

AVAILABILITY, AFFORDABILITY, AND PREDICTABILITY – THE OBJECTIVES OF THE GUARANTEED MARKET

Economic Affairs Interim SJR 27 Subcommittee
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Topics

- The United States Workers Compensation Market
 - Trends
 - Market drivers
- Overview of the State Workers Compensation Insurance Funds
 - History and purpose
 - Market positioning and responsibility
 - Future direction and impetus
- The Montana Workers Compensation Market
 - Historical view
 - Market drivers
- Montana State Fund
 - Market role
 - Historical performance
 - Positioning in future markets



The U.S. Market – Matured and Managed by Professionals, both Public and Private

AMB #	Company Name	Direct Premiums Written (\$ 000)					Market Share (DPW) (%)				
		2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
018674	Travelers Group	4,427,979	4,467,412	4,320,769	4,138,121	3,802,180	7.65	7.82	7.87	7.96	7.92
000048	Hartford Insurance Group	3,328,646	3,324,269	3,210,091	3,351,776	3,283,919	5.75	5.82	5.84	6.45	6.84
018533	AmTrust Group	3,110,623	2,975,050	2,555,727	1,939,402	1,173,108	5.37	5.21	4.65	3.73	2.44
018549	Zurich Financial Services NA Group	2,835,437	2,851,385	2,575,148	2,457,721	2,328,197	4.90	4.99	4.69	4.73	4.85
000811	Berkshire Hathaway Insurance Group	2,669,994	2,479,354	2,139,534	1,758,052	1,256,635	4.61	4.34	3.90	3.38	2.62
018498	Chubb INA Group	2,489,939	2,368,698	2,245,329	2,000,503	1,902,762	4.30	4.15	4.09	3.85	3.97
004029	New York State Insurance Fund	2,437,552	2,437,325	2,374,259	2,283,287	1,943,838	4.21	4.27	4.32	4.39	4.05
000060	Liberty Mutual Insurance Companies	2,404,062	2,481,234	2,660,335	3,048,104	3,640,856	4.15	4.34	4.84	5.87	7.59
018540	American International Group	1,860,279	2,340,542	2,547,311	2,587,851	2,740,012	3.21	4.10	4.64	4.98	5.71
004028	State Compensation Insurance Fund of CA	1,612,050	1,638,849	1,528,879	1,112,518	903,787	2.78	2.87	2.78	2.14	1.88
000734	Old Republic Insurance Group	1,448,500	1,444,778	1,412,871	1,199,907	1,112,197	2.50	2.53	2.57	2.31	2.32
018252	W. R. Berkley Insurance Group	1,438,455	1,394,009	1,286,501	1,161,299	989,430	2.48	2.44	2.34	2.23	2.06
004835	Great American P & C Insurance Grp	1,301,082	1,313,809	1,245,304	1,133,614	983,638	2.25	2.30	2.27	2.18	2.05
018680	Accident Fund Group	1,291,795	1,139,019	944,280	867,610	821,634	2.23	1.99	1.72	1.67	1.71
011453	Texas Mutual Insurance Company	948,660	1,087,428	1,140,962	1,031,357	906,405	1.64	1.90	2.08	1.98	1.89
003116	Fairfax Financial (USA) Group	946,556	905,290	833,036	811,809	837,999	1.63	1.58	1.52	1.56	1.75
002967	ICW Pool	935,958	822,017	648,225	526,102	339,209	1.62	1.44	1.18	1.01	0.71
018313	CNA Insurance Companies	726,907	695,697	681,369	717,645	698,383	1.26	1.22	1.24	1.38	1.46
018602	Employers Insurance Group	690,958	684,943	686,763	680,459	575,373	1.19	1.20	1.25	1.31	1.20
003471	Pinnacol Assurance	624,536	633,021	571,694	478,230	414,982	1.08	1.11	1.04	0.92	0.86
000000	Selection Total	37,529,968	37,484,129	35,608,387	33,285,367	30,654,544	64.80	65.60	64.83	64.06	63.88
099200	Total US PC Industry	57,916,027	57,143,266	54,923,279	51,962,108	47,987,768	100.00	100.00	100.00	100.00	100.00

Source: AM Best
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The U.S. Market is a Reflection of 50 State Laboratories

- 58% of the market is written in 7 states, with California alone accounting for 22% of the National Market
- The Market continues to be very concentrated
 - The Top 20 private Insurance Groups wrote \$37.5B (65%)
 - The Top 10 private Insurance Groups wrote \$28.9B (50%)
 - All of the Top Ten are “multi-line” writers
- Four of the Top Twenty Companies are State Funds with Guaranteed and Competitive Market Responsibility
- No significant new capital in the market for over 10 years



Factors Affecting Market Size and Condition

- The Economy:
 - New Business Start-Ups
 - Potential for employment growth
 - Wage growth
- Rate Level Changes
- Legislative, Judicial and Regulatory Environment
- Competition – discretionary pricing changes



Factors Affecting Market Entry and Expansion

- Existing Market Size and structure
- Broader Market Potential –Collateral Business Opportunities
- Geography - Capacity to leverage existing Service Capabilities
- Cost of Market Entry –Product Distribution



The U.S Economy– Improving, but not “Driving” the Market

Nonfarm Employees
 Years: 2007 to 2017
 In Thousands

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2007	137,506	137,595	137,785	137,865	138,008	138,083	138,049	138,029	138,117	138,201	138,315	138,413
2008	138,430	138,346	138,268	138,058	137,872	137,710	137,497	137,230	136,780	136,306	135,540	134,846
2009	134,053	133,351	132,528	131,841	131,492	131,021	130,692	130,479	130,259	130,055	130,053	129,778
2010	129,801	129,733	129,897	130,140	130,664	130,527	130,459	130,423	130,371	130,633	130,752	130,839
2011	130,882	131,071	131,296	131,642	131,719	131,944	132,013	132,123	132,371	132,580	132,721	132,930
2012	133,288	133,525	133,758	133,836	133,951	134,027	134,170	134,347	134,550	134,696	134,828	135,072
2013	135,283	135,569	135,699	135,896	136,122	136,284	136,406	136,667	136,857	137,069	137,327	137,374
2014	137,564	137,715	137,987	138,316	138,562	138,866	139,068	139,298	139,578	139,805	140,117	140,372
2015	140,606	140,844	140,930	141,192	141,536	141,742	141,996	142,153	142,253	142,574	142,846	143,085
2016	143,211	143,448	143,673	143,826	143,869	144,166	144,457	144,633	144,882	145,006	145,170	145,325
2017	145,541	145,773	145,823	146,030	146,175	146,385	146,523	146,692	146,659			

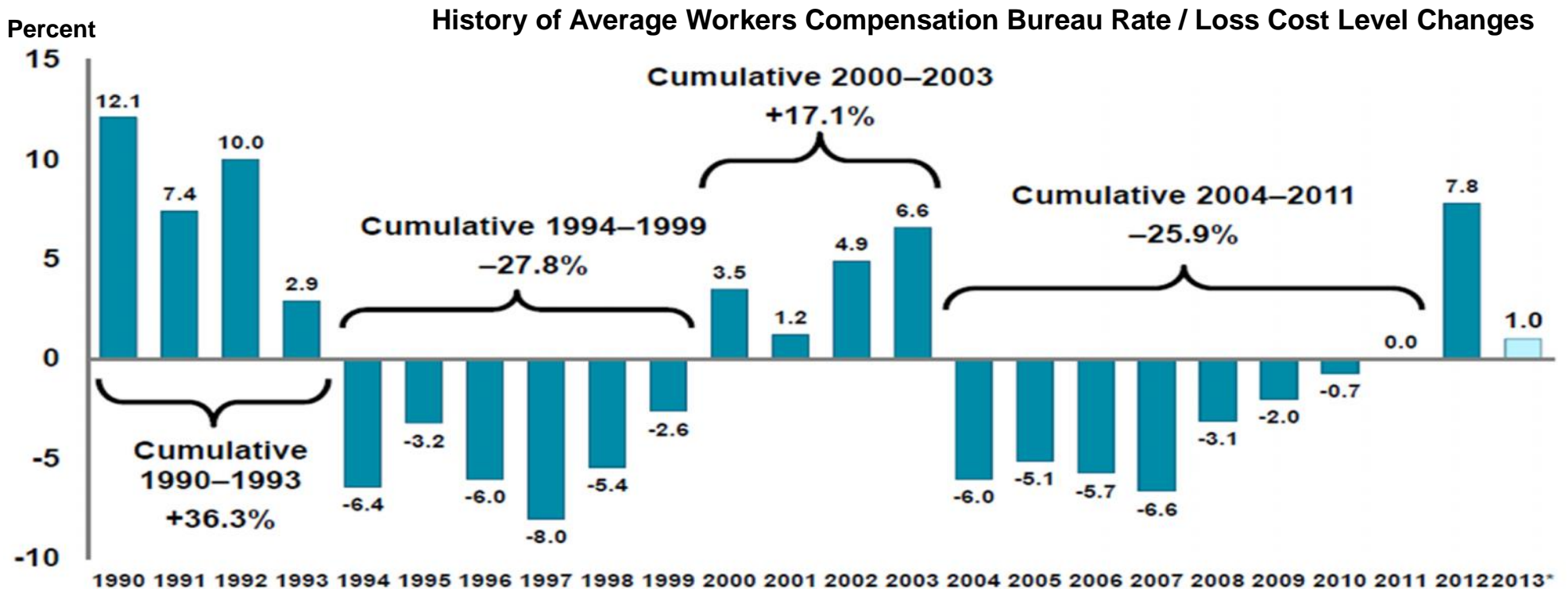
Source: BLS

- National Employment now at its highest historical level, rising 17M from February 2010 levels
- Growth is across all sectors, but it is not substantial, and not geographically consistent
- Construction and Manufacturing continue to improve, but continue to lag historical levels
- New Business Start-ups continue to lag historic levels
- **Employment growth, followed by wage growth is the foundation of a strong economy, but it may not materially affect the workers compensation insurance market**



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Market Cycles exist, but have largely been Muted in recent years



* States approved through 4/15/2013

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

Source: NCCI Holdings, Inc. – NCCI AIS 2013: State of the Line

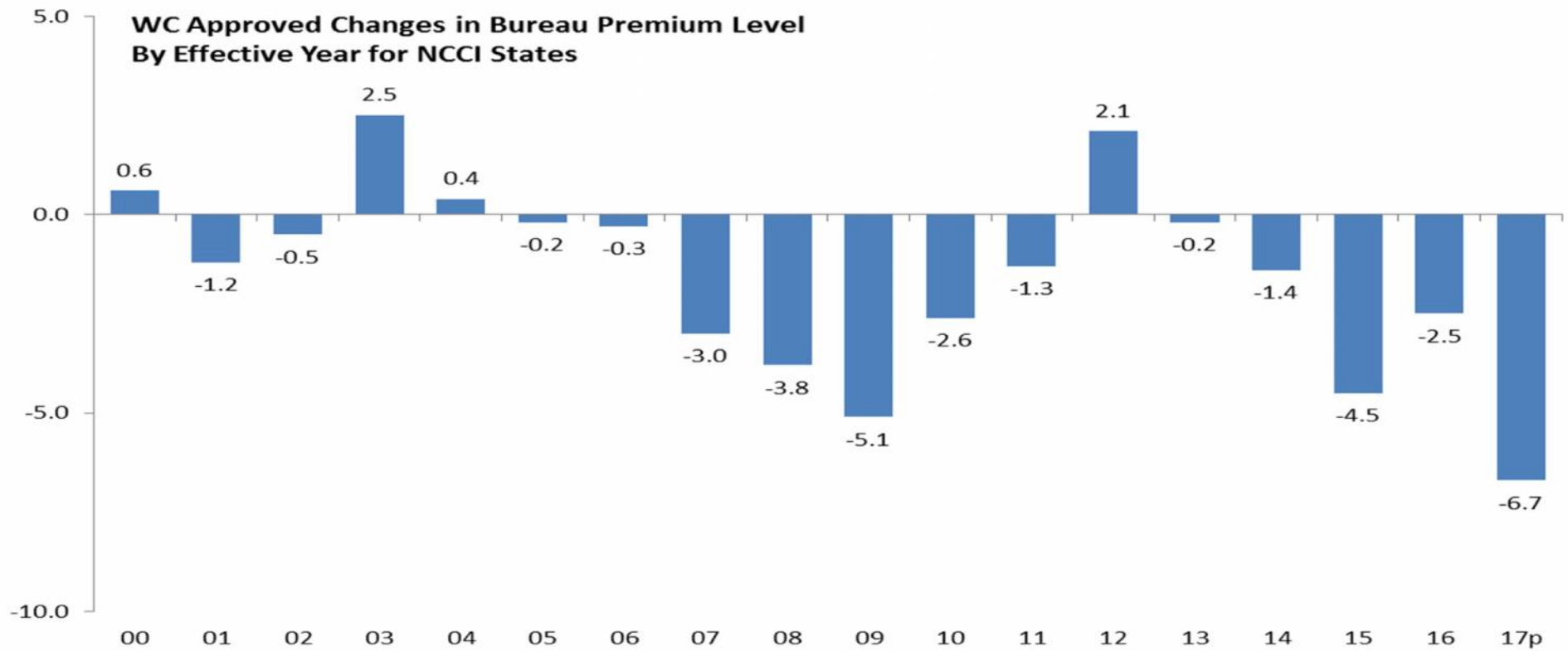
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An Updated and Slightly Different Depiction of Market Cycles



Source: NCCI Holdings, Inc. – NCCI AIS 2017: State of the Line
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Over a Century Ago – Decisions were Made Regarding Availability for this New Insurance for Employers

- Legislators created “mandatory” WC laws. There was no “market” or facility to provide insurance for employers
 - Benefit Levels were small and so were premiums
 - State Industrial Commissions and Labor Departments oversaw benefit delivery
 - Monopolistic State Funds, Competitive State Funds, Private Carriers were first on the scene, and have been evolving over time as workers compensation programs grew
 - Employer options expanded – individual and group self-insurance – and “opt out” programs emerged



“Competitive” State Fund Analysis

“If you see one State Fund, you have seen one State Fund.”

- Each is subject to its own objectives, its own market, its own statutes
- Some are rated by A.M. Best
- Some are more tied to state government than others
- All play a critical role in their respective state’s economy
- All to one degree or another are regulated by their state Insurance Department



The “Guaranteed Market” Responsibility

- For virtually all types of employment in the United States, Workers Compensation coverage is required of all employers unless they are qualified to “self-insure” their liabilities under the law
 - To assure market availability there are two major facilities provided:
 - State Funds
 - Assigned Risk or “Residual Market” mechanisms
 - Currently 14 State Funds meet this responsibility including the three largest markets of California, New York and Pennsylvania
 - States either manage their own plans or they are administered by the NCCI



State Funds – All Sizes, Shapes, and Maturity

State	Date of Origin	2012 Writings (\$000)	2016 Writings (\$000)	Share	State Rank	A.M. Best Rating
Montana	1990	165	177	61.6%	1	-
California	1914	904	1,162	13.0%	1	-
Colorado	1915	414	624	59.0%	1	A-
Hawaii	1996	37	76	33.0%	1	A
Idaho (1)	1918	161	238	61.0%	1	-
Kentucky	1995	126	146	29.0%	1	A-
Louisiana	1992	167	188	23.0%	1	A
Maine #	1993	123	147	66.0%	1	A
Maryland	1914	195	232	24.0%	1	A-
Minnesota (1) #	1996	106	120	11.6%	1	-
Missouri (1)	1995	136	216	23.3%	1	A-
New Mexico (1)	1948	79	98	37.0%	1	A-
New York	1914	1,943	2,437	41.0%	1	-
Oklahoma	1933	271	205	30.0%	1	-
Oregon (1)	1914	399	500	71.0%	1	-
Pennsylvania	1915	192	187	7.0%	1	-
Rhode Island	1990	101	135	59.0%	1	-
South Carolina (1)	1943	79	75	9.0%	1	-
Texas	1991	906	948	40.0%	1	A
Utah #	1917	174	224	51.0%	1	A

#-in its home state

(1)-No Guaranteed Market Responsibility

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State Funds – All Sizes, Shapes, and Maturity (continued)

State	2012 Writings (\$000)	2016 Writings (\$000)	Share	State Rank	A.M. Best Rating
Washington			monoplistic		
Ohio			monoplistic		
Wyoming			monoplistic		
North Dakota			monoplistic		

Privatized State Funds

Arizona #	384	205	24.0%	1	A-
Nevada #	16	17	3.8%	12	A-
West Virginia #	187	134	51.0%	1	A-
Michigan #	184	220	19.0%	1	A-

#-in its state of domicile
No Guaranteed Market Responsibility



Understanding the Uniqueness of Change

- **Michigan: July 1, 1995**

After 80 years of operation as a quasi-state agency, an Attorney General's opinion declared the Michigan Accident Fund a "State Agency"

Facing significant budget deficits, Governor Engler put the Fund "up for sale" and sold the Fund to Michigan Blue Cross Blue Shield for \$265M. Now the Accident Fund of Michigan, a privately owned for profit company

State Run Assigned Risk Plan was created

Accident Fund now operating countrywide

- **Nevada: July 1, 1999**

A monopolistic Fund, it developed a deficit of nearly \$2B

Governor Kenny approved legislation to create a domestic mutual, removing 500 employees from the state payroll

The mutual company transitioned into a for profit, publicly traded company "Employers of Nevada"

NCCI Assigned Risk Plan was introduced

EICM now operating in the majority of states



Understanding the Uniqueness of Change

- Texas: July 1, 2001

- Formed in 1991, Texas Workers Compensation Insurance Fund by legislation
- In 2001, name changed to Texas Mutual Insurance Company, authorizing it to operate as a Domestic Mutual Insurance Company and guaranteed all monies belonged solely to the company, with no access by the state, and with no obligation of the state to any liabilities.
- In 2013, legislation to further TMIC's rights to expand out of Texas and relinquish guaranteed market responsibility received no legislative action

- West Virginia: July 1, 2005

- Monopolistic Fund which had over time developed unfunded liabilities greater than \$2B.
- As part of sweeping benefit reform, a private mutual insurance company (Brickstreet Mutual) was formed with capital provided by the government
- Market opened to competition in July 2008
- NCCI Assigned Risk Plan was introduced
- Currently licensed in 14 states



Understanding the Uniqueness of Change

● Oklahoma: July 1, 2013

- Law passed to be effective 1/1/2015 allowing CompSource Oklahoma to operate as a Domestic Mutual insurance Company instructing the Insurance Commissioner to approve CSO's Certificate of Authority
- Independent of the state of Oklahoma
- Cannot be dissolved – but otherwise subject to Insurance Department regulation
- CompSource continued its Guaranteed Market responsibilities

● Maryland: July 1, 2013

Senate Bill 745 authorized the 100 year Injured Workers Insurance Fund to become Chesapeake Employers Insurance Company, a private, non-profit, non-stock corporation under Maryland law

- Will secure a Certificate of Authority as an “Authorized Insurer”
- Will be regulated by the Insurance Department, but not for rates
- Will retain “insurer of last resort” responsibility
- Board members appointed by the governor
- Member of the Guaranty Association
- May not be converted to a mutual or stock company, be sold, or dissolved
- All assets and liabilities transferred to new entity with no further access by the legislature of surplus funds



Understanding the Uniqueness of Change

- Arizona: January 1, 2014

- Law passed allowing 95 year old SCF Arizona to become CopperPoint Mutual Insurance Company, a fully private, for profit mutual insurance company
- Two years of legislation provided for transition
- **Never had Guaranteed Market Responsibility**
- All supervision provided by the Arizona Insurance Department
- Secured A.M. Best rating of A-

- Utah: 2005, 2015, 2017

- Utah Supreme Court Rules that WCF policyholders owned its assets
- Transitioned to a quasi-public corporation –private with a public purpose
- WCF enabling legislation repealed, outlining process to fully separate from State control
- Transition to mutual insurance corporation 1/1/2018
- Residual Market mechanism–Contracted services in three years



Transition Take-A-Ways

While the underlying rationale for these initiatives varied, there were some common and consistent objectives

- In each case, the decision was made to maintain a State Domiciled entity to assure market consistency from transition to maturation
- In each case, the issue of ownership of assets was critical to the final resolution
- In each case, consistency in regulatory oversight was achieved to the point that the state fund, or successor entity would be regulated more "like" than "unlike" a private market insurer



Montana Market Size and Influences

- **Market Size:**
 - At \$287M in Direct Written Premium (0.5%), there are only 11 states with smaller market premium
- **Geography:**
 - Bordered to the North, South, East and Near-West by Monopolistic state systems
- **Population:**
 - 2016 Census: 1,042,520, Rank 44th
- **Employment:**
 - Mirrors the Trend of the U.S.
- **Filed Rate Changes have been consistently downward**



Montana Premiums basically Flat over the last 5 years

AMB #	Company Name	Direct Premiums Written (\$ 000)					Market Share (DPW) (%)				
		2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
003475	Montana State Fund	177,018	175,774	172,254	167,946	165,663	61.60	61.18	60.73	60.91	59.31
000060	Liberty Mutual Insurance Companies	16,376	20,761	19,537	26,394	38,432	5.70	7.23	6.89	9.57	13.76
013911	Victory Insurance Company Inc	11,004	11,384	11,044	10,071	7,354	3.83	3.96	3.89	3.65	2.63
018533	AmTrust Group	10,899	11,322	9,875	6,419	5,178	3.79	3.94	3.48	2.33	1.85
018674	Travelers Group	9,254	9,483	11,104	10,657	9,401	3.22	3.30	3.92	3.86	3.37
000048	Hartford Insurance Group	8,673	6,438	5,777	5,811	5,991	3.02	2.24	2.04	2.11	2.14
018549	Zurich Financial Services NA Group	8,281	9,208	11,587	8,344	7,951	2.88	3.20	4.09	3.03	2.85
018602	Employers Insurance Group	7,898	8,254	7,924	8,414	7,147	2.75	2.87	2.79	3.05	2.56
018540	American International Group	5,842	4,985	6,914	6,206	7,719	2.03	1.73	2.44	2.25	2.76
018885	Western National Insurance Group	3,613	3,629	2,996	2,719	1,242	1.26	1.26	1.06	0.99	0.44
018498	Chubb INA Group	3,278	3,019	2,984	2,970	3,599	1.14	1.05	1.05	1.08	1.29
002687	Associated Loggers Exchange	2,633	2,821	2,830	2,572	2,488	0.92	0.98	1.00	0.93	0.89
018484	Arch Insurance Group	2,043	2,008	2,042	2,159	737	0.71	0.70	0.72	0.78	0.26
000086	Sentry Insurance Group	1,819	910	949	876	101	0.63	0.32	0.33	0.32	0.04
018252	W. R. Berkley Insurance Group	1,812	1,742	1,463	1,281	868	0.63	0.61	0.52	0.46	0.31
018874	XL CatlinAmerica Group	1,782	1,452	1,084	753	1,724	0.62	0.51	0.38	0.27	0.62
000734	Old Republic Insurance Group	1,606	717	545	898	308	0.56	0.25	0.19	0.33	0.11
000811	Berkshire Hathaway Insurance Group	1,589	1,481	716	752	343	0.55	0.52	0.25	0.27	0.12
000032	Farmers Insurance Group	1,493	1,254	1,313	1,432	1,254	0.52	0.44	0.46	0.52	0.45
004835	Great American P & C Insurance Grp	1,108	1,057	1,000	640	572	0.39	0.37	0.35	0.23	0.20
000000	Selection Total	278,021	277,699	273,938	267,314	268,072	96.75	96.65	96.59	96.94	95.98
099200	Total US PC Industry	287,361	287,327	283,617	275,743	279,314	100.00	100.00	100.00	100.00	100.00

Source: AM Best

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Montana Employment

Nonfarm Employees
 Years: 2007 to 2017
 In Thousands

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2007	440.4	441.2	443.9	443.7	443.5	443.6	445.2	444.9	443.3	445.6	446.0	446.4
2008	447.6	447.6	448.2	446.1	445.8	444.6	445.3	444.4	443.5	442.3	441.6	439.1
2009	433.9	432.6	428.7	429.0	429.2	429.4	428.4	427.5	426.9	427.4	427.5	426.5
2010	427.6	426.2	428.0	428.0	429.5	428.6	428.9	429.0	428.5	427.9	427.3	427.9
2011	428.2	428.0	429.2	429.6	430.5	430.2	429.7	431.7	433.5	433.6	434.9	435.9
2012	437.2	436.6	437.0	438.5	440.4	440.2	440.7	441.5	443.2	442.7	442.9	444.0
2013	446.2	447.5	447.4	448.0	448.1	448.5	446.7	448.4	449.2	450.6	450.9	451.3
2014	451.5	452.6	450.9	452.0	451.9	453.8	454.3	454.5	454.4	453.4	453.3	454.8
2015	458.7	460.0	461.0	460.9	460.5	460.3	461.3	461.6	461.9	463.7	464.4	464.9
2016	465.4	466.0	466.4	467.5	467.5	467.1	467.8	467.6	468.7	469.6	472.1	471.7
2017	474.3	477.0	476.7	475.5	474.4	473.7	473.2	474.6	474.5			

Source: BLS

- Montana employment is at an all-time high, up 5.8% since June 2013 but is currently flattening
- Construction is still below high water mark of May 2007
- Personal Services, Hospitality and Government are flat
- Education is up



Loss Cost Reductions have been Consistent and Significant

Rate Level Changes (NCCI filed loss costs)

Year	Effective Date	Percent Change	
2008	2/1	-2.9%	
2008	7/1	-1.8%	
2009	7/1	-2.2%	
2010	7/1	-6.4%	
2011	7/1	-5.6%	
2011	7/1	-22.4%	(Law Change)
2012	-	-	
2013	7/1	-6.2%	
2014	7/1	-3.6%	
2015	7/1	-4.8%	
2016	7/1	-3.4%	
2017	7/1	-7.8%	

Competitive/tiered rating allows for flexible pricing.



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The Public Policy Question

- How are employers in any respective state best serviced in and out of market cycles?
 - Cost Consistency and Predictability
 - Service consistency
 - Employee safety and relations
- What relationship should State Government have, if any, to the Guaranteed Market Mechanism



The “Guaranteed Market” Comparison

State Fund Approach

- Treat each applicant for coverage in the same manner, pricing the policy based on the risk presented
- The term “Residual” does not apply
- State Fund bears all of the financial responsibility

Assigned Risk Approach

- Applicant must be rejected by the private market as a “voluntary” write
- Rate differentials apply depending on the state of operation
- The voluntary market writers participate in a reinsurance “pool” to assign proportional financial responsibility



Montana State Fund's Role in Montana Workers Compensation System

- Legislative Intent:
 1. “Allow an option for employers to ensure their liability under the Montana Workers Compensation Law”
 2. To do so for all Montana Employers who have met their financial obligations to the Fund
 - Regulated by the Commissioner of Securities and Insurance to write one line of business in one state
 - To belong to a licensed advisory organization (NCCI) and follow all filed rules and regulations
 - Must be financially self-supporting manner
 - Must operate under sound financial and actuarial principles
 - To allow for business to be developed directly or through Montana Insurance Agents
 - To pay dividends when fiscally sound to do so, further encouraging safe workplaces



The Montana Workers Compensation Marketplace - Objectives

- My scoring of the current Montana Marketplace:
 1. AVAILABILITY – **POSITIVE** – All Montana employers can gain access to coverage, without delay, regardless of size, industry class or prior history, with access direct to the Company or through a licensed agent
 2. AFFORDABILITY – **POSITIVE** - A Montana employer can go to any licensed carrier in the state, or MSF, which have access to multi-tiered competitive rating capability to assure the lowest possible cost
 3. PREDICTABILITY – **POSITIVE** - A stable, financially strong, fully regulated insurer, operating in only one state, writing just one line of business, with a proven track record for service to policyholders and their injured workers

QUESTIONS???

