

The background of the slide is an aerial photograph of a city, featuring a prominent skyscraper with a distinctive circular top. A large, semi-transparent red diagonal shape is overlaid on the right side of the image, extending from the top right towards the bottom right. The text is positioned on the left side of the slide, within a white rectangular area that has a thin black border.

FitchRatings

Workers' Compensation Insurance — State of the Line

National Workers' Compensation
Insurance ExecuSummit

James B. Auden, CFA – Managing Director

January 24, 2024

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1

Property/Casualty Market Outlook

FitchRatings

U.S. Property/Casualty Industry: Neutral Sector Outlook

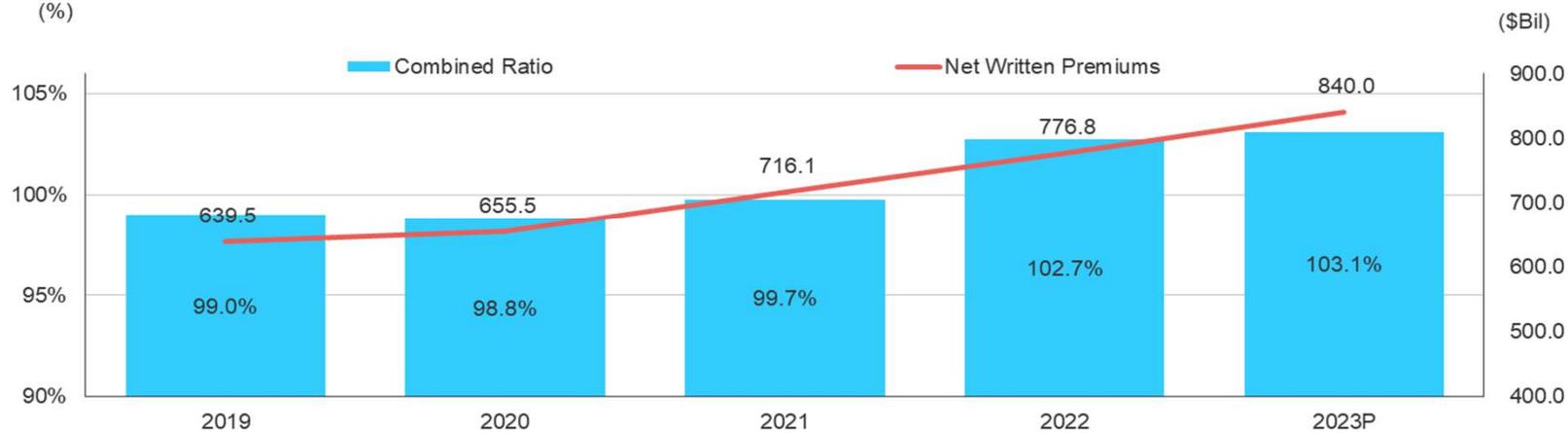
Key Credit Issues

- Capital strength provides ability to withstand multiple adverse events
- Personal auto results positioned to improve after two difficult years
- Commercial lines rate increases maintaining pace with loss trend
- Evolving catastrophe risk exposures add volatility
- Claims severity in property and liability lines from inflation, economic changes and heightened litigation exposure

Underwriting Performance

- Net written premium growth strong 8% in 2023 vs 4% 20 year average
- Combined ratio approximates 103% last two years vs 20 year average of 100%
- Catastrophes losses above historical norms in recent years

P/C Industry U/W Performance

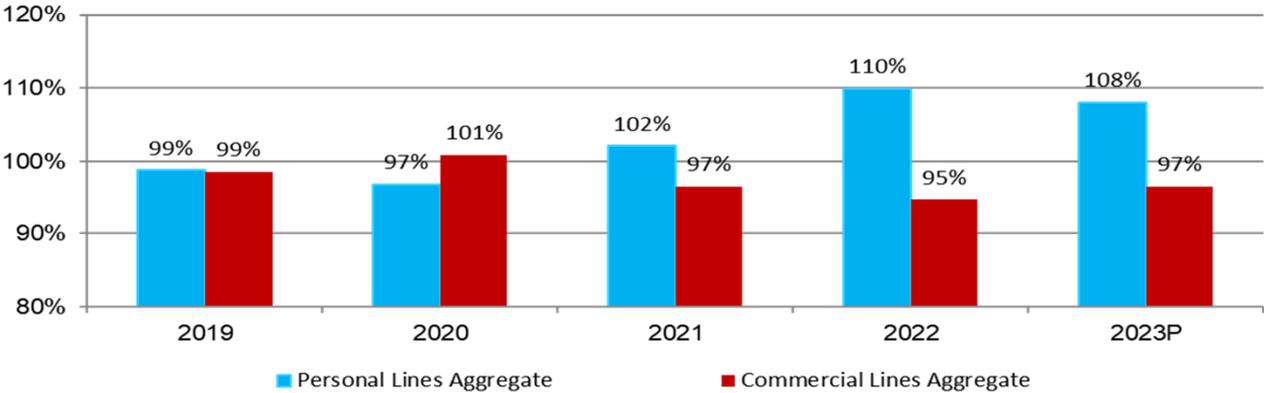


P - Projected.
 Source: Fitch Ratings, S&P Global Market Intelligence

Commercial / Personal Lines Performance

- Commercial lines benefit from 4+ years hardening market, renewed underwriting discipline
- Personal auto claim severity spike from pandemic related supply chain shortages, inflation
- Homeowners challenges in insuring to value, unique catastrophe events

**Personal and Commercial Lines
Combined Ratios Diverge**

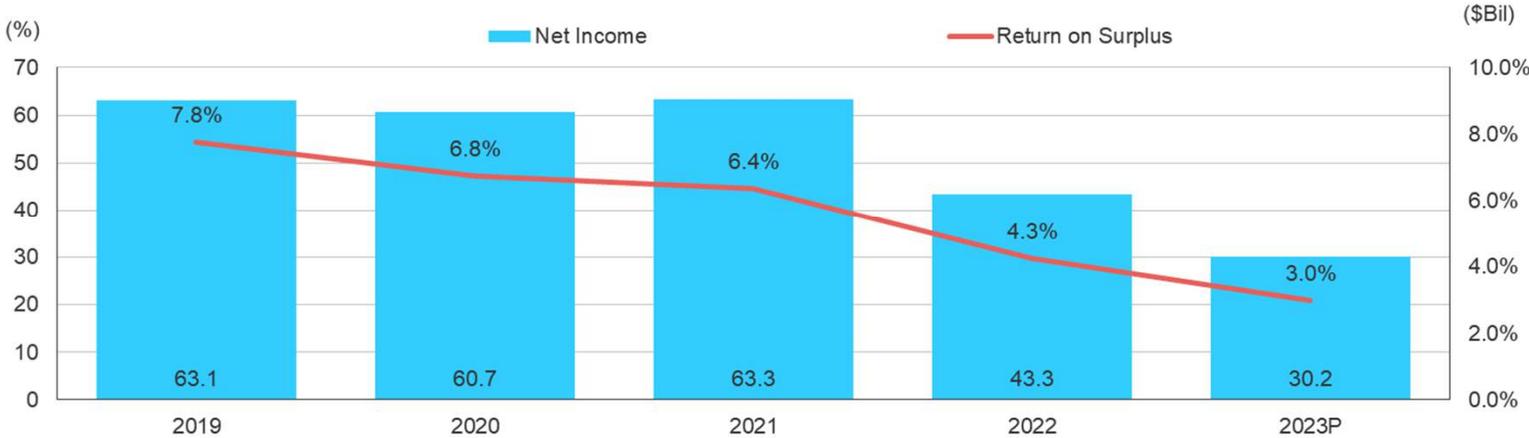


Source; S&P Global Market Intelligence, Fitch Ratings - P/C industry Aggregate

Statutory Profitability

- Net profits down nearly 50% last two years
- Return on surplus drops to 3% in 2023 vs 20 year average 7.8%

P/C Industry Statutory Profitability

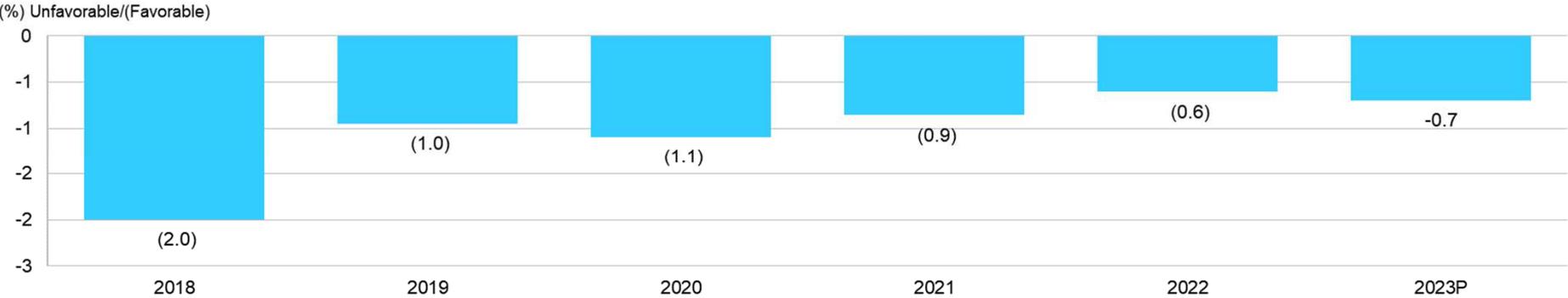


P - Projected.
 Source: Fitch Ratings, S&P Global Market Intelligence

Favorable Reserve Development

- Industry favorable reserve development for 18th consecutive year in 2023
- Concerns about future claims inflation from loss severity, litigation and settlement costs
- Reserve deficiencies in certain liability segments offset by large redundancies in workers comp

Property/Casualty Industry CY Reserve Development Loss Ratio Percentage Points

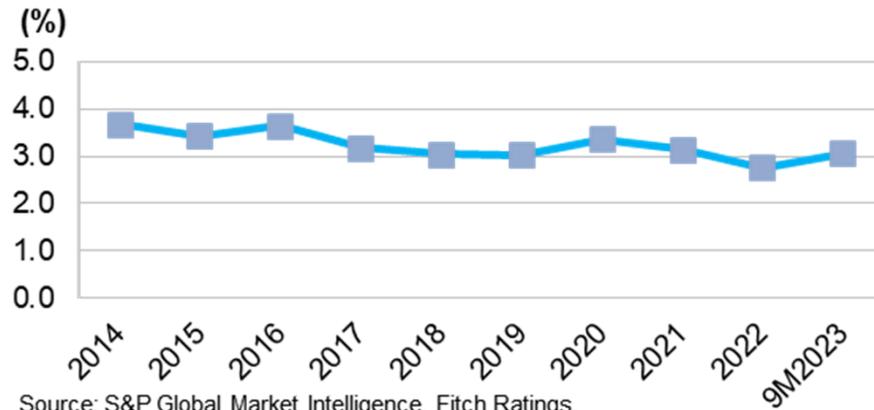


Note: CY - Calendar year. P - Projected.
Source: S&P Global Market Intelligence, Fitch

Investment Performance

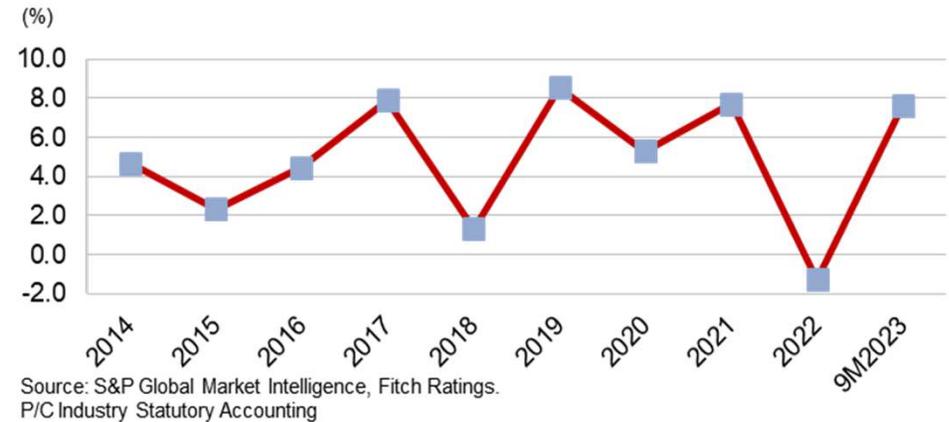
- Portfolio yield over 3% will continue to rise with higher interest rates
- Total return more volatile – negative in 2022, 7.6% for 9M2023

P/C Industry Investment Yield



Source: S&P Global Market Intelligence, Fitch Ratings.
P/C Industry Statutory Accounting

P/C Industry Total Investment Return

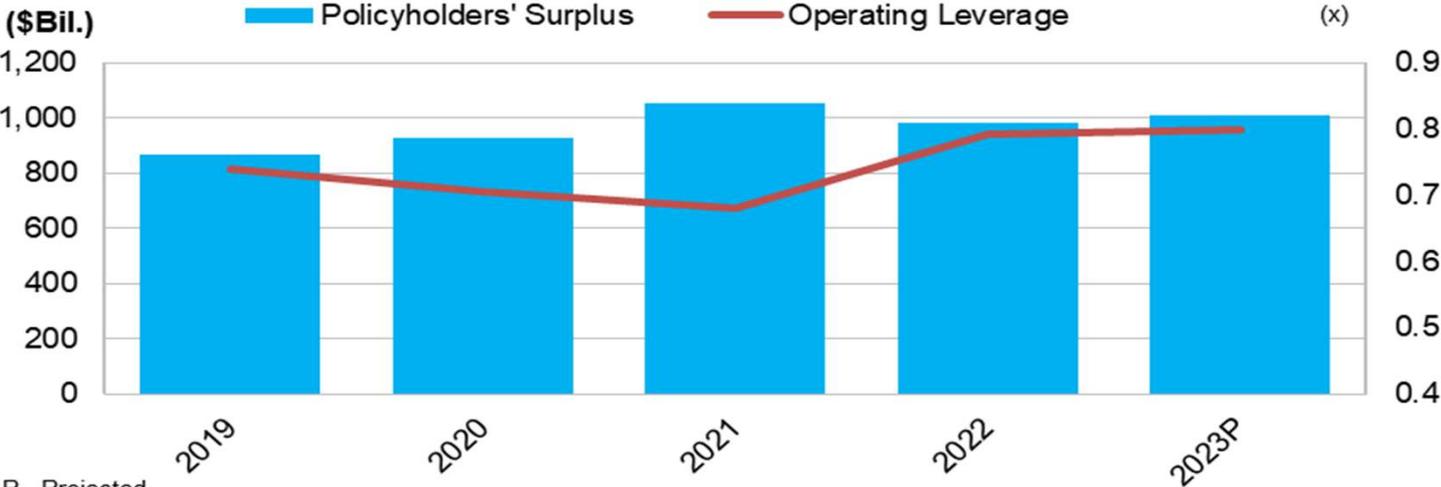


Source: S&P Global Market Intelligence, Fitch Ratings.
P/C Industry Statutory Accounting

Statutory Capital/Underwriting Leverage

- Industry capital remains very strong
- Policyholder Surplus (PHS) approximately \$1 trillion at yearend 2023
- Surplus growth anticipated to be modest in 2024
- Operating leverage at historical norms of 0.8x

Property/Casualty Industry Aggregate Surplus and Operating Leverage

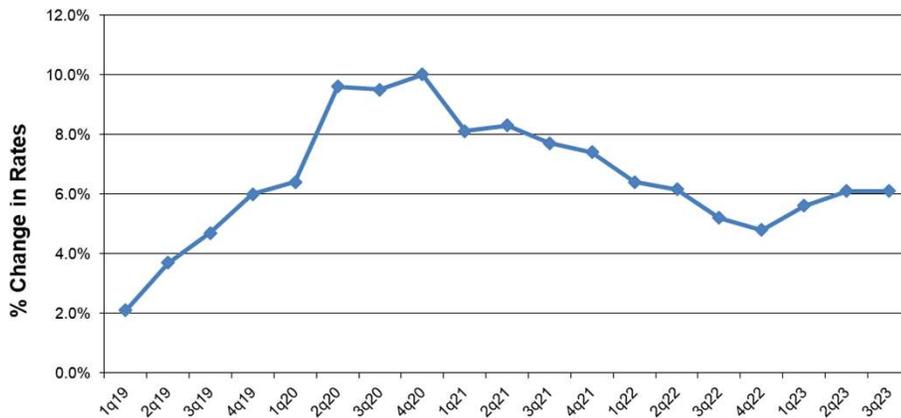


P - Projected.
 Source: S&P Global Market Intelligence, Fitch

Commercial Lines Pricing

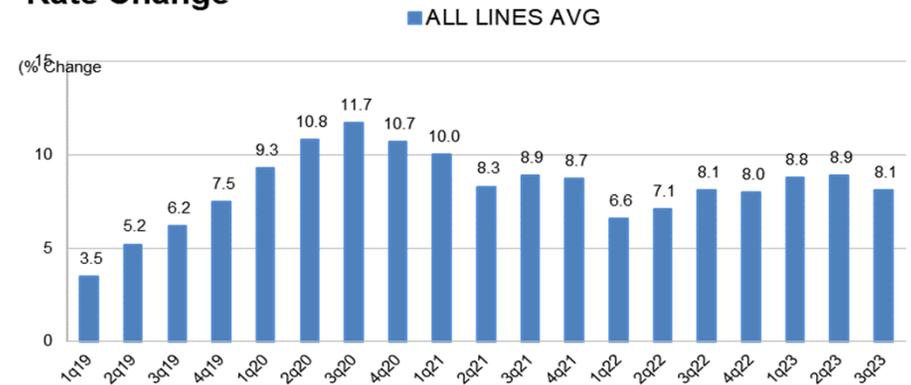
- Uncharacteristically long hardening market phase
- WTW Clips Survey: Positive premium rate trend decelerating; 6.1% increase in latest quarter
- Council of Insurance Agents & Brokers' Survey: Rates increase last 24 consecutive quarters; +8.1% in 3Q2023

Willis Towers Watson CLIPS Commercial Market Survey



Source: Willis Towers Watson

CIAB Survey Quarterly Commercial Lines Rate Change

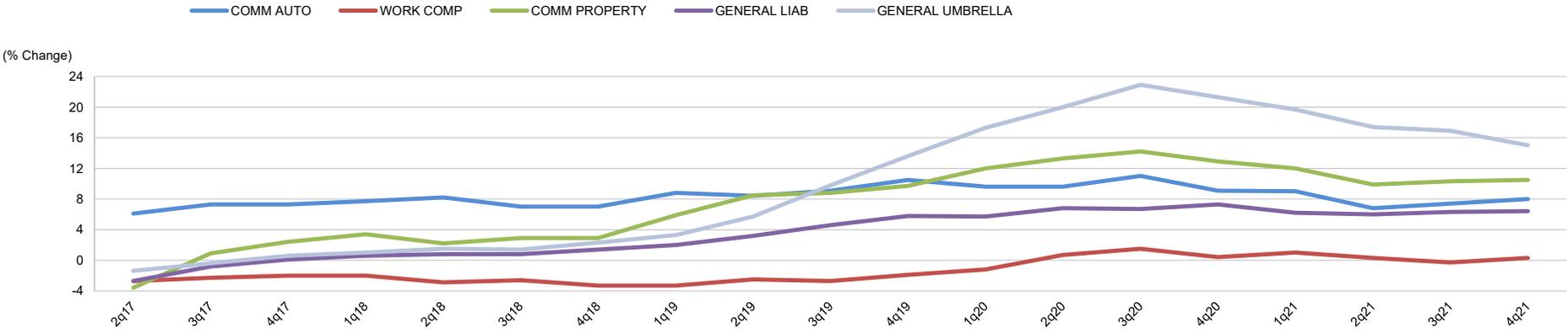


Source: Council of Insurance Agents & Brokers Quarterly Commercial Market Survey.

Commercial Lines Segment Pricing

- Rate hardening moderating in several segments
- Workers' compensation only major segment with flat to falling rates
- Property rates responding to catastrophe losses
- Commercial auto rate increases continue
- Umbrella continues to show the most significant pricing change

CIAB Quarterly Rate Change by Segment

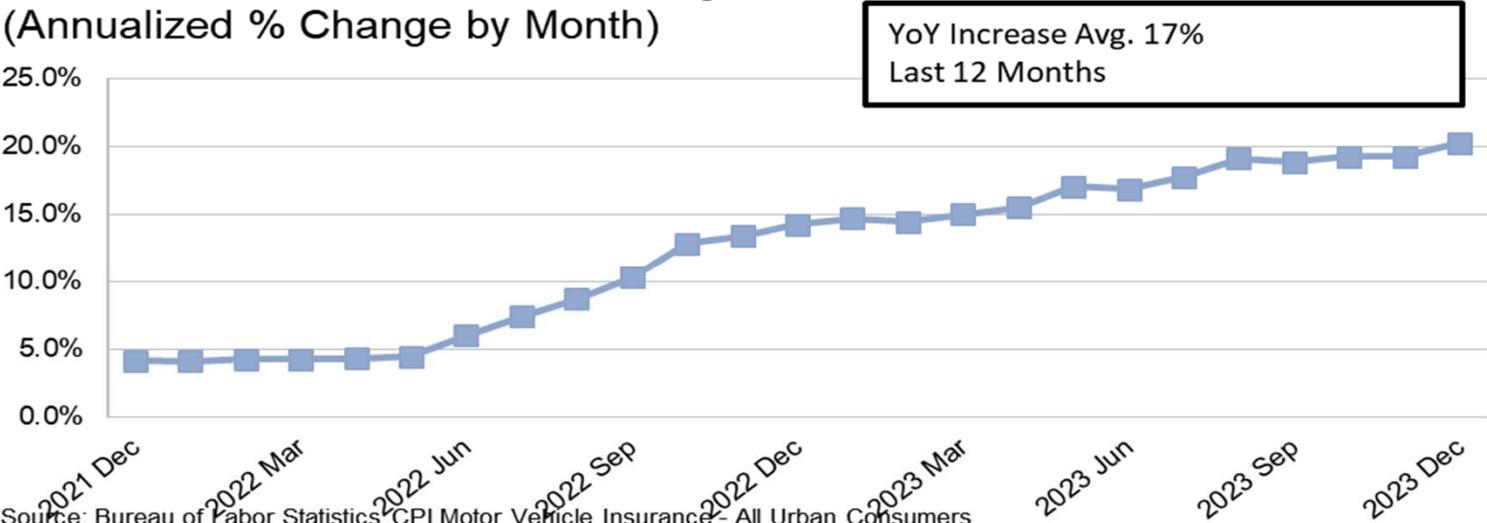


Source: Council of Insurance Agents & Brokers Quarterly Commercial Market Survey.

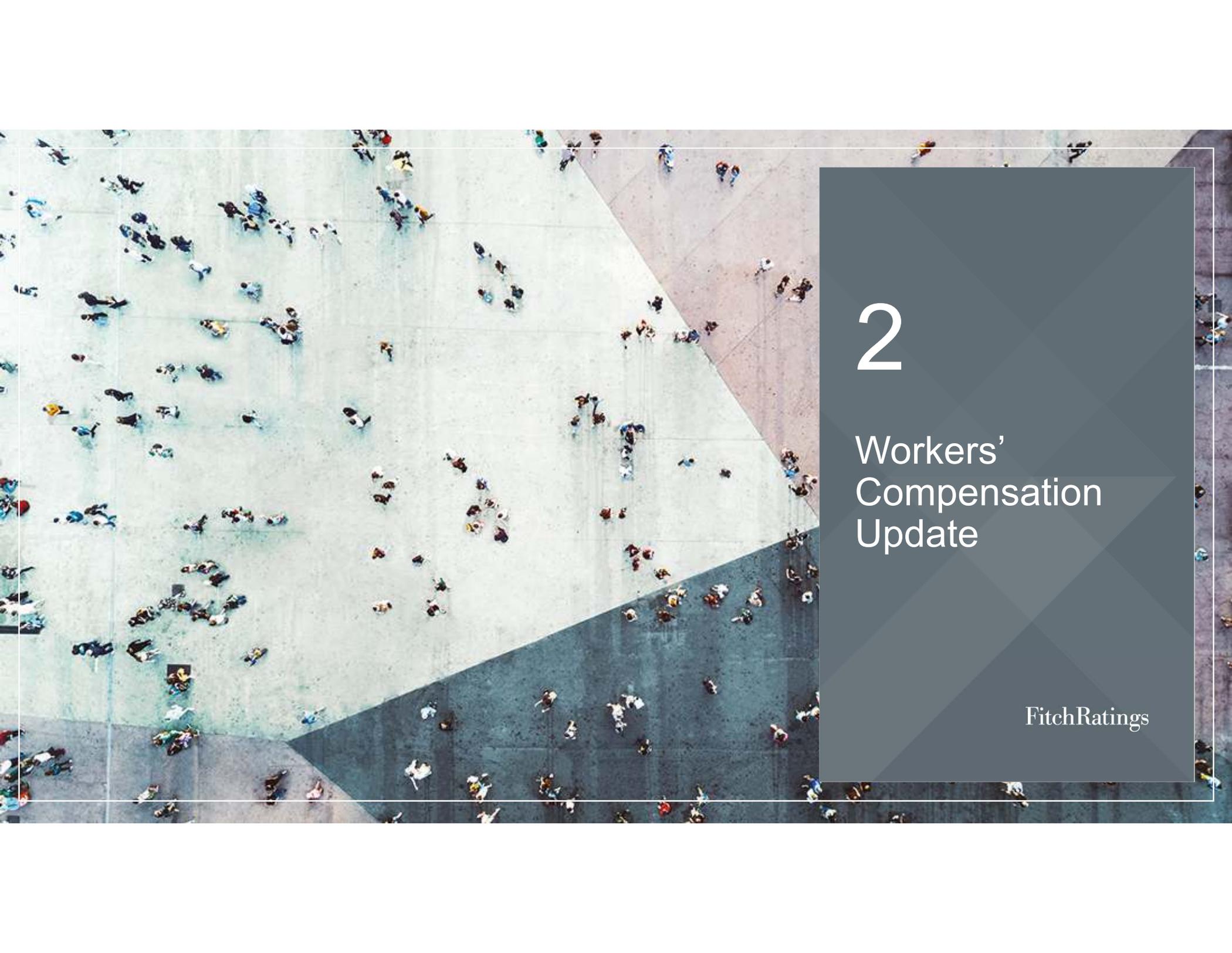
Personal Auto Pricing

- Regulatory constraints hindered price reaction to severity trends
- CPI data shows monthly insurance prices up 20% December 2023
- Most successful personal auto carriers returned to underwriting profit

Motor Vehicle Insurance Cost Changes (Annualized % Change by Month)



Source: Bureau of Labor Statistics CPI Motor Vehicle Insurance - All Urban Consumers Seasonally Adjusted



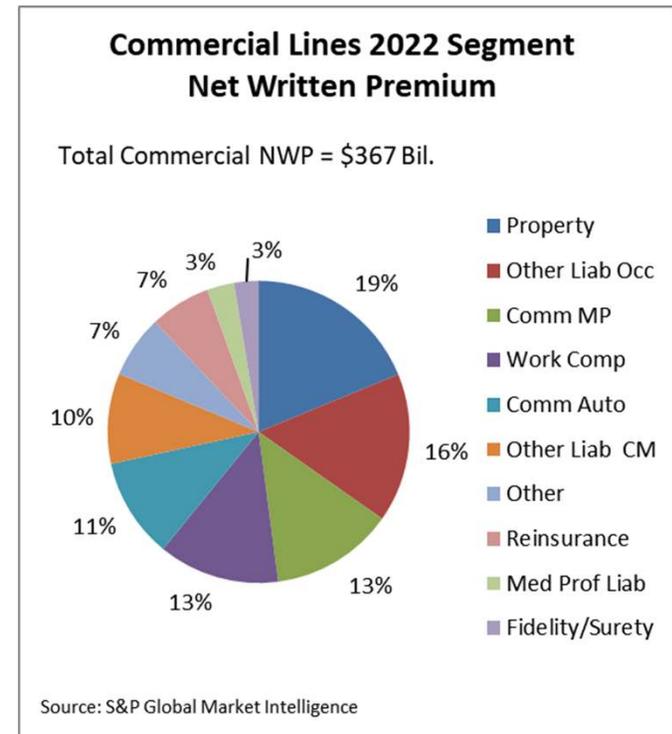
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Workers' Compensation Update

FitchRatings

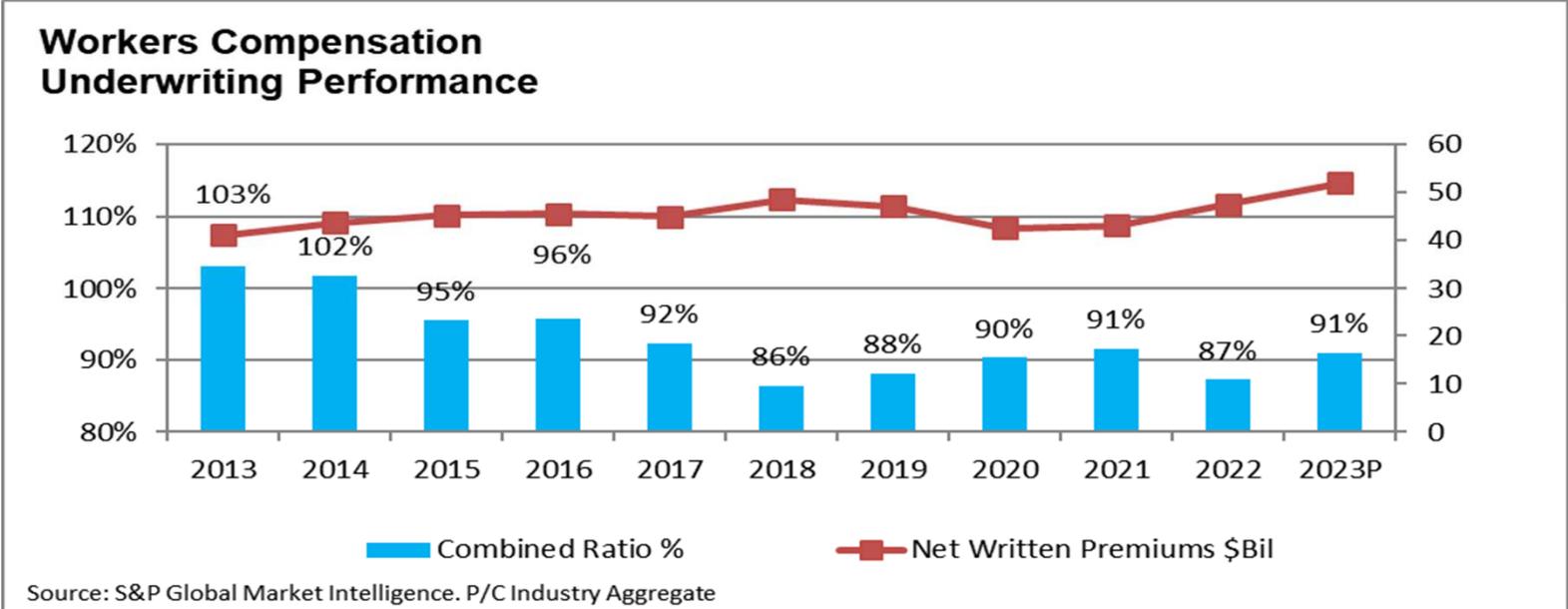
Workers' Compensation — Key Characteristics

- 4th largest U.S. commercial lines market segment (was largest as recently as 2019)
- Cyclical business
- Highly regulated, politically sensitive
- Large percentage of employed population
- Interest from organized labor, medical providers, legal groups
- Market conditions/practices vary by state
- Long-tail claims liabilities, with large medical cost component



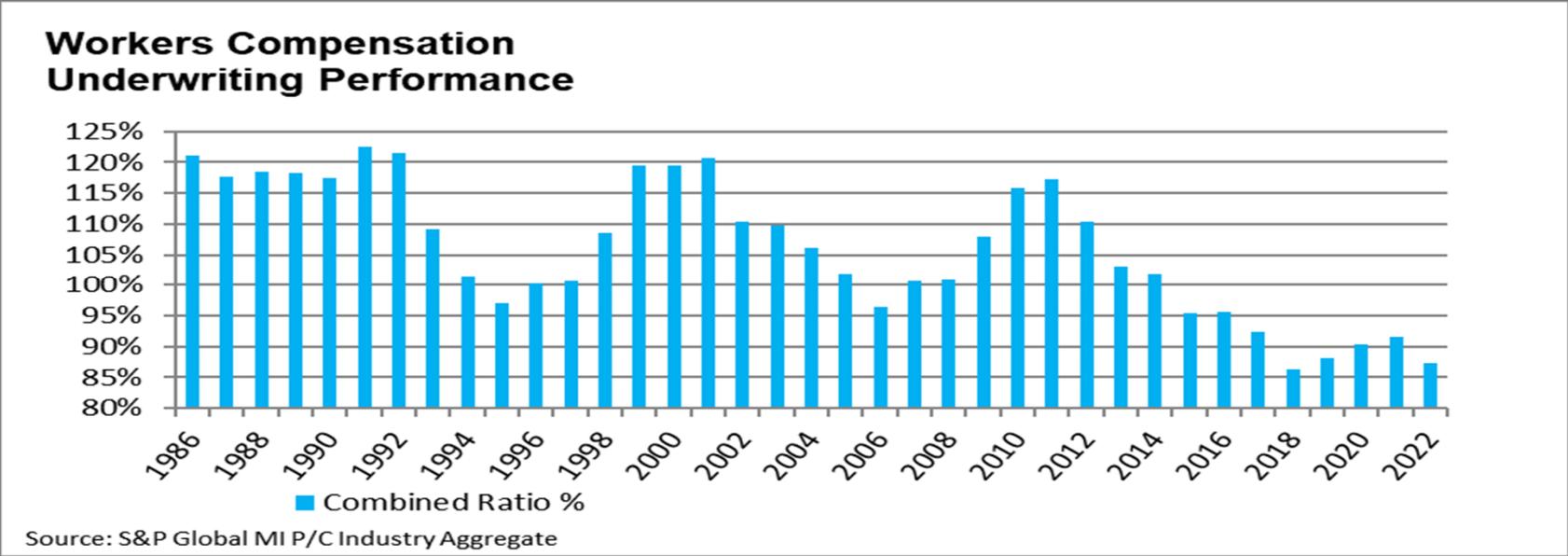
Highly Profitable Recent Performance

- Underwriting profits last nine consecutive years (2015–2023)
- Premium growth in 2022-23 from payroll increases
- COVID related losses less than initial projections



More Volatile Long Term Performance

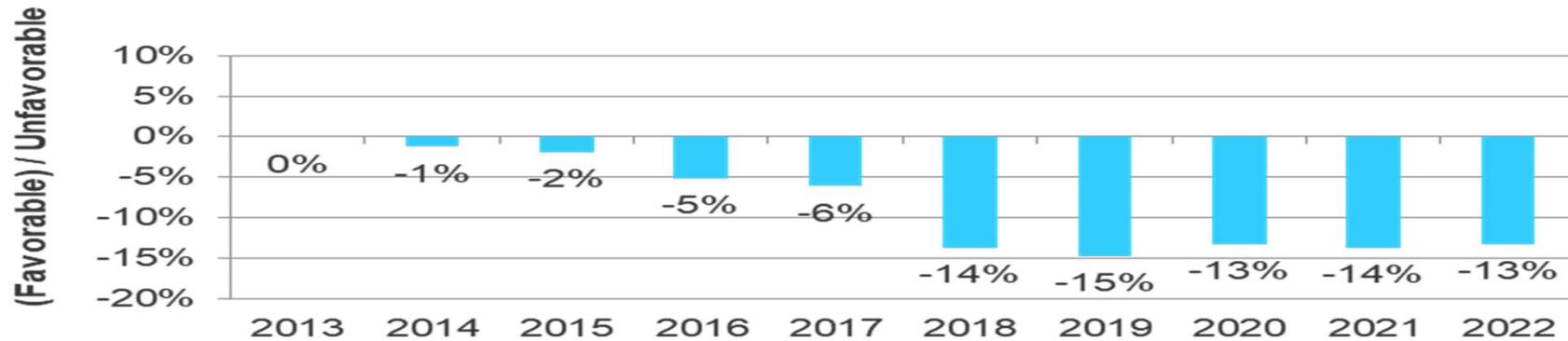
- Historical periods with 120% + combined ratios
 - Sharp shifts in claim trends
 - Regulatory / legal / benefits practices
 - Excessive market competition



Workers' Compensation Reserve Development

- Strong favorable development last 9 consecutive years (Avg 14% from 2018-22)
- Reserve redundancies likely to continue for next several years at more moderate level

**Property/Casualty Industry
Workers Compensation
CY Reserve Development / Earned Premiums**

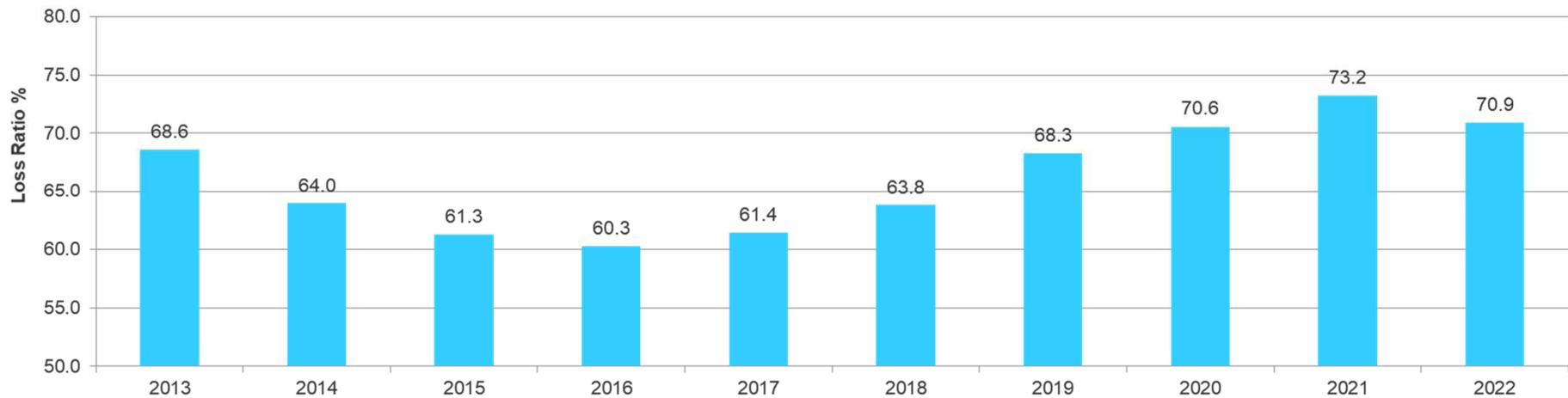


Source: S&P Global Market Intelligence

Workers' Compensation Accident-Year Loss Ratio

- ten point deterioration 2022 versus 2016
- Older periods developed highly favorably over time
- Most recent years likely to develop favorably as loss experience emerges

Workers Compensation Accident Year Loss & LAE Ratio

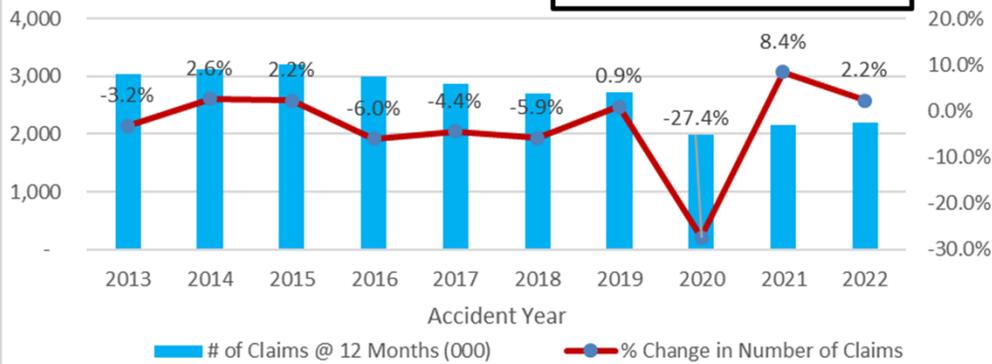


Source: S&P Global Market Intelligence, Fitch. Note: P/C industry Aggregate, LAE - Loss Adjustment Expense

Workers' Compensation Reserve Adequacy

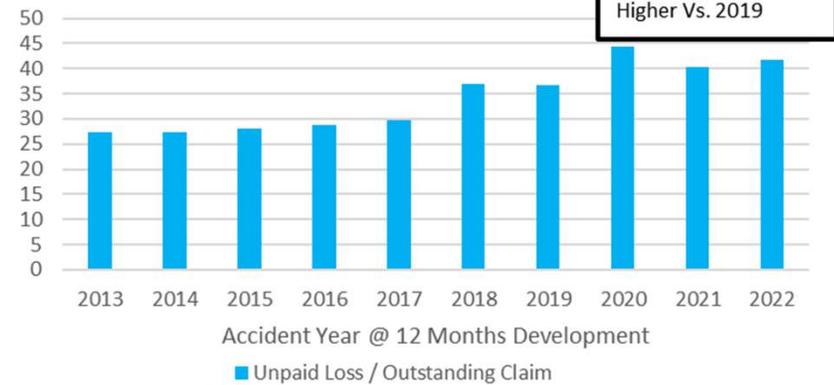
- Reduction in claims volume continues post-COVID
- Reserves held per outstanding claim indicative of conservatism

P/C Industry Change in Reported Workers Compensation Claims



Source: S&P Global Market Intelligence - P/C Industry Aggregate

Workers Compensation AY Loss Reserves / Claim



Source: S&P Global Market Intelligence - P/C Industry Aggregate

Workers' Compensation Market Share

- Company rankings vary in some cases by direct versus net written premiums



Source: S&P Global MI



Source: S&P Global MI

Workers' Compensation Market Share Shifting

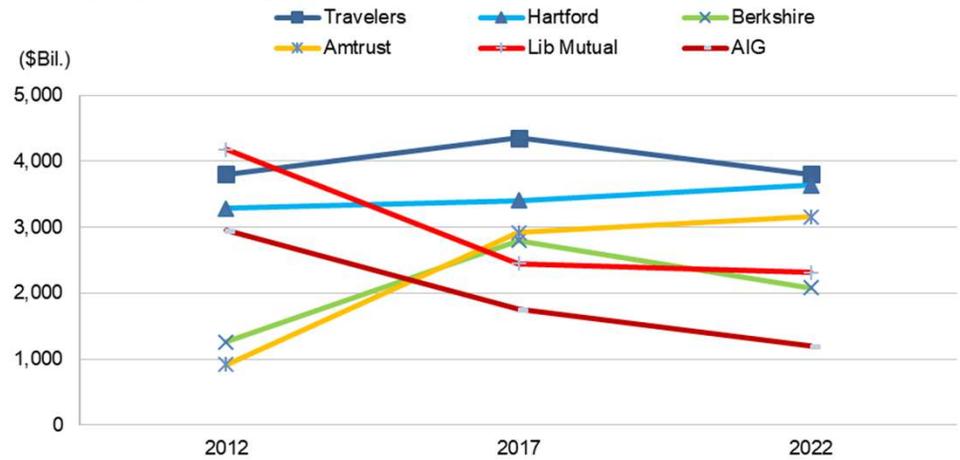
- Market less concentrated than many other segments
- Market rankings among firms shifted in last decade

Workers' Compensation Direct Market Share

(%)	2012	2022
Top Five Writers	26	29
Top 10	41	44
Top 20	59	61

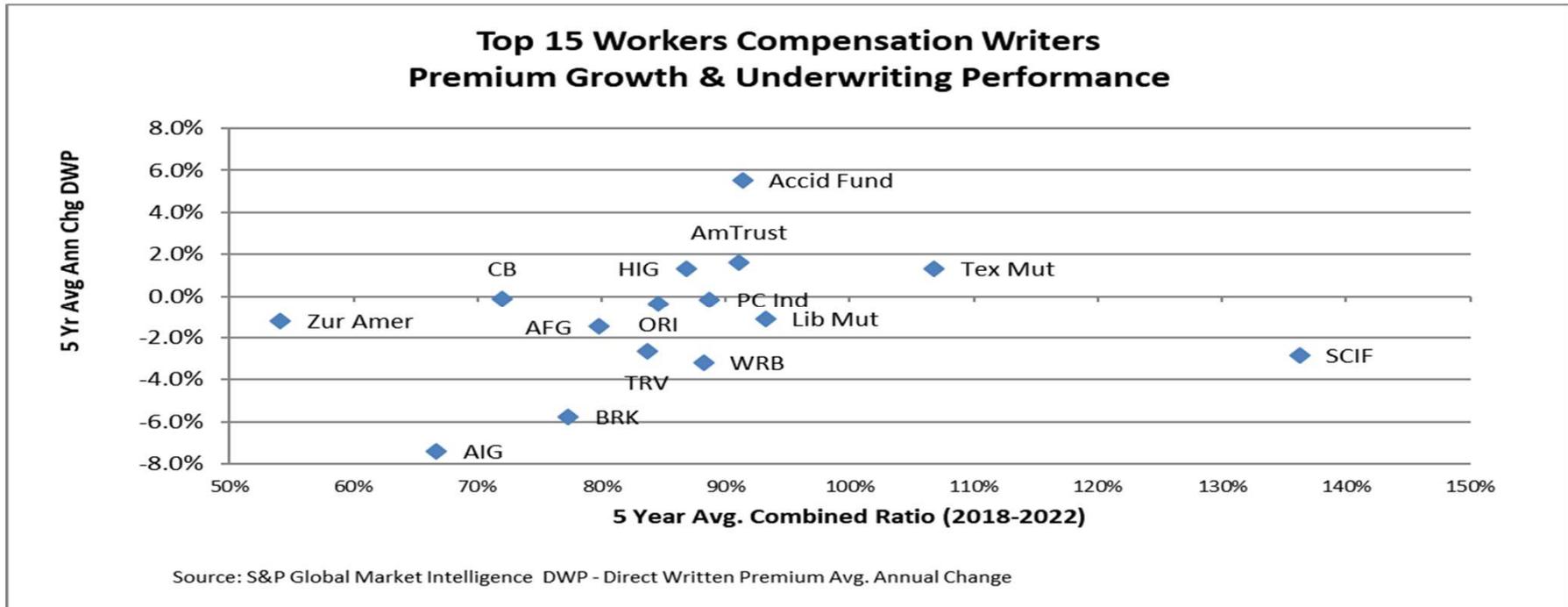
Source: S&P Global Market Intelligence, Fitch

Workers Compensation Direct Written Premium Changes (2012-2022)



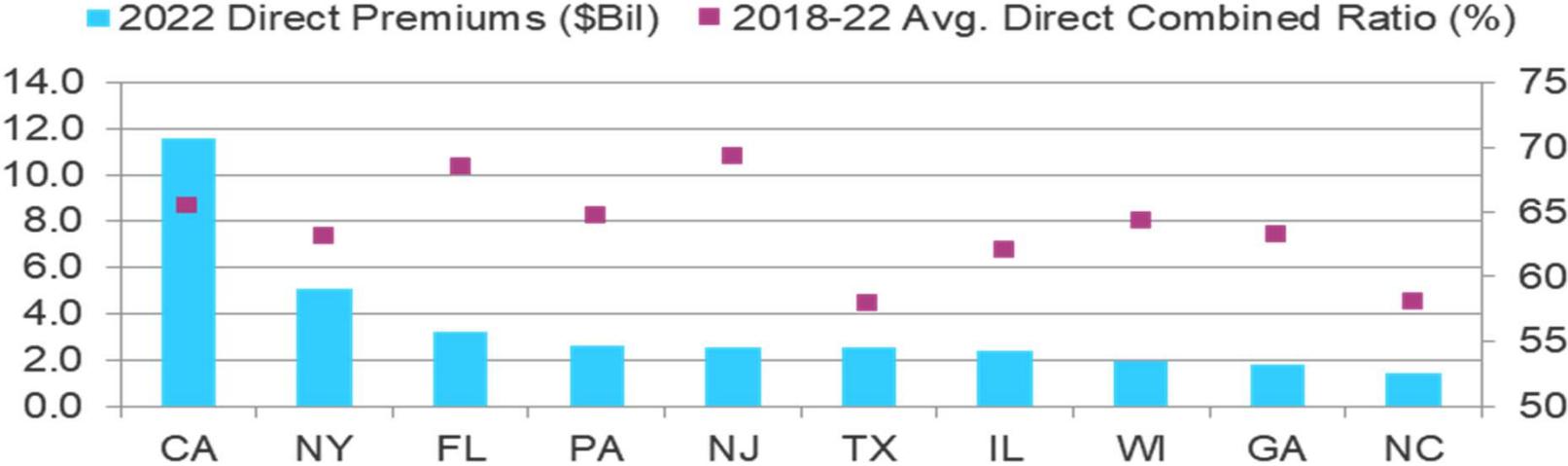
Source: S&P Global Market Intelligence

Workers' Compensation Profitability Varies by Company



Profits/Market Conditions Vary by State

Largest Workers Compensation States by Premium



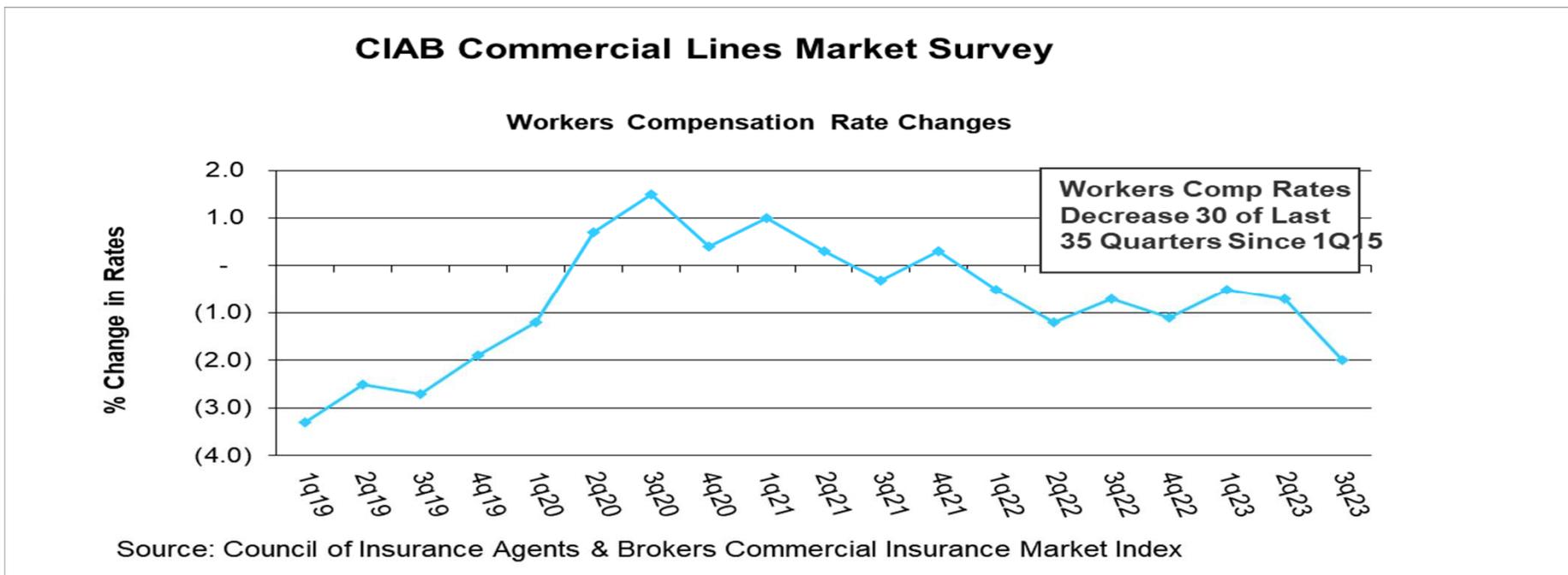
Source: S&P Global Market Intelligence - State Page Data

Drivers of Future Segment Performance

- Pricing – premium rates
- Economic factors
- Claims trends – frequency, severity
- Loss reserve changes

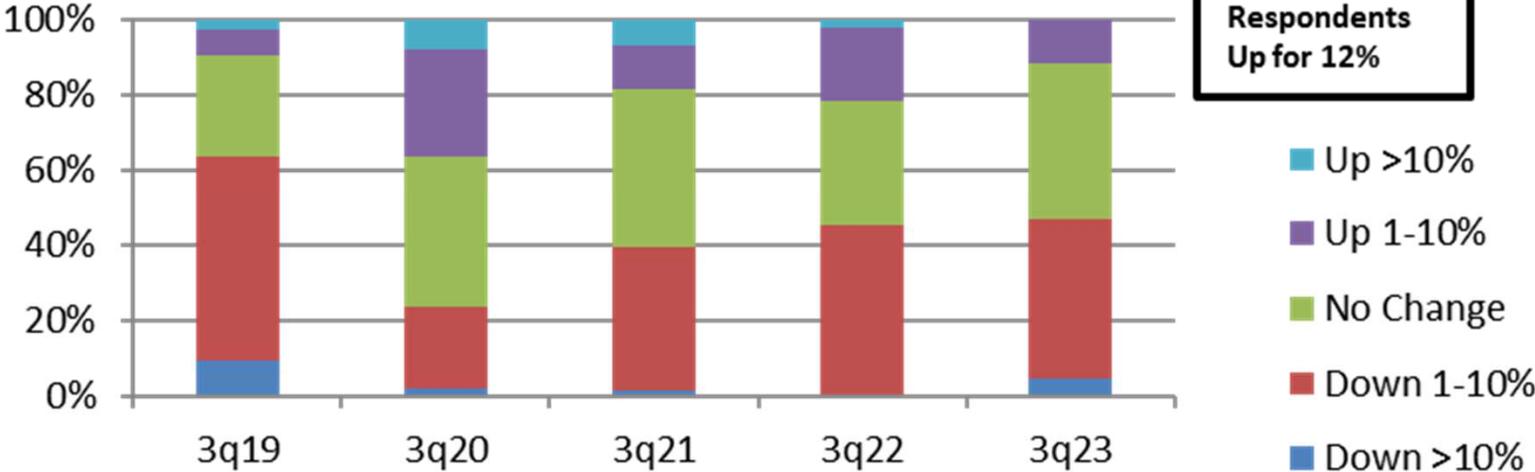
Workers' Compensation Price Deterioration

- Success breeds competition and regulatory scrutiny that leads to pricing pressure
- Continued flat to declining pricing inevitably leads to profit erosion



Workers' Compensation Price Changes

Workers' Compensation Premium Rates Deteriorating Respondent % Rate Change

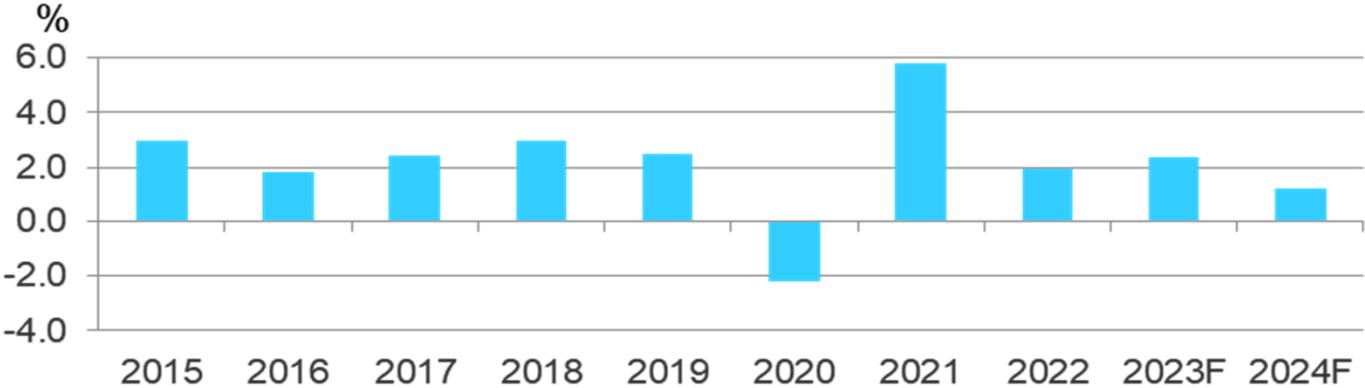


Source: Council of Insurance Agents & Brokers Commercial Insurance Market Index

Economic Factors — GDP Growth

- Recession fears in 2023 receded
- Growth anticipated to slow in 2024
- Workers' compensation exposures affected by changes in economic investment, construction, wages, vehicle activity

U.S. Real GDP Growth

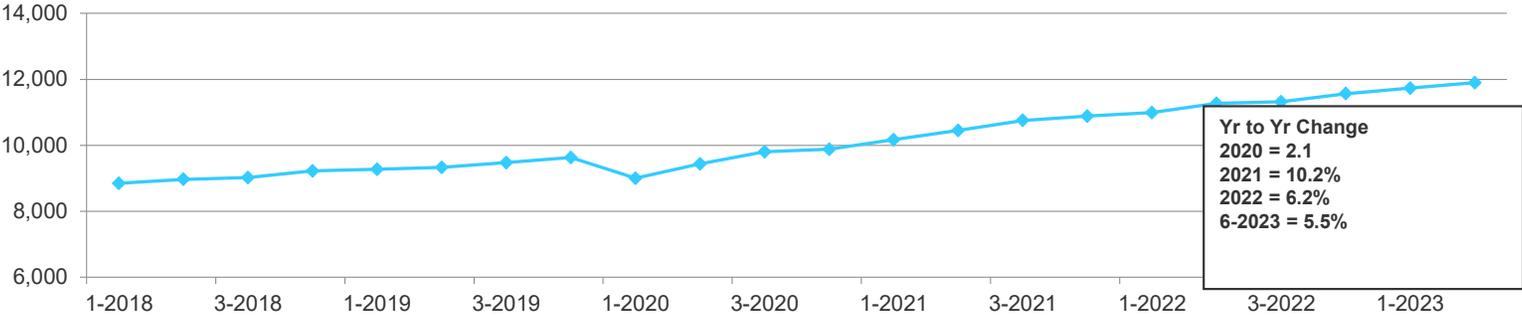


Source: Commerce Dept. Bureau of Economic Analysis ,
Forecasts from Fitch Ratings Global Economic Outlook

Economic Factors — Payroll

- Payroll growth positive but moderating
- Higher exposure base boosts workers' compensation premium level

Non Farm Payrolls Wage and Salary Accruals \$ Billions

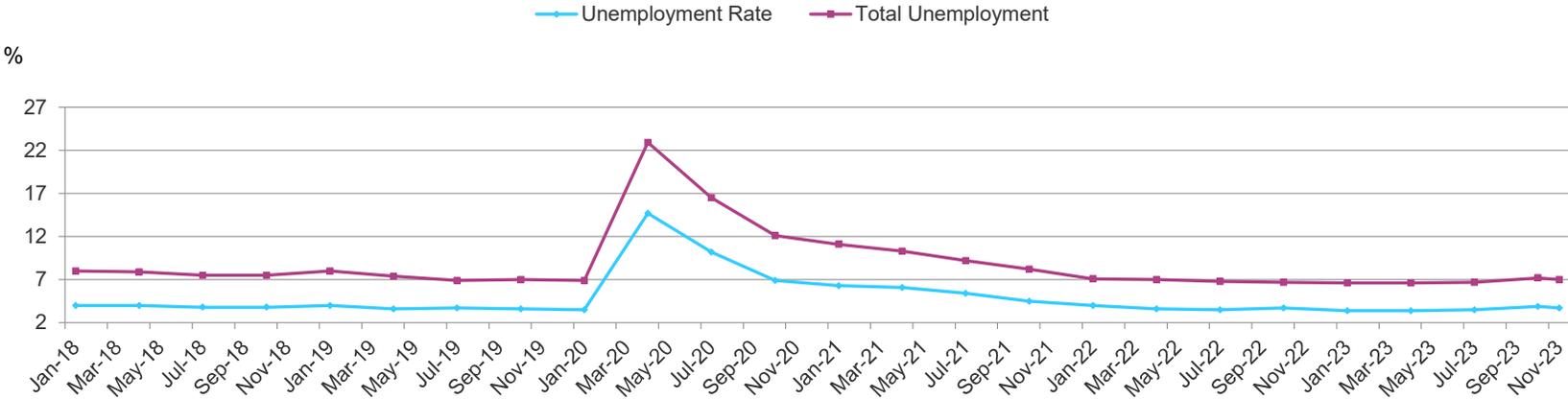


Source: Federal Reserve Bank of St. Louis - FRED Compensation of Employees: Wages and Salary Accruals, Seasonally Adjusted Annual Rate

Economic Factors — Employment

- Unemployment remains low at 3.7%
- Tight labor markets create hiring challenges – finding properly trained and skilled workers

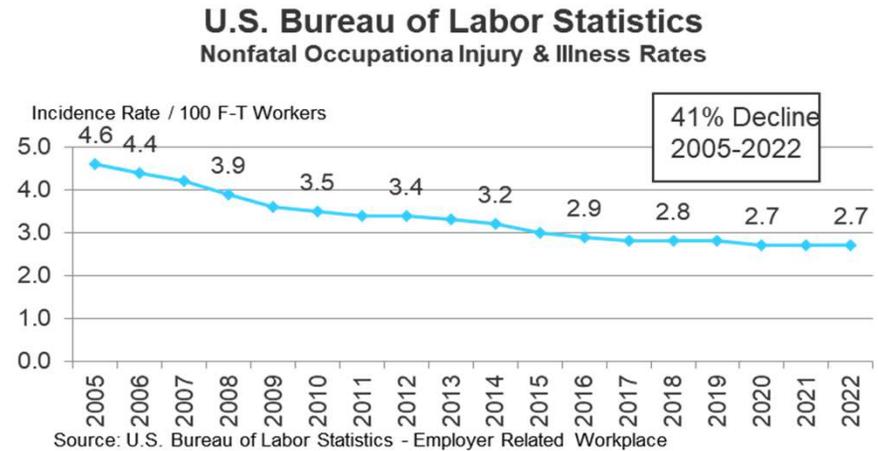
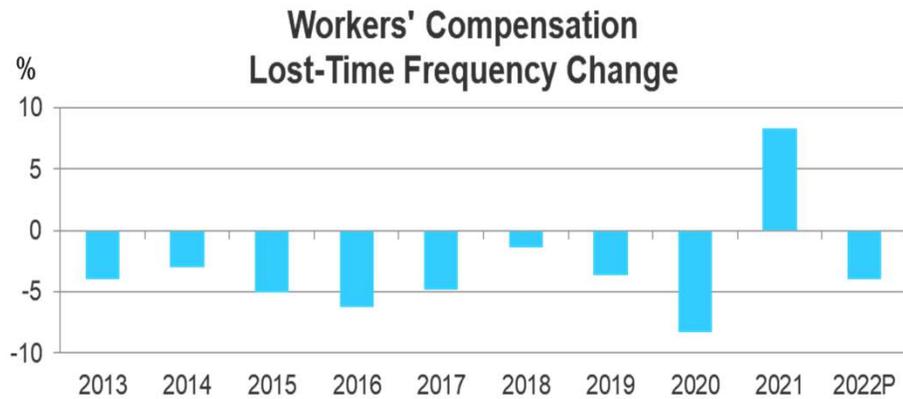
U.S. Unemployment Levels



Source: Federal Reserve Bank of St. Louis - FRED,
Total Unemployment = U6 rate that includes discouraged and part time workers

Workers' Compensation Claims Trends — Frequency

- Favorable trends continue
- Investments in risk management, employee safety continue to reap benefits

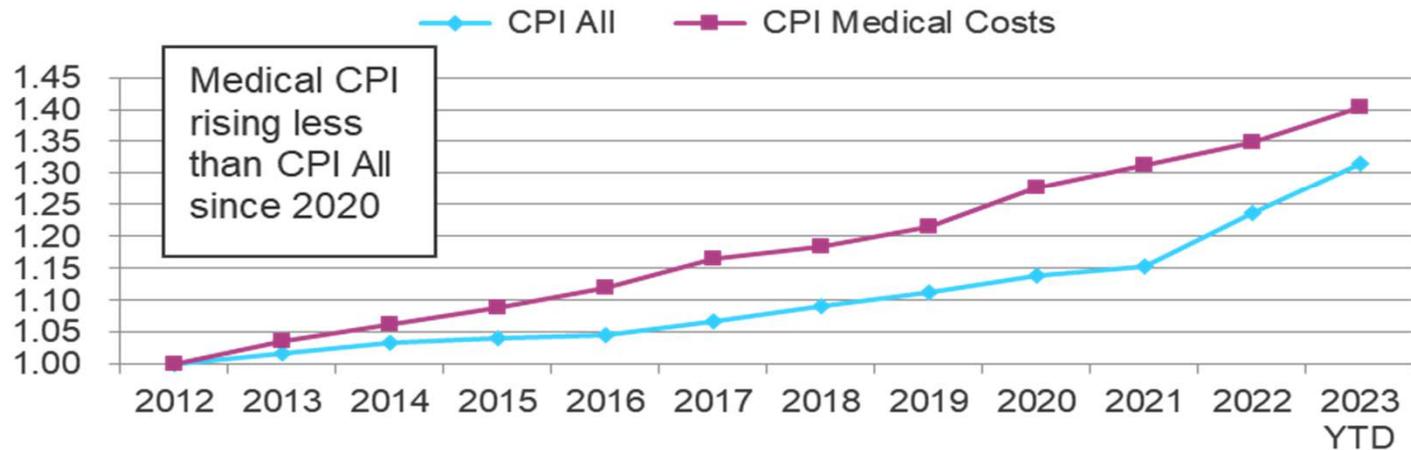


Source: NCCI Annual Issues Symposium State of The Line Presentation

Economic Factors — Interest Rates/Inflation

- Inflation: Creates loss-cost, pricing uncertainty
- Medical inflation traditionally higher than general inflation, pattern reversed in recent years
- Fee schedules limit WC medical inflation in near term, but may see a future catch up
- Higher interest rates: Lower bond values and present value of reserves, higher new money rates

General Inflation Vs. Medical Inflation

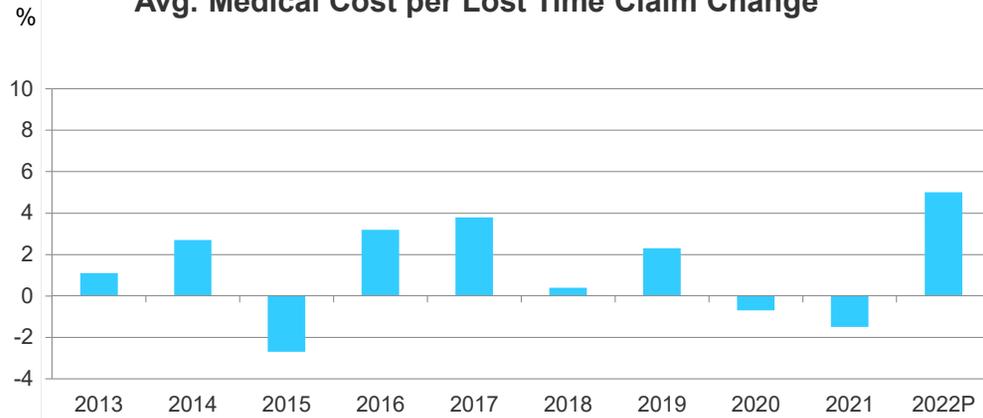


Source: Federal Reserve Bank of St. Louis - FRED - Change in CPI Index from Jan-2012

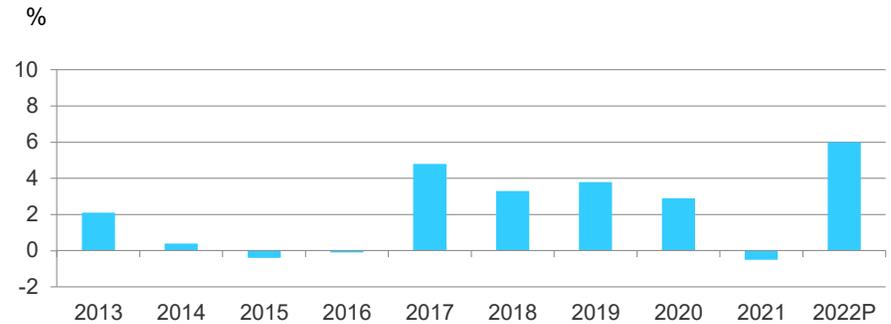
Workers' Compensation Claims Trends — Medical and Indemnity Costs

- NCCI notes medical severity higher in 2022
- Rising wages lead to higher indemnity costs

Workers' Compensation Avg. Medical Cost per Lost Time Claim Change



Workers' Compensation Avg. Indemnity Cost Per Lost-Time Claim Change



Source: NCCI Annual Issues Symposium State of The Line Presentation

Source: NCCI Annual Issues Symposium State of The Line Presentation

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