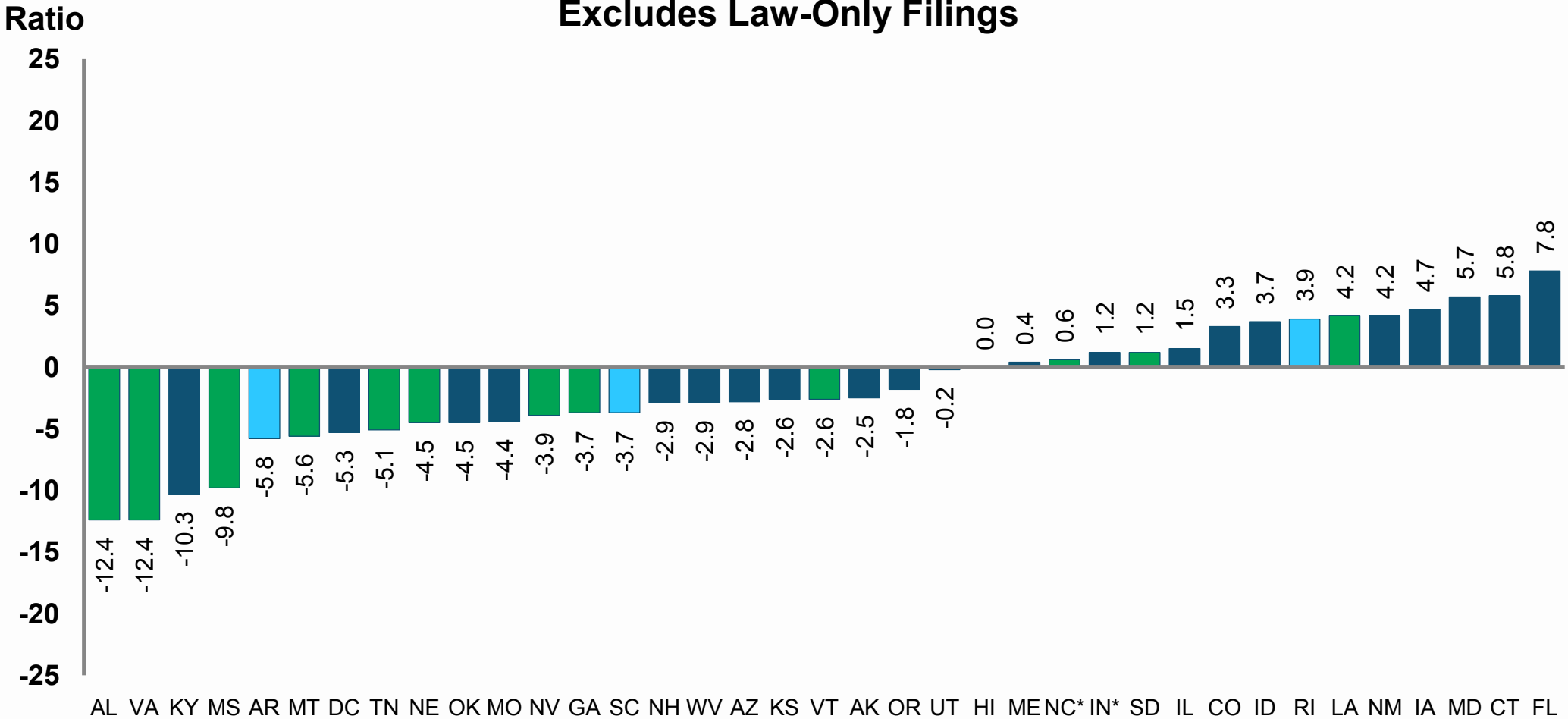
* States approved through 4/8/2011

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

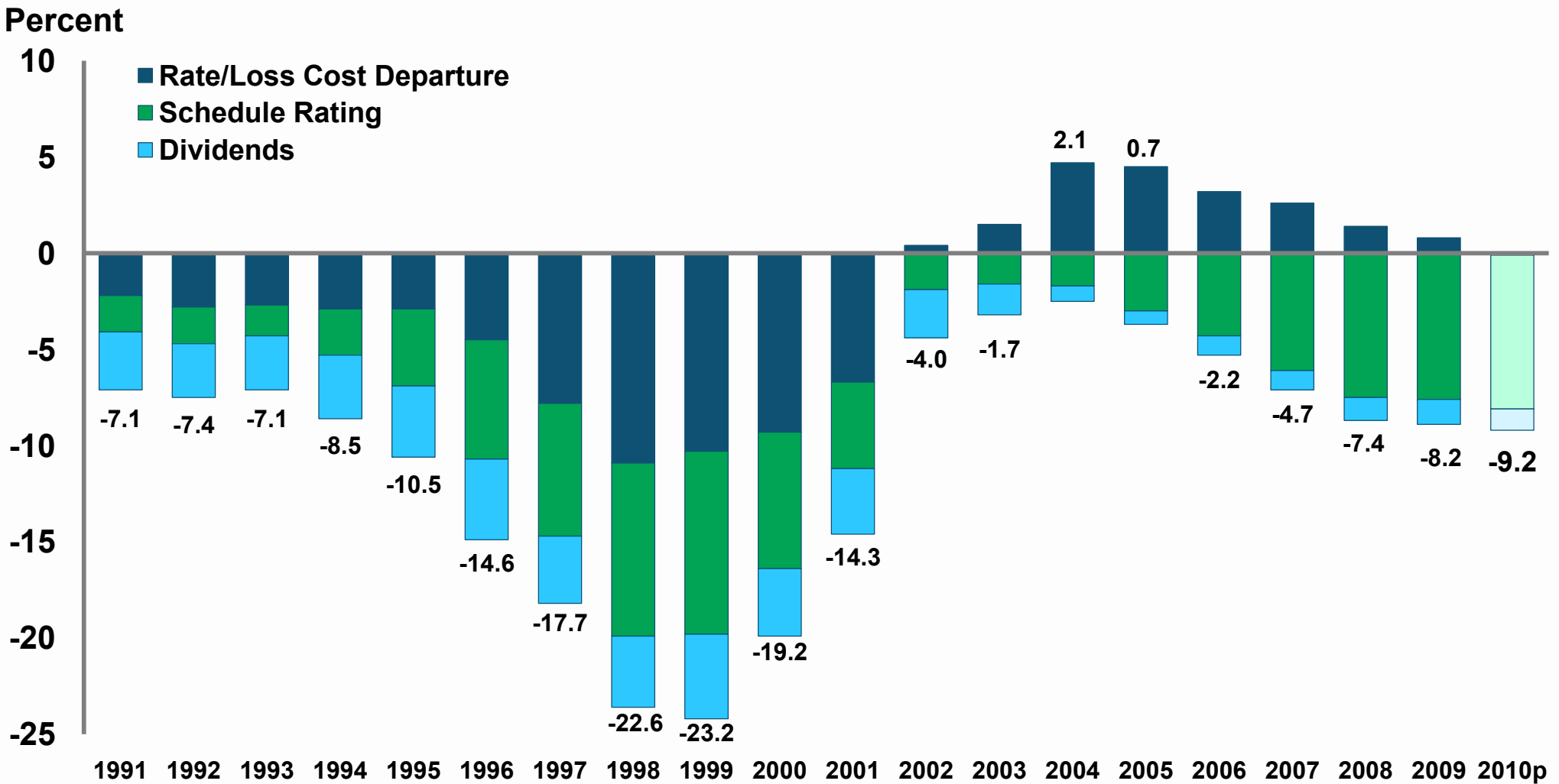
States filed through 4/15/2011

* 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

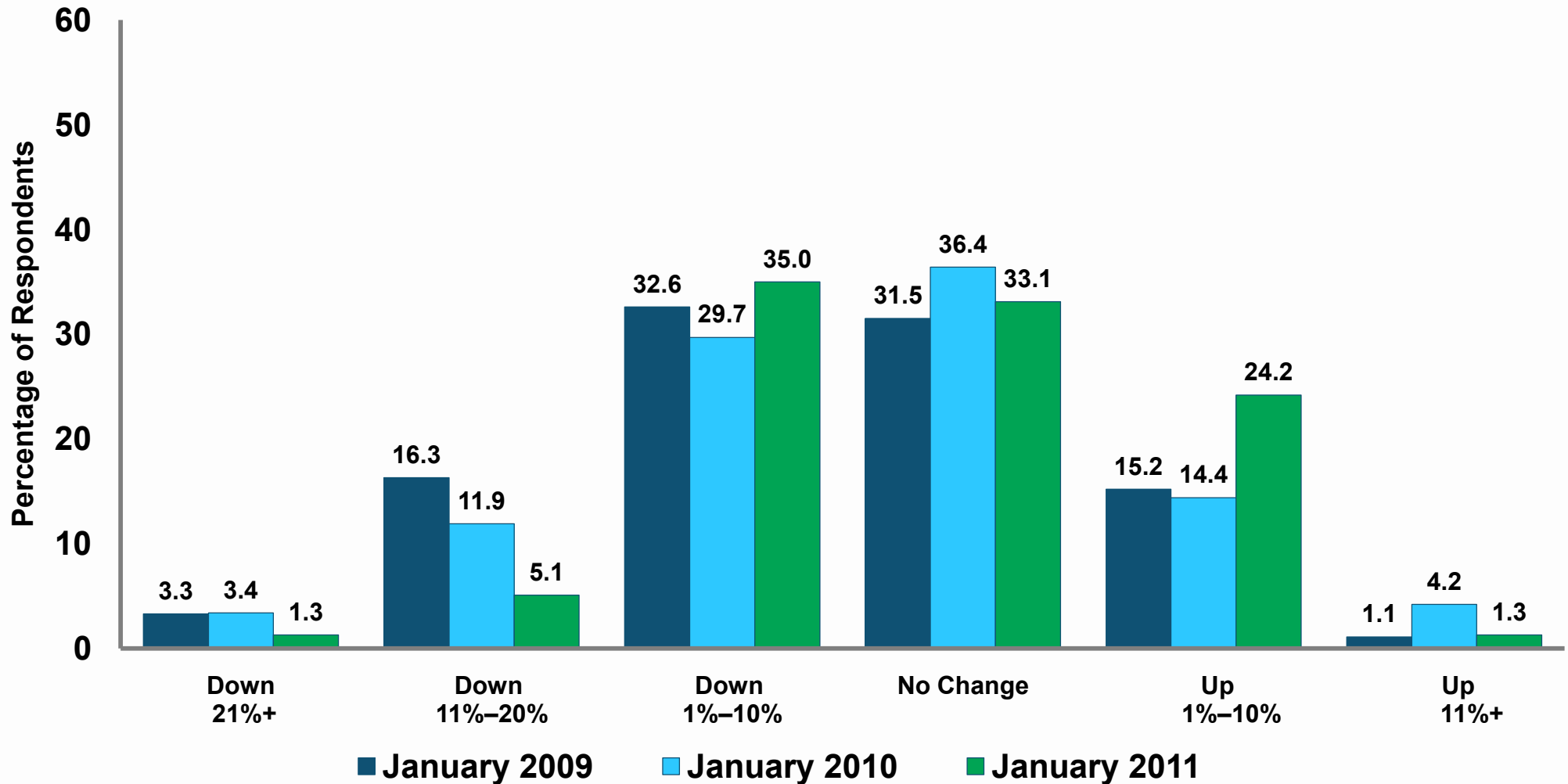
Based on data through 12/31/2010 for the states where NCCI provides ratemaking services

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)

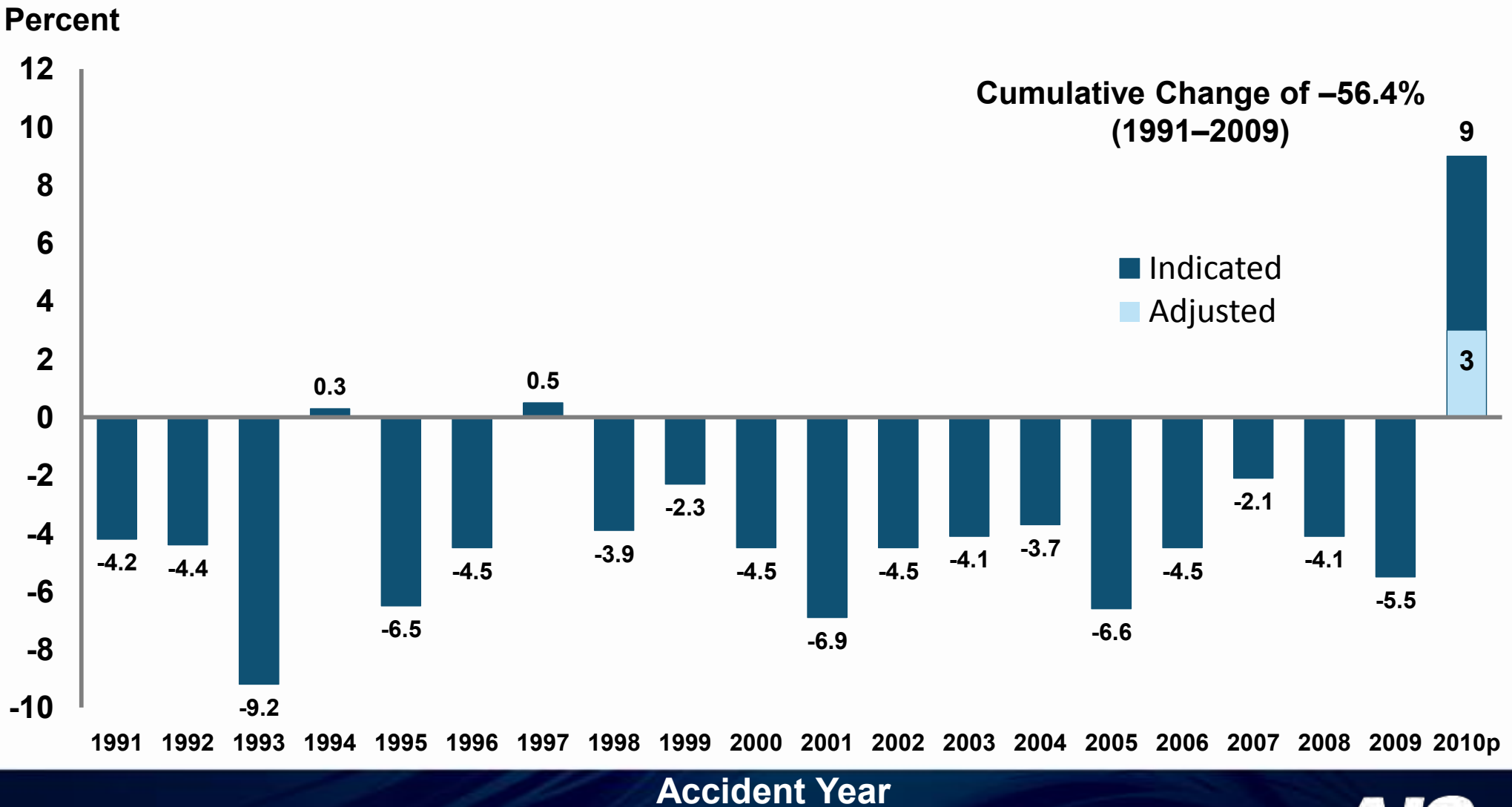


Workers Compensation

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

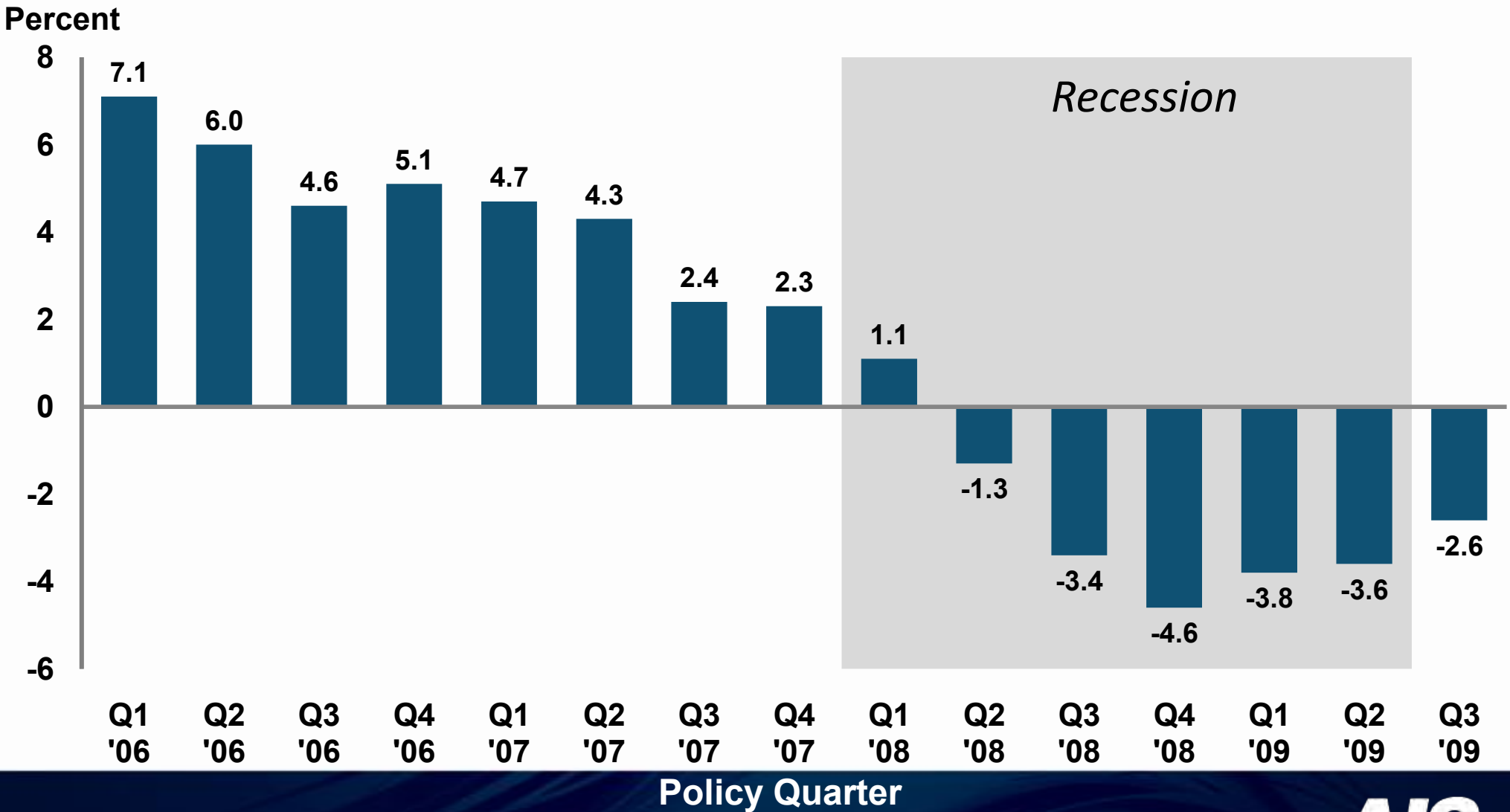
1991–2009: Based on data through 12/31/2009, developed to ultimate

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

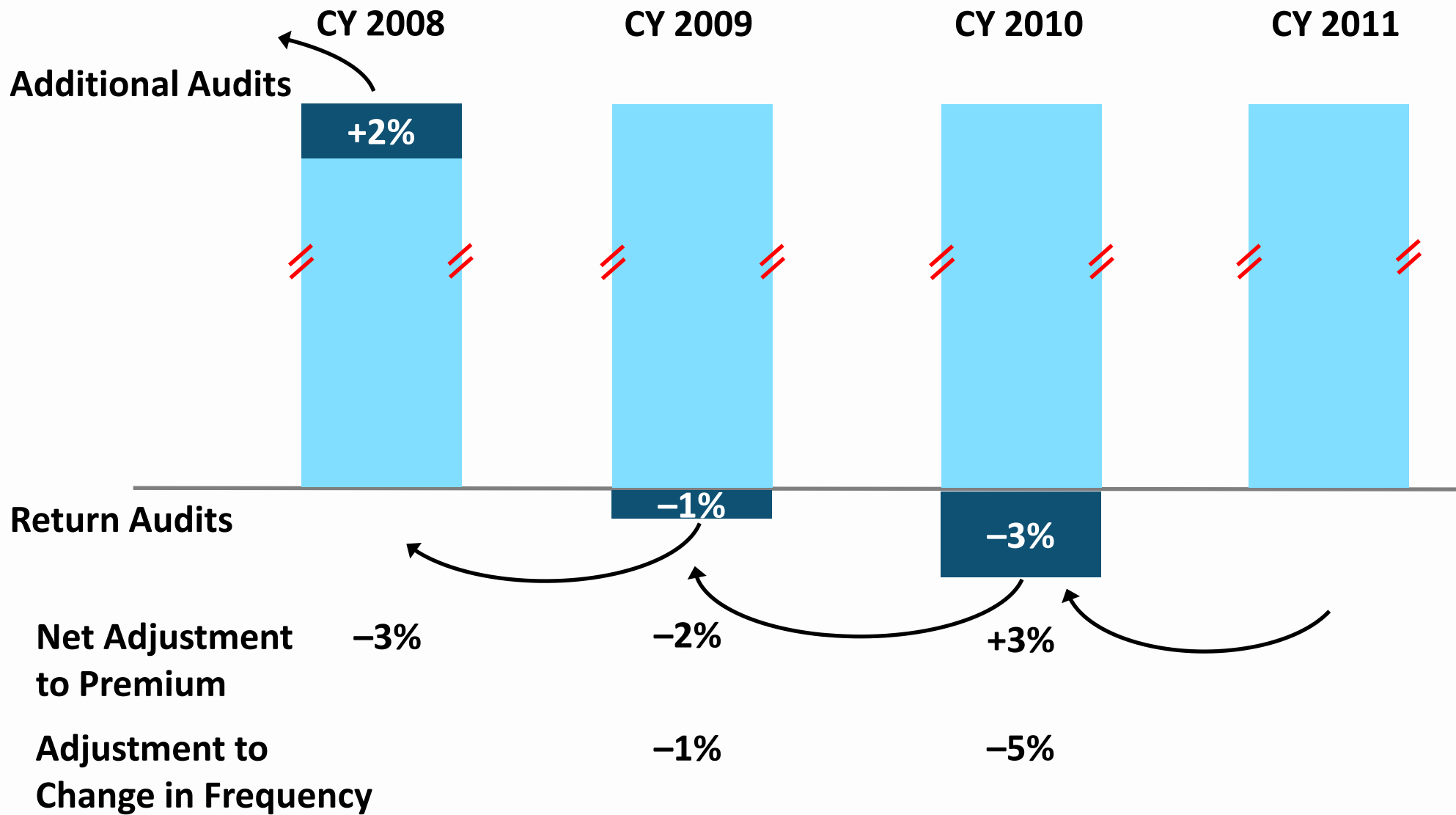
Final Premium vs. Estimated Premium by Policy Effective Quarter



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

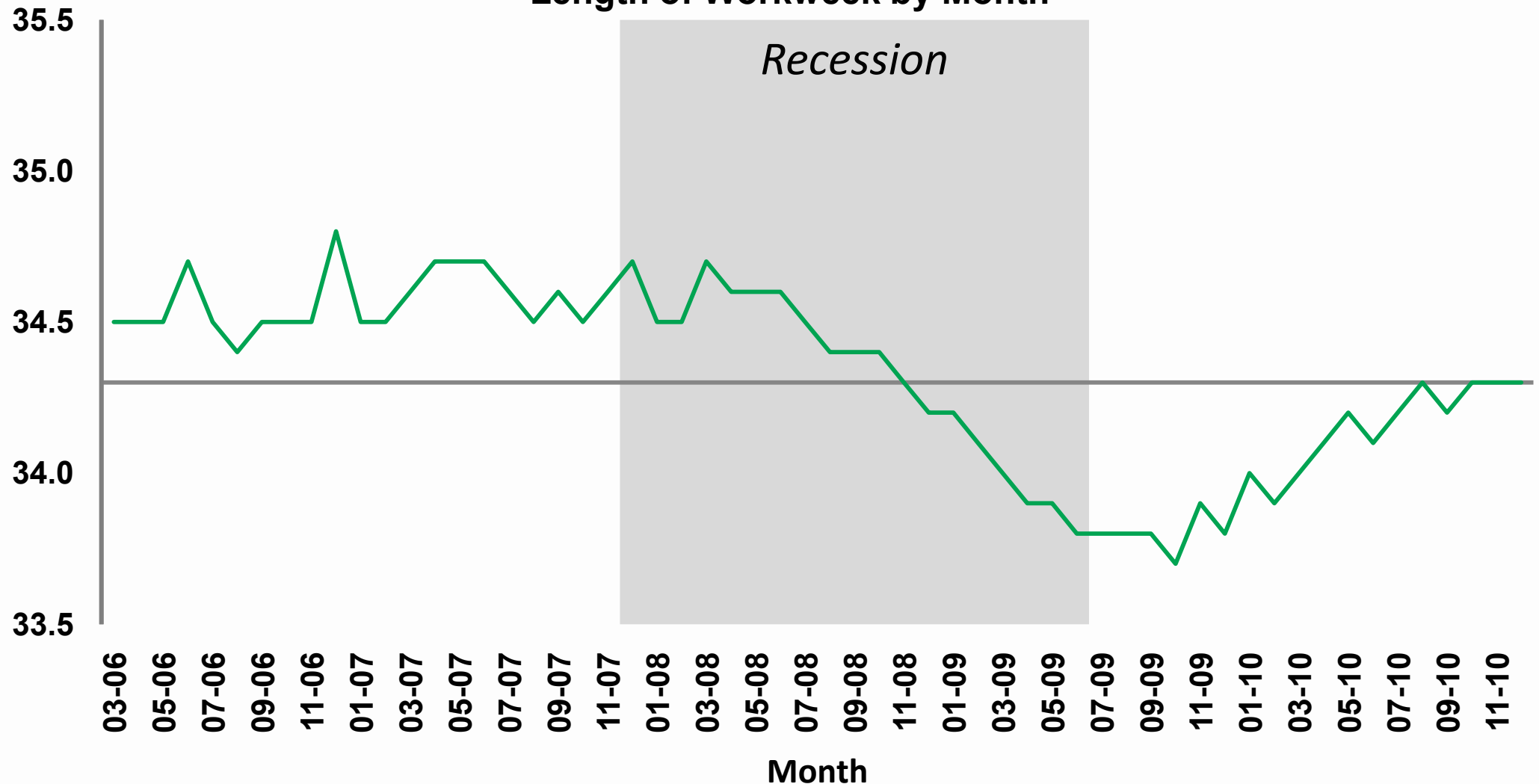
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies and mid-term cancellations

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

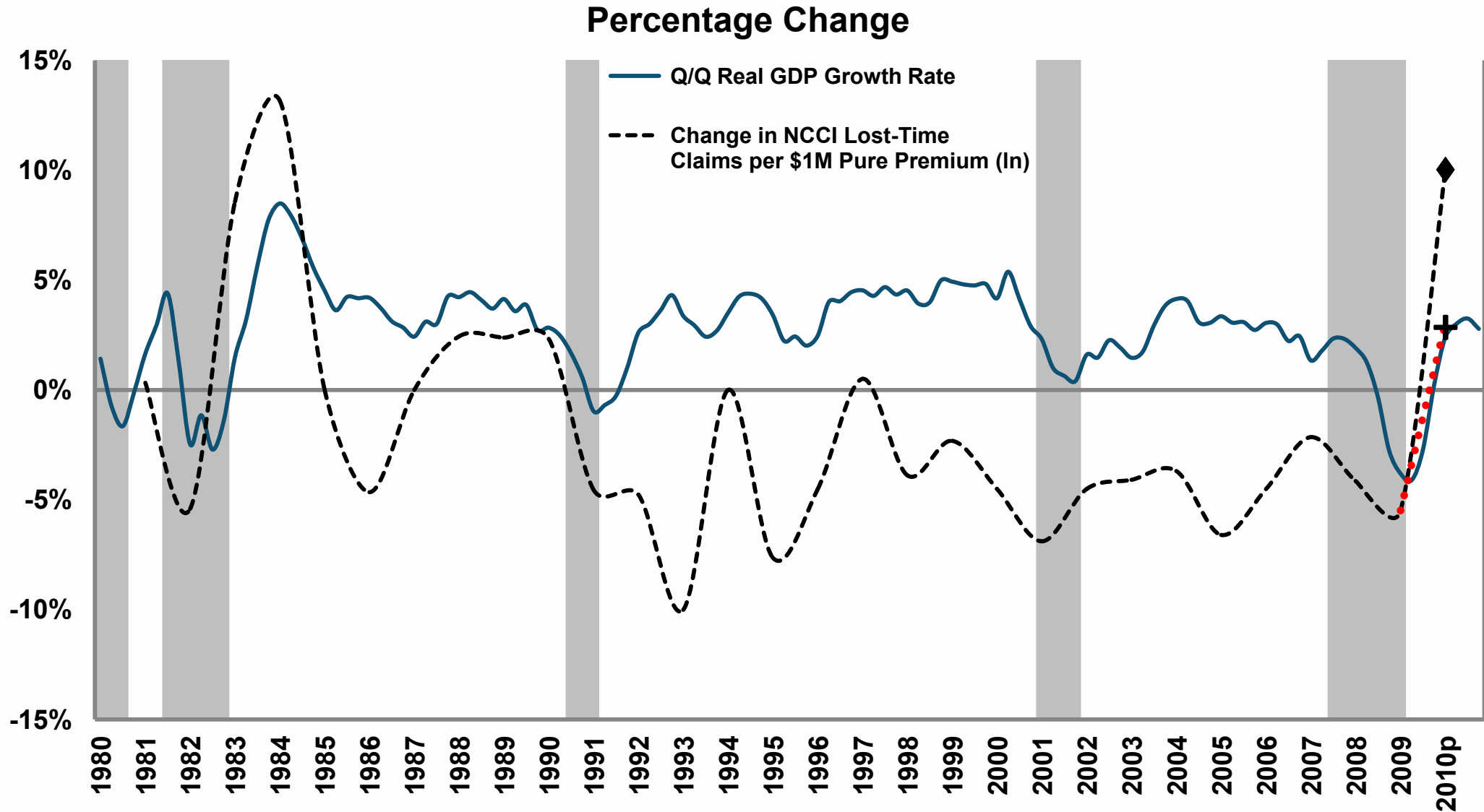
Adjustments to Indicated Change in Lost-Time Frequency

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)

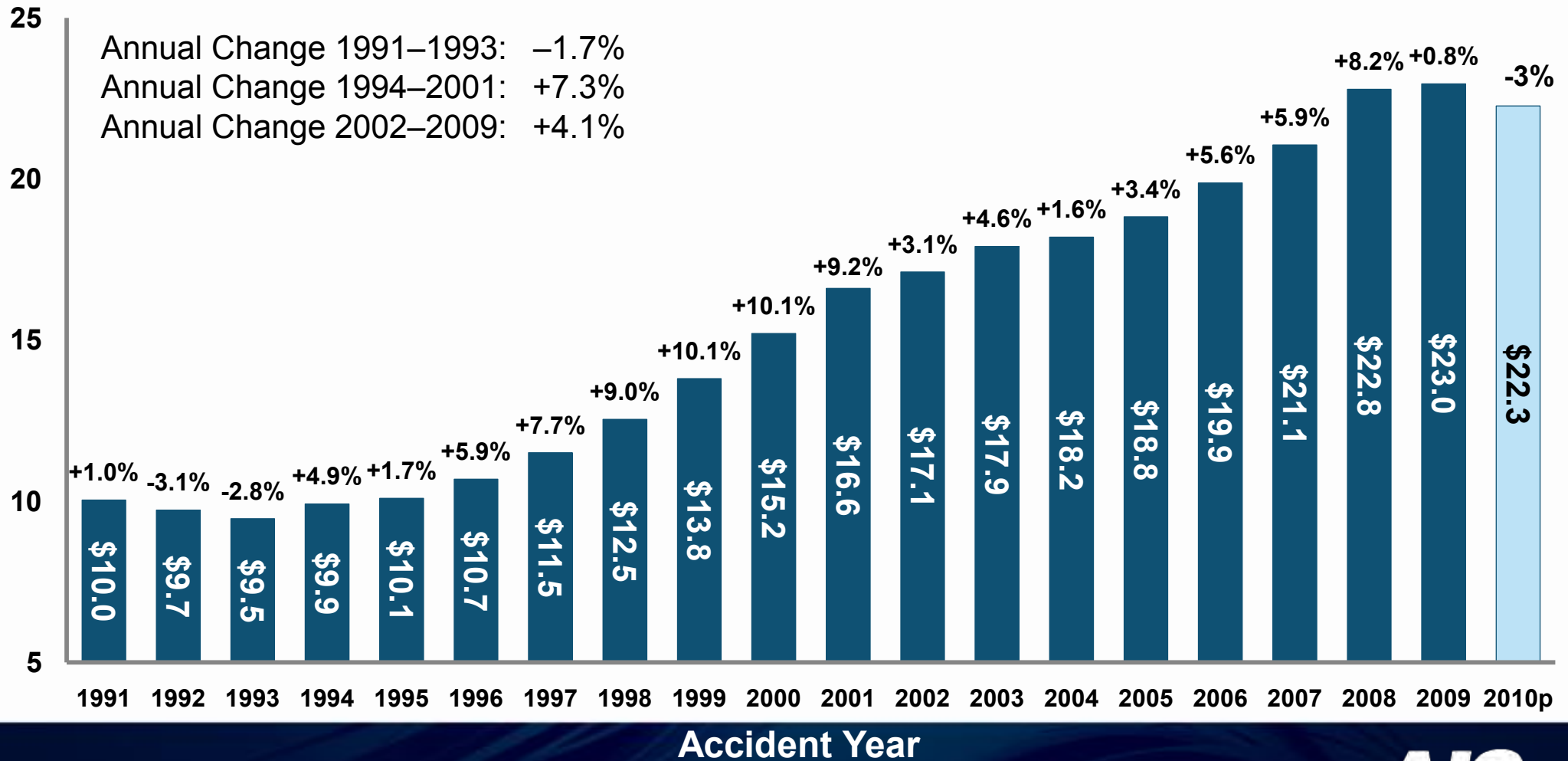
Source: GDP, Bureau of Economic Analysis (BEA)
NCCI Frequency and Severity Analysis; based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies



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

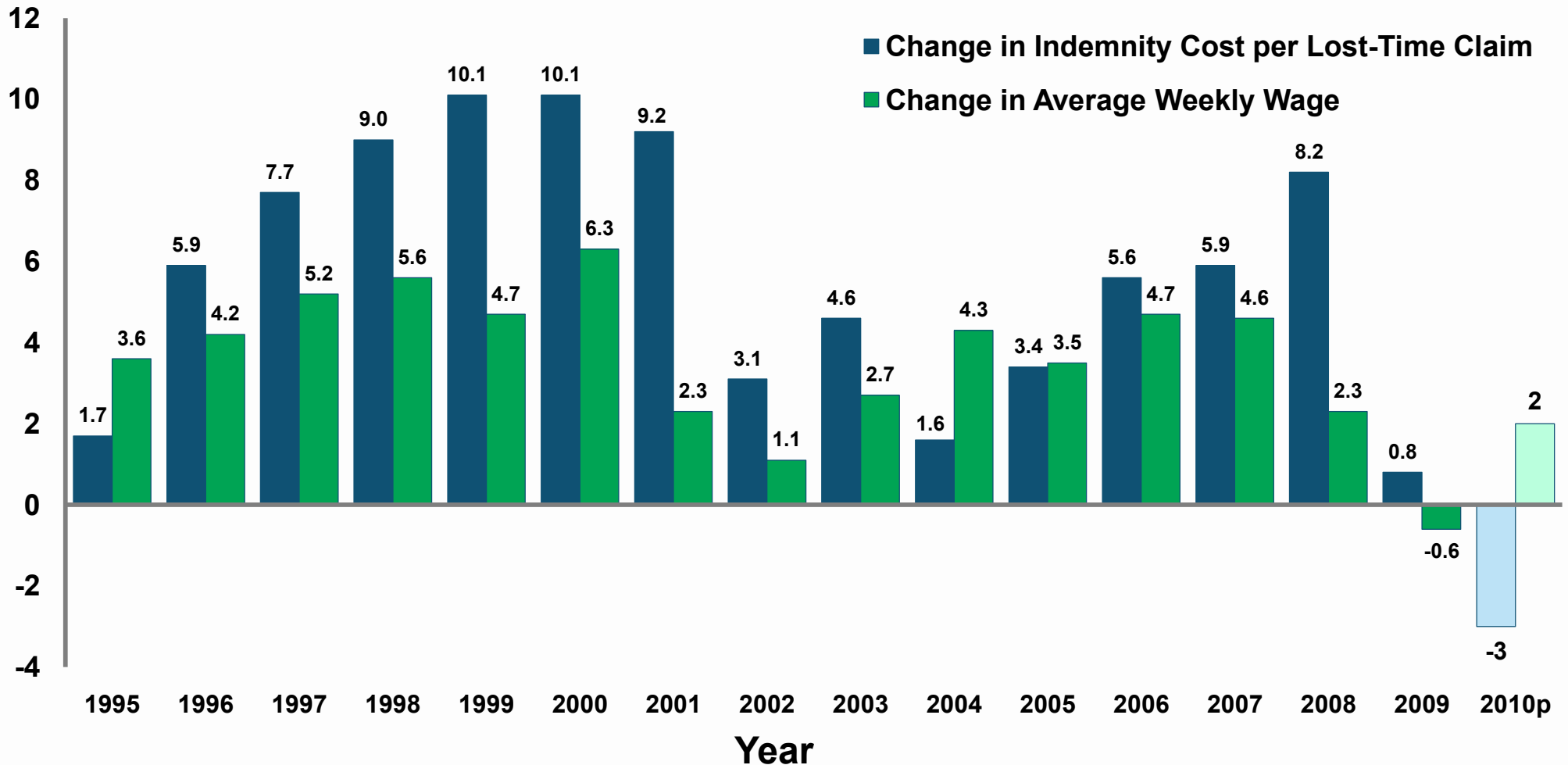
Accident Year



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

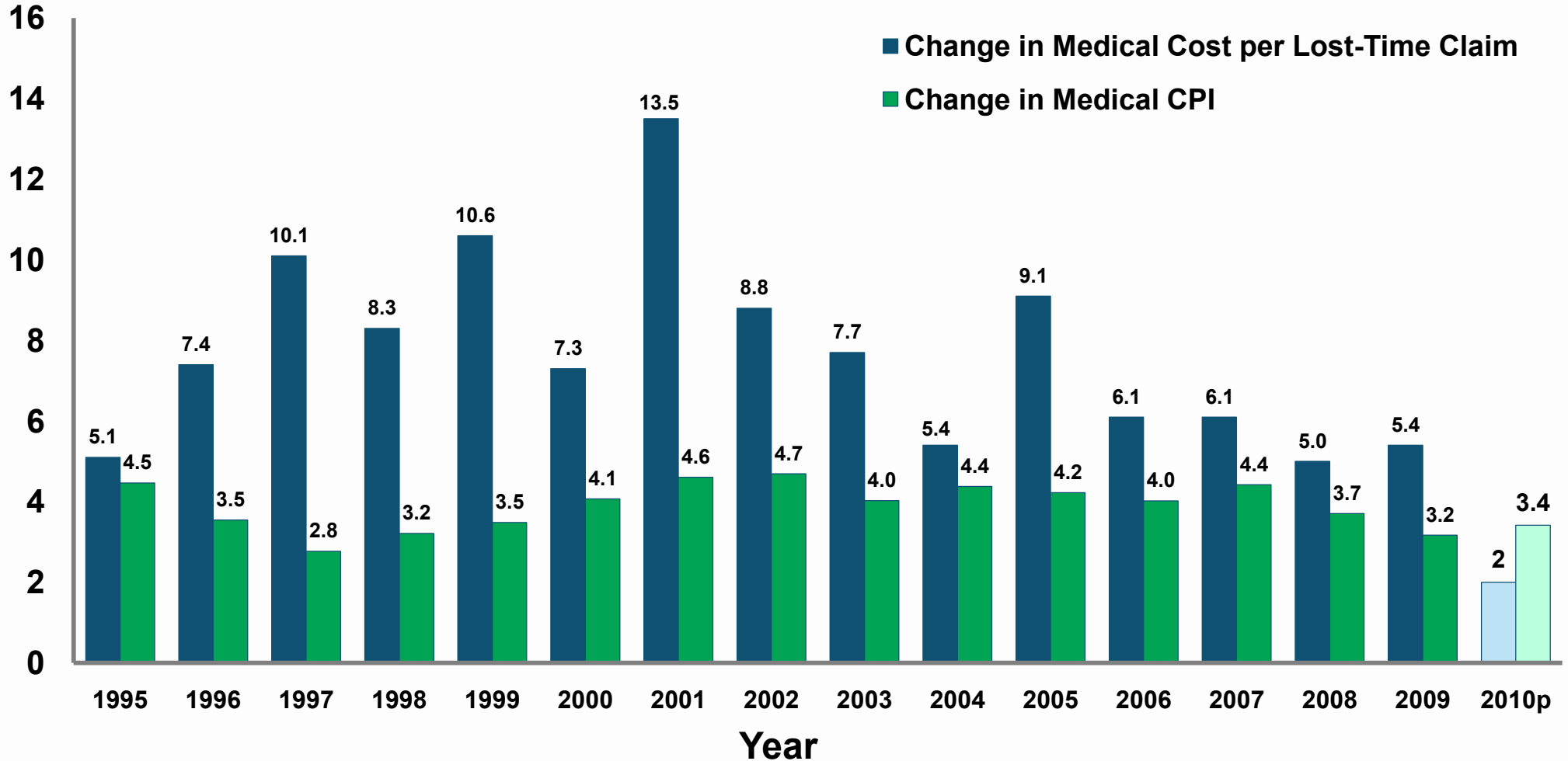
Accident Year

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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

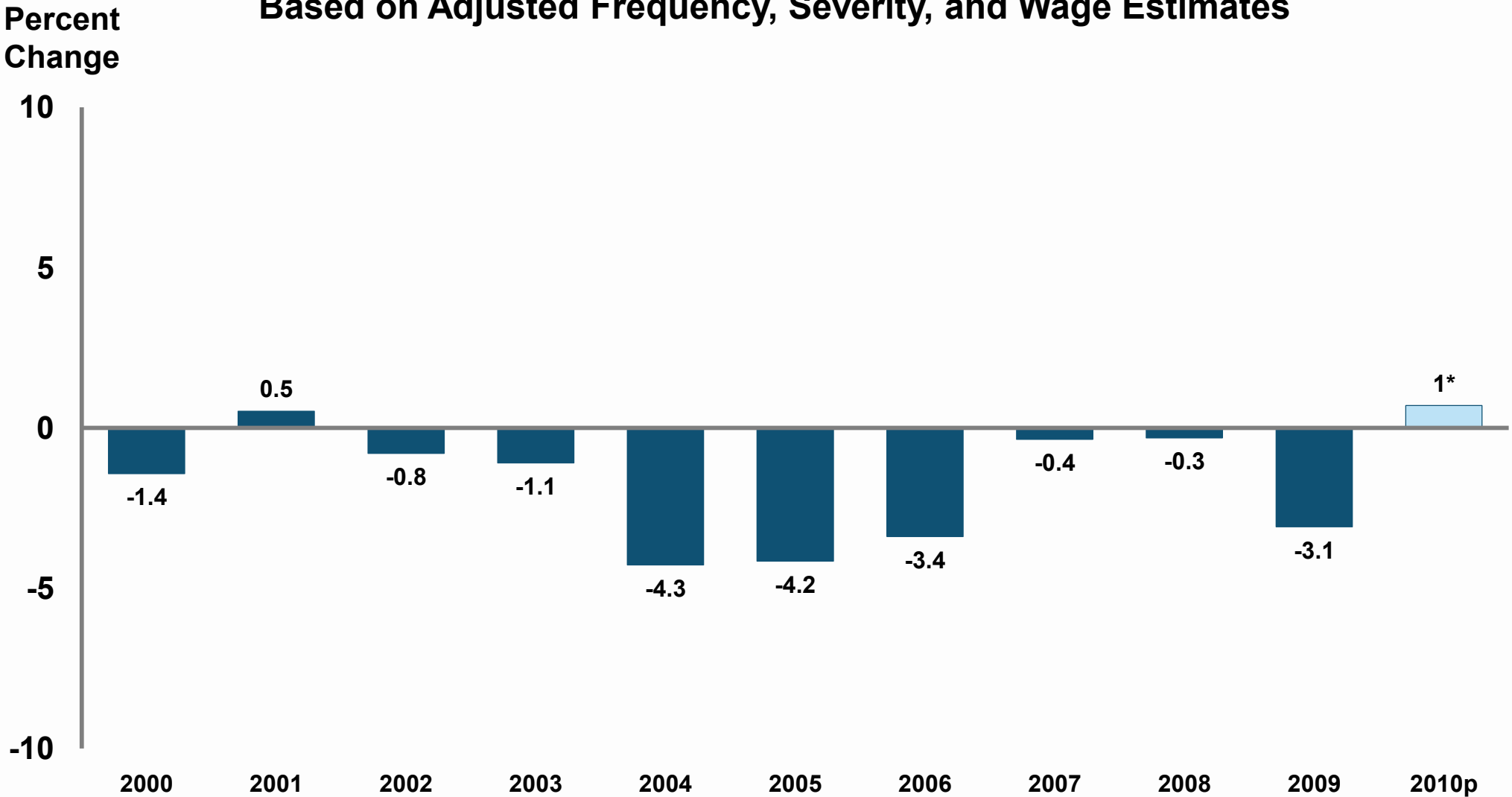
Estimated Impact on Loss Costs

- 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).

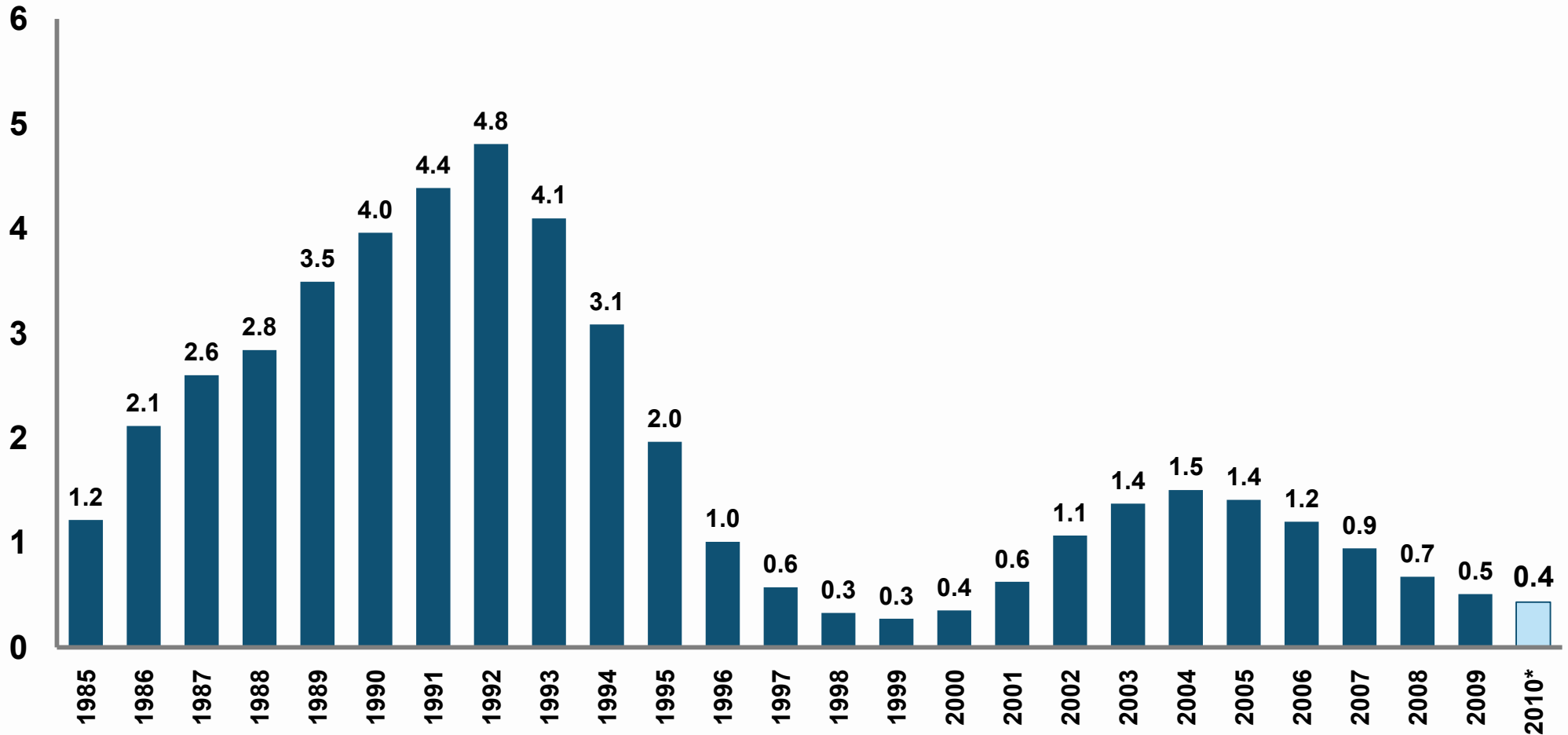
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Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

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

\$ Billions



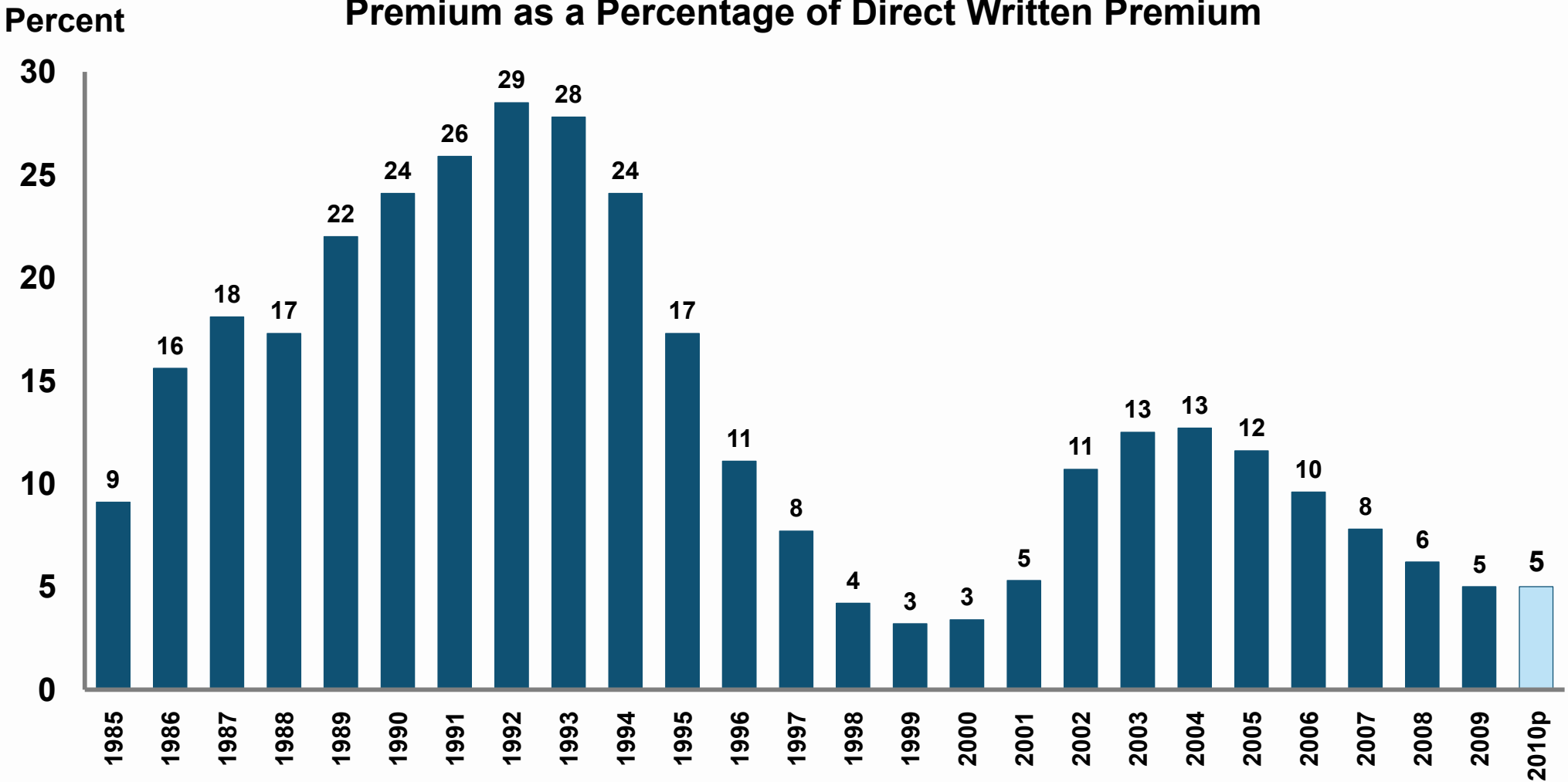
* Incomplete policy year projected to ultimate

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

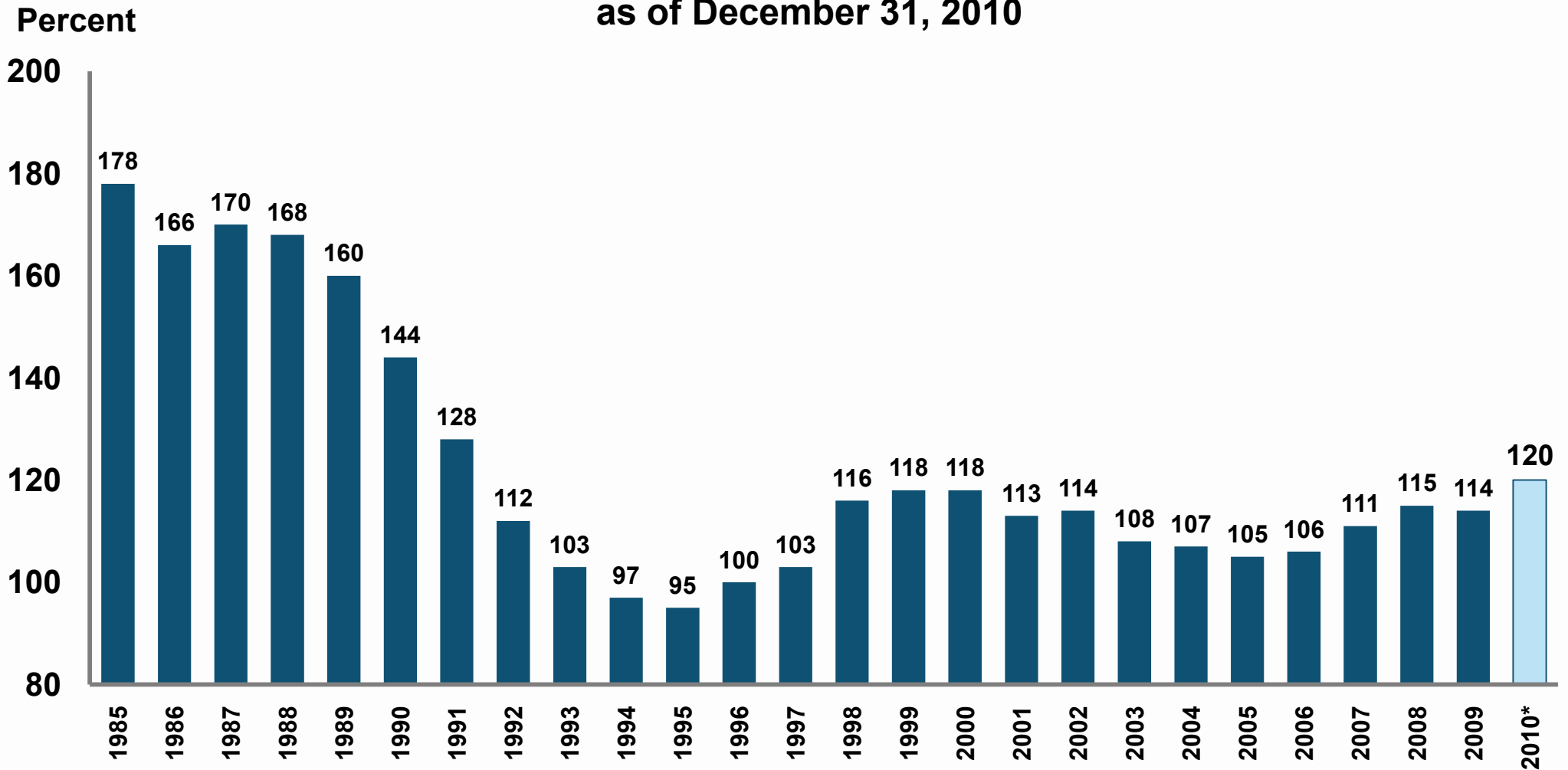
Calendar Year

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



Workers Compensation Residual Market Combined Ratio

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



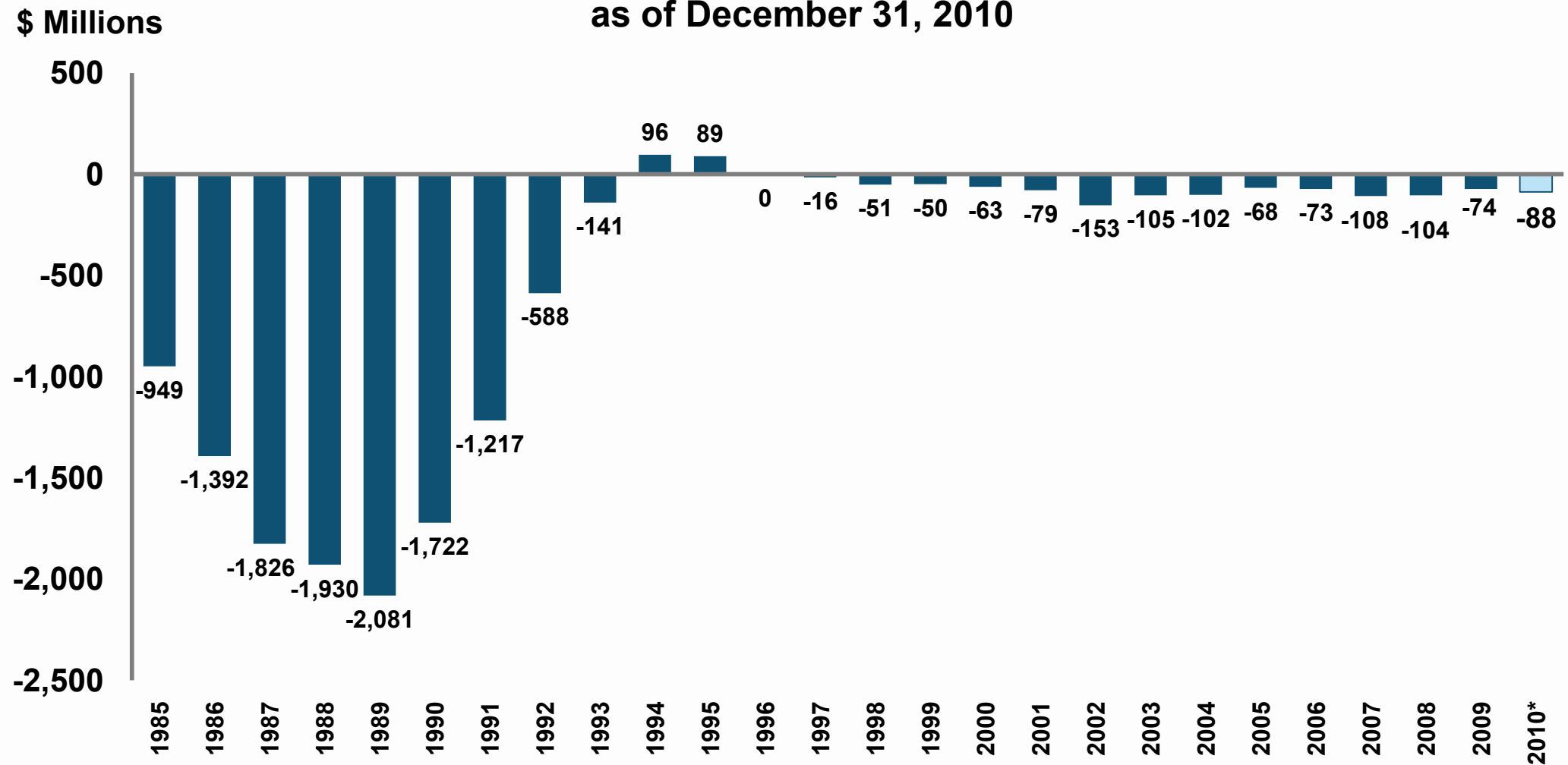
* Incomplete policy year projected to ultimate

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

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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

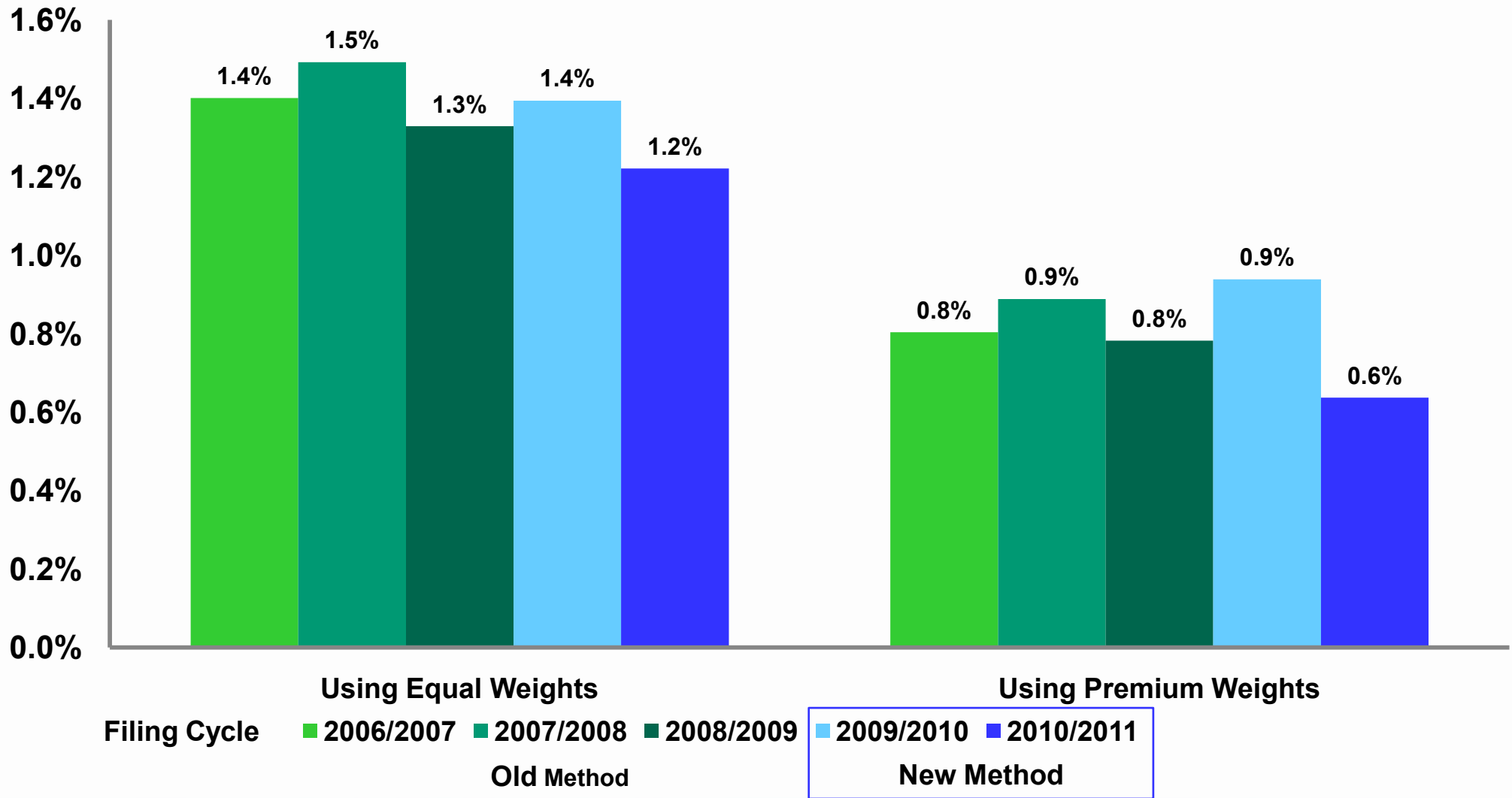
Swing Limits

	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:

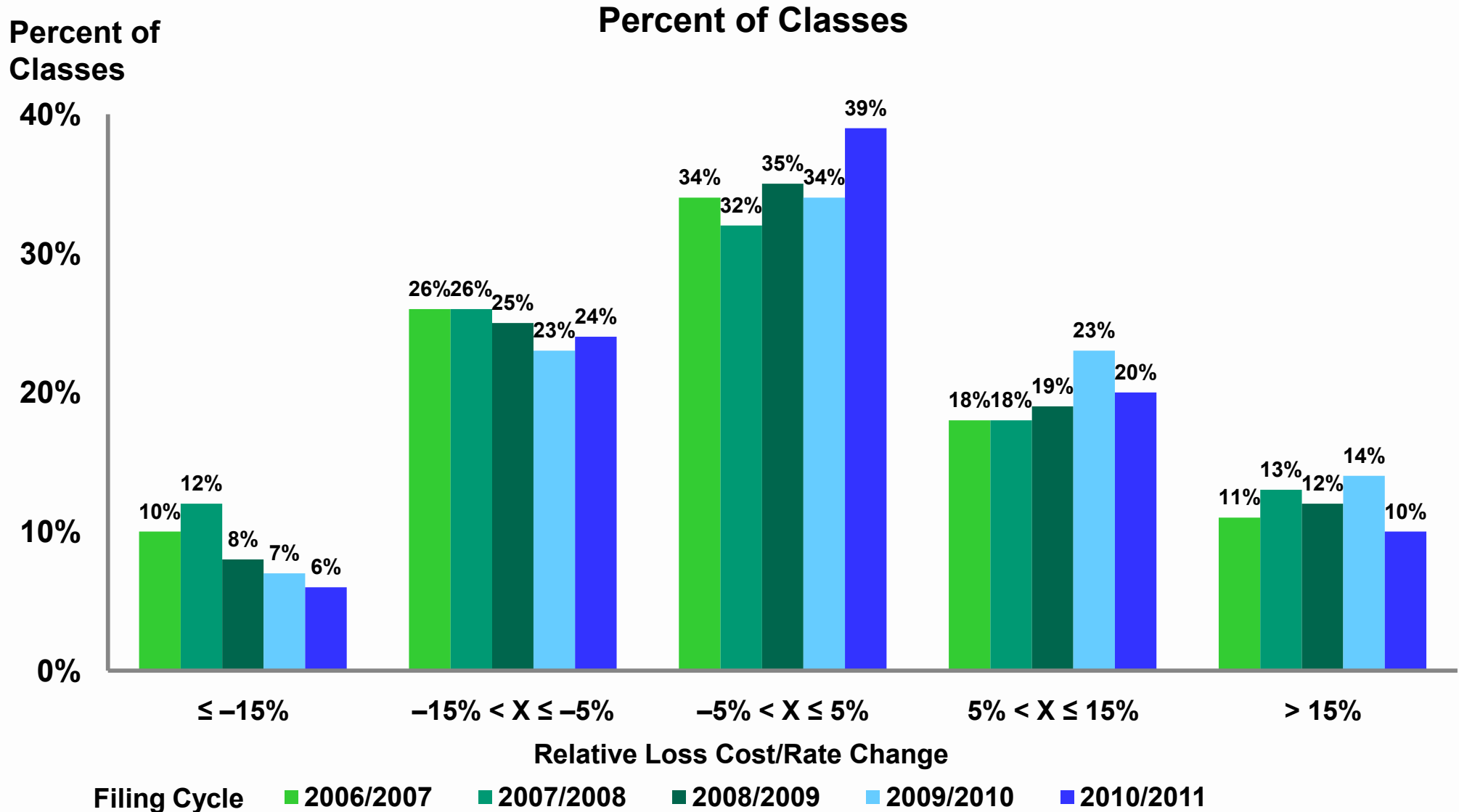
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

Variance of Loss Cost/Rate Change Around Statewide Average



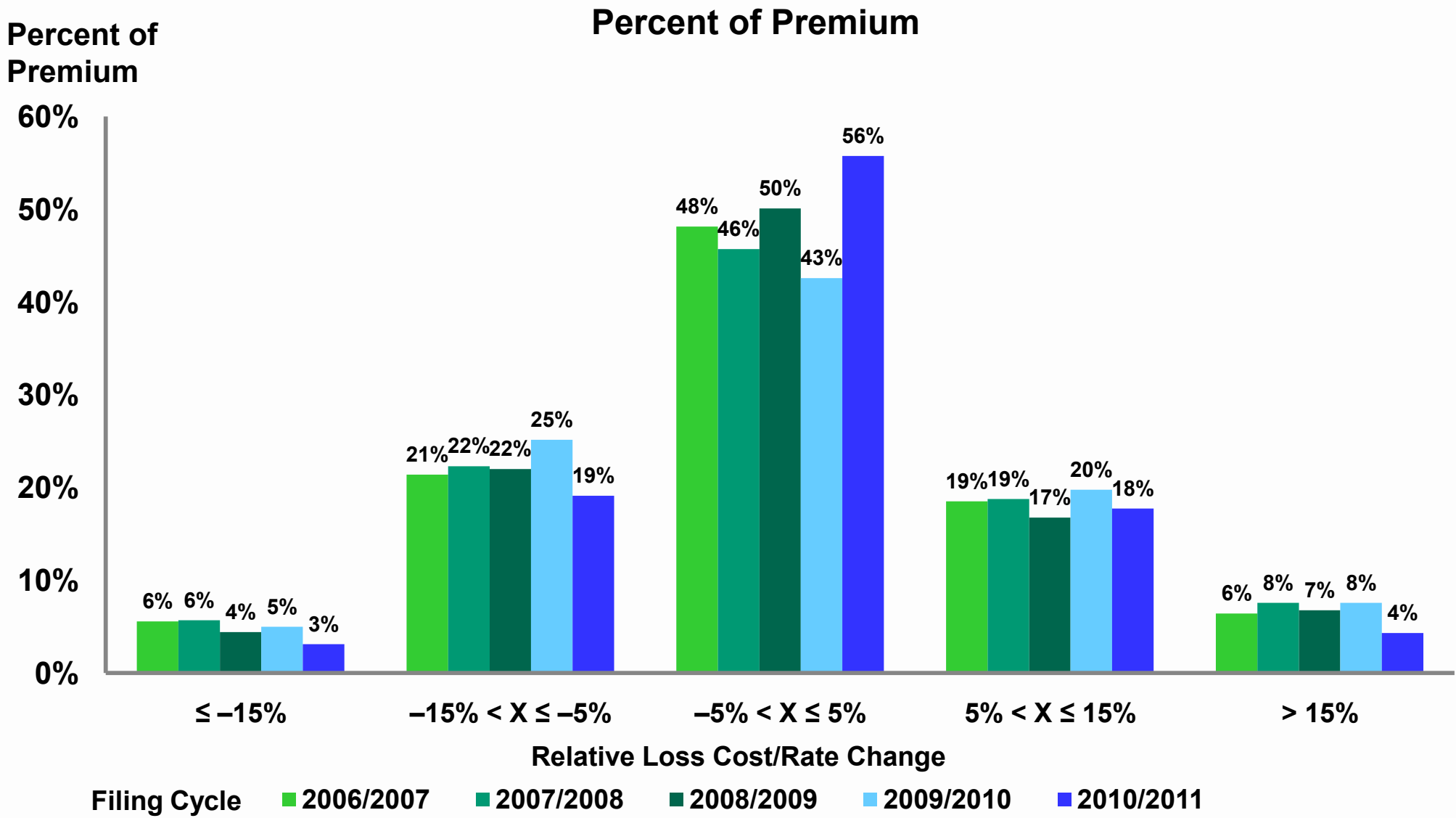
Includes:
 AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD,
 ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

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.