

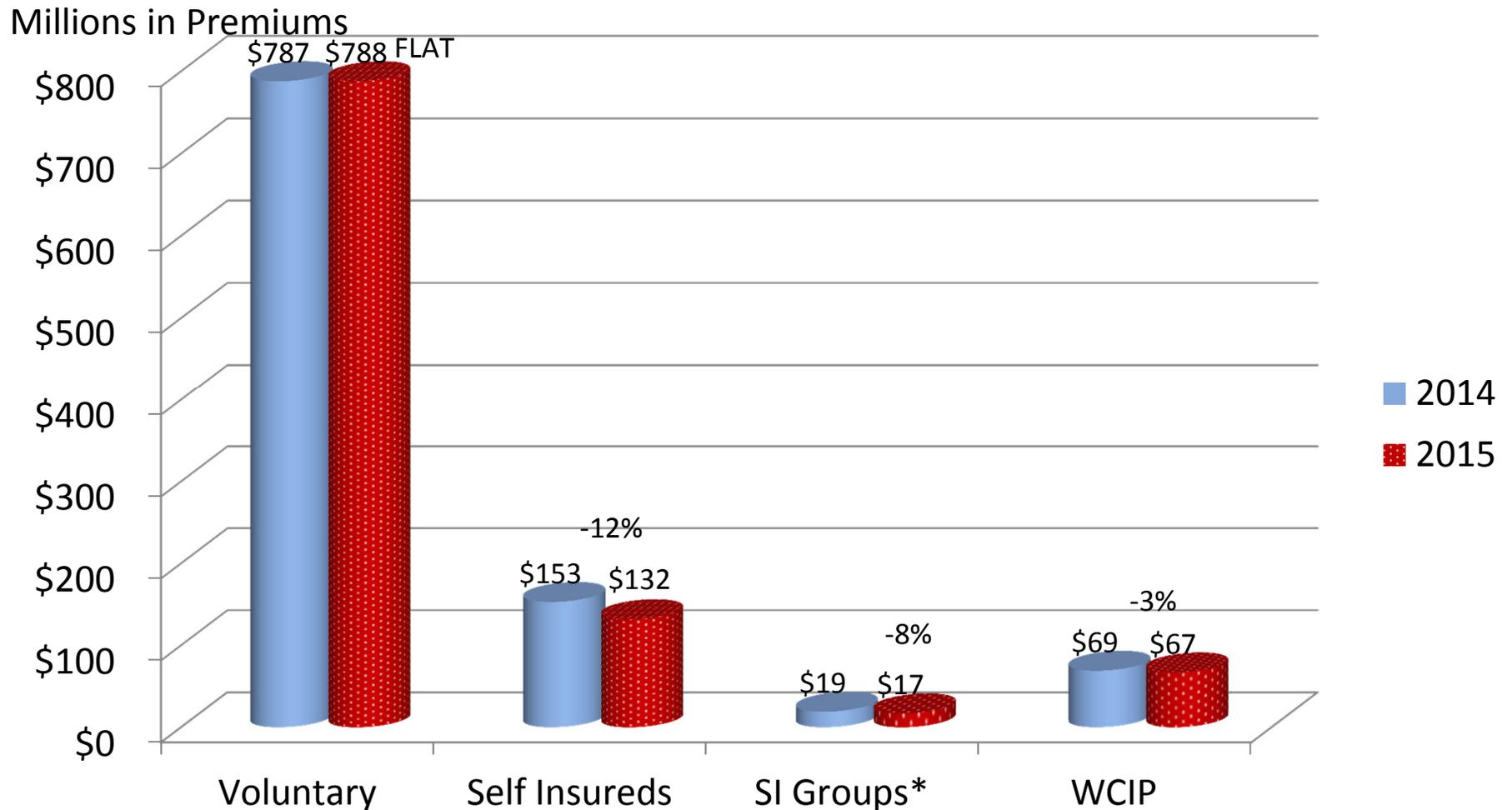


Overview of Tennessee's Workers' Compensation Market Conditions and Environment

Advisory Council on Workers' Compensation

Mike Shinnick | Manager, Workers' Compensation August 23, 2016

2015 Market Segments



National Picture



Property & Casualty Underwriting Results

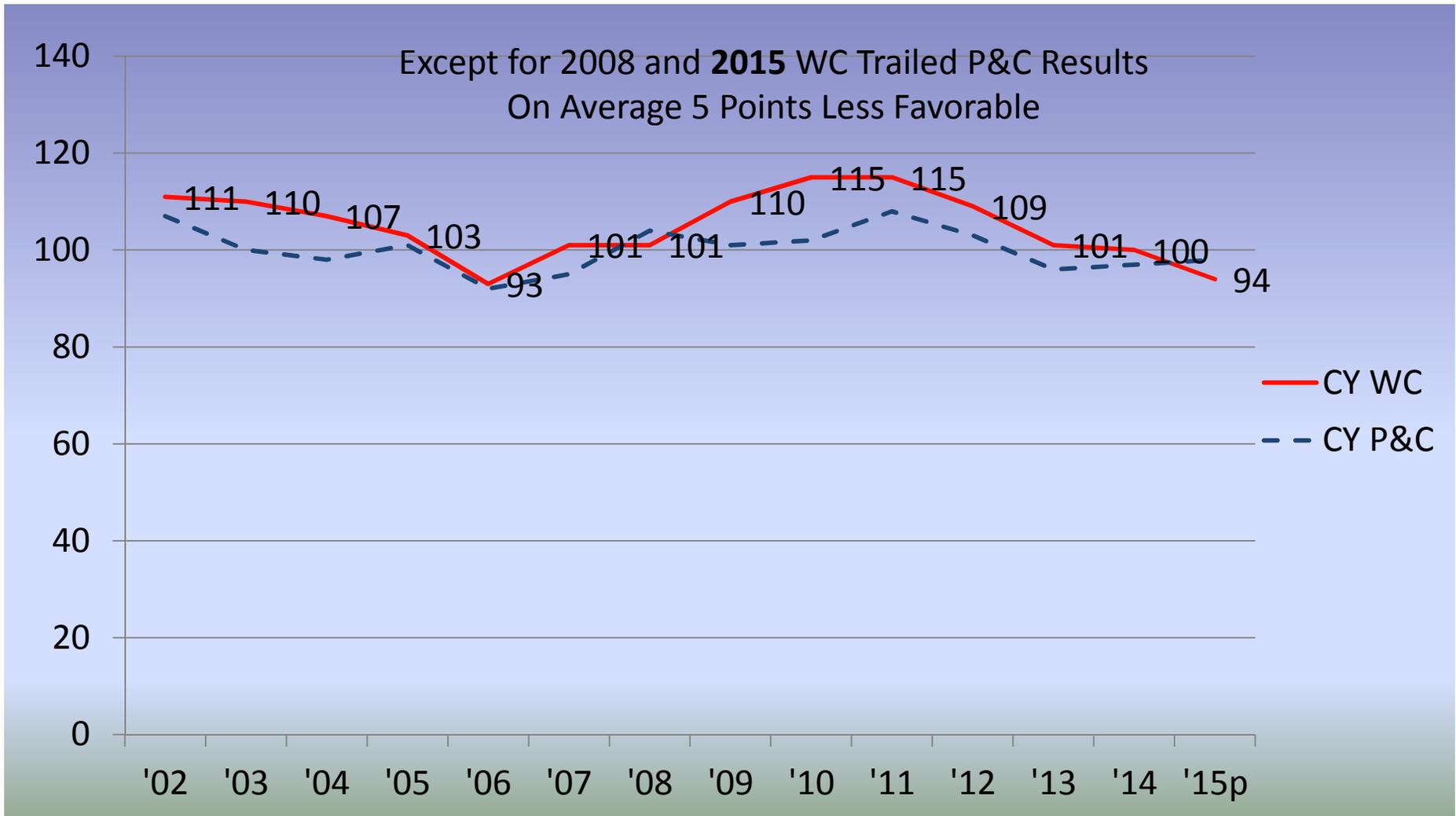
- Combined Ratio = Expense Ratio + Loss & LAE Ratio; results <100 equates to an underwriting profit

Net Calendar Year Combined Ratio – Private Carriers

Line of Business	2013	2014	2015 preliminary
Personal Auto	102%	103%	105%
Homeowners	90%	93%	92%
Com. Multi Peril	98%	100%	95%
Com. Auto	107%	104%	109%
Workers' Comp	102%	100%	94%
Total P&C Industry	96%	97%	98%

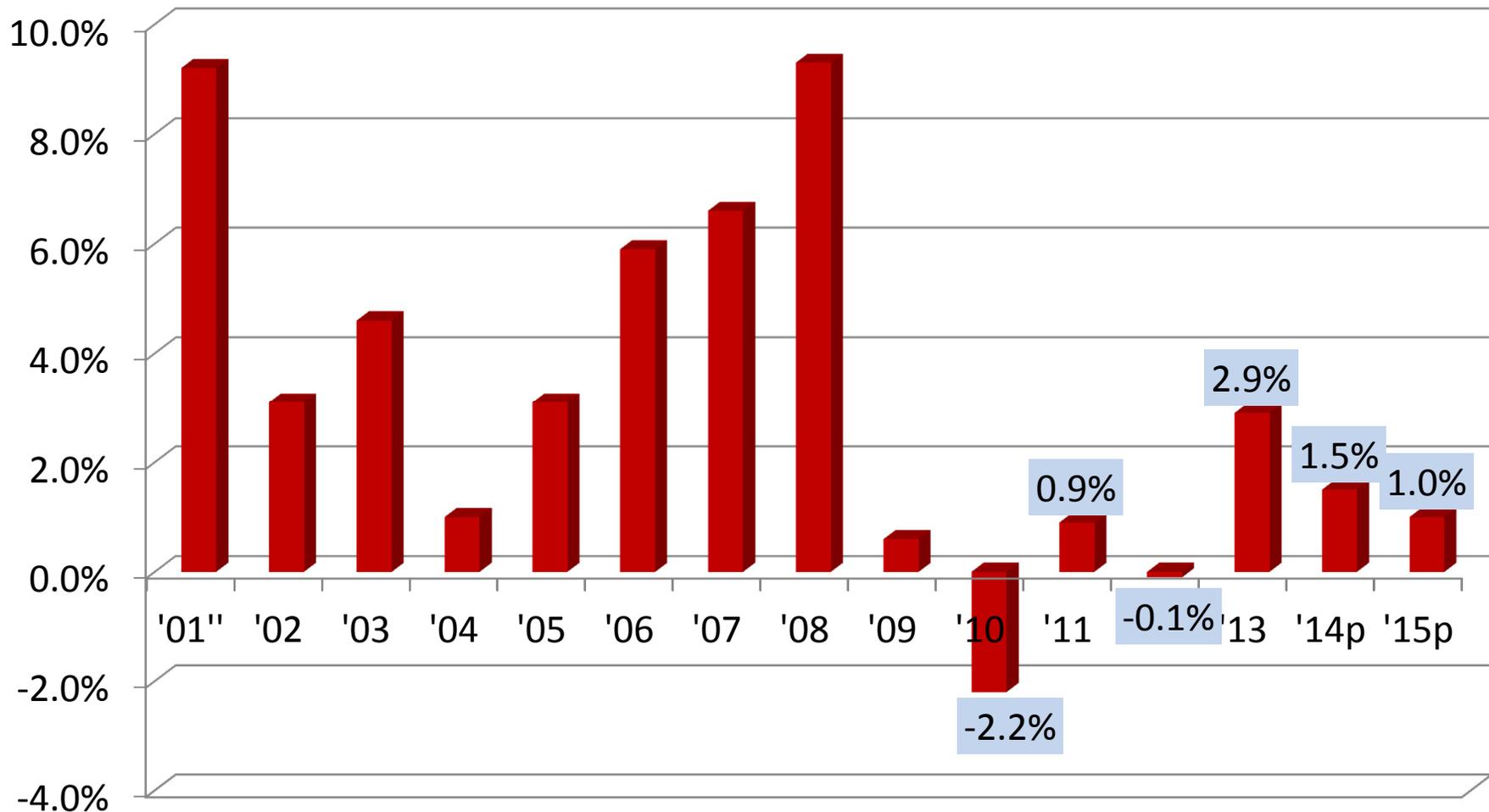
Sources: NCCI for Workers Comp; Total P/C Industry: NAIC Annual Statement Data

Calendar Year Combined Ratios

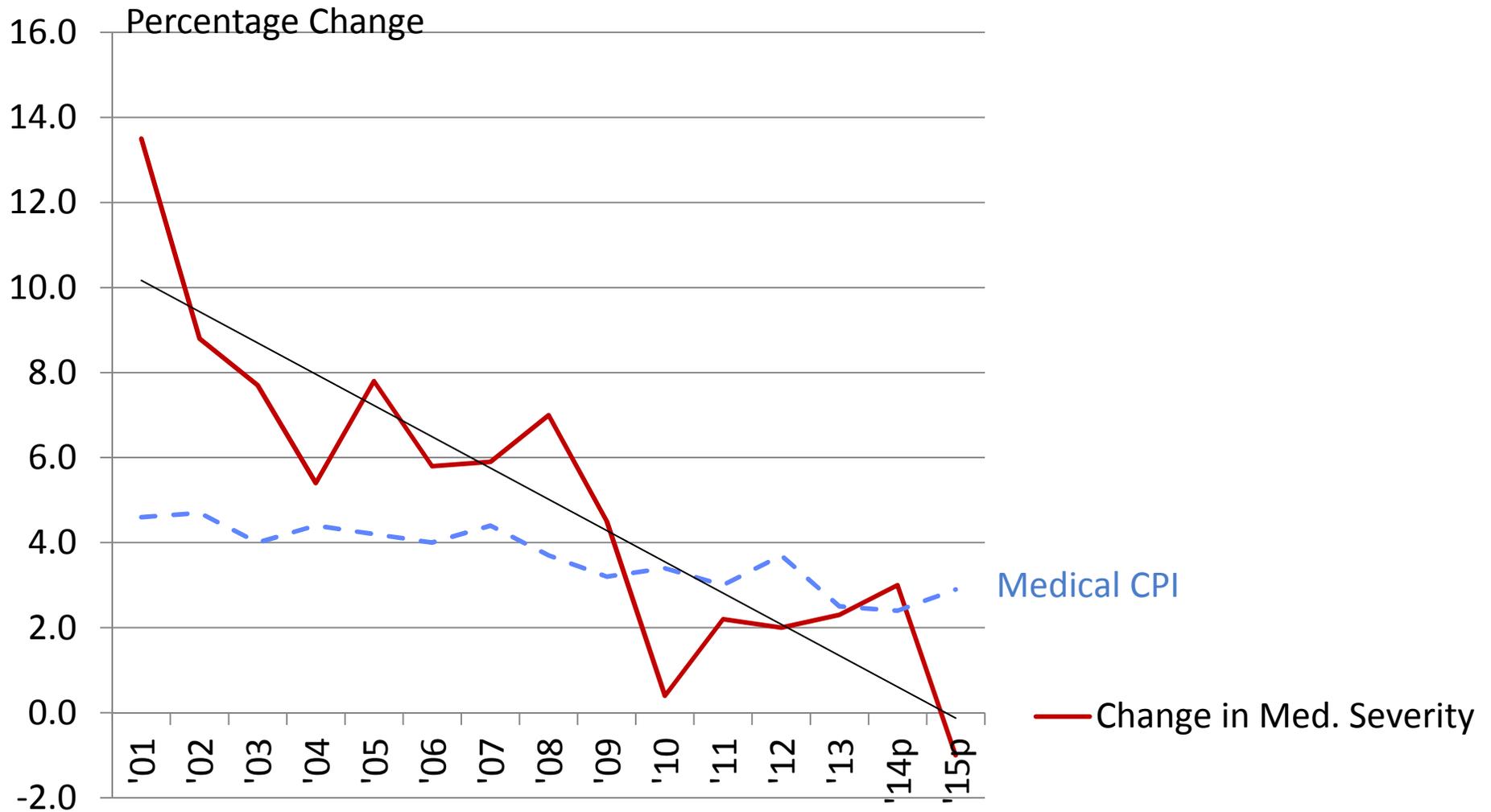


Source: NCCI; Annual Statement Date; 2015 preliminary data

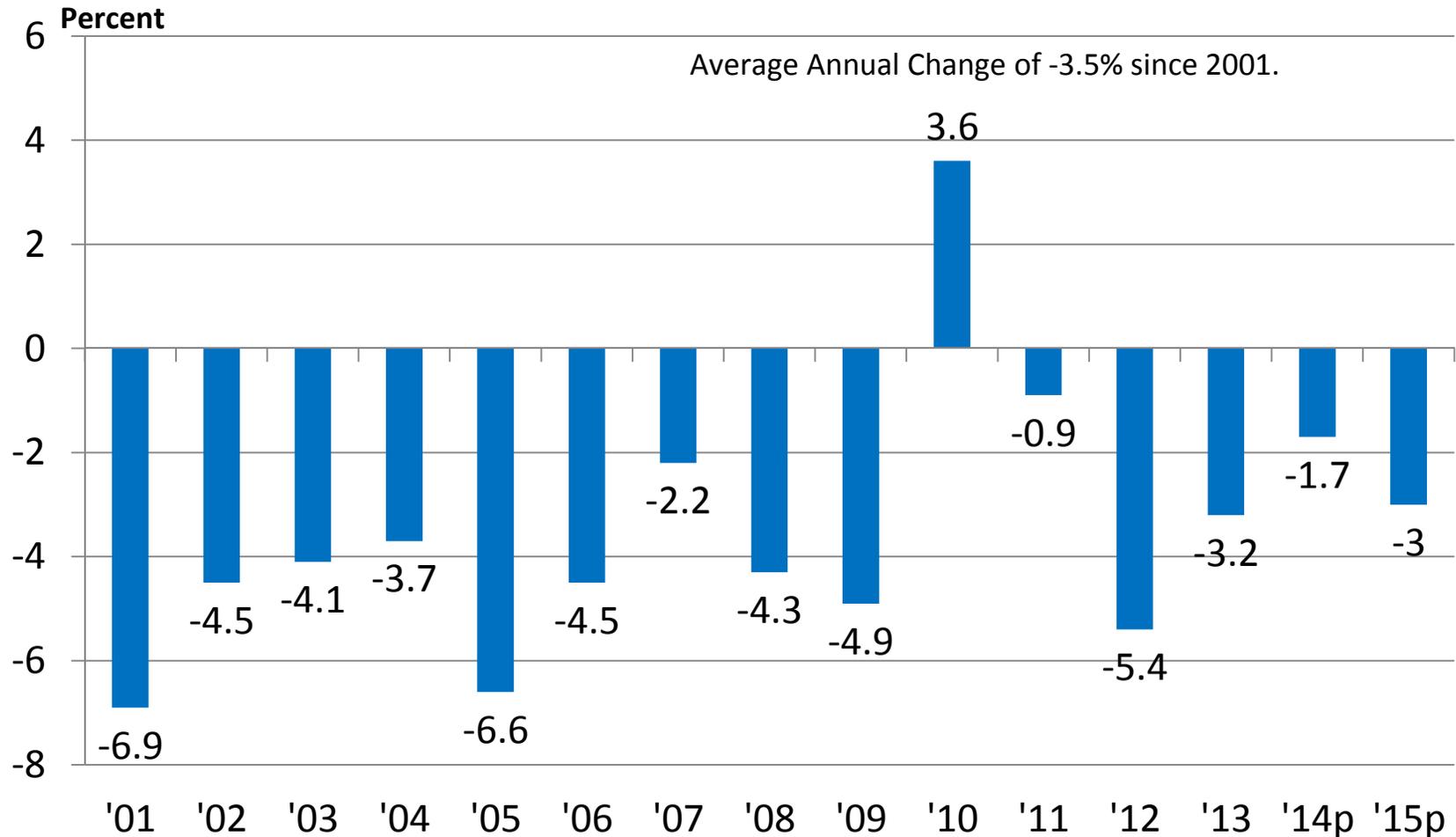
Workers' Compensation Indemnity Claims Cost – Increases Show Further Declines



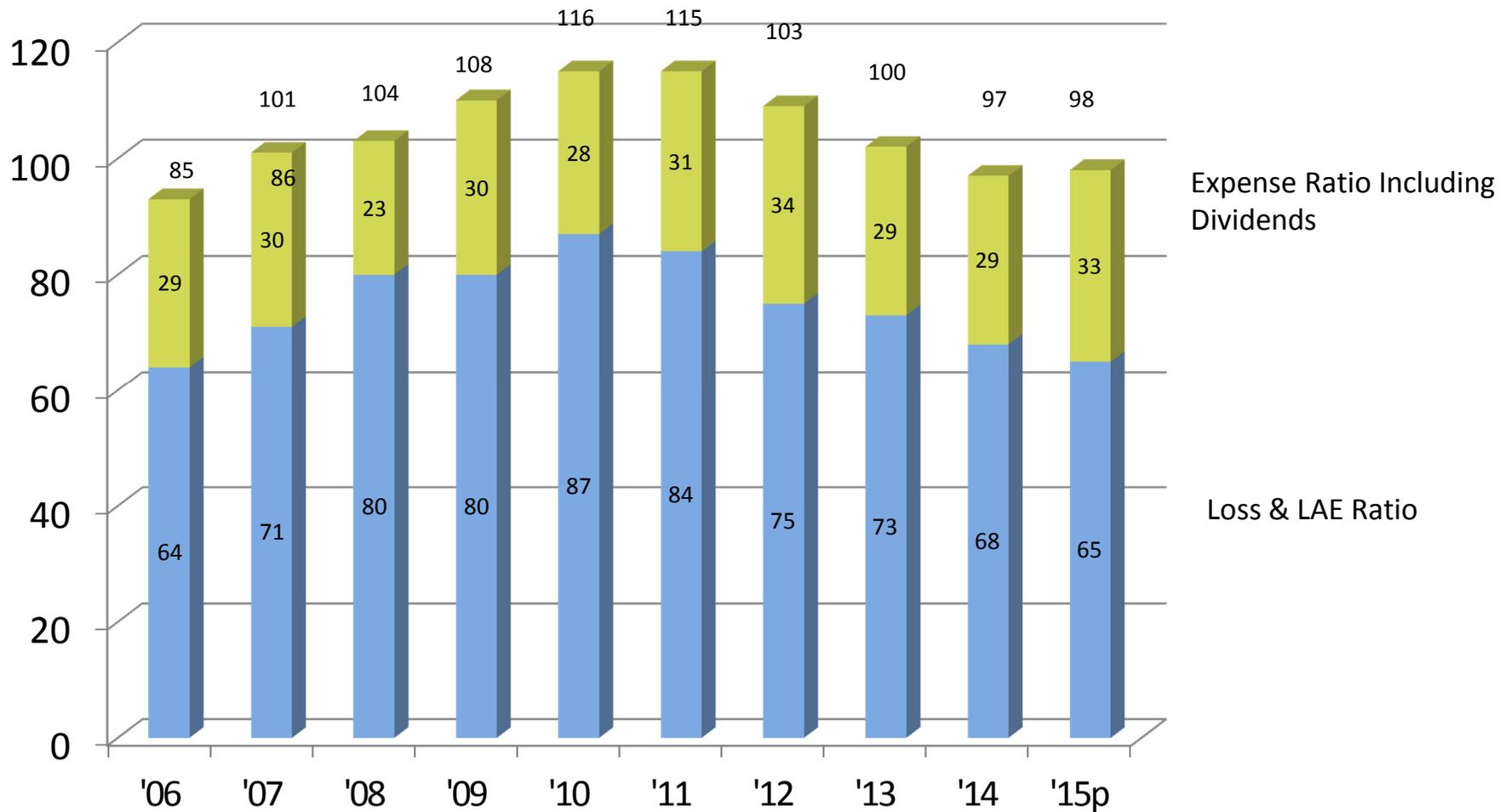
Medical Severity Increases vs. Medical CPI



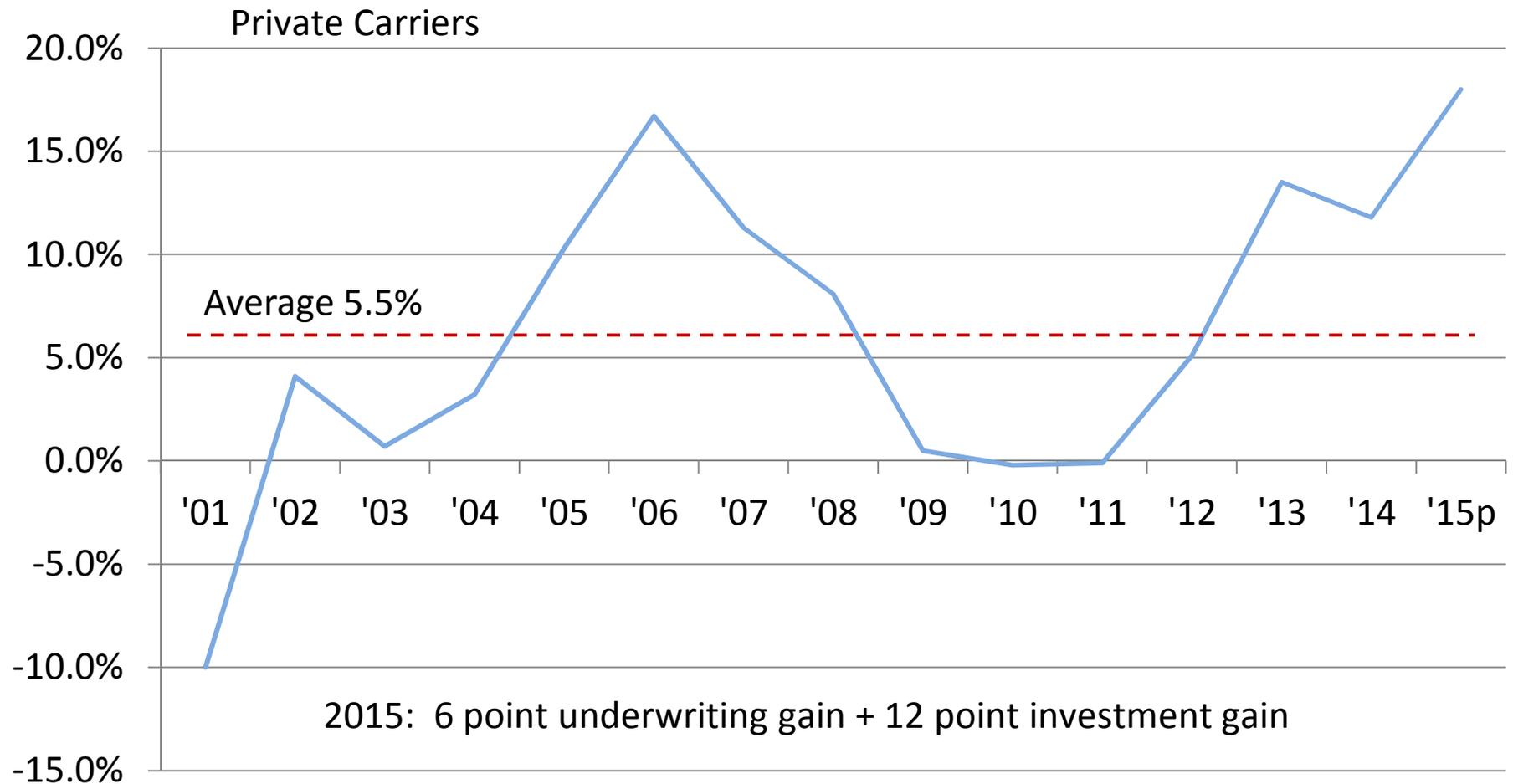
WC Lost-Time Claim Frequency Continued to Decline in 2015



Countrywide Accident Year Combined Ratios

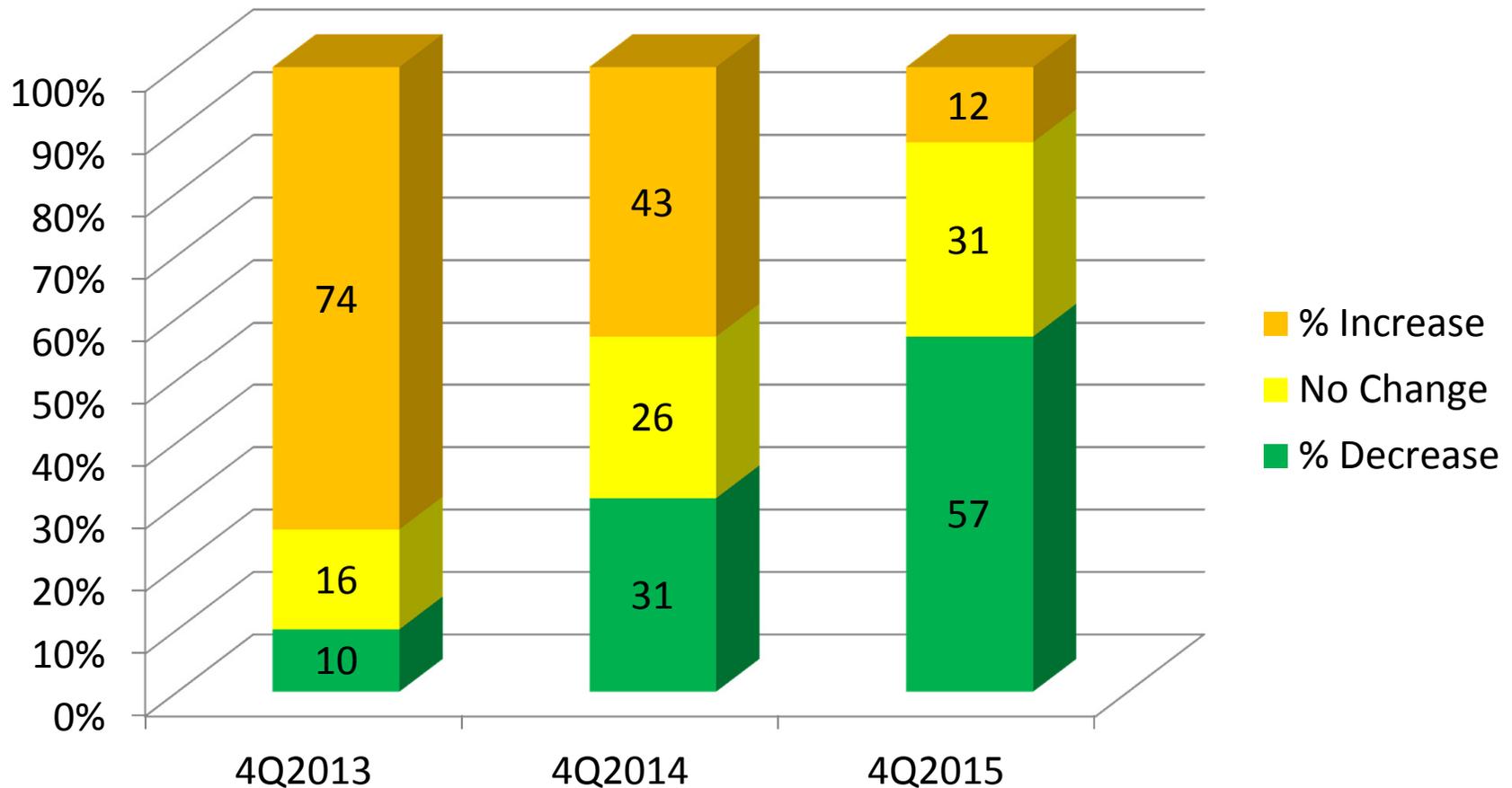


Pretax Operating Gain – Best Result Since 1997!



WC Pricing – Market Index Survey

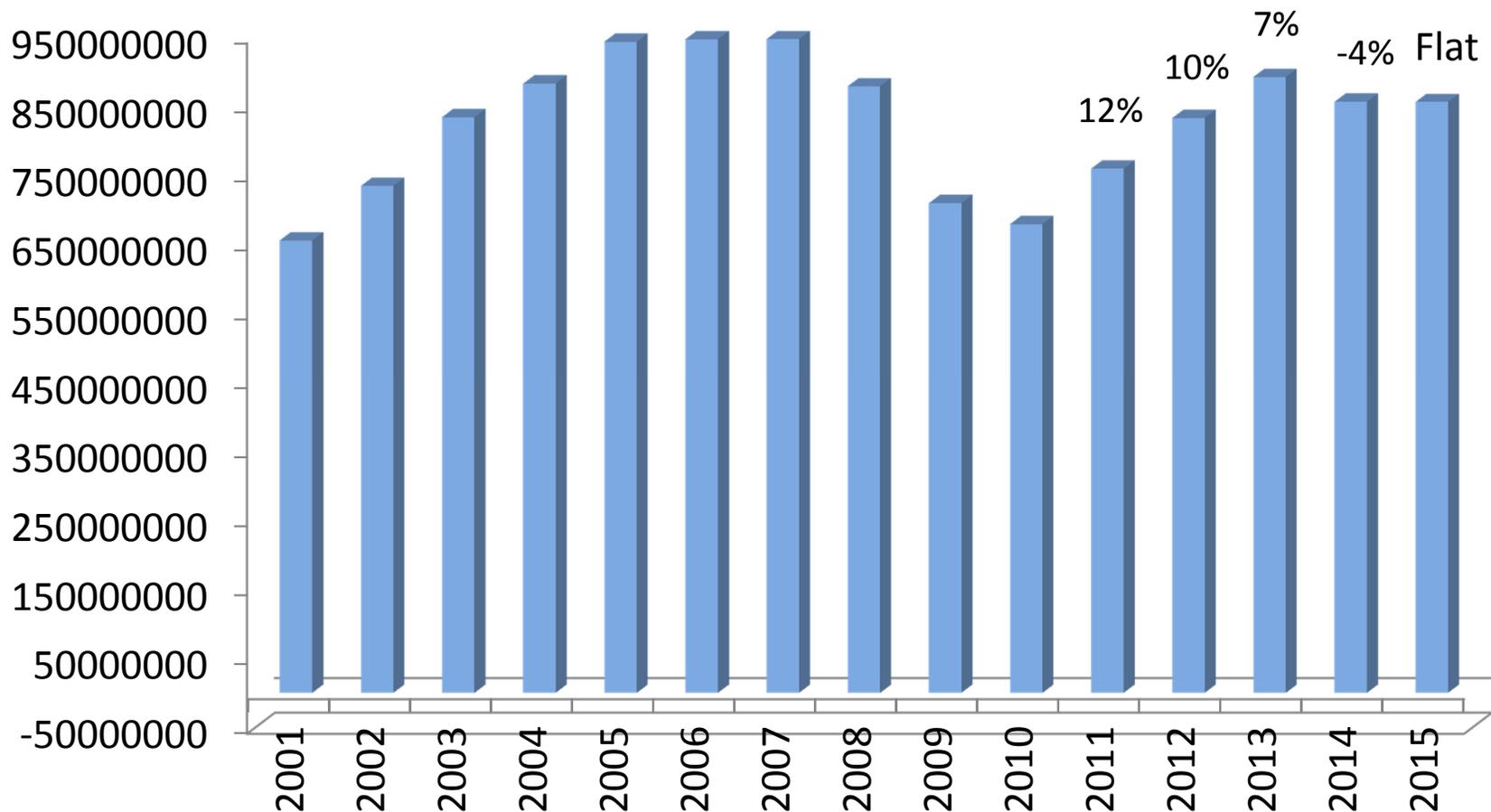
Percentage of Responses



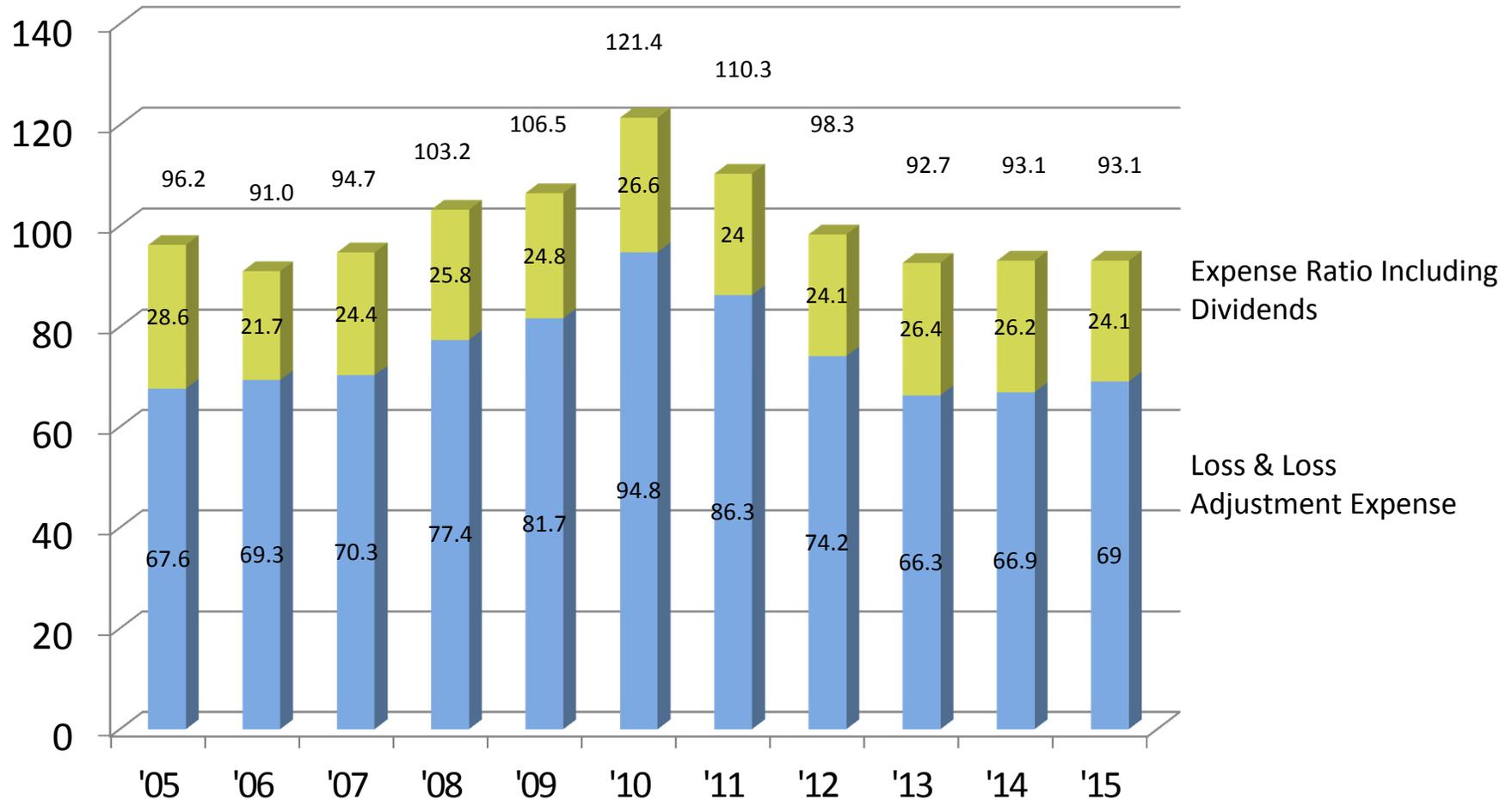
Tennessee Specific



TN Direct Premium Written Premium (DPW) History



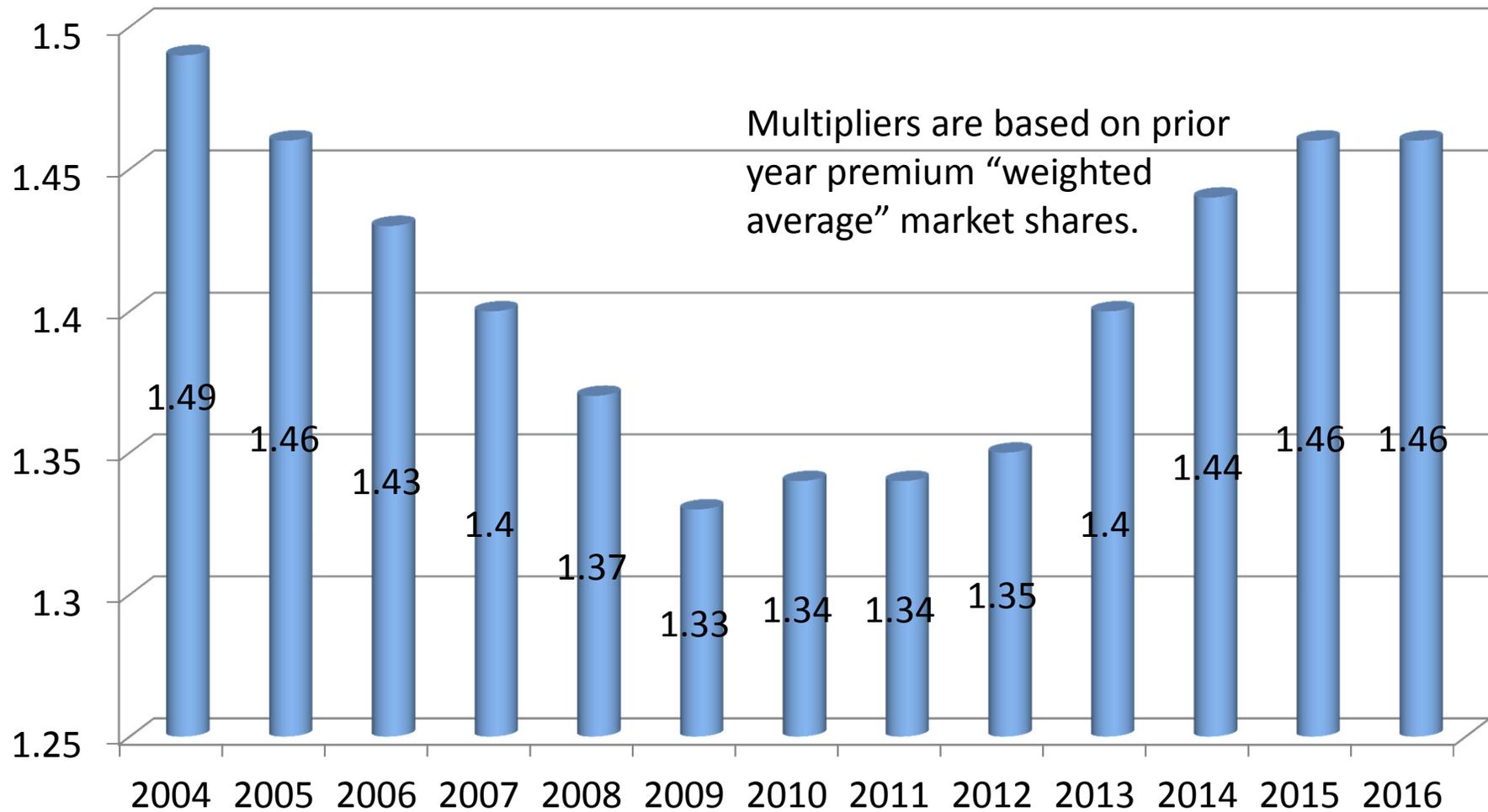
Tennessee Accident Year Combined Ratios



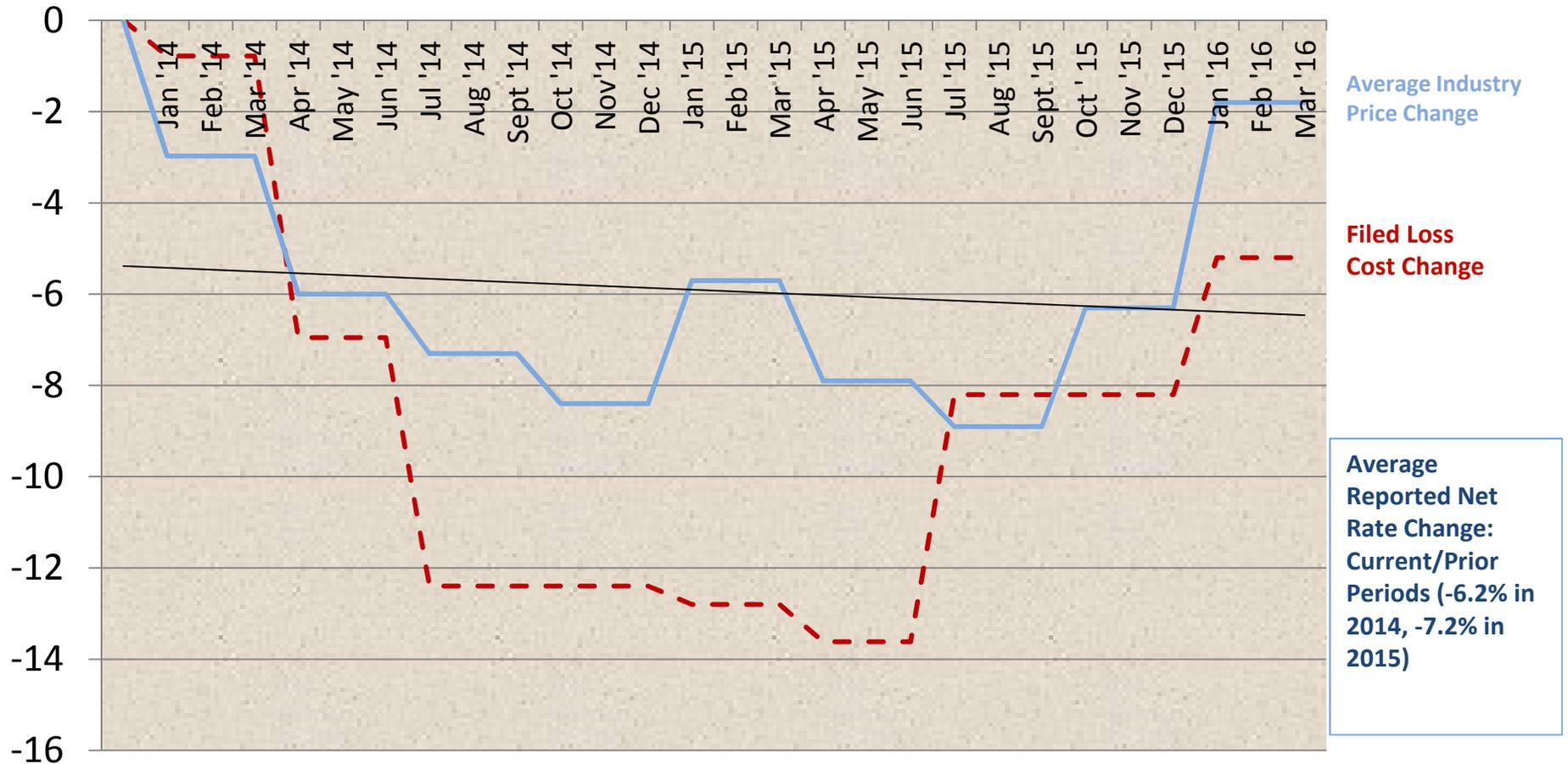
Loss Cost Filing & Final Approvals Since 2004 Reforms Implemented

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	C&I Approved Rate	Effective Date
2008	-3.1%	-3.1%	-3.1%	7/1/2008
2008	-3.1%	-3.4%	-3.1%	3/1/2009
2009	-.1%	-.1%	-.1%	3/1/2010
2010	-5.1%	-5.3%	-5.1%	3/1/2011
2011	6.3%	6.3%	6.3%	11/1/11
2011	1.6%	-.3%	.4%	3/1/12
2012	-5.1%	-5.1%	-5.1%	8/9/12
2012	2.3%	1.6%	2.3%	3/1/13
2013	-8.4%	-6.95%	-6.95%	3/1/14
2013	-5.9%	-5.9%	-5.9%	7/1/14
2014	-9.6%	-6.5%	-8.2%	3/1/15
2015	-0.9	-1.2	-.9	3/1/16
2016	-2.7	-2.7	-2.7	8/28/16
2016	-12.8	TBD	TBD	3/1/17

Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History



TN Quarterly Price Change Analysis



2016 LCM Distribution (by Direct Premium Written)

Median 1.45



- 80% are above 1.10 and below 1.80
- 20% above 1.66 Assigned Risk LCM

A complete listing of LCMs is posted on the Department's website

Top 10 Market Share Changes Over the Past Five Years

Group: 2015	Ranking	Market Share	Group: 2011	Ranking	Market Share
Travelers	1	9.0%	Liberty Mut	1	13.1%
WR Berkley	2	8.5%	Travelers	2	9%
Accident Fund	3	6.4%	Hartford	3	7.9%
Hartford	4	6.4%	AIG	4	6.9%
Zurich	5	5.2%	Accident Fund	5	5.6%
Liberty Mutual	6	4.8%	Zurich	6	5%
Great American	7	4.5%	WR Berkley	7	4.7%
AmTrust	8	3.9%	Chubb (ACE)	8	4.1%
AIG	9	3.5%	Old Republic	9	2.3%
Chubb (ACE)	10	3.1%	Auto Owners	10	2.3%

A complete listing of the 2015 Group Market Shares is posted on the Department's website

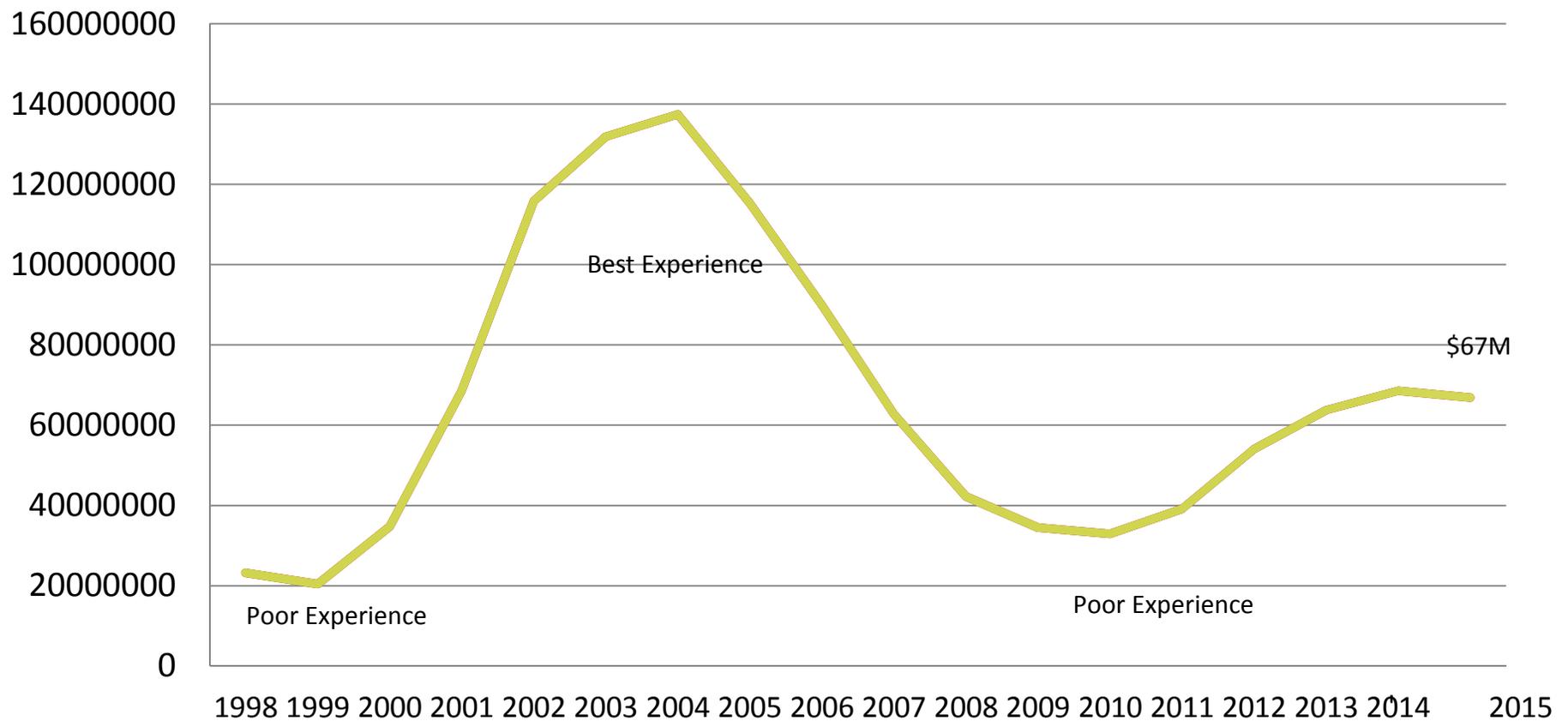
TN WC Premium Tax Revenues

	YE 8/31/12	YE 8/31/13	YE 8/31/14	YE 8/31/15
Self Insurance	\$6.4M	\$5.8M	\$8.1M	\$6.3M
Insurance	\$31.7M	\$34.4M	\$35.7M	\$34.4M
Total Premium Tax*	\$38.1M	\$40.2M	\$43.4M	\$40.7M

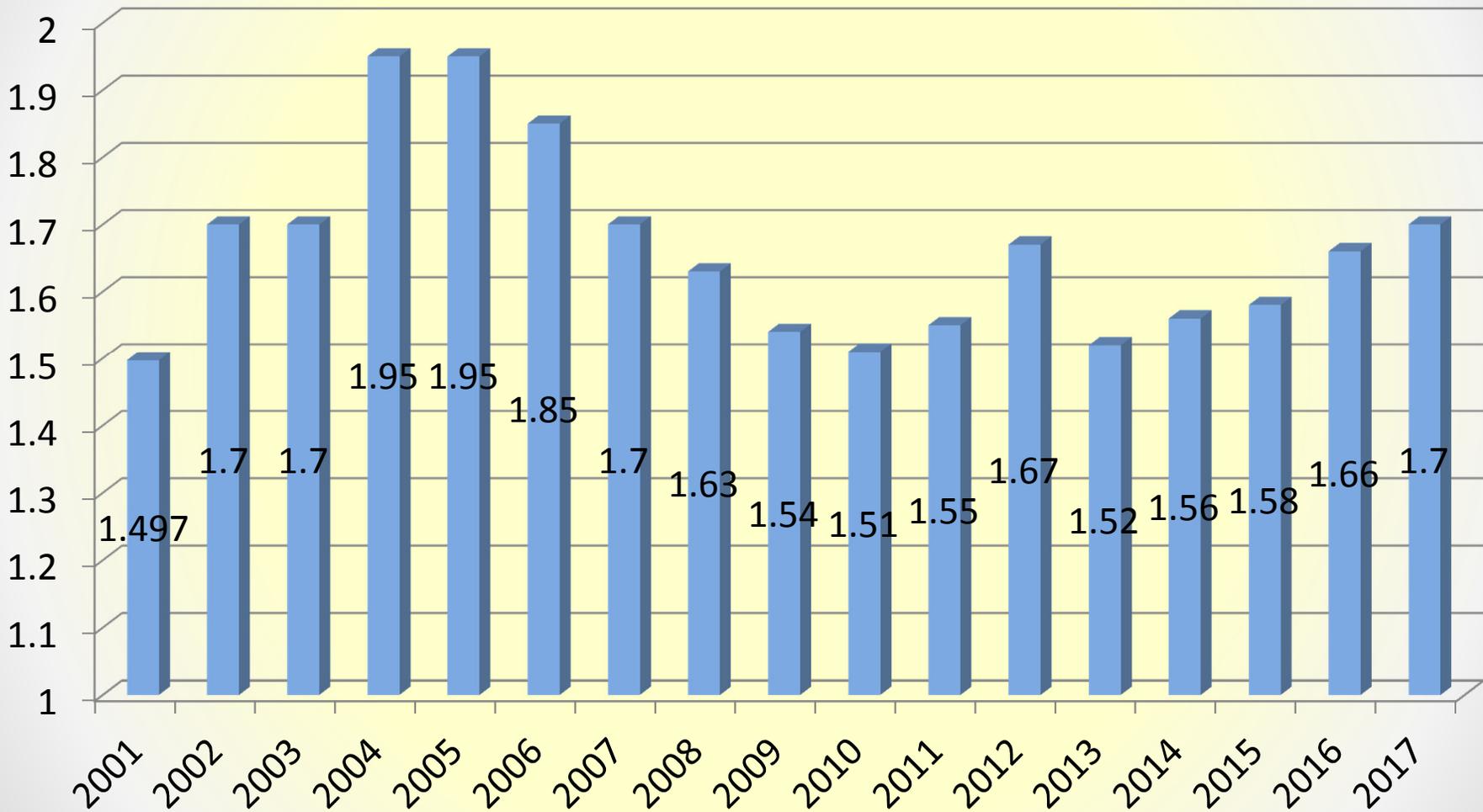
Tennessee Workers Compensation Insurance Plan (WCIP)



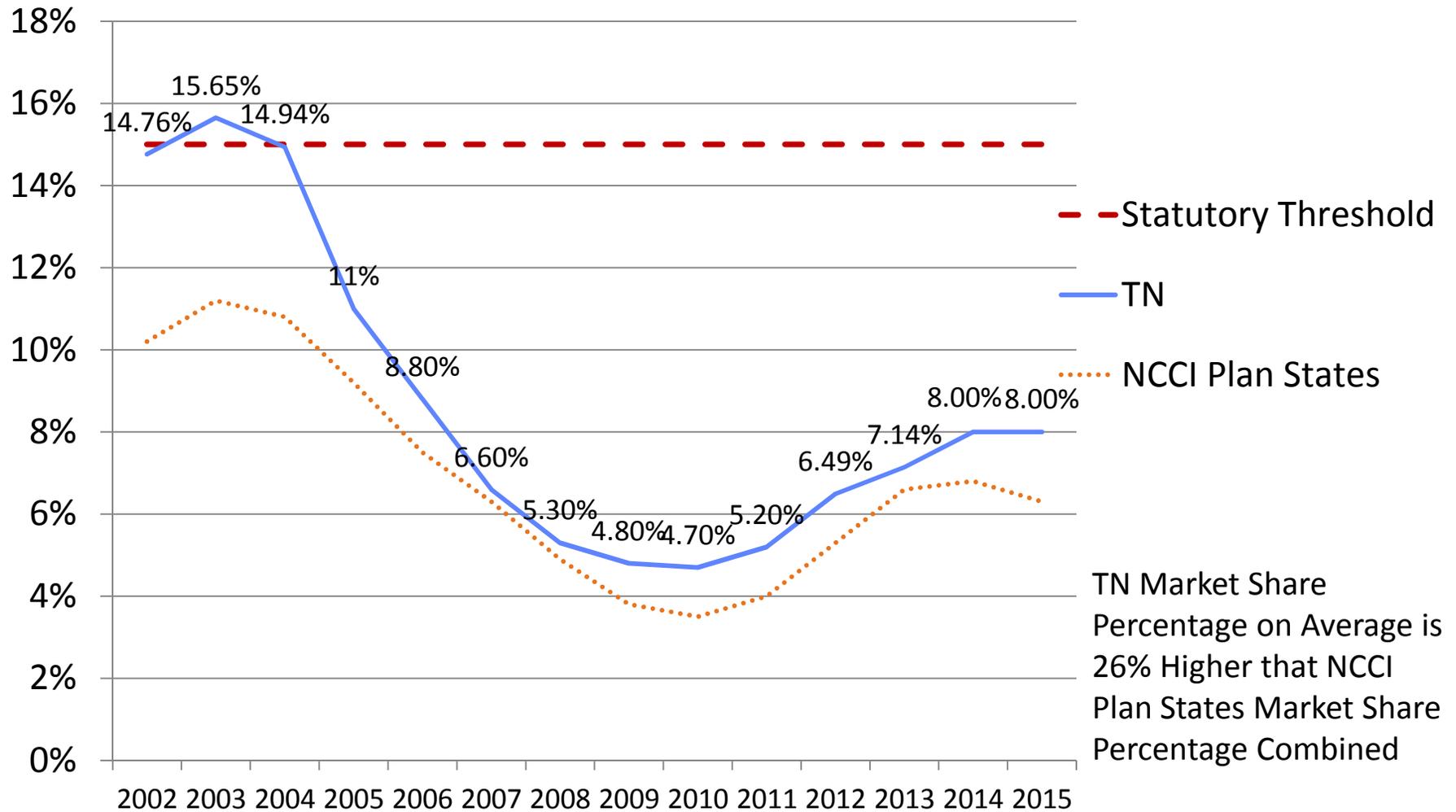
WCIP Premium History



TN WC Assigned Risk LCM History



TN Assigned Risk Market Share vs. NCCI Plan States Market Shares - NAIC Direct Premium Written



TN Department of Commerce & Insurance

2017 Assigned Risk Depopulation Initiative

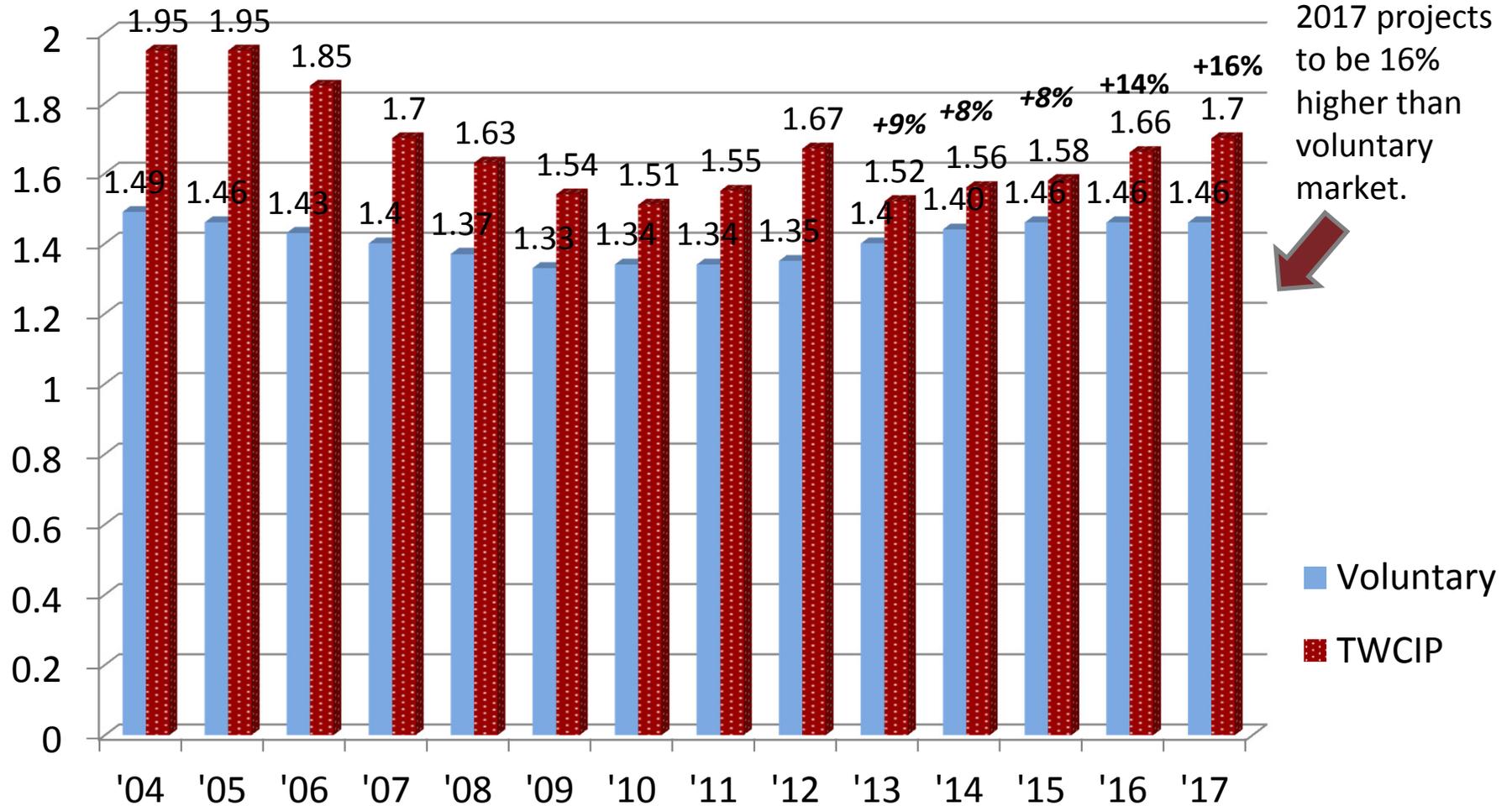
- ***BrightHorizons →Comp***

- 60-65 Policyholders with premium of \$100,000 and up
- Contacting producers to set up experience modification analysis presentations
- Elevating claims and loss control service to introduce
 - State of the art cost containment initiatives
 - Ultimate Guide to Mastering Workers' Comp Costs
 - Set the stage for more intense loss control service
- Provide resource list offering contracting with independent safety consultants
- Monitor results via Access database
- OBJECTIVE: Improve risk to attract voluntary markets
- WINNERS: Employer, employees, and assigned risk plan



LCM History: Voluntary vs. TWCIP/WCIP

Assigned Risk Plan LCM On Average 18% Higher



WCIP NCCI 3/1/17 Rate and Rating Filings

- Overall LCM increase of 2.4%
- Underlying LCM: 1.70
- Tabular Surcharge being replaced by Assigned Risk Adjustment Program (ARAP) – Factor Shown on Experience Modification worksheet
 - Attaches at 1.11 experience modifications and up like the tabular surcharge
 - Surcharge based on a actuarial formula that weights premium factors more toward severity than frequency
 - Has a maximum surcharge of 25% (Currently Tabular is 15%)
- Premium Discount (PD) is being removed – NCCI staple
- Rate impact: ARAP produces increase of 3.7%; Removal of PD produces and increase of 6.9%

Currently Three Active Self-Insured Groups

Self Insured Groups

Comtrust AGC of Tennessee

Tennessee Automotive Association

Tennessee Forestry Association

Insolvencies

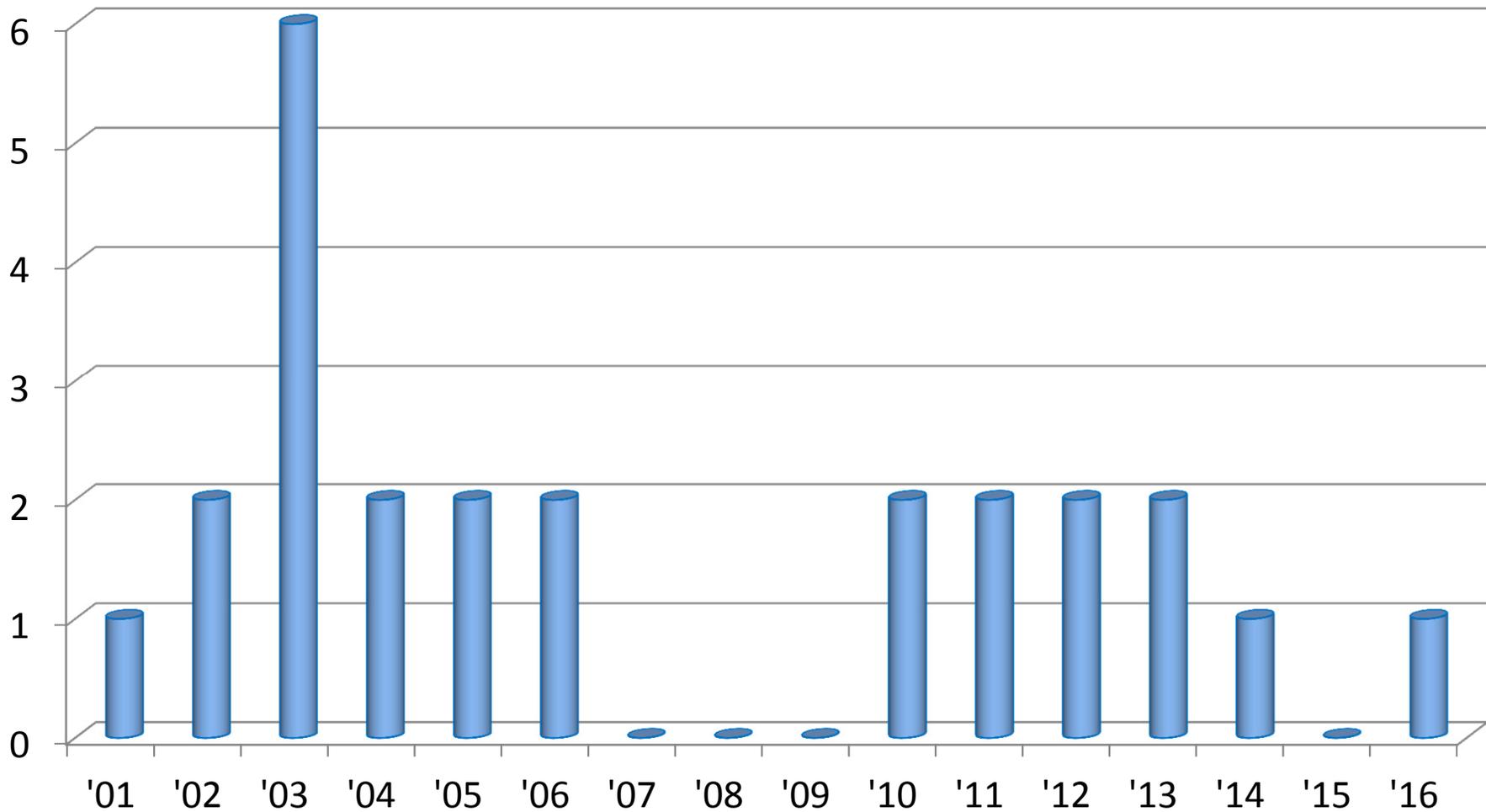
- Individual carrier data included in this section includes insolvencies over \$1 million in total losses.



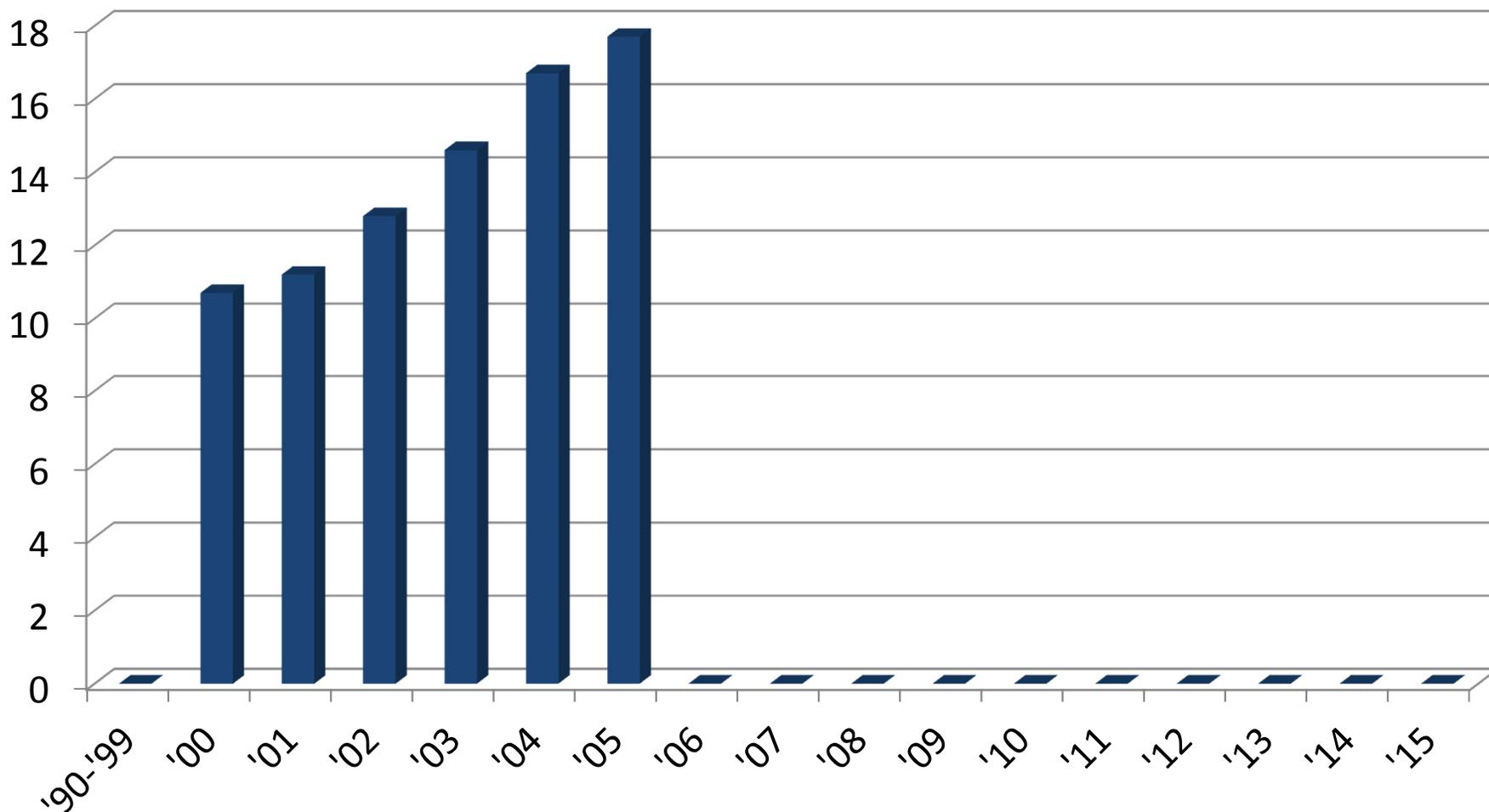
WC Insolvency Data – Valued 6/30/16 (Listing Only Carriers Having Over \$1M Total Unpaid Losses)

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,761	42,254,215	17,854,211
Home Ins. Co. (6/03)	127	2,779,073	4,439,999
Reciprocal of America (6/03)	313	1,941,248	758,983
Legion & Villanova (7/03)	1,879	44,895,386	17,537,301
Western Indemnity (8/03)	3	383,327	4,180,791
Casualty Reciprocal (8/04)	52	2,023,876	2,675,084
South Carolina	3	897,455	1,030,031
Realm National (6/05)	53	3,763,064	3,224,160
Imperial Casualty (5/10)	127	1,866,187	731,323
Pegasus (8/10)	6	94,610	1,299,881
Lumbermens Mutual (5/13)	146	1,565,261	8,616,548
Ullico (5/13) -	47	1,377,346	1,738,106
Freestone (8/14)	60	855,752	1,747,786
Lumbermen's Underwriting (5/16)*	48	-	\$1,518,449
Totals (all since 10/3/01)	4,625	104,696,800	67,352,653

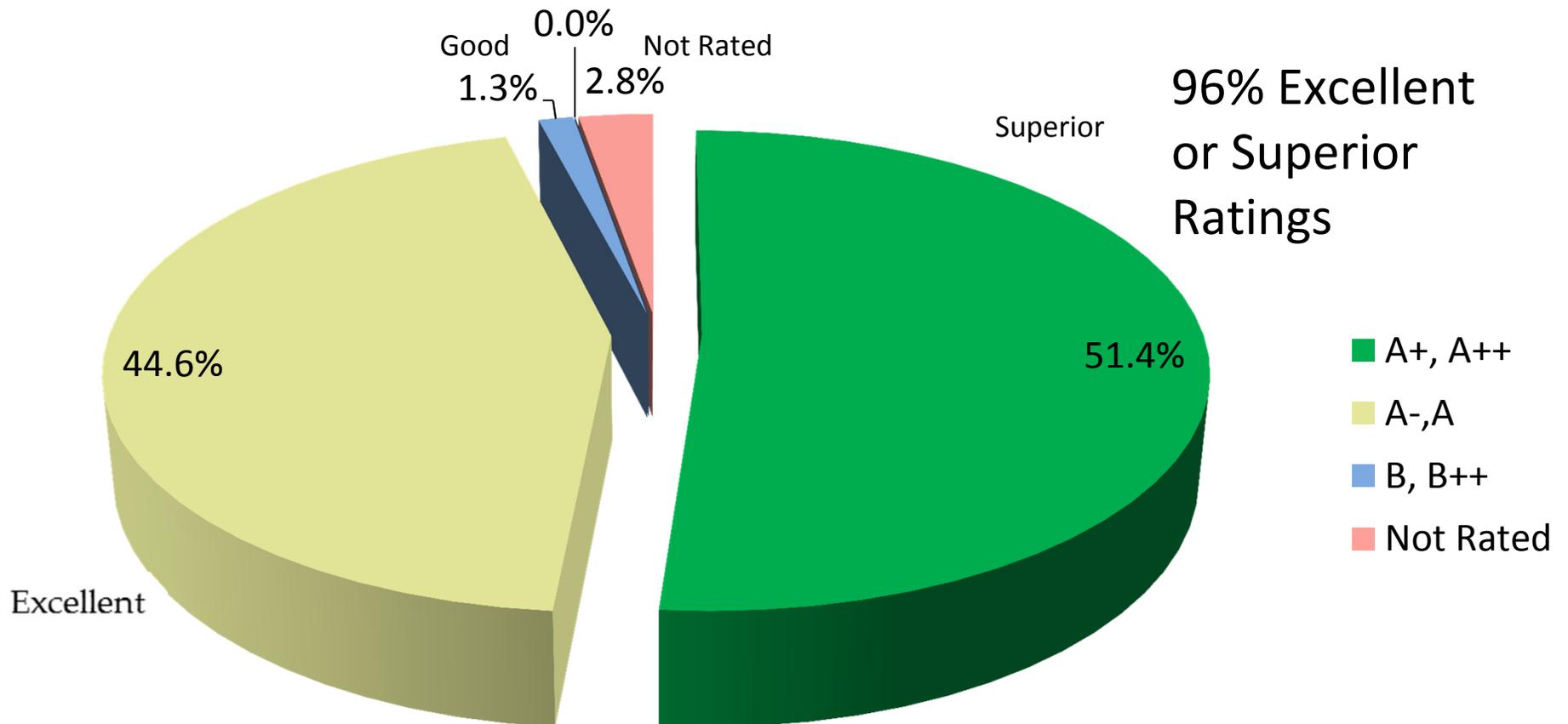
Number of WC Carrier Insolvencies Per Year Impacting TN



TN Guaranty Fund Assessment History (Millions)



A.M. Best Ratings for Companies with >\$1M Premium – Premium Shares



Source: A.M. Best; As of July 2016

Wrap Up: Defining the Market Condition

- **Workplace** – new monitoring technology, expanded automation, and new ways of how employees work
- **Regulatory** – new participants and agendas
- **System Challenges** – frequency and severity of system challenges transforming level of uncertainty
- **Market** – recognition that underwriting matters more in a low interest rate environment



“Transforming”...

NCCI CEO Bill Donnell

