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BULLETIN

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The National Association of Insurance Commissioners (NAIC) has issued a new report which shows that California workers' compensation insurers' average return on net worth rose to 9.9 percent in 2017, the fourth consecutive increase, ranking California in a tie with Arkansas at 18th out of the 45 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 2017, announced this week, 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, 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 noted in the table below, which compares the 2008-2017 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 Industrial and Service sectors.

NAIC 2008-2017 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	08-17 Avg
Calif WC	7.0%	4.6%	5.2%	7.4%	3.9%	3.0%	5.8%	7.9%	8.7%	9.9%	6.3%
Calif All Lines	6.0%	9.4%	9.7%	8.4%	7.4%	7.6%	7.5%	6.1%	5.2%	-1.9%	6.5%
US WC	5.1%	4.2%	3.9%	6.2%	5.9%	7.2%	7.5%	8.4%	8.2%	9.5%	6.6%
US All Lines	2.4%	6.3%	8.0%	4.9%	5.8%	9.0%	8.4%	7.9%	5.8%	3.9%	6.2%
NAIC P&C	2.2%	5.7%	6.0%	3.4%	5.2%	8.0%	6.6%	6.6%	4.8%	3.2%	5.2%
Fortune All Ind	13.1%	10.5%	12.7%	14.3%	13.4%	16.6%	14.3%	12.7%	13.1%	13.9%	13.5%

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

Stockholder companies typically aim for a 15 percent return on net worth, but that goal is rarely reached, so a 12 percent return is accepted as a more realistic target. California workers' compensation insurers did exceed that 12 percent target in 2007, following adoption of the legislative reforms enacted between 2002 and 2004, but over the past decade they have never exceeded a 10 percent return. The low point for the past decade was in 2013, when California workers' comp insurers' return on net worth fell to 3.0 percent, but since then the returns have climbed steadily, producing an average of 6.6 percent for the 10-year period ending in 2017.

The comparative results show that California workers' compensation insurers' 10-year average return of 6.3 percent exceeded the 6.2 percent return for all U.S. lines of insurance, and the 5.2 percent average for property and casualty insurers nationwide; was slightly below the 6.5 percent return for all California lines and the 6.6 percent return for workers' compensation insurers nationwide; and was less than half of the 13.5 percent 10-year average return recorded by Fortune's All Industry Sectors.

The December 5 news release announcing the NAIC insurer profitability report for 2017 is posted at https://www.naic.org/Releases/2018_docs/naic_releases_2017_profitability_report.htm. The news release includes a link to the full report, which can be downloaded for free and includes 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.

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