


Chesapeake
Employers InsuranceTM
Your workers' compensation specialist



OUR FOCUS

2018 Annual Report



OUR **FOCUS**

is specializing in one line of insurance –
workers' compensation, and in one great state – Maryland.
After 104 years, we are pretty darn good at it.



We provide available and competitively priced coverage to offer
peace of mind for Maryland employers.



We reward policyholders with premium savings for
promoting workplace safety.



We provide prompt care and benefits for injured workers.



We advocate for solutions to issues in the workers' comp system,
like the opioid addiction problem affecting many injured workers.



THANK YOU

for allowing us to **FOCUS** on your workers' compensation insurance needs.

OUR BALANCE SHEET

Balance Sheet Statutory - Basis

	Years Ended December 31	
	2018	2017
Admitted Assets		
Bonds	\$ 1,827,083,668	\$ 1,732,274,833
Preferred stock.....	10,227,588	21,899,449
Common stock	190,926,180	195,969,823
Real estate, occupied by Chesapeake Employers ..	8,231,700	8,468,820
Cash, cash equivalents and short-term investments	49,597,913	80,452,904
Other invested assets	43,757,673	38,110,306
Receivable for securities.....	1,367,949	701,640
Securities lending reinvested collateral assets.....	40,300,684	135,608,379
Total cash and invested assets	2,171,493,355	2,213,486,154
Accrued interest on investments	14,114,806	13,656,550
Premiums receivable.....	71,461,482	77,395,395
Receivables under reinsurance contracts	692,790	877,993
Other assets.....	13,915,305	12,378,495
Total admitted assets	<u>\$ 2,271,677,738</u>	<u>\$ 2,317,794,587</u>
Liabilities and Surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 1,215,320,000	\$ 1,240,320,000
Accounts payable and accrued expenses.....	18,612,524	19,893,705
Borrowed money and accrued interest.....	100,327,656	100,175,184
Unearned premiums.....	92,392,130	98,199,531
Payable for securities lending.....	40,300,684	135,608,379
Other liabilities	41,304,620	28,327,375
Total liabilities.....	<u>1,508,257,614</u>	<u>1,622,524,174</u>
Total surplus.....	763,420,124	695,270,413
Total liabilities and surplus	<u>\$ 2,271,677,738</u>	<u>\$ 2,317,794,587</u>

President's Message



Tom Phelan
President,
Chief Executive Officer

To our valued customers,

I am pleased to share with you the 2018 financial and operational results achieved by your Chesapeake Employers' team. This year marks our 104th year of providing workers' compensation insurance and protecting Maryland businesses and their employees. It also marks my 11th year as President and CEO of this great company. I am proud to work with a great group of professionals who care for you and your employees.

Our focus on financial strength

In this competitive marketplace, we had an overall solid financial year in 2018 with \$214 million in earned premium. We owe much of that financial success to strong relationships with independent agents who represent 88% of our policyholders. We thank you for your trust in us and for making Chesapeake Employers the largest writer of workers' compensation insurance in Maryland.

In 2018, we decreased overall base rates by 5%. Since we became a private company in 2013, we have continually been rated A- (Excellent) for financial strength by A.M. Best. In 2018 our total surplus grew 9% to \$763 million. In recognition of our rock-solid financial strength, our Board members voted to pay a \$20 million corporate dividend to policyholders to reward their commitment to workplace safety.

Our focus on technological transformation

If the rapid development of the digital age teaches us anything, it is that no business, including workers' compensation insurance, is immune from the fast-paced advances in technology. To that end, we are making substantial investments of time, talent, and resources as Chesapeake Employers is working to implement the first phase of our new core operating information technology system in late 2019. The new system will replace our nearly 30-year-old legacy system and will provide secure and fast online services for our customers.

Our focus on mastering our craft

True to our brand message, "Your workers' compensation specialist," education is a key focus at Chesapeake Employers. Many of our employees are engaged in some type of professional development to enhance their command of the trade of workers' compensation insurance. Our Human Resources team champions our "Chesapeake University" that affords employees access to skills training, industry certifications, and educational degrees.

The insurance industry recognizes the Chartered Property Casualty Underwriter (CPCU®) designation as a symbol of personal professionalism. At Chesapeake Employers, we are proud to employ 11 professionals with the CPCU® designation, 26 with the Associate in Claims (AIC™) designation, and 43 who have achieved the Workers' Compensation Professional (WCP®) designation. We are also building the insurance workforce for the future, as we continue to bring on recent college graduates and train and develop the next generation of workers' compensation insurance professionals.

Our focused Board leadership

We have eight Board members with diverse business backgrounds who help contribute to the success of the company. We welcomed Frank J. Hajek, CPA as a new Board member in 2018. We extend our gratitude to our two outgoing Board members, Joseph M. Coale and Charles Dankmeyer, for their many contributions. I want to personally thank all our Board members for their insightful guidance in the support of our company's vision and mission.

Our focus on the NCCI conversion

By January 1, 2023, Chesapeake Employers will fully adopt the National Council on Compensation Insurance (NCCI) rating and loss cost methodology, schedule rating plan, and experience rating plan. We will keep you informed of our progress as we work through the transition and eventual NCCI affiliation. Be assured that we continue to work to minimize the impact of this change on your policy.



The makeup of our Board members will also change, as policyholders will eventually elect seven of the nine Board members, with the first two elected by policyholders in 2020.

Additionally, by law, Chesapeake Employers will begin to pay federal taxes in 2022.

Our focus on innovation and the future of insurance

To address the rising costs associated with medical care and utilization treatment for injured workers, several years ago, our company made the strategic decision to build an in-house team of medical experts. This team includes doctors, nurses, a pharmacist and a physical therapist. Our goal is to have our medical team work with our claims professionals to ensure improved outcomes for both injured workers and their employers, while curbing medical costs.

In 2018, Chesapeake Employers created a venture capital subsidiary called “iCubed” that is starting to explore opportunities to invest in new technology and innovative insurance service companies. Our goal is to invest in companies whose processes and procedures will improve operating efficiency, create a new revenue stream, drive down costs, improve profitability, and make a difference in people’s lives.

Our focus on the Maryland community

Maryland is not only where we work, it is where many of us call home. As the largest not-for-profit writer of workers’ compensation in Maryland, we are in a leadership position to give back and help address issues affecting the health and safety of our neighbors.

In 2018, we continued our efforts to fight the opioid addiction epidemic affecting so many Marylanders, including injured workers. We contributed our final grant payment toward the \$750,000 total amount given to the Maryland Dept. of Health to help fund

the creation and launch of the Prescription Drug Monitoring Program (PDMP). The PDMP is the state-run electronic database that monitors the prescribing and dispensing of prescription opioid drugs. It is mandatory for medical professionals who prescribe controlled, dangerous substances, like opioids to check the PDMP for any potential harmful interactions or for the possibility of duplicate prescriptions or inappropriate prescribing or dispensing of prescription opioids.

As part of our good corporate citizen outreach in 2019, we will be providing a series of Narcan training classes for the prevention of opioid overdose, including distribution of drug disposal bags to anyone who needs one. We are also sponsoring “Active Shooter Preparedness” seminars throughout the state. All trainings are provided free of charge, and you don’t have to be a policyholder to attend.

Our focus on you

You have a choice as to where to place your workers’ compensation insurance business. We will never lose focus on providing you, our valued agents and policyholders, with fairly priced coverage and an outstanding customer experience when you choose to insure with us. You can be assured we will do everything possible to exceed your expectations. Thank you for placing your business and your trust with Chesapeake Employers.

Sincerely,

Thomas J. Phelan, CPA
President and CEO

2018 Board Members L-R,

Suzanne Carter
Thompson,
Secretary;

Wayne Gioioso, Sr.,
Member;

Paul V. Gill, Sr.,
Treasurer;

V. Rocky Gonzalez,
Chair;

Franklin J. Hajek, CPA,
Member;

Lewis C. Powell,
Member;

Leonard Schuler, Jr.,
Vice Chair;

Maria Tildon,
Member.



OUR FOCUS

on rewarding policyholders
for their commitment
to workplace safety

In 2018, Chesapeake Employers' Board of Directors declared a \$20 million Corporate Dividend to benefit our policyholders. More than 20,000 policyholders qualified for these dividends based on their commitment to workplace safety, accident prevention, and return-to-work initiatives.

Chesapeake
Employers Insurance
\$20 MILLION
in CORPORATE
DIVIDENDS
to Qualifying Policyholders

Approximately
20,000
of our policyholders
qualified for a
corporate dividend

2,898
policyholders
and state agencies
received safety
consultations in 2018

First reports of
injuries continued
to decline; down
-3.3% in 2018

As your workers' compensation specialist, Chesapeake Employers understands the diversity of Maryland's businesses and the occupational risks they face. Our areas of expertise include construction, manufacturing, health-care, transportation, nonprofit, municipalities and many more. Our safety professionals consult with businesses on how to establish a workplace safety culture and help put in place accident prevention techniques focused on mitigating risks and reducing workers' compensation insurance costs.

Our services, which are provided as an added value to every Chesapeake Employers' policyholder, include:

- Program development and education
- Risk assessment surveys
- Risk analysis and loss reviews
- Training sessions including First-Aid, CPR and AED (Defibrillator)
- Safety educational materials.

Additionally, our safety professionals work in tandem with our claims adjusters to help policyholders identify and implement effective return-to-work programs.

OUR FOCUS

on helping injured workers get well
and back to work



15,809

injured workers* were covered for their medical treatment, indemnity (lost time) payments or both in 2018. *Private policyholders

In 2018, our focus and core purpose continued to be helping injured workers receive prompt and accurate benefits and appropriate medical treatment, all with the goal of a successful return to work. It starts with our professional claims adjusters and their focus on timely three-point contact, with the injured worker, medical provider and employer. This three-point contact is the proven connection for sharing information to manage the servicing of the compensable claim for the best possible outcome.

Our policyholders continue to count on Chesapeake Employers' claims adjusters to also conduct a thorough investigation of the claim. It is our local and experienced claims specialists and their deep knowledge of the Maryland workers' compensation claims system that make a difference for our customers.

- In 2018, Chesapeake Employers paid \$148 million in indemnity and medical costs to and on behalf of injured workers.
- We are pleased to report that our Claims Department received an 86% overall satisfaction rating in our 2018 Customer Satisfaction Survey of 400 policyholders that have had a claim.
- In 2018, our claims professionals personally visited 538 policyholders and State agencies.
- Our Catastrophic Injury Team provided prompt and compassionate claims services to 51 severely injured workers in 2018.
- We continue to pursue claim settlements to mitigate the long-term cost of a claim while allowing the injured worker to secure appropriate treatment.

OUR FOCUS

on controlling medical and claims costs without sacrificing quality outcomes

Chesapeake Employers is committed to containing claim costs and keeping premiums as low as possible for Maryland businesses through the work of our integrated health and claims services. Our in-house medical team works side-by-side with experienced claims professionals to review medical treatment for injured workers. Our goal is to ensure appropriate medical care while containing costs.

Our doctors

Two orthopedic surgeons, experienced in treating occupational injuries, provide medical advice on treatment interventions and cost containment opportunities. A third physician monitors high-cost pharmacy claims and recommends alternative generic lower-cost prescriptions with equivalent results.

Our nurses

Our nurses provide case management and medical services utilization review to ensure the medical treatment that the injured worker may need is appropriate and administered timely.

Pharmacist and physical therapist

The pharmacist works with our external Pharmacy Benefits Manager to monitor opioid drug utilization and prescriptions related to the work injury while addressing any safety concerns

associated with medications. Our physical therapist monitors injured workers' progress for short- and long-term recovery goals, and thoroughly reviews physical therapy treatment invoices for reasonableness.

Prompt medical bill review and payment

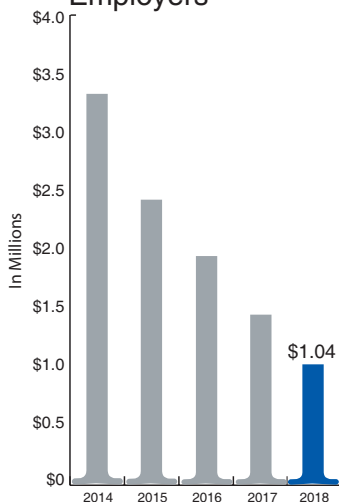
Our billing specialists thoroughly review medical bills for accuracy to then make prompt payment. Our medical department helps manage costs by negotiating lower hospital fees and working with Preferred Medical Provider Organizations (PPO).

Continuing our fight against the opioid addiction problem

We continued our focused efforts to address both the human and financial costs of potentially addictive opioid prescriptions. Because of our monitoring, in 2018, the company continued to see a reduction in the amount and strength of prescribed opioids along with fewer injured workers under our care receiving potentially addictive opioid prescriptions.

We are proud to announce that our public service campaign about the dangers of prescription opioid addiction received a Maryland public relations society "Best in Show" award in 2018.

Opioid Rx Costs Paid by Chesapeake Employers



OUR FOCUS

on building technology to deliver services, fast and securely



Chesapeake Employers is significantly investing in next generation information technology to better serve all our customers. This focus on new technology has been the cornerstone for our long-term digital strategy. In 2018, we started testing our new core technology platform that will replace our current 30-year-old legacy system. All aspects of our customers' digital experience will improve with this new technology, as the first phase is scheduled to go live in late 2019.

This first phase will include the launch of our underwriting and quoting systems. We are also designing web-based portals for our different stakeholders. These portals will redefine the customer experience through faster self-service and added benefits and information that reflect the specific customer user – policyholder, agent, medical provider, or state agency.

All aspects of our customers' digital experience will improve with this new technology as the first phase is scheduled to go live in late 2019.

These secure online services will start with a new Single Sign-On (SSO) capability that provides advanced authentication, authorization, and access. SSO will ultimately increase our stakeholders' productivity and improve their ease of secure access to information and services specifically for them.

Strengthening our cybersecurity is another key human and technology focus for Chesapeake Employers. As more data flows in and out of our company, security and privacy will continue to be a risk management challenge. To help defend against these increasing cyber risks, we have a company-wide focus on preventing potential cyber attacks. We continue to implement and continuously improve our cybersecurity defenses.

Chesapeake Employers' Insurance Company Financial Highlights at a Glance

	Years Ended December 31	
	2018	2017
Premiums earned.....	\$ 214,444,681	\$ 224,849,681
Net investment income	\$ 56,498,293	\$ 54,801,874
Loss & loss adjustment expenses incurred	\$ 146,879,417	\$ 116,555,572
Underwriting gain	\$ 3,765,845	\$ 46,150,189
Dividends expense.....	\$ 21,312,792	\$ 20,197,453
Total assets	\$ 2,271,677,738	\$ 2,317,794,587
Total surplus.....	\$ 763,420,124	\$ 695,270,413
Loss/LAE ratio	68.5%	51.8%
Expense ratio.....	38.9%	35.8%
Combined ratio.....	107.4%	87.6%

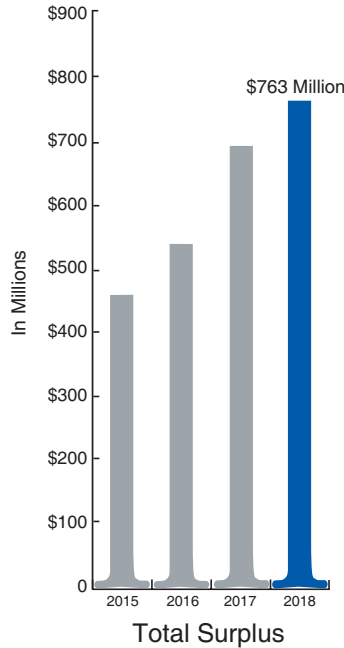
Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2018	2017
Underwriting income:		
Net premiums earned.....	\$ 214,444,681	\$ 224,849,681
Losses incurred	116,632,405	91,954,924
Loss adjustment expenses incurred	30,247,012	24,600,648
Commissions.....	24,421,408	25,380,822
Other underwriting expenses, net.....	35,463,613	34,236,713
Provision for bad debt	3,914,398	2,526,385
Underwriting gain (loss).....	3,765,845	46,150,189
Net investment income	56,498,293	54,801,874
Net realized gain on investments	45,768,218	58,869,933
Net investment gain	102,266,511	113,671,807
Other income.....	659,367	761,734
Federal income tax benefit (expense)	—	172,993
Dividends to policyholders.....	(21,312,792)	(20,197,453)
Net income	\$ 85,378,931	\$ 140,559,270

A.M. Best Co. has reaffirmed a financial strength rating of A- (Excellent) and an issuer credit rating of "a-" for Chesapeake Employers' Insurance Company as of March 22, 2018. The outlook assigned by A.M. Best to both ratings is stable. Chesapeake Employers' reserves are opined by Deloitte Consulting, LLP and a complete Statement of Actuarial Opinion may be obtained upon request from the Chief Financial Officer of Chesapeake Employers' Insurance Company.

The 2018 condensed financial statements, including the balance sheet on page 1, have been derived from complete statutory-basis financial statements, which were audited by Johnson Lambert LLP.

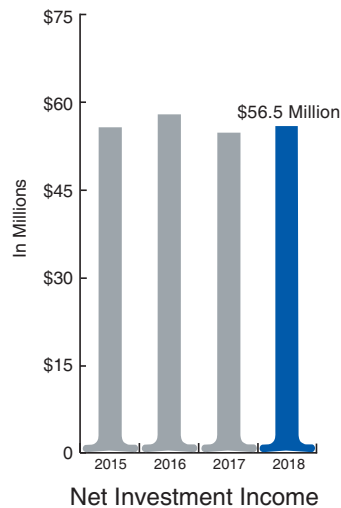
OPERATIONS HIGHLIGHTS



We insure
22,673
policyholders

With approximately
174,577
covered workers

88%
of our policyholders
are represented by an
agent partner



Approximately
93%
of our policyholders
reported no workplace
injuries in 2018.

12,235
policyholders reduced
their premium by
qualifying for their own
beneficial experience
modifier or loss-free
credit in 2018.

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