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

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The Economy Will Impact Workers Compensation Growth and Performance

Workers Comp Is Among the Fastest Growing Major Commercial Lines
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 5/15; Insurance Information Institute.
The economic outlook for most of the US is generally positive, though flat-to-negative for 2 states.
North Dakota was the economic growth juggernaut of the US in 2013—by far.

Only 9 states experienced growth in excess of 3% in 2013, which is what we would see nationally in a more typical recovery.

Growth Benchmarks: Real GDP
US: 1.8%

Sources: U.S. Bureau of Economic Analysis; Insurance Information Institute.
Real GDP by State Percent Change, 2013: Lowest 25 States

Growth rates in 11 states were still below 1% in 2013: Maryland had zero real growth in 2013

DC and Alabama were the only states to shrink in 2013

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.
Small business optimism has dropped somewhat since reaching post-crisis highs in late 2014.


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](http://www.uscourts.gov); Insurance Information Institute
Business Bankruptcy Filings, 1980-2014

% Change Surrounding Recessions

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

2014 bankruptcies totaled 26,983, down 18.8% from 2013—the 5th consecutive year of decline. Business bankruptcies more than tripled during the financial crisis.

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

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

Business Starts
2006: 861,000
2007: 844,000
2008: 787,000
2009: 701,000
2010: 742,000
2011: 781,000
2012: 800,000
2013: 870,000**

Thousands

Recessions in orange

2013:Q1 578,000 business starts*

Profitability and Growth in Maryland Overall P/C and WC Insurance Markets

Maryland and Nearby State Comparisons
RNW All Lines: MD vs. U.S., 2004-2013

Average 2004-2013
US: 7.9%
MD: 9.5%

Source: NAIC, Insurance Information Institute
RNW Workers Comp: MD vs. U.S., 2004-2013

Average 2004-2013
US: 7.1%
MD: 5.0%

Source: NAIC, Insurance Information Institute
All Lines: 10-Year Average RNW MD & Nearby States

Maryland All Lines profitability is above the US and slightly above the regional average

Source: NAIC, Insurance Information Institute
Workers Comp: 10-Year Average RNW MD & Nearby States

Maryland Workers Comp profitability is below the US average and regional average.

Source: NAIC, Insurance Information Institute
Workers Comp. DWP Growth: MD vs. U.S., 2004-2013

(Percent)

Average 2004-2013
US: 3.7%
MD: 7.0%

Source: SNL Financial.
Labor Markets Trends: 
Recovery Continues in 2015

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

January 2000 through April 2015, Seasonally Adjusted (%)

"Headline" Unemployment Rate U-3
Unemployment + Underemployment Rate U-6

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is continuing to improve.

US Unemployment Rate Forecast

2007:Q1 to 2016:Q4F*

Rising unemployment eroded payrolls and WC’s exposure base.

Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2015/16.

Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 5.0% by Q4 of 2015.

* = actual; ** = forecasts

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

In April, 23 states and the District of Columbia had over-the-month unemployment rate decreases, 11 states had increases, and 16 states had no change.

Residual impacts of the housing collapse, weak economies are holding back several states.

*Provisional figures for April 2015, seasonally adjusted.
Unemployment Rates by State, April 2015: Lowest 25 States*

In April, 23 states and the District of Columbia had over-the-month unemployment rate decreases, 11 states had increases, and 16 states had no change.

Strength in Energy, Agricultural States—most also avoided housing bust

*Provisional figures for April 2015, seasonally adjusted.
Monthly Change in Private Employment

January 2007 through Apr. 2015 (000s, Seasonally Adj.)

3,042,000 jobs were created in 2014, the most since 1997

213,000 private sector jobs were created in April.

Private Employers Added 11.97 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)

Number of Employed Persons in Maryland (annual averages): 2005-2015*

Great Recession
Maryland lost 145,300 jobs (-5.6%) from pre-crisis peak of 2.6125 million in April 2008 to trough of 2.4672 million in Feb. 2010

Maryland did not fully recoup job losses from the great Recession until April 2014

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

*2015 figure is a seasonally adjusted annual rate as of April; [http://www.census.gov/construction/c30/historical_data.html](http://www.census.gov/construction/c30/historical_data.html)
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2015:Q1

Prior Peak was 2008:Q3 at $6.54 trillion

Recent trough (2009:Q1) was $6.23 trillion, down 5.3% from prior peak

Latest (2015:Q1) was $7.69 trillion, a new peak--$1.46 trillion above 2009 trough

Growth rates
2011:Q4 over 2010:Q4: 2.6%
2012:Q4 over 2011:Q4: 6.7%
2013:Q4 over 2012:Q4: 1.7%
2014:Q4 over 2013:Q4: 5.1%

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
Sources: [http://research.stlouisfed.org/fred2/series/WASCUR](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

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

WC premium volume dropped two years before the recession began

WC net premiums written were down $14B or 29.3% to $33.8B in 2010 after peaking at $47.8B in 2005

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are from NCCI.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at [http://research.stlouisfed.org/fred2/series/WASCUR](http://research.stlouisfed.org/fred2/series/WASCUR); NCCI; I.I.I.
Key Sectors Critical to the Economy and the P/C Insurance Industry

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 March.
Sources: US Department of Commerce [http://www.census.gov/construction/c30/c30index.html](http://www.census.gov/construction/c30/c30index.html); Insurance Information Institute.
Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking Up in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

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

*2015 figure is a seasonally adjusted annual rate as of March; http://www.census.gov/construction/c30/historical_data.html
Sources: US Department of Commerce; Insurance Information Institute.
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

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

Job growth, low inventories of existing homes, low mortgage rates and demographics should continue to stimulate new home construction for several more years

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/15 and 3/15); Insurance Information Institute.
Construction Employment, Jan. 2010—April 2015*

Construction employment is +948,000 above Jan. 2011 (+17.4%) trough

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

*Seasonally adjusted.
The “Great Recession” and housing bust destroyed 2.3 million construction jobs.

Construction employment troughed at 5.435 million in Jan. 2011, after a loss of 2.291 million jobs, a 29.7% plunge from the April 2006 peak.

Construction employment as of Apr. 2015 totaled 6.383 million, an increase of 948,000 jobs or 17.4% from the Jan. 2011 trough.

Gap between pre-recession construction peak and today: 1.34 million jobs.

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.
MANUFACTURING SECTOR

A Potent Driver of Jobs, Workers Comp Payroll Exposure

America’s Manufacturing Renaissance Has Hit a Rough Patch with the High Dollar and Collapse in Oil Prices
Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

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 auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Sales have returned to pre-crisis levels

Job growth and improved credit market conditions will boost auto sales in 2014 and beyond

Truck purchases by contractors are especially strong

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/15 and 3/15); Insurance Information Institute.
The manufacturing sector expanded for 62 of the 64 months from Jan. 2010 through Apr. 2015. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China and the high dollar.

**Dollar Value* of Manufacturers’ Shipments**  

The value of Manufacturing Shipments in March 2015 was $482.2B—down 5.1% since the July 2014 record high of $508.1B

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Monthly shipments in March 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months due to the strong US dollar and weakness abroad. 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 May 4, 2015.  
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; Date are YTD comparing data through March 2015 to the same period in 2014.
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through March 2015

Percent of Industrial Capacity

- The US operated at 78.4% of industrial capacity in Feb. 2015, well above the June 2009 low of 66.9% but is still below pre-recession levels.

- Capacity utilization is falling due to strong dollar and falling energy prices.

- The closer the economy is to operating at “full capacity,” the greater the inflationary pressure.

Source: Federal Reserve Board statistical releases at [http://www.federalreserve.gov/releases/g17/Current/default.htm](http://www.federalreserve.gov/releases/g17/Current/default.htm).
States with Lowest Average Manufacturing Payroll Distribution

Payroll Share (%)

- FL: 4.5%
- MD: 4.2%
- HI: 2.9%
- AK: 2.7%
- DC: 0.2%

MD has among the lowest manufacturing payrolls shares in the US.

States with Highest Office and Clerical Payroll Distribution

Payroll Share (%)

- **MD** has among the highest office and payroll shares in the US

<table>
<thead>
<tr>
<th>State</th>
<th>Payroll Share (%)</th>
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<tbody>
<tr>
<td>DC</td>
<td>84.8%</td>
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<tr>
<td>CT</td>
<td>69.9%</td>
</tr>
<tr>
<td>VA</td>
<td>69.4%</td>
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<tr>
<td>MD</td>
<td>68.0%</td>
</tr>
<tr>
<td>IL</td>
<td>66.3%</td>
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America’s Energy Boom Has Been a Strong Driver of the Economic Recovery, but Prices Are Falling

Workers Comp Have Benefited from the Energy Boom, But Exposures Will Suffer as Energy Prices Swoon
Price of Crude Oil (West Texas Intermediate), 2000 – 2015*

Crude oil prices have fallen by nearly half from their levels just a year ago, adversely impact oil and gas industry employment.

*Through March 2015.
Source: Energy Information Administration; Insurance Information Institute.
Despite recent declines, Oil and gas extraction employment is still up 24.3% 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

The U.S. is already the world’s largest natural gas producer— recently overtaking Russia. This is a potent driver of commercial insurance exposures.
POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure
Hours worked totaled 34.5 per week in April, just shy of the 34.6 hours typically worked before the “Great Recession”.

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
The average hourly wage was $24.87 in April 2015, up 17.2% from $21.22 when the recession began in Dec. 2007.

Wage gains continued during the recession, despite massive job losses.

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

Key Factors Harming Workers Compensation Exposure and the Overall Economy
Labor Force Participation Rate, Jan. 2002—April 2015*

*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.

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).

"Discouraged Workers" are people who have searched for work for so long in vain that they actually stop searching and drop out of the labor force.

Large numbers of people are exiting (or not returning to) the labor force.

There were 756,000 discouraged workers in March 2015.

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.
Growth in Temporary Workers vs. All Nonfarm Employment, 2010-2015*

**Annual Percent Change**

Demand for temporary workers has increased 2 to 3 times faster than for workers overall in recent years.

*Through March 2015.
Labor on Demand: Huge Implications for the US Economy, Workers & Insurers

Will YOUR job be reduced to an app?

THE WALL STREET JOURNAL.

There's an Uber for Everything Now

Apps do your chores: shopping, parking, cooking, cleaning, packing, shipping and more
The “On-Demand” (Sharing) Economy

The On-Demand Economy Will Transform the American Workforce and the P/C Insurance Industry Too, Including Workers Comp
On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- The “On-Demand” Economy is or will impact many segments of the economy important to P/C insurers
  - Auto (personal and commercial)
  - Homeowners/Renters
  - Many Liability Coverages
  - Professional Liability
    - *Workers Comp*
- Many unanswered insurance questions
- Insurance solutions are increasingly available to fill the many insurance gaps that arise
The On-Demand Economy and American Workers: What Is Happening?

- Technology is Fundamentally Transforming How Resources are Allocated and Used in the Economy
- Labor is No Exception to this Transformation
- Technology Offers New Opportunities to Match Labor to Jobs
  - Owners of spare capacity (workers with time and skill) can be paired at low cost with those with a demand for that time and skill
  - Bringing together labor and those who employ labor is not new
  - BUT: Pairing occurs with a speed and breadth never before possible
- Witnessing the Demise of the Traditional Understanding of What is Meant by a “Good” Job
  - Concept born in the Industrial Age (1880-1980), is eroding
  - Disintermediation of the firm as the place where labor, jobs matched
- Accelerating Trends that Started with Labor Strife, Globalization and Automation that Began in the 1970s and 1980s
What’s In Store for the American Worker, Labor Force and Workers Comp

THE NEW AMERICAN WORKER: Two Schools of Thought

OPTIMISTIC OUTLOOK

- Technology frees workers from the bonds of centralized, hierarchical institutions (the firm)
- Enhanced coordination of “haves” with “needs” that bypass firms as intermediaries

Who Benefits?

- “Flexers”: People who value or require flexibility in work arrangements (stay-at-home parents, retirees, students, disabled)
- Professionals: People with portable skills that can be offered through online platforms (semi and high-skilled trades, professional services)
- Unemployed/Underemployed: Offers at least some opportunity to offer and utilize skills and generate income

Sources: Wall Street Journal; The Economist; Insurance Information Institute research.
What’s In Store for the American Worker, Labor Force and Workers Comp

**PESSIMISTIC OUTLOOK**

- **On-Demand companies are software-driven marketplaces and position themselves as “platforms” rather than “employers”**
- Enormous valuations (e.g., $40B for Uber on $2B in earnings) reflect the extraction of resources that otherwise would go to benefits, investments in safety, training, etc.
  - Uber’s valuation was greater than that of 72% of the S&P500 at YE 2014
  - Valued more than Delta Airlines, Kraft Foods, CBS, Macy’s, Hilton, Aflac…
- Jobs reduced to freelanced, temporary “gigs”
- Low skill workers and those who lack flexibility are left further behind
- Workers treated as independent contractors without intrinsic or basic economic rights

**What Is Potentially Lost or Compromised?**

- Stability, Retirement Benefits, Sick Pay, Maternity Leave, Overtime
- Health Insurance, Liability Coverage, *Workers Comp* Coverage

Sources: Wall Street Journal; The Economist; Fortune; Insurance Information Institute research.
Potential Consequences for Insurers

- On-Demand Platforms Have Struggled with Concepts of Liability
- There Has Been a General Resistance to Assuming Liability or Responsibility Unless Compelled to Do So
- Companies Have Sought to Keep as Much Liability as Possible on the Individual Offering their (Contracted) Labor or Resources

**Minding the Gap**
- Traditional insurance will often not cover a worker engaged in offering labor or resources through these platforms
- E.g., Auto ins. generally won’t cover you if you while driving for Uber
- Home ins. won’t cover for other than occasional rentals of property
- Unless self-procured, on-demand worker (independent contractors) will generally have no workers comp recourse if injured on the job

- Long Legislative and Court Battles Lie Ahead
- Insurance Solutions Becoming More Common
P/C Insurance Industry
Financial Overview

2014: Second-Best Year in the Post-Crisis Era

Modest CATs, Strong Markets

Workers Comp Improvement Helped Too
Net income fell modestly (-12.5%) in 2014 vs. 2013

- ROE figures are GAAP
- ROAS = Return on avg. surplus
- Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 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 – 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

**P/C Profitability Is Both by Cyclicality and Ordinary Volatility**

- Hugo
- Andrew
- Northridge
- Lowest CAT Losses in 15 Years
- Sept. 11
- Katrina, Rita, Wilma
- 4 Hurricanes
- Financial Crisis*
- Sandy
- Modestly higher CATs
- Low CATs
- Record Tornado Losses

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

Commercial lines have tended to be more profitable than personal lines over the past decade.

Source: NAIC; Insurance Information Institute.
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Avg. CAT Losses, More Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration

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Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration


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.

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 combined ratio including M&FG insurers is 97.0; 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.
Underwriting Gain (Loss) 1975–2014*

Cumulative underwriting deficit from 1975 through 2013 was $493B

High cat losses in 2011 led to the highest underwriting loss since 2002

Large Underwriting Losses Are NOT Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years.
Sources: A.M. Best, ISO; Insurance Information Institute.
Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016.
Policyholder Surplus, 2006:Q4–2014:Q4

($ Billions)

2007:Q3 Pre-Crisis Peak

Drop due to near-record 2011 CAT losses

Surplus as of 12/31/14 stood at a record high $674.7B

The industry now has $1 of surplus for every $0.74 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.

Sources: ISO, A.M. Best.

The P/C insurance industry entered 2015 in very strong financial condition.
Surplus Redundancy (Deficiency)

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

Excess Capital

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.
Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2014: 4.1%
2013: 4.4%
2012: +4.2%

Shaded areas denote “hard market” periods

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 is prone to more cyclical volatility that personal lines. Recently, growth has stabilized in the 4% to 5% range.

Note: Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute.
Direct Premiums Written: Comm. Lines
Percent Change by State, 2007-2013

Top 25 States

Only 30 states showed any commercial lines growth from 2007 through 2013

Growth Benchmarks: Commercial
US: 1.3%

Sources: SNL Financial LLC.; Insurance Information Institute.
States with the poorest performing economies also produced the most negative net change in premiums of the past 6 years.

Nearly half the states have yet to see commercial lines premium volume return to pre-crisis levels.
Direct Premiums Written: Workers’ Comp Percent Change by State, 2007-2013*

Top 25 States

Only 13 states showed positive growth in the workers comp line from 2007 – 2013 (up from just 5 through 2012), the result of large job and payroll losses and a soft market. Even through 2014, fewer than half the states will have recouped DPW losses.

*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

States with the poorest performing economies also produced some of the most negative net change in premiums of the past 6 years

*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.
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Low Yields Have an Especially Large Influence on Profitability of Long-Tailed Lines Like WC
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.
Distribution of Invested Assets: P/C Insurance Industry, 2013

$ Billions

- Bonds, 62%
- Stocks, 22%
- Cash, Cash Equiv. & ST Investments, 6%
- All Other, 10%

Total Invested Assets = $1.5 Trillion


Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for a full decade.

U.S. Treasury yields plunged to historic lows in 2013. Longer-term yields rebounded then sank fell again.

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 April 2015.
Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Even when the Fed begins to raise rates, yields unlikely to return to pre-crisis levels anytime soon.

The Fed is actively signaling that it is like to begin to raise rates but no sooner than June and probably later.

Source: Federal Reserve Board of Governors; Insurance Information Institute.
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.
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.
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.
P/C Insurer Net Realized Capital Gains/Losses, 1990-2014

Realized capital gains rose sharply as equity markets rallied in 2013-14

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.
Total Investment Gains Were Relatively 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.
Volatility is endemic to stock markets—and may be increasing—but there is no persistent downward trend over long periods of time.

*Through May 28, 2015.

Source: NYU Stern School of Business: [http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)
Workers Compensation
Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Can Gains Be Maintained?

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 (2010-2014P) and are for private carriers only; Insurance Information Institute.
Commercial Lines Combined Ratio, 1990-2015F*

Commercial lines underwriting performance in 2013-14 benefited from favorable rate environment, low cats, modest loss cost trends and prior year reserve releases.

There is enormous variation in accident year combined ratios across states.

WC Net Combined Ratios: Private Carriers vs. State Funds, 2000 – 2014p

Average: 2000-2014p
Private Carriers: 107.7
State Funds: 118.2

WC Investment Gain on Insurance Transactions: 5-Year Moving Average

PRIVATE CARRIERS

Source: NCCI analysis based on Annual Statement data.
Investment Gain on Insurance Transactions Includes Other Income.
Averages reflect the following adjustments: 1990-91: adjusted to include realized capital gains to be consistent with 1992 and subsequent years; 2013: adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring.
Source: NCCI analysis based on Annual Statement data.
Investment Gain Equals 1.00 minus (Combined Ratio less Investment Gains on Insurance Transactions and Other Income).
Averages reflect the following adjustments: 1990-91: adjusted to include realized capital gains to be consistent with 1992 and subsequent years; **2013: adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring. Excluding the adjustment the operating gain is 17.7%.

Average (1994-2014p): 5.9%
Workers Compensation Loss and LAE Net Reserve Deficiencies, 1995 - 2014

PRIVATE CARRIERS

2014 Tabular Discount Is $4.6 Billion

Percent of CY Total Reserves As Reported

$ Billions

Source: NCCI analysis based on Annual Statement data.
Considers all reserve discounts as deficiencies.
Workers Compensation Premium: Fourth Consecutive Year of Increase

Net Written Premium

State Funds ($ B) - Private Carriers ($ B)

Pvt. Carrier NWP growth was +4.3% in 2014, +5.1% in 2013 and 8.7% in 2012

Source: NCCI from Annual Statement Data.
Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.
Each calendar year total for State Funds includes all funds operating as a state fund that year.
While growth rates varied widely, most states experienced positive growth in 2014.

*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.
Source: NCCI.
While growth rates varied widely, all states experienced positive growth in 2013.
# Workers Compensation Components of Written Premium Change, 2013 to 2014

<table>
<thead>
<tr>
<th>Written Premium Change from 2013 to 2014</th>
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<tbody>
<tr>
<td>Net Written Premium—Countrywide</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Direct Written Premium—Countrywide</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Direct Written Premium—NCCI States</td>
<td>+4.5%</td>
</tr>
</tbody>
</table>

## Components of DWP Change for NCCI States

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Carrier Estimated Payroll</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Change in Bureau Loss Costs and Mix</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Change in Carrier Discounting</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Change in Other Factors</td>
<td>+0.8%</td>
</tr>
<tr>
<td><strong>Combined Effect</strong></td>
<td><strong>+4.5%</strong></td>
</tr>
</tbody>
</table>

Sources: Countrywide: Annual Statement data.  
NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.  
Components: NCCI Policy data.

Growth is now almost entirely payroll driven
While growth rates varied widely, most states experienced positive growth in 2014.

*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.
Source: NCCI.
Note: Premium level changes are approved changes are approved or filed and pending changes in advisory rates, loss costs and rating values as of 4/24/15 as filed by applicable rating organization, relative to those previously approved. SC is filed and pending. IN and NC are in cooperation with state rating bureaus.
Source: NCCI.
WC Approved Changes in Bureau Premium Level (Rates/Loss Costs)

By Effective Date for Total Market

Cumulative 1990–1993 +36.3%
Cumulative 1994–1999 -27.8%
Cumulative 2000–2003 +17.1%
Cumulative 2004–2011 -30.8%
Cumulative 2011–2014 +11.8%

*States approved through 4/24/15.
Note: Bureau premium level changes are countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization, relative to those previously approved.
Source: NCCI.

Approved rates/loss costs are down for the first time since 2010
WC COST DRIVERS

Medical and Indemnity Factors
Workers Compensation Lost-Time Claim Frequency Declined in 2014

Cumulative Change of -51.1%
(1994–2013 adj.)

Frequency Change: 2007—2012

Contracting: 7.9→7.1 -9.3%
Manufacturing: 13.6→12.0 -11.8%

*Adjustments primarily due to significant audit activity.
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994–2013: Based on data through 12/31/13. Data for all states where NCCI provides ratemaking services, excluding WV.
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level.
Workers Comp Indemnity Claim Costs: Modest Increase in 2014

Average Indemnity Cost per Lost-Time Claim

Average indemnity costs per claim were up 4% in 2014 to $23,600, the largest increase since 2008

Cumulative Change = 141% (1991-2014p)

Accident Year

1991-2013: Based on data through 12/31/2013, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.
WC Indemnity Severity vs. Wage Inflation, 1995 -2014p

Indemnity severities usually outpace wage gains

WC indemnity severity turned positive again in 2011

Annual Change 1994–2014
Indemnity Claim Sev.:  +4.6
US Avg. Weekly Wage:  +3.4%


Source: NCCI
States with Top 5 Highest Approved Indemnity Loss Ratio Trend*

2014-2015 Rate Filing Season*

Indemnity Trend (%)

-0.5%
-1.0%
-1.5%
-2.0%
-3%
-2%
-2%
-1%
-1%
0%

IA, CT, IN, NH
GA, LA, NC
DC, MD, MI, OR, VT
FL, ME, NE, SC**

MD has among the “highest” indemnity loss ratio trends, though the figure is still negative.

*NCCI states only. Filings with effective dates between 10/1/14 and 9/1/15.
Workers Compensation Medical Severity: Moderate Increase in 2014

Medical severity for lost time claims was up 4% in 2014, the largest increase since 2009.

Cumulative Change = 263% (1991-2014p)

Accident Year

1991-2013: Based on data through 12/31/2013, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.
The change in lost-time medical severities from 2009-2013 ranged from a low of -6% to a high of 9%.
States with Top 5 Lowest Approved Medical Loss Ratio Trend*

2014-2015 Rate Filing Season*

Indemnity Trend (%)

-0.5%
-1.0%
-1.5%
-3.0%
-3.5%

MD has among the lowest indemnity loss ratio trends

GA, KS, MD, NM, VT
AR, MS, NV, OK, OK, SC**, UT
AL, DC, ME
KY
TX

*NCCI states only. Filings with effective dates between 10/1/14 and 9/1/15.
Annual Inflation Rates, (CPI-U, %), 1990–2016F

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

Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates.

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

Workers Compensation
Change in Medical Severity
Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Lost-Time Medical Claim Severity</th>
<th>Change in US Medical CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>5.1%</td>
<td>4.5%</td>
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<tr>
<td>96</td>
<td>7.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>97</td>
<td>10.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td>98</td>
<td>10.6%</td>
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</tr>
<tr>
<td>99</td>
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<td>00</td>
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<td>4.6%</td>
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<tr>
<td>01</td>
<td>4.6%</td>
<td>8.8%</td>
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<tr>
<td>02</td>
<td>7.3%</td>
<td>7.7%</td>
</tr>
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<td>03</td>
<td>5.4%</td>
<td>5.8%</td>
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<td>04</td>
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<td>4.4%</td>
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<td>4.2%</td>
</tr>
<tr>
<td>06</td>
<td>5.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>07</td>
<td>6.9%</td>
<td>4.4%</td>
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<tr>
<td>08</td>
<td>3.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>09</td>
<td>4.0%</td>
<td>0.5%</td>
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<tr>
<td>10</td>
<td>3.4%</td>
<td>2.4%</td>
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<tr>
<td>11</td>
<td>2.4%</td>
<td>2.3%</td>
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<tr>
<td>12</td>
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<tr>
<td>13</td>
<td>3.0%</td>
<td>3.4%</td>
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<tr>
<td>14p</td>
<td>4.0%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Average Annual Change: 1994—2014
Lost-Time Medical Severity: +6.4%
US Medical CPI: +3.7%

Sources: Severity: 995-2013: Based on data through 12/31/2013, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.
WC Medical Severity Generally Outpaces the Medical CPI Rate

Average annual increase in WC medical severity from 1995 through 2014 was well above the medical CPI (6.4% vs. 3.7%), but the gap has narrowing. Lost-time medical severities appear to on the rise again.

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

Though moderating, medical inflation will continue to exceed inflation in the overall economy.

Average Annual Growth Average
1995 – 2013
Healthcare: 3.8%
Total Nonfarm: 2.4%

*July 2014 compared to July 2013.
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.

Health care expenditures as a share of GDP rose from 5.8% in 1965 to 18.0% in 2013 and are expected to reach 19.9% of GDP by 2022. Since 2009, health expenditures as a % of GDP have flattened out at about 18%--the question is why and will it last?

WC RESIDUAL MARKETS

WC Residual Markets Remain Fairly Stable
WC Residual Market Share, 1985-2014p

Residual market share is up slightly over the past few years.

Includes pool and direct assignment data for all NCCI-serviced WC residual market pool states.

Source: NCCI, Residual Market Management Summary.
Includes pool and direct assignment data for all NCCI-serviced WC residual market pool states.

Commercial Lines Pricing Trends

Survey Results Suggest Commercial Pricing Has Flattened Out
Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2015)

<table>
<thead>
<tr>
<th>Period</th>
<th>Rate Change</th>
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<tbody>
<tr>
<td>1Q:2004</td>
<td>-3.2%</td>
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<tr>
<td>2Q:2004</td>
<td>-5.9%</td>
</tr>
<tr>
<td>3Q:2004</td>
<td>-7.0%</td>
</tr>
<tr>
<td>4Q:2004</td>
<td>-8.2%</td>
</tr>
<tr>
<td>1Q:2005</td>
<td>-9.4%</td>
</tr>
<tr>
<td>2Q:2005</td>
<td>-9.7%</td>
</tr>
<tr>
<td>3Q:2005</td>
<td>-8.2%</td>
</tr>
<tr>
<td>4Q:2005</td>
<td>-4.6%</td>
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<tr>
<td>1Q:2006</td>
<td>-2.7%</td>
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<tr>
<td>4Q:2006</td>
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<td>1Q:2007</td>
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<tr>
<td>1Q:2008</td>
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<tr>
<td>2Q:2008</td>
<td>-13.9%</td>
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<td>3Q:2008</td>
<td>-13.9%</td>
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<tr>
<td>4Q:2008</td>
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<tr>
<td>1Q:2009</td>
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<tr>
<td>2Q:2009</td>
<td>-12.9%</td>
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<tr>
<td>3Q:2009</td>
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<tr>
<td>4Q:2009</td>
<td>-11.0%</td>
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<tr>
<td>1Q:2010</td>
<td>-6.4%</td>
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<td>2Q:2010</td>
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<td>3Q:2010</td>
<td>-4.9%</td>
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<tr>
<td>4Q:2010</td>
<td>-5.8%</td>
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<td>1Q:2011</td>
<td>-5.4%</td>
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<td>4Q:2011</td>
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<tr>
<td>1Q:2012</td>
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<td>3Q:2012</td>
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<tr>
<td>3Q:2015</td>
<td>0.1%</td>
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<tr>
<td>4Q:2015</td>
<td>-0.7%</td>
</tr>
<tr>
<td>1Q:2016</td>
<td>-1.5%</td>
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</tbody>
</table>

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 2015:Q1

Percentage Change (%)

Peak = 2001:Q4
+28.5%

Pricing Turned Negative in Early 2004 and Remained that way for 7 ½ years

KRW : No Lasting Impact

Pricing turned positive in Q3:2011, the first increase in nearly 8 years

Trough = 2007:Q3
-13.6%

Rate trends are roughly flat, some carriers reporting small gains, others flat, others small declines

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.
Despite several years of gains, pricing today for midsized 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

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 Comp Rate Changes, 2008:Q4 – 2015:Q1

(Percent 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; Information Institute.
Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2015:Q1

Most accounts are renewing flat or slightly down

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
Selected Challenges in the Workers Comp Market

A Number of Issues Have Stirred Interest in Workers Compensation in the First Part of 2015
Challenges Raised in the Workers Comp Line

**Opt Out Legislation:** Coalition of large employers is aggressively pushing for legislation that would allow them to forego purchasing WC coverage in favor of creating their own programs while also seeking to specify the criteria for claiming and the size of benefits

- Allowed in TX for many years and passed in OK in 2014
- Failed in TN in 2015; Lobbying in AL, FL, GA, NC, SC

**Challenges to Exclusive Remedy:** Assertion that after reforms in several states the WC “Grand Bargain” has been breached and that benefits are now insufficient

- Objective of trial lawyers is to tap into the tort system
Recent Challenges Raised in the Workers Comp Line (continued)

- **ProPublica/NPR Attack Series:** “The Demolition of Workers Comp” (Published in March 2015)

- Thesis: WC benefits have been hollowed out and that workers were often no longer well served by the system
  - Claims 33 states watered down benefits under the guise of reform

- Series relied on a number of anecdotal cases of claimants who believed they were adversely impacted

- I.I.I. made forceful rebuttal focusing on:
  - Magnitude of insurer payouts to injured workers
  - Material improvements in workplace safety, in part due to WC incentives
  - Benefits of cost controls without compromising outcomes

http://www.iii.org/article/a-letter-to-the-editor-about-workers-compensation
Five Leading WC Proposal Categories to Watch in 2015

- **Drug Formularies:** A few states have formularies and interested is increasing as studies show formularies can save money.

- **Medical Marijuana:** Not priceable (no data). Some states take position that medical marijuana is not reimbursable (even if legal in state). Impact on drug-free workplace credit?

- **Fee Schedules:** Most states have fee schedules but 9 still do not. CT, NC added schedules in 2015, AK expected soon. Failed to introduce in NH and VA. Cost savings are often significant.

- **Attorney Fees:** Fee caps being challenged. Moving from a fee schedule to an uncapped “reasonable” fee standard is expected result in a significant increase in costs. Should fee be paid out of the award or by insurer/employer?

- **Opt Out:** Effort by some large corporations to restructure WC system.
Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

Download at www.iii.org/presentations
APPENDIX: The “On-Demand” Economy
The “On-Demand” World is Not New…

Companies like Angie’s List (established in 1995 and going online in 1999) have been around for decades.

The Geek Squad has been around since 1994…

Peapod sprouted way back in 1989!

Source: Insurance Information Institute.
...But the “On-Demand” World is Exploding as Is the Demand for “On-Tap” Workers

Need something done around the house…Click on Handy

Hate doing laundry? Washio will do it for you…

Hate doing just about everything? Taskrabbit will take on virtually all your “tasks”…

Source: Insurance Information Institute.
You Can Live Your Life with the Swipe of a Finger…

Get married…

...Move

...And if it doesn’t work out…
Some Players in the On-Demand Economy Have Become Household Names

Rent a place…

...Need a Lyft?

...This ride has taken Wall Street to the stratosphere
Technology and Employment

What Makes the On-Demand Economy Possible?

Why Does It Matter for Insurers?
Smartphones are the breakthrough technology behind the on-demand economy.

- 2015: ~50% of adults globally have a smartphone
- 2020: About 80% will own one
Growth in Temporary Workers vs. All Nonfarm Employment, 2010-2015*

Annual Percent Change

Demand for temporary workers has increased 2 to 3 times faster than for workers overall in recent years.

*Through March 2015.
The “On-Demand” (Sharing) Economy

The On-Demand Economy Will Transform the American Workforce and the P/C Insurance Industry Too
On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- The “On-Demand” Economy is or will impact many segments of the economy important to P/C insurers
  - Auto (personal and commercial)
  - Homeowners/Renters
  - Many Liability Coverages
  - Professional Liability
  - **Workers Comp**

- Many unanswered insurance questions

- Insurance solutions are increasingly available to fill the many insurance gaps that arise
The On-Demand Economy and American Workers: What Is Happening?

- Technology is Fundamentally Transforming How Resources are Allocated and Used in the Economy
- Labor is No Exception to this Transformation
- Technology Offers New Opportunities to Match Labor to Jobs
  - Owners of spare capacity (workers with time and skill) can be paired at low cost with those with a demand for that time and skill
  - Bringing together labor and those who employ labor is not new
  - BUT: Pairing occurs with a speed and breadth never before possible
- Witnessing the Demise of the Traditional Understanding of What is Meant by a “Good” Job
  - Concept born in the Industrial Age (1880-1980), is eroding
  - Disintermediation of the firm as the place where labor, jobs matched
- Accelerating Trends that Started with Labor Strife, Globalization and Automation that Began in the 1970s and 1980s
THE NEW AMERICAN WORKER: Two Schools of Thought

OPTIMISTIC OUTLOOK

- Technology frees workers from the bonds of centralized, hierarchical institutions (the firm)
- Enhanced coordination of “haves” with “needs” that bypass firms as intermediaries

Who Benefits?

- “Flexers”: People who value or require flexibility in work arrangements (stay-at-home parents, retirees, students, disabled)
- Professionals: People with portable skills that can be offered through online platforms (semi and high-skilled trades, professional services)
- Unemployed/Underemployed: Offers at least some opportunity to offer and utilize skills and generate income

Sources: Wall Street Journal; The Economist; Insurance Information Institute research.
What’s In Store for the American Worker, Labor Force and Workers Comp

PESSIMISTIC OUTLOOK

- On-Demand companies are software-driven marketplaces and position themselves as “platforms” rather than “employers”

- Enormous valuations (e.g., $40B for Uber on $2B in earnings) reflect the extraction of resources that otherwise would go to benefits, investments in safety, training, etc.
  - Uber’s valuation was greater than that of 72% of the S&P500 at YE 2014
  - Valued more than Delta Airlines, Kraft Foods, CBS, Macy’s, Hilton, Aflac…

- Jobs reduced to freelanced, temporary “gigs”
- Low skill workers and those who lack flexibility are left further behind
- Workers treated as independent contractors without intrinsic or basic economic rights

What Is Potentially Lost or Compromised?

- Stability, Retirement Benefits, Sick Pay, Maternity Leave, Overtime
- Health Insurance, Liability Coverage, Workers Comp Coverage

Sources: Wall Street Journal; The Economist; Fortune; Insurance Information Institute research.
Potential Consequences for Insurers

- On-Demand Platforms Have Struggled with Concepts of Liability
- There Has Been a General Resistance to Assuming Liability or Responsibility Unless Compelled to Do So
- Companies Have Sought to Keep as Much Liability as Possible on the Individual Offering their (Contracted) Labor or Resources

Minding the Gap
- Traditional insurance will often not cover a worker engaged in offering labor or resources through these platforms
- E.g., Auto ins. generally won’t cover you if you while driving for Uber
- Home ins. won’t cover for other than occasional rentals of property
- Unless self-procured, on-demand worker (independent contractors) will generally have no workers comp recourse if injured on the job

Long Legislative and Court Battles Lie Ahead

Insurance Solutions Becoming More Common
On-Demand Workers

Who Are They?

And Who’s Driving Demand for Them?
Percent of People Who Have Engaged in an “On Demand/Sharing Economy” Transaction

The majority of the US population has yet to engage in the “On Demand” economy

About 19% of the US population has engaged in an “On Demand/Sharing Economy” Transaction

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.
Age of People Who are Providing the Sharing/On-Demand Economy

Being a provider of services in the Sharing/On-Demand Economy is attractive to workers in the 25-44 age range (who want flexibility in raising families) as well as seniors age 65+ who see the offering their services on-demand as a way to augment retirement income.

About 7% of US population are providers in the Sharing Economy, cutting across age and incomes; 51% of those familiar with the concept could see themselves as providers within the next two years.

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.
Household Income: Providers of the Sharing/On-Demand Economy

Being a provider of services in the Sharing/On-Demand Economy is particularly attractive to workers with household incomes under $50,000.

About 7% of US population are providers in the Sharing Economy, cutting across age and incomes; 51% of those familiar with the concept could see themselves as providers within the next two years.

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.
The On-Demand Economy and Wall Street

Wall Street Loves the On-Demand Economy

Labor Markets, Insurance Markets Will Be Impacted
HERE’S AN IDEA

VENTURE-CAPITAL INVESTMENT IN THE ON-DEMAND ECONOMY, $BN

- UNITED STATES
- REST OF WORLD

NUMBER OF COMPANIES

117

Source: Crunchbase
Uber is the Best Known of the On-Demand Companies

Wall Street Loves Uber
Vested Interests Hate Uber
NUMBER OF NEW DRIVER-PARTNERS STARTING EACH MONTH IN THE UNITED STATES

Note: Figure based on U.S. UberBLACK and uberX driver-partners who have joined since June 2012 (303,985 individuals), based on Uber data.
Note: Figure reports the number of U.S. UberBLACK and uberX driver-partners making at least one trip in the specified month, indexed to the number of months since Uber began in the city or June 2012, whichever came later.
Looking Ahead: *Disruptive Forces Rule*

Technology’s Impacts on the Economy, the Workforce and the Insurance Industry Will Be Significant
Worldwide installations of industrial robots exceeded 200,000 in 2014—a new record and will approach 300,000 by 2017.

36,000 installations are expected in North America by 2017.

*Estimate.
Future Shock: Many More Transformative Technologies Are Around the Corner

By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models (more than 4 million people work in transportation occupations today)

Up Next
- Driverless cars
- Driverless trucks, trains, planes and ships
- Wearable devices
- Implantable devices
- Artificial intelligence
- Advanced robotics

Source: Boston Consulting Group.