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# BULLETIN

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The latest report on insurer profitability from the National Association of Insurance Commissioners (NAIC) shows that California workers' compensation insurers' average return on net worth rose for the third year in a row in 2016, climbing from 7.9 percent in 2015 to 8.7 percent in 2016, ranking California in a tie with Alaska at 22nd out of the 44 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 2016, 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.

Given the cyclical nature of workers' compensation insurance, and because claim costs accrue across multiple years, calendar year financials often register 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 shown in the table below, which also compares the 2007-2016 average rates of return on net worth for California workers' compensation insurers to those of all workers' comp insurers nationwide; all lines of insurance in the state and nationwide; property and casualty lines nationwide; and Fortune Magazine's index of Industrial and Service sectors.

**NAIC 2007-2016 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 07-16 Avg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Calif WC | 12.1% | 7.0% | 4.6% | 5.2% | 7.4% | 3.9% | 3.0% | 5.8% | 7.9% | 8.7% | 6.6% |
| Calif All Lines | 11.9% | 6.0% | 9.4% | 9.7% | 8.4% | 7.4% | 7.6% | 7.5% | 6.1% | 5.2% | 7.9% |
| US WC | 9.0% | 5.1% | 4.2% | 3.9% | 6.2% | 5.9% | 7.2% | 7.5% | 8.4% | 8.2% | 6.6% |
| US All Lines | 12.5% | 2.4% | 6.3% | 8.0% | 4.9% | 5.8% | 9.0% | 8.4% | 7.9% | 5.8% | 7.1% |
| NAIC P&C | 9.7% | 2.2% | 5.7% | 6.0% | 3.4% | 5.2% | 8.0% | 6.6% | 6.6% | 4.8% | 5.8% |
| Fortune All Ind | 15.2% | 13.1% | 10.5% | 12.7% | 14.3% | 13.4% | 16.6% | 14.3% | 12.7% | 13.1% | 13.2% |

**Source: National Association of Insurance Commissioners Report on Profitability by Line By State, Jan. 2018**

Stockholder companies generally aim for a 15 percent return on net worth, but 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 once in the past decade – in 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 has increased steadily back up to 8.7 percent in 2016. That put the average return over the past decade at 6.6 percent.

That 10-year average return of 6.6 percent matched the return for workers' compensation insurers nationwide, and exceeded the 5.8 percent return for property and casualty insurers nationwide, though it was below the 7.1 percent return for all lines of insurance nationwide, the 7.9 percent return for all lines in California, and well below the 13.2 percent 10-year average return for Fortune's All Industry Sectors.

The NAIC posted its "Report on Profitability by Line by State earlier this year. The news release announcing the report is at http://www.naic.org/Releases/2017_docs/naic_releases_2016_profitability_report.htm, and the full report, including a 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 NAIC Publications.

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