A REPORT TO THE LEGISLATIVE COUNCIL AND
THE SENATE AND HOUSE INTERIM COMMITTEES
ON INSURANCE AND COMMERCE
OF
THE ARKANSAS GENERAL ASSEMBLY
(AS REQUIRED BY ACT 796 of 1993)

ANNUAL STUDY OF THE WORKERS' COMPENSATION INSURANCE MARKET IN ARKANSAS

Prepared by: William R. Lacy, Property & Casualty Manager
Arkansas Insurance Department

Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: September 1, 2011

REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2010

Previous reports to the Legislature have discussed in detail the condition of Arkansas's Workers' Compensation marketplace prior to the passage of Act 796 in 1993, and subsequent to the changes brought about because of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the lowest premium levels in decades.

In the most recent data available, Arkansas had a combined loss ratio of 89% ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2011, NCCI filed for decreases in both the voluntary market loss costs (-5.8%) and assigned risk plan rates (-9.7%) Several factors and trends in the industry may affect future rates. These factors include changes in claim frequency, increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

CONTINUED RATE IMPACT OF ACT 796 OF 1993

Arkansas's voluntary workers' compensation market would have disappeared and many employers would have found themselves unable to afford workers' compensation coverage, facing the choice of either closing down their business or operating outside the law, had Act 796 not become reality.

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2001 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2010, Arkansas had the lowest loss costs in the region per $100 of payroll ($0.96) compared to the regional average loss cost of $1.45 and the countrywide average loss cost of $1.19. There are still positive effects from this Act that benefit Arkansas employers.

Year	Voluntary Market	Assigned Risk Plan
1993	0.0%	0.0%
1994	0.0%	0.0%
1995	-12.4%	-12.4%
1996	-8.0%	-3.7%
1997	-4.7%	-7.6%

Year	Voluntary Market	Assigned Risk Plan
1998	-9.1%	-8.2%
1999	-4.1%	-3.0%
2000	-4.5%	-2.0%
2001	-7.5%	1.9%
2002	-4.5%	-1.9%
2003	1.8%	5.5%
2004	0.5%	5.1%
2005	-1.5%	-2.8%
2006	-0.5%	-2.0%
2007	-5.4%	-6.8%
2007 (effective 1/1/08)	2.7%	2.7%
2008 (effective 7/1/08)	-12.8%	-13.8%
2009	-7.0%	-6.4%
2010	1.9%	4.5%
2011	-5.8%	-9.7%

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has increased minimally (0.985 from 0.977). This minimal change in experience modifier could represent the continuing effectiveness of loss control measures and the impact of the Hazardous Employer Program operated by the Health and Safety Division of the Workers' Compensation Commission. Please refer to Exhibit "A" for additional statistical information regarding premiums.

ASSIGNED RISK PLAN

The assigned risk plan has seen a consistent history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. Down from a record high of $150,000,000 in 1993, to a low of $6,566,275 in September 2000, the premium volume for 2010, was $9,360,039 as compared to $10,245,439 for 2009. The increase in premium during the 2002 through 2004 period was, in part, attributable to the failure of several insurers domiciled in California and other states. A portion of the increase may also have been attributable to an increase in plan population of small premium employers who have premiums too low to be attractive to the competitive market. In essence, their premiums are less than the minimum premium for which coverage is available in the voluntary market. These employers may often get better rates through the plan; consequently, as of the end of 2010, small premium employers (less than $2,500 in annual premium) constituted approximately 84% of the plan policy volume with an average of $872 in premium per policy. Average plan premium per policy at the end of 2010 was $2,161 for all 4,332 policies in the plan.

In 2008, NCCI filed a Voluntary Coverage Assistance Program (VCAP), which has helped to remove some employers from the assigned risk plan by allowing voluntary carriers to file their

underwriting guidelines for comparison to new applications submitted. When an application is received by NCCI, it is compared to the filed guidelines and if the risk appears to meet a company's guidelines, the application will be forwarded to the insurer to determine whether they will make a voluntary offer of coverage. This program was approved effective October 1, 2008. By December 31, 2010, 47 employers were removed from the assigned risk plan with a premium of $228,790. These policyholders saved a total of $48,296 with an average savings of $1,240. We believe that as carriers become more familiar with this program, the number of policyholders taken out of the plan will continue to grow as will policyholder savings.

For those employers qualifying for voluntary coverage, cost savings have been substantial. According to the NCCI, price discounting by voluntary carriers reached record levels of 24% during 1999. Carriers pulled back on the discounting in 2000 to 14.7% and, as anticipated, carriers further reduced discounts in 2004 and 2005. In 2006, carriers resumed increased discounting again using primarily schedule credits and dividends. In 2007, there was a net -4.7%. That has continued into 2010 with a projected net of -9.2%.

PLAN ADMINISTRATION/SERVICING CARRIERS

The NCCI is an "Advisory Organization" licensed in Arkansas to assist its member insurers with ratemaking and data collection activities. Effective July 1, 2009, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2013.

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The working group monitors data reliability and any other issues that arise involving the market.

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. §23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as presenting the opportunity to improve existing systems and procedures. The most recent examination found concerns about statistical reporting and error correction. These concerns were remedied and are monitored by the working group of the NAIC. These errors were never significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas.

During the implementation of the examination findings, Arkansas served as chair of the multi-state exam task force and concluded its responsibilities in this capacity after implementation of the required reforms. A current multi-state examination is in progress and Arkansas is participating in this examination, as well.

The location of an office in Little Rock (mandated by 1993 legislation) continues to resolve many policy related service problems and provides Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office is apparent in the reduction of the number of complaints received by the Insurance Department and the reduction in the number of appeals reaching the Appeals Board. The NCCI personnel assigned to the office are knowledgeable and committed to providing excellent service.

Attached are Exhibits "B" entitled *Arkansas Residual Market 2nd Quarter 2011 Status Report;* and Exhibit "C" entitled *Arkansas Residual Market Annual 2010 Status Reports.* The exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten classifications by code and by premium, and a list of contacts within NCCI for specific areas of concern.

NCCI provides, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, the customer receives a confirmation code and application identification number for reference. There are significant savings to the plan when an application can be processed electronically. Arkansas agents have been extremely responsive to this initiative with 95% of applications being submitted online in 2010.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either "Commendable" or "Satisfactory" scores for all areas for Arkansas' servicing carriers. For the period commencing January 1, 2011, through December 31, 2013, the servicing carriers are Travelers Indemnity Company, Liberty Insurance Corporation, and Riverport Insurance Company (W.R. Berkley Group).

SUMMARY OF INSURANCE DEPARTMENT'S CRIMINAL INVESTIGATION UNIT

Before the passage of Act 796 of 1993, there had never been a criminal prosecution in Arkansas for workers' compensation fraud committed by employees, employers or healthcare providers.

Act 796 of 1993 created the Workers' Compensation Fraud Investigation Division and made any type of fraud committed within the workers' compensation system a Class D felony (maximum six years and/or $10,000 fine). The Division was renamed the Criminal Investigations Division during the 2005 Legislative Session.

Fraud in the workers' compensation system was perceived to be epidemic. Since the majority of employers were in the "plan," there was little, if any, incentive for thorough investigation of possibly fraudulent insurance claims and few consequences to those caught making intentional misrepresentations. Act 796 changed the entire landscape of the workers' compensation system, particularly about the detection, prevention and prosecution of workers' compensation fraud. The actual prosecution of a workers' compensation fraud case is contingent on many factors.

Key among those factors is the elected prosecutor's willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards for conviction found at Ark. Code Ann. § 11-9-106, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers' compensation fraud; fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under-funded local agencies. This Division's dedication to a single purpose allows for complex investigations, which require time, and focus that would otherwise not be available. As these complex cases evolve, they frequently require investigators to work through a myriad of leads to develop a case. Occasionally, even

with dedicated resources for this single purpose being used, there simply is not enough information for a prosecutor to prosecute the crime. While the number of actual prosecutions varies from year to year, the possibility of investigation and prosecution is a constant deterrent. Any lessening of the Division's enforcement powers would likely result in a re-emergence of both frequency and severity of fraud committed by employees, employers, and healthcare providers.

The cases represented by the statistics noted below, which are comparable per capita to those of other states with active anti-fraud efforts, are believed to have had a significant impact on workers' compensation rates in Arkansas, and the deterrent factor has been substantial. In fact, many cases are not carried forward to prosecution. In many instances, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically prosecutor wins, these cases result in positive outcomes for injured workers in the state.

Act 743 of 2001 (The Act) significantly enhanced the efficiency and effectiveness of the Division by granting its investigators certified law enforcement authority. The Division can now execute arrest warrants, thus reducing the backlog of warrants that were awaiting service by local law enforcement agencies. Annual referrals to the Criminal Investigation Division have been reduced significantly since its first year of operation. This reduction is attributed to increased enforcement efforts under the Act. In the 2010 reporting period, there were 37 workers compensation investigations opened. Two cases were referred to prosecution. The investigative work continues on many of the cases that have been referred. Since the creation of the division in 1993, 148 cases have been referred for prosecution, which resulted in 110 convictions. Out of these 148 cases, only three prosecutions have resulted in acquittals. In the remaining 35 cases, the charges were not filed or dropped.

2010 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION

There was no legislative activity during 2010 with regard to Worker's Compensation.

SIGNIFICANT WORKERS' COMPENSATION CASES FISCAL YEAR 2011

Cases from the Arkansas Supreme Court

Honeysuckle v. Curtis H. Stout, Inc., et al, 2010 Ark. 328, 2010 WL 3611698: Honeysuckle and McCarthy traveled together on a business trip from Little Rock to Addison, Texas, by way of a single-engine aircraft piloted by McCarthy. The plane crashed on the return trip, killing Honeysuckle and resulting in severe injuries to McCarthy. Honeysuckle's estate and McCarthy each sought and obtained workers' compensation benefits. Subsequently, Honeysuckle's estate filed personal injury actions against McCarthy and the manufacturers of the aircraft and certain of its parts. McCarthy, who at all relevant times was an employee, president, board member and major stockholder for Respondent Curtis H. Stout, asserted the exclusive remedy protection afforded by Ark. Code Ann. §11-9-105 before the Arkansas Workers'

Compensation Commission (following remand from circuit court upon a writ of prohibition issued by the Arkansas Supreme Court). The Commission found in McCarthy's favor on the issue of exclusive remedy; however, the Arkansas Court of Appeals reversed. On further appeal, the Arkansas Supreme Court affirmed the Commission's original findings and vacated the decision of the Court of Appeals. In essence, the Court determined that substantial evidence supported the Commission's finding that McCarthy was Honeysuckle's employer at the time of plane crash. In particular, the Court noted the parties' stipulations that both McCarthy and Honeysuckle had been acting in the course of their employment at the time of the accident, and that McCarthy was the company's president, a board member, a major stockholder and worked as its sales manager. In addition, "Evidence showed that McCarthy took an active role in the management and personnel decisions of the company, as well as acted as Honeysuckle's sales supervisor, and that the company was family owned and operated…Considering the evidence in the light most favorable to the Commission's decision, the Commission's conclusion was reasonable based on the facts submitted to the Commission."

Jonesboro Care & Rehab Center v. Woods, 2010 Ark. 482, 2010 WL 5059566 (2010): On review of the Arkansas Court of Appeals' previous decision (*Jonesboro Care & Rehab Center v. Woods*, 2010 Ark. App. 236, 2010 WL 811239 (2010)), the Arkansas Supreme Court affirmed the original findings of the Arkansas Workers' Compensation Commission and vacated the opinion of the Court of Appeals. At the conclusion of a regularly scheduled training seminar on October 24, 2008, the Respondents' director of nursing instructed the employees to form a line to receive their paychecks and to complete paperwork for a flu shot. However, the Claimant elected instead to take a smoke break while waiting for the line to shorten. After a brief time, the Claimant elected to return inside due to the cold. With a lit cigarette in her hand, she approached a trash can to throw away some chewing gum and then fell, breaking her leg. The Claimant subsequently sought workers' compensation benefits but the Respondents denied the claim in its entirety for a lack of employment services. An Administrative Law Judge, however, awarded benefits primarily on the theory that the Claimant was returning from her break, had not received her paycheck, and had not clocked out when she fell. The Arkansas Workers' Compensation Commission adopted this decision as its own. On appeal by the Respondents, the Arkansas Court of Appeals reversed. On further appeal, the Supreme Court vacated the reversal, holding that there had been substantial evidence to support the Commission's original decision. In particular, and among other things, the Supreme Court noted that the Commission had "expressly found that appellant benefitted from its employees attending the seminar so that it could distribute information, conduct training, and dispense payroll checks to its employees. In finding appellee's injury was compensable, the Commission found that she was injured while she was returning to the seminar room after taking a short break and that, as required by her employer, appellee was still on the clock because she had yet to receive her paycheck."

Hudak-Lee v. Baxter Co. Regional Hospital, 2011 Ark. 31, 2011 WL 337793 (2011): While on vacation, the Claimant received a call from Respondent Employer asking whether she could come in for a twelve-hour night shift. In the midst of her usual clerical duties, the Claimant was asked to provide one-on-one supervision of a suicidal patient at around 11:30 p.m. At approximately 2:30 a.m., a co-worker relieved the Claimant, who went outside "with the intention of going outside…to revive herself in the night air." Before making it back inside, the Claimant fell and suffered a broken hip. Both an Administrative Law Judge and the Workers'

Compensation Commission found that the Claimant was not performing "employment services" at the time of the injury, and denied the claim. The Arkansas Court of Appeals reversed, however, holding that the Claimant was "performing a function that advanced the interests of BCRH" when she fell. On further appeal, the Arkansas Supreme Court also reversed the Commission's decision, noting that "This court has previously recognized that an injury is compensable even when an employee was on break or had not yet clocked in as long as the employee was performing employment services at the time the injury occurred." The Court also observed that "Appellant testified that she walked outside to revive herself so that she could complete her shift. It was also undisputed that Appellant was walking toward the emergency-room entrance in order to return to the patient's room when she fell." With these points in mind, the Court concluded that "Clearly, at the time of her injury, Appellant was advancing the interests of her employer, and the Commission's finding that Appellant was not performing employment services was not supported by substantial evidence."

Second Injury Fund v. Osborn, 2011 Ark. 232, 2011 WL 2062277 (2011): see below, under *Second Injury Fund v. Osborn,* 2010 Ark. App. 697, 2010 WL 4132865 (2010).

Cases from the Arkansas Court of Appeals

Vite v. Vite, 2010 Ark. App. 565, 2010 WL 3420580: In this case involving a broader question of permanent and total disability, the Arkansas Court of Appeals was presented with an issue of first impression concerning the proper calculation of the average weekly wage. In particular, the Court took up the question of whether any portion of business expenses should be deducted from a sole proprietor's gross income. In finding that such expenses should be deducted, the Arkansas Workers' Compensation Commission had followed its own precedent set in *Hunt v. Lovett* (Full Commission Opinion filed September 16, 1996 (Claim No. E218307)). Therein, the Commission had determined that the inclusion of unreimbursed business expenses in the average weekly wage computation "does not accurately reflect a claimant's actual earnings during the period." The Court looked to the statute at issue, Ark. Code Ann. §11-9-518, and noted its allowance for a computation "by a method that is just and fair to all parties concerned" where the other statutory methods were not feasible. Under the circumstances of this case, the Court concluded that the Commission had indeed made a determination that was "just and fair" to the parties, and affirmed its decision. The Court went on to likewise affirm the Commission's findings that the Claimant was not permanently and totally disabled and was not entitled to additional medical treatment.

O'Hara v. Death & Permanent Total Disability Trust Fund, 2010 Ark. App. 685, 2010 WL 4132903 (2010): In this instance, the Arkansas Workers' Compensation Commission affirmed and adopted an Administrative Law Judge's finding that the Commission had no authority to order attorney's fees to be paid in a lump sum by the Death and Permanent Total Disability Trust Fund. The Arkansas Court of Appeals reversed, holding that the Commission's decision was "clearly erroneous as a matter of law" in light of the "clear language in Arkansas Code Annotated section 11-9-716 that authorizes lump sum attorney's fees."

Second Injury Fund v. Osborn, 2010 Ark. App. 697, 2010 WL 4132865 (2010): The Claimant in this instance sustained a work-related injury on June 1, 2001, and was eventually found by the Arkansas Workers' Compensation Commission to have a wage loss disability rating of 50%. In addition, the Claimant had previous military-related injuries which resulted in his being declared 100% disabled by the Veterans' Administration in 2007. The Second Injury Fund asserted that it should be entitled to a credit under Ark. Code Ann. §11-9-411 for the Claimant's service-related disability benefits. Following a remand from the Arkansas Court of Appeals for further findings on this issue, the Commission ultimately determined that the Fund was not entitled to a credit since the statute did not specifically mention VA benefits. On further appeal, the Court agreed, holding that "The statute allows subrogation for various types of insurance-provided benefits received due to disability. Had the legislature intended a set-off for such benefits, it could have expressed that intention in plain terms." **ADDENDUM: On May 26, 2011, the Arkansas Supreme Court likewise affirmed the Commission's original decision. In *Second Injury Fund v. Osborn*, 201 Ark. 232, 2011 WL 2062277 (2011), the Supreme Court noted that "Veterans' Administration benefits are not listed as one of the 'group plans' in the statute. We agree with the Commission that if the legislature had intended to include VA benefits among those plans enumerated in §11-9-411(a), it would have done so. Therefore, we find that the Commission did not err in its interpretation of §11-9-411."**

Gladden v. Georgia Pacific Corp., 2010 Ark. App. 808, 2010 WL 4972357 (2010): The Claimant sustained a compensable neck injury on December 12, 2007, and subsequently sought benefits for bilateral shoulder injuries stemming from the same incident. In an opinion that was affirmed and adopted by the Arkansas Workers' Compensation Commission, an Administrative Law Judge found that there were no objective findings to support a right shoulder injury, and that the Claimant's left shoulder problems pre-existed the date of injury. On appeal to the Arkansas Court of Appeals, however, the Court reversed the Commission's findings, holding that "the Commission failed to take the next step and determine whether his pre-existing left shoulder condition was aggravated by the December 12, 2007, incident…Because evidence was presented on the aggravation issue but no findings were made on it, we have nothing to review, and we cannot reach the merits of Gladden's argument. Therefore, we reverse and remand to the Commission with directions that it determine whether, on December 12, 2007, Gladden suffered an aggravation of his pre-existing left shoulder injury."

Aegon Ins. USA v. Durham-Gilpatrick, 2010 Ark. App. 826, 2010 WL 4972460 (2010): Here, the Arkansas Workers' Compensation Commission affirmed and adopted an Administrative Law Judge's finding that the Claimant was entitled to psychiatric benefits in relation to her compensable injury under Ark. Code Ann. §11-9-508, which requires an employer to provide "reasonably necessary" medical services in connection with a compensable claim. The Respondents appealed to the Arkansas Court of Appeals, which affirmed the Commission's findings. In its analysis, the Court noted its previous holding in *Dillard's, Inc. v. Johnson*, 2010 Ark. App. 138, ___ S.W.3d ___, in which it had applied §11-9-508 to affirm an award of psychiatric benefits. Relying on *Johnson*, the Court pointed out that "Durham-Gilpatrick could show that she was entitled to psychiatric treatment without meeting the requirements of section 11-9-113 as long as such treatment was reasonably necessary and causally related to her compensable injury. Further, as evidenced by our decision in *Johnson*, it is possible for a claimant to make such a showing even if he or she has a past history of mental-health issues."

Tyson Poultry, Inc. v. Narvaiz, 2010 Ark. App. 842, 2010 WL 5132119 (2010): Following a compensable injury, the Claimant returned to light duty but was subsequently terminated for calling his supervisor a "mother-f—king bitch." An Administrative Law Judge denied the Claimant's claim for additional temporary total disability; however, the Arkansas Workers' Compensation Commission reversed, essentially finding that termination for misconduct was not a sufficient basis for finding that an employee refused suitable employment. In so doing, the Commission relied on *Superior Indus. v. Thomaston*, 72 Ark. App. 7, 32 S.W.3d 52 (2000), in which a Claimant had been terminated for calling her co-workers "bitches." In *Thomaston*, the Court had reasoned that the Claimant "did not refuse employment, but instead accepted the employment and was later terminated not by his choice but at the option of the employer." In the instant case, however, the Court took a different view, holding that its broad construction of Ark. Code Ann. §11-9-526 in *Thomaston* was "unwarranted" to the extent it implied that no act of misconduct could ever constitute a refusal of employment. In particular, the Court pointed out that "were that the case, a claimant provided with light duty work could simply stop coming to work, assured that he would continue to receive compensation benefits even if he were terminated." The Court further held that *Thomaston* should be limited to its facts, and reversed the Commission's findings in the present case.

Gingras v. Liberty Bank, 2011 Ark. App. 65, 2011 WL 311655 (2011): In this unusual case, the Claimant had gone home at the end of her work day and found a masked man in her kitchen. The intruder's only words were "I'm not here to hurt you. It'll be all right." The Claimant managed to escape the intruder, but suffered a broken wrist in the process. As a teller for Respondent Employer, the Claimant was responsible for opening and closing the bank, and also had a key to the bank and the vault codes. Local police eventually focused on a suspect jailed in Texas who had allegedly used a similar method to attempt bank robbery in that state. The Claimant ultimately filed for workers' compensation benefits, but her claim was denied by an Administrative Law Judge and, subsequently, the Arkansas Workers' Compensation Commission. On appeal, the Arkansas Court of Appeals affirmed. In particular, the Court held that substantial evidence supported the Commission's conclusion that there was no direct evidence of the intruder's motive (in light of his sole comment during the event). The Court also concluded that substantial evidence supported the Commission's conclusion that the Claimant was not within the course and scope of her employment at the time of the attack, to wit, she was at home, had completed her work day, was not on call, and had given deposition testimony that she "never had to return to work after her shift ended."

J Mar Express, Inc. v. Poteete, 2011 Ark. App. 122, 2011 WL 523770 (2011): The Arkansas Workers' Compensation Commission awarded benefits in this case involving a fatal heart attack that occurred at a truck stop on a 106-degree day in California. On appeal to the Arkansas Court of Appeals, the Respondents argued that the Commission had impermissibly resorted to speculation and had "basically filled in the gaps in appellee's proof." In particular, the Respondents asserted that "The only witnesses who provided testimony regarding appellee's activities prior to his death…indicated that he had not been outside of the truck during the half-hour time period prior to collapsing and that he had only been out of his truck for less than a minute before suffering a heart attack." However, the Court essentially concluded that the

Commission had drawn a logical inference of the Claimant's activities[1] from evidence that a new mud flap had been installed on his truck prior to his collapse, that there was no garage at the truck stop to have had this service performed, that the Claimant had purchased a mud flap while at the truck stop, and had also asked to borrow some tools. And while post-mortem testing revealed the presence of coronary artery disease, the Court held that "the medical evidence indicates that appellee's exertion in the extreme environmental conditions present on the day of the incident was the major cause of his heart attack." In so holding, the Court noted that despite any "pre-existing propensities," there was no indication that the Claimant had actually suffered from any heart problems or limitations prior to the date of injury. Consequently, the Court affirmed the Commission's findings.

Hope School District v. Wilson, 2011 Ark. app. 219, 2011 WL 898245 (2011): In this instance, the Arkansas Workers' Compensation Commission awarded a 2% wage loss disability rating and denied additional temporary total disability benefits. The Respondents appealed the wage loss award and the Claimant cross-appealed the denial of temporary total disability. With regard to wage loss, the Respondents argued that the award was barred by Ark. Code Ann. §§11-9-522(b) and 11-9-526, both of which essentially preclude wage loss disability in the event that suitable work is refused. In particular, the Respondents pointed out that the Claimant had signed a "letter of intention" which indicated that he did not want to be employed as a custodian for the school district during the next academic year. But because officials with the district had testified that the Claimant would have been "recommended" for continued employment if he had expressed an intention to return, both the Commission and the Arkansas Court of Appeals concluded that there had been "no definitive statement that he would be accepted for employment" and thus no bona fide job offer within the meaning of §11-9-522(b) (which, in turn, rendered the Respondents' argument under §11-9-526 moot). The Court also affirmed the Commission's finding that the Claimant was not entitled to additional temporary total disability benefits and was only entitled to a 2% wage loss disability rating. As to the former, the Court noted that the Commission simply did not believe the Claimant's version of events surrounding the temporary total disability issue, and pointed out that it is the Commission's sole prerogative to determine the weight and credibility of witness testimony. As for the amount of wage loss disability, the Court determined that substantial evidence supported the Commission's decision, and that the Claimant had "failed to put forth any proof that he was entitled to any greater amount of wage loss disability."

NATIONAL MARKETS IN GENERAL

While Arkansas has seen increases in the average indemnity and medical cost per lost time claim, claims frequency continues to decline. Arkansas's market remains strong and competitive.

The attached state of the industry report (Exhibit "D") graphically depicts the sound condition of the workers compensation marketplace; still, the NCCI continues to discover that workers' compensation results are affected by a number of factors that are having a negative impact on the market:

[1] With reference to whether they were "extraordinary and unusual" within the meaning of Ark. Code Ann. §11-9-114.

- lower earnings relating to investments;
- claim costs that are beginning to rise at more rapid rates than in previous years;
- pending proposals for benefit increases;
- challenges to workers' compensation as an exclusive worker remedy for workplace injury;
- recent federal initiatives that threaten to increase claim costs, broaden compensability definitions, and have the potential to create duplicate remedies;
- reform roll-back proposals in recent state legislative sessions;
- increasing costs of medical benefits; and
- increasing utilization of certain prescription pain medications

The NCCI does point out one favorable development among the negatives. The incidence of workplace injuries continues to fall sharply since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

CONCLUSION

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas's employers would now have the option of voluntary workers' compensation insurance. Rather, the assigned risk plan, designed to be a market of "last resort," would have become Arkansas's market of "only resort." The General Assembly is to be highly commended for its leadership in reforming the workers' compensation market in our State while protecting the interests of the injured worker.

Arkansas's employers must have available to them quality workers' compensation products in the voluntary market at affordable prices. The creation of good jobs requires a marketplace where all businesses, regardless of size, can grow. Maintaining a stable workers' compensation system is essential for this growth. The evidence shows the reforms have worked. The incidence of fraud has been reduced through high-profile fraud prosecutions, employee compensation rates and benefits have been increased, and workers injured within the course and scope of their employment have received timely medical treatment and the payment of much improved indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: September 1, 2011

cc: The Honorable Mike Beebe, Governor
The Honorable A. Watson Bell, Chairman, AWCC
The Honorable Karen H. McKinney, Commissioner, AWCC
The Honorable Philip Alan Hood, Commissioner, AWCC
Mr. Alan McClain, Chief Executive Officer, AWCC
Ms. Lenita Blasingame, Insurance Chief Deputy Commissioner, AID
Mr. Nathan Culp, Public Employee Claims Division Director, AID
Mr. Greg Sink, Criminal Investigation Division Director, AID
Ms. Alice Jones, Public Information Manager, AID

Exhibit A

National Council on Compensation Insurance, Inc.

Arkansas
state advisory forum
2011

June 2, 2011

Terri_Robinson@ncci.com 501-333-2835
Tom_Daley@ncci.com 561-893-3134

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation State Advisory Forum

- State of the Industry
- What's Driving Arkansas Loss Cost Changes?
- Where Does Arkansas Stand?
- The Residual Market in Arkansas
- Break
- Claim Frequency
- Medical and Indemnity Costs
- The State of the Economy
- Legislative Issues Nationwide and in Arkansas

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

State of the Industry

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation System— "Stable"

- Premium decline moderates
- Combined ratios remain stable
- Reduction in loss costs approved effective 7/1/2011
  - Claim frequency declined significantly in 2008
  - Continued increase in medical costs
- Economic recovery in Arkansas varies by industry
- Active legislative session although no changes result

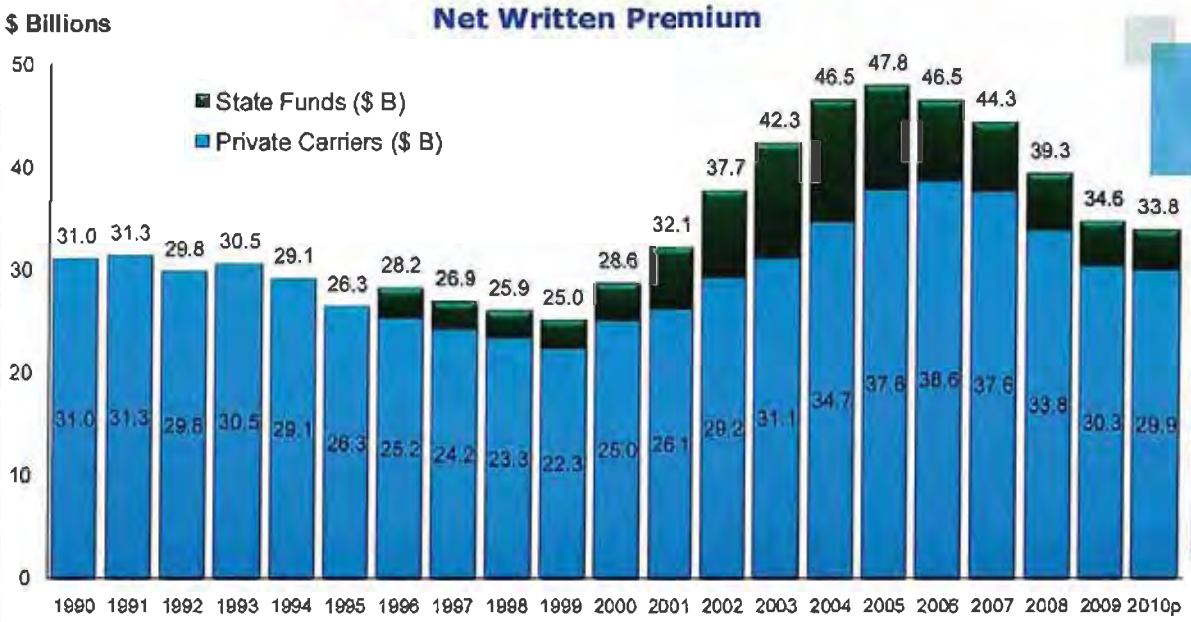
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

State of the Workers Compensation Market— "Deteriorating"

- Calendar year and accident year combined ratios continue to deteriorate
- Decline in lost-time claim frequency stopped in 2010
- More increases proposed in latest NCCI filing cycle
- Impact of healthcare reform and federal involvement in insurance remains uncertain

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Workers Compensation Premium Decline Moderates

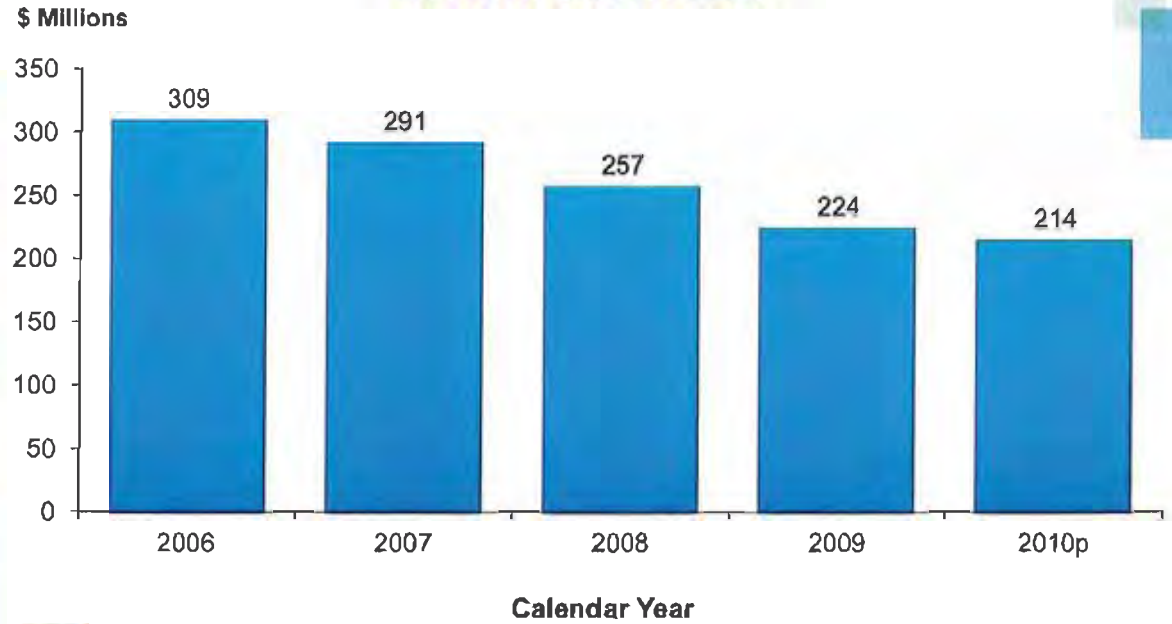


p Preliminary
Source: 1990–2009 Private Carriers, Annual Statement Data; 2010p, NCCI
1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation Premium Volume

Direct Written Premium

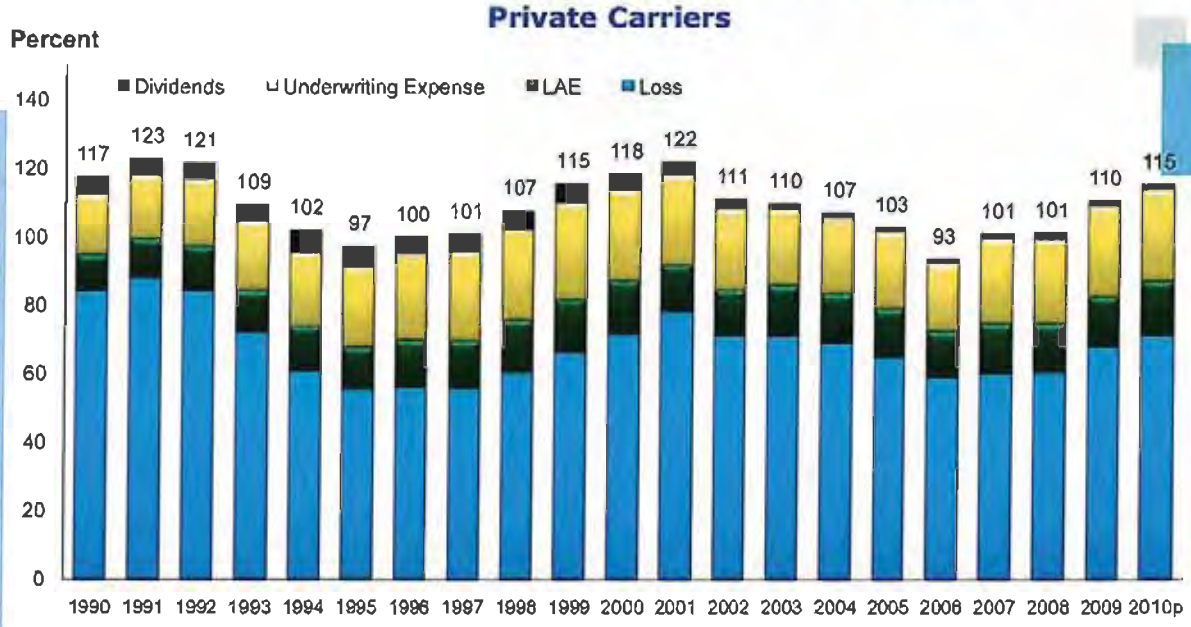


p Preliminary
Source: NAIC Annual Statement data

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide WC Calendar Year Combined Ratio Continues to Deteriorate

Private Carriers



p Preliminary
Source: 1990–2009, Annual Statement Data; 2010p, NCCI

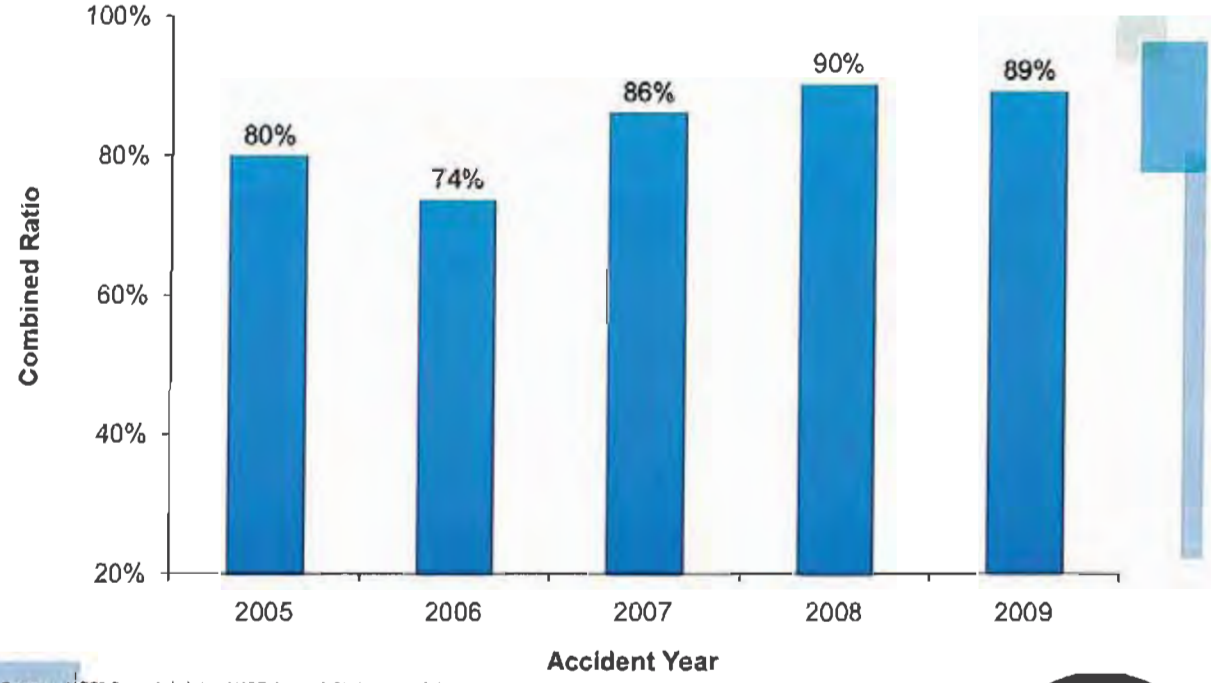
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide Accident Year Combined Ratios

p Preliminary
Accident Year data is evaluated as of 12/31/2010 and developed to ultimate
Source: Calendar Years 2001–2009, Annual Statement Data;
Calendar Year 2010p and Accident Years 2001–2010, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

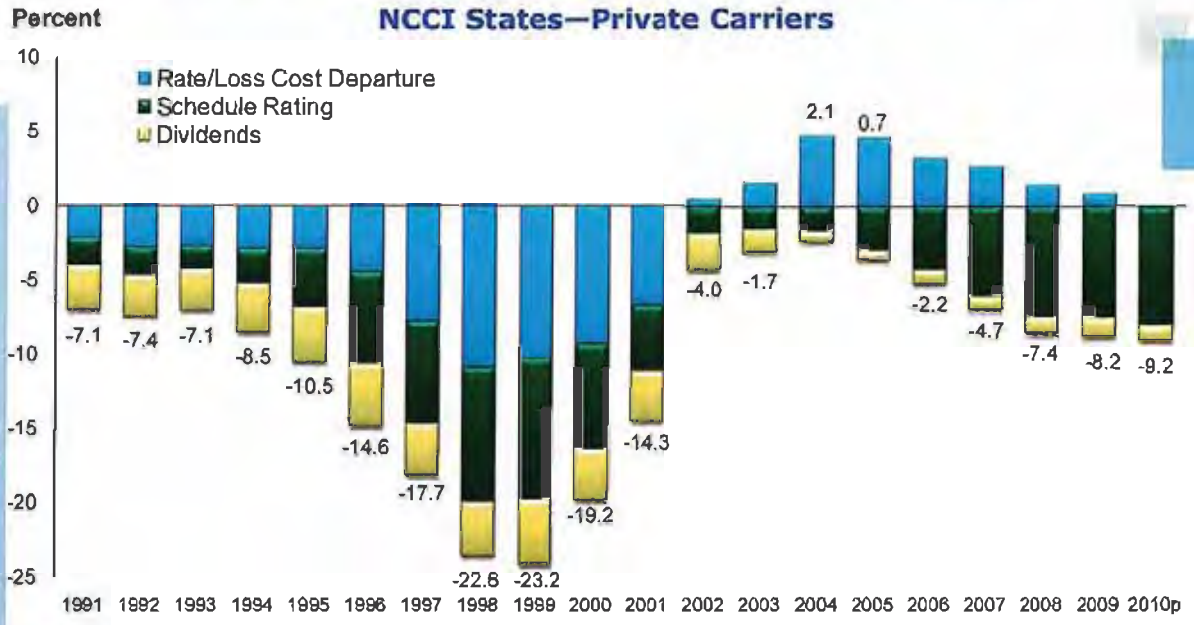
Arkansas Accident Year Combined Ratios



Source: NCCI financial data, NAIC Annual Statement data

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

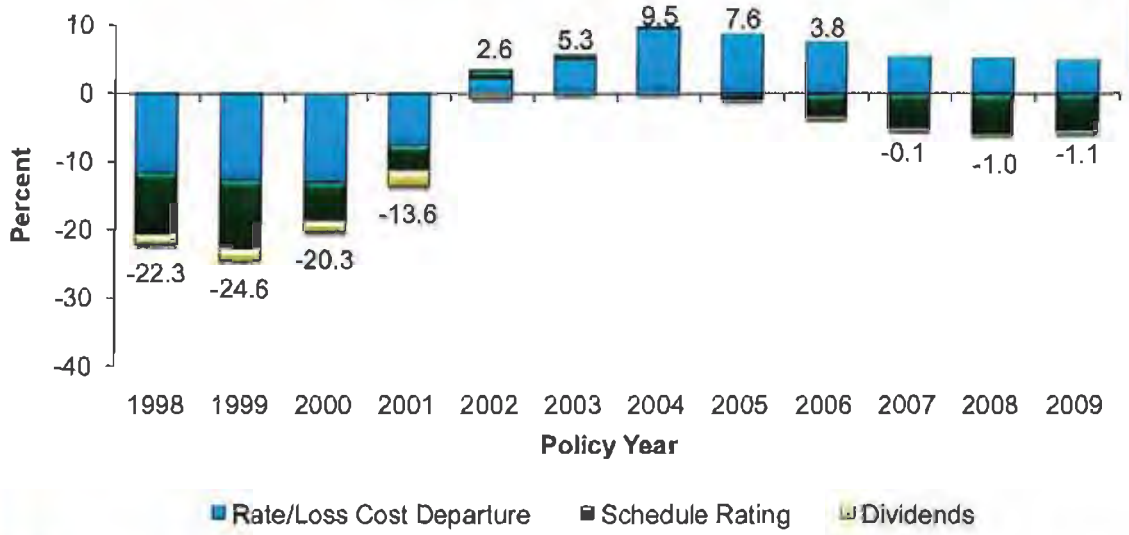
Countrywide Impact of Discounting on Workers Compensation Premium



p Preliminary
Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include an underwriting contingency provision
Based on data through 12/31/2010 for the states where NCCI provides ratemaking services

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Impact of Discounting on Workers Compensation Premium

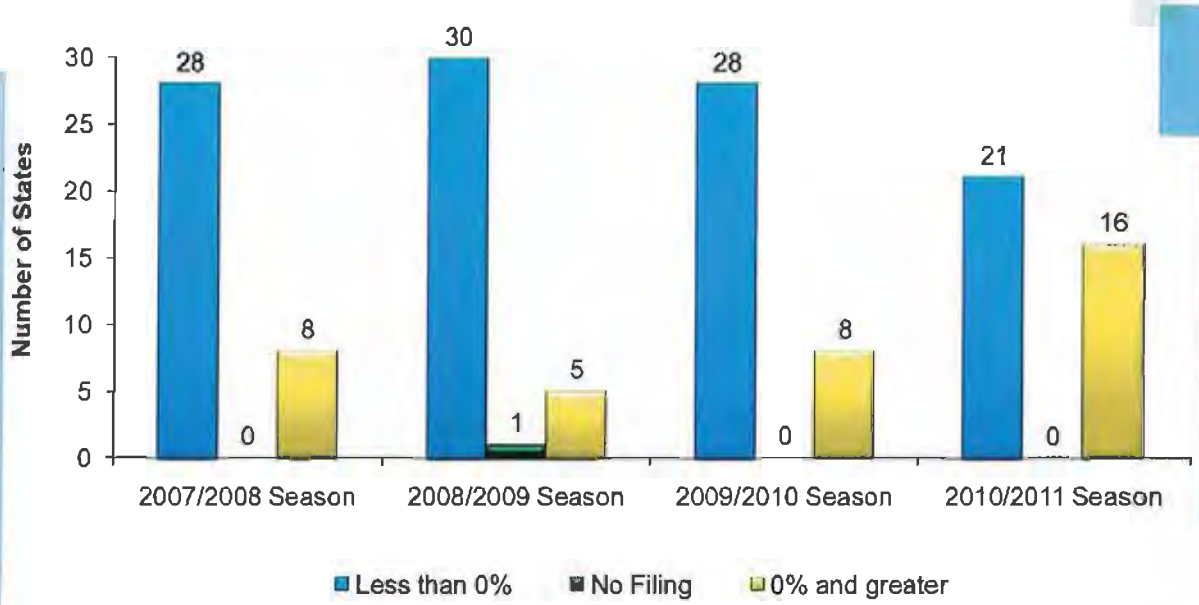


Based on data through 12/31/2009
Dividend ratios are based on calendar year statistics

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Status of NCCI Filing Activity

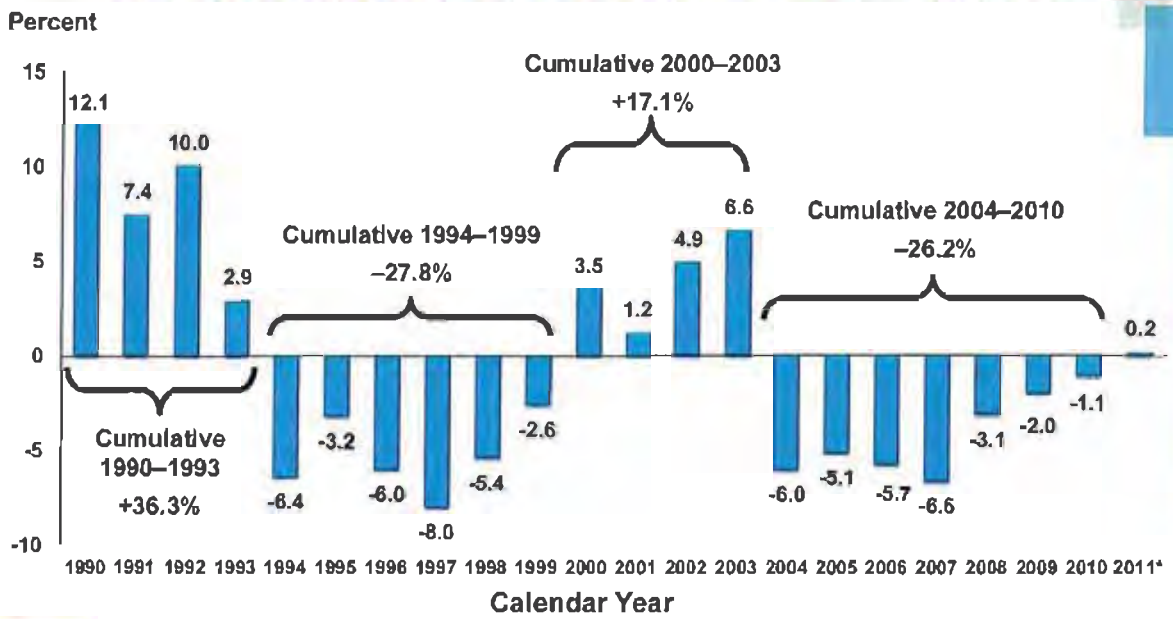
Voluntary Market Filings



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

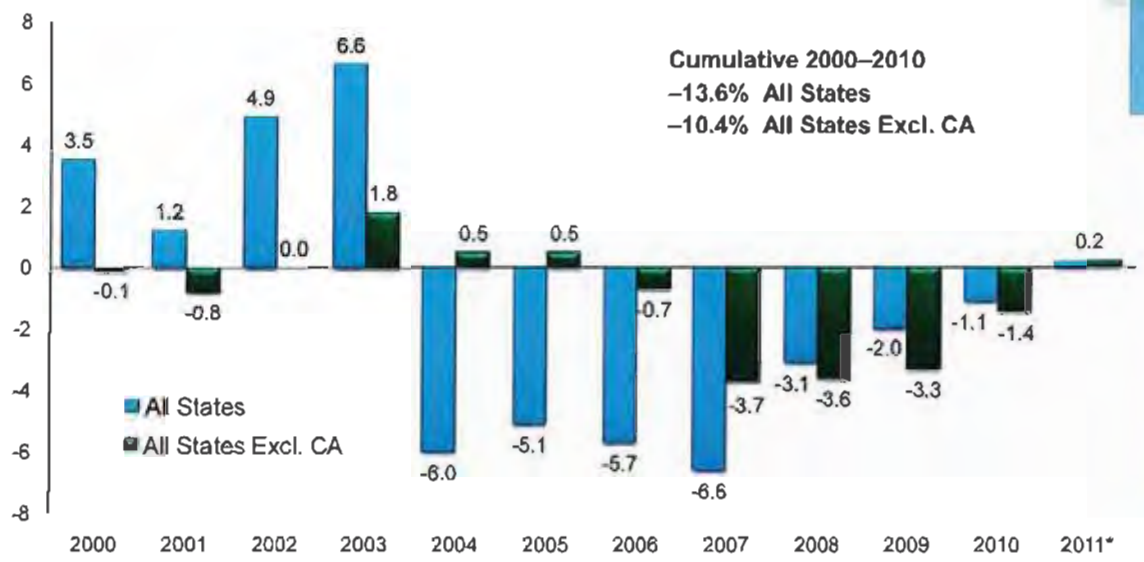


* Preliminary
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California



* Preliminary
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI National Council on Compensation Insurance, Inc.

What's Driving Arkansas Loss Cost Changes?

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Voluntary Loss Cost Level Change—Effective July 1, 2011 Filing Highlights

- The average experience period used in determining the loss cost level change was increased from two policy years to three policy years
- There was a significant reduction in claim frequency for Policy Year 2008
- As a result of this lower claim frequency, the annual indemnity and medical trends were reduced in the recently approved filing

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Experience Period Underlying NCCI States Loss Cost/Rate Filings

State	CY 2009 Written Premium ($'s in Millions)	Years in Experience Period	State	CY 2009 Written Premium ($'s in Millions)	Years in Experience Period
Illinois	2,325	2-PY	West Virginia	406	3-AY
Florida	1,682	2-AY	Utah	335	3-AY
North Carolina	1,151	2-PY	Montana	320	3-PY
Georgia	1,020	2-PY	Alabama	317	3-PY
Virginia	779	2-PY	Nebraska	313	2-PY
Louisiana	747	2-PY	Nevada	299	2-PY
Missouri	743	2-PY	Mississippi	292	3-PY
Tennessee	706	2-PY	Idaho	269	3-PY
Maryland	703	2-PY	Alaska	256	3-PY
Colorado	663	2-PY	New Mexico	229	3-PY
Indiana	620	2-PY	**Arkansas**	**224**	**3-PY**
Arizona	592	2-PY	New Hampshire	221	2-PY
Connecticut	590	2-PY	Maine	200	2-PY
South Carolina	587	2-PY	Hawaii	190	3-PY
Oregon	550	2-PY	Rhode Island	156	3-PY
Kentucky	540	2-PY	Vermont	148	3-PY
Iowa	536	2-PY	Dist. of Columbia	132	3-PY
Oklahoma	486	2-PY	South Dakota	132	5-PY
Kansas	412	2-PY			

Premium Source: A.M. Best State/Line Report 2010 Edition

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Voluntary Loss Cost Level Change—Effective July 1, 2011

Voluntary Loss Cost Components	Impact
Due to Change in Experience	-7.3%
Due to Change in Trend	-2.3%
Due to Change in Benefits	+3.9%
Overall Due to Change in Experience, Trend, and Benefits	-5.9%
Due to Change in Loss Adjustment Expenses	+0.1%
Overall Indicated Loss Cost Level Change	-5.8%

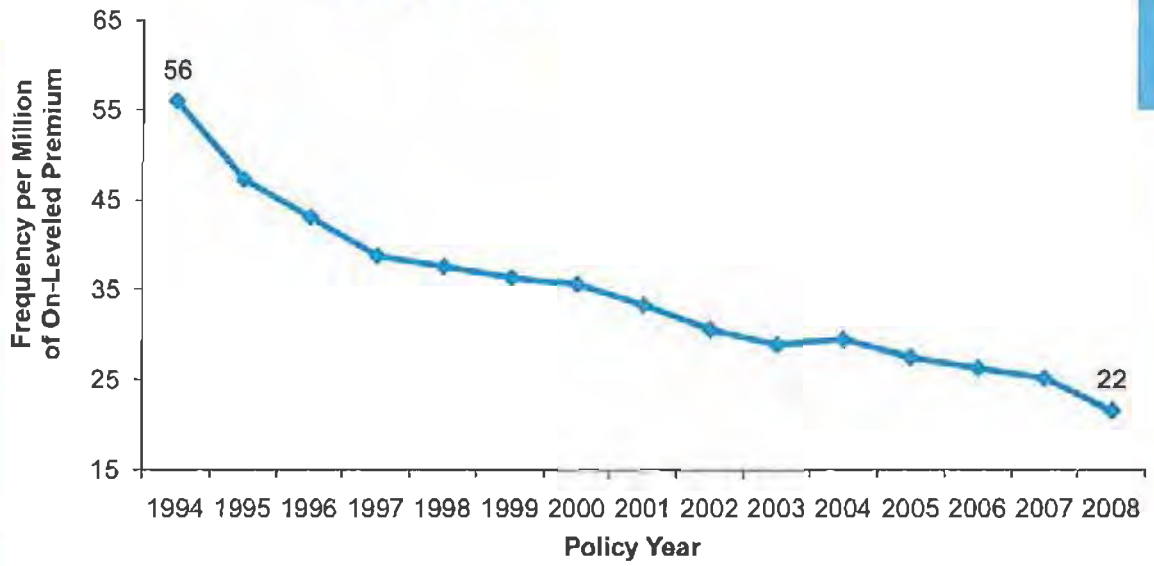
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Factors Underlying Decrease in Advisory Loss Costs

- Double-digit decline in claim frequency observed in latest policy year
- Medical fee schedule increased due to federal changes
- Large loss claim emergence subsided
- Severity trends are flatter
- Loss ratio trends were reduced

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

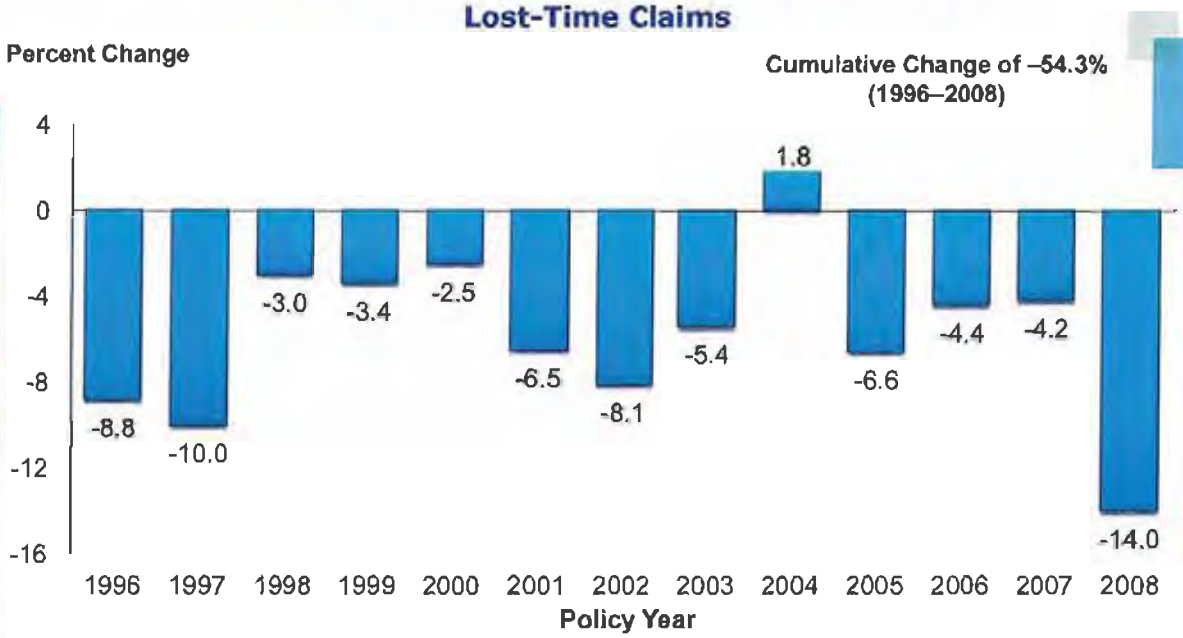
Declines in Claim Frequency Have Contributed to Arkansas Improving Results



Based on NCCI's financial data
Frequency of lost-time claims

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation Lost-Time Claim Frequency



Based on data through 12/31/2009, developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Impact of 1/1/2011 Medical Fee Schedule

- Includes changes made to the 2011 Medicare Resource-Based Relative Value Scale by the Centers for Medicare and Medicaid Services
- Results in an increase of 11.5% in physician costs due to the Physician Fee Schedule change
- Physician costs comprise approximately 45% of medical costs in Arkansas

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Impact of 1/1/2011 Medical Fee Schedule

Distribution of Medical Services in Arkansas

Service Category	Cost Distribution
Anesthesia	3.5%
Surgery	40.5%
Radiology	19.7%
Pathology	1.4%
Medicine	16.6%
Evaluation and Management	18.3%
Overall Physician Costs	**100.0%**

Based on Arkansas workers compensation data for service years 2007–2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Large Loss Summary Comparison Policy Years 2006–2008 at 12/31/2008 vs. 12/31/2009

Reported Incurred Losses for Claims $500,000 and Greater					
Policy Year	No. of Claims	Losses Reported at 12/31/2008	No. of Claims	Losses Reported at 12/31/2009	Difference
2006	12	$17.7 M	12	$19.1 M	$1.4 M
2007	15	$18.4 M	18	$24.7 M	$6.3 M
2008	2	$1.5 M	10	$11.2 M	$9.7 M

Source: NCCI financial data valued as of 12/31/2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

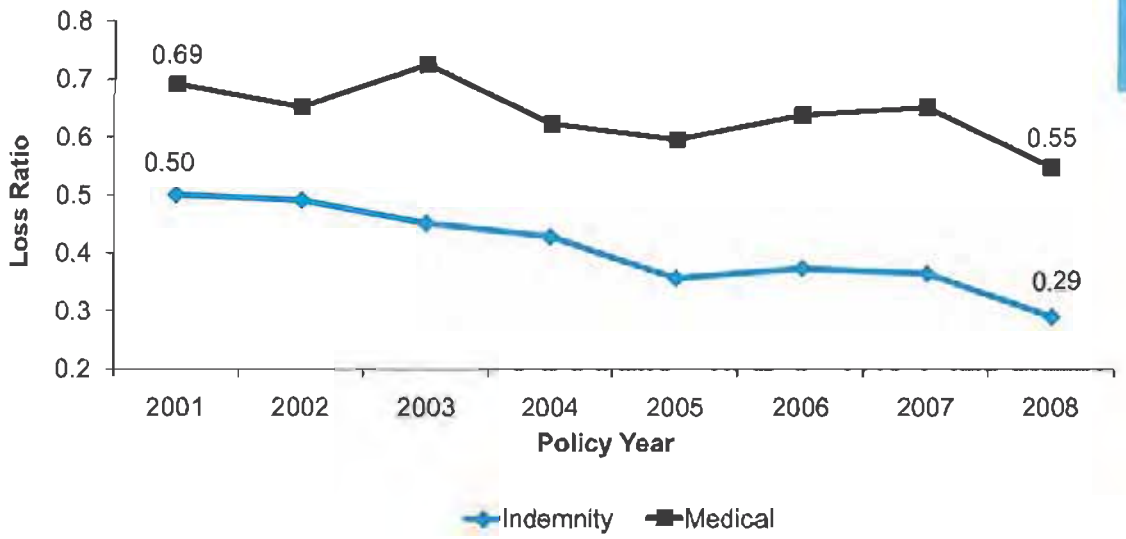
Arkansas Large Loss Summary Comparison Policy Years 2006–2008 at 12/31/2008 vs. 12/31/2009

Reported Incurred Medical Losses for Claims $500,000 and Greater					
Policy Year	No. of Claims	Losses Reported at 12/31/2008	No. of Claims	Losses Reported at 12/31/2009	Difference
2006	12	$15.4 M	12	$16.9 M	$1.5 M
2007	15	$14.4 M	18	$20.8 M	$6.4 M
2008	2	$1.2 M	10	$9.2 M	$8.0 M

Source: NCCI financial data valued as of 12/31/2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

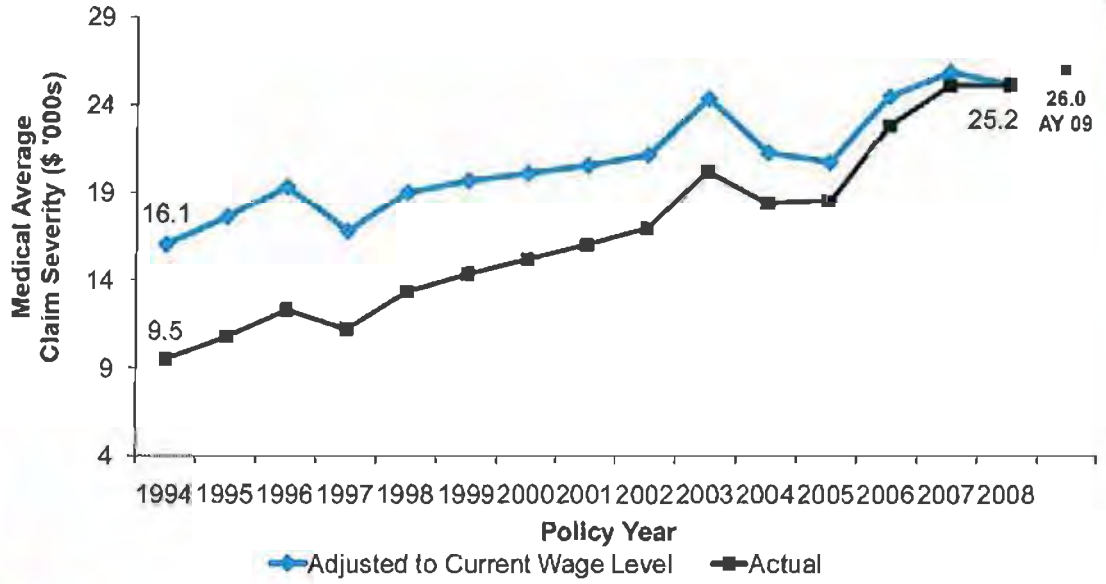
Arkansas Indemnity and Medical Loss Ratios



Based on NCCI's financial data at current benefit level and developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

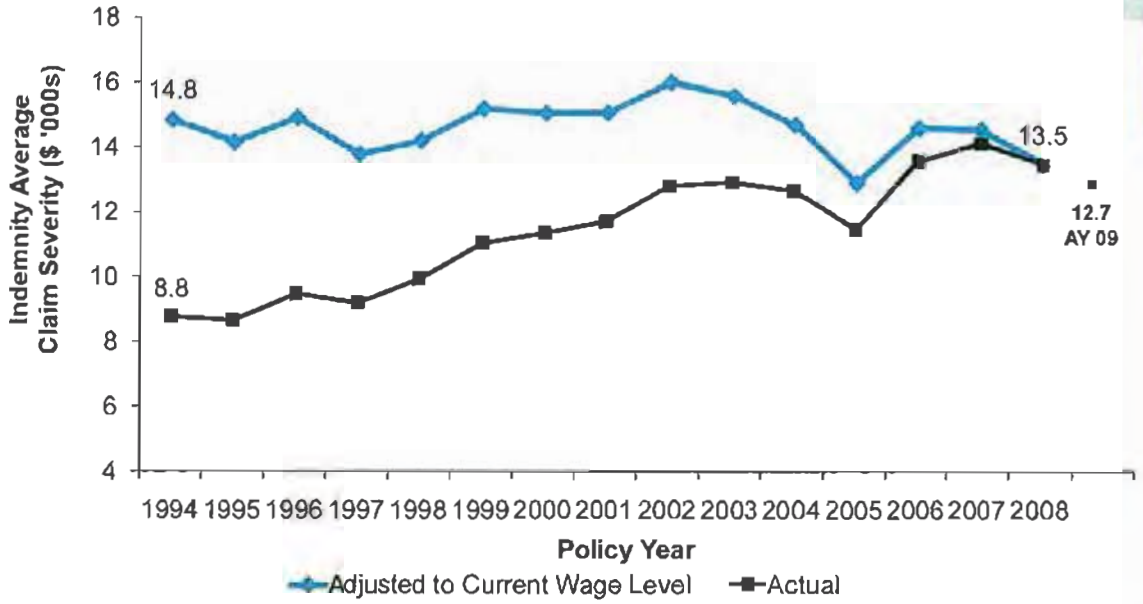
Arkansas Average Medical Claim Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

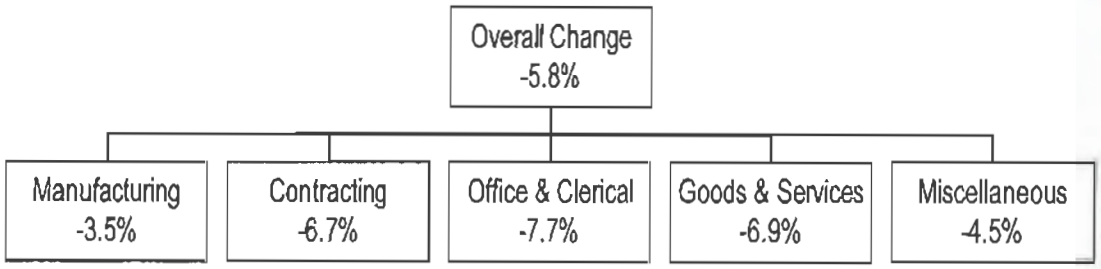
Arkansas Average Indemnity Claim Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

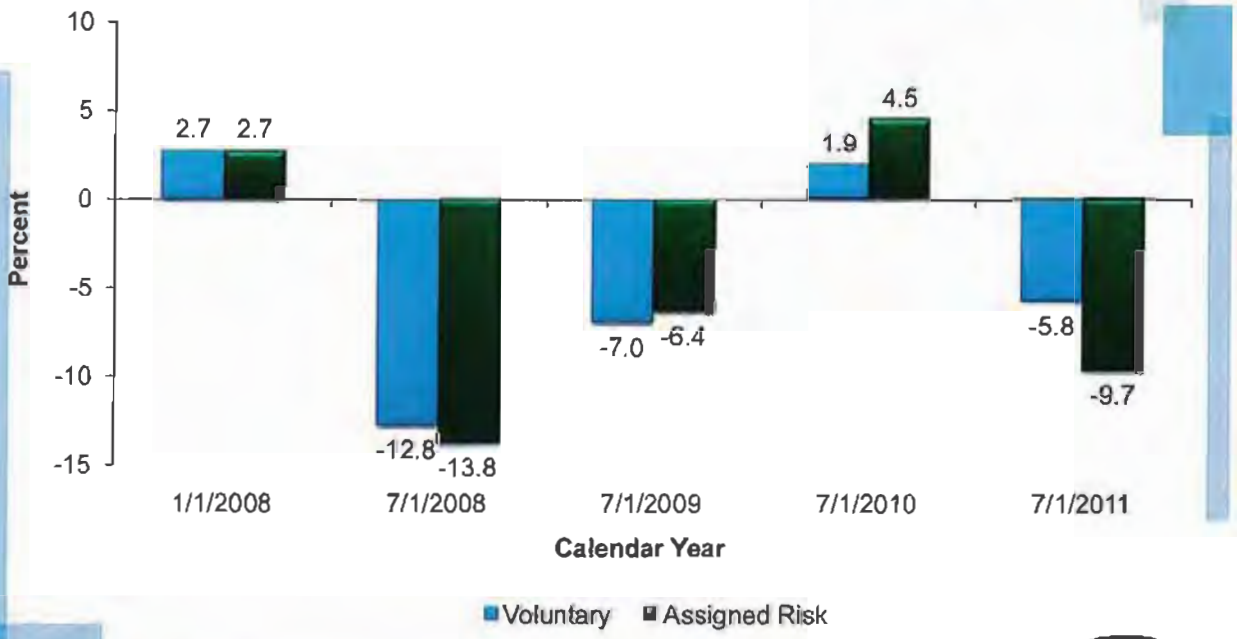
Arkansas July 1, 2011 Filing Average Changes by Industry Group



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

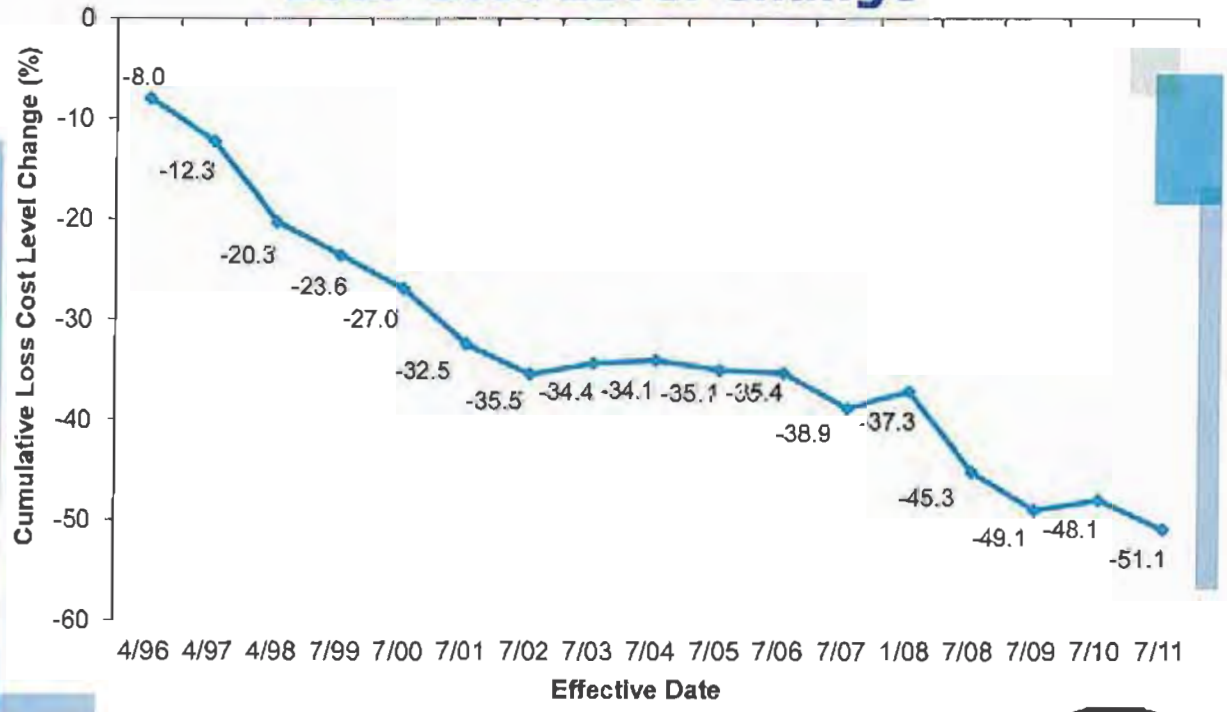
Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Cumulative Loss Cost Level Change



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

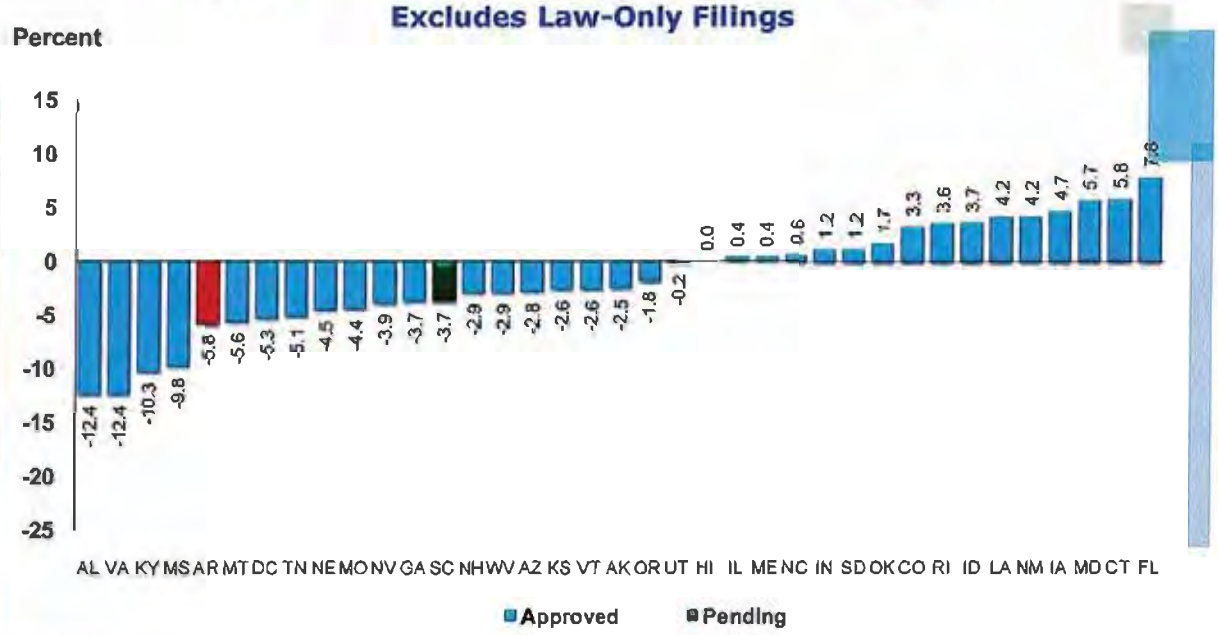
National Council on Compensation Insurance, Inc.

Where Does Arkansas Stand?

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings



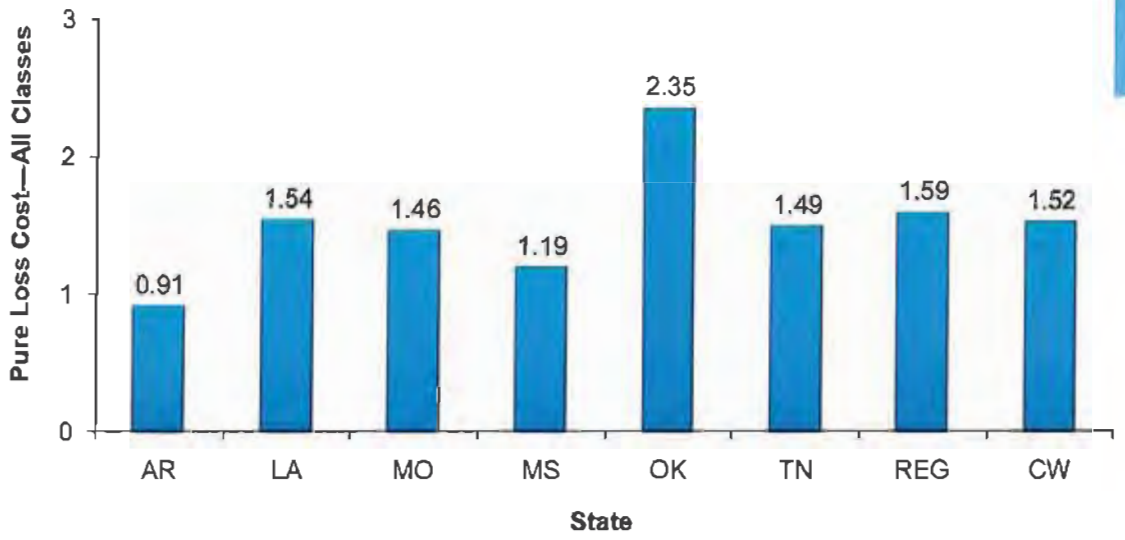
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Nearby State Voluntary Market Filed Rates/Loss Costs

Louisiana	5/1/2011	+4.2%
Oklahoma	1/1/2011	+1.7%
Missouri	1/1/2011	–4.4%
Tennessee	3/1/2011	–5.1%
Arkansas	7/1/2011	–5.8%
Mississippi	3/1/2011	–9.8%
Kentucky	10/1/2010	–10.3%
Alabama	3/1/2011	–12.4%

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution

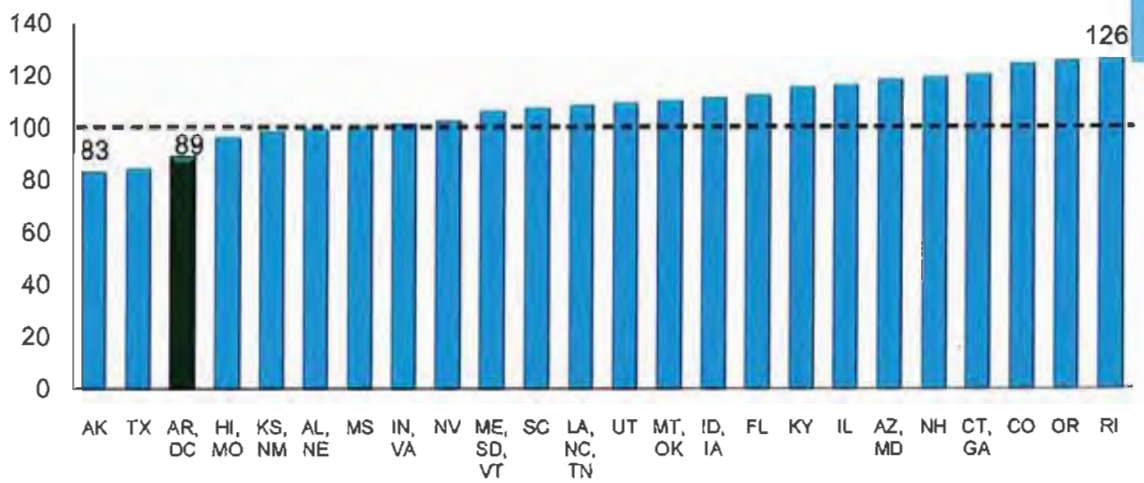


Based on the latest NCCI approved rates and loss costs in the various states

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Results Vary From State to State

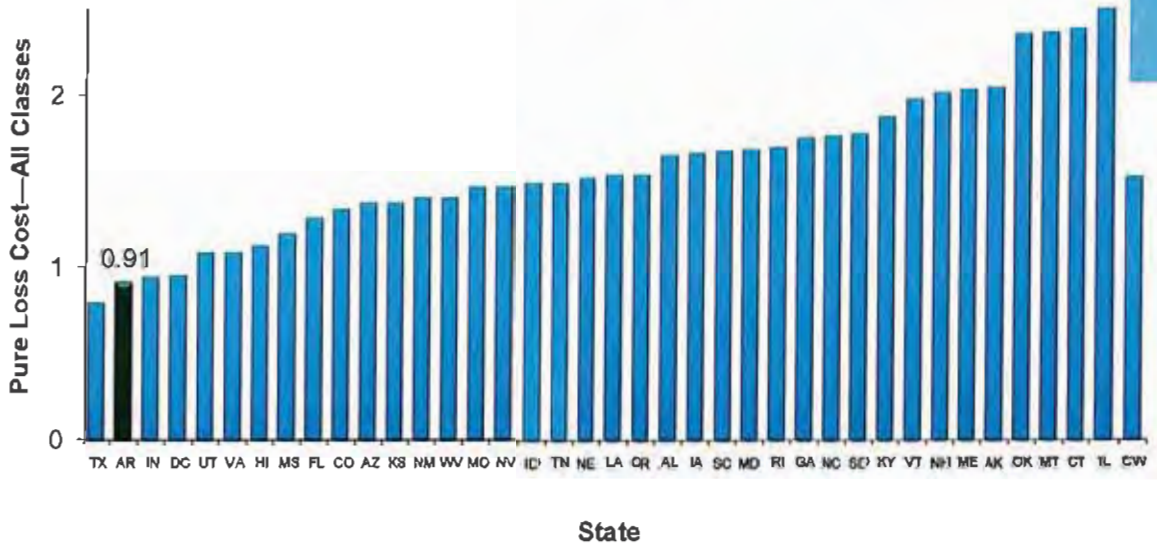
Accident Year 2009 Combined Ratios



Data is evaluated as of 12/31/2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution

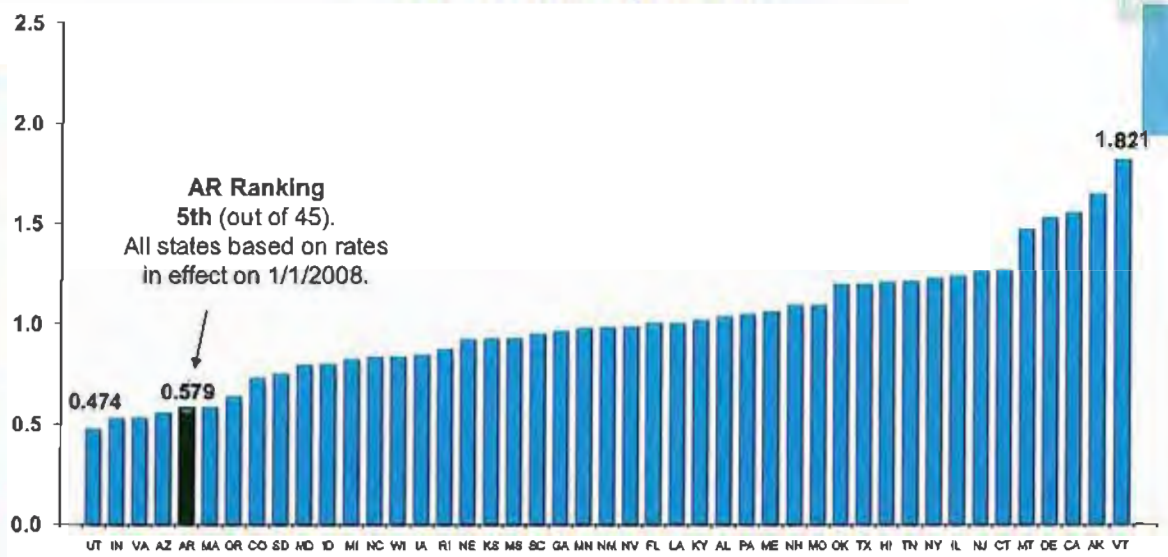


Based on the latest NCCI approved rates and loss costs in the various states

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Workers Compensation Comparative Costs

Manufacturing Classes



Source: *Workers Compensation State Rankings, Manufacturing Industry Costs, and Statutory Benefit Provisions*, 2008 Ed., Prepared by Actuarial & Technical Solutions, Inc.
Indexes based on rates in effect on January 1, 2008

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Workers Compensation Comparative Costs

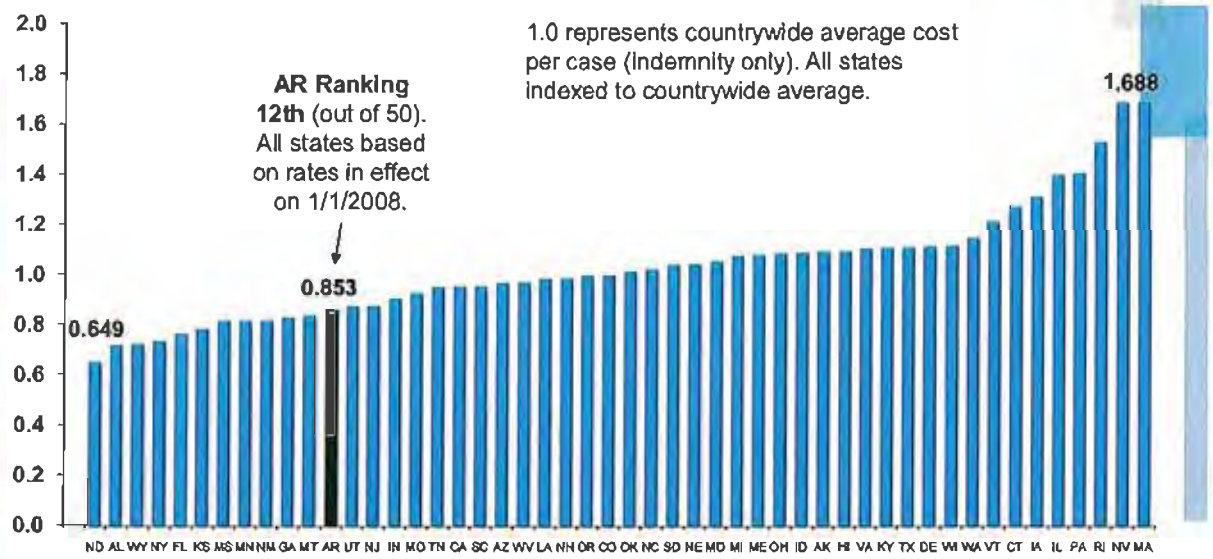
Office and Clerical Operations

Source: *Workers Compensation State Rankings, Manufacturing Industry Costs, and Statutory Benefit Provisions*, 2008 Ed., Prepared by Actuarial & Technical Solutions, Inc.
Indexes based on rates in effect on January 1, 2008

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Average Statutory Benefit Provisions

(Indemnity only—as of 1/1/2008)



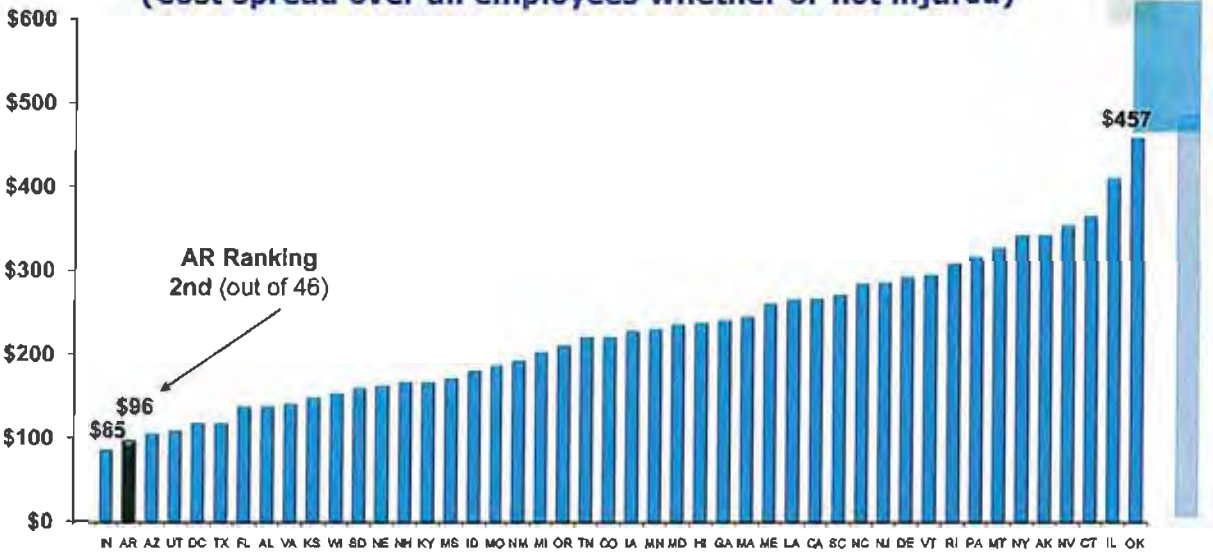
Source: *Workers Compensation State Rankings, Manufacturing Industry Costs, and Statutory Benefit Provisions*, 2008 Ed., Prepared by Actuarial & Technical Solutions, Inc.

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI

Actual Average Indemnity Benefits per Employee per Year

(Cost spread over all employees whether or not injured)



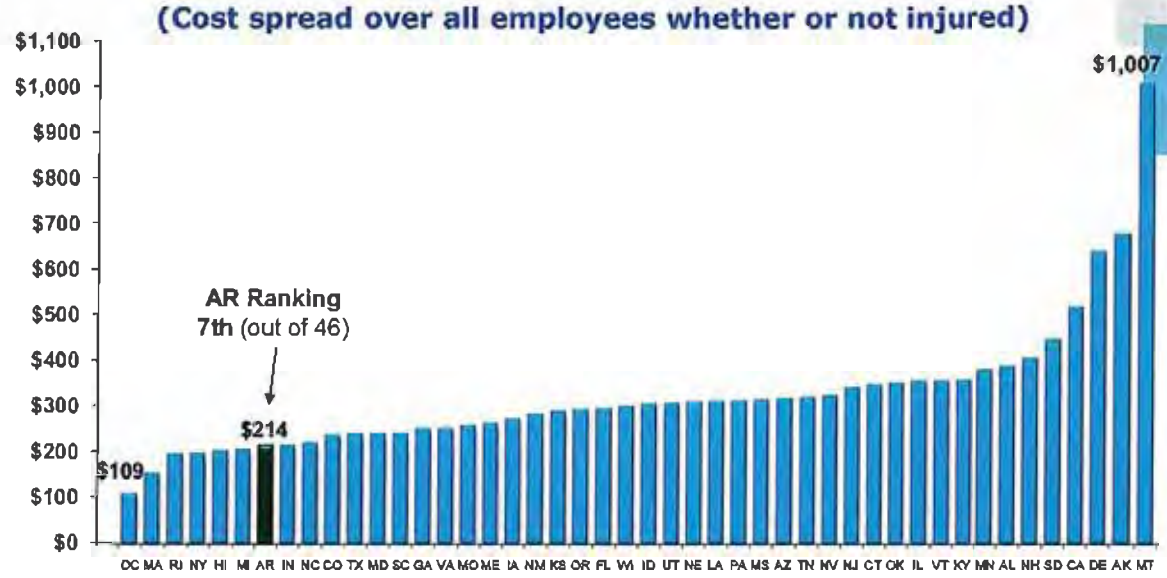
Source: NCCI's ***Statistical Plan*** data at first report for policies effective in 2006 and 2007

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI

Actual Average Medical Benefits per Employee per Year

(Cost spread over all employees whether or not injured)

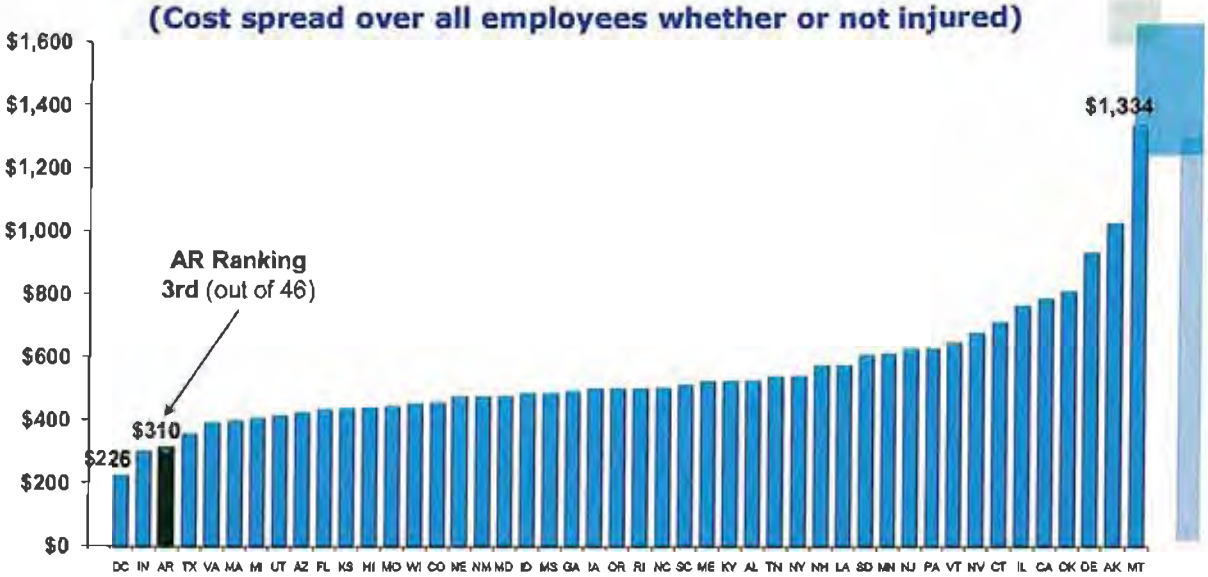


Source: NCCI's ***Statistical Plan*** data at first report for policies effective in 2006 and 2007

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Actual Average Total Benefits per Employee per Year

(Cost spread over all employees whether or not injured)



Source: NCCI's ***Statistical Plan*** data at first report for policies effective in 2006 and 2007

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

The Residual Market in Arkansas

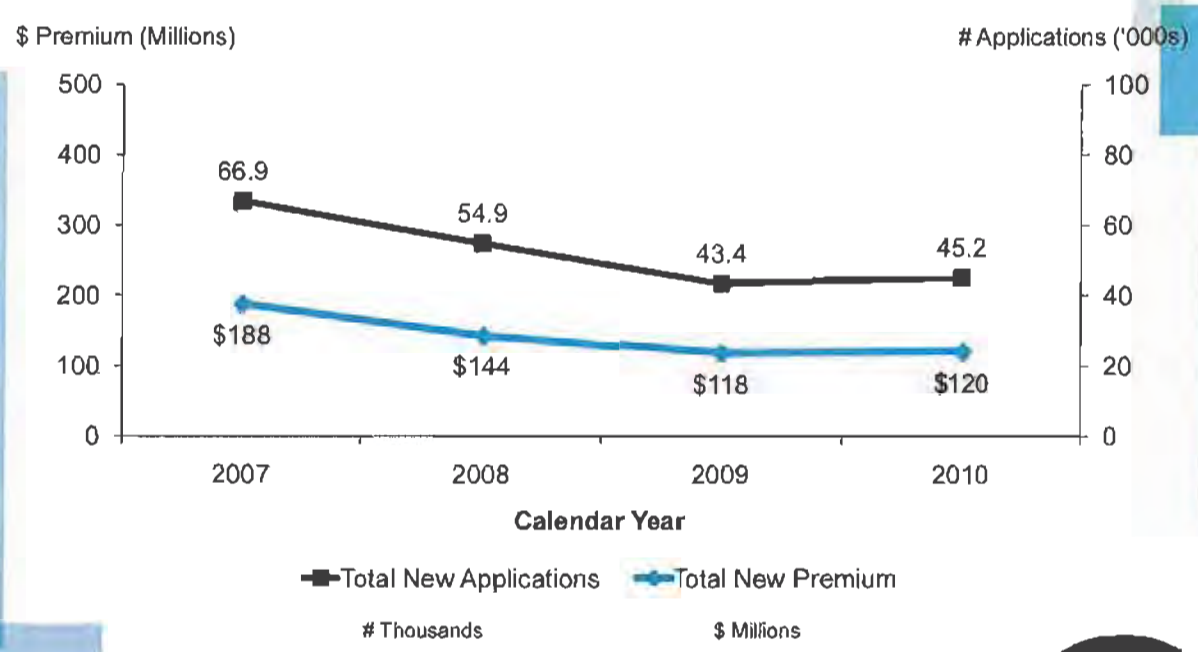
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Assigned Risk Rate Level Change—Effective July 1, 2011

Assigned Risk Rate Components	Impact
Overall Indicated Loss Cost Level Change	–5.8%
Due to Change in Assigned Risk Expenses	–4.0%
Overall Indicated Assigned Risk Rate Level Change	–9.7%

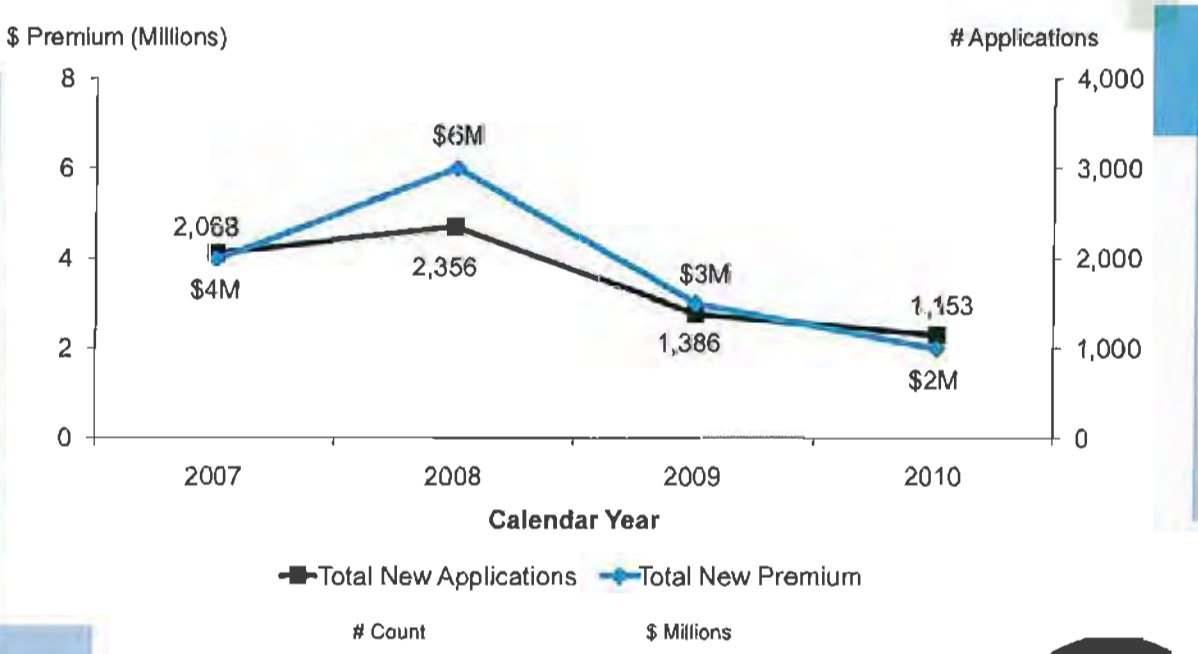
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Total Residual Market New Applications and Premium Assigned in All Plan States



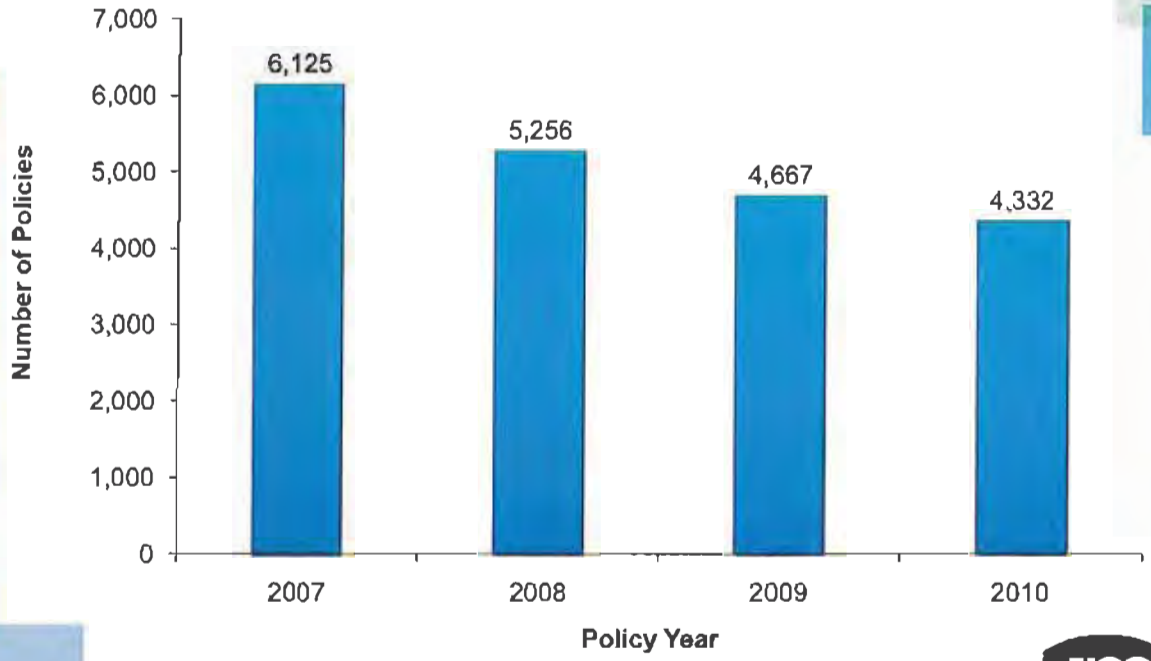
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Total Residual Market New Applications and Premium Assigned in Arkansas



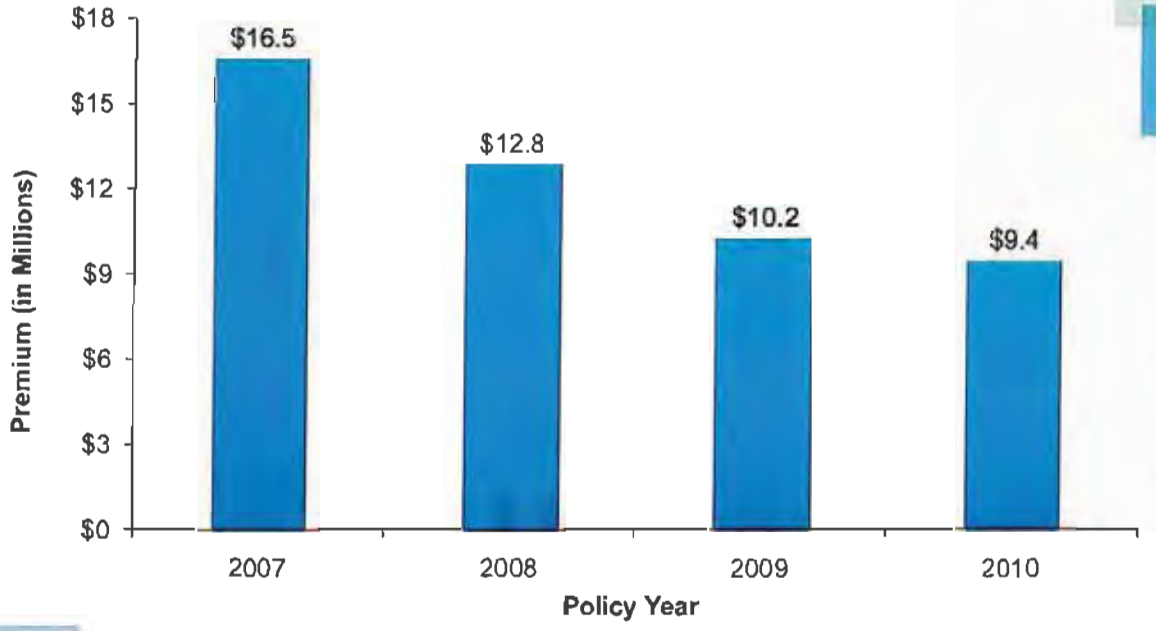
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Total Residual Market Plan Policy Count



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Total Residual Market Plan Premium Volume



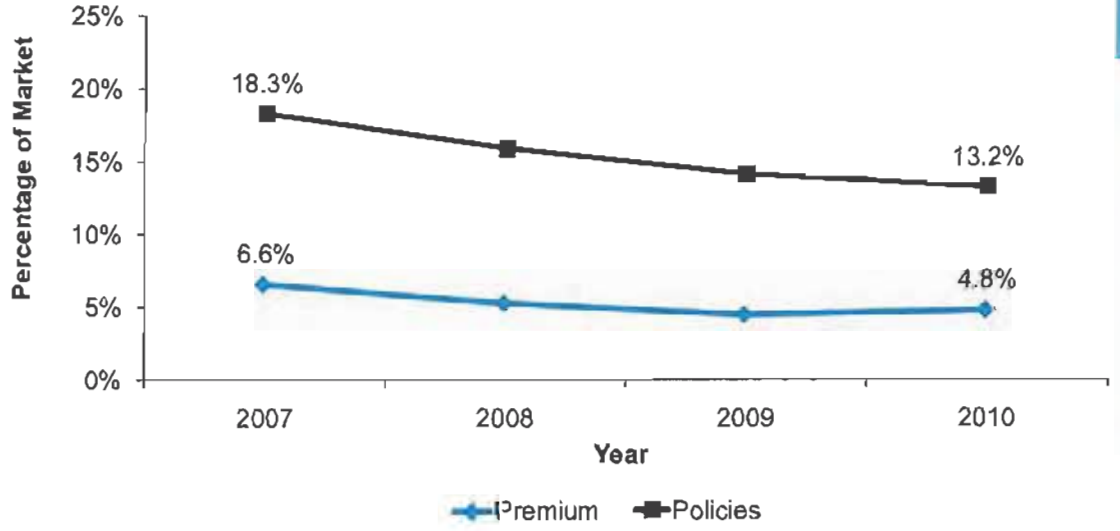
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Residual Market Plan 2009 vs. 2010 Total Policy Size Comparison

Premium Size	2009		2010	
	# of Policies	Premium	# of Policies	Premium
$0–$2,499	3,995	$3,392,325	3,639	$3,175,603
$2,500–$4,999	341	$1,196,193	371	$1,290,778
$5,000–$9,999	165	$1,158,584	177	$1,221,858
$10,000–$19,999	97	$1,295,518	93	$1,295,225
$20,000–$49,999	56	$1,677,032	42	$1,248,486
$50,000–$99,999	9	$587,922	3	$183,780
$100,000–$199,999	3	$455,194	7	$944,309
$200,000 and greater	1	$482,671	0	$0
TOTAL	4,667	$10,245,439	4,332	$9,360,039

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Comparison of the Estimated Market Share for Arkansas Residual Market by Total Policy Count and Written Premium



Notes: Market share as a percentage of residual market total written premium/policies in force; 2010 figures are preliminary

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Top Five Class Codes Based on Residual Market Plan Total Policy Count

National

5645—Carpentry (9.7%)

5437—Carpentry, Interior Trim (4.4%)

5474—Painting (4.1%)

7228—Trucking, Local (4.1%)

8810—Clerical (3.1%)

Arkansas

5645—Carpentry (24.6%)

5551—Roofing (3.6%)

5474—Painting (3.4%)

5022—Masonry (3.3%)

8810—Clerical (3.3%)

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI

Arkansas Assigned Risk Programs

- Merit Rating
- Differential
- Removal of Premium Discounts
- Take-Out Credit
- Tabular Adjustment Program
- Alternate Preferred Plan
- Arkansas Alcohol- and Drug-Free Workplace Premium Credit
- Deductibles
- Voluntary Coverage Assistance Program (***VCAP® Service***)

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI

Residual Market Filings

Iowa	1/1/2011	+9.1%
Connecticut	1/1/2011	+7.0%
Georgia	3/1/2011	+5.0%
South Carolina	7/1/2008	+4.3%
Illinois	1/1/2011	+4.1%
North Carolina	4/1/2011	+4.1%
West Virginia	11/1/2010	+3.4%
Dist. of Columbia	11/1/2010	+3.1%
Indiana	1/1/2011	+1.7%
Arizona	1/1/2011	+0.9%
New Hampshire	1/1/2011	+0.7%
Alabama	3/1/2011	0.0%

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Residual Market Filings

Kansas	1/1/2011	−0.3%
Alaska	1/1/2011	−0.4%
South Dakota	7/1/2011	−0.4%
New Mexico	1/1/2010	−0.9%
Oregon	1/1/2011	−1.8%
Nevada	3/1/2011	−2.2%
Tennessee	3/1/2011	−2.6%
Vermont	4/1/2011	−4.3%
Mississippi	3/1/2011	−7.8%
Arkansas	7/1/2011	−9.7%
Virginia	4/1/2011	−15.1%

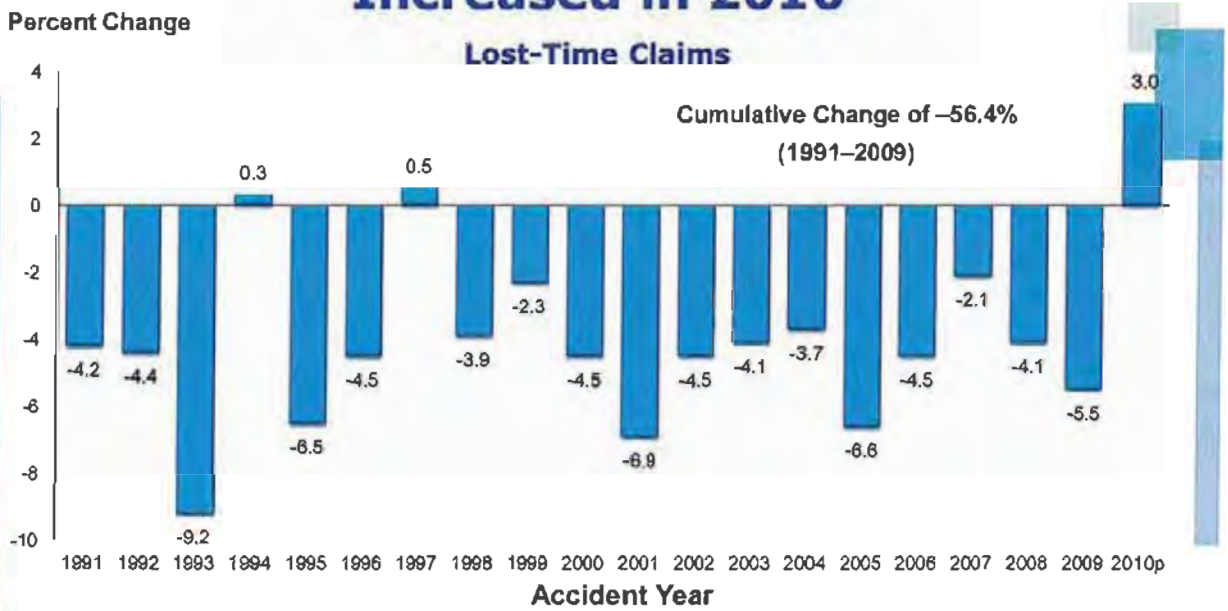
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Claim Frequency

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

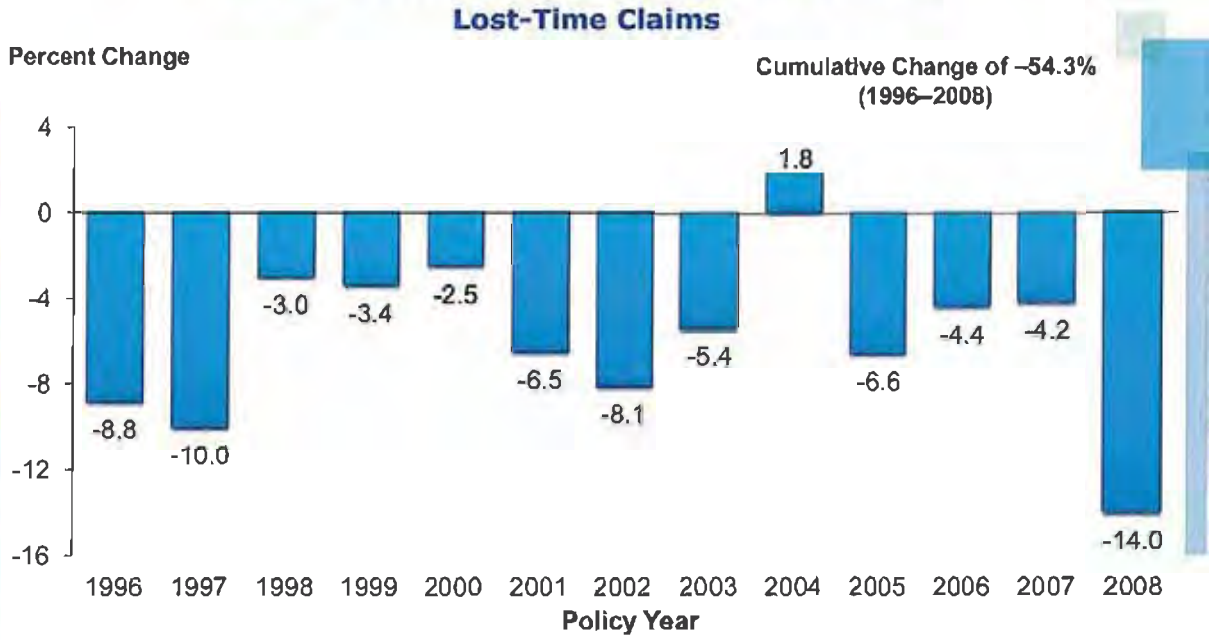
Countrywide Workers Compensation Lost-Time Claim Frequency Increased in 2010



2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per $1M wage-adjusted pure premium at current voluntary level

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

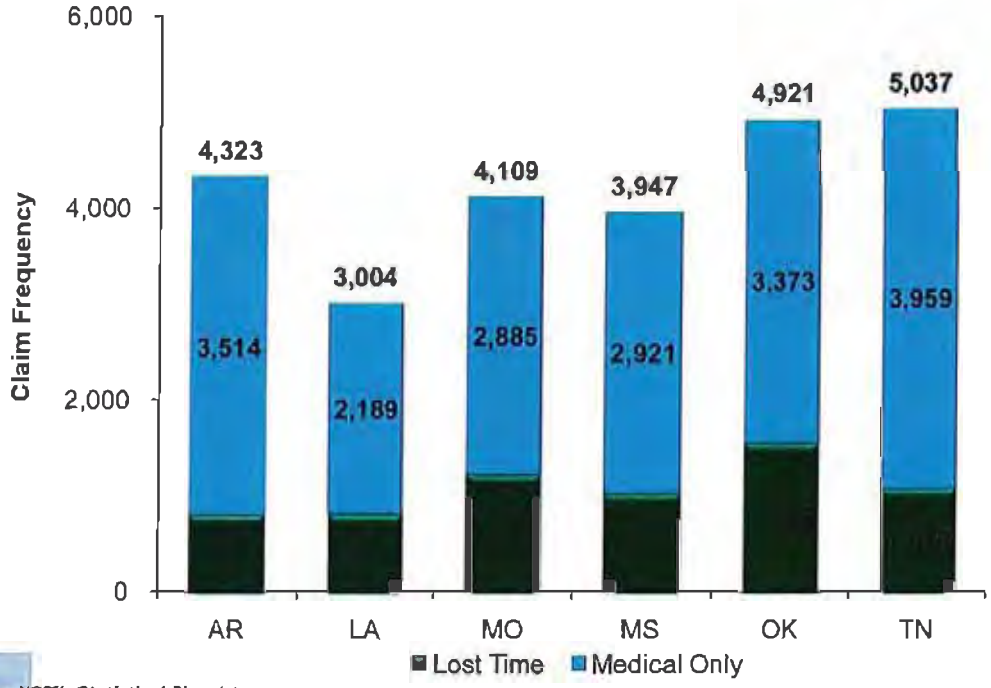
Arkansas Workers Compensation Lost-Time Claim Frequency



Based on data through 12/31/2009, developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

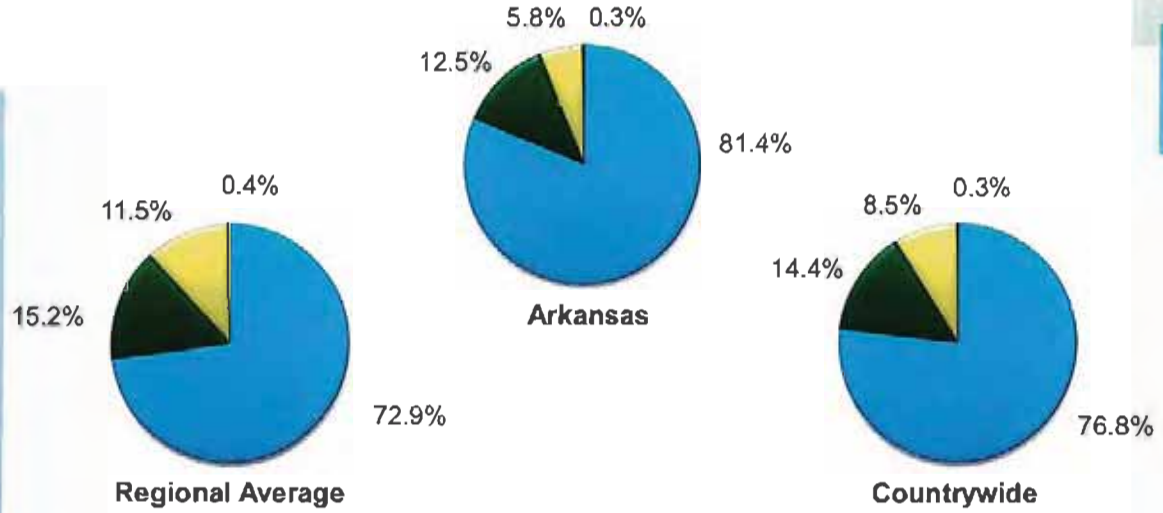
Arkansas Average Claim Frequency



Based on NCCI's *Statistical Plan* data

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Distribution of Claims by Injury Type



Medical Only | Temporary Total | Permanent Partial | Permanent Total/Fatal

Regional states are LA, MI, MO, OK, and TN
Based on NCCI's *Statistical Plan* data

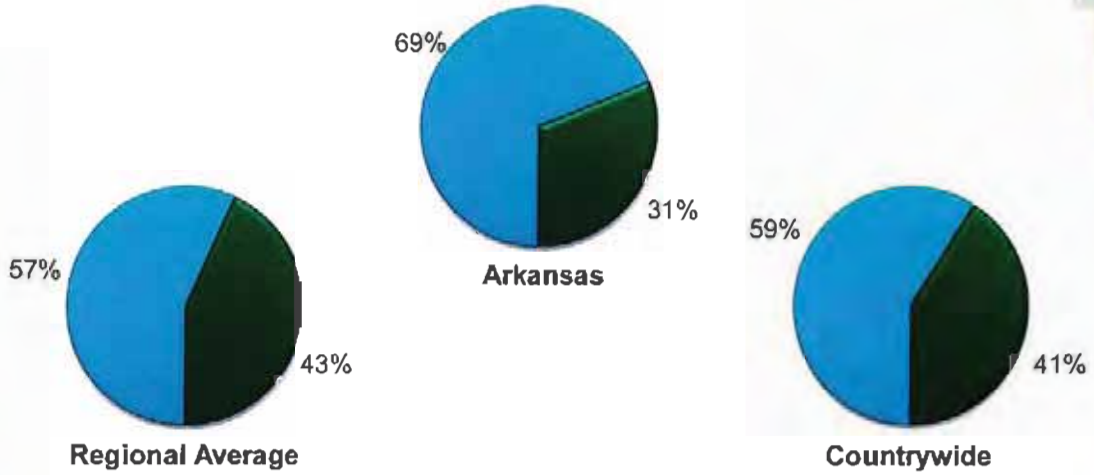
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI National Council on Compensation Insurance, Inc.

Medical and Indemnity Costs

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



Regional states are LA, MI, MO, OK, and TN

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI National Council on Compensation Insurance, Inc.

Medical Costs

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation Medical Claim Costs

Based on data through 12/31/2009, on-leveled and developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

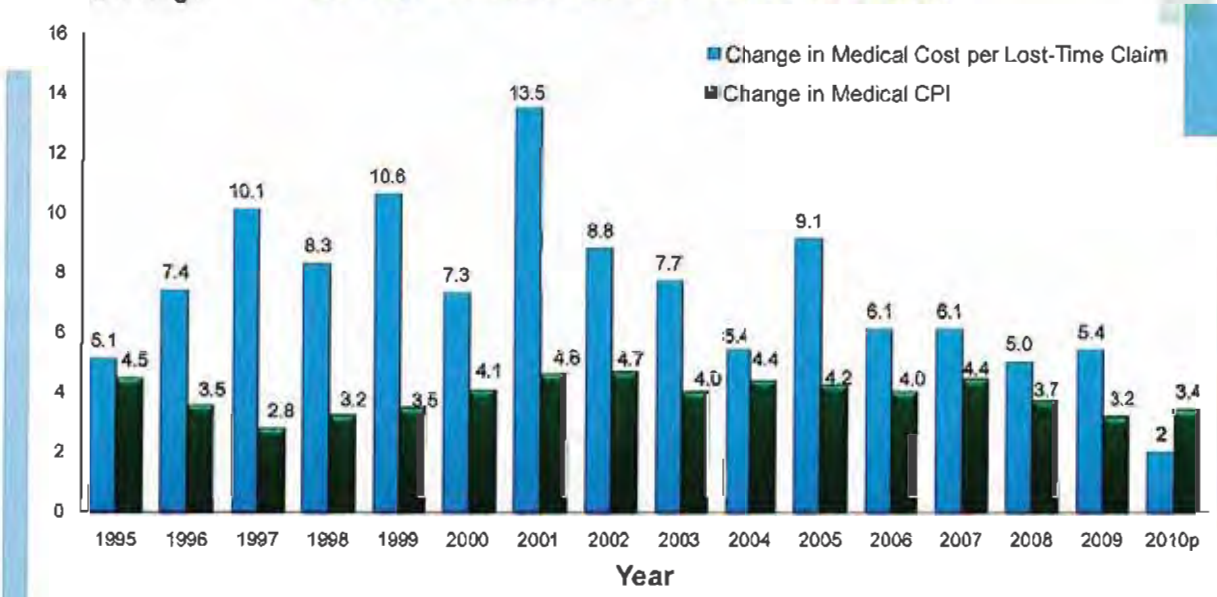
Countrywide Workers Compensation Medical Claim Cost Trends

2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide WC Medical Severity vs. Medical Inflation

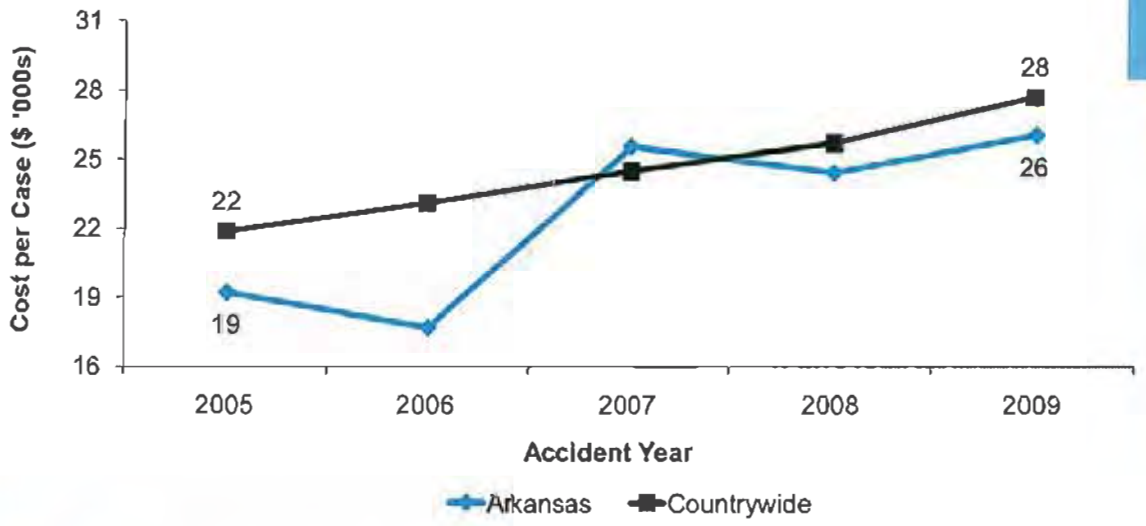
Average Medical Cost per Lost-Time Claim



Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Sources: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

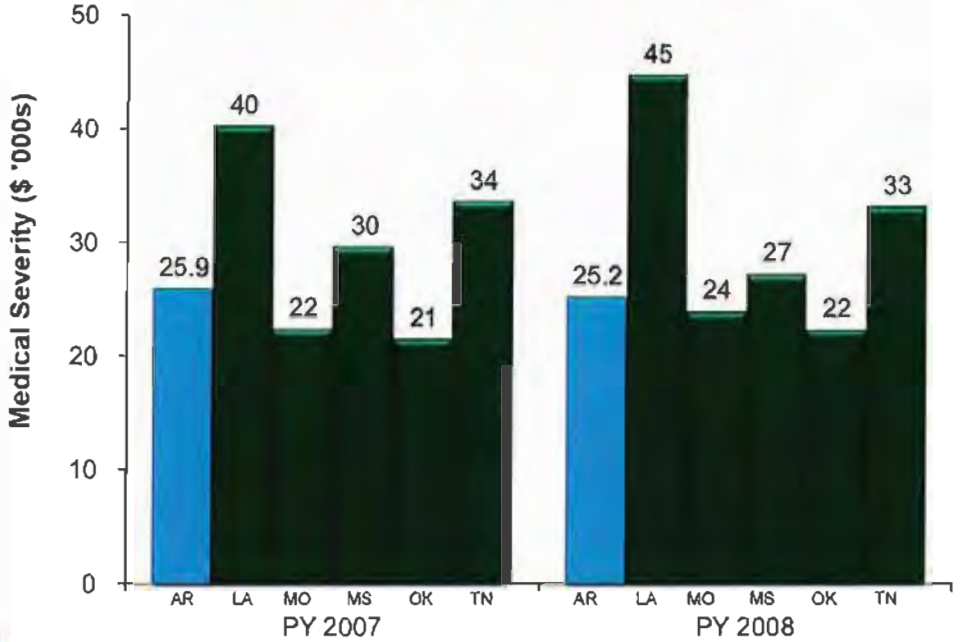
Arkansas vs. Countrywide Average Medical Claim Severity



Source: NCCI financial data valued as of 12/31/2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

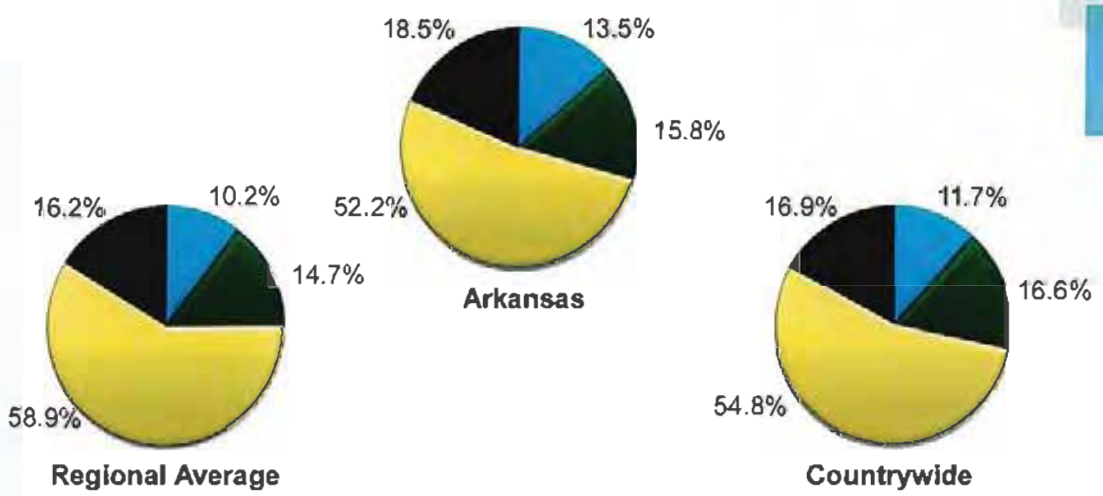
Average Medical Claim Severity in the Region



Based on NCCI's financial data for lost-time claims

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Medical Loss Distribution by Injury Type



Medical Only | Temporary Total | Permanent Partial | Permanent Total/Fatal

Regional states are LA, MI, MO, OK, and TN
Based on NCCI's ***Statistical Plan*** data

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Indemnity Costs

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Workers Compensation Indemnity Claim Costs

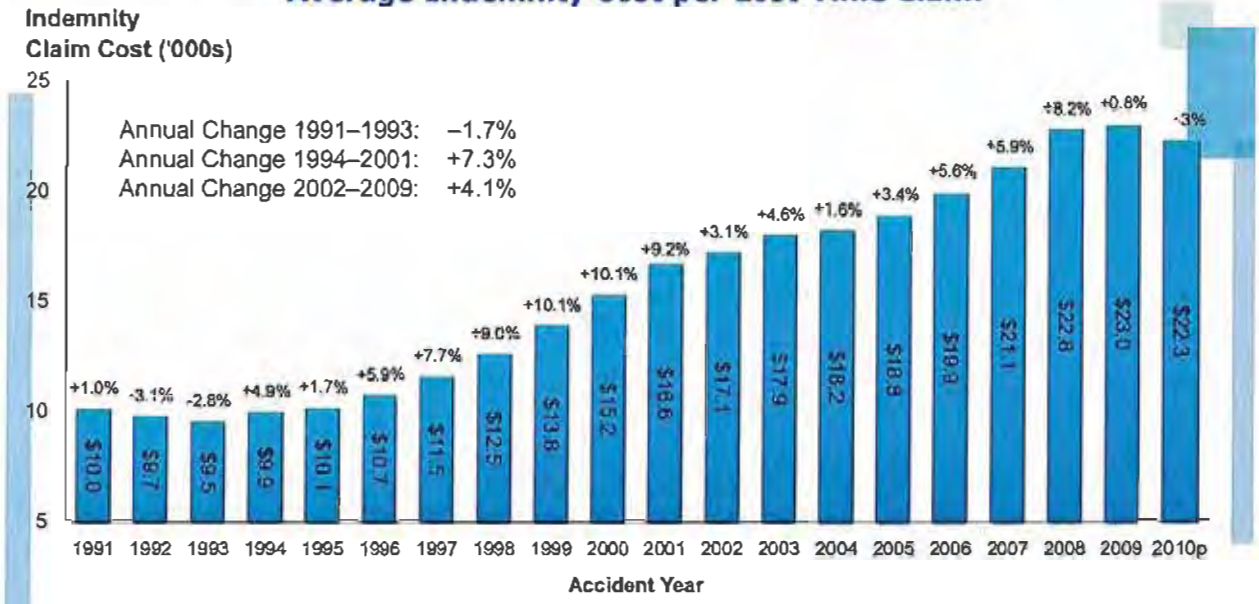
Lost-Time Claims

Based on data through 12/31/2009, on-leveled and developed to ultimate

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide Workers Compensation Indemnity Claim Costs Decline in 2010

Average Indemnity Cost per Lost-Time Claim

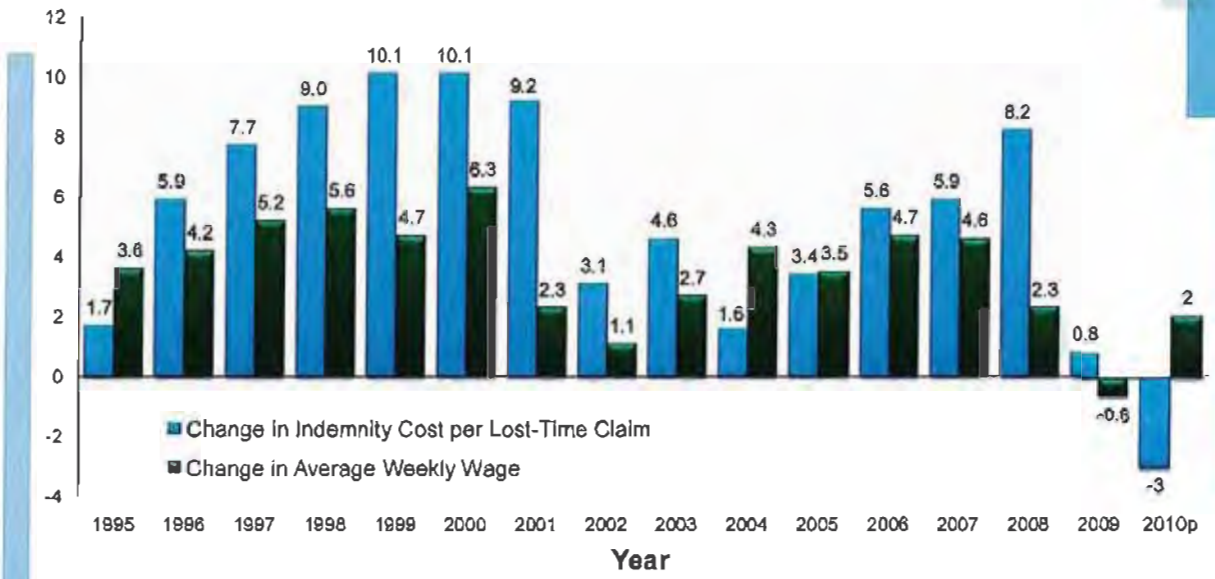


2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Countrywide WC Indemnity Severity Declines Even With Wage Recovery

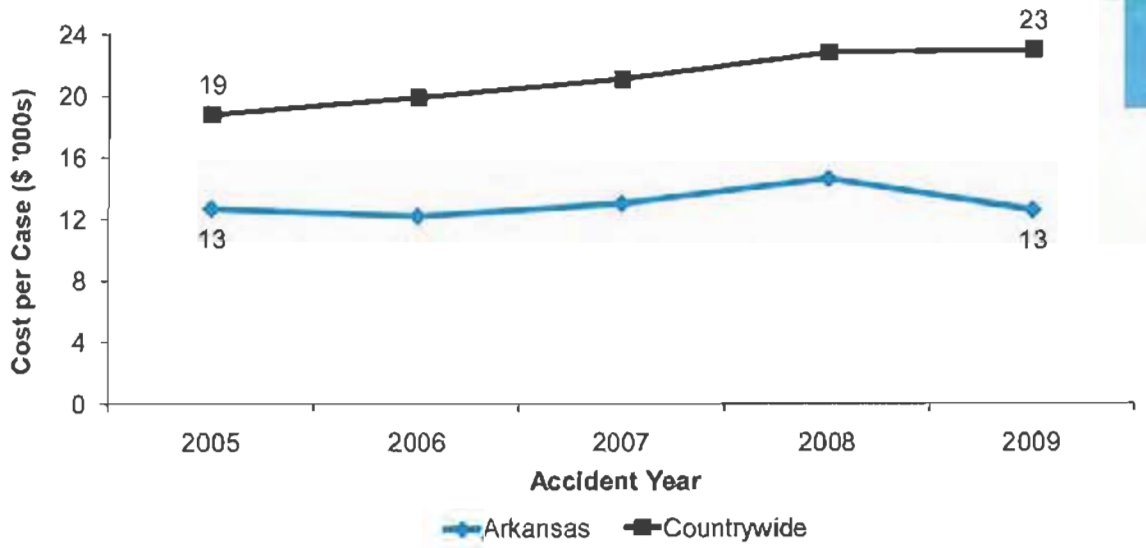
Average Indemnity Cost per Lost-Time Claim



Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Sources: Average Weekly Wage 1995–2009: Quarterly Census of Employment and Wages, Economy.com; 2010p, NCCI
Accident year indemnity severity—NCCI states, NCCI

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

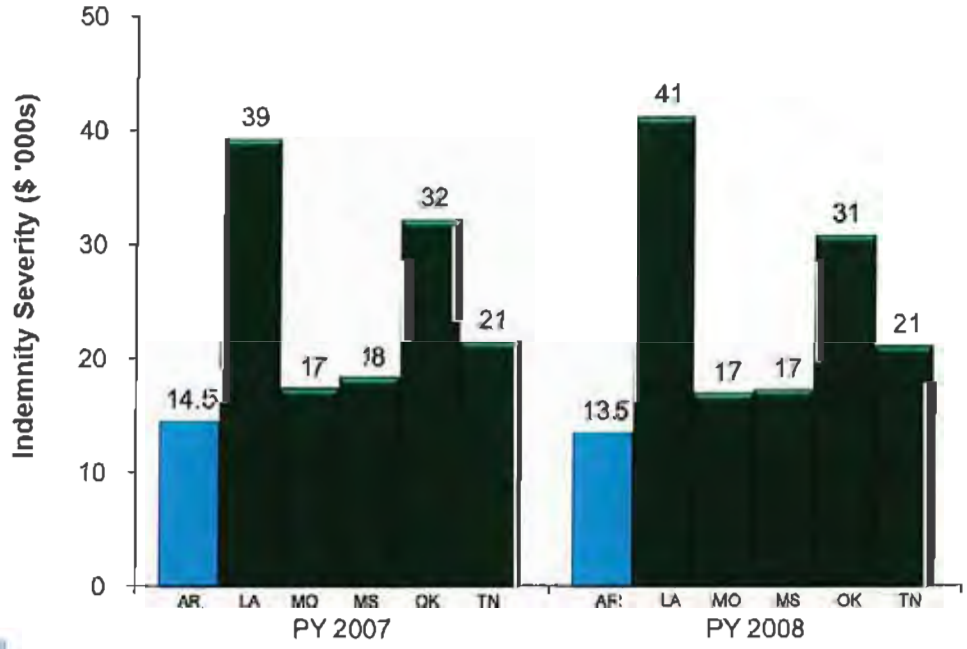
Arkansas vs. Countrywide Average Indemnity Claim Severity



Source: NCCI financial data valued as of 12/31/2009

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

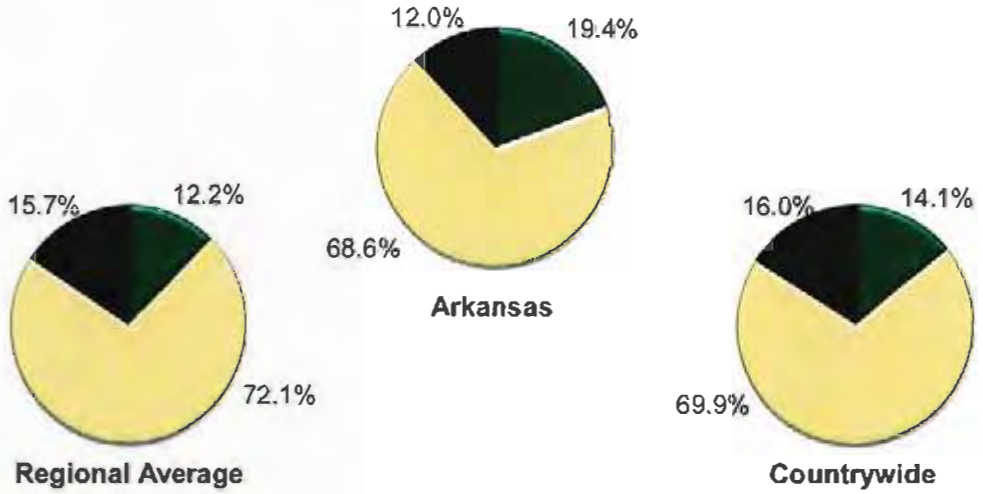
Average Indemnity Claim Severity in the Region



Based on NCCI's financial data for lost-time claims

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Indemnity Loss Distribution by Injury Type



Regional states are LA, MI, MO, OK, and TN
Based on NCCI's ***Statistical Plan*** data

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI National Council on Compensation Insurance, Inc.

The State of the Economy

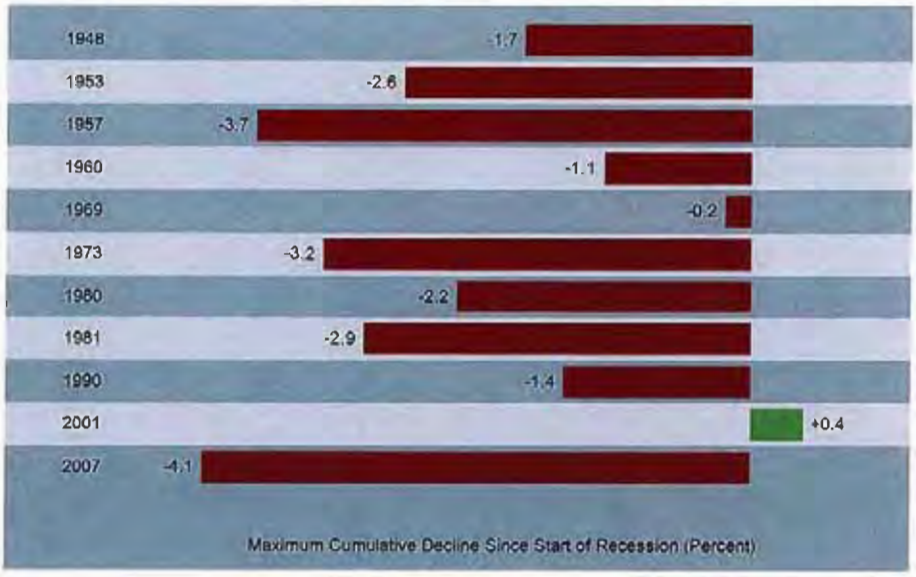
"Get a good job with good pay and you're okay"

Pink Floyd, *The Dark Side of the Moon*

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Severity of Recession: Output

The 2007 Recession Is the Most Severe Post-War Contraction

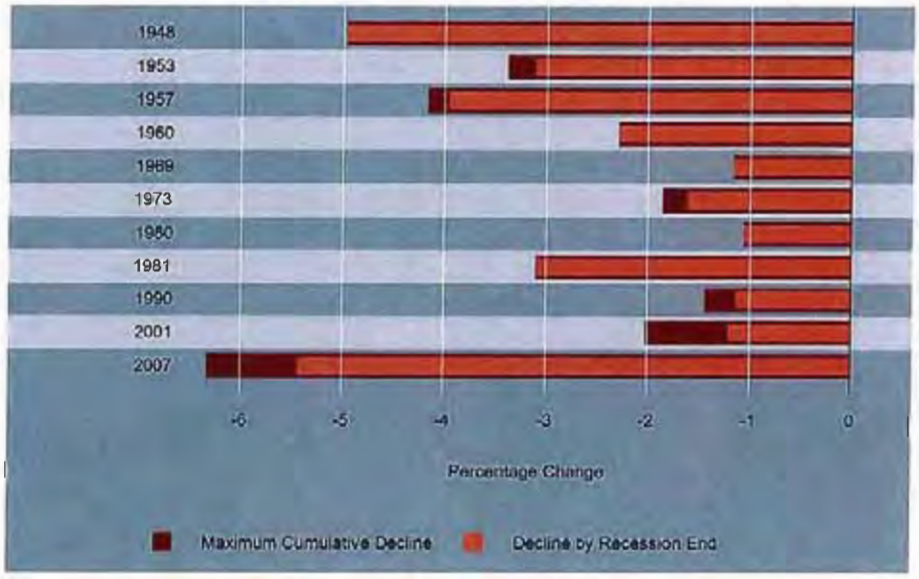


Severity is measured as the maximum cumulative percentage decline from the onset of the recession (peak of economic activity, as defined by the NBER); output is measured as Real GDP, billions of chained 2000 dollars, seasonally adjusted
Recessions are identified by the calendar year in which they started
Frequency of observation: quarterly; latest data point available for consideration: Q1/2011
Sources: BEA, www.bea.gov; NBER, www.nber.org/cycles.html

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Severity of Recession: Employment

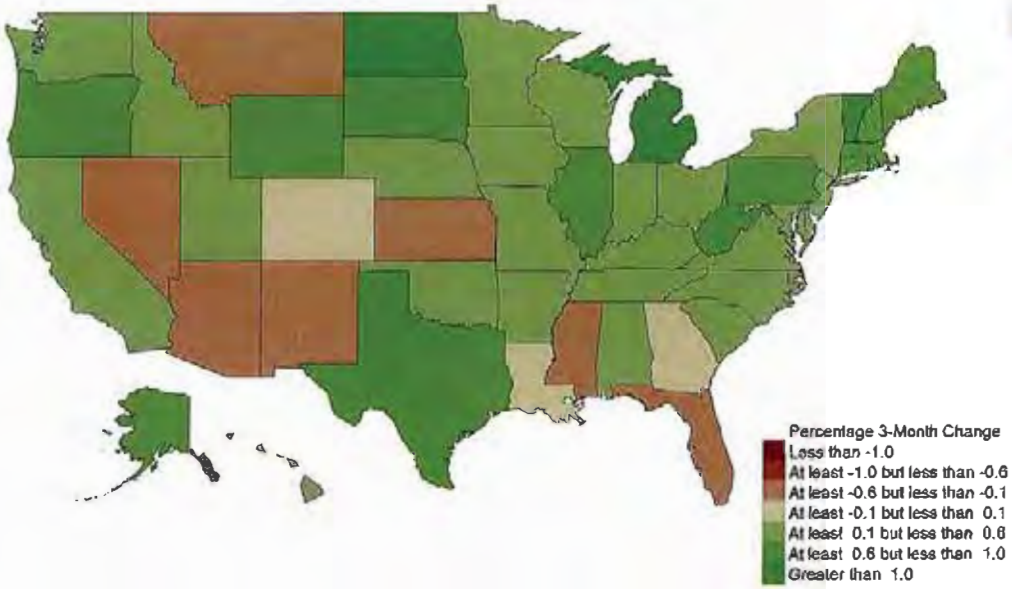
Employment Has Been Hit Hard—
Recent Recoveries Have Been "Jobless"



Severity is measured as the maximum cumulative percentage decline from the onset of the recession (peak of economic activity, as defined by the NBER); employment is measured as Total Nonfarm, Current Employment Statistics Survey, seasonally adjusted
Recessions are identified by the calendar year in which they started
Frequency of observation: monthly; latest data point available for consideration: April 2011
Sources: US Bureau of Labor Statistics (BLS), www.bls.gov; NBER, www.nber.org/cycles.html

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

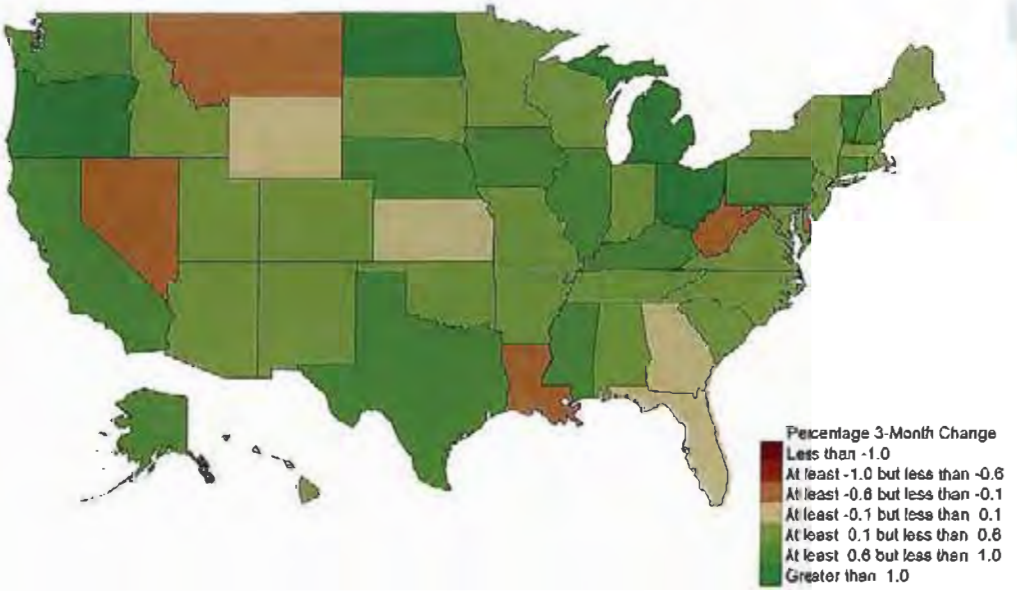
The Economy on the Timeline: September 2010



The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic; the four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average)
Frequency of observation: monthly; latest observation: March 2011
Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

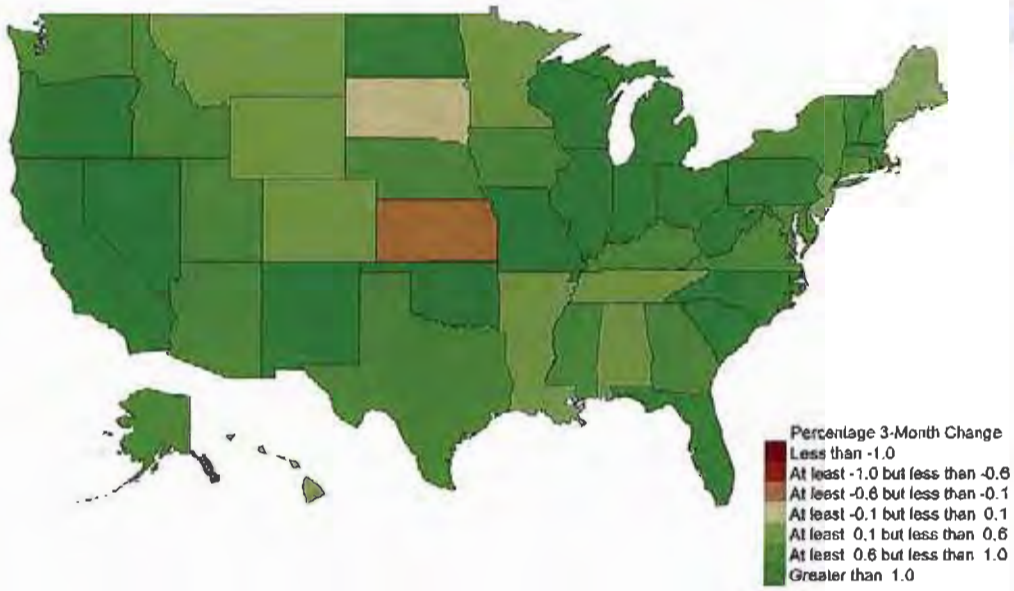
The Economy on the Timeline: December 2010



The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic; the four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average)
Frequency of observation: monthly; latest observation: March 2011
Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

The Economy on the Timeline: March 2011

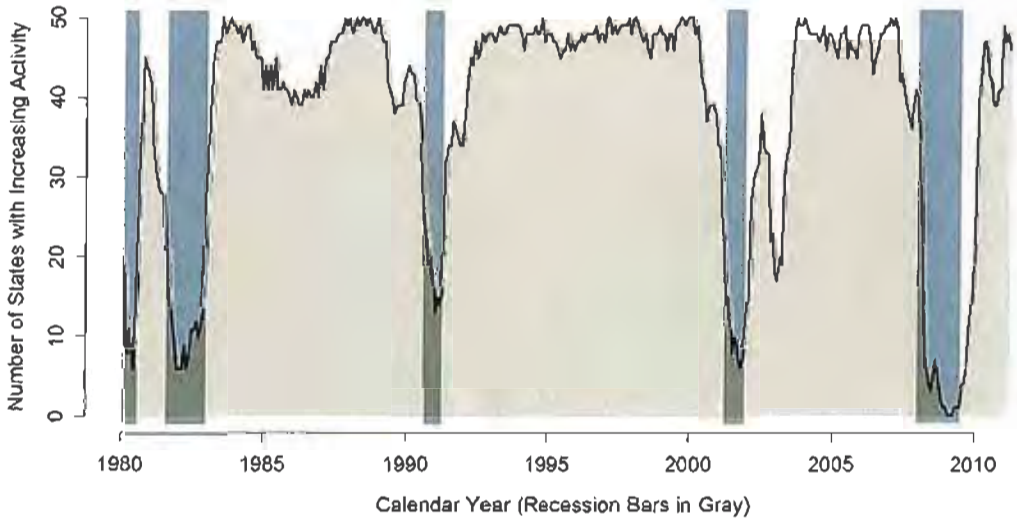


The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic; the four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average)
Frequency of observation: monthly; latest observation: March 2011
Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Number of States Expanding

The Economic Recovery Has Taken Hold

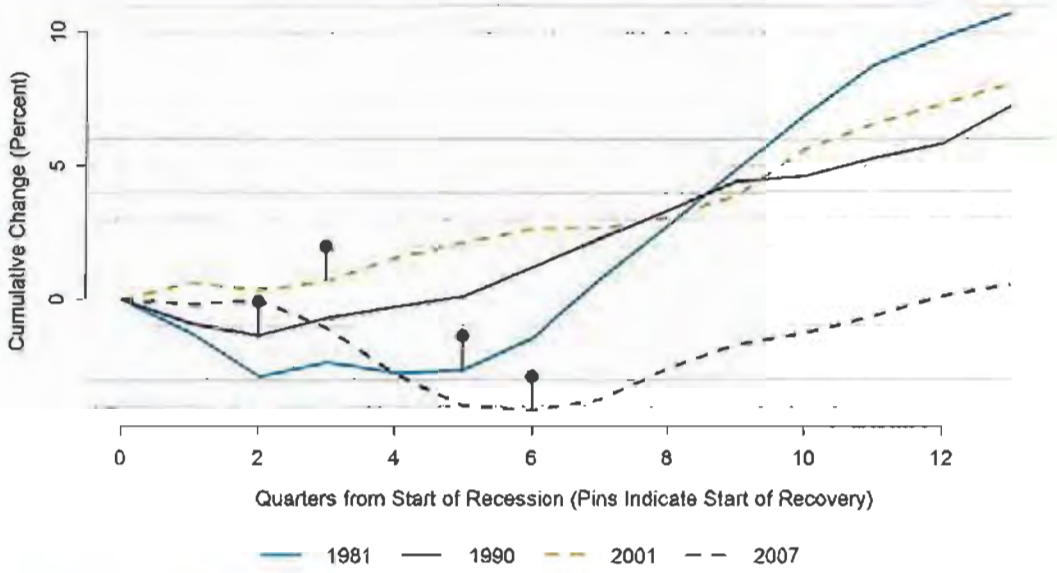


The chart shows the number of states for which the one-month change in the coincidence index of economic activity indicates an expansion. This index summarizes the state of the economy in a single statistic, using nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). Frequency of observation: monthly; latest observation: March 2011. Does not include District of Columbia.
Source: FRB of Philadelphia, http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Comparing Recessions: GDP

Gross Domestic Product Has Just Recently Reclaimed its Pre-Recession Level

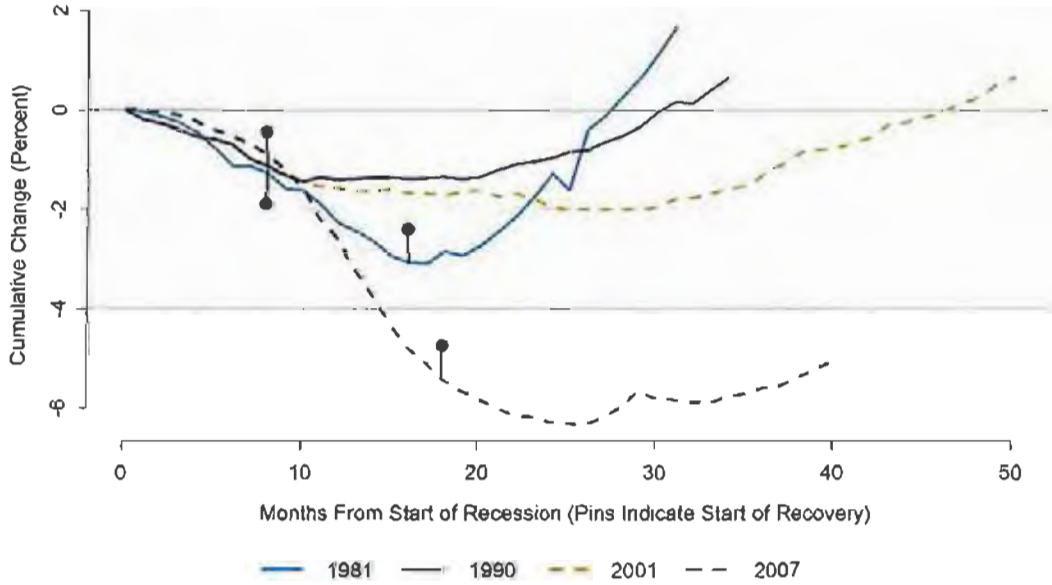


Output is measured as Real GDP, billions of chained 2005 dollars, seasonally adjusted.
Frequency of observation: quarterly; latest available data point: Q1/2011.
Source: FRED, Federal Reserve Bank of St. Louis, http://www.stls.org; Bureau of Economic Analysis (BEA), http://www.bea.gov

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Comparing Recessions: Employment

Nonfarm Employment Is Still Five Percent Below its Pre-Recession Level

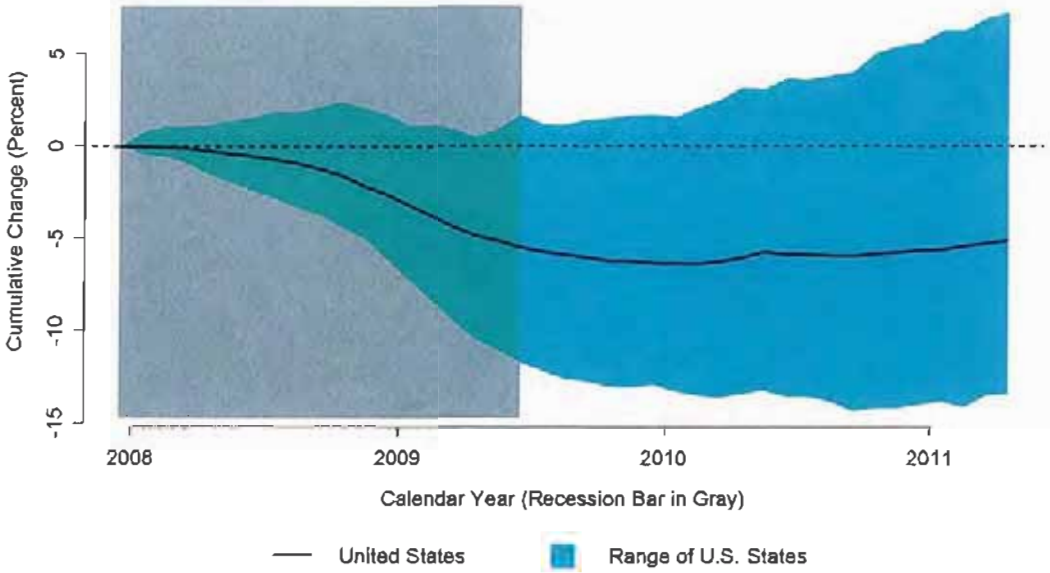


Nonfarm Employment, seasonally adjusted.
Frequency of observation: monthly; latest available data point: April 2011.
Sources: US Bureau of Labor Statistics (BLS), http://www.bls.gov; NBER, http://www.nber.org/cycles.html

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Employment Across States

The Employment Situation Varies Greatly Across States

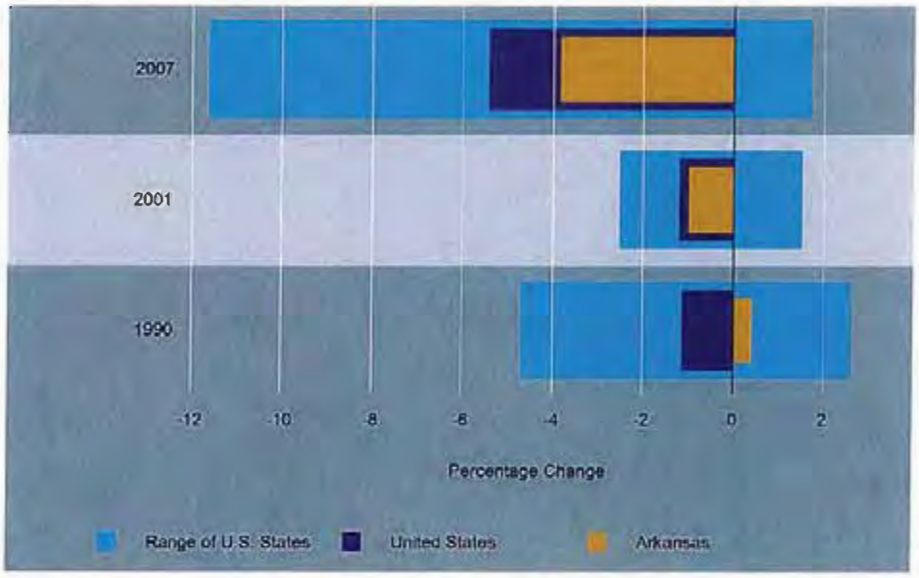


Nonfarm Employment, seasonally adjusted. Range of U.S. States includes District of Columbia.
Frequency of observation: monthly; latest available data point for US: April 2011.
Tick marks indicate beginning of year.
Sources: US Bureau of Labor Statistics (BLS), http://www.bls.gov; NBER, http://www.nber.org/cycles.html

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas

Job Losses in the Past Two Recessions Have Been Below Average

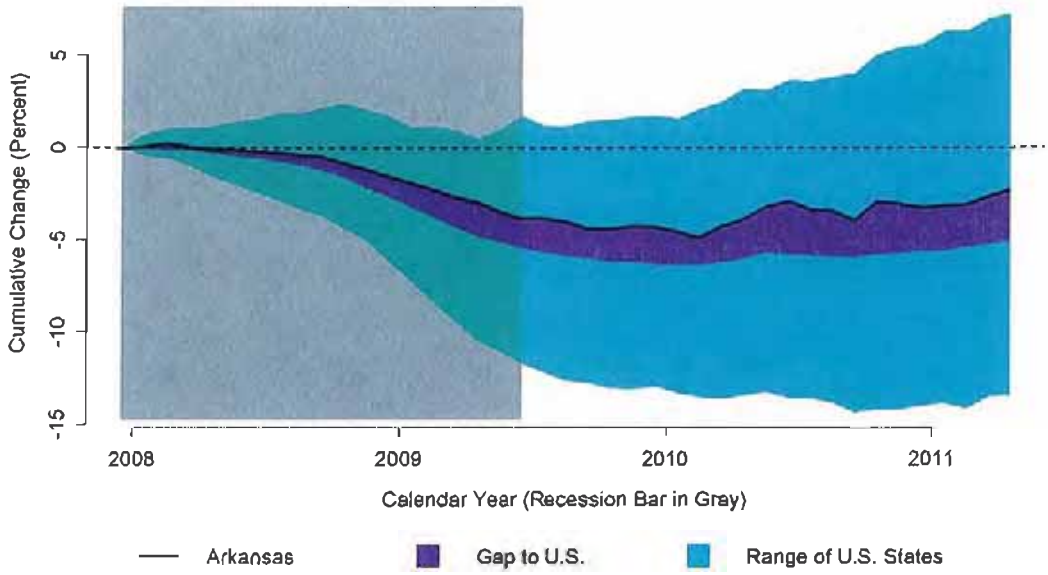


Percentage change from the onset of the recession (peak of economic activity, as defined by the NBER) to the onset of the recovery (trough of economic activity); Current Employment Statistics Survey, seasonally adjusted.
Frequency of observation: monthly. Range of U.S. States includes District of Columbia.
Sources: US Bureau of Labor Statistics (BLS), http://www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas

There is Sustained Employment Growth

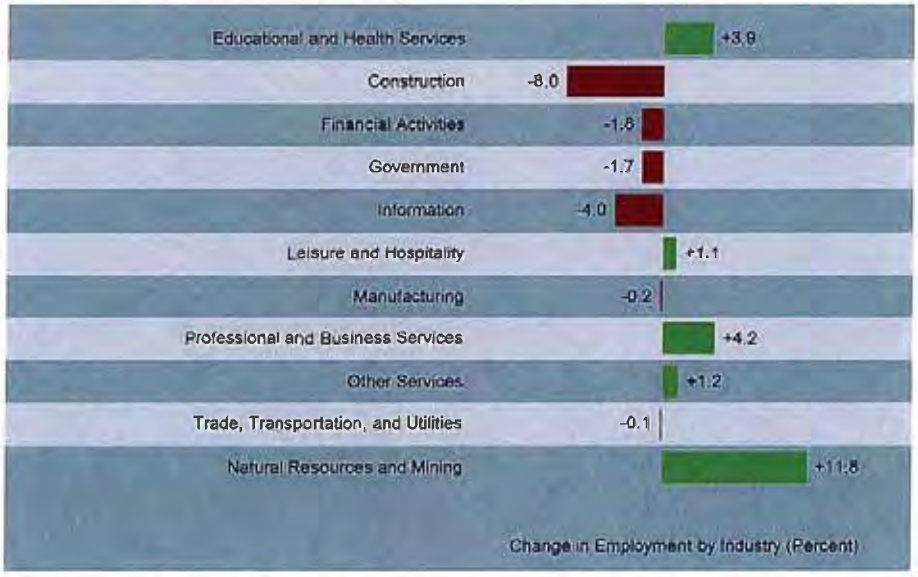


Nonfarm Employment, seasonally adjusted.
Frequency of observation: monthly; latest available data point: April 2011. Range of U.S. States includes District of Columbia.
Tick marks indicate beginning of year.
Source: US Bureau of Labor Statistics (BLS), http://www.bls.gov

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Employment by Industry

Several Sectors Have Added Jobs Since the Onset of the Recovery

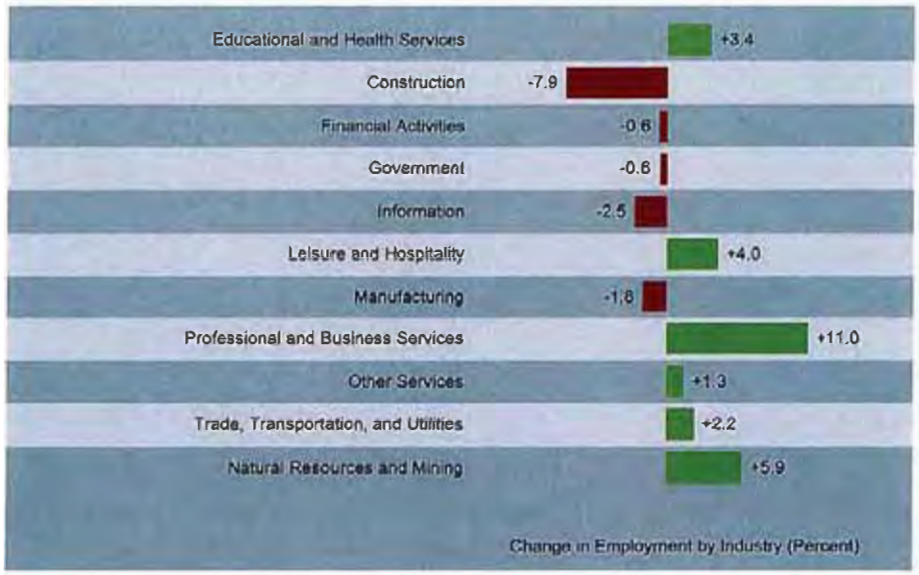


Percentage change since the onset of the recovery (trough of economic activity, June 2009), seasonally adjusted
Frequency of observation: monthly; latest observed data point: April 2011
Note that the public school system is part of Government; Educational and Health Services consists primarily of healthcare and social assistance
Source: US Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas

Many Sectors Have Added Jobs Since the Onset of the Recovery

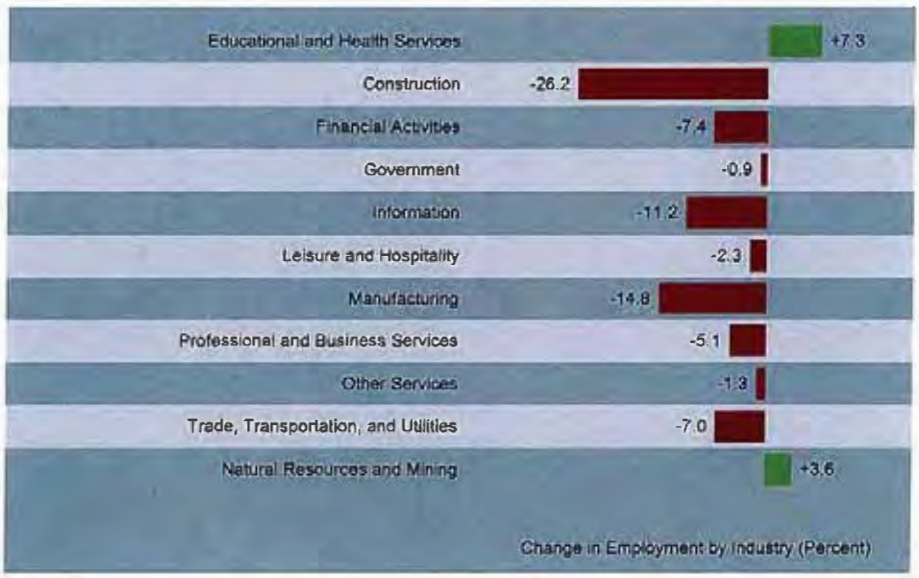


Percentage change since the onset of the recovery (trough of economic activity, June 2009), seasonally adjusted
Frequency of observation: monthly; latest observed data point: April 2011
Note that the public school system is part of Government; Educational and Health Services consists primarily of healthcare and social assistance
Source: US Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Employment by Industry

Employment Has Yet to Recover From the Recession in Most Industries

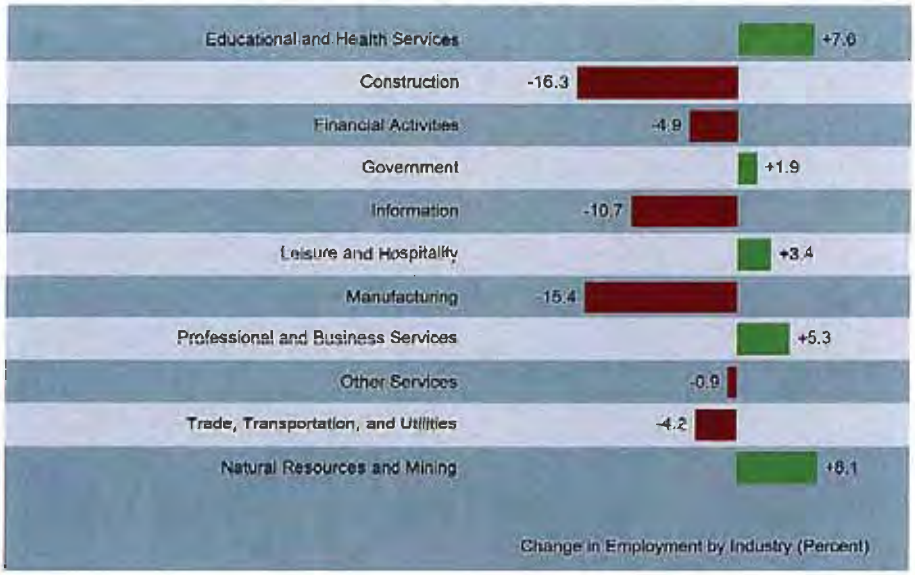


Percentage change since the onset of the recession (peak of economic activity, Dec 2007), seasonally adjusted
Frequency of observation: monthly; latest observed data point: April 2011
Note that the public school system is part of Government; Educational and Health Services consists primarily of healthcare and social assistance
Source: US Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas

Employment Has Yet to Recover From the Recession in Some Industries

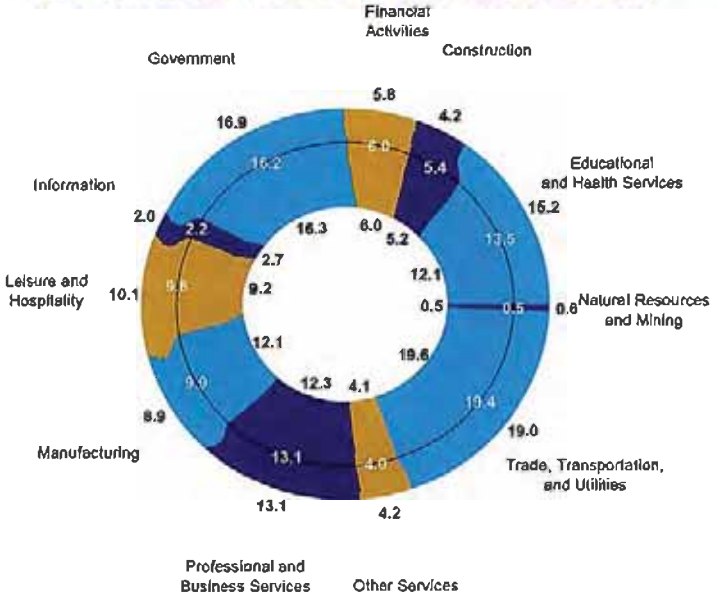


Percentage change since the onset of the recession (peak of economic activity, Dec 2007), seasonally adjusted
Frequency of observation: monthly; latest observed data point: April 2011
Note that the public school system is part of Government; Educational and Health Services consists primarily of healthcare and social assistance
Source: US Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

The Industrial Structure is Changing

Employment Proportions by Industry (Percent)

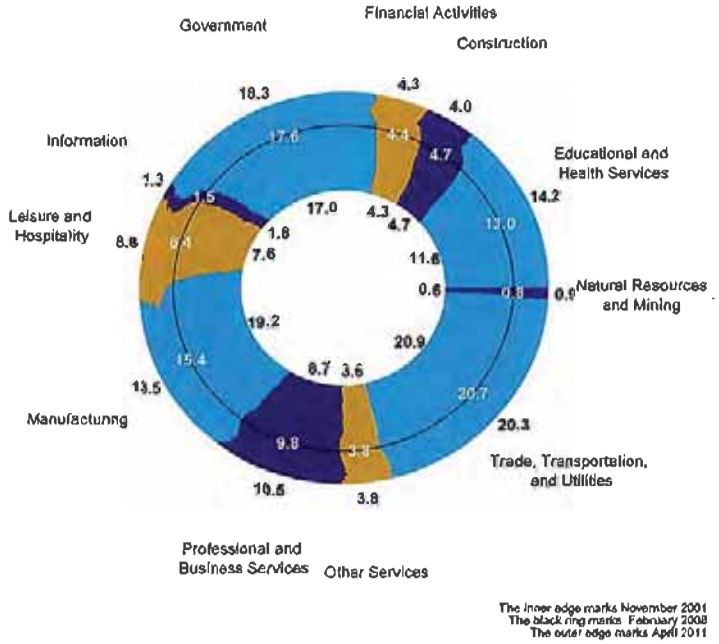


Nonfarm Employment, seasonally adjusted. Percentages may not add to 100 due to rounding.
November 2001 marks the end of the 2001 recession. January 2008 marks the peak of employment.
Frequency of observation: monthly; latest available data point: April 2011.
Sources: US Bureau of Labor Statistics (BLS): Current Employment Statistics (CES), http://www.bls.gov/ces

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas

Employment Proportions by Industry (Percent)



Nonfarm Employment, seasonally adjusted.
Percentages may not add to 100 due to rounding.
Frequency of observation: monthly; latest available data point: April 2011.
Source: US Bureau of Labor Statistics (BLS), http://www.bls.gov

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Implications for Workers Compensation

- Economic growth is slow and is likely to remain sub-par for several years into the future
  - Job creation is tepid (and is likely to remain so)
  - As a consequence, upward pressure on frequency is limited
- There is little inflationary impetus, due to significant excess industrial capacity and high unemployment
  - Medical Care price inflation and wage inflation is likely to be muted

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Legislative Issues Nationwide and in Arkansas

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Nationwide Legislative Environment

- Republicans made major gains in the number of state legislative and governor seats
- Fall elections produced a number of new insurance commissioners and benefit administrators
- Economy continues as a key factor in shaping the amount and scope of legislation with business backed reforms more prevalent
- Misclassification of workers/independent contractors continues to be a key issue in many states this legislative session

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Legislative Activity

- HB 1840/SB 778—Reform package to restore the statutory intent of the 1993 legislative reform and overturn case law that has deviated from such intent. As introduced, some of the provisions include:
  - Repealing Made-Whole Doctrine
  - Establishing compensable injury as major cause of need for treatment
  - Increasing threshold of justification for change of physician
  - Clarifying exclusions from the definition of "compensable injury"

  Status: SB 778: Amended/Dead

  HB 1840: Interim Study

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Arkansas Legislative Activity

- HB 1839 establishes interagency agreement to address the problem of misclassifying workers as independent contractors

  Status: Dead
- HB 1325 establishes definitions of "employee" and "independent contractor" as well as penalties for misclassification

  Status: Dead
- SB 293 creates the presumption that the development of certain forms of cancer in firefighters is work-related

  Status: Dead

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Financial Services Modernization/Reform

Wall Street Reform and Consumer Protection Act/ Dodd-Frank

- Signed into law on 7/21/2010 to promote financial stability of the US and overhaul regulations in the financial sector
- Creates new Federal Insurance Office (FIO)
  - Monitors insurance industry to gain expertise
  - No supervisory or regulatory authority over "the business of insurance"
  - Incoming FIO Director is IL Insurance Director Michael McRaith

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Health Reform

- **Direct impacts on workers compensation**
  - Changes to Black Lung Act
  - Changes to Medicare Reimbursement Levels
- **Indirect impacts on workers compensation costs include:**
  - Increased healthcare coverage for individuals
  - Taxes on medical devices, drug makers, health insurers
  - Possible reduction in fraud and abuse

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Q & A

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Closing Remarks

Thank You!

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

National Council on Compensation Insurance, Inc.

Glossary

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Glossary

- **Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.
- **Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.
- **Calendar-Accident Year (AY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.
- **Claim Frequency**—The number of claims per unit of exposure; for example, the number of claims per million dollars of premium or per 100 workers.

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (i) loss ratio, (ii) expense ratio, and (iii) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, timing of the claim's report to the carrier, etc.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Glossary

- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker's time lost from work. These benefits are also referred to as "wage replacement" benefits.
- **Loss Ratio**—The ratio of losses to premium for a given time period.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Glossary

- **Permanent Partial (PP)**—Disability that prevents the insured from working at their own (and sometimes any) occupation. A disability is considered to result in partial permanent loss of earning power.
- **Policy Year (PY)**—Premium and loss data on business for a 12-month period for policies with inception dates within the 12-month period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI National Council on Compensation Insurance, Inc.

Appendix

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

NCCI Workers Compensation Resources

- Financial Aggregate Calls
  - Used for aggregate ratemaking
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
  - Used for class ratemaking
- Detailed Claim Information
  - In-depth sample of lost-time claims
- Policy Data
  - Policy declaration page information

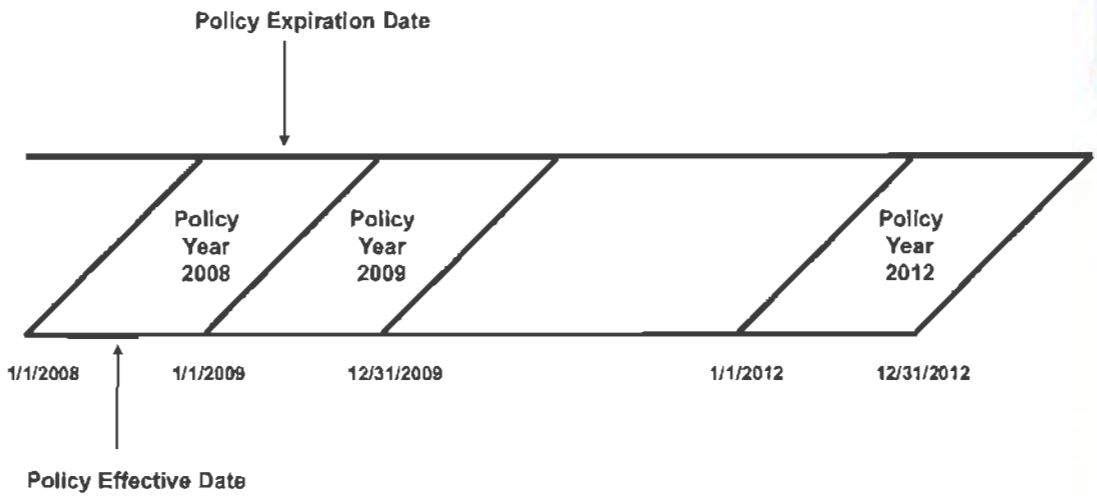
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Financial Aggregate Calls

- Collected annually
  - Policy and calendar-accident year basis
  - Statewide and assigned risk data
- Premiums, losses, and claim counts
  - Evaluated as of December 31
- Purpose
  - Basis for overall aggregate rate indication
  - Research

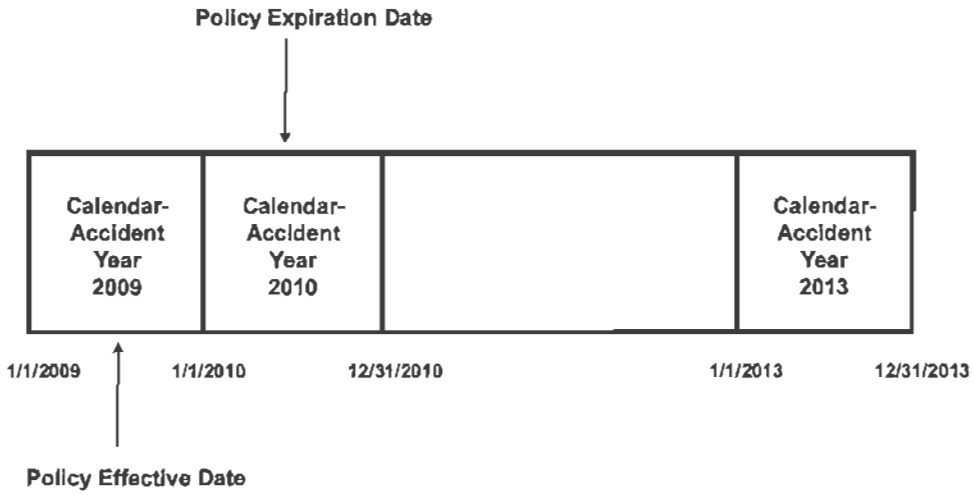
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Policy Year Financial Aggregate Data



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Calendar-Accident Year Financial Aggregate Data



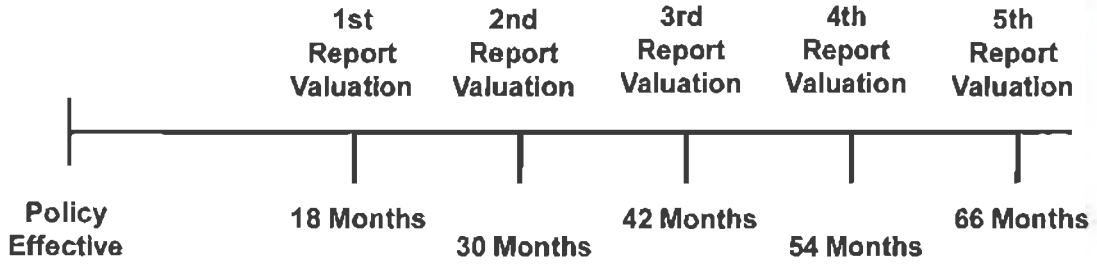
© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by policy detail
  - Exposure, premium, experience rating modifications
  - Individual claims by injury type
- Purposes
  - Classification relativities
  - Experience Rating Plan
  - Research

© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Valuation of Statistical Plan Data



© Copyright 2011 National Council on Compensation Insurance, Inc. All Rights Reserved.

Exhibit B

Table of Contents

Arkansas
Residual Market Second Quarter 2011 Status Report
Data Reported as of July 14, 2011

Executive Summary 2

Residual Market Demographics

Residual Market Total New Applications Bound Comparison 3

Residual Market Total New Application Premium Bound Comparison 4

Residual Market Percentage of New Applications Received 5

Residual Market Total Policy Counts 6

Residual Market Total Premium Volume 6

Residual Market Total Policy and Premium In Force 7

Residual Market Total Premium Distribution by Size of Risk 8

Residual Market Top 10 Classification Codes by Total Policy Count and Premium Volume 9

Voluntary Coverage Assistance Program Results 10

Residual Market Collections/Indemnifications on Pool Policies 11

Residual Market Booked Loss Ratio 12

Residual Market Ultimate Net Written Premium 12

Residual Market Incurred Losses Including IBNR 13

Residual Market Net Operating Gain/(Loss) 13

Glossary of Terms 14

© Copyright 2011 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information “as is.”

Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2011 Residual Market State Activity Report.

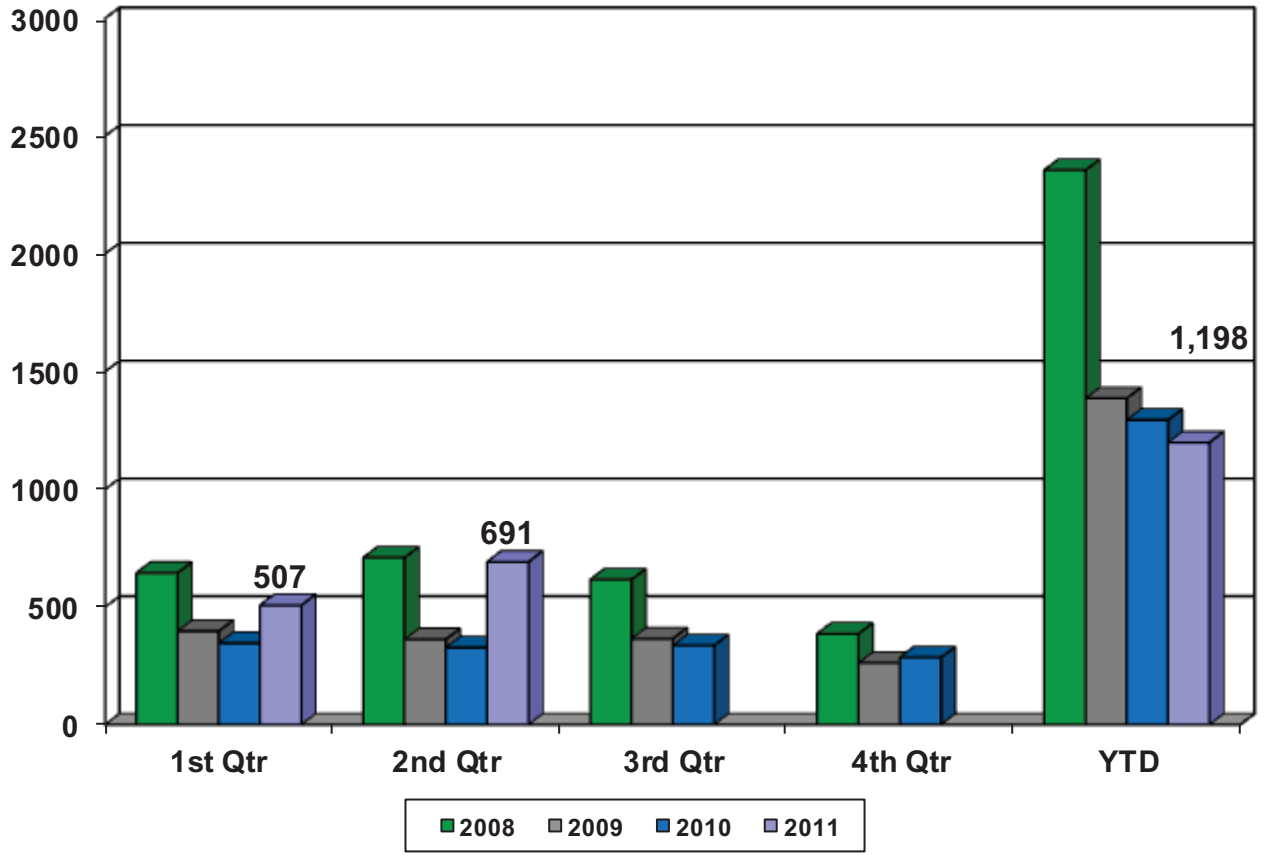
Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

Terri Robinson, State Relations Executive	(314) 843-4001
Chantel Weishaar, Technical Specialist	(561) 893-3015

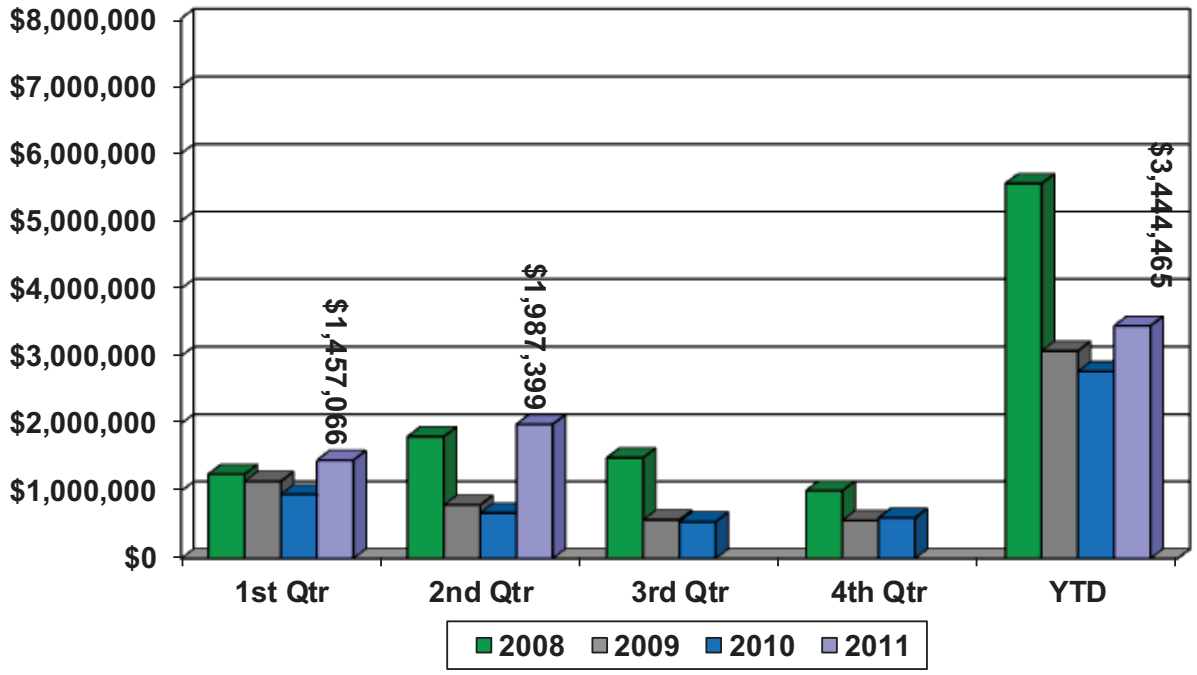
Residual Market Demographics – 2Q 2011

Arkansas Residual Market
Total New Applications Bound
2008 vs. 2009 vs. 2010 vs. 2011
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



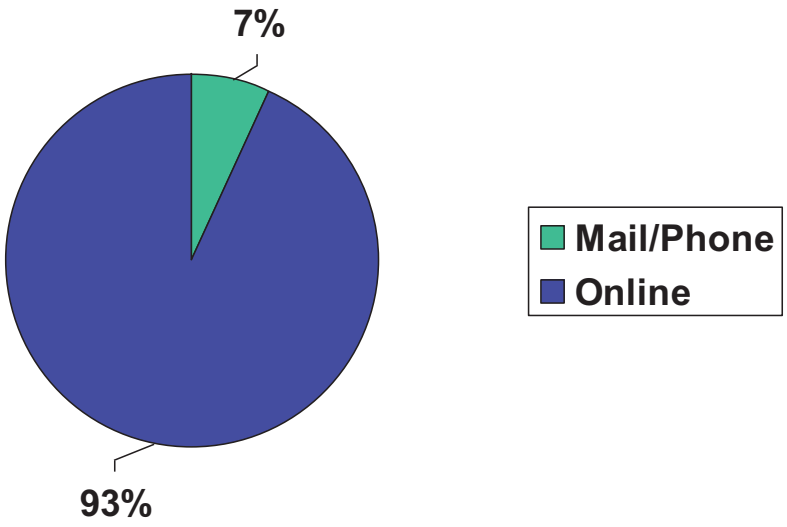
Residual Market Demographics – 2Q 2011

Arkansas Residual Market
Total New Application Premium Bound
2008 vs. 2009 vs. 2010 vs. 2011
The total estimated premium on bound new applications assigned to as Servicing Carrier or Direct Assignment Carrier (if applicable).



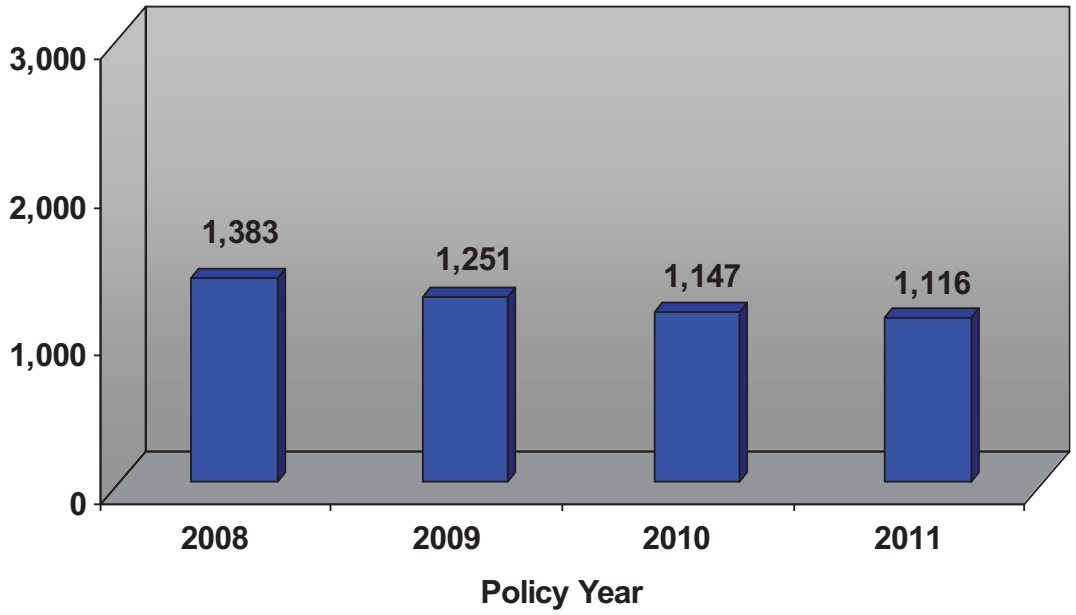
Residual Market Demographics – 2Q 2011

Percentage of New Applications Received by Submission Format
Data through June 30, 2011
The total percentage of new applications received via online, phone or mail formats.

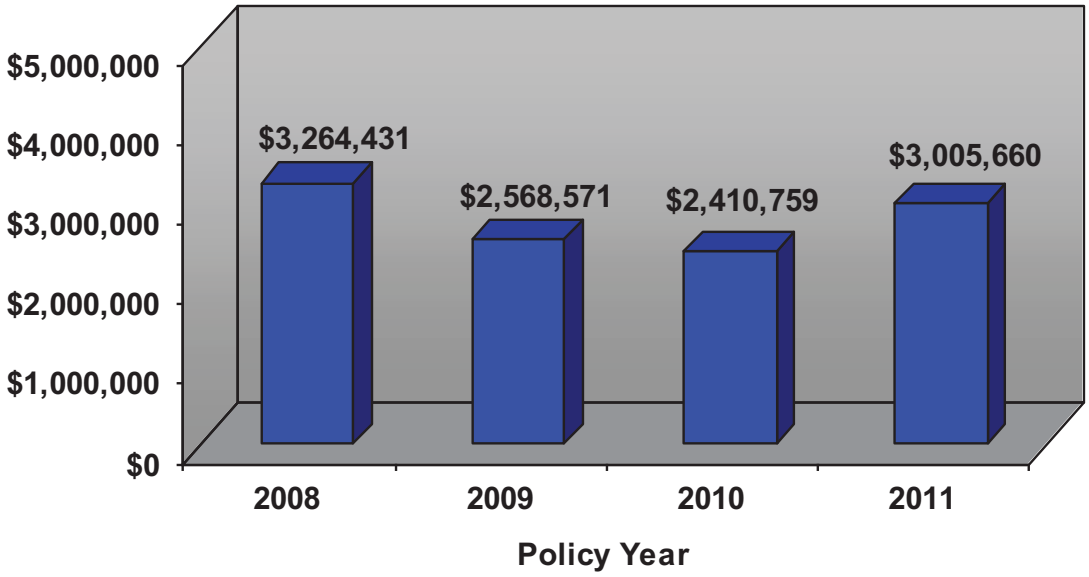


Residual Market Demographics – 2Q 2011

Residual Market Total Policy Counts
Second Quarter Data for Policies Reported through June 30, 2011
Total Number of all Assigned Risk Plan Policies effective during and reported as of the date listed above.



Residual Market Total Premium Volume
Second Quarter Data Reported through June 30, 2011
Total Amount of All Assigned Risk Plan Premium effective during and reported as of the date listed above.



Residual Market Demographics

Residual Market Total Policies and Premium in Force
As of June 30, 2011 compared to prior year

This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.

The other exhibits in this report describe quarterly and year-to-date data.

	2010	2011	2010 vs. 2011 #	2010 vs. 2011 %
Policy Count	4,364	4,205	-159	-3.6%
Premium Volume	$9,653,407	$10,075,228	$421,821	4.4%

Residual Market Demographics – 2Q 2011

Residual Market Second Quarter 2011
Total Premium Distribution by Size of Risk
Data Reported through June 30, 2011

The total number of assigned risk plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
$0 - 2499	920	82.4%	$789,851	26.3%	$858
$2500 - 4999	101	9.1%	$361,579	12.0%	$3,579
$5000 - 9999	52	4.7%	$360,391	12.0%	$6,930
$10000 - 19999	28	2.5%	$378,092	12.6%	$13,503
$20000 - 49999	9	0.8%	$231,945	7.7%	$25,771
$50000 - 99999	3	0.3%	$216,238	7.2%	$72,079
$100000 - 199999	0	0.0%	$0	0.0%	$0
$200000 +	3	0.3%	$667,564	22.2%	$222,521
Total	1,116	100.0%	$3,005,660	100.0%	$2,693

Residual Market Total Premium Distribution by Size of Risk
Annual 2010 Data for Comparison

The total number of assigned risk plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
$0 - 2499	980	85.4%	$875,591	36.3%	$893
$2500 - 4999	92	8.0%	$328,836	13.6%	$3,574
$5000 - 9999	48	4.2%	$333,140	13.8%	$6,940
$10000 – 19999	15	1.3%	$201,089	8.3%	$13,405
$20000 - 49999	9	0.8%	$267,899	11.1%	$29,766
$50000 - 99999	0	0.0%	$0	0.0%	$0
$100000 - 199999	3	0.3%	$404,204	16.8%	$134,734
$200000 +	0	0.0%	$0	0.0%	$0
Total	1,147	100.0%	$2,410,759	100.0%	$2,102

Residual Market Demographics – 2Q 2011

Residual Market Top 10 Classification Codes by Policy Count
Data Reported through June 30, 2011

The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction Of Residential Dwellings Not Exceeding Three Stories In Height	249	22.3%
2	5551	Roofing-All Kinds & Drivers	61	5.5%
3	5022	Masonry NOC	41	3.7%
4	8810	Clerical Office Employees NOC	37	3.3%
5	5474	Painting NOC & Shop Operations Drivers	31	2.8%
6	5437	Carpentry-installation Of Cabinet Work Or Interior Trim	28	2.5%
7	5183	Plumbing NOC & Drivers	26	2.3%
8	5403	Carpentry NOC	24	2.2%
9	0042	Landscape Gardening & Drivers	21	1.9%
10	9014	Janitorial Services By Contractors-No Window Cleaning Above Ground Level & Drivers	21	1.9%

Residual Market Top 10 Classification Codes by Premium Volume
Data Reported through June 30, 2011

The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5645	Carpentry Construction Of Residential Dwellings Not Exceeding Three Stories In Height	$300,838	10.0%
2	7229	Trucking-Long Distance Hauling-& Drivers	$284,229	9.5%
3	5403	Carpentry NOC	$239,838	8.0%
4	3028	Pipe Or Tube Mfg.-Iron Or Steel-& Drivers	$221,153	7.4%
5	5551	Roofing-All Kinds & Drivers	$144,518	4.8%
6	5537	Heating Ventilation Air Conditioning And Refrigeration Systems - Installation Service	$90,442	3.0%
7	2702	Logging Or Tree Removal - Non Mechanized Operations	$74,491	2.5%
8	8829	Convalescent Or Nursing Home-All Employees	$66,578	2.2%
9	7403	Aviation - All Other Employees & Drivers	$65,817	2.2%
10	0037	Farm: Field Crops & Drivers	$65,339	2.2%

Residual Market Demographics

Voluntary Coverage Assistance Program - Arkansas

The volume of assigned risk applications redirected to the voluntary market through NCCI's ***VCAP® Service****. The following shows the results* ***VCAP® Service*** *has provided during Second Quarter 2011.*

Date Ranges:	04/01/2011-06/30/2011
Number of Applications Reviewed by ***VCAP® Service***	698
Associated Premium for Applications Reviewed	$2,005,951.00
Number of ***VCAP® Service*** Matches	191
VCAP® Service Matches as a % of Applications Reviewed	27.36%
Number of ***VCAP® Service*** Offers	8
VCAP® Service Offers as a % of Matches	4.19%
Number of Confirmed ***VCAP® Service*** Policies	8
Confirmed ***VCAP® Service*** Policies as a % of Applications Reviewed	1.15%
Redirected Assigned Risk Premium	$20,722.41
Associated Voluntary Market Premium	$16,220.00
Savings	$4,502.41
Average Savings per Application	$562.80
Savings as a % of Redirected Assigned Risk Premium	21.73%
Redirected Premium as a % of Associated Premium for Applications Reviewed by ***VCAP® Service***	1.03%

Residual Market Demographics

Collections/Indemnification

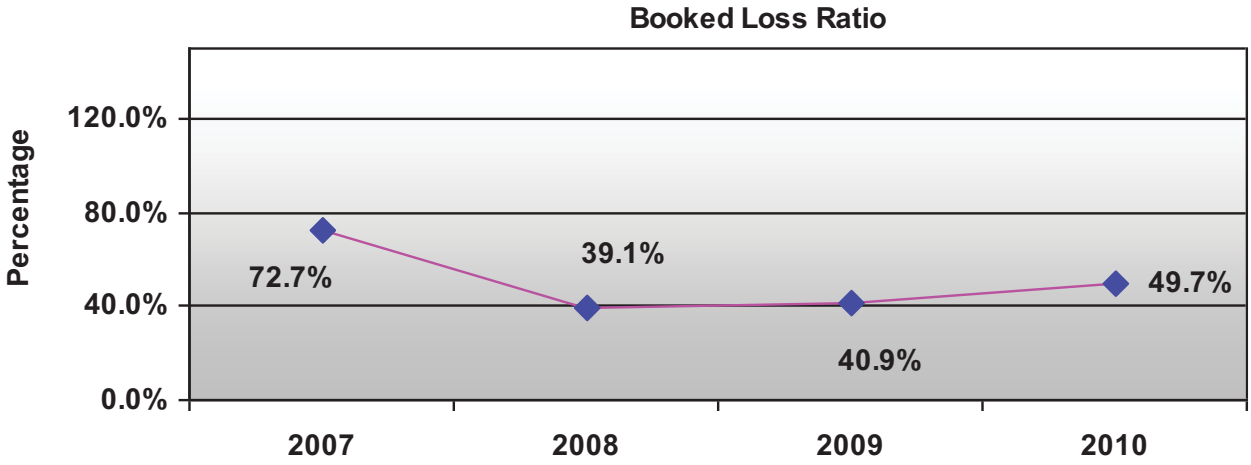
The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2007-2011, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through First Quarter 2011.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2007	$17,947,917	$1,017,029	5.7%
2008	$13,748,813	$984,941	7.2%
2009	$11,487,521	$408,836	3.6%
2010	$10,382,702	$19,615	0.2%
2011	$2,287,972	$0	0.0%
National Pool 2011	$65,379,326	$0	0.0%

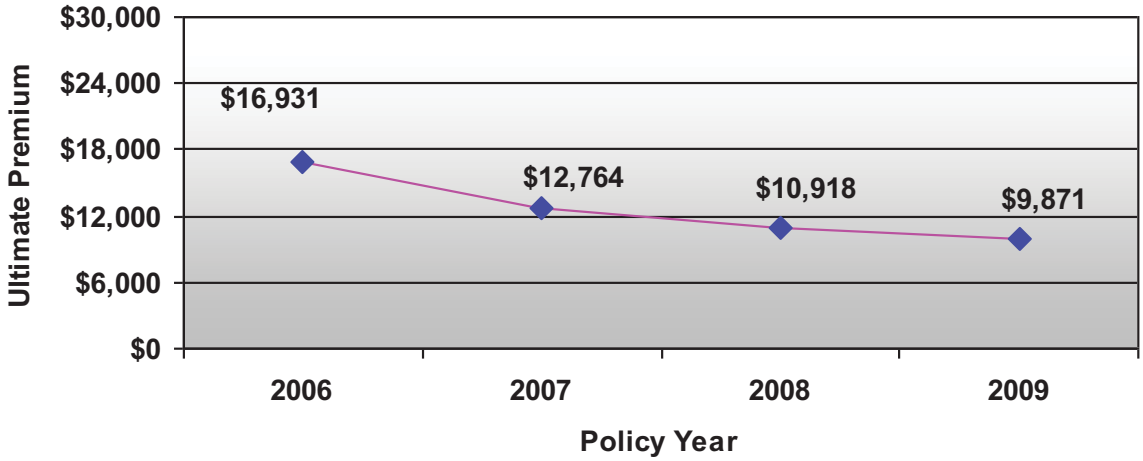
The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the most recent year data has not yet developed.

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio
Policy Year Financial Results through 1st Quarter 2011 for 2010 and prior years
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



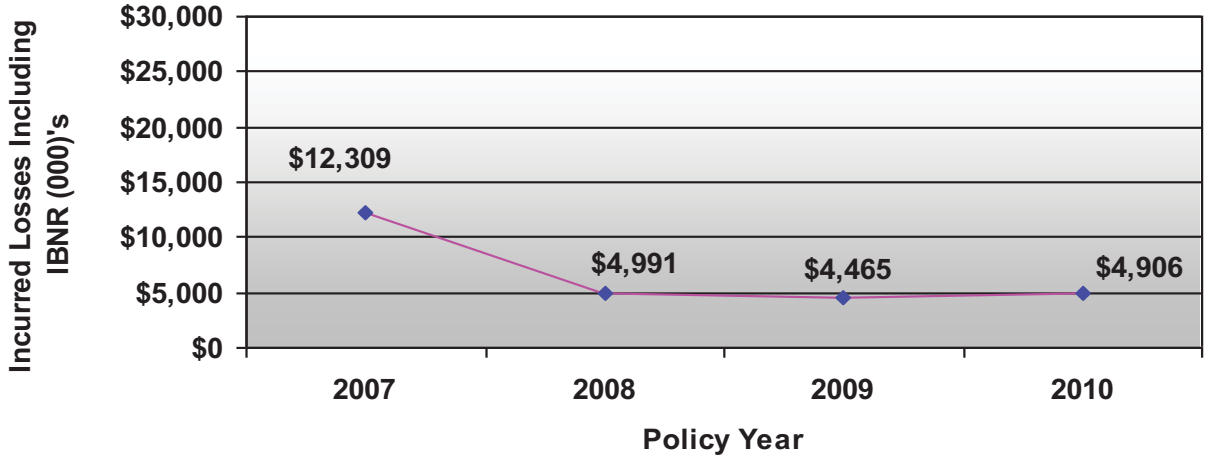
Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)
Policy Year Financial Results through 1st Quarter 2011 for 2010 and prior years*
The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



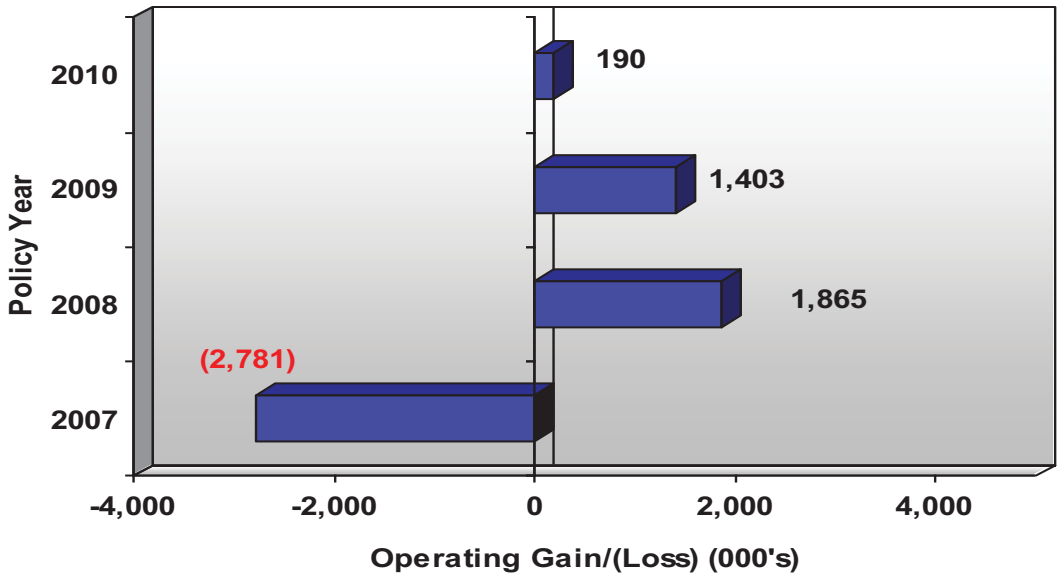
***-Second Quarter 2011 Data will be available the end of October 2011 due to the timing of data reporting**

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Net Operating Results
(Projected to Ultimate) Incurred Losses
Policy Year Financial Results through 1st Quarter 2011 for 2010 and prior years*
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



Arkansas Residual Market Reinsurance Pool Net Operating Results
(Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)
Policy Year Financial Results through 1st Quarter 2011 for 2010 and prior years*
The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



***- Second Quarter 2011 Data will be available the end of October 2011 due to the timing of data reporting**

Glossary of Terms

Combined Ratio-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

EBNR (Earned But Not Reported) Premium Reserve-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

Earned Premium or Premiums Earned-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

Incurred But Not Reported (IBNR)-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

Underwriting Gain/(Loss)-The financial statement presentation that reflects the excess of earned premium over incurred losses.

Applications Bound-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

Premium Bound-The total estimated annual premium on bound applications.

Exhibit C

Table of Contents

Arkansas
Residual Market Annual 2010 Status Report
Data Reported as of January 14, 2011

Executive Summary 2

Residual Market Demographics

Residual Market Total New Applications Bound Comparison 3

Residual Market Total New Application Premium Bound Comparison 4

Residual Market Percentage of New Applications Received 5

Residual Market Total Policy Counts 6

Residual Market Total Premium Volume 6

Residual Market Total Policy and Premium In Force 7

Residual Market Total Premium Distribution by Size of Risk 8

Residual Market Top 10 Classification Codes by Total Policy Count and Premium Volume 9

Voluntary Coverage Assistance Program Results 10

Residual Market Collections/Indemnifications on Pool Policies 11

Residual Market Booked Loss Ratio 12

Residual Market Ultimate Net Written Premium 12

Residual Market Incurred Losses Including IBNR 13

Residual Market Net Operating Gain/(Loss) 13

Glossary of Terms 14

© Copyright 2011 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information “as is.”

Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Annual 2010 Residual Market State Activity Report.

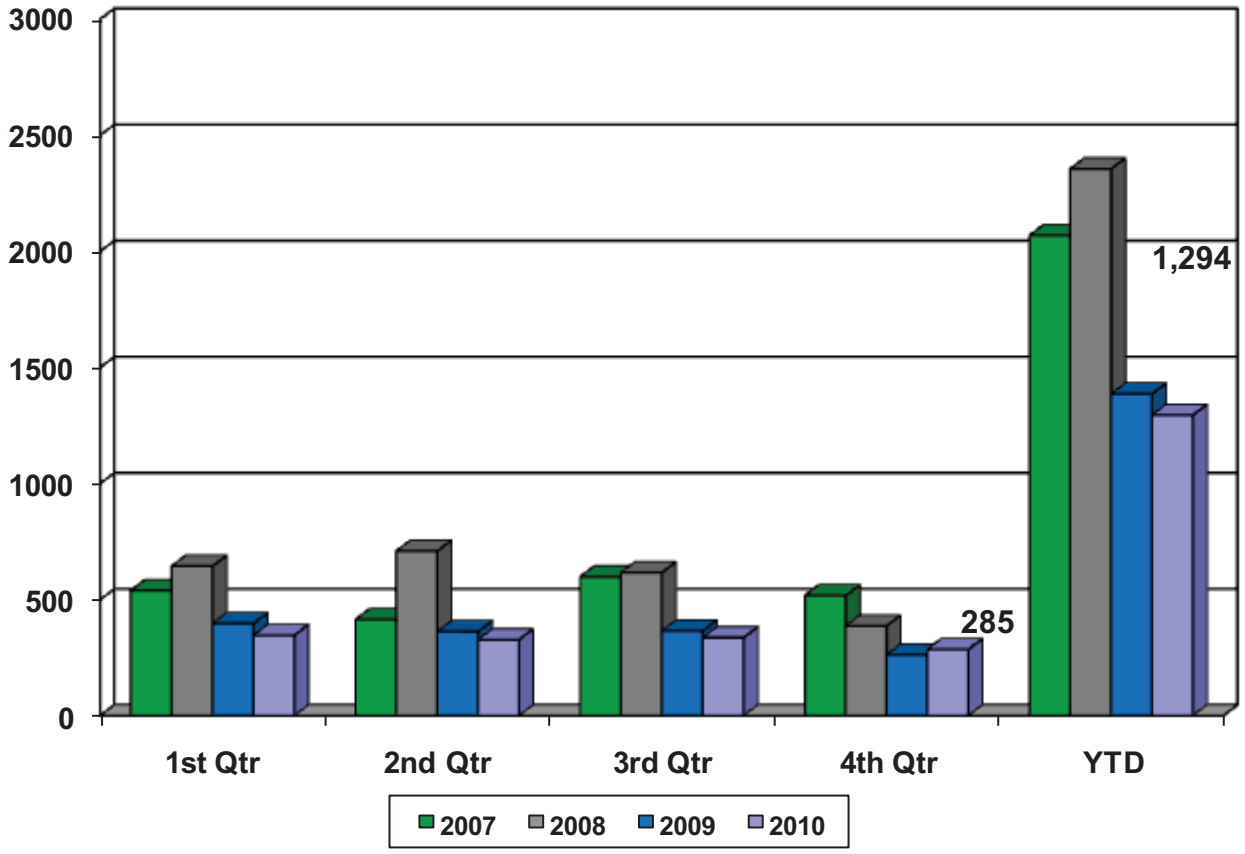
Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

Terri Robinson, State Relations Executive	(314) 843-4001
Chantel Weishaar, Technical Specialist	(561) 893-3015

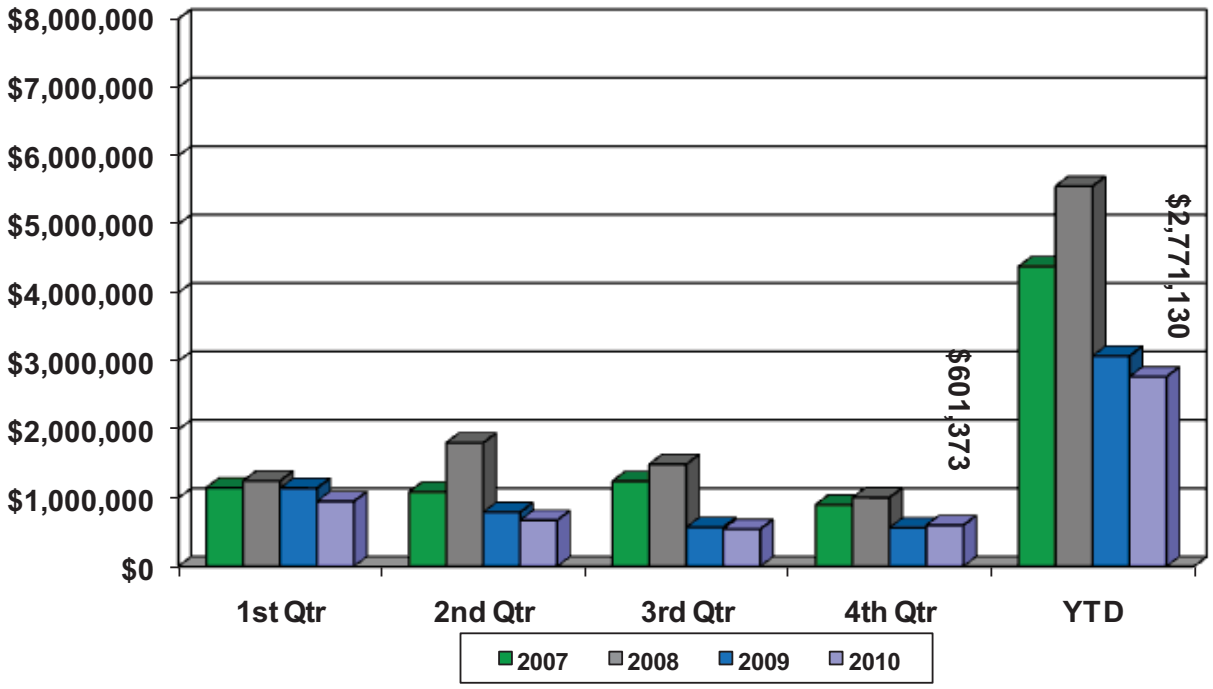
Residual Market Demographics – Annual 2010

Arkansas Residual Market
Total New Applications Bound
2007 vs. 2008 vs. 2009 vs. 2010
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



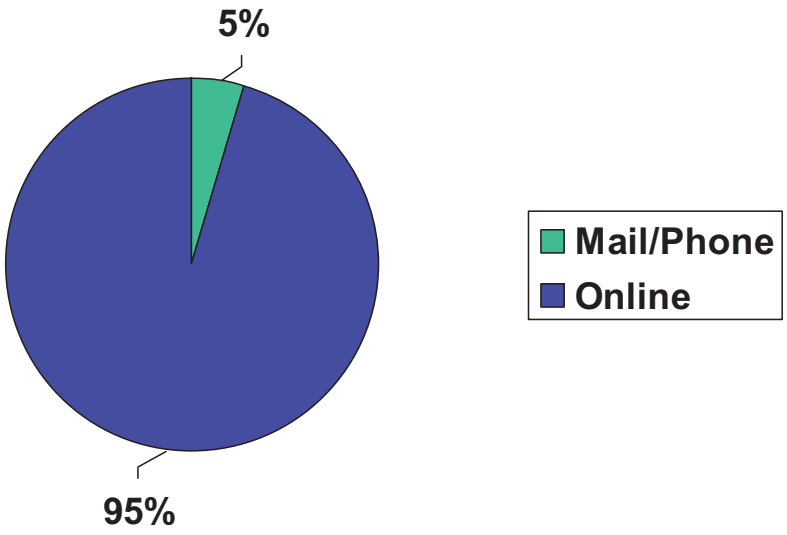
Residual Market Demographics – Annual 2010

Arkansas Residual Market
Total New Application Premium Bound
2007 vs. 2008 vs. 2009 vs. 2010
The total estimated premium on bound new applications assigned to as Servicing Carrier or Direct Assignment Carrier (if applicable).



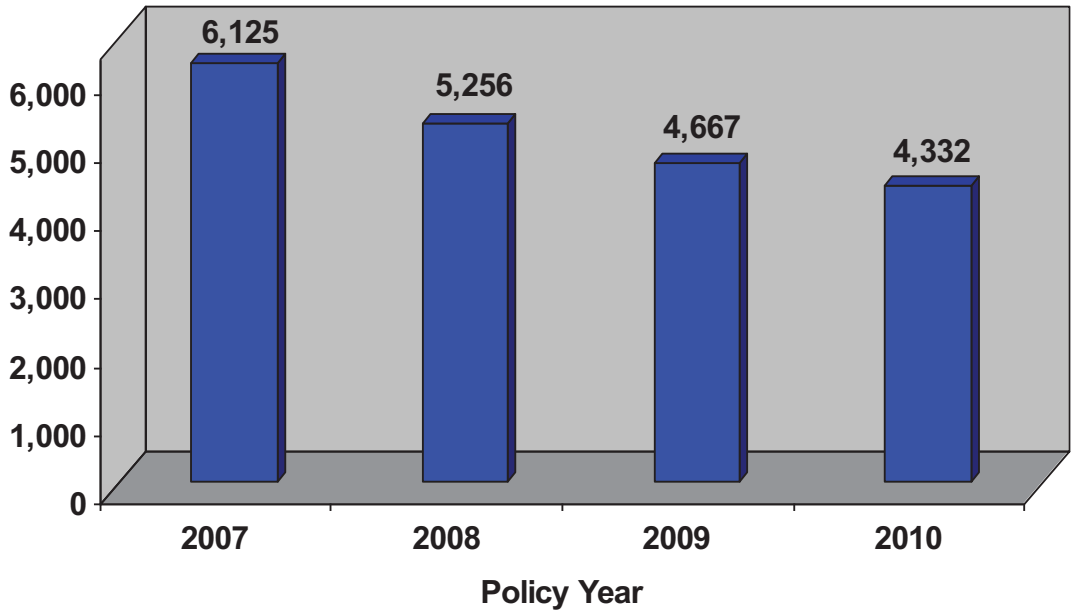
Residual Market Demographics – Annual 2010

Percentage of New Applications Received by Submission Format
Data through December 31, 2010
The total percentage of new applications received via online, phone or mail formats.

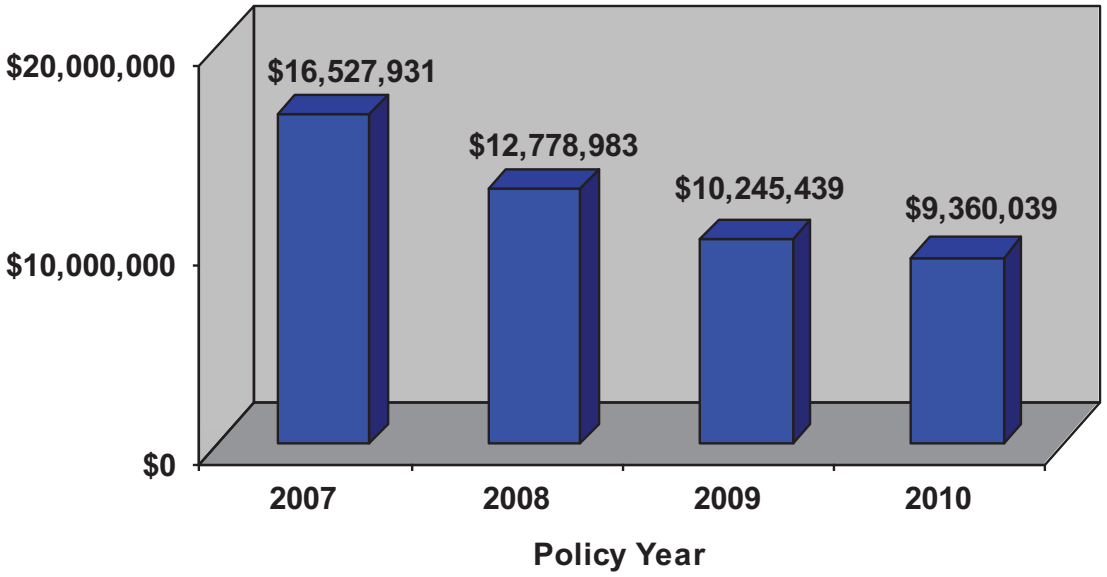


Residual Market Demographics – Annual 2010

Residual Market Total Policy Counts
Annual Data for Policies Reported through December 31, 2010
Total Number of all Assigned Risk Plan Policies effective during this year and reported as of the date listed above.



Residual Market Total Premium Volume
Annual Data Reported through December 31, 2010
Total Amount of All Assigned Risk Plan Premium effective during this year and reported as of the date listed above.



Residual Market Demographics

Residual Market Total Policies and Premium in Force
As of December 31, 2010 compared to prior year

This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.

The other exhibits in this report describe quarterly and year-to-date data.

	2009	2010	2009 vs. 2010 #	2009 vs. 2010 %
Policy Count	4,581	4,297	-284	-6.2%
Premium Volume	$10,002,751	$9,145,420	-$857,331	-8.6%

Residual Market Demographics – Annual 2010

Residual Market Annual 2010
Total Premium Distribution by Size of Risk
Data Reported through December 31, 2010

The total number of assigned risk plan policies reported to NCCI for this year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
$0 - 2499	3,639	84.00%	$3,175,603	33.93%	$872
$2500 - 4999	371	8.56%	$1,290,778	13.79%	$3,479
$5000 - 9999	177	4.09%	$1,221,858	13.05%	$6,903
$10000 - 19999	93	2.15%	$1,295,225	13.84%	$13,927
$20000 - 49999	42	0.97%	$1,248,486	13.34%	$29,725
$50000 - 99999	3	0.07%	$183,780	1.96%	$61,260
$100000 - 199999	7	0.16%	$944,309	10.09%	$134,901
$200000 +	0	0.00%	$0	0.00%	$0
Total	4,332	100%	$9,360,039	100%	$2,161

Residual Market Total Premium Distribution by Size of Risk
Annual 2009 Data for Comparison

The total number of assigned risk plan policies reported to NCCI for this year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
$0 - 2499	3,995	85.6%	$3,392,325	33.11%	$849
$2500 - 4999	341	7.31%	$1,196,193	11.68%	$3,507
$5000 - 9999	165	3.54%	$1,158,584	11.31%	$7,021
$10000 – 19999	97	2.08%	$1,295,518	12.64%	$13,355
$20000 - 49999	56	1.20%	$1,677,032	16.37%	$29,947
$50000 - 99999	9	0.19%	$587,922	5.74%	$65,324
$100000 - 199999	3	0.06%	$455,194	4.44%	$151,731
$200000 +	1	0.02%	$482,671	4.71%	$482,671
Total	4,667	100%	$10,245,439	100%	$2,195

Residual Market Demographics – Annual 2010

Residual Market Top 10 Classification Codes by Policy Count
Data Reported through December 31, 2010

The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry-Detached One Or Two Family Dwellings	1,067	24.63%
2	5551	Roofing-All Kinds & Drivers	158	3.65%
3	5474	Painting Or Paperhanging NOC & Shop Operations	149	3.44%
4	5022	Masonry NOC	144	3.32%
5	8810	Clerical Office Employees NOC	144	3.32%
6	5183	Plumbing NOC & Drivers	104	2.40%
7	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	92	2.12%
8	5445	Wallboard Installation Within Buildings & Drivers	89	2.05%
9	5190	Electrical Wiring-within Buildings & Drivers	88	2.03%
10	0042	Landscape Gardening & Drivers	88	2.03%

Residual Market Top 10 Classification Codes by Premium Volume
Data Reported through December 31, 2010

The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Policies
1	5645	Carpentry-detached One Or Two Family Dwellings	$1,383,758	14.78%
2	8842	Group Homes - All Employees & Salespersons	$288,775	3.09%
3	5551	Roofing-All Kinds & Drivers	$276,117	2.95%
4	4771	Explosives Mfg. Explosives Mfg. NOC & Drivers	$269,465	2.88%
5	5403	Carpentry NOC	$268,056	2.86%
6	5474	Painting Or Paperhanging NOC & Shop Operations	$246,302	2.63%
7	7229	Trucking-Long Distance Hauling	$207,106	2.21%
8	5221	Concrete Or Cement Work- Floors Driveways Yards Or Sidewalks-& Drivers	$188,544	2.01%
9	0037	Farm: Field Crops & Drivers	$175,986	1.88%
10	5022	Masonry NOC	$164,864	1.76%

Residual Market Demographics

Voluntary Coverage Assistance Program - Arkansas

The volume of assigned risk applications redirected to the voluntary market through NCCI's ***VCAP® Service****. The following shows the results* ***VCAP® Service*** *has provided during 2010.*

Date Range:	01/01/2010 - 12/31/2010
Number of Applications Reviewed by *VCAP® Service*	1,342
Associated Premium for Applications Reviewed	$3,001,543
Number of *VCAP® Service* Matches	233
VCAP® Service Matches as a % of Applications Reviewed	17.4%
Number of *VCAP® Service* Offers	48
VCAP® Service Offers as a % of Matches	20.6%
Number of Confirmed *VCAP® Service* Policies	47
Confirmed *VCAP® Service* Policies as a % of Applications Reviewed	3.5%
Redirected Assigned Risk Premium	$228,790
Associated Voluntary Market Premium	$170,494
Savings	$58,296
Average Savings per Application	$1,240
Savings as a % of Redirected Assigned Risk Premium	25.5%
Redirected Premium as a % of Associated Premium for Applications Reviewed by *VCAP® Service*	7.6%

Residual Market Demographics

Collections/Indemnification

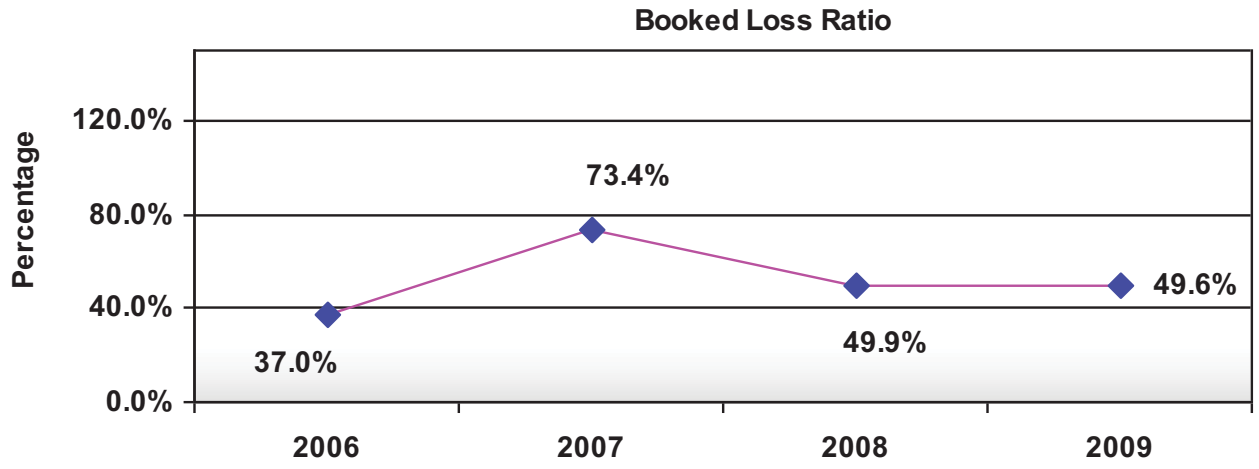
The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2006-2010, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Third Quarter 2010.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2006	$22,692,079	$1,656,652	7.3%
2007	$17,957,927	$989,987	5.5%
2008	$13,699,346	$1,038,514	7.6%
2009	$11,679,754	$208,244	1.8%
2010	$7,669,361	$38	0.0%
National Pool 2010	$251,604,934	$60,789	0.0%

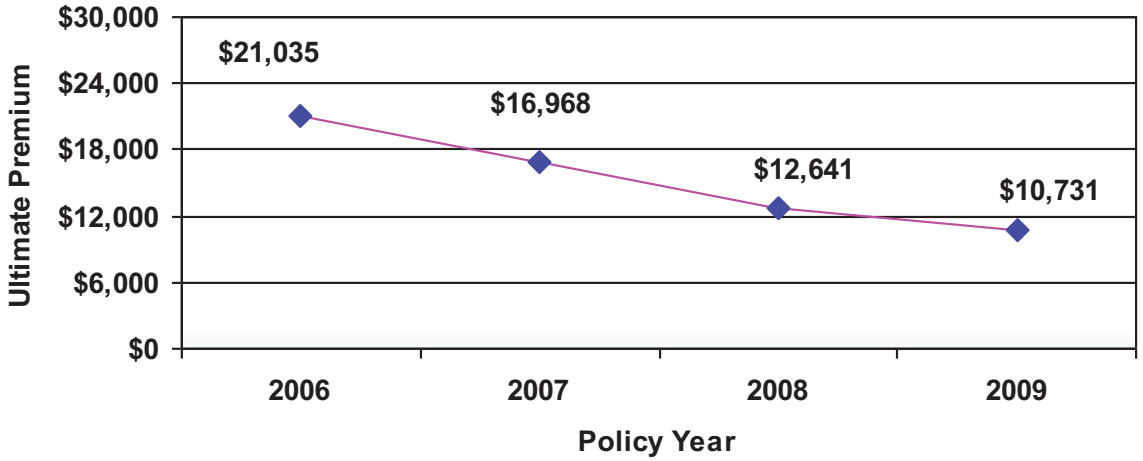
The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the most recent year data has not yet developed.

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio
Policy Year Financial Results through 3rd Quarter 2010 for 2009 and prior years
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



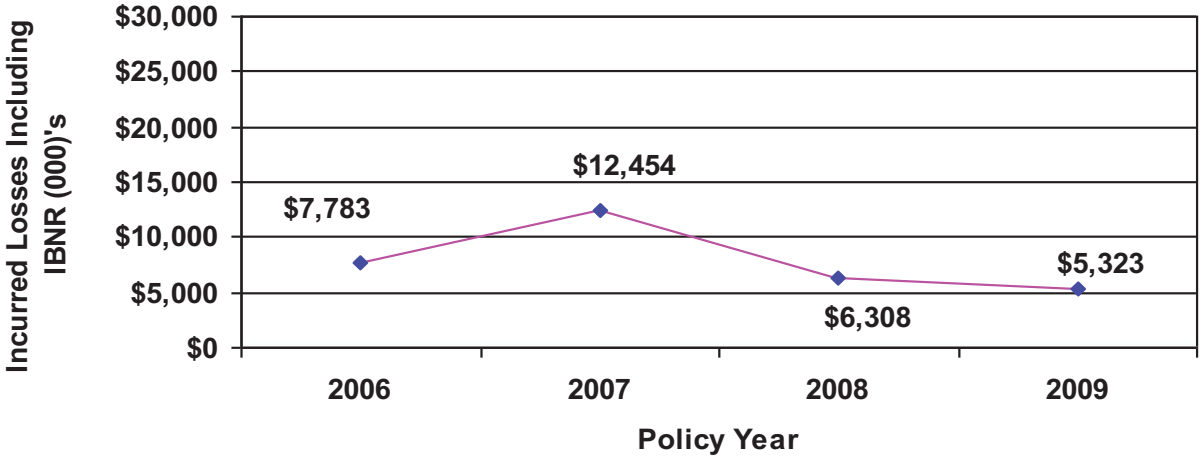
Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)
Policy Year Financial Results through 3rd Quarter 2010 for 2009 and prior years*
The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



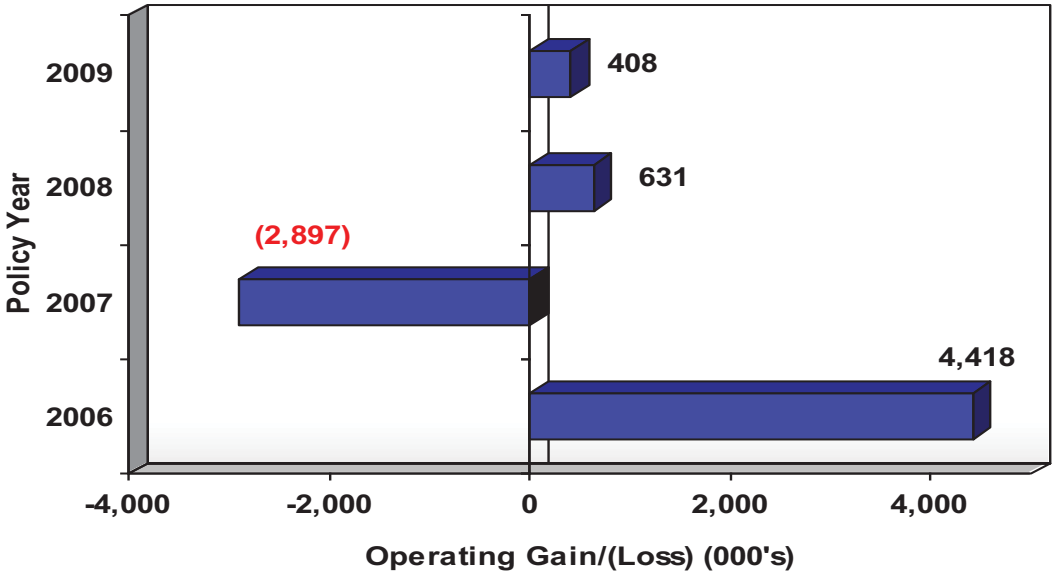
***-First Quarter 2011 Data will be available the end of April 2011 due to the timing of data reporting**

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Net Operating Results
(Projected to Ultimate) Incurred Losses
Policy Year Financial Results through 3rd Quarter 2010 for 2009 and prior years*
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



Arkansas Residual Market Reinsurance Pool Net Operating Results
(Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)
Policy Year Financial Results through 3rd Quarter 2010 for 2009 and prior years*
The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



***- First Quarter 2011 Data will be available the end of April 2011 due to the timing of data reporting**

Glossary of Terms

Combined Ratio-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

EBNR (Earned But Not Reported) Premium Reserve-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

Earned Premium or Premiums Earned-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

Incurred But Not Reported (IBNR)-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

Underwriting Gain/(Loss)-The financial statement presentation that reflects the excess of earned premium over incurred losses.

Applications Bound-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

Premium Bound-The total estimated annual premium on bound applications.

Exhibit D

State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary
May 5, 2011
Orlando, Florida

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

I. Property/Casualty Results

II. Workers Compensation Results

III. Current Topics of Interest

IV. Concluding Remarks

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

Property/Casualty Results

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

P/C Industry Net Written Premium Stable

Private Carriers

Line of Business (LOB)	2008	2009	2010p	2009–2010p Change
Personal Auto	$158.0 B	$156.5 B	$159.1 B	1.6%
Homeowners	$55.6 B	$56.9 B	$61.2 B	7.6%
Other Liability (Incl Prod Liab)	$42.0 B	$39.1 B	$38.2 B	-2.4%
Workers Compensation	**$33.8 B**	**$30.3 B**	**$29.9 B**	**-1.3%**
Commercial Multiple Peril	$30.1 B	$28.5 B	$28.7 B	0.8%
Commercial Auto	$23.7 B	$21.8 B	$20.9 B	-4.3%
Fire & Allied Lines (Incl EQ)	$24.2 B	$23.4 B	$22.6 B	-3.4%
All Other Lines	$67.7 B	$61.9 B	$61.6 B	-0.5%
Total P/C Industry	**$ 434.9 B**	**$ 418.4 B**	**$ 422.1 B**	**0.9%**

p Preliminary

Source: Workers compensation (WC), NCCI. Total P/C Industry, ISO
Lines other than WC, 2008 and 2009 *Best's Review Preview*; 2010p Annual Statement Data

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

P/C Underwriting Results Mixed

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year 2008	2009	2010p
Personal Auto	100%	101%	101%
Homeowners	117%	105%	107%
Other Liability (Incl Prod Liab)	95%	105%	110%
Workers Compensation	**101%**	**110%**	**115%**
Commercial Multiple Peril	104%	97%	101%
Commercial Auto	97%	100%	98%
Fire & Allied Lines (Incl EQ)	99%	80%	83%
All Other Lines	113%	96%	101%
Total P/C Industry	**104%**	**101%**	**102%**

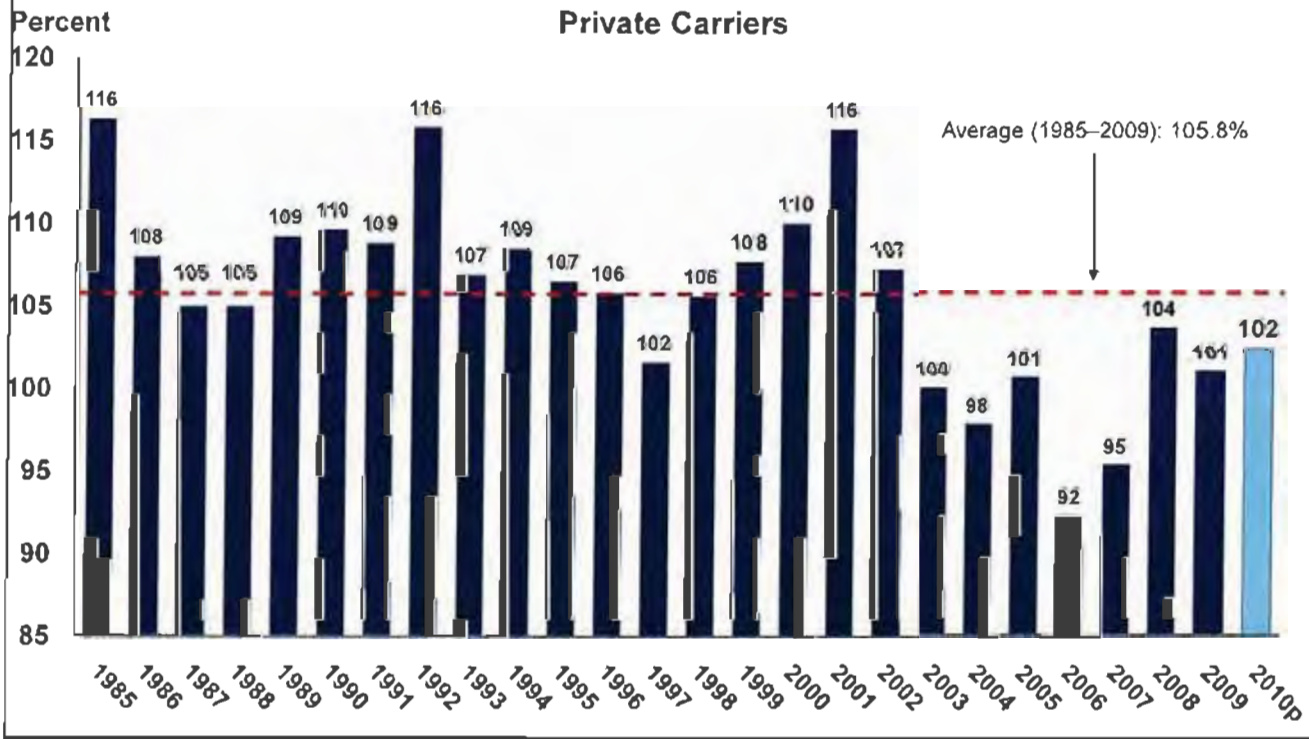
p Preliminary

Source: Workers compensation, NCCI
Lines other than WC, 2008-2009 *Best's Review/Preview*, 2010p Annual Statement Data, Total P/C Industry, ISO.

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

P/C Industry Calendar Year Net Combined Ratios



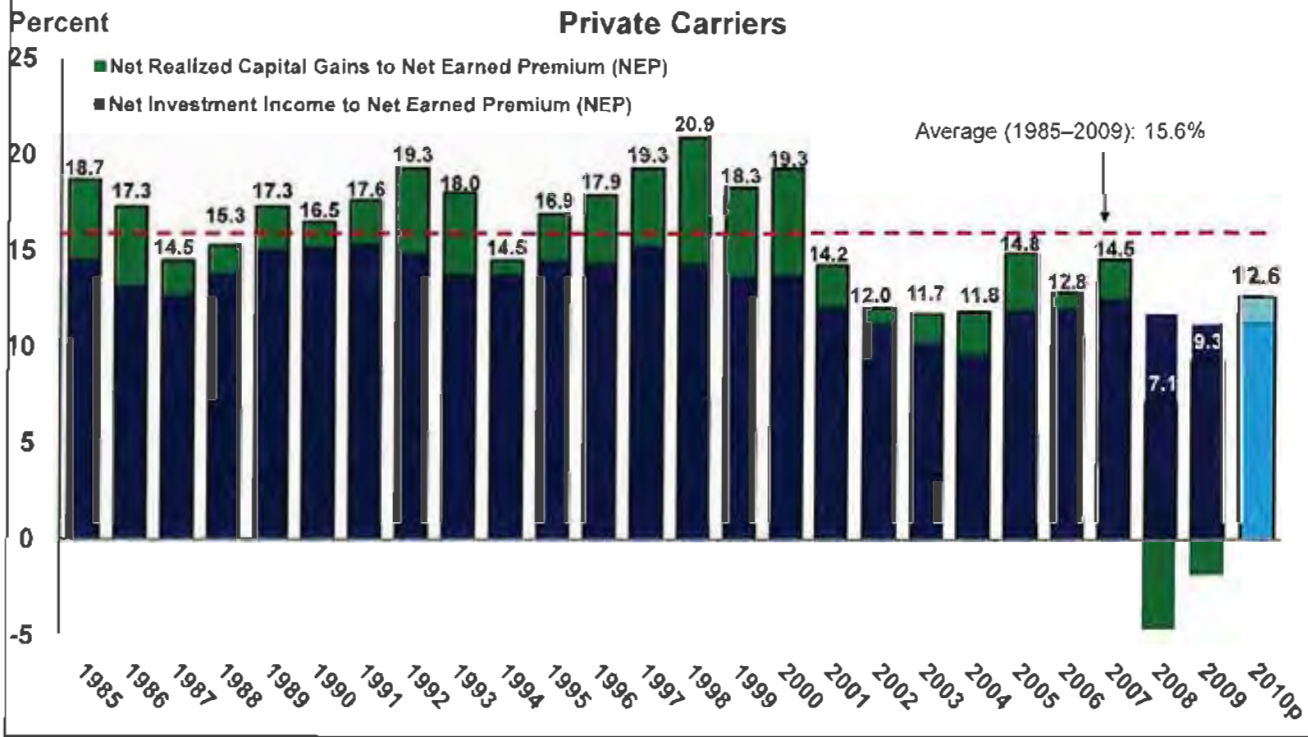
p Preliminary

Source: 1985–2009, Annual Statement Data, 2010p ISO

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Investment Gain Ratio Rebounds



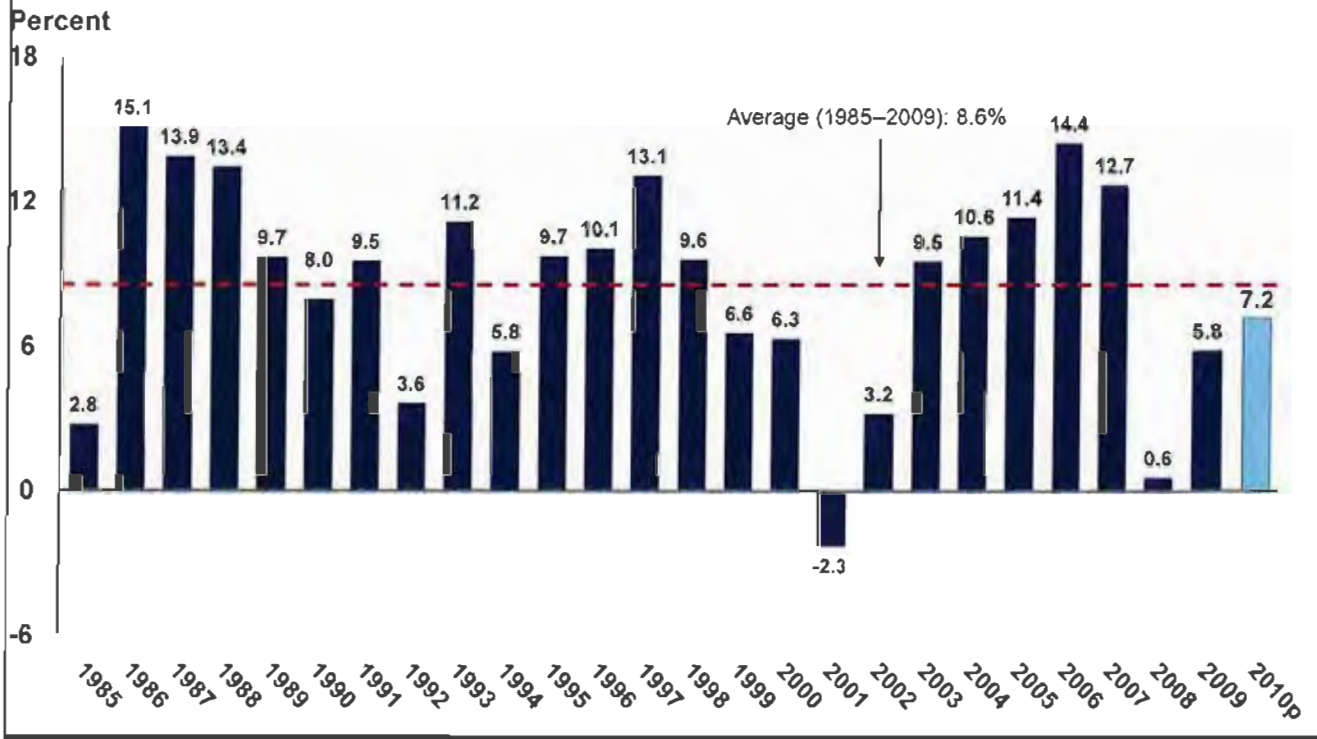
p Preliminary

Source 1985–2009, Annual Statement Data, 2010p, ISO

AIS 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved

P/C Industry Return on Surplus



p Preliminary

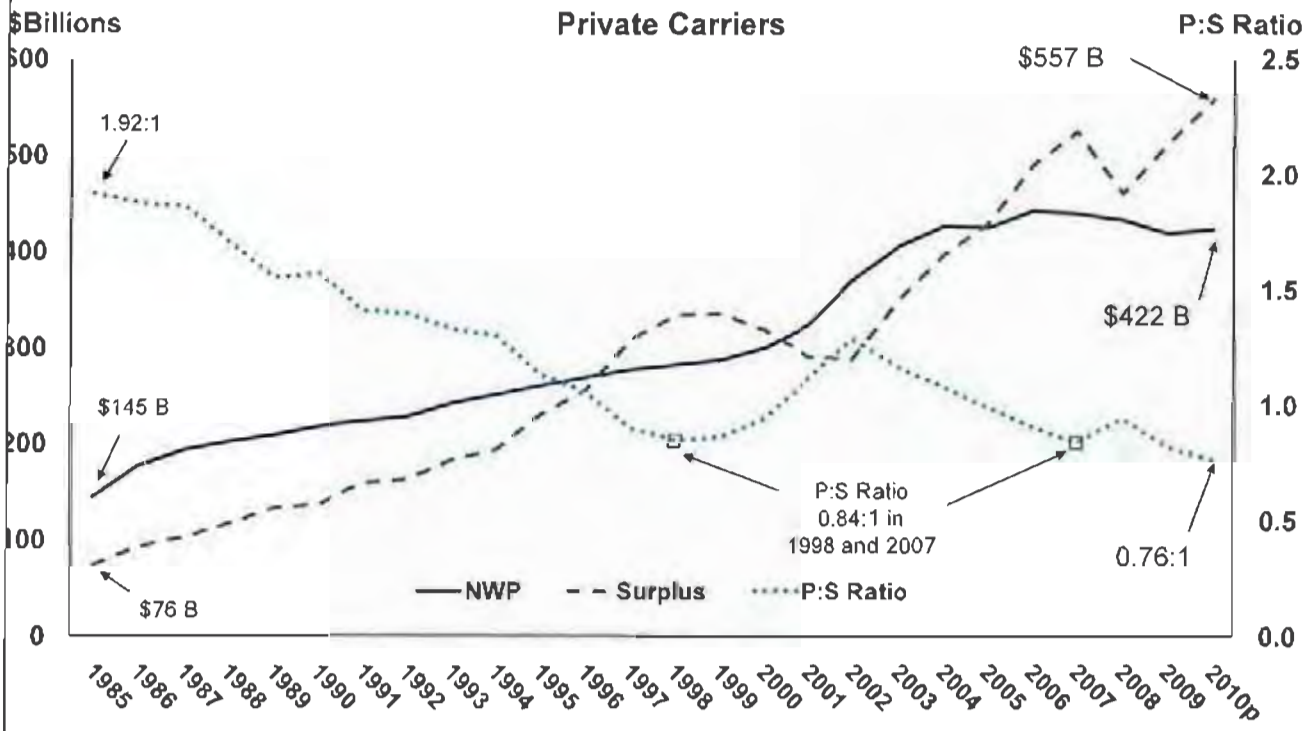
Note. After-tax return on average surplus, excluding unrealized capital gains

Source. 1985–2009, Annual Statement Data, 2010p After-Tax Net Income, ISO;
2010p Surplus, 2009 Annual Statement Data + 2010 ISO contributions to surplus

AIS 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved

P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary

Source: 1985–2009 Annual Statement Data.
2010p Surplus, 2009 Annual Statement Data + 2010 ISO contributions to surplus

AIS Annual Issues Symposium 2011

Copyright 2011 ISO/ISO Holdings, Inc. All Rights Reserved

Contributions to Surplus

Private Carriers

	2008	2009	2010p
Underwriting Gains/Losses	$ (21.2) B	$ (3.0) B	$ (10.4) B
Investment Income	$ 51.5 B	$ 47.1 B	$ 47.2 B
Realized Capital Gains/Losses	$ (19.8) B	$ (7.9) B	$ 5.7 B
Other Income	$ 0.4 B	$ 0.9 B	$ 1.0 B
Unrealized Capital Gains/Losses	$ (52.9) B	$ 23.1 B	$ 15.6 B
Federal Taxes	$ (7.8) B	$ (8.4) B	$ (8.9) B
Shareholder Dividends	$ (24.1) B	$ (16.9) B	$ (31.0) B
Contributed Capital	$ 12.3 B	$ 6.6 B	$ 27.4 B
Other Changes to Surplus	$ 1.1 B	$ 12.6 B	$ (1.2) B
Total	$ (60.6) B	$ 54.1 B	$ 45.5 B

p Preliminary

Source: ISO

AIS Annual Issues Symposium 2011

Copyright 2011 ISO/ISO Holdings, Inc. All Rights Reserved

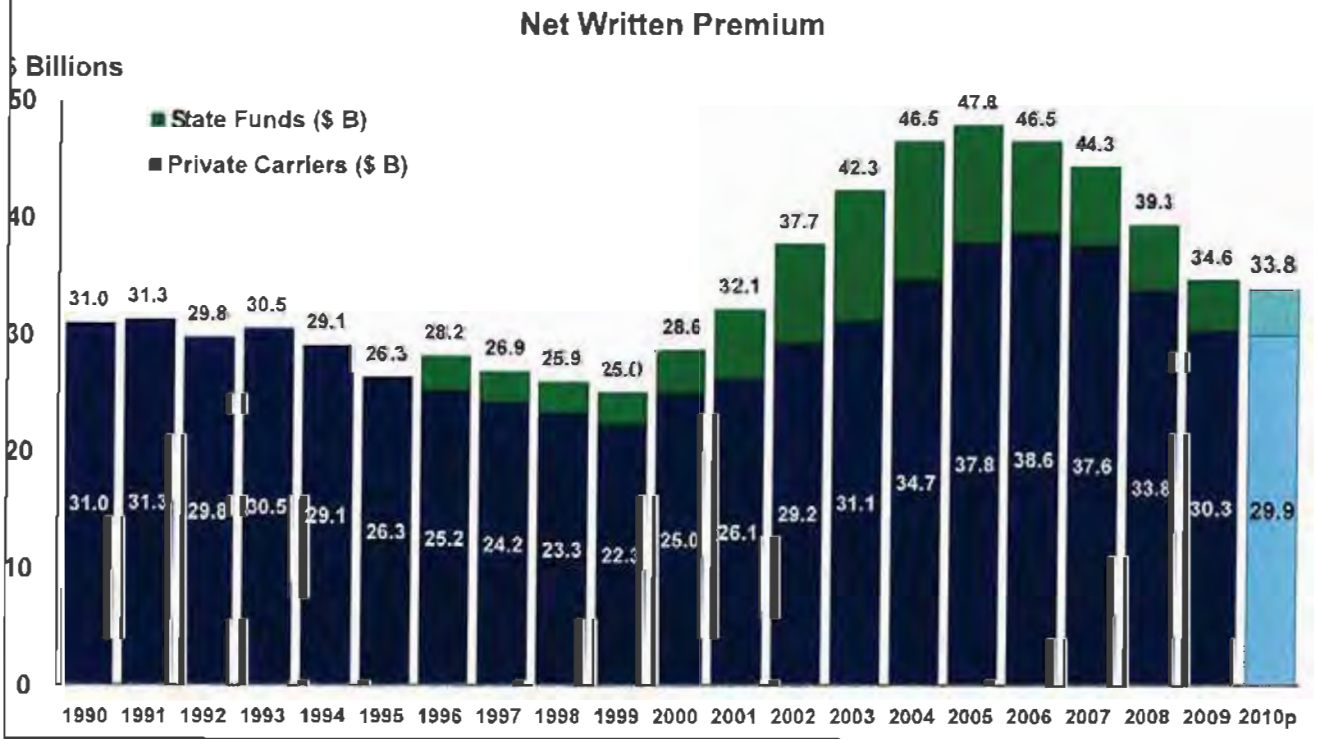
Workers Compensation

Results

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Workers Compensation Premium Decline Moderates



p Preliminary

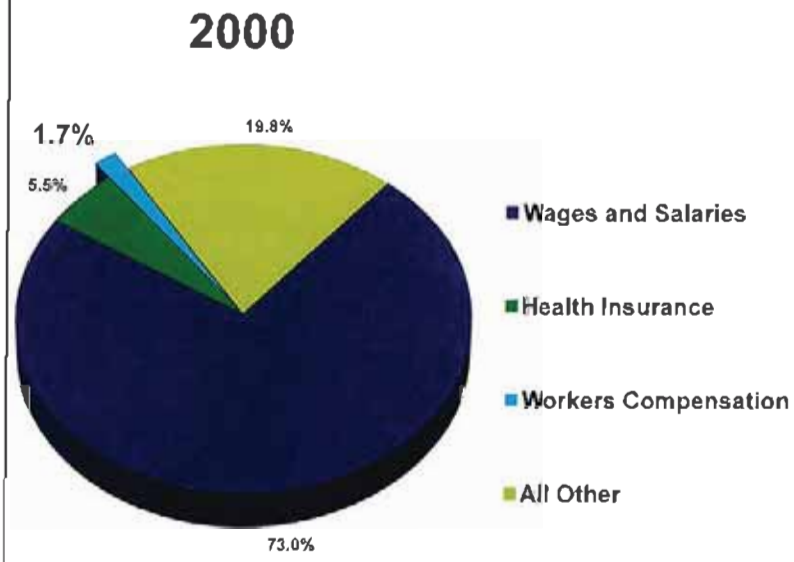
Source: 1990–2009 Private Carriers, Annual Statement Data, 2010p NCCI
1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

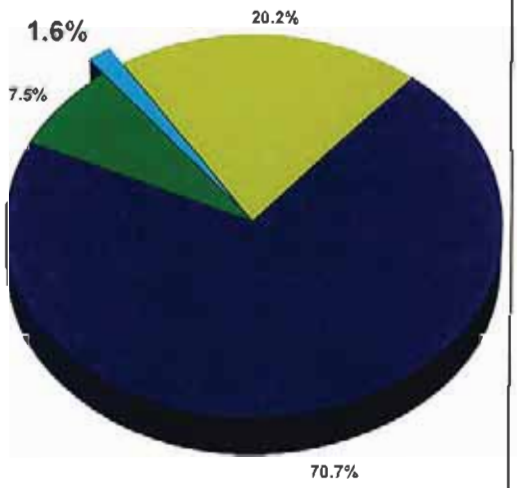
Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Employer Costs as Percentage of Total Compensation

Private Industry





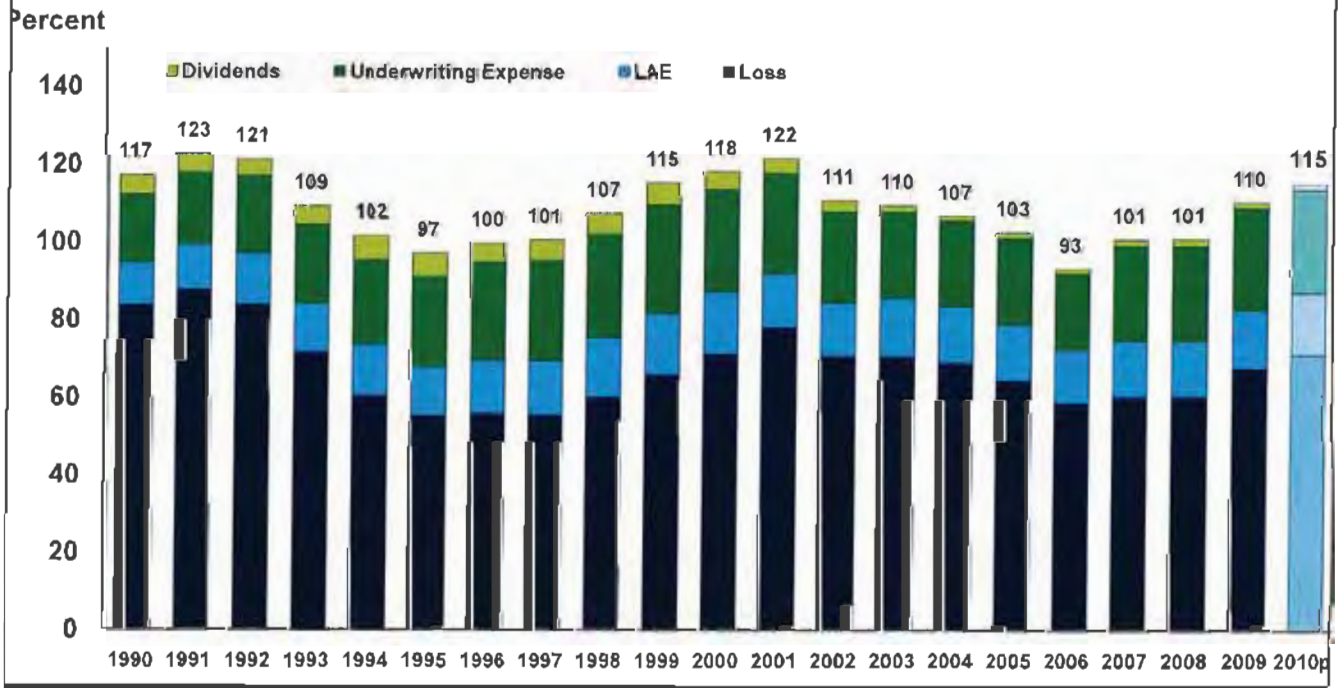
All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings
Source: US Department of Labor, Bureau of Labor Statistics

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

WC Calendar Year Combined Ratio Continues to Deteriorate

Private Carriers



p Preliminary

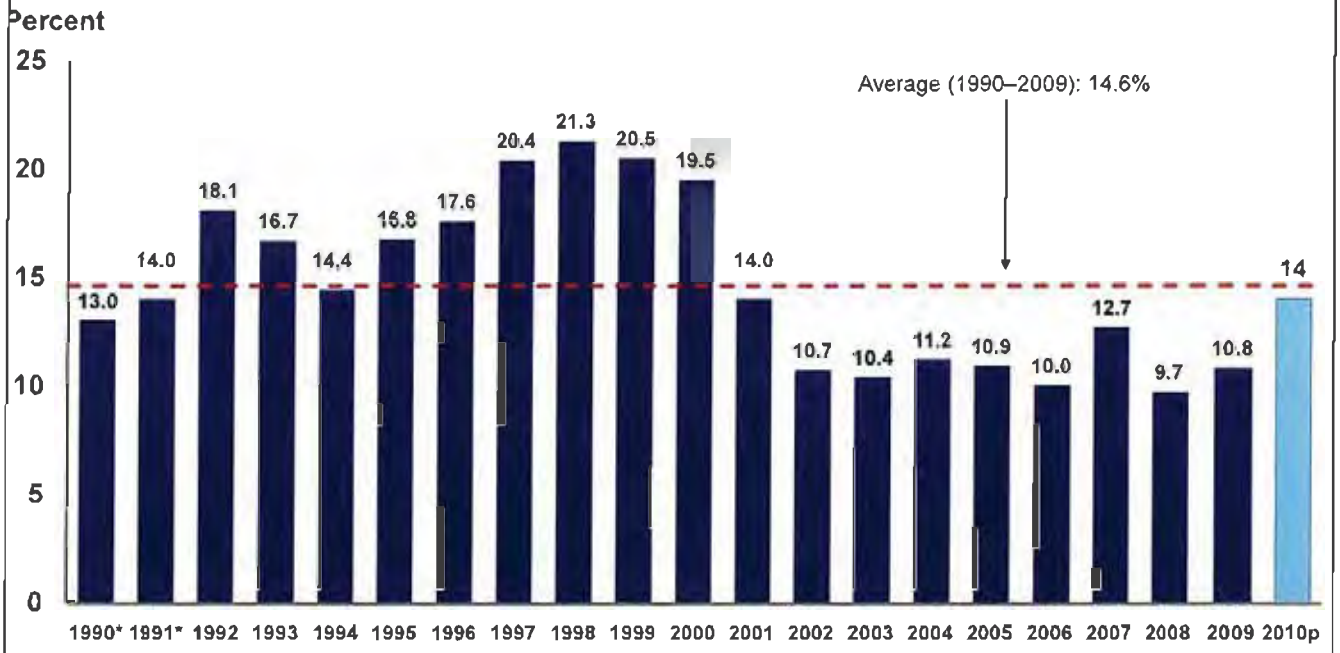
Source: 1990–2009, Annual Statement Data, 2010p, NCCI

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

Workers Compensation Investment Returns

Investment Gain on Insurance Transactions-to-Premium Ratio
Private Carriers



p Preliminary

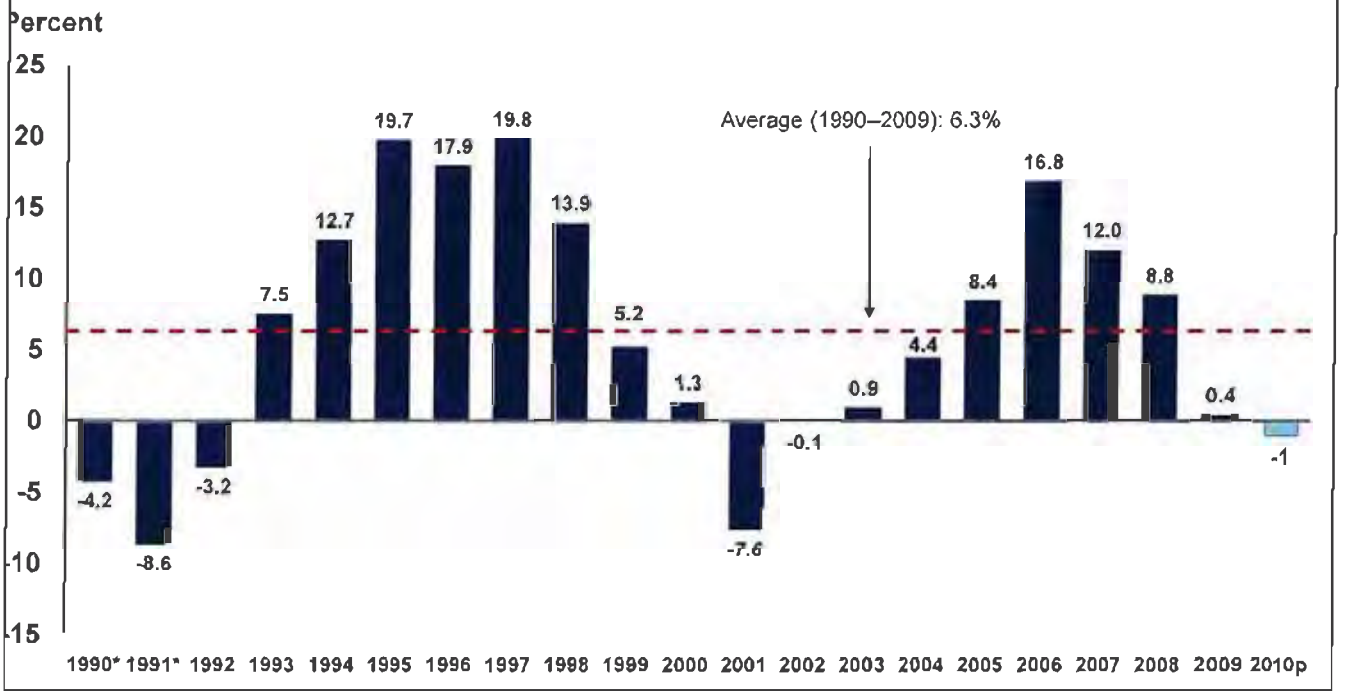
Source: 1990–2009, Annual Statement Data, 2010p, NCCI
Investment Gain on Insurance Transactions includes Other Income
* Adjusted to include realized capital gains to be consistent with 1992 and after

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Results Modest Operating Loss

Pre-Tax Operating Gain Ratio—Private Carriers



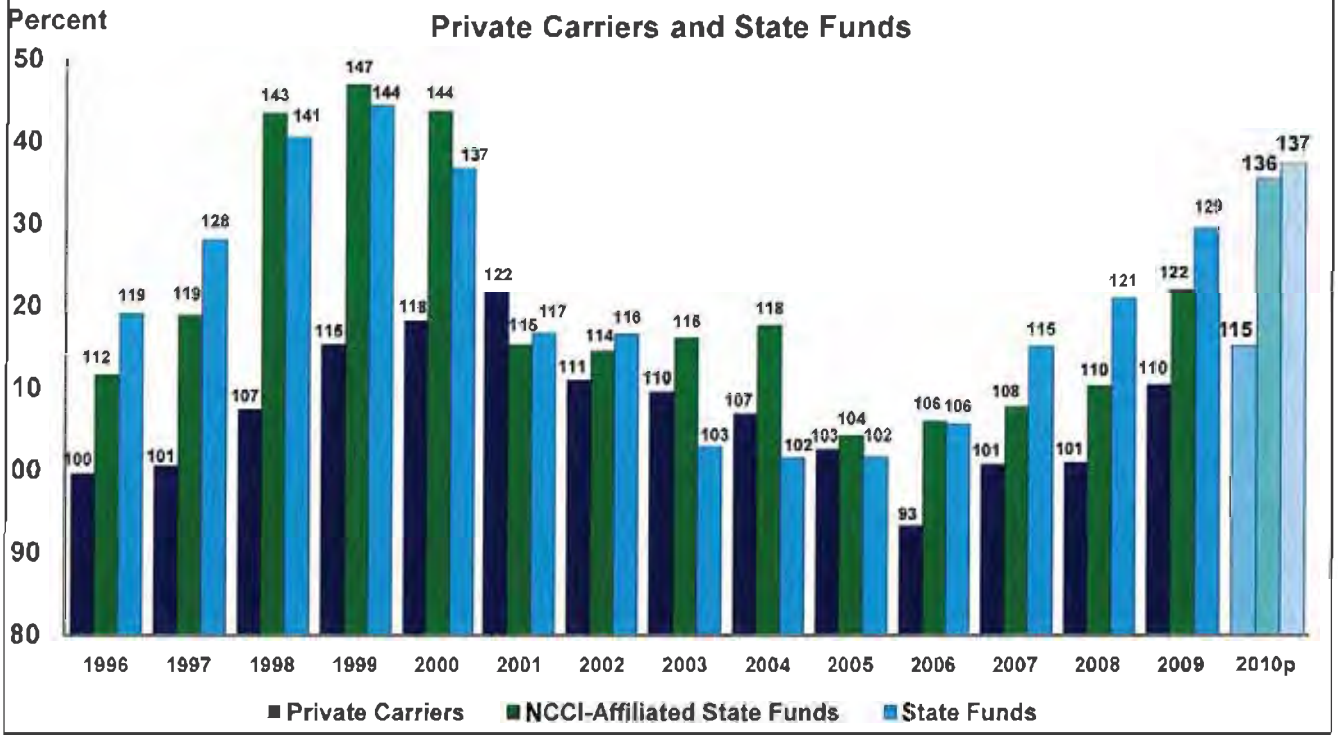
p Preliminary

Source: 1990–2009, Annual Statement Data, 2010p, NCCI
Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)
* Adjusted to include realized capital gains to be consistent with 1992 and after

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation
Calendar Year Net Combined Ratios



p Preliminary

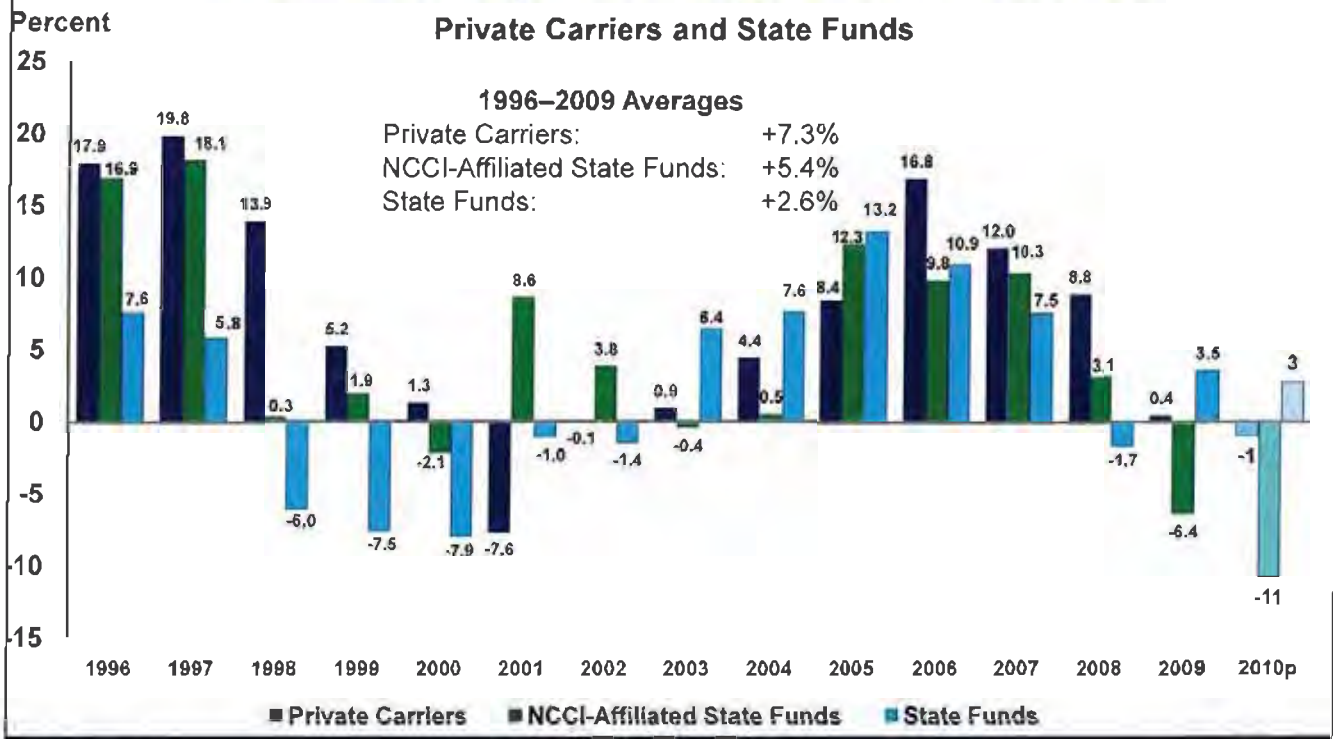
Calendar Year

Source: 1996–2009 Private Carriers, Annual Statement Data; 2010p, NCCI
1996–2010p NCCI-Affiliated State Funds, AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2010p State Funds, AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation
Pre-Tax Operating Gain Ratios



p Preliminary

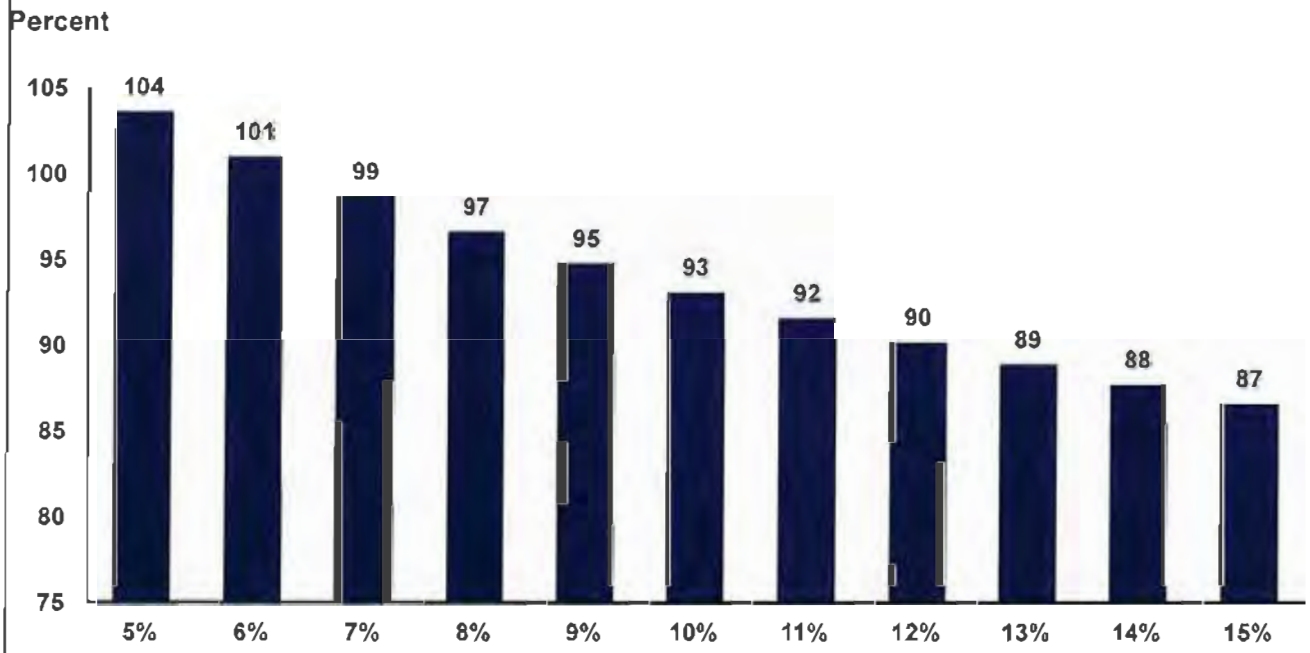
Calendar Year

Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)
Source: 1996–2009 Private Carriers, Annual Statement Data; 2010p, NCCI
1996–2010p NCCI-Affiliated State Funds, AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2010p State Funds, AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Combined Ratio to Achieve Selected Cost of Capital



Assumptions: 3.8% Pre-Tax Investment Yield
2.8% After-Tax Investment Yield
WC Reserve to Surplus Ratio = 2.07
Based on NCCI's 2011 Internal Rate of Return Model

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Workers Compensation

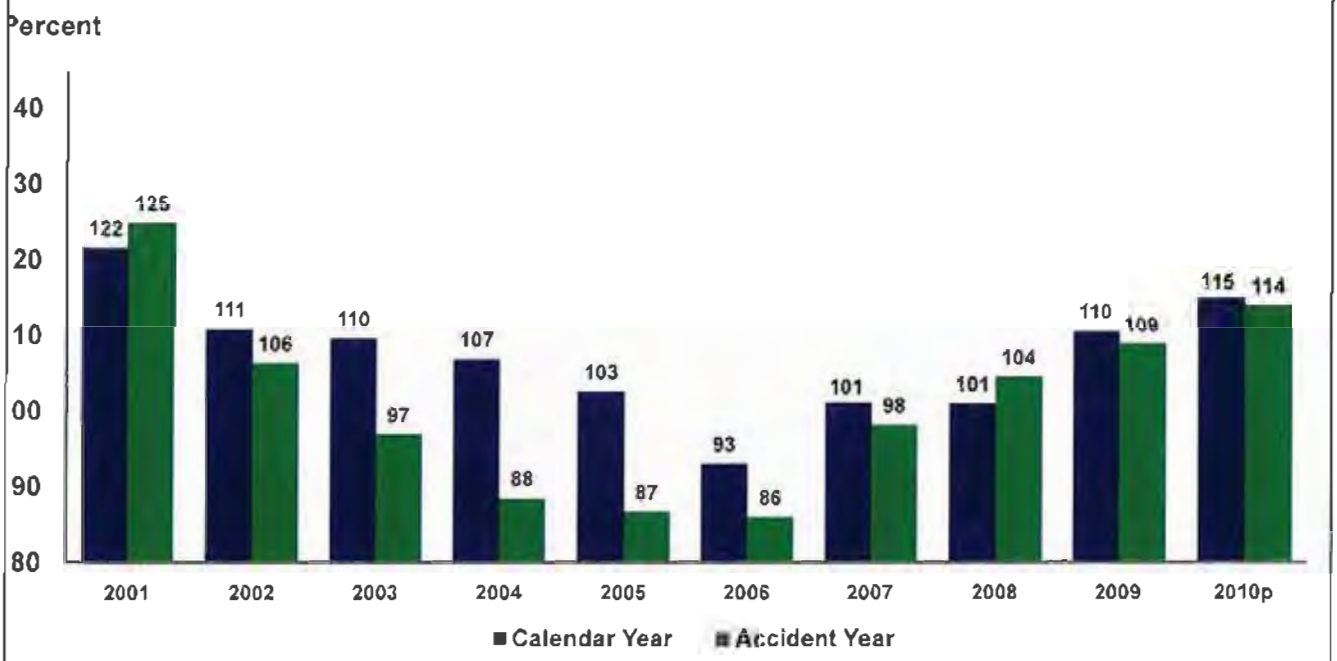
Accident Year Results and Reserve Estimates

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Accident Year Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



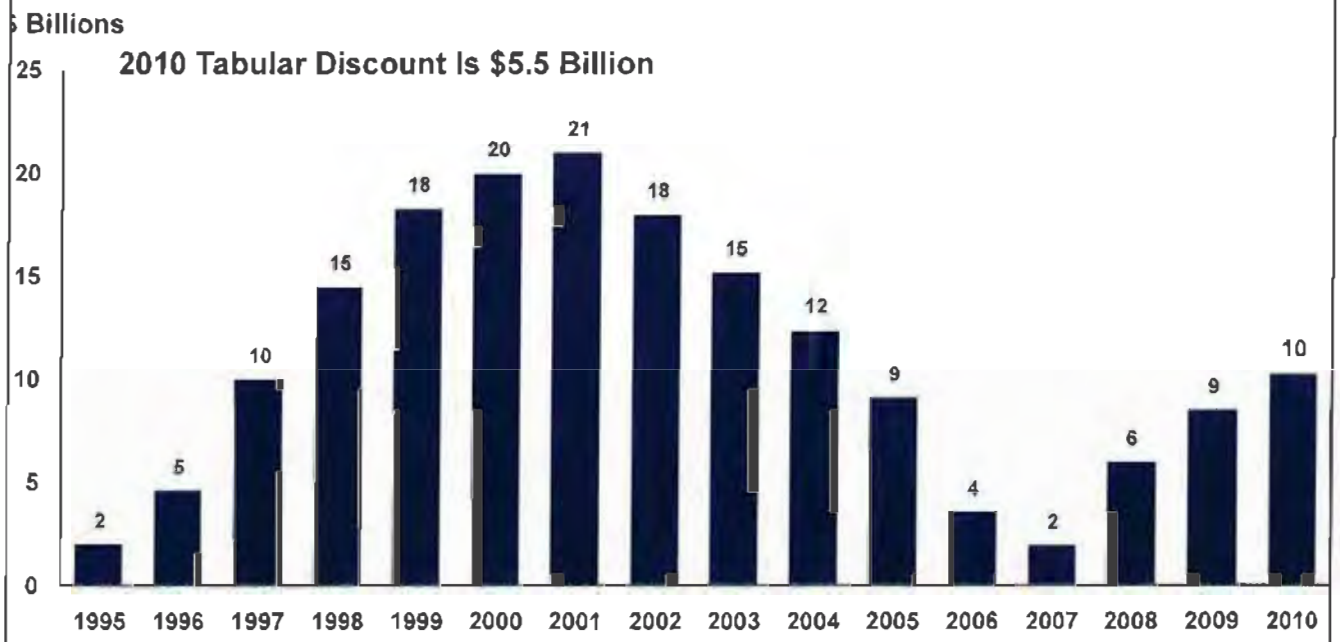
p Preliminary
Accident Year data is evaluated as of 12/31/2010 and developed to ultimate
Source: Calendar Years 2001–2009, Annual Statement Data;
Calendar Year 2010p and Accident Years 2001–2010, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Calendar Year Reserve Deficiencies

Workers Compensation Loss and LAE
Private Carriers



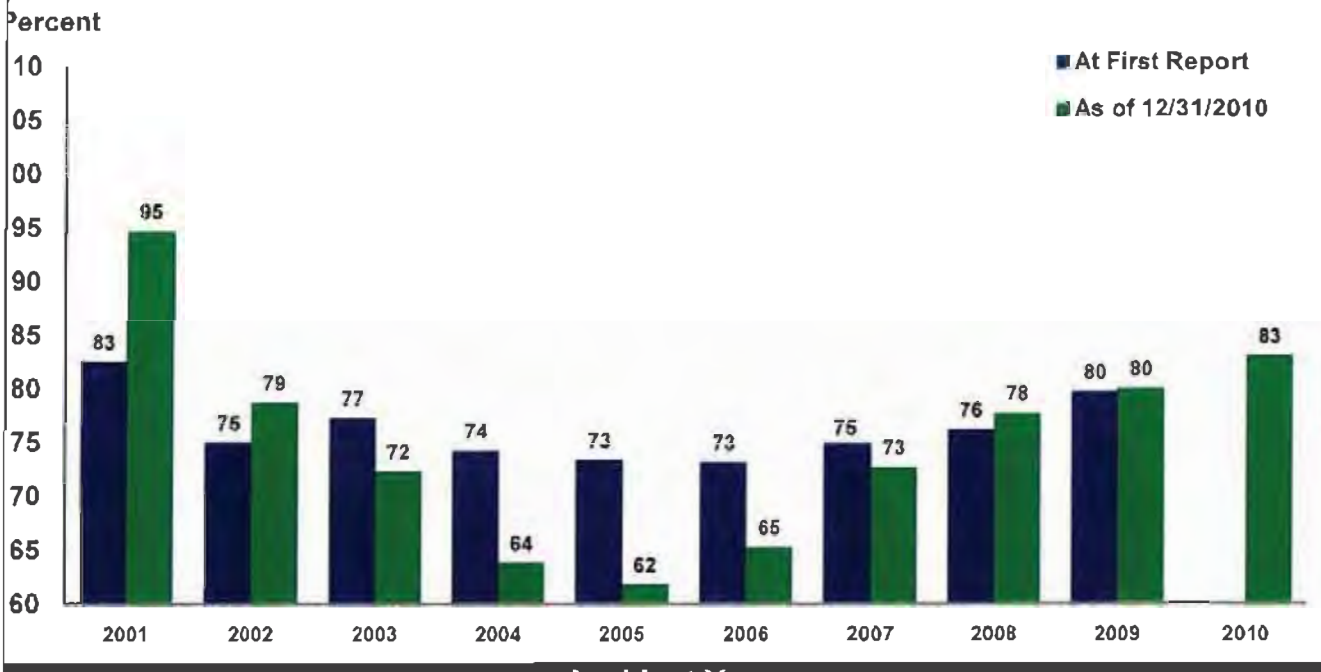
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis
Considers all reserve discounts as deficiencies

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers



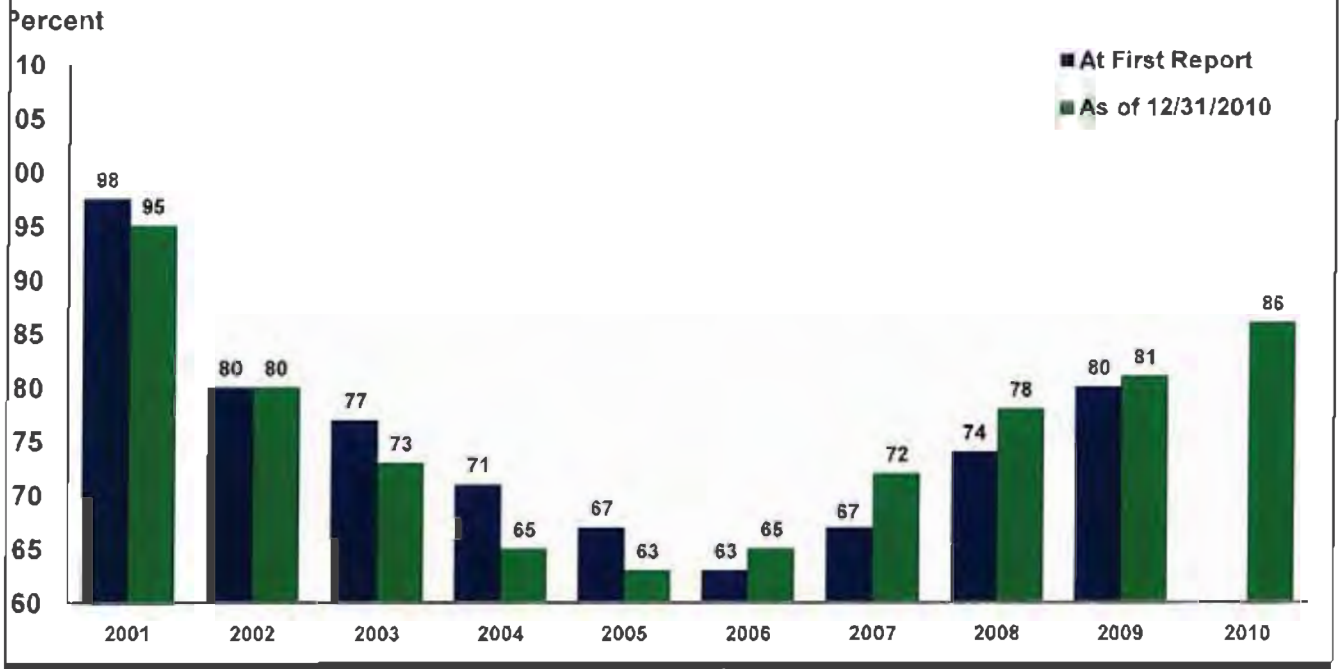
Reported Loss and LAE ratios
Source: NAIC Annual Statement, Schedule P data as reported by private carriers

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

Workers Compensation Ultimate Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



Selected Loss and LAE ratios
Source: NCCI Reserve Analysis

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

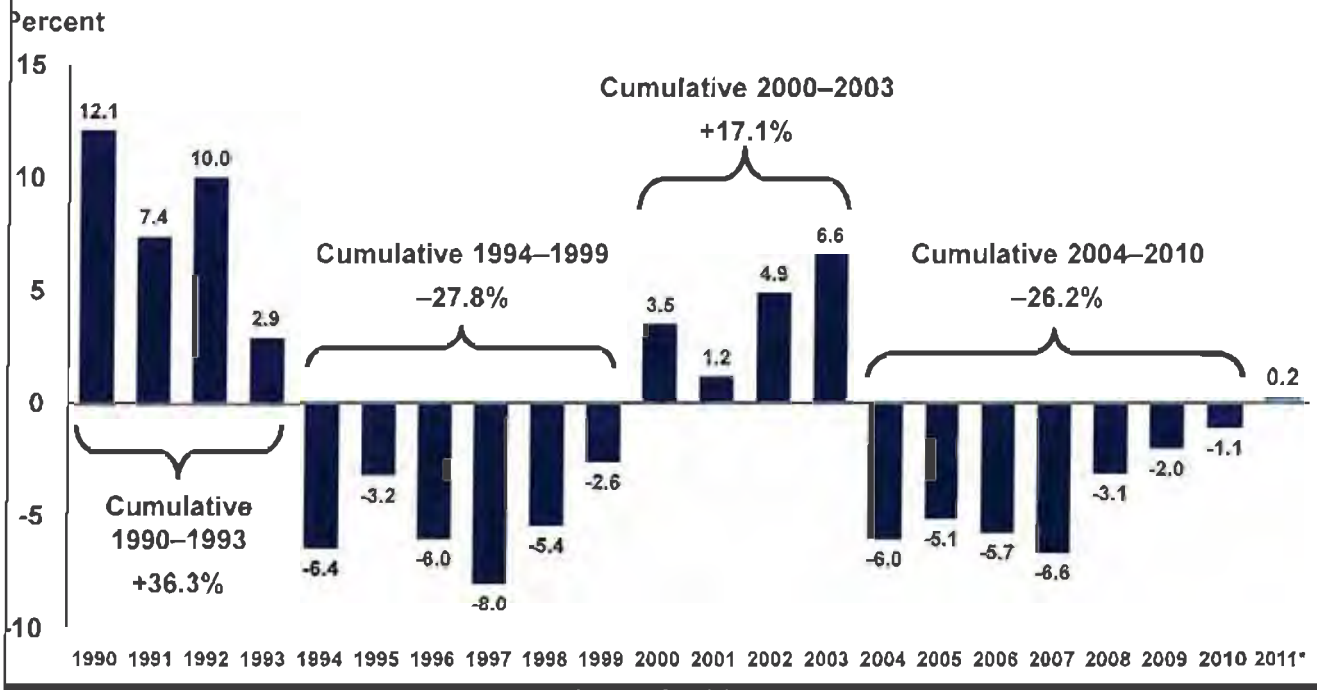
Workers Compensation

Premium Drivers

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



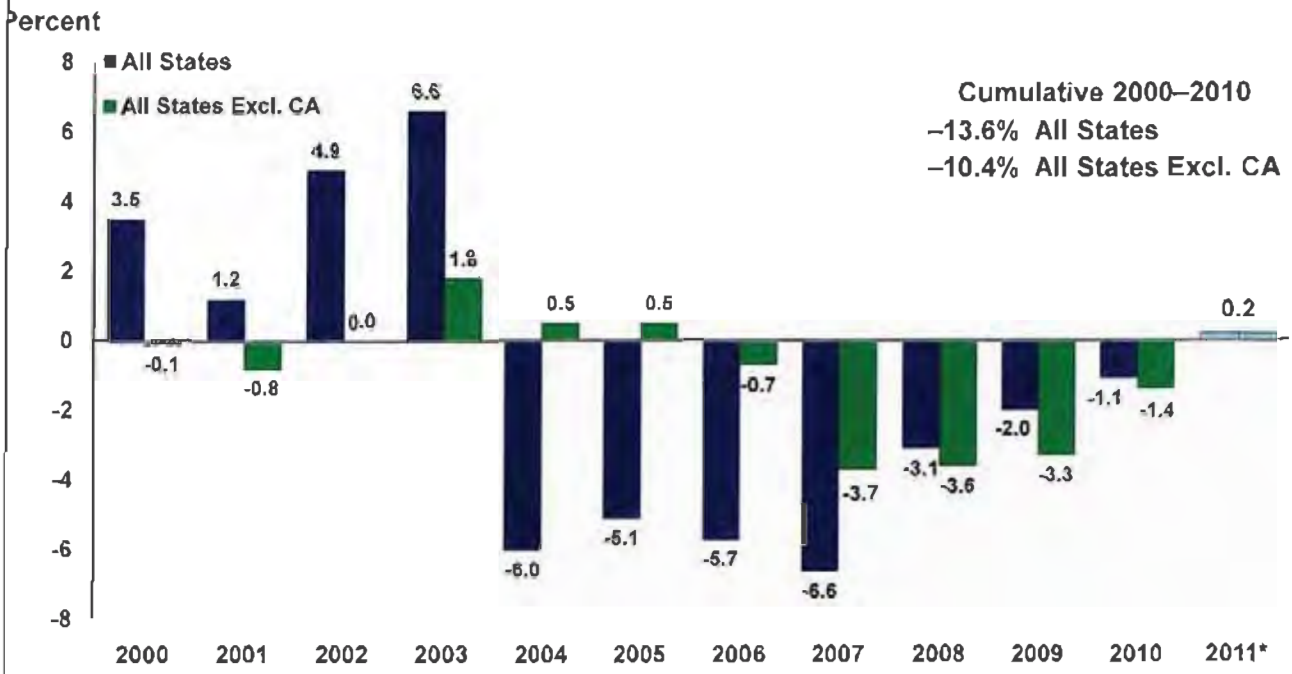
* States approved through 4/8/2011

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California



* States approved through 4/8/2011

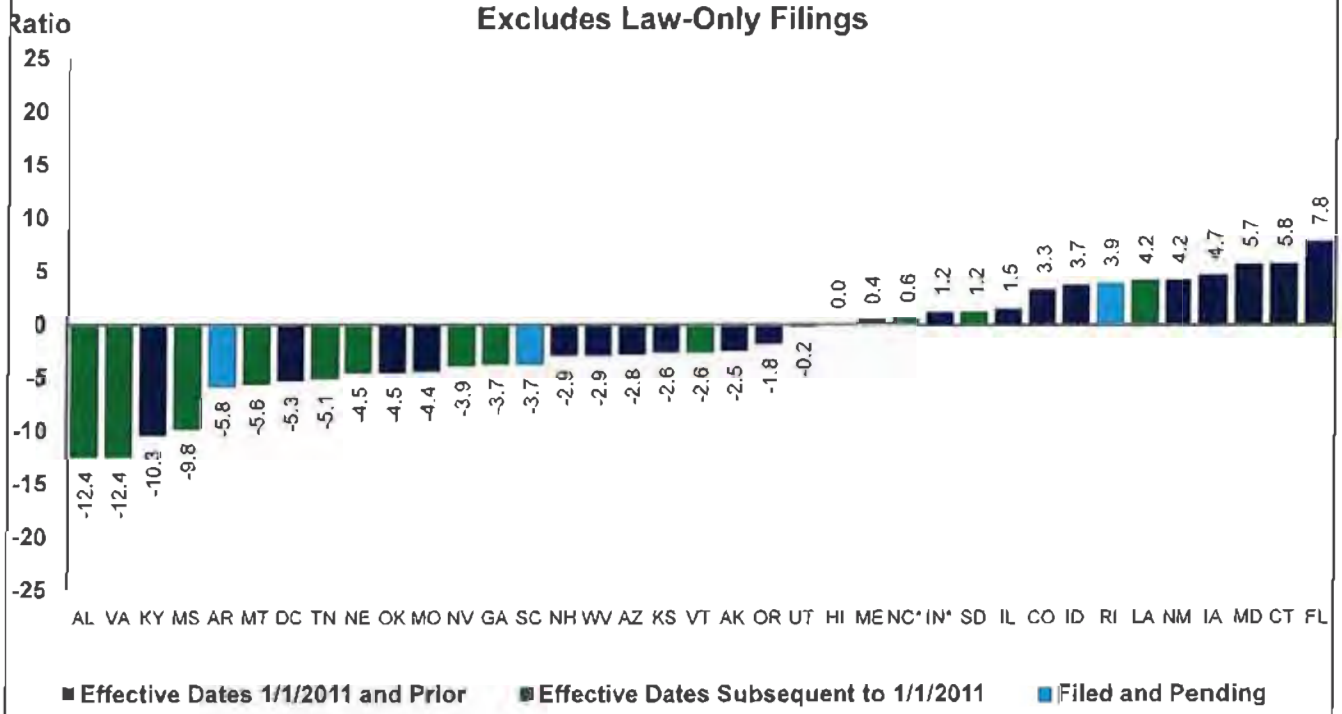
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings



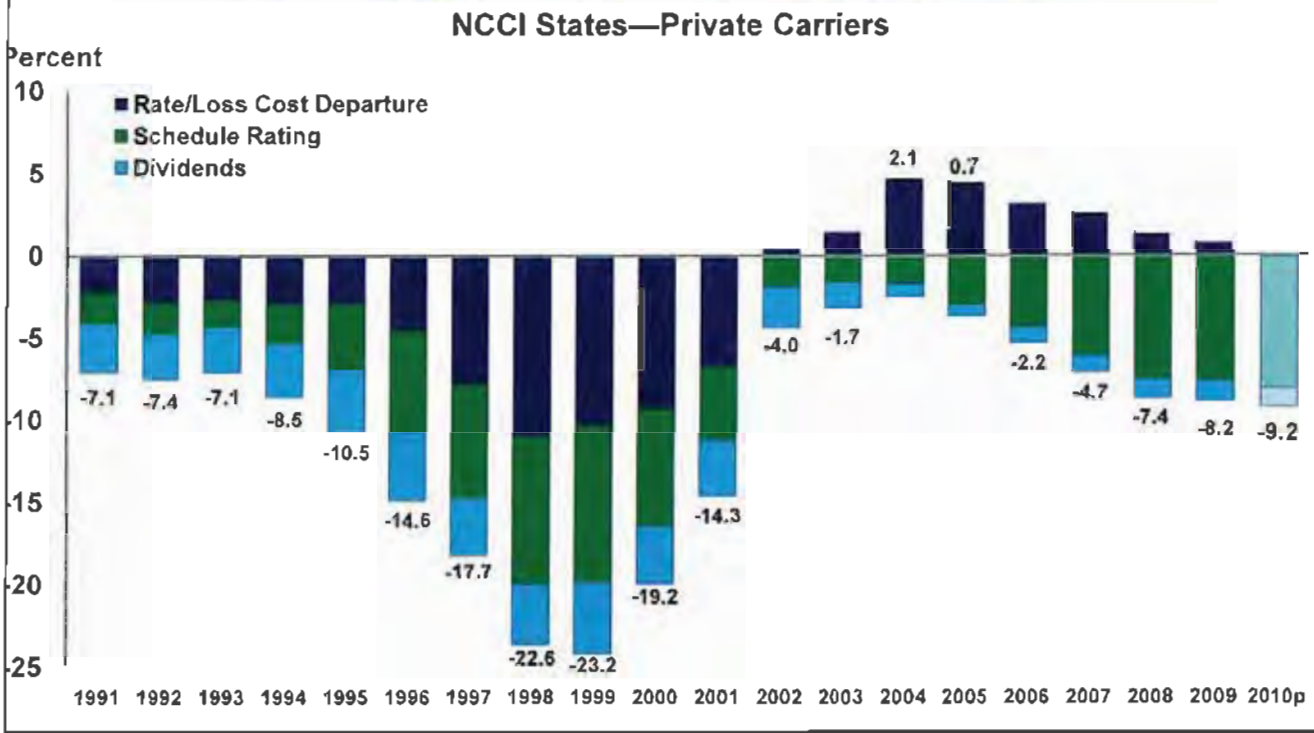
States filed through 4/15/2011

* IN and NC filed in cooperation with state rating bureau

AIS 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Impact of Discounting on Workers Compensation Premium

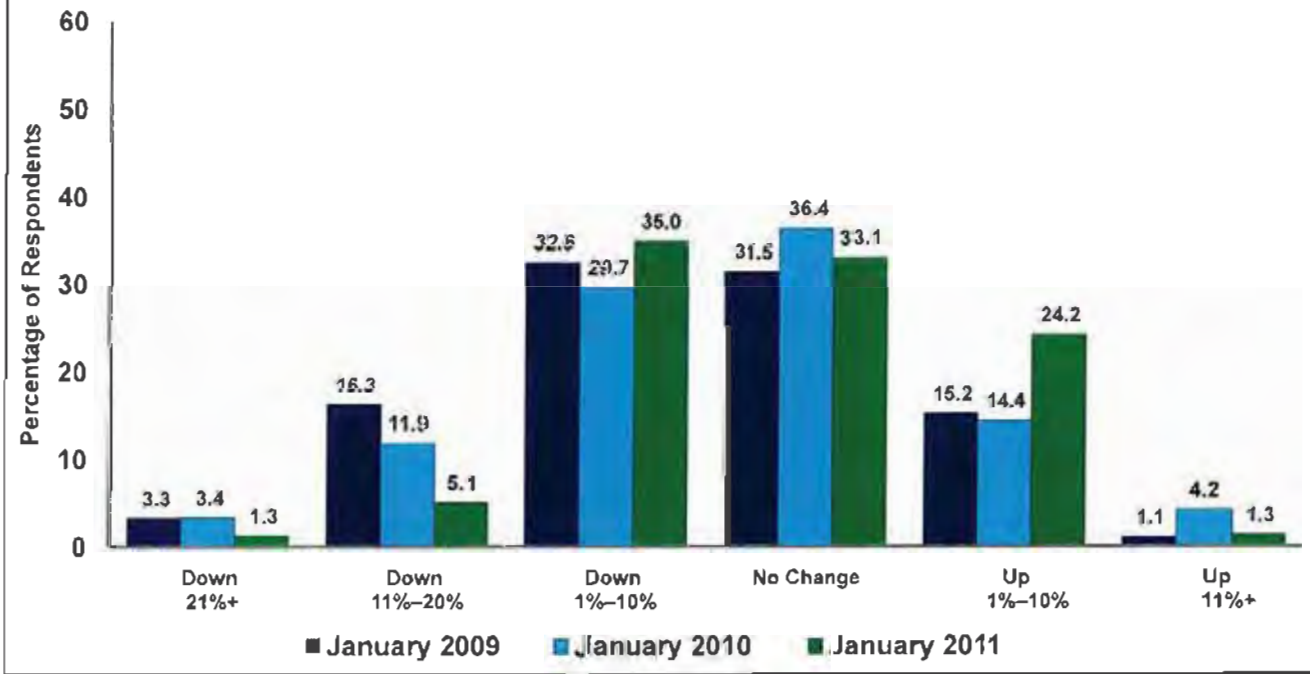


p Preliminary
Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include an underwriting contingency provision
Based on data through 12/31/2010 for the states where NCCI provides ratemaking services

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

According to Goldman Sachs, Pricing Declines Continue to Moderate



Source: Goldman Sachs Research, Proprietary Survey, "January 2011 Pricing Survey, Insurance Property & Casualty (Exhibit 8, Workers' Compensation Percentage of Respondents)

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

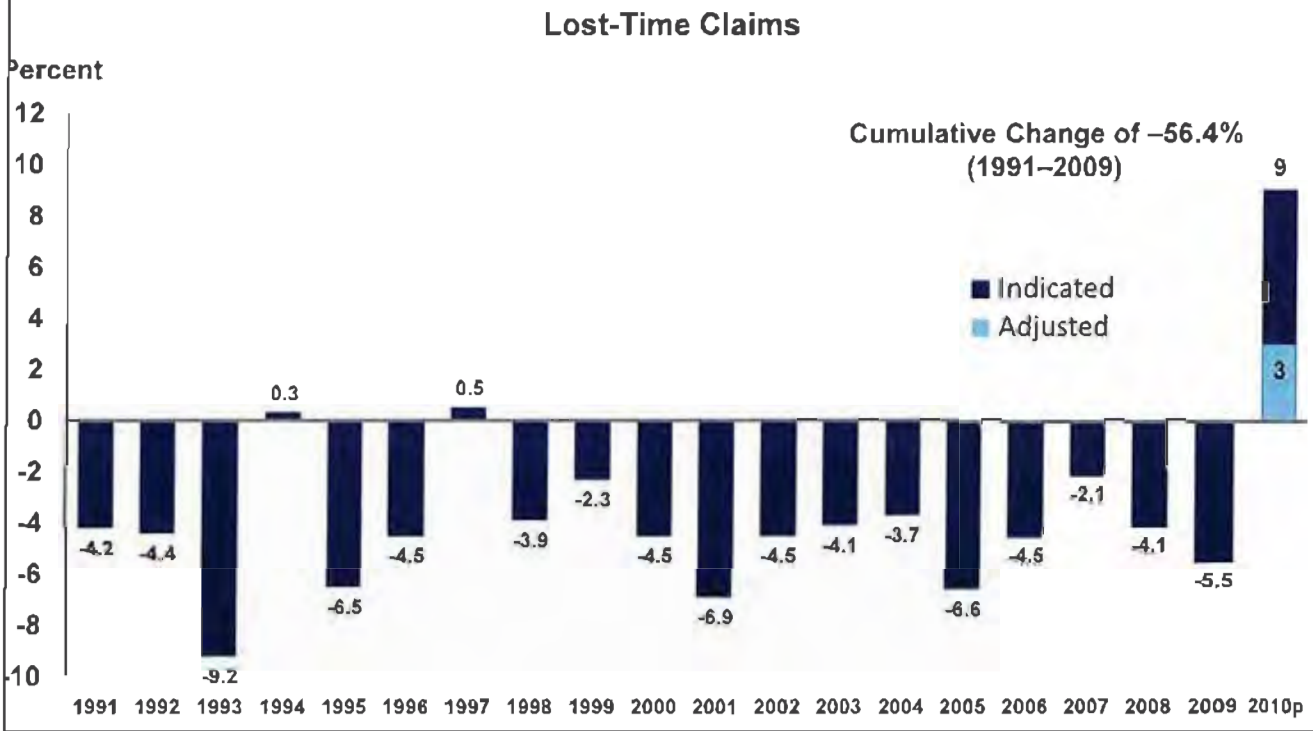
Workers Compensation

Loss Drivers

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Lost-Time Claim Frequency Increased in 2010



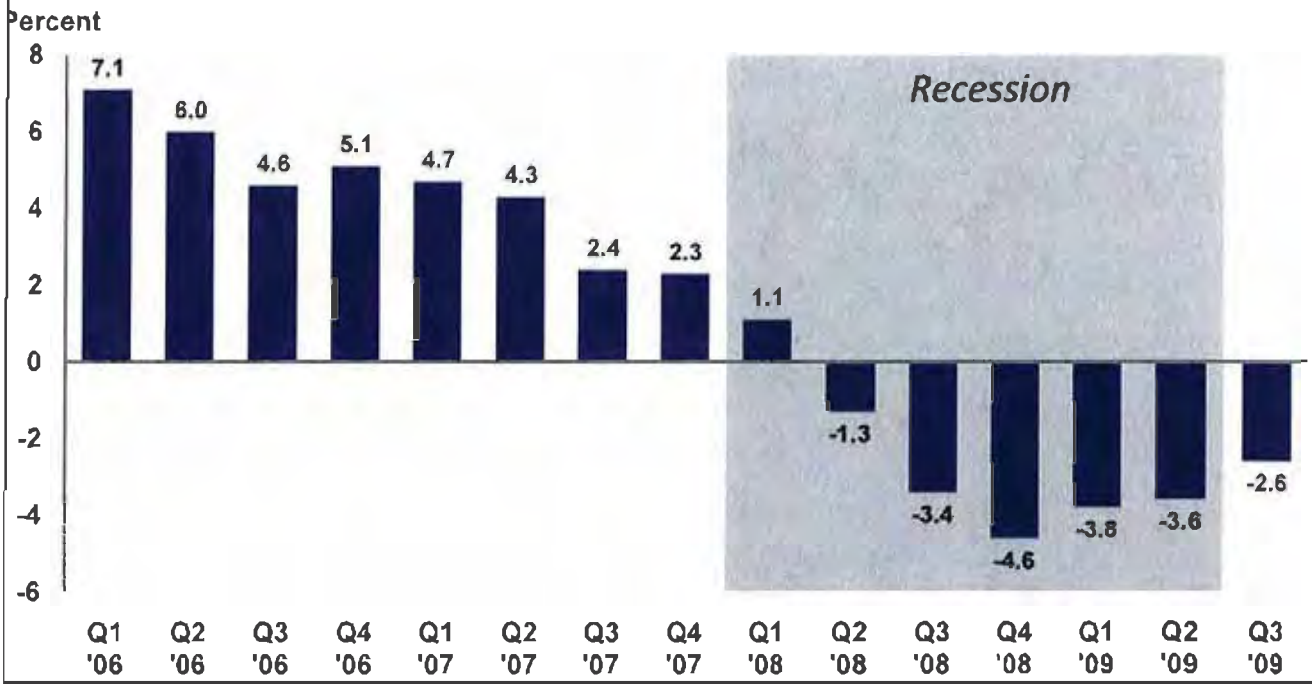
2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds, excludes high deductible policies
Frequency is the number of lost-time claims per $1M wage-adjusted pure premium at current voluntary level.

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

The Recession Impacted Premium Audits

Final Premium vs. Estimated Premium by Policy Effective Quarter

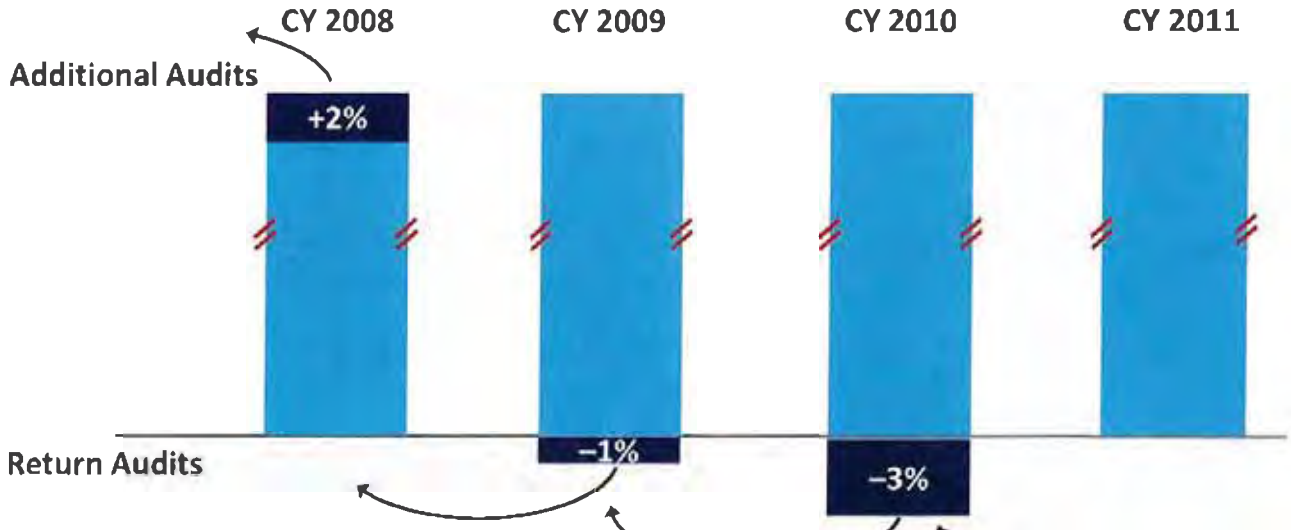


Workers Compensation Statistical Plan audited premium compared to policy-estimated premium
Based on the states where NCCI provides ratemaking services, including state funds excludes high deductible policies and mid-term cancellations

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Impact of Premium Audits on Frequency



	CY 2008	CY 2009	CY 2010	CY 2011
Net Adjustment to Premium	–3%	–2%	+3%	
Adjustment to Change in Frequency		–1%	–5%	

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Average Workweek Also Impacted by Recession

Source: BLS Employment, Hours, and Earnings from the Current Employment Statistics Survey (National) All Workers Private Employment

AIS Annual Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Adjustments to Indicated Change in Lost-Time Frequency

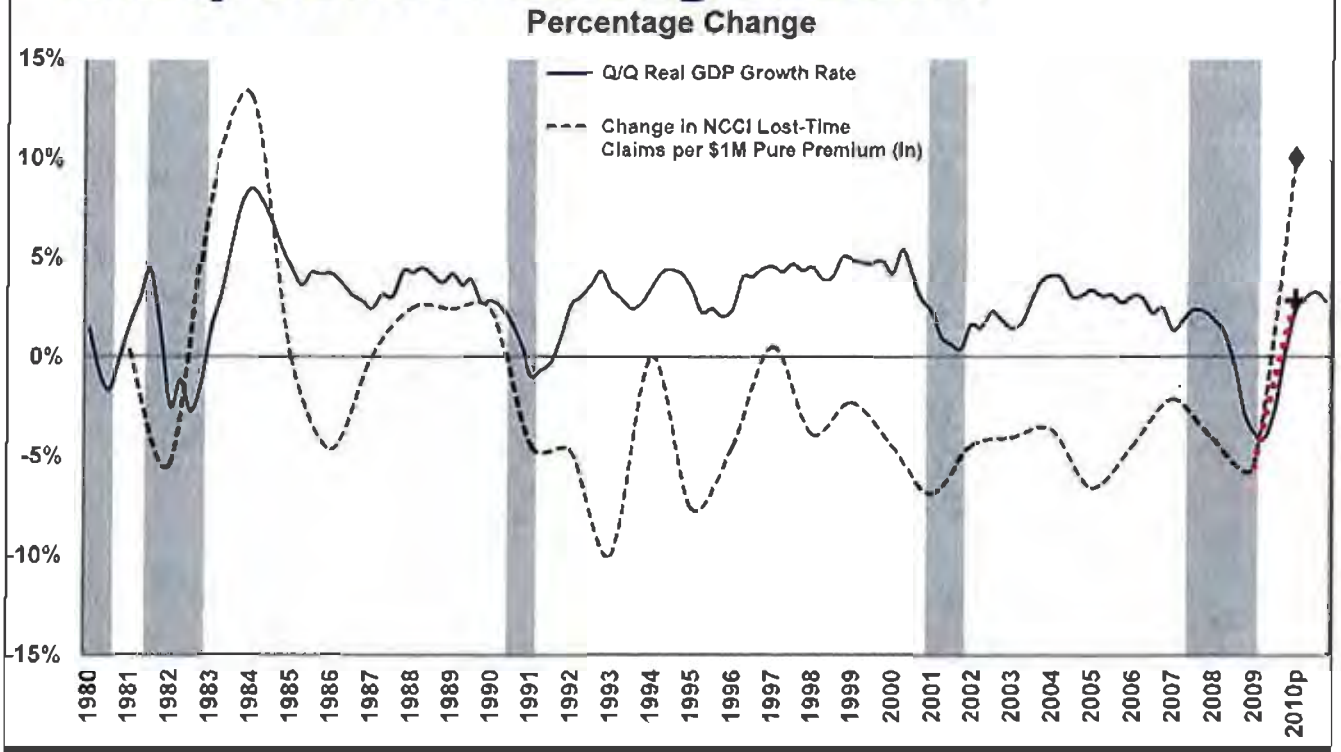
Accident Year 2009–2010

Estimated Adjustments to Frequency Change	2009	2010
Unadjusted Frequency Change	–5%	+9%
CY Premium Adjustment	–1%	–5%
Workweek and Industry Group Mix	0%	–1%
Adjusted Frequency Change	–6%	+3%

AIS Annual Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

WC Frequency Increases in the Early 80s Likely Reflect Strong Economic Growth



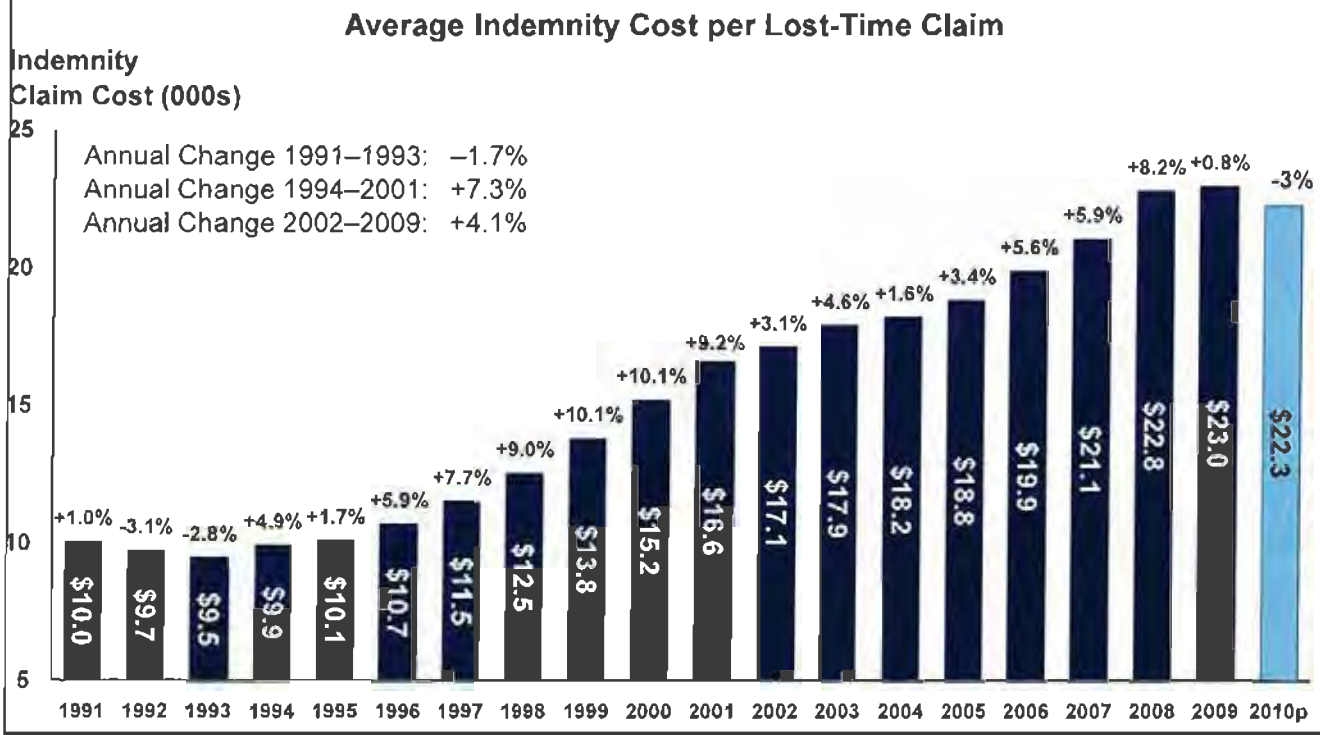
p Preliminary. + (adjusted frequency change). ♦ (indicated frequency change)

Source: GDP. Bureau of Economic Analysis (BEA)
NCCI Frequency and Severity Analysis; based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Indemnity Claim Costs Decline in 2010

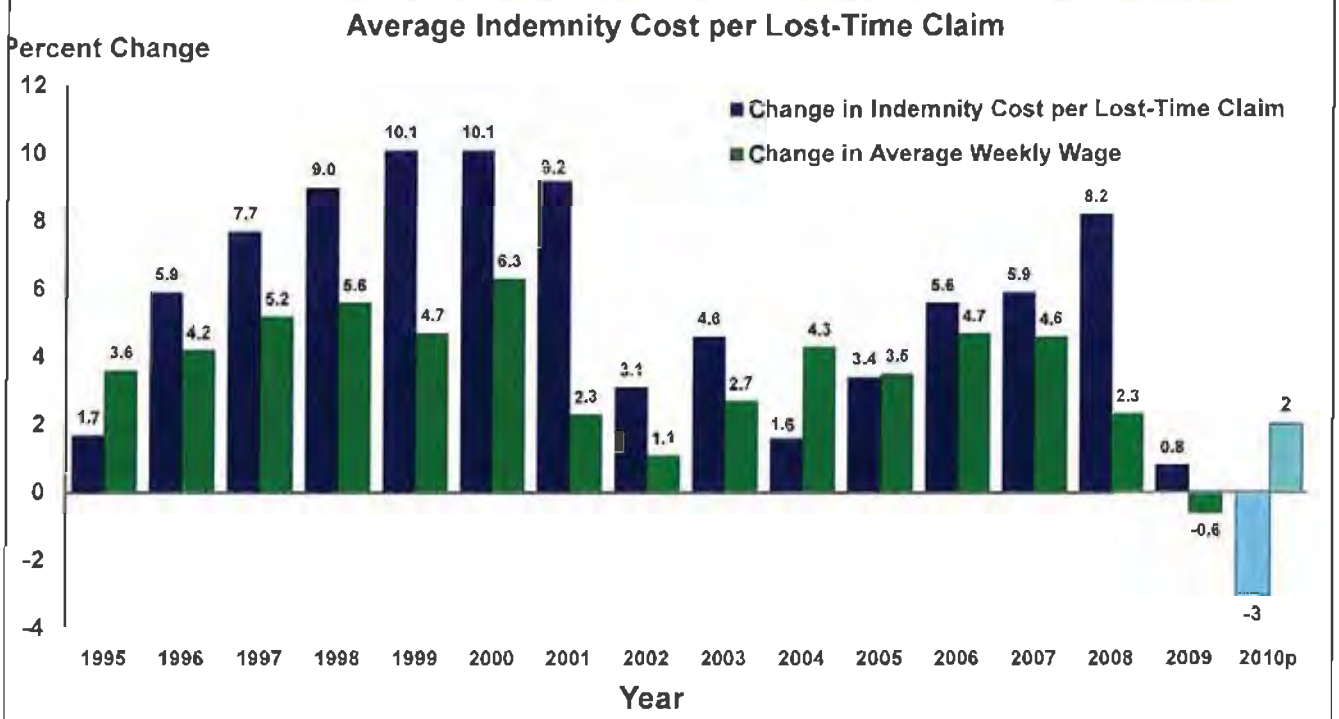


2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

WC Indemnity Severity Declines in Spite of Wage Recovery

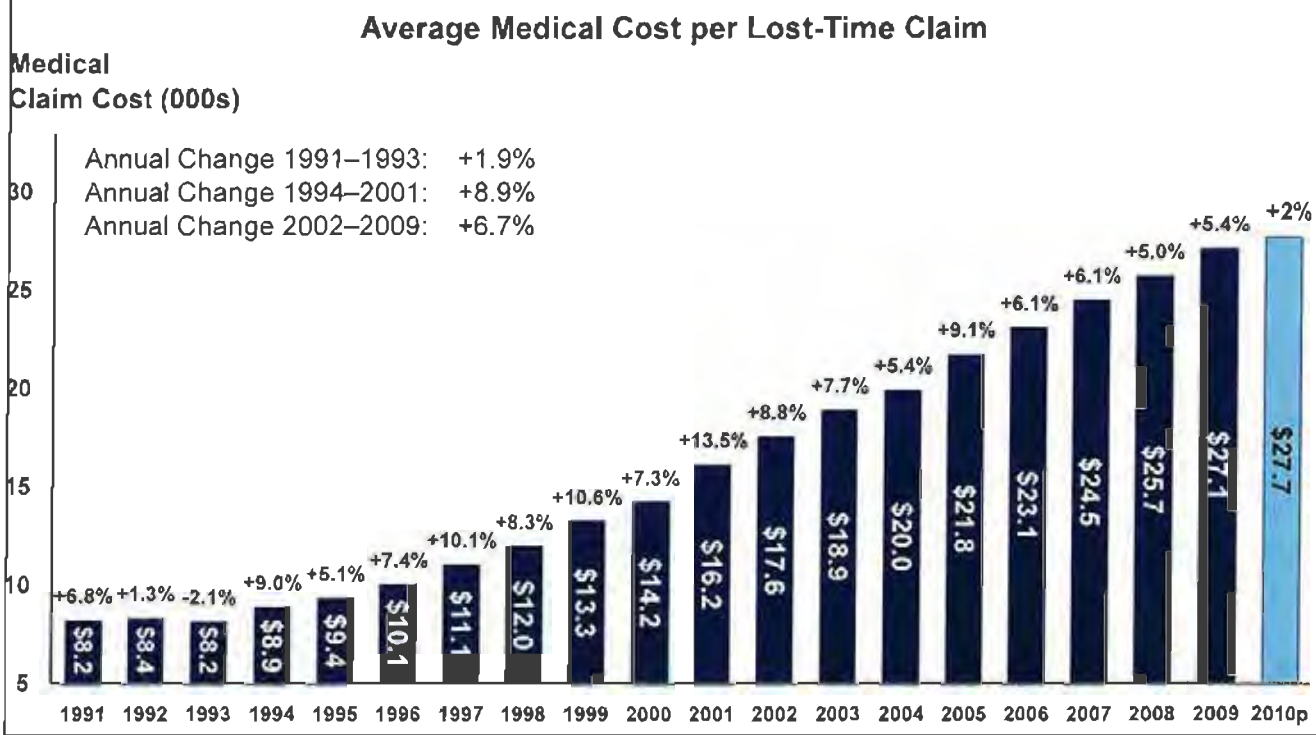


Based on the states where NCCI provides ratemaking services, including state funds, excludes high deductible policies
Source: Average Weekly Wage 1995–2009: Quarterly Census of Employment and Wages, Economy.com; 2010p. NCCI
Accident year indemnity severity—NCCI states: NCCI

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

WC Medical Claim Costs—Are Small Medical-Only Claims Becoming Lost-Time?

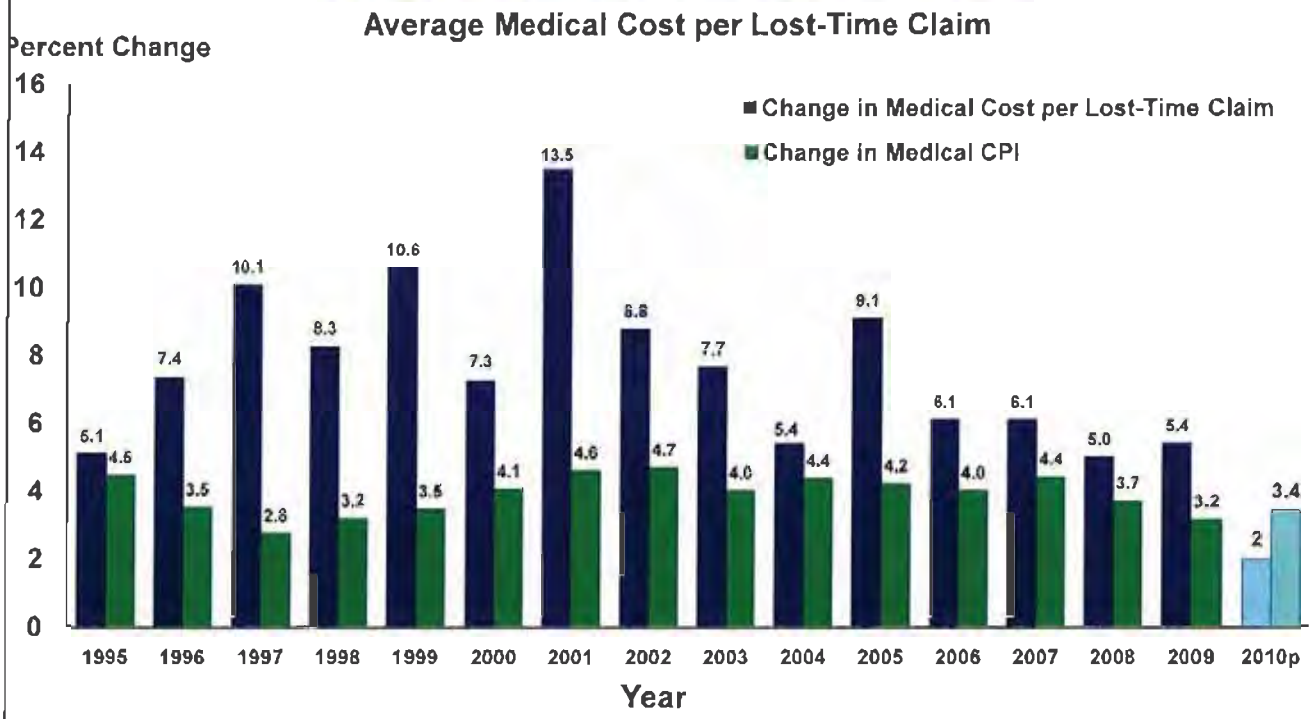


2010p: Preliminary based on data valued as of 12/31/2010
1991–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

WC Medical Severity Lags Medical Inflation



Based on the states where NCCI provides ratemaking services, including state funds excludes high deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states NCCI

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS 2011

Summary of Loss Drivers

Frequency

- Economic recovery puts upward pressure on claim frequency
- The depth of the recession distorts some of the statistics used to measure frequency
  - Premium audits shifted from positive to negative
  - Average hours worked per week shifted from historical average
  - Rapid decline in manufacturing and contracting employment
- The estimated impact of these factors reduces the indicated change in frequency from 9% to 3% in 2010

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS 2011

Summary of Loss Drivers

Severity

- Changes in severity are the lowest since the reform days of the 1990s
- 2010 apparently produced an increased number of small lost-time claims that in previous years were likely medical-only claims
- Indicated severity change may not be indicative of underlying cost drivers
- The severity changes for lost-time claims for 2010 were:

-3%	Indemnity
+2%	Medical
0%	Total

AIS Annual Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Summary of Loss Drivers

Estimated Impact on Loss Costs

- The net impact of changes in frequency, severity, and wage growth is a small increase in loss cost:

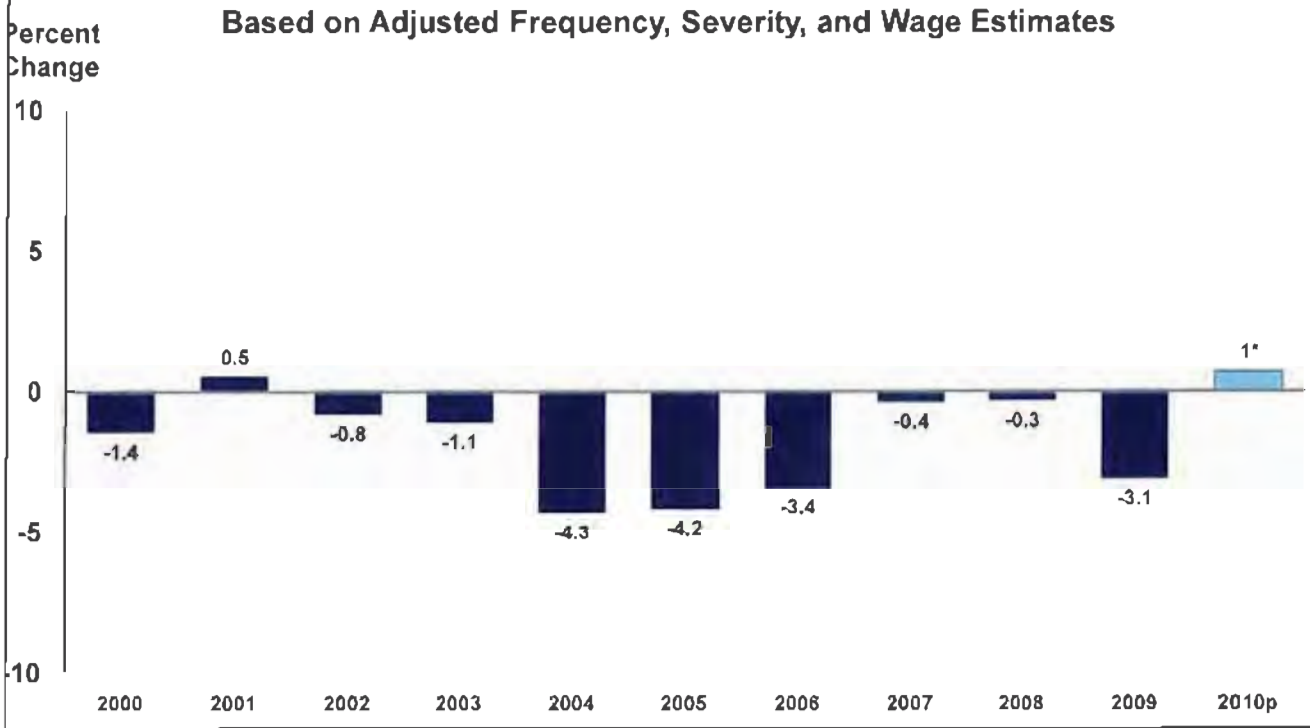
	Frequency	+3% (1.03)
x	Severity	0% (1.00)
÷	Wage growth	2% (1.02)
=	Net loss cost change	1% (1.01)

AIS Annual Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Impact of Indicated Changes on Loss Costs

Based on Adjusted Frequency, Severity, and Wage Estimates



2010p: Preliminary based on data valued as of 12/31/2010
2000–2009: Based on data through 12/31/2009, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds. excludes high deductible policies

* Based on adjusted change in frequency (per $1M pure premium).

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Workers Compensation

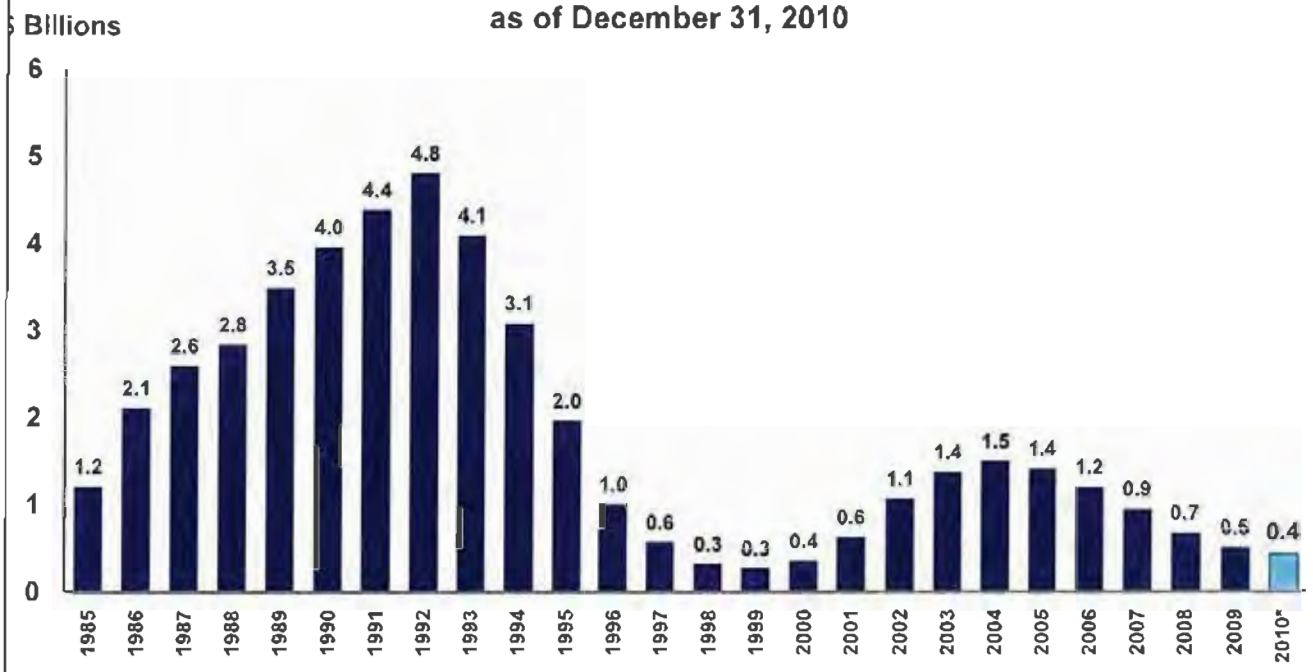
Residual Market

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

AIS Annual Issues Symposium 2011

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools as of December 31, 2010



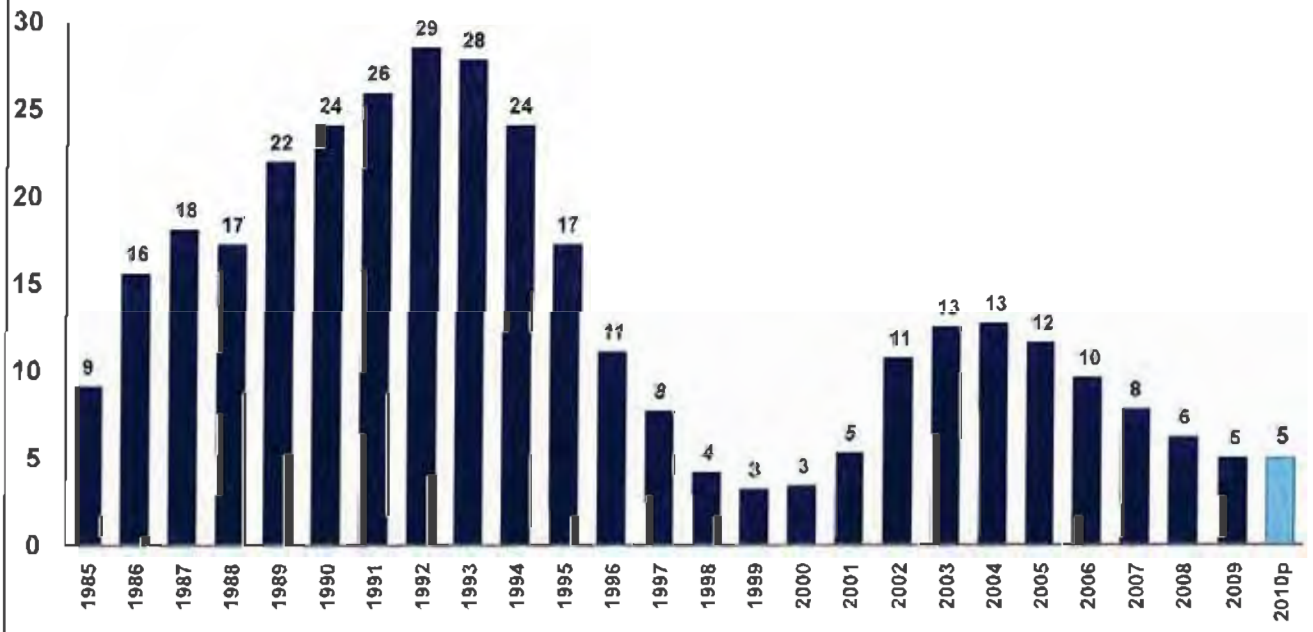
* Incomplete policy year projected to ultimate

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Residual Market Share Holds Steady

Workers Compensation Insurance Plan States* Premium as a Percentage of Direct Written Premium



p Preliminary

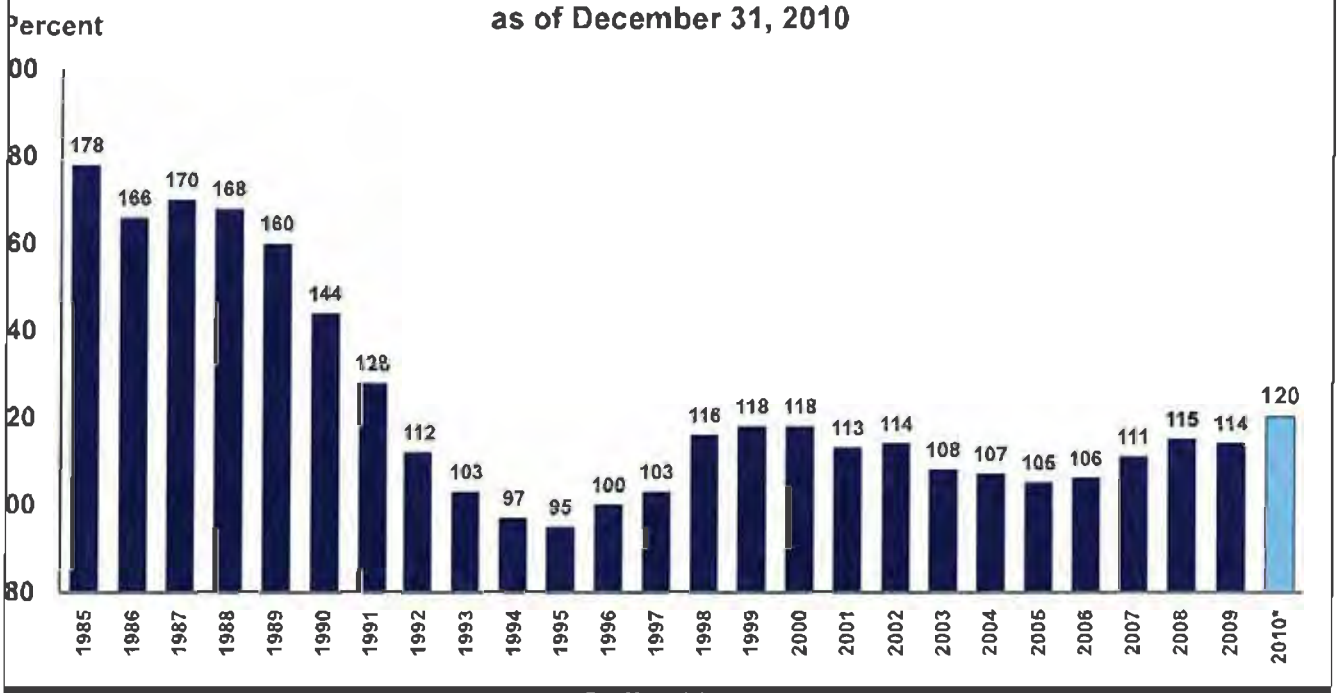
* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2010

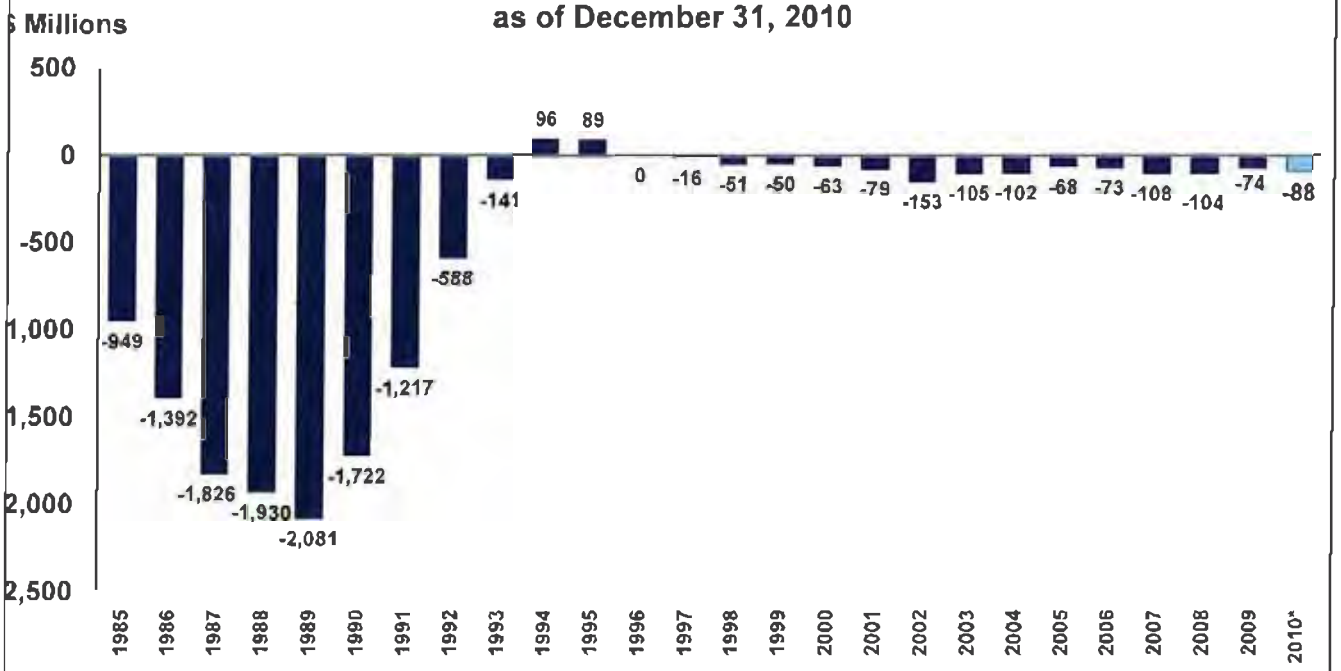


* Incomplete policy year projected to ultimate

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2010



* Incomplete policy year projected to ultimate

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Residual Markets Continue to Depopulate

2009 vs. 2010

Size of Risk	2009	2010	Change
$ 0 – $ 2,499	90.1 M	83.0 M	**-8%**
$ 2,500 – $ 4,999	46.2 M	40.3 M	**-13%**
$ 5,000 – $ 9,999	54.8 M	47.0 M	**-14%**
$ 10,000 – $ 49,999	127.0 M	103.8 M	**-18%**
$ 50,000 – $ 99,999	41.4 M	36.0 M	**-13%**
$ 100,000 and over	36.4 M	33.5 M	**-8%**
Total	**396.0** M	**343.7** M	**-13%**

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

Residual Market Depopulation Coming to an End?

First Quarter 2010 vs. First Quarter 2011

Size of Risk	2010	2011	Change
$ 0 – $ 2,499	20.4 M	19.8 M	**-3%**
$ 2,500 – $ 4,999	10.1 M	9.7 M	**-4%**
$ 5,000 – $ 9,999	12.0 M	11.9 M	**-1%**
$ 10,000 – $ 49,999	30.2 M	29.6 M	**-2%**
$ 50,000 – $ 99,999	11.0 M	10.0 M	**-9%**
$ 100,000 and over	7.8 M	10.8 M	**38%**
Total	**91.5** M	**91.8** M	**0%**

Total estimated annual premium on policies
Includes residual market policies for
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved

Current Topics of Interest

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Experience Rating Plan Methodology Review

- The experience rating plan showed excellent results overall in performance testing for prior years
- An extensive review has been recently completed
- Number of years in the plan will remain the same
- We are increasing the split point from $5,000 to $15,000 (trended) over a three-year transition
- The split point will be indexed for claim inflation
- A filing for these changes will likely be made in 3rd quarter of this year (2011)

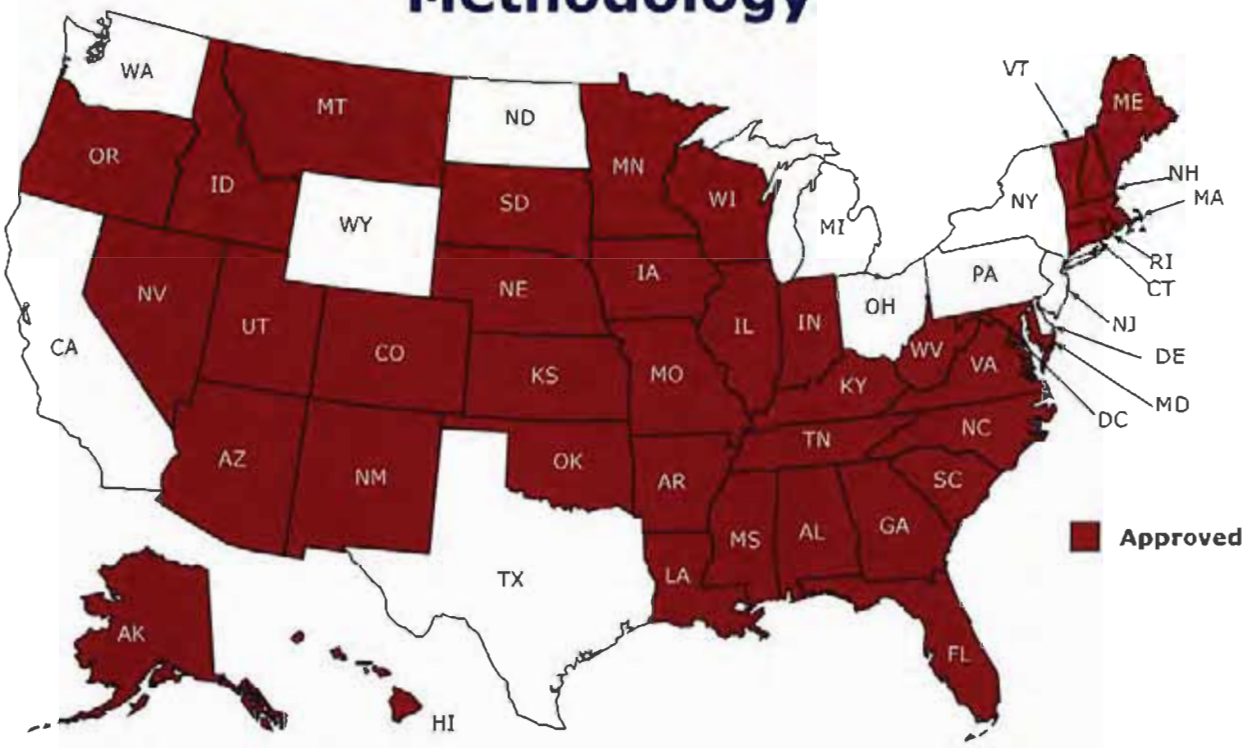
Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

NCCI Developments in Class Ratemaking Methodology

- NCCI conducted a comprehensive review of all class ratemaking methodologies
- Implemented with filings effective October 1, 2009
- The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability
- The new methodology has been implemented in all NCCI states other than Texas

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Adoption of New Class Ratemaking Methodology



Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.

Swing Limits

Filing Cycle	% of Classes Limited by Swing	% of Limited Classes Limited by Opposite Swing in Prior Cycle
2006/2007	11.4%	4.4%
2007/2008	11.8%	5.1%
2008/2009	10.6%	3.8%
2009/2010	9.5%	5.3%
2010/2011	8.2%	1.2%

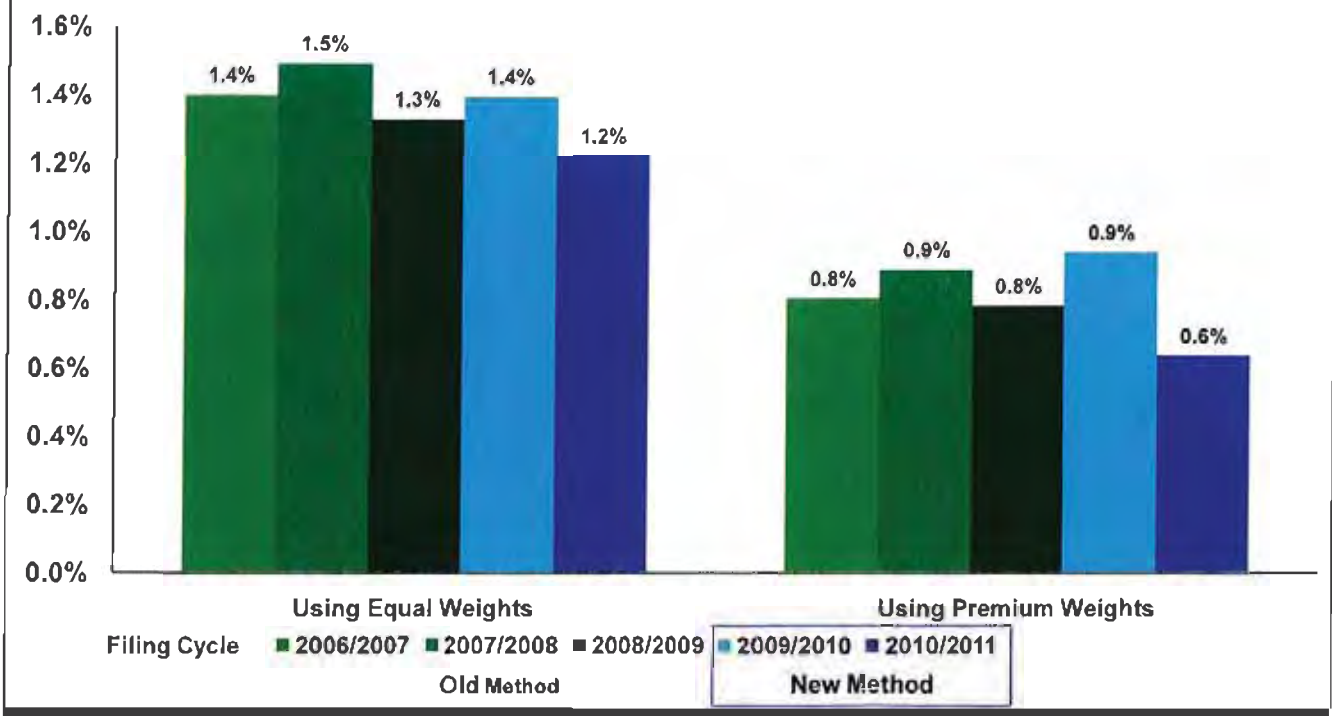
New Method

Includes:
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

AIS 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved.

Variance of Loss Cost/Rate Change Around Statewide Average

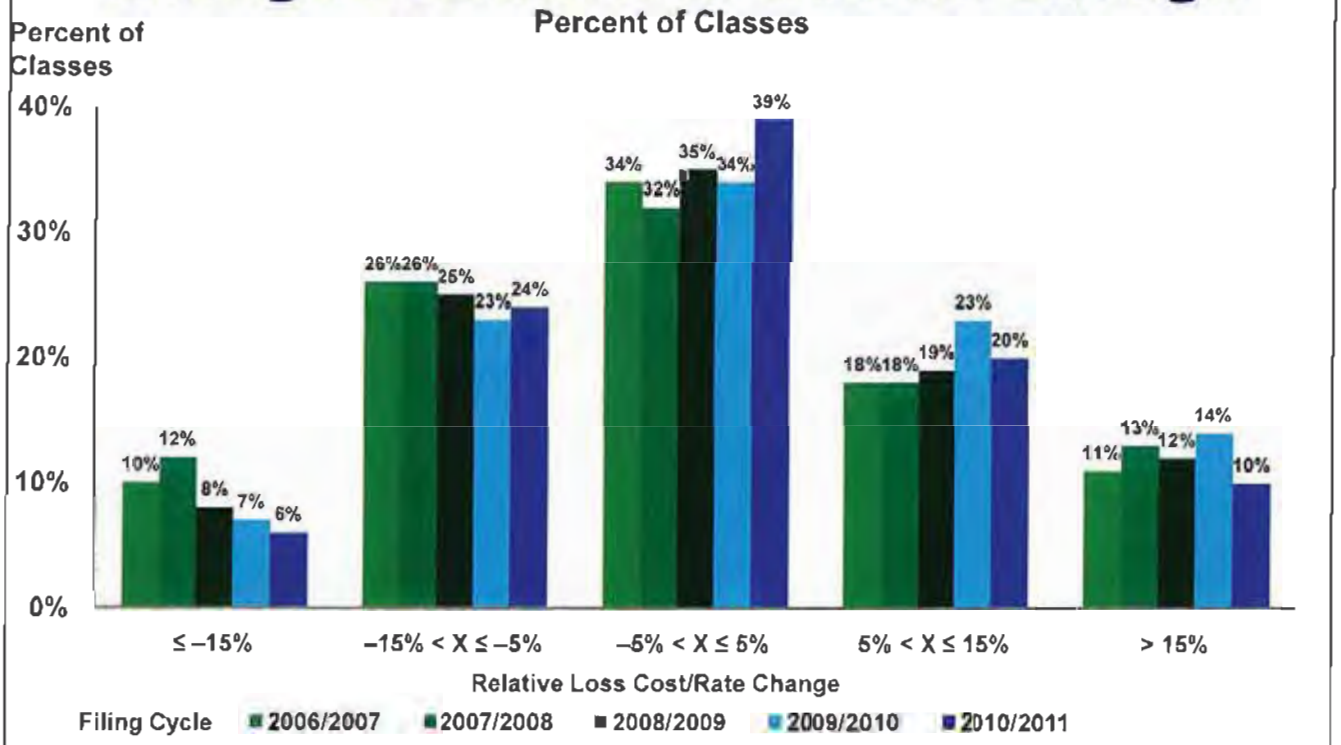


Includes:
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT

AIS 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved.

Distribution of Filed Loss Cost/Rate Changes Relative to Overall Change

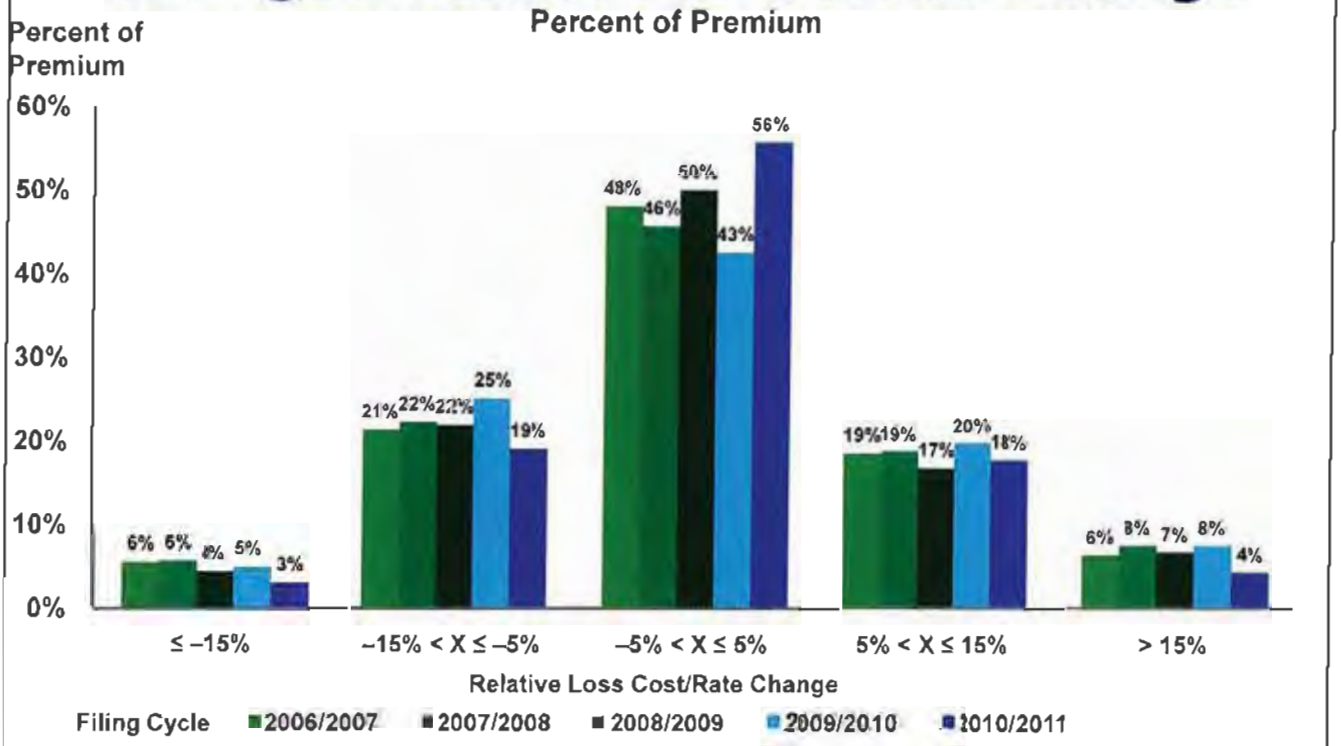


Includes:
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD,
ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT

AIS Annual Issues Symposium 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved

Distribution of Filed Loss Cost/Rate Changes Relative to Overall Change



Includes:
AL, AK, AZ, CO, CT, DC, FL, HI, ID, IL, IN, IA, KS, KY, LA, MD,
ME, MO, MS, NE, NH, NM, NV, NC, OK, OR, RI, TN, UT, VA and VT.

AIS Annual Issues Symposium 2011

Copyright 2011 ISO Holdings, Inc. All Rights Reserved

Concluding Remarks

AIS Actuarial Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

In Summary

Negatives

- Frequency increases
- Underwriting results deteriorated
- Underwriting cycle
- Uncertain impact from Health Care reform
- Unknown scope of future Federal actions

Positives

- Severity flat
- Overall loss cost impact of frequency and severity minimal
- Industry's capital position
- Premium decline slowed materially

AIS Actuarial Issues Symposium 2011

Copyright 2011 HCCI Holdings, Inc. All Rights Reserved

Questions and More Information

Questions on the State of the Line presentation?
E-mail us at stateoftheline@ncci.com.

Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**.

AIS Annual Issues Symposium 2011

Copyright 2011 NCCI Holdings, Inc. All Rights Reserved.