FitchRatings

Workers' Compensation Insurance — State of the Line

National Workers' Compensation Insurance ExecuSummit

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Property/Casualty Market Outlook

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

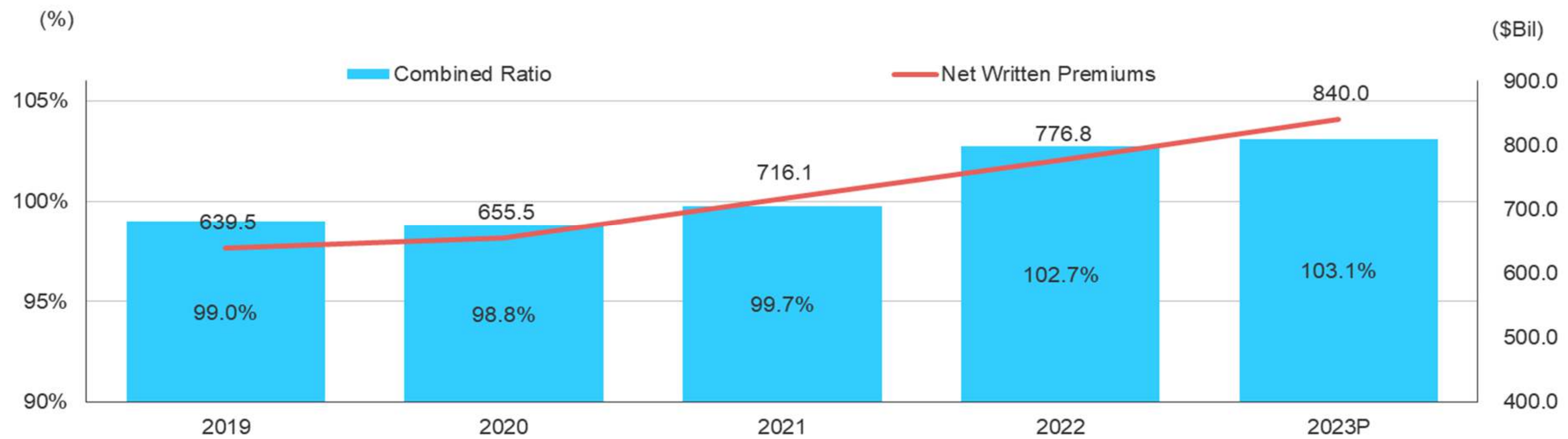
Key Credit Issues

- 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

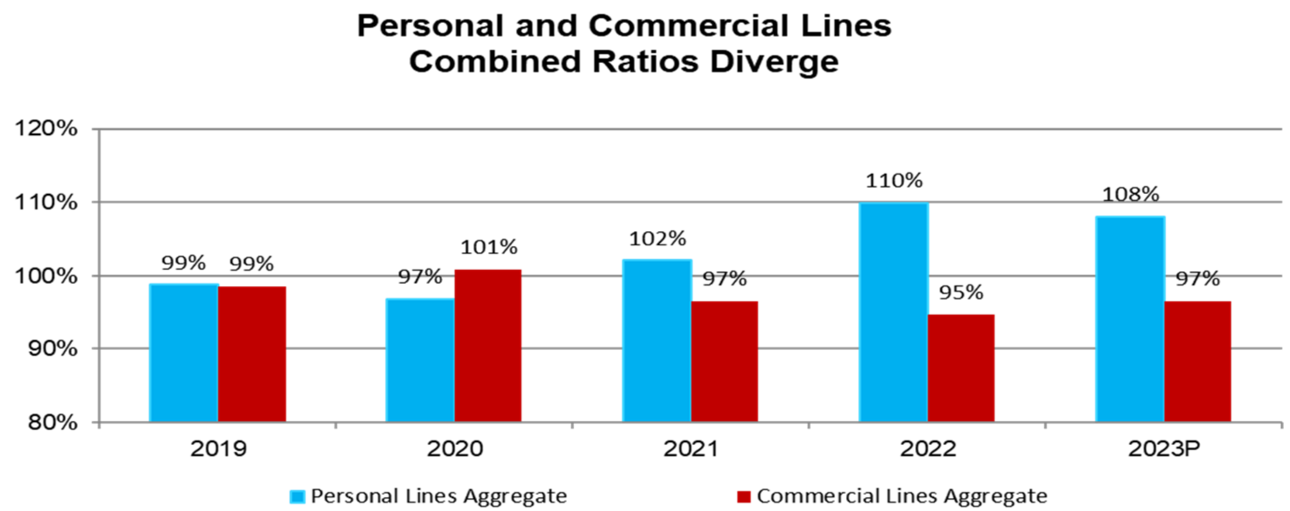
P/C Industry U/W Performance



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

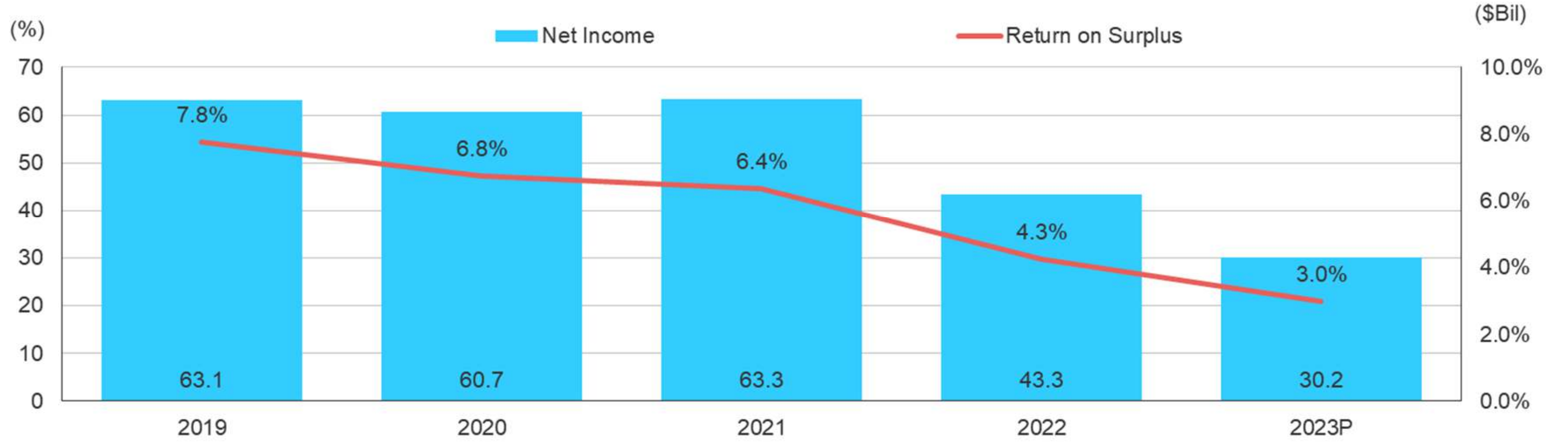


Source; S&P Global Market Intelligence, Fitch Ratings - P/C industry Aggregate

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

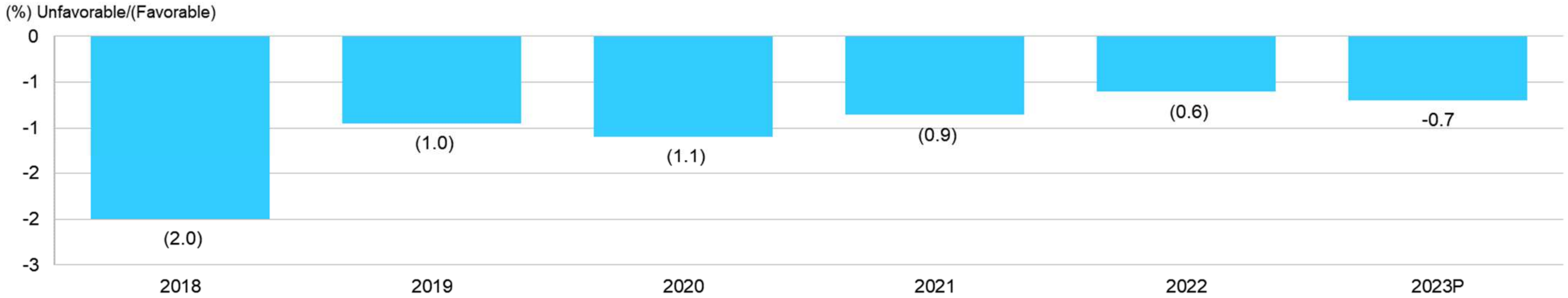


P - Projected.
Source: Fitch Ratings, S&P Global Market Intelligence

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

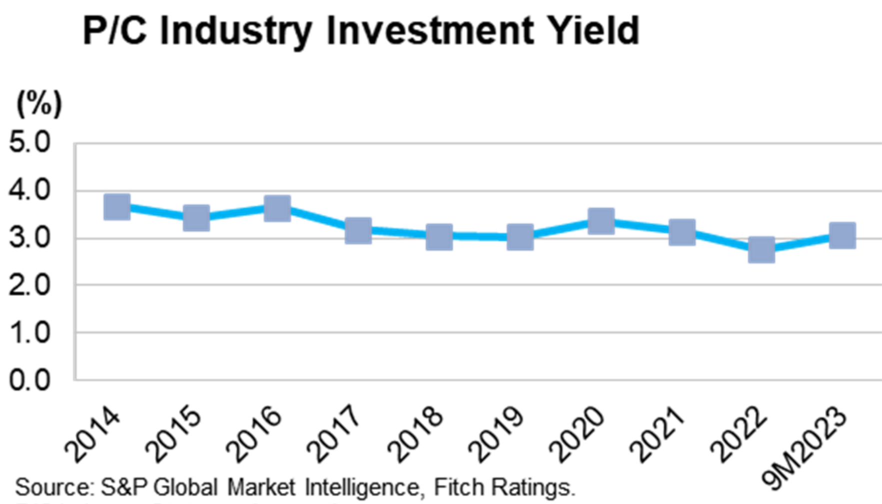
Property/Casualty Industry CY Reserve Development
Loss Ratio Percentage Points



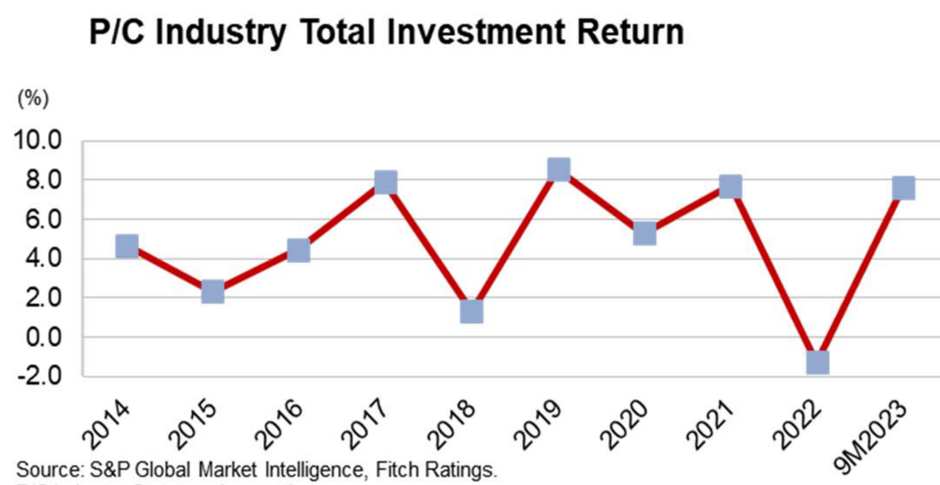
Note: CY - Calendar year. P - Projected.
Source: S&P Global Market Intelligence, Fitch

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



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

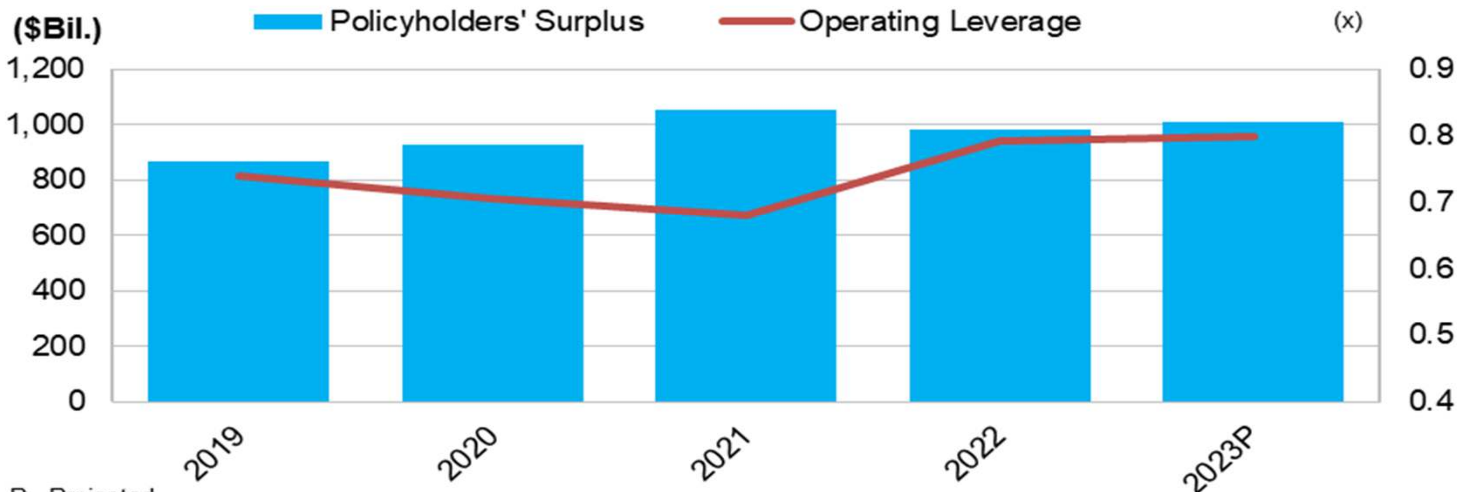


Source: S&P Global Market Intelligence, Fitch Ratings.
P/C Industry Statutory Accounting

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

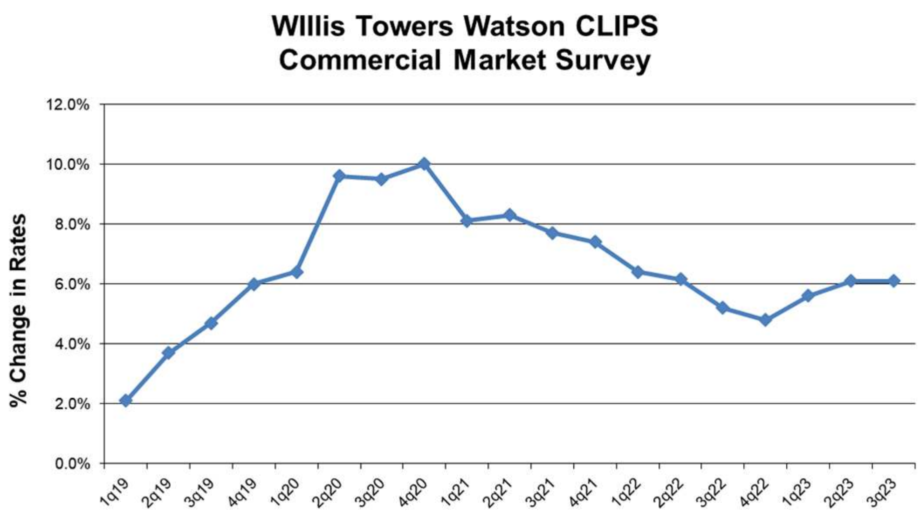
Property/Casualty Industry Aggregate Surplus and Operating Leverage



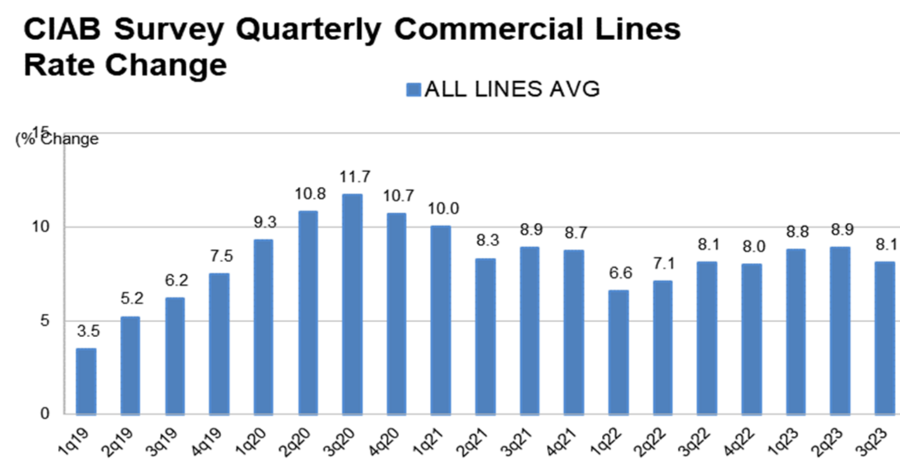
P - Projected.
Source: S&P Global Market Intelligence, Fitch

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



Source: WIllis Towers Watson

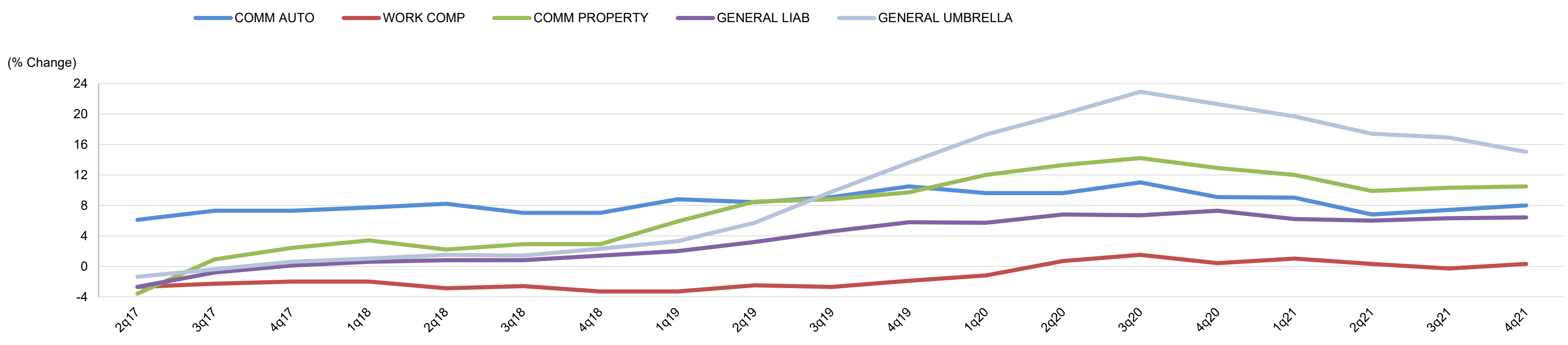


Source: Council of Insurance Agents & Brokers Quarterly Commercial Market Survey.

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

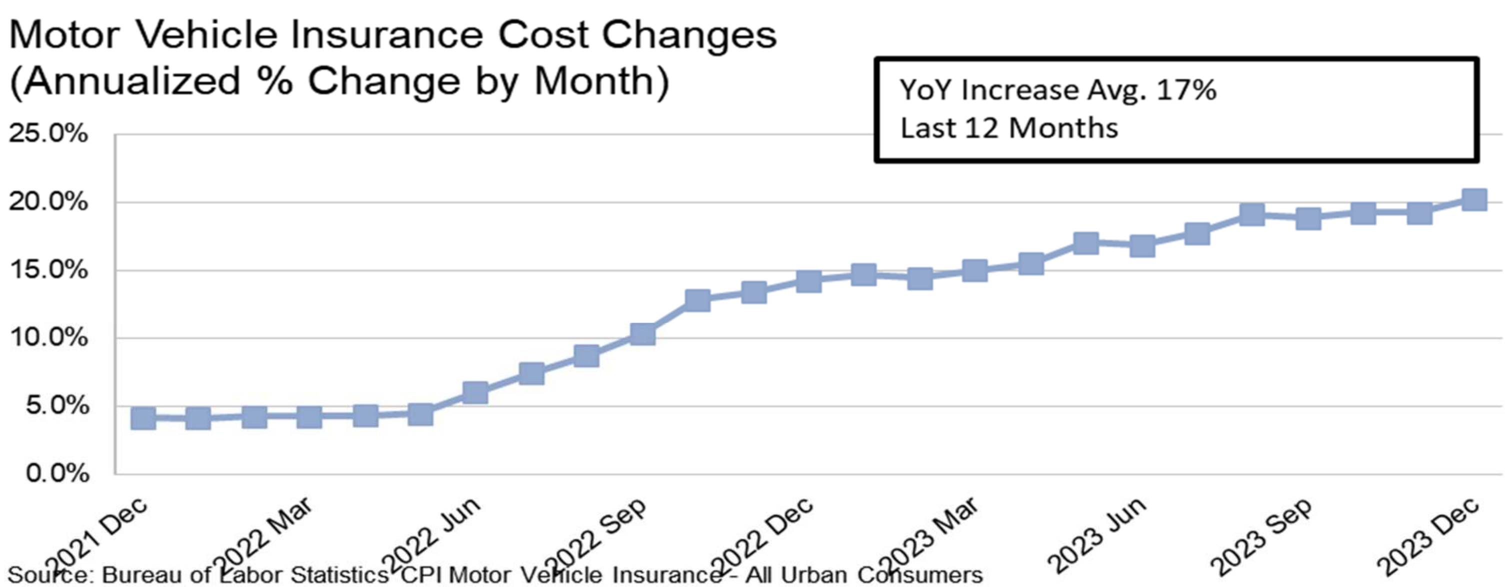
CIAB Quarterly Rate Change by Segment



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



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

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Workers' Compensation Update

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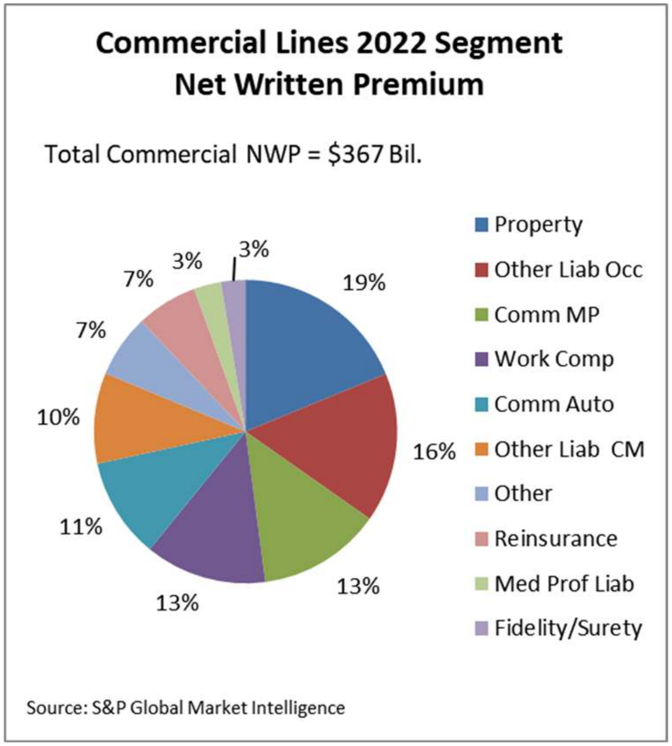
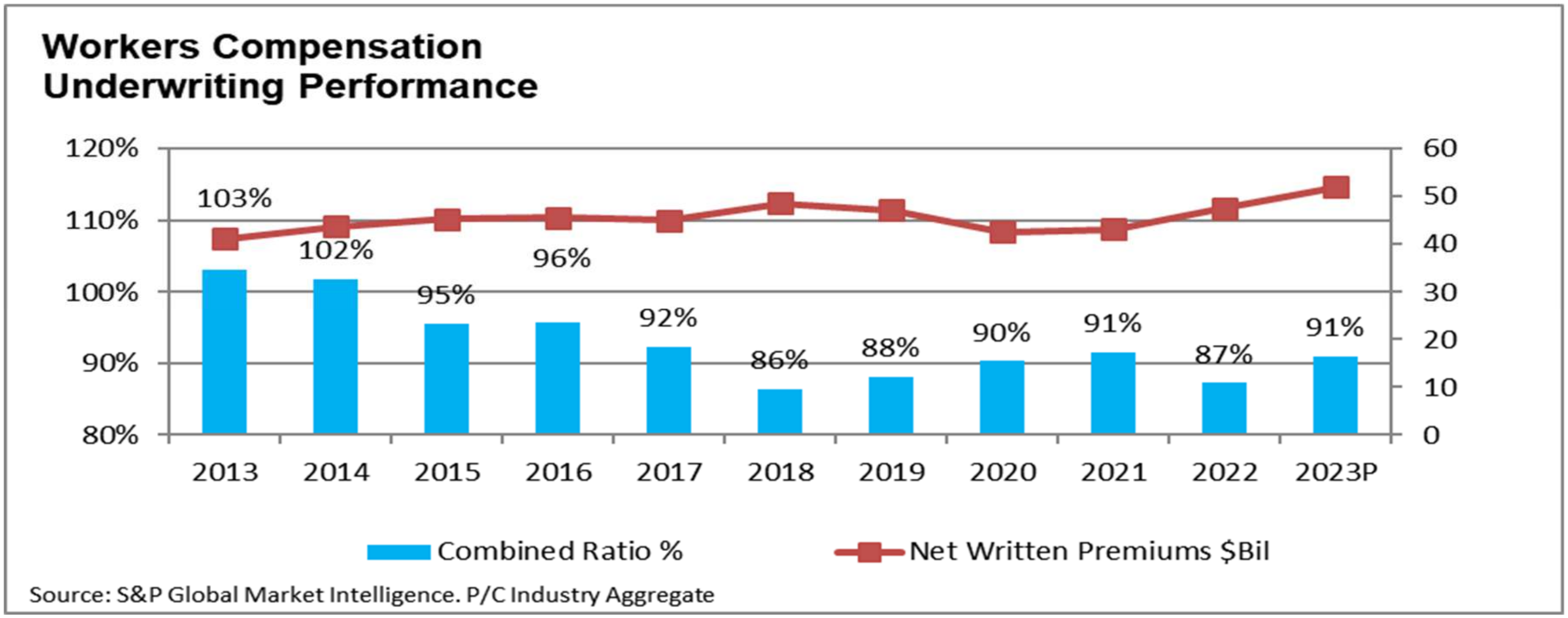
Workers’ Compensation — Key Characteristics

- 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



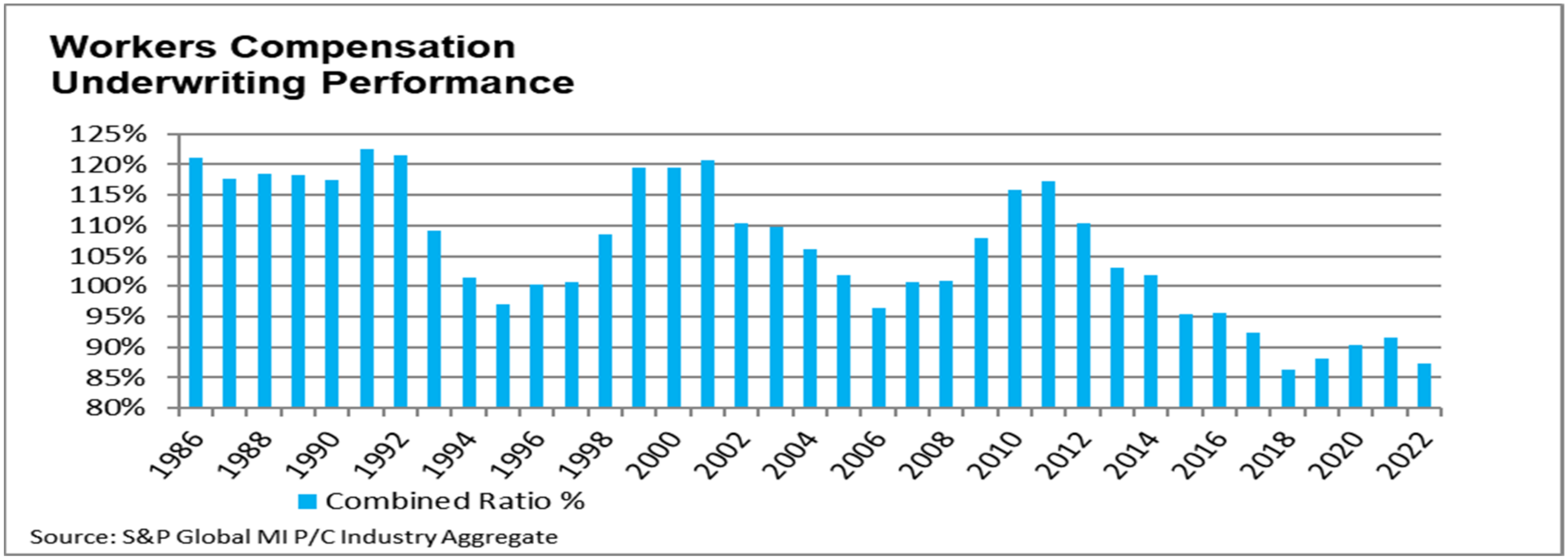
Highly Profitable Recent Performance

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



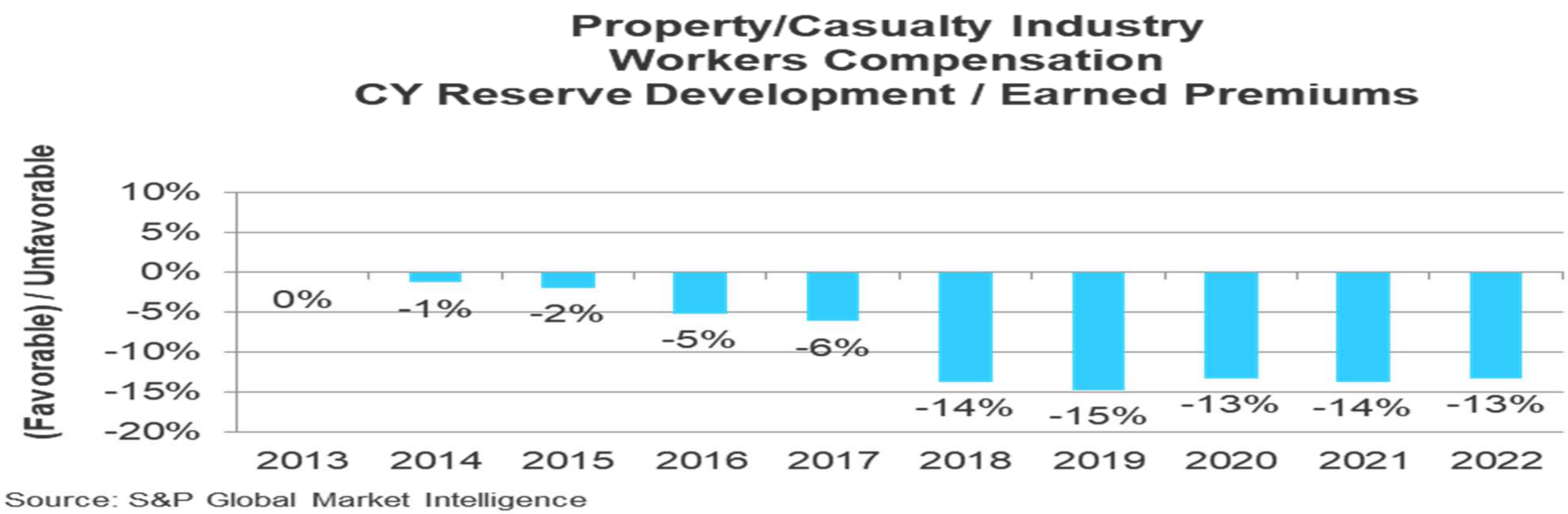
More Volatile Long Term Performance

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



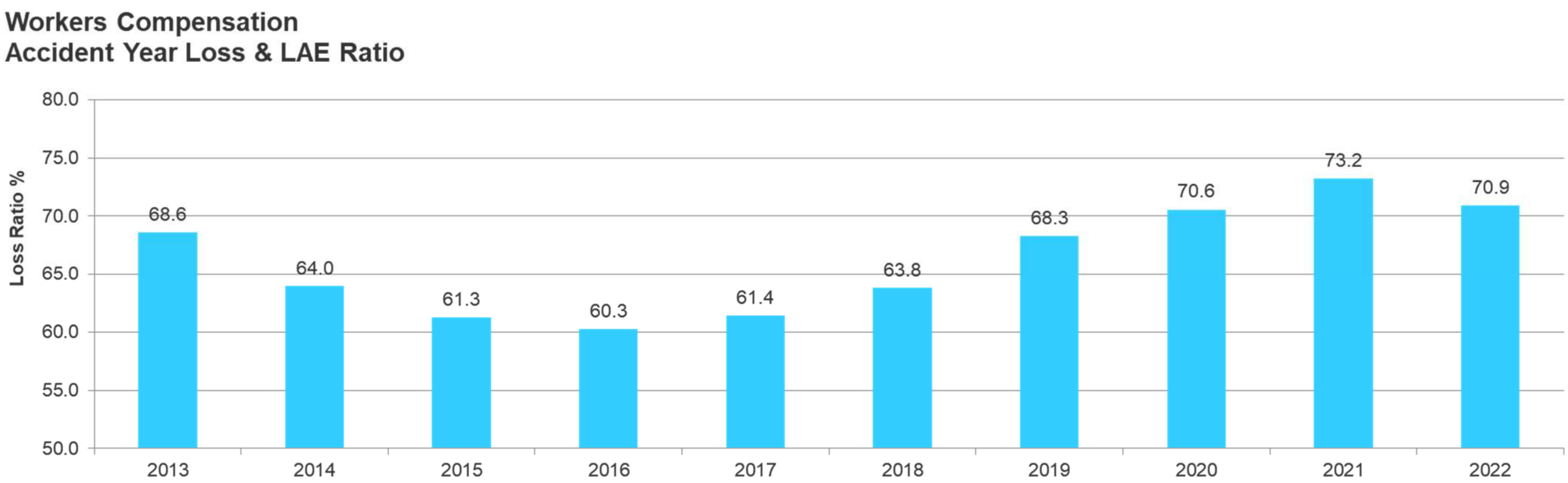
Workers' Compensation Reserve Development

- 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



Workers' Compensation Accident-Year Loss Ratio

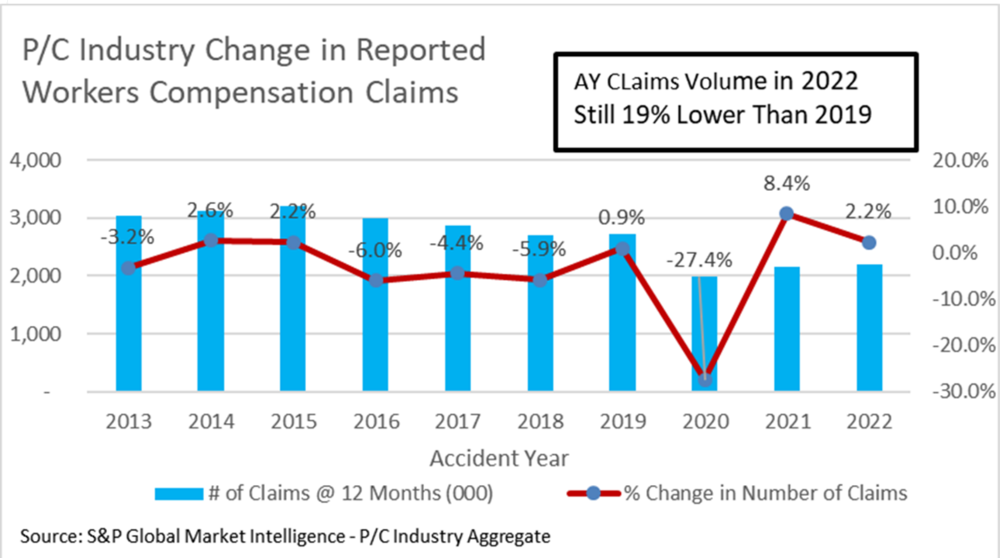
- ten point deterioration 2022 versus 2016
- Older periods developed highly favorably over time
- Most recent years likely to develop favorably as loss experience emerges

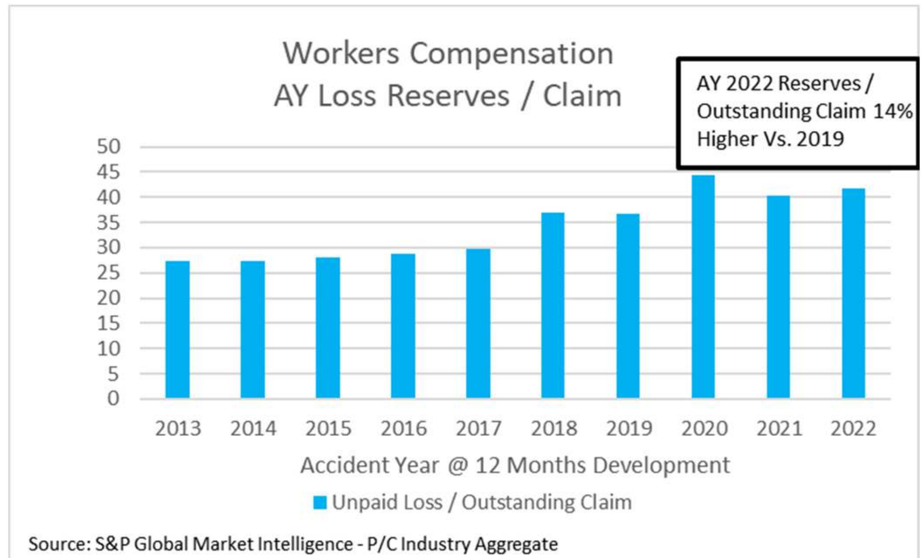


Source: S&P Global Market Intelligence, FItch. Note: P/C industry Aggregate, LAE - Loss Adjustment Expense

Workers' Compensation Reserve Adequacy

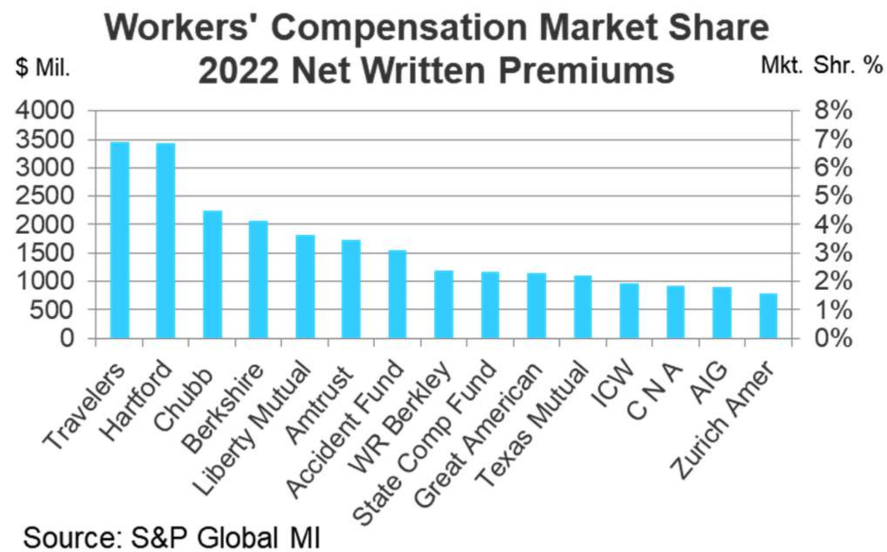
- Reduction in claims volume continues post-COVID
- Reserves held per outstanding claim indicative of conservatism





Workers’ Compensation Market Share

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



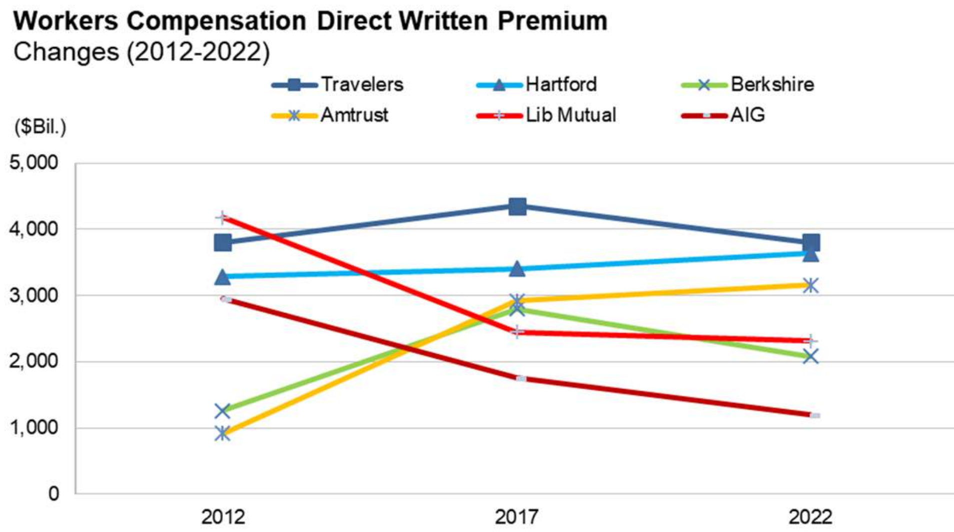
Workers' Compensation Market Share Shifting

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

Workers' Compensation Direct Market Share

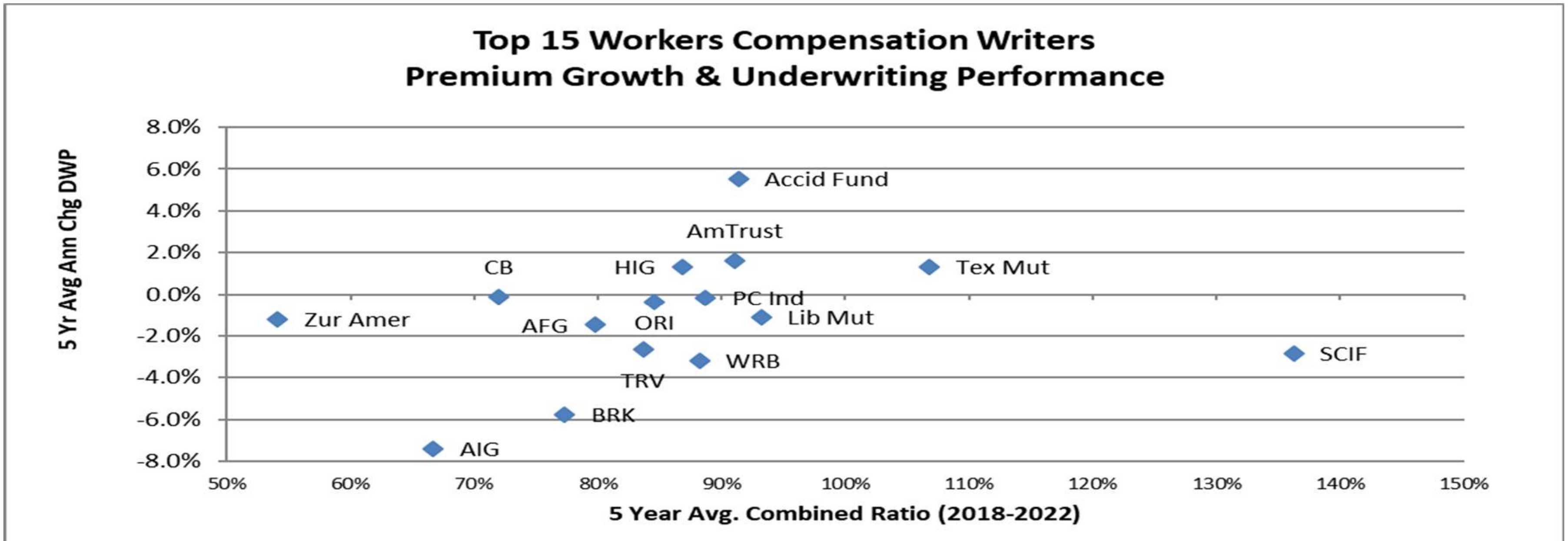
(%)	2012	2022
Top Five Writers	26	29
Top 10	41	44
Top 20	59	61

Source: S&P Global Market Intelligence, Fitch



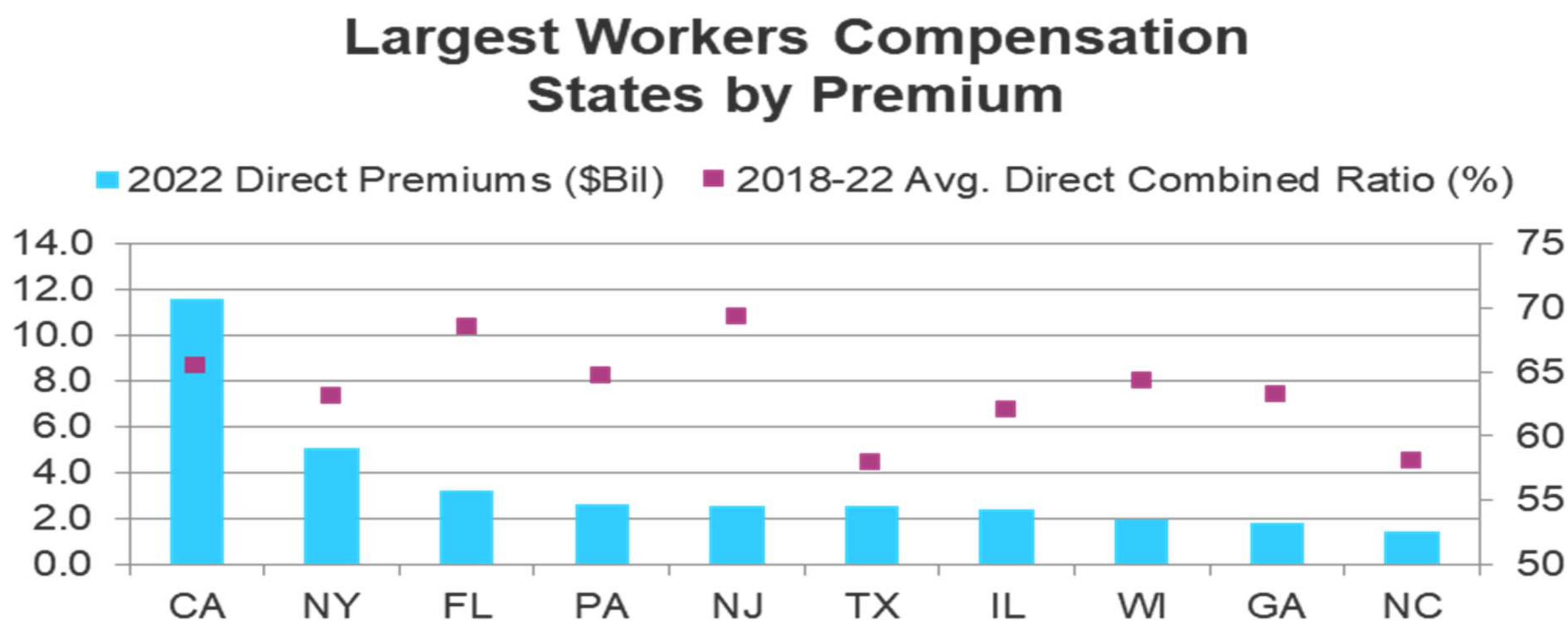
Source: S&P Global Market Intelligence

Workers' Compensation Profitability Varies by Company



Source: S&P Global Market Intelligence DWP - Direct Written Premium Avg. Annual Change

Profits/Market Conditions Vary by State



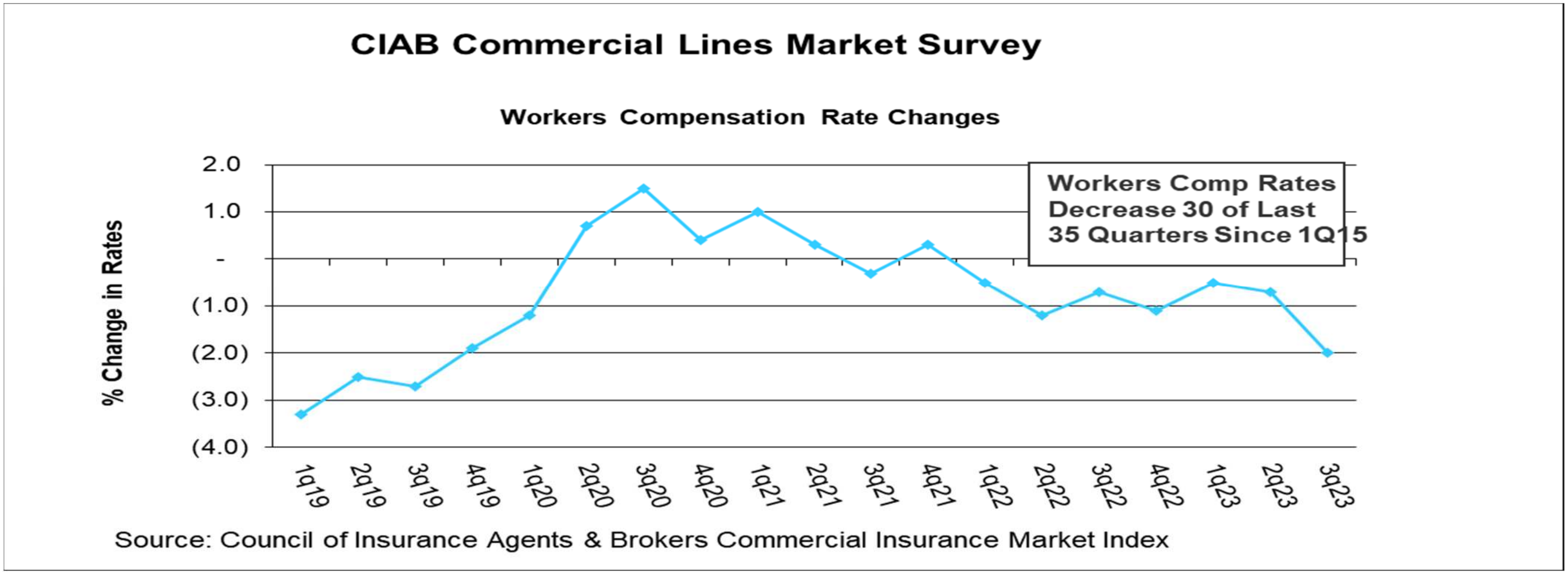
Source: S&P Global Market Intelligence - State Page Data

Drivers of Future Segment Performance

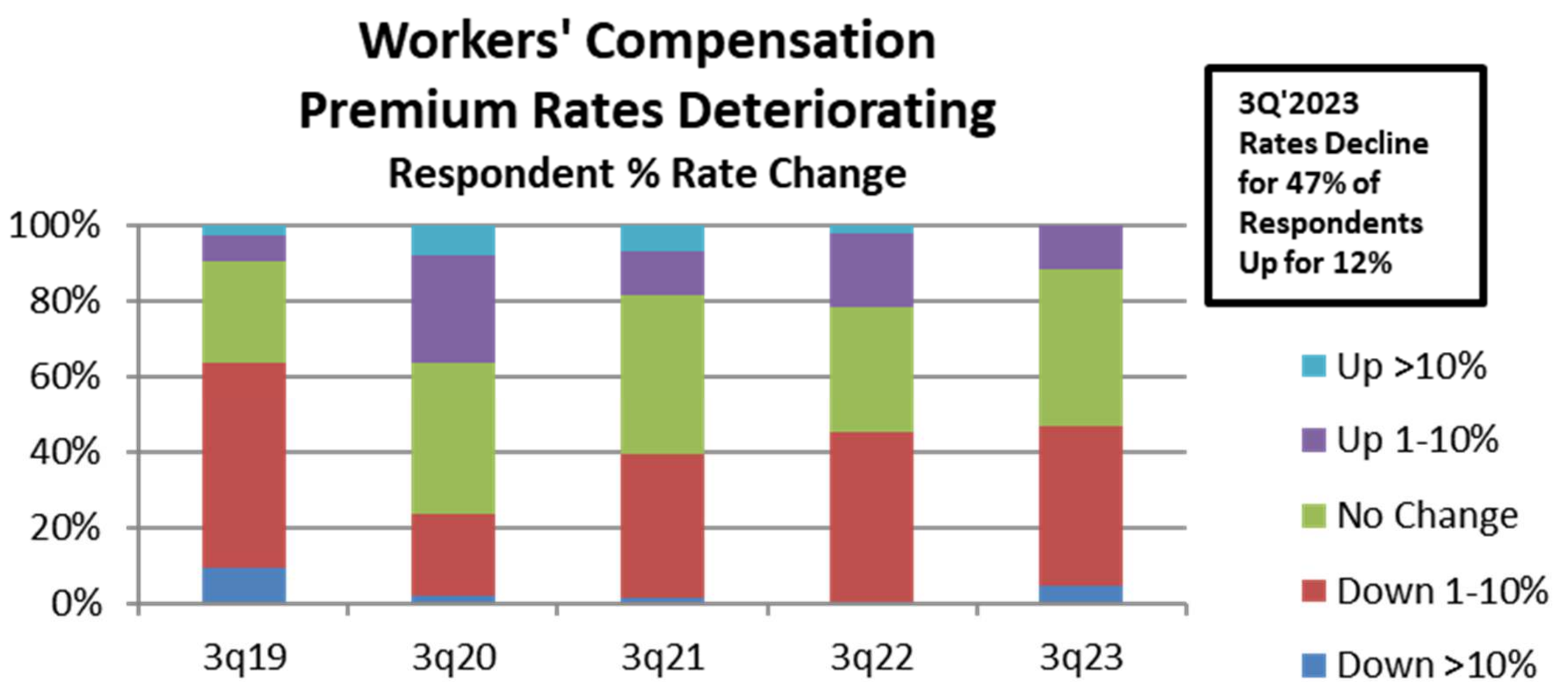
- Pricing – premium rates
- Economic factors
- Claims trends – frequency, severity
- Loss reserve changes

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



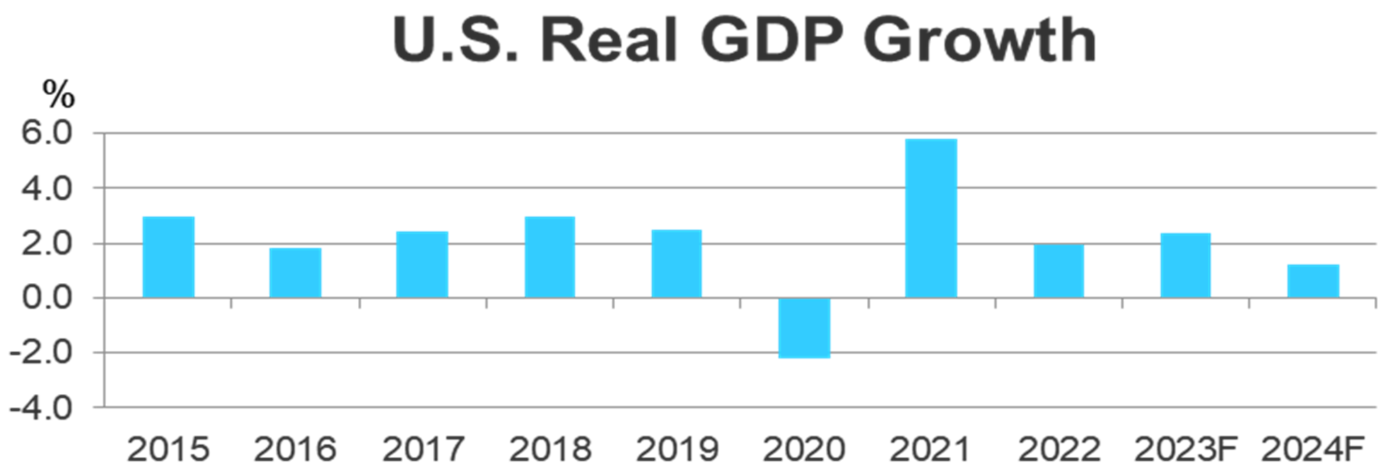
Workers' Compensation Price Changes



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

Economic Factors — GDP Growth

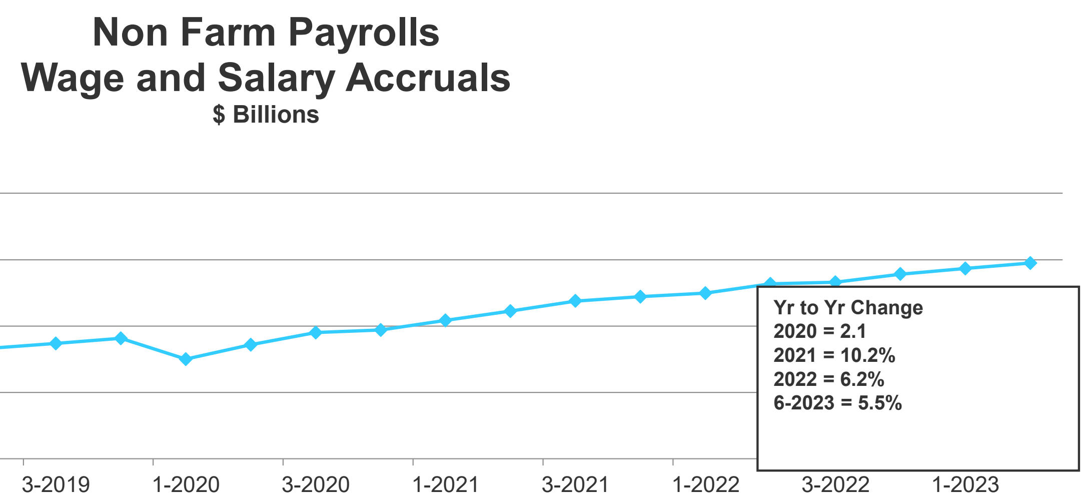
- Recession fears in 2023 receded
- Growth anticipated to slow in 2024
- Workers' compensation exposures affected by changes in economic investment, construction, wages, vehicle activity



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

Economic Factors — Payroll

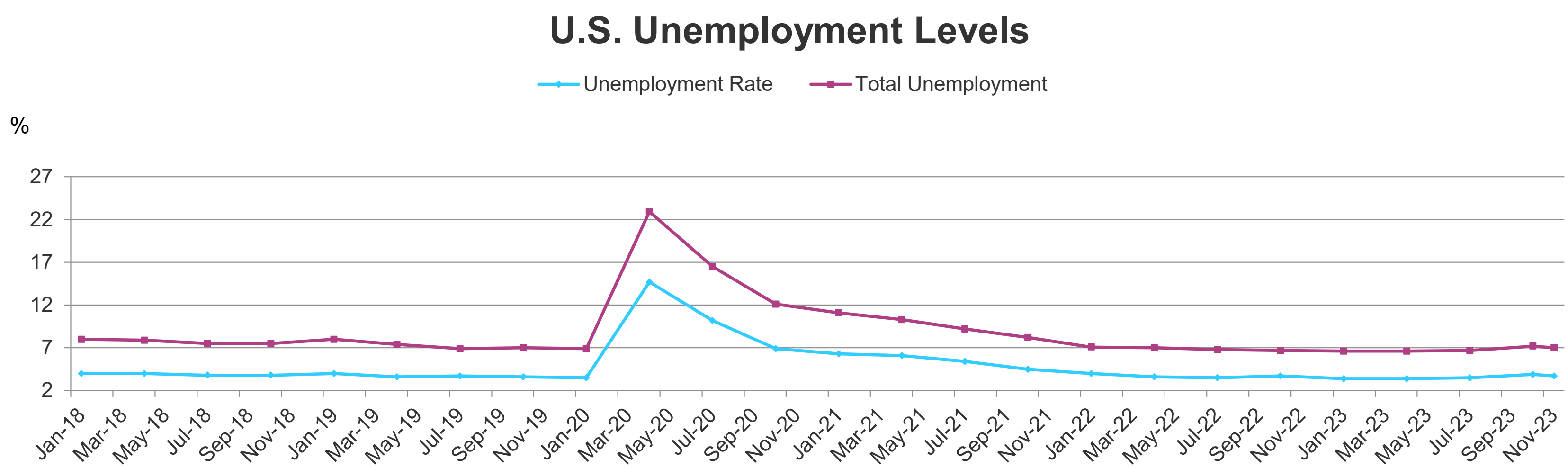
- Payroll growth positive but moderating
- Higher exposure base boosts workers' compensation premium level



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

Economic Factors — Employment

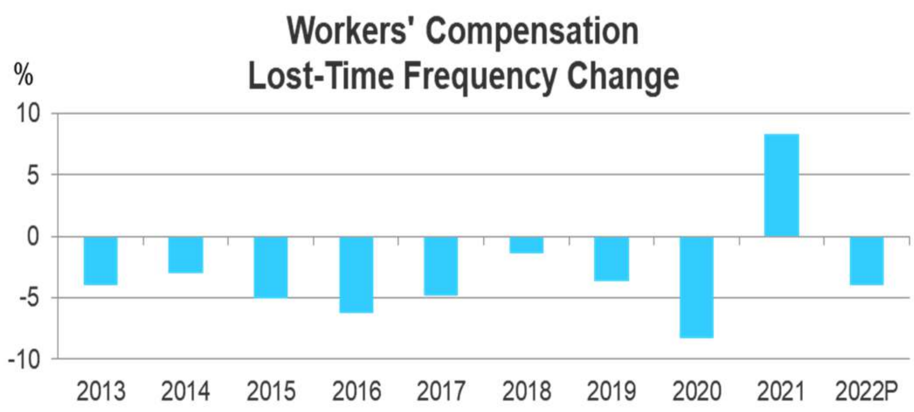
- Unemployment remains low at 3.7%
- Tight labor markets create hiring challenges – finding properly trained and skilled workers



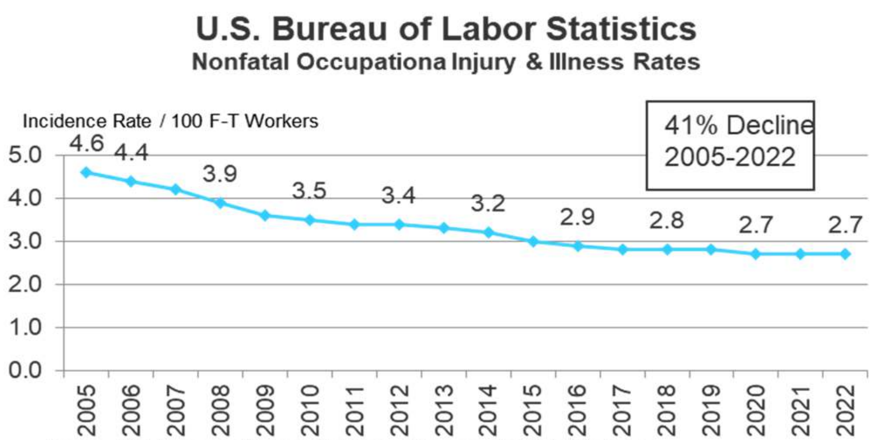
Source: Federal Reserve Bank of St. Louis - FRED,
Total Unemployment = U6 rate that includes discouraged and part time workers

Workers’ Compensation Claims Trends — Frequency

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



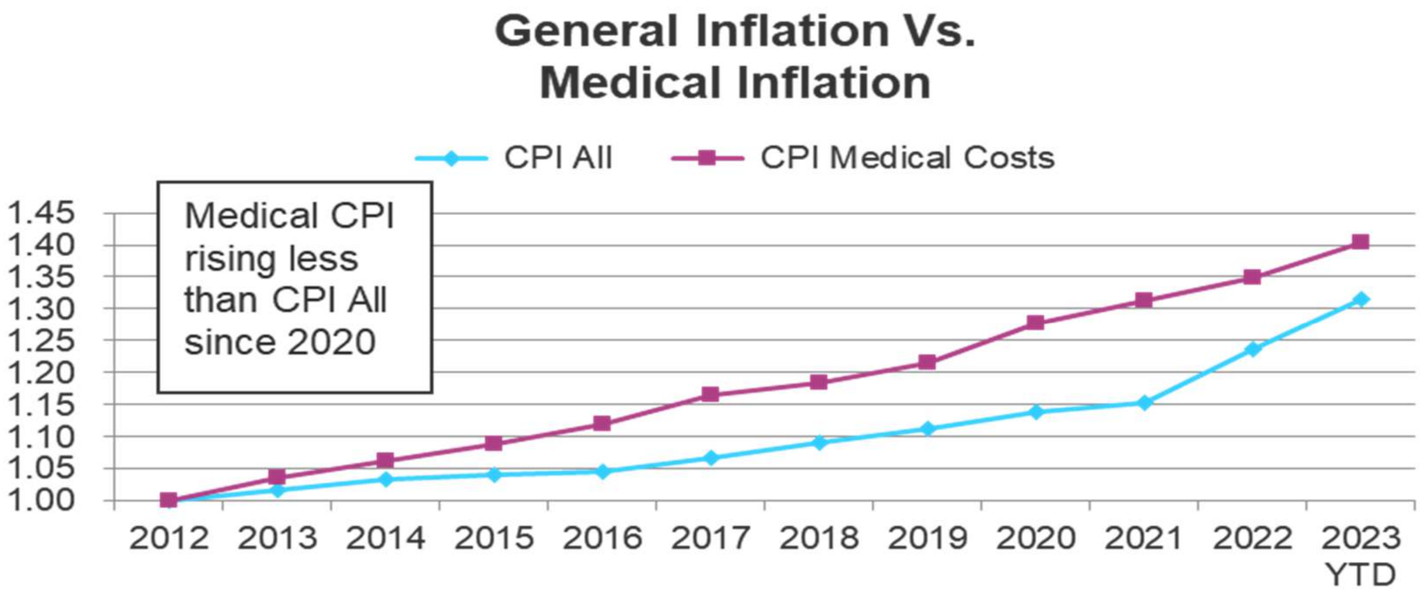
Source: NCCI Annual Issues Symposium State of The Line Presentation



Source: U.S. Bureau of Labor Statistics - Employer Related Workplace

Economic Factors — Interest Rates/Inflation

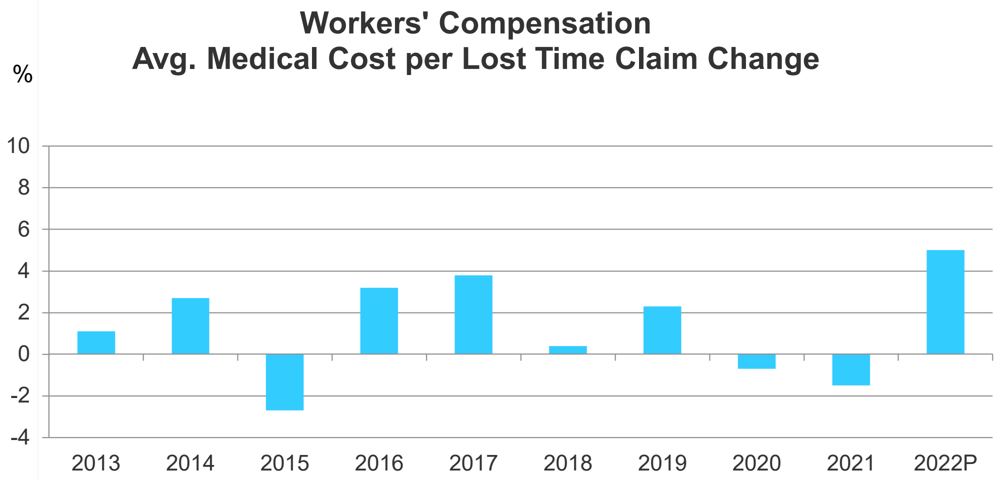
- Inflation: Creates loss-cost, pricing uncertainty
- Medical inflation traditionally higher than general inflation, pattern reversed in recent years
- Fee schedules limit WC medical inflation in near term, but may see a future catch up
- Higher interest rates: Lower bond values and present value of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



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



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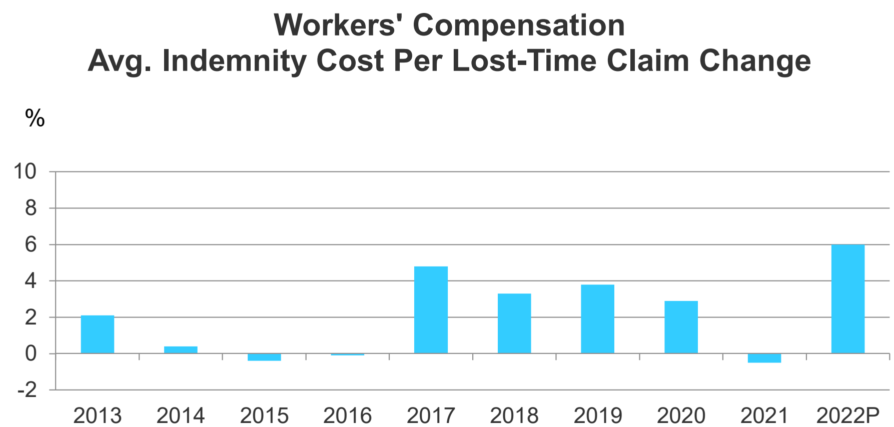

Source: NCCI Annual Issues Symposium State of The Line Presentation

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