



Workers Compensation: *Trends, Challenges and Opportunities*

**Charleston, SC
April 14, 2015**

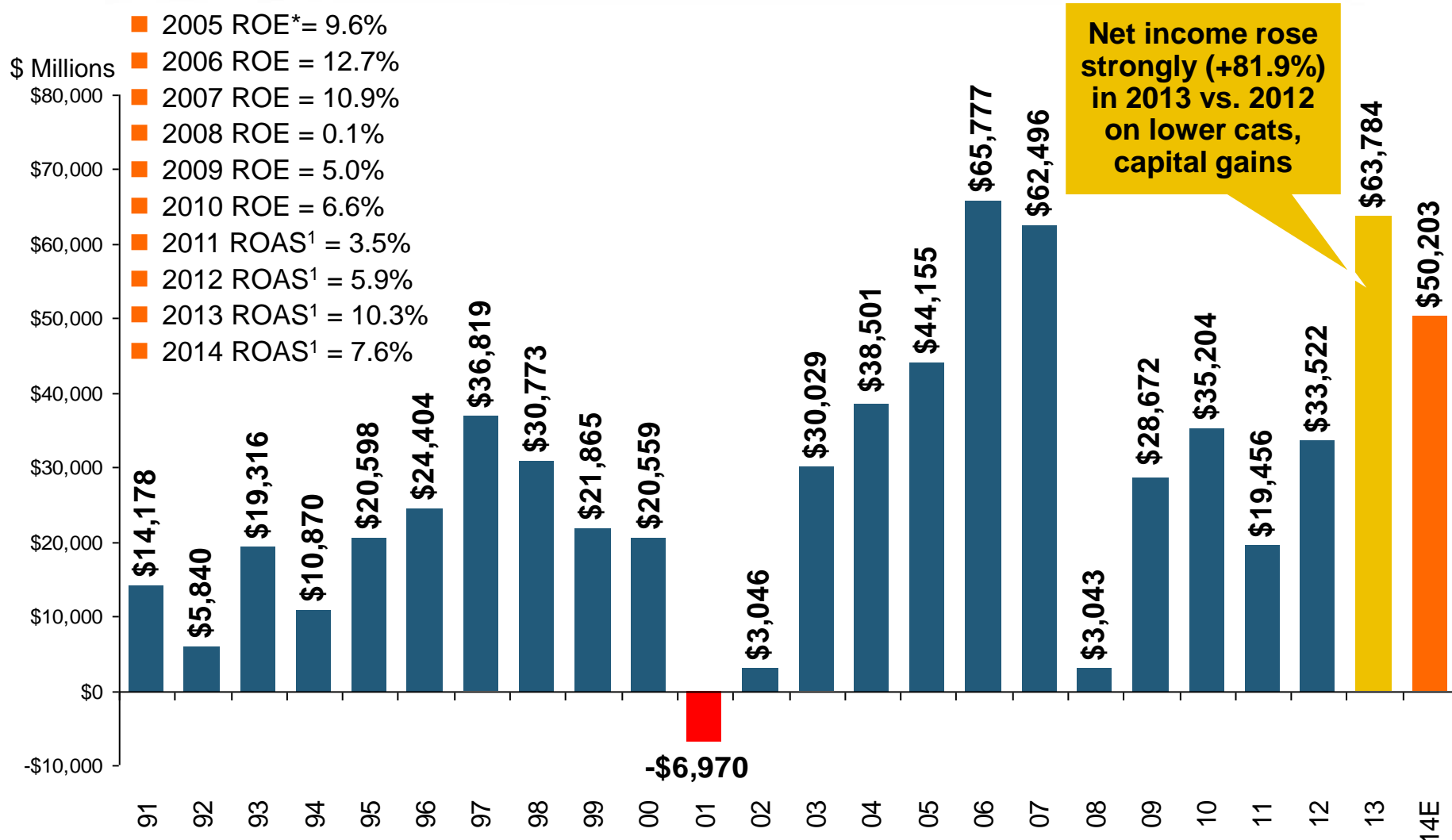
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Insurance Industry: ***Financial Update & Outlook***

2014 Was a Reasonably Good Year
2015: A Repeat of 2014?

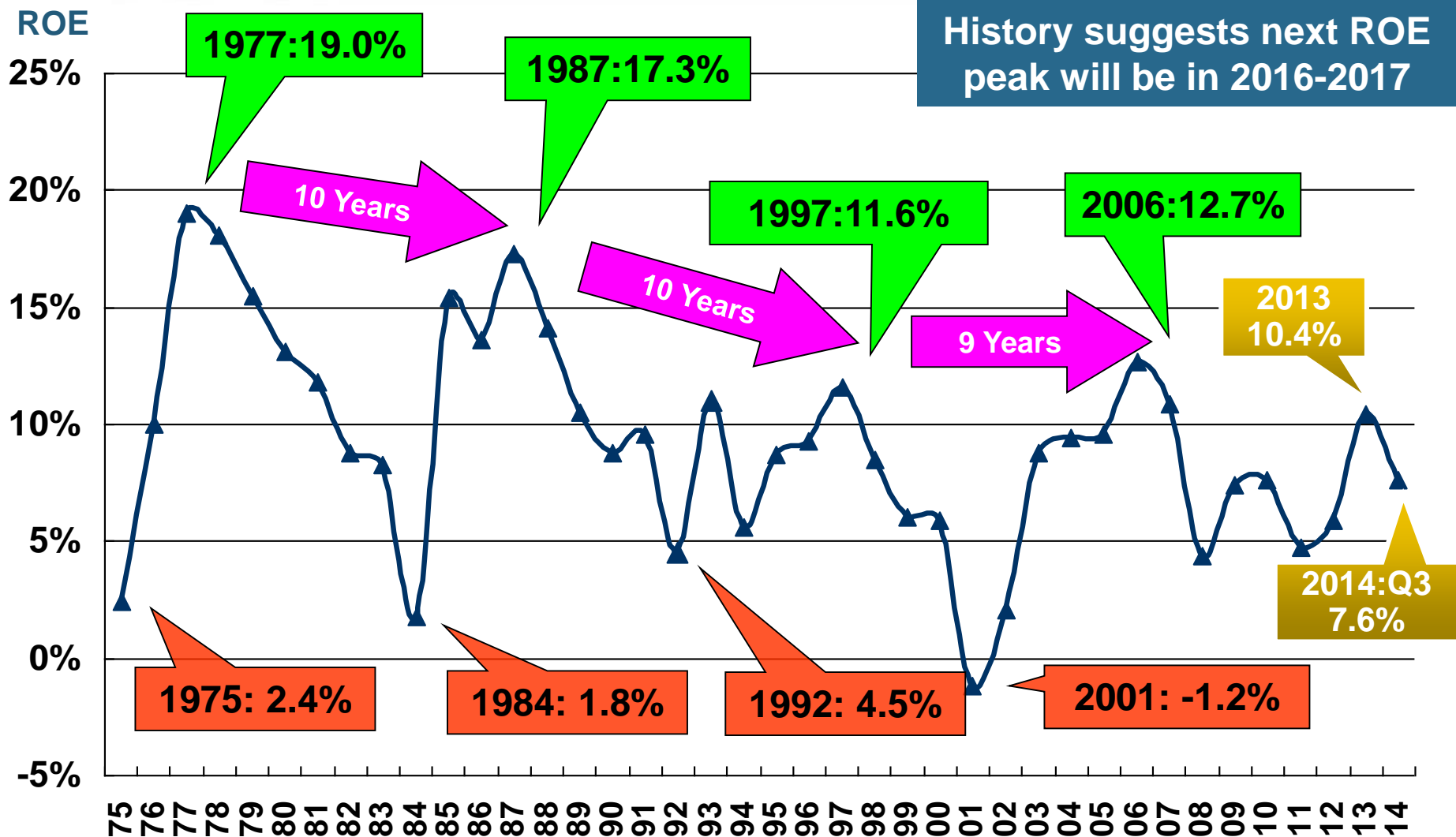
P/C Industry Net Income After Taxes 1991–2014E



• ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS through 2014:Q2, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

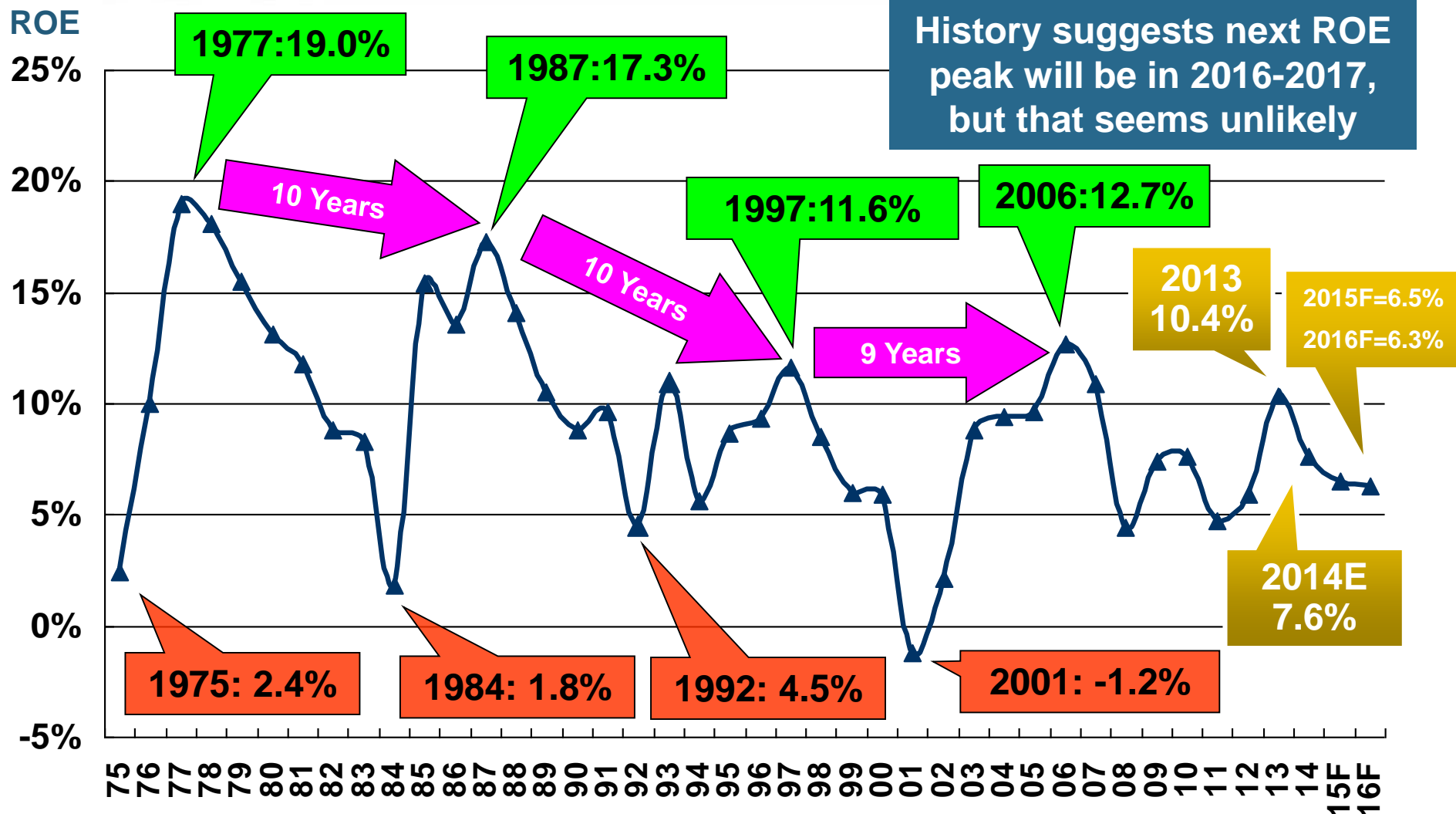
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:Q3*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

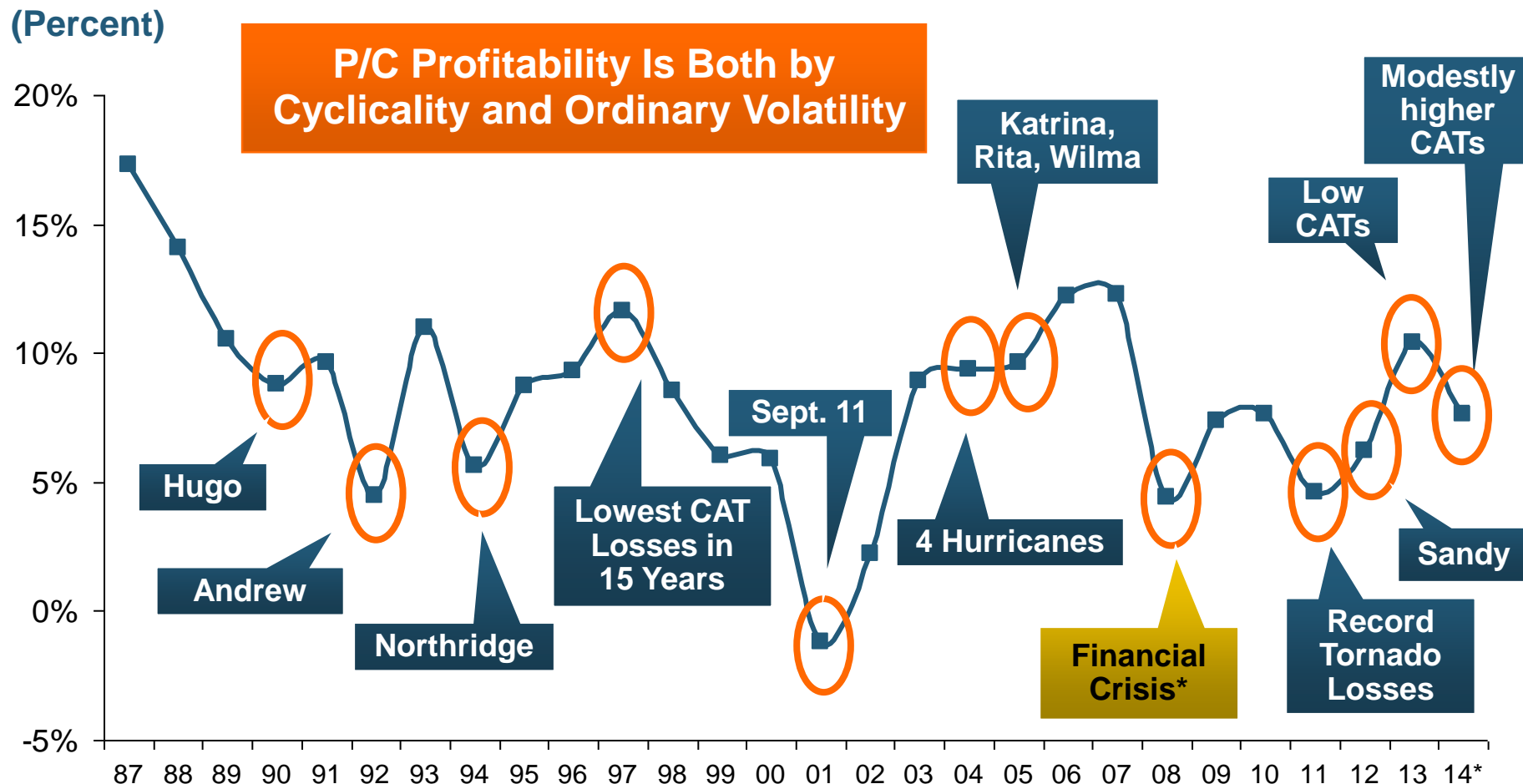
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

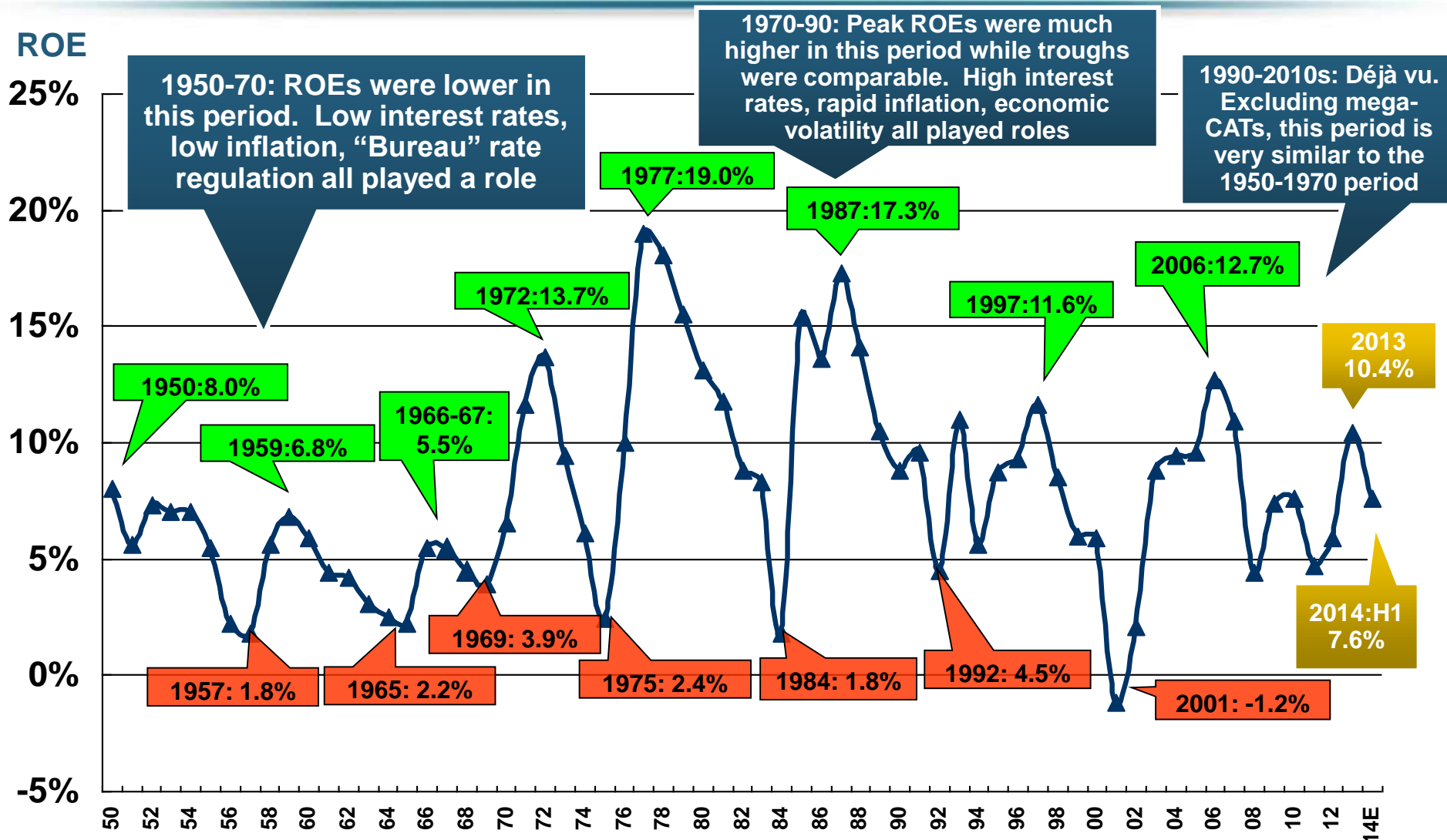
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

ROE: Property/Casualty Insurance by Major Event, 1987–2014E



* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through Q3:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

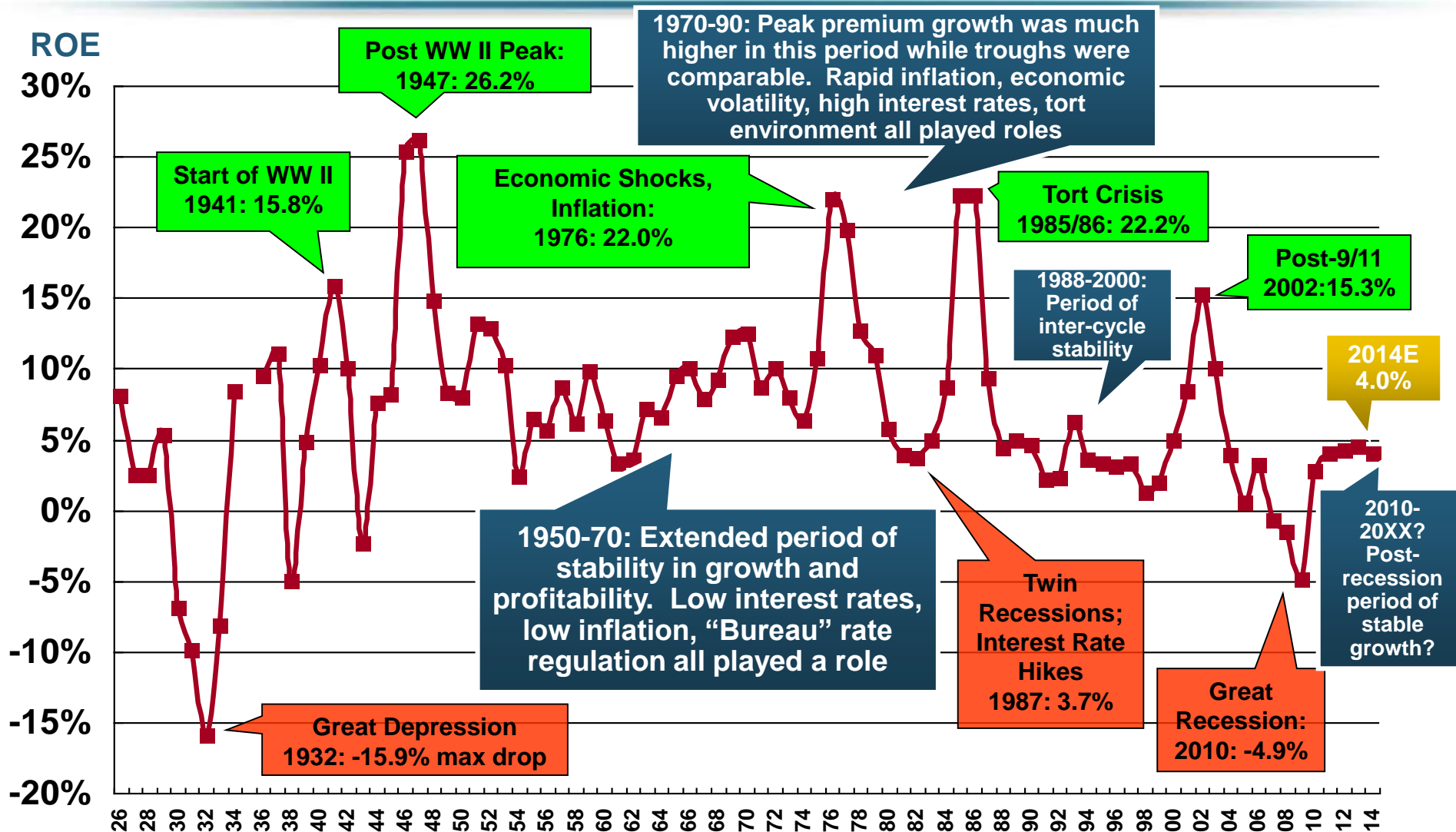
Back to the Future: Profitability Peaks & Troughs in the P/C Insurance Industry, 1950 – 2014*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers. 2014 figure is through Q3.

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

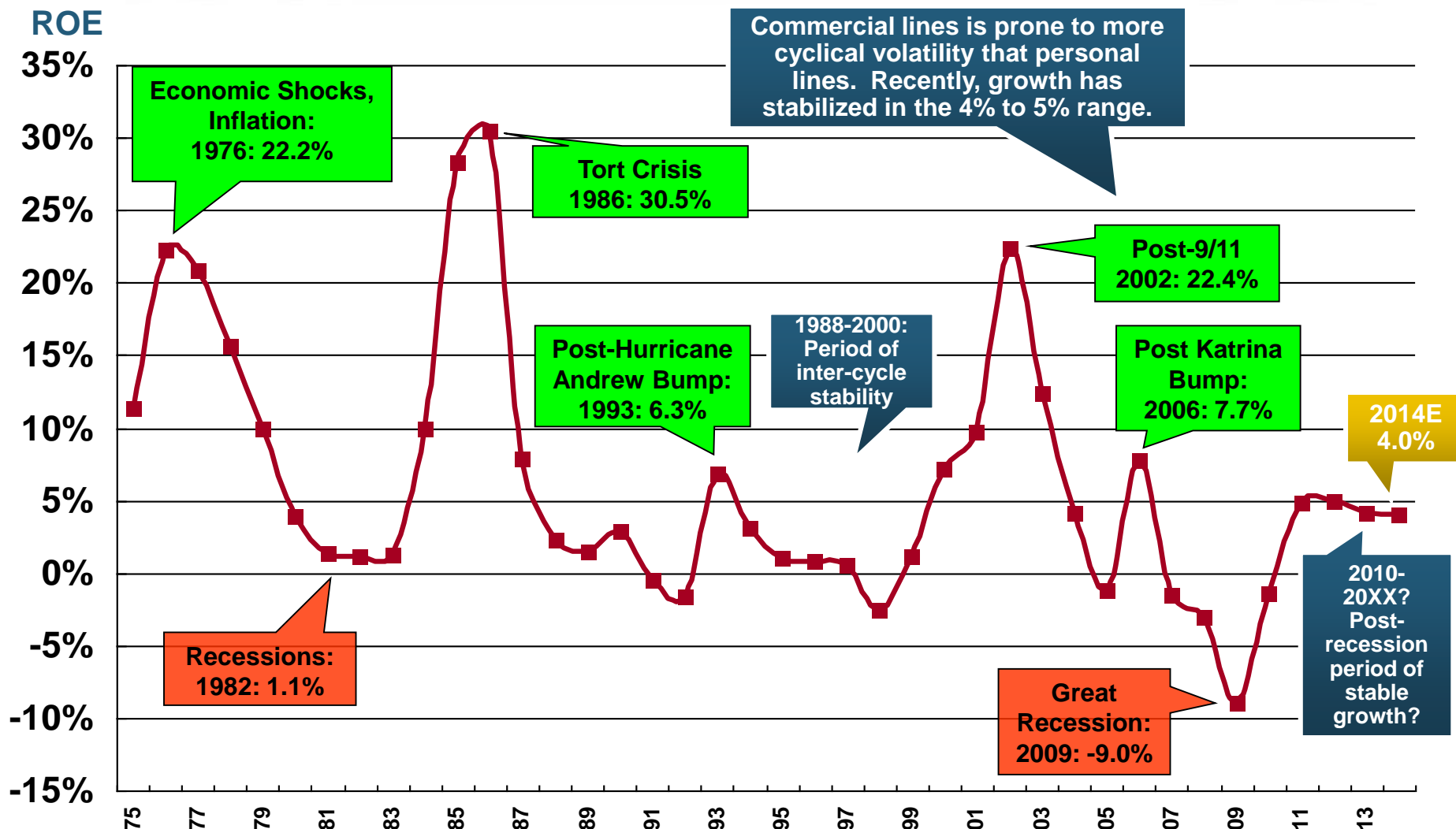
NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2014E



Note: Data through 1934 are based on stock companies only. Data include state funds beginning in 1998.

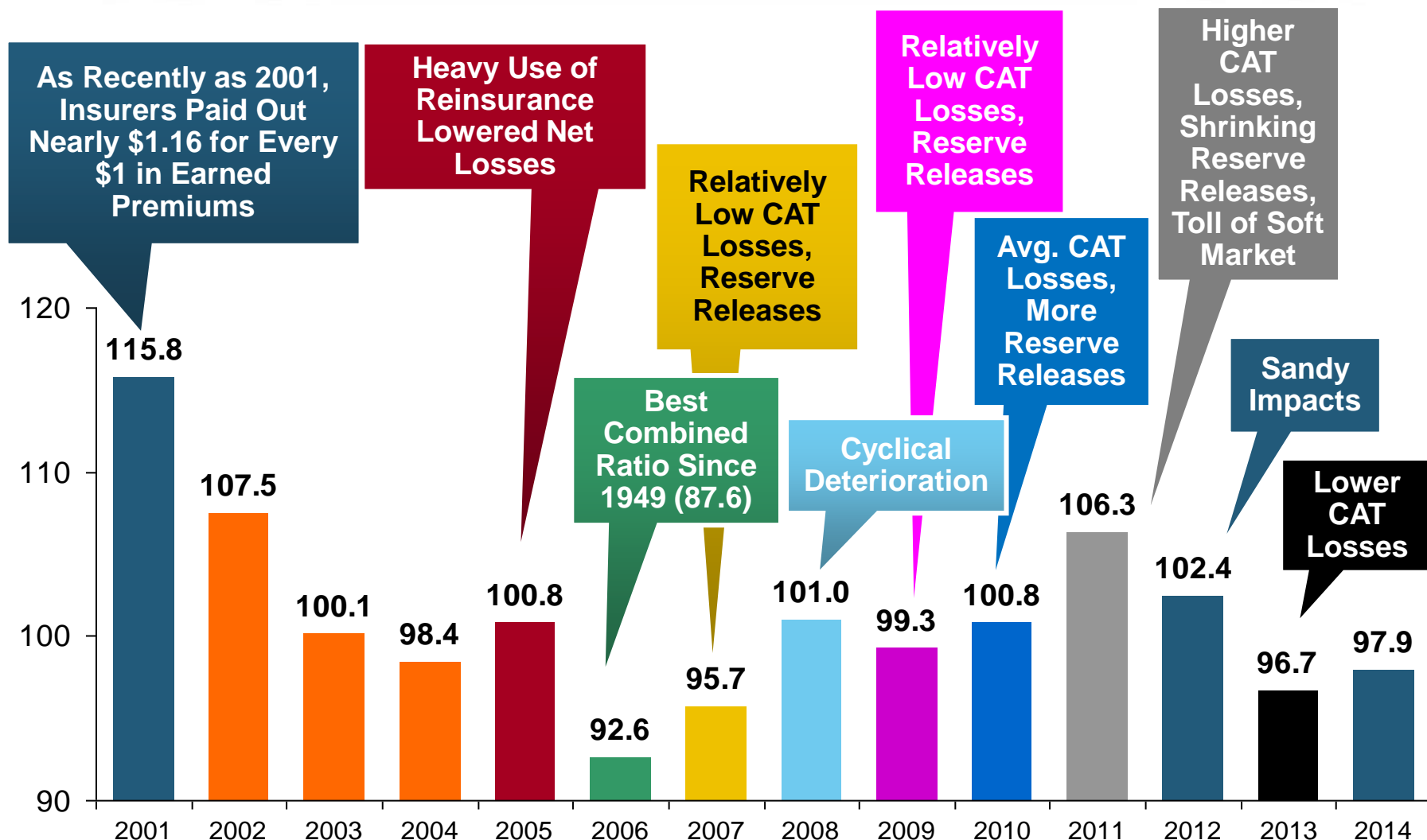
Source: A.M. Best; Insurance Information Institute.

Commercial Lines NPW Premium Growth: 1975 – 2014E



Note: Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2014:Q3*



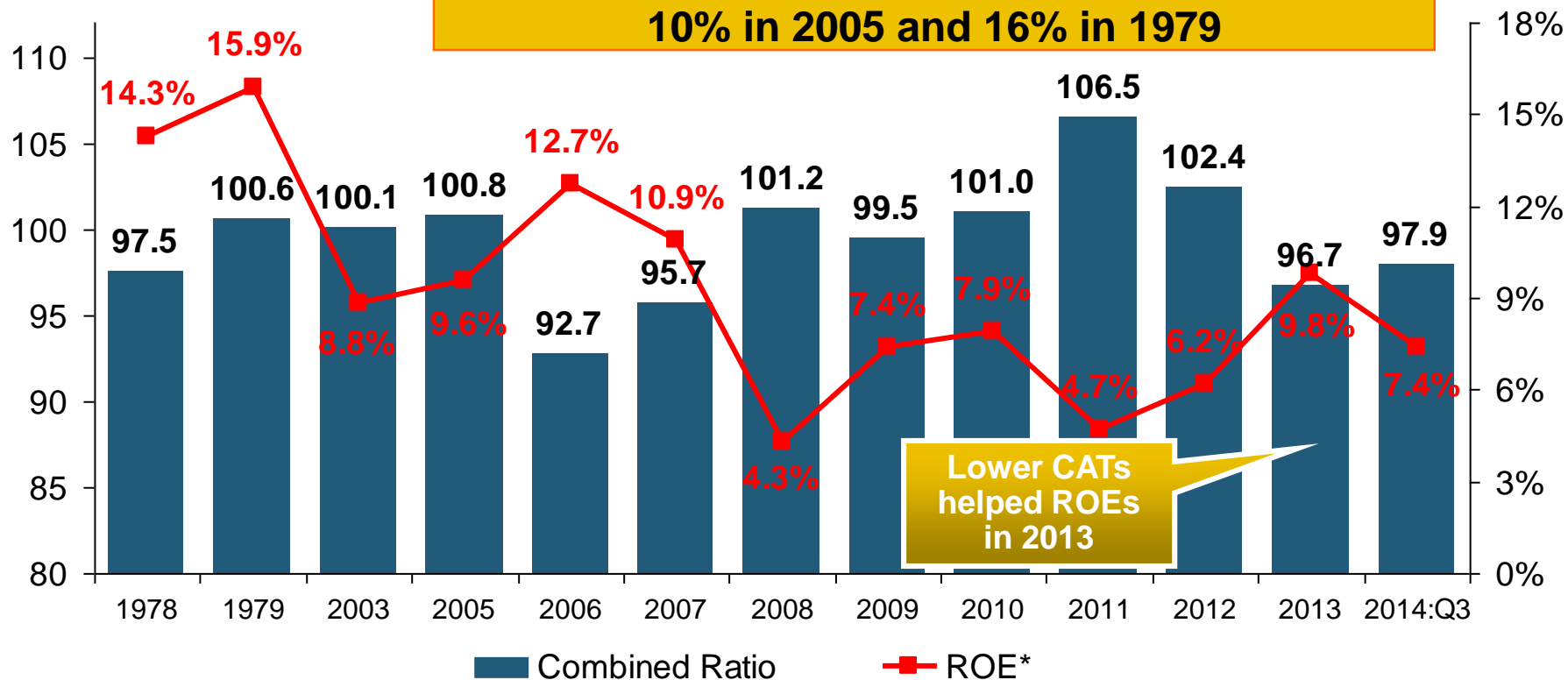
* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013:= 96.1; 2014:9M = 97.7.

Sources: A.M. Best, ISO.

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

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012/13, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979



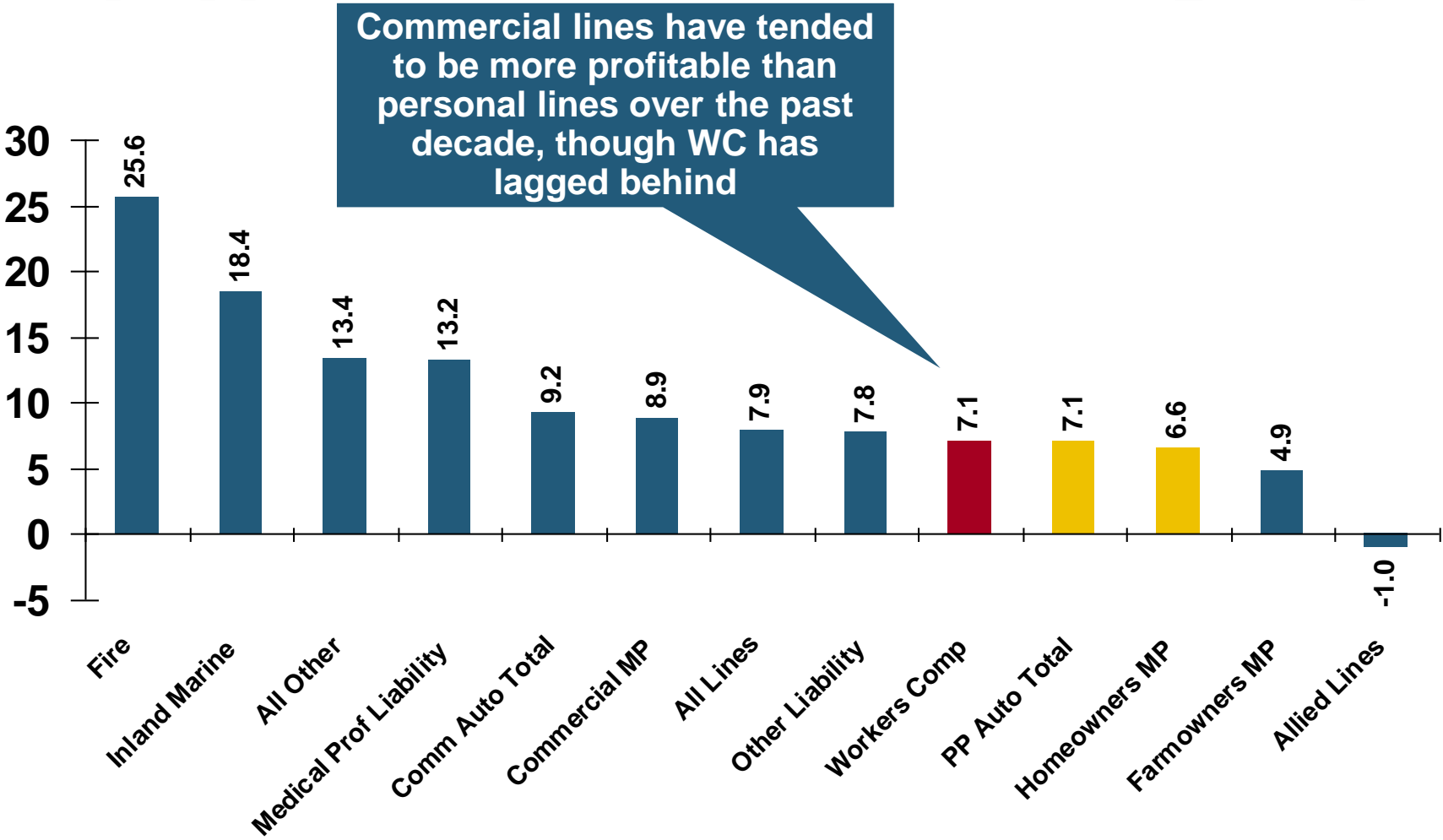
Lower CATs helped ROEs in 2013

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

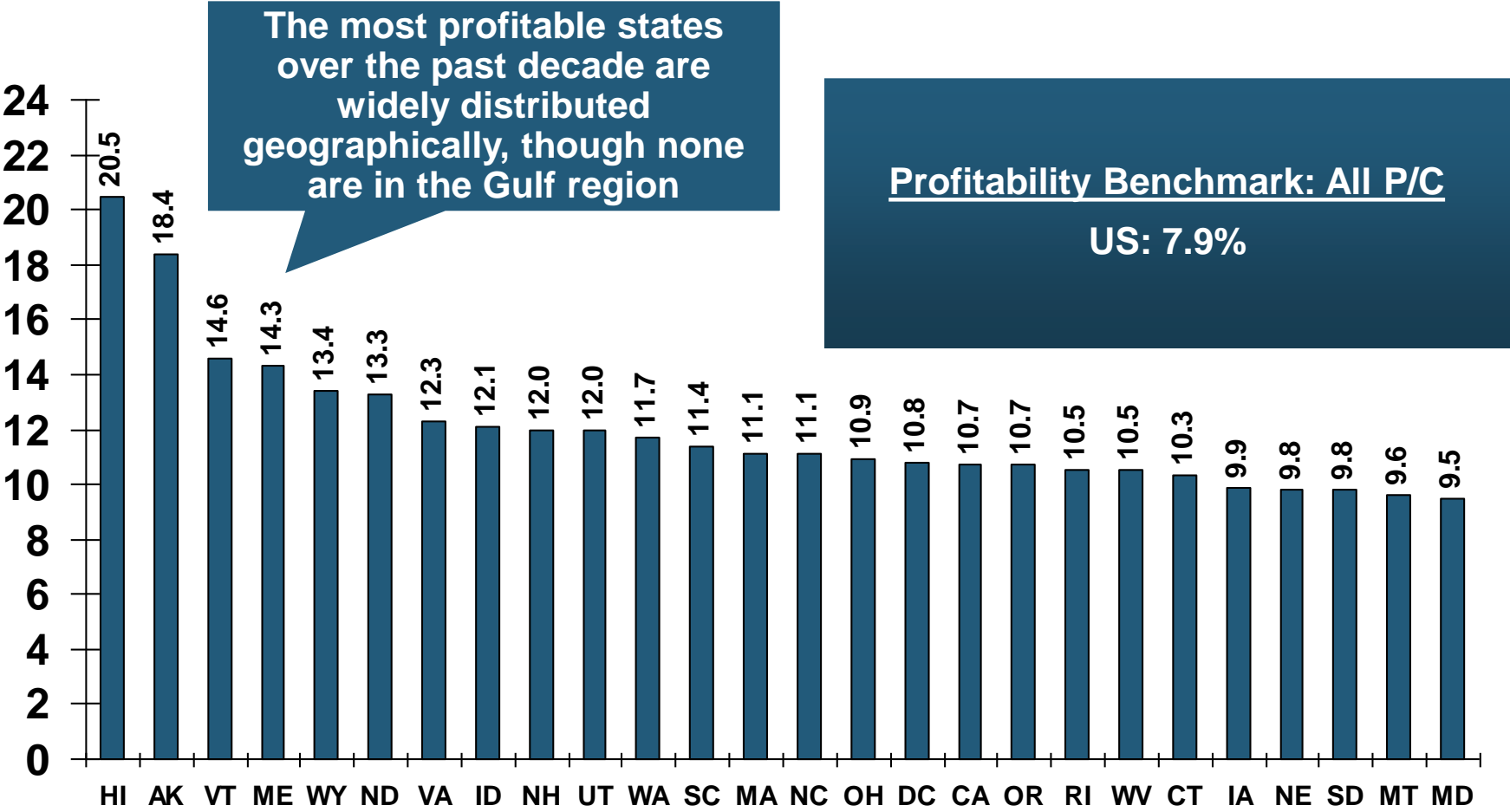
* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014:9M combined ratio including M&FG insurers is 97.7; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

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

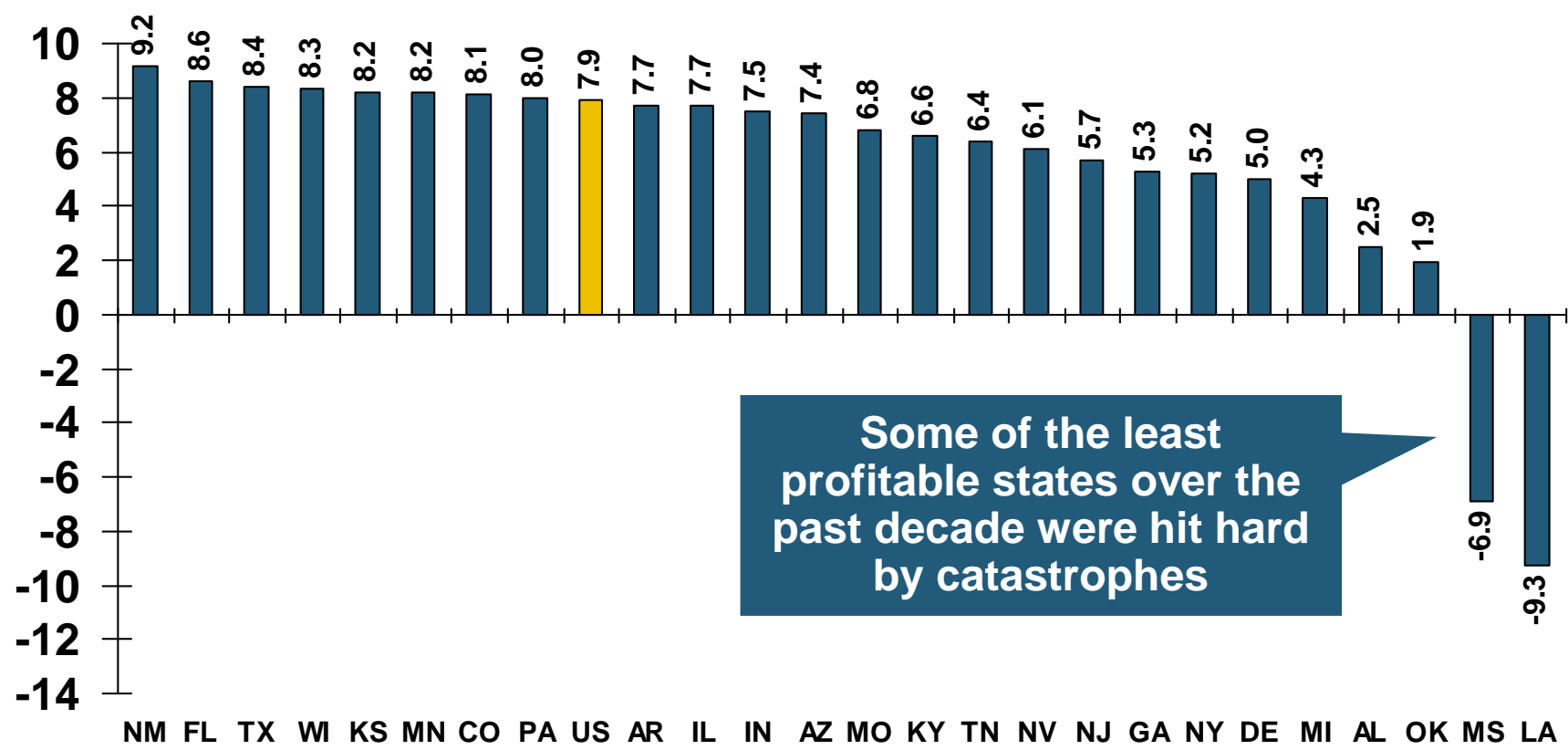
Return on Net Worth (RNW) All Lines: 2004-2013 Average



RNW All Lines by State, 2004-2013 Average: Highest 25 States



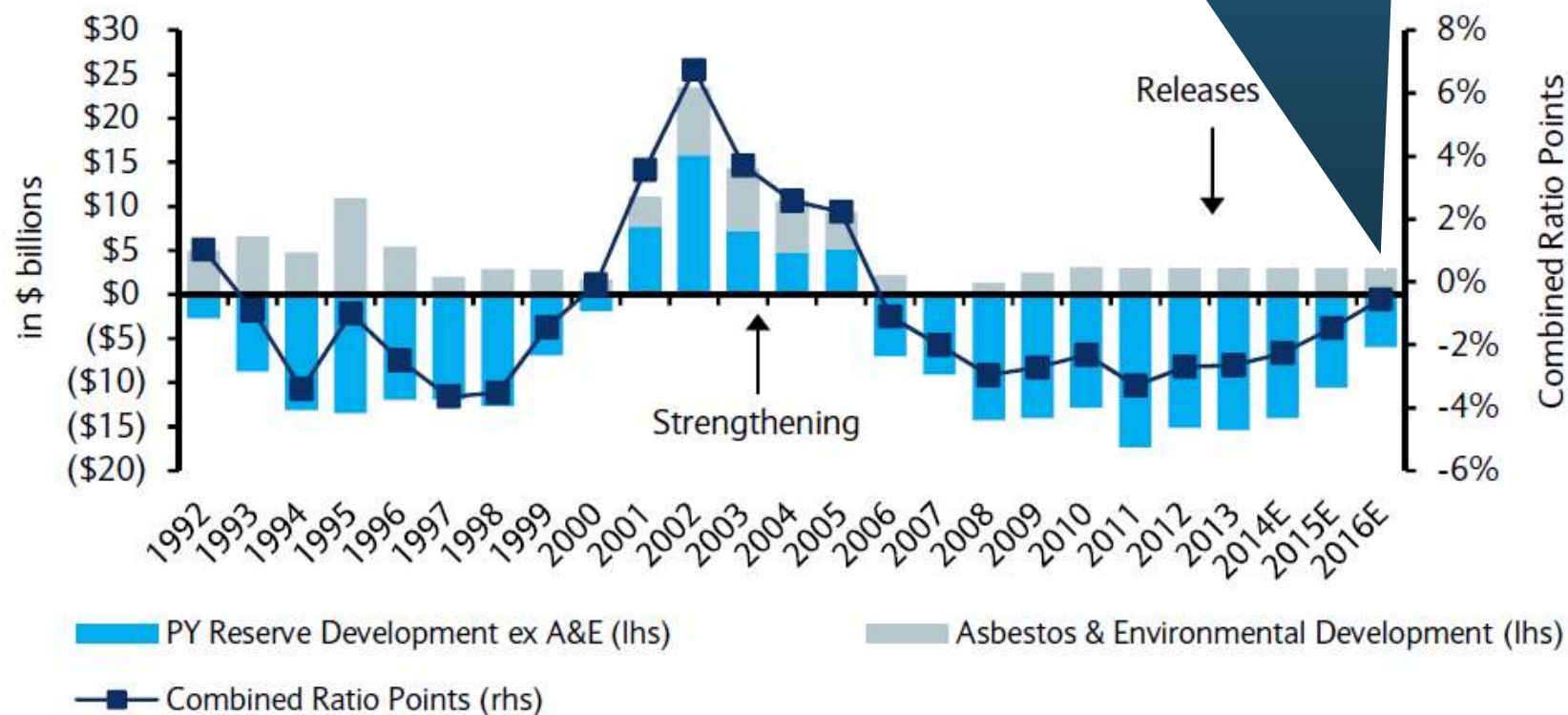
RNW All Lines by State, 2004-2013 Average: Lowest 25 States



P/C Insurance Loss Reserve Development, 1992 – 2016E*

Reserve Change

Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016



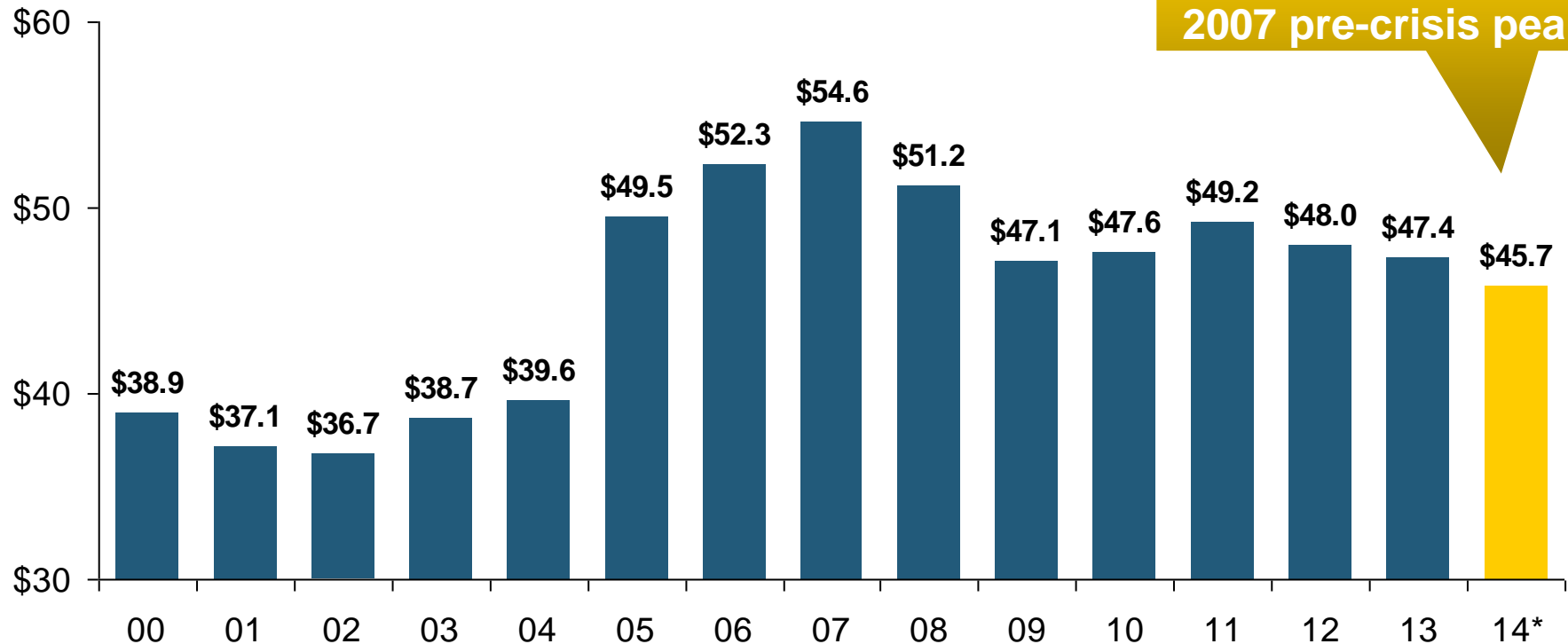
INVESTMENTS: THE NEW REALITY

**Investment Performance is a Key
Driver of Profitability**

***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

Property/Casualty Insurance Industry Investment Income: 2000–2014¹

(\$ Billions)



Investment earnings
are still below their
2007 pre-crisis peak

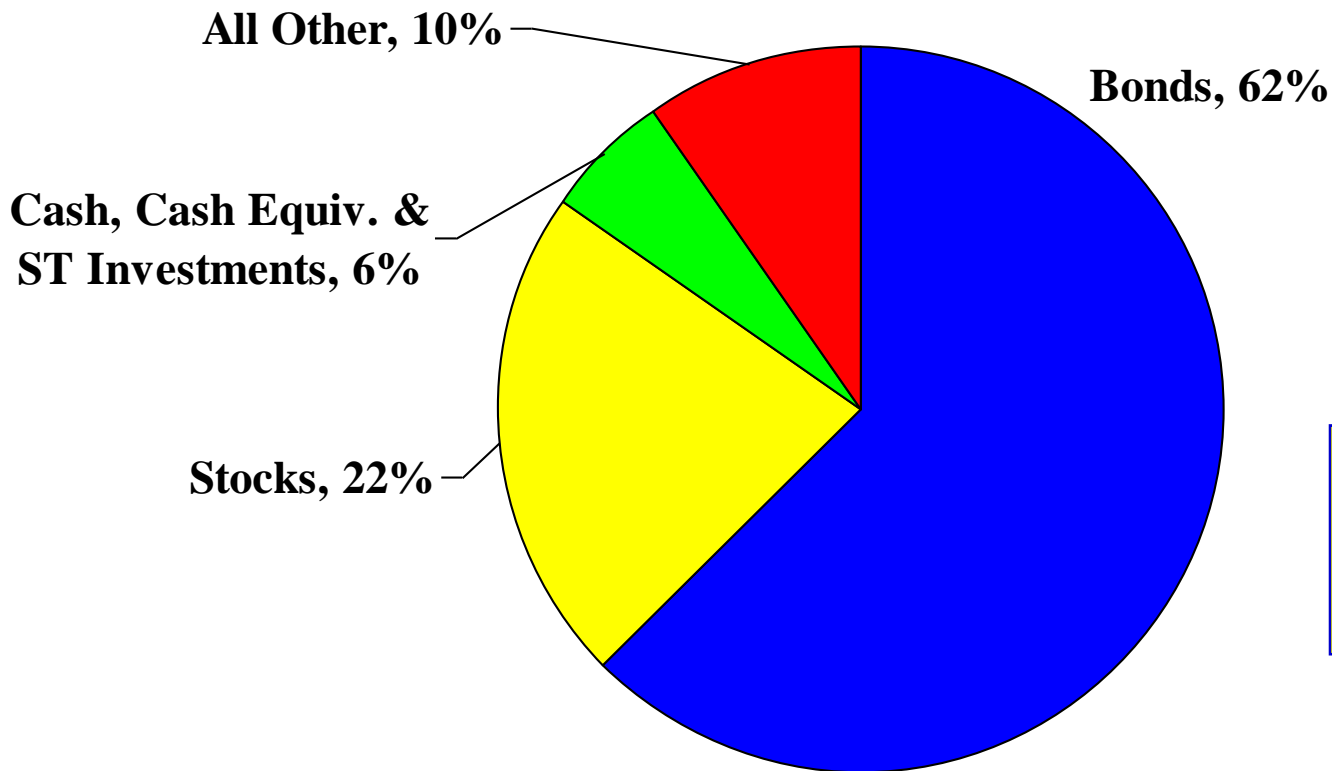
**Due to persistently low interest rates,
investment income fell in 2012, 2013 and 2014.**

¹ Investment gains consist primarily of interest and stock dividends.
Sources: ISO; Insurance Information Institute.

*2014 figure is estimated based on annualized data through Q3.

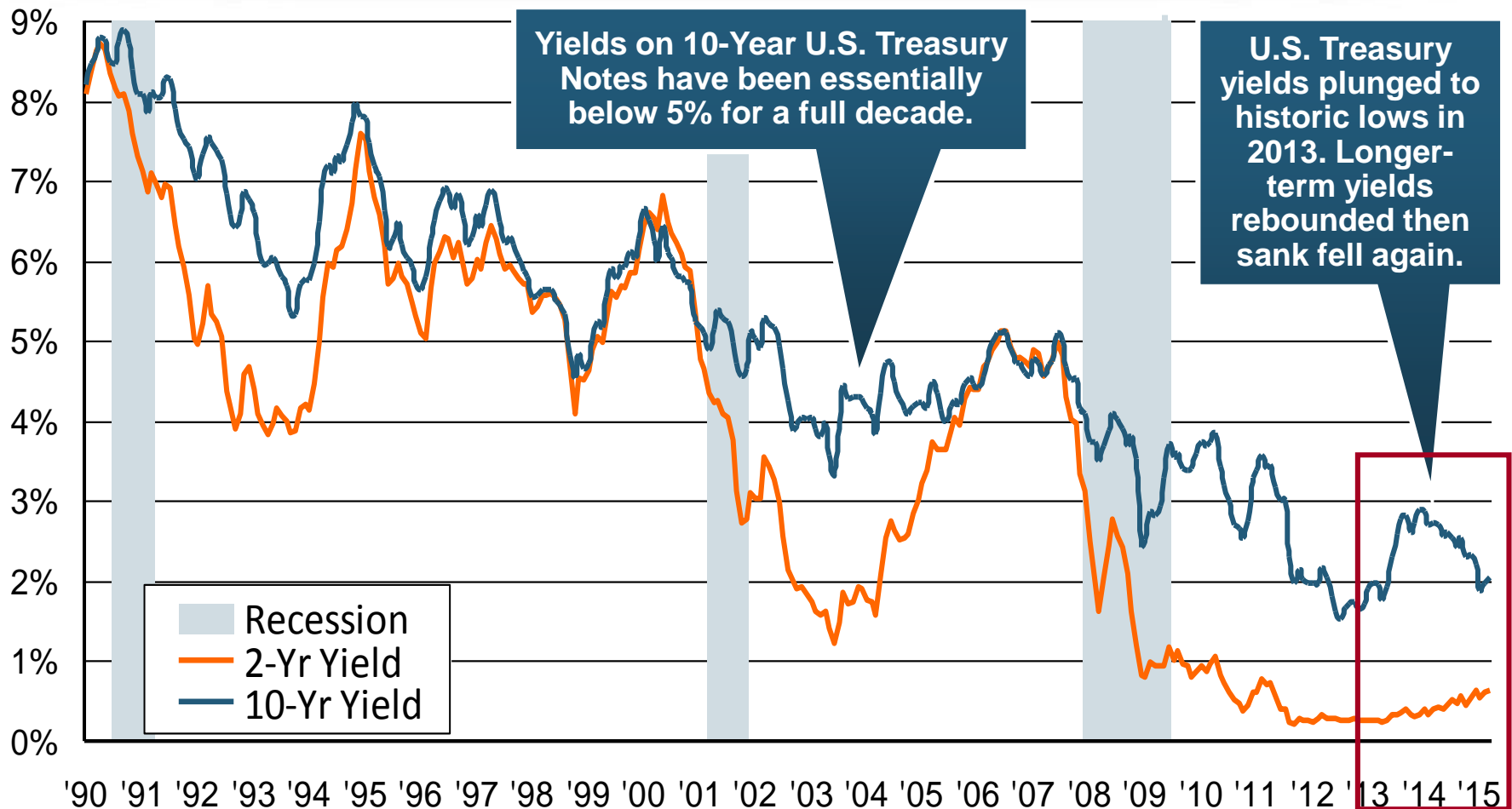
Distribution of Invested Assets: P/C Insurance Industry, 2013

\$ Billions



**Total Invested
Assets = \$1.5
Trillion**

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2015*



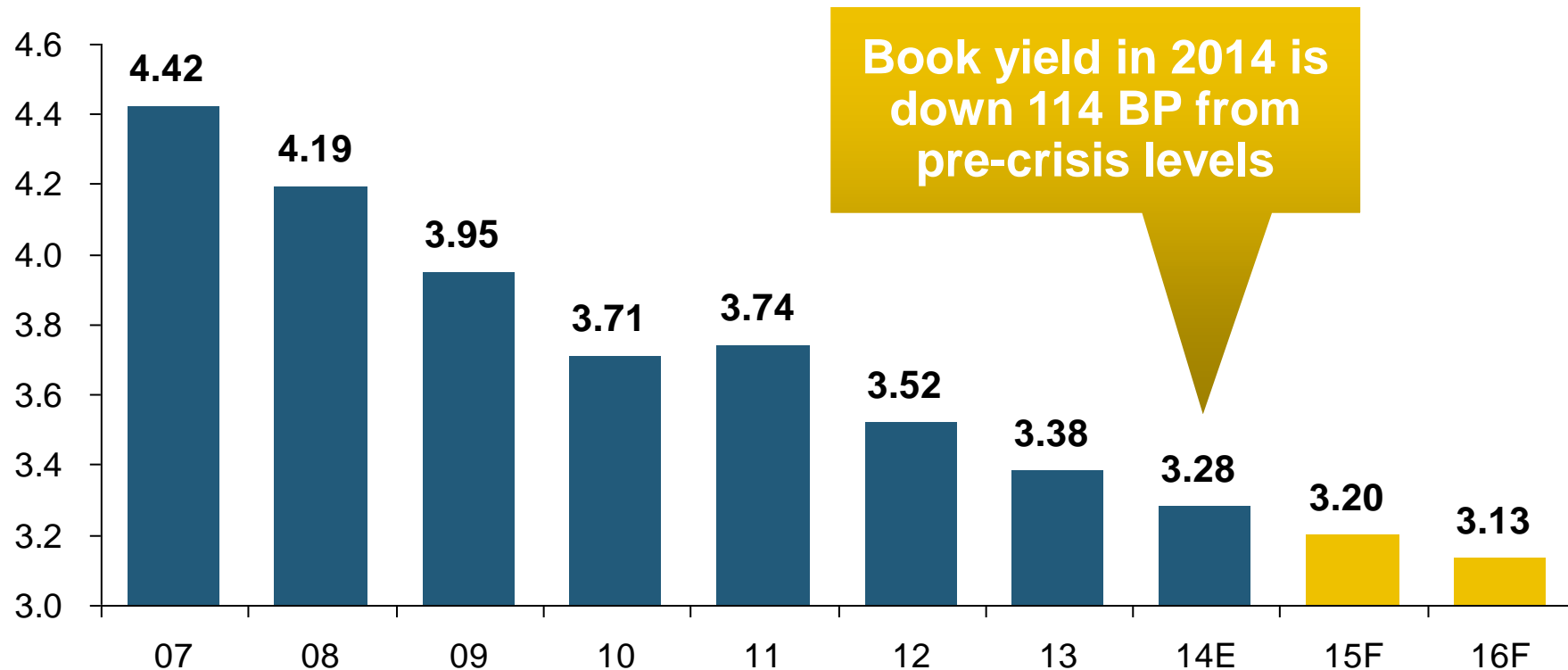
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through Mar. 2015.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

Book Yield on Property/Casualty Insurance Invested Assets, 2007–2016F

(Percent)



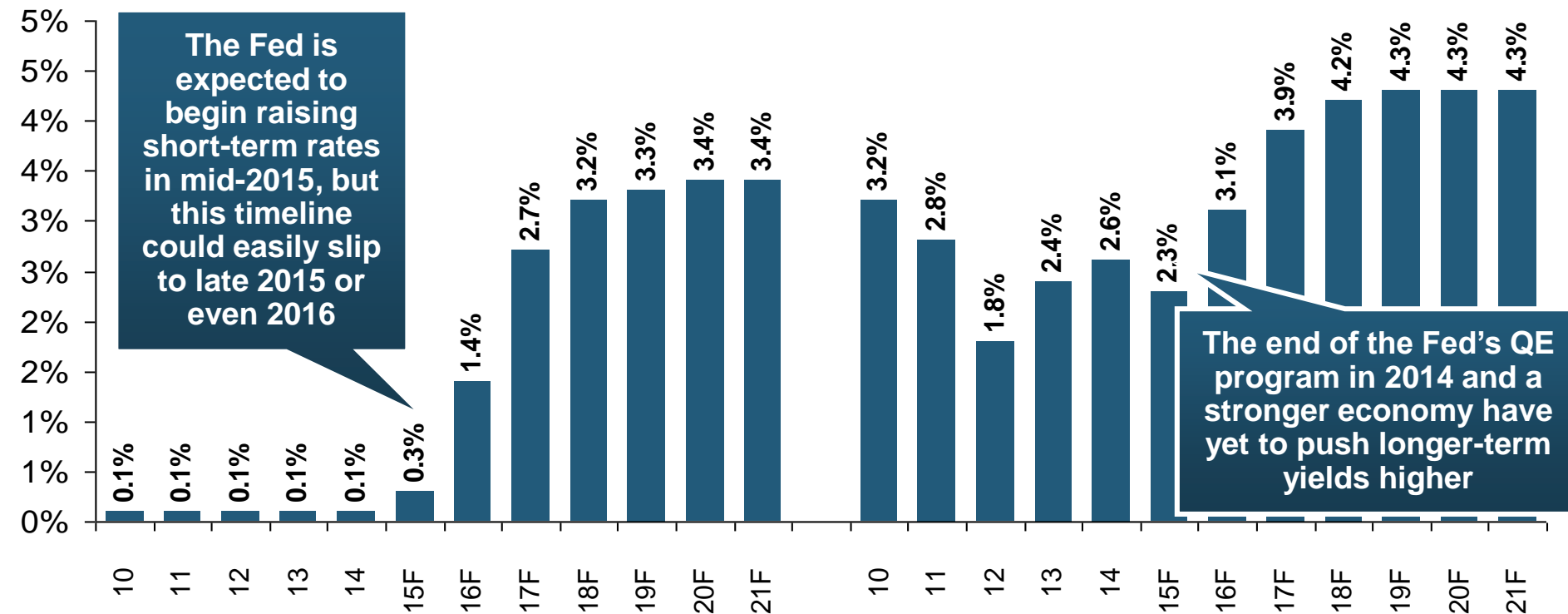
The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Interest Rate Forecasts: 2015 – 2021

Yield (%)

3-Month Treasury

10-Year Treasury



A Full Normalization of Interest Rates Is Unlikely Until 2018 or Later, More than a Decade After the Onset of the Financial Crisis

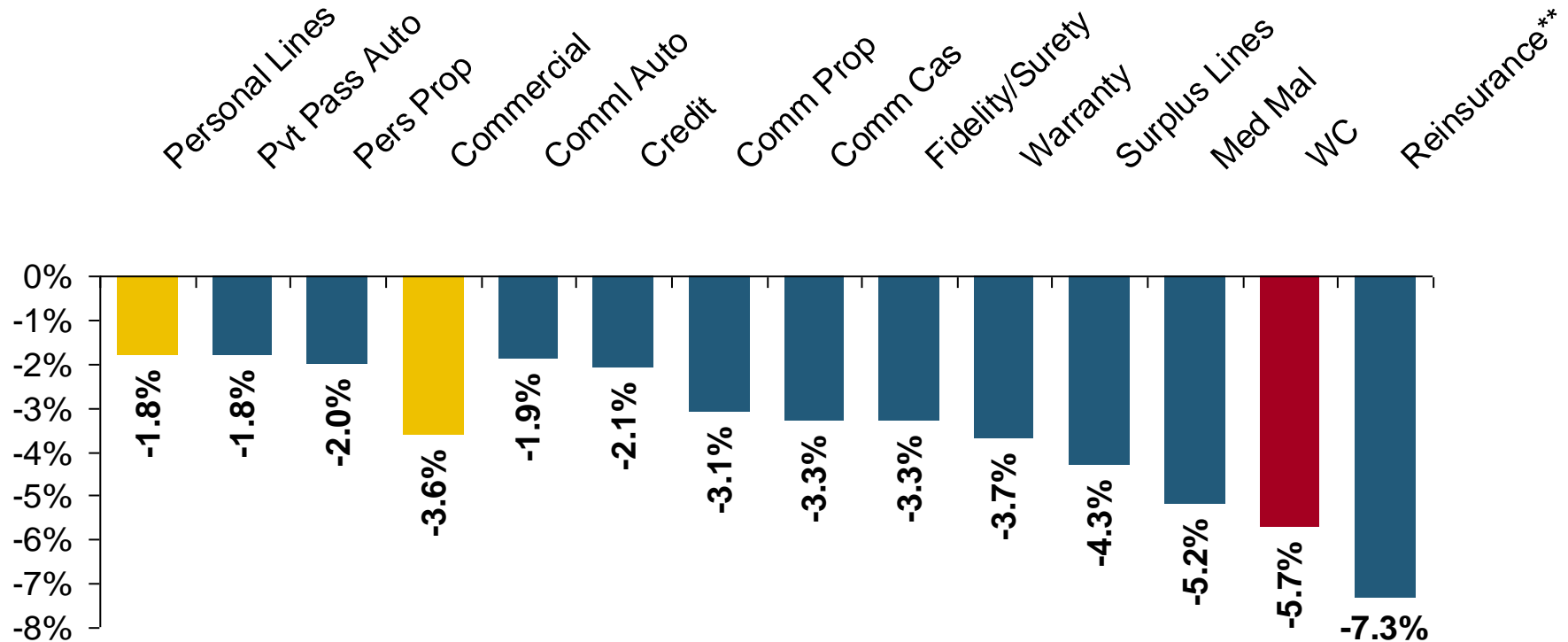
Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)



Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

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



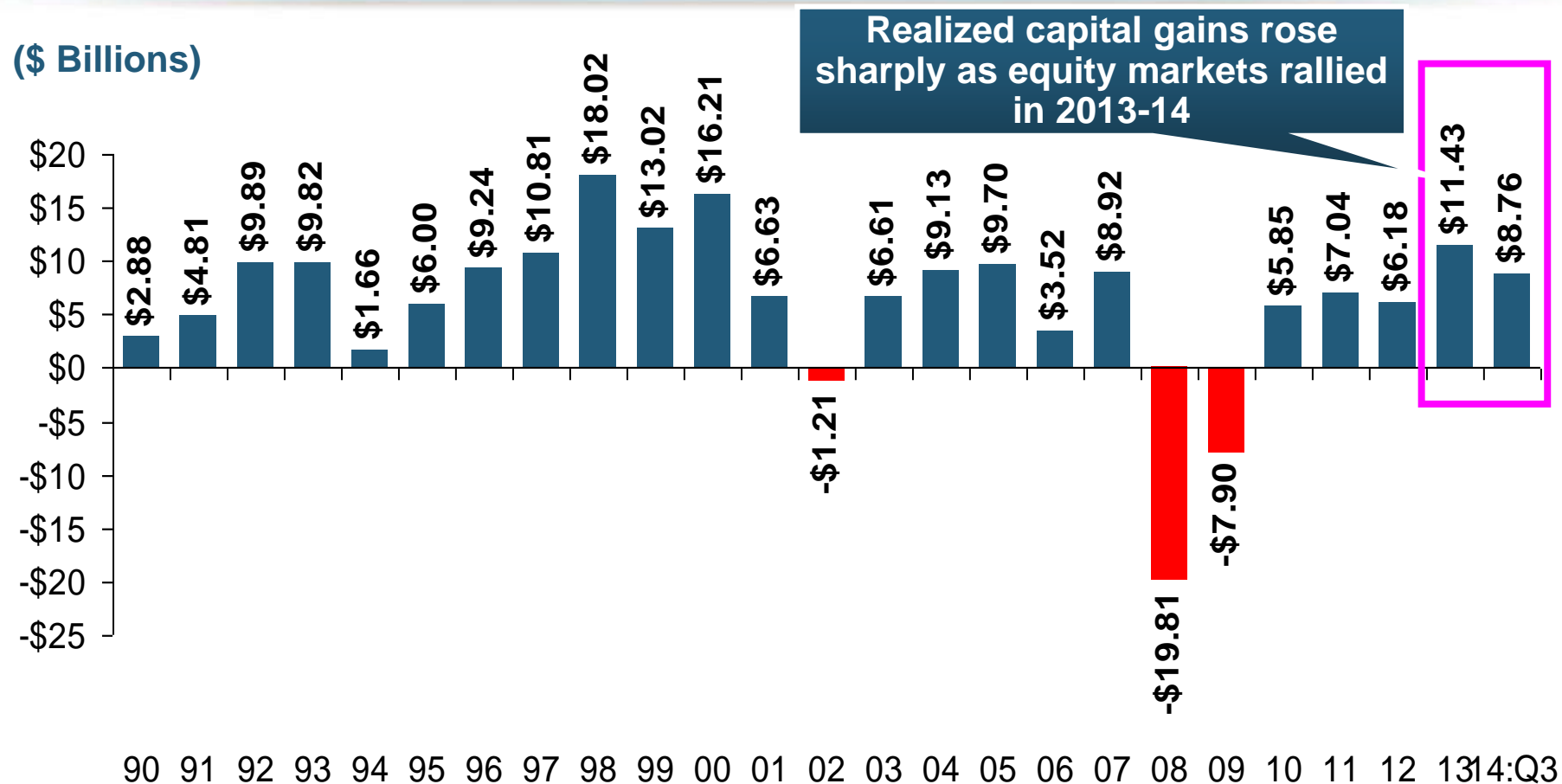
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

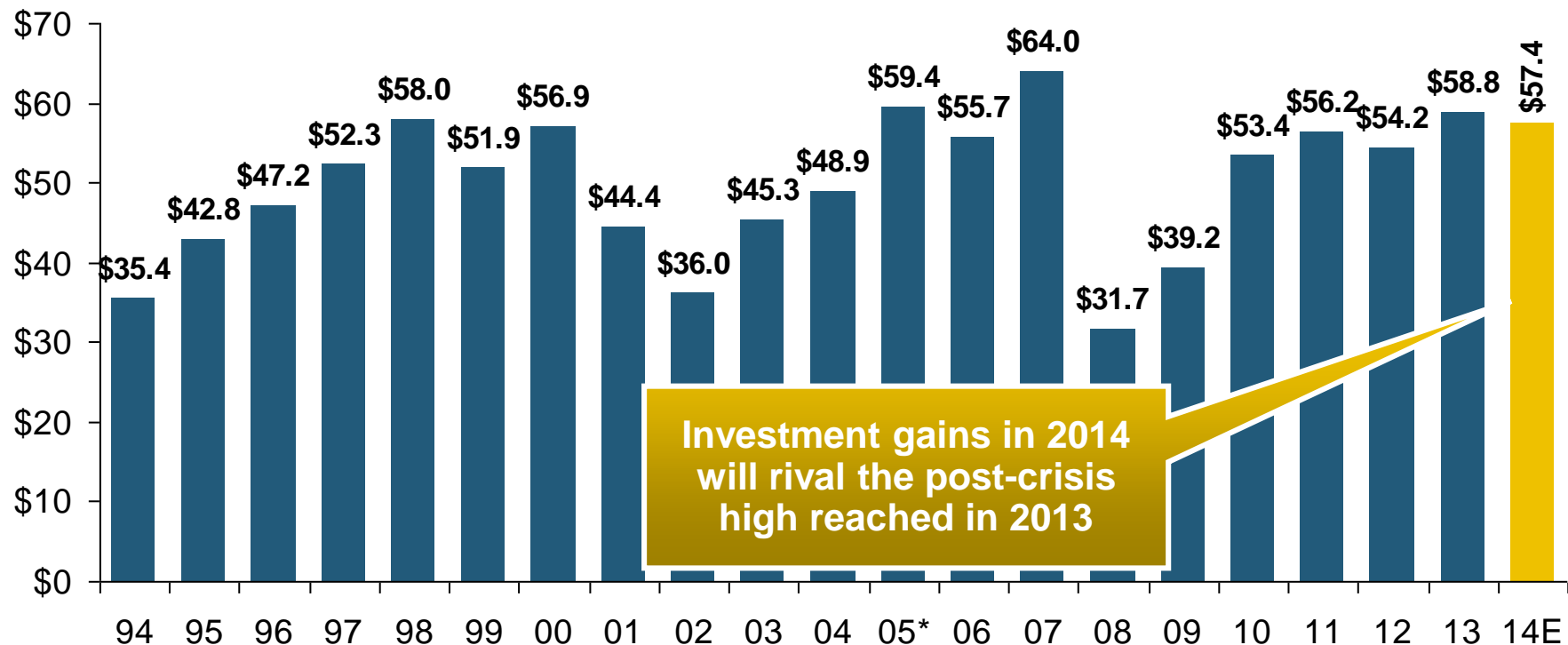
P/C Insurer Net Realized Capital Gains/Losses, 1990-2014:Q3



Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

Property/Casualty Insurance Industry Investment Gain: 1994–2014E¹

(\$ Billions)



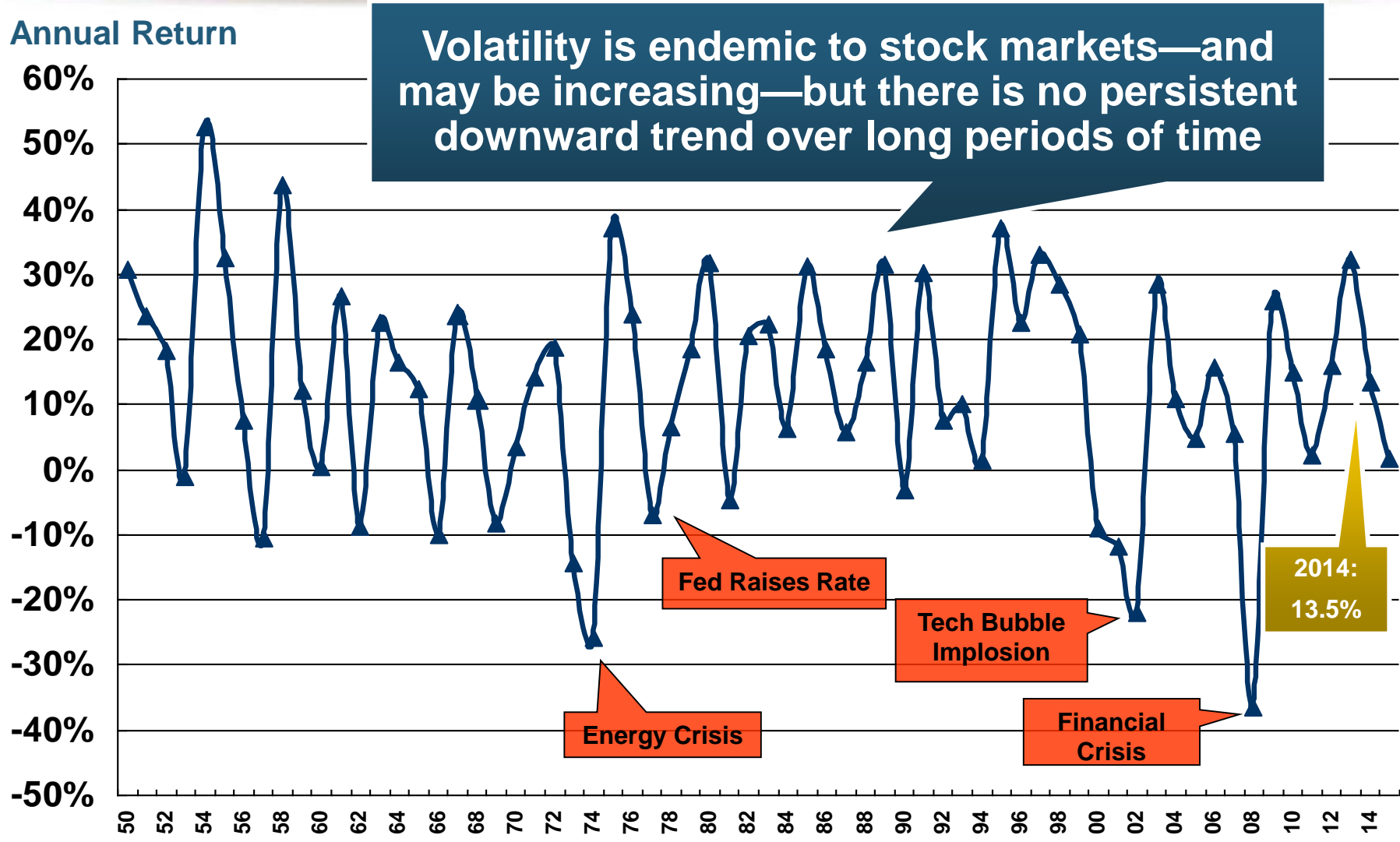
Total Investment Gains Were Flat in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

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;

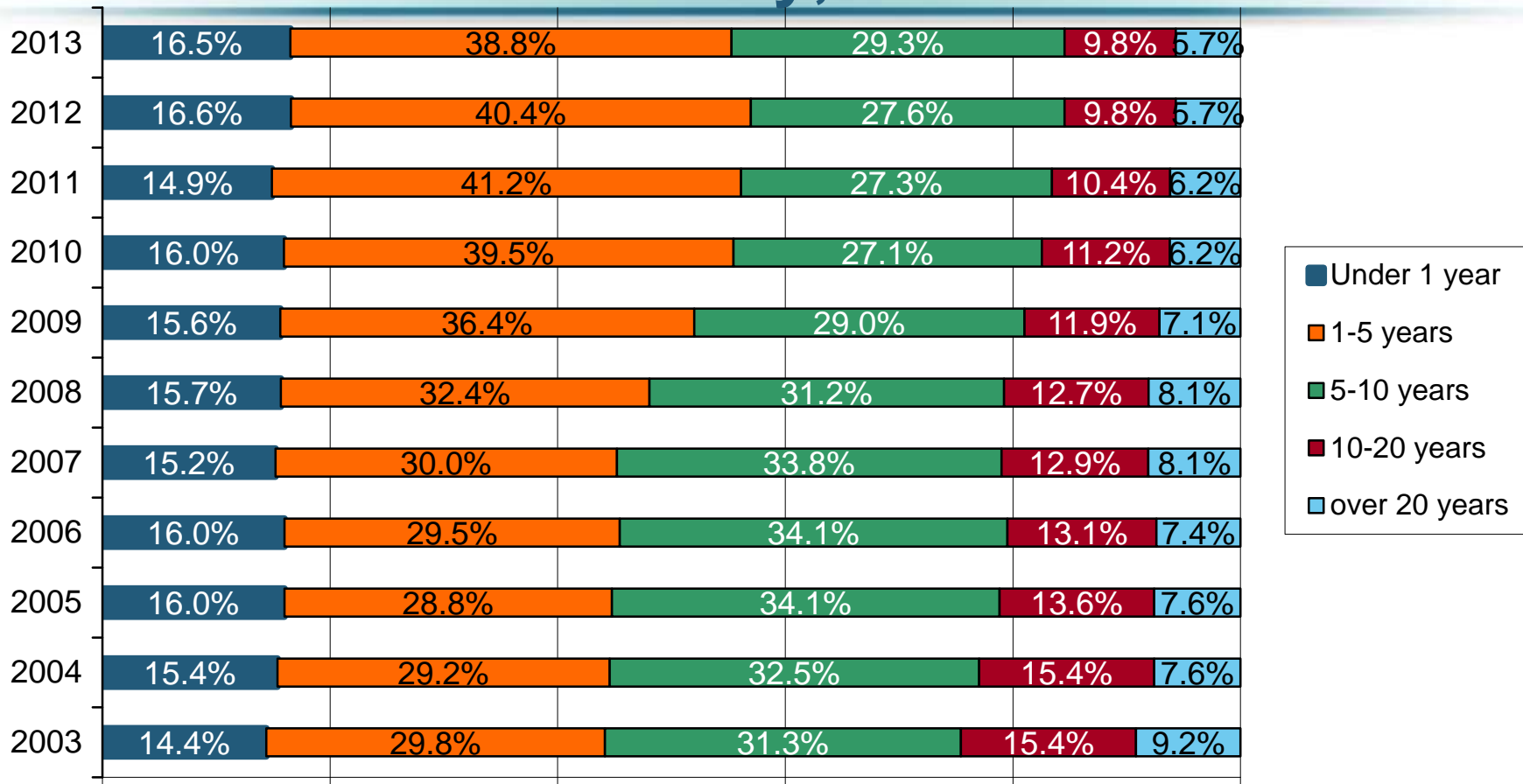
Sources: ISO; Insurance Information Institute.

S&P 500 Index Returns, 1950 – 2015*



*Through April 9, 2015.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2013



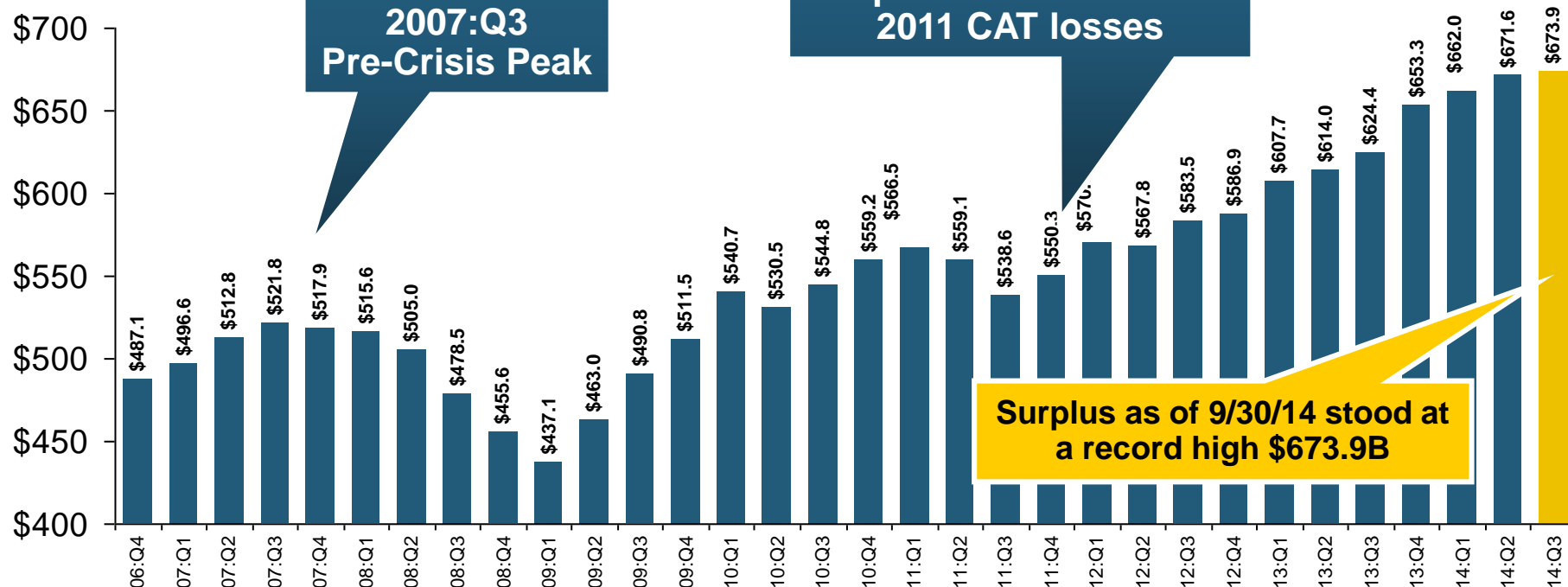
The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

CAPITAL/CAPACITY

**Capital Accumulation Has
Multiple Impacts**

Policyholder Surplus, 2006:Q4–2014:Q3

(\$ Billions)



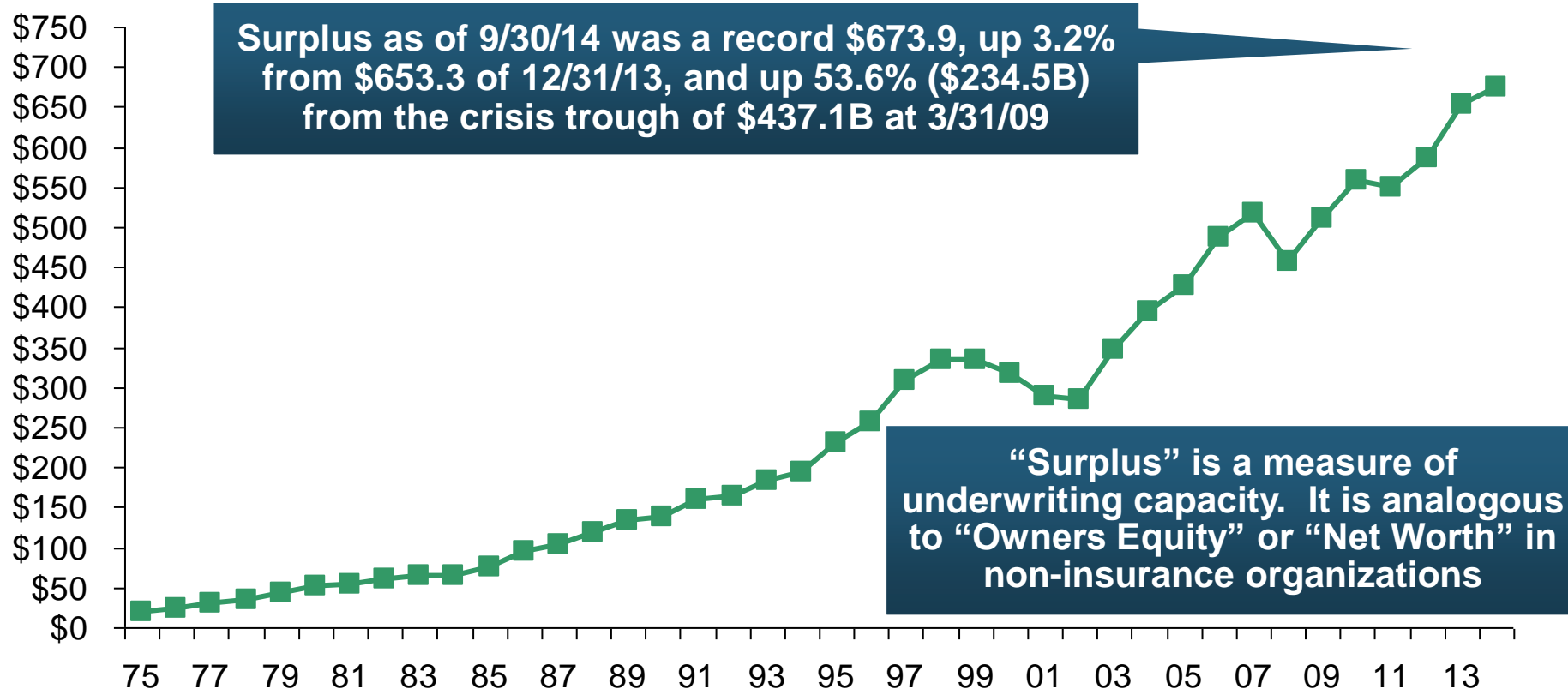
The industry now has \$1 of surplus for every \$0.73 of NPW, close to the strongest claims-paying status in its history.

2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

The P/C insurance industry entered 2015 in very strong financial condition.

US Policyholder Surplus: 1975–2014*

(\$ Billions)



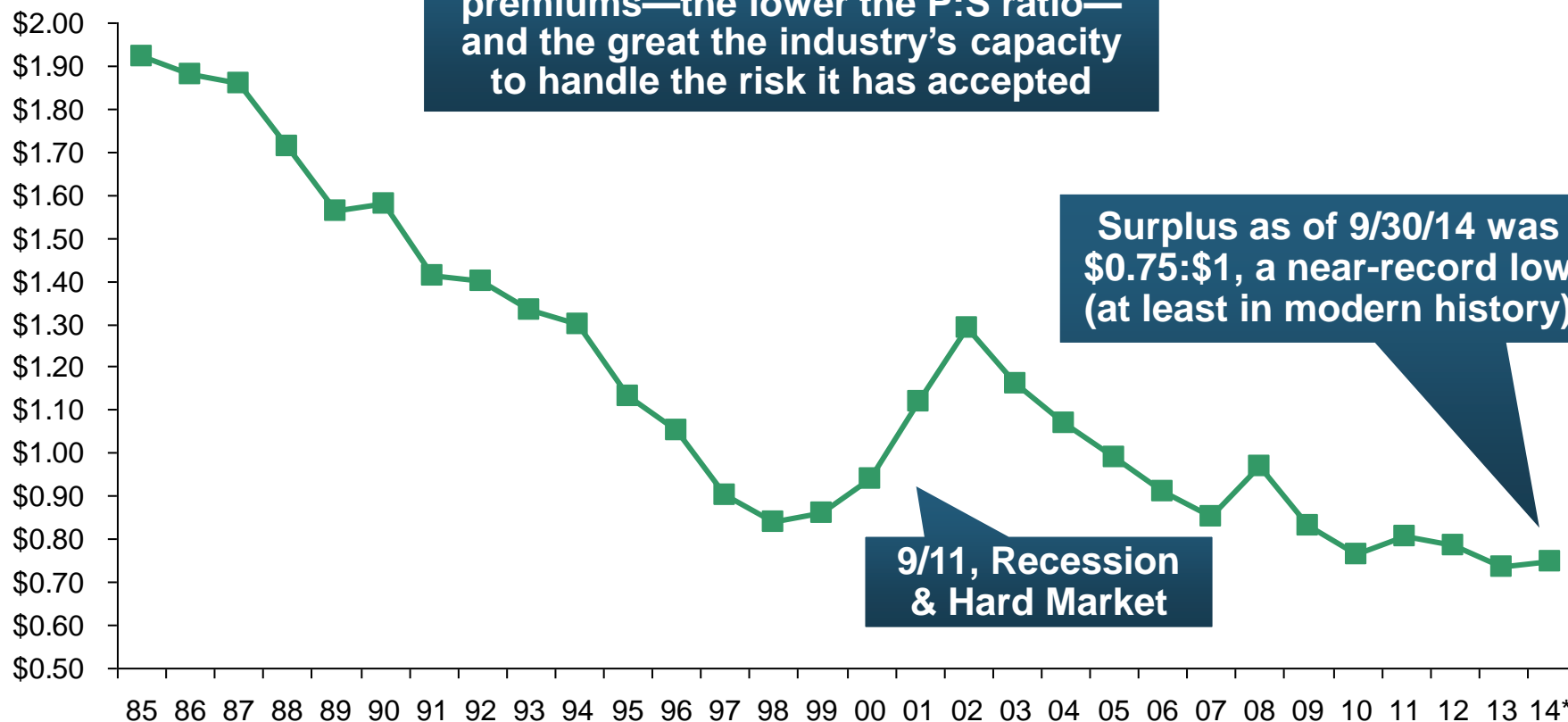
The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 9/30/14, a Near Record Low (at Least in Recent History)

* As of 9/30/14.

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

Premium-to-Surplus Ratio: 1985–2014*

(Ratio of NWP to PHS)

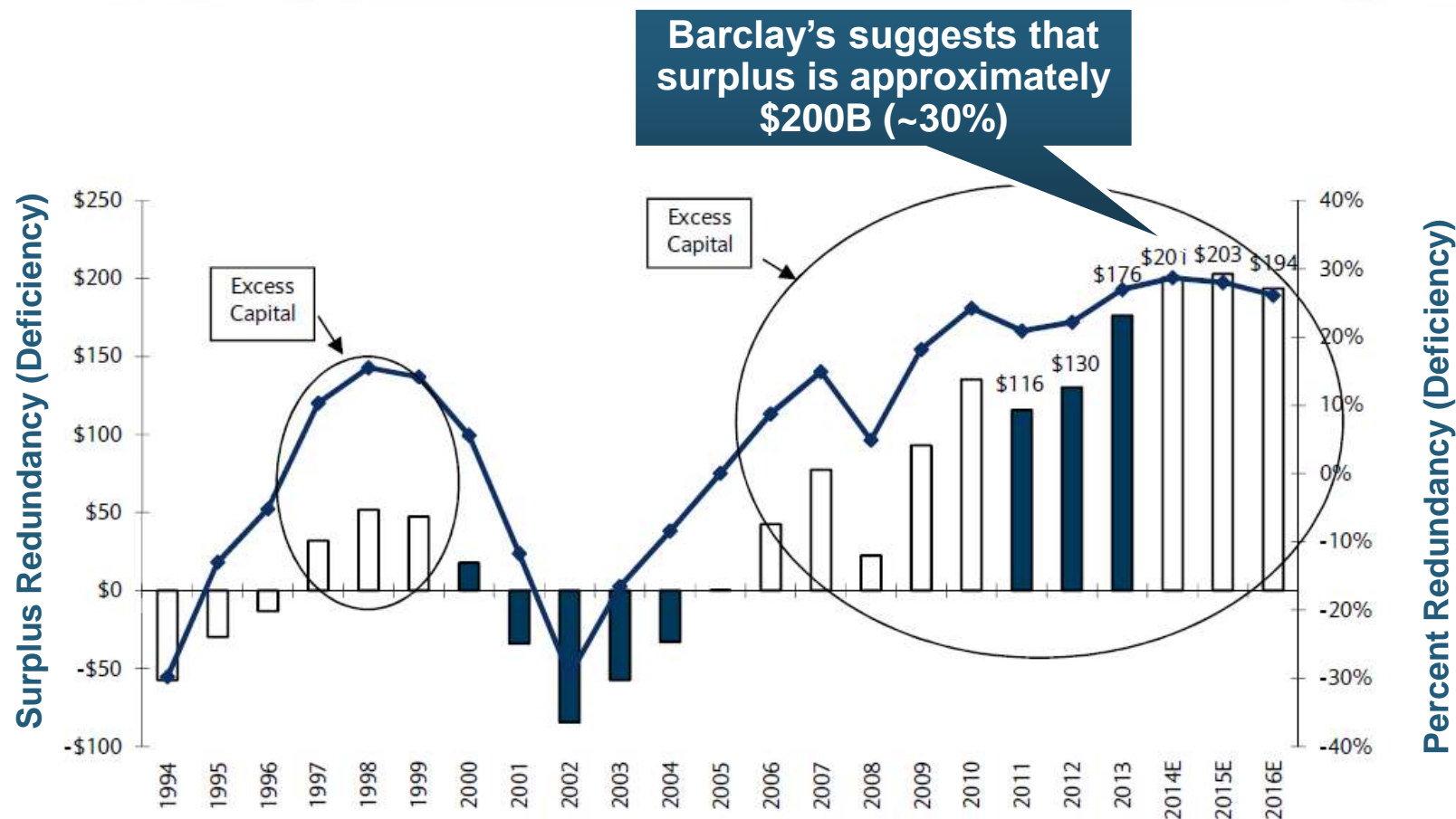


The Premium-to-Surplus Ratio Stood at \$0.75:\$1 as of 9/30/14, a Record Low (at Least in Recent History)

* As of 9/30/14.

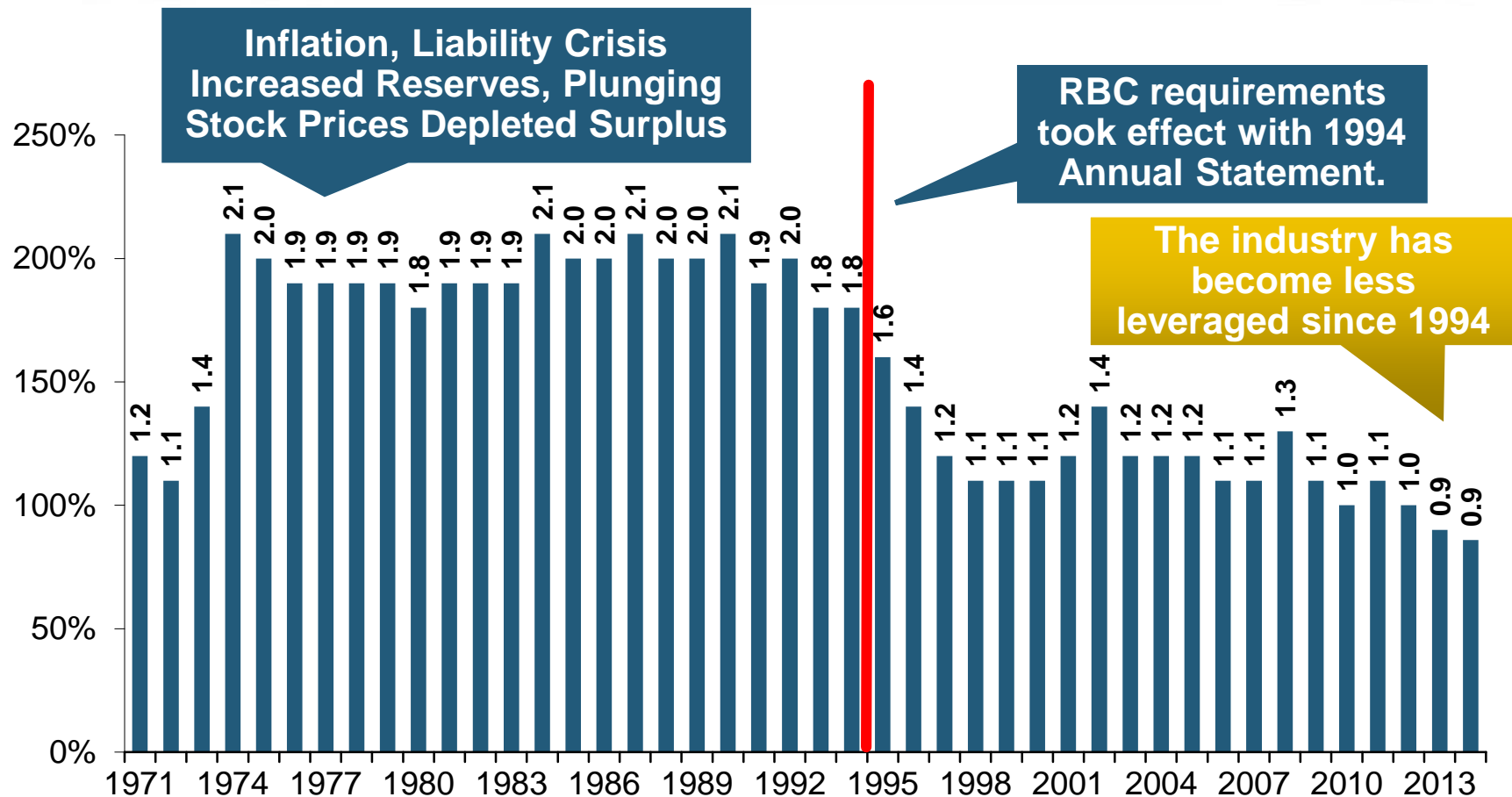
Source: A.M. Best, ISO, Insurance Information Institute.

US P/C Insurance Industry Excess Capital Position: 1994–2016E



The Industry's Strong Capital Position Suggests Insurers Are in a Good Position to Increase Risk Appetite, Repurchase Shares and Pursue Acquisitions

P/C Industry: Loss Reserve-to-Surplus Ratio, 1971-2014:Q3



The Property/Casualty Industry Adjusted Its Risk Portfolio in Response to Risk-Based Capital Requirements Implemented in 1994.

Alternative Capital

**New Investors Continue to Change
the Reinsurance Landscape**

***First I.I.I. White Paper on Issue Was
Released in March 2015***

Global Reinsurance Capital (Traditional and Alternative), 2006 - 2014

Total reinsurance capital reached a record \$570B in 2013, up 68% from 2008.

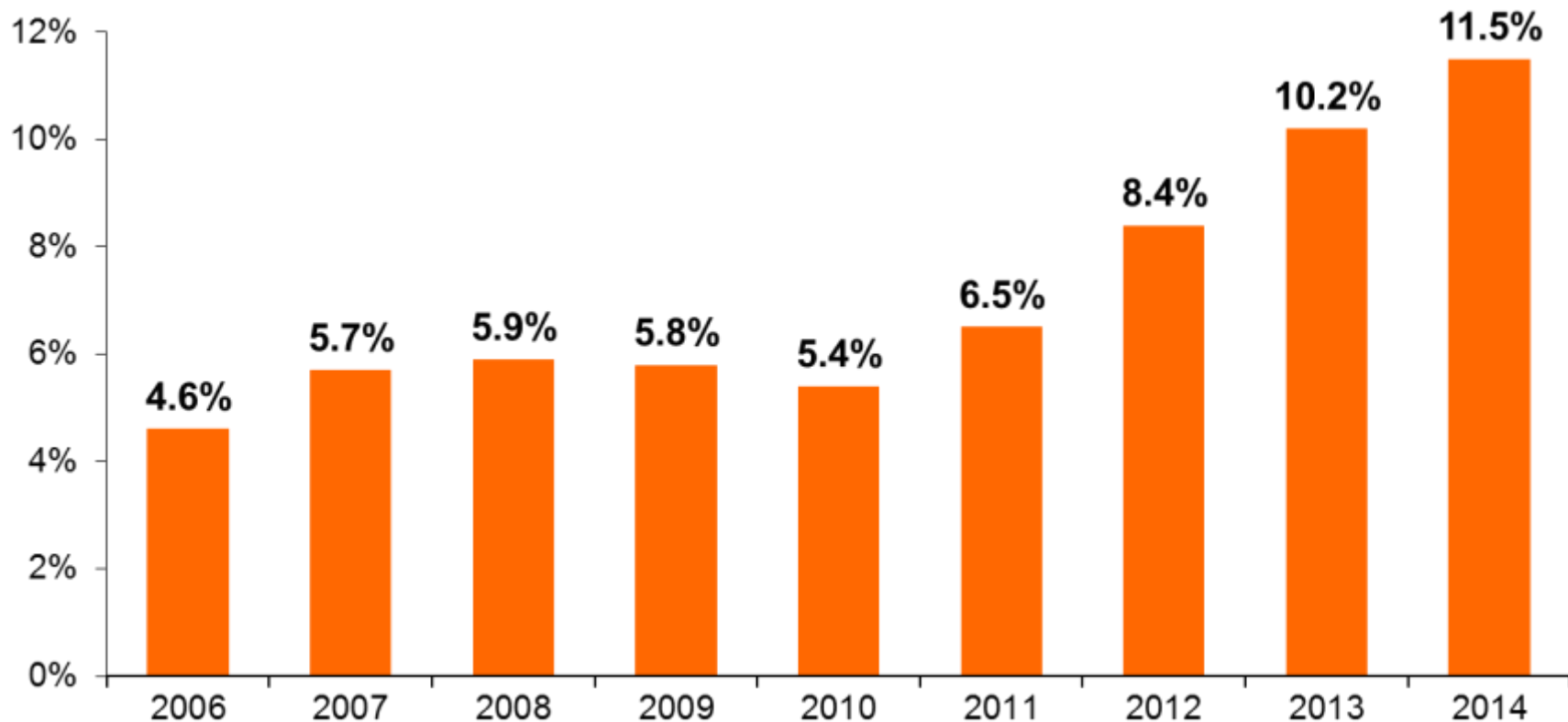


But alternative capacity has grown 210% since 2008, to \$50B. It has more than doubled in the past three years.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Alternative Capital as a Percentage of Traditional Global Reinsurance Capital

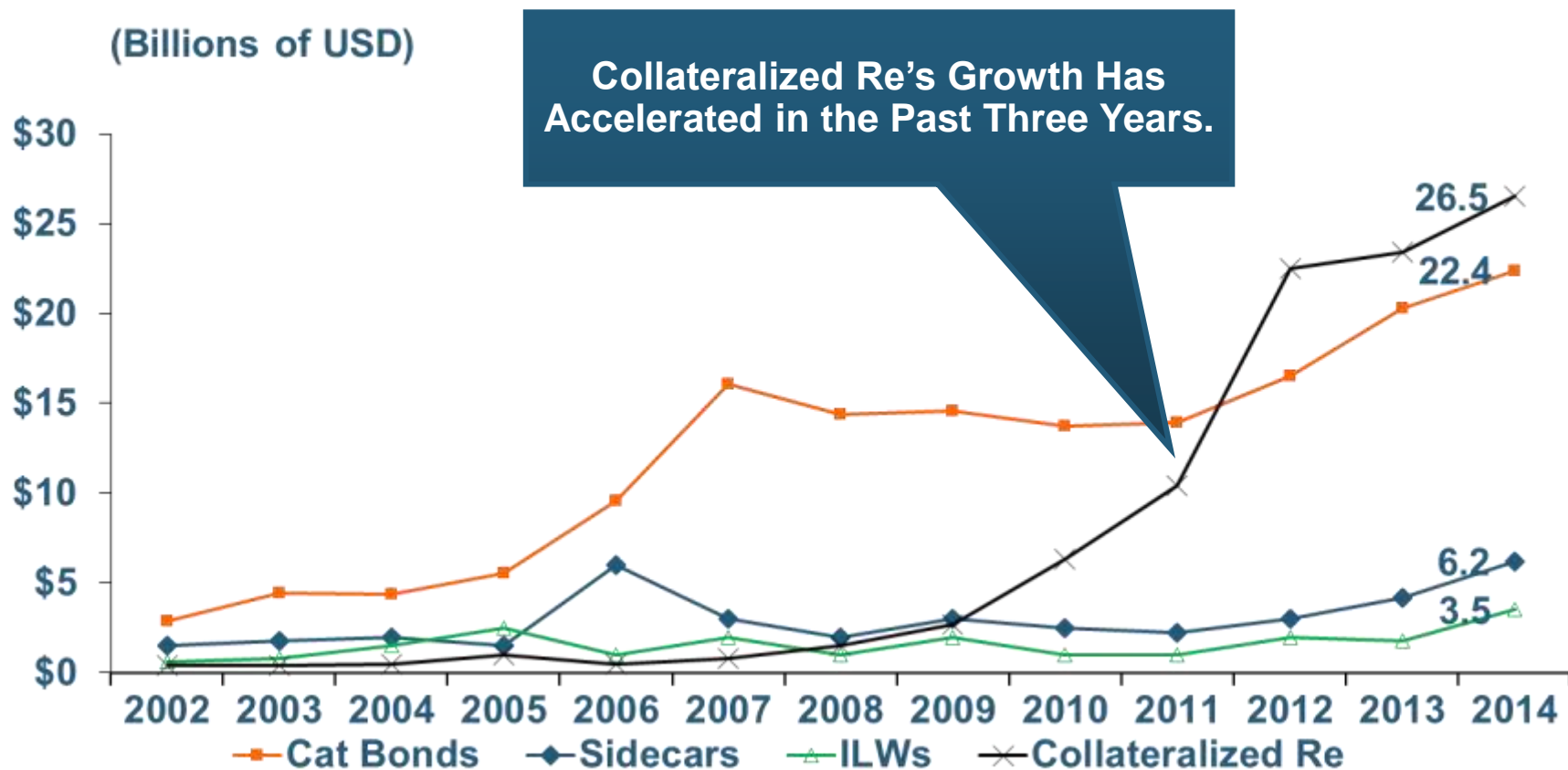


Alternative Capital's Share of Global Reinsurance Capital Has More Than Doubled Since 2010.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014



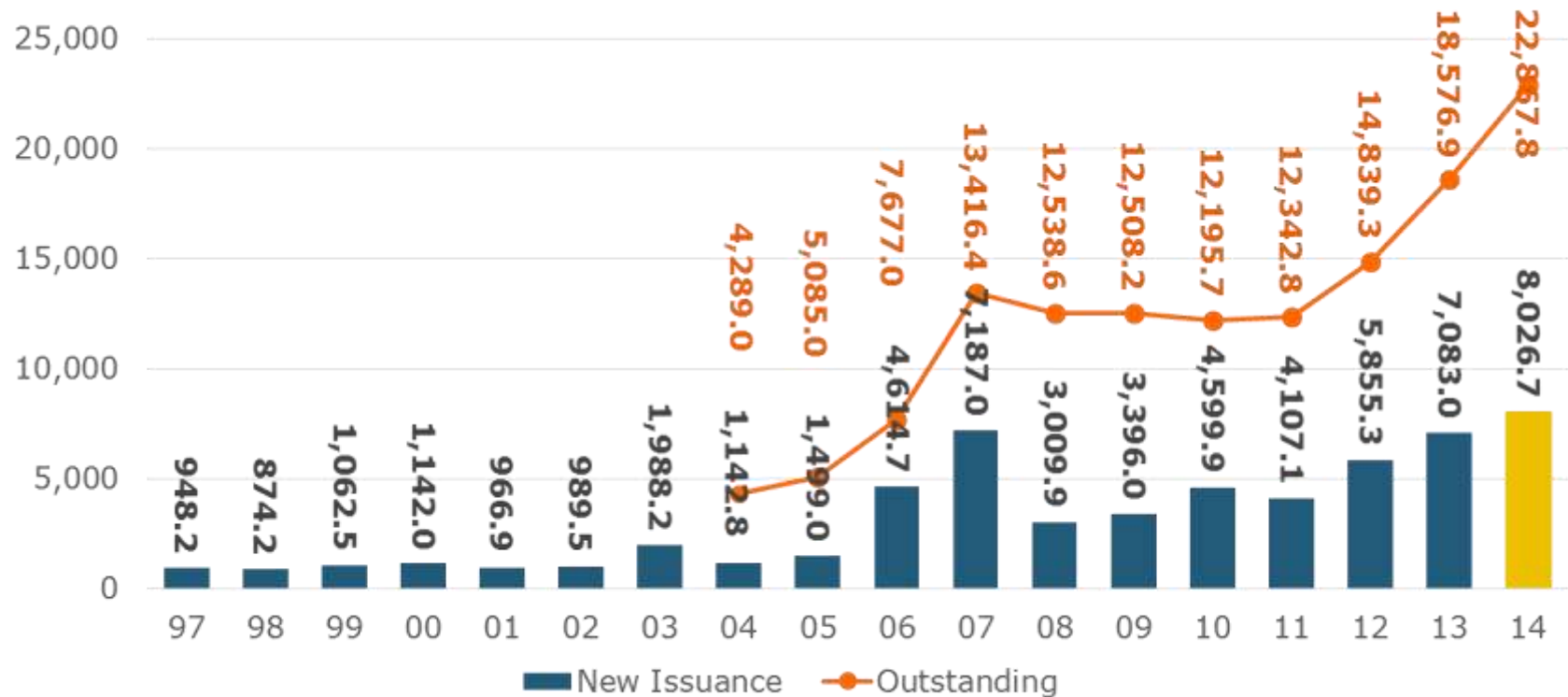
Collateralized Reinsurance and Catastrophe Bonds Currently Dominate the Alternative Capital Market.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Catastrophe Bond Issuance and Outstanding: 1997-2014

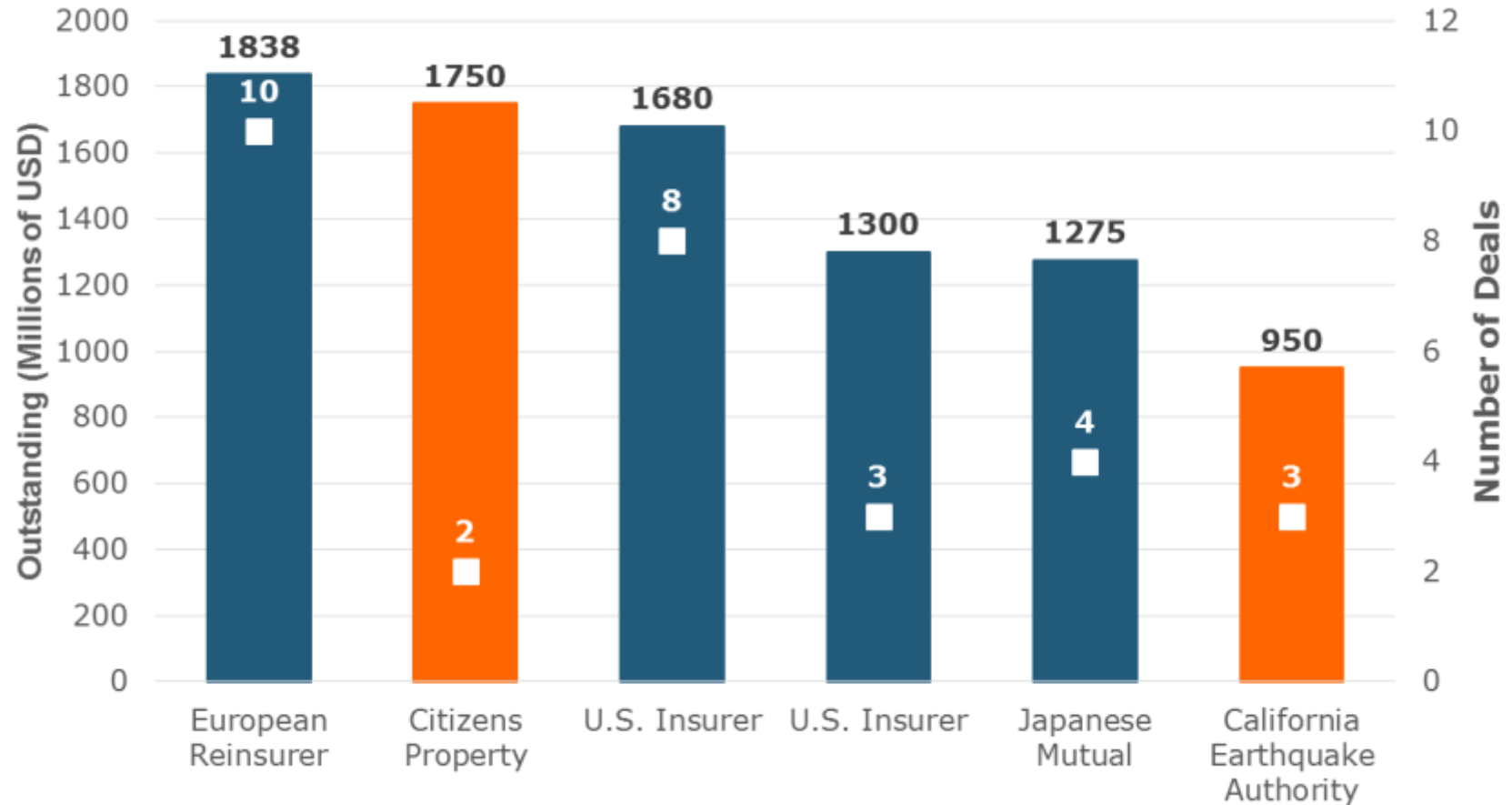
Risk Capital Amount (\$ Millions)



2014 Has Seen the Largest Cat Bond Ever - \$1.5 Billion (Florida Citizens). Bond Issuance Set a Record.

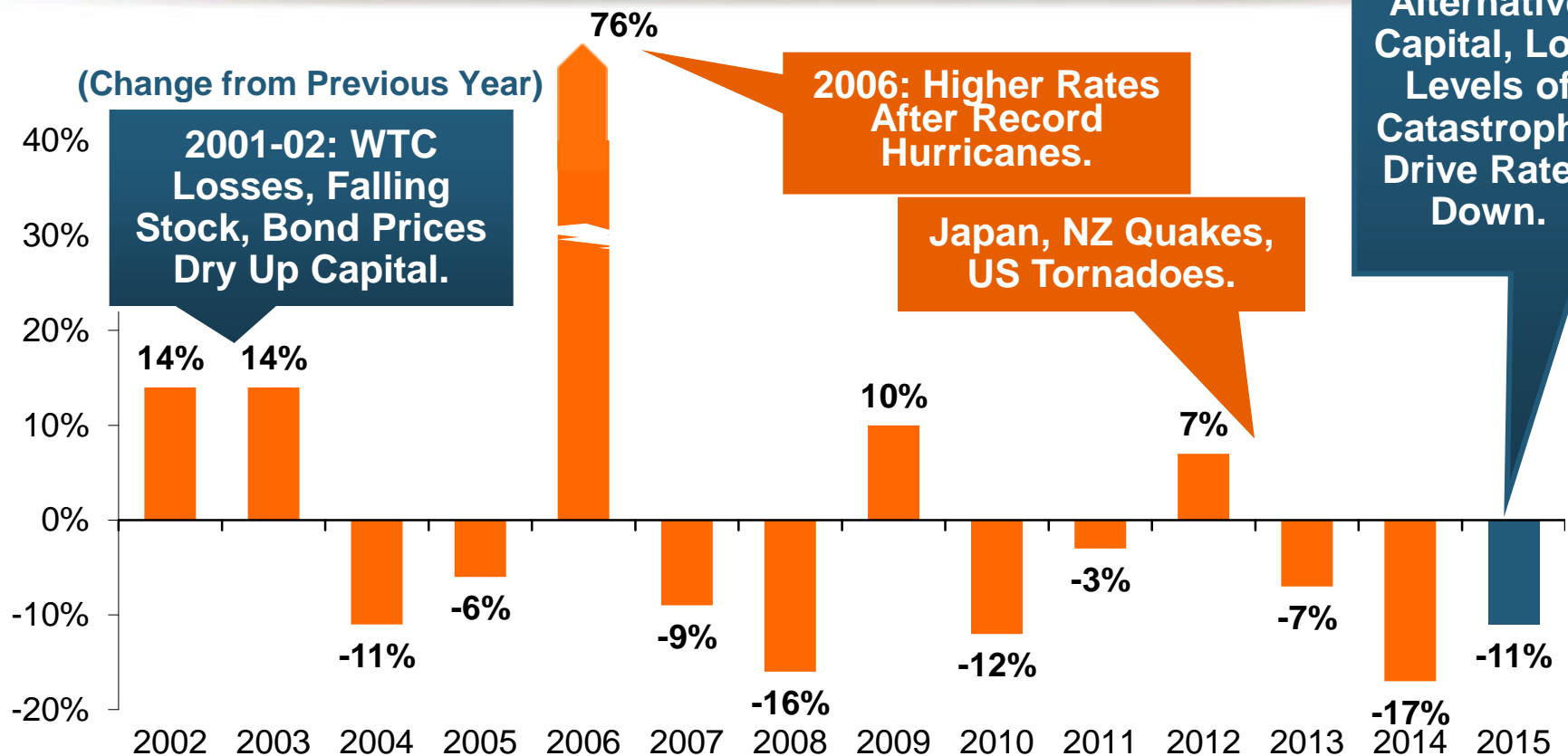
Source: Guy Carpenter.

Largest Sponsors of ILS, Year-End 2014



Two of the Largest ILS Issuers Are Government-Sponsored Insurers. Nine Government-Related Insurers Have \$4.6 Billion in Outstanding Securities.

Reinsurance Pricing: Change in Rate on Line for Cat Business

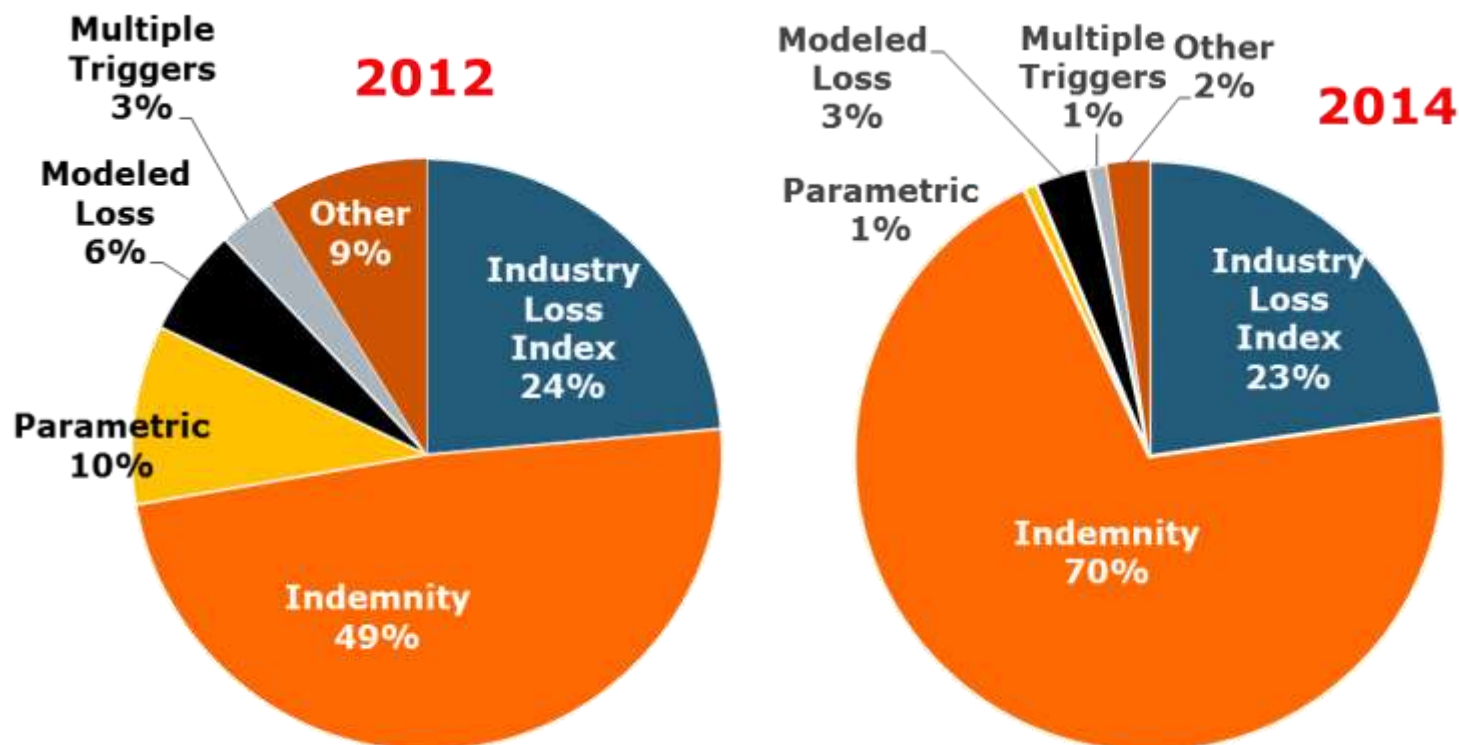


Catastrophe Prices Fell 11 Percent on January 1 Renewals, Driven by Emergence of New Capital, Mild Catastrophe Losses.

2014 reflects change through June 30 from prior year end. 2015 is for January 1 renewals..

Source: Guy Carpenter; Insurance Information Institute.

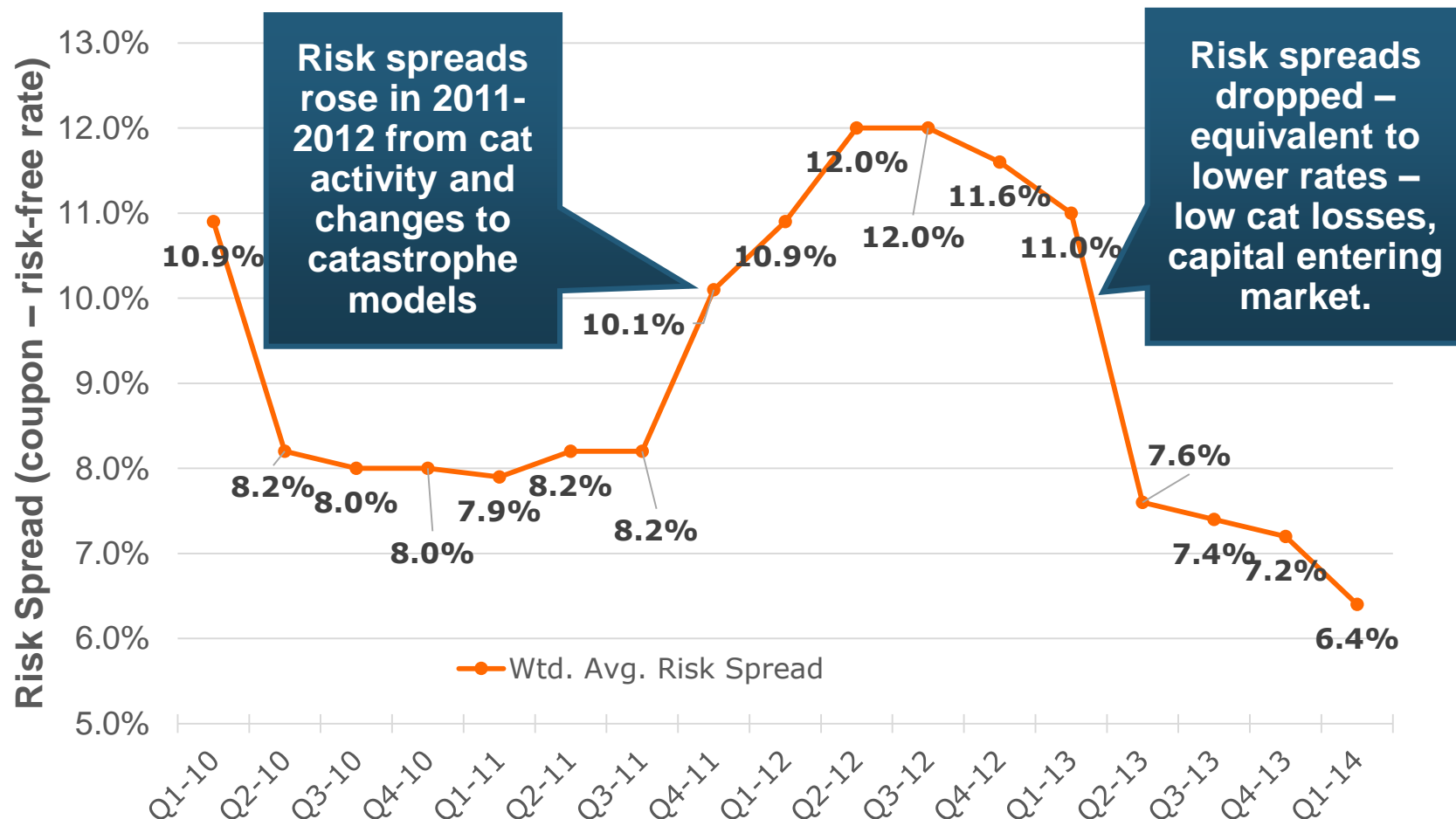
ILS Issuance by Trigger



Terms Are Shifting Away From ‘Objective’ Triggers (Favored by Investors) Toward Indemnity Trigger (Favored by Insurers).

U.S. Wind-Exposed Risk Premium*

2010:Q1 to 2014: Q1



* Trailing 12-month average

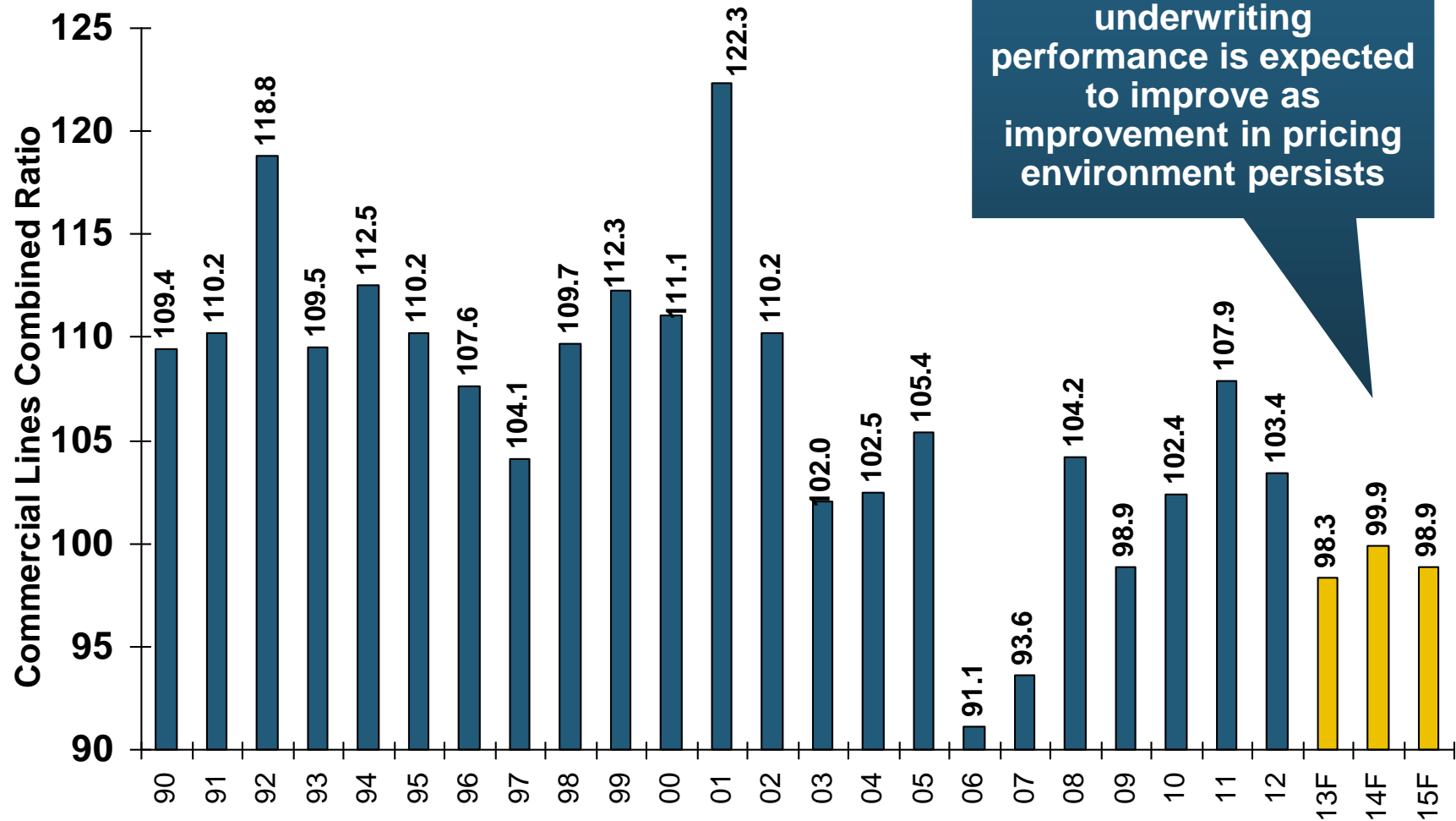
SOURCE: Willis Capital Markets, Insurance Information Institute.

Questions Arising from Influence of Alternative Capital

- **What Will Happen When Investors Face Large-Scale Losses?**
- **What Happens When Interest Rates Rise?**
- **Does ILS Have a Higher Propensity to Litigate?**
- **How Much Lower Will Risk Premiums Shrink/ROLs Fall?**
- **Will There Be Spillover Into Casualty Reinsurance?**
- **Will Alternative Capital Drive Consolidation?**

Performance by Segment

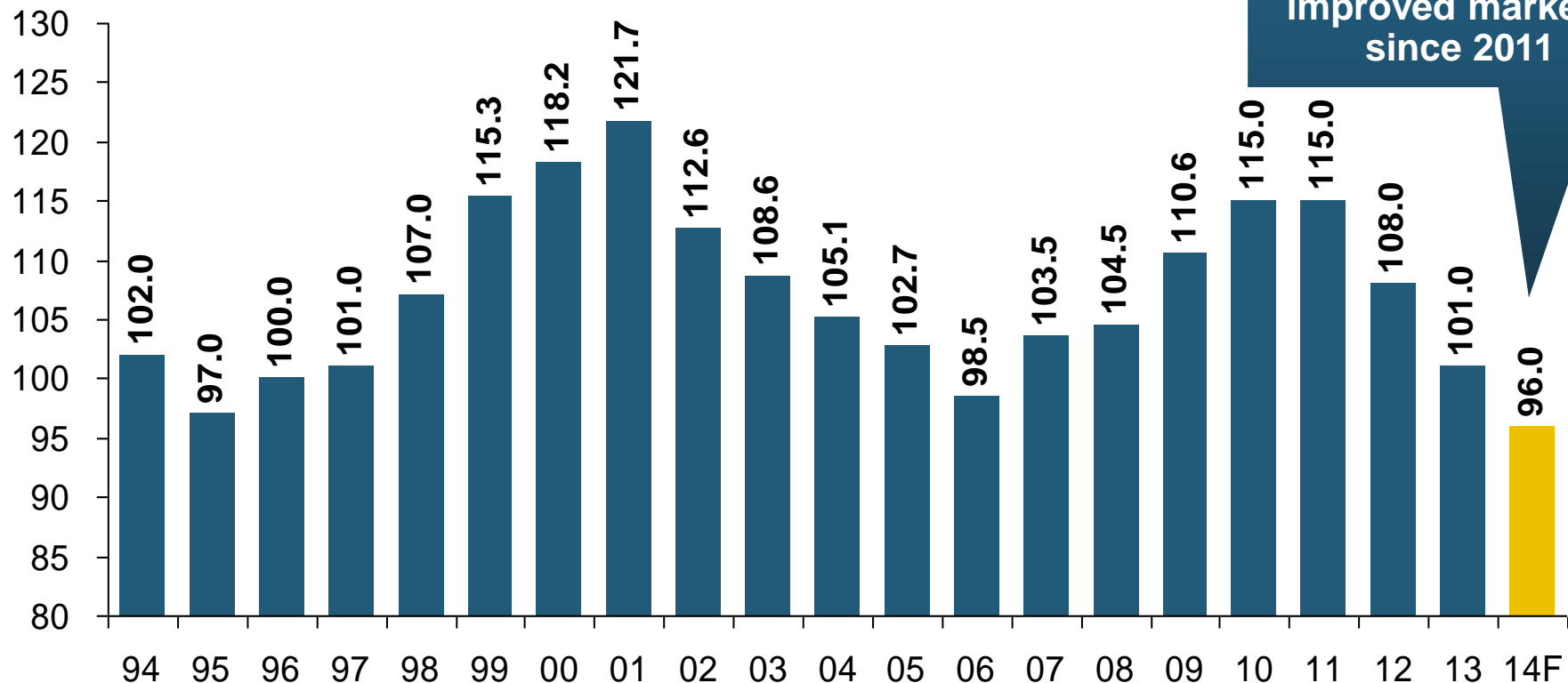
Commercial Lines Combined Ratio, 1990-2015F*



*2007-2012 figures exclude mortgage and financial guaranty segments.

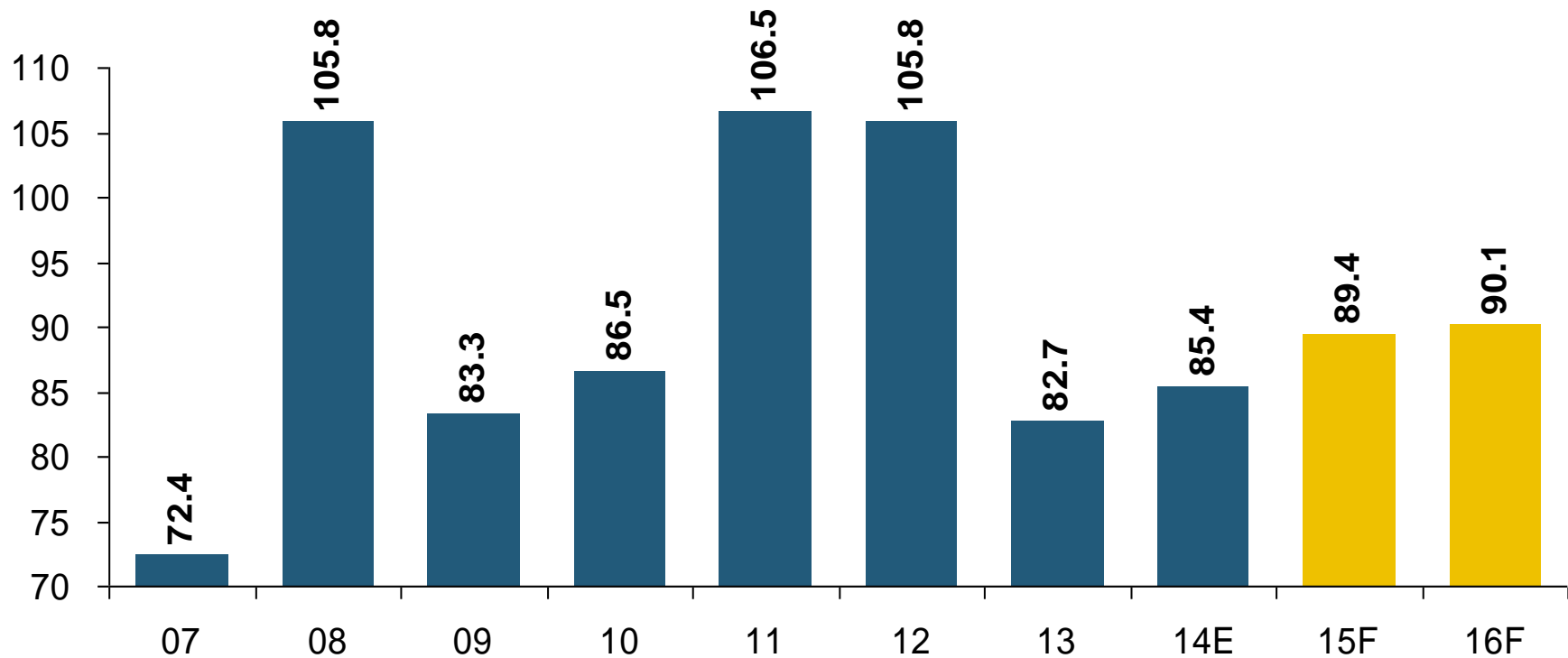
Source: A.M. Best (1990-2014F); Conning (2015F) Insurance Information Institute.

Workers Compensation Combined Ratio: 1994–2014E



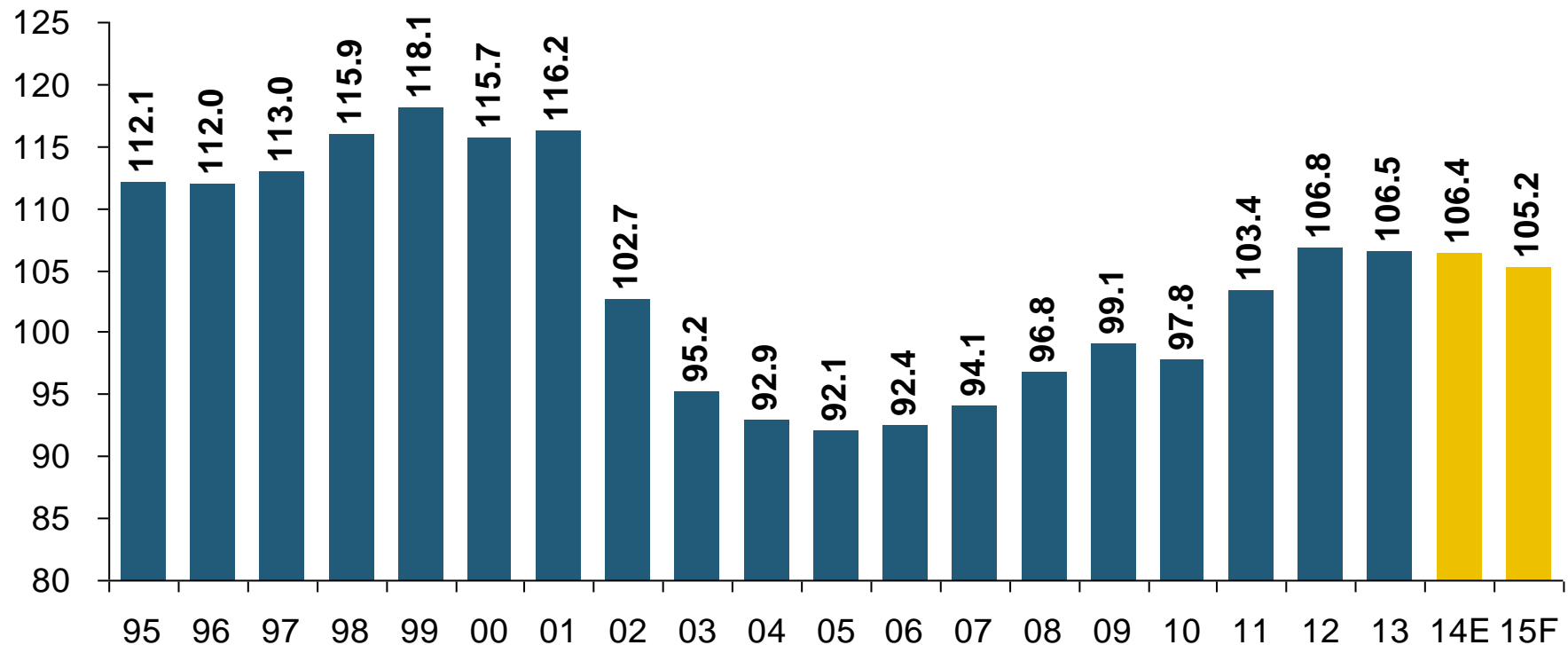
**Workers Comp Results Began to Improve in 2012.
Underwriting Results Deteriorated Markedly from 2007-
2010/11 and Were the Worst They Had Been in a Decade.**

Commercial Property Combined Ratio: 2007–2016F



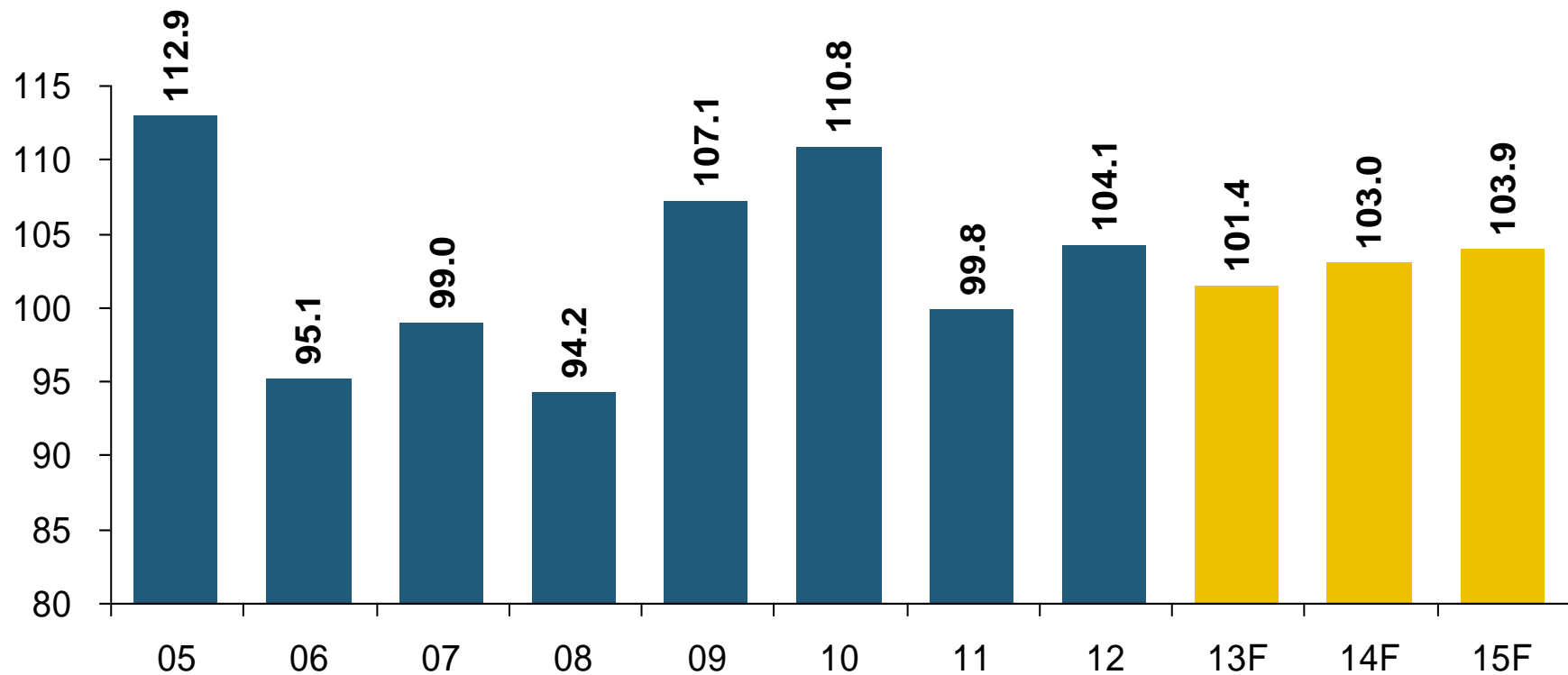
**Commercial Property Underwriting Performance
Has Been Volatile in Recent Years, Largely Due to
Fluctuations in CAT Activity**

Commercial Auto Combined Ratio: 1993–2015F



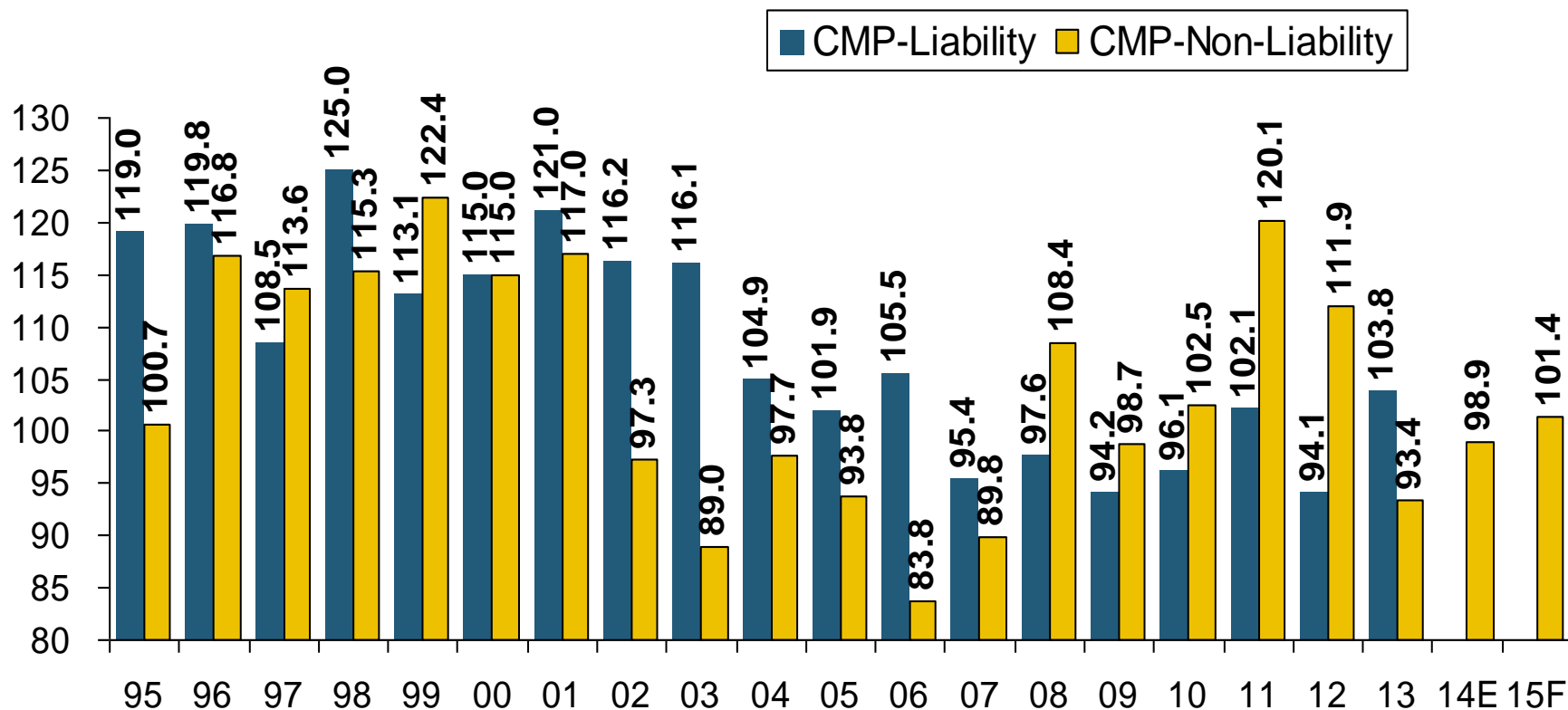
Commercial Auto is Expected to Improve Only Slowly as Rate Gains Barely Offset Adverse Frequency and Severity Trends

General Liability Combined Ratio: 2005–2015F



**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

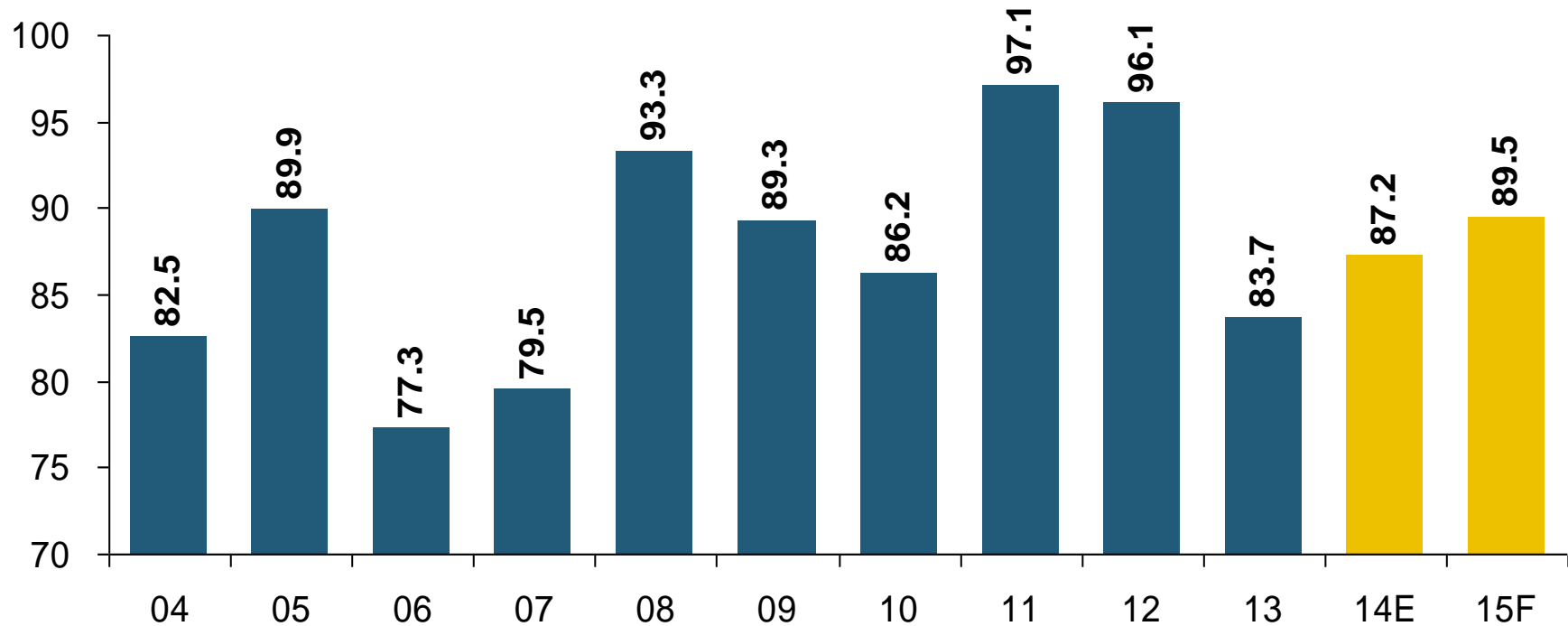
Commercial Multi-Peril Combined Ratio: 1995–2015F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2014E-2015F figures are Conning figures for the combined liability and non-liability components..
Sources: A.M. Best; Conning; Insurance Information Institute.

Inland Marine Combined Ratio: 2004–2015F



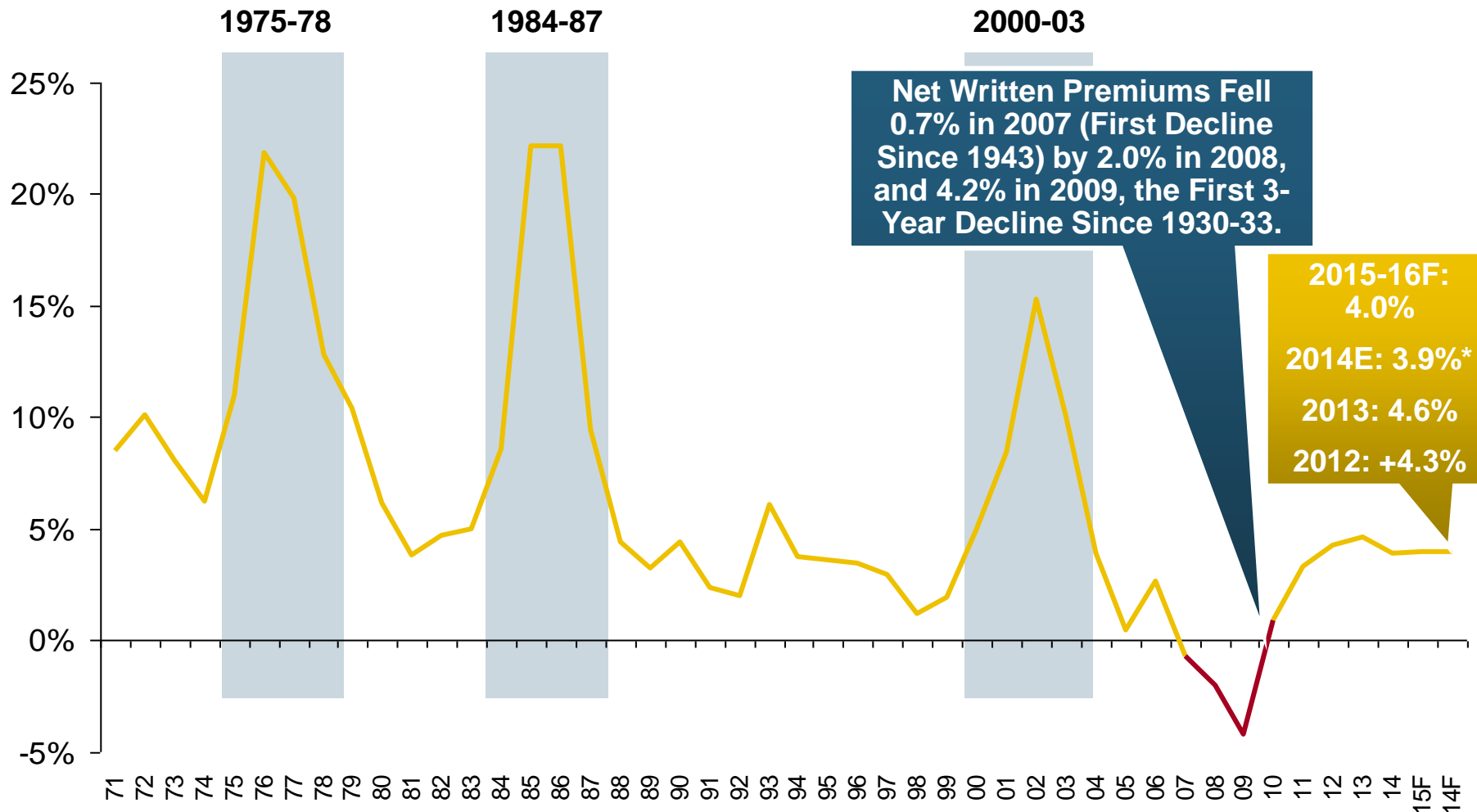
**Inland Marine Underwriting Performance Has Been
Consistently Strong for Many Years**

Growth Analysis by State and Business Segment

Post-Crisis Paradox?
*Premium Growth Rates Vary
Tremendously by State*

Net Premium Growth: Annual Change, 1971—2016F

(Percent)



*Actual figure based on data through Q3 2014.

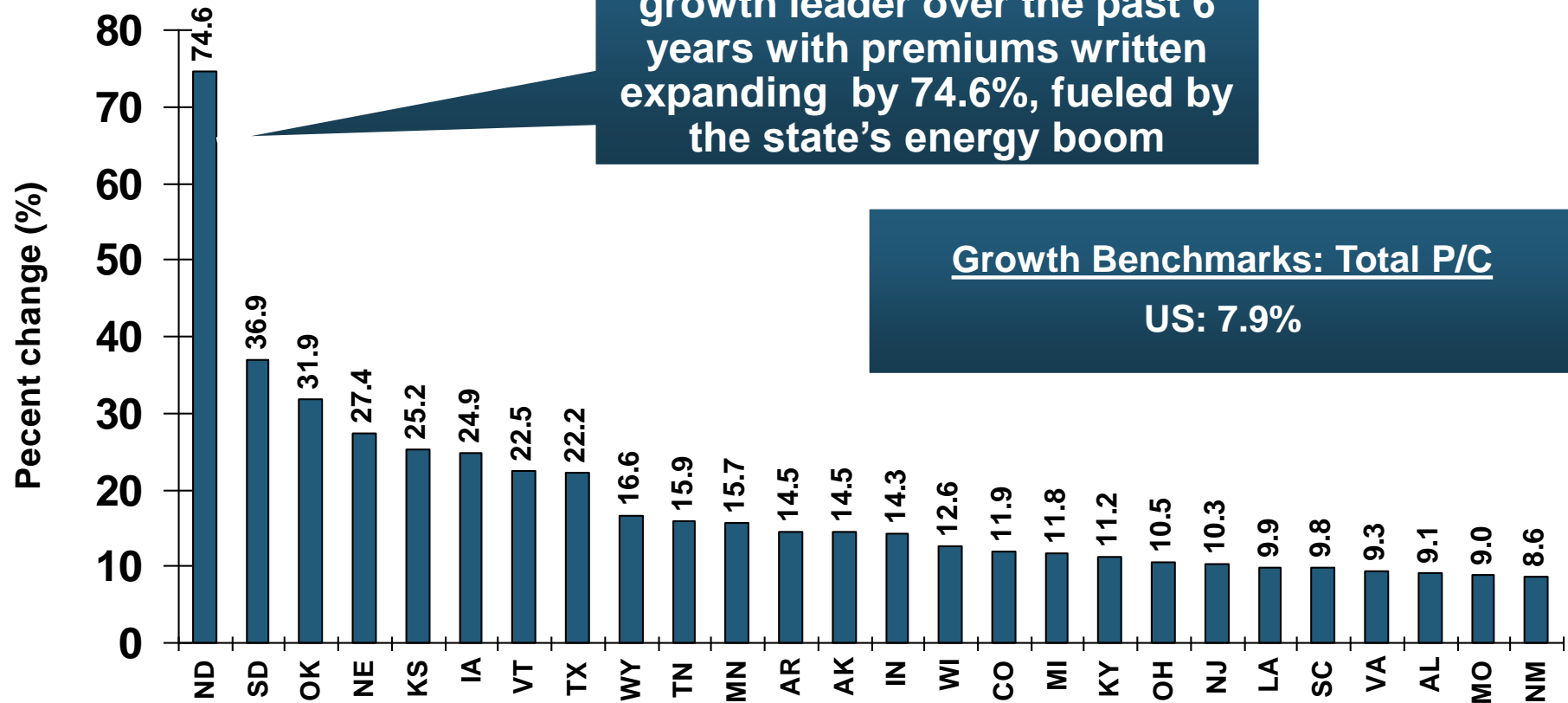
Shaded areas denote "hard market" periods

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

Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

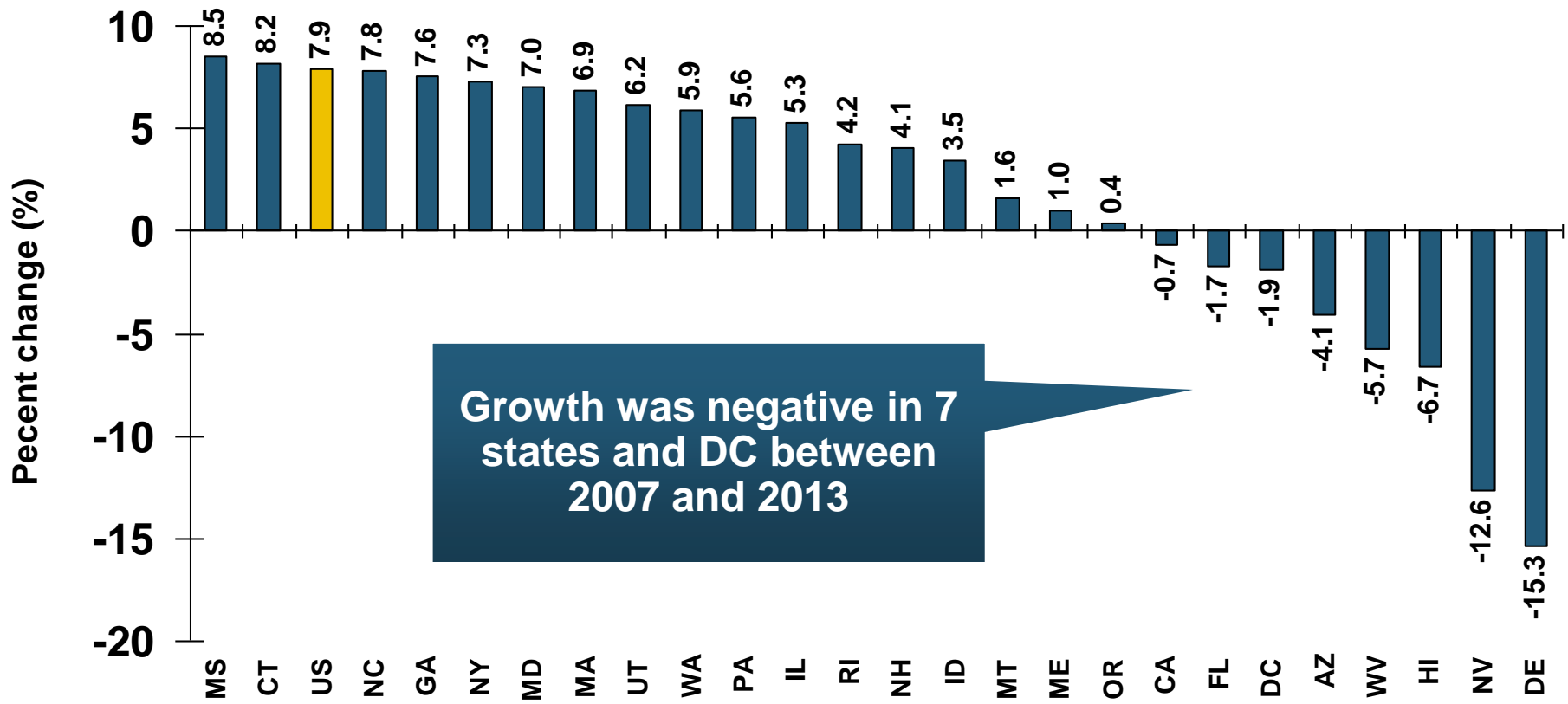
Top 25 States

North Dakota was the country's growth leader over the past 6 years with premiums written expanding by 74.6%, fueled by the state's energy boom



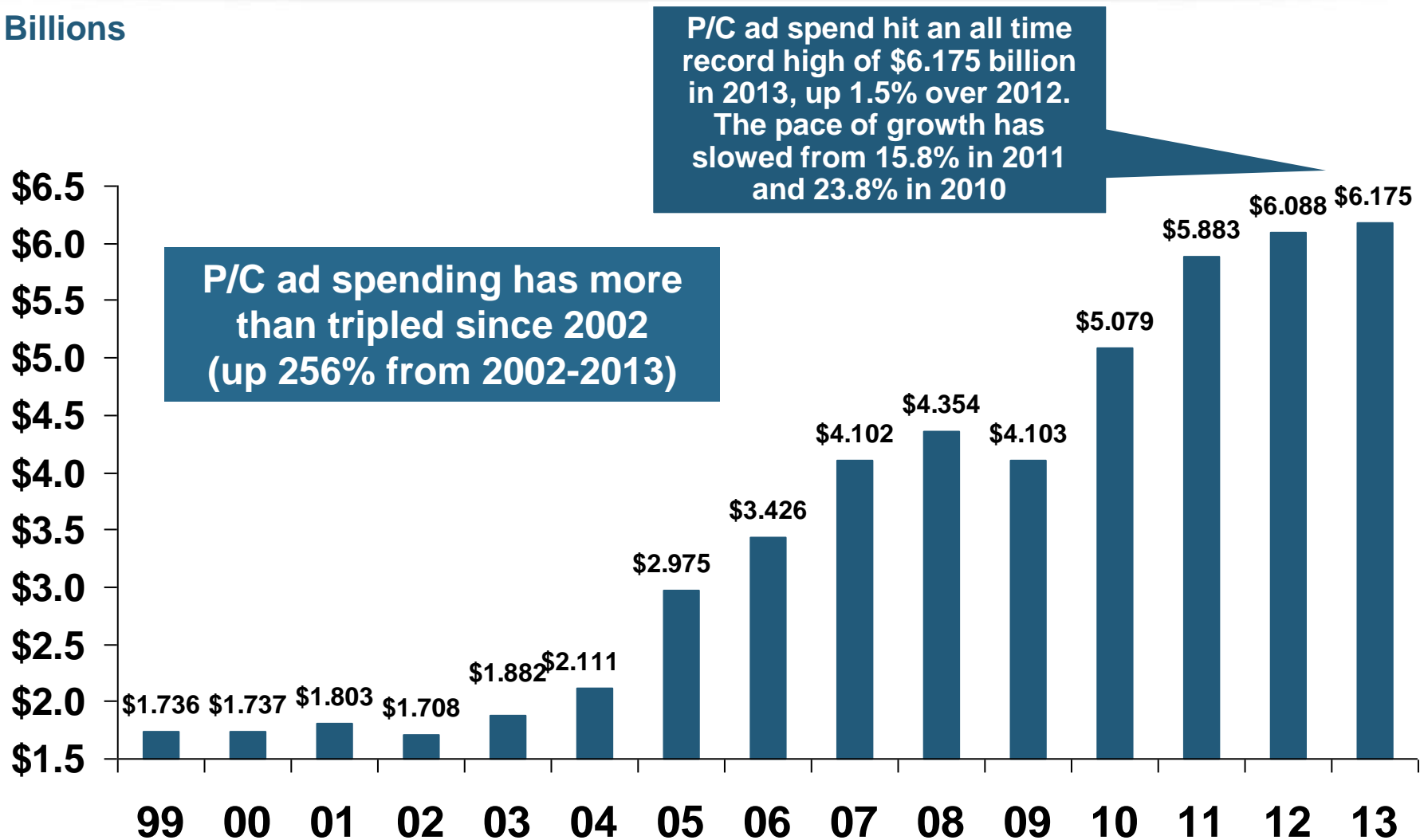
Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

Bottom 25 States



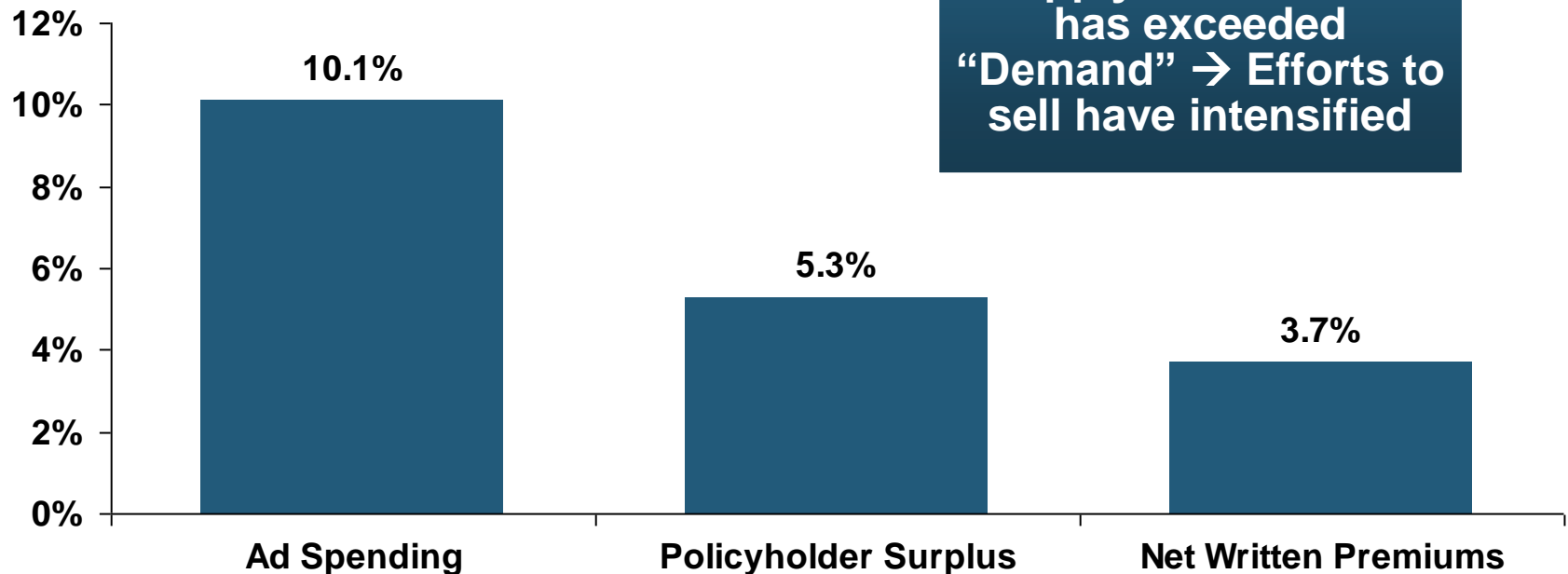
Advertising Expenditures by P/C Insurance Industry, 1999-2013

\$ Billions



Growth in Premiums, Capacity vs. Growth in Advertising Expenditures, 2000 – 2013

Average Annual Percent Change (%)

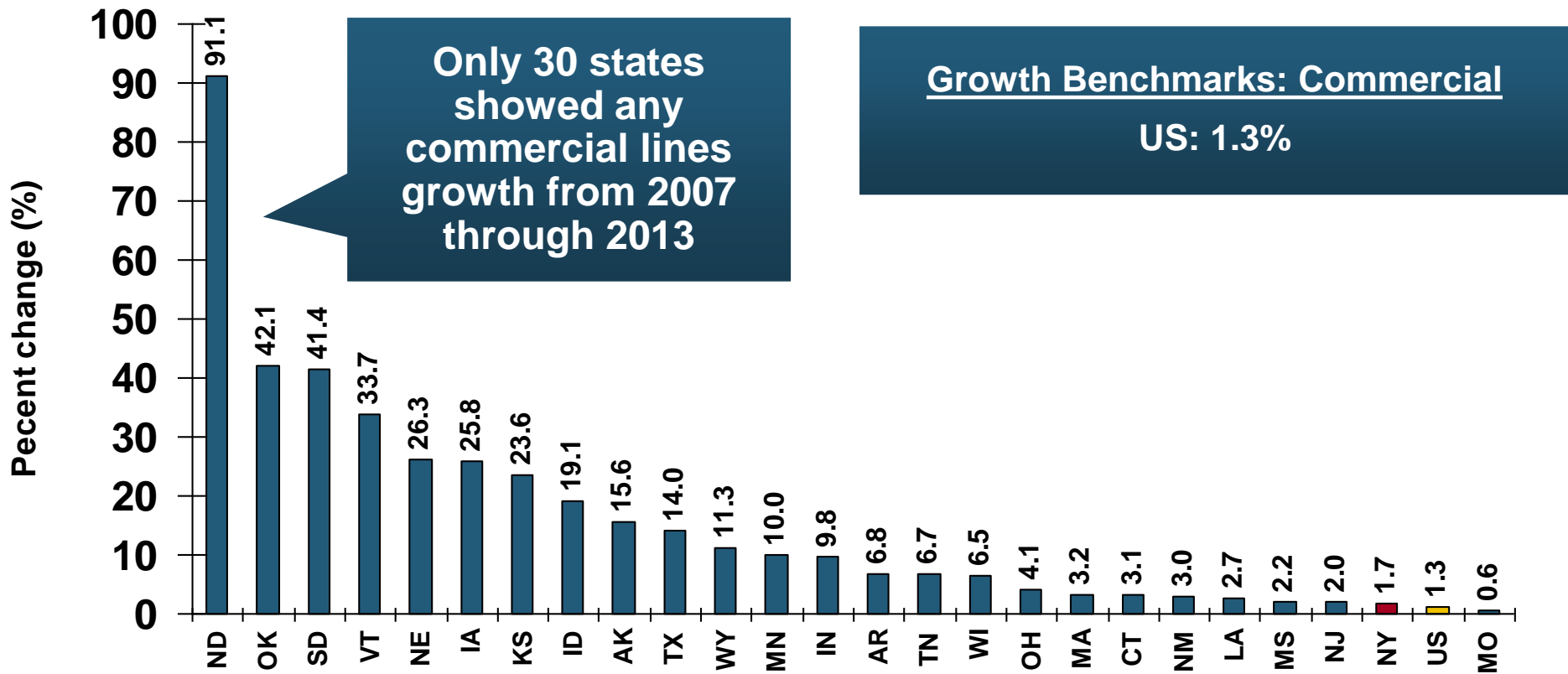


Growth in the
“Supply” of insurance
has exceeded
“Demand” → Efforts to
sell have intensified

Overall Growth in Ad Spending has greatly exceeded growth in capacity (policyholder surplus) or premium growth. This suggests that there are diminishing returns to advertising.

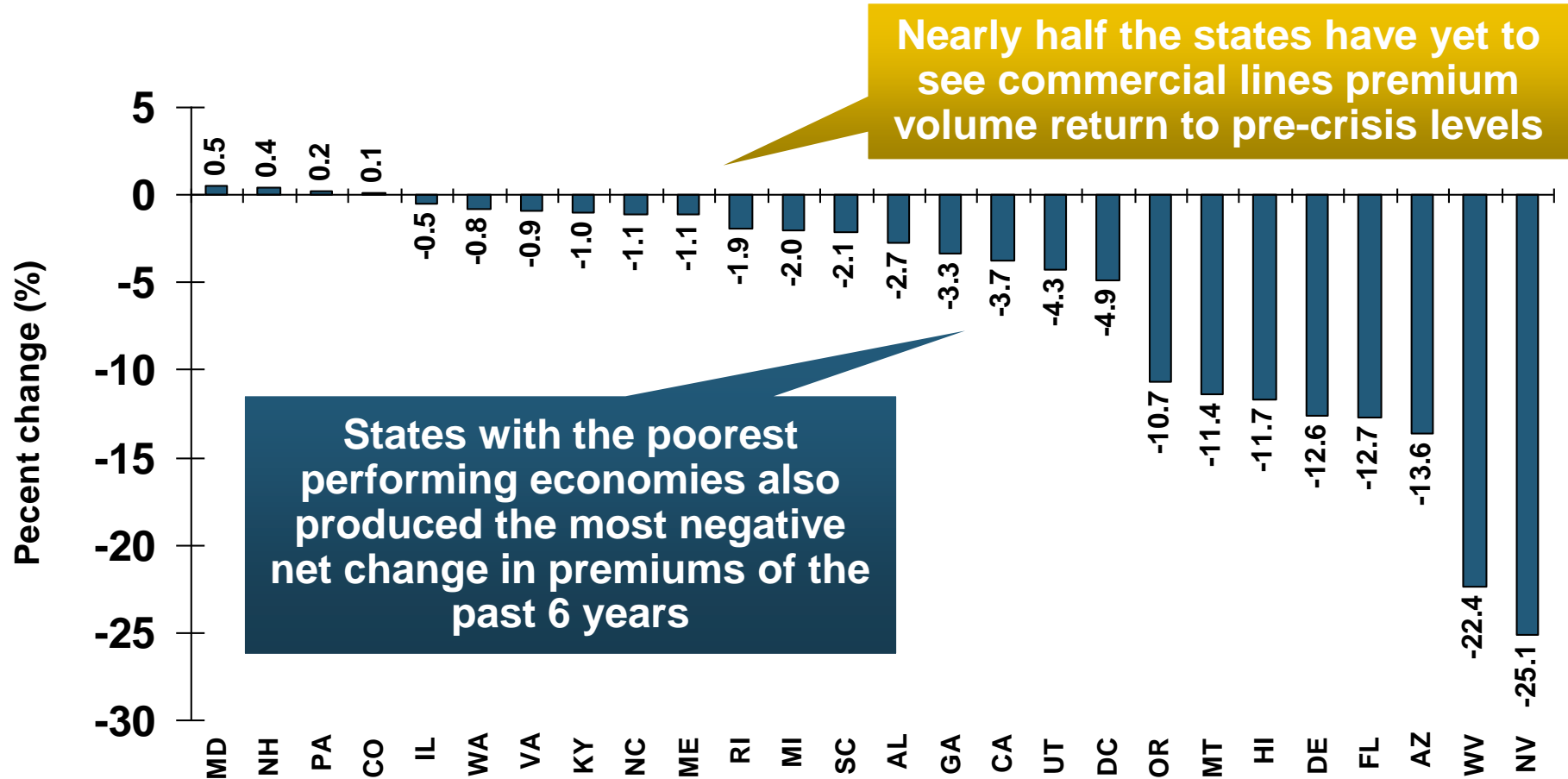
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

Top 25 States



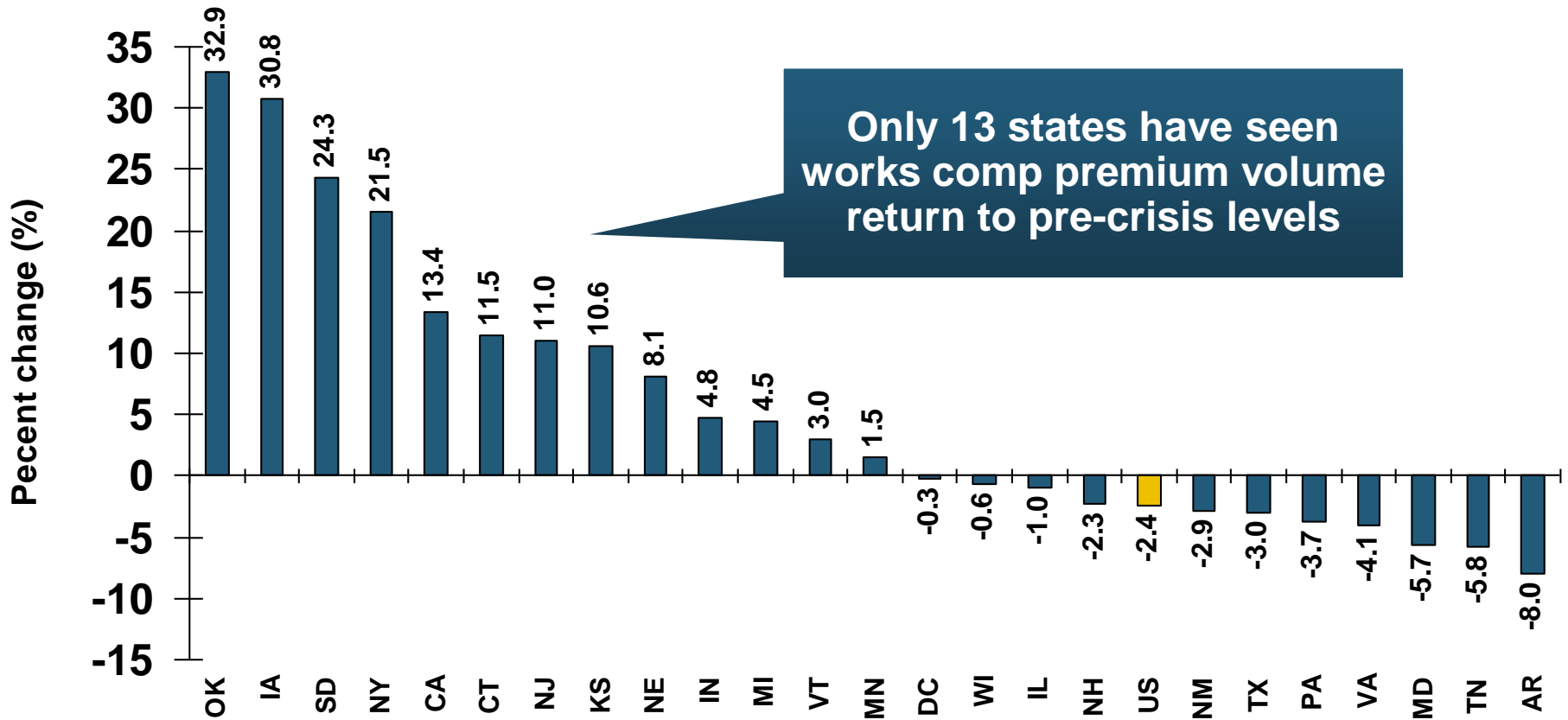
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

Bottom 25 States



Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2013*

Top 25 States

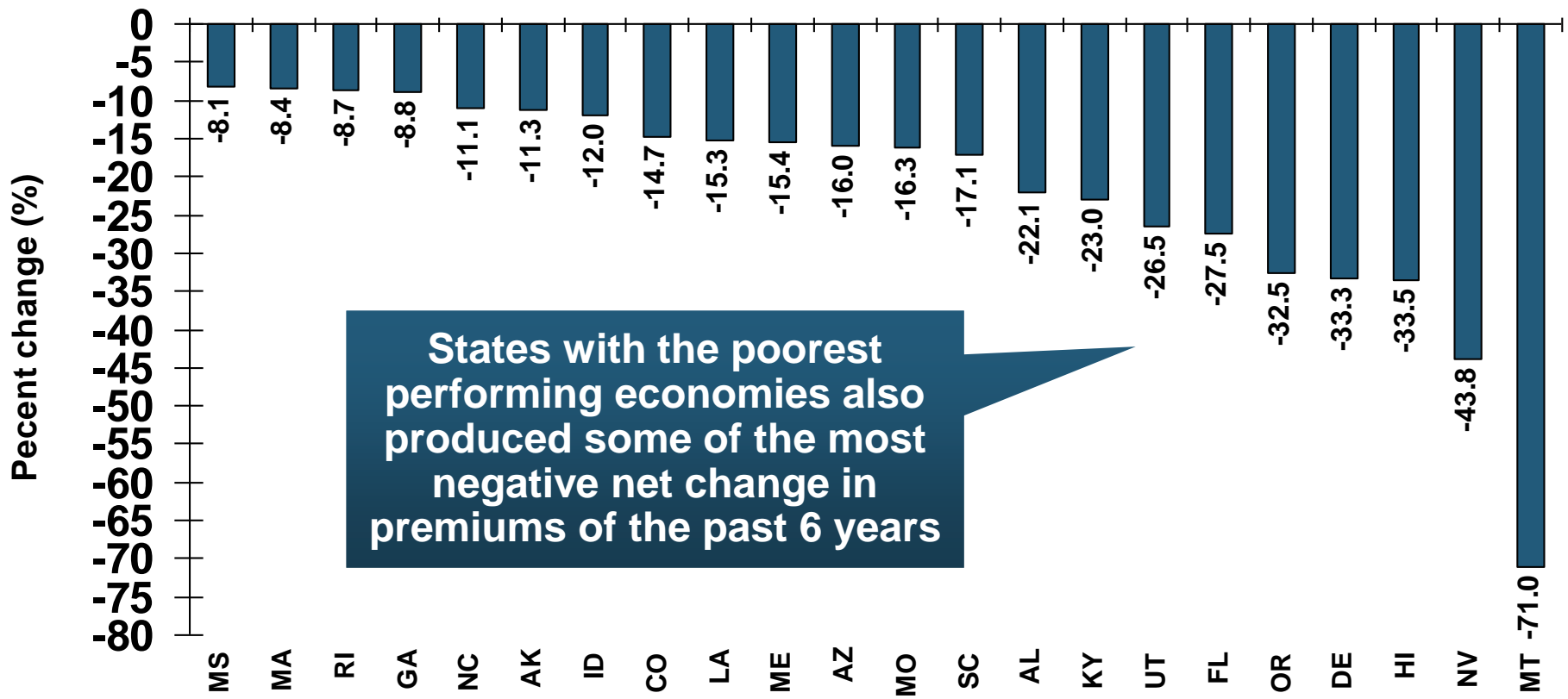


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2013*

Bottom 25 States



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

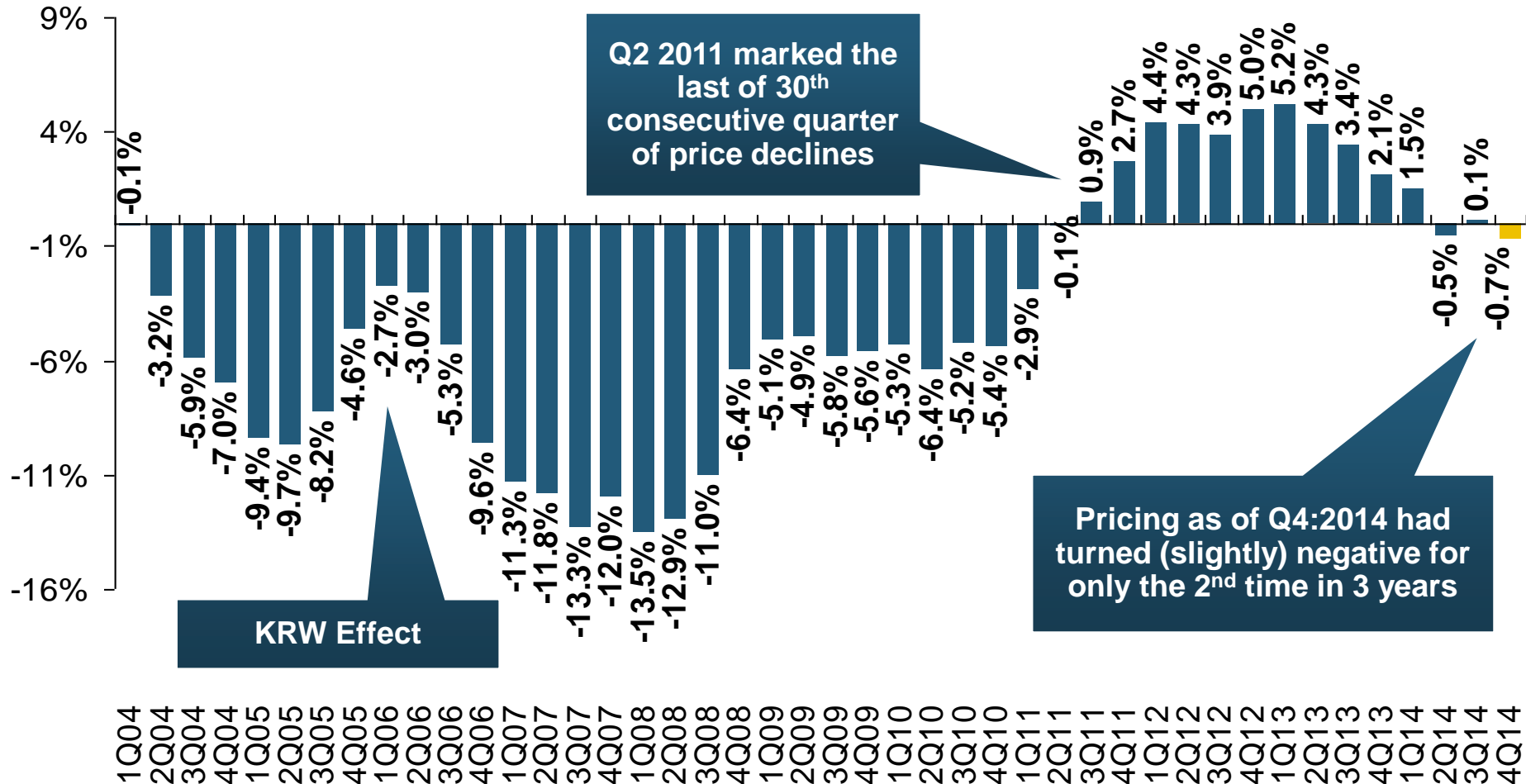
Sources: SNL Financial LC.; Insurance Information Institute.

Commercial Lines Pricing Trends

**Survey Results Suggest
Commercial Pricing Has
Flattened Out**

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2014)

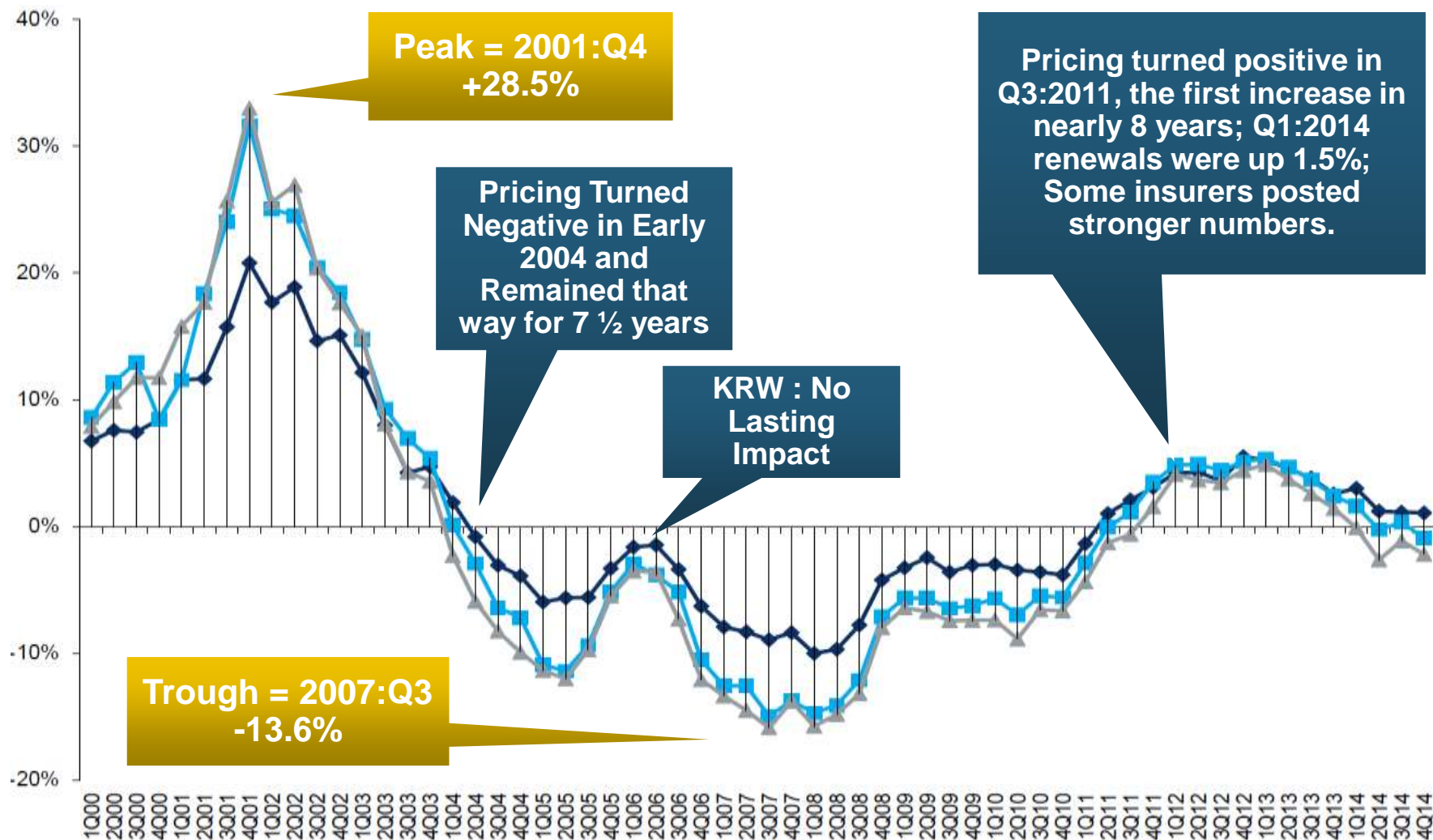
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2014:Q4

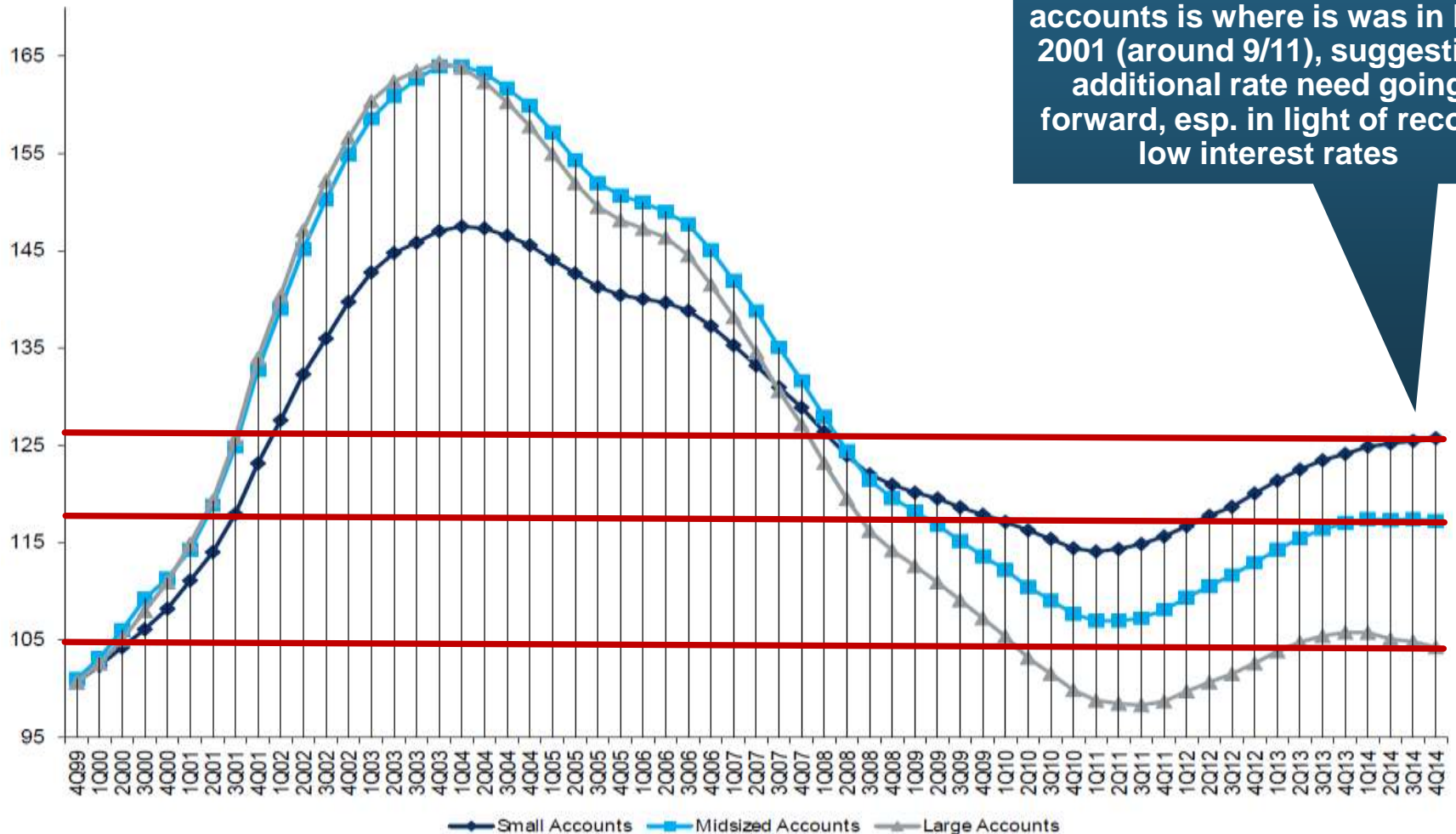
Percentage Change (%)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2014:Q4

1999:Q4 = 100

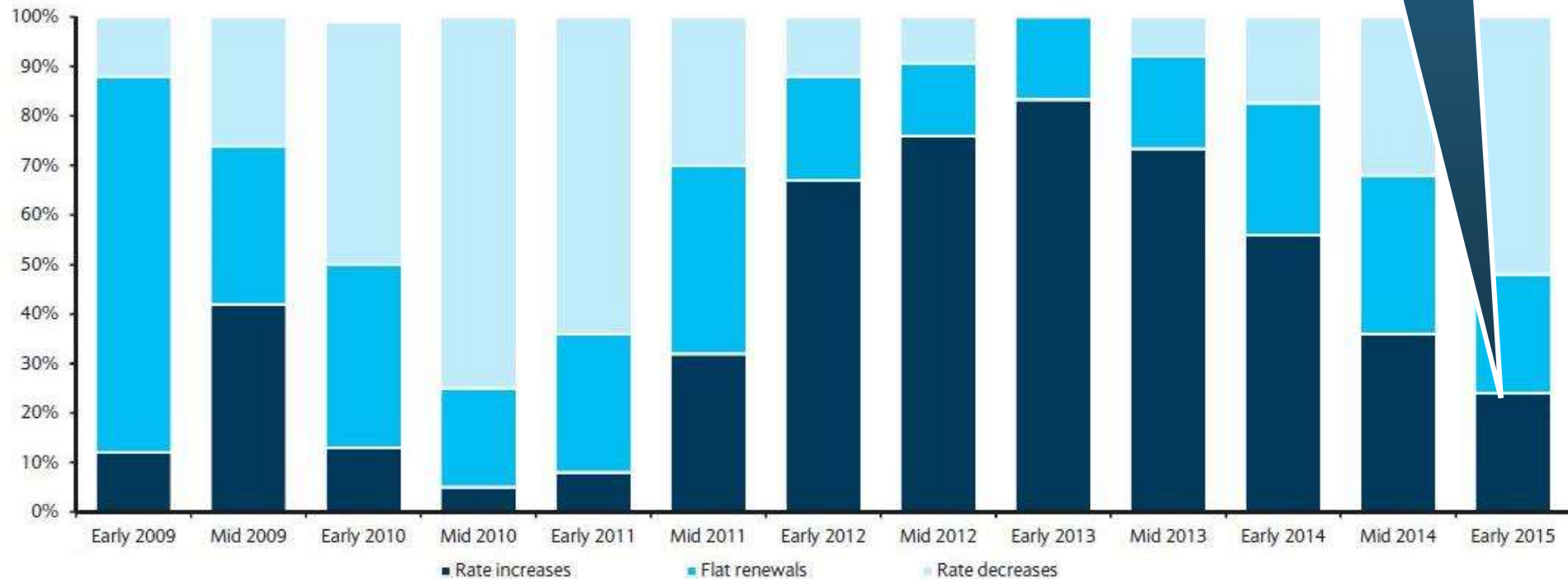


Despite several years of gains, pricing today for midsize accounts is where it was in late 2001 (around 9/11), suggesting additional rate need going forward, esp. in light of record low interest rates

Directional Pricing Trend in Large Account P/C Renewals

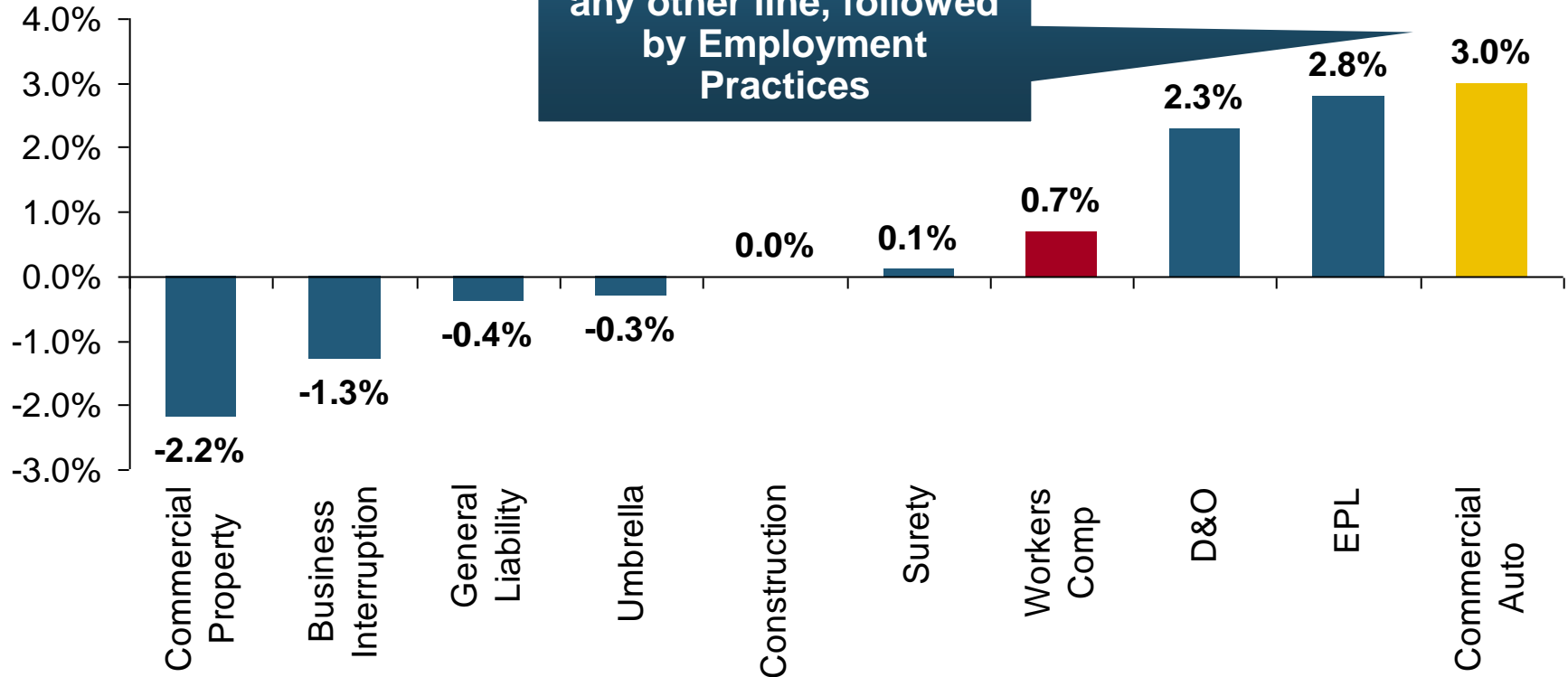
Early 2009 through Early 2015

Few accounts are seeing increases



Change in Commercial Rate Renewals, by Line: 2014:Q4

Percentage Change (%)

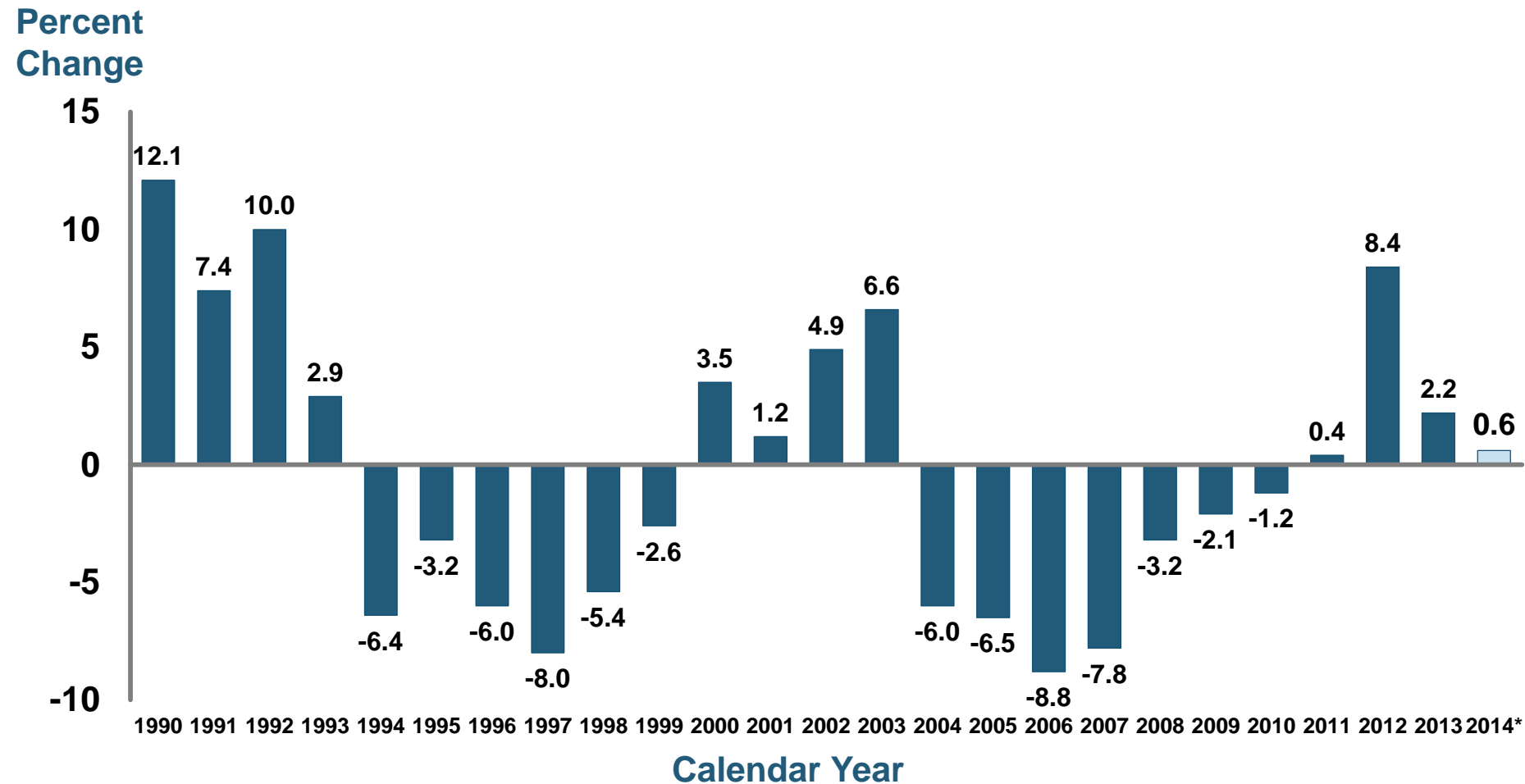


Major Commercial Lines Renewals Were Mixed to Flat in Q4:2014; Commercial Auto and EPL Led the Way

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Workers Compensation Approved Changes in Bureau Rates/Loss Costs

All States

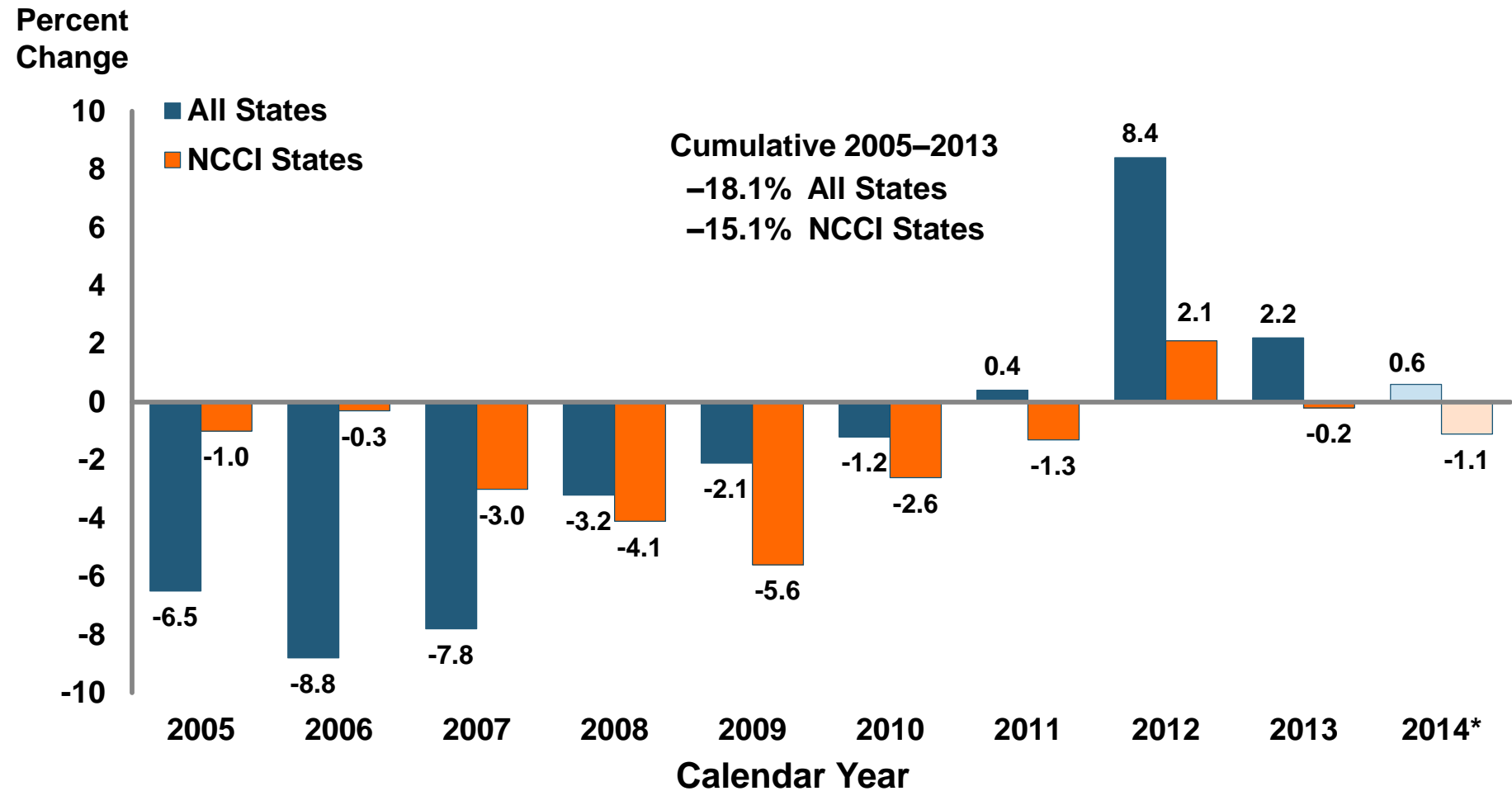


*States approved through 4/8/2014

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

Workers Compensation Approved Changes in Bureau Rates/Loss Costs

All States vs. NCCI States

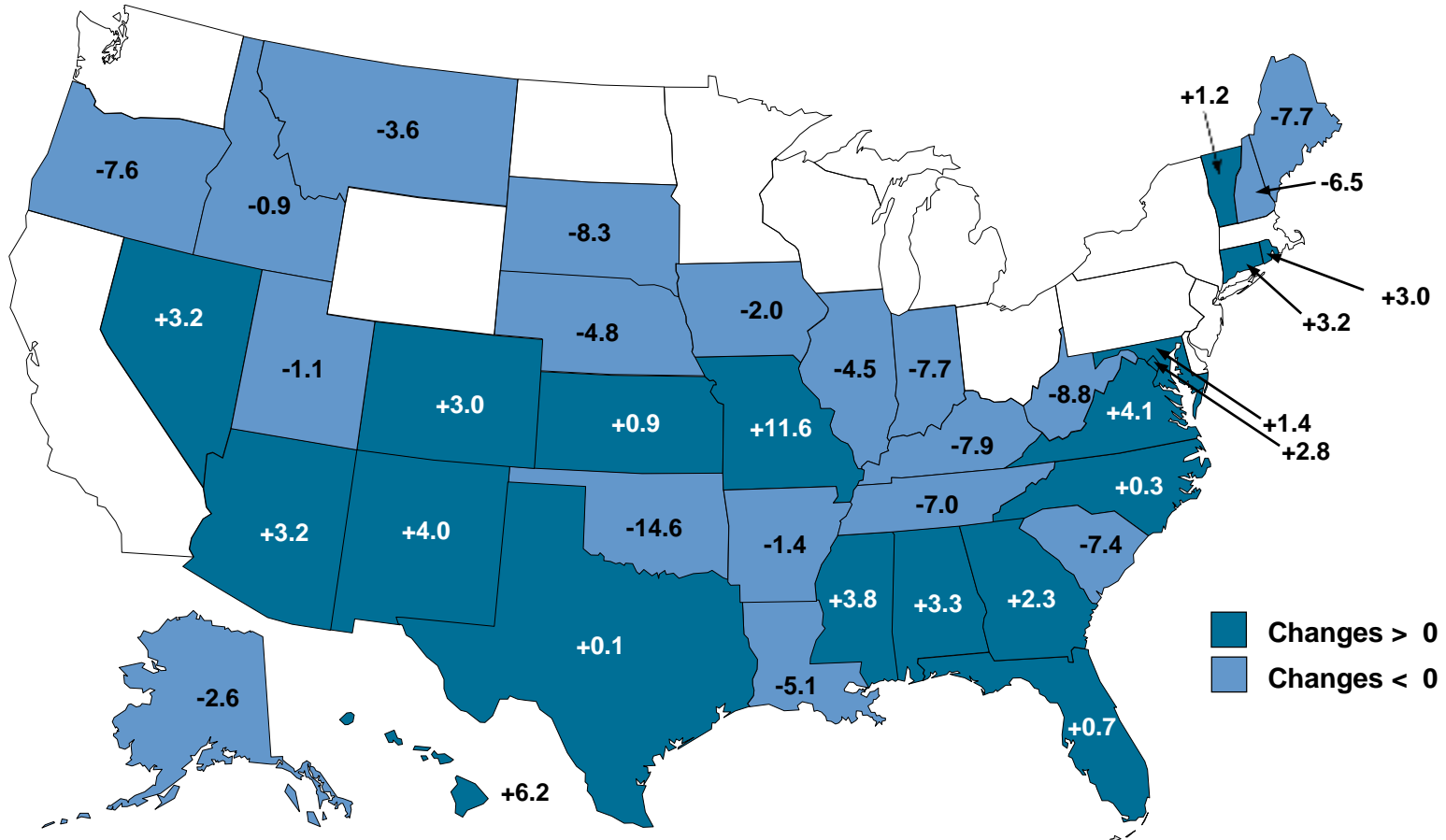


*States approved through 4/8/2014

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

Current NCCI Voluntary Market Rate/Loss Cost Changes

Approved or Pending Rate/Loss Cost Changes
Excludes Law-Only Filings



States approved or pending as of 4/8/2014

IN and NC filed in cooperation with state rating bureau

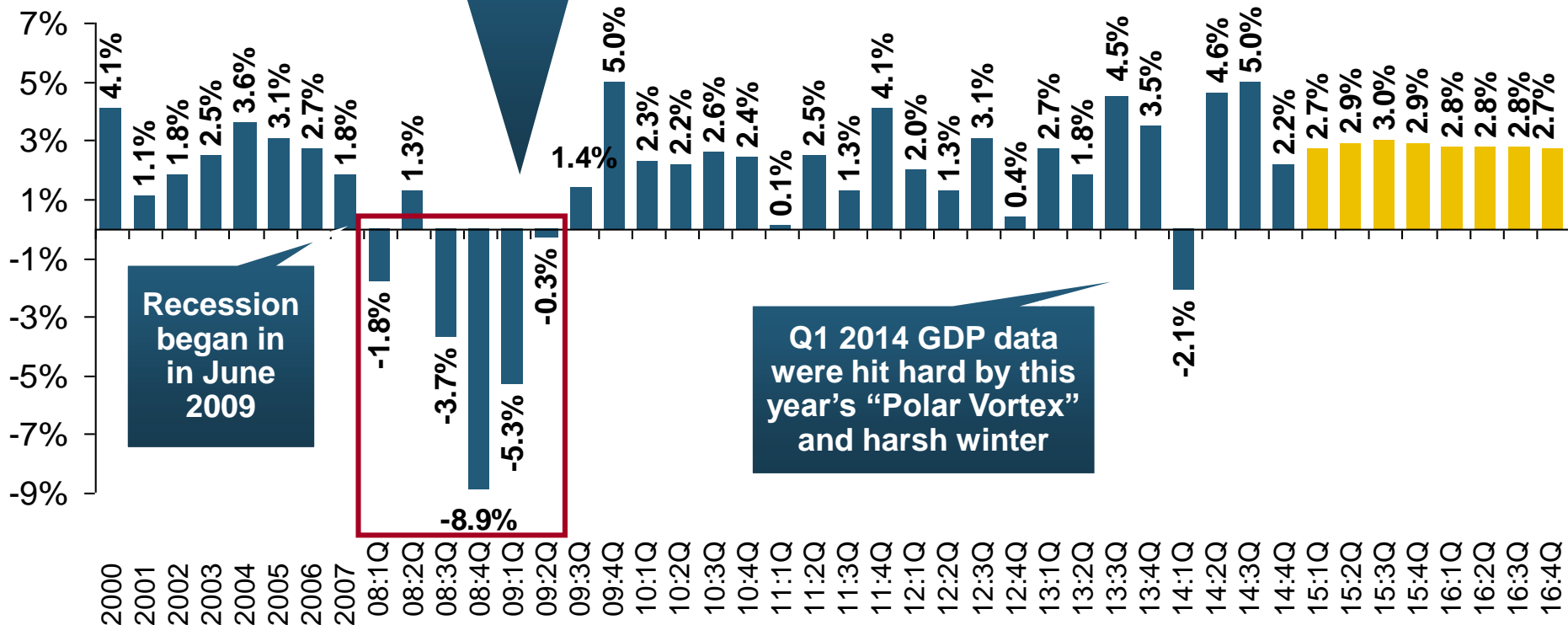
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%



Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

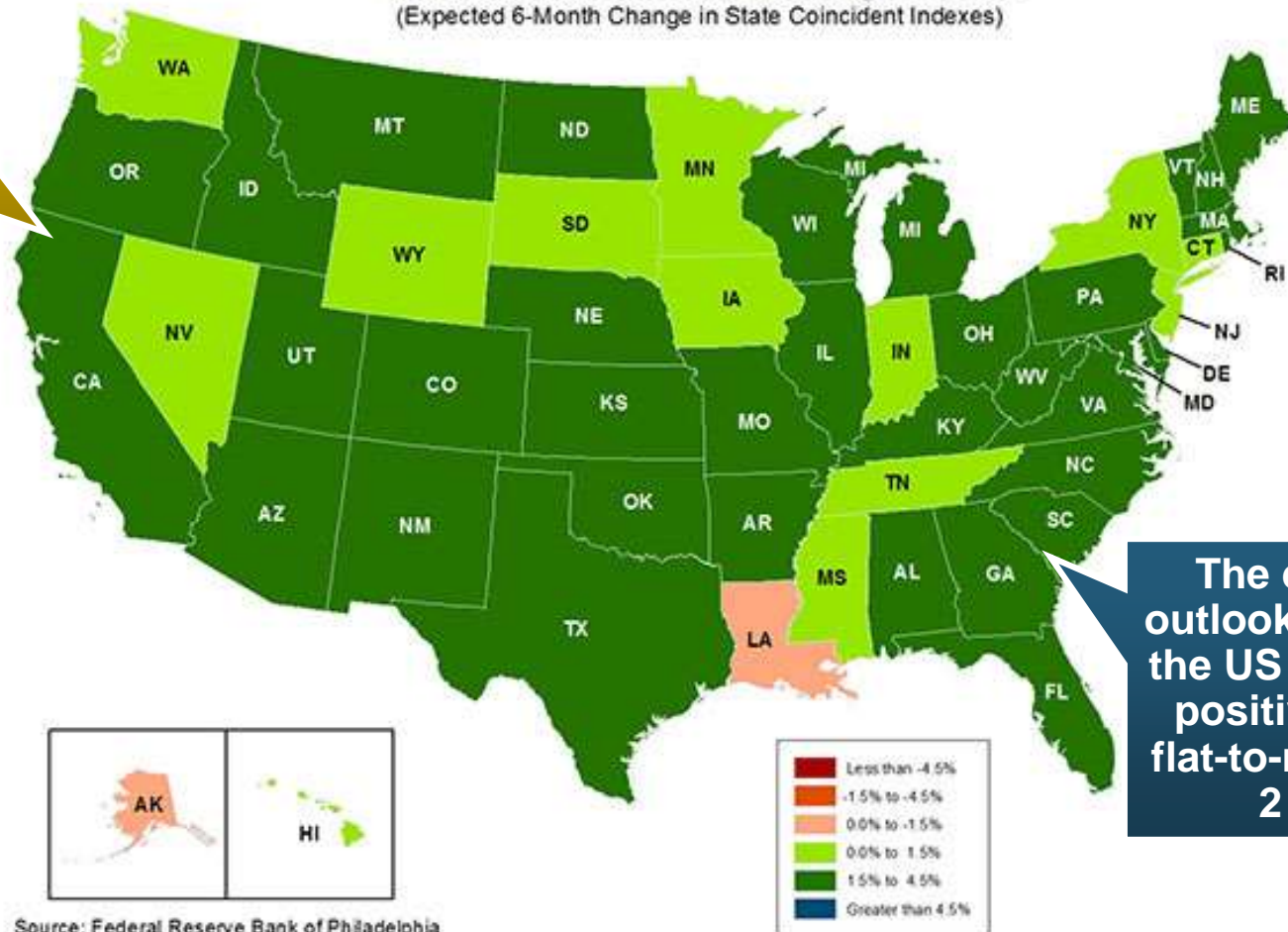
* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/15; Insurance Information Institute.

State-by-State Leading Indicators through 2015:Q2

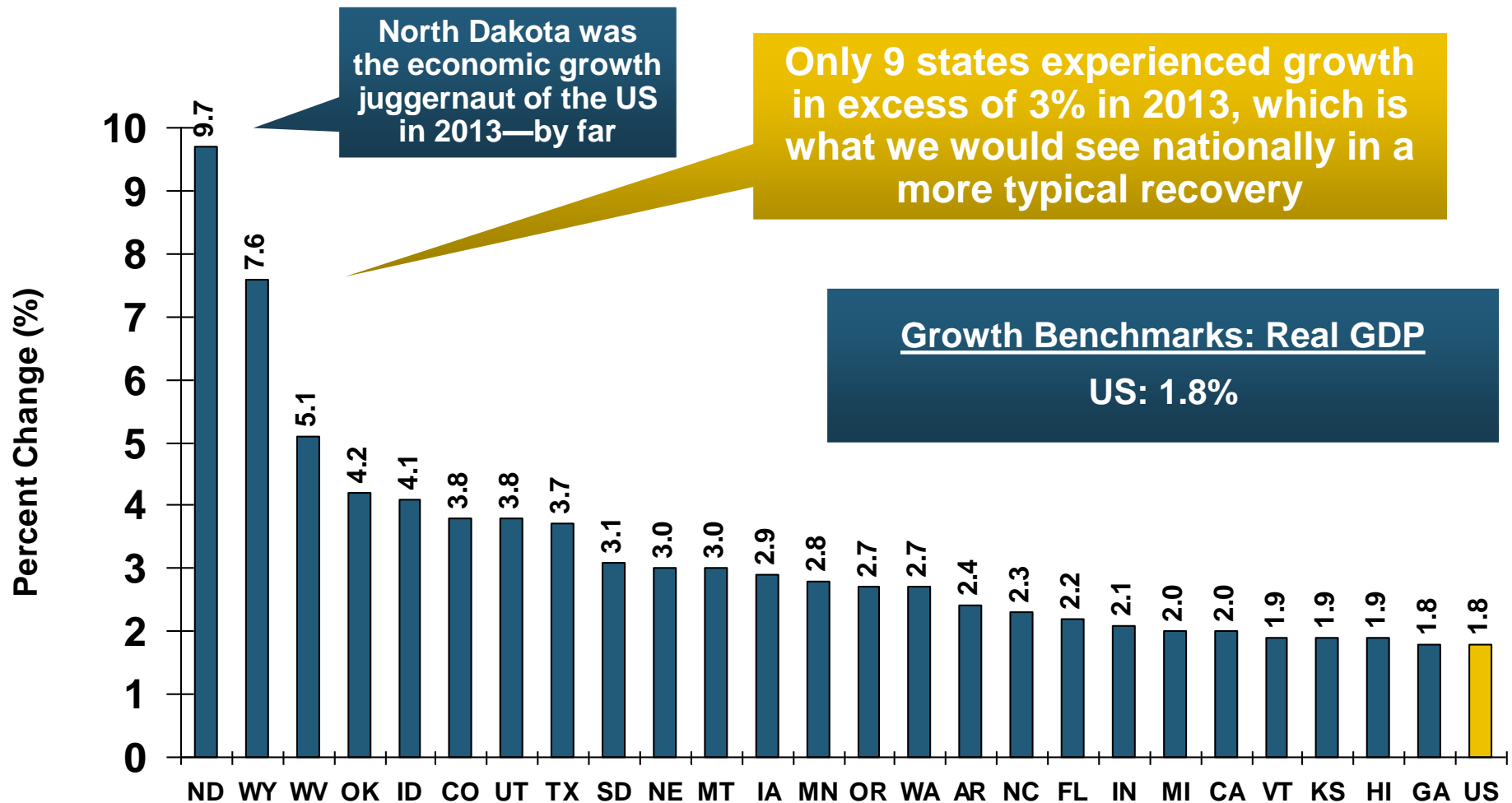
Growth in the West is finally beginning to pick up

November 2014 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

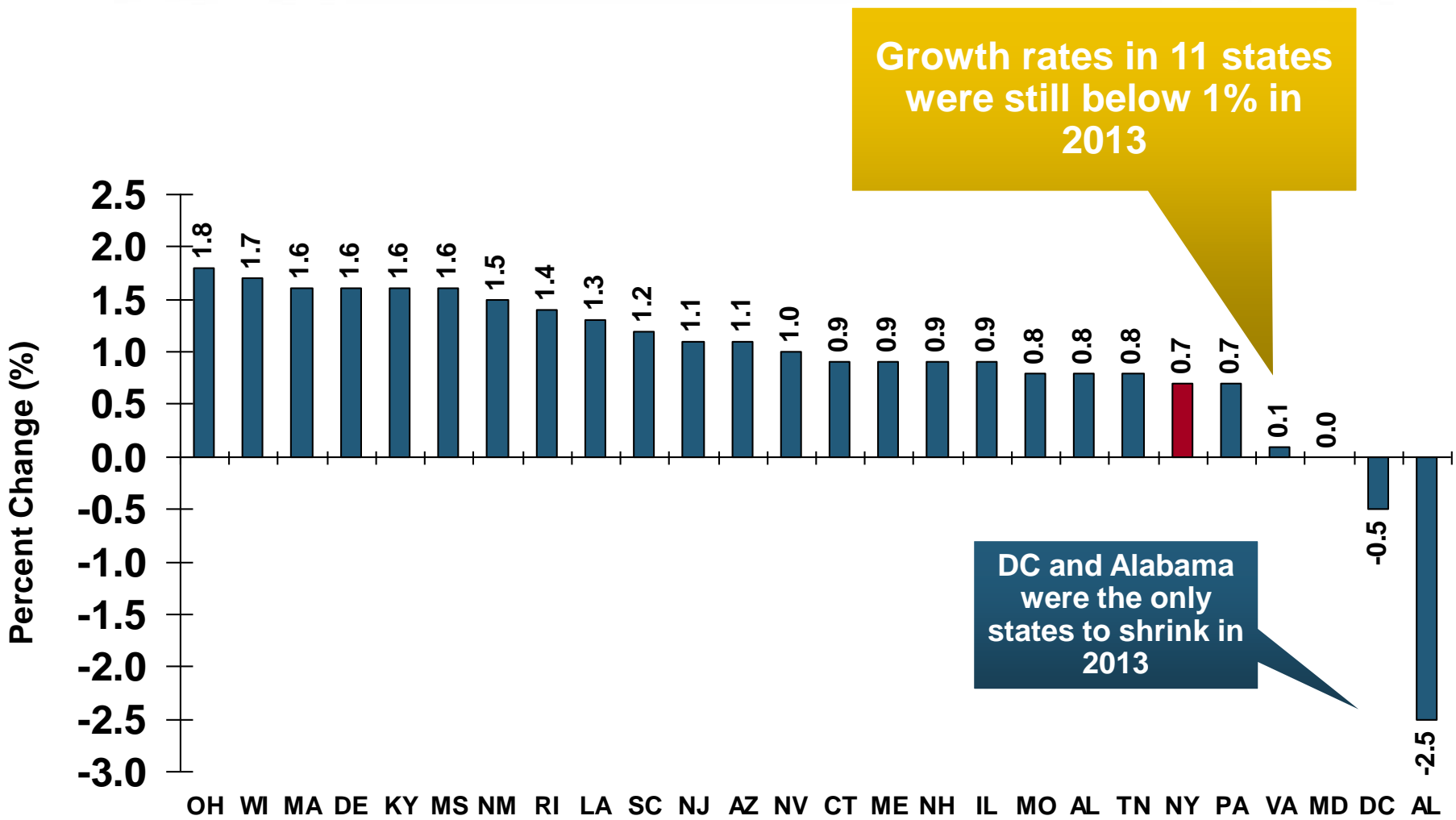


The economic outlook for most of the US is generally positive, though flat-to-negative for 2 states

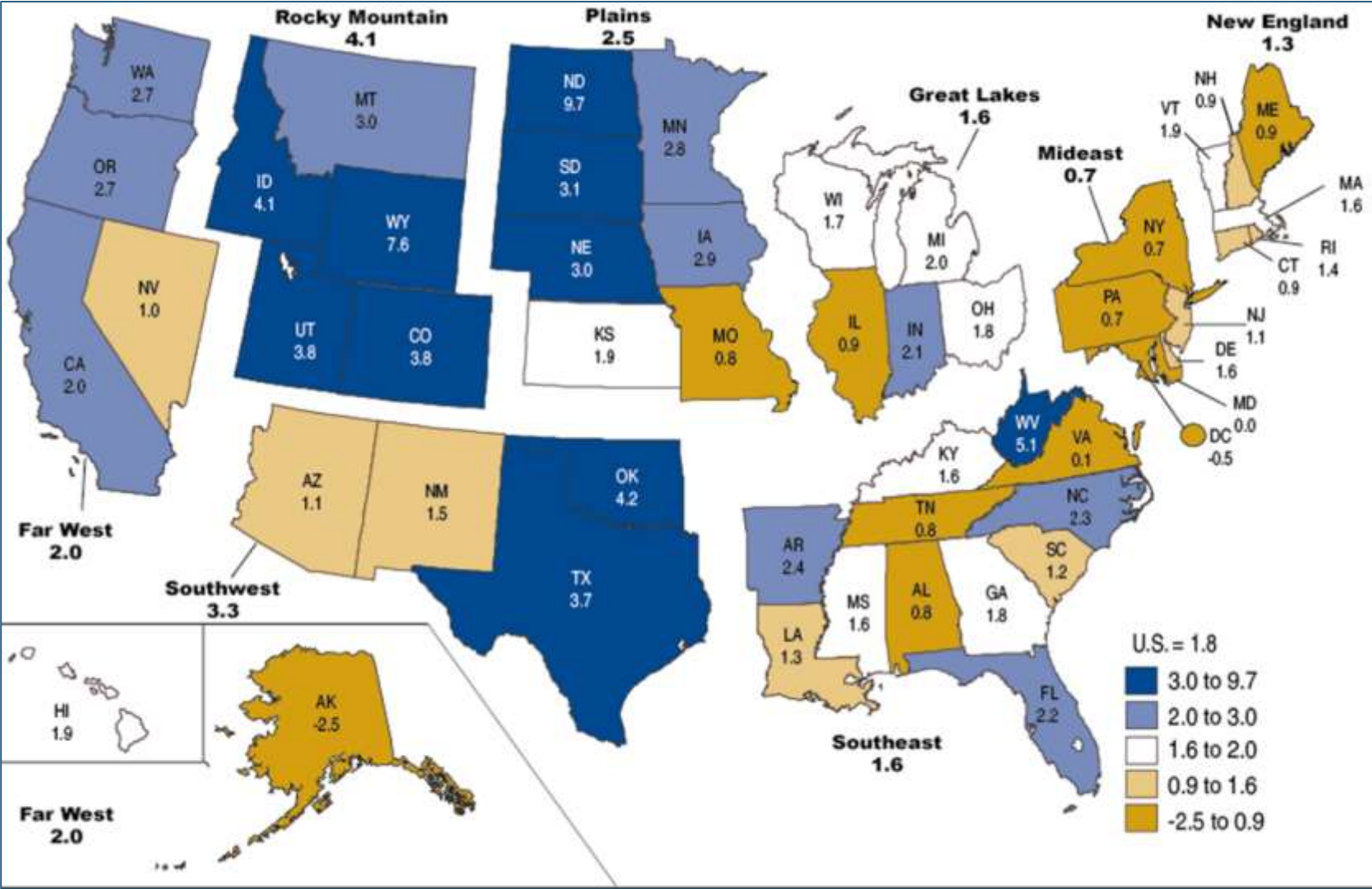
Real GDP by State Percent Change, 2013: Highest 25 States



Real GDP by State Percent Change, 2013: Lowest 25 States



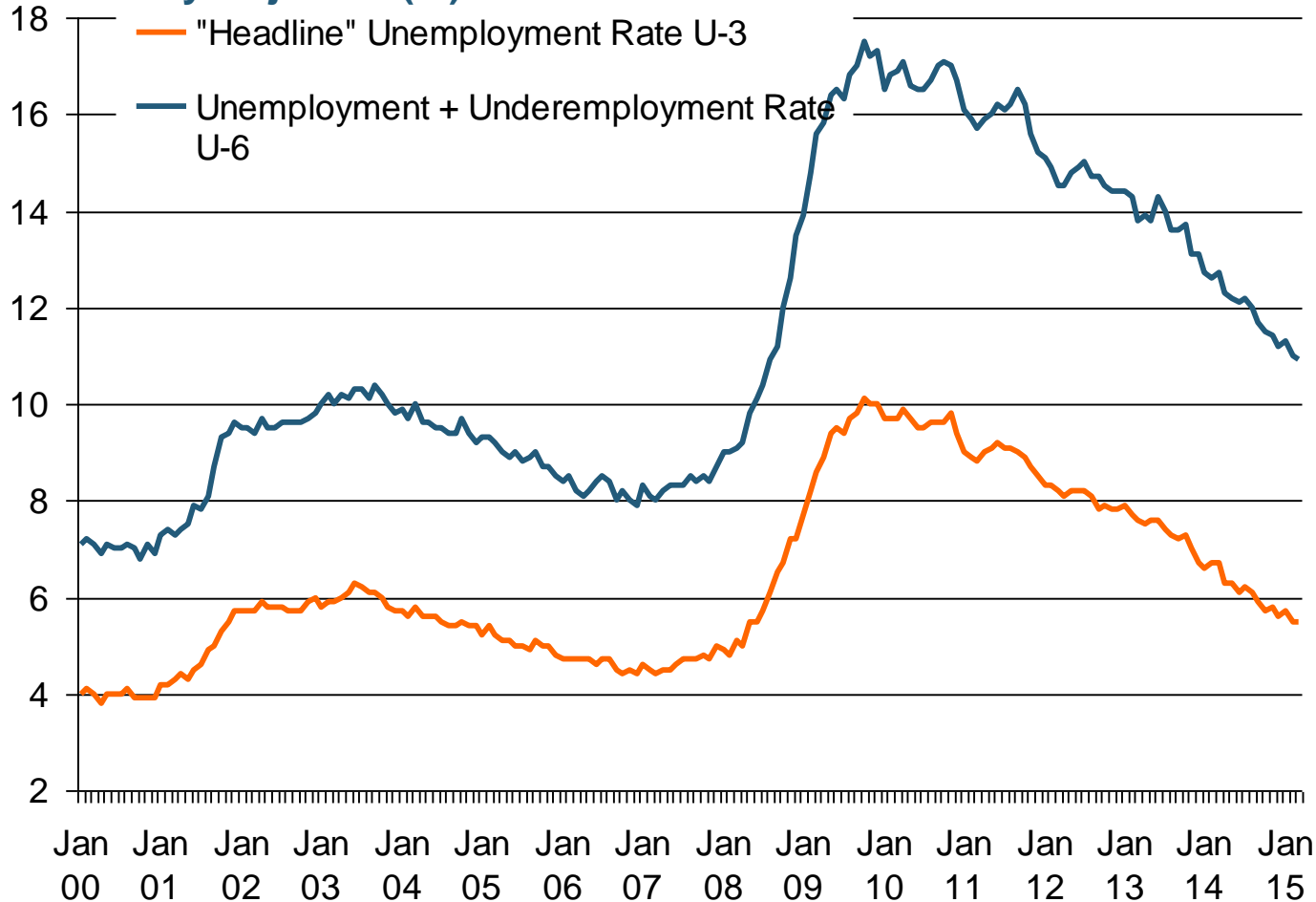
Percent Change in Real GDP by State, 2013



Sources: [US Bureau of Economic Analysis](#); Insurance Information Institute.

Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through March 2015,
Seasonally Adjusted (%)



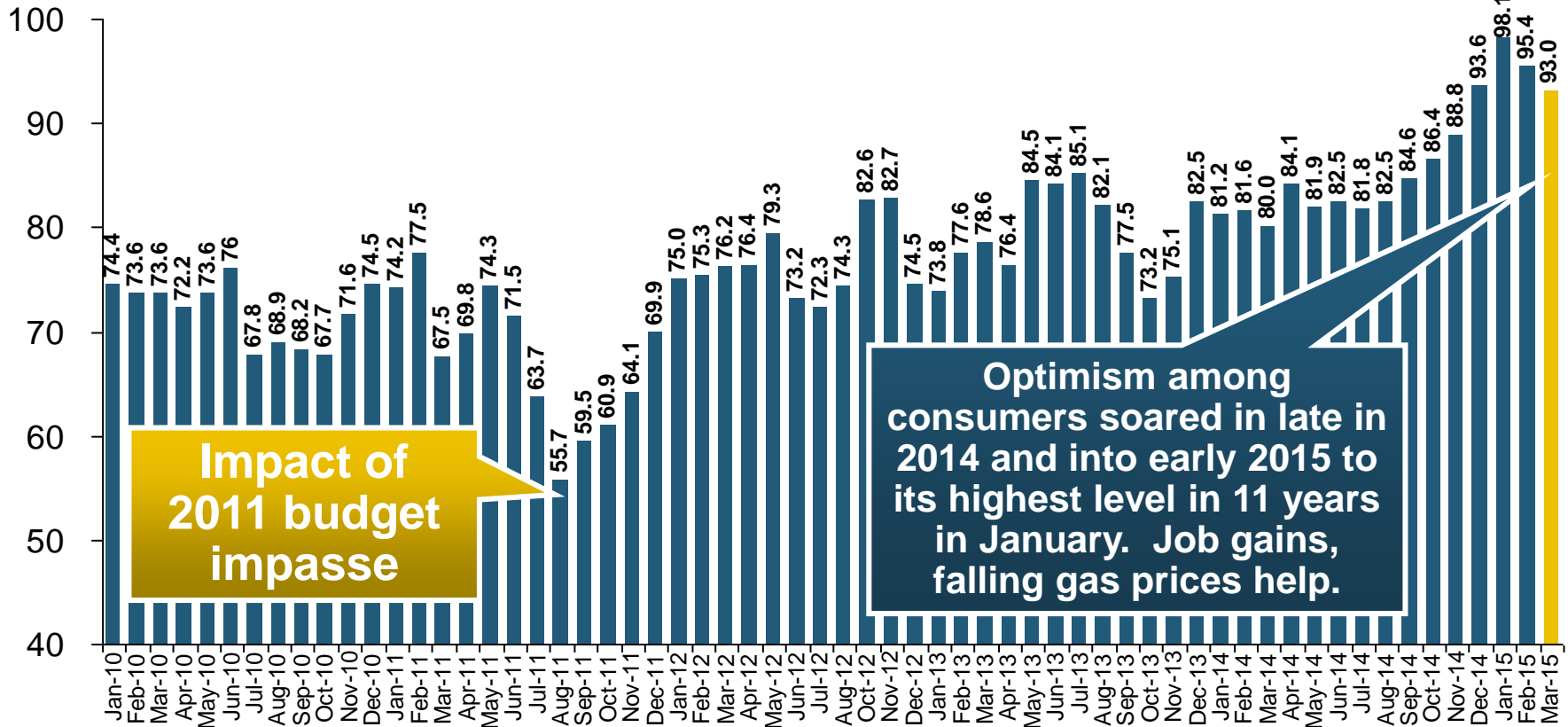
U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.9% in Mar. 2015. 8% to 10% is "normal."

"Headline" unemployment was 5.5% in Mar. 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

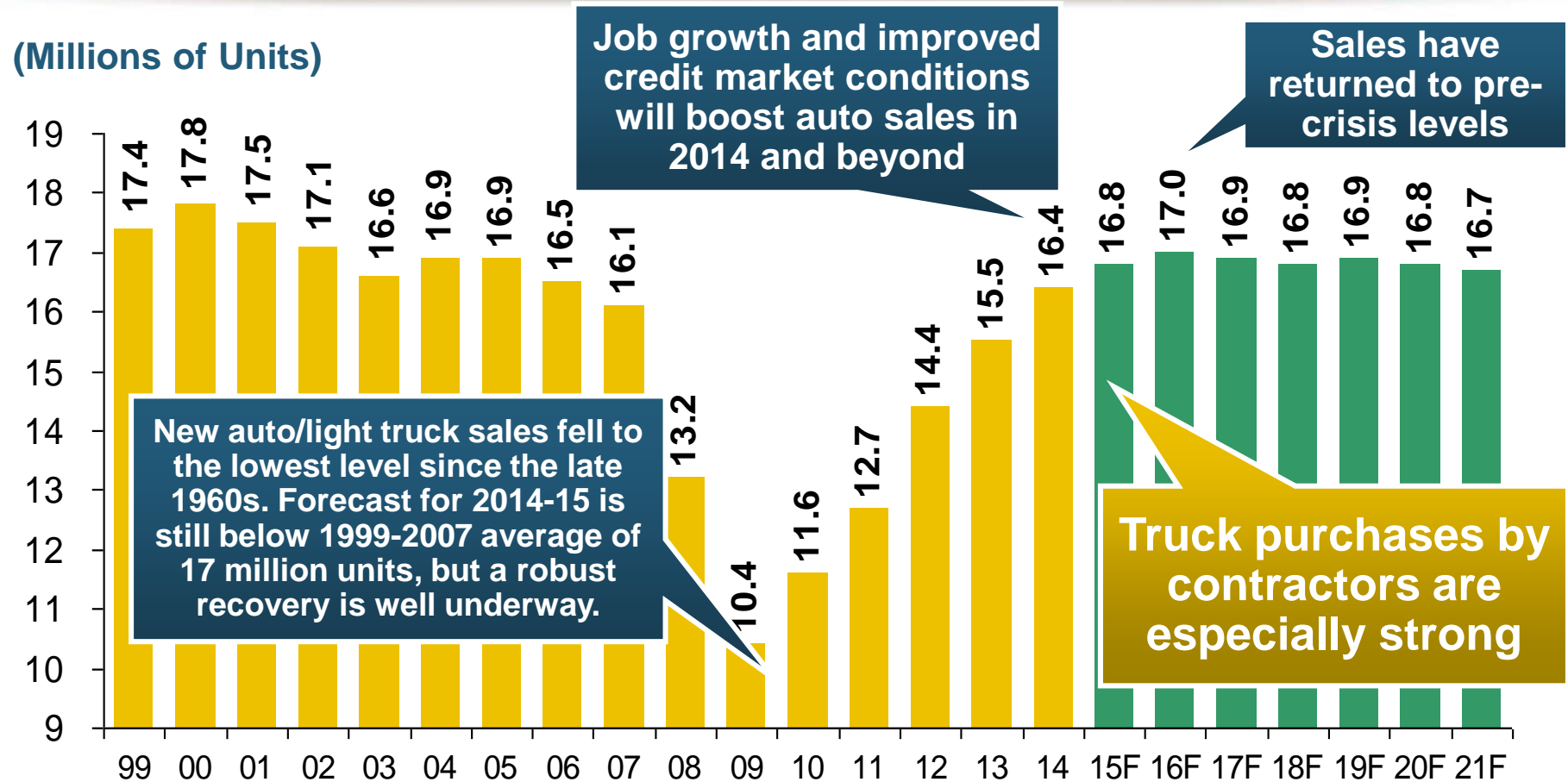
Consumer Sentiment Survey (1966 = 100)

January 2010 through March 2015



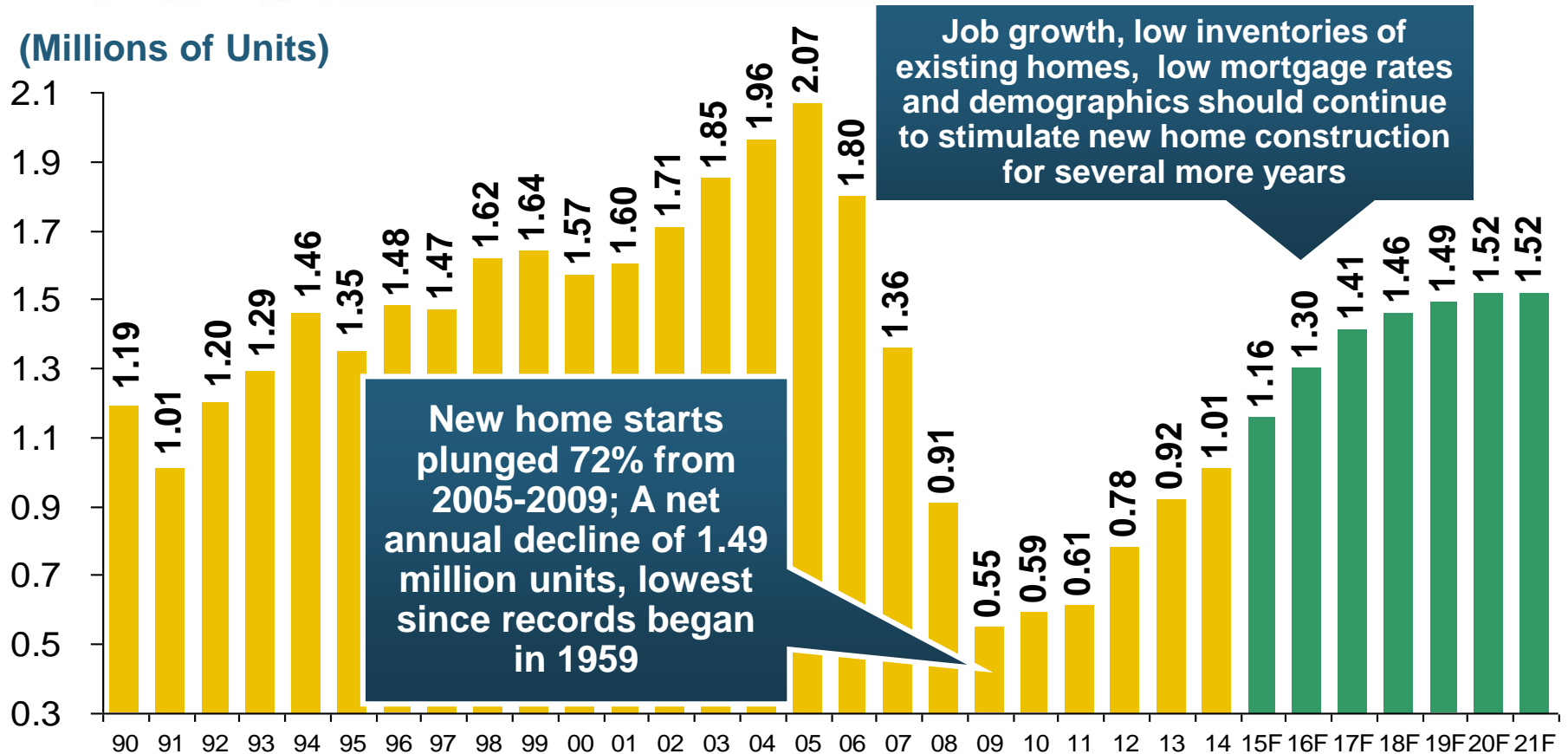
Consumer confidence had been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, as job growth and falling energy prices aid consumers

Auto/Light Truck Sales, 1999-2021F



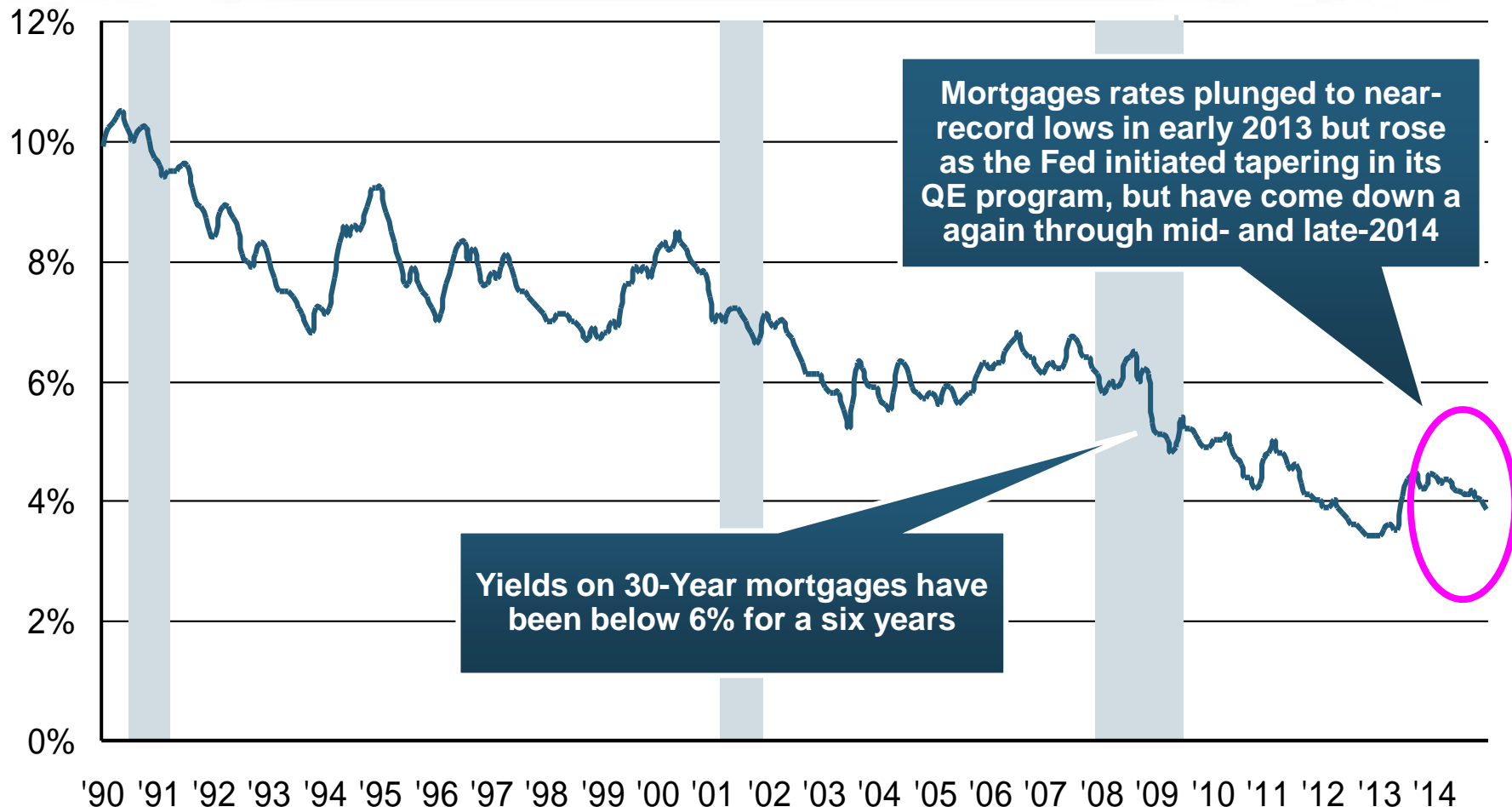
Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

New Private Housing Starts, 1990-2021F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*



Mortgage interest rates remain low by historical standards, aiding the housing recovery. Changes in Fed policy could push rates up modestly later in 2015.

*Monthly, through Dec. 2014.

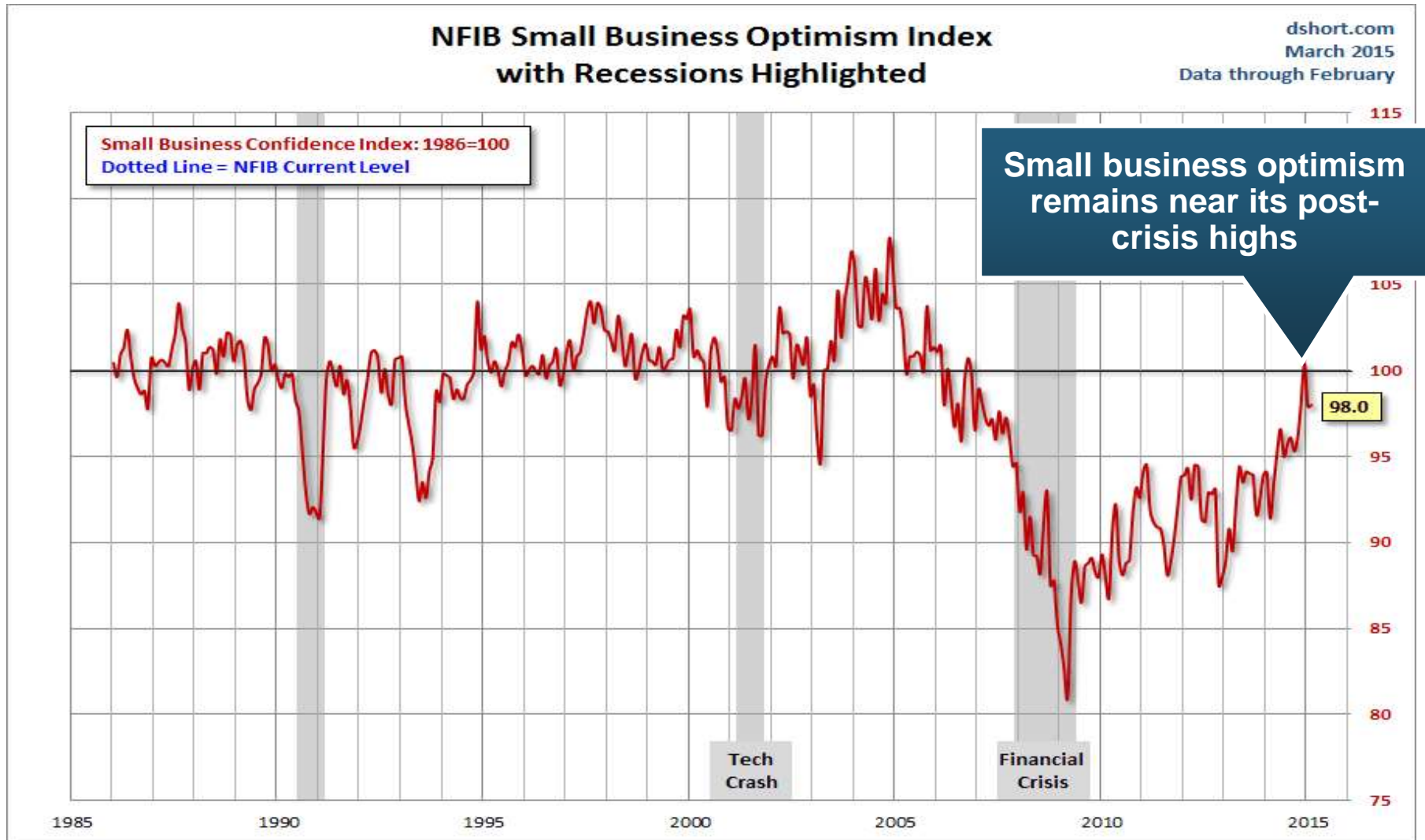
Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

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

NFIB Small Business Optimism Index

January 1985 through February 2015

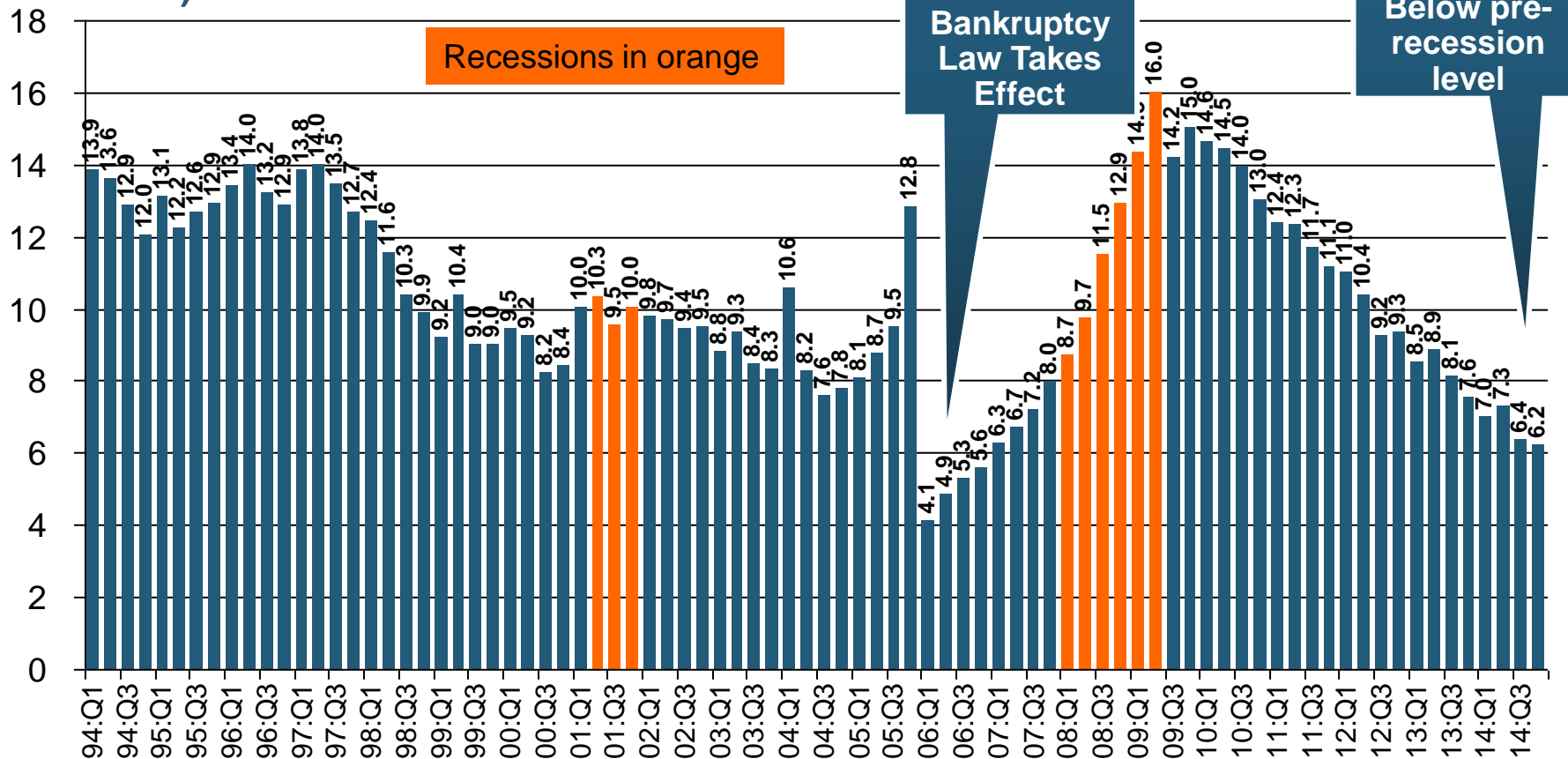


Source: National Federation of Independent Business at <http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif> ; Insurance Information Institute.

Business Bankruptcy Filings: Still Falling

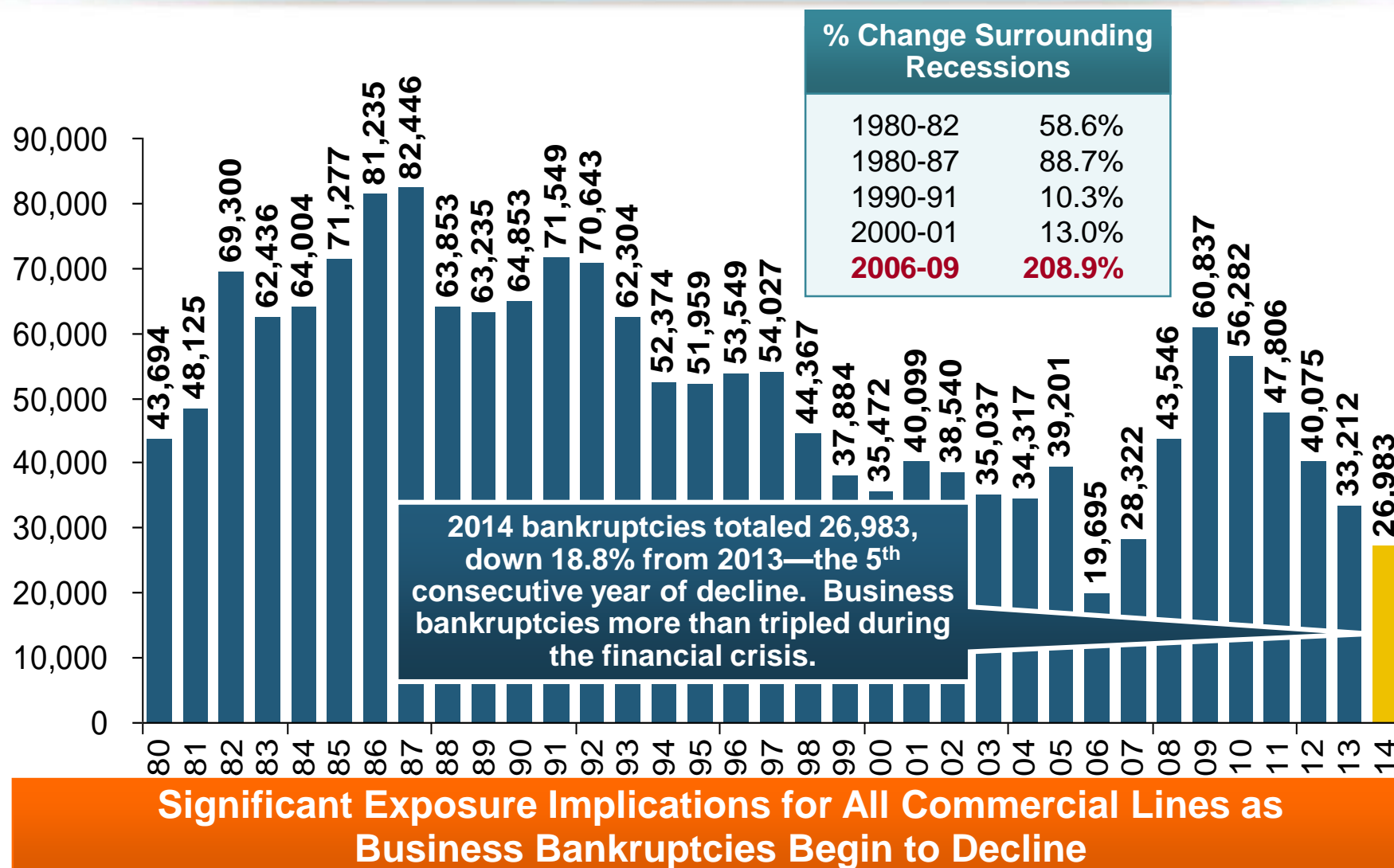
(1994:Q1 – 2014:Q4)

(Thousands)



Business bankruptcies in 2014 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

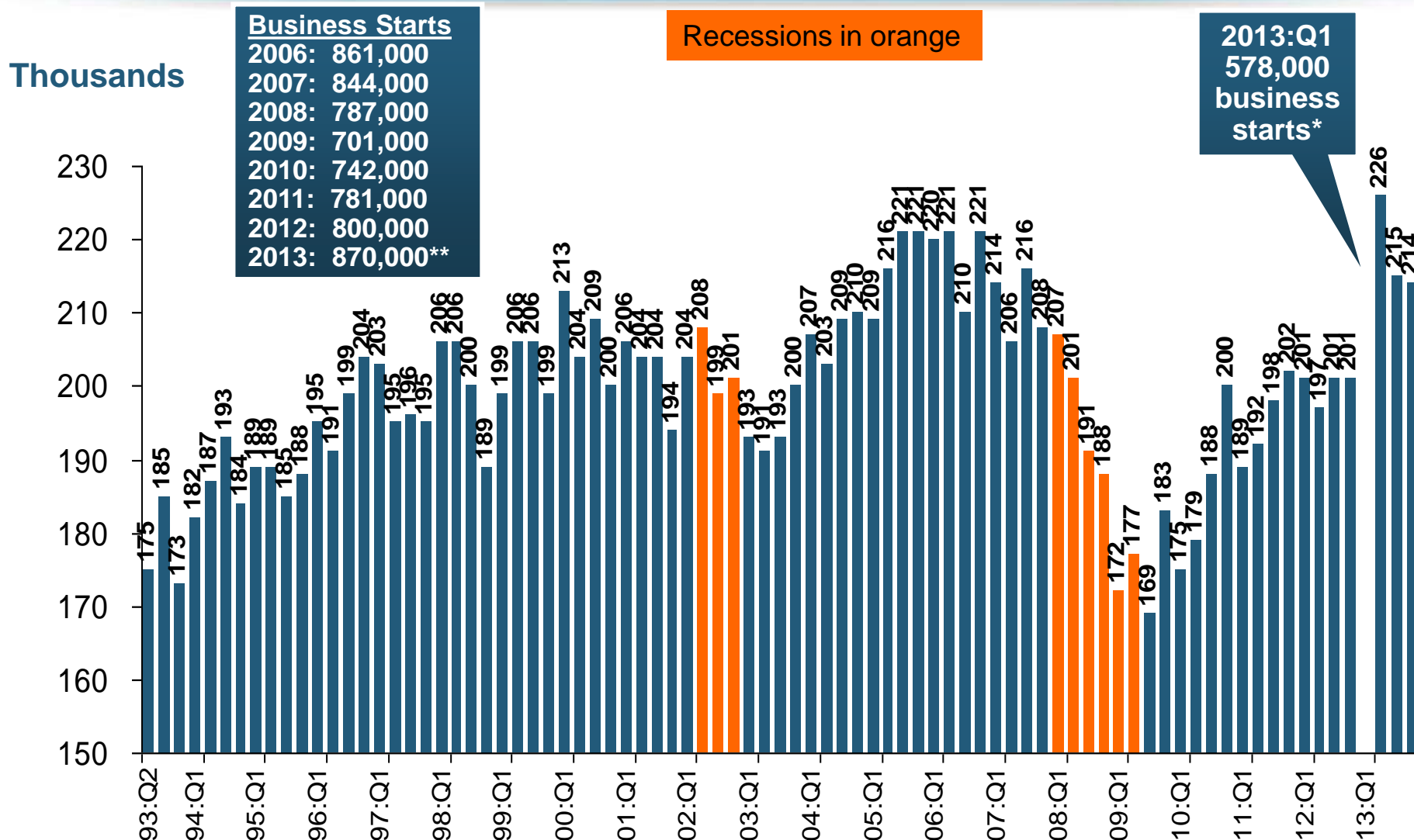
Business Bankruptcy Filings, 1980-2014



Sources: American Bankruptcy Institute (1980-2012) at

<http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633>; 2013-14 data from United States Courts at <http://news.uscourts.gov>; Insurance Information Institute.

Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?



*A classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

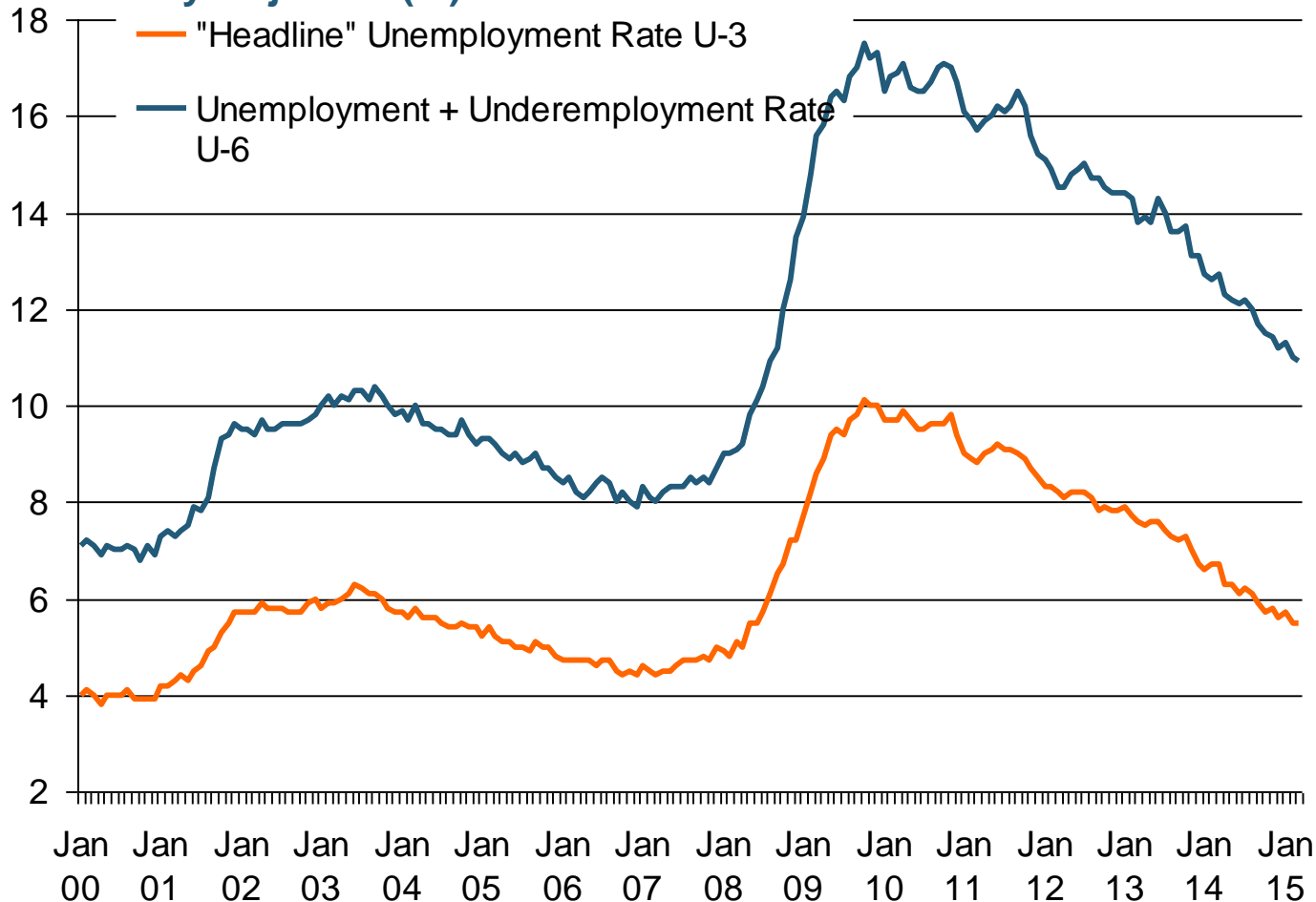
Sources: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>. NBER (recession dates)

Labor Market Trends

**Massive Job Losses Sapped the
Economy and Commercial/Personal
Lines Exposure, But Trend Has
Greatly Improved**

Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through March 2015,
Seasonally Adjusted (%)



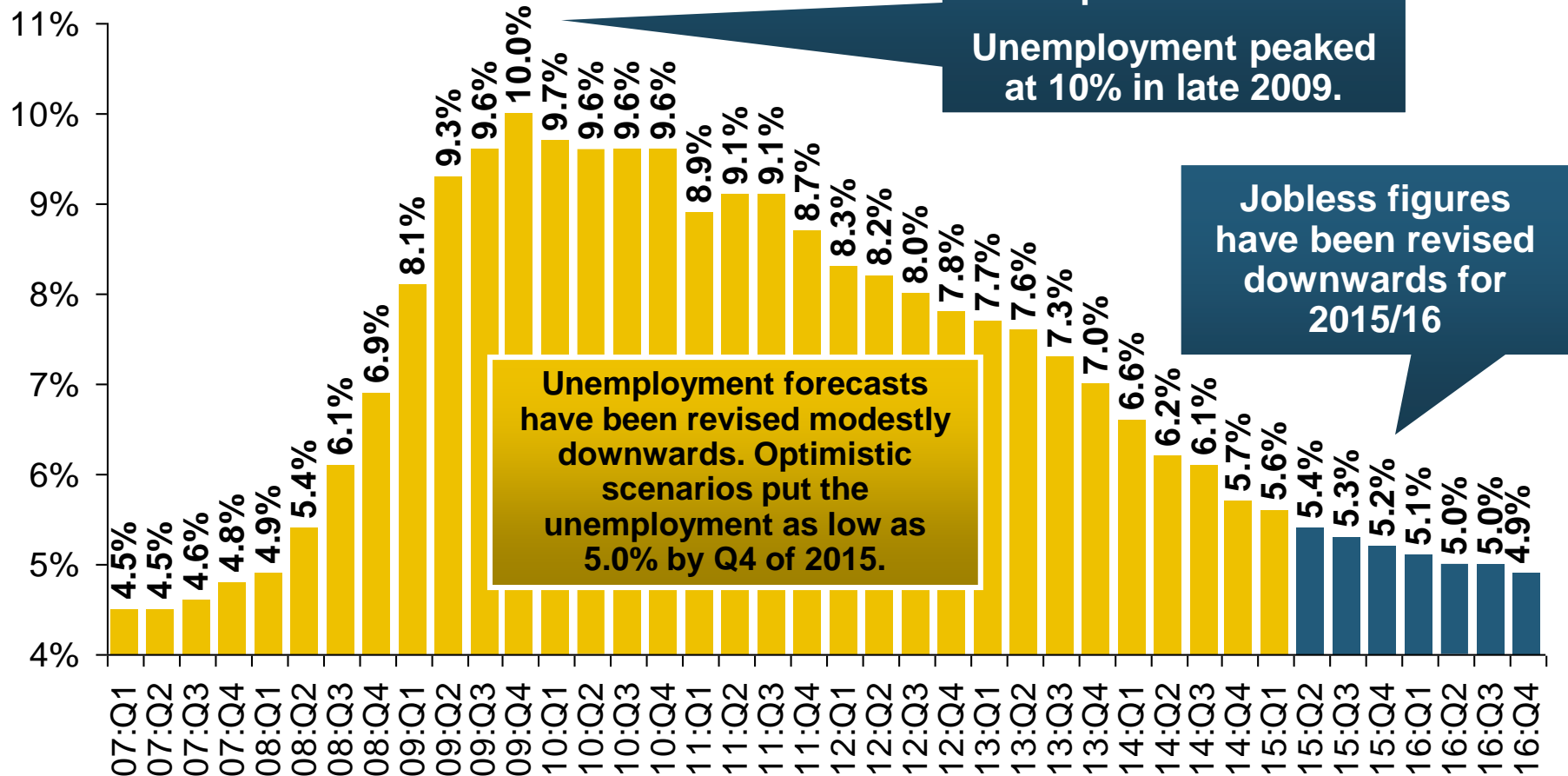
U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.9% in Mar. 2015. 8% to 10% is "normal."

"Headline" unemployment was 5.5% in Mar. 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

US Unemployment Rate Forecast

2007:Q1 to 2016:Q4F*

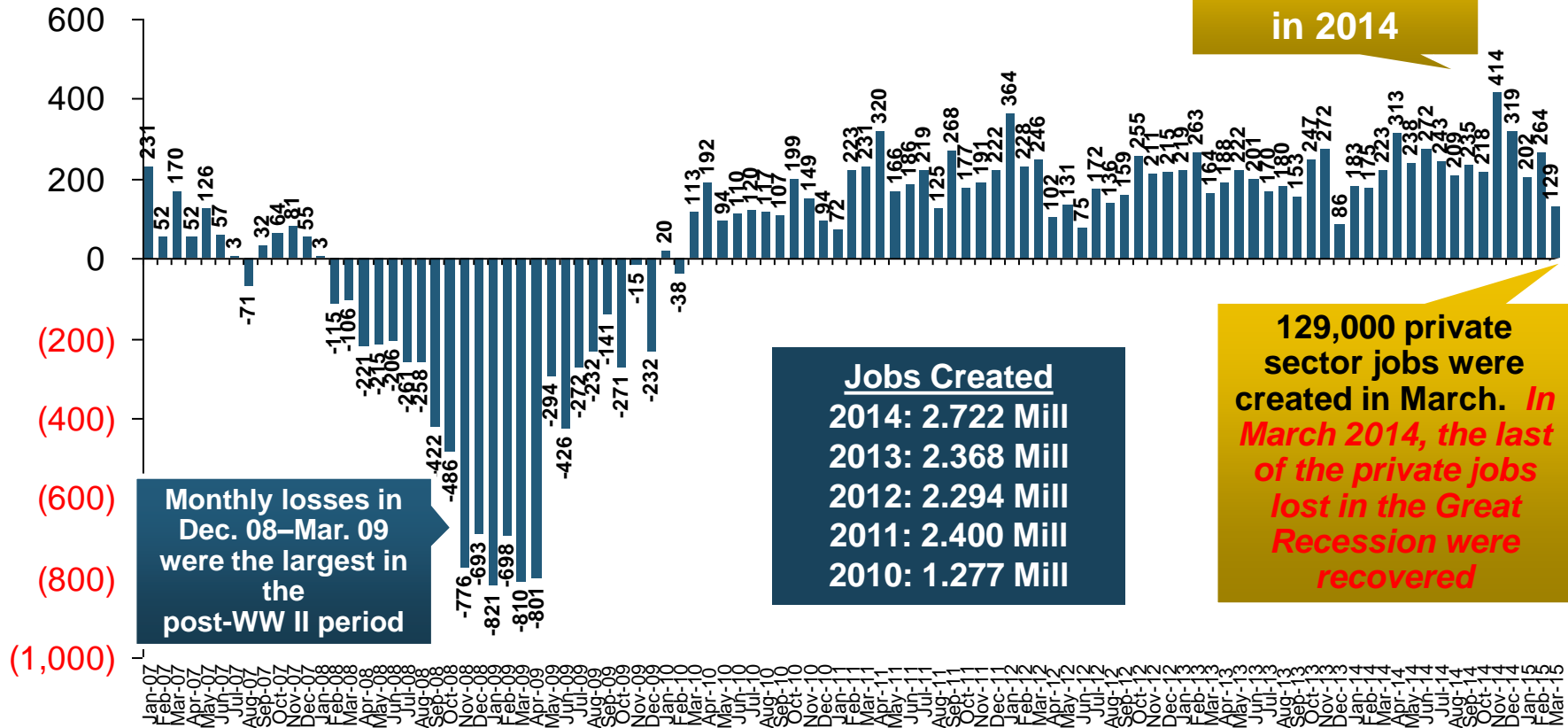


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/15 edition); Insurance Information Institute.

Monthly Change in Private Employment

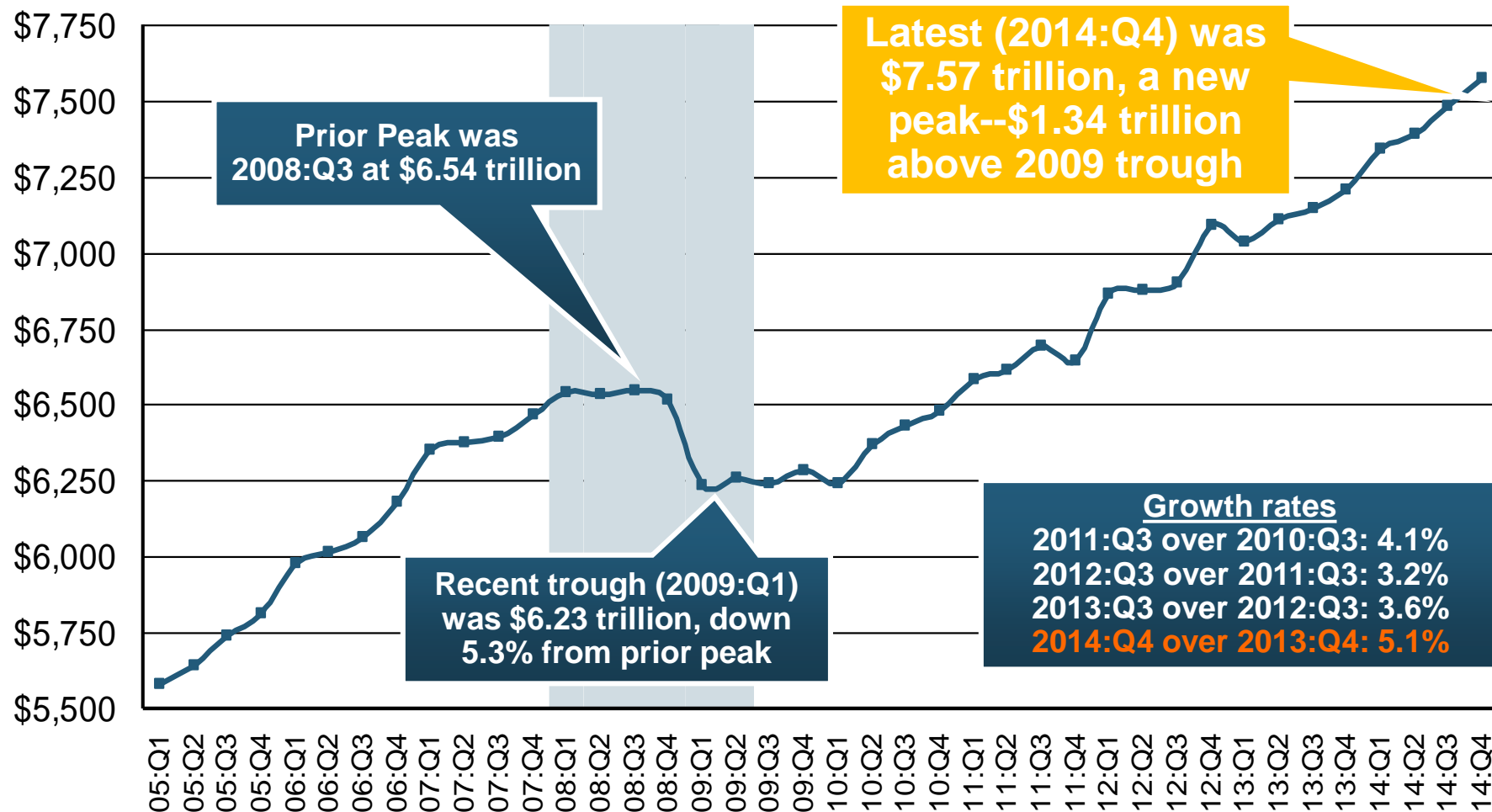
January 2007 through Mar. 2015 (Thousands, Seasonally Adj.)



Private Employers Added 11.20 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q4

Billions



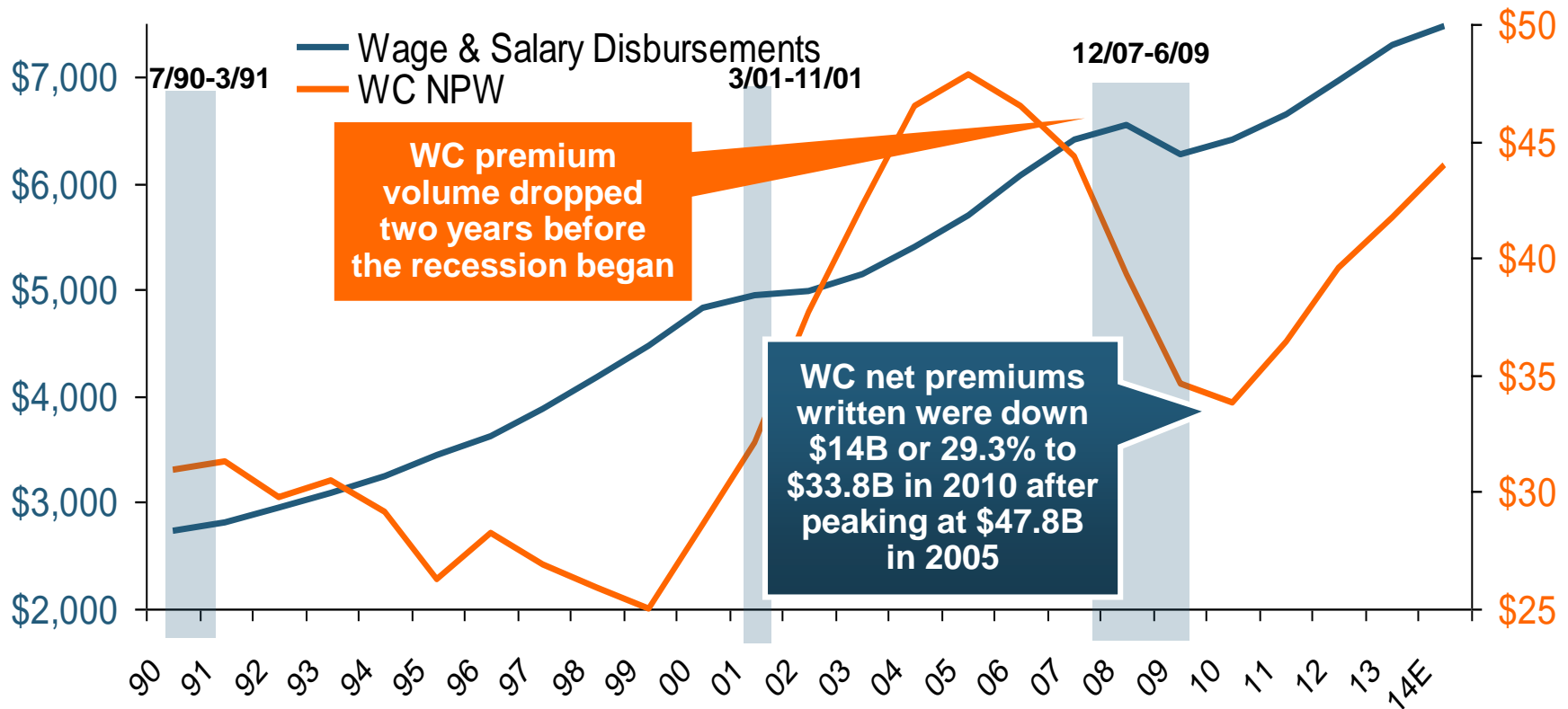
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2014P

Payroll Base*
\$Billions

WC NWP
\$Billions



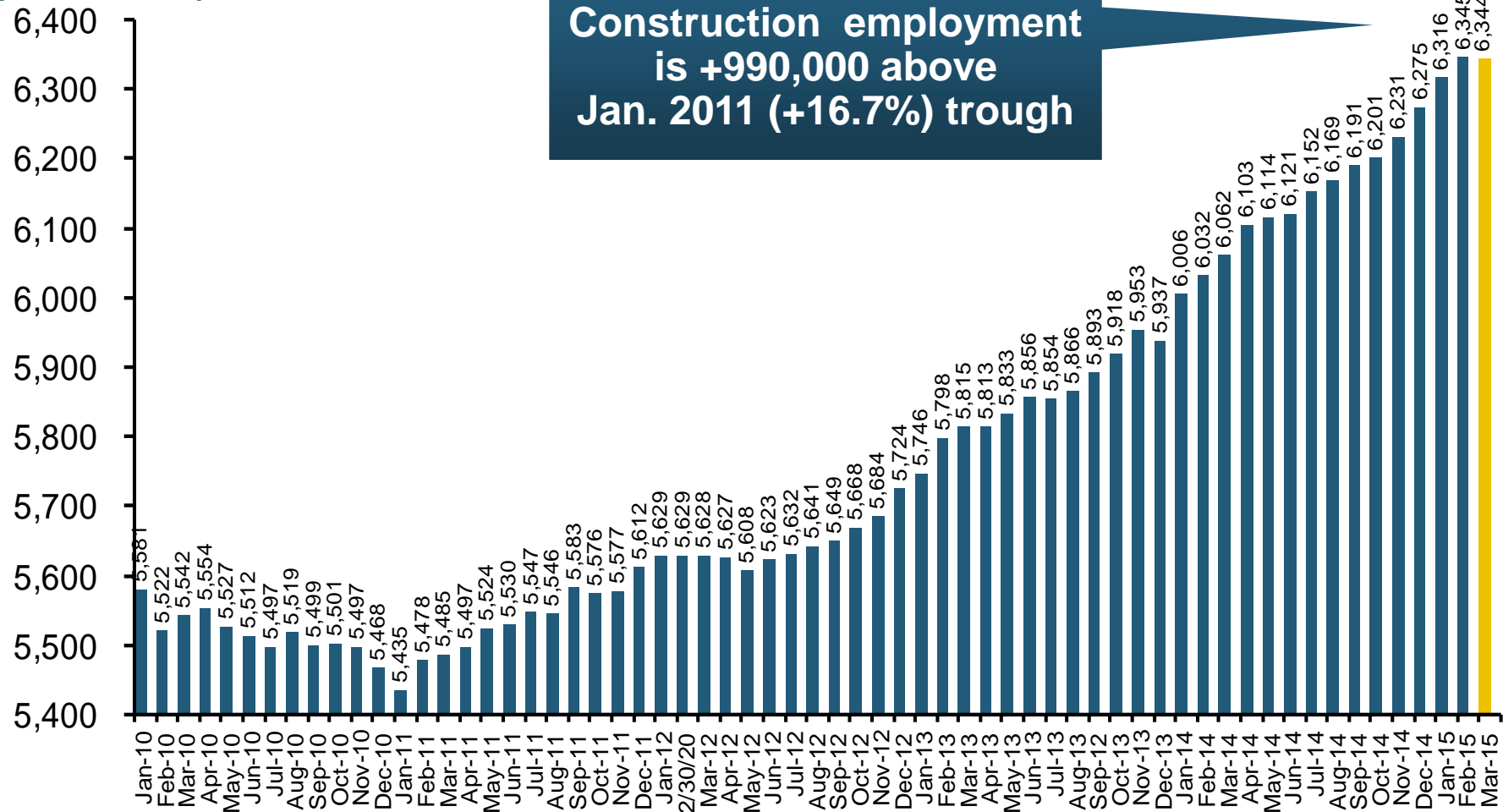
Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are I.I.I. estimates..

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

Construction Employment, Jan. 2010—March 2015*

(Thousands)



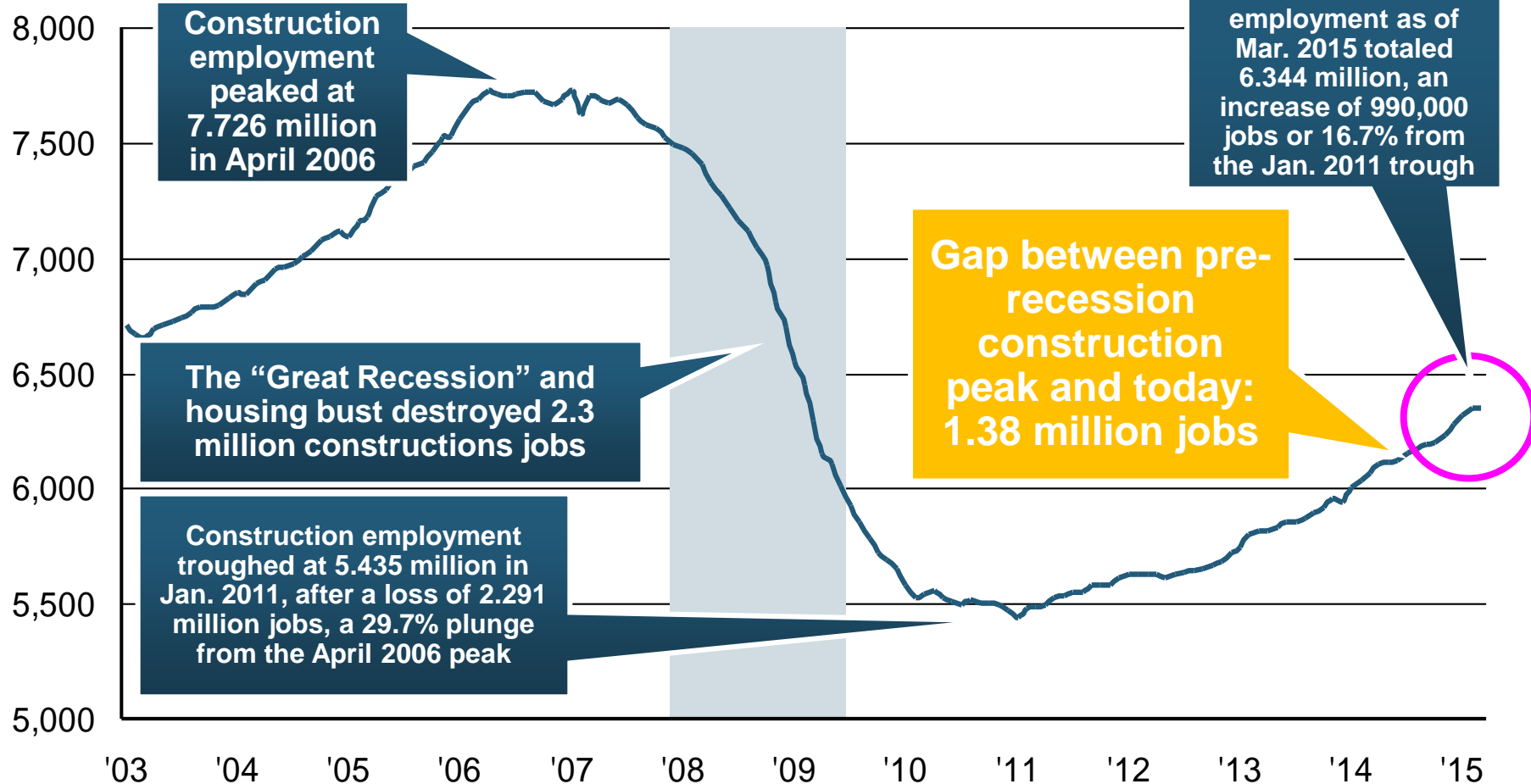
Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Construction Employment, Jan. 2003–March 2015

(Thousands)

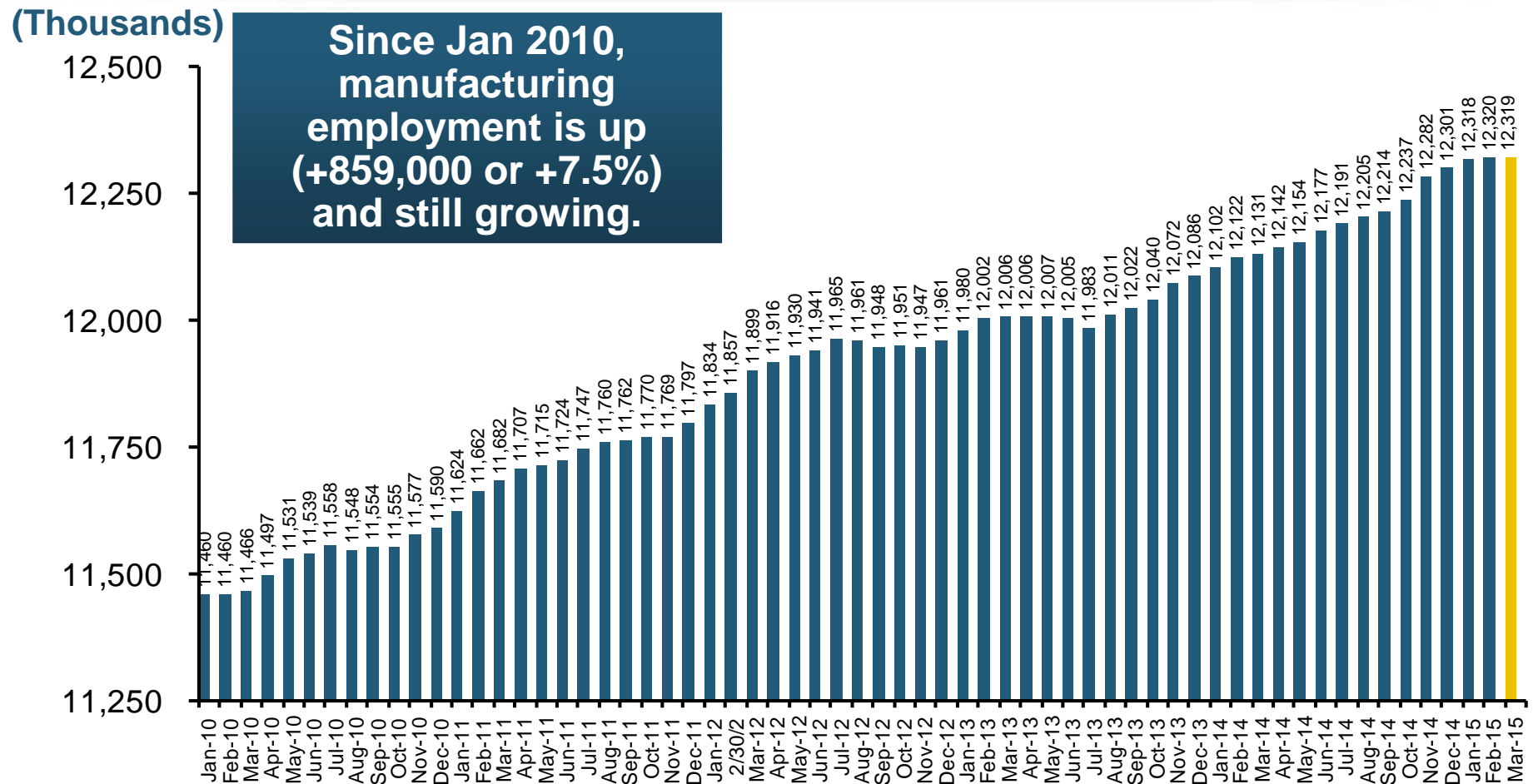


The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Manufacturing Employment, Jan. 2010—March 2015*



Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

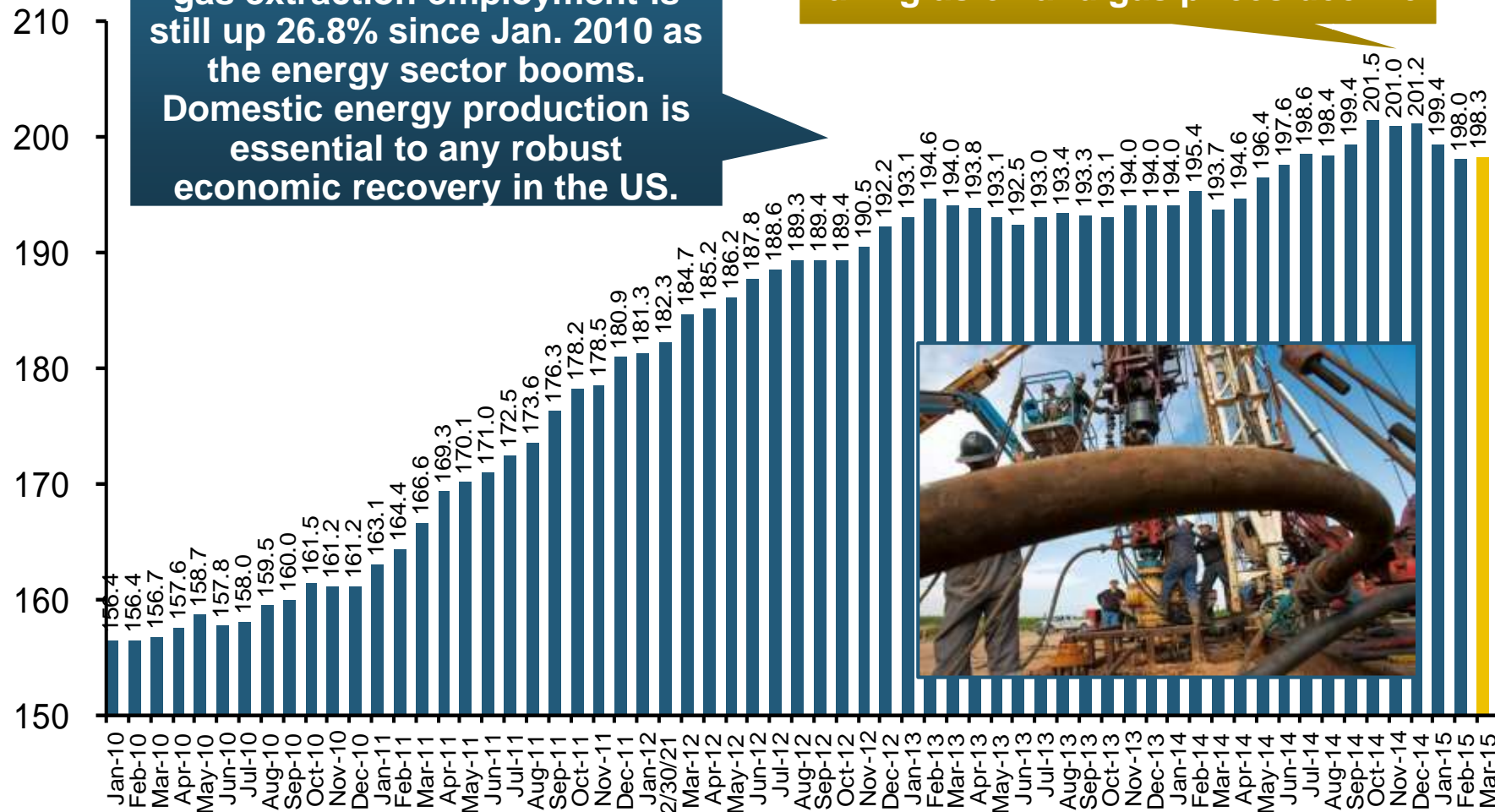
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—March 2015*

(Thousands)

Despite recent declines, Oil and gas extraction employment is still up 26.8% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

After peaking at its highest level since 1986, O&G employment is falling as oil and gas prices decline



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

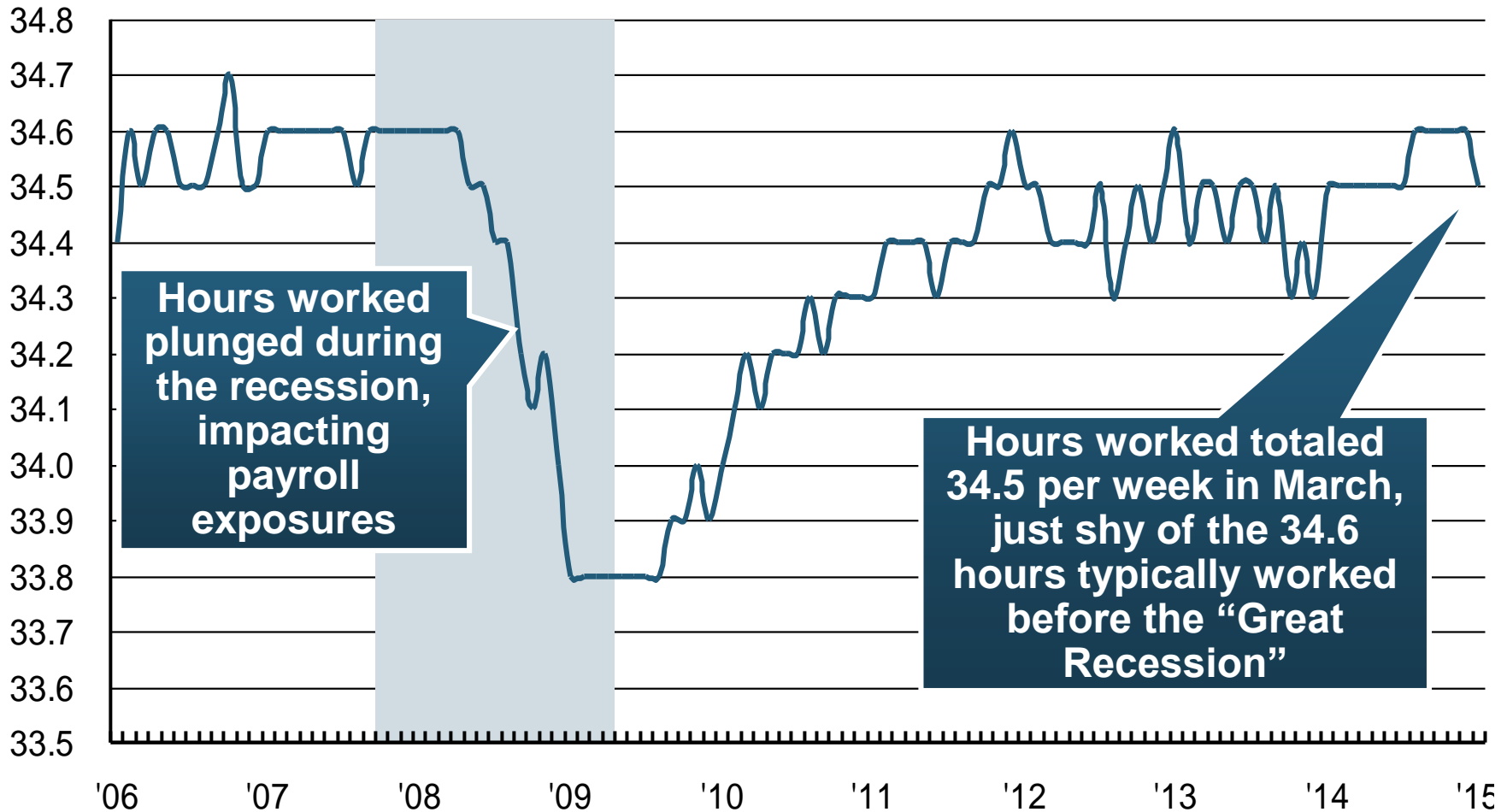


POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Average Weekly Hours of All Private Workers, Mar. 2006—Mar. 2015

(Hours Worked)



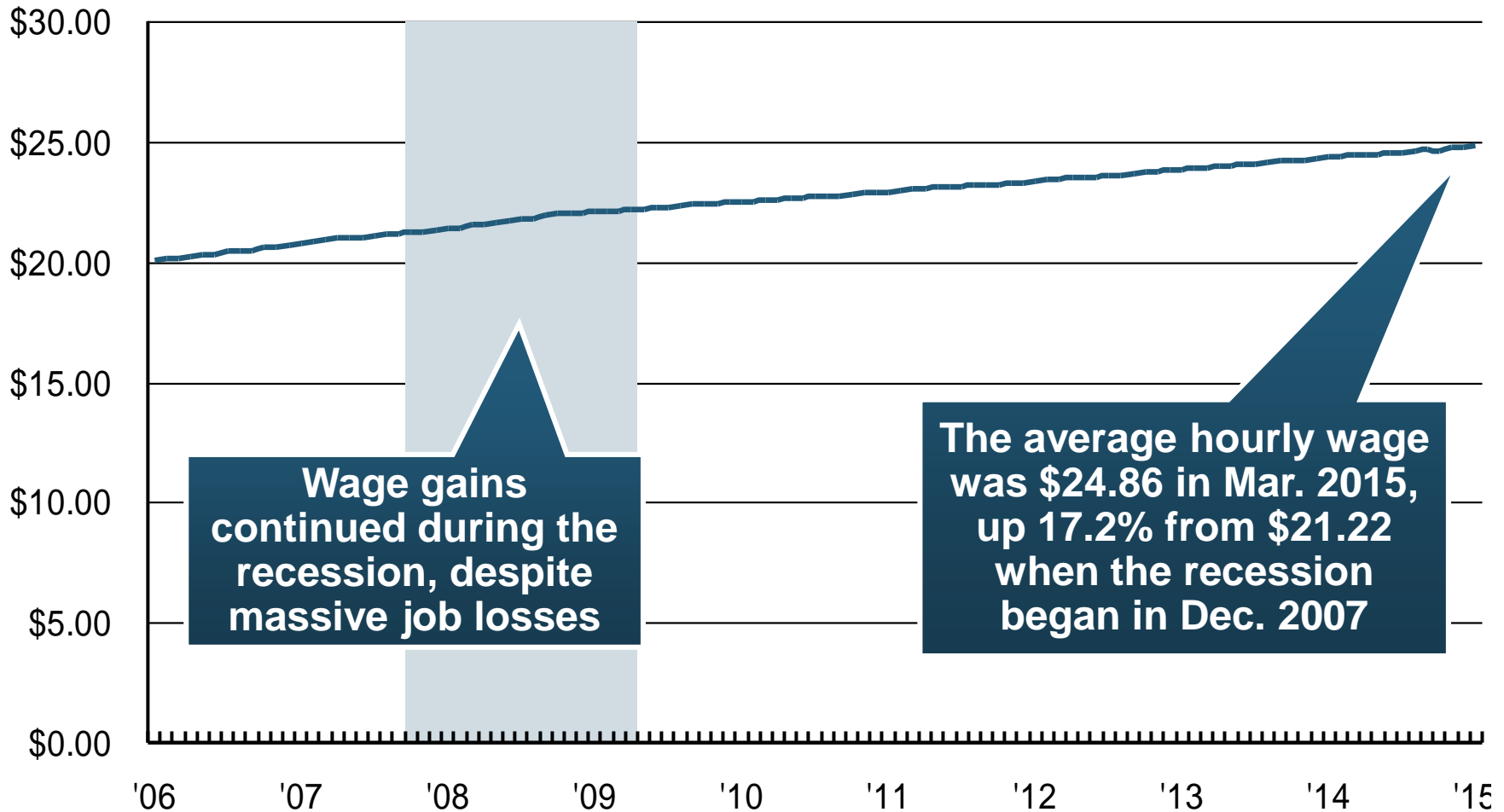
*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, Mar. 2006—Mar. 2015

(Hourly Wage)



*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

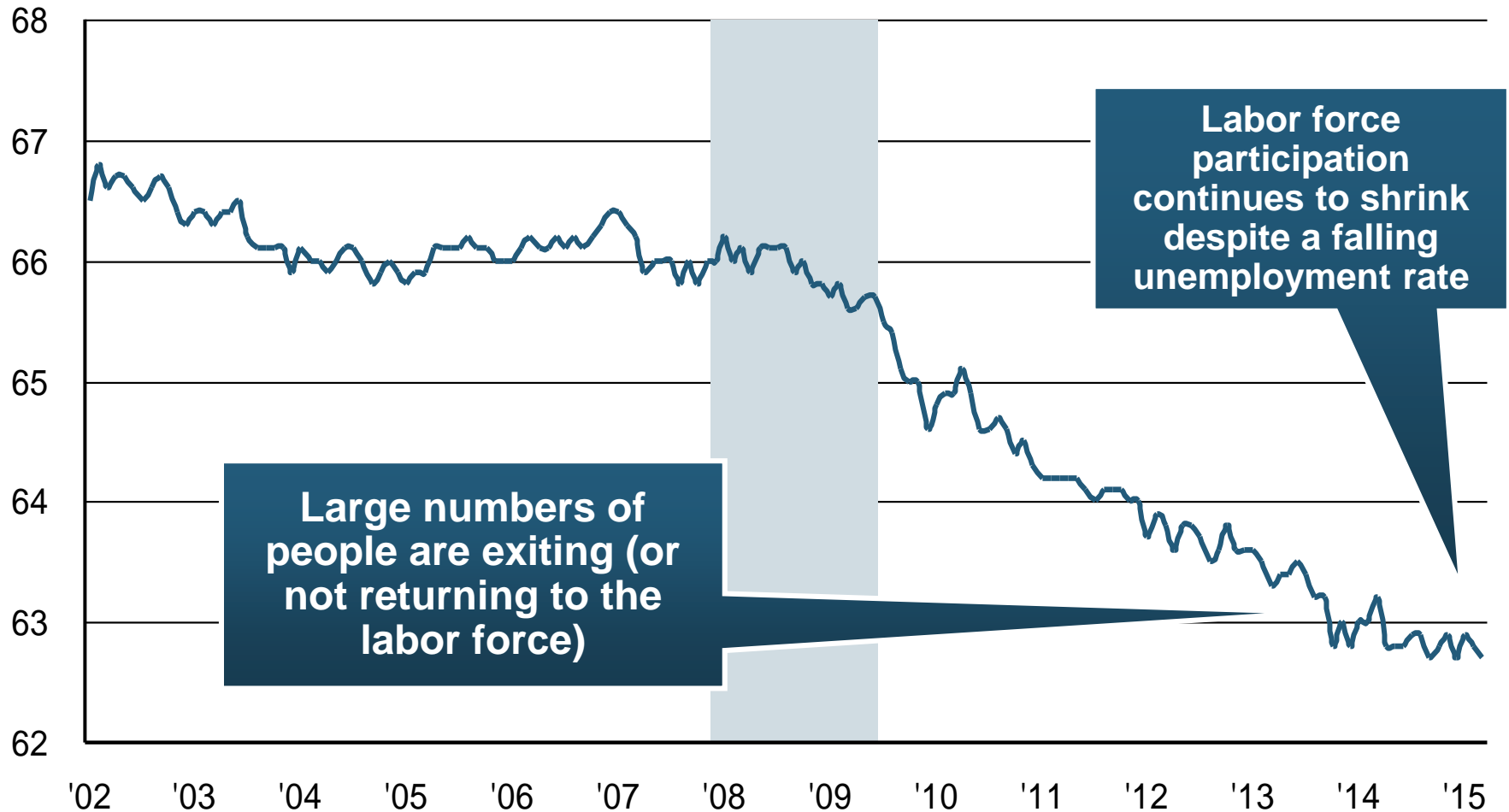


ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

**Key Factors Harming Workers
Compensation Exposure and the
Overall Economy**

Labor Force Participation Rate, Jan. 2002—March 2015*

Labor Force Participation as a % of Population



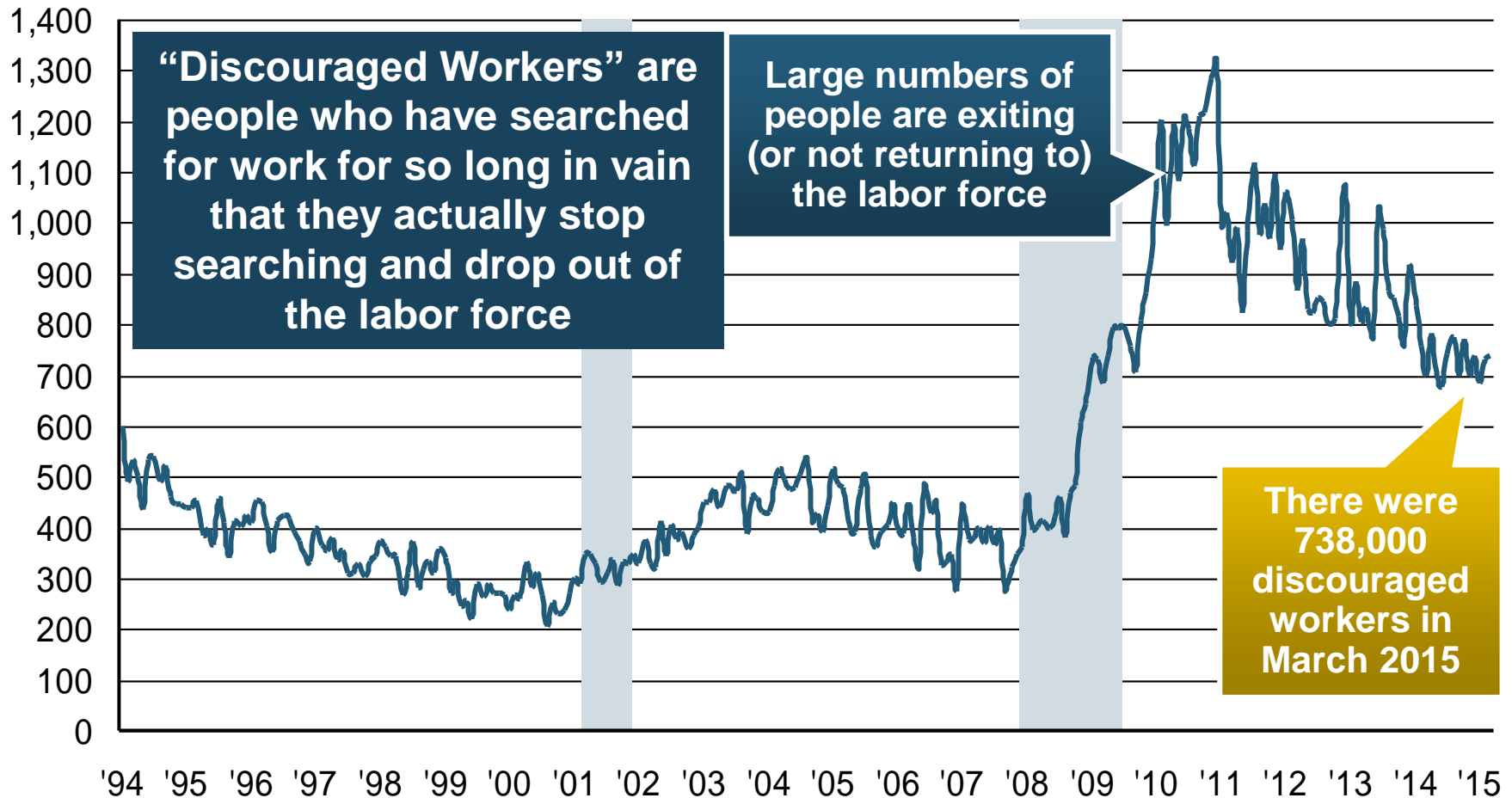
*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of “Discouraged Workers,” Jan. 2002—March 2015

Thousands



In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics <http://www.bls.gov/news.release/empsit.a.htm>; NBER (recession dates); Ins. Info. Inst.

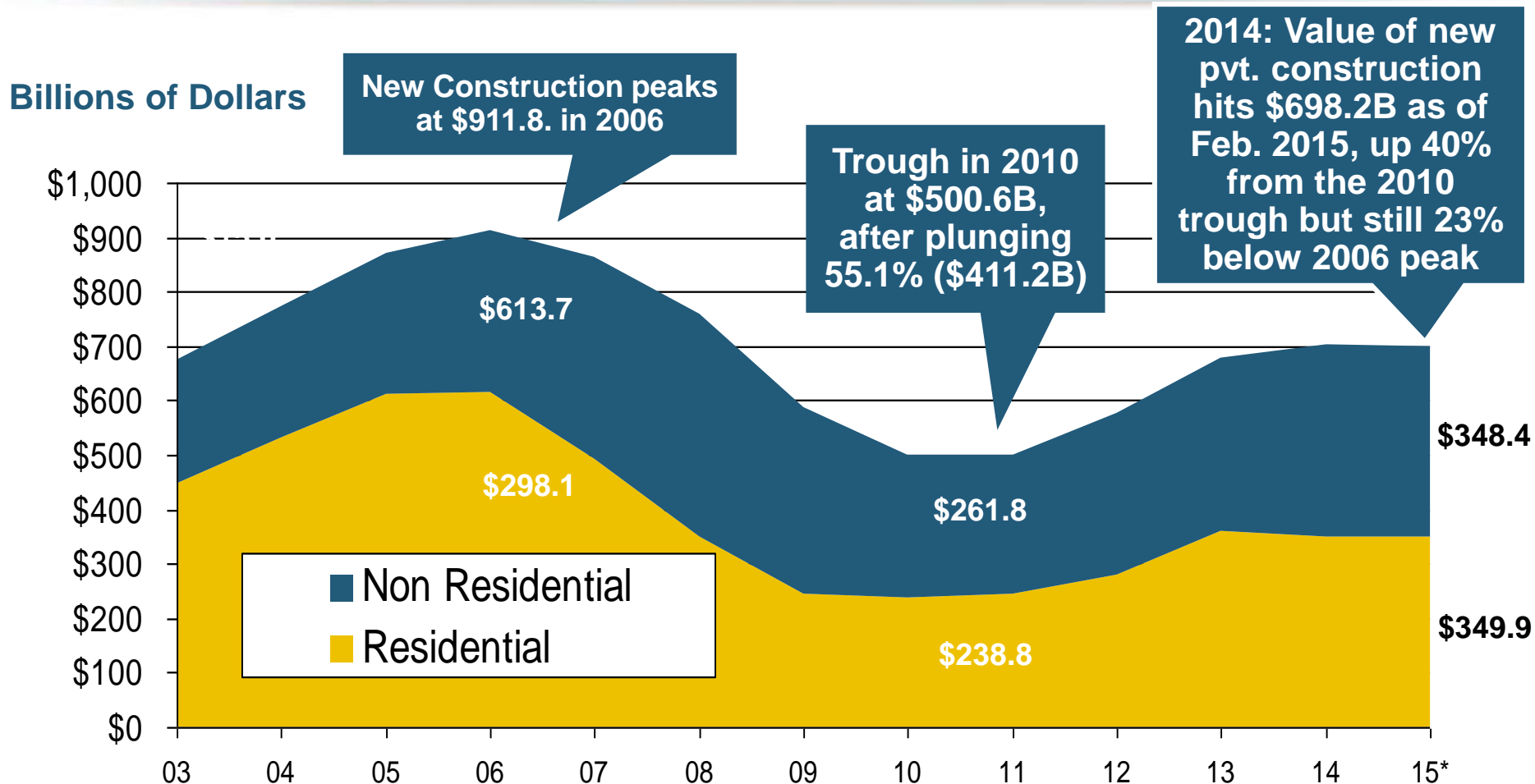
ProPublica/NPR Attack on Workers Compensation

- In March 2015, ProPublica/NPR published a series entitled “The Demolition of Workers Comp”
- Thesis: WC benefits have been hollowed out and that workers were often no longer well served by the system
- Series relied on a number of anecdotal cases of claimants who believed they were adversely impacted
- Claims 33 states have watered down benefits under the guise of “reform”
- I.I.I. made forceful rebuttal, demonstrating that:
 - ◆ Insurers spend \$40B+ each year treating injured workers
 - ◆ Workplace is materially safer, in part due to WC incentives
 - ◆ Application of managed care to WC reduces cost with no adverse impact on outcome (“blank check” unsustainable)

CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

**The Construction Sector Is
Critical to the Economy and
the P/C Insurance Industry**

Value of New Private Construction: Residential & Nonresidential, 2003-2015*



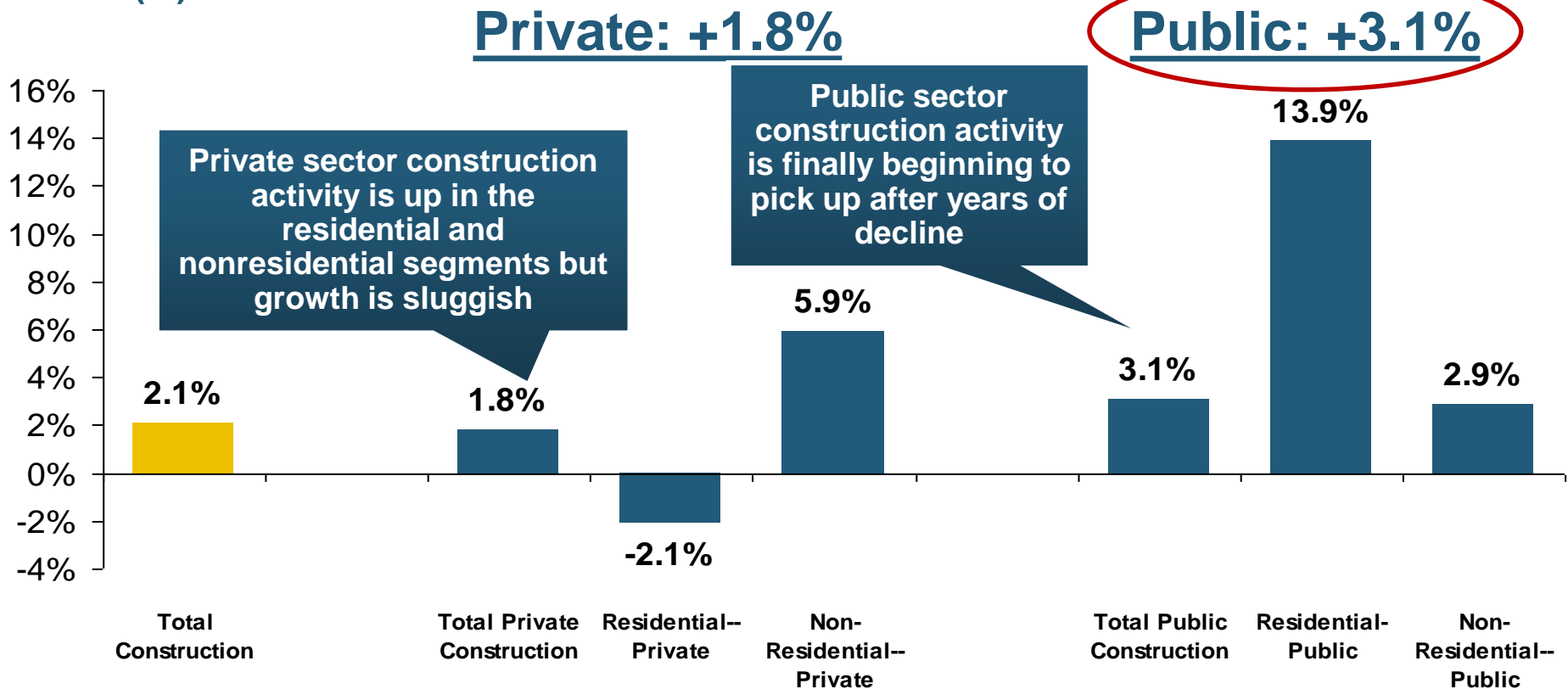
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2015 figure is a seasonally adjusted annual rate as of February.

Sources: US Department of Commerce <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Construction Put in Place, Feb. 2015 vs. Feb. 2014*

Growth (%)



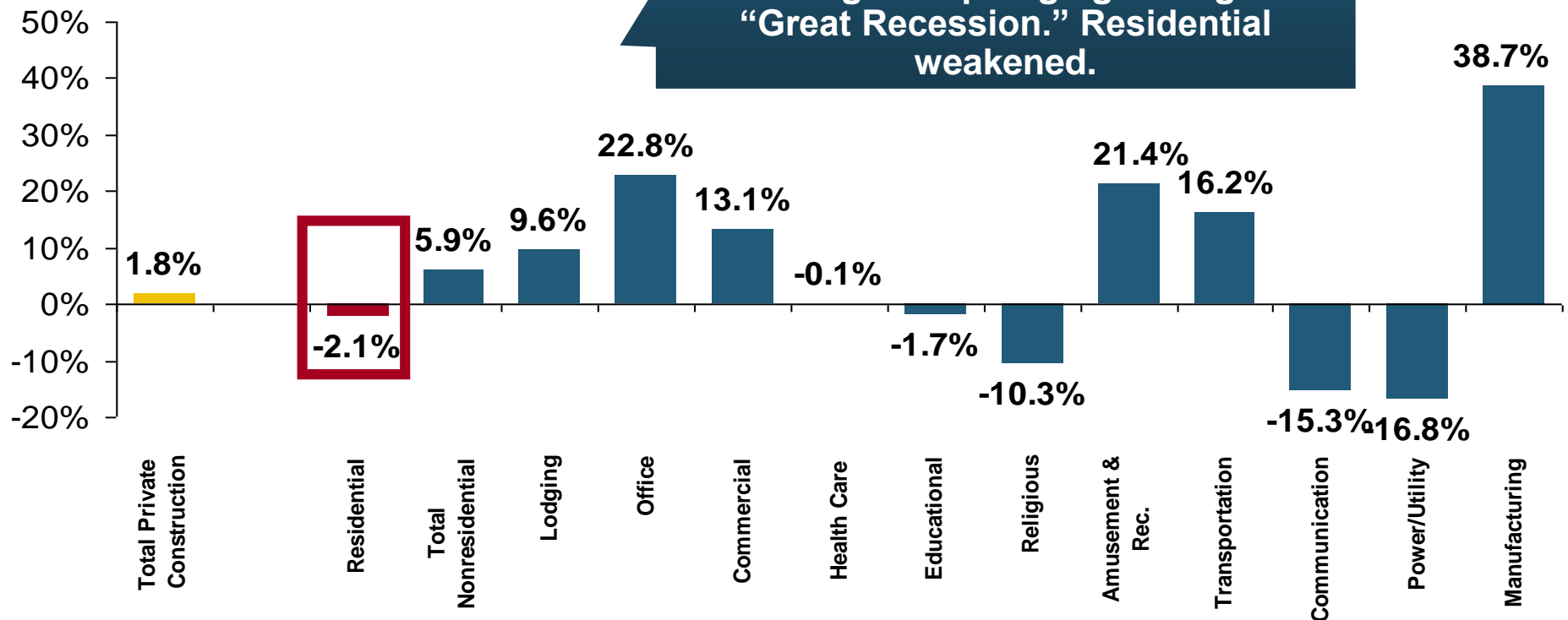
Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Feb. 2015 vs. Feb. 2014*

Growth (%)

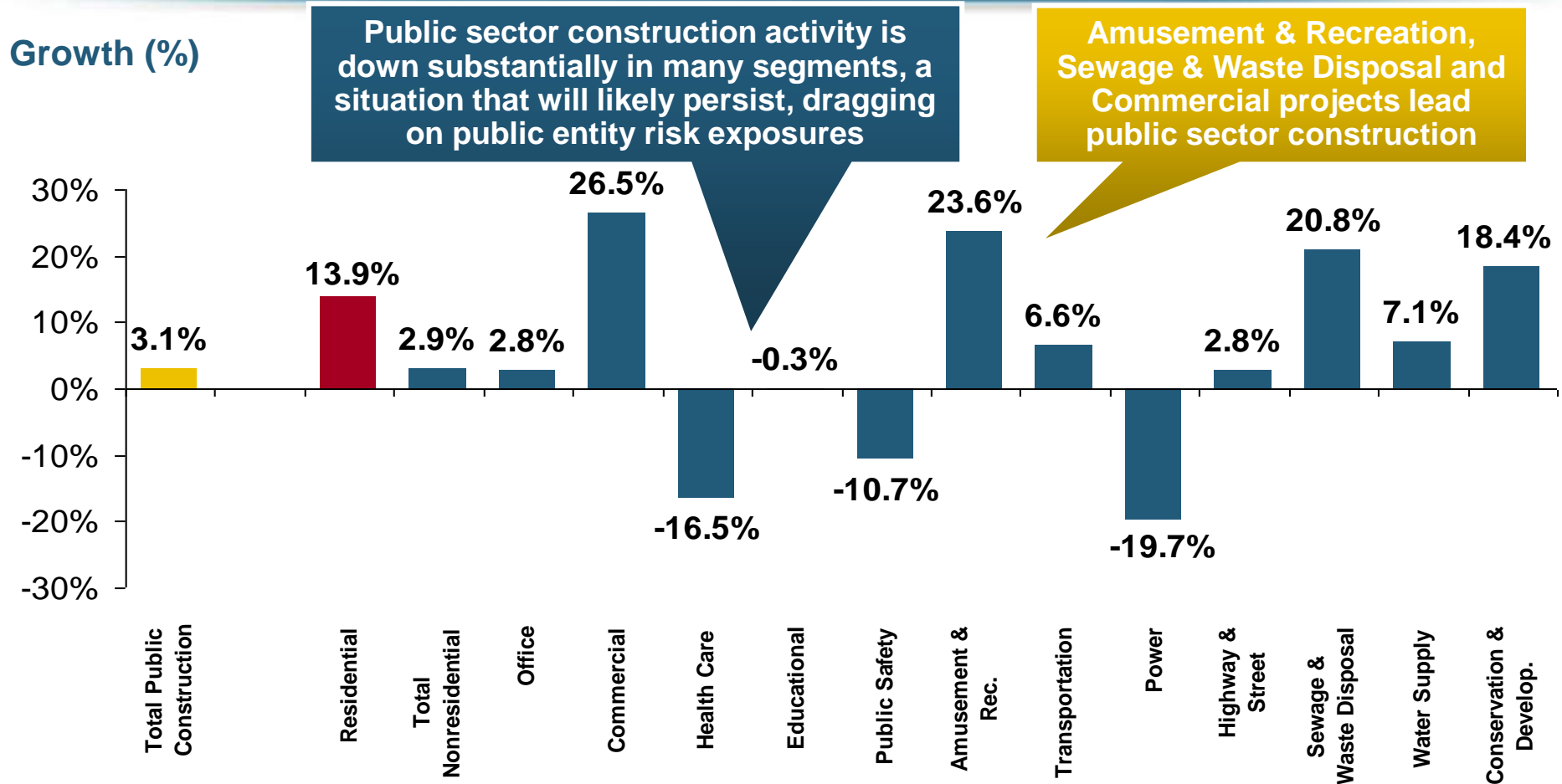


Private Construction Activity is Up in Many Segments, though the Key Residential Construction Sector Weakened in Late 2014/Early 2015; Mixed Outlook for 2015, though Expansion Should Continue

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Feb. 2015 vs. Feb. 2014*



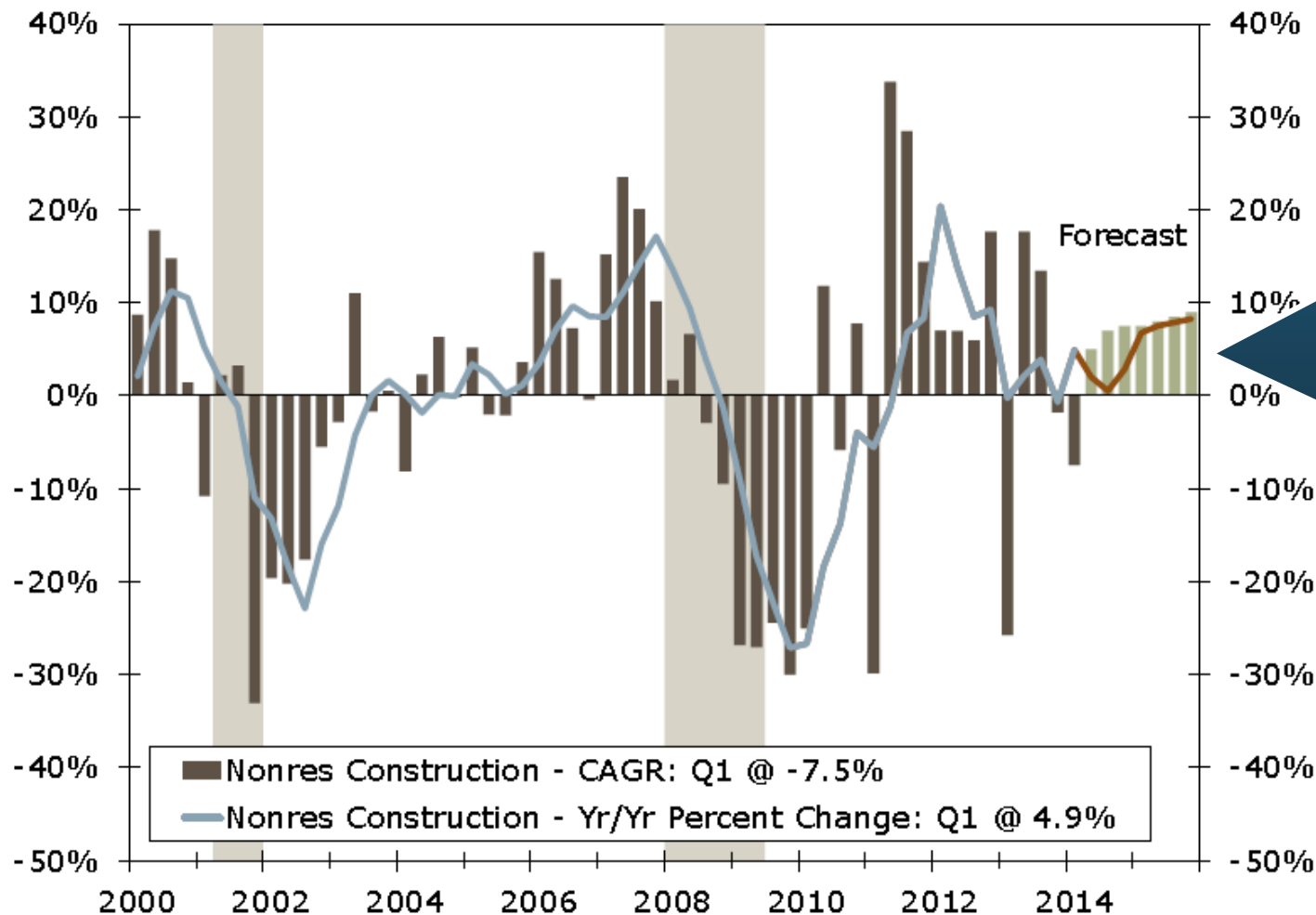
Public Construction Activity is Beginning to Recover from its Long Contraction which Will Drive Demand in Many Commercial Insurance Lines

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Real (Inflation-Adjusted) Nonresidential Construction, 2000-2014*

(Bar = CAGR; Line = Y/Y Growth Rate)

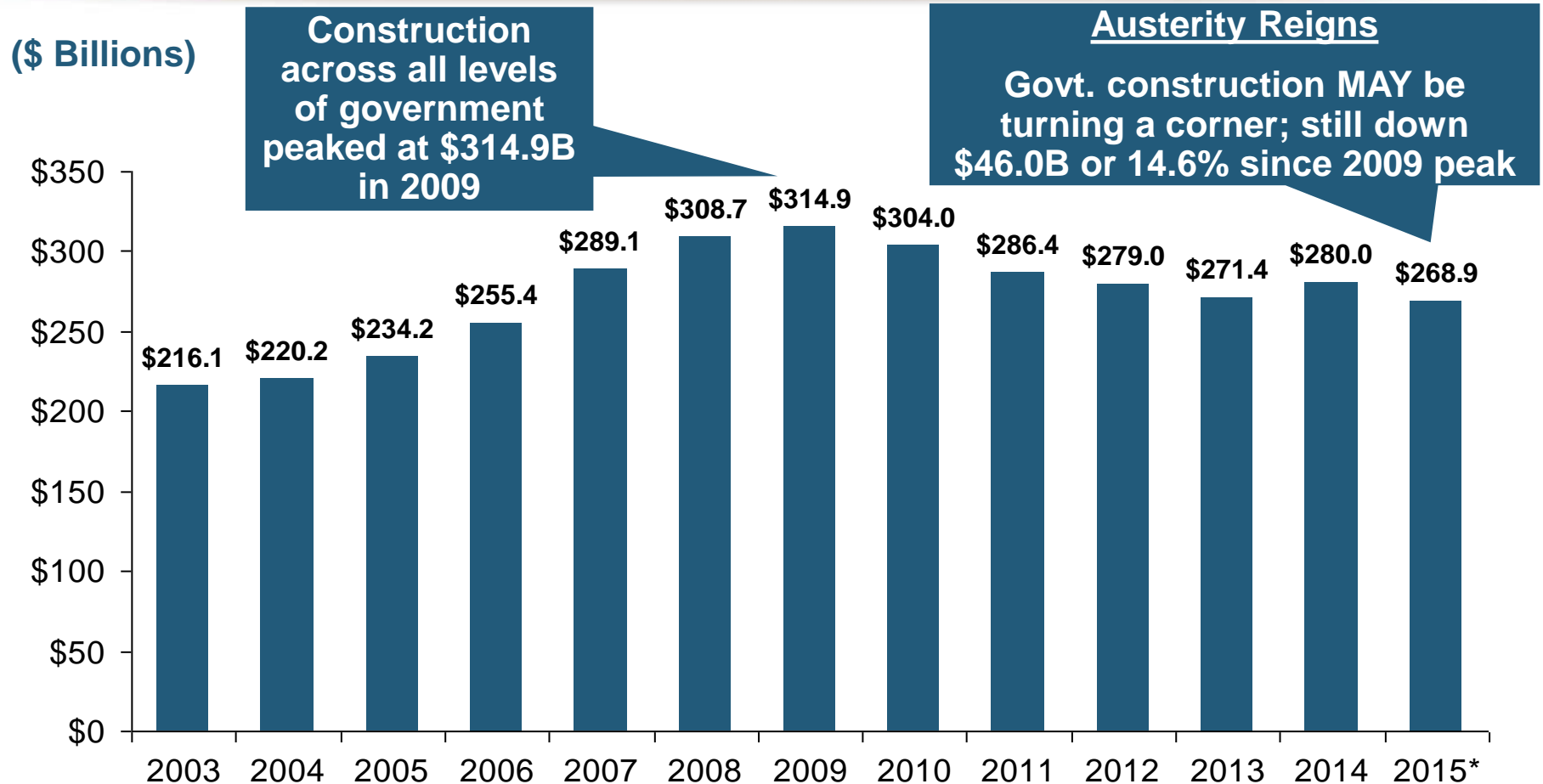


Construction activity has generally been positive since late 2010 but has occasionally been erratic. Forecast is for slowing improving growth

*Through Q1 2014.

Source: US Dept. of Commerce; Wells Fargo Securities (June 6, 2014 research report).

Value of New Federal, State and Local Government Construction: 2003-2015*

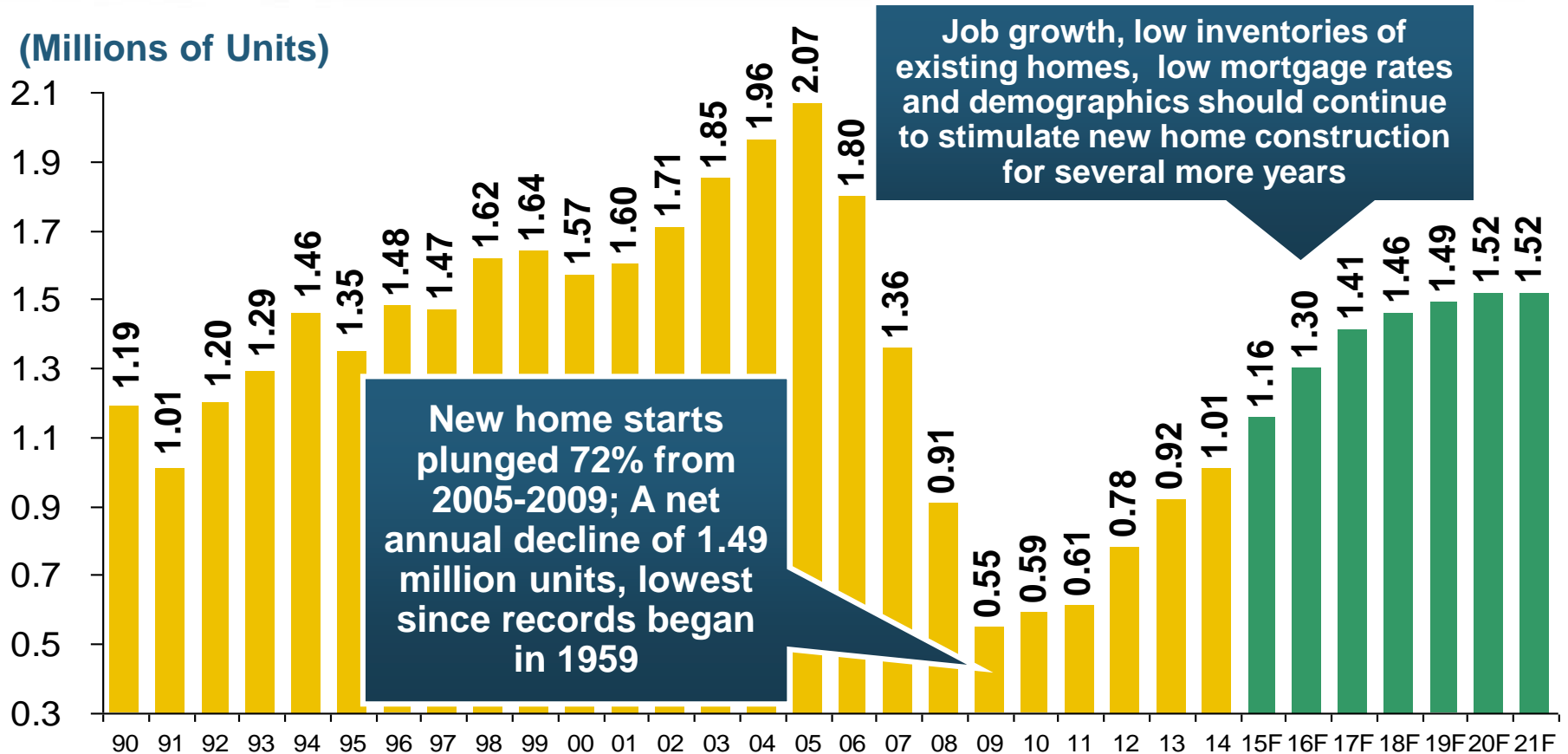


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

*2014 figure is a seasonally adjusted annual rate as of December; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

New Private Housing Starts, 1990-2021F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Construction Employment, Jan. 2010—March 2015*

(Thousands)



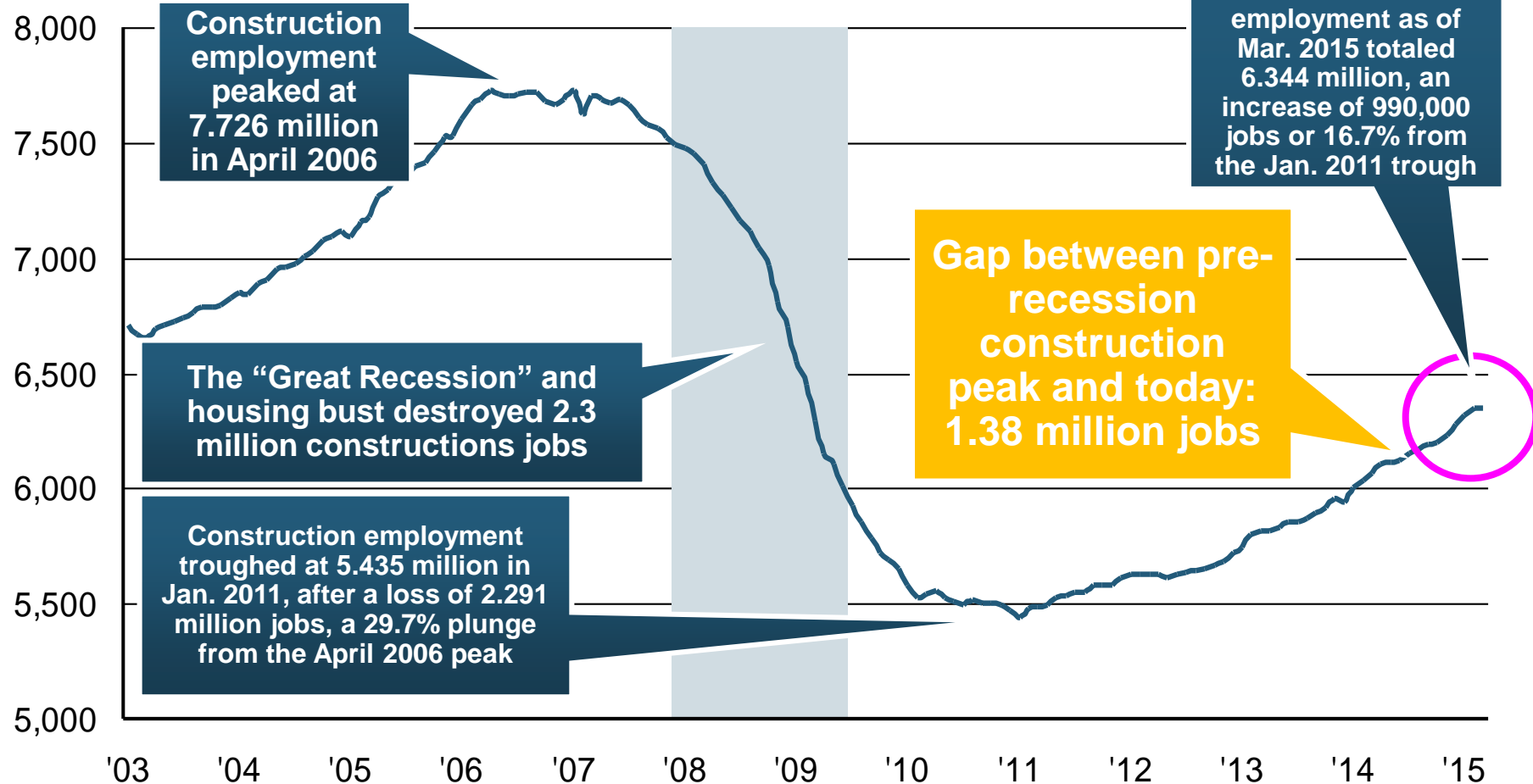
Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Construction Employment, Jan. 2003–March 2015

(Thousands)



The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

MANUFACTURING SECTOR OVERVIEW & OUTLOOK

**The U.S. Is Experiencing a Mini
Manufacturing Renaissance but
Headwinds from Weak Export
Markets and Strong Dollar Have Hurt**

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—February 2015

\$ Millions

\$500,000

\$400,000

\$300,000

\$200,000

Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 12-Jan 13-Jan 14-Jan 14-Jan

The value of Manufacturing Shipments in Feb. 2015 was \$481.3B—down slightly since the July 2014 record high of \$508.1B

Monthly shipments in Feb. 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published Apr. 2, 2015.

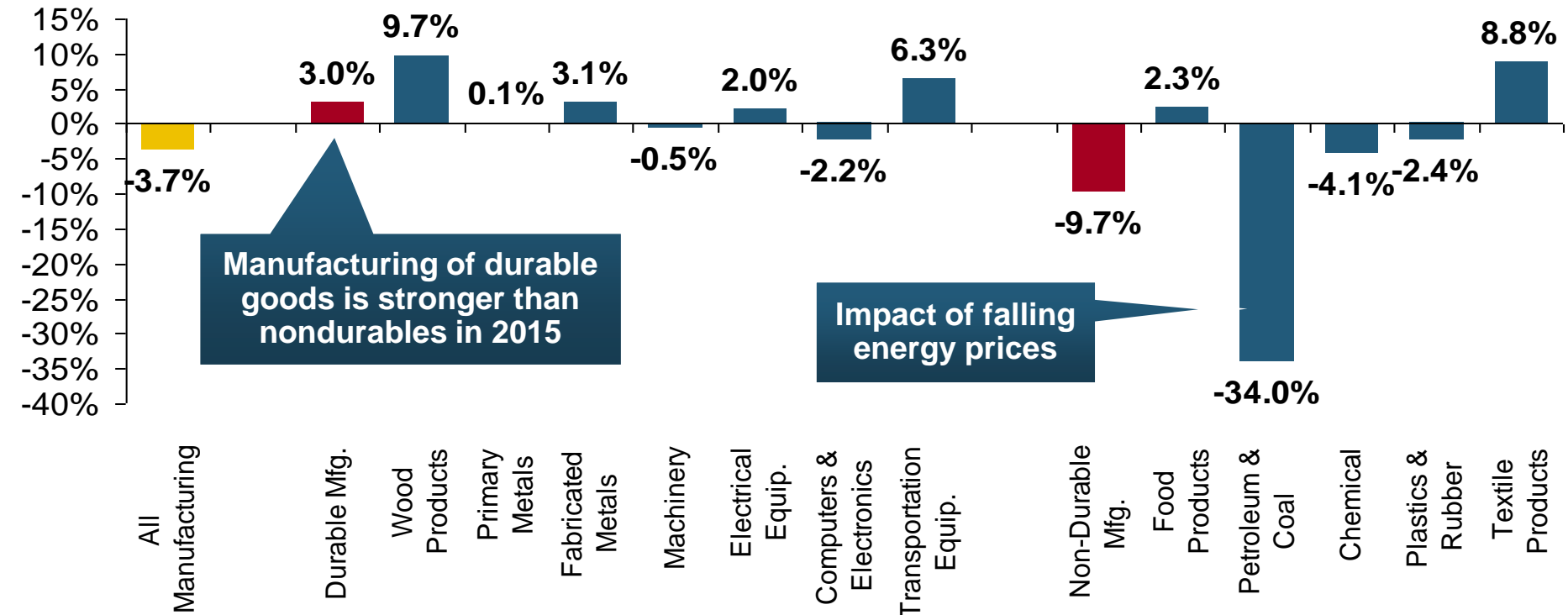
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2015 vs. 2014*

Growth (%)

Durables: +3.0%

Non-Durables: -9.7%

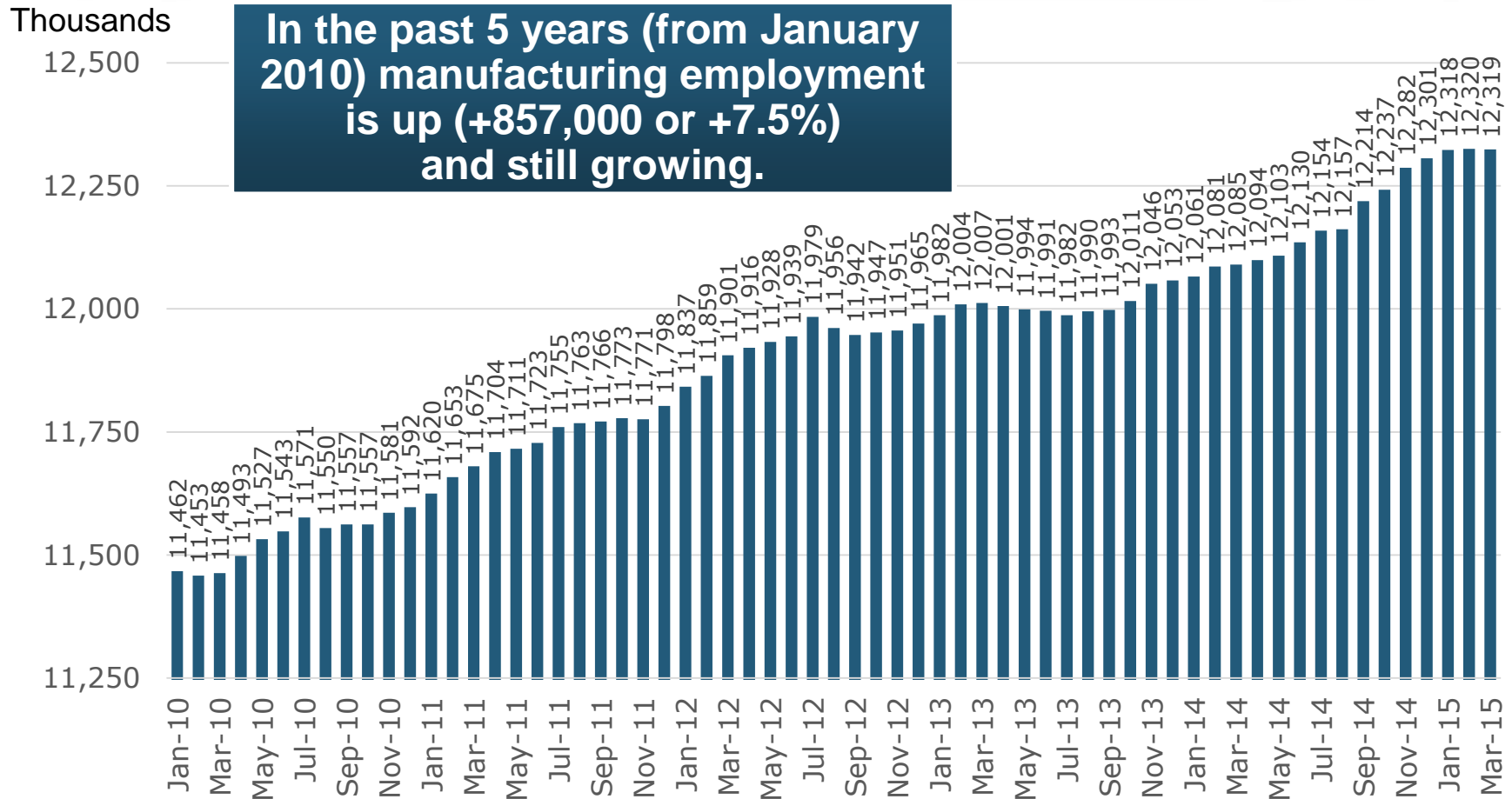


Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Growth Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Data are YTD comparing data through February 2015 to the same period in 2014.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Employment, January 2010—March 2015*



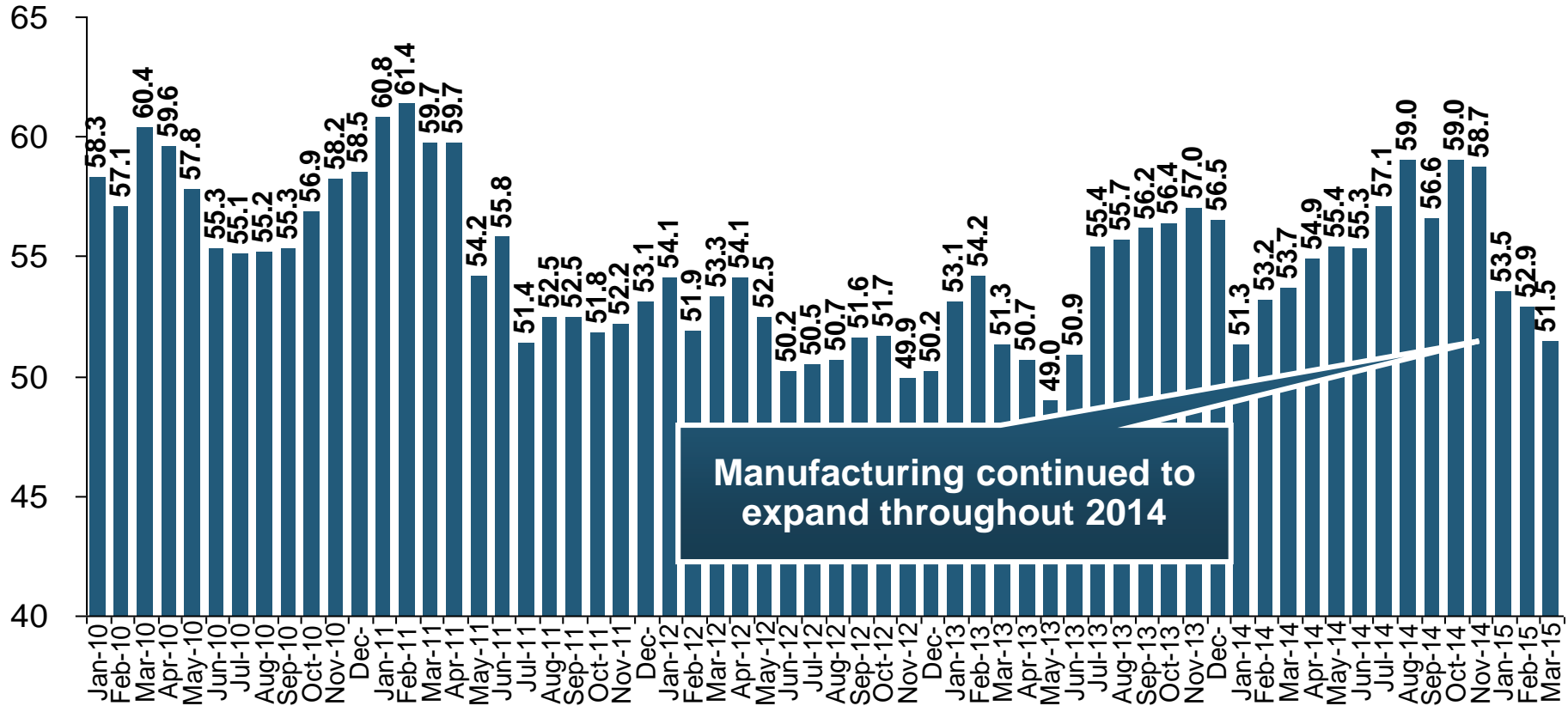
Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted; Feb. and Mar. 2015 are preliminary

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

ISM Manufacturing Index (Values > 50 Indicate Expansion)

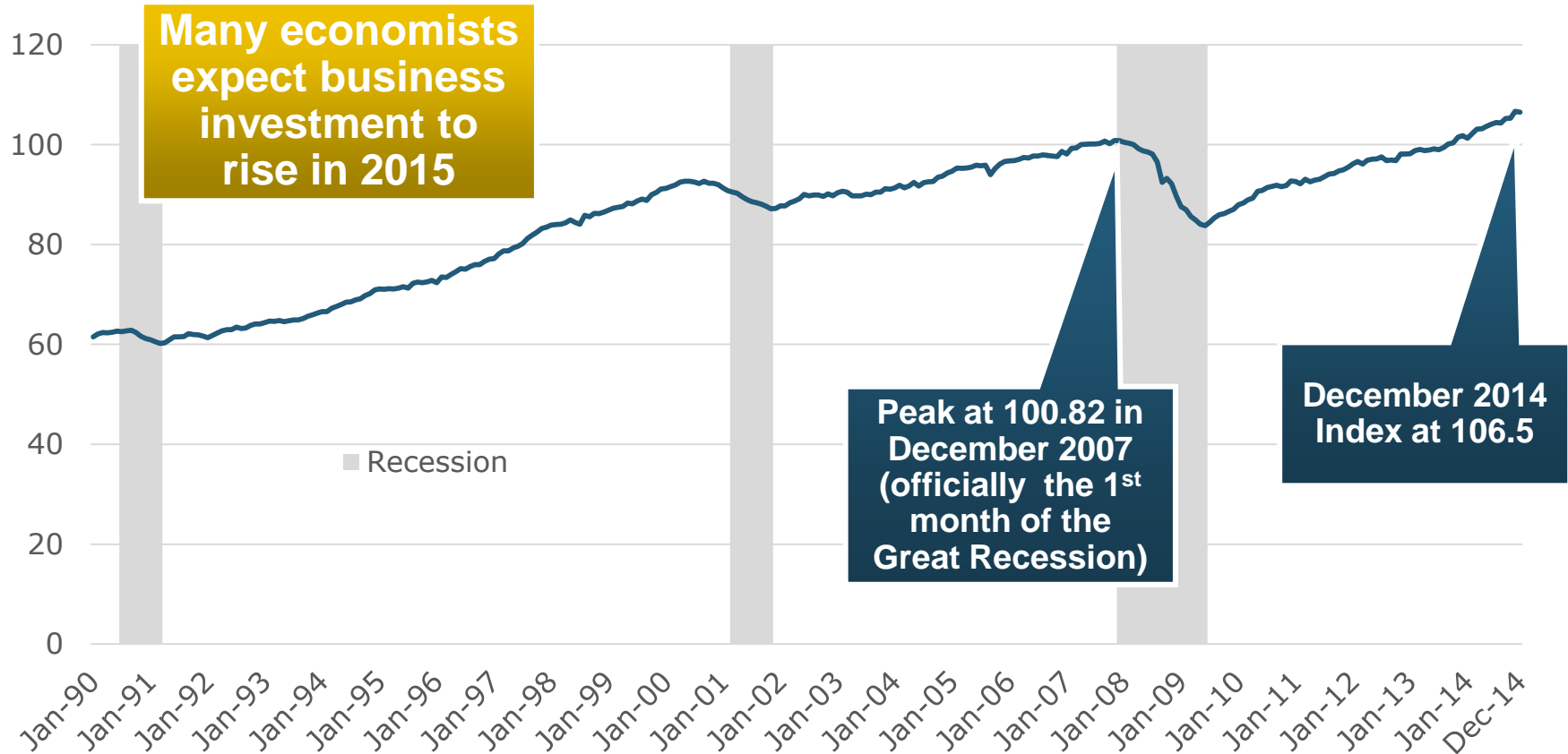
January 2010 through March 2015



The manufacturing sector expanded for 61 of the 63 months from Jan. 2010 through Mar. 2015. Pace of recovery has been uneven due to the rising dollar and economic weakness in Europe and China.

Index of Total Industrial Production:*

A Near Peak as of December 2014



Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-Y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

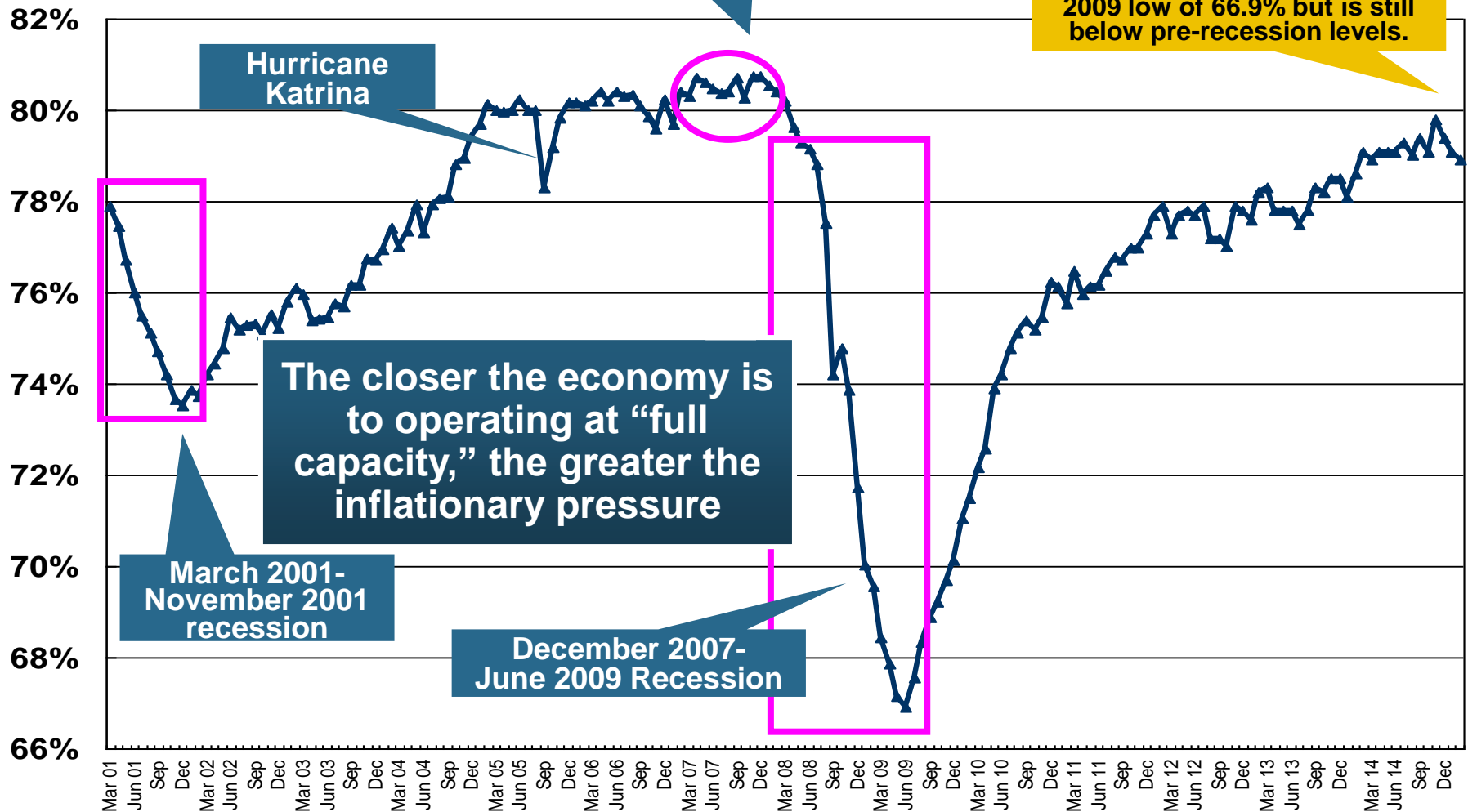
*Monthly, seasonally adjusted, through December 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

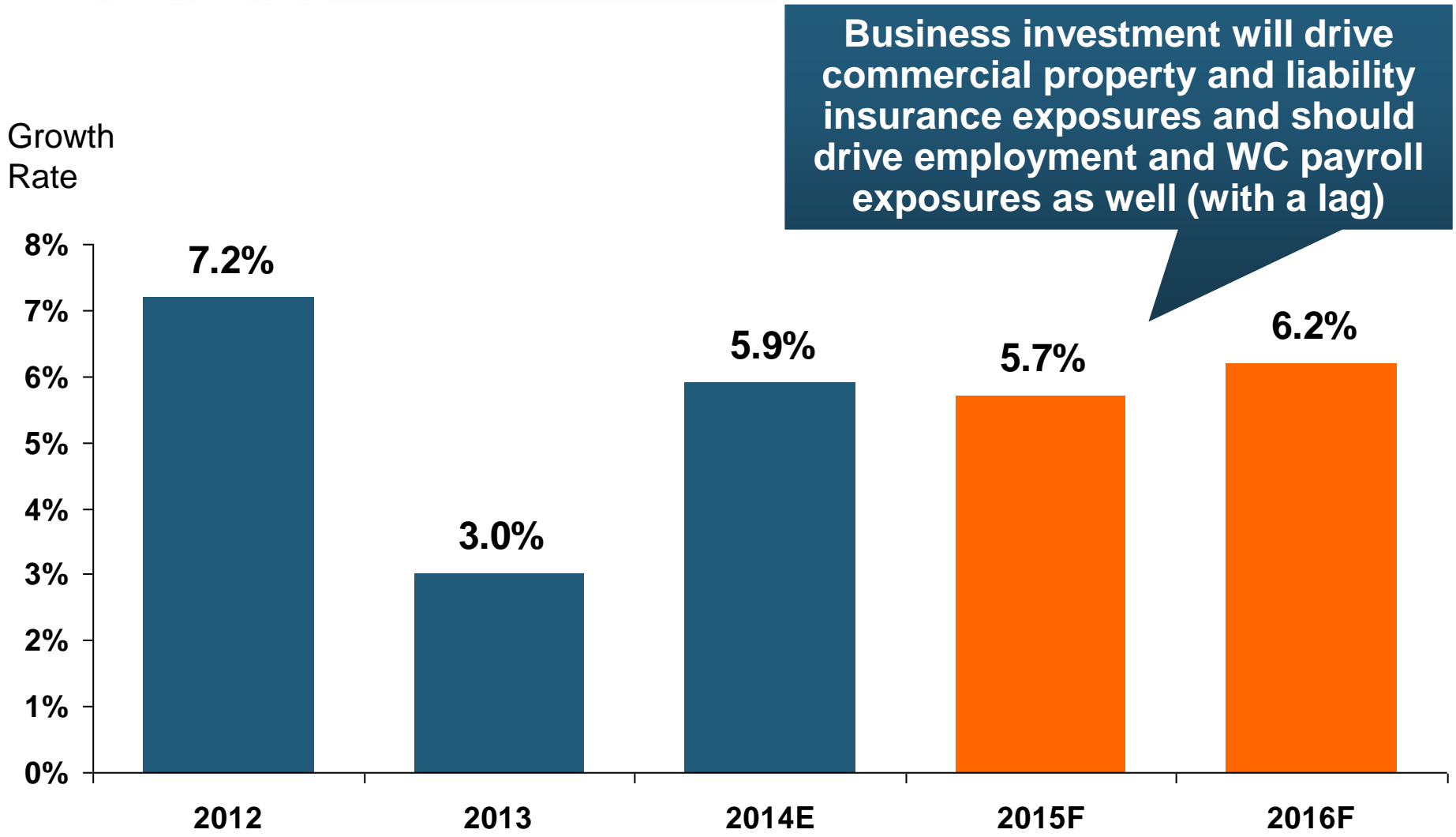
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through Feb. 2015

Percent of Industrial Capacity



Business Fixed Investment is Forecast to Grow Steadily in 2015-16, Fueling Commercial Exposure Growth



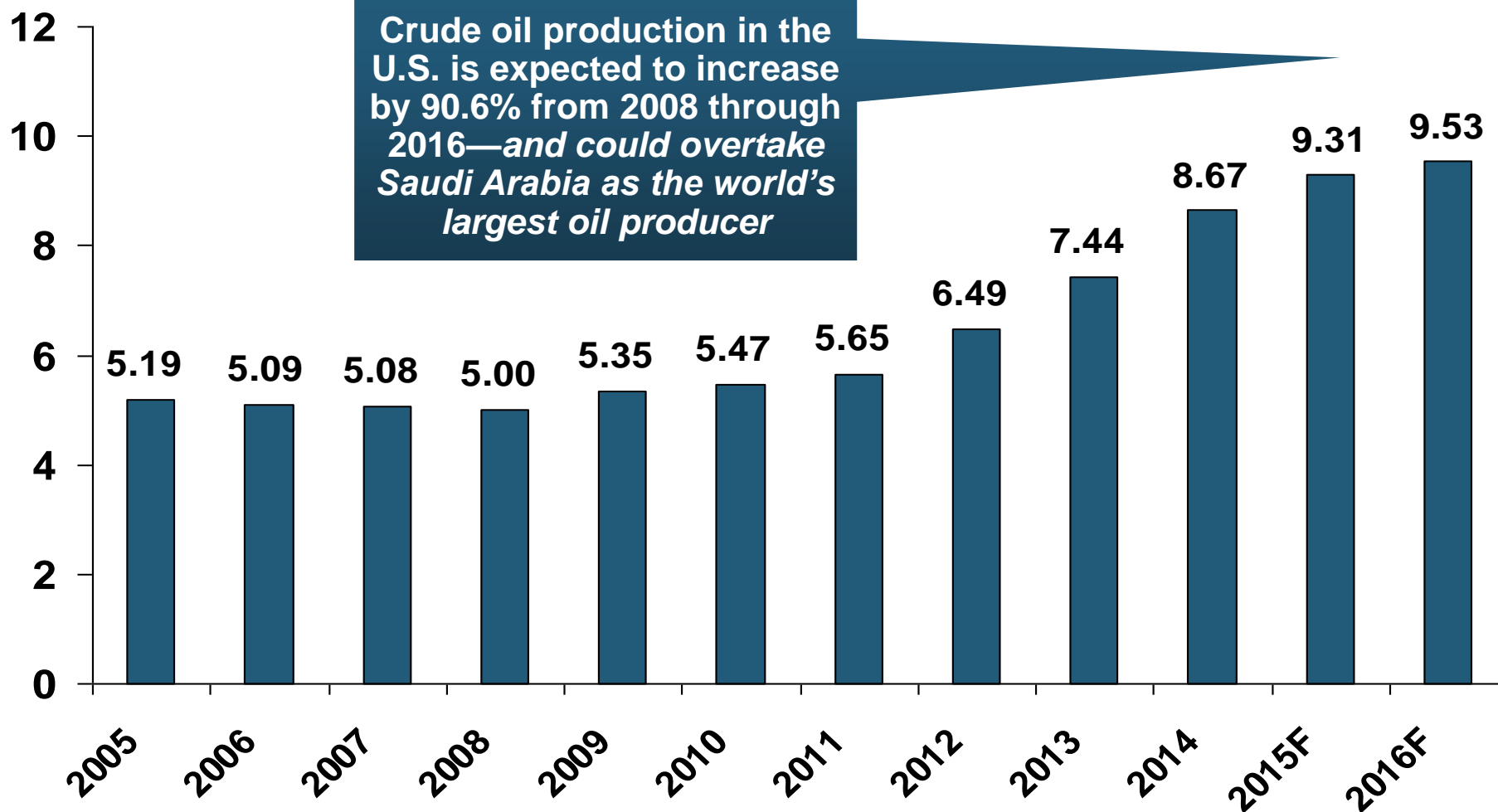
Sources: Wells Fargo Economic Group; Insurance Information Institute.

ENERGY SECTOR: OIL & GAS INDUSTRY FUTURE IS BRIGHT BUT VOLATILE

**US Is Becoming an Energy
Powerhouse but Fall in Prices
Will Have Negative Impact**

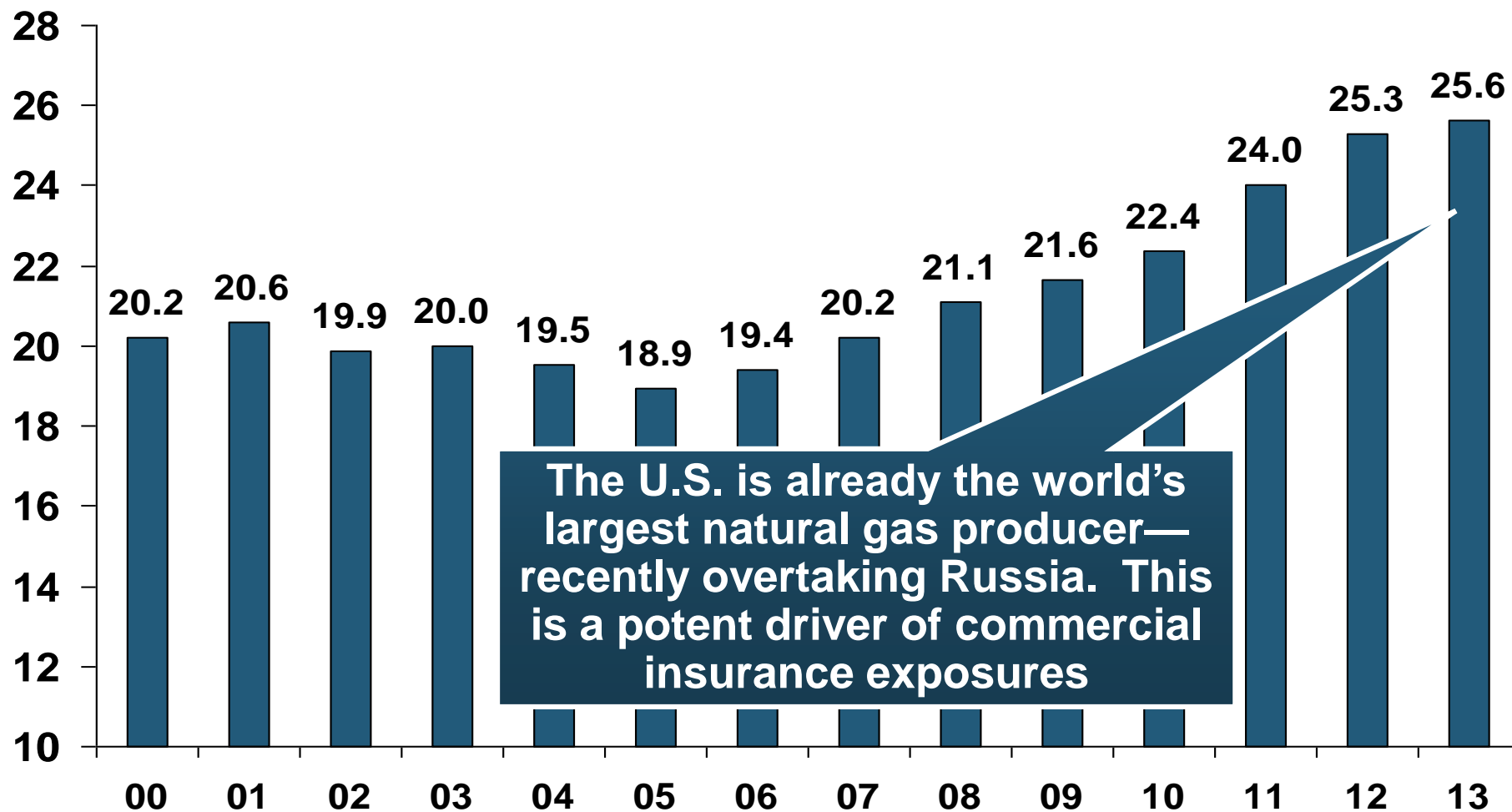
U.S. Crude Oil Production, 2005-2016P

Millions of Barrels per Day



U.S. Natural Gas Production, 2000-2013

Trillions of Cubic Ft. per Year

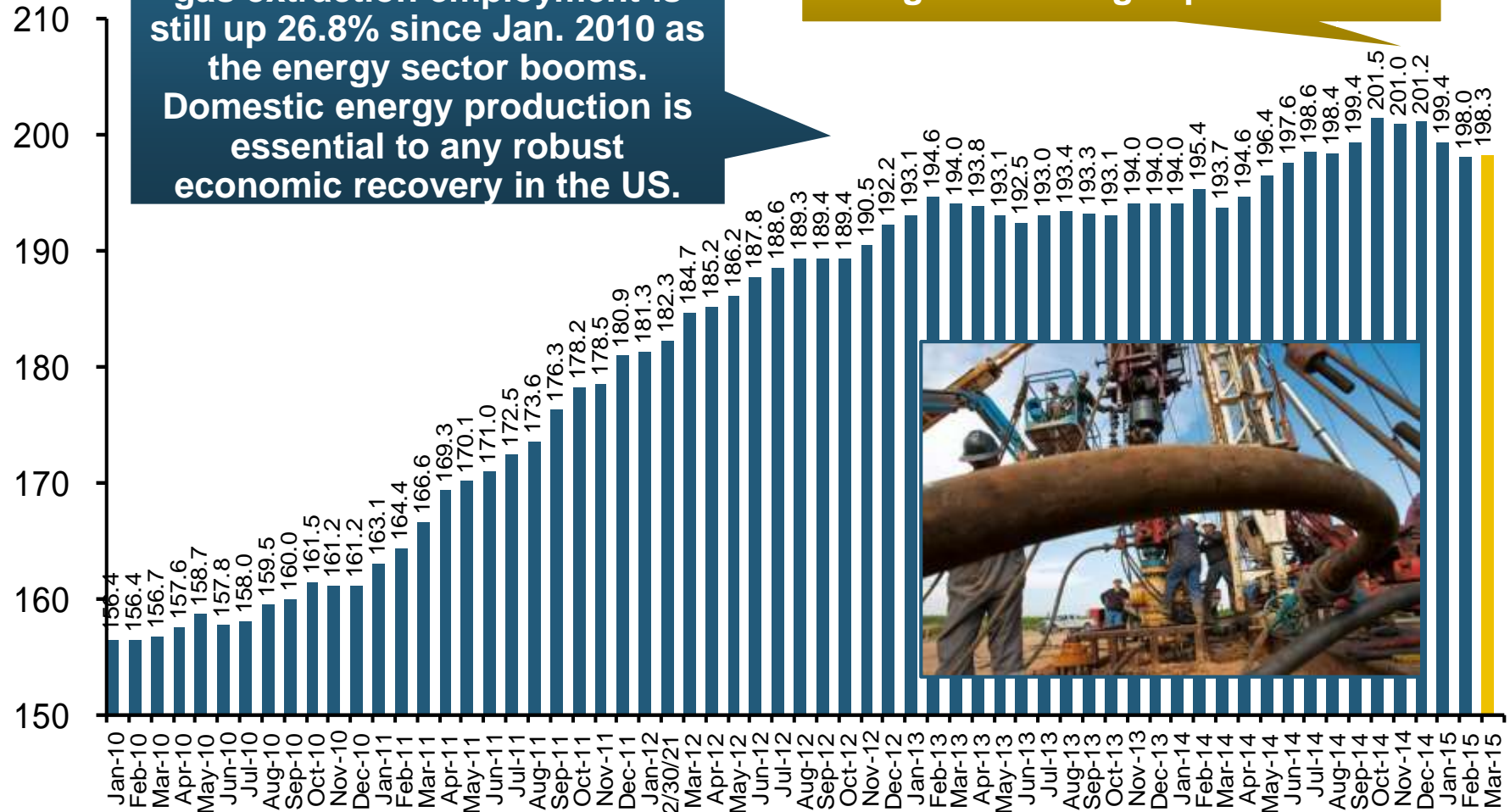


Oil & Gas Extraction Employment, Jan. 2010—March 2015*

(Thousands)

Despite recent declines, Oil and gas extraction employment is still up 26.8% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

After peaking at its highest level since 1986, O&G employment is falling as oil and gas prices decline



*Seasonally adjusted

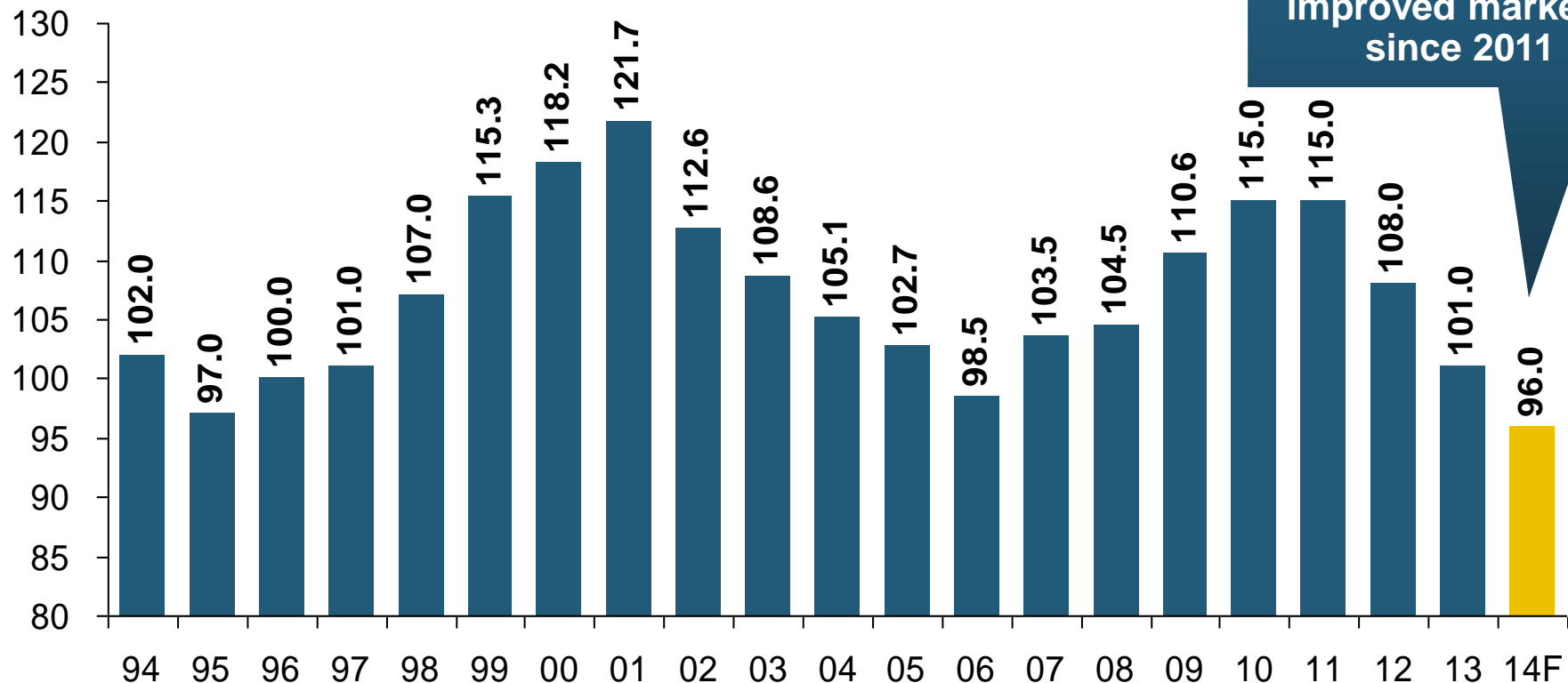
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.



Workers Compensation Operating Environment

**Workers Comp Results Have Improved
Substantially in Recent Years**

Workers Compensation Combined Ratio: 1994–2014E

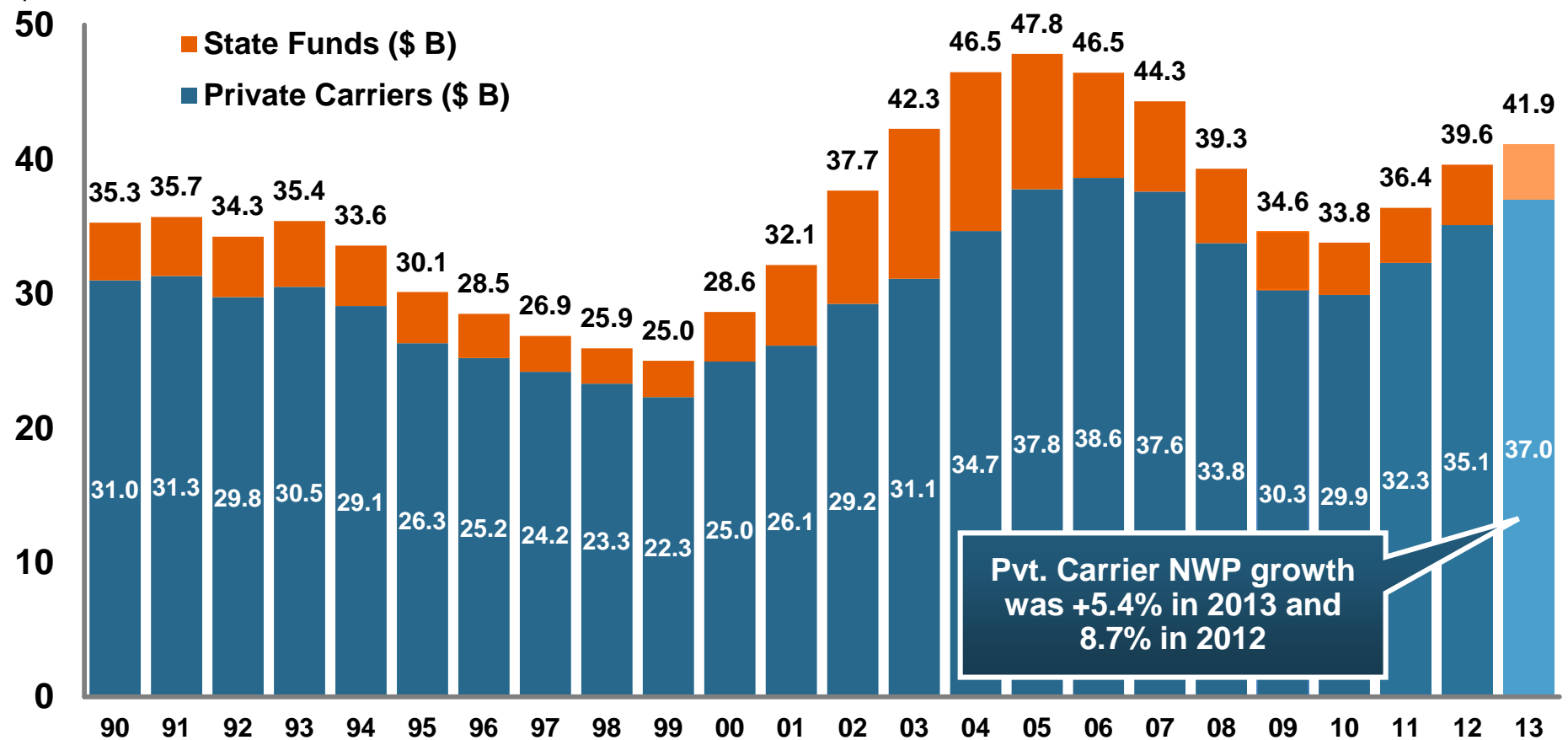


**Workers Comp Results Began to Improve in 2012.
Underwriting Results Deteriorated Markedly from 2007-
2010/11 and Were the Worst They Had Been in a Decade.**

Workers Compensation Premium: Third Consecutive Year of Increase

Net Written Premium

\$ Billions



p Preliminary

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.

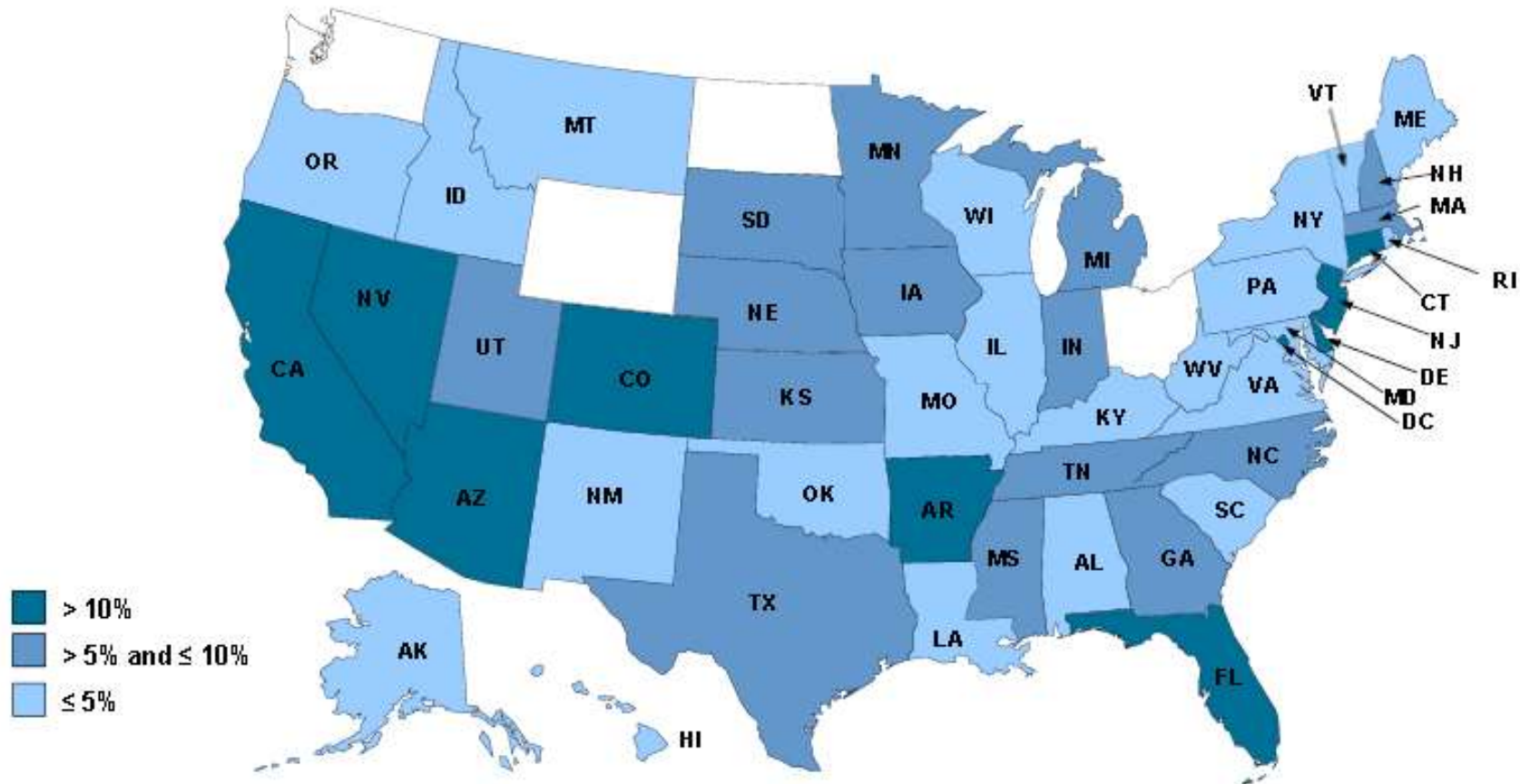
1996–2013p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

2013 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

While growth rates varied widely, all states experienced positive growth in 2013

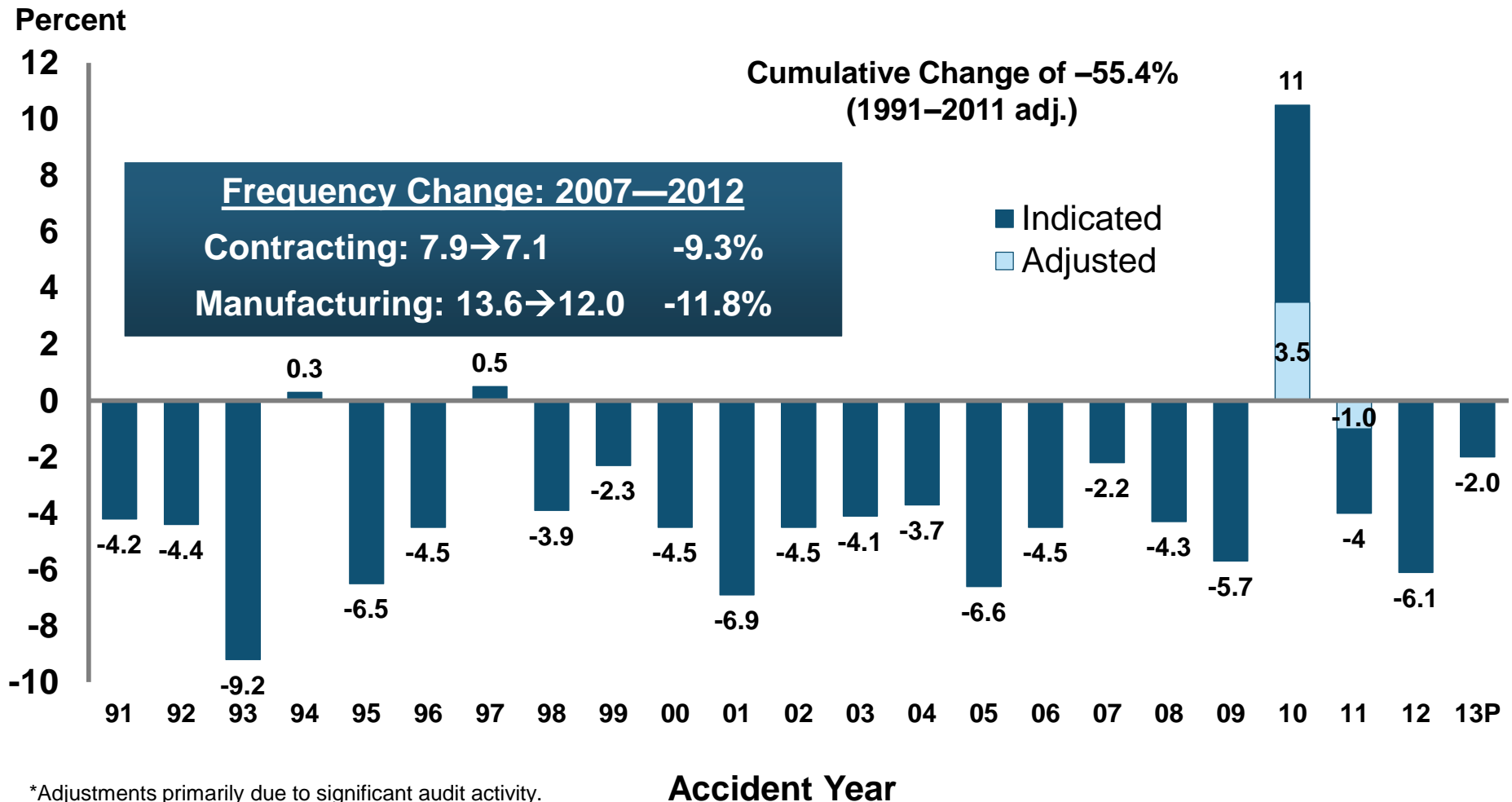


*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2013

Lost-Time Claims



*Adjustments primarily due to significant audit activity.

2013p: Preliminary based on data valued as of 12/31/2013

1991–2012: Based on data through 12/31/2012, developed to ultimate

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

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

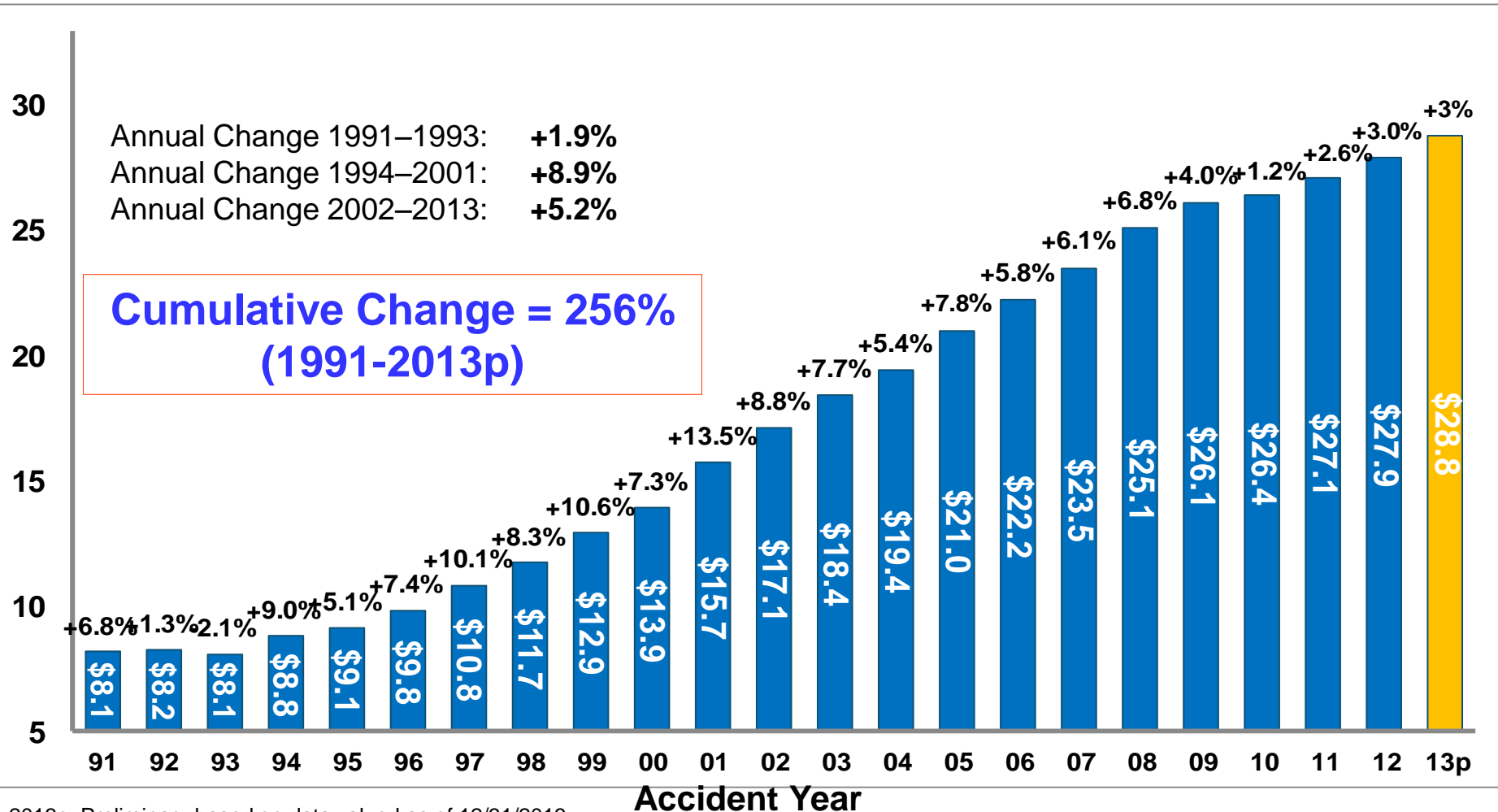
Source: NCCI.

Workers Compensation Medical Severity

Moderate Increase in 2013

Medical
Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim



2013p: Preliminary based on data valued as of 12/31/2013.

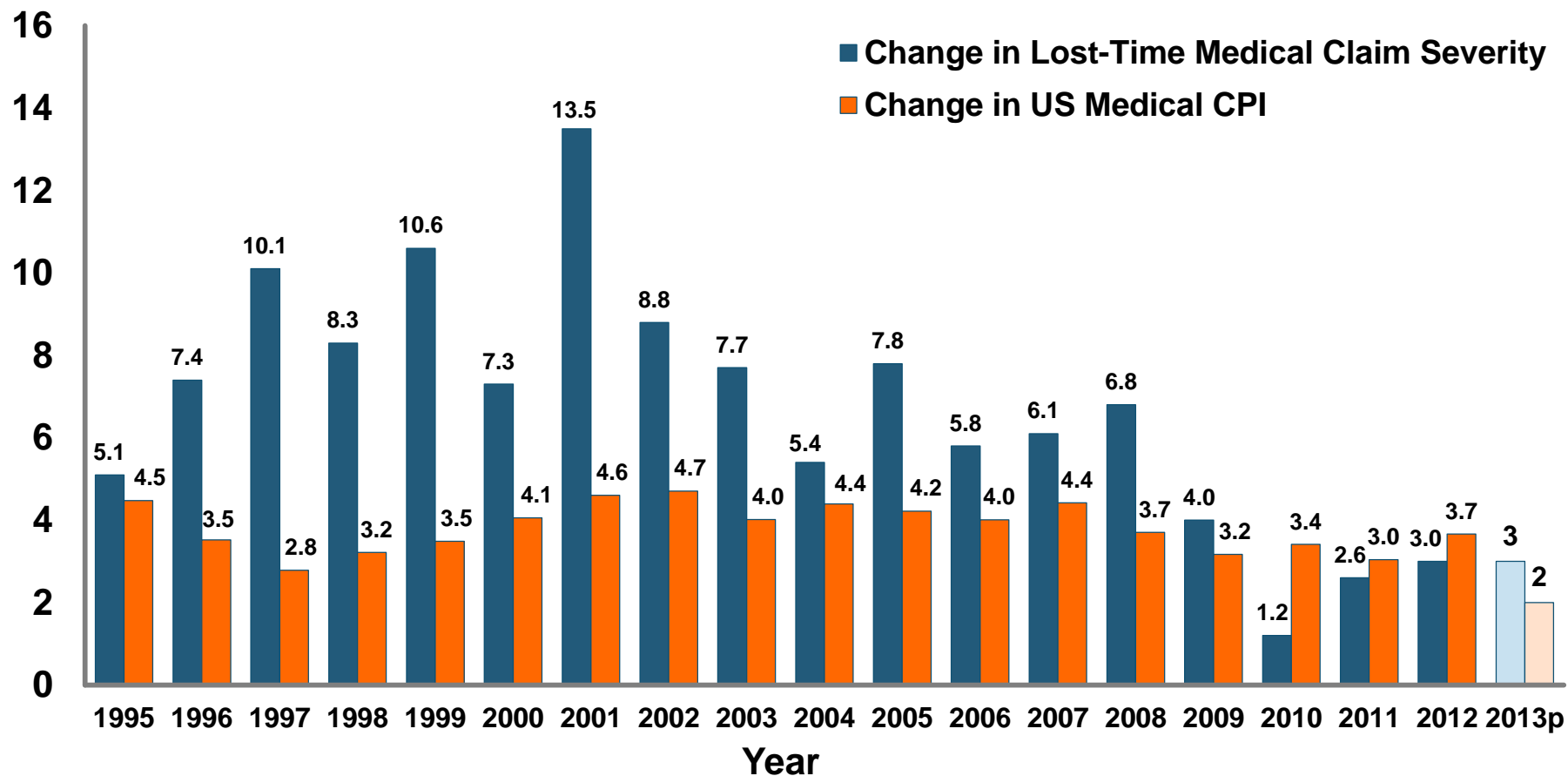
1991-2012: Based on data through 12/31/2012, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change



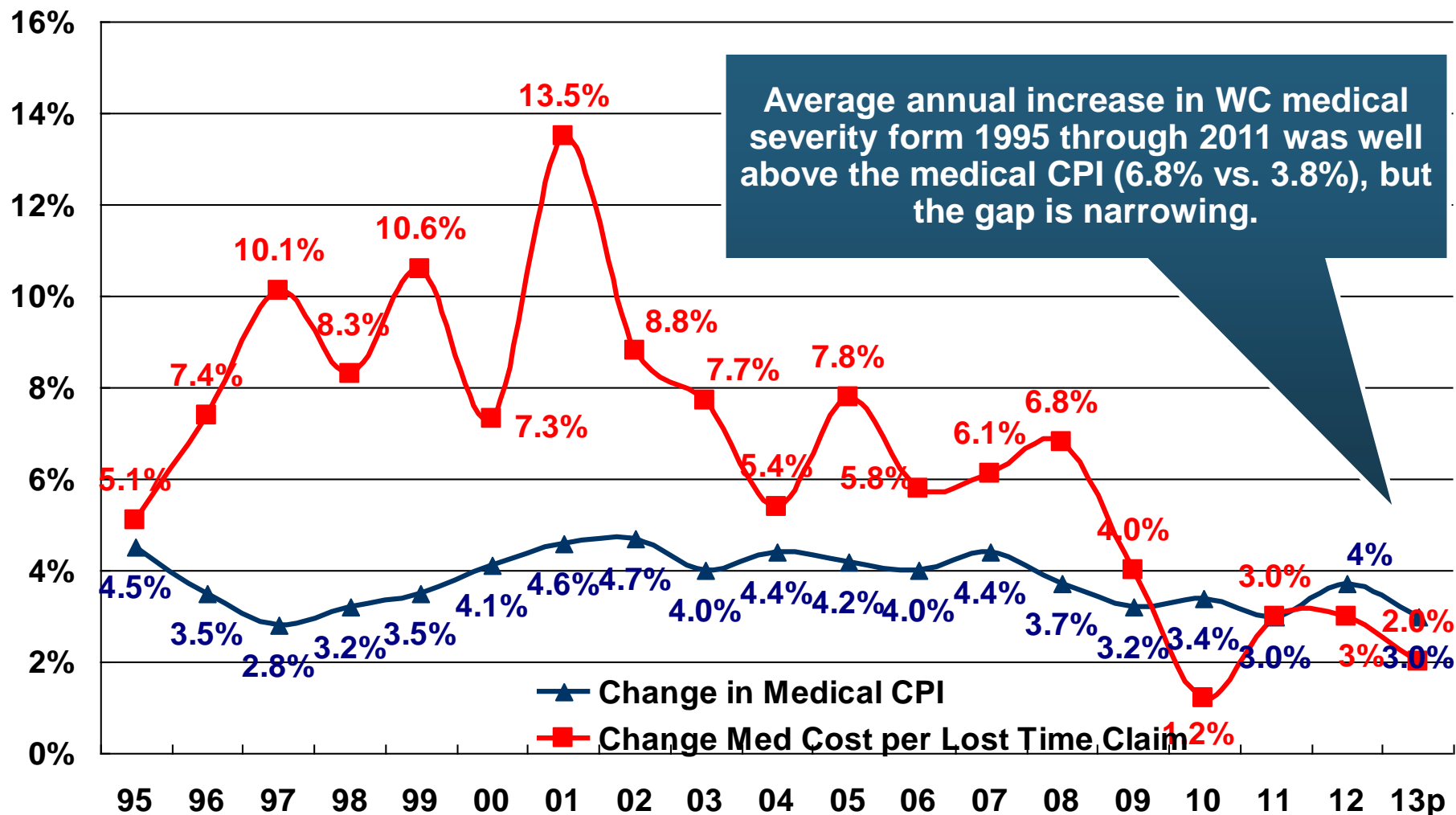
Change in lost-time medical claim severity, 2013p: Preliminary based on data valued as of 12/31/2013

1995–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies

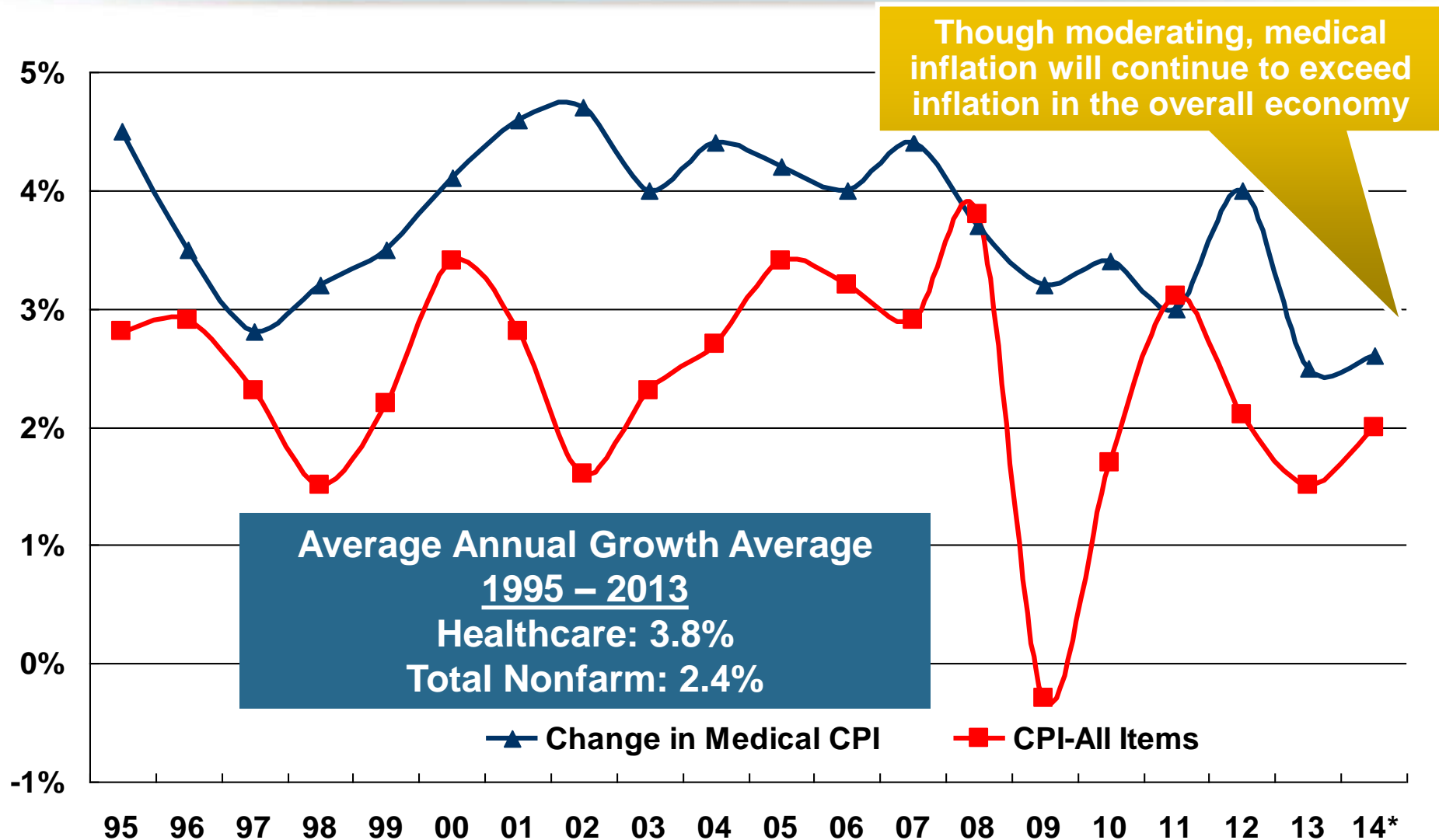
Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV

Sources: NCCI from US Medical CPI: US Bureau of Labor Statistics (BLS)

WC Medical Severity Generally Outpaces the Medical CPI Rate



Medical Cost Inflation vs. Overall CPI, 1995 – 2014*



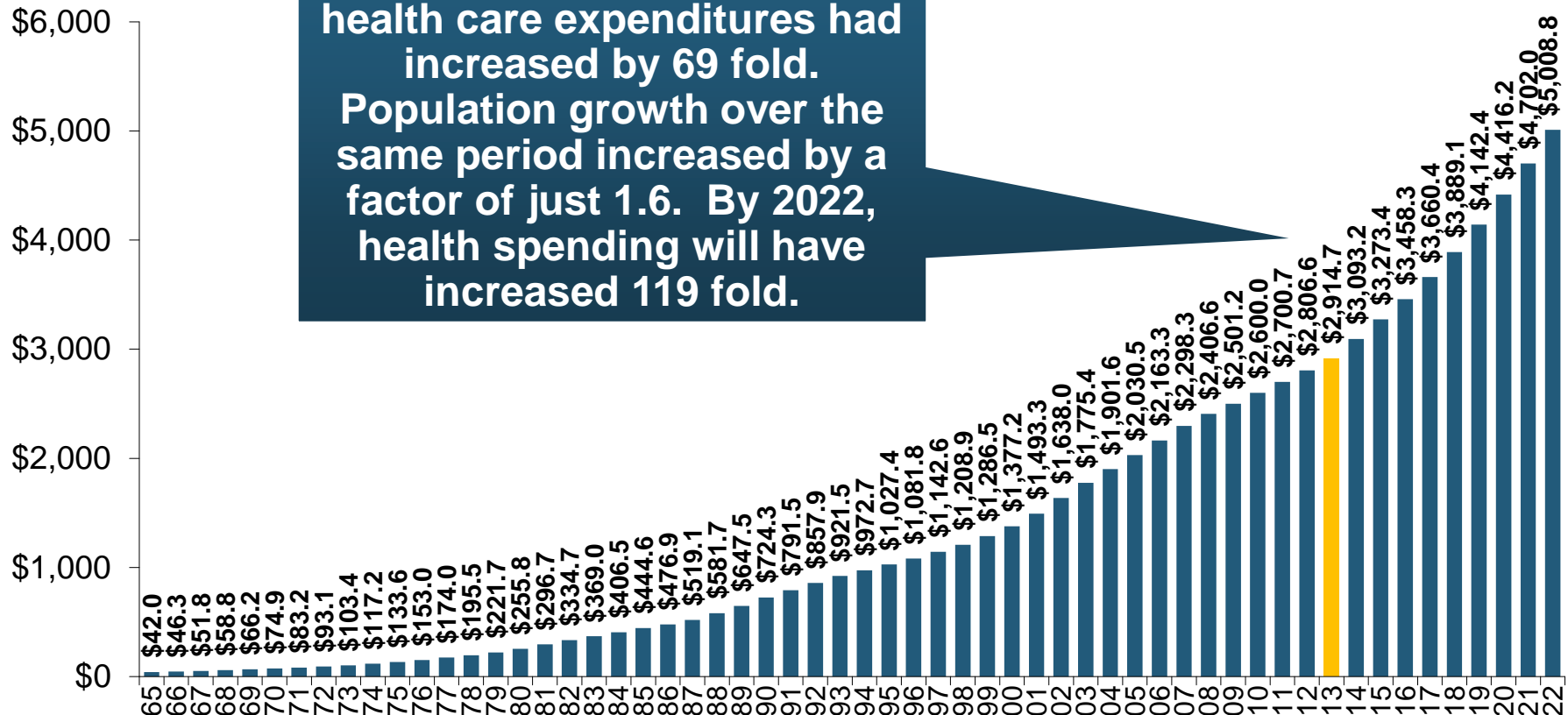
*July 2014 compared to July 2013.

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

U.S. Health Care Expenditures, 1965–2022F

\$ Billions

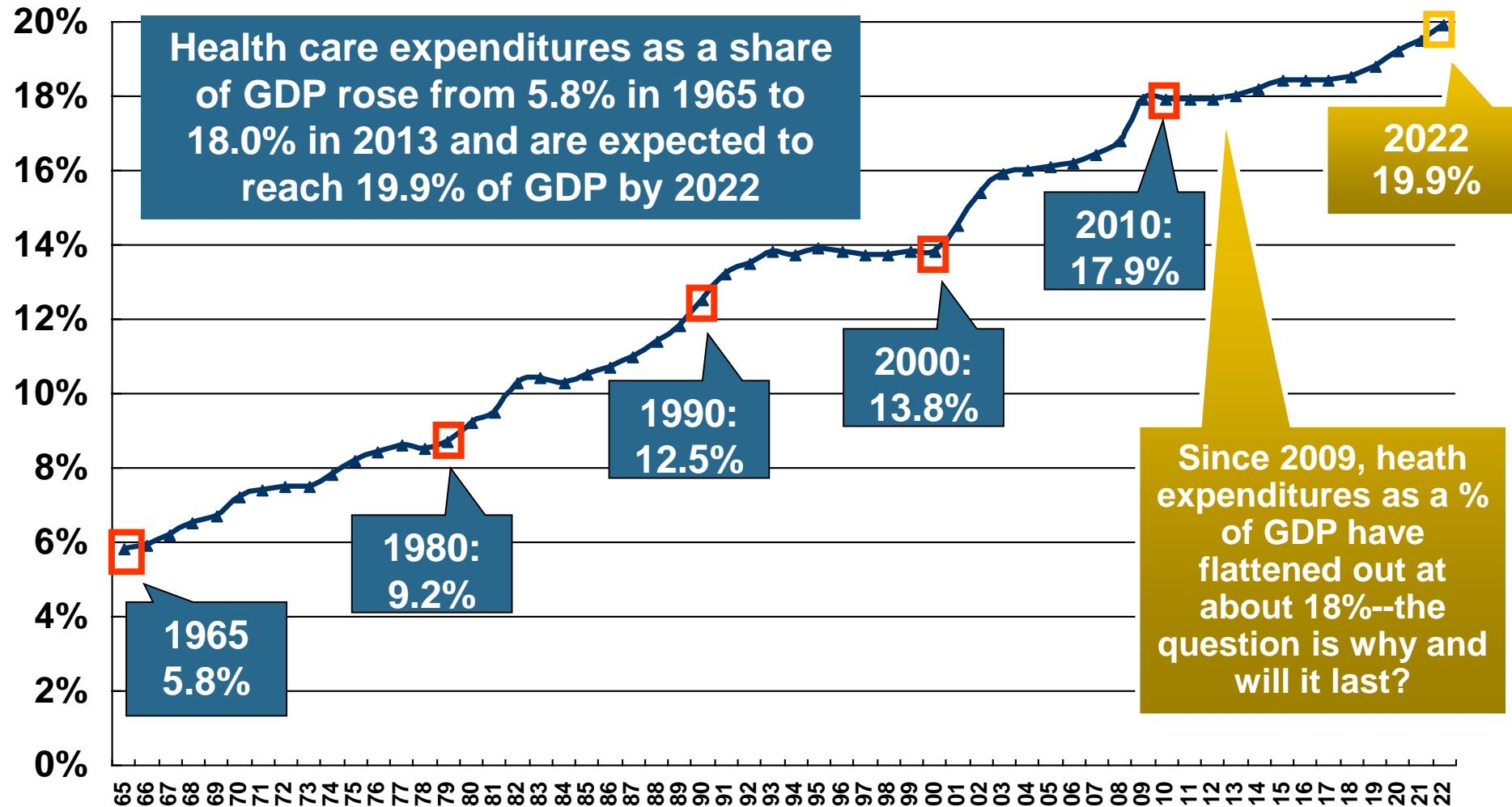
From 1965 through 2013, US health care expenditures had increased by 69 fold. Population growth over the same period increased by a factor of just 1.6. By 2022, health spending will have increased 119 fold.



U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

National Health Care Expenditures as a Share of GDP, 1965 – 2022F*

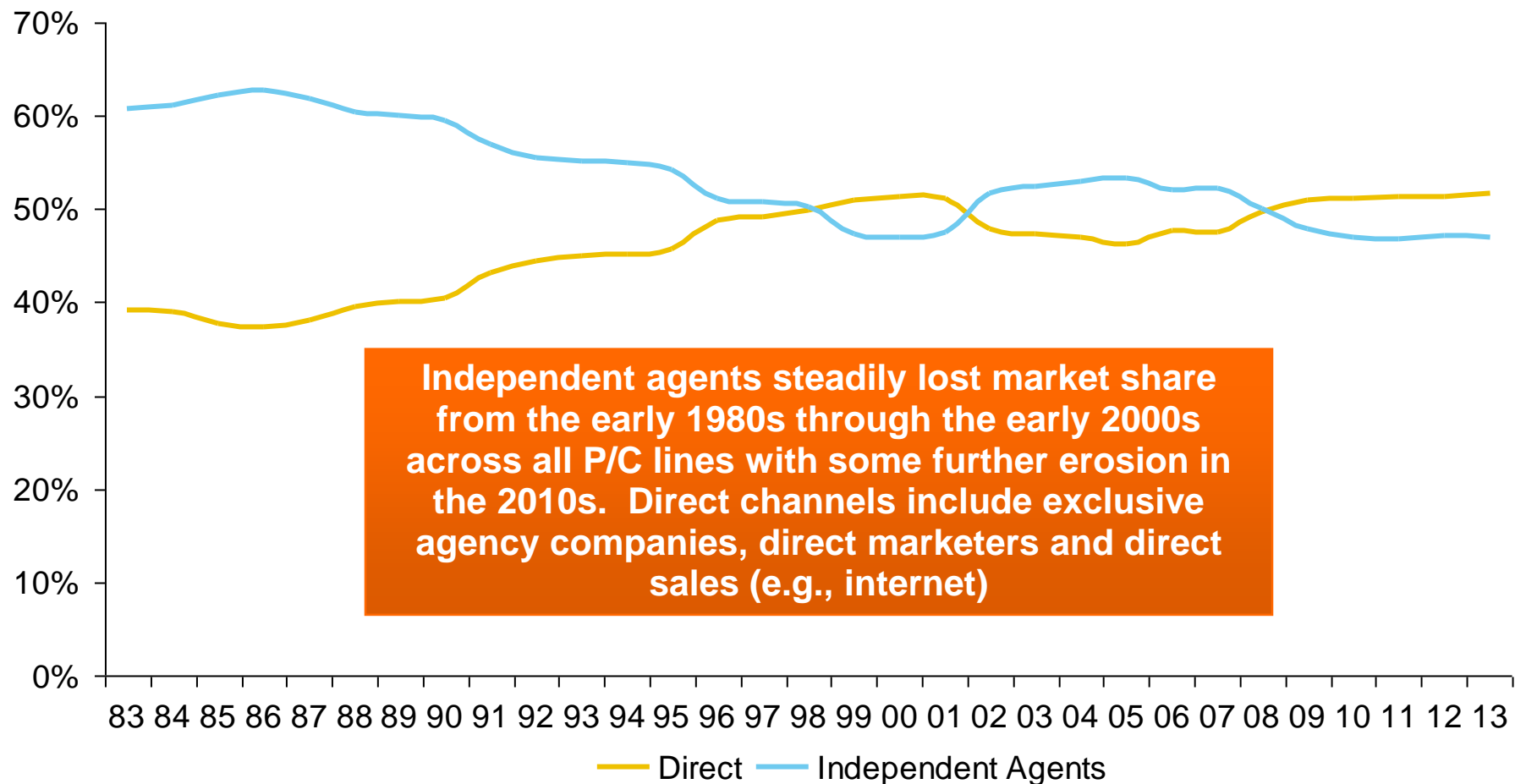
% of GDP



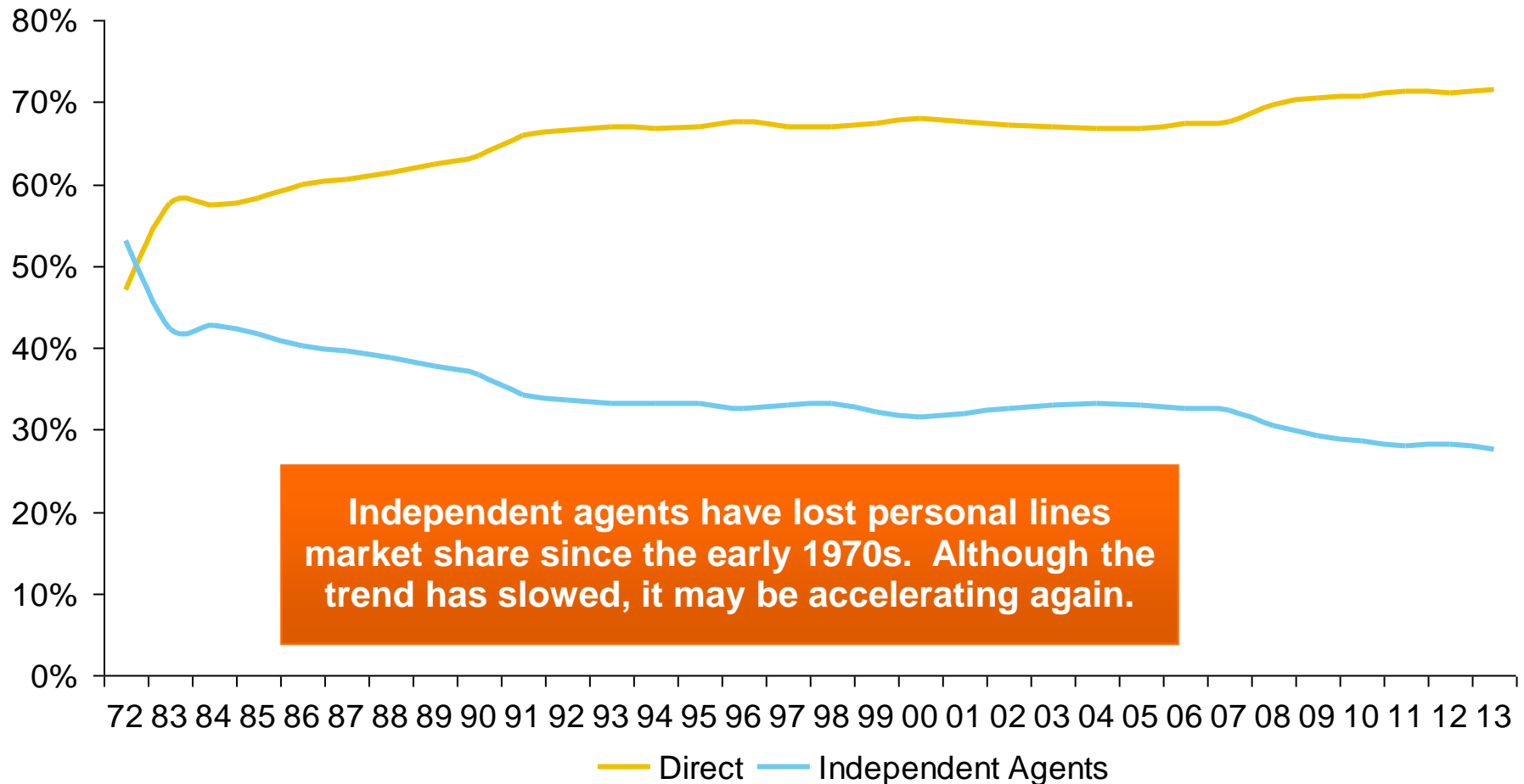
DISTRIBUTION TRENDS

**Distribution by Channel Type
Continues to Evolve Rapidly**

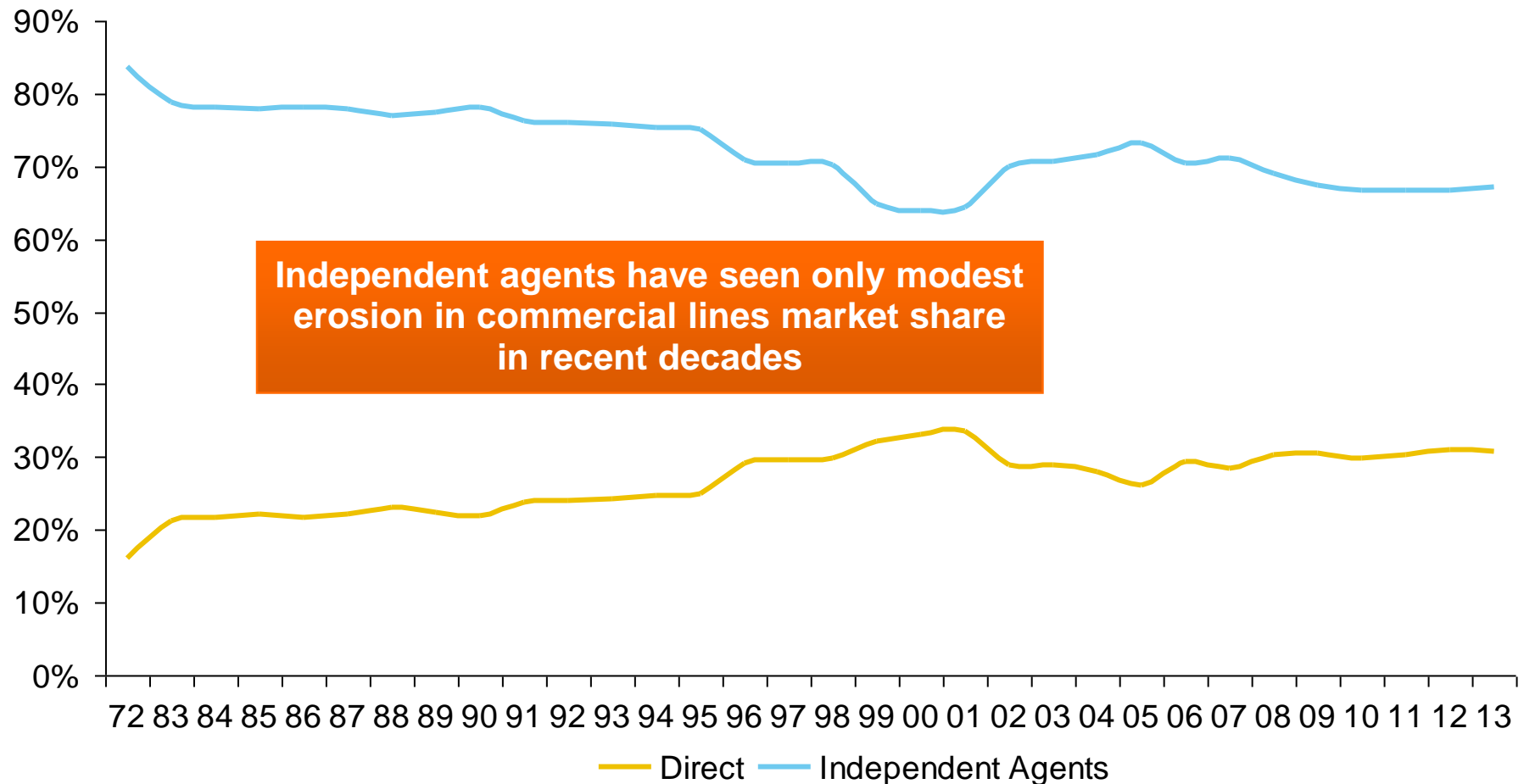
All P/C Lines Distribution Channels, Direct vs. Independent Agents



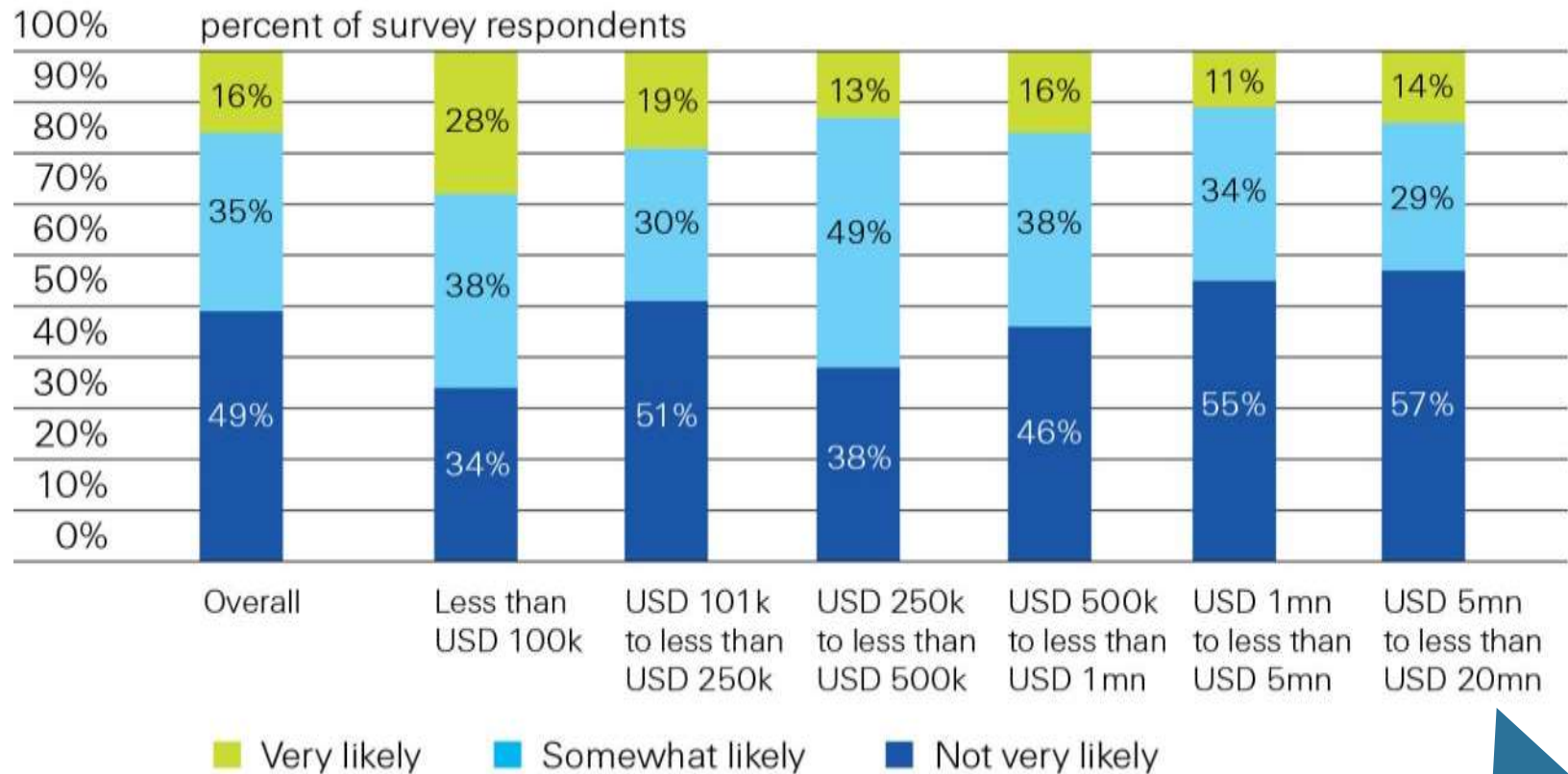
Personal Lines Distribution Channels, Direct vs. Independent Agents



Commercial P/C Distribution Channels, Direct vs. Independent Agents



Proportion of Businesses Interested in Buying Insurance Online



Likelihood of small US businesses buying insurance online directly from the insurer, overall and by annual company revenue, in 2013

Source: Swiss Re from "Voice of the Small Commercial Insurance Consumer Survey."
Deloitte, March (2013)

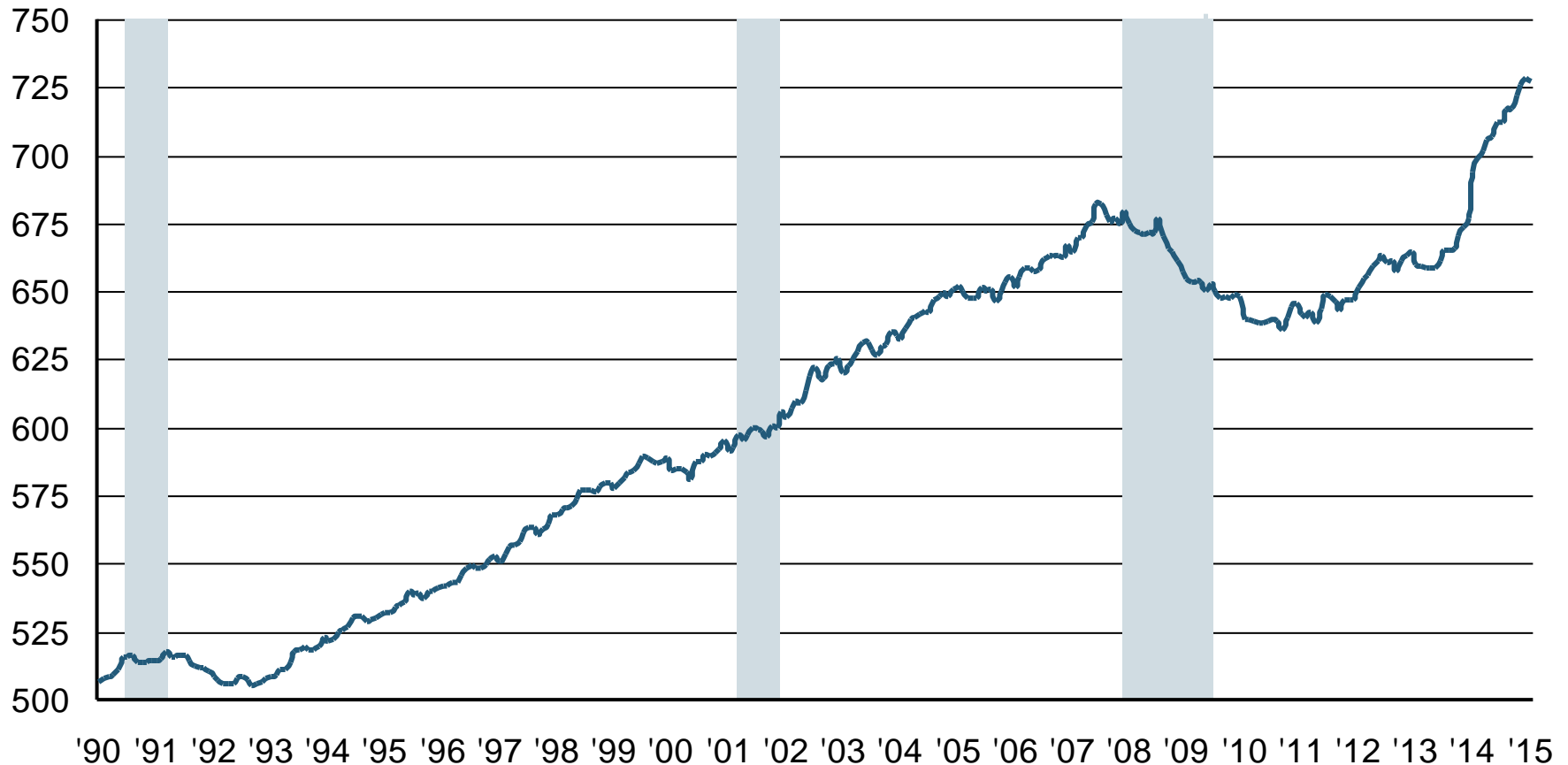
**Interest
diminishes
with account
size**

DISTRIBUTION DEMOGRAPHICS

**Employment Among Agents and
Brokers Has Recovered but
Consolidation Trends Will
Persist**

U.S. Employment in Insurance Agencies & Brokerages: 1990–2015*

Thousands



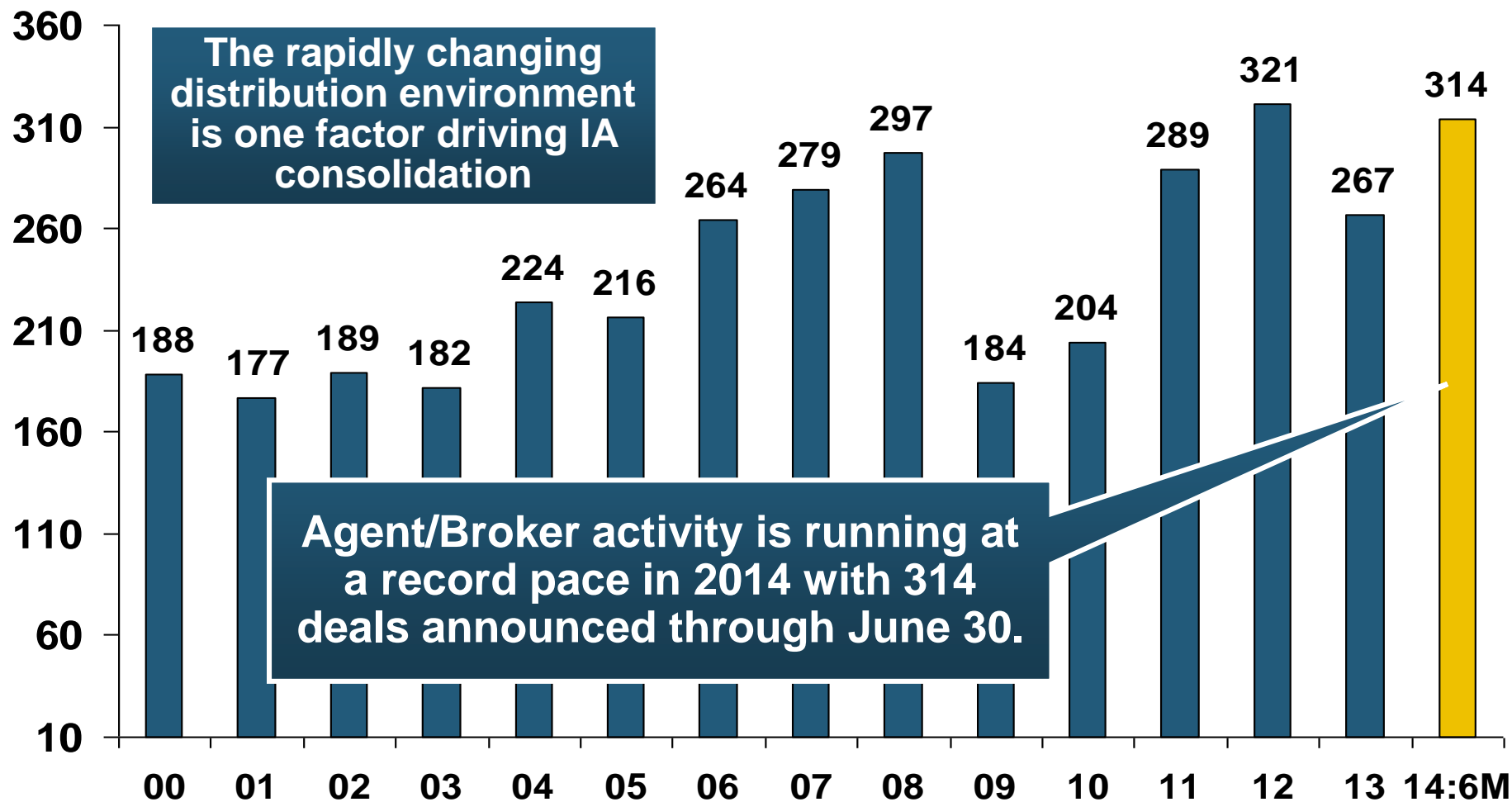
*As of January 2015; not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Agent/Broker M&A Deals, 2000-2014:6M

Number of Deals



“BIG DATA”

**More and Better Data Combined
with Consumer Interactivity Are
Transforming Many Industries—
*Including Insurance***

Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predictive analytics in at least one line. 18% do not use it all.

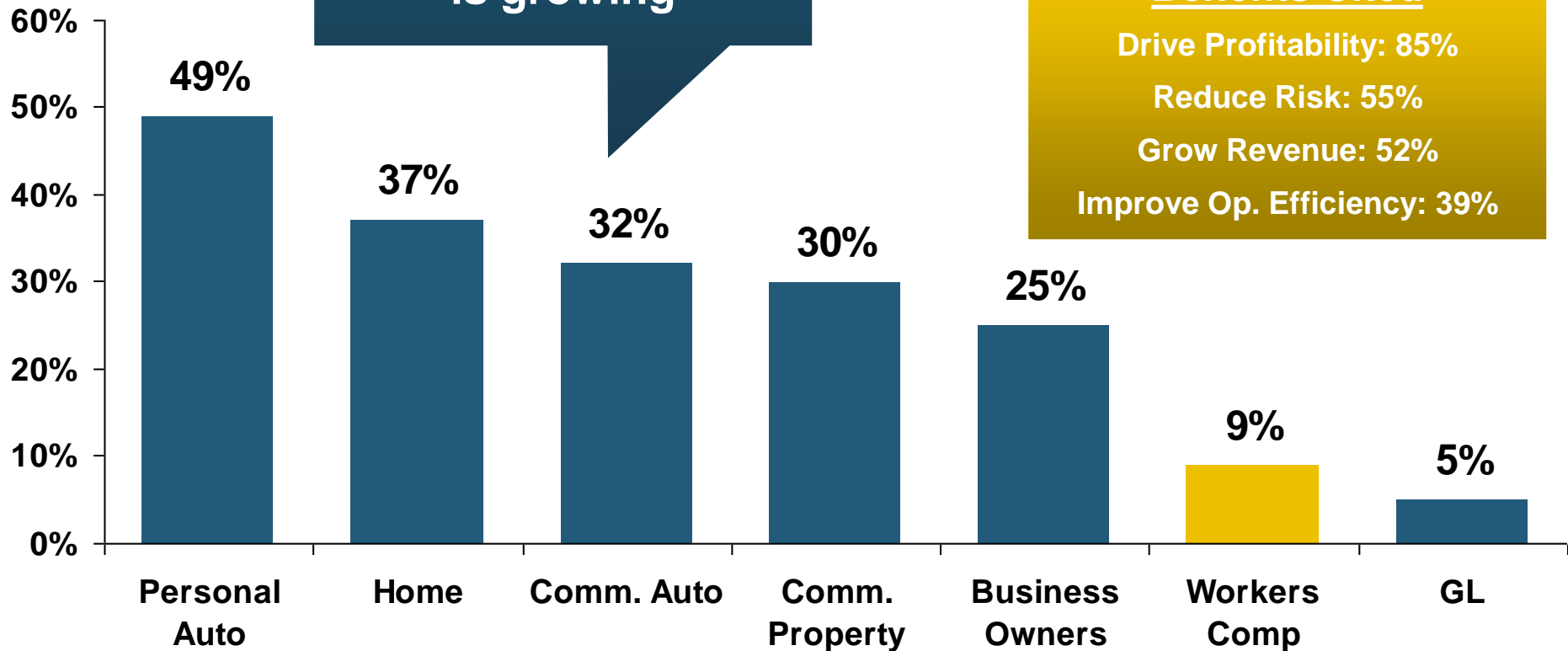
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

Grow Revenue: 52%

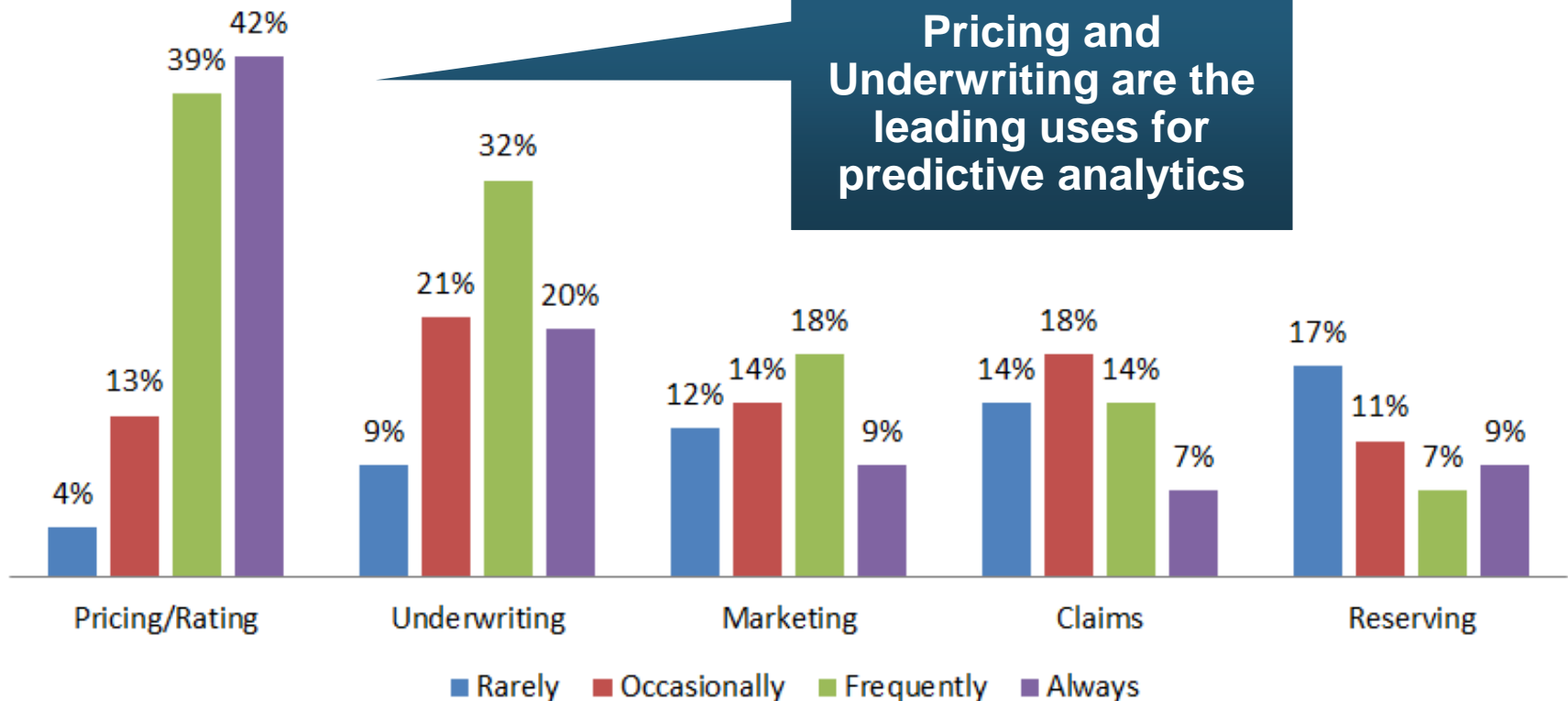
Improve Op. Efficiency: 39%



Uses of Predictive Analytics by Function

Uses of Predictive Modeling

Pricing and Underwriting are the leading uses for predictive analytics



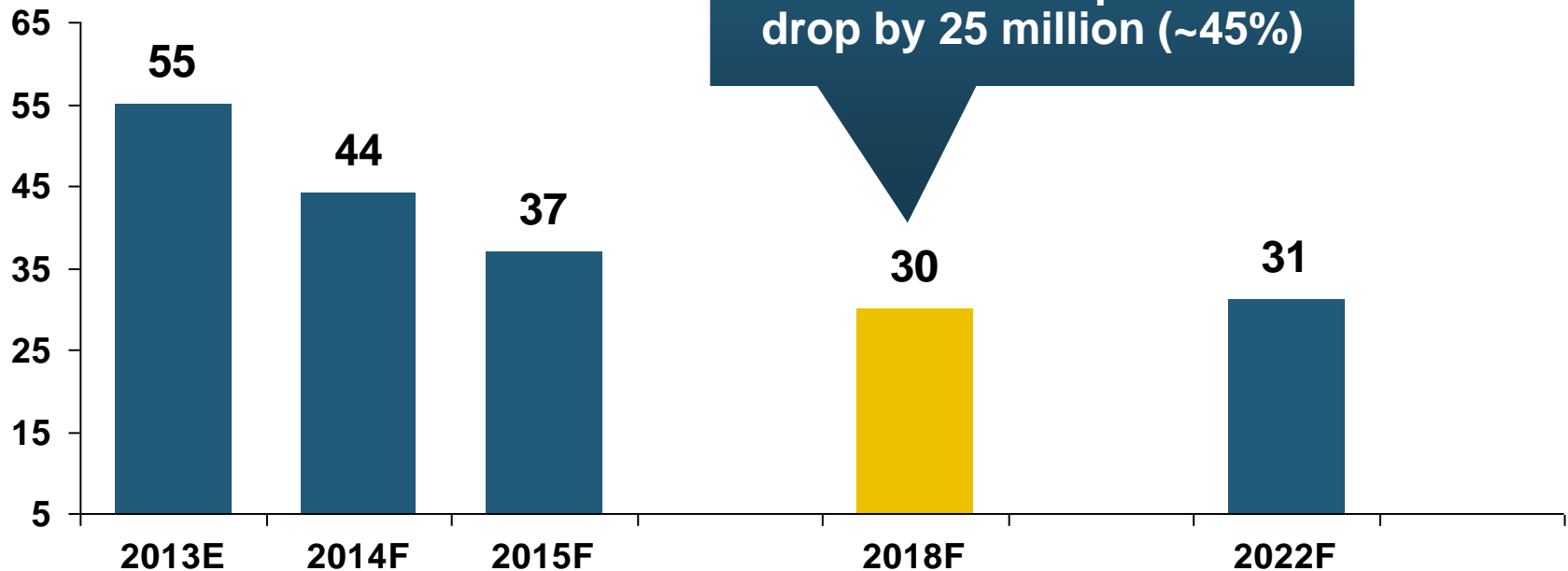
Source: Earnix/ISO September 2013 Survey

The Affordable Care Act & Implications for P/C Insurance

**The ACA Is Now Being Fully
Implemented; Consequences for P/C
Insurance Are Yet to Be Determined**

Projected Number of People with No Health Insurance, 2013—2022*

Millions



The projected decline in the uninsured population is very sensitive to the enrollment rate under the Affordable Care Act

*Under age 65.

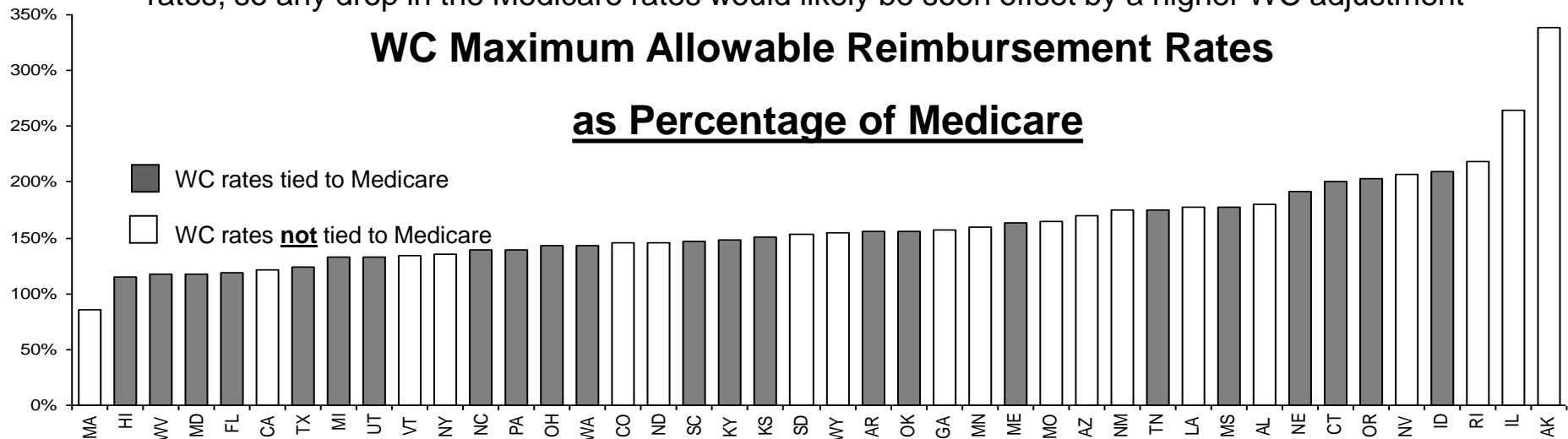
Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html> accessed 3/14/14; Insurance Information Institute.

A Few Potential Impacts of the ACA on Workers Compensation

Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	<ul style="list-style-type: none"> • System is overwhelmed • MD shortage • Patient care adversely impacted 	<ul style="list-style-type: none"> • Over time, people will have access to preventative care, improving the general health of the population • Greater use of PA's, etc.
Electronic Health Records	<ul style="list-style-type: none"> • Cost 	<ul style="list-style-type: none"> • Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
Claim Shifting	<ul style="list-style-type: none"> • Provider/patient may prefer claim handled via WC system 	<ul style="list-style-type: none"> • Reduction in uninsured population reduces shifting
Reimbursement Rates	<ul style="list-style-type: none"> • Cuts in MC reimbursement rates could make docs less willing to take WC claims 	<ul style="list-style-type: none"> • Impact would be short-lived. All MC-linked states already boost WC reimbursements

ACA Impact on WC May Occur via Changes in Rates Set by State Regulators

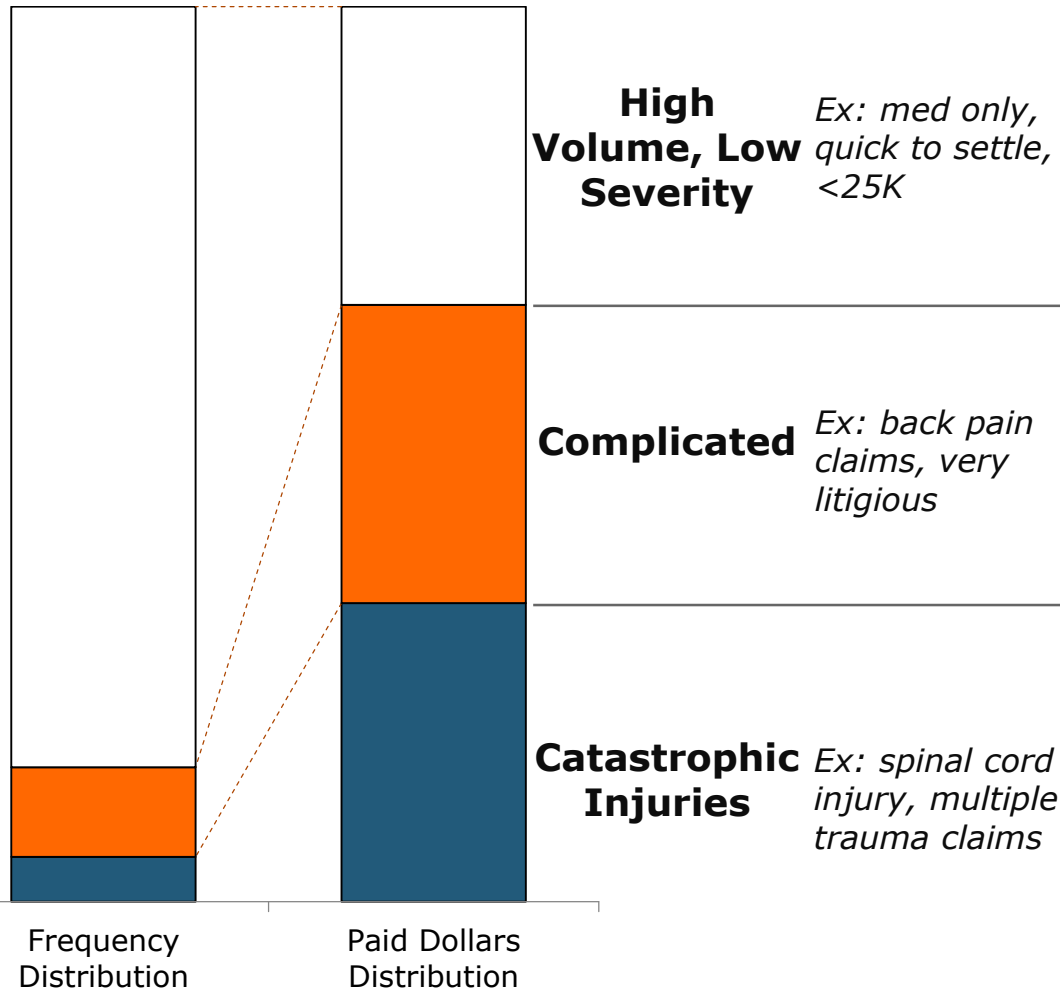
- WC rates often tied to Medicare but can change for reasons independent of this link
- There could be both positive and negative effects of a cut in Medicare rates on WC performance in states which tie reimbursement to Medicare
 - WC reimbursement rates would go down
 - Doctors may be unwilling to see WC patients:
 - 64% of Dr.'s surveyed said they would stop accepting new Medicare patients if planned rate cuts go through; some of these same doctors may also refuse WC patients if WC rates also decrease
- These effects would likely be short lived
 - All states which tie their fee schedules to Medicare already increase the Medicare rates to set WC rates, so any drop in the Medicare rates would likely be soon offset by a higher WC adjustment



PPACA May Have Distinct Impacts on WC Depending on Claim Frequency/Severity

Industry Portfolio by Claim Type

(Relative Volume by Claim Frequency & Paid Dollars)



Potential ACA Impact

- Expanded coverage may shift some small claims to the health insurance system (+)
- Physician access problems could lead to indemnity increases and may bleed into the complicated cases (-)
- Preventative care and early record keeping decreases WC comorbidities (+)
- Soft tissue treatments, a large portion of "slow burn claims," may decrease in cost (+)
- No significant impacts

1. Could slow the growth in WC medical care costs

- IPAB recommendations and PCORI reports, plus Medicare changes, could have beneficial effects on cost and treatment effectiveness

2. Could ACA be first step in federal regulation of insurance products and markets?

- Will regulation like that requiring products to be priced to meet Medical Loss Ratios be applied to WC?
- Will cost-control mechanisms such as the Independent Payment Advisory Board be developed for WC?
- Will WC insurers lose their limited exemption from anti-trust laws that they have had under McCarran-Ferguson since 1945?

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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