Workers Compensation and the New Economy: *Trends, Challenges and Opportunities*

Minnesota Workers' Comp Insurers Association

Minneapolis, MN

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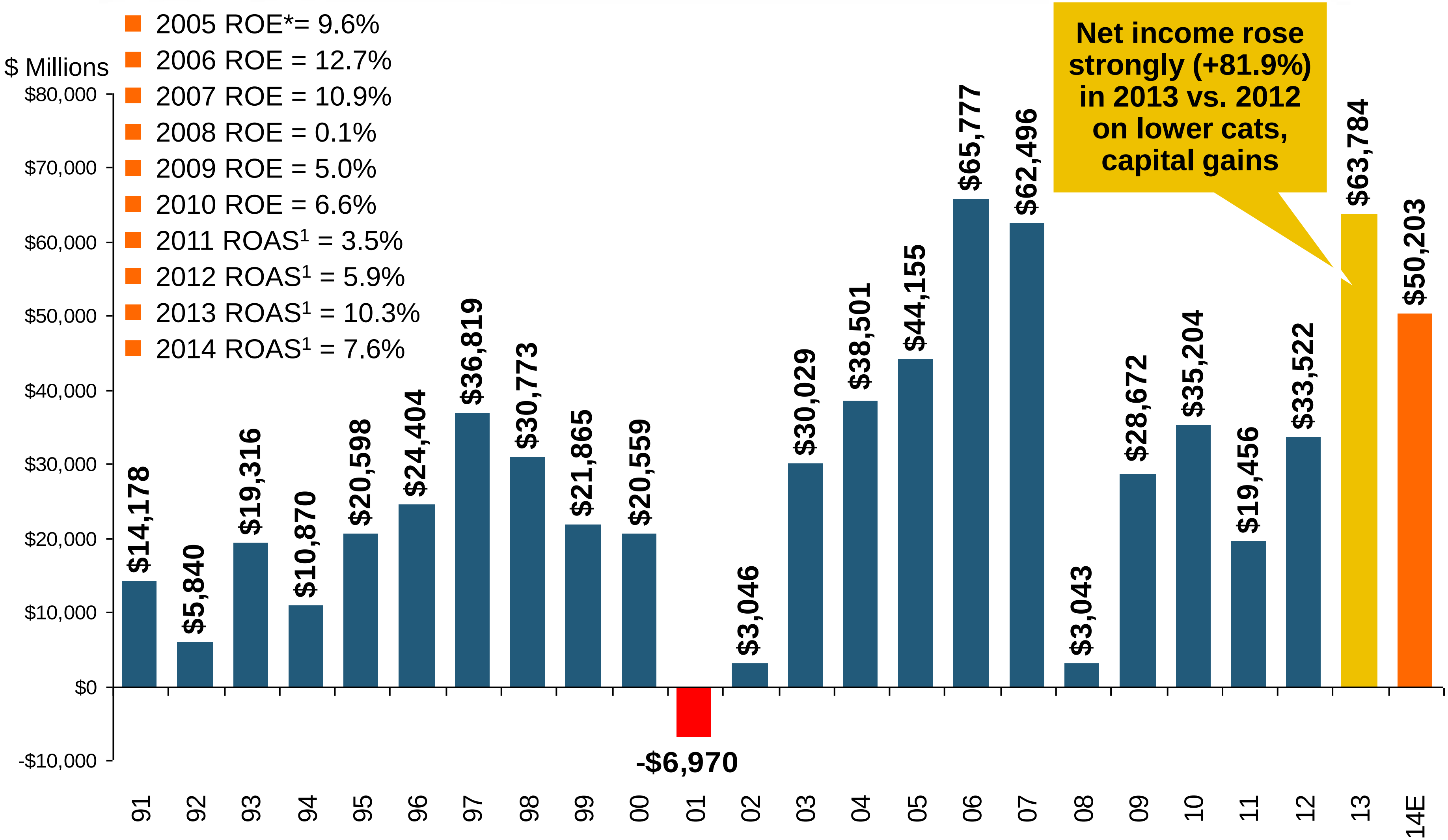
Insurance Industry: *Financial Update & Outlook*

2014 Was a Reasonably Good Year

2015: A Repeat of 2014?

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



•ROE figures are GAAP; [1]Return 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*

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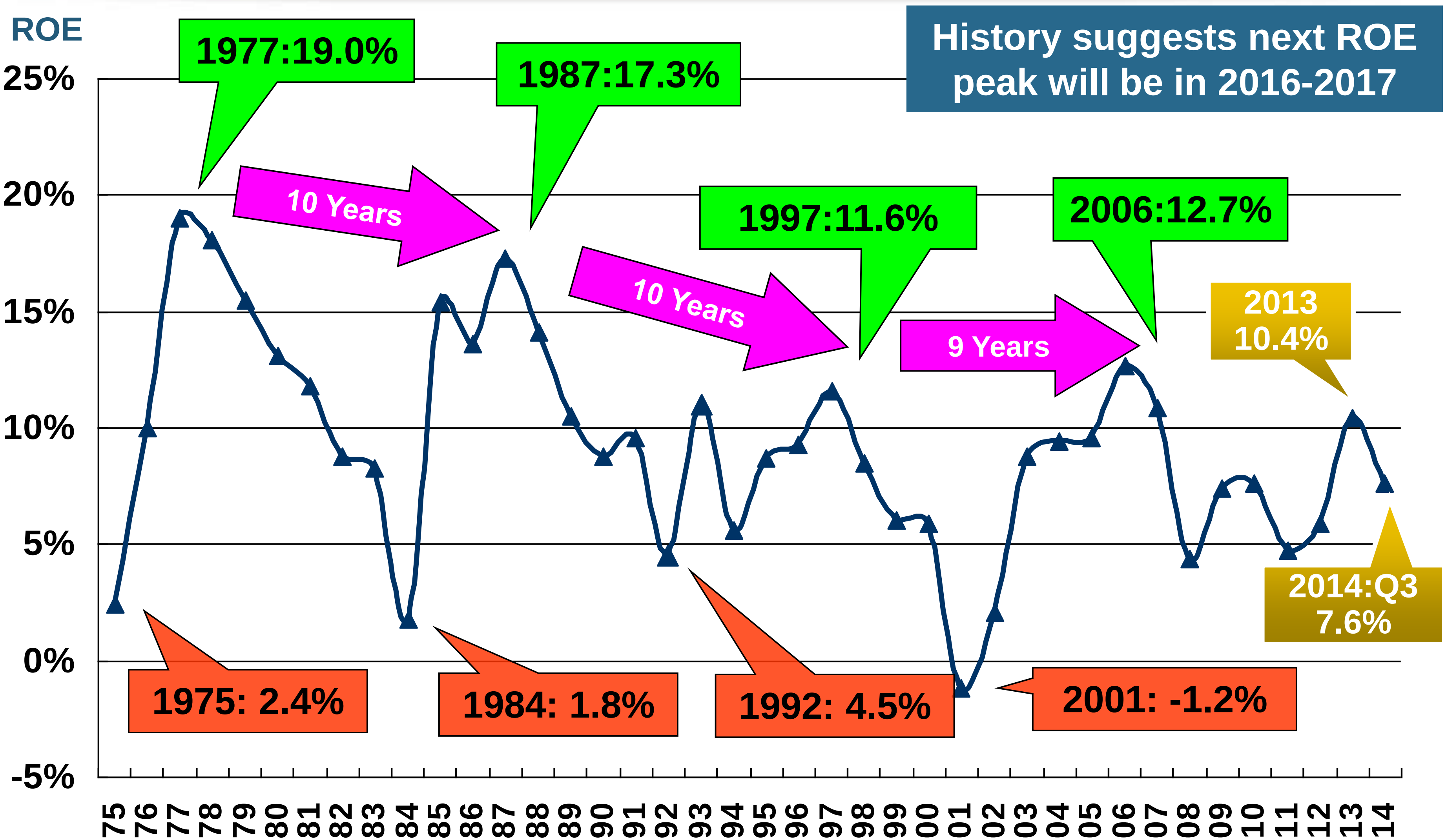
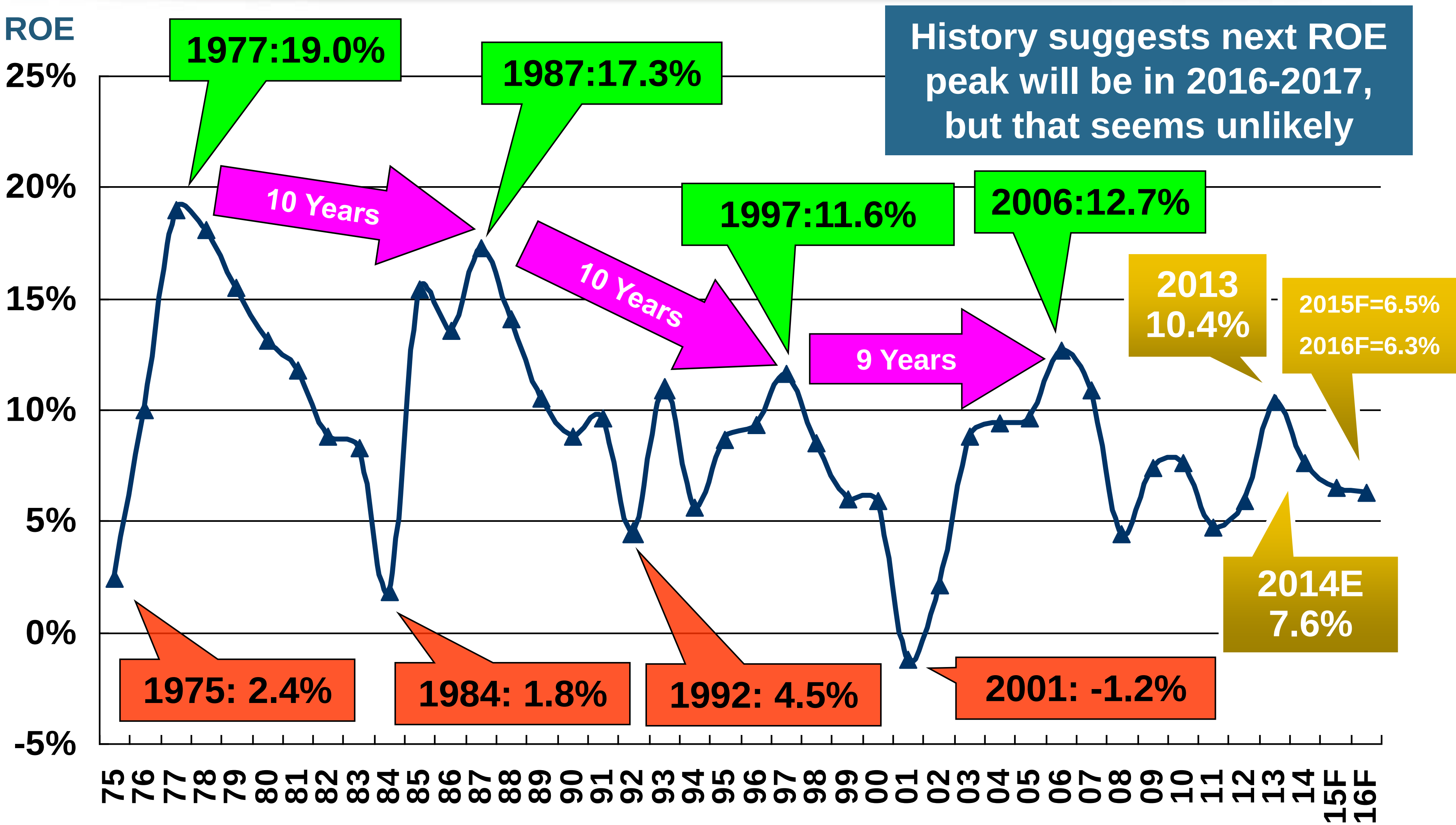


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

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

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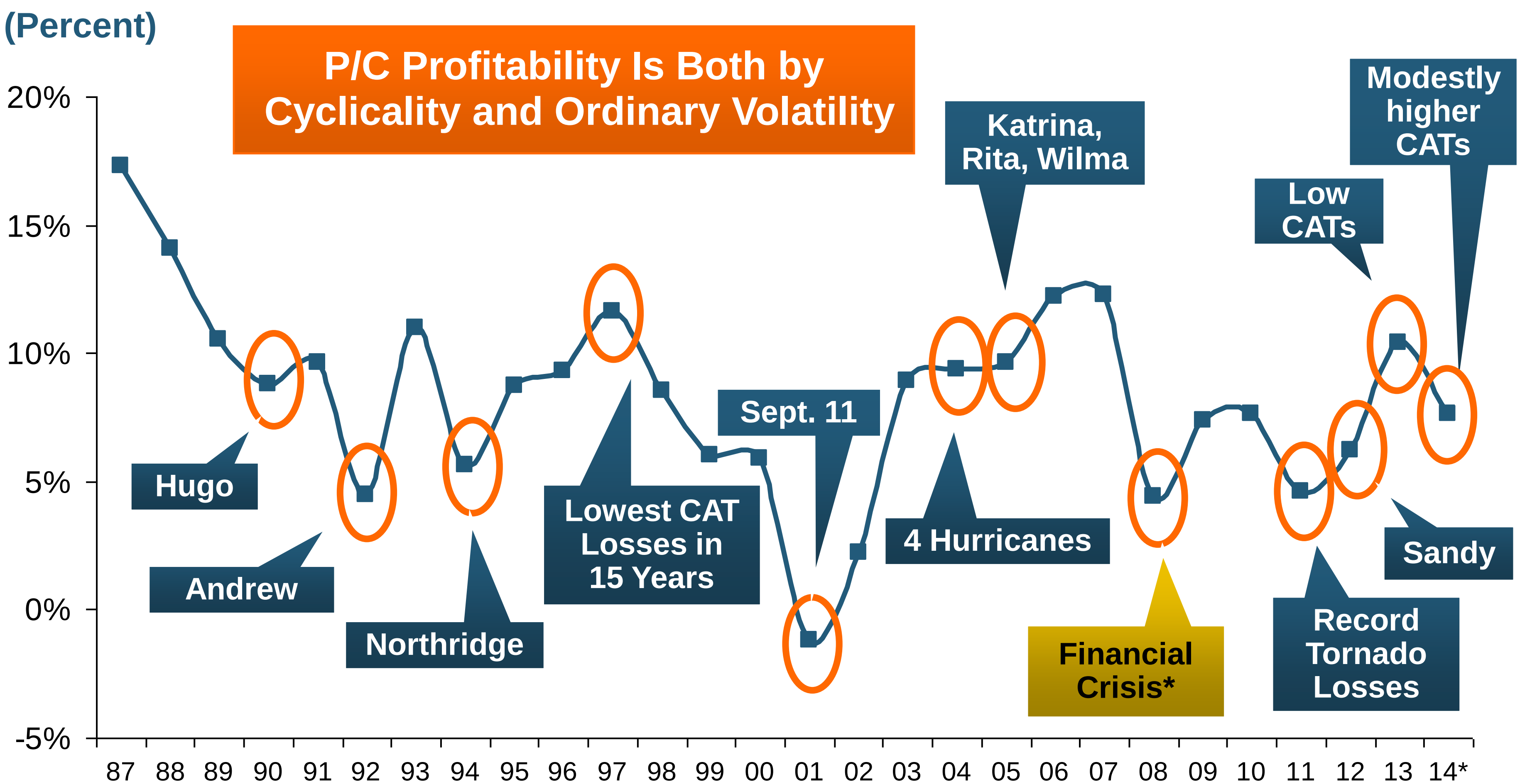

* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through Q3:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

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

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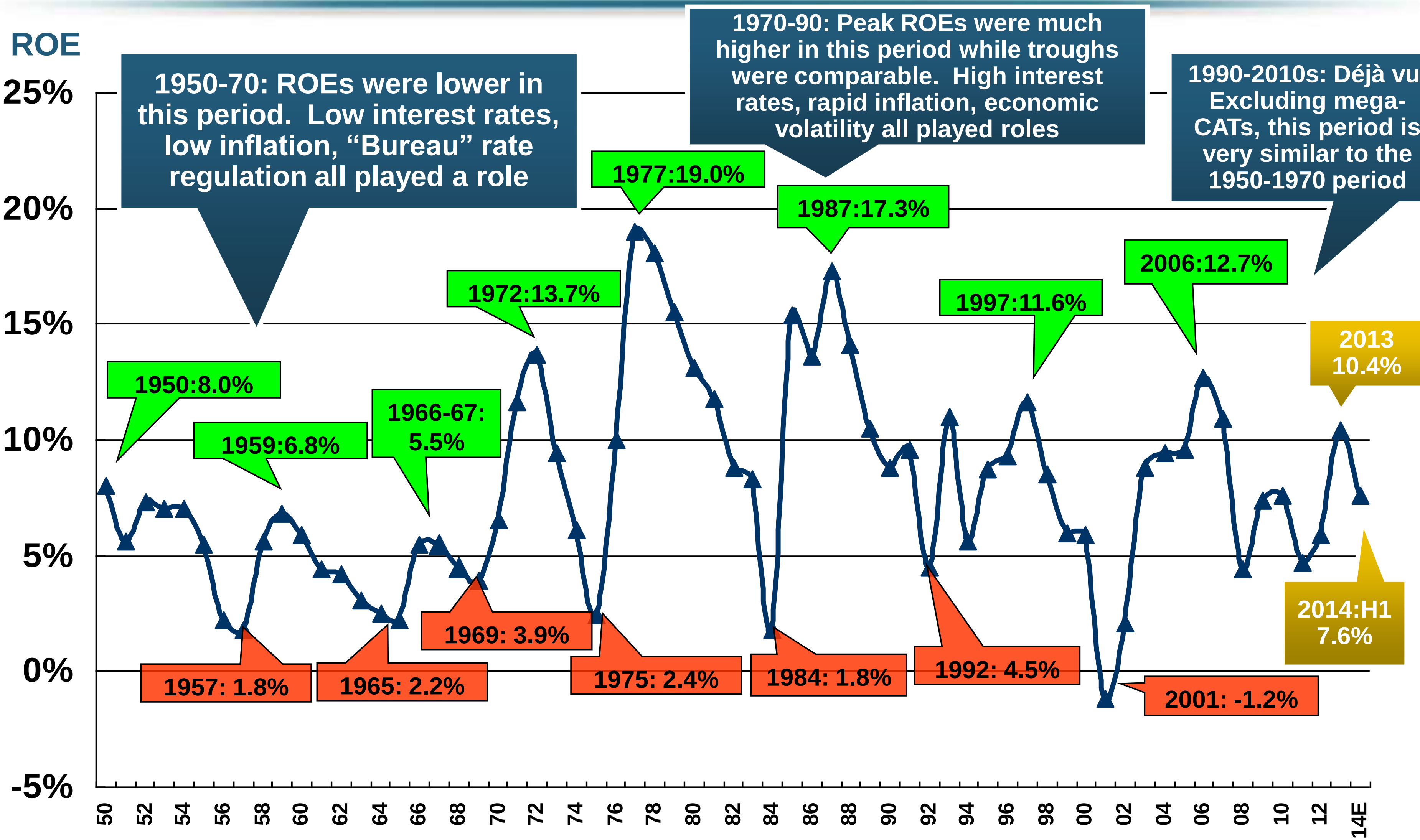
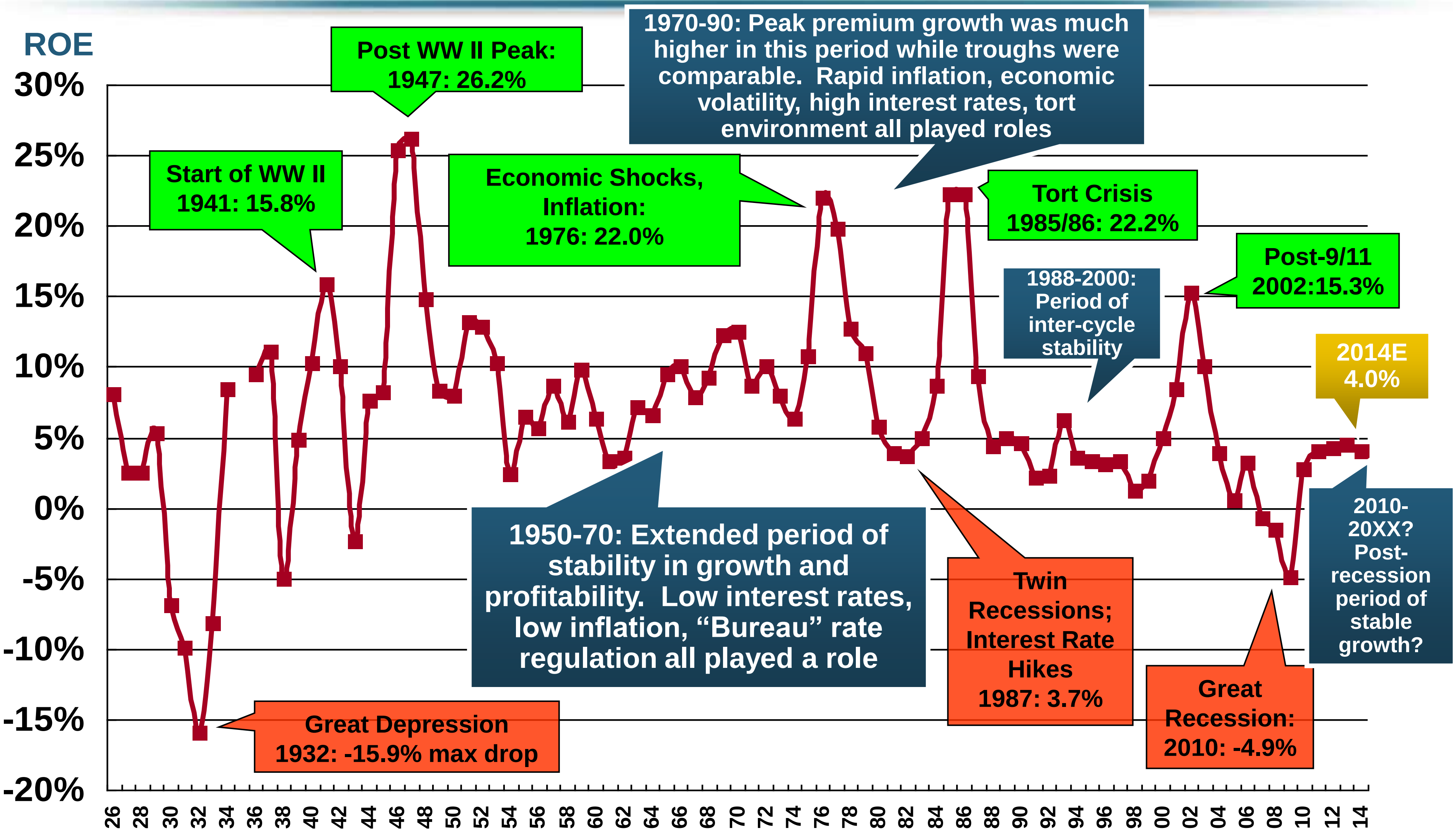


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers. 2014 figure is through Q3.

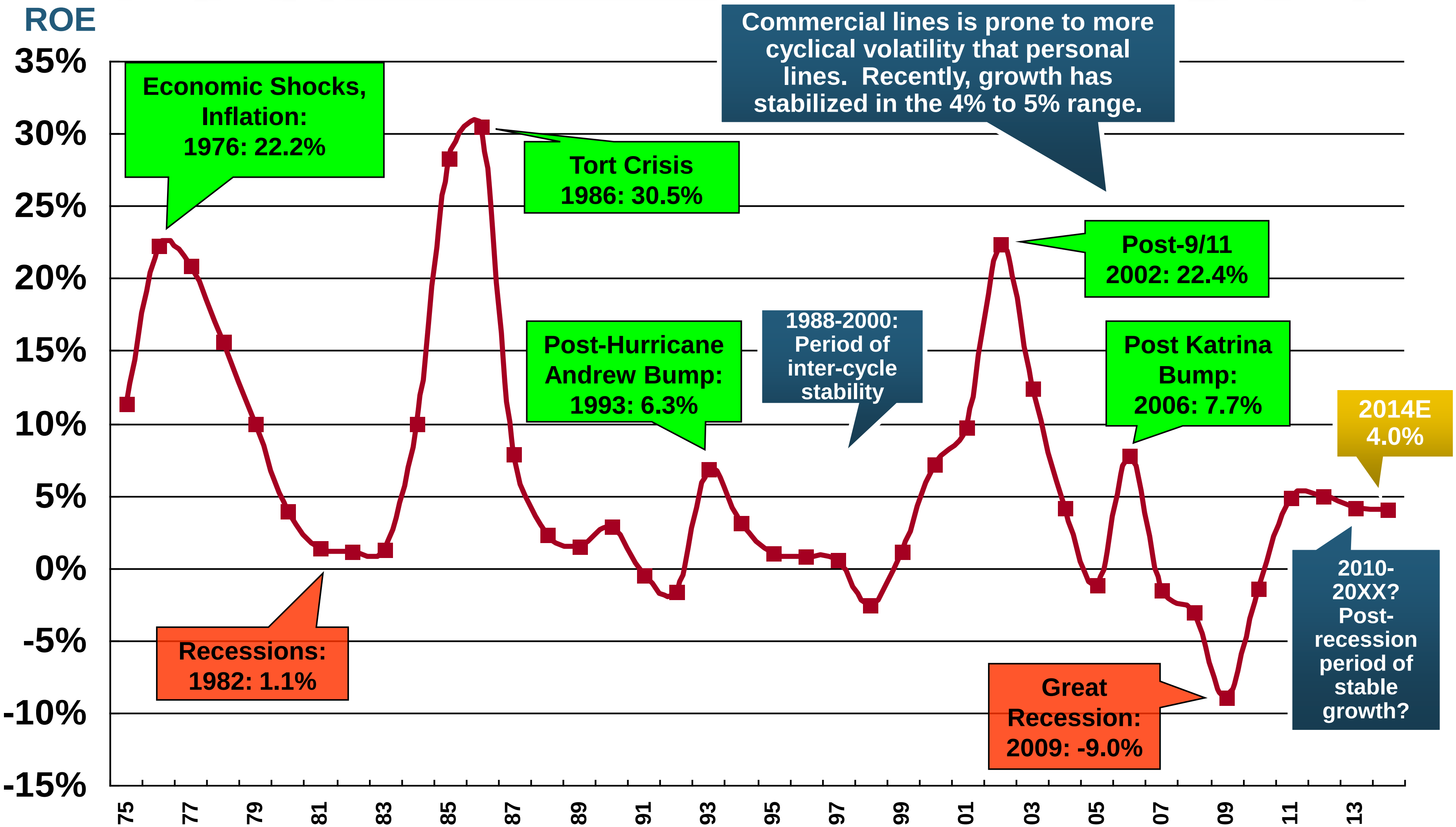
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

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*

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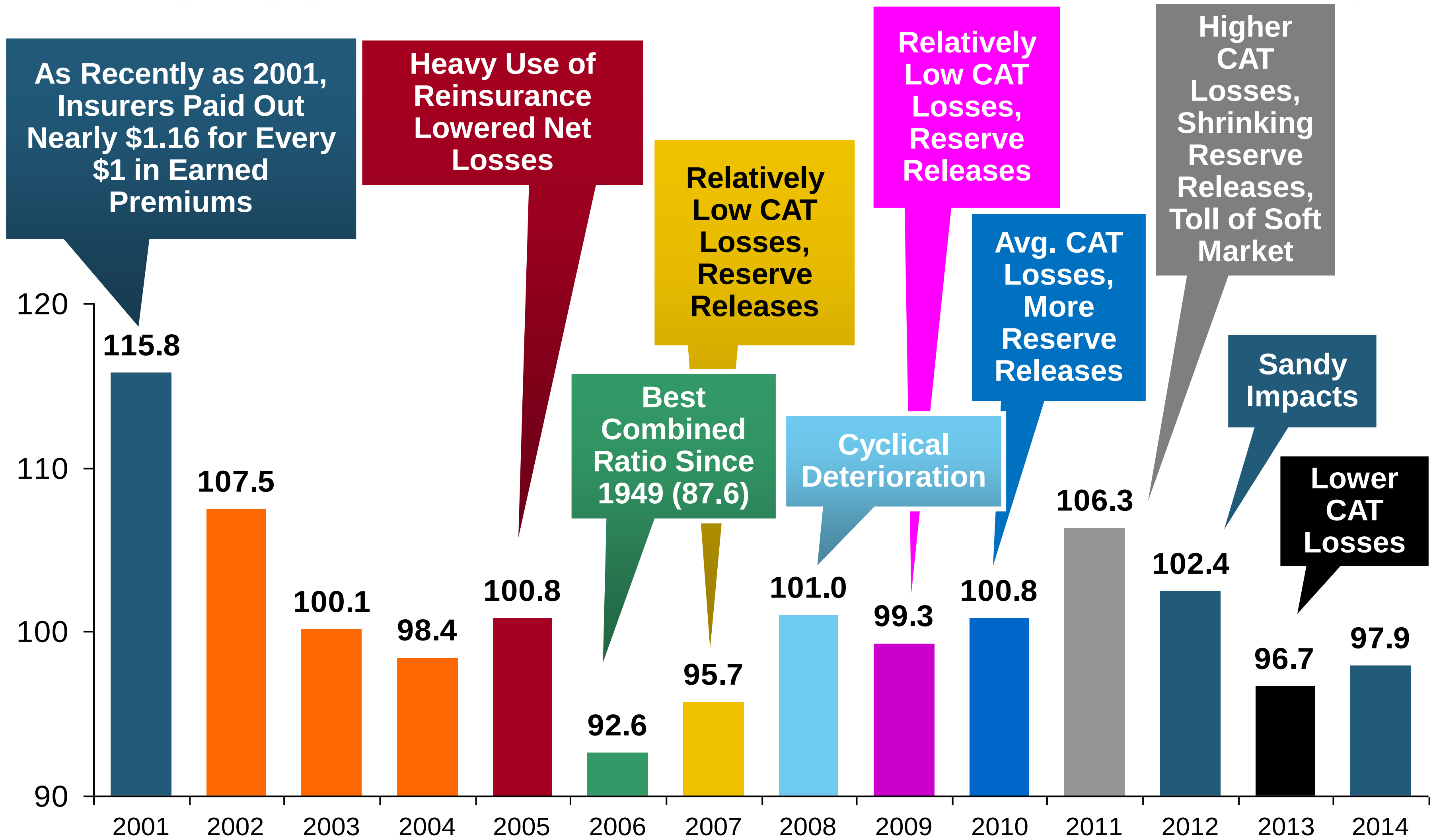

* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014:9M = 97.7.

Sources: A.M. Best, ISO.

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

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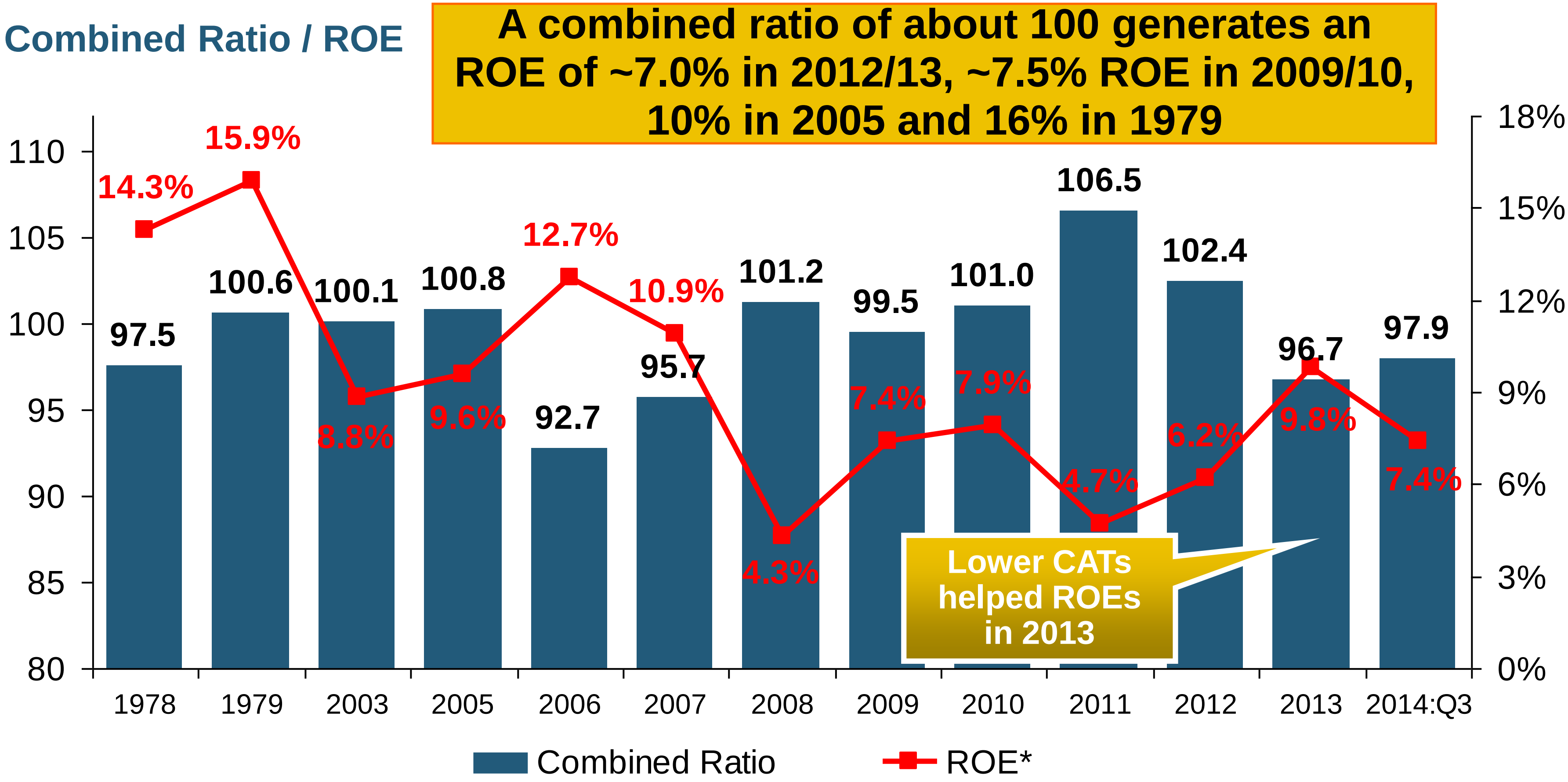
A combined ratio of about 100 generates an ROE of ~7.0% in 2012/13, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

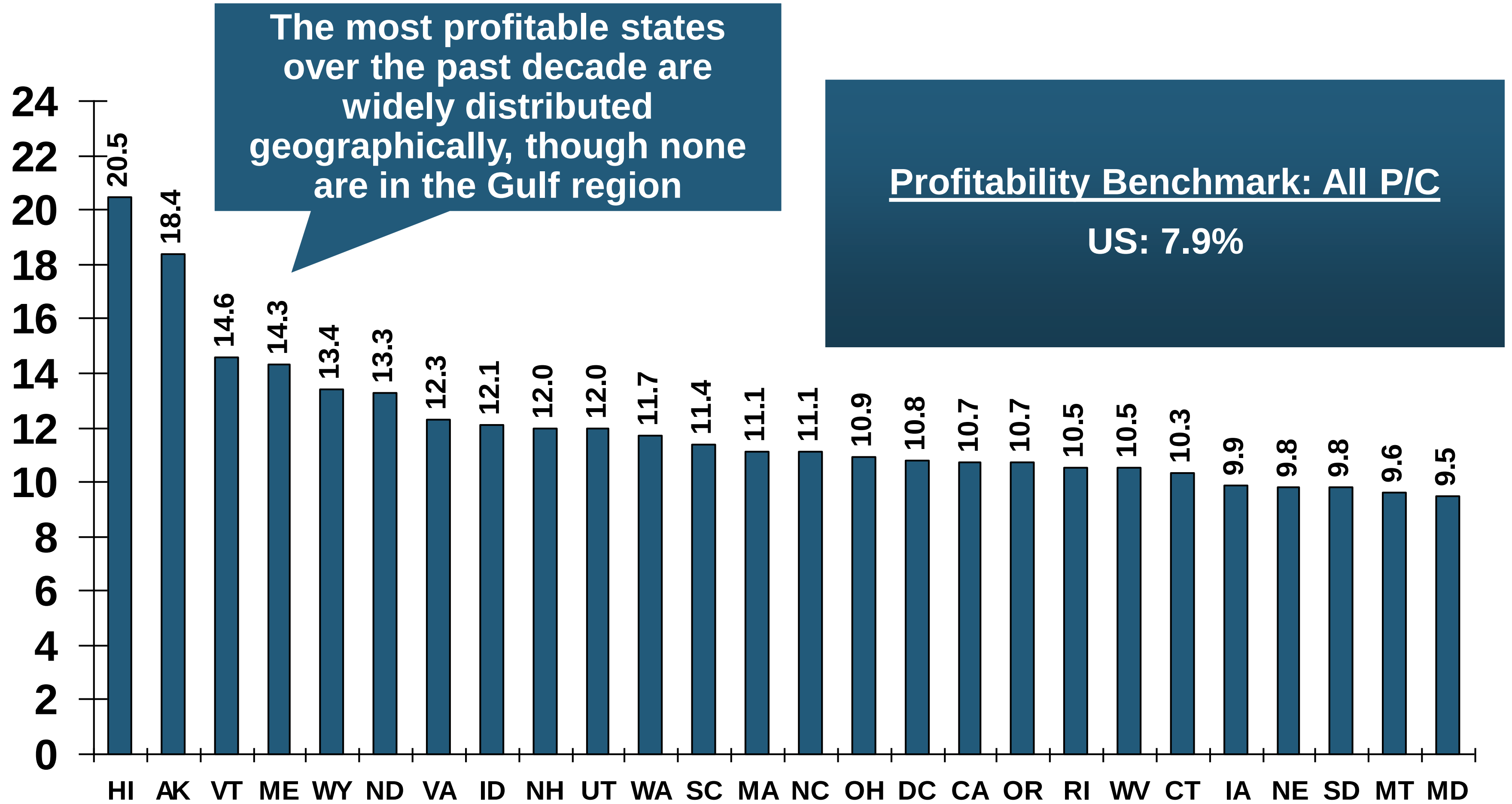


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 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%.

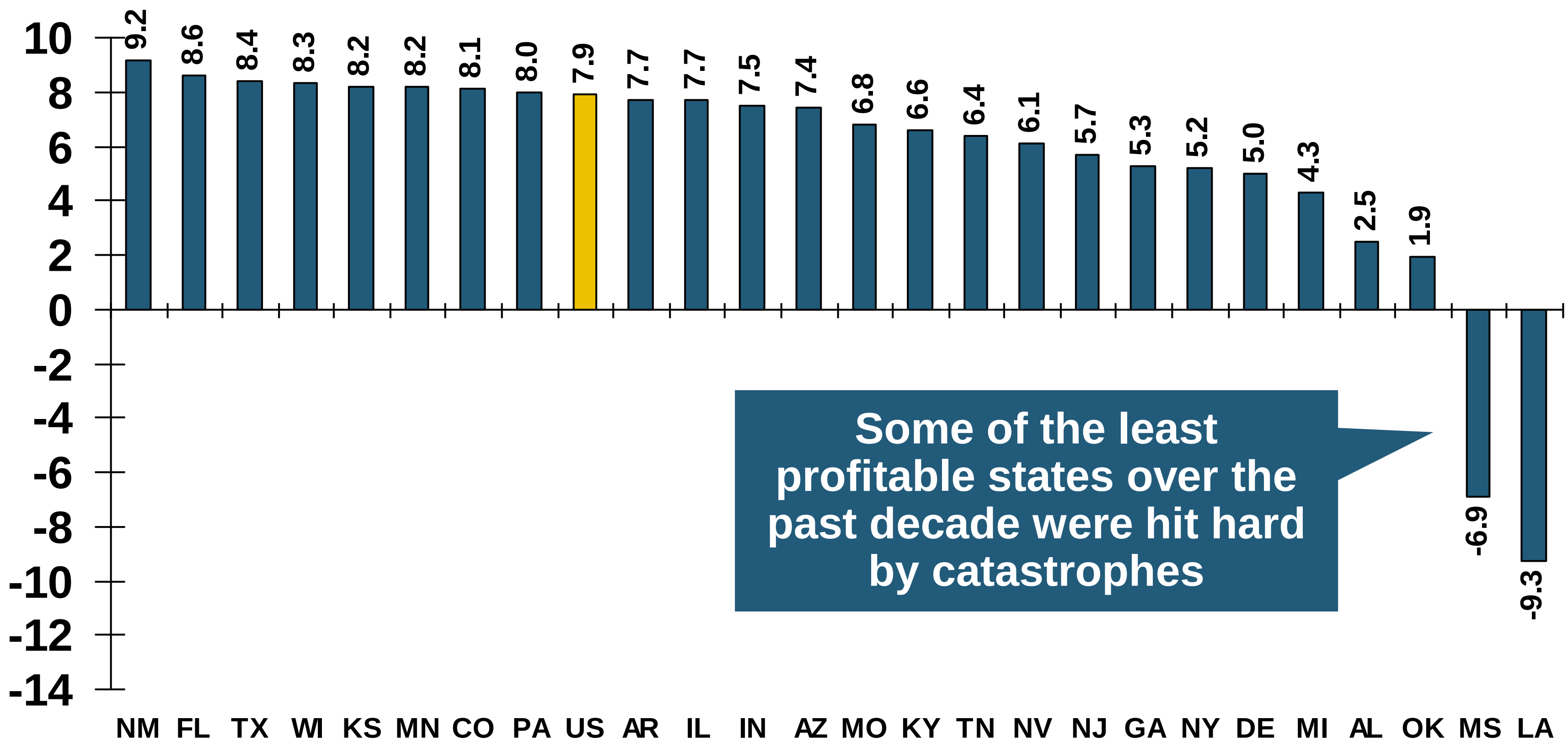
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

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



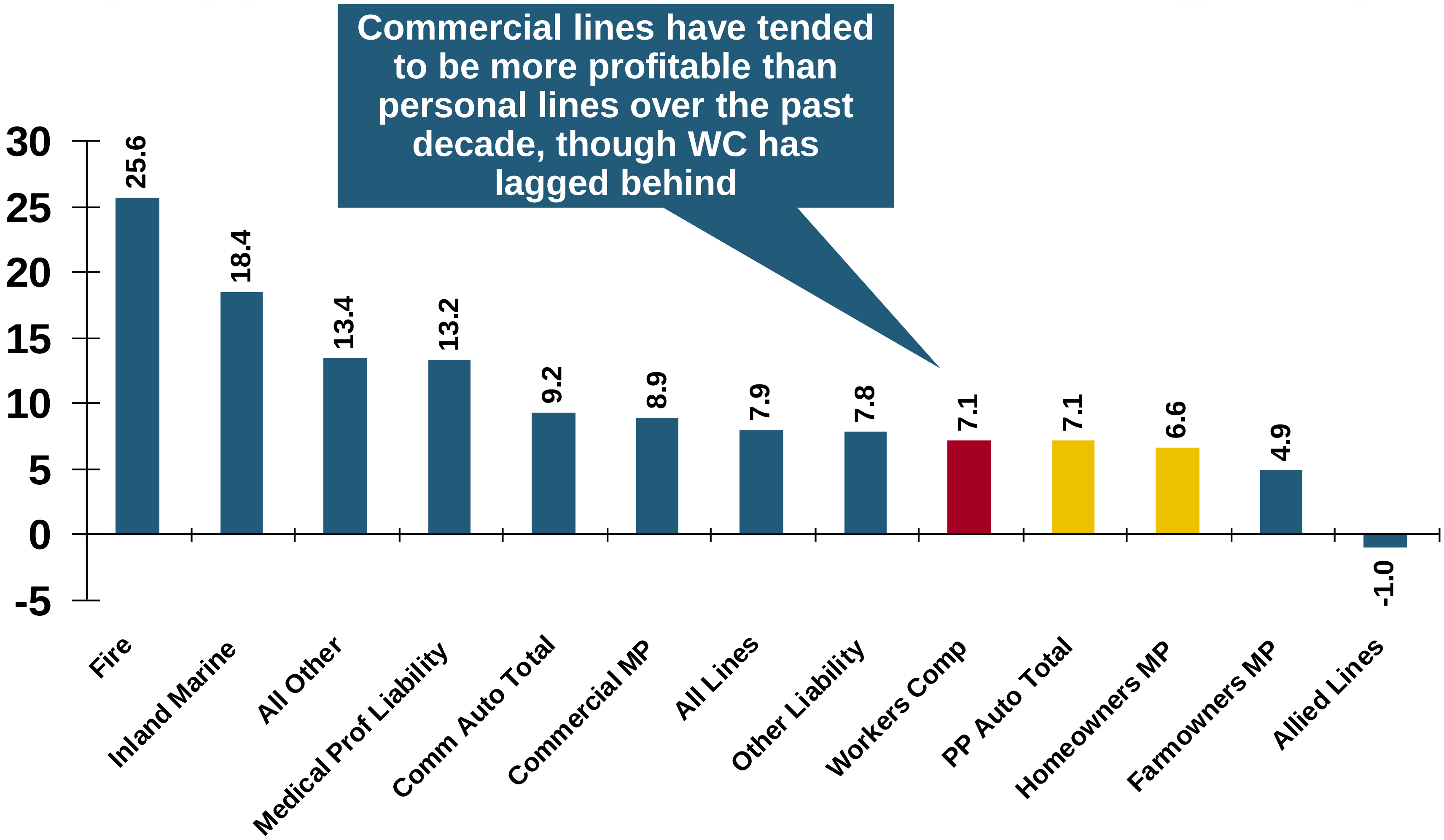
Source: NAIC; Insurance Information Institute.

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



Source: NAIC; Insurance Information Institute.

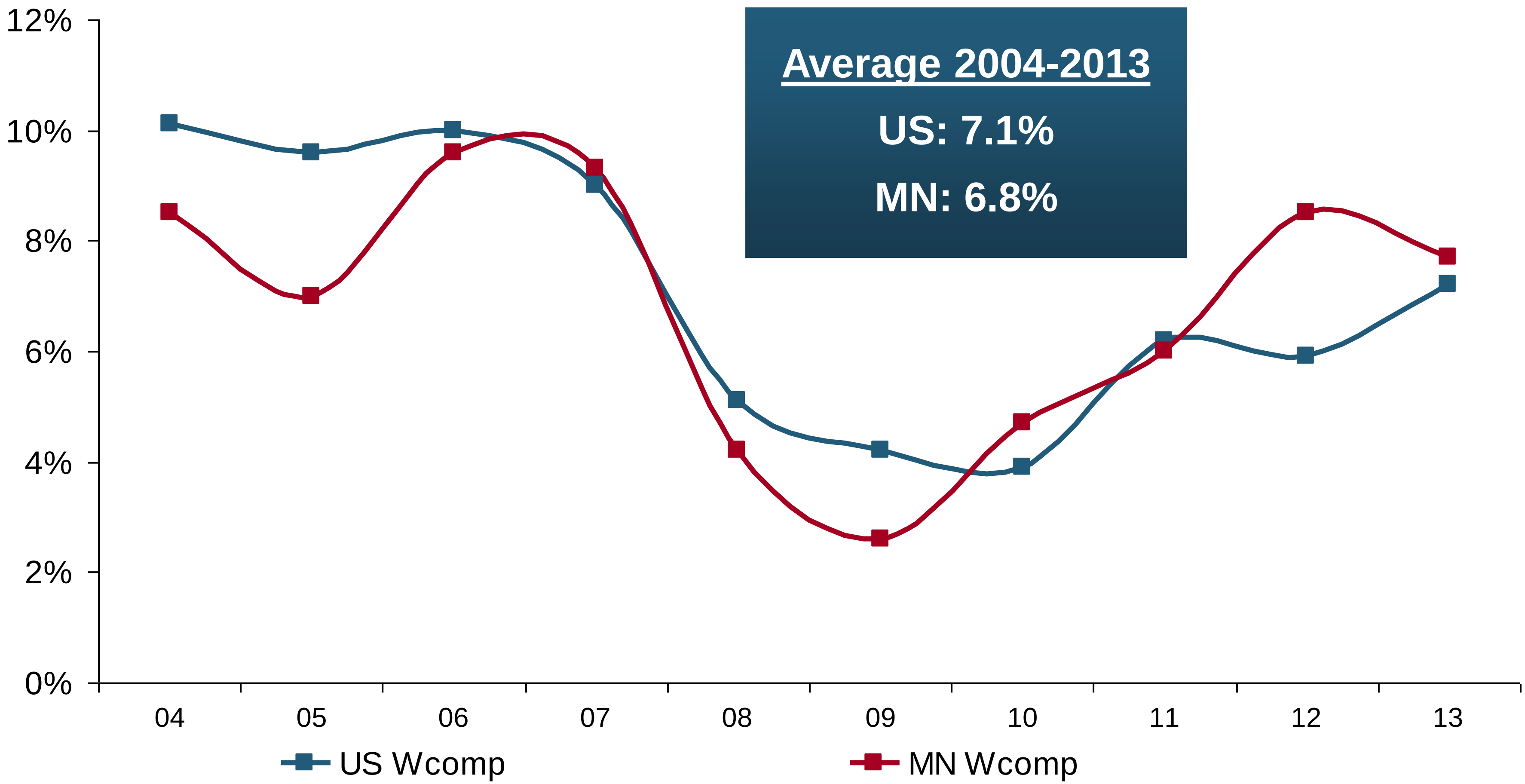
Return on Net Worth (RNW) All Lines: 2004-2013 Average



Source: NAIC; Insurance Information Institute.

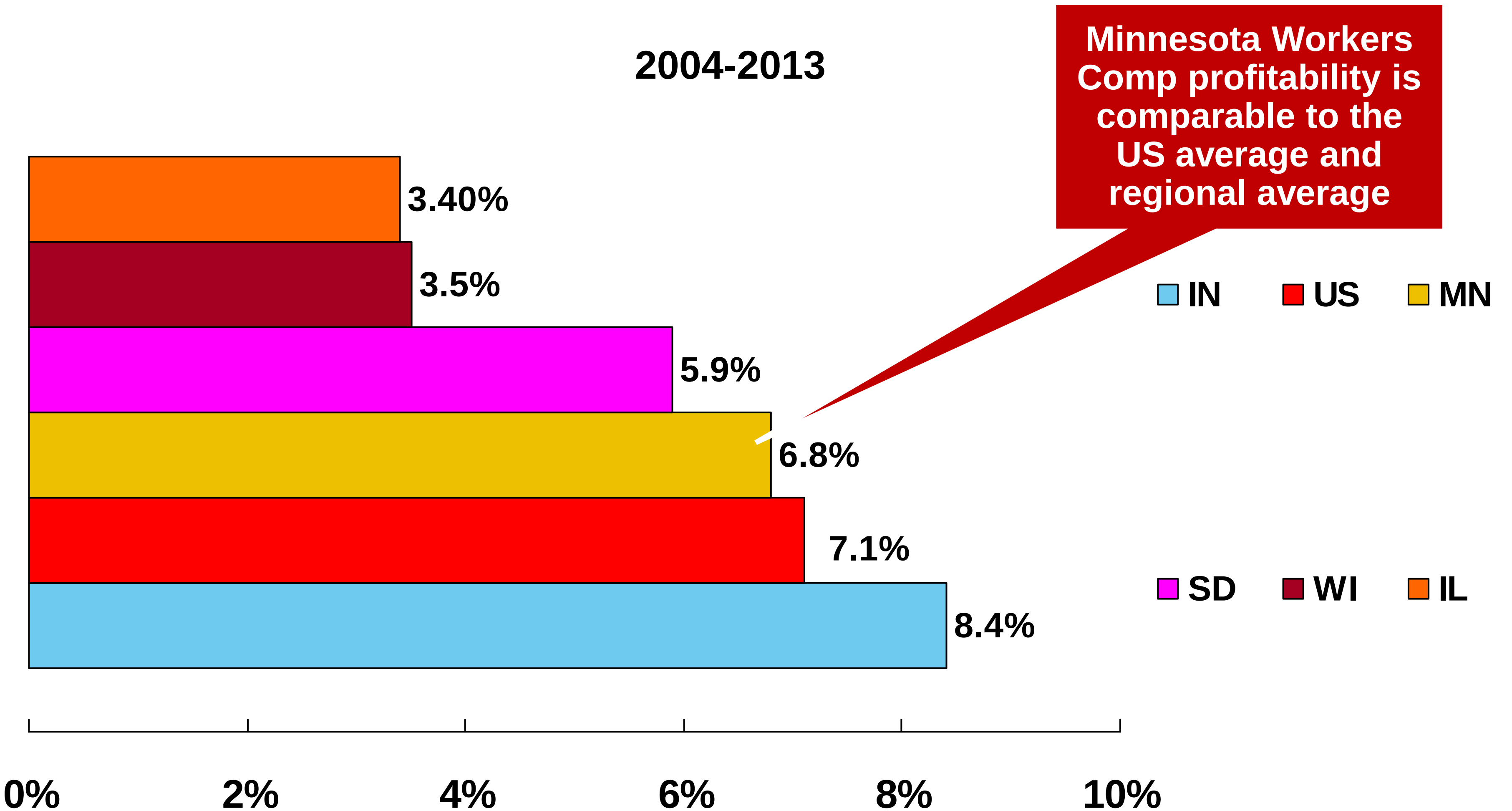
RNW Workers Comp: MN vs. U.S., 2004-2013

(Percent)



Source: NAIC, Insurance Information Institute

Workers Comp: 10-Year Average RNW MN & Nearby States

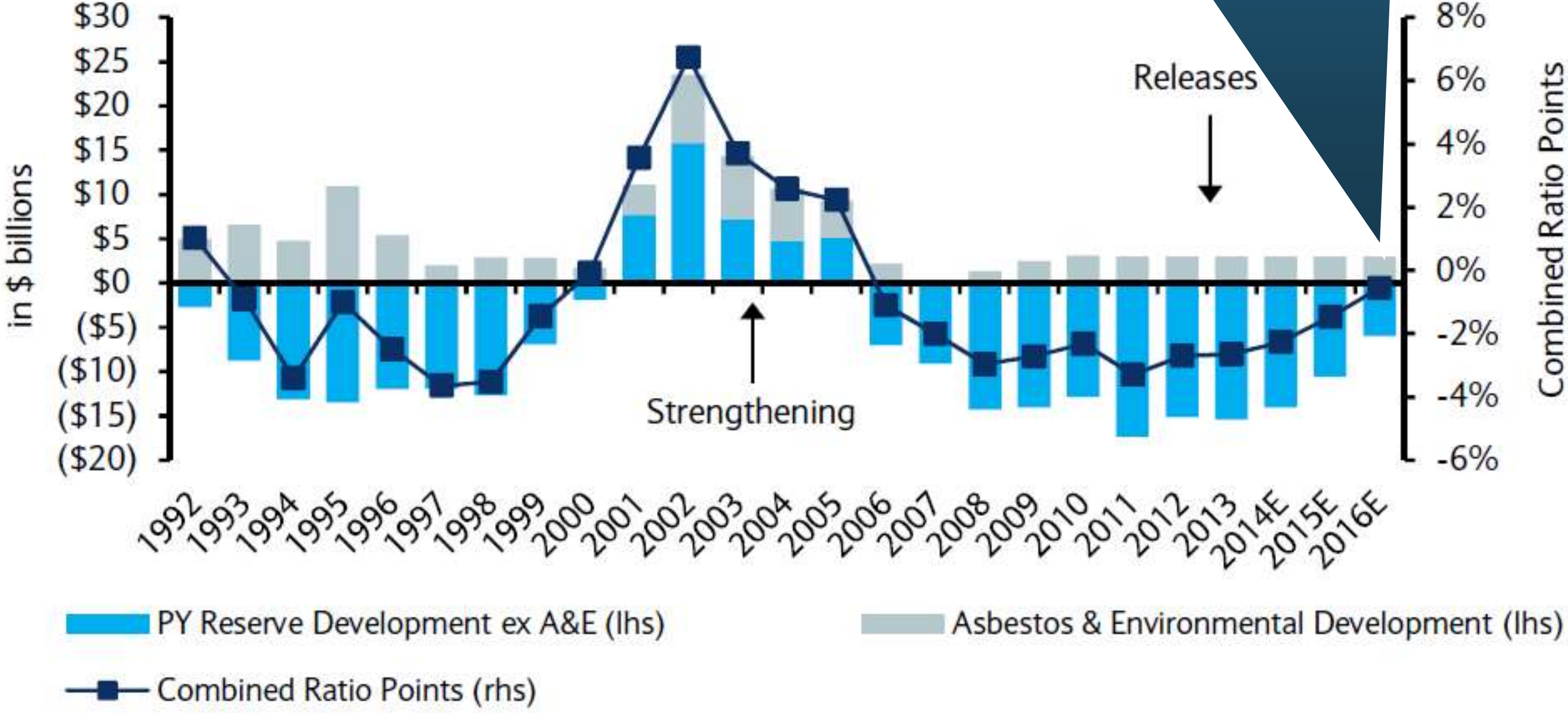


Source: NAIC, Insurance Information Institute

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

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

Reserve Change



Source: A.M. Best; Barclays research for estimates.

CAPITAL/CAPACITY

Capital Accumulation Has Multiple Impacts

Policyholder Surplus, 2006:Q4–2014:Q4E

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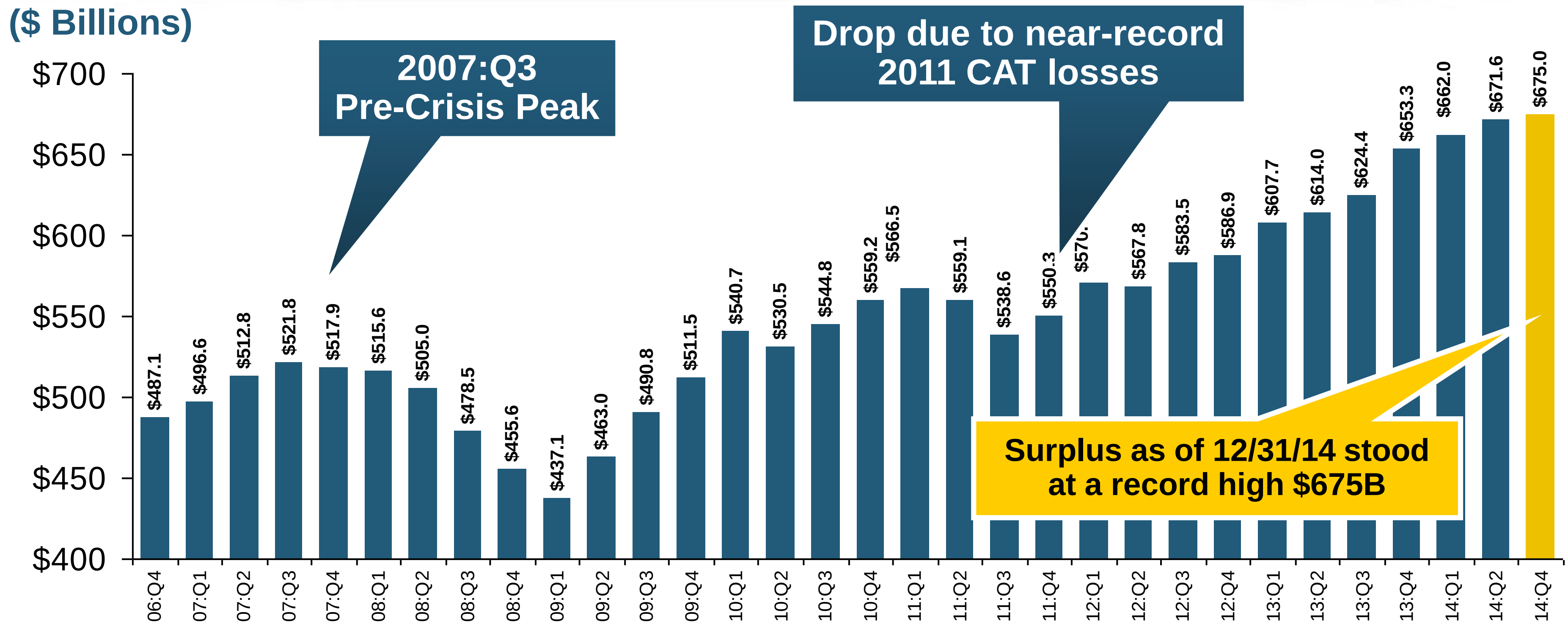

The industry now has $1 of surplus for every $0.73 of NPW, close to the strongest claims-paying status in its history.

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.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2014*

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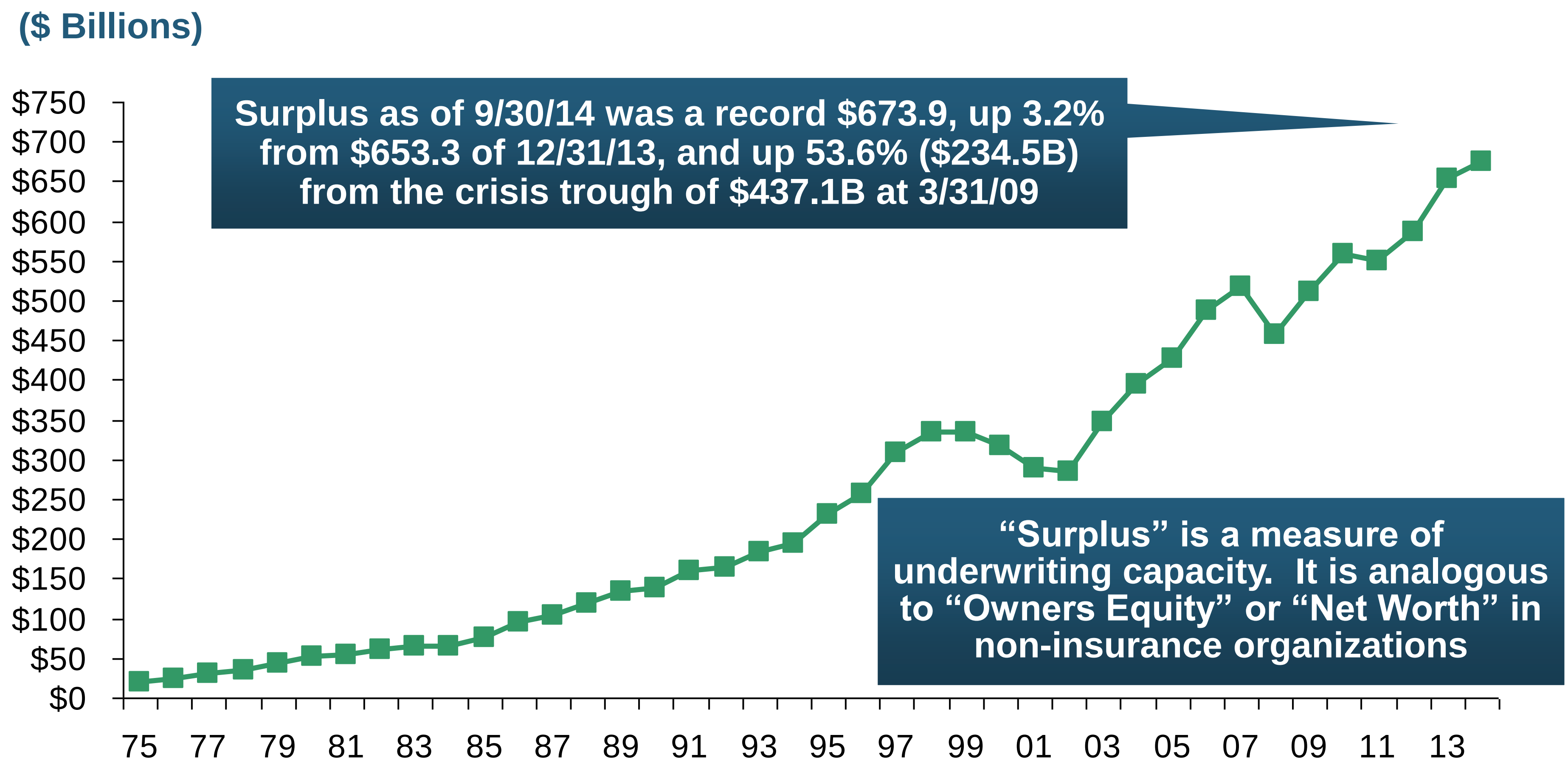
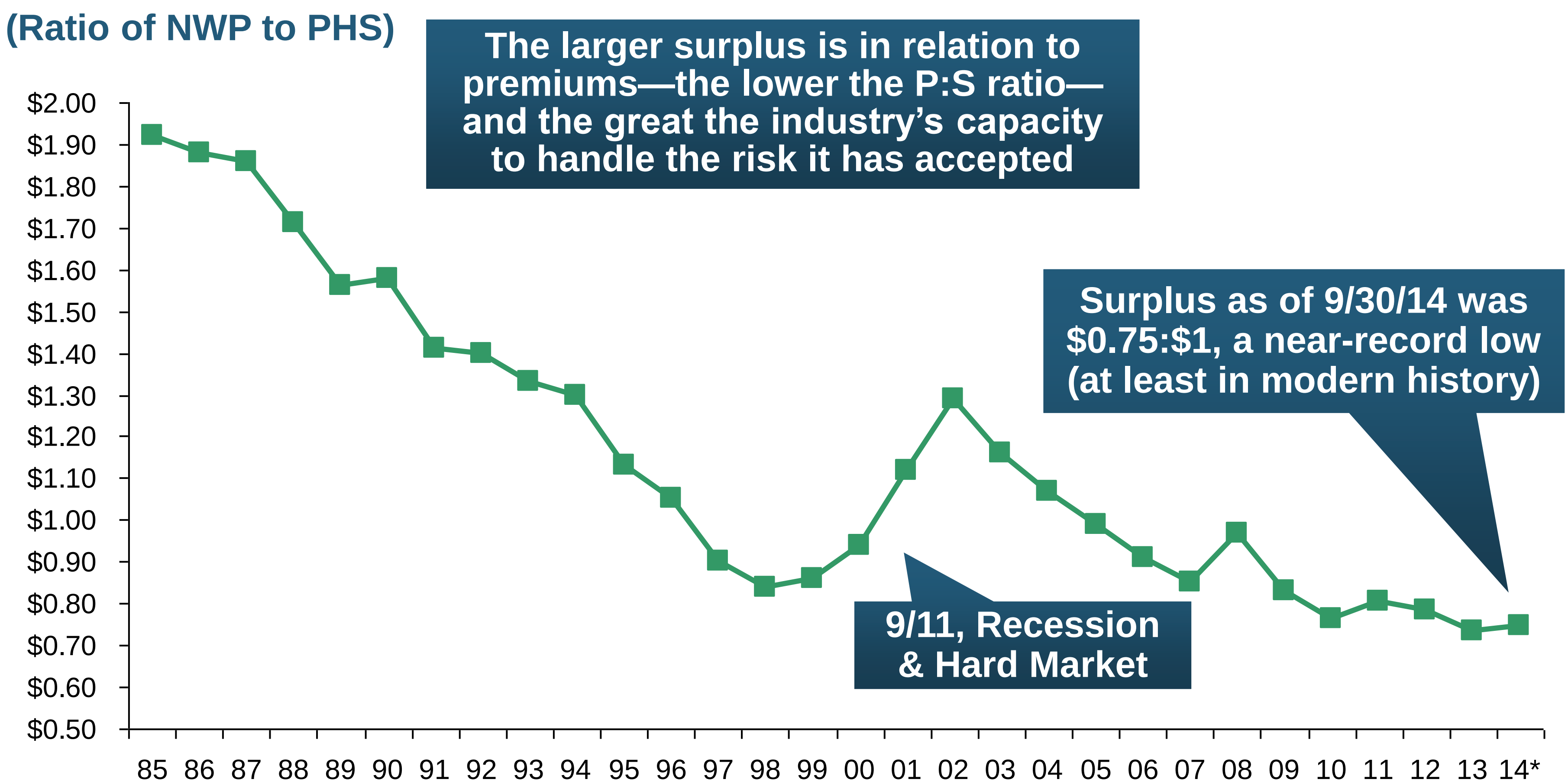


The Premium-to-Surplus Ratio Stood at $0.73:$1 as of 9/30/14, a Near Record Low (at Least in Recent History)

* As of 9/30/14.

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

Premium-to-Surplus Ratio: 1985–2014*



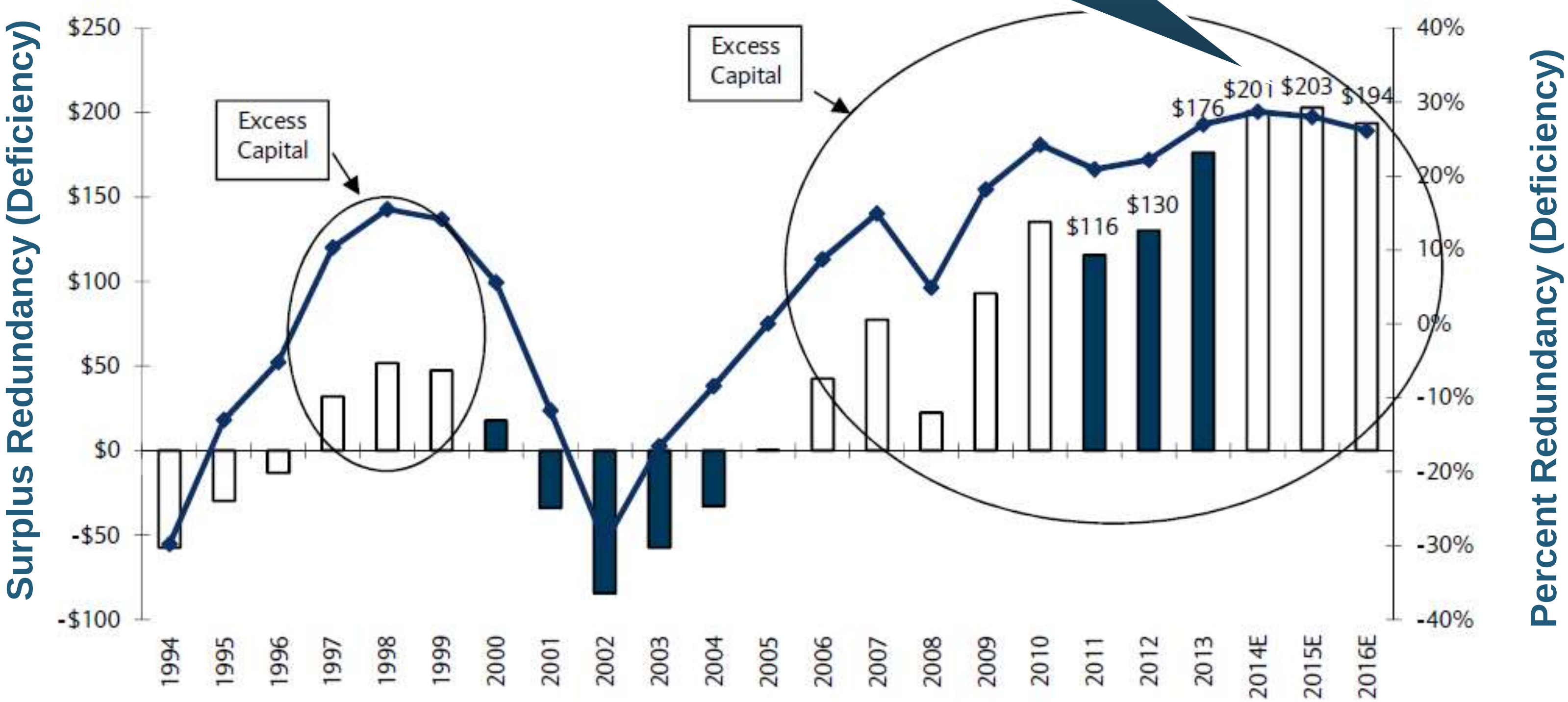
The Premium-to-Surplus Ratio Stood at $0.75:$1 as of 9/30/14, a Record Low (at Least in Recent History)

* As of 9/30/14.

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

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

Barclay's suggests that surplus is approximately $200B (~30%)



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

Source: Barclays Research estimates.

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

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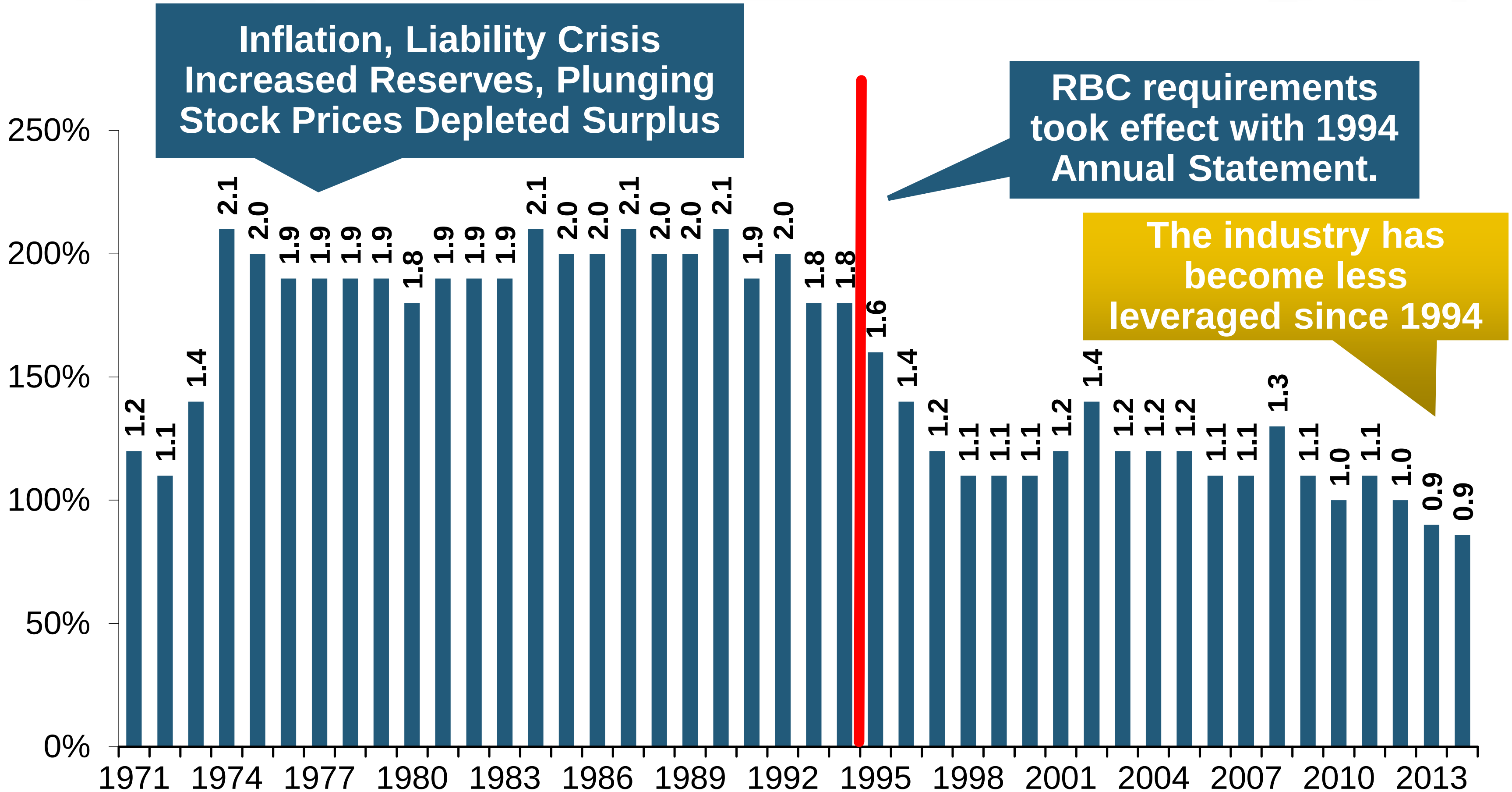


The Property/Casualty Industry Adjusted Its Risk Portfolio in Response to Risk-Based Capital Requirements Implemented in 1994.

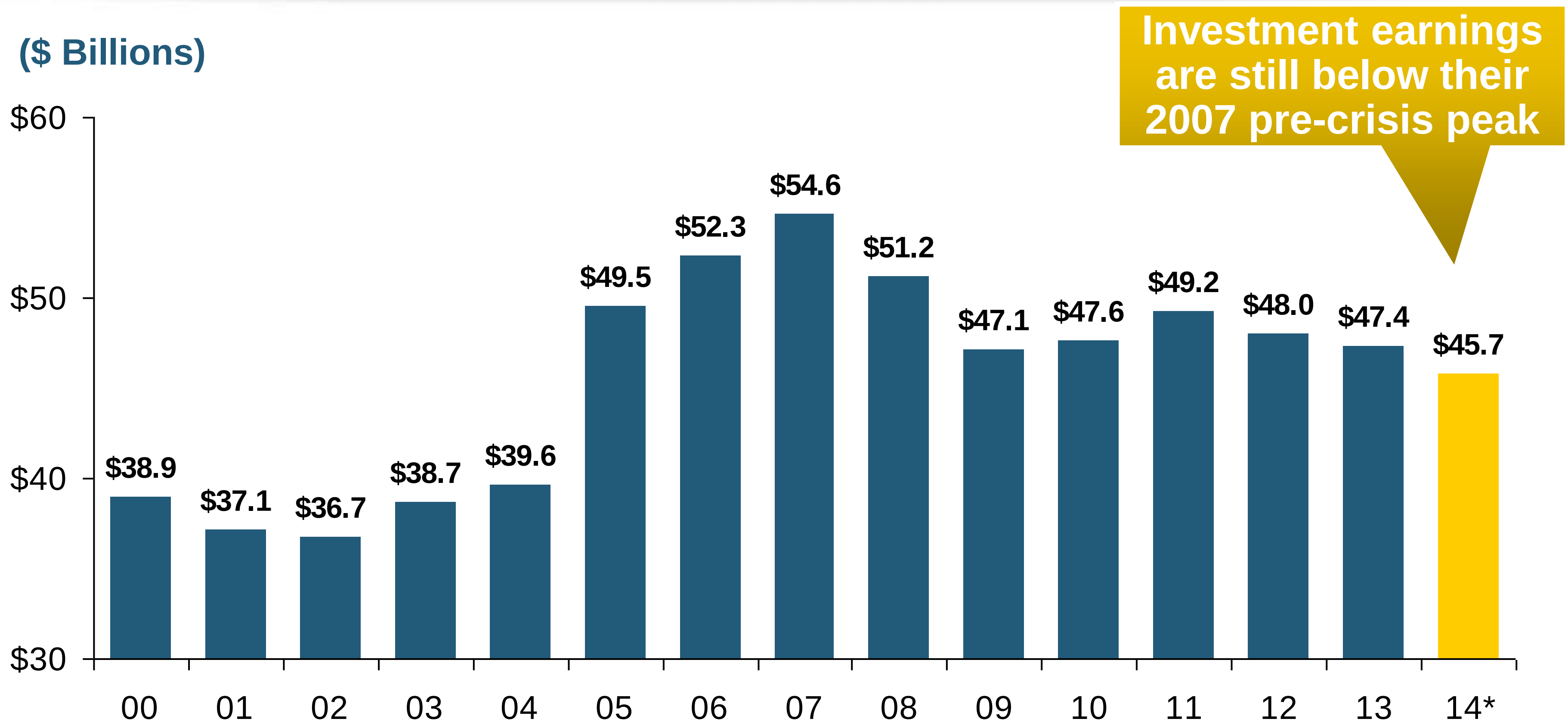
Source: Calculations from A.M. Best data by Insurance Information Institute.

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: 2000–2014[1]



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

[1] Investment gains consist primarily of interest and stock dividends.
*2014 figure is estimated based on annualized data through Q3.
Sources: ISO; Insurance Information Institute.

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

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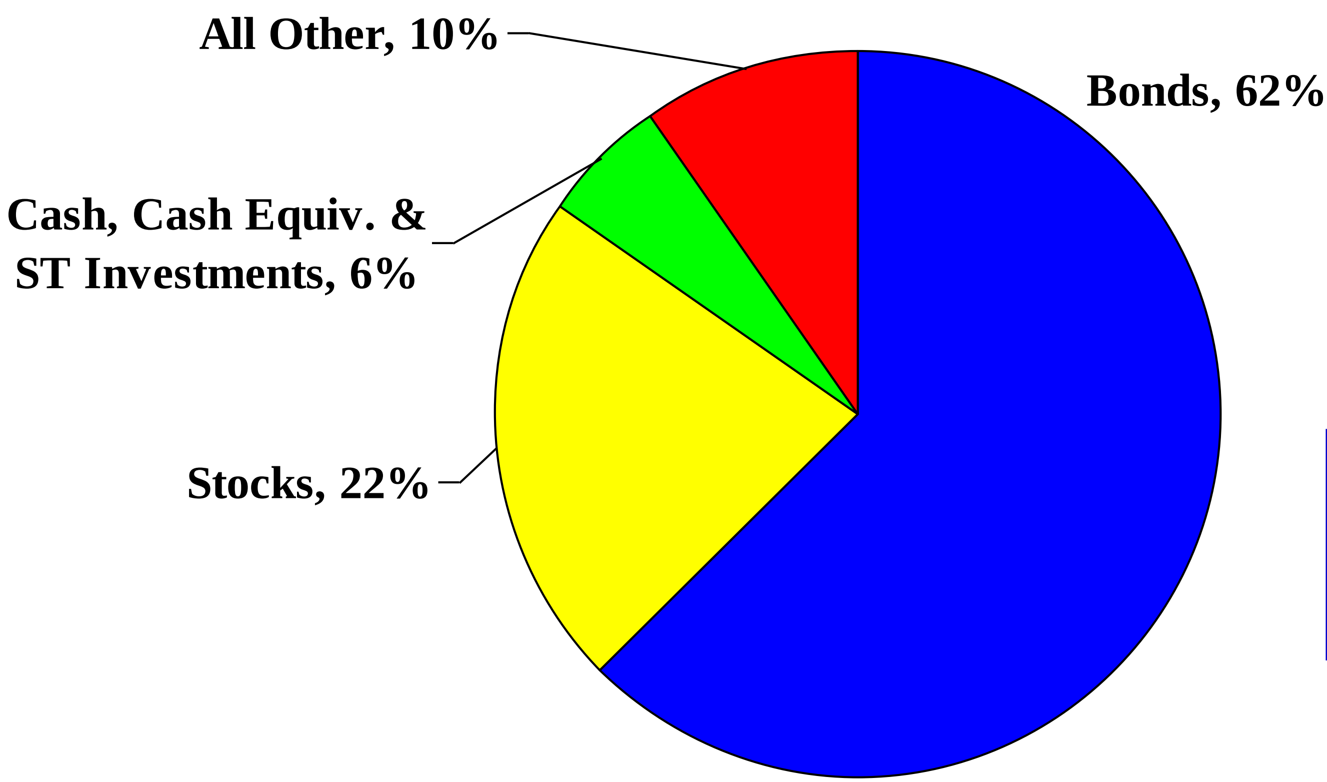
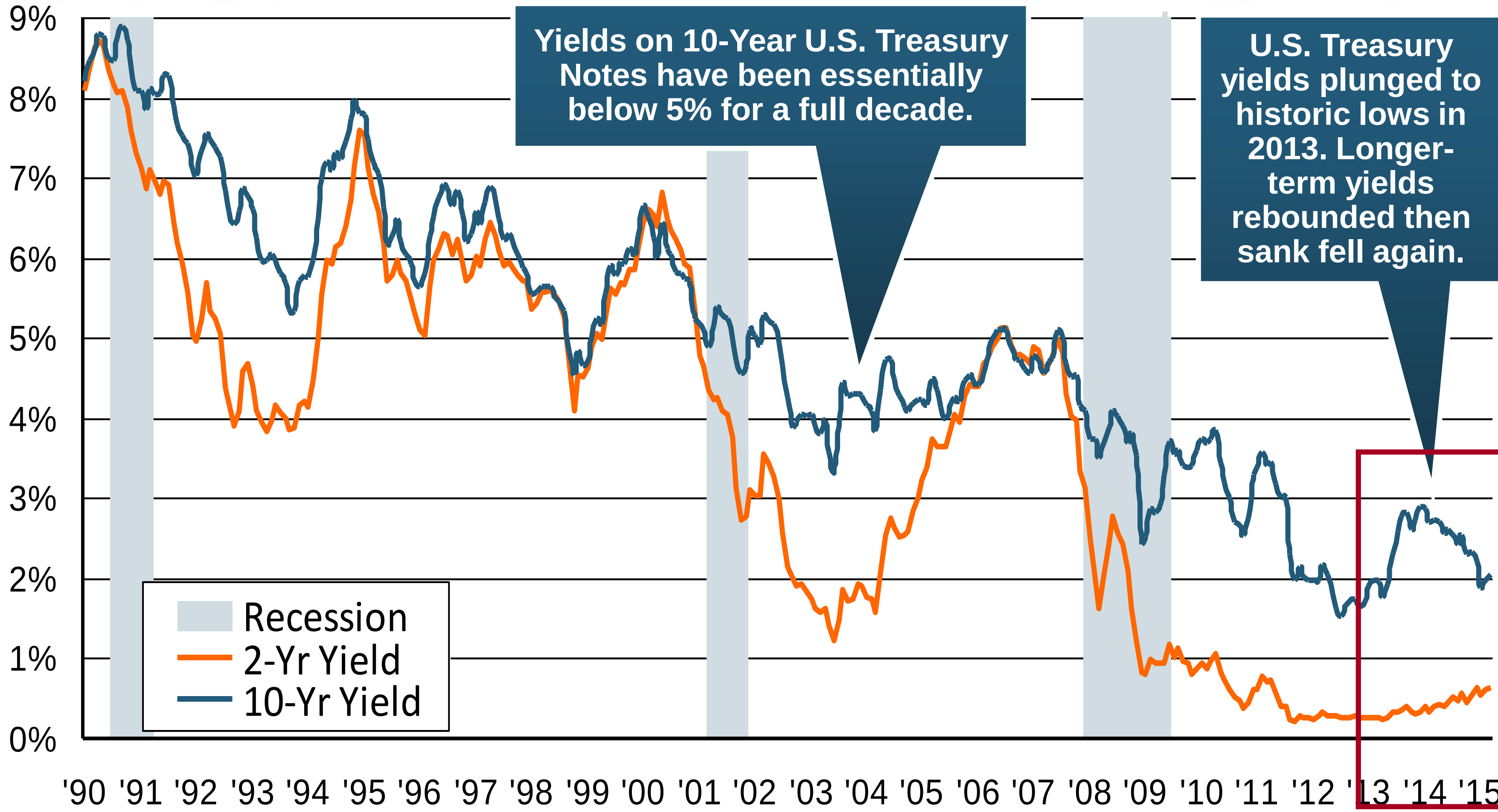
$ Billions



Total Invested Assets = $1.5 Trillion

Source: Insurance Information Institute *Fact Book 2015,* A.M. Best.

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

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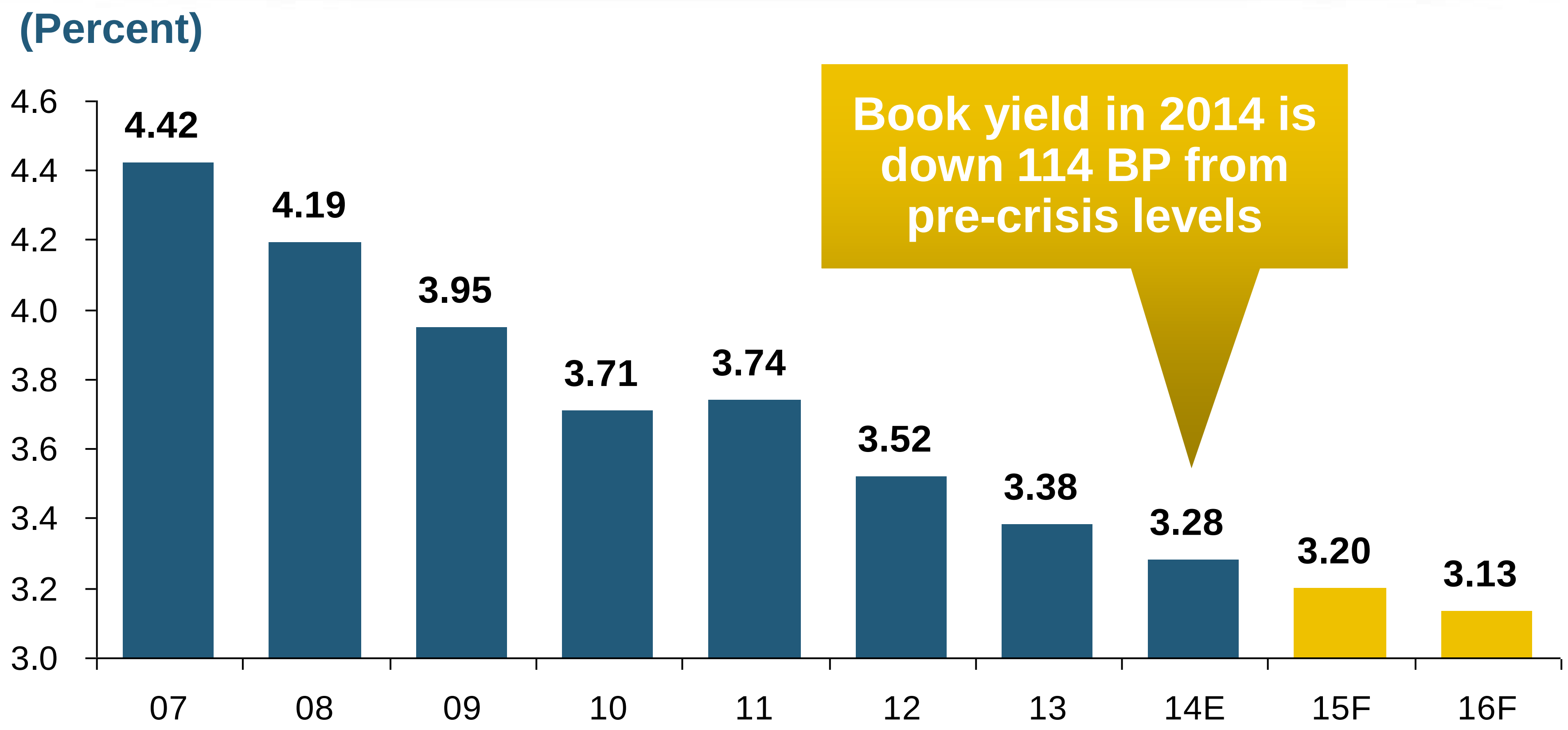
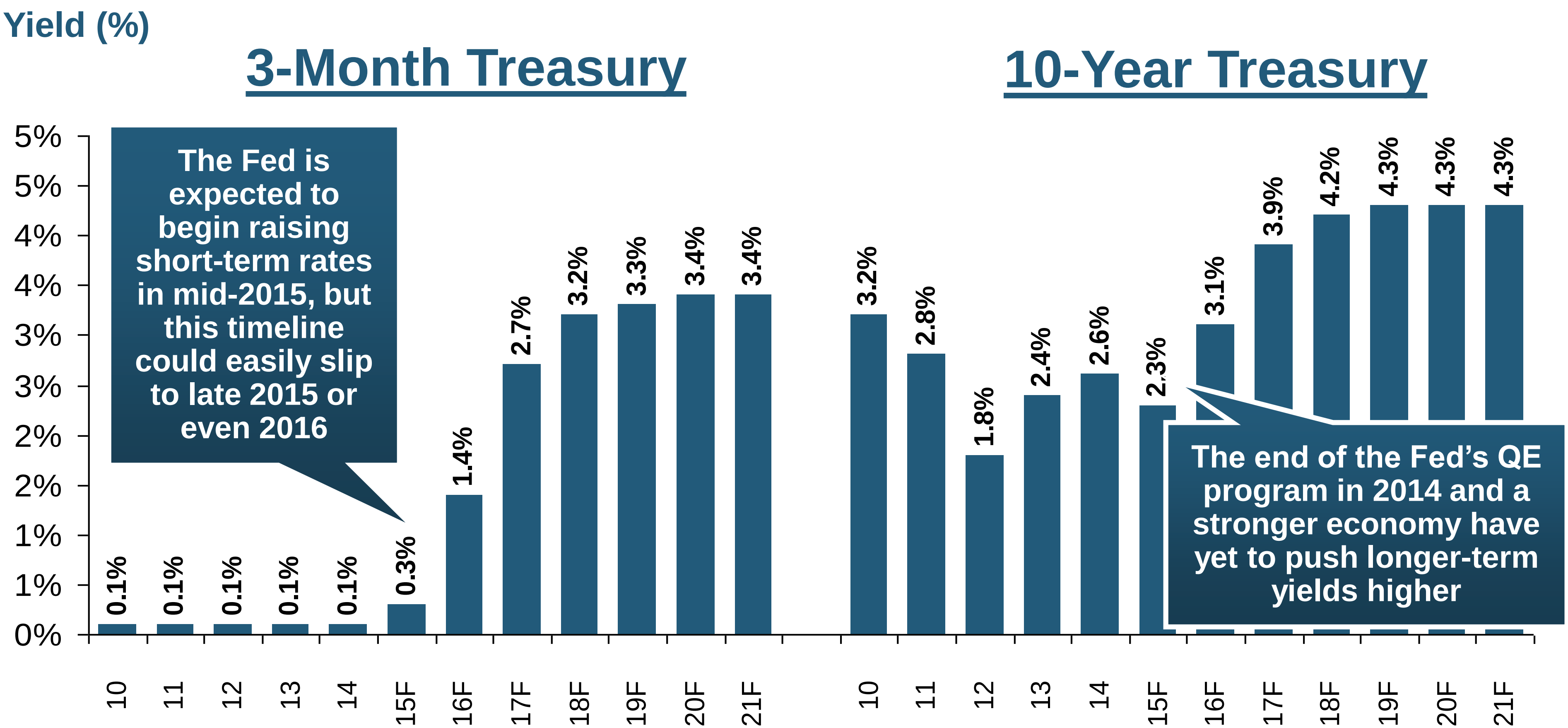


The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Sources: Conning.

Interest Rate Forecasts: 2015 – 2021



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

Sources: Federal Reserve Board of Governors (historical); Blue Chip Economic Indicators (4/15 for 2015 and 2016; for 2017-2021 3/15 issue); Insurance Info. Institute.

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

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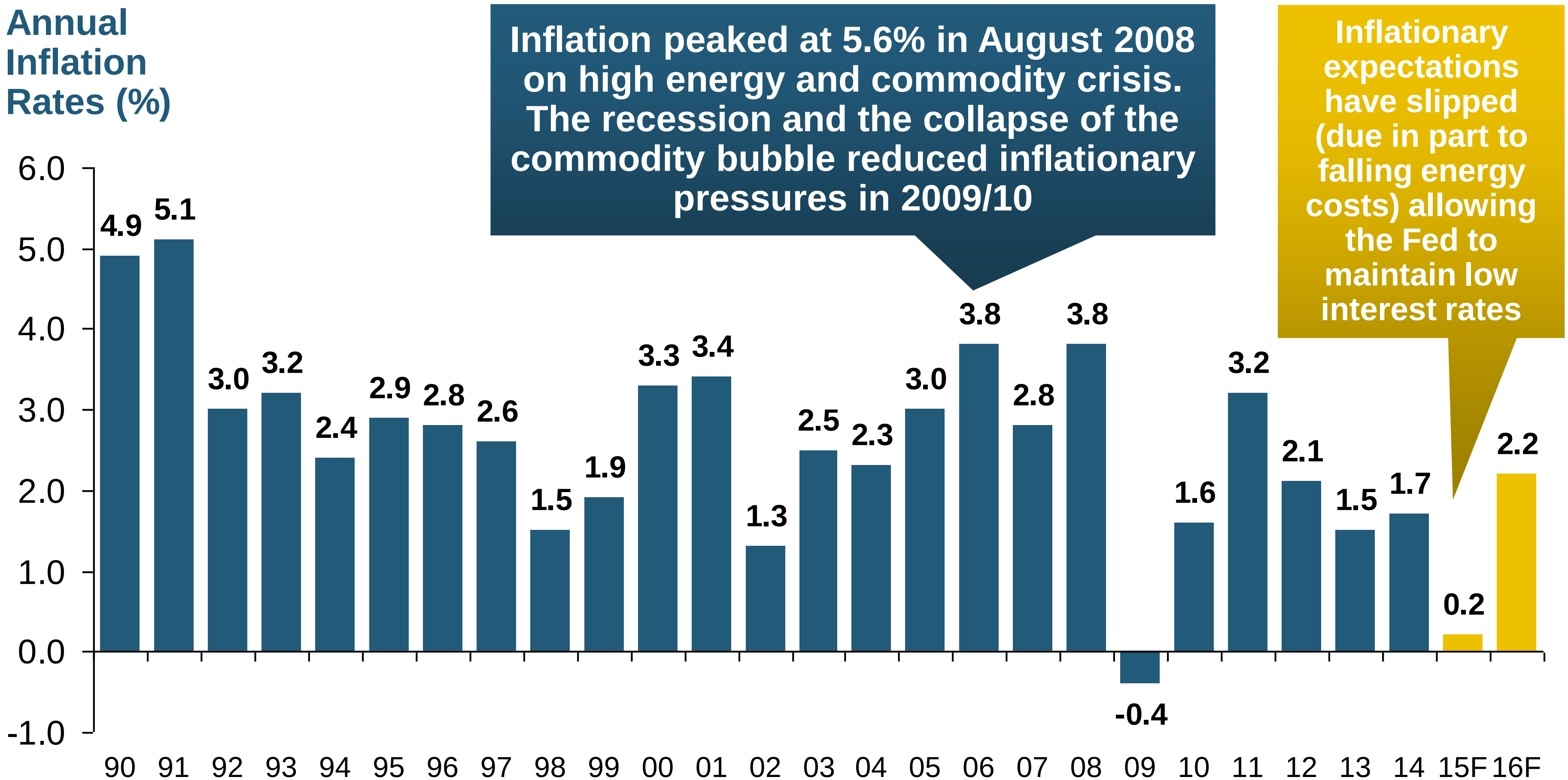

Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 4/15 (forecasts).

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

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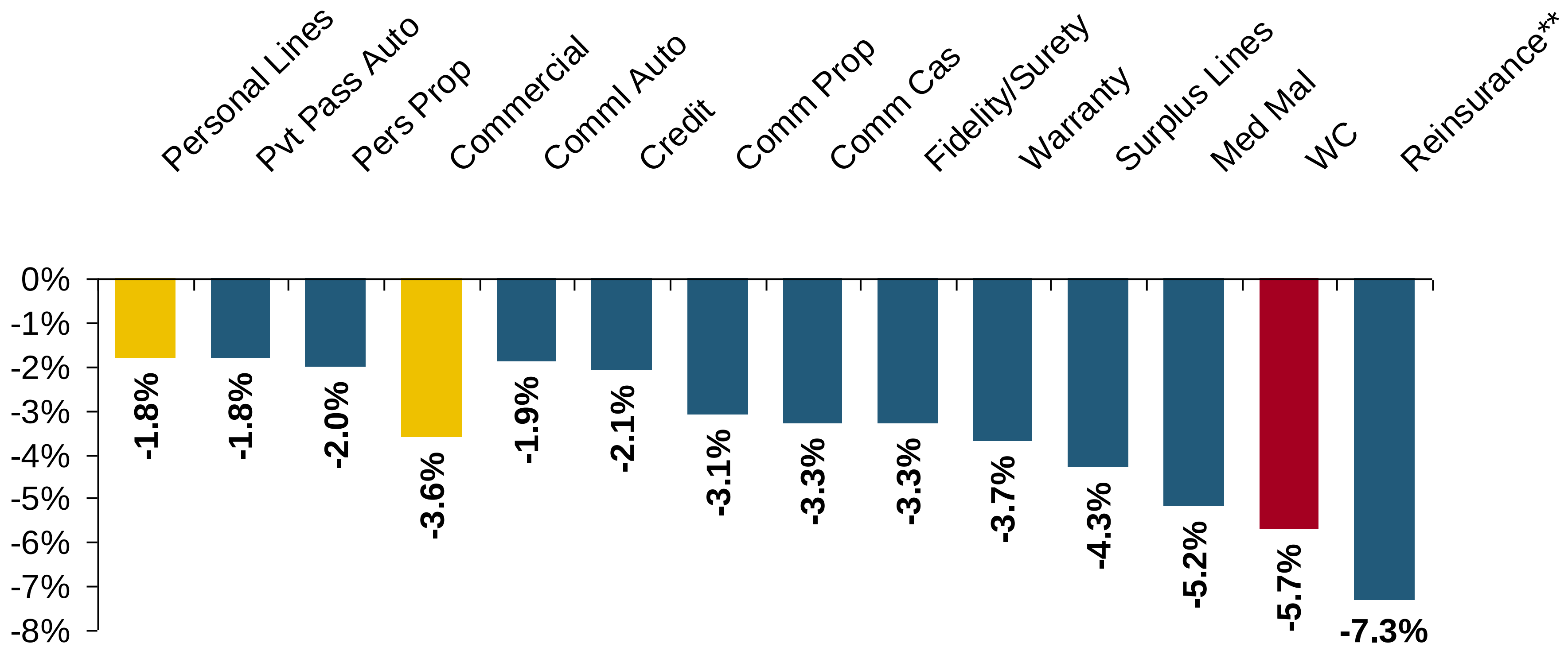

Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*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

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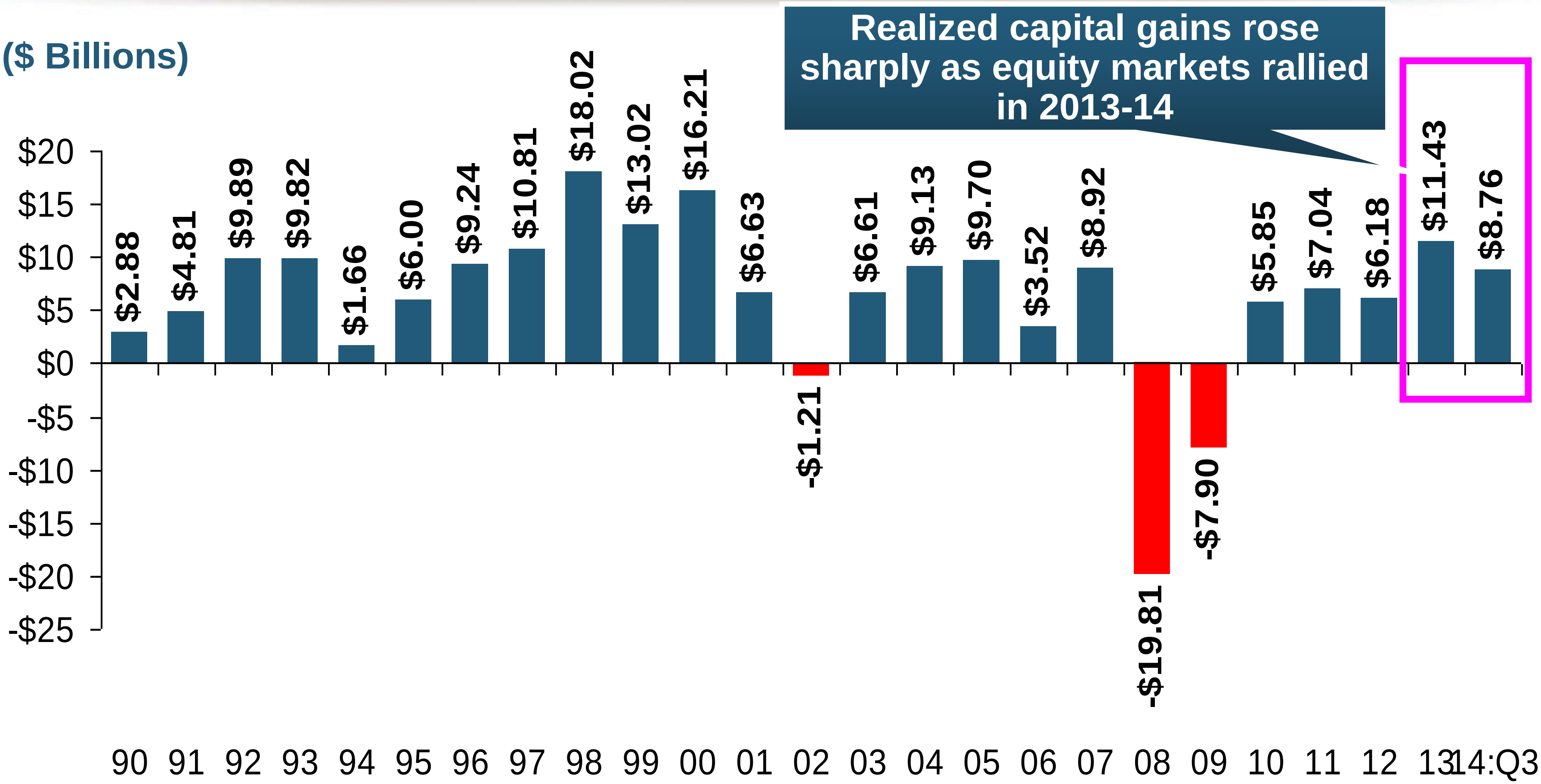

Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

Property/Casualty Insurance Industry Investment Gain: 1994–2014E[1]

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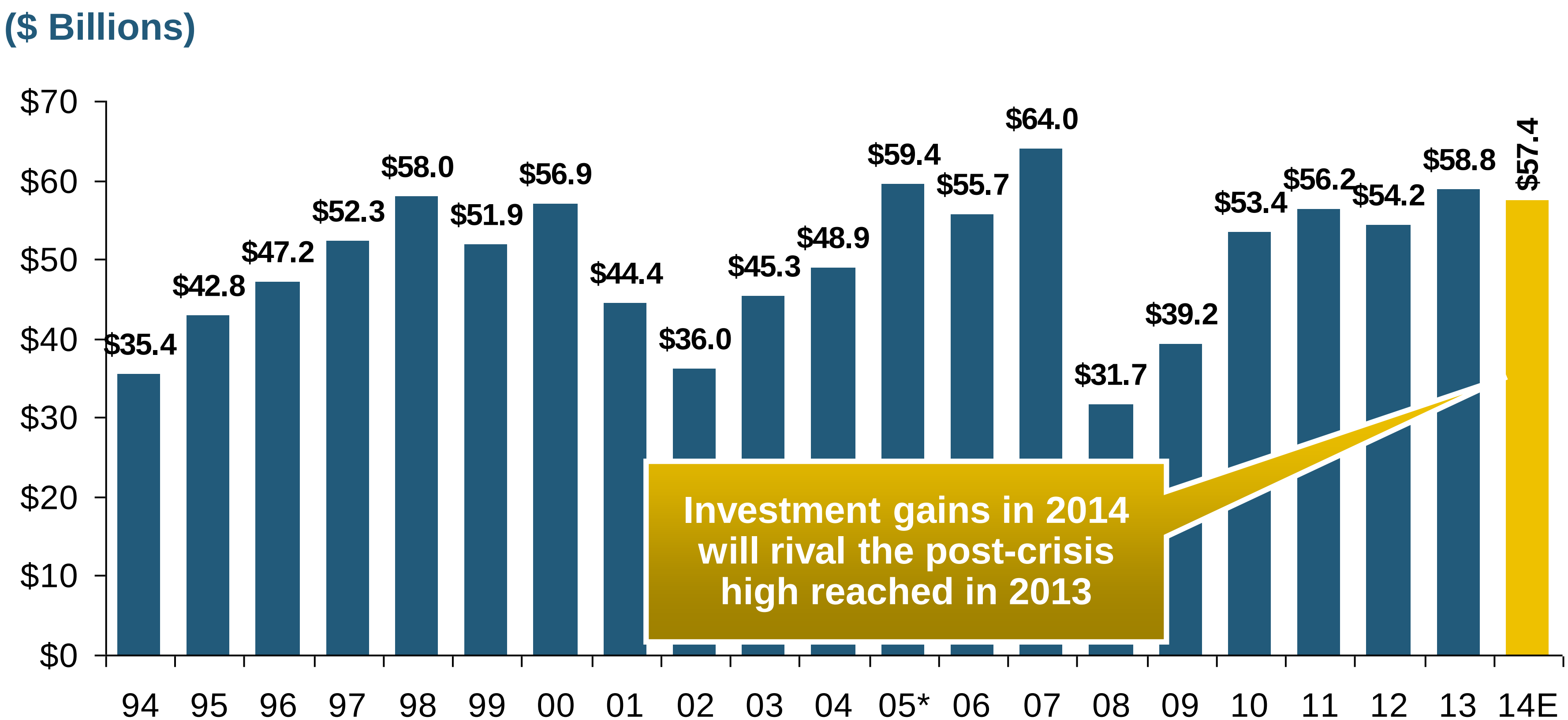

Total Investment Gains Were Flat in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

[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*

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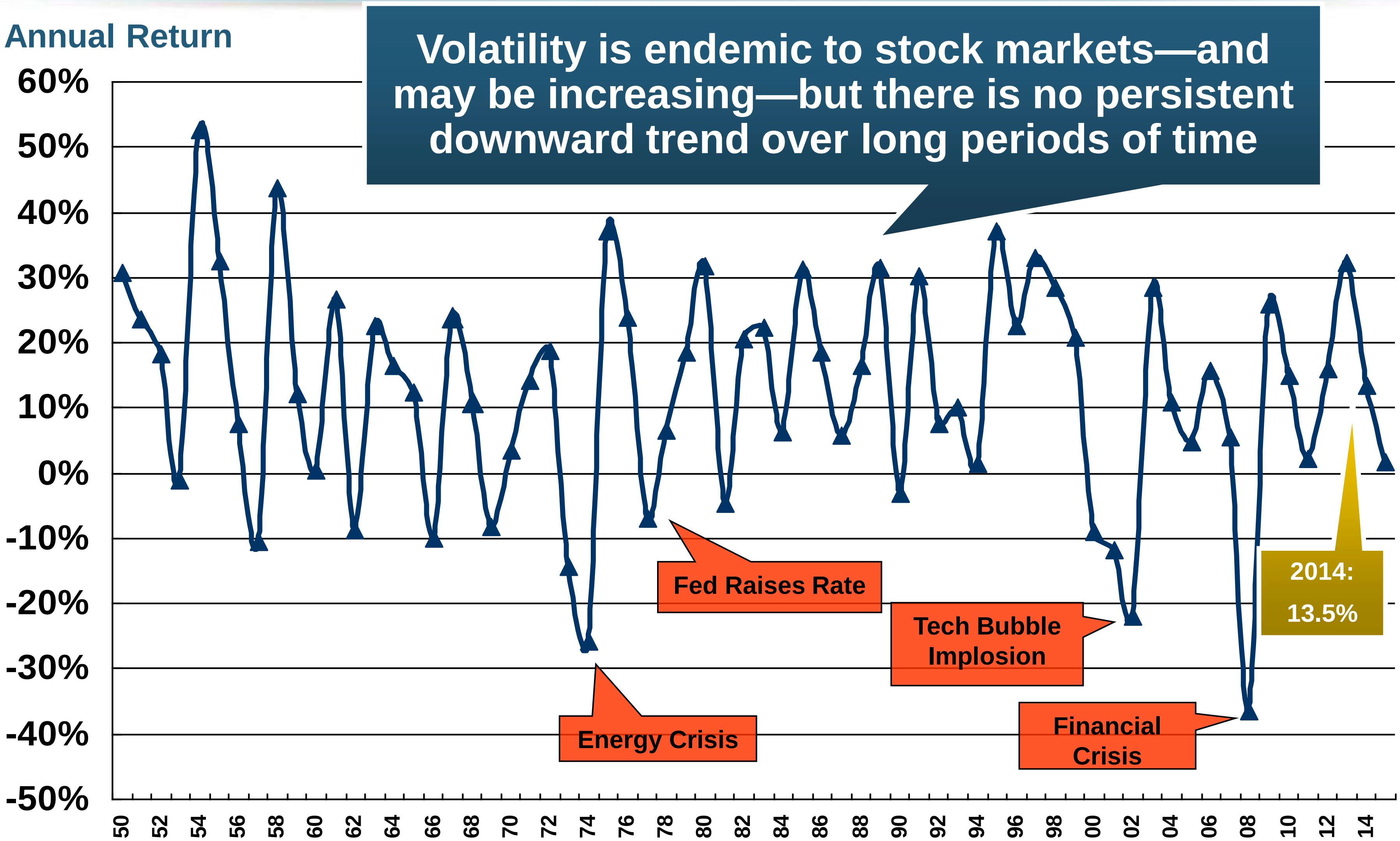

*Through April 9, 2015.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

Performance by Segment

Commercial Lines Combined Ratio, 1990-2015F*

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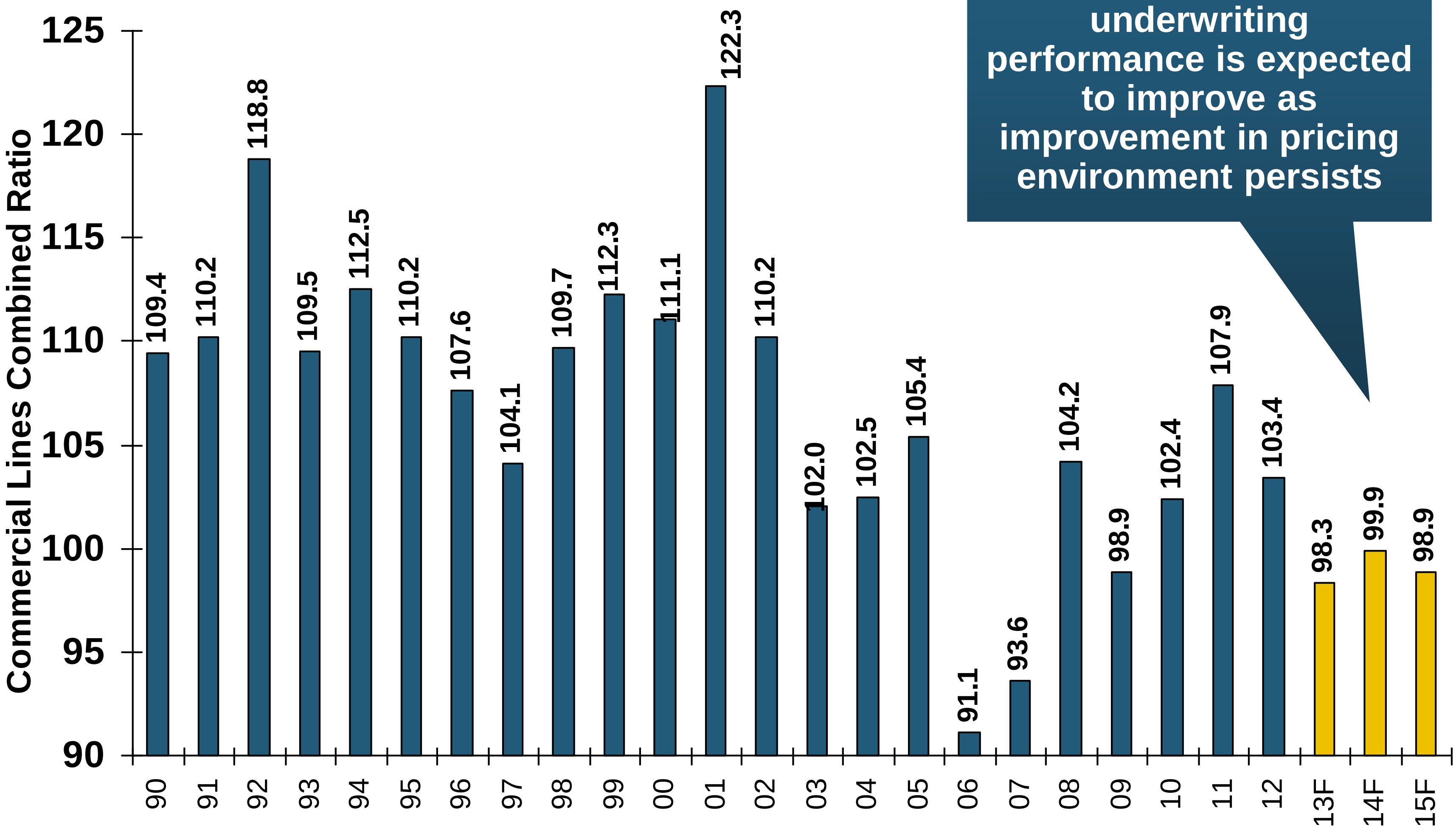

Commercial lines underwriting performance is expected to improve as improvement in pricing environment persists

*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

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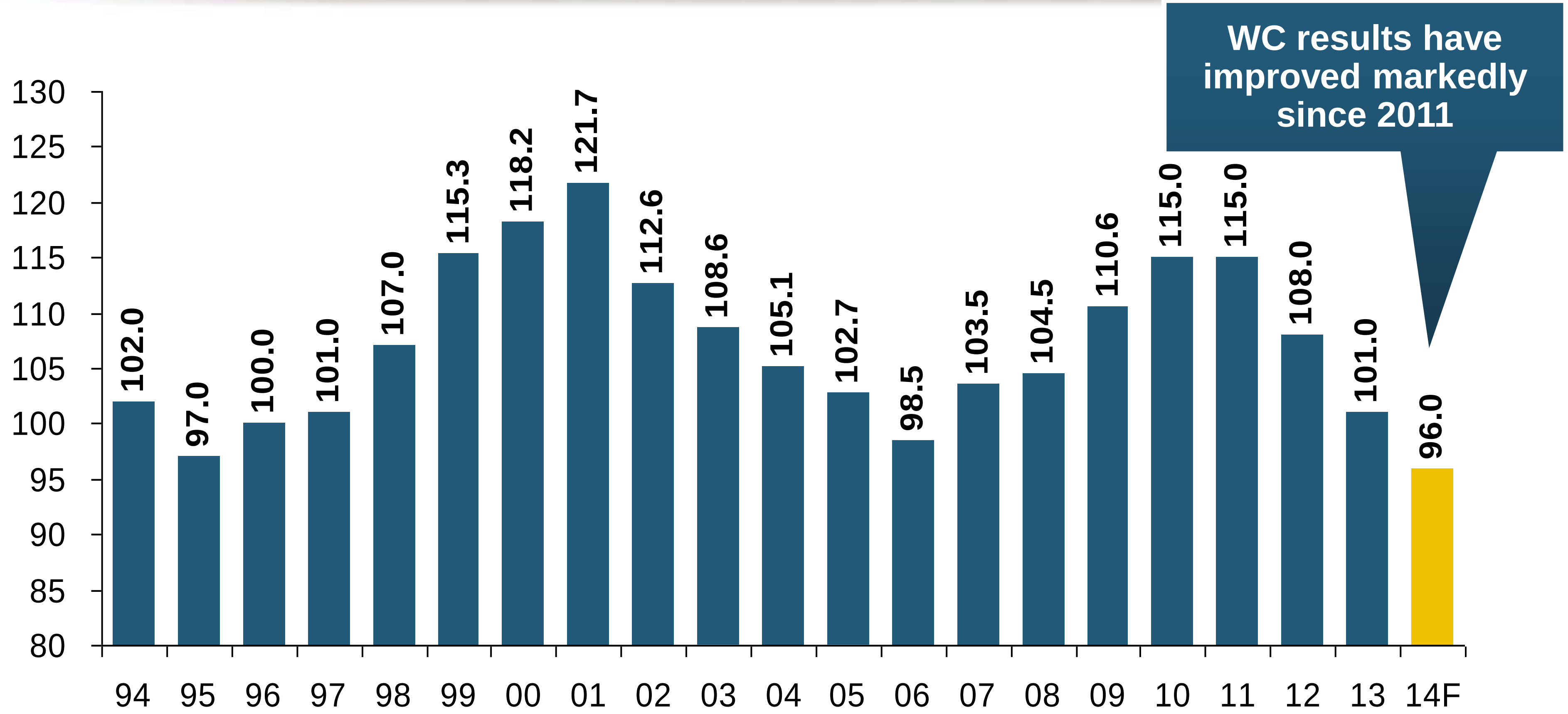
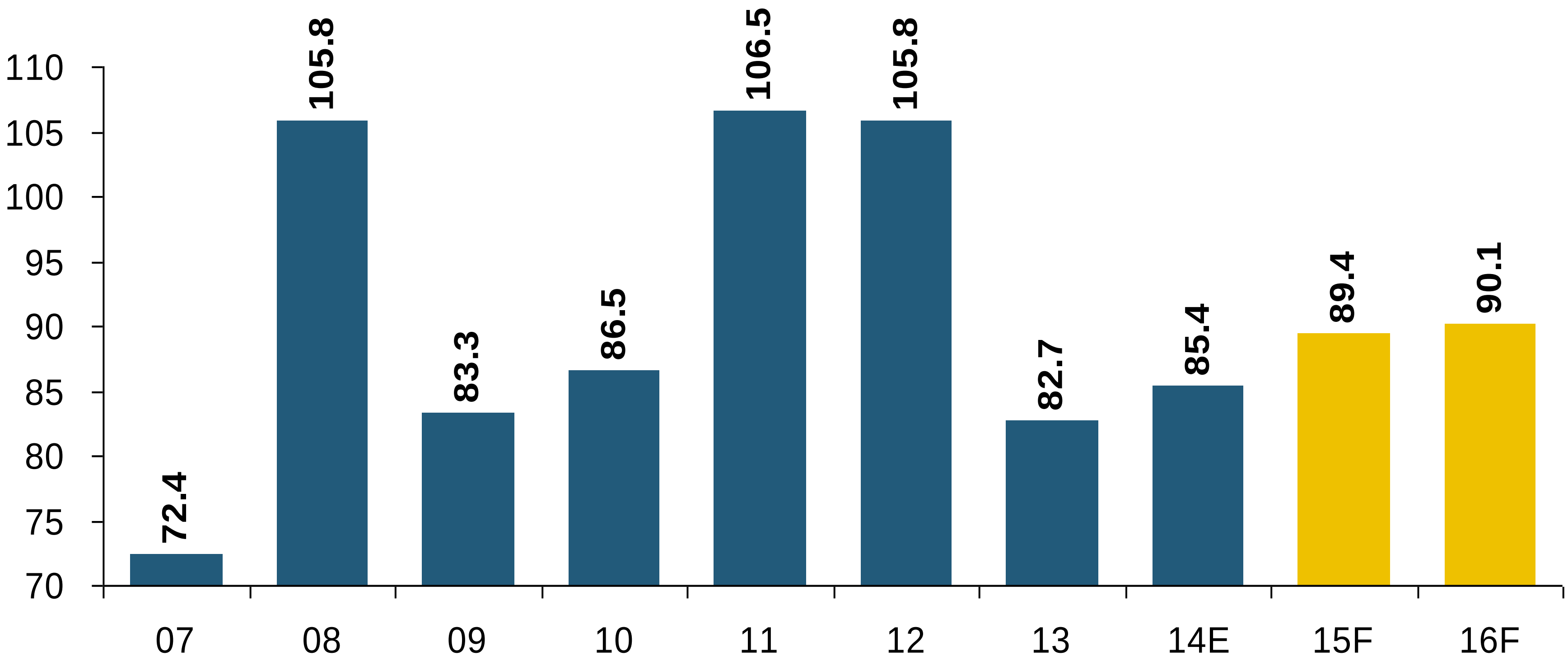


Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2014F) and are for private carriers only; Insurance Information Institute.

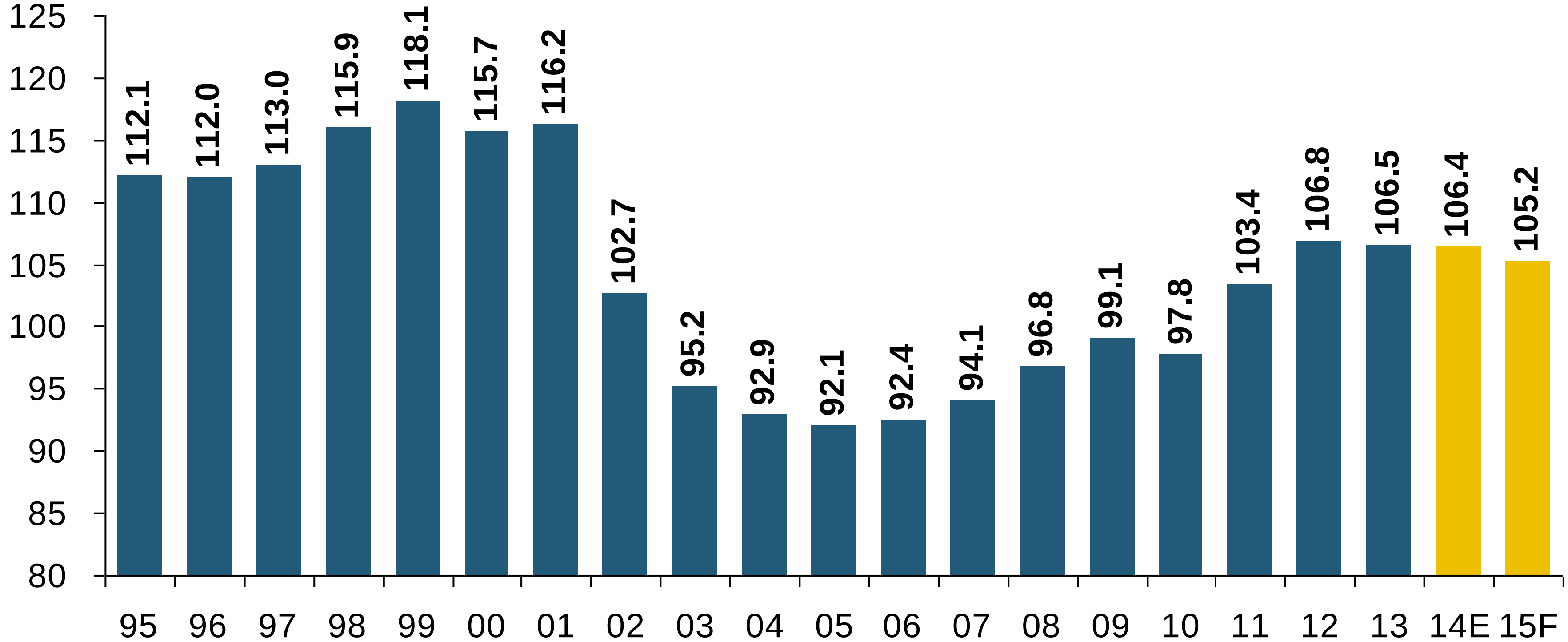
Commercial Property Combined Ratio: 2007–2016F



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

Source: Conning Research and Consulting.

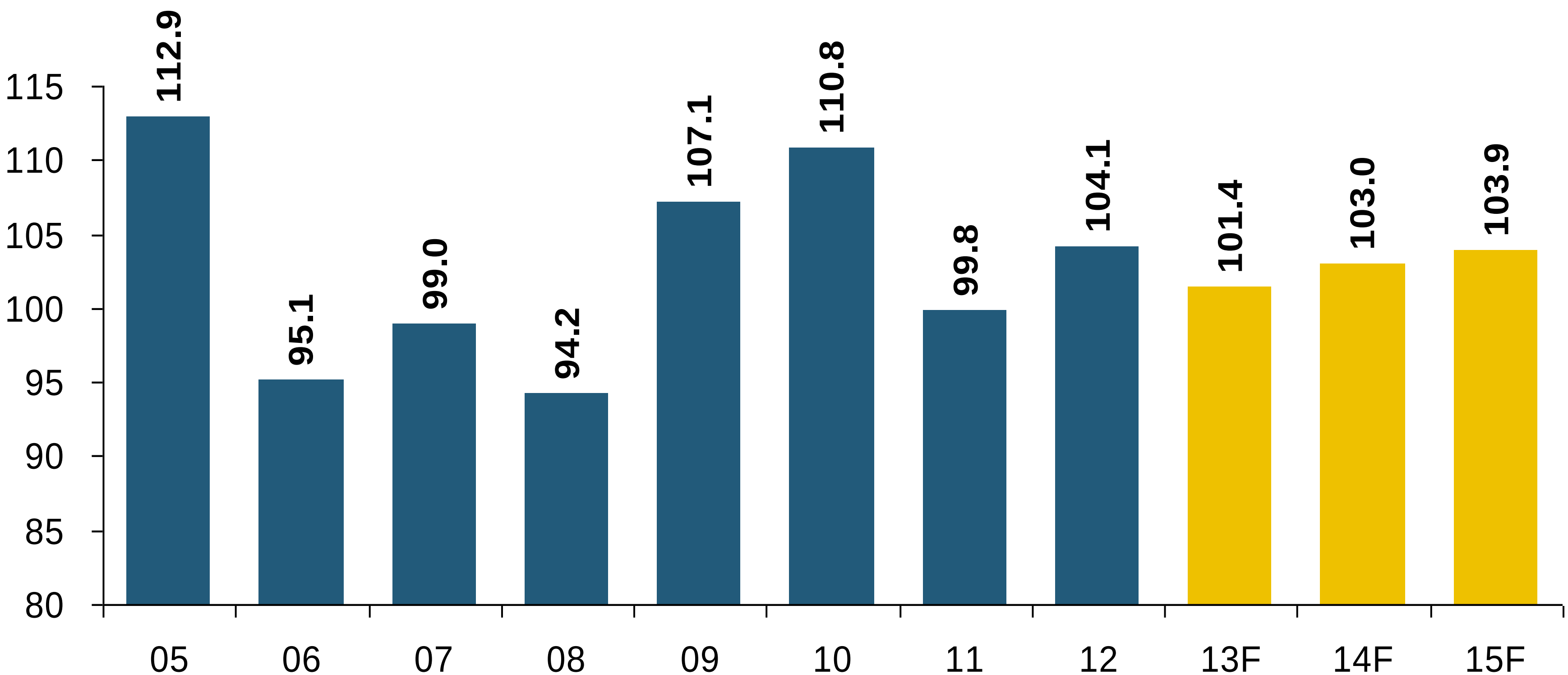
Commercial Auto Combined Ratio: 1993–2015F



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

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

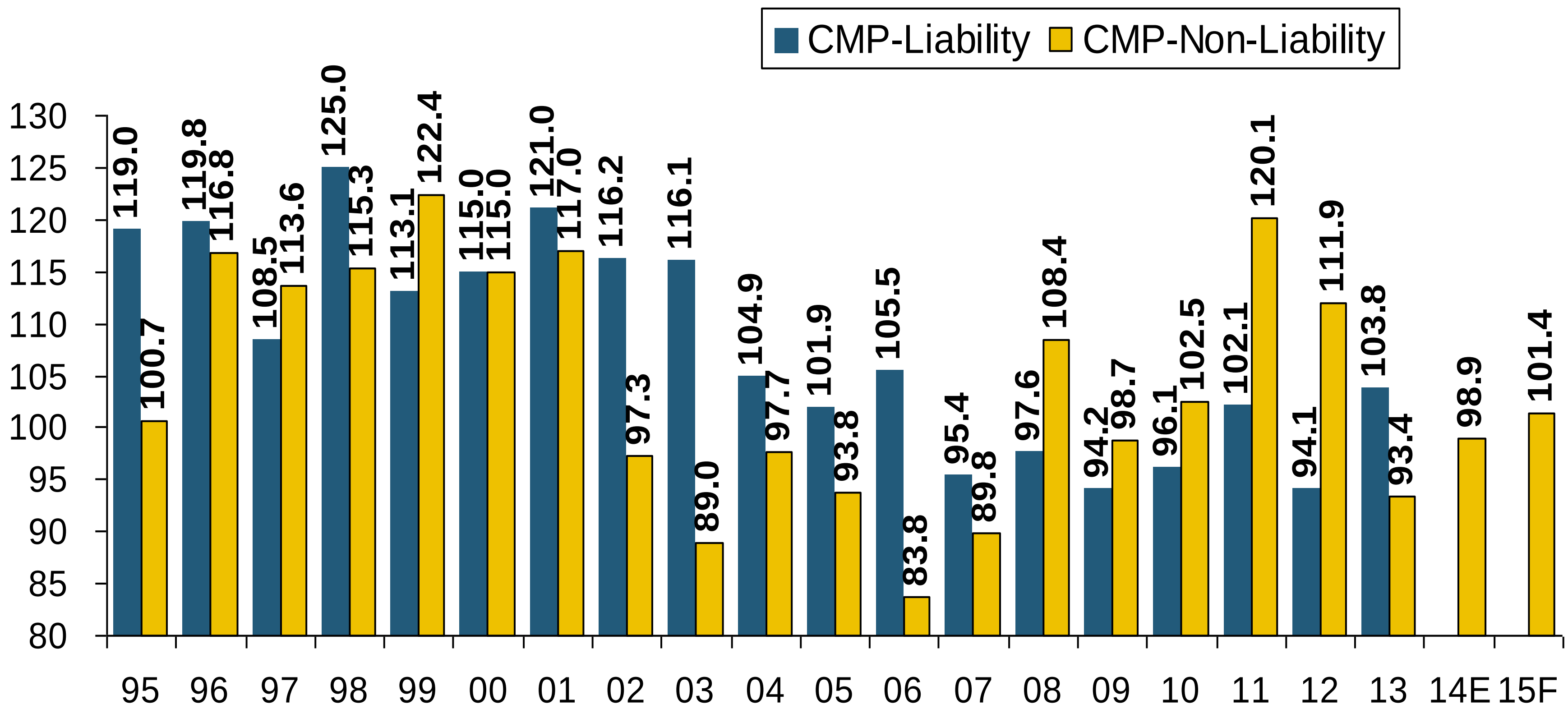
General Liability Combined Ratio: 2005–2015F



Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Source: Conning Research and Consulting.

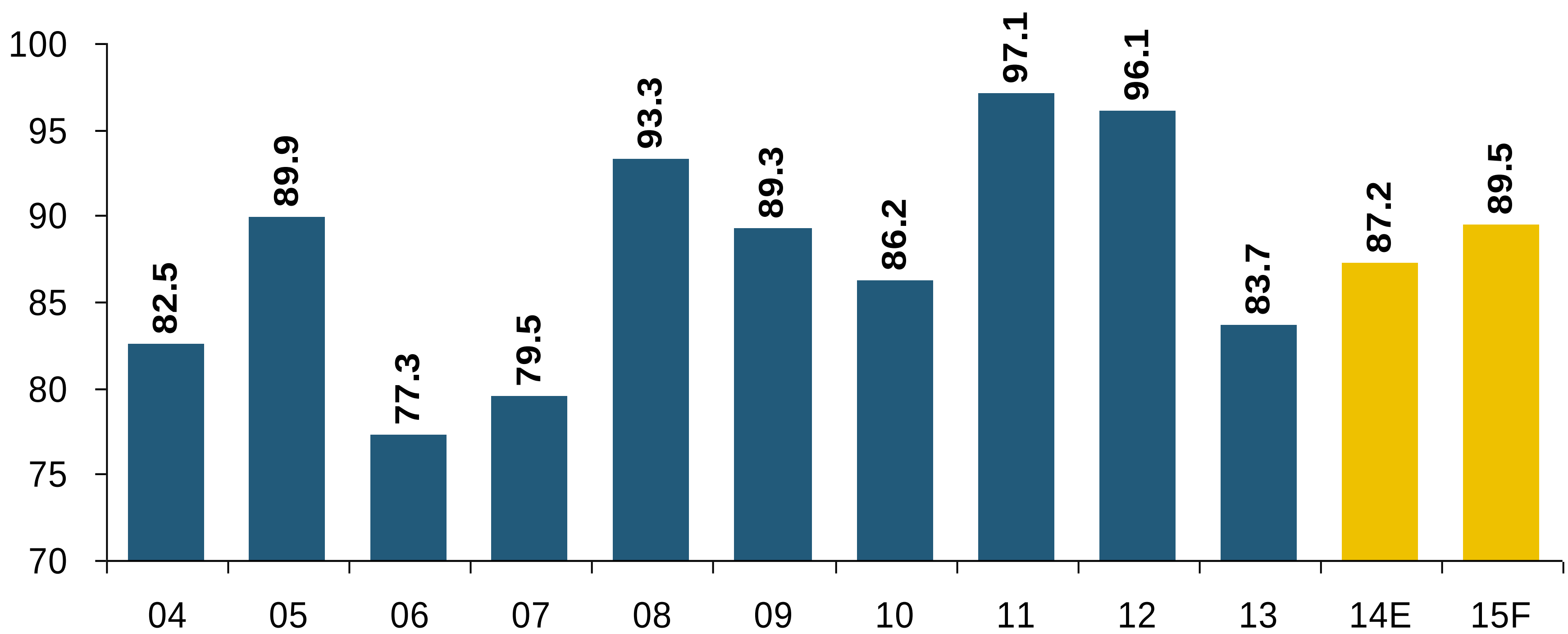
Commercial Multi-Peril Combined Ratio: 1995–2015F



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

Source: A.M. Best (2004-2014E); Conning Research and Consulting (2015F).

Workers Compensation Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Workers Compensation Combined Ratio: 1994–2014E

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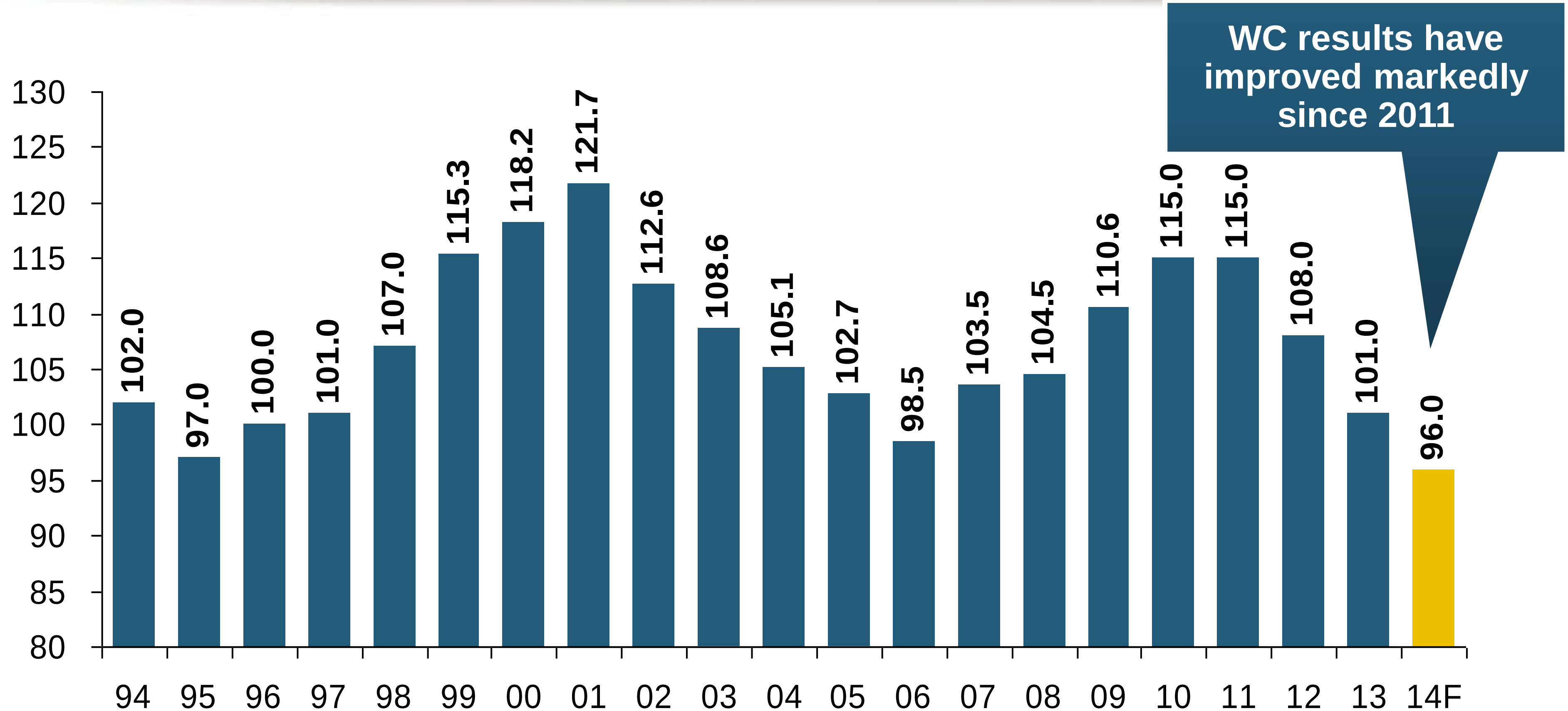

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Sources: A.M. Best (1994-2009); NCCI (2010-2014F) and are for private carriers only; Insurance Information Institute.

Workers Compensation Premium: Third Consecutive Year of Increase

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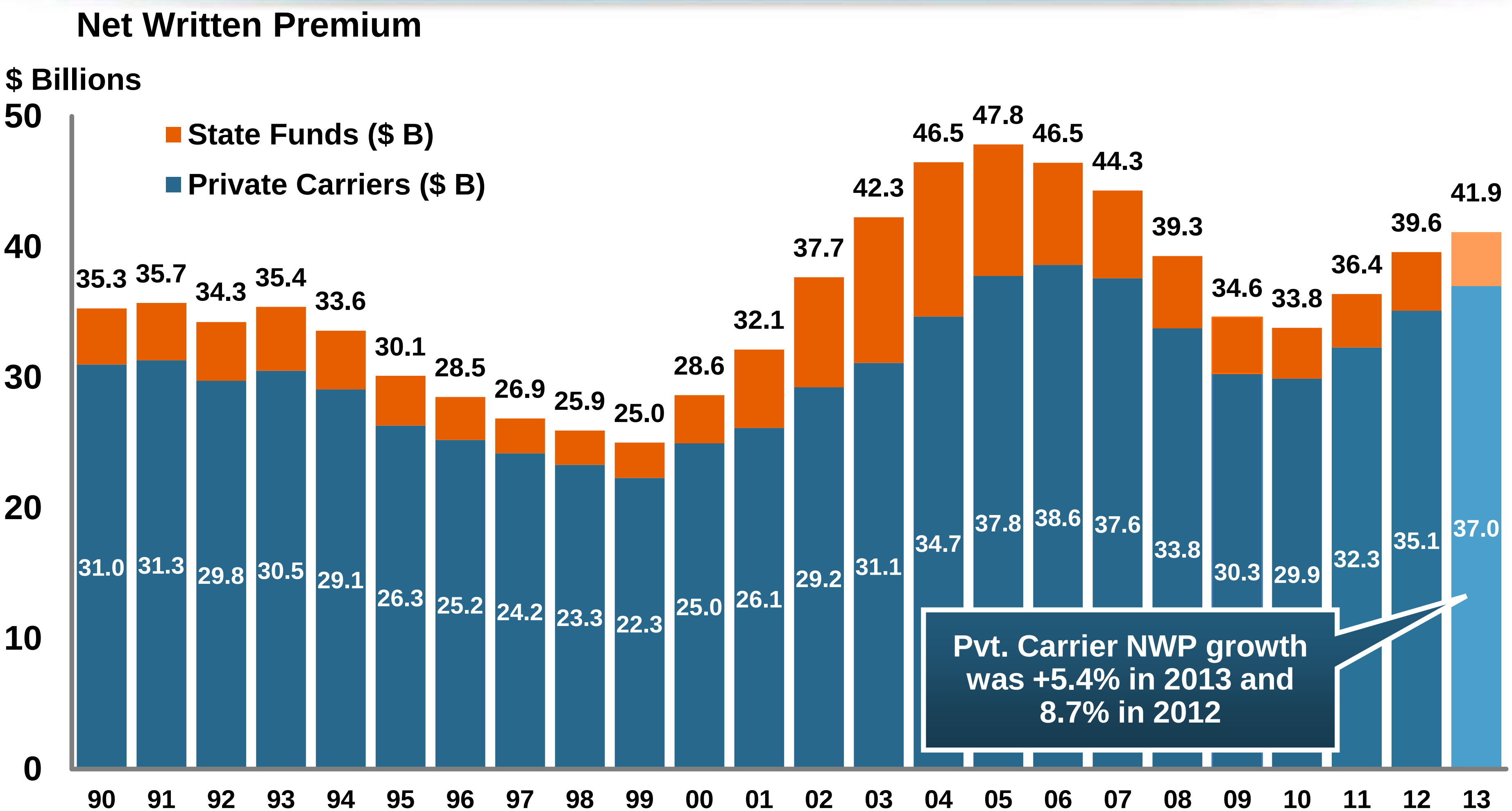


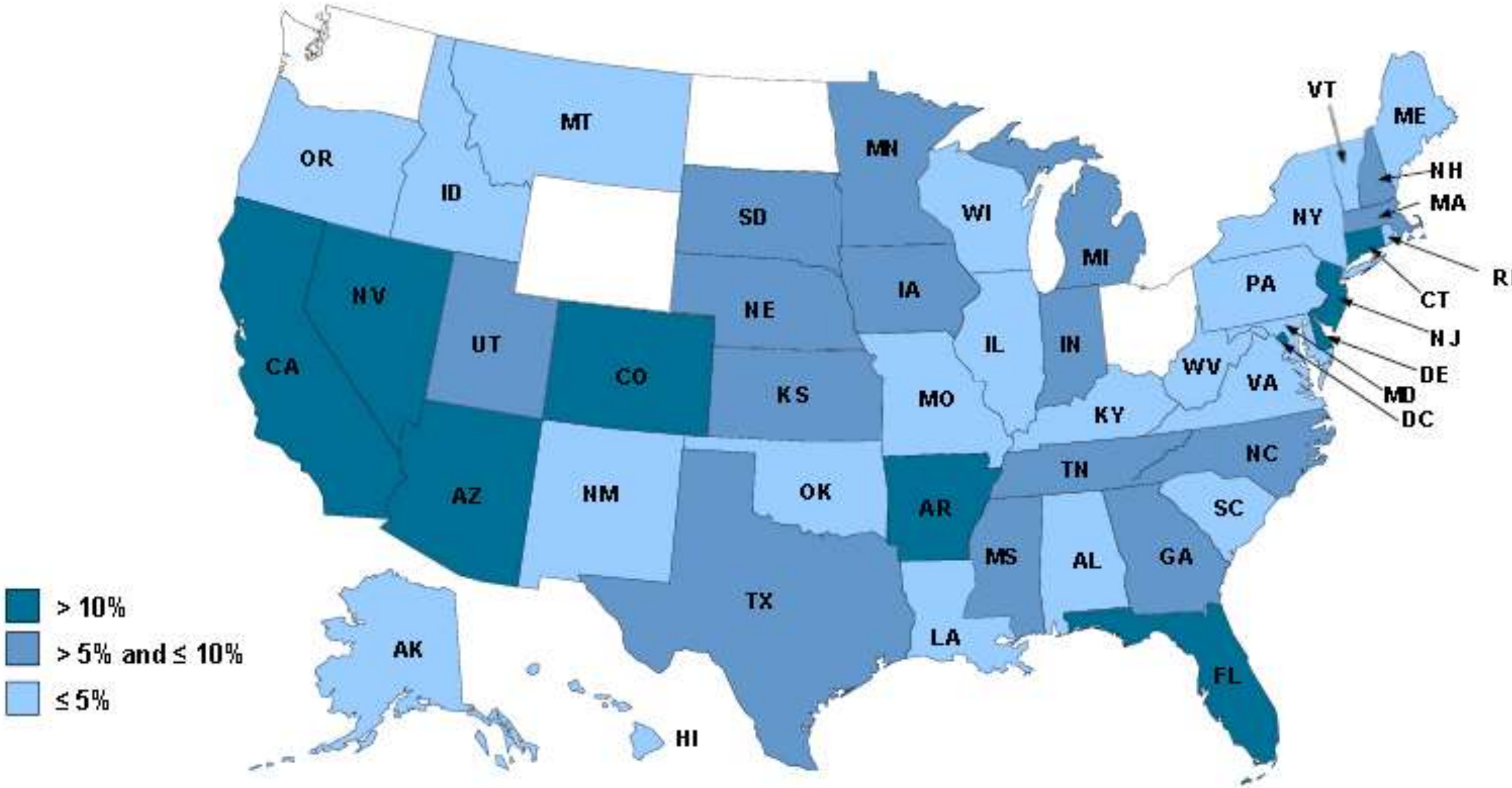
p Preliminary

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 Comp. DWP Growth: MN vs. U.S., 2005-2013

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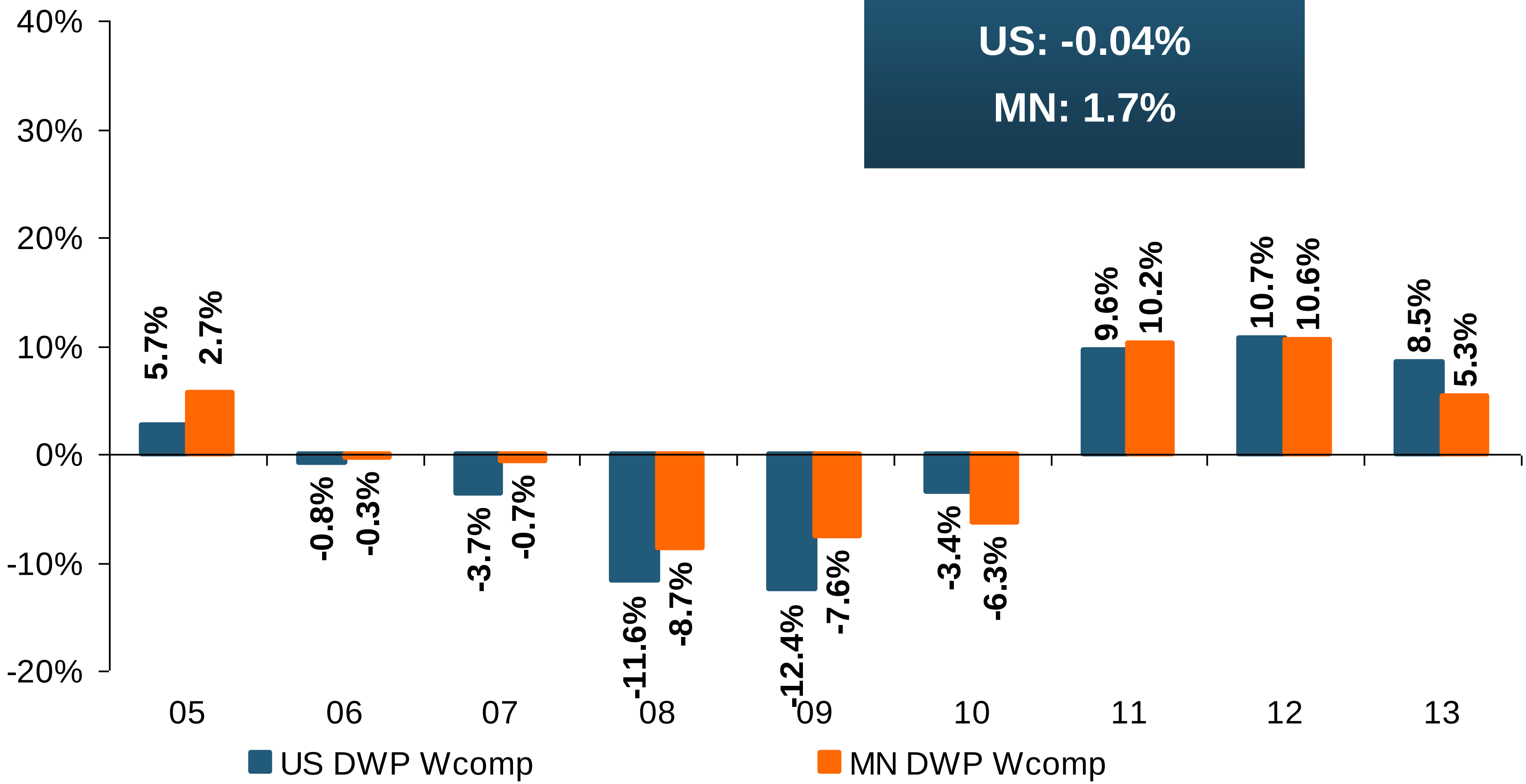
(Percent)

Average 2005-2013

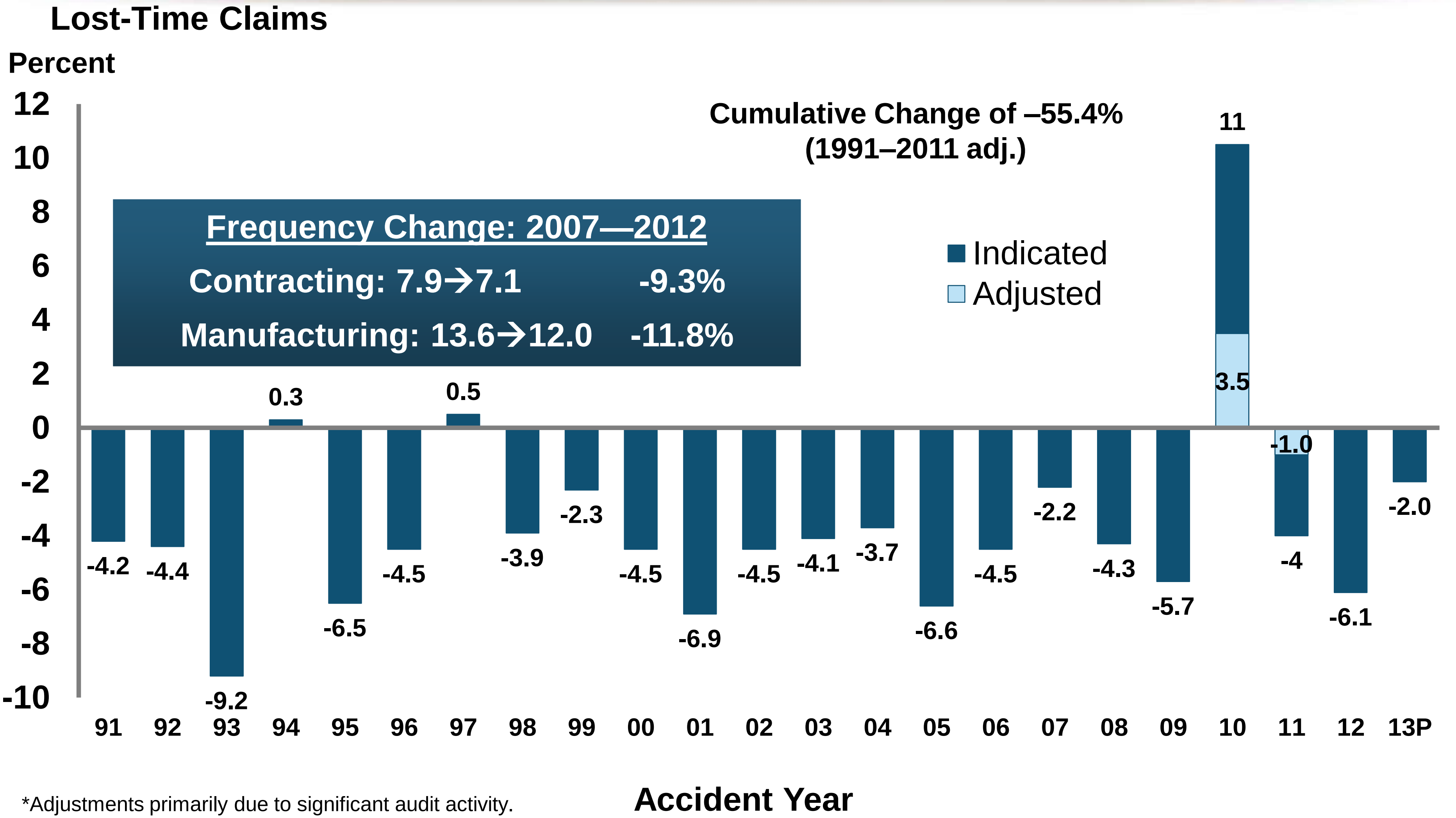
US: -0.04%

MN: 1.7%



Source: SNL Financial.

Workers Compensation Lost-Time Claim Frequency Declined in 2013



*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

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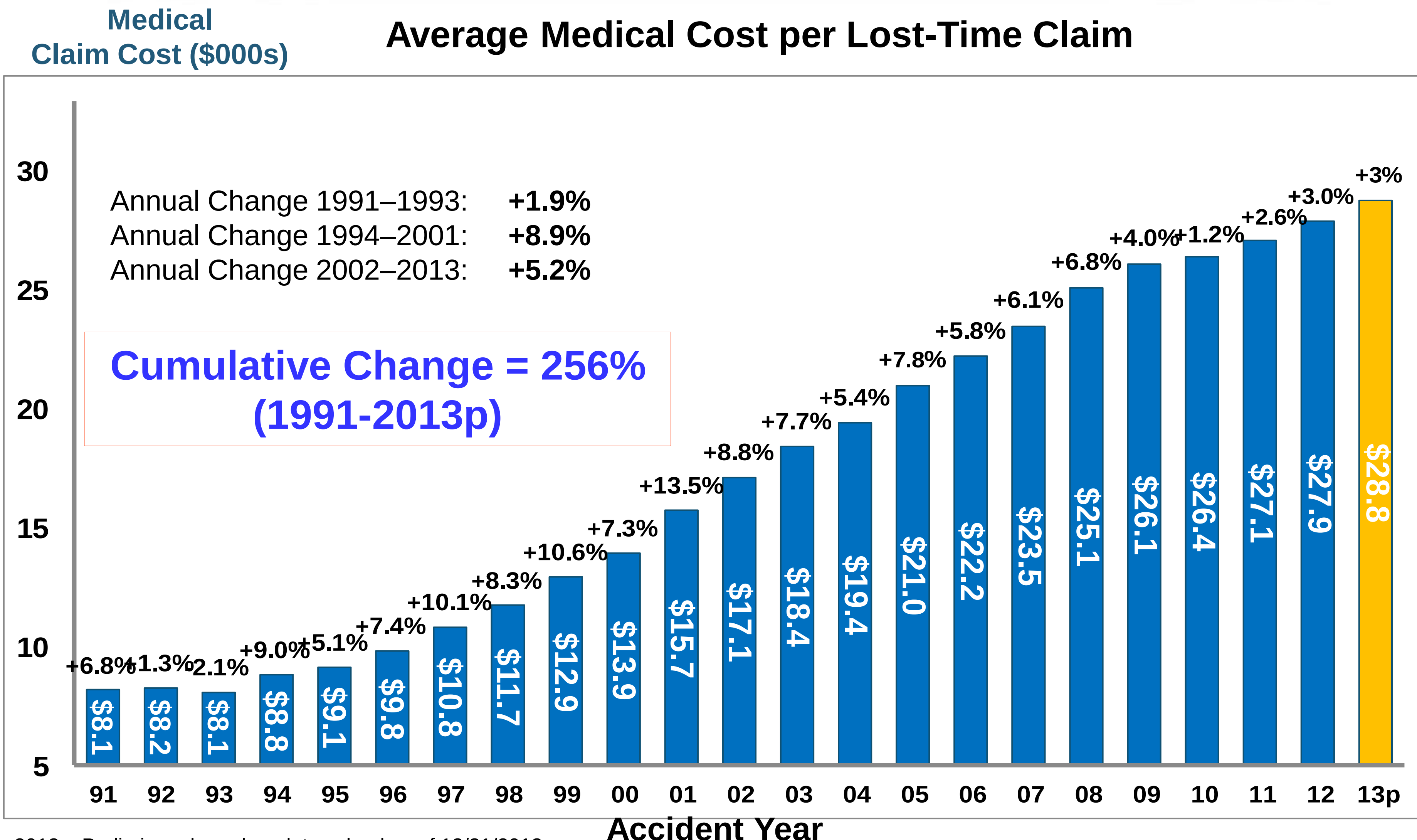
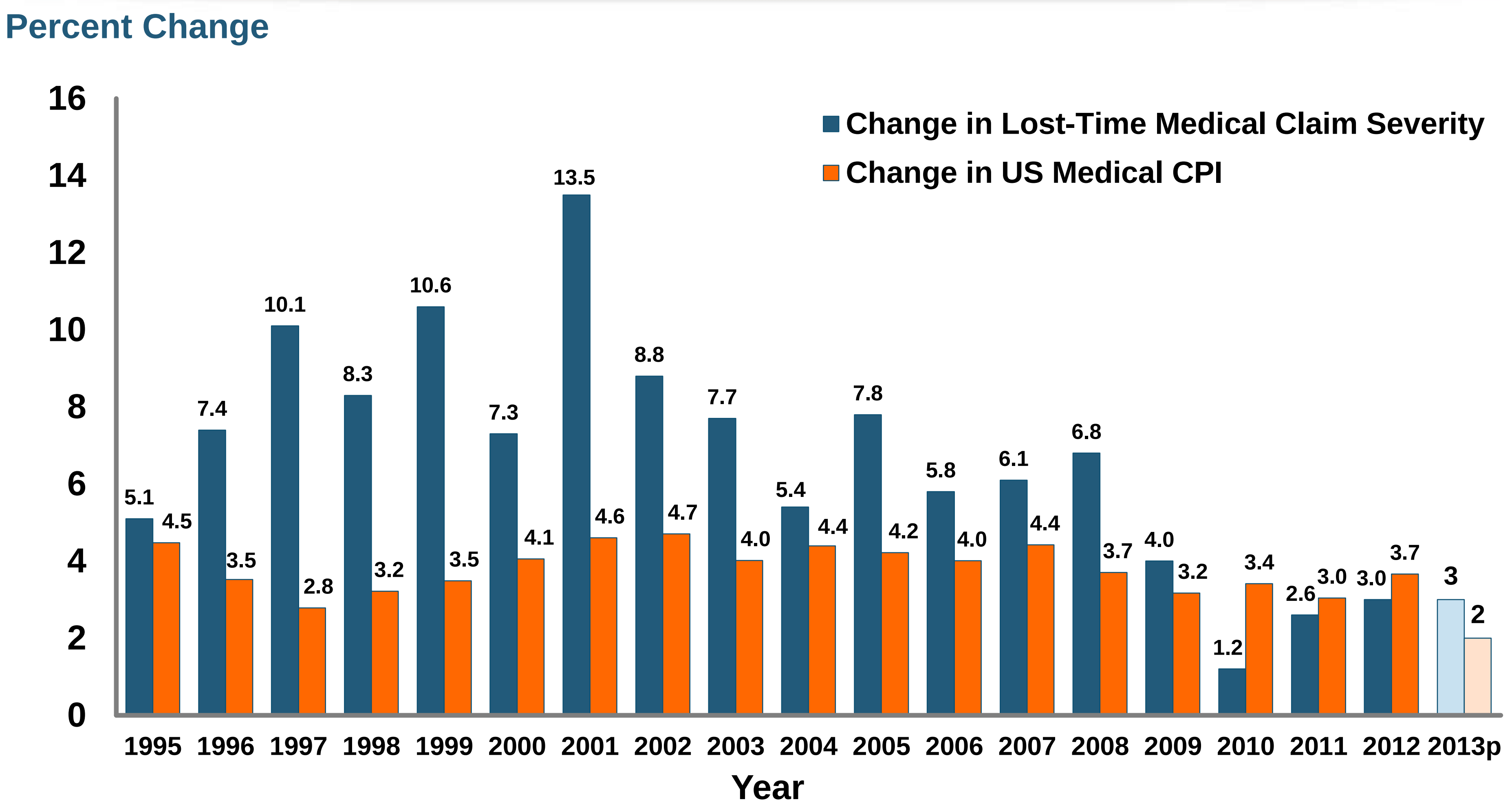


2013p: Preliminary based on data valued as of 12/31/2013.
1991-2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)



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

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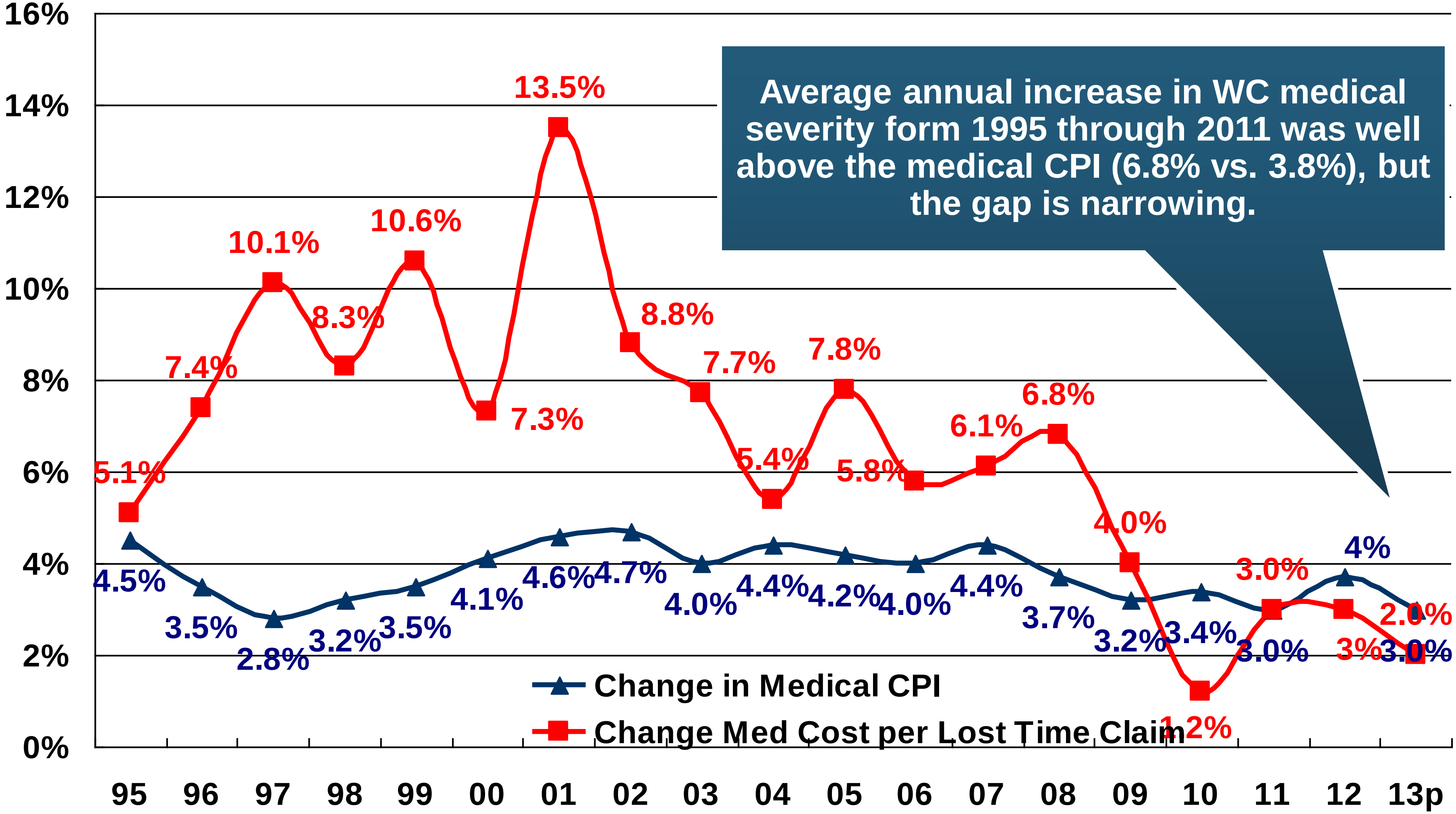

Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

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

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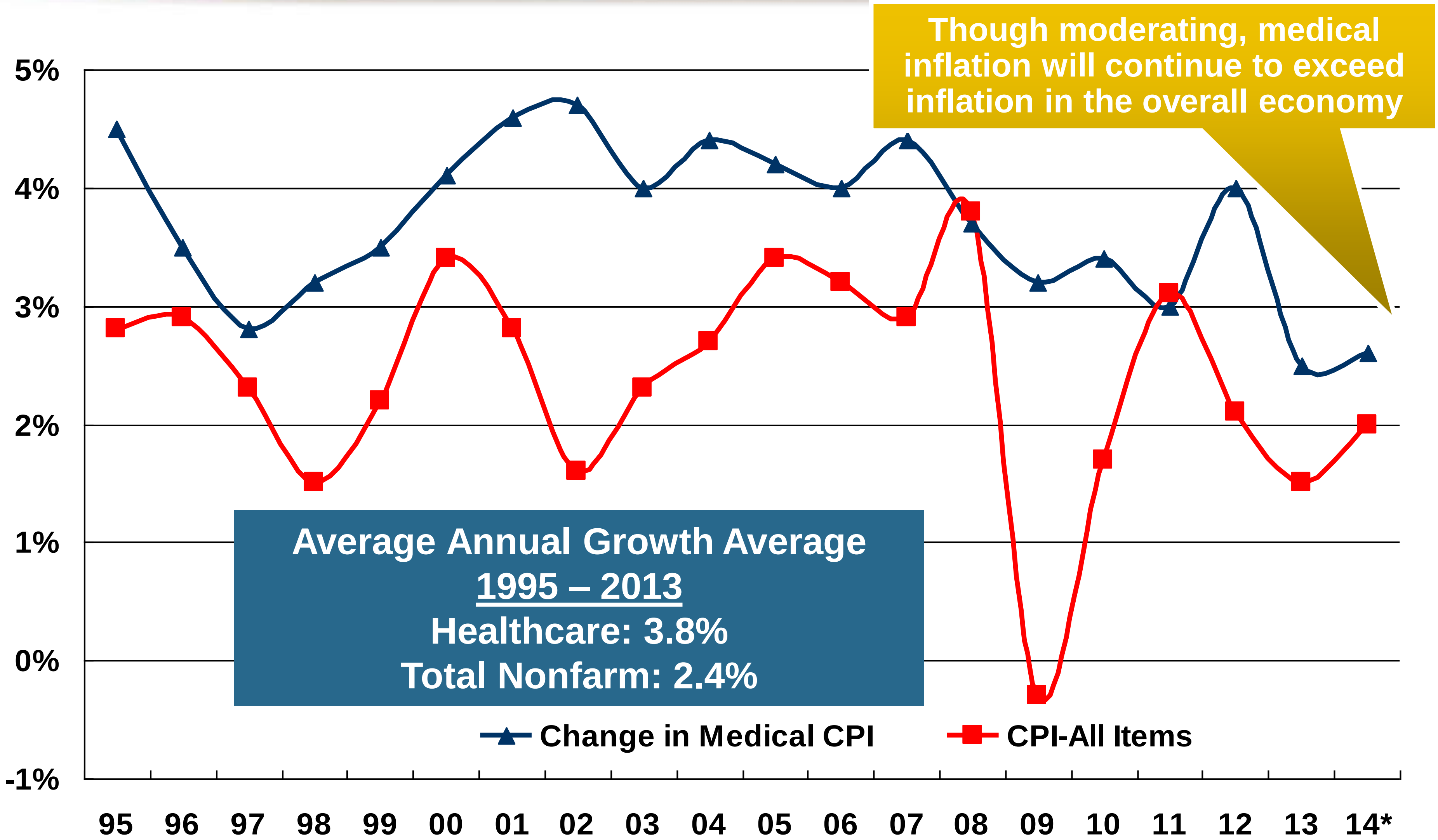
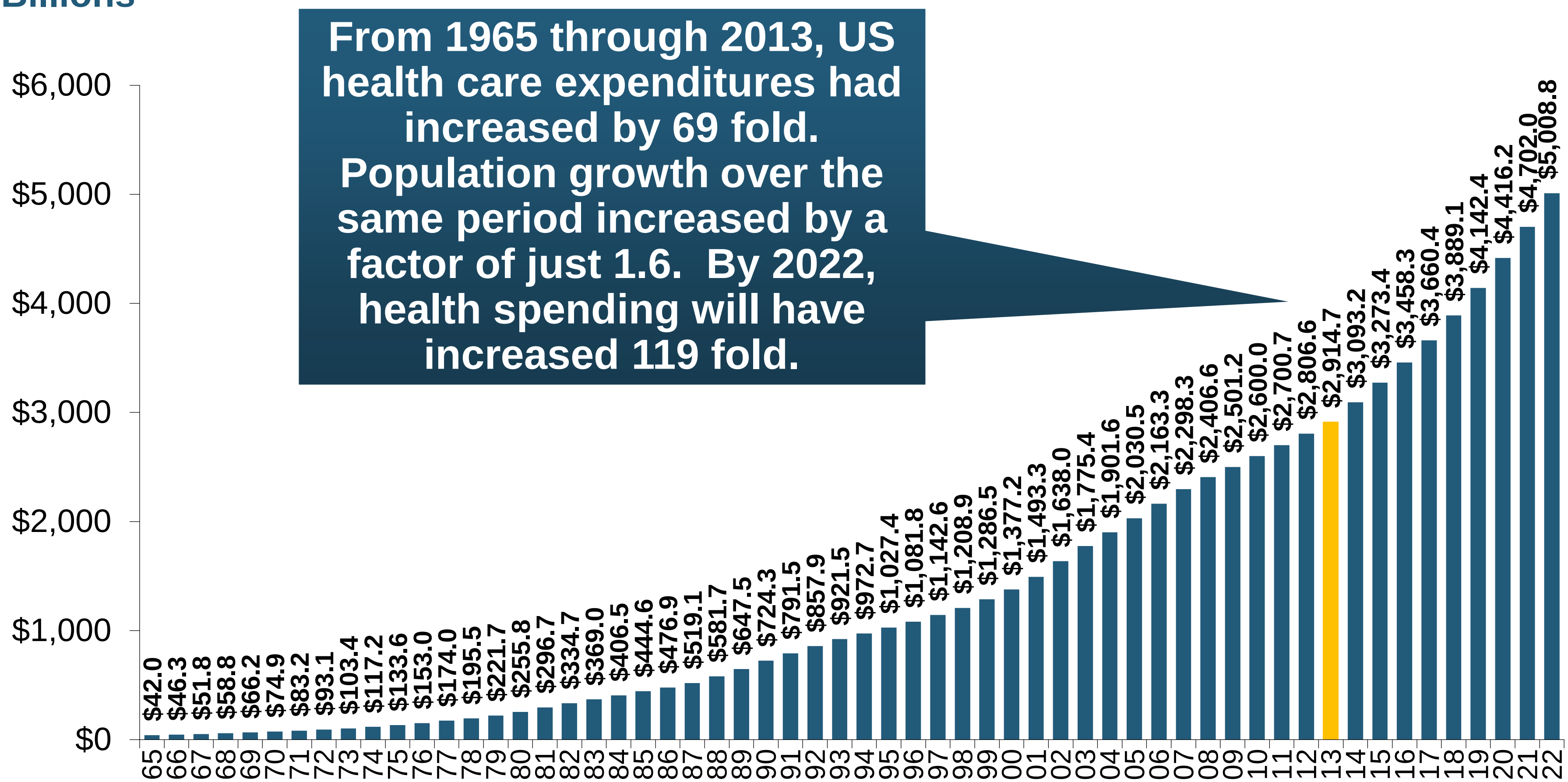


*July 2014 compared to July 2013.

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

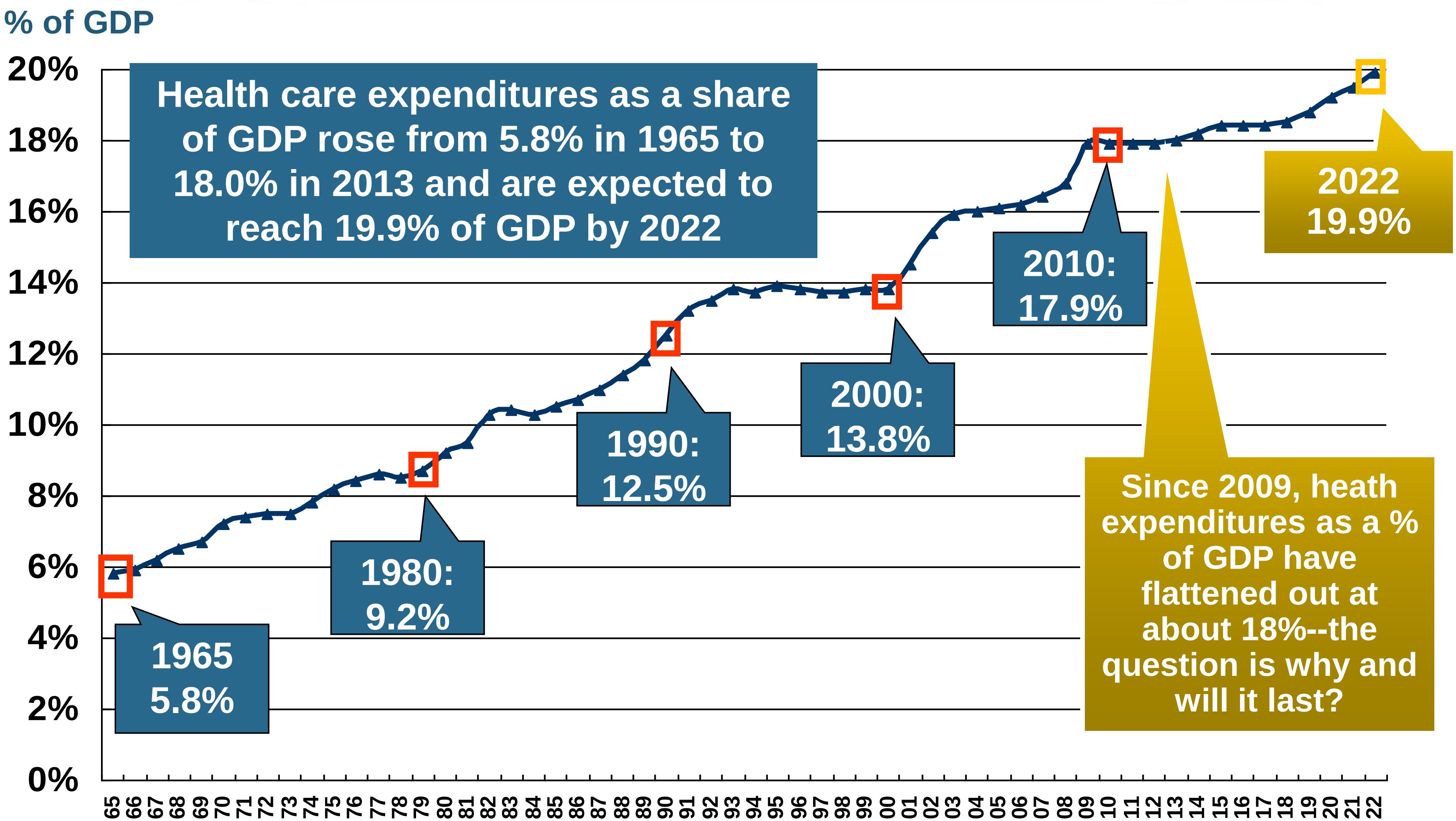


U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

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.

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

INSURANCE INFORMATION INSTITUTE



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.

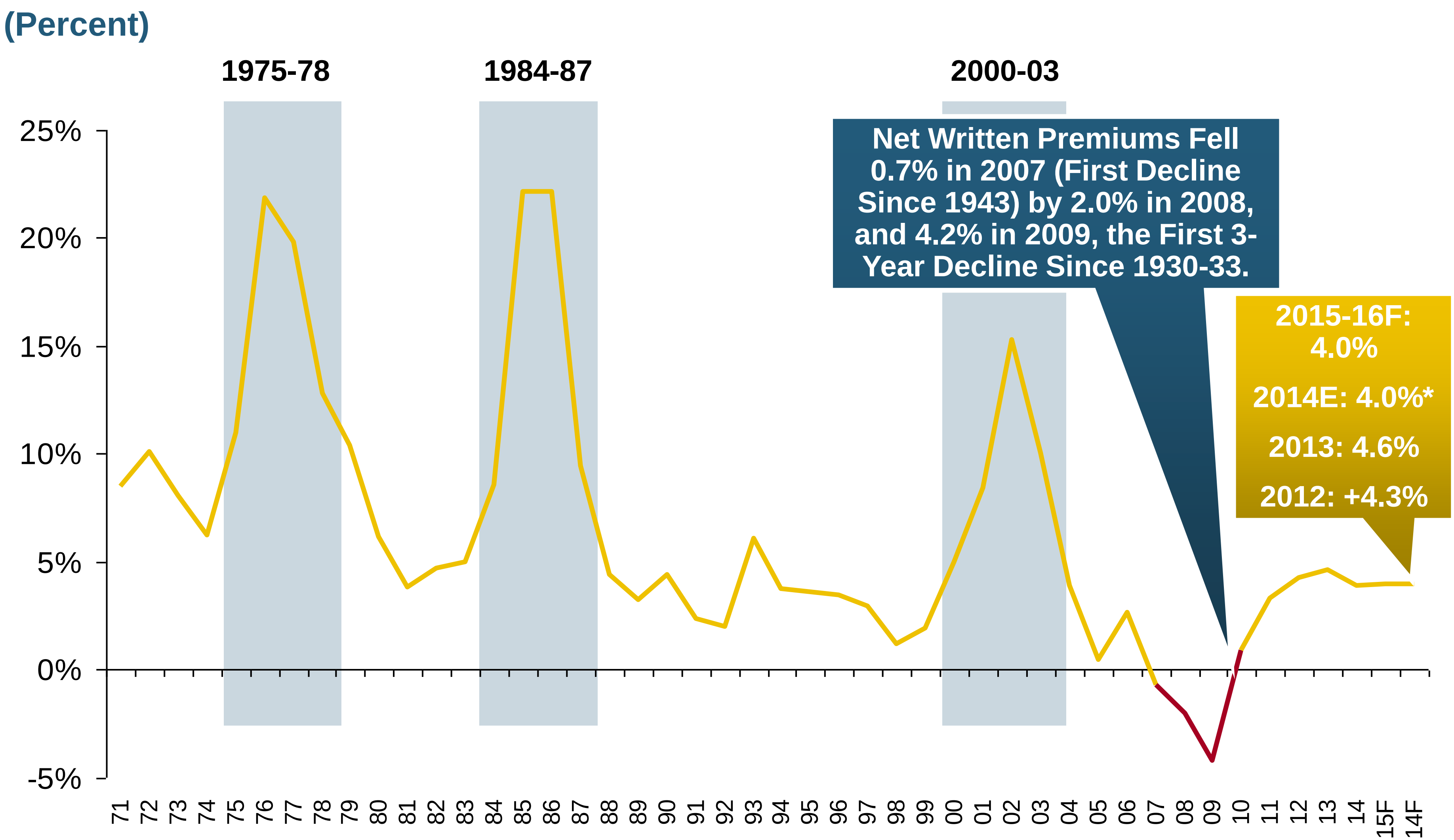
Growth Analysis by State and Business Segment

Post-Crisis Paradox?

Premium Growth Rates Vary Tremendously by State

Net Premium Growth: Annual Change, 1971—2016F

INSURANCE INFORMATION INSTITUTE



*2014 figure is estimate based on actual 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

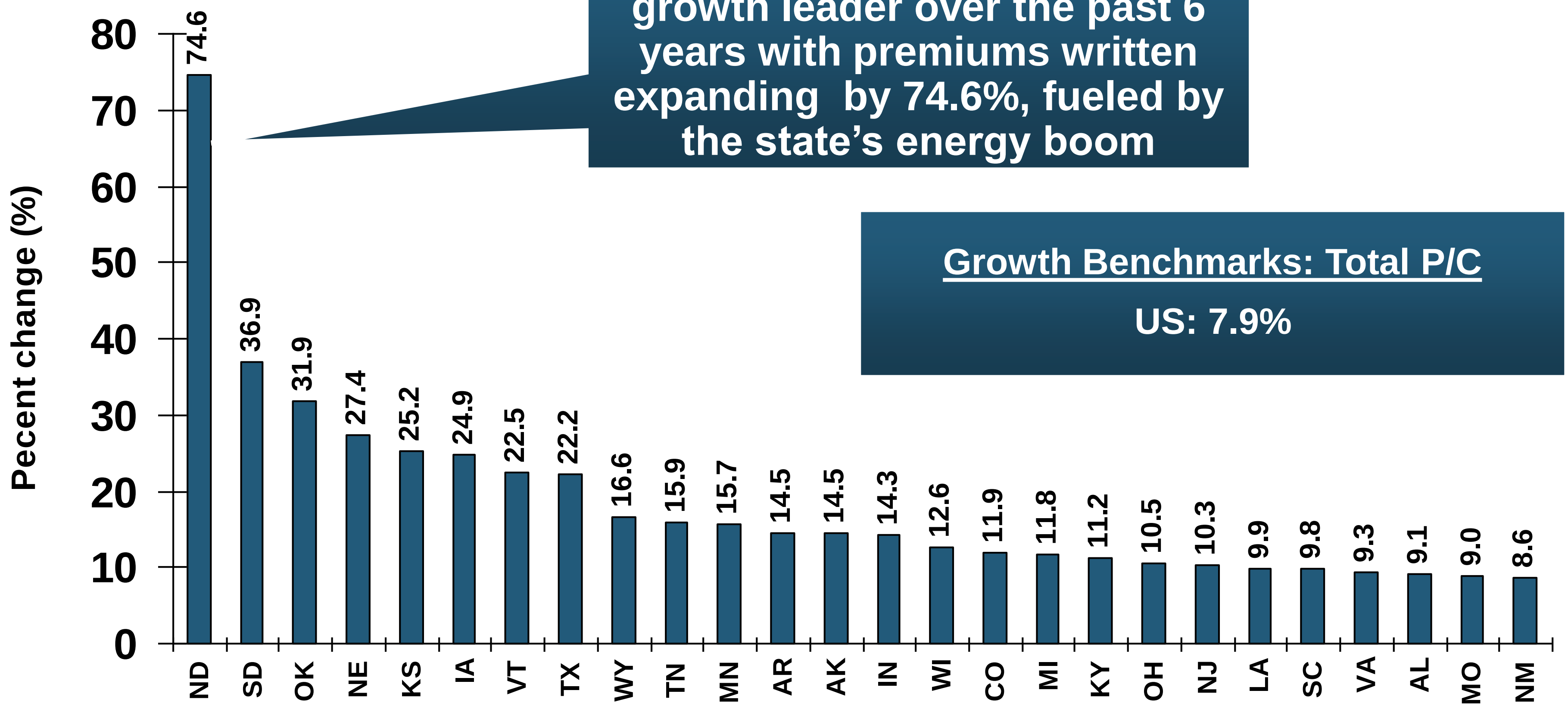
INSURANCE INFORMATION INSTITUTE

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

Growth Benchmarks: Total P/C

US: 7.9%



Sources: SNL Financial LC.; Insurance Information Institute.

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

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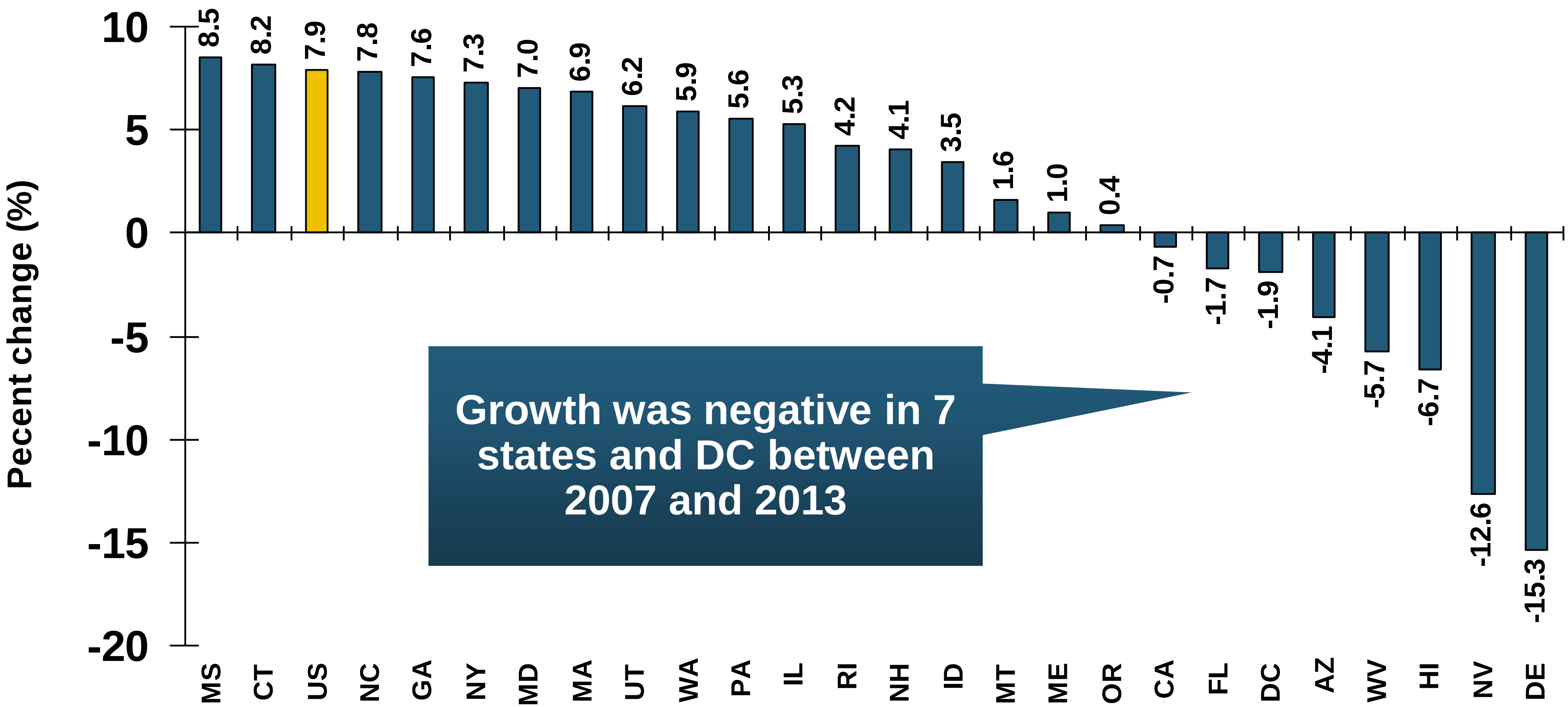
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

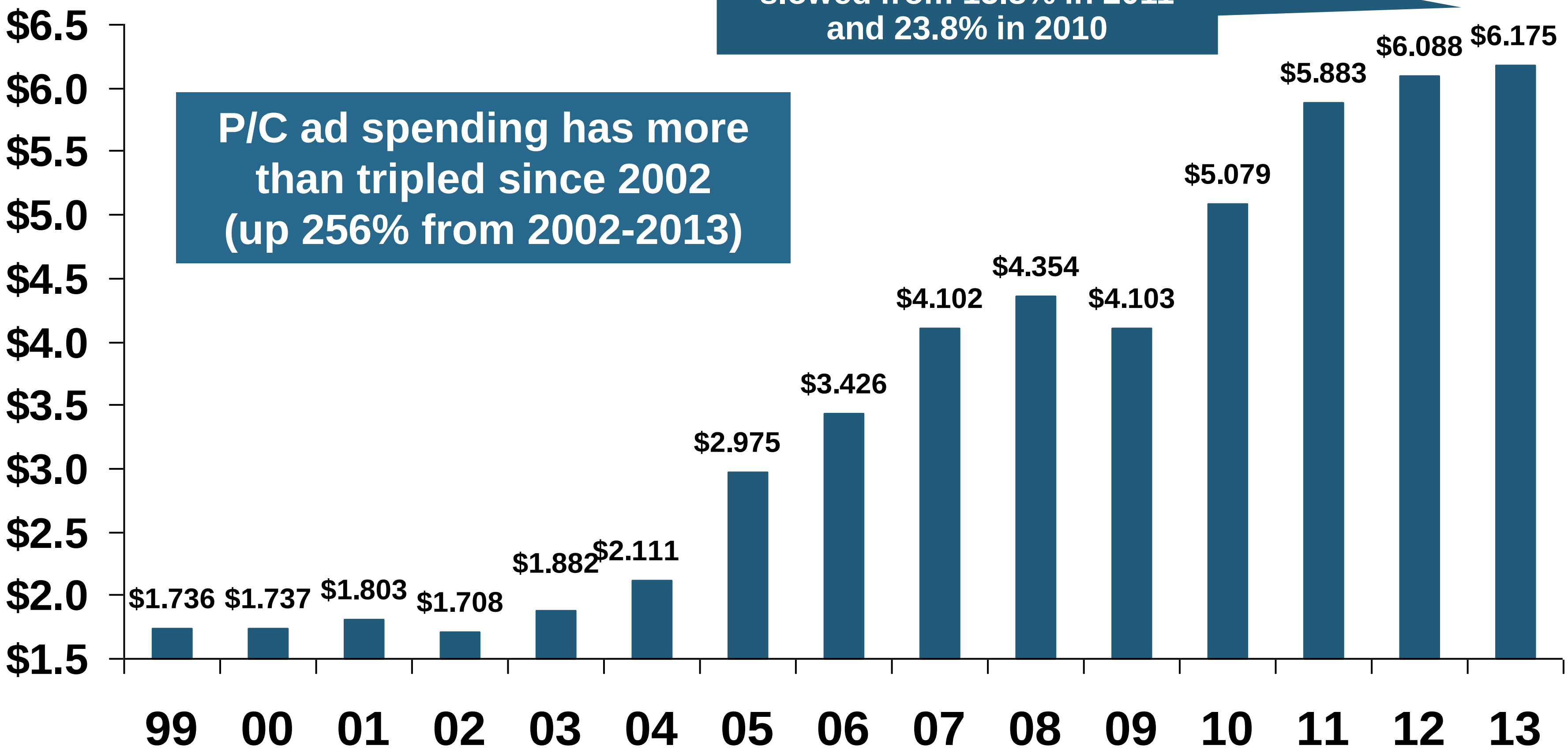
Advertising Expenditures by P/C Insurance Industry, 1999-2013

INSURANCE INFORMATION INSTITUTE

$ Billions

P/C ad spend hit an all time record high of $6.175 billion in 2013, up 1.5% over 2012. The pace of growth has slowed from 15.8% in 2011 and 23.8% in 2010

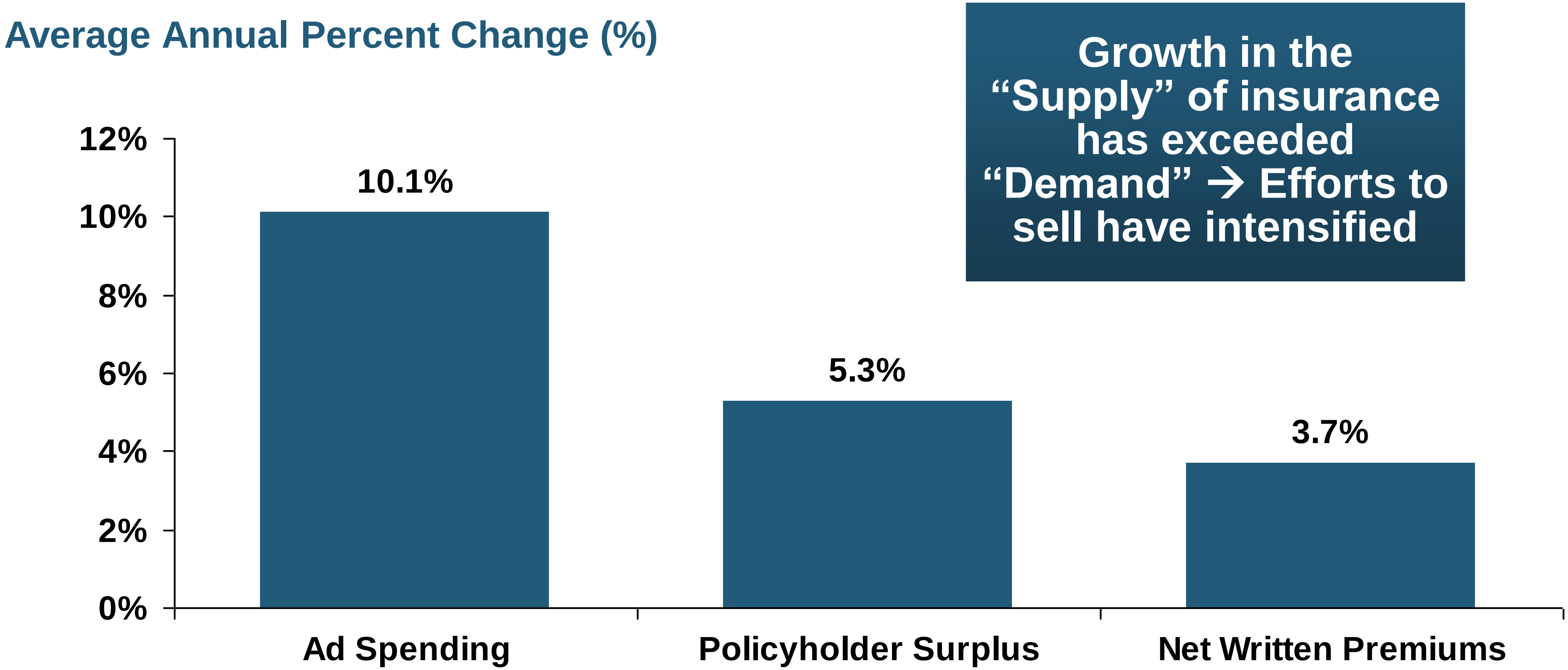
P/C ad spending has more than tripled since 2002 (up 256% from 2002-2013)



Source: Insurance Information Institute from consolidated P/C Annual Statement data, Insurance Expense Exhibit (Part I).

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

INSURANCE INFORMATION INSTITUTE



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

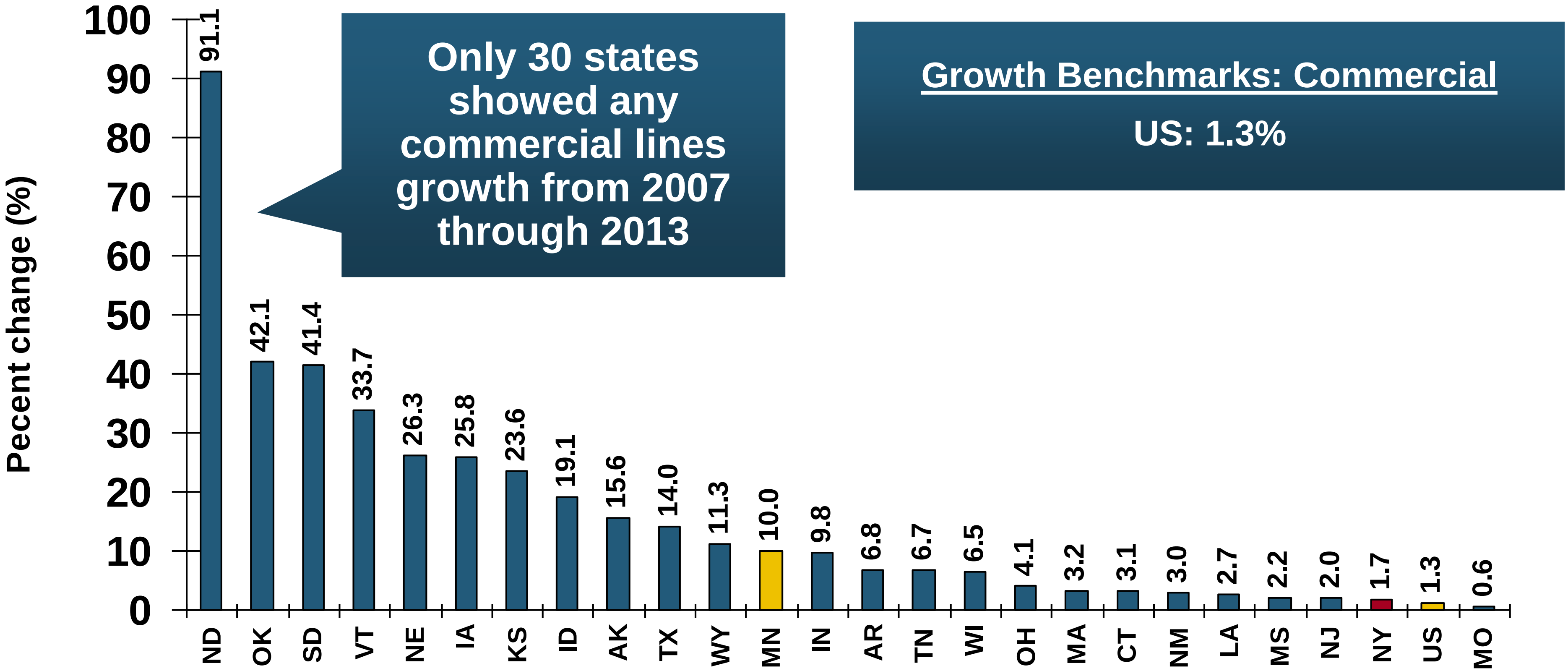
Overall Growth in Ad Spending has greatly exceeded growth in capacity (policyholder surplus) or premium growth. This suggests that there are diminishing returns to advertising.

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

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

INSURANCE INFORMATION INSTITUTE

Top 25 States

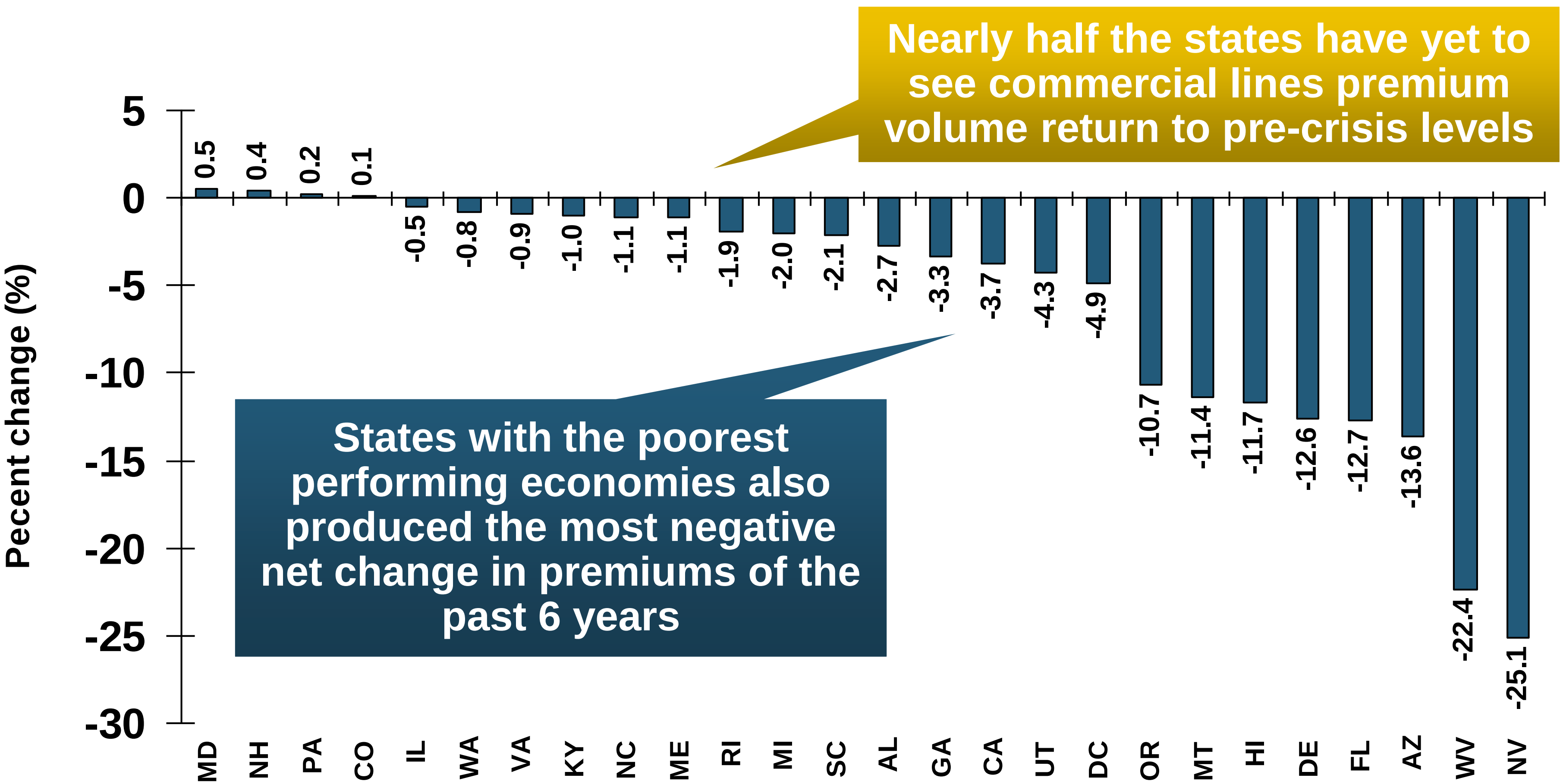


Sources: SNL Financial LLC.; Insurance Information Institute.

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

INSURANCE INFORMATION INSTITUTE

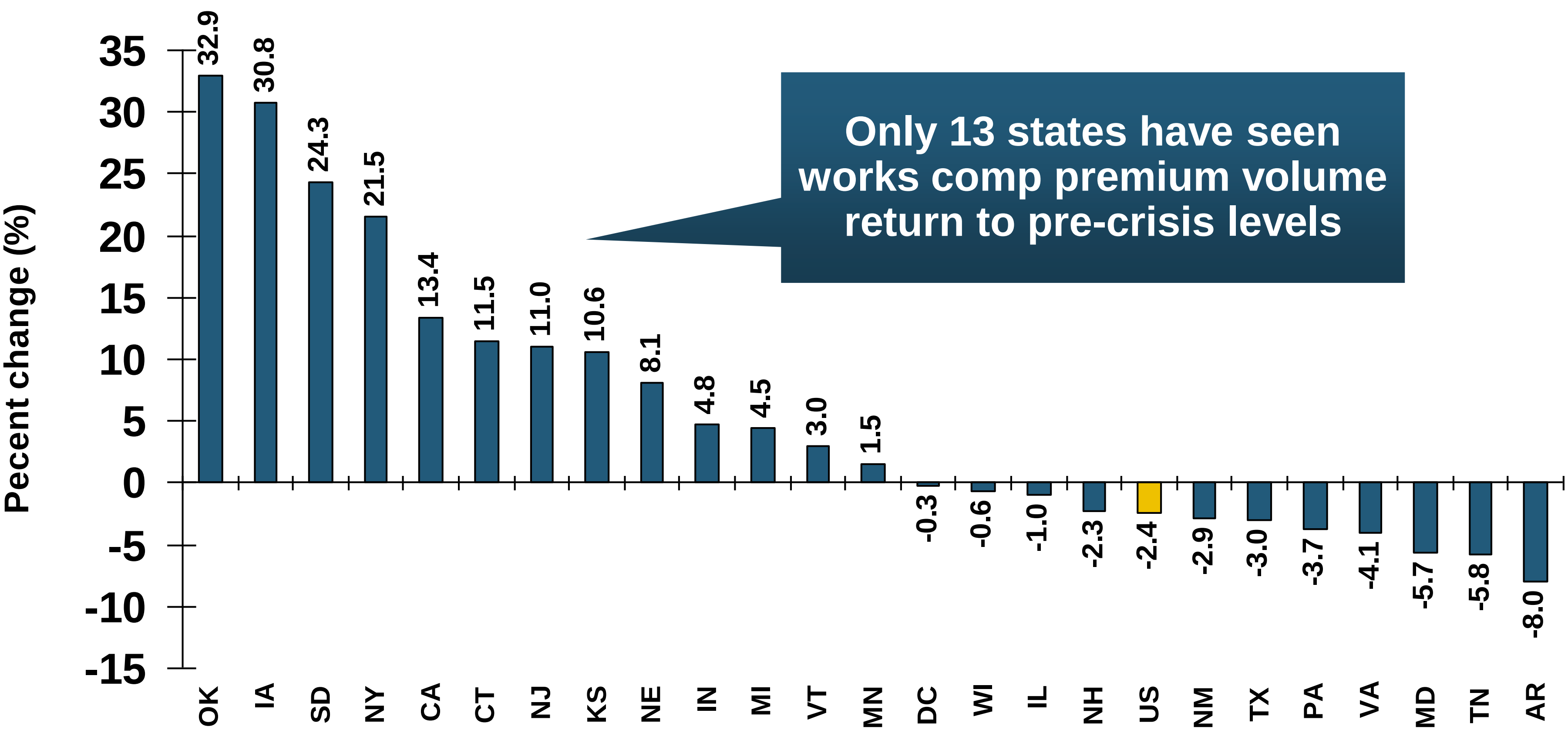
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

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

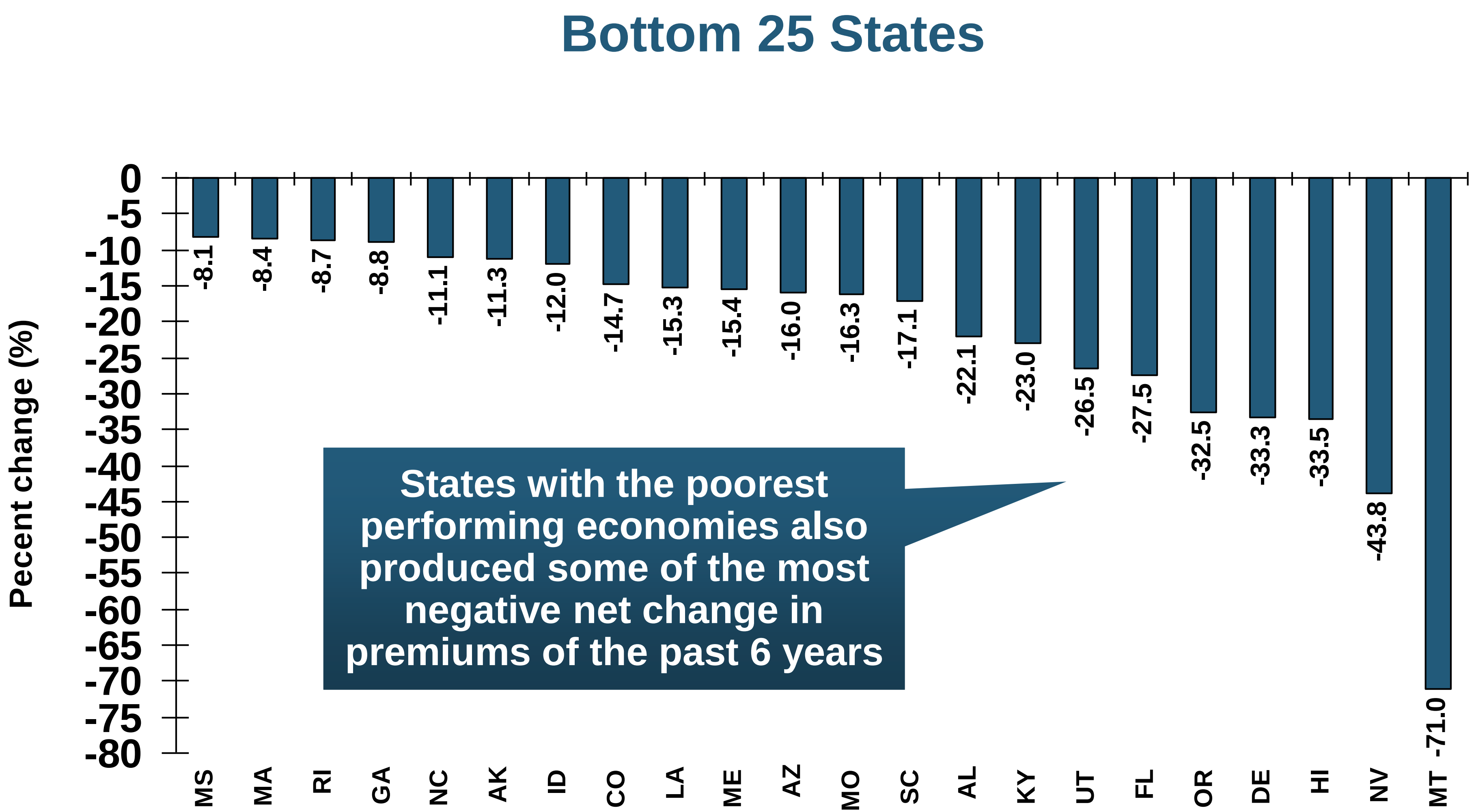
Top 25 States



*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*



*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:2004–1Q:2015)

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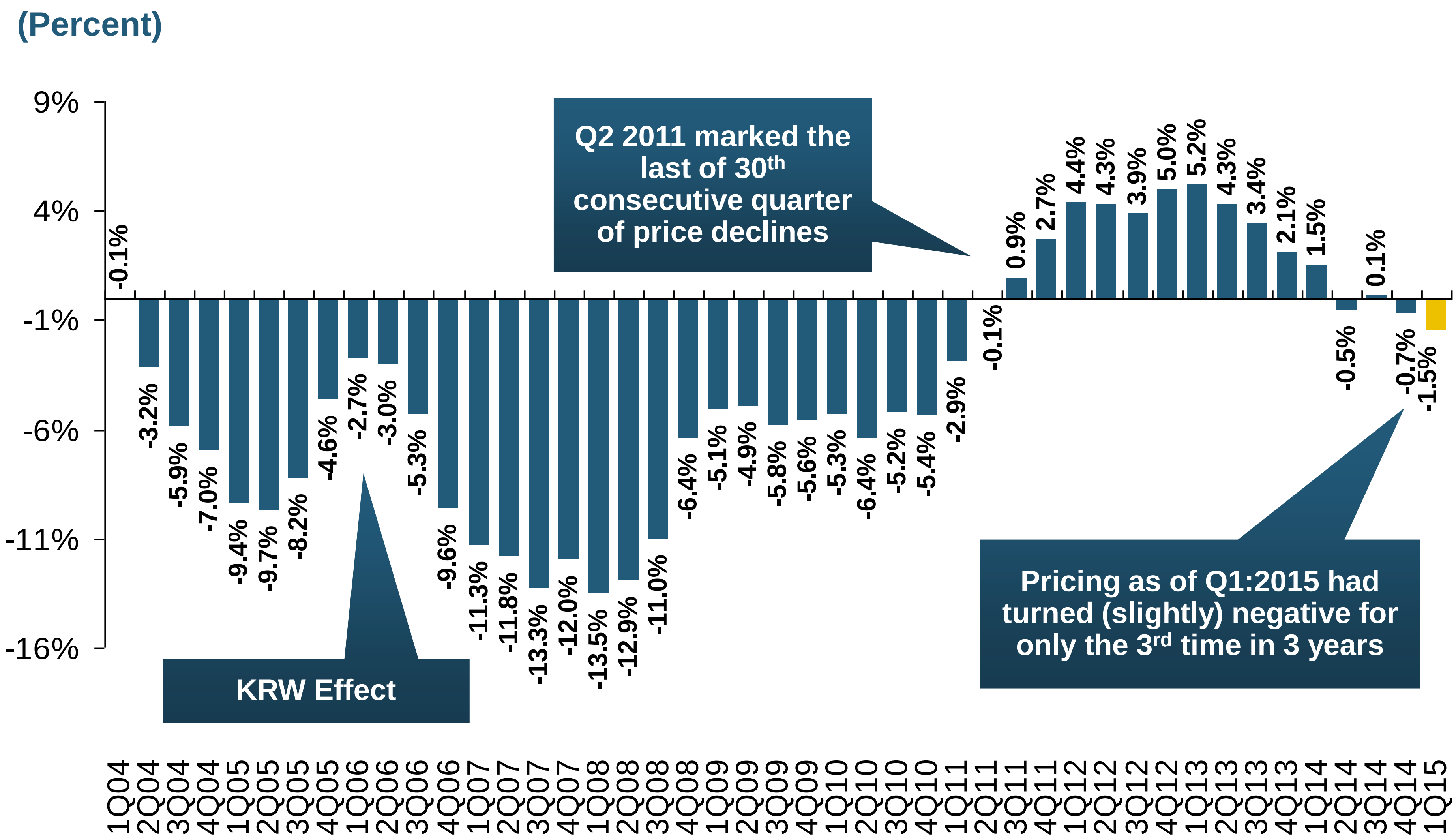
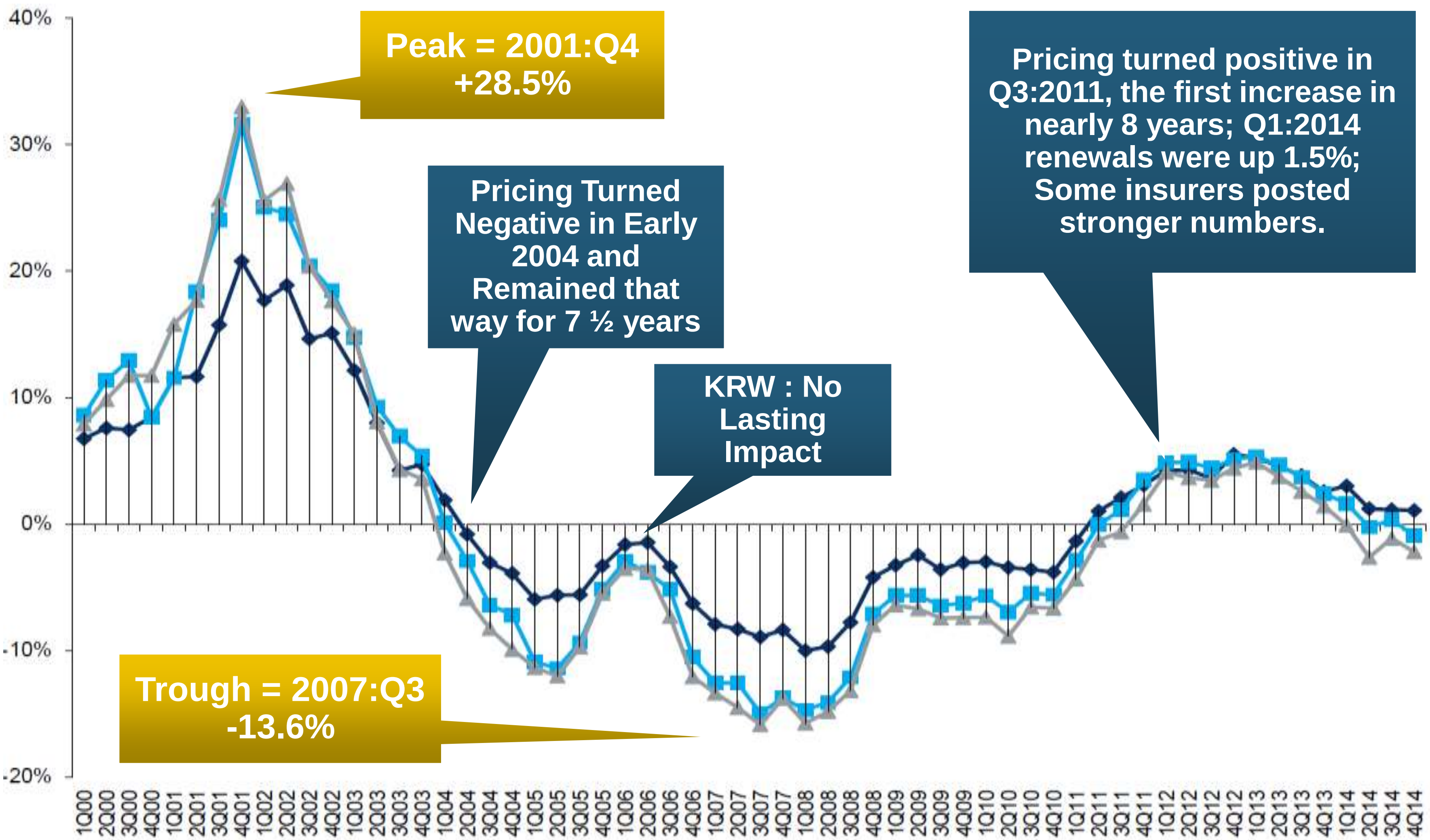


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

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

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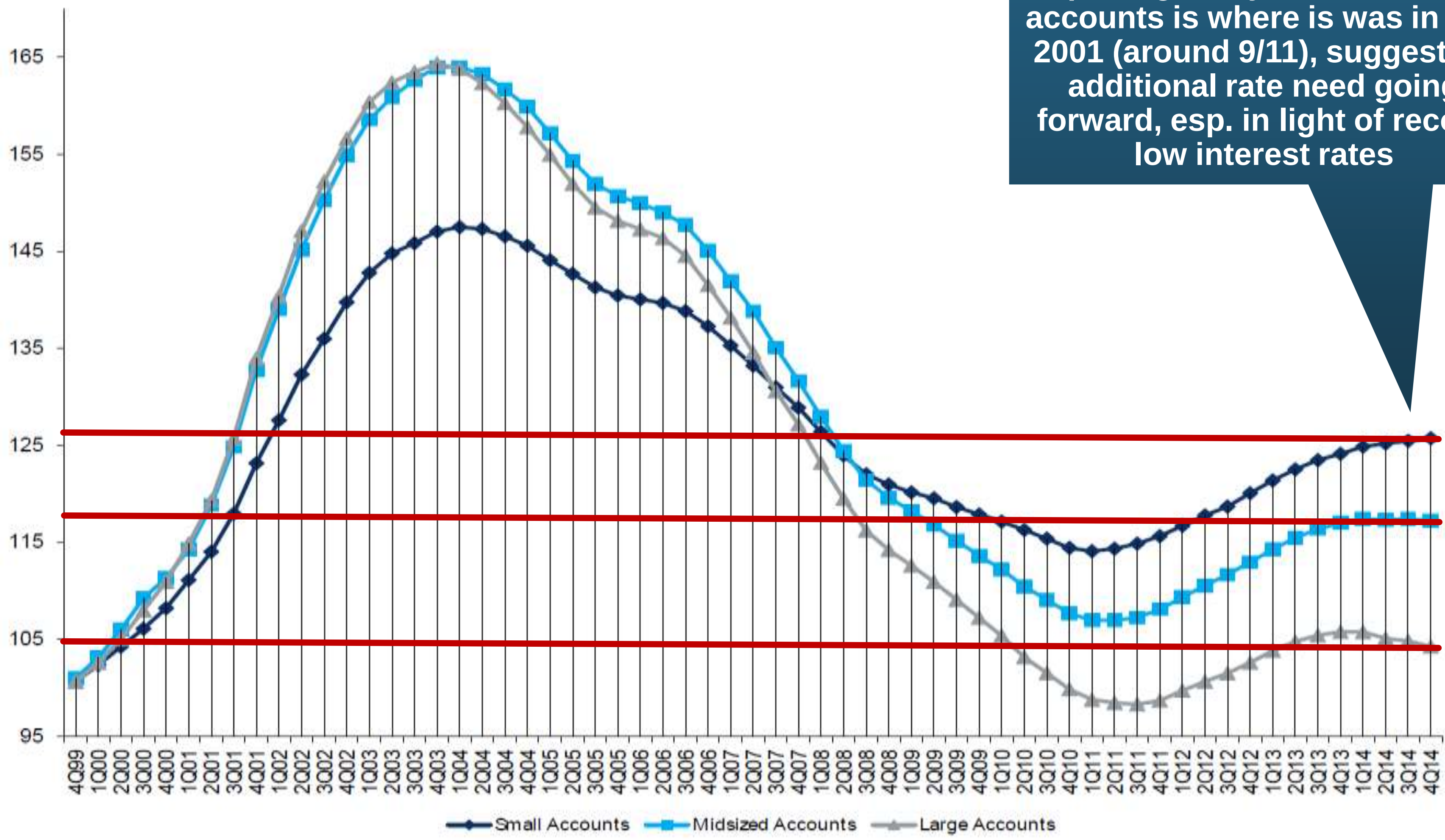
1999:Q4 = 100

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



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.

Directional Pricing Trend in Large Account P/C Renewals

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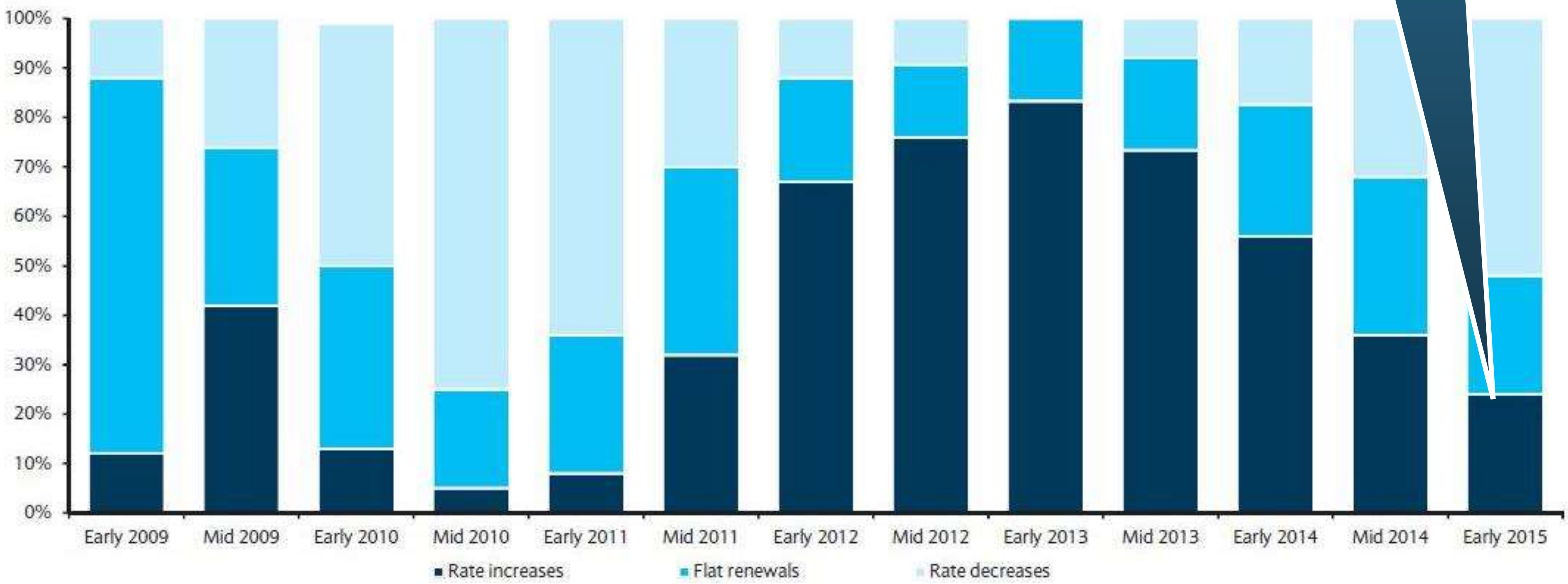
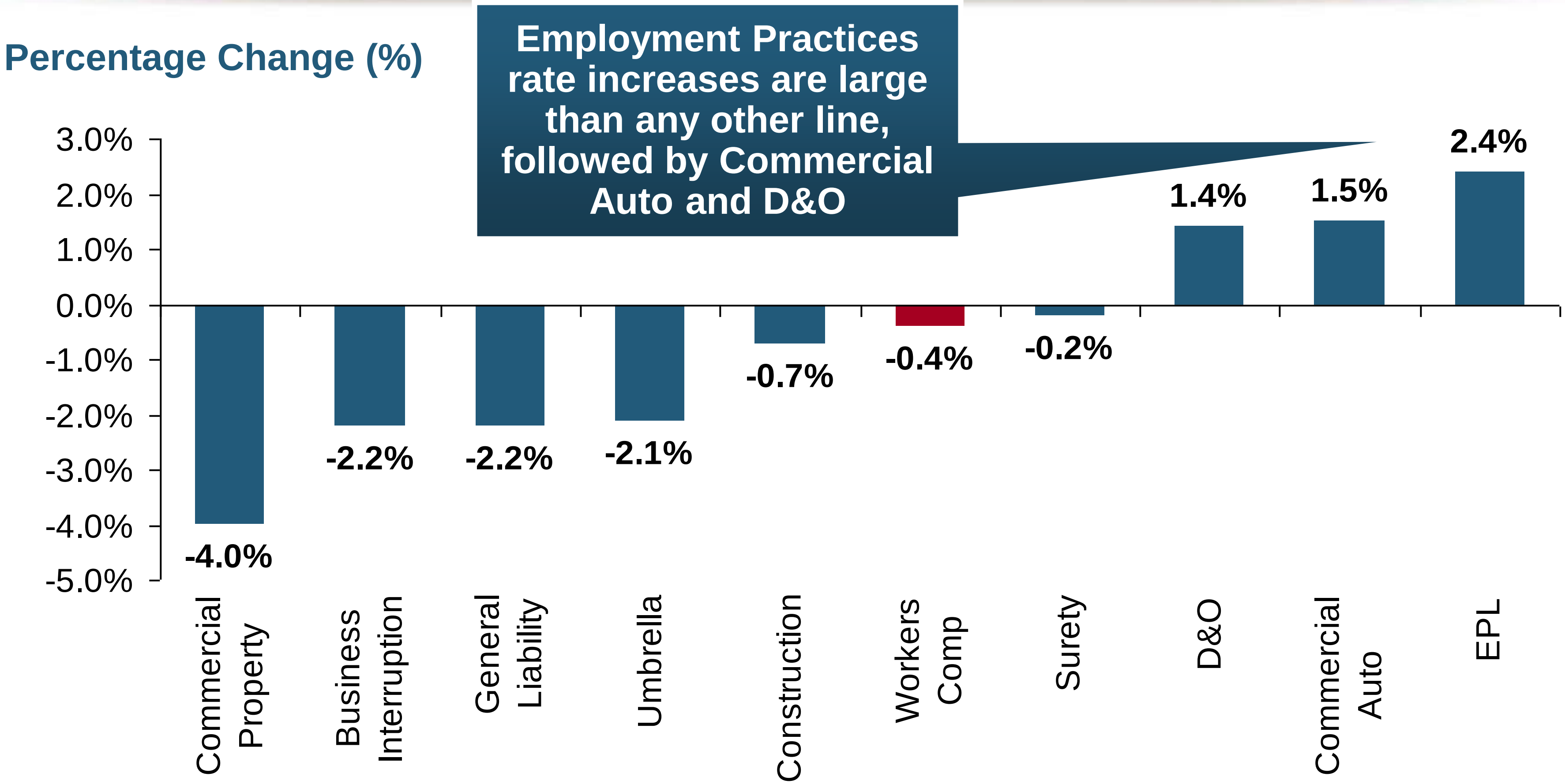
Early 2009 through Early 2015

Few accounts are seeing increases



Source: Barclays' Commercial Insurance Buyers Survey.

Change in Commercial Rate Renewals, by Line: 2015:Q1

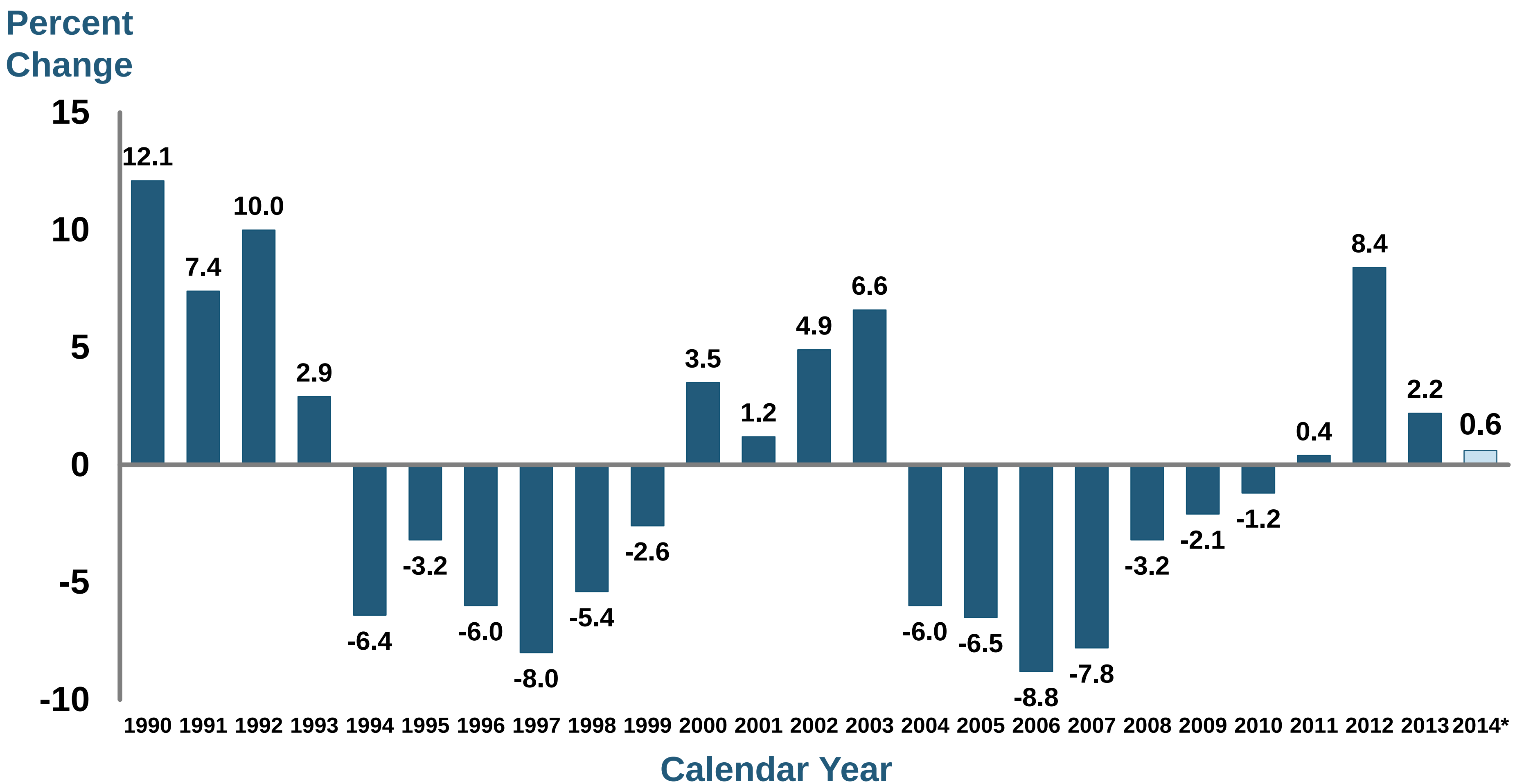


Major Commercial Lines Renewals Were Mixed to Flat in Q1:2015; EPL and Commercial Auto Led the Way

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

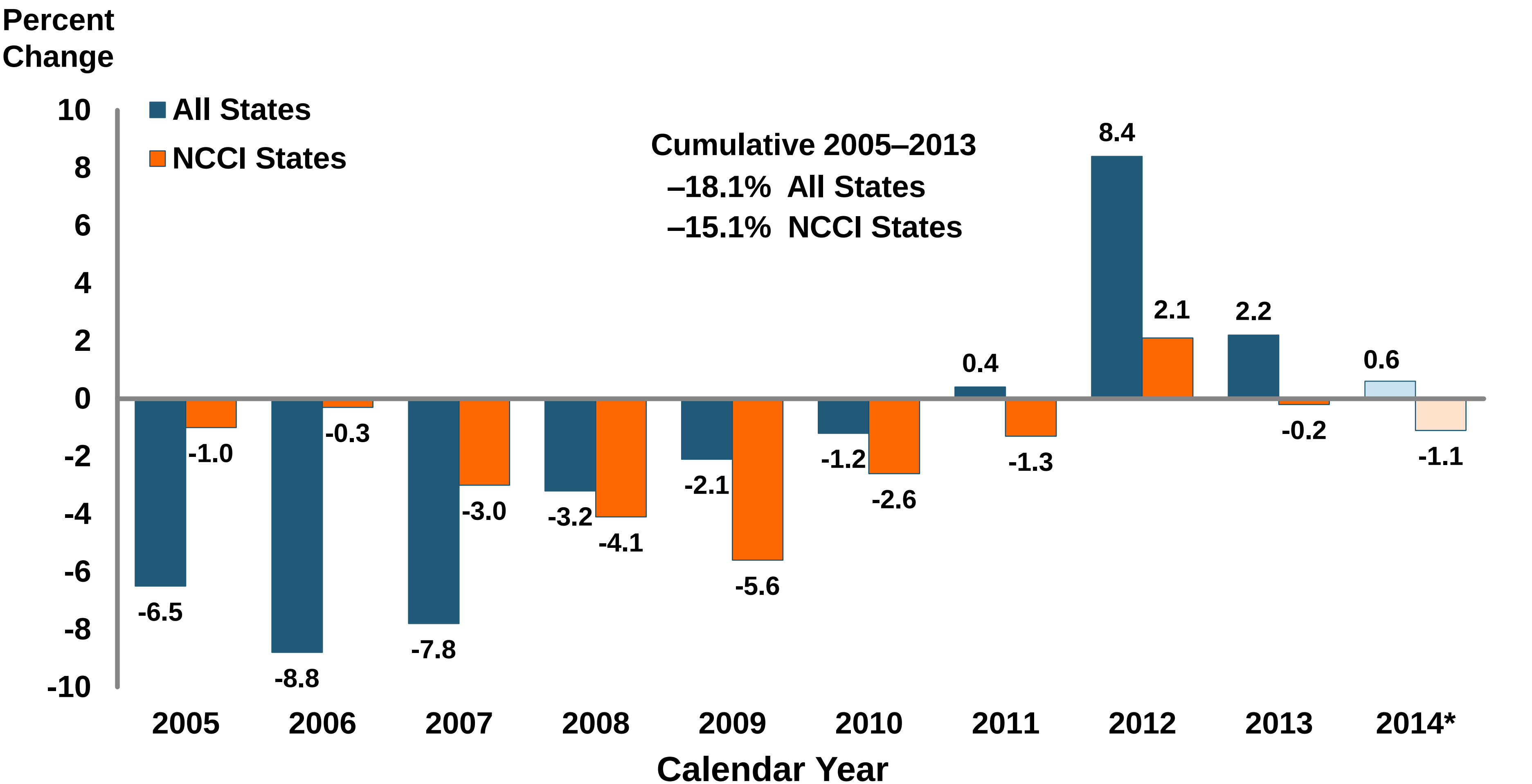
All States



*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

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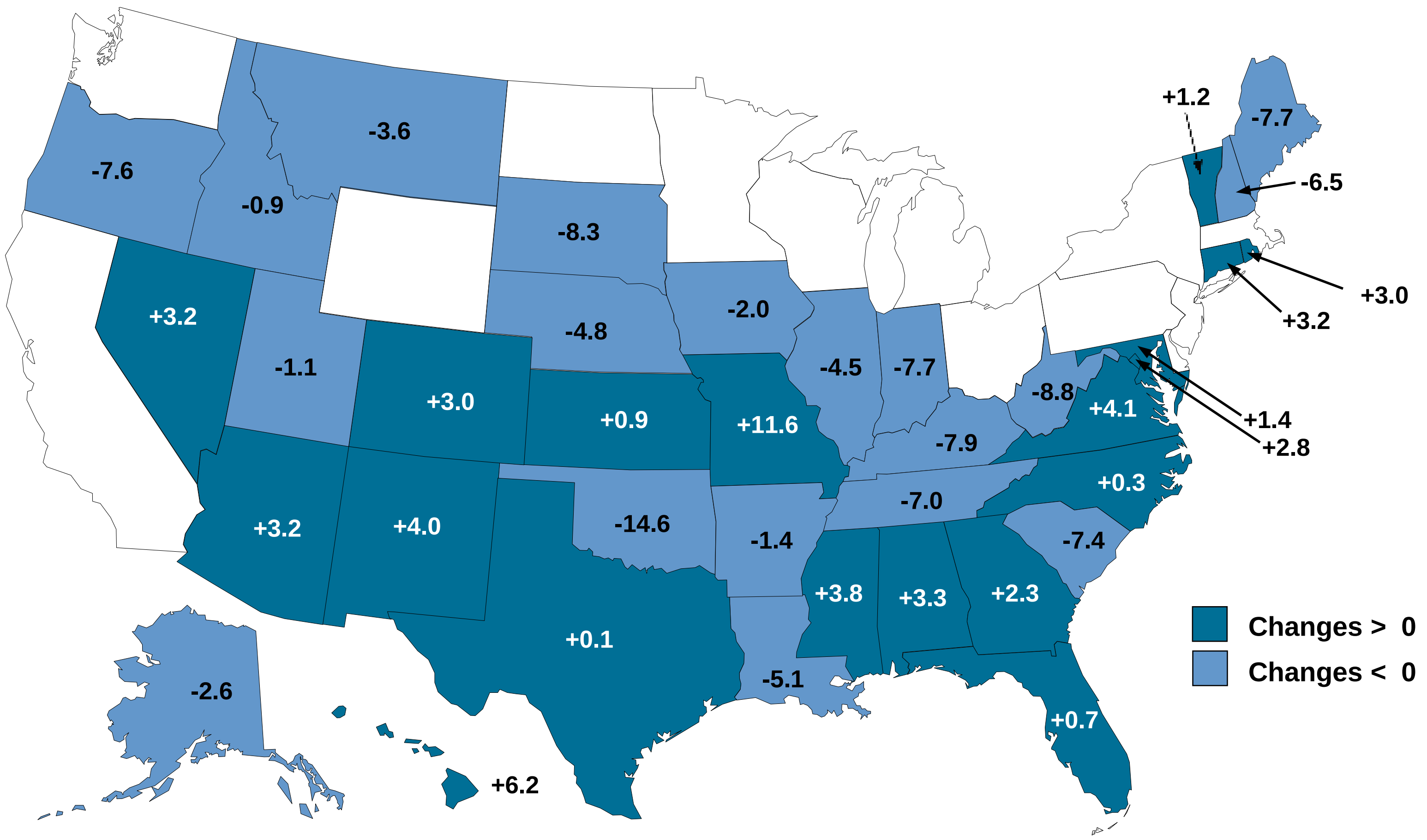
Approved or Pending Rate/Loss Cost Changes
Excludes Law-Only Filings



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*

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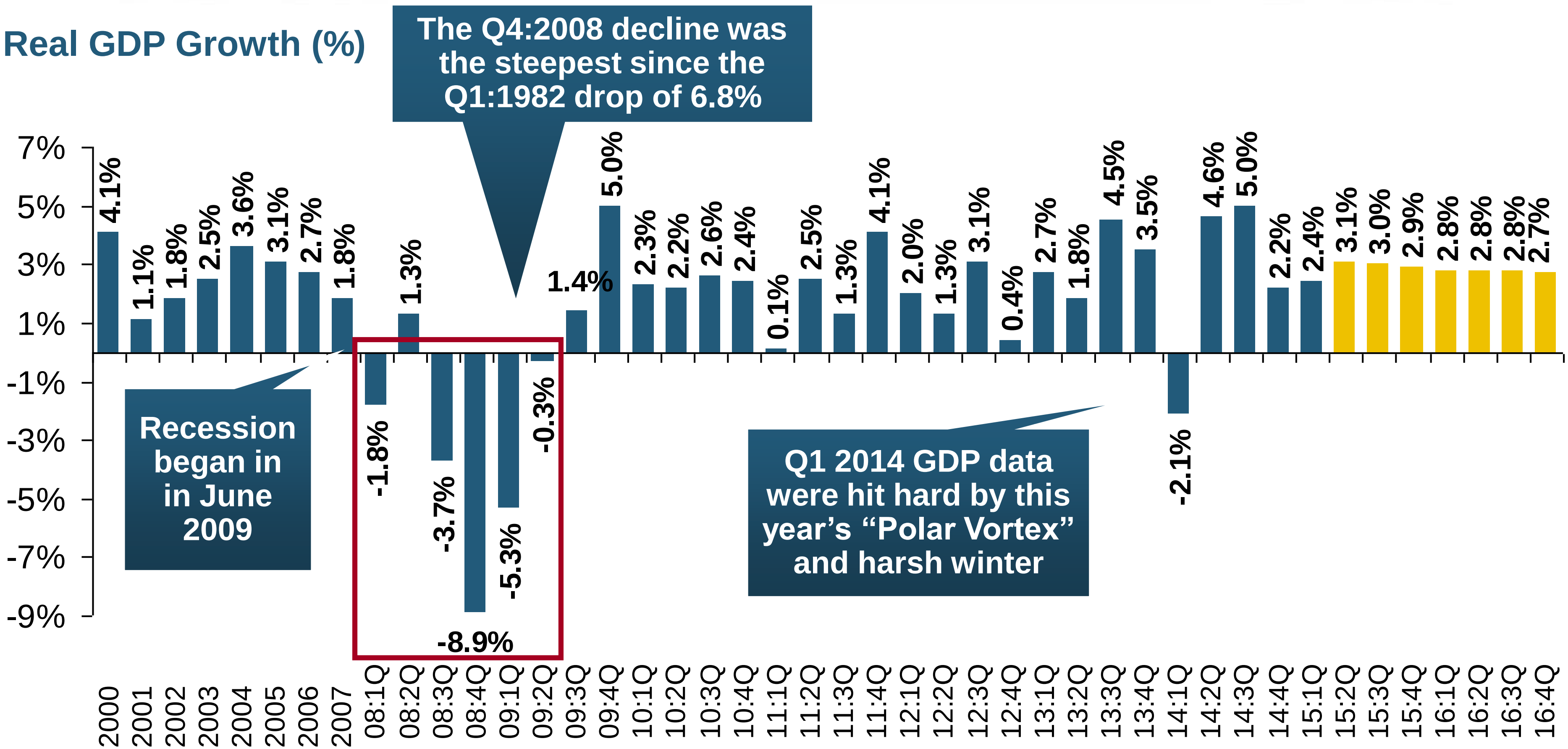

Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/15; Insurance Information Institute.

State-by-State Leading Indicators through August 2015

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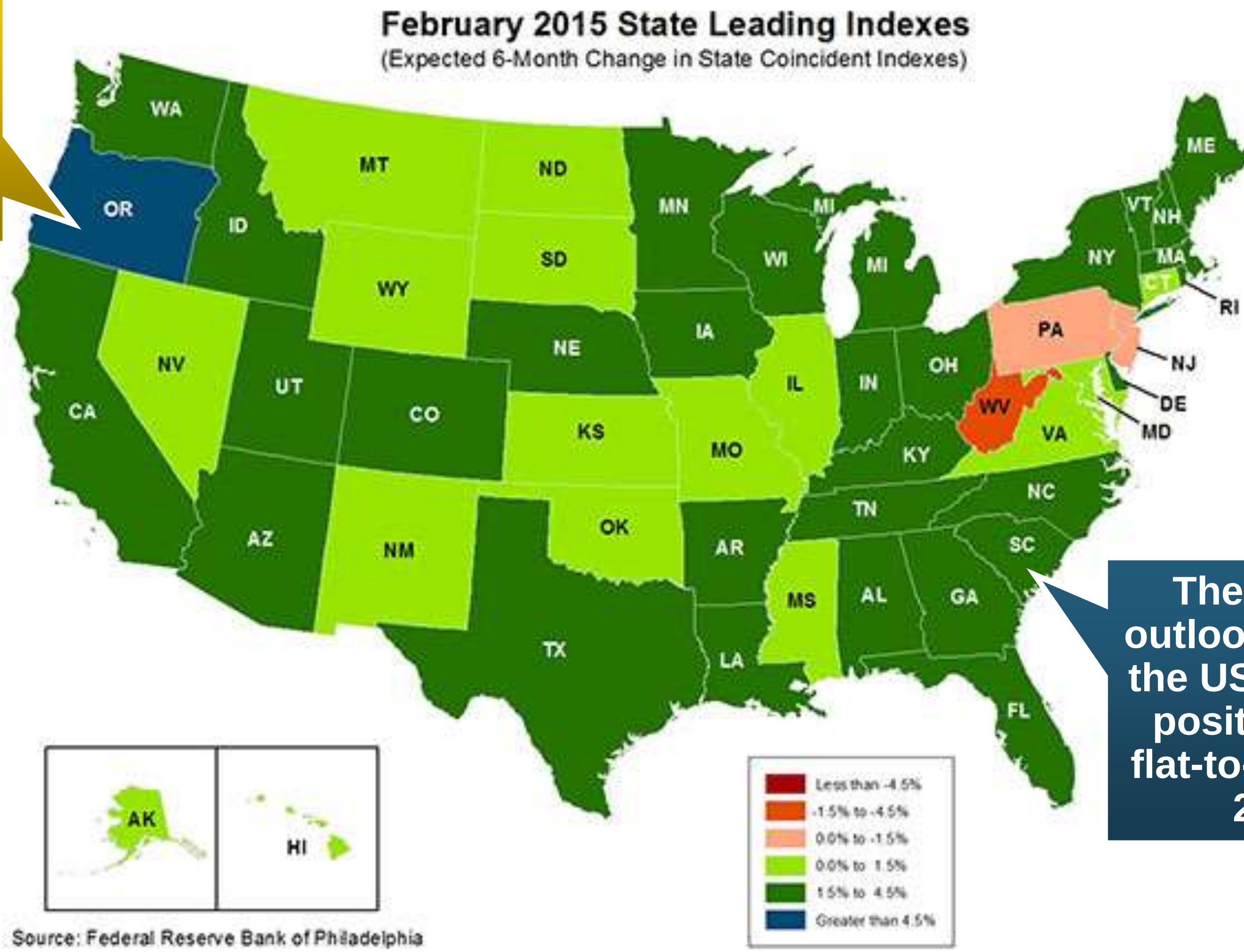
Growth in the West is finally beginning to pick up



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

Sources: Federal Reserve Bank of Philadelphia at http://www.philadelphiafed.org/index.cfm ;Insurance Information Institute.

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

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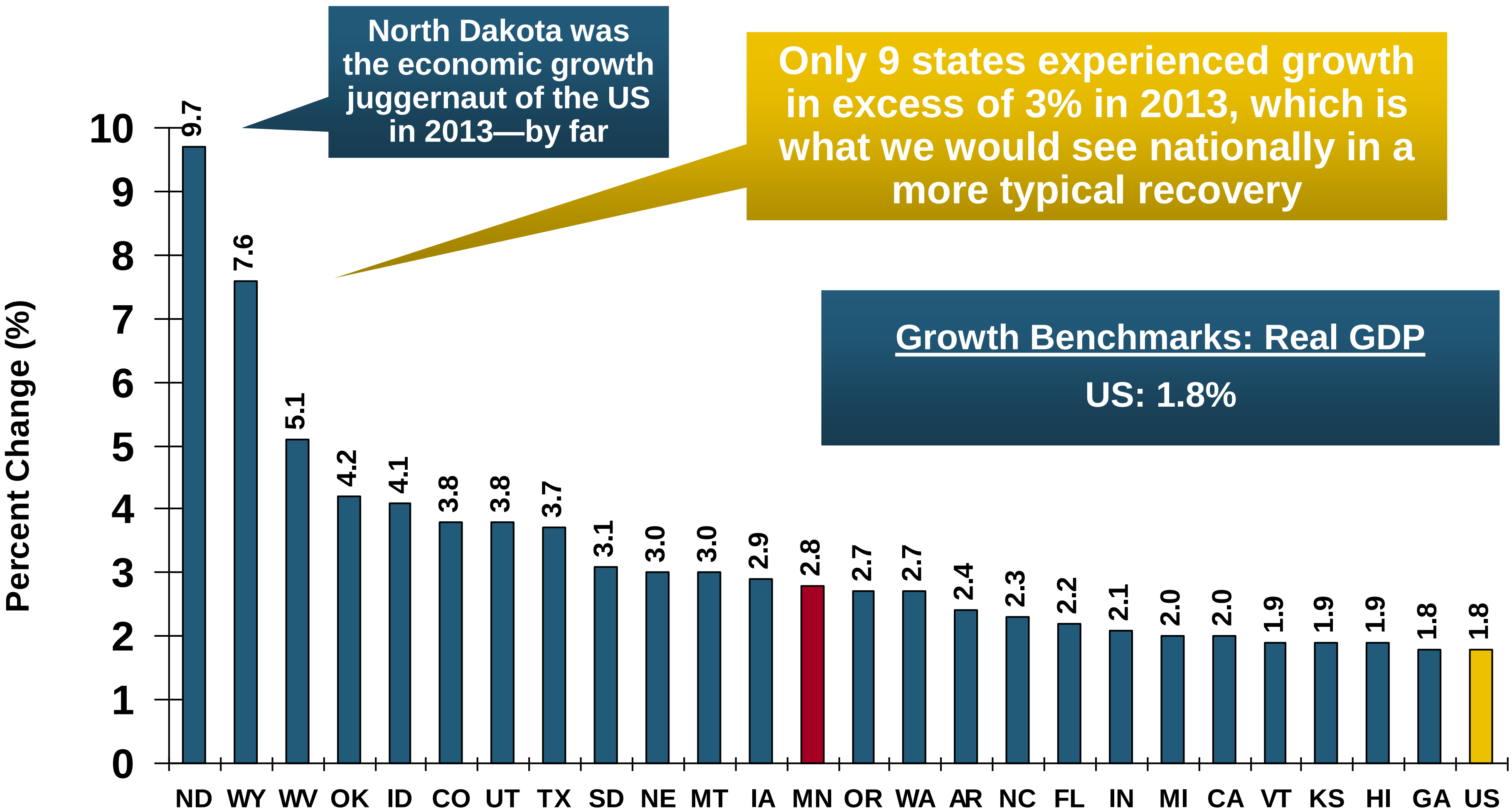
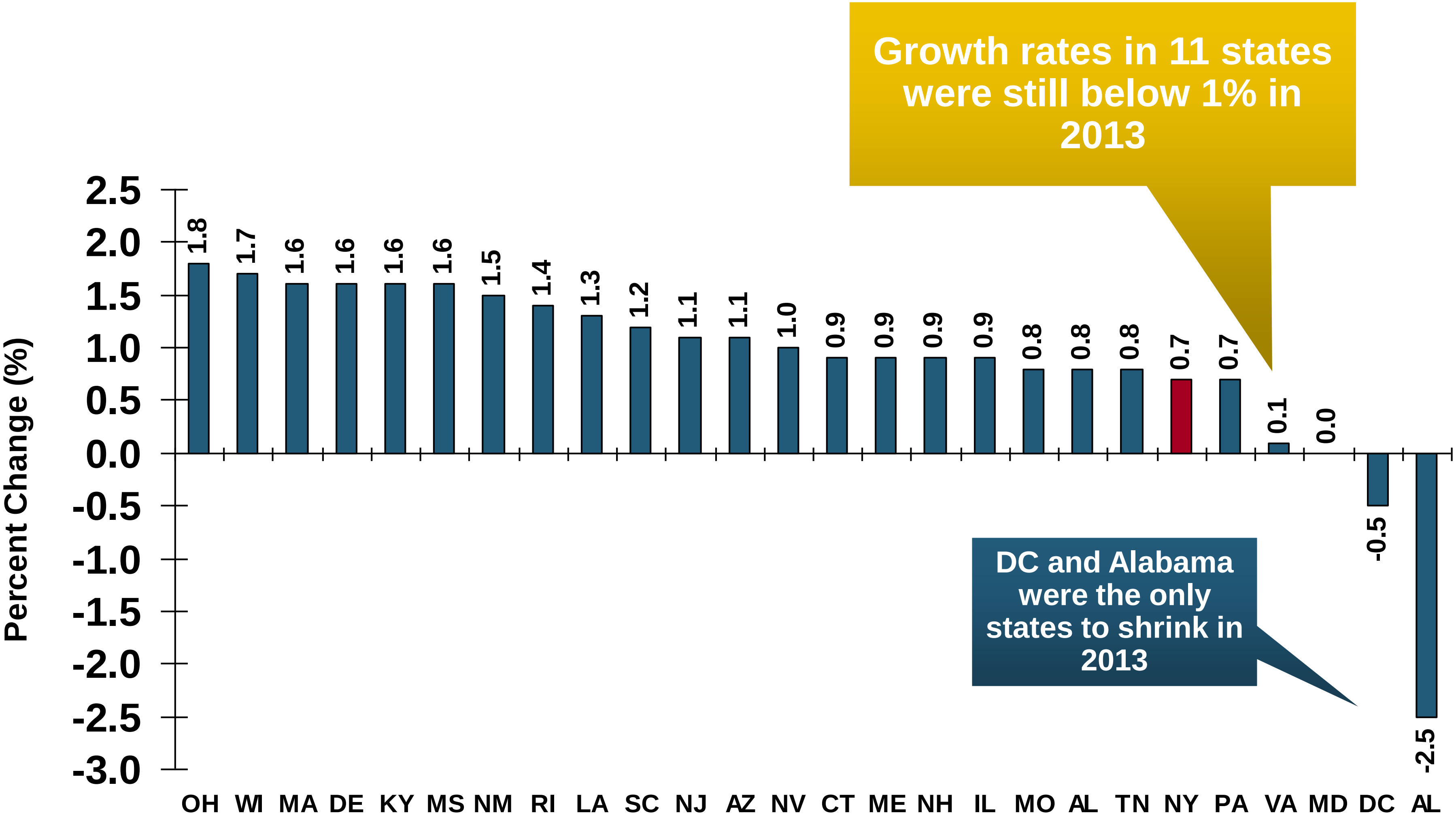


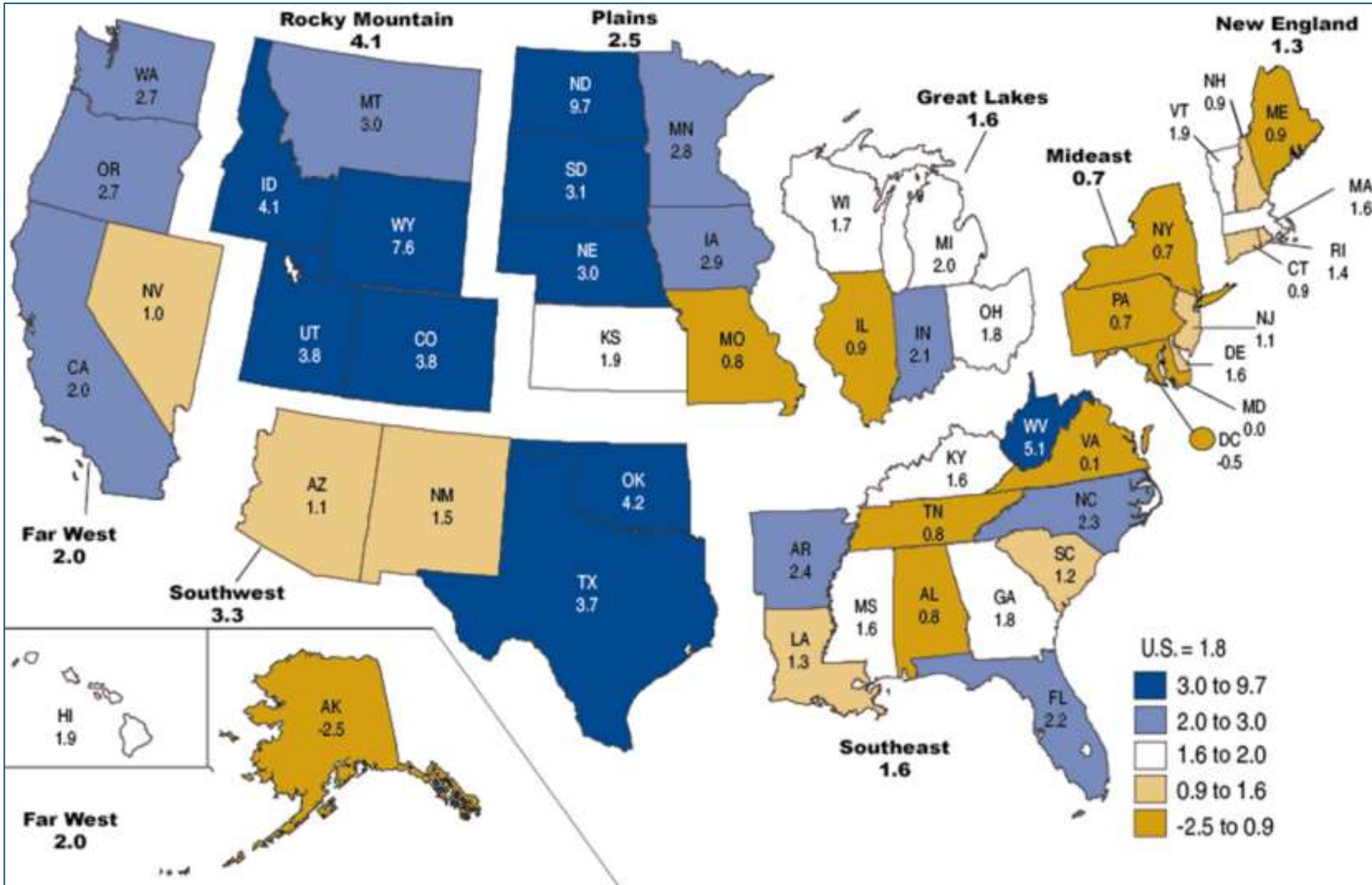
Sources: U.S. Bureau of Economic Analysis; Insurance Information Institute.

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



Sources: US Bureau of Economic Analysis; Insurance Information Institute.

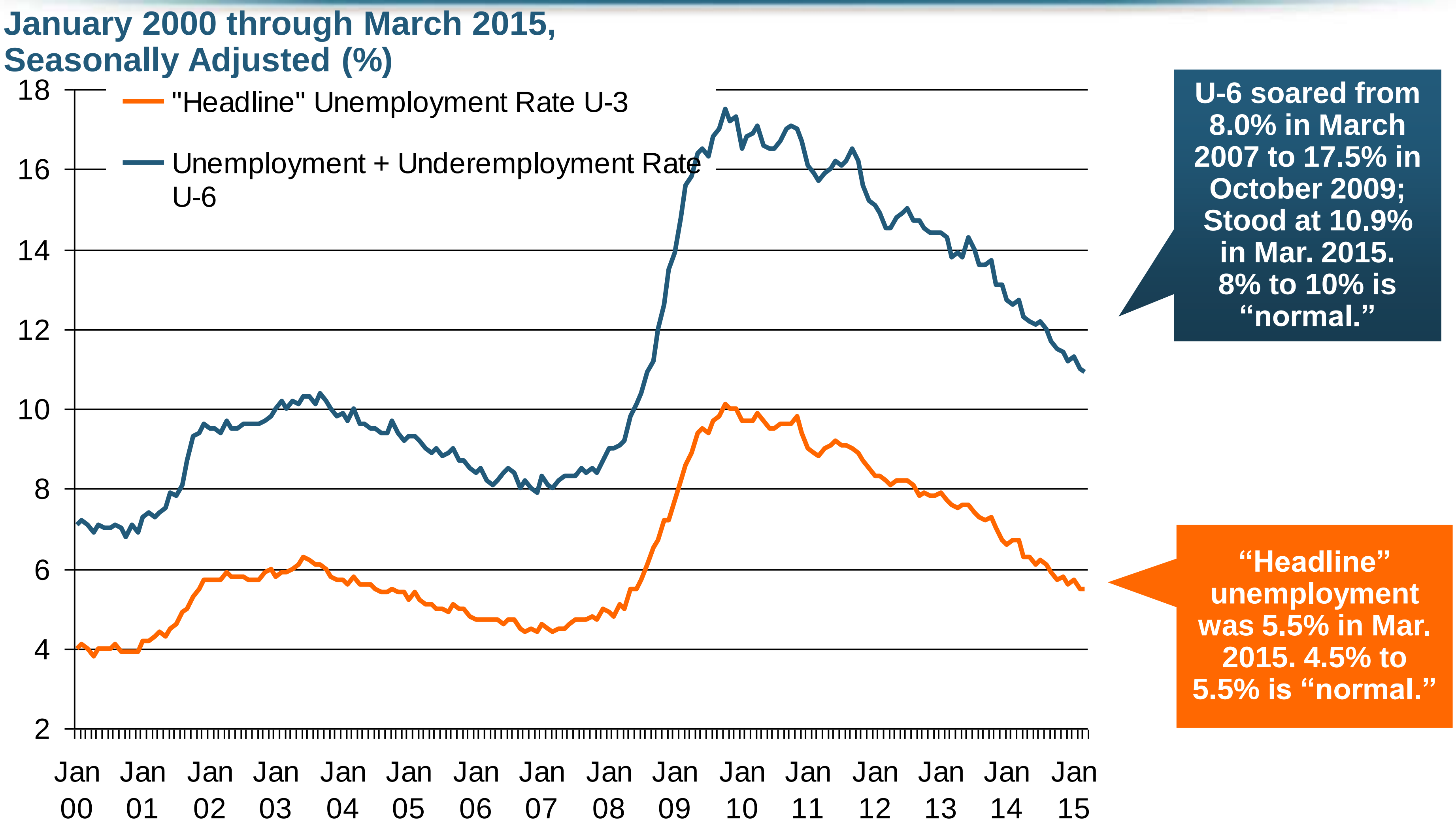
Percent Change in Real GDP by State, 2013



Sources: US Bureau of Economic Analysis; Insurance Information Institute.

Unemployment and Underemployment Rates: Still Too High, But Falling

INSURANCE INFORMATION INSTITUTE



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

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

Consumer Sentiment Survey *(1966 = 100)*

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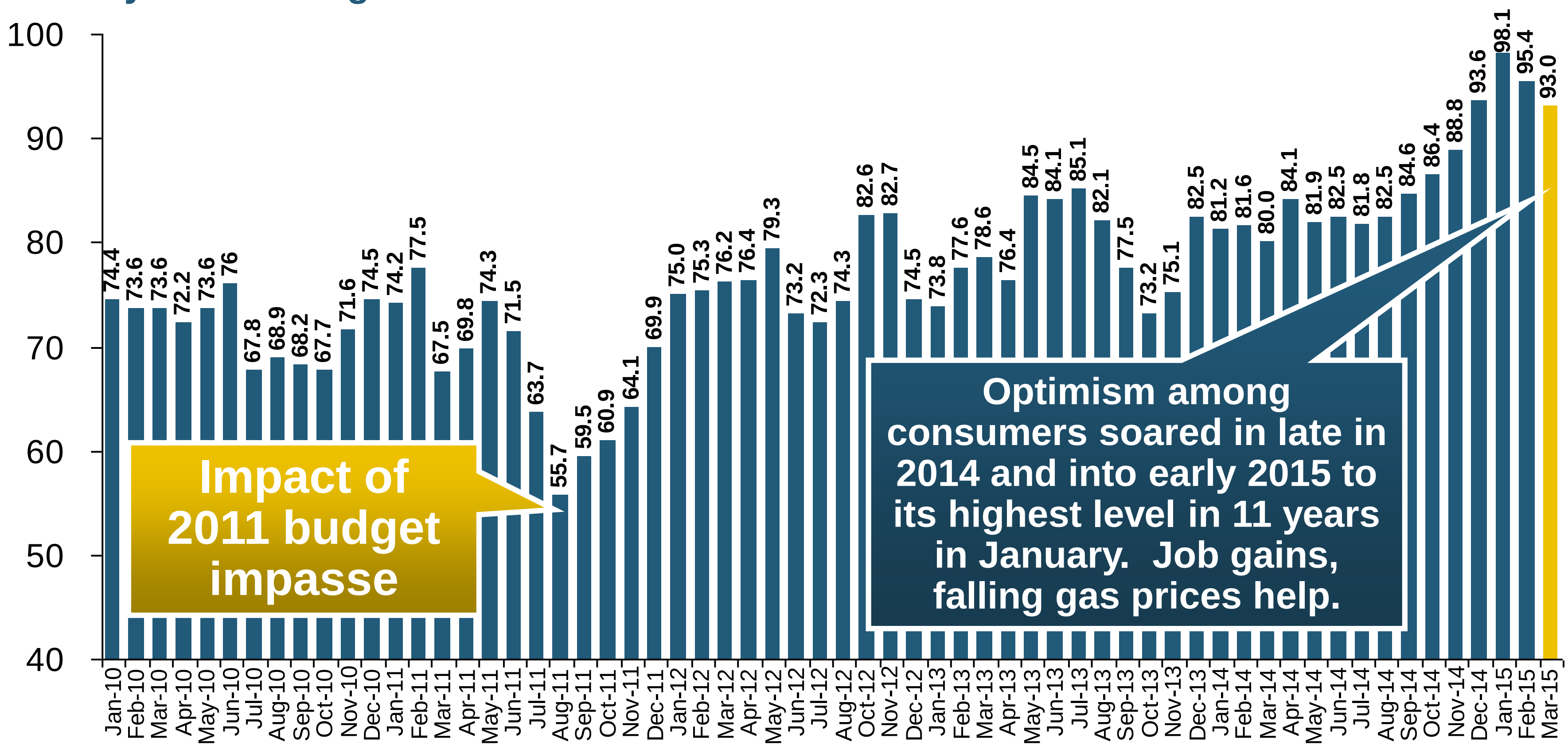
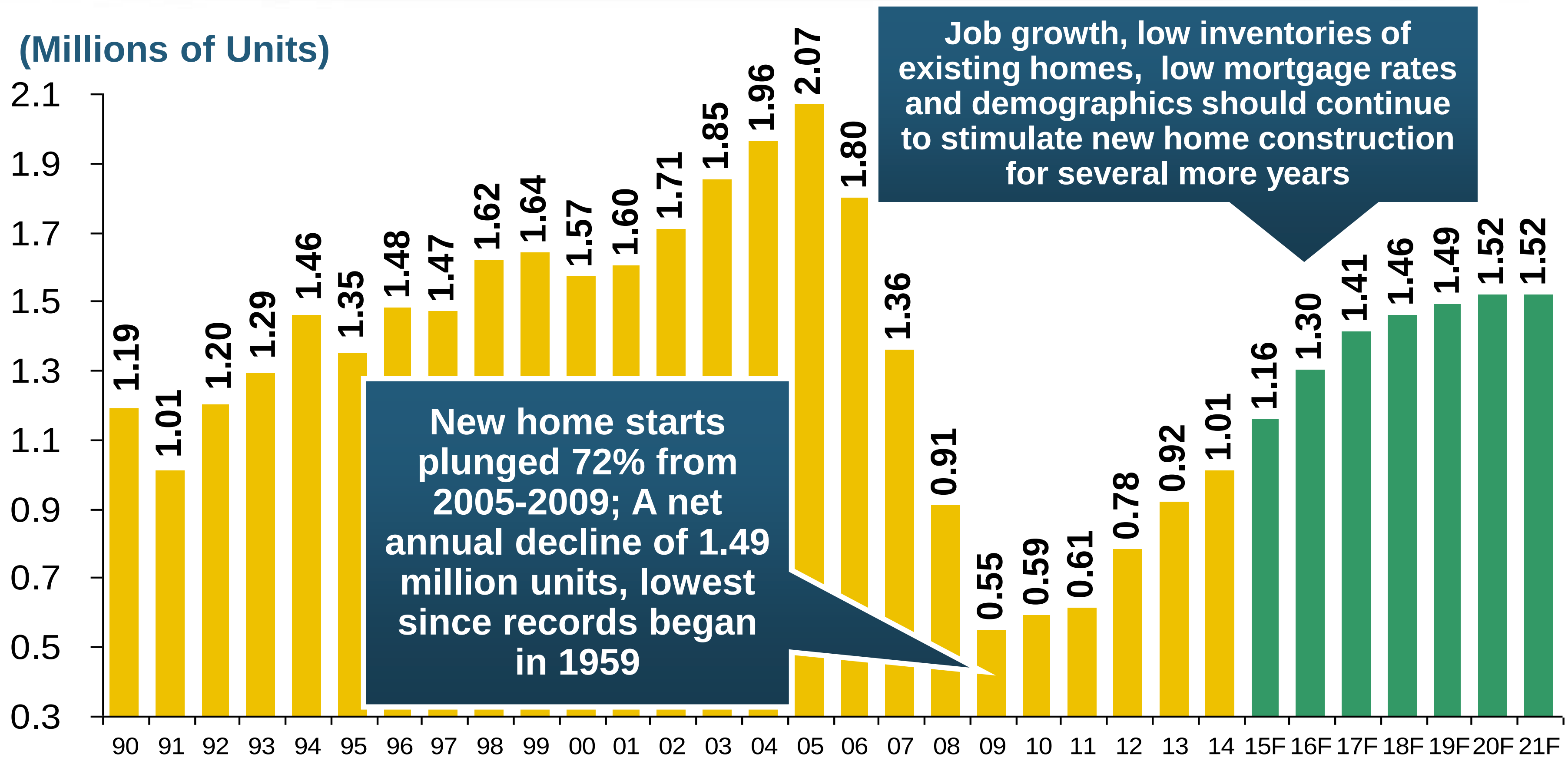
January 2010 through March 2015



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

Source: University of Michigan; 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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (3/15); Insurance Information Institute.

Auto/Light Truck Sales, 1999-2021F

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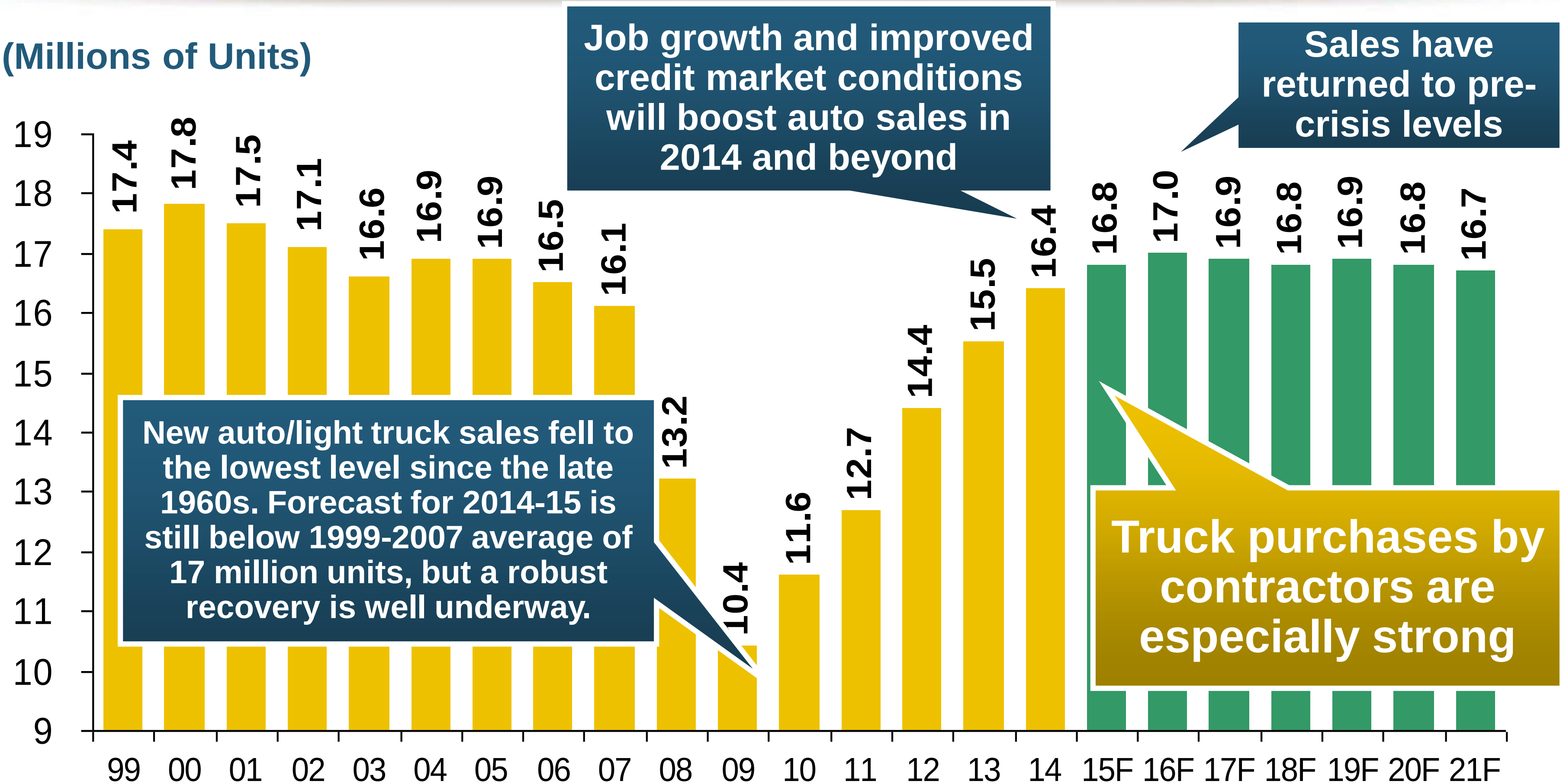
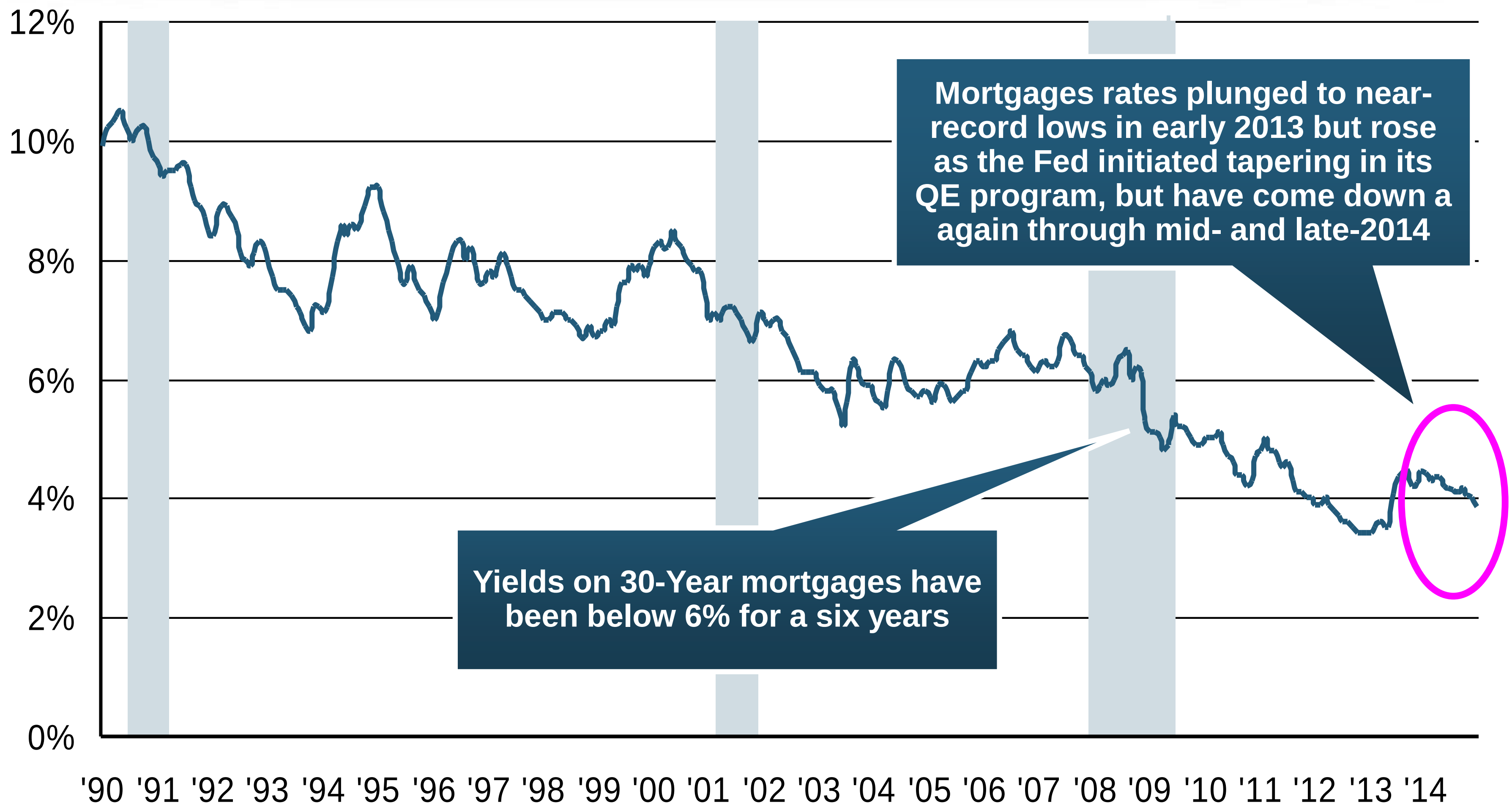


Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/15 and 3/15); Insurance Information Institute.

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



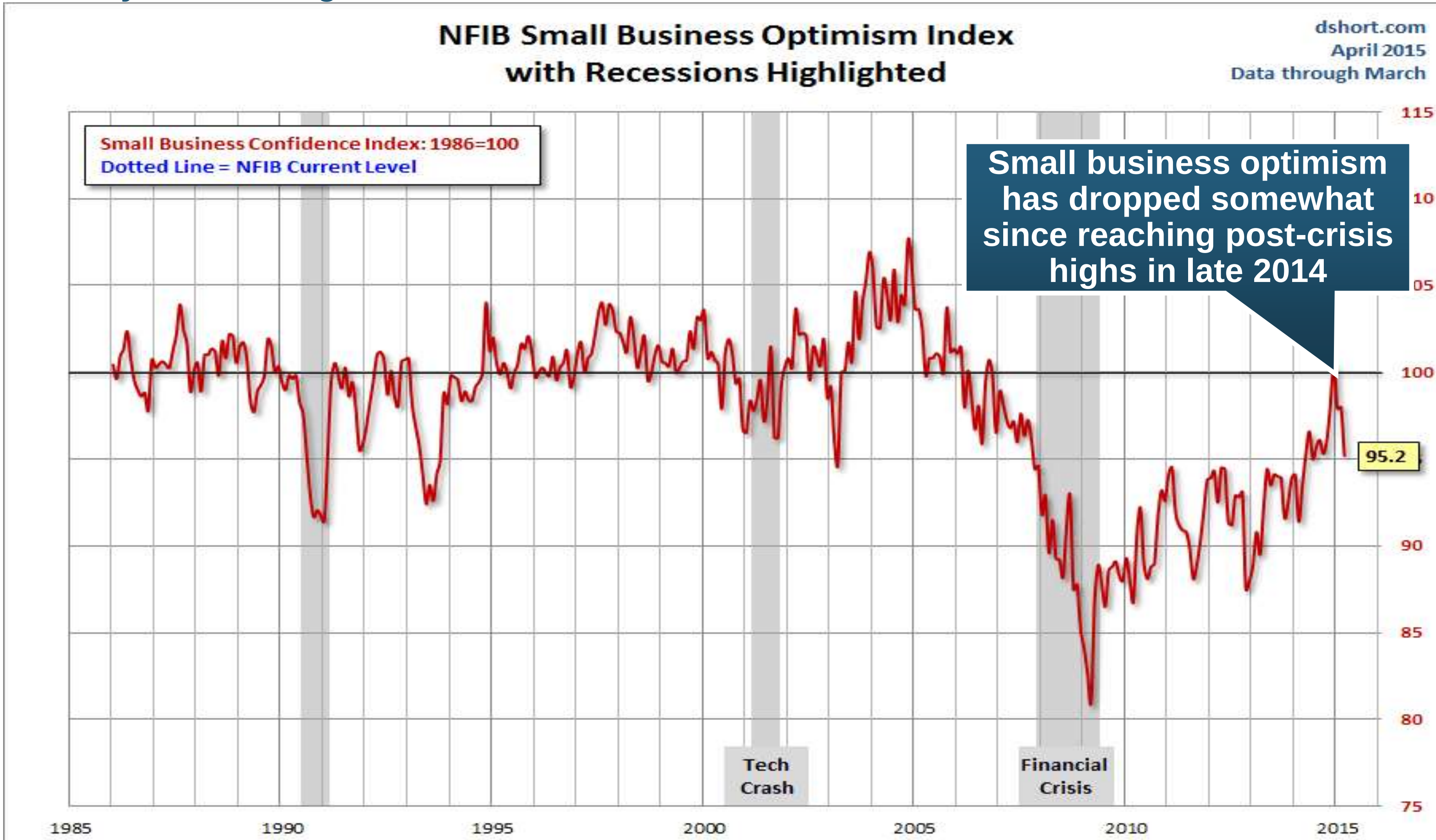
Mortgage interest rates remain low by historical standards, aiding the housing recovery. Changes in Fed policy could push rates up modestly later in 2015.

*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 March 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)

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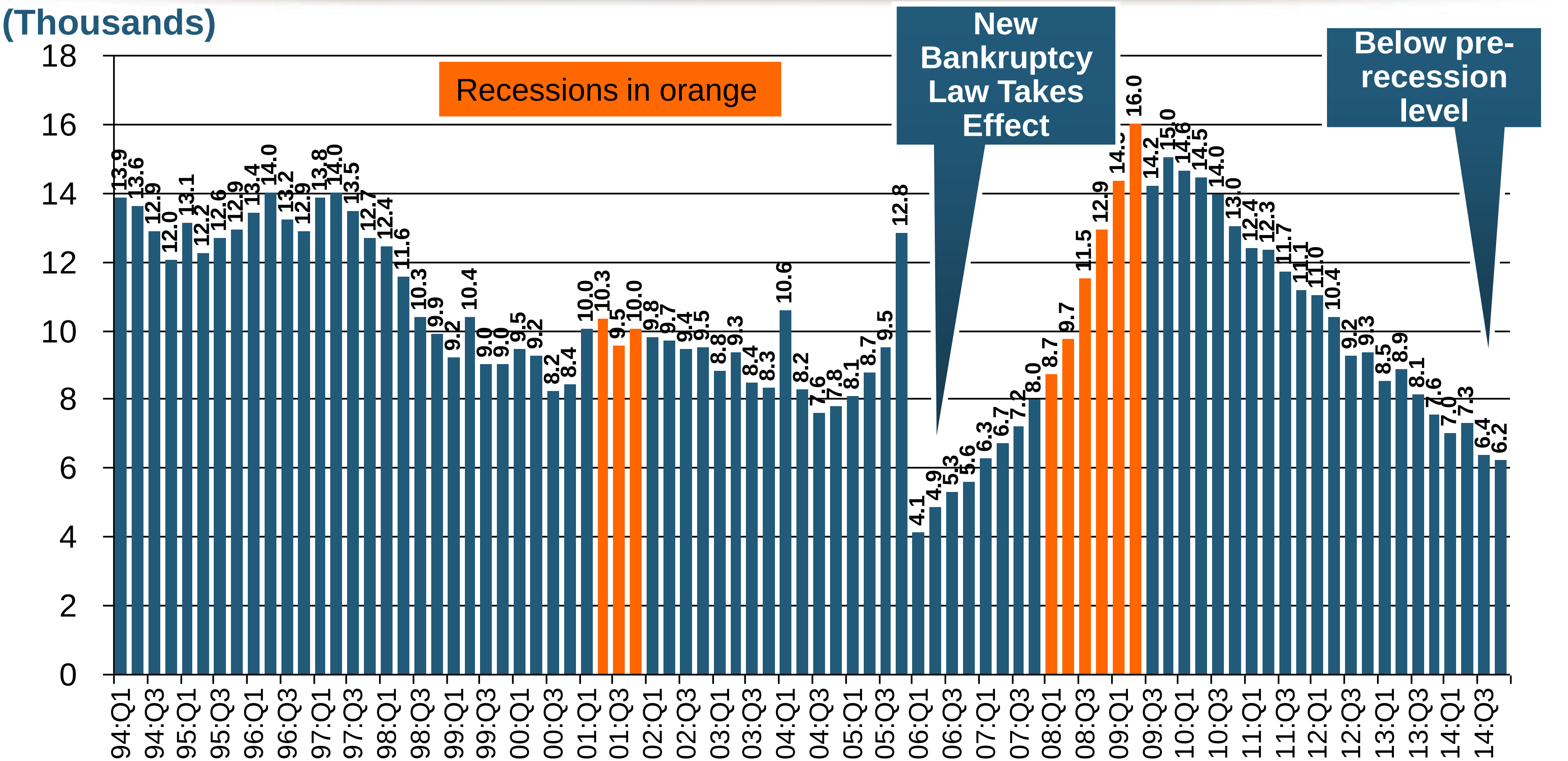
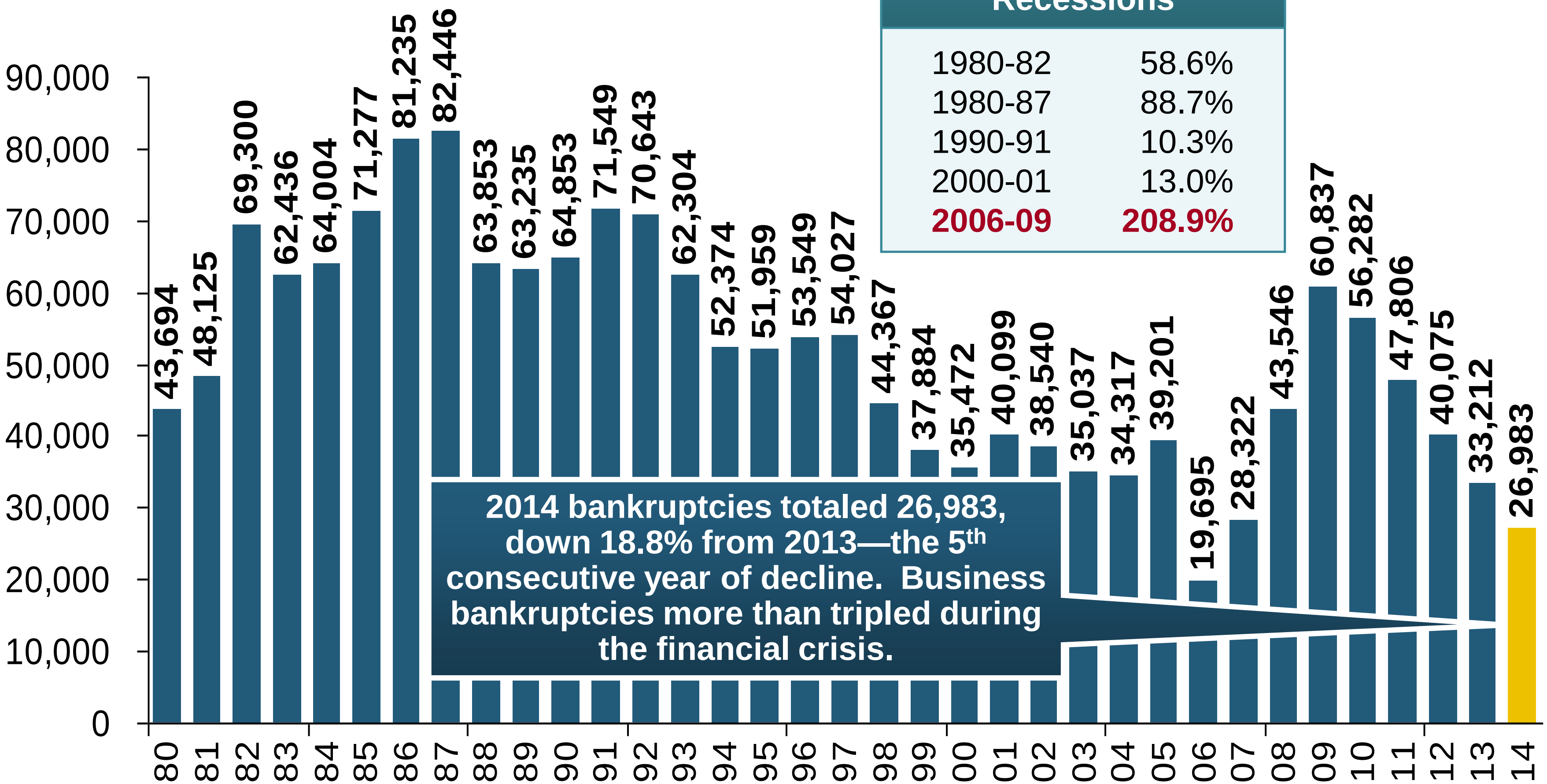


Business bankruptcies in 2014 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Sources: U.S. Courts at http://www.uscourts.gov/; Insurance Information Institute

Business Bankruptcy Filings, 1980-2014

INSURANCE INFORMATION INSTITUTE

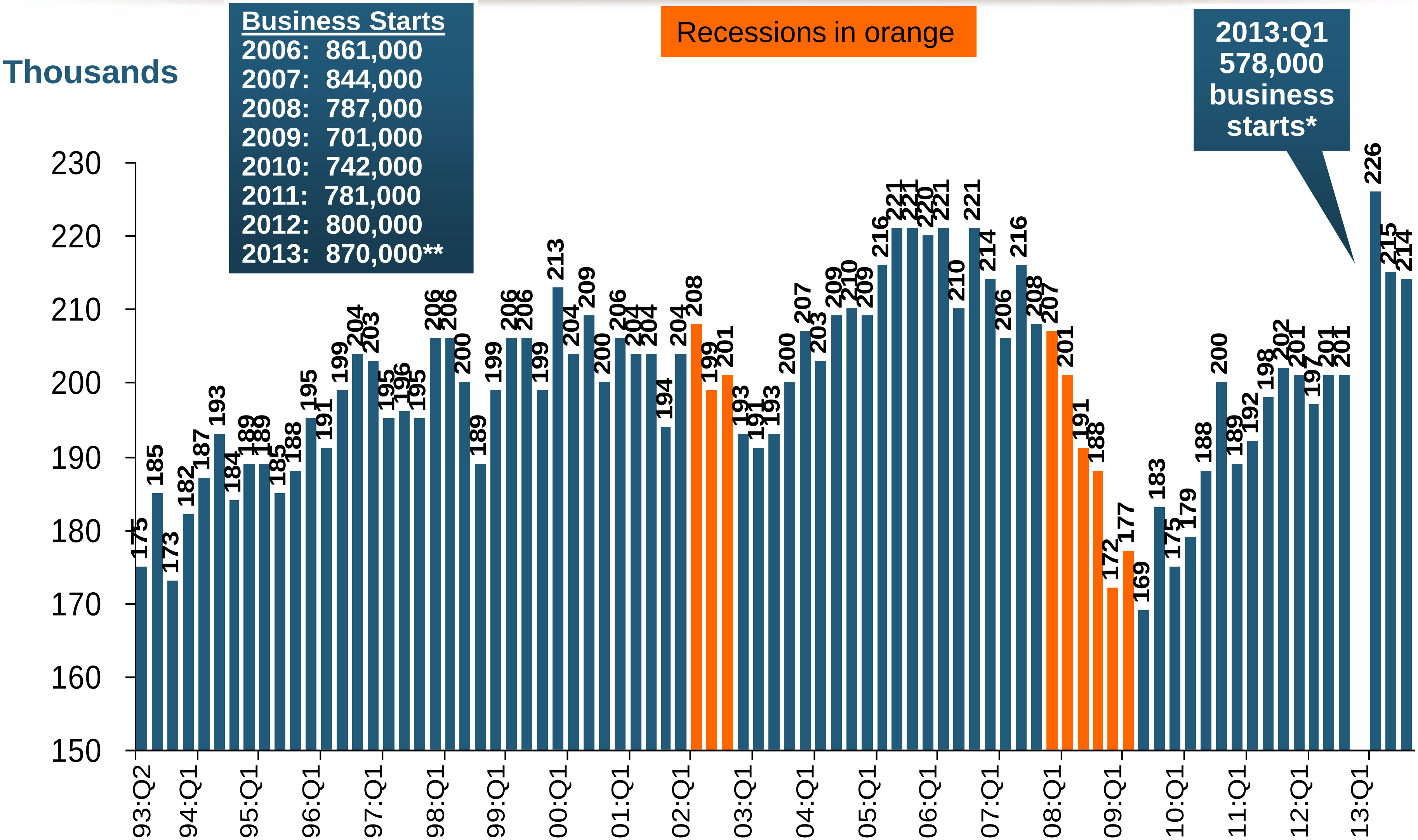


% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%**

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

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)

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Labor Markets Trends:

RECOVERY CONTINUES

2014

Largest Increase in Jobs Since 1997

Unemployment Rate Fell to Lowest Level Since 2008

Payrolls Expanded to Record High

Unemployment and Underemployment Rates: Still Too High, But Falling

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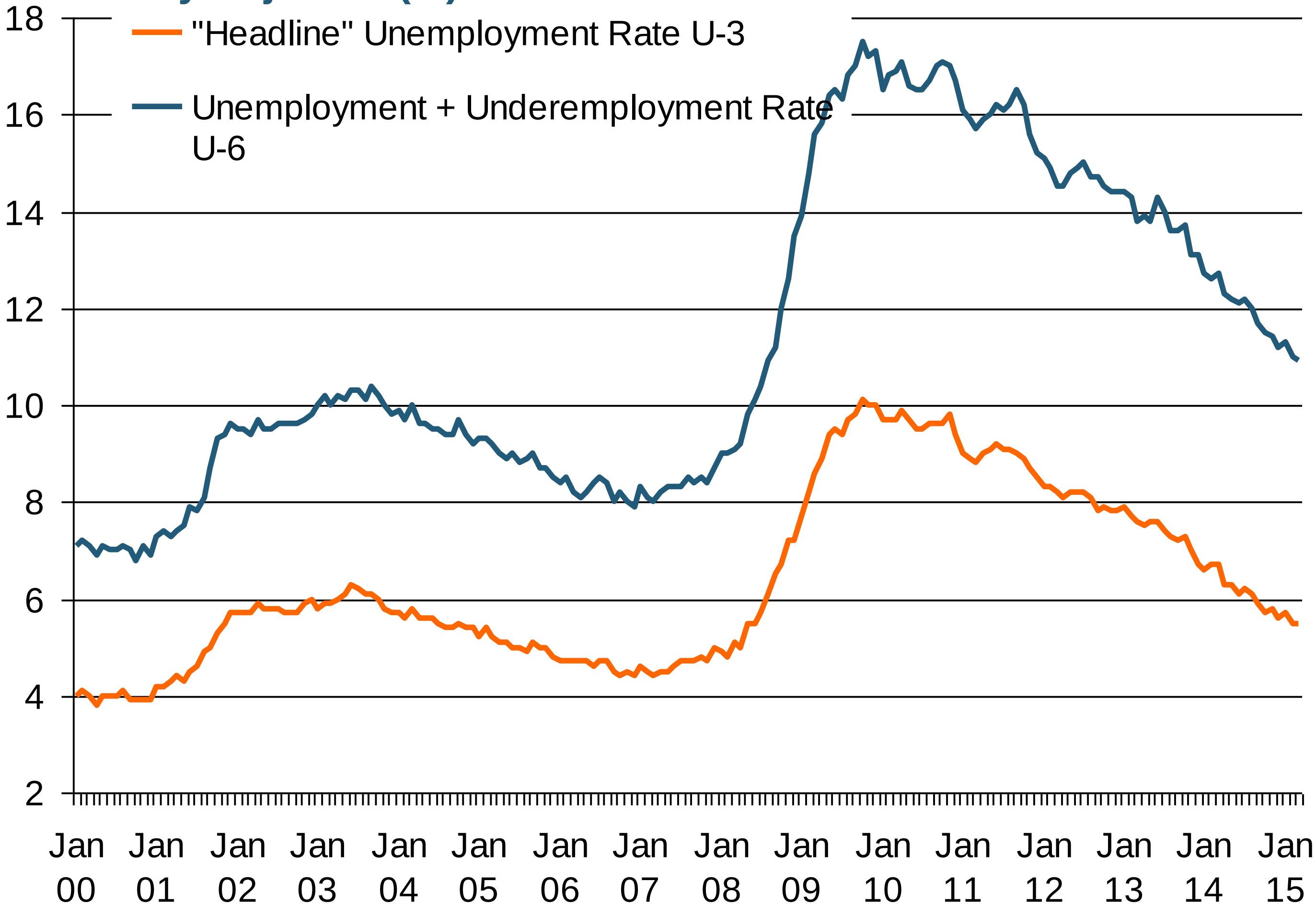
January 2000 through March 2015, Seasonally Adjusted (%)



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."

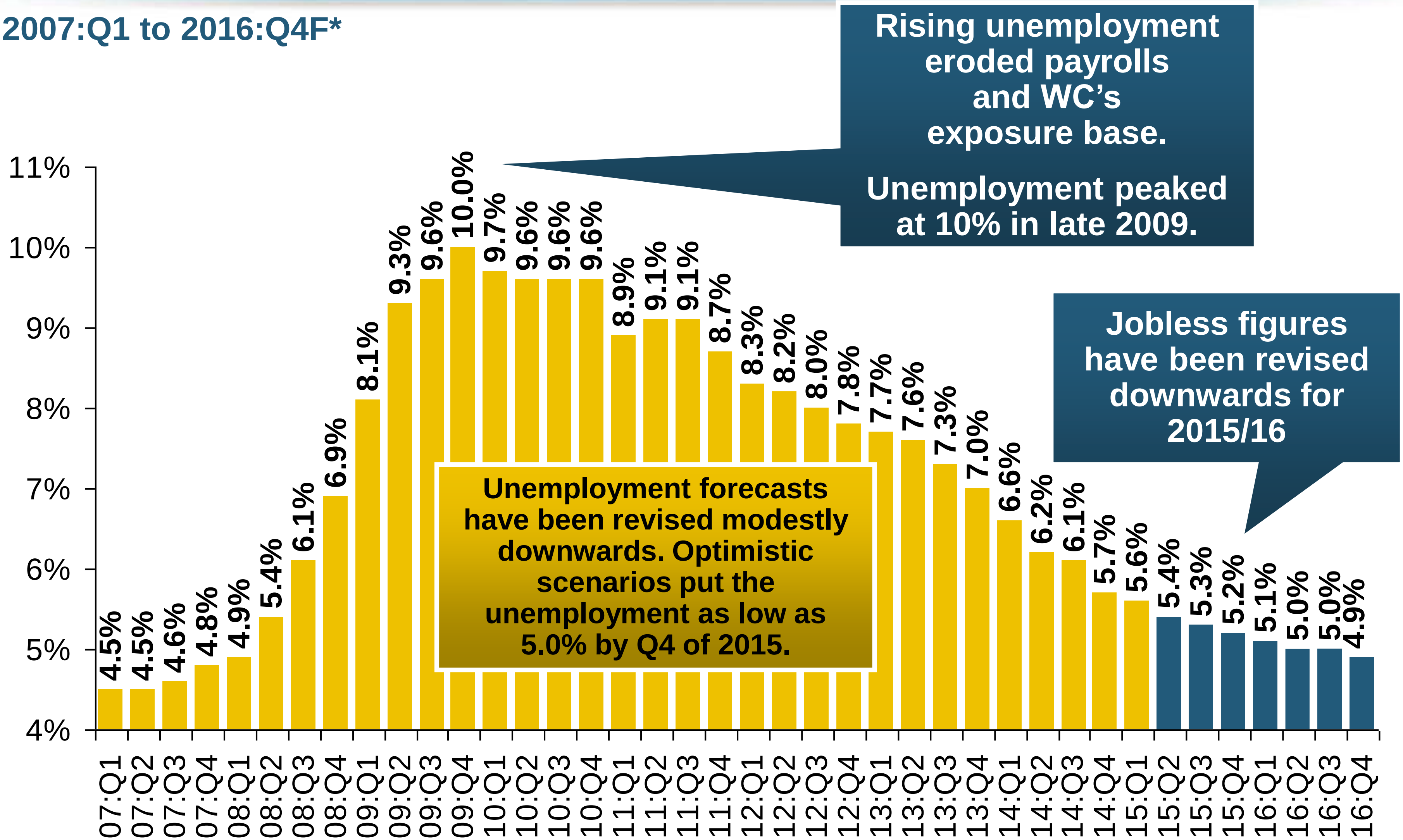
Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

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

US Unemployment Rate Forecast

INSURANCE INFORMATION INSTITUTE

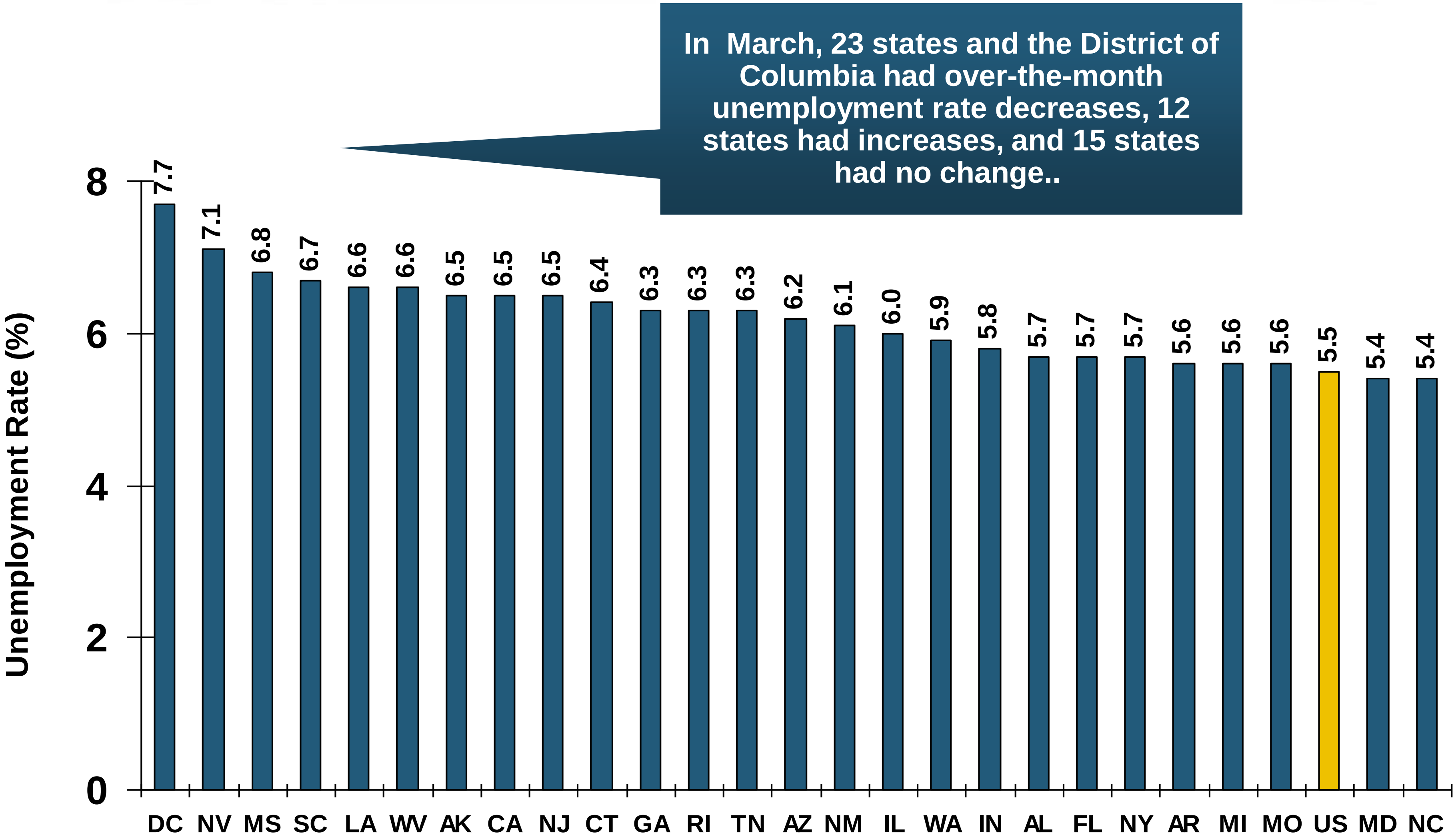
2007:Q1 to 2016:Q4F*



* = actual; = forecasts

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

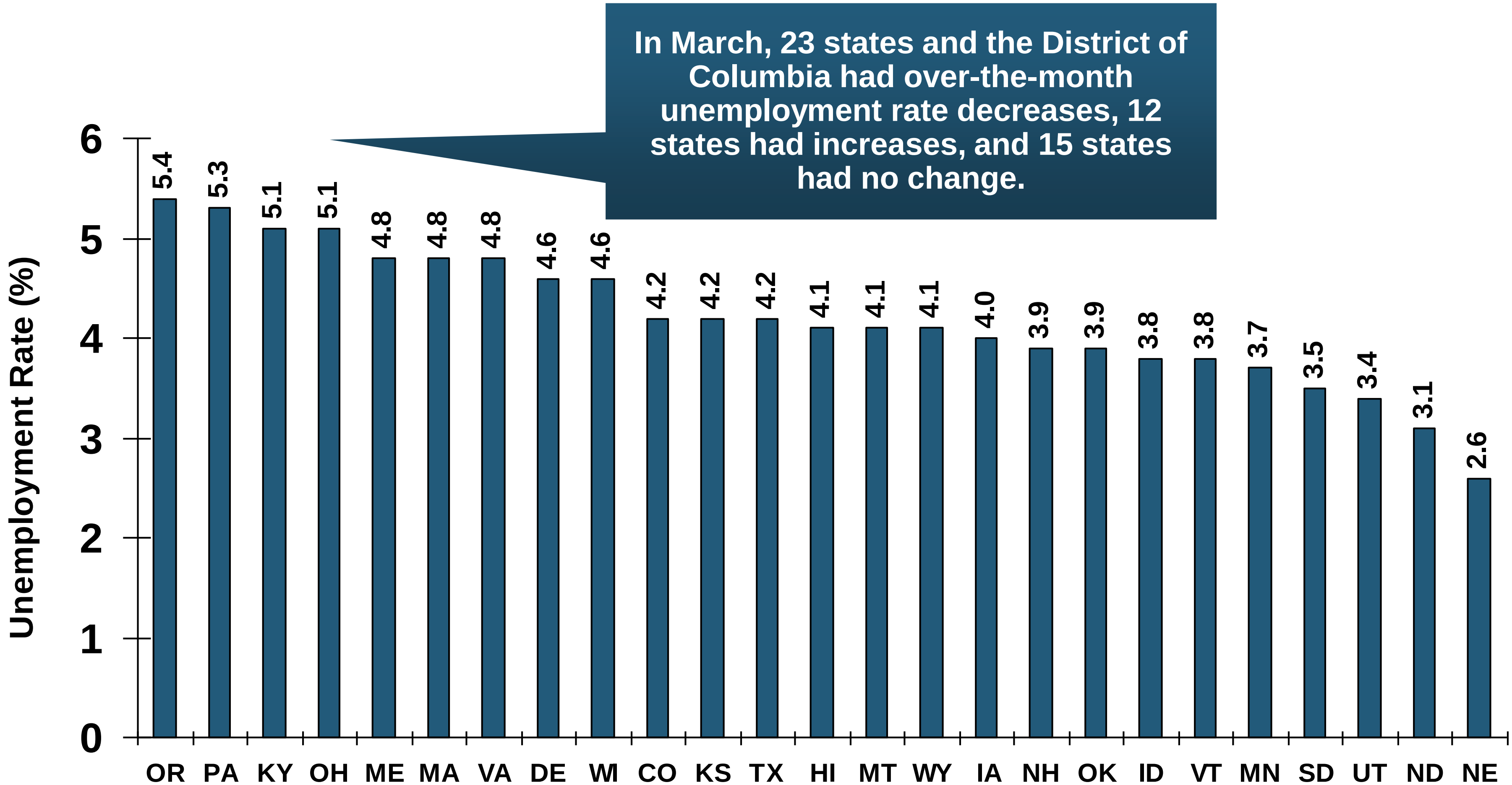
Unemployment Rates by State, March 2015: Highest 25 States*



*Provisional figures for March 2015, seasonally adjusted.

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

Unemployment Rates by State, March 2015: Lowest 25 States*



*Provisional figures for March 2015, seasonally adjusted.

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

Monthly Change in Private Employment

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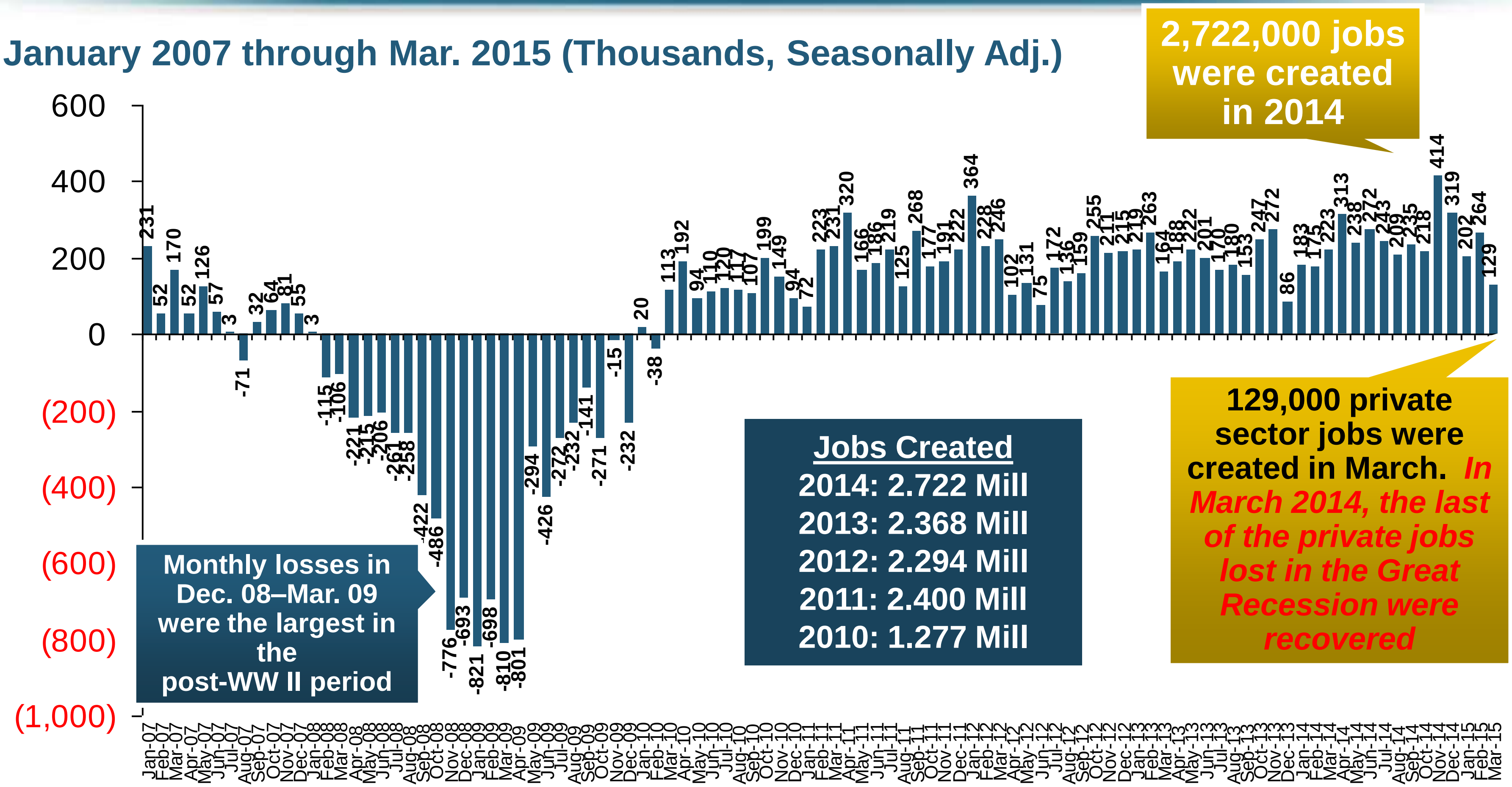
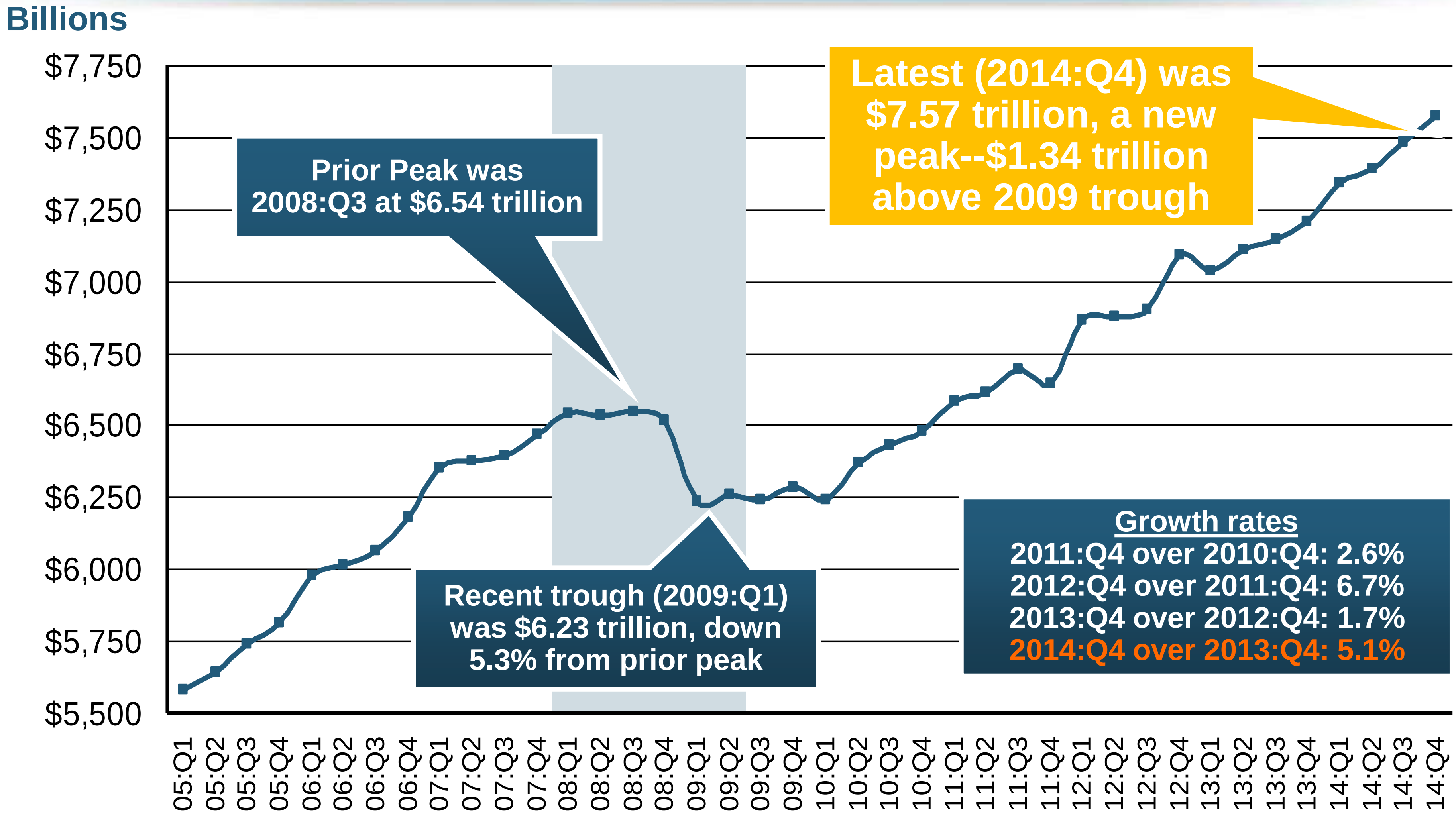
January 2007 through Mar. 2015 (Thousands, Seasonally Adj.)



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)

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

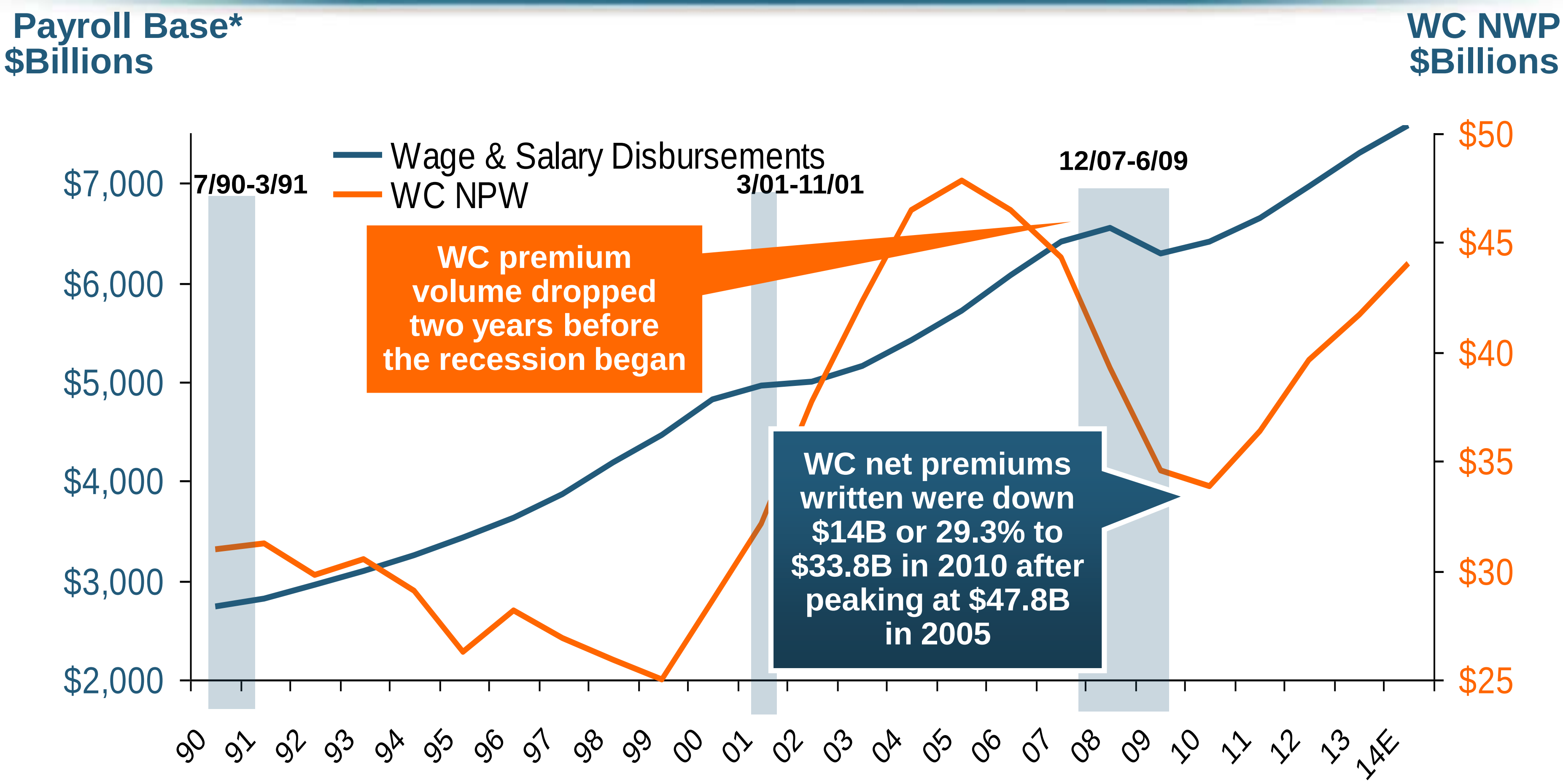
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q4



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.

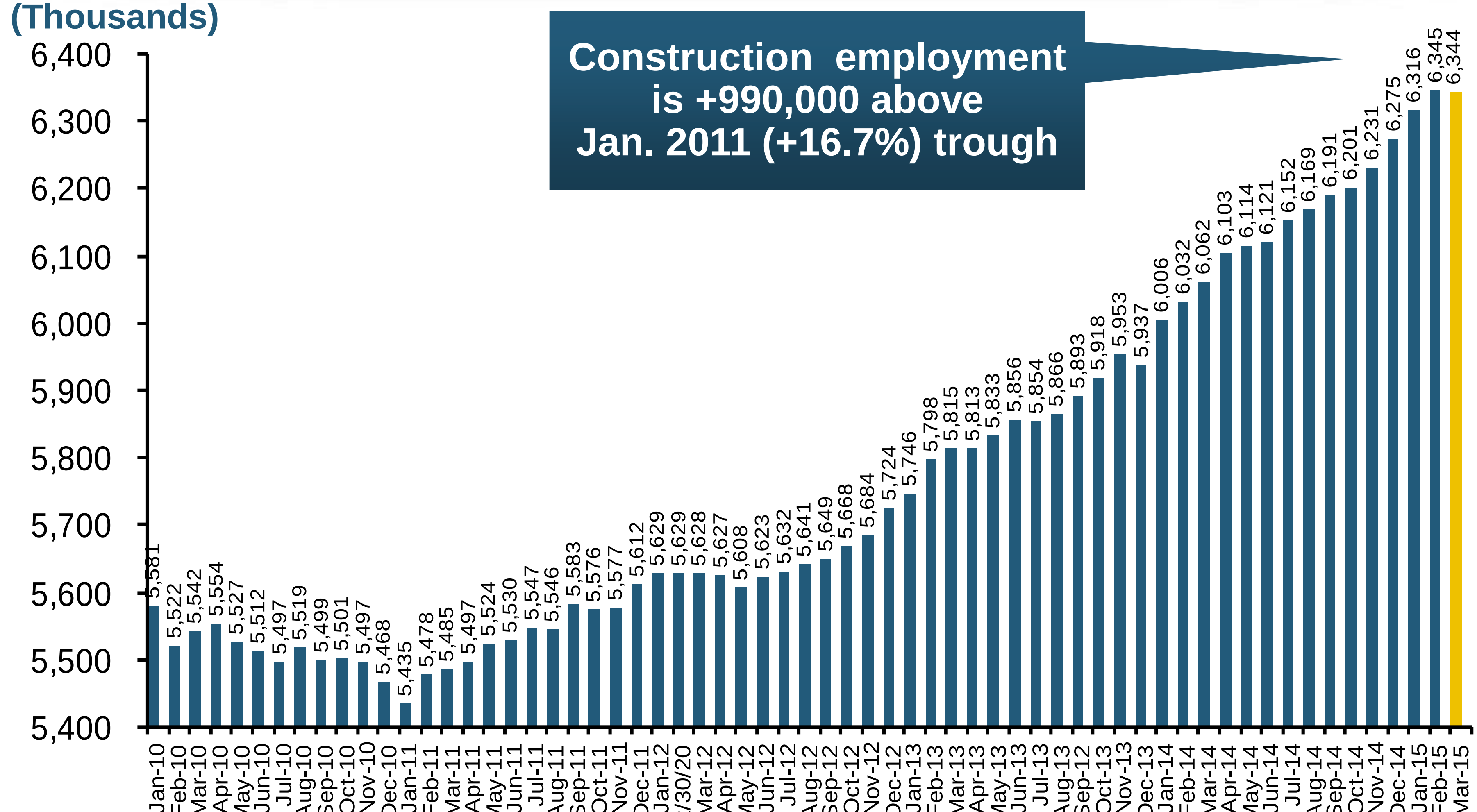
Payroll vs. Workers Comp Net Written Premiums, 1990-2014P



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*

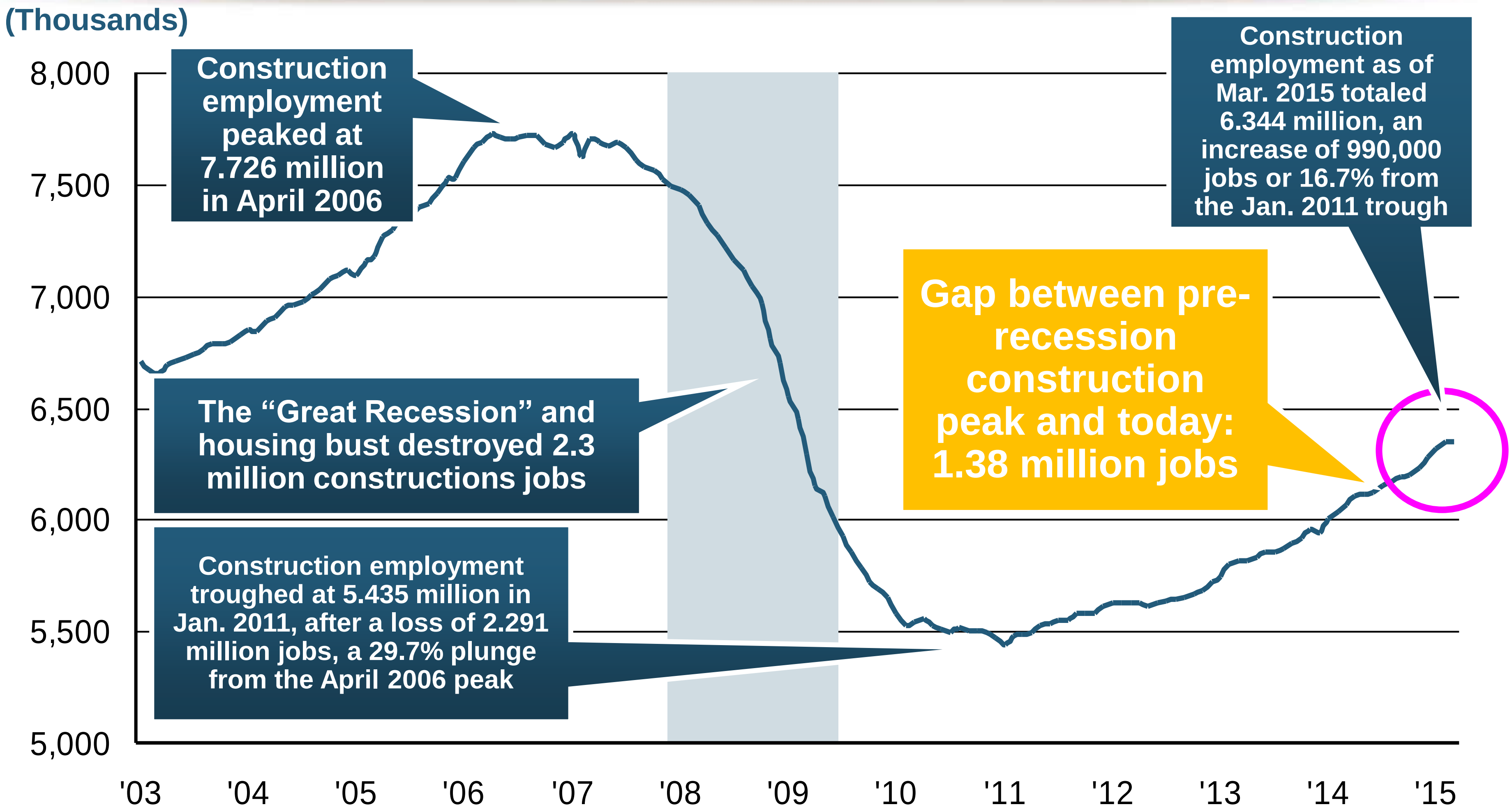


Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–March 2015

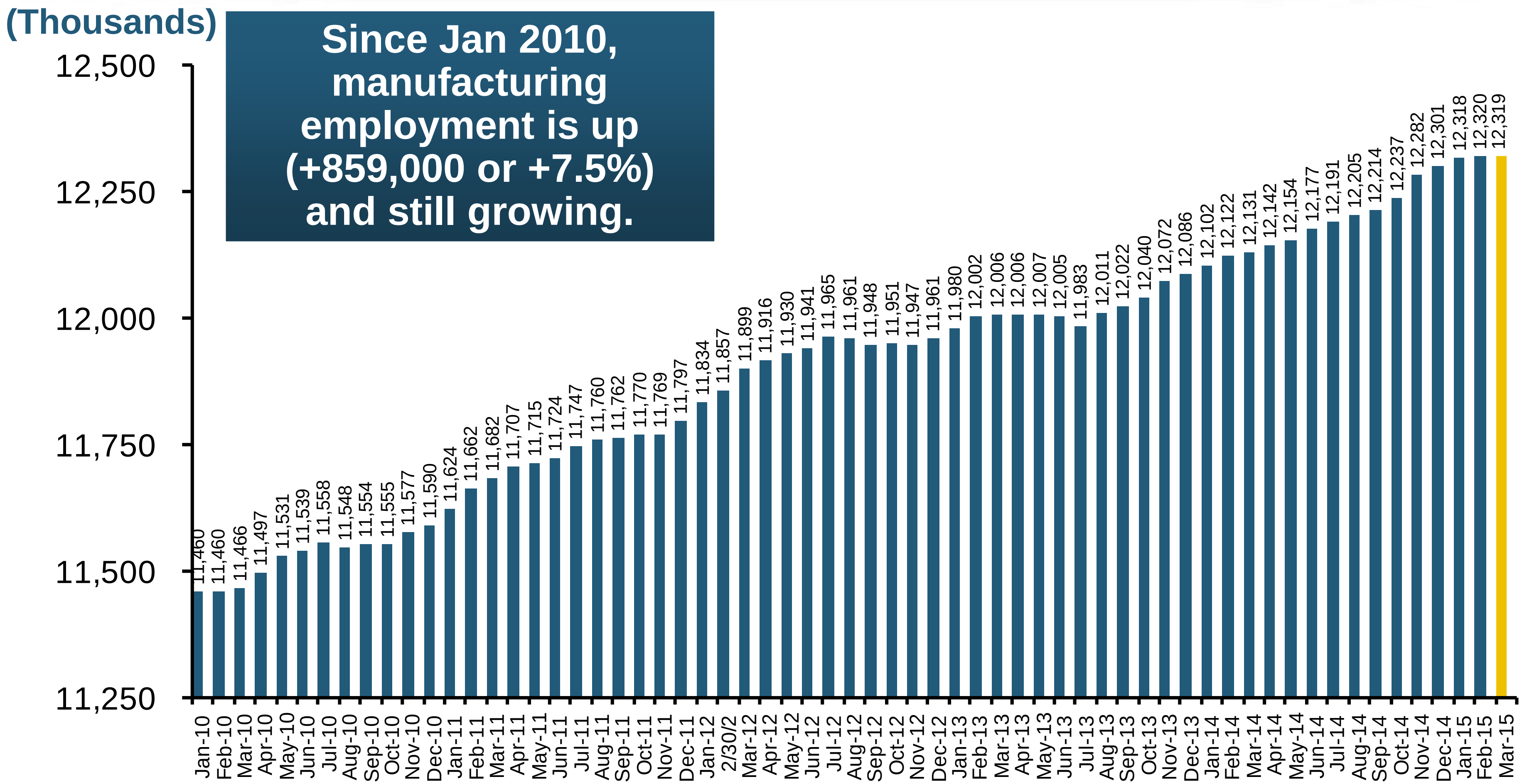


The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

Manufacturing Employment, Jan. 2010—March 2015*

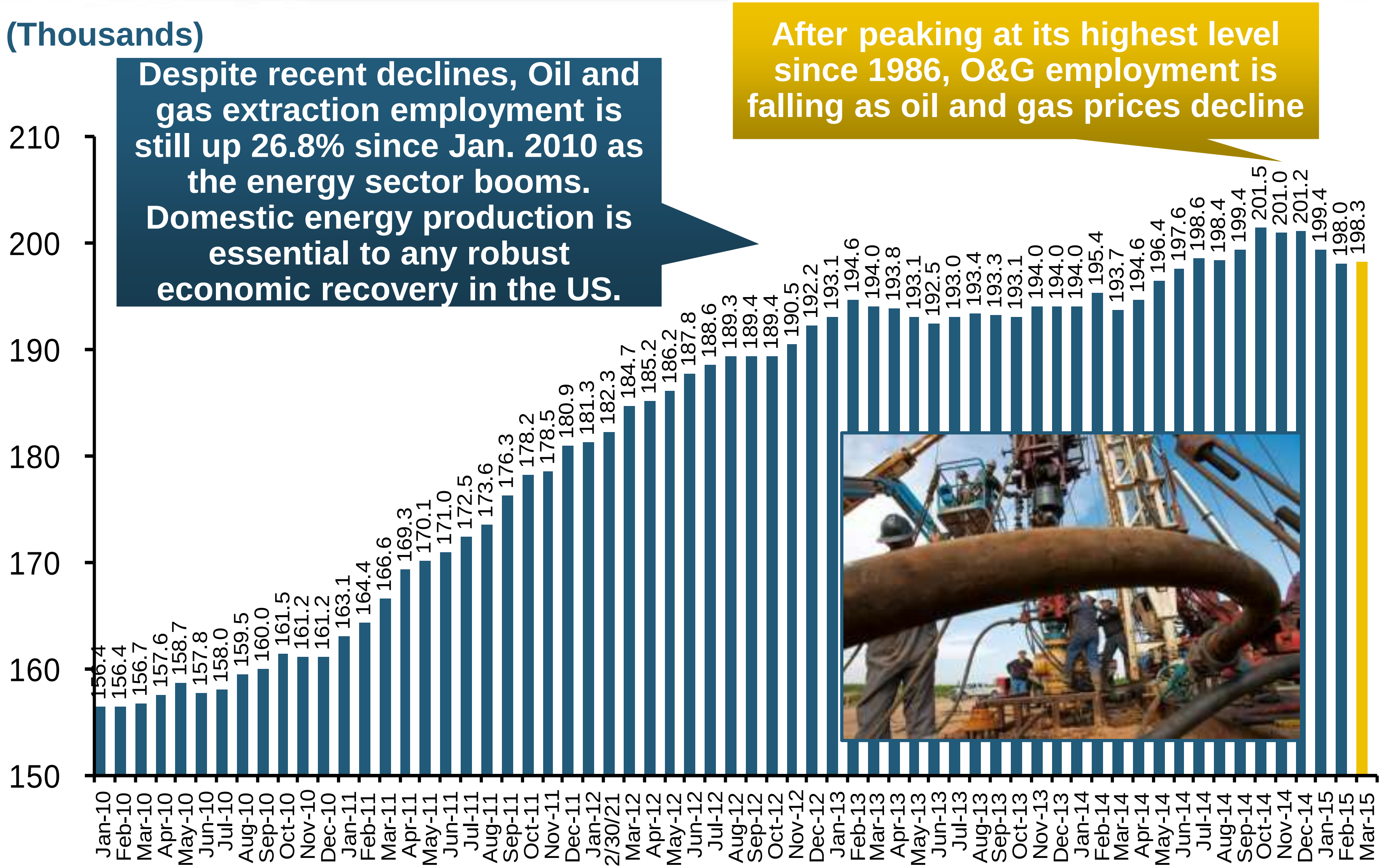


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

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

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



*Seasonally adjusted

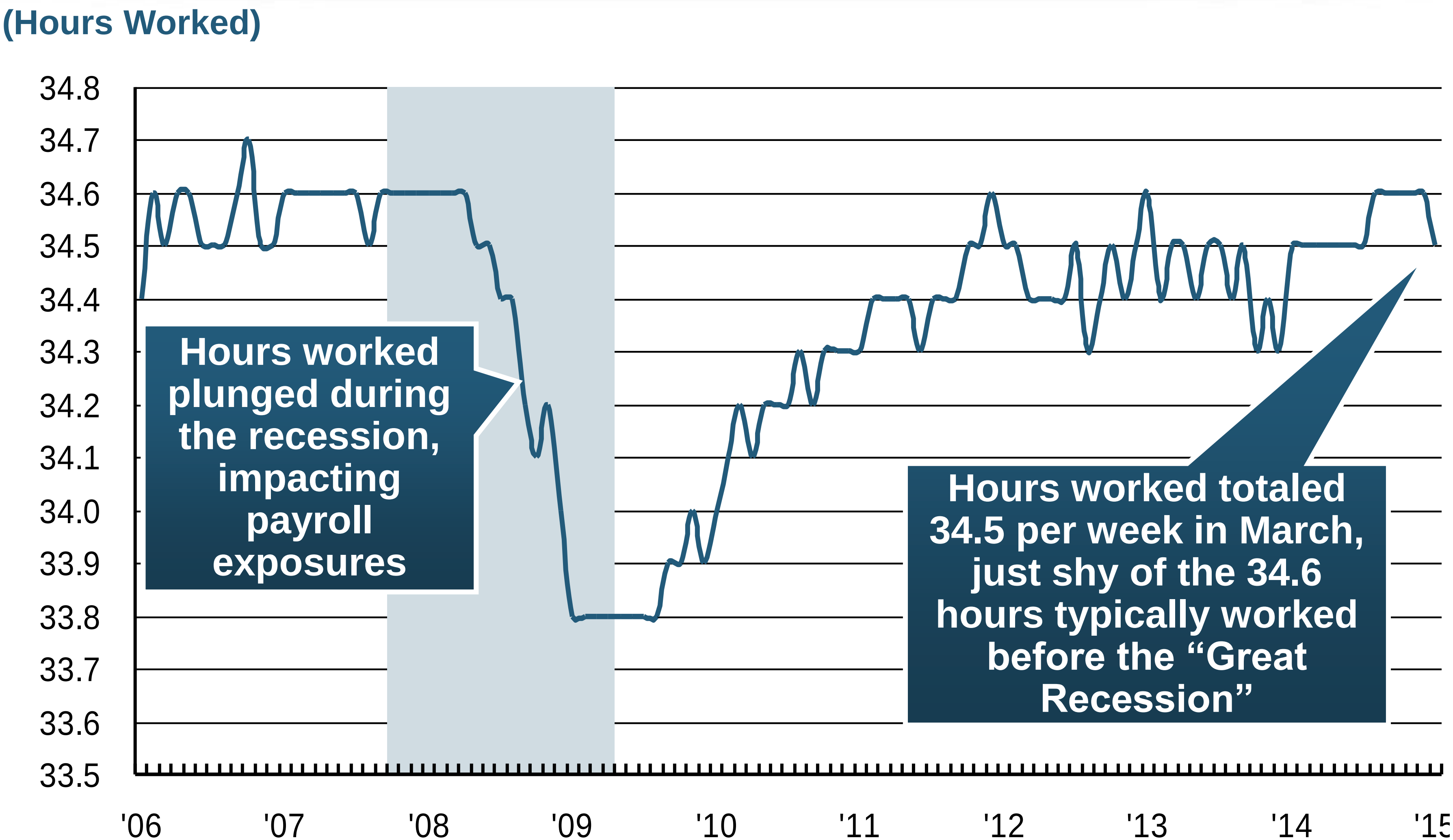
Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

Insurance Information Institute

POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

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

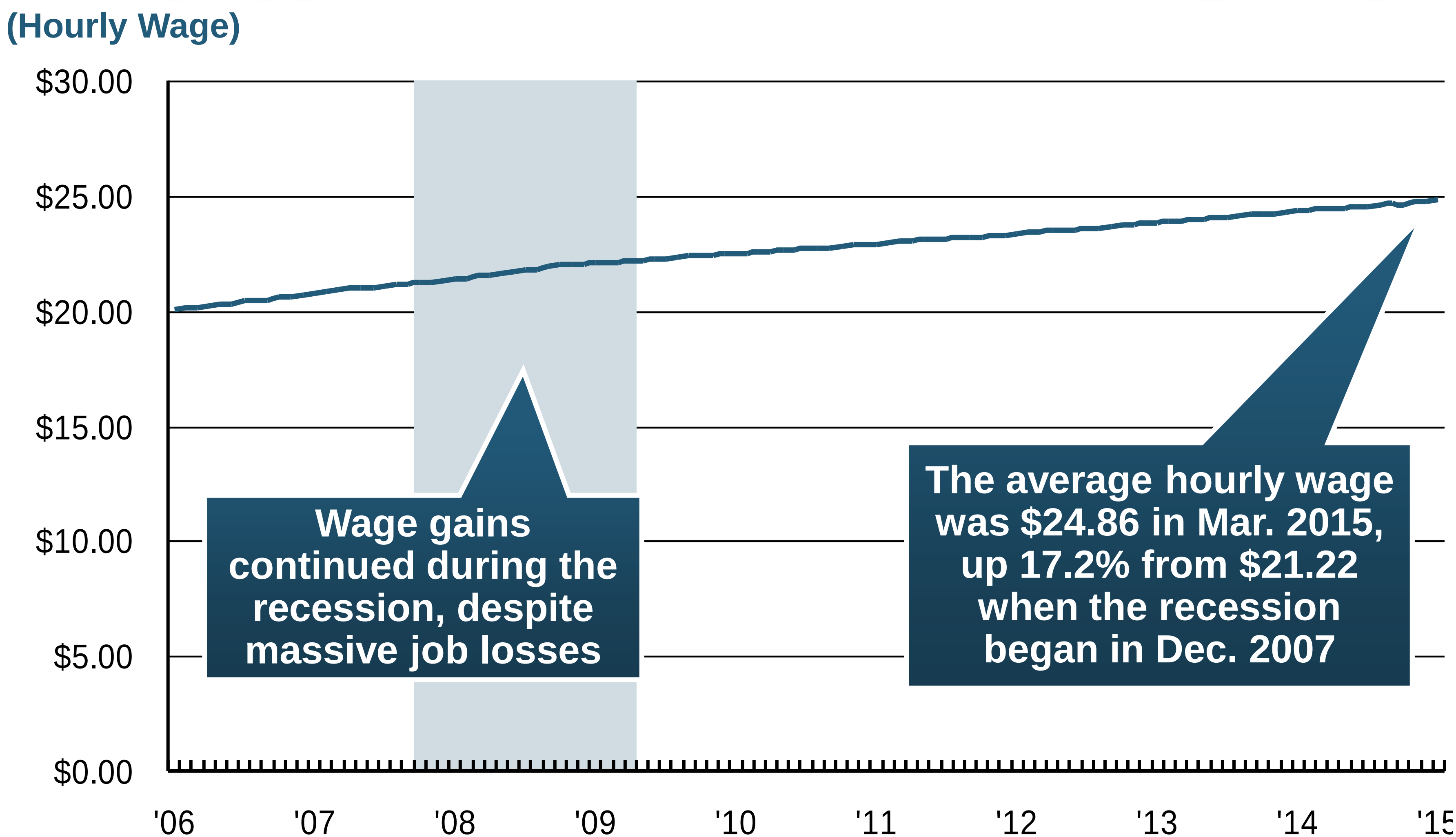


*Seasonally adjusted

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



*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*

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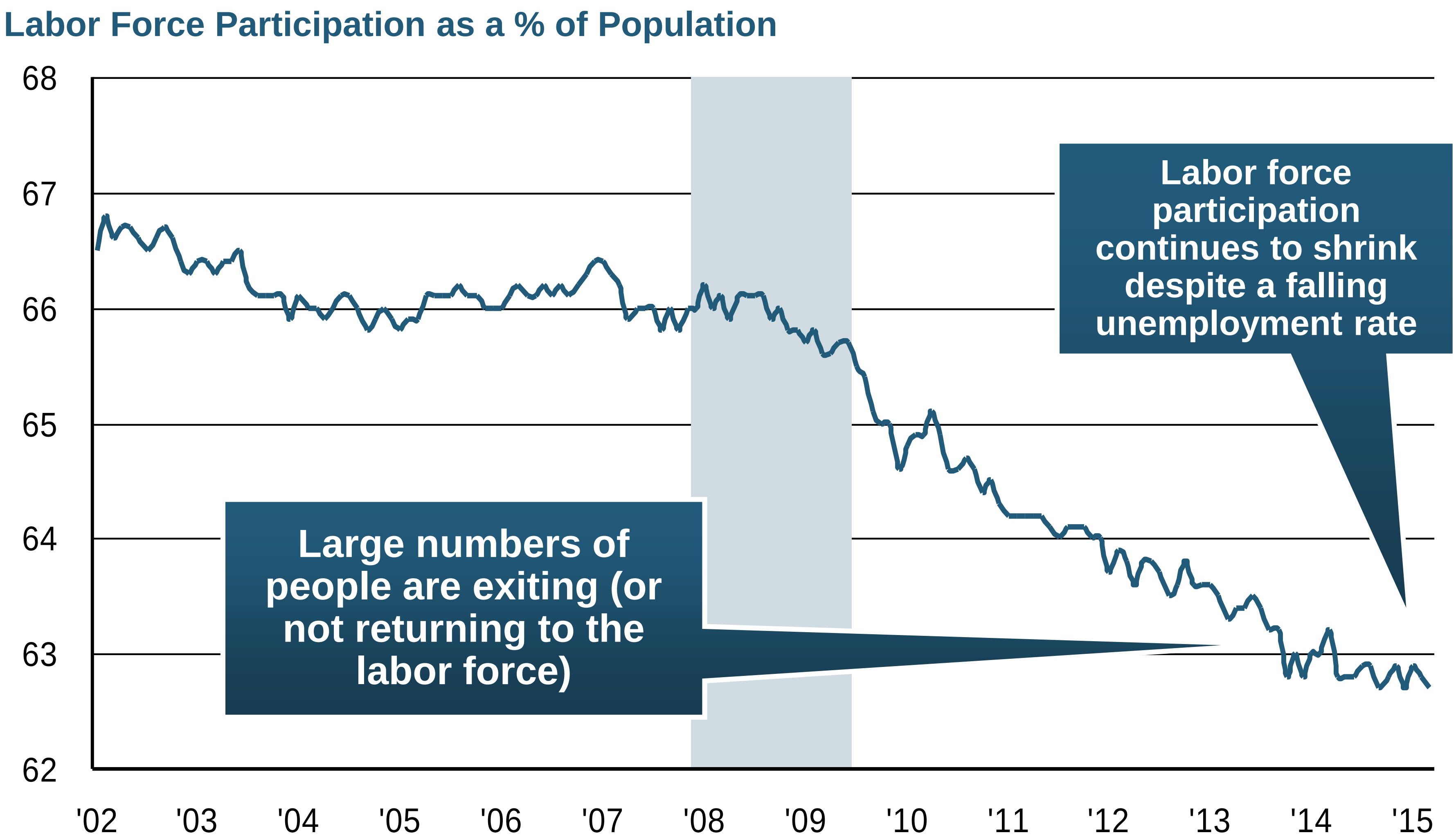

*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

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

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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

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- 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*

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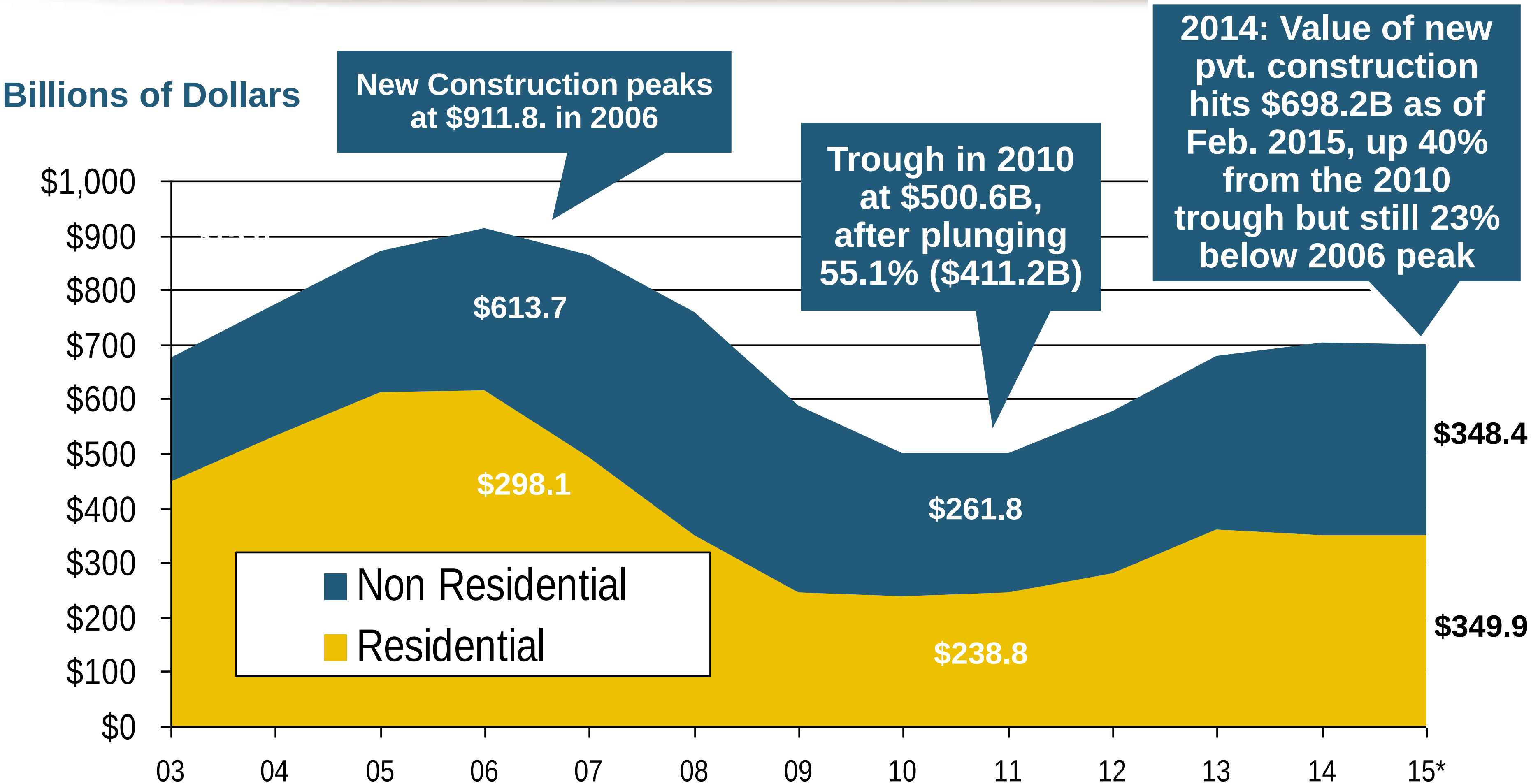
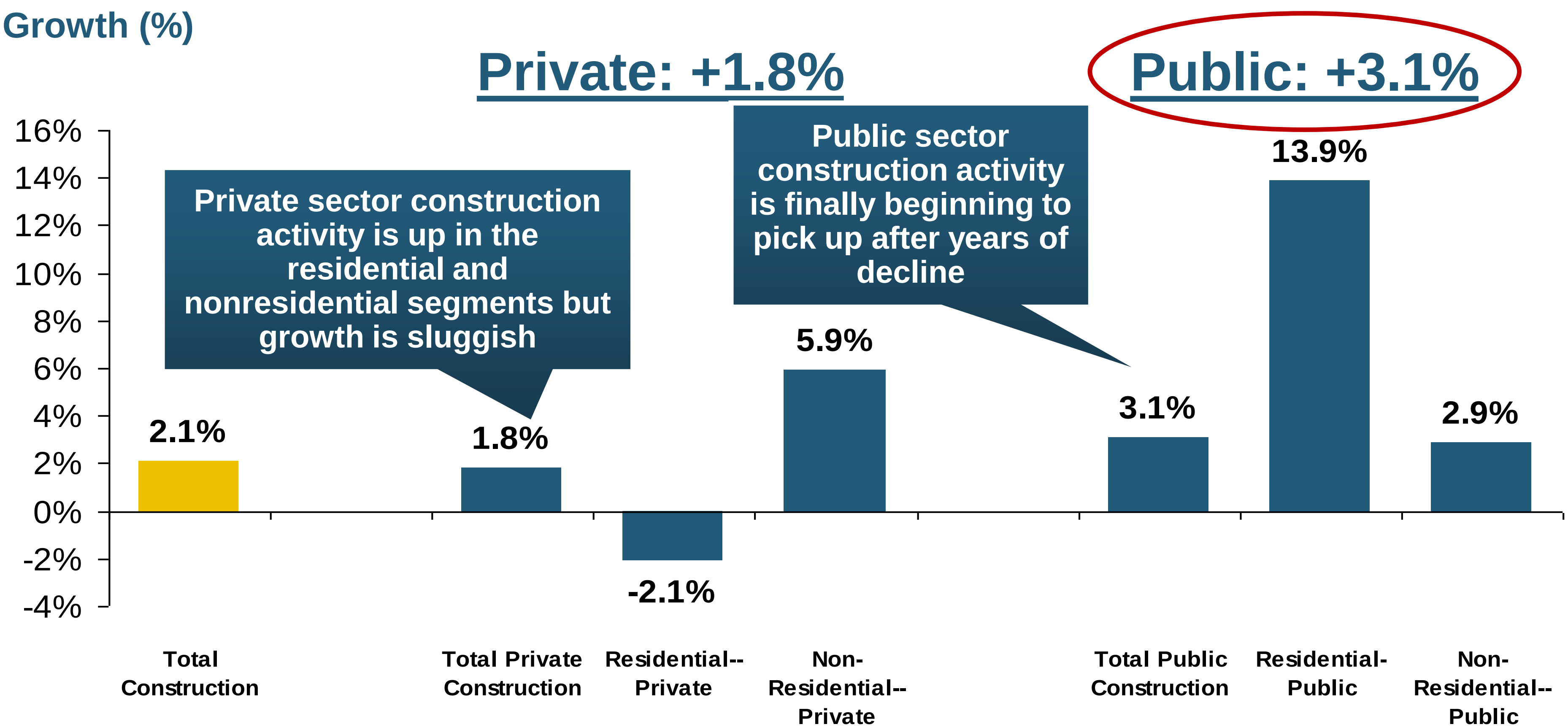


Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*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*



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*

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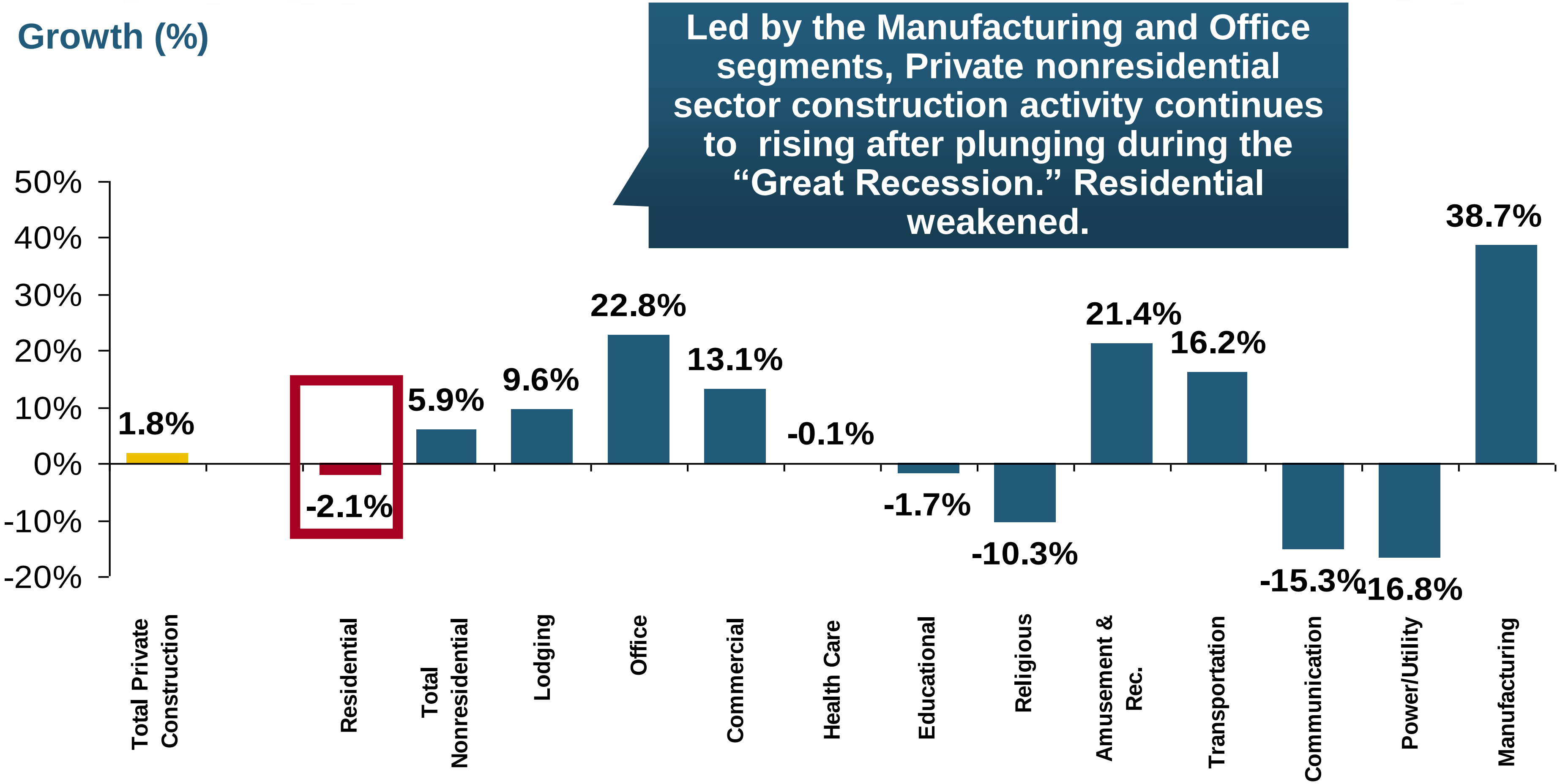

Private Construction Activity is Up in Many Segments, though the Key Residential Construction Sector Weakened in Late 2014/Early 2015; Mixed Outlook for 2015, though Expansion Should Continue

*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*

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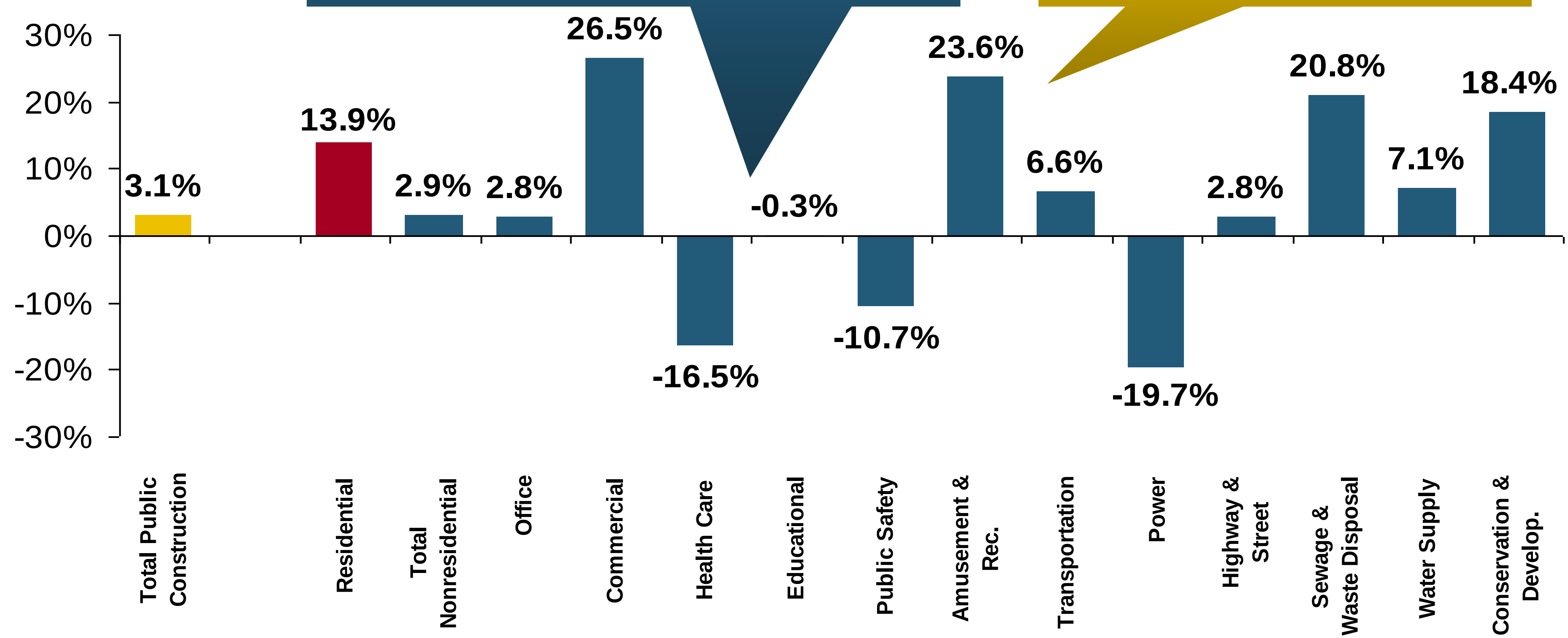
Public sector construction activity is down substantially in many segments, a situation that will likely persist, dragging on public entity risk exposures

Amusement & Recreation, Sewage & Waste Disposal and Commercial projects lead public sector construction



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*

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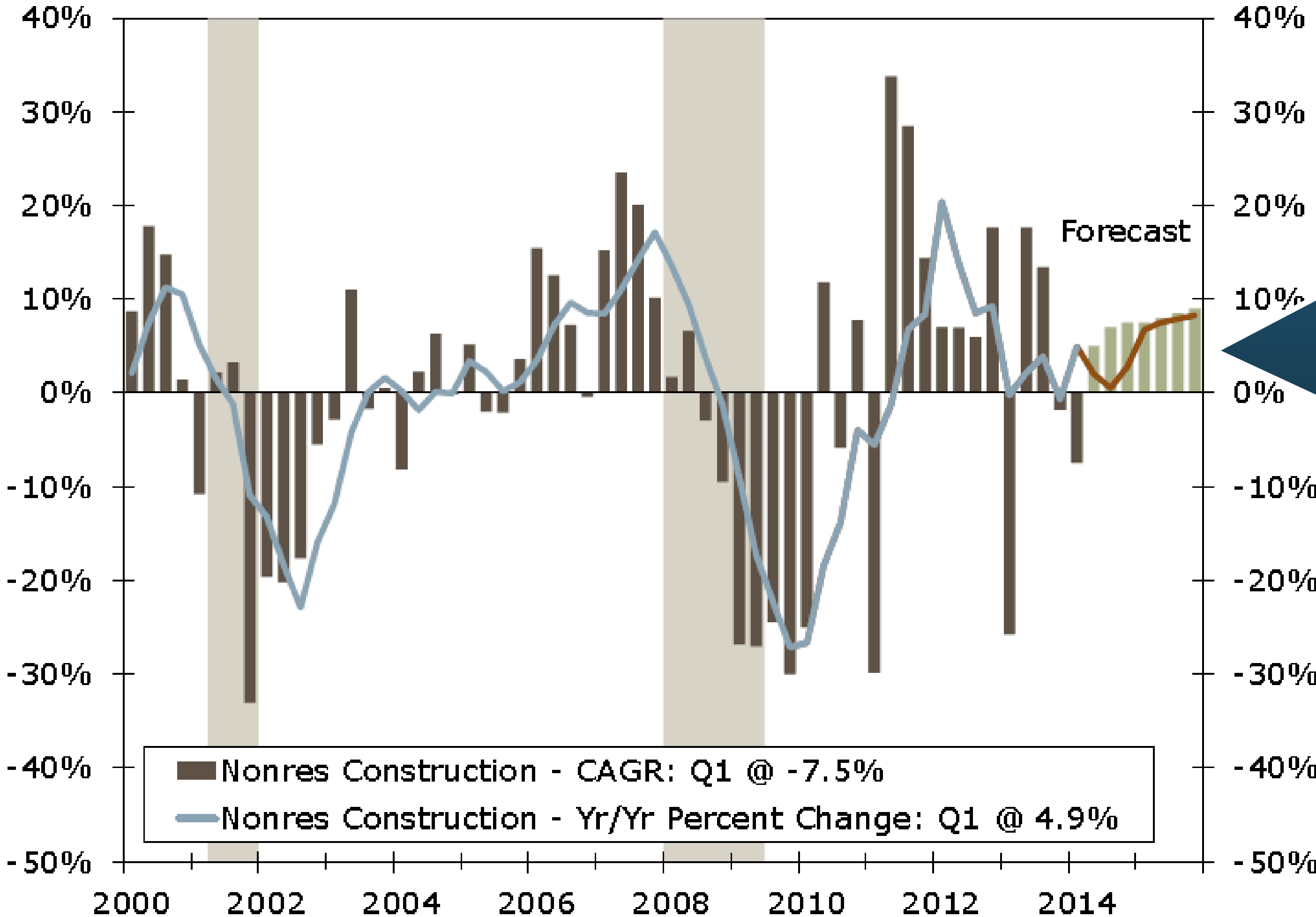
(Bar = CAGR; Line = Y/Y Growth Rate)

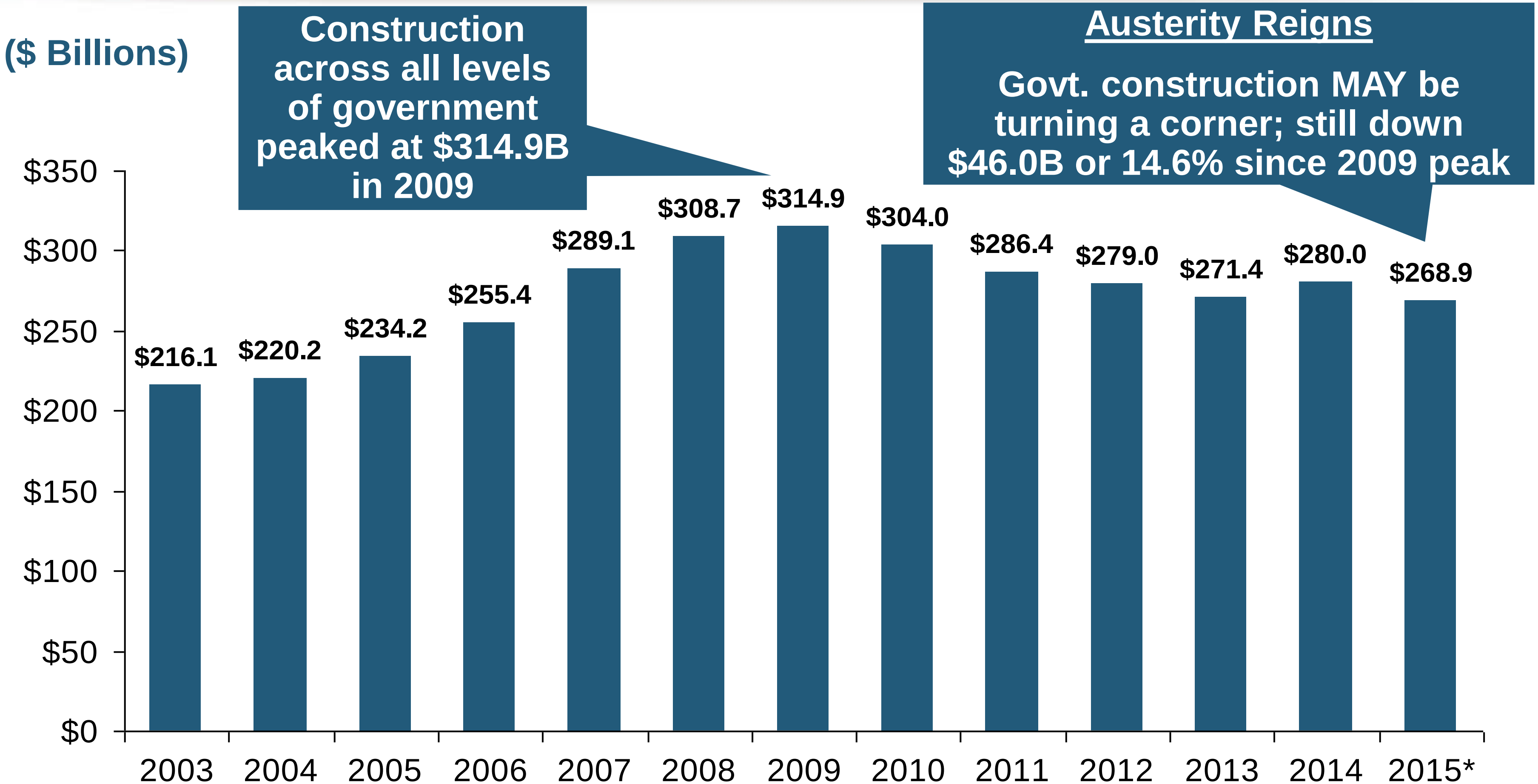


Construction activity has generally been positive since late 2010 but has occasionally be erratic. Forecast is for slowing improving growth

*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

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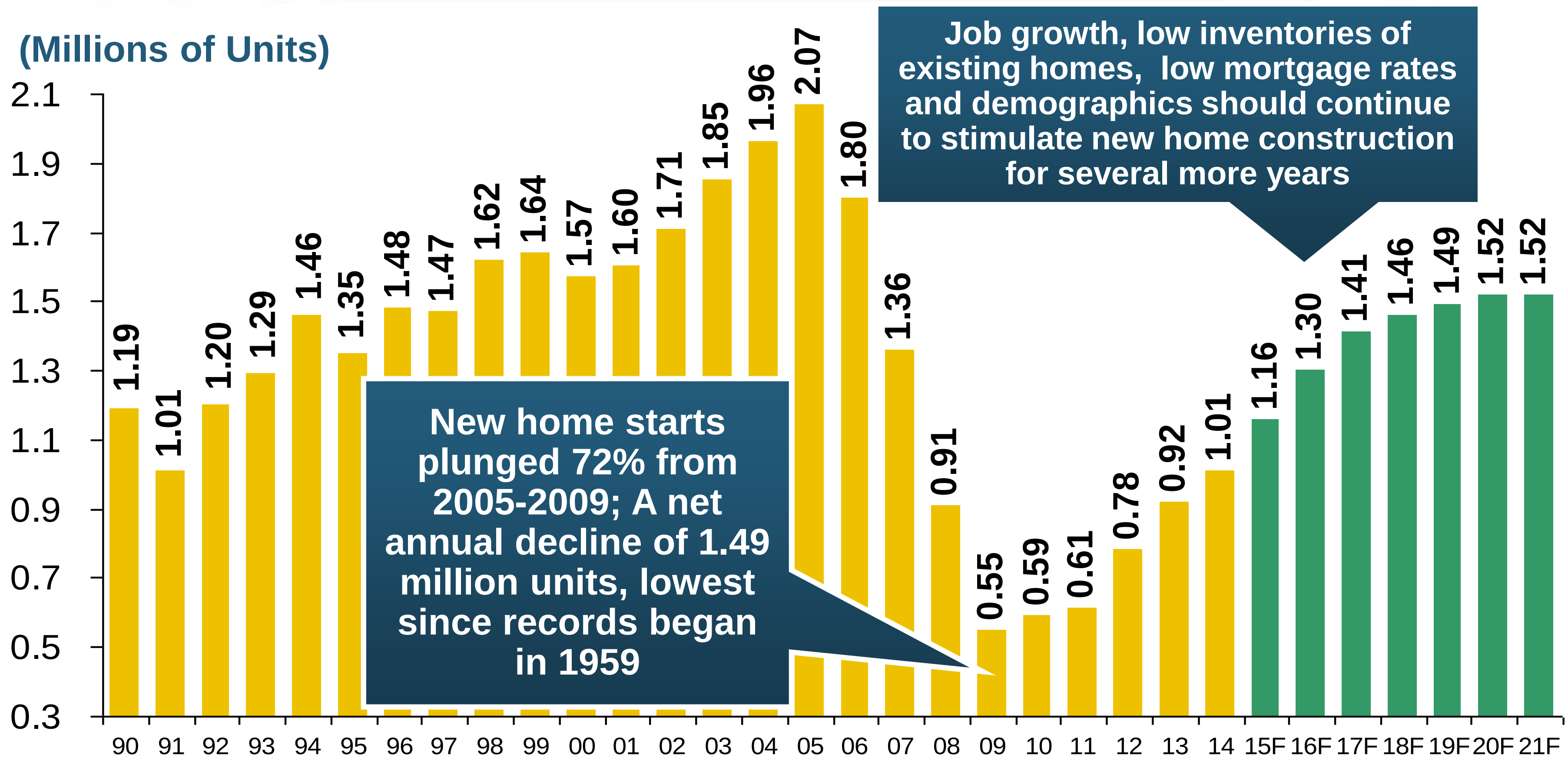

Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/15 and 3/15); Insurance Information Institute.

Construction Employment, Jan. 2010—March 2015*

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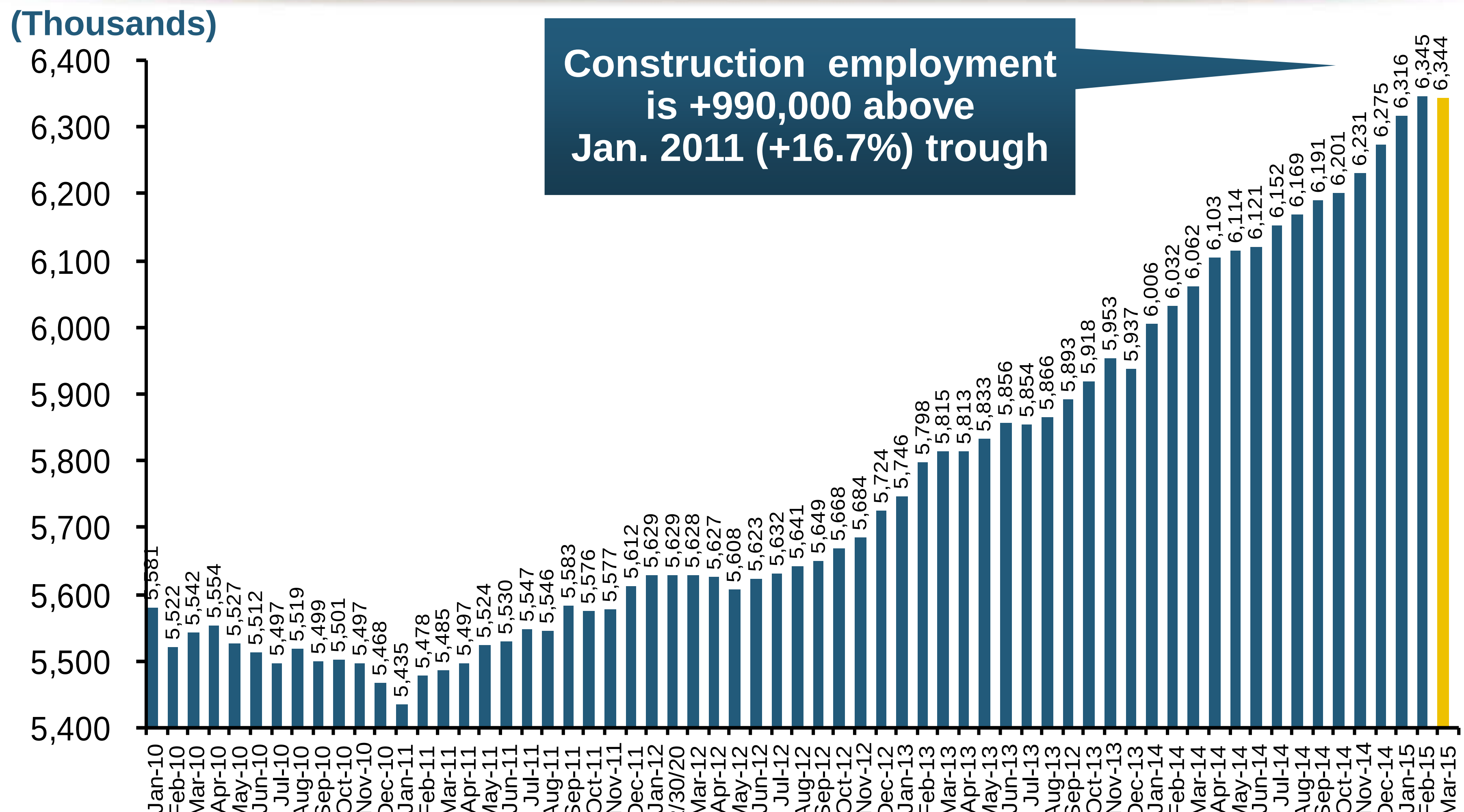

Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

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Construction Employment, Jan. 2003–March 2015

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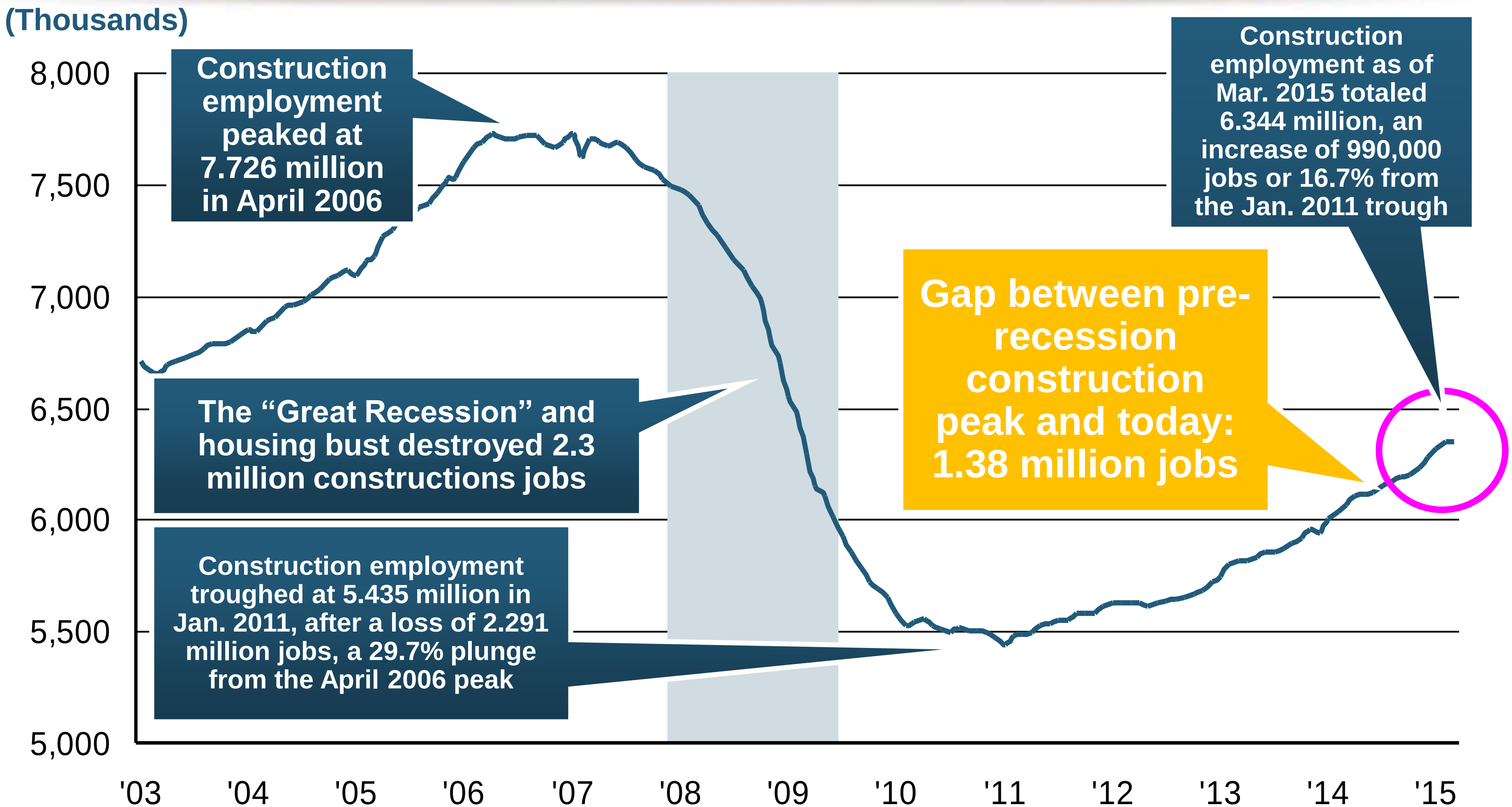

The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

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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

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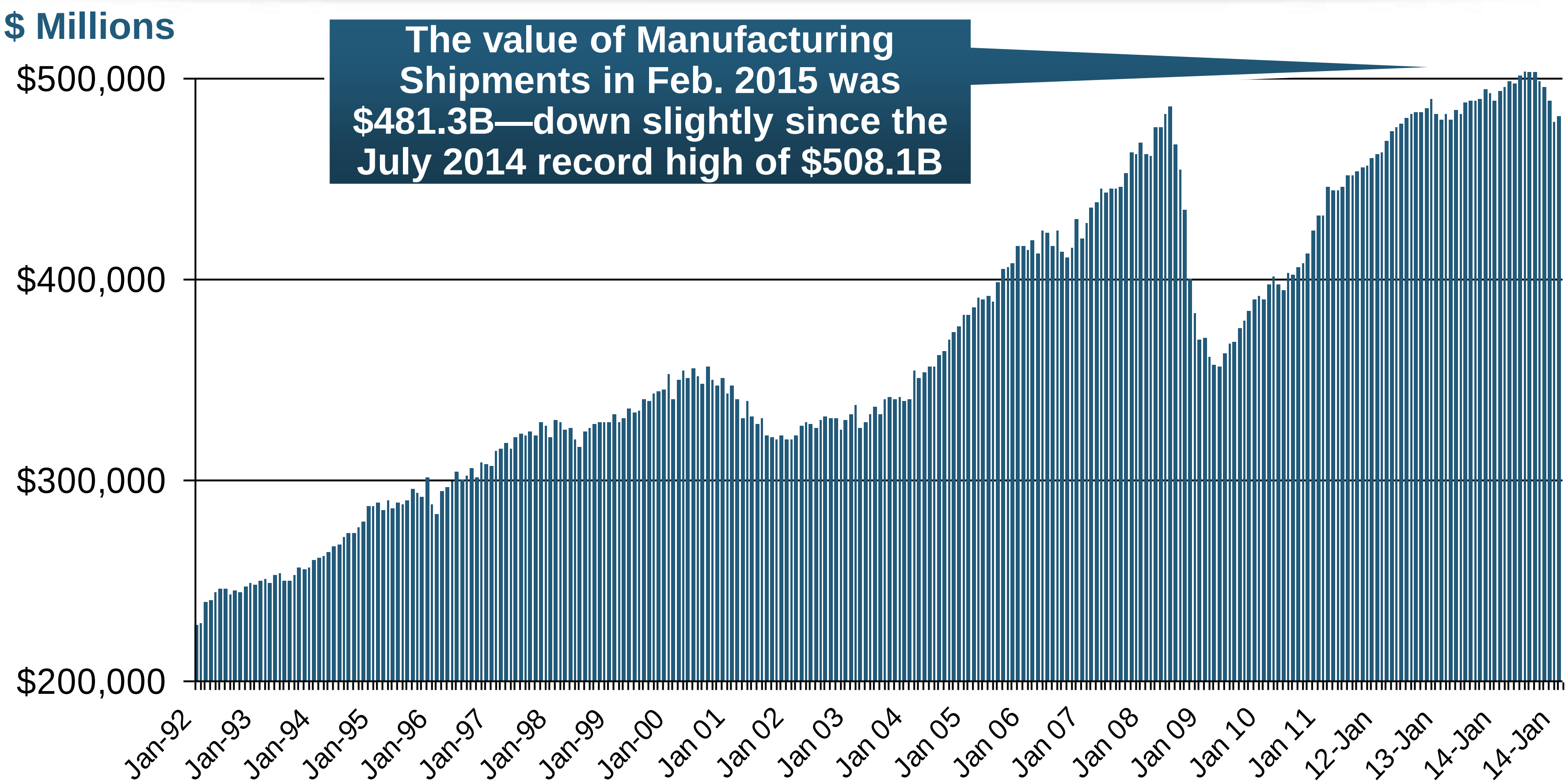

Monthly shipments in Feb. 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* 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*

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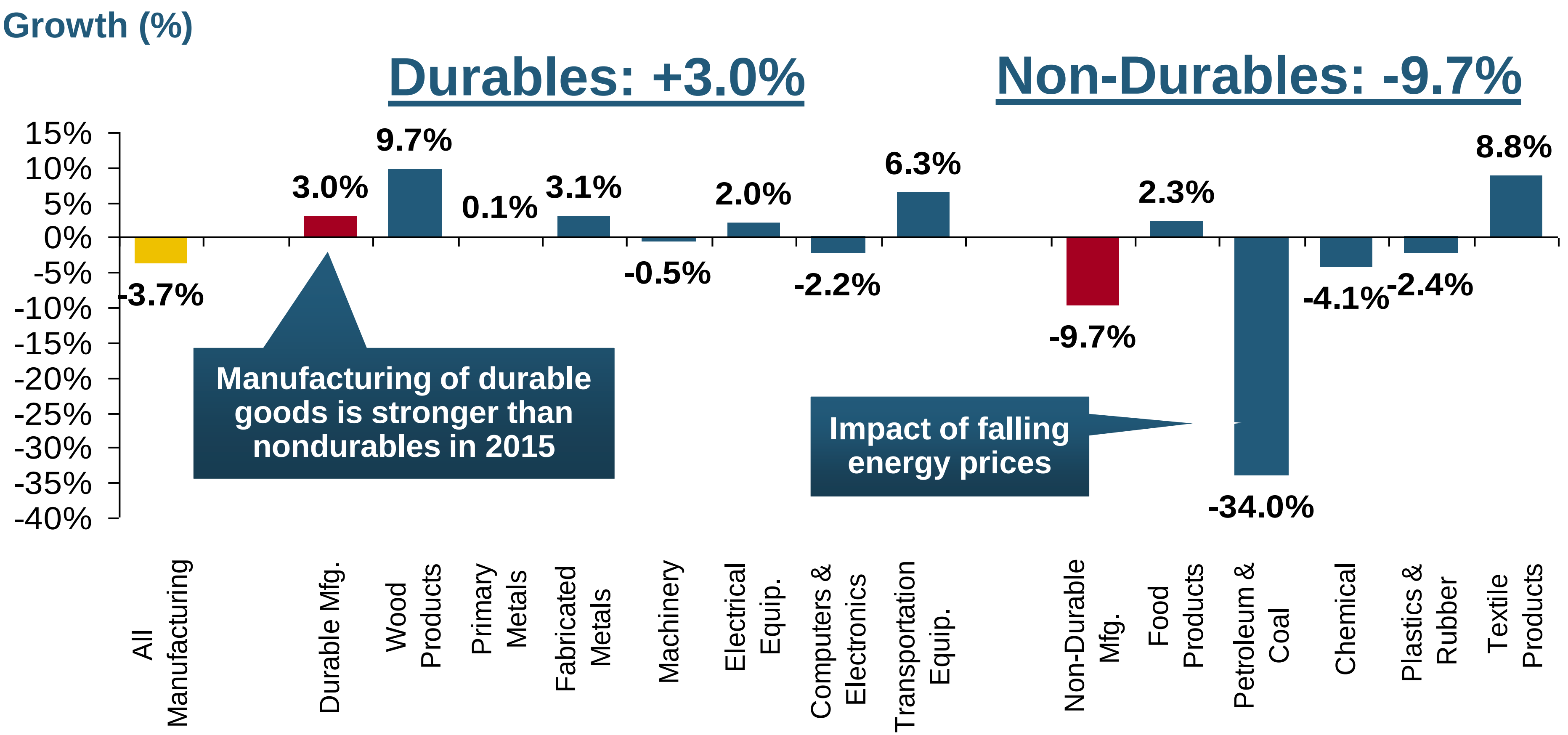
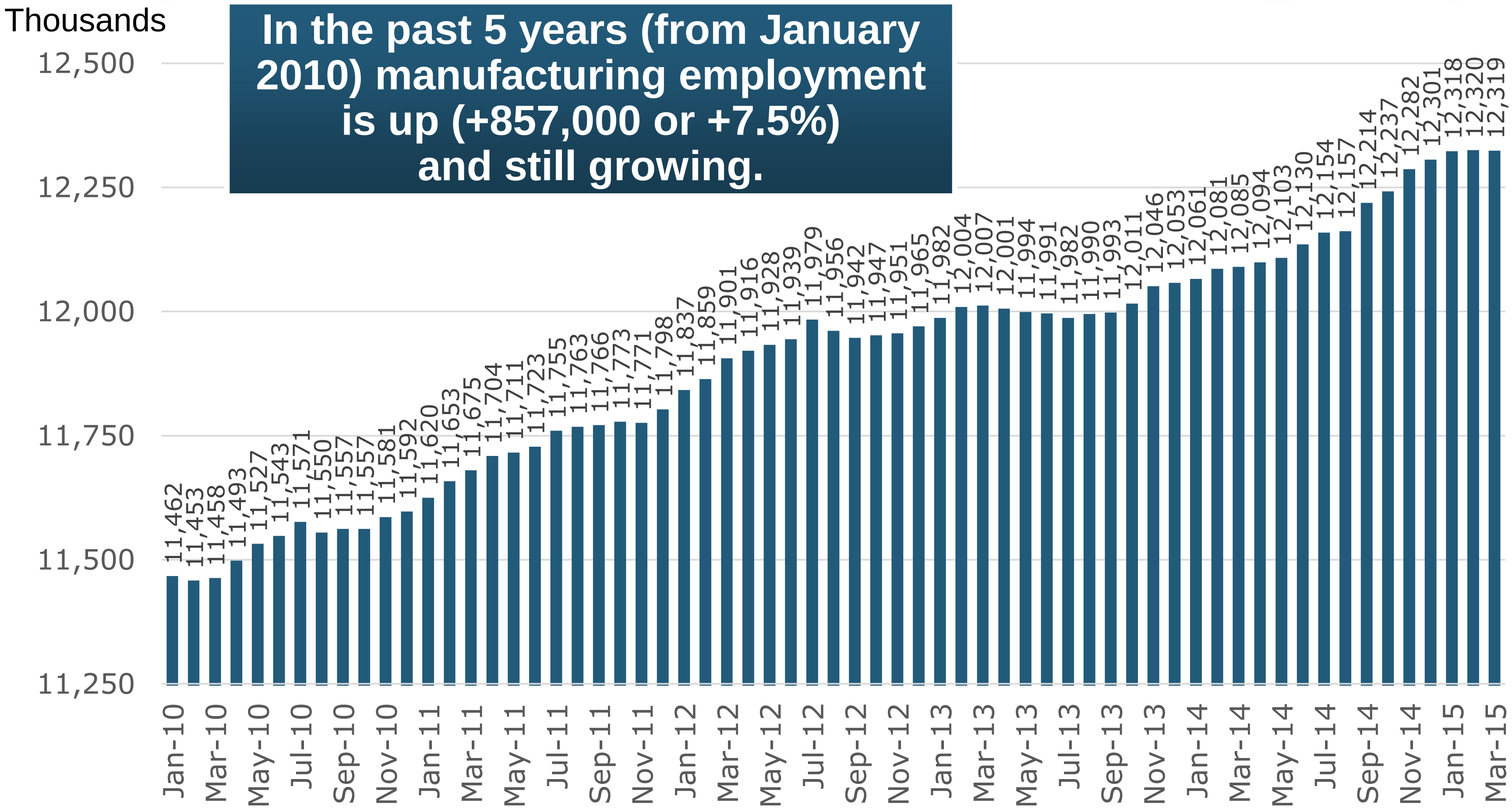


Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Gortwh Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Date 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*

INSURANCE INFORMATION INSTITUTE



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)

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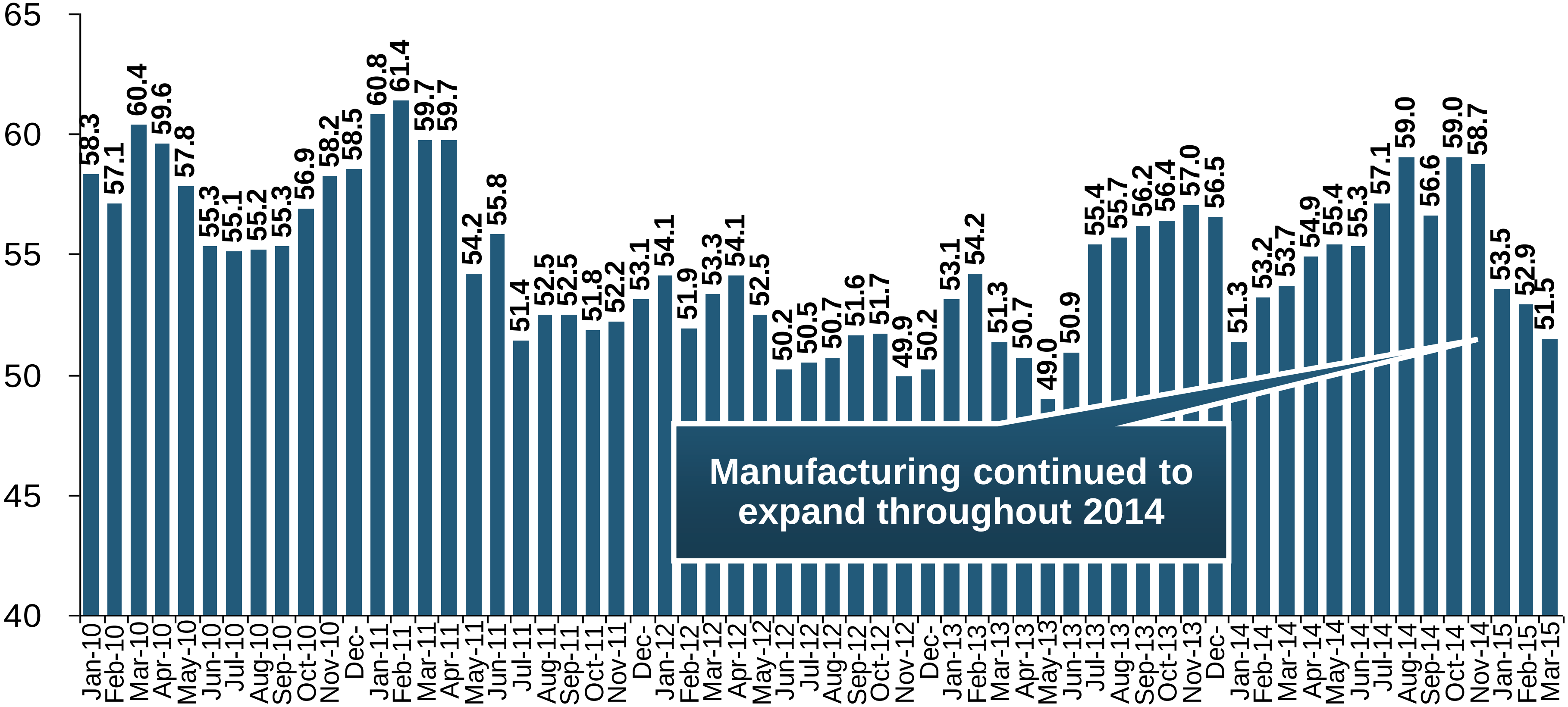
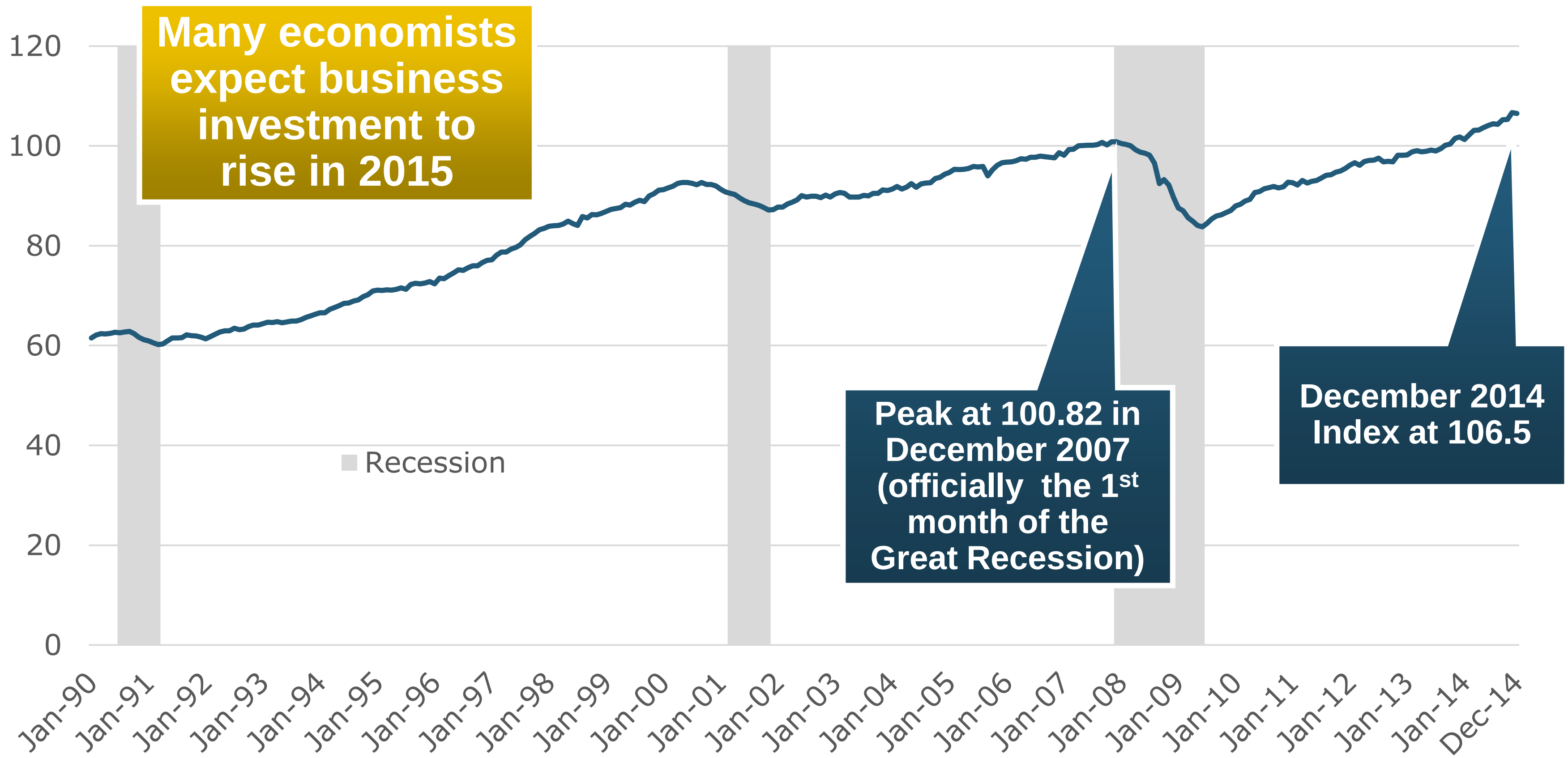
January 2010 through March 2015



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.

Source: Institute for Supply Management at http://www.ism.ws/ismreport/mfgrob.cfm; Insurance Information Institute.

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

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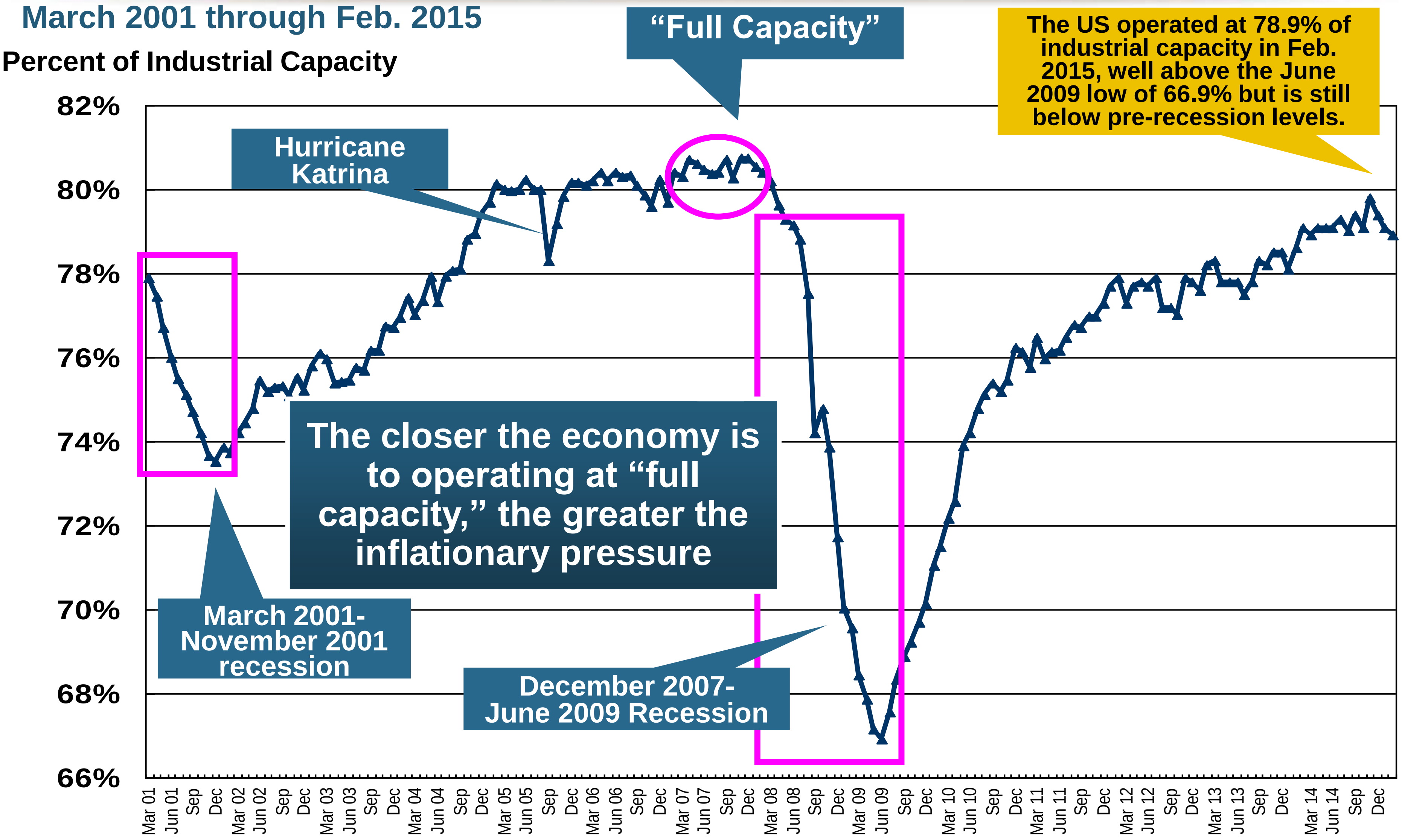
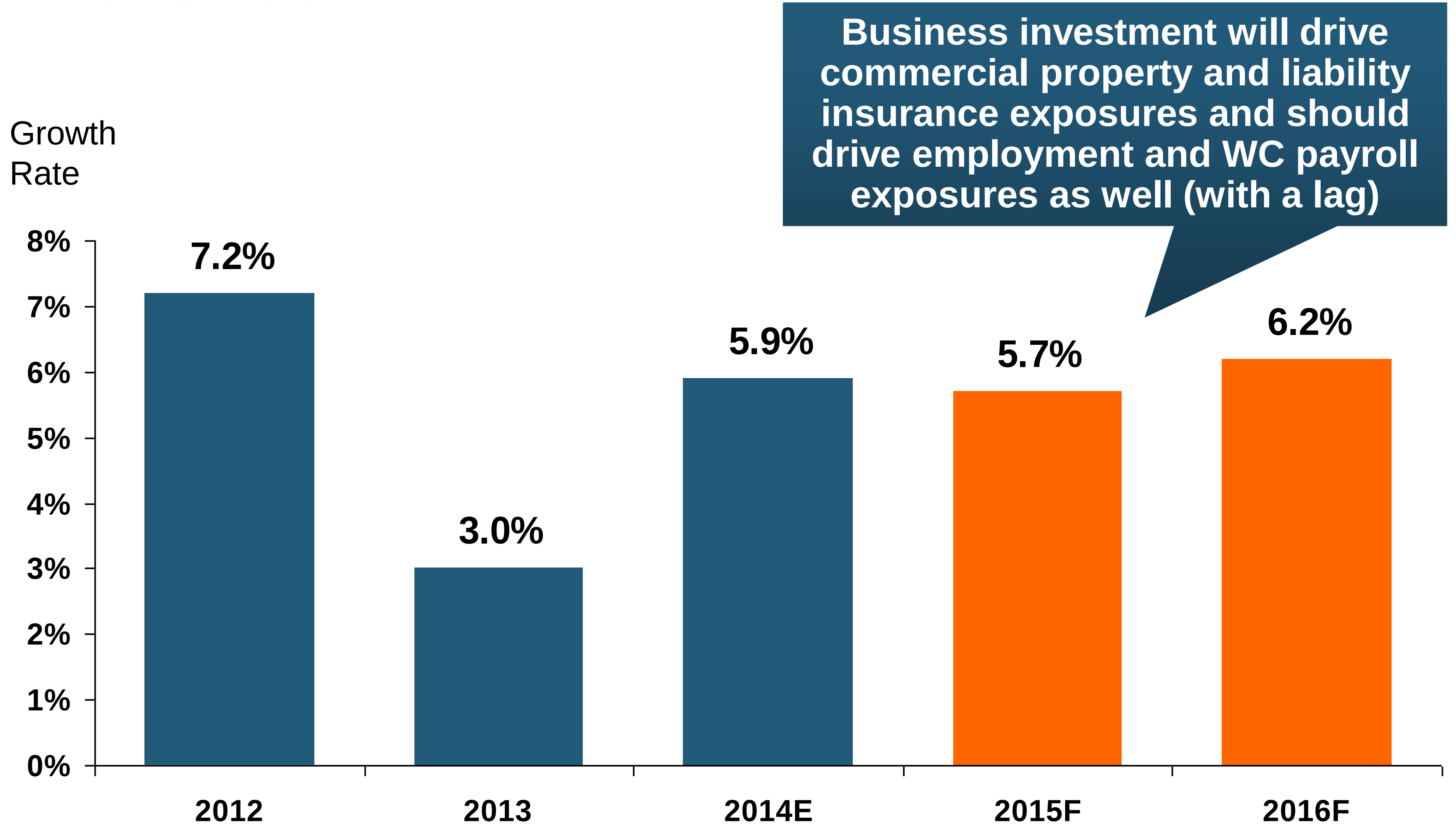


Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

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

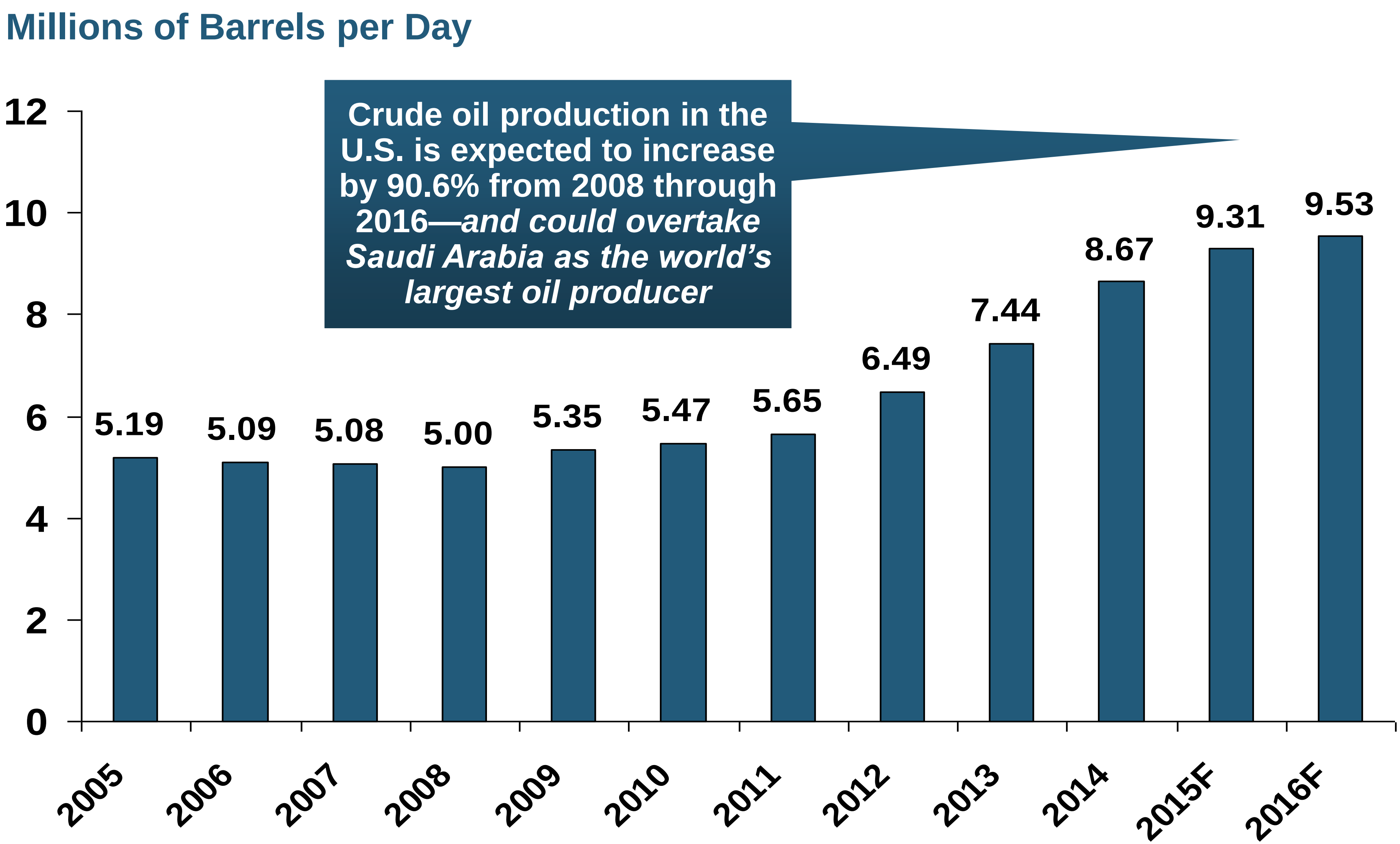


Sources: Wells Fargo Economic Group; Insurance Information Institute.

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



Source: Energy Information Administration, *Short-Term Energy Outlook* (January 15, 2015) , Insurance Information Institute.

U.S. Natural Gas Production, 2000-2013

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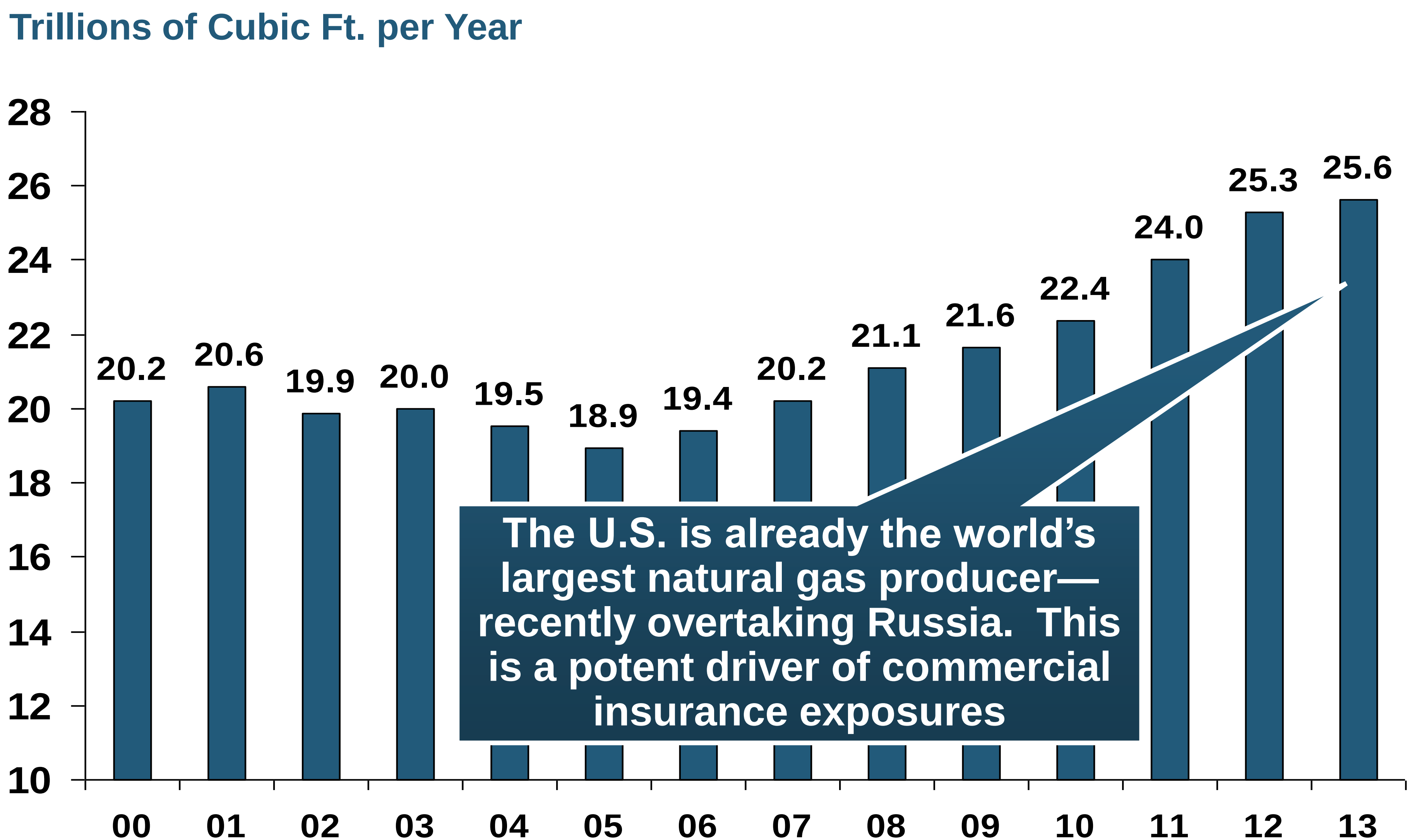

Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

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

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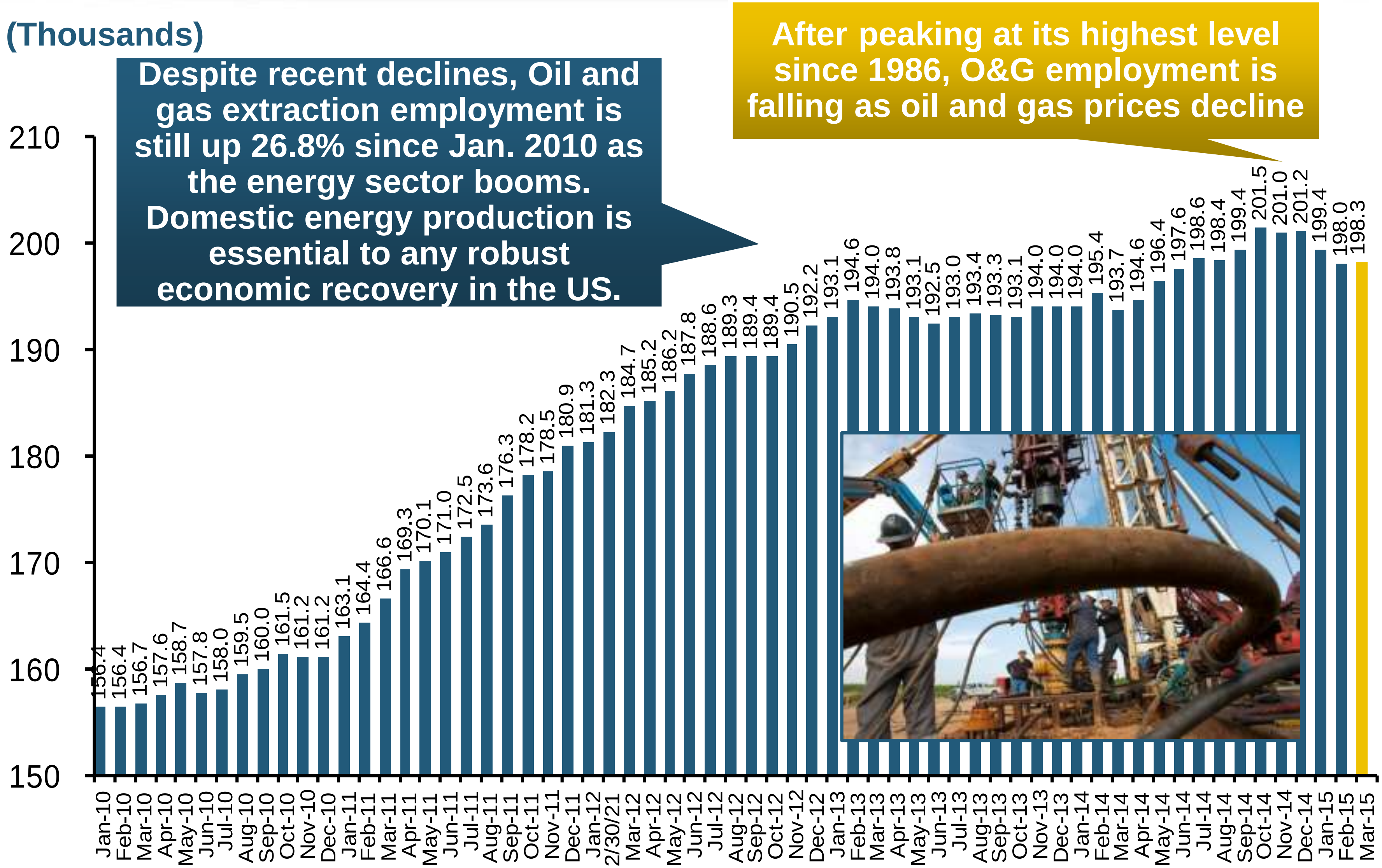
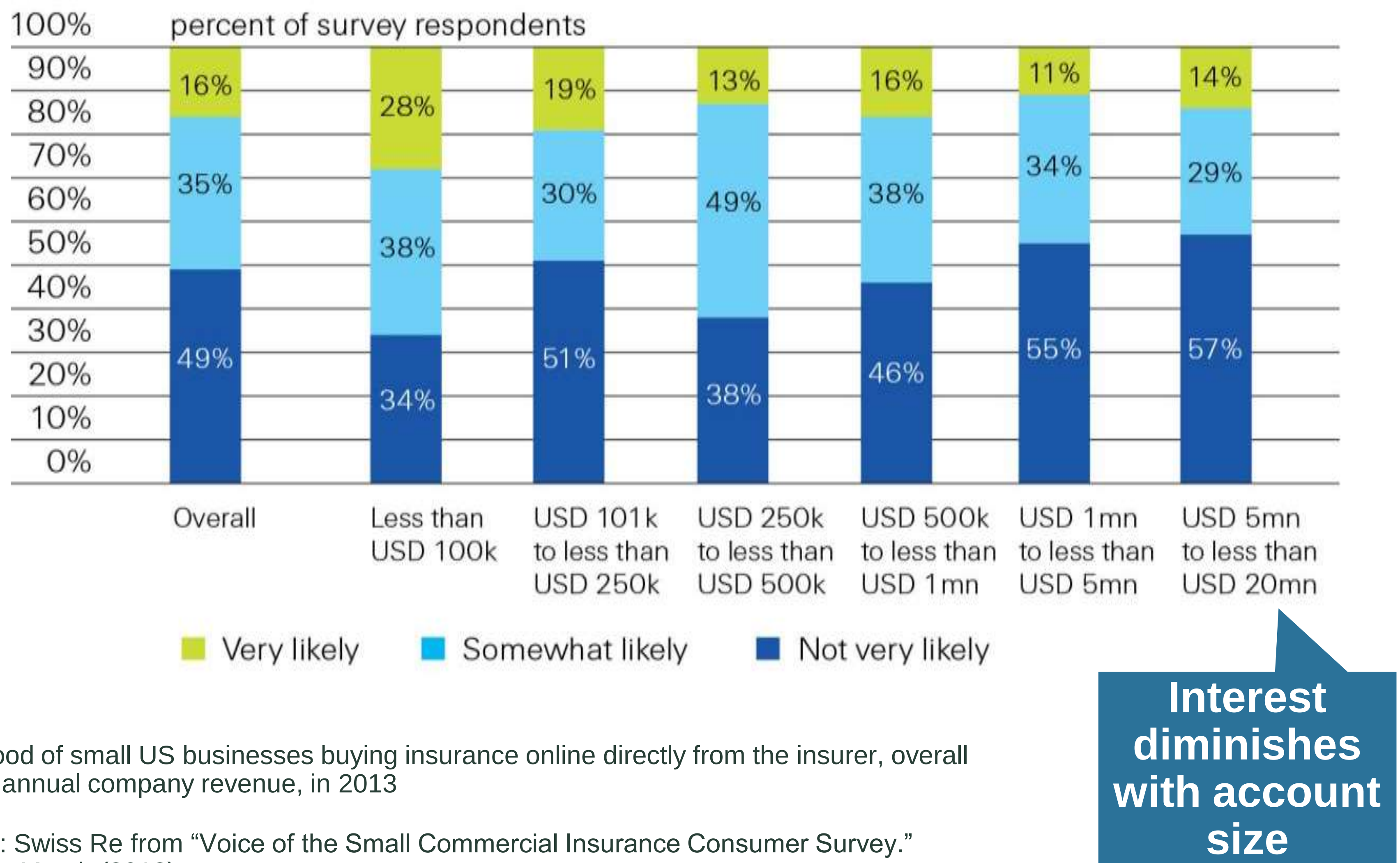


*Seasonally adjusted

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

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)

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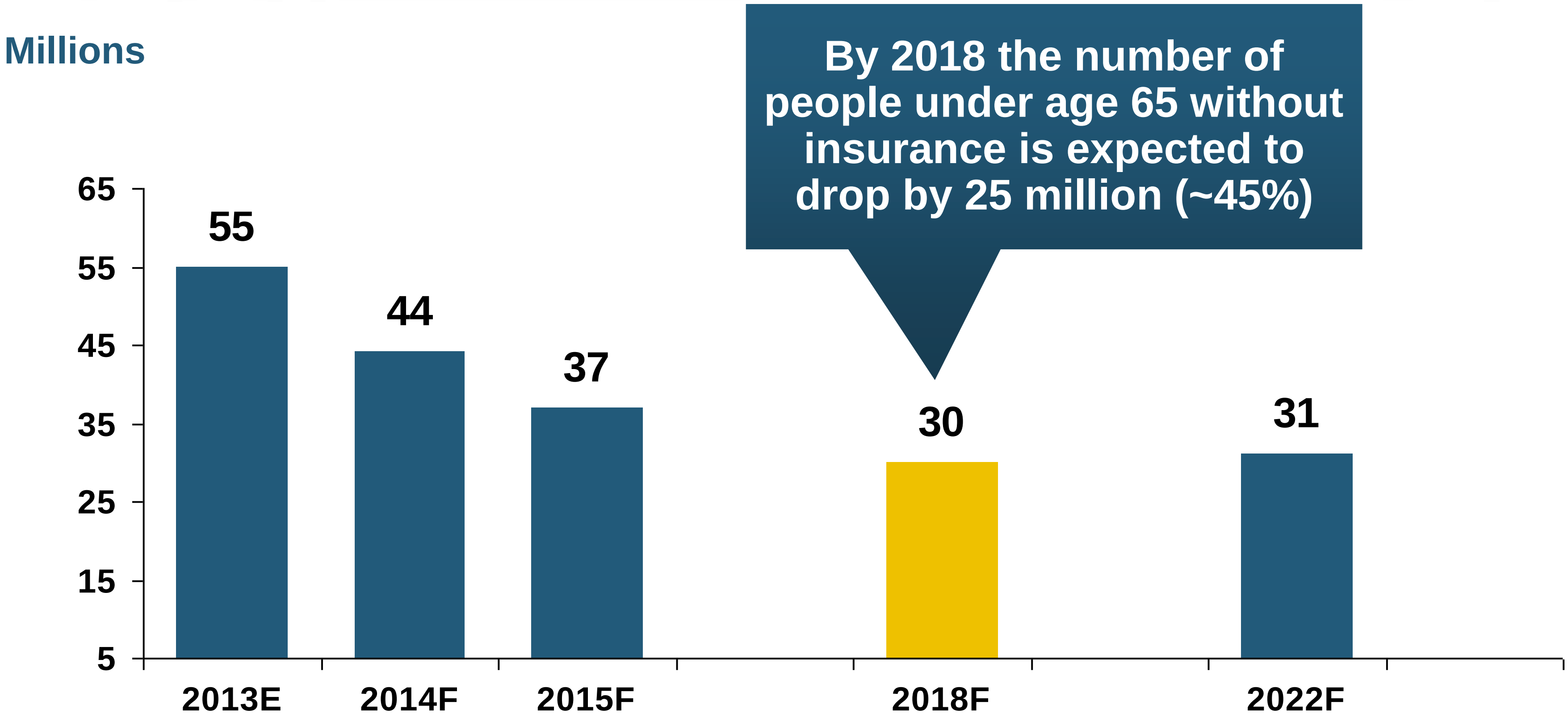
The Affordable Care Act & Implications for P/C Insurance

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*



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

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Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	• System is overwhelmed • MD shortage • Patient care adversely impacted	• 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	• Cost	• Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
Claim Shifting	• Provider/patient may prefer claim handled via WC system	• Reduction in uninsured population reduces shifting
Reimbursement Rates	• Cuts in MC reimbursement rates could makes docs less willing to take WC claims	• Impact would be short-lived. All MC-linked states already boost WC reimbursements

Source: Insurance Information Institute research; WCRI.

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

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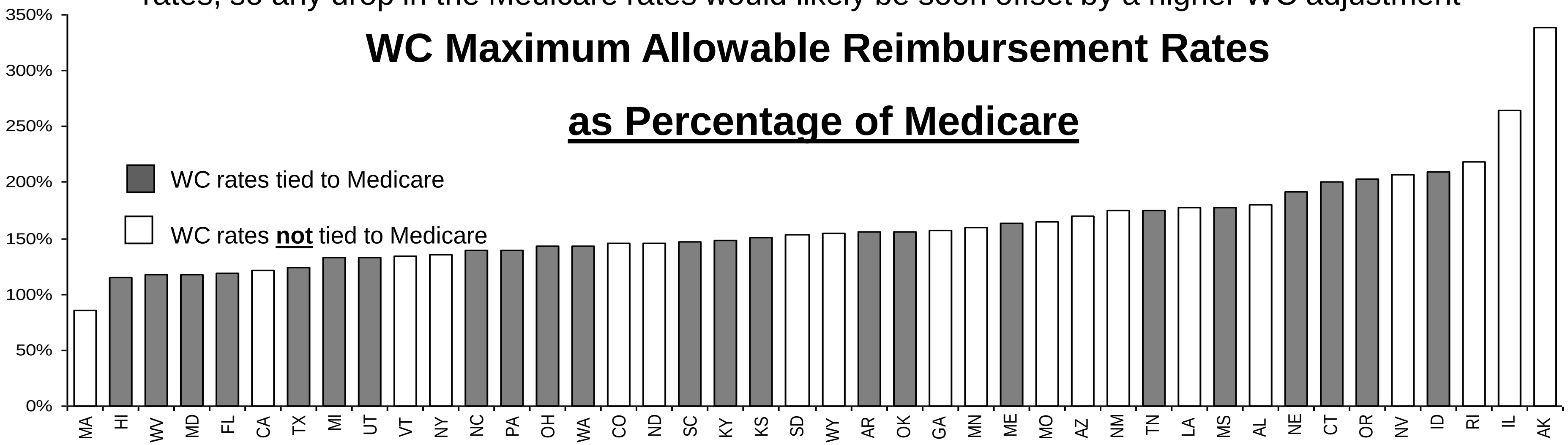
- WC rates often tied to Medicare but can change for reasons independent of this link
- There could be both positive and negative effects of a cut in Medicare rates on WC performance in states which tie reimbursement to Medicare
  - WC reimbursement rates would go down
  - Doctors may be unwilling to 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



SOURCE: NCCI Annual Issues Symposium 2009, Medicare's Impact on Workers' Compensation, AMA: "Physicians' reactions to the Medicare physician payment cuts."

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

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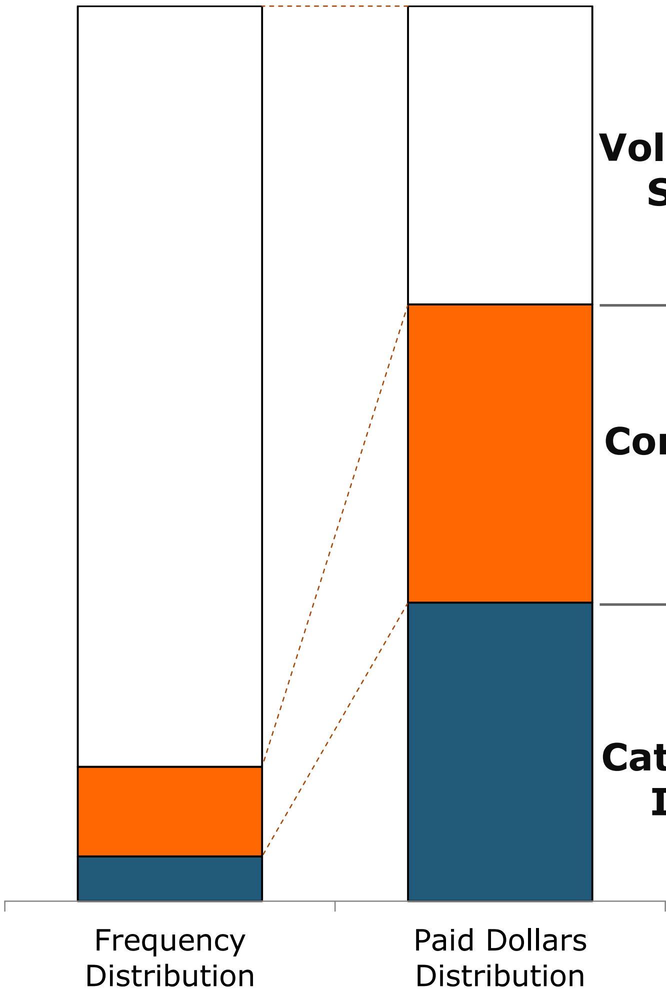
Industry Portfolio by Claim Type

(Relative Volume by Claim Frequency & Paid Dollars)



		Potential ACA Impact
High Volume, Low Severity	*Ex: med only, quick to settle, <25K*	• **Expanded coverage may shift some small claims to the health insurance system (+)**
Complicated	*Ex: back pain claims, very litigious*	• **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 (+)**
Catastrophic Injuries	*Ex: spinal cord injury, multiple trauma claims*	• **No significant impacts**

SOURCE: Christopher Cunniff, FCAS, *Impacts of Healthcare Reform on Workers Compensation.*

Possible Effects on Workers Comp

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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?

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