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BULLETIN

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New data on insurer profitability from the National Association of Insurance Commissioners (NAIC) shows California workers' compensation insurers had a healthy 13.7 percent return on net worth in 2019, down slightly from 14.3% in 2018, which put the 10-year average after-tax gain at 8.0 percent, just below the 8.2 percent average for workers' compensation insurers nationwide.

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 2019, released this month, 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 association that represents 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 workers' compensation, and because claim costs accrue over 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. The 10-year results are noted in the last column of the table below, which compares the 2010-2019 average rates of return on net worth for California workers' compensation insurers to those of all workers' compensation insurers nationwide; all lines of insurance in California and nationwide; property and casualty lines nationwide; and Fortune Magazine's Industrial and Service sectors.

NAIC 2010-2019 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)
Source: National Association of Insurance Commissioners Report on Profitability by Line by State, Jan. 2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10-19 Avg
Calif WC	5.2%	7.4%	3.9%	3.0%	5.8%	7.9%	8.7%	9.9%	14.3%	13.7%	8.0%
Calif All Lines	9.7%	8.4%	7.4%	7.6%	7.5%	6.1%	5.2%	-1.9%	-0.2%	10.9%	6.1%
US WC	3.9%	6.2%	5.9%	7.2%	7.5%	8.4%	8.2%	9.5%	13.0%	12.2%	8.2%
US All Lines	8.0%	4.9%	5.8%	9.0%	8.4%	7.9%	5.8%	3.9%	7.3%	8.6%	7.0%
NAIC P&C	6.0%	3.5%	5.2%	8.0%	6.6%	6.6%	4.8%	3.2%	7.0%	7.2%	5.8%
Fortune All Ind	12.7%	14.3%	13.4%	16.6%	14.3%	12.7%	13.1%	13.9%	15.4%	15.3%	14.2%

Although stockholder-owned companies usually aim for a 15 percent return on net worth, that goal is rarely achieved, so a 12 percent return is considered a more realistic target. California workers' compensation insurers exceeded the 12 percent target in both 2018 and 2019, though as noted in the table, from 2010 through 2017 their returns on net worth ranged between 3.0 percent and 9.9 percent, producing an average return of 8.0 percent for the decade. The low point was in 2013, after which the returns climbed steadily through 2018, with the 2019 result representing the first time in 6 years that there was a year-to-year decline.

The NAIC's 10-year comparative lookback shows that California workers' compensation insurers' 8.0 percent average return over the past decade exceeded the 6.1 percent average for all lines of insurance in the state, the 7.0 percent average for all lines of insurance nationwide, and the 5.8 percent average return for property and casualty insurers nationwide; but was slightly below the 8.2 percent average return for all workers' compensation insurers nationwide, and well below the 14.2 percent 10-year average return recorded by Fortune's All Industry Sectors.

The January 12 news release announcing the NAIC 2019 Profitability Report is posted online at https://content.naic.org/newsroom.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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