Workers Compensation Insurance: *The Role of State Funds, Market Trends and Economic Influences*

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Presentation Outline

- **The Role of Workers Compensation State Funds**
  - History
  - Organizational Structure and Evolution
  - Market Share Analysis
  - Performance
- **Property Casualty Insurance and Workers Compensation Market Overview &Outlook**
  - Financial Overview
  - Underwriting Trends
- **State of the Economy and Impacts on Employers and Workers Compensation Insurance**
  - Impacts of the “Great Recession” on Exposure & Growth

A Brief History: The Role of Workers Compensation State Funds

Social Policy, History, Economics, Insurance Market Forces and Politics All Played Important Roles in the Development of Modern WC Systems, State Funds and Their Structure

Workers Compensation Timeline

- **Industrialization of US in the Late 19th/Early 20th Century Led to Increasing & Unacceptably High Number of Deaths and Injuries Among Workers**
  - In 1912, an estimated 18,000 to 23,000 workers were killed on the job (compared to 5,071 in 2008) and approximately 4.7 million (12% or workforce) suffered a nonfatal illness or injury (compared to 3.7 million 2008)
  - The 1912 death/injury rates would imply 75,600 deaths and 17 million injuries today
  - More awareness of broader impacts on families of injured/killed workers
- **Workers Could Seek Redress Under Tort Law, But Seldom Prevailed**
  - Employers usually won suits filed by injured workers by arguing:
    - **Contributory Negligence:** Employee was at least partially to blame for the accident
    - **Assumed Risk:** By taking the job, the employee understood the hazards involved
    - **Fellow Servant Rule:** A fellow worker caused the accident, so the employer was not at fault
- **European Countries Began to Implement Workers Compensation Programs**
  - Germany (1884); England (1897)
- **Insurers Began to Sell Commercial Liability Coverage in the Late 1800s**
  - Coverage for inadvertent errors became more commonplace
  - In the workforce, such policies became the first employer liability policies

Source: Insurance Information Institute.

Cumulative Number of WC Laws Passed, 1910-1920

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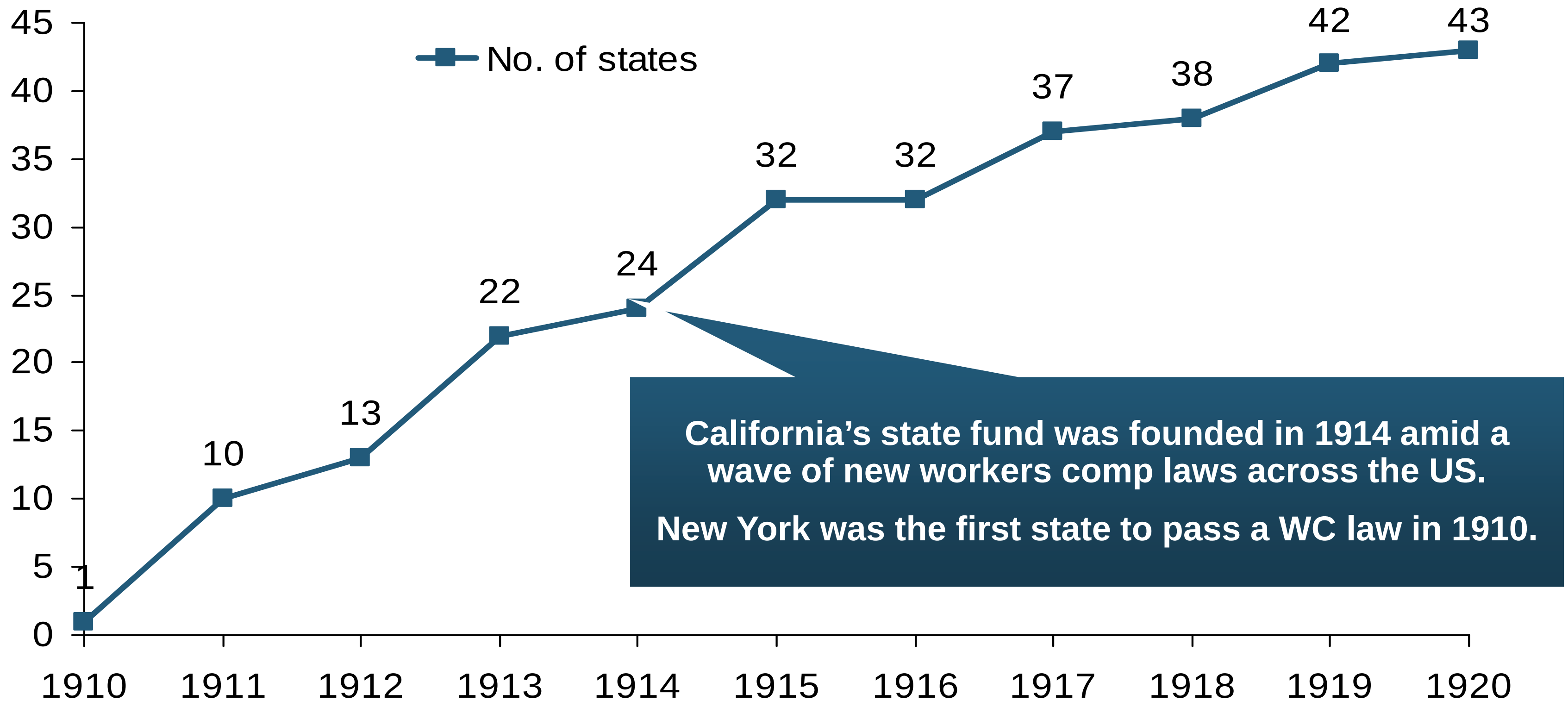


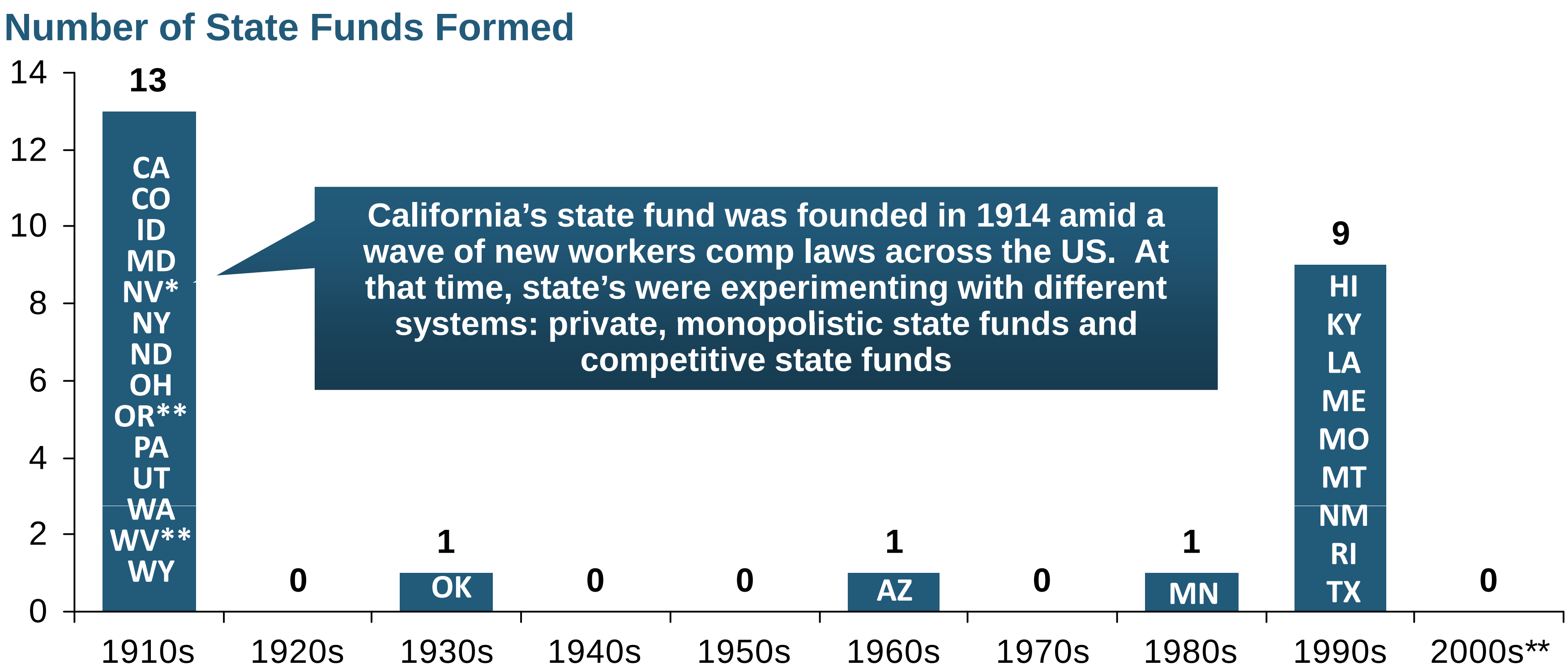
Source: http://eh.net/encyclopedia/article/fishback.workers.compensation; Insurance Information Institute.

The Role of Workers Compensation State Funds: Public Policy & Economic Missions

- **The Core *Public Policy* Mission of WC State Funds is to Assure the Availability of Affordable Workers Compensation Coverage to Employers**
  - The original catalyst for WC was the recognition that the rapidly increasing number of occupational injuries and deaths were exacting a high and unfair physical and financial toll on injured workers and their families
  - Prior to 1920, there was some question whether the private insurance sector could meet the demand and affordably supply this new type of coverage on its own. State funds were a tool for meeting this new public policy objective.
  - States adopted differing strategies for assuring this obligation was met: competitive and monopolistic state funds whereas others allowed the private sector to satisfy demand (subject to state oversight and regulation)
  - For the state funds formed in the late 1980s and 1990s, states sought to bring stability to a market where costs were rising rapidly and residual market shares exploding
- **Secondary Core *Public Policy* Mission: Reduce Workplace Injuries/Deaths**
  - Provision of loss control services and loss sensitive pricing help achieve this goal
- **Core *Economic* Mission: Support of the State Economy**
  - The availability of affordable WC coverage is a key consideration in many business location and expansion decisions
  - This issue is likely increase in importance in the job-starved 2010s
- **To Operate Self-Sufficiently (i.e., Minimal Public Financial Support)**

Source: Insurance Information Institute; Conning.

Number of Workers Comp State Funds Formed by Decade, 1910–2010



All But Three of the 26 State Funds Ever Formed Were Founded in the 1910s (the Decade in which Workers Comp Laws Were Put on the Books in Most States) and the 1990s (During a Period of Massive Reform of WC Systems Countrywide)

* Nevada's monopolistic state fund, founded in 1913, was privatized in 1999. There is currently no state fund in the state.

**West Virginia's original (monopolistic) state fund was formed in 1915. Its successor, BrickStreet Mutual, became a competitive state fund in 2006. Oregon's original (monopolistic) fund, formed in 1914, adopted a competitive structure in 1980.

Sources: Insurance Information Institute research.

Monopolistic State Funds: Where Are they Today?

State	Date started	Status
Ohio	1911	Still monopolistic
Washington	1911	Monopolistic; referendum sought in 2010
Nevada	1913	State fund privatized in 1999
Oregon	1913	Allowed competition in 1980
West Virginia	1913	Allowed competition in 2008
Wyoming	1915	Still monopolistic
North Dakota	1919	Still monopolistic

Source: Economic History Association, http://eh.net/encyclopedia/article/fishback.workers.compensation, Insurance Information Institute research.

Workers Compensation State Funds by Type, 2010

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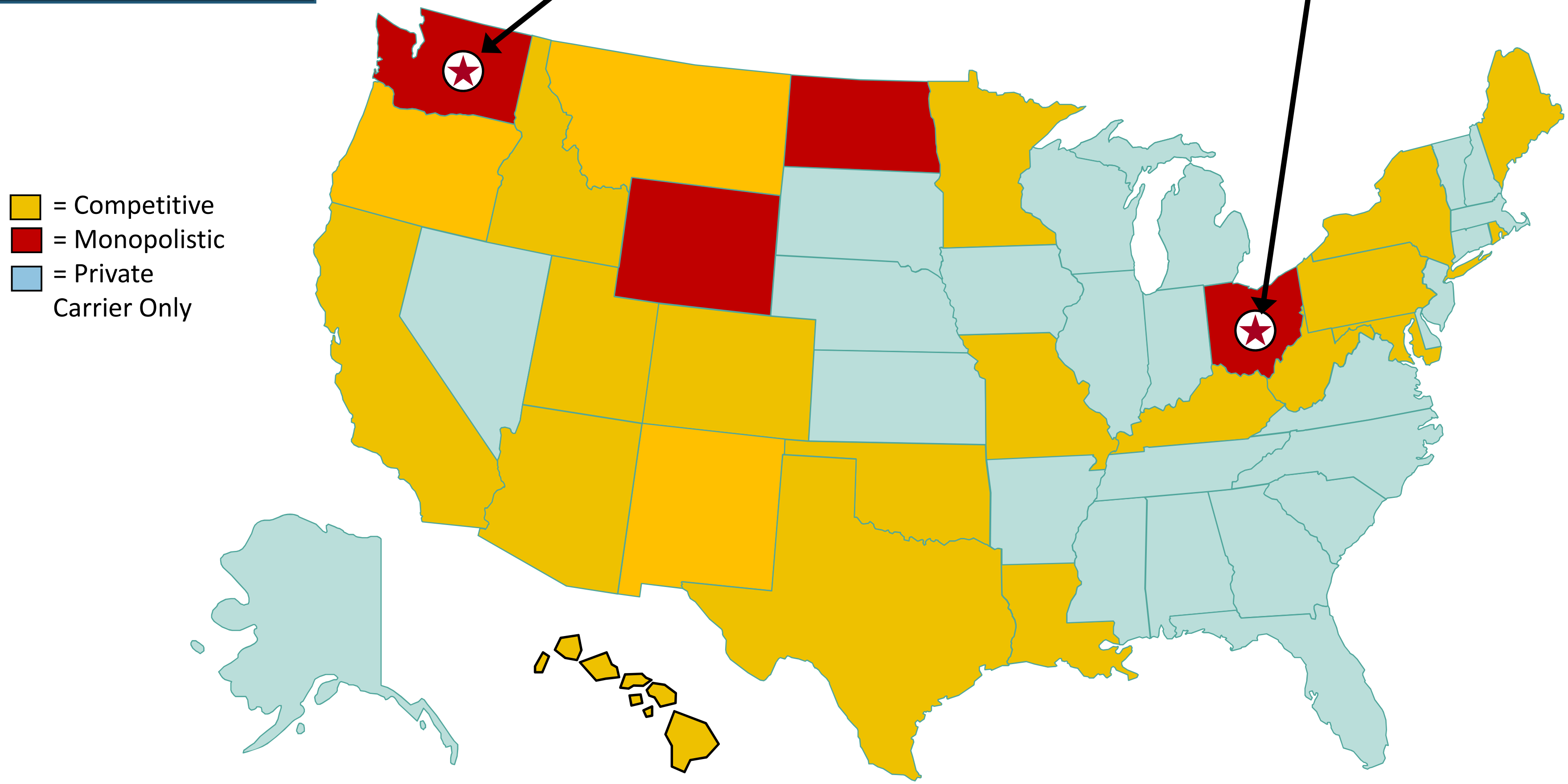
<u>*State Funds*</u>

Competitive: 21

Monopolistic: 4

Washington has a referendum on the ballot in November (I-1082) that would allow competition

Ohio is considering moving toward a competitive state fund system



Source: Insurance Information Institute

Identity Crisis: The Role of State Funds in 2010 and Beyond

- **The Role and Need for State Funds Is Being Questioned from Within and from Without**
  - Two monopolistic state funds have disappeared in recent years (NV and WV); OH and WA are being challenged.
  - AZ will convert to a mutual structure by 2013
  - A number of state funds can write WC risk for companies domiciled in their home state
  - Several state funds now own subsidiaries that allow them to write risks with no ties to their home state (*breach of core mission?*)
- **Factors that Can Lead to Questioning of the Role of WC State Funds**
  - Shrinking Residual Markets
  - Intense Private Insurer Competition
  - Prolonged Soft Market
  - Increasing Options (e.g., Captives, Large Deductible Programs)
  - Passage of Time Since Last WC Crisis (early 1990s)
  - State Budget Woes

Source: Insurance Information Institute.

The Curious Case of Arizona: Conversion of State Fund to a Mutual Insurer

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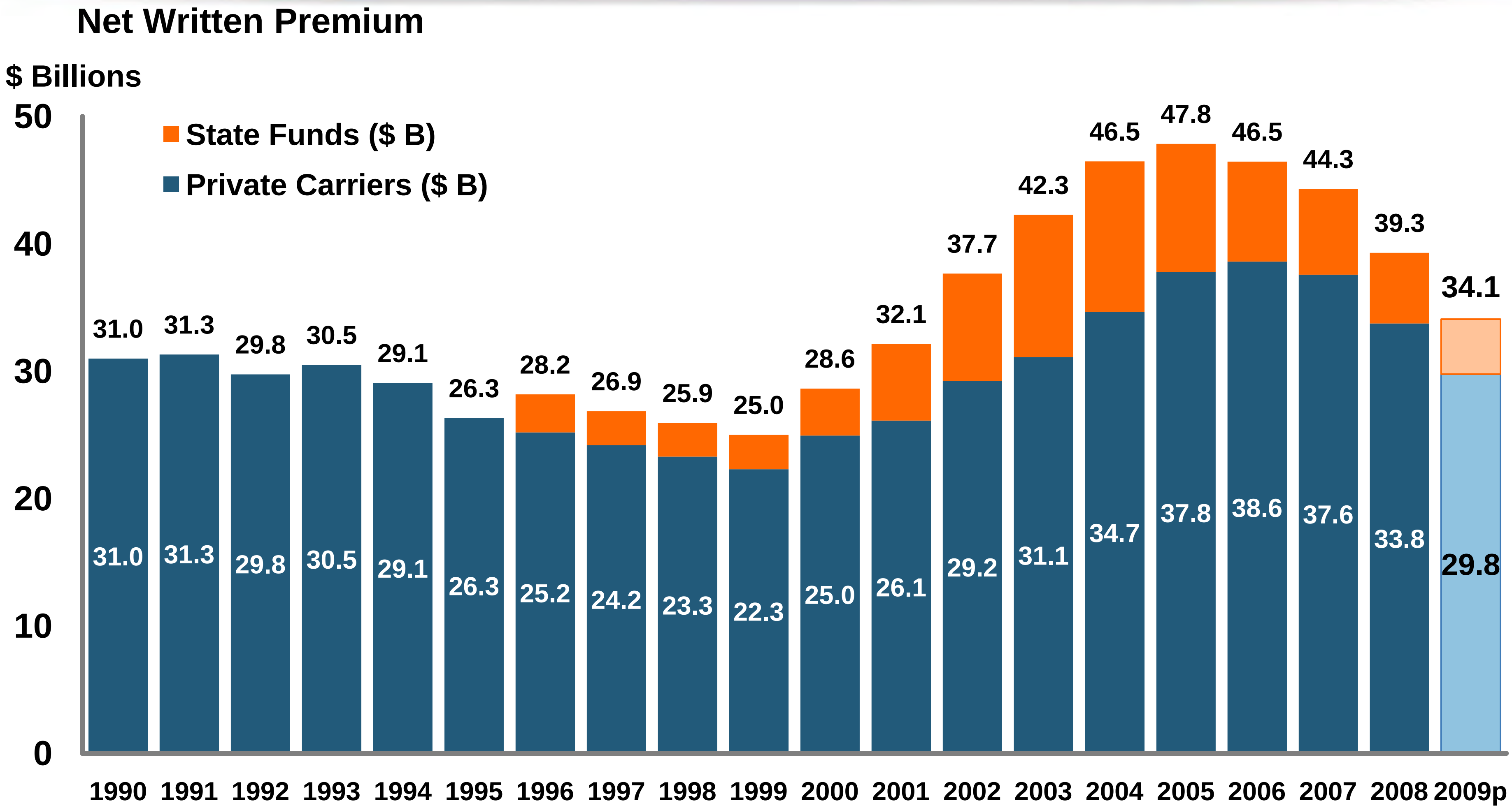
- **Arizona Seems to Have Decided it Doesn't Need a State Fund (As Did NV)**
- **Excerpts from Arizona Senate Bill 1045 (*2010 Second Regular Session*)**
  - On or before January 1, 2013, the state compensation fund board of directors, which terminates on July 1, 2012 pursuant to section 41-3012.19, Arizona Revised Statutes, **shall perform all acts necessary to establish a successor mutual insurer corporation.** The successor mutual insurer corporation shall operate to the same extent as any mutual casualty insurer that is licensed and authorized to write insurance in this state, subject to the authority and regulation by the department of insurance pursuant to title 28 20, chapter 4, article 1, Arizona Revised Statutes, and with all the powers and subject to all the laws, rules and requirements of a mutual insurer corporation that is organized under the laws of this state.
  - The **successor mutual insurer corporation is not an agency of this state** or a public entity of this state. The successor mutual insurer **corporation shall not use the term "state compensation fund" or "SCF" in its new name** or logo from and after June 30, 2014.

Source: State of Arizona; Insurance Information Institute.

Workers Compensation Premium Continues Its Sharp Decline

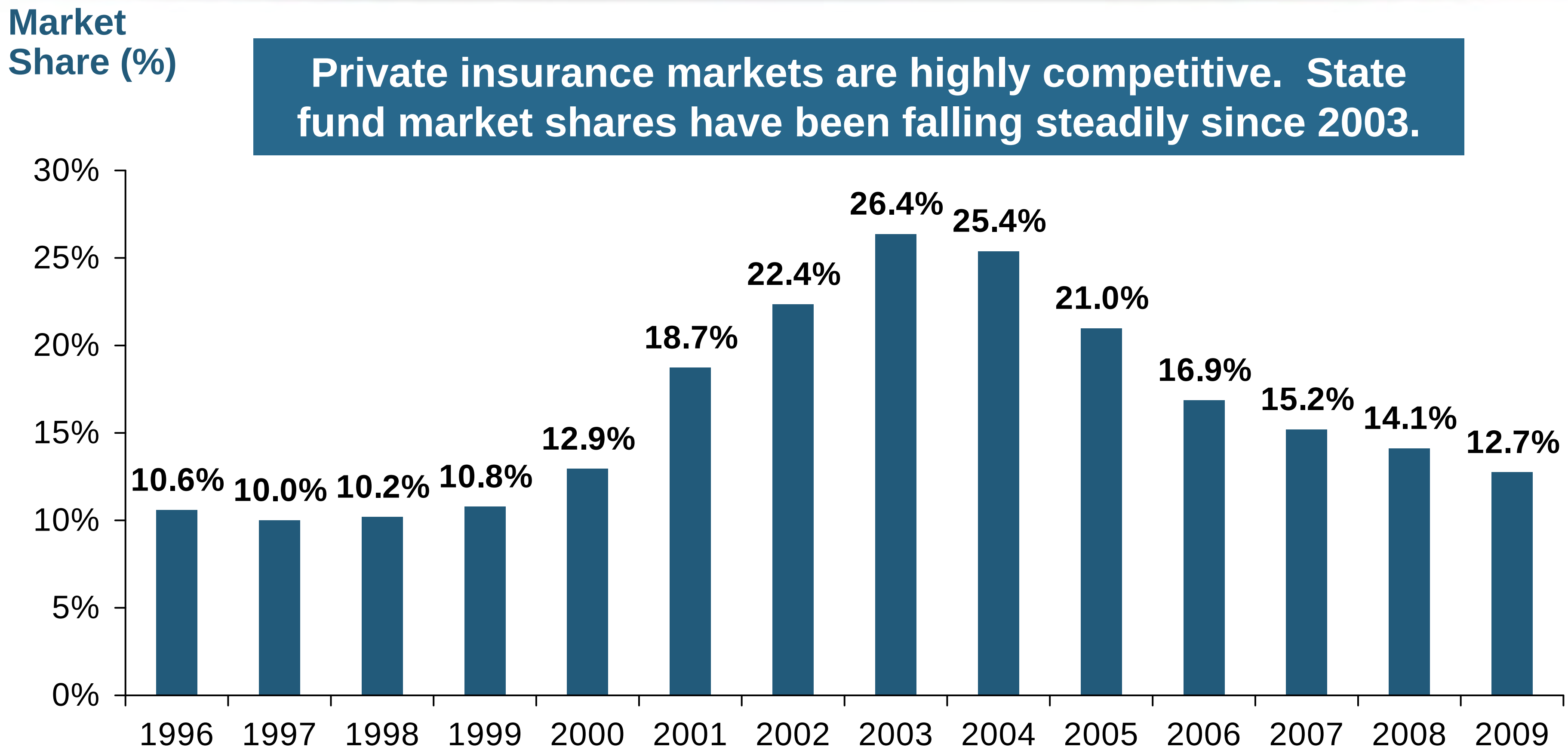


p Preliminary

Source: 1990–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI
1996–2009p 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

WC Competitive State Fund Market Share, 1996 – 2009p

Private insurance markets are highly competitive. State fund market shares have been falling steadily since 2003.



Competition, favorable underwriting trends, coverage options, private insurer innovations in risk management have all helped to make the private sector WC insurance the most attractive option in most cases

Source: 1990–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI, Insurance Information Institute Market Share calculations
1996–2009p 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; p: Preliminary

Workers Compensation State Fund Market Shares, 2008

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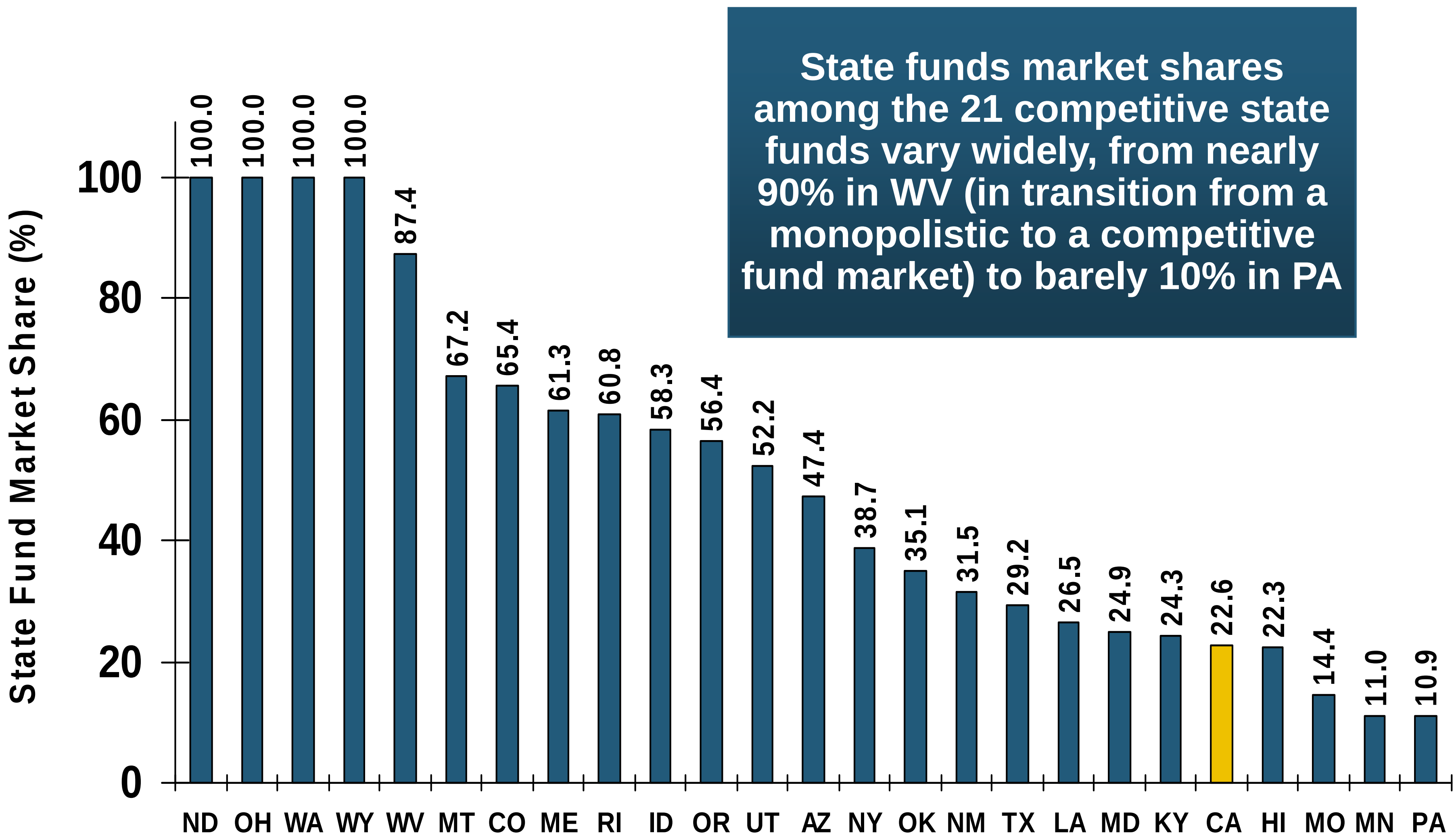
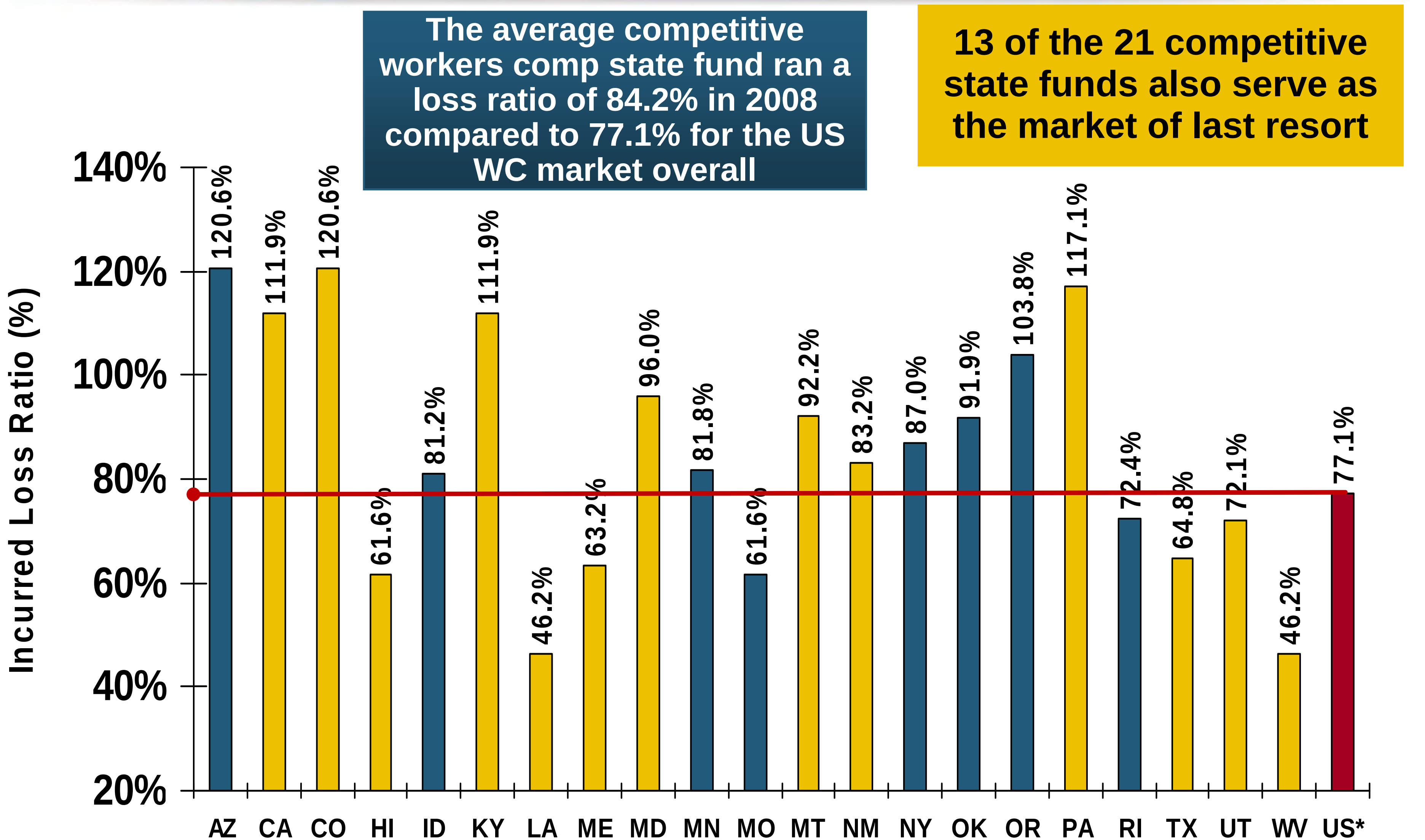


Source: Conning; Insurance Information Institute.

Workers Compensation State Fund Incurred Loss Ratio, 2008



Yellow bars = states where the state fund is also the market of last resort

Source: Conning; A.M. Best; Insurance Information Institute.

Comparison of State WC rates

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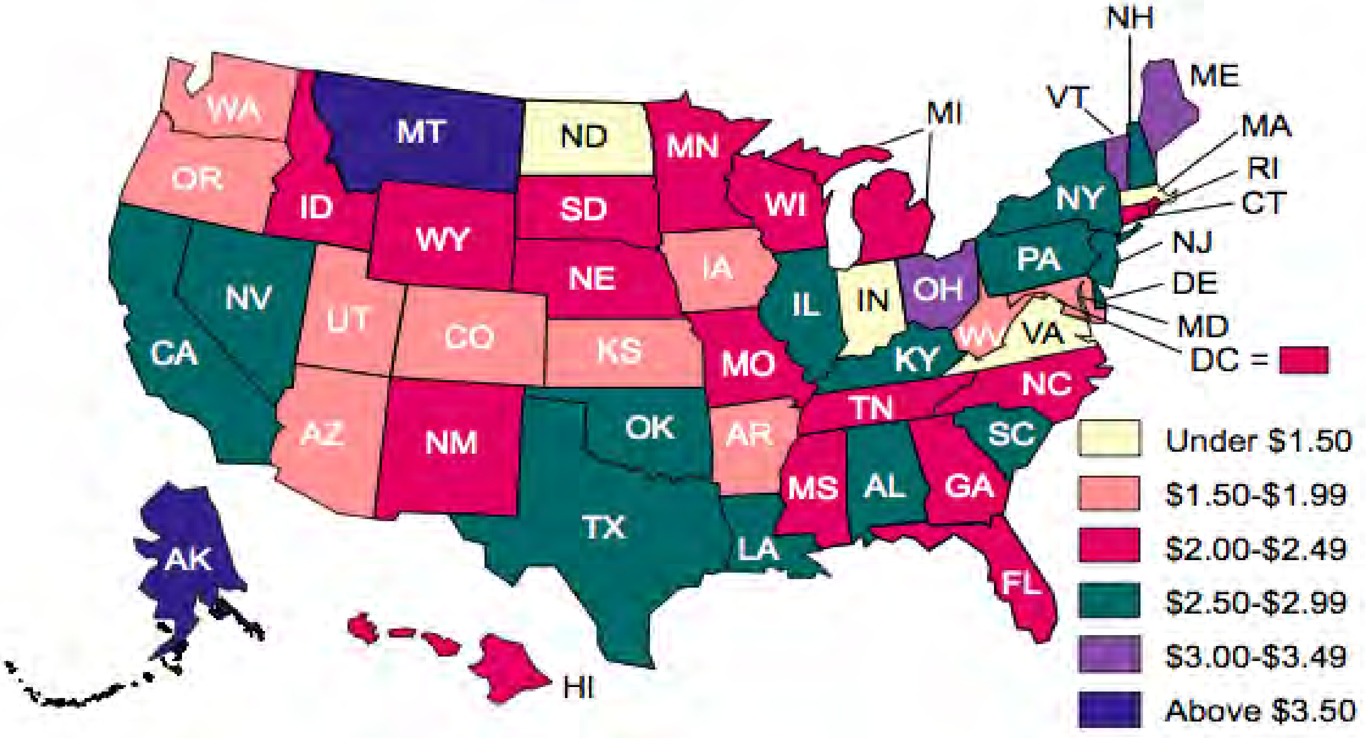
WC rates, on average, do not appear to be significantly higher or lower in states with workers comp state funds



California's WC rates are about average

Source: Oregon Workers' Compensation Premium Rate Ranking 2008. Rates weighted by Oregon's distribution of exposures by classification

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P-C Insurance and Workers Compensation Overview & Outlook

A Slow Motion Cyclical Turn is Underway

Profitability

Historically Volatile

P/C Net Income After Taxes 1991–2010:H1 ($ Millions)

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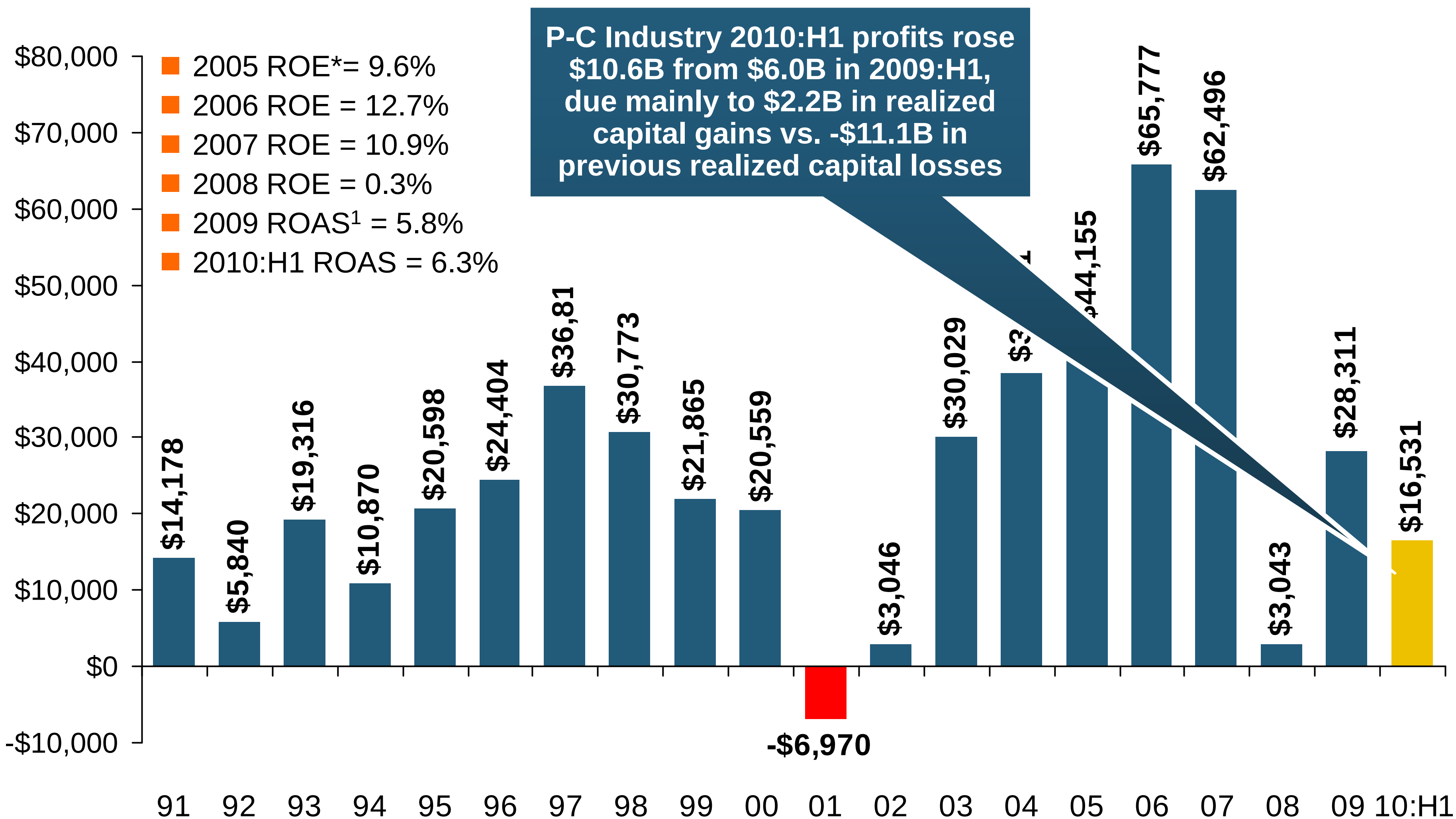
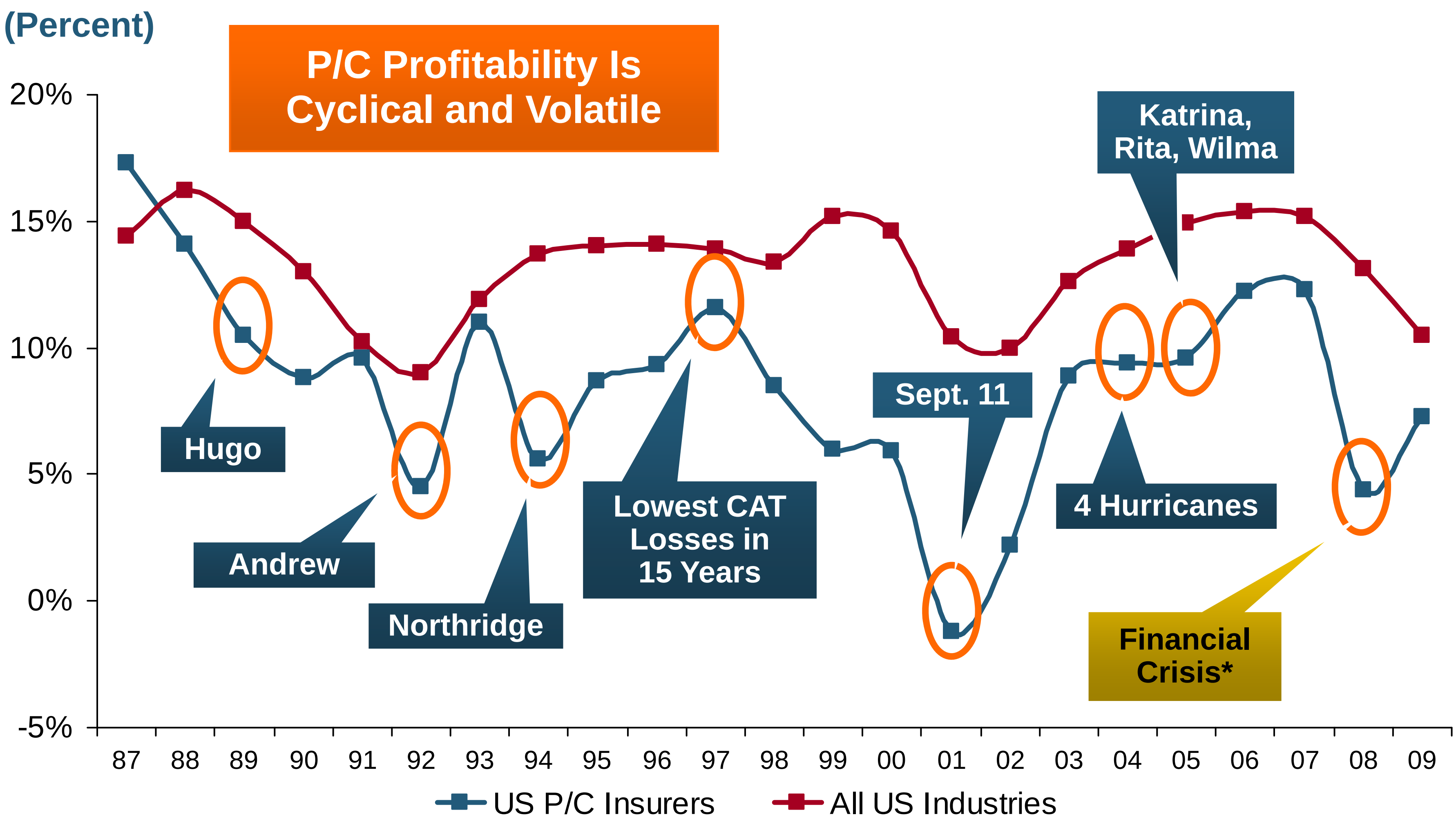


* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010:H1 and 4.6% for 2009. 2009:H1 net income was $19.2 billion and $10.2 billion in 2008:H1 excluding M&FG.

Sources: A.M. Best, ISO, Insurance Information Institute

ROE: P/C vs. All Industries 1987–2009*



* Excludes Mortgage & Financial Guarantee in 2008 and 2009.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1*

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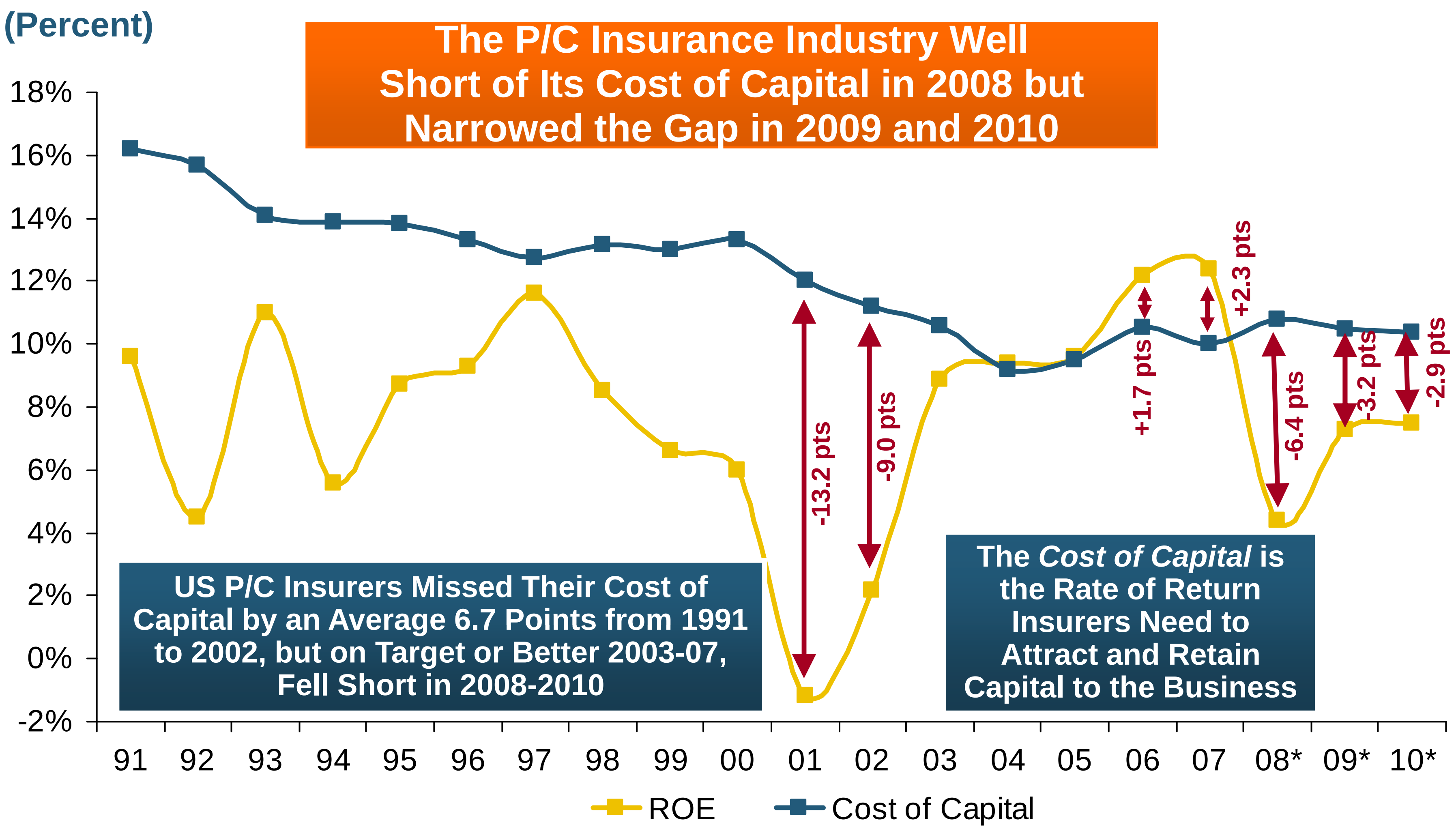

* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

A 100 Combined Ratio Isn't What It Once Was: 90-95 Is Where It's At Now

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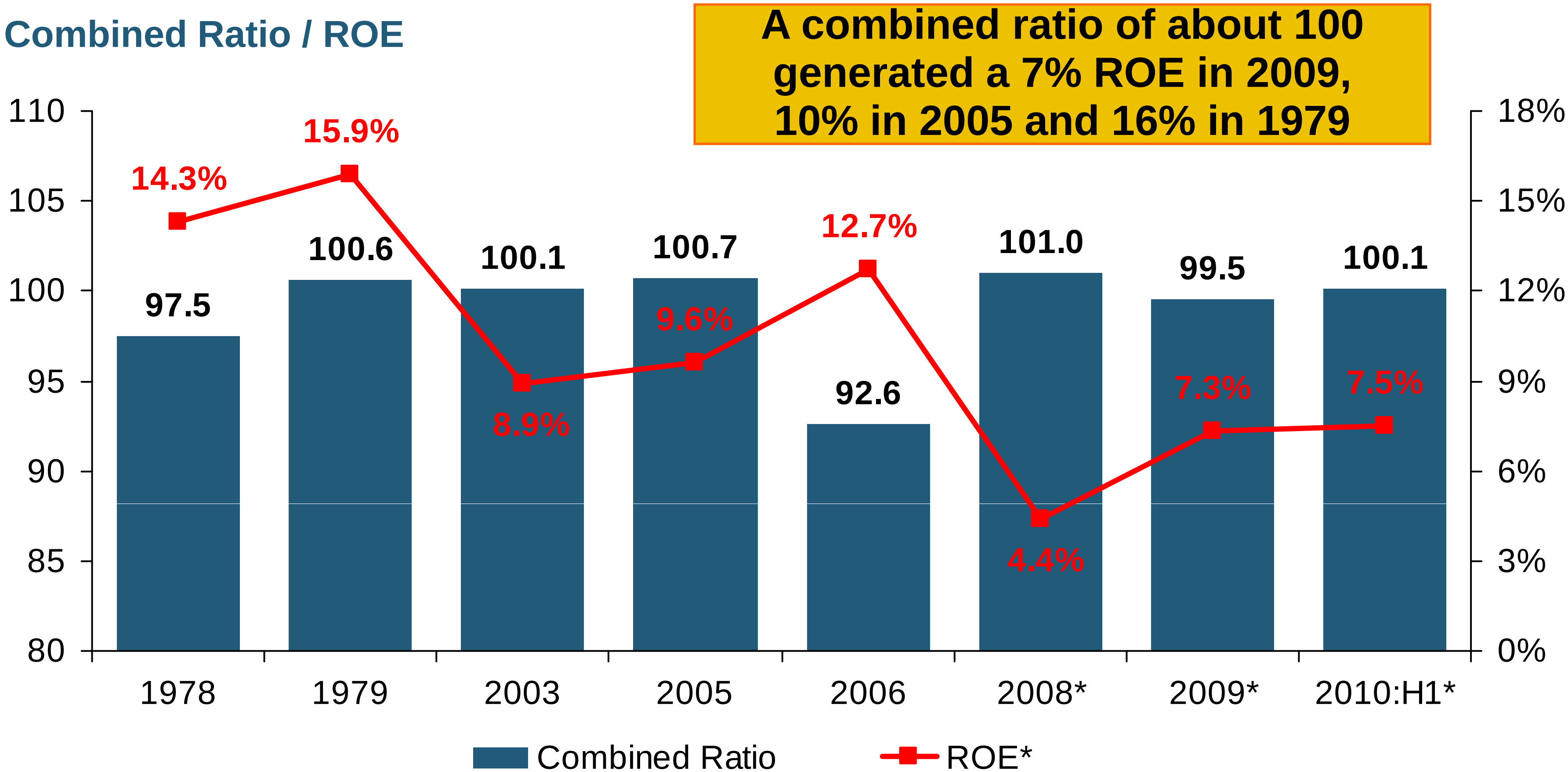
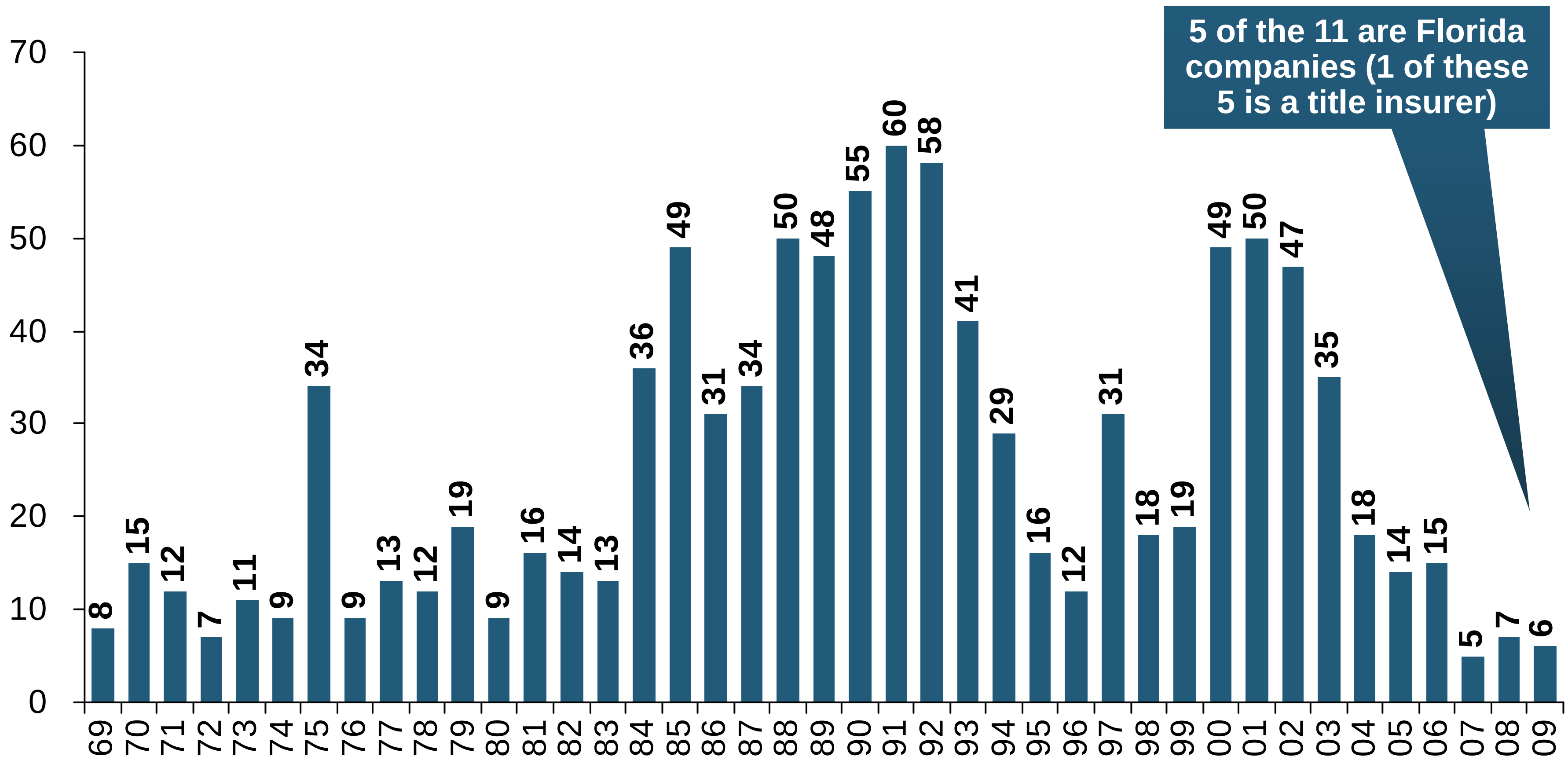


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010:Q1 figures are return on average statutory surplus. 2008, 2009 and 2010:H1figures exclude mortgage and financial guaranty insurers

Source: Insurance Information Institute from A.M. Best and ISO data.

P/C Insurer Impairments, 1969–2009

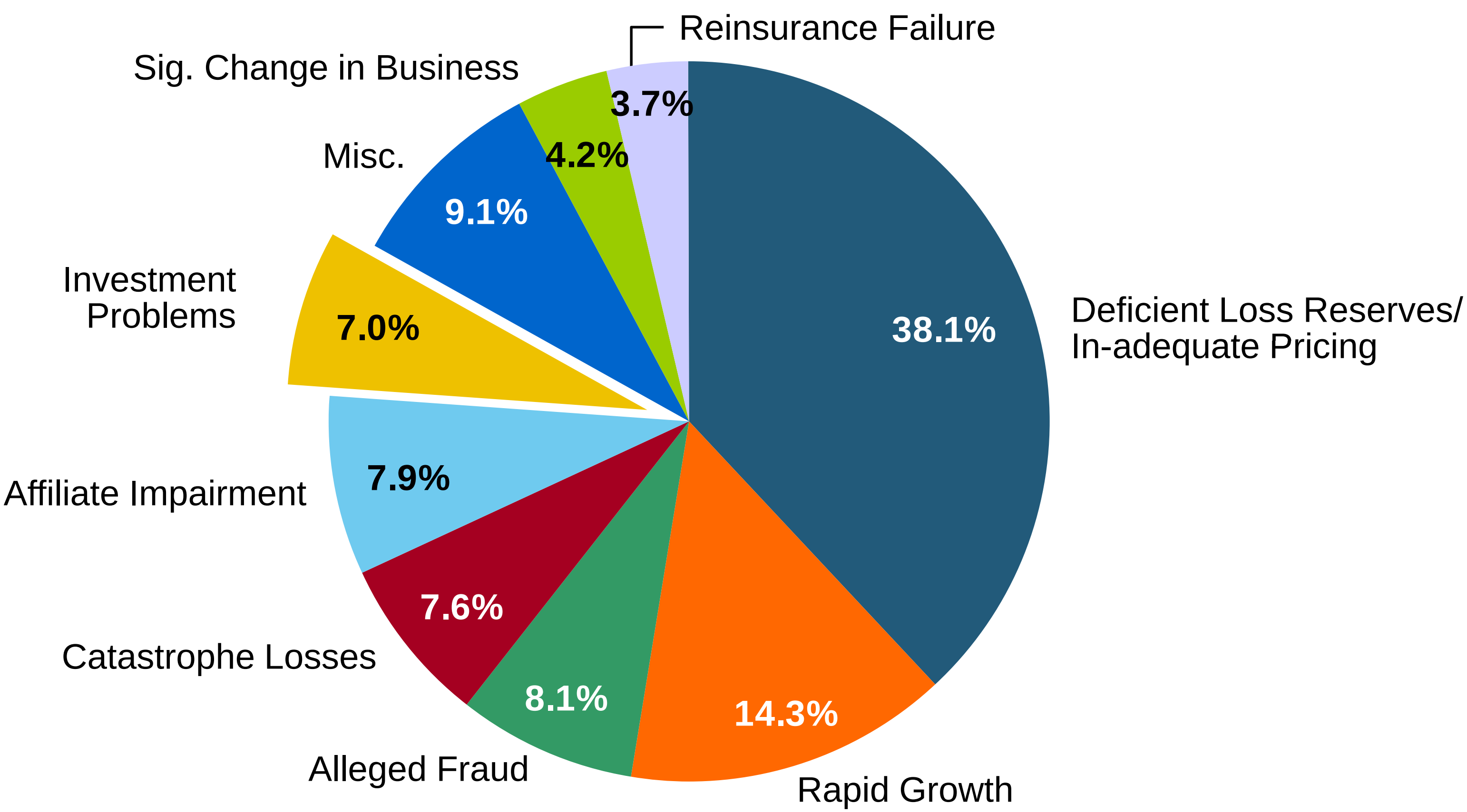


The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best; Insurance Information Institute.

Reasons for US P/C Insurer Impairments, 1969–2008

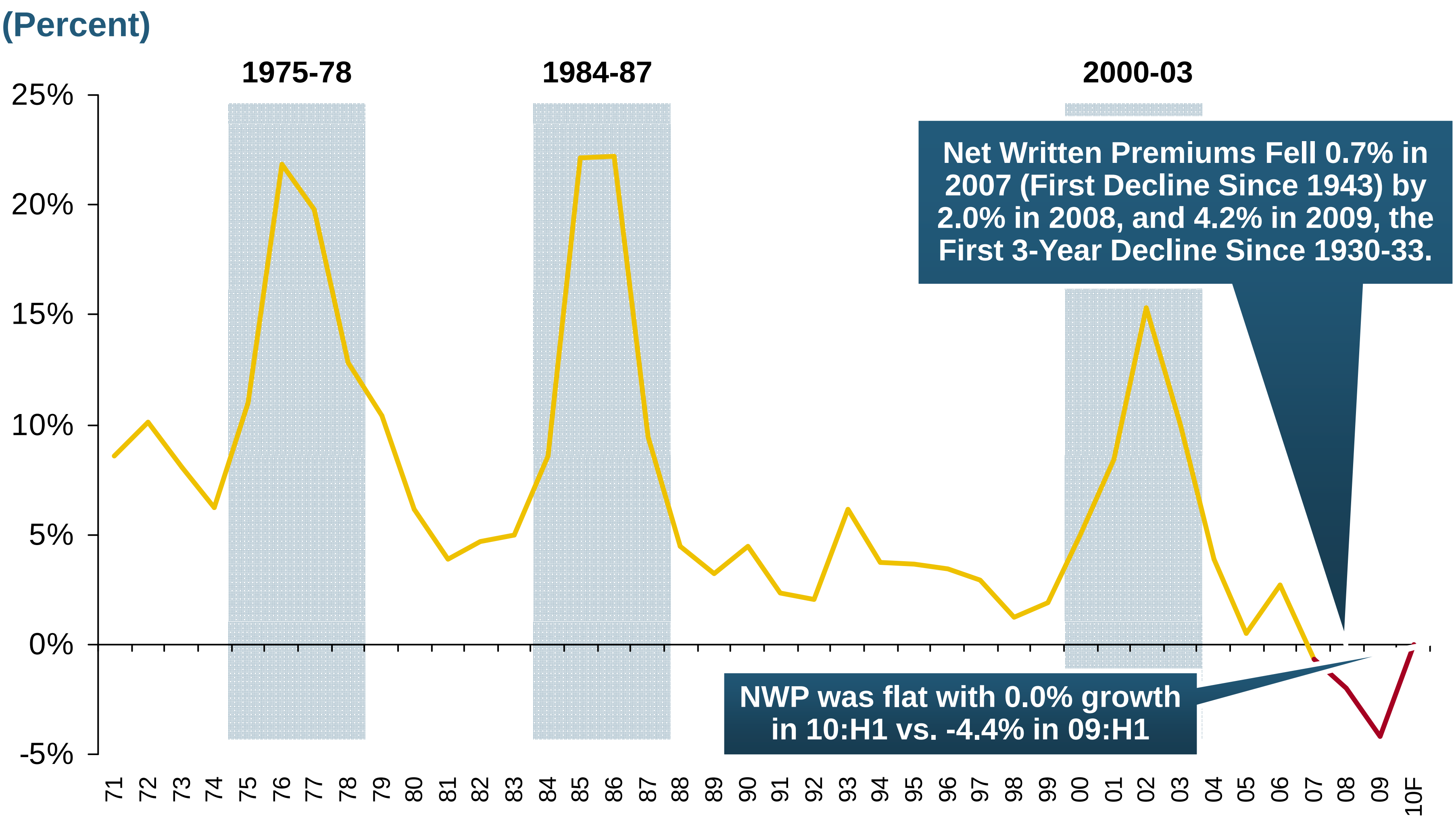
Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best: *1969-2008 Impairment Review*, Special Report, Apr. 6, 2009

P/C Premium Growth Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Soft Market Appears to Persist in 2010 but May Be Easing: Relief in 2011?

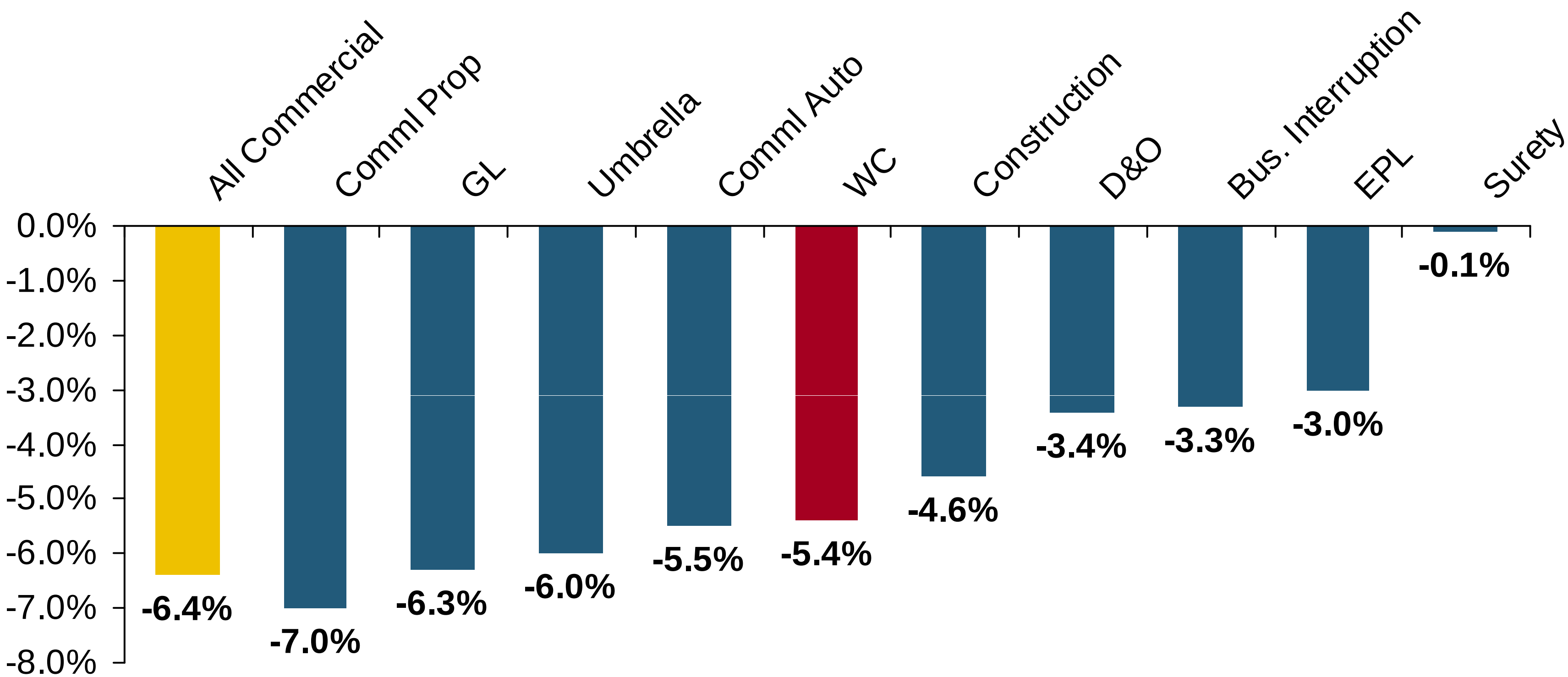


Shaded areas denote “hard market” periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Change in Commercial Rate Renewals, by Line: 2010:Q2

Percentage Change (%)

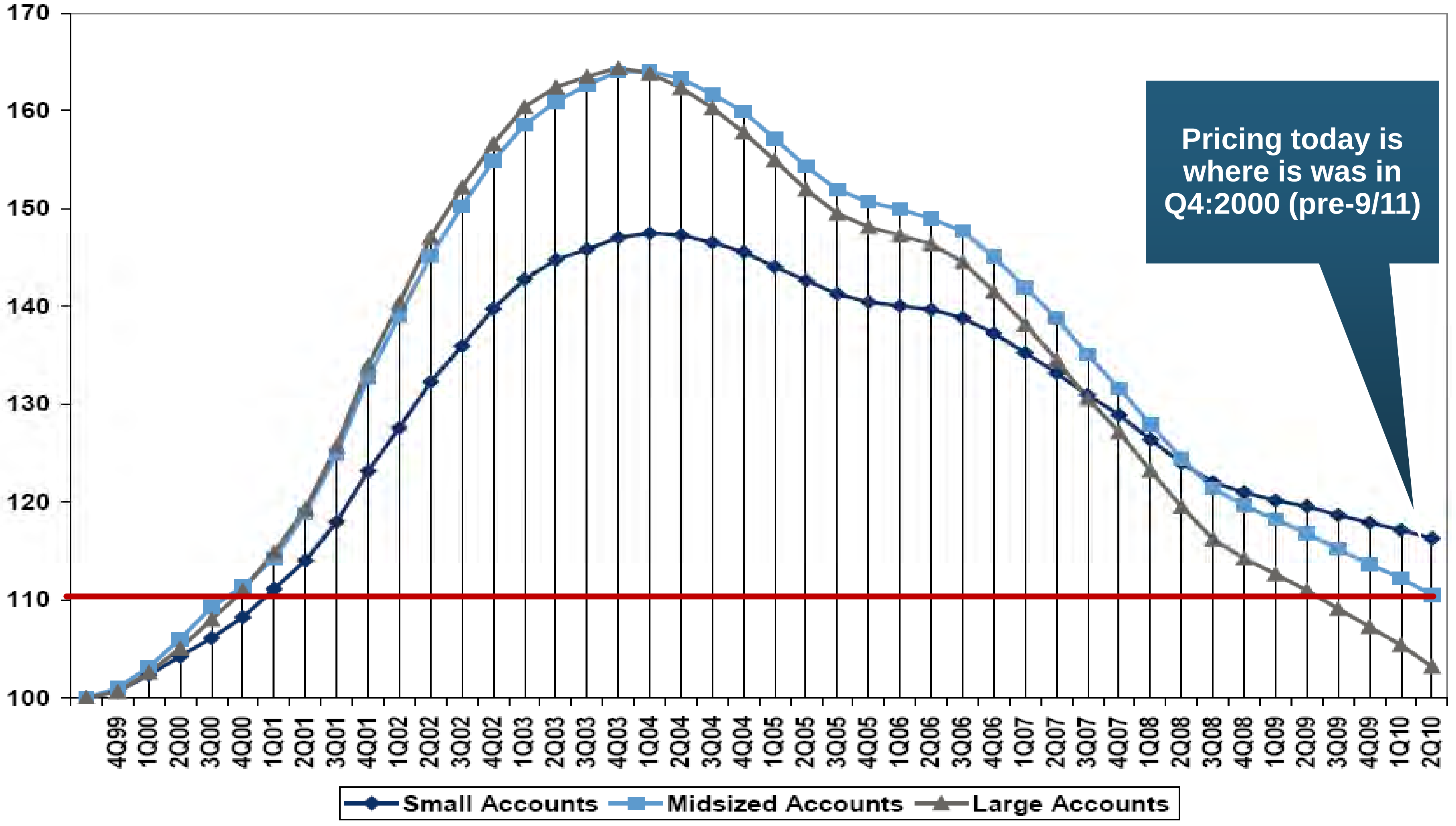


Most Major Commercial Lines Renewed Down in Q2:2010 at a Faster Pace than a year Earlier

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q2

1999:Q4 = 100



Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Net Written Premium Growth Forcasts by Line: 2010 - 2012

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Line	2010F	2011F	2012F
All Lines	1.8%	5.0%	5.4%
Personal Auto	3.1	5.2	5.0
Homeowners	4.7	5.2	5.0
Workers Comp	-4.0	5.5	10.0
Commercial Auto	1.5	8.1	6.9
Commercial Multiperil	1.5	6.3	7.3
General Liability	1.3	5.8	5.8
Inland Marine	2.0	4.5	5.0

Source: Conning, Second Quarter 2010 forecast.

Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market

Policyholder Surplus, 2006:Q4–2010:Q2

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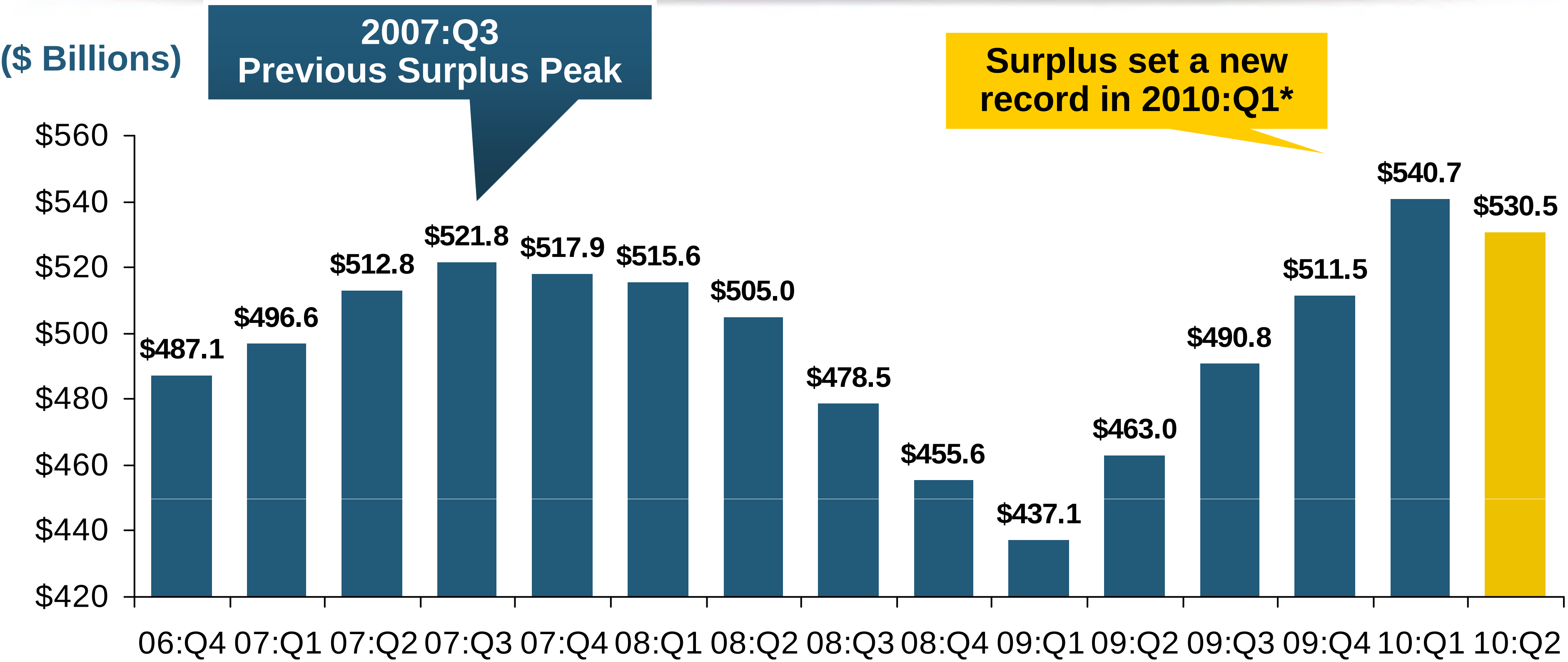


*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business

Quarterly Surplus Changes Since 2009:Q1 Trough

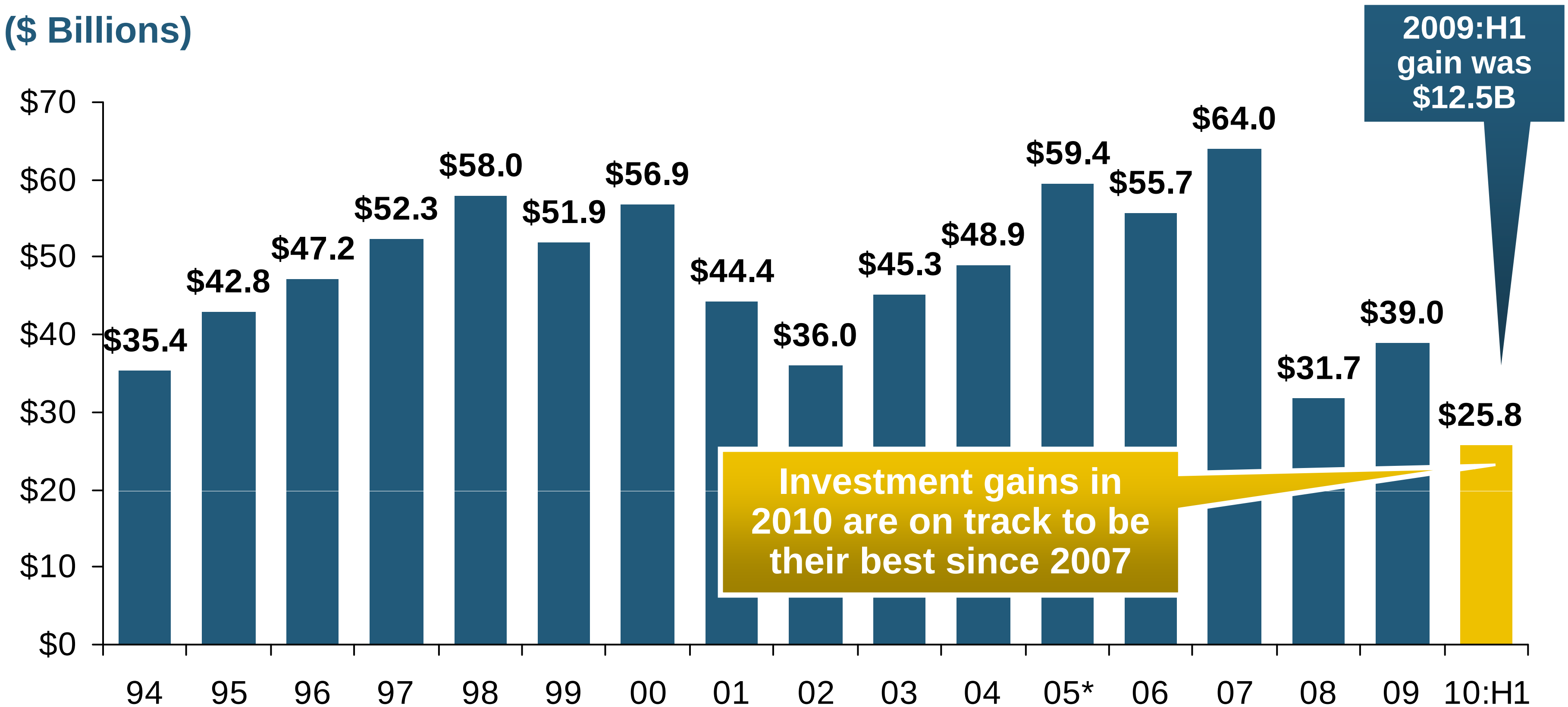
09:Q1: -$84.7B (-16.2%)	*10:Q1: +$18.9B (+3.6%)*
09:Q2: -$58.8B (-11.2%)	10:Q2: -$10.2B (-1.9%)
09:Q3: -$31.8B (-5.9%)	
09:Q4: -$10.3B (-2.0%)	

Sources: ISO, A.M .Best.

Investment Performance

Investments Are a Principle Source of Declining Profitability

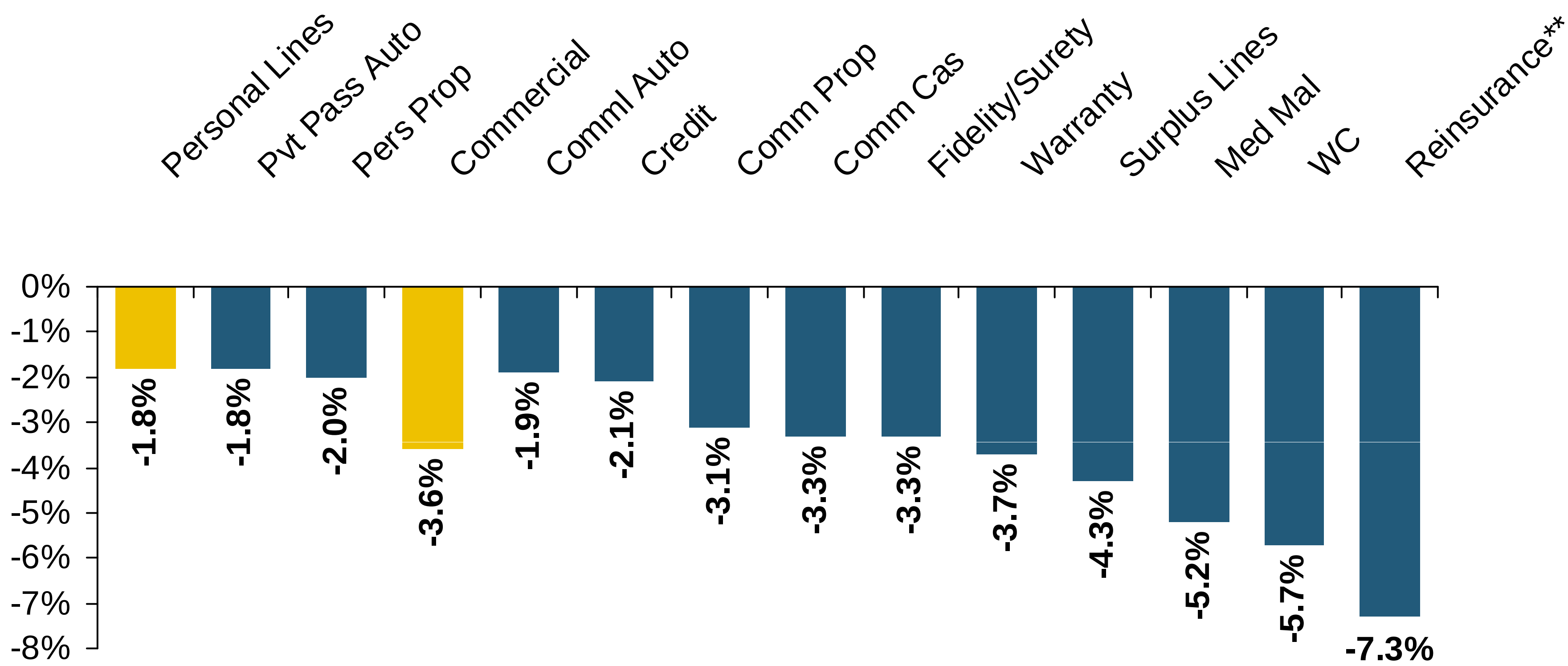
Property/Casualty Insurance Industry Investment Gain: 1994–2010:H1[1]



In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly $20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Are Recovering So Far in 2010

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B.
Sources: ISO; Insurance Information Institute.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

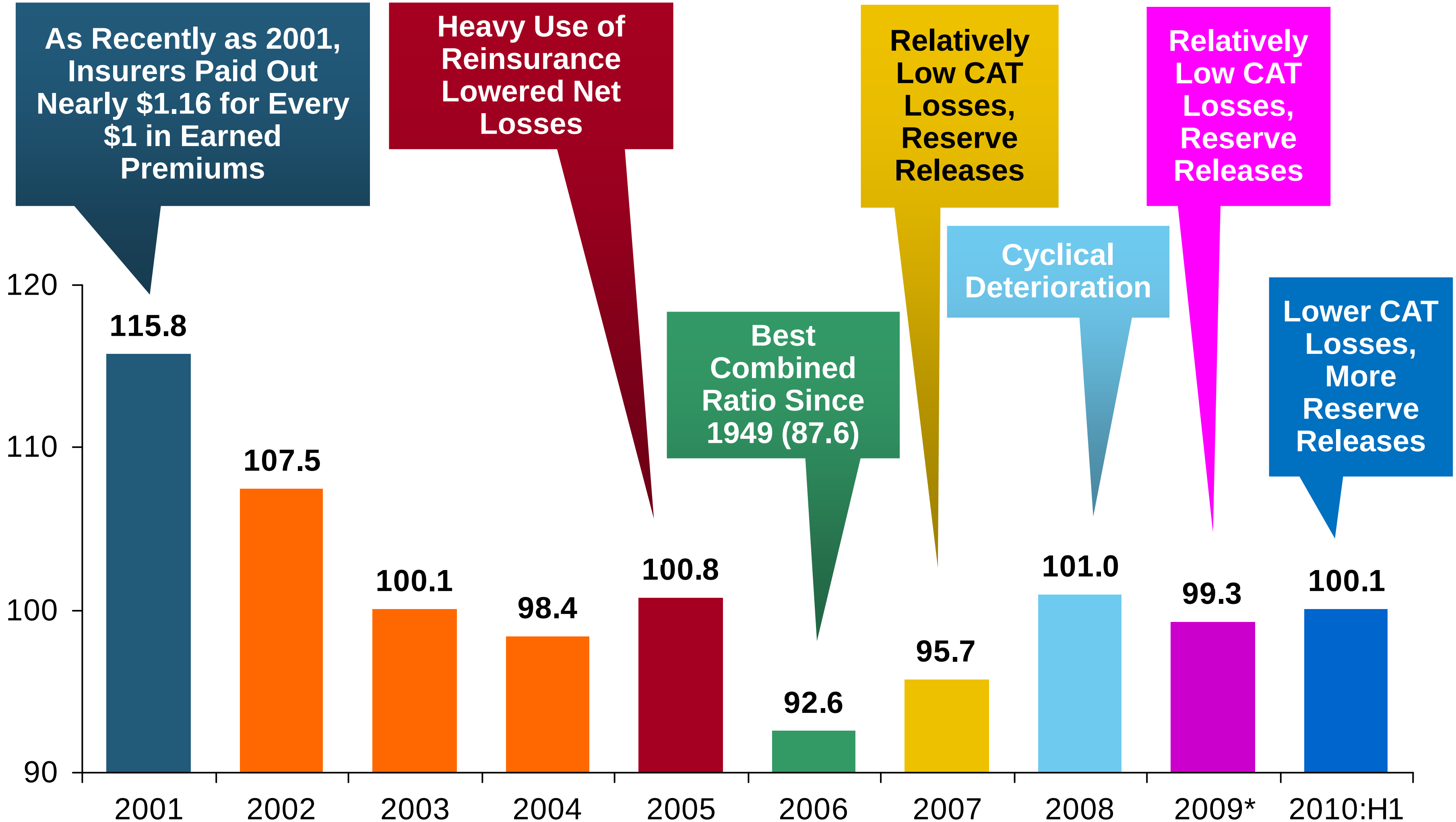
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

Source: A.M. Best; Insurance Information Institute.

Underwriting Trends – Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008's Drivers

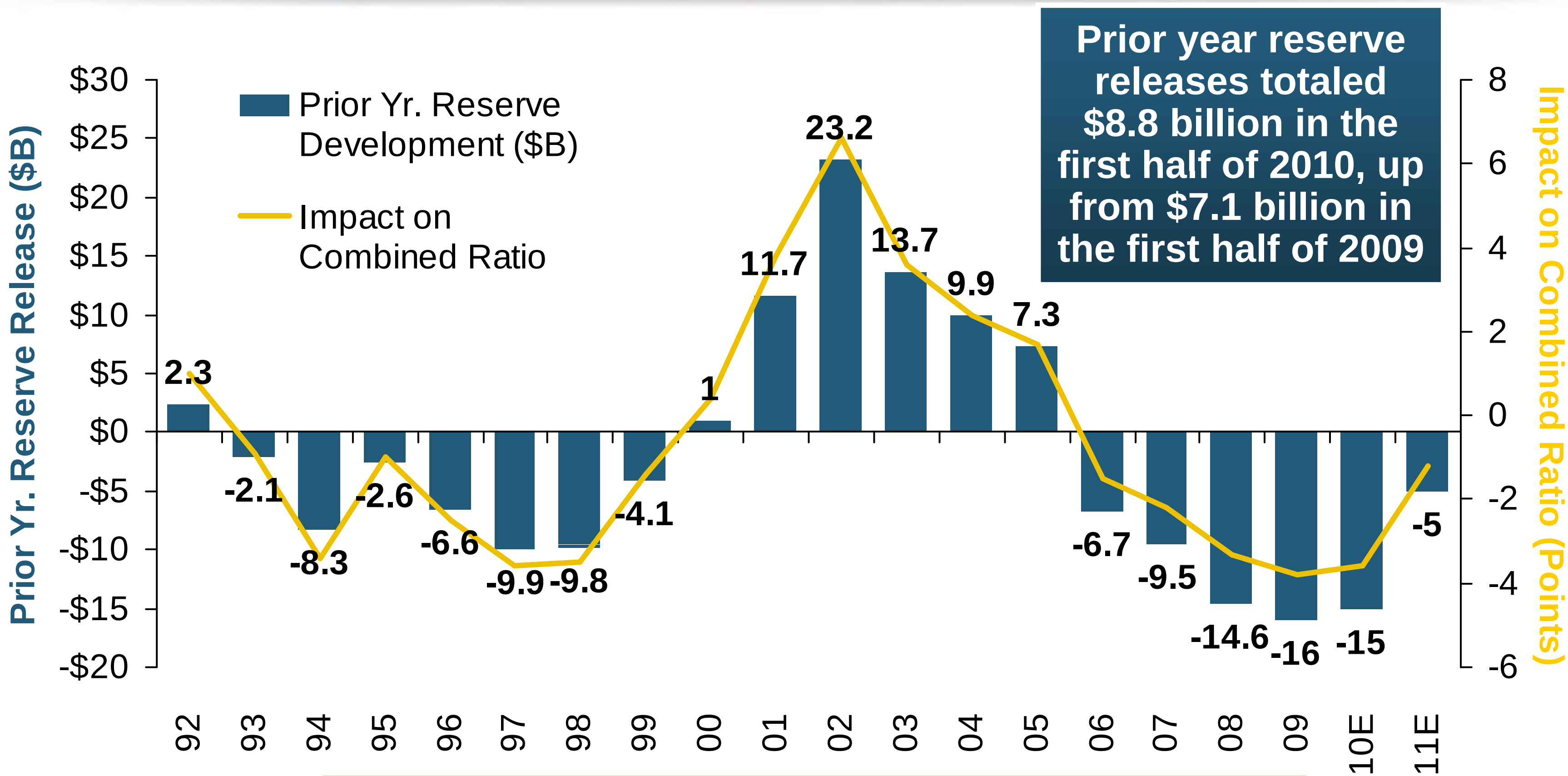
P/C Insurance Industry Combined Ratio, 2001–2010:H1*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:H1=101.7

Sources: A.M. Best, ISO.

P/C Reserve Development, 1992–2011E



Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

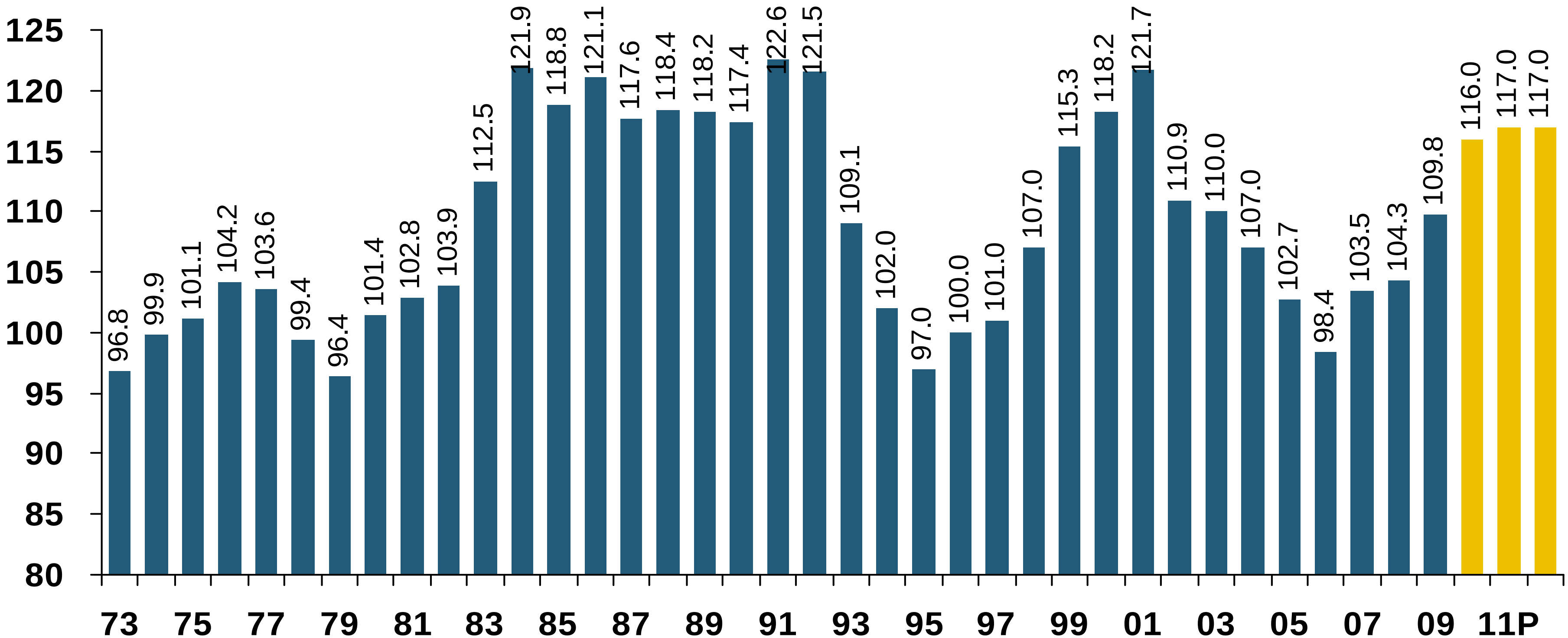
Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Workers Compensation Operating Environment

The Weak Economy and Soft Market Have Made the Workers Comp Operating Increasingly Challenging

Workers Compensation Combined Ratio: 1973–2012P



Workers Comp Underwriting Results Are Deteriorating Markedly

Sources: A.M. Best; Insurance Information Institute.

Calendar Year Reserve Deficiency Increased in 2009

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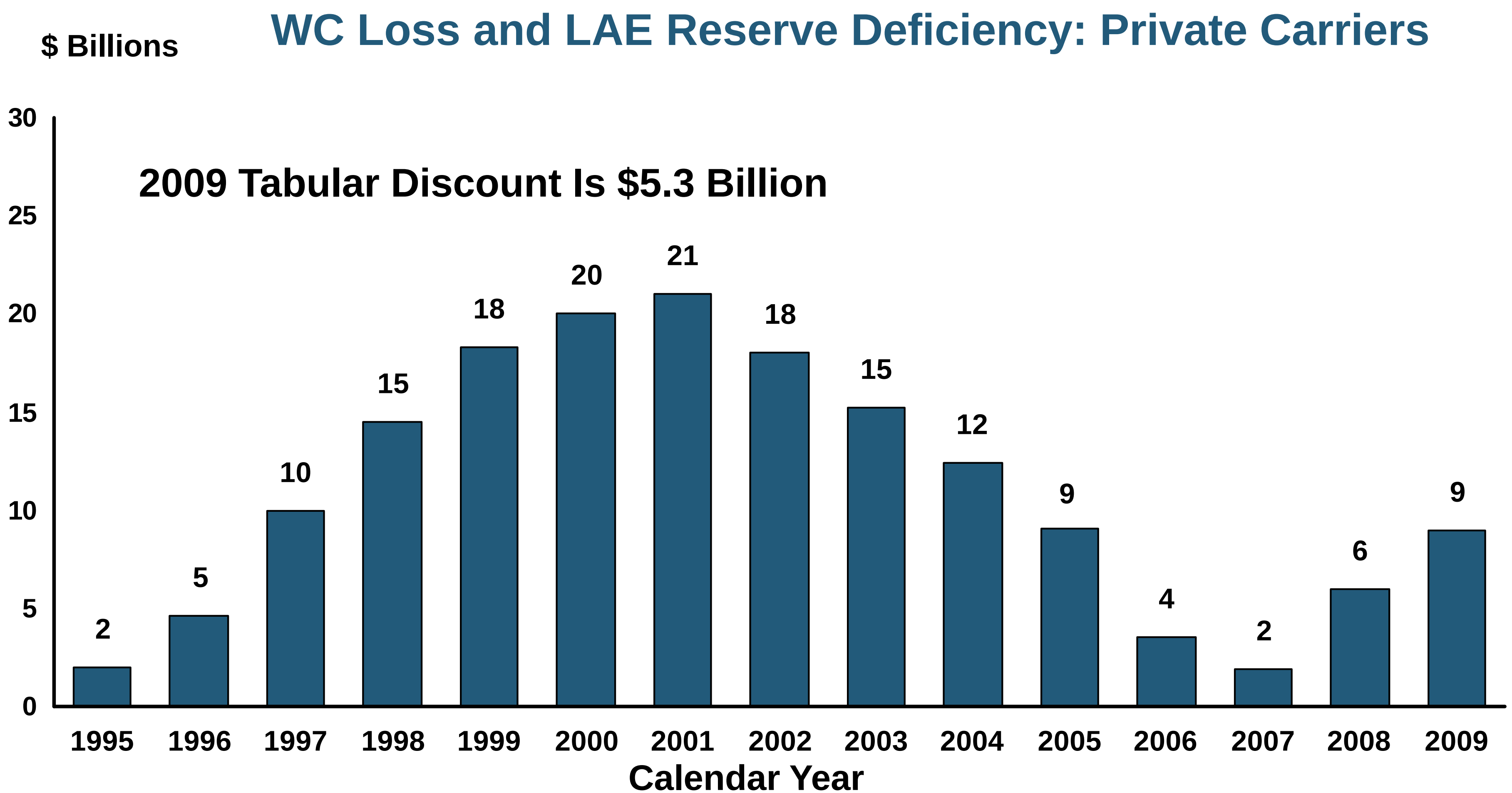

Considers all reserve discounts as deficiencies

Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

Source: NCCI analysis

Workers Compensation Medical & Indemnity Claim Cost Trends

Rising Medical Costs Exert Pressure While Indemnity Costs Rise Well Ahead of Wage Inflation

Workers Comp Medical Claim Costs Continue to Rise

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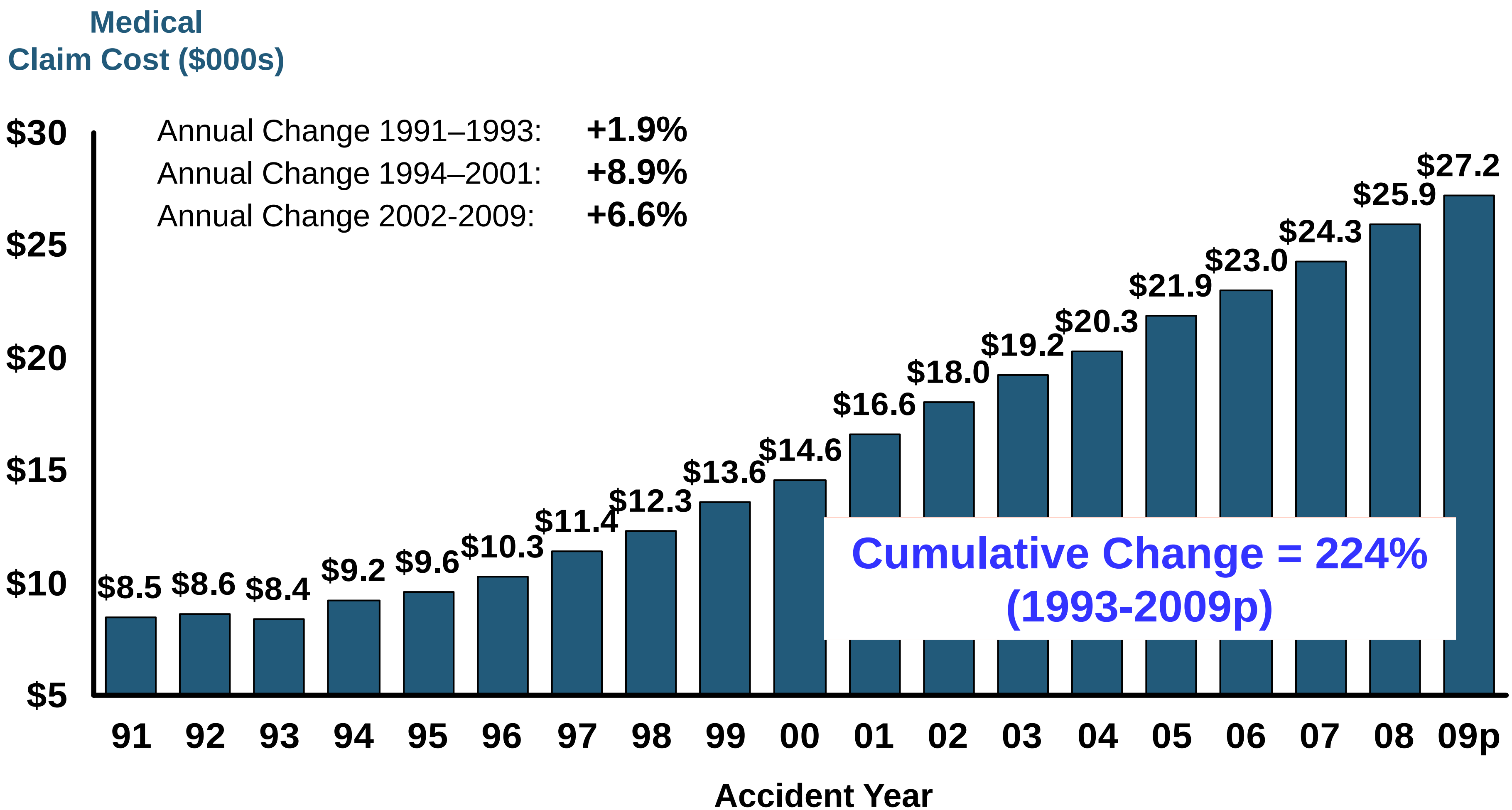
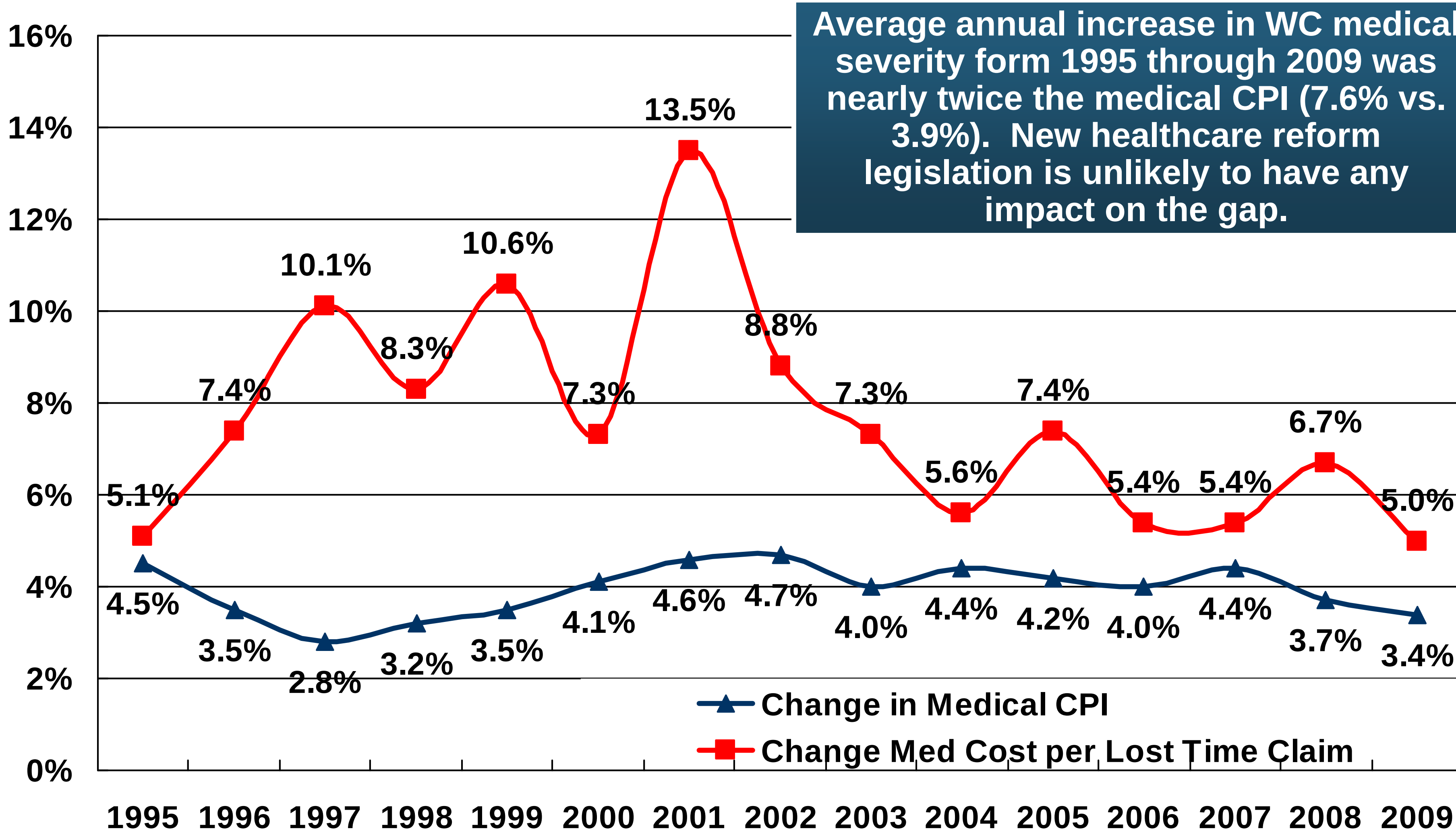


2009p: Preliminary based on data valued as of 12/31/2009
1991-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

WC Medical Severity Rising at Twice the Medical CPI Rate



Average annual increase in WC medical severity form 1995 through 2009 was nearly twice the medical CPI (7.6% vs. 3.9%). New healthcare reform legislation is unlikely to have any impact on the gap.

Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

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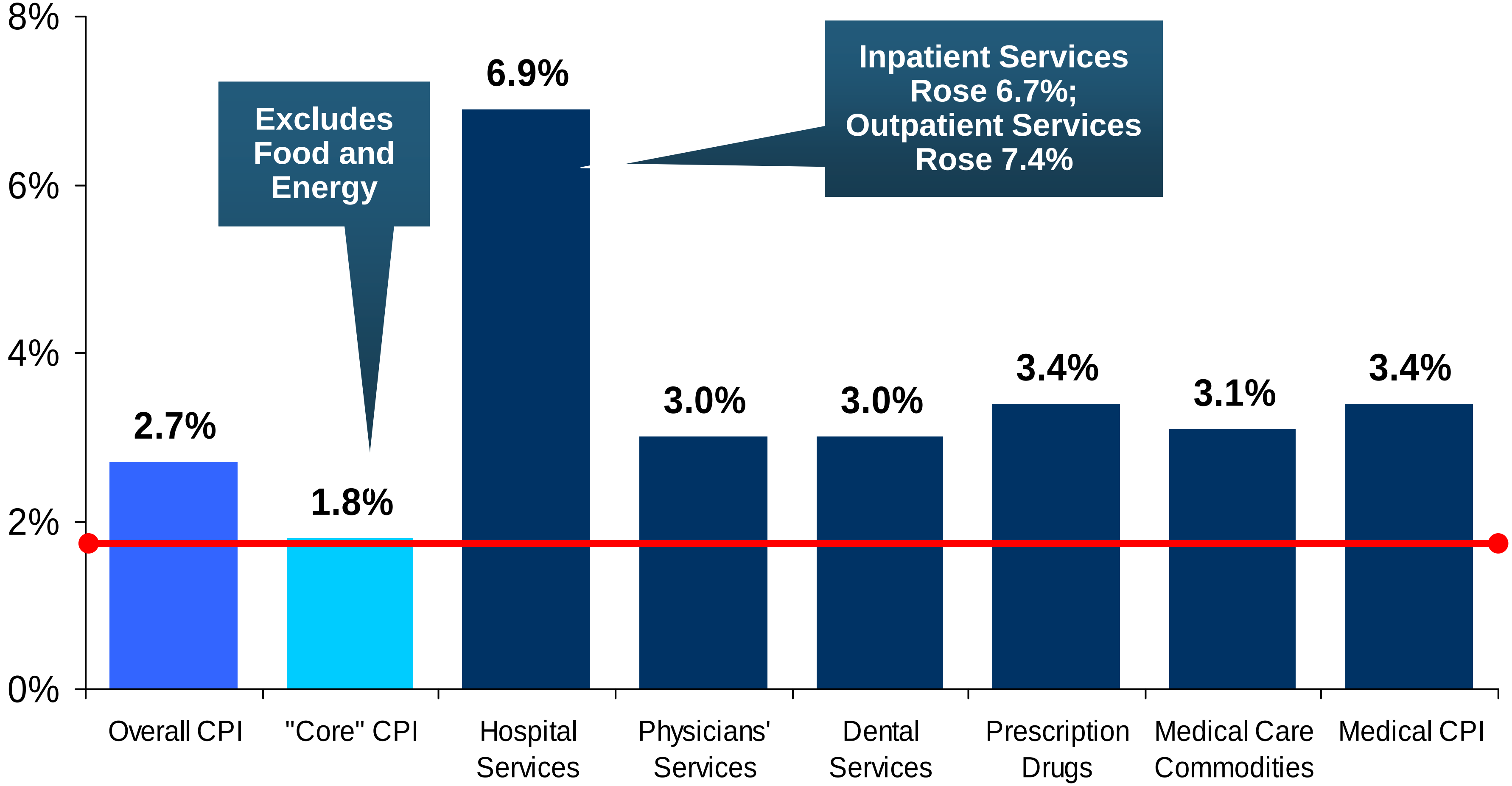
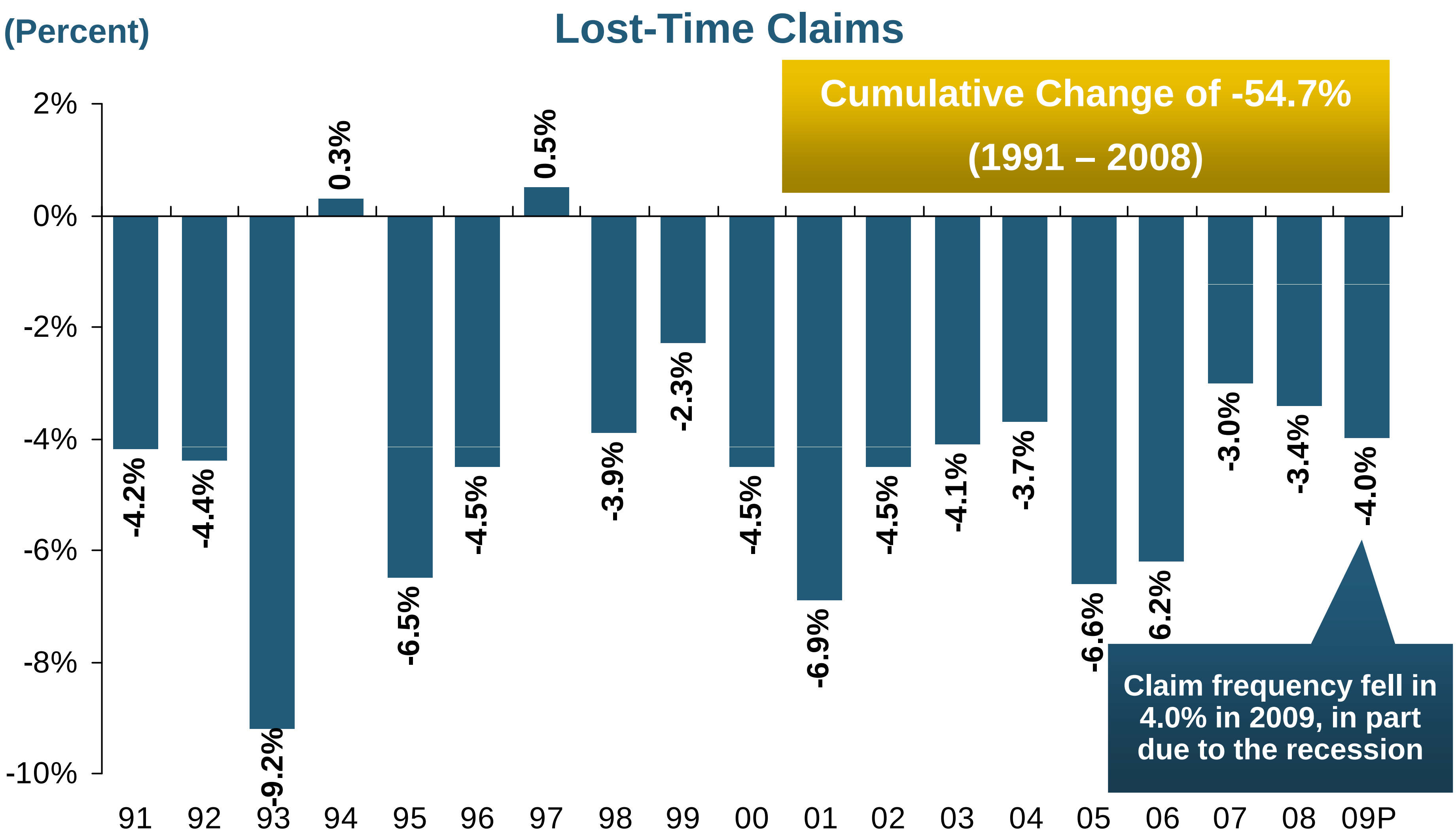
(Percent increase Dec 08 to Dec 09)



Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

Source: Bureau of Labor Statistics; Insurance Information Institute.

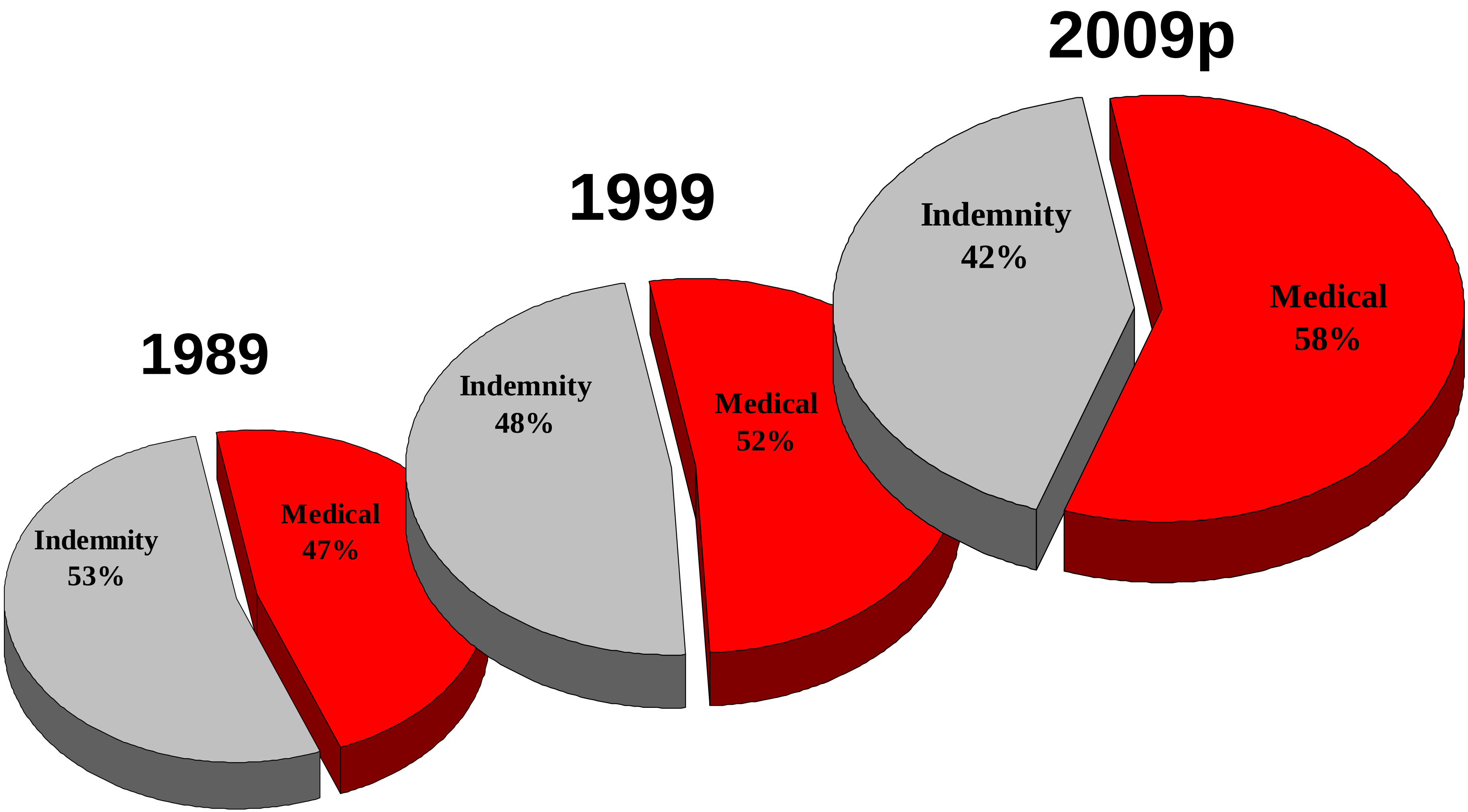
Workers Compensation Lost-Time Claim Frequency Continues to Decline*



2009p: Preliminary based on data valued as of 12/31/2009;
1991-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds; Excludes the effects of deductible policies

*Frequency is defined as the number of lost-time claims per 100,000 workers.

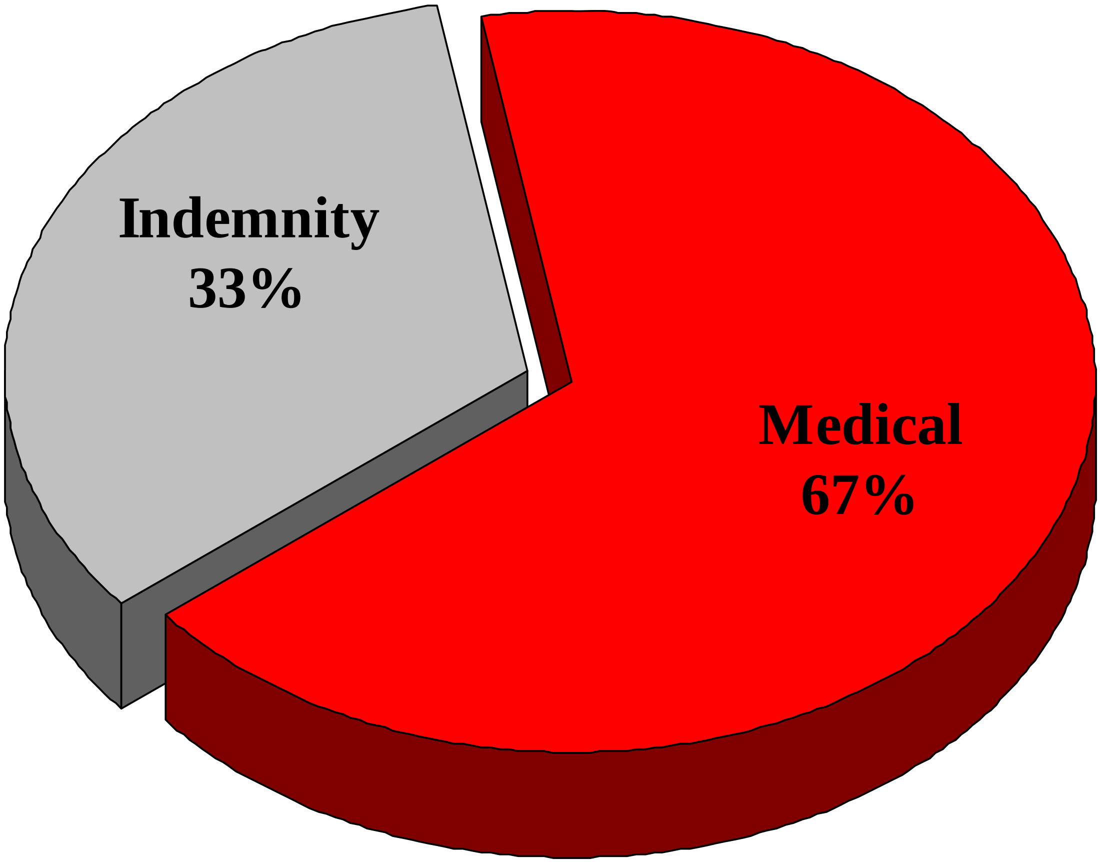
Med Costs Share of Total Costs is Increasing Steadily



Source: NCCI (based on states where NCCI provides ratemaking services).

WC Med Cost Will Equal 2/3 of Total by 2019 if Trends Hold

2019 Estimate



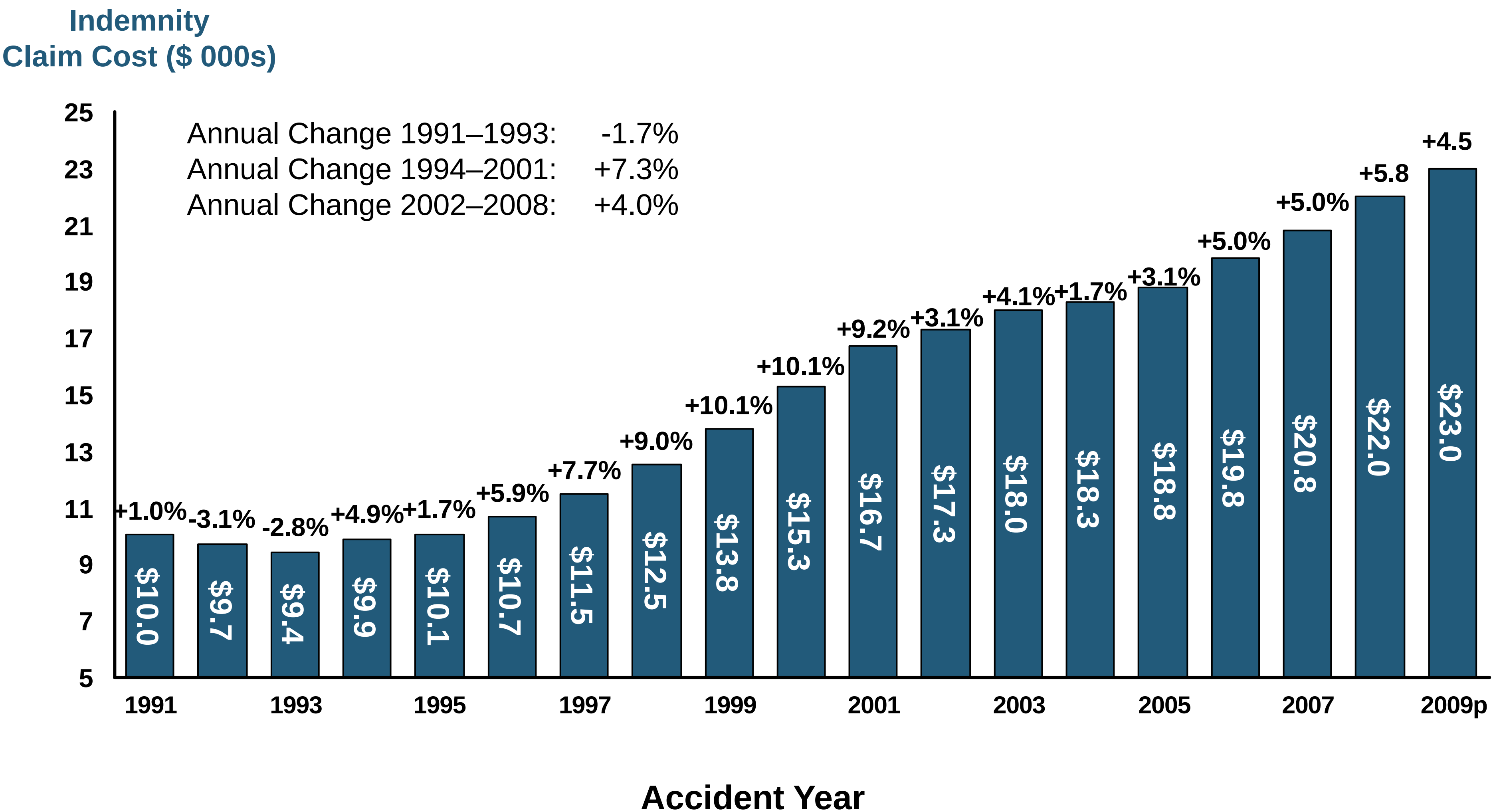
This trend will likely be supported by the increased labor force participation of workers age 55 and older.

Source: Insurance Information Institute.

Indemnity Claim Cost Trends

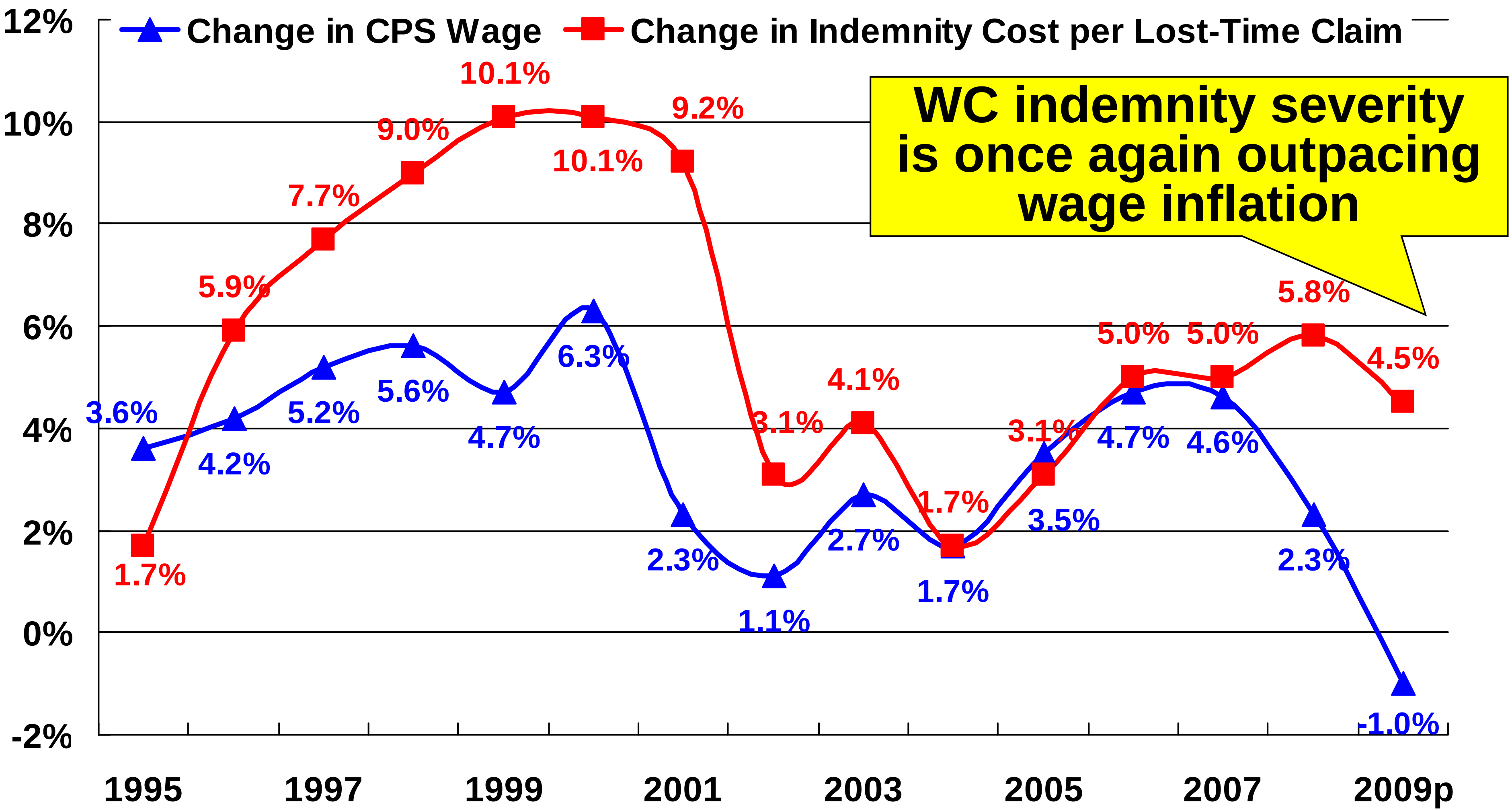
Indemnity Costs Continue to Rise at a Pace Above Wage Inflation

Workers Comp Indemnity Claim Costs Continue to Grow



2009p: Preliminary based on data valued as of 12/31/2009
1991–2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

WC Indemnity Severity vs. Wage Inflation



2009p: Preliminary based on data valued as of 12/31/2009; 1991-2008: Based on data through 12/31/2008, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.
Source: NCCI

Dollar Change* in Average Hourly Earnings, June 2006 – August 2010

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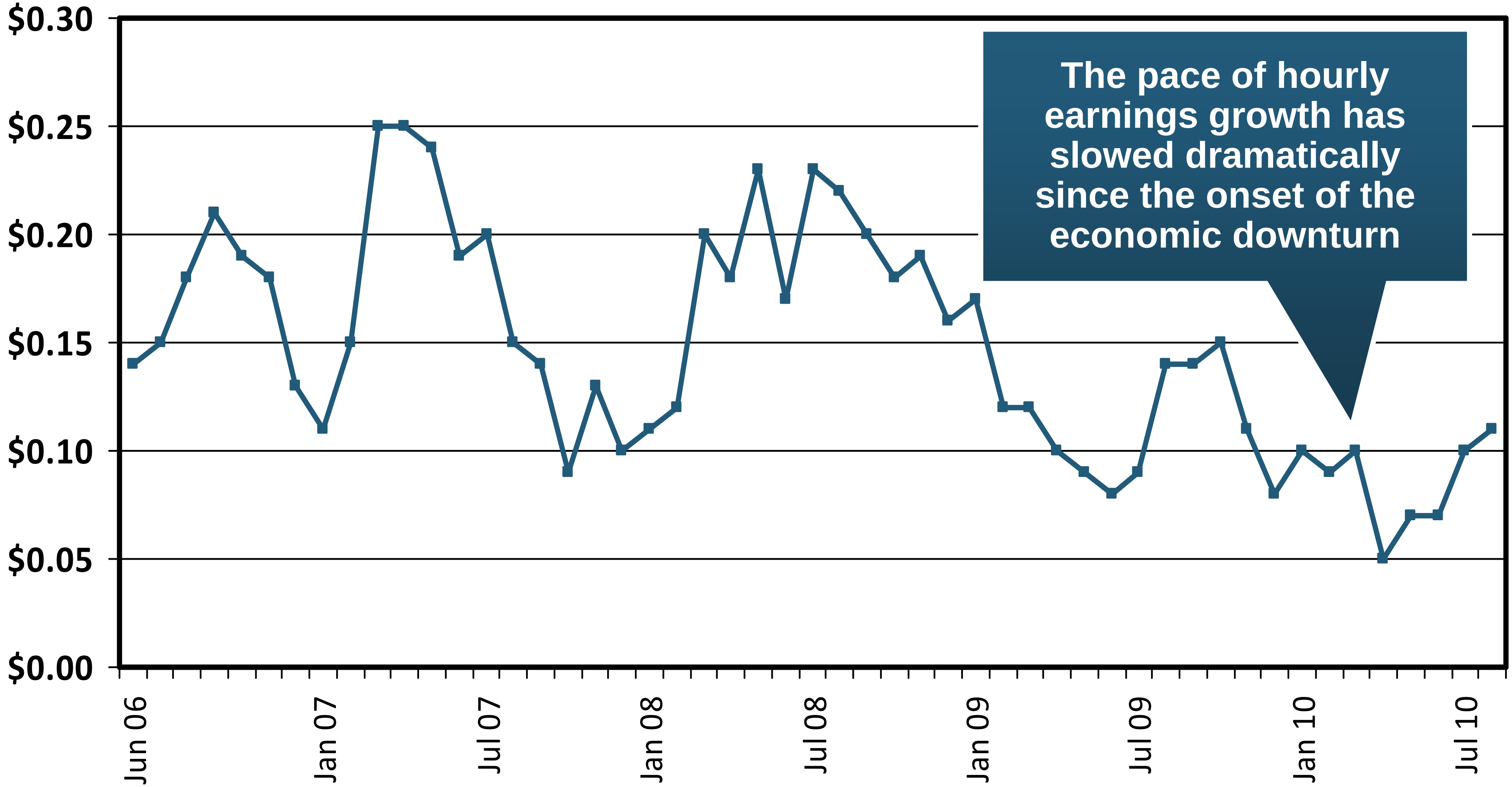

Average Hourly Earnings Grew at Least $0.05 in Every 3-Month Period Since June 2006.

*3-month net change, seasonally adjusted

Source: http://data.bls.gov/PDQ/servlet/SurveyOutputServlet

Total Wages, California 2001-2009

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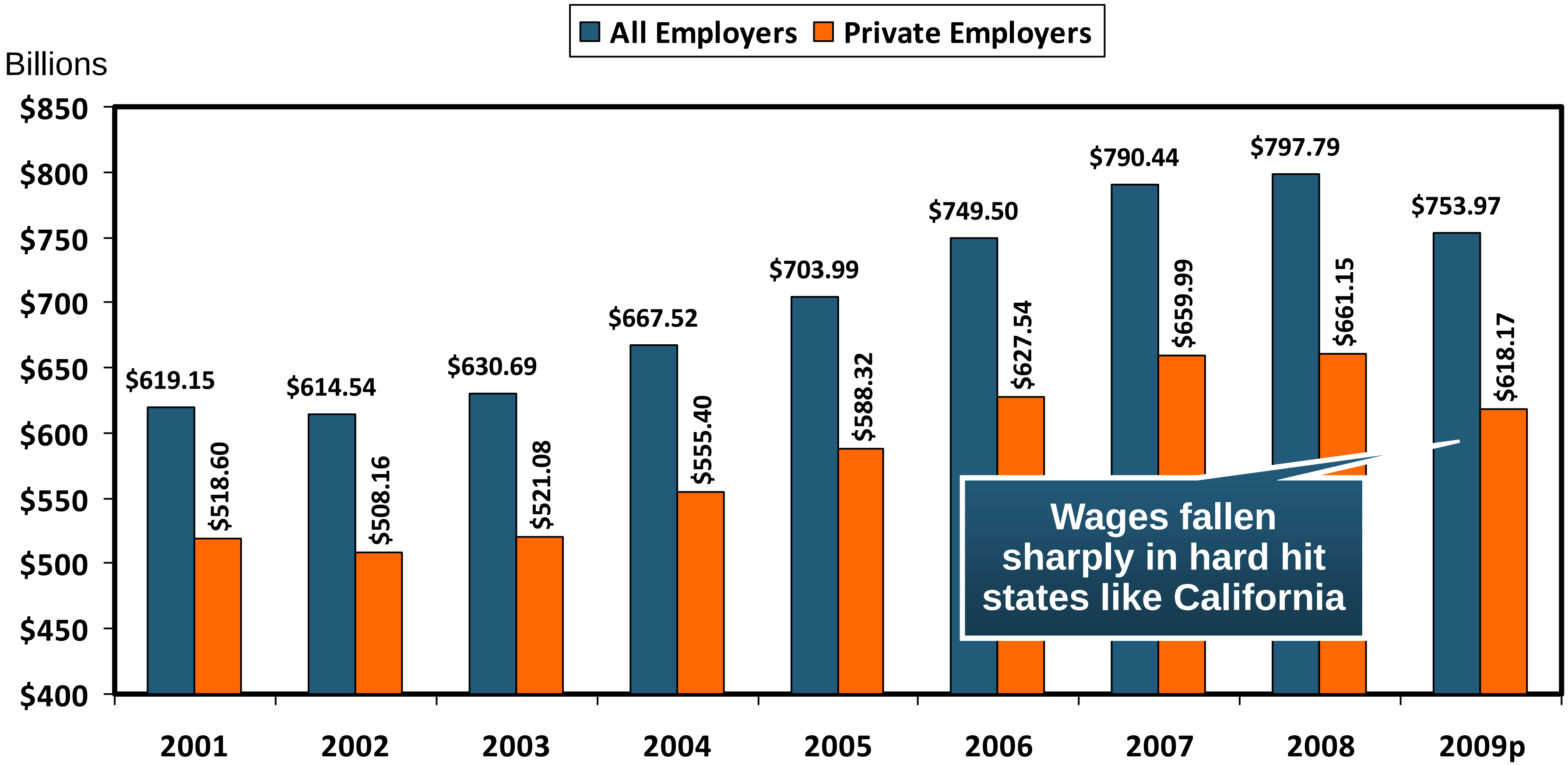

Recessions Cause Payrolls to Shrink. The 2001 Recession Saw a 2.0% Decline in Private Wages; the 2008-09 Dropoff was 6.3%.

Source: http://data.bls.gov

Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

Fastest Growing Occupations, 2008–2018: *Health/Science/Tech Dominate*

INSURANCE INFORMATION INSTITUTE

WC exposure growth the fastest in the health, science and tech areas

Occupations	Percent change	Number of new jobs *(in thousands)*	Wages (May 2008 median)	Education/training category
Biomedical engineers	72	11.6	$ 77,400	Bachelor's degree
Network systems and data communications analysts	53	155.8	71,100	Bachelor's degree
Home health aides	50	460.9	20,460	Short-term on-the-job training
Personal and home care aides	46	375.8	19,180	Short-term on-the-job training
Financial examiners	41	11.1	70,930	Bachelor's degree
Medical scientists, except epidemiologists	40	44.2	72,590	Doctoral degree
Physician assistants	39	29.2	81,230	Master's degree
Skin care specialists	38	14.7	28,730	Postsecondary vocational award
Biochemists and biophysicists	37	8.7	82,840	Doctoral degree
Athletic trainers	37	6.0	39,640	Bachelor's degree
Physical therapist aides	36	16.7	23,760	Short-term on-the-job training
Dental hygienists	36	62.9	66,570	Associate degree
Veterinary technologists and technicians	36	28.5	28,900	Associate degree
Dental assistants	36	105.6	32,380	Moderate-term on-the-job training
Computer software engineers, applications	34	175.1	85,430	Bachelor's degree
Medical assistants	34	163.9	28,300	Moderate-term on-the-job training
Physical therapist assistants	33	21.2	46,140	Associate degree
Veterinarians	33	19.7	79,050	First professional degree
Self-enrichment education teachers	32	81.3	35,720	Work experience in a related occupation
Compliance officers, except agriculture, construction, health and safety, and transportation	31	80.8	48,890	Long-term on-the-job training
SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook				

Sources: US Bureau of Labor Statistics: *Occupational Outlook Handbook, 2010-2011 Edition*; Insurance Information Institute

Occupations with Largest Numerical Growth, 2008–2018: *Health, Services Dominate*

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Dollar growth in WC exposures should grow the most (at current rate levels) in the health and services industries

Occupations	Number of new jobs *(in thousands)*	Percent change	Wages (May 2008 median)	Education/training category
Registered nurses	581.5	22	$ 62,450	Associate degree
Home health aides	460.9	50	20,460	Short-term on-the-job training
Customer service representatives	399.5	18	29,860	Moderate-term on-the-job training
Combined food preparation and serving workers, including fast food	394.3	15	16,430	Short-term on-the-job training
Personal and home care aides	375.8	46	19,180	Short-term on-the-job training
Retail salespersons	374.7	8	20,510	Short-term on-the-job training
Office clerks, general	358.7	12	25,320	Short-term on-the-job training
Accountants and auditors	279.4	22	59,430	Bachelor's degree
Nursing aides, orderlies, and attendants	276.0	19	23,850	Postsecondary vocational award
Postsecondary teachers	256.9	15	58,830	Doctoral degree
Construction laborers	255.9	20	28,520	Moderate-term on-the-job training
Elementary school teachers, except special education	244.2	16	49,330	Bachelor's degree
Truck drivers, heavy and tractor-trailer	232.9	13	37,270	Short-term on-the-job training
Landscaping and groundskeeping workers	217.1	18	23,150	Short-term on-the-job training
Bookkeeping, accounting, and auditing clerks	212.4	10	32,510	Moderate-term on-the-job training
Executive secretaries and administrative assistants	204.4	13	40,030	Work experience in a related occupation
Management analysts	178.3	24	73,570	Bachelor's or higher degree, plus work experience
Computer software engineers, applications	175.1	34	85,430	Bachelor's degree
Receptionists and information clerks	172.9	15	24,550	Short-term on-the-job training
Carpenters	165.4	13	38,940	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Sources: US Bureau of Labor Statistics: *Occupational Outlook Handbook, 2010-2011 Edition*; Insurance Information Institute

Occupations With Largest Numerical Growth Across the States, 2006–2016

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State	Occupations	Number of new jobs	Percent Change
California	Retail salespersons	109,300	22
Texas	Combined food preparation and serving workers, incl. fast food	88,520	33
Texas	Retail salespersons	78,600	24
California	Personal and home care aides	76,900	27
Texas	Personal and home care aides	74,800	56
Texas	Customer service representatives	65,630	31
California	Office clerks, general	63,100	15
Texas	Elementary school teachers, except special education	62,280	43
California	Registered nurses	59,600	25
Texas	Registered nurses	59,590	38
Florida	Retail salespersons	55,930	20
California	Customer service representatives	55,600	28
Texas	Waiters and waitresses	53,650	31
California	Combined food preparation and serving workers, incl. fast food	53,200	25
California	Waiters and waitresses	52,800	23
New York	Home health aides	52,320	38
Florida	Customer service representatives	51,830	32
California	Postsecondary teachers	51,300	30
California	Elementary school teachers, except special education	51,300	27
Texas	Child care workers	44,230	30

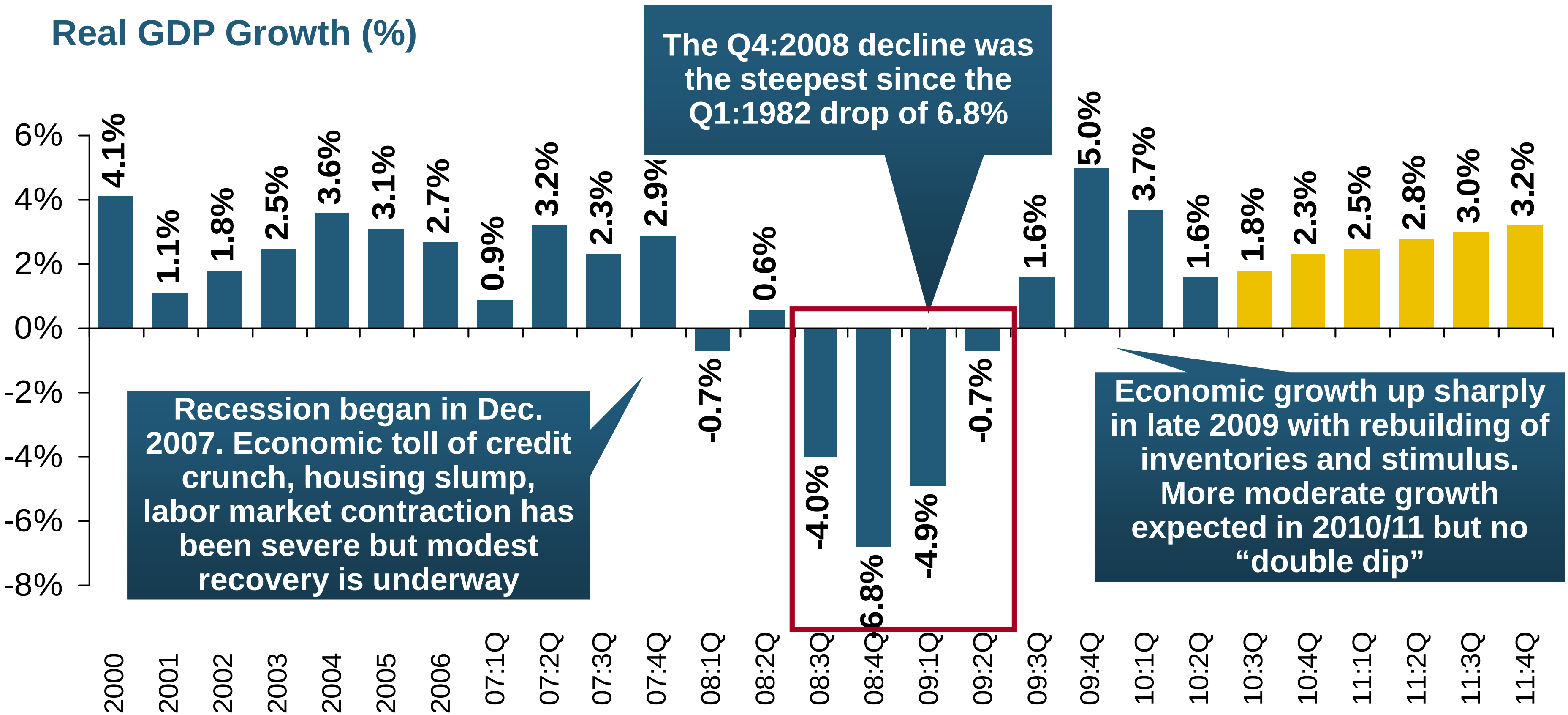
Texas and California will see the most job growth through 2016, much of it in health and retail occupations

Sources: State Occupational Projections (Long-term), http://www.projectionscentral.com/

The Economic Storm

What the Financial Crisis and Recession Mean for the Industry's Exposure Base, Growth and Profitability

US Real GDP Growth*



Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/10; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*

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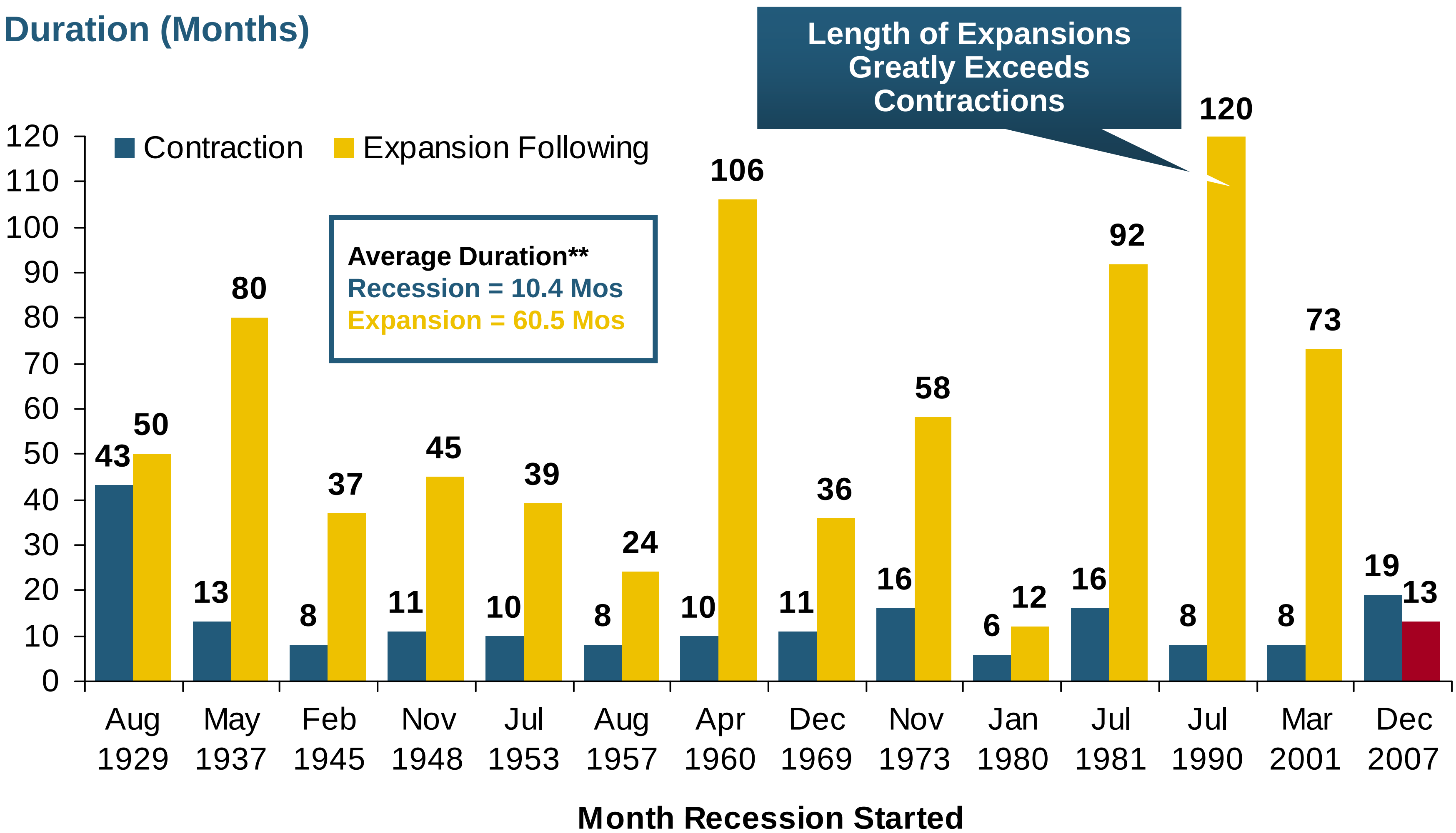

* Through July 2010. Assumes "official" end of recession was June 2009. ** Post-WW II period through end of most recent expansion.
Sources: National Bureau of Economic Research; Insurance Information Institute.

State Economic Growth Varied Tremendously in 2008

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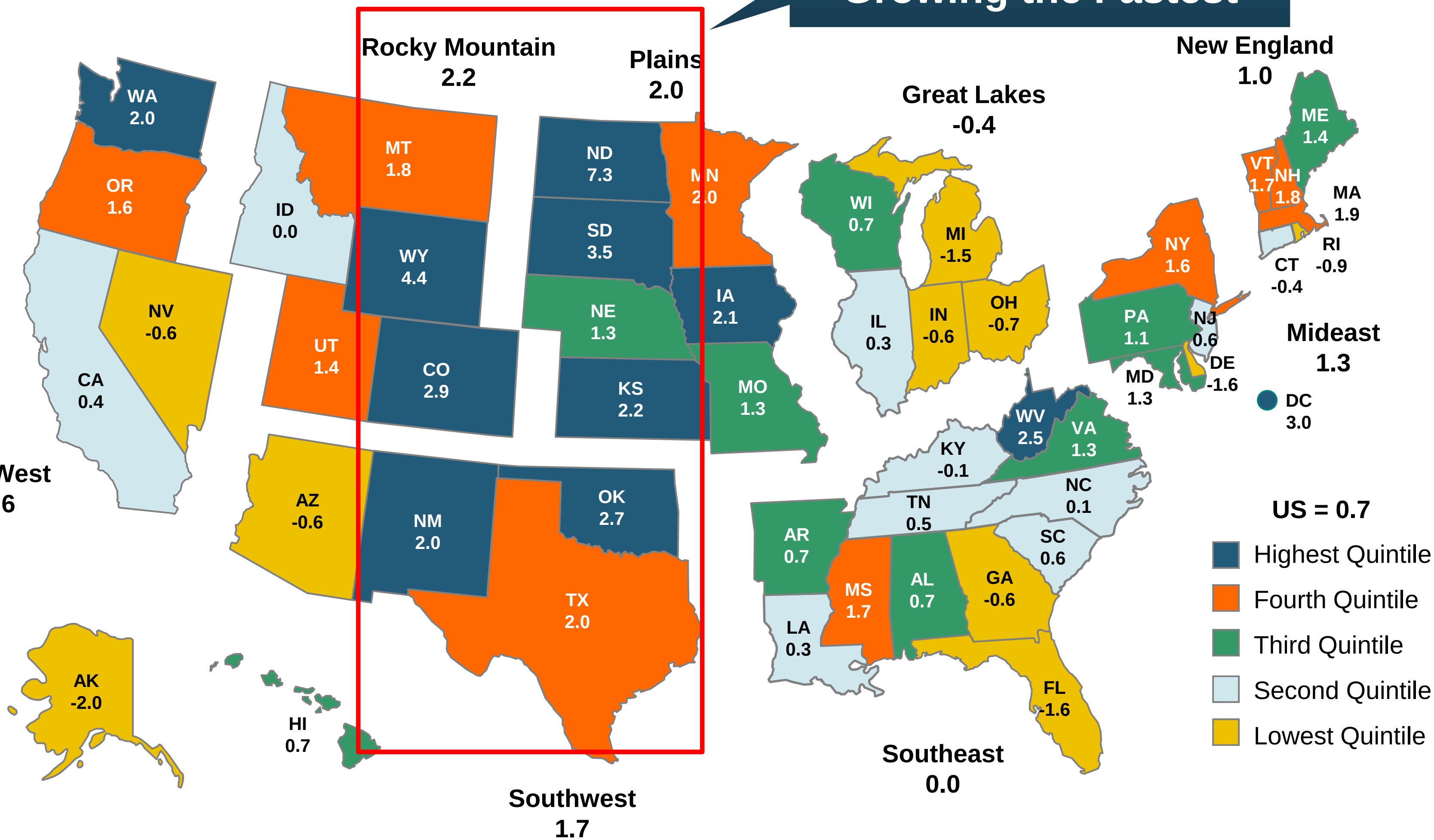
Percent Change in Real GDP by State, 2007–2008

Mountain, Plains States Growing the Fastest



US Bureau of Economic Analysis

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Workers Comp Exposure, But Trend is Improving

Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

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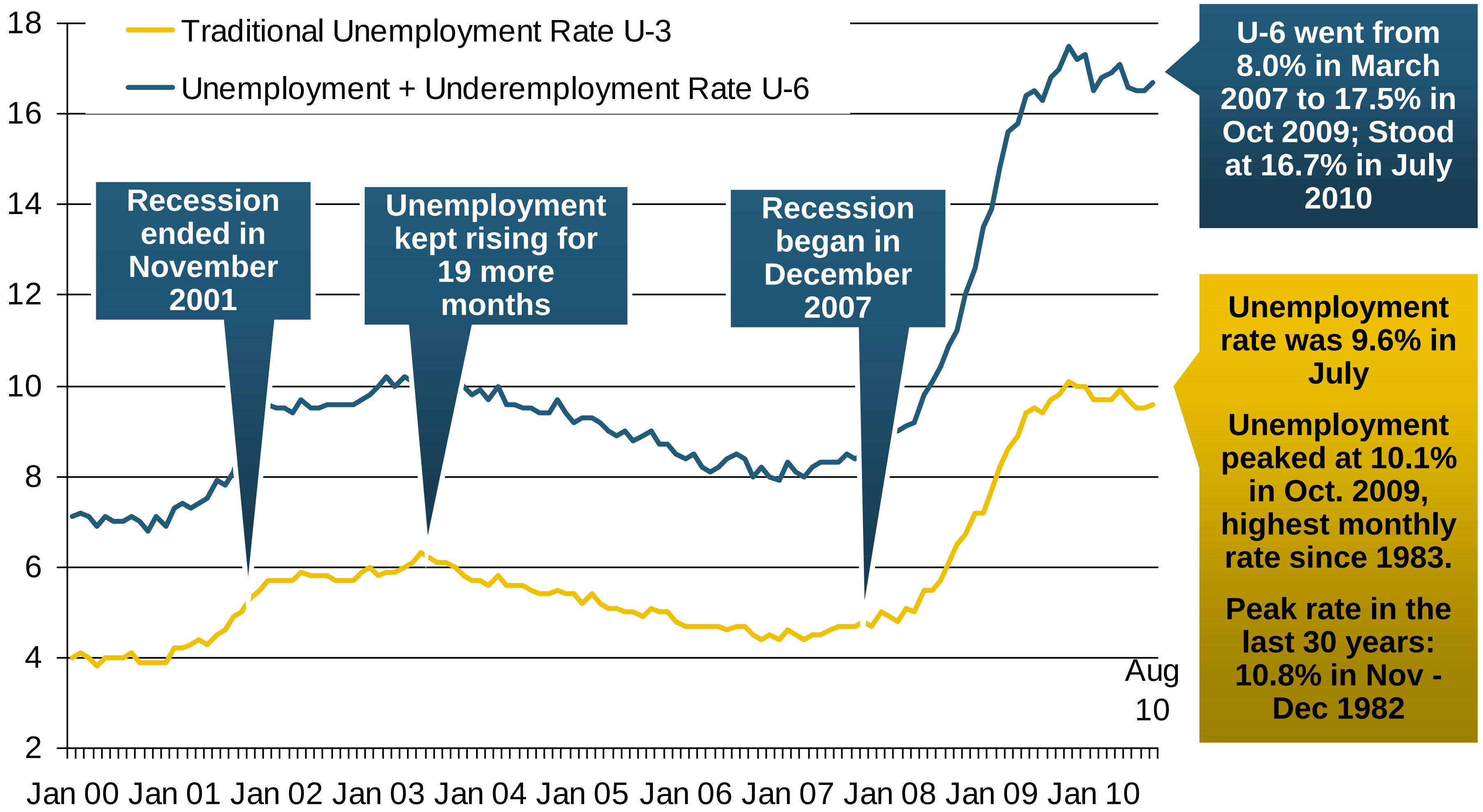
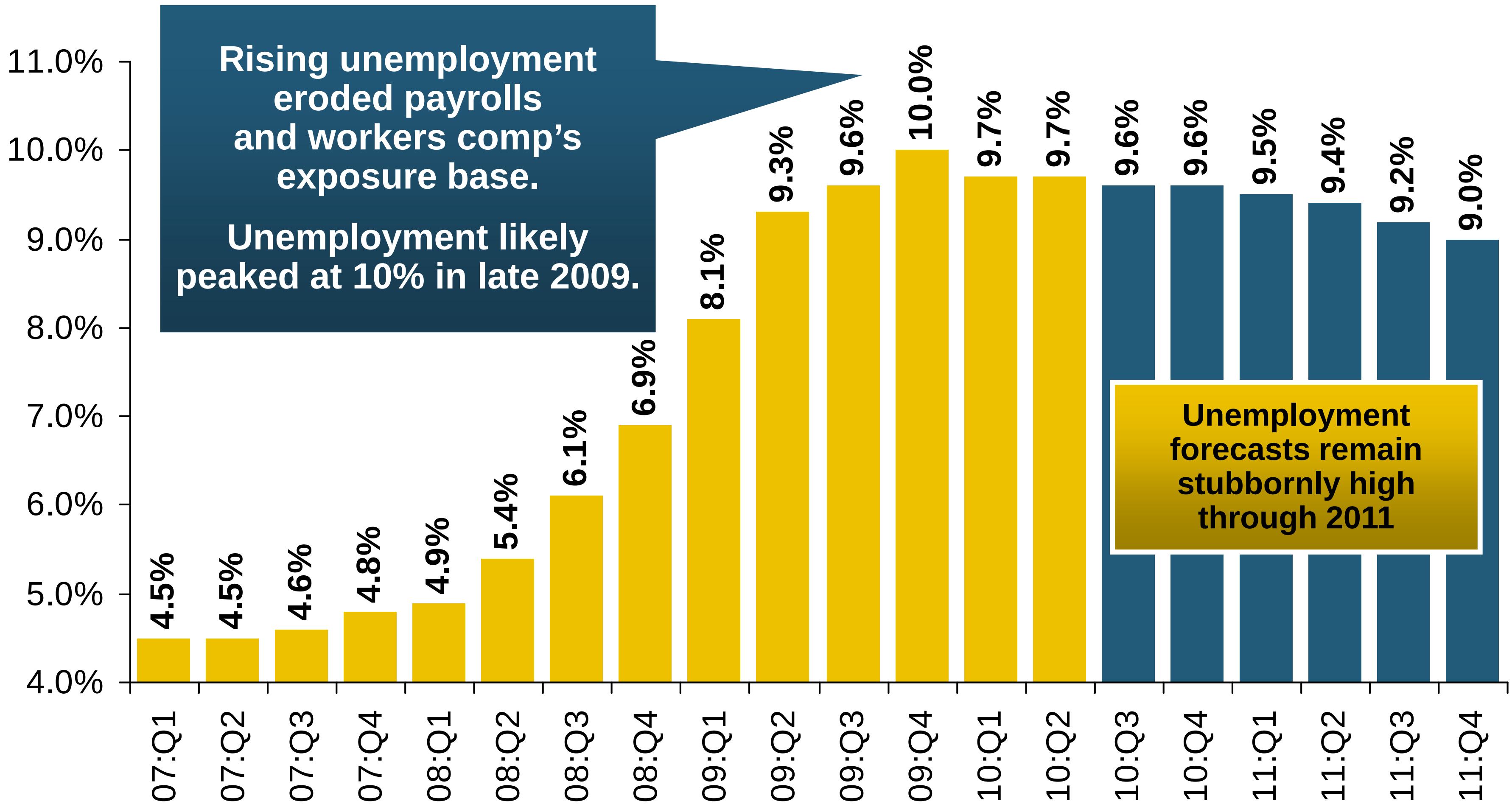
January 2000 through August 2010, Seasonally Adjusted (%)



Source: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate

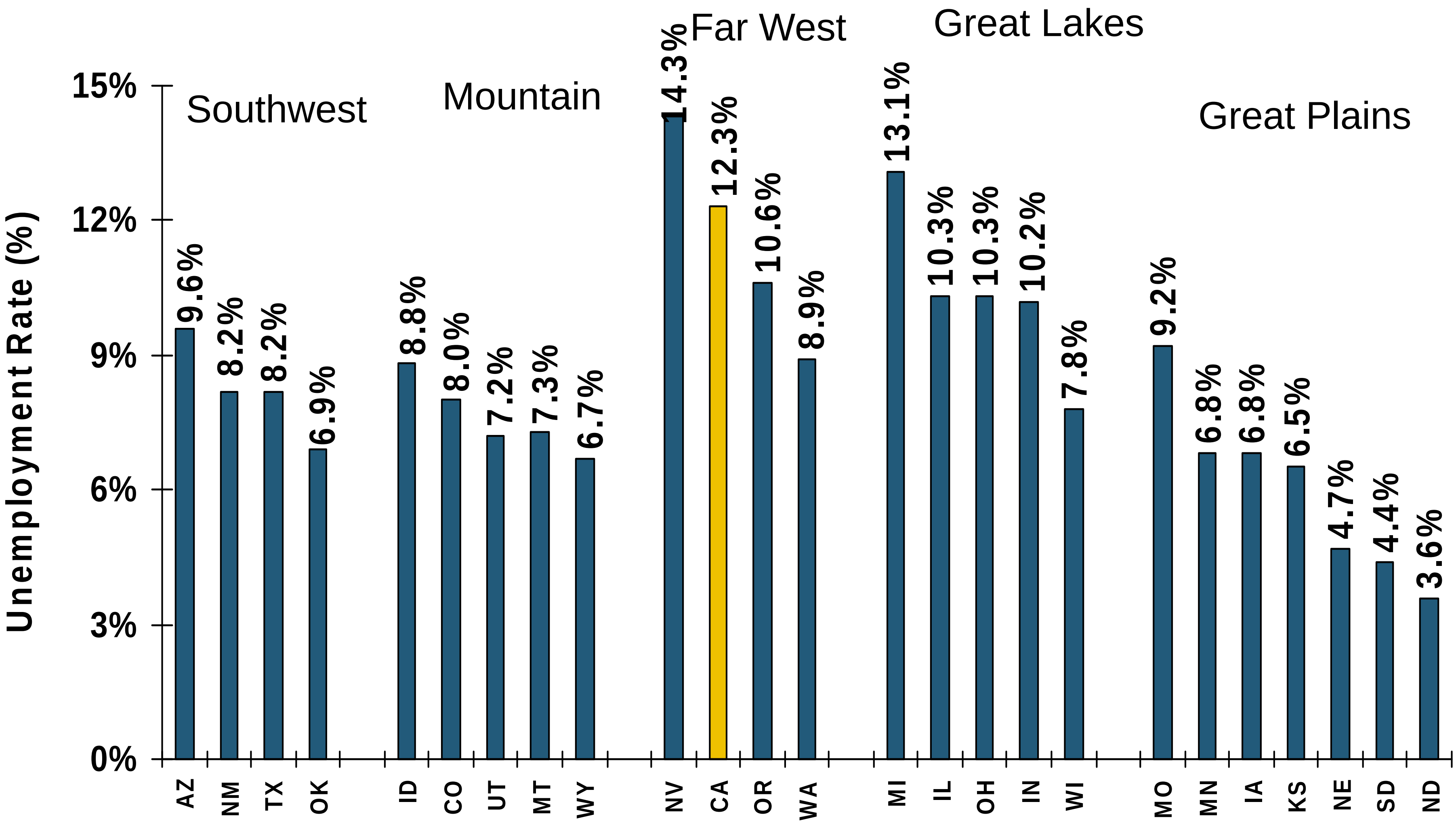
2007:Q1 to 2011:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (9/10); Insurance Information Institute

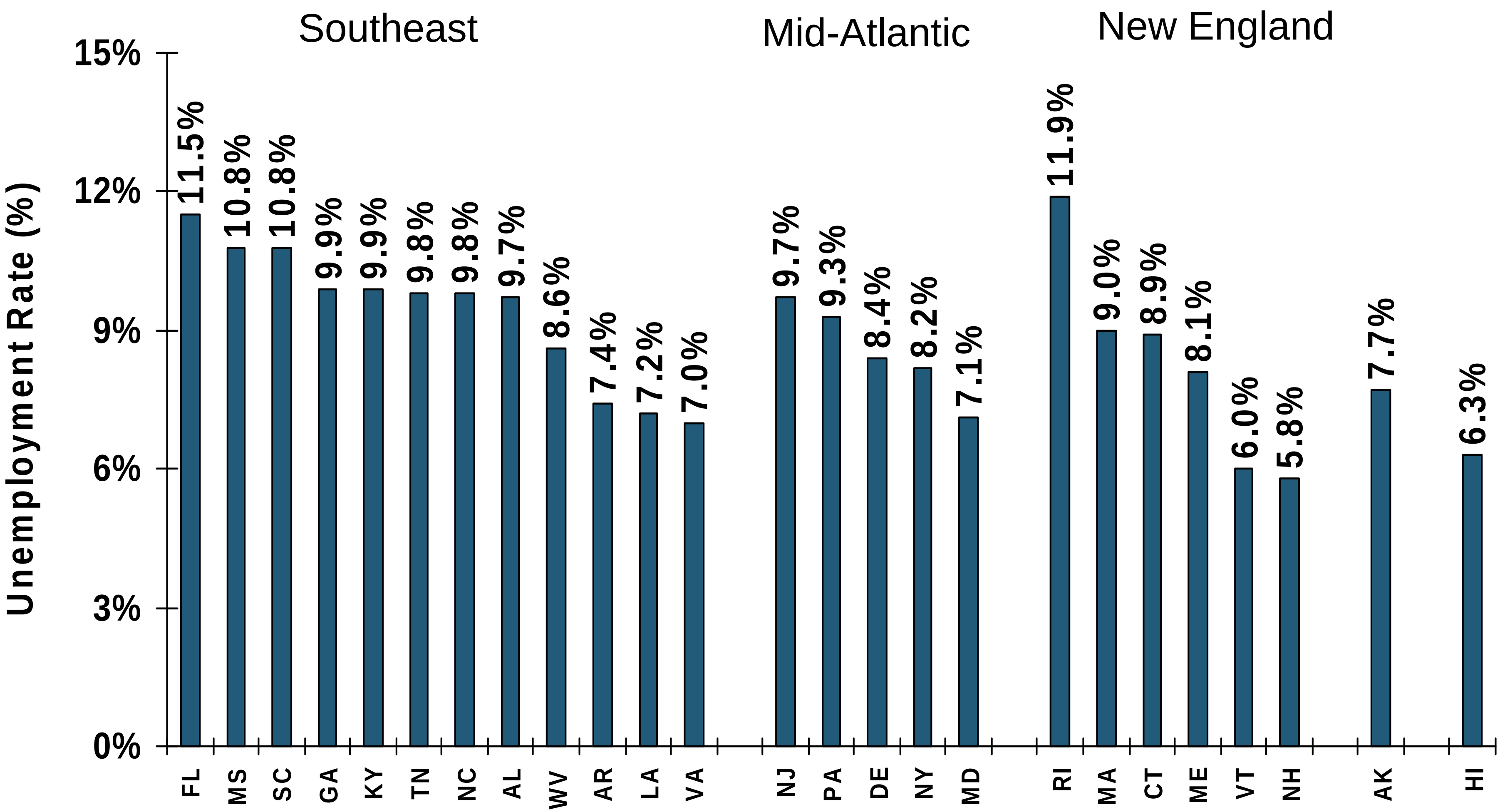
Unemployment Rates Vary Widely by State and Region: July 2010*



*Provisional figures for July 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates Vary Widely by State and Region: July 2010* (cont'd)



*Provisional figures for July 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change Employment*

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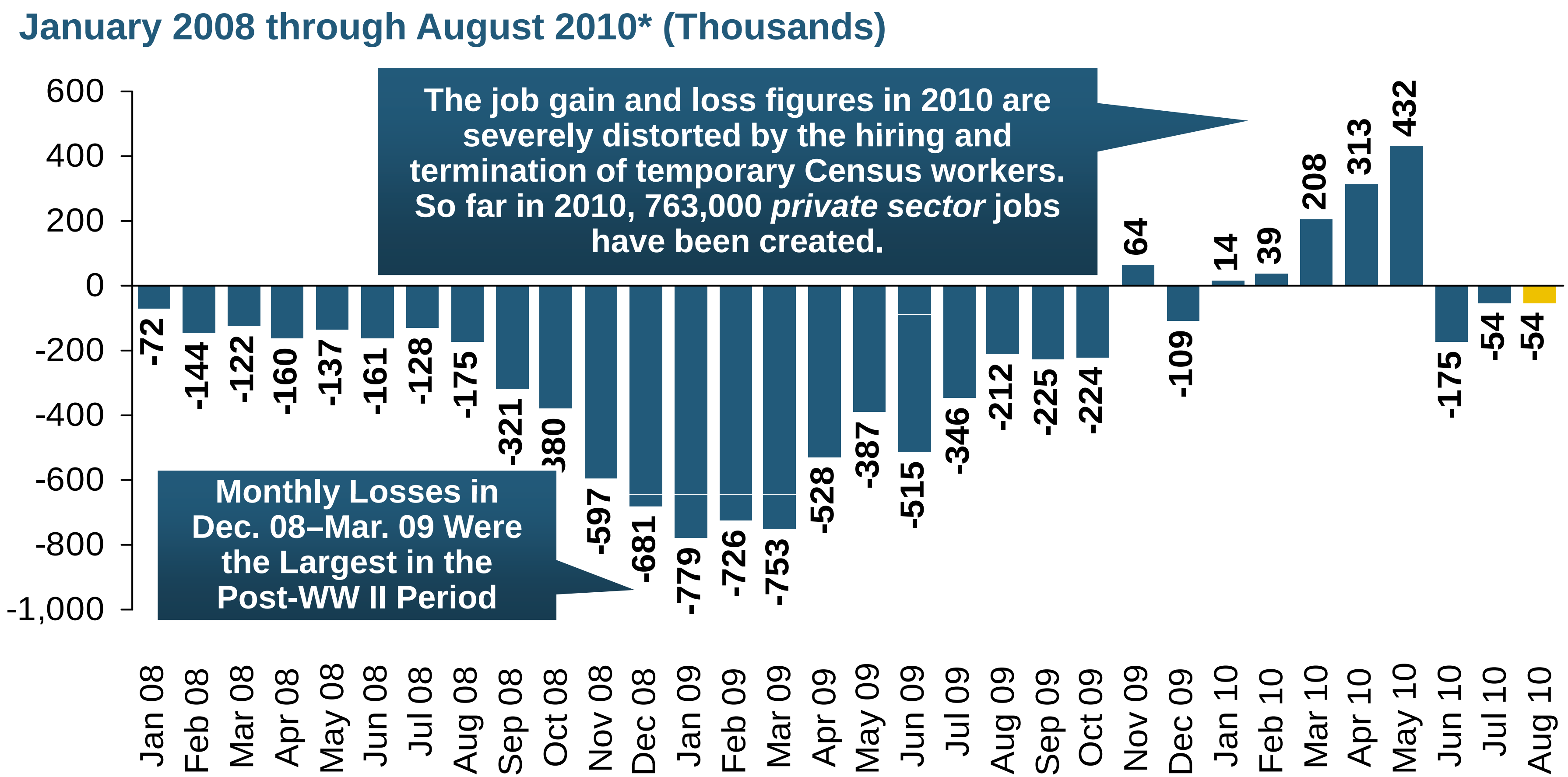
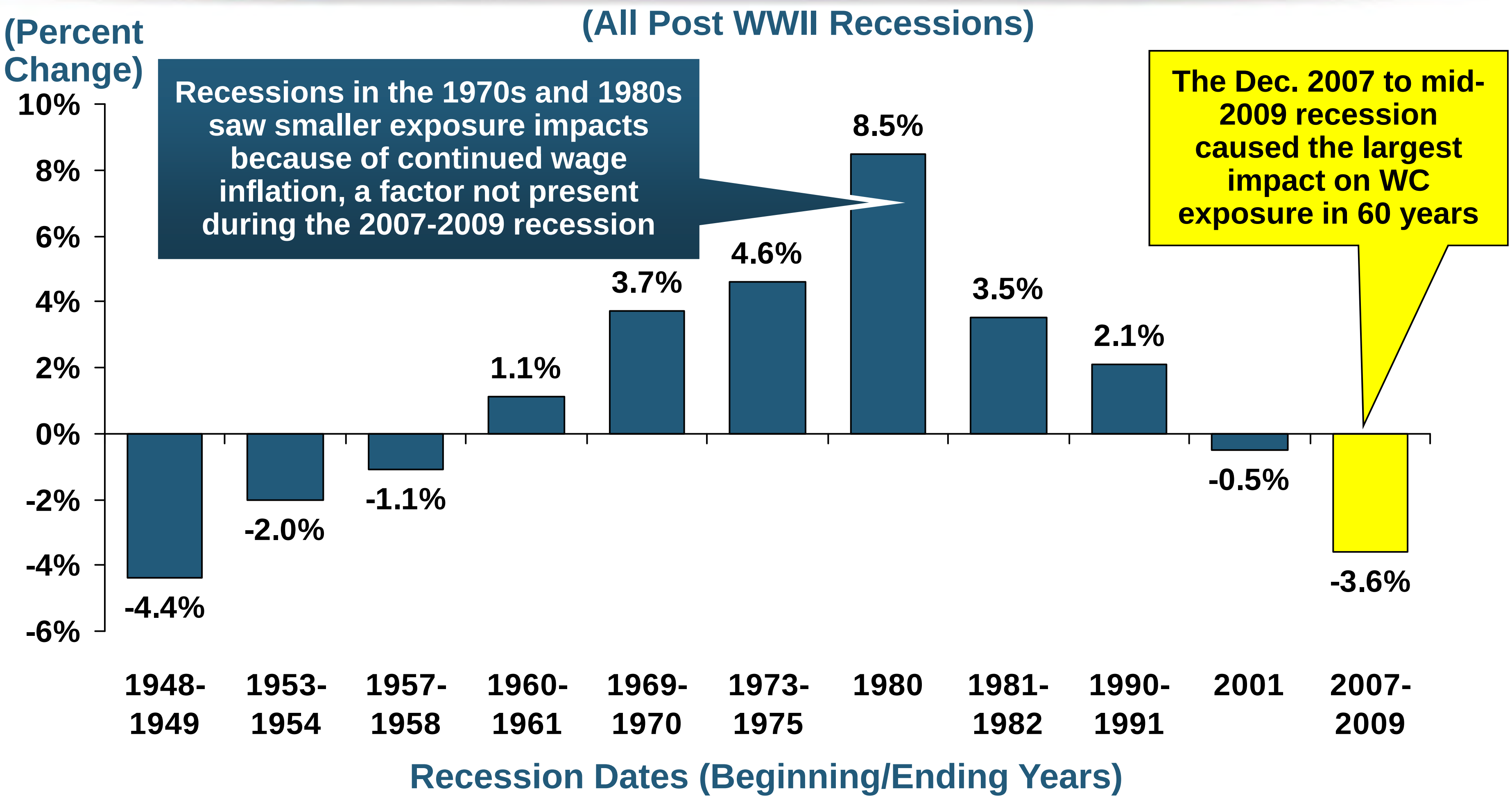


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.7 Million Through August 2010; 14.9 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)



*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Frequency: 1926–2009
A Long-Term Drift Downward

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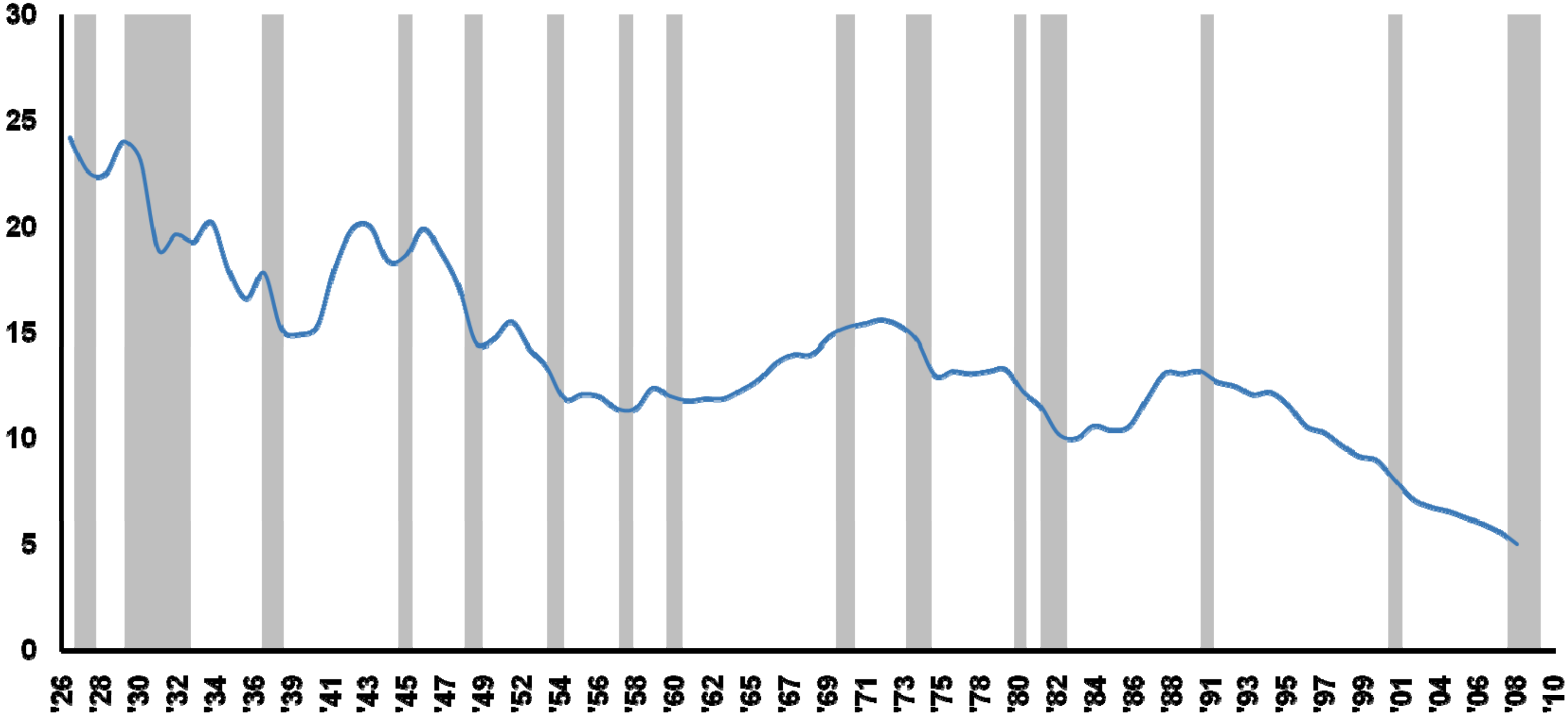
Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



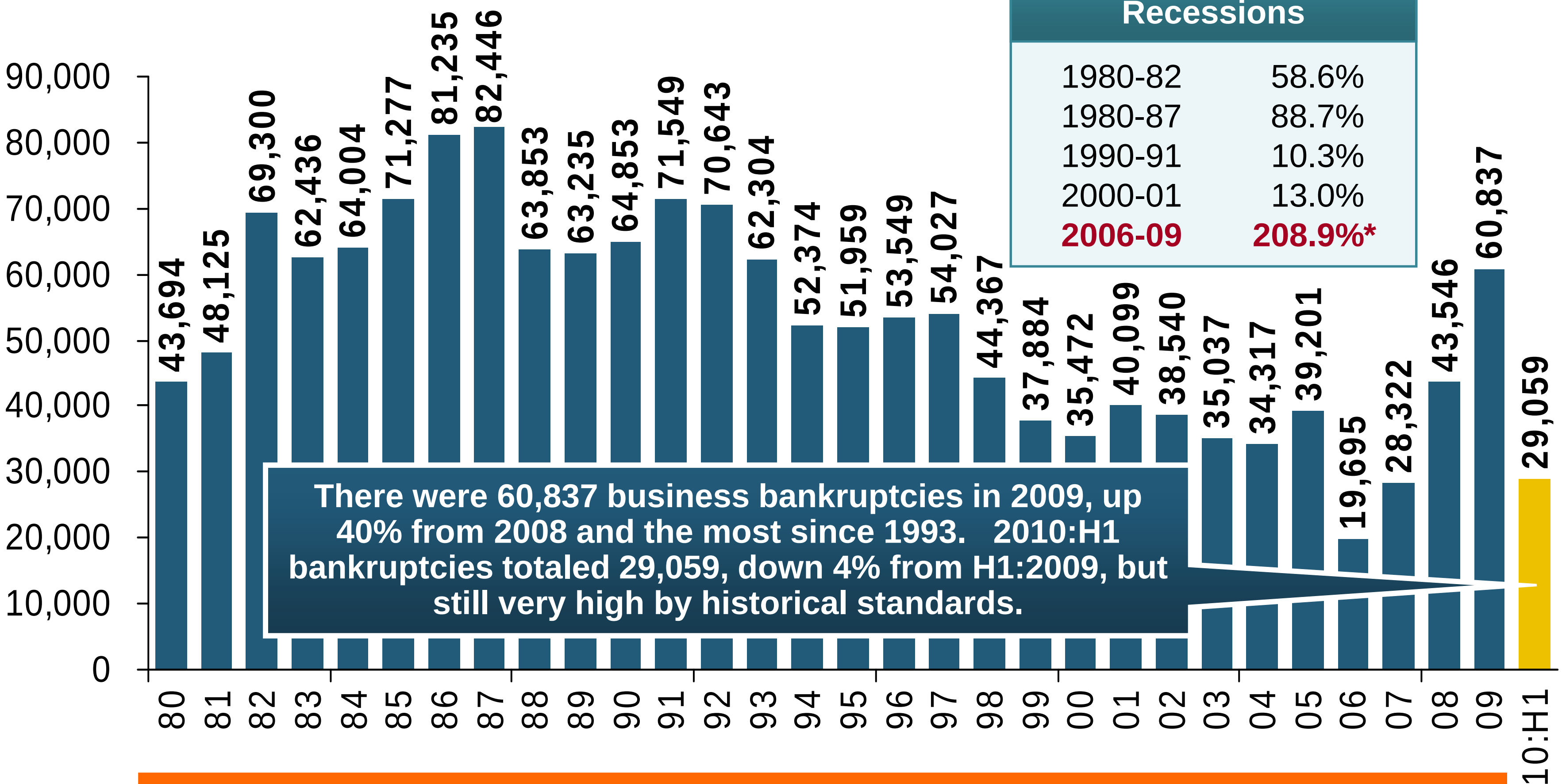
Note: Recessions indicated by gray bars.

Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research.

Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance, Including Workers Compensation

Business Bankruptcy Filings, 1980-2010:H1

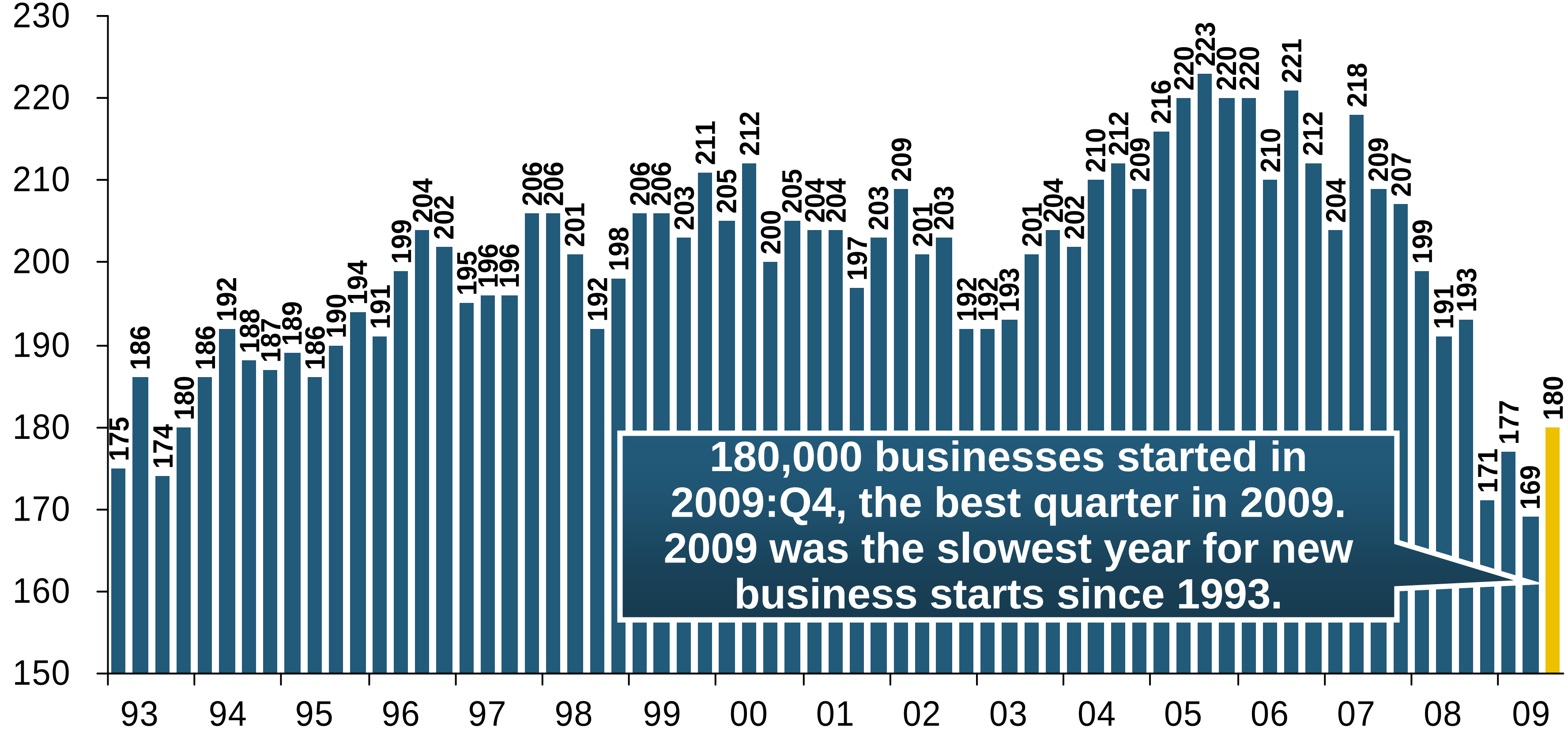


% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%***

Significant Exposure Implications for All Commercial Lines. There Are Some Preliminary Indications that Business Bankruptcies Are Beginning to Decline.

Source: American Bankruptcy Institute; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2009:Q4*



Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of September 12, 2010, seasonally adjusted

Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t07.htm.

Recovery in Capacity Utilization is a Positive Sign for Insurance Exposure

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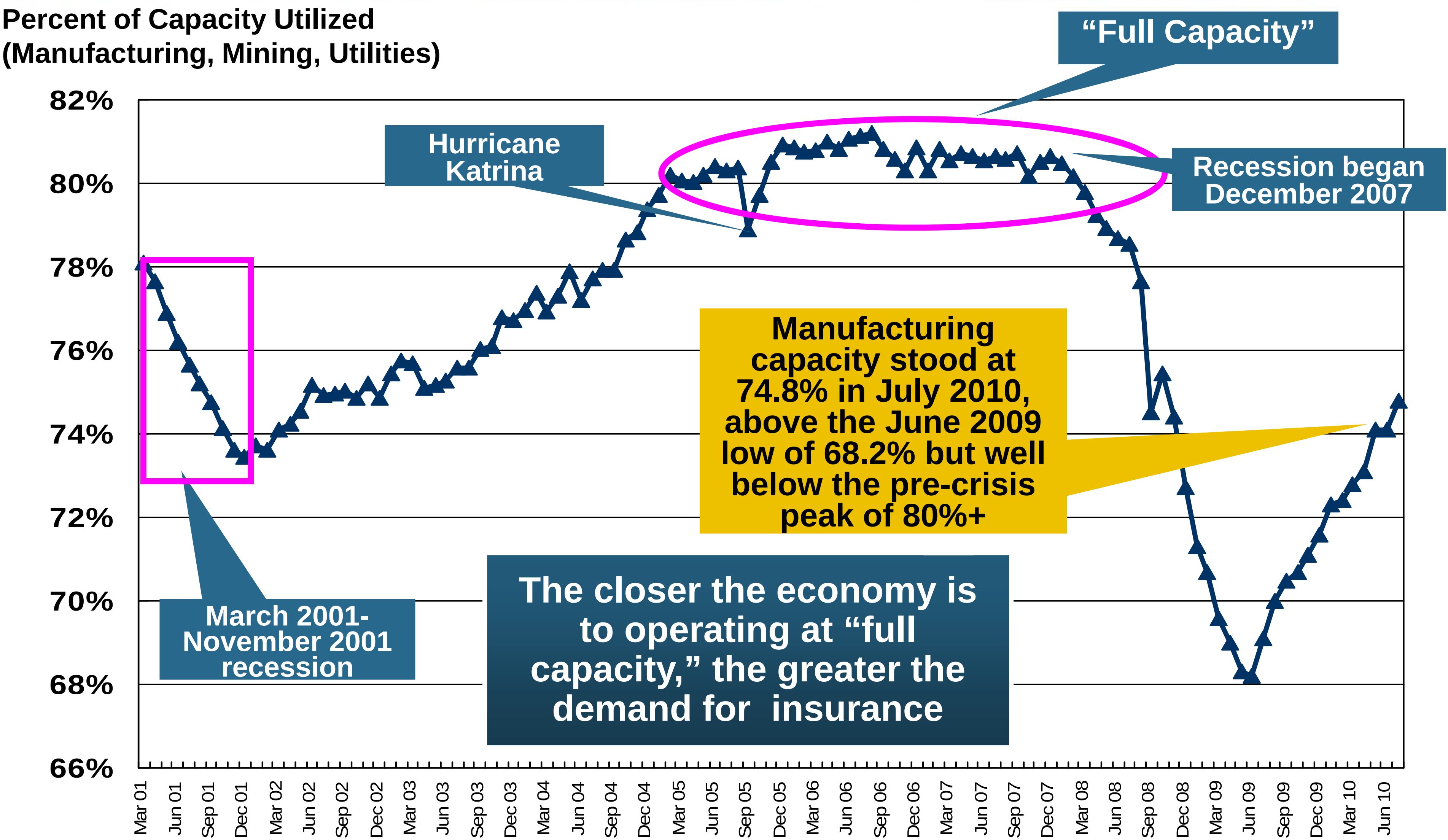

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

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