



Workers Compensation Overview and Outlook for 2011 & Beyond

Insurance Information Institute

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■ Workers Compensation and the Economy

- ◆ Regional Differences in Recession and Recovery
- ◆ Labor Markets: Overview & Outlook
- ◆ Payroll/Employment Exposure Trends

■ Workers Compensation Operating Environment

- ◆ Premium & Rate Trends
- ◆ Profitability
- ◆ Underwriting Performance
- ◆ Medical & Indemnity Claim Cost Trends
- ◆ Residual Market and State Fund Market Share and Performance
- ◆ Investment Market Impacts

■ P/C Insurance Industry Overview

■ The Global Economic Storm: Financial Crisis & Recession

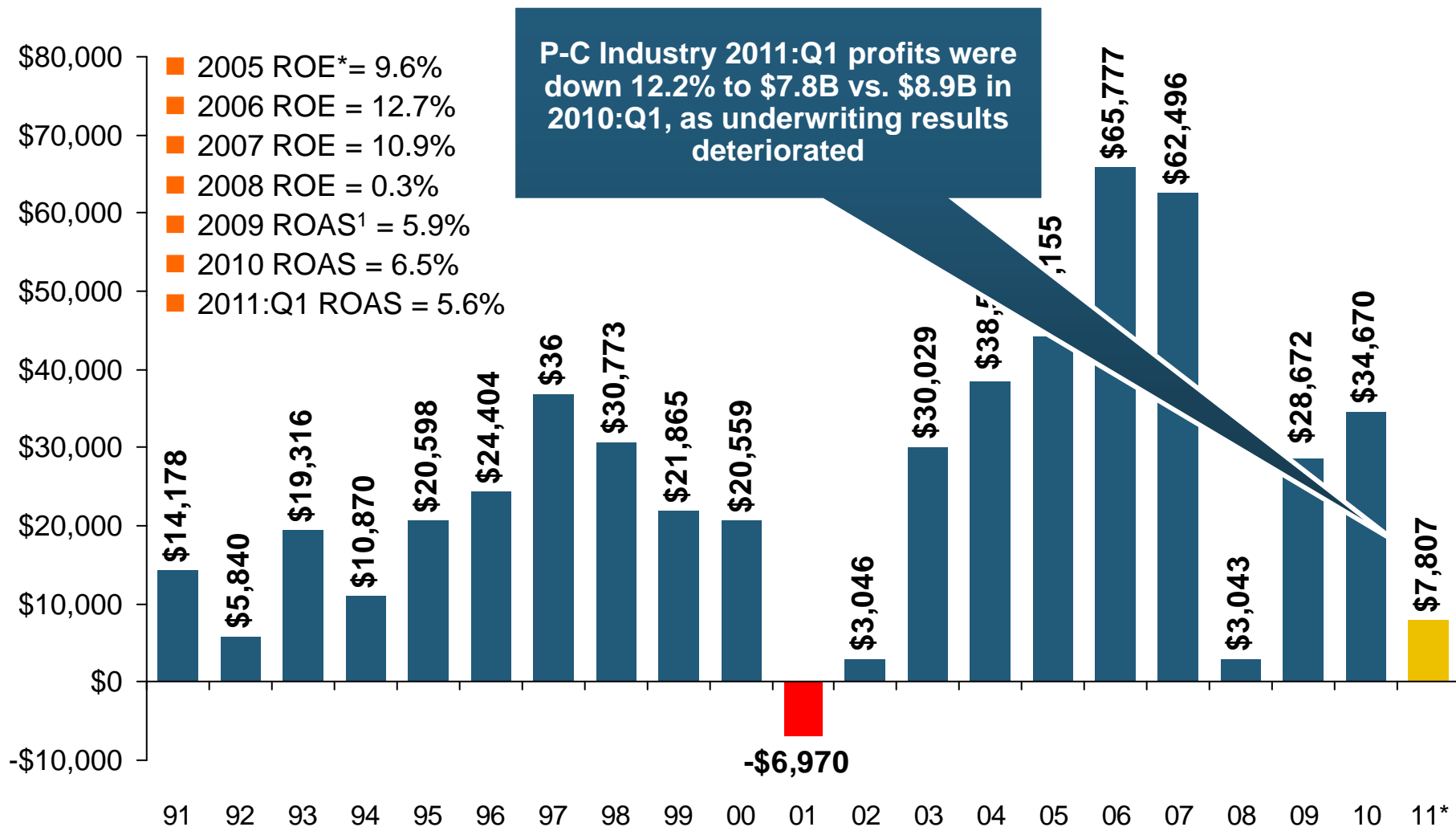
- ◆ Crisis-Driven Exposure Issues: Commercial Lines
- ◆ Exposure, Growth & Profitability



P/C Insurance Industry Financial Overview

**Profit Recovery Will Be Set
Back by High CATs, Low
Interest Rates, Diminishing
Reserve Releases**

P/C Net Income After Taxes 1991–2011:Q1 (\$ Millions)

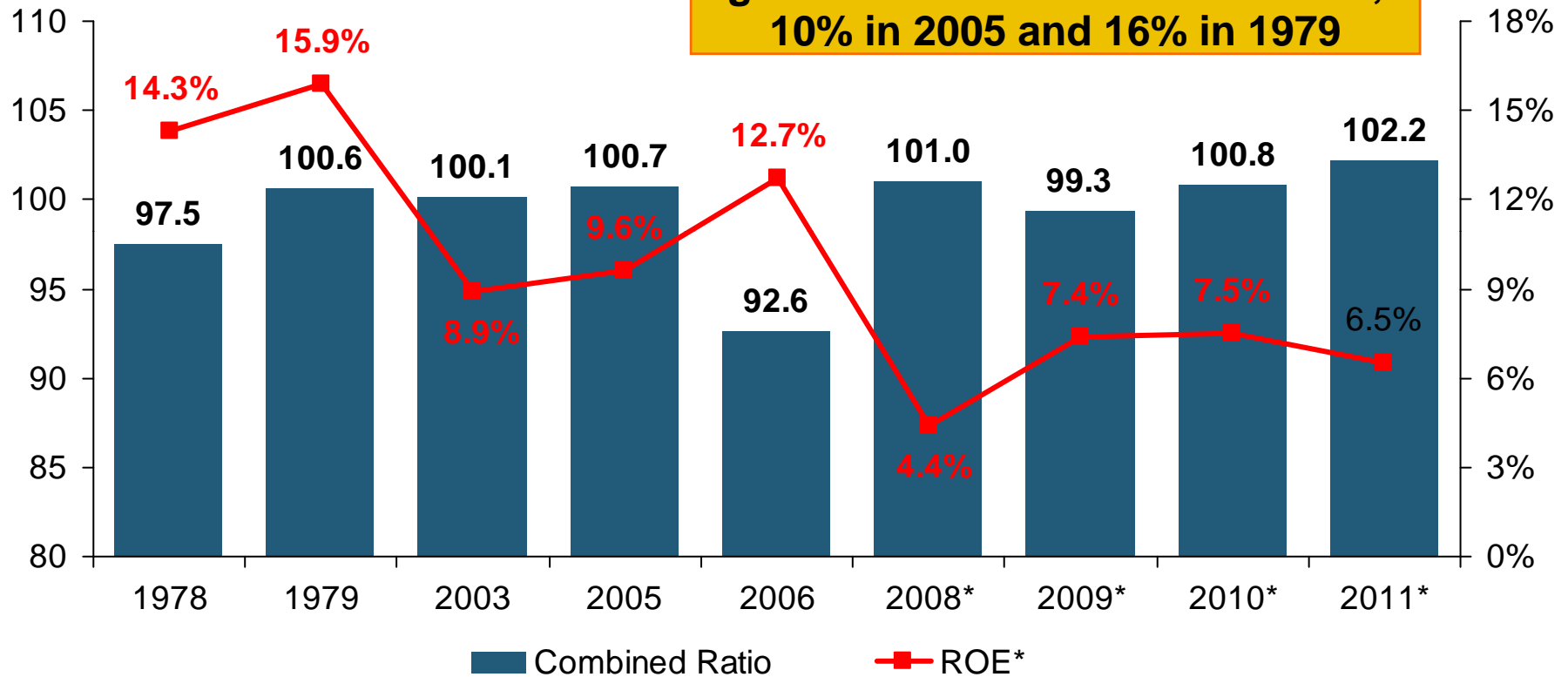


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.5% ROAS for 2011:Q1, 7.5% for 2010 and 7.4% for 2009.

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

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE

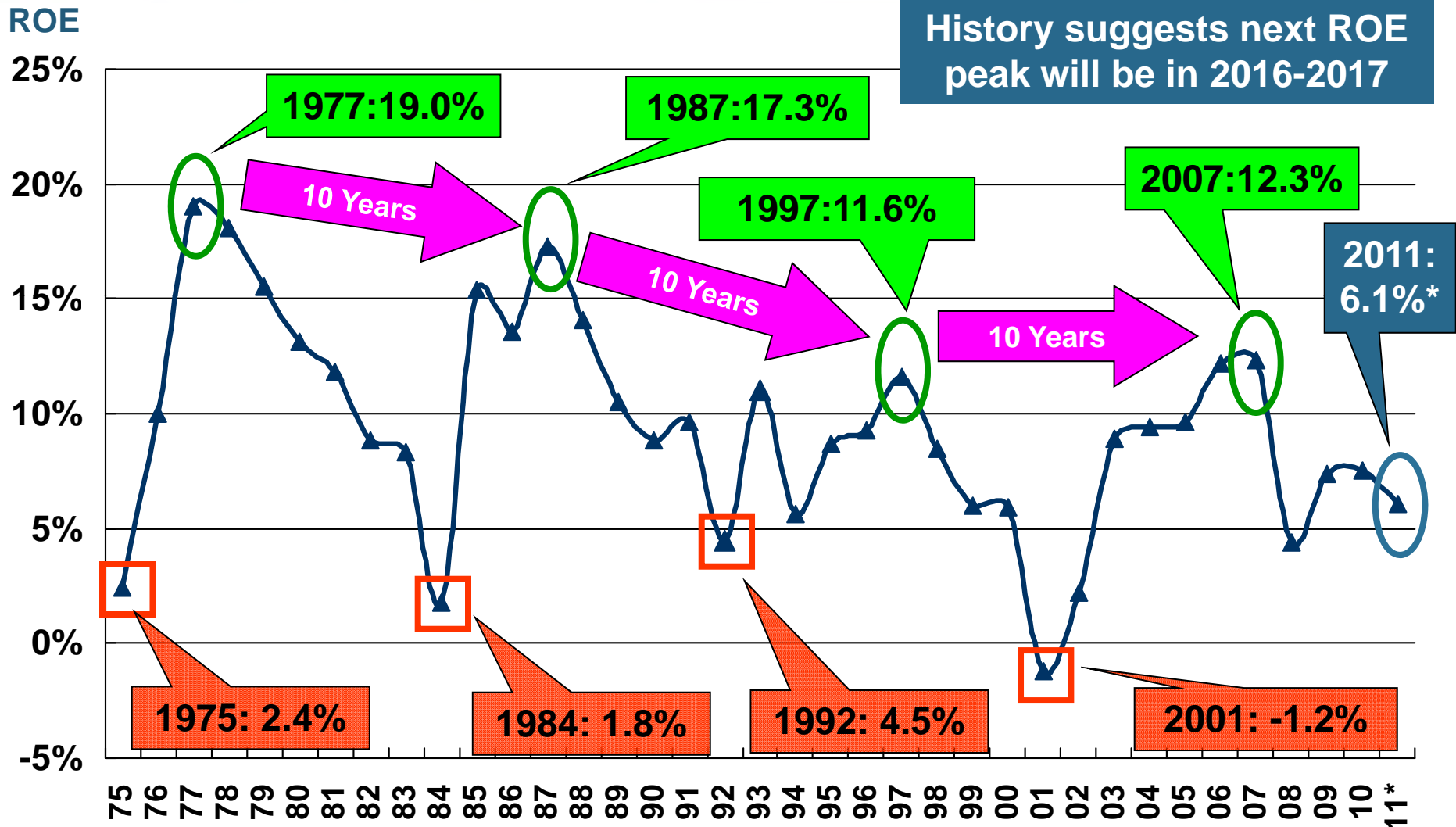


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for Q1 data.

Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.



The BIG Question: When Will the Market Turn?

Insurance Cycle Dynamics

Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Not Yet Happened</i>	<ul style="list-style-type: none"> • Apart from Q2:2011, overall p/c underwriting losses remain modest • Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market) • Prior-year reserve releases continue reduce u/w losses, boost ROEs
Material Decline in Surplus/ Capacity	<i>Surplus is At/Near Record High</i>	<ul style="list-style-type: none"> • Surplus hit a record \$565B as of 3/31/11 • Analysts est. excess surplus of \$75-\$100B • Some excess capacity may still remain in reinsurance markets • Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> • Higher prices in Asia/Pacific • Modestly improved pricing for US risks
Renewed Underwriting & Pricing Discipline	<i>Not Broadly Evident</i>	<ul style="list-style-type: none"> • Commercial lines pricing trends remain negative • Competition remains intense as many seek to maintain market share • Terms & conditions—no broad tightening

Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

- **Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way**
- **Global P/C & Reinsurance Industries Entered 2011 w/ Record Capital**
 - ◆ Events so far in 2011 are earnings events, rather than capital events
- **Natural Catastrophe and Casualty Risks Are Largely Uncorrelated**
 - ◆ Risks are different
 - ◆ Geographically, mostly distinct primary carriers: Japan-Australia-NZ-US
 - ◆ Casualty markets generally don't influence property markets
- **Property and Casualty Risks Are Largely Siloed**
- **Record Property Losses in 2004/2005 Did Not Impact Casualty Mkts.**
- **Casualty Markets Have Their Own Issues**
 - ◆ Tort environment
 - ◆ Inflation
 - ◆ Public policy

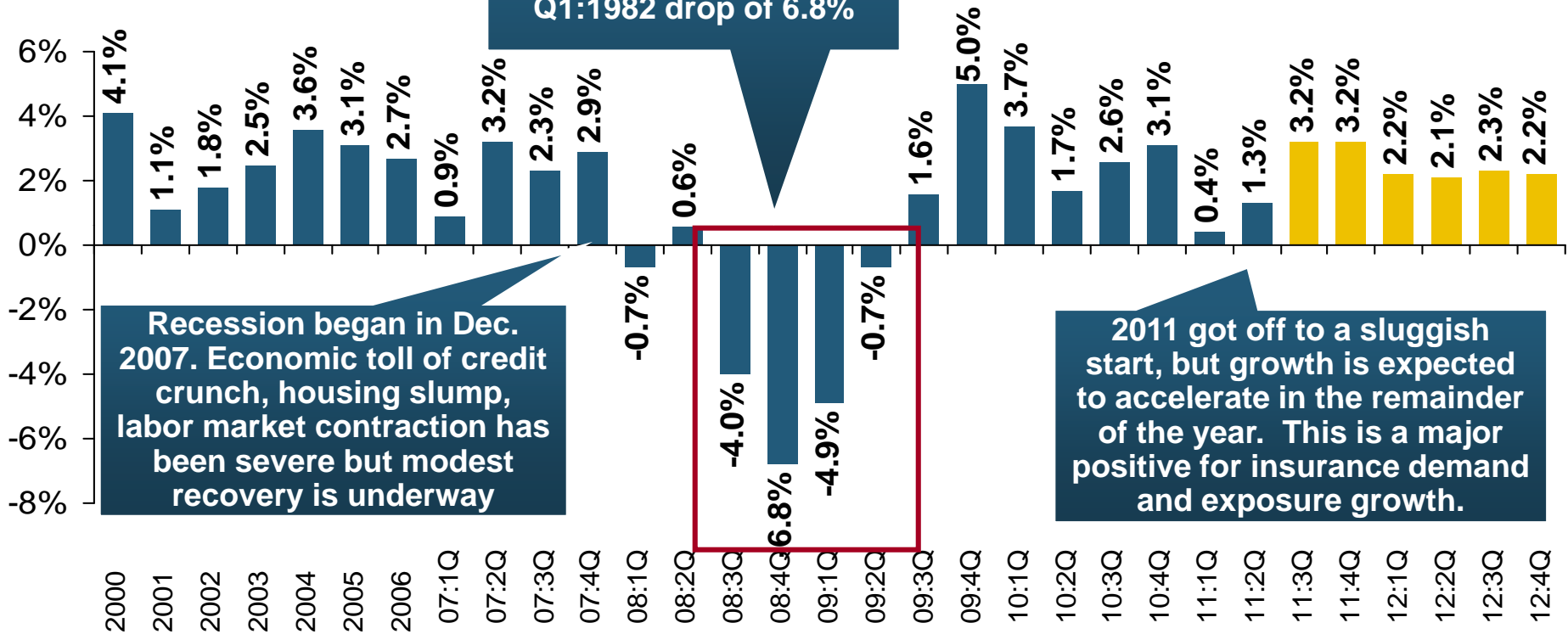


Workers Compensation and the Economy

**Workers Comp Exposure and
Performance is Intimately Linked to
the Economy and Labor Market**

US Real GDP Growth*

Real GDP Growth (%)



Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

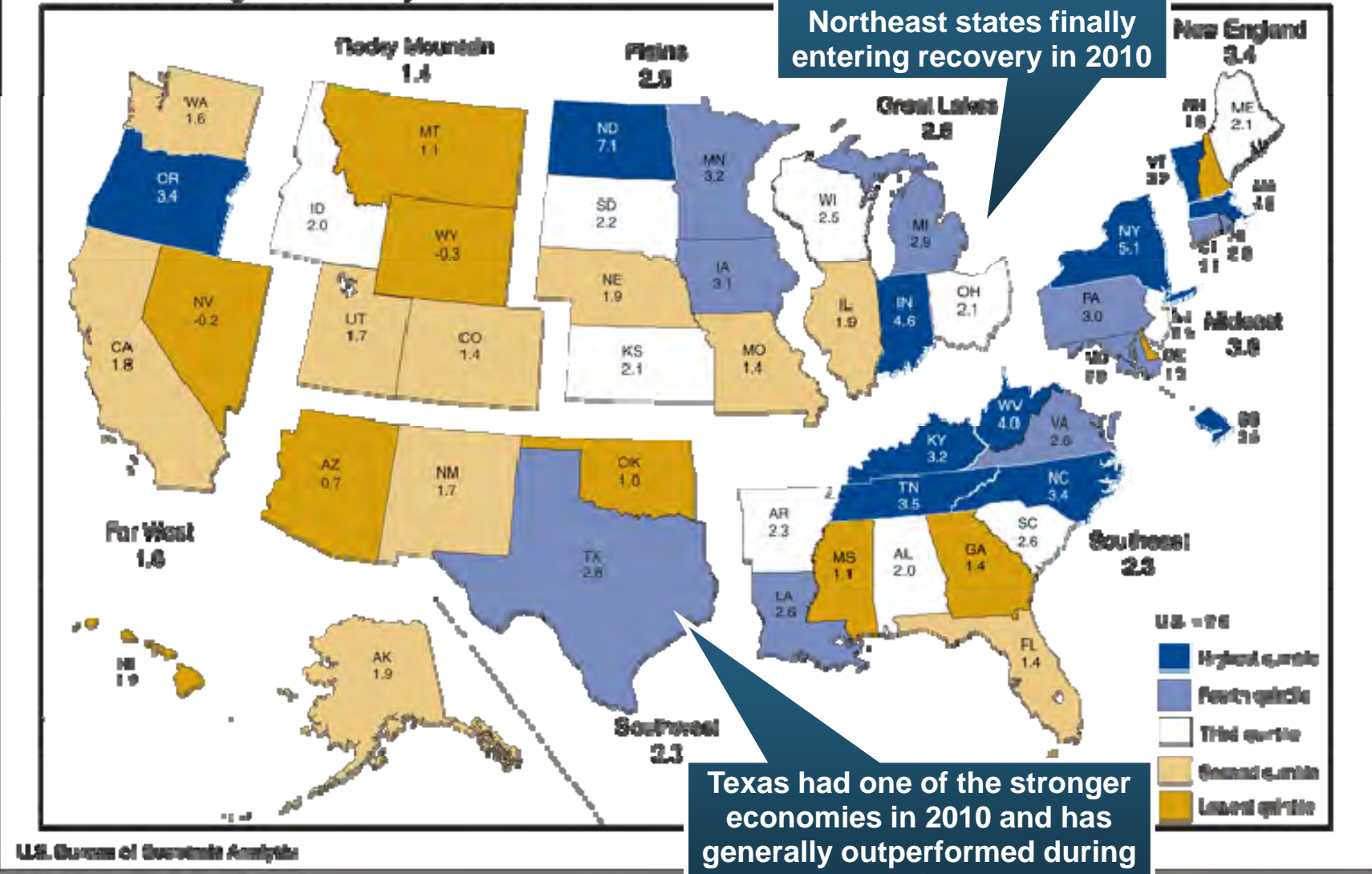
* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/11; Insurance Information Institute.

2011 Financial Overview

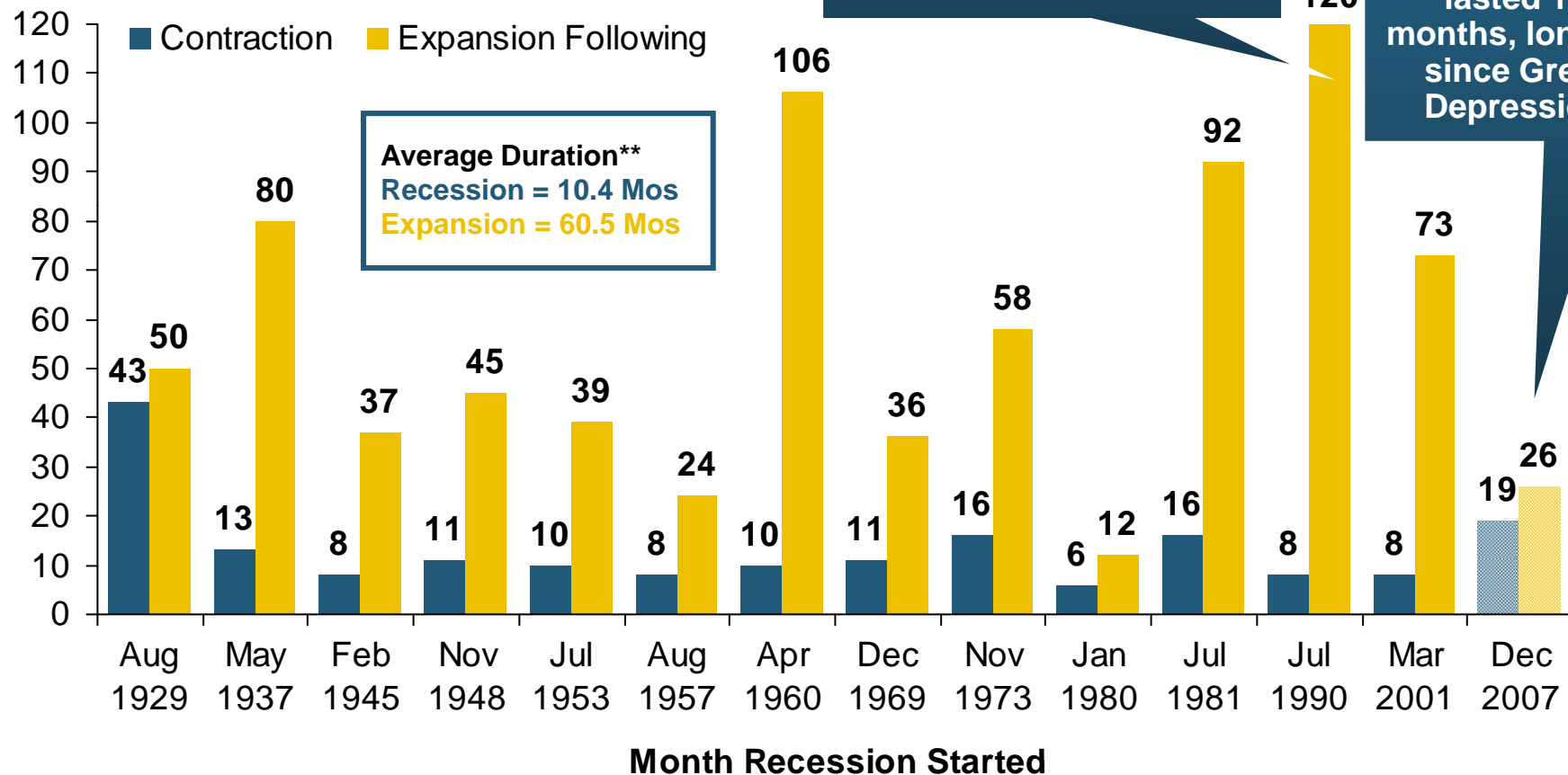
State Economic Growth Varied in 2010

Chart 1. Percent Change in Real GDP by State, 2009-2010



Length of US Business Cycles, 1929–Present*

Duration (Months)

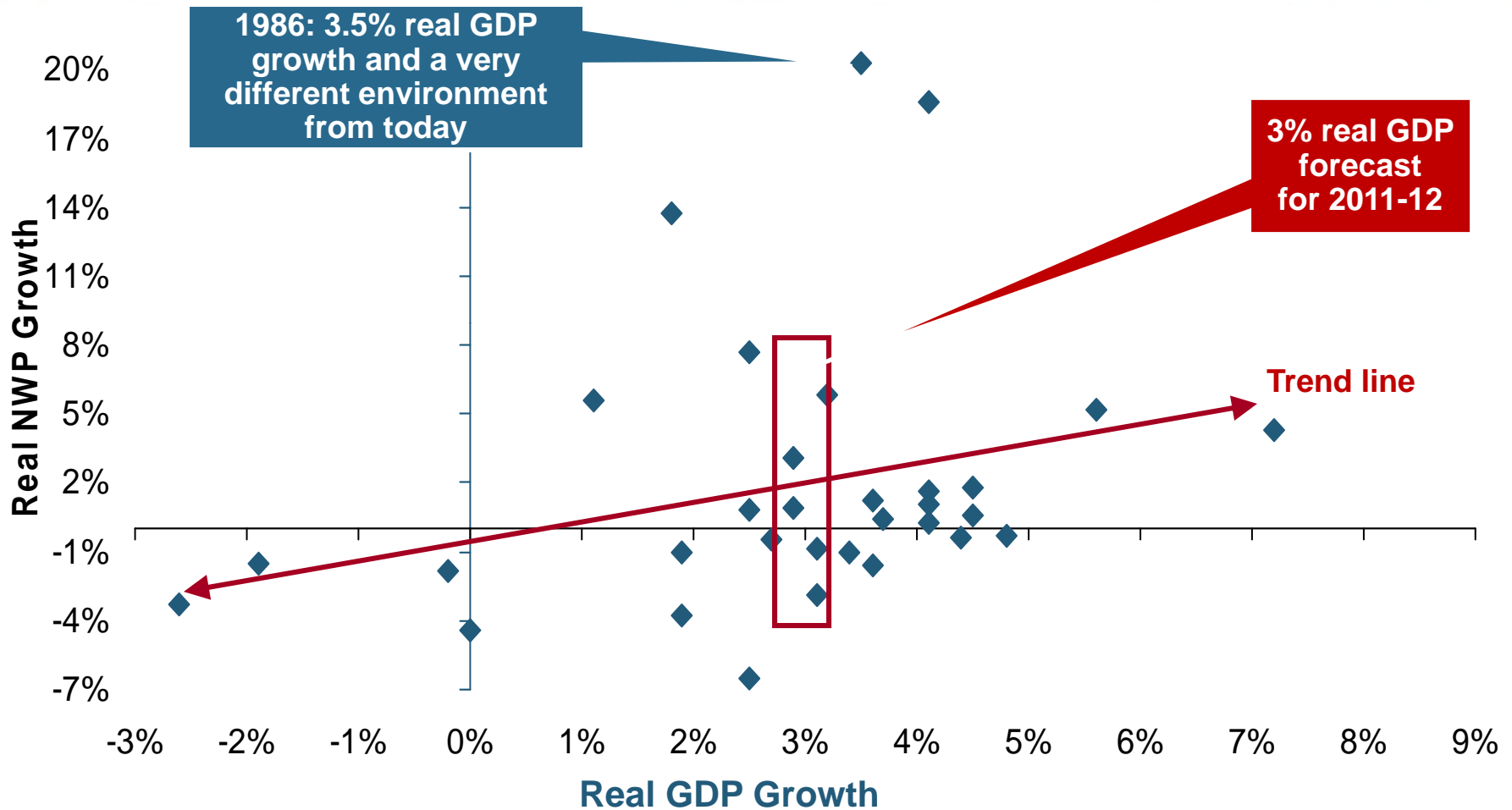


*Through July 2011. Most recent recession began Dec. 2007 and ended June 2009.

** Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; Insurance Information Institute.

Real GDP Growth vs. Real P/C NWP Growth: 1978-2010

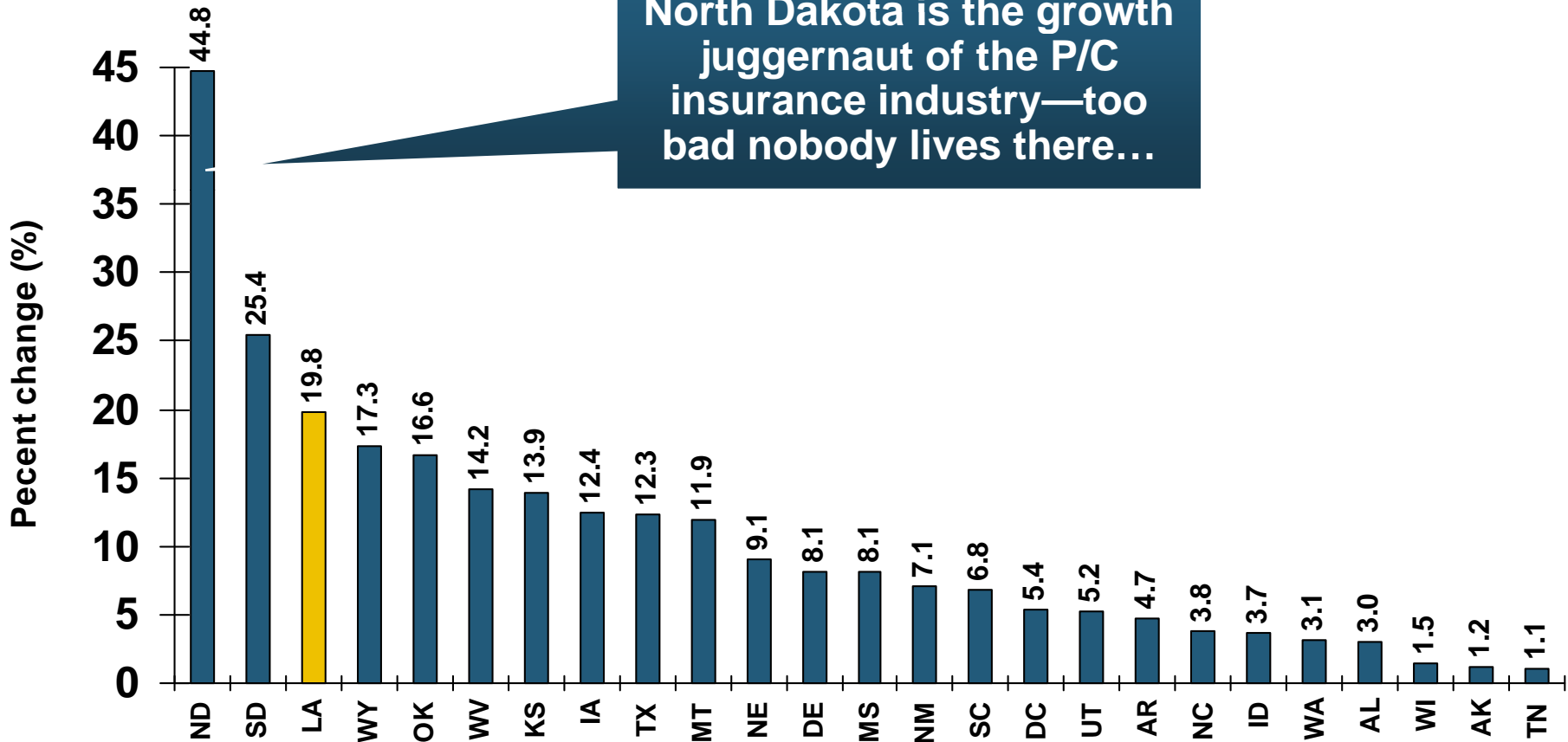


When real GDP grows by about 3%, as is forecast for 2011-2012, real NWP growth has ranged from -2.9% to +5.8%

Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

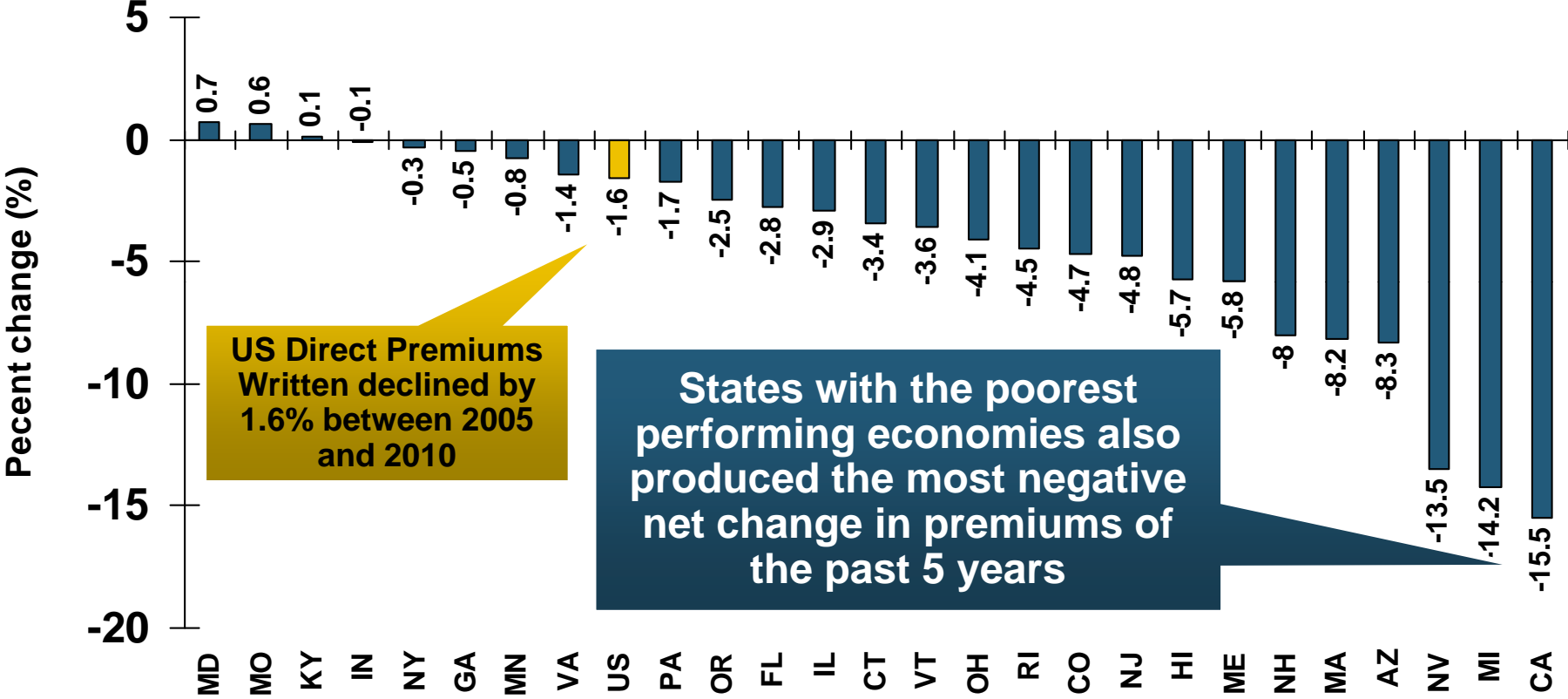
Top 25 States

North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Bottom 25 States

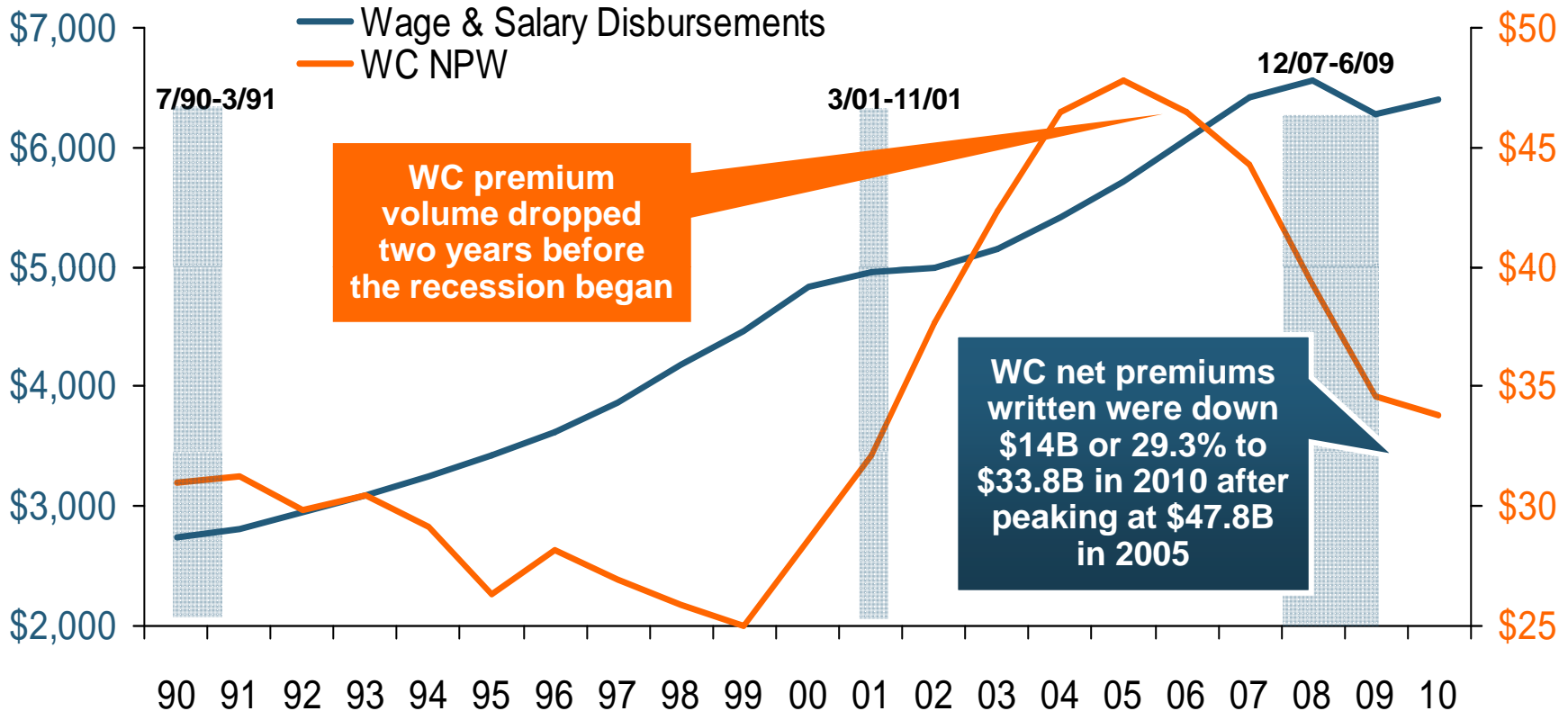


Sources: SNL Financial LC; Insurance Information Institute.

Wage and Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Payroll Base*
\$Billions

WC NWP
\$Billions

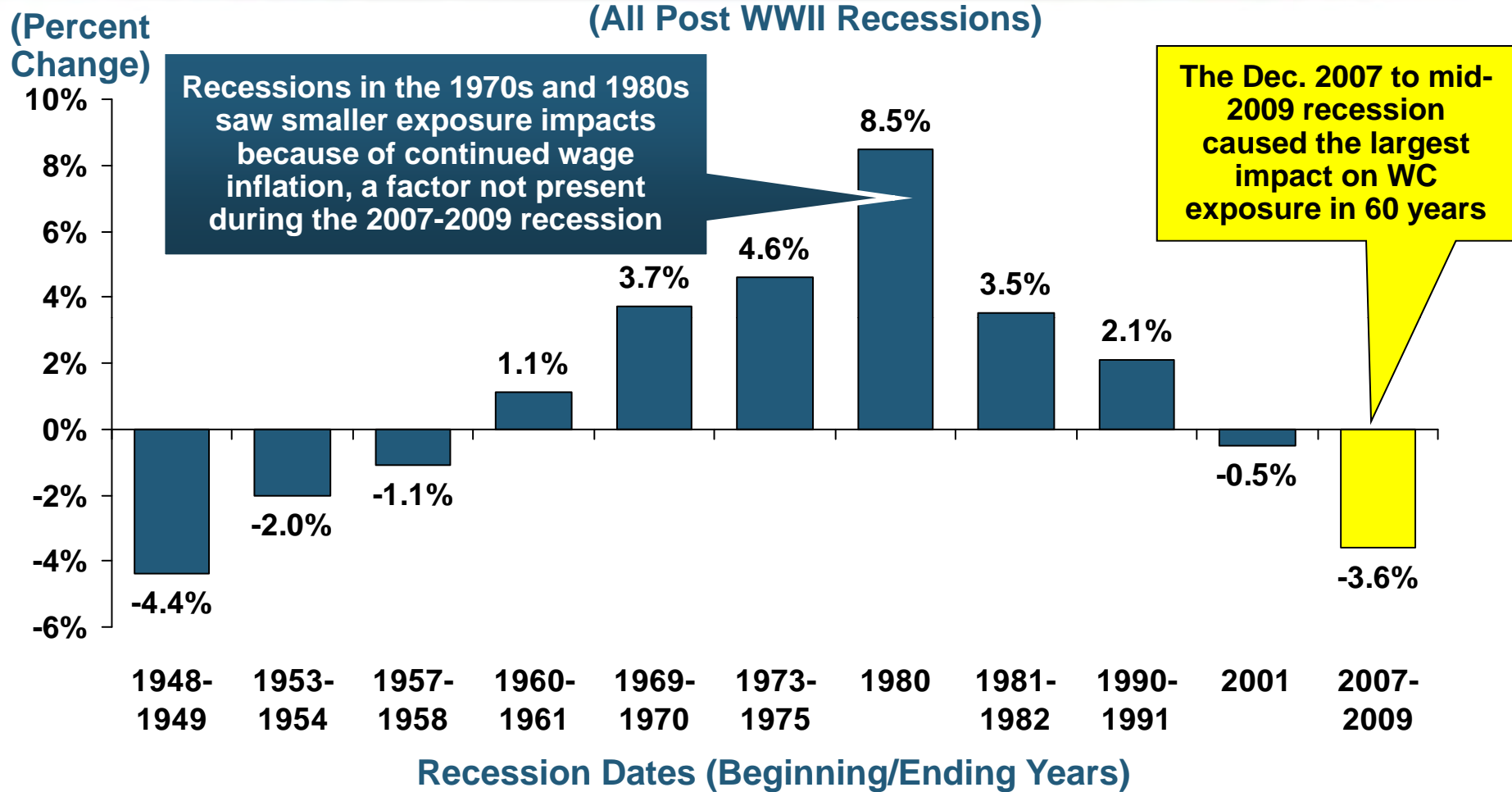


29% of NPW has been eroded away by the soft market and weak economy

*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

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).

Contributions to WC Net Written Premium Decline

Calendar Years 2007–2009



2-Year Change in Countrywide NWP

-23%

Known Pricing Impacts

Change in Bureau Rates and Loss Costs

-7%

Change in Carrier Pricing

-4%

Economic Impacts

Change in Total Payroll

-4%

Impact of Recession on Industry Group Mix

-4% to -6%

Impact of Recession by Firm Size

-4% to -6%

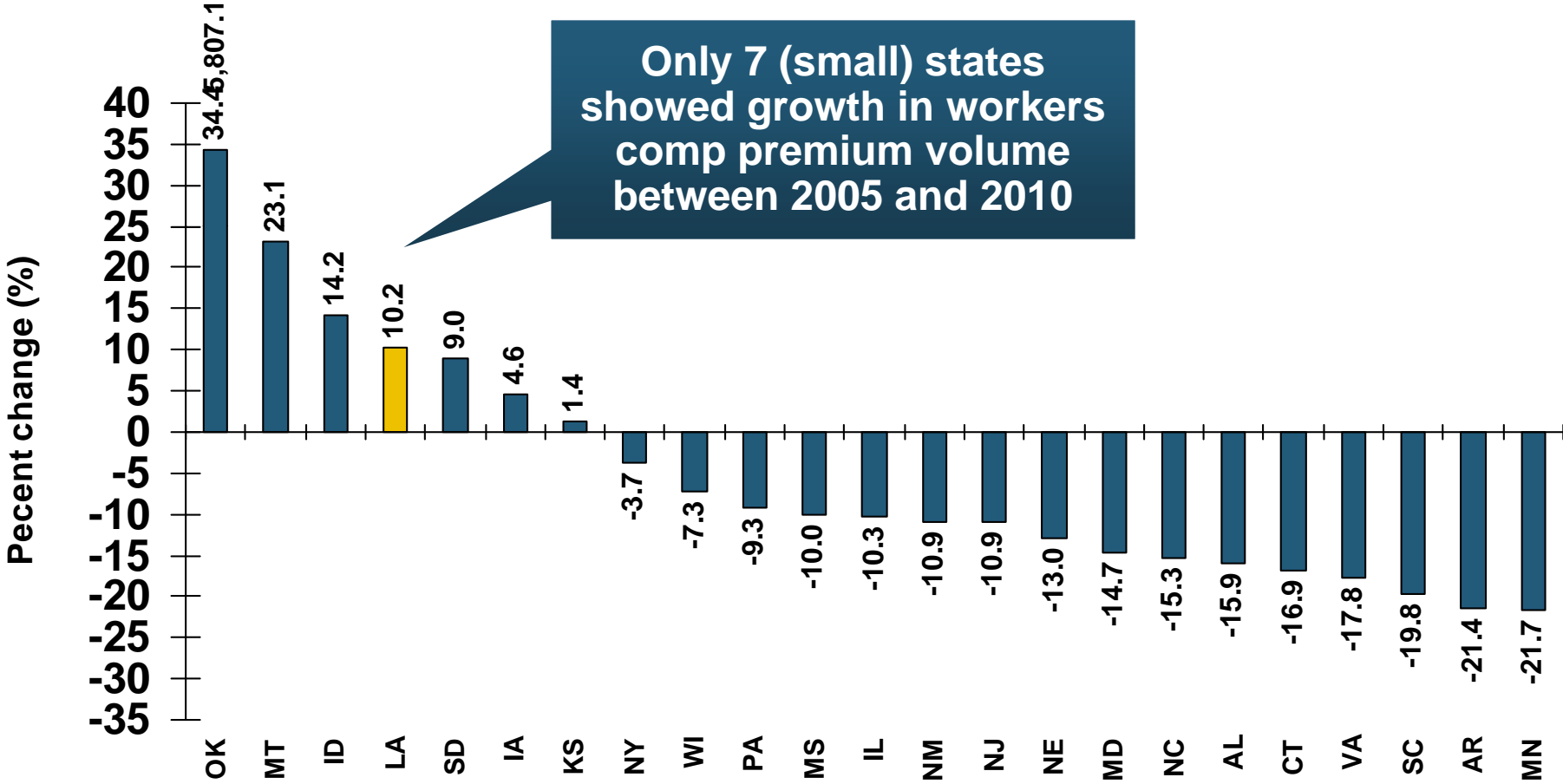
Other Impacts

+1% to -2%

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*



Top 25 States

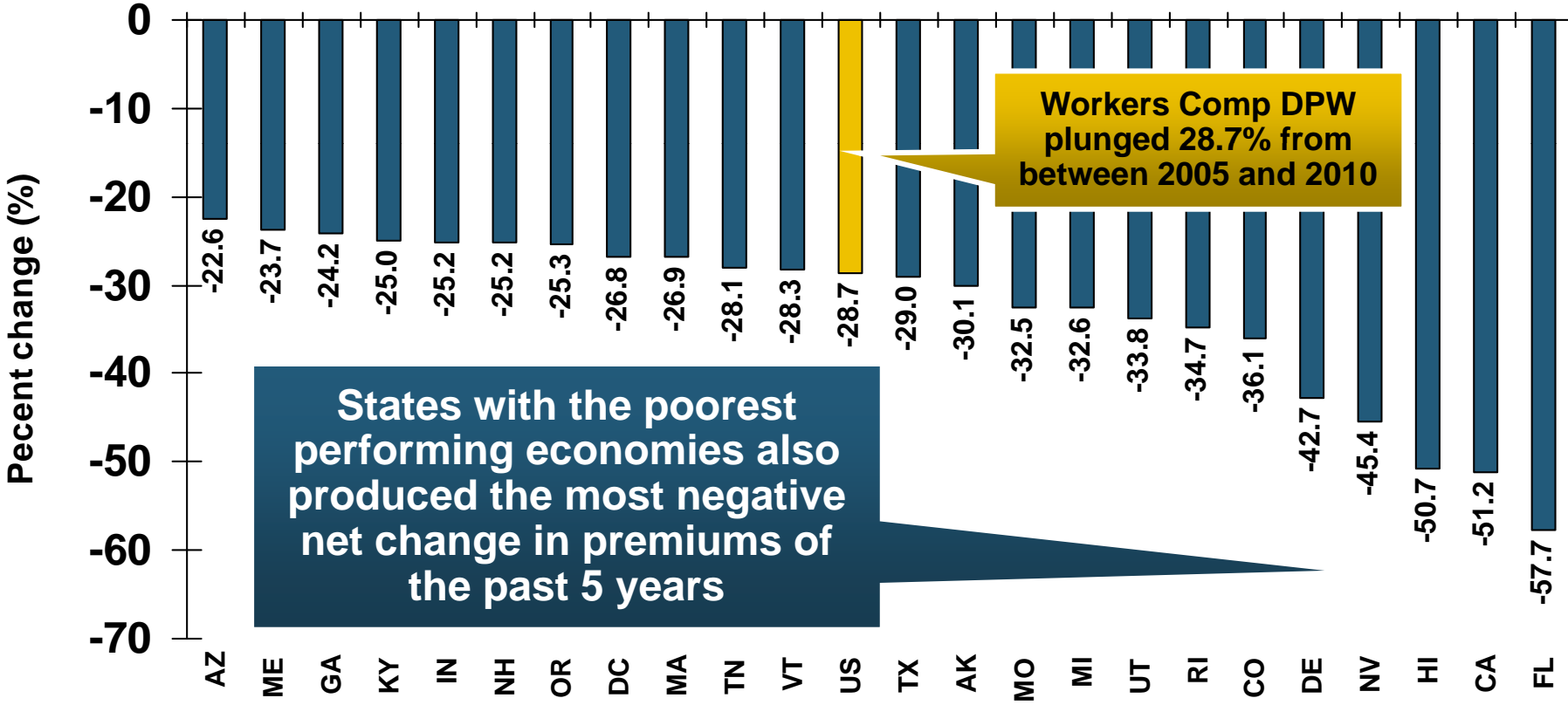


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Bottom 25 States



*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

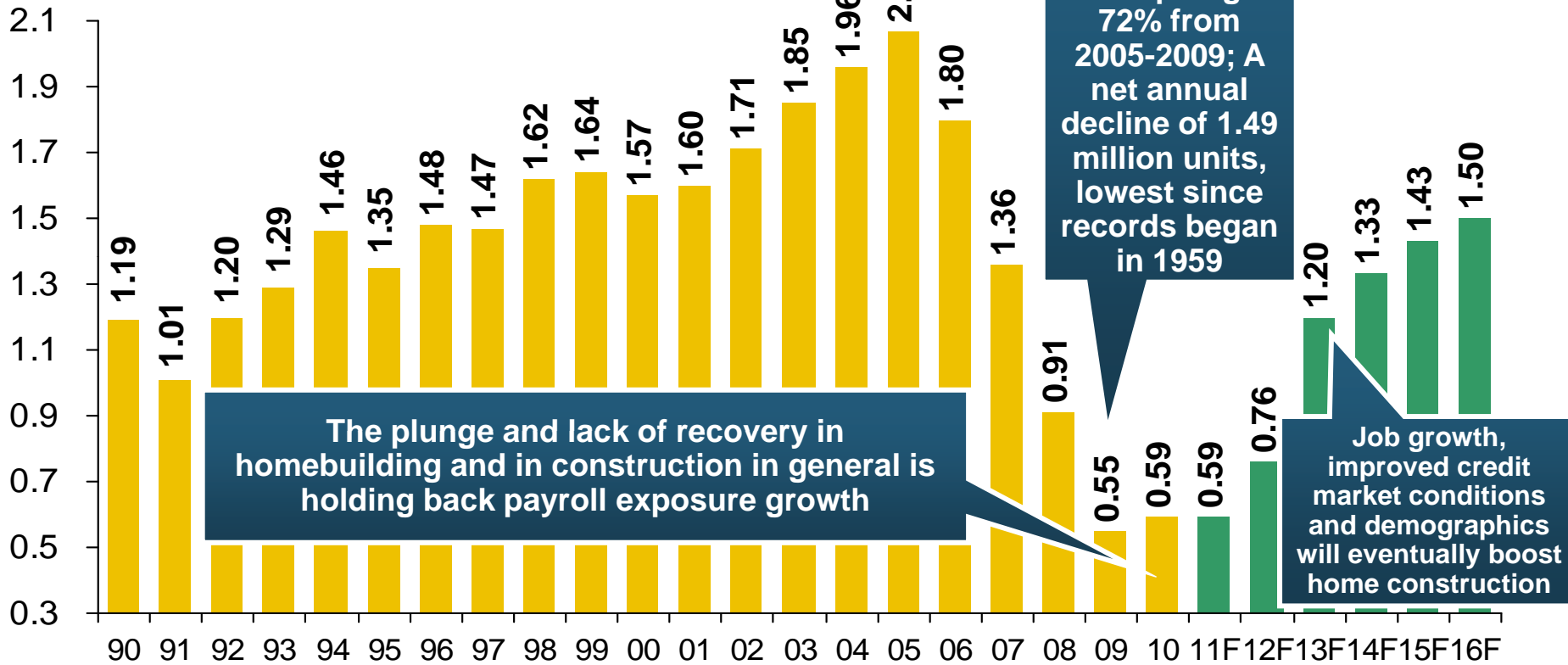


Crisis-Driven Exposure Drivers in Workers Comp

Economic Obstacles and Opportunities to Growth

New Private Housing Starts, 1990-2016F

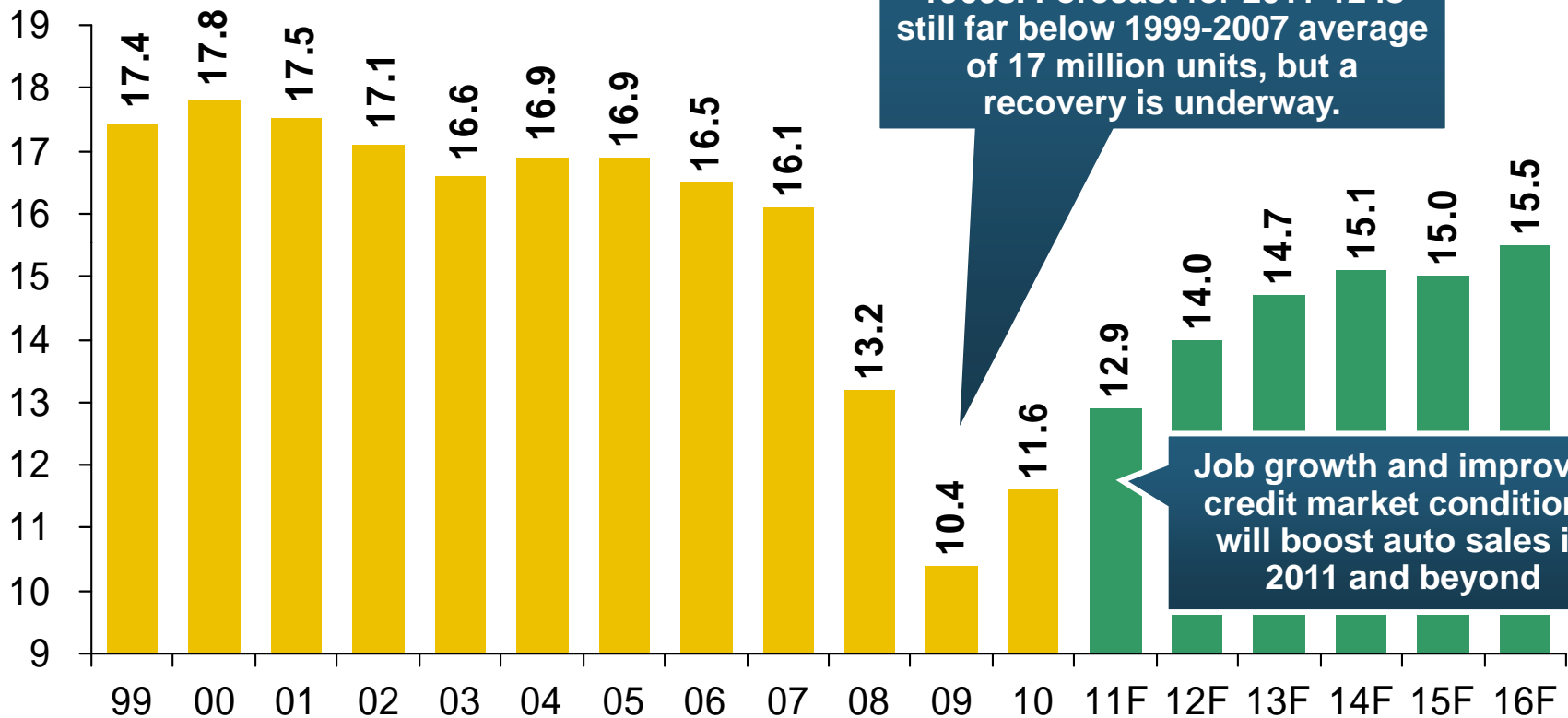
(Millions of Units)



Little Exposure Growth Likely for Homeowners Insurers Until 2013. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Auto/Light Truck Sales, 1999-2016F

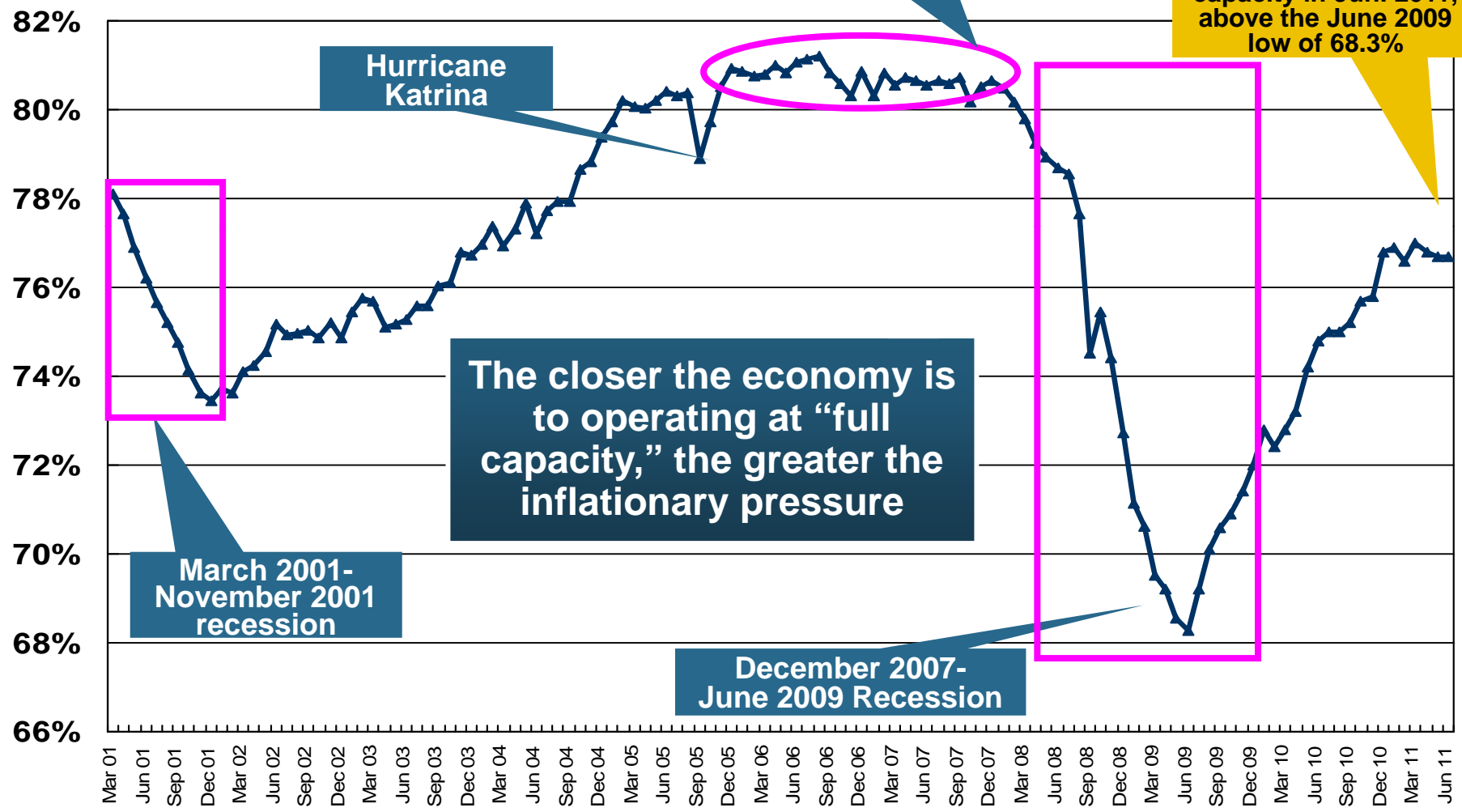
(Millions of Units)



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Manufacturing Sector.

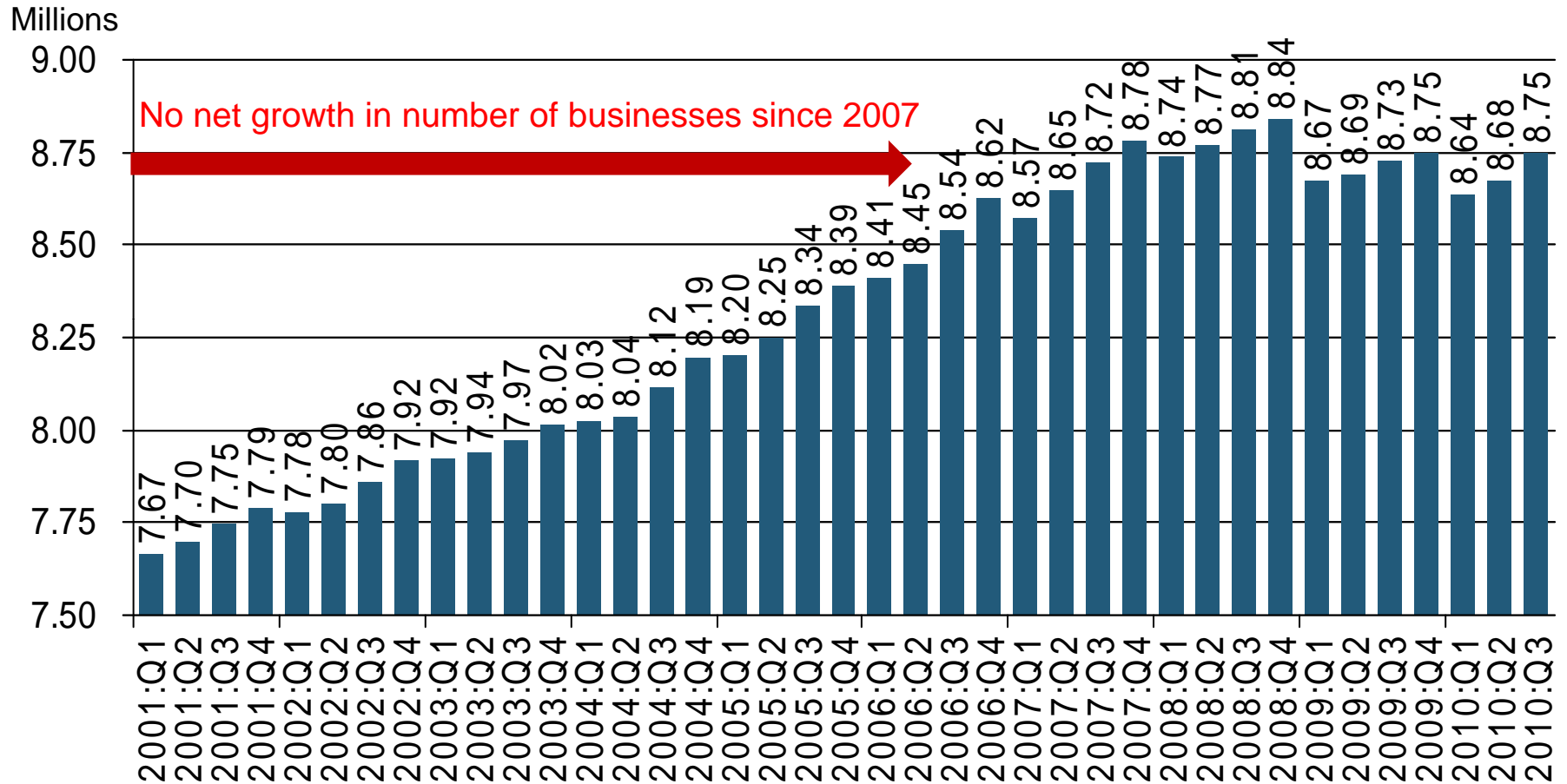
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

Percent of Industrial Capacity



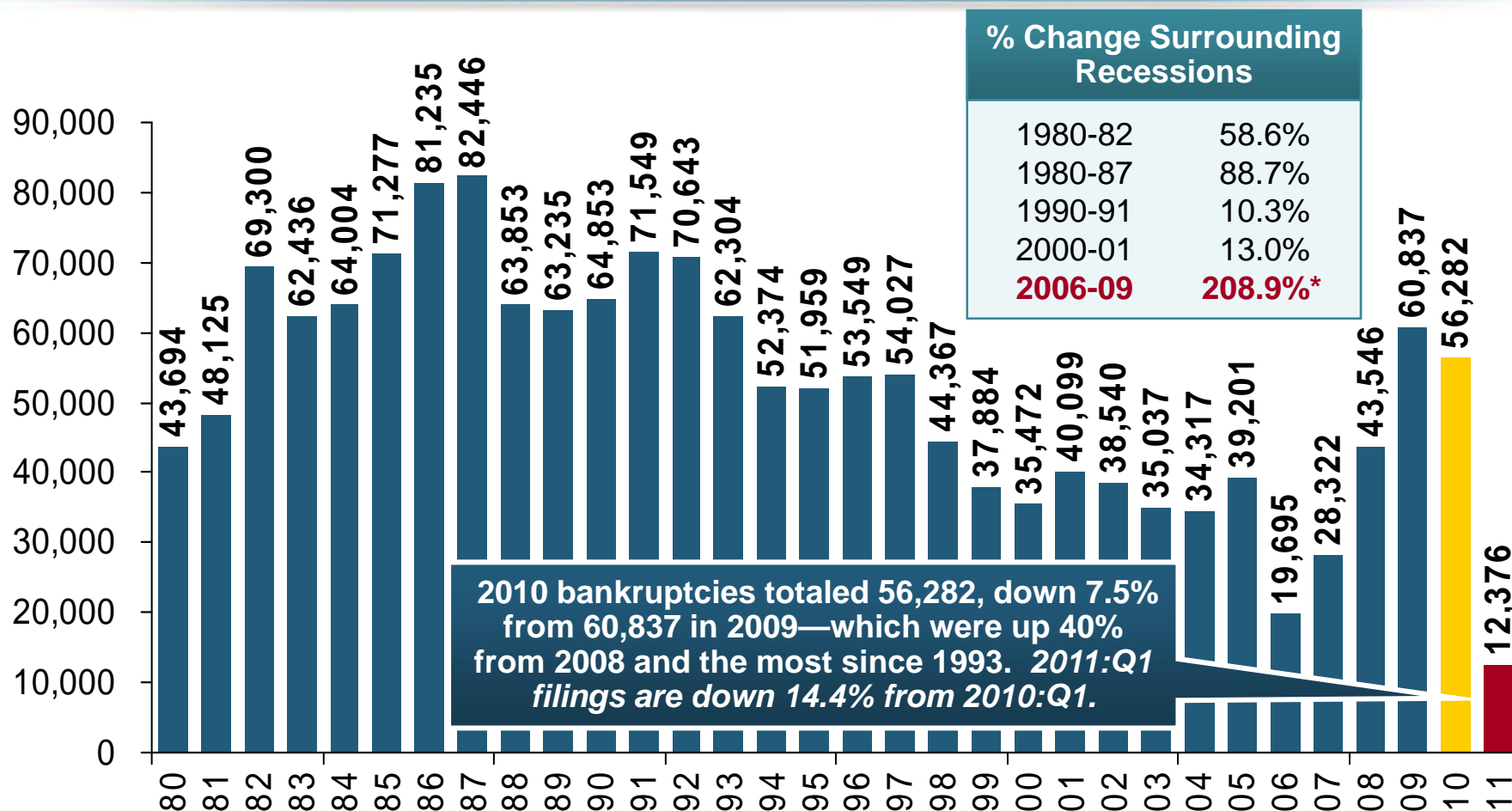
Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

Number of Private Business Establishments, 2001:Q1-2010:Q3



**In 2009:Q1 a net of 165,000 businesses disappeared.
By 2010:Q3 73,000 new ones appeared,
returning us to the level first attained three years before, in 2007:Q3.**

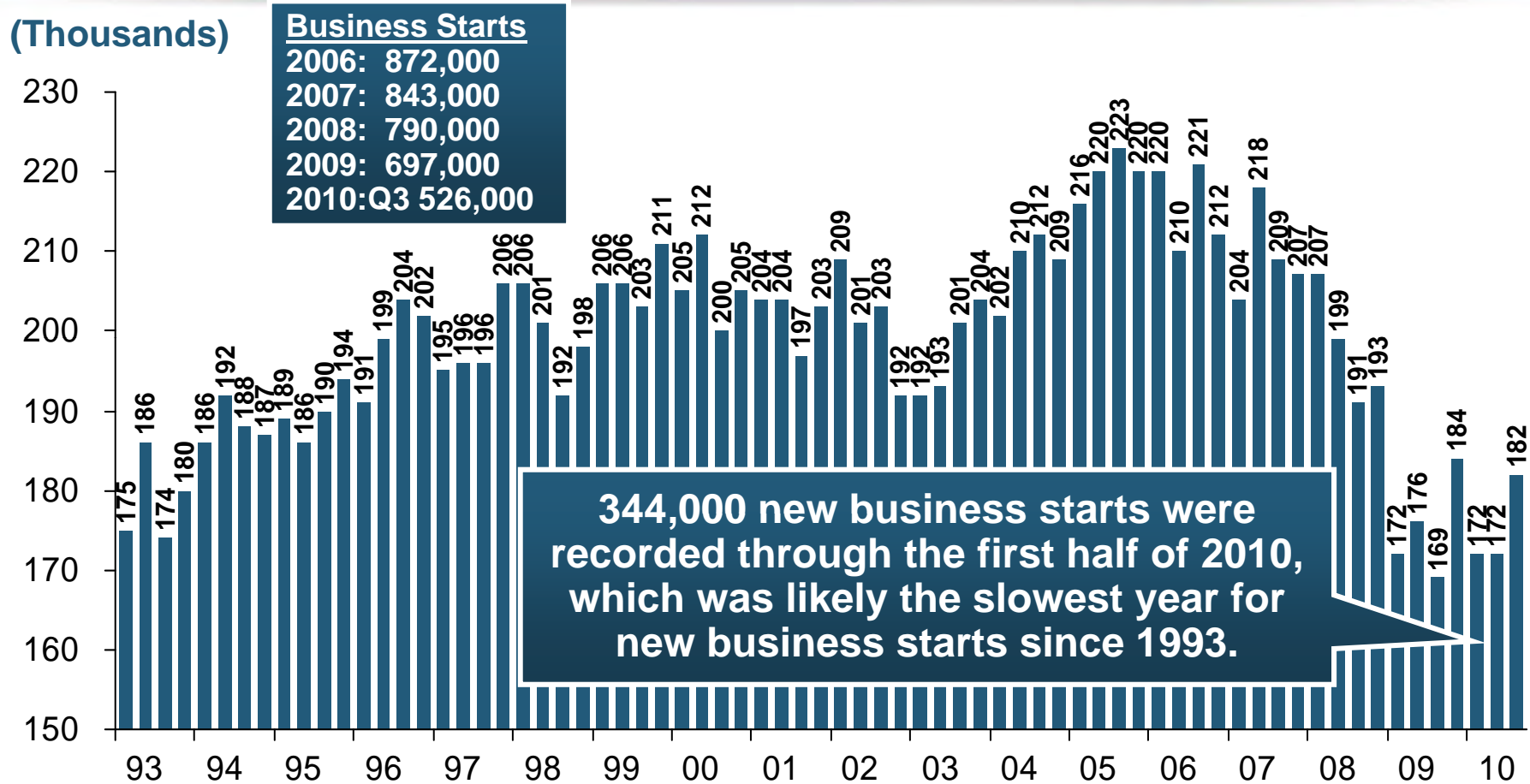
Business Bankruptcy Filings, 1980-2011:Q1



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633> ; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2010:Q3*



Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

* Data through September 30, 2010 are the latest available as of July 25, 2011; Seasonally adjusted
 Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

11 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Agriculture/Agribusiness

Natural Resources

Environmental

Technology (incl. Biotechnology)

Light Manufacturing

Export-Oriented Industries

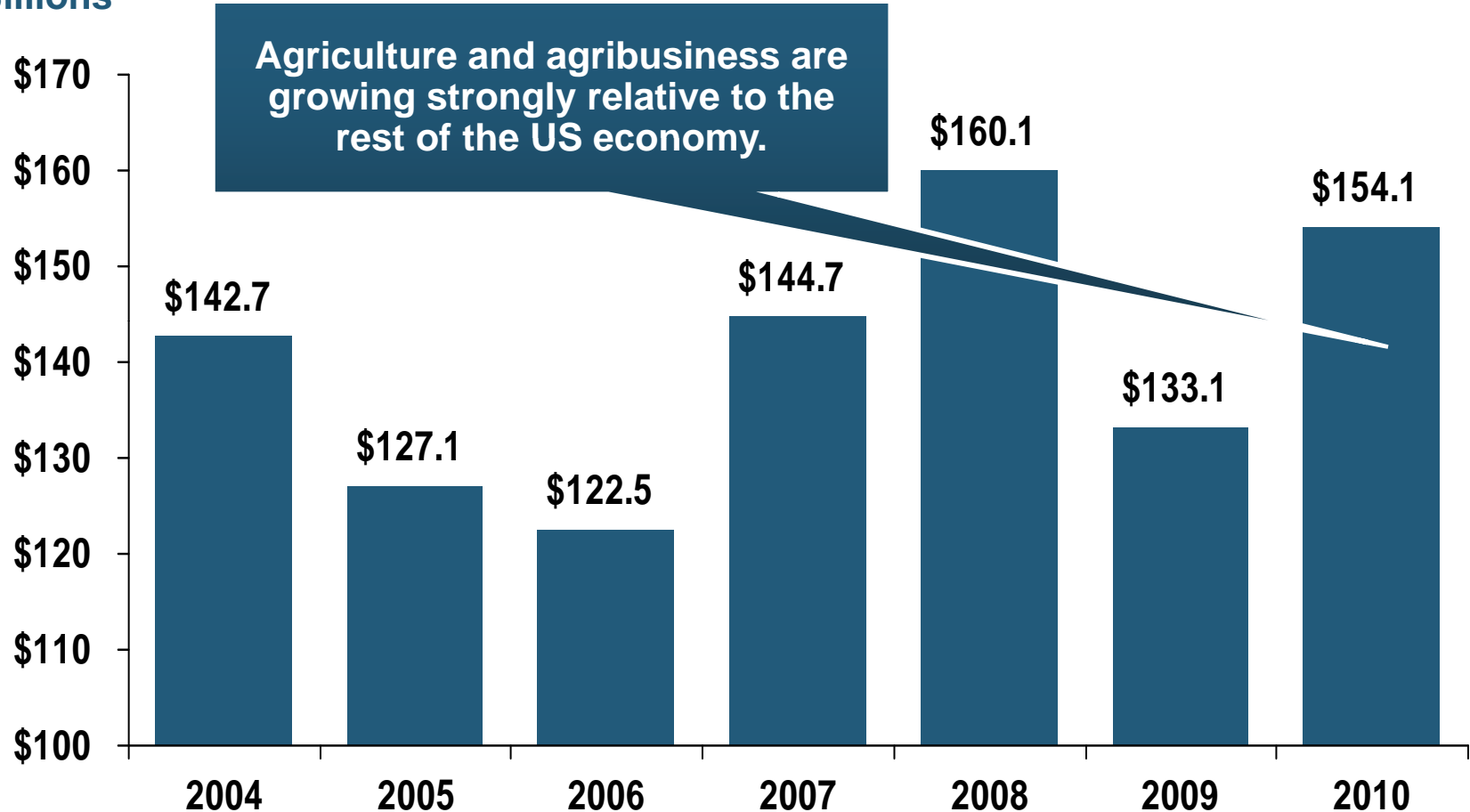
Shipping (Rail, Marine, Trucking)



Many industries are poised for growth, but many insurers do not write in these economic segments

Value Contributed to GDP by Agricultural Sector, 2004-2010

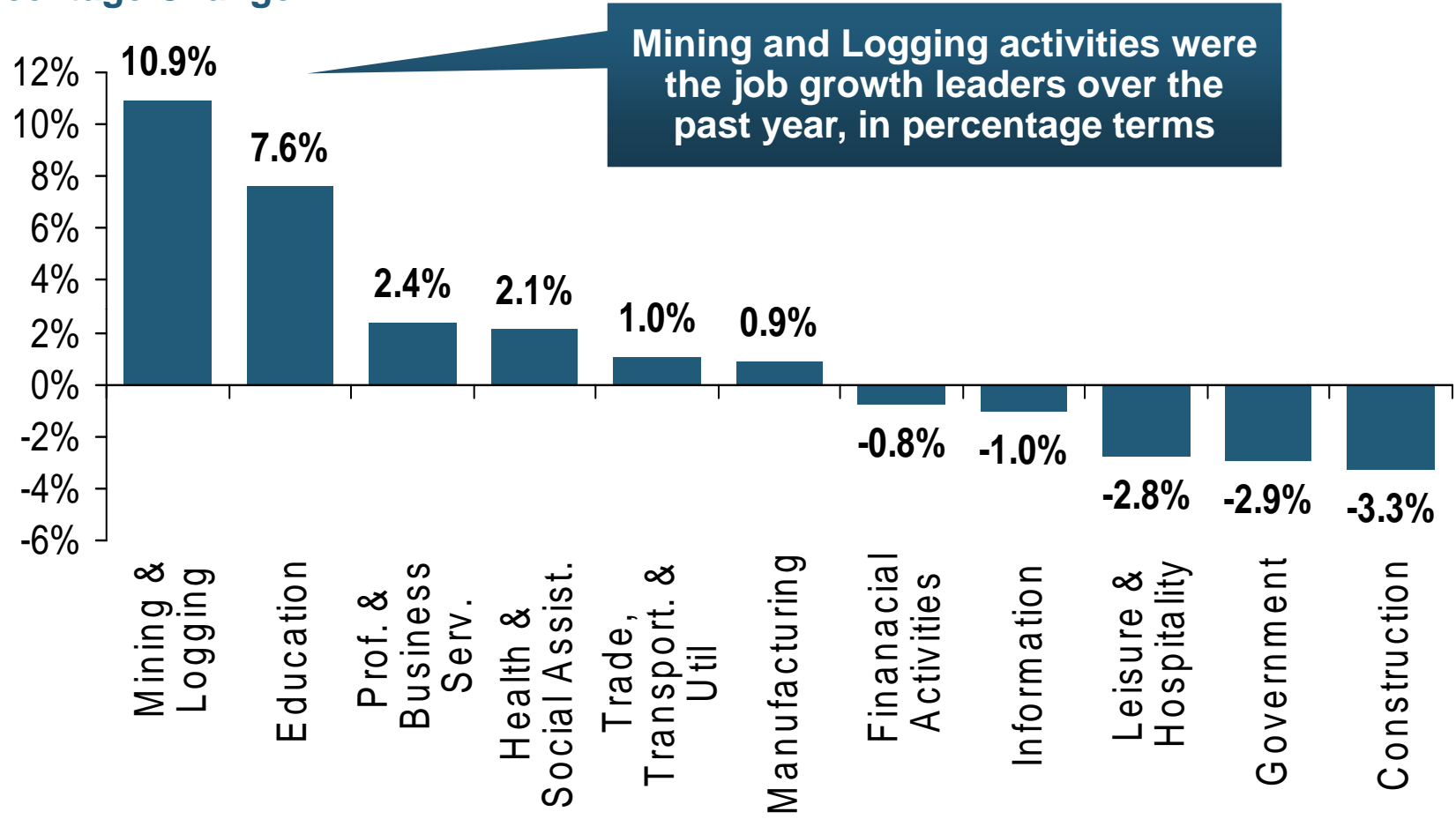
\$ Billions



Agriculture and Agribusiness will be among the growth leaders in the years ahead due to rising global demand and a low dollar--boosting exports

Percentage Change in Employment in Select Industries, June 2011 vs. June 2010

Percentage Change



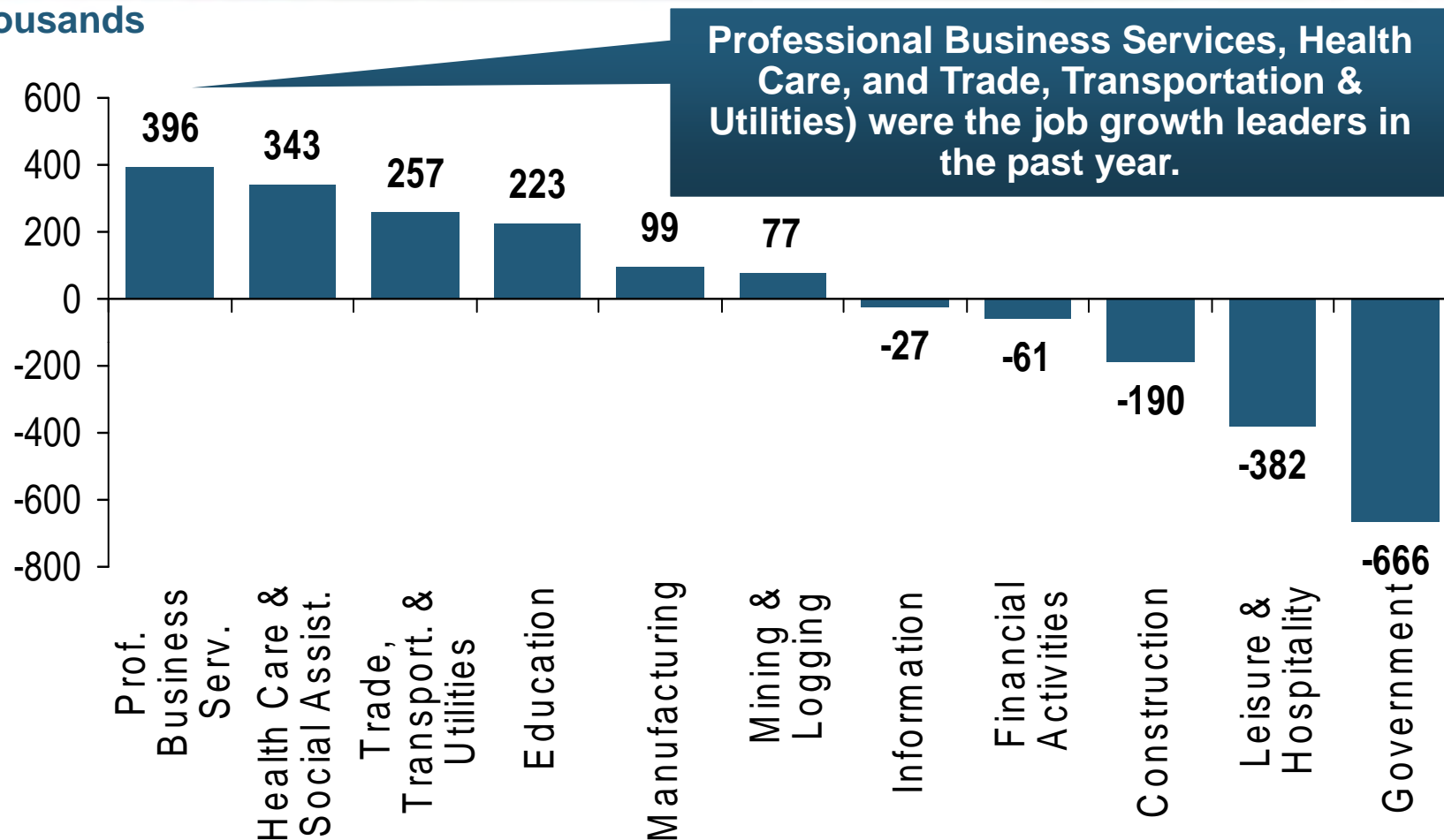
Mining and Logging activities were the job growth leaders over the past year, in percentage terms

There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Sources: US Bureau of Labor Statistics "Employment Situation, June 2011"; Insurance Information Institute.

Change in Number Employed in Select Industries, June 2011 vs. June 2010

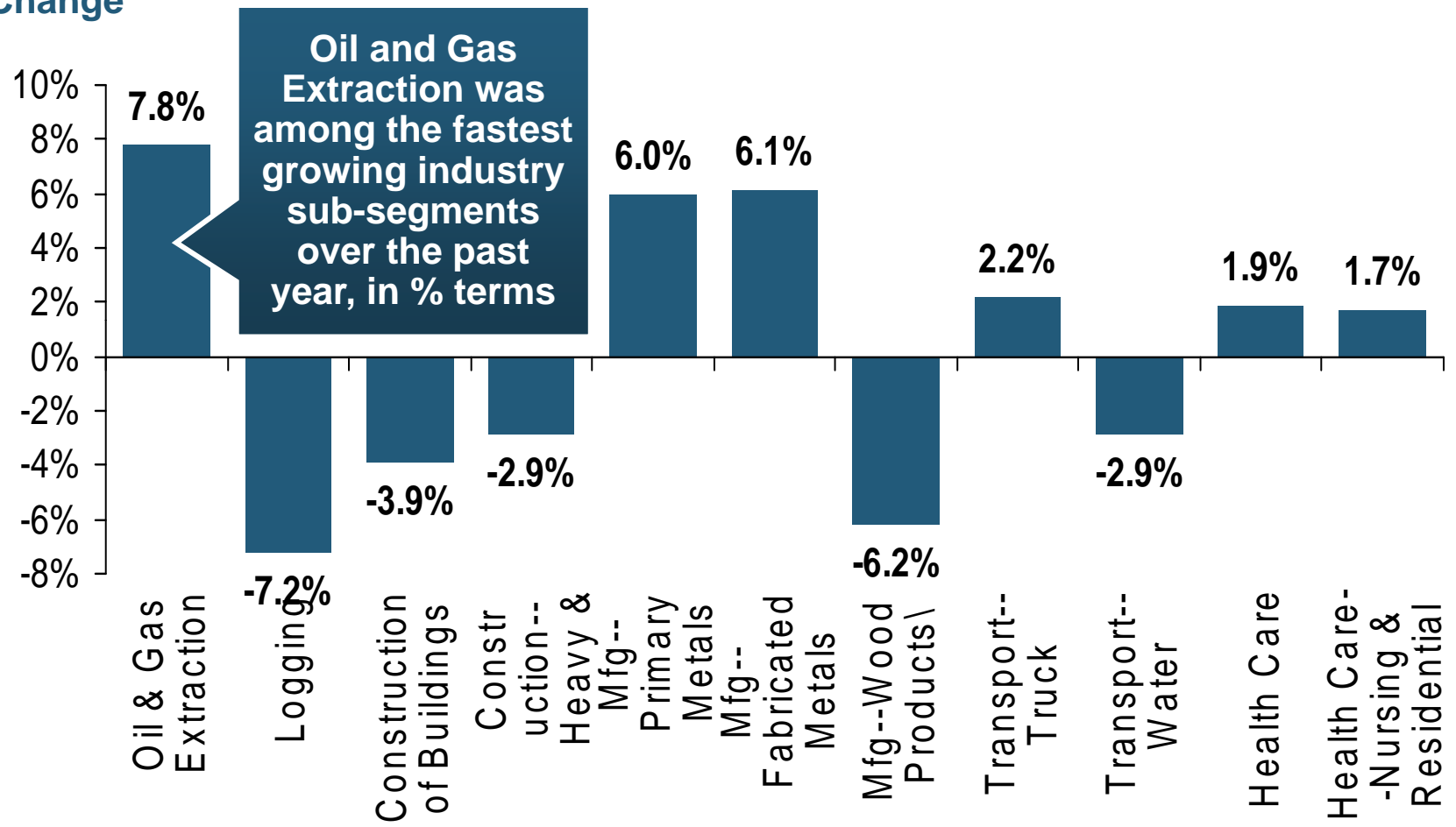
Thousands



There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Percentage Change in Employment in Select Sub-Industries, June 2011 vs. June 2010

% Change



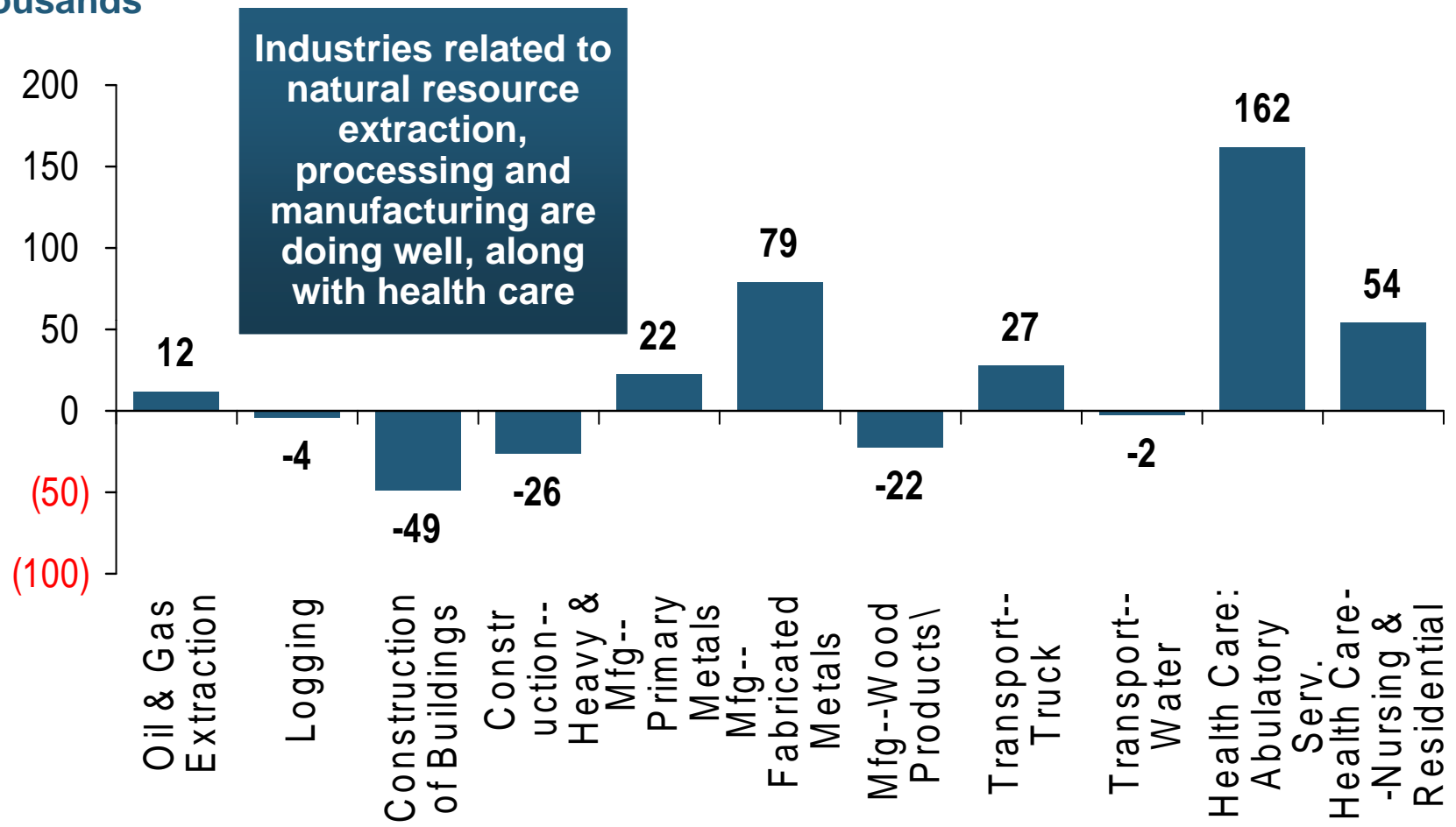
Oil and Gas Extraction was among the fastest growing industry sub-segments over the past year, in % terms

There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Sources: US Bureau of Labor Statistics "Employment Situation, June 2011"; Insurance Information Institute.

Change in Number Employed in Select Sub-Industries, June 2011 vs. June 2010

Thousands



There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Sources: US Bureau of Labor Statistics "Employment Situation, June 2011"; Insurance Information Institute.



Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

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



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

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

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

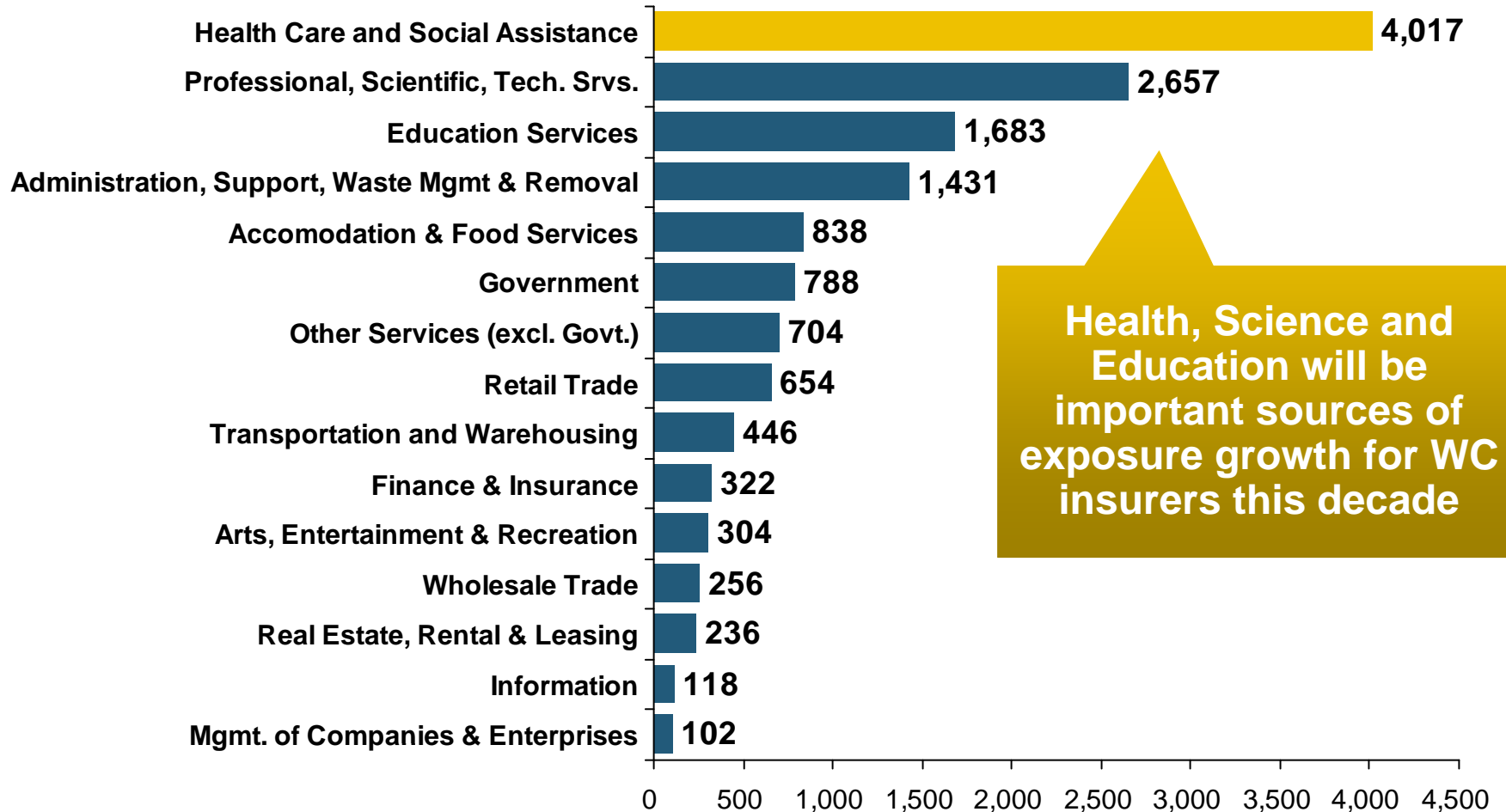
Occupations With Largest Numerical Growth Across the States, 2006–2016

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

Numeric Change in Wage and Salary Employment in Service-Providing Industries: 2008-2018P

(Thousands)





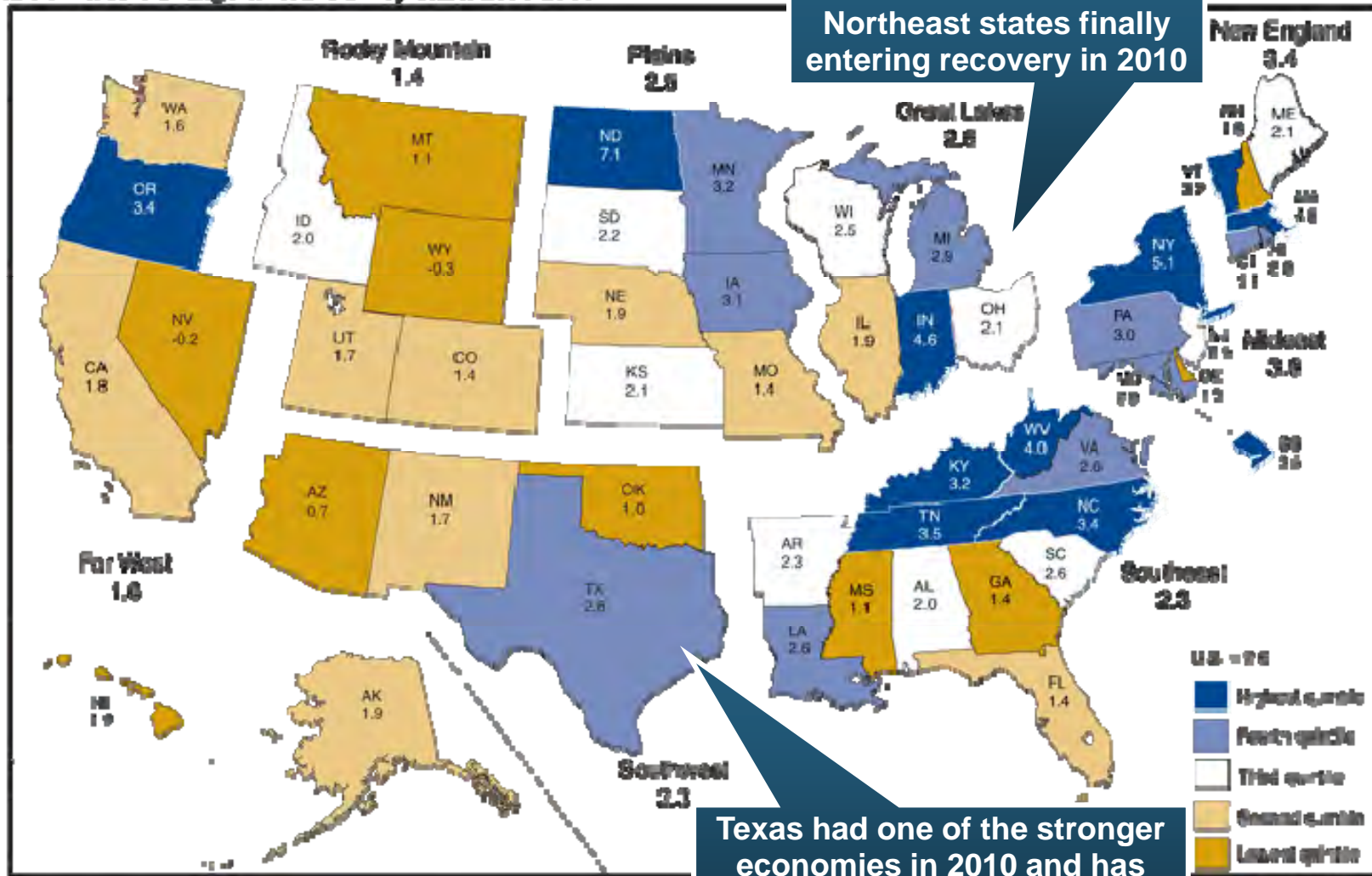
Regional Differences Will Significantly Impact P/C Markets

**Recovery in Some Areas Will
Begin Years Ahead of Others
and Speed of Recovery Will Differ
by Orders of Magnitude**

2011 Financial Overview

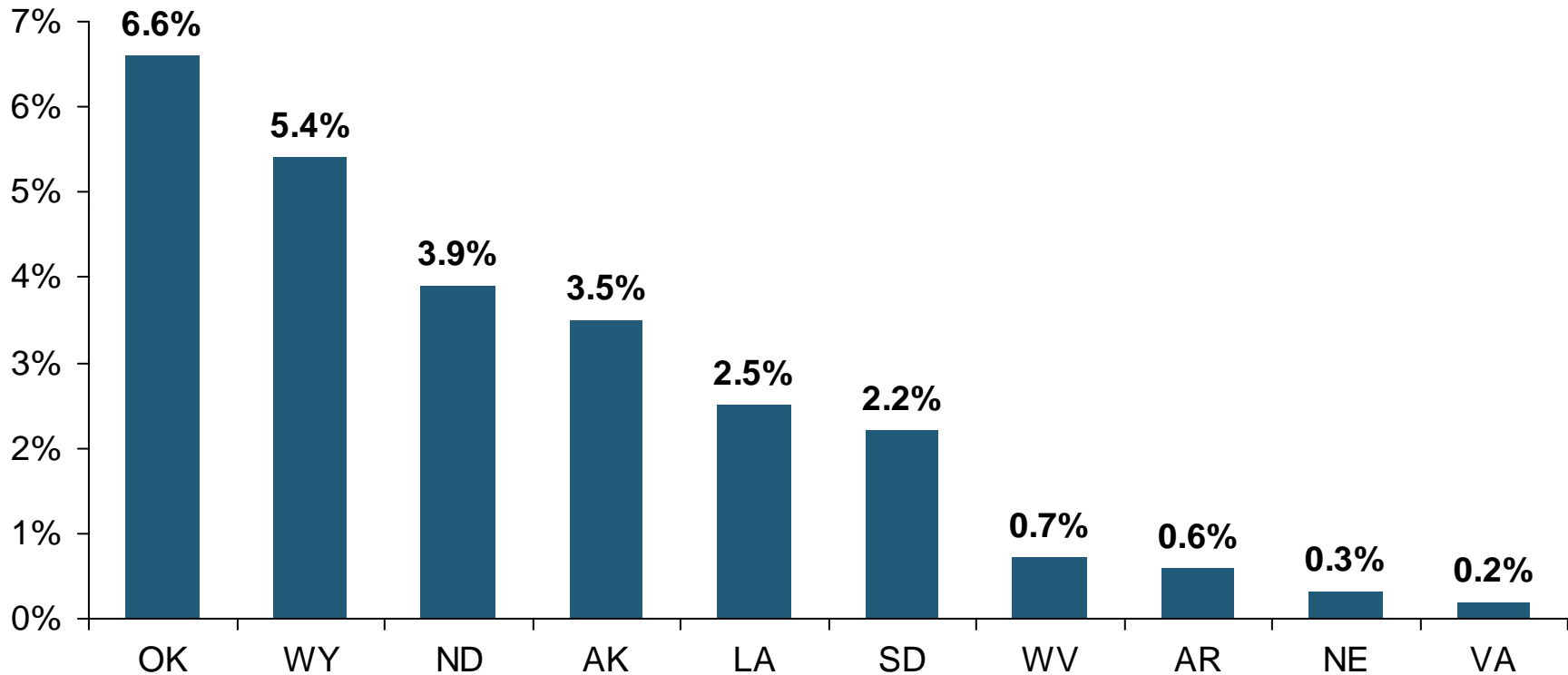
State Economic Growth Varied in 2010

Chart 1. Percent Change in Real GDP by State, 2009-2010



Fastest Growing States in 2009: Plains, Oil States Lead

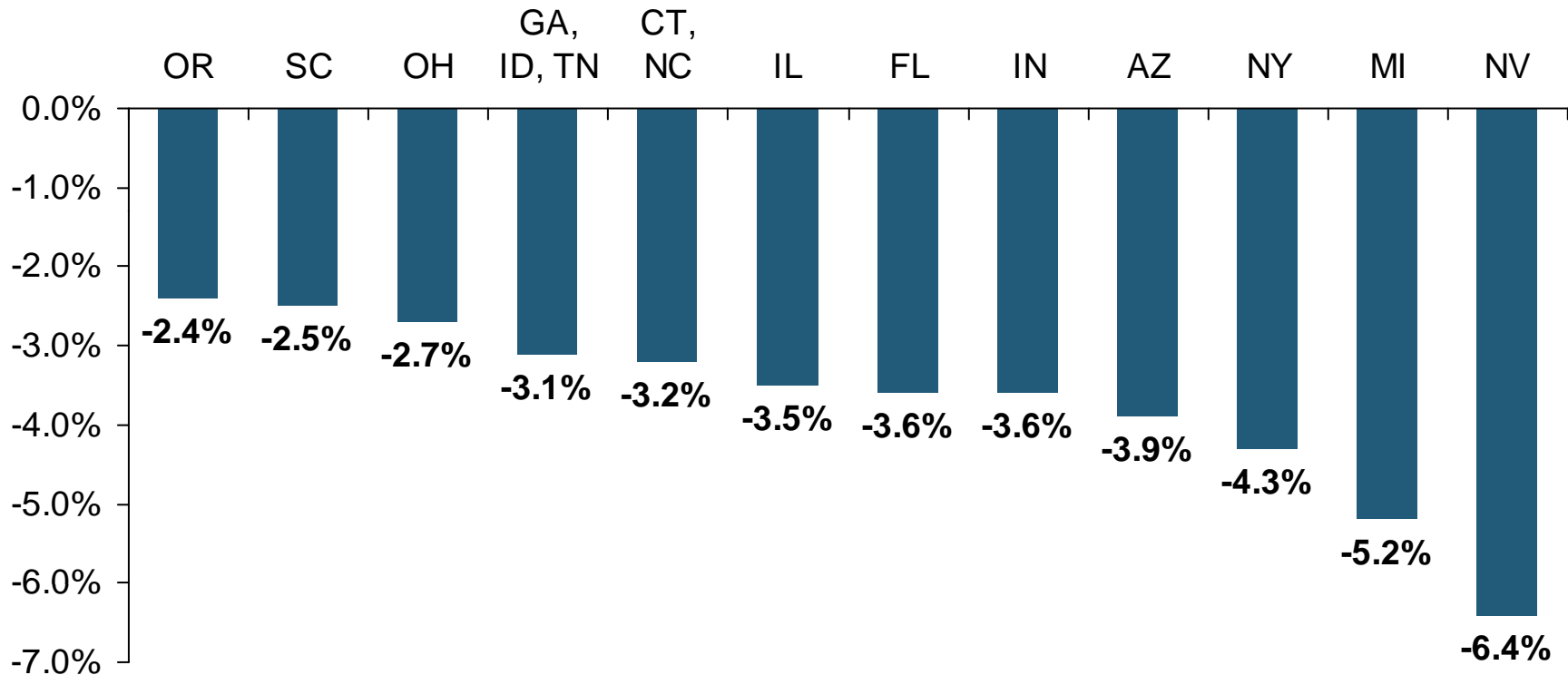
Real State GDP Growth (%)



Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

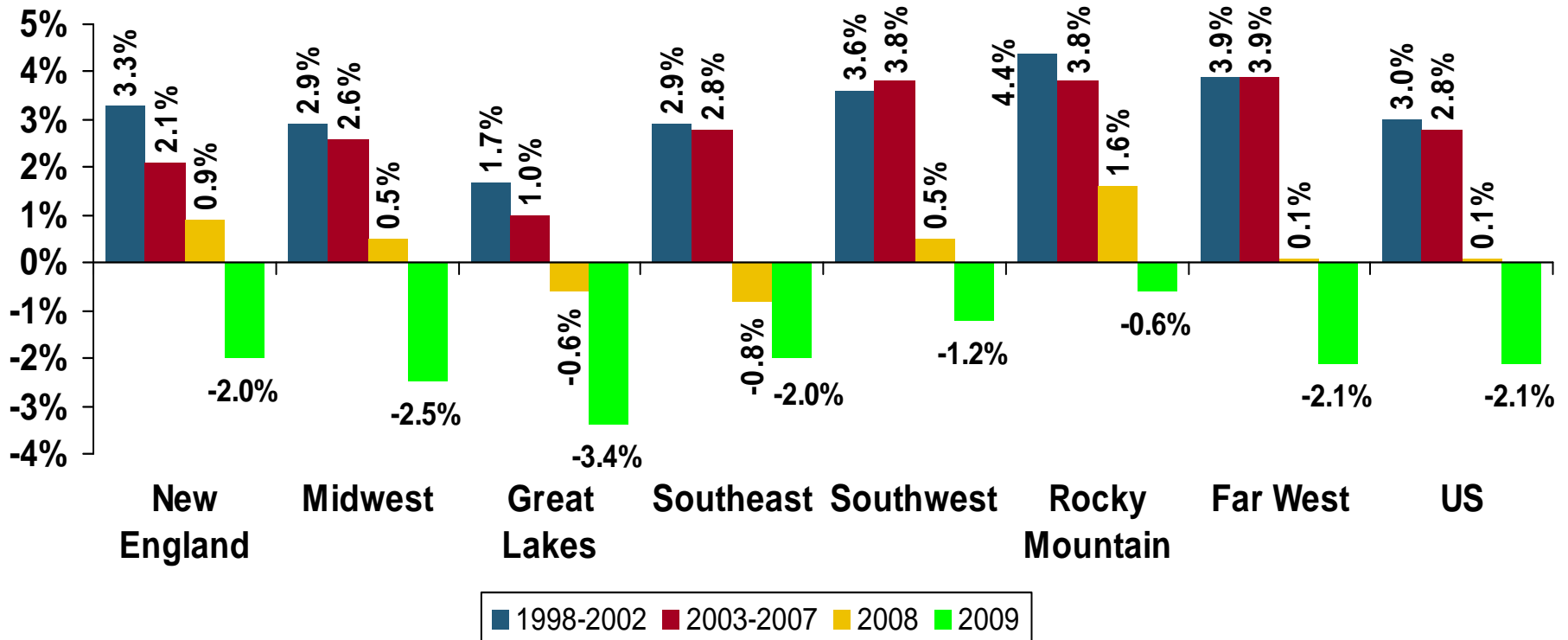
Slowest Growing States in 2009: Diversity of States Suffering

Real State GDP Growth (%)



**States in the North, South, East, Midwest and West All Represented
Among Hardest Hit, But for Differing Reasons**

Real GDP Growth by Region: 1998 - 2009



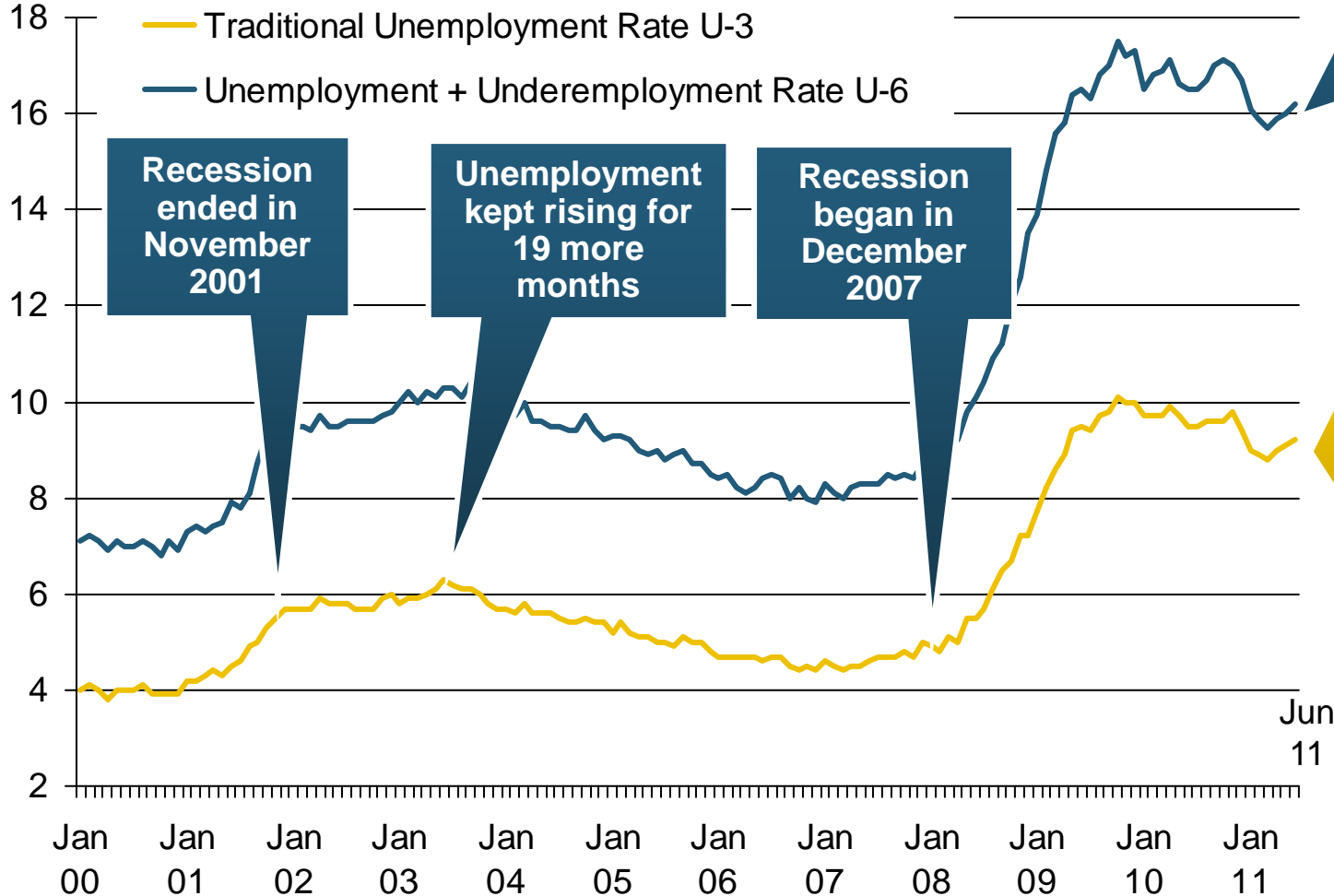
The intensity and duration of the “Great Recession” affected each region of the country differently, impacting the demand for insurance. The Great Lakes region suffered the most whereas the Mountain states fared the best.

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving

Unemployment and Underemployment Rates: Falling in 2011

January 2000 through June 2011, Seasonally Adjusted (%)



Recession ended in November 2001

Unemployment kept rising for 19 more months

Recession began in December 2007

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.2% in June 2011

Unemployment rate rose to 9.2% in June

Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

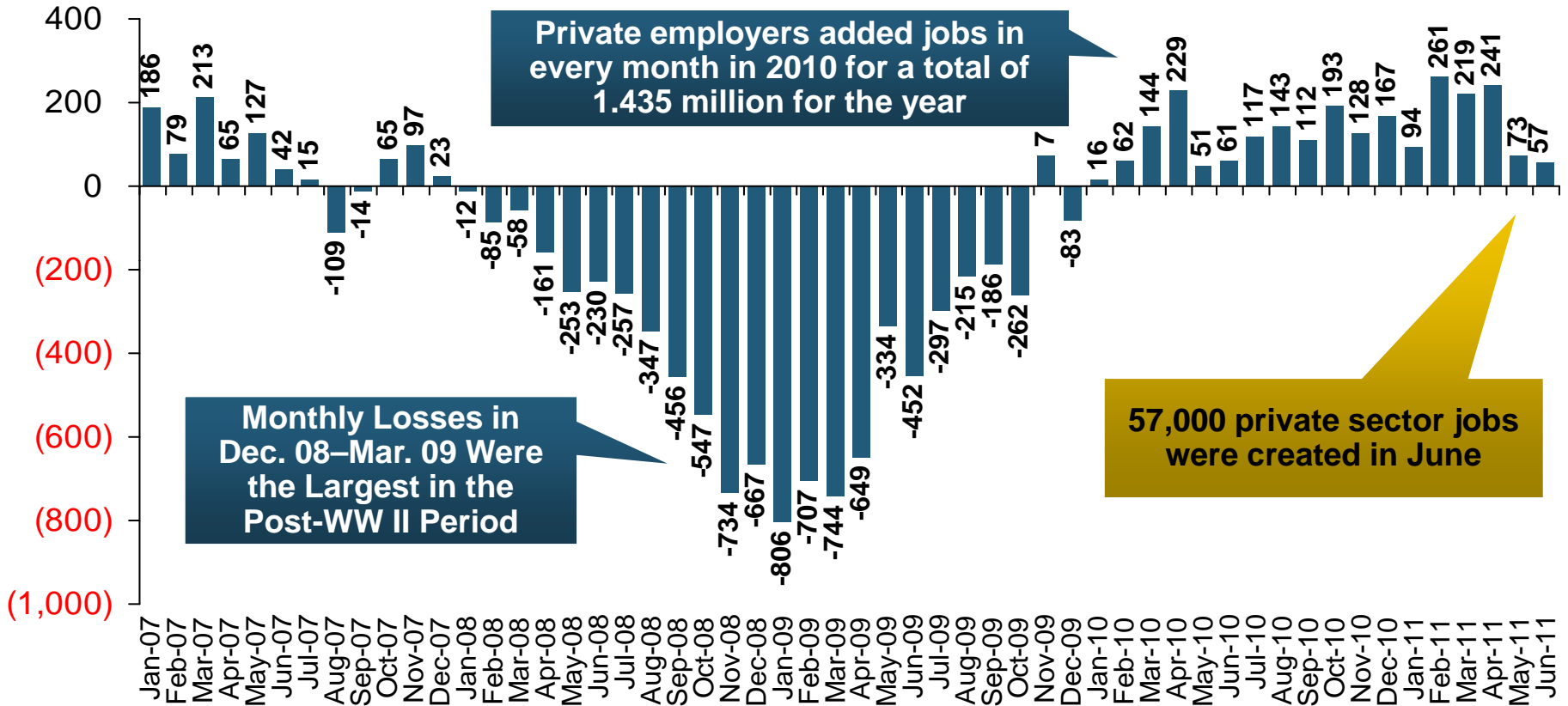
Peak rate in the last 30 years: 10.8% in November - December 1982

Stubbornly high unemployment and underemployment will constrain payroll growth, which directly affects WC exposure

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

Monthly Change in Private Employment

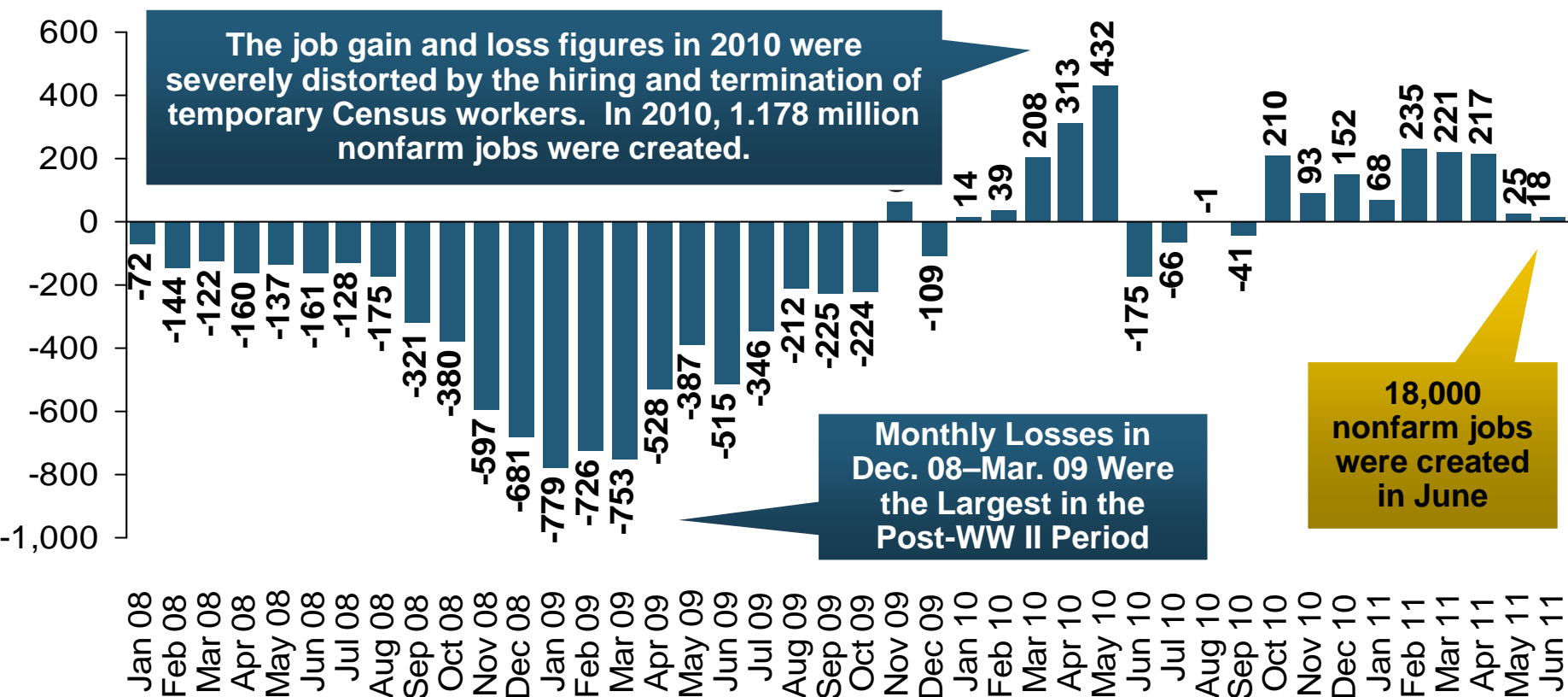
January 2008 through June 2011* (Thousands)



Private Employers Added 2.368 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Monthly Change Employment*

January 2008 through June 2011* (Thousands)

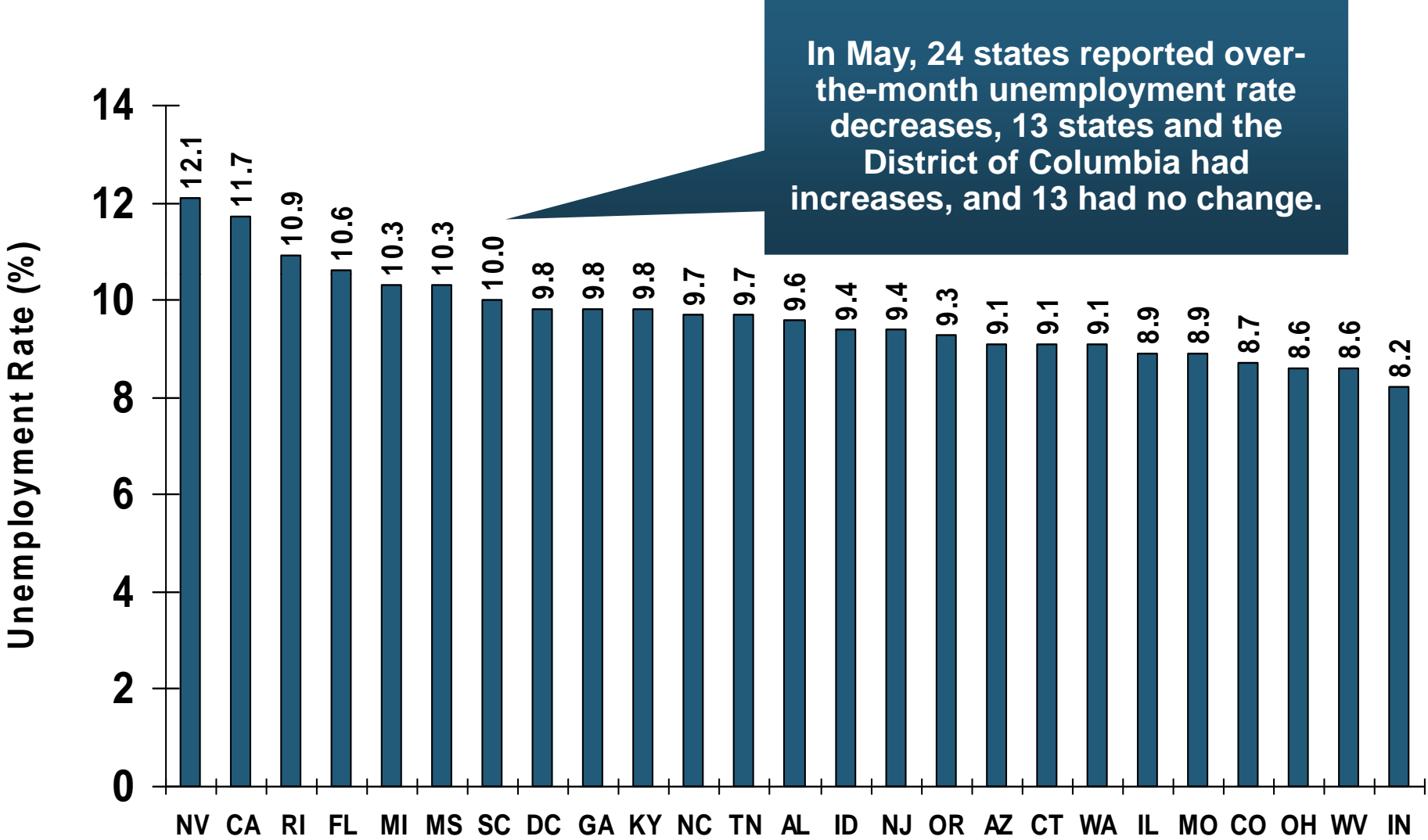


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 6.2 Million Through March 2011; 13.5 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

Unemployment Rates by State, May 2011: Highest 25 States*



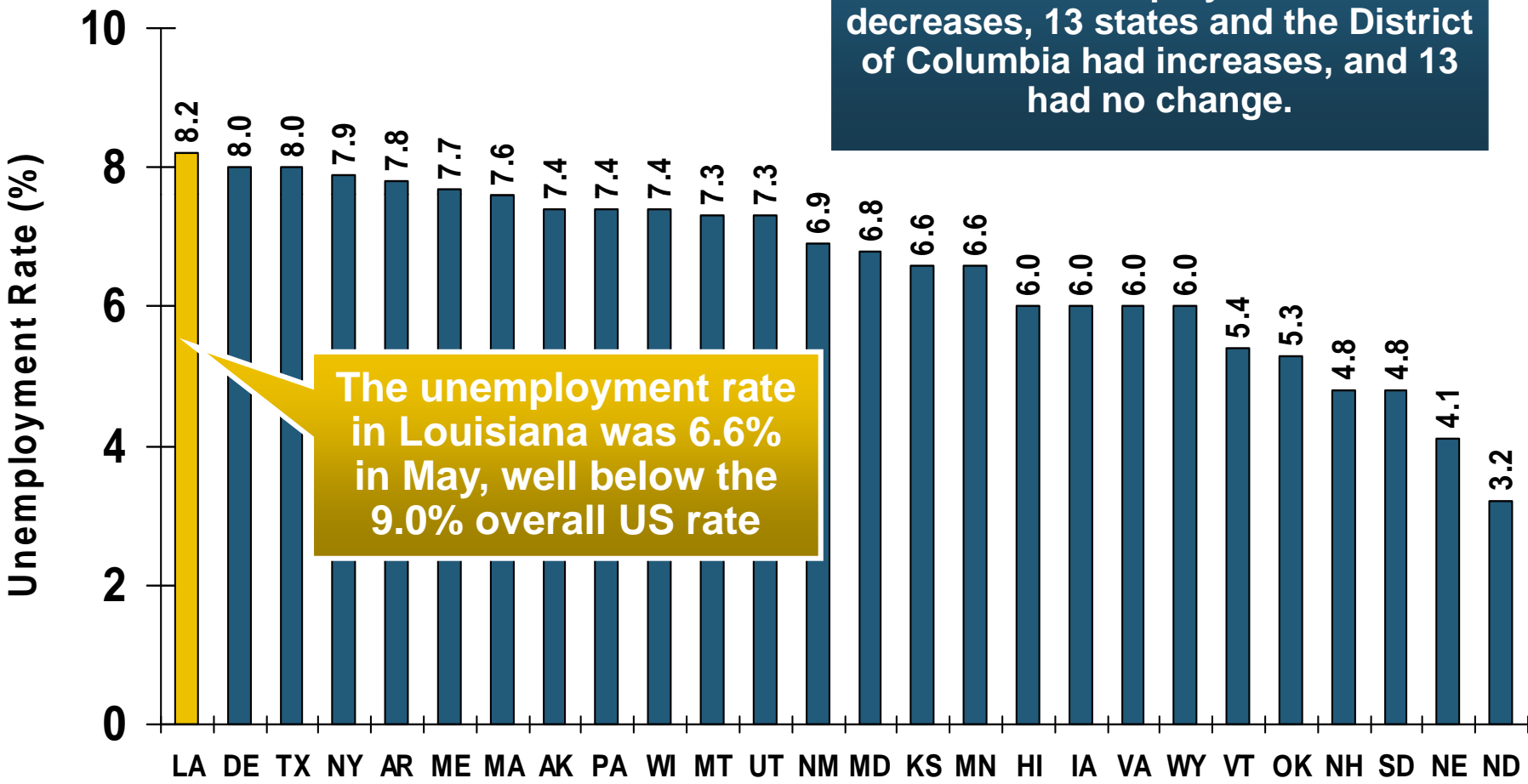
*Provisional figures for May 2011, seasonally adjusted.

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

Unemployment Rates By State, May 2011: Lowest 25 States*



In May, 24 states reported over-the-month unemployment rate decreases, 13 states and the District of Columbia had increases, and 13 had no change.

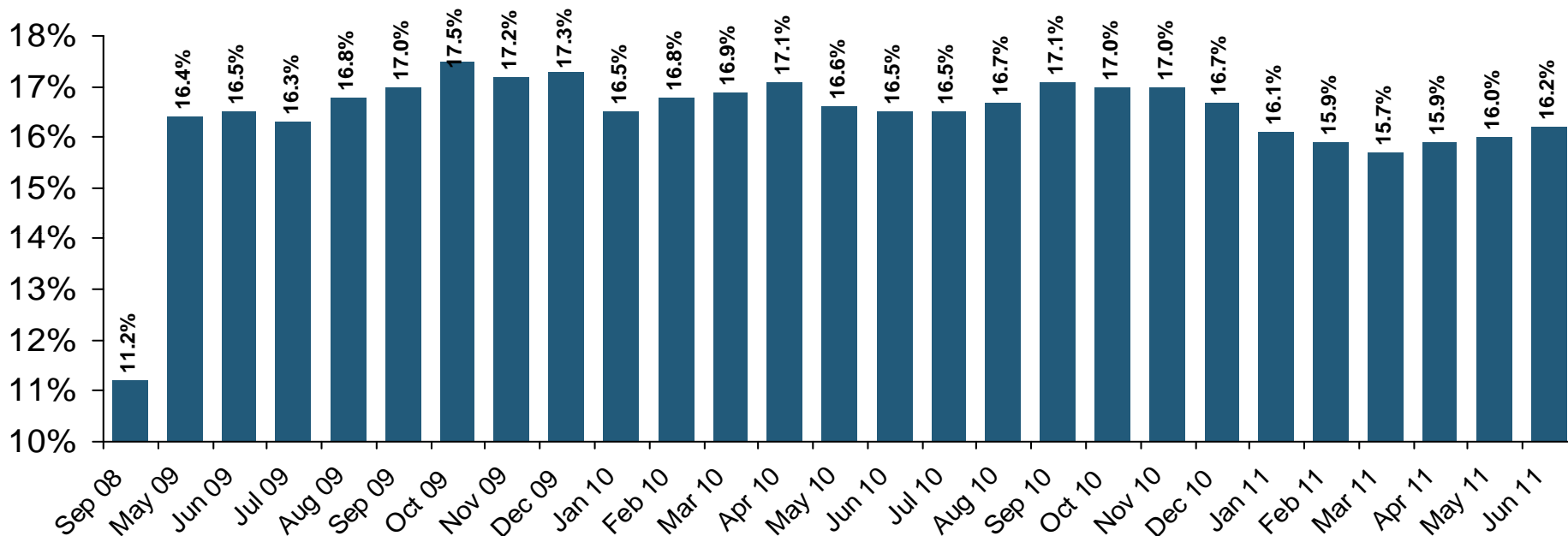


The unemployment rate in Louisiana was 6.6% in May, well below the 9.0% overall US rate

*Provisional figures for May 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



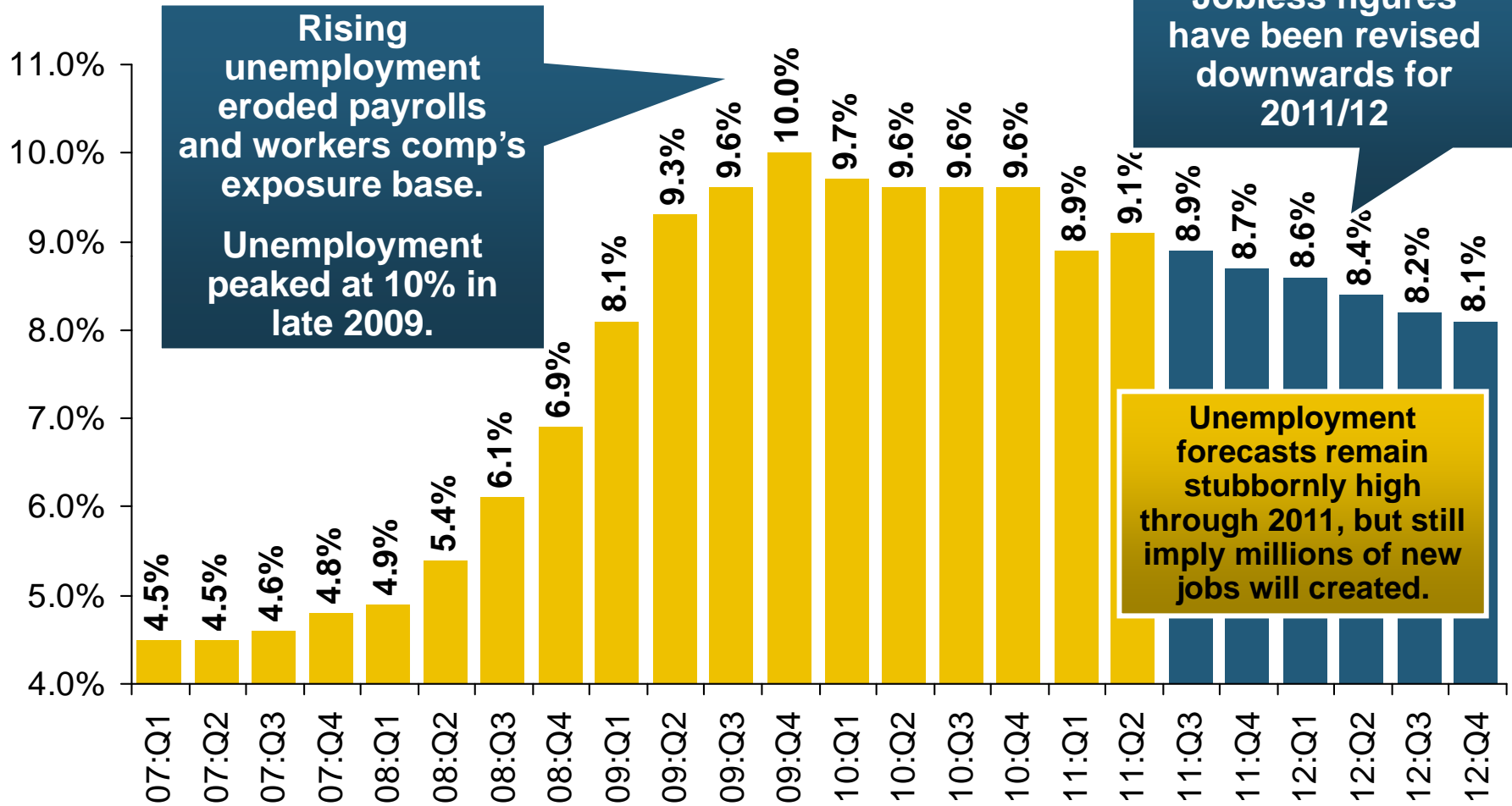
Marginally Attached and Unemployed Persons Account for 16.2% of the Labor Force in April 2011 (1 Out Every 6.2 People). Unemployment Rate Alone was 9.2%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

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

US Unemployment Rate

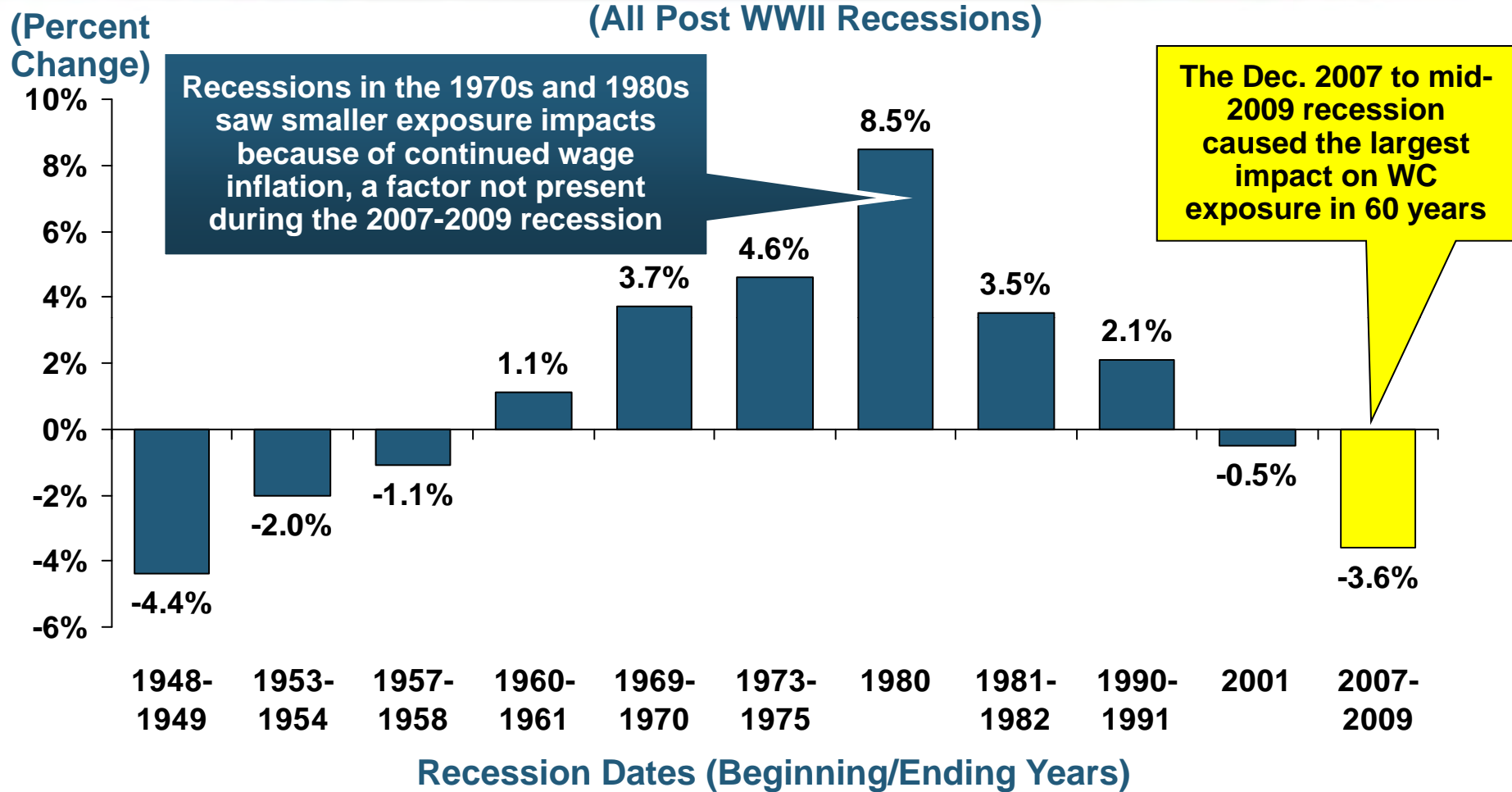
2007:Q1 to 2012:Q4F*



*  = actual;  = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (7/11); Insurance Information Institute

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

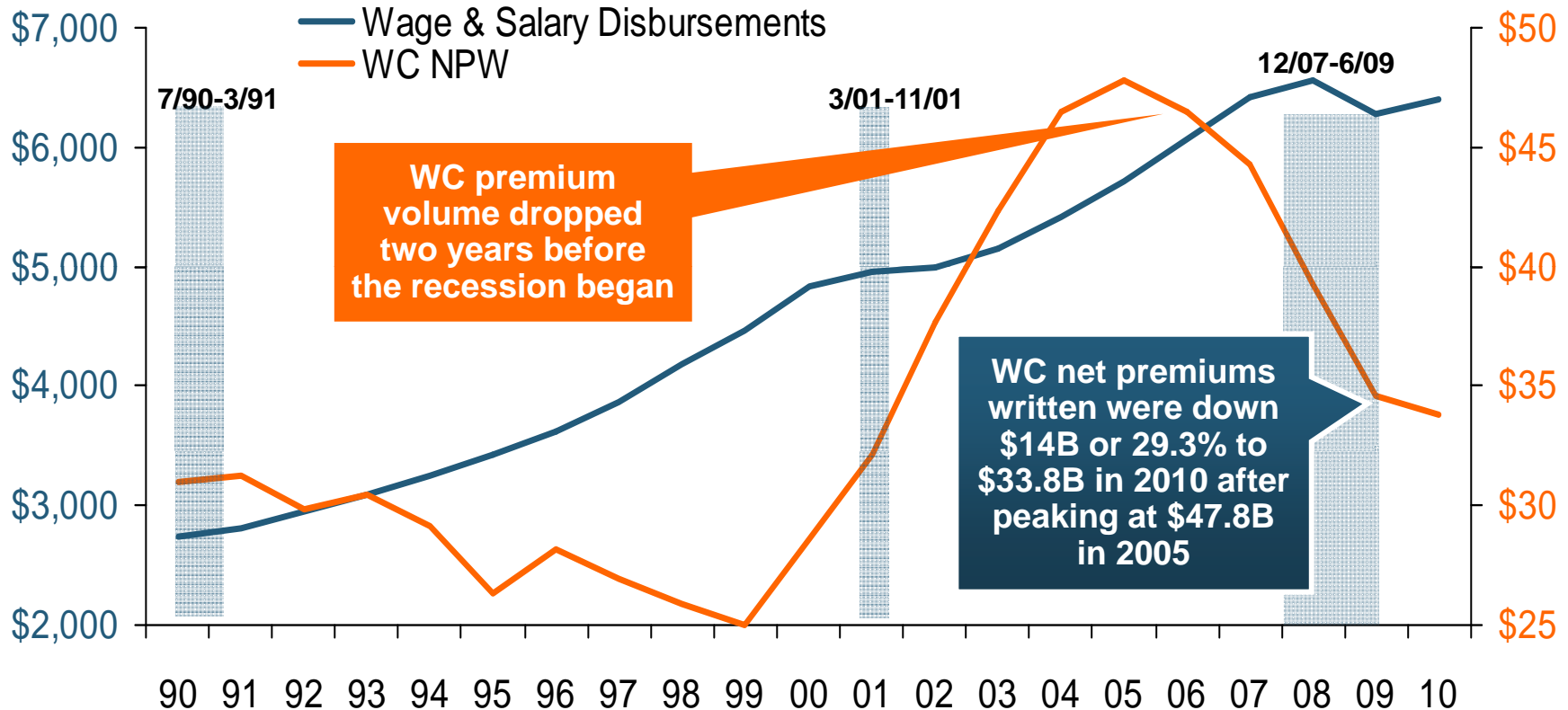


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
 Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Wage and Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Payroll Base*
\$Billions

WC NWP
\$Billions



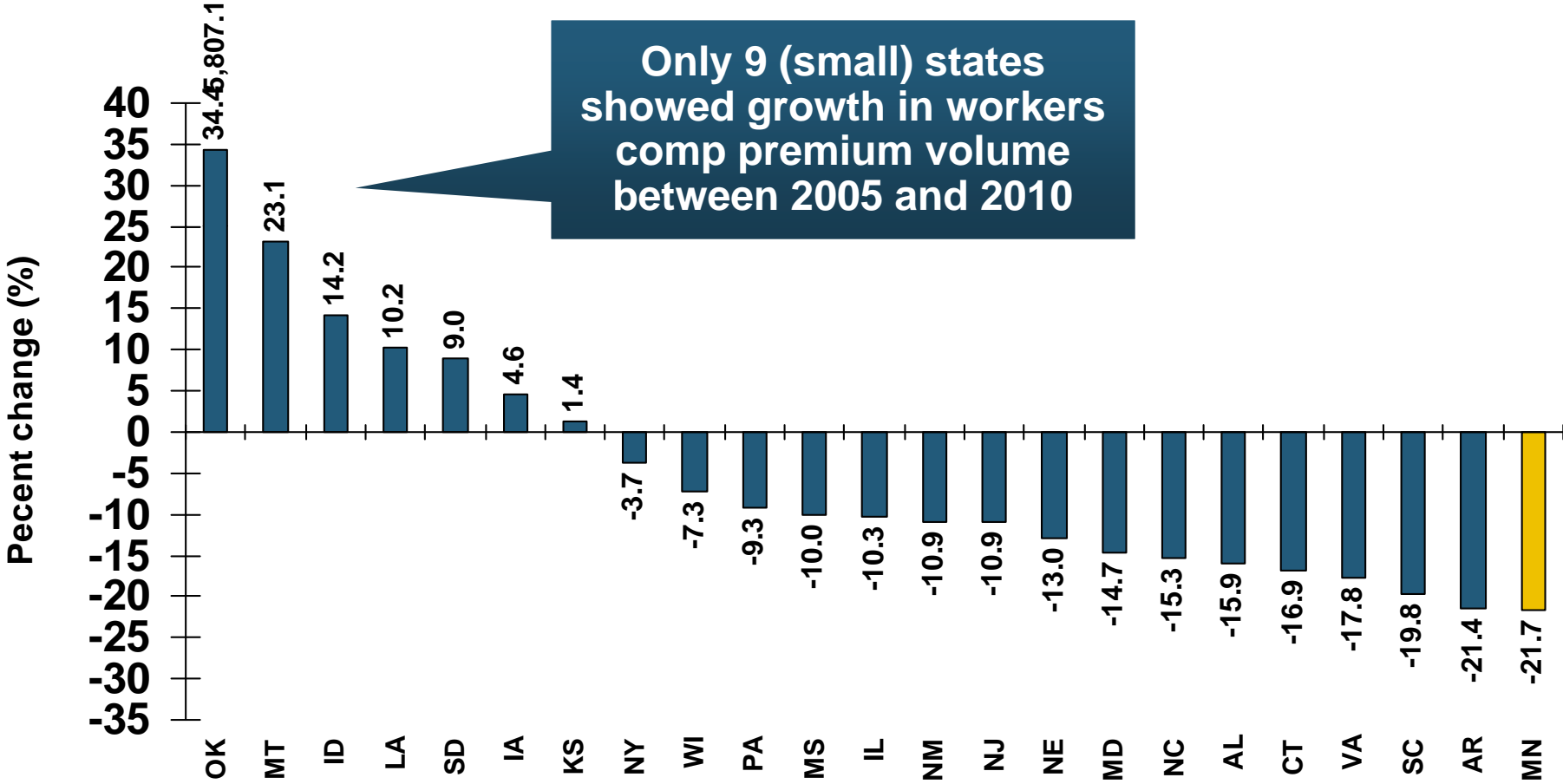
29% of NPW has been eroded away by the soft market and weak economy

*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Top 25 States

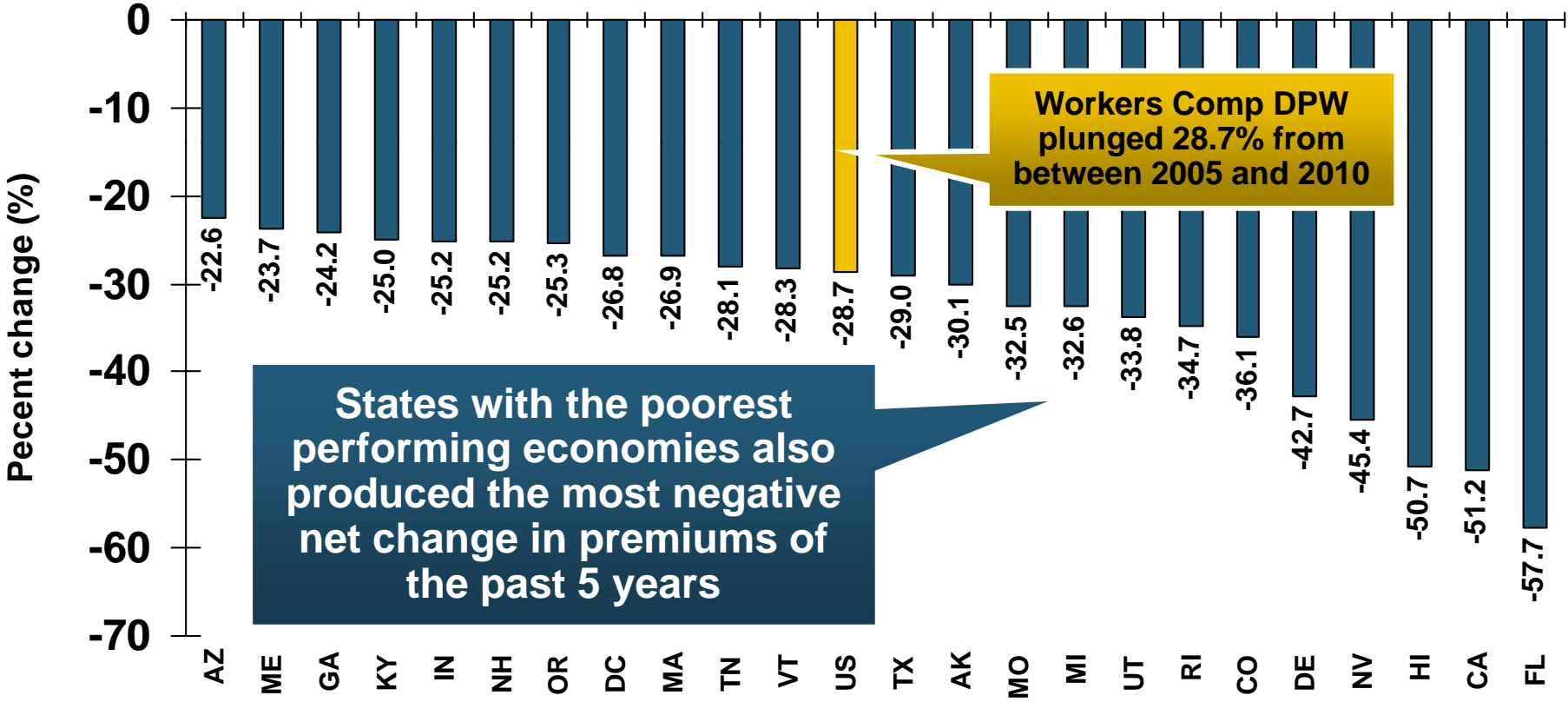


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Bottom 25 States

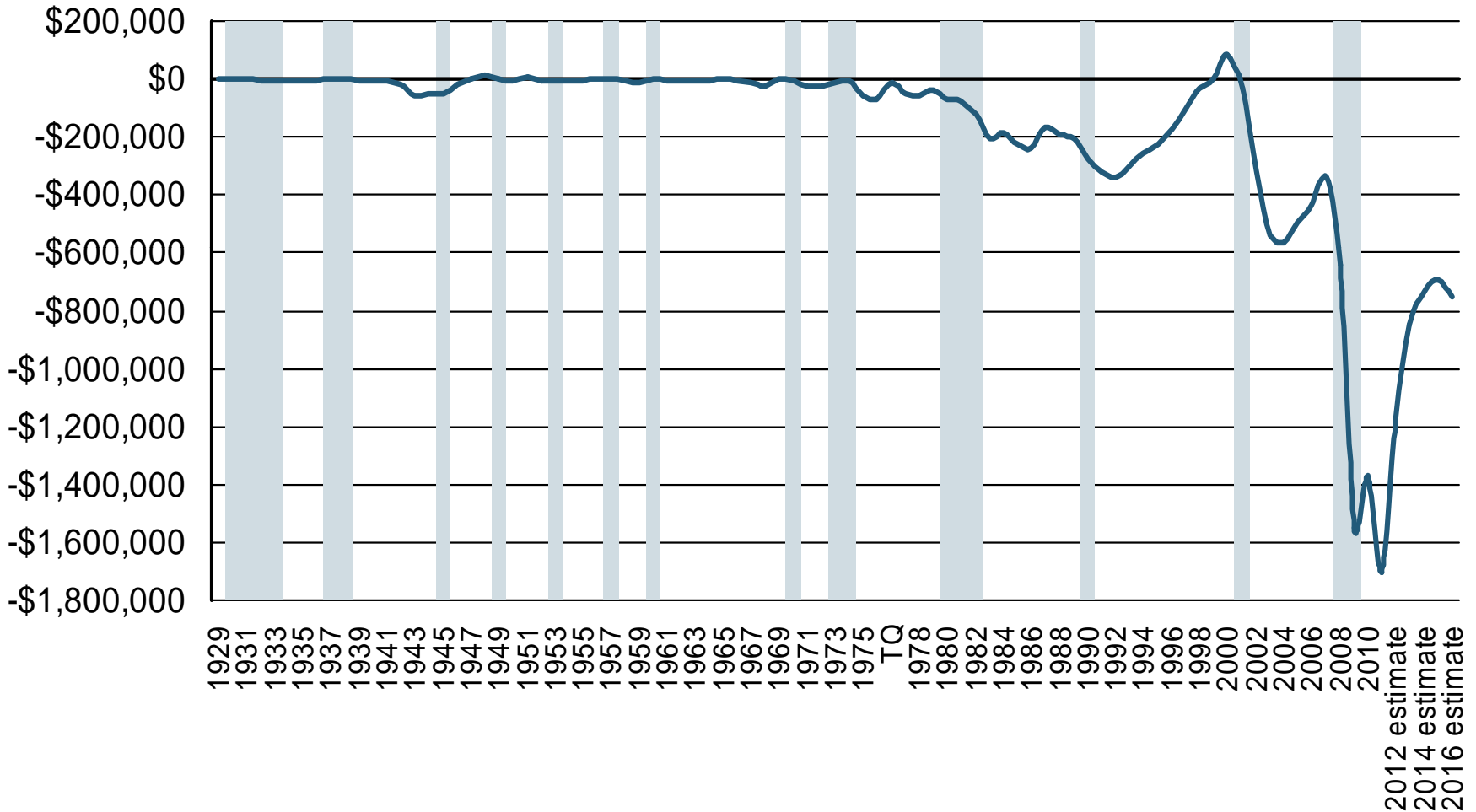


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

U.S. On-Budget Surplus or Deficit, 1929–2016F*

Millions



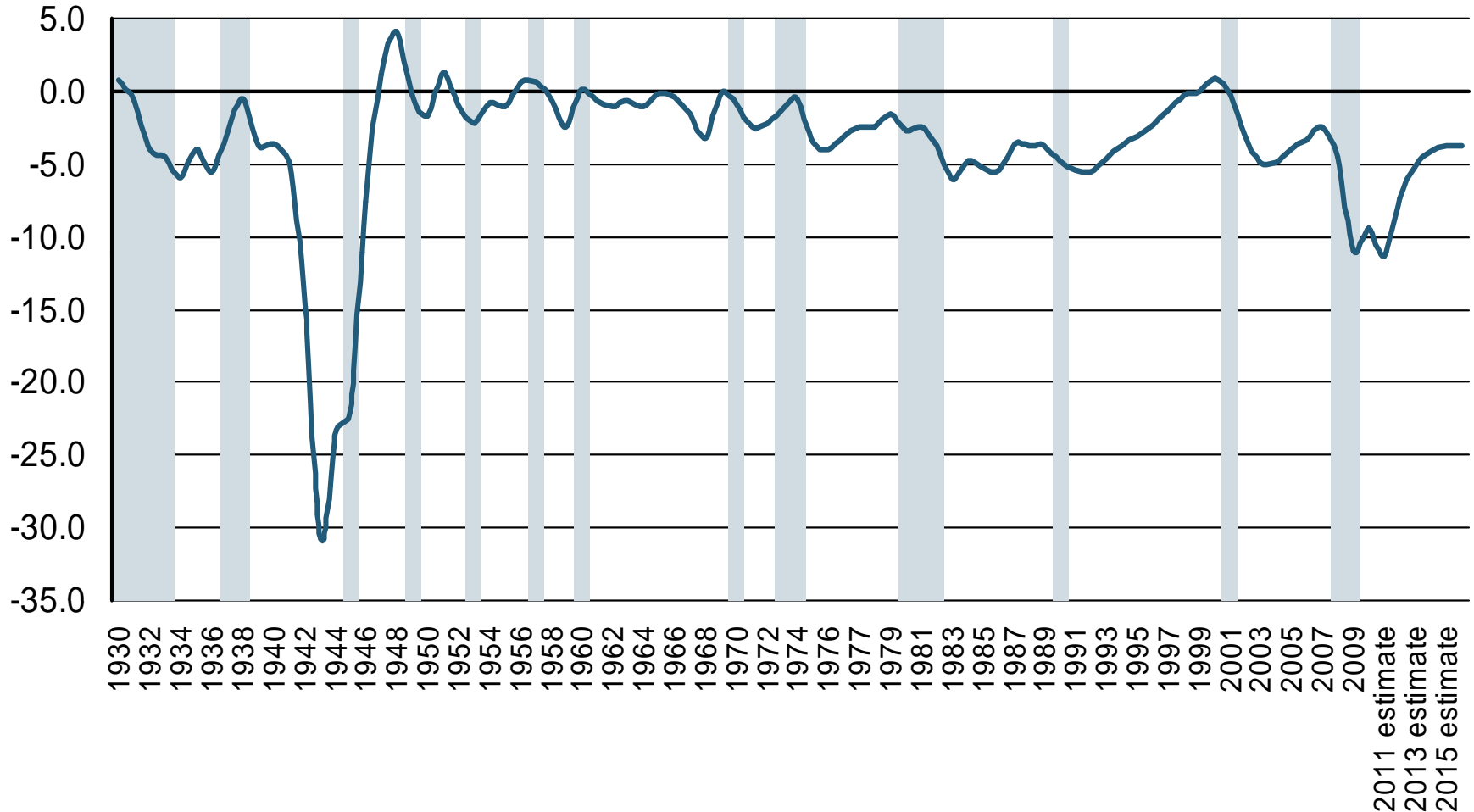
*White House forecasts

Note: Recessions indicated by gray shaded columns.

Sources: <http://www.whitehouse.gov/omb/budget/Historicals> ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. On-Budget surplus or deficit, as % of GDP, 1930–2016F*

Percent of GDP

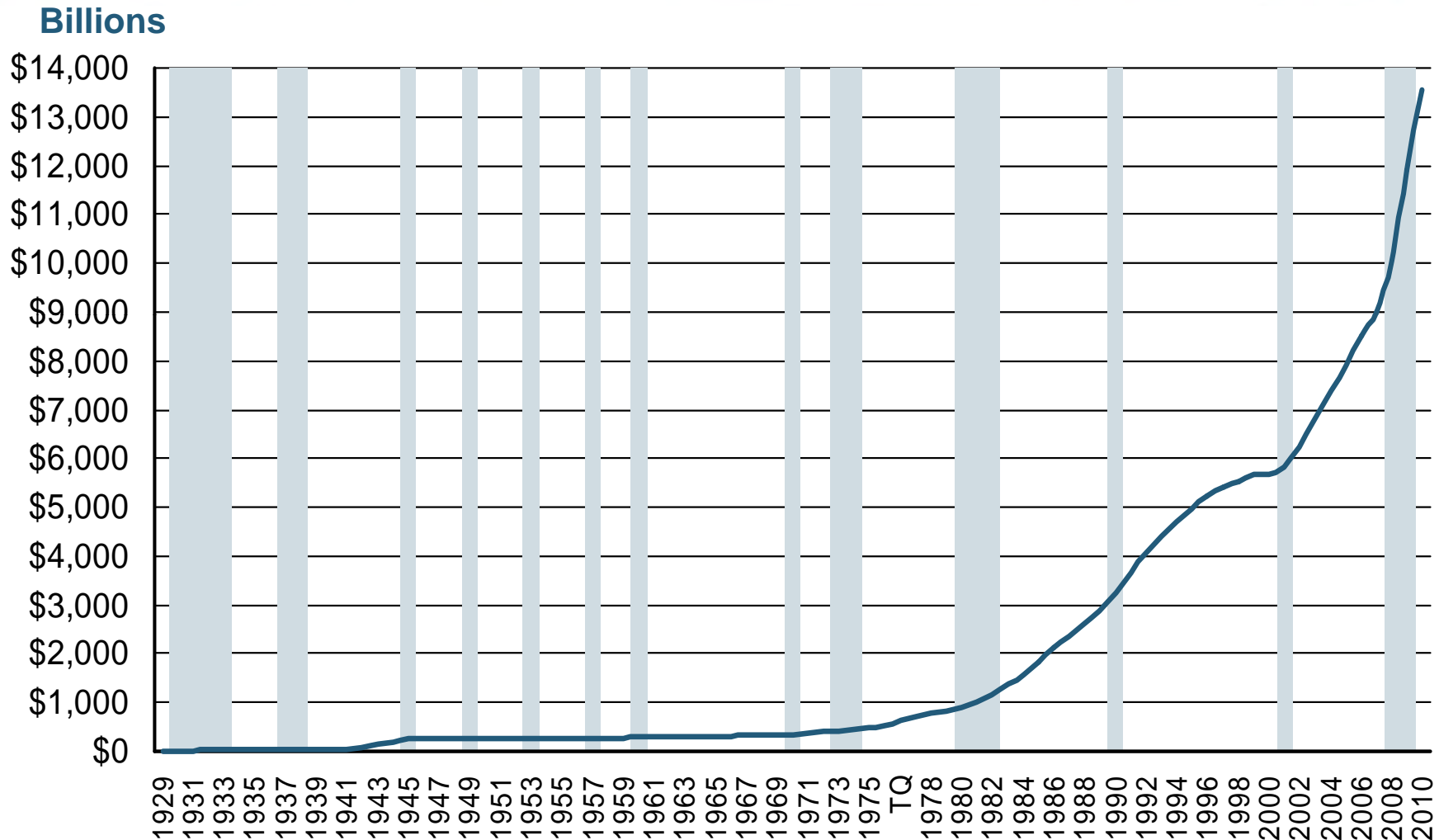


*White House forecasts

Note: Recessions indicated by gray shaded columns.

Sources: <http://www.whitehouse.gov/omb/budget/Historicals> ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Debt Outstanding, 1929–2010*



*debt is as of 6/30 of year indicated for 1929-1976, as of 9/30 for 1977-2010

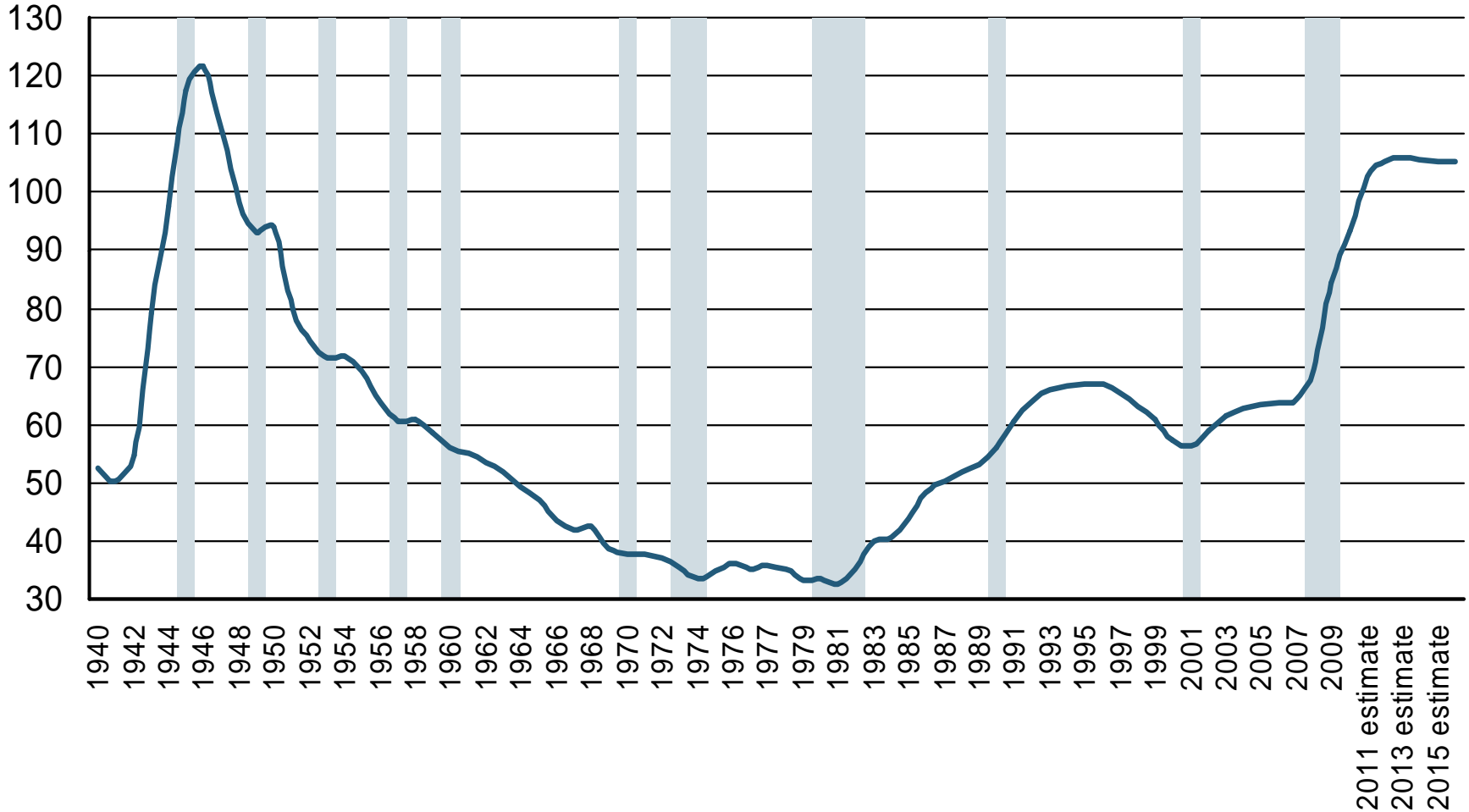
Note: Recessions indicated by gray shaded columns.

Sources: <http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt.htm>

National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Gross U.S. Debt as % of GDP, 1940–2016F*

Percent of GDP



*White House forecasts; debt and GDP measured at end of fiscal year

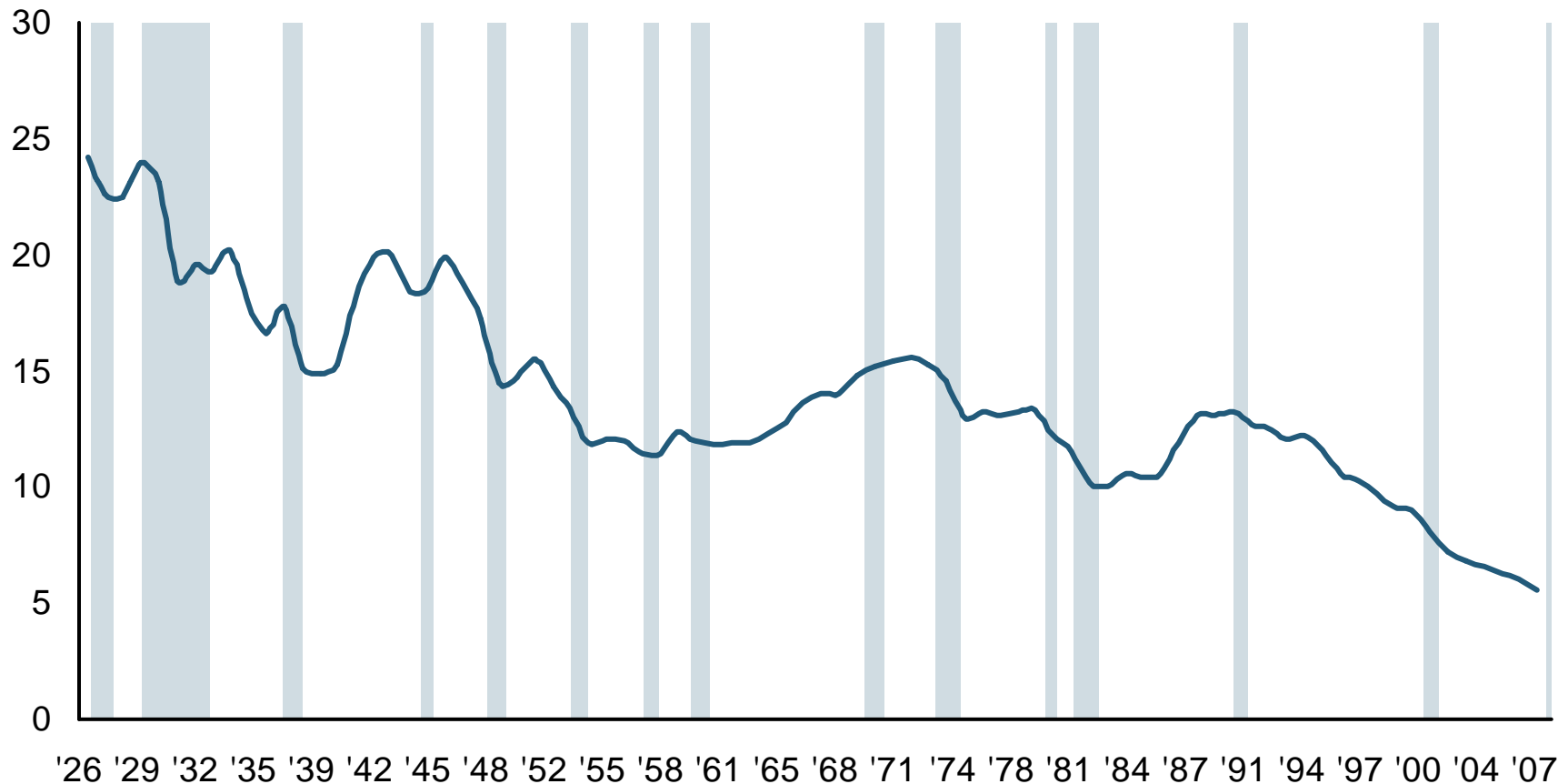
Note: Recessions indicated by gray shaded columns.

Sources: <http://www.whitehouse.gov/omb/budget/Historicals> ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Frequency: 1926–2008

A Long-Term Drift Downward

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

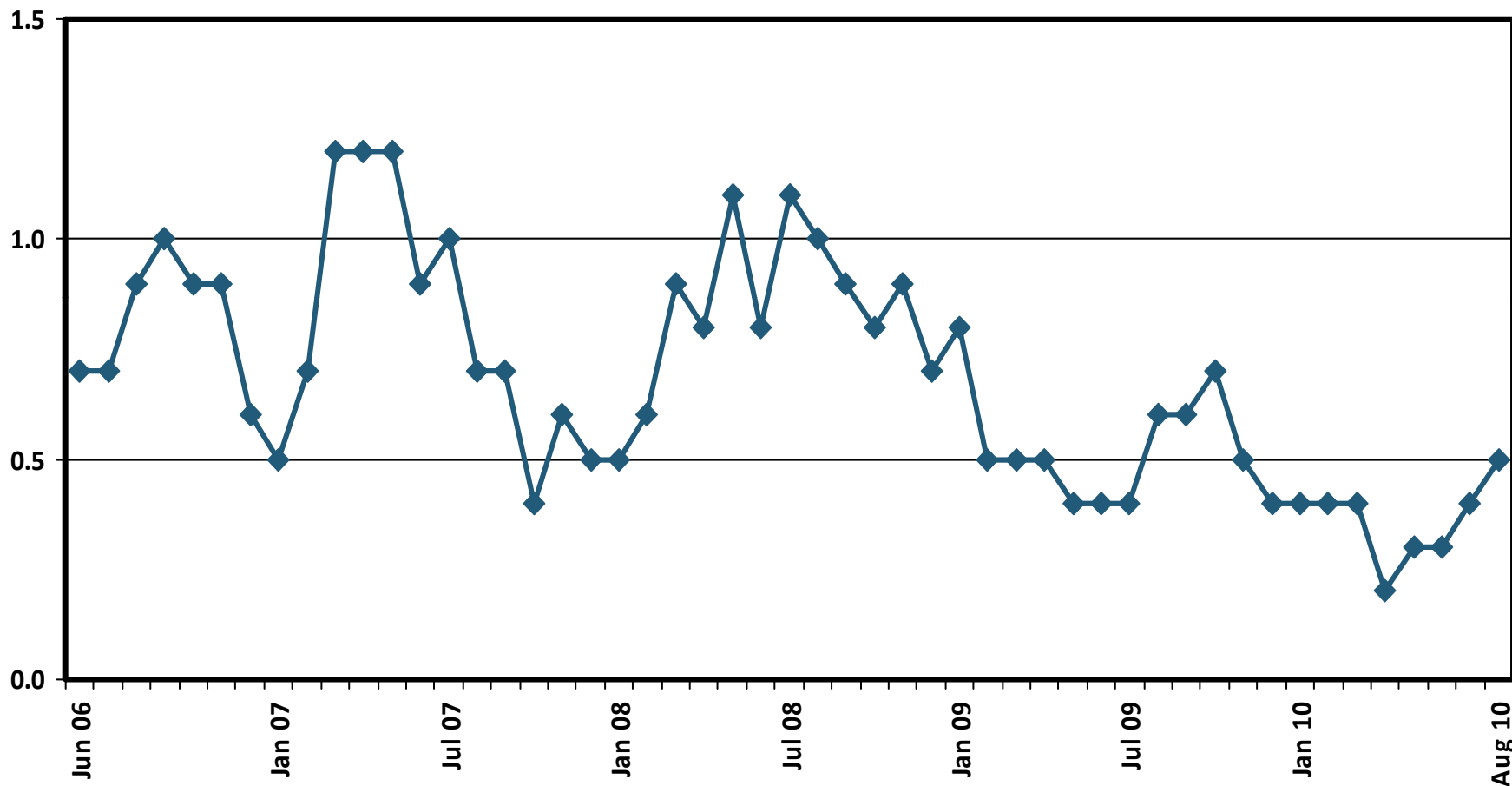


Note: Recessions indicated by gray bars.

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

2006-2010: 3-Month Percent Change in Average Hourly Earnings*

Percent

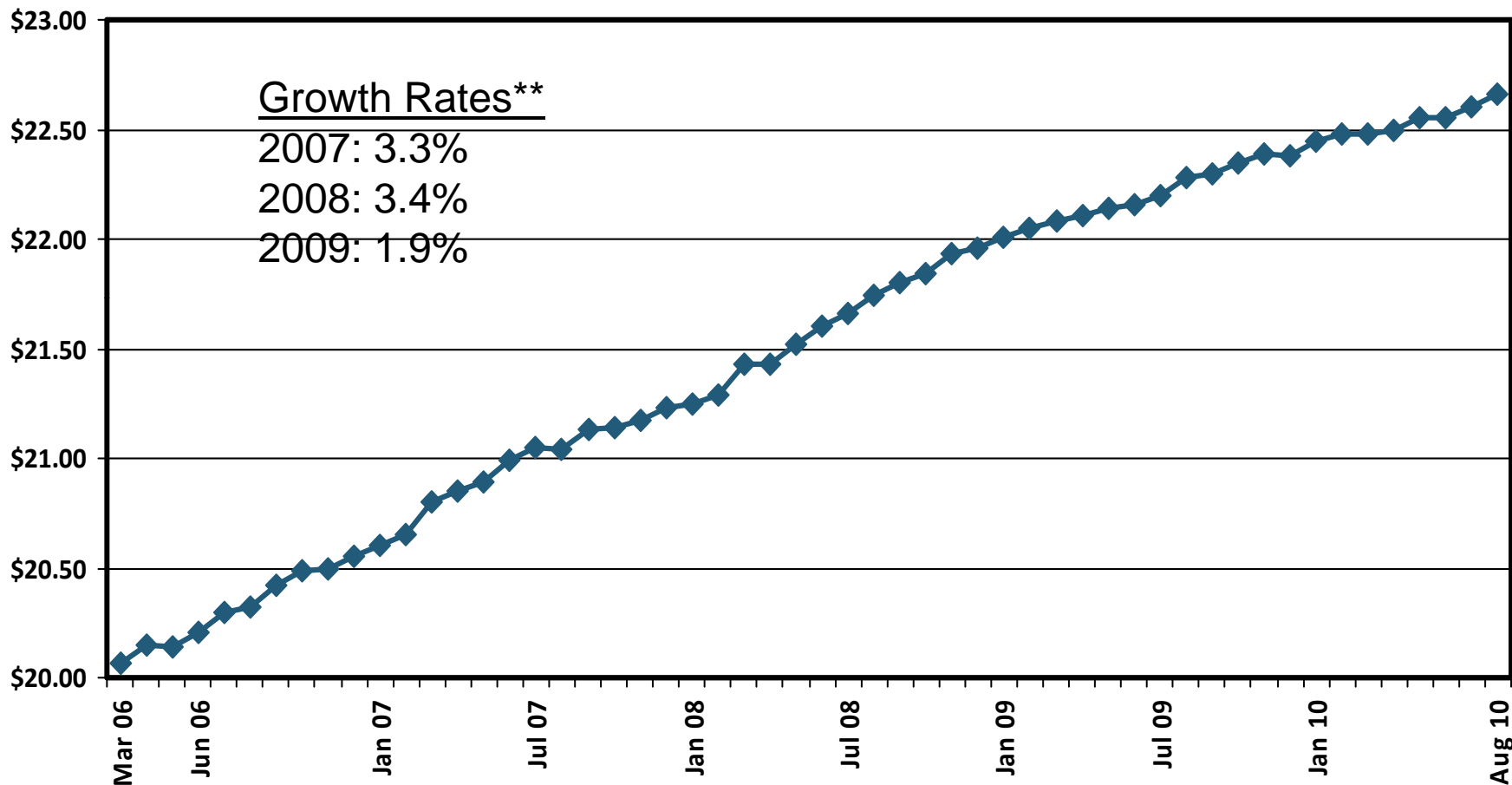


Average Hourly Earnings* Grew Every Month Throughout the Recession. Weakest Growth Was April-June 2010, But That Weakness Appears to be Over.

*3-month net change, seasonally adjusted

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

Average Hourly Earnings* of All Employees, Mar 2006- August 2010

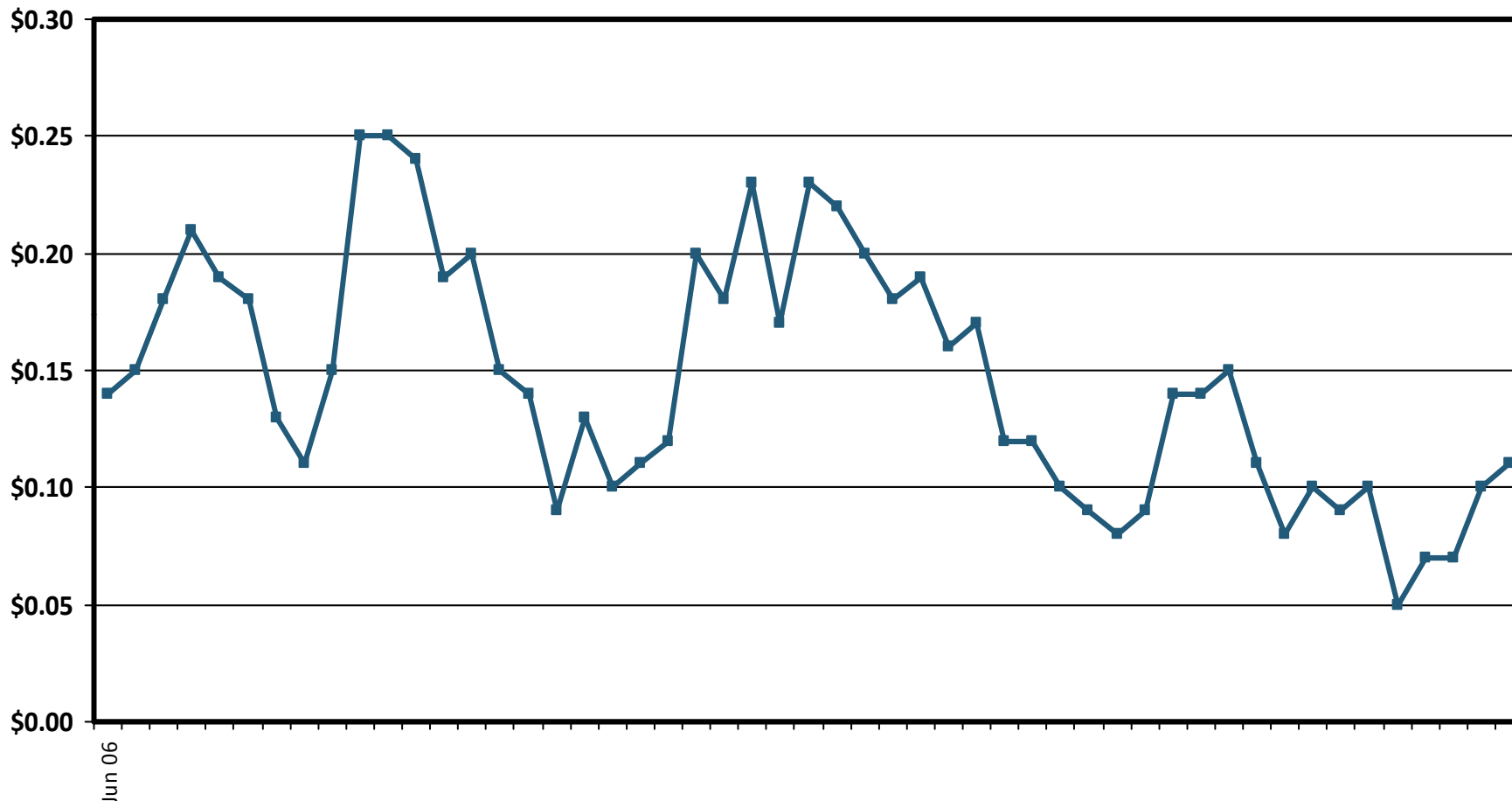


Since December 2007, Average Hourly Earnings Grew in All But 3 Months. In 2010, Growth (Through August) Was 1.3%.

*seasonally adjusted
 Source: <http://data.bls.gov>

**December of specified year vs. December of prior year.

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



**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>

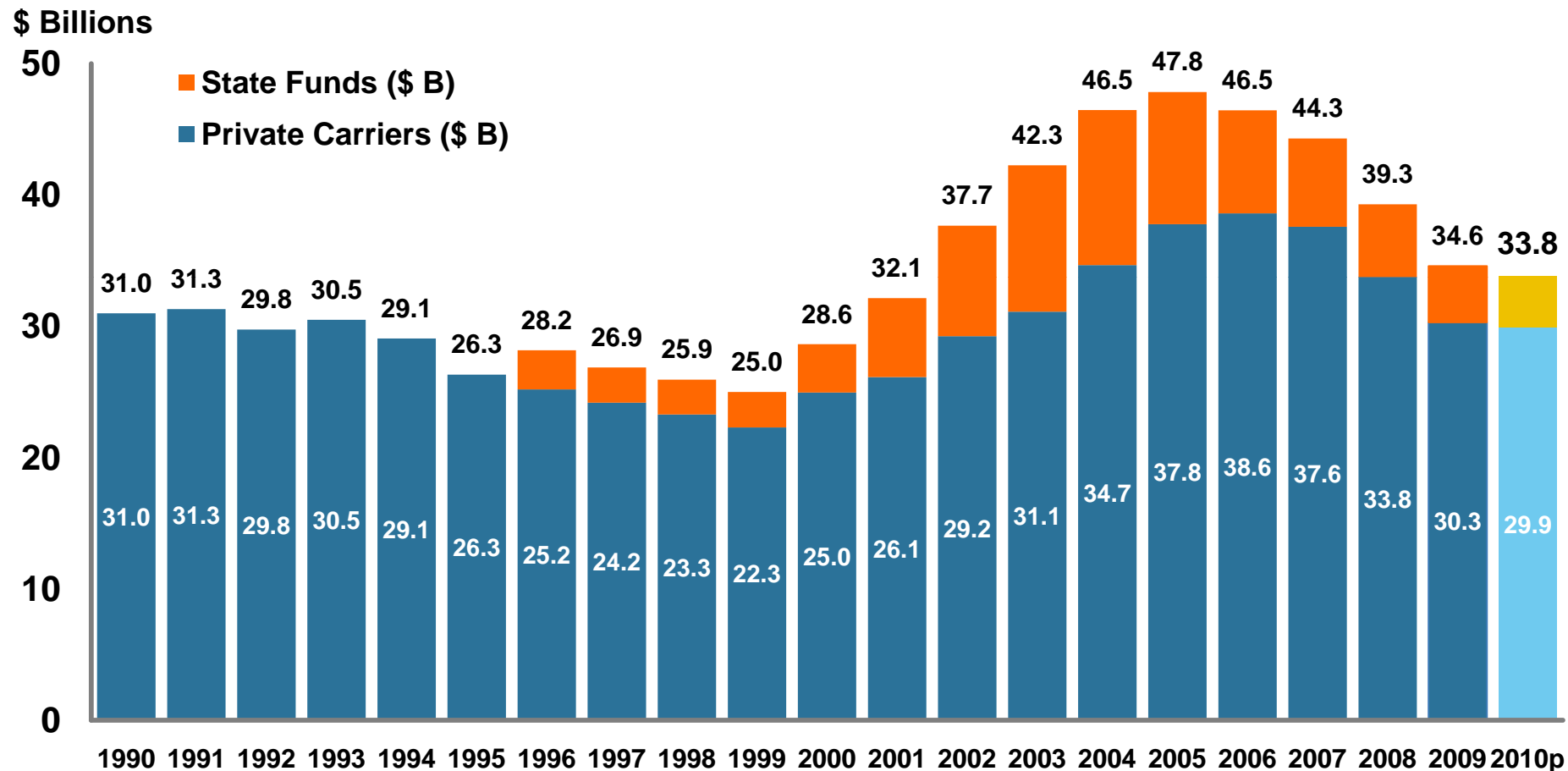


Workers Compensation Operating Environment

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

Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium



p Preliminary

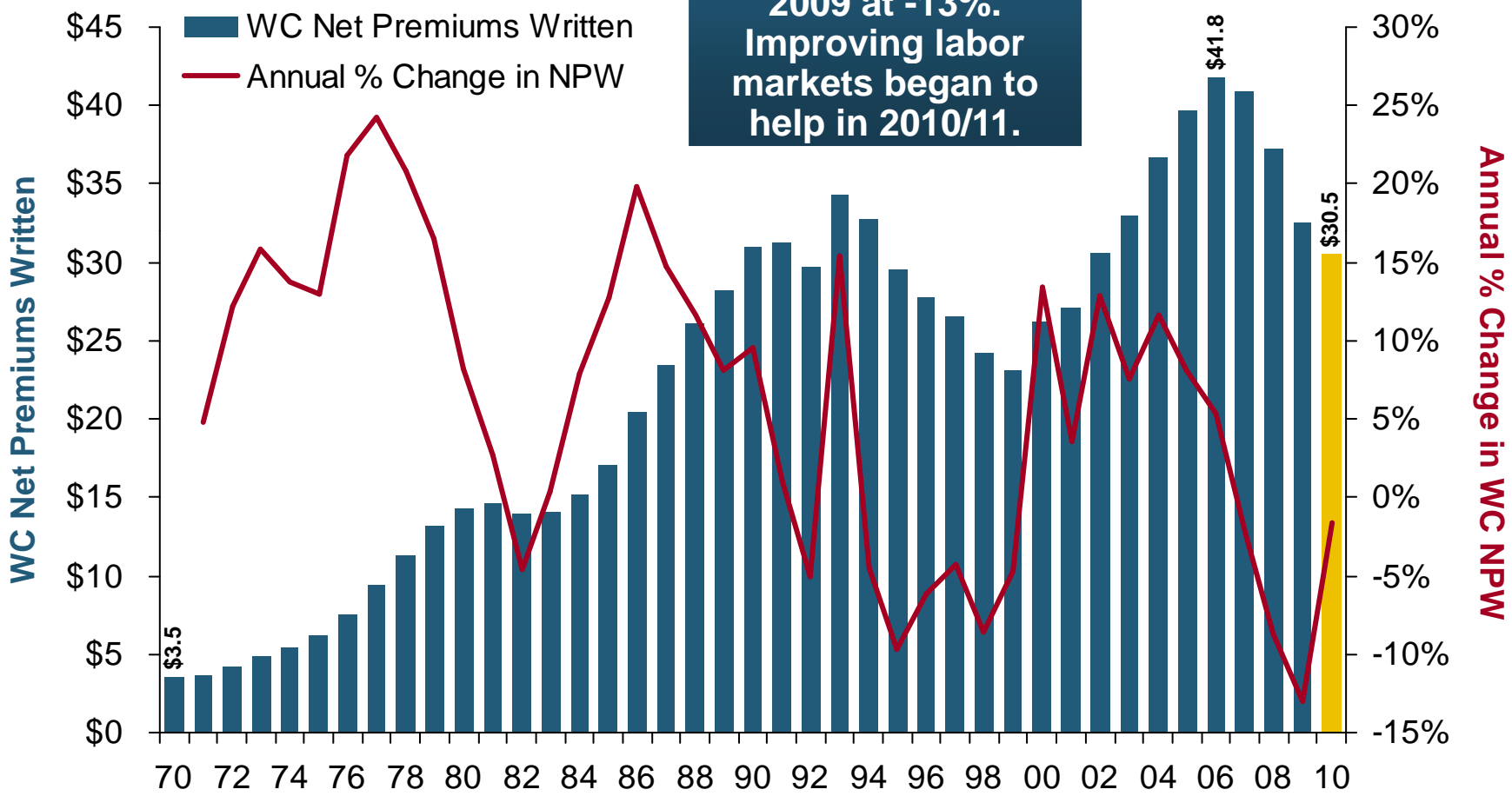
Source: 1990–2009 Private Carriers, *Best's Aggregates & Averages*; 2010p, NCCI

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

Workers Compensation Net Premiums Written and Annual Growth Rates: 1970-2010P

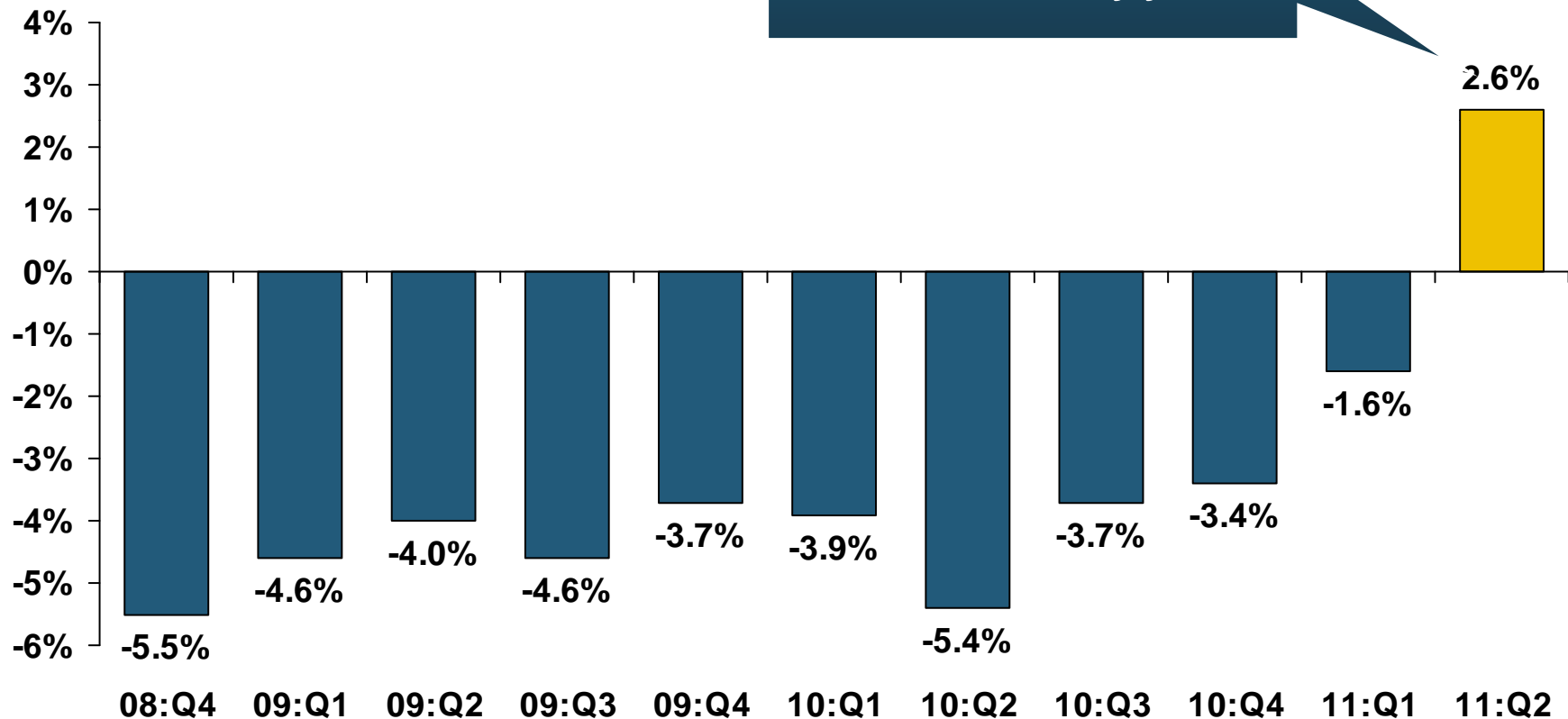
(\$ Billions)



Sources: A.M. Best (1973-2009); Insurance Information Institute calculations and estimates for 2010.

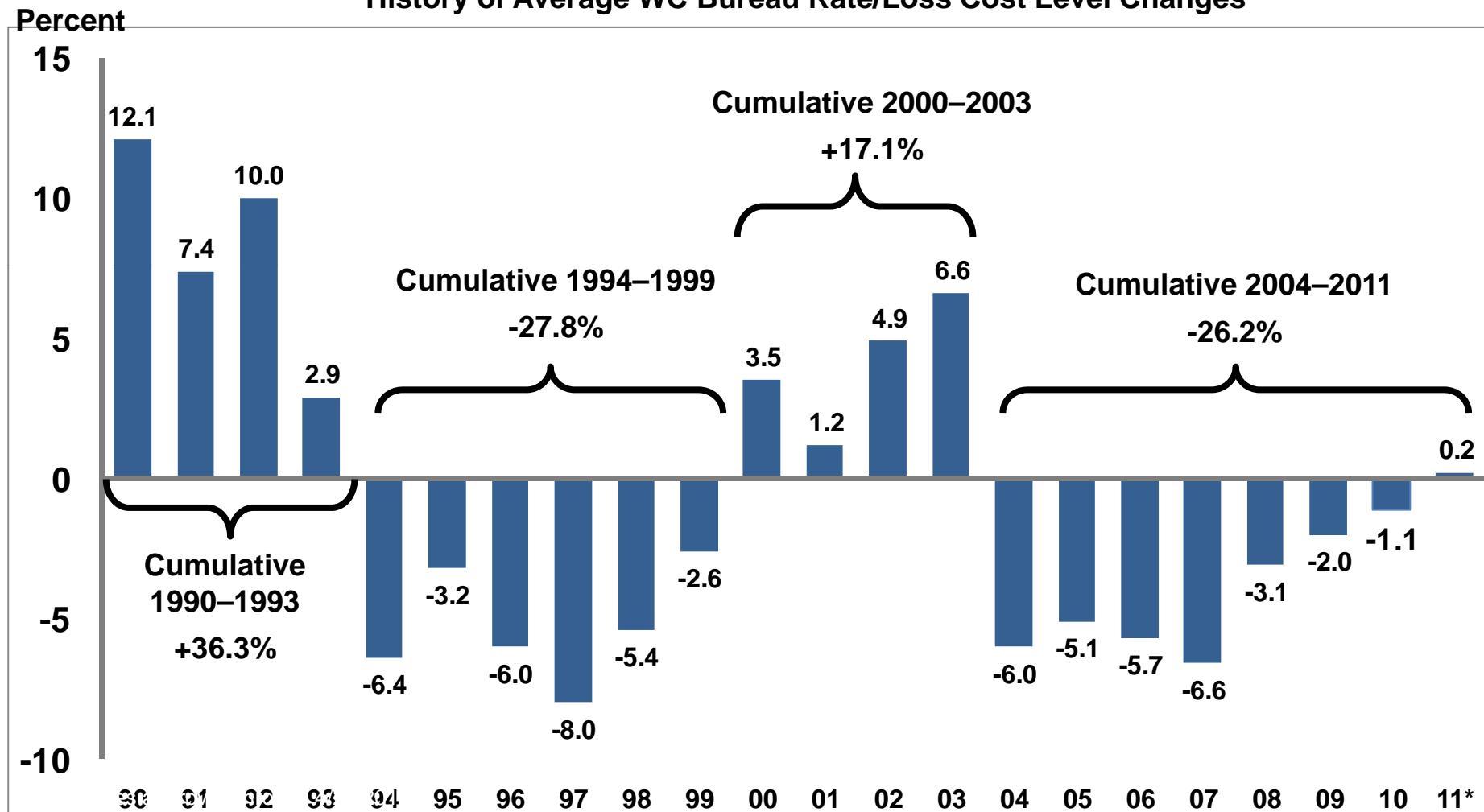
Workers Comp Rate Changes, 2008:Q4 – 2011:Q2

(Percent
Change)



Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



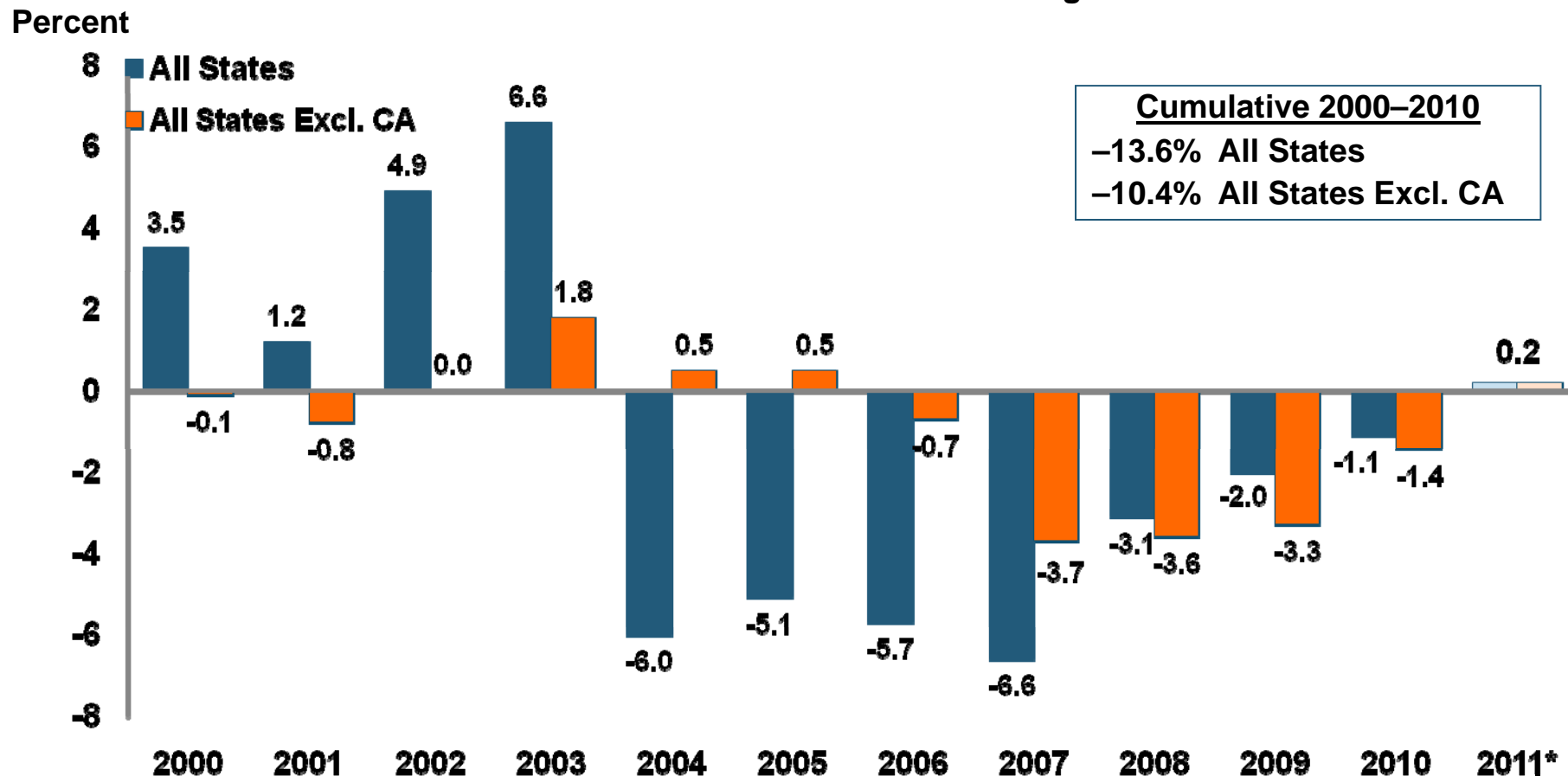
*States approved through 4/8/11.

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

Source: NCCI.

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California



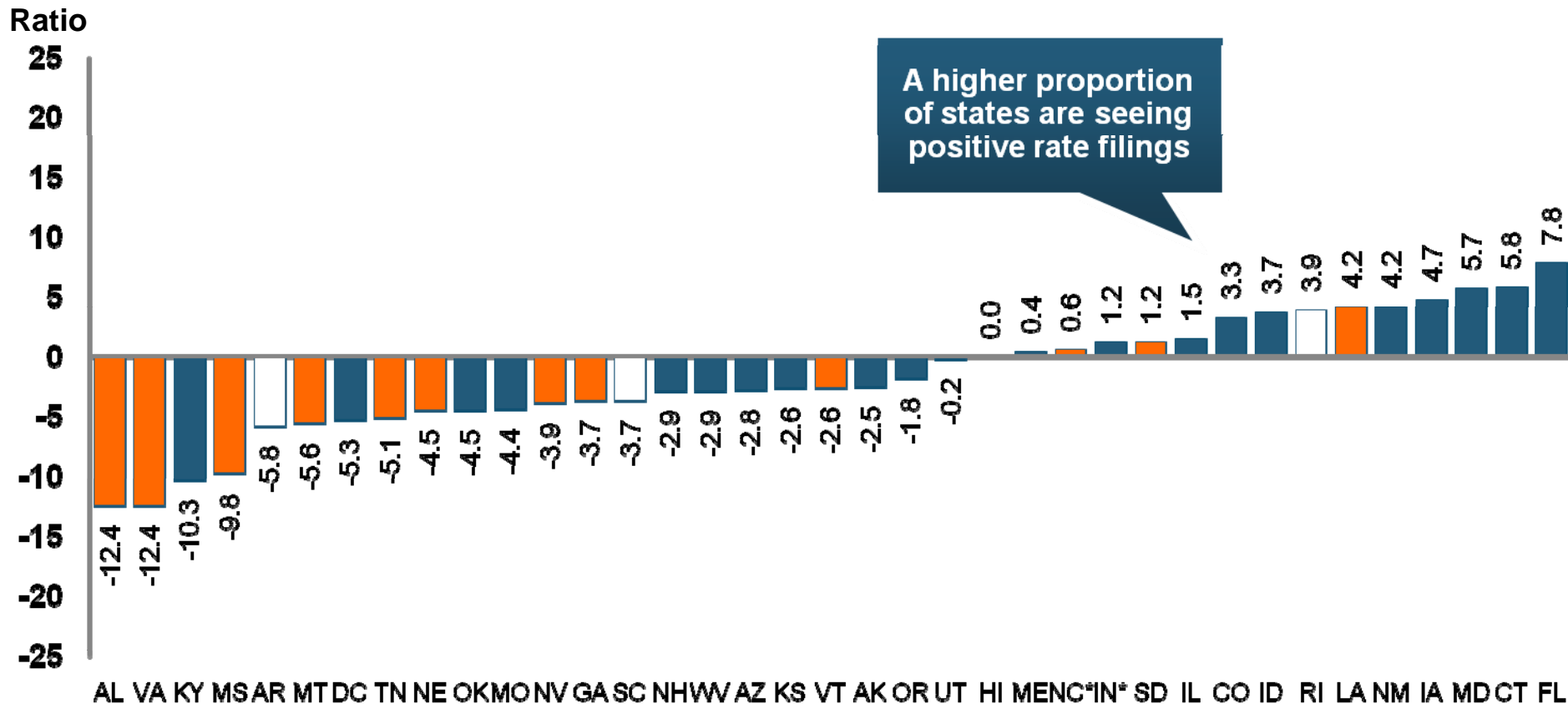
* States approved through 4/8/2011

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

Source: NCCI

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

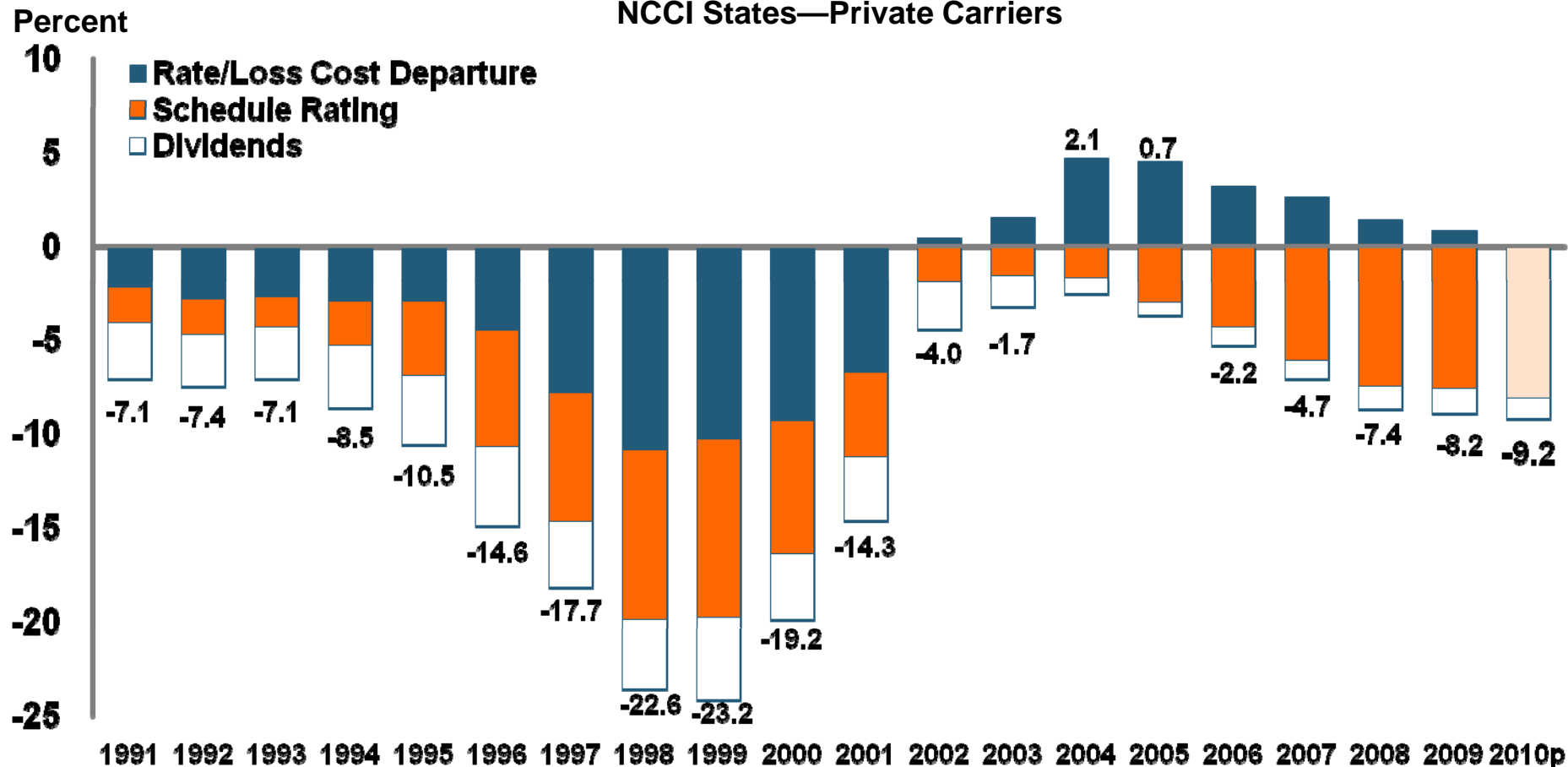
States filed through 4/15/2011

•IN and NC filed in cooperation with state rating bureau

Source: NCCI

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers



p Preliminary

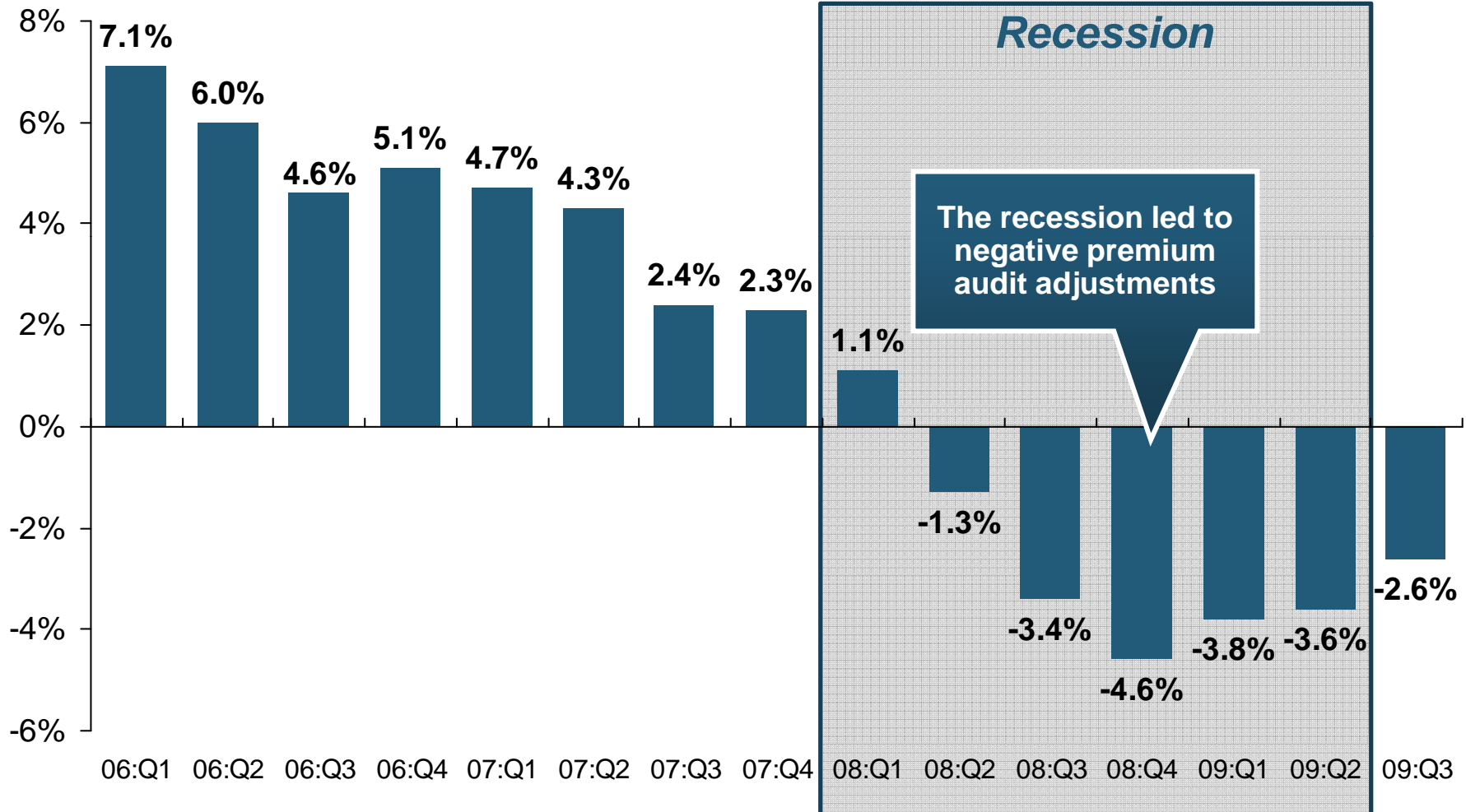
Dividend ratios are based on calendar year statistics

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

Source: NCCI

Final Premium vs. Estimated Premium by Policy Effective Quarter: 2006:Q1 – 2009:Q3

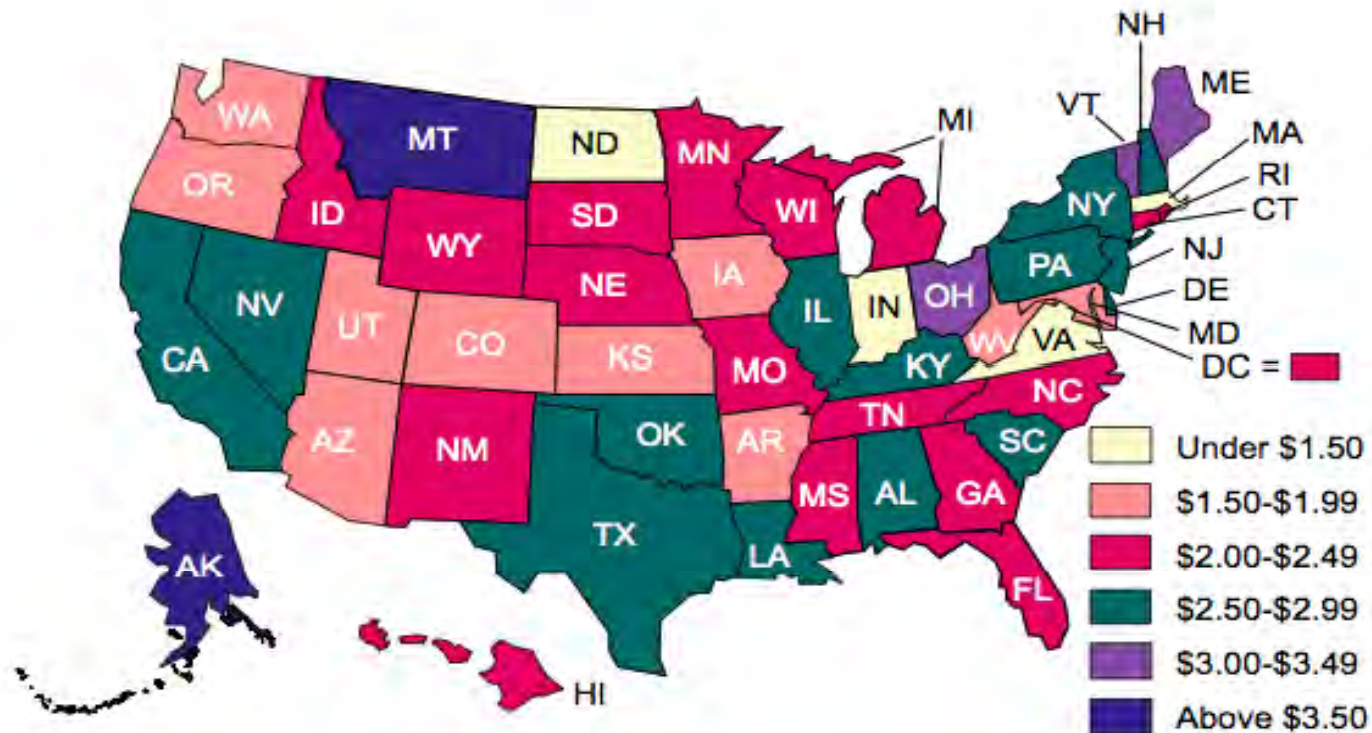


Note: WC Statistical Plan audited premium compared to policy-estimated premium. Based on states where NCCI provides ratemaking services, including state funds; excludes high deductible policies and mid-term cancellations.

Source: NCCI

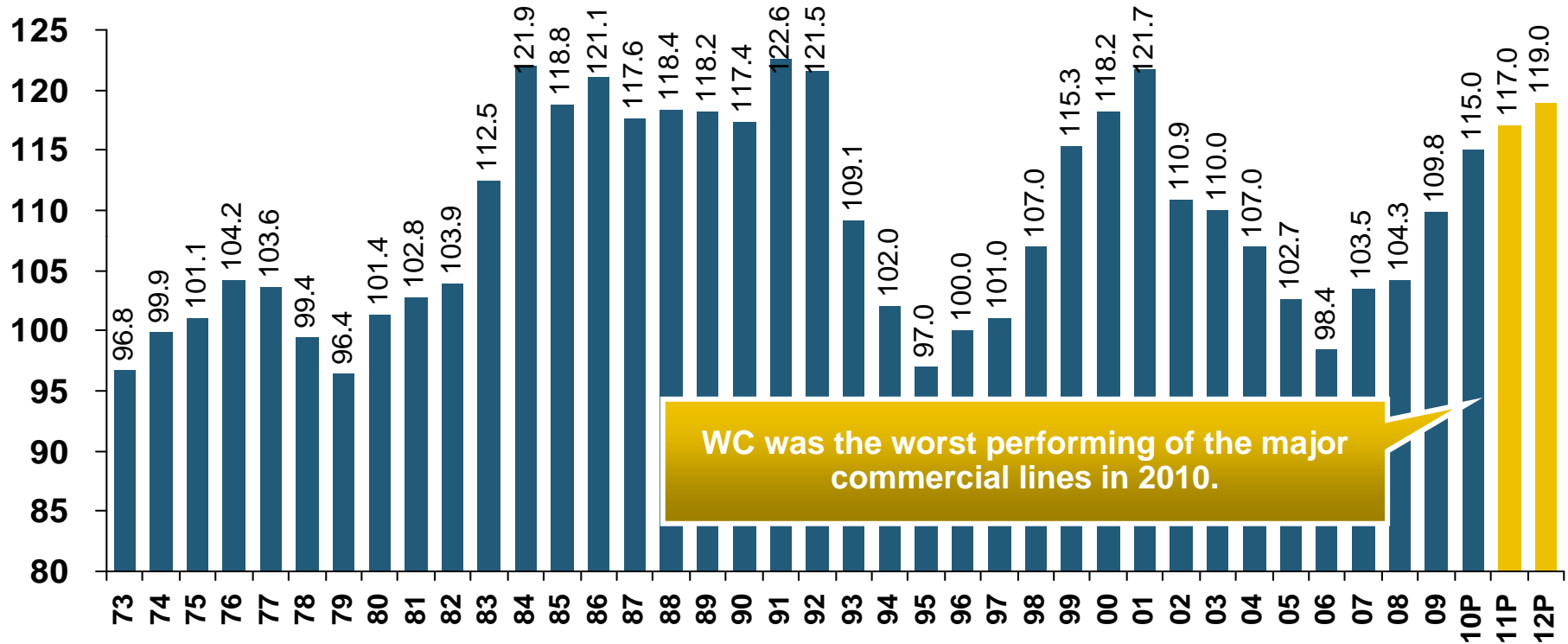
Comparison of State WC rates

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

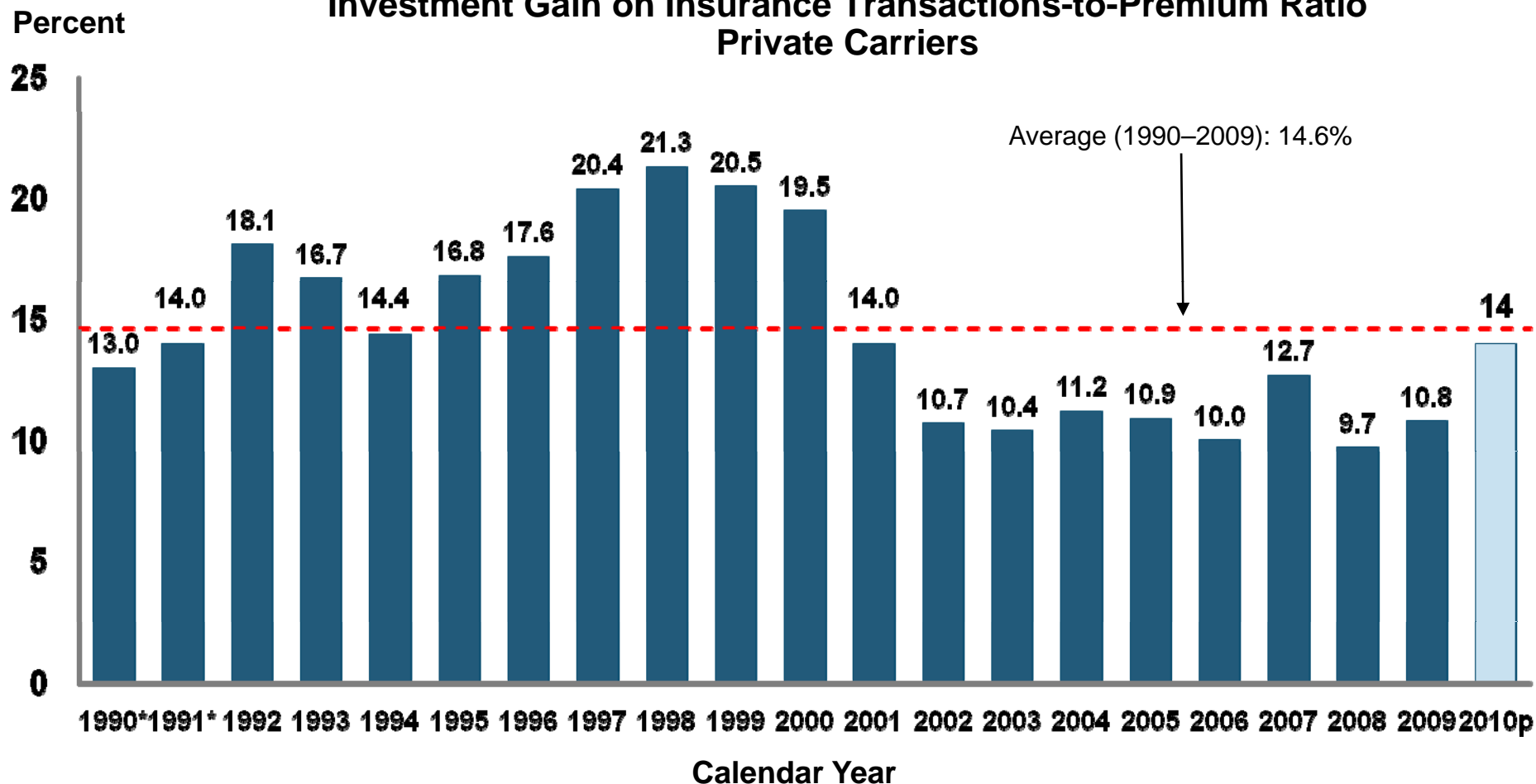
Workers Compensation Combined Ratio: 1973–2012P



Workers Comp Underwriting Results Are Deteriorating Markedly

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

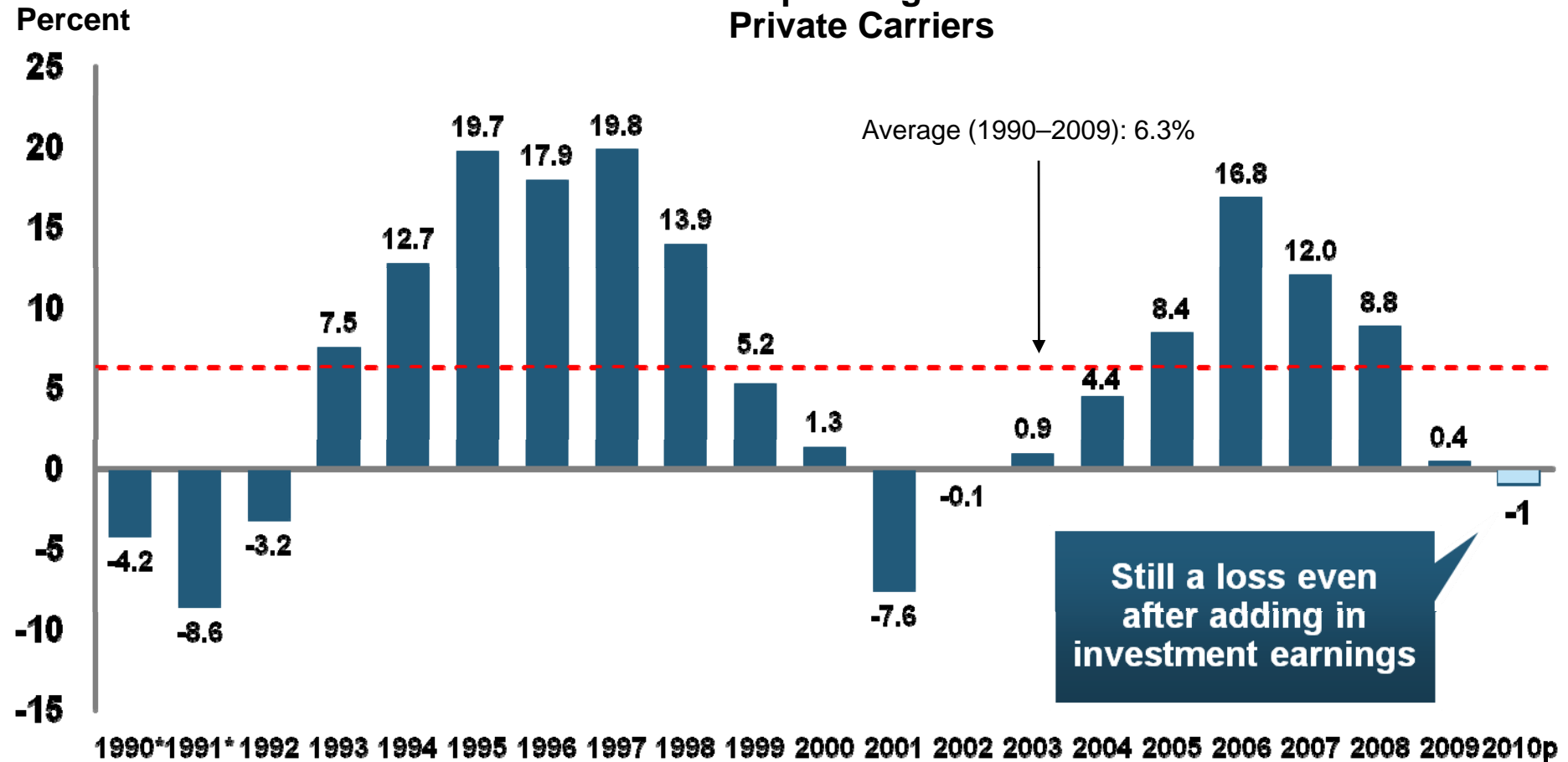
•Adjusted to include realized capital gains to be consistent with 1992 and after

Source: NCCI

Workers Compensation Results

Modest Operating Loss

Pre-Tax Operating Gain Ratio
Private Carriers



p Preliminary

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

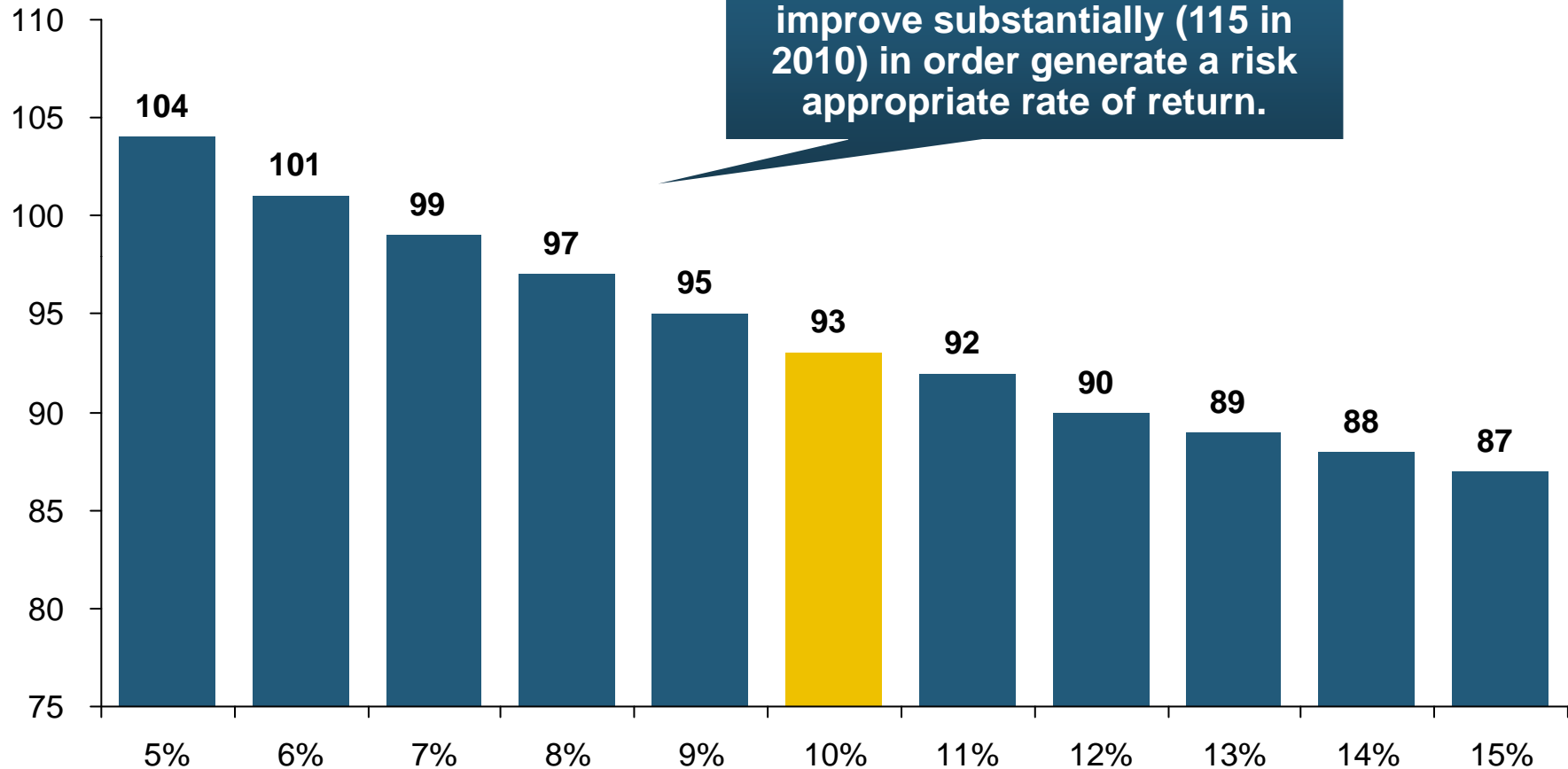
Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)

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

Source: NCCI

WC Combined Ratio Necessary to Achieve Cost of Capital

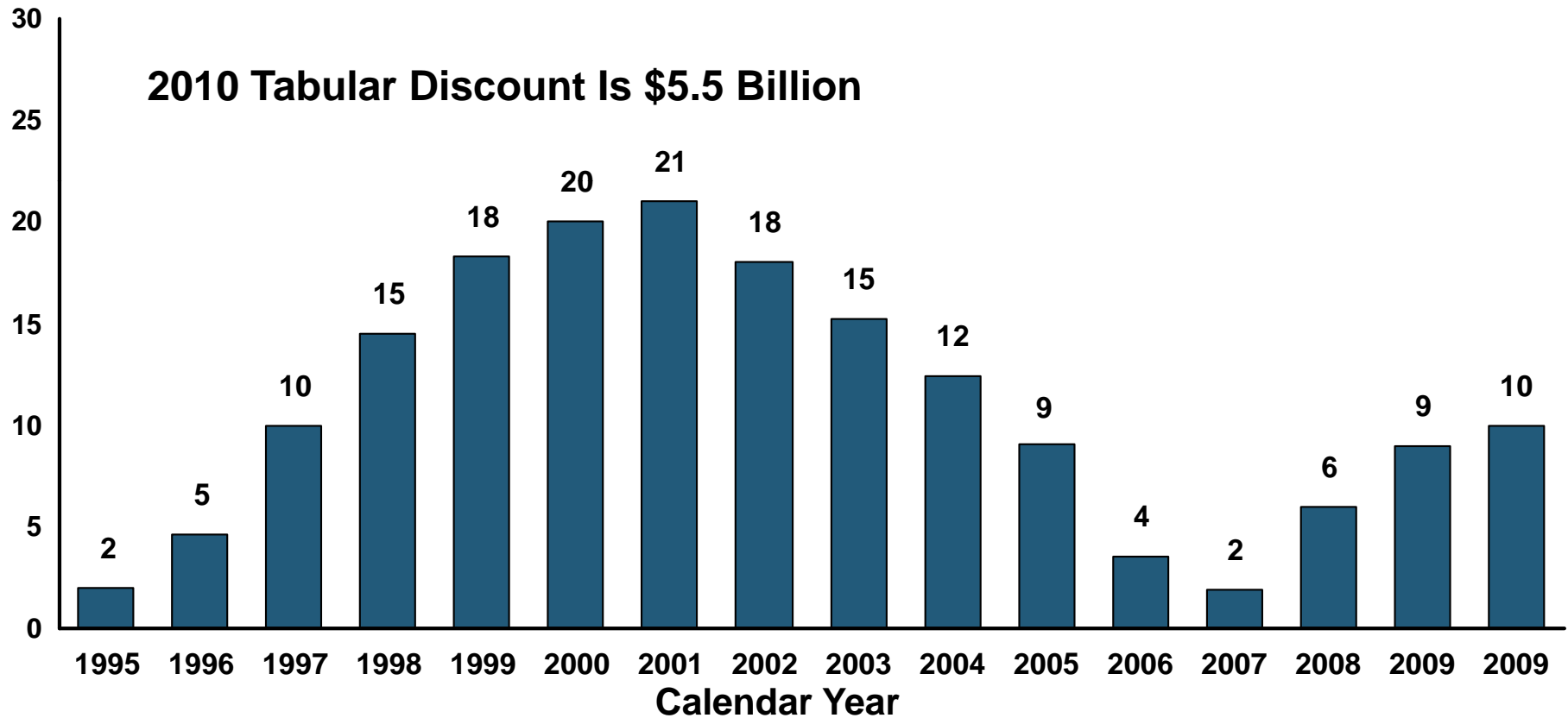
(Percent)



Assumptions: 3.8% Pre-Tax Investment Yield; 2.8% Post-Tax Investment Yield; WC R/S ratio = 2.07;
Based on NCCI's 2011 Internal Rate of Return Model
Source: NCCI.

Calendar Year Reserve Deficiency Increased in 2010

\$ Billions WC Loss and LAE Reserve Deficiency: Private Carriers



Considers all reserve discounts as deficiencies

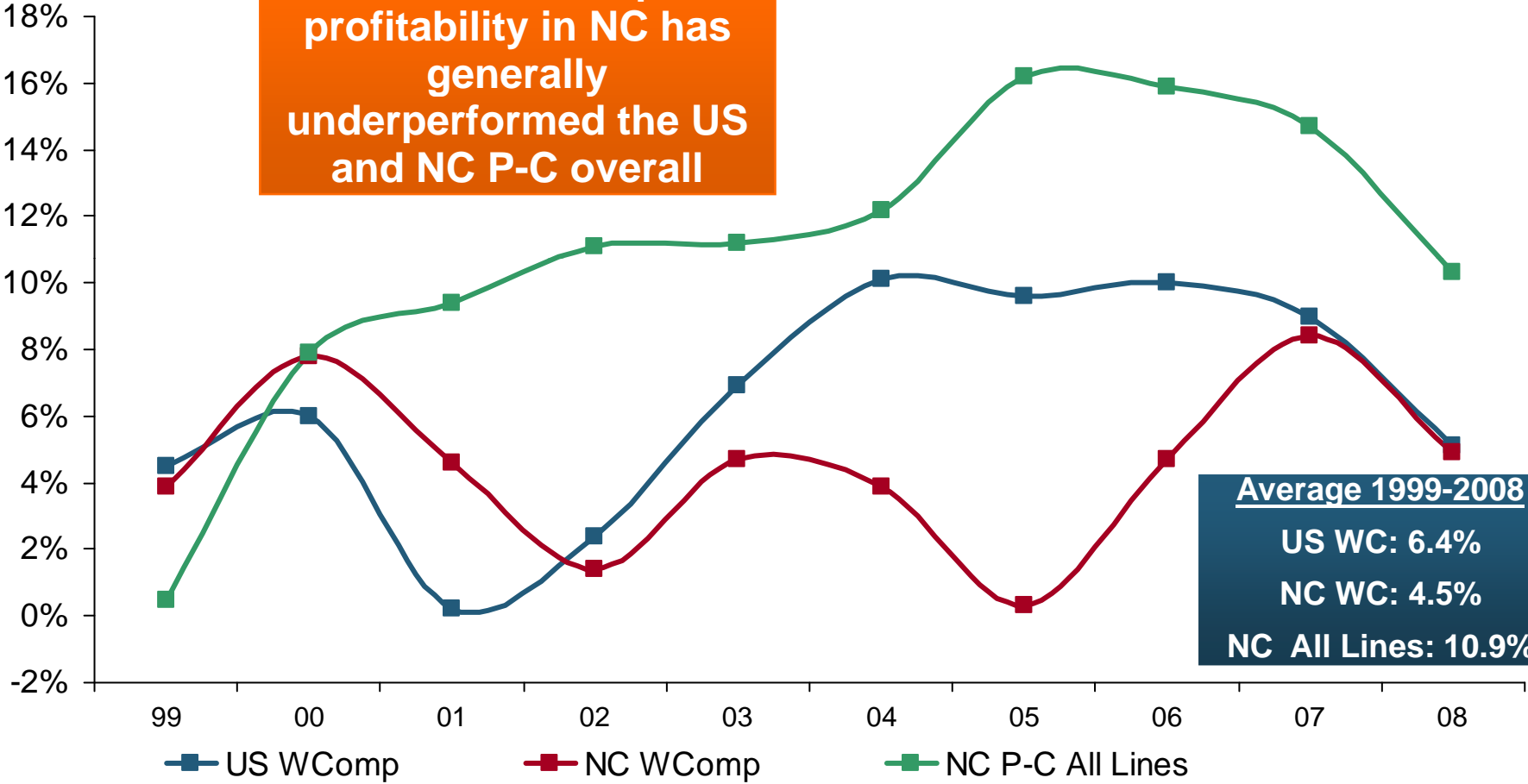
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

Source: NCCI analysis

Return on Net Worth for Workers Comp: NC vs. US and NC All P-C Lines, 1999-2008

(Percent)

Workers comp profitability in NC has generally underperformed the US and NC P-C overall



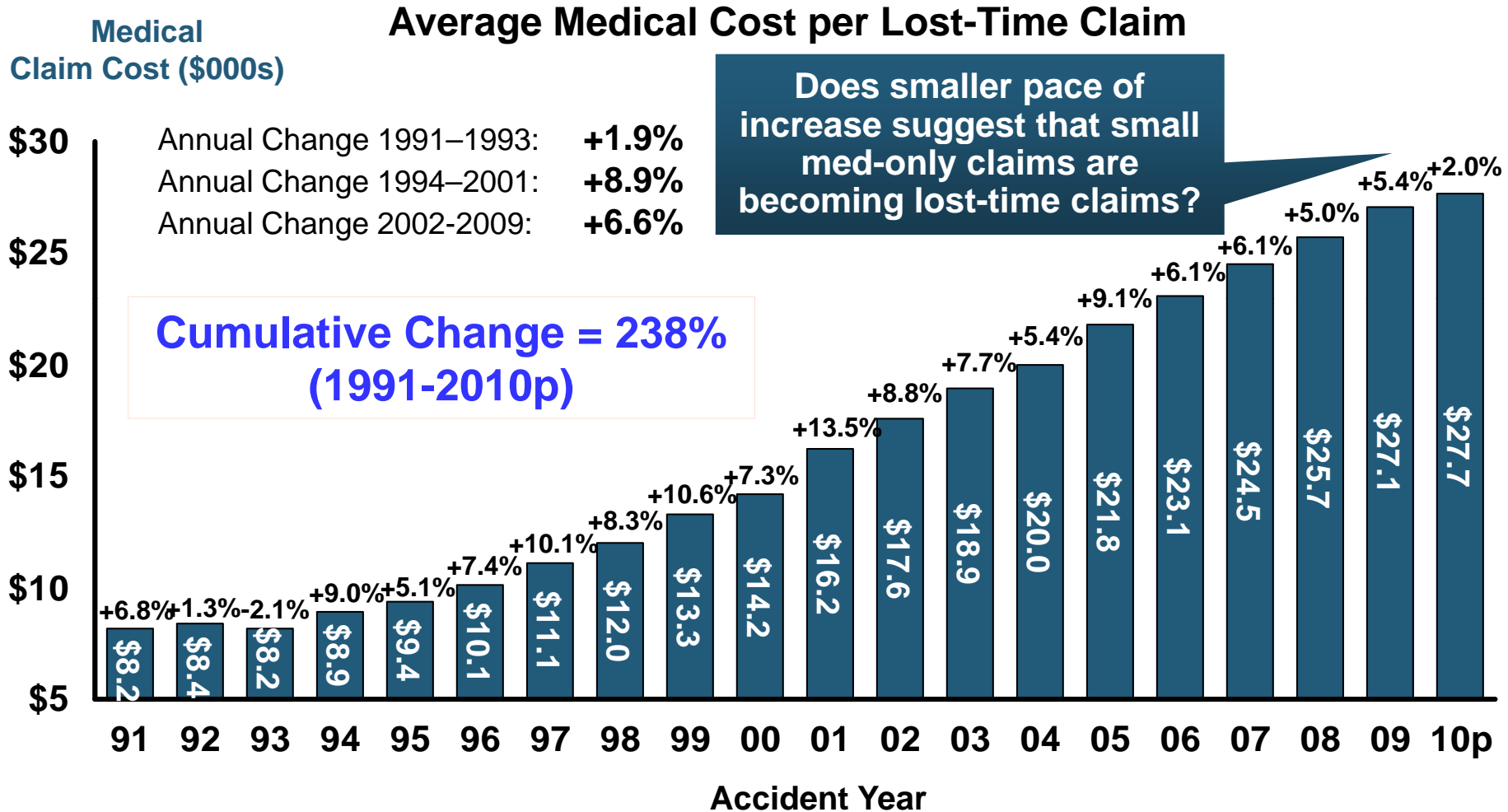
Sources: NAIC.



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

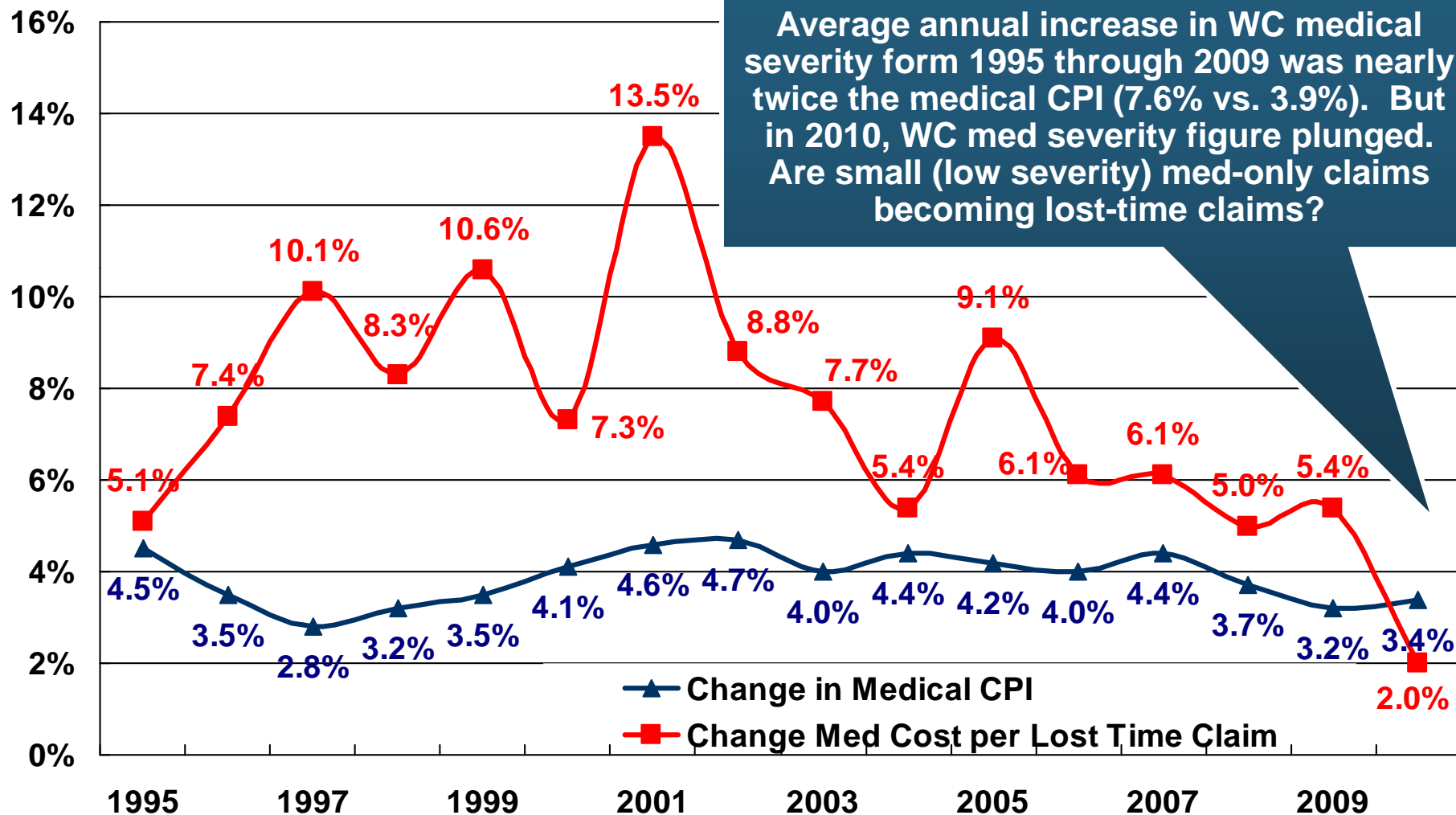


2010p: Preliminary based on data valued as of 12/31/2010

1991–2008: Based on data through 12/31/2008, developed to ultimate

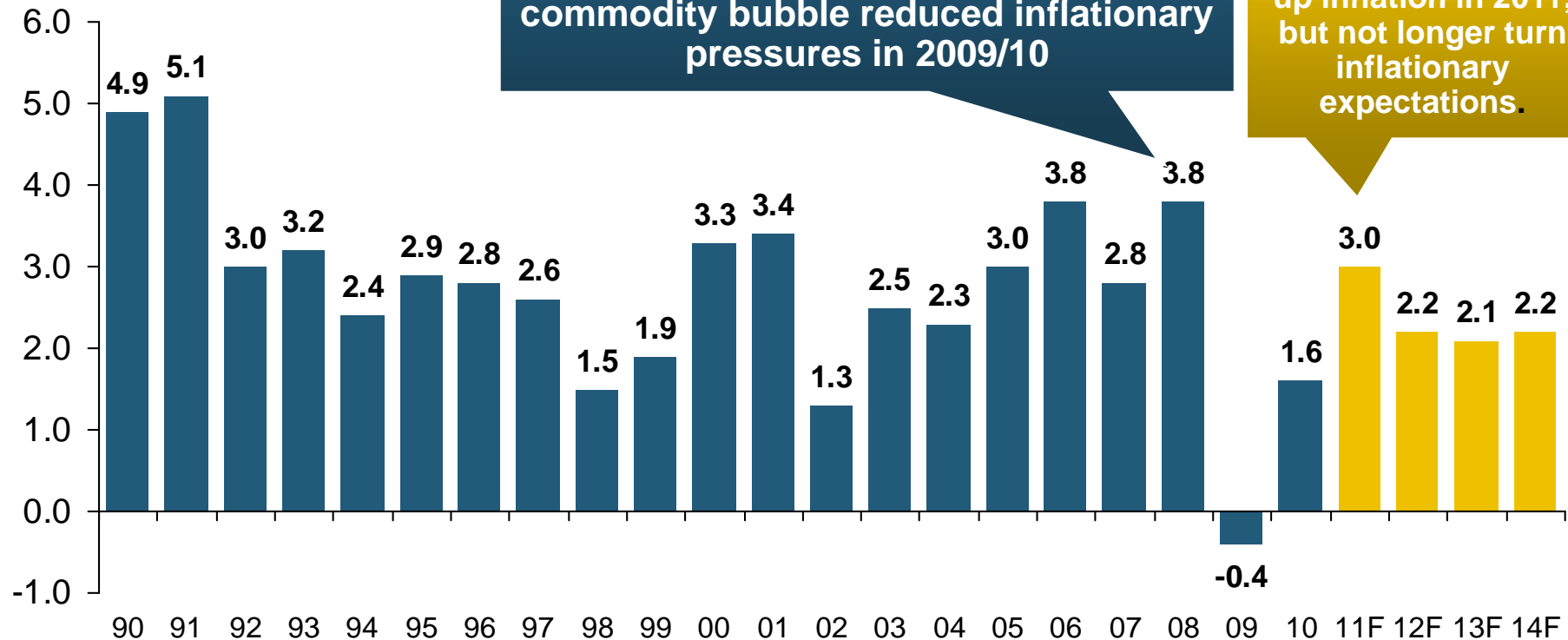
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

WC Medical Severity Generally Outpaces the Medical CPI Rate—Not in 2010



Annual Inflation Rates, (CPI-U, %), 1990–2014F

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

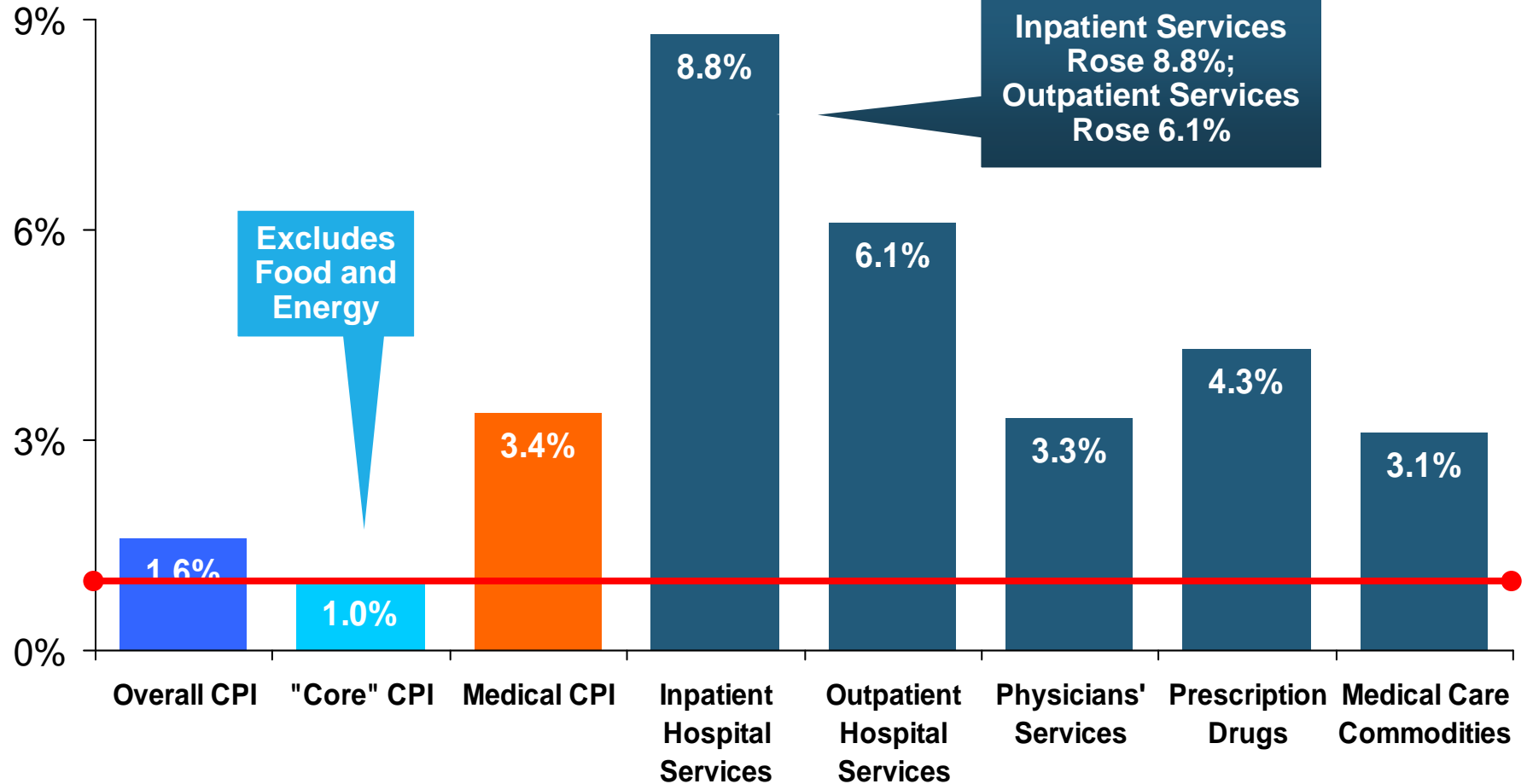
Higher energy, commodity and food prices are pushing up inflation in 2011, but not longer turn inflationary expectations.

The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 3/11 and 7/11 (forecasts).

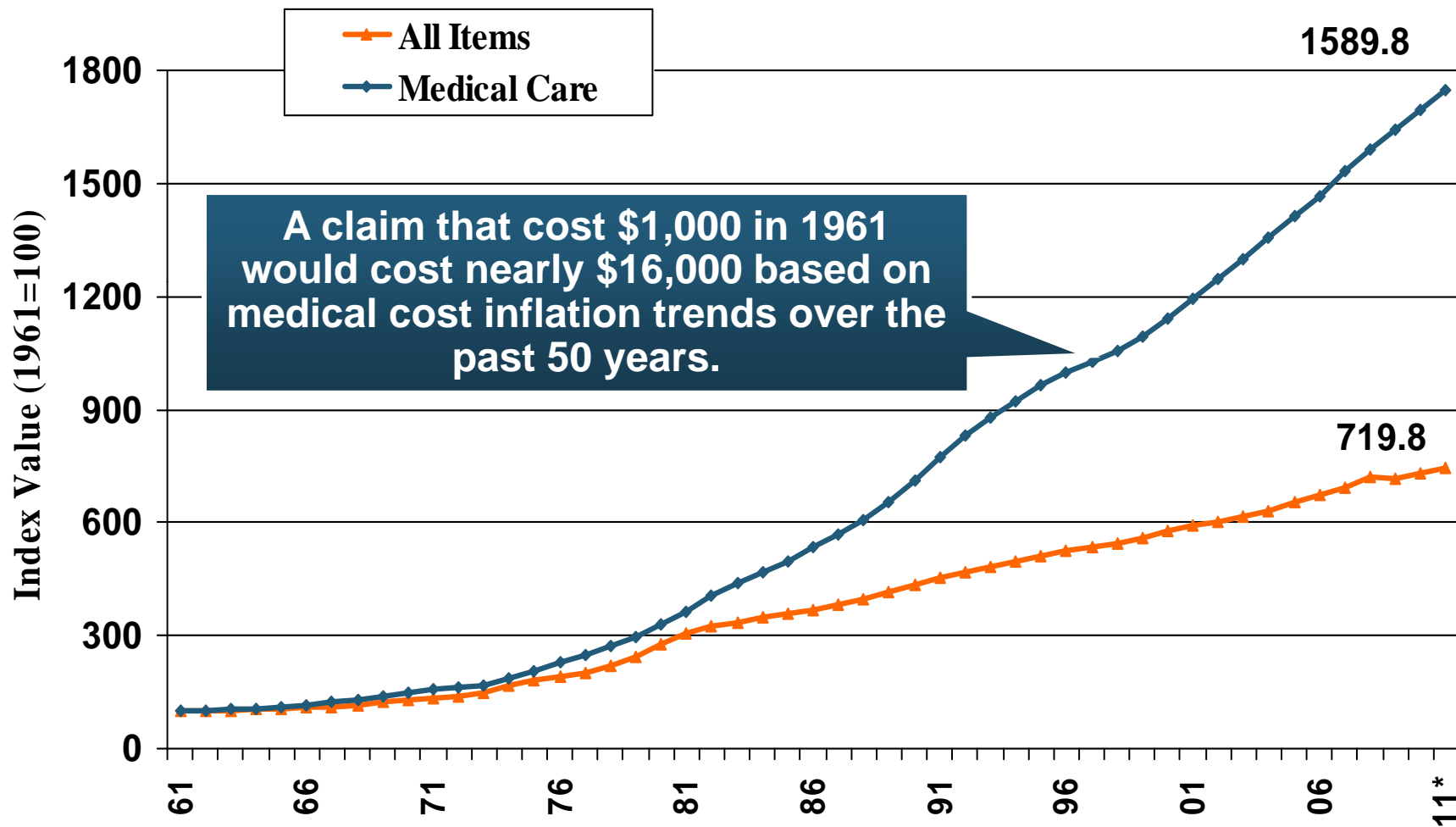
P/C Insurance Claim Cost Drivers Grow Faster than even the Medical CPI Suggests

Price Changes
in 2010



Healthcare costs are a major claim cost driver in WC. They are likely to grow faster than the CPI in most years.

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years

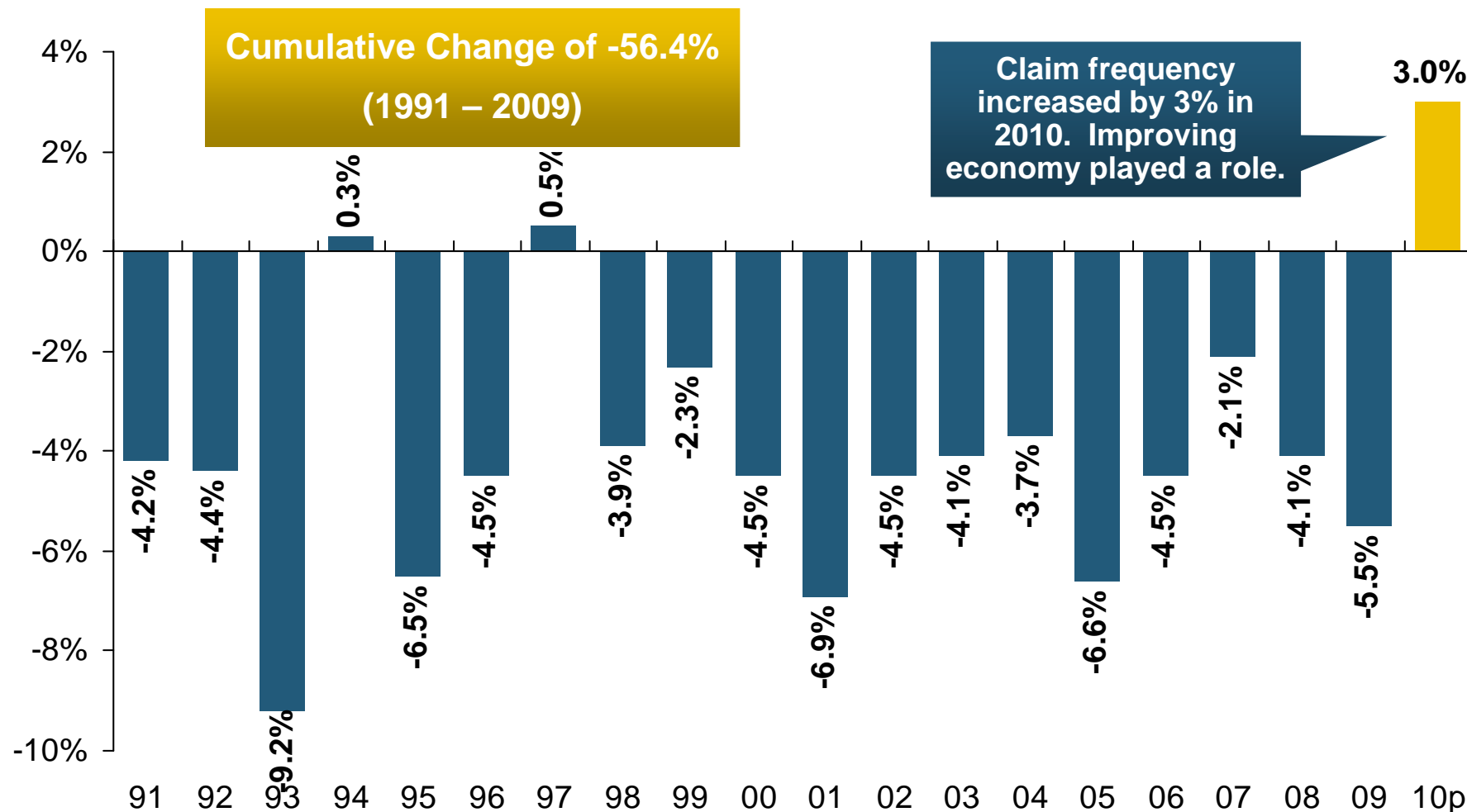


*Based on change from Feb. 2011 to Feb. 2010 (latest available)
Source: Department of Labor (Bureau of Labor Statistics)

Workers Compensation Lost-Time Claim Frequency *Increased* in 2010*

(Percent)

Lost-Time Claims



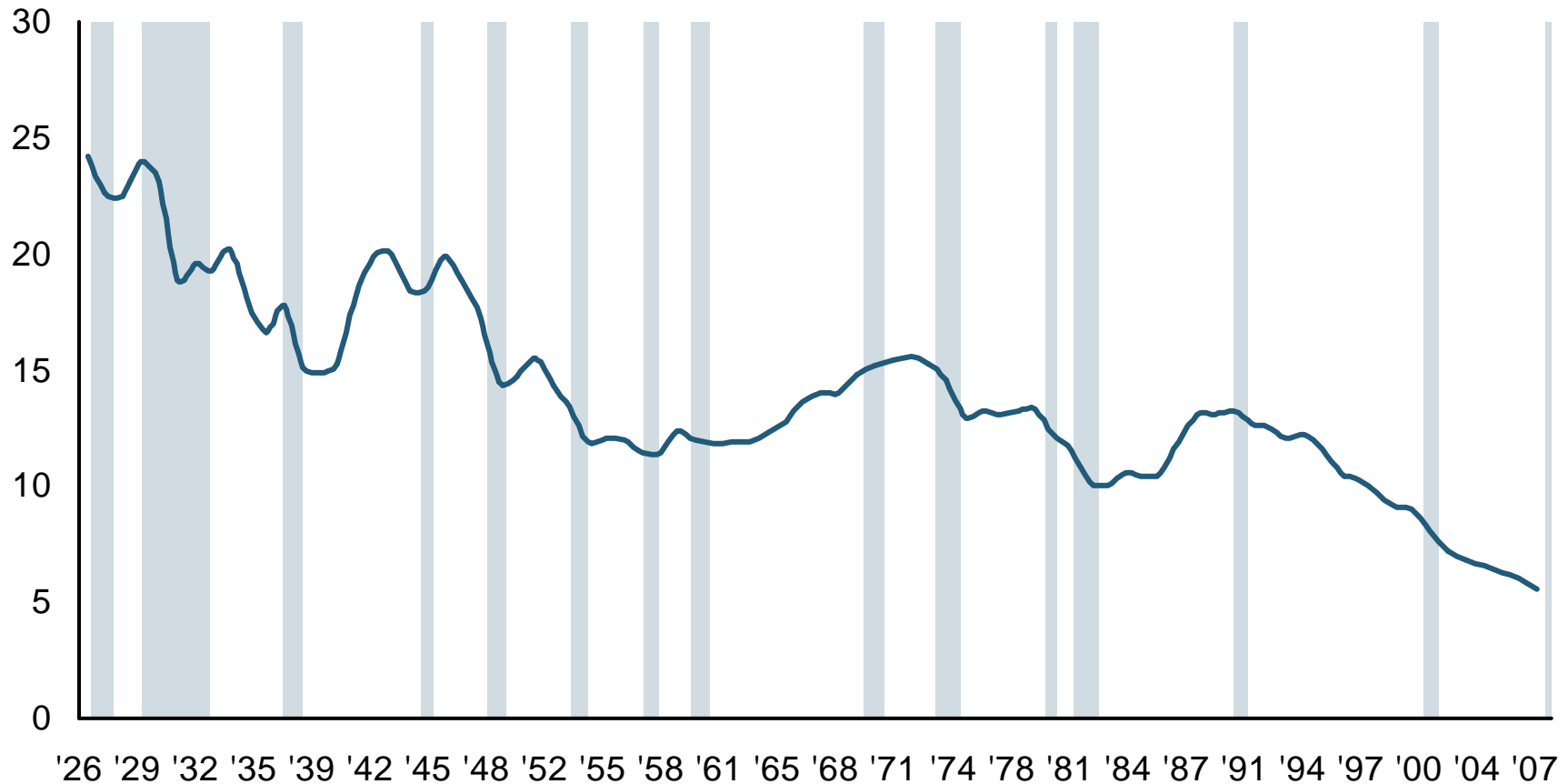
2010p: Preliminary based on data valued as of 12/31/2010;
 1991-2009: Based on data through 12/31/2009, developed to ultimate
 Based on the states where NCCI provides ratemaking services including state funds; Excludes the effects of deductible policies

*Frequency is defined as the number of lost-time claims per 100,000 workers.
 2010 figure is adjusted by NCCI. Unadjusted figure is +9%.

Frequency: 1926–2008

A Long-Term Drift Downward

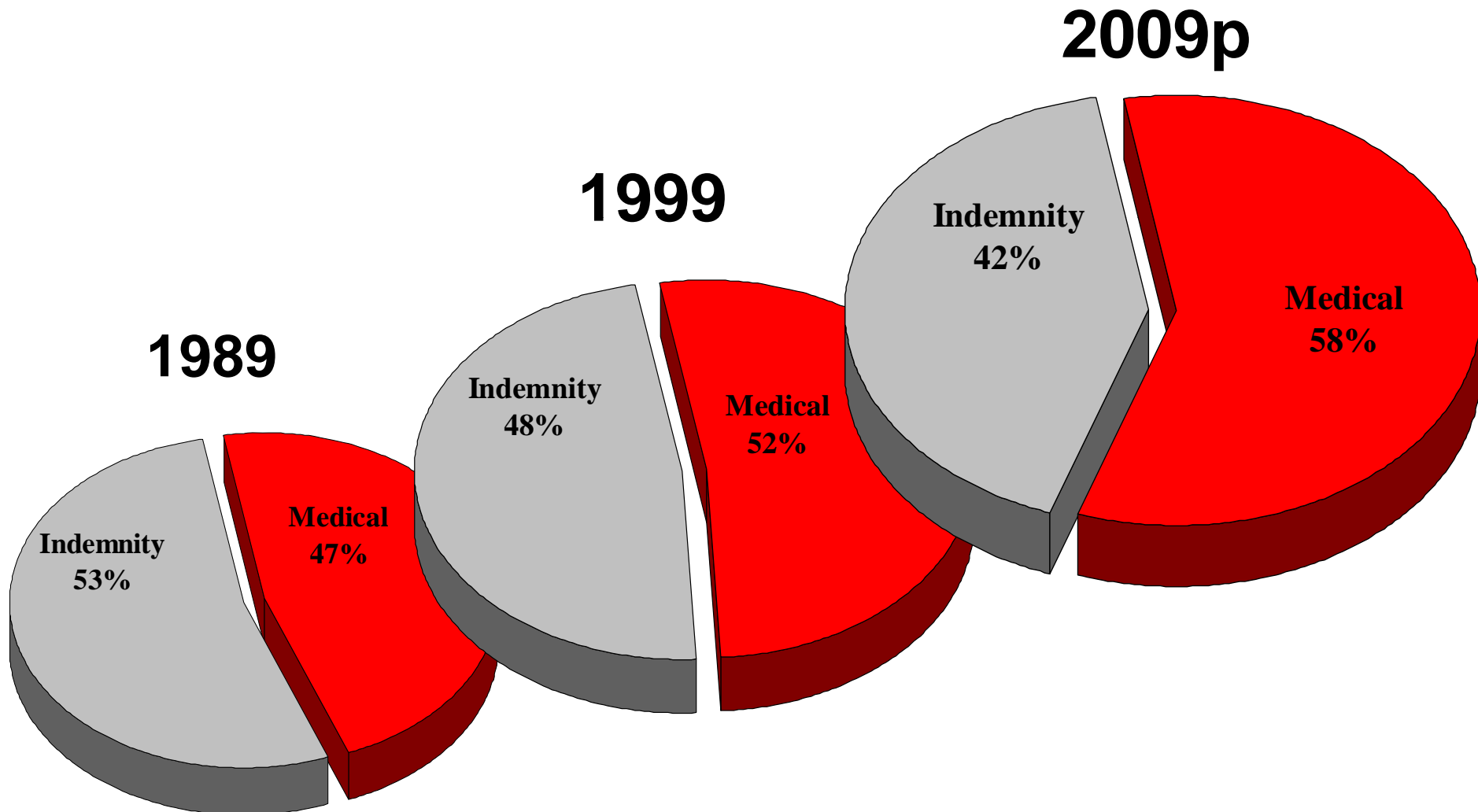
Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars.

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

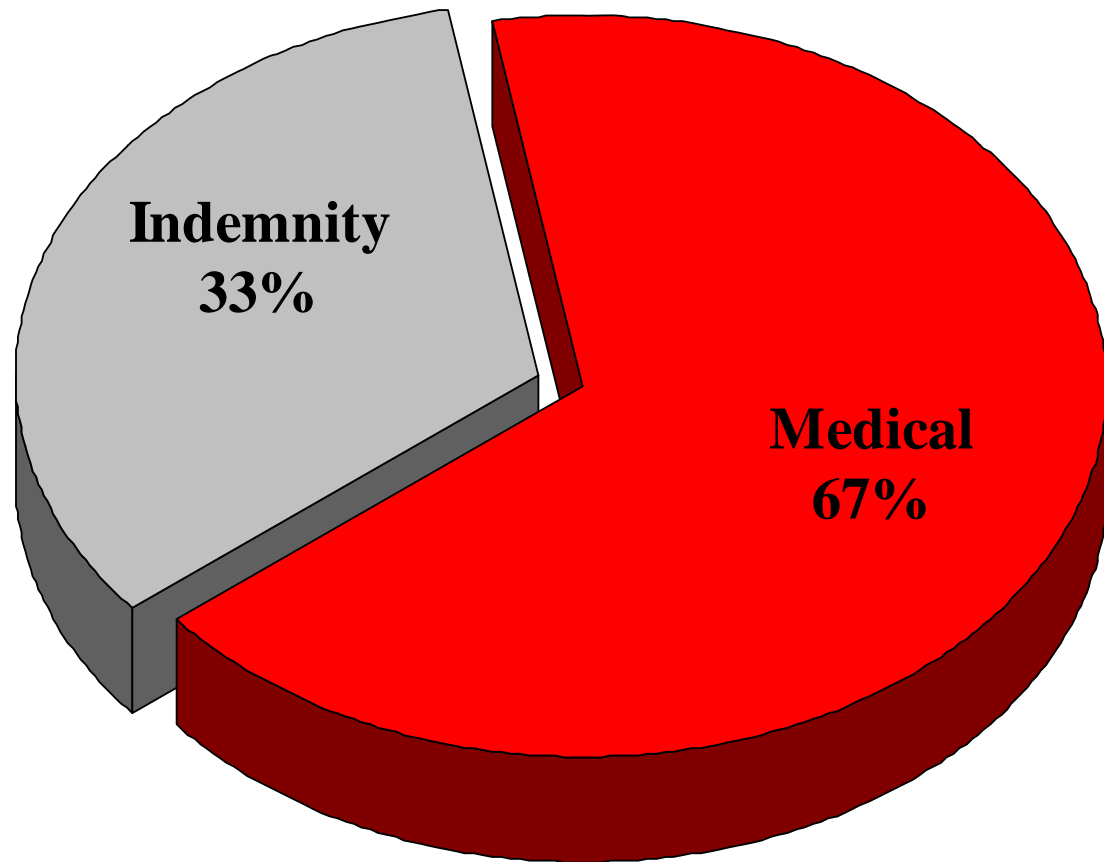
Med Costs Share of Total Costs is Increasing Steadily



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.

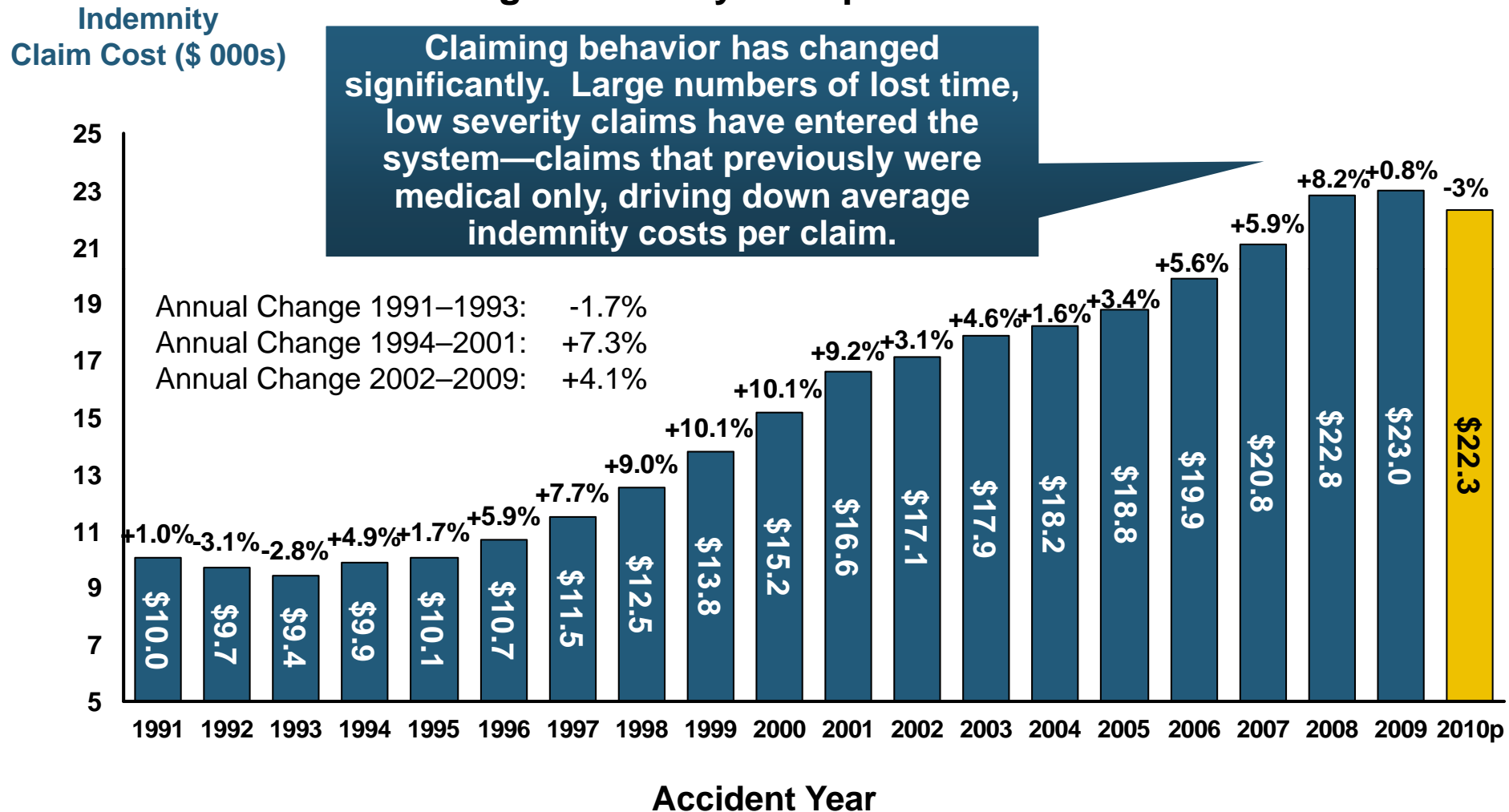
Indemnity Claim Cost Trends

**Indemnity Costs Continue to Rise at a
Pace Above Wage Inflation**

Workers Comp Indemnity Claim Costs Decline in 2010

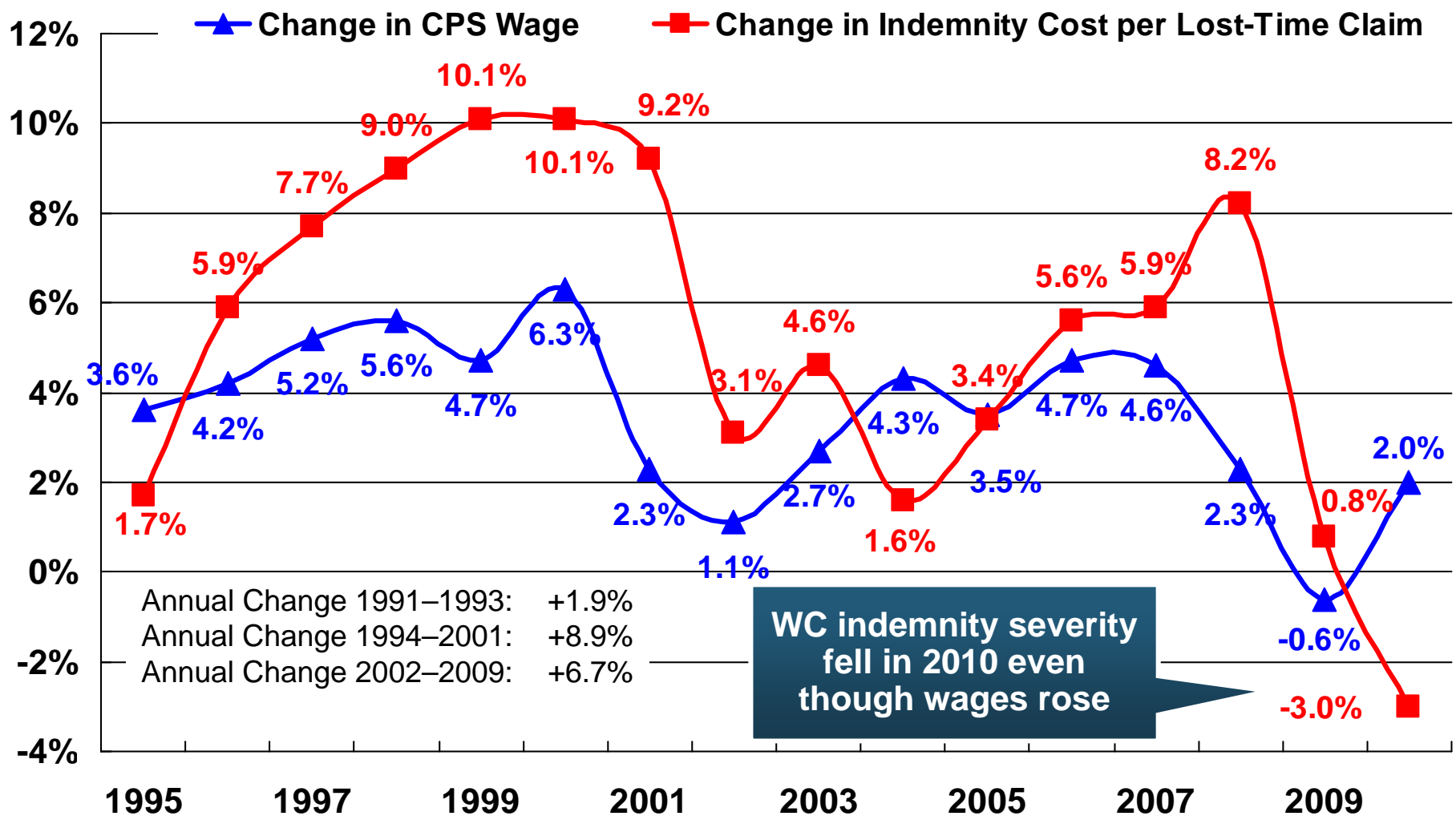
Average Indemnity Cost per Lost-Time Claim

Claiming behavior has changed significantly. Large numbers of lost time, low severity claims have entered the system—claims that previously were medical only, driving down average indemnity costs per claim.



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

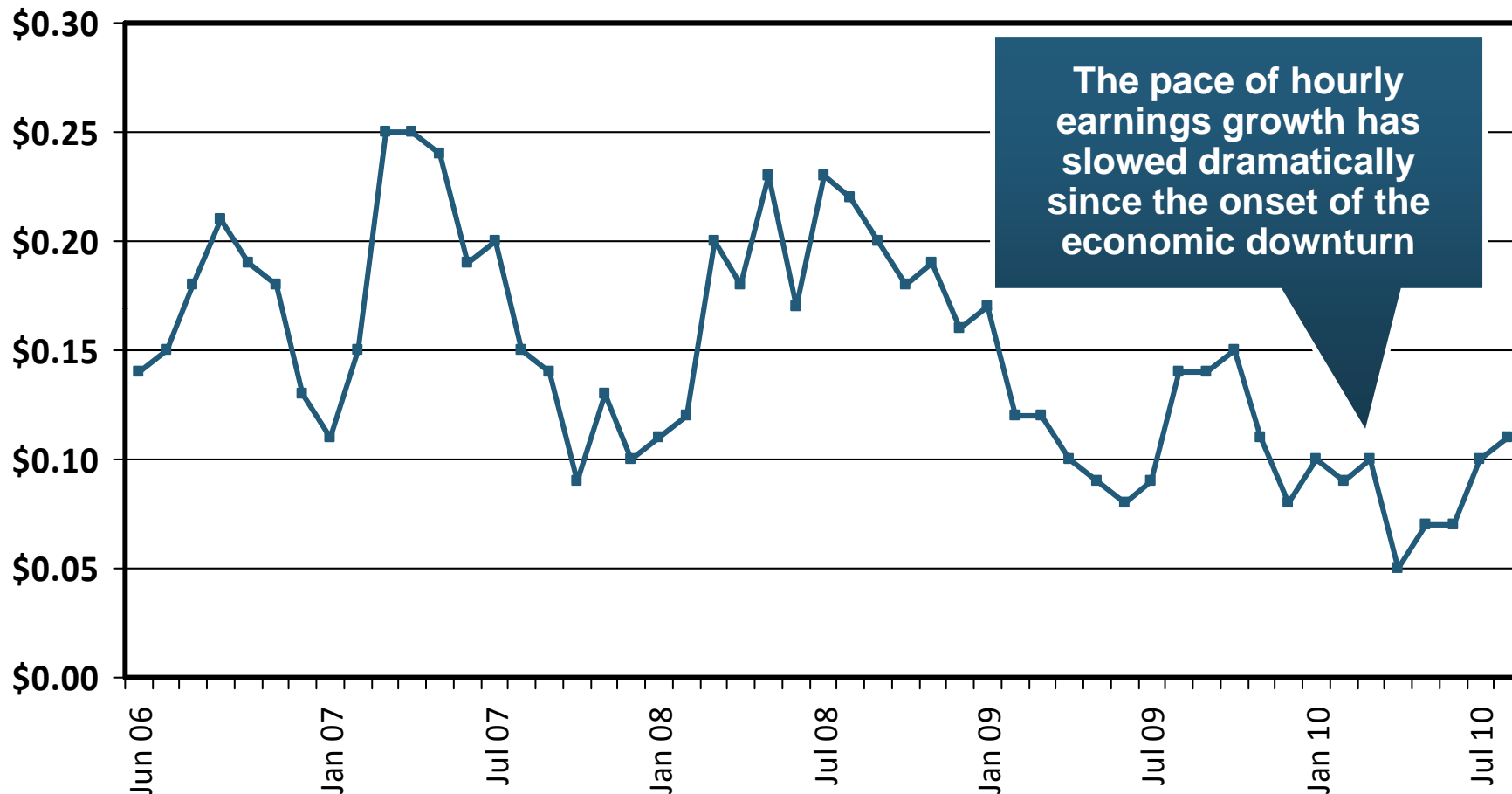
WC Indemnity Severity vs. Wage Inflation, 1995 -2010p



WC indemnity severity fell in 2010 even though wages rose

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. Excludes the effects of deductible policies. CPS = Current Population Survey. Source: NCCI

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



**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>



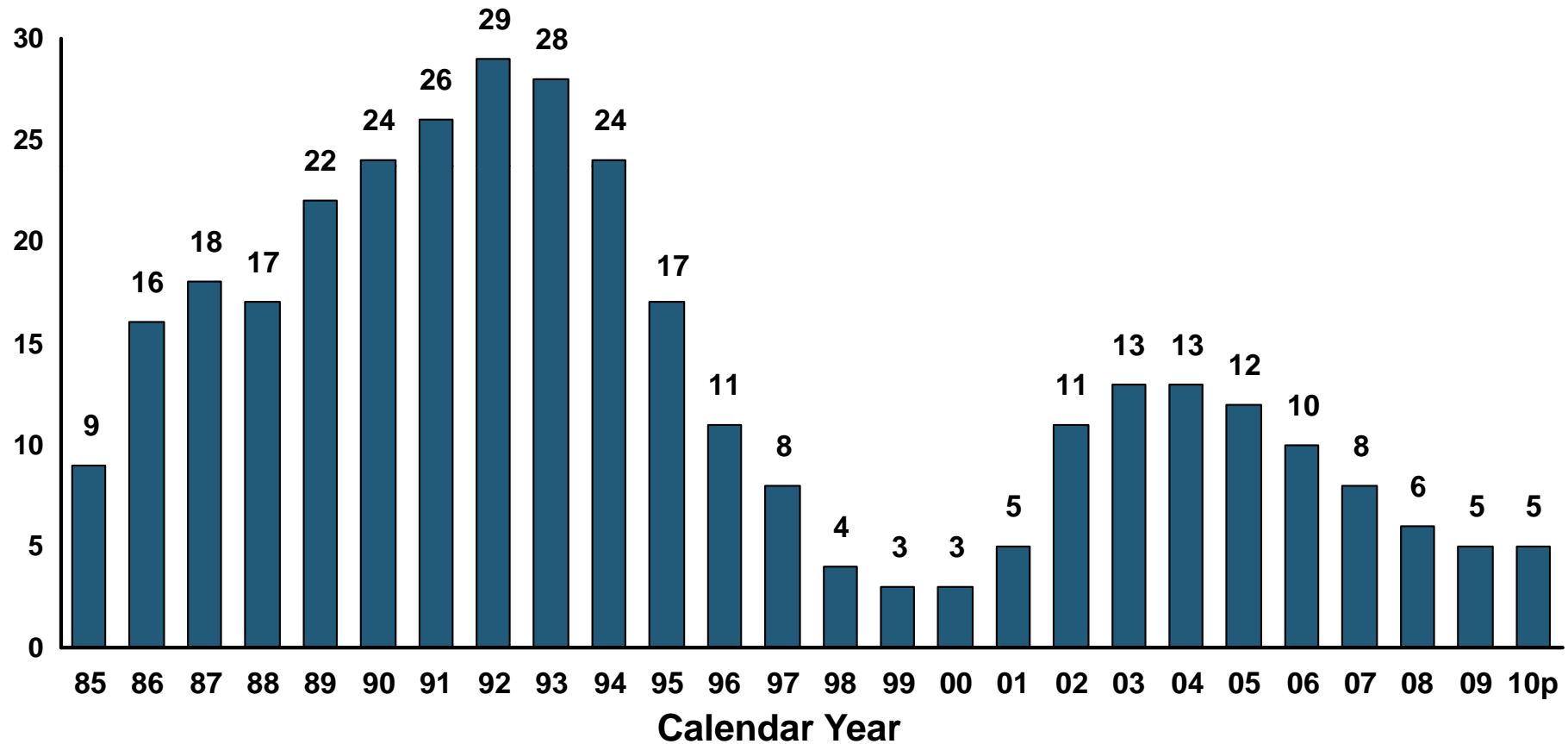
Workers Compensation Residual Market Trends

Residual Markets Remain Very Small

WC Residual Market Share Holds Steady in 2010

WC Insurance Plan States* Premium as a Percentage of Direct Written Premiums

Percent



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

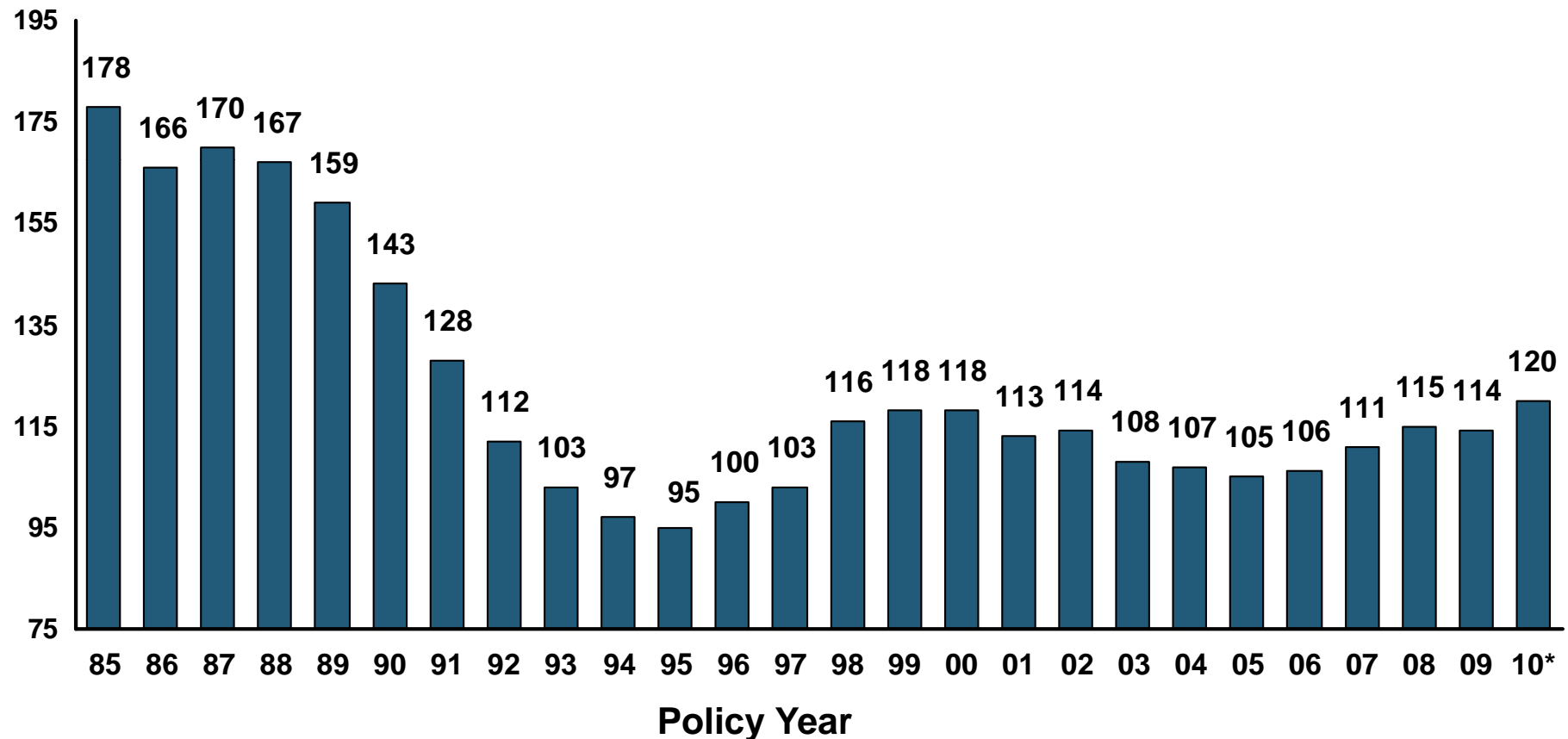
p: Preliminary

Source: NCCI.

WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Plans as of December 31, 2010

Percent



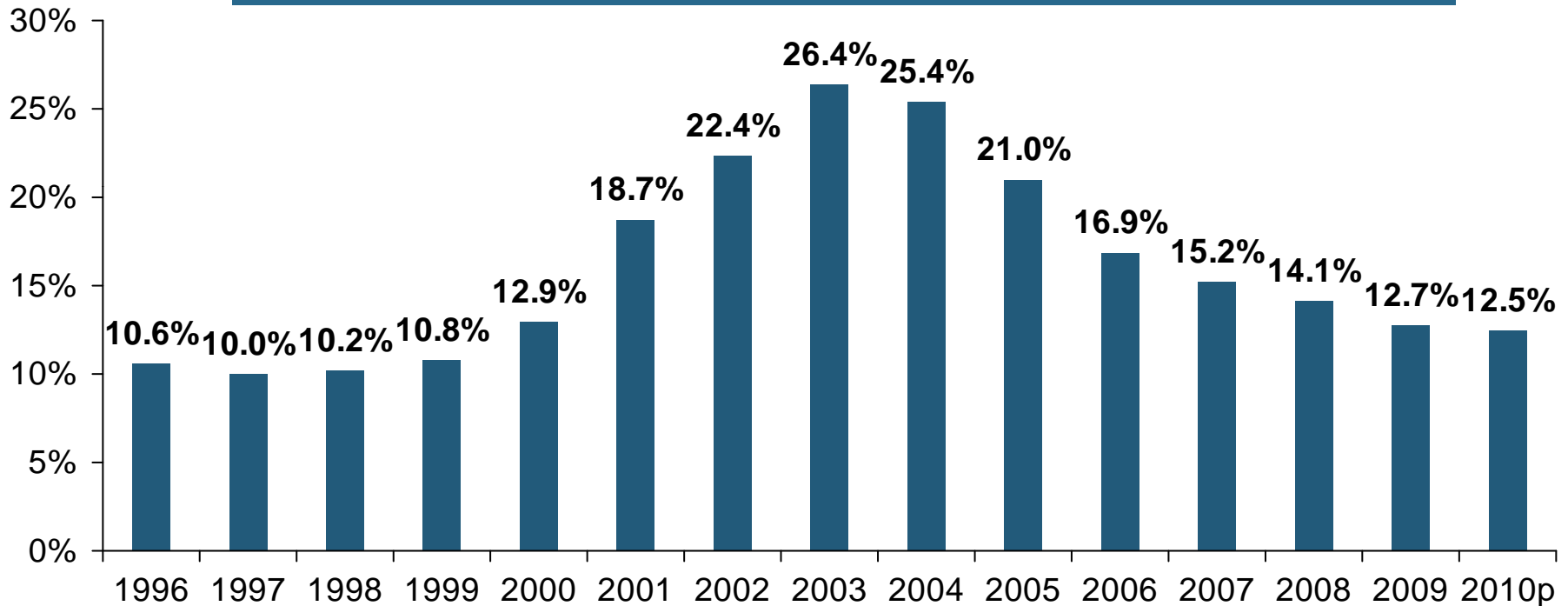
*Incomplete policy year projected to ultimate.

Source: NCCI.

WC Competitive State Fund Market Share, 1996 – 2010p

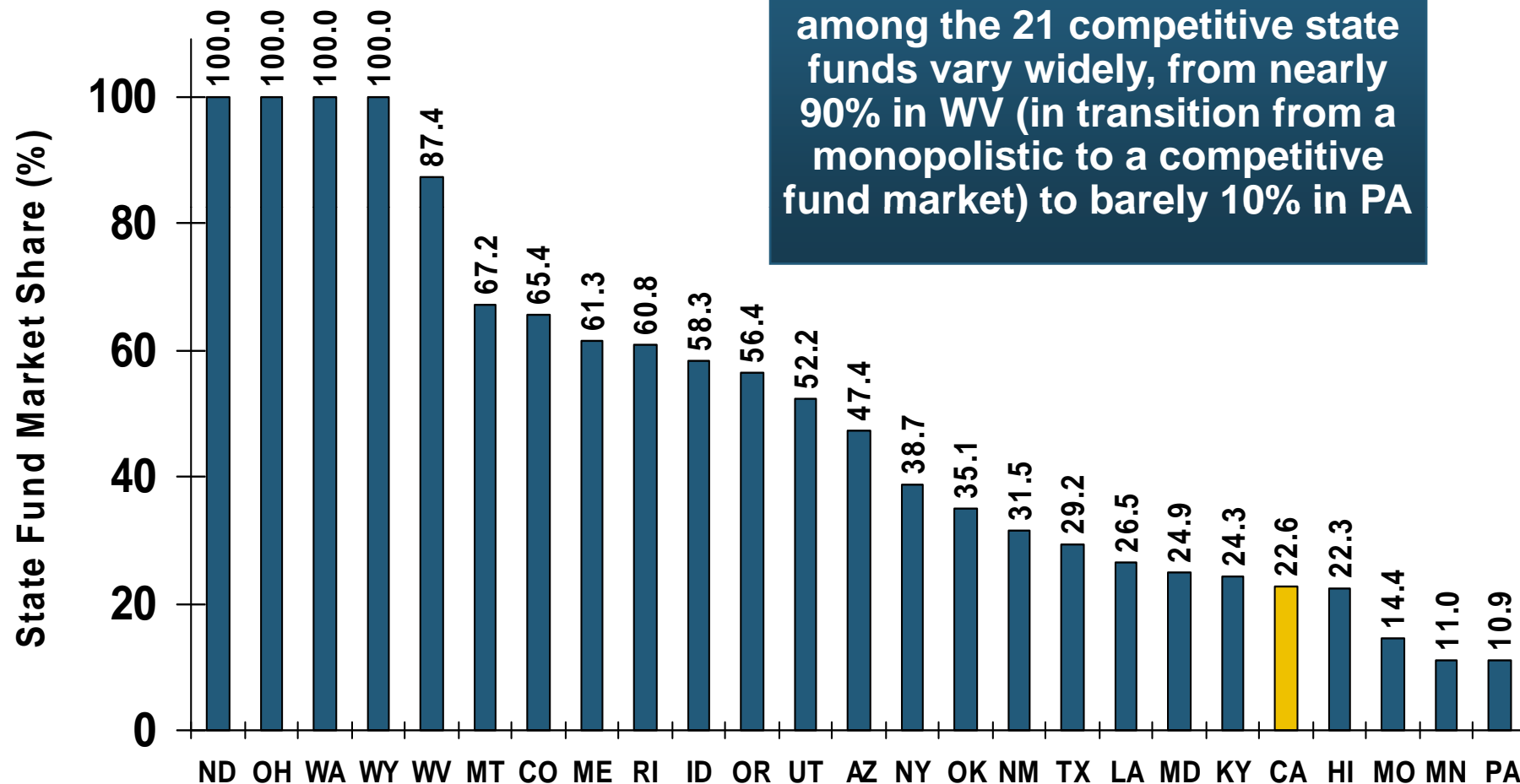
Market
Share (%)

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

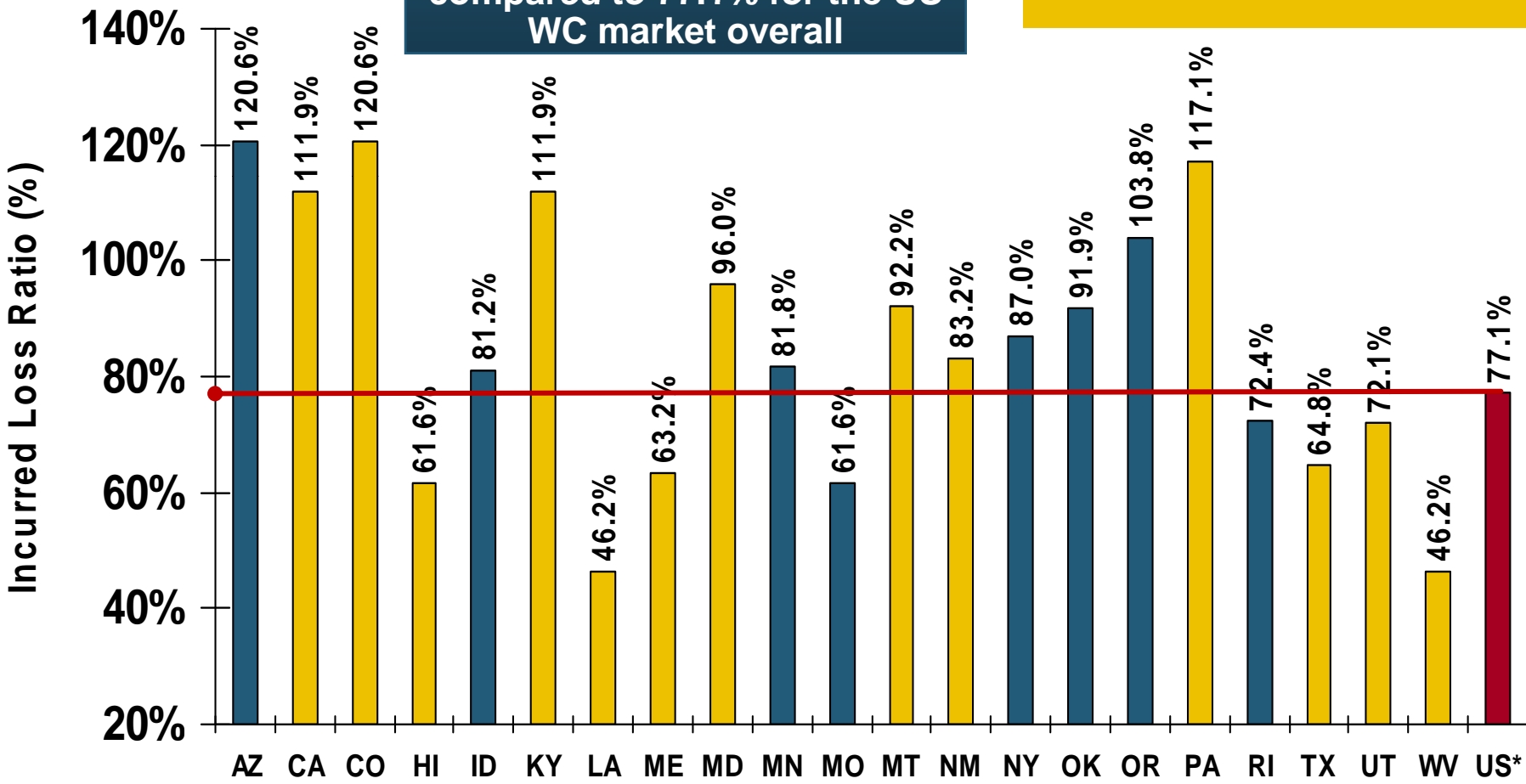
Workers Compensation State Fund Market Shares, 2008



Workers Compensation State Fund Incurred Loss Ratio, 2008

The average competitive workers comp state fund ran a loss ratio of 84.2% in 2008 compared to 77.1% for the US WC market overall

13 of the 21 competitive state funds also serve as the market of last resort



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

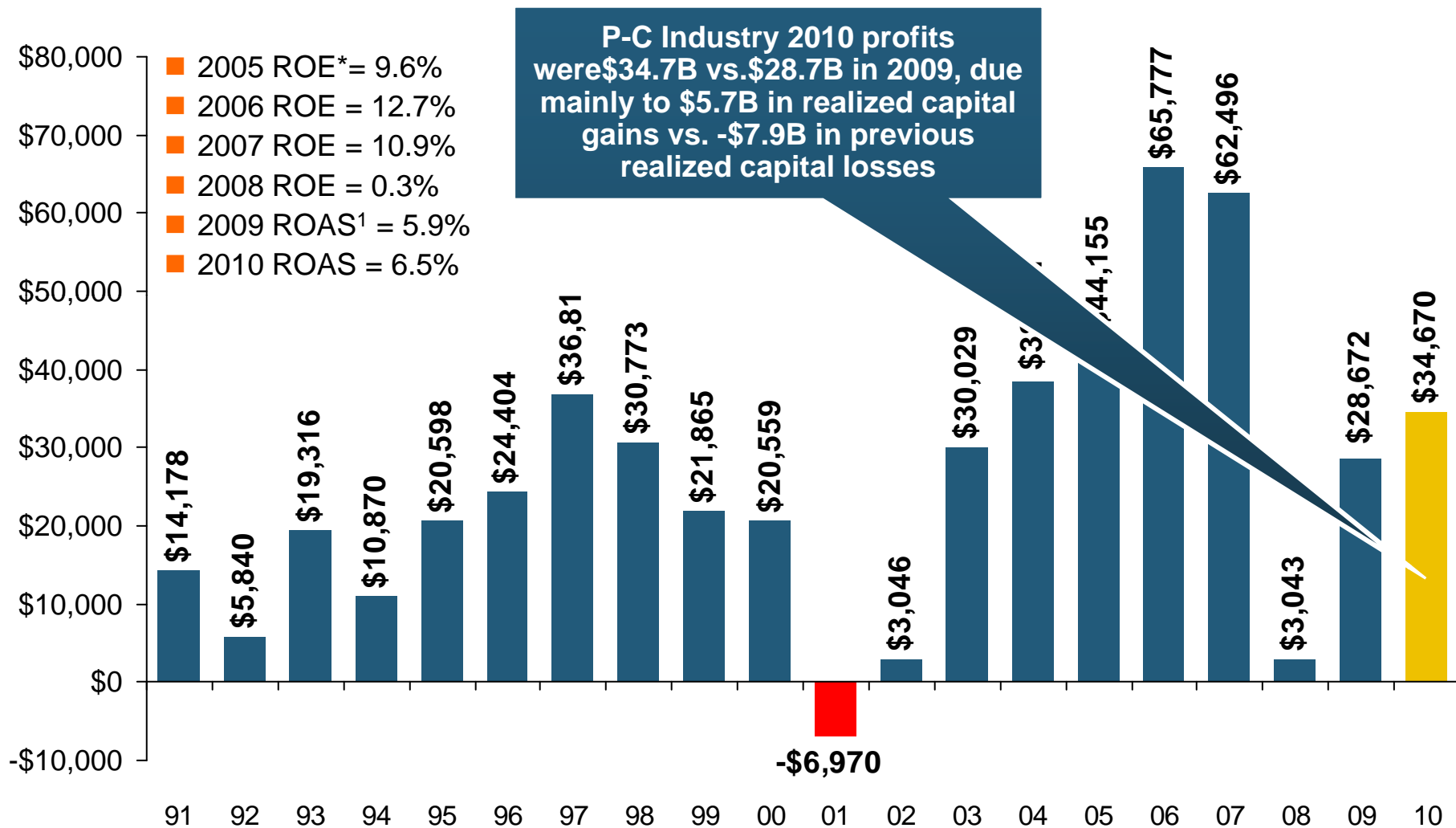
Source: Conning; A.M. Best; Insurance Information Institute.



P/C Insurance Industry Profitability

Profit Recovery Continues

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

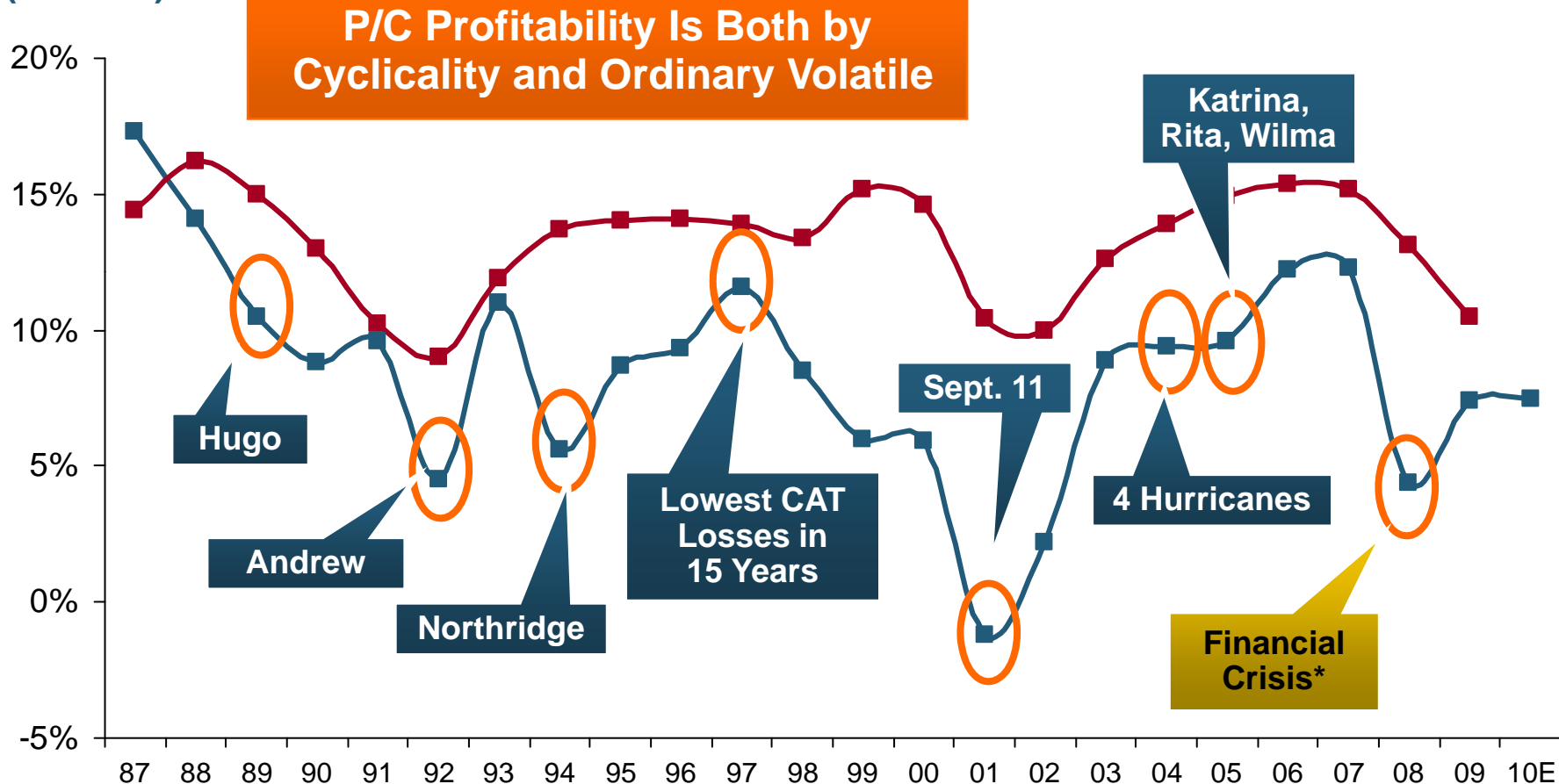


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010 and 7.4% for 2009.

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

ROE: Property/Casualty Insurance, 1987–2010*

(Percent)

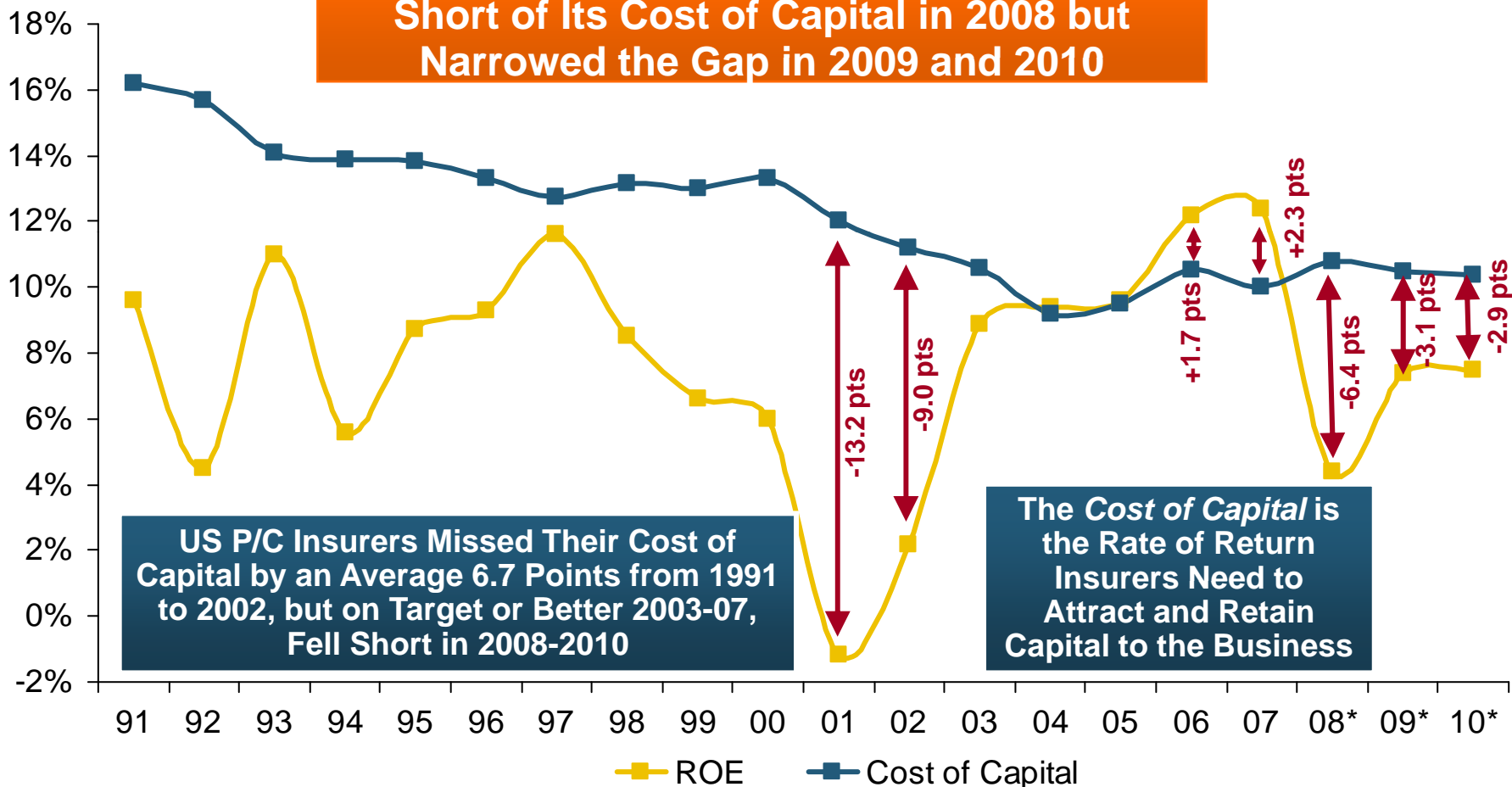


* Excludes Mortgage & Financial Guarantee in 2008 - 2010.
Sources: ISO, *Fortune*;

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

(Percent)

The P/C Insurance Industry Fell Well Short of Its Cost of Capital in 2008 but Narrowed the Gap in 2009 and 2010



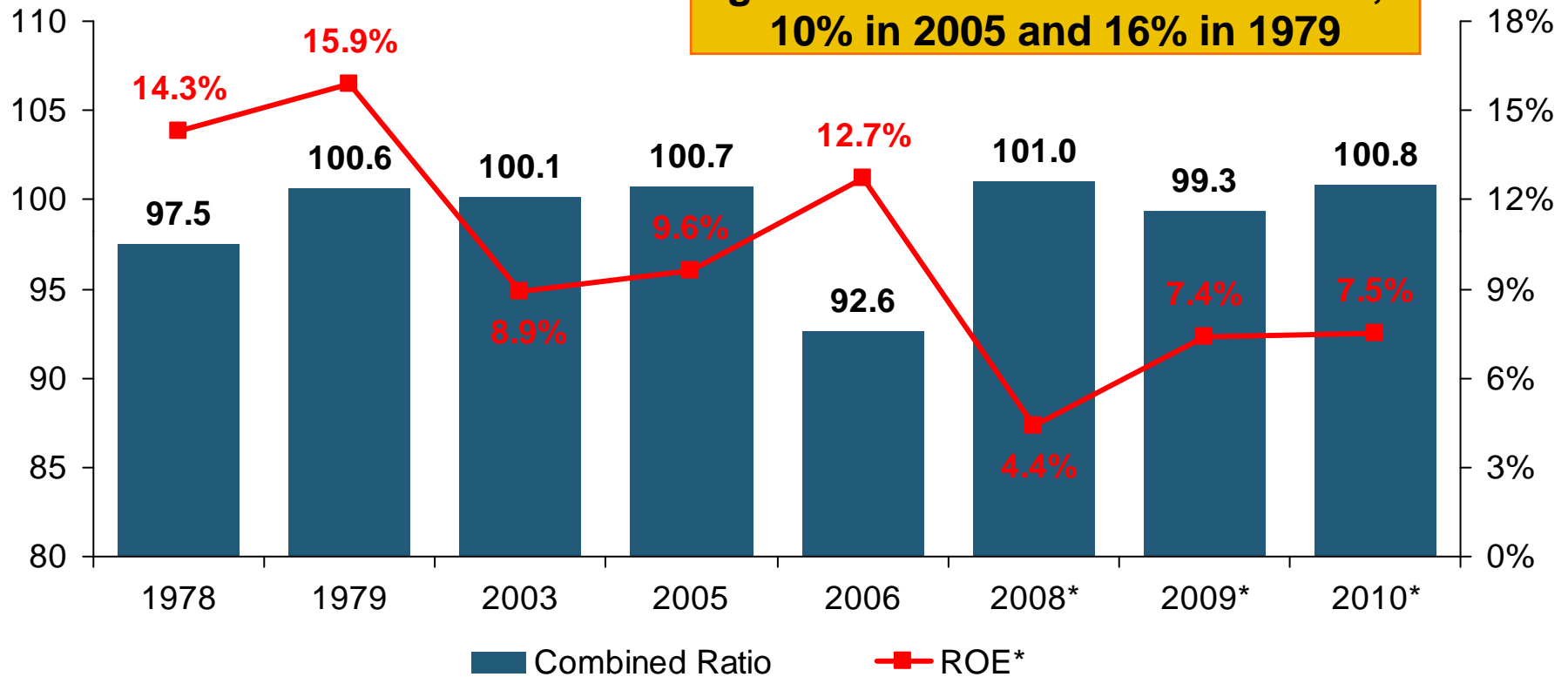
US P/C Insurers Missed Their Cost of Capital by an Average 6.7 Points from 1991 to 2002, but on Target or Better 2003-07, Fell Short in 2008-2010

The Cost of Capital is the Rate of Return Insurers Need to Attract and Retain Capital to the Business

* 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: Investment Impact on ROEs

Combined Ratio / ROE



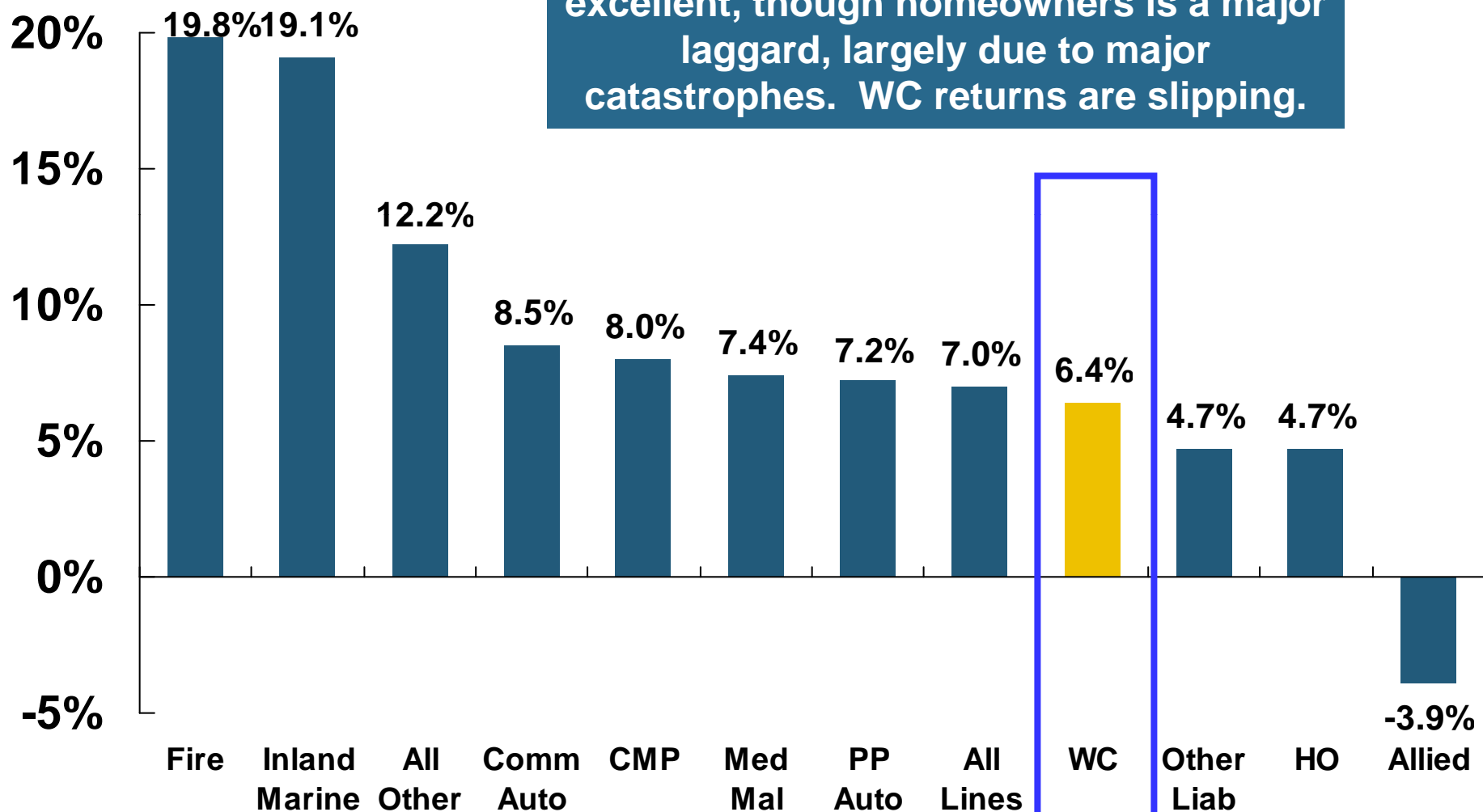
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

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

RNW for Major P/C Lines, 2000-2009 Average

10-year returns for some lines are excellent, though homeowners is a major laggard, largely due to major catastrophes. WC returns are slipping.

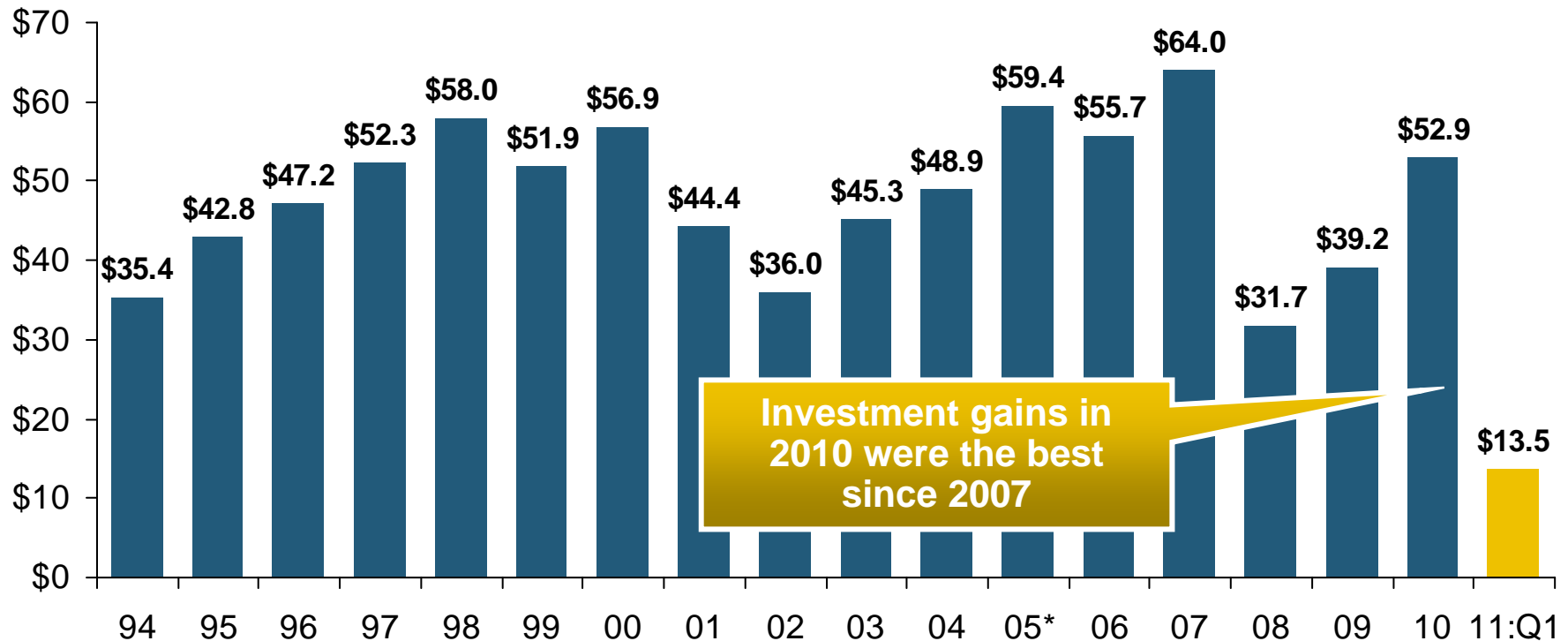


Investment Performance

**Investments Are a Principle
Source of Declining Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q1¹

(\$ Billions)



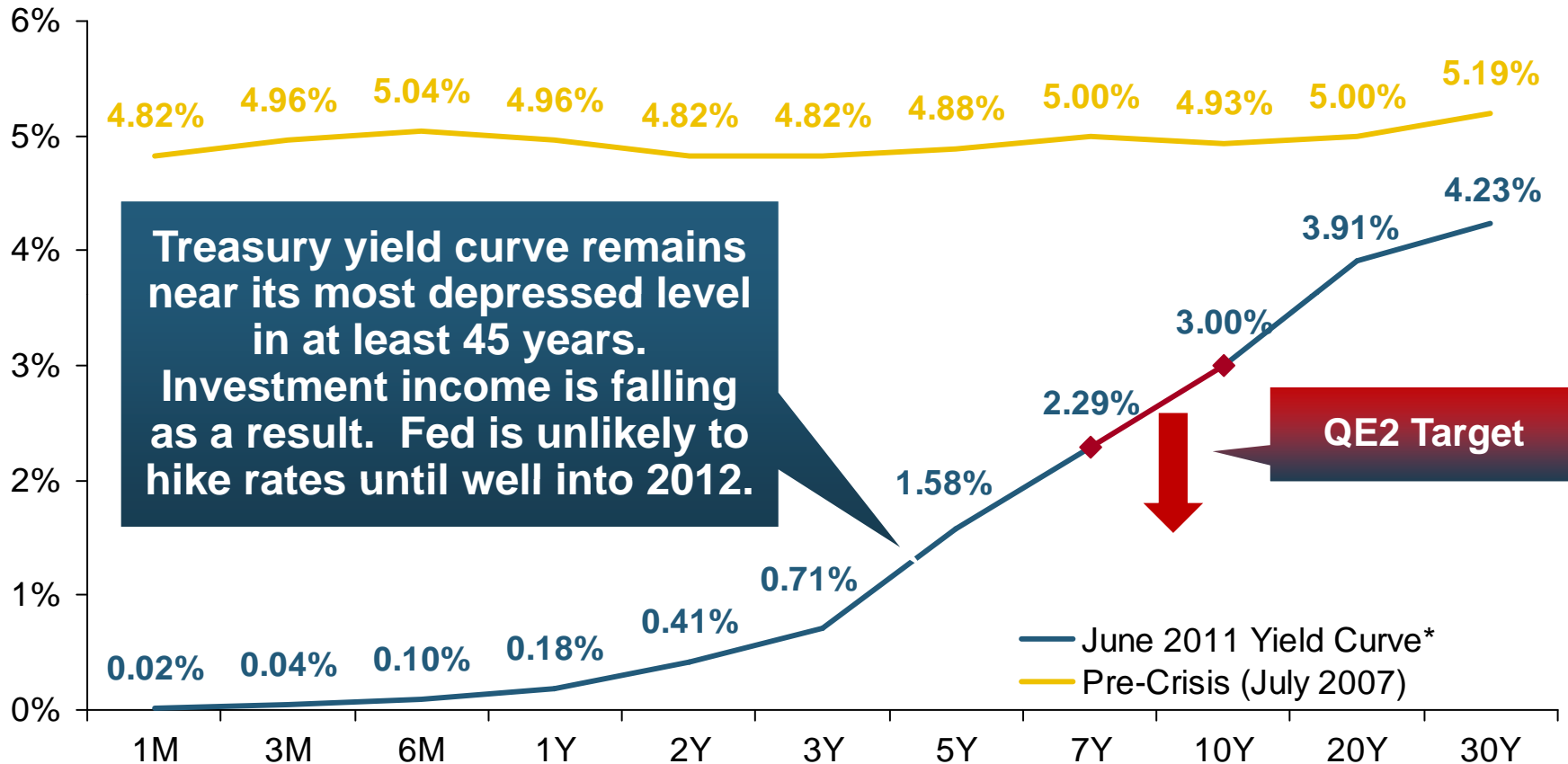
Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. June 2011*

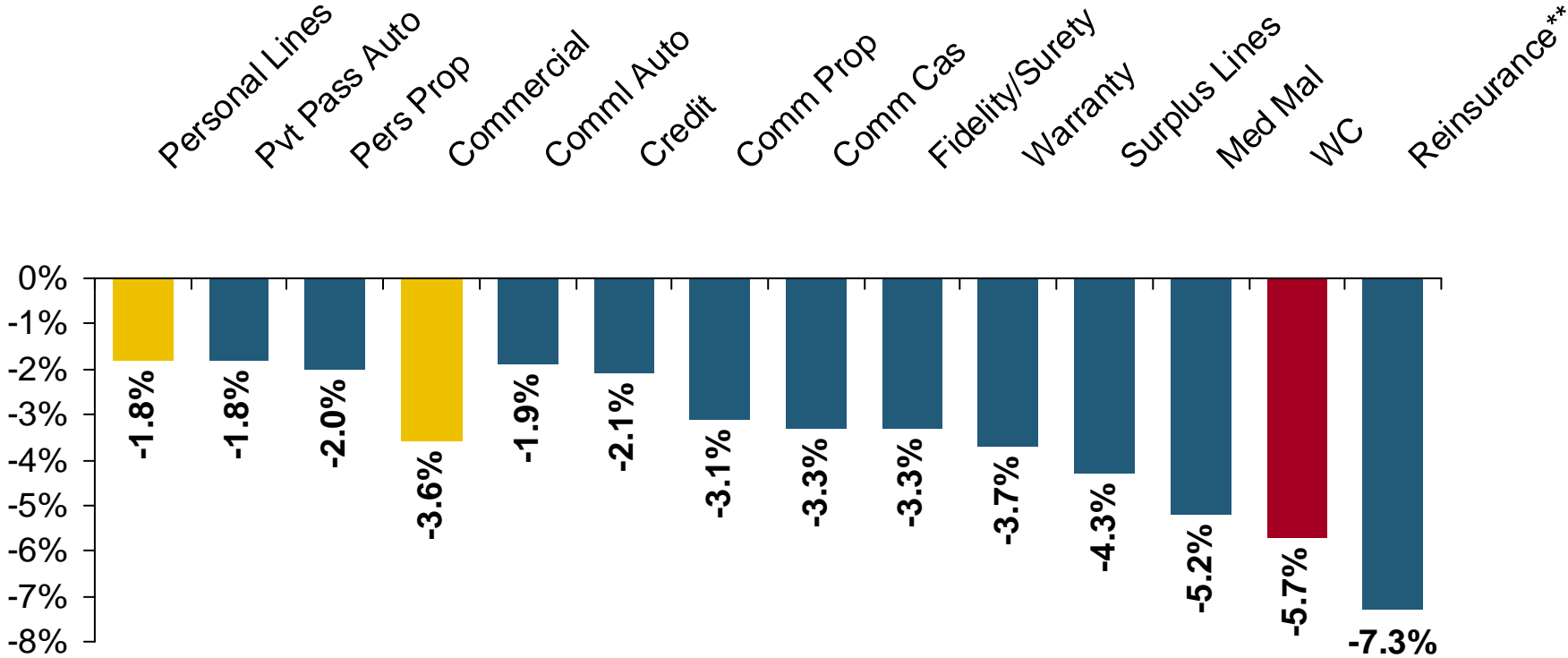


The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

*Average of daily rates.

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

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



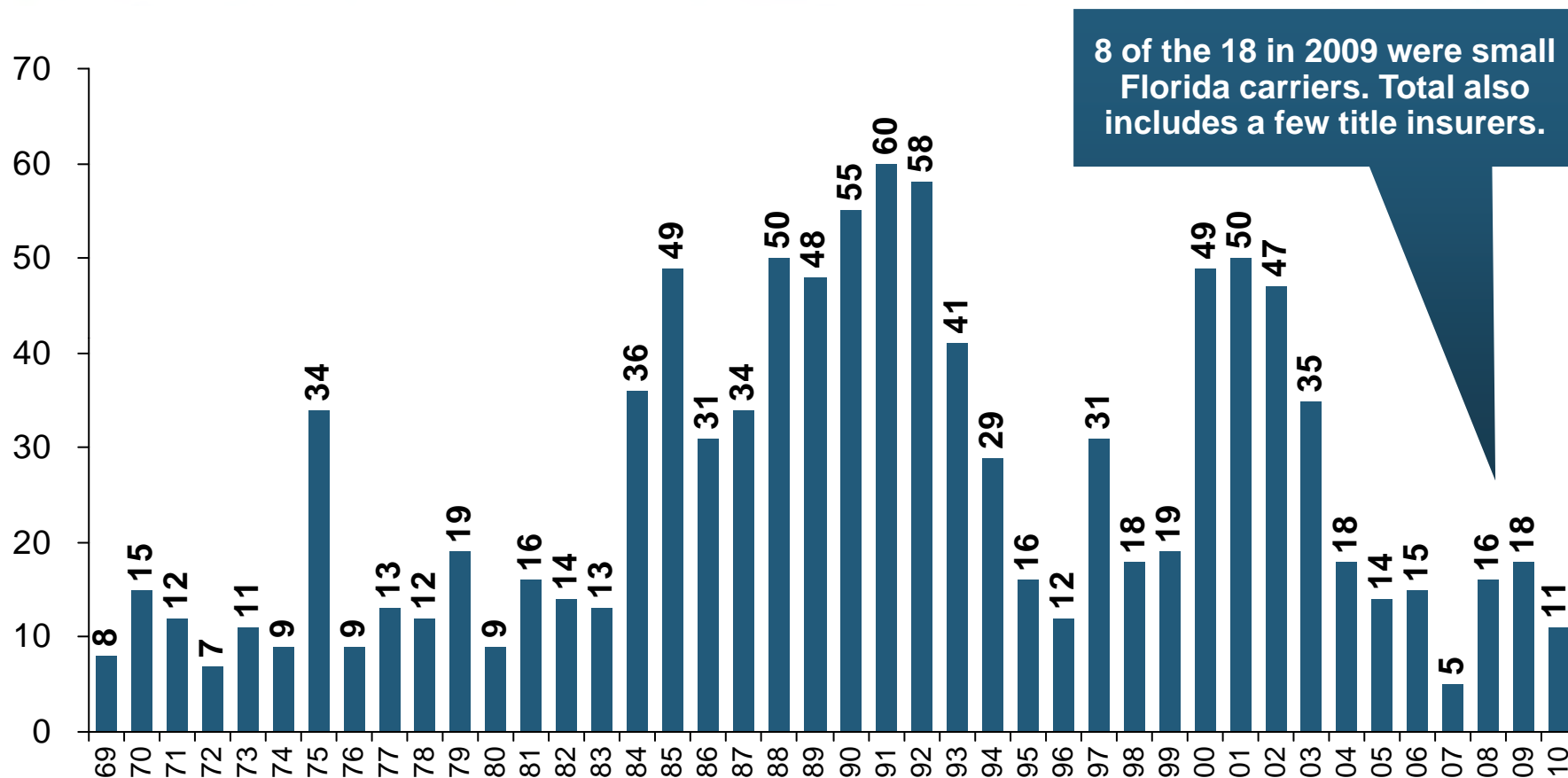
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums
 **US domestic reinsurance only
 Source: A.M. Best; Insurance Information Institute.

Financial Strength & Underwriting

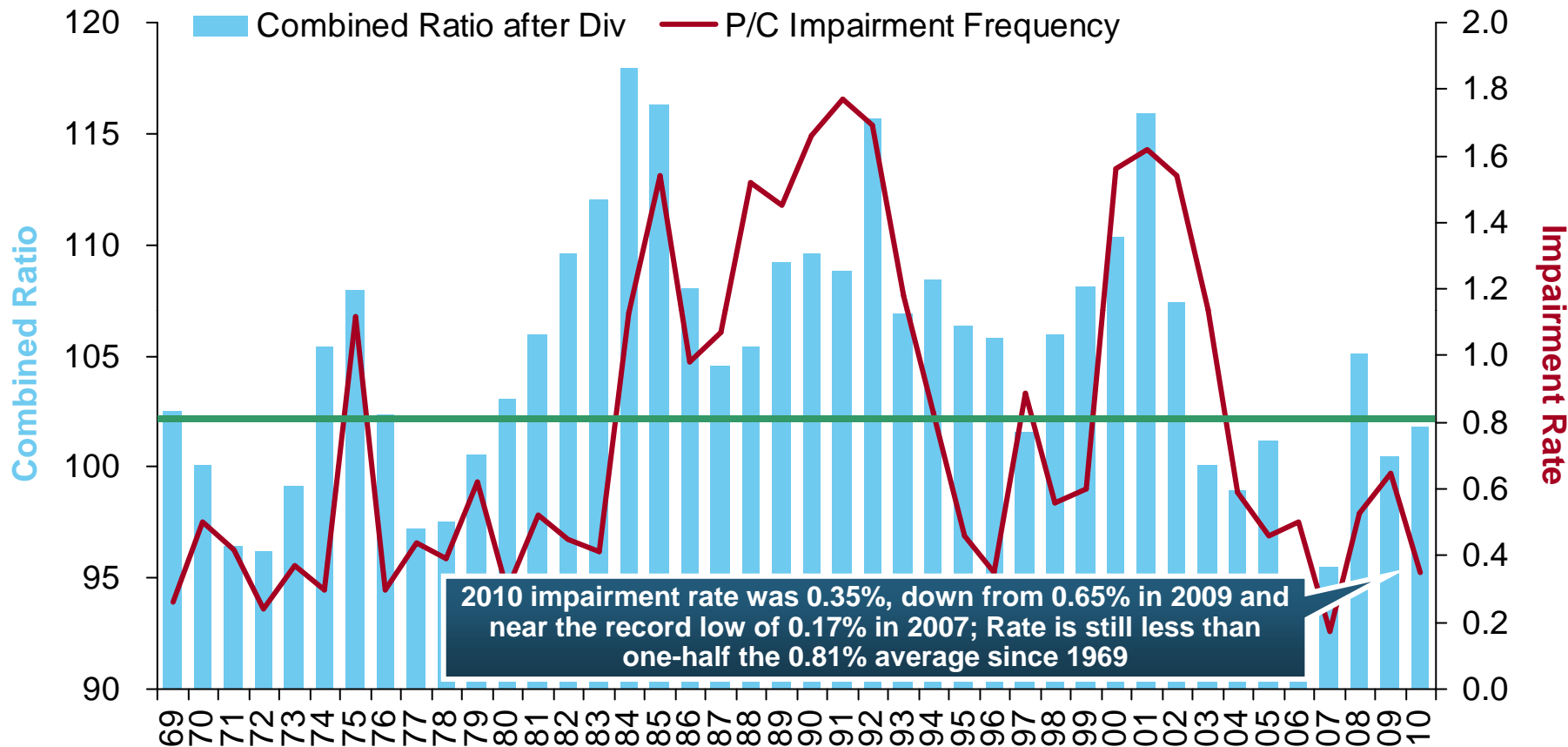
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2010



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

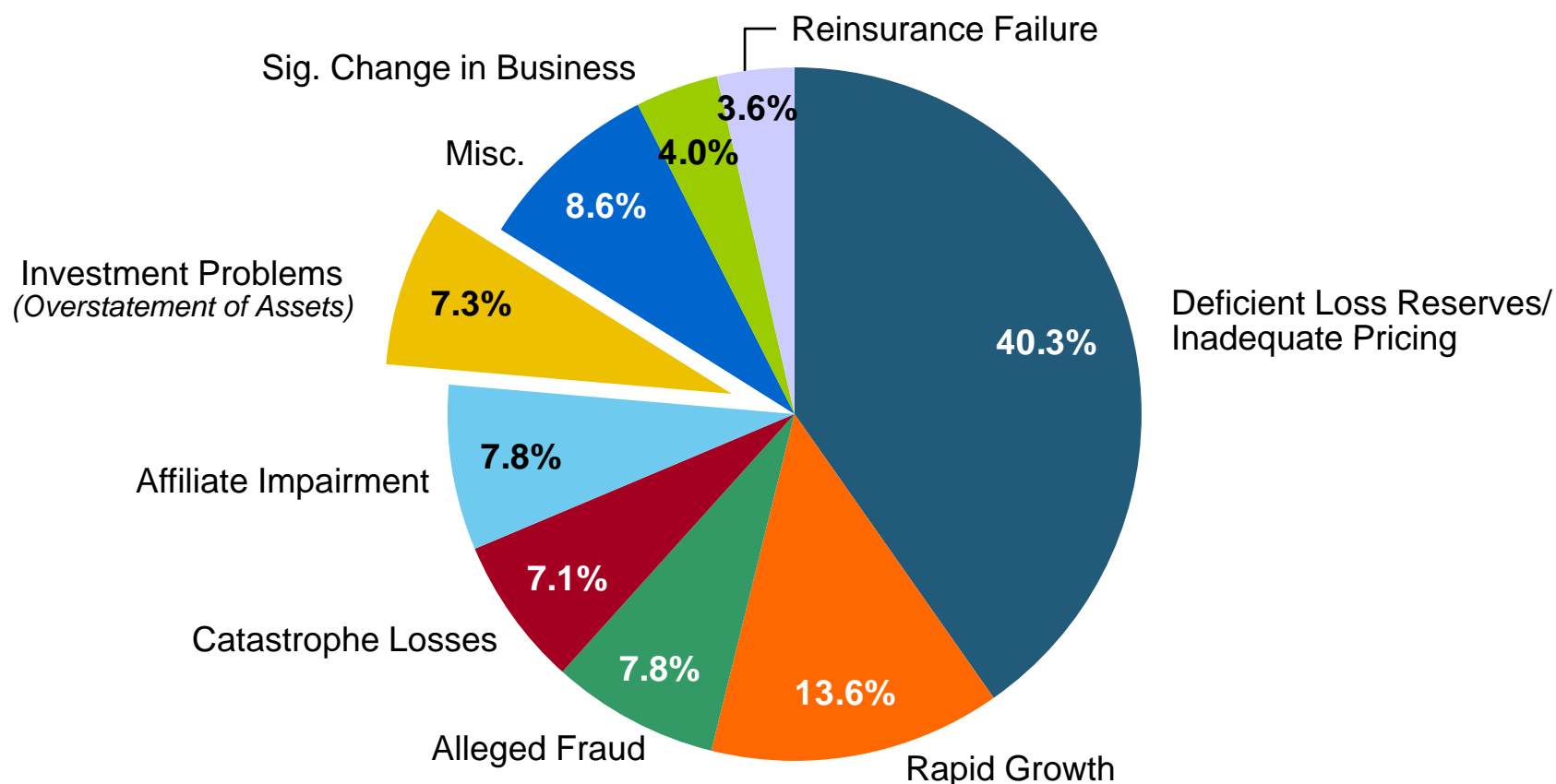
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

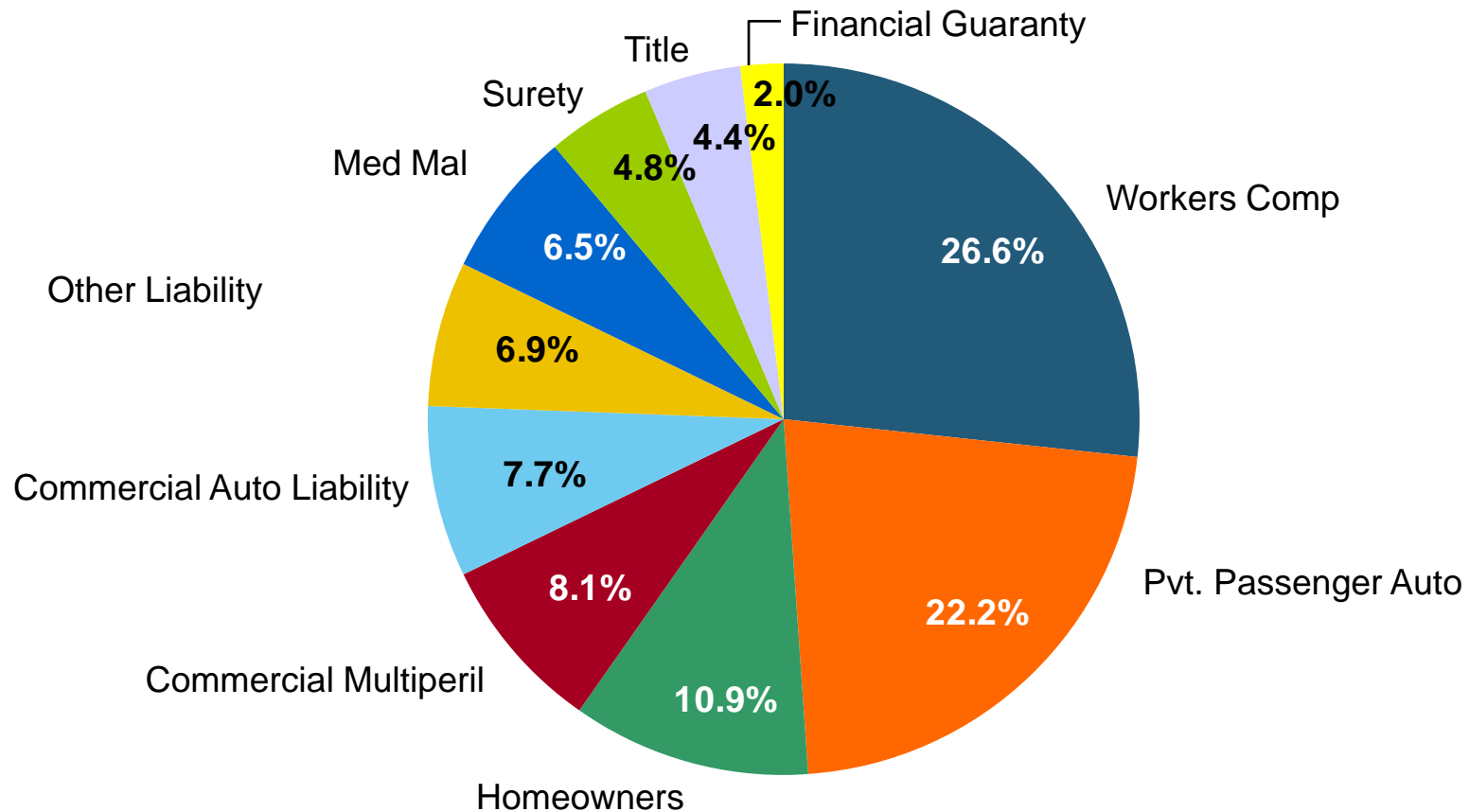
Reasons for US P/C Insurer Impairments, 1969–2010

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



The Economic Storm

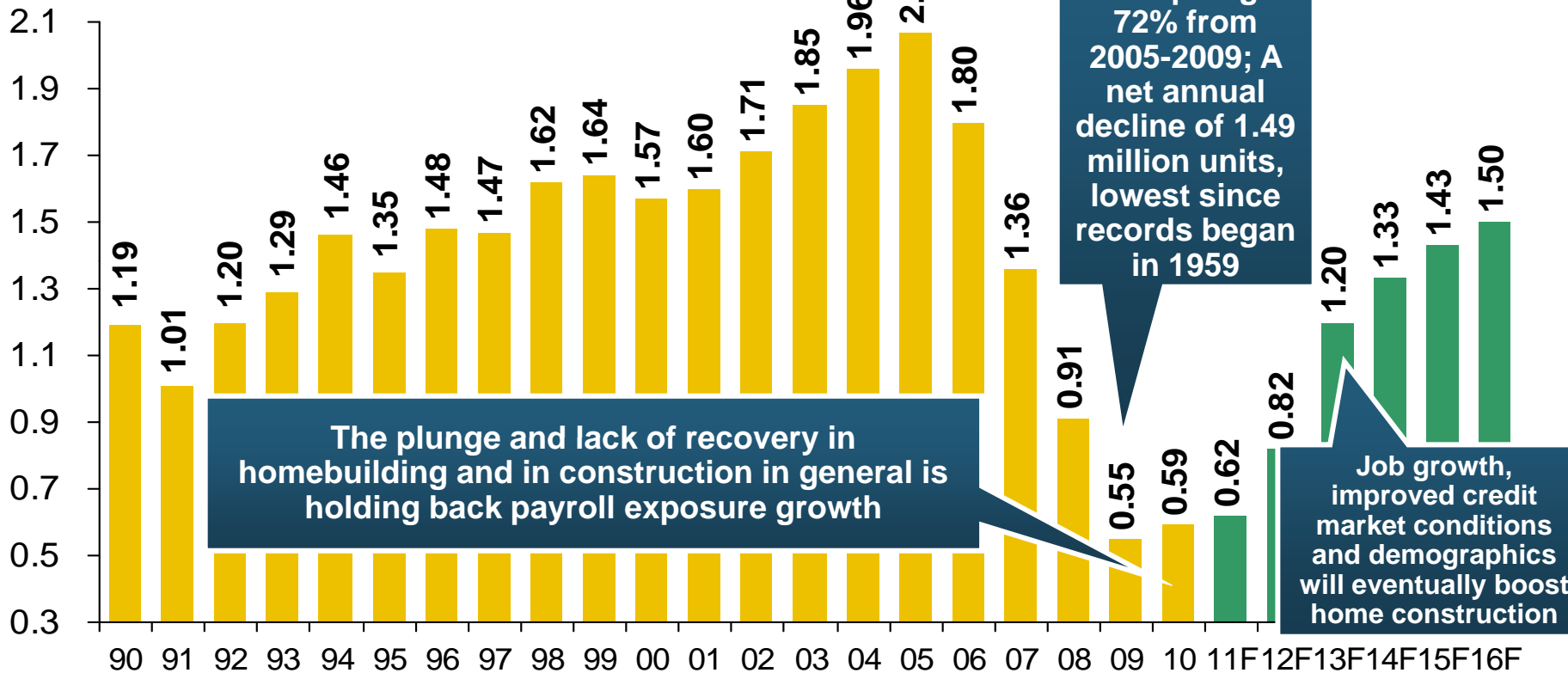
**What the Lasting Effects of the
Financial Crisis and Recession
Mean for the Industry's **Exposure
Base, Growth and Profitability****

Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance

New Private Housing Starts, 1990-2016F

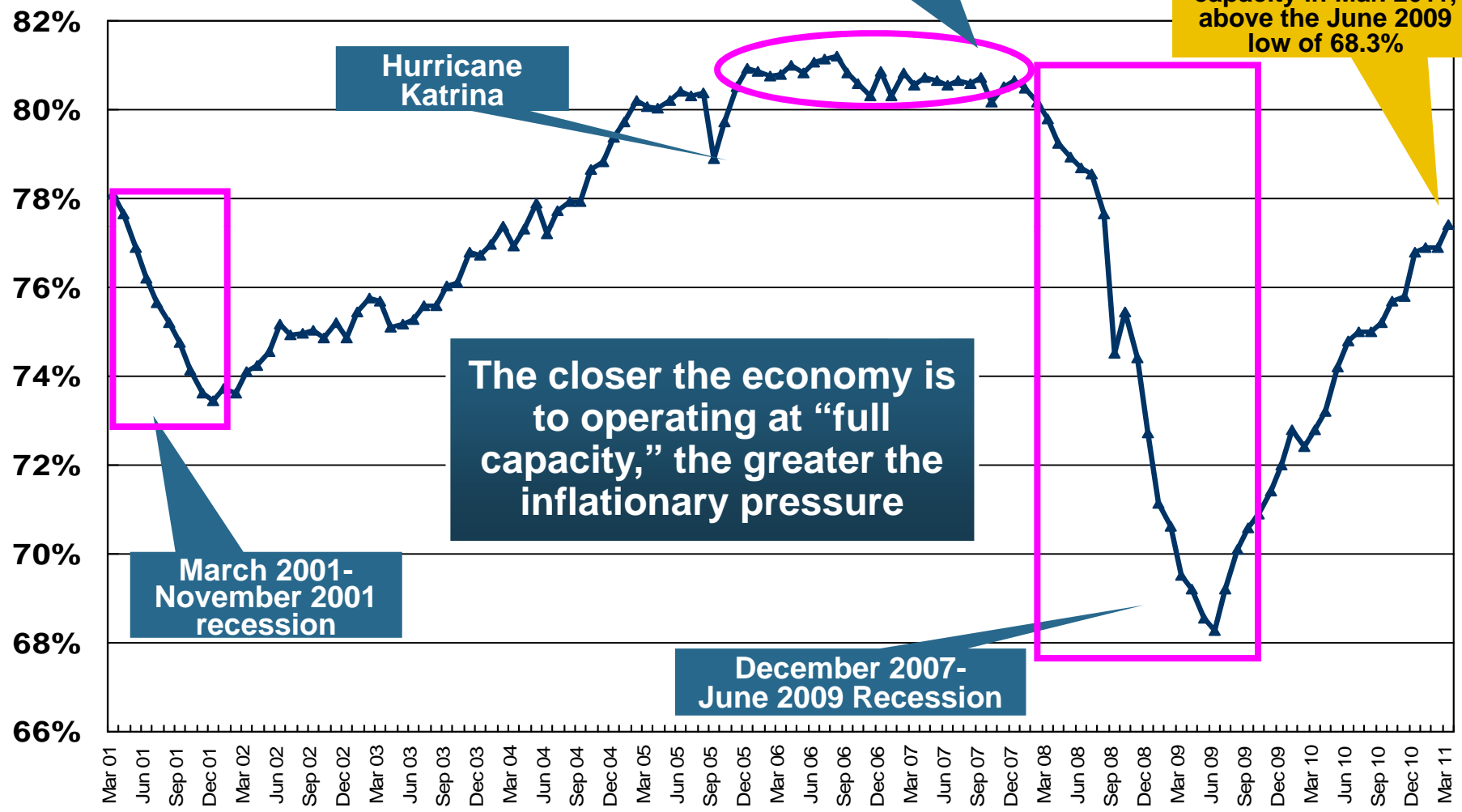
(Millions of Units)



Little Exposure Growth Likely for Homeowners Insurers Until 2013. Also Affects Commercial Insurers with Construction Risk Exposure, WC, Surety

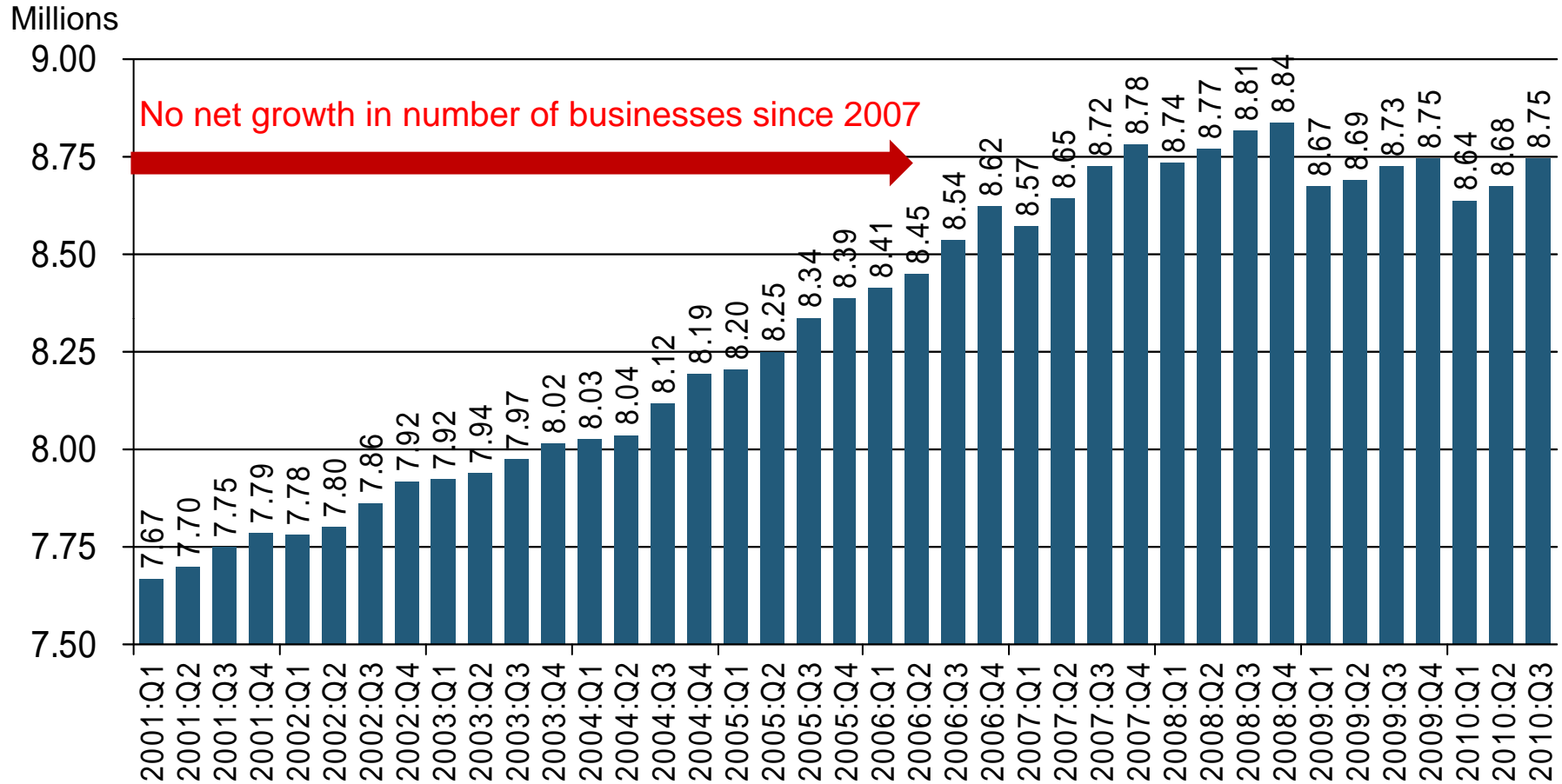
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

Percent of Industrial Capacity



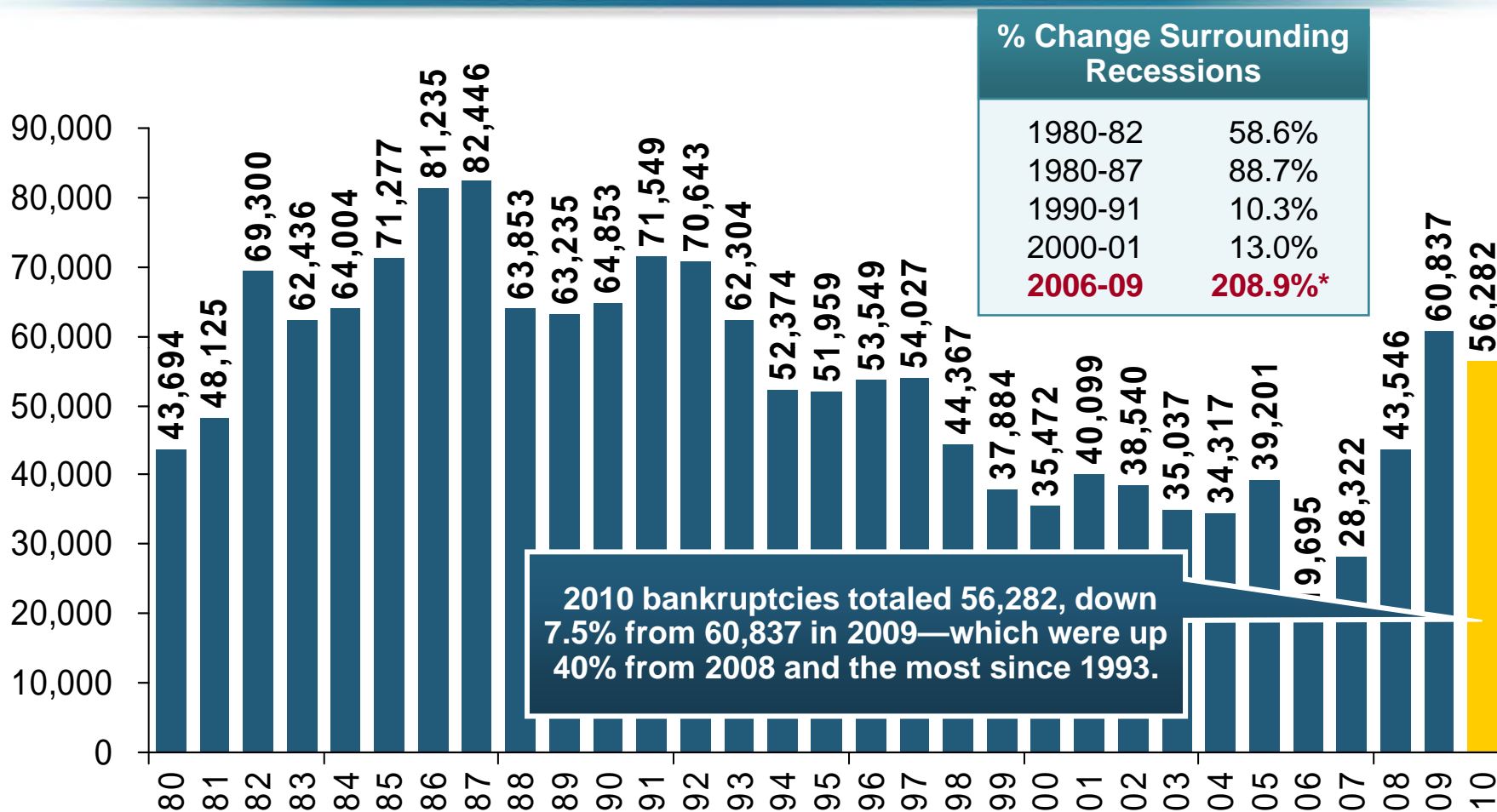
Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

Number of Private Business Establishments, 2001:Q1-2010:Q3



**In 2009:Q1 a net of 165,000 businesses disappeared.
By 2010:Q3 73,000 new ones appeared,
returning us to the level first attained three years before, in 2007:Q3.**

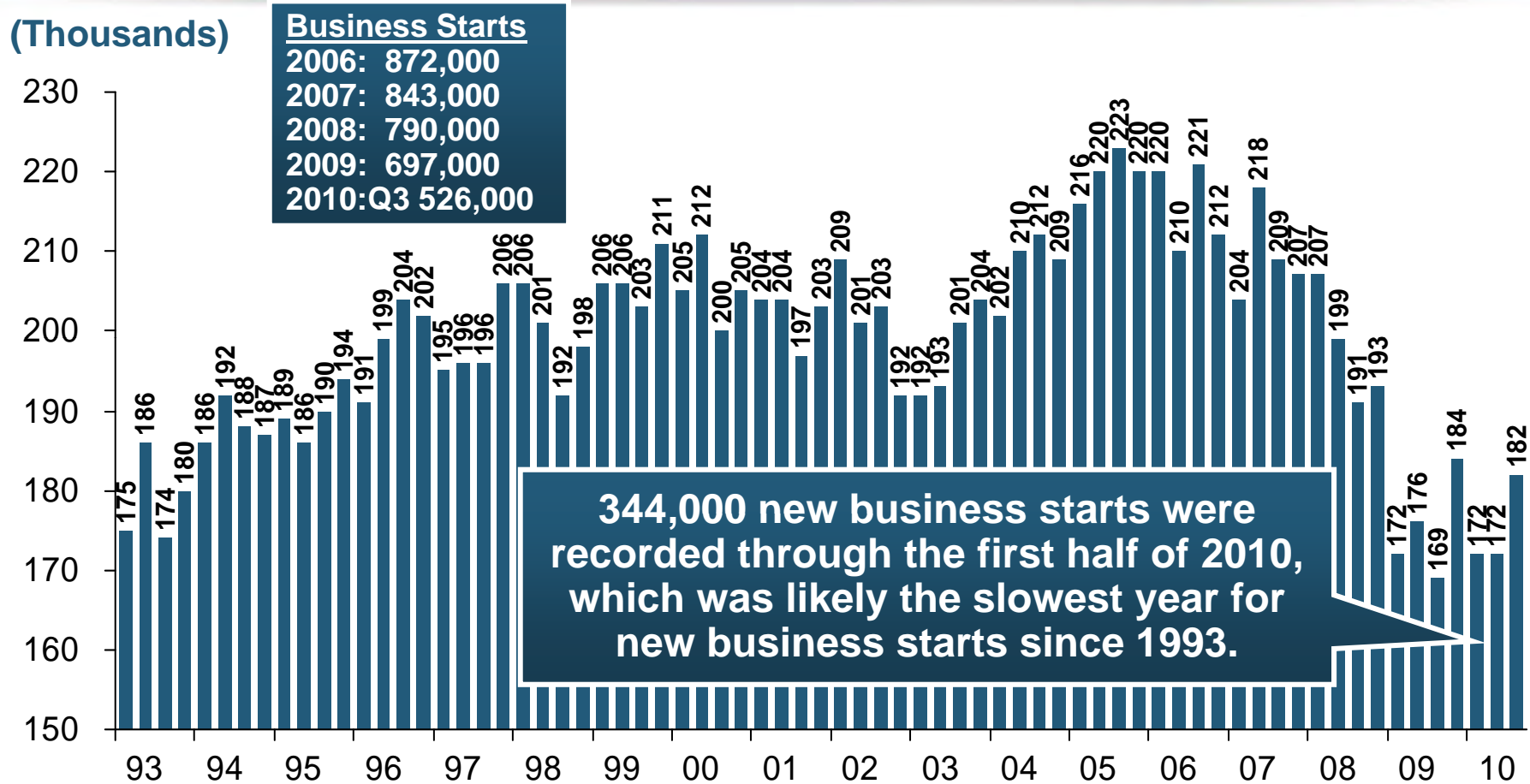
Business Bankruptcy Filings, 1980-2010



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633> ; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2010:Q3*



Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

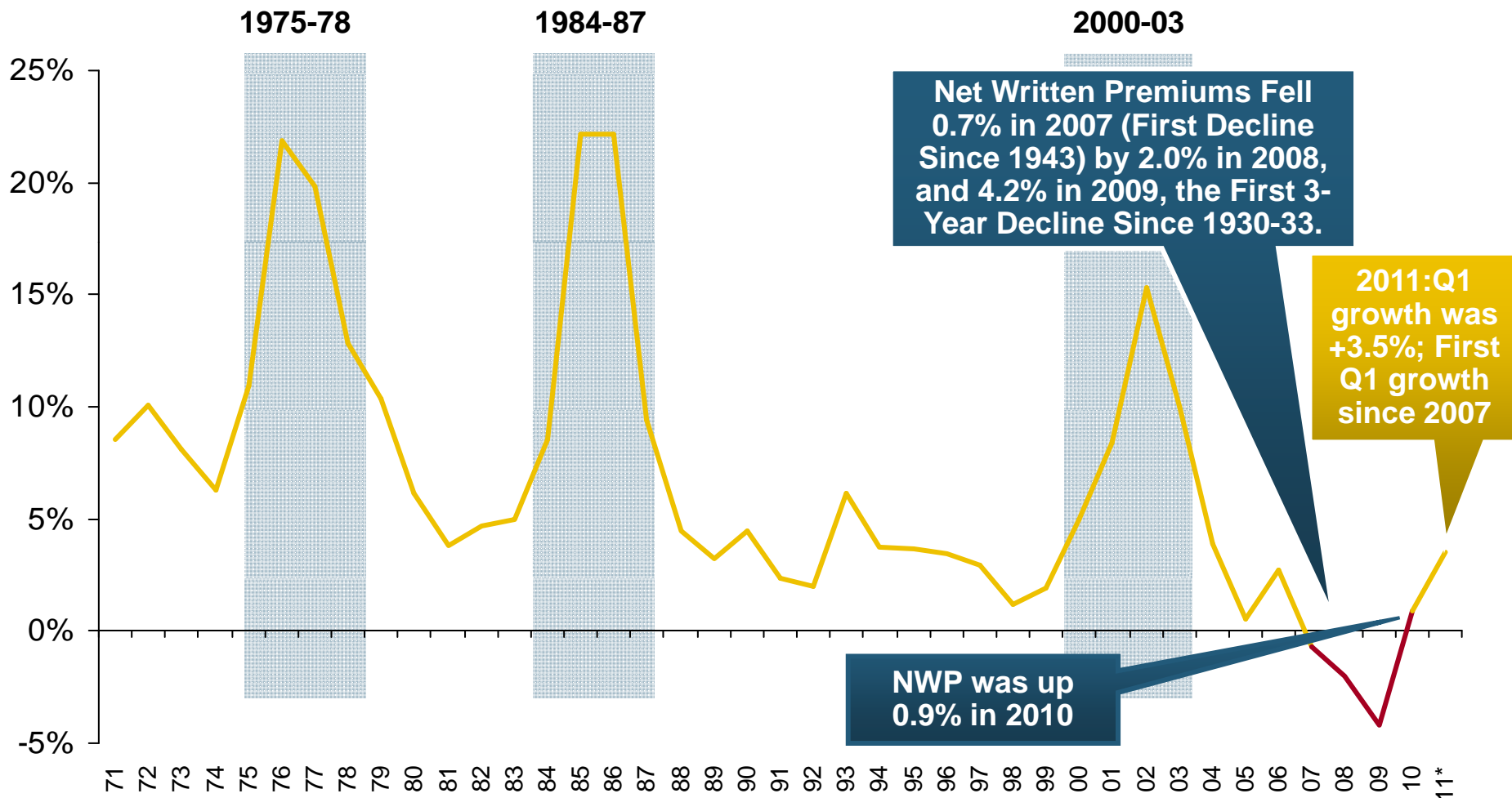
* Data through September 30, 2010 are the latest available as of May 3, 2011; Seasonally adjusted
 Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.



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

Soft Market Persisted in 2010 but Growth Returned: More in 2011?

(Percent)

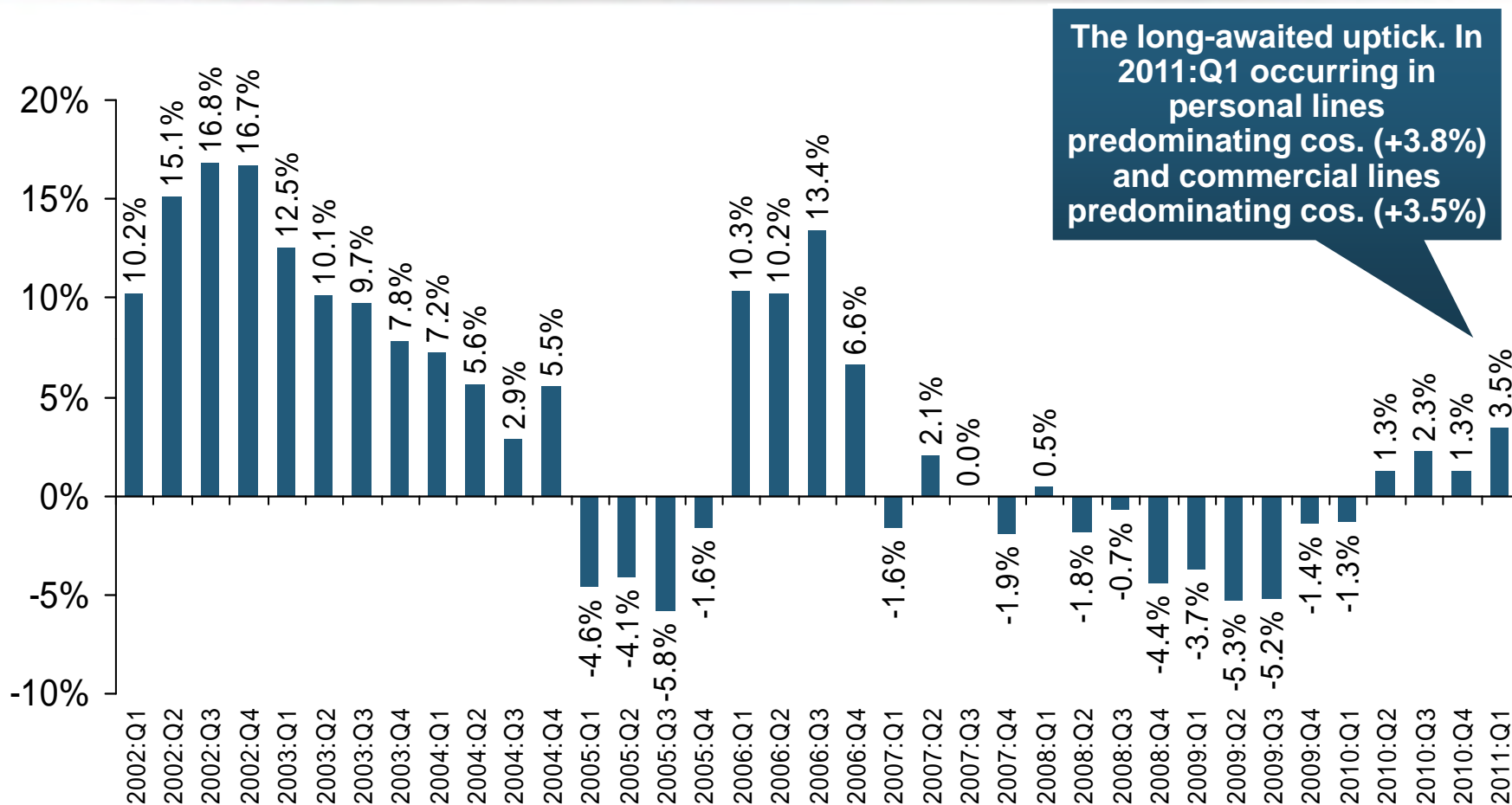


*2011 figure is an estimate based on Q1 data.

Shaded areas denote "hard market" periods

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

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

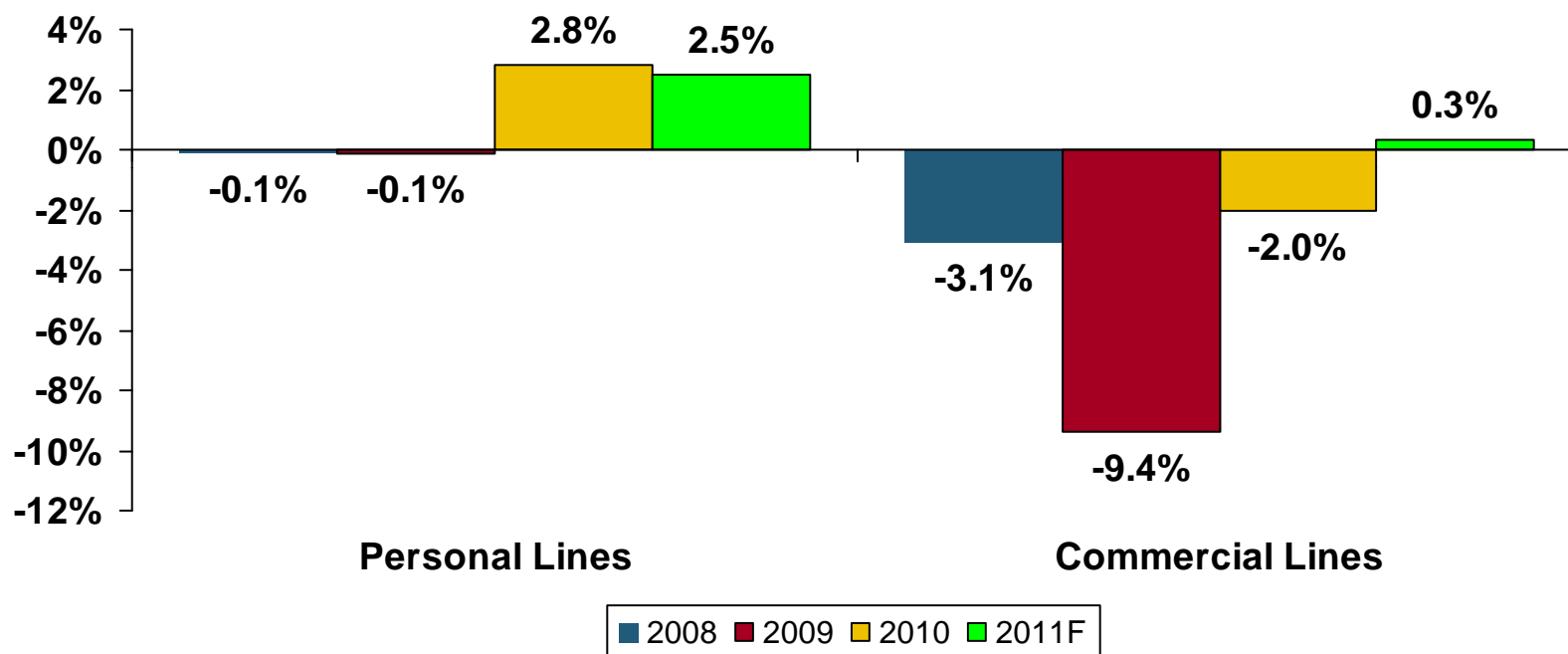
P/C Net Written Premiums by Line: 2008-2010P

Line of Business	2008	2009	2010P	2009-2010P Change
Personal Auto	\$150.0B	\$156.6B	\$159.1B	+1.6%
Homeowners	\$55.6	\$56.9	\$61.2	+7.6%
Other Liab (incl. Prod Liab)	\$42.0	\$39.1	\$38.2	-2.4%
Workers Compensation	\$33.8	\$30.3	\$29.9	-1.3%
Commercial Multi Peril	\$30.1	\$28.5	\$28.7	+0.8%
Commercial Auto	\$23.7	\$21.8	\$20.9	-4.3%
Fire & Allied Lines (incl EQ)	\$24.2	\$23.4	\$22.6	-3.4%
All Other Lines	\$67.7	\$61.9	\$61.6	-0.5%
Total P/C Industry	\$434.9B	\$418.4B	\$422.1B	+0.9

Source: All lines except WC for 2008-09, A.M. Best; Worker Comp., NCCI; 2010P data, ISO; Private carriers only.

Net Written Premium Growth by Segment: 2008-2011F

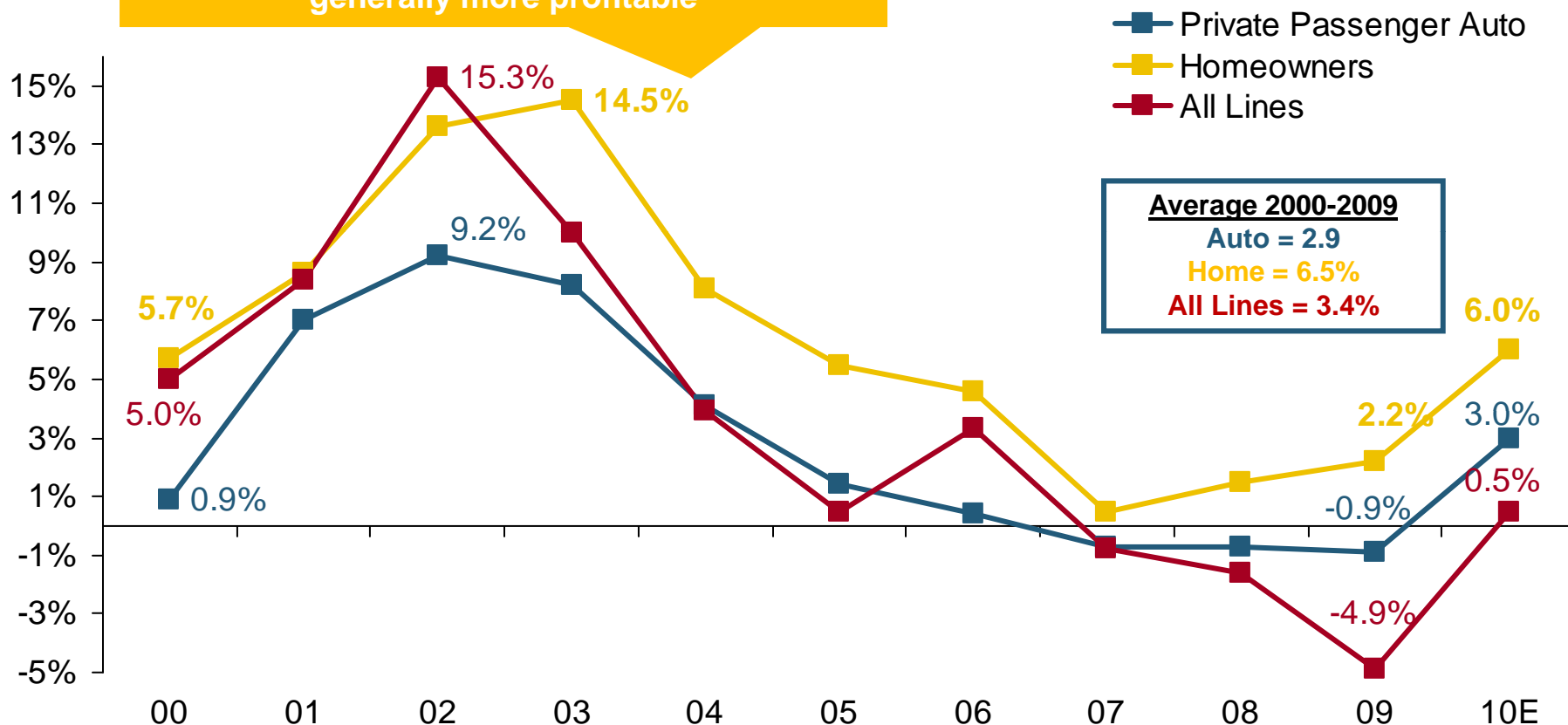
Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011



Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

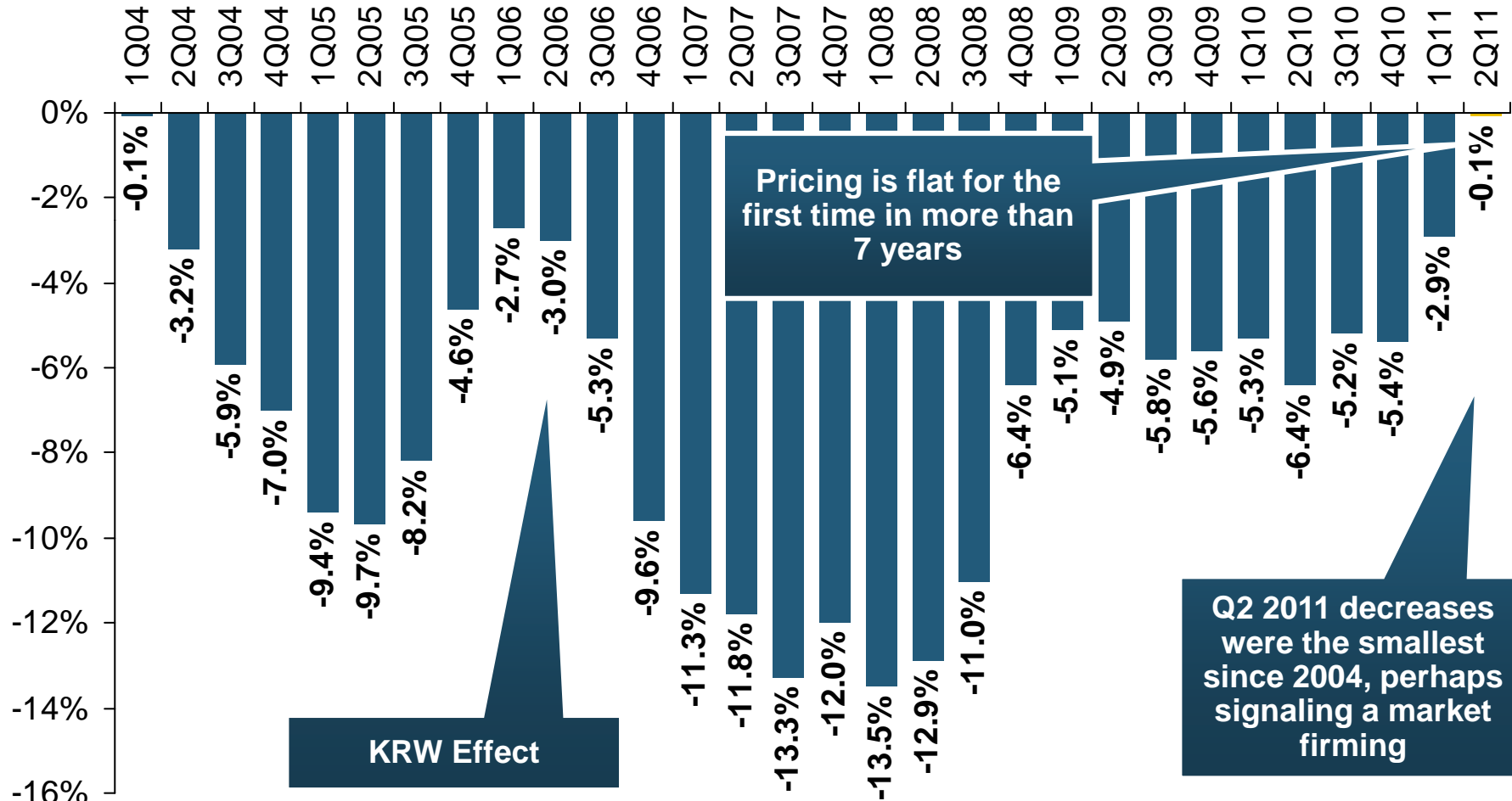
Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2010E

While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



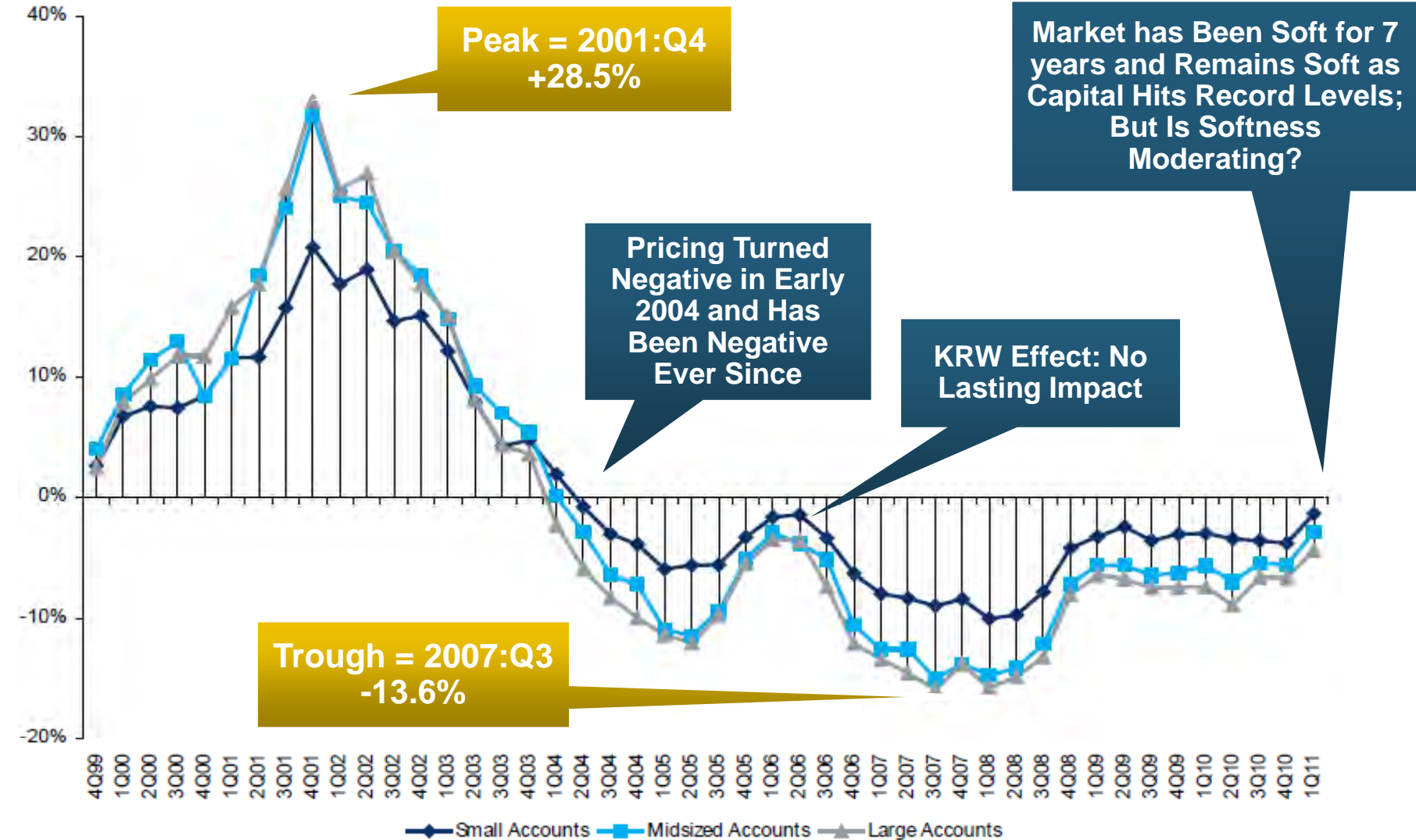
Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2011)

(Percent)



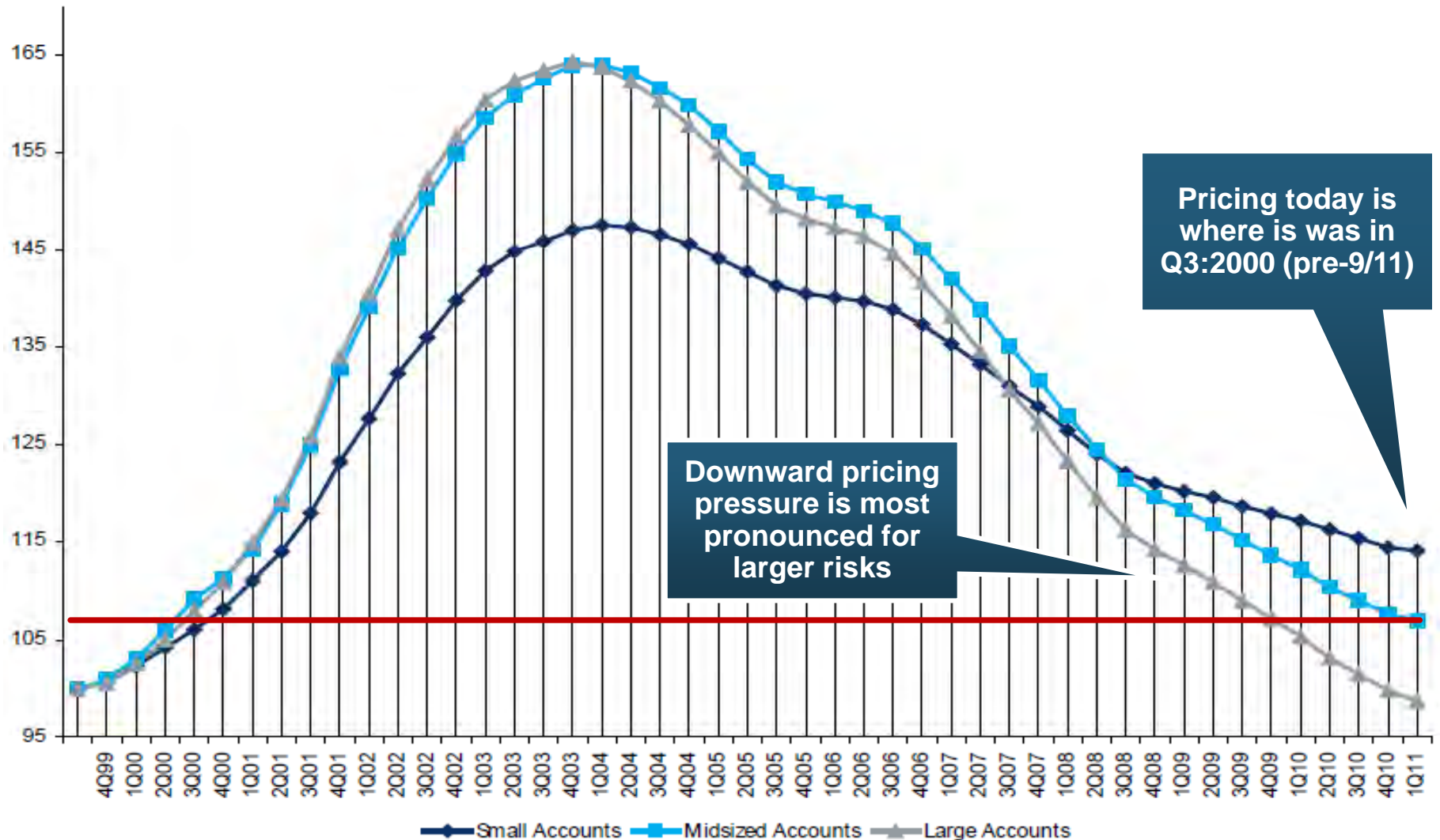
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q1

Percentage Change (%)



Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q1

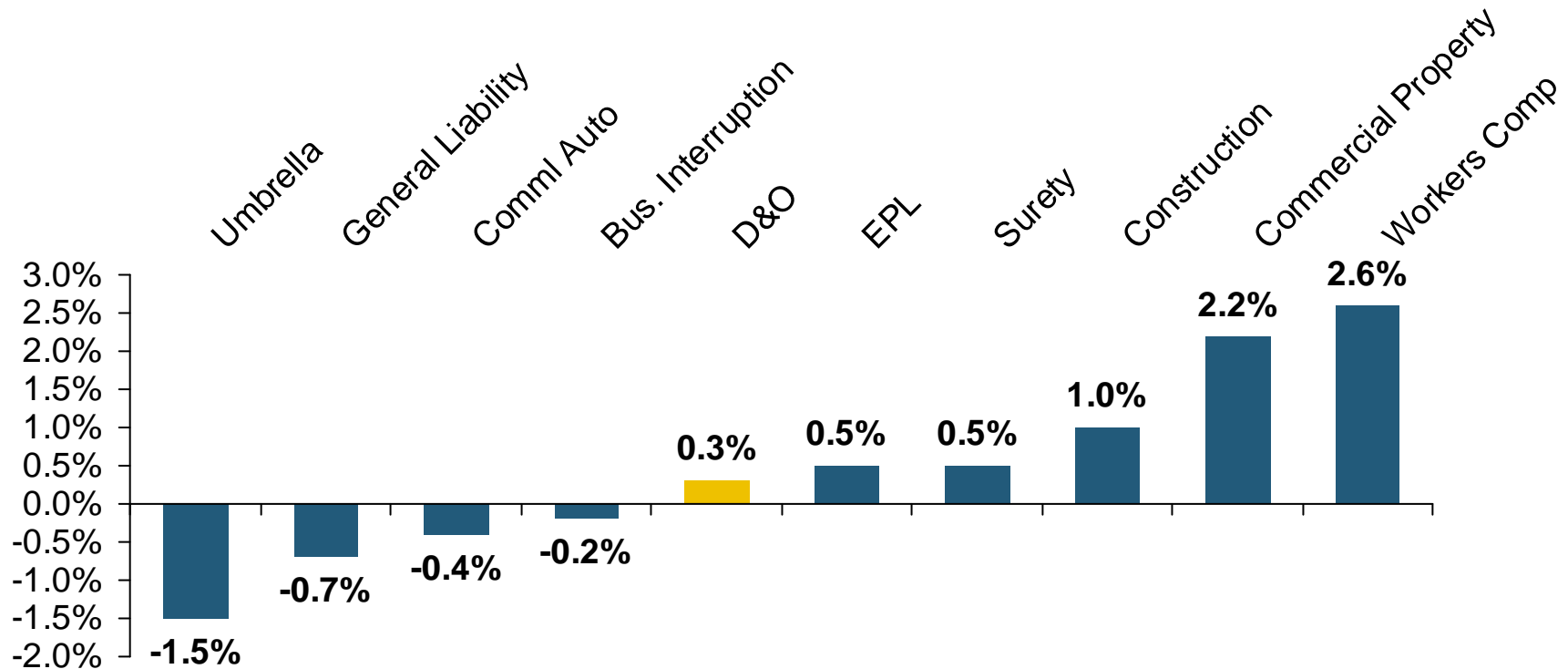
1999:Q4 = 100



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

Change in Commercial Rate Renewals, by Line: 2011:Q2

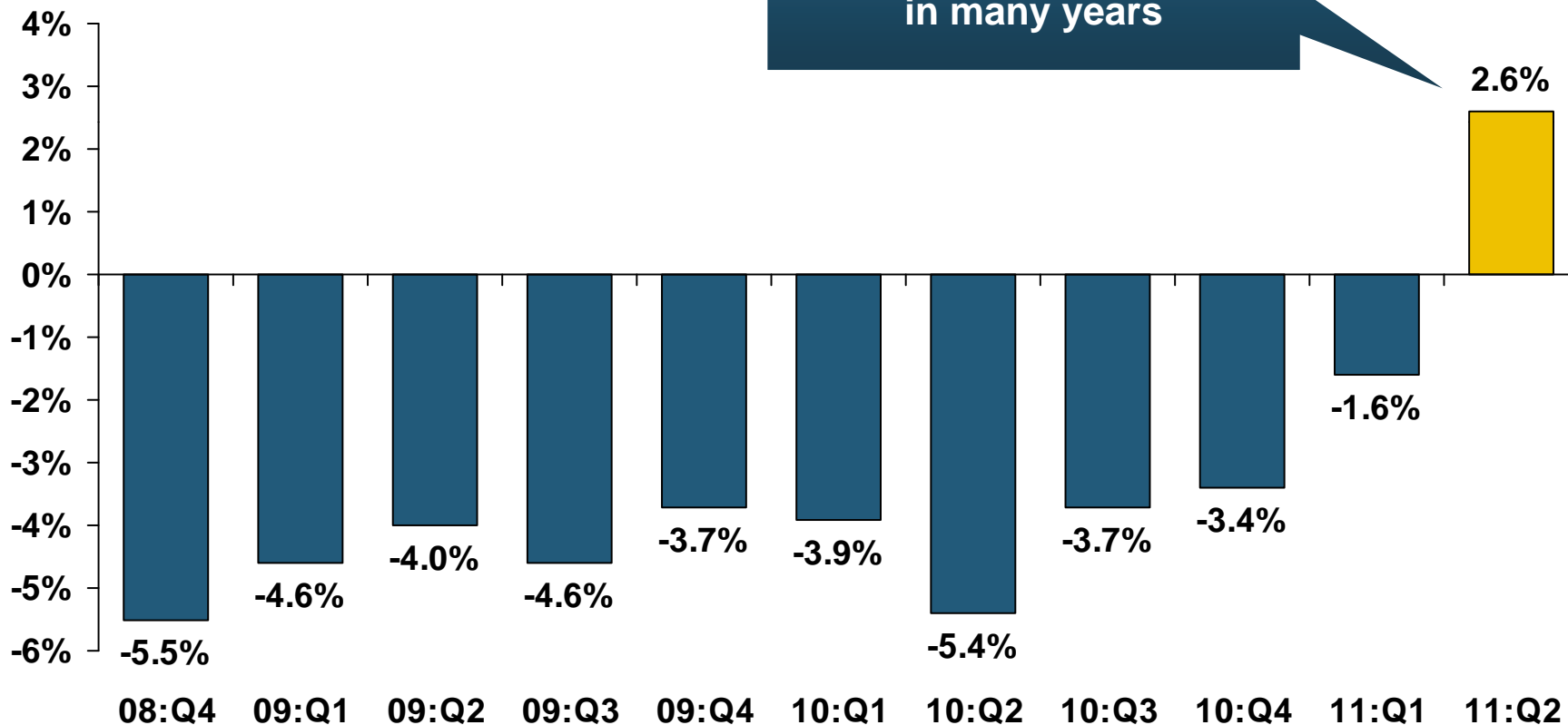
Percentage Change (%)



Major Commercial Lines Renewed Mixed in Q2:2011, With Workers Up More than Any Other Line

Workers Comp Rate Changes, 2008:Q4 – 2011:Q2

(Percent
Change)

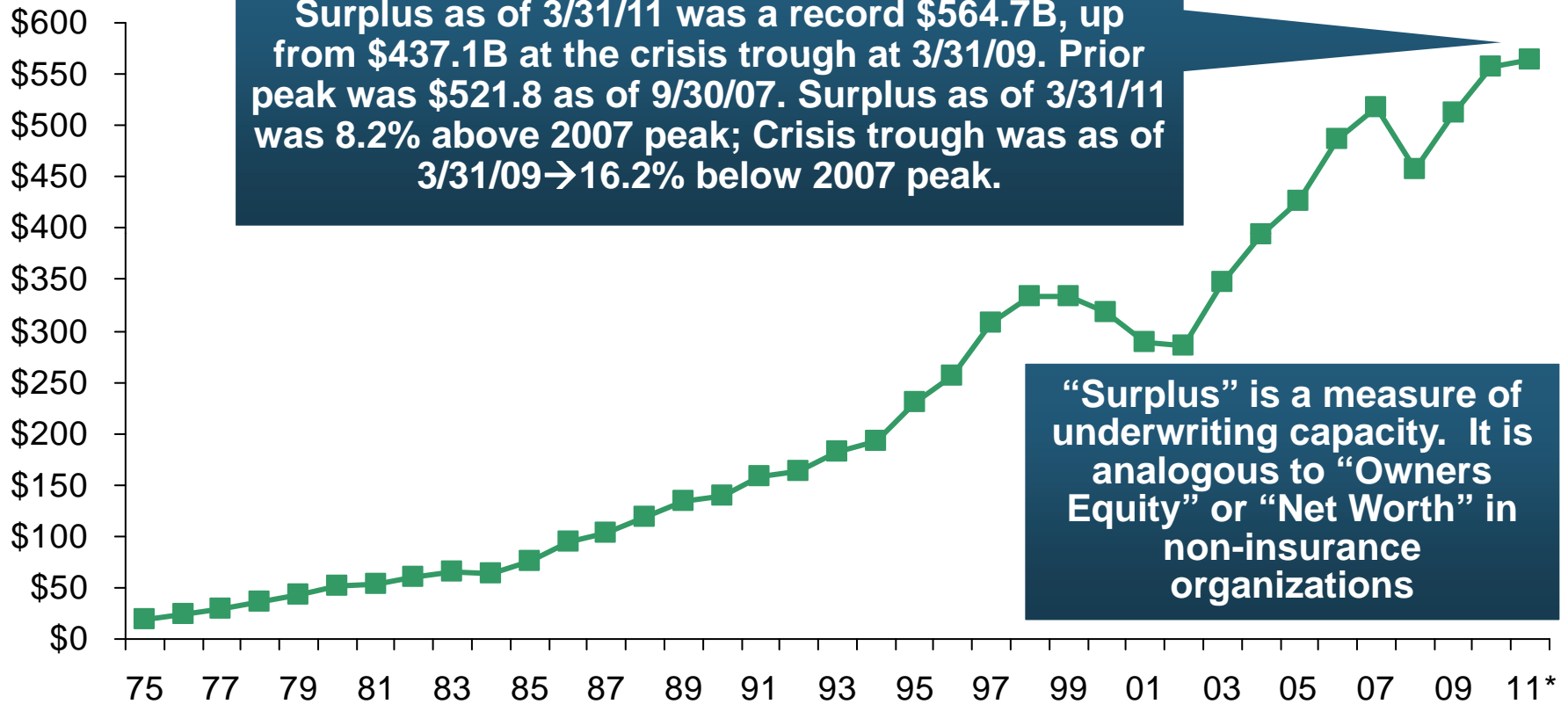


Capital/Policyholder Surplus (US)

**Shrinkage, but Not Enough
to Trigger Hard Market**

US Policyholder Surplus: 1975–2011*

(\$ Billions)

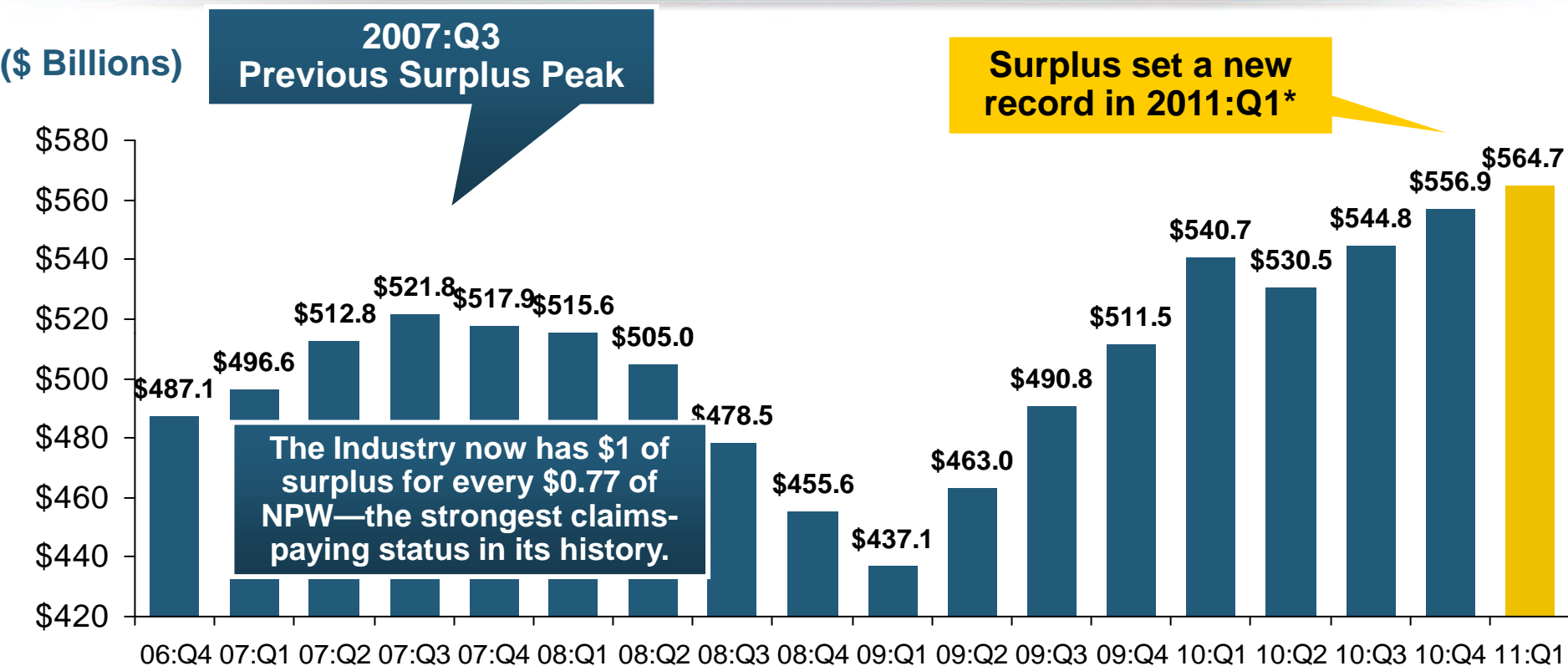


The Premium-to-Surplus Ratio Stood at \$0.77:\$1 as of 3/31/11, A Near Record Low (at Least in Recent History)**

* As of 3/31/11.

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

Policyholder Surplus, 2006:Q4–2011:Q1



Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -\$84.7B (-16.2%)

09:Q2: -\$58.8B (-11.2%)

09:Q3: -\$31.0B (-5.9%)

09:Q4: -\$10.3B (-2.0%)

10:Q1: +\$18.9B (+3.6%)

10:Q2: +\$8.7B (+1.7%)

10:Q3: +\$23.0B (+4.4%)

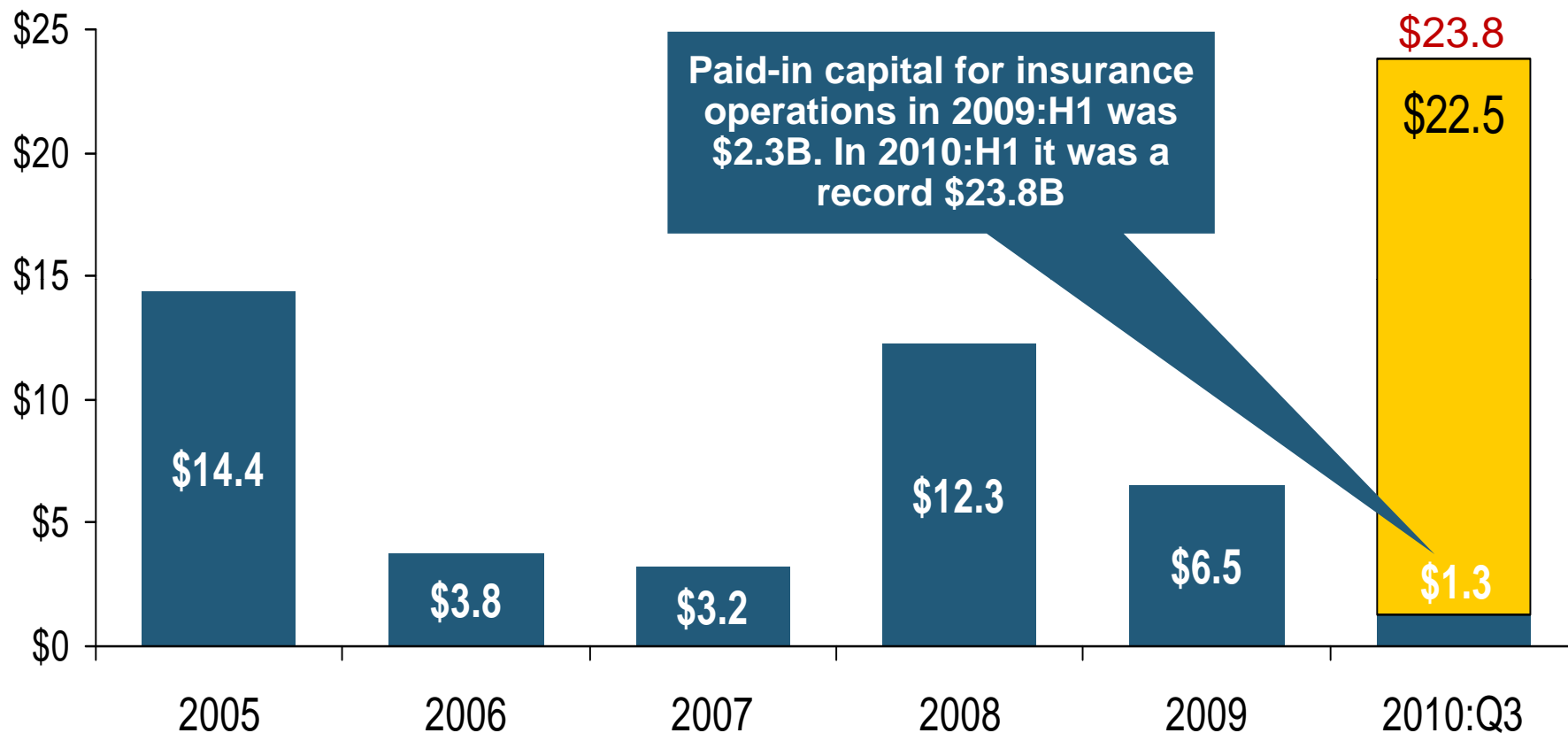
10:Q4: +\$35.1B (+6.7%)

11:Q1: +\$42.9B (+8.2%)

*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Paid-in Capital, 2005–2010:Q3

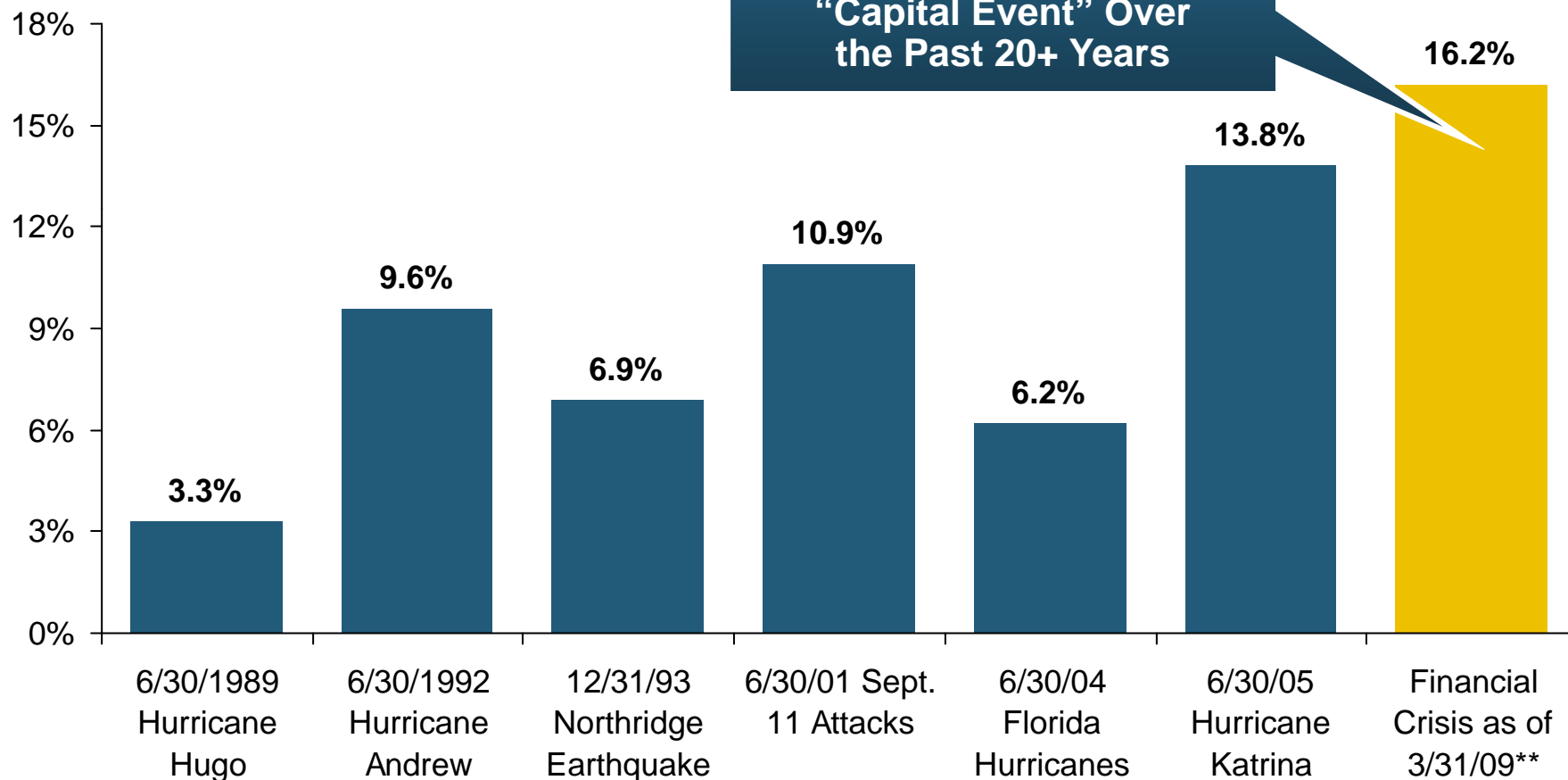
(\$ Billions)



In 2010:Q3 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*

(Percent)



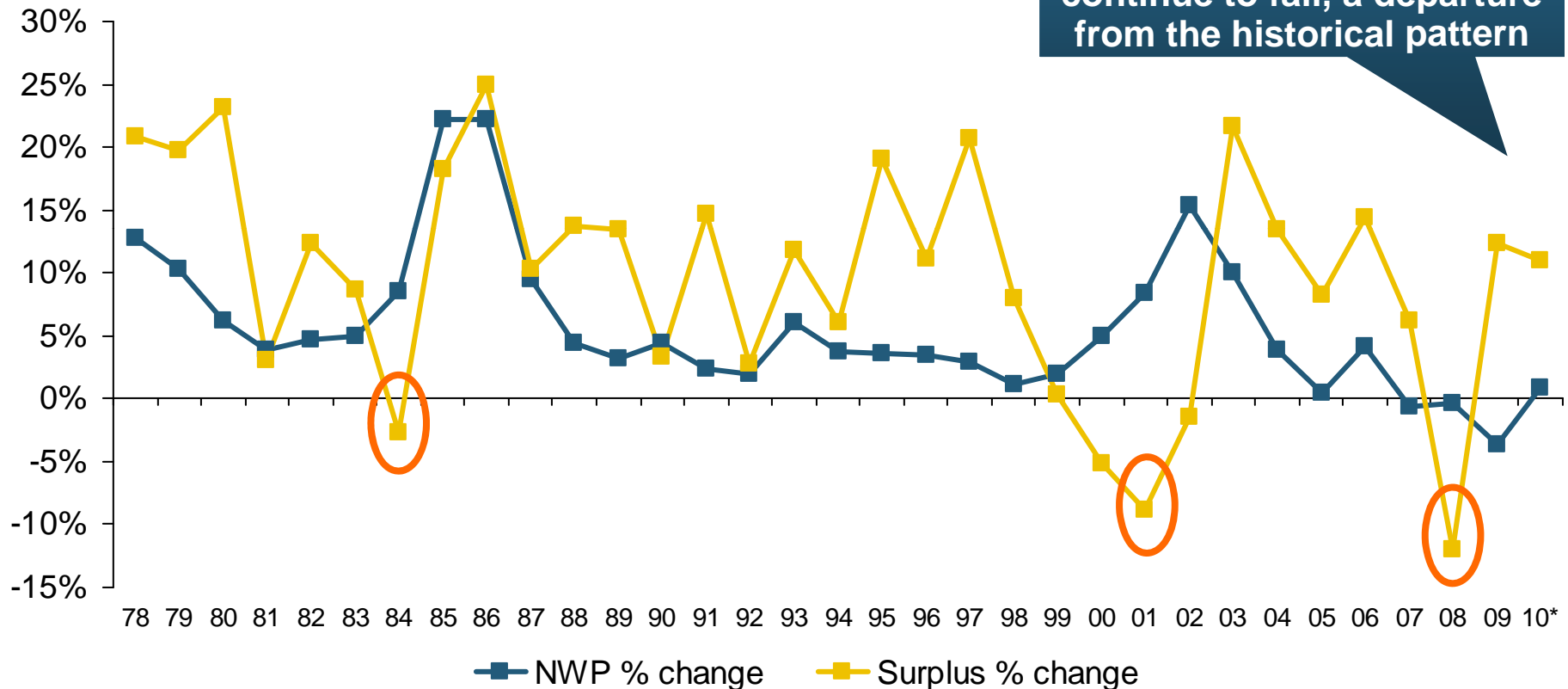
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus “Growth” is Negative*

(Percent)



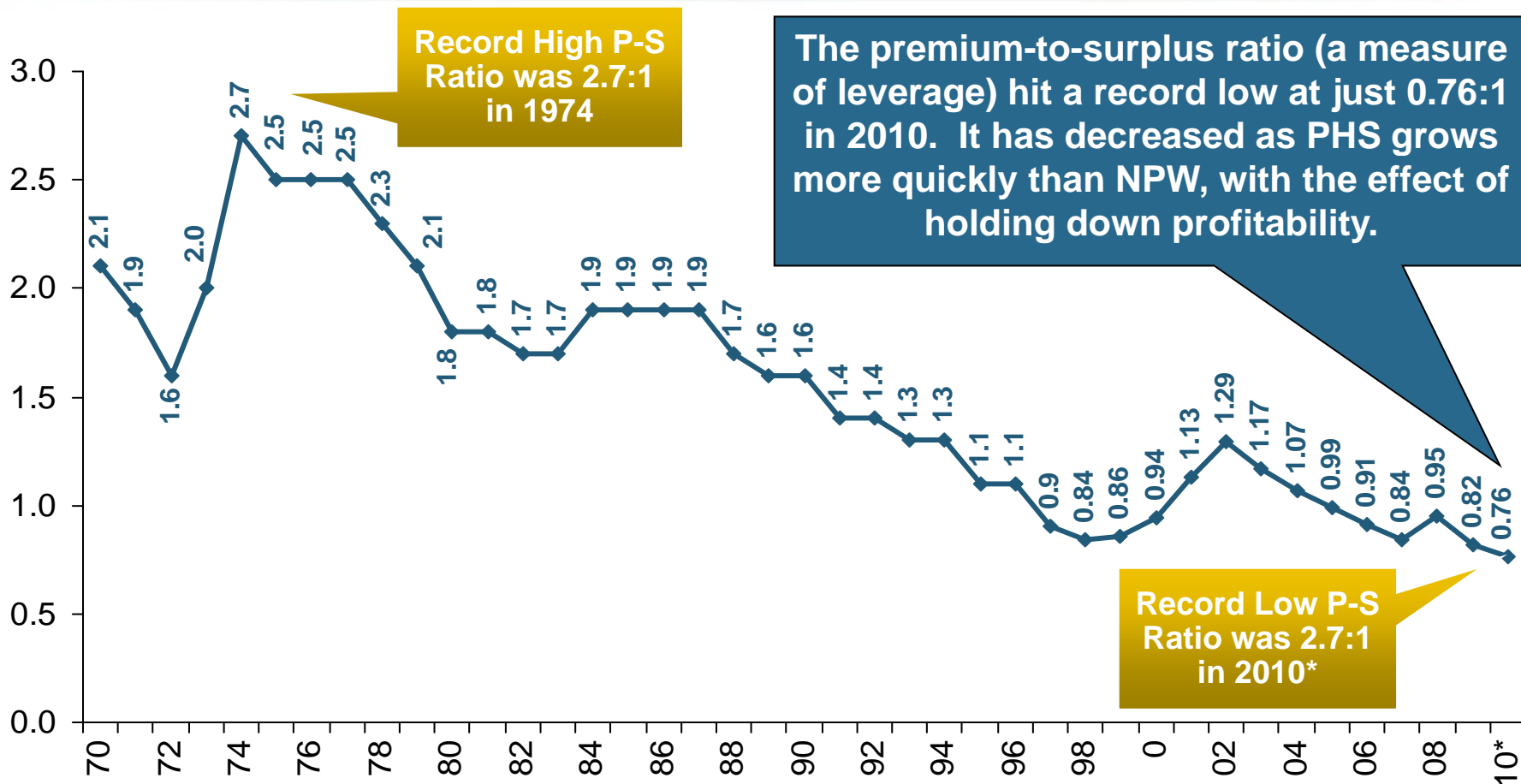
Surplus growth is now positive but premiums continue to fall, a departure from the historical pattern

Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2010 NWP and Surplus figures are % changes as of Q3:10 vs Q3:09.

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

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2010*



Record High P-S Ratio was 2.7:1 in 1974

The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 in 2010*

The Premium-to-Surplus Ratio in 2010 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.76 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.

*2010 data are as of 12/31/10.

Sources: Insurance Information Institute calculations from A.M. Best data.

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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