



# BULLETIN

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A new National Association of Insurance Commissioners (NAIC) report on insurer profitability shows California workers' compensation insurers' return on net worth rose from a 10-year low of 3.0 percent in 2013 to 5.8 percent in 2014, which ranked 38<sup>th</sup> out of the 42 states for which comprehensive data, including state fund data, were reported.

Each year, the NAIC, made up of insurance regulators from all 50 states, the District of Columbia and four U.S. territories, produces its "Report on Profitability by Line by State." The report for 2014, issued December 31, combines by-line and by-state calendar year data from certain exhibits of insurers' annual statements to develop estimates of profits on earned premium and the return on net worth by line and by state. The report also shows the various components of estimated profits including premiums earned; losses incurred; loss adjustment expense; general expenses; selling expenses; state taxes, licenses and fees; dividends to policyholders; changes in premium deficiency reserves; underwriting profits; investment income and federal income taxes. It is considered the most comprehensive, objective tool for tracking the profitability of specific lines of insurance over time and for comparing results among different states.

Public companies aim for a 15 percent rate of return, but that goal is rarely reached so a 12 percent return is deemed more realistic. Despite the recent increase, in 2014 California workers' comp insurers remained near the bottom of the national rankings, as their 5.8 percent return on net worth was below the 7.5 percent return for workers' comp insurers nationwide and less than half the 12 percent goal for publicly-traded companies.

### NAIC 2005-2014 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	05-14 Avg
Calif WC	14.2%	16.4%	12.1%	7.0%	4.6%	5.2%	7.4%	3.9%	3.0%	5.8%	7.9%
Calif All Lines	14.5%	17.1%	11.9%	6.0%	9.4%	9.7%	8.4%	7.4%	7.6%	7.5%	10.0%
US WC	9.6%	10.0%	9.0%	5.1%	4.2%	3.9%	6.2%	5.9%	7.2%	7.5%	6.8%
US All Lines	5.3%	14.4%	12.5%	2.4%	6.3%	8.0%	4.9%	5.8%	9.0%	8.4%	7.7%
NAIC P&C	8.3%	12.2%	9.7%	2.2%	5.7%	6.0%	3.4%	5.2%	8.0%	6.6%	6.4%
Fortune All Ind	14.9%	15.4%	15.2%	13.1%	10.5%	12.7%	14.3%	13.4%	16.6%	14.3%	13.9%

Source: National Association of Insurance Commissioners Report on Profitability by Line By State, Dec. 2015

Because calendar year financial results fluctuate and workers' compensation is a long-tailed line of insurance in which losses accrue over many years, the NAIC also includes long-term historical averages, with 10-year estimates of profitability calculated for workers' comp insurers in California and nationwide. The high water mark for California workers' comp insurer profitability in the last 10 years was in 2006, following the implementation of the 2002-2004 reforms, though returns tailed off sharply after that, and as a result the most recent report shows a 10-year return on net worth of 7.9 percent – less than half the 16.4 percent return recorded in 2006. Nevertheless, California workers' comp insurers' strong returns from nearly a decade ago boosted their 10-year average return, which exceeded the 10-year returns for all workers' comp insurers, property and casualty insurers, and all lines of insurance nationwide, but was below the 10-year returns for all lines of insurance in California and for Fortune's Industrial and Service sectors.

The NAIC issued its “Report on Profitability by Line by State in 2014” late last week. A news release on the report is posted on the NAIC website at [www.insurance.naic.org/Releases/2015\\_docs/profitability\\_report.htm](http://www.insurance.naic.org/Releases/2015_docs/profitability_report.htm). In addition, the full report, including a one-page summary of disclaimers developed by the NAIC Profitability Working Group of the Statistical Task Force noting caveats and limitations on the uses of the data, can be downloaded from the [NAIC Store](#).

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