



NCCI Holdings, Inc.

State of the Line

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NCCI Chief Actuary

May 8, 2008
Orlando, Florida

- I. Property/Casualty Results**
- II. Workers Compensation Results**
- III. Current Topics of Interest**
- IV. Concluding Remarks**

Property/Casualty Results

P/C Industry Net Written Premium—A Rare Decline

Private Carriers

Line of Business (LOB)	2005	2006	2007p	2006– 2007p Change
Personal Auto	\$159.5 B	\$160.2 B	\$160.8 B	0.4%
Homeowners	\$52.2 B	\$54.5 B	\$53.8 B	-1.4%
Other Liability (Incl Prod Liab)	\$42.7 B	\$45.7 B	\$46.1 B	1.0%
Workers Compensation	\$37.8 B	\$38.7 B	\$37.6 B	-3.0%
Commercial Multiple Peril	\$29.6 B	\$31.7 B	\$31.4 B	-1.0%
Commercial Auto	\$26.5 B	\$26.7 B	\$25.9 B	-3.0%
Fire & Allied Lines (Incl EQ)	\$17.4 B	\$20.0 B	\$21.8 B	9.0%
All Other Lines	\$59.8 B	\$65.9 B	\$63.5 B	-3.6%
Total P/C Industry	\$ 425.5 B	\$ 443.5 B	\$ 440.8 B	-0.6%

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview* and ISO

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Another Year of Underwriting Gain

Net Combined Ratio—Private Carriers

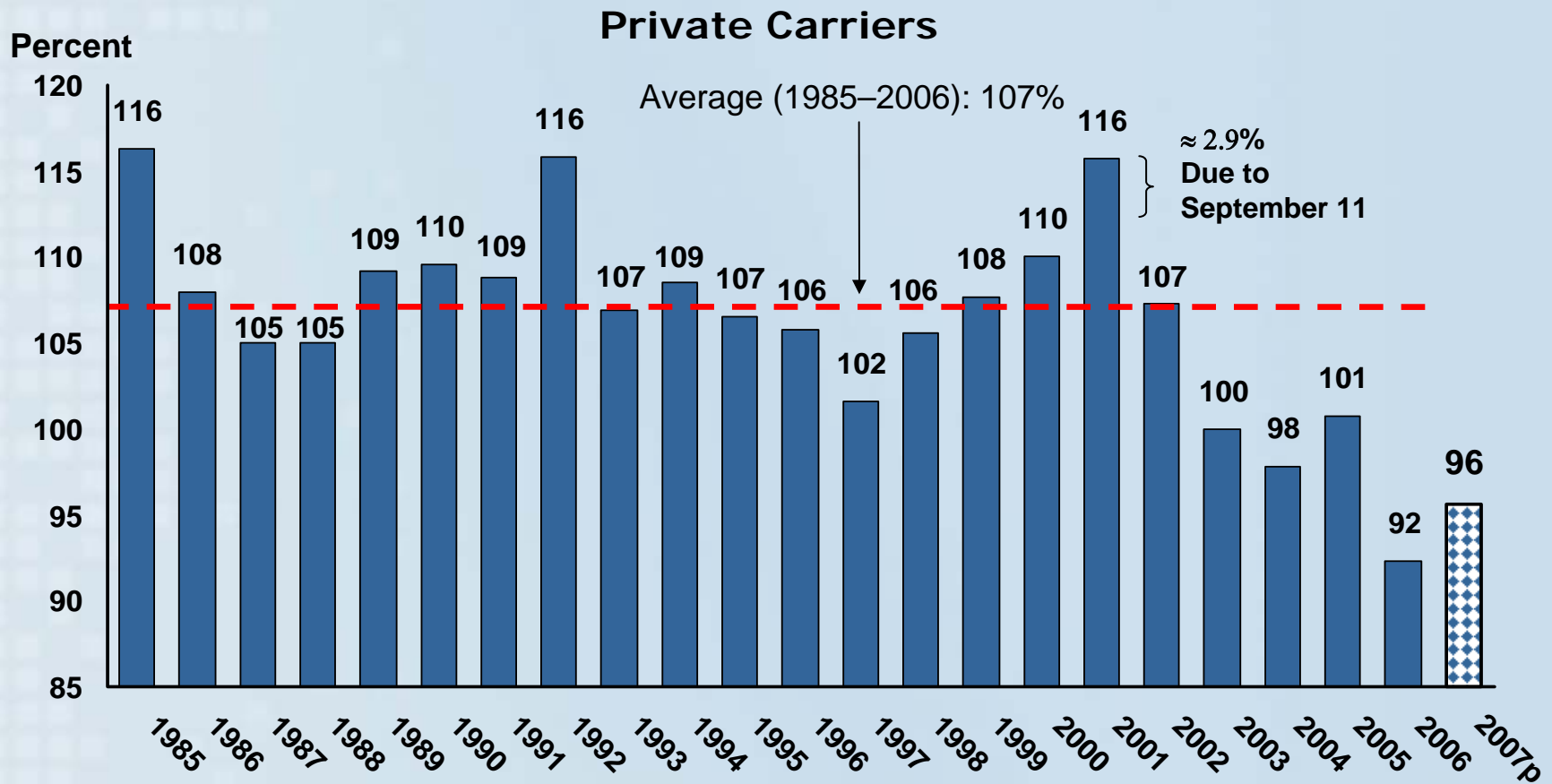
Line of Business (LOB)	Calendar Year		
	2005	2006	2007p
Personal Auto	95%	96%	98%
Homeowners	100%	90%	95%
Other Liability (Incl Prod Liab)	113%	95%	99%
Workers Compensation	103%	93%	99%
Commercial Multiple Peril	97%	93%	94%
Commercial Auto	92%	92%	95%
Fire & Allied Lines (Incl EQ)	104%	81%	83%
All Other Lines	111%	86%	89%
Total P/C Industry	101%	92%	96%

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview* and ISO

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P/C Industry Calendar Year Net Combined Ratios



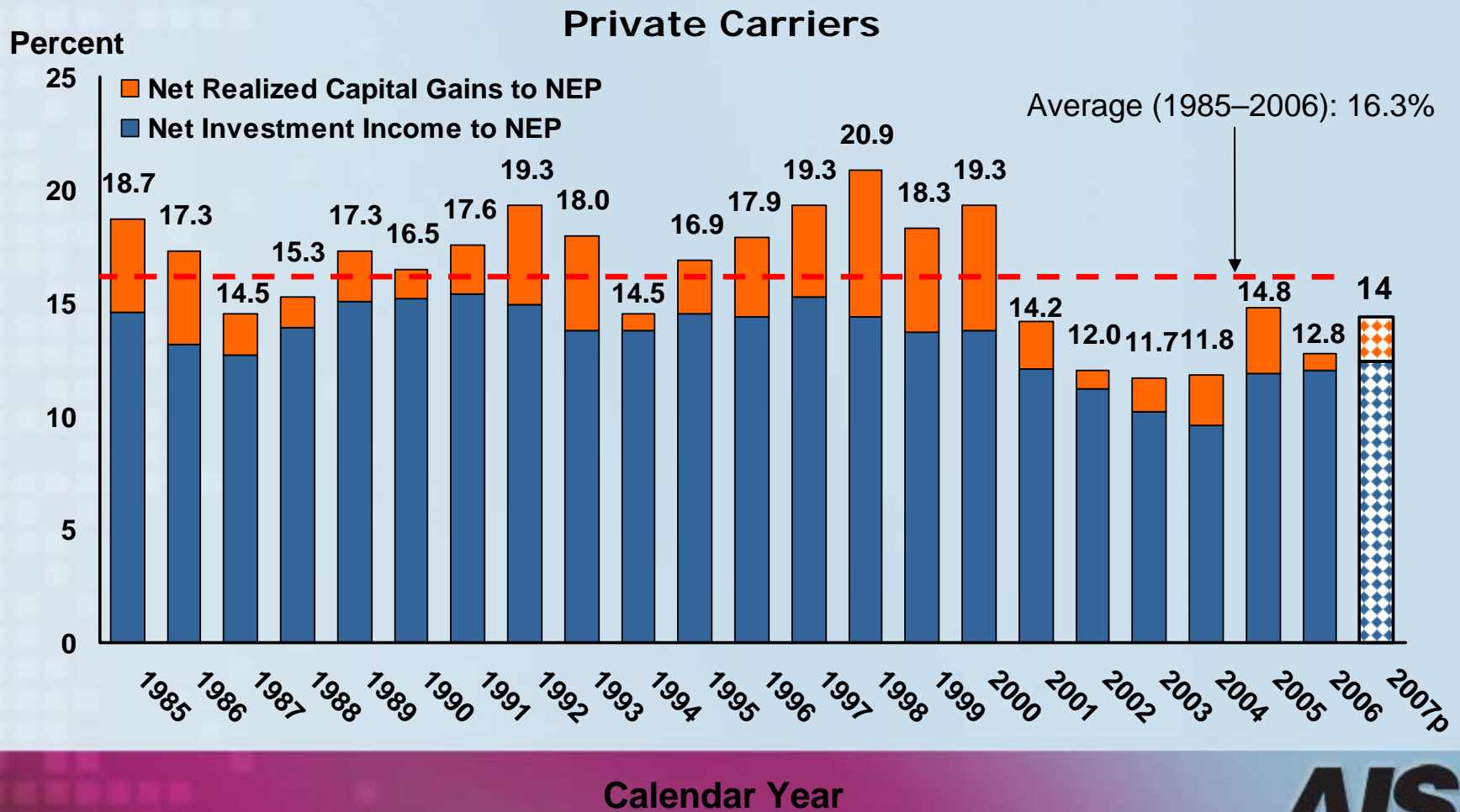
Calendar Year

p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p, ISO



Investment Gain Ratio Remains Below Historical Average

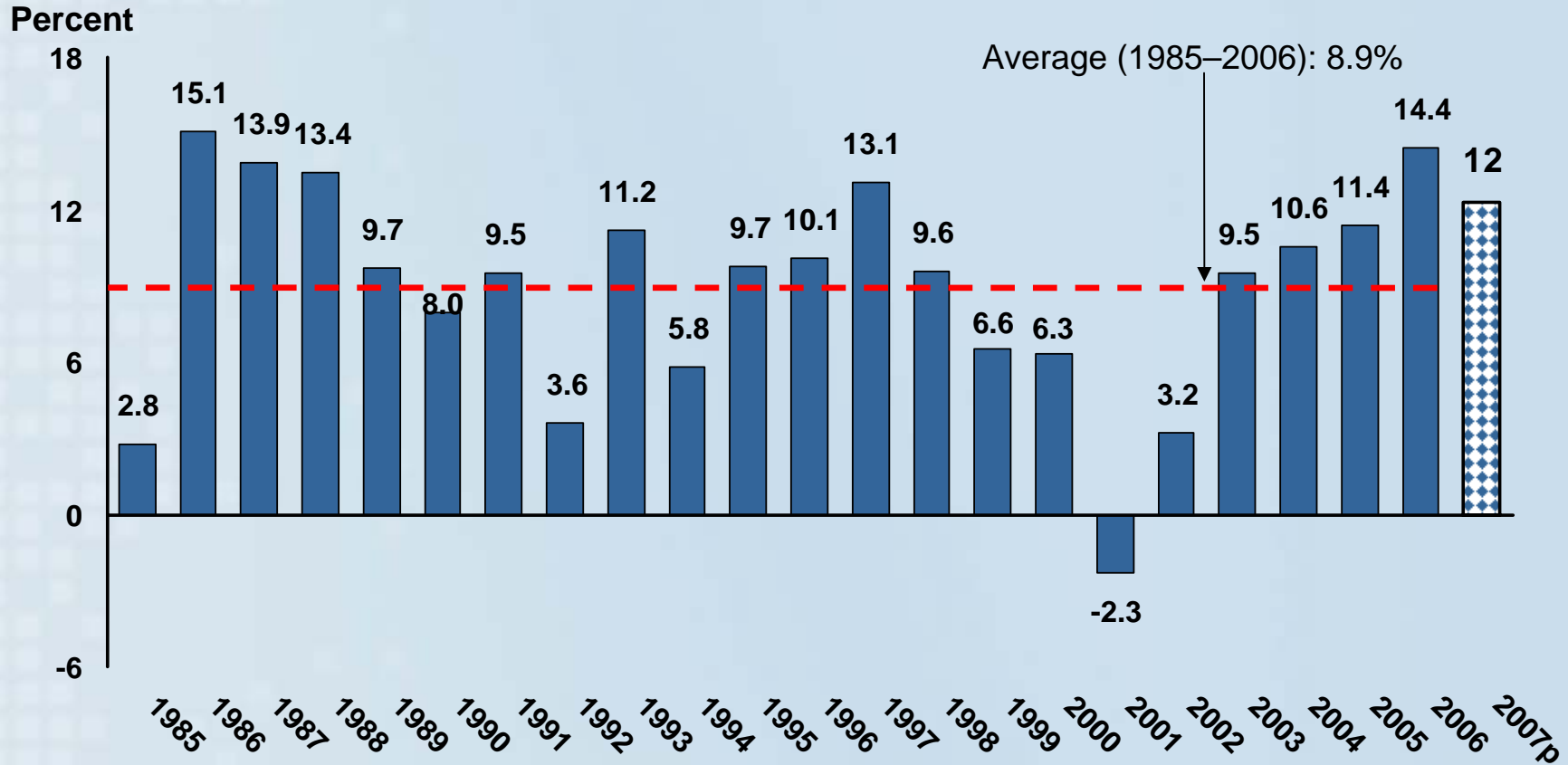


p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p, ISO

P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



Calendar Year

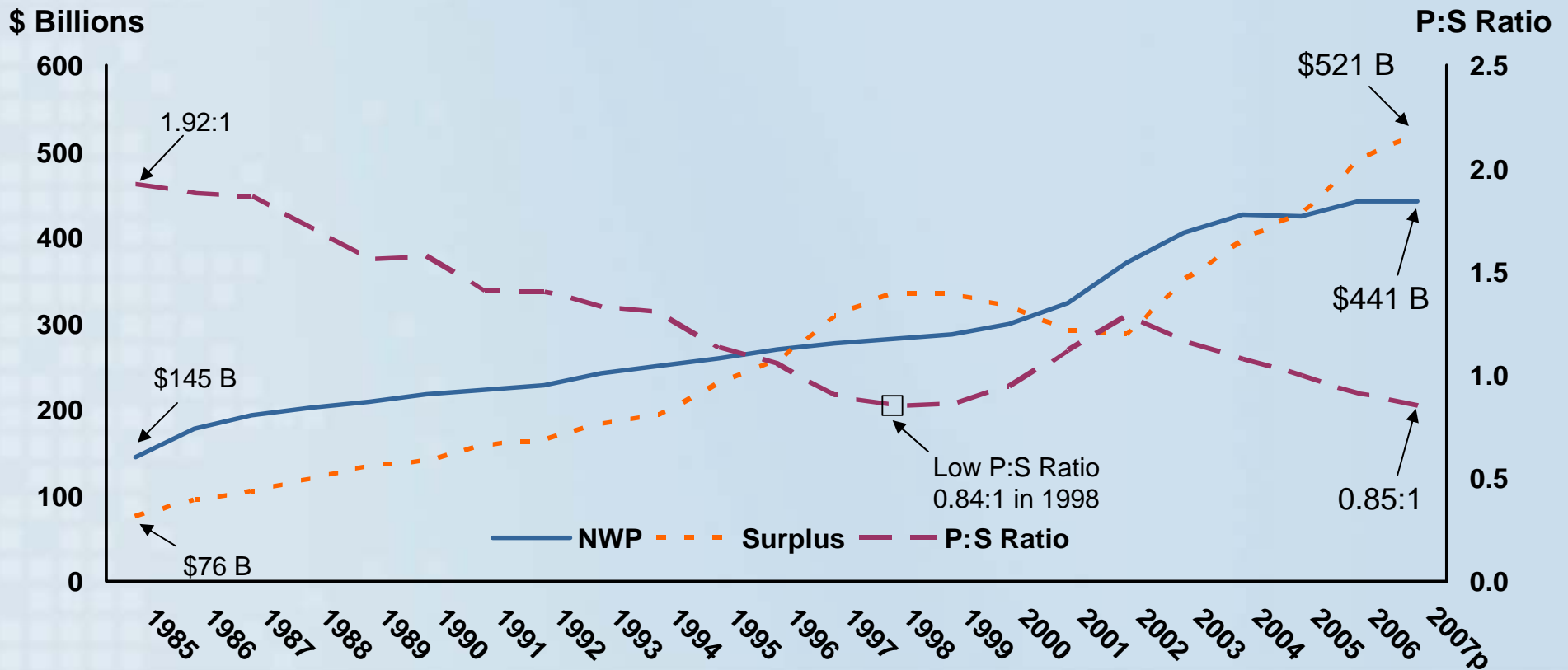
p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p After-Tax Net Income, ISO;
2007p Surplus, 2006 *Best's Aggregates & Averages* + 2007 ISO contributions to surplus

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

P/C Industry Premium-to-Surplus Ratio Approaches Previous Low

Private Carriers



Calendar Year

p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*;

2007p Surplus, 2006 *Best's Aggregates & Averages* + 2007 ISO contributions to surplus



Contributions to Surplus

Private Carriers

	2005	2006	2007p
Underwriting Gains/Losses	\$ (5.6) B	\$ 31.1 B	\$ 19.0 B
Investment Income	\$ 49.7 B	\$ 52.3 B	\$ 54.6 B
Realized Capital Gains	\$ 9.7 B	\$ 3.5 B	\$ 9.0 B
Other Income	\$ 1.0 B	\$ 1.2 B	\$ (1.0) B
Unrealized Capital Gains	\$ (3.4) B	\$ 20.6 B	\$ (0.5) B
Federal Taxes	\$ (10.7) B	\$ (22.4) B	\$ (19.7) B
Shareholder Dividends	\$ (15.6) B	\$ (24.7) B	\$ (32.0) B
Contributed Capital	\$ 14.4 B	\$ 3.8 B	\$ 3.2 B
Other Changes to Surplus	\$ (5.1) B	\$ (4.9) B	\$ (0.9) B
Total	\$ 34.5 B	\$ 60.4 B	\$ 31.7 B

p Preliminary

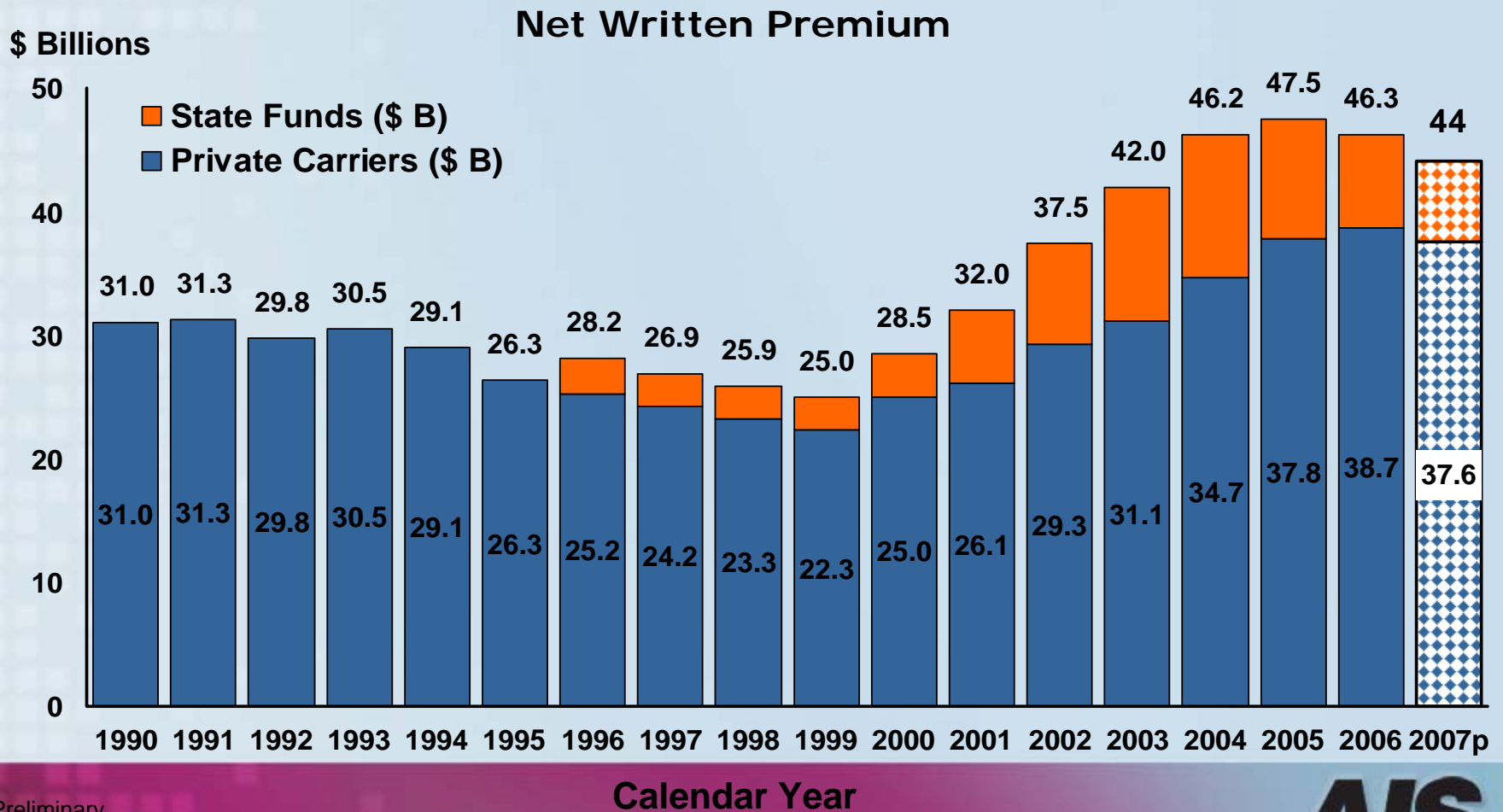
Source: ISO

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Workers Compensation

Results

Workers Compensation Premium Continues to Decline in 2007



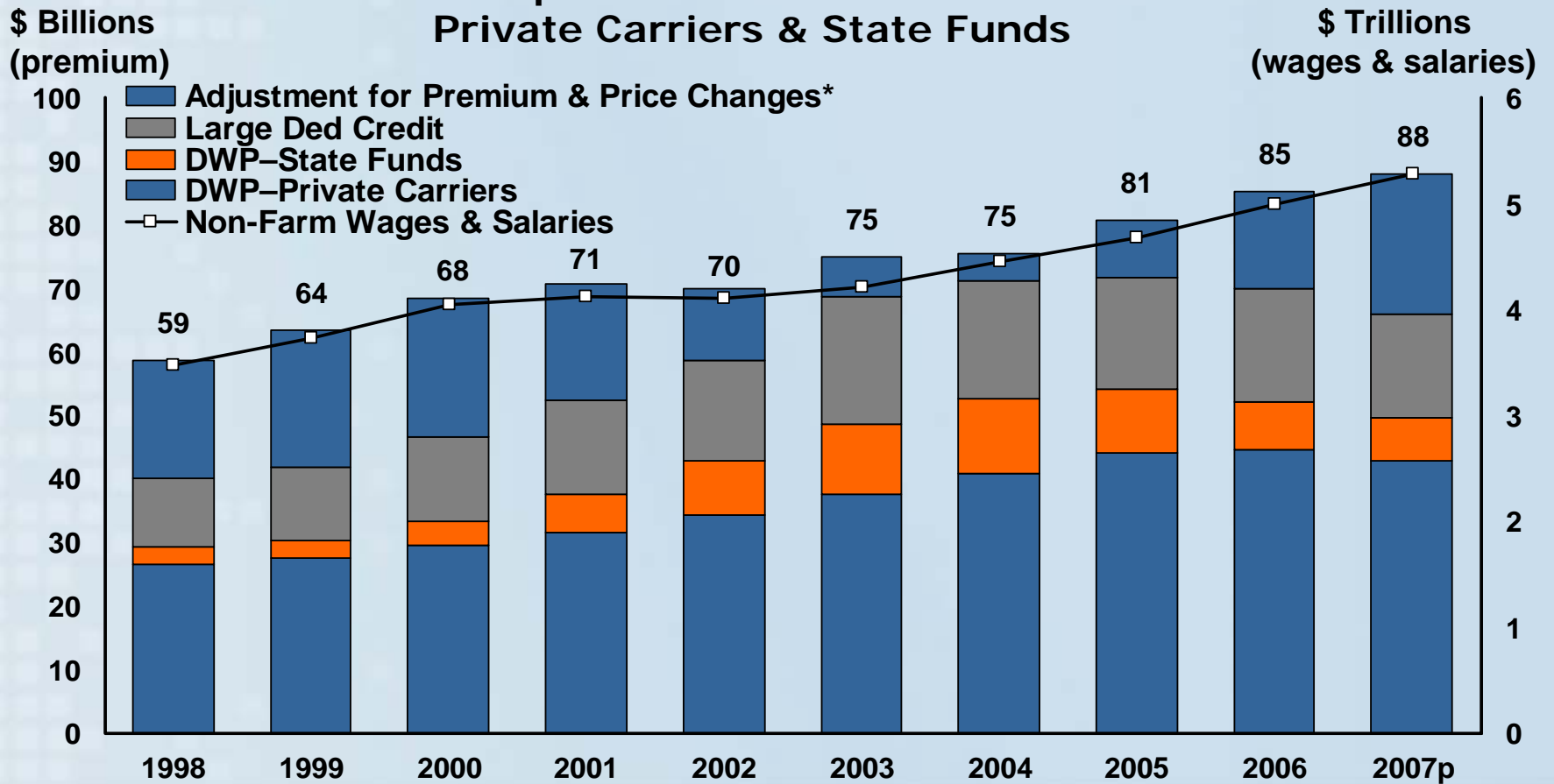
p Preliminary

Source: 1990–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI
 1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent



Adjusted Workers Compensation Premium Volume

Workers Compensation Direct Written Premium Private Carriers & State Funds



p Preliminary

* Premium and price changes are indexed to the 1995 rate/loss cost level

Source: 1998-2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI

1998-2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

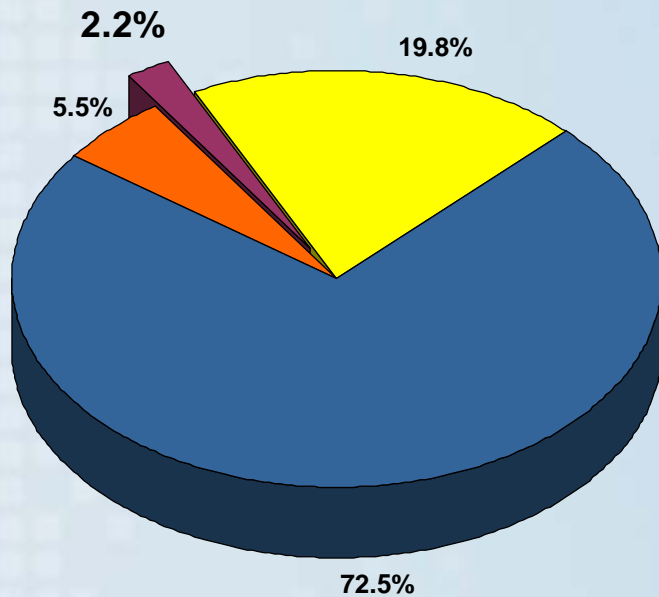
Calendar Year



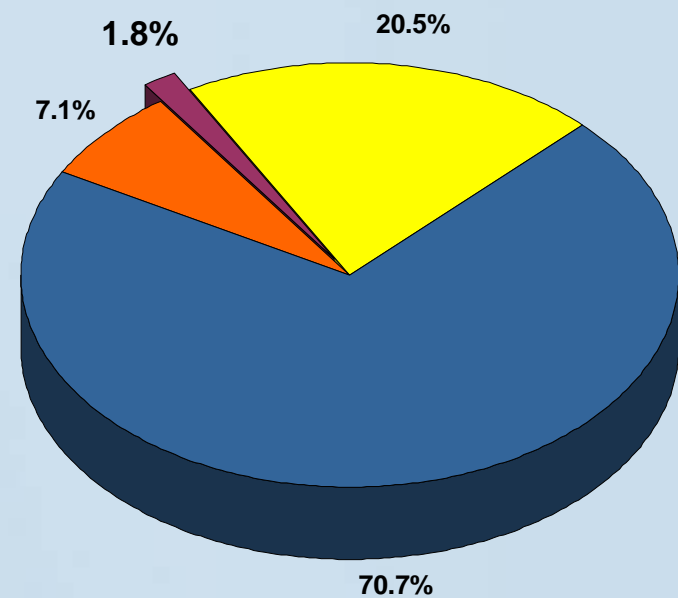
Employer Costs As Percentage of Total Compensation

Private Industry

1997



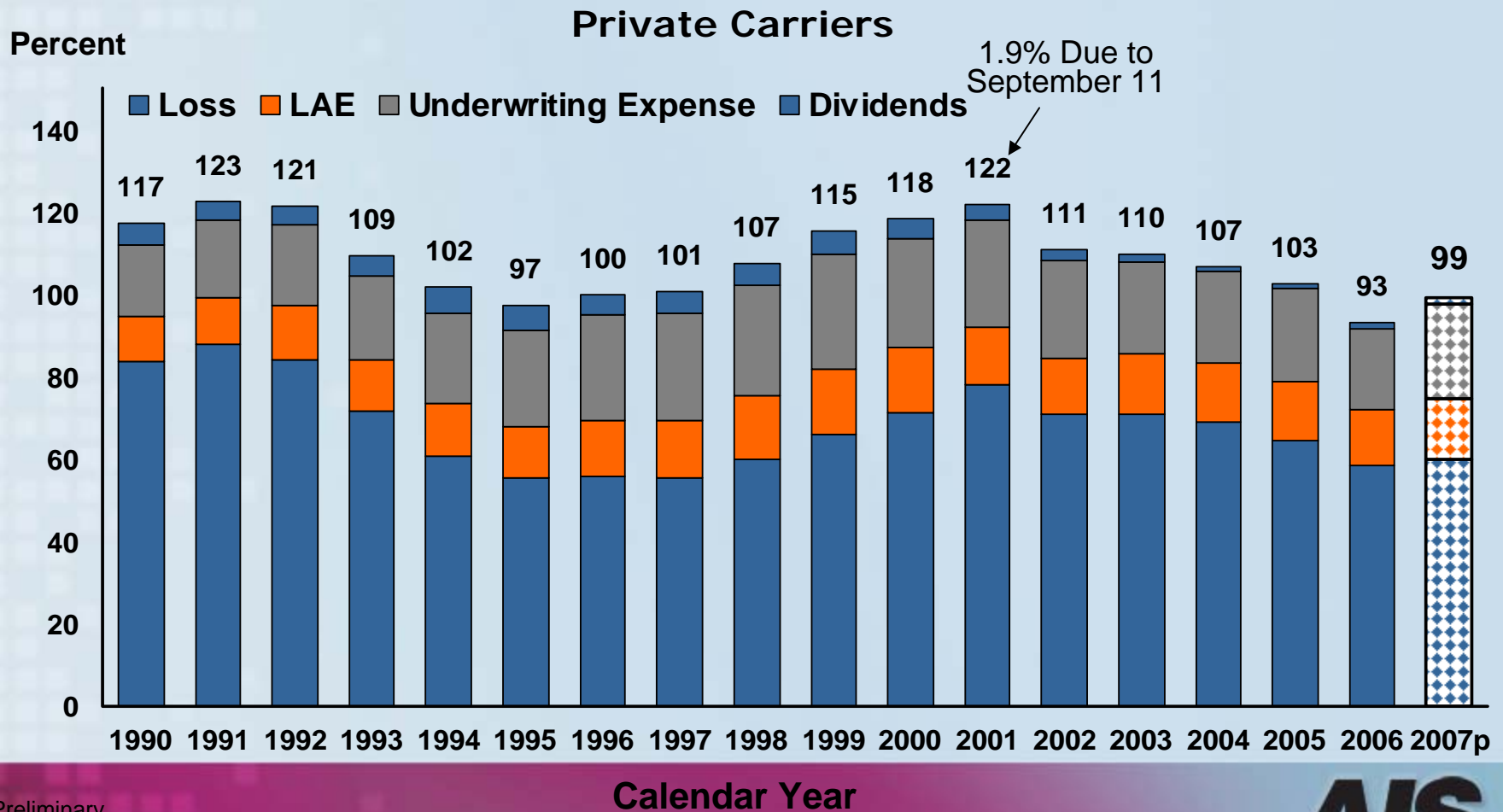
2007



- Wages and Salaries
- Health Insurance
- Workers Compensation
- All Other

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

WC Calendar Year Combined Ratio—Will History Repeat Itself?



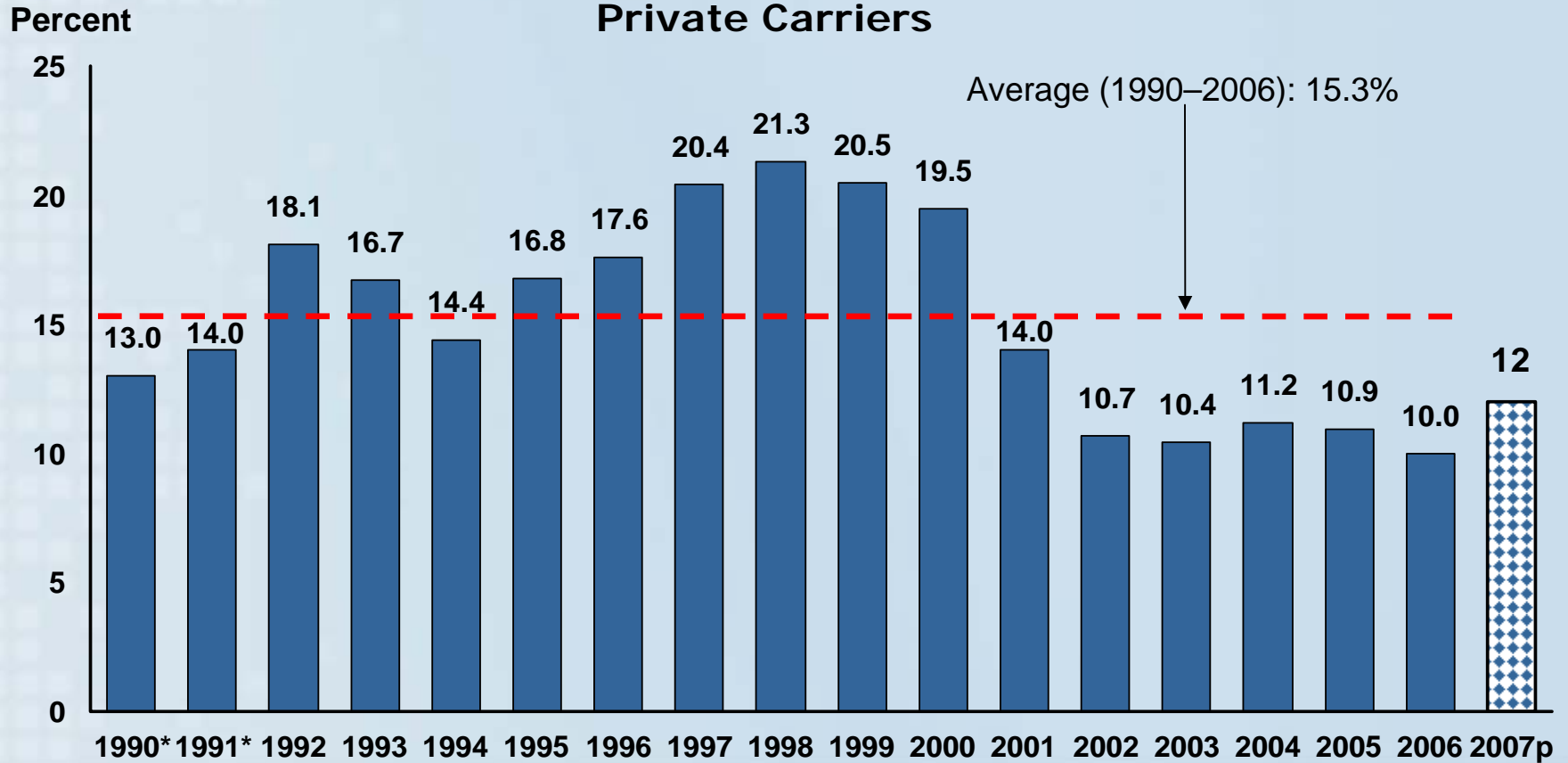
p Preliminary

Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI



Workers Compensation Investment Returns Remain Below Historical Average

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



p Preliminary

* Adjusted to include realized capital gains to be consistent with 1992 and after

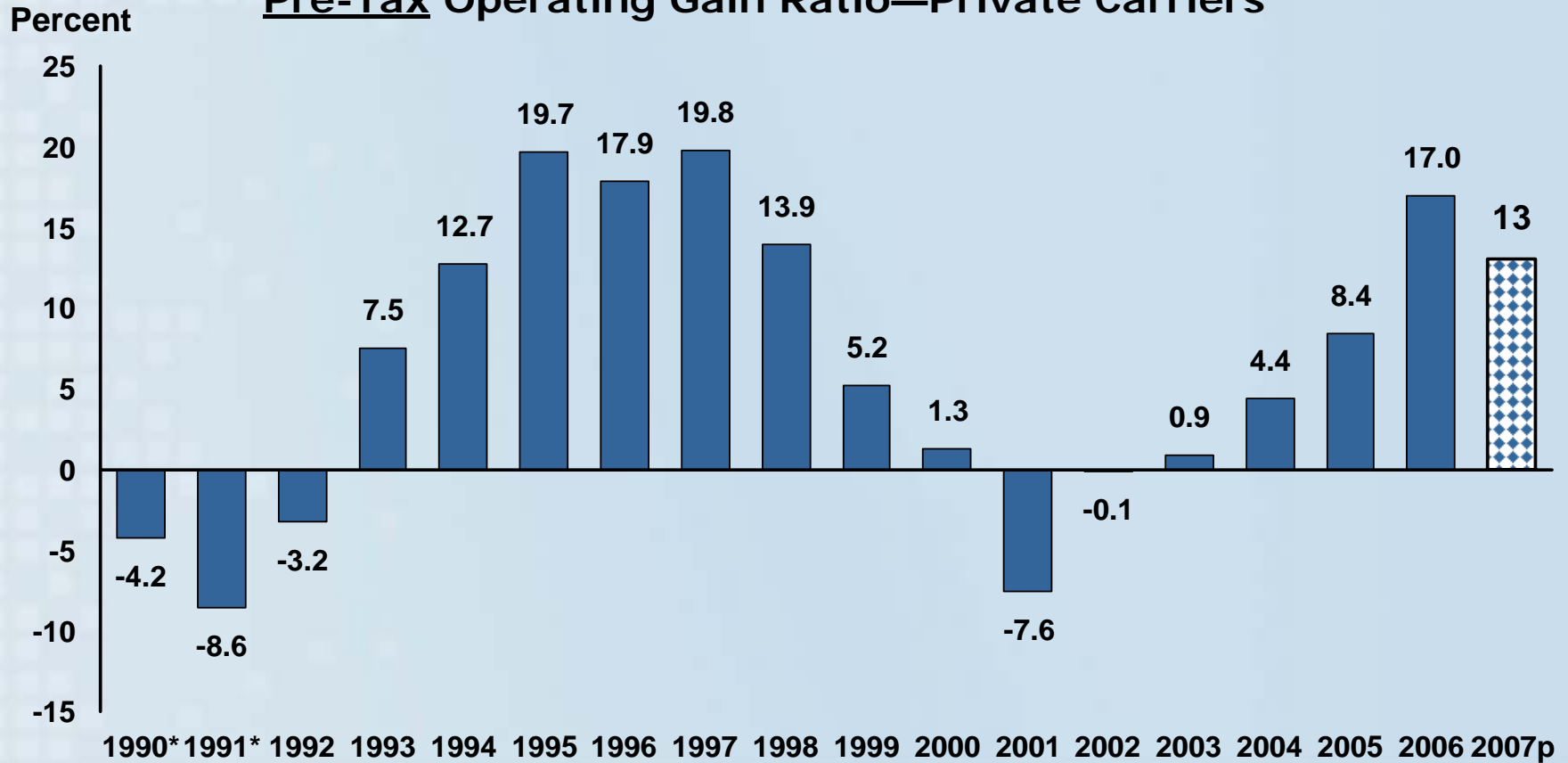
Investment Gain on Insurance Transactions includes Other Income

Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI



Workers Compensation Results Declined

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

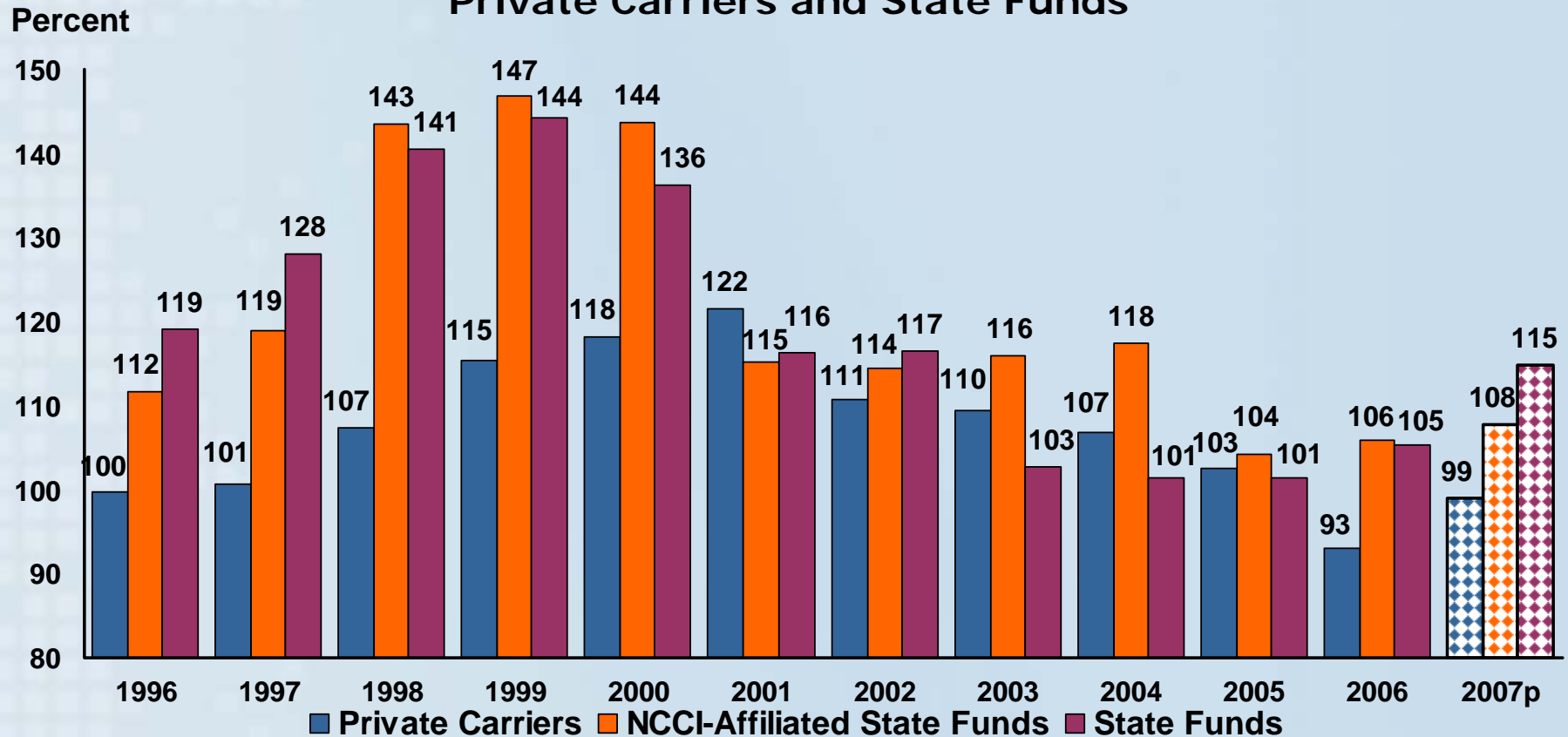
* Adjusted to include realized capital gains to be consistent with 1992 and after

Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI

Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds



Calendar Year

p Preliminary

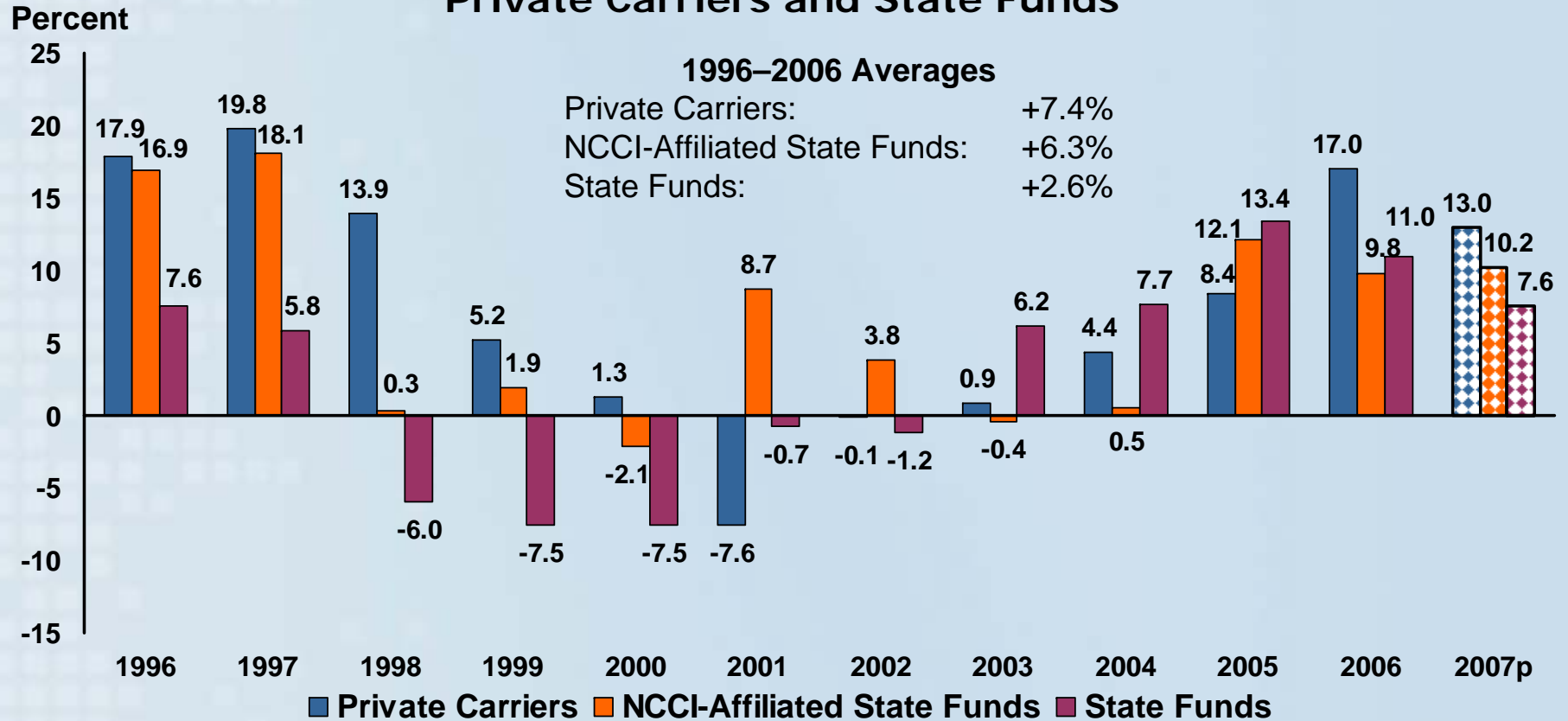
Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI

1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Pre-Tax Operating Gain Ratios

Private Carriers and State Funds



p Preliminary

Calendar Year

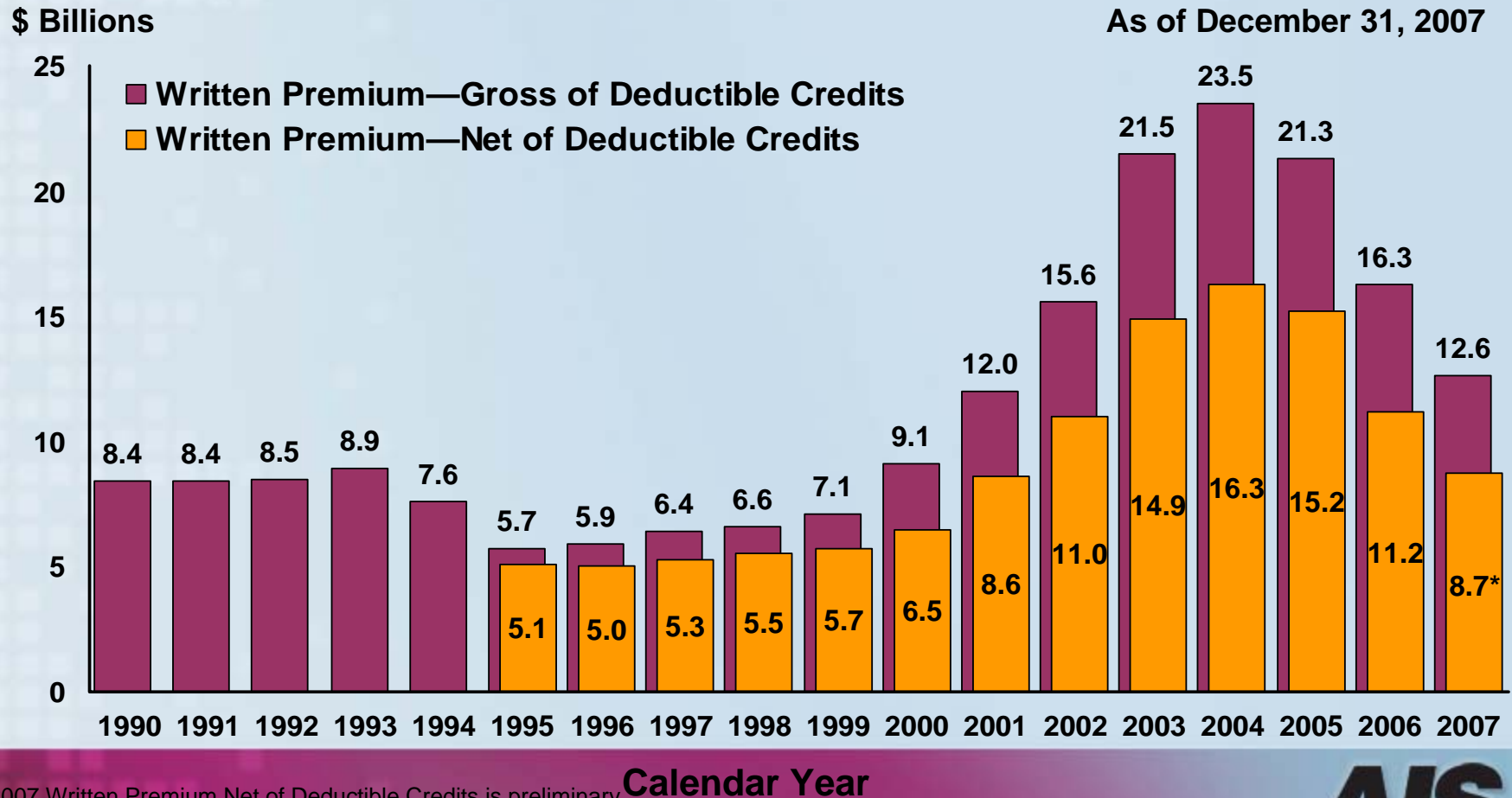
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI

1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

California Workers Compensation Written Premium



* 2007 Written Premium Net of Deductible Credits is preliminary
 Data includes State Compensation Insurance Fund

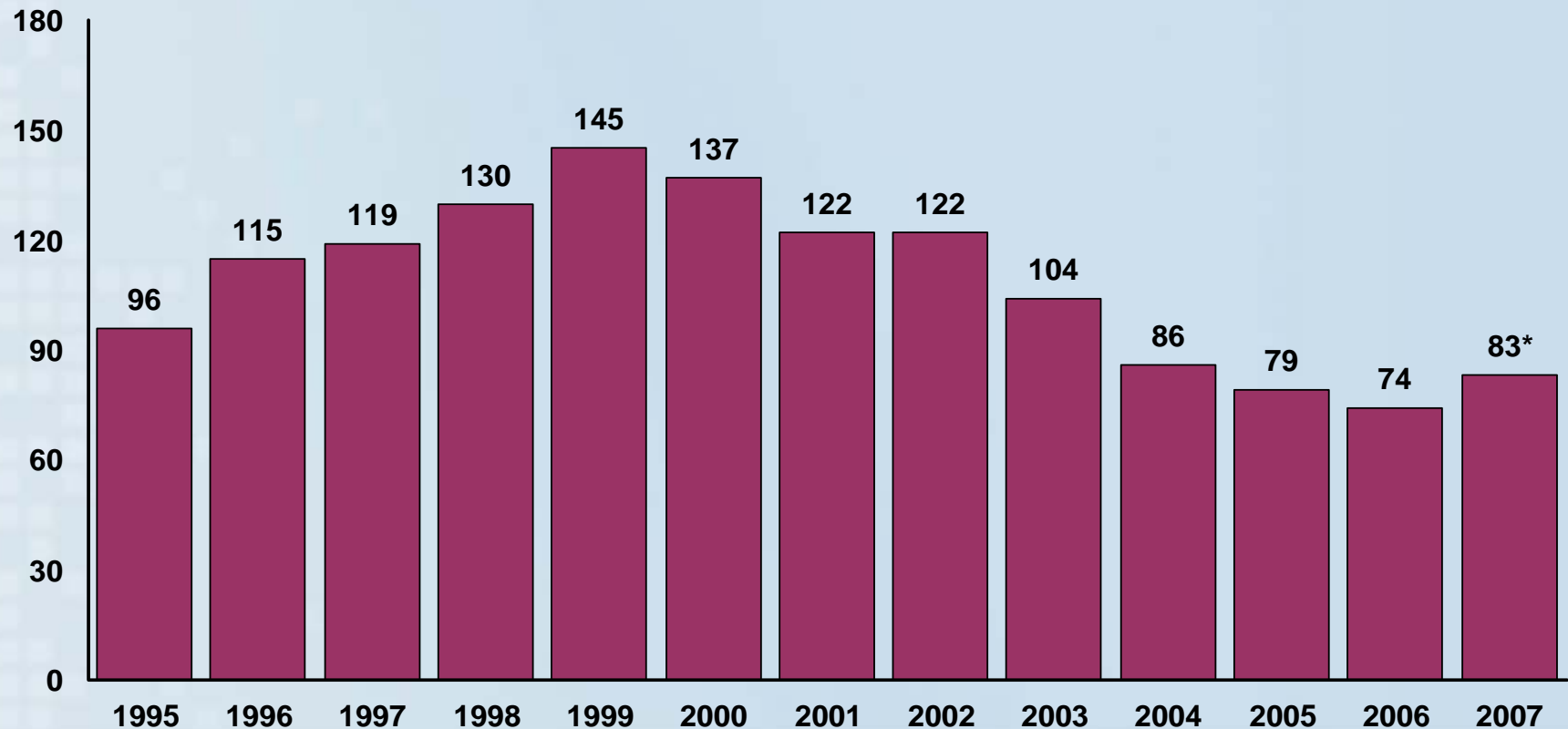
Source: WCIRB^{California}



California Workers Compensation CY Combined Loss and Expense Ratios

Percent

As of December 31, 2007



Calendar Year

* 2007 Combined Loss and Expense Ratio is preliminary
Data includes State Compensation Insurance Fund

Source: WCIRB^{California}

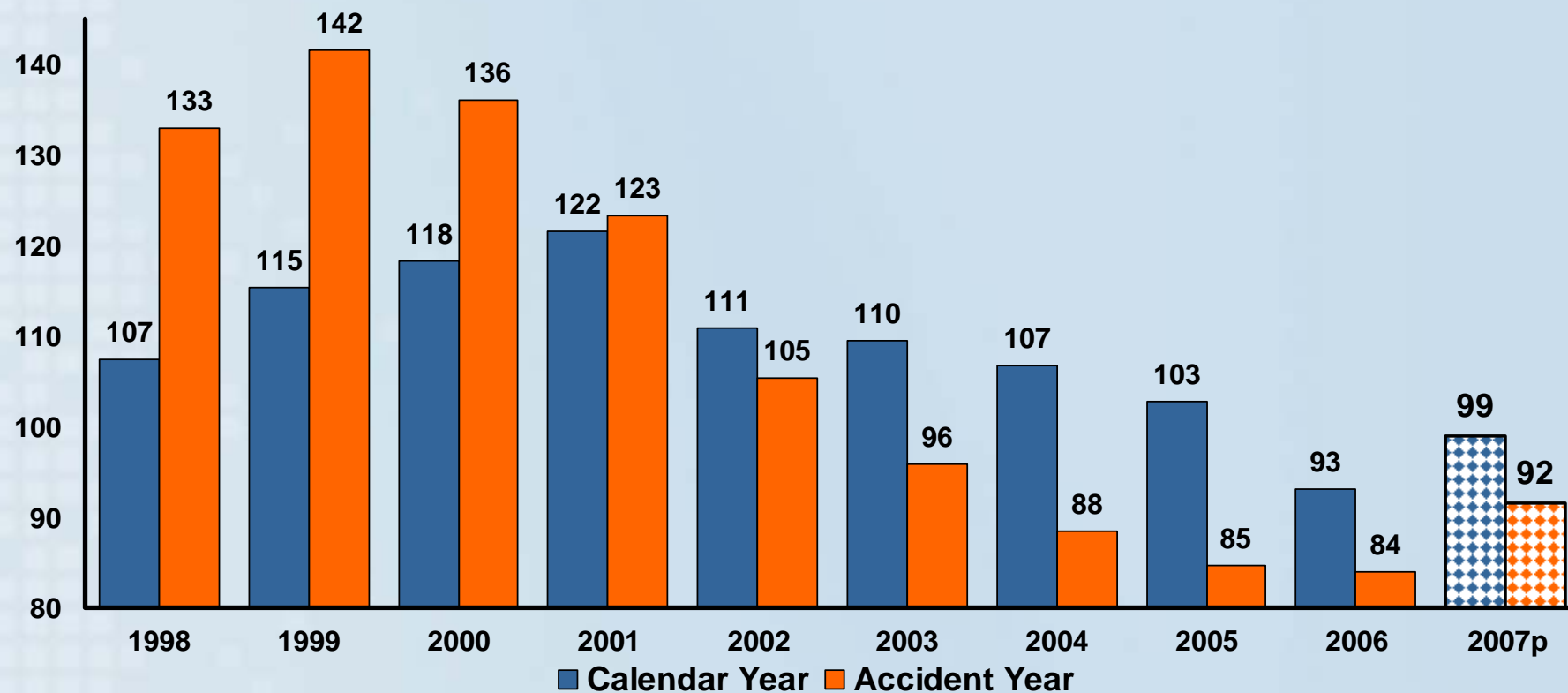
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Workers Compensation Accident Year Results and Reserve Estimates

Accident Year Combined Ratio— Another Underwriting Gain in 2007

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/2007 and developed to ultimate

Source: Calendar Years 1998–2006, *Best's Aggregates & Averages*;

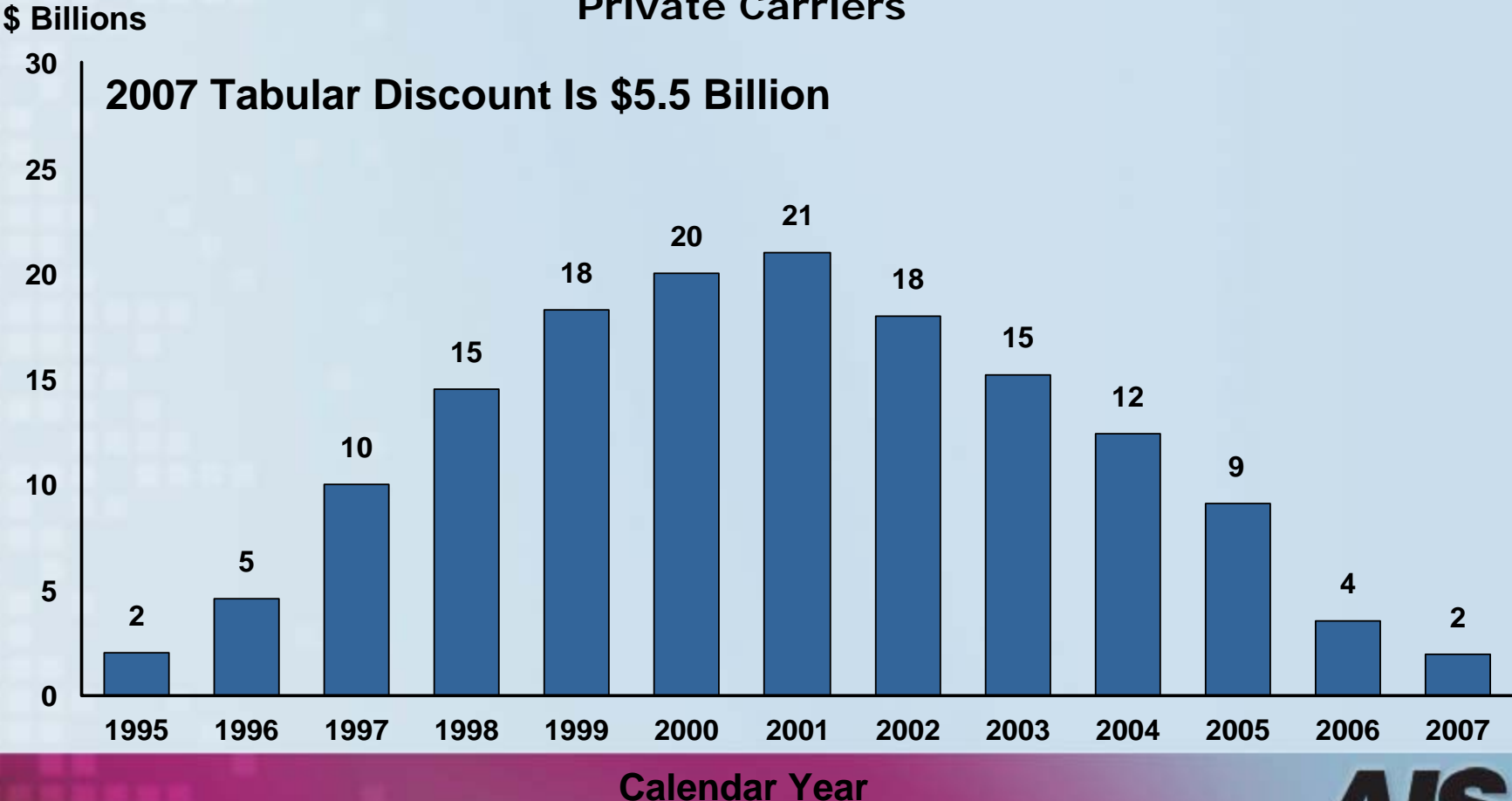
Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders



Calendar Year Reserve Deficiencies Continue to Decline

Workers Compensation Loss and LAE Reserve Deficiency
Private Carriers



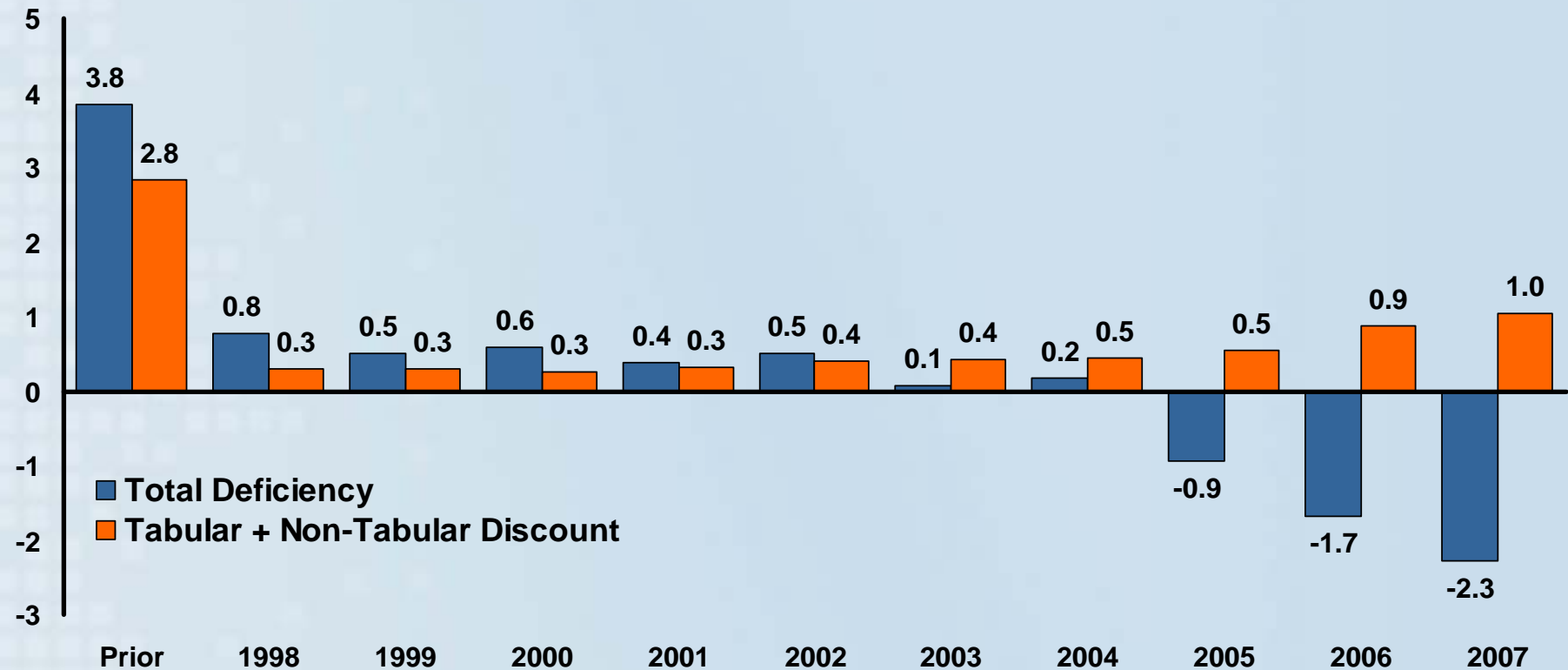
Considers all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis



Reserve Deficiency by Accident Year

Workers Compensation Loss & LAE Reserves as of 12/31/2007
Private Carriers

\$ Billions



Accident Year

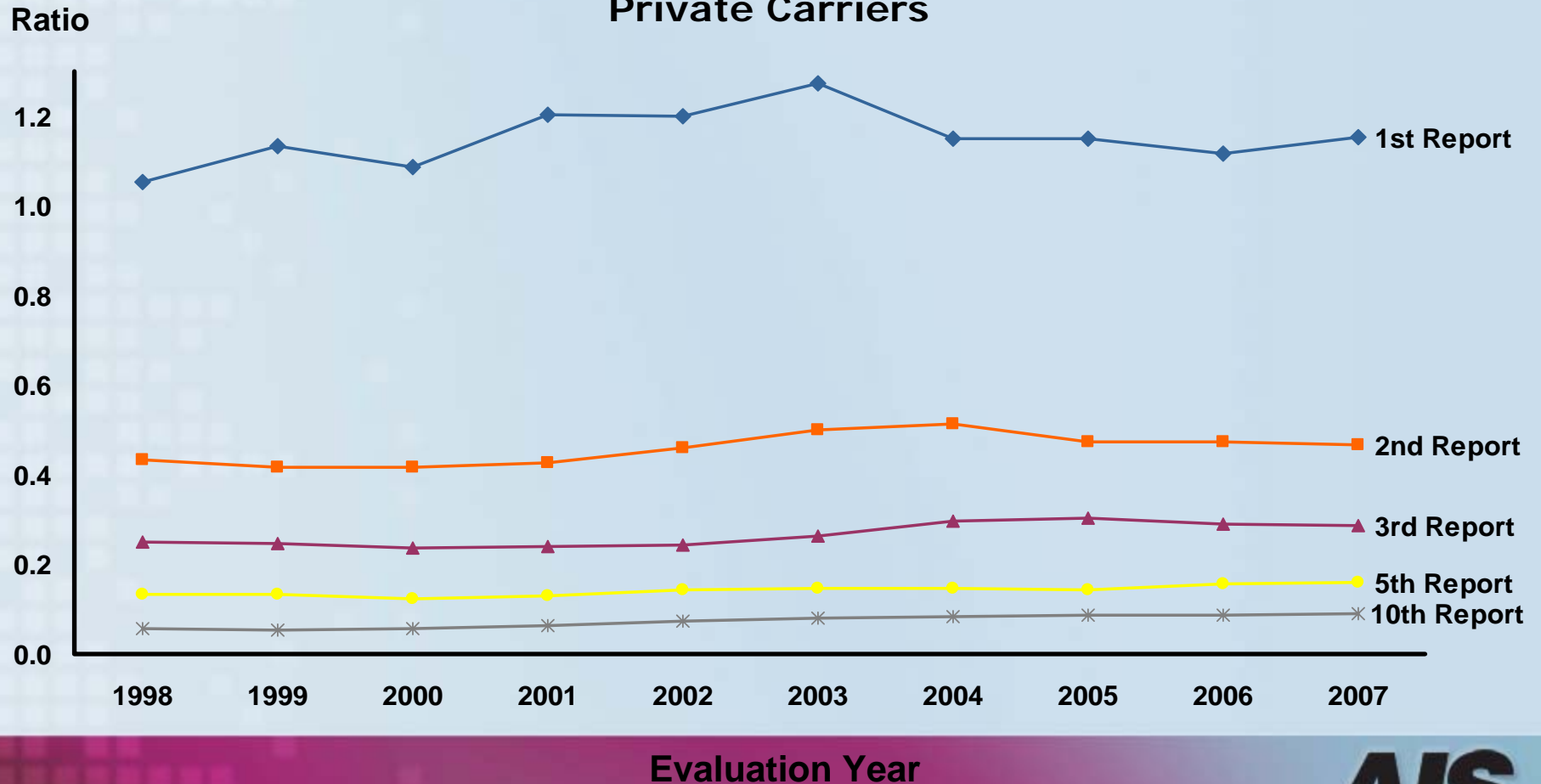
Considers all reserve discounts as deficiencies

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers



Case Reserves Are Stable Versus Paid Losses

WC Ratio of Case Reserves to Cumulative Paid Losses
Private Carriers

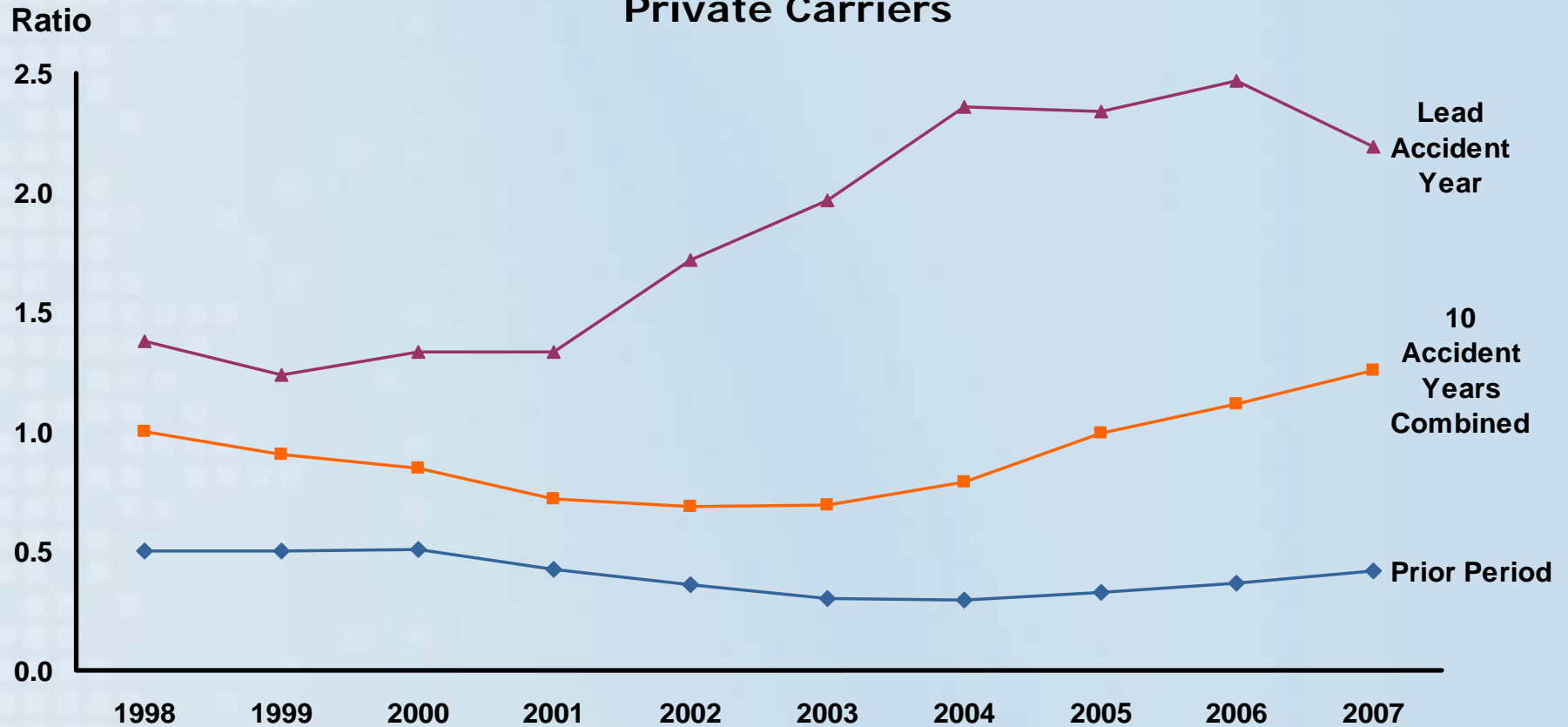


Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers



Strengthening of Reserves Has Taken Place in IBNR

Workers Compensation Ratio of IBNR to Case Reserves
Private Carriers



Evaluation Year

Lead Accident Year is defined as the latest AY

10 Accident Years Combined are defined as the latest 10 Accident Years (for a given evaluation year)

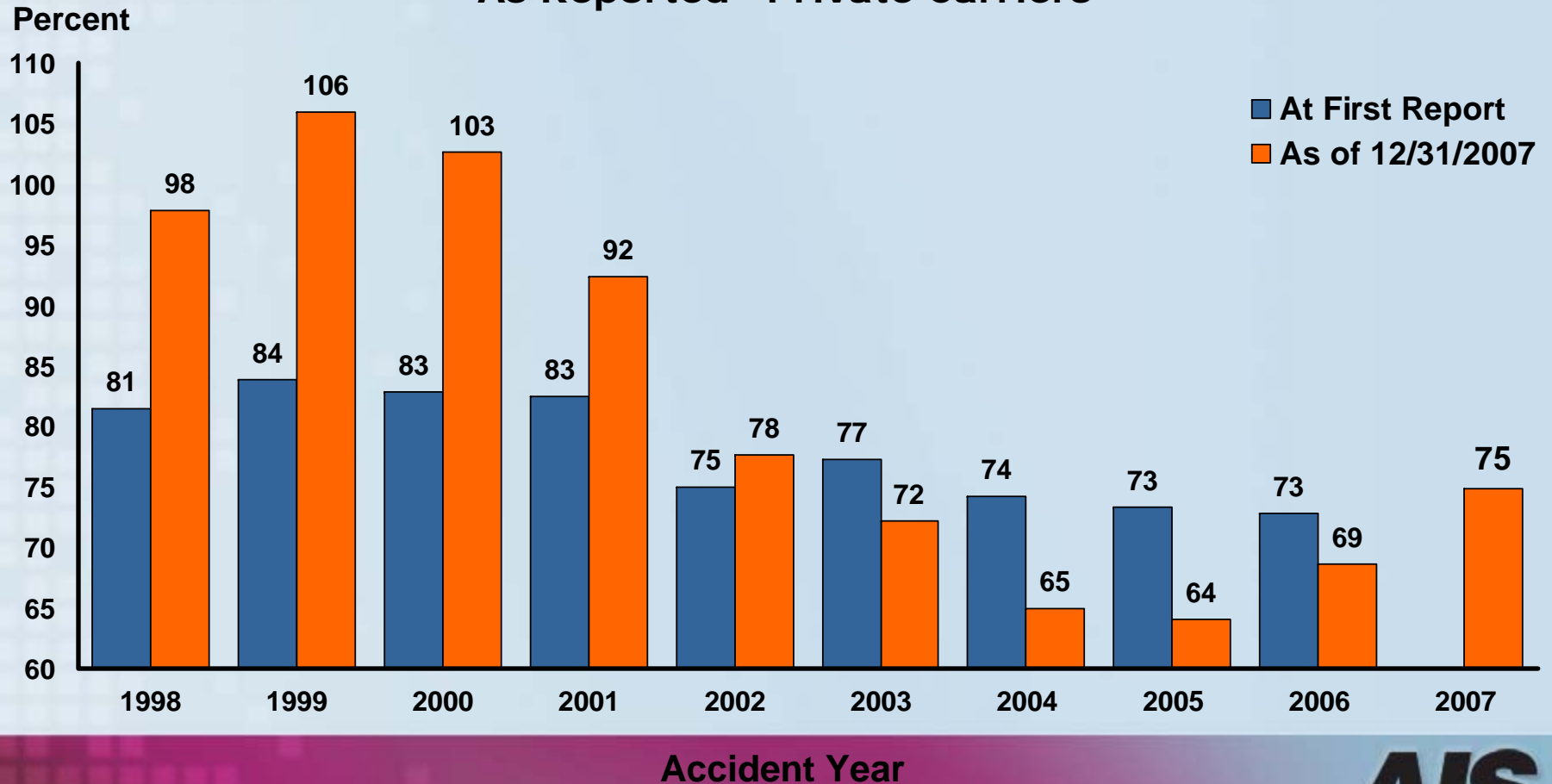
Prior period is defined as all accident years older than 10 years

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers



Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers



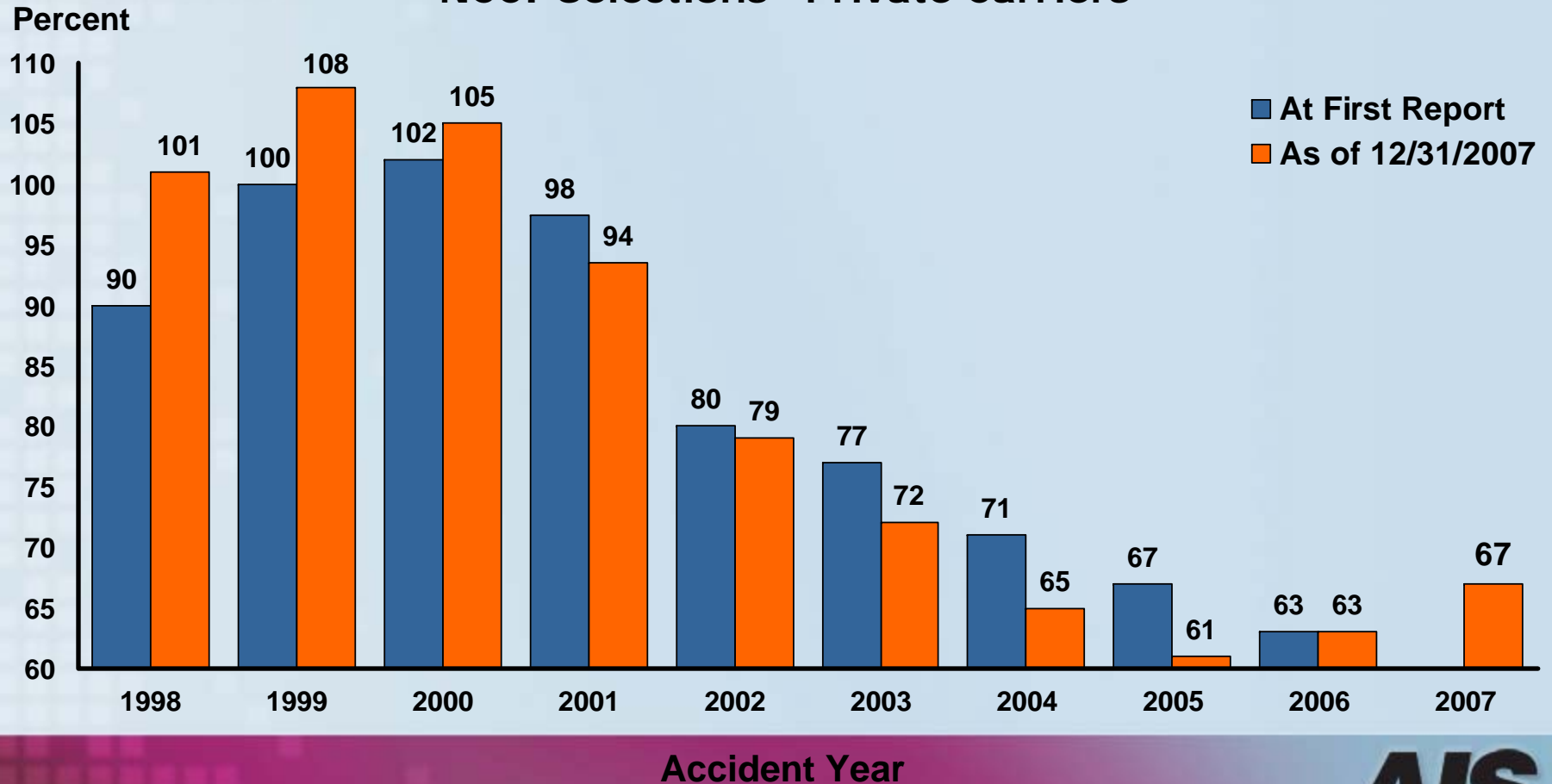
Reported Loss and LAE ratios

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers



Workers Compensation Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



Selected Loss and LAE ratios

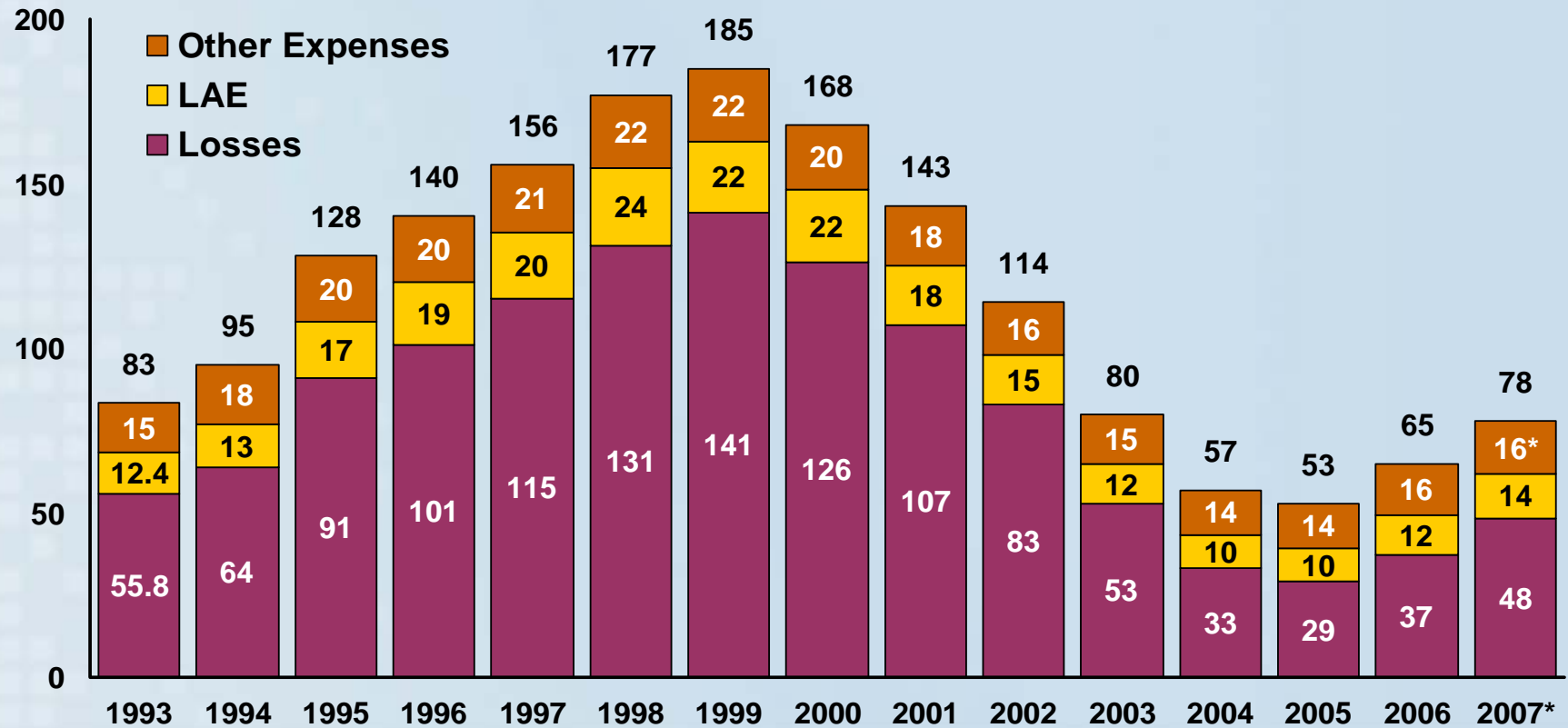
Source: NCCI Reserve Analysis

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California Workers Compensation AY Combined Loss and Expense Ratios

Percent

As of December 31, 2007



Accident Year

* 2007 Other Expenses are preliminary
Data includes State Compensation Insurance Fund

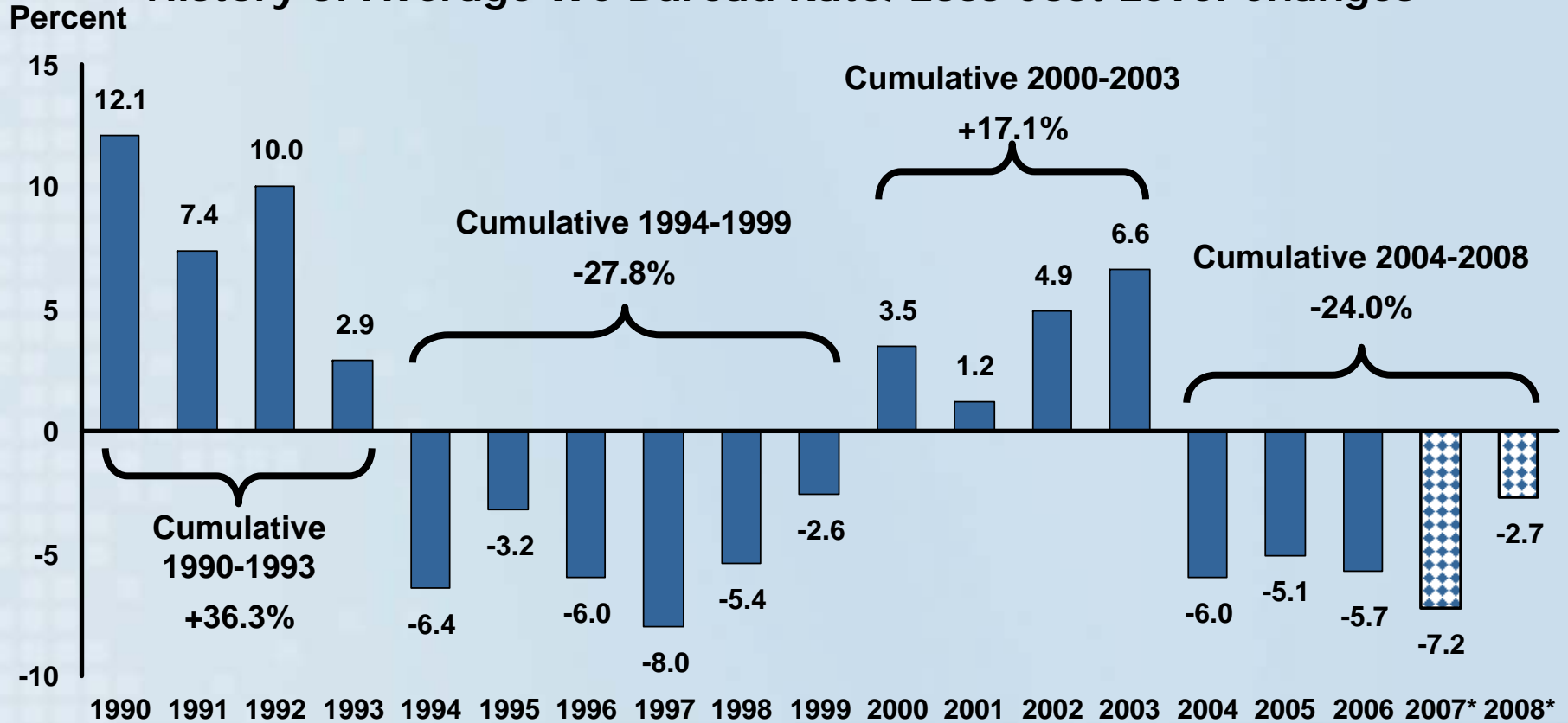
Source: WCIRB_{California}®



Workers Compensation Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



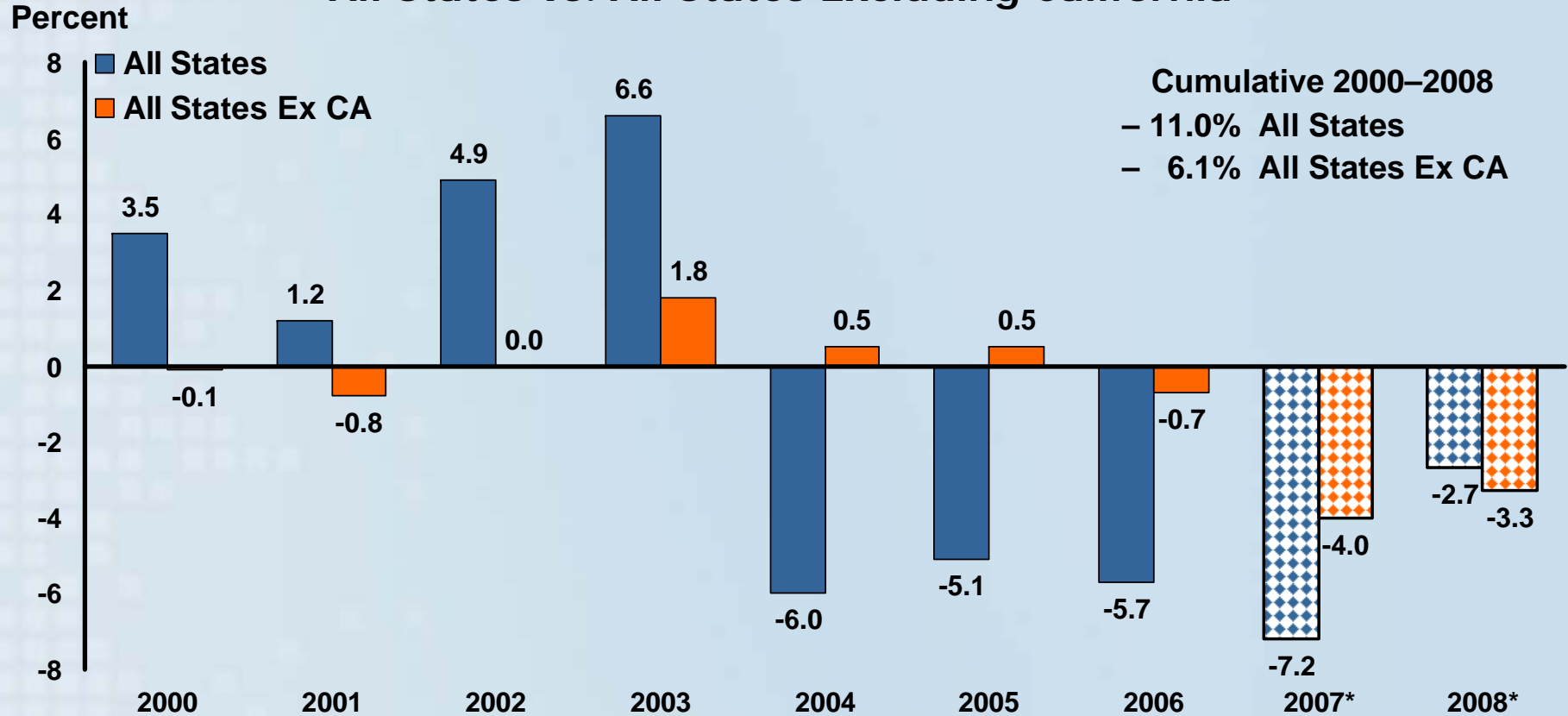
* States approved through 4/11/2008

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



Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California



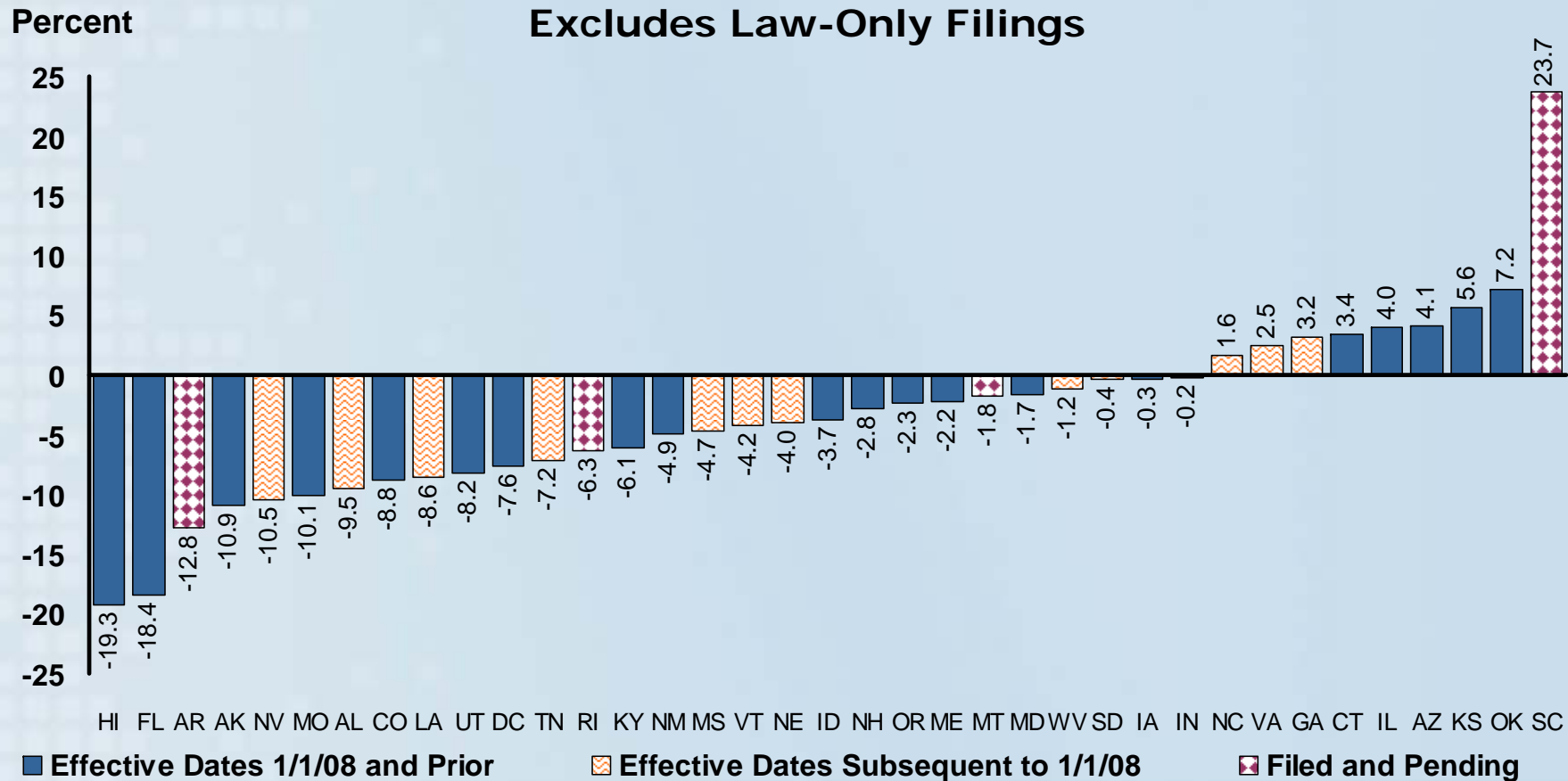
Calendar Year

* States approved through 4/11/2008

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

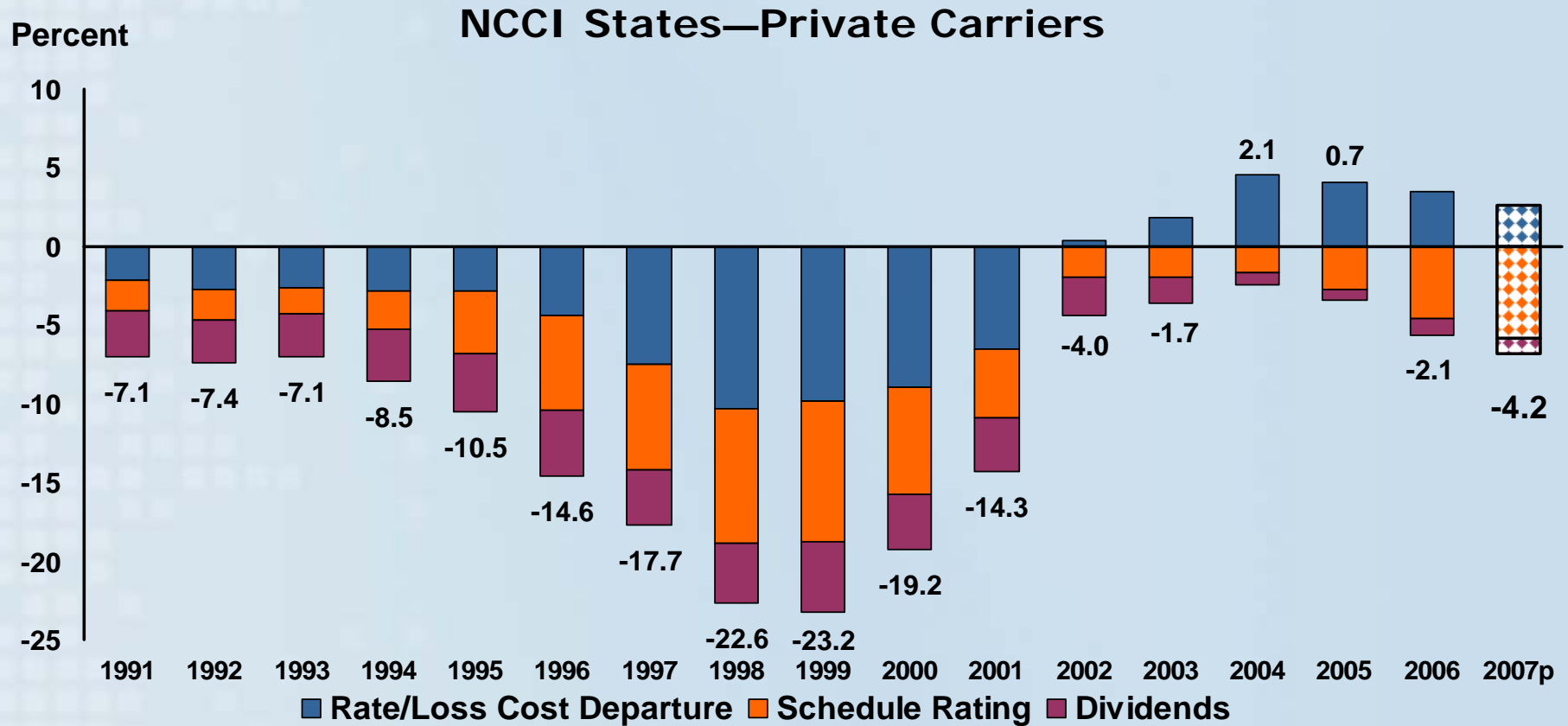


Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



States filed through 4/18/2008

Impact of Discounting on Workers Compensation Premium



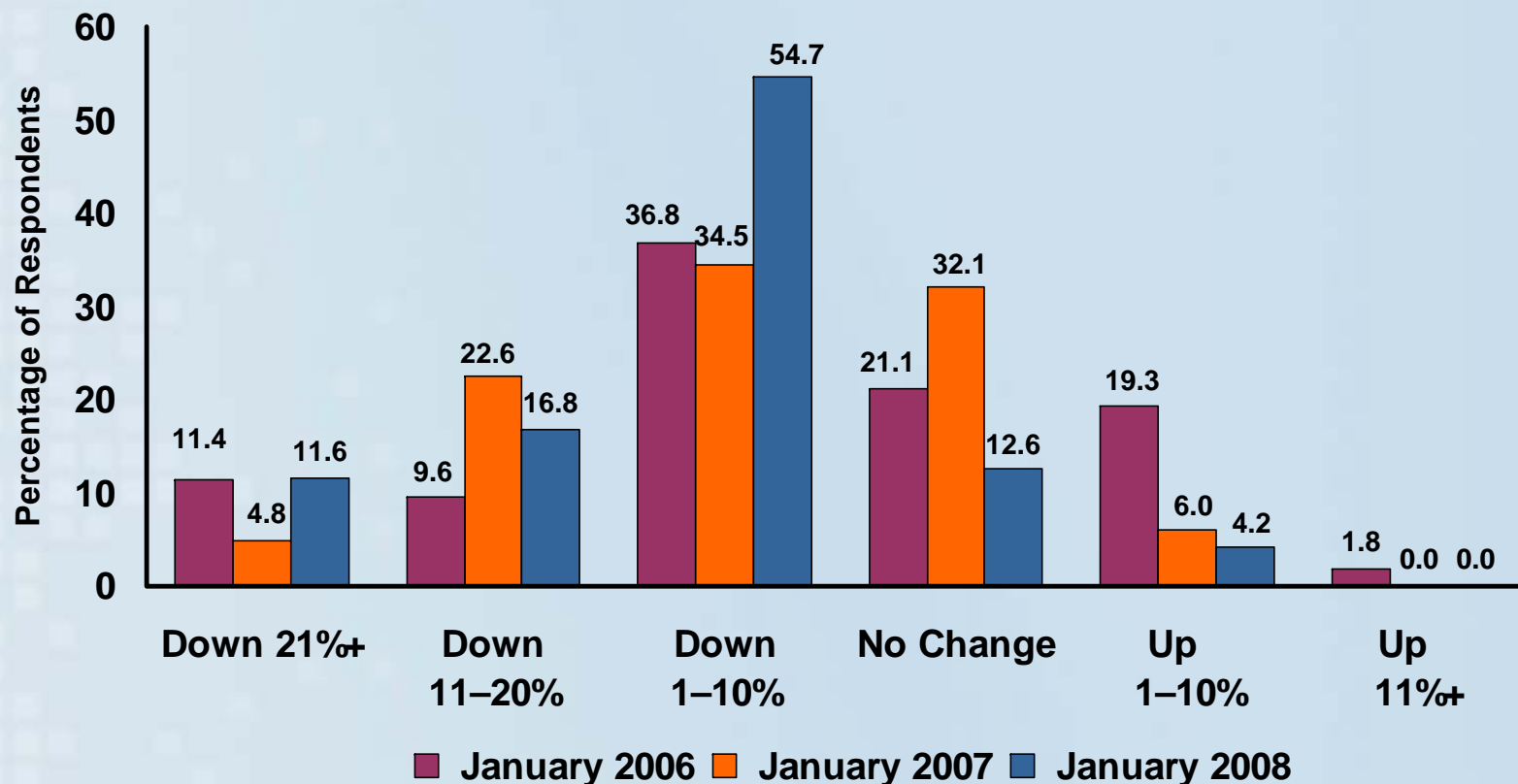
p Preliminary
 NCCI benchmark level does not include an underwriting contingency provision
 Dividend ratios are based on calendar year statistics
 Based on data through 12/31/2007 for the states where NCCI provides ratemaking services

Policy Year



According to Goldman Sachs, Most Survey Respondents See Declining WC Prices

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



Source: Goldman Sachs Research, "Independent Insight | US Insurance: Non-Life," Proprietary Survey (Exhibit 8, Workers' Compensation, Percentage of Respondents)

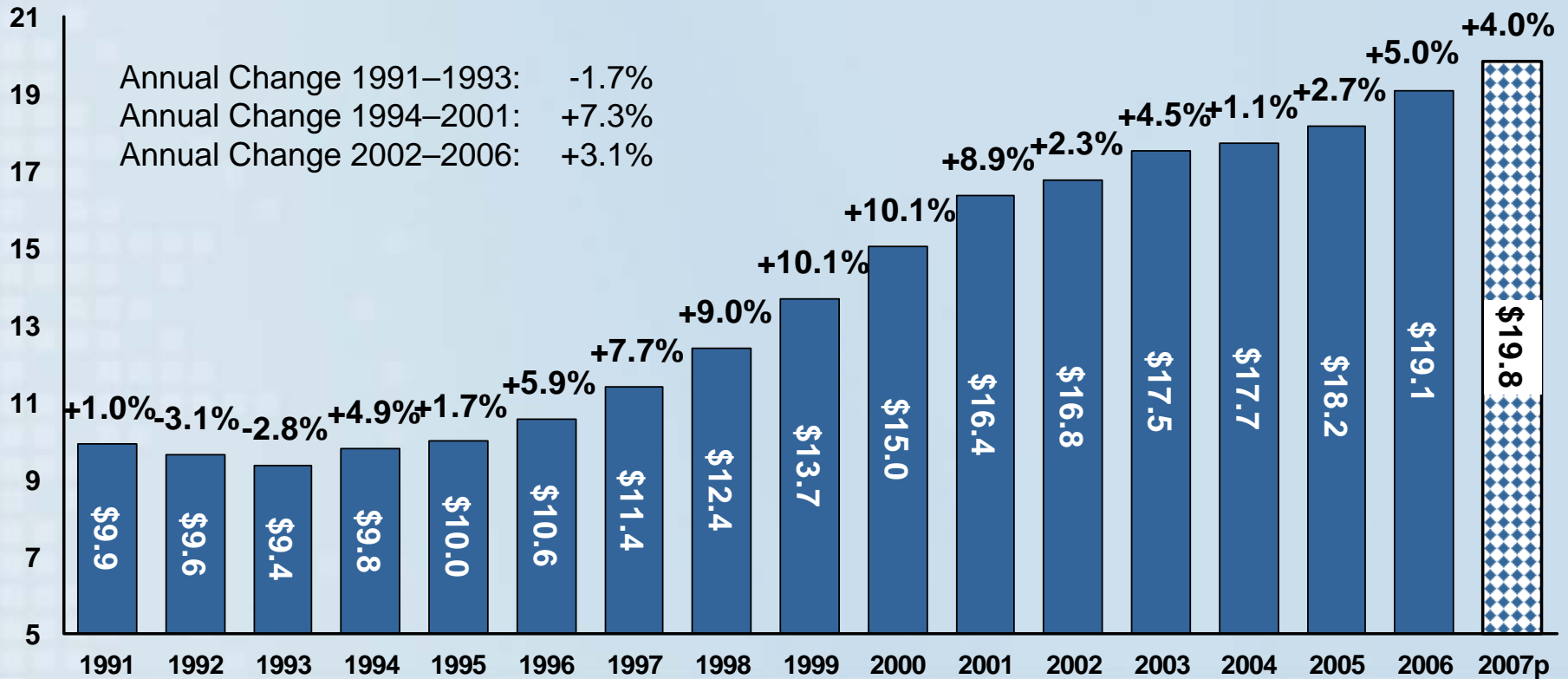


Workers Compensation Loss Drivers

Workers Compensation Indemnity Claim Costs Growth Is Moderate

Indemnity Claim Cost (000s)

Lost-Time Claims



Accident Year

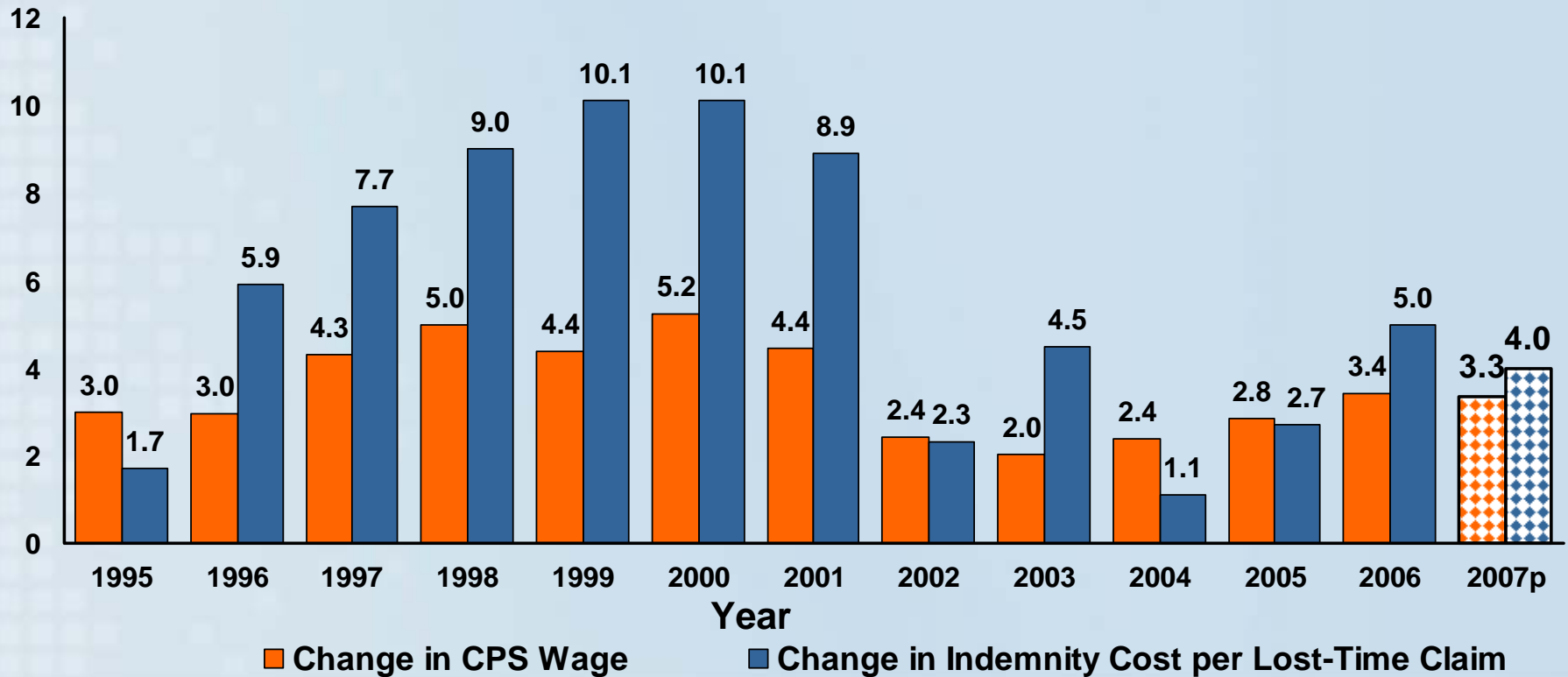
2007p: Preliminary based on data valued as of 12/31/2007
 1991–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies



WC Indemnity Severity Outpacing Wage Inflation in 2007

Lost-Time Claims

Percent Change



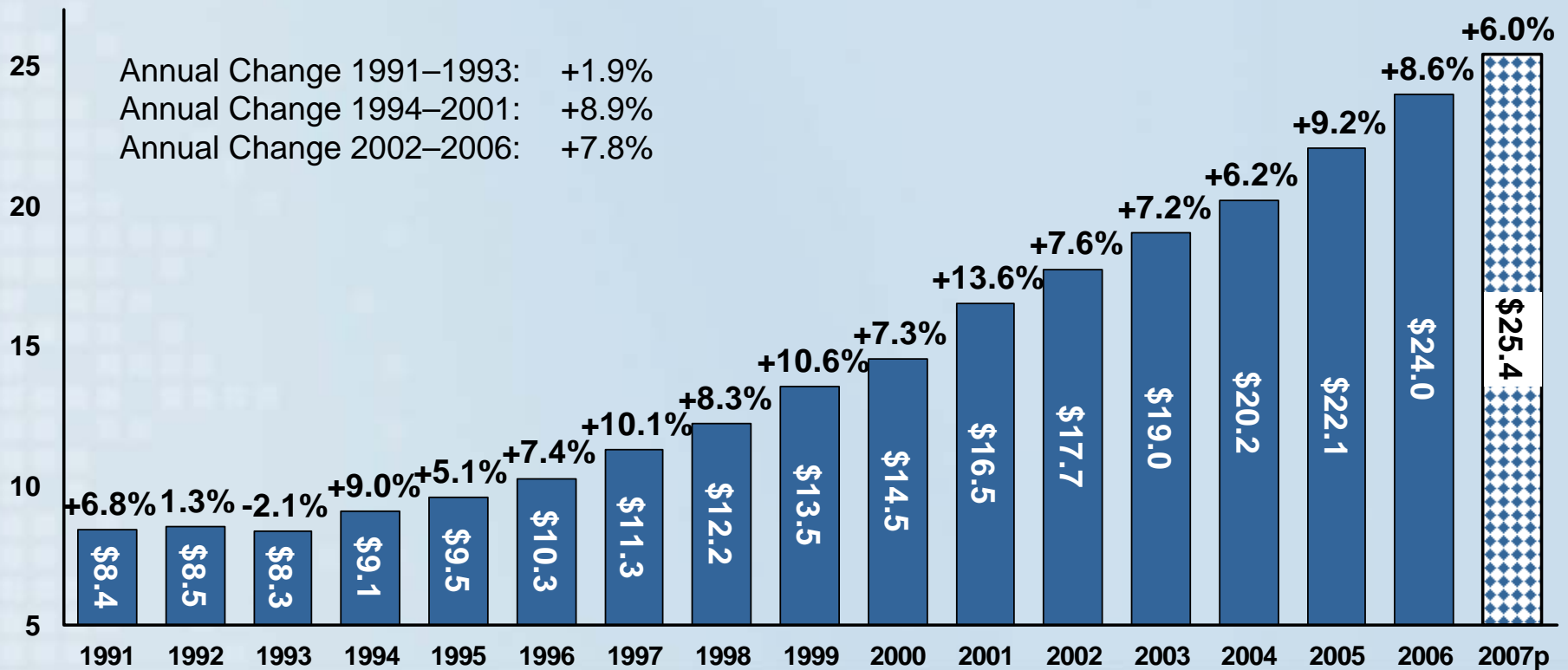
Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007
 Indemnity severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage—All states (Current Population Survey), Economy.com;
 Accident year indemnity severity—NCCI states, NCCI



WC Medical Claim Cost Trends— Growth Continues in 2007

Medical
Claim Cost (000s)

Lost-Time Claims



Accident Year

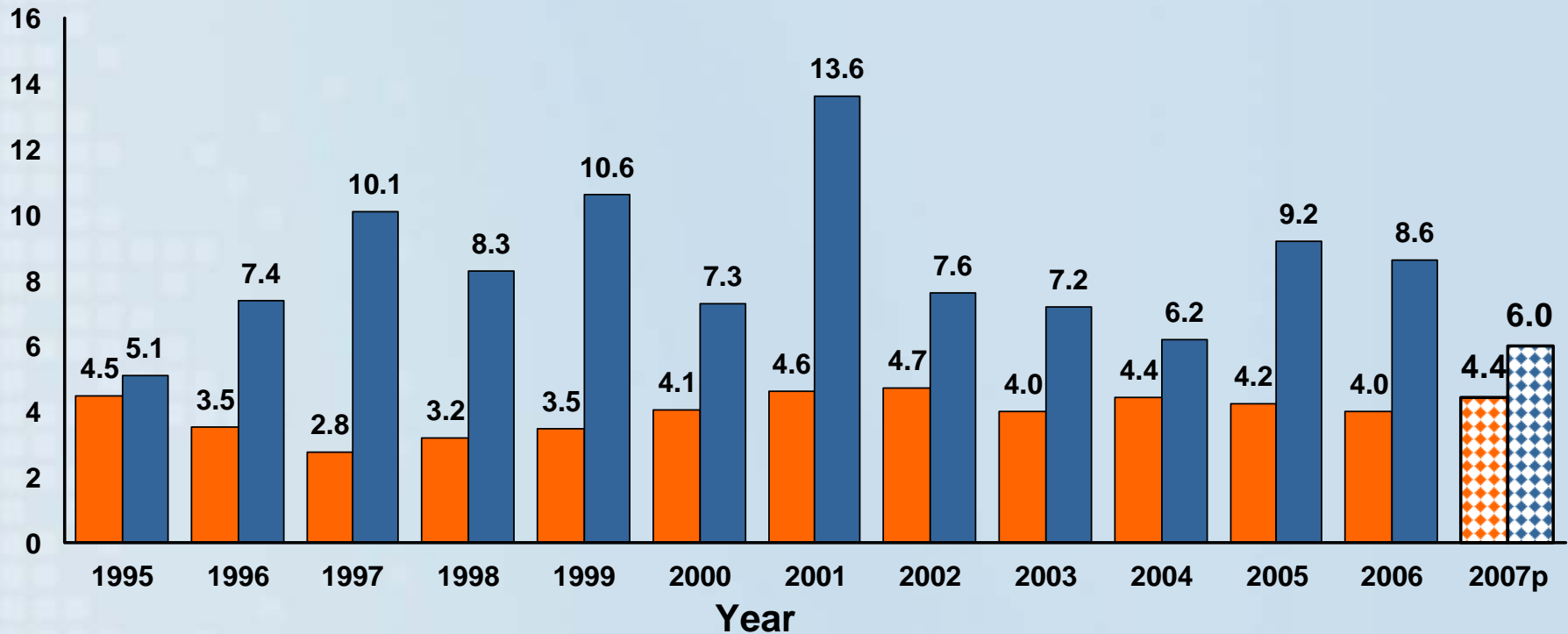
2007p: Preliminary based on data valued as of 12/31/2007
1991–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



WC Medical Severity Still Growing Faster Than the Medical CPI

Lost-Time Claims

Percent Change



Change in Medical CPI

Change in Medical Cost per Lost-Time Claim

Medical severity 2007p: Preliminary based on data valued as of 12/31/2007

Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate

Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies

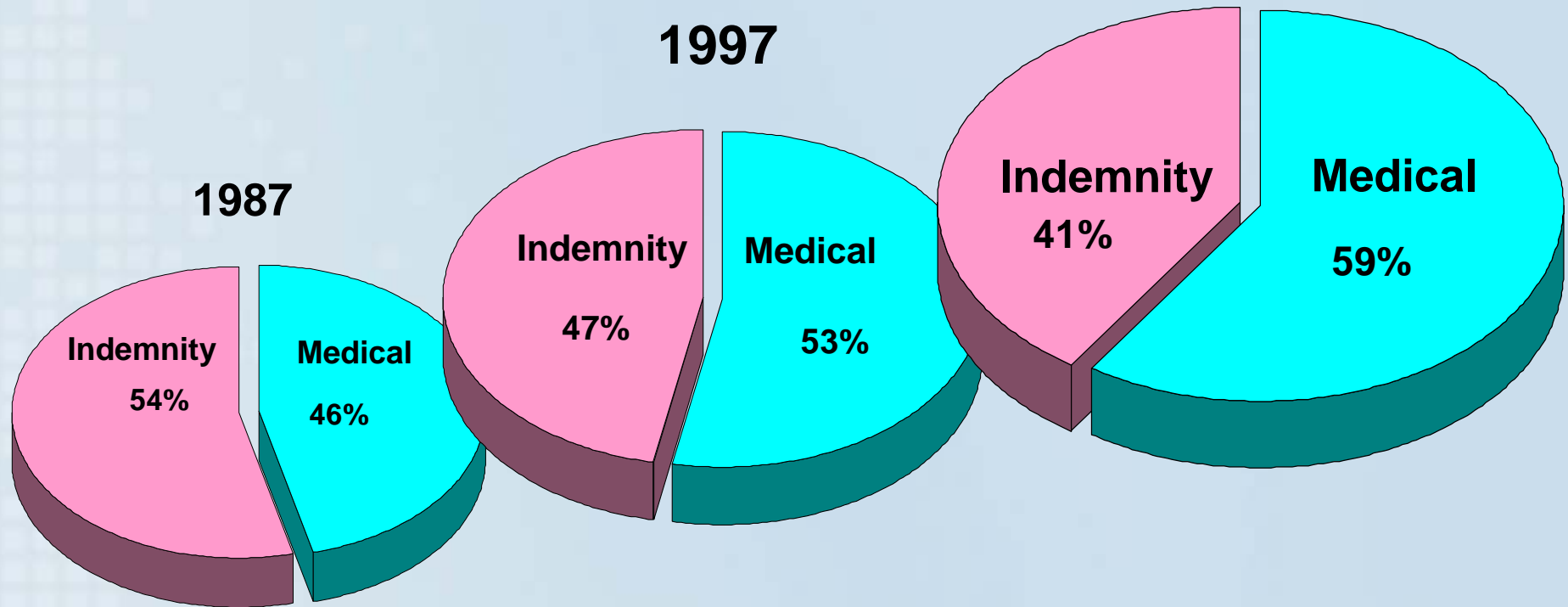
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI



Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2007p

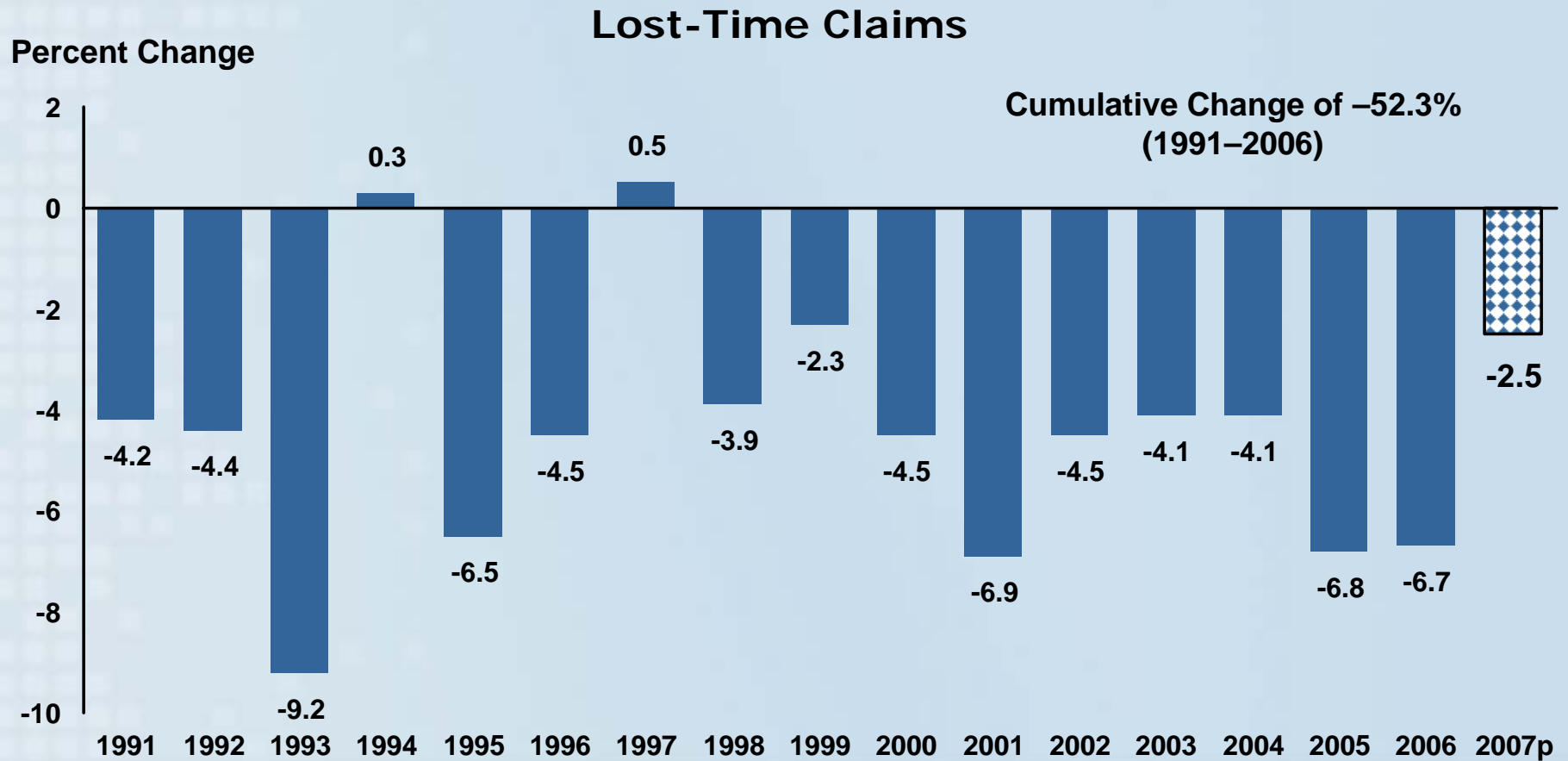


Accident Year

2007p: Preliminary based on data valued as of 12/31/2007
1987, 1997: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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Workers Compensation Lost-Time Claim Frequency Continues to Decline

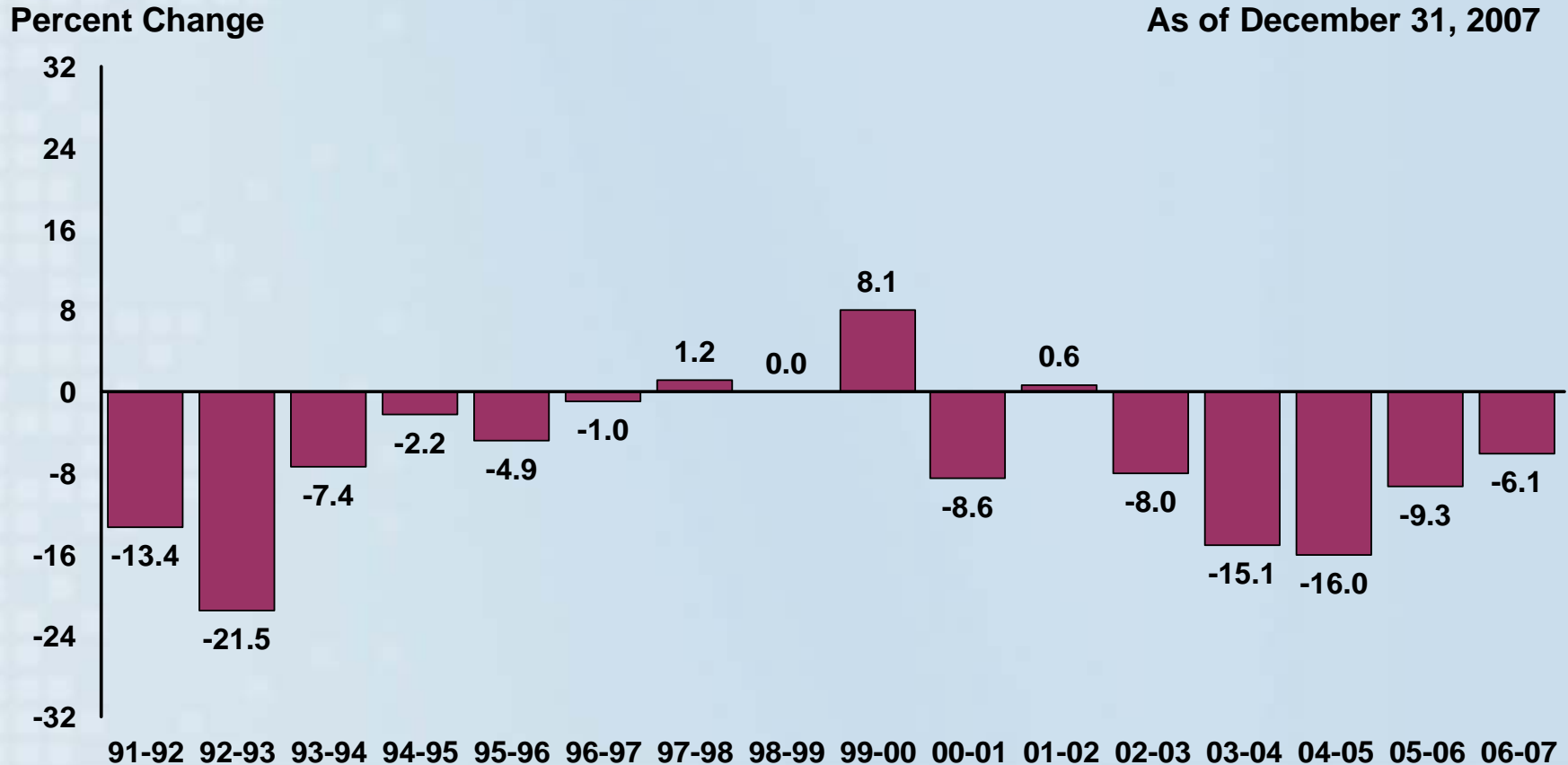


2007p: Preliminary based on data valued as of 12/31/2007
 1991–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies



California Workers Compensation Estimated Percentage Change in Indemnity Claim Frequency by AY

As of December 31, 2007



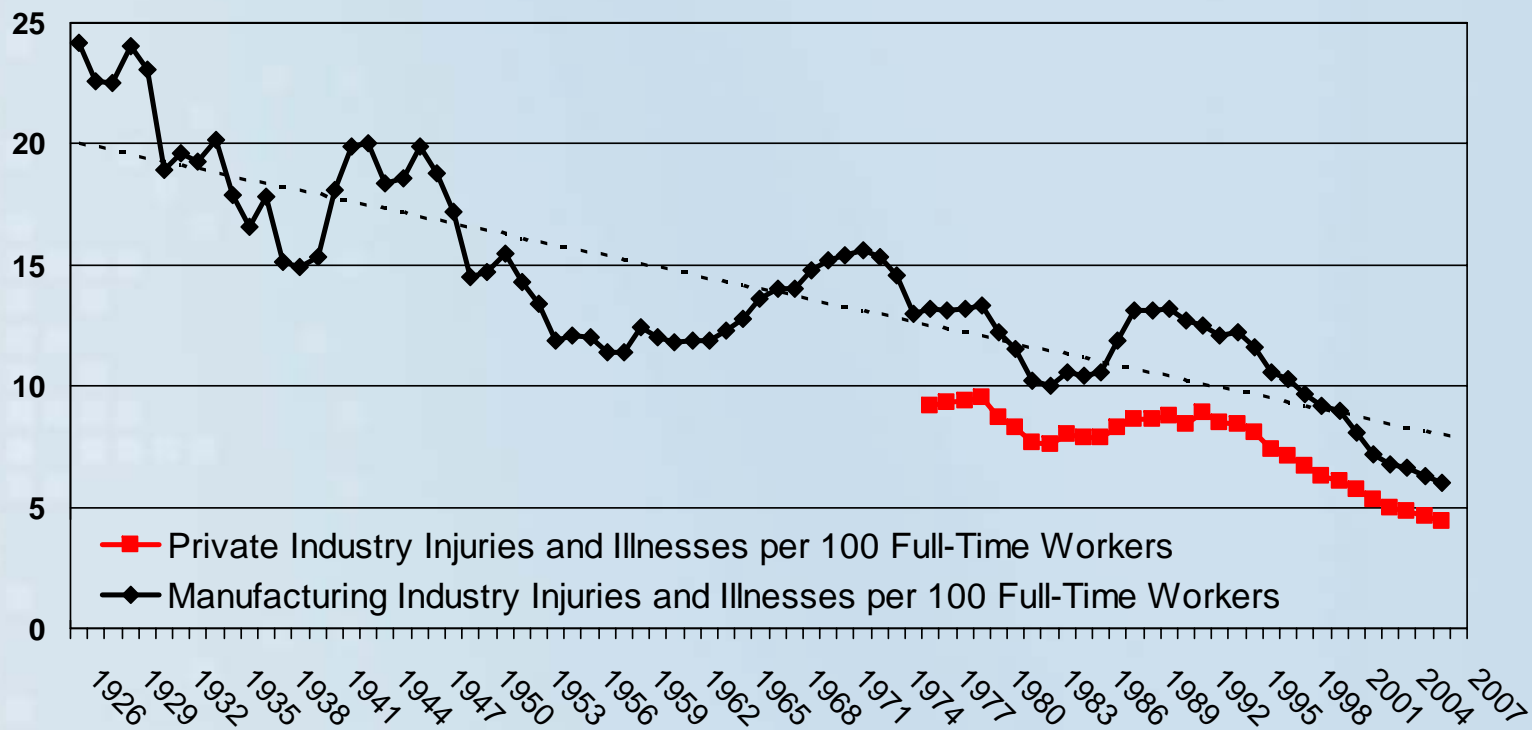
Data includes State Compensation Insurance Fund

Source: WCIRB^{California}



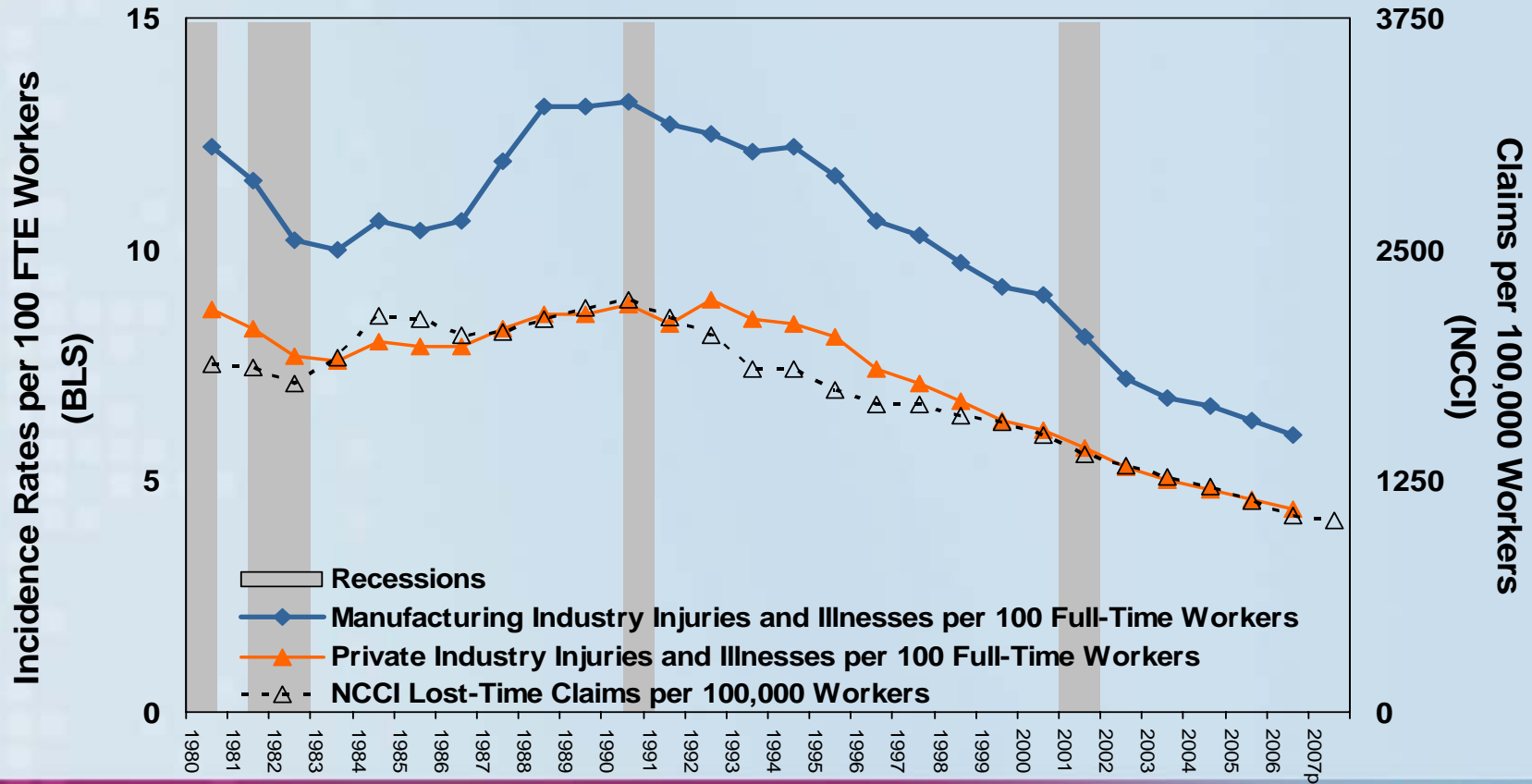
Rate of Work-Related Injuries Decreases Over Time Due to Improved Working Conditions

Rate of Injury per 100 FTE Workers



Source: US Department of Labor, Bureau of Labor Statistics

Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



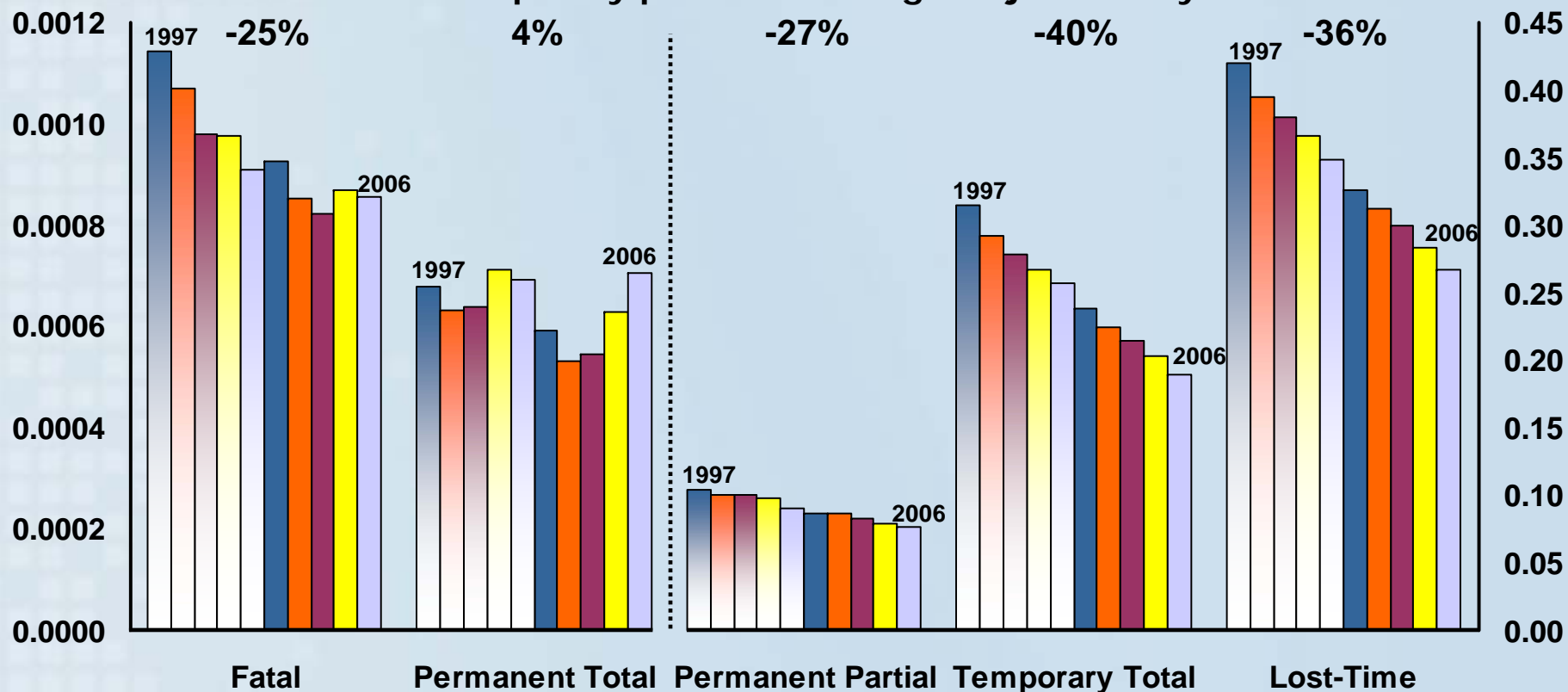
p Preliminary

Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research
NCCI Frequency and Severity Analysis



Claim Frequency Declined for All Injury Types Other Than Permanent Total

Percentage Change Between Policies Expiring in 1997 and 2006
 Claim Frequency per \$1M of Wage-Adjusted Payroll

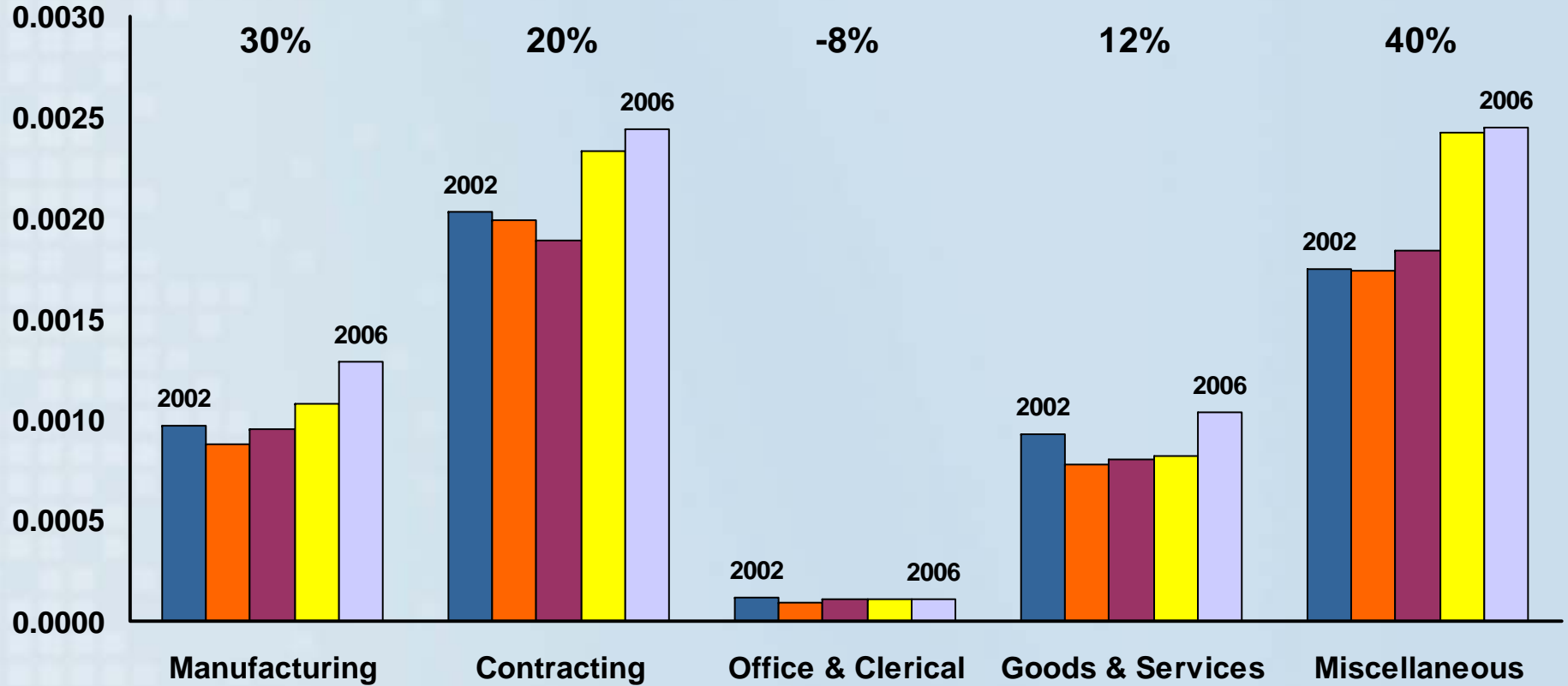


All NCCI states except NV and TX
 Source: NCCI Unit Statistical Plan data, First Report



Permanent Total Claim Frequency by Industry Group

Percentage Change Between Policies Expiring in 2002 and 2006
Claim Frequency per \$1M of Wage Adjusted Payroll

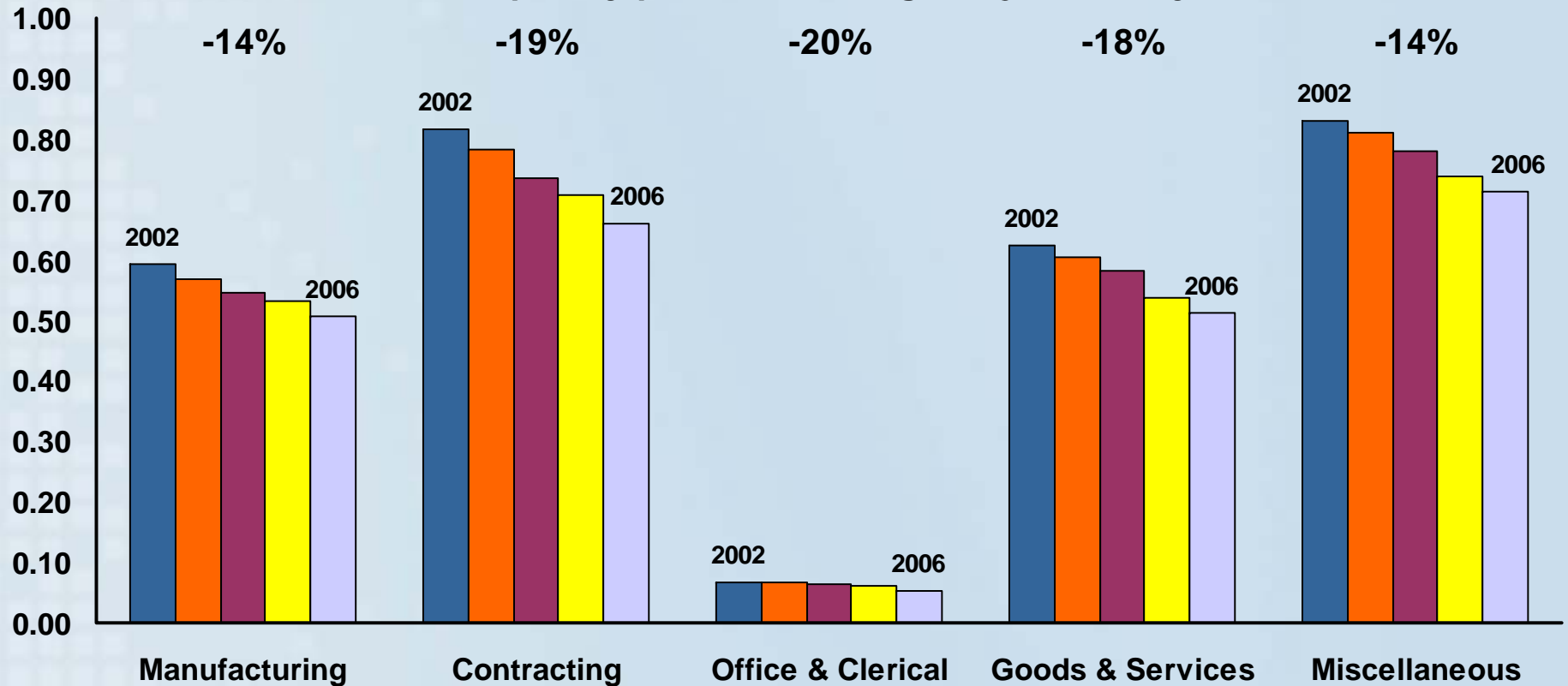


All NCCI states except NV and TX
Source: NCCI Unit Statistical Plan data, First Report



Lost-Time Claim Frequency Declined for All Industry Groups

Percentage Change Between Policies Expiring in 2002 and 2006
Claim Frequency per \$1M of Wage-Adjusted Payroll



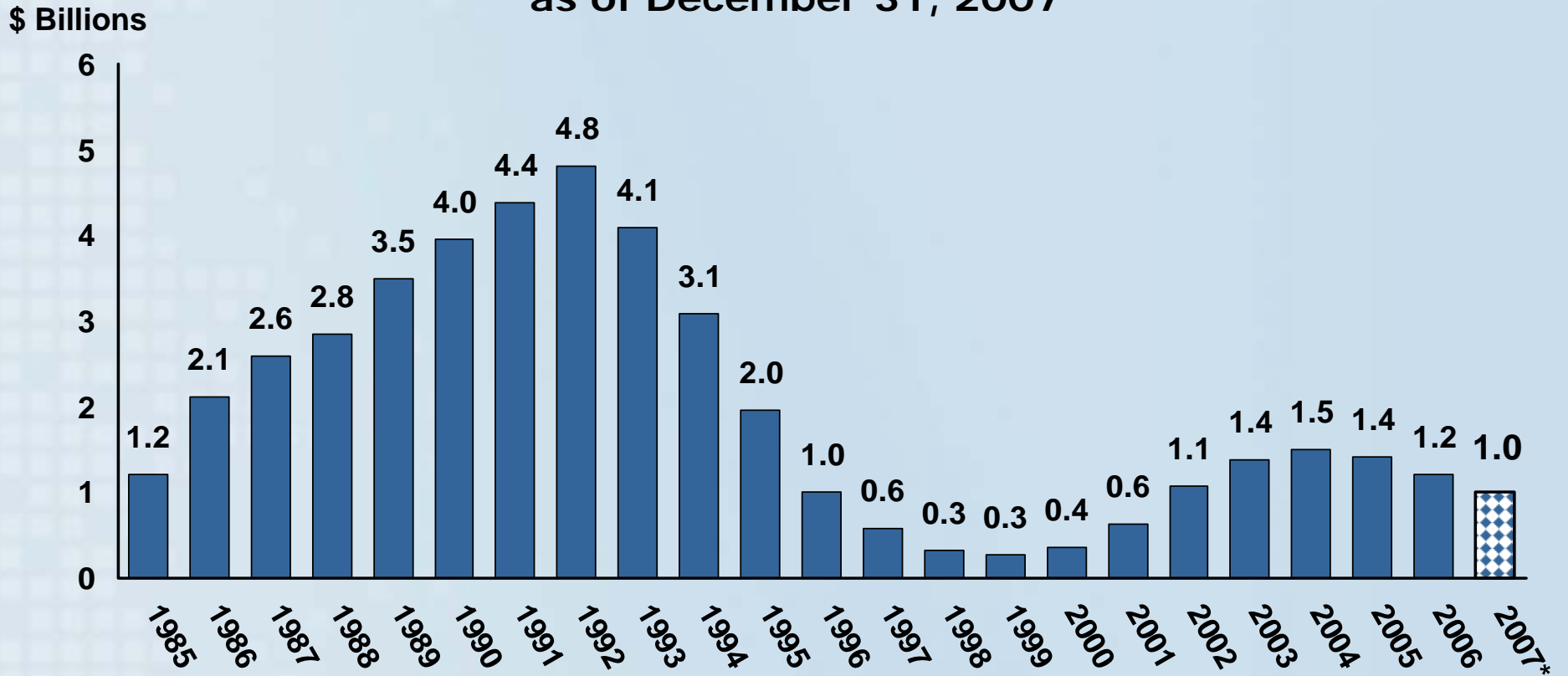
All NCCI states except NV and TX
Source: NCCI Unit Statistical Plan data, First Report



Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2007



Policy Year

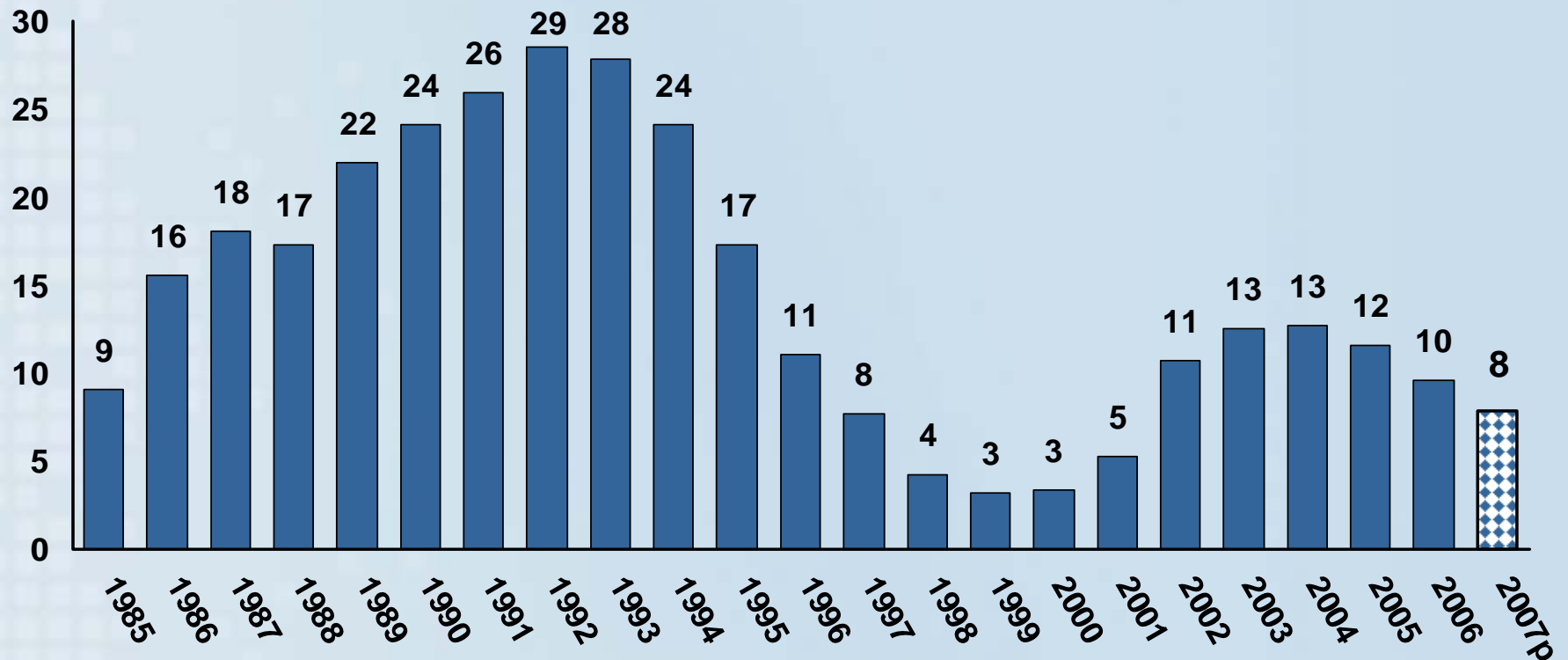
* Incomplete Policy Year Projected to Ultimate



Workers Compensation Residual Market Shares Continue to Decline

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

Percent



Calendar Year

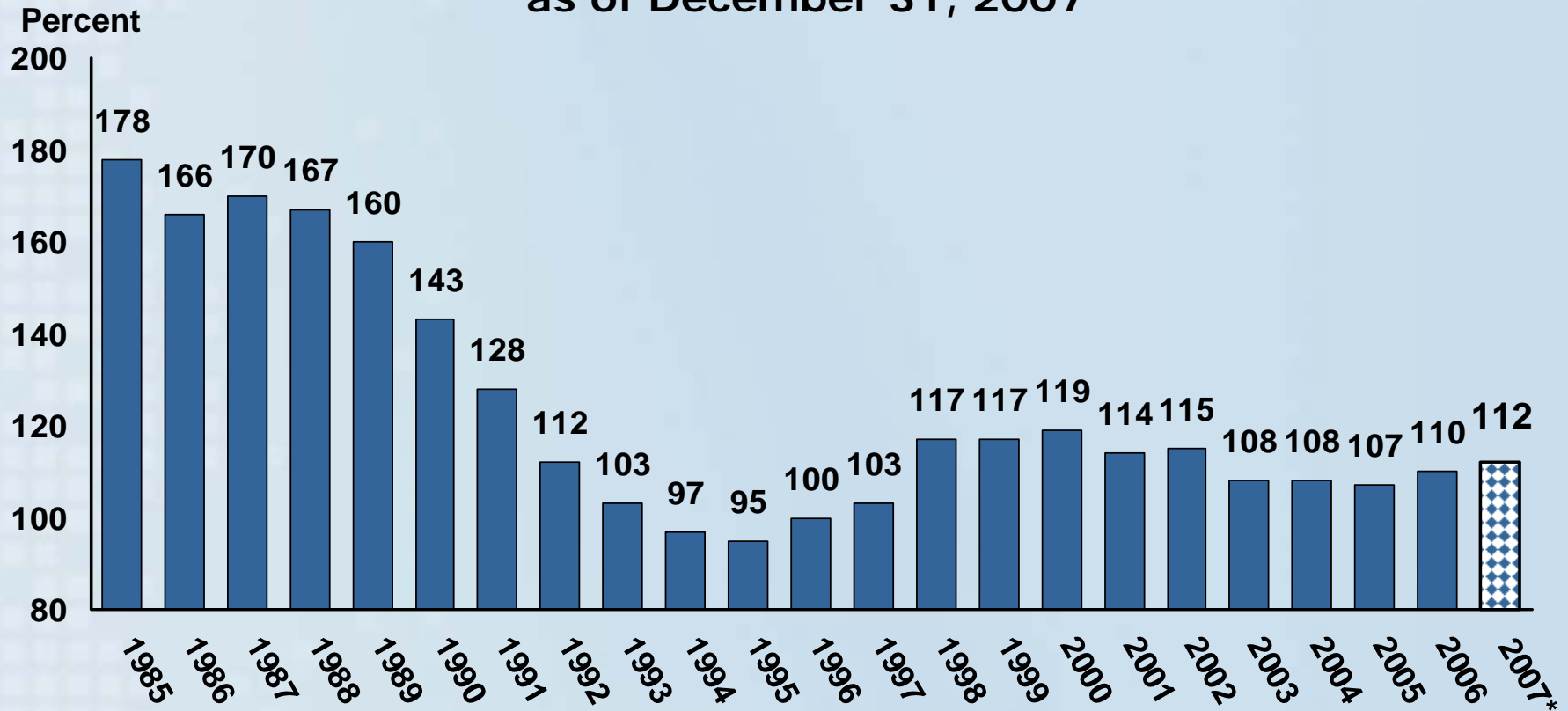
p Preliminary

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



Workers Compensation Residual Market Combined Ratios

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2007



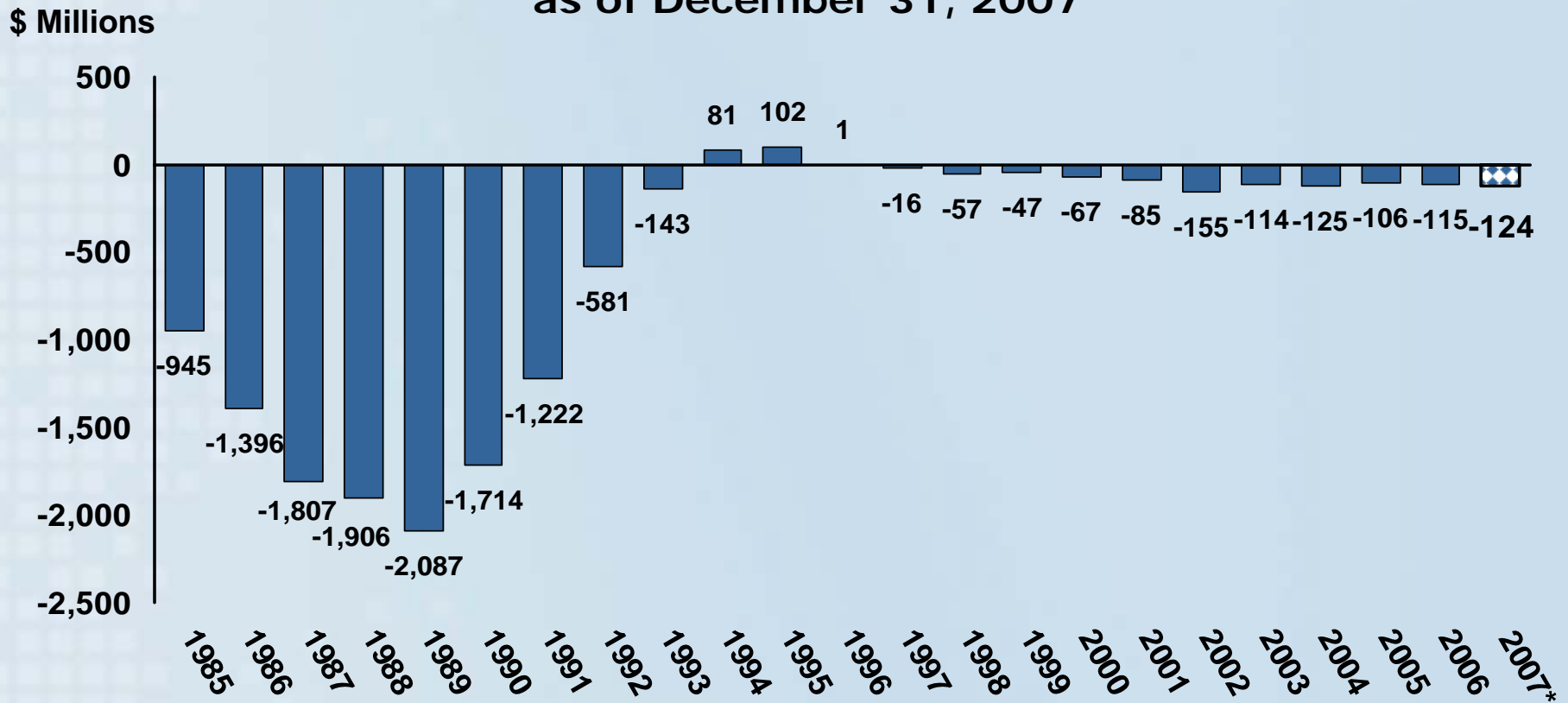
Policy Year

* Incomplete Policy Year Projected to Ultimate



Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2007



Policy Year

* Incomplete Policy Year Projected to Ultimate



Residual Markets Are Depopulating in Most States

First Quarter 2008 vs. First Quarter 2007

Size of Risk	2007	2008	Change
\$ 0 – \$ 2,499	36,146	32,868	-9%
\$ 2,500 – \$ 4,999	5,064	4,458	-12%
\$ 5,000 – \$ 9,999	3,332	3,092	-7%
\$ 10,000 – \$ 49,999	3,187	2,682	-16%
\$ 50,000 – \$ 99,999	379	268	-29%
\$ 100,000 and over	167	121	-28%
Total	48,275	43,489	-10%

Total number of assigned risk policies in force
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, ID, IL, IA, IN, KS, MS, NV, NH, NM, OR, SC, SD, VT, VA

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2008

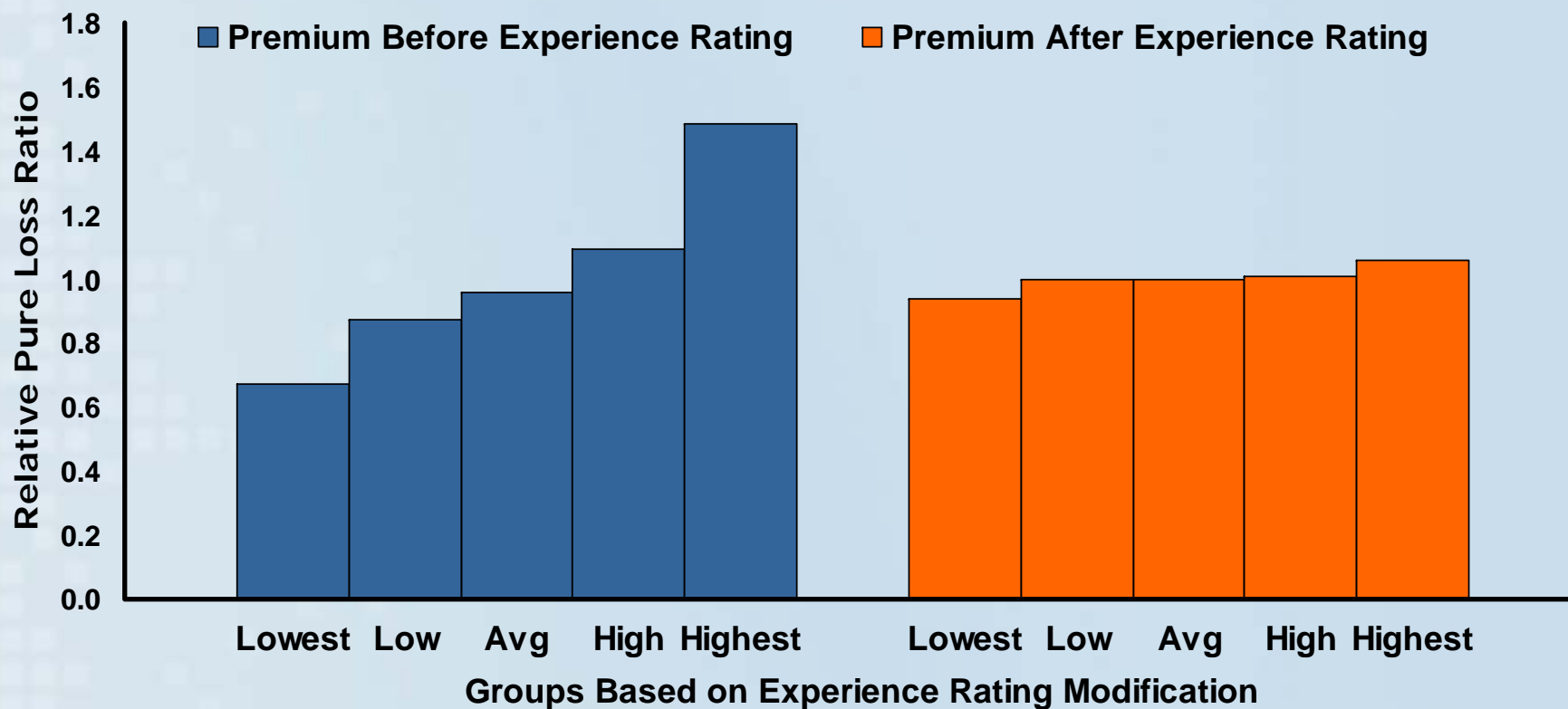
Current Topics of Interest

Experience Rating Plan

- # NCCI is conducting a major review of the Experience Rating Plan over the next two years
- # Review will involve analysis of all parameters
- # Additionally, we will investigate eligibility criteria
- # Analysis to date reveals the plan is performing very well across hazard groups and policy sizes

Experience Rating Plan Performance Testing

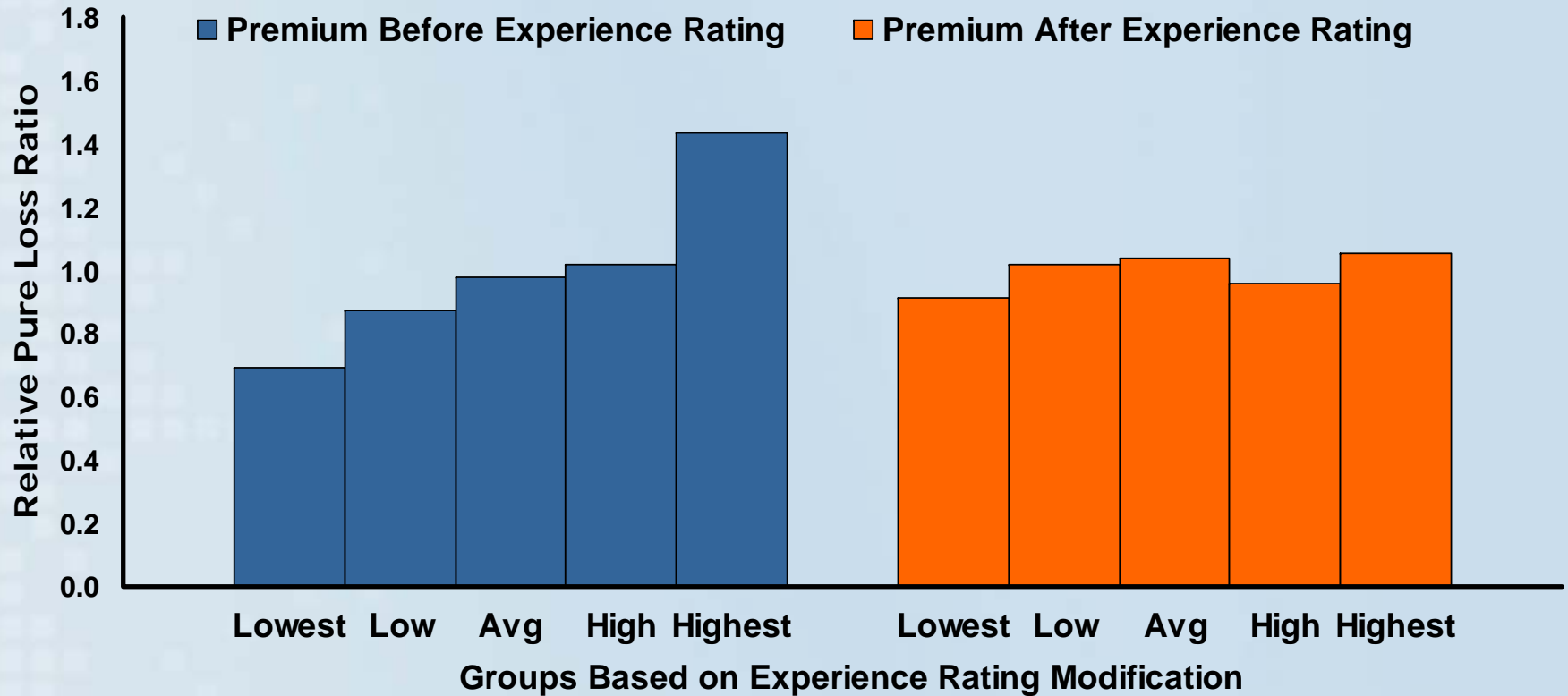
All Risks



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Experience Rating Plan Performance Testing

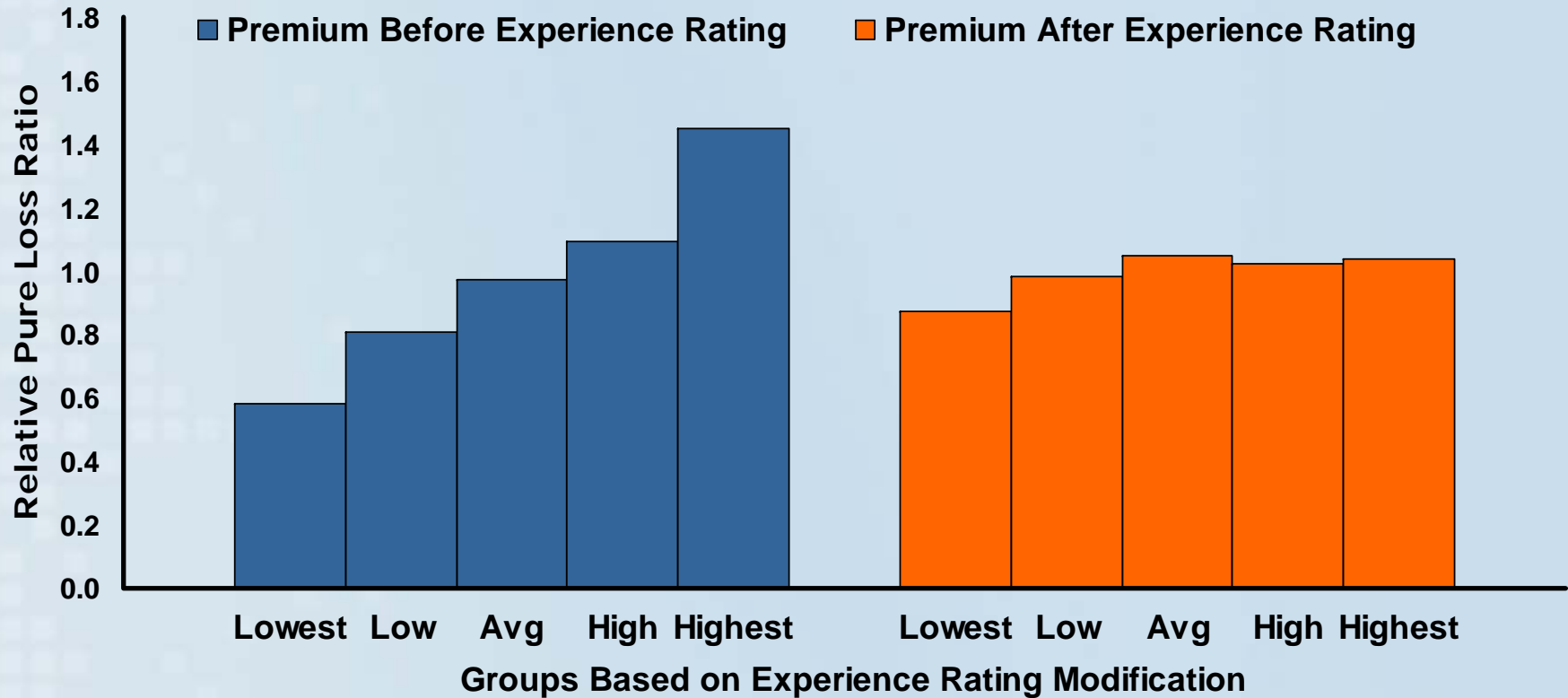
Risks With Expected Losses Between \$10,000–\$99,999



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Experience Rating Plan Performance Testing

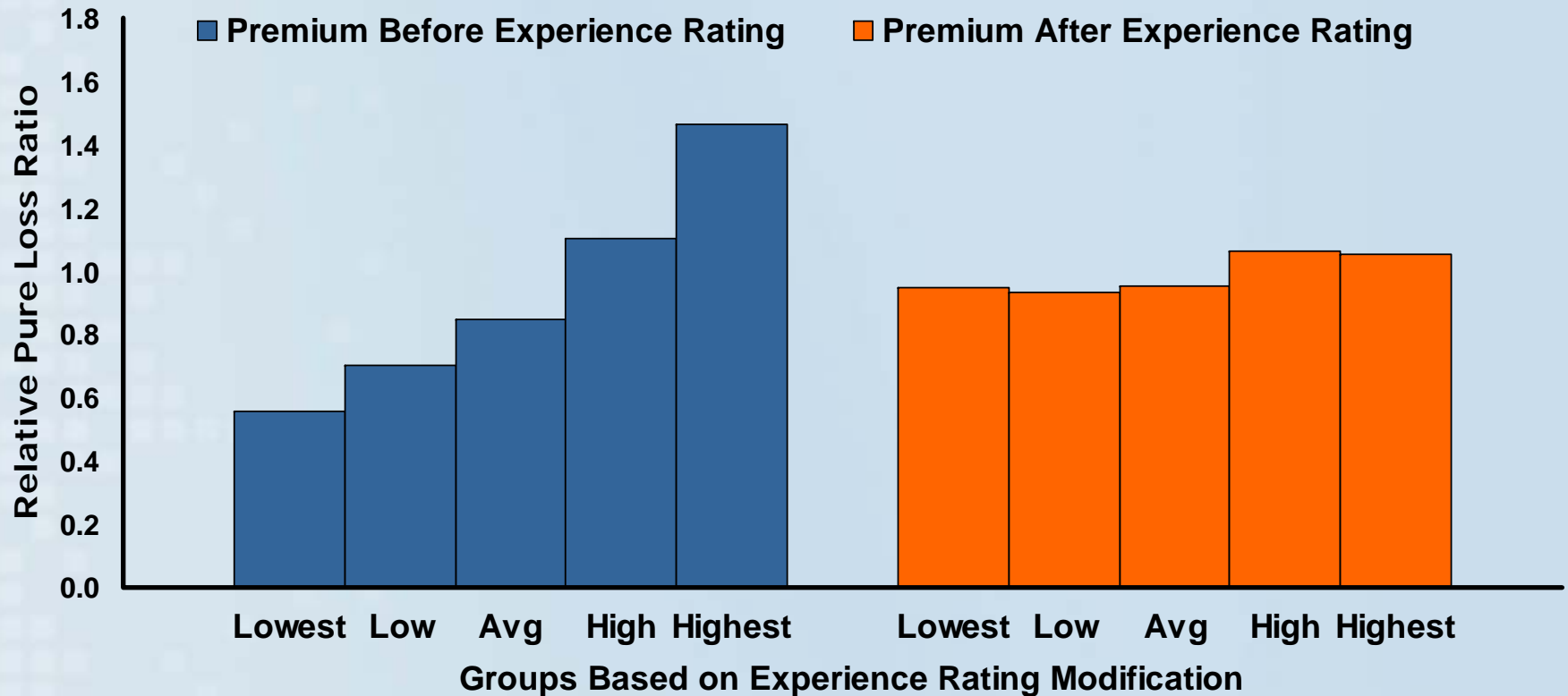
Risks With Expected Losses Between \$100,000–\$999,999



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Experience Rating Plan Performance Testing

Risks With Expected Losses Between \$1,000,000–\$10,000,000



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

Terrorism Risk Insurance Provisions

Provision	Original (TRIA)	Extension (TRIEA)	Revision and Extension (TRIPRA)
Coverage	Most commercial lines (med. mal., financial guaranty specifically excluded)	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft)	No new lines of insurance added Eliminated distinction between foreign and domestic terrorism
Retentions	7%–10%–15%	17.5%–20%	20%
Fed. Contrib./ Insurer Co-Pay	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)	85%–15%
Federal Program Payment Trigger	\$5M	\$5M (yr. 1 through 3/31/06) \$50M (yr. 1 after 3/31/06) \$100M (yr. 2)	\$100M
Expiration	12/31/05	12/31/07	12/31/14

NCCI Response to TRIPRA

- # NCCI has received updated terrorism model results from EQECAT
- # A national filing is anticipated around June 1 with a proposed effective date of September 1, 2008
- # Separate state filings will be made in states that have not approved the DTEC provision
- # Statistical Code 9740 will be **redefined** from foreign terrorism to all certified acts of terrorism
- # Statistical Code 9741 will be **redefined** from DTEC to other than certified acts of terrorism

Concluding Remarks

In Summary

Positives

- # Underwriting results
- # Frequency continues to decline
- # Strongest reserve position in over two decades
- # Residual market depopulation continues
- # Terrorism backstop renewed for seven years

Negatives

- # Low investment returns continue to put pressure on underwriting results
- # Medical costs still above inflation
- # Uncertain political fallout for industry
- # Underwriting cycle

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**