The following testimony (amended and expanded) was offered on June 28th at the NYS DFS Hearing regarding the workers compensation loss cost filing made by NYCIRB.

My name is Thomas A. Nowak and I am a Senior Vice President - Workers Compensation at the AIG Property Casualty group of companies. I am here today to offer my support and the support of my colleagues at AIG property casualty companies to the NYCIRB workers compensation filing requesting a +9.3% loss cost level change.

AIG is a significant writer of workers compensation nationally, and NYS is important to us both for its leadership in terms of the size of its market (second only to California) but also because of the large number of Fortune 1000 accounts with substantial operations in NYS.

As we draw to a close the first decade post 2007 reform, private carriers continue to face profitability challenges in the NYS marketplace. Combined ratio data for private carriers, while improving dramatically from the early post reform years, demonstrates fundamental insufficiency in the underlying loss cost structure.[i] The persistence of an underwriting loss[ii] clearly driven by virtually no improvement in loss ratio further sustains a cautious approach to the market as evidenced by the size of the State Fund's market share. And this stands in contrast to a return to underwriting profitability for workers compensation nationally.[iii]

While a number of good things have taken place post-reform, for example the introduction and enforcement of medical treatment guidelines, these took longer to implement and as a result did not deliver as promised. Likewise, cumulative impact of benefit changes have far exceeded approved loss cost level changes.[iv]

The NYS workers compensation system requires that all stakeholders be treated equitably: that includes the private carriers which contribute to a vibrant, innovative and competitive market, in which the solvency of all market participants is preserved.

Thank you.

---

[i] NYCIRB Actuarial Update, NYCIRB 2016 Annual Meeting
[ii] NAIC 2015 Profitability By Line By State
[iii] Conning Workers Compensation – Insurance Segment Report, Midyear 2016
[iv] NYCIRB Actuarial Update, NYCIRB 2016 Annual Meeting

NAIC

National Association of Insurance Commissioners

Report on Profitability By Line By State in 2014

2015

2014 Profitability Report
New York
Percent of Direct Premiums Earned
Underwriting Profit

Line Of Business	(1) 2005	(2) 2006	(3) 2007	(4) 2008	(5) 2009	(6) 2010	(7) 2011	(8) 2012	(9) 2013	(10) 2014	(11) AVG
Private Passenger Auto Liability	14.3	10.6	(1.0)	(4.4)	(11.6)	(11.5)	(3.4)	0.3	(2.2)	(4.0)	(1.3)
Private Passenger Auto Physical	17.7	15.8	7.5	6.2	7.7	4.8	(6.3)	(40.8)	4.8	(1.7)	1.6
Private Passenger Auto Total	15.4	12.3	1.8	(0.8)	(5.0)	(6.1)	(4.4)	(13.1)	0.1	(3.2)	(0.3)
Commercial Auto Liability	5.2	8.5	6.7	5.9	(3.2)	(3.2)	(3.5)	(15.4)	(20.2)	(20.6)	(4.0)
Commercial Auto Physical	26.6	24.1	19.3	13.8	14.9	10.2	(16.3)	(67.2)	3.3	6.3	3.5
Commercial Auto Total	8.5	10.9	8.6	7.0	(0.7)	(1.4)	(5.2)	(22.4)	(17.0)	(16.8)	(2.8)
Homeowners Multiple Peril	20.1	19.7	21.7	23.3	21.1	14.2	5.0	(23.1)	27.5	19.4	14.9
Farmowners Multiple Peril	7.7	20.4	12.4	14.0	12.2	2.4	(1.9)	5.9	24.2	(10.8)	8.6
Commercial Multiple Peril	20.9	8.9	18.4	13.9	10.0	4.8	(2.5)	(34.0)	3.8	(2.2)	4.2
Fire	22.5	63.4	67.8	49.2	47.4	38.7	40.7	2.4	48.1	14.9	39.5
Allied Lines	92.8	(24.0)	(27.5)	57.5	46.0	52.3	43.5	(614.6)	(111.6)	42.5	(44.3)
Inland Marine	28.9	26.2	38.9	29.0	14.1	23.4	7.7	(92.0)	10.5	19.8	10.7
Medical Professional Liability	(38.7)	(39.6)	(21.8)	(15.8)	(4.2)	(7.1)	(17.3)	(16.4)	3.4	1.7	(15.6)
Other Liability*	(22.2)	(1.3)	1.3	(14.6)	(22.1)	(13.3)	(8.9)	(18.9)	(10.2)	(8.0)	(11.8)
Products Liability	NR	NR	NR	NR	(60.6)	(99.5)	(112.2)	83.7	(10.1)	76.1	(20.4)
Workers Compensation	(20.9)	(14.4)	(11.0)	(22.8)	(31.7)	(46.1)	(26.4)	(27.8)	30.5	(3.1)	(17.4)
Mortgage Guaranty	NR	NR	NR	NR	(65.6)	26.6	7.7	(23.3)	51.2	4.0	0.1
Financial Guaranty*	NR	NR	NR	NR	(395.6)	(275.5)	(194.8)	16.8	457.9	406.2	2.5
Accident and Health	NR	NR	NR	NR	(1.8)	(24.5)	0.5	(3.3)	(25.3)	(12.3)	(11.1)
Warranty	NR	NR	NR	NR	(10.3)	(12.8)	(2.0)	(4.5)	(3.6)	13.3	(3.3)
All Other*	18.3	37.3	(51.4)	(461.6)	8.7	16.4	24.0	(16.6)	32.4	(23.4)	(41.6)
Total All Lines	5.3	8.3	0.1	(39.9)	(16.1)	(11.8)	(8.4)	(31.1)	12.4	4.2	(7.7)

© 2015 National Association of Insurance Commissioners

*See technical notes

Users of this report should be aware of the explanations and qualifications contained in the introduction and technical notes.

Workers' Compensation

Midyear 2016

EXECUTIVE SUMMARY

- **Underwriting results.** The 2015 estimated workers' compensation combined ratio of 97.6% was the lowest since 1995, when it was 97.0%.
- **Premium growth in 2015.** Workers' compensation NPW grew by an estimated 4.8% in 2015. Drivers of the premium growth included rising payrolls and rate increases approved in many key states.
- **Outlook for 2016.** Rate reductions at many key states taking effect in 2016 indicate a softening market, dampening premium growth prospects.
- **ROE.** The favorable underwriting results of 2015 contributed to an estimated ROE of 8.4% for workers' compensation in the year, the highest since 2007, when it was 10.3%. Softening rates and rising loss severity are expected to dampen ROE prospects.
- **M&A.** Vigorous 2015 property-casualty insurance M&A will likely to continue, as it underscores the advantages of scale.
- **Top three market share.** The largest three workers' compensation insurers by NPW—Travelers, The Hartford, and AIG—retained their respective positions as #1, #2, and #3 in market share in 2015. Liberty Mutual (#5) exchanged places with Berkshire Hathaway, which moved to #4.
- **AmTrust.** The largest workers' compensation market share growth in 2010-15 was by AmTrust, whose market share for the line grew in the period from 0.4% to 2.3%. AmTrust's market share growth was driven in large part by acquisition of other workers' compensation writers. AmTrust and related company National General were active acquirers in 2015.

Table of Contents

Executive Summary....1

Leading Workers' Compensation Insurers....2
- Insurer Market Share Analysis....2
- Leading Insurer Announcements....12
- Mergers & Acquisitions....13

Workers' Compensation Performance Analysis....15
- Underwriting Summary....15
- Premium....16
- Losses....22
- Expenses....28
- Profitability....28
- Loss Reserves....30
- Reinsurance....31
- Publicly Traded Insurers....32

Products....33
- Current Activity....33

Customers....35

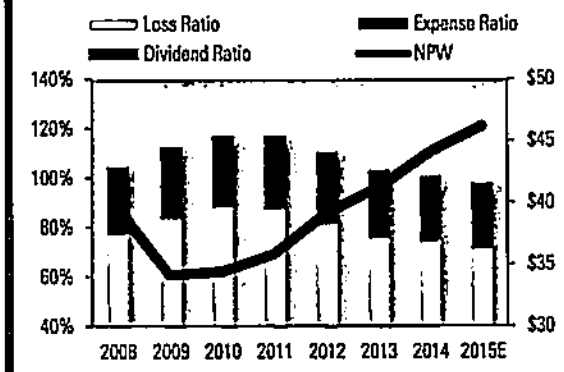
Distribution....38

External Forces....40
- Technology....40
- Regulators and Legislatures....40
- Rating Agencies....43
- Accounting....44
- Legal....44

Appendices....45

Recent Results

$ in billions



Source: ©2016 Conning, Inc., as published in Conning's *Property-Casualty Forecast & Analysis by Line of Insurance*, first-quarter 2016 edition. Historical Data source: ©2016 A.M. Best Company—used by permission

CONNING

© 2016 Conning, Inc. This research publication is copyrighted with all rights reserved. No part of this research publication may be reproduced, transcribed, transmitted, stored in an electronic retrieval system, or translated into any language in any form by any means without the prior written permission of Conning.