

**A REPORT TO THE LEGISLATIVE COUNCIL AND  
THE SENATE AND HOUSE INTERIM COMMITTEES  
ON INSURANCE AND COMMERCE  
OF  
THE ARKANSAS GENERAL ASSEMBLY  
(ACT 796 of 1993 and ACT 1143 of 1997)**

**ANNUAL STUDY OF THE WORKERS' COMPENSATION  
INSURANCE MARKET IN ARKANSAS**



**Prepared by: William R. Lacy, Director of Compliance  
Arkansas Insurance Department**

**Approved by: Allen Kerr, State Insurance Commissioner**

**Date Submitted: September 1, 2019**

**REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2016**

Previous reports to the Legislature have discussed in detail the condition of Arkansas's Workers' Compensation marketplace prior to the passage of Act 796 in 1993, and subsequent to the changes brought about because of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the continuing effects of Act 796 of 1993.

In the most recent data available, Arkansas' combined ratio decreased to 72.8% ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2018, NCCI filed for decreases in the voluntary market loss costs of -15.4% and in the assigned risk plan rates -14.9%. In 2019 the NCCI filed for decreases of -3.4% for the voluntary market loss costs and -4.2% for the assigned risk market premiums. Several factors and trends in the industry may affect future rates. These factors include changes in claim frequency, increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

**CONTINUED RATE IMPACT OF ACT 796 OF 1993**

Arkansas's voluntary workers' compensation market would have disappeared and many employers would have found themselves unable to afford workers' compensation coverage, facing the choice of either closing down their business or operating outside the law, had Act 796 not become reality.

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2001 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2018, Arkansas had the lowest loss costs in the region per \$100 of payroll, \$0.55, compared to the regional average loss cost of \$0.69 and the countrywide average loss cost of \$.97. The Arkansas average rates in 2018 were --73.7% from 1995 when the law changes went into effect. There are still positive effects from this Act that benefits Arkansas employers.

Year	Voluntary Market	Assigned Risk Plan
------	------------------	--------------------

1993	0.0%	0.0%
1994	0.0%	0.0%
1995	-12.4%	-12.4%
1996	-8.0%	-3.7%
1997	-4.7%	-7.6%
1998	-9.1%	-8.2%
1999	-4.1%	-3.0%
2000	-4.5%	-2.0%
2001	-7.5%	-1.9%
2002	-4.5%	-1.9%
2003	1.8%	-5.5%
2004	0.5%	-5.1%
2005	-1.5%	-2.8%
2006	-0.5%	-2.0%
2007	-5.4%	-6.8%
2007 (effective 1/1/08)	2.7%	2.7%
2008 (effective 7/1/08)	-12.8%	-13.8%
2009	-7.0%	-6.4%
2010	1.9%	4.5%
2011	-5.8%	-9.7%
2012	-4.1%	-4.8%
2013	-7.4%	-6.7%
2014	-1.4%	-8.5%
2015	-2.1%	-3.0%
2016	-4.3%	-1.6%
2017	-8.4%	-10.6%
2018	-15.4%	-14.9%
2019	-3.4%	-4.2%

### **PAYROLL AND EXPERIENCE MODIFIER**

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. In 2018 the average experience modifier increased slightly to 0.942 from 0.934. The 2018 countrywide average experience modifier is 0.948. Please refer to Exhibit “A” for additional statistical information regarding premiums.

### **ASSIGNED RISK PLAN**

The assigned risk plan has seen a history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. It is down from a record high of \$150,000,000 in 1993, but up from low of \$6,566,275 in September 2000. Voluntary carriers continue to tighten underwriting and maintain their minimum premiums. The assigned risk

estimated premium volume through June, 2018 was \$22,148,541 as compared to \$21,571,318 for 2017. As of the June, 2018, small premium employers (less than \$2,500 in annual premium) constituted approximately 72.2% of the plan policy volume with an average of \$1,040 in premium per policy. Average plan premium per policy as of June, 2018, was \$3,008 for all 1,730 policies in the plan. The top five business classifications seeking coverage in the assigned risk plan were involved with the construction industry.

In 2008, NCCI filed a Voluntary Coverage Assistance Program (VCAP), which has helped to remove some employers from the assigned risk plan by allowing voluntary carriers to file their underwriting guidelines for comparison to new applications submitted. When an application is received by NCCI, it is compared to the filed guidelines and if the risk appears to meet a company's guidelines, the application will be forwarded to the agent/insurer to determine whether they will make a voluntary offer of coverage. This program was approved effective October 1, 2008. As of the quarter ending in June, 2019, 64 employers were removed from the assigned risk plan saving those employers, on average 5.79% in premium.

### **PLAN ADMINISTRATION/SERVICING CARRIERS**

The NCCI is an "Advisory Organization" licensed in Arkansas to assist its member insurers with ratemaking and data collection activities. Effective July 1, 2017, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2020.

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The working group monitors data reliability and any other issues that arise involving the market.

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. §23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as presenting the opportunity to improve existing systems and procedures. An advisory organization examination is designed to find concerns with statistical reporting and error correction. These concerns are remedied and monitored by a working group of the National Association of Insurance Commissioners (NAIC). The exams are to assure the errors never become significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas. NCCI's most recent examinations showed no significant issues.

The location of an office in Little Rock (mandated by 1993 legislation) continues to resolve many policy related service problems and provides Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office is apparent in the reduction of the number of complaints received by the Insurance Department and the reduction in the number of appeals reaching the Appeals Board. The NCCI personnel assigned to the office are knowledgeable and committed to providing excellent service.

Attached are Exhibit "A" entitled *State Advisory Forum 2018* and Exhibit "B" entitled *Arkansas Residual Market 2nd Quarter 2018 Status Report*; and the exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten classifications

by code and by premium, and a list of contacts within NCCI for specific areas of concern.

NCCI provides, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, the customer receives a confirmation code and application identification number for reference. There are significant savings to the plan when an application can be processed electronically. Arkansas agents have been extremely responsive to this initiative with 97% of applications being submitted online in 2016.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either “Commendable” or “Satisfactory” scores for all areas for Arkansas’ servicing carriers. For the period commencing January 1, 2017 to December 31, 2019, the carriers are Travelers, Technology and Liberty Mutual.

### **SUMMARY OF INSURANCE DEPARTMENT’S CRIMINAL INVESTIGATION DIVISION**

Before the passage of Act 796 of 1993, there had never been a criminal prosecution in Arkansas for workers’ compensation fraud committed by employees, employers or healthcare providers.

Act 796 of 1993 created the Workers’ Compensation Fraud Investigation Division and made any type of fraud committed within the workers’ compensation system a Class D felony (maximum six years of incarceration and/or \$10,000 fine). The Division was renamed the Criminal Investigation Division (CID) during the 2005 Legislative Session to come in line with its present mandate to investigate not only workers’ compensation fraud but all types of insurance fraud.

Fraud in the workers’ compensation system was perceived to be epidemic. Since the majority of employers were in the "plan," there was little, if any, incentive for thorough investigation of possibly fraudulent insurance claims and few consequences to those caught making intentional misrepresentations. Act 796 changed the entire landscape of the workers’ compensation system, particularly about the detection, prevention and prosecution of workers’ compensation fraud. The actual prosecution of a workers’ compensation fraud case is contingent on many factors.

Key among those factors is the elected prosecutor’s willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards found at Ark. Code Ann. § 11-9-106 for conviction, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers’ compensation fraud. Fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under-funded local agencies. However, the Division is no longer dedicated to a single purpose for complex investigations, as it is tasked to investigate all insurance fraud under Title 23 and not just workers’ compensation fraud under Title 11. Consequently, even though Workers’ Comp Fraud is still an important and integral part of the Criminal Investigation Division, it is now less than four percent of the referrals that come into CID as compared to insurance fraud as defined under Title 23. As all of these complex cases evolve, they

frequently require investigators to work through a myriad of leads to develop a case. Occasionally, even with the Division's dedicated resources, there simply is not enough information for a prosecutor to prosecute the crime.

While the number of actual prosecutions varies from year to year, the possibility of investigation and prosecution is a constant deterrent. Any lessening of the Division's enforcement powers would likely result in a re-emergence of both frequency and severity of fraud committed by employees, employers, and healthcare providers.

The cases represented by the statistics noted below, which are comparable per capita to those of other states with active anti-fraud efforts, are believed to have had a significant impact on workers' compensation rates in Arkansas, and the deterrent factor has been substantial. In fact, many cases are not carried forward to prosecution. In many instances where there is not enough evidence to actually prosecute the case, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically prosecutor wins, these cases result in positive outcomes for injured workers in the state.

In the 2018 reporting period, there were 44 workers compensation referrals received by AIDCID. Of those referrals 21 developed into investigated cases of which 20 were closed. One case was referred for prosecution and successfully prosecuted. Since the creation of the division in 1993, 166 cases have been referred for prosecution, which resulted in 123 convictions. Out of these 166 cases, only three prosecutions have resulted in acquittals. In the remaining cases, the charges were not filed by the locally elected prosecutors.

### **2017 LEGISLATIVE ACTIVITY OF THE 91<sup>ST</sup> GENERAL ASSEMBLY WITH REGARD TO WORKERS' COMPENSATION**

There were three Acts from legislative activity with regard to workers' compensation in 2017.

Act 658. Provides for the treatment of rabies under workers' compensation by requiring an employer to promptly provide reasonably necessary medical treatment to an injured employee who is exposed to rabies.

Act 804. Amended existing law regarding contractors who are required to be licensed to obtain and maintain workers' compensation coverage. This law removed the term "residential building contractor."

Act 1058. A.C.A. §11-9-805 was amended to provide for partial settlements of workers' compensation claims, in addition to full settlements as before. After the amendment, if a claimant is determined to be eligible for Medicare, the parties may now petition the Commission for a partial settlement of all issues other than the claimant's future medical treatment. The parties may now petition for a settlement of the indemnity portion of a claim and leave open the injured employee's right to continued future medical treatment at the employer's expense.

The parties also retain the ability to petition the Commission for a full and final settlement of all issues involved in a claim.

SELECTED WORKERS' COMPENSATION DECISIONS  
FISCAL YEAR 2018  
ARKANSAS SUPREME COURT

Statute of Limitations

Walter Farris v. Express Services, Inc. and New Hampshire Insurance Company, 2019

Ark. 141 (2019). This case addressed the denial of the injured employee's workers' compensation claim based on the applicable statute of limitations as stated in Ark. Code Ann. §11-9-702(b)(1). Arkansas Code Annotated section 11-9-702 (Repl. 2012) governs the statute of limitations for additional benefits and states in relevant part:

(1) In cases in which any compensation, including disability or medical, has been paid on account of injury, a claim for additional compensation shall be barred unless filed with the commission within one (1) year from the date of the last payment of compensation or two (2) years from the date of the injury, whichever is greater.

Ark. Code Ann. § 11-9-702(b)(1).

The employee was injured on May 12, 2014, and some workers' compensation benefits were paid by the carrier on behalf of the employee. According to the plain language of the section 11-9-702(b)(1), Farris's claim for additional compensation "shall be barred" unless he filed it "within one (1) year from the date of the last payment of compensation or two (2) years from the date of the injury, whichever is greater." Thus, under the statute, Farris was required to file his claim by April 28, 2016, which is one year from April 28, 2015, the "date of the last payment of compensation", or by May 12, 2016, which is two years from May 12, 2014, the "date of the injury." Because the two-year date "is greater" under section 11-9-702(b), Farris should have filed his form by May 12, 2016. He filed his corrected amended form, dated May 12, 2016, on May 13, 2016 – one day late.

The Supreme Court found that Farris filed two claim forms. On his May 5 form, Farris did not merely check the wrong box but appeared to have sought additional benefits from Great Dane, not the correct employer. On his May 13 form, he corrected his error by adding Express Services as his employer, but he filed it after the two-year period set forth in section 11-9-702(b)(1). Thus, Farris failed to meet his burden of timely filing his additional-benefits claim within the statutory time frame.

Arkansas Court of Appeals

AWCC Rule 099.30.

ABF Freight System, Inc. v. Byron Dugger and Death & Permanent Total Disability Trust Fund, 2019 Ark. App. 176 (March 3, 2019). This case addressed Commission Rule 30 and payment of

medical expenses incurred by the claimant. Dugger suffered a compensable injury to his back on June 28, 2004. He was treated by Dr. John Wilson, whose treatment included surgery. Dugger reached maximum medical improvement on February 16, 2005, though he remained under Dr. Wilson's care. A permanent total disability finding was accepted, for which Dugger receives permanent indemnity benefits. Costs of Dugger's medical care through the surgery was paid for by appellants.

In 2015, Dugger contacted Dr. Wilson when he again began to experience back pain. Dr. Wilson advised Dugger that he had retired, referring him to his former partner, Dr. Kathryn McCarthy. Dr. McCarthy subsequently took over Dugger's treatment, performing surgery on April 13, 2015. Dugger's medical bills arising from the treatment were paid by Medicare. ArcBest was notified by letter from the Centers for Medicare and Medicaid Services (CMMS) on April 13, 2017, of CMMS's belief that ArcBest owed it \$21,332.86 for conditional payments it made on Dugger's behalf for which ArcBest had "primary payment responsibility[.]" CMMS notified Dugger, by letter dated April 20, 2017, of its attempt to recover said conditional payments from ArcBest, attaching a copy of its April 13, 2017 letter to ArcBest thereto. Dugger was advised that he need not take any action at that time. At some point, ArcBest contested the payments and Dugger obtained an attorney.

Dugger had not spoken with anyone at ABF since 2005 and went "many years" without communicating to Dr. Wilson "because [he] didn't need anything." Furthermore, "[s]ince the beginning, first injury, [he had] never contacted ABF when [he] needed a doctor." Dugger had not contacted ABF in 2015 when he contacted Dr. Wilson. Neither he nor his attorney had asked ABF or the Commission to change physicians from Dr. Wilson to Dr. McCarthy; "he didn't know [he] had to." "No one . . . contacted [appellee] in the last couple of years and asked [him] to pay anything over and above what was already paid in this case." His bills had either been paid by Medicare or Physician's Mutual. He had received a letter from CMMS regarding the 2015 bills and was concerned that "at some point in the future, [he] could be contacted by Medicare with a request to reimburse it for payments made."

After a hearing an Administrative Law Judge found that the injured worker had received a valid referral from Dr. Wilson to Dr. McCarthy, that the treatment rendered by Dr. McCarthy was reasonably necessary medical care related to Dugger's June, 2004 injury, that the change of physician rules set forth in Ark. Code Ann. §11-9-514 did not apply, and that ArcBest remained responsible for repayment of conditional payments made by the Centers for Medicare & Medicaid Services. The ALJ decision was affirmed by the Full Commission and ArcBest appealed.

The Court of Appeals reversed the ALJ and Full Commission decisions. The Court noted that Rule 099.30 (Rule 30) "[e]stablishes procedures for preauthorization of nonemergency hospitalizations, transfers between facilities, and outpatient services expected to exceed \$1,000.00 in billed charges for a single date of service by a provider." It goes on to state "[p]reauthorization is required for all nonemergency hospitalizations, transfers between facilities, and outpatient services expected to exceed \$1,000.00 in billed charges for a single date of service by a provider." Rule 30 contemplates carriers having medical bills submitted to them according to certain guidelines which would enable them to verify the merit and accuracy of claims. The plain meaning of Rule 30 does not establish a duty on the part of a carrier to pay until claims



meeting its requirements are properly submitted. The Court stated that “preauthorization is yet another requirement placed on the claimant prior to imposition of a requirement to pay on the carrier.”

#### Employment Services.

Arkansas Secretary of State v. Ruby Young, 2018 Ark. App. 508 (October 24, 2018). This case addressed the issue of “employment services” and whether the injured employee was performing an employment service at the time of her slip and fall. Young was an administrative assistant in the Capitol Facilities Office for SOS. Her office was located in the basement of the Arkansas State Capitol building, and her work hours were from 8:00 a.m. to 5:00 p.m. Young’s job required that she prepare maintenance and repair work orders for the Capitol building, its associated grounds, and the Capitol Hill Apartments. Young’s primary tasks at work were to answer telephone calls, check emails for work requests, and assign the appropriate person to the task.

On the morning of January 18, 2017, at approximately 7:45 a.m., Young arrived for work and parked in her assigned parking spot; it was raining. Young walked through an outside door leading to the Capitol basement. This door required a key card to gain entry. Young wiped her feet on a rug and then slipped and fell as she stepped off the rug and onto the marble floor. She hit the floor with her lower back, more to the left side. She got

up and went to her office, and she began to experience low-back and hip pain five or six hours later. She reported this injury to her employer. Young sought treatment at UAMS the following Monday (five days after the fall) and x-rays taken at UAMS revealed that she had “significant soft tissue swelling” in her lumbar spine. A hip injury was ruled out, but Young was diagnosed with a lumbar sprain and sciatica and has undergone conservative treatment for ongoing back problems.

Young filed a claim for workers’ compensation benefits which was denied by the carrier. The ALJ found the claim to be compensable and also found that Young had been performing employment services when she was injured because she was directly or indirectly advancing SOS’s interests at the time she fell. The ALJ found that Diemer’s testimony corroborated Young’s assertion that she was subject to receiving work requests before 8:00 a.m. and before she reached her desk. The Full Commission affirmed and adopted the ALJ decision as its own. The Secretary of State’s Office appealed to the Court of Appeals.

The Court affirmed the ALJ and Full Commission decisions. The Court found that “reasonable minds could conclude as the Commission did here in finding that Young was acting within the scope and course of her employment and directly or indirectly advancing her employer’s interests when she slipped and fell. Whether the claimant is technically “on” or “off” the clock is not dispositive. See Barrett v. C.L. Swanson Corp., 2010 Ark. App. 91. Young was expected to respond to work queries if she was approached away from her desk or before 8:00 a.m.; Young was inside the Capitol building, having entered through a door that required a key card to enter; and Young was on her way to her office. There is substantial evidence to support the Commission’s conclusion, finding that Young was performing employment services at the time of her fall.”

## Objective Findings.

*TJX Companies, Inc. v. Azzie Lopez*, 2019 Ark. App. 233 (April 24, 2019). In this case the injured worker was sixty-eight years old at the time of the May 4, 2018, hearing before the Administrative Law Judge. She began working for T.J. Maxx in 2009 and was a jewelry associate at the time of her March 24, 2017 injury. Lopez was clocking in after lunch when she heard a page that there was a phone call for jewelry. When she was on the

phone with the customer, she did not hear the code being entered on the door, and another employee came in with her children. Lopez testified that the children ran up against the heavy door and it “came back and hit her in the back.” She reported the accident to her supervisors, including Sherry Holmes, who had been coming down the hall as the door was opening. Lopez completed an accident report and was directed to go to the emergency room with a claim number to take with her. After finishing her shift, Lopez was seen at St. Bernard’s Medical Center. According to the medical record, Lopez reported getting hit in the back by a door at work and having back pain. The record of the physical exam noted “Back: Mild midline tenderness in the L3-L5 area, no ecchymosis noted, no significant edema.” Following an examination and x-ray, the physician’s impression was “Back contusion”; Lopez was prescribed medication and directed to follow up with her family physician, Dr. Hurst.

Following a hearing, the administrative law judge found that Lopez had sustained a compensable injury and was entitled to medical and TTD benefits. In an opinion filed October 31, 2018, the Full Commission, in a split decision, affirmed the decision of the administrative law judge. The employer filed a timely notice of appeal and contended that the Commission erred in finding that the March 24, 2017 diagnosis of “contusion” was sufficient to meet Lopez’s burden of proving a compensable back injury supported by objective medical findings. They argued that the Commission’s decision ignored the physician’s physical examination, which revealed “no ecchymosis” and relied on a generic diagnosis. In affirming the Full Commission decision, the Court noted that the Commission gave little weight to Dr. Lack’s May 9 opinion that there was no objective evidence of an injury. The Commission determines credibility, weighs the evidence, and resolves conflicts in medical testimony and evidence. The Court could not say that reasonable minds could not have reached the same conclusion as the Commission.

## Full Commission

### Employment Services.

*Patricia Hines v. University of Arkansas for Medical Sciences*, April 11, 2019. In this case, the claimant worked on the second floor of U.A.M.S. as the front desk clerk for the surgical unit. She testified that she was allowed to take a 45-minute break during her eight hour shift for lunch. On March 28, 2018, the claimant left her work station to begin her break. She rode the elevator down to the first floor lobby at U.A.M.S. As she was exiting the elevator she received a call on her personal cell phone from her granddaughter. As the claimant was walking and talking on her phone she slipped and fell. The claimant injured her knee and underwent surgery shortly after the fall.

After a hearing, an Administrative Law Judge filed an opinion on November 21, 2018. The Administrative Law Judge found that the claimant failed to prove by a preponderance of the evidence that she was performing employment services at the time of her fall on March 28, 2018. The claimant appealed this finding to the Full Commission.

The Full Commission reversed the decision of the ALJ and found the injury to be compensable. The Full Commission stated that the claimant was performing employment services since -- “In the case at bar, the claimant was within the time and space boundaries of her employment, she was paid for her time and, even though she was not at her designated work station, she was on the jobsite when she sustained her injury. Additionally, as in Ray, supra, the claimant was required to leave her break and return to work if she was needed to assist with an emergency or if a trauma occurred.”

U.A.M.S. has appealed the Full Commission decision to the Arkansas Court of Appeals.

Statute of Limitations, Compensability.

Jeffery W. Lockhart v. Arkansas Department of Health, June 28, 2019. In this case, the claimant worked as a health inspector and worked out of the Department of Health’s Hot Springs office. He contended that he sustained a compensable neck injury on September 20, 2013 while moving tables at work. The claimant did not feel he needed medical treatment immediately after the incident and declined to complete an accident report. The claimant sought medical treatment on his own and underwent a cervical spine surgery on November 14, 2013 at the Veterans’ Administration Hospital.

A letter was sent to the claimant on June 11, 2014 by the Arkansas Insurance Department advising him that his claim for workers’ compensation benefits had been denied. The claimant sent a letter dated July 9, 2014 to the Commission requesting a hearing before an Administrative Law Judge. The claimant filed a Form AR-C with the Commission on August 3, 2016. Claims for initial and additional benefits were made on the AR-C.

After a hearing, an Administrative Law Judge filed an opinion on November 16, 2018. The Administrative Law Judge found that (1) the claimant had failed to meet his burden of proof in demonstrating his claim for benefits was in compliance with, and not barred by, the applicable statute of limitations of Ark. Code Ann. §11-9-702(a)(1); (2) even if the claimant’s claim were not barred by the applicable statute of limitations, he failed to prove by a preponderance of the credible evidence of record that he sustained a “compensable injury”(ies) within the meaning of the Act on September 20, 2013; and (3) the claimant’s attorney is not entitled to a controverted attorney’s fee on these facts. The claimant appealed these findings to the Full Commission.

The Full Commission issued its Opinion and reversed the findings of the ALJ. The Full Commission found that the claim should not be barred by the Statute of Limitations. On this issue, the Commission stated: “Here, when the claimant sent a letter appealing the denial of his claim, requesting a hearing, and requesting additional benefits, this action constituted the filing of a claim. Even though the claimant may not have used the correct terminology or the pre-printed form, it is clear that he is attempting to open an initial claim for the benefits that were denied by the respondents. The denial of compensability by the respondents is a denial of

responsibility for medical and indemnity benefits. The appeal of this decision by the claimant in his letter dated July 9, 2014 would necessitate a hearing to determine compensability and appropriate benefits. It is our opinion that the letter is sufficient to accomplish this purpose. “ As to the compensability issue, the Commission stated: “There was clearly a significant change in the condition of the claimant’s neck after the September 20, 2013 work accident. Prior to this incident, the condition of the claimant’s neck did not warrant surgical intervention. However, shortly after his work accident, surgical intervention was recommended. In addition, prior to the accident, the claimant was able to perform all his work duties. The claimant was no longer able to perform his duties after sustaining this work injury. In fact, in an attempt to continue working, the claimant moved to a different position that was less physically demanding but was eventually terminated for being unable to perform his job duties. Thus, the evidence preponderates that the claimant’s degenerative neck condition was, at a minimum, aggravated by the workplace accident.”

The Full Commission decision has been appealed to the Arkansas Court of Appeals.

### **NATIONAL MARKETS IN GENERAL**

While Arkansas continues to experience increases in the average indemnity and medical cost per lost time claim, claims frequency continues to decline resulting a continued decline in rates upon which premiums are based. Arkansas’s market remains strong and competitive.

The attached state of the industry report Exhibit “C” entitled *State of the Line* graphically depicts the sound condition of the workers compensation marketplace; still, the NCCI continues to discover that workers’ compensation results are affected by a number of factors that are having an impact on the market:

- Medical services contribution to the costs of claims;
- Impact of fee schedule updates on physician payments;
- Mega claims in workers compensation;
- Motor vehicle accidents in workers compensation;
- Changing employee demographics effects on claims frequency; and
- Hazard group updates;

The incidence of workplace injuries continues to fall since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

### **CONCLUSION**

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas’s employers would now have the option of voluntary workers’ compensation insurance. Rather, the assigned risk plan, designed to be a market of “last resort,” would have become Arkansas’s market of “only resort.” The General Assembly is to be highly commended for its leadership in reforming the workers’ compensation market in our State while protecting the interests of the injured worker.

Arkansas's employers must have available to them quality workers' compensation products in the voluntary market at affordable prices. The creation of good jobs requires a marketplace where all businesses, regardless of size, can grow. Maintaining a stable workers' compensation system is essential for this growth. The evidence shows the reforms have worked. Frequency has experienced a dramatic decrease and continues that trend. The incidence of fraud has been reduced through high-profile fraud prosecutions, employee compensation rates and benefits have been increased, and workers injured within the course and scope of their employment have received timely medical treatment and the payment of much improved indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: September 1, 2019

cc: The Honorable Asa Hutchinson, Governor  
The Honorable Dale Douthit, Chairman, AWCC  
The Honorable Christopher Palmer, Commissioner, AWCC  
The Honorable Scott Willhite, Commissioner, AWCC  
David Greenbaum, Chief Executive Officer, AWCC  
Ms. Russ Galbraith, Insurance Chief Deputy Commissioner, AID  
Mr. Nathan Culp, Public Employee Claims Division Director, AID  
Mr. Pat O'Kelley, Criminal Investigation Division Director, AID  
Mr. Ryan James, Public Information Manager, AID



Exhibit "A"

STATE ADVISORY

# FORUMS

2019

## Arkansas

June 26, 2019

Terri\_Robinson@ncci.com  
501-333-2835

Kelly\_Briggs@ncci.com  
561-893-3069

# Agenda

01 Our Stories Video

02 Countrywide Workers Compensation System

03 Arkansas Workers Compensation System

04 Residual Market

05 Countrywide and Arkansas Labor Markets

06 The Workers Compensation Underwriting Cycle Video

07 Legislative Updates—Federal and State

08 Mega Claims

09 Kids' Chance of Arkansas

10 Back to Work Video



# Our Stories



# DELIVERING MODERNIZATION



# Unified Adaptive Content (UAC)

*Shattering the Way We Deliver Content*



**Information**



**Answers**

# Unified Adaptive Content (UAC)

## Stakeholder-Focused Strategies



### Regulators

- Easier filing process
- Content availability
- Statutory concerns



### Carriers

- Content access
- Information delivery
- Answer the question



### Agents

- Answers
- Content access



### Others

- Access

# Find It on [ncci.com/INSIGHTS](http://ncci.com/INSIGHTS)

**NCCI** The Source You Trust

Search...

[About Us](#) | [Careers](#) | [Contact Us](#) | [Learning Center](#) | [Log In](#) | [My Profile](#)

[Data Reporting](#) | [Industry Information](#) | [Residual Markets](#) | [Underwriting](#) | [Agents/Brokers](#) | [Insights](#)

## POWERED by INSIGHT

### AIS 2019 Highlights Report

Monday, May 13–Wednesday, May 15, 2019  
JW Marriott Orlando, Grande Lakes  
Orlando, Florida

Order Mods and Worksheets | Look Up a Class Code or Rate | Access Data Reporting Resources | Access Circulars | Access Manuals

**EVENTS**  
NCCI calendar

Attend an Agent Education Workshop

New Mexico Agent Education Workshop  
New Mexico | Jun. 12, 2019  
[View Events Calendar](#)

**SUCCESSES**  
Our system at work

OUR SYSTEM @WORK

Jim's Story: Transportation Puts Injured Worker on Road to Health  
[Read Additional Success Stories](#)

**INSIGHTS**  
Spotlight on key i

POWERED by INSIGHT

AIS 2019 Highlights Report  
[Read Additional In](#)

**NCCI** The Source You Trust

Search...

[About Us](#) | [Careers](#) | [Contact Us](#) | [Learning Center](#) | [Log In](#) | [My Profile](#)

[Data Reporting](#) | [Industry Information](#) | [Residual Markets](#) | [Underwriting](#) | [Agents/Brokers](#) | [Insights](#)

## WORKERS COMPENSATION INSIGHTS

RESEARCH & BRIEFS | REGULATORY & LEGISLATIVE | LEGAL | ECONOMIC & FINANCIAL | WHAT'S TRENDING

Changing Workforce Demographics and Workplace Injury Frequency

Presumptive Workers Comp Benefits for Firefighters and Other First Responders

Court Case Update, Kansas - April 2019

Quarterly Economics Briefing - Q1 2019

POWERED by INSIGHT  
Annual Issues Symposium 2019  
AIS 2019 Highlights Report  
AIS 2019 Highlights Report





# Countrywide Workers Compensation System

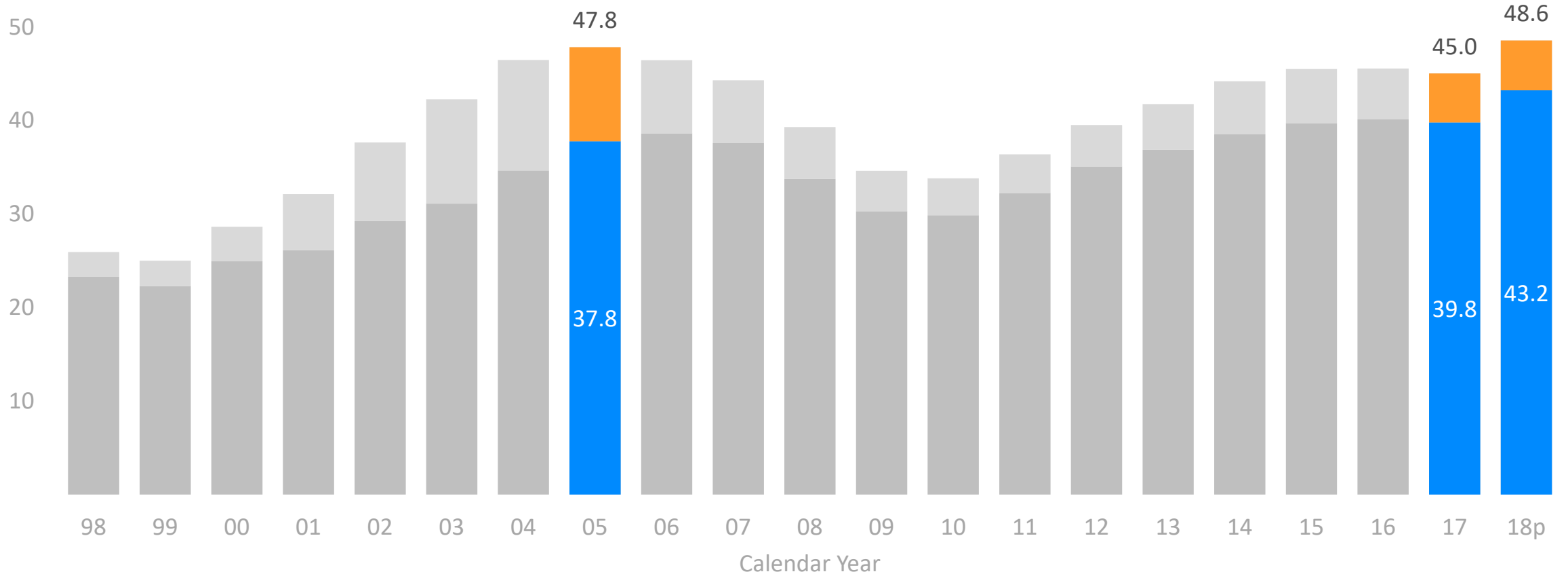
# Countrywide Workers Compensation (WC) System—An Overview

- Net written premium increased in the most recent year
- The combined ratio has continued to show favorable results
- Lost-time claim frequency declined again
- Lost-time claim severity increased modestly for both indemnity and medical

# Net Written Premium

Private Carriers and State Funds

\$ Billions



p Preliminary

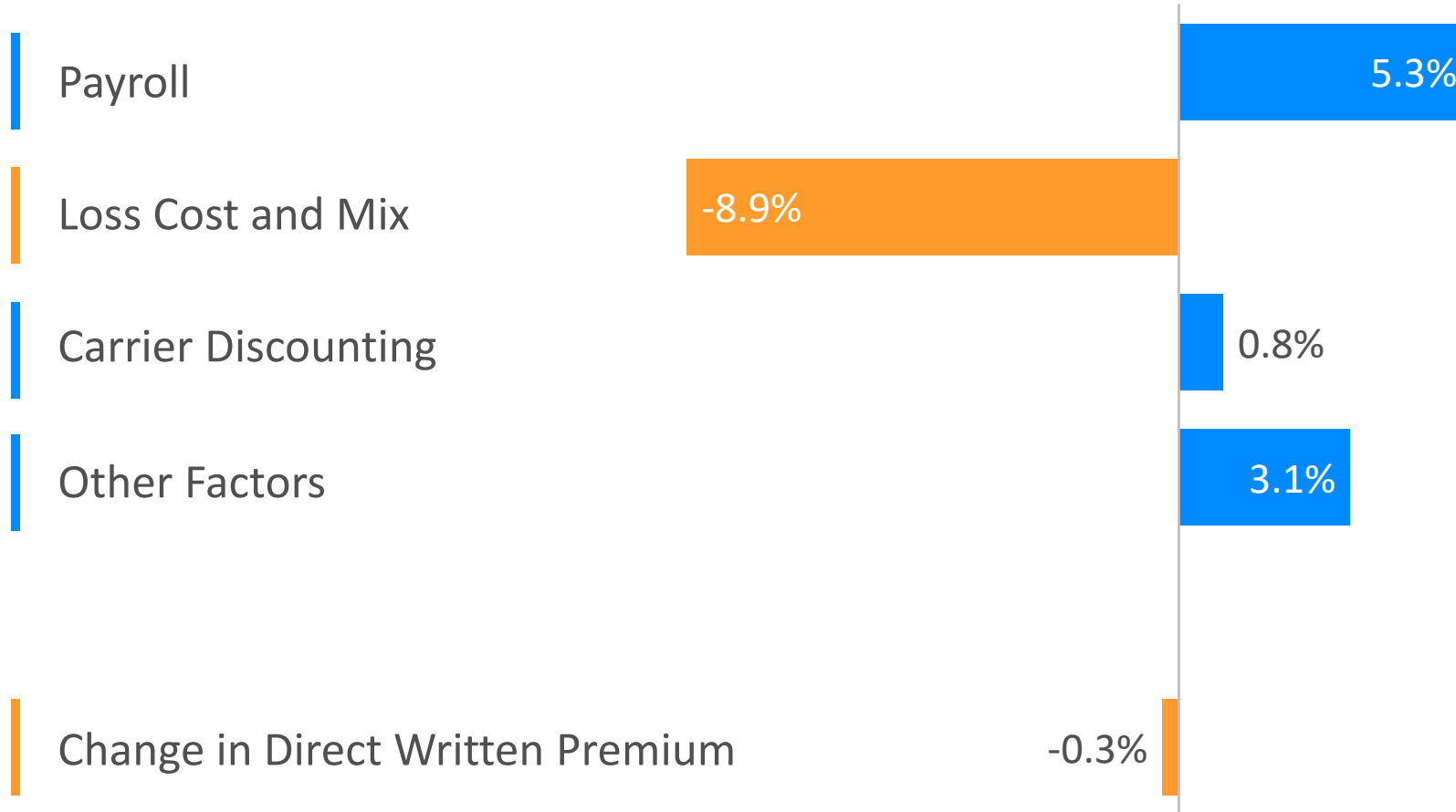
Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year

# Direct Written Premium Change by Component

Private Carriers—NCCI States

2017 vs. 2018

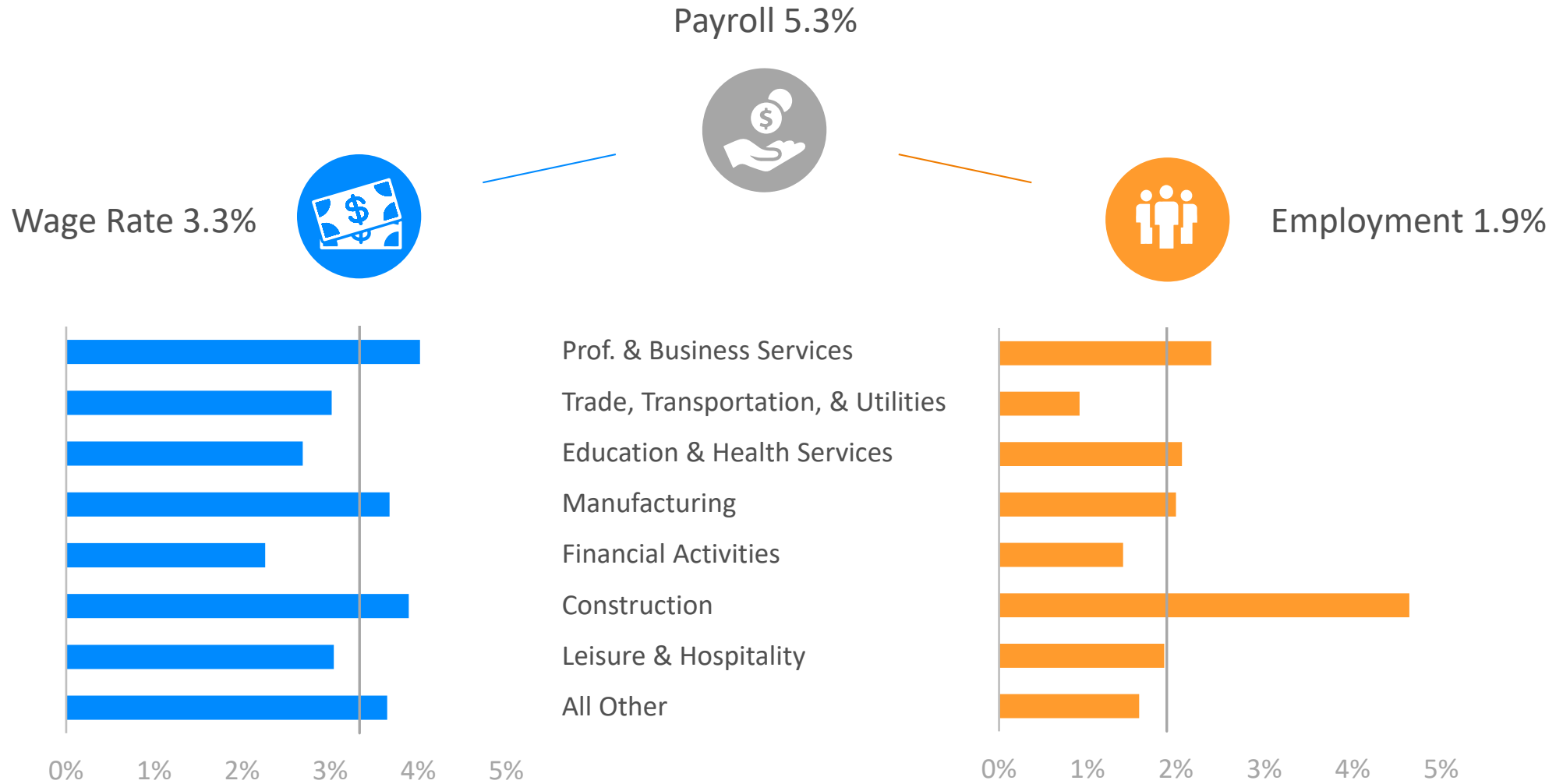


Sources: Direct Written Premium Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services  
Components: NCCI's Policy data



# Drivers of Changes in Payroll

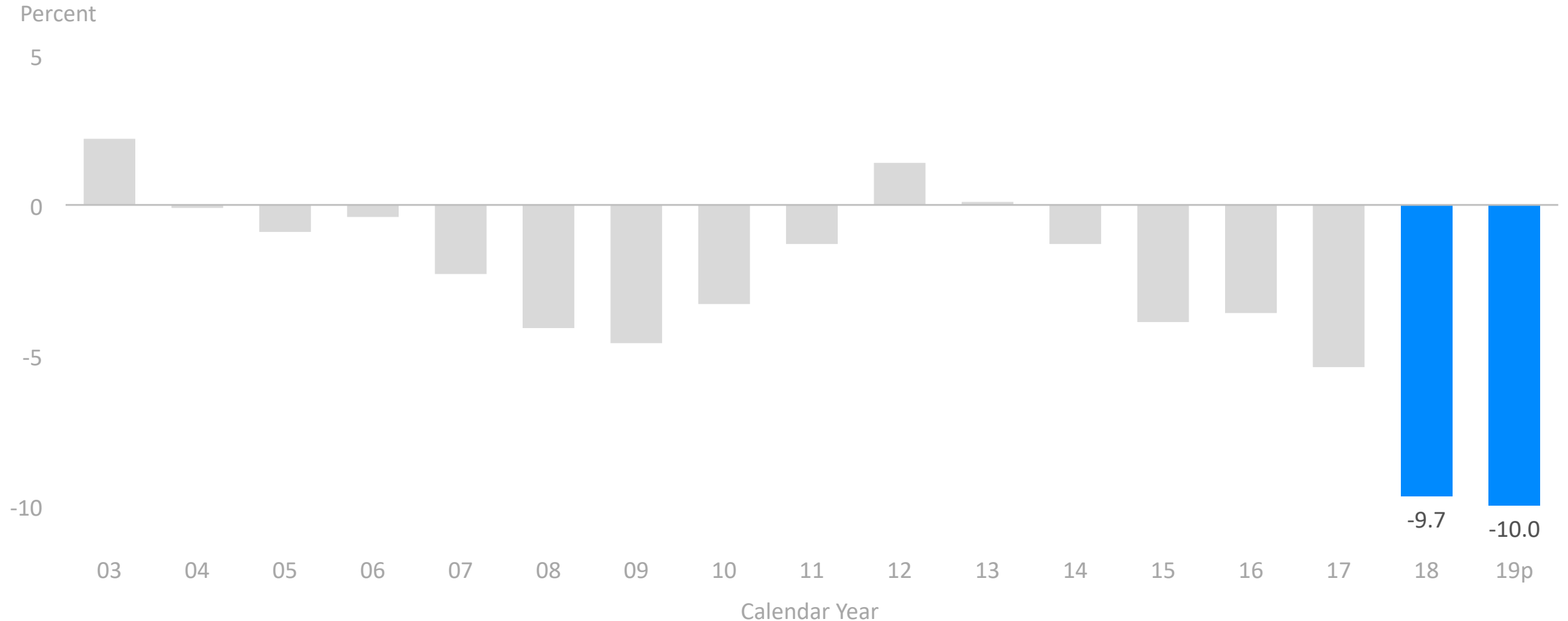
Forecast Change 2017–2018



Sources: Moody's Analytics and NCCI

# Approved Changes in Bureau Premium Level

Weighted by Effective Date—NCCI States



p Preliminary

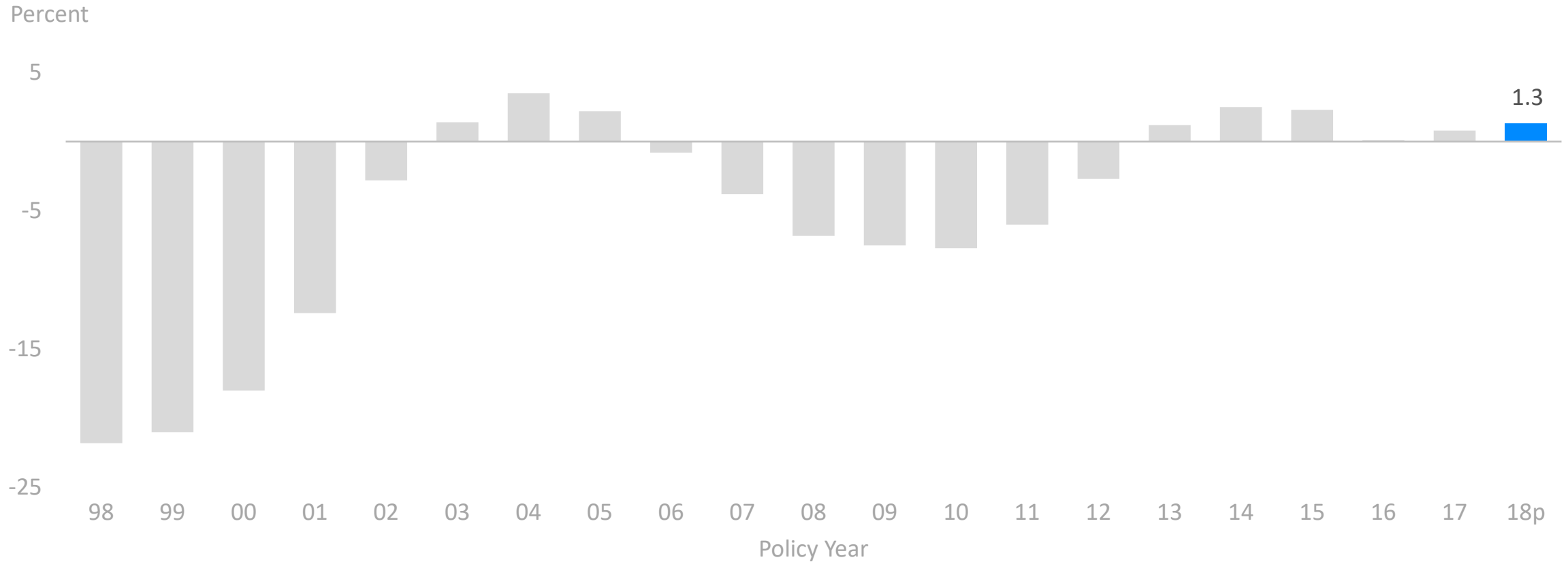
Source: NAIC's Annual Statement Statutory Page 14

Values reflect changes in average premium levels between years, based on approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 6/21/2019

IN and NC are filed in cooperation with state rating bureaus

# Impact of Discounting on Premium

## Private Carriers—NCCI States



p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

# Impact of Discounting on Premium by Component

## Private Carriers—NCCI States

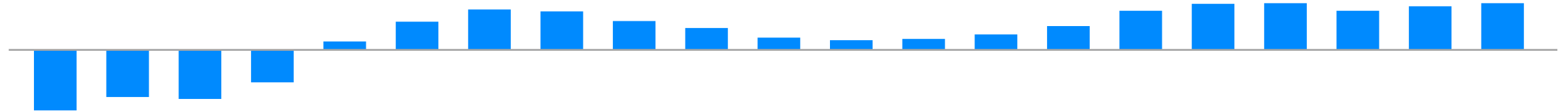
Dividends



Schedule Rating



Rate/Loss Cost Departure



98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18p

Policy Year

p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

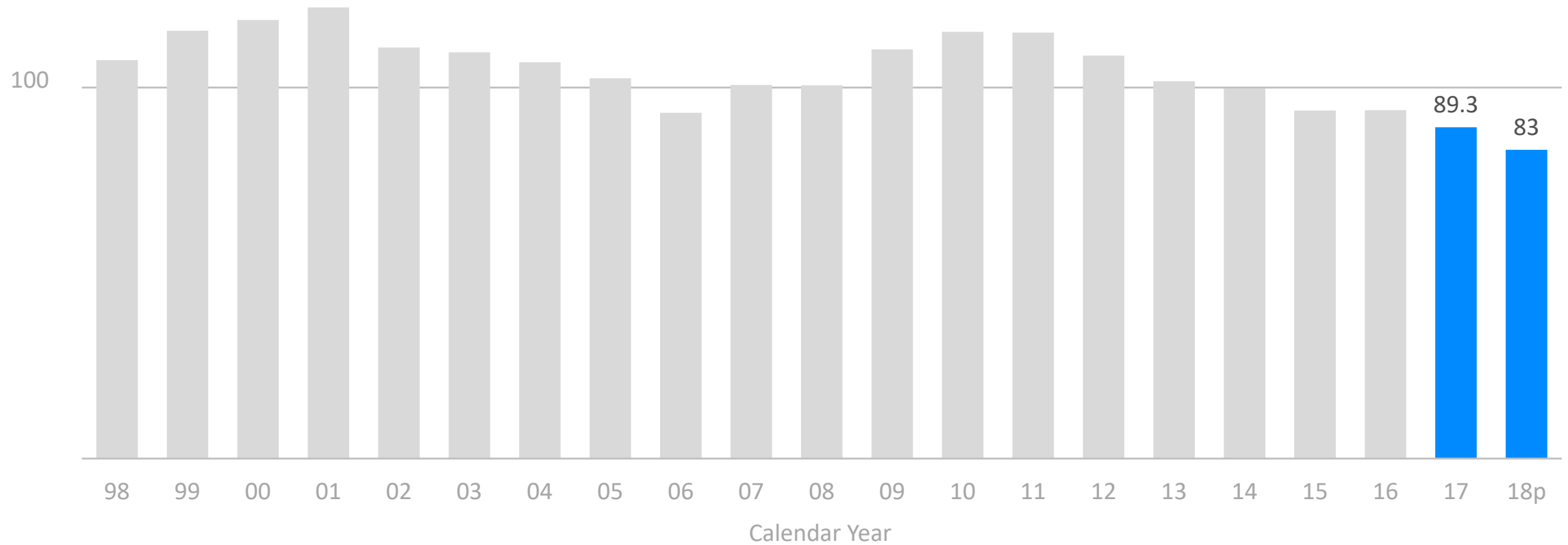
Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

# Combined Ratio—Underwriting Gain Achieved

## Private Carriers

Percent



p Preliminary

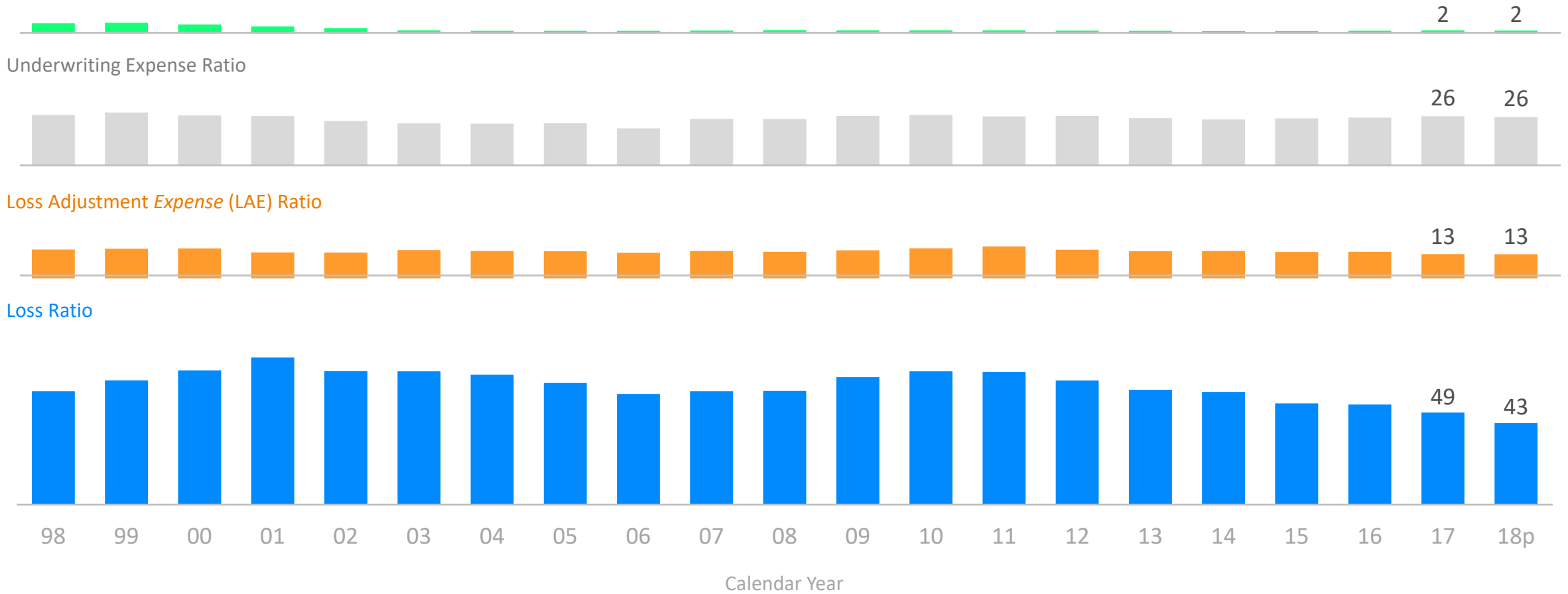
Source: NAIC's Annual Statement data

# Combined Ratio by Component

## Private Carriers

Percent

Dividends



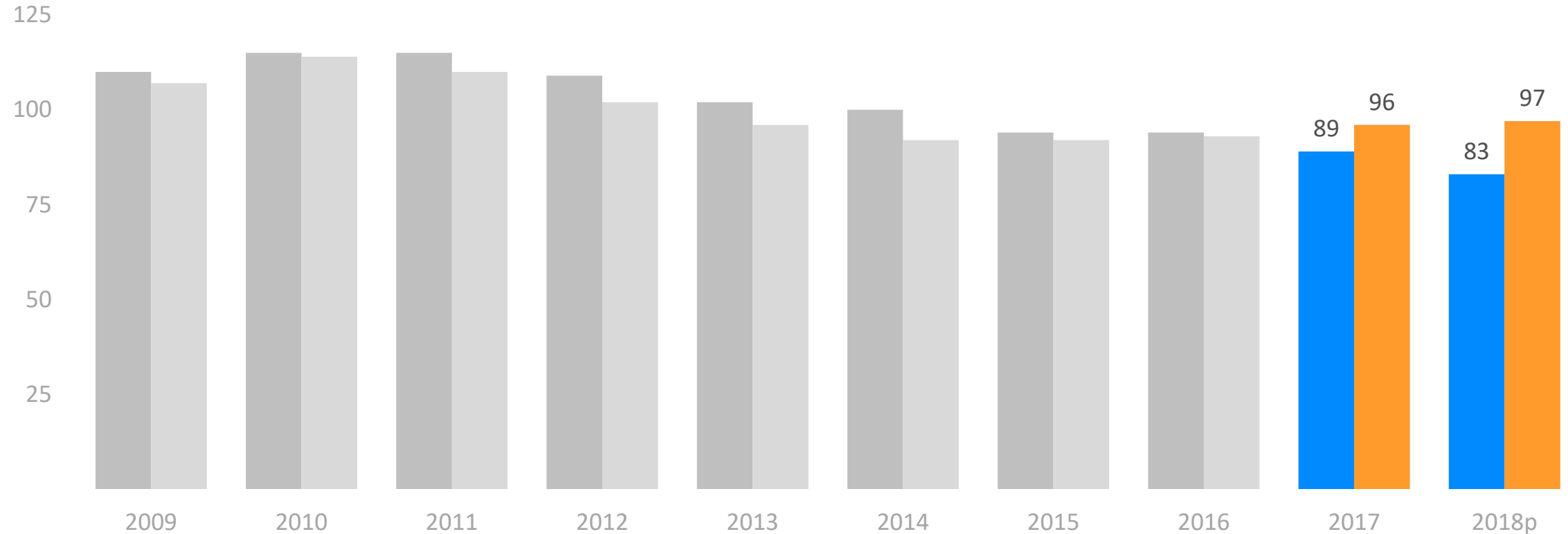
p Preliminary

Source: NAIC's Annual Statement data

# Net Combined Ratios— Calendar Year vs. Accident Year as Reported

## Private Carriers

Percent



p Preliminary

Source: NAIC's Annual Statement data

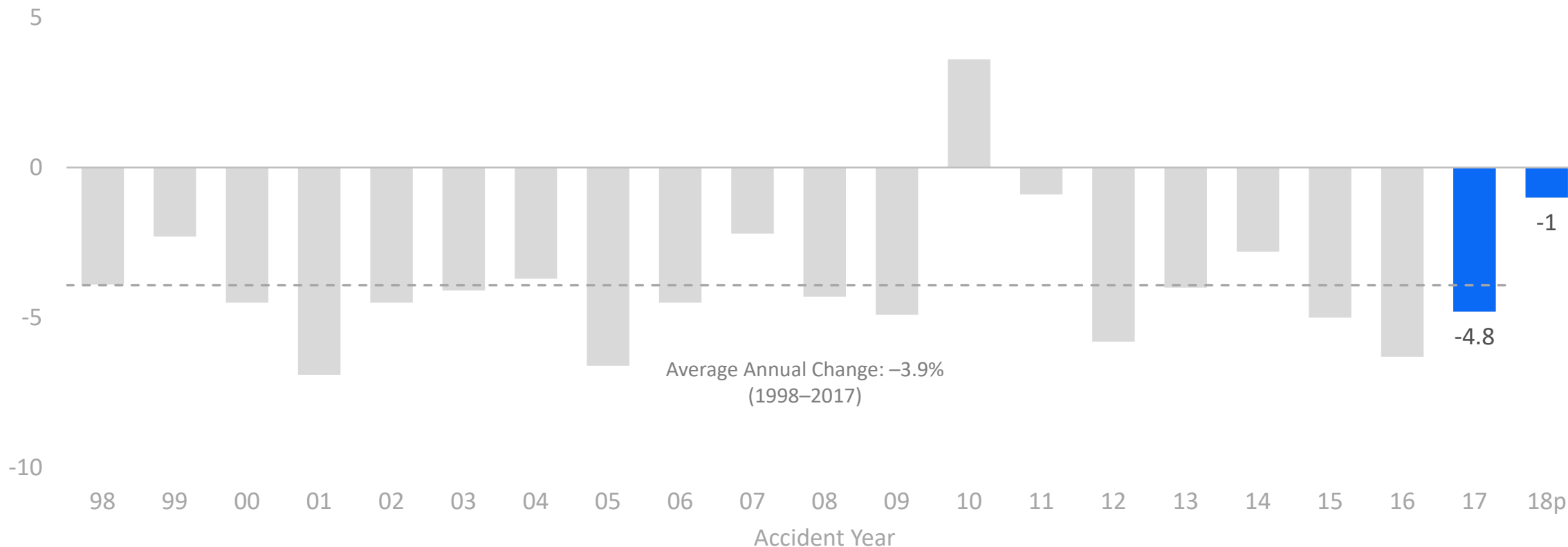
Accident Year information is reported as of 12/31/2018

Includes dividends to policyholders

# Change in Lost-Time Claim Frequency

Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States

Percent



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

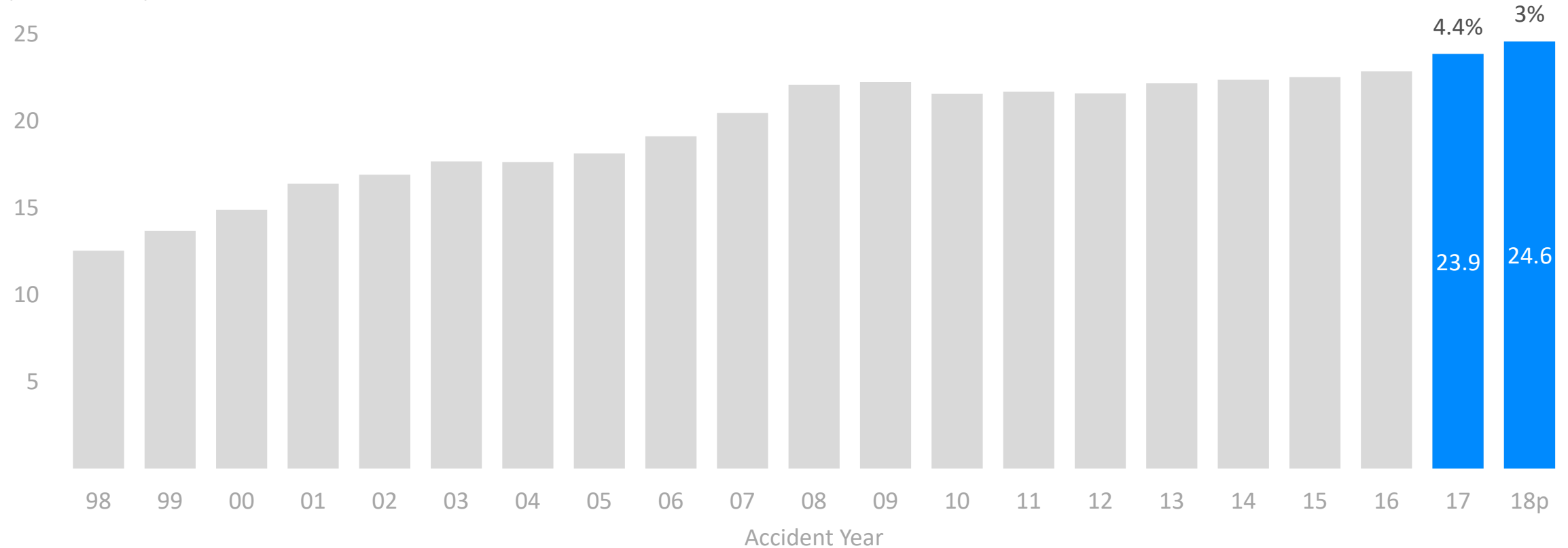
Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011



# Average Indemnity Claim Severity

## Private Carriers and State Funds—NCCI States

Severity  
(\$ Thousands)



p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

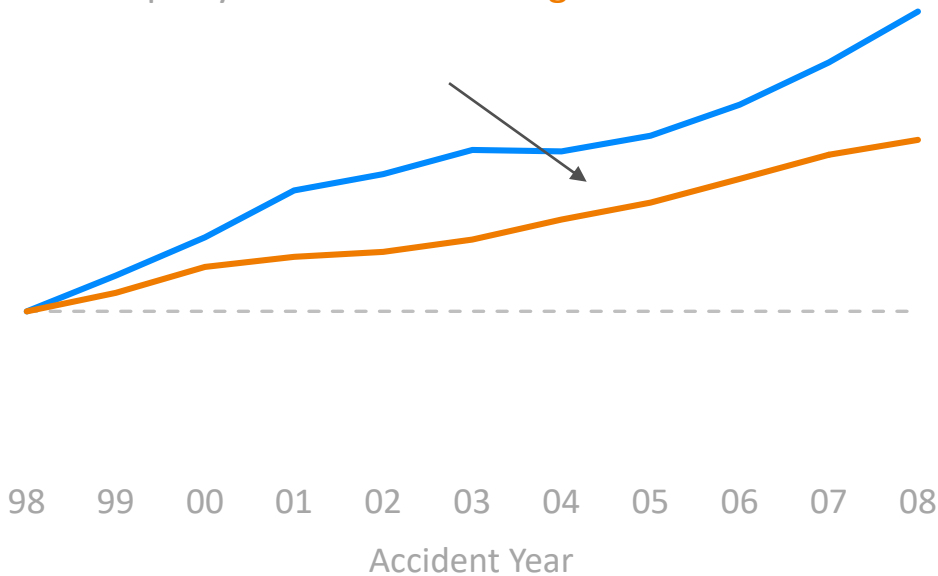
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded prior to 2008; NV and TX are excluded prior to 2004

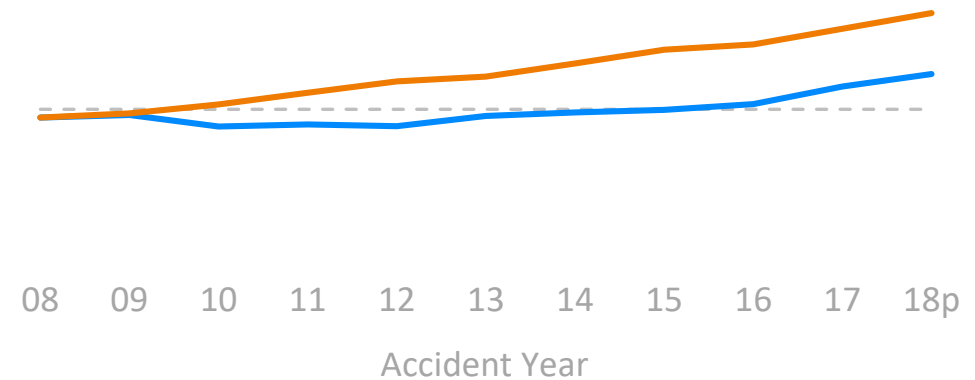
# Relative Growth Rates—Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States

Indemnity claim severity grew 2.3% per year faster than wages



Wage inflation outpaced changes in indemnity claim severity by 1.2% per year, on average



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

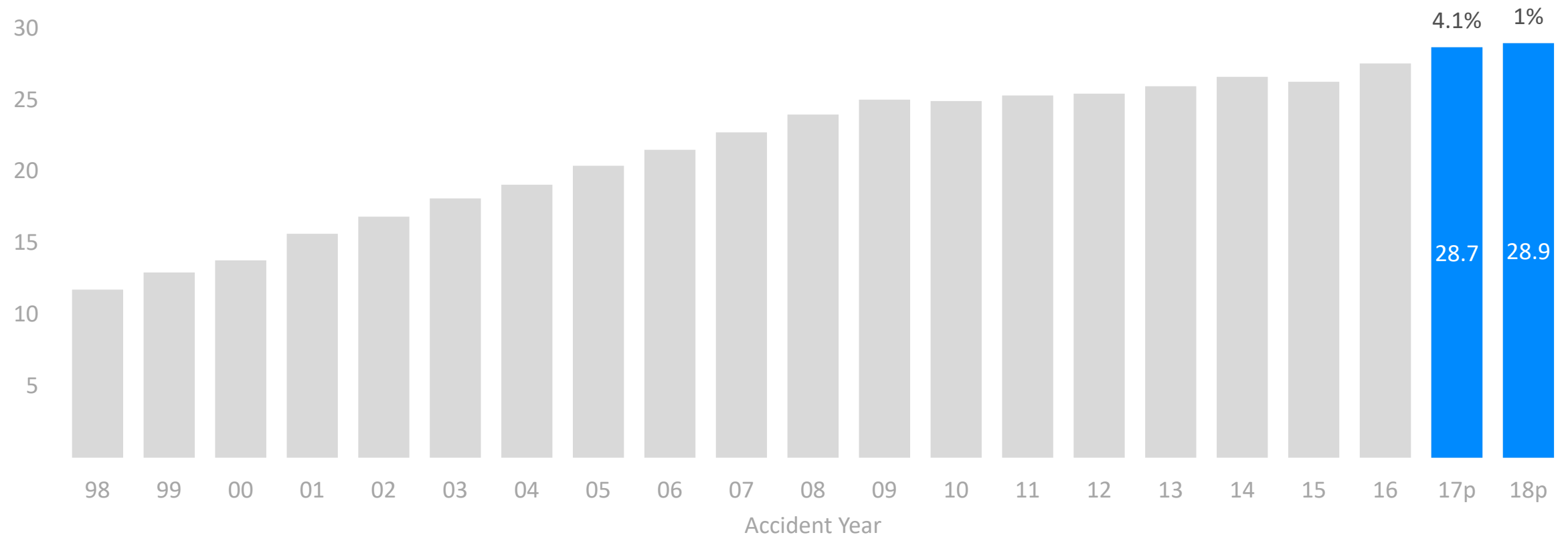
Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

US Average Weekly Wage: 1998–2007 and 2012–2017 Quarterly Census of Employment and Wages, US Bureau of Labor Statistics; 2008–2011, NCCI; 2018p, NCCI and Moody's Analytics

# Average Medical Lost-Time Claim Severity

## Private Carriers and State Funds—NCCI States

Severity  
(\$ Thousands)



p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

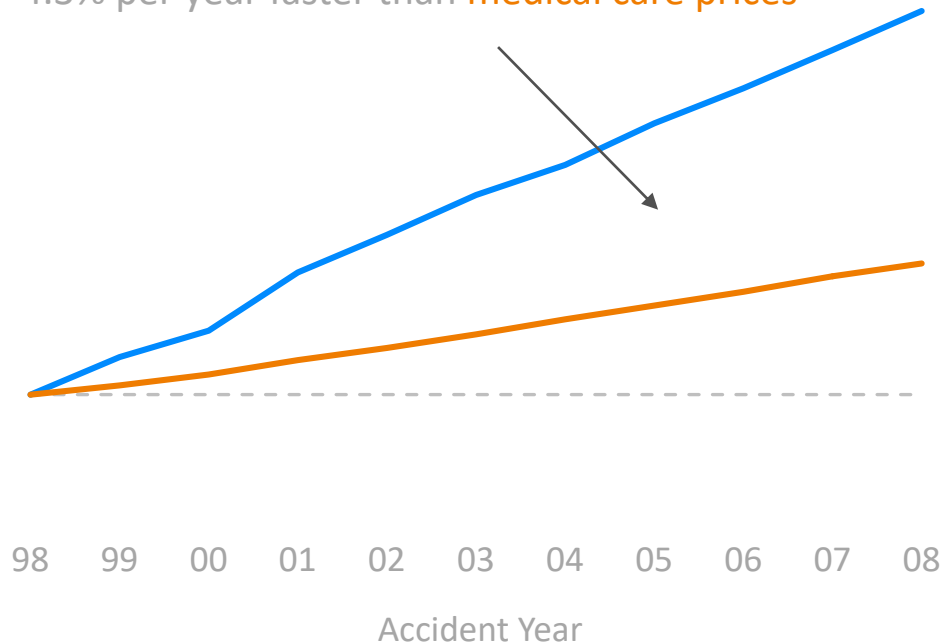
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded prior to 2008; NV and TX are excluded prior to 2004

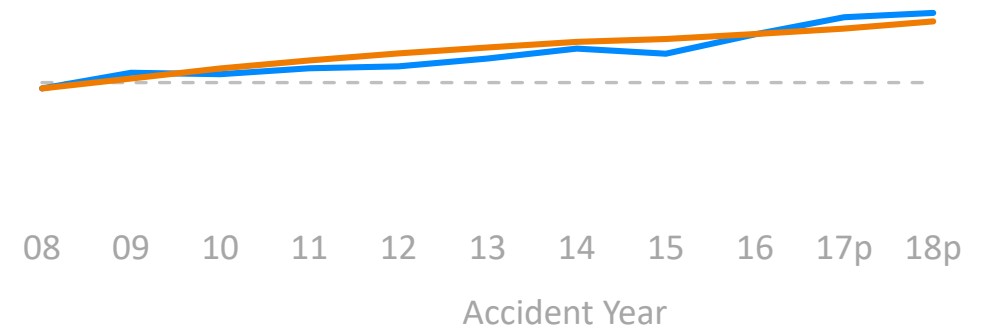
# Relative Growth Rates—Medical Severity vs. Price Inflation

Private Carriers and State Funds—NCCI States

Medical lost-time claim severity grew 4.3% per year faster than medical care prices



Changes in medical lost-time claim severity and medical care prices tracked one another



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

Personal Healthcare Chain-Weighted Price Index: Centers for Medicare & Medicaid Services



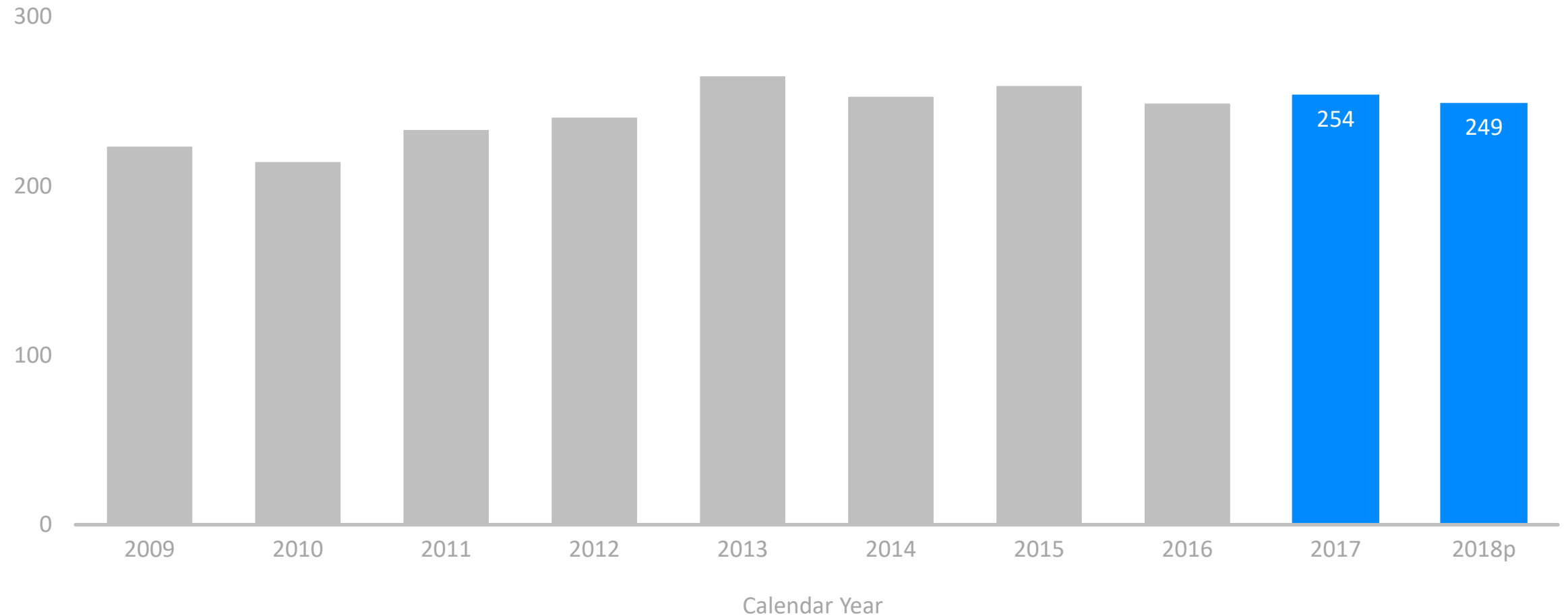
# Arkansas Workers Compensation System

# Arkansas Workers Compensation System—An Overview

- Direct written premium decreased in the most recent year
- The combined ratio continues to show favorable results
- Lost-time claim frequency and severity increased in the latest year

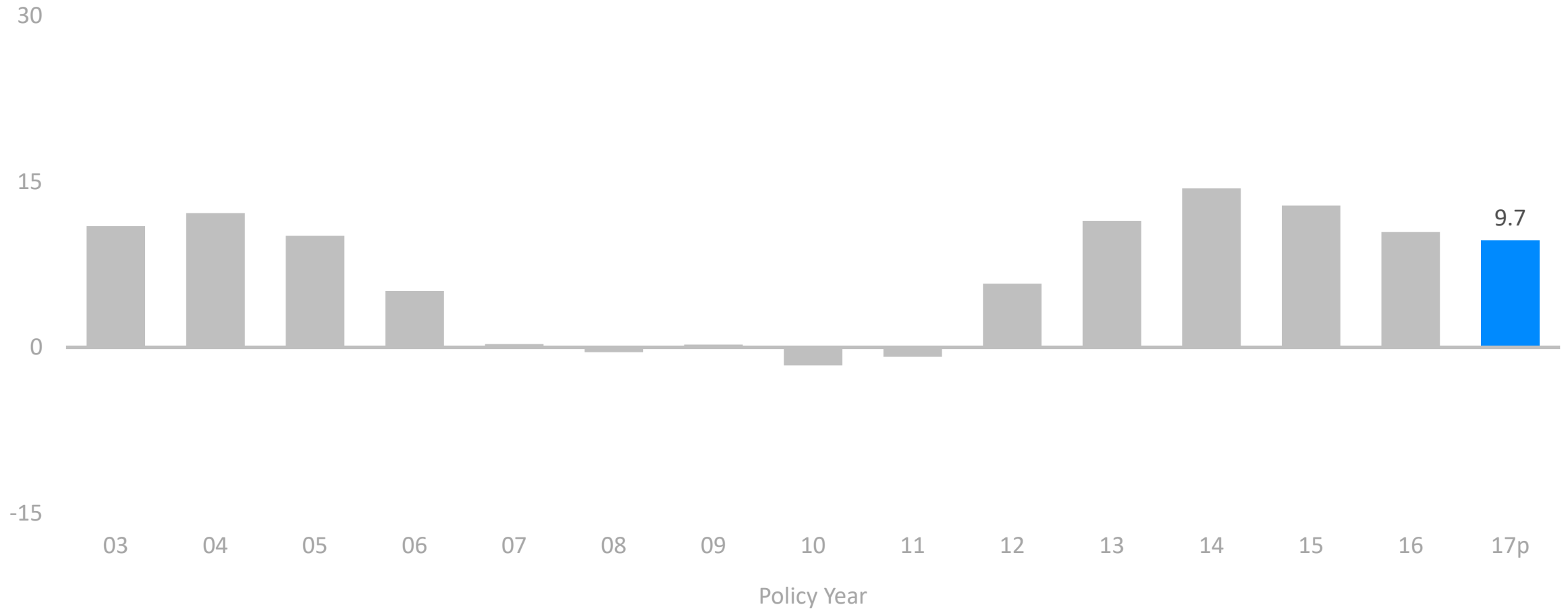
# Arkansas Premium Volume

Direct Written Premium in \$ Millions



p Preliminary  
Source: NAIC's Annual Statement data

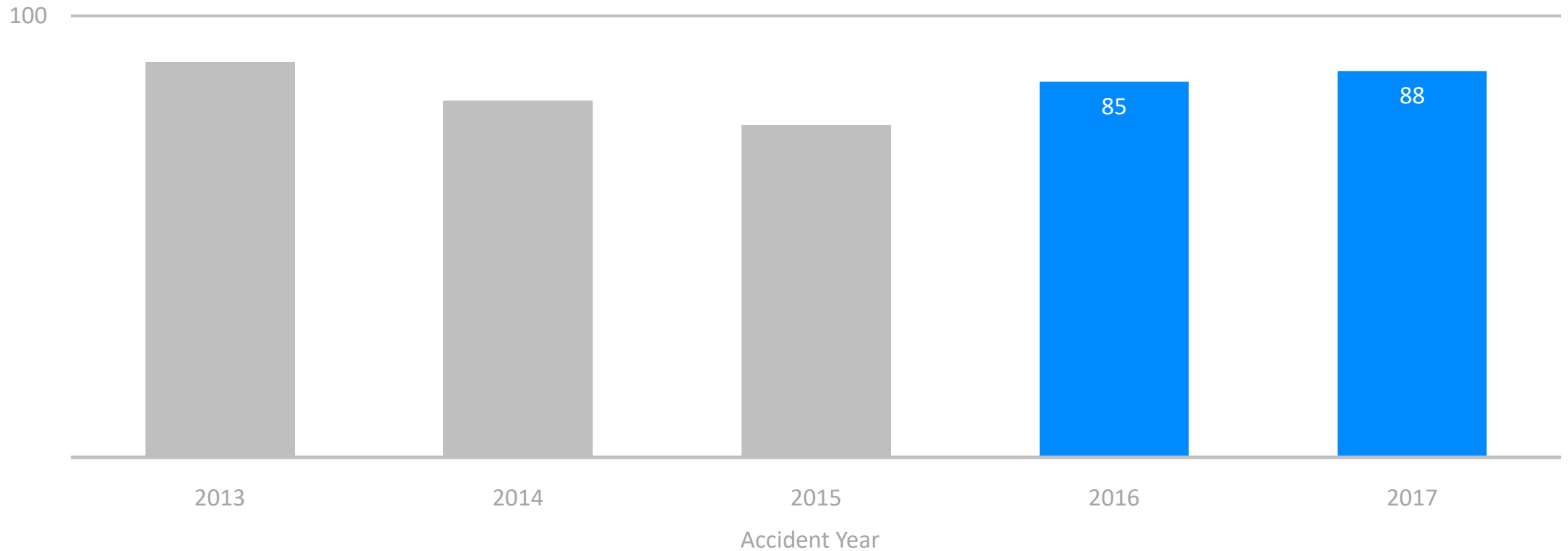
# Impact of Discounting on Premium in Arkansas



p Preliminary  
Based on data through 12/31/2017



# Arkansas Combined Ratios



Sources: NCCI's financial data through 12/31/2017 and NAIC's Annual Statement data

# Arkansas Combined Ratios by Component

## Dividends

0

0

## Expense Ratio

37

36

## Loss Ratio

48

51

2013

2014

2015

2016

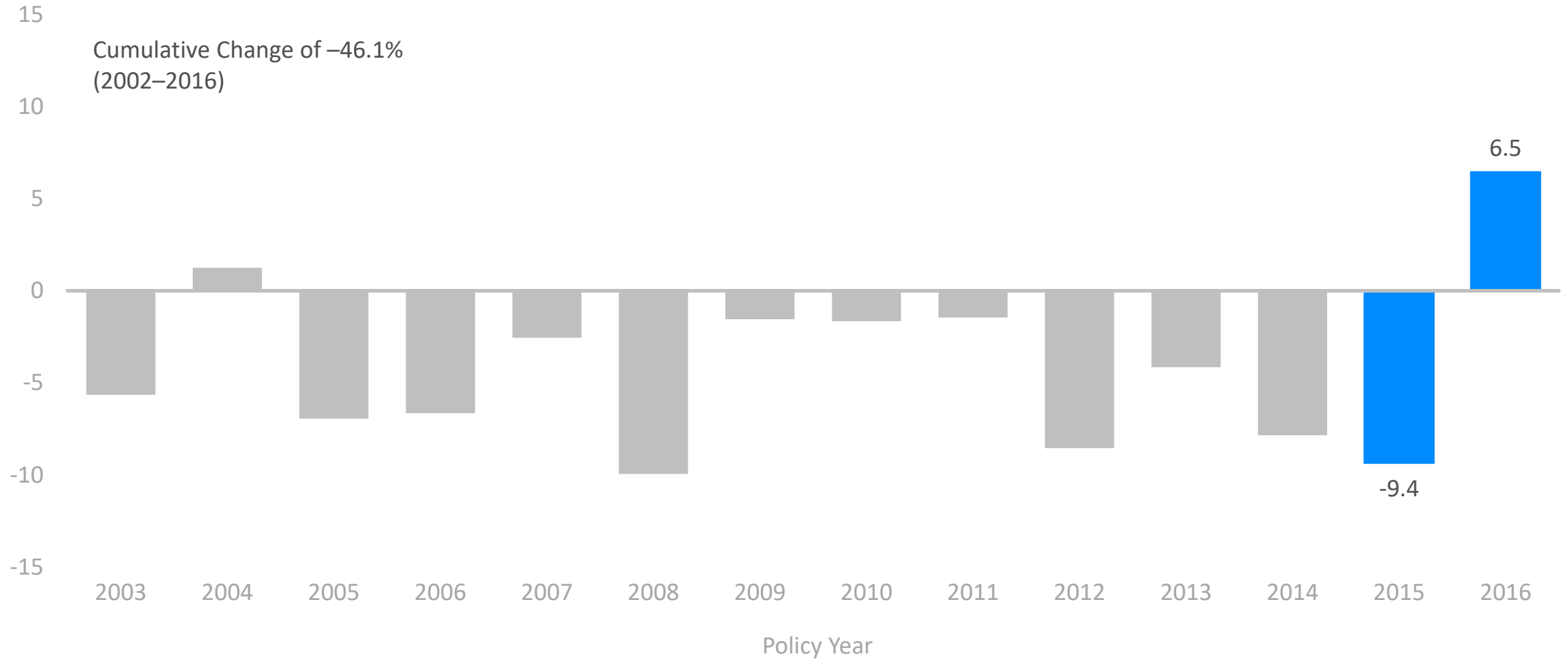
2017

Accident Year

Sources: NCCI's financial data through 12/31/2017 and NAIC's Annual Statement data

# Arkansas Change in Claim Frequency

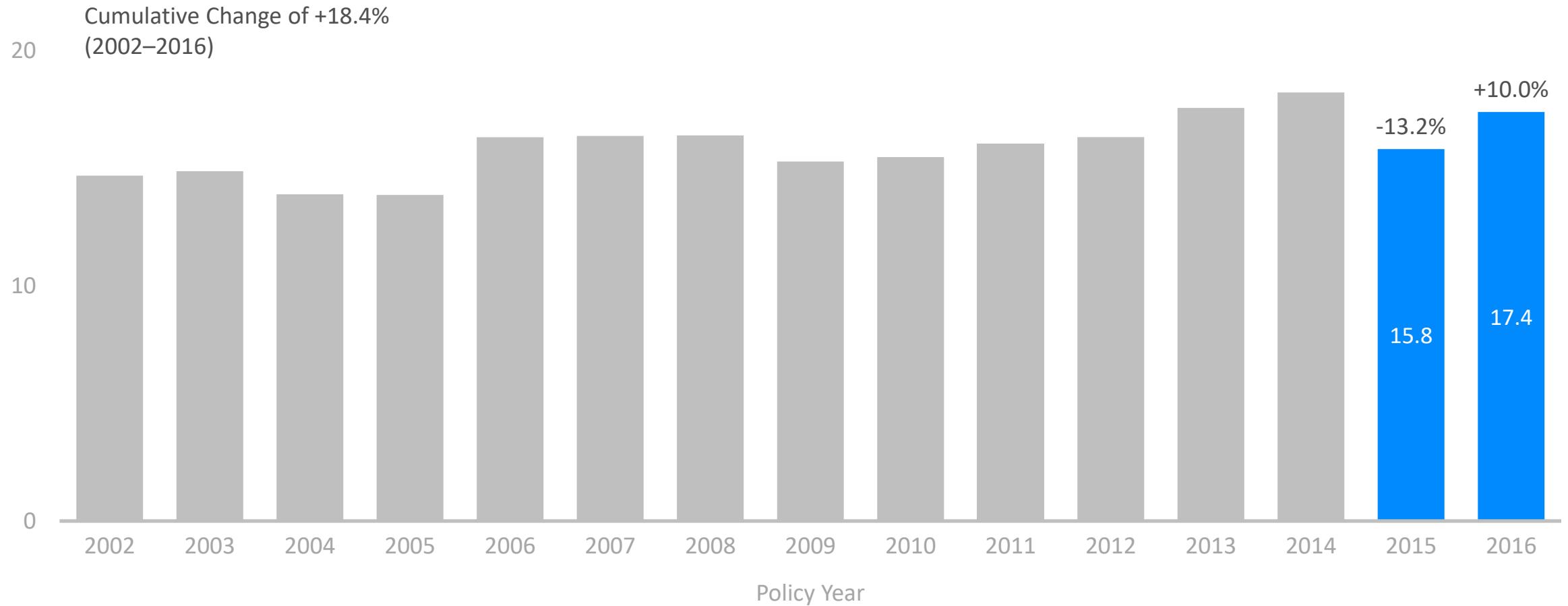
Percent Change in Lost-Time Claims, per \$ Million of On-Leveled Premium



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate, premium adjusted to common wage level

# Arkansas Average Indemnity Claim Severity

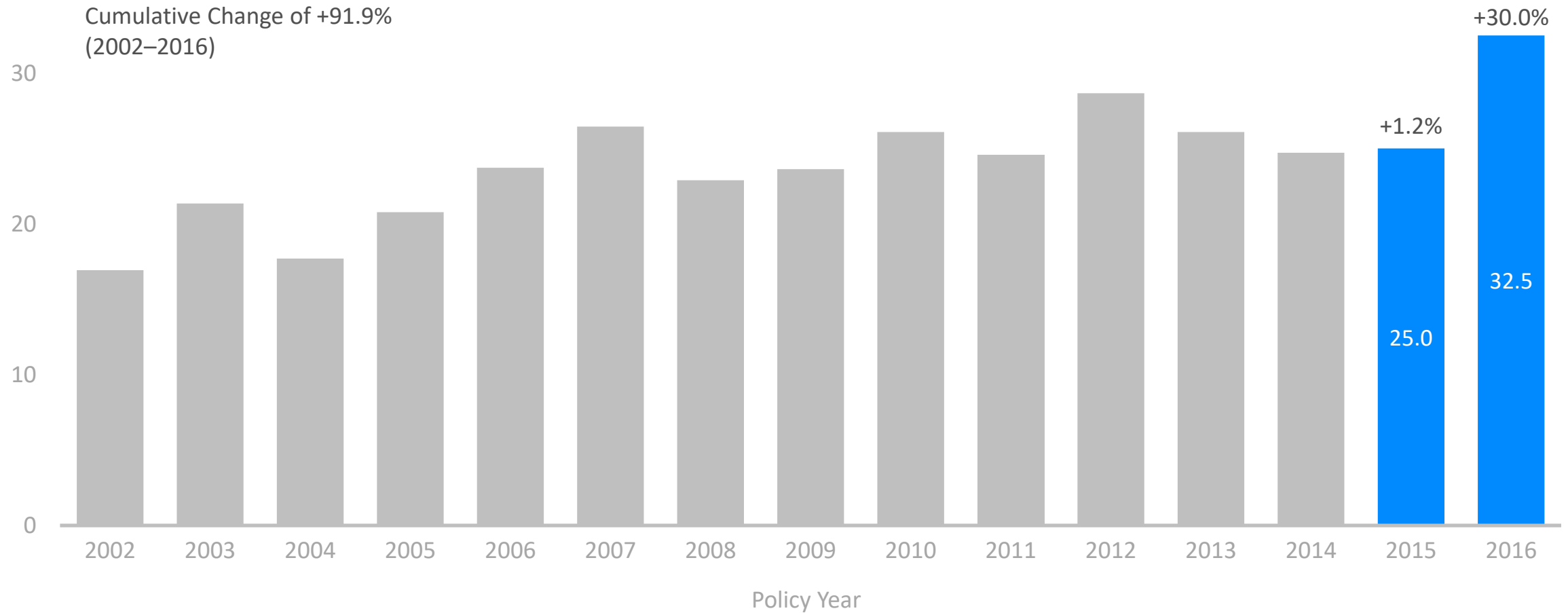
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate

# Arkansas Average Medical Claim Severity

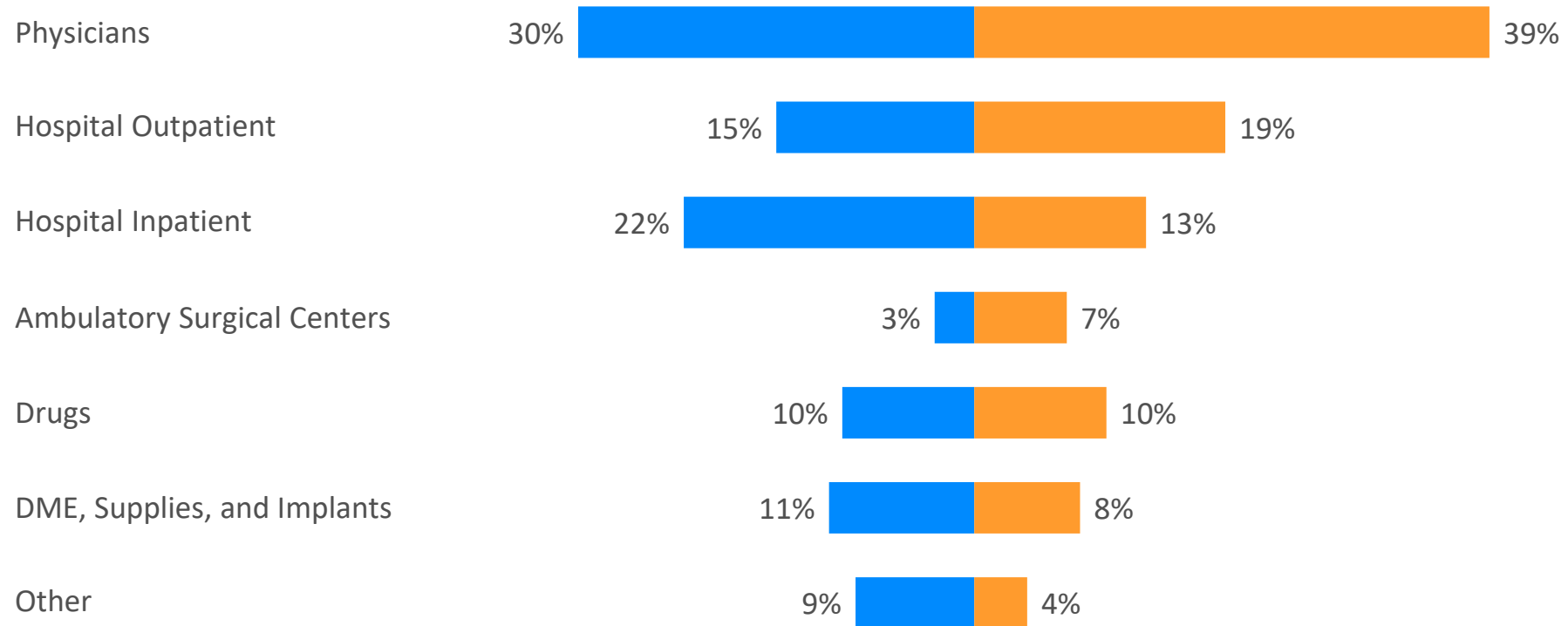
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate

# Distribution of Medical Payments

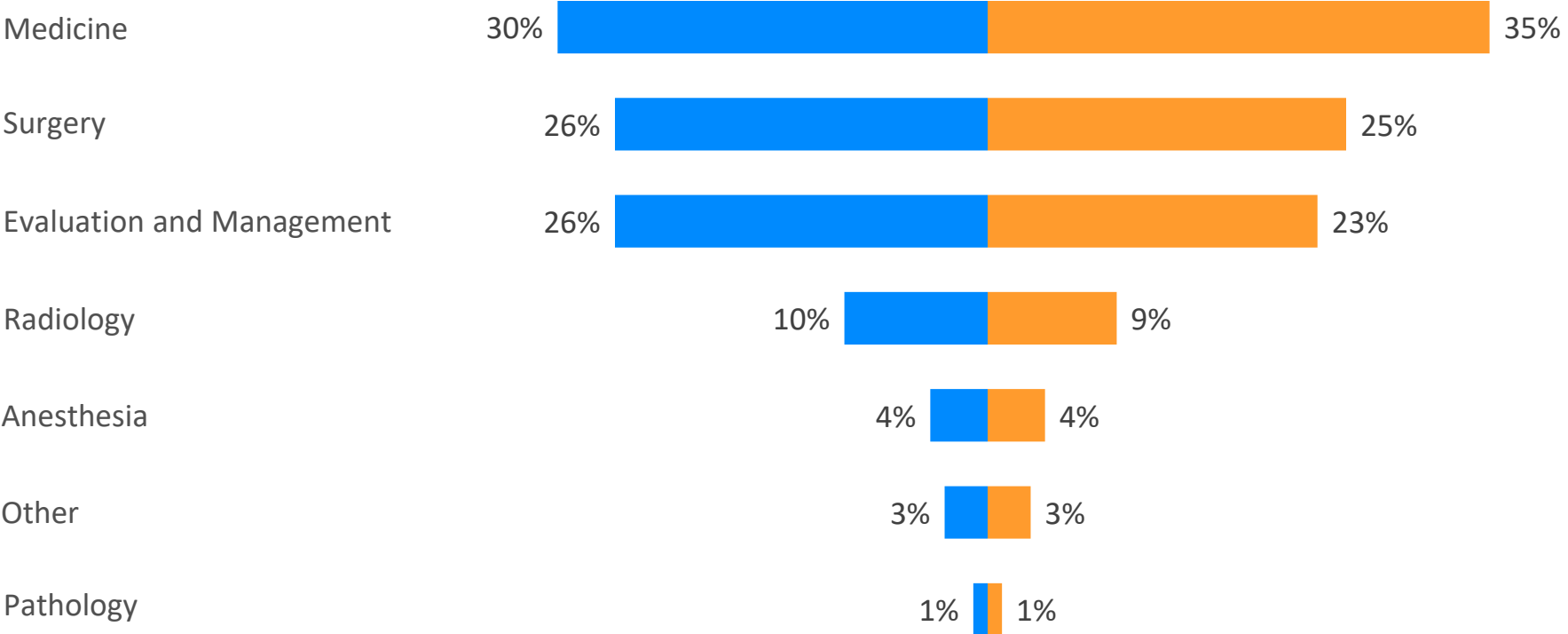
Arkansas vs. Countrywide



Countrywide includes data from the following states: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN, MO, MS, MT, NC, NE, NH, NJ, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WI, and WV

# Distribution of Physician Payments by AMA Service Categories

Arkansas vs. Countrywide

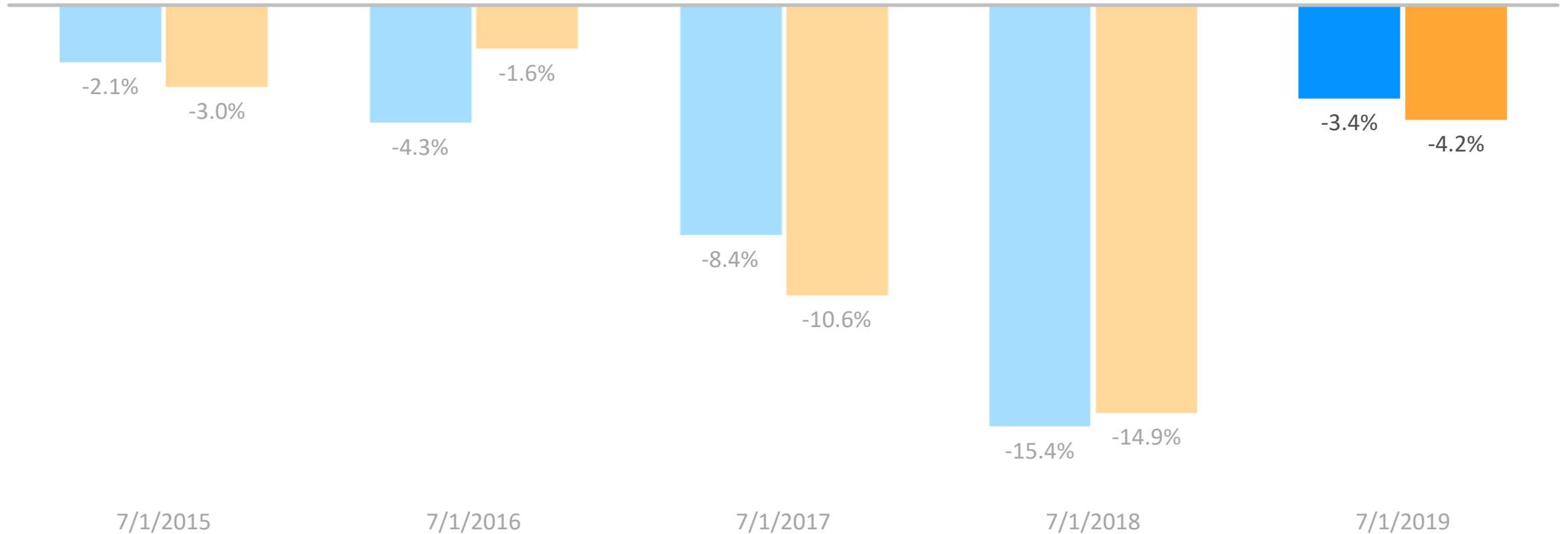


Countrywide includes data from the following states: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN, MO, MS, MT, NC, NE, NH, NJ, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WI, and WV



# Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes



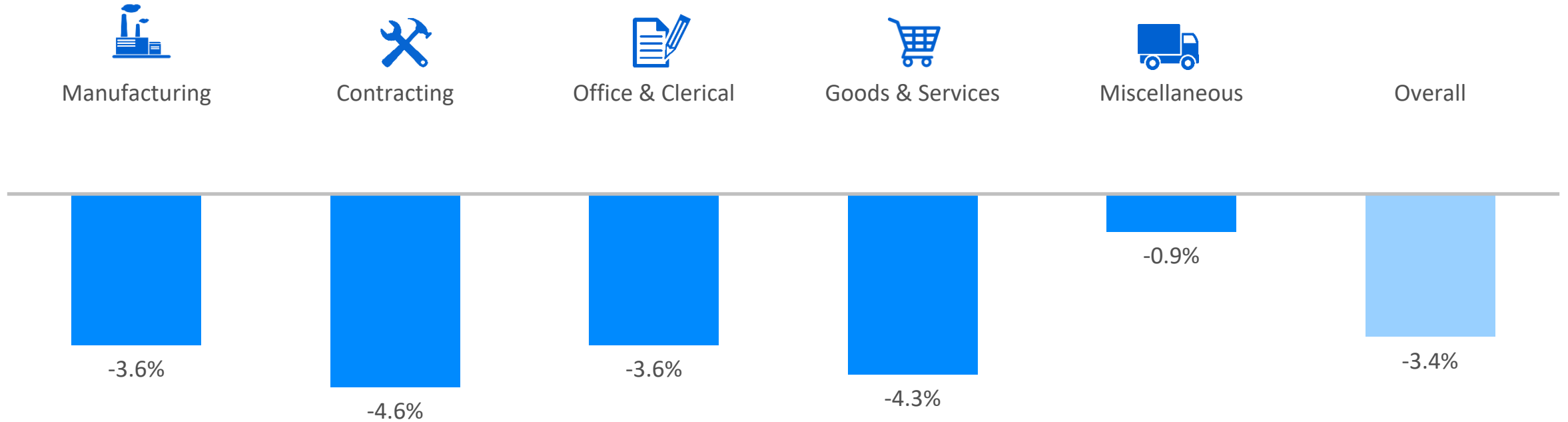


# Arkansas July 1, 2019 Loss Cost Filing

Change in Experience	-2.7%
Change in Trend	-2.3%
Change in Benefits	1.9%
Change in Loss-based Expenses	-0.3%
<hr/>	
Overall Loss Cost Level Change	-3.4%

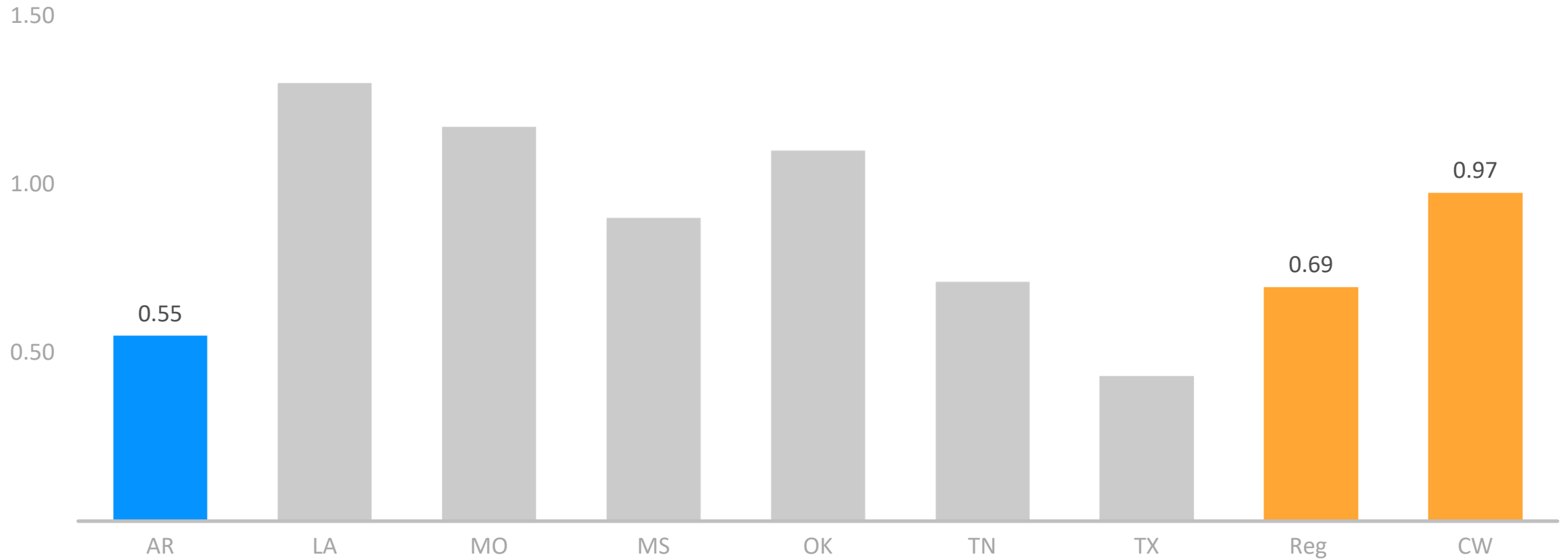
# Arkansas July 1, 2019 Loss Cost Filing

## Average Changes by Industry Group



# Average Voluntary Pure Loss Costs

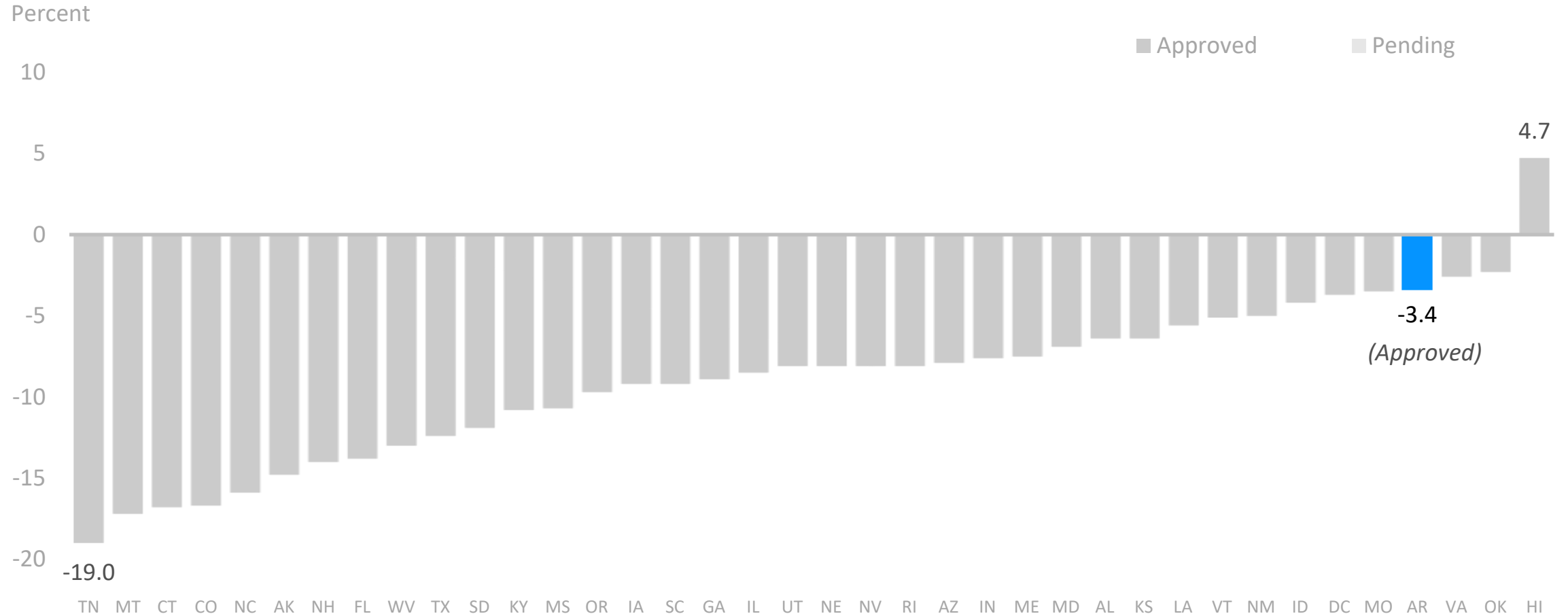
Using Arkansas Payroll Distribution



Based on approved rates and loss costs in various jurisdictions from filings using data valued as of 12/31/2017

# Current NCCI Voluntary Market Loss Cost/Rate Level Changes

Excludes Law-Only Filings

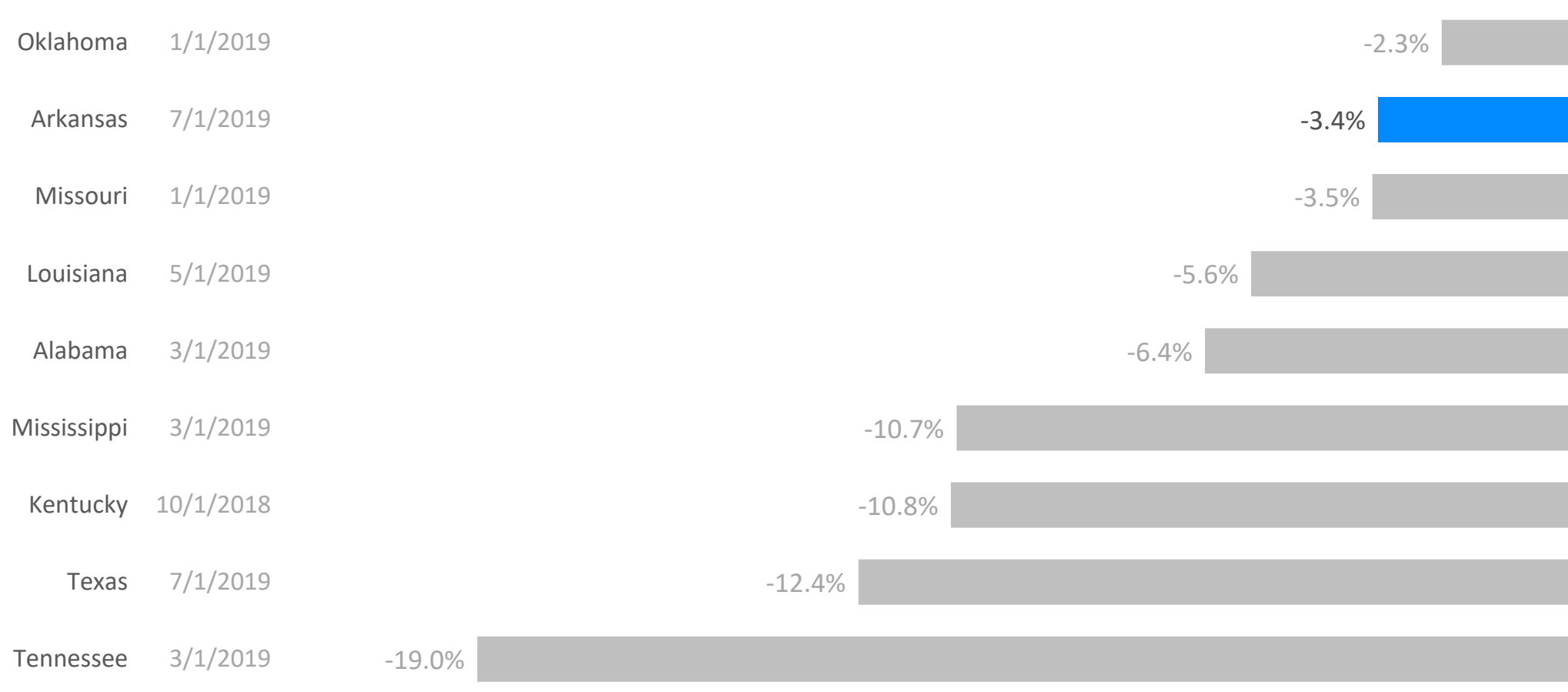


Reflects the most recent experience filing in each jurisdiction as of 6/21/2019

Due to the timing of the individual loss cost/rate filings, the figures shown may include changes from prior filing seasons

# Current Voluntary Market Loss Cost/Rate Level Changes

## Nearby States



Reflects the most recent experience filing in each jurisdiction as of 6/21/2019

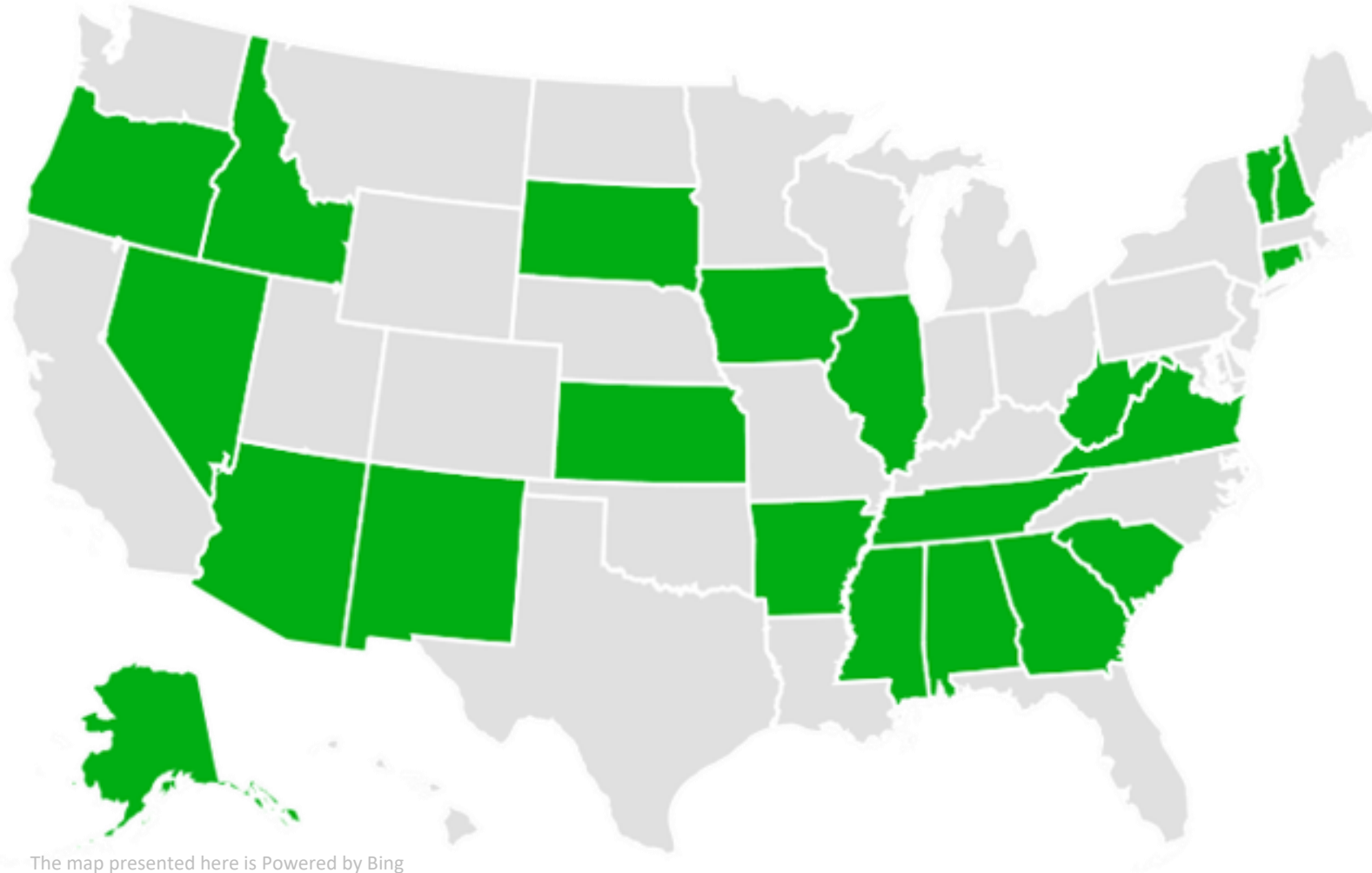
Due to the timing of the individual loss cost/rate filings, the figures shown may include changes from prior filing seasons



# Residual Market

# Plan Data

Includes 22 NCCI Plan Administration States

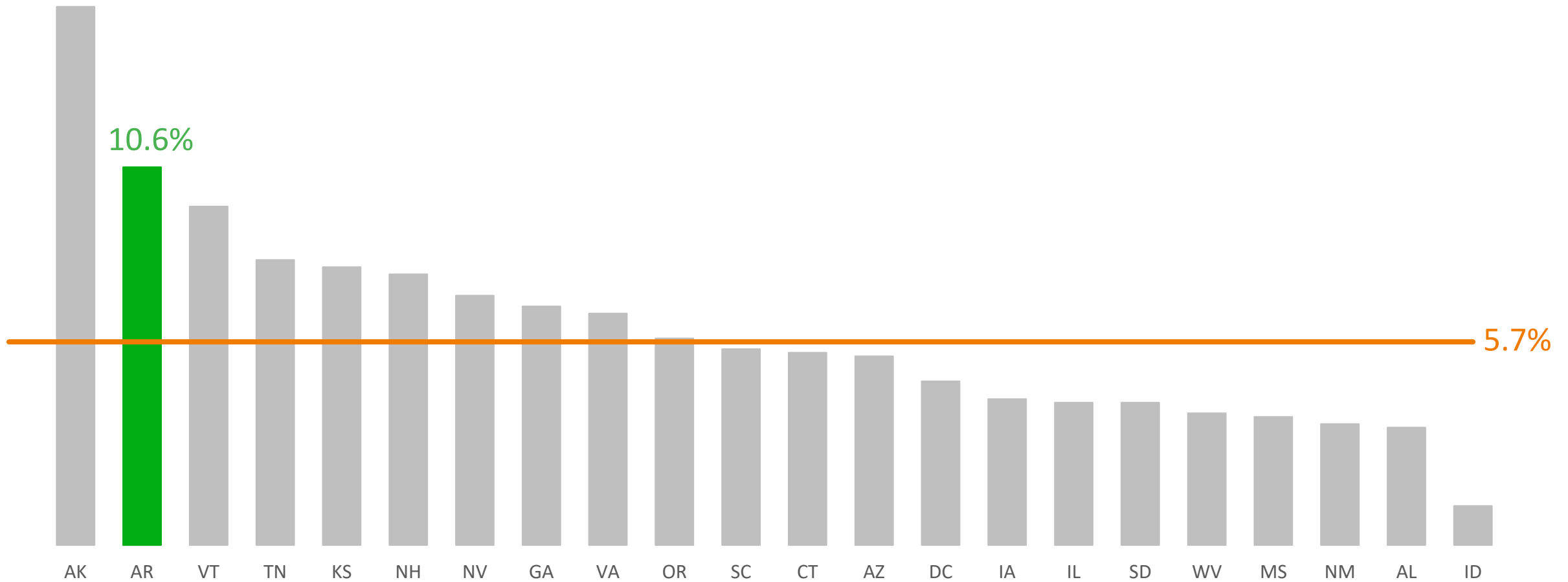


- Alabama
- Alaska
- Arizona
- Arkansas
- Connecticut
- DC
- Georgia
- Idaho
- Illinois
- Iowa
- Kansas
- Mississippi
- Nevada
- New Hampshire
- New Mexico
- Oregon
- South Carolina
- South Dakota
- Tennessee
- Vermont
- Virginia
- West Virginia

The map presented here is Powered by Bing  
© GeoNames, HERE, MSFT

# Assigned Risk Plan Market Share Percentage by State

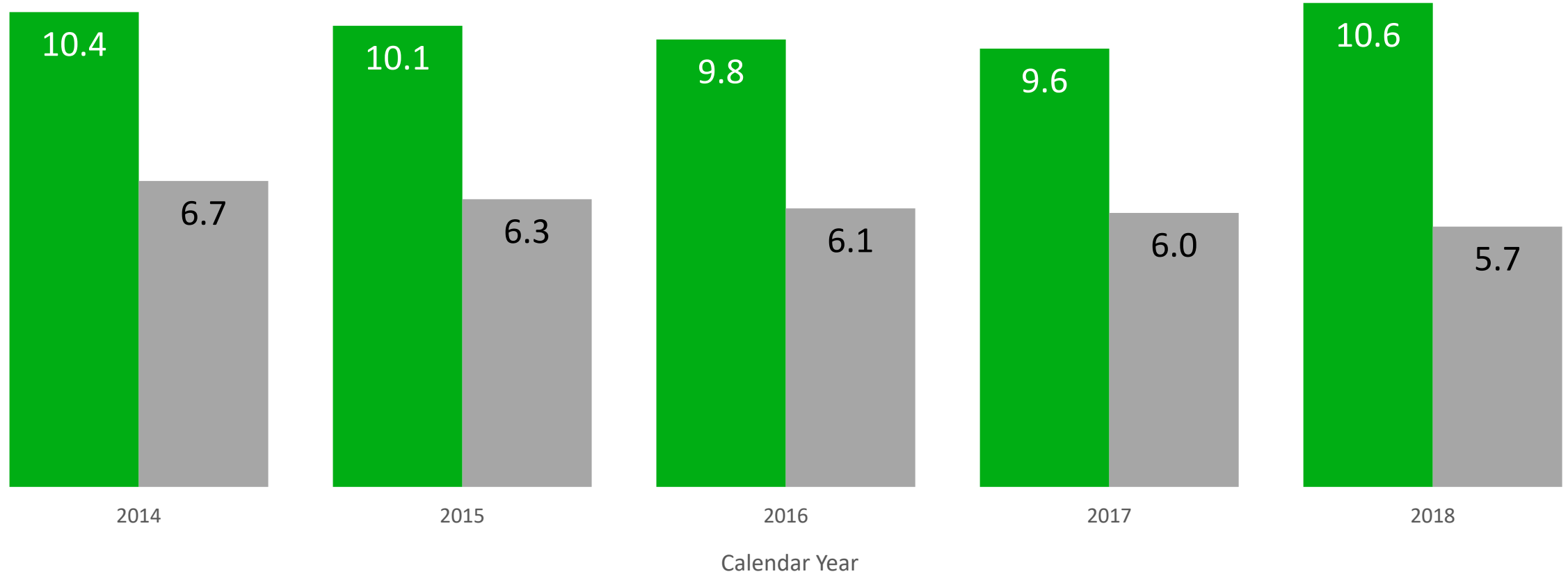
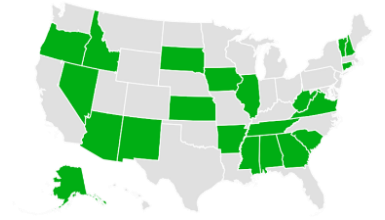
As of 12/31/2018





# Arkansas Residual Market Share Compared To All Plan States Market Share

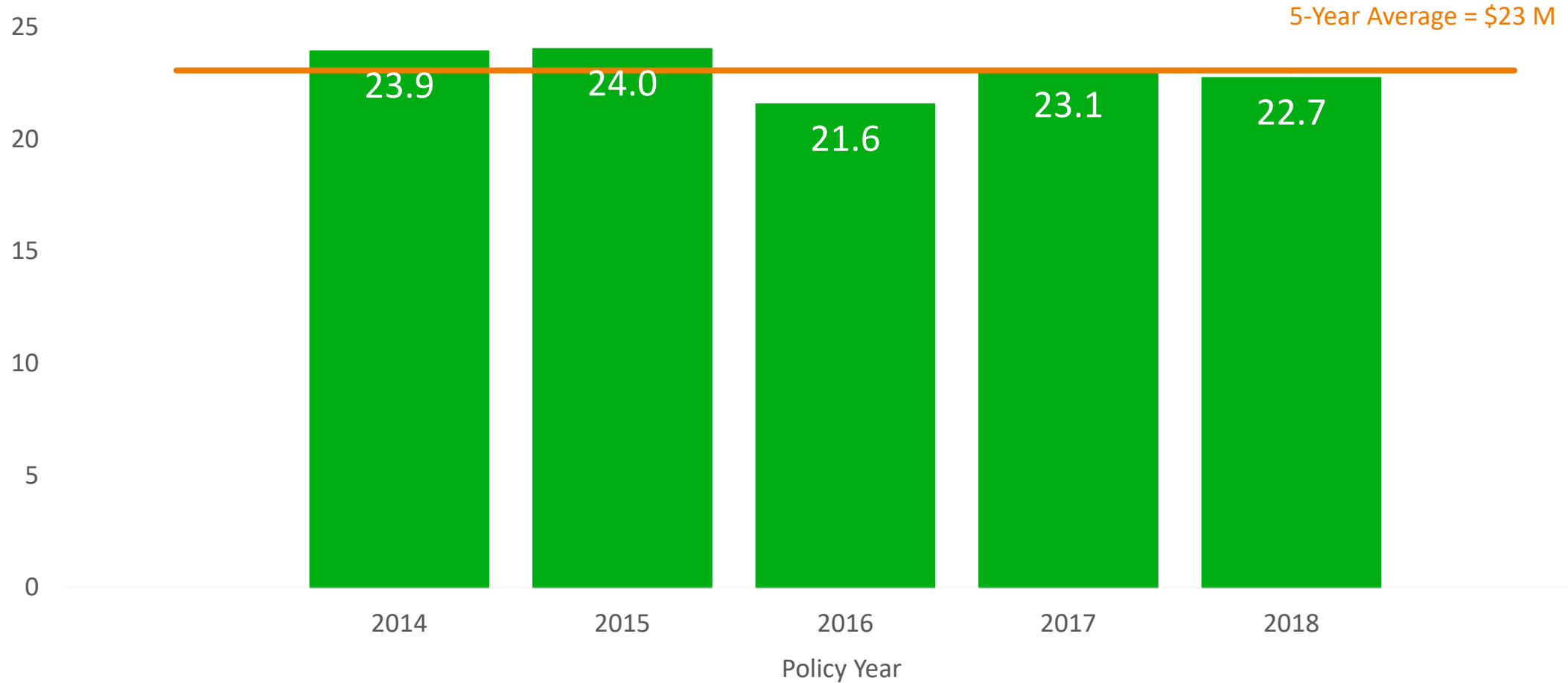
Plan Premium as a Percentage of Direct Written Premium



# Arkansas Residual Market Plan Premium

As of 12/31/2018

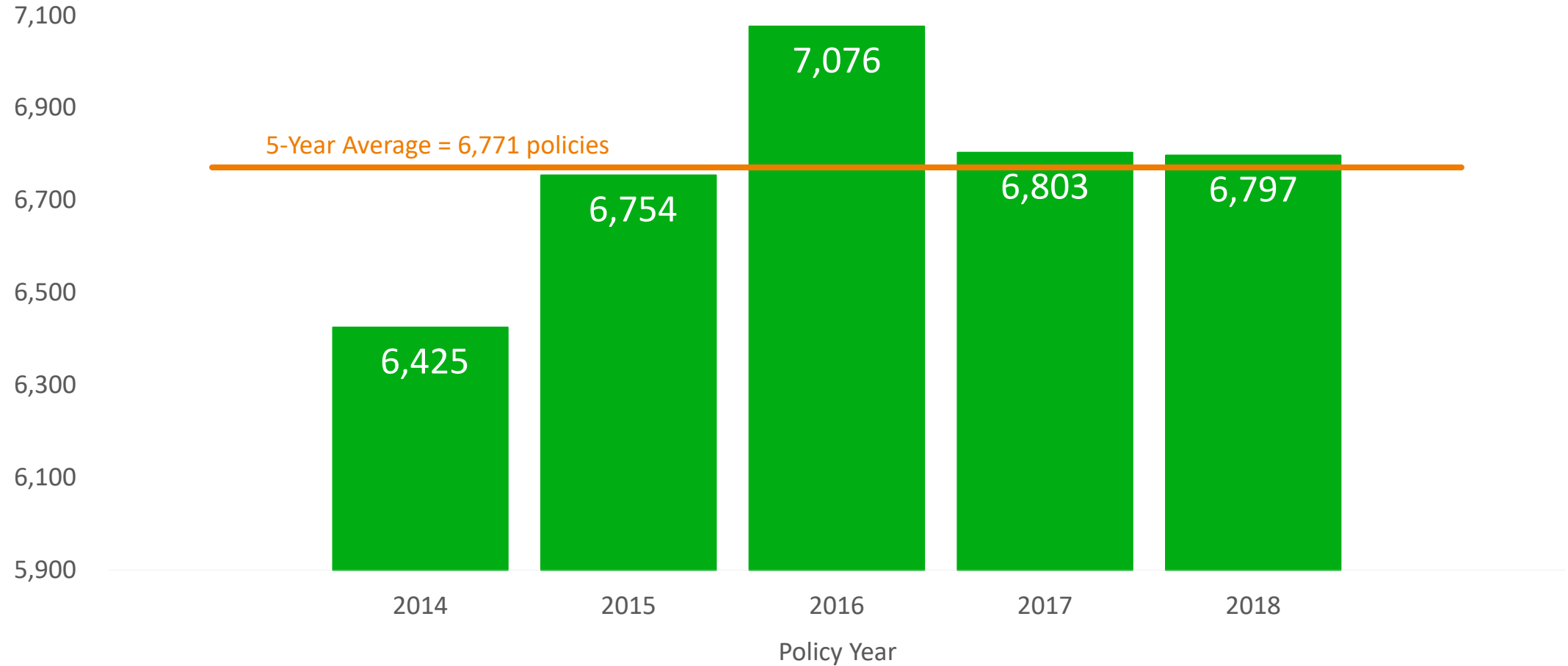
\$ Millions



# Arkansas Residual Market Policy Counts

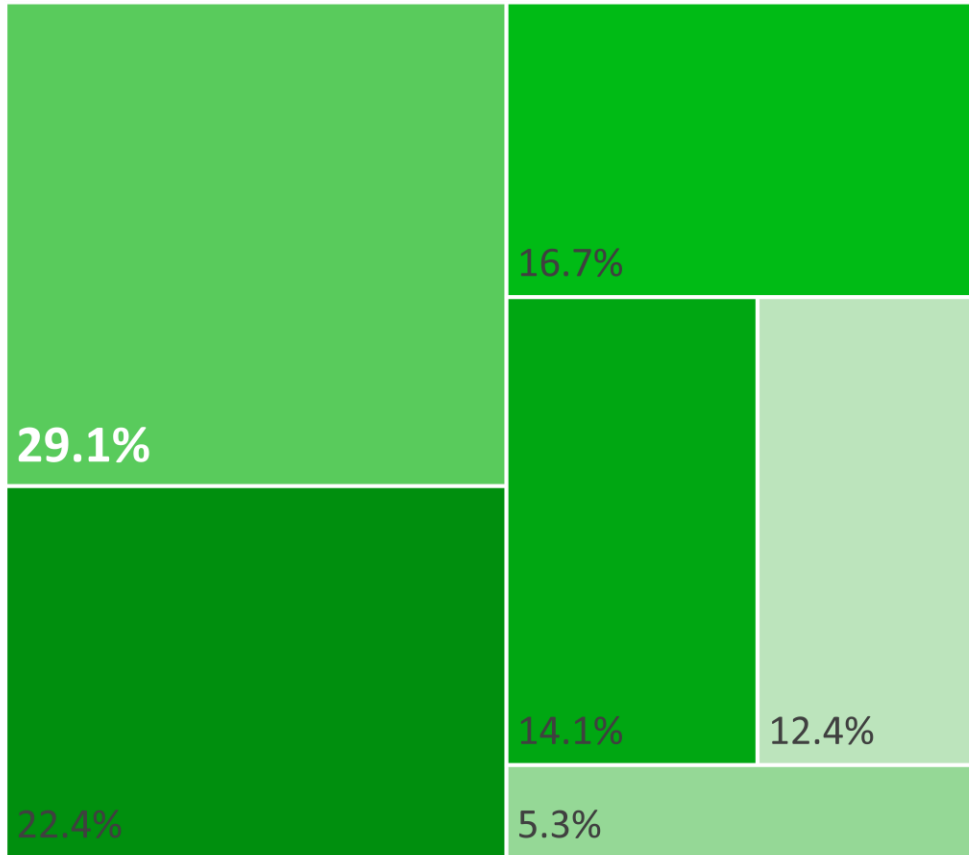
As of 12/31/2018

Policy Count

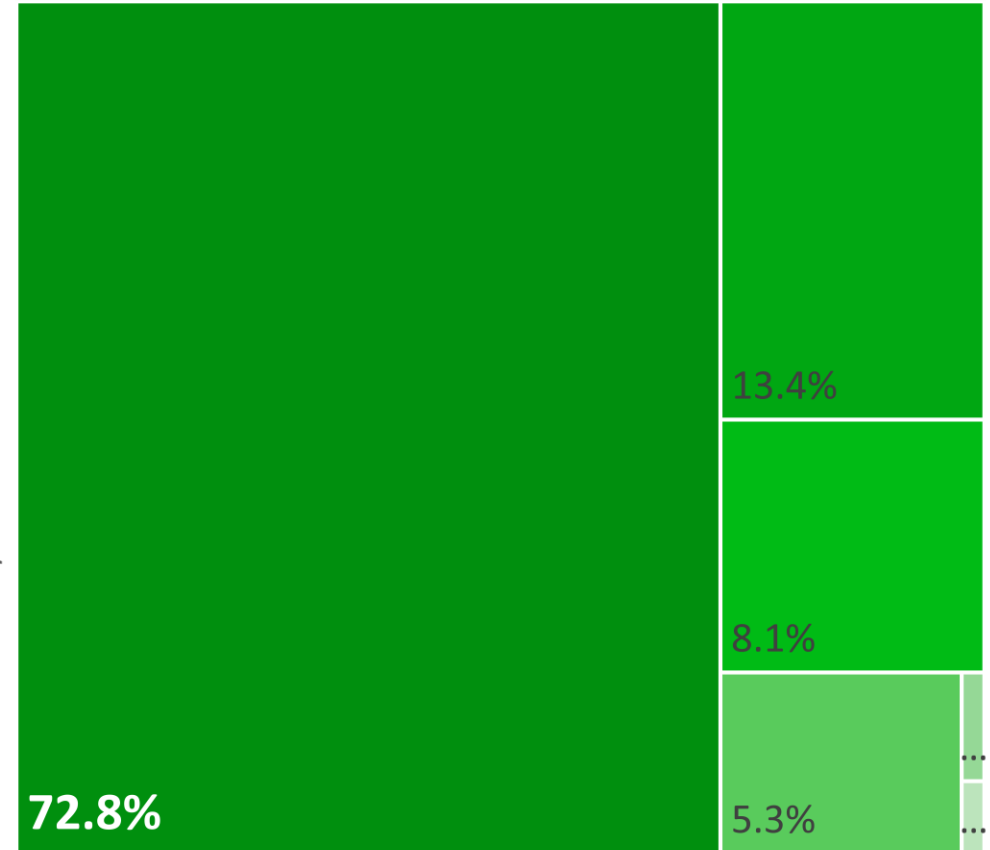


# Arkansas Residual Market Policy Information **Under \$2,500**

Policy Premium



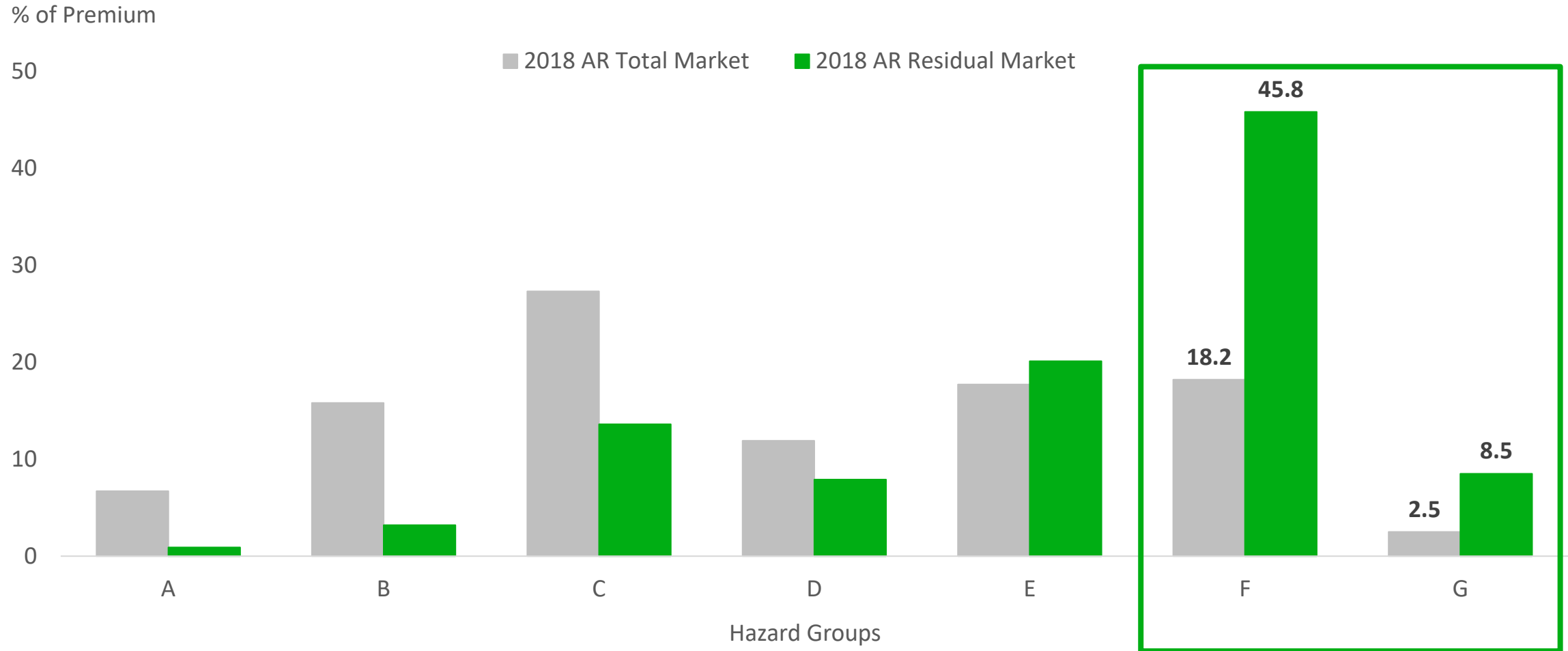
Policy Count



- Under \$2,500
- \$2,500-\$4,999
- \$5,000-\$9,999
- \$10,000-\$49,999
- \$50,000-\$99,999
- \$100,000 and over

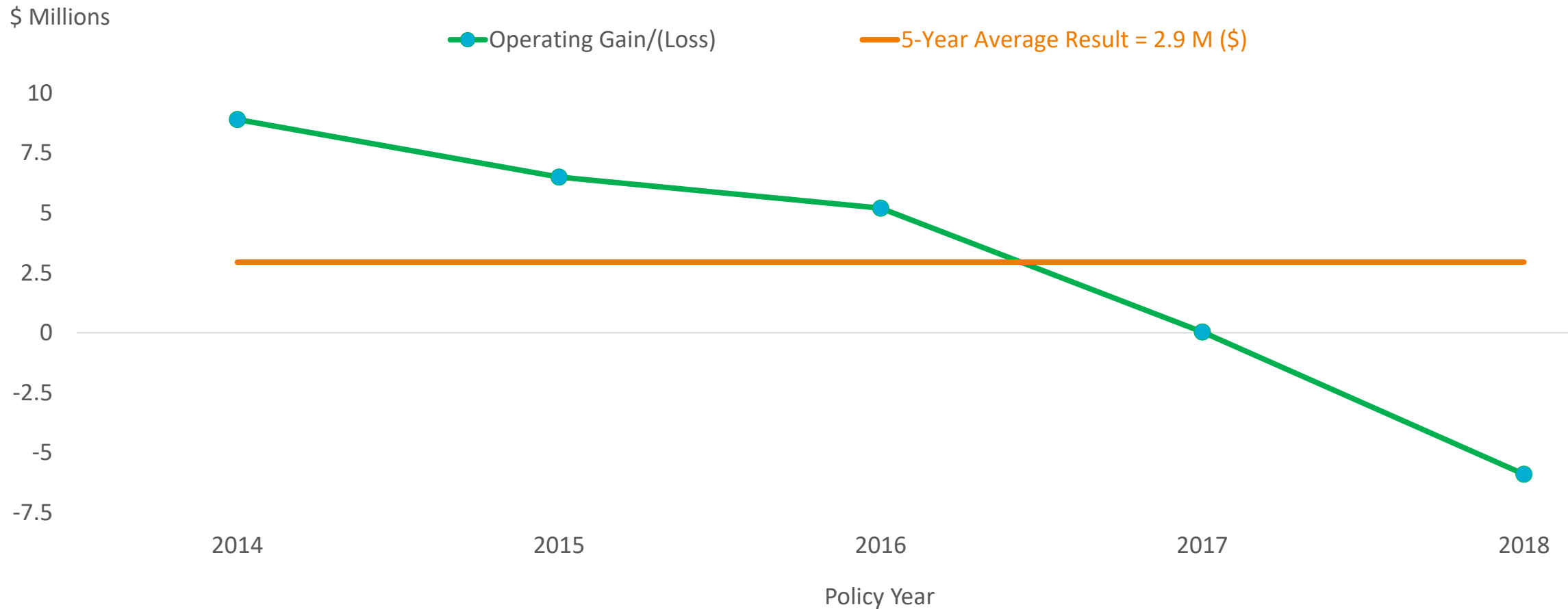
**\$3,346**  
Average Policy Size

# Hazard Groups F and G are 54% of the Residual Market Premium

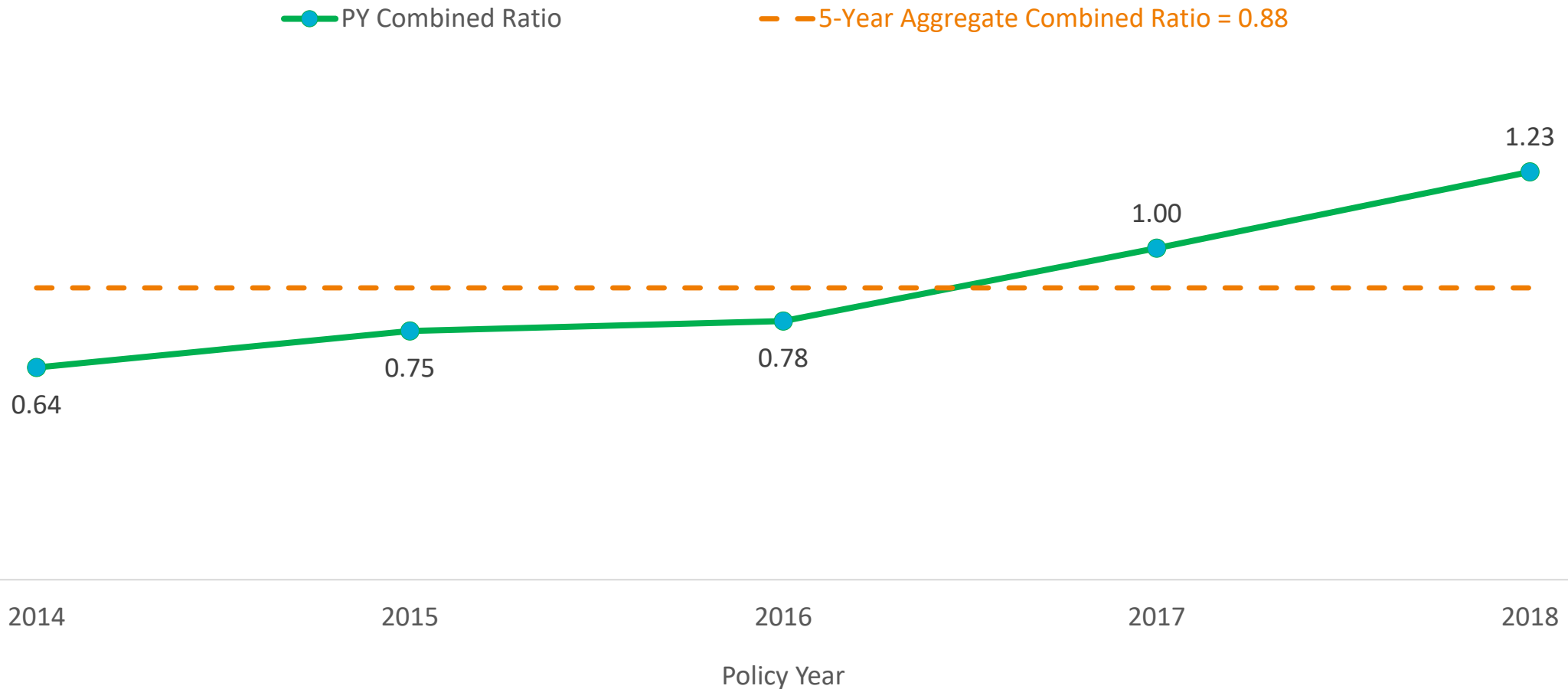


# Arkansas Residual Market Reinsurance Pool Net Operating Results

Estimated Net Operating Gains and Losses Projected to Ultimate as of 12/31/2018

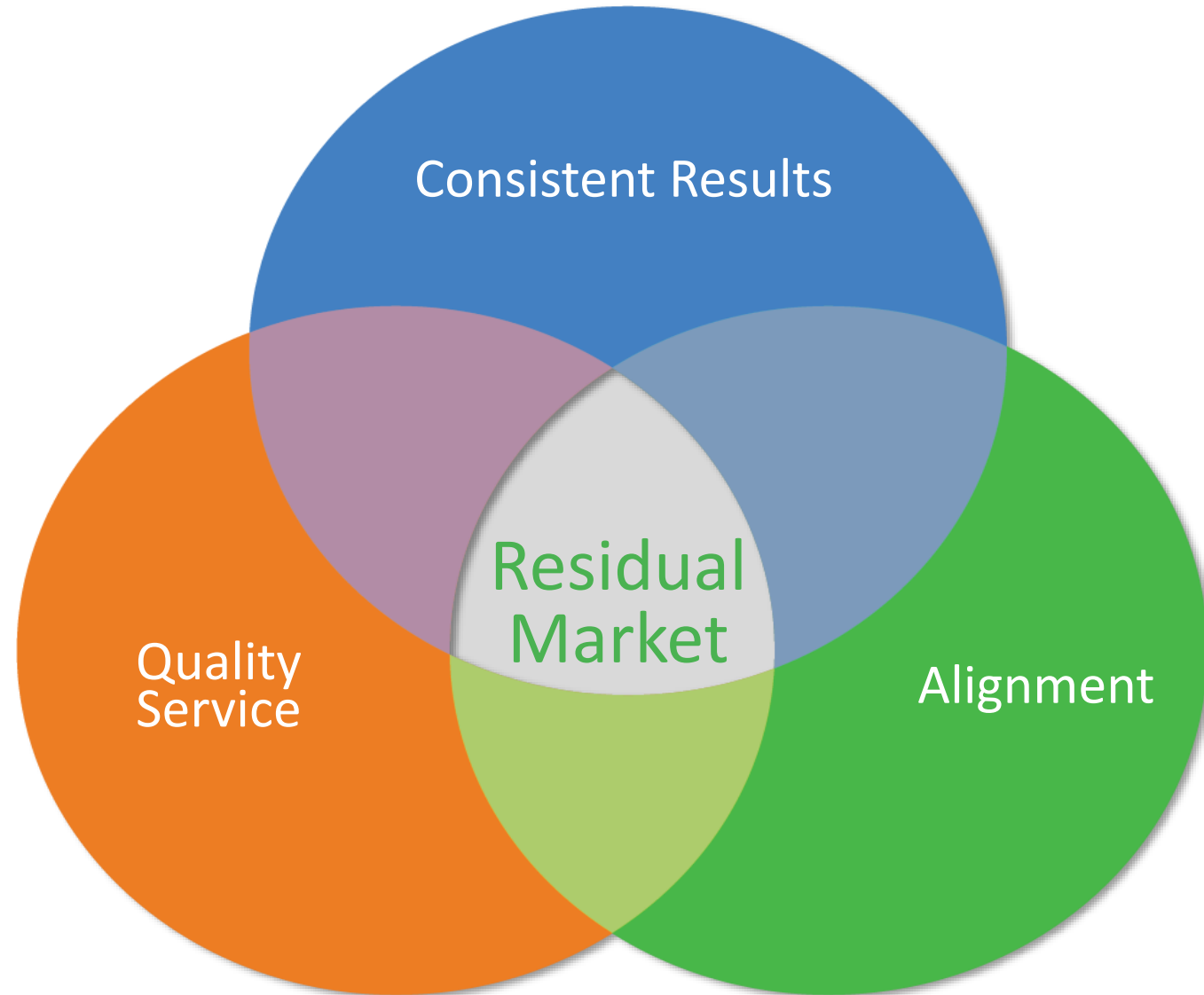


# Arkansas Reinsurance Pools Combined Ratios Over the Past Five Years



# Arkansas

- Premium Gradually Decreasing
- High, Stable Residual Market Share
- Self-Funded Over the Past Five Years



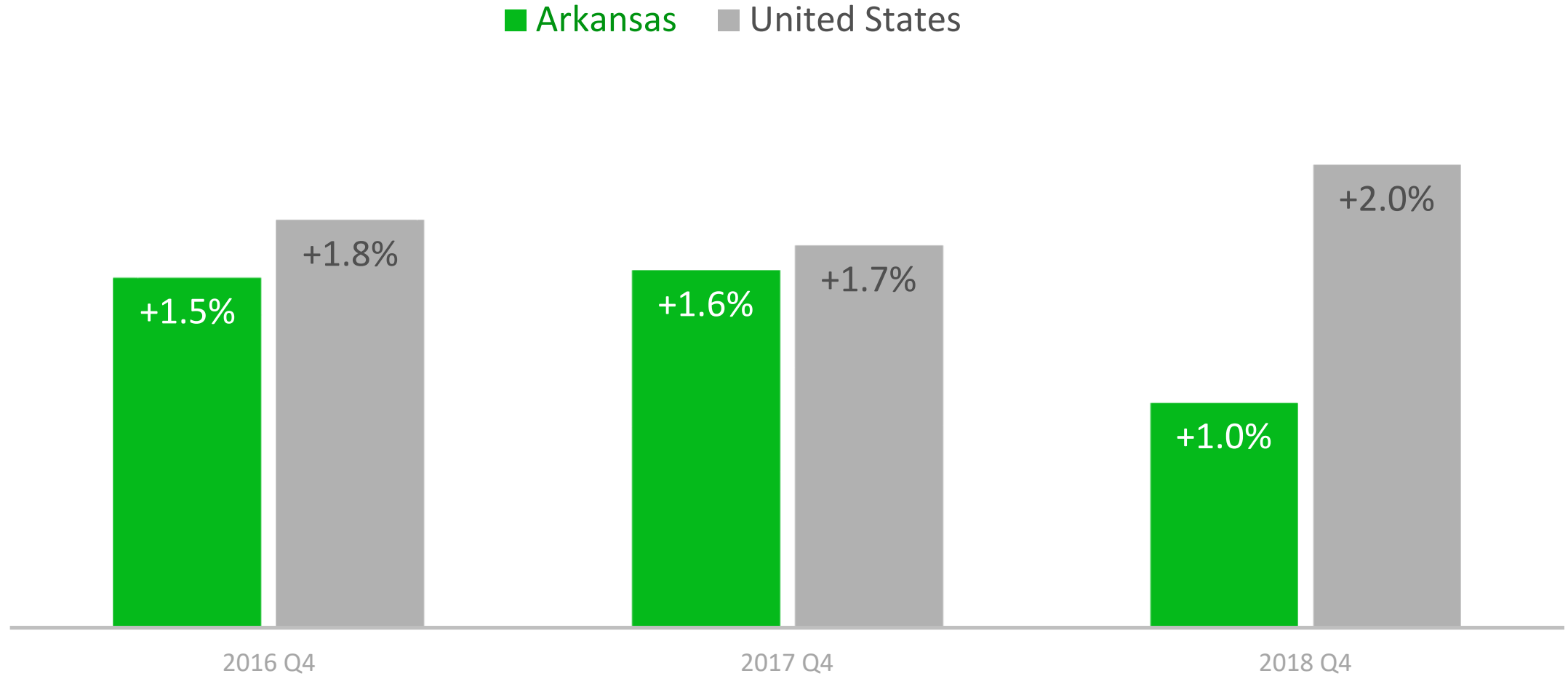




# Countrywide and Arkansas Labor Markets

# Change in Private Employment

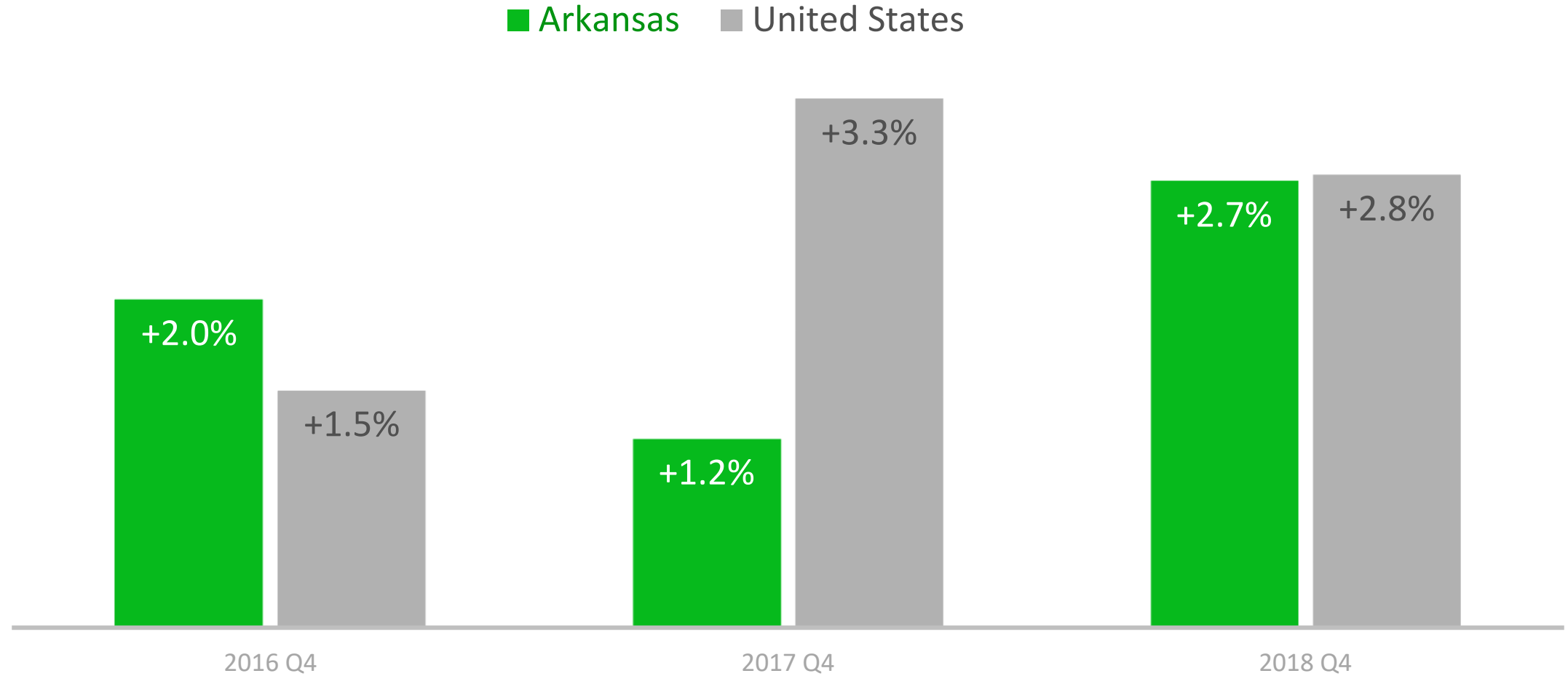
Private Employment Growth Is Below Average



Year-over-year percentage change; employment is for Total Private Industry  
Frequency of observation: quarterly; 2015 Q4–2018 Q4  
Sources: US Bureau of Labor Statistics, Moody's Analytics, and NCCI

# Change in Average Weekly Wages

Wage Growth Is Close to the National Average



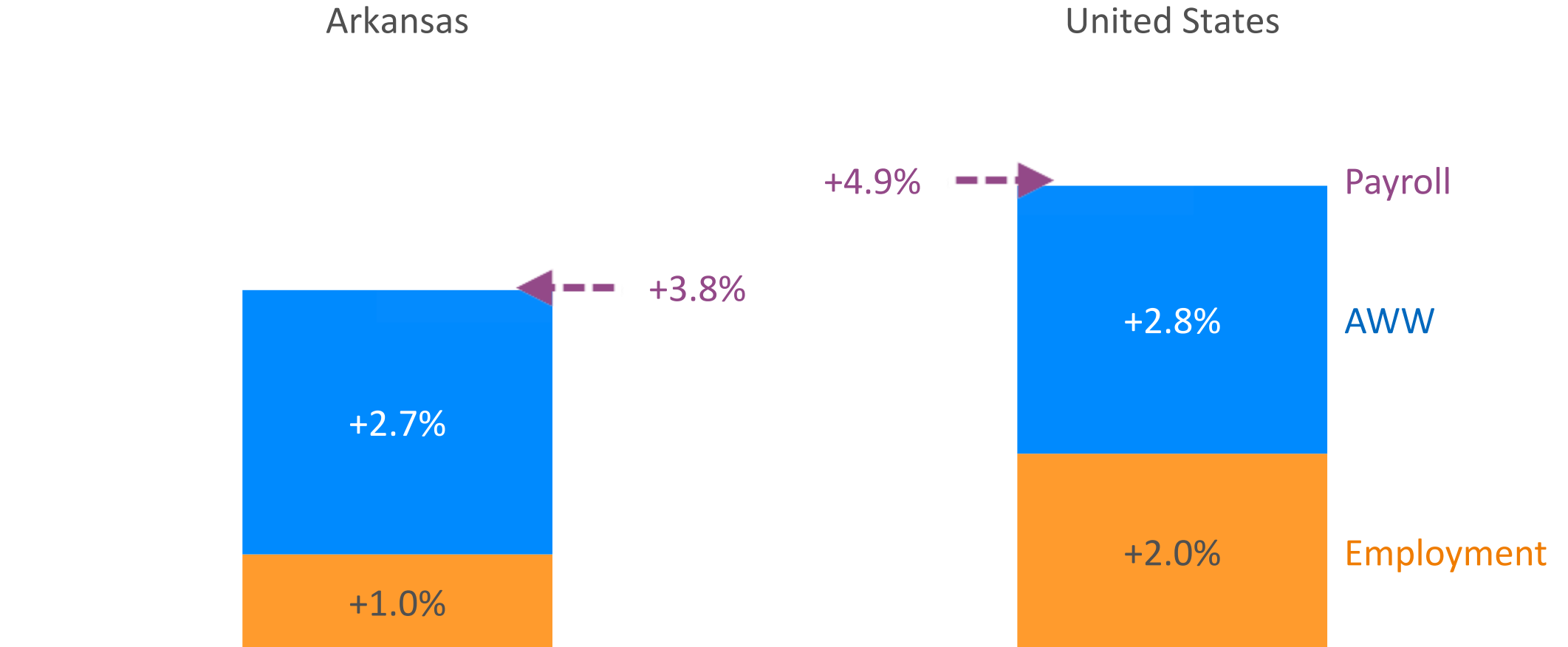
Year-over-year percentage change; wages are for Total Private Industry

Frequency of observation: quarterly; 2015 Q4–2018 Q4

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

# Private Industry Payroll Growth Decomposition

Payroll Growth Is Below the National Average



AWW = Average Weekly Wage

2018 Q4 year-over-year percentage change

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

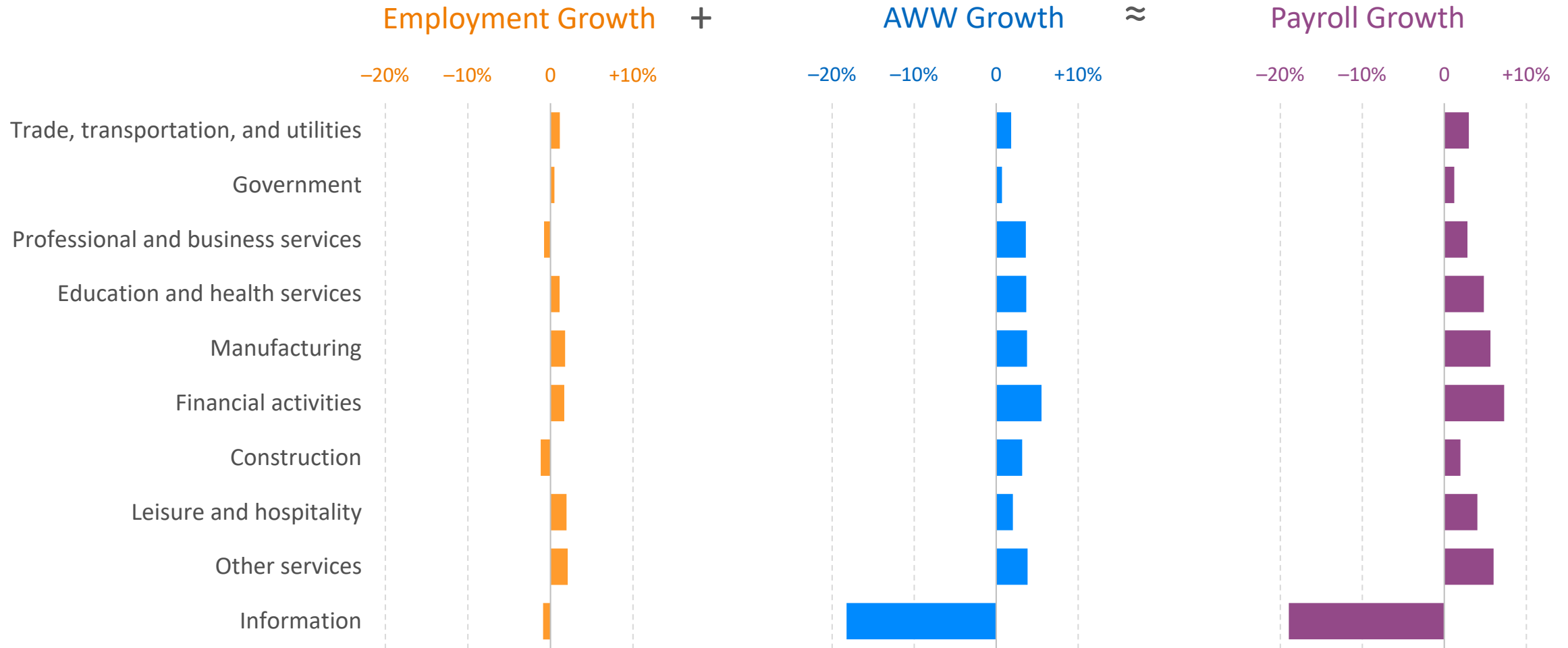
# Change in Employment by Sector

Employment Increased in Most Sectors in the Past Year

Economic Sector		Year-Over-Year Percent Change, 2018 Q4		Sector Size	Share %	1-Year Change
Manufacturing	AR	+1.8		161,600	13	+2,800
	US	+2.2				
Trade, transportation, and utilities	AR	+1.1		253,000	20	+2,900
	US	+1.1				
Leisure and hospitality	AR	+2.0		120,000	9	+2,300
	US	+2.0				
Education and health services	AR	+1.1		191,900	15	+2,100
	US	+2.2				
Other services	AR	+2.1		54,800	4	+1,200
	US	+1.3				
Government	AR	+0.5		212,900	17	+1,100
	US	+0.5				
Financial activities	AR	+1.7		60,800	5	+1,000
	US	+1.4				
Information	AR	-0.9		11,200	1	-100
	US	+0.4				
Construction	AR	-1.2		50,400	4	-600
	US	+4.6				
Professional and business services	AR	-0.8		145,600	11	-1,200
	US	+2.7				

Employment numbers are rounded to the nearest hundred  
 Year-over-year percentage change; frequency of observation: quarterly; 2018 Q4  
 Sources: US Bureau of Labor Statistics, Moody's Analytics, and NCCI

# Arkansas Payroll Growth Decomposition by Sector



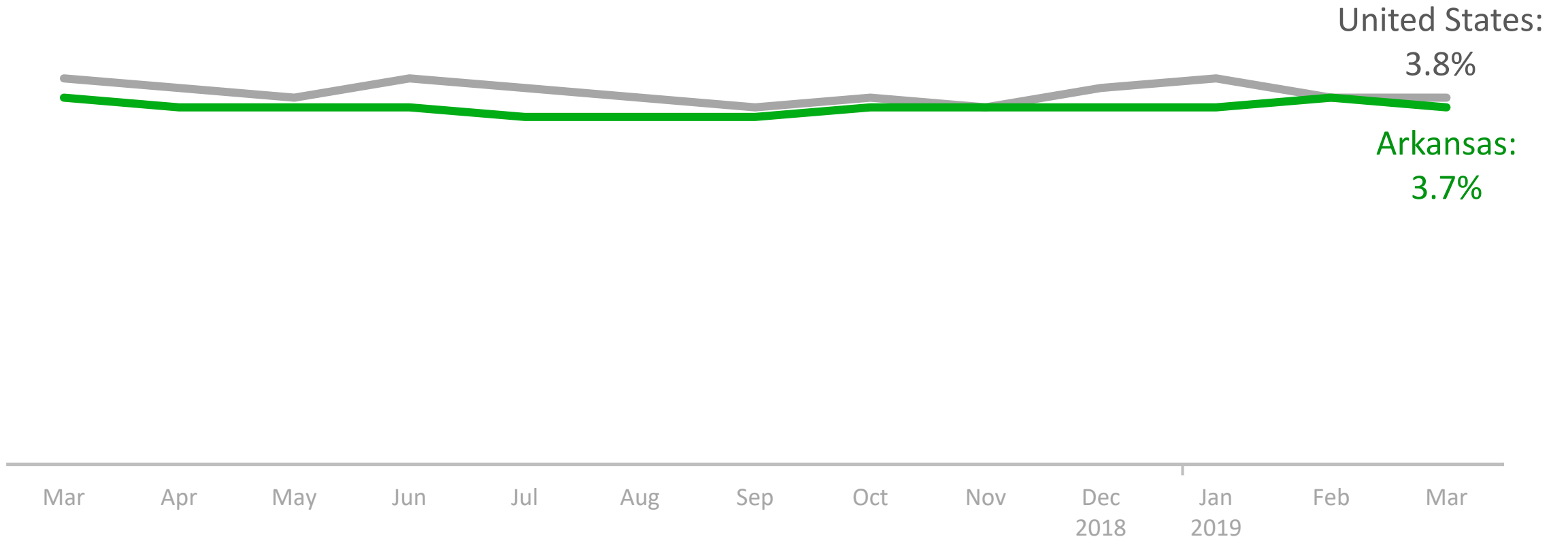
AWW = Average Weekly Wage

2018 Q4 year-over-year percentage change; sectors are in descending order by the volume of state payroll amounts

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

# Headline Unemployment Rate

The Unemployment Rate Is Close to the National Rate



Headline Unemployment Rate, seasonally adjusted  
Frequency of observation: monthly; latest available data point: March 2019  
Source: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov)

# Arkansas Labor Market Summary

- Employment growth is below the US rate
  - Employment in the four largest sectors grew at or below the growth rates for the rest of the nation
  - Employment decreased in Professional and Business Services and Construction
- Payroll increased in Arkansas from increases in wages and employment growth
  - Trade, Transportation, and Utilities has the largest payroll
  - About one quarter of the payroll growth came from increases in wages and employment in Manufacturing
- Arkansas' unemployment rate is close to the national rate





# The Workers Compensation Underwriting Cycle (Video)



# Legislative Updates—Federal and State

# NCCI's Engagement at the Federal Level



# Issue Spotlight: Terrorism Risk Insurance Program

- Background
- Unique impact of terrorism peril on workers compensation
- Current status of Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015
  - Absent Congressional action, TRIPRA expires on 12/31/2020
- Reauthorization activities
  - Federal Insurance Office (FIO)
  - NCCI
  - Industry
  - Other stakeholders



# Hot Topics

 As of April 30, 2019



Legalization of Marijuana



Prescription Drugs



Single Payer



Air Ambulances

# Legislative Overview | National

 As of April 30, 2019

641

All jurisdictions/federal WC-related bills tracked by NCCI

413

Bills in NCCI jurisdictions

42

Enacted (includes all jurisdictions/federal)



# Legislative Overview | National Bill Trends

 As of April 30, 2019



**118**

First Responders

**50**

Reimbursement/Fee Schedules

**45**

Court/Legal Issues

**43**

Indemnity Benefits

**40**

Coverage Issues



# 2019 Arkansas Legislative Activity

NCCI tracked seven legislative proposals with potential workers compensation system implications. The following are of note:

- **Enacted: HB 1850—Empower Independent Contractors Act of 2019**
  - Updates statutory definitions of employee, employer, and employment
  - Employment status shall be determined by using the 20-factor test enumerated by the Internal Revenue Service
  - Employment Status to be used for employment purposes, including wages, taxation, and workers compensation issues

# 2019 Arkansas Legislative Activity

- **Failed: SB 673—Universal Workers Compensation Act**
  - Authorizes an optional alternative for coverage of compensation for employee injury or death without regard to work-relatedness
  - Allows employers to choose universal workers compensation coverage in lieu of workers compensation, health, disability, accident, and life coverage



## Regulatory and Legislative Trends Report



Available on [ncci.com](http://ncci.com) in July 2019.





# Mega Claims



# MEGA CLAIMS

# \$10

# MILLION

paid or expected  
to be paid out



**E F G**

The most extreme jobs are found in these groups.



# Mega Claims | Hazard Group Details

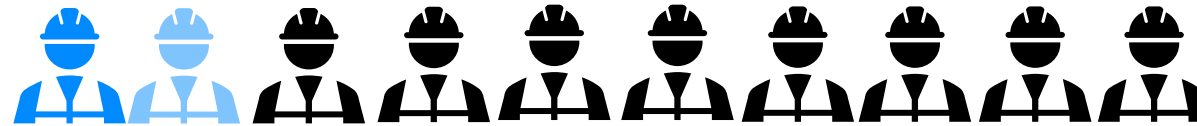


30% of all lost-time claims come from these hazard groups

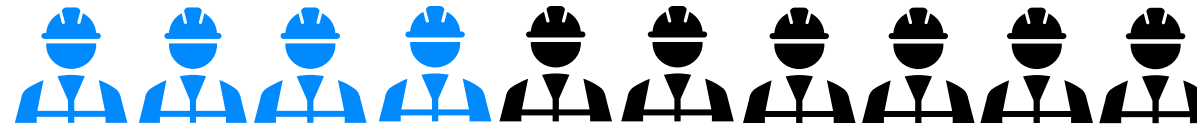
Yet they account for  
**70%**  
of all  
mega claims

Mega claims occur most commonly in the  
**Contracting Industry Group**

Lost – Time  
Claims



Mega  
Claims







# Mega Claims | Top Five Classes



Carpentry  
(HGF)



Salespeople  
(HGE)



Clerical (HGC) accounts  
for 30% of all payroll



Trucking  
(HGF)

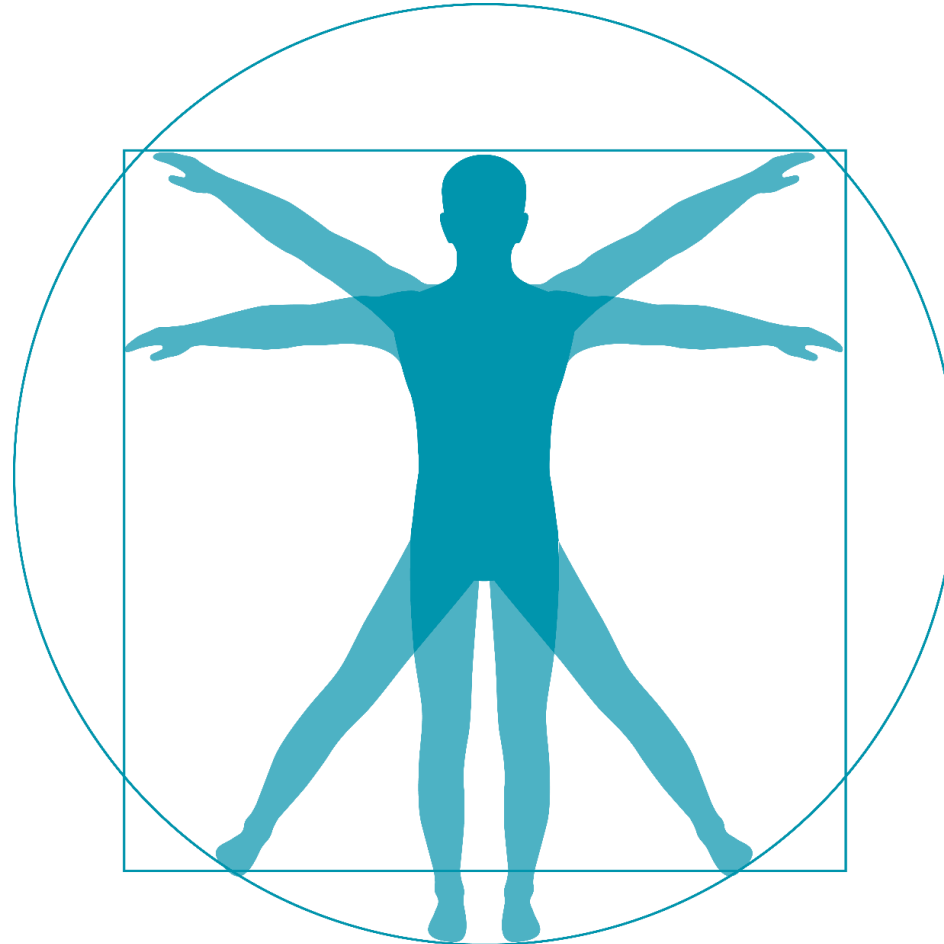


Roofing  
(HGG)



# Mega Claims | Part of Body

Multiple  
body parts  
(37%)



Neck, spine,  
head, brain  
(57%)

All other  
(5%)



# Mega Claims | Causes of Claims



**#2 Cause**

Fall from elevation

**28%**



**#3 Cause**

Struck by object

**14%**



**All other causes  
combined**

**20%**



**#1 Cause**

**Motor Vehicle  
Accidents**



## Top 30 MVA Classes 2011–2016

12.0%  
MVA Claim  
frequency



Lost-time  
claim  
frequency  
12.8%



2011–2015

# Taxicab

## Classification

- Largest increase in MVA frequency occurred
- MVA frequency more than doubled in this time frame





# Mega Claims | Factors Affecting Frequency

- Increase in overall miles driven since the Great Recession
- Distracted driving
- Smartphone usage
- Recreational marijuana legalization





# Kids' Chance of Arkansas



# Kids' Chance of Arkansas

Chuck McCauley, President  
Kim Cook, Vice President

Mailing Address:  
PO Box 250249  
Little Rock, AR 72225-0249

Phone: 866-880-8444

Email: [www.kidschancear.org/](http://www.kidschancear.org/)



Kids' Chance of Arkansas was incorporated in 2001 with the mission of providing scholarships to the dependents of deceased and permanently totally disabled workers from compensable Arkansas workers compensation claims



# Back to Work (Video)



# Supplemental Information

# Total Benefit Costs in Arkansas

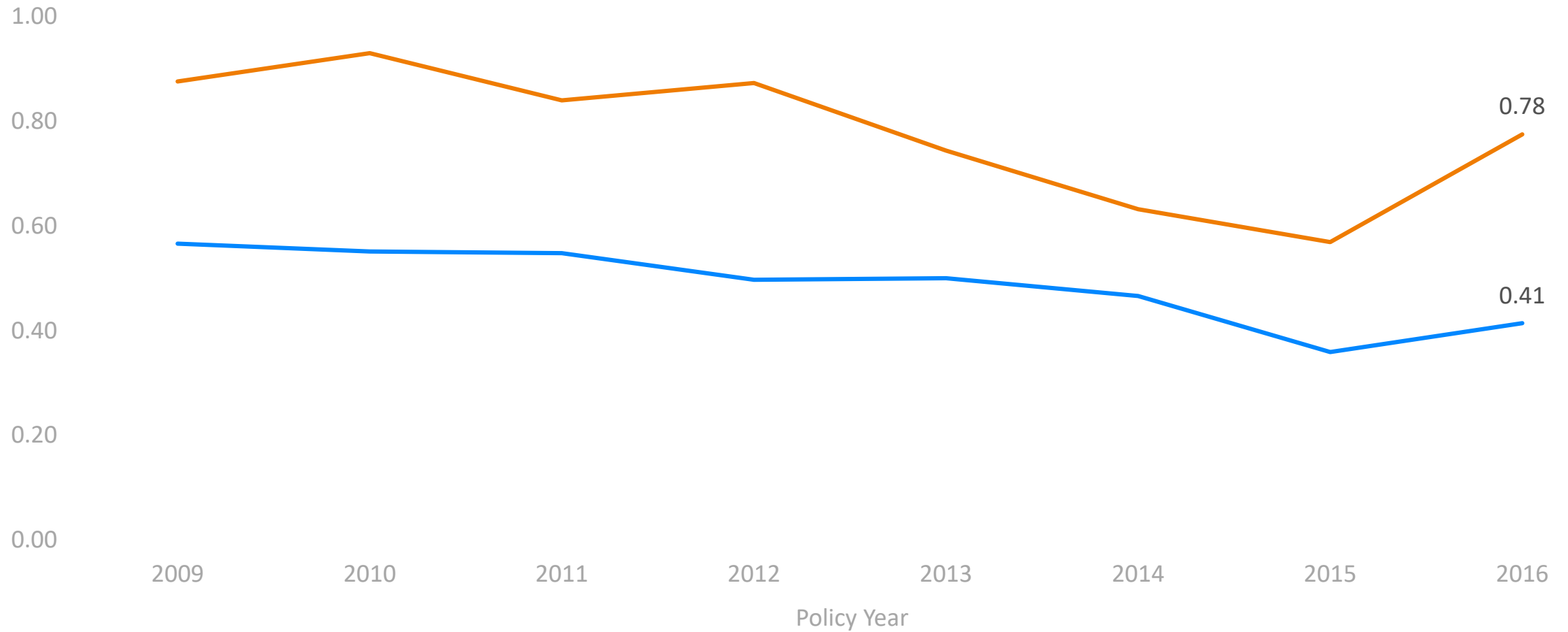
Indemnity vs. Medical



Regional states are LA, MO, MS, OK, TN, and TX  
Based on NCCI's financial data through 12/31/2017

# Arkansas Loss Ratios

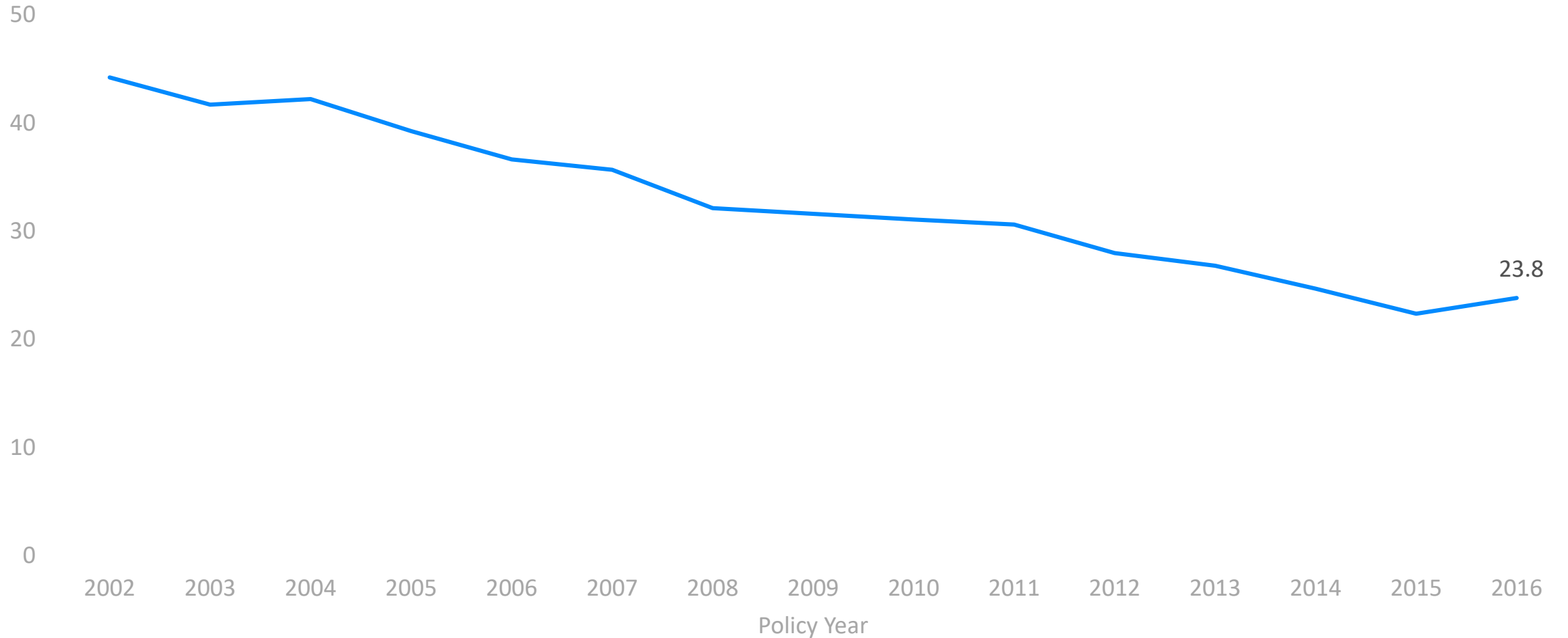
Indemnity vs. Medical



Based on NCCI's financial data through 12/31/2017 at current benefit level and developed to ultimate

# Arkansas Claim Frequency

Lost-Time Claims, per \$ Million of On-Leveled Premium

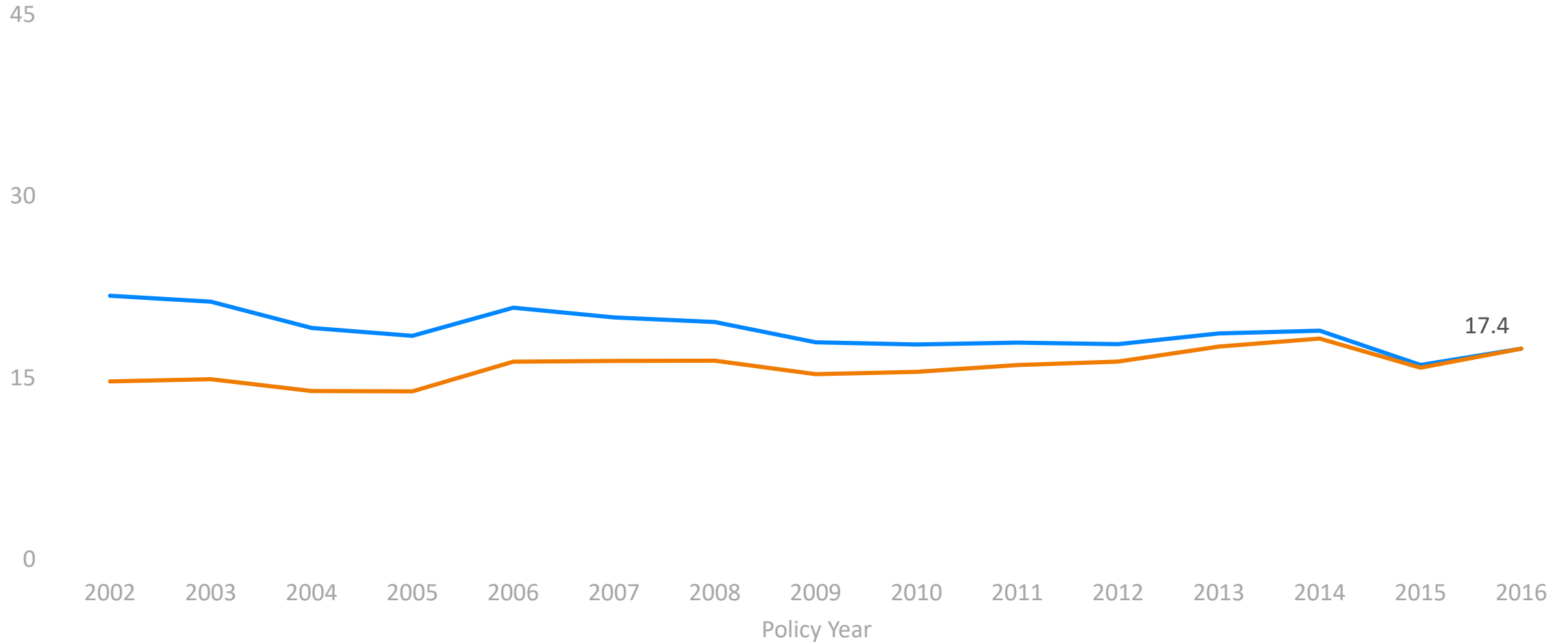


Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate, premium adjusted to common wage level



# Arkansas Average Indemnity Claim Severity

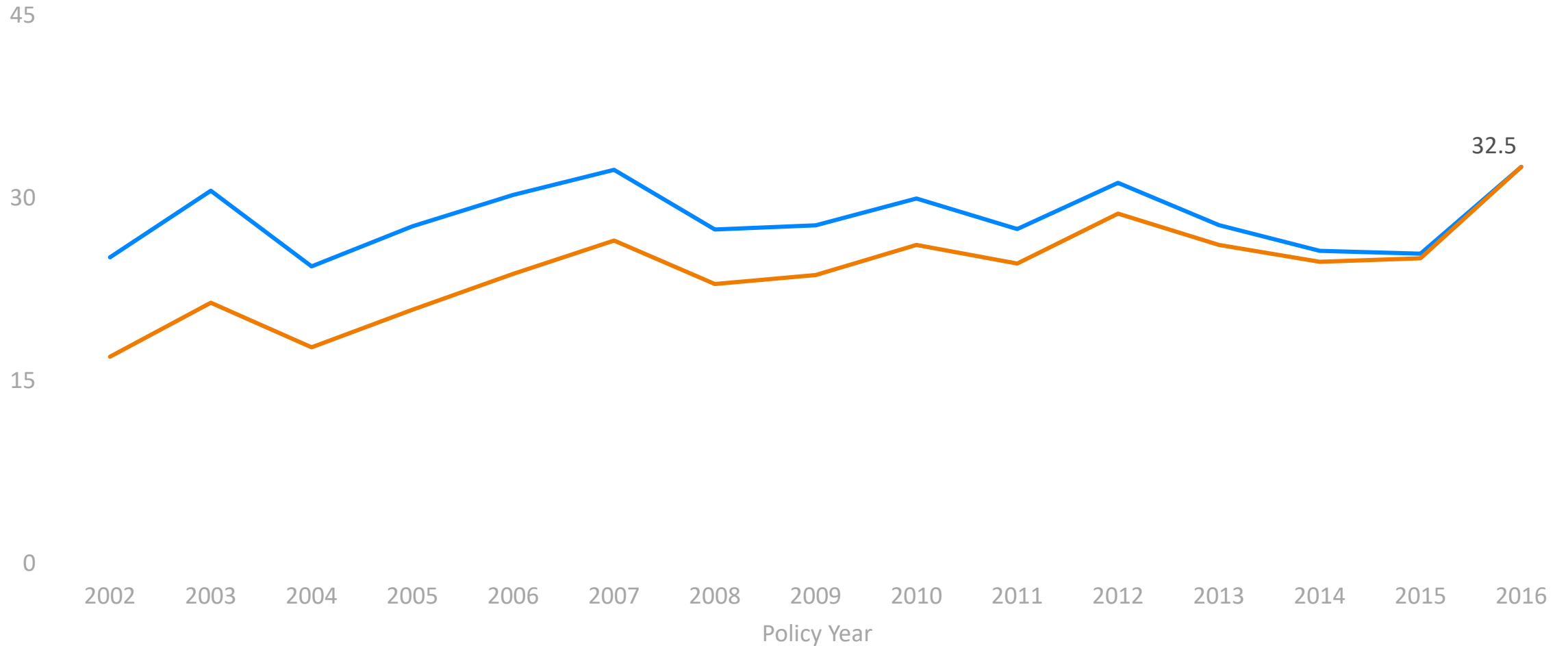
Adjusted to Common Wage Level vs. Actual, in \$ Thousands



Based on NCCI's financial data through 12/31/2017 for lost-time claims at current benefit level and developed to ultimate

# Arkansas Average Medical Claim Severity

Adjusted to Common Wage Level vs. Actual, in \$ Thousands

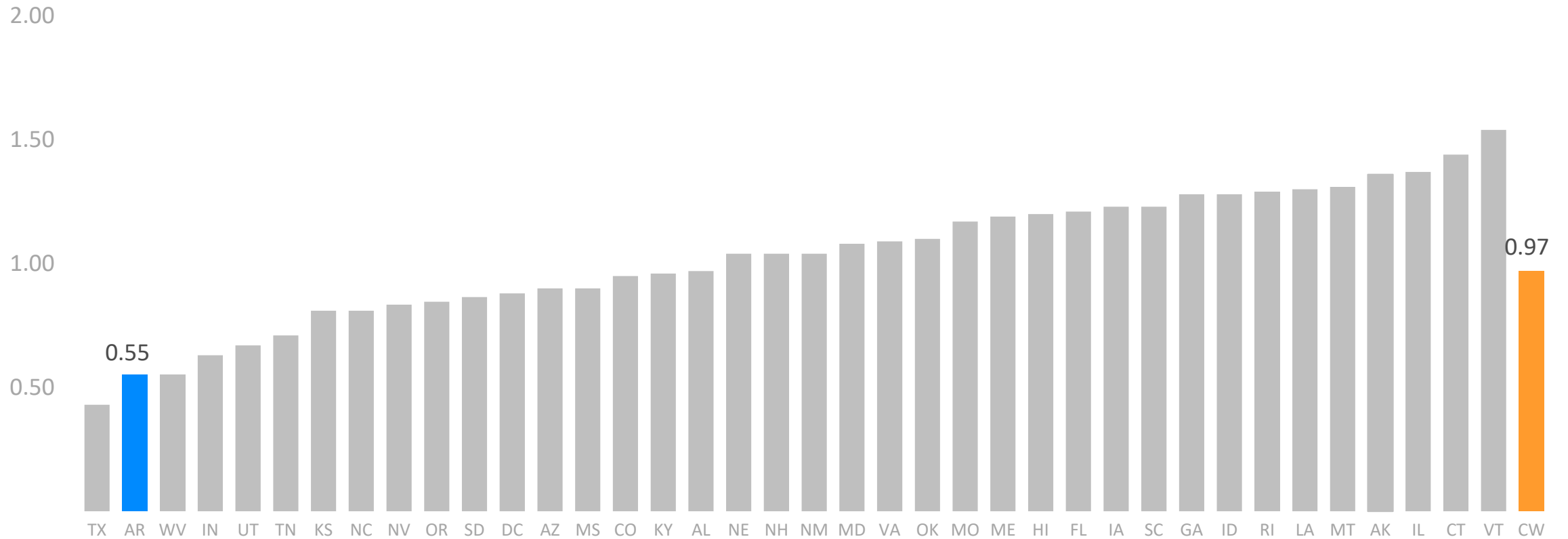


Based on NCCI's financial data through 12/31/2017 for lost-time claims at current benefit level and developed to ultimate



# Average Voluntary Pure Loss Costs

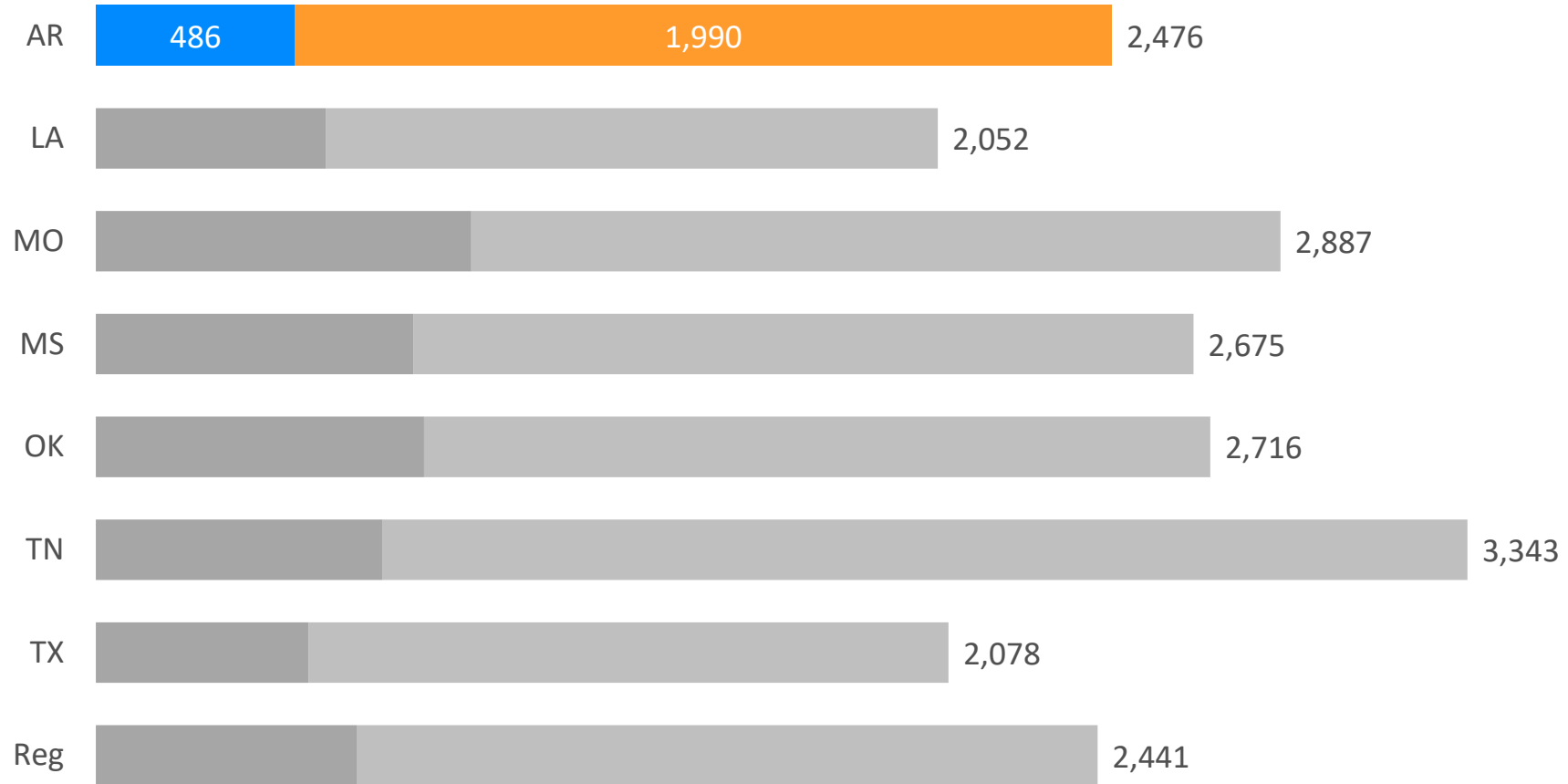
Using Arkansas Payroll Distribution



Based on approved rates and loss costs in various jurisdictions from filings using data valued as of 12/31/2017

# Arkansas Average Claim Frequency

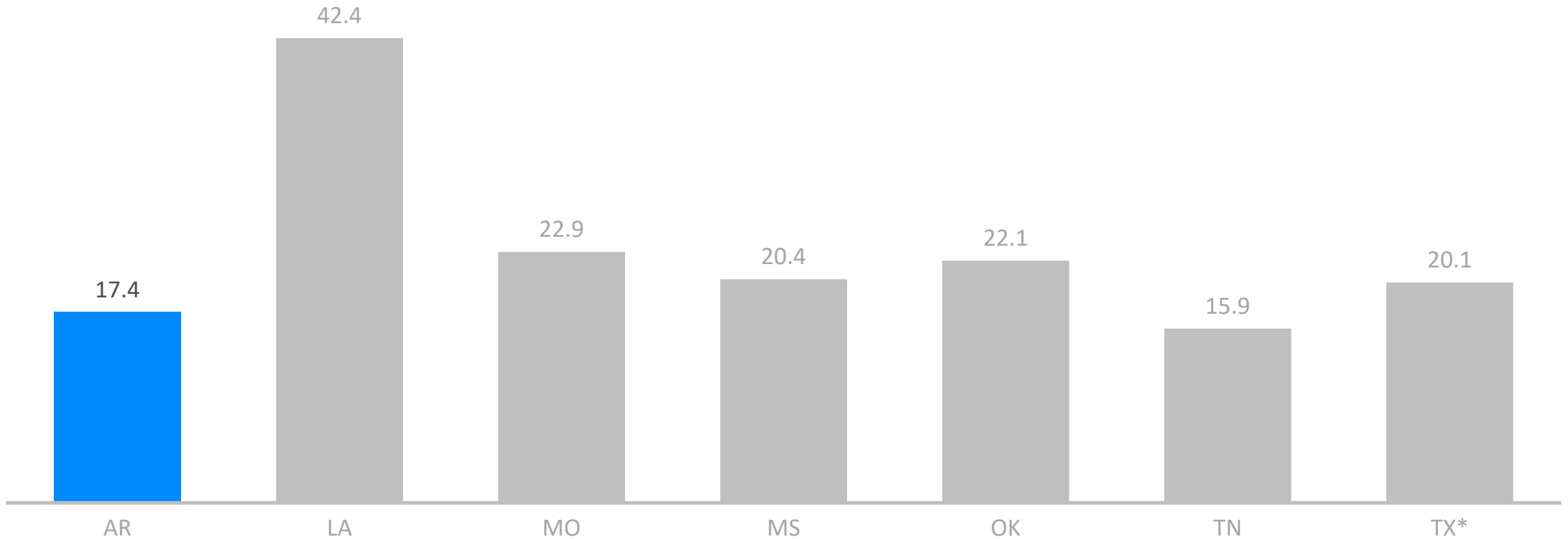
Lost-Time vs. Medical Only, per 100,000 Workers



Based on NCCI's *Statistical Plan* data

# Average Indemnity Claim Severity in the Region

In \$ Thousands

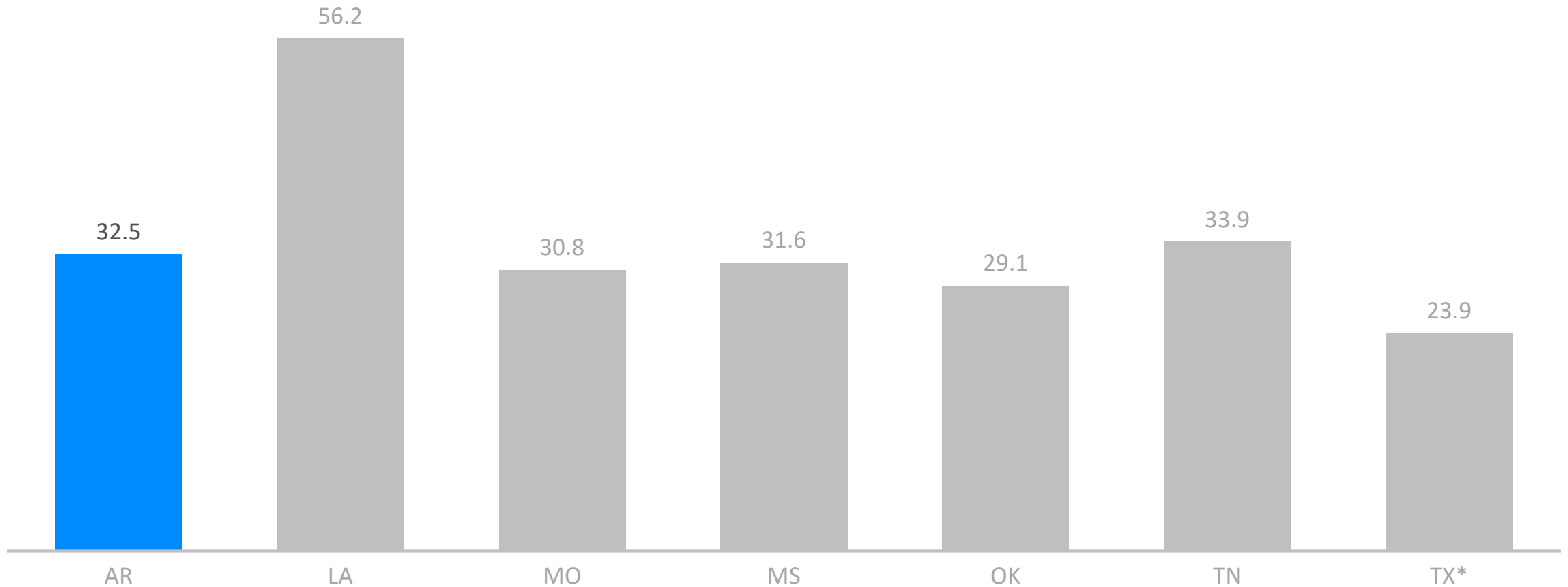


\*Unlimited

Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

# Average Medical Claim Severity in the Region

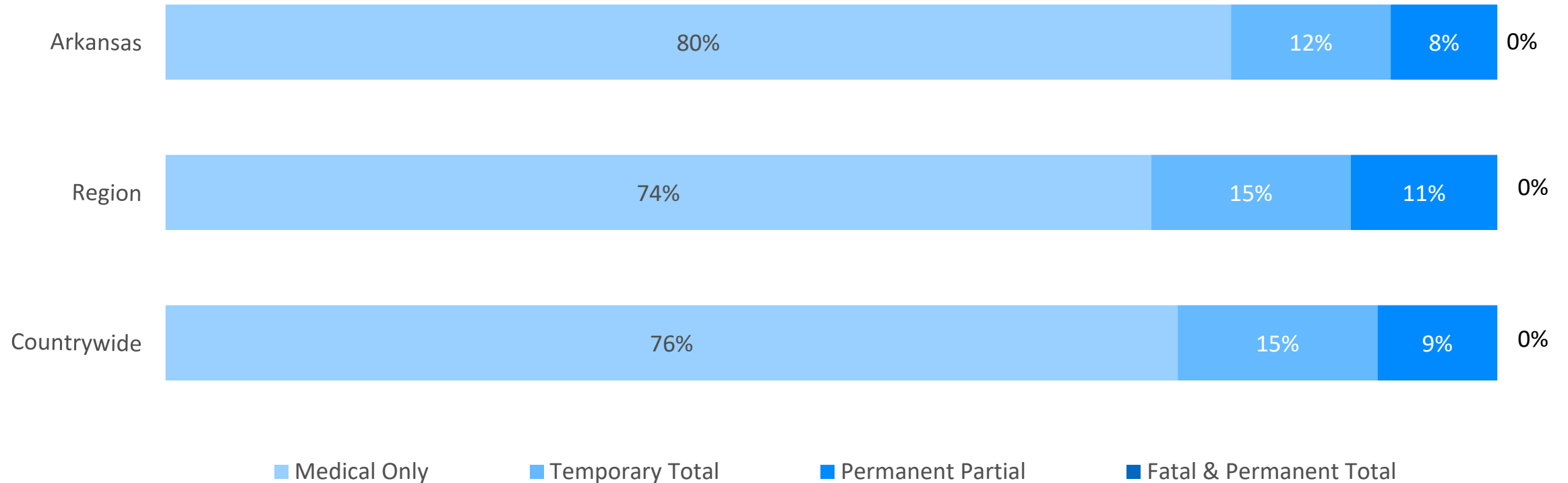
In \$ Thousands



\*Unlimited

Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

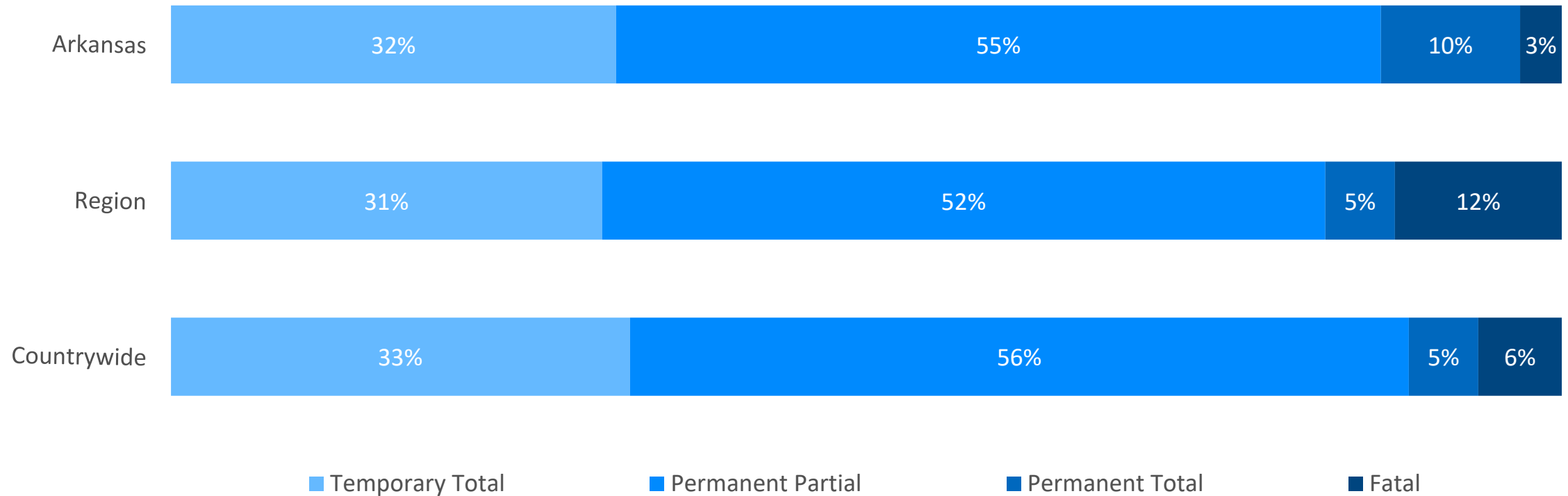
# Arkansas Distribution of Claims by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's **Statistical Plan** data for jurisdiction/claim type combinations for which three or more cases exist

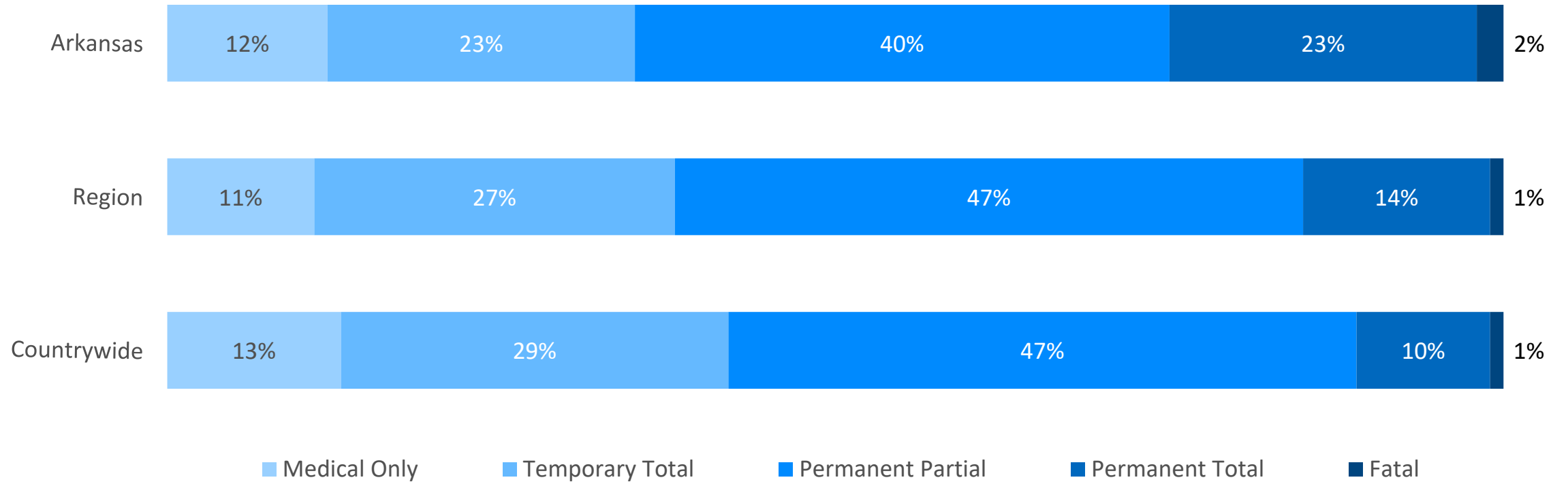
# Arkansas Indemnity Loss Distribution by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's *Statistical Plan* data for jurisdiction/claim type combinations for which three or more cases exist

# Arkansas Medical Loss Distribution by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's *Statistical Plan* data for jurisdiction/claim type combinations for which three or more cases exist



# Glossary



**Active Claim**—A workers compensation claim for which there is at least one medical service provided during that service year.

**Ambulatory Surgical Center (ASC)**—A state-licensed facility that is used mainly to perform outpatient surgery, has a staff of physicians, has continuous physician and nursing care, and does not provide for overnight stays. An ASC can bill for facility fees much like a hospital, but generally has a separate fee schedule.

**Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.

**Calendar-Accident Year (CAY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.

**Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.

**Claim Frequency**—The number of claims per unit of exposure; for example, the number of claims per million dollars of premium or per 100 workers.

**Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.

**Combined Ratio**—The sum of the (1) loss ratio, (2) expense ratio, and (3) dividend ratio for a given time period.

**Detailed Claim Information (DCI)**—An NCCI Call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, and the timing of the claim's report to the carrier.

**Diagnosis Groups**—Based on ICD-10 codes; groups based on similar injuries and parts of body.

**Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums but excluding any reinsurance premiums.

**Drugs**—Includes any data reported by a National Drug Code (NDC). Also included are data for revenue codes, the Healthcare Common Procedure Code System (HCPCS), and other state-specific codes that represent drugs.

**Durable Medical Equipment**—Equipment that is primarily and customarily used to serve a medical purpose, can withstand repeated use, could normally be rented and used by successive patients, is appropriate for use in the home, and is not generally useful to a person in the absence of an illness or injury.

**Hospital Inpatient Service**—Services for a patient who is admitted to a hospital for treatment that requires at least one overnight stay (more than 24 hours in a hospital). Payment for a hospital inpatient service is limited to the payment made for the facility cost.

**Hospital Inpatient Stay**—A hospital admission of a patient requiring hospitalization of at least one 24-hour period.

**Hospital Outpatient Service**—Any type of medical or surgical care performed at a hospital that is not expected to result in an overnight hospital stay (less than 24 hours in a hospital). Payment for a hospital outpatient service is limited to the payment made for the facility cost.

**Indemnity Benefits**—Payments by an insurance company to cover an injured worker’s time lost from work. These benefits are also referred to as “wage replacement” benefits.

**Loss Ratio**—The ratio of losses to premium for a given time period.

**Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.

**Medical Data Call**—Captures transaction-level detail for medical billings that were processed on or after July 1, 2010. All medical transactions with the jurisdiction state in any applicable Medical Data Call state are reportable. This includes all workers compensation claims, including medical-only claims.

**Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.

**Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.

**Permanent Partial (PP)**—A disability that is permanent but does not involve a total inability to work. The specific definition and associated workers compensation benefits are defined by statute and vary by jurisdiction.

**Policy Year (PY)**—The year of the effective date of the policy. Policy year financial results summarize experience for all policies with effective dates in a given calendar year period.

**Prescription Count**—Number of drug prescriptions, where refills are counted separately.

**Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.

**Service Year**—A loss accounting definition where experience is summarized by the calendar year in which a medical service was provided.

**Surgery Visit**—A visit in which at least one surgery procedure is performed based on the reported procedure code.

**Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.

**Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.

**Units**—The number of units of service performed or the quantity of drugs dispensed. For Paid Procedure Codes related to medications, the quantity/units depend on the type of drug:

- For tablets, capsules, suppositories, and nonfilled syringes, units represent the actual number of the drug provided. For example, a bottle of 30 pills would have 30 units.



# Glossary

- For liquids, suspensions, solutions, creams, ointments, and bulk powders that are dispensed in standard packages, the units are specified by the procedure code. For example, a cream is dispensed in a standard tube, which is defined as a single unit.
- For liquids, suspensions, solutions, creams, ointments, and bulk powders that are not dispensed in standard packages, the number of units is the amount provided in its standard unit of measurement (e.g., milliliters, grams, ounces). For example, codeine cough syrup dispensed by a pharmacist into a four-ounce bottle would be reported as four units.

**Visit**—Any hospital outpatient or ASC service or set of services provided to a claimant on a specific date. At any visit, more than one procedure may be performed, and any claimant may have more than one visit.





# Appendix

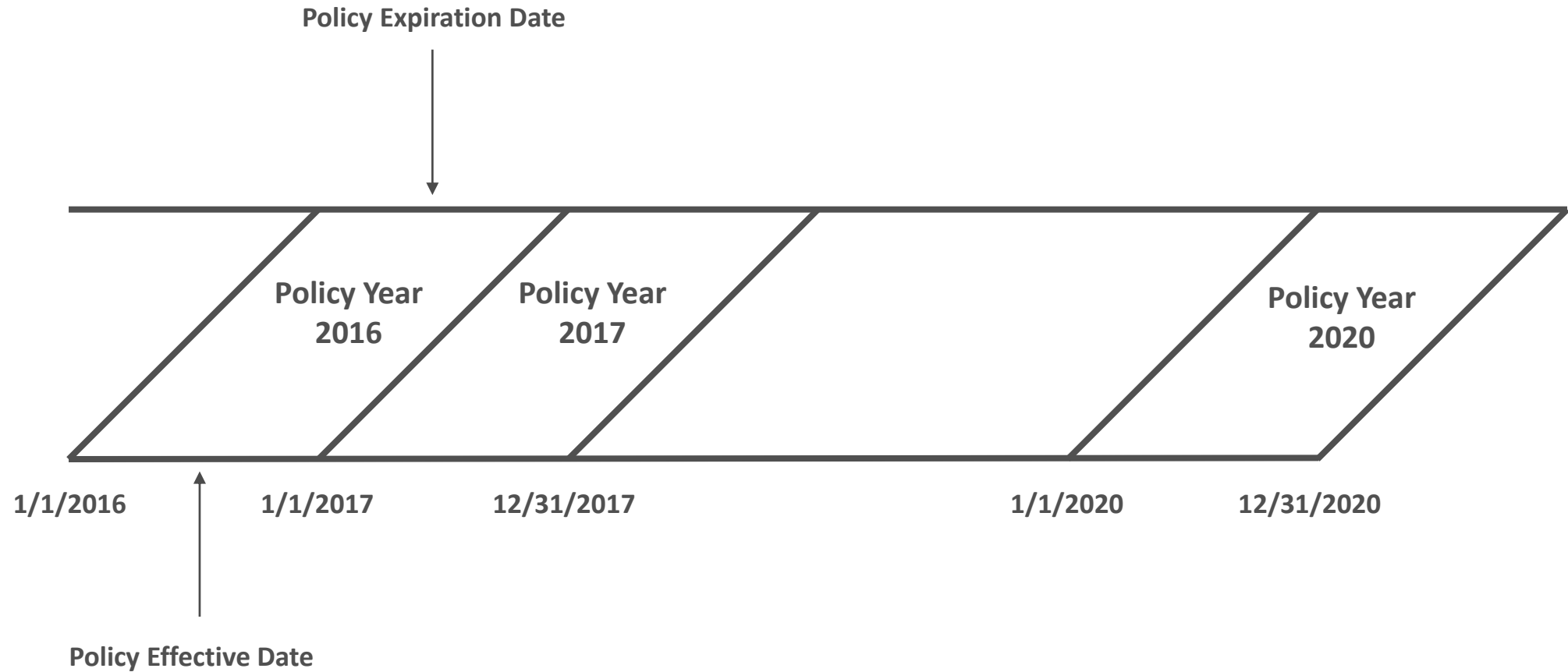
# NCCI's Workers Compensation Resources

- Financial Aggregate Calls
  - Used for aggregate ratemaking
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
  - Used for class ratemaking
- Detailed Claim Information
  - In-depth sample of lost-time claims
- Policy Data
  - Policy declaration page information

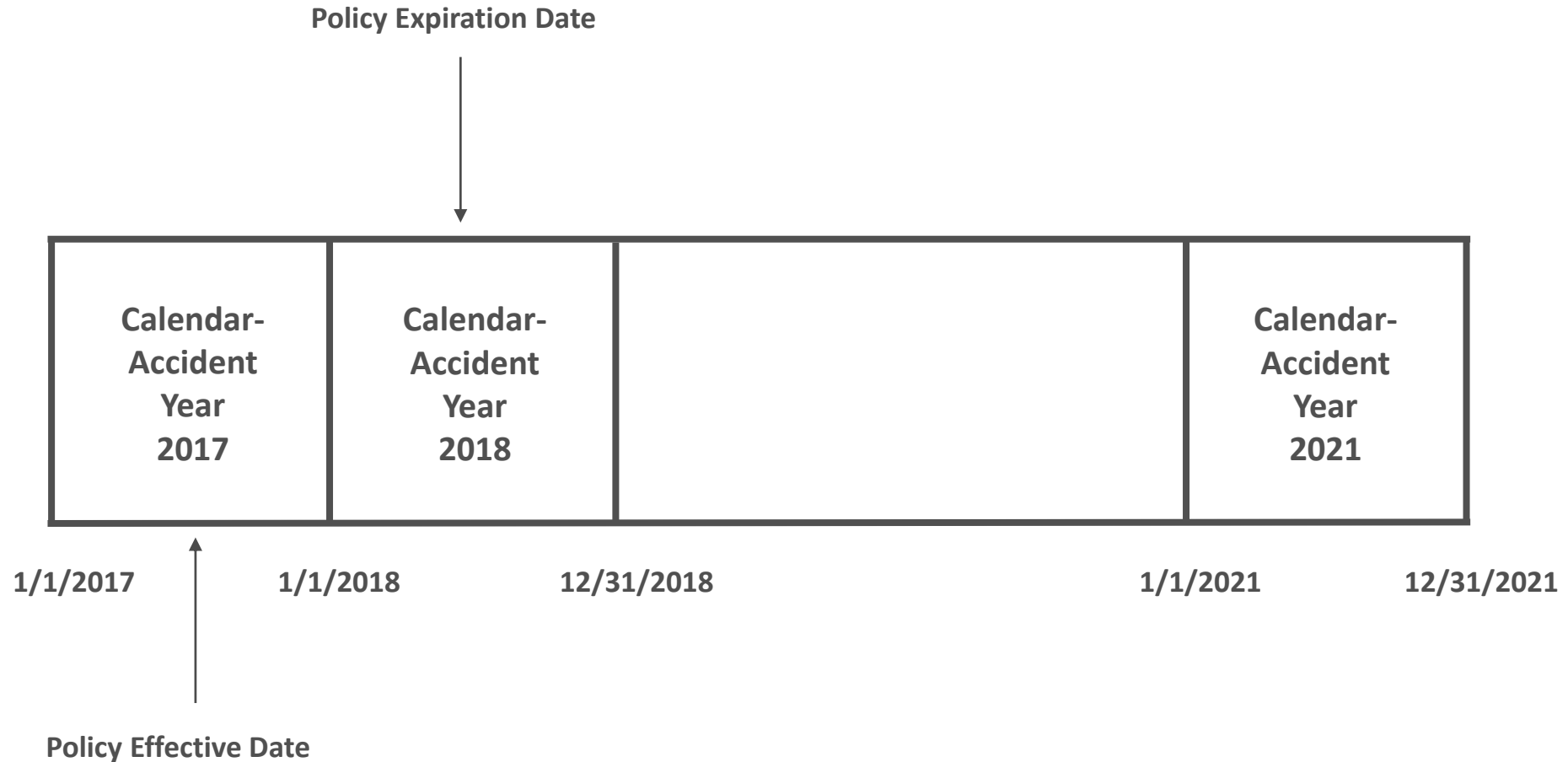
# Financial Aggregate Calls

- Collected Annually
  - Policy and calendar-accident year basis
  - Statewide and assigned risk data
- Premiums, Losses, and Claim Counts
  - Evaluated as of December 31
- Purpose
  - Basis for overall aggregate rate indication
  - Research

# Policy Year Financial Aggregate Data



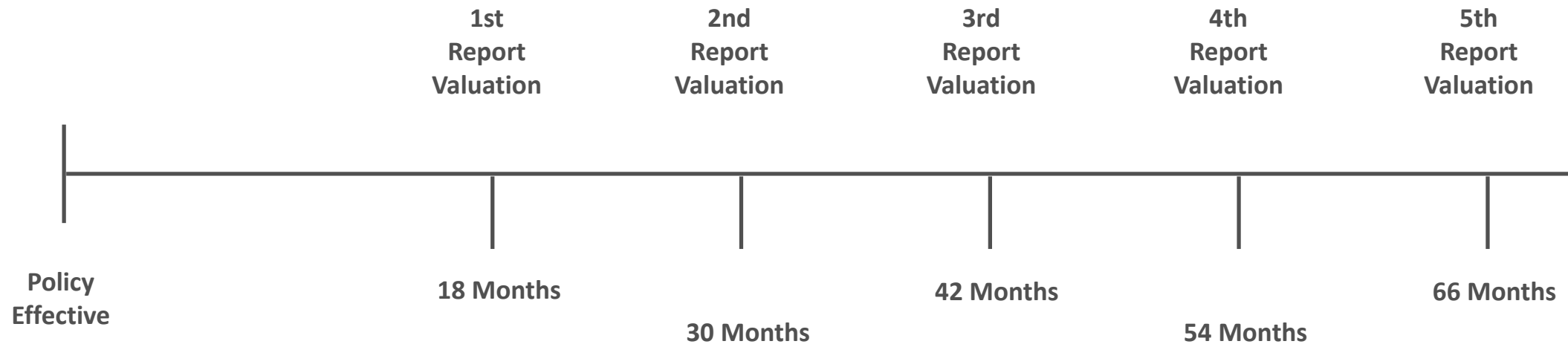
# Calendar-Accident Year Financial Aggregate Data



# Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by Policy Detail
  - Exposure, premium, and experience rating modifications
  - Individual claims by injury type
- Purposes
  - Classification relativities
  - Experience Rating Plan
  - Research

# Valuation of Statistical Plan Data





## EXHIBIT "B"



# Arkansas Residual Market State Activity Report

Second Quarter 2019





## Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2019 *Arkansas Residual Market State Activity Report*.

Readers will notice that the order of our charts and tables has been reorganized, based on customer feedback. This will provide a more streamlined picture of the key measurement factors and issues relating to the operation of the Arkansas Plan. Residual Market demographics contained in this report include:

## Table of Contents

Residual Market Demographics	
Residual Market Total Policies and Premium in Force .....	1
Arkansas Residual Market Reinsurance Pool Booked Loss Ratio.....	2
Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium.....	2
Arkansas Residual Market Reinsurance Pool Net Operating Results .....	3
Collections/Indemnification.....	4
Voluntary Coverage Assistance Program.....	5
Total Applications Bound.....	6
Total Application Premium Bound.....	6
Residual Market Total Policy Counts .....	7
Residual Market Total Premium Volume.....	7
Total Premium Distribution by Size of Risk.....	8
Residual Market Top 10 Classification Codes by Policy Count .....	9
Residual Market Top 10 Classification Codes by Premium Volume .....	9
Glossary of Terms.....	10

If you have any questions or comments about this report, please feel free to contact the individual listed below.

Sean Cordell, Plan Administration

561-893-3171

© Copyright 2019 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information “as is.”



## Residual Market Demographics

### Residual Market Total Policies and Premium in Force

As of June 30, 2019—compared to prior year

Total number of Assigned Risk Plan policies and estimated premium volume in force reported as of the date listed above. The other exhibits in this report describe quarterly and year-to-date data.

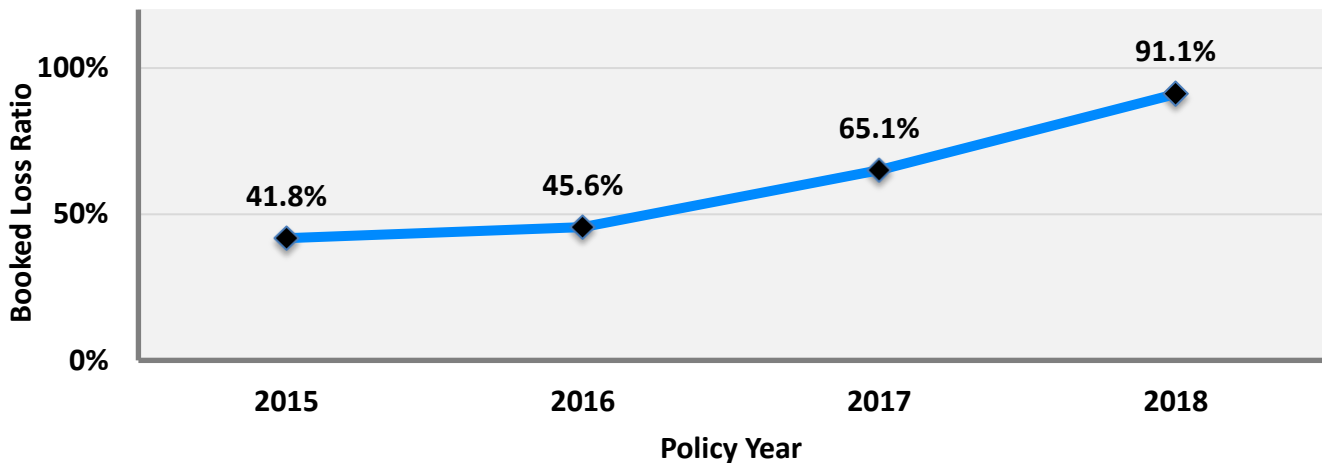
	2019	2018	2019 vs. 2018 #	2019 vs. 2018 %
<b>Policy Count</b>	6,579	6,786	-207	-3.1%
<b>Premium Volume</b>	\$20,669,630	\$22,687,795	-\$2,018,165	-8.9%



## Residual Market Demographics

### Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 1st Quarter 2019 for 2018 and prior years\*

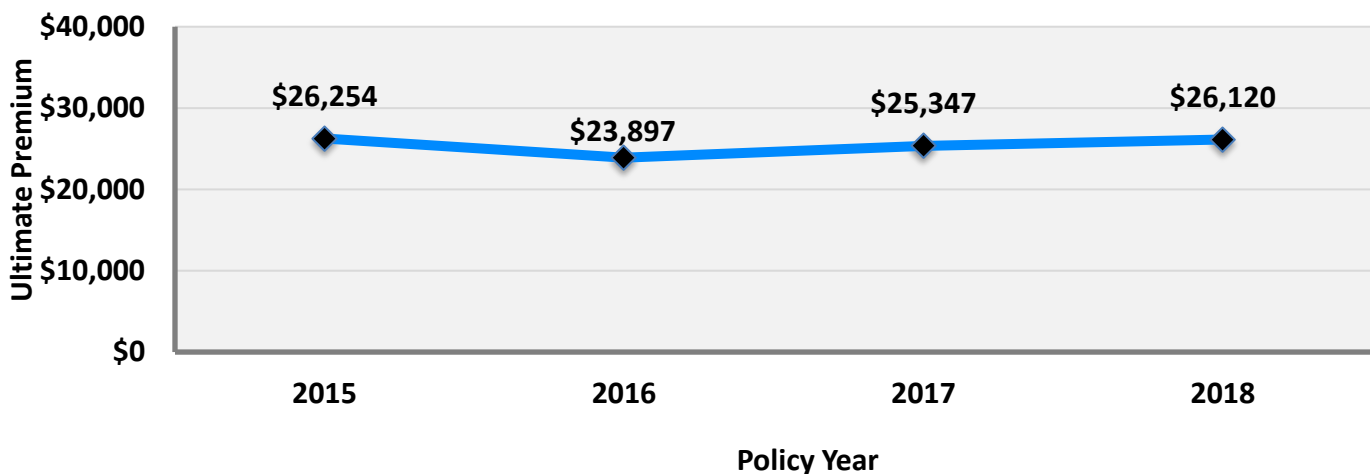
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



### Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

#### Policy Year Financial Results through 1st Quarter 2019 for 2018 and prior years\*

The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



\*2nd Quarter 2019 data will be available the end of October 2019 due to the timing of data reporting

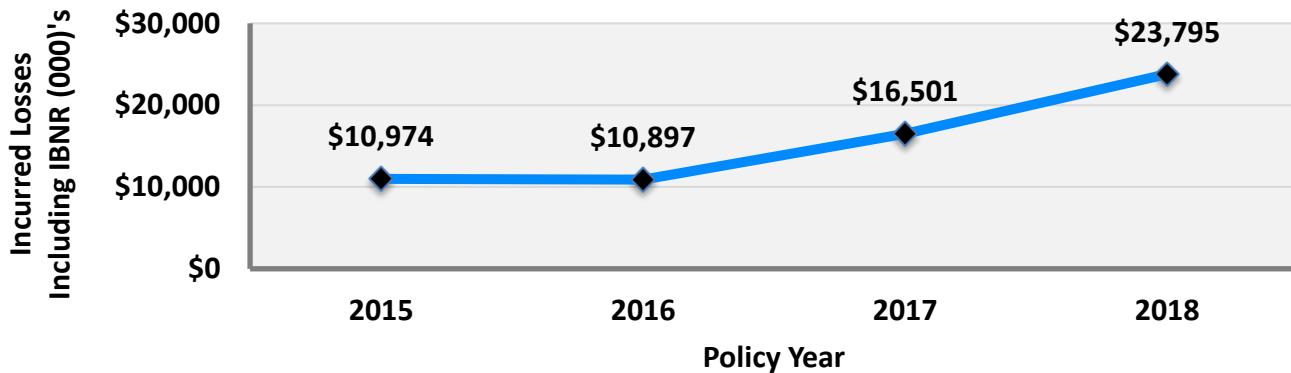


## Residual Market Demographics

### Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

#### Policy Year Financial Results through 1st Quarter 2019 for 2018 and prior years\*

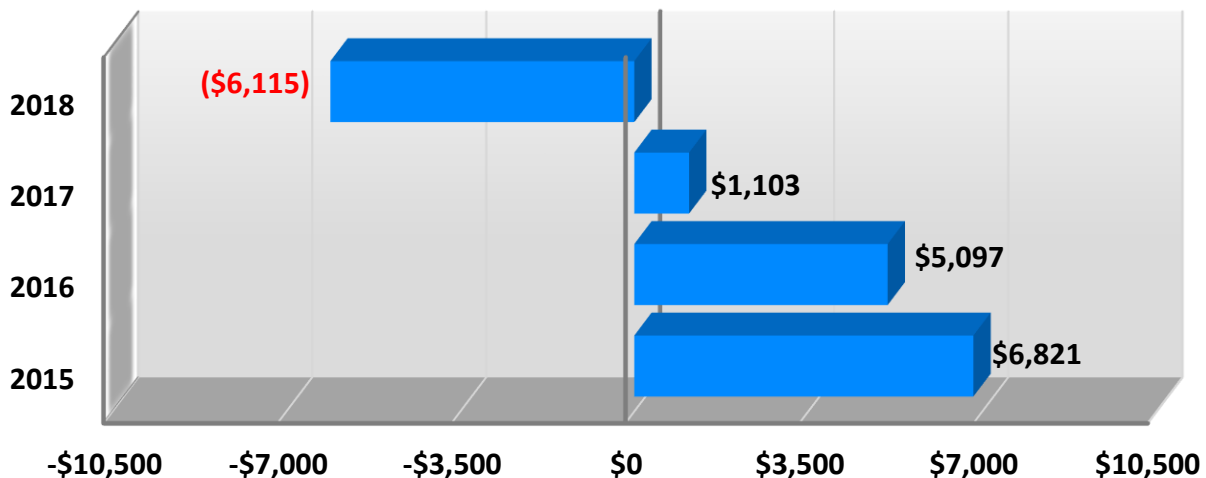
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



### Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

#### Policy Year Financial Results through 1st Quarter 2019 for 2018 and prior years\*

The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



\*2nd Quarter 2019 data will be available the end of October 2019 due to the timing of data reporting



## Residual Market Demographics

### Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas for Policy Years 2015-2019, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 1st Quarter 2019.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2015	\$26,822,480	\$568,271	2.1%
2016	\$24,645,785	\$748,434	3.0%
2017	\$26,313,294	\$679,587	2.6%
2018	\$25,096,958	*	N/A
2019	\$4,432,872	*	N/A

\* The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the uncollectible premium data has not yet developed for the more recent policy years.



## Residual Market Demographics

### Voluntary Coverage Assistance Program Second Quarter Data through June 30, 2019

The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP<sup>®</sup> Service**. The following shows the results **VCAP<sup>®</sup> Service** has provided during Second Quarter 2019.

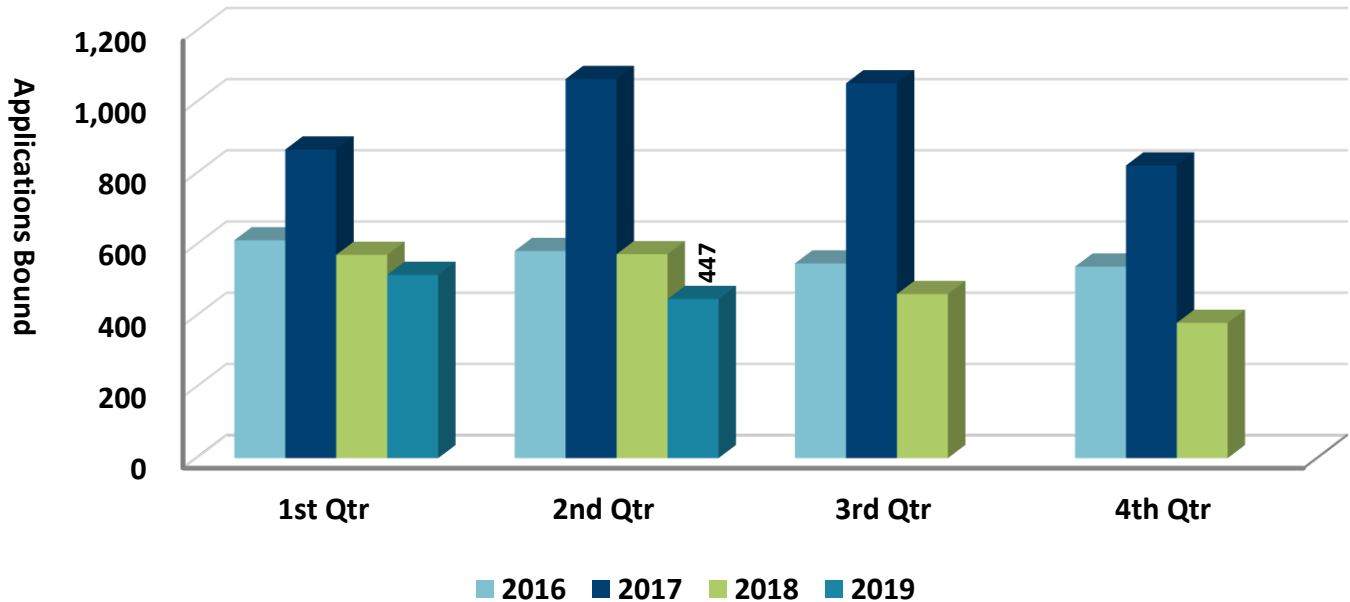
Number of Applications Reviewed by <b>VCAP<sup>®</sup> Service</b>	525
Number of <b>VCAP<sup>®</sup> Service</b> Matches	481
<b>VCAP<sup>®</sup> Service</b> Offers as a % of Matches	15.18%
Number of Confirmed <b>VCAP<sup>®</sup> Service</b> Policies	73
Confirmed <b>VCAP<sup>®</sup> Service</b> Policies as a % of Applications Reviewed	13.90%
Savings as a % of Redirected Assigned Risk Premium	3.45%



## Residual Market Demographics

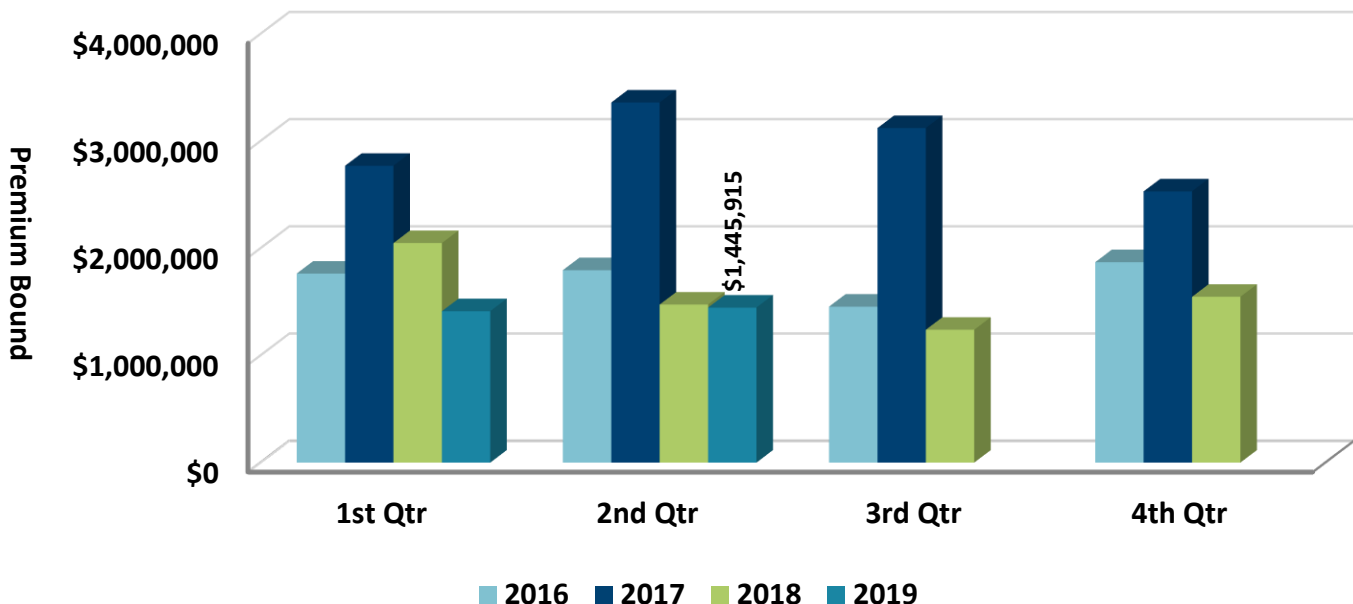
### Total Applications Bound — 2016 vs. 2017 vs. 2018 vs. 2019

The number of applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



### Total Application Premium Bound — 2016 vs. 2017 vs. 2018 vs. 2019

The total estimated premium on bound applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



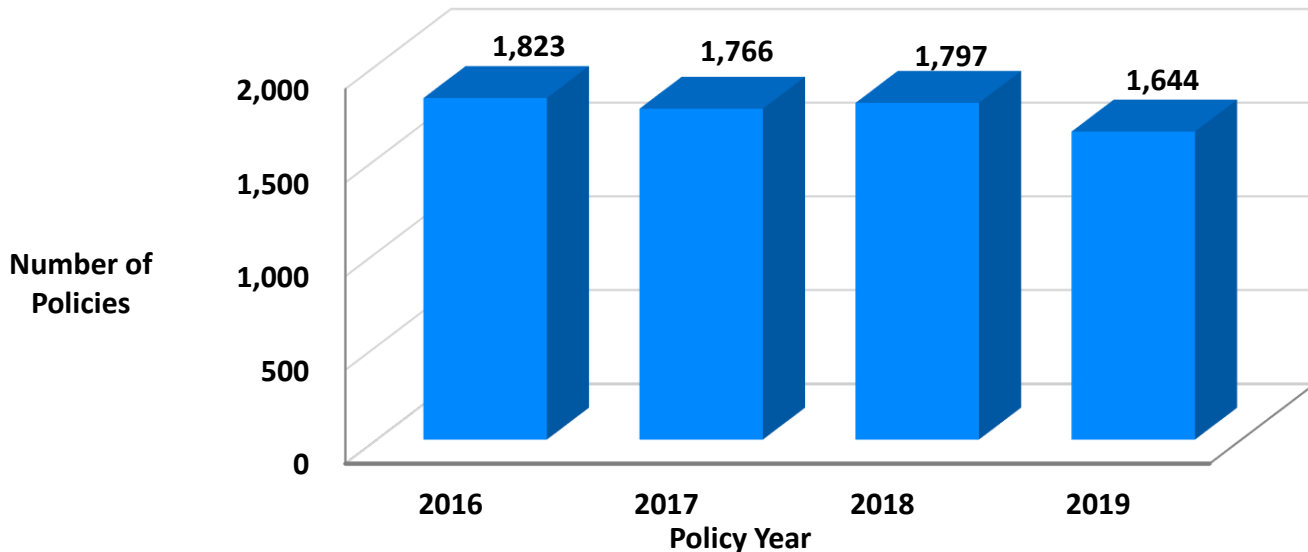


## Residual Market Demographics

### Residual Market Total Policy Counts

#### Second Quarter Data for Policies Reported through June 30, 2019

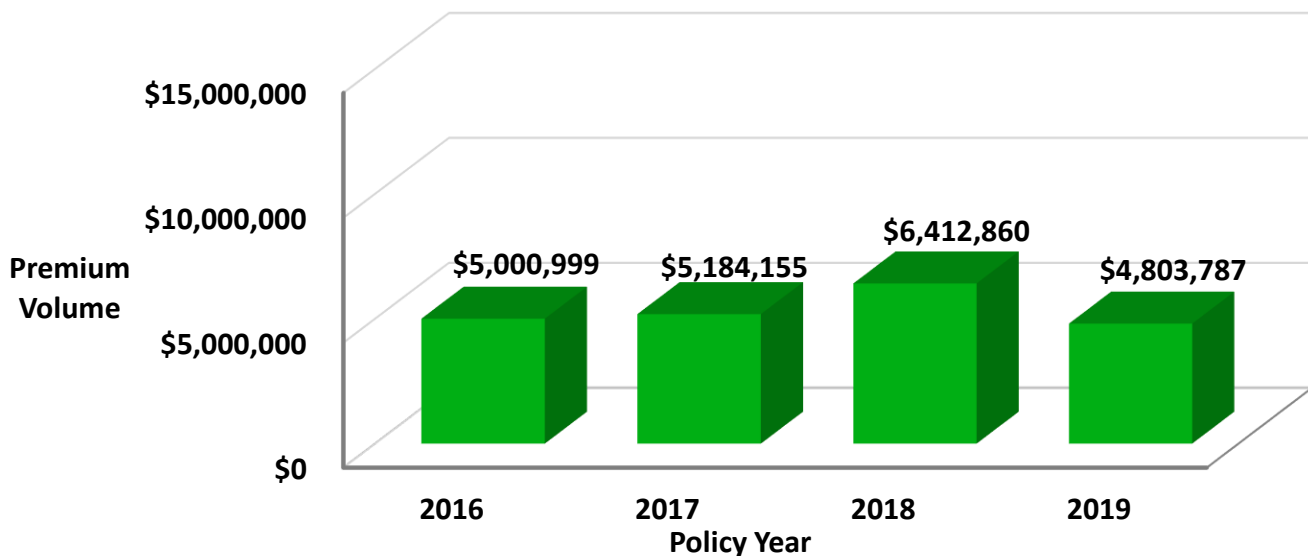
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



### Residual Market Total Premium Volume

#### Second Quarter Data Reported through June 30, 2019

Total amount of all Assigned Risk Plan premium with effective dates during the calendar period listed above.







## Residual Market Demographics

### Total Premium Distribution by Size of Risk

#### Second Quarter Data Reported through June 30, 2019

The total number of Assigned Risk Plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	1219	74.2%	\$1,244,893	25.9%	\$1,021
\$2500–4999	221	13.4%	\$799,360	16.6%	\$3,617
\$5000–9999	109	6.6%	\$755,839	15.7%	\$6,934
\$10000–19999	65	4.0%	\$883,839	18.4%	\$13,597
\$20000–49999	25	1.5%	\$705,041	14.7%	\$28,201
\$50000–99999	4	0.2%	\$249,389	5.2%	\$62,347
\$100000–199999	1	0.1%	\$165,426	3.4%	\$165,426
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,644	100.0%	\$4,803,787	100.0%	\$2,922

### Second Quarter 2018 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	1,297	72.2%	\$1,337,549	20.9%	\$1,031
\$2500–4999	231	12.9%	\$807,095	12.6%	\$3,493
\$5000–9999	164	9.1%	\$1,145,126	17.9%	\$6,982
\$10000–19999	72	4.0%	\$1,013,391	15.8%	\$14,074
\$20000–49999	27	1.5%	\$836,727	13.1%	\$30,989
\$50000–99999	2	0.1%	\$153,285	2.4%	\$76,642
\$100000–199999	2	0.1%	\$243,927	3.8%	\$121,963
\$200000 +	2	0.1%	\$875,760	13.7%	\$437,880
Total	1,797	100.0%	\$6,412,860	100.0%	\$3,569



## Residual Market Demographics

### Residual Market Top 10 Classification Codes by Policy Count Second Quarter Data Reported through June 30, 2019

The top 10 governing class codes by total policy count—policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction of Residential Dwellings not Exceeding Three Stories in Height	342	20.8%
2	5551	Roofing-All Kinds & Drivers	118	7.2%
3	5437	Carpentry-Installation of Cabinet Work or Interior Trim	56	3.4%
4	6217	Excavation & Drivers	50	3.0%
5	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	46	2.8%
6	0037	Farm: Field Crops & Drivers	42	2.6%
7	7228	Trucking-Local Hauling Only-& Drivers	42	2.6%
8	5474	Painting NOC & Shop Operations, Drivers	42	2.6%
9	5403	Carpentry NOC	40	2.4%
10	5022	Masonry NOC	38	2.3%

### Residual Market Top 10 Classification Codes by Premium Volume Second Quarter Data Reported through June 30, 2019

The top 10 governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5645	Carpentry Construction of Residential Dwellings not Exceeding Three Stories in Height	\$680,060	14.2%
2	5551	Roofing-All Kinds & Drivers	\$424,396	8.8%
3	7228	Trucking-Local Hauling Only-& Drivers	\$388,068	8.1%
4	2719	Logging or Tree Removal - Mechanized Harvesting Exclusively	\$175,227	3.7%
5	0037	Farm: Field Crops & Drivers	\$159,887	3.3%
6	6217	Excavation & Drivers	\$101,686	2.1%
7	5403	Carpentry NOC	\$99,499	2.1%
8	5437	Carpentry-Installation of Cabinet Work or Interior Trim	\$96,686	2.0%
9	5474	Painting NOC & Shop Operations, Drivers	\$87,060	1.8%
10	5022	Masonry NOC	\$83,135	1.7%



## Glossary of Terms

**Applications Bound**—The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

**Earned Premium or Premiums Earned**—That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, “premiums earned” describes the premiums written during a period, plus the unearned premiums at the beginning of the period, less the unearned premiums at the end of the period.

**In Force (Policies/Premium)**—All policies and associated estimated premium that are current as of a given date.

**Incurred But Not Reported (IBNR)**—Pertaining to losses where the events that will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include “bulk” reserves for estimated future development of case reserves.

**Loss Ratio**—The ratio of total incurred losses to total earned premiums in a given period, expressed as a percentage. The formula for loss ratio is  $(\text{loss} + \text{loss adjustment expense}) / \text{earned premium}$ .

**Premium Bound**—The total estimated annual premium on bound applications.

**Underwriting Gain/ (Loss)**—The financial statement presentation that reflects the excess of earned premium over incurred losses.

**VCAP<sup>®</sup> Service**—Voluntary Coverage Assistance Program is a supplemental program to NCCI’s Workers Compensation Insurance Plan. As part of NCCI’s strategic vision of maintaining and depopulating the residual market, NCCI’s **VCAP<sup>®</sup> Service** redirects coverage opportunities for employers to voluntary market insurers, which generally provide coverage at a lower cost. **VCAP<sup>®</sup> Service** provides an additional source for producers and employers to secure voluntary workers compensation coverage prior to entering the residual market for coverage.



# Exhibit "C" State of the Line Property & Casualty (P&C) Results

# P&C Industry Net Written Premium Growth

## Private Carriers

Line of Business	2017 (\$B)	2018p (\$B)	% Change From 2017
Personal Auto	222.2	240.4	8.2
Homeowners	82.3	88.2	7.2
Other Liability (Incl. Product Liability)	50.1	62.4	24.6
<b>Workers Compensation</b>	<b>39.8</b>	<b>43.2</b>	<b>8.5</b>
Commercial Multiple Peril	34.1	37.4	9.7
Fire & Allied Lines (Incl. EQ)	26.4	30.1	14.0
Commercial Auto	30.6	35.7	16.7
All Other Lines	67.2	74.2	10.4
<b>Total P&amp;C Industry</b>	<b>552.8</b>	<b>611.6</b>	<b>10.6</b>

p Preliminary

Source: NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry Net Combined Ratio

## Private Carriers

Line of Business	2017 (%)	2018p (%)	Difference From 2017
Personal Auto	103	98	-5
Homeowners	107	104	-3
Other Liability (Incl. Product Liability)	101	102	1
<b>Workers Compensation</b>	<b>89</b>	<b>83</b>	<b>-6</b>
Commercial Multiple Peril	108	107	-1
Fire & Allied Lines (Incl. EQ)	125	109	-16
Commercial Auto	111	108	-3
All Other Lines	98	92	-6
<b>Total P&amp;C Industry</b>	<b>104</b>	<b>99</b>	<b>-5</b>

p Preliminary

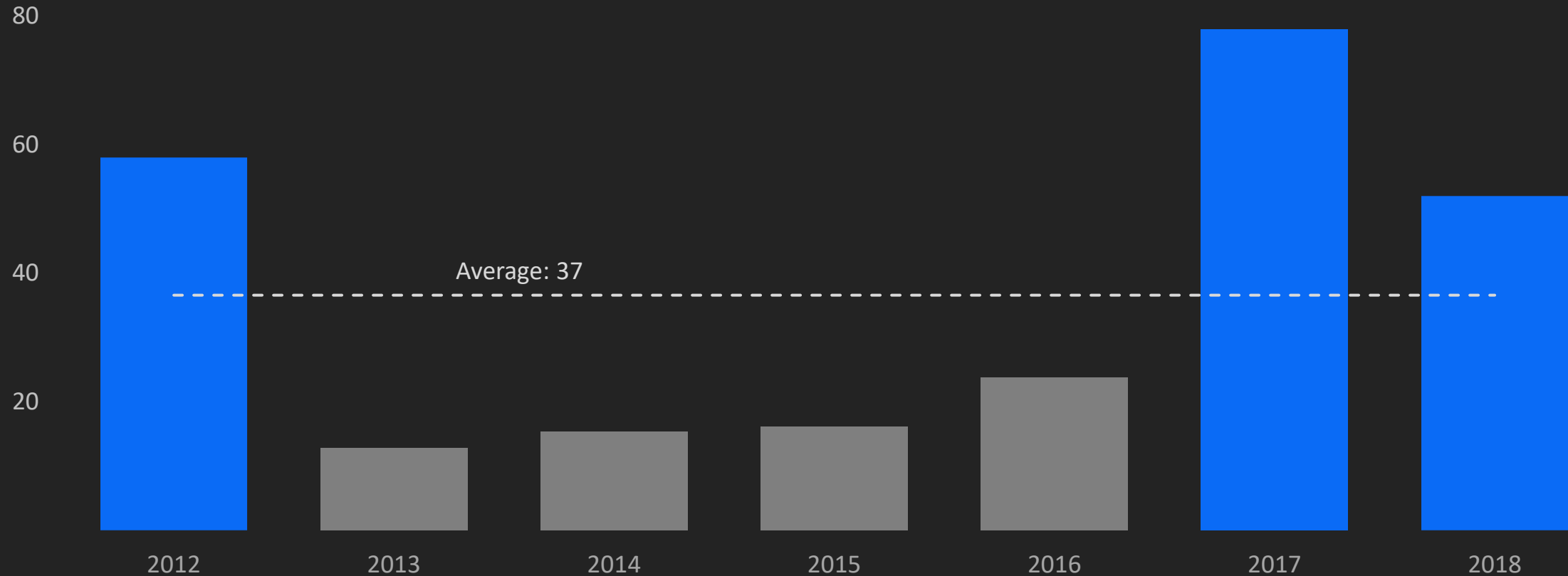
Source: NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry Insured Losses From Natural Catastrophes

\$ Billions

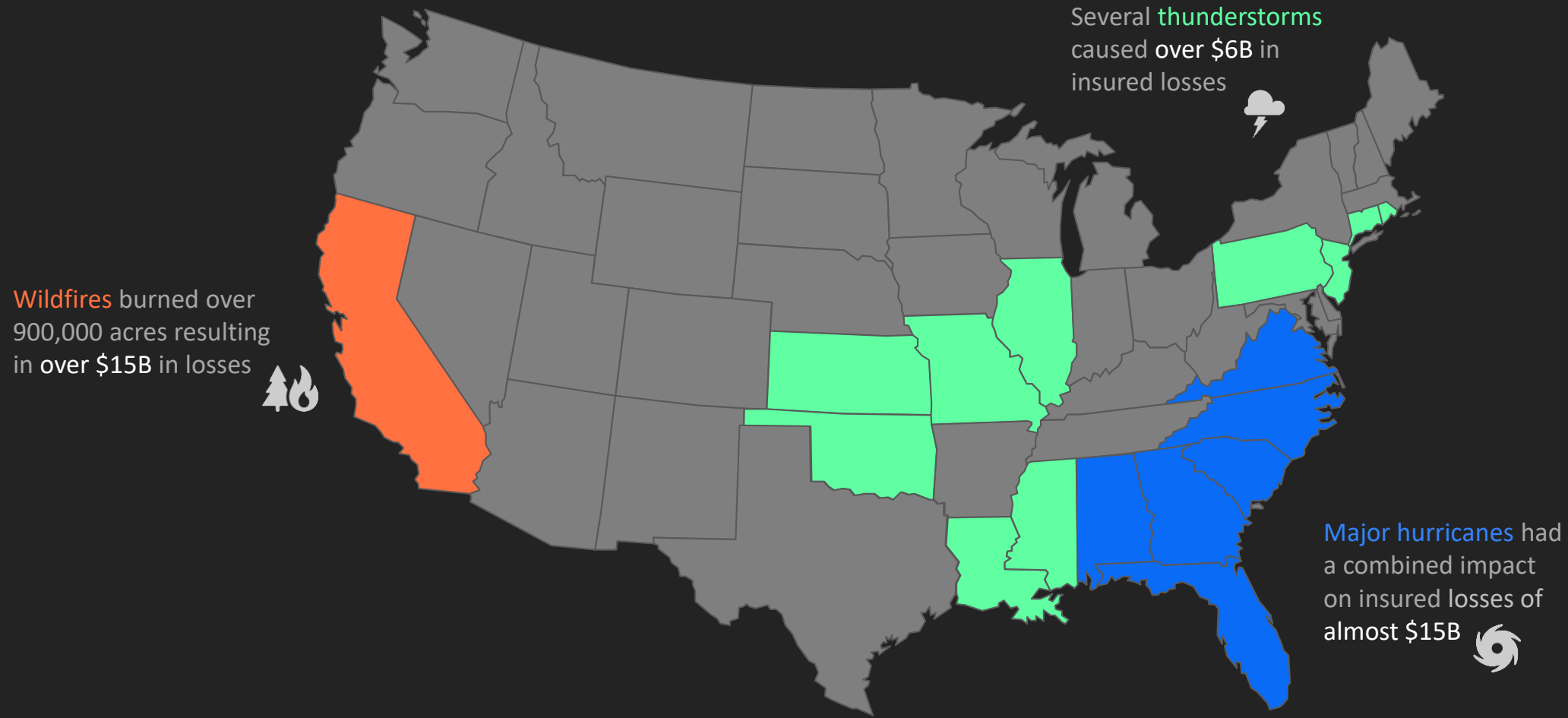


Sources: Munich Re's NatCatSERVICE and Insurance Information Institute

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# Impact of Natural Catastrophes by Region



Source: Willis Re Summary of Natural Catastrophe Events 2018

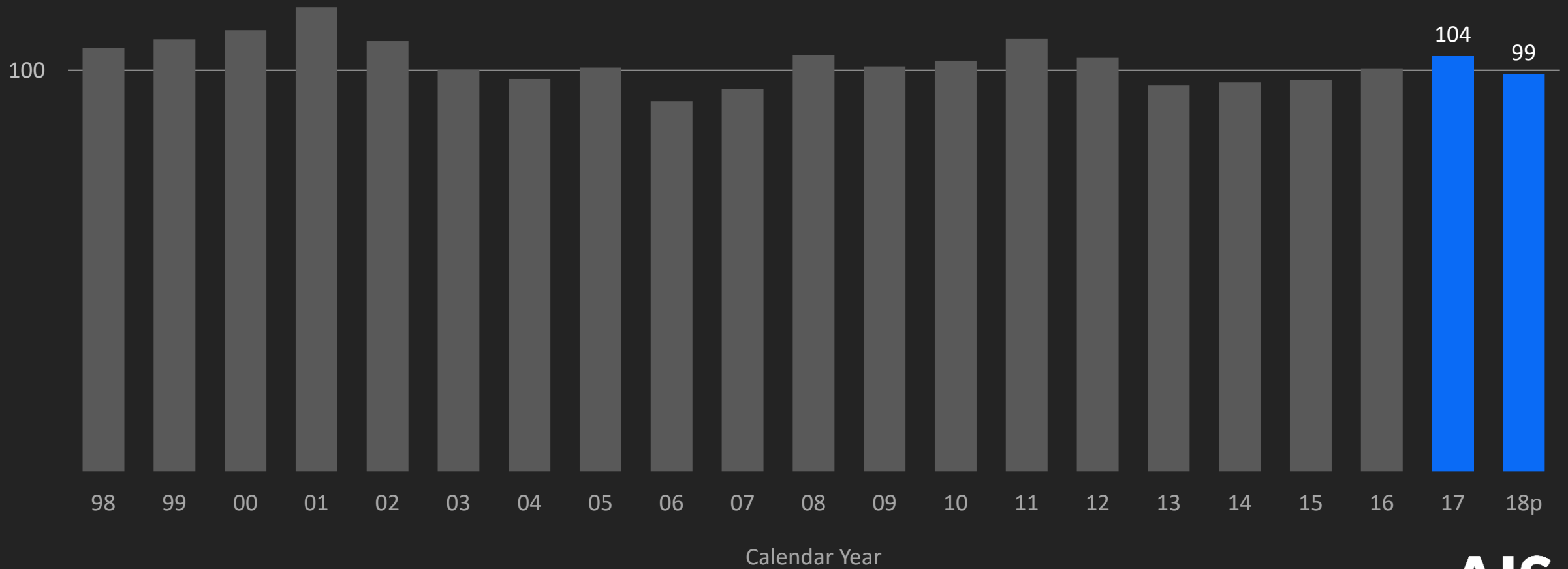
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019



# P&C Industry Net Combined Ratio

Private Carriers



p Preliminary

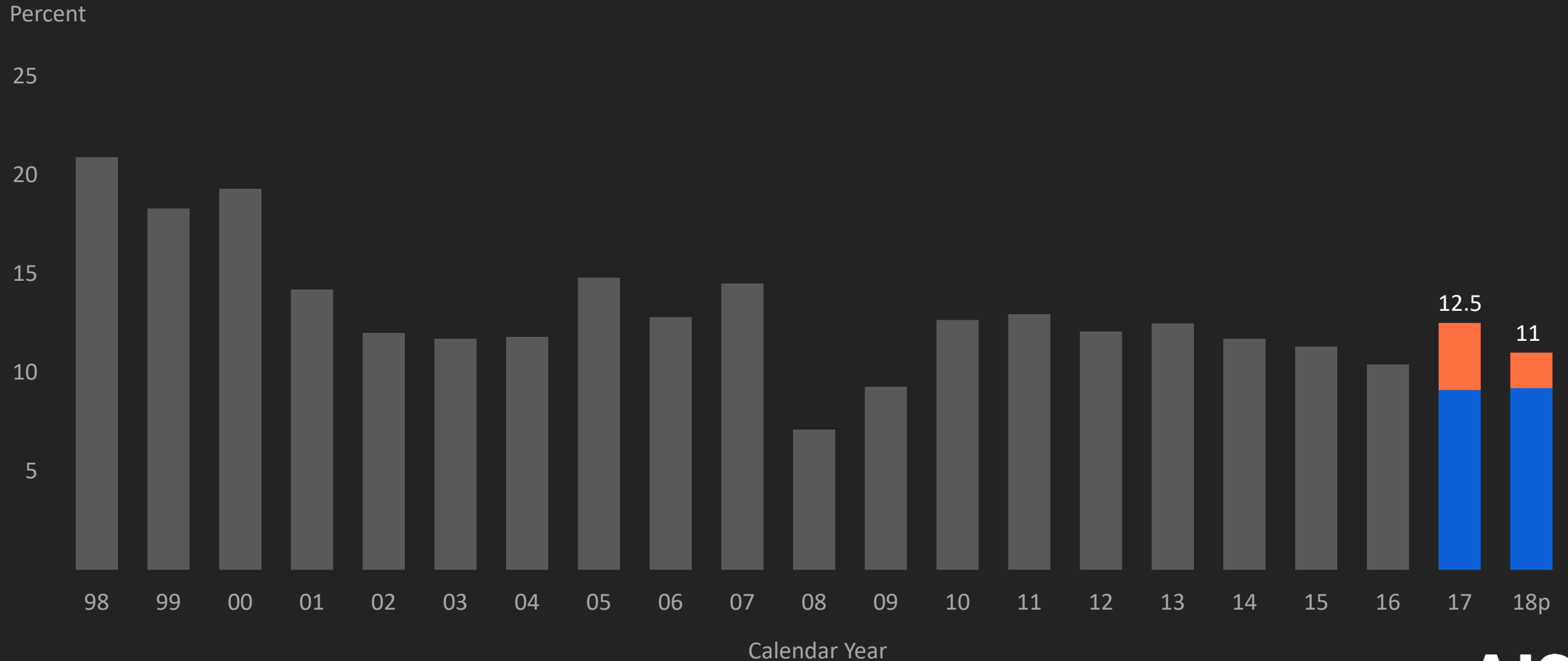
Sources: 1998–2008 and 2013–2018p NAIC's Annual Statement data; 2009–2012 ISO

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry Investment Gain Ratio to Net Earned Premium

Net Realized Capital Gains and Net Investment Income, Private Carriers



p Preliminary

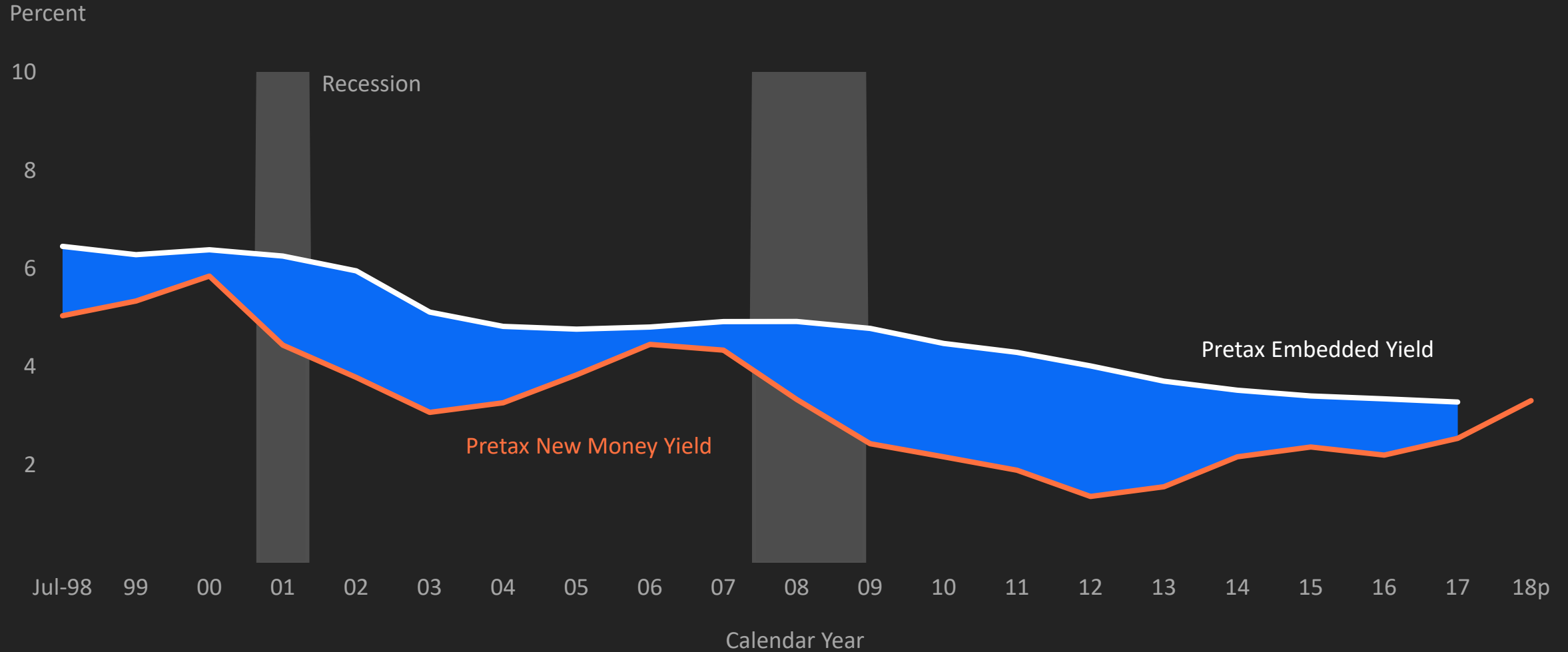
Sources: 1998–2008 and 2014–2018p NAIC's Annual Statement data; 2009–2013 ISO

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry Embedded and New Money Yields

## Private Carriers



p Preliminary

Sources: NCCI, *A.M. Best's Aggregates & Averages*, Federal Reserve Bank, Value Line, TreasuryDirect.gov, Barron's, and Bloomberg

Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments

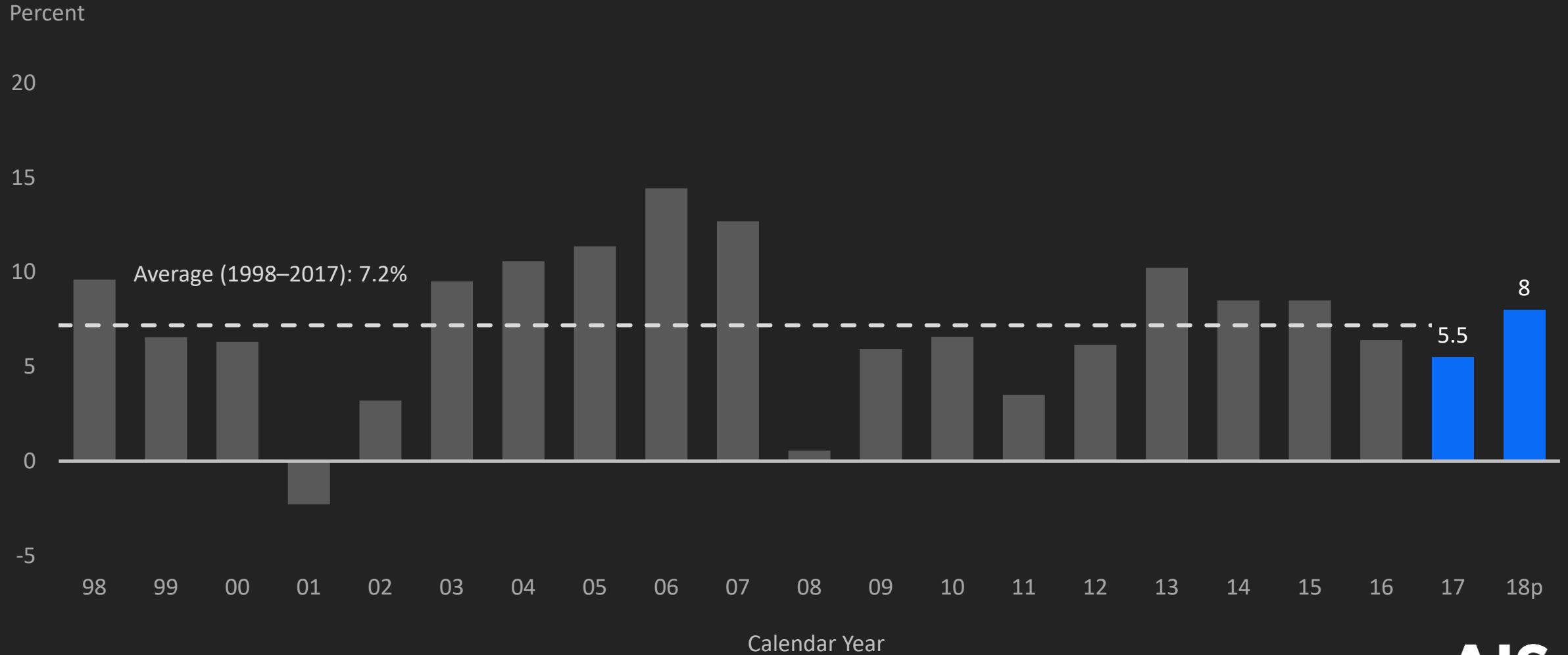
New Money Yield is the pretax yield on bonds

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry After-Tax Return on Surplus

## Private Carriers



p Preliminary

Sources: 1998–2008 and 2014–2018p NAIC's Annual Statement data; 2009–2013 ISO  
After-tax return on average surplus, excluding unrealized capital gains

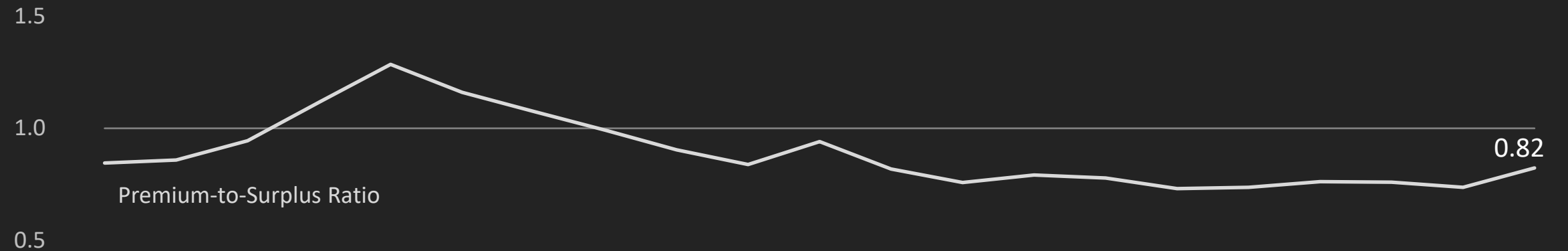
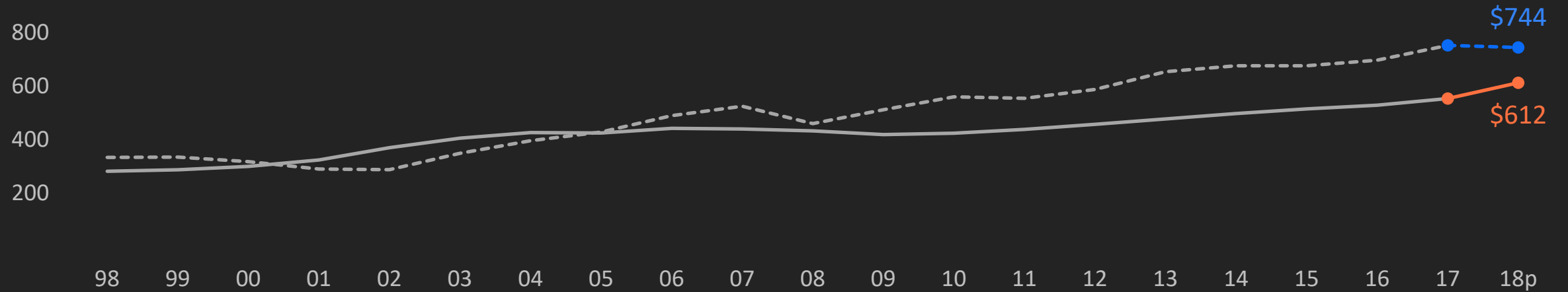
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# P&C Industry Net Premium-to-Surplus Ratio

Private Carriers

\$ Billions



p Preliminary

Sources: 1998–2008 and 2014–2018p NAIC's Annual Statement data; 2009–2013 ISO

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

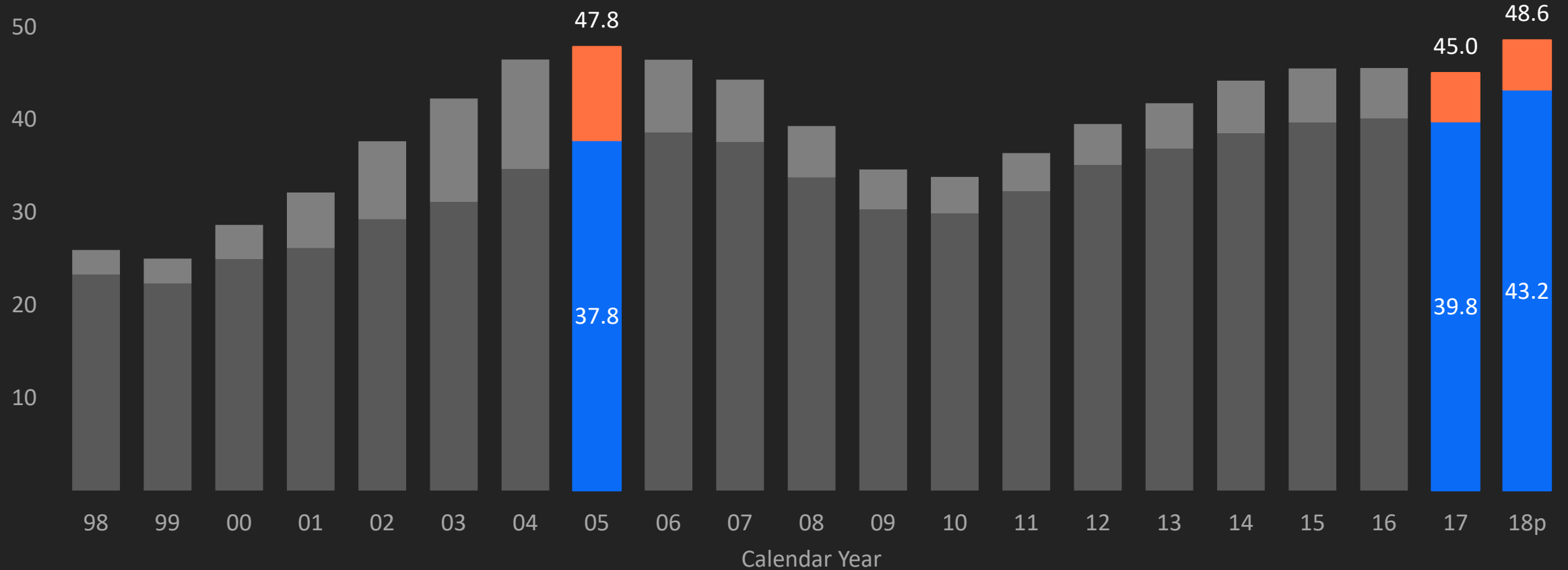


# Workers Compensation (WC) Premium

# WC Net Written Premium

Private Carriers and State Funds

\$ Billions



p Preliminary

Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT  
Each calendar year total for state funds includes all funds operating as a state fund in that year

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Residual Market Premium

## NCCI-Serviced WC Residual Market Pools

\$ Billions

2.0

1.5

1.0

0.5

98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18p

Policy Year

1.0

1

p Preliminary, incomplete policy year projected to ultimate

Source: NCCI's **Residual Market Quarterly Results**

Includes Pool data for all NCCI-serviced WC Residual Market Pool states, valued as of 12/31/2018

Tennessee Reinsurance Mechanism premium is not included

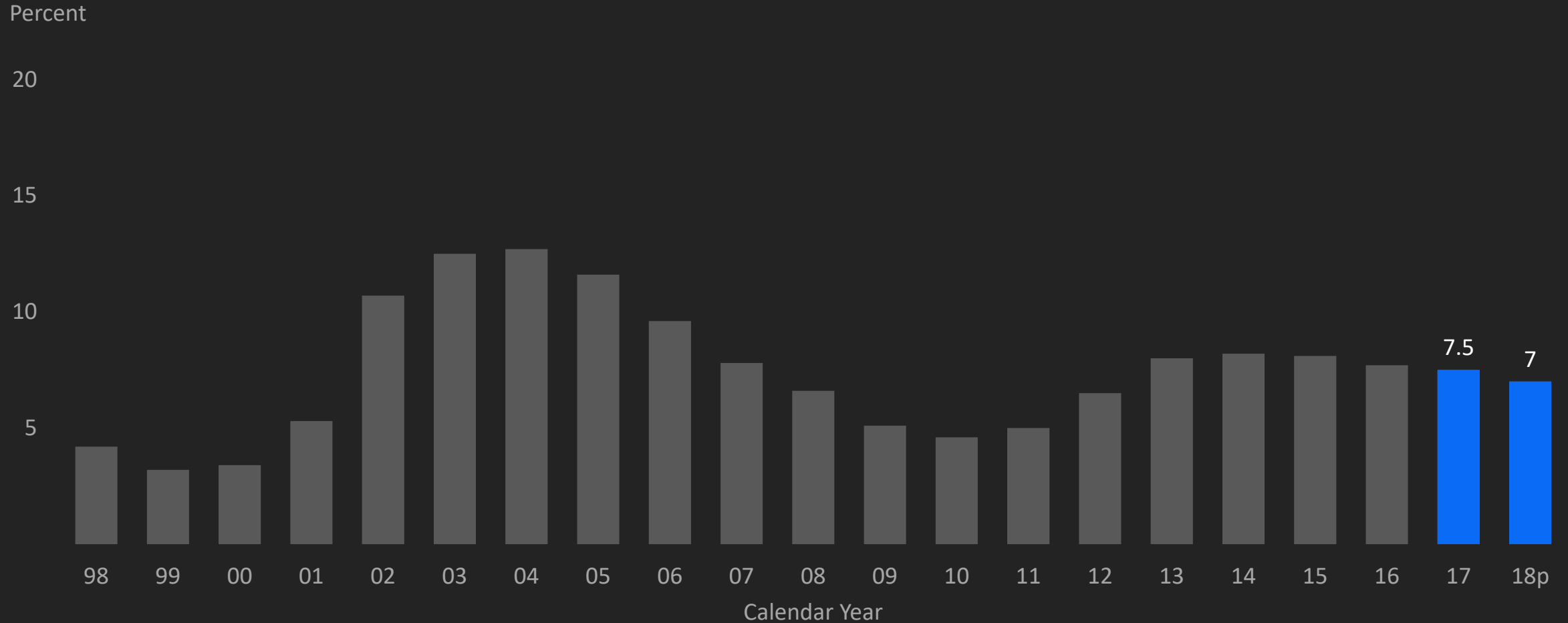
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019



# WC Residual Market Share

## NCCI-Serviced WC Residual Market Pools



p Preliminary

Source: NCCI's *Residual Market Management Summary*

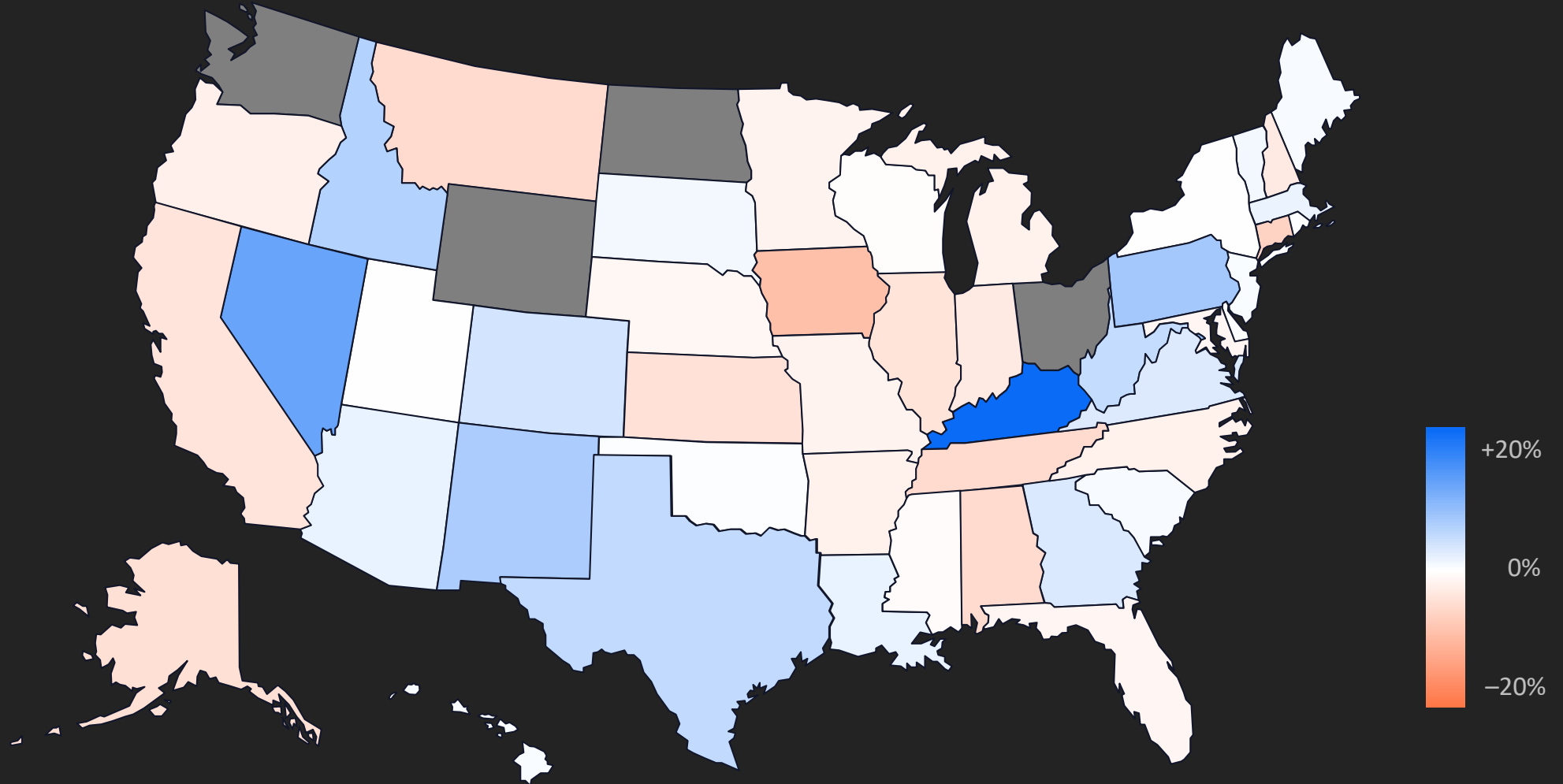
Includes Pool and direct assignment data for all NCCI-serviced WC Residual Market Pool states

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Direct Written Premium Change—2018

Private Carriers



Source: 2017 and 2018 NAIC's Annual Statement Statutory Page 14

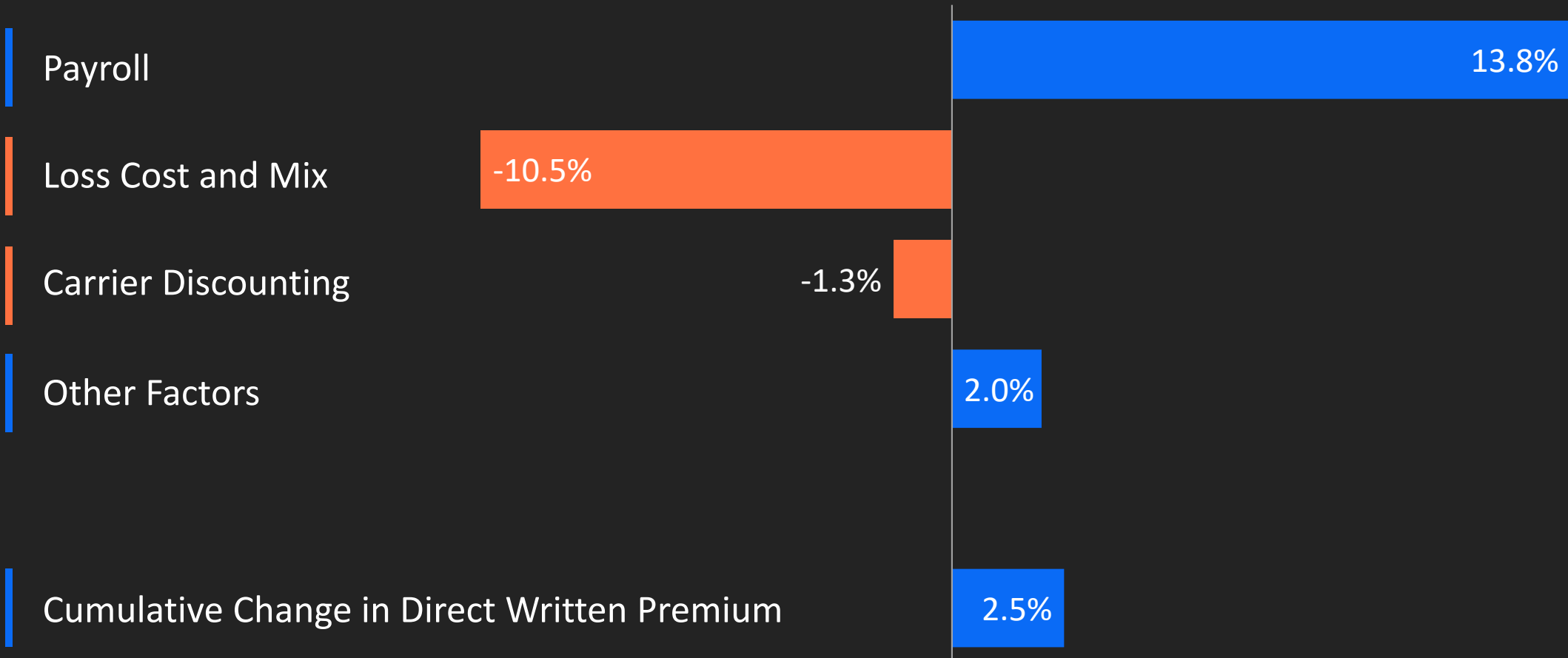
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Direct Written Premium Change by Component—Historical

Private Carriers—NCCI States

2014 vs. 2017



Sources: Direct Written Premium Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services  
Components: NCCI's Policy data

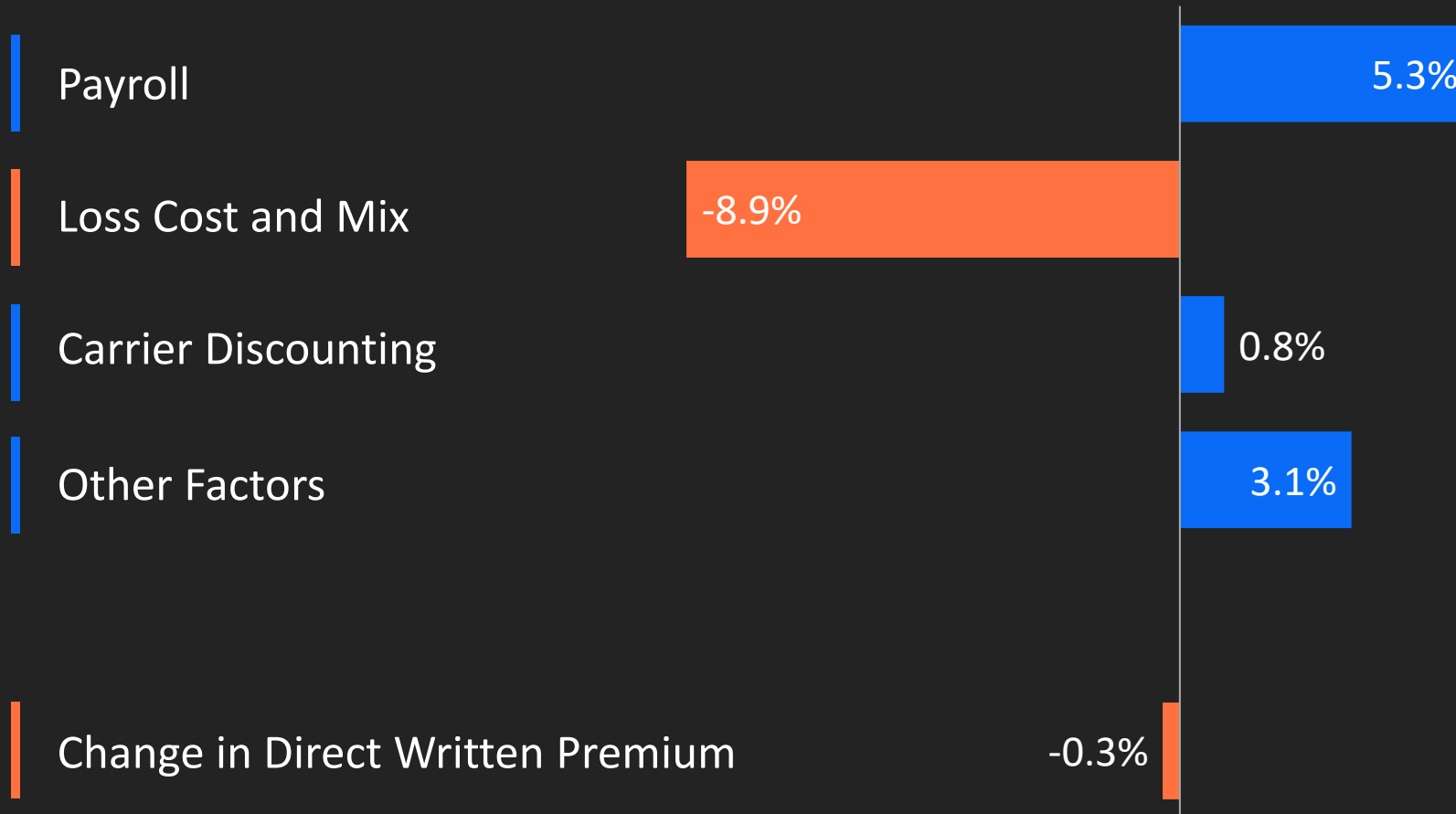
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Direct Written Premium Change by Component

Private Carriers—NCCI States

2017 vs. 2018

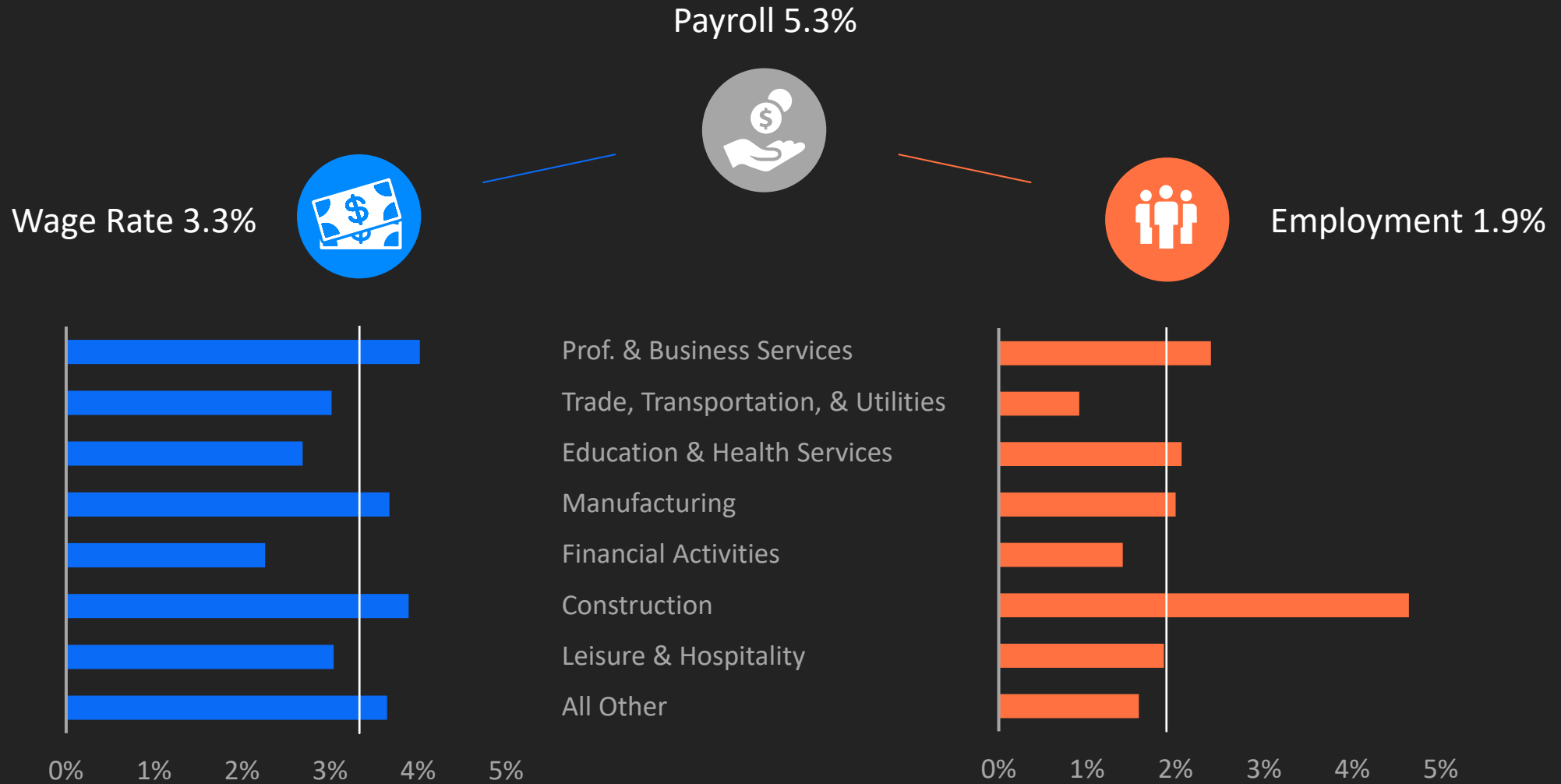


Sources: Direct Written Premium Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services  
Components: NCCI's Policy data

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

# Increases in Payroll Continue to Drive Changes in Premium

Forecast Change 2017–2018



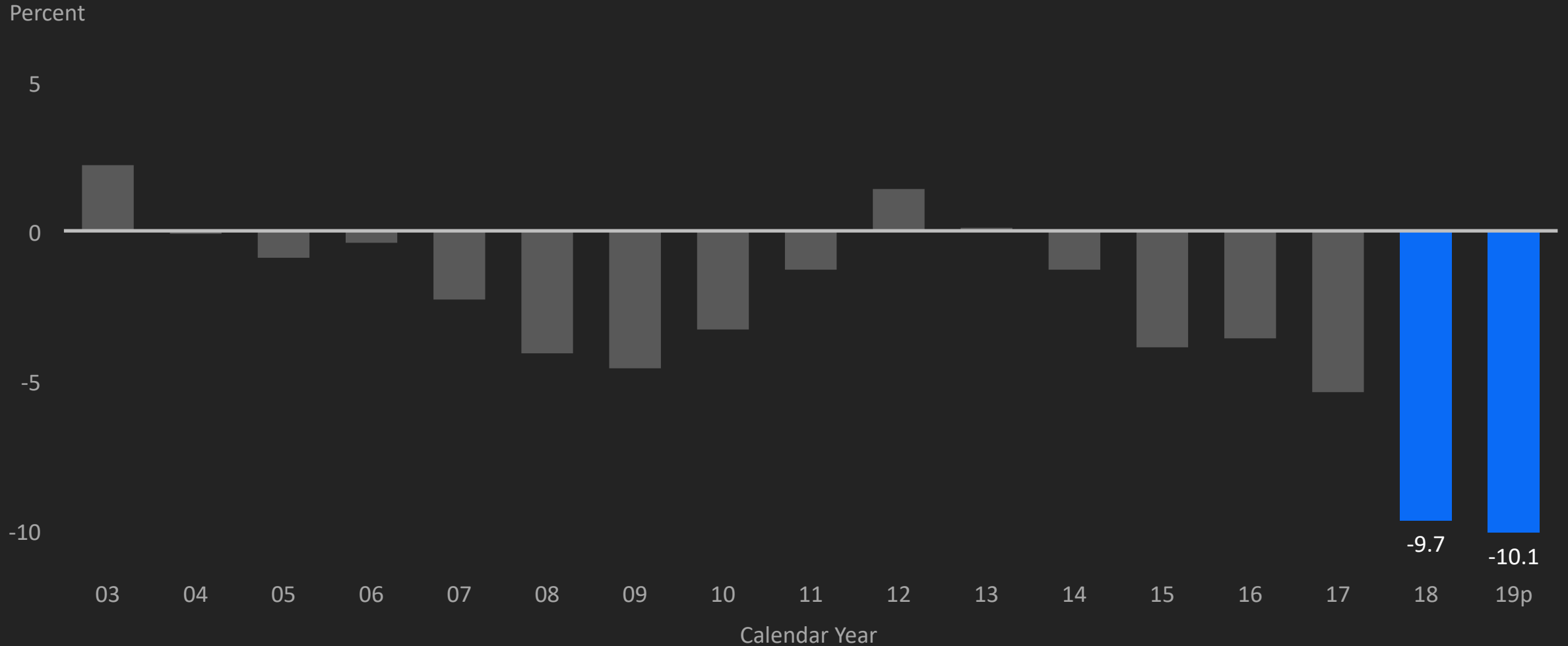
Sources: Moody's Analytics and NCCI

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Approved Changes in Bureau Premium Level

Weighted by Effective Date—NCCI States



p Preliminary

Source: NAIC's Annual Statement Statutory Page 14

Values reflect changes in average premium levels between years, based on approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 5/3/2019

IN and NC are filed in cooperation with state rating bureaus

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

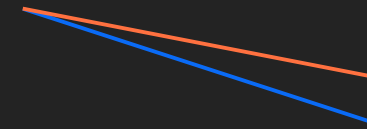
**AIS**  
2019

# Contributors to Rate/Loss Cost Changes

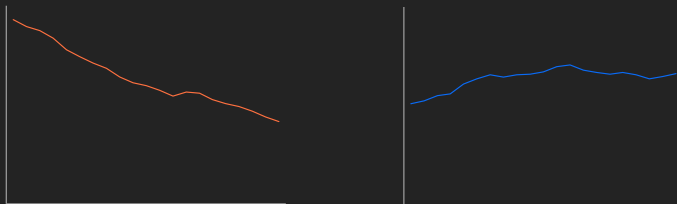
## Experience Period



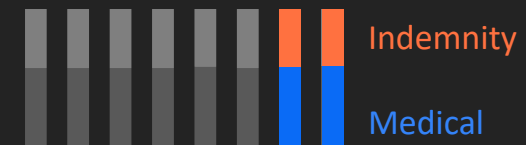
## Development



## Trend

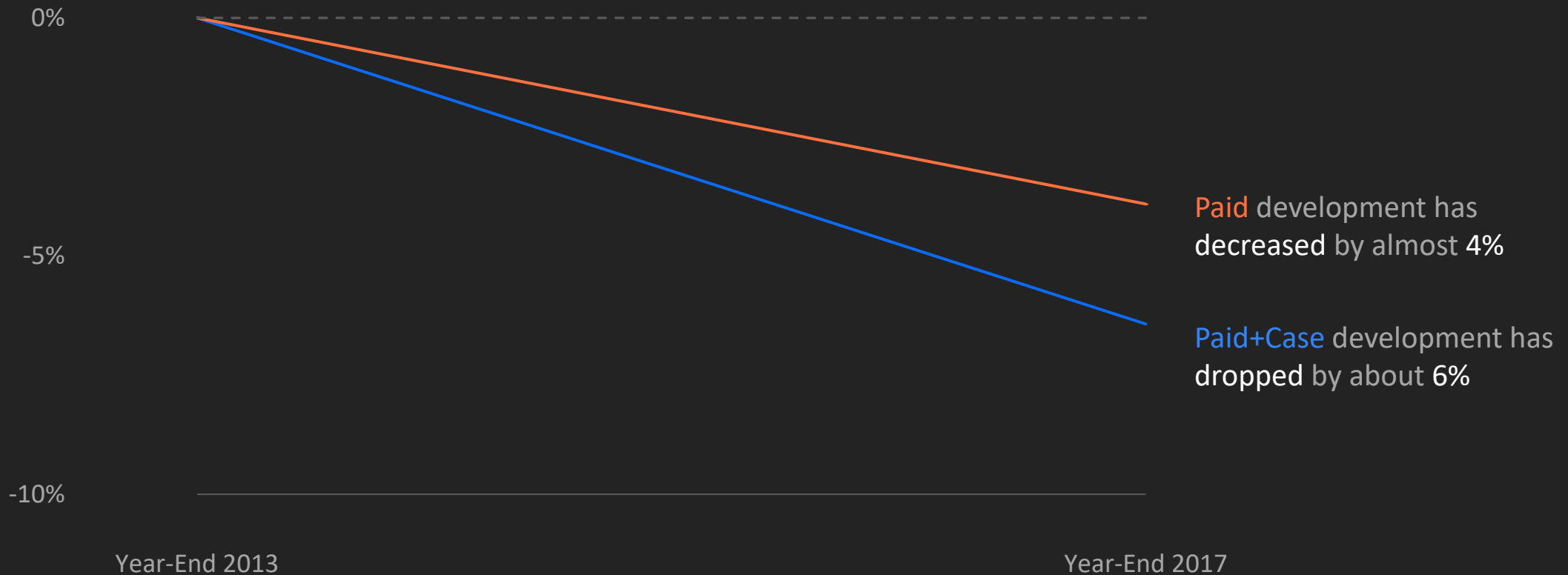


## Benefit



# Loss Development

From First to Eighth Report—NCCI States



Based on NCCI's Financial Call data for all states where NCCI provides ratemaking services, excluding NV, TX, and WV

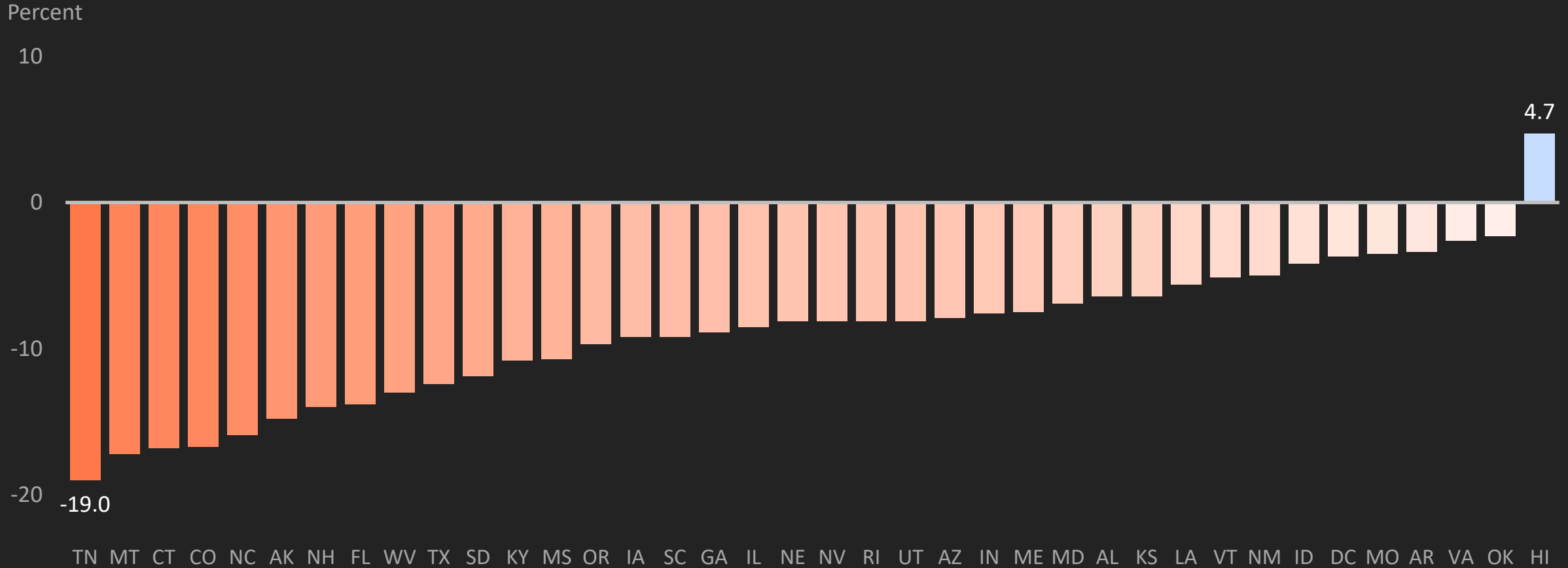
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019



# Most Recent Changes in Bureau Premium Level

Voluntary Market, Excludes Law-Only Filings



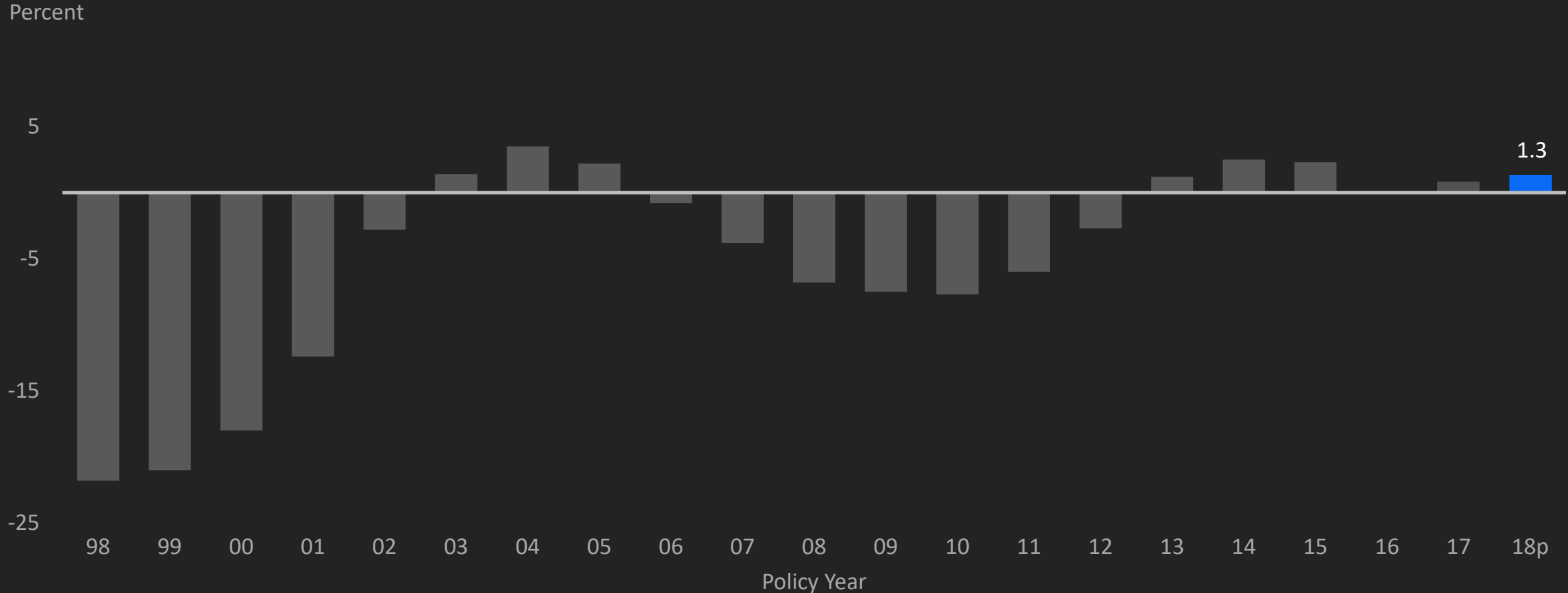
Premium level changes in advisory rates, loss costs, and rating values, as of 5/3/2019, as filed by the applicable rating organization, relative to those previously approved  
IN and NC are filed in cooperation with state rating bureaus

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Impact of Discounting on Premium

Private Carriers—NCCI States



p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

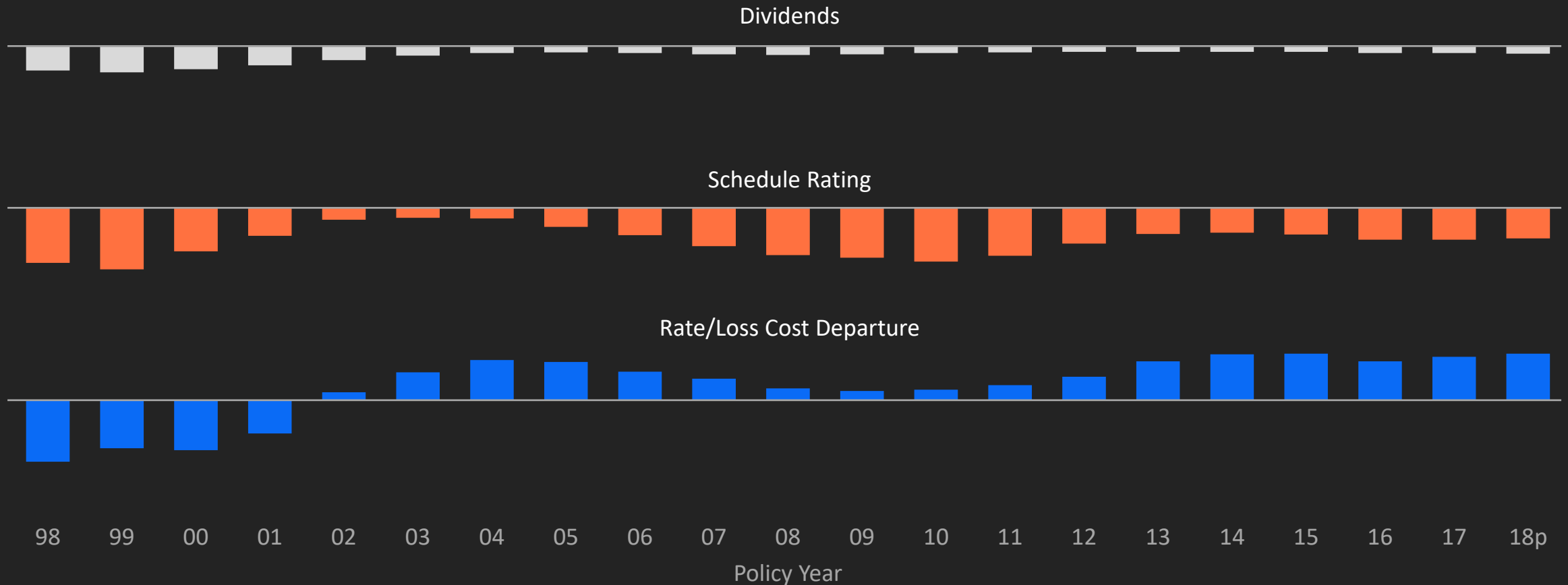
Based on data for all states where NCCI provides ratemaking services, excluding TX

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AI**  
2019

# WC Impact of Discounting on Premium by Component

Private Carriers—NCCI States



p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

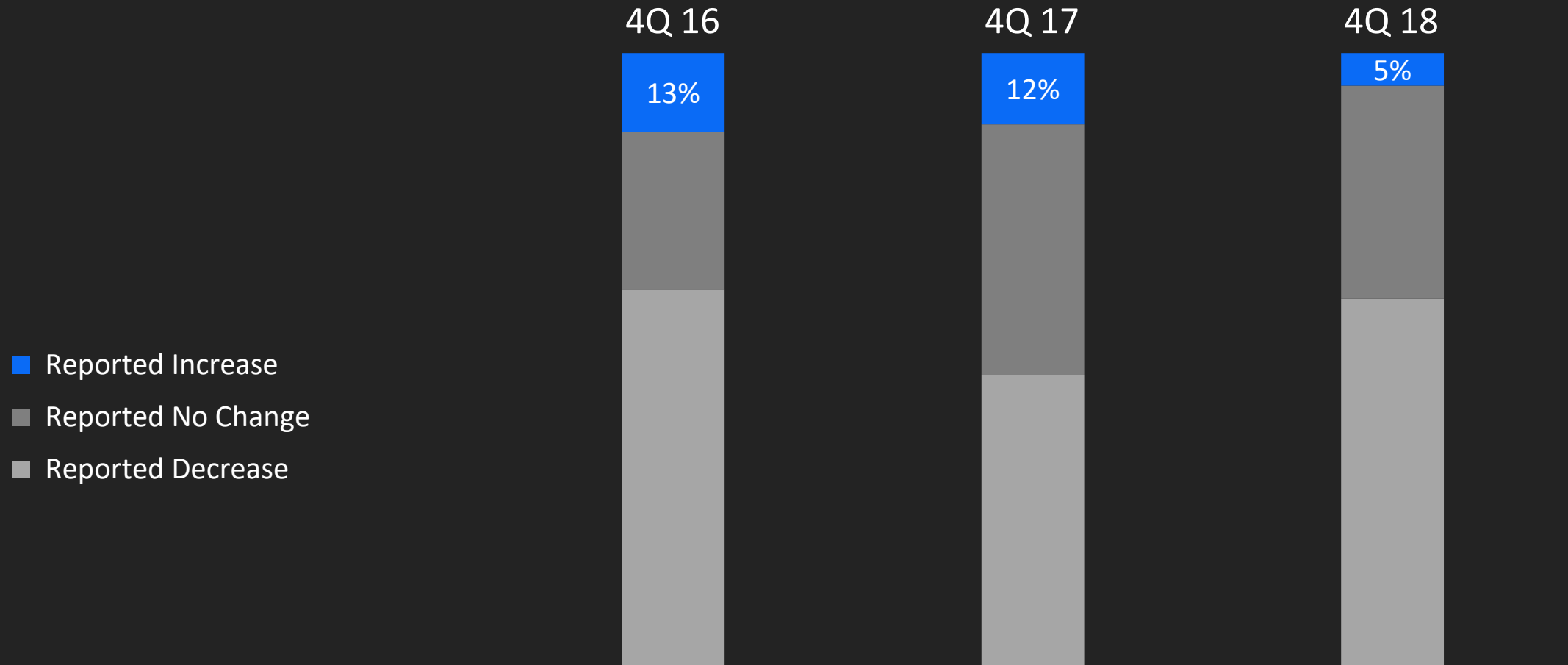
Based on data for all states where NCCI provides ratemaking services, excluding TX

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AI**  
2019

# WC Pricing—Market Index Survey

Percentage of Respondents



- Reported Increase
- Reported No Change
- Reported Decrease

Sources: The Council of Insurance Agents & Brokers: Q4 P&C Market Index Surveys (2016–2018); results for “All Regions”

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

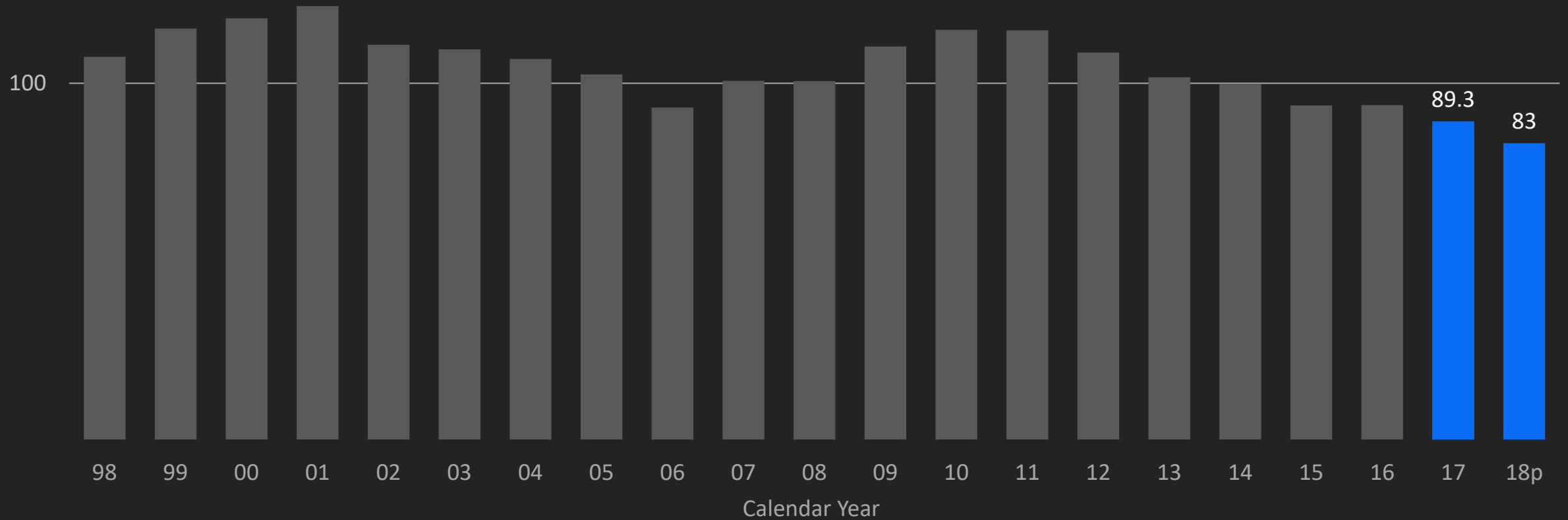


# Workers Compensation Results

# WC Combined Ratio—Underwriting Gain Achieved

Private Carriers

Percent



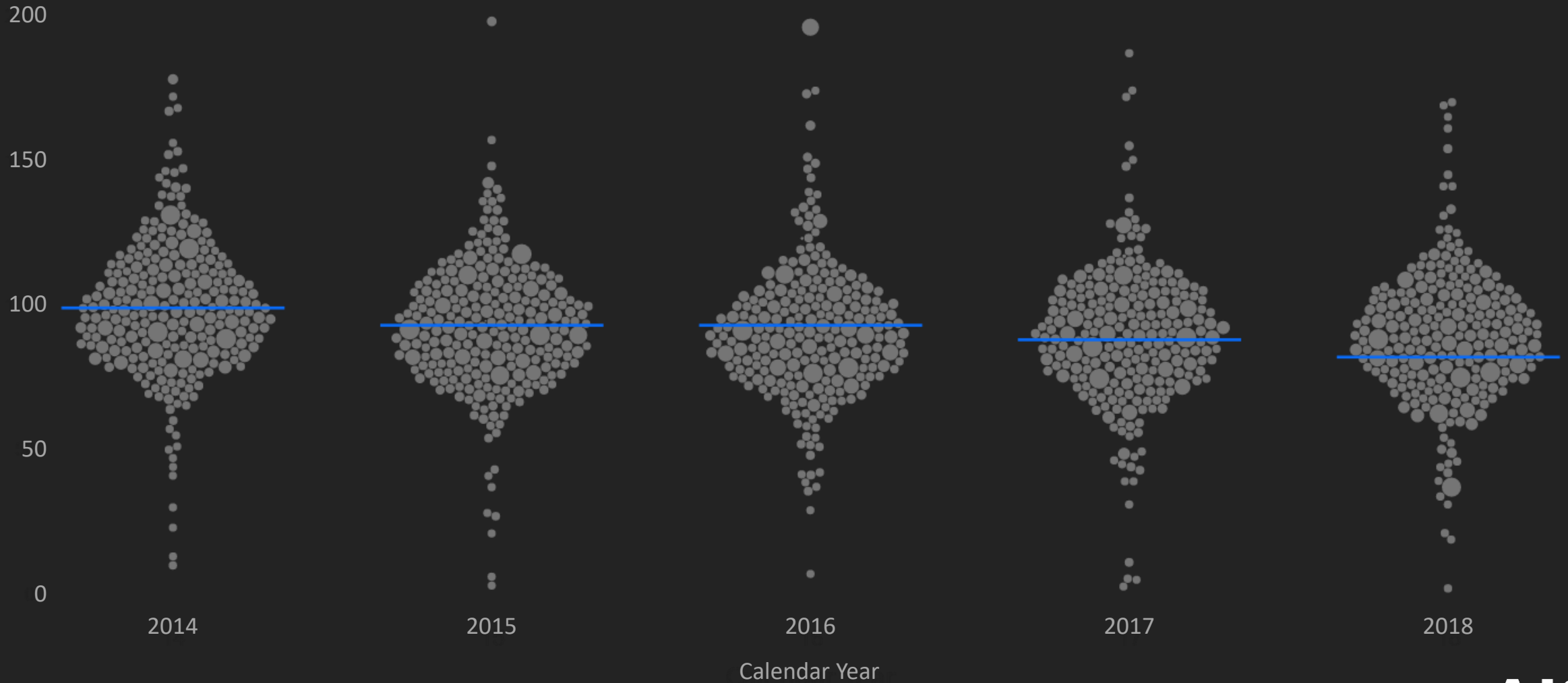
p Preliminary  
Source: NAIC's Annual Statement data

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Combined Ratios by Carrier Group

## Private Carriers

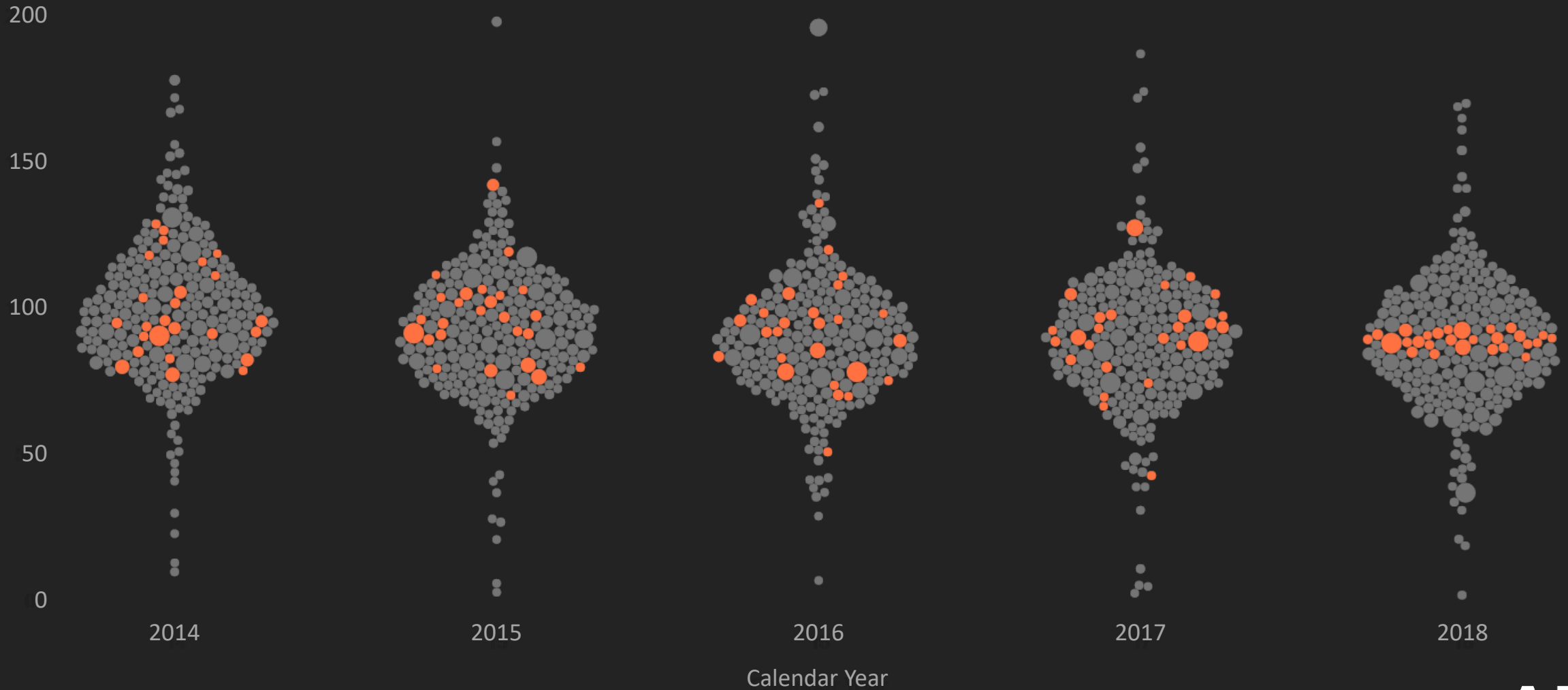


Source: NAIC's Annual Statement data  
The size of the circle is based on the carrier group's premium volume up to \$2.5B.

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

# WC Combined Ratios—Selected Carrier Groups

## Private Carriers



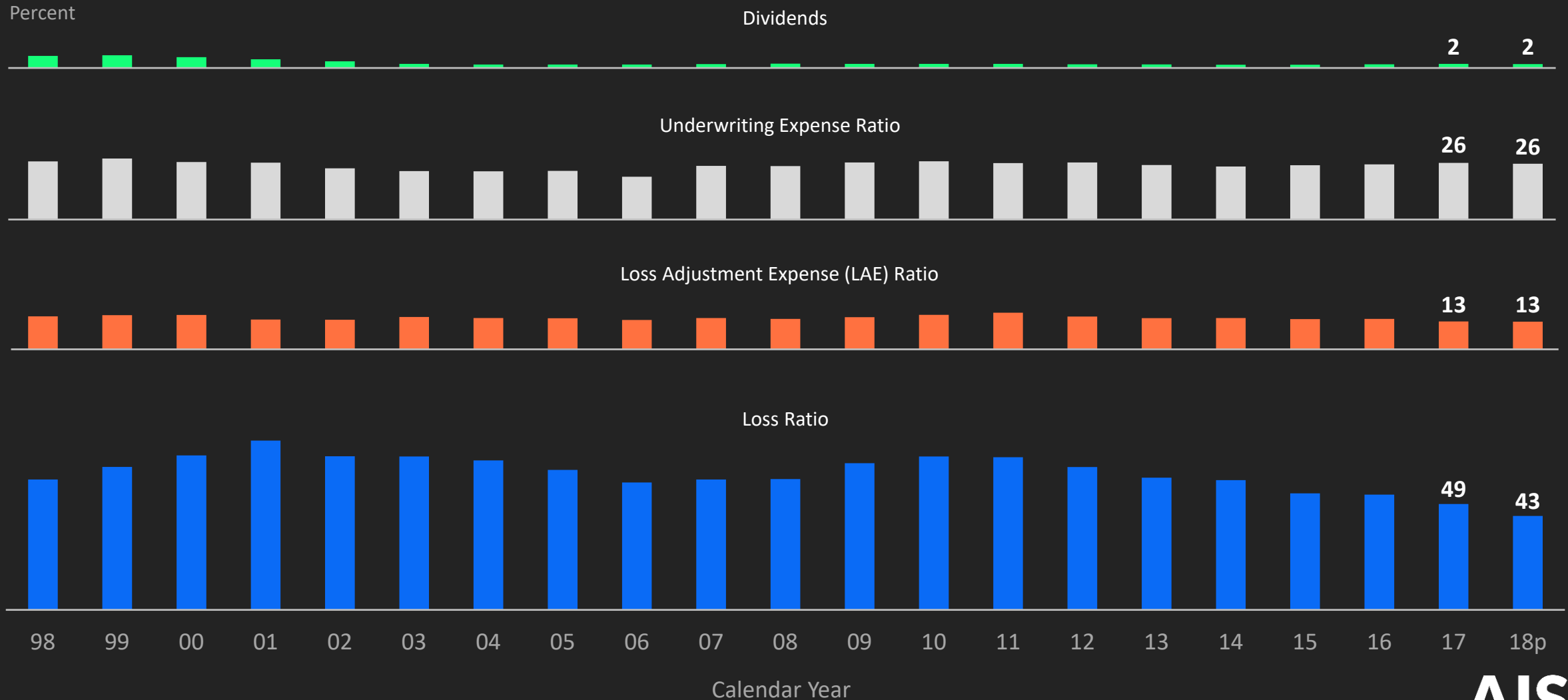
Source: NAIC's Annual Statement data  
The size of the circle is based on the carrier group's premium volume up to \$2.5B.

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.



# WC Combined Ratio by Component

## Private Carriers



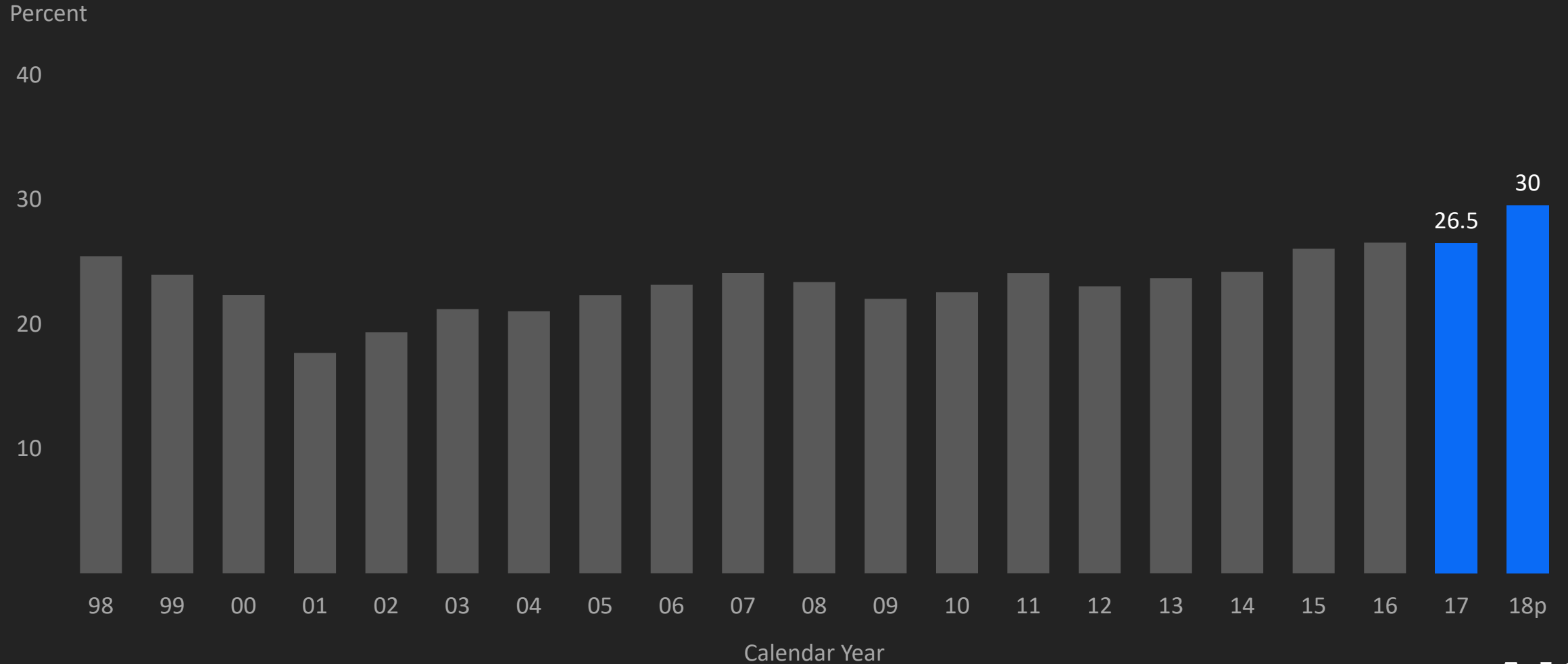
p Preliminary  
Source: NAIC's Annual Statement data

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC LAE-to-Loss Ratio—Net Incurred LAE to Incurred Losses

Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

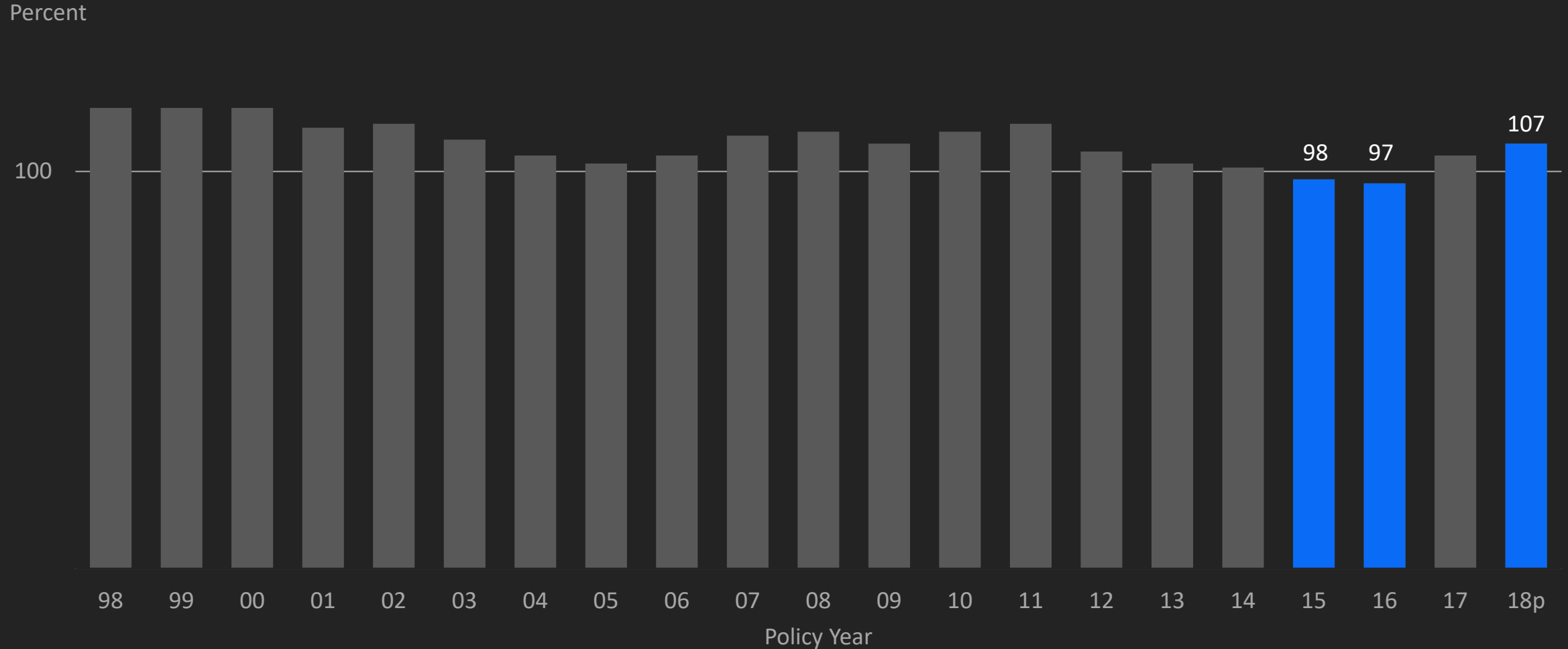
LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Residual Market Combined Ratio

## NCCI-Serviced WC Residual Market Pools



p Preliminary, incomplete policy year projected to ultimate

Source: NCCI's *Residual Market Quarterly Results*

Includes Pool data and Plan expenses for pool members for all NCCI-serviced WC Residual Market Pool states, valued as of 12/31/2018

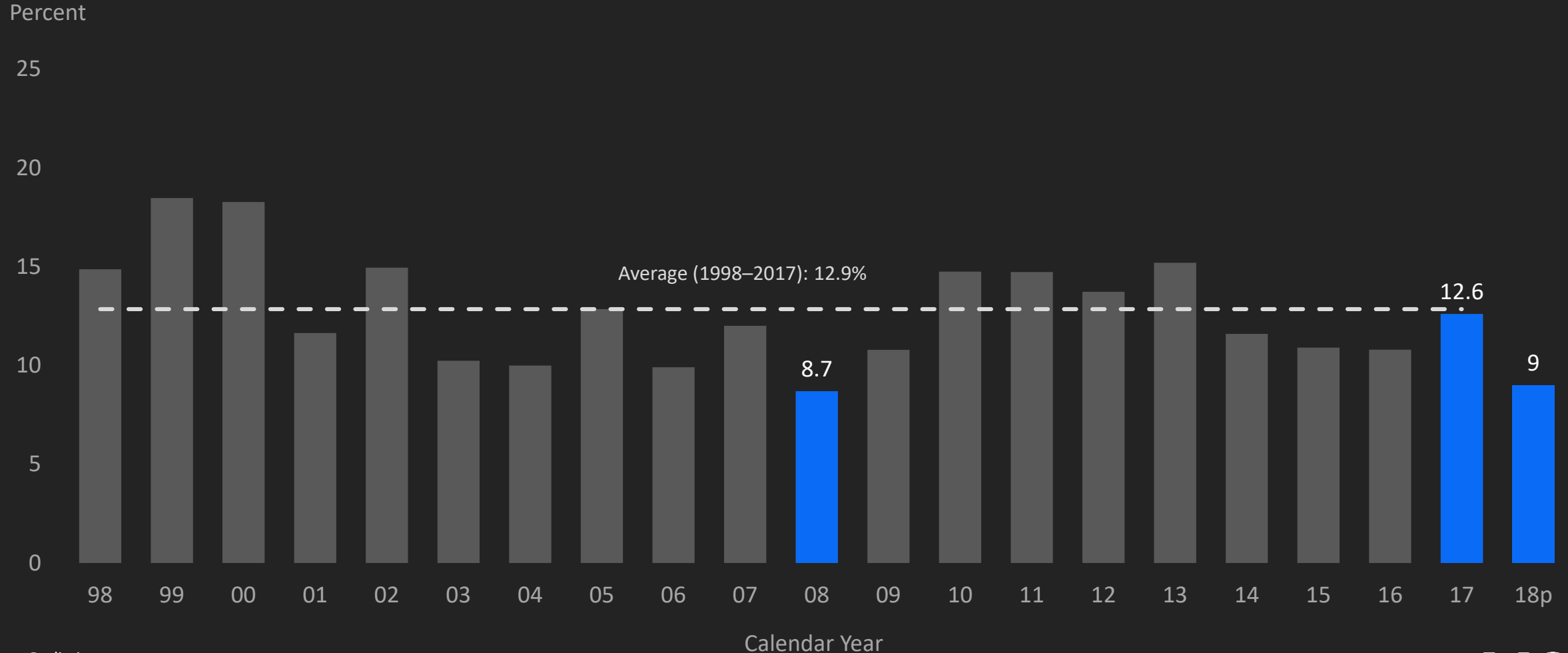
Tennessee Reinsurance Mechanism experience is not included in the combined ratios

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AI**  
2019

# WC Investment Gain on Insurance Transactions

Ratio to Net Earned Premium, Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

Investment Gain on Insurance Transactions includes Other Income

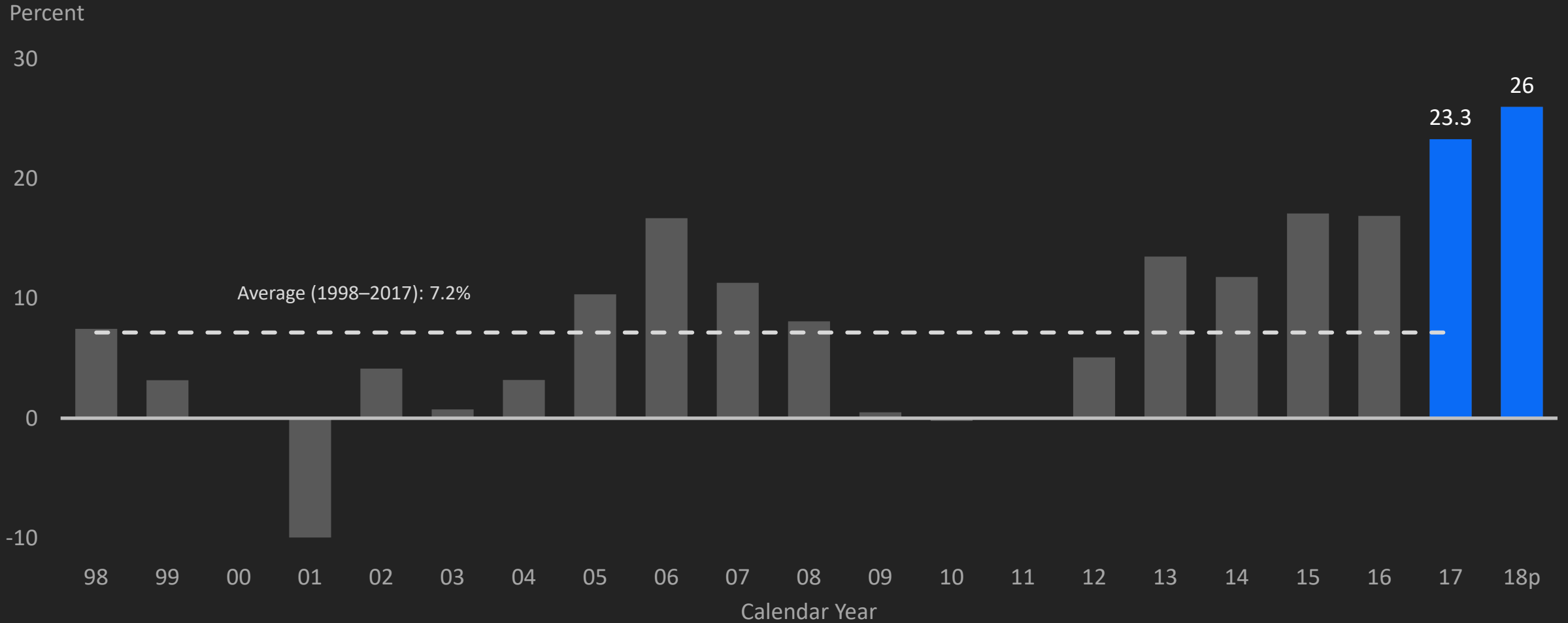
2013 is adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Pretax Operating Gain

## Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

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

2013 is adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 17.7

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

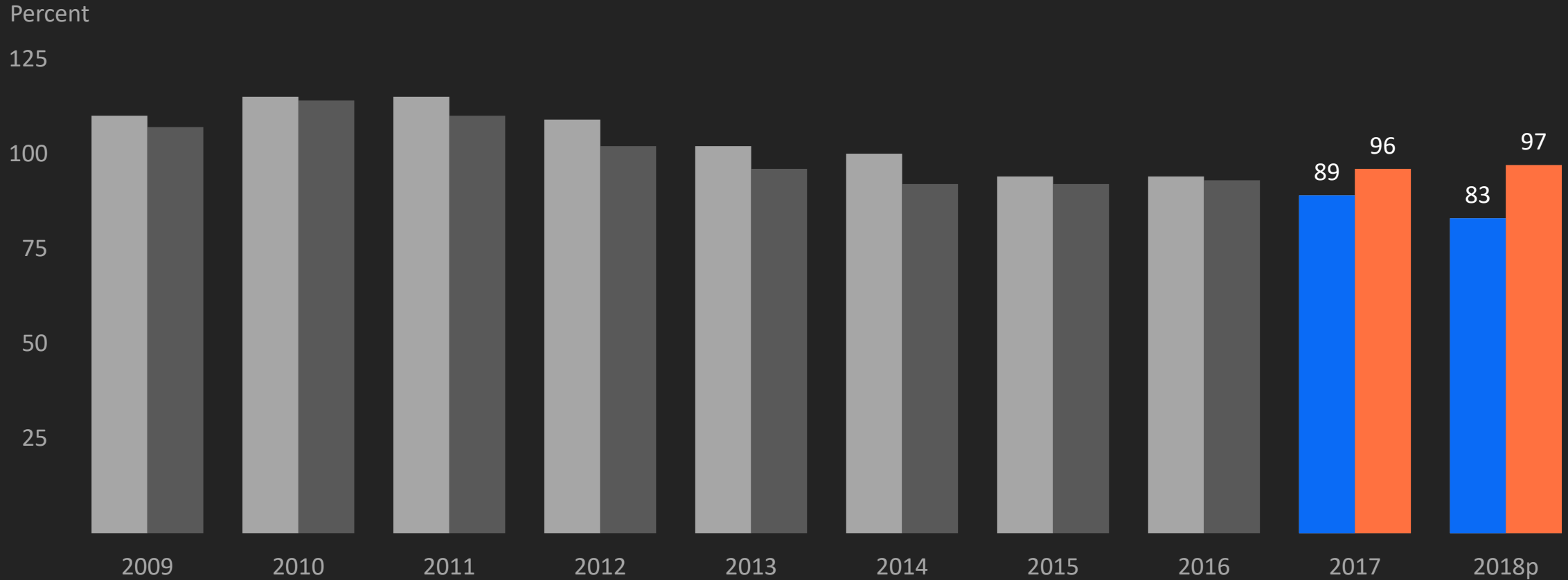
**AIS**  
2019



# Workers Compensation Accident Year Results and Reserve Estimates

# WC Net Combined Ratios— Calendar Year vs. Accident Year As Reported

Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

Accident Year information is reported as of 12/31/2018

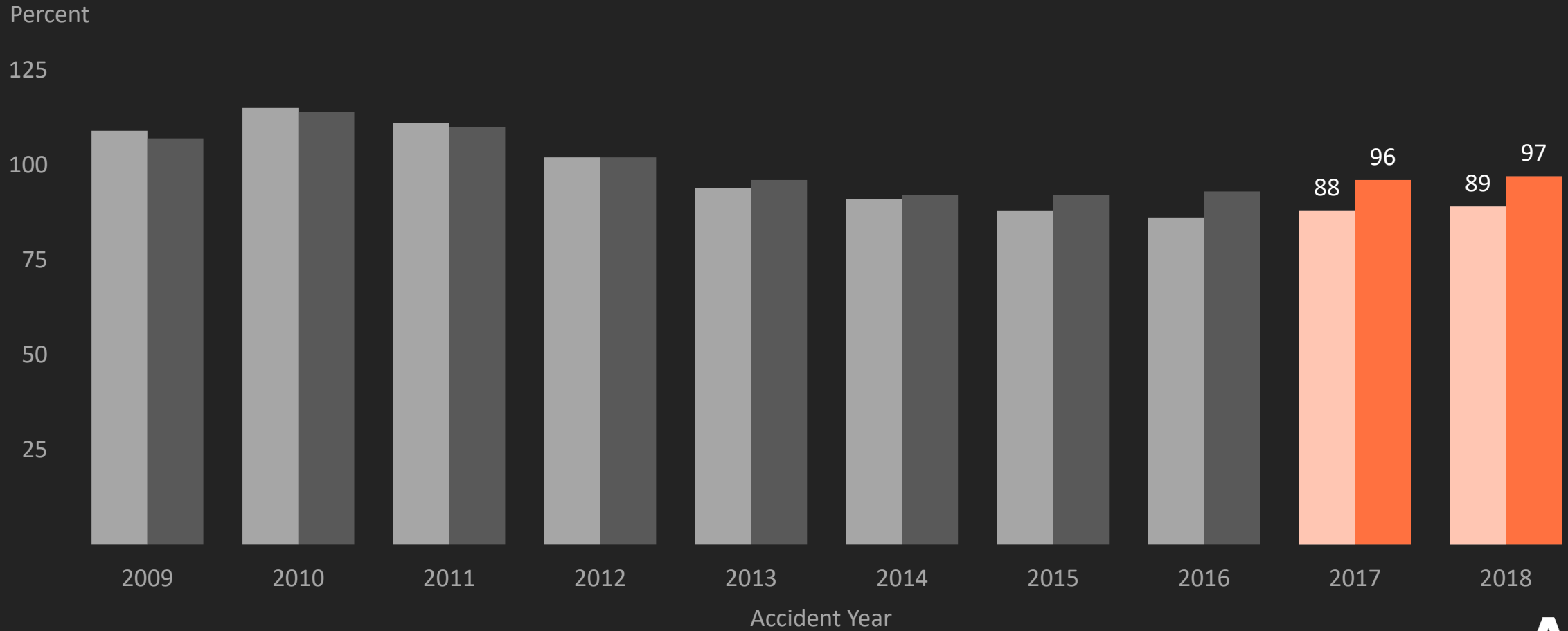
Includes dividends to policyholders

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Net Combined Ratios— NCCI's Accident Year Selections vs. As Reported

Private Carriers



Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2018  
NCCI Selections: NCCI's analysis based on NAIC's Annual Statement data

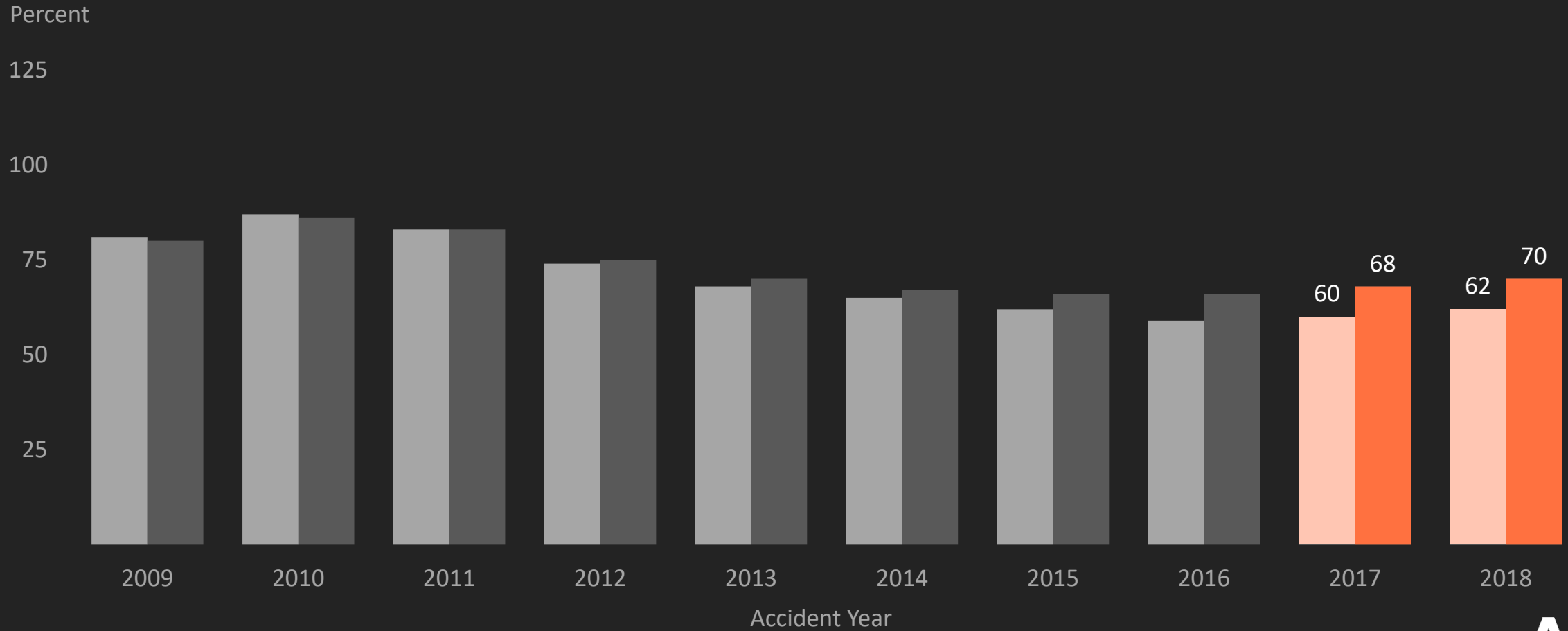
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019



# WC Net Loss and LAE Ratios— NCCI's Accident Year Selections vs. As Reported

Private Carriers



Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2018

NCCI Selections: NCCI's analysis based on NAIC's Annual Statement data

As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

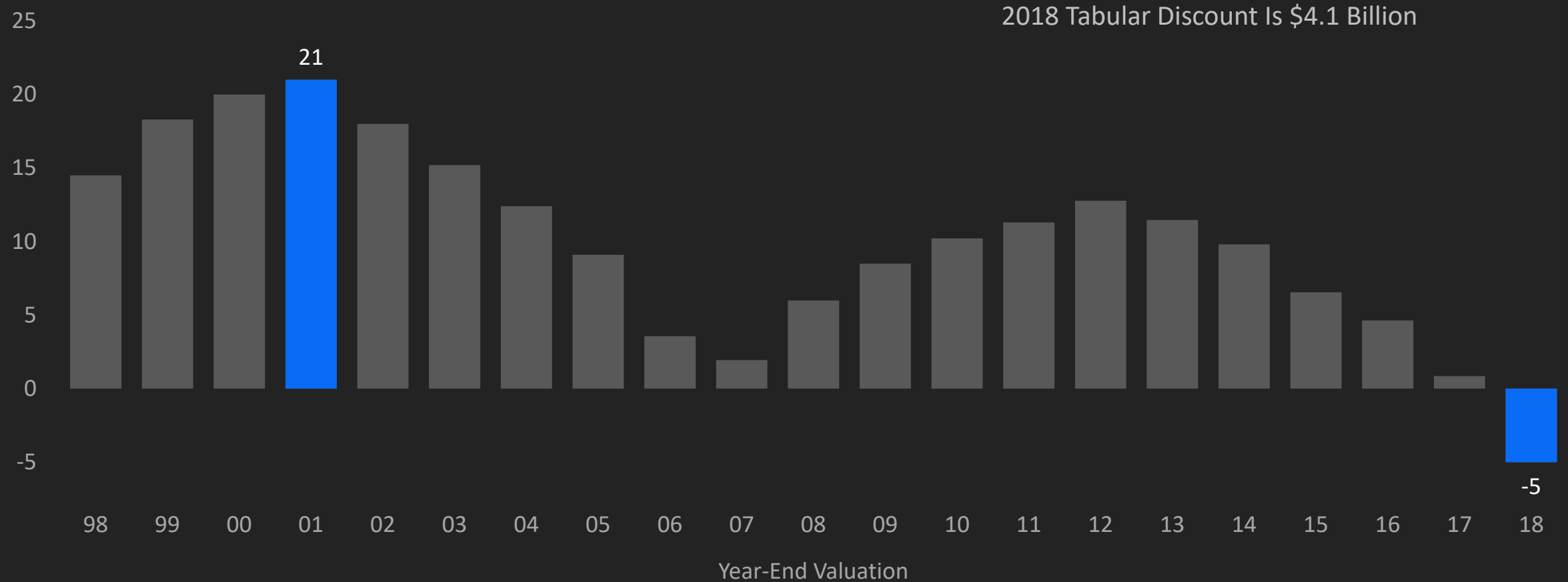
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Net Loss and LAE Reserve Adequacy

## Private Carriers

\$ Billions



Source: NCCI's analysis based on NAIC's Annual Statement data  
Considers all reserve discounts as deficiencies

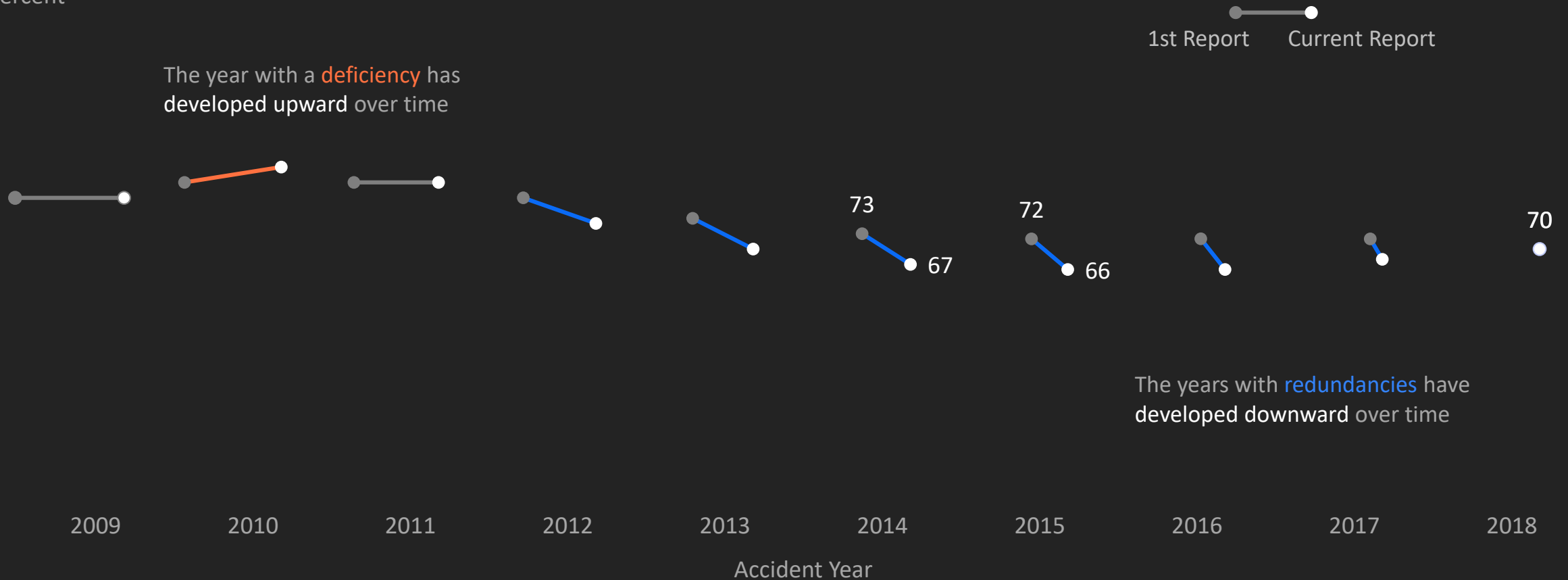
© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# Emergence of Reported WC Net Loss and LAE Ratios

## Private Carriers

Percent



Source: NAIC's Annual Statement Schedule P—Part 1D data at year-end valuations  
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019



# Workers Compensation Loss Drivers

# Research Overview



Medical Services and How They  
Contribute to the Cost of WC Claims



Motor Vehicle Accidents in Workers  
Compensation



The Impact of Fee Schedule Updates  
on Physician Payments



How Changing Employee Demographics  
Affect Claims Frequency



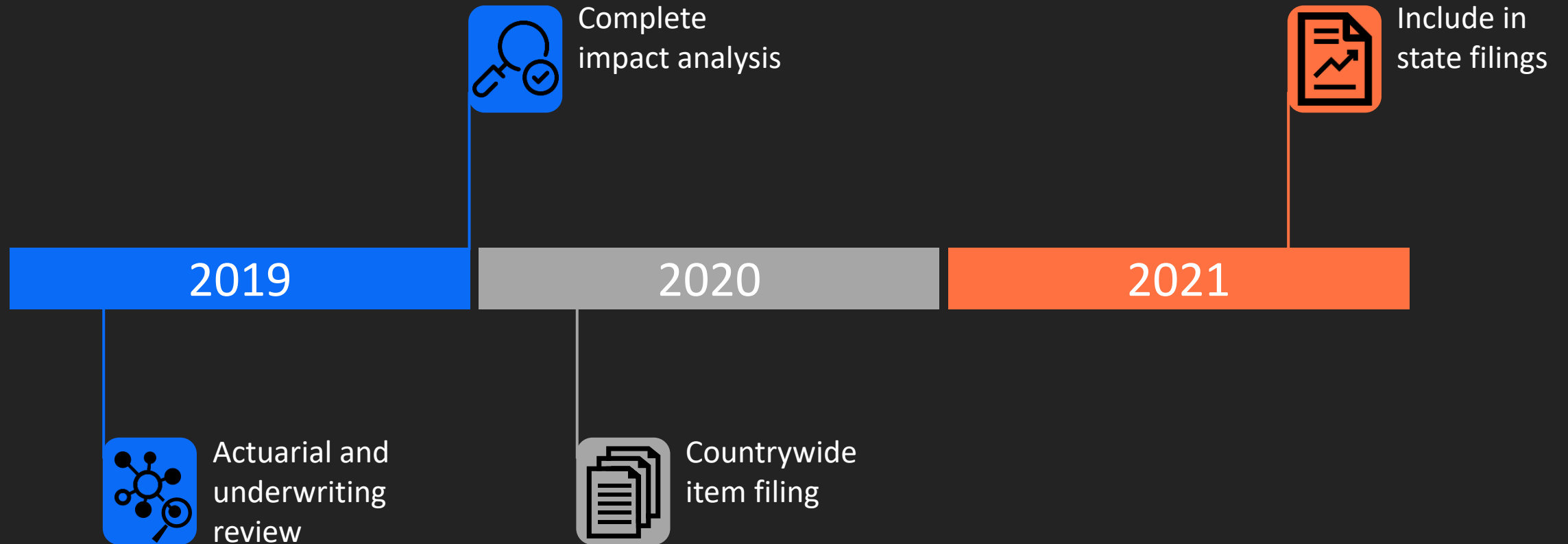
Mega Claims in Workers Compensation



Hazard Group Update

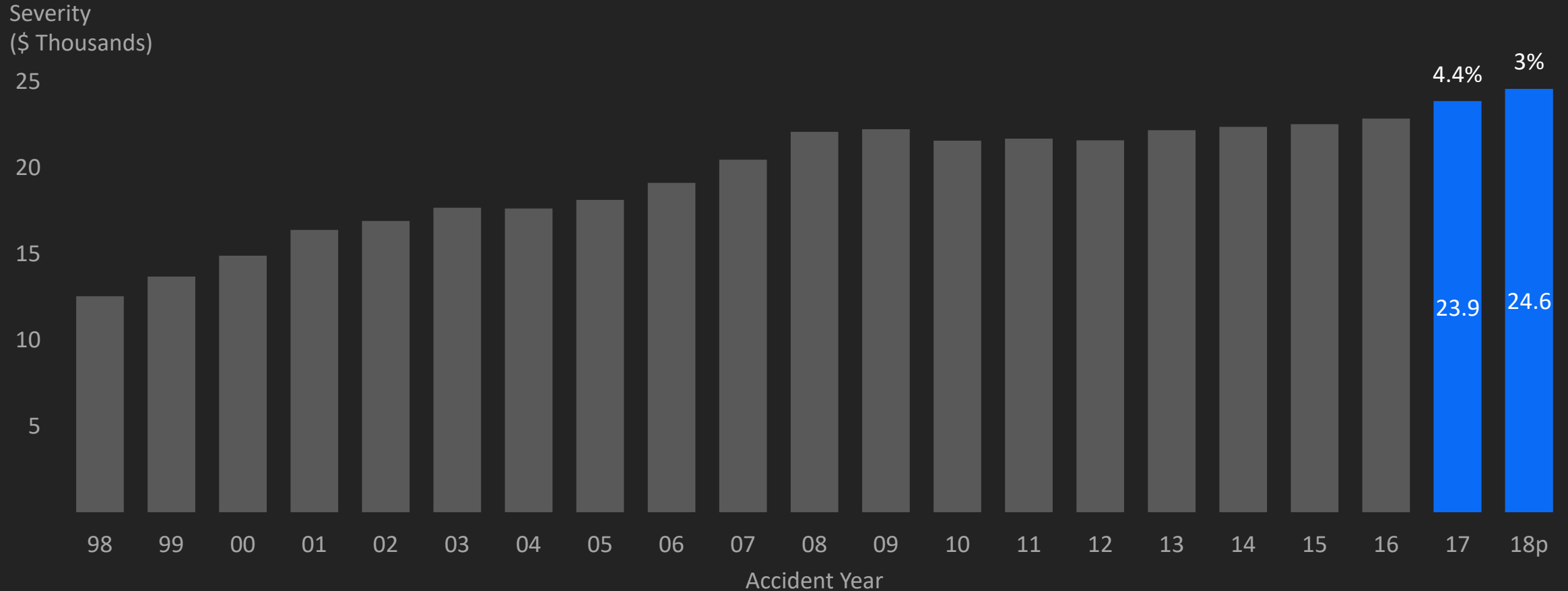
# Hazard Group Update

## Planned Implementation Timeline



# WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

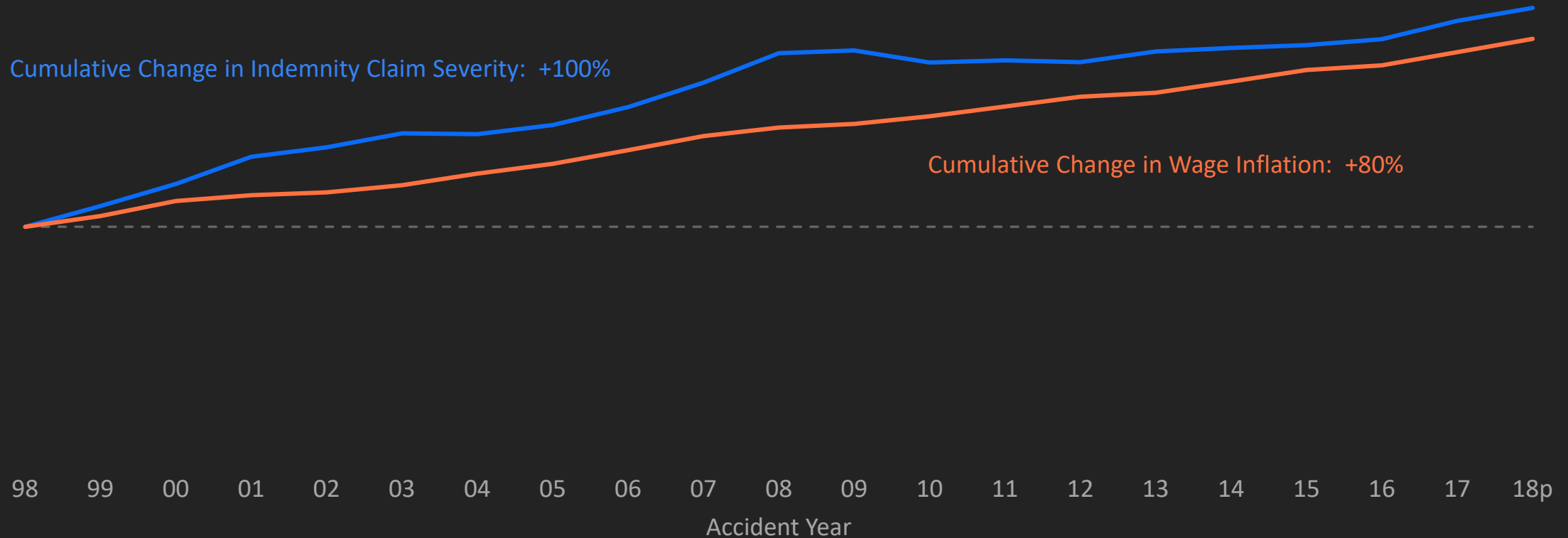
Includes all states where NCCI provides ratemaking services; WV is excluded prior to 2008; NV and TX are excluded prior to 2004

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

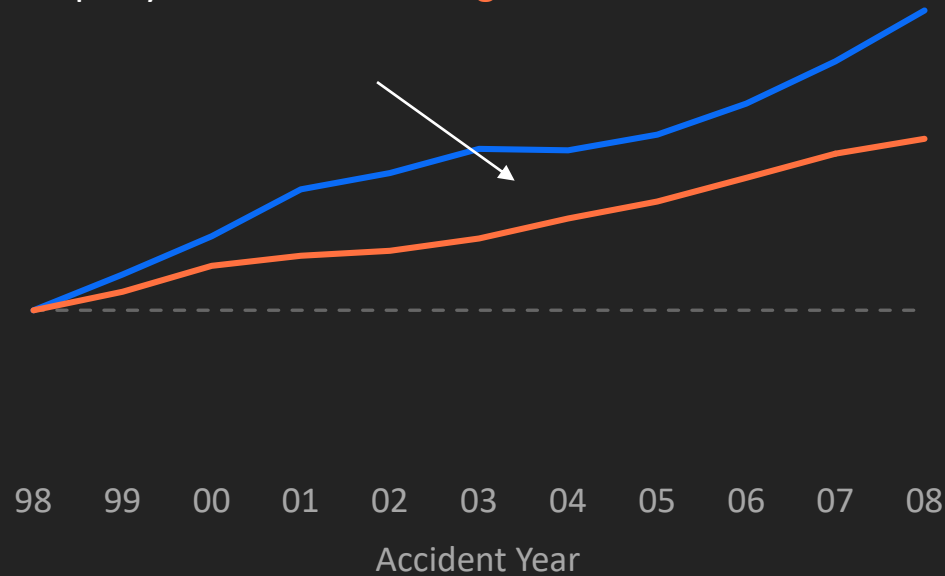
US Average Weekly Wage: 1998–2007 and 2012–2017 Quarterly Census of Employment and Wages, US Bureau of Labor Statistics (BLS); 2008–2011 NCCI; 2018p NCCI and Moody's Analytics



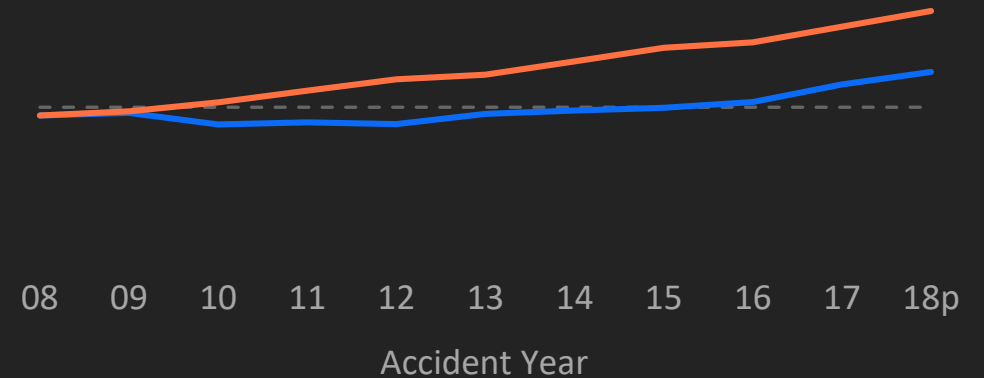
# Relative Growth Rates—Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States

Indemnity claim severity grew  
2.3% per year faster than wages



Wage inflation outpaced changes  
in indemnity claim severity by  
1.2% per year, on average



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

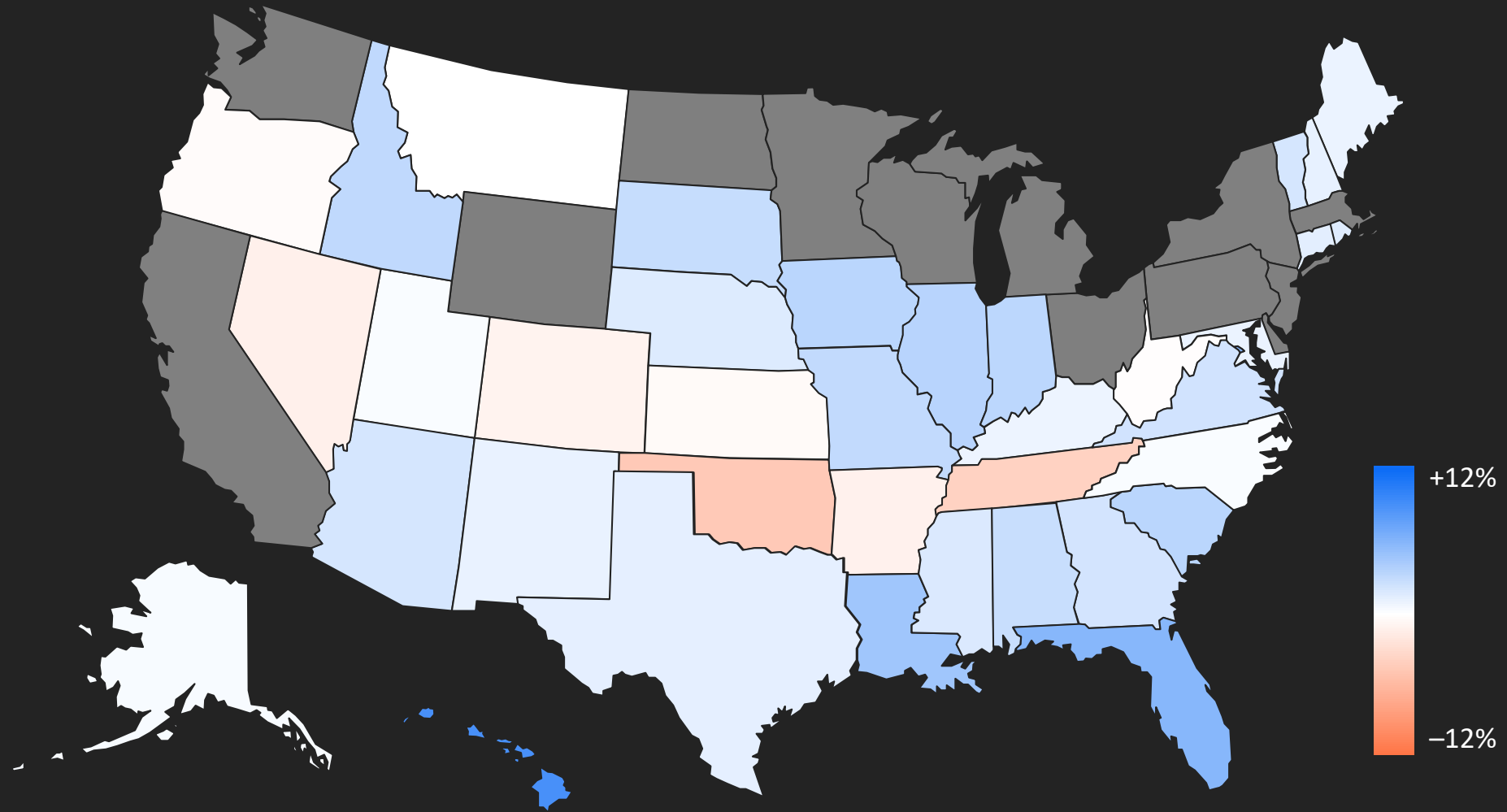
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

US Average Weekly Wage: 1998–2007 and 2012–2017 Quarterly Census of Employment and Wages, BLS; 2008–2011 NCCI; 2018p NCCI and Moody's Analytics

# WC Average Indemnity Claim Severity

Average Annual Change 2013–2017, Private Carriers and State Funds—NCCI States



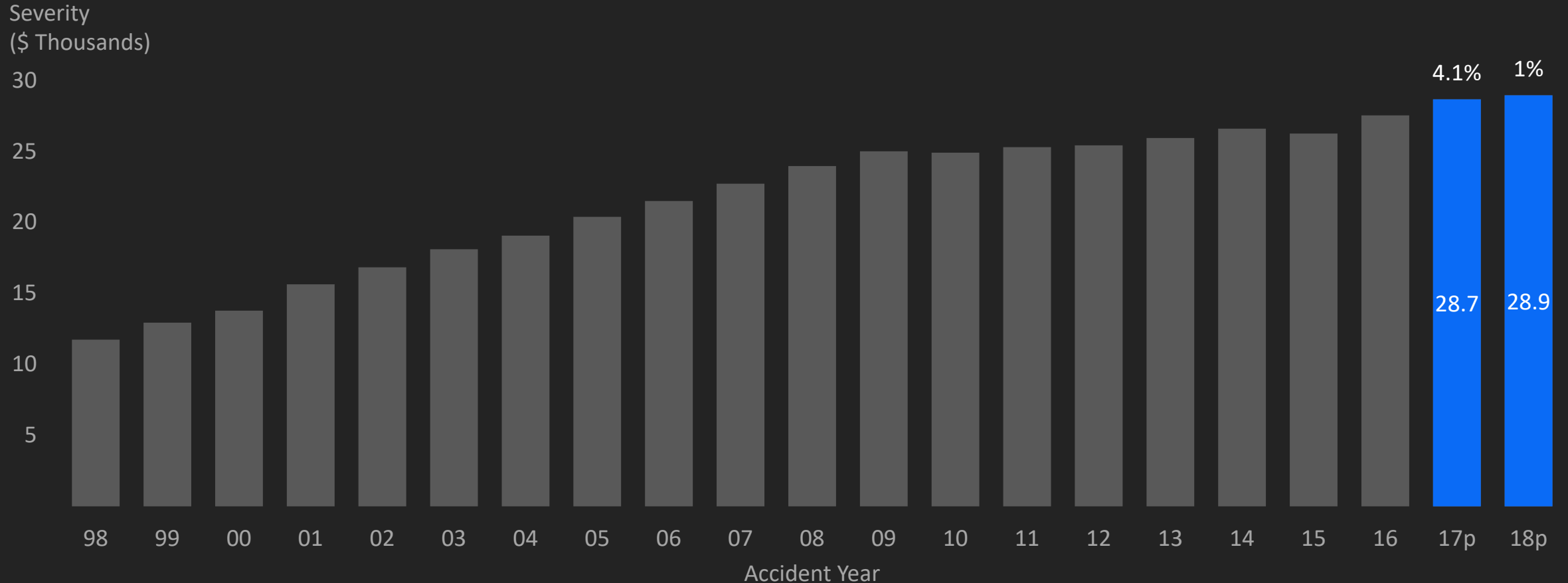
Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017  
Values displayed reflect the methodology underlying the most recent rate/loss cost filing  
Includes all states where NCCI provides ratemaking services

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

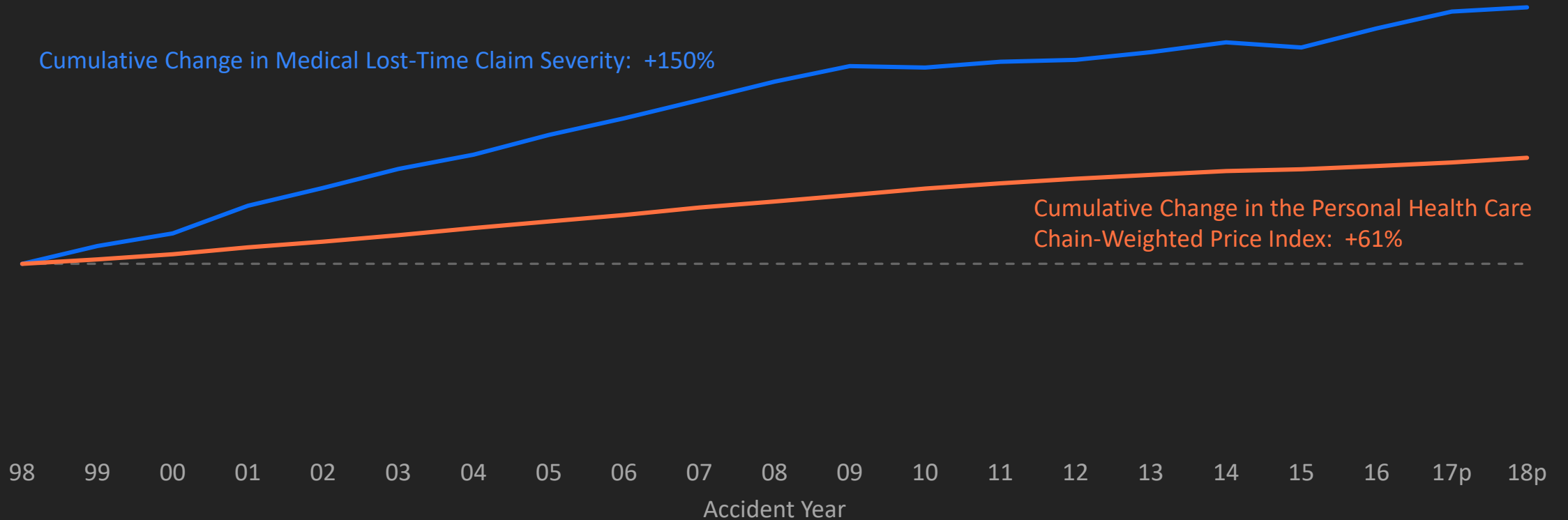
Includes all states where NCCI provides ratemaking services; WV is excluded prior to 2008; NV and TX are excluded prior to 2004

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

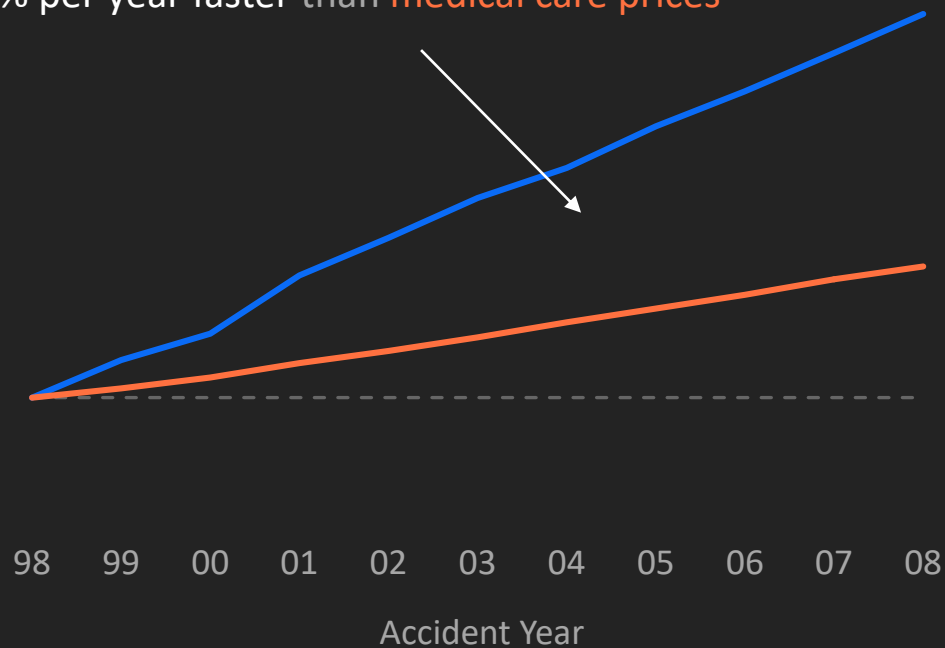
Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

PHC Chain-Weighted Price Index: Centers for Medicare & Medicaid Services

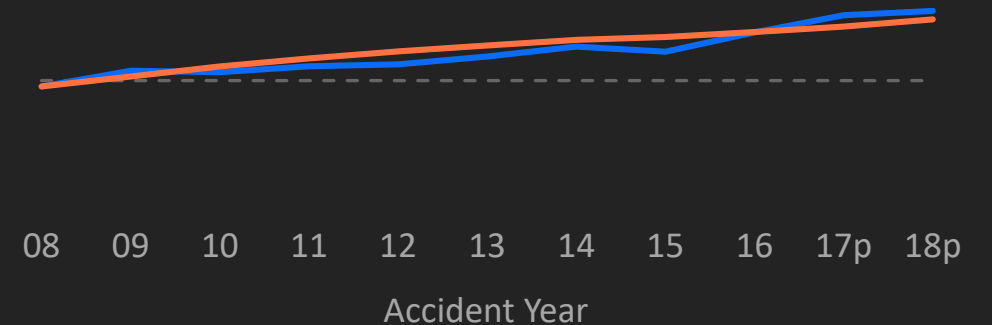
# Relative Growth Rates—Medical Severity vs. Price Inflation

Private Carriers and State Funds—NCCI States

Medical lost-time claim severity grew 4.3% per year faster than medical care prices



Changes in medical lost-time claim severity and medical care prices tracked one another



p Preliminary, based on data valued as of 12/31/2018

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017

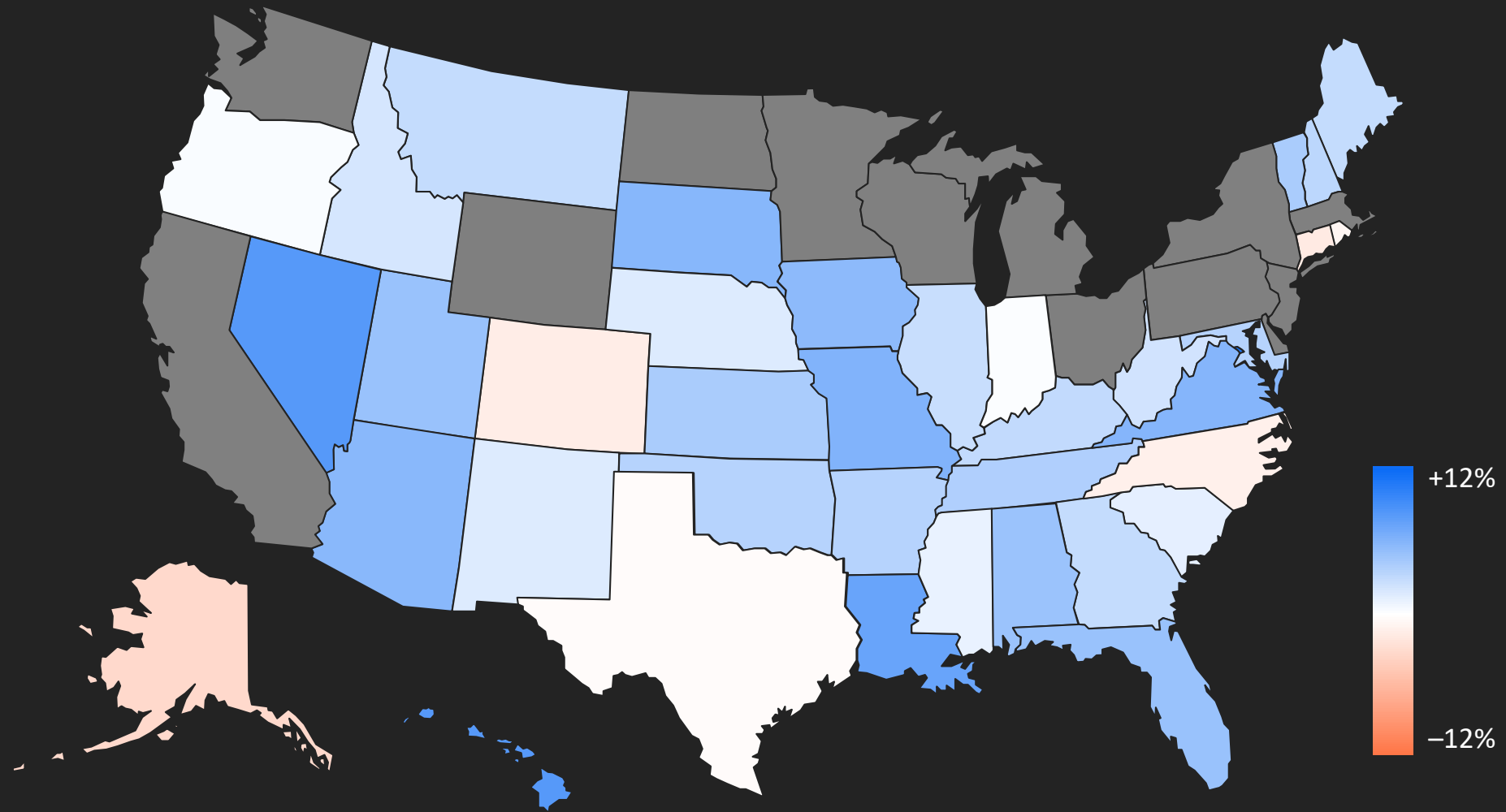
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; severity changes exclude WV through 2008 and exclude NV and TX through 2004

PHC Chain-Weighted Price Index: Centers for Medicare & Medicaid Services

# WC Average Medical Lost-Time Claim Severity

Average Annual Change 2013–2017, Private Carriers and State Funds—NCCI States



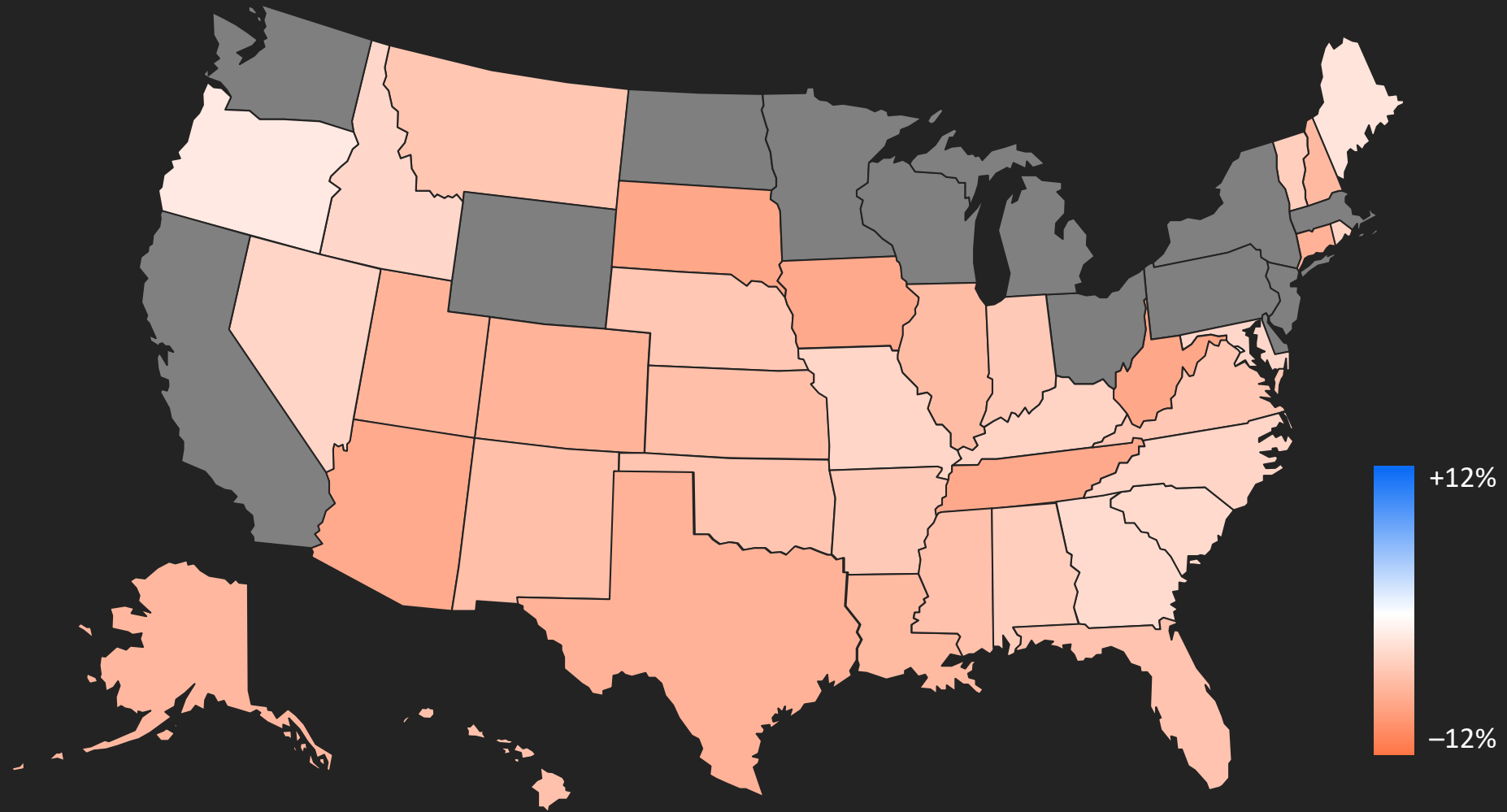
Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2017  
Values displayed reflect the methodology underlying the most recent rate/loss cost filing  
Includes all states where NCCI provides ratemaking services

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Lost-Time Claim Frequency

Average Annual Change 2013–2017, Private Carriers and State Funds—NCCI States



Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017

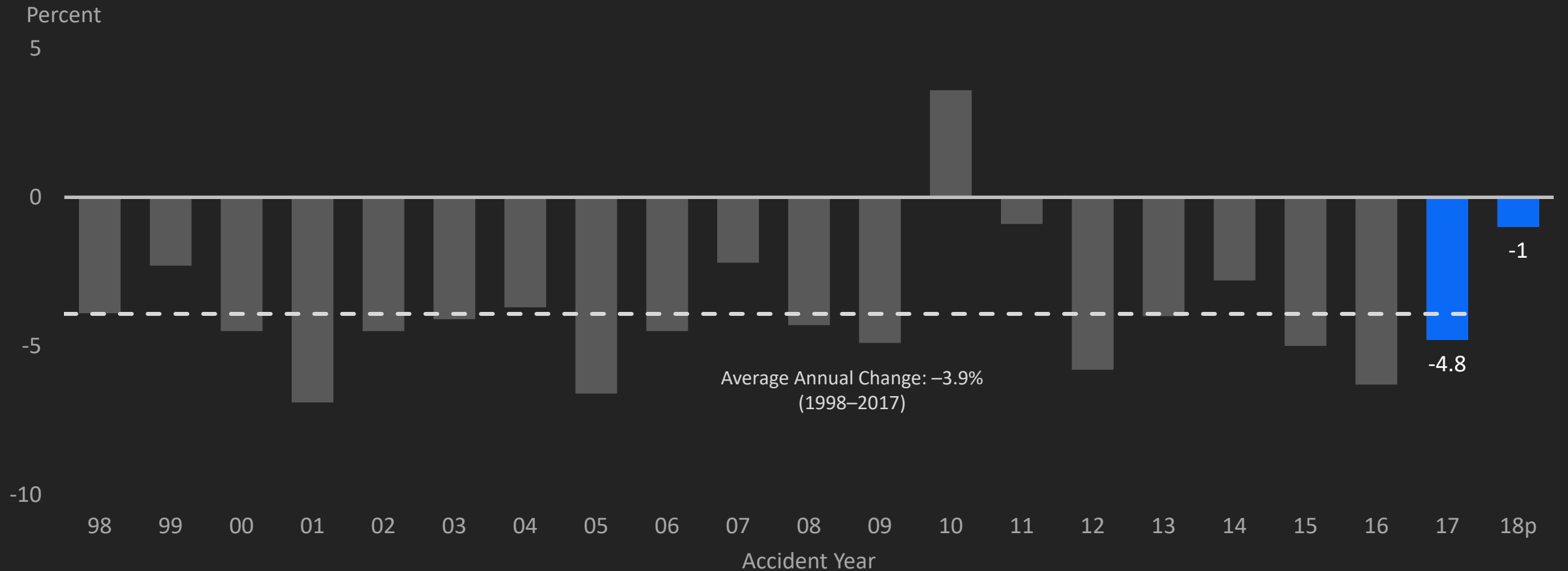
Values displayed reflect the methodology underlying the most recent rate/loss cost filing  
Includes all states where NCCI provides ratemaking services

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Lost-Time Claim Frequency

Change in Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary, based on data valued as of 12/31/2018

Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017

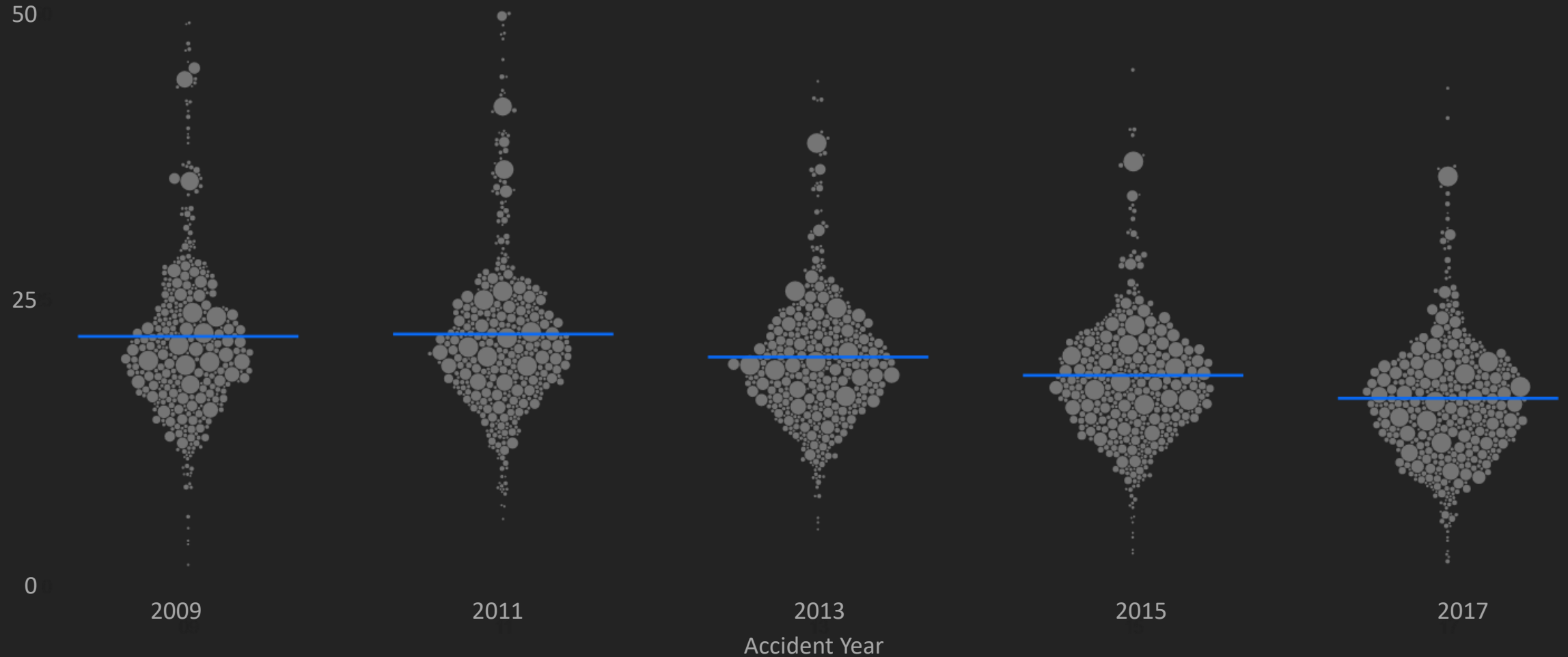
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011



# WC Lost-Time Claim Frequency by Carrier Group

Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



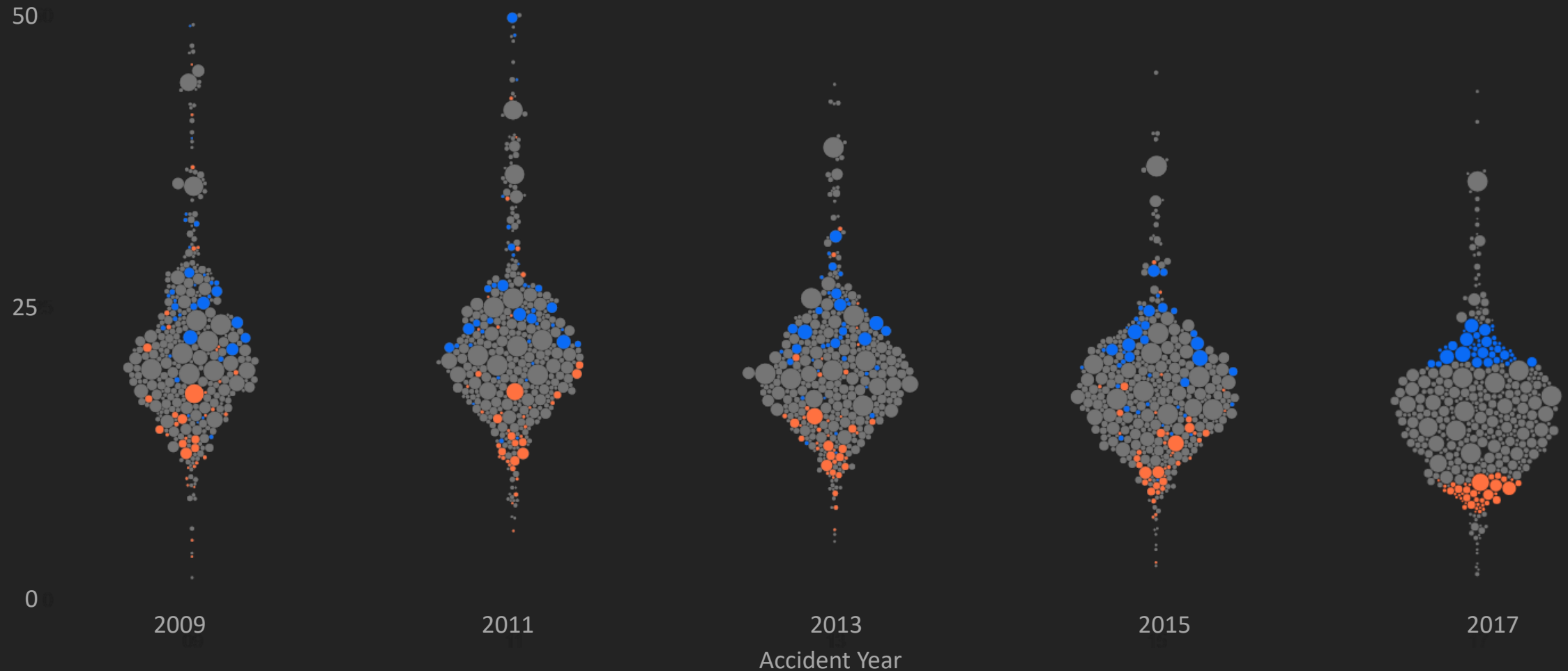
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017  
The size of the circle is based on the carrier group's premium volume up to \$300M

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

# WC Lost-Time Claim Frequency—High and Low Carrier Groups

Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017

Carrier groups: High—between the 80th and 90th percentiles

Low—between the 10th and 20th percentiles

The size of the circle is based on the carrier group's premium volume up to \$300M

© Copyright 2019 NCCI Holdings, Inc. All Rights Reserved.

**AIS**  
2019

Direct written premium was flat

Loss costs decreased

Very low combined ratio

Reserve deficiencies evaporated

Net written premium rose sharply

---

# D E L I V E R I N G

---

Employment, wages, and payroll increased

Investment gains on insurance transactions slipped a bit

Economic factors contributed to a milder decrease in frequency

Indemnity and medical severity changes moderated

Gain from operations increased



# Questions and More Information

---

## Meet the Experts

Immediately following this session

---

## Resources for the **State of the Line** Presentation

Full presentation on [ncci.com](https://www.ncci.com)

*State of the Line Guide* on [ncci.com](https://www.ncci.com)

[stateoftheline@ncci.com](mailto:stateoftheline@ncci.com)