

Segment Review
November 12, 2012

**A.M. Best
Estimates That
the Industry's
Reserve
Position was
\$6 Billion
Weaker at
Year-End 2011.**

Despite Favorable Pricing Trends, Profitability Challenges Persist

The workers' compensation line of business, which is among the largest segments of the U.S. property/casualty industry, has faced significant challenges in recent years. The combination of competitive pricing, a series of consecutive rate decreases (often related to statutory reforms), poor employment and challenging macroeconomic conditions drove five consecutive years of decline in net premiums written from 2006 through 2010. The segment's results have been pressured in recent years by claims-related challenges, including increasing medical costs, difficulty implementing return-to-work programs and growing pharmaceutical costs driven largely by the expanded use of opioids.

The industry received a respite in 2011, as employment and payrolls stabilized and overall net premium written volume increased by 10%. A combination of rate increases that accelerated throughout the year and expanding payrolls contributed to this growth. Premium audit returns, which represented a significant challenge to insurers in 2009 and 2010, declined in 2011, with some companies reporting increased premiums on audits during late 2011 and early 2012. This shift drove a slight drop in the industry's expense ratio and produced a modestly lower combined ratio for the line in 2011 compared with 2010.

Yet challenges remain, particularly in light of the consecutive years of increased competition and the cumulative effect of rate decreases, which have increased A.M. Best's estimates of the line's loss-reserve deficiency. A.M. Best expects that profitability for the line will continue to be challenged by these factors, despite a more favorable pricing environment.

This report segments the workers' comp market two ways:

- The aggregated underwriting performance of the workers' comp line as reported by those companies and state funds that have completed and filed the Insurance Expense Exhibit (IEE) with A.M. Best Co.; and
- The performance of A.M. Best's workers' comp composite, which consists of companies that write predominantly workers' comp insurance (see **Appendix A**). These composite results reflect overall experience for these companies, including experience for non-workers' comp lines of insurance.

Results for the Overall Workers' Comp Line

Growth in the workers' comp line outpaced premium growth for commercial lines in 2011, with commercial lines companies reporting 4% growth in NPW for the year. Companies reported achieving significant rate increases on workers' comp renewals in the third and fourth quarters of 2011, with a modest easing in competitive market conditions. As the labor market showed signs of stabilizing, the level of return premium on audit began to decline, and some companies noted that premium audit results swung from returns to slight increases. However, persistent weakness in the construction and manufacturing segments, which historically were significant contributors to overall workers' comp premiums, continues to be a slight drag on premium volume.

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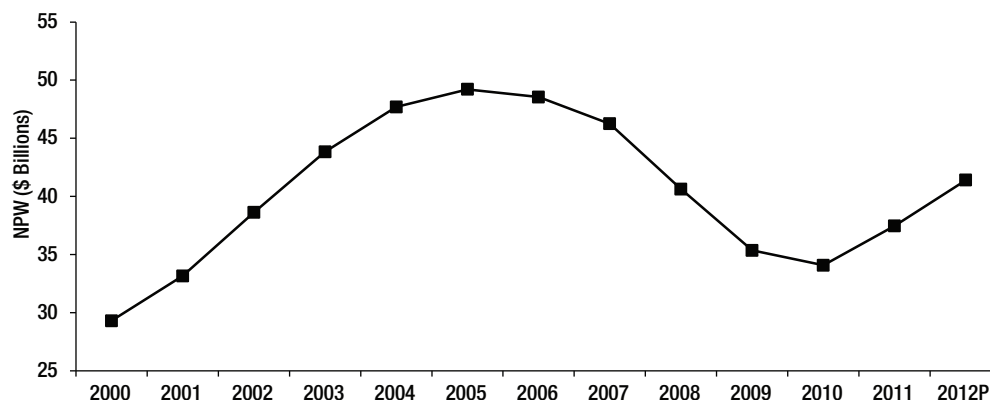
Al Slavin



Overall, NPW for the workers' comp line of business increased 10.0% to \$37.5 billion in 2011, up from \$34.1 billion in 2010. However, premium remains 23.8% lower than its peak of \$49.2 billion in 2005 (see **Exhibit 1**).

Exhibit 1

U.S. Workers' Compensation – Net Premiums Written (2000-2012P¹)



1. P = Projected

Sources: BestLink[®] – Insurance Expense Exhibit (IEE) - P/C, U.S.; Annual statements for Injured Workers Insurance Fund, State Compensation Insurance Fund of California and State Insurance Fund of New York

The ranking of the five largest workers' comp insurers was unchanged for a third consecutive year in 2011 (see **Exhibit 2**), with Liberty Mutual Insurance Cos., American International Group, Travelers Group, Hartford Insurance Group and the State Insurance Fund of New York each maintaining their market positions. Most workers' comp companies saw increased NPW in 2011, with Employers Insurance Group having the largest increase among the top 25 carriers at 31%, following a 15% decline in 2010. Berkshire Hathaway Insurance Group and Texas Mutual Insurance Co. respectively posted 27.0% and 23.3% increases in NPW for 2011, placing them second and third behind Employers. Accident Fund Group and the State Compensation Insurance Fund of California (SCIF) posted the greatest declines in NPW, of 16.7% and 11.2% respectively. Only two other companies in the top 25 – Zurich Financial Services Group (down 3.4%) and AIG (down 1.1%) – posted lower year-over-year NPW in 2011.

Direct premiums written (DPW) increased in all but three jurisdictions, excluding those with monopolistic state funds. This marked a significant change from 2010, when premiums declined in all but seven states. Among the largest 10 states (see **Exhibit 3**), New York had the highest percentage increase in 2011 DPW at 14.8%, which was the third-largest percentage increase among all jurisdictions for the year. California, with the highest DPW in the country, posted a 10.1% increase in DPW in 2011. Although it is not among the 10 largest states, Michigan posted the greatest DPW increase in 2011 at 19.7%, followed by Pennsylvania at 17.2%. Eighteen states reported DPW increases exceeding 10%. The jurisdictions with DPW decreases – Montana, Washington, D.C., and New Hampshire – all reported declines of less than 2%.

On a DPW basis, California remains by far the largest state, with 2011 DPW nearly 90% greater than that of the next largest state, New York. The most significant constant in California's market in recent years has been change. The regulatory reforms of 2003 have driven down premiums, increased competition and significantly reduced SCIF's population. However, it became clear over time that certain elements of those reforms would require further adjustment.

Exhibit 2

U.S. Workers' Compensation – Top 25 Carriers (2011)

Ranked by 2011 workers' compensation net premiums written.
(\$ Millions)

Rank	Group/Unaffiliated Single Company	Net Premiums Written		Year-over-Year Change (%)	Market Share (%)	
		2010	2011		2010	2011
1	Liberty Mutual Insurance Cos	\$3,718.8	\$3,594.0	-3.4%	10.9%	9.6%
2	American International Group	3,296.7	3,260.2	-1.1	9.7	8.7
3	Travelers Group	2,618.7	2,987.9	14.1	7.7	8.0
4	Hartford Insurance Group	2,501.1	2,916.5	16.6	7.3	7.8
5	State Insurance Fund of New York	1,309.8	1,495.9	14.2	3.8	4.0
6	State Compensation Insurance Fund of CA	1,121.5	995.3	-11.2	3.3	2.7
7	CNA Insurance Companies	821.5	937.5	14.1	2.6	2.5
8	Zurich Financial Services NA Group	882.7	852.8	-3.4	2.4	2.3
9	Chubb Group of Insurance Cos	723.0	827.2	14.4	2.1	2.2
10	Texas Mutual Insurance Company	602.0	741.6	23.2	2.1	2.0
11	Fairfax Financial (USA) Group	623.7	733.1	17.6	1.9	2.0
12	W. R. Berkley Group	592.3	687.8	16.1	1.8	1.8
13	Old Republic Insurance Group	588.3	687.3	16.8	1.8	1.8
14	Accident Fund Group	723.4	602.3	-16.7	1.7	1.6
15	ACE INA Group	643.1	587.7	-8.6	1.7	1.6
16	Berkshire Hathaway Insurance Group	420.6	534.2	27.0	1.2	1.4
17	Farmers Insurance Group	370.0	411.4	11.2	1.1	1.1
18	Employers Insurance Group	313.1	410.0	31.0	1.1	1.1
19	NJM Insurance Group	376.8	395.8	5.1	1.0	1.1
20	Pinnacle Assurance Co.	346.8	382.6	10.3	0.9	1.0
21	SAIF Corp.	329.1	373.0	13.3	0.9	1.0
22	Auto-Owners Insurance Group	307.3	328.3	6.8	0.9	0.9
23	Sentry Insurance Group	264.1	314.7	19.1	0.9	0.8
24	Cincinnati Insurance Cos	310.1	312.3	0.7	0.8	0.8
25	Meadowbrook Insurance Group	291.7	305.5	4.7	0.7	0.8
Total Top 25		\$24,096	\$25,675	6.6%	70.7%	68.5%
Total Workers' Compensation Line		\$34,074	\$37,466	10.0%	100.0%	100.0%

Source:  BestLink® – Insurance Expense Exhibit (IEE) - P/C, U.S.; and annual statements from Injured Workers Insurance Fund, State Compensation Insurance Fund of CA, and State Insurance Fund of New York

Exhibit 3

U.S. Workers' Compensation – Loss Experience in Top States (2007-2011)

(\$ Millions)

State	2011 DPW	% of Total U.S.	Direct Incurred Loss Ratio				
			2007	2008	2009	2010	2011
California	\$7,826.5	18.1%	54.7	58.3	69.2	72.5	60.9
New York	4,157.4	9.6%	69.0	72.9	83.4	95.8	77.8
Illinois	2,418.4	5.6%	68.8	77.3	83.2	89.6	75.3
Pennsylvania	2,374.5	5.5%	74.3	66.0	70.8	69.7	64.7
Texas	2,162.4	5.0%	52.0	46.8	43.9	51.6	43.3
Florida	1,784.7	4.1%	48.5	43.2	53.5	66.7	41.3
New Jersey	1,738.2	4.0%	64.2	65.3	70.2	72.1	71.9
Wisconsin	1,685.1	3.9%	64.2	65.5	68.2	67.0	66.0
North Carolina	1,159.0	2.7%	62.7	66.2	69.2	74.0	74.4
Georgia	1,029.7	2.4%	63.3	70.9	66.9	64.4	59.3
Total U.S.	\$43,269.5		62.0	63.1	68.1	74.7	65.2

Source:  BestLink® – State/Line P/C

California's enactment of Senate Bill 863 (SB 863) in September 2012 is expected to address a number of these issues, including medical liens, the Permanent Disability Rating Schedule and the use of medical provider networks. Based on its evaluation of SB 863's provisions, the Workers' Compensation Insurance Rating Bureau (WCIRB) still

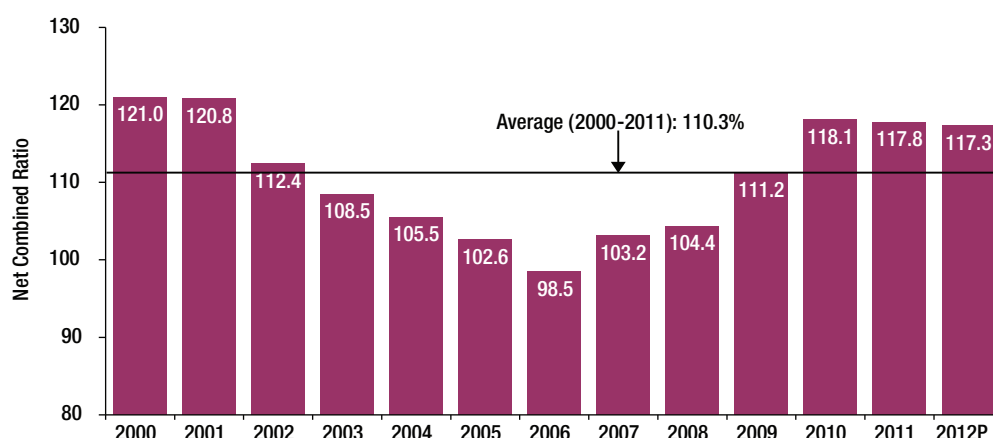
sees uncertainty surrounding industry savings and recommended no change in the advisory pure premium rate level, which will remain at the July 1, 2012 industry average filed pure premium rate of \$2.38 per \$100 of payroll.

Individual carriers continue to evaluate SB 863's impact on their specific business, but the legislation's benefits will not be clear until enabling regulations are promulgated. Public hearings on the WCIRB filing are expected to be held later this year.

A.M. Best data show overall underwriting results for the workers' comp line improved slightly in 2011, with a 0.3 point decline in the combined ratio to 117.8 from 118.1 (see **Exhibit 4**). This improvement was driven primarily by a decline in the underwriting expense and dividend ratios, which collectively fell by 0.5 points. The loss and loss-adjustment expense ratio increased slightly, partially offsetting the beneficial impact of the lower expense and dividend ratios.

Exhibit 4

U.S. Workers' Compensation – Combined Ratio (2000-2012P¹)



1. P= Projected

Source: BestLink – Insurance Expense Exhibit (IEE) - P/C, U.S.; Annual statements from Injured Workers Insurance Fund, State Compensation Insurance Fund of CA, and State Insurance of Fund New York

The modestly improved underwriting performance resulted from the year's premium increase, as incurred losses, loss-adjustment and underwriting expenses, and dividends all increased on an absolute basis. Premium growth outpaced that of the various expense categories, resulting in a slightly lower underwriting loss. However, 2011 marked the first decline in the line's combined ratio since 2006, when it was 98.5.

A.M. Best believes the line's underwriting performance will remain weak relative to other commercial lines, even given improvements in the pricing environment. The impact of sequential rate decreases in recent years will not be offset by two or even three years of price increases. Further, the industry's loss-reserve deficiency (excluding the effects of discounting) continues to grow, according to A.M. Best's estimates. A.M. Best believes the industry already has recognized most of the benefit of the workers' comp reserve redundancy from older accident years, and reserves for the more recent accident years will prove to be insufficient on an industrywide basis (although insurers with more conservative reserving practices may continue to produce redundancies). As a result, much of the benefit to the loss ratio that would result from improved rate and exposure trends will be absorbed by decreasing recognition of favorable loss-reserve development.

Results for A.M. Best Workers' Comp Composite

After increasing in 2010 primarily on realized capital gains, net income for A.M. Best's workers' comp composite fell to \$0.8 billion in 2011 from \$1.4 billion the prior year (see **Exhibit 5**). The composite's underwriting loss increased 15.1% to \$3.1 billion, marking the sixth consecutive year of deteriorating underwriting results. Increases in incurred losses and loss-adjustment expenses more than outpaced growth in net premiums earned (NPE), which posted its first year-over-year increase since 2004. Net investment income fell slightly (although not apparent in the exhibit due to rounding), and realized capital gains declined sharply in 2011, contributing to the decline in net income.

As was the case for the broader industry, the composite's top line grew in 2011, although at a somewhat slower pace than that of the broader line of business. NPW for the composite increased 6.9%, reaching \$13.2 billion, up from \$12.4 billion in 2010 and \$13.0 billion in 2009 (see **Exhibit 6**). An improvement in competitive market conditions, higher rate filings (particularly in the second half of the year), stabilizing payrolls and improved audit results all contributed to growth of NPW. It should be noted that the composite is more heavily weighted to state funds, which did not benefit from the same level of rate increases as the broader industry did in 2011. A.M. Best expects the composite to see top-line growth accelerate more quickly than for the broader industry beginning in 2012, as market conditions firm and the state funds begin to grow more rapidly than voluntary market participants. Despite the increase, NPW for the composite remains more than 37% below the peak of \$21.1 billion reached in 2005.

Exhibit 5 U.S. Workers' Compensation – A.M. Best Composite¹ Financial Indicators (2007-2011)

(\$ Billions)

	2007	2008	2009	2010	2011
Net Premiums Written	\$17.6	\$15.1	\$13.0	\$12.4	\$13.2
Net Premiums Earned	17.3	15.4	13.2	12.5	13.0
Losses & LAE Incurred	13.2	11.9	11.2	10.9	11.6
Underwriting Expenses	4.3	4.2	3.9	3.7	3.8
Policyholder Dividends	0.9	0.9	0.5	0.6	0.6
Underwriting Income/(Loss)	(1.1)	(1.5)	(2.4)	(2.7)	(3.1)
Net Investment Income	3.8	3.7	3.5	3.3	3.3
Other Income	(0.0)	(0.2)	(0.2)	(0.3)	(0.1)
Pretax Operating Income/(Loss)	2.7	2.1	0.9	0.3	0.1
Realized Capital Gains/(Losses)	0.4	(0.7)	(0.4)	1.1	0.7
Federal Income Taxes	0.6	0.4	0.1	(0.0)	(0.2)
Net Income	\$2.5	\$1.0	\$0.4	\$1.4	\$0.8

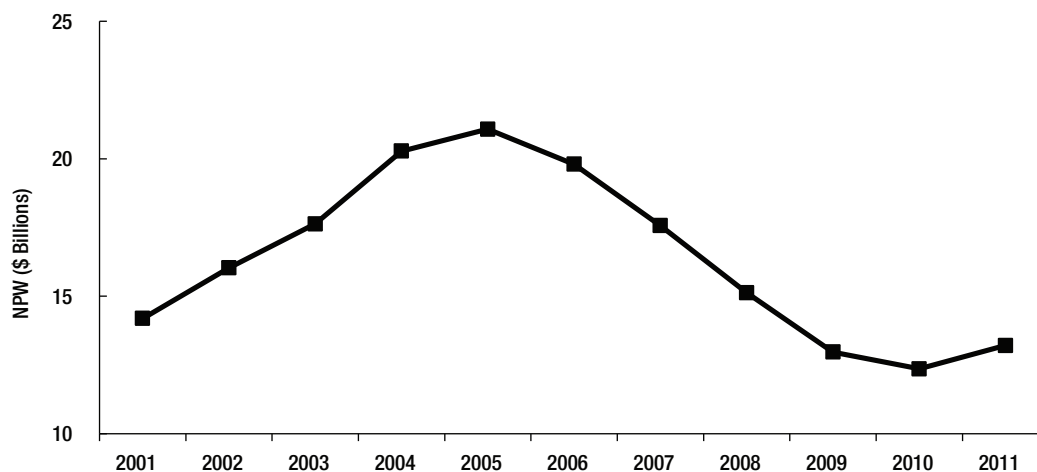
1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Note: Figures may not add due to rounding.

Source:  BestLink[®] - Quantitative Analysis Report

Exhibit 6

U.S. Workers' Compensation – A.M. Best Composite¹ Net Premiums Written (2001-2011)



1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Source:  BestLink[®] - Quantitative Analysis Report

Exhibit 7

U.S. Workers' Compensation – A.M. Best Composite¹ Combined Ratio Components (2007-2011)

	2007	2008	2009	2010	2011
Pure Loss Ratio	61.8	61.6	67.0	70.1	67.0
Loss-Adjustment Expense (LAE) Ratio	14.4	15.2	17.8	17.2	22.6
Loss & LAE Ratio	76.1	76.8	84.8	87.4	89.6
Underwriting Expense Ratio	24.5	27.5	30.3	29.9	29.0
Policyholder Dividend Ratio	5.3	5.6	3.8	4.8	5.0
Combined Ratio	105.8	110.0	118.9	122.2	123.6
Combined Ratio (Excluding State Funds)	93.6	95.8	98.9	110.3	113.0

1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Source:  BestLink[®] - Quantitative Analysis Report

The combined ratio of the composite, including the state funds, reached 123.6 in 2011, slightly higher than its 2010 level of 122.2 (see **Exhibit 7**). The 2011 combined ratio is the worst for the composite over the past 10 years. Incurred losses declined, both as a percentage of NPE and very slightly in absolute terms, to \$8.71 billion from \$8.76 billion in 2011. Loss-adjustment expenses increased to \$2.9 billion from \$2.2 billion in the previous year, driving the increase in overall loss and loss-adjustment expenses to 6.3% for the year and resulting in the higher underwriting loss.

The impact of increased NPW is reflected in the improved underwriting expense ratio, which declined to 29.0 in 2011 from 29.9 in 2010, despite a 3.8% increase in absolute underwriting expenses to \$3.8 billion. This marks the second consecutive decline in the expense ratio; however, this measure remains high relative to its historical norms. Policyholder dividends also increased in 2012 to \$644 million from \$603 million, a 6.8% increase.

Exhibit 8

U.S. Workers' Compensation – Top 10 Groups in A.M. Best Composite¹

Ranked by 2011 net premiums written.

(\$ Millions)

Rank	Group/Company	Net Premiums Written		Year-Over-Year Change (%)	Combined Ratio		Year-Over-Year Change
		2010	2011		2010	2011	
1	State Insurance Fund of New York	\$1,310	\$1,496	14.2%	124.0	141.7	17.7
2	State Compensation Insurance Fund of CA	1,121	995	-11.2	157.2	163.1	5.9
3	Texas Mutual Insurance Company	602	742	23.3	107.9	111.4	3.5
4	Accident Fund Group	727	727	0.0	122.3	127.6	5.3
5	Berkshire Hathaway Homestate Cos	334	534	59.9	82.3	100.7	18.4
6	Zenith National Insurance Group	425	504	18.6	131.8	125.7	(6.1)
7	Safety National Group	371	451	21.6	97.0	101.9	4.9
8	Employers Insurance Group	313	410	31.0	109.8	112.1	2.3
9	Pinnacol Assurance Co.	347	383	10.4	131.0	129.7	(1.3)
10	SAIF Corp.	329	373	13.4	191.2	152.7	(38.5)
Total Workers' Compensation Composite¹		\$12,360	\$13,207	6.9%	122.2	123.6	1.4

1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Source: A.M. Best Co. Research - Quantitative Analysis Report

The composite's underwriting results showed notable improvement through the first half of 2012, with an underwriting loss of \$581 million compared with \$1.1 billion at June 30, 2011. The combined ratio at June 30, 2012 measured 114.6, down from 126.0 at the same point in 2011. The composite's six-month net income also improved to \$704 million in 2012 from \$273 million in 2011.

As noted previously, state funds make up a large portion of the workers' comp composite, including the top three groups and five of the top 10 groups (see **Exhibit 8**). As state funds typically serve as a market of last resort, they often are obligated to offer coverage to companies that have difficulty obtaining it in the general market. Consequently, these companies' results tend to lag those of private carriers, and their

policyholder counts are typically counter-cyclical to the industry (i.e., they add insureds when market conditions firm and have fewer when the market is soft). The two largest workers' comp companies in the composite – the State Insurance Fund of New York and the SCIF – collectively accounted for 18.9% of the composite's 2011 premium volume, and they reported combined ratios of 141.7 and 163.1 for the year, respectively. Collectively, the state funds had a combined ratio of 134.9 in 2011, up from 132.3 in 2010 (see **Exhibit 9**).

Excluding state funds, the combined ratio for the workers' comp composite was 113.0 in 2011, an increase of 1.4 points over 2010. While the SCIF continues to see declines in premiums as a result of depopulation, NPW at the state funds in total increased to \$6 billion in 2011 from \$5.6 billion in prior years. For more detail regarding state fund trends, please refer to A.M. Best's July 16, 2012 Special Report *U.S. State Compensation Funds – Segment Review*.

The workers' comp composite's policyholders' surplus (PHS) grew slightly in 2011, with net income and other surplus changes slightly offsetting unrealized capital losses and stockholder dividends. Overall, PHS increased 0.4% in 2011, while after-tax return on equity declined to 1.0% from 6.6% in 2010 (see **Exhibit 10**). While the increase was modest, the composite surplus reached another record high at \$27.8 billion at year-end 2011. With strong growth in NPW and only a slight increase in PHS, the ratio of NPW to PHS increased in 2011 for the first time since 2002, to 0.5x from a record low of 0.4x in 2010 (see **Exhibit 11**).

Exhibit 10

U.S. Workers' Compensation – A.M. Best Composite¹ Change in Policyholders' Surplus (2007-2011)

(\$ Billions)

	2007	2008	2009	2010	2011
Beginning Policyholders' Surplus at Prior Year End	24.1	26.1	24.7	26.8	27.7
Net Income	2.5	1.0	0.4	1.4	0.8
Unrealized Capital Gains/Losses	0.0	(2.0)	1.8	0.4	(0.5)
Contributed Capital	(0.0)	(0.2)	0.1	0.1	0.0
Stockholder Dividends	(0.4)	(0.3)	(0.4)	(0.9)	(0.4)
Other Changes	0.0	0.3	0.2	(0.1)	0.2
Ending Policyholder Surplus	26.1	24.7	26.8	27.7	27.8
Change in PHS from Prior Year End (\$)	2.0	(1.3)	2.0	0.9	0.1
Change in PHS from Prior Year End (%)	8.4%	-5.0%	8.2%	3.4%	0.4%
After-Tax Return on Surplus (ROE)	9.8%	-4.0%	8.4%	6.6%	1.0%

1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Note: Figures may not add due to rounding.

Source:  BestLink – Quantitative Analysis Report

Exhibit 9

U.S. Workers' Compensation – State Funds¹ Combined Ratio Components (2007-2011)

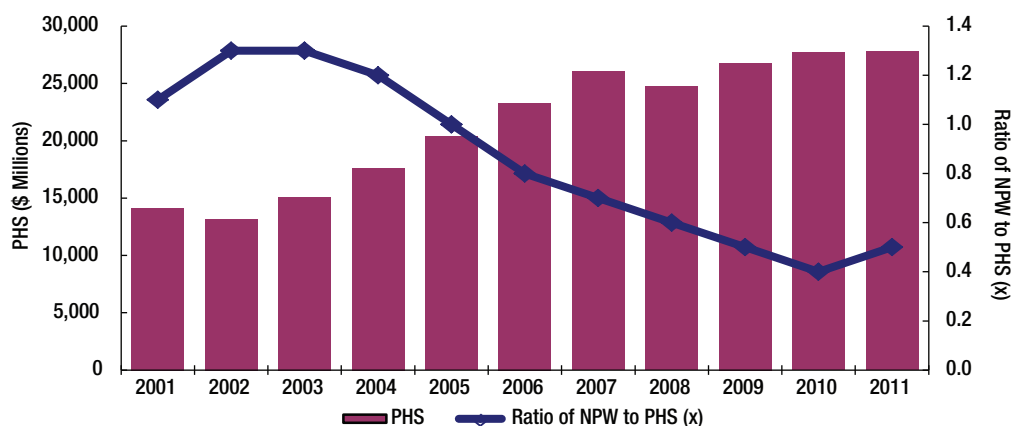
	2007	2008	2009	2010	2011
Loss & LAE Ratio	87.5	88.5	96.5	97.8	101.2
Underwriting Expense Ratio	18.7	22.3	25.4	25.6	24.3
Policyholder Dividend Ratio	8.2	9.0	5.9	8.9	9.4
Combined Ratio	114.5	119.8	127.8	132.3	134.9

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 Insurance, Louisiana Workers' Compensation Corp, Maine Employers' Mutual Insurance Co., Injured Workers Insurance Fund (Maryland), SFM Mutual Insurance Co (Minnesota), Missouri Employers Mutual Insurance 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).
Source: A.M. Best research

A.M. Best continues to maintain a negative outlook on the commercial lines market segment. While the overwhelming majority of rating actions are expected to be affirmations, negative rating actions are expected to outnumber positive rating actions in 2012. As of Aug. 31, 2012, A.M. Best had a total of 60 rating actions in the workers' comp segment

Exhibit 11

U.S. Workers' Compensation – A.M. Best Composite¹ Policyholders' Surplus and Underwriting Leverage (2001-2010)



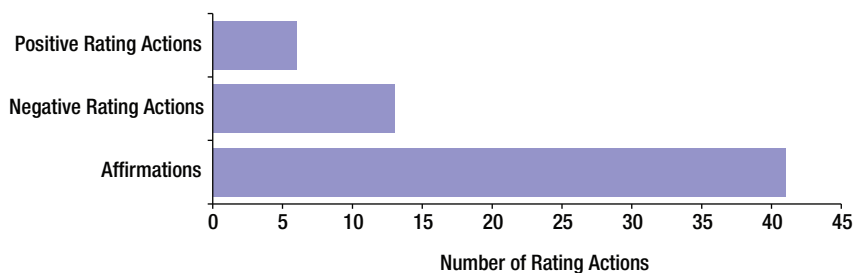
1. Includes groups, subgroups and affiliated & unaffiliated single companies, including state funds. See index for complete listing.

Source: BestLink[®] Quantitative Analysis Report

(see Exhibit 12). The majority of these actions (68%, or 41 of 60) were affirmations. However, the 13 negative actions outpaced the 6 positive actions by a ratio of just over 2 to 1. A.M. Best expects this trend to continue through the remainder of 2012.

Exhibit 12

U.S. Workers' Compensation – Rating Actions Summary* (2012 YTD)



* As of Aug. 31, 2012

Negative Rating Actions include: Downgraded / Downgraded/Under Review / Affirmed/Under Review Negative / Affirmed: Stable Outlook to Negative Outlook Change / Affirmed: Positive Outlook to Stable Outlook Change / Affirmed: Positive Outlook to Negative Outlook Change.

Positive Rating Actions Include: Upgraded / Affirmed/Under Review Positive / Affirmed: Stable Outlook to Positive Outlook Change / Affirmed: Negative Outlook to Stable Outlook Change

Source: A.M. Best research

Frequency and Severity Trends

Following increased claim frequency in 2010, the National Council on Compensation Insurance's (NCCI) preliminary adjusted analysis of states where NCCI provides rate-making services indicates that lost-time claim frequency declined 1% in 2011. While well below the annual 4% average decline from 1990 through 2009, the 2011 decline supports the theory that the 3% increase reported for 2010 may have resulted from "recession-related factors" rather than the beginning of a change in the long-term declining trend. The declining trend in claim frequency has been critical to offsetting increased claims severity trends.

The change in adjusted frequency estimated by the NCCI reflects several factors that have distorted reported results in recent years, the largest of which was the effect of premium audits on reported calendar-year premiums. Other factors adjusted for were

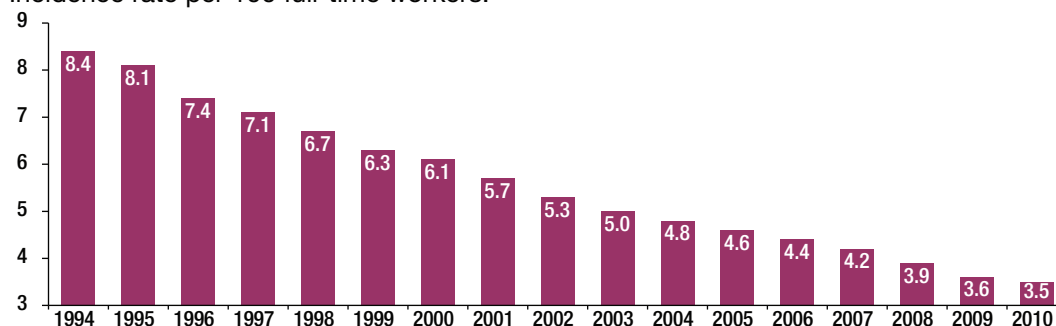
changes in industry group mix (with typically lower frequency contracting classifications comprising a smaller share of the overall premium) and an increase in the average hours worked, which typically is associated with an increase in frequency. On an unadjusted basis, the change in frequency from 2010 to 2011 was a decrease of 4% per \$1 million of earned premium, rather than the 1% decrease noted after adjusting for these factors.

According to the latest report by the Bureau of Labor Statistics (BLS), private industry reported 3.1 million nonfatal occupational injury and illness cases in 2010, resulting in a rate of 3.5 cases per 100 full-time equivalent workers (see **Exhibit 13**). The rate of injuries and illnesses dropped from 3.6 per 100 in 2009 and marked the 17th consecutive year of declines. Injuries accounted for 94.9% of the total reports, while illnesses comprised the remaining 5.1%. According to the BLS, “other illnesses” accounted for 62.5% of the illnesses and included categories such as repetitive motion and system (other than respiratory) diseases and disorders.

Exhibit 13

U.S Workers' Compensation – Total Non-Fatal Workplace Injuries and Illnesses (1994-2010)

Incidence rate per 100 full-time workers.



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

The largest number of cases was reported in the health care and social assistance sector, accounting for approximately 21% of all reported injuries and illnesses, with an incidence rate of 5.2 per 100 full-time workers, the highest private-sector rate. The transportation and warehousing sector also posted an incidence rate of 5.2 per 100 workers. The construction sector continues to see declining frequency, with an incidence rate of 4.0 in 2010, down from 4.3 cases per 100 workers in 2009.

In terms of severity, NCCI estimates that the average indemnity cost per lost-time claim increased 2% to \$22,300 in 2011, slightly less than the \$22,500 recorded in 2009, which was the highest level since 1991. The average medical cost per lost-time claim is estimated to have increased 4% to \$28,000 in 2011, continuing to exceed the cost of indemnity and to increase at a faster pace. While NCCI's data indicated that growth in workers' comp average medical costs was lower than the Medical Consumer Price Index (CPI) in 2010 (the only year since 1995 when that occurred), the 4% increase in 2011 exceeded the medical CPI's growth rate.

A.M. Best believes frequency trends in workers' comp are likely to be slightly worse than the longer term average in the near to medium term, as the effects of the Great Recession abate and more workers resume employment, while the construction segment (which historically had a relatively low frequency rate) remains below its historical share of the

overall workers' comp market. A.M. Best expects severity to continue trending upward, driven by inflationary pressures and the sustained increases in indemnity and medical claims costs. But the reduced share of the construction industry, which historically has produced above-average severity claims, may serve to dampen those increases slightly.

Loss-Reserve Development

The P/C industry's net loss and loss-adjustment expense reserves totaled approximately \$615.3 billion at year-end 2011, with workers' comp accounting for \$148.3 billion or 24.1%, the largest percentage of any line of business. Based on A.M. Best's internal reserve review, the overall industry reserve position weakened in the 2008-2011 period.

A.M. Best estimates that the industry's reserve position was \$6 billion weaker at year-end 2011 than at year-end 2010. All key industry segments – commercial, personal and reinsurance – are projected to have weaker reserve positions at year-end 2011, with the greatest change in the commercial segment. This segment includes the workers' comp and medical professional liability lines, which are estimated to have the highest levels of reserve deterioration.

Although the workers' comp market has benefitted in the recent past from various reform measures that resulted in lower premiums and loss costs, and from favorable frequency and severity trends, these benefits generally have been offset by medical

costs, whose growth has outpaced the medical CPI, and by competitive market conditions that pushed rates lower than loss costs. As a result, A.M. Best's estimate of the workers' comp industry's loss-reserve deficiency continues to increase, reaching \$26.7 billion at year-end 2011, up 23.6% from \$21.6 billion at year-end 2010 (see **Exhibit 14**). While the majority of the deficiency is generated by statutory discounting (which A.M. Best considers a deficiency from full-valued reserves), on an undiscounted basis, the deficiency grew at a much higher rate of 86% in 2011, to \$8.2 billion from \$4.4 billion at year-end 2010.

Exhibit 14

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

(\$ 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

1. A.M. Best initial estimates made at year-end 2007-2010. 2011 based on latest A.M. Best U.S. property/casualty reserve review.

Given the duration of workers' comp reserves, the potential for higher than expected inflation requires use of conservative assumptions when the reserves are established. While insurers' inflation assumptions are reflected in their estimates of future payments for closure of claims and claims-handling costs, the moderate levels of inflation could have a dampening effect on those assumptions. Should future inflation exceed expected levels, the industry's underwriting results and earnings will be affected when reserves are revised to reflect the increased costs.

A.M. Best continues to actively review companies' results for signs of deteriorating reserve positions, and to discuss assumptions regarding future claim costs in rating meetings. The rating process will reflect any concerns A.M. Best may have regarding future reserve adequacy. Companies are expected to review their loss and LAE reserve positions regularly, make appropriate revisions to reflect changes, and communicate their findings and reactions to A.M. Best. Any unanticipated deterioration in reserve positions may result in downward pressure on ratings.

Outlook

The workers' comp industry appears to have reached a bottom during 2010, with positive momentum in 2011 and through the first half of 2012. Premium increases for the workers' comp line outpace those for all other commercial lines, and that growth is expected to continue through the end of 2012. There are indications that premium growth may be flattening in the second half of 2012, as customers feel the impact of a second consecutive round of price increases while still facing macroeconomic uncertainty.

In light of the overall rate increases in a number of states, A.M. Best anticipates that NPW will grow slightly faster in 2012 than in 2011, increasing 10.5% for the year, while earned premium is expected to be up 10%. While expecting frequency and severity trends to continue having an impact on losses, and recognizing the beneficial effect of a double-digit premium increase, A.M. Best projects the combined ratio for the workers' comp line to improve modestly to 117.3 in 2012, a 0.5-point improvement over 2011. However, A.M. Best remains concerned about the position of the workers' comp segment, with companies predominantly writing this line continuing to be pressured by underwriting losses and relatively low investment income. As a result of their specialization in workers' comp, these companies cannot offset underwriting losses with favorable results in other lines as can some of their larger, multiline competitors.

Over the longer term, it is challenging to project the level of continued upward movement in rates. To the extent that companies receive a boost to their 2012 results driven primarily by premium increases – without moderation in the upward trajectory of losses and expenses – 2013 could prove to be a disappointment. The workers' comp writers that have maintained underwriting discipline, adequate pricing and reserving, and prudent capital management will be better positioned for success under all market conditions.

Appendix A: A.M. Best's Workers' Compensation Composite

Companies	2011 NPW (\$000)	AMB Financial Group Name
Bridgefield Casualty Insurance Co.	0	Liberty Mutual Insurance Cos
Bridgefield Employers Insurance Co.	0	Liberty Mutual Insurance Cos
Liberty Northwest Insurance Corp.	0	Liberty Mutual Insurance Cos
Wausau General Insurance Co.	0	Liberty Mutual Insurance Cos
Arrow Mutual Liability Insurance Co.	3,162	Arrow Mutual Liability Insurance Co.
American Business & Personal Insurance Mutual Inc	991	Old Republic Insurance Group
Manufacturers Alliance Insurance Co.	53,053	Old Republic Insurance Group
Pennsylvania Manufacturers' Assoc Ins Co	159,159	Old Republic Insurance Group
Pennsylvania Manufacturers Indemnity Co	53,053	Old Republic Insurance Group
PMA Insurance Group	265,265	Old Republic Insurance Group
Southern Insurance Co.	14,706	Republic Cos Group
Berkshire Hathaway Homestate Cos	334,045	Berkshire Hathaway Insurance Group
Oak River Insurance Co.	66,555	Berkshire Hathaway Insurance Group
Cypress Insurance Co. (CA)	224,919	Berkshire Hathaway Insurance Group
North American Casualty Group	103,088	Berkshire Hathaway Insurance Group
California Insurance Co.	87,743	Berkshire Hathaway Insurance Group
Continental Indemnity Co.	15,345	Berkshire Hathaway Insurance Group
Laurier Indemnity Co.	0	Berkshire Hathaway Insurance Group
Fairfield Insurance Co.	0	Berkshire Hathaway Insurance Group
Commercial Casualty Insurance Co.	0	Berkshire Hathaway Insurance Group
Rockhill Insurance Co.	55,398	State Auto Insurance Cos
Alliance National Insurance Co.	653	Alliance National Insurance Co.
Majestic Insurance Co.	50,281	Majestic Insurance Co.
Alaska Timber Insurance Exchange	4,234	Alaska Timber Insurance Exchange
Dallas National Insurance Co.	129,335	Dallas National Insurance Co.
Pennsylvania Surface Coal Mining Ins Ex	111	Pennsylvania Surface Coal Mining Ins Ex
Service Lloyds Insurance Co.	73,087	Service Lloyds Insurance Co.
Guarantee Insurance Co.	63,110	Guarantee Insurance Co.
Alaska National Insurance Co.	132,089	Alaska National Insurance Co.
Associated Loggers Exchange	5,403	Associated Loggers Exchange
American Resources Insurance Co, Inc	0	American Resources Insurance Co, Inc
TIG Insurance Co.	1,713	Fairfax Financial (USA) Group
Zenith National Insurance Group	425,673	Fairfax Financial (USA) Group
Zenith Insurance Co.	417,160	Fairfax Financial (USA) Group
ZNAT Insurance Co.	8,513	Fairfax Financial (USA) Group
Peninsula Indemnity Co.	0	Donegal Insurance Group
California Casualty Compensation Ins Co	454	California Casualty Group
Pinnacol Assurance Co.	0	Pinnacol Assurance Co.
Idaho State Insurance Fund	140,614	Idaho State Insurance Fund
Montana State Fund	161,504	Montana State Fund
SAIF Corp.	329,062	SAIF Corp.
Workers Compensation Fund	151,518	Workers Compensation Fund
Brickstreet Mutual Ins Co	244,288	Brickstreet Mutual Ins Co.
Insurance Co. of the Americas	0	Insurance Co. of the Americas
Sunbelt Insurance Co.	0	Sunbelt Insurance Co.
Texas General Indemnity Co.	0	United Fire & Casualty Group
New Jersey Casualty Insurance Co.	42,149	NJM Insurance Group
Argonaut Limited Risk Insurance Co	0	Argo Group
Argonaut-Southwest Insurance Co.	0	Argo Group
Rockwood Casualty Group	43,119	Argo Group
Rockwood Casualty Insurance Co.	39,628	Argo Group
Somerset Casualty Insurance Co.	3,490	Argo Group
State Compensation Insurance Fund of CA	1,121,494	State Compensation Insurance Fund of CA
State Insurance Fund of New York	1,309,759	State Insurance Fund of New York
Flagship City Insurance Co.	0	Erie Insurance Group
Cincinnati Casualty Co.	0	Cincinnati Insurance Cos
Cincinnati Indemnity Co.	0	Cincinnati Insurance Cos
American Manufacturers Mutual Ins Co	0	Lumbermens Mutual Group
American Motorists Insurance Co.	0	Lumbermens Mutual Group

Appendix A: A.M. Best's Workers' Compensation Composite (continued)

Companies	2011 NPW (\$000)	AMB Financial Group Name
Lumbermens Insurance Co. of Texas	0	Lumbermens Mutual Group
Lumbermens Mutual Casualty Co.	97	Lumbermens Mutual Group
Lumbermens Mutual Group	197	Lumbermens Mutual Group
Laundry Owners Mutual Liability Ins Assn	4,492	Laundry Owners Mutual Liability Ins Assn
American Mining Insurance Co.	0	W. R. Berkley Group
Great Divide Insurance Co.	31,168	W. R. Berkley Group
Key Risk Insurance Co.	0	W. R. Berkley Group
Midwest Employers Casualty Co.	23,199	W. R. Berkley Group
Preferred Employers Insurance Co.	6,100	W. R. Berkley Group
Tri-State Insurance Co. of Minnesota	0	W. R. Berkley Group
Great American Security Insurance Co.	0	Great American P & C Insurance Grp
Great American Spirit Insurance Co.	0	Great American P & C Insurance Grp
Republic Indemnity Co. of America	149,712	Great American P & C Insurance Grp
Republic Indemnity Co. of California	4,630	Great American P & C Insurance Grp
Republic Indemnity Insurance Pool	154,343	Great American P & C Insurance Grp
Everest National Insurance Co.	74,545	Everest Re U.S. Group
Housing and Redevelopment Insurance Exch	18,339	Housing and Redevelopment Insurance Exch
Union American Insurance Co.	0	Union American Insurance Co.
Cities and Villages Mutual Insurance	10,305	Cities and Villages Mutual Insurance
Springfield Insurance Co.	19,397	Springfield Insurance Co.
Trans City Casualty Insurance Co.	2,739	Trans City Casualty Insurance Co.
Benchmark Insurance Co.	11,044	Benchmark Insurance Co.
Louisiana Workers' Compensation Corp.	138,006	Louisiana Workers' Compensation Corp.
Texas Builders Insurance Co.	4,061	Texas Builders Insurance Co.
SUNZ Insurance Co.	5,401	SUNZ Insurance Co.
Texas Mutual Insurance Co.	601,963	Texas Mutual Insurance Co.
Southern Eagle Insurance Co.	4,749	Southern Eagle Insurance Co.
Missouri Employers Mutual Insurance Co	108,141	Missouri Employers Mutual Insurance Co.
SeaBright Insurance Co.	237,072	SeaBright Insurance Co.
Kentucky Employers' Mutual Insurance	102,921	Kentucky Employers' Mutual Insurance
FFVA Mutual Insurance Co.	93,930	FFVA Mutual Insurance Co.
Fidelity First Insurance Co.	0	Fidelity First Insurance Co.
Care West Insurance Co.	23,381	Care West Insurance Co.
FHM Insurance Co.	31,580	FHM Insurance Co.
Hawaii Employers' Mutual Ins Co, Inc	27,789	Hawaii Employers' Mutual Ins Co, Inc
Advantage Workers Compensation Ins Co	41,732	Advantage Workers Compensation Ins Co.
Comp Options Insurance Co.	12,771	Comp Options Insurance Co.
Premier Group Insurance Co.	13,248	Premier Group Insurance Co.
LEMIC Insurance Co.	20,091	LEMIC Insurance Co.
Retailers Casualty Insurance Co.	18,327	Retailers Casualty Insurance Co.
Forestry Mutual Insurance Co.	10,056	Forestry Mutual Insurance Co.
Midwest Insurance Co.	21,605	Midwest Insurance Co.
Injured Workers Insurance Fund	166,820	Injured Workers Insurance Fund
AmeriHealth Casualty Insurance Co.	79,507	AmeriHealth Casualty Insurance Co.
Stonetrust Commercial Insurance Co.	22,247	Stonetrust Commercial Insurance Co.
AIMCO Mutual Insurance Co	-4	AIMCO Mutual Insurance Co.
United Business Insurance	2,057	United Business Insurance
League of WI Municipalities Mutual Ins	18,474	League of WI Municipalities Mutual Ins
Frank Winston Crum Insurance, Inc.	4,141	Frank Winston Crum Insurance, Inc.
Lion Insurance Co.	16,741	Lion Insurance Co.
Old Glory Insurance Co.	7,156	Old Glory Insurance Co.
Freedom Advantage Insurance Co.	3,739	Freedom Advantage Insurance Co.
Work First Casualty Co.	20,695	Work First Casualty Co.
School Boards Insurance Co of PA, Inc.	59,446	School Boards Insurance Co of PA, Inc.
Synergy Insurance Co.	2,351	Synergy Insurance Co.
Road Contractors Mutual Insurance Co	2,272	Road Contractors Mutual Insurance Co.
Synergy Comp Insurance Co.	4,633	Synergy Comp Insurance Co.
Normandy Harbor Ins. Co., Inc.	3,322	Normandy Harbor Ins. Co., Inc.
Midwest Builders' Casualty Mutual Co	15,833	Midwest Builders' Casualty Mutual Co.

Appendix A: A.M. Best's Workers' Compensation Composite (continued)

Companies	2011 NPW (\$000)	AMB Financial Group Name
Comptrust AGC Mutual Captive Ins Co.	4,659	Comptrust AGC Mutual Captive Ins Co.
CAGC Insurance Co.	9,782	CAGC Insurance Co.
PennCommonwealth Cas of America Corp	2,759	PennCommonwealth Cas of America Corp.
Amerisafe Insurance Group	207,875	Amerisafe Insurance Group
American Interstate Insurance Co.	166,891	Amerisafe Insurance Group
American Interstate Ins Co. of Texas	10,246	Amerisafe Insurance Group
Silver Oak Casualty, Inc	30,738	Amerisafe Insurance Group
Monroe Guaranty Insurance Co.	0	FCCI Insurance Group
New Mexico Mutual Group	56,346	New Mexico Mutual Group
New Mexico Assurance Co.	0	New Mexico Mutual Group
New Mexico Employer's Assurance Co.	0	New Mexico Mutual Group
New Mexico Foundation Insurance Co	0	New Mexico Mutual Group
New Mexico Mutual Casualty Co.	56,346	New Mexico Mutual Group
New Mexico Premier Insurance Co.	0	New Mexico Mutual Group
New Mexico Southwest Casualty Co.	0	New Mexico Mutual Group
GUARD Insurance Group	224,323	GUARD Insurance Group
AmGUARD Insurance Co.	86,417	GUARD Insurance Group
EastGUARD Insurance Co.	21,207	GUARD Insurance Group
NorGUARD Insurance Co.	106,096	GUARD Insurance Group
WestGUARD Insurance Co.	10,603	GUARD Insurance Group
Dakota Group	40,918	Dakota Group
Dakota Truck Underwriters	29,526	Dakota Group
First Dakota Indemnity Co.	11,392	Dakota Group
Charter Insurance Group	41,023	Charter Insurance Group
Atlantic Charter Insurance Co.	41,023	Charter Insurance Group
Endeavour Insurance Co.	0	Charter Insurance Group
Independence Casualty Insurance Co	0	Charter Insurance Group
AmFed Casualty Insurance Co.	0	Companion Property and Casualty Group
AmFed National Insurance Co	1,570	Companion Property and Casualty Group
Companion Commercial Insurance Co.	0	Companion Property and Casualty Group
FirstComp Insurance Co.	118,063	Markel Corp. Group
HDI/Talanx US Group	-4,530	HDI/Talanx US Group
Clarendon Insurance Group	-6,384	HDI/Talanx US Group
Clarendon National Insurance Co.	-2,665	HDI/Talanx US Group
Harbor Specialty Insurance Co.	-392	HDI/Talanx US Group
MEMIC Group	161,152	MEMIC Group
Maine Employers' Mutual Insurance Co	117,472	MEMIC Group
MEMIC Indemnity Co.	43,681	MEMIC Group
Chartis Casualty Co.	0	American International Group
American Zurich Insurance Co.	0	Zurich Financial Services NA Group
Centre Insurance Co.	-2	Zurich Financial Services NA Group
Northern Insurance Co. of New York	0	Zurich Financial Services NA Group
A.I.M. Mutual Insurance Cos	80,150	A.I.M. Mutual Insurance Cos
Associated Employers Insurance Co.	0	A.I.M. Mutual Insurance Cos
Associated Industries of MA Mut Ins Co.	80,150	A.I.M. Mutual Insurance Cos
Massachusetts Employers Insurance Co.	0	A.I.M. Mutual Insurance Cos
New Hampshire Employers Insurance Co.	0	A.I.M. Mutual Insurance Cos
Builders Insurance Group	90,474	Builders Insurance Group
Association Insurance Co.	10,617	Builders Insurance Group
Builders Insurance (A Mutual Captive Co.)	68,092	Builders Insurance Group
Vinings Insurance Co.	11,764	Builders Insurance Group
Safety National Group	370,549	Safety National Group
Safety First Insurance Co.	1,121	Safety National Group
Safety National Casualty Corp.	369,429	Safety National Group
Eastern Alliance Insurance Group	91,107	Eastern Alliance Insurance Group
Allied Eastern Indemnity Co.	11,931	Eastern Alliance Insurance Group
Eastern Advantage Assurance Co.	11,709	Eastern Alliance Insurance Group
Eastern Alliance Insurance Co.	55,257	Eastern Alliance Insurance Group
Employers Security Insurance Co.	12,209	Eastern Alliance Insurance Group

Appendix A: A.M. Best's Workers' Compensation Composite (continued)

Companies	2011 NPW (\$000)	AMB Financial Group Name
Lackawanna Insurance Group	66,518	Lackawanna Insurance Group
Lackawanna American Insurance Co.	13,301	Lackawanna Insurance Group
Lackawanna Casualty Co.	46,567	Lackawanna Insurance Group
Lackawanna National Insurance Co.	6,651	Lackawanna Insurance Group
Employers Insurance Group	313,098	Employers Insurance Group
Employers Assurance Co.	31,310	Employers Insurance Group
Employers Compensation Insurance Co.	84,536	Employers Insurance Group
Employers Insurance Co. of Nevada	165,942	Employers Insurance Group
Employers Preferred Insurance Co.	31,310	Employers Insurance Group
Oriska Insurance Co.	23	Oriska Insurance Cos
Stonewood Insurance Co.	10,387	Franklin Holdings Group
Beacon Mutual Group	81,207	Beacon Mutual Group
Beacon Mutual Insurance Co.	81,207	Beacon Mutual Group
Castle Hill Insurance Co.	0	Beacon Mutual Group
Pacific Compensation Insurance Co.	6,457	Alleghany Insurance Holdings
Fidelity and Guaranty Insurance Co.	0	Travelers Group
Accident Fund Group	726,905	Accident Fund Group
Accident Fund General Insurance Co.	28,715	Accident Fund Group
Accident Fund Ins Co. of America	574,306	Accident Fund Group
Accident Fund National Insurance Co.	43,073	Accident Fund Group
CompWest Insurance Co.	9,061	Accident Fund Group
Third Coast Insurance Co.	-38	Accident Fund Group
United Wisconsin Insurance Co.	71,788	Accident Fund Group
Sequoia Indemnity Co.	1,141	Sequoia Insurance Group
Sompo Japan Fire & Marine Ins Co of Amer	18	Sompo Japan US Group
SFM Insurance Group	105,301	SFM Insurance Group
SFM Mutual Insurance Co.	105,301	SFM Insurance Group
SFM Select Insurance Co.	0	SFM Insurance Group
SCF Insurance Group	166,961	SCF Insurance Group
SCF Arizona	158,868	SCF Insurance Group
SCF Casualty Insurance Co.	813	SCF Insurance Group
SCF General Insurance Co.	2,019	SCF Insurance Group
SCF Premier Insurance Co.	3,443	SCF Insurance Group
SCF Western Insurance Co.	1,819	SCF Insurance Group
Milwaukee Insurance Co.	0	First Nonprofit Group
Builders Mutual Insurance Group	92,309	Builders Mutual Insurance Group
Builders Mutual Insurance Co.	92,309	Builders Mutual Insurance Group
Builders Premier Insurance Co.	0	Builders Mutual Insurance Group
Associated Industries Insurance Co, Inc	1,236	AmTrust Financial Group
Rochdale Insurance Co.	59,111	AmTrust Financial Group
TM Casualty Insurance Co.	0	Tokio Marine US Group
Trans Pacific Insurance Co.	-38	Tokio Marine US Group
Highmark Casualty Group	88,453	Highmark Casualty Group
Highmark Casualty Insurance Co.	88,453	Highmark Casualty Group
HM Casualty Insurance Co.	0	Highmark Casualty Group
AIC Insurance Group	9,957	AIC Insurance Group
Accident Insurance Co. Inc	3,858	AIC Insurance Group
Madison Insurance Co.	6,100	AIC Insurance Group
Fire Districts Insurance Group	14,389	Fire Districts Insurance Group
FDM Preferred Insurance Co., Inc.	1,439	Fire Districts Insurance Group
Fire Districts Insurance Co., Inc.	2,158	Fire Districts Insurance Group
Fire Districts of NY Mutual Ins Co, Inc	10,791	Fire Districts Insurance Group
Aspen American Insurance Co.	-281	Aspen US Insurance Group
CastlePoint Florida Insurance Co.	3,747	Tower Group Cos
RetailFirst Insurance Group	72,737	RetailFirst Insurance Group
BusinessFirst Insurance Co.	13,020	RetailFirst Insurance Group
RetailFirst Insurance Co.	59,716	RetailFirst Insurance Group
Michigan Commercial Insurance Mutual	40,101	Michigan Commercial Insurance Mutual
Retailers Mutual Insurance Co.	3,188	Retailers Mutual Insurance Co.

Appendix A: A.M. Best's Workers' Compensation Composite (continued)

Companies	2011 NPW (\$000)	AMB Financial Group Name
LUBA Casualty Insurance Co.	70,780	LUBA Casualty Insurance Co.
First Benefits Insurance Mutual Inc.	4,754	First Benefits Insurance Mutual Inc.
Health Care Mutual Captive Insurance Co.	3,876	Health Care Mutual Captive Insurance Co.

Source: A.M. Best research

Appendix B: U.S. Workers' Compensation – Direct Premiums Written & Direct Incurred Loss Ratio by State (2007-2011)

(\$ Millions)

#	State	Direct Premiums Written		Year-over-Year % Change	% of Total U.S. DPW	Direct Incurred Loss Ratio					Unemployment Rates Seasonally Adjusted as of July 2012
		2010 DPW	2011 DPW			2007	2008	2009	2010	2011	
1	Alabama	302.2	306.4	0.0	0.7%	71.3	58.4	62.5	74.3	68.4	8.3%
2	Alaska	234.4	247.1	0.1	0.6	45.5	34.8	51.8	64.8	60.3	7.7%
3	Arizona	520.3	543.9	0.0	1.3	82.6	85.4	75.7	83.4	71.9	8.3%
4	Arkansas	214.7	233.6	0.1	0.5	21.3	51.0	47.5	70.2	43.4	7.3%
5	California	7,109.3	7,826.5	0.1	18.1	54.7	58.3	69.2	72.5	60.9	10.7%
6	Colorado	558.2	617.8	0.1	1.4	59.3	55.4	63.2	77.3	73.9	8.3%
7	Connecticut	602.7	680.4	0.1	1.6	82.6	72.4	80.8	86.6	75.1	8.5%
8	Delaware	124.6	137.5	0.1	0.3	57.2	67.9	76.5	89.0	115.2	6.8%
9	District of Columbia	132.8	131.3	0.0	0.3	49.6	36.5	62.6	52.4	46.2	8.9%
10	Florida	1,562.4	1,784.7	0.1	4.1	48.5	43.2	53.5	66.7	41.3	8.8%
11	Georgia	953.1	1,029.7	0.1	2.4	63.3	70.9	66.9	64.4	59.3	9.3%
12	Hawaii	177.6	195.2	0.1	0.5	38.8	39.1	40.8	62.4	55.0	6.4%
13	Idaho	257.4	281.3	0.1	0.7	60.8	70.9	77.8	65.6	79.5	7.5%
14	Illinois	2,228.2	2,418.4	0.1	5.6	68.8	77.3	83.2	89.6	75.3	8.9%
15	Indiana	616.4	692.8	0.1	1.6	62.7	64.2	55.8	82.0	62.8	8.2%
16	Iowa	534.1	598.5	0.1	1.4	67.6	75.6	76.2	80.8	74.1	5.3%
17	Kansas	387.2	409.1	0.1	0.9	67.0	61.0	60.3	65.6	73.9	6.3%
18	Kentucky	475.1	507.1	0.1	1.2	66.3	61.2	69.9	83.0	69.7	8.3%
19	Louisiana	700.2	714.3	0.0	1.7	49.3	52.4	60.6	72.9	68.5	7.6%
20	Maine	189.2	206.4	0.1	0.5	69.2	60.9	65.8	61.5	69.4	7.6%
21	Maryland	709.1	741.4	0.0	1.7	84.4	72.7	78.2	91.3	83.7	7.0%
22	Massachusetts	835.2	943.9	0.1	2.2	62.8	65.5	70.4	71.2	59.6	6.1%
23	Michigan	807.2	966.0	0.2	2.2	69.9	62.8	61.2	65.3	63.2	9.0%
24	Minnesota	680.2	755.4	0.1	1.7	63.4	68.7	73.9	76.2	68.2	5.8%
25	Mississippi	250.9	270.8	0.1	0.6	61.8	60.3	52.3	81.7	67.1	9.1%
26	Missouri	679.5	712.1	0.0	1.6	55.0	60.5	52.3	67.0	63.7	7.2%
27	Montana	282.2	279.7	0.0	0.6	73.7	76.7	88.4	68.6	72.8	6.4%
28	Nebraska	293.4	310.5	0.1	0.7	57.4	61.6	62.8	72.9	64.0	4.0%
29	Nevada	242.8	268.5	0.1	0.6	61.8	40.2	43.5	57.7	32.4	12.0%
30	New Hampshire	219.4	215.7	0.0	0.5	53.6	64.8	78.7	68.4	52.0	5.4%
31	New Jersey	1,632.3	1,738.2	0.1	4.0	64.2	65.3	70.2	72.1	71.9	9.8%
32	New Mexico	214.5	230.7	0.1	0.5	65.2	70.9	67.9	81.0	73.6	6.6%
33	New York	3,622.3	4,157.4	0.1	9.6	69.0	72.9	83.4	95.8	77.8	9.1%
34	North Carolina	1,062.4	1,159.0	0.1	2.7	62.7	66.2	69.2	74.0	74.4	9.6%
35	North Dakota	3.4	4.8	0.4	0.0	(100.0)	21.0	(1.5)	(3.4)	22.8	3.0%
36	Ohio	-8.0	35.5	-5.4	0.1	69.5	147.0	113.0	(100.0)	5.9	7.2%
37	Oklahoma	743.7	790.1	0.1	1.8	78.7	79.5	83.5	93.2	80.4	4.9%
38	Oregon	533.7	596.6	0.1	1.4	78.4	80.5	79.2	103.1	66.2	8.7%
39	Pennsylvania	2,025.4	2,374.5	0.2	5.5	74.3	66.0	70.8	69.7	64.7	7.9%
40	Rhode Island	147.8	162.1	0.1	0.4	62.6	54.2	63.4	68.8	65.2	10.8%
41	South Carolina	533.2	577.0	0.1	1.3	54.0	59.1	63.0	70.2	68.5	9.6%
42	South Dakota	132.0	148.3	0.1	0.3	86.7	72.8	67.8	61.7	65.1	4.4%
43	Tennessee	674.5	759.7	0.1	1.8	59.8	64.9	62.6	71.7	68.0	8.4%
44	Texas	1,919.6	2,162.4	0.1	5.0	52.0	46.8	43.9	51.6	43.3	7.2%
45	Utah	275.3	291.4	0.1	0.7	58.9	58.8	61.8	57.0	68.0	6.0%
46	Vermont	143.1	151.7	0.1	0.4	53.1	64.1	61.9	71.5	79.1	5.0%
47	Virginia	772.2	795.0	0.0	1.8	65.8	72.3	58.8	64.1	59.5	5.9%
48	Washington	25.8	25.8	0.0	0.1	85.8	97.9	499.4	47.6	13.5	8.5%
49	West Virginia	375.3	393.6	0.0	0.9	55.4	54.2	69.5	61.0	42.0	7.4%
50	Wisconsin	1,469.9	1,685.1	0.1	3.9	64.2	65.5	68.2	67.0	66.0	7.3%
51	Wyoming	-0.8	4.9	-6.9	0.0	33.0	40.4	16.7	(100.0)	22.1	5.6%
Total US		39,177.8	43,269.5	0.1	100%	62.0	63.1	68.1	74.7	65.2	

Source:  BestLink® – State/Line P/C; U.S. Department of Labor

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