



SEAN MICHAEL SHAW, ESQ.
INSURANCE CONSUMER ADVOCATE

September 30, 2009

VIA Electronic Mailing

Mr. Steve Parton
General Counsel
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-4206

RE: In the Matter of National Council on Compensation Insurance, Inc.
OIR Filing No.: 09-16045
Pre-filed expert testimony

Dear Mr. Parton:

I respectfully submit the attached REVISED pre-filed expert testimony related to the above referenced matter. (*Please disregard the previous letter sent to you dated September 29, 2009.*)

Attached is the final report authored by Mr. Stephen Alexander, Actuary for the Office of the Insurance Consumer Advocate. Mr. Alexander will be present to testify at the scheduled hearing on October 6, 2009.

Sincerely,

A handwritten signature in blue ink, appearing to read "hsh", is positioned above the typed name.

Sean Michael Shaw, Esq.
Insurance Consumer Advocate

SMS:lgg:cr

cc w/ attachments: Tom Maida, Esq.

Belinda Miller, Deputy Commissioner, Office of Insurance Regulation
Jim Watford, Actuary, Office of Insurance Regulation

REPRESENTING ALEX SINK, CHIEF FINANCIAL OFFICER, STATE OF FLORIDA
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September 30, 2009

**Actuarial Analysis of
Office of Insurance Regulation
Filing Number 09-16045
Workers Compensation Insurance
National Council on Compensation Insurance, Inc.**

Office of the Consumer Advocate
State of Florida

Prepared by:
Stephen A. Alexander, FCAS, MAAA, MBA



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EXECUTIVE SUMMARY

It is recommended that the National Council on Compensation Insurance (NCCI) reduce its rates by 12.8% rather than the 6.8% proposed by the NCCI. The NCCI's proposed rates are excessive, because the proposed underwriting profit provision is excessive. The proposed underwriting profit provision is excessive, because it contemplates risk-based returns on excess capital that is not reasonably at risk from underwriting workers compensation insurance. It is the position of the Insurance Consumer Advocate (ICA) that policyholders should not be expected to pay higher rates so that insurers can realize risk-based returns on excess capital that is not reasonably at risk.

To take an extreme example, if the current recession caused Florida's net written premiums to contract by 50% (all other factors unchanged), the NCCI would claim that its entire accumulated surplus is still at risk, and therefore its underwriting profit provision should increase so that insurers could still realize the same return on surplus.

Obviously, the NCCI's assumption that its entire capital is at risk regardless of how much premium is being written is flawed. Therefore, it is recommended that the OIR establish a net written premium to surplus ratio standard that the NCCI must use in its calculation of its underwriting profit. A net written premium to surplus standard of 1.5-to-1 is recommended (Exhibit 6, Sheet 1, Row (4)).

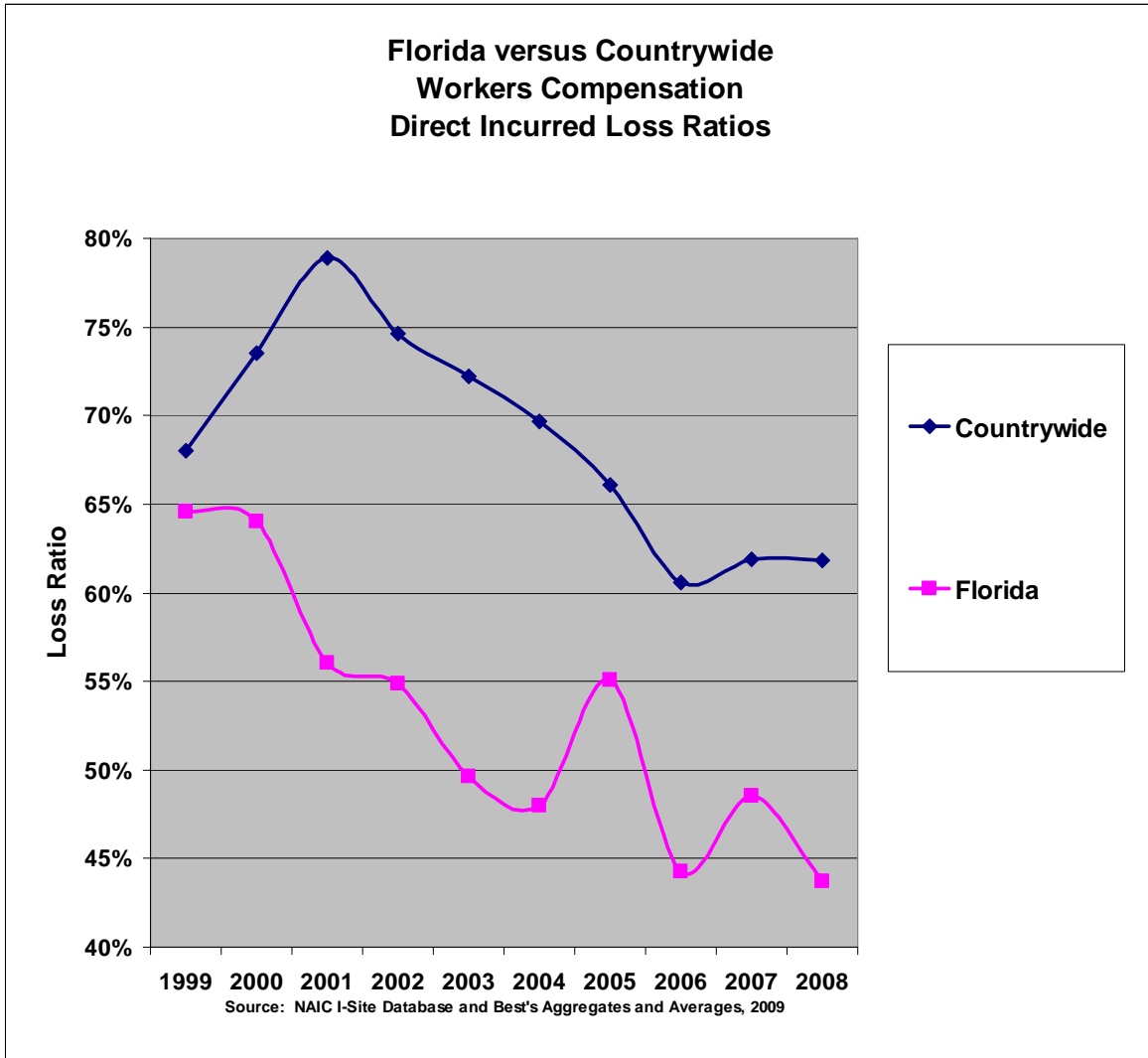
Florida's workers compensation rates have been reduced 60.5% since the reforms of 2003. Nevertheless, Florida's workers compensation system still only returned 43.7 cents of every premium dollar in claim payments to injured workers in 2008 while the nationwide average return was 61.8 cents.

Standard and Poor's estimated in July of 2009 that property and casualty insurers could safely operate at a net written premium to surplus ratio of 2-to-1 and estimated that the entire property and casualty insurance industry had excess capital of approximately \$238 billion. Even the Insurance Information Institute, an industry trade group, conceded in May of 2008 that the property and casualty insurance industry may have been overcapitalized by as much as \$100 billion.

Additionally, based on a risk-based capital analysis as of December 31, 2008 of the top ten workers compensation insurers in Florida, Florida's largest workers compensation insurers are on average holding surplus of over 300% of their minimum risk-based capital (Exhibit 9). Minimum risk-based capital is a statutorily required estimate of the minimum capital required to support all the risks that an insurer is subject to, such as: 1) investment risk, 2) pricing risk, 3) interest rate risk, 4) credit risk, 5) adverse loss reserve development risk, etc.

EXCESSIVE RATES

In 2008 the state of Florida's workers compensation system only returned 43.7 cents of every premium dollar in claim payments to injured workers while the nationwide average return was 61.8 cents. For each of the last ten years the state of Florida's workers compensation system has returned a smaller percentage of the premium dollar to injured workers than the countrywide average. The odds against this happening by chance are more than 1,000 to 1. The following chart shows this consistent underpayment pattern:



Excess Capital

It is generally recognized in the insurance industry that property and casualty insurers are overcapitalized. In his article published on February 26, 2009 titled: “Top 10 Stories of 2008”, National Underwriter Editor In Chief, Sam Friedman, details his choices for the 10 most interesting property-casualty insurance stories of the year. His #3 story was titled: “Economic Woes Do Not Stop Soft Market”. He said: “Despite the capital crunch and surplus hit (*from the credit crisis*), carriers still are having a hard time raising rates. Overcapitalization continues to hold prices in check, as evidenced by the fact that the industry was able to take an estimated 8 percent, \$42 billion jolt to its surplus without having to radically raise rates.”

Robert P. Hartwig, Ph.D., CPCU, President of the Insurance Information Institute stated on May 20, 2008 that: “rapid surplus growth in recent years has left the industry with between \$85 billion and \$100 billion in excess capital, according to analysts.”

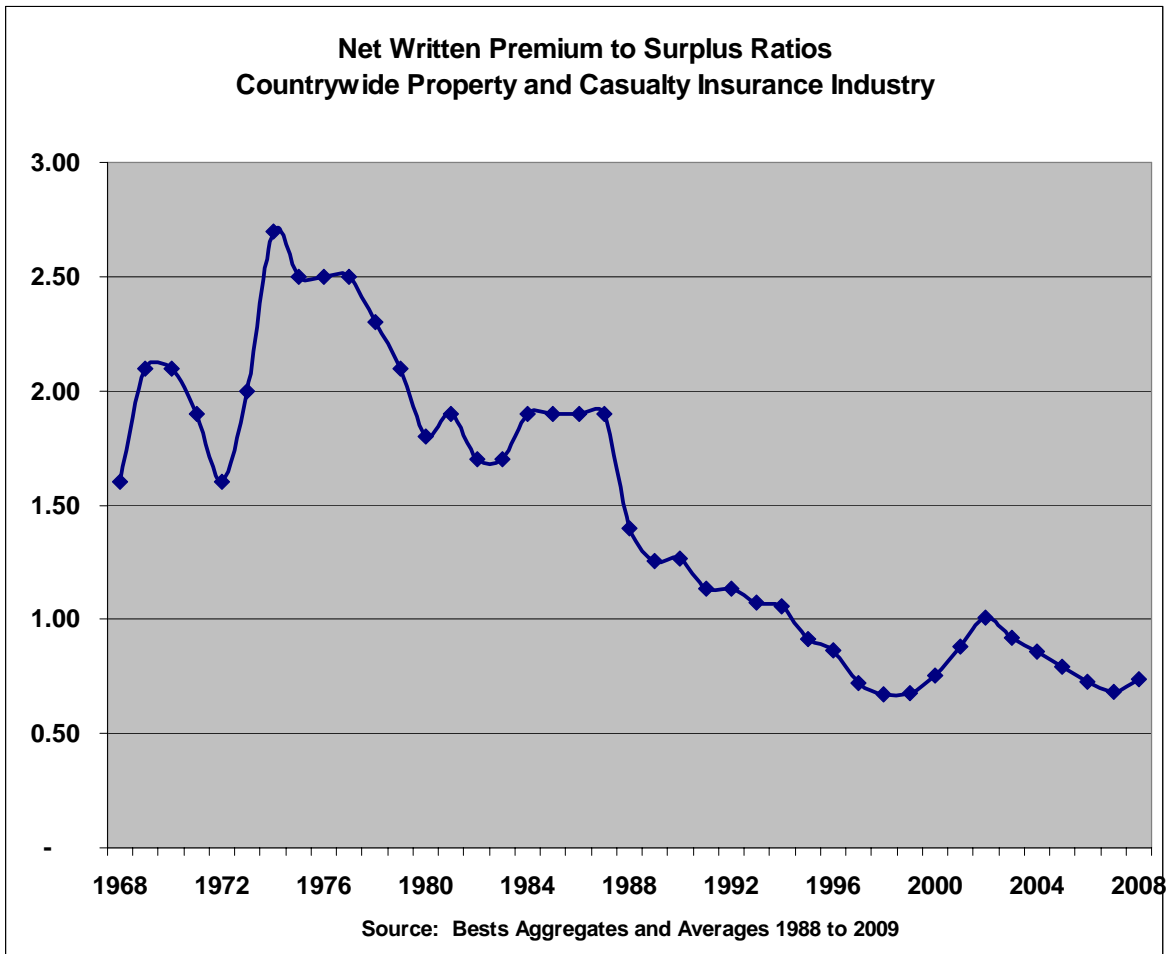
In the opinion of Standard and Poor’s the property and casualty industry is overcapitalized by \$238 billion and could safely operate at a net written premium to surplus ratio of 2-to-1. Following is an excerpt from its analysis from its “Property and Casualty Insurance Industry Survey” of July 9, 2009:

“The 12% decline in surplus recorded in 2008 marked the first drop in surplus in more than five years and the sharpest drop in surplus in ten years. The last time surplus declined on a year-to-year basis was in the 2000–02 period, when it fell 5.1% in 2000, 8.7% in 2001, and 1.5% in 2002. As a result of the drop in surplus during 2008, the industry’s leverage rose. In this instance, leverage refers to the degree to which the industry utilizes its capital (or surplus) to underwrite policies.

The ratio used to measure leverage is the ratio of net written premiums to surplus. At December 31, 2008, the ratio of net written premiums to surplus equaled 0.95-to-1, up rather sharply from 0.85-to-1 at December 31, 2007. In other words, in the 12 months ended December 31, 2008, insurers wrote \$0.95 worth of premiums for every \$1 of surplus, versus \$0.85 worth of premiums for every \$1 of surplus in the same 2007 period. Though this represents a rather sharp increase, it’s important to keep this in perspective.

If we assume a “typical” rate of leverage of 2-to-1 (which is what regulators usually allow), we estimate that the industry still had approximately \$238 billion of “excess” surplus at December 31, 2008.....Although we need to qualify this exercise as one designed to illustrate the degree to which the industry has excess capital, we do it to make the point that at year-end 2007, there was an enormous amount of excess capital in the insurance marketplace. Since then, some of this so-called “excess” capital has eroded in the wake of heavy investment losses and deteriorating underwriting results. However, while Standard & Poor’s believes that the erosion in capital levels may serve as a catalyst for firmer insurance rates, we believe that the overall capital adequacy of most property-casualty insurers remains sound.”

The following chart illustrates how the industry has increased its surplus relative to its net written premiums over the last forty years resulting in a significant decline in the ratios of net written premiums to surplus:



Underwriting Profit Provision

It is believed that the NCCI is only entitled to a reasonable underwriting profit on that portion of surplus that is reasonably at risk from writing workers compensation insurance. The NCCI's position is that the industry is entitled to an underwriting profit on its entire accumulated surplus even that portion of surplus that is not reasonably at risk from writing workers compensation insurance.

To take an extreme example, if the current recession caused Florida's net written premiums to contract by 50% (all other factors unchanged), the NCCI would claim that its entire accumulated surplus is still at risk, and therefore its underwriting profit provision should increase so that insurers could still realize the same return on surplus.

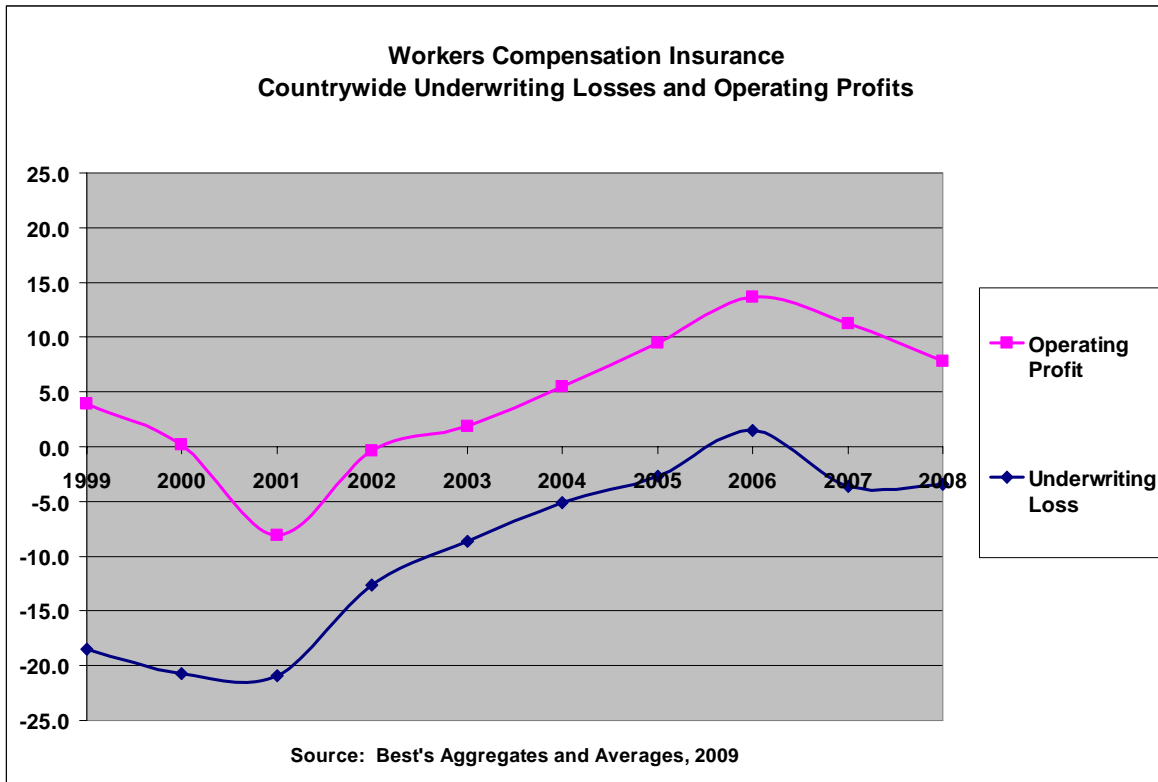
Obviously, the NCCI's assumption that its entire capital is at risk regardless of how much premium is being written is flawed. Therefore, it is recommended that the OIR establish a net written premium to surplus ratio standard that the NCCI must use in its calculation of its underwriting profit. A net written premium to surplus standard of 1.5-to-1 is recommended (Exhibit 6, Sheet 2).

The ICA recommends an underwriting profit provision of -2.26% compared to the NCCI's recommended profit provision of 2.5%. It is believed the difference in profit provisions is primarily due to a difference in the net written premium to surplus ratio assumptions between the ICA and the NCCI. Because the NCCI uses an internal rate of return model while the ICA uses a return on equity model, it is difficult to directly compare the two models.

Nevertheless, it is estimated that the net written premium to surplus ratio implied by the NCCI internal rate of return model is .855-to-1 compared to the ICA assumed ratio of 1.50-to-1 in this report. The net written premium to surplus ratio implied by the NCCI internal rate of return model of .855-to-1 is nearly identical to the median net written premium to surplus ratio of .880 of the 10 largest writers of workers compensation in the state of Florida (Exhibit 7).

The reasonableness of the two recommended profit provisions can be assessed by reviewing countrywide workers compensation underwriting results over the last ten years. During this time period the industry has averaged an underwriting loss of 9.5%, which has been more than offset by investment income of 14.0% resulting in a net operating profit of 4.5% (operating profit excludes investment income on surplus). The large amounts of investment income in workers compensation insurance are due to the long lag time on average between the collection of premiums and payment of losses and loss adjustment expenses.

It is estimated in this report that for every \$1.00 of premium Florida workers compensation insurers will collect, they will hold \$2.29 of loss, loss adjustment and unearned premium reserves earning investment income. Countrywide, workers compensation insurers have experienced underwriting losses in 9 of the last 10 years including both 2007 and 2008. Therefore, it is believed that it is reasonable to propose a negative underwriting profit provision for the subject filing, because countrywide results probably reflect greater price competition than exists in Florida's "administered pricing system" market. The following charts display countrywide workers compensation underwriting losses and operating profits due to high levels of investment income:



**Workers Compensation Insurance
Countrywide Investment Income on Insurance Transactions
(Excludes Investment Income on Surplus)**



Source: Best's Aggregates and Averages, 2009

Risk-Based Capital

Risk based capital analysis provides further evidence that workers compensation insurers in Florida are significantly overcapitalized. Risk-based capital analysis exists for the protection of policyholders of insurance companies. Insurance regulators place minimum capital requirements upon insurers based on the premise that policyholders will receive limited payments should an insurer fail.

Based on a risk-based capital analysis of the top ten workers compensation insurers in Florida, this state's major workers compensation insurers are on average holding surplus of over 300% of their minimum risk-based capital (Exhibit 9). Minimum risk-based capital is a statutorily required estimate of the minimum capital required to support all the risks that an insurer is subject to, such as: 1) investment risk, 2) pricing risk, 3) interest rate risk, 4) credit risk, 5) adverse loss reserve development risk, etc.

Relative Riskiness of Workers Compensation Insurance

By using the same methodology presented by Dr. David Cummins in his testimony at last year's hearing, it is concluded that workers compensation insurance is of approximately the same level of riskiness as all property and casualty lines combined using the latest 10 years of industry experience (Exhibit 11). Dr. Cummins testified at last year's hearing that workers compensation was a more risky line of insurance based on the latest 20 years of industry experience.

Workers compensation insurance presents about the same level of risk as all property and casualty lines combined, because the coefficients of variation are nearly identical. The coefficient of variation of the operating ratios for workers compensation is slightly higher than for all lines combined (6.8% for workers compensation and 6.7% for all lines combined), but the coefficient of variation of the operating profits for workers compensation is slightly lower than for all lines combined (142.8% for workers compensation versus 158.8% for all lines combined) over the last 10 years. Ten years of experience is a sufficient time period over which to do this calculation, because it represents approximately one full underwriting cycle. A longer period of 20 years, such as proposed by Dr. Cummins, probably is not as relevant to current workers compensation insurance market conditions.

Therefore, it is concluded that the NCCI's indicated required rate of return on capital of 10.45% in the subject filing, based on the experience of all lines of property and casualty insurance combined, is a reasonable estimate of the appropriate level of return for workers compensation. Furthermore, it is believed that the industry required rate of return in the subject filing should not be viewed as a minimum as recommended by Dr. Cummins in his testimony last year.

AUTHORITY

This actuarial examination has been conducted pursuant to the responsibility of the Office of the Insurance Consumer Advocate to represent the general public of the state in matters affecting insurance rate and form filings.

Specifically, at Section 627.0613(3), Florida Statutes:

“The consumer advocate has such powers as are necessary to carry out the duties of the office of consumer advocate, including, but not limited to, the powers to:

.....

(3) examine rate and form filings submitted to the office, hire consultants as necessary to aid in the review process, and recommend to the department or office any position deemed by the consumer advocate to be in the public interest.

.....”

BACKGROUND

The Office of Insurance Regulation (OIR) received the subject NCCI Filing on August 20, 2009, OIR File # 09-16045. The filing was submitted on a "prior approval" basis with an effective date of January 1, 2010, for new and renewal business and requests a 6.8% average rate reduction.

CREDENTIALS & BIO

Stephen A. Alexander is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. He has over 30 years of actuarial and risk management experience in government, consulting and the insurance industry. Currently, Mr. Alexander examines homeowners, medical malpractice, workers compensation, private passenger auto, commercial auto, general liability and other property and casualty rate filings for the Office of the Consumer Advocate. He testifies at rate hearings and before legislative committees. Mr. Alexander prepared a comprehensive review of the Florida title insurance industry and prepared analyses of various legislative proposals to modify the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation.

EXHIBITS

Exhibits 1 – 12

Office of the Insurance Consumer Advocate
 Review of OIR Filing Number 09-16045
 National Council on Compensation Insurance, Inc.

Indicated Rate Change

	<u>NCCI</u>	<u>ICA</u>
(1) Standard Coverage Adjusted Loss & LAE Ratio	64.6%	64.6%
(2) Large Deductible Adjusted Loss & LAE Ratio	67.4%	67.4%
(3) Average Loss and LAE Ratio, Weighted by Net Premium	64.9%	64.9%
(4) Current Target Loss and LAE Ratio	71.4%	
(5) Effect of Change in Production and General Expenses	1.003	
(6) Effect of Change in Loss Based Expenses	1.000	
(7) Effect of Change in Profit and Contingency Margin	1.022	
(8) Proposed Target Loss and LAE Ratio	69.7%	74.4%
(9) Indicated Premium Level Change	-6.8%	-12.8%
(10) Factor to Include Loss Based Expenses	1.255	1.255
(11) Proposed Target Loss Ratio	55.5%	59.3%

Notes:

- (1) average of Exhibits 2 and 3, Row (30)
- (2) average of Exhibits 4 and 5, Row (30)
- (3) $(1) \times (0.869) + (2) \times (0.131)$
- (4) NCCI Exhibit I-F, Row (2)
- (5) NCCI Exhibit I-G, Row (2)
- (6) NCCI Exhibit I-I, Row (2)
- (7) NCCI Exhibit I-J, Row (2)
- (8) $(4)/(5)/(6)/(7)$ or Exhibit 6, Sheet1, Row (14)
- (9) $(3) / (8) - 1$
- (10) Exhibit 2, Row (8)
- (11) $(8) / (10)$

Office of the Insurance Consumer Advocate
Review of OIR Filing Number 09-16045
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2008 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2008		\$2,443,399,682	\$2,443,399,682
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.750	0.750
(3) Premium Adjusted to Current Level = (1) * (2)		\$1,832,549,762	\$1,832,549,762
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2008 (First Report)		\$75,137,974	\$184,934,096
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		5.098	1.720
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$383,053,391	\$318,086,645
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		0.988	0.988
(8) Factor to Include Loss Based Expenses		1.255	1.255
(9) Composite Adjustment Factor = (7) * (8)		1.240	1.240
(10) Adjusted Indemnity Cost = (6) * (9)		\$474,986,205	\$394,427,440
(11) Indemnity Cost Ratio = (10) / (3)		0.259	0.215
(12) Trend Length		2.355	2.355
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.930	0.843	0.843
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.218	0.181
(15) Proposed Change in Indemnity Benefits		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.218	0.181
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2008 (First Report)		\$246,871,334	\$480,570,228
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.142	1.489
(19) Developed Medical Benefit Cost = (17) * (18)		\$775,669,731	\$715,569,069
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.990	0.990
(21) Factor to Include Loss Based Expenses		1.255	1.255
(22) Composite Adjustment Factor = (20) * (21)		1.242	1.242
(23) Adjusted Medical Cost = (19) * (22)		\$ 963,381,806	\$ 888,736,784
(24) Medical Cost Ratio = (23) / (3)		0.526	0.485
(25) Trend Length		2.355	2.355
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.960	0.908	0.908
(27) Projected Medical Cost Ratio = (24) * (26)		0.478	0.440
(28) Proposed Change in Medical Benefits		1.000	1.000
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.478	0.440
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2008 = (16) + (29)		0.696	0.621

Notes:

based on NCCI Exhibit I-A adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Insurance Consumer Advocate
Review of OIR Filing Number 09-16045
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2007 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2008		\$3,214,603,823	\$3,214,603,823
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.613	0.613
(3) Premium Adjusted to Current Level = (1) * (2)		\$1,970,552,143	\$1,970,552,143
 Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2008 (Second Report)		\$193,523,540	\$271,856,626
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.099	1.304
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$406,205,910	\$354,501,040
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.255	1.255
(9) Composite Adjustment Factor = (7) * (8)		1.255	1.255
(10) Adjusted Indemnity Cost = (6) * (9)		\$509,788,418	\$444,898,806
(11) Indemnity Cost Ratio = (10) / (3)		0.259	0.226
(12) Trend Length		3.355	3.355
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.930	0.784	0.784
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.203	0.177
(15) Proposed Change in Indemnity Benefits		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.203	0.177
 Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2008 (Second Report)		\$480,848,728	\$604,505,596
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.729	1.275
(19) Developed Medical Benefit Cost = (17) * (18)		\$831,387,451	\$770,744,635
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.995	0.995
(21) Factor to Include Loss Based Expenses		1.255	1.255
(22) Composite Adjustment Factor = (20) * (21)		1.249	1.249
(23) Adjusted Medical Cost = (19) * (22)		\$1,038,402,926	\$962,660,049
(24) Medical Cost Ratio = (23) / (3)		0.527	0.489
(25) Trend Length		3.355	3.355
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.960	0.872	0.872
(27) Projected Medical Cost Ratio = (24) * (26)		0.460	0.426
(28) Proposed Change in Medical Benefits		1.000	1.000
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.460	0.426
 Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.662	0.603

Notes:

based on NCCI Exhibit I-B adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Insurance Consumer Advocate
Review of OIR Filing Number 09-16045
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2008 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2008		\$2,061,431,997	\$2,061,431,997
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.750	0.750
(3) Premium Adjusted to Current Level = (1) * (2)		\$1,546,073,998	\$1,546,073,998
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2008 (First Report)		\$54,156,555	\$114,899,067
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		6.249	2.458
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$338,424,312	\$282,421,907
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		0.988	0.988
(8) Factor to Include Loss Based Expenses		1.255	1.255
(9) Composite Adjustment Factor = (7) * (8)		1.240	1.240
(10) Adjusted Indemnity Cost = (6) * (9)		\$419,646,147	\$350,203,164
(11) Indemnity Cost Ratio = (10) / (3)		0.271	0.227
(12) Trend Length		2.355	2.355
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.930	0.843	0.843
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.229	0.191
(15) Proposed Change in Indemnity Benefits		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.229	0.191
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2008 (First Report)		\$181,612,033	\$341,513,359
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.575	1.813
(19) Developed Medical Benefit Cost = (17) * (18)		\$649,263,018	\$619,163,720
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.990	0.990
(21) Factor to Include Loss Based Expenses		1.255	1.255
(22) Composite Adjustment Factor = (20) * (21)		1.242	1.242
(23) Adjusted Medical Cost = (19) * (22)		\$806,384,668	\$769,001,340
(24) Medical Cost Ratio = (23) / (3)		0.522	0.497
(25) Trend Length		2.355	2.355
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.960	0.908	0.908
(27) Projected Medical Cost Ratio = (24) * (26)		0.474	0.452
(28) Proposed Change in Medical Benefits		1.000	1.000
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.474	0.452
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2008 = (16) + (29)		0.703	0.643

Notes:

based on NCCI Exhibit I-C adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Insurance Consumer Advocate
Review of OIR Filing Number 09-16045
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2007 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2008		\$2,720,071,696	\$2,720,071,696
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.613	0.613
(3) Premium Adjusted to Current Level = (1) * (2)		\$1,667,403,950	\$1,667,403,950
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2008 (Second Report)		\$162,008,005	\$220,199,216
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.410	1.511
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$390,439,292	\$332,721,015
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.255	1.255
(9) Composite Adjustment Factor = (7) * (8)		1.255	1.255
(10) Adjusted Indemnity Cost = (6) * (9)		\$490,001,311	\$417,564,874
(11) Indemnity Cost Ratio = (10) / (3)		0.294	0.250
(12) Trend Length		3.355	3.355
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.930	0.784	0.784
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.230	0.196
(15) Proposed Change in Indemnity Benefits		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.230	0.196
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2008 (Second Report)		\$392,621,586	\$496,652,906
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.839	1.396
(19) Developed Medical Benefit Cost = (17) * (18)		\$722,031,097	\$693,327,457
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.995	0.995
(21) Factor to Include Loss Based Expenses		1.255	1.255
(22) Composite Adjustment Factor = (20) * (21)		1.249	1.249
(23) Adjusted Medical Cost = (19) * (22)		\$901,816,840	\$865,965,994
(24) Medical Cost Ratio = (23) / (3)		0.541	0.519
(25) Trend Length		3.355	3.355
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.960	0.872	0.872
(27) Projected Medical Cost Ratio = (24) * (26)		0.472	0.453
(28) Proposed Change in Medical Benefits		1.000	1.000
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.472	0.453
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2007 = (16) + (29)		0.702	0.649

Notes:

based on NCCI Exhibit I-D adjusted for Annual Trend Factor Rows (13) and (26)

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Underwriting Profit and Return on Surplus

	NCCI Proposed	ICA Proposed
(1) Underwriting Profit	2.50	(2.26)
(2) Premium	100.00	100.00
(3) Surplus	116.96	66.67
(4) Premium to Surplus Ratio	0.855	1.500
(5) Losses, Expenses and Dividends	97.50	102.26
(6) Loss, LAE and Unearned Premium Reserves	228.47	228.47
(7) Investment Income on Reserves	8.25	8.25
(8) Investment Income on Surplus	4.22	2.41
(9) Net Income Before Federal Income Tax	14.97	8.39
(10) Federal Income Tax Rate	18.3%	17.0%
(11) Federal Income Tax	2.75	1.43
(12) Net Income After Federal Income Tax	12.22	6.97
(13) Return on Surplus After Federal Income Tax	10.45%	10.45%
(14) Target Loss and LAE Cost Ratio	69.7%	74.4%

Notes:

- (1) (2) - (5)
- (2) & (3) NCCI 2010 Rate Filing. Best's Aggregates and Averages, 2009 Edition, predominate workers compensation insurers composite annual statements
- (4) Actuarial judgment and Exhibit 6, Sheet 2
- (5) Selected to provide rate of return in (13)
- (6) Exhibit 6, Sheet 3, Row (6)
- (7) & (8) 3.61% of (6) or (3) per Best's Aggregates and Averages, 2009 Edition, workers compensation insurers composite annual statements: net investment income reduced by realized capital losses.
- (9) (1) + (7) + (8)
- (10) (11) / (9)
- (11) $.35 \times (1) + .15 \times ((7) + (8))$. Assumes 35% average federal income tax rate on underwriting income and 15% average federal income tax rate on investment income and 17% alternative minimum tax based on actuarial judgment.
- (12) (9) - (11)
- (13) (12) / (3). NCCI Response to question 9 of OIR interrogatories.
- (14) Exhibit 1, Row (8). ICA = NCCI (14) + NCCI (1) - ICA (1)

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Appropriate Industry Premium to Surplus Ratio
(\$000s)

(1)	Industry Net Written Premium for Calendar Year 2007	452,379,358
(2)	Industry Surplus as of 12/31/2007	663,201,688
(3)	Advisen Ltd Estimated Overcapitalization as of 12/31/2007	-100,000,000
(4)	Advisen Ltd Estimated Appropriate Industry Surplus as of 12/31/2007	563,201,688
(5)	Advisen Ltd Estimated Appropriate Premium to Surplus Ratio	0.803
(6)	Standard and Poor's Estimated Appropriate Premium to Surplus Ratio	2.000
(7)	ICA Selected	1.500

Notes:

- (1) - (5) Agent and Broker Magazine, Industry IQ: Soft Market on its Way Out?, 2/3/2009.
- (6) Standard and Poor's, Industry Surveys, Insurance: Property and Casualty, July 9, 2009.
- (7) Based on actuarial judgment

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State of Florida
Loss, LAE and Unearned Premium Reserves
(\$000s)

	(1)	(2)	(3)
		% of Direct Premiums Earned	Adjusted For Filing Payment Pattern
(4) Direct Premiums Earned	2,439,949		
(5) Direct Premiums Unearned	574,724	23.6%	23.6%
(6) Direct Losses Unpaid	7,046,820	288.8%	173.2% *
(7) Direct Defense and Cost Containment Expense Unpaid	780,824	32.0%	19.2%
(8) Direct Adjusting and Other Loss Adjustment Expense Unpaid	508,058	20.8%	12.5%
(9) Loss, LAE and Unearned Premium Reserves		365.2%	228.5%

Notes:

- * $(\text{Exhibit 1, Row (11) ICA}) \times (1 / (.869 \times (1 / (\text{Exhibit 6.5, Row (1)}) + .131 \times (1 / (\text{Exhibit 6.5, Row (1)}))))$
- (4) - (7) NAIC I-Site Database, Florida 2008 Workers Compensation experience
- (8) $.50 \times (.255 \times (3) - (4))$. Based on actuarial judgment and NCCI Exhibit I, Row (8)

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Cumulative % Unpaid / Large Deductible

		2008 Paid @ Current Level																			
		1/2	2/3	3/4	4/5	5/6	6/7	7/8	8/9	9/10											
Indemnity	53,506,676	0.229	2.593	0.595	1.353	0.805	1.152	0.927	1.093	1.013	1.066	1.080	1.049	1.133	1.036	1.174	1.025	1.203	1.020	1.227	
Medical	179,795,913	0.771	1.944	1.498	1.160	1.738	1.074	1.866	1.051	1.962	1.038	2.036	1.033	2.103	1.025	2.156	1.024	2.208	1.018	2.247	
	233,302,589	1.000	2.093	2.542	2.793	2.975	3.116	3.236	3.330	3.411	3.475										
%Paid		0.260	0.545	0.662	0.727	0.774	0.811	0.842	0.867	0.888	0.904										
% Unpaid		0.740	0.455	0.338	0.273	0.226	0.189	0.158	0.133	0.112	0.096										
(1) Cuml % Unpaid		3.194																			
		10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/Ult										
		1.019	1.250	1.009	1.262	1.014	1.279	1.008	1.290	1.002	1.292	0.997	1.288	1.005	1.295	0.999	1.293	1.003	1.297	1.009	1.309
		1.015	2.281	1.010	2.304	1.015	2.339	1.008	2.357	1.003	2.364	1.004	2.374	0.999	2.371	1.010	2.395	1.008	2.414	1.049	2.533
		3.532	3.566	3.618	3.647	3.656	3.662	3.666	3.689	3.712	3.842										
%Paid		0.919	0.928	0.942	0.949	0.952	0.953	0.954	0.960	0.966	1.000										
% Unpaid		0.081	0.072	0.058	0.051	0.048	0.047	0.046	0.040	0.034	-										

Notes

Based on NCCI Paid Loss Development Factors, Appendix A II, Large Deductible

Office of the Insurance Consumer Advocate
Review of OIR Filing Number 09-16045
National Council on Compensation Insurance, Inc.
Top 10 Workers Compensation Insurers in Florida

2008 Net Premium to Surplus Ratios

Company Name	(1) Florida Direct Written Premium	(2) Countrywide Net Written Premiums	(3) Surplus	(4) Net Premium to Surplus
Bridgefield Employers Ins Co	300,848,000	-	99,460,922	0%
Zenith Ins Co	151,786,000	578,632,000	1,015,329,561	57%
FCCI Ins Co	127,023,000	474,948,000	376,794,094	126%
Insurance Co Of The State Of PA	98,019,000	865,678,000	2,011,937,637	43%
FFVA Mut Ins Co	85,709,000	111,399,000	106,290,535	105%
Twin City Fire Ins Co	69,006,000	153,145,000	301,216,621	51%
Zurich American Ins Co	63,462,000	4,934,314,000	6,239,830,402	79%
Technology Ins Co Inc	57,929,000	141,177,000	146,698,757	96%
Guarantee Ins Co	53,636,000	46,537,633	18,292,736	254%
Liberty Ins Corp	50,745,000	321,197,000	255,409,948	126%
Total or Median	1,058,163,000	7,627,027,633	10,571,261,213	88%

Notes:

- (1) - (3) NAIC I-Site Database
(4) (2) / (3), total weighted by (1)

Office of the Insurance Consumer Advocate
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 National Council on Compensation Insurance, Inc.

Florida 2008 Dividend Ratios

Company Name	(1) Florida Direct Earned Premium	(2) Florida Dividends Paid	(3) Dividend Ratio
Bridgefield Employers Ins Co	300,848,000	38,260,000	12.7%
Zenith Ins Co	156,204,000	9,222,000	5.9%
FCCI Ins Co	128,748,000	7,000,000	5.4%
Insurance Co Of The State Of PA	101,354,000	-	0.0%
FFVA Mut Ins Co	84,012,000	8,559,000	10.2%
Twin City Fire Ins Co	69,588,000	(4,594,000)	-6.6%
Zurich American Ins Co	61,827,000	13,000	0.0%
Technology Ins Co Inc	57,316,000	1,435,000	2.5%
Guarantee Ins Co	51,408,000	-	0.0%
Liberty Ins Corp	51,241,000	2,296,000	4.5%
All Other Insurers	1,377,403,000	74,926,000	5.4%
Total	2,439,949,000	120,139,186	4.9%

Notes:

(1)&(2) NAIC I-Site Database

(3) (2) / (1)

Office of the Insurance Consumer Advocate
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2008 Minimum Risk-Based Capital Ratios

Company Name	(1) Minimum Risk-Based Capital	(2) Surplus	(3) Ratio
Bridgefield Employers Ins Co	4,412,400	99,460,922	2254%
Zenith Ins Co	149,103,148	1,015,329,561	681%
FCCI Ins Co	116,005,217	376,794,094	325%
Insurance Co Of The State Of PA	853,721,112	2,011,937,637	236%
FFVA Mut Ins Co	10,173,355	106,290,535	1045%
Twin City Fire Ins Co	41,546,009	301,216,621	725%
Zurich American Ins Co	3,857,730,080	6,239,830,402	162%
Technology Ins Co Inc	60,620,812	146,698,757	242%
Guarantee Ins Co	15,108,434	18,292,736	121%
Liberty Ins Corp	87,710,089	255,409,948	291%
Median			308%

Notes:

(1)&(2) NAIC I-Site Database

(3) (2) / (1)

Office of the Insurance Consumer Advocate
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 National Council on Compensation Insurance, Inc.

Combined Ratios
 2008

	Loss Ratio	Defense and Cost Containment Ratio	Commission Ratio	Dividend Ratio	Taxes Licenses & Fees Ratio	Total
Bridgefield Employers Ins Co	39.5%	6.6%	10.8%	12.7%	-4.5%	65.1%
Zenith Ins Co	41.8%	4.7%	8.6%	5.9%	2.6%	63.5%
FCCI Ins Co	34.3%	3.2%	15.0%	5.4%	5.1%	63.0%
Insurance Co Of The State Of PA	50.8%	6.1%	5.6%	0.0%	9.9%	72.5%
FFVA Mut Ins Co	34.0%	7.6%	8.7%	10.2%	6.1%	66.6%
Twin City Fire Ins Co	31.1%	2.6%	7.1%	-6.6%	5.6%	39.9%
Zurich American Ins Co	51.1%	12.1%	10.8%	0.0%	6.0%	80.0%
Technology Ins Co Inc	60.6%	5.7%	17.5%	2.5%	8.2%	94.5%
Guarantee Ins Co	9.7%	12.0%	8.9%	0.0%	5.5%	36.1%
Liberty Ins Corp	43.1%	7.4%	1.1%	4.5%	5.4%	61.5%
Weighted Average	39.8%	6.2%	9.9%	5.9%	2.8%	72.3%

Notes:

Source is NAIC I - Site Database

All ratios to premiums earned except commission ratio to premiums written

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Riskiness of Workers Compensation Insurance

	(1)	(2)	(3)	(4)	(5)	(6)
		Combined	Underwriting	Investment	Overall	Operating
		Ratio	Profit	Gain	Operating	Profit
		After	After	on	Ratio	Ratio
Line of Business	Year	Dividends	Dividends	Insurance		
				Transaction		
Workers Compensation	1999	118.5	-18.5	22.4	96.1	3.9
	2000	120.7	-20.7	20.9	99.8	0.2
	2001	120.9	-20.9	12.8	108.1	-8.1
	2002	112.6	-12.6	12.2	100.4	-0.4
	2003	108.6	-8.6	10.5	98.1	1.9
	2004	105.1	-5.1	10.6	94.5	5.5
	2005	102.7	-2.7	12.2	90.5	9.5
	2006	98.5	1.5	12.2	86.3	13.7
	2007	103.6	-3.6	14.8	88.8	11.2
	2008	103.4	-3.4	11.2	92.2	7.8
(7) Mean		109.5	-9.5	14.0	95.5	4.5
(8) Standard Deviation					6.5	6.5
(9) Coefficient of Variation					6.8%	142.8%
All Lines	1999	108.0	-8.0	9.4	98.6	1.4
	2000	110.1	-10.1	10.3	99.8	0.2
	2001	115.8	-15.8	8.9	106.8	-6.8
	2002	107.5	-7.5	6.4	101.1	-1.1
	2003	100.1	-0.1	6.3	93.8	6.2
	2004	98.4	1.6	6.4	92.0	8.0
	2005	100.8	-0.8	7.1	93.7	6.3
	2006	92.6	7.4	7.1	85.5	14.5
	2007	95.7	4.3	7.3	88.4	11.6
	2008	103.9	-3.9	4.1	99.8	0.2
(7) Mean		103.3	-3.3	7.3	96.0	4.1
(8) Standard Deviation					6.4	6.4
(9) Coefficient of Variation					6.7%	158.8%

Notes:

(1) - (6) Best's Aggregates and Averages, 2009 Edition

(9) (8) / (7)

