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BULLETIN

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California workers' compensation insurers' average return on net worth rose for the second year in a row in 2015 according to a National Association of Insurance Commissioners (NAIC) report on insurer profitability which shows California insurers' return improved from 5.8 percent in 2014 to 7.9 percent in 2015, ranking California 29th out of the 43 states for which comprehensive data, including state fund data, were reported.

The NAIC represents insurance commissioners from all 50 states, the District of Columbia, and four U.S. territories. Each year it compiles data from insurers' annual statements and publishes the results in a "Report on Profitability by Line and by State." The report for 2015, issued earlier this year, 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 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. Because it is produced by the organization comprised of insurance regulators, it is considered a comprehensive, objective tool for tracking the profitability of specific lines of insurance over time and for comparing results among different states.

Due to the cyclical nature of the industry, and because workers' compensation losses accrue across multiple years, calendar year financials are prone to sharp year-to-year fluctuations, so in addition to reporting annual results, the NAIC also calculates insurers' 10-year average returns to smooth out the fluctuations and provide a historical view of insurer profitability. Those 10-year results are noted in the table below, which compares the 2006-2015 average rates of return on net worth for California workers' comp insurers to the returns for all workers' comp insurers nationwide; all lines of insurance in the state and nationwide; property and casualty lines nationwide; and Fortune Magazine's Industrial and Service sectors.

NAIC 2006-2015 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	06-15 Avg
Calif WC	16.4%	12.1%	7.0%	4.6%	5.2%	7.4%	3.9%	3.0%	5.8%	7.9%	7.3%
Calif All Lines	17.1%	11.9%	6.0%	9.4%	9.7%	8.4%	7.4%	7.6%	7.5%	6.1%	9.1%
US WC	10.0%	9.0%	5.1%	4.2%	3.9%	6.2%	5.9%	7.2%	7.5%	8.4%	6.7%
US All Lines	14.4%	12.5%	2.4%	6.3%	8.0%	4.9%	5.8%	9.0%	8.4%	7.9%	8.0%
NAIC P&C	12.2%	9.7%	2.2%	5.7%	6.0%	3.4%	5.2%	8.0%	6.6%	6.6%	6.2%
Fortune All Ind	15.4%	15.2%	13.1%	10.5%	12.7%	14.3%	13.4%	16.6%	14.3%	12.7%	13.3%

Source: National Association of Insurance Commissioners Report on Profitability by Line By State, Jan. 2017

Although stockholder companies generally aim for a 15 percent return on net worth, that target is rarely reached, so a 12 percent return is considered a more realistic goal. As an industry, California workers' comp insurers exceeded the 12 percent level twice in the past decade – in 2006 and 2007, following implementation of the 2002-2004 legislative reforms. Since then, the market has produced single-digit returns, but after falling to a 10-year low of 3.0 percent in 2013, California workers' compensation insurers' return on net worth rose to 5.8 percent in 2014 and 7.9 percent in 2015, which translates to an average 10-year yield of 7.3 percent.

That 7.3 percent return over the past decade beat both the 6.7 percent return for workers' comp insurers nationwide, and the 6.2 percent return for property and casualty insurers nationwide, but was below the 9.1 percent return for all lines of insurance in California and the 8.0 return for all lines nationwide; and was well below the 13.3 percent 10-year average return for Fortune's Industrial and Service Sectors.

The NAIC released its "Report on Profitability by Line by State in 2015 in January of this year. The news release announcing the report is at www.naic.org/Releases/2017_docs/naic_releases_insurance_reports.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 for free from the NAIC Store.

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