



NCCI Holdings, Inc.

State of the Line

**Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary**

**May 11, 2006
Orlando, Florida**

AIS
Annual Issues Symposium
2006

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

Property & Casualty Results

P/C Industry Net Written Premium Growth Has Slowed

Private Carriers

Line of Business (LOB)	2003	2004	2005p	2004- 2005p Change
Personal Auto	\$151.2 B	\$157.3 B	\$161.2 B	2.5%
Homeowners	\$45.8 B	\$49.5 B	\$51.6 B	4.2%
Other Liability (Incl Prod Liab)	\$38.8 B	\$43.0 B	\$43.4 B	0.9%
Workers Compensation	\$31.1 B	\$34.7 B	\$37.8 B	8.8%
Commercial Multiple Peril	\$27.4 B	\$29.1 B	\$27.6 B	-5.2%
Commercial Auto	\$25.4 B	\$26.6 B	\$26.9 B	1.1%
Fire & Allied Lines (Incl EQ)	\$17.6 B	\$17.6 B	\$18.1 B	2.8%
All Other Lines	\$67.1 B	\$66.3 B	\$59.1 B	-10.9%
Total P/C Industry	\$404.4 B	\$424.1 B	\$425.7 B	0.4%

p Preliminary

Source: Workers Compensation, NCCI;
All other lines, Best's Review Preview and ISO

Industry Results Good in Spite of Catastrophes

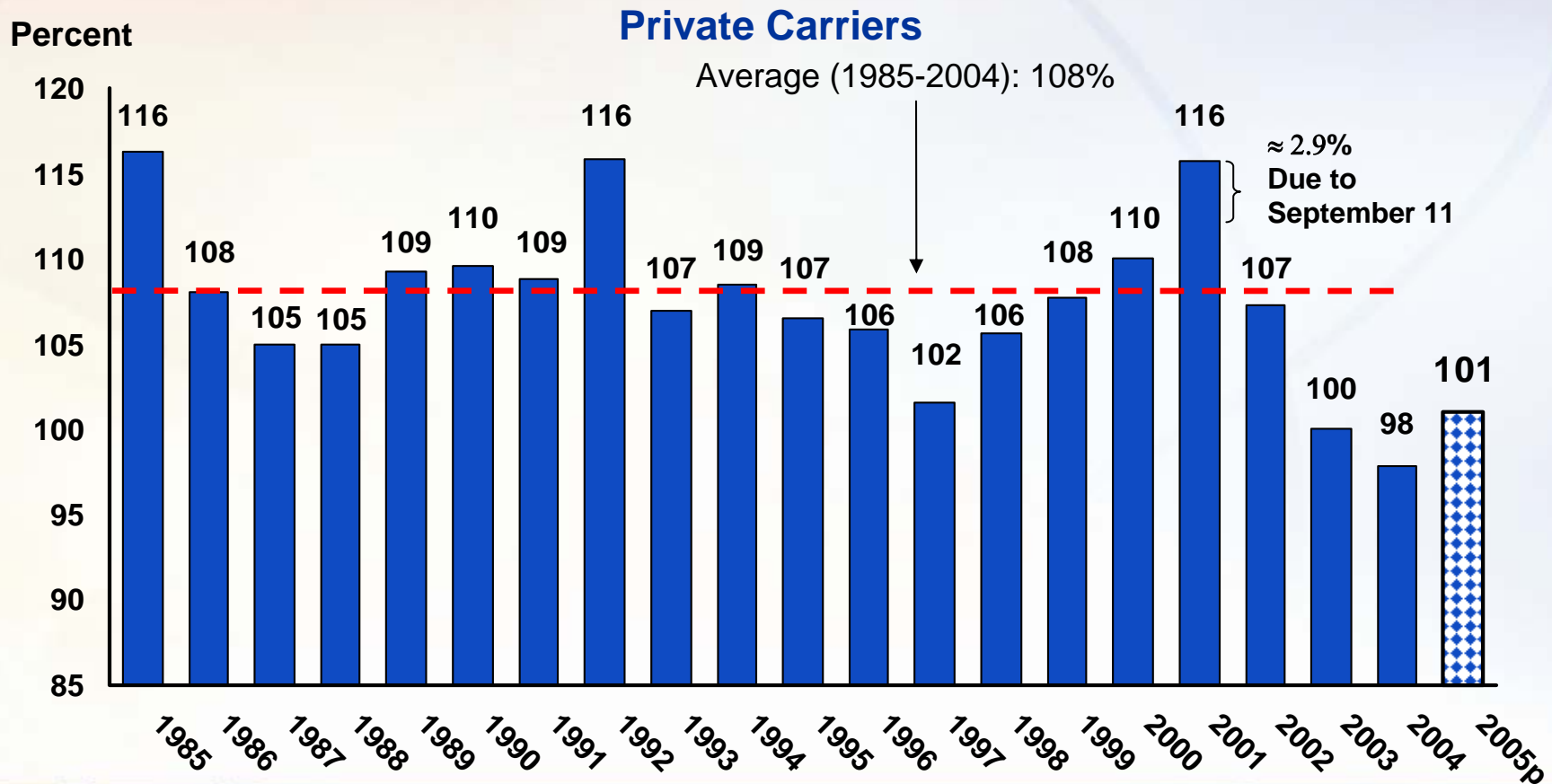
Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year		
	2003	2004	2005p
Personal Auto	98%	94%	95%
Homeowners	98%	94%	103%
Other Liability (Incl Prod Liab)	116%	117%	119%
Workers Compensation	109%	107%	102%
Commercial Multiple Peril	100%	101%	112%
Commercial Auto	95%	93%	94%
Fire & Allied Lines (Incl EQ)	79%	87%	110%
All Other Lines	100%	100%	103%
Total P/C Industry	100%	98%	101%

p Preliminary

Source: Workers Compensation, NCCI;
All other lines, Best's Review Preview and ISO

P/C Industry Calendar Year Net Combined Ratios



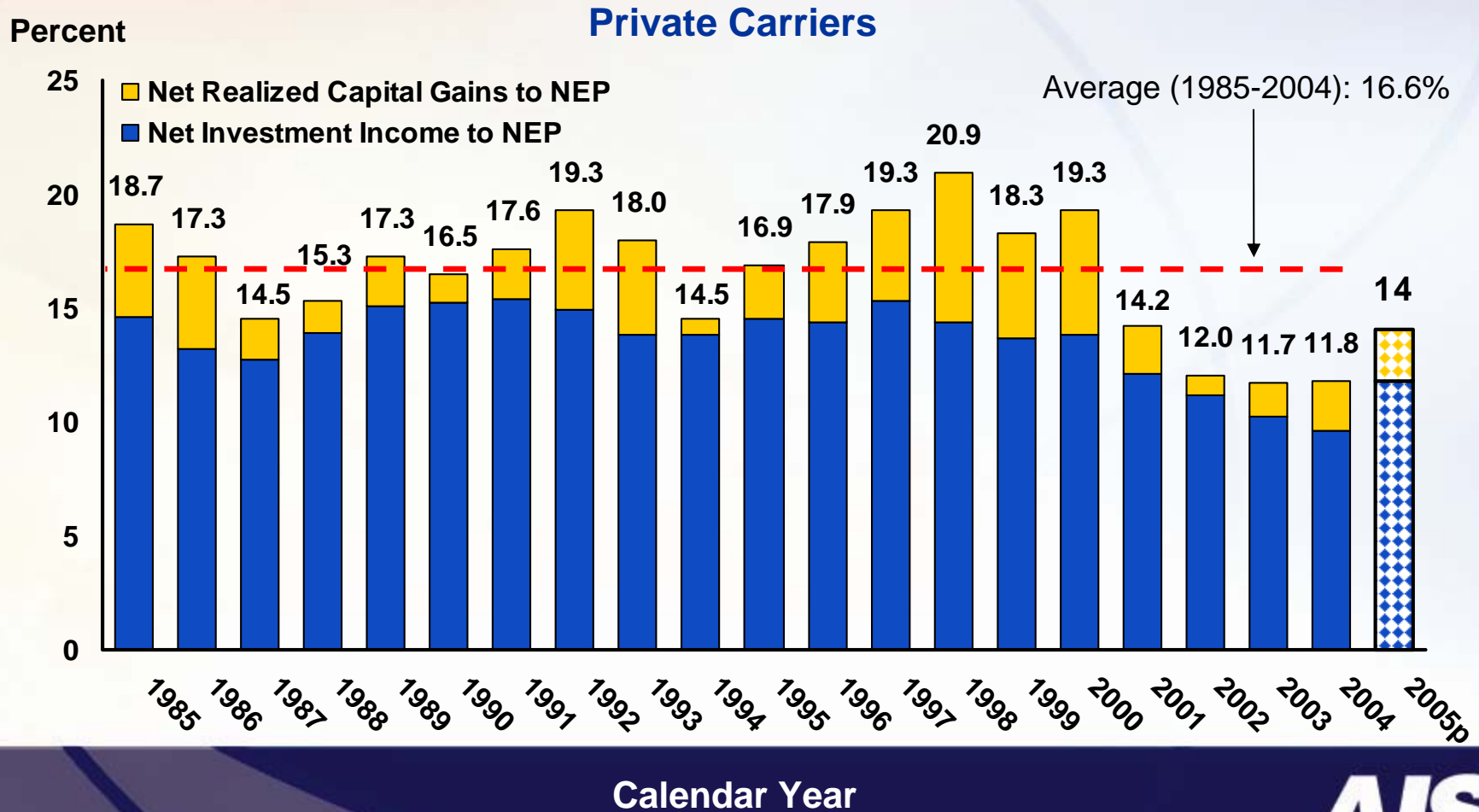
Calendar Year

p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p, ISO

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Investment Gain Ratio Improves, Remains Below Historical Averages



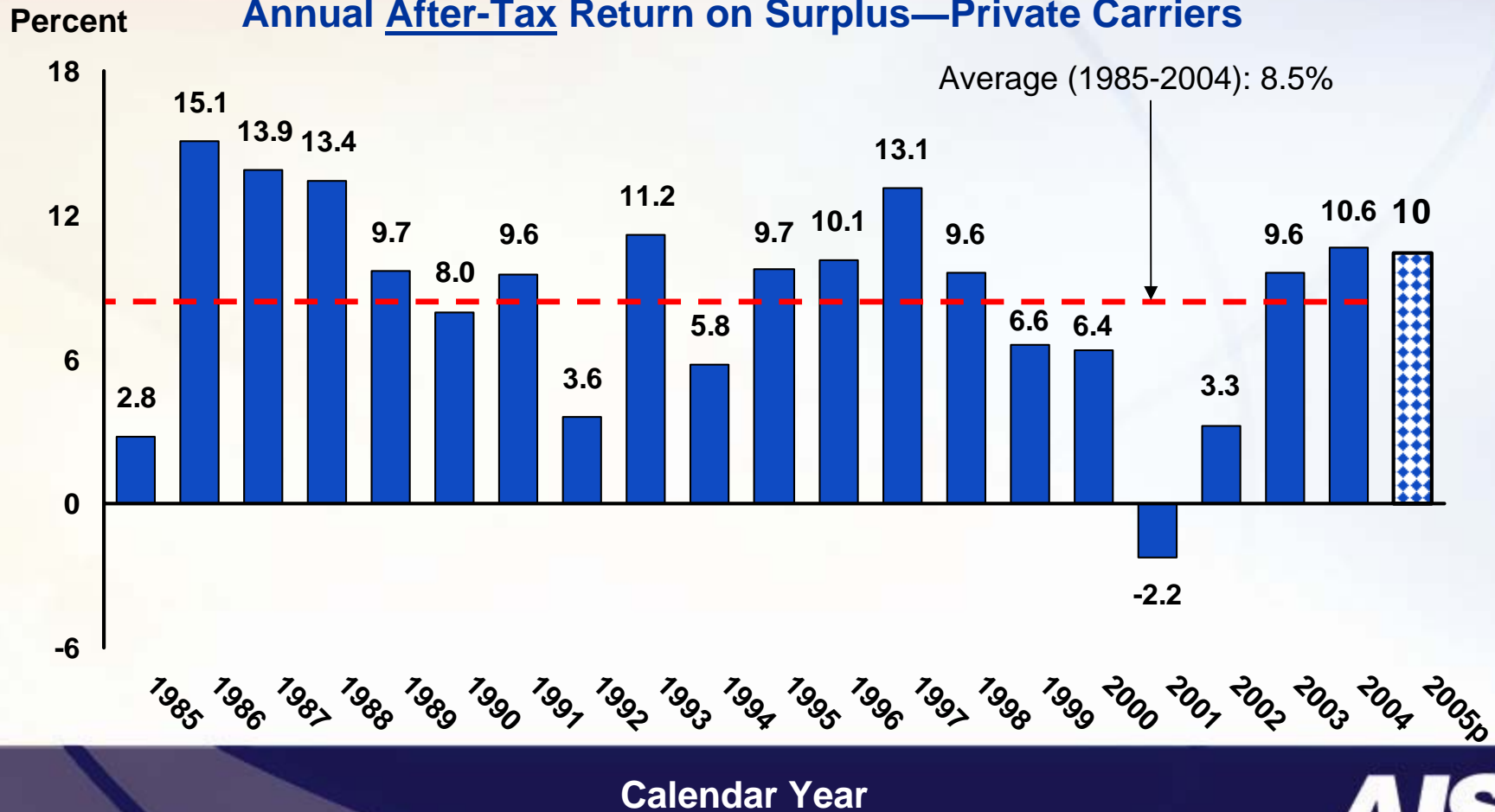
p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p, ISO

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Return on Surplus for P/C Industry Shows Little Change in 2005

Annual After-Tax Return on Surplus—Private Carriers



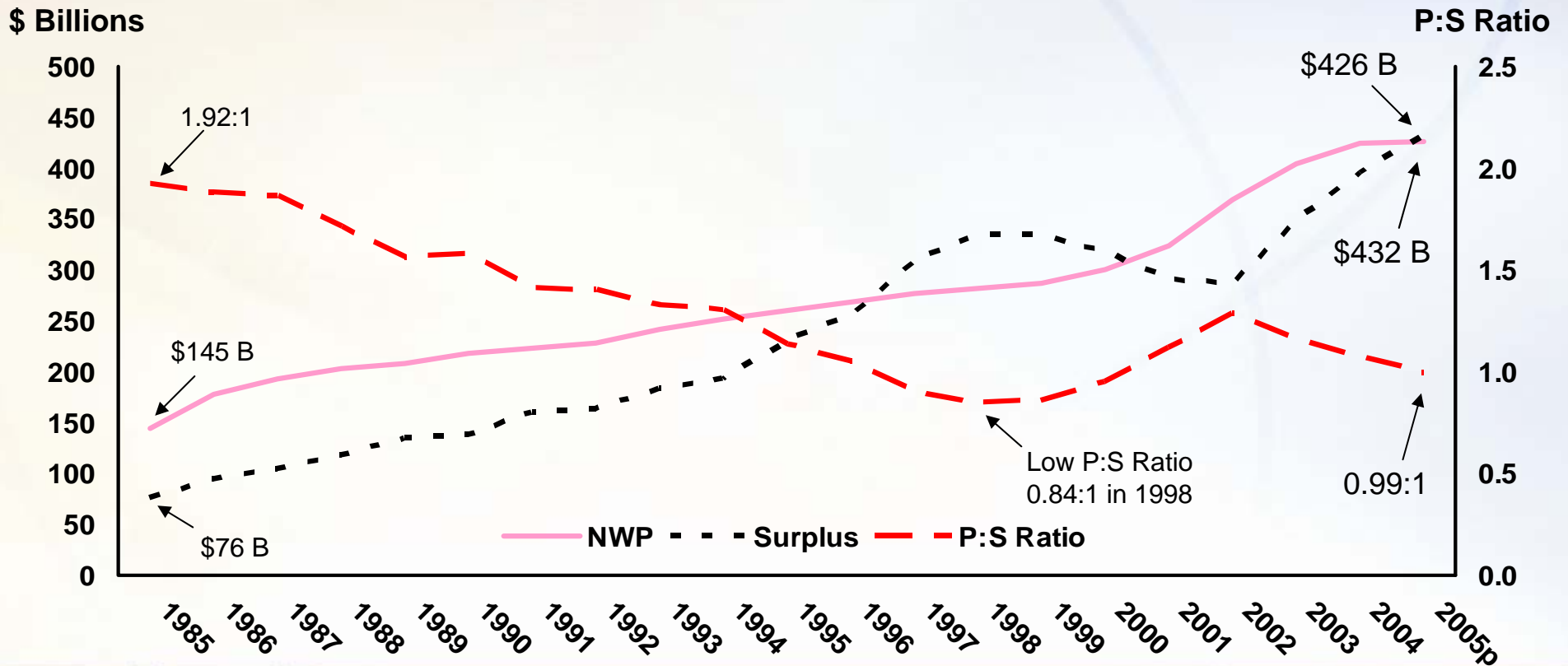
p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p After-Tax Net Income, ISO;
2005p Surplus, 2004 A.M. Best Aggregates & Averages + 2005 ISO contributions to surplus

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

P/C Industry Premium-to-Surplus Ratio Continues to Decline

Private Carriers



Calendar Year

p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages;

2005p Surplus, 2004 A.M. Best Aggregates & Averages + 2005 ISO contributions to surplus

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Surplus Increases for 2005 in Spite of Catastrophes

Contributions to Surplus—Private Carriers

	2003	2004	2005p
Underwriting Gains/Losses	\$ (4.9) B	\$ 4.3 B	\$ (5.9) B
Investment Income	\$ 38.6 B	\$ 40.0 B	\$ 49.5 B
Realized Capital Gains	\$ 6.6 B	\$ 9.1 B	\$ 9.7 B
Other Income	\$ (0.0) B	\$ (0.3) B	\$ 0.9 B
Unrealized Capital Gains	\$ 25.0 B	\$ 10.6 B	\$ (3.2) B
Federal Taxes	\$ (10.4) B	\$ (14.6) B	\$ (11.2) B
Shareholder Dividends	\$ (9.1) B	\$ (14.0) B	\$ (15.2) B
Contributed Capital	\$ 11.3 B	\$ 8.8 B	\$ 14.0 B
Other Changes to Surplus	\$ 4.4 B	\$ 0.5 B	\$ (2.8) B
Total	\$ 61.6 B	\$ 44.3 B	\$ 35.8 B

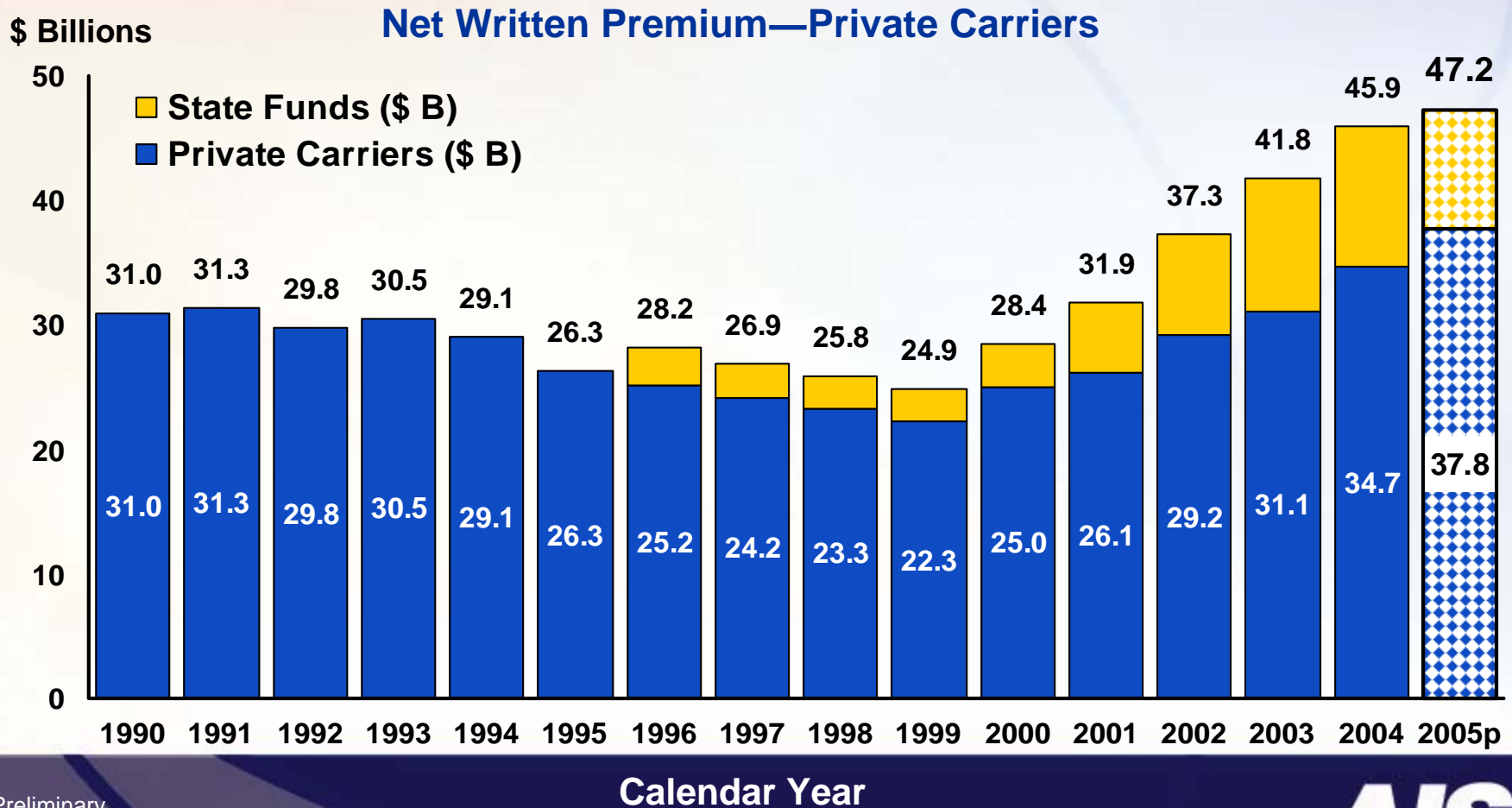
p Preliminary

Source: ISO

Workers Compensation

Results

Workers Compensation Premium Continued to Rise in 2005



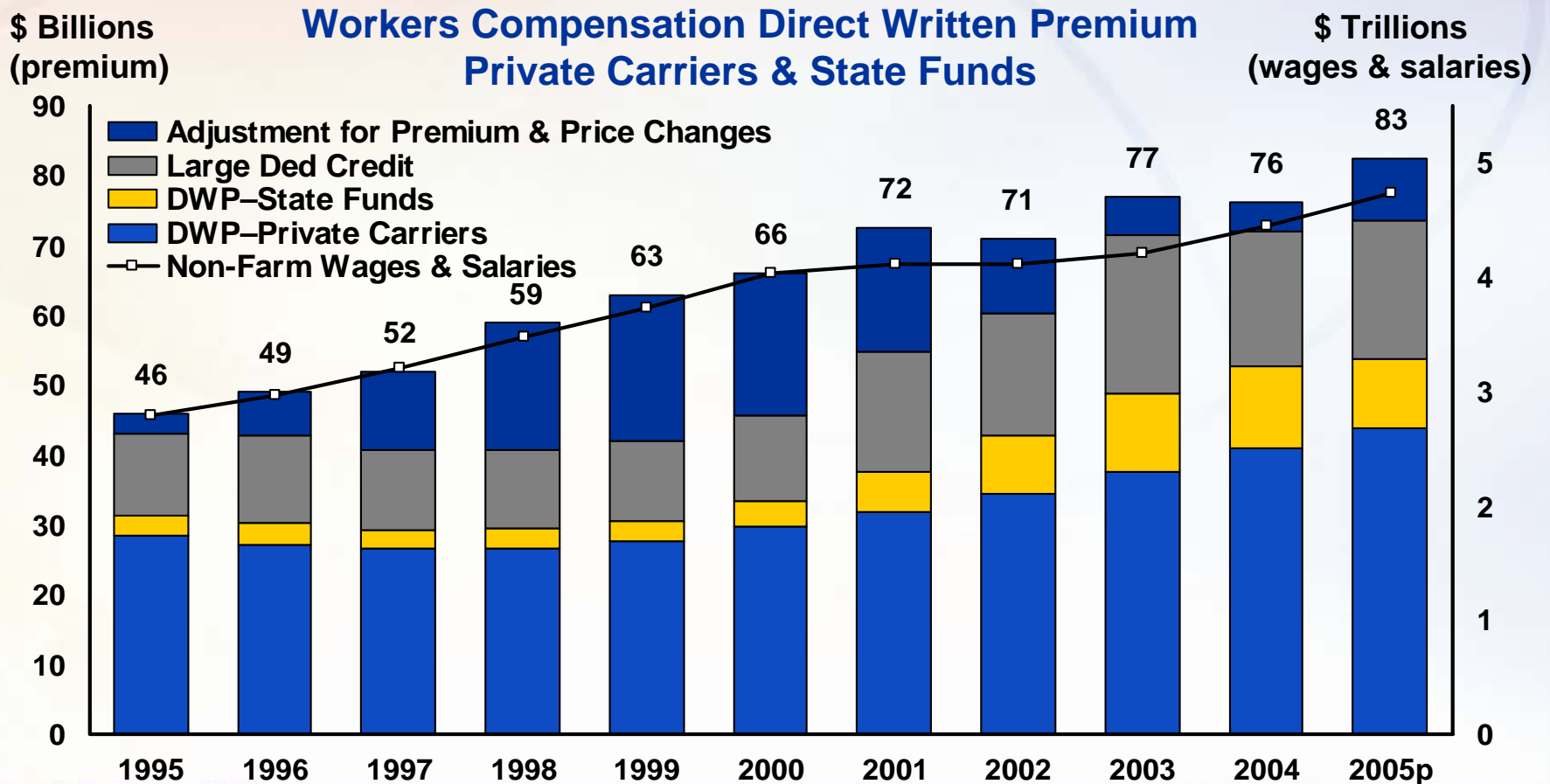
p Preliminary

Calendar Year

Source: 1990-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI
 1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent

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Adjusted Workers Compensation Premium Volume



p Preliminary

Calendar Year

Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI
 1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

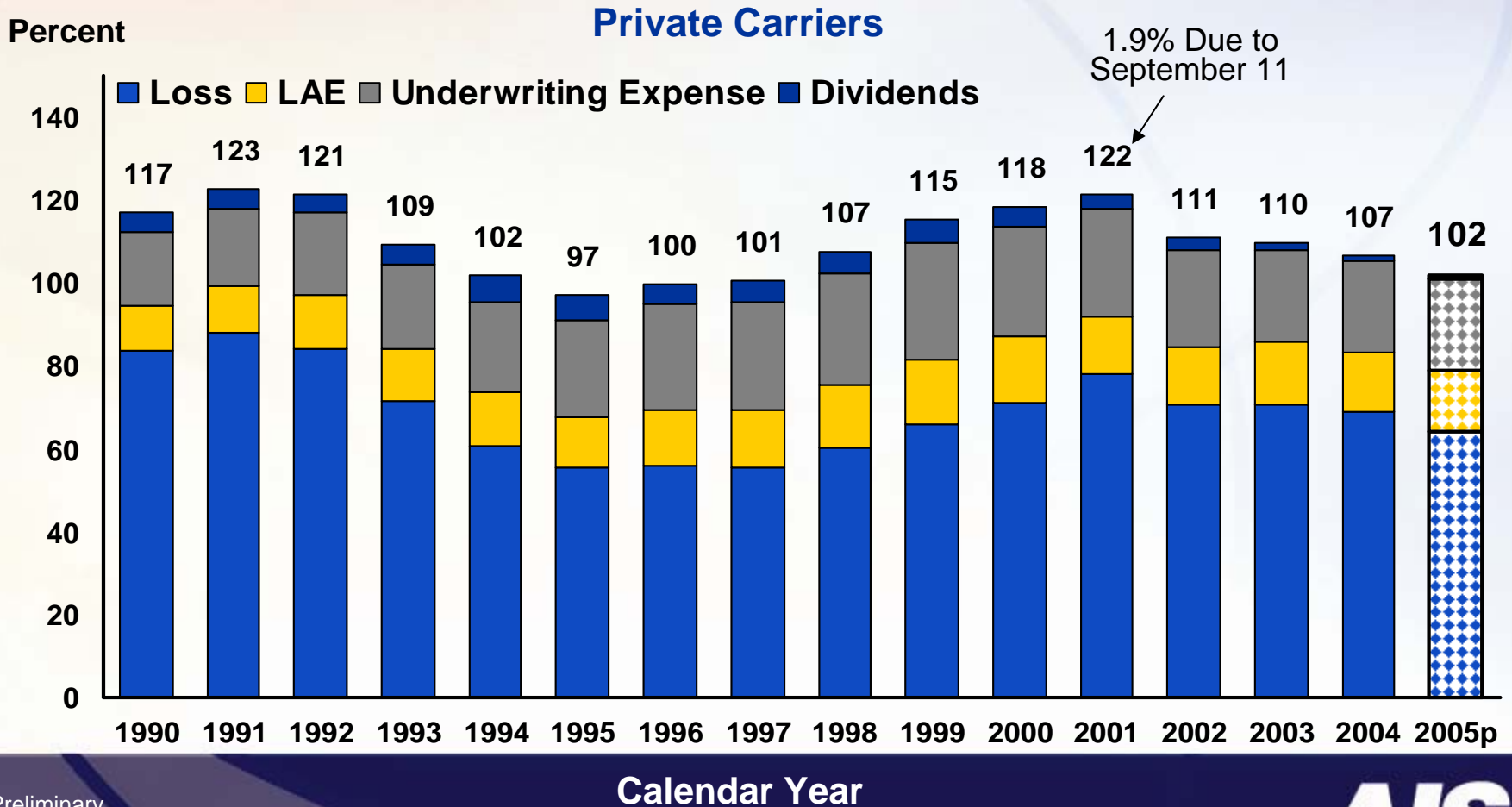
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Last Year's AIS Survey Results

What will the workers compensation combined ratio be in 2005?

- | | |
|---------------------|--------------|
| A. 95%–100% | (6%) |
| B. 101%–105% | (74%) |
| C. 106%–110% | (20%) |
| D. Over 110% | (0%) |

WC Calendar Year Combined Ratio Improved Again in 2005



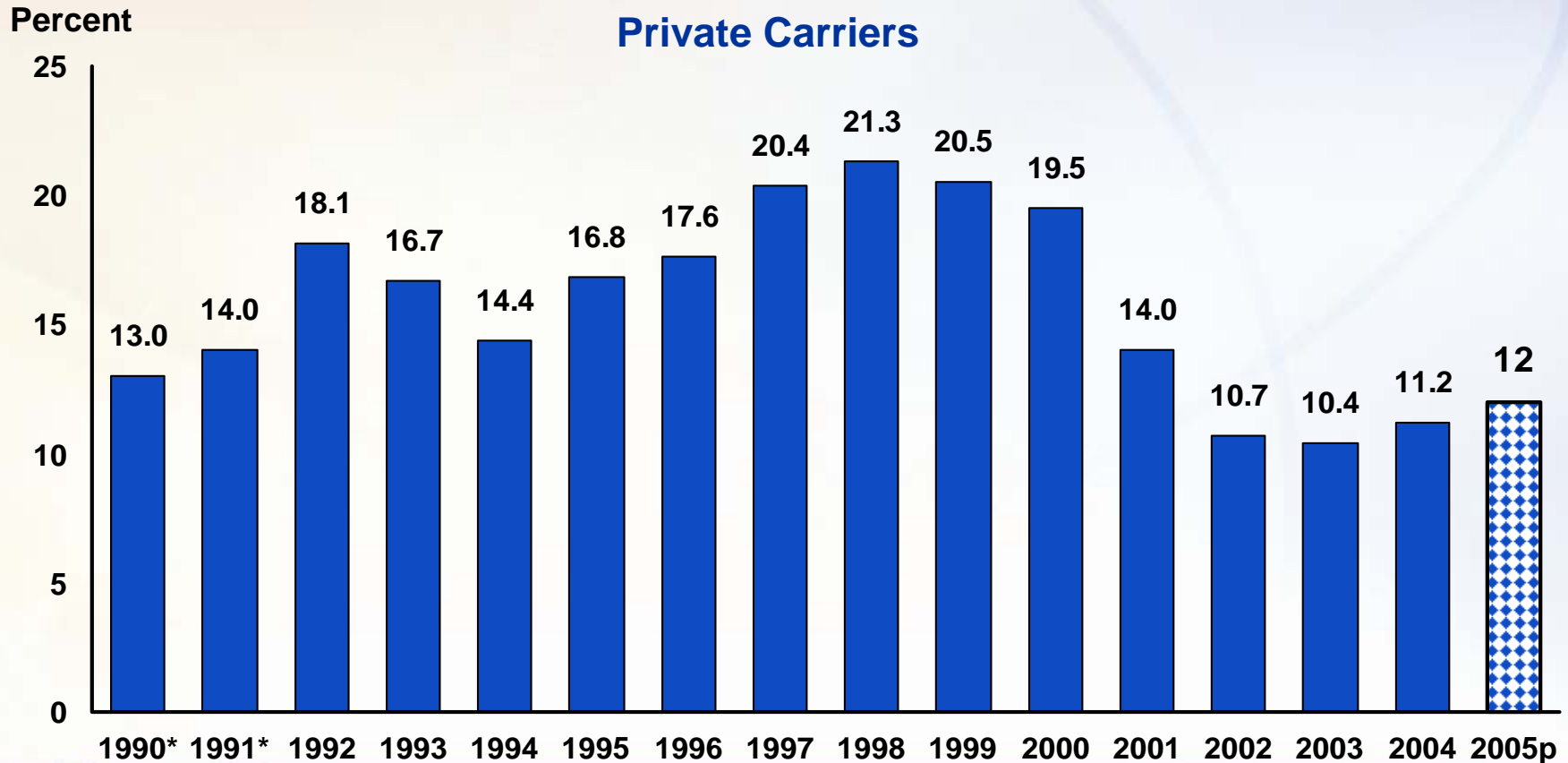
p Preliminary

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

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Low Workers Compensation Investment Returns Continued in 2005

Investment Gain on Insurance Transactions to Premium Ratio
Private Carriers



p Preliminary

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

Investment Gain on Insurance Transactions includes Other Income

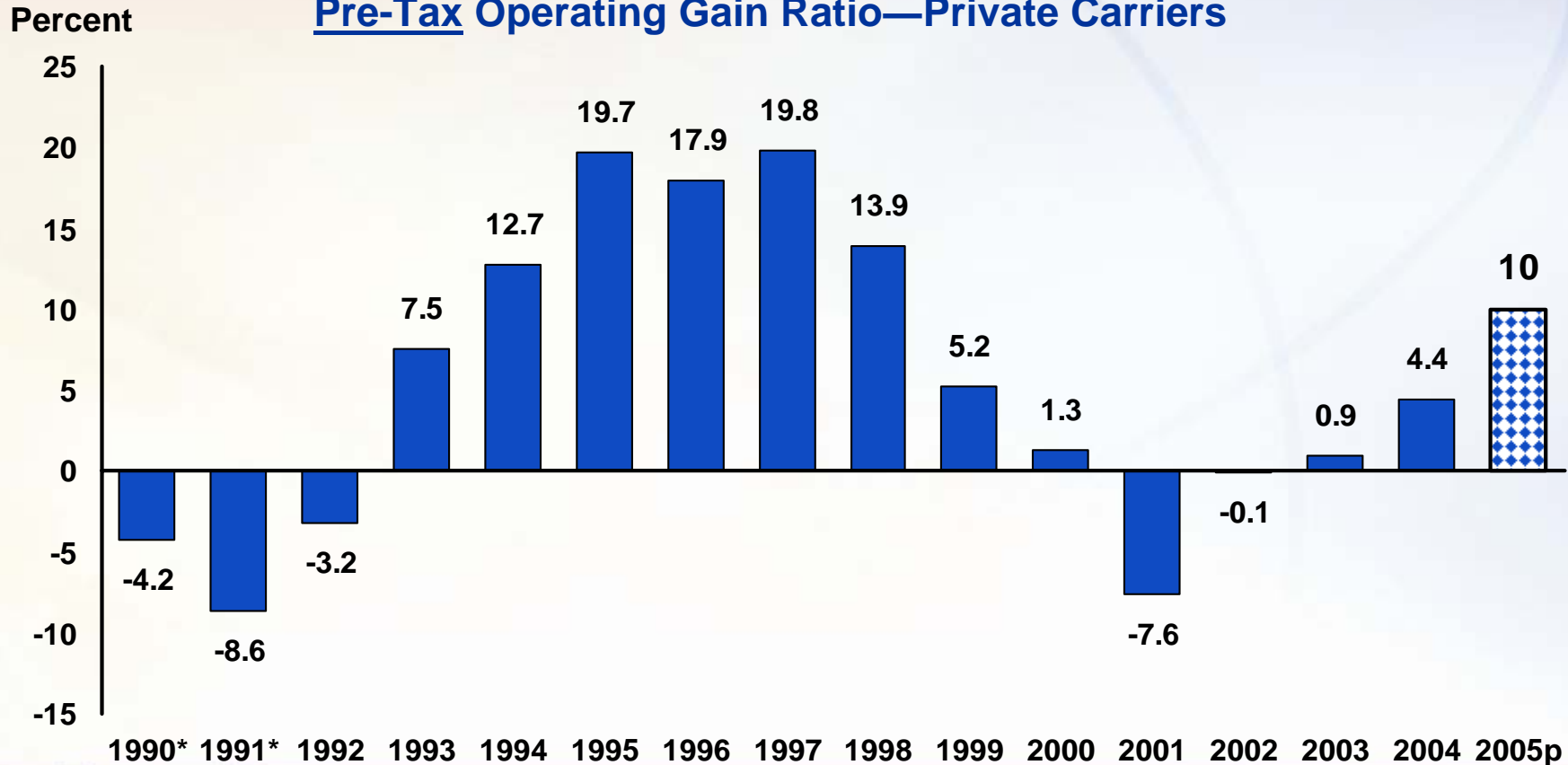
Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

Calendar Year

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2005 Workers Compensation Results Improved Over 2004

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

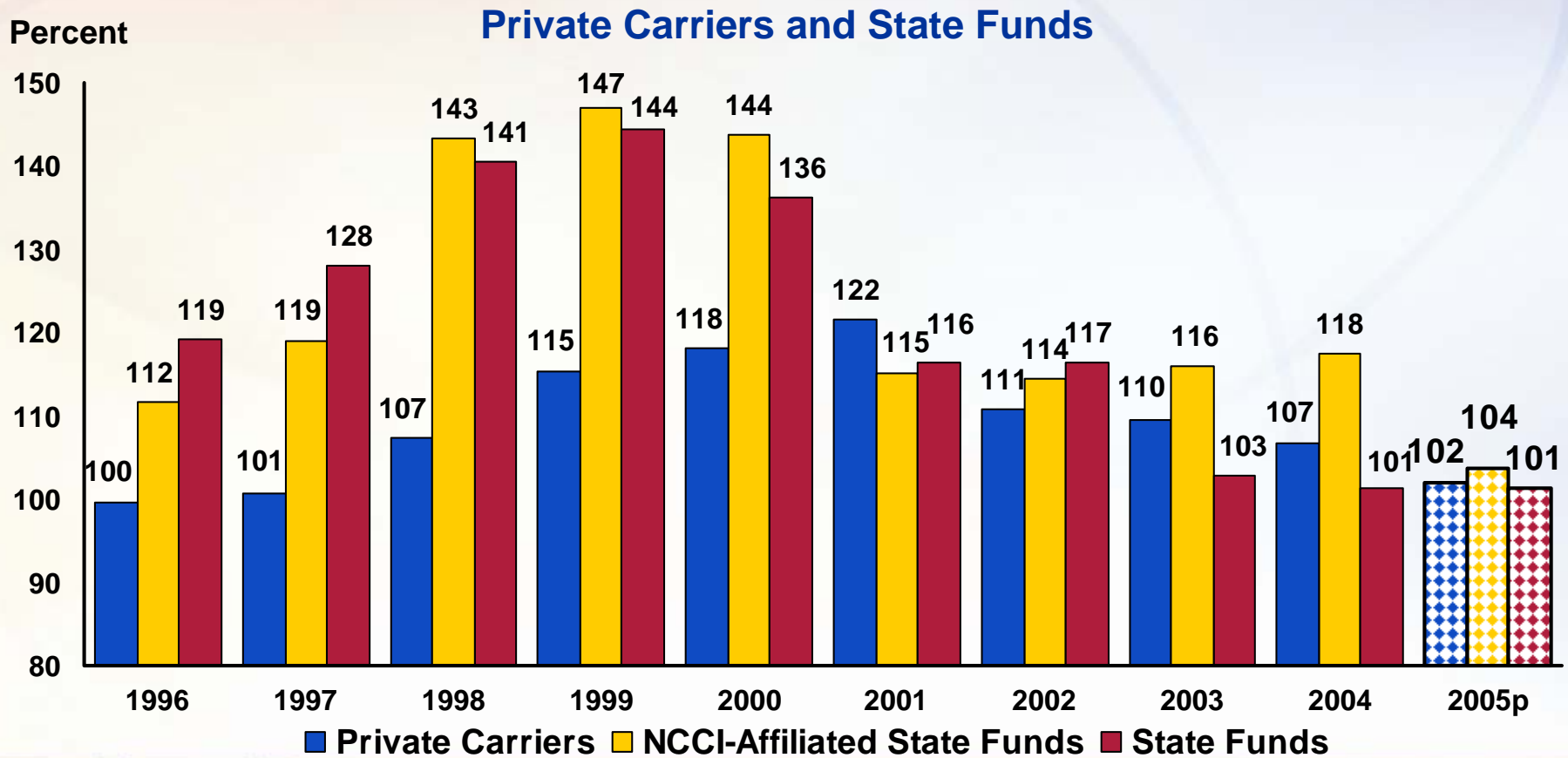
* Adjusted to include realized capital gains to be consistent with 1992 and after

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

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

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Workers Compensation Calendar Year Net Combined Ratios



Calendar Year

p Preliminary

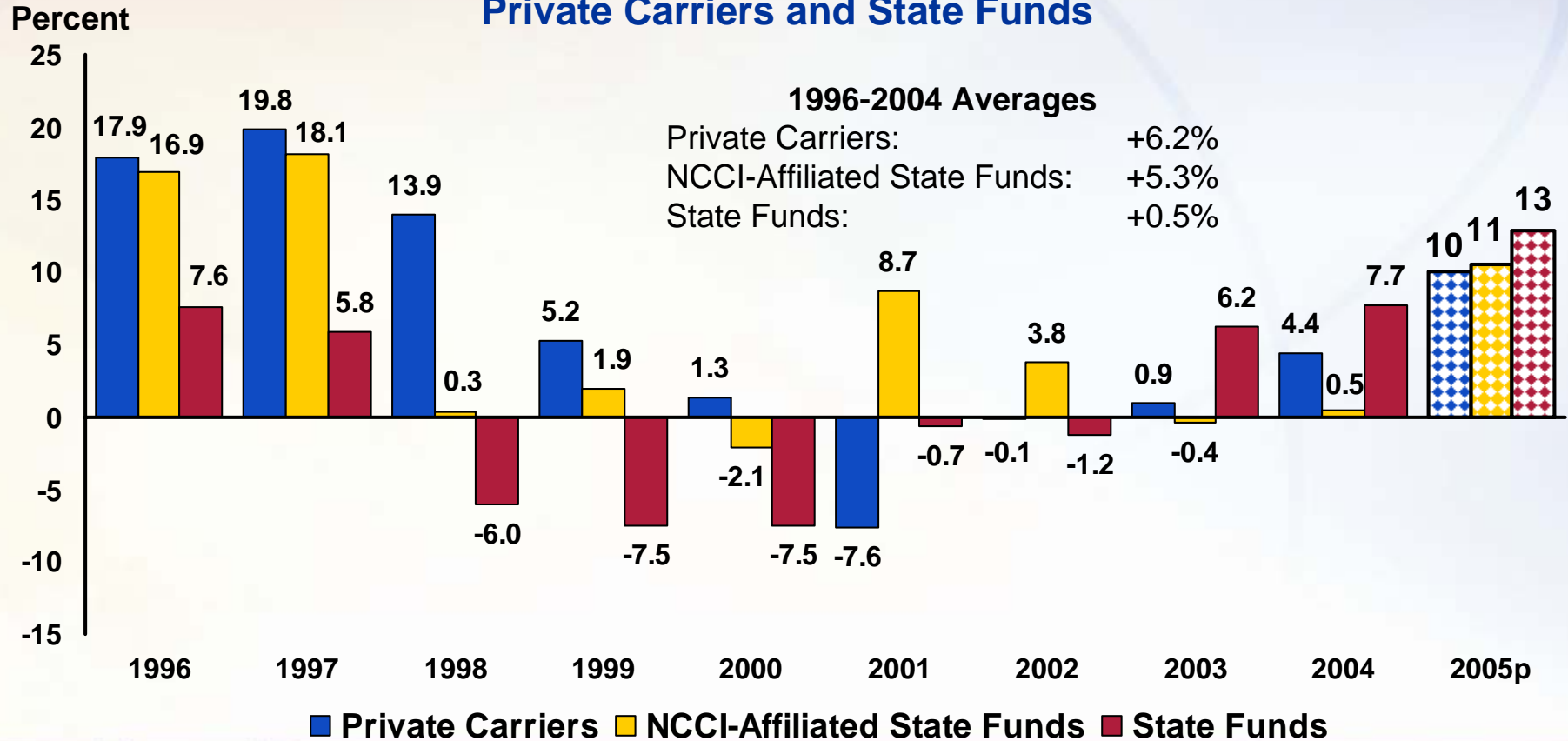
Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Pre-Tax Operating Gain Ratios

Private Carriers and State Funds



p Preliminary

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

Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Calendar Year

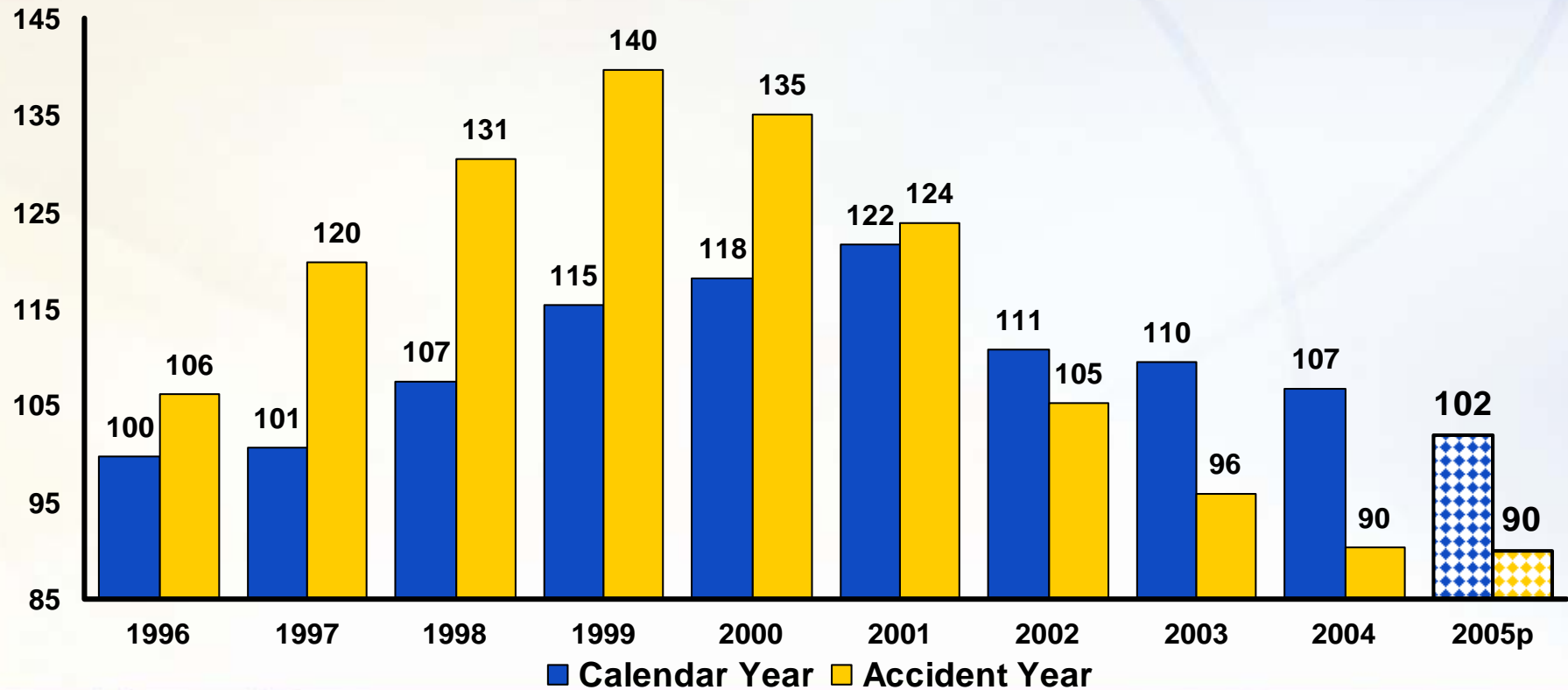
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Workers Compensation Accident Year Results and Reserve Estimates

Accident Year Combined Ratio— Another Underwriting Profit in 2005

Workers Compensation Calendar Year vs.
Ultimate Accident Year—Private Carriers

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/2005 and developed to ultimate

Source: Calendar Years 1996-2004, A.M. Best Aggregates & Averages;

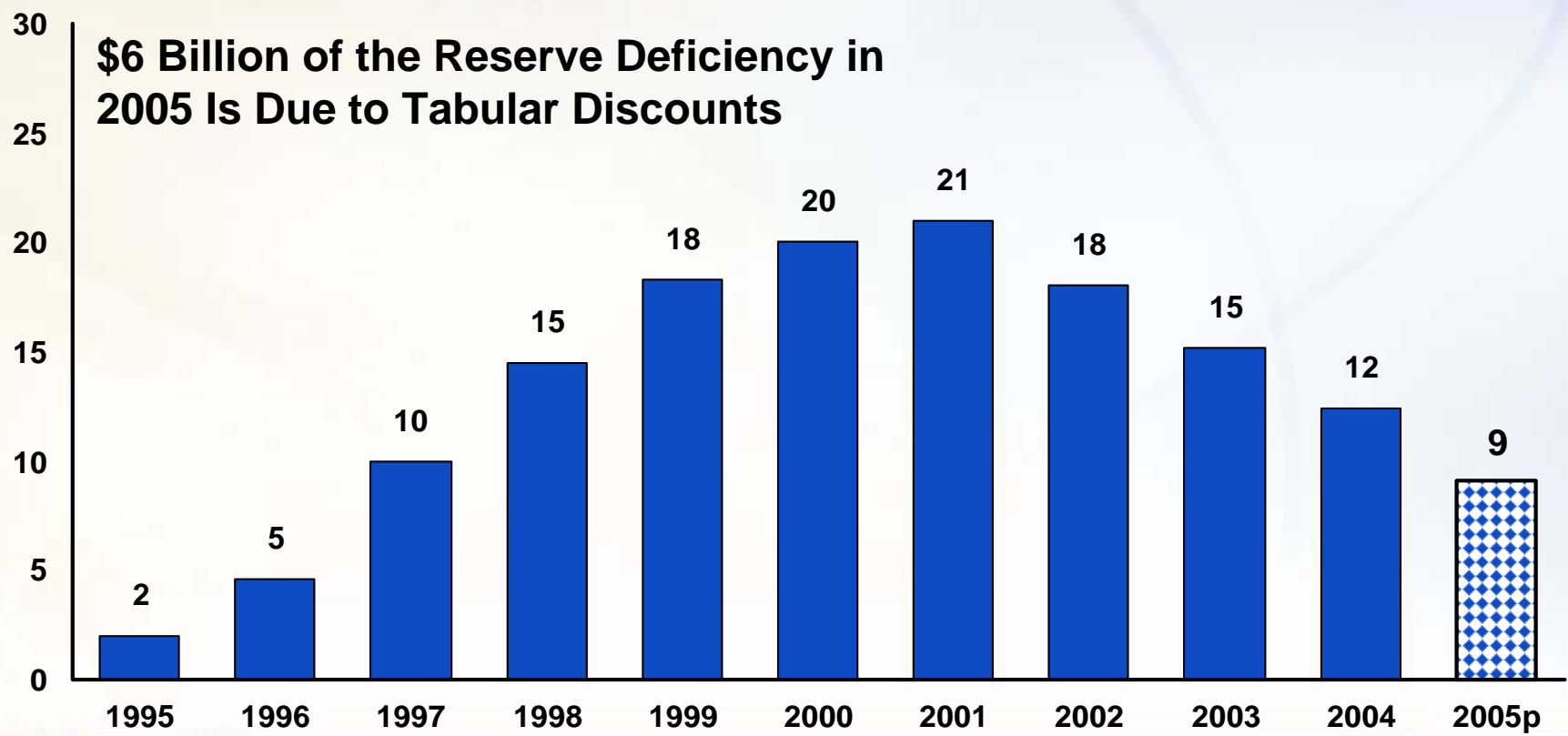
Calendar Year 2005p and Accident Years 1996-2005p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders

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Workers Compensation Reserve Deficiencies Continue to Decline

\$ Billions Loss and LAE Reserve Deficiency—Private Carriers



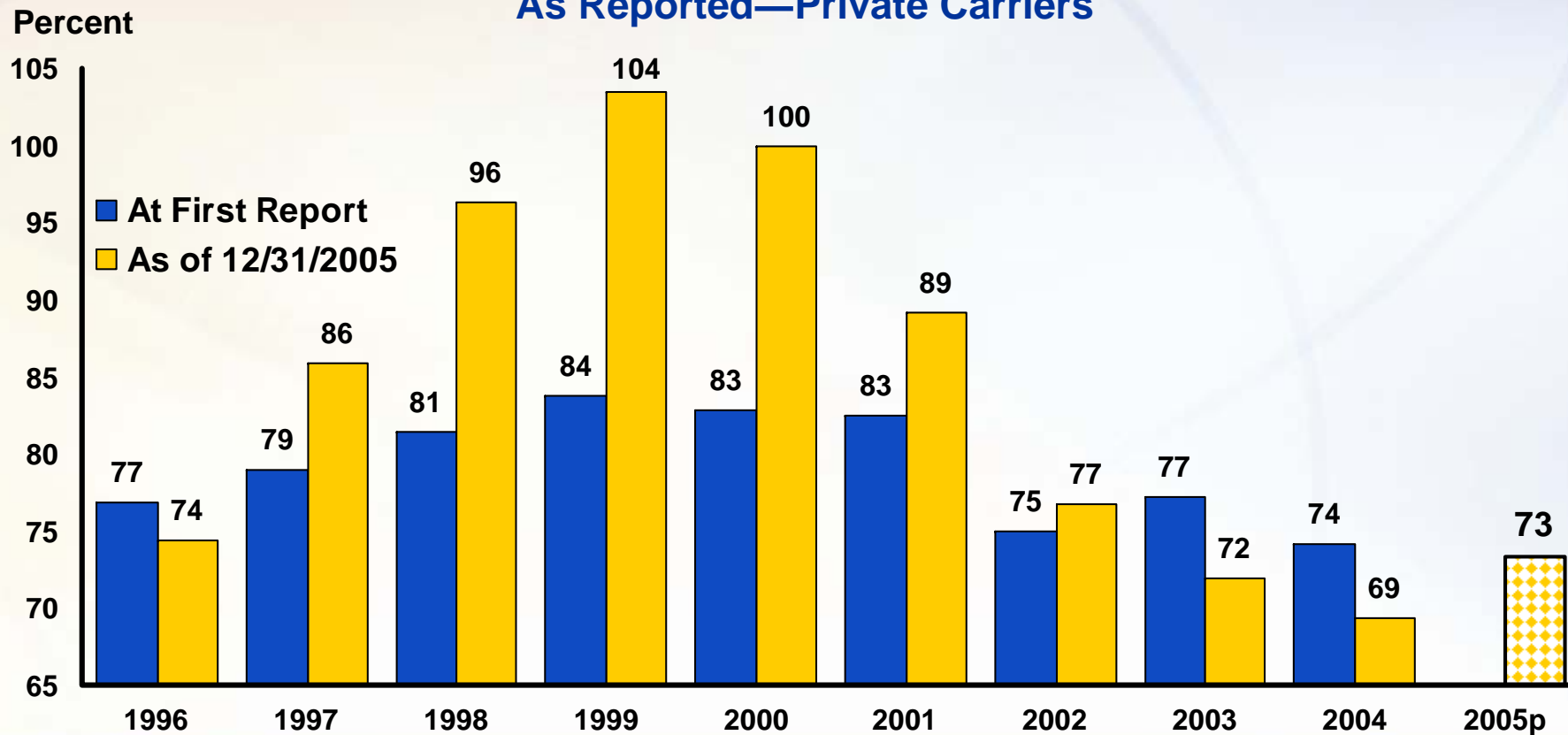
p Preliminary
 Considers all reserve discounts as deficient
 Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
 Source: 1995-2005p, NCCI analysis

Calendar Year



Workers Compensation Accident Year Loss and LAE Ratios

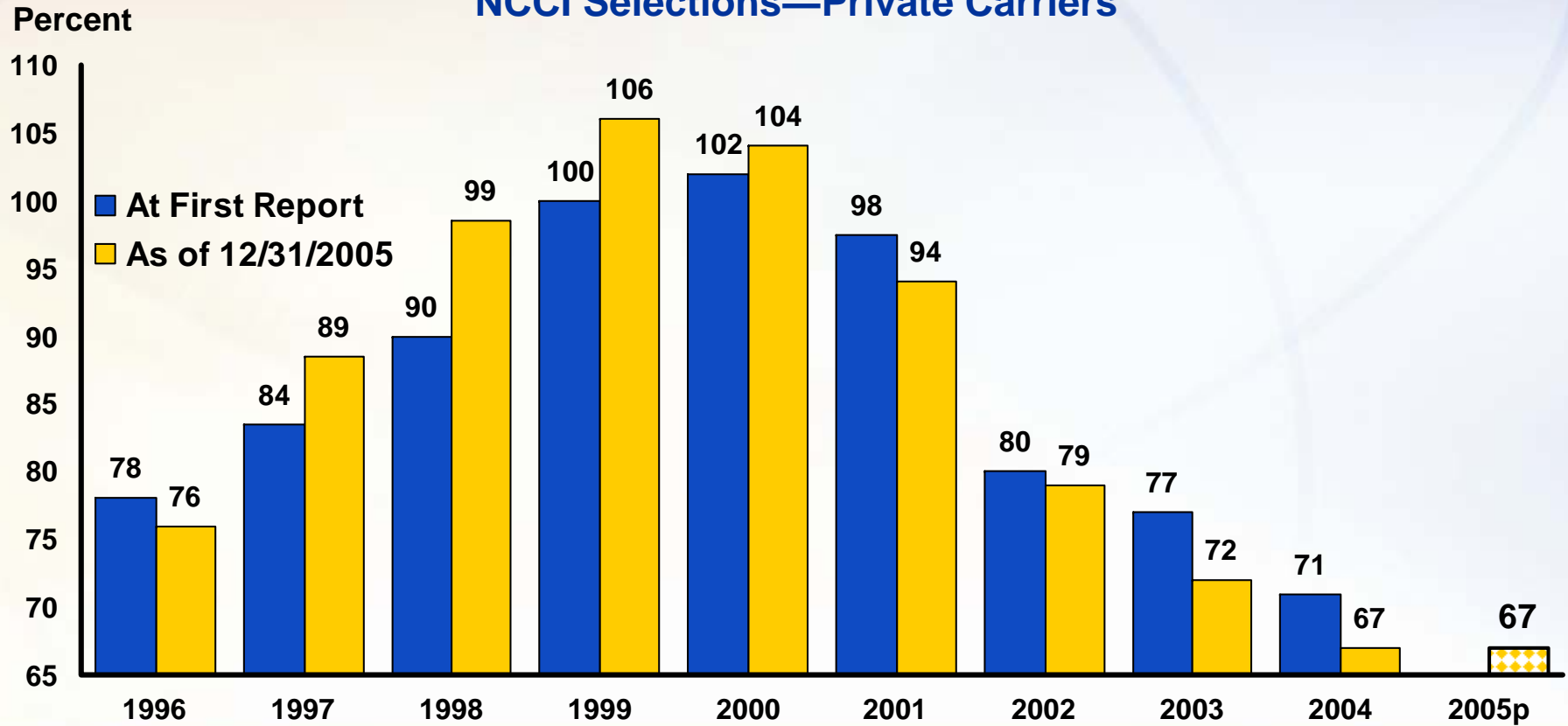
As Reported—Private Carriers



p Preliminary
 Reported Loss and LAE ratios from Schedule P
 Source: 1996-2005p, NAIC Annual Statement data as reported

Workers Compensation Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers

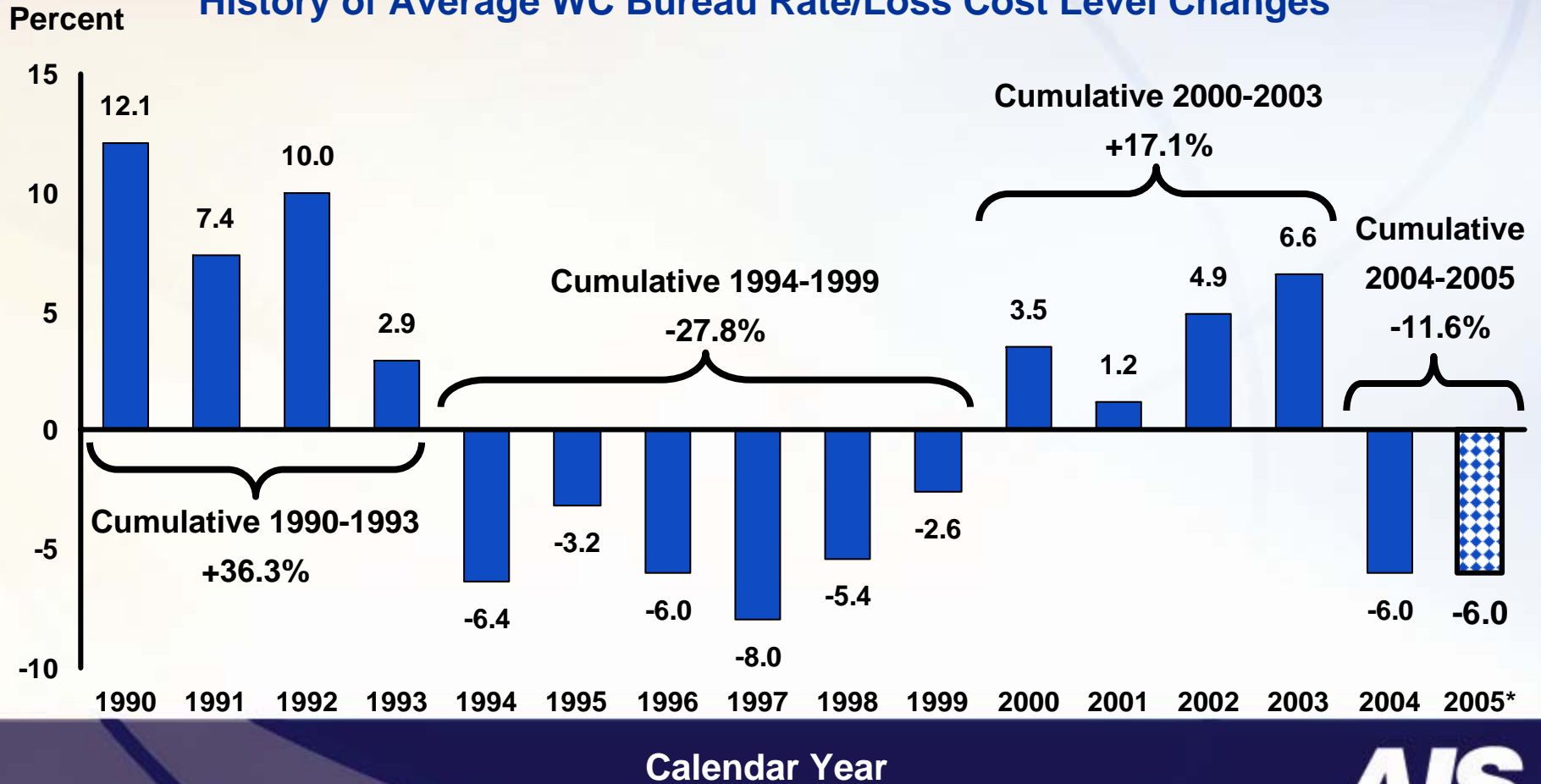


p Preliminary
 Selected Loss and LAE ratios
 Source: NCCI Reserve Analysis

Workers Compensation Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



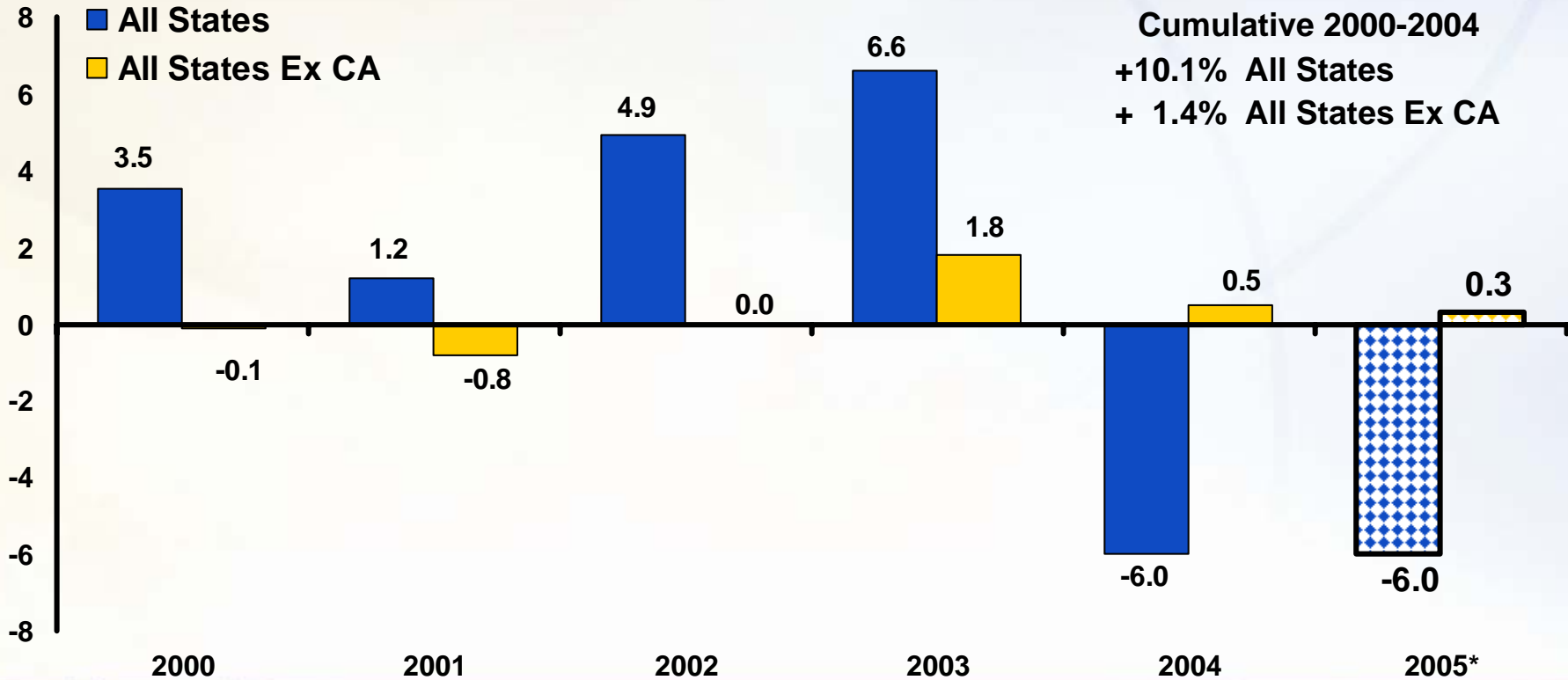
* States approved through 04/13/2006

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

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent

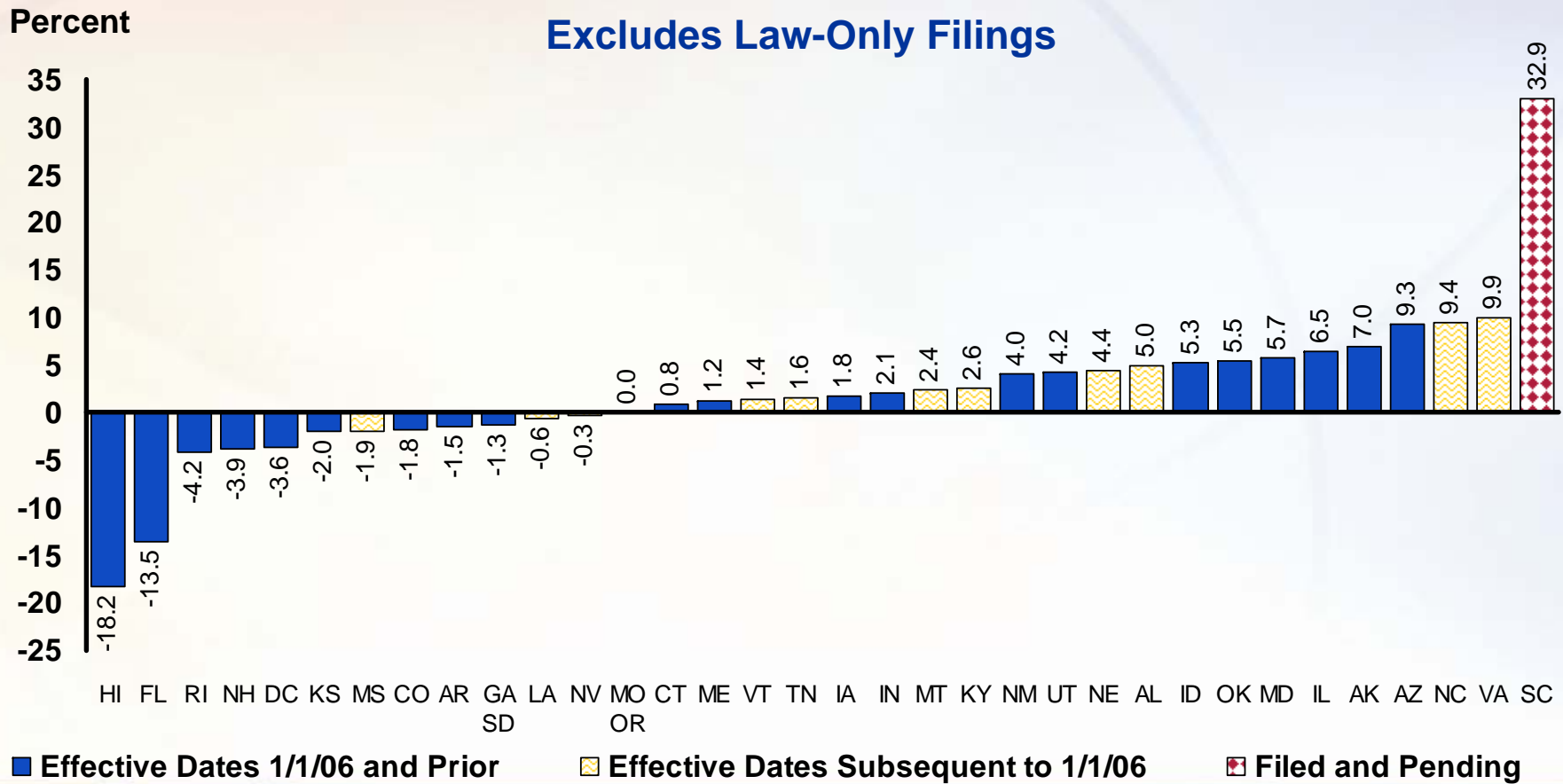


Calendar Year

* States approved through 04/13/2006
 Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

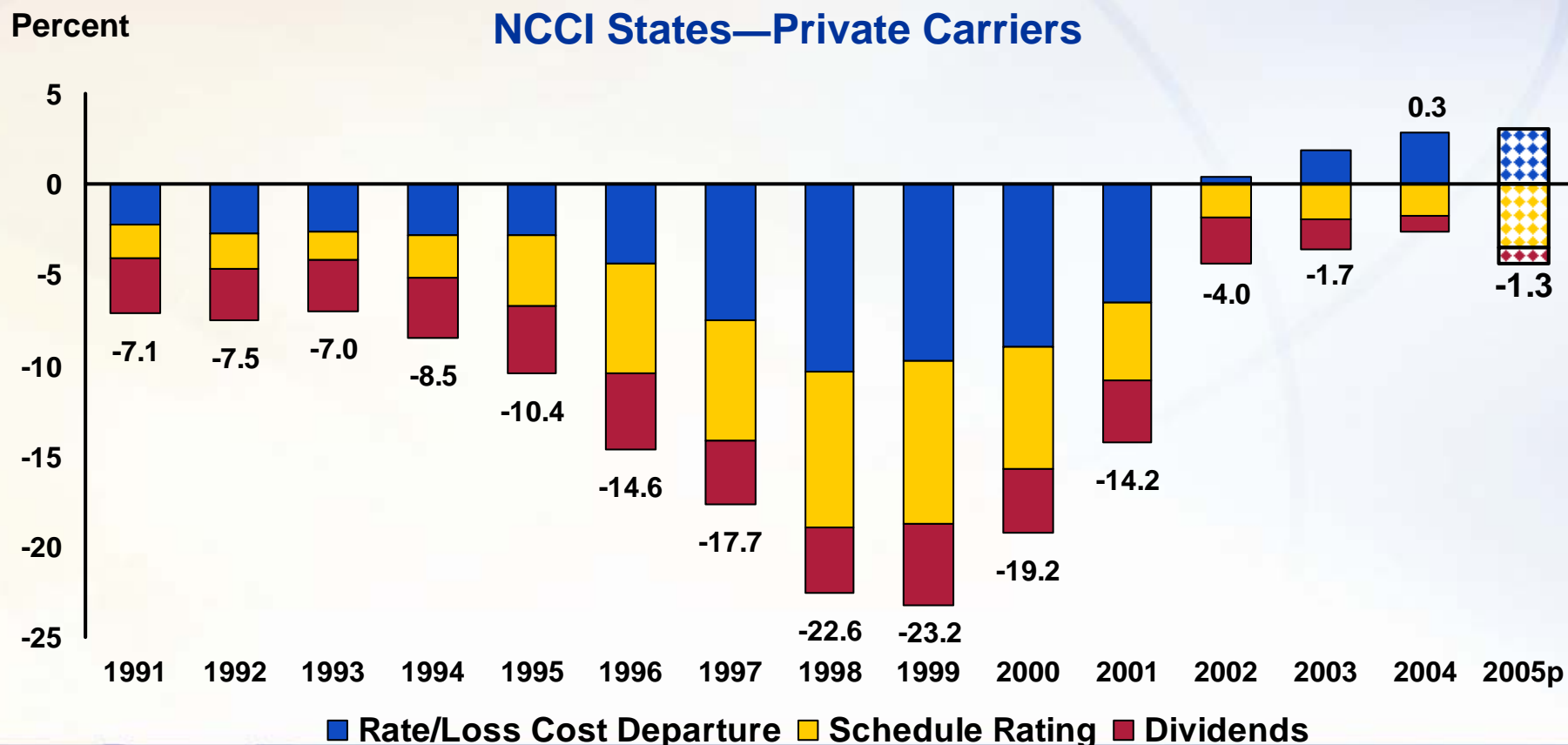


Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



States filed through 04/20/2006

Impact of Discounting on Workers Compensation Premium

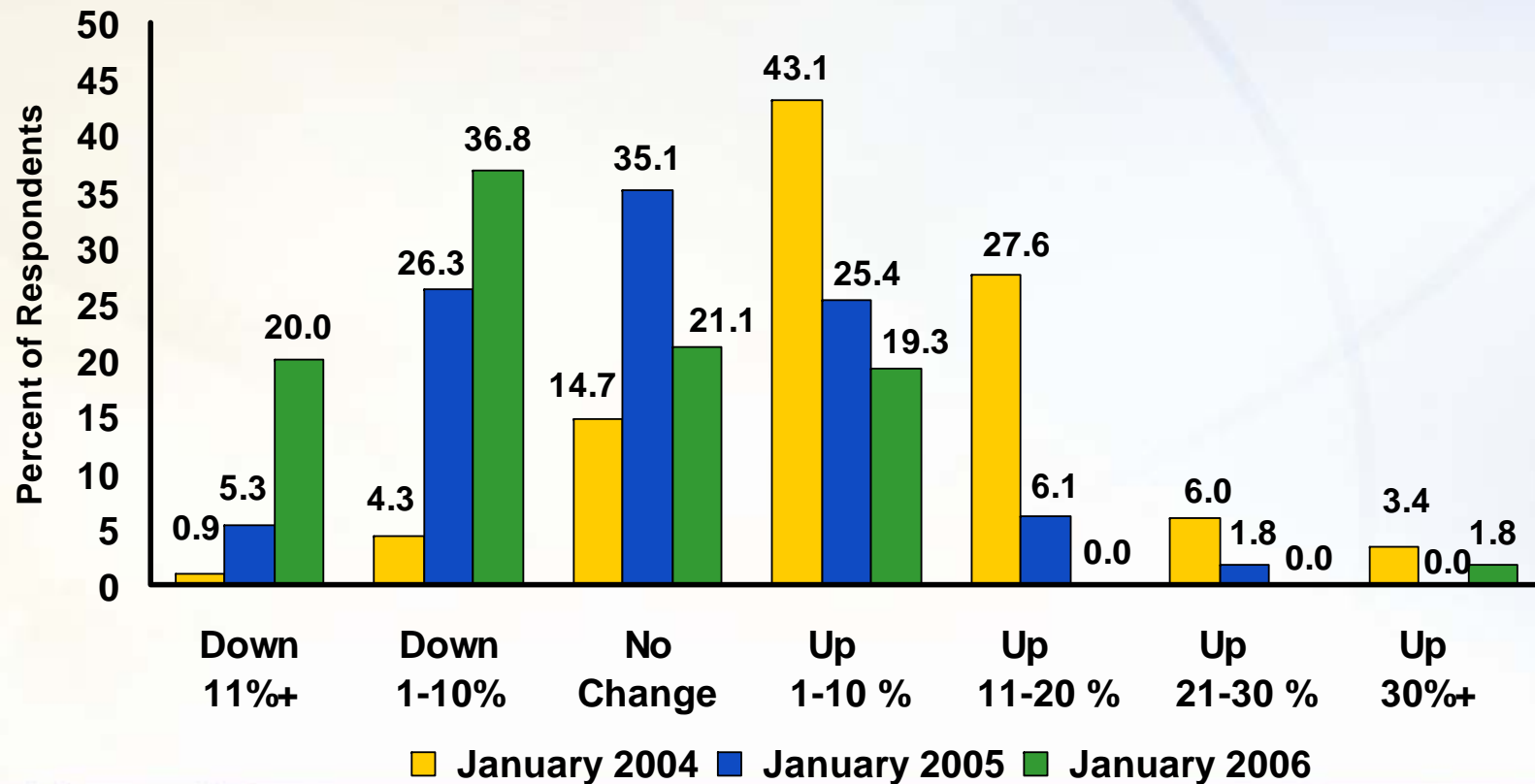


p Preliminary
 NCCI benchmark level does not include an underwriting contingency provision
 Dividend ratios are based on calendar year statistics
 Based on data through 12/31/2005 for the states where NCCI provides ratemaking services

Policy Year

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

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



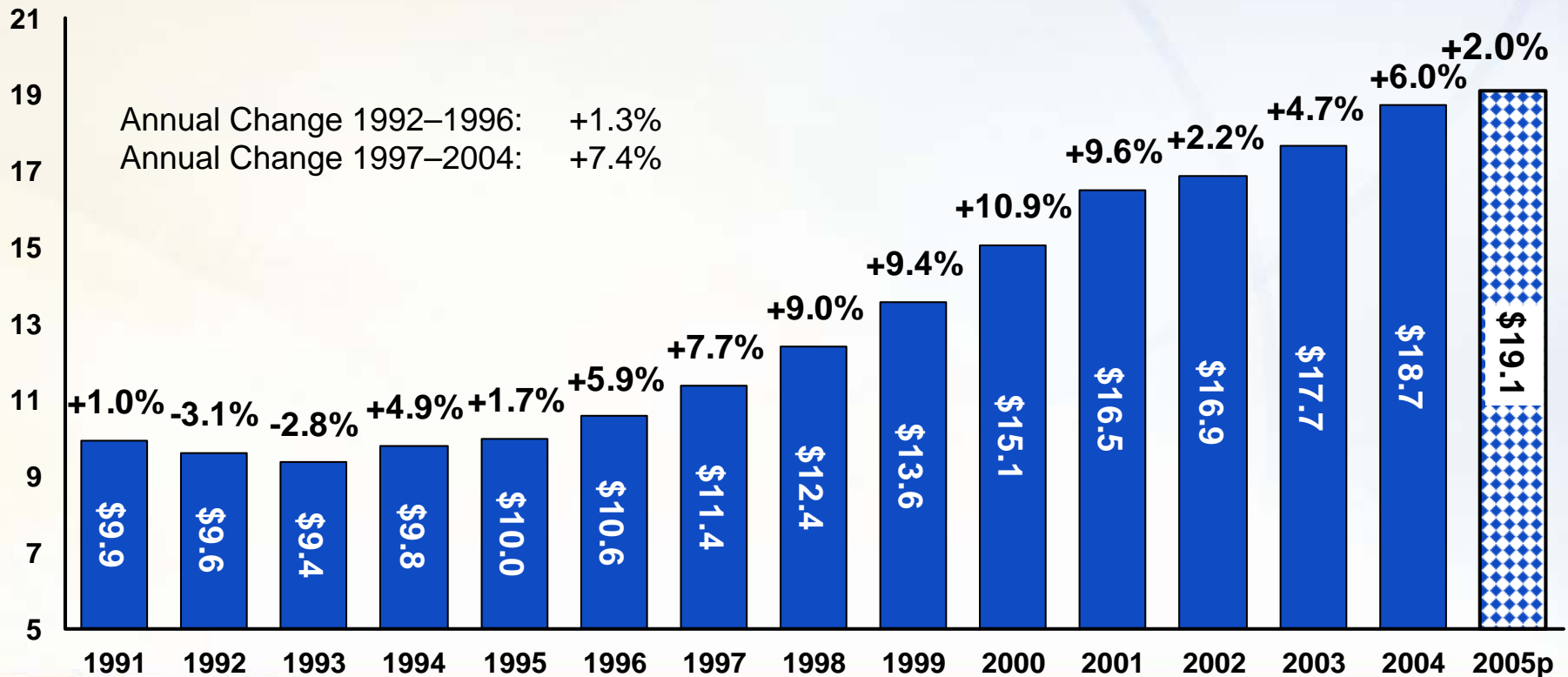
Source: Goldman Sachs Research, Insurance: Non-Life, Proprietary Survey

Workers Compensation Loss Drivers

The Growth in WC Indemnity Claim Costs Has Eased in Recent Years

Indemnity Claim Cost (000s)

Lost-Time Claims

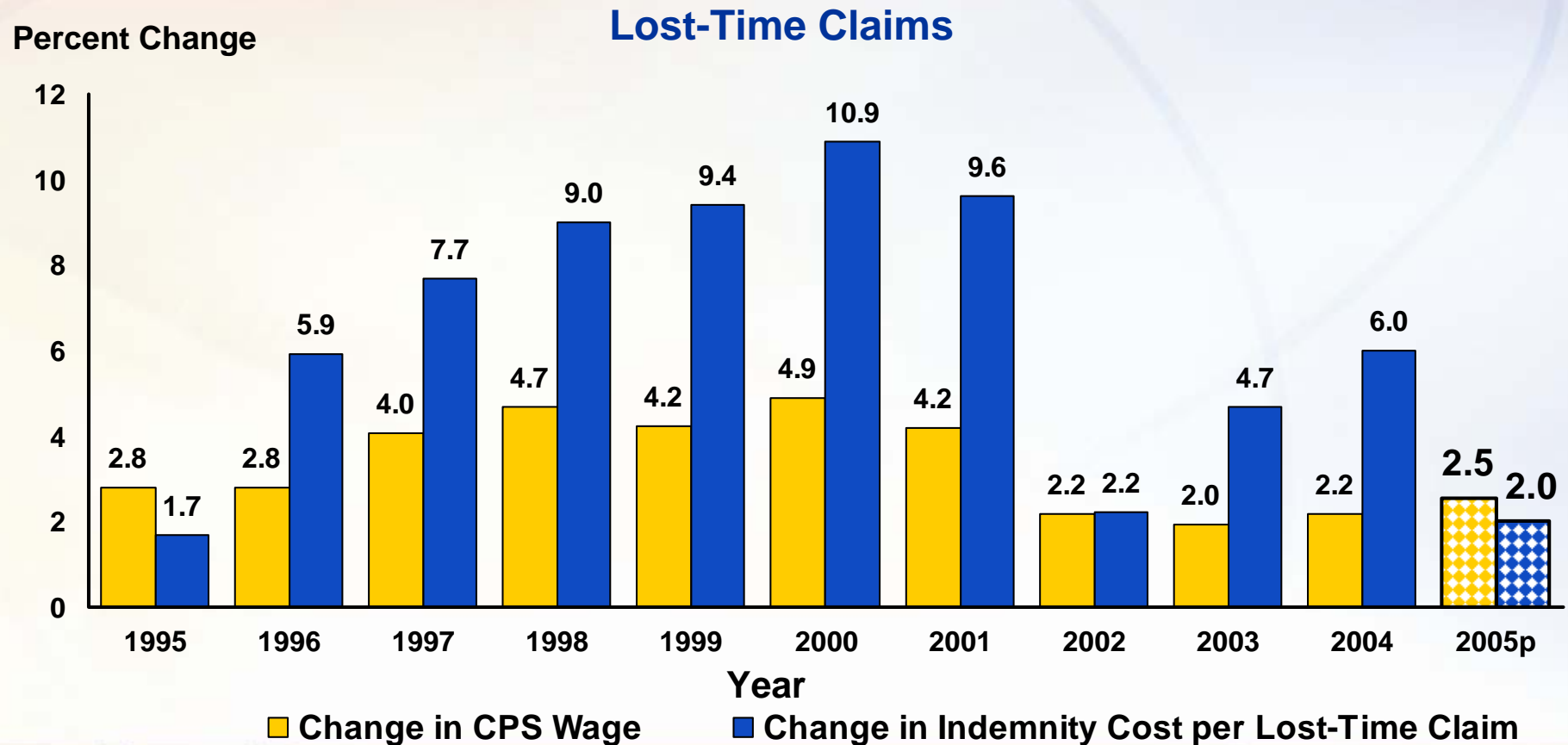


Accident Year

2005p: Preliminary based on data valued as of 12/31/2005
1991-2004: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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Workers Compensation Indemnity Severity Is No Longer Outpacing Wage Inflation

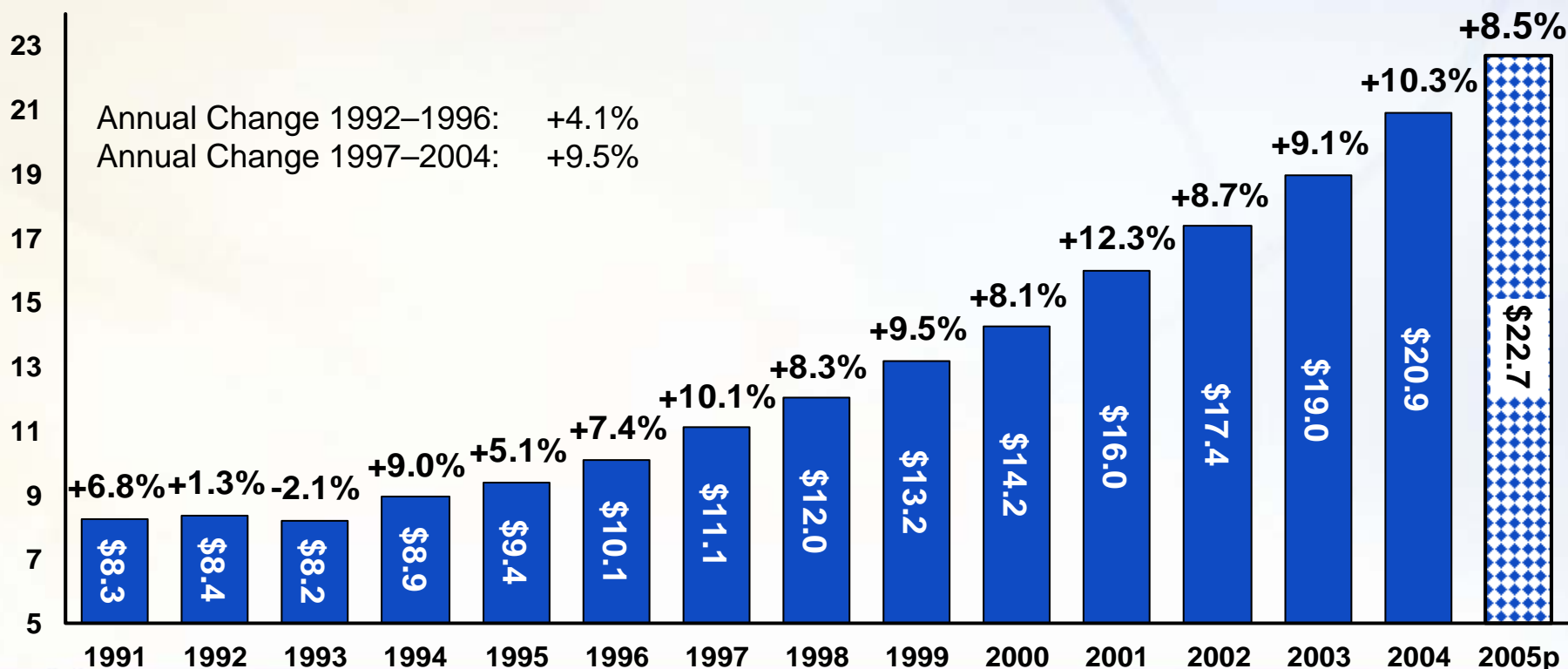


Indemnity severity 2005p: Preliminary based on data valued as of 12/31/2005
 Indemnity severity 1995-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage (Current Population Survey), Economy.com; Accident year indemnity severity, NCCI

WC Medical Claim Cost Trends— Growth Continued in 2005

Medical
Claim Cost (000s)

Lost-Time Claims



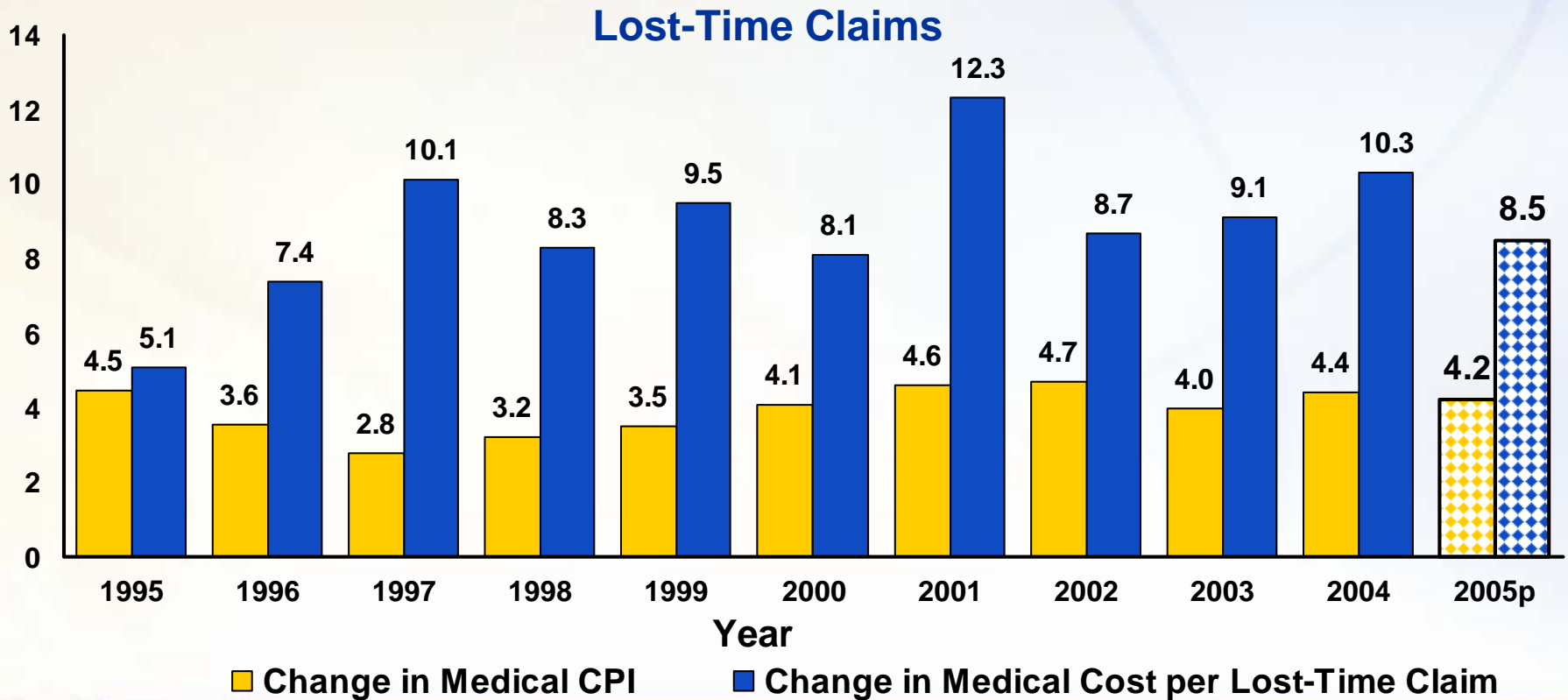
Accident Year

2005p: Preliminary based on data valued as of 12/31/2005
1991-2004: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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Workers Compensation Medical Severity Has Been Growing Much Faster Than the Medical CPI

Percent Change

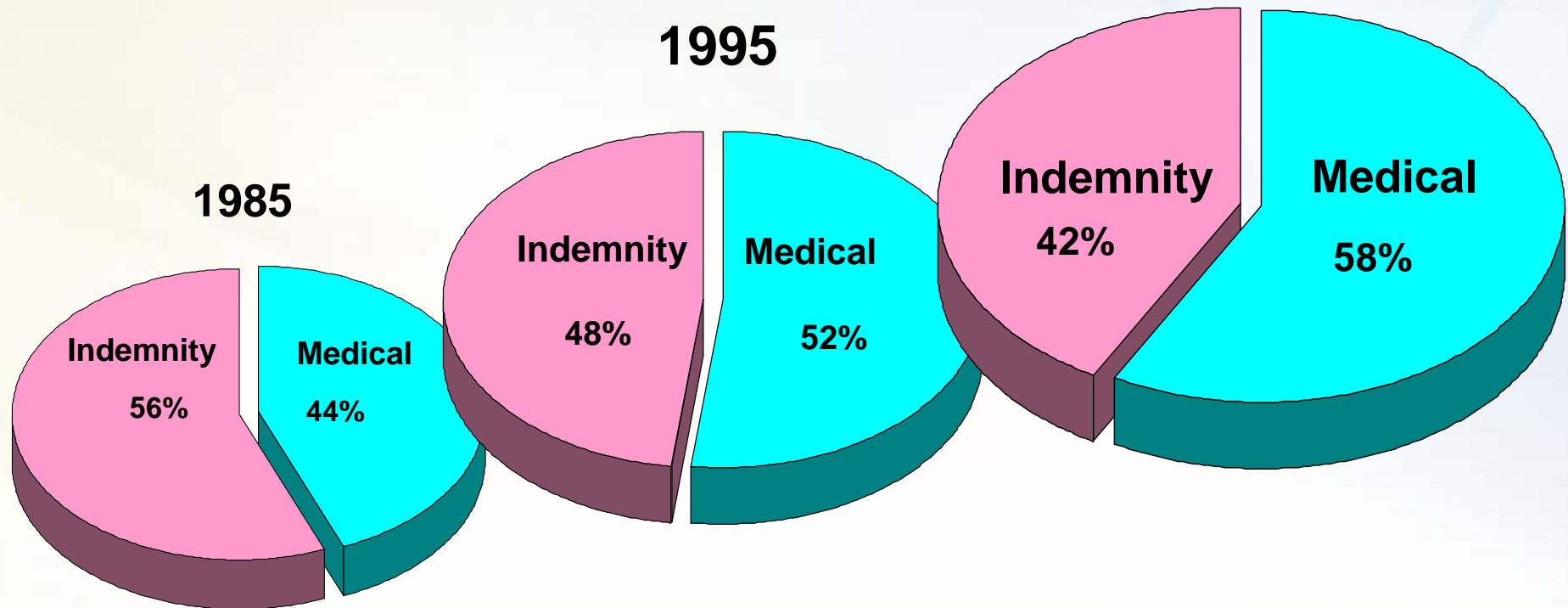


Medical severity 2005p: Preliminary based on data valued as of 12/31/2005
 Medical severity 1995-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI, Economy.com; Accident year medical severity, NCCI

Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2005p



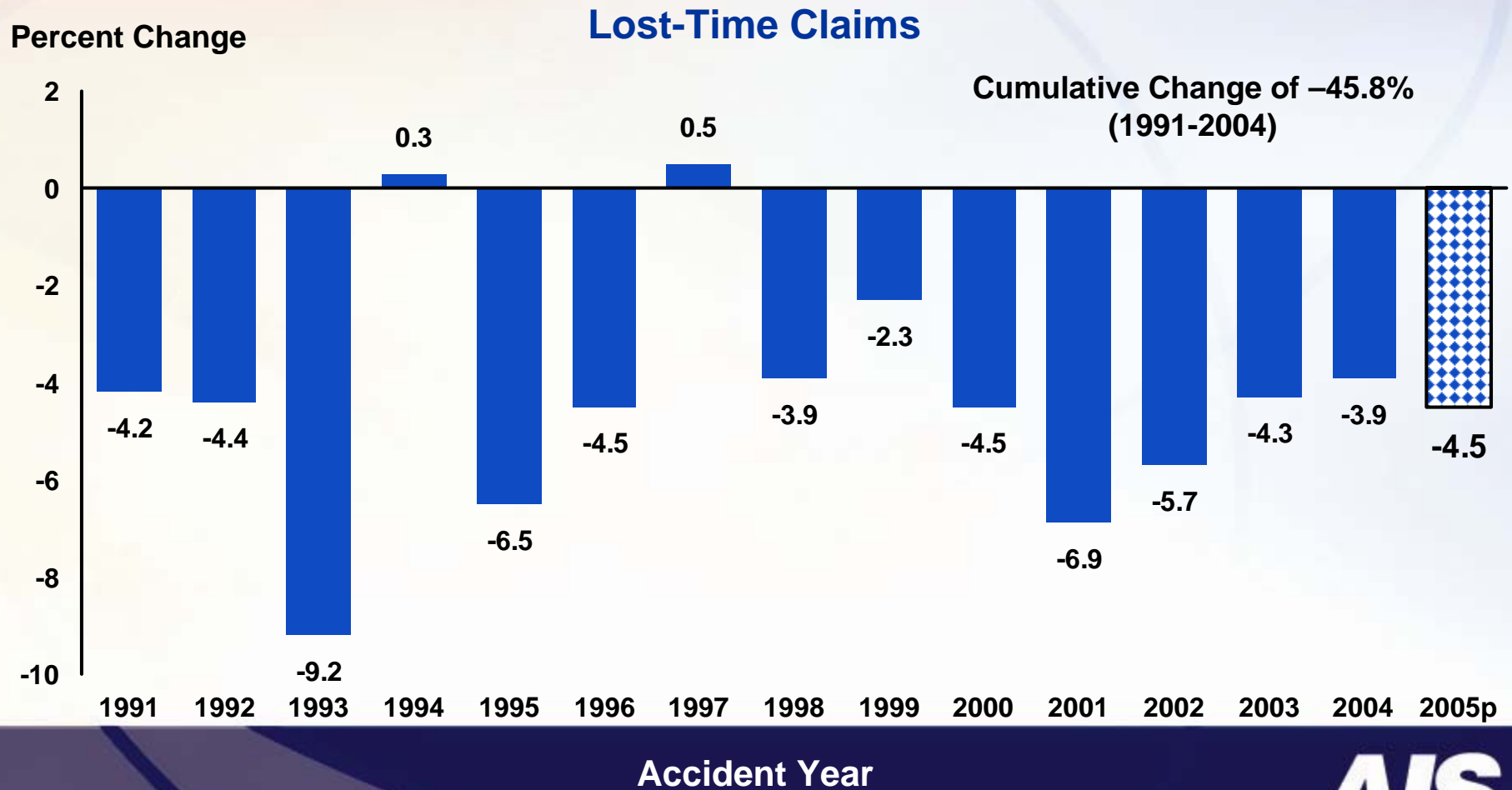
2005p: Preliminary based on data valued as of 12/31/2005
1985, 1995: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Last Year's AIS Survey Results

What will be the change in frequency in 2005?

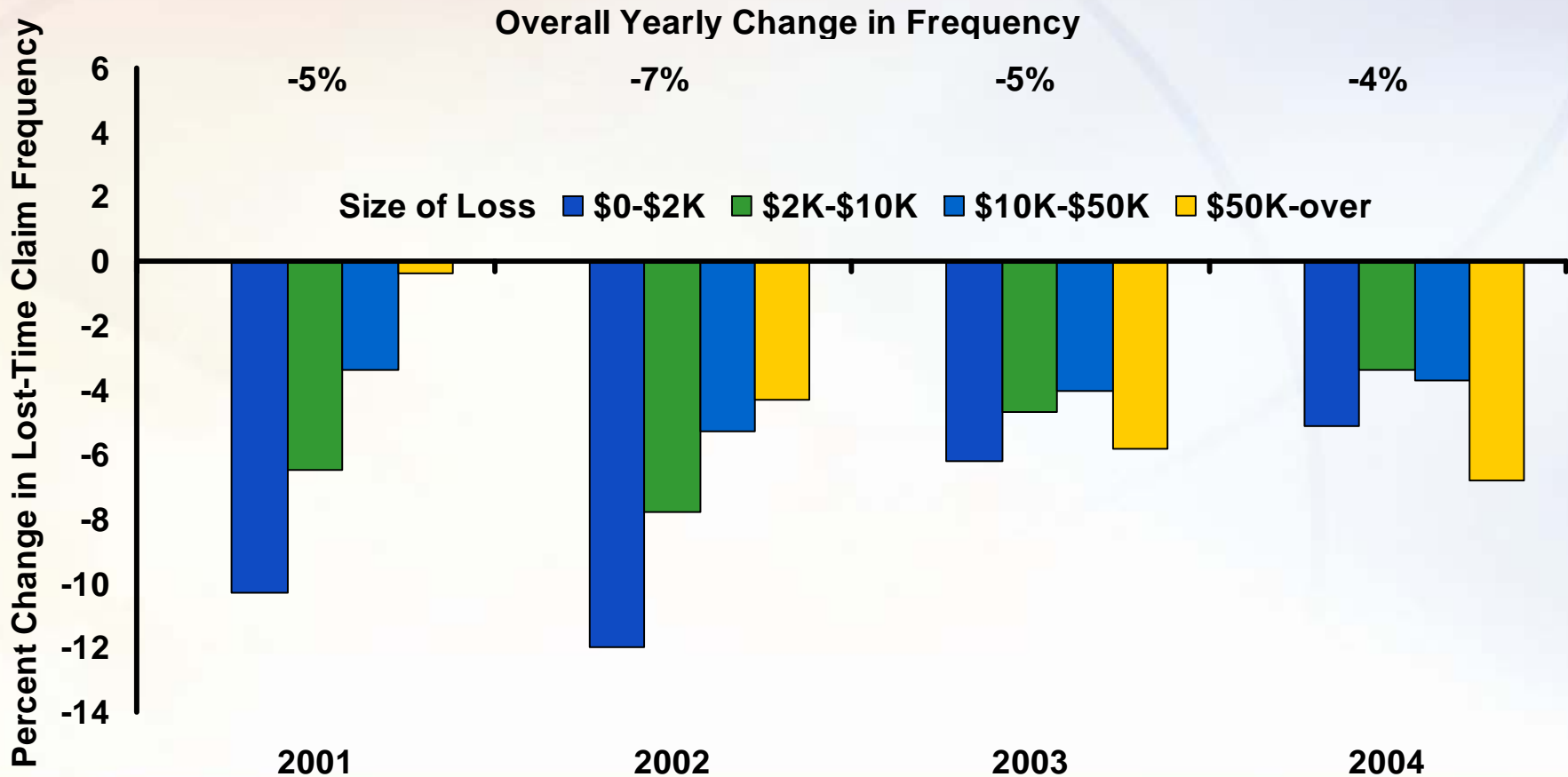
- A. Decline More Than 4% (4%)
- B. Decline 1–4% (51%)
- C. No Change (35%)
- D. Increase 1–4% (9%)
- E. Increase More Than 4% (1%)

Workers Compensation Lost-Time Claim Frequency Continues its Decline



2005p: Preliminary based on data valued as of 12/31/2005
 1991-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Declines in Frequency Now Uniform by Size of Loss

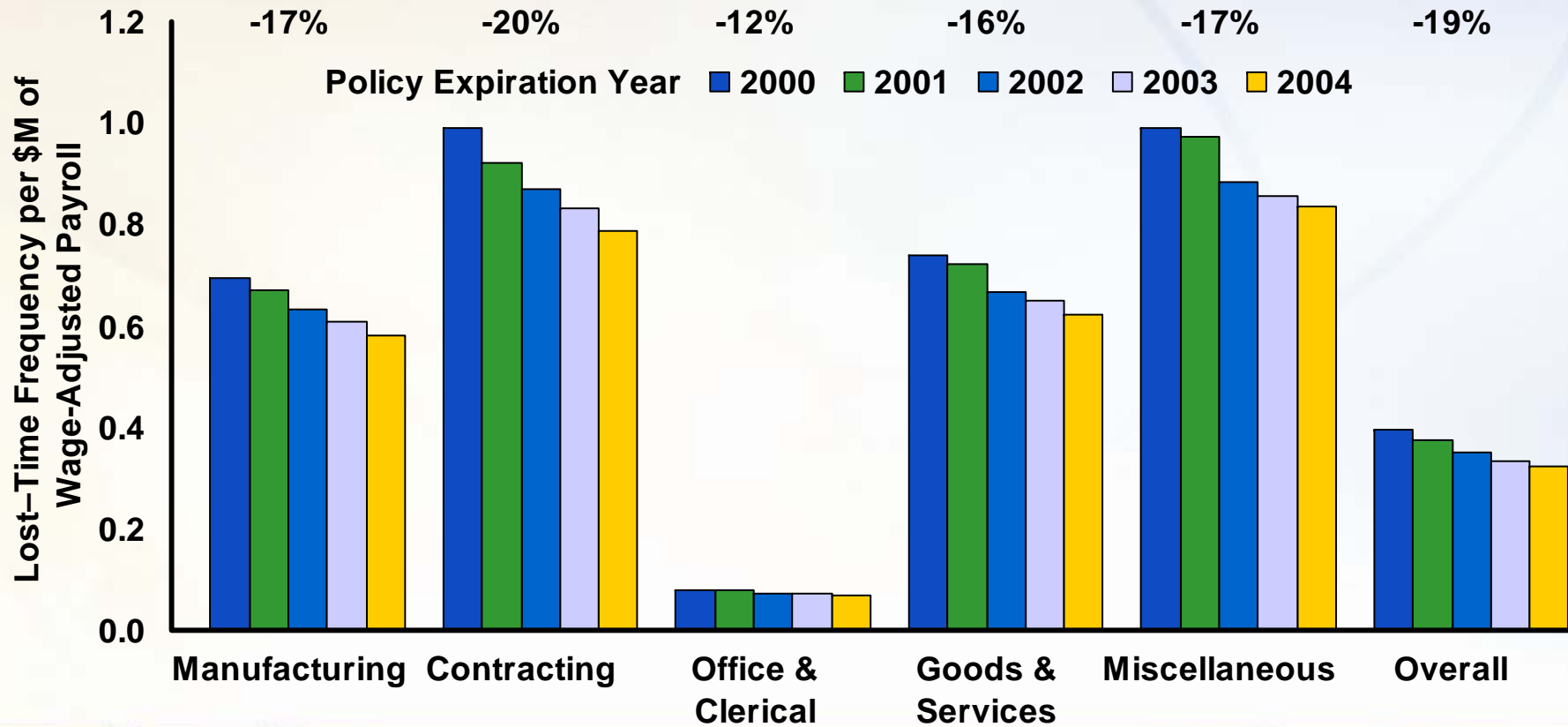


Policy Expiration Year

Claim count determined at first report
 Loss size adjustments vary by year, averaging 3.8% indemnity and 7.4% medical
 Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation
 All NCCI states and TX; excludes NV

Claim Frequency Has Declined for All Industry Groups

Cumulative Change in Frequency



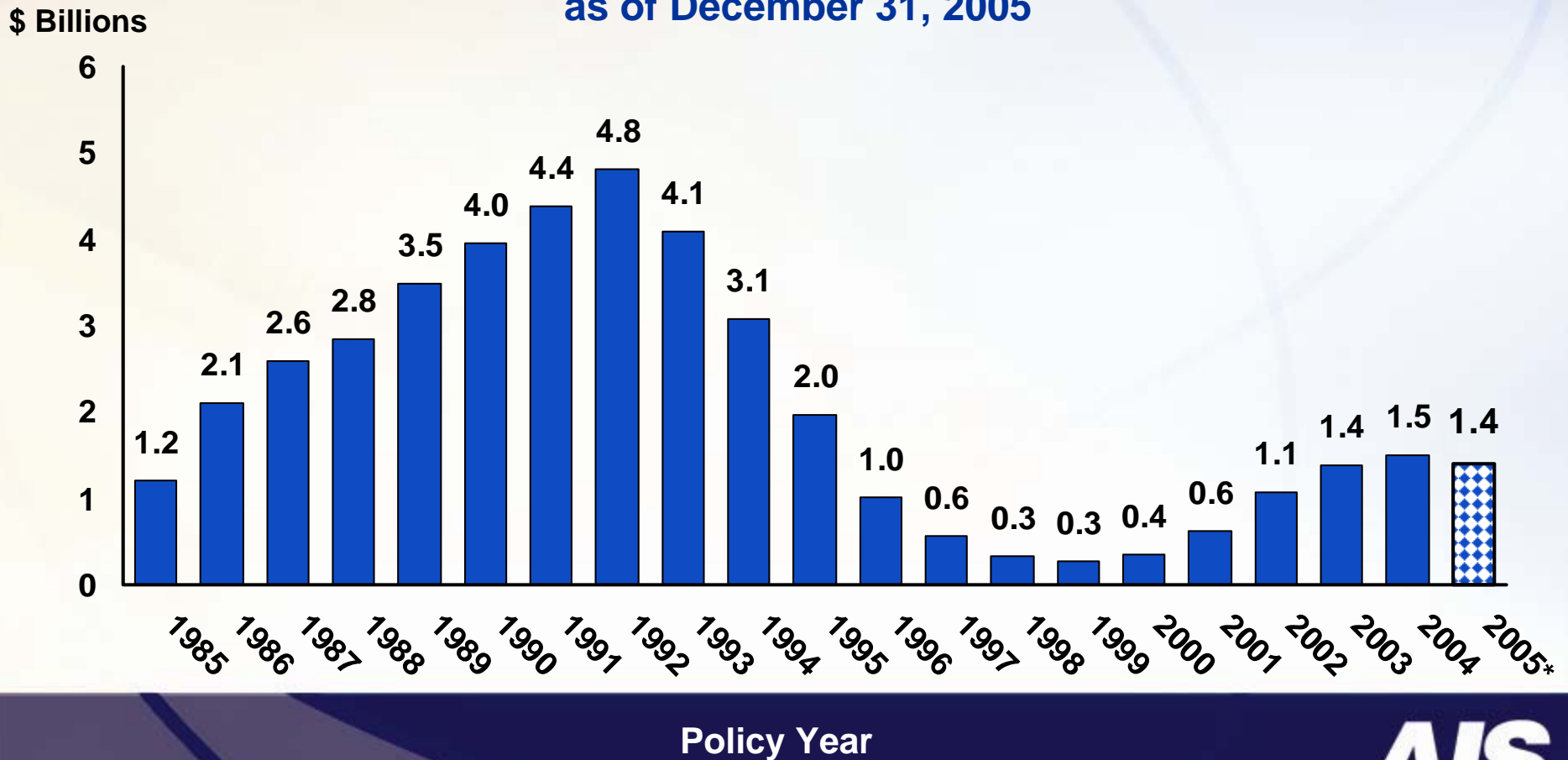
Industry Group

Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation
All NCCI states; excludes NV and TX

Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005



* Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Shares Continue to Decline

Workers Compensation Insurance Plan States*
Premium As a Percent of Direct Written Premium

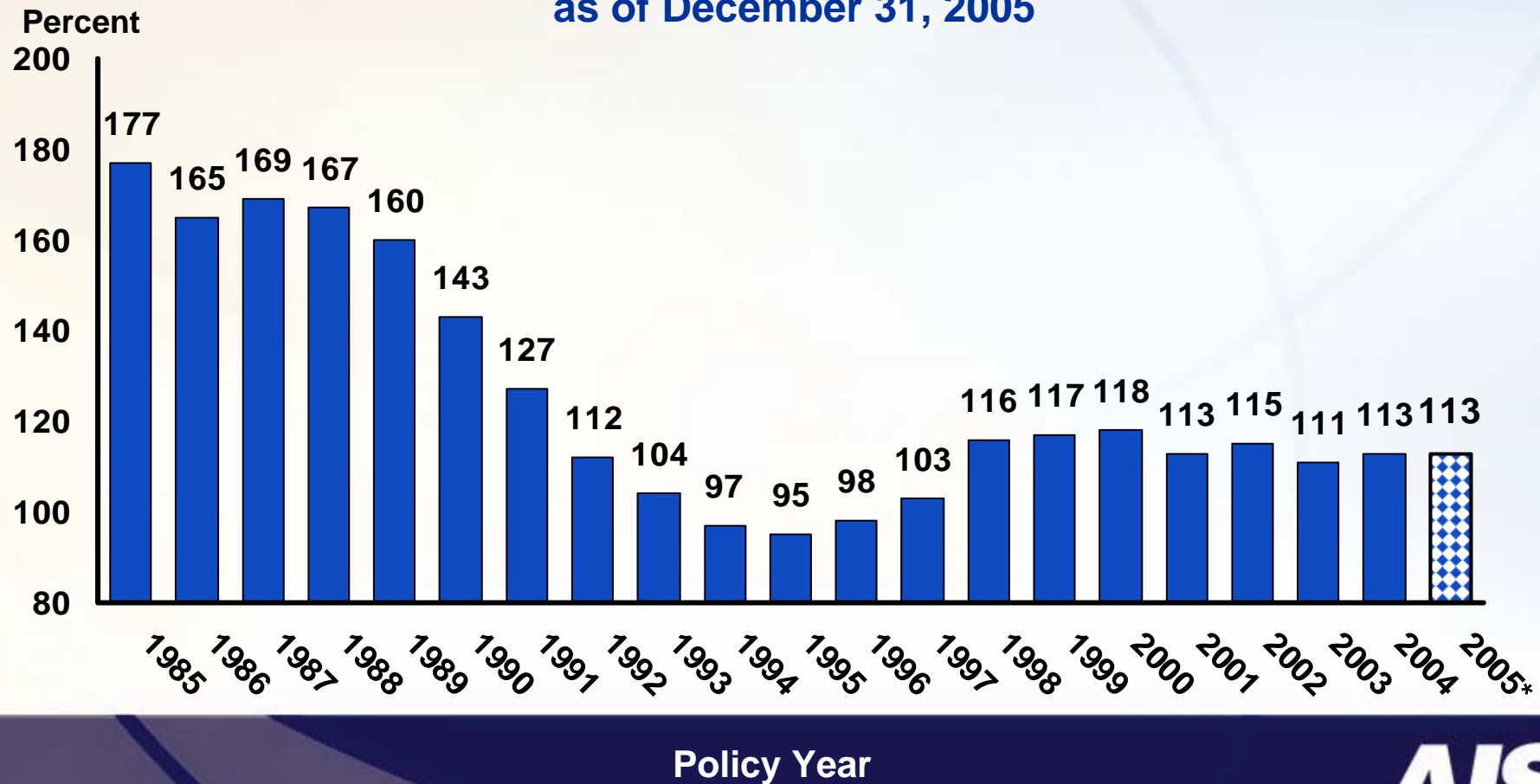


p Preliminary

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

Workers Compensation Residual Market Combined Ratios

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005

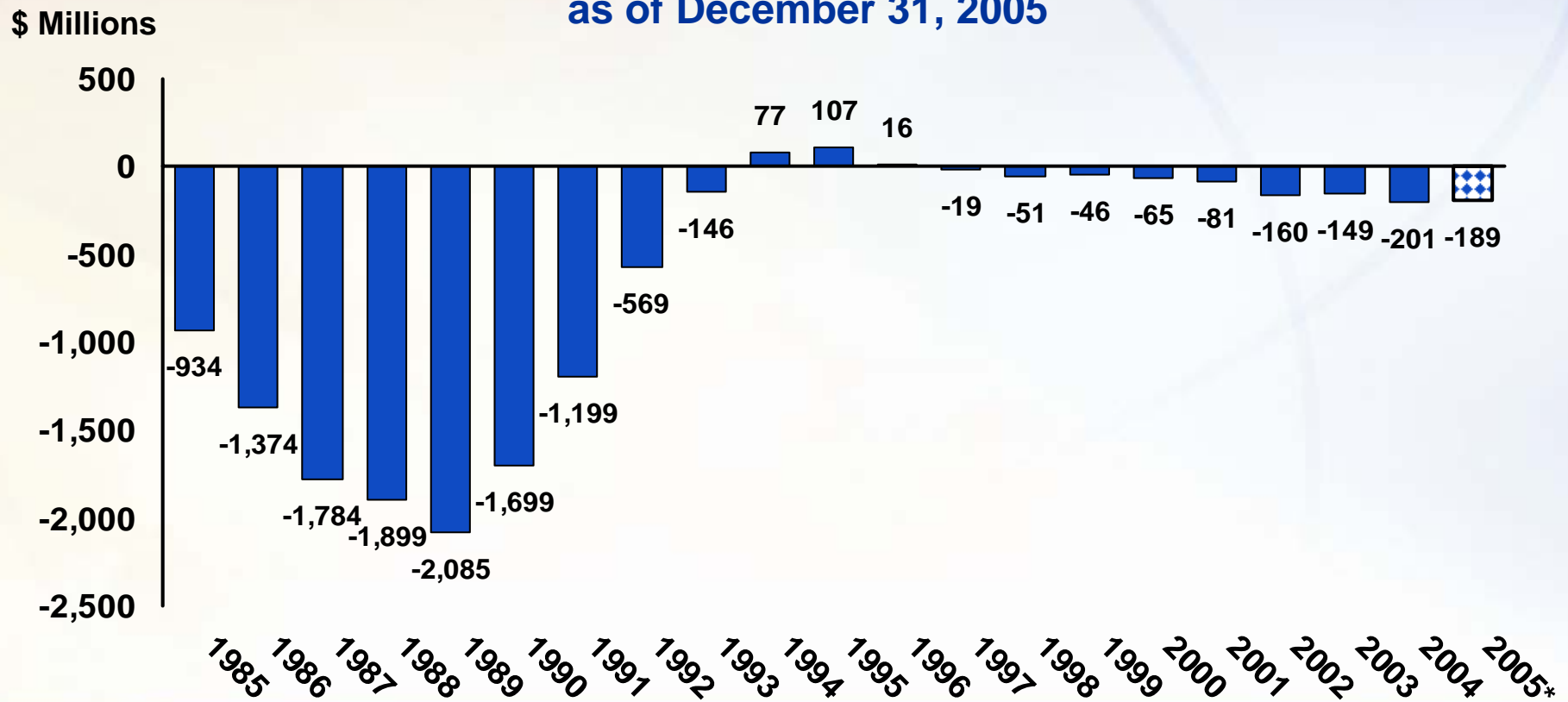


* Incomplete Policy Year Projected to Ultimate

Policy Year

Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005



Policy Year

* Incomplete Policy Year Projected to Ultimate

Residual Markets Are Depopulating in Most States

First Quarter 2006 vs. First Quarter 2005

Size of Risk	2005	2006	Change
\$ 0 - \$ 2,499	36,003	35,442	-2%
\$ 2,500 - \$ 4,999	6,698	5,941	-11%
\$ 5,000 - \$ 9,999	4,563	4,028	-12%
\$ 10,000 - \$49,999	4,496	3,936	-12%
\$ 50,000 - \$99,999	633	515	-19%
\$ 100,000 and over	362	231	-36%
Total	52,755	50,093	-5%

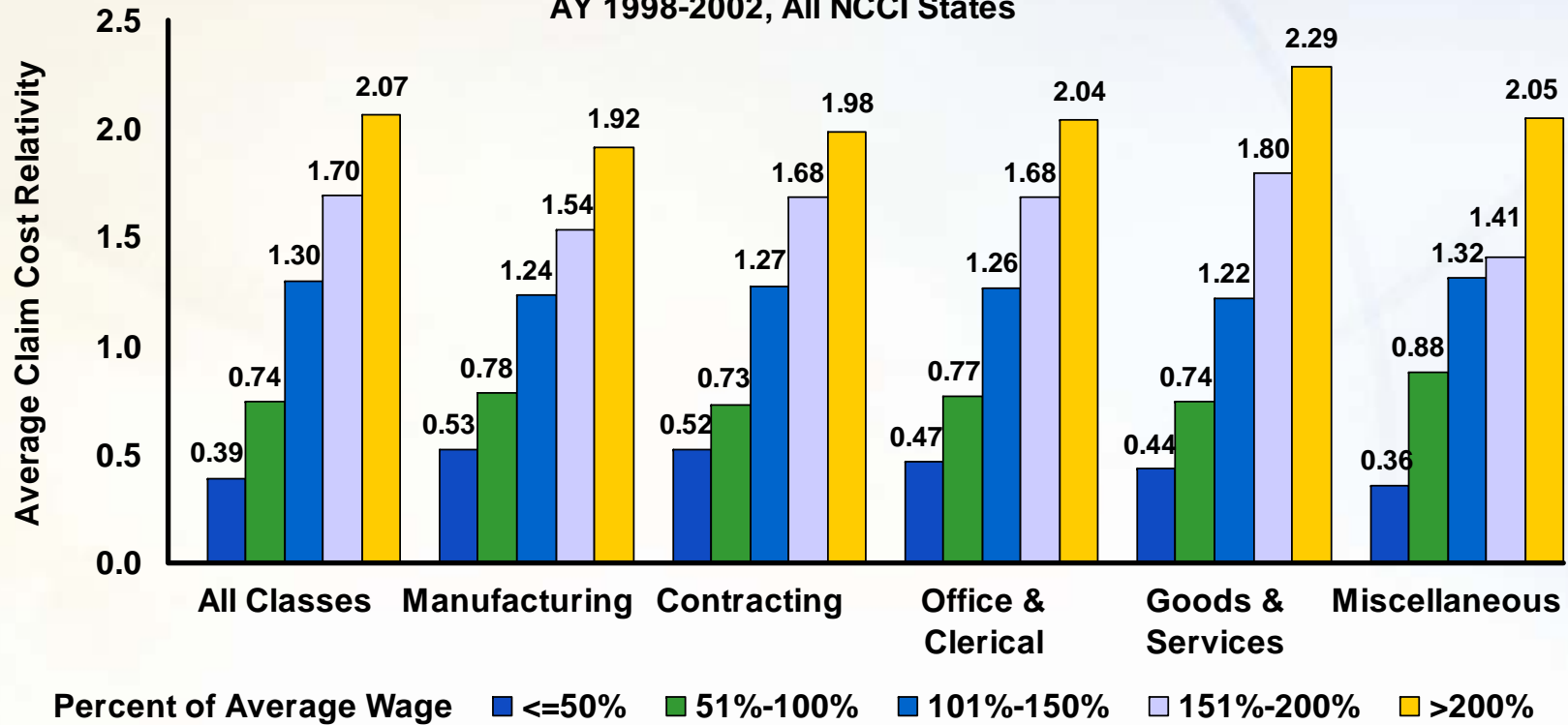
Total number of assigned risk policies in force
Includes residual market policies for:
AL, AK, AR, AZ, CT, DC, GA, IA, ID, IL, KS, NH, NM, NV, OR, SC, SD, VA, VT

Current Topics of Interest

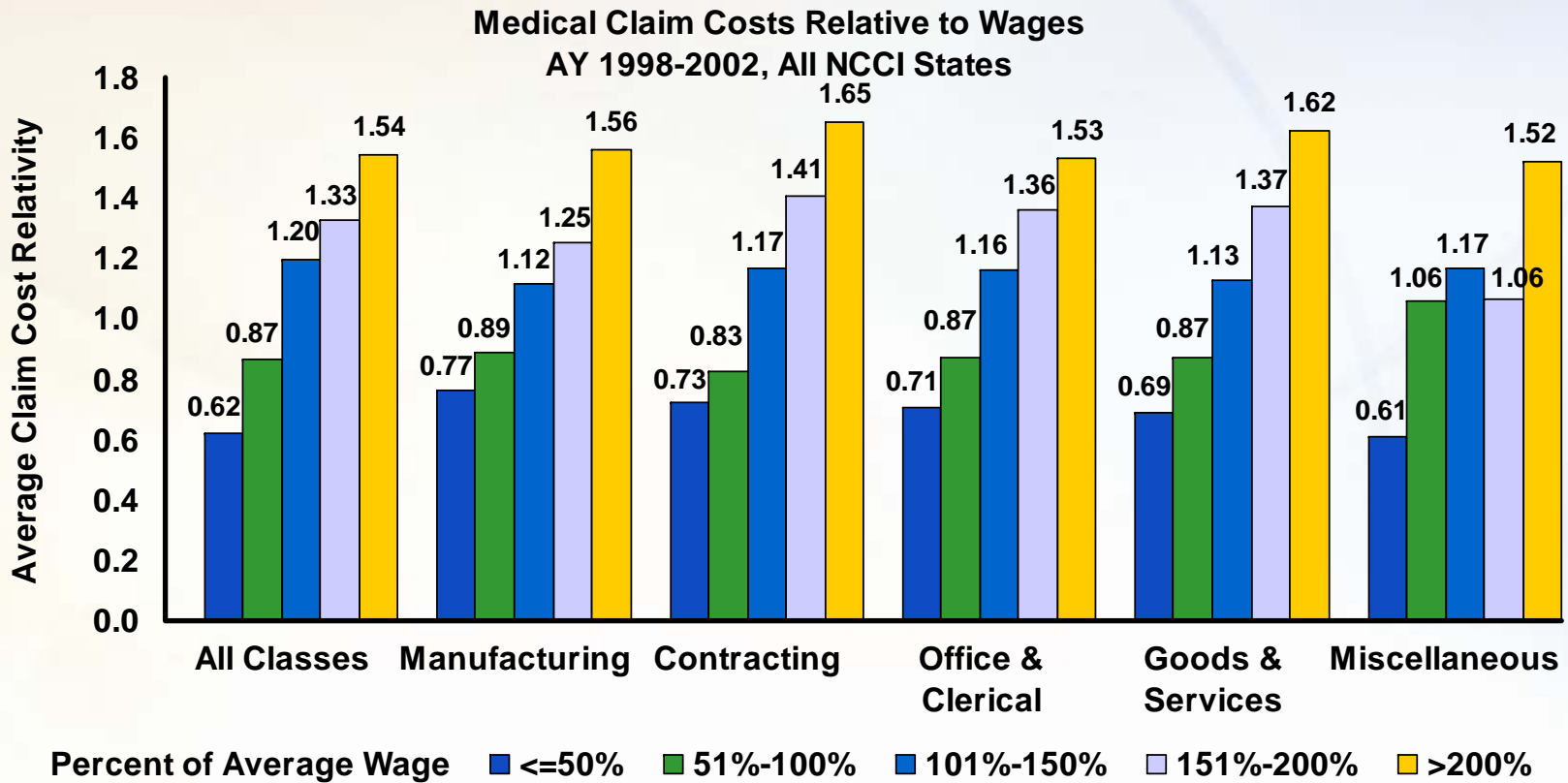
Total Payroll—Still the Best Exposure Base for Workers Compensation

Indemnity Claim Costs Rise at Each Wage Interval

Indemnity Claim Costs Relative to Wages
AY 1998-2002, All NCCI States

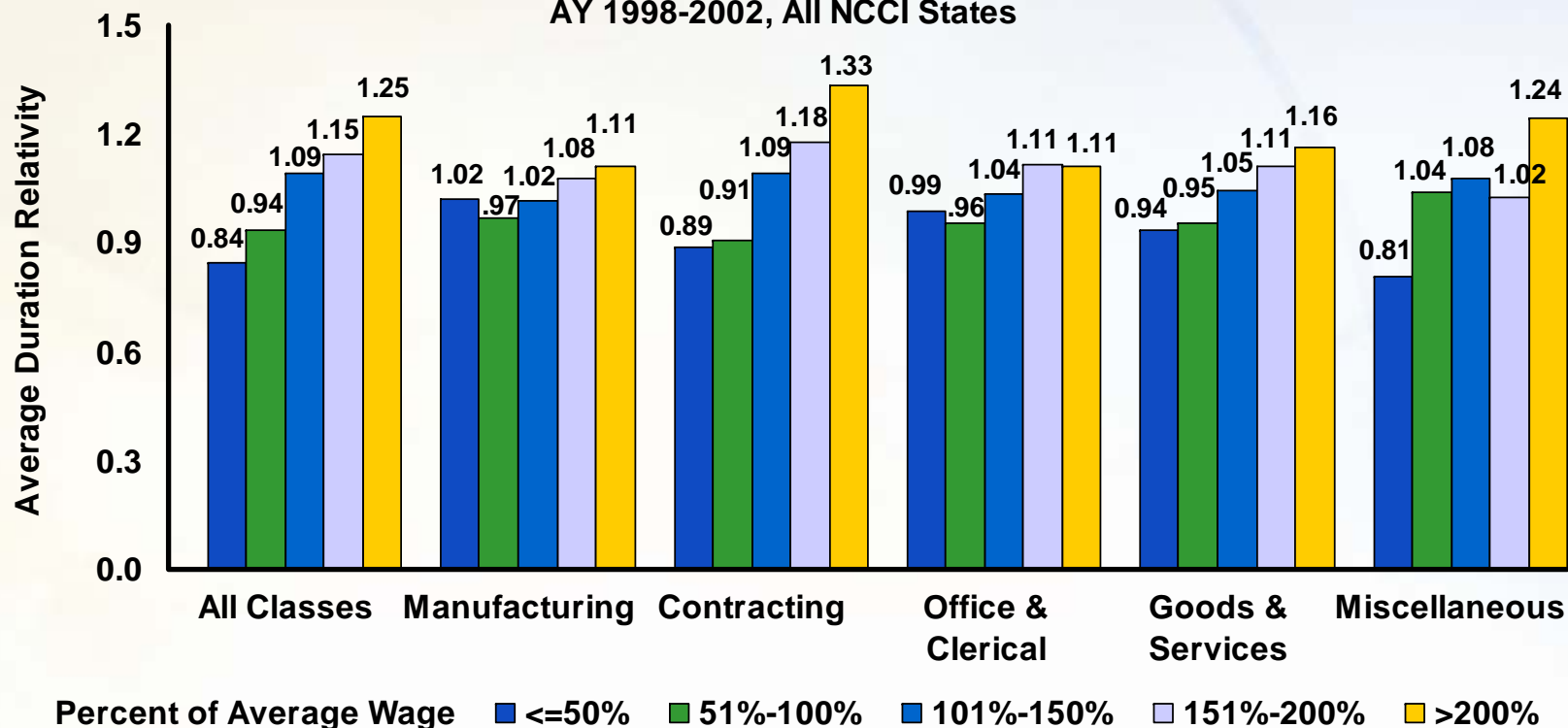


Medical Claim Costs Also Track Wage Levels



The Observed Duration Partially Explains Why Losses Vary by Wage Interval

Temporary Total Disability Duration Relative to Wages
AY 1998-2002, All NCCI States



Total Payroll—Still the Best Exposure Base for Workers Compensation

- Indemnity and medical costs vary with wages
- Payroll is readily available
- Easily verifiable

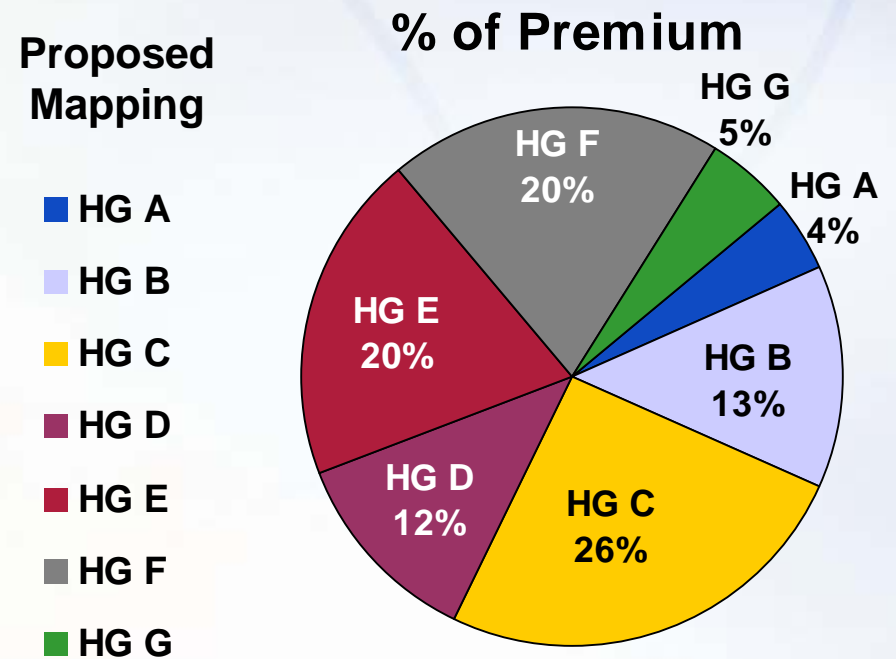
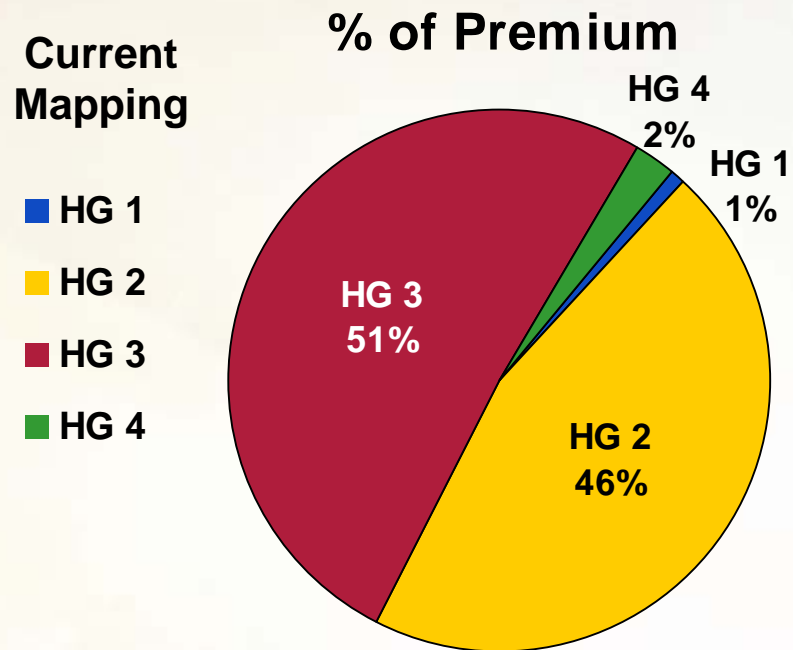
New Hazard Group Assignments

Hazard Groups—Background

- Used in retrospective rating, deductible and reinsurance pricing
- Classes with similar excess loss potential are put in the same hazard group
- Traditionally, there have been four hazard groups
- NCCI will be introducing a seven-hazard-group structure effective in 2007
- Carriers will have option to continue four-hazard-group classification if so desired

Hazard Groups—Current and New Assignments

Mapping of 870 Classes



Impact of TRIA on Workers Compensation

Last Year's AIS Survey Results

Will TRIA be renewed?

A. Essentially "as is" (19%)

B. With modest changes (46%)

C. Yes, but with material changes (24%)

D. Not at all (11%)

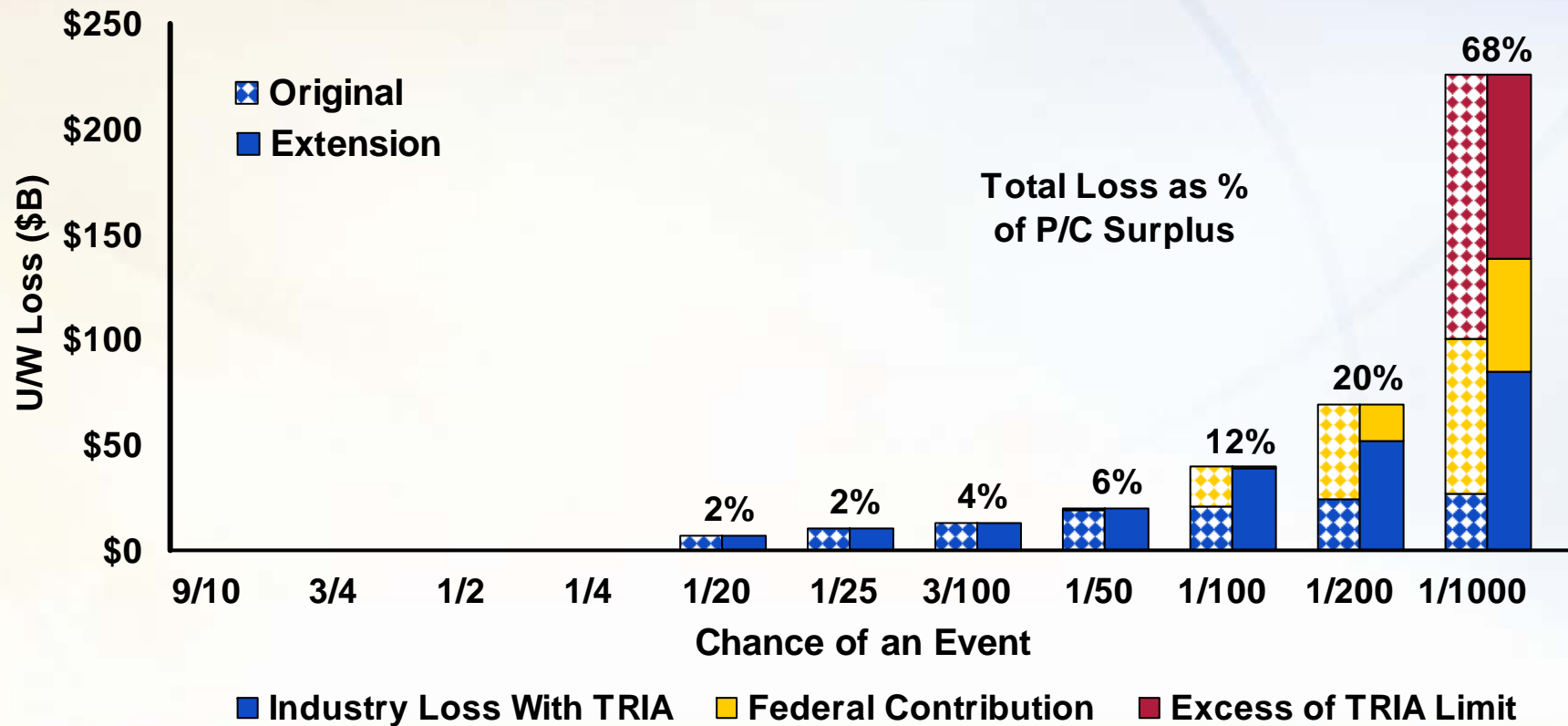
Key Provisions of TRIA— Original vs. Extension

Provision	Original	Extension
Lines Covered	Most commercial lines (med mal, financial guaranty specifically excluded)	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft)
Retentions	7%–10%–15%	17.5%–20%
Co-Shares	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)
Federal Program Payment Trigger	\$5M	\$5M (yr. 1 thru 3/31/06) \$50M (yr. 1 after 3/31/06) \$100M (yr. 2)
Expiration	12/31/05	12/31/07

Source: AIA

TRIA's Extension Modified Industry Retention Limits, but Remains Vital

Allocation of P/C Underwriting Loss—Original vs. Extension



Source: EQECAT, NCCI

When Does TRIA Make a Difference?

- TRIA's direct financial impact is limited to infrequent extreme events
- TRIA is not triggered under approximately 99% of the modeled scenarios
- TRIA enables the P/C market to function effectively with minimal financial exposure to taxpayer funds

Concluding Remarks

Last Year in “Looking Ahead” We Said

- Class ratemaking enhancements
 - Loss development
 - Large loss procedure
 - Credibility standards
 - Hazard group remapping
 - Econometric trending model using State Space modeling
- Actuarial Committee
final review
- Filing this summer
- Implemented

In Summary

Positives

- Results continue to improve
- Frequency continues to decline
- Indemnity severity moderating
- Industry making progress on reserve deficiency
- Residual Market depopulation underway
- TRIA renewed

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical costs continue to rise
- Recent reforms under attack
- Underwriting cycle
- TRIA renewed

Questions and More Information

- “Meet The Experts”—see your program schedule
- Questions on the State of the Line presentation?
E-mail us at stateoftheline@ncci.com
- Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**