

Segment Review
November 10, 2014

U.S. Workers' Compensation Results Sustain Recent Improvement

Workers' compensation industry records ongoing premium growth; reserve position deteriorates slightly.

The workers' compensation industry's results continued a favorable trend in 2013, marking the third consecutive year of improvement in the industry's underwriting performance (see **Exhibit 1**). The industry's combined ratio declined to 98.6, an 11.7-point decrease from 2012 and the lowest calendar-year combined ratio since 2006. Even setting aside the benefit of one-time items related to reforms in New York's workers' compensation laws, 2013's results reflect modestly better core underwriting performance and may warrant some optimism for solid results ahead.

While the sustained positive rate environment has benefited underwriting performance, the workers' comp industry – which, for the purposes of this report, means the aggregated results for the workers' compensation line of business as reported by all companies and state funds on Insurance Expense Exhibits filed with A.M. Best Co. – faces familiar challenges as the competitive market environment and persistent low investment yields compress operating margins. Although uncertainty remains over the impact of health care reform, there have been positive indications during the past two years that further improvement in results may lie ahead over the near term. Written premiums increased for the third straight year, the improvement in the combined ratio has continued, and the reduction in claims frequency has largely offset the increase in claims severity.

Exhibit 1

U.S. Workers' Compensation – Combined Ratio Components by Line of Business

	2009	2010	2011	2012	2013*	2013**
Net Premiums Written (USD Millions)	35,347	34,074	37,466	41,019	43,589	43,589
Pure Loss Ratio	68.9	72.0	70.7	67.6	58.5	62.6
Loss-Adjustment Expense (LAE) Ratio	16.0	16.7	18.2	14.5	14.4	14.4
Loss & LAE Ratio	84.9	88.7	88.9	82.1	72.9	77.0
Underwriting Expense Ratio	23.9	26.7	26.3	25.2	23.0	24.0
Policyholder Dividend Ratio	2.4	2.7	2.6	3.0	2.7	2.7
Combined Ratio	111.2	118.1	117.8	110.3	98.6	103.7

* As reported. Reflects adjustments by the State Insurance Fund of New York due to workers' compensation reform.

** Removes impact of the adjustments related to N.Y. workers' compensation reform.

Source: A.M. Best data & research, annual statements from Chesapeake Employers' Insurance Co., State Compensation Insurance Fund of California and State Insurance Fund of New York

Operating results for the A.M. Best workers' comp composite – which consists of individual companies whose book of business is primarily workers' compensation (see **Appendix A**) and includes results for all lines of business written for those companies – also improved in 2013. The improvement was driven by lower underwriting losses and a reduction in underwriting expenses, due mainly to a one-time adjustment related to New York reform legislation and solid but declining investment earnings.

Workers' comp reform legislation occurring in New York during 2013 included removal of the requirement for the State Insurance Fund of New York (NYSIF) to hold certain previously established assessment reserves and administrative expense liabilities. As a result, NYSIF remitted USD 2.2 billion of these reserves and liabilities to the New York State Workers' Compensation Board. This remittance was recorded as a special assessment to New York State on NYSIF's income statement, and resulted in a material negative incurred loss and expense. While this change benefited the pure loss ratio and the underwriting expense ratio for both the industry and the composite, the composite's results were impacted to a greater extent given its smaller premium base.

Analytical Contacts

Gordon McLean, Oldwick
+1 (908) 439-2200 Ext. 5304
Gordon.McLean@ambest.com

Brian O'Larte, Oldwick
+1 (908) 439-2200 Ext. 5138
Brian.O'Larte@ambest.com

Editorial Management

Rick Micchelli



The composite posted a significant improvement in underwriting performance, with a combined ratio of 93.5 in 2013, 20.8 points better than the 2012 combined ratio. Absent the impact of the New York adjustment, the combined ratio for the workers' comp composite improved for the second year in a row to 106.1, reflecting the compounded effect of rate increases and payroll growth, offset in part by the sluggish macroeconomic environment and rising medical costs.

Industry results reflect the benefit of ongoing technological advancements, which have enabled companies to recognize and react more quickly to negative trends with precision on a regional or territorial basis. However, without the benefit of the double-digit investment returns that the industry earned in the past, overall earnings have declined.

Despite the positive news, A.M. Best remains concerned about the industry's loss reserve position, which deteriorated in 2013 for the sixth straight year. A.M. Best estimates that the loss and loss-adjustment expense (LAE) reserve position for the workers' comp line was deficient by USD 28.6 billion, up from an estimated USD 27.8 billion in 2012. While the majority of the deficiency is due to statutory discounting, the ultimate adequacy of the industry's reserves remains uncertain for prior accident years when rates were at their low point.

Workers' Comp Line Growth Exceeds Commercial Pace

The workers' comp line's net premiums written (NPW) increased approximately 6.3% in 2013, compared with overall growth of 4.8% in NPW for the commercial segment. Growth in exposures due to continuing improvement in economic conditions and ongoing rate increases,

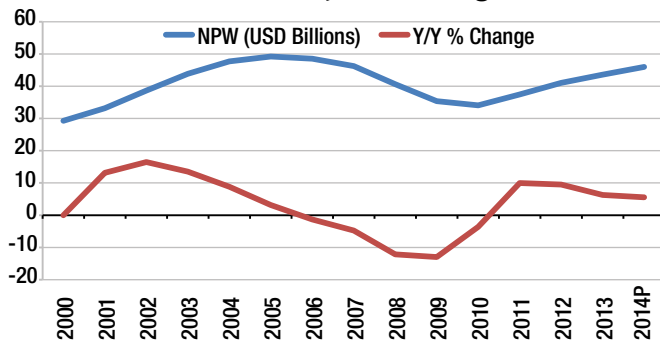
albeit at lower levels than in recent years, drove further NPW growth in 2013 (see **Exhibit 2**). Modest but sustained growth in manufacturing and construction payrolls beginning in early 2010 and in 2011, respectively, also has contributed to the segment's recent growth in premium.

Calendar year 2013 represents the third consecutive year of premium growth, but competitive market conditions in certain classes have emerged as companies seek to retain profitable accounts while maintaining market share. As a result, the growth rate has slowed relative to 2011, the first full year of the current firming market cycle. Trends through the first half of 2014 suggest that NPW growth

will slow further this year.

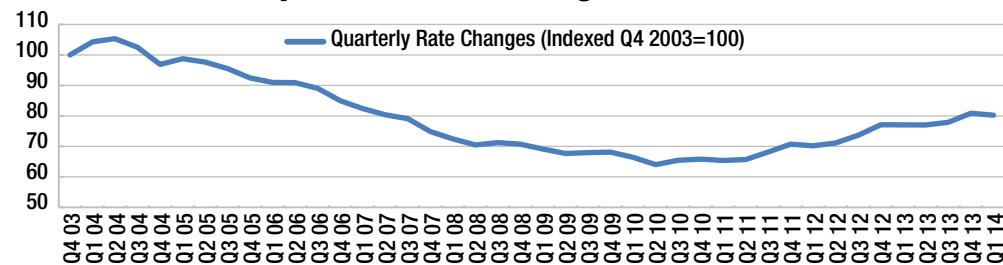
While rate levels continue to trend upward, pricing remains below its peak of the previous hard market in the second

**Exhibit 2
U.S. Workers' Compensation –
Net Premiums Written, Y/Y Change**



P = Projected
Source: A.M. Best data & research, State Compensation Insurance Fund of California, State Insurance Fund of New York

**Exhibit 3
U.S. Workers' Compensation Rate Changes**



Source: Council of Insurance Agents & Brokers (CIAB)

quarter of 2004 (see **Exhibit 3**). Based on pricing trends captured by the P/C Market Survey from the Council of Insurance Agents and Brokers, the bottom of the most recent soft market occurred in late 2010 into 2011. While not representative of any specific class code or state, the depiction of the market here is in line with feedback received from carriers on the timing of the market change and affords a look at the long-term direction of rates for the industry. The change in the market did not take place consistently in all geographic regions. In addition, while the data reflect accounts of all sizes, discussion with companies suggests that market dynamics have different impacts based on customer size.

While market rates trended higher during 2013, the recovery brings rates back only to approximately 80% of their 2004 level. A number of factors account for this decline, most significantly a reduction in loss frequency that has mostly offset the impact of medical inflation on loss severity. In addition, reform legislation in a number of states had a downward impact on pricing over the past 10 years. While details varied by state, reform legislation generally sought to reduce or cap indemnity payments and to moderate the impact of medical cost inflation through better control of the claim process by insurers. Legislation to limit attorney involvement also has slowed increases in the overall cost of claims. However, with rate increases slowing significantly, there is uncertainty about how long the improved underwriting results can be sustained and how much more rates must increase to meet return expectations.

Given the combined effect of the positive rate environment and increased exposures, NPW for the workers' comp segment increased 6.3% during 2013 to USD 43.6 billion from USD 41.0 billion in 2012. While the sustained premium growth since 2011 has benefitted the line's performance, NPW volume through 2013 remains 11.4% lower than the USD 49.2 billion peak reported in 2005 (see **Exhibit 2**).

Direct premiums written (DPW) increased in all but five jurisdictions (excluding those with monopolistic state funds), a slight increase from the prior year when four jurisdictions reported reductions in premium (see **Appendix B**). For the country as a whole, DPW increased 8.3% during 2013 from 10.8% growth in DPW for 2012. The reduction in the rate of premium growth and the increase in the number of jurisdictions reporting lower premium volume may be early indicators of a softening rate environment, although it is not clear whether a new trend is beginning or the market is simply pausing to allow the impact of compounded rate increases to be absorbed.

Delaware is not among the 10 largest states, although it posted the largest increase in DPW during 2013 among those states without monopolistic state funds at 18.1%. Arizona (17.2%) and Colorado (14.7%) were the next fastest growing states. New Jersey, the seventh largest state based on DPW, was the fastest growing of the 10 largest states, with a 14.7% increase in DPW (see **Appendix B**). California, the largest state in terms of DPW, posted a 14.3%

Exhibit 4 U.S. Workers' Compensation – Loss Experience in Top States

State	2013 DPW (USD Millions)	% of Total U.S.	Direct Incurred Loss Ratio (%)					
			2009	2010	2011	2012	2013*	2013**
California	10,293	19.8	69.2	72.5	60.9	73.2	70.0	70.0
New York	5,192	10.0	83.4	95.8	77.8	85.1	44.1	87.3
Illinois	2,685	5.2	83.2	89.6	75.3	72.2	60.5	60.5
Texas	2,674	5.2	43.9	51.6	43.3	47.7	63.2	63.2
Pennsylvania	2,579	5.0	70.8	69.7	64.7	69.3	47.6	47.6
Florida	2,297	4.4	53.5	66.7	41.3	55.5	50.8	50.8
New Jersey	2,210	4.3	70.2	72.1	71.9	73.5	68.0	68.0
Wisconsin	1,747	3.4	68.2	67.0	66.0	65.7	66.0	66.0
North Carolina	1,356	2.6	69.2	74.0	74.4	73.5	60.1	60.1
Georgia	1,235	2.4	66.9	64.4	59.3	62.7	56.5	56.5
Total U.S.	51,922	100	68.1	74.7	65.2	67.9	59.8	63.3

* As reported

** Removes impact of adjustments related to N.Y. workers' compensation reform.

Source: A.M. Best data & research

increase in DPW during 2013, ranking it the second-fastest growing state among the 10 largest states. Florida, the sixth largest state in terms of DPW, reported 14.1% growth in 2013, ranking as the third-fastest growing state among the top 10. In all, 11 states reported DPW growth of 10% or more during 2013, down from 26 states reporting the same volume of growth in 2012. DPW declined in five competitive market jurisdictions, with Alabama, Montana, Alaska and Massachusetts each reporting declines of less than 2.0% and West Virginia reporting the largest reduction, with DPW down 9.8%.

In 2012, monopolistic state funds reported the fastest growth in DPW. This situation reversed in 2013, with three of the four monopolistic state funds – Ohio, Washington, and Wyoming – reporting the largest premium reductions among all states, ranging from 23.8% to 41.3%. These states have a very small premium base underlying these large percentage premium declines. The fourth monopolistic state fund, North Dakota, reported 5% DPW growth during 2013.

The 25 largest workers' comp insurers reported 5.5% growth in NPW, slightly less than the 6.3% reported for the workers' comp line as a whole during 2013 (see **Exhibit 5**). The five largest carriers in aggregate reported a 1.8% reduction in premium year over year, driven primarily by Liberty Mutual's 19.5% reduction in premiums, a result of Liberty's focus on lines other than workers' comp. With this premium decline, Liberty dropped to the No. 2 carrier based on

NPW. Concurrently, Travelers Group reported 7.2% growth in NPW during the year, bypassing Liberty to become the largest carrier as measured by NPW. Hartford Insurance Group and American International Group remained the third and fourth largest workers' comp carriers, respectively.

Among state funds, the State Insurance Fund of New York remained the largest, and is the fifth-largest carrier overall. The State Compensation Insurance Fund of California, Texas Mutual Insurance Co., Pinnacol Assurance Co. (Colorado) and SAIF Corp. (Oregon) are the other state funds ranking among the top 25 workers' comp carriers.

Exhibit 5

U.S. Workers' Compensation – Top 25 Carriers

Ranked by 2013 workers' compensation net premiums written.

Rank	Group/Unaffiliated Single Company	Net Premiums Written (USD Millions)		Y/Y Change (%)	Market Share (%)	
		2012	2013		2012	2013
1	Travelers Group	3,436.3	3,682.6	7.2	8.4	8.4
2	Liberty Mutual Insurance Companies	3,829.3	3,082.1	-19.5	9.3	7.1
3	Hartford Insurance Group	2,994.5	2,970.2	-0.8	7.3	6.8
4	American International Group	2,823.0	2,728.2	-3.4	6.9	6.3
5	State Insurance Fund of New York	1,943.8	2,283.3	17.5	4.7	5.2
6	Berkshire Hathaway Insurance Group	1,037.4	1,509.4	45.5	2.5	3.5
7	State Compensation Insurance Fund of CA	887.6	1,096.3	23.5	2.2	2.5
8	Texas Mutual Insurance Company	926.5	1,062.2	14.6	2.3	2.4
9	Chubb Group of Insurance Companies	960.8	1,037.9	8.0	2.3	2.4
10	W. R. Berkley Group	805.3	960.6	19.3	2.0	2.2
11	Zurich Financial Services NA Group	950.6	944.9	-0.6	2.3	2.2
12	Fairfax Financial (USA) Group	833.1	818.8	-1.7	2.0	1.9
13	Old Republic Insurance Group	759.4	788.2	3.8	1.9	1.8
14	CNA Insurance Companies	824.1	771.5	-6.4	2.0	1.8
15	Accident Fund Group	644.3	712.3	10.5	1.6	1.6
16	Employers Insurance Group	569.7	678.5	19.1	1.4	1.6
17	NJM Insurance Group	441.2	541.3	22.7	1.1	1.2
18	ACE INA Group	556.6	539.6	-3.0	1.4	1.2
19	ICW Group	331.8	503.0	51.6	0.8	1.2
20	Pinnacol Assurance Company	431.4	488.4	13.2	1.1	1.1
21	Great American P&C Insurance Grp	356.2	484.7	36.1	0.9	1.1
22	SAIF Corporation	416.1	454.5	9.2	1.0	1.0
23	Nationwide Group	370.2	422.9	14.2	0.9	1.0
24	Auto-Owners Insurance Group	345.2	389.4	12.8	0.8	0.9
25	Amerisure Companies	325.0	376.4	15.8	0.8	0.9
Total Top 25		27,799.6	29,326.9	5.5	67.8	67.3
Total Workers' Compensation Line		41,018.5	43,588.5	6.3	100.0	100.0

Source: A.M. Best data & research, Annual Statements from Chesapeake Employers' Insurance Co., State Compensation Insurance Fund of California, and State Insurance Fund of New York

While most of the top 25 workers' comp carriers reported increases in NPW for 2013, a number of carriers reported strong, double-digit growth. Berkshire Hathaway Insurance Group reported the largest increase among the top 25 carriers at 45.2%, compared with the 94.2% growth it reported in 2012 following its acquisition of Guard Insurance Group. ICW Group and Great American P&C Insurance Group reported 51.6 % and 36.1% premium growth respectively, although on lower premium bases. State Compensation Insurance Fund of California reported 23.5% growth in premium and was the seventh-largest carrier based on premium volume.

Aside from the premium reduction reported by Liberty Mutual, only six other carriers among the top 25 reported premium declines, with the 6.4% reduction reported by CNA Insurance Cos. ranking as the largest among the remaining companies. This followed a 12.1% reduction in 2012 as CNA has been de-emphasizing workers' comp in recent years.

Underwriting Results Improved Further in 2013

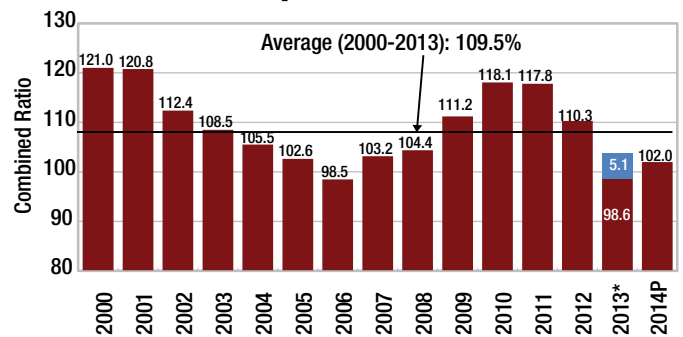
Overall underwriting results for the workers' comp line improved for the third consecutive year in 2013, as evidenced by an 11.7-point reduction in the combined ratio to 98.6 from the 110.3 reported during 2012 (see Exhibit 6). This improvement was driven by a 9.1-point decline in the loss ratio, combined with a 2.2-point reduction in the underwriting expense ratio. The combined ratio also benefited from a 0.3-point reduction in the policyholder dividend ratio and a 0.1-point reduction in the LAE ratio. The improved combined ratio reflects the 5.1-point impact of the aforementioned one-time adjustment at the NYSIF. In addition to contributing to the improving loss ratio, premium growth driven by rate and exposure growth also benefitted the expense ratio.

After accelerating for several years, the level of rate increases began to slow during the second half of 2013, a trend that has continued into the first half of 2014. It is not yet clear whether this slowing pace of rate increases is an early sign of a soft market, or if a period of stabilized conditions has begun after a period of rate increases. Regardless, the speed of the recent improvement in operating results and the current rate environment have resulted in cautious optimism that the line can report additional improvement over the near term.

Although A.M. Best expects 2014 underwriting results to be modestly better than the 103.7 posted by the industry for 2013 (removing the impact of the NYSIF adjustment), the line's underwriting performance likely will remain challenged relative to other commercial lines. While the ongoing rate improvement is long overdue, the negative effects of the cumulative rate reductions that took place during the extended soft market will not be offset by the price increases exhibited in recent years.

Furthermore, according to A.M. Best estimates, the industry's loss reserve deficiency continues to grow, whether the effects of discounting are included or excluded from the estimate. A.M. Best believes the industry already has recognized most of the benefit of the workers' comp reserve redundancy from older accident years, and that reserves for the more recent accident years ultimately will prove insufficient on an industrywide basis, although insurers with more conservative reserving practices may continue to produce redundancies. As a result, decreasing

Exhibit 6
U.S. Workers' Compensation – Combined Ratio



P= Projected
 * Reflects adjustments by the State Insurance Fund of New York due to workers' compensation reform. For 2013, the combined ratio was 98.6 as reported. Excluding adjustments, the combined ratio would have been 5.1 points higher, or 103.7.
 Source: A.M. Best data & research, Annual Statements from Chesapeake Employers' Insurance Co., State Compensation Insurance Fund of California, and State Insurance Fund of New York

recognition of favorable loss reserve development will absorb much of the benefit the loss ratio derives from improved trends in rates and exposure.

AMB Composite's Net Income Up 10%

Net income for the A.M. Best workers' comp composite increased approximately USD 0.2 billion to USD 2.1 billion in 2013, a 10% increase over the prior year (see **Exhibit 7**). The

Exhibit 7
U.S. Workers' Compensation –
A.M. Best Composite' Financial Indicators
(USD Billions)

	2009	2010	2011	2012	2013*	2013**
Net Premiums Written	14.9	14.2	15.1	16.4	18.0	18.0
Net Premiums Earned	15.2	14.6	14.8	16.1	17.5	17.5
Losses & LAE Incurred	12.5	12.4	12.8	13.0	11.9	13.7
Underwriting Expenses	0.5	4.4	4.5	4.6	3.8	4.2
Policyholder Dividends	0.5	0.6	0.7	0.8	0.8	0.8
Underwriting Income/(Loss)	-2.4	-2.8	-3.2	-2.4	1.0	-1.2
Net Investment Income	3.8	3.8	3.6	3.4	2.9	2.9
Other Income	-0.2	-0.3	-0.1	-0.1	-2.4	-0.2
Pretax Operating Income/(Loss)	1.2	0.7	0.3	0.9	1.5	1.5
Realized Capital Gains/(Losses)	-0.4	1.1	0.6	1.1	0.8	0.8
Federal Income Taxes	0.2	0.0	0.0	0.1	0.2	0.2
Net Income	-0.6	1.8	0.9	1.9	2.1	2.1

* AMB composite includes companies and state funds with more than 50% of their business in workers' comp and/or excess workers' comp. (See **Appendix A** for complete listing.)

** As reported.

** Removes impact of adjustments related to N.Y. workers' compensation reform. Note: Figures may not add due to rounding.

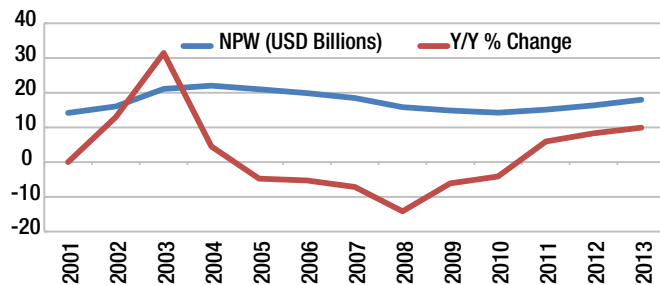
Source: A.M. Best data & research

improvement reflects better operating earnings, with pretax operating income up USD 0.6 billion, primarily a result of a USD 3.4 billion swing in underwriting results to a profit of USD 1.0 billion. Offsetting the more favorable underwriting results were a decline in net investment income and a USD 2.4 billion "other loss," primarily driven by the aforementioned one-time adjustment at the NYSIF. While realized capital gains continued to benefit net income, they declined to USD 0.8 billion in 2013, down from the USD 1.1 billion reported in 2012.

The composite's top line increased for the third consecutive year in 2013, the first time since 2004 that the industry has recorded more than two consecutive years of growth in NPW (see **Exhibit 8**). As was the case for the workers' comp line, the top-line premium growth has been driven by ongoing rate and exposure level increases as employment and payrolls have stabilized in the most recent years. Companies in the composite also have credited the improvement to less volatility in premium audit adjustments, which had an adverse effect on premiums in 2009-2011.

NPW increased in 2013 by approximately USD 1.6 billion, or 9.9%, to USD 18.0 billion (see **Exhibit 8**). While nearly half the decline in the composite's NPW during the recent soft market has been recovered, NPW remains approximately 18% lower than its 2004 high-water mark of USD 22.0 billion. The composite is somewhat weighted toward state funds, and much of the growth

Exhibit 8
U.S. Workers' Compensation –
A.M. Best Composite* Net Premiums Written



* A.M. Best Composite includes companies and state funds with more than 50% of their business in workers' comp or excess workers' comp. (See **Appendix A** for complete listing.)

Source: A.M. Best data & research

in NPW in recent years has been driven by the increasing market share of these entities. Accounts moving to the state funds from writers that are not workers' comp specialists, whose premiums were not previously included in the workers' comp composite totals, comprise much of this growth.

The composite's improved performance in 2013 is due to ongoing rate improvement and growth in exposures, offset somewhat by the sluggish macroeconomic environment and impact of rising medical costs. The composite reported an underwriting profit of USD 1.0 billion in 2013, a considerable improvement from the underwriting loss of USD 2.4 billion in 2012, and significantly

improved from the peak underwriting loss of USD 3.2 billion reported in 2011. The composite's combined ratio – a key measure of underwriting profitability – improved by 20.8 points to 93.5 in 2013, down from 114.3 in 2012, and the first time the composite has reported a combined ratio lower than 100 since 2005 (see **Exhibit 9**).

The 2013 results benefited from an approximate 13.2-point improvement in the loss and LAE ratio, primarily due to the impact of adjustment made by the NYSIF following reform legislation in New York. The NYSIF adjustment generated approximately USD 1.8 billion of favorable loss reserve development on prior accident years and accounted for 10.4 points of the improvement. While the reserve releases were allocated across most prior accident years, the bulk of the reserve releases excluding the impact of the NYSIF adjustment came from the most recent accident years. Given the long-tail nature of the workers' comp line of business, the level of reserve releases from these recent years at this stage is somewhat concerning.

Additionally, the composite's combined ratio benefited from a seven point improvement in the expense ratio due to growth in NPW and the impact of the NYSIF adjustment. Policyholder dividends declined USD 34 million from 2012 to USD 791 million in 2013 and added 4.1 points to the combined ratio in 2013, a 0.6-point decline from 2012.

As previously noted, state funds comprised a large portion of the AMB composite and significantly influence the segment underwriting results. State funds operate as the guaranteed market – sometimes known as the market of last resort – within a given state, and often are obligated to offer coverage to insureds that experience difficulty in obtaining insurance in the private market. With the exception of 2013, which was distorted by the NYSIF adjustment, underwriting results for the state funds typically trail those reported by private carriers.

In 2013, the substantial size of the NYSIF adjustment resulted in the combined ratio for the composite being higher when the state funds' results are removed. Excluding state funds, the composite's combined ratio was 99.6 in 2013, compared with 106.9 in 2012; the combined ratio of the state funds alone was 85.5, down significantly from the 125.3 reported in 2012 (see **Exhibit 10**). Following three years of premium growth, NPW at state funds increased to USD 7.7 billion in 2013, up from USD 6.7 billion in 2012, and represented 43% of the composite total, up from 41% in 2012.

(For more details regarding state fund trends, please see A.M. Best's special report, *U.S. State Compensation Funds – Segment Review*, Aug. 4, 2014.)

The workers' comp composite's policyholders' surplus (PHS) increased USD 3.1 billion, or 9.2%,

Exhibit 9 U.S. Workers' Compensation – A.M. Best Composite¹ Combined Ratio Components

	2009	2010	2011	2012	2013 [*]	2013 ^{**}
Pure Loss Ratio	65.7	68.2	65.3	67.2	53.7	64.0
Loss-Adjustment Expense (LAE) Ratio	16.8	16.3	21.4	13.9	14.3	14.3
Loss & LAE Ratio	82.5	84.5	86.7	81.1	67.9	78.3
Underwriting Expense Ratio	30.9	31.2	29.7	28.0	21.1	23.3
Policyholder Dividend Ratio	3.3	4.2	4.4	5.1	4.5	4.5
Combined Ratio	116.8	119.9	120.8	114.3	93.5	106.1
Combined Ratio (Excluding State Funds)	109.6	111.8	111.8	106.9	99.6	99.6

¹ A.M. Best Composite includes companies and state funds with more than 50% of their business in workers' comp and/or excess workers' comp. (See **Appendix A** for complete listing.)

^{*} As reported.

^{**} Removes impact of adjustments related to N.Y. workers' compensation reform.

Source: A.M. Best data & research

Exhibit 10 U.S. Workers' Compensation – State Funds Combined Ratio Components¹

	2009	2010	2011	2012	2013 [*]	2013 ^{**}
Pure Loss Ratio	76.9	79.6	72.4	79.6	49.3	72.0
Loss-Adjustment Expense (LAE) Ratio	19.3	18.9	28.8	11.9	14.2	14.2
Loss & LAE Ratio	96.2	98.5	101.2	91.4	63.5	86.2
Combined Ratio	127.8	133.2	134.9	125.3	85.5	113.4

¹ Includes SCF Arizona, State Comp Ins Fund of CA, Pinnacle Assurance Co. (Colorado), Hawaii Employers' Mutual Ins Co., Idaho State Insurance Fund, Kentucky Employers' Mutual Ins, Louisiana Workers' Comp Corp., Maine Employers' Mutual Ins Co., Chesapeake Employers' Insurance Co., SFM Mutual Insurance Co., Missouri Employers Mutual Ins Co., Montana State Fund, New Mexico Mutual Casualty Co., State Insurance Fund of N.Y., CompSource Oklahoma, SAIF Corp. (Oregon), State Workers' Insurance Fund (Pennsylvania), Beacon Mutual Insurance Co. (Rhode Island), Texas Mutual Insurance Co., and Workers Compensation Fund (Utah).

^{*} As reported.

^{**} Removes impact of adjustments related to N.Y. workers' compensation reform.

Source: A.M. Best data & research

Exhibit 11
U.S. Workers' Compensation – A.M. Best
Composite¹ Change in Policyholders' Surplus
 (USD Billions)

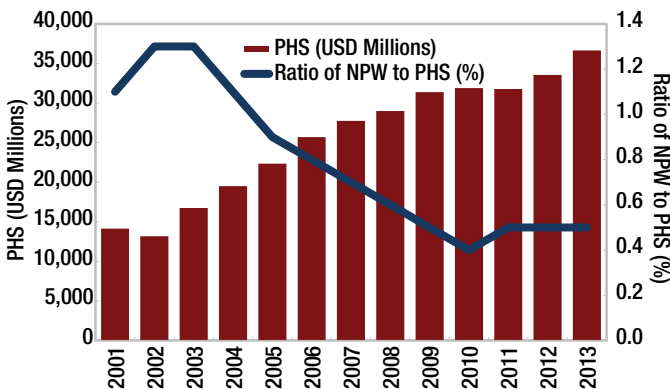
	2009	2010	2011	2012	2013*
Beginning Policyholder Surplus (PHS) at Prior Year End	29.0	31.4	31.9	31.8	33.6
Net Income	0.7	1.8	0.9	1.9	2.1
Unrealized Capital Gains/Losses	1.9	0.4	-0.5	0.5	1.5
Contributed Capital	0.0	0.0	-0.1	0.1	0.3
Stockholder Dividends	-0.5	-1.7	-0.6	-0.7	-0.8
Other Changes	0.3	0.0	0.2	0.0	0.0
Ending Policyholder Surplus	31.4	31.9	31.8	33.6	36.7
Change in PHS from Prior Year End	2.4	0.5	-0.1	1.8	3.1
Change in PHS from Prior Year End (%)	8.2	1.7	-0.4	5.6	9.2
After-Tax Return on Surplus (ROE %)	8.6	7.2	1.4	7.5	10.4

¹ A.M. Best Composite includes companies and state funds with more than 50% of their business in workers' comp and/or excess workers' comp. (See **Appendix A** for complete listing.)
 * Reflects adjustments by the State Insurance Fund of New York due to workers' compensation reform.
 Note: Figures may not add due to rounding.
 Source: A.M. Best data & research

to a record high of USD 36.7 billion in 2013 (see **Exhibit 11**). The increase was driven by USD 2.1 billion in net income, USD 1.5 billion in unrealized capital gains and USD 0.3 billion in contributed capital, partially offset by USD 0.8 billion in stockholder dividends. With the composite's PHS at a record high in 2013 and the continued strong increase in premium volume, the ratio of NPW to PHS remained unchanged at 0.5x in 2013 (see **Exhibit 12**).

In 2014, A.M. Best maintained a negative outlook for the commercial lines market segment for the third consecutive year. The negative outlook for the commercial segment has been driven by concern that, particularly in workers' comp, continuing competitive market conditions (despite increasing rates) and lower levels of favorable loss reserve development will lead to deteriorating underwriting and operating results.

Exhibit 12
U.S. Workers' Compensation –
A.M. Best Composite* Policyholders'
Surplus & Underwriting Leverage



*A.M. Best Composite includes companies and state funds with more than 50% of their business in workers' comp and/or excess workers' comp. (See **Appendix A** for complete listing.)
 Source: A.M. Best data & research

While the vast majority of rating actions are typically affirmations, the continuation of the negative outlook reflected the expectation that negative rating actions would outnumber positive rating actions in 2014. This has clearly been the case in the workers' compensation composite, in which there were nine negative rating actions and four positive rating actions through the first nine months of 2014 (see **Exhibit 13**).

Frequency and Severity Trends

Preliminary analysis by the National Council on Compensation Insurance (NCCI) shows a decline in claims frequency in 14 of the past 15 years. In fact, in states where NCCI provides rate-making services, NCCI indicates that the frequency of lost-time claims decreased on an adjusted basis by 2.0% in 2013. It appears increasingly likely that the increase in frequency reported in 2010 resulted from recession-related factors and

was not a reversal of the long-term declining trends.

In determining claim frequency trends during the Great Recession, NCCI adjusted its claim-frequency calculations to consider the impact of factors it felt had a larger effect on claim frequency than would have occurred in an economy not in recession. These factors were changes in industry mix, average hours worked per week and premium audits. As the economy recovered from the recession, NCCI cited more stability in the industry mix, as well as an increase in both the number of hours worked (which is typically associated with an increase in frequency) and premium audit adjustments on calendar-year premiums. After the recession,

NCCI stated that the adjustments used during the recession were no longer necessary. According to NCCI data, lost-time claim frequency has decreased in all but three of the past 20 years (1994, 1997 and 2010).

Other evidence supports the NCCI's observations. According to the latest report by the Bureau of Labor Statistics (BLS), a total of approximately 3.0 million nonfatal workplace injuries and illnesses were reported in private industry during 2012, a rate of 3.4 cases per 100 equivalent full-time workers. The injury rate has declined annually since 1994, when the rate of cases per 100 equivalent full-time workers was 8.4 (see **Exhibit 14**). 2012 marks the 18th consecutive year of decline.

Approximately 95% of the nearly 3.0 million nonfatal occupational injuries and illnesses in 2012 were injuries. More than 75% of the injuries were in the service providing industry, which employed about 82% of the private industry work force. Most of the remaining injuries, approximately 25%, occurred in goods-producing industries, which accounted for nearly 18% of private industry employment in 2012. The reduced proportion of private industry employment in goods-producing industries is one factor that accounts for the decline in workplace injuries.

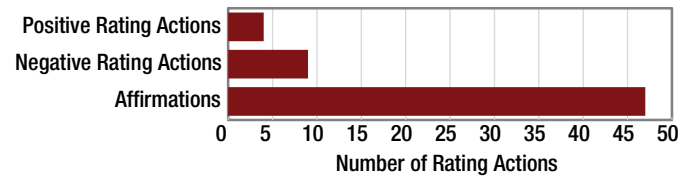
On the severity side, NCCI estimated that the average indemnity claim cost per lost-time claim would increase only slightly, by approximately 2%, to USD 22,700 in 2013 from USD 22,200 in 2012. The average medical cost per lost-time claim is estimated to have increased approximately 3% to USD 28,800 in 2013, exceeding the cost of indemnity claims while increasing at a slightly faster pace.

Medical costs have increased slightly in each of the past three years, but the growth of medical costs in recent years remains significantly lower than the longer term trend. However, for the first time in four years, NCCI's estimate of inflation in the average medical cost for workers' comp claims was slightly higher than the Medical Consumer Price Index (CPI) of approximately 2% in 2013. In each of the past three years, Medical CPI increased at a higher rate than the average medical cost per lost-time claim.

Loss Reserve Development

The U.S. property/casualty industry's net loss and LAE reserves totaled USD 611.1 billion at year-end 2013. The workers' comp line represented the largest portion of the total net reserves, comprising USD 150.7 billion, or nearly 25% of the total. Based on A.M. Best's internal reserve review of the industry, the reserve position of the overall U.S. P/C industry weakened from

Exhibit 13
U.S. Workers' Compensation
Rating Actions Summary
YTD as of Sept. 30, 2014

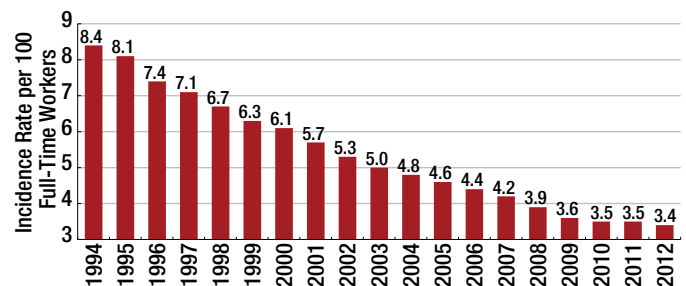


Positive Rating Actions include: Upgraded; Affirmed/Under Review Positive; Affirmed: Stable Outlook to Positive Outlook; and Affirmed: Negative Outlook to Stable Outlook

Negative Rating Actions include: Downgraded; Downgraded/Under Review; Affirmed/Under Review Negative; Affirmed, Stable Outlook to Negative Outlook; Affirmed, Positive Outlook to Stable Outlook; and Affirmed, Positive Outlook to Negative Outlook

Source: A.M. Best data & research

Exhibit 14
U.S. Workers' Compensation –
Total Non-Fatal Workplace Injuries & Illnesses



Source: U.S. Department of Labor; Bureau of Labor Statistics

2009 to 2013. The industry reserves as of year-end 2013 are estimated to be USD 2.0 billion weaker than the reserves reported at year-end 2012. While the personal, commercial and reinsurance segments all are estimated to have weaker reserve positions at year-end 2013, the greatest change is anticipated within the commercial lines segment, specifically the workers' comp line.

The workers' comp segment has been impacted by various reform measures passed in the mid-2000s in certain states. The reforms typically resulted in lower premiums in anticipation of reduced loss

Exhibit 15

U.S. Workers' Compensation – Loss & ALAE Reserve Adequacy¹

(USD Billions)

Calendar Year	Estimated Reserve Deficiency	Estimated Deficiency due to Discount	Deficiency/ (Redundancy) Excluding Discount
2007	6.0	14.5	-8.5
2008	9.0	16.0	-7.0
2009	18.3	16.5	1.8
2010	21.6	17.2	4.4
2011	26.7	18.5	8.2
2012	27.8	18.2	9.6
2013	28.6	17.5	11.1

¹ A.M. Best initial estimates made at year-end 2007-2012. 2013 based on latest A.M. Best U.S. property/casualty reserve review.
Source: A.M. Best data & research

costs combined with favorable frequency and severity trends, which have not materialized as expected in all states. In addition, medical costs have trended higher and are increasing at a faster pace than claims frequency. A.M. Best estimates that the workers' comp line's reserves were deficient by an estimated USD 28.6 billion at year-end 2013, up from an estimated USD 27.8 billion in 2012. While the majority of the estimated deficiency is due to statutory discounting of USD 17.5 billion, which A.M. Best considers a deficiency from full-valued reserves, the deficiency even on a discounted basis has increased, reflecting these factors (see **Exhibit 15**).

Given the long duration of workers' comp loss reserves, the long-term threat of inflation requires a cautious approach when establishing loss reserves in the current low-inflation environment. While inflationary factors could impact the workers' comp segment's underwriting results, insurers' estimates for losses and LAE also could be affected, as these assumptions for future claim payments include the cost of claims and claims-handling expenses, such as medical and litigation costs. To the extent inflation causes these costs to increase above established reserves, the industry will be required to increase loss and LAE reserves, with a corresponding reduction in earnings in the period in which the deficiency is identified.

A.M. Best will remain proactive in reviewing companies' results for signs of deteriorating reserve positions and will reflect those concerns in the rating process. Companies are expected to review their loss and LAE reserve positions on a regular basis, react accordingly to those analyses, and communicate those findings to A.M. Best. Any unexpected charges from adverse development may result in downward pressure on a company's rating.

Overall, it appears the workers' comp industry is showing promising signs for the future, with ongoing overall pricing improvements and generally tight underwriting standards being maintained. A.M. Best expects 2014 calendar-year results will show continued improvement in underwriting and overall operating performance, removing the impact of the NYSIF items from 2013's comparison.

Recent sustained beneficial operating trends, including continuing favorable levels of prior-year loss reserve development and a stable macroeconomic environment, will be crucial as a foundation from which to build on the improvements reported in 2013.

Over the longer term, the industry's ability to maintain the recent improvement in pricing/rates is uncertain. Loss-reserve releases have declined and that trend is not likely to reverse in the near term. The pace of rate increases has slowed over the most recent six quarters, and pricing for

what are currently the most profitable accounts has become more competitive. There is some risk that improved underwriting performance driven by increased prices - without underlying improvement in losses and expenses - will reverse quickly if a broadly competitive market returns. As always, those carriers that maintain underwriting discipline, adequate pricing and conservative reserving practices, as well as prudent capital management strategies, will continue to build on their success as market conditions become less favorable.

Appendix A

A.M. Best Workers' Compensation Composite

AMB#	Company Name	AMB Rating Unit #	AMB Rating Unit Name
001814	Liberty Northwest Insurance Corporation	000060	Liberty Mutual Insurance Companies
010765	LM Insurance Corporation	000060	Liberty Mutual Insurance Companies
002550	Wausau Business Insurance Company	000060	Liberty Mutual Insurance Companies
004274	Wausau General Insurance Company	000060	Liberty Mutual Insurance Companies
000174	Arrow Mutual Liability Insurance Company	000174	Arrow Mutual Liability Insurance Company
000181	Explorer American Insurance Company	000181	Explorer American Insurance Company
000769	Petroleum Casualty Company	000769	Petroleum Casualty Company
002012	Southern Insurance Company	000802	Republic Group
011419	American Compensation Insurance Company	000856	State Auto Insurance Companies
013035	Bloomington Compensation Insurance Co	000856	State Auto Insurance Companies
000949	Alliance National Insurance Company	000949	Alliance National Insurance Company
001751	Ameri Business & Mercantile Ins Mut Inc	001751	Ameri Business & Mercantile Ins Mut Inc
001773	Alaska Timber Insurance Exchange	001773	Alaska Timber Insurance Exchange
001929	SFM Mutual Insurance Company	001929	SFM Mutual Insurance Company
001956	Service Lloyds Insurance Company	001956	Service Lloyds Insurance Company
001975	Clarendon National Insurance Company	001975	Clarendon National Insurance Company
002038	Texas General Indemnity Company	002038	Texas General Indemnity Company
002150	Empire Insurance Company	002150	Empire Insurance Company
002296	Lumbermen's Underwriting Alliance	002296	Lumbermen's Underwriting Alliance
002300	Guarantee Insurance Company	002300	Guarantee Insurance Company
002383	Old Republic General Insurance Corp	002383	Old Republic General Insurance Corp
002438	Arrowood Indemnity Company	002438	Arrowood Indemnity Company
002507	TIG Insurance Company	002507	TIG Insurance Company
002648	Alaska National Insurance Company	002648	Alaska National Insurance Company
002687	Associated Loggers Exchange	002687	Associated Loggers Exchange
002898	Citation Insurance Company (CA)	002898	Citation Insurance Company (CA)
002910	FirstComp Insurance Company	002910	FirstComp Insurance Company
003643	TNUS Insurance Co	002927	Tokio Marine Mgmt & Ins Companies Group
002882	Trans Pacific Insurance Company	002927	Tokio Marine Mgmt & Ins Companies Group
002816	Paramount Insurance Company	002945	Magna Carta Companies
000792	Public Service Insurance Company	002945	Magna Carta Companies
002852	Explorer Insurance Company	002967	ICW Pool
011653	Independence Casualty & Surety Company	002967	ICW Pool
004667	Insurance Company of the West	002967	ICW Pool
000733	Old Republic Insurance Company	002976	Old Republic Insurance Companies
011812	Bridgefield Casualty Insurance Company	003012	Republic and Summit Insurance Pool
012158	Bridgefield Employers Insurance Company	003012	Republic and Summit Insurance Pool
000800	Republic Indemnity Company of America	003012	Republic and Summit Insurance Pool
001856	Republic Indemnity Company of California	003012	Republic and Summit Insurance Pool
000984	Zenith Insurance Company	003020	Zenith National Insurance Group
000776	ZNAT Insurance Company	003020	Zenith National Insurance Group
011039	Peninsula Indemnity Company	003168	Donegal Insurance Group
003471	Pinnacol Assurance Company	003471	Pinnacol Assurance Company
003472	Idaho State Insurance Fund	003472	Idaho State Insurance Fund
003475	Montana State Fund	003475	Montana State Fund
003479	CompSource Oklahoma	003479	CompSource Oklahoma
003480	SAIF Corporation	003480	SAIF Corporation
003481	State Workers' Insurance Fund	003481	State Workers' Insurance Fund
003482	Workers Compensation Fund	003482	Workers Compensation Fund
003650	Texas Hospital Insurance Exchange	003650	Texas Hospital Insurance Exchange
003657	Insurance Company of the Americas	003657	Insurance Company of the Americas
004028	State Compensation Insurance Fund of CA	004028	State Compensation Insurance Fund of CA
004029	State Insurance Fund WC Fund	004029	State Insurance Fund WC Fund
011314	Flagship City Insurance Company	004283	Erie Insurance Group

Appendix A

A.M. Best Workers' Compensation Composite

AMB#	Company Name	AMB Rating Unit #	AMB Rating Unit Name
004289	Cincinnati Casualty Company	004294	Cincinnati Insurance Companies
004632	Laundry Owners Mutual Liability Ins Assn	004632	Laundry Owners Mutual Liability Ins Assn
004822	Arch Indemnity Insurance Company	004822	Arch Indemnity Insurance Company
002833	AIG Assurance Company	005953	AIG Property Casualty US Insurance Group
010138	American Liberty Insurance Company	010138	American Liberty Insurance Company
010253	Housing and Redevelopment Insurance Exch	010253	Housing and Redevelopment Insurance Exch
010634	Commercial Casualty Insurance Company	010634	Commercial Casualty Insurance Company
010653	Claremont Liability Insurance Company	010653	Claremont Liability Insurance Company
010661	Cities and Villages Mutual Insurance	010661	Cities and Villages Mutual Insurance
010813	Springfield Insurance Company	010813	Springfield Insurance Company
011062	Trans City Casualty Insurance Company	011062	Trans City Casualty Insurance Company
011205	Benchmark Insurance Company	011205	Benchmark Insurance Company
011304	SFM Select Insurance Company	011304	SFM Select Insurance Company
011339	Louisiana Workers' Compensation Corp	011339	Louisiana Workers' Compensation Corp
011371	Texas Builders Insurance Company	011371	Texas Builders Insurance Company
011373	Beacon Mutual Insurance Company	011373	Beacon Mutual Insurance Company
011410	SUNZ Insurance Company	011410	SUNZ Insurance Company
011453	Texas Mutual Insurance Company	011453	Texas Mutual Insurance Company
011500	SteadPoint Insurance Company	011500	SteadPoint Insurance Company
011507	Workers' Compensation Exchange	011507	Workers' Compensation Exchange
011590	MADA Insurance Exchange	011590	MADA Insurance Exchange
011655	California Casualty Compensation Ins Co	011655	California Casualty Compensation Ins Co
011718	Missouri Employers Mutual Insurance Co	011718	Missouri Employers Mutual Insurance Co
011741	Oriska Insurance Company	011741	Oriska Insurance Company
011755	SeaBright Insurance Company	011755	SeaBright Insurance Company
011781	Kentucky Employers' Mutual Insurance	011781	Kentucky Employers' Mutual Insurance
011783	American Property Insurance Company	011783	American Property Insurance Company
011868	FFVA Mutual Insurance Co.	011868	FFVA Mutual Insurance Co.
011876	Third Coast Insurance Company	011876	Third Coast Insurance Company
011963	Rural Trust Insurance Company	011963	Rural Trust Insurance Company
011985	Diamond Insurance Company	011985	Diamond Insurance Company
011987	Care West Insurance Company	011987	Care West Insurance Company
012015	FHM Insurance Company	012015	FHM Insurance Company
012060	Hawaii Employers' Mutual Ins Co, Inc	012060	Hawaii Employers' Mutual Ins Co, Inc
012068	Advantage Workers Compensation Ins Co	012068	Advantage Workers Compensation Ins Co
012095	Comp Options Insurance Company, Inc.	012095	Comp Options Insurance Company, Inc.
012124	Premier Group Insurance Company	012124	Premier Group Insurance Company
012153	LEMIC Insurance Company	012153	LEMIC Insurance Company
012200	Retailers Casualty Insurance Company	012200	Retailers Casualty Insurance Company
012237	Centre Insurance Company	012237	Centre Insurance Company
012251	Forestry Mutual Insurance Company	012251	Forestry Mutual Insurance Company
012262	Midwest Insurance Company	012262	Midwest Insurance Company
012297	New Jersey Casualty Insurance Company	012297	New Jersey Casualty Insurance Company
012335	Chesapeake Employers' Insurance Company	012335	Chesapeake Employers' Insurance Company
012357	AmeriHealth Casualty Insurance Company	012357	AmeriHealth Casualty Insurance Company
012414	Health Care Insurance Reciprocal	012414	Health Care Insurance Reciprocal
012429	Stonetrust Commercial Insurance Company	012429	Stonetrust Commercial Insurance Company
012543	AIMCO Mutual Insurance Co	012543	AIMCO Mutual Insurance Co
012572	Pacific Compensation Insurance Co	012572	Pacific Compensation Insurance Co
012581	United Business Insurance	012581	United Business Insurance
012583	League of WI Municipalities Mutual Ins	012583	League of WI Municipalities Mutual Ins
012601	Frank Winston Crum Insurance Company	012601	Frank Winston Crum Insurance Company
012616	Lion Insurance Company	012616	Lion Insurance Company
012617	Old Glory Insurance Company	012617	Old Glory Insurance Company

Appendix A

A.M. Best Workers' Compensation Composite

AMB#	Company Name	AMB Rating Unit #	AMB Rating Unit Name
012685	Freedom Advantage Insurance Company	012685	Freedom Advantage Insurance Company
012995	Districts Mutual Insurance	012995	Districts Mutual Insurance
013092	NHRMA Mutual Insurance Company	013092	NHRMA Mutual Insurance Company
013095	New Mexico Property & Casualty Co	013095	New Mexico Property & Casualty Co
013103	Work First Casualty Company	013103	Work First Casualty Company
013112	New York Transportation Insurance Corp	013112	New York Transportation Insurance Corp
013121	Utah Business Insurance Company, Inc.	013121	Utah Business Insurance Company, Inc.
002058	Argonaut-Southwest Insurance Company	013313	Argo Re Ltd.
002723	Rockwood Casualty Insurance Company	013313	Argo Re Ltd.
002057	Select Markets Insurance Company	013313	Argo Re Ltd.
012126	Somerset Casualty Insurance Company	013313	Argo Re Ltd.
013594	Synergy Insurance Company	013594	Synergy Insurance Company
013770	Road Contractors Mutual Insurance Co	013770	Road Contractors Mutual Insurance Co
013804	Reliamax Insurance Company	013804	Reliamax Insurance Company
013809	Synergy Comp Insurance Company	013809	Synergy Comp Insurance Company
013814	Manufacturing Technology Mutual Ins Co	013814	Manufacturing Technology Mutual Ins Co
013870	Normandy Harbor Ins. Co., Inc.	013870	Normandy Harbor Ins. Co., Inc.
013885	Building Industry Insurance Assn Inc	013885	Building Industry Insurance Assn Inc
013911	Victory Insurance Company Inc	013911	Victory Insurance Company Inc
013993	Comptrust AGC Mutual Captive Ins Company	013993	Comptrust AGC Mutual Captive Ins Company
014012	CastlePoint Florida Insurance Company	014012	CastlePoint Florida Insurance Company
014019	Madison Insurance Company	014019	Madison Insurance Company
014021	Dealers Choice Mutual Insurance Inc.	014021	Dealers Choice Mutual Insurance Inc.
014157	United Security Insurance Company	014157	United Security Insurance Company
014165	Great Falls Insurance Company	014165	Great Falls Insurance Company
014196	Ecole Insurance Company	014196	Ecole Insurance Company
014309	Carolina Mutual Insurance, Inc.	014309	Carolina Mutual Insurance, Inc.
014353	Applied Underwriters Captive Risk Assr	014353	Applied Underwriters Captive Risk Assr
000524	Savers P & C Ins Co	018132	Meadowbrook Insurance Group
002626	Manufacturers Alliance Insurance Company	018200	PMA Insurance Group
001733	Pennsylvania Manufacturers Indemnity Co	018200	PMA Insurance Group
000760	Pennsylvania Manufacturers' Assoc Ins Co	018200	PMA Insurance Group
012990	American Interstate Ins Company of Texas	018211	Amerisafe Insurance Group
003585	American Interstate Insurance Company	018211	Amerisafe Insurance Group
011324	Silver Oak Casualty, Inc	018211	Amerisafe Insurance Group
010436	American Mining Insurance Company	018252	W. R. Berkley Insurance Group
011231	Great Divide Insurance Company	018252	W. R. Berkley Insurance Group
012190	Key Risk Insurance Company	018252	W. R. Berkley Insurance Group
000739	Midwest Employers Casualty Company	018252	W. R. Berkley Insurance Group
012191	Preferred Employers Insurance Company	018252	W. R. Berkley Insurance Group
011017	Riverport Insurance Company	018252	W. R. Berkley Insurance Group
000918	Tri-State Insurance Company of Minnesota	018252	W. R. Berkley Insurance Group
003689	Monroe Guaranty Insurance Company	018290	FCCI Insurance Group
014031	New Mexico Assurance Company	018292	New Mexico Mutual Group
014030	New Mexico Employer's Assurance Company	018292	New Mexico Mutual Group
002293	New Mexico Foundation Insurance Co	018292	New Mexico Mutual Group
011527	New Mexico Mutual Casualty Company	018292	New Mexico Mutual Group
014029	New Mexico Premier Insurance Company	018292	New Mexico Mutual Group
022084	New Mexico Safety Casualty Company	018292	New Mexico Mutual Group
022085	New Mexico Security Insurance Company	018292	New Mexico Mutual Group
011769	New Mexico Southwest Casualty Company	018292	New Mexico Mutual Group
000293	AmGUARD Insurance Company	018331	Berkshire Hathaway GUARD Insurance Co
000665	EastGUARD Insurance Company	018331	Berkshire Hathaway GUARD Insurance Co
010643	NorGUARD Insurance Company	018331	Berkshire Hathaway GUARD Insurance Co

Appendix A

A.M. Best Workers' Compensation Composite

AMB#	Company Name	AMB Rating Unit #	AMB Rating Unit Name
010009	WestGUARD Insurance Company	018331	Berkshire Hathaway GUARD Insurance Co
004207	Berkshire Hathaway Homestate Ins Co	018343	Berkshire Hathaway Homestate Companies
000308	Cypress Insurance Company (CA)	018343	Berkshire Hathaway Homestate Companies
003722	Oak River Insurance Company	018343	Berkshire Hathaway Homestate Companies
004329	Redwood Fire and Casualty Insurance Co	018343	Berkshire Hathaway Homestate Companies
011130	Dakota Truck Underwriters	018347	Dakota Group
011796	First Dakota Indemnity Company	018347	Dakota Group
011318	Atlantic Charter Insurance Company	018396	Charter Insurance Group
011956	Endeavour Insurance Company	018396	Charter Insurance Group
010088	Independence Casualty Insurance Co	018396	Charter Insurance Group
012069	Companion Commercial Insurance Company	018424	Companion Property and Casualty Group
014397	OBI National Insurance Company	018458	OneBeacon Insurance Group
002196	OneBeacon Insurance Company	018458	OneBeacon Insurance Group
011387	Maine Employers' Mutual Insurance Co	018524	MEMIC Group
014360	MEMIC Casualty Company	018524	MEMIC Group
012405	MEMIC Indemnity Company	018524	MEMIC Group
004778	AmTrust Insurance Company of Kansas	018533	AmTrust Group
003120	Rochdale Insurance Company	018533	AmTrust Group
002522	Security National Insurance Company	018533	AmTrust Group
013076	Sequoia Indemnity Company	018533	AmTrust Group
002281	Sequoia Insurance Company	018533	AmTrust Group
011234	Technology Insurance Company, Inc	018533	AmTrust Group
012463	Associated Employers Insurance Company	018555	A.I.M. Mutual Insurance Companies
011041	Associated Industries of MA Mut Ins Co	018555	A.I.M. Mutual Insurance Companies
013818	Massachusetts Employers Insurance Co	018555	A.I.M. Mutual Insurance Companies
013862	New Hampshire Employers Insurance Co	018555	A.I.M. Mutual Insurance Companies
001913	Association Insurance Company	018563	Builders Insurance Group
012026	Builders Insurance (A Mutual Captive Co)	018563	Builders Insurance Group
004761	Vinings Insurance Company	018563	Builders Insurance Group
012476	Safety First Insurance Company	018564	Safety National Group
000818	Safety National Casualty Corporation	018564	Safety National Group
012527	Allied Eastern Indemnity Company	018592	Eastern Alliance Insurance Grp
013861	Eastern Advantage Assurance Company	018592	Eastern Alliance Insurance Grp
012115	Eastern Alliance Insurance Company	018592	Eastern Alliance Insurance Grp
012528	Lackawanna American Insurance Company	018593	Lackawanna Insurance Group
000550	Lackawanna Casualty Company	018593	Lackawanna Insurance Group
011484	Lackawanna National Insurance Company	018593	Lackawanna Insurance Group
012180	Employers Assurance Company	018602	Employers Insurance Group
012554	Employers Compensation Insurance Company	018602	Employers Insurance Group
012516	Employers Insurance Company of Nevada	018602	Employers Insurance Group
011826	Employers Preferred Insurance Company	018602	Employers Insurance Group
003762	Fidelity and Guaranty Insurance Company	018674	Travelers Group
013044	Accident Fund General Insurance Co	018680	Accident Fund Group
011770	Accident Fund Ins Co of America	018680	Accident Fund Group
013043	Accident Fund National Insurance Co	018680	Accident Fund Group
010134	CompWest Insurance Company	018680	Accident Fund Group
001932	United Wisconsin Insurance Company	018680	Accident Fund Group
002637	California Insurance Company	018683	North American Casualty Group
013065	Continental Indemnity Company	018683	North American Casualty Group
011132	Illinois Insurance Company	018683	North American Casualty Group
002693	Sompo Japan Fire & Marine Ins Co of Amer	018703	Sompo Japan US Group
014225	CopperPoint American Insurance Company	018724	CopperPoint Mutual Group
013986	CopperPoint Casualty Insurance Company	018724	CopperPoint Mutual Group
013987	CopperPoint General Insurance Company	018724	CopperPoint Mutual Group

Appendix A

A.M. Best Workers' Compensation Composite

AMB#	Company Name	AMB Rating Unit #	AMB Rating Unit Name
014226	CopperPoint Indemnity Insurance Company	018724	CopperPoint Mutual Group
014958	CopperPoint Mutual Insurance Company	018724	CopperPoint Mutual Group
014227	CopperPoint National Insurance Company	018724	CopperPoint Mutual Group
013813	CopperPoint Premier Insurance Company	018724	CopperPoint Mutual Group
013988	CopperPoint Western Insurance Company	018724	CopperPoint Mutual Group
012057	Builders Mutual Insurance Company	018729	Builders Mutual Insurance Group
013868	Builders Premier Insurance Company	018729	Builders Mutual Insurance Group
013871	HM Casualty Insurance Company	018749	Highmark Casualty Group
012674	Accident Insurance Company Inc	018758	AIC Insurance Group
014022	FDM Preferred Insurance Company, Inc.	018760	Fire Districts Insurance Group
014023	Fire Districts Insurance Company, Inc.	018760	Fire Districts Insurance Group
003788	Fire Districts of NY Mutual Ins Co, Inc	018760	Fire Districts Insurance Group
012629	BusinessFirst Insurance Company	018796	RetailFirst Insurance Group
010017	RetailFirst Insurance Company	018796	RetailFirst Insurance Group
003484	BrickStreet Mutual Ins Co	018822	BrickStreet Mutual Insurance Group
014002	NorthStone Insurance Company	018822	BrickStreet Mutual Insurance Group
022025	PinnaclePoint Insurance Company	018822	BrickStreet Mutual Insurance Group
022024	SummitPoint Insurance Company	018822	BrickStreet Mutual Insurance Group
014237	Bearing Midwest Casualty Company	018825	Midwest Builders' Casualty Group
014236	Horizon Midwest Casualty Company	018825	Midwest Builders' Casualty Group
013913	Midwest Builders' Casualty Mutual Co	018825	Midwest Builders' Casualty Group
012698	AmFed Casualty Insurance Company	018858	AmFed Insurance Group
012499	AmFed National Insurance Co	018858	AmFed Insurance Group
022006	Home Builders Mutual Insurance Company	022006	Home Builders Mutual Insurance Company
022023	UPMC Work Alliance, Inc.	022023	UPMC Work Alliance, Inc.
022134	Pennsylvania Insurance Company	022134	Pennsylvania Insurance Company
055021	Michigan Commercial Insurance Mutual	055021	Michigan Commercial Insurance Mutual
074133	Retailers Mutual Insurance Company	074133	Retailers Mutual Insurance Company
074168	LUBA Casualty Insurance Company	074168	LUBA Casualty Insurance Company
074274	First Benefits Insurance Mutual Inc.	074274	First Benefits Insurance Mutual Inc.
074367	Health Care Mutual Captive Insurance Co	074367	Health Care Mutual Captive Insurance Co
075458	CBIA Comp. Services, Inc.	075458	CBIA Comp. Services, Inc.
002743	American Zurich Insurance Company	085096	Zurich Insurance Company Limited
002308	Northern Insurance Company of New York	085096	Zurich Insurance Company Limited
003565	Zurich American Insurance Company of IL	085096	Zurich Insurance Company Limited

Source:  – Best's Statement File – P/C, U.S.

Appendix B

U.S. Workers' Compensation – Direct Premiums Written & Direct Incurred Loss Ratio by State

#	State	DPW (USD Millions)		Y/Y % Change	% of Total U.S. DPW	Direct Incurred Loss Ratio						Unemployment Rates Seasonally Adjusted as of:	
		2012	2013			2009	2010	2011	2012	2013*	2013+	Dec. 2013	July 2014
1	Alabama	316.1	312.5	-1.1	0.6	62.5	74.3	68.4	54.5	54.9	54.9	6.1	7.0
2	Alaska	298.9	294.0	-1.6	0.6	51.8	64.8	60.3	60.8	53.2	53.2	6.4	6.5
3	Arizona	649.1	760.8	17.2	1.5	75.7	83.4	71.9	80.9	67.4	67.4	7.6	7.0
4	Arkansas	241.0	265.3	10.1	0.5	47.5	70.2	43.4	53.4	46.3	46.3	7.4	6.2
5	California	9,003.0	10,292.7	14.3	19.8	69.2	72.5	60.9	73.2	70.0	70.0	8.3	7.4
6	Colorado	709.5	813.9	14.7	1.6	63.2	77.3	73.9	68.4	63.8	63.8	6.2	5.3
7	Connecticut	737.3	818.2	11.0	1.6	80.8	86.6	75.1	76.1	67.9	67.9	7.4	6.6
8	Delaware	150.6	177.8	18.1	0.3	76.5	89.0	115.2	88.9	78.2	78.2	6.2	6.2
9	District of Columbia	142.2	163.0	14.6	0.3	62.6	52.4	46.2	42.6	54.4	54.4	8.1	7.4
10	Florida	2,013.5	2,296.7	14.1	4.4	53.5	66.7	41.3	55.5	50.8	50.8	6.2	6.2
11	Georgia	1,132.3	1,235.1	9.1	2.4	66.9	64.4	59.3	62.7	56.5	56.5	7.4	7.8
12	Hawaii	200.9	216.8	7.9	0.4	40.8	62.4	55.0	61.0	67.9	67.9	4.5	4.4
13	Idaho	300.4	324.1	7.9	0.6	77.8	65.6	79.5	72.8	64.1	64.1	5.7	4.8
14	Illinois	2,600.6	2,685.2	3.3	5.2	83.2	89.6	75.3	72.2	60.5	60.5	8.6	6.8
15	Indiana	782.6	829.9	6.0	1.6	55.8	82.0	62.8	65.4	62.3	62.3	6.9	5.9
16	Iowa	674.0	724.8	7.5	1.4	76.2	80.8	74.1	67.3	65.5	65.5	4.2	4.5
17	Kansas	447.1	476.8	6.6	0.9	60.3	65.6	73.9	59.7	49.1	49.1	4.9	4.9
18	Kentucky	471.3	490.8	4.1	0.9	69.9	83.0	69.7	64.5	64.7	64.7	8.0	7.4
19	Louisiana	794.9	811.7	2.1	1.6	60.6	72.9	68.5	57.7	60.1	60.1	5.7	5.4
20	Maine	197.7	203.5	2.9	0.4	65.8	61.5	69.4	56.8	67.9	67.9	6.2	5.5
21	Maryland	834.6	889.7	6.6	1.7	78.2	91.3	83.7	72.4	71.9	71.9	6.1	6.1
22	Massachusetts	1,047.9	1,028.7	-1.8	2.0	70.4	71.2	59.6	53.0	64.4	64.4	7.0	5.6
23	Michigan	1,061.4	1,140.9	7.5	2.2	61.2	65.3	63.2	48.8	45.4	45.4	8.4	7.7
24	Minnesota	835.5	880.1	5.3	1.7	73.9	76.2	68.2	62.6	60.2	60.2	4.6	4.5
25	Mississippi	298.4	325.9	9.2	0.6	52.3	81.7	67.1	60.0	50.9	50.9	8.0	8.0
26	Missouri	769.3	826.3	7.4	1.6	52.3	67.0	63.7	69.0	56.3	56.3	5.9	6.5
27	Montana	279.3	275.7	-1.3	0.5	88.4	68.6	72.8	67.5	59.2	59.2	5.2	4.6
28	Nebraska	341.0	369.8	8.4	0.7	62.8	72.9	64.0	61.7	59.8	59.8	3.6	3.6
29	Nevada	269.3	309.2	14.8	0.6	43.5	57.7	32.4	34.9	53.1	53.1	8.8	7.7
30	New Hampshire	252.8	265.5	5.0	0.5	78.7	68.4	52.0	59.7	48.6	48.6	5.1	4.4
31	New Jersey	1,927.3	2,210.2	14.7	4.3	70.2	72.1	71.9	73.5	68.0	68.0	7.3	6.5
32	New Mexico	251.7	272.8	8.4	0.5	67.9	81.0	73.6	77.8	53.3	53.3	6.4	6.6
33	New York	4,754.6	5,191.5	9.2	10.0	83.4	95.8	77.8	85.1	44.1	78.7	7.1	6.6
34	North Carolina	1,243.5	1,355.5	9.0	2.6	69.2	74.0	74.4	73.5	60.1	60.1	6.9	6.5
35	North Dakota	6.0	6.3	5.0	0.0	-1.5	-3.4	22.8	31.6	37.8	37.8	2.6	2.8
36	Ohio	32.3	24.6	-23.8	0.0	113.0	-100.0	5.9	41.3	30.5	30.5	7.2	5.7
37	Oklahoma	934.2	972.3	4.1	1.9	83.5	93.2	80.4	78.4	69.7	69.7	5.4	4.6
38	Oregon	630.4	644.9	2.3	1.2	79.2	103.1	66.2	60.4	53.7	53.7	7.0	6.9
39	Pennsylvania	2,528.5	2,578.5	2.0	5.0	70.8	69.7	64.7	69.3	63.2	63.2	6.9	5.7
40	Rhode Island	171.0	184.4	7.8	0.4	63.4	68.8	65.2	66.6	58.4	58.4	9.1	7.7
41	South Carolina	640.3	664.8	3.8	1.3	63.0	70.2	68.5	60.3	57.5	57.5	6.6	5.7
42	South Dakota	164.7	172.4	4.7	0.3	67.8	61.7	65.1	55.0	47.2	47.2	3.6	3.7
43	Tennessee	833.1	894.7	7.4	1.7	62.6	71.7	68.0	62.7	55.5	55.5	7.8	7.1
44	Texas	2,445.0	2,673.6	9.3	5.1	43.9	51.6	43.3	47.7	47.6	47.6	6.0	5.1
45	Utah	348.8	376.7	8.0	0.7	61.8	57.0	68.0	71.3	55.7	55.7	4.1	3.6
46	Vermont	172.7	195.9	13.4	0.4	61.9	71.5	79.1	59.1	51.0	51.0	4.2	3.7
47	Virginia	881.2	886.9	0.6	1.7	58.8	64.1	59.5	68.1	62.0	62.0	5.2	5.4
48	Washington	30.3	19.7	-35.0	0.0	499.4	47.6	13.5	11.6	71.3	71.3	6.6	5.6
49	West Virginia	374.0	337.5	-9.8	0.7	69.5	61.0	42.0	45.3	38.9	38.9	5.9	6.3
50	Wisconsin	1,725.0	1,746.8	1.3	3.4	68.2	67.0	66.0	65.7	66.0	66.0	6.2	5.8
51	Wyoming	10.4	6.1	-41.3	0.0	16.7	-100.0	22.1	11.5	51.3	51.3	4.4	4.4
	Total U.S.	47,957.5	51,921.5	8.3	100.0	68.1	74.7	65.2	67.9	59.8	63.3	6.7	6.2

* As reported.

+ Removes impact of adjustments related to NY workers' compensation reform.

Source: A.M. Best data & research, U.S. Department of Labor

Published by A.M. Best Company
Special Report

CHAIRMAN & PRESIDENT **Arthur Snyder III**

EXECUTIVE VICE PRESIDENT **Larry G. Mayewski**

EXECUTIVE VICE PRESIDENT **Paul C. Tinnirello**

SENIOR VICE PRESIDENTS **Douglas A. Collett, Karen B. Heine,
 Matthew C. Mosher, Rita L. Tedesco**

A.M. BEST COMPANY
WORLD HEADQUARTERS
 Ambest Road, Oldwick, NJ 08858
 Phone: +1 (908) 439-2200

WASHINGTON OFFICE
 830 National Press Building
 529 14th Street N.W., Washington, DC 20045
 Phone: +1 (202) 347-3090

A.M. BEST AMÉRICA LATINA, S.A. de C.V.
 Paseo de la Reforma 412
 Piso 23
 Mexico City, Mexico
 Phone: +52-55-5208-1264

A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.
 12 Arthur Street, 6th Floor, London, UK EC4R 9AB
 Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.
 Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827-3400

DUBAI OFFICE (MENA, SOUTH & CENTRAL ASIA)
 Office 102, Tower 2
 Currency House, DIFC
 PO Box 506617, Dubai, UAE
 Phone: +971 43 752 780



A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. These ratings are not a warranty of an insurer's current or future ability to meet contractual obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile and, where appropriate, the specific nature and details of a rated debt security. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

Any and all ratings, opinions and information contained herein are provided "as is," without any expressed or implied warranty. A rating may be changed, suspended or withdrawn at any time for any reason at the sole discretion of A.M. Best.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

A.M. Best does not offer consulting or advisory services. A.M. Best is not an Investment Adviser and does not offer investment advice of any kind, nor does the company or its Rating Analysts offer any form of structuring or financial advice. A.M. Best does not sell securities. A.M. Best is compensated for its interactive rating services. These rating fees can vary from US\$ 5,000 to US\$ 500,000. In addition, A.M. Best may receive compensation from rated entities for non-rating related services or products offered.

A.M. Best's Special Reports and any associated spreadsheet data are available, free of charge, to all *Best's Insurance News & Analysis* subscribers. Nonsubscribers can purchase the full report and spreadsheet data. Special Reports are available through our Web site at www.ambest.com/research or by calling Customer Service at (908) 439-2200, ext. 5742. Briefings and some Special Reports are offered to the general public at no cost.

For press inquiries or to contact the authors, please contact James Peavy at (908) 439-2200, ext. 5644.

SR-2014-171