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# BULLETIN

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New data from the National Association of Insurance Commissioners (NAIC) show California workers' compensation insurers' return on net worth declined from 13.7% in 2019 to 10.9% in 2020, the sharpest year-to-year decline since 2012, but the California workers' compensation insurers' 2020 return on net worth was still better than the 9.6% return recorded by workers' compensation insurers nationwide.

Each year, the NAIC, which represents insurance commissioners from all 50 states, the District of Columbia, and four U.S. territories, compiles data from insurer's annual statements and publishes it in an annual "Report on Profitability by Line and by State." The calendar year 2020 report, issued in late December, has complete, direct income statement and surplus information for every line of insurance and for every state, and provides data on all elements of underwriting results, including investment income, pretax gains or losses, federal income taxes, after-tax gains or losses, surplus, and after-tax returns on surplus. Because it is the only source of complete, direct income statement data for all lines of insurance for every state, and it is produced by an objective source, the report is a useful tool for tracking the performance and profitability of different lines of insurance over time. To smooth out fluctuations in calendar year financial results and provide a longer-term view of how insurers are faring, the NAIC also calculates historical averages for the most recent 10-year period, which is especially prudent in a long-tailed line of insurance such as workers' compensation, where losses accrue across many years.

The table below shows the average rates of return on net worth for California workers' compensation insurers over the past decade and compares them to the returns for all workers' comp insurers nationwide; property and casualty lines nationwide; all lines of insurance in the state and nationwide; and Fortune Magazine's All-Industry average for Industrial and Service sectors.

**NAIC 2011-2020 Profitability Report (comparisons of Avg Rates of Return on Net Worth)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 11-20 Avg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Calif WC | 7.4% | 3.9% | 3.0% | 5.8% | 7.9% | 8.7% | 9.9% | 14.3% | 13.7% | 10.9% | 8.6% |
| Calif All Lines | 8.4% | 7.4% | 7.6% | 7.5% | 6.1% | 5.2% | -1.9% | -0.2% | 10.9% | 9.0% | 6.0% |
| US WC | 6.2% | 5.9% | 7.2% | 7.5% | 8.4% | 8.2% | 9.5% | 13.0% | 12.2% | 9.6% | 8.8% |
| US All Lines | 4.9% | 5.8% | 9.0% | 8.4% | 7.9% | 5.8% | 3.9% | 7.3% | 8.6% | 6.8% | 6.8% |
| NAIC P&C | 3.5% | 5.2% | 8.0% | 6.6% | 6.6% | 4.8% | 3.2% | 7.0% | 7.2% | 6.4% | 5.9% |
| Fortune All Ind | 14.3% | 13.4% | 16.6% | 14.3% | 12.7% | 13.1% | 13.9% | 15.4% | 15.3% | 10.3% | 13.9% |

Source: National Association of Insurance Commissioners Report on Profitability by Line By State, Dec. 2021

Stockholder-owned companies shoot for a 15% return on net worth, but that rate is rarely achieved, and a 12% return is considered a more realistic goal. As an industry, California workers' compensation insurers exceeded the 12% return in 2018 and 2019, but from 2011 through 2017 the market ranged between a 3% return in 2013 to a 9.9% return in 2017. The 10.9% average return on net worth noted for 2020 marked a sharp decline from the pre-pandemic levels of 2018 and 2019, but it exceeded the 2011 through 2017 returns, as well as the 10-year average of 8.6%.

As noted in the table, even with the declines of the past two years, California workers' compensation insurers' 10.9% average return on net worth in 2020 was better than the 2020 returns for all lines of insurance in California (9.0%) and the U.S. (6.8%), as well as the returns for property and casualty insurers (6.4%) and the Fortune's Industrial and Service sectors (10.3%), and it also exceeded the 9.6% average return for workers' compensation insurers nationwide. The NAIC's 10-year look-back shows that California workers' compensation insurers' 8.6% average return over the past decade compares to 10-year returns of 6.0% for all lines of insurance in California; 8.8% for workers' compensation insurers nationwide; 6.8% for all lines of insurance nationwide; 5.9% for property & casualty lines nationwide; and 13.9 percent for Fortune Magazine's All-Industry average for Industrial & Service Sectors.

The December 21 news release announcing the NAIC 2020 Profitability Report is posted here. 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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