

Mega-Trends Influencing the Workers Compensation Insurance Industry

**62nd Annual Workers Compensation
Educational Conference
Orlando, FL**

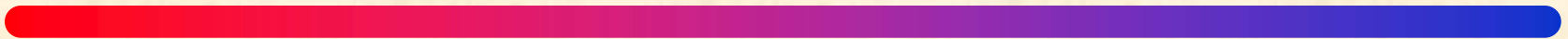


August 13, 2007

Robert P. Hartwig, Ph.D., CPCU, President
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 346-5520 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org

IT'S EASY TO FEEL GOOD ABOUT WORKERS COMP TODAY

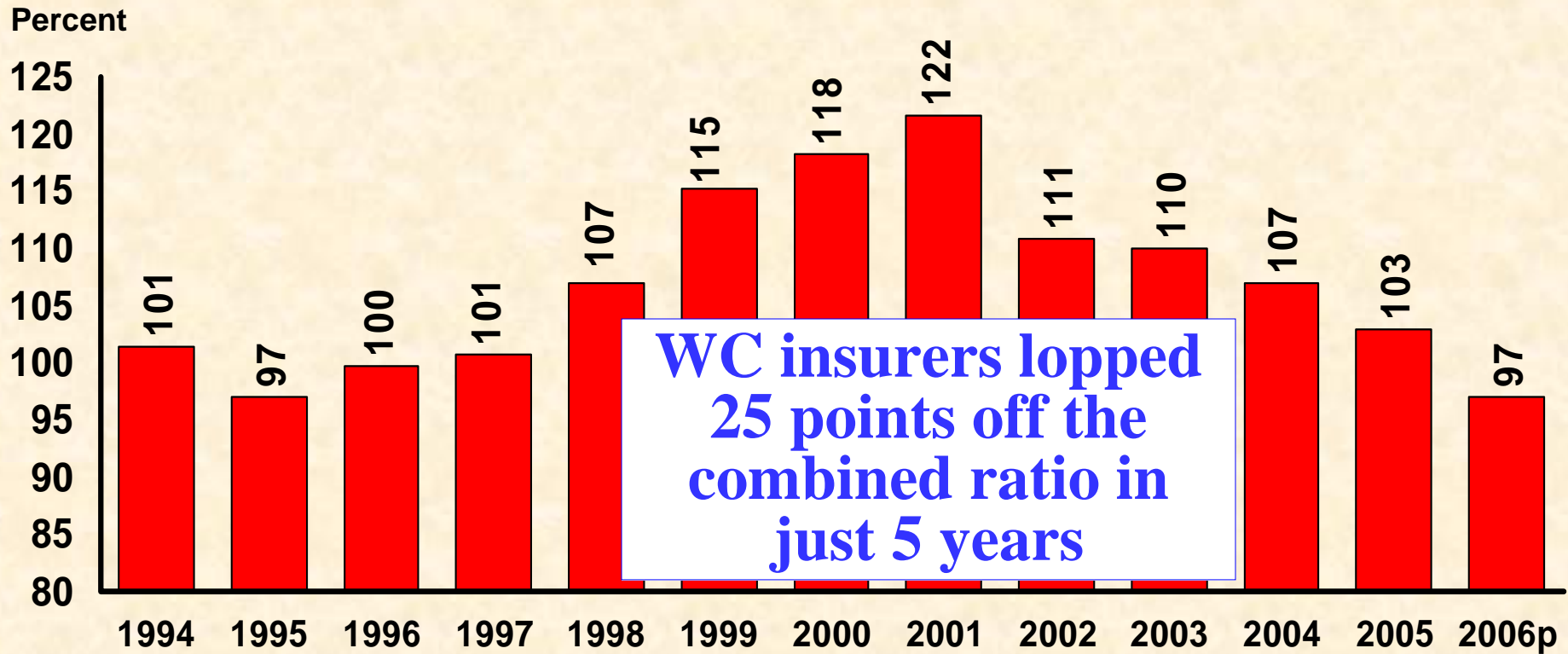
Once Disastrous Line, Now
Makes Healthy Profit





Workers Comp Combined Ratios, 1994-2006P

Workers Comp Calendar Year – Private Carriers



p Preliminary AY figure.

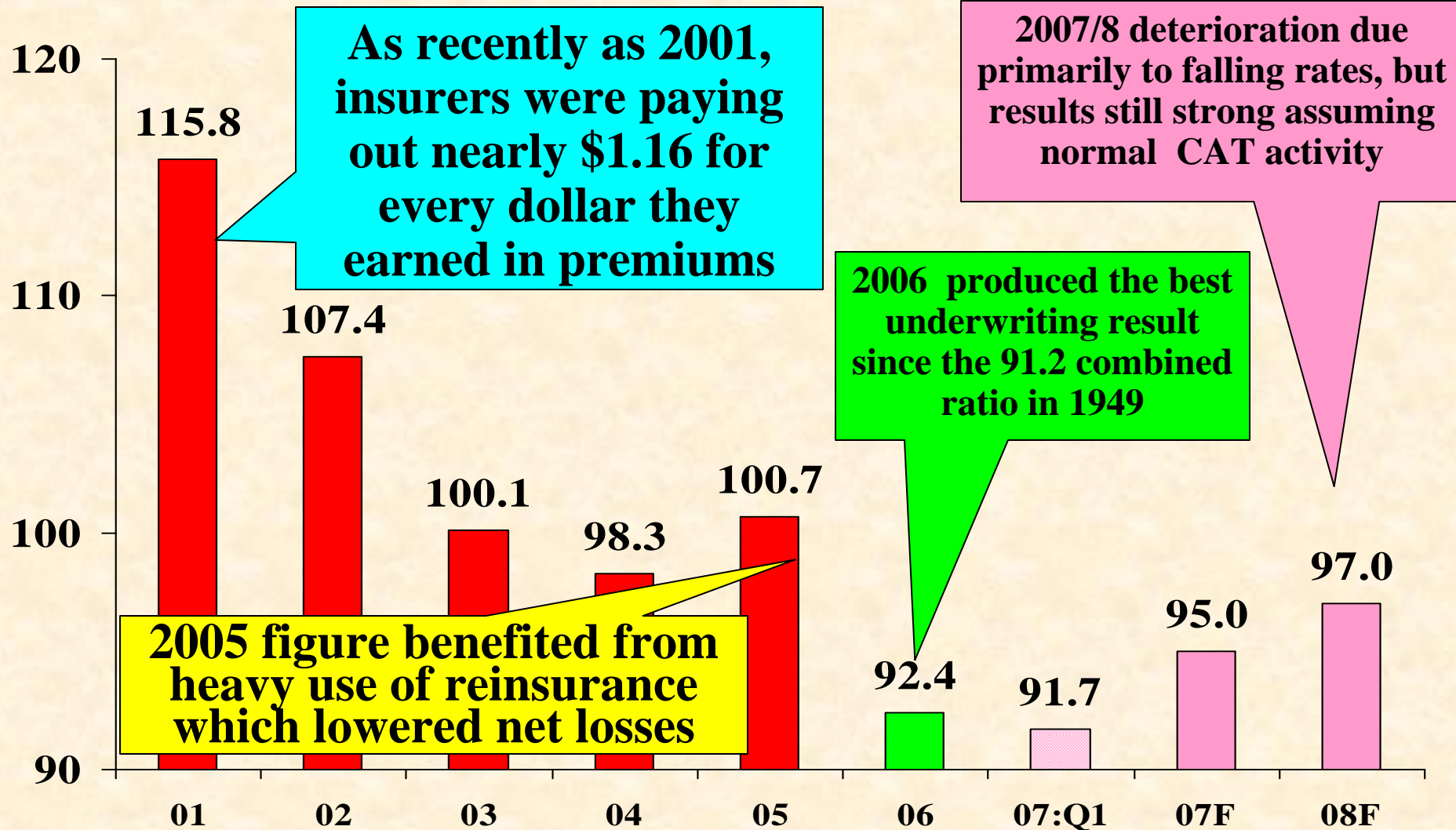
Accident Year data is evaluated as of 12/31/2006 and developed to ultimate

Source: Calendar Years 1994-2005, A.M. Best Aggregates & Averages; Calendar Year 2006p and Accident Years 1994-2006p based on NCCI Annual Statement Analysis.

Includes dividends to policyholders



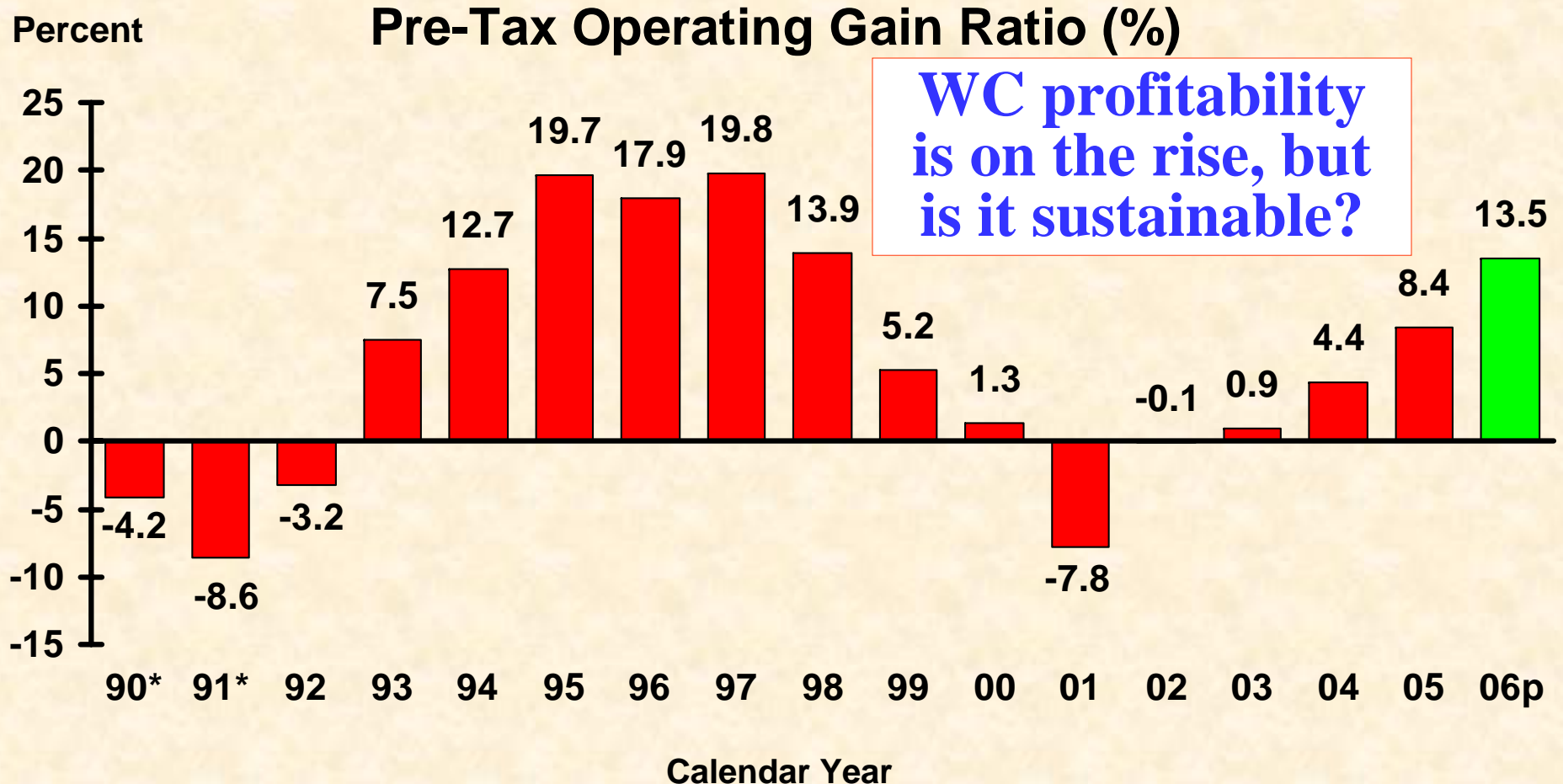
P/C Insurance Combined Ratio, 2001-2008F



Sources: A.M. Best; ISO, III. *III estimates for 2007/8.



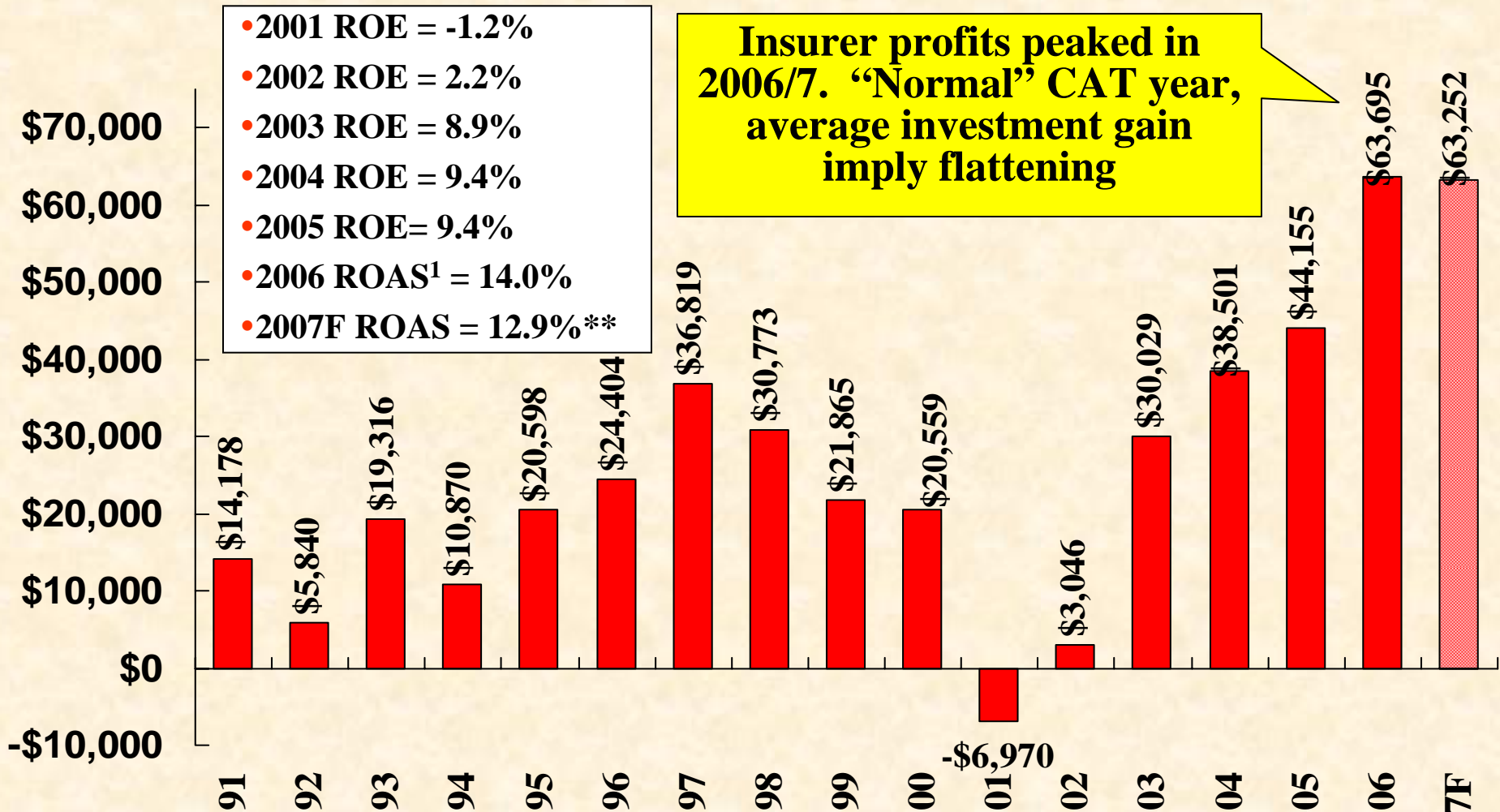
Workers Comp Profitability Is Improving





P/C Net Income After Taxes

*1991-2007F (\$ Millions)**



*ROE figures are GAAP; ¹Return on avg. surplus. 2007F figure is annualized actual Q1 net income of \$15.813B **Actual first quarter 2007 result.

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

WHY YOU SHOULD FEEL GOOD ABOUT WHAT YOU DO

**Saving Lives, Increasing
Productivity and Much More**

!!! *It's Not Just About the Money*



Did You Know That When You Prevent a Workplace Injury You...

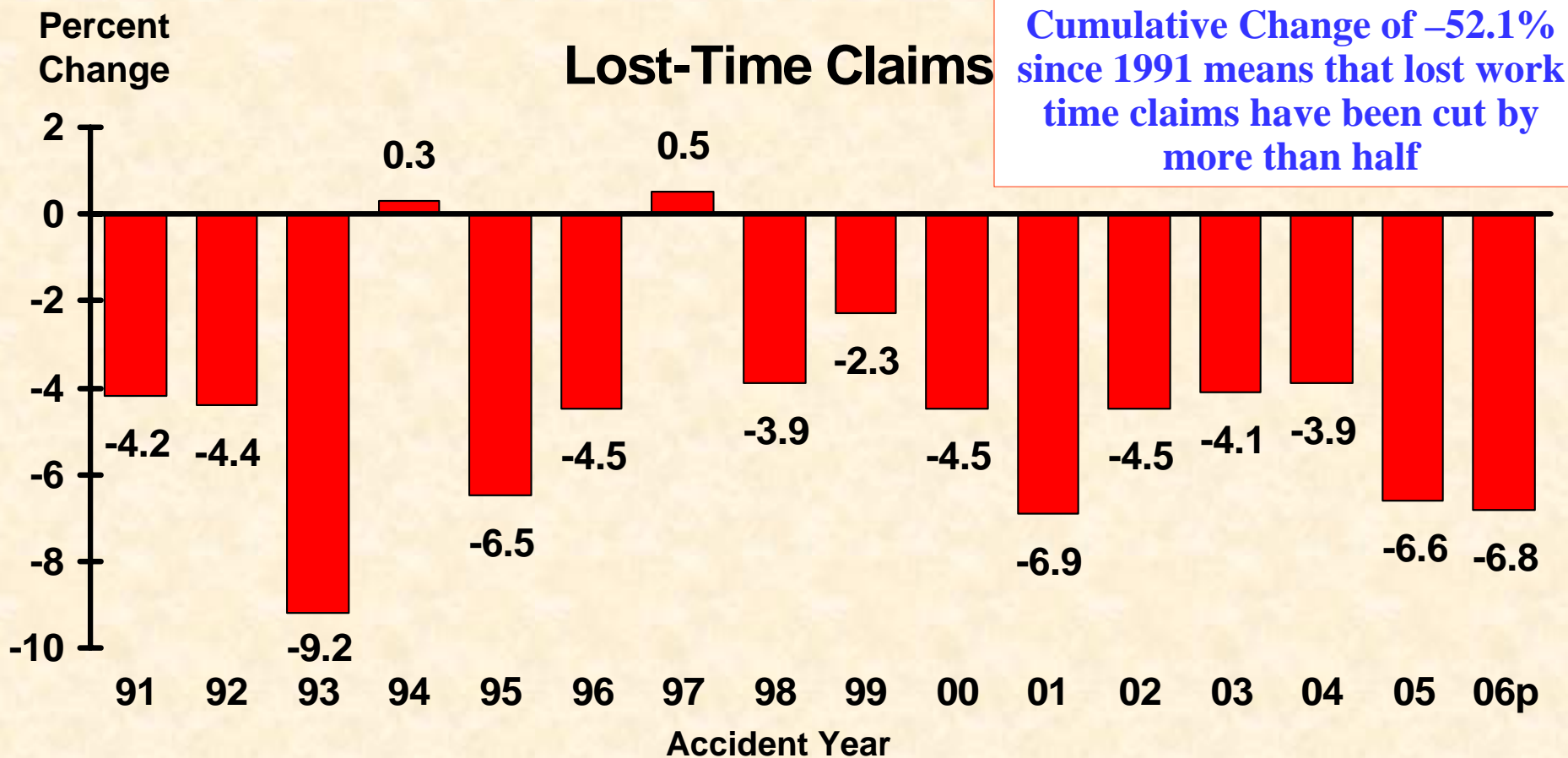
- **Keeping Workers Comp Costs Down is Just the Beginning**
- **You Help Companies Remain Productive¹**
 - **Permanently Disabling Injuries** → 565 Lost Future Work Days on Avg.
 - **Fatal Injuries** → 5,850 Lost Future Work Days on Average
- **You Increase/Preserve Worker Incomes**
 - **Seriously Injured Workers Have Lower Lifetime Earnings, on Average**
 - **Reduced Likelihood of Filing Bankruptcy**
 - **Less Likely to Need Public Assistance**
- **You Maintain/Improve the Quality of Worker's Home Life**
 - **Higher Incidence of Divorce, Substance Abuse, Depression Among Seriously Injured**

**ALL REASONS TO BE PROUD
OF WHAT YOU DO!!**

¹ US Census Bureau: <http://www.census.gov/compendia/statab/tables/07s0639.xls>

Workers Comp Lost-Time Claim Frequency

Down More than 50% Since 1991



2006p: Preliminary based on data valued as of 12/31/2006

1991-2005: Based on data through 12/31/2005, developed to ultimate

Based on the states where NCCI provides ratemaking services

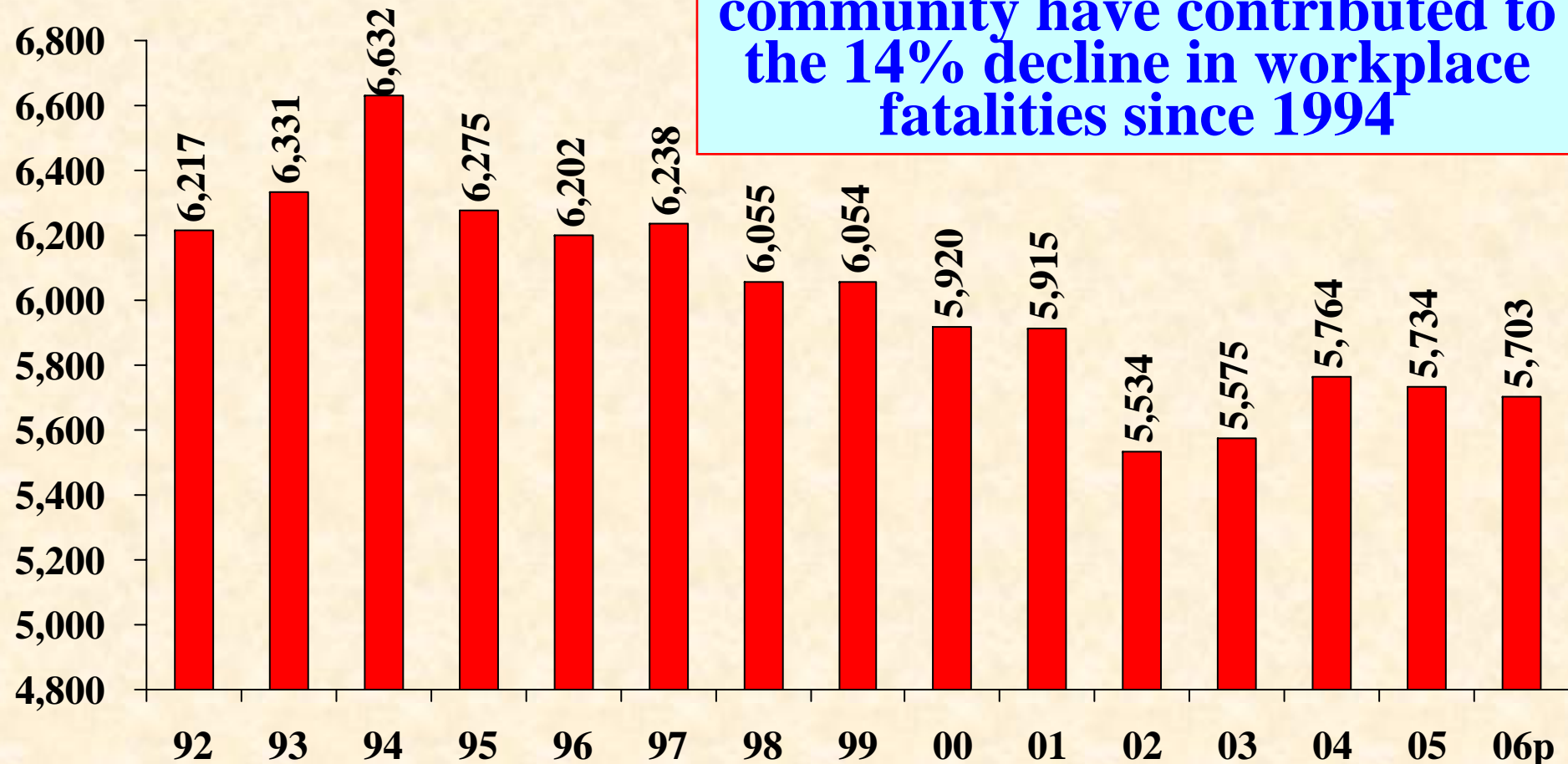
Excludes the effects of deductible policies

Source: NCCI



Number of Fatal Work Injuries is Continues to Fall, 1992 – 2006p

**Workers comp insurers & the
entire workplace safety
community have contributed to
the 14% decline in workplace
fatalities since 1994**



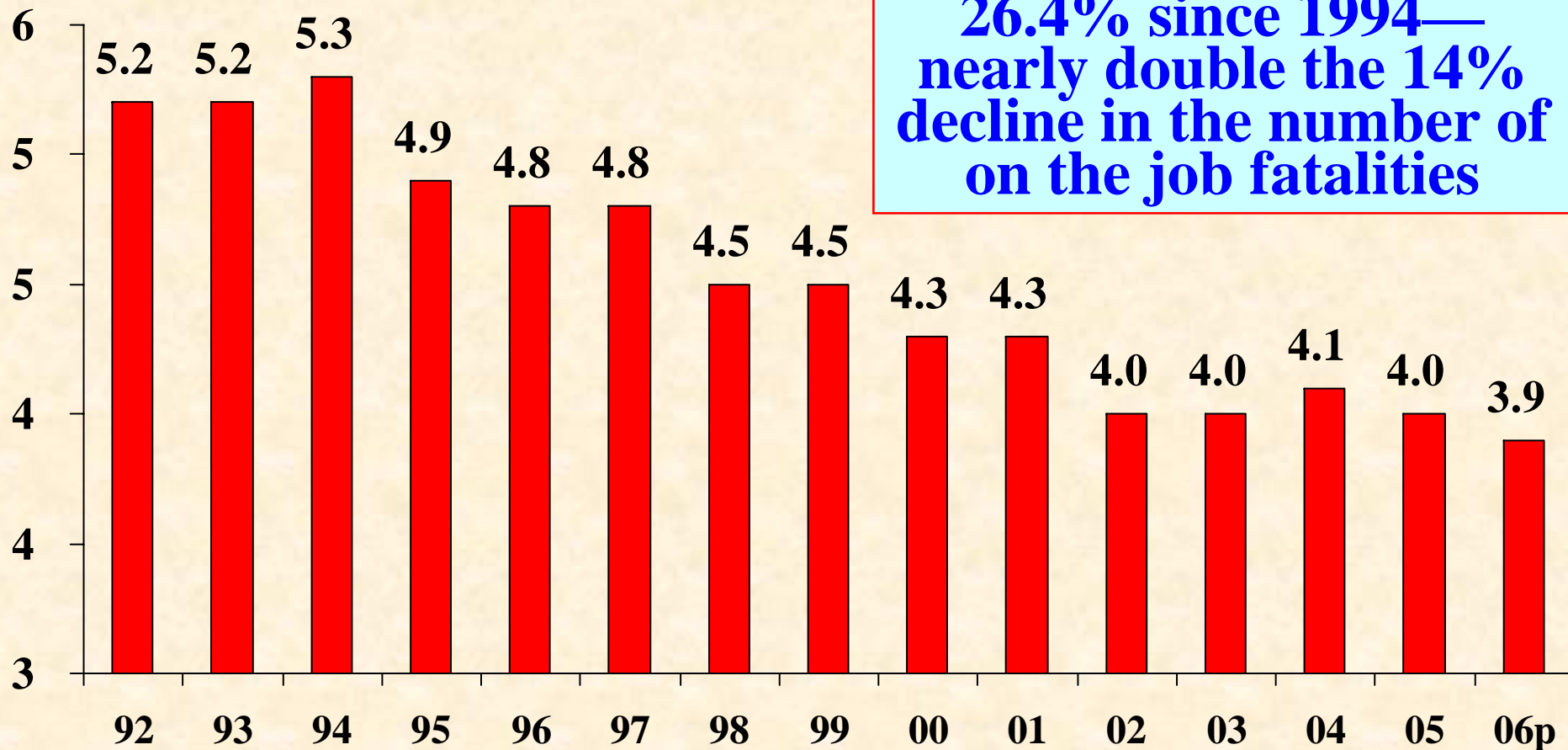
Source: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.



Rate of Fatal Work Injuries Continues to Drop, 1992 – 2006p

Fatal Work Injuries per 100,000 Workers

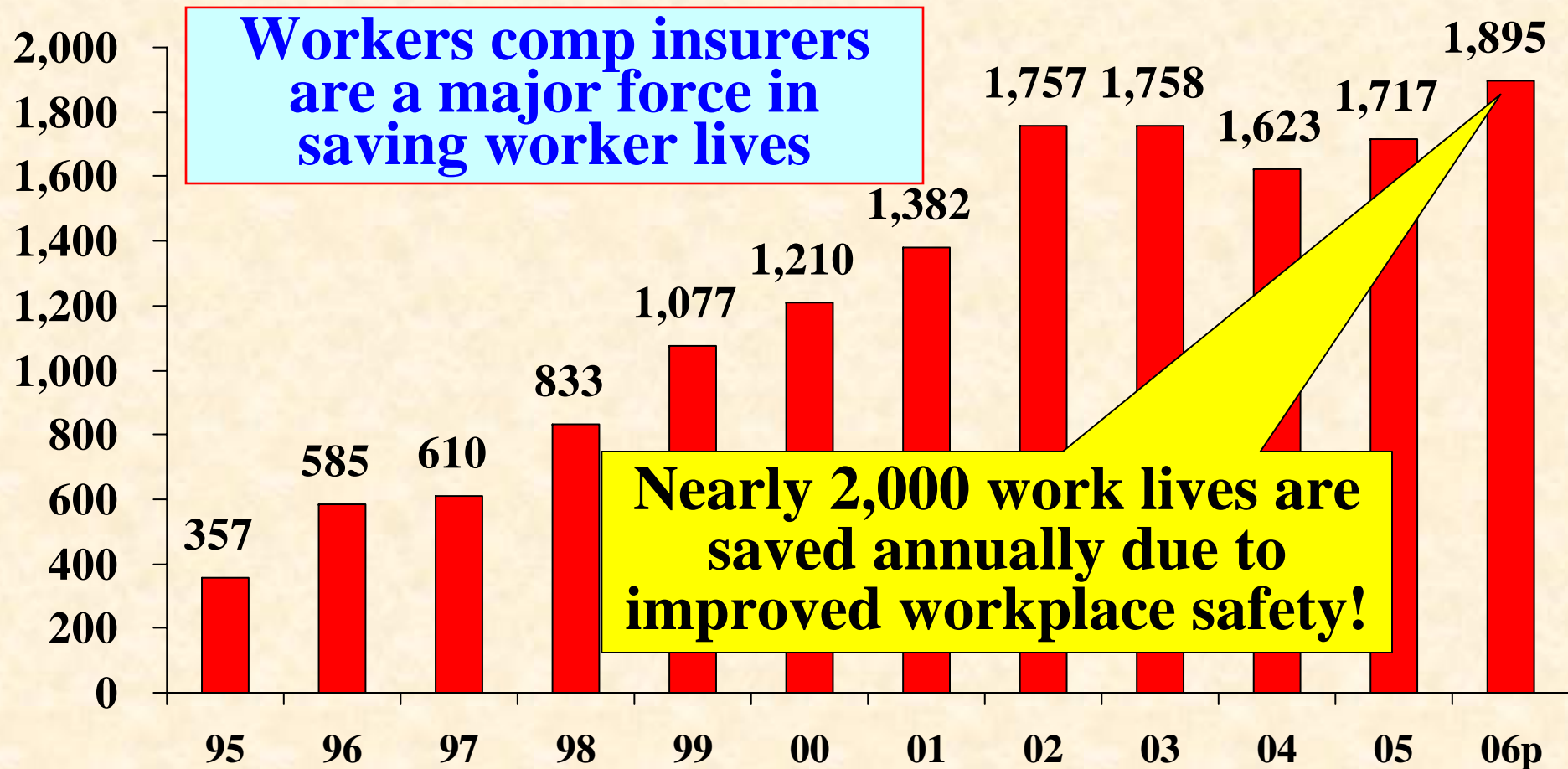
**Fatality *rates* are down
26.4% since 1994—
nearly double the 14%
decline in the number of
on the job fatalities**



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

Lives Saved Due to Reduction in Fatal Work Injury Rate, 1995–2006p

Reduction in Occupational Deaths Due to Fall in Fatality Rate from 5.3 per 100,000 Workers in 1994 to 3.9 in 2006

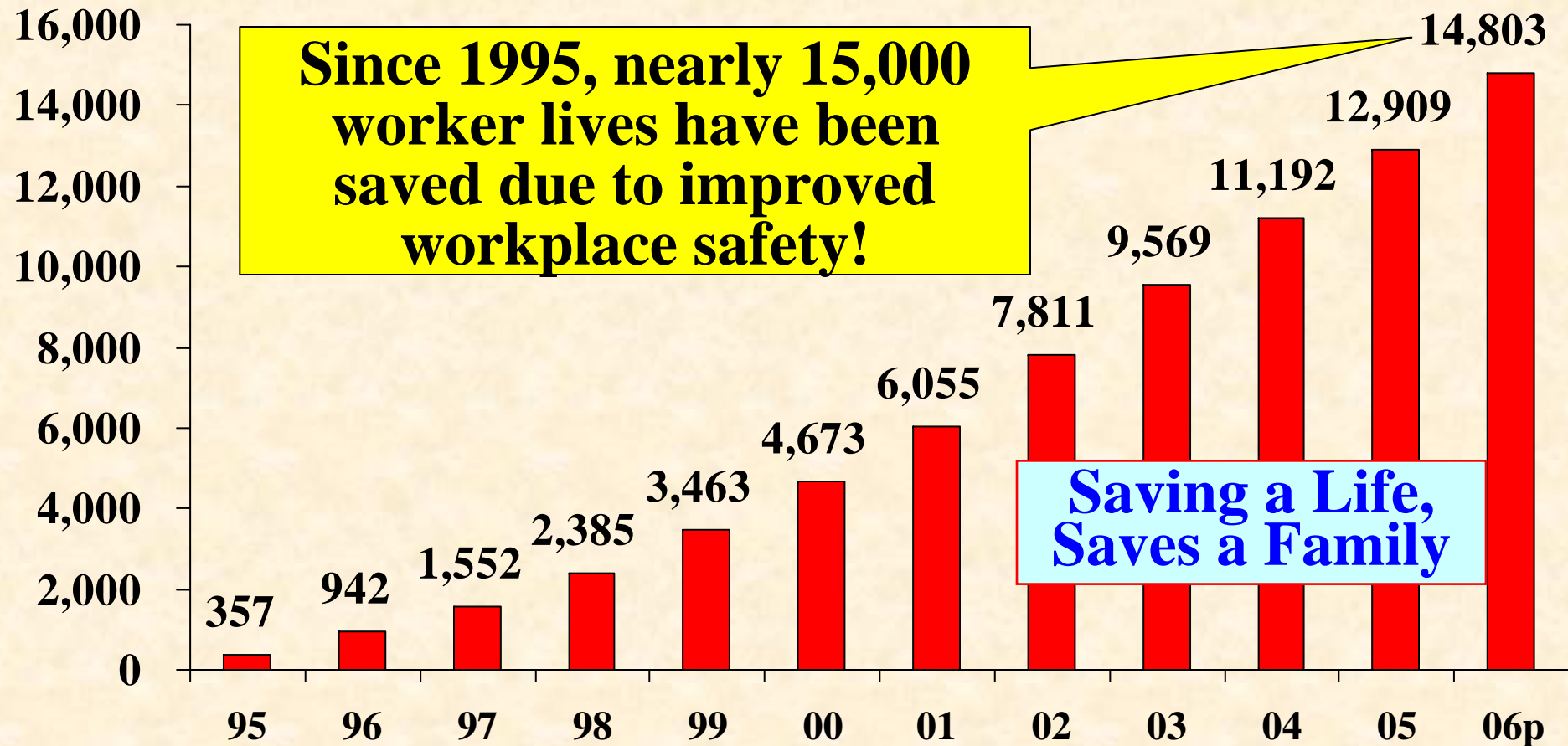


Source: Insurance Information Institute from BLS data.



Cumulative Lives Saved Due to Reduction in Fatal Work Injury Rate

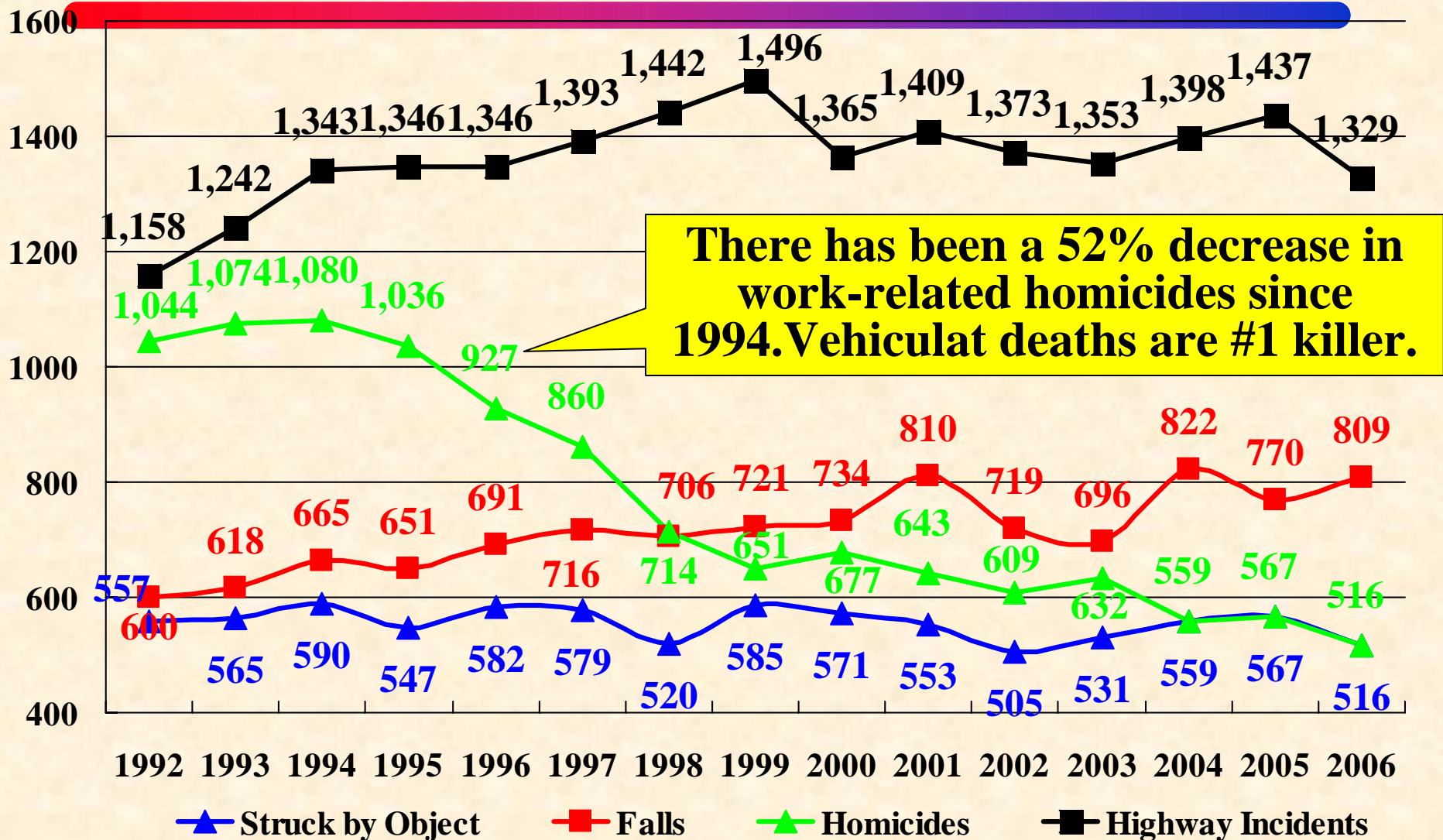
Cumulative Lives Saved Due to Fall in Fatality Rate from 5.3 per 100,000 Workers in 1994 to 3.9 in 2006



Source: Insurance Information Institute from BLS data.



Four Most Frequent Work-Related Fatal Events, 1992-2006



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

**BUT ALAS, THERE
ARE MANY
CONCERNS**

**Operational,
Demographic &
Regulatory**



THE SHRINKING PREMIUM BASE

Competition, Leakage
Conspire to Shrink WC

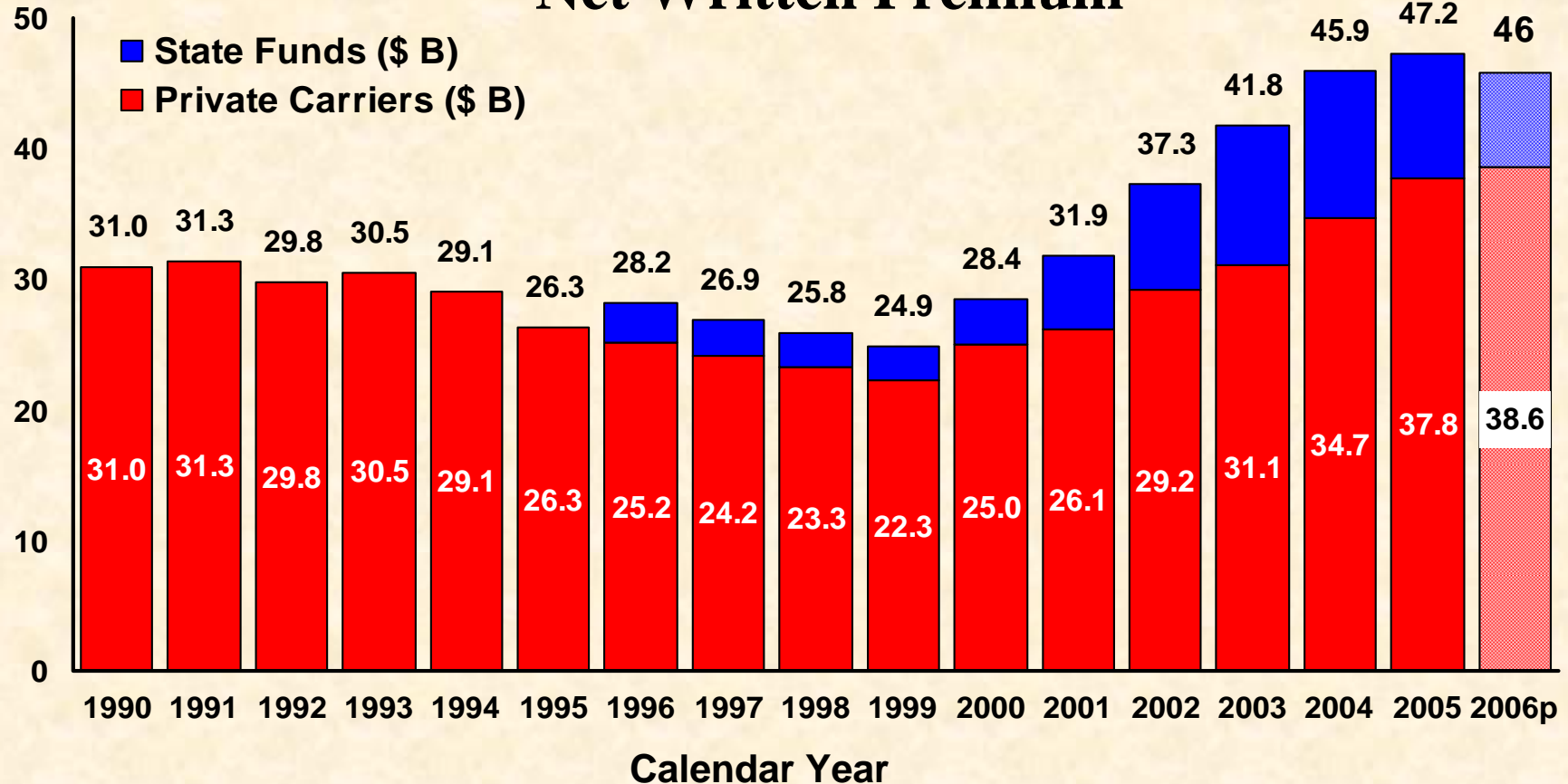




Total Workers Compensation Premium Declined in 2006

\$ Billions

Net Written Premium

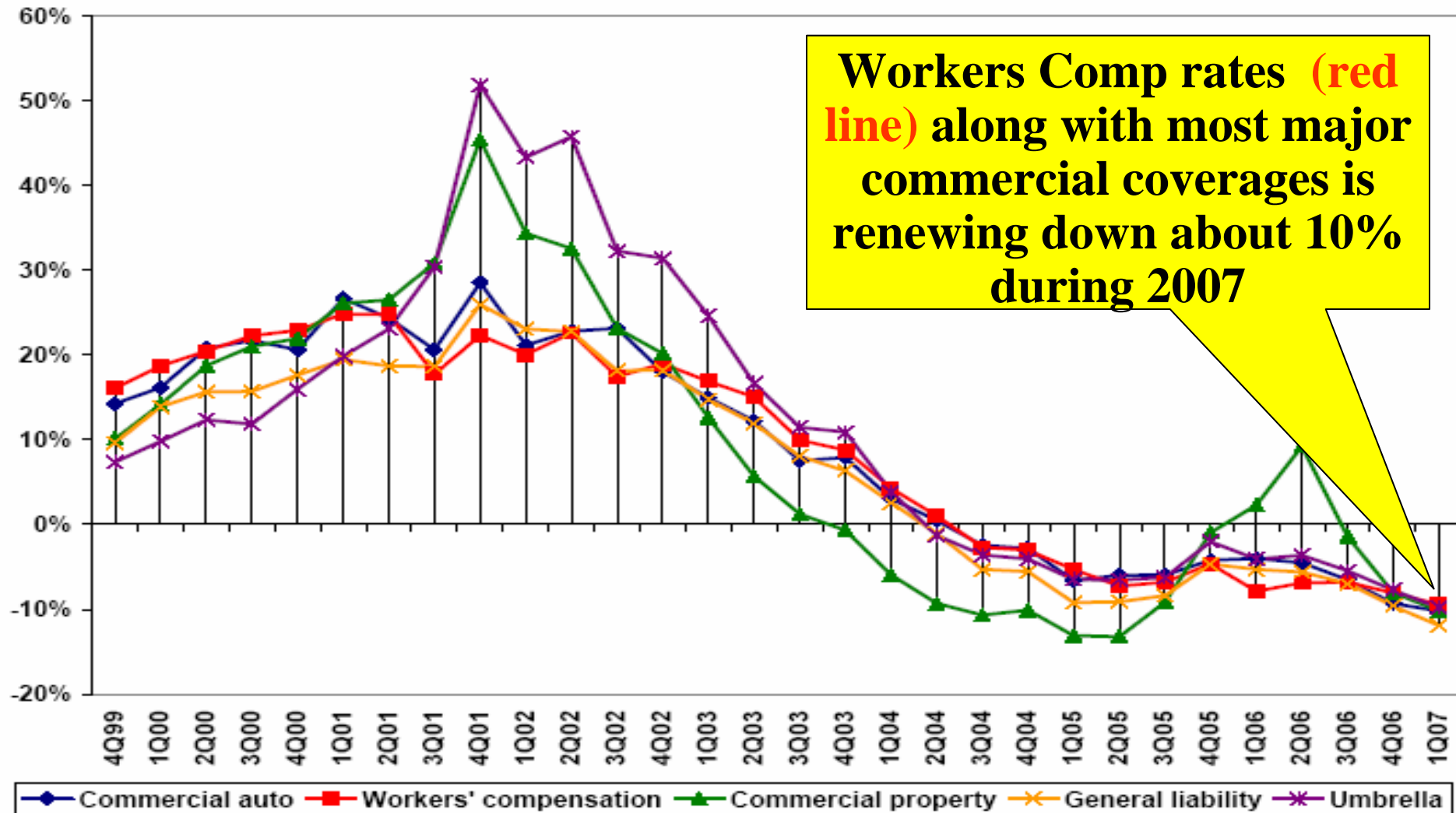


p Preliminary

Source: 1990–2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI
1996–2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent



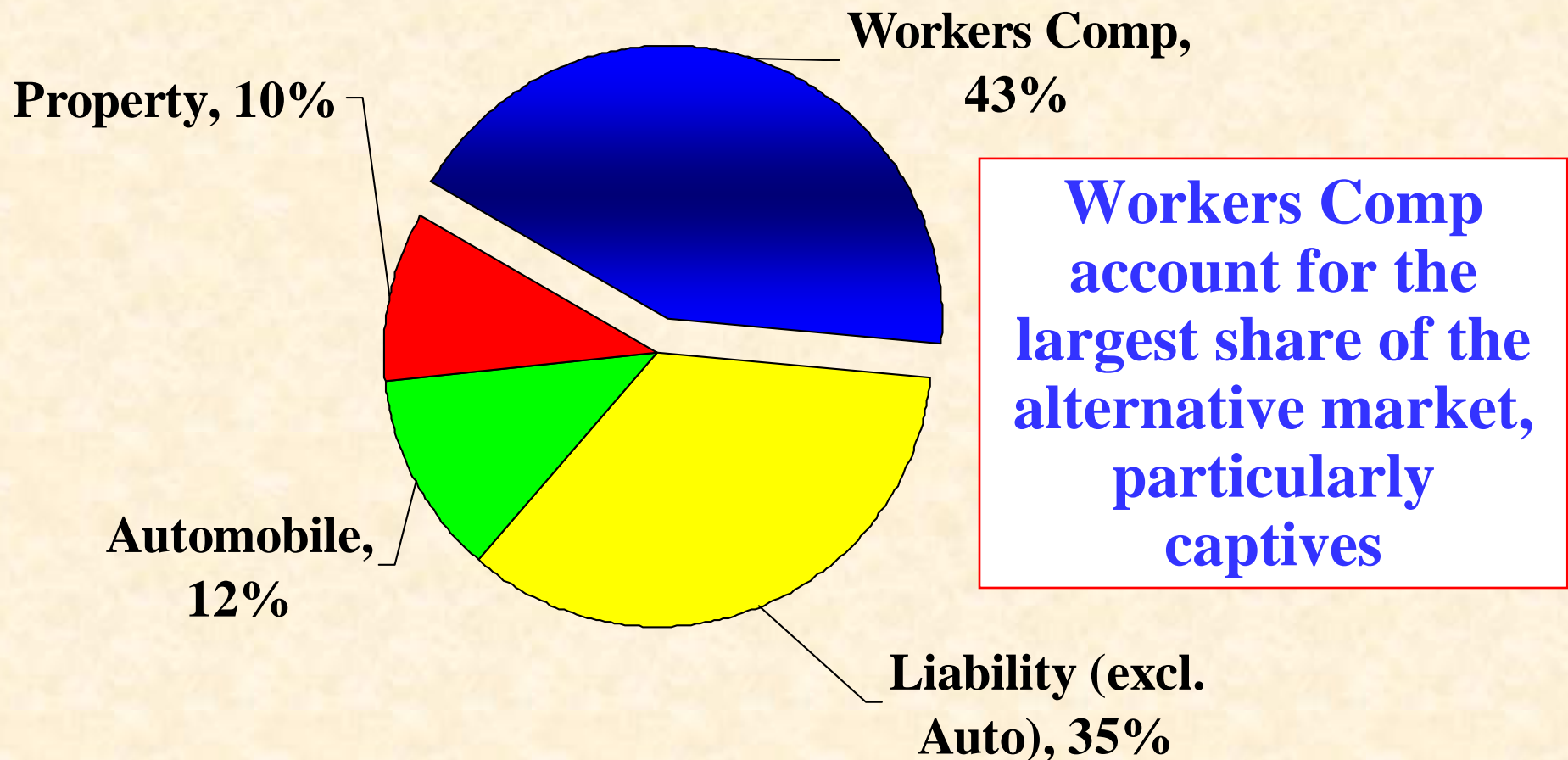
Average Commercial Rate Change by Line: 4Q99 – 1Q07





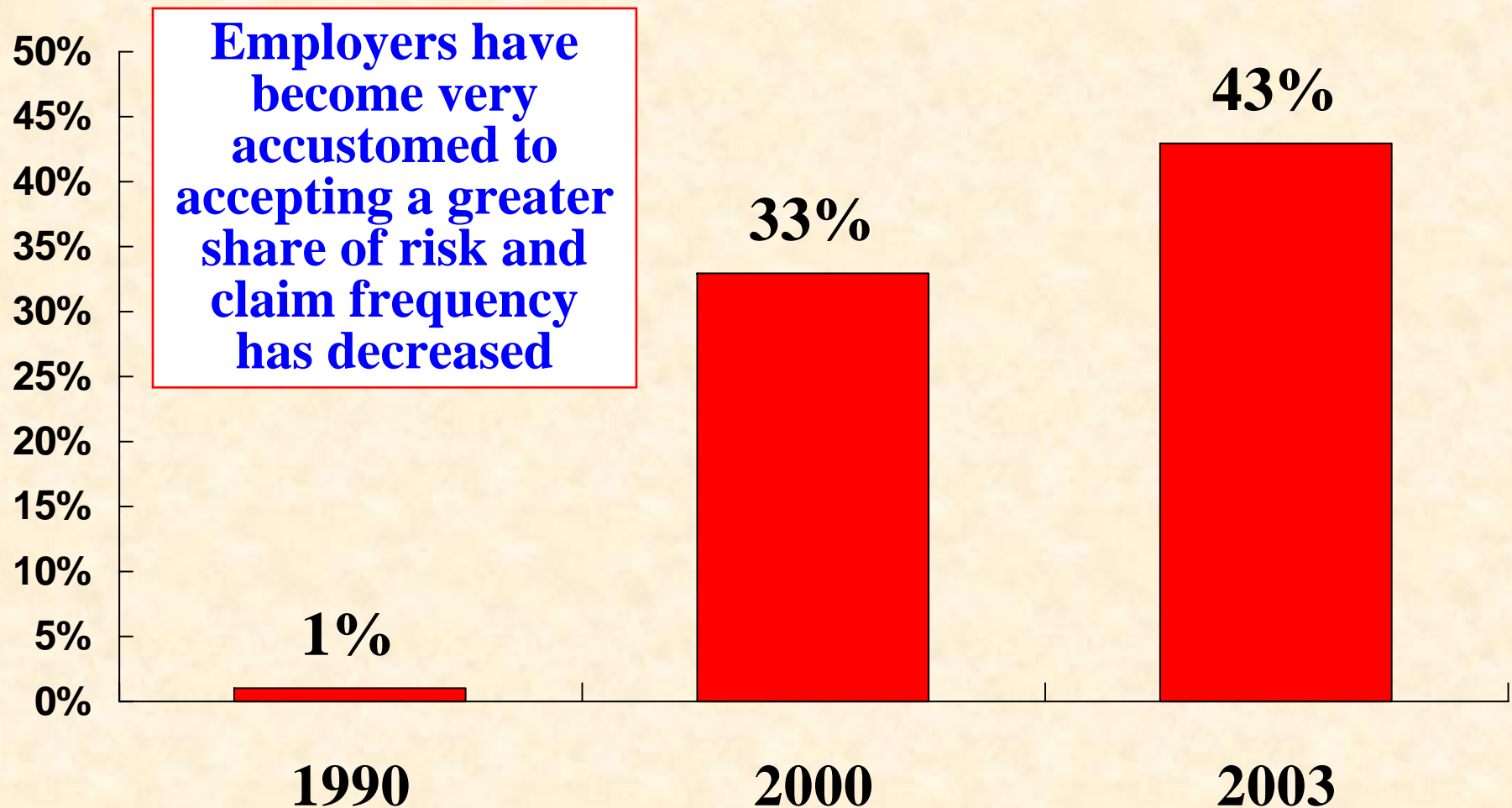
Alternative Risk Transfer Market Saps Traditional WC Carriers

\$ Billions



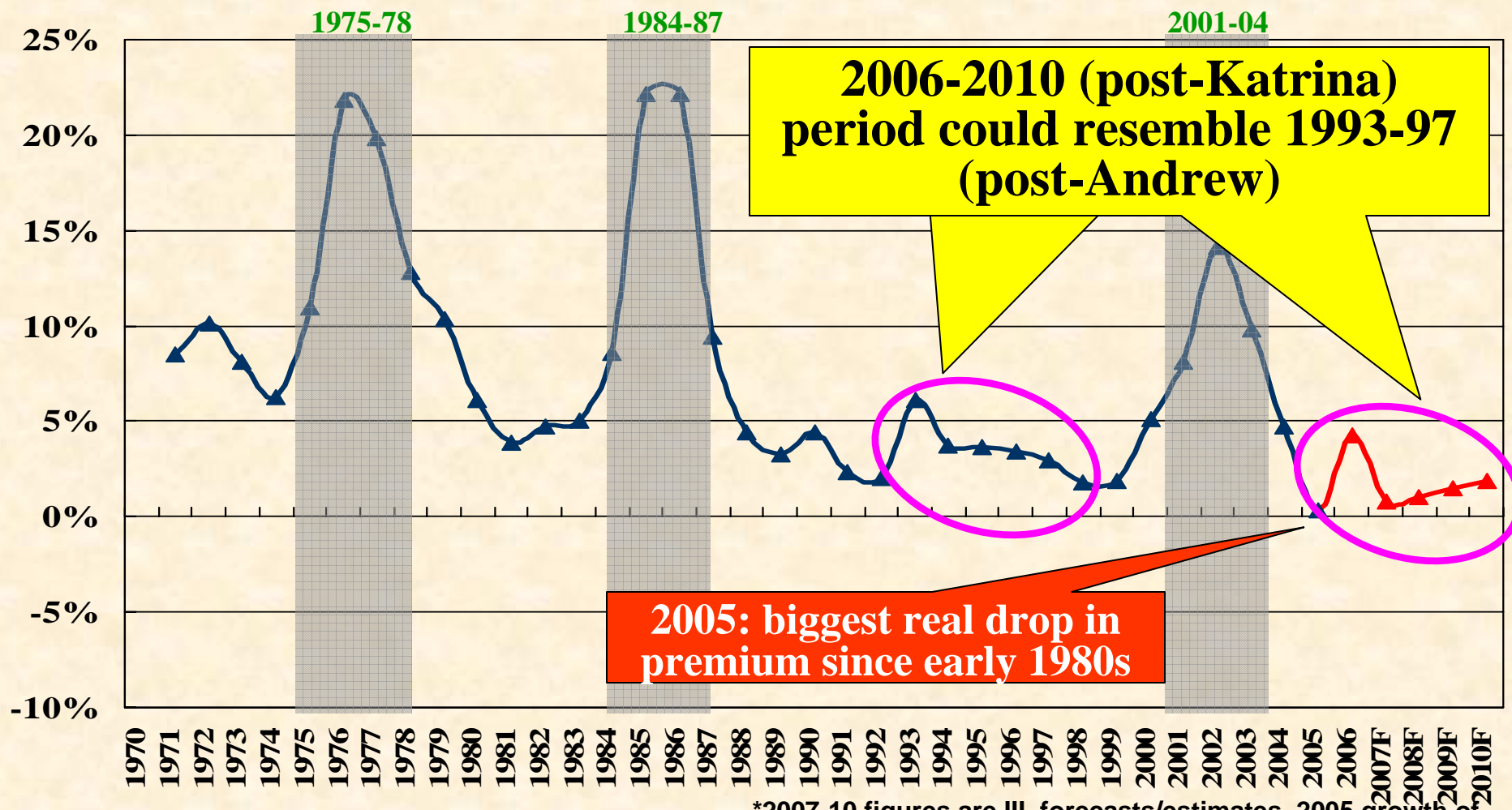


Workers Compensation: Large Deductible Market Share





Strength of Recent Hard Markets by NWP Growth*

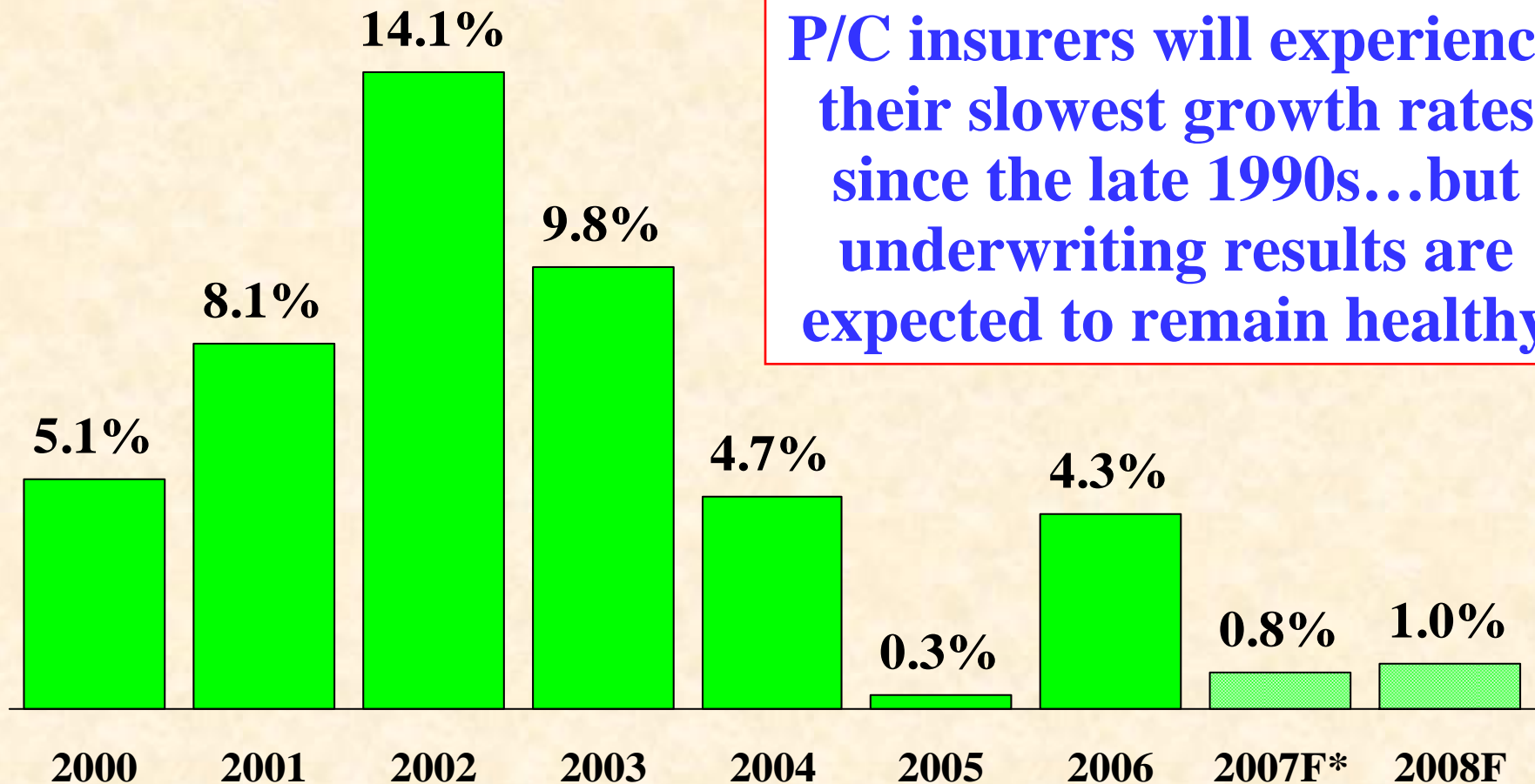


*2007-10 figures are III forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent. 2006-2008 figures from III Groundhog Survey.

Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute



Growth in Net Written Premium, 2000-2008F



P/C insurers will experience their slowest growth rates since the late 1990s...but underwriting results are expected to remain healthy

*2007 figure based 2007:Q1 result of 0.8%.

Source: A.M. Best; Forecasts from the Insurance Information Institute.

MEDICAL CLAIM COST INFLATION

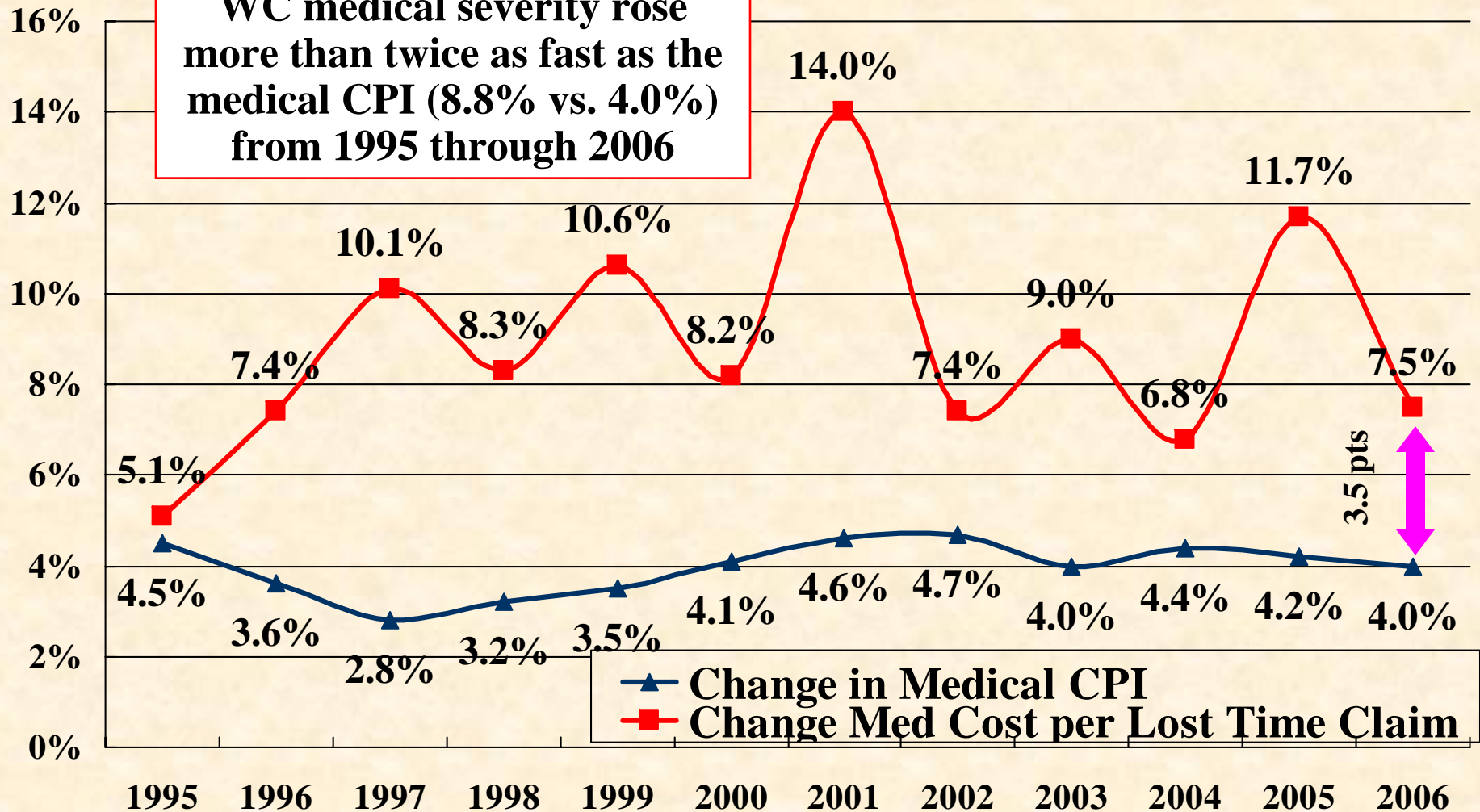
The Problem That Will
Never Go Away





WC Medical Severity Rising Far Faster than Medical CPI

WC medical severity rose more than twice as fast as the medical CPI (8.8% vs. 4.0%) from 1995 through 2006



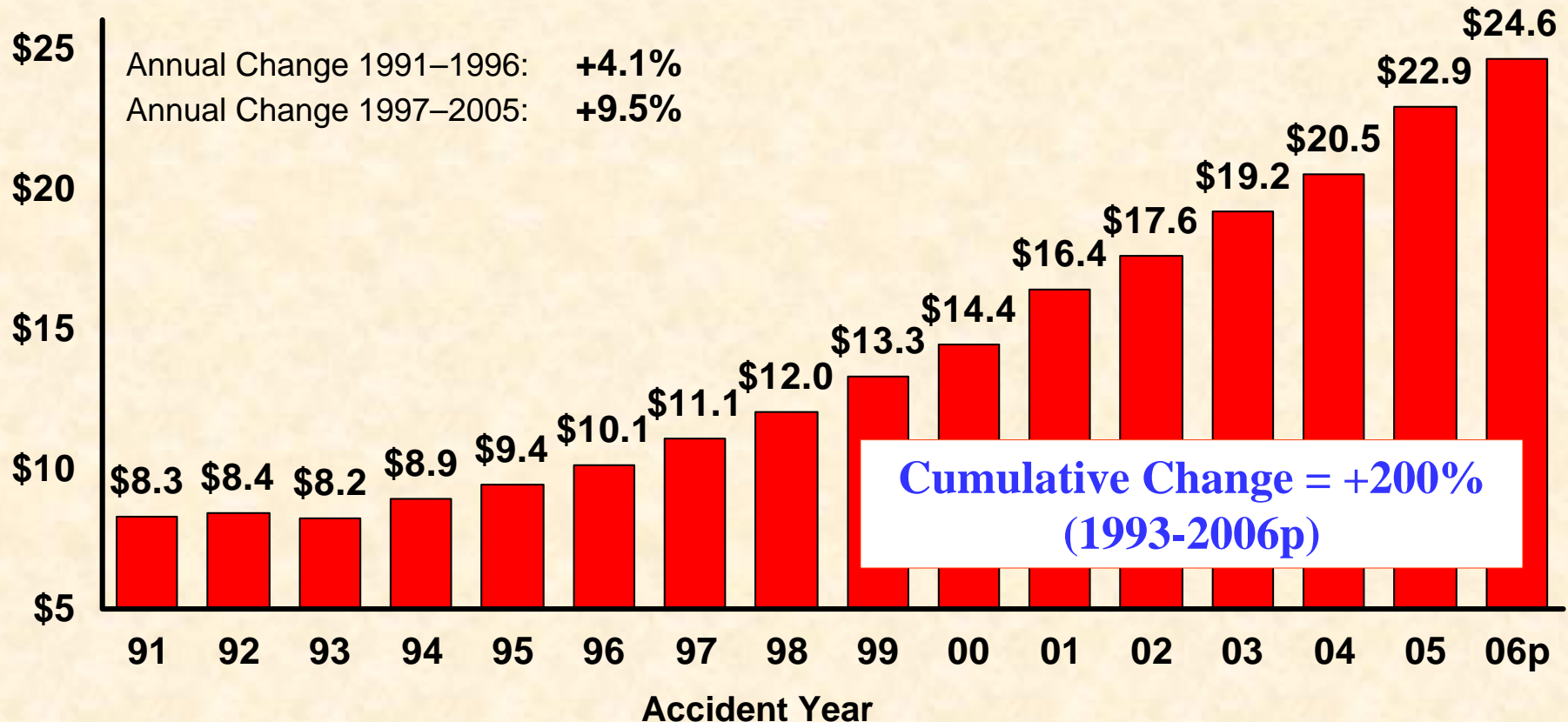
3.5 pts

— Change in Medical CPI
— Change Med Cost per Lost Time Claim



Workers Comp Medical Claims Continue to Climb

Medical
Claim Cost (\$000s)



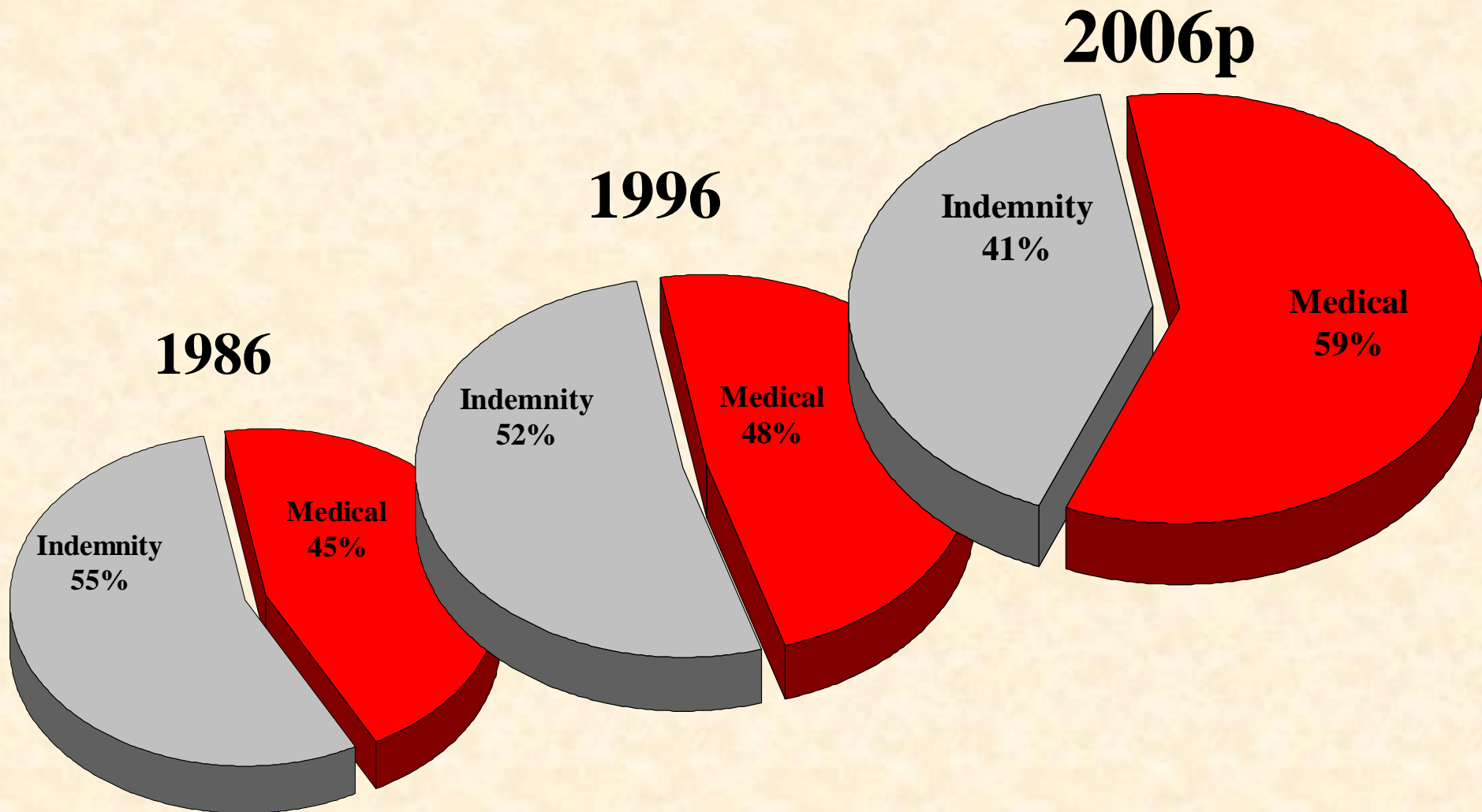
2006p: Preliminary based on data valued as of 12/31/2006

1991-2005: Based on data through 12/31/2005, developed to ultimate

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



Med Costs Share of Total Costs is Increasing Steadily

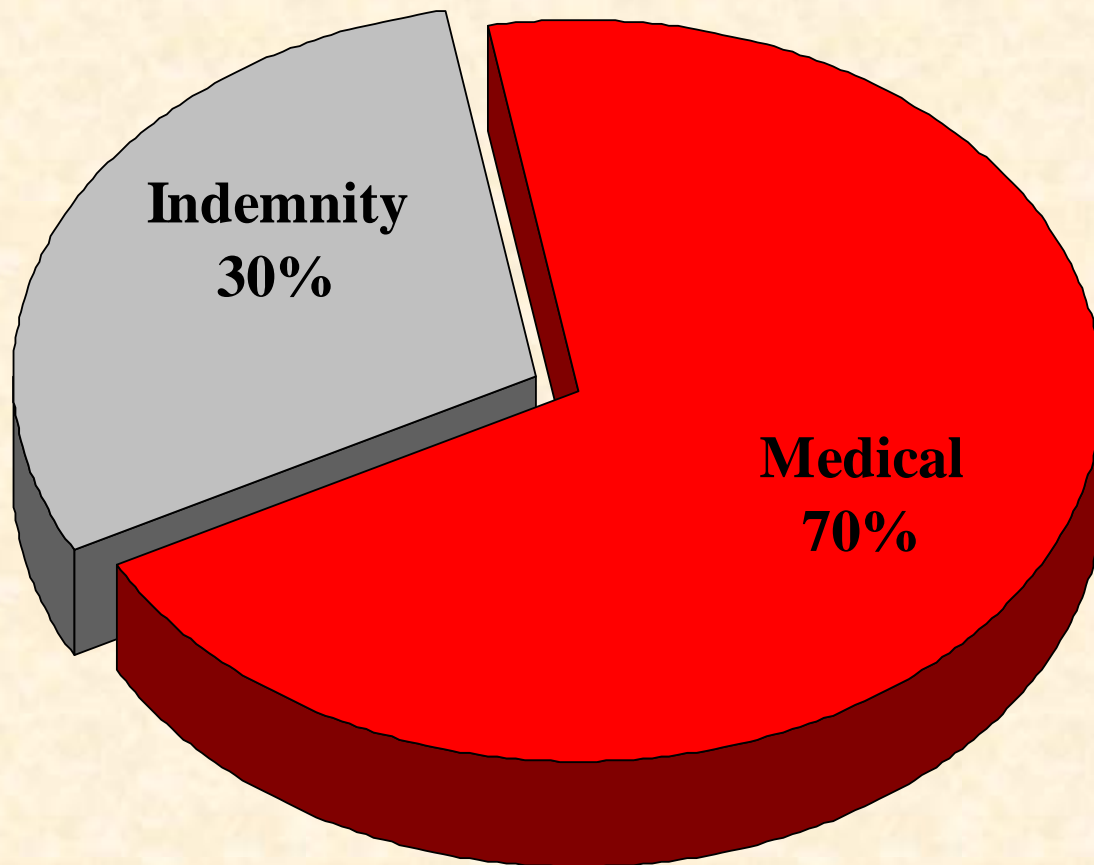


Source: NCCI (based on states where NCCI provides ratemaking services).



WC Med Cost Will Equal 70% of Total by 2016 if Trends Hold

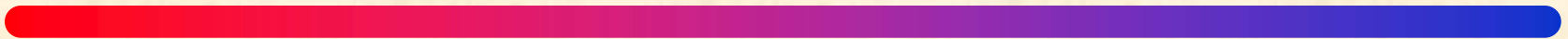
2016 Estimate

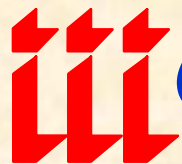


WC med costs could equal 70% of system costs by 2016. This means that claims severity will accelerate relative today and claims management will become progressively more difficult and complex

INDEMNITY CLAIM COST INFLATION

**The Problem That Can
Sometimes Be Tamed**





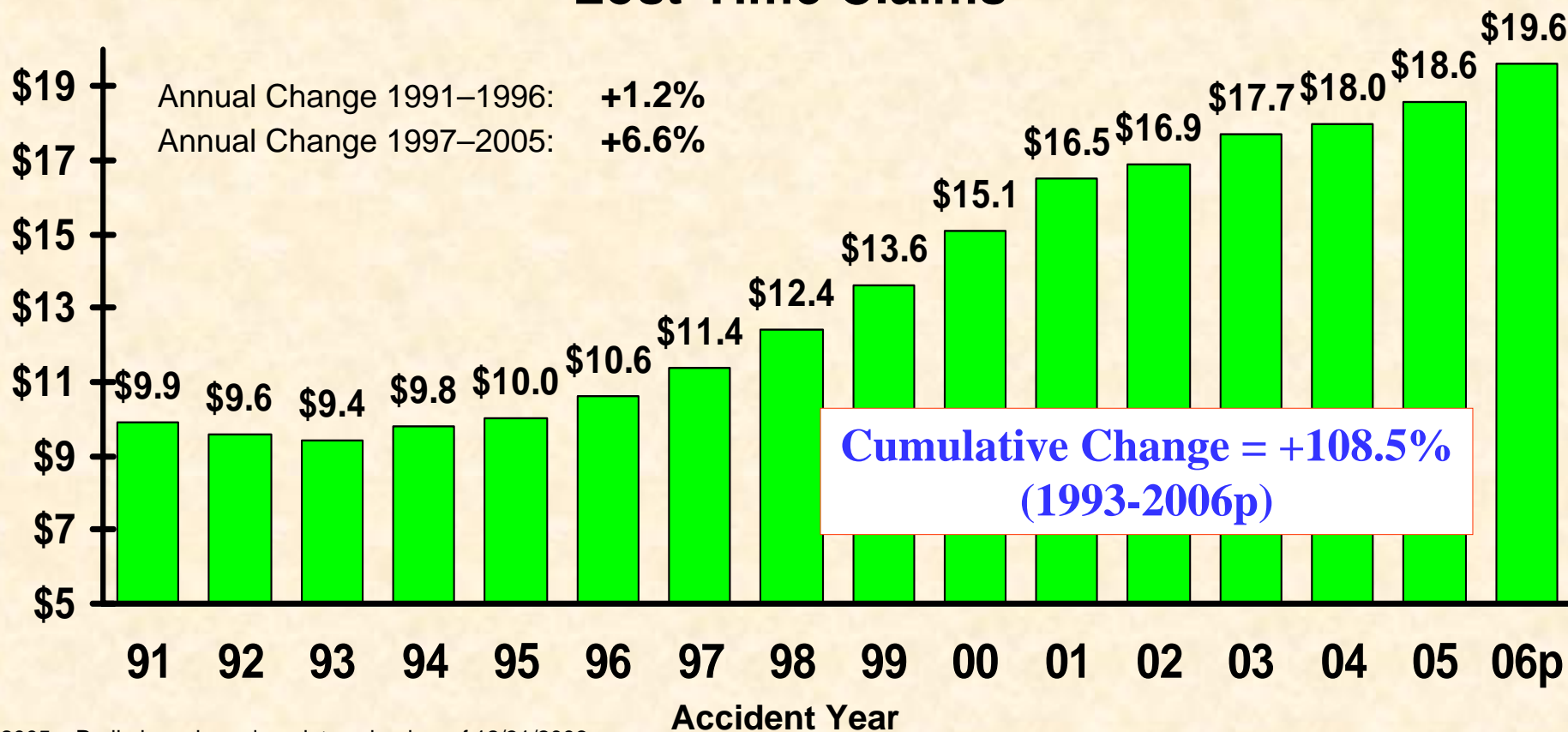
Workers Comp Indemnity Claims

Costs Have Accelerated, 1993-2006p

Indemnity

Claim Cost (000s)

Lost-Time Claims



2005p: Preliminary based on data valued as of 12/31/2006

1991-2005: Based on data through 12/31/2005, developed to ultimate

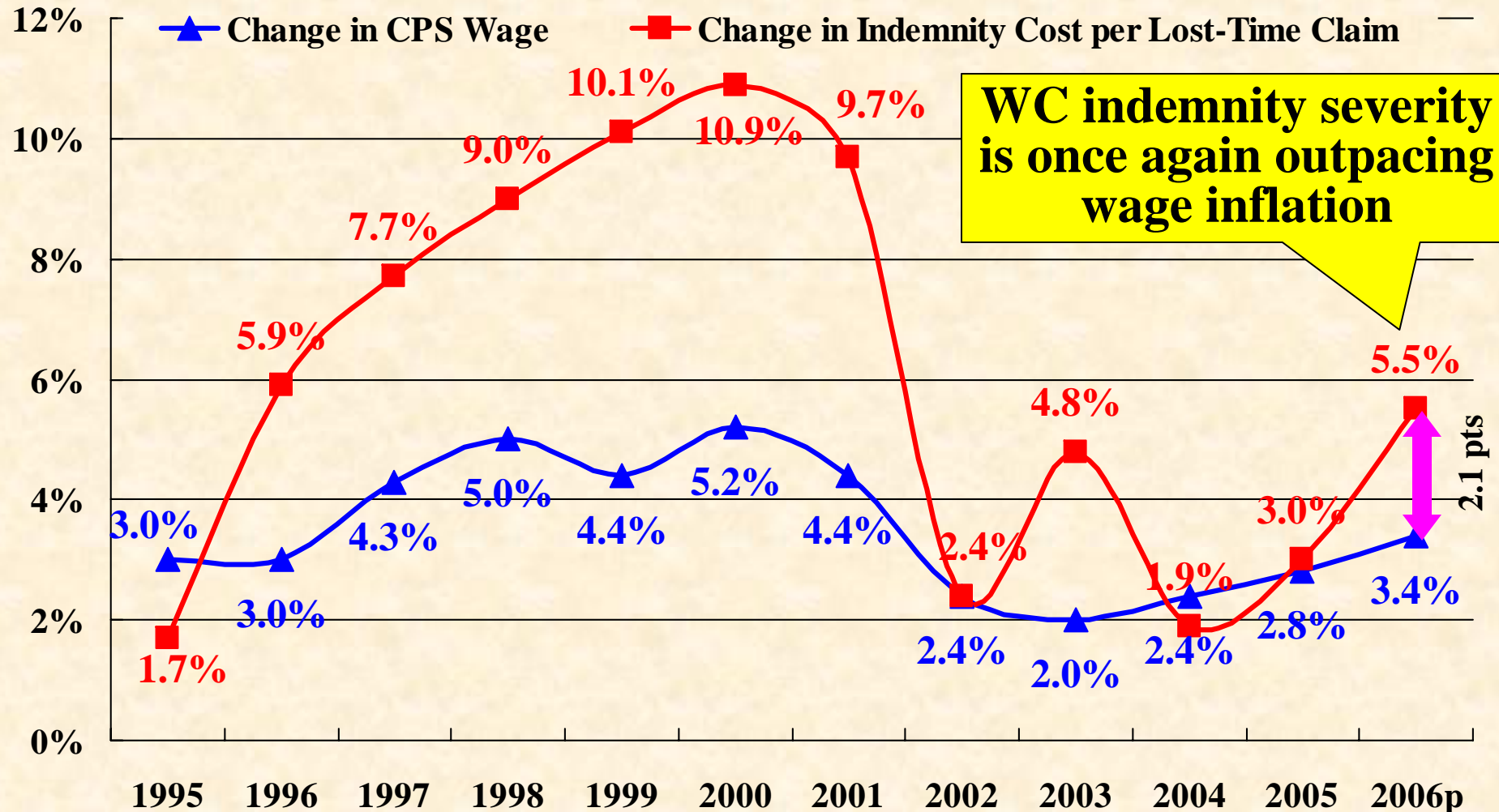
Based on the states where NCCI provides ratemaking services

Excludes the effects of deductible policies

Source: NCCI



WC Indemnity Severity vs. Wage Inflation

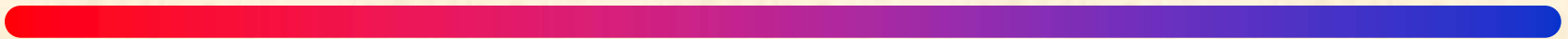


2006p: Preliminary based on data valued as of 12/31/2006; 1991-2005: Based on data through 12/31/2005, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.

Source: NCCI

THE AGEING WORKFORCE

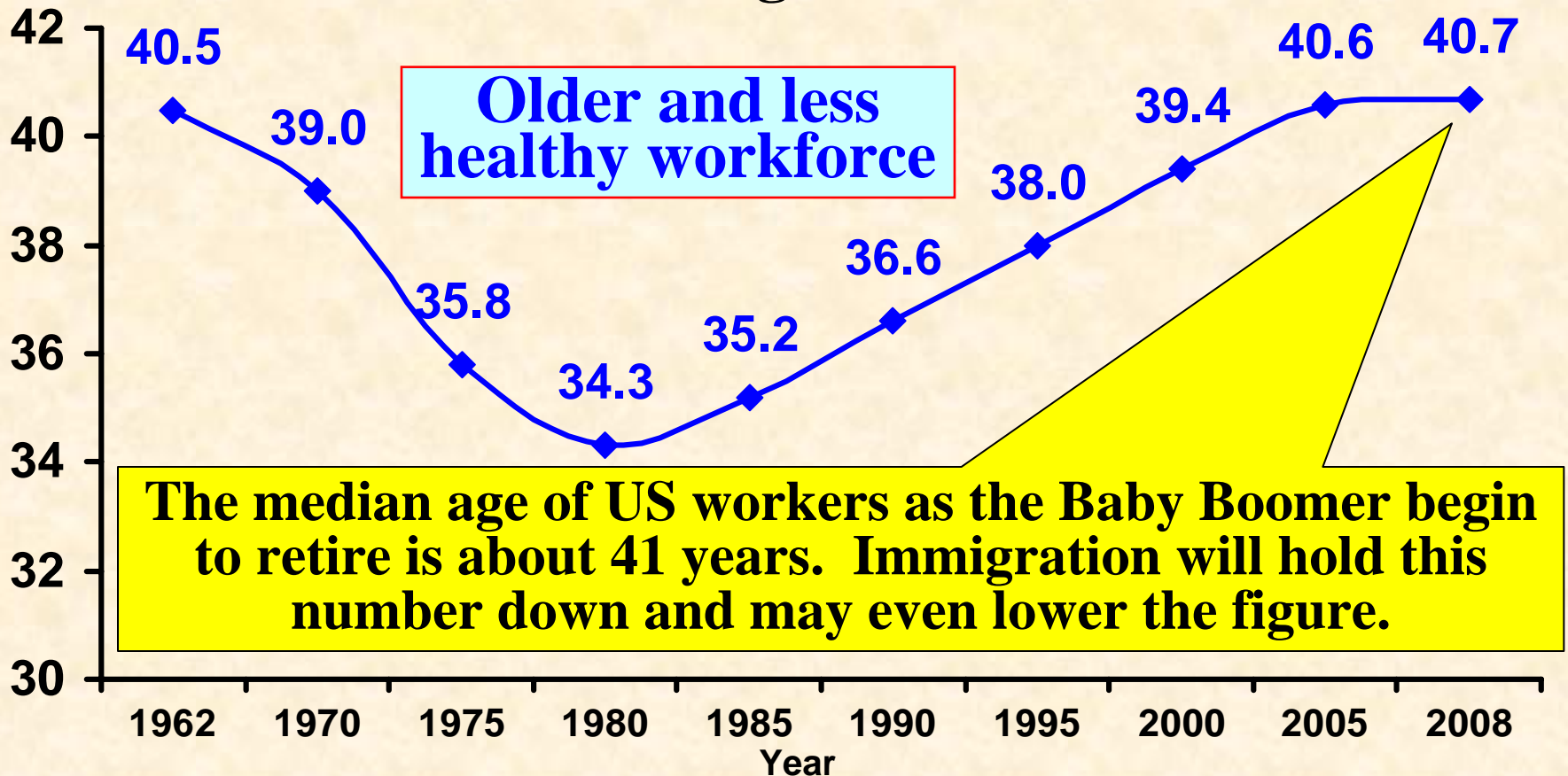
**Working Longer,
But Not Stronger**





U.S. Workforce is Aging: Significant Implications for Workers Comp

Median Age of U.S. Worker

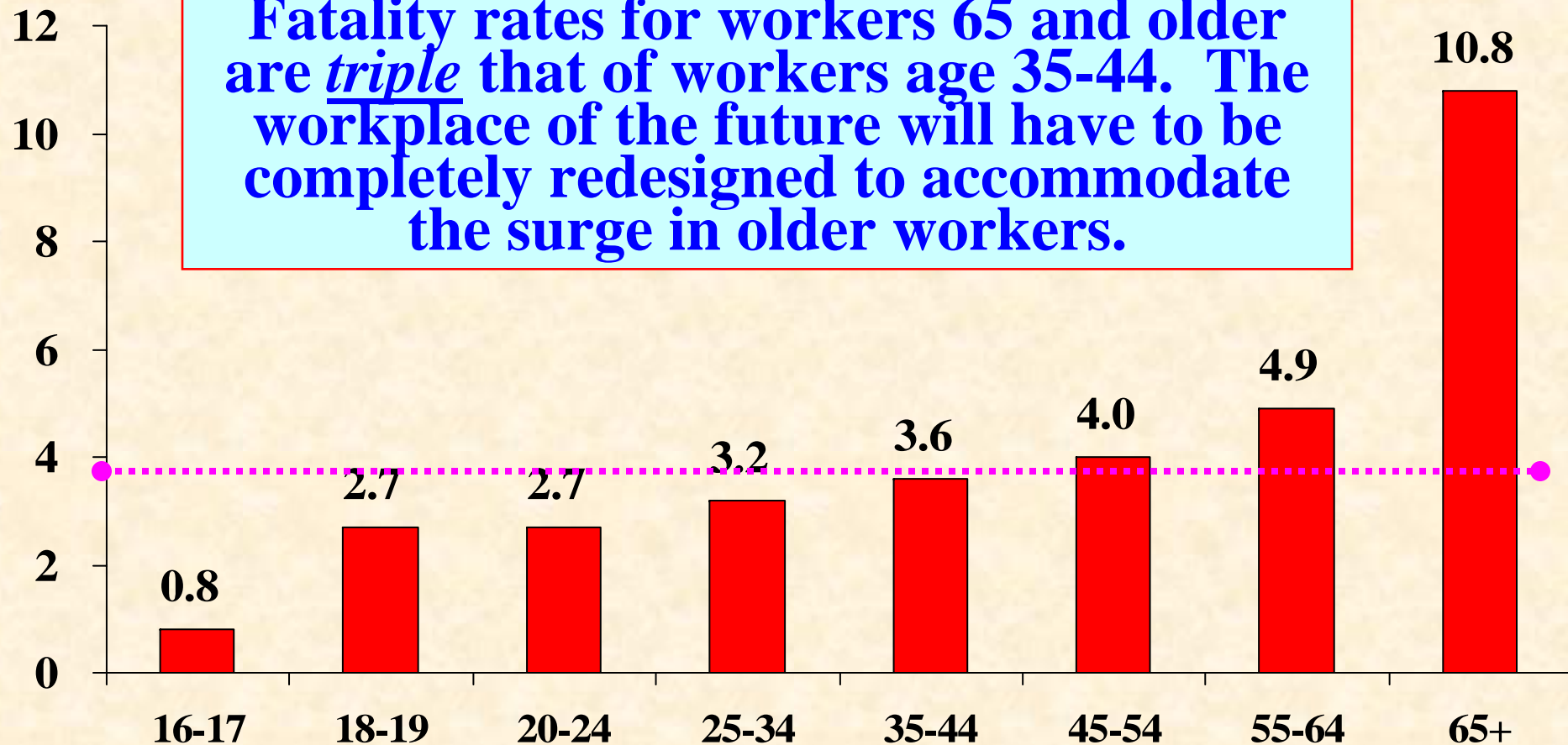




Fatal Work Injury Rates Climb Sharply With Age

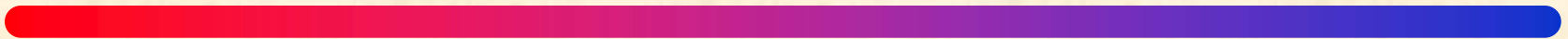
Fatal Work Injuries per 100,000 Workers (2006)

Fatality rates for workers 65 and older are *triple* that of workers age 35-44. The workplace of the future will have to be completely redesigned to accommodate the surge in older workers.



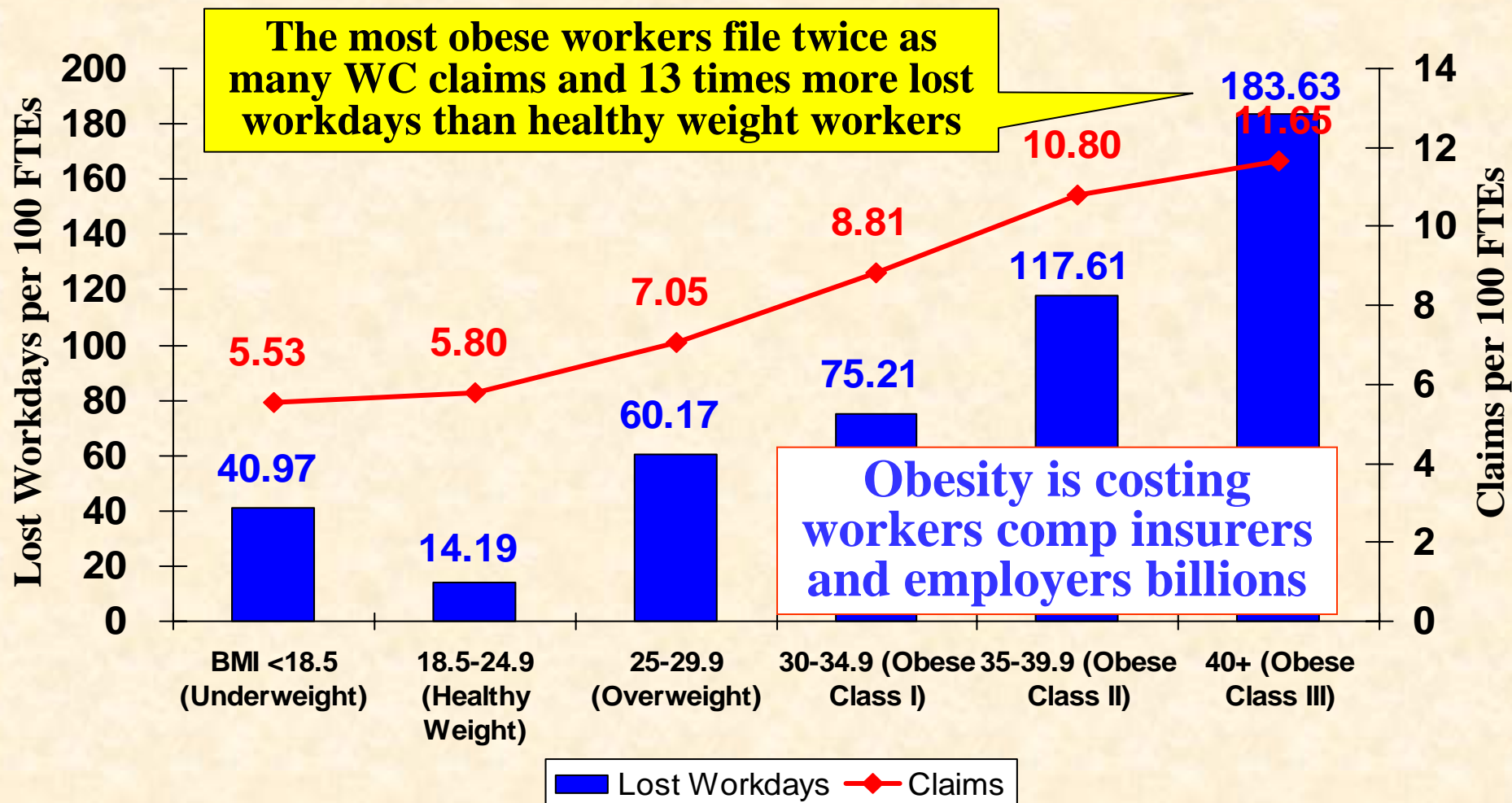
THE OBESITY EPIDEMIC

**Major Cost Driver that
WC Has Yet to Address**



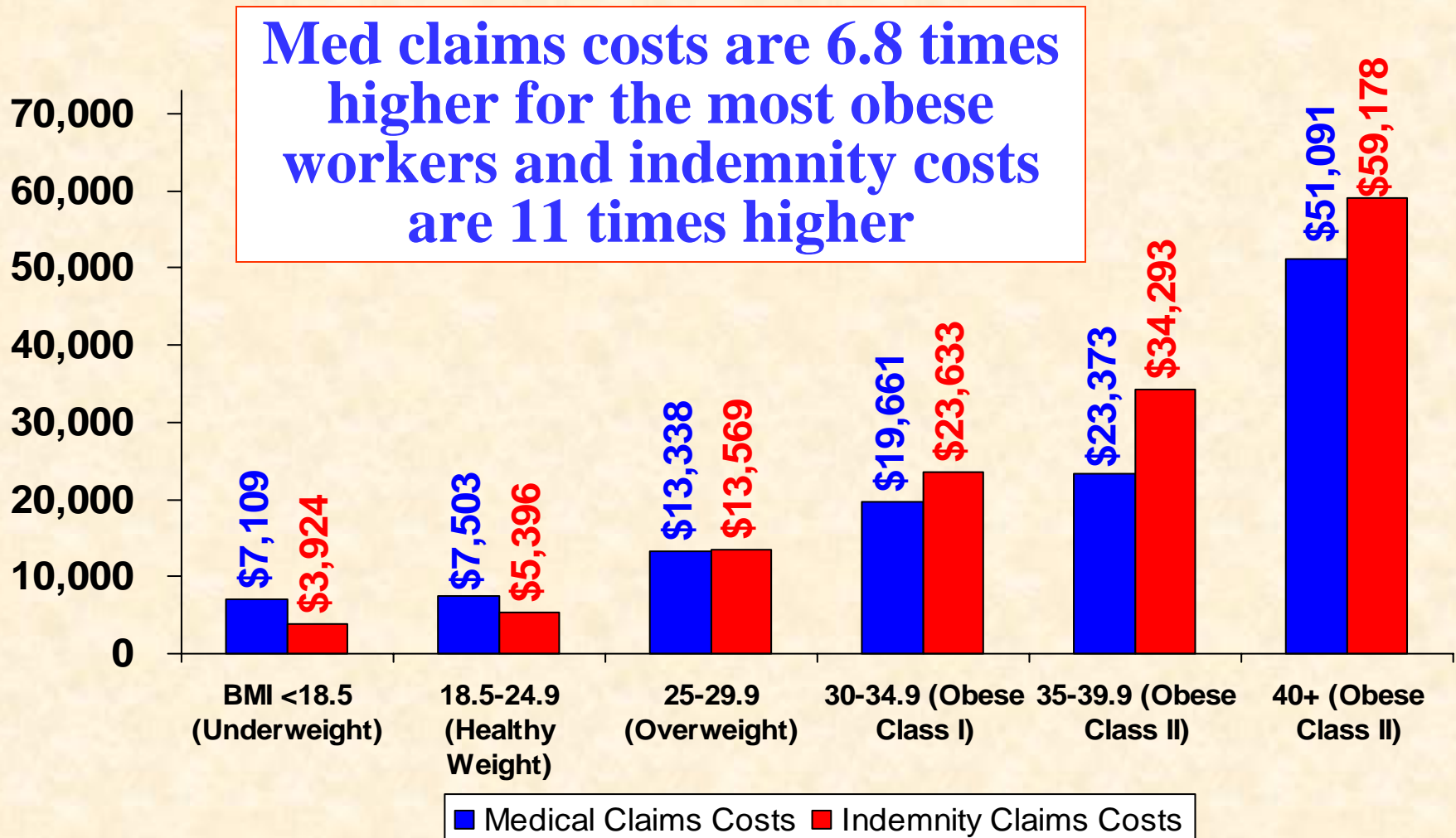


WC Claims and Lost Workdays by Body Mass Index (BMI)



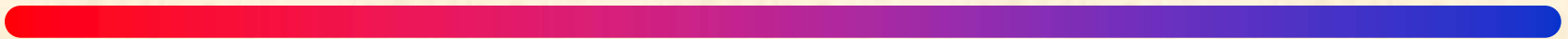


Medical & Indemnity WC Claims Costs by BMI



REGULATORY NIGHTMARES

**WC's Low Profile
Won't Last Forever**





Regulatory Concerns

- **Political Populism is On the Rise**
- **Eventually WC Trends Will Turn Adverse**
- **New Congress and Populist Governors, Attorneys General and Insurance Commissioners Will Take Great Interest in WC Which Impacts All Employers and Their Workers**
- **FLORIDA SCENARIO**
 - **Governor would react to rising workers comp rates the same way he reacted to rising property rates**
 - **Rates would be actively suppressed**
 - **Proposal to create “competitive” state fund that would also subsume residual market**
 - **Would be unlikely to charge actuarially sound rates or set proper reserves**
 - **Residual market would explode with deficits financed by voluntary mkt.**
 - **State fund would grow rapidly and market would become progressively more socialized, possibly substantially so while real problems go unaddressed/**
 - ***SOUND FAMILIAR???***



Regulatory Concerns (cont'd)

- **McCarran-Ferguson**

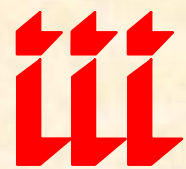
- Narrowing could be harmful to WC rating bureaus and smaller insurers who rely most heavily on advisory loss cost information

- **Health Care Reform Déjà Vu—1992**

- Health Care reform will be a major theme in 2008 elections as in 1992
- Back in 1992, it was proposed that workers comp would be rolled into the general health care system
- This could happen again
- Insurers back then fretted about the “Medical Indemnity Disconnect”

- **Terrorism**

- Extension virtually assured, but will likely be December
- House has proposed 15-year extension; Senate and Administration will want something much shorter
- NBCR requirement on property side will have negative impact on insurers to assume workers comp exposure (Senate may excise this)



Insured Loss Estimates:

Large NBCR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$82.0	\$22.5	\$21.5	\$3.4
General Liability	14.4	2.9	3.2	0.4
Workers Comp	483.7	126.7	87.5	31.4
Residential Prop.	38.7	12.7	22.6	2.6
Commercial Prop.	158.3	31.5	35.5	4.1
Auto	1.0	0.6	0.8	0.4
TOTAL	\$778.1	\$196.8	\$171.2	\$42.3

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Summary

- **Workers Compensation Markets Will Continue to Perform Well but Operating Results and Profitability Will Begin to Erode**
- **Competition in WC Markets More Intense Than Anytime in Last 15 Years**
- **WC Market Participants Have Provided One of the Most Valuable Services in the Industry—Saving Lives & Families**
- **Should be Proud of Achievements at Time When Insurers are Being Attacked by Politicians in Some States and in Washington**
- **BUT...Threats Abound**
- **Pressure is Building in a Number of Area**
 - **Pricing, Leakage to Alternative Markets**
 - **Medical Costs, Long-Run Regulatory Environment a Problem**
- **Disciplined Underwriting, Cost Management Key to Long-Run Success**



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