

# **WCIRB Summary of September 30, 2007 Insurer Experience**

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## **WCIRB Summary of September 30, 2007 Insurer Experience**

The WCIRB has completed its initial review of September 30, 2007 experience submitted by insurers. This summary is based on data reported to the WCIRB by insurers who wrote approximately 99% of the statewide market using 2006 premium levels. In reviewing this information, the following should be noted:

1. This summary reflects a compilation of individual insurer reports of accident year and calendar year premium and loss experience. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments, using information reported by insurers through September 30, 2007. Although the actuarial methodologies upon which these projections are predicated are comprehensively and regularly tested and the underlying assumptions verified, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
3. The amounts and ratios shown represent statewide totals based on the amounts reported by all insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
4. Insurer-reported losses, which, in Exhibit 9, are compared to the WCIRB's estimates of ultimate losses, include estimates of insurers' incurred but not reported (IBNR) losses by line of business, state and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' unpaid losses.
5. Some of the provisions of Assembly Bill No. 227 (AB 227), Senate Bill No. 228 (SB 228) and Senate Bill No. 899 (SB 899) affect the cost of claims incurred prior to the effective date of the legislation. Projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of AB 227, SB 228 and SB 899 on unpaid losses, based on methodologies developed by the WCIRB's Actuarial Committee.

The attached Exhibits 1 through 9.2, which summarize the WCIRB's review of reported September 30, 2007 insurer experience, reflect the following information:

- California statewide written premium (gross of deductible credits) reported for the first nine months of 2007 is estimated at \$9.9 billion. This is approximately 23% below the written premium reported for the first nine months of 2006 (Exhibit 1).
- The average statewide insurer rate (final insurer rates reflecting all rating plan adjustments except deductible credits, retrospective rating plan adjustments, and policyholder dividends) per \$100 of payroll for policies written in the third quarter of 2007 is \$2.49 (Exhibit 2). This is 25% below the average rate charged for the second six months of 2006 and 61% below the average rate charged in the second six months of 2003.

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- The WCIRB projects total statewide ultimate accident year losses for 2006 of \$6.2 billion. While this is consistent with the level projected for accident year 2005, this is almost 50% less than the ultimate losses currently projected for accident year 2002 (Exhibit 3).
  - The WCIRB projects an ultimate accident year loss ratio of 36% for accident year 2006. This loss ratio, while still very low compared to historical norms, represents a seven percentage point increase from the estimated accident year 2005 loss ratio (Exhibit 4). This increase is primarily the result of declining premium rates.
  - The ultimate accident year 2006 combined loss and expense ratio is estimated by the WCIRB to be 63%. This is the fourth consecutive accident year with combined ratios estimated to be below 100%, after eight consecutive years of combined ratios in excess of 100% (Exhibit 5).<sup>1</sup>
  - The calendar period loss ratio reported for the first nine months of 2007 is 55%. This ratio is eleven percentage points above the ratio for the first nine months of 2006 (Exhibit 6.1). The calendar year combined ratio for 2006 is 74%—the lowest in many years (Exhibit 6.2).
  - Indemnity claim frequency for the first nine months of 2007 is estimated to be 7% lower than for the first nine months of 2006. Currently, 2007 indemnity claim frequency is estimated at approximately 32% of its all-time high in 1991 and 46% below the level estimated for 2002 (Exhibit 7).<sup>2</sup>
  - The WCIRB preliminarily estimates that the average cost of a 2006 indemnity claim will be approximately \$40,000.<sup>3</sup> This preliminary severity estimate, which is below the pre-reform level but above the 2005 estimate, may change over time as the loss information matures (Exhibit 8.1). Both indemnity and medical average costs per claim show increases in 2006 (Exhibits 8.2 and 8.3).
  - The WCIRB currently estimates that total statewide ultimate losses on all injuries that occurred on or before December 31, 2006 are approximately \$6.5 billion less than the amounts reported by insurers (Exhibit 9.1).<sup>4</sup> In particular, the WCIRB's current estimates of ultimate losses on accident years 2004 through 2006 are significantly less than those reported by insurers (Exhibit 9.2).

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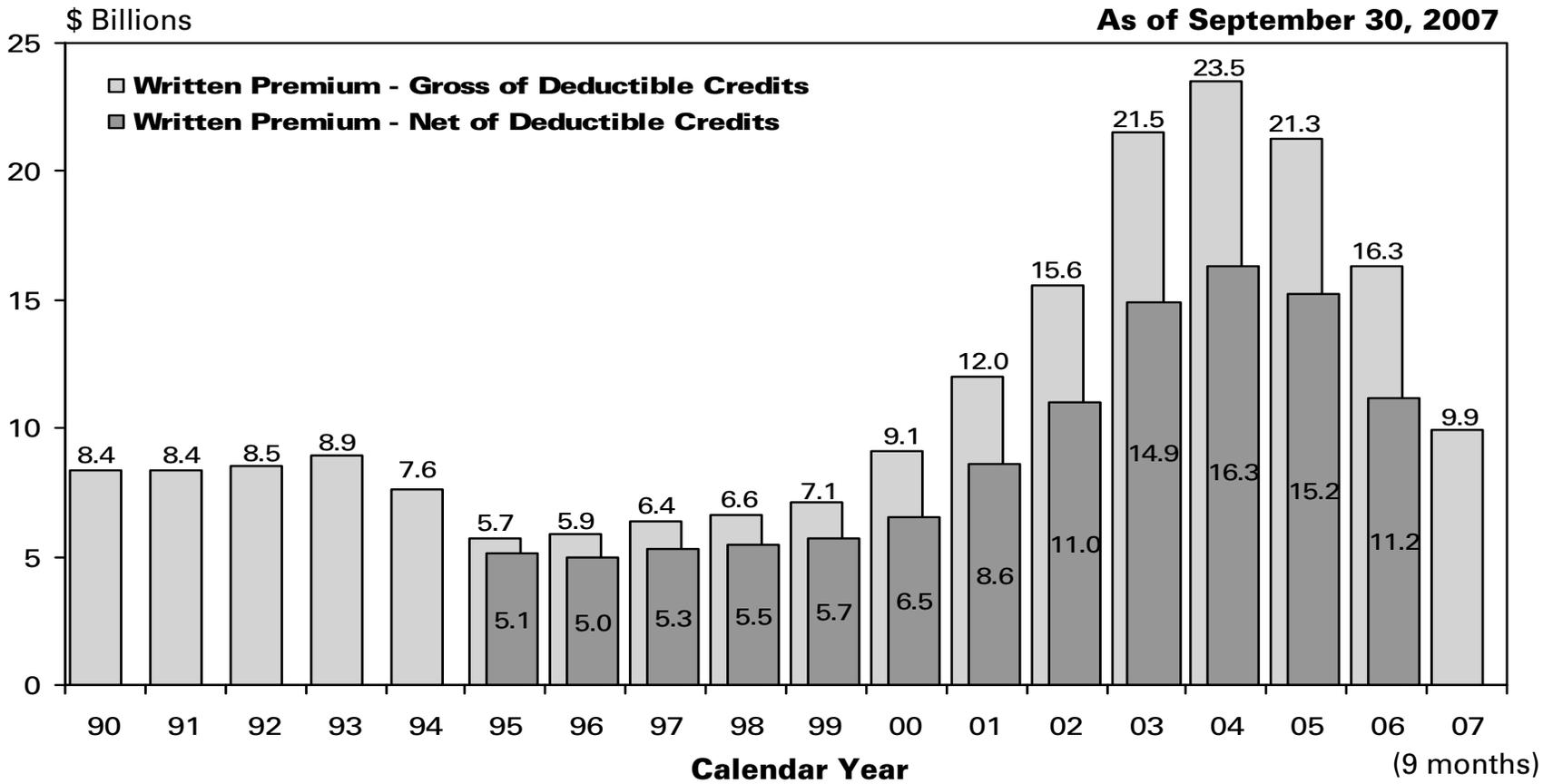
<sup>1</sup> The estimated loss ratios included in these combined ratios reflect the adjustment for the impact of the SB 228 fee schedule changes, SB 228 and SB 899 changes related to medical utilization, and SB 899 changes related to the January 1, 2005 Permanent Disability Rating Schedule on loss development projections.

<sup>2</sup> The indicated annual changes in frequency from 1999 to 2001 appear to be statistical anomalies and not accurate reflections of the annual changes.

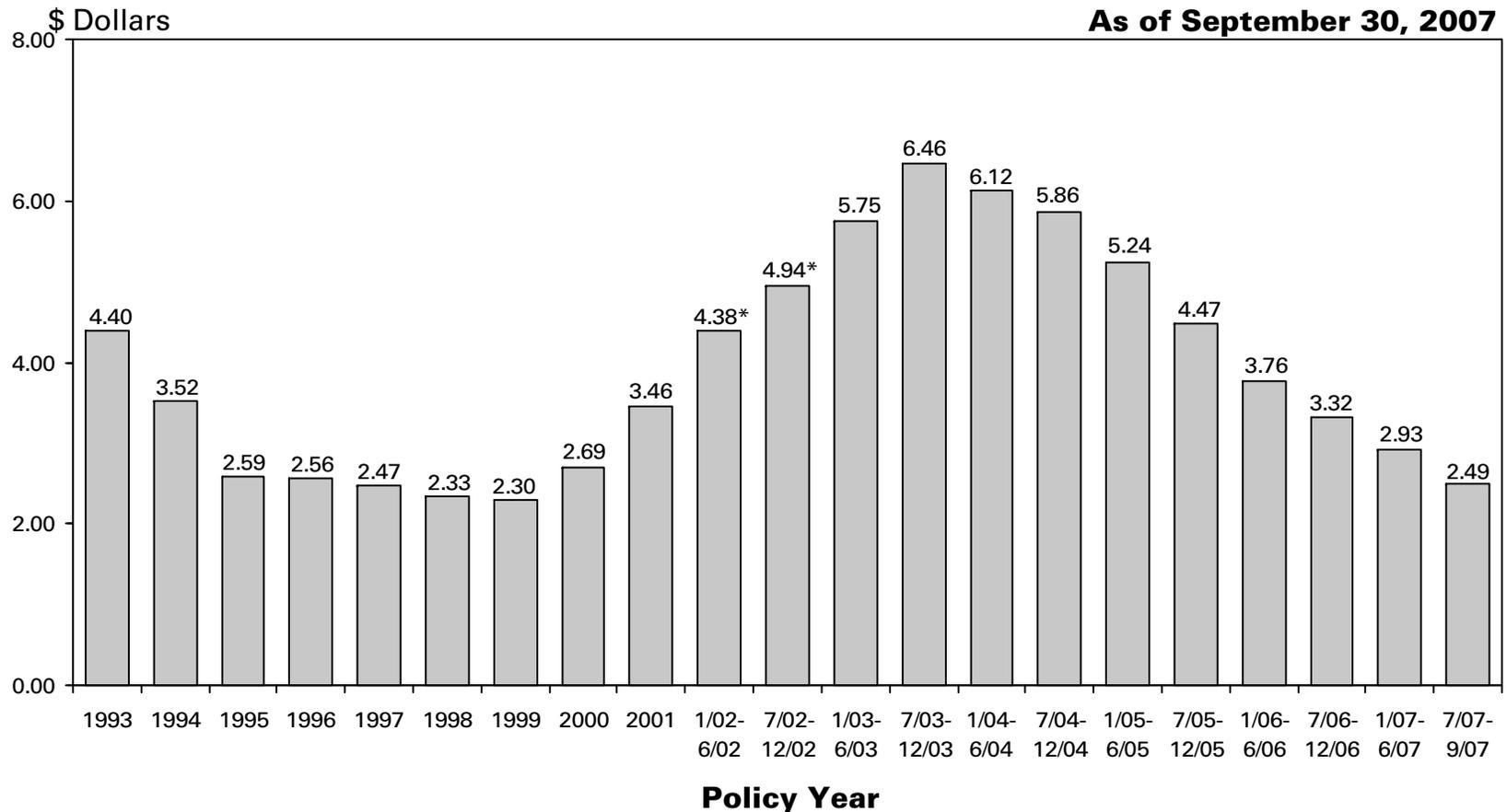
<sup>3</sup> Initial accident year severity projections based on 21 months of experience are potentially subject to significant change as loss information matures inasmuch as they reflect estimates of accident year ultimate losses based on paid losses as of 21 months as well as estimates of ultimate claim frequency.

<sup>4</sup> As discussed above, the estimated losses by accident year used in this calculation reflect the adjustment for the impact of the SB 228 fee schedule changes, SB 228 and SB 899 changes related to medical utilization, and SB 899 changes related to the January 1, 2005 Permanent Disability Rating Schedule on loss development projections.

# California Workers' Compensation Written Premium

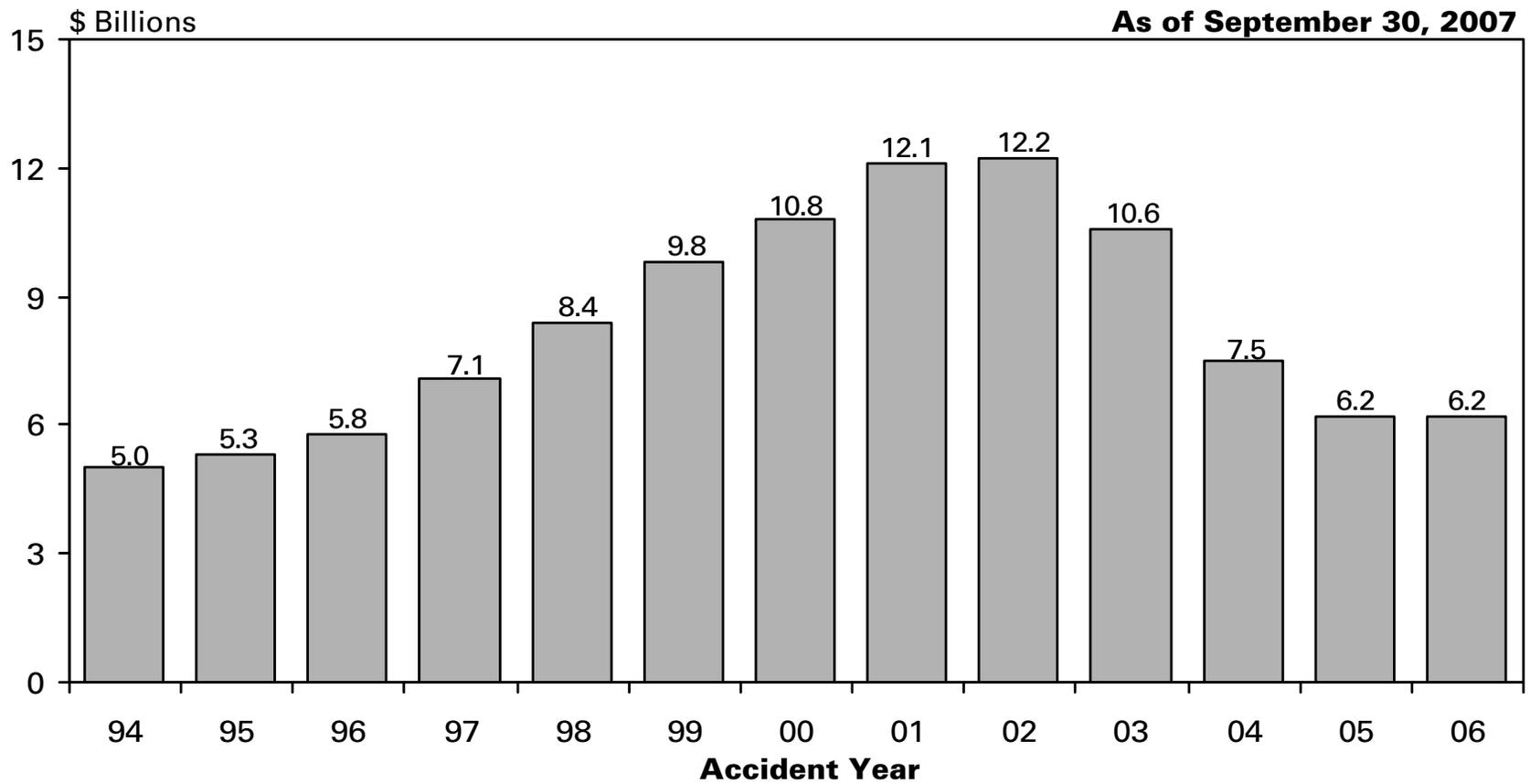


# California Workers' Compensation Average Insurer Rate per \$100 of Payroll

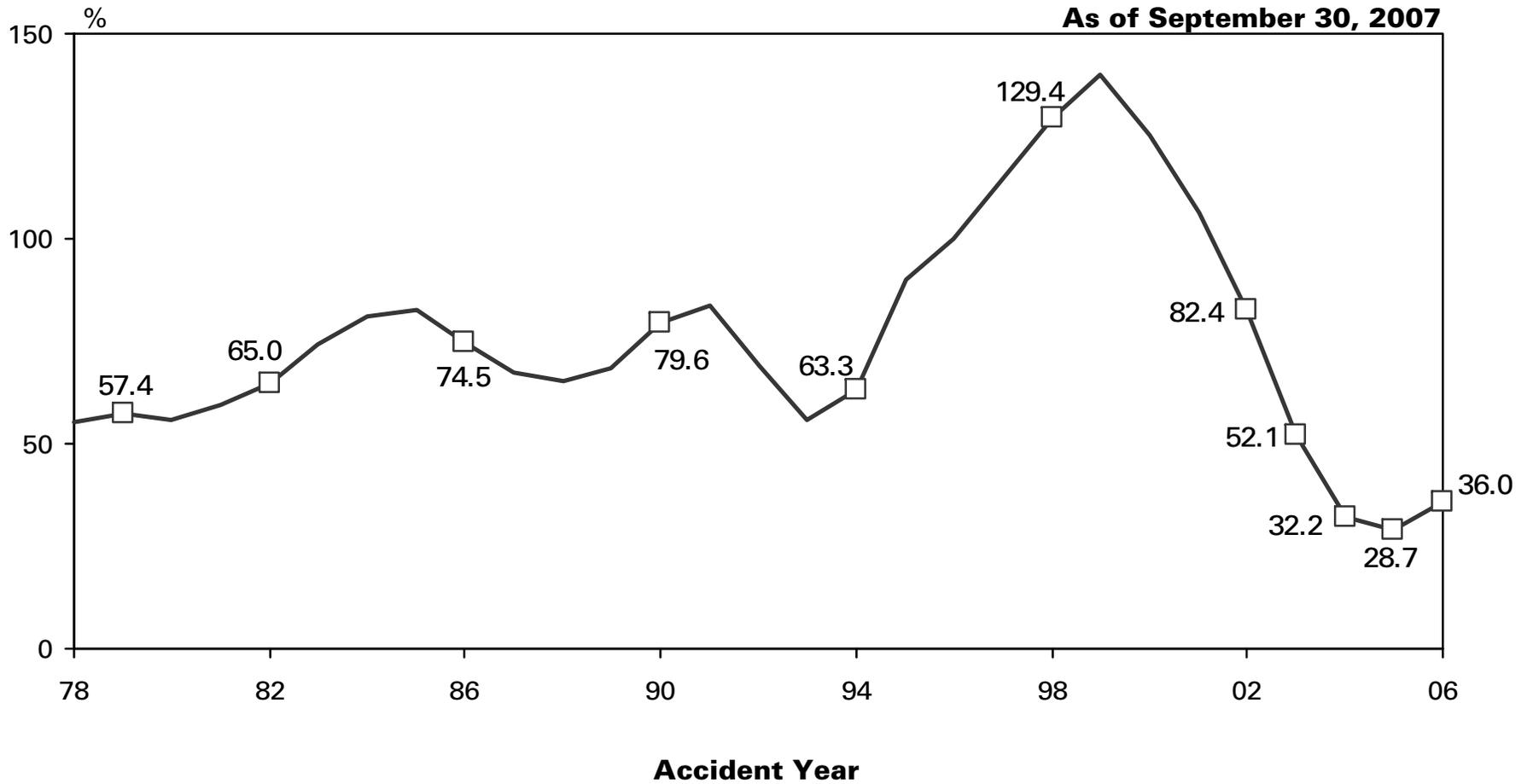


\* Excludes the impact of the adopted changes to outstanding policy year 2002 pure premium rates effective January 1, 2003.

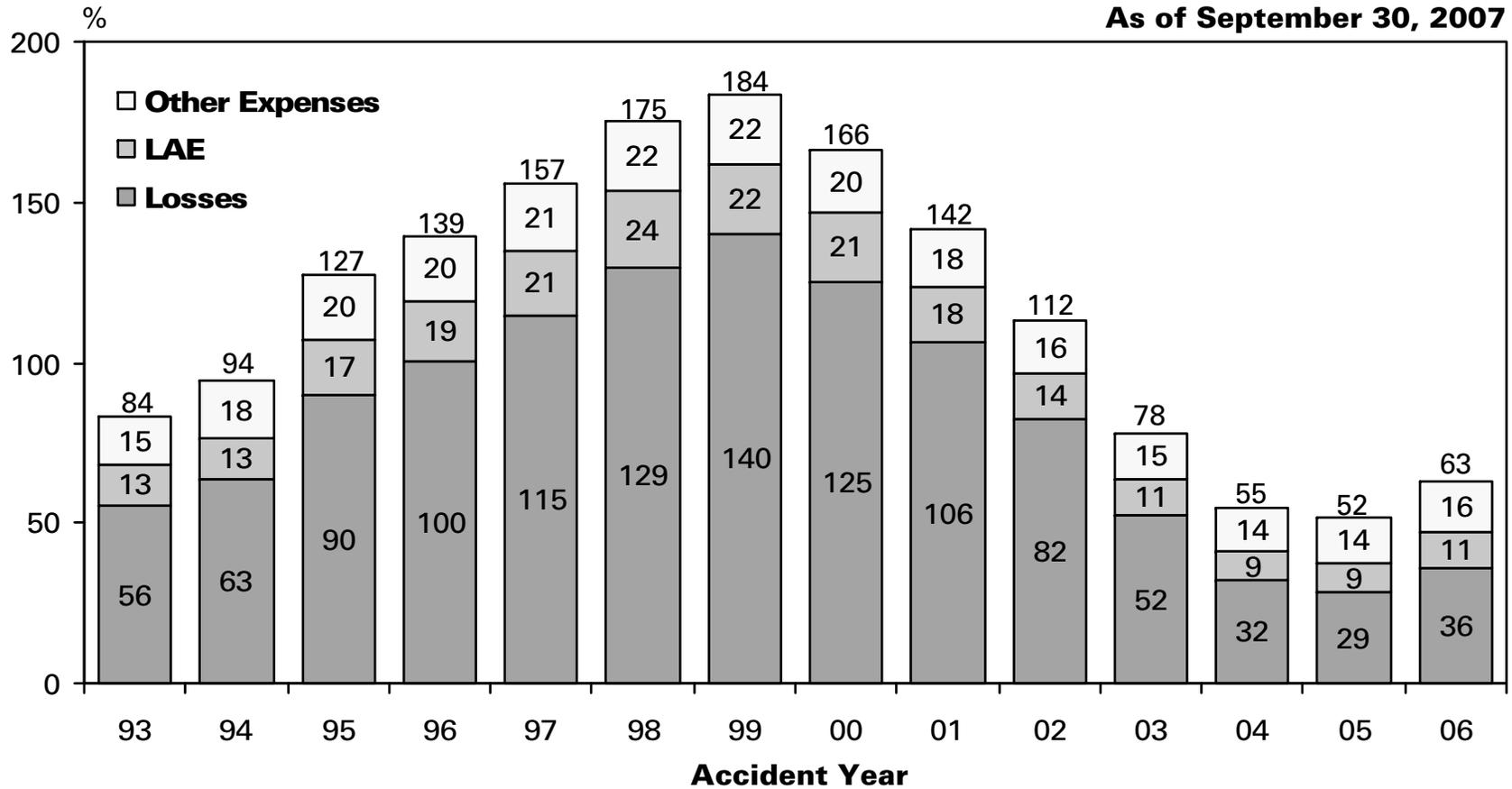
# California Workers' Compensation Estimated Ultimate Losses by Accident Year



# California Workers' Compensation Ultimate Accident Year Loss Ratios

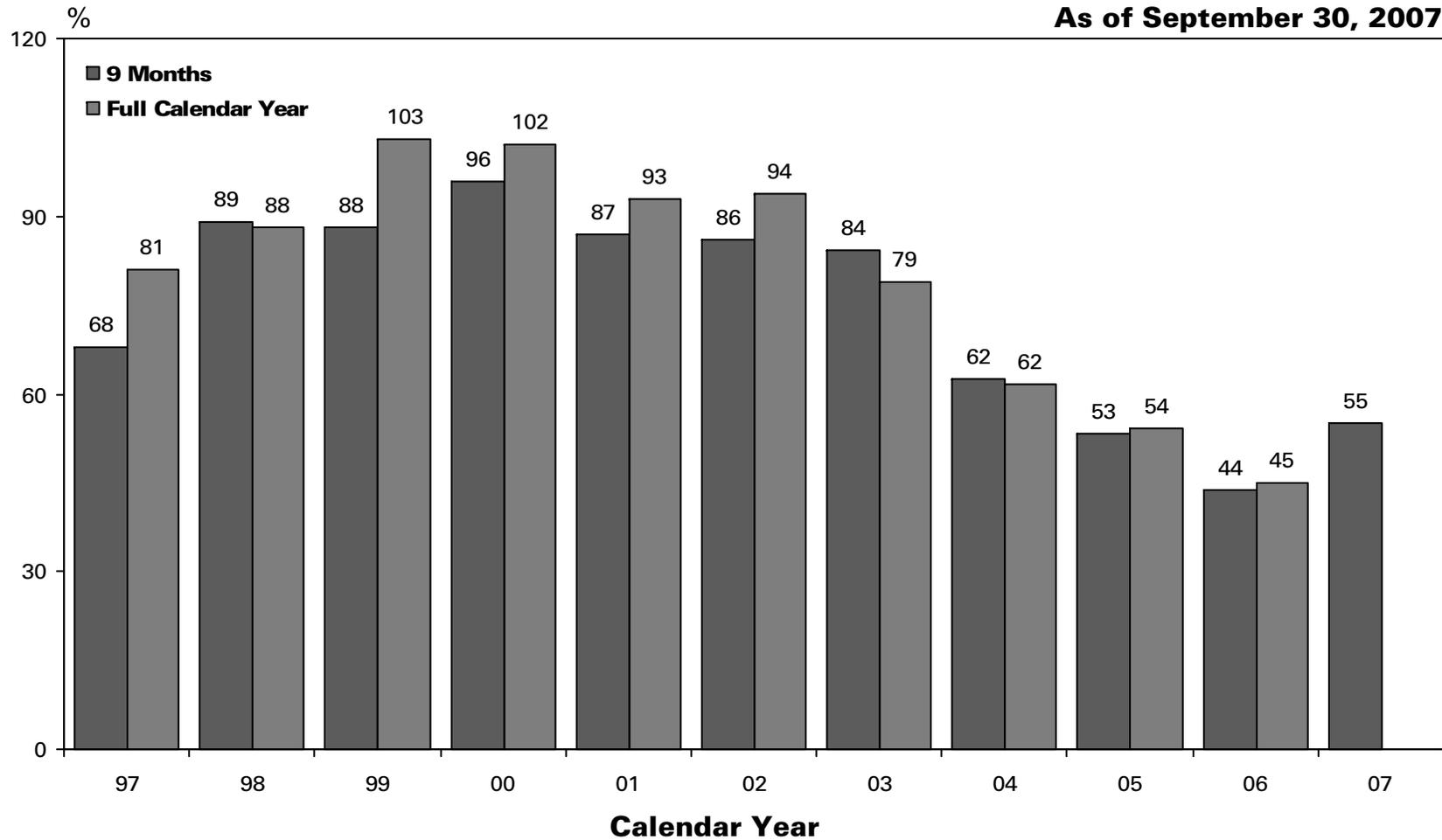


# California Workers' Compensation Accident Year Combined Loss and Expense Ratios

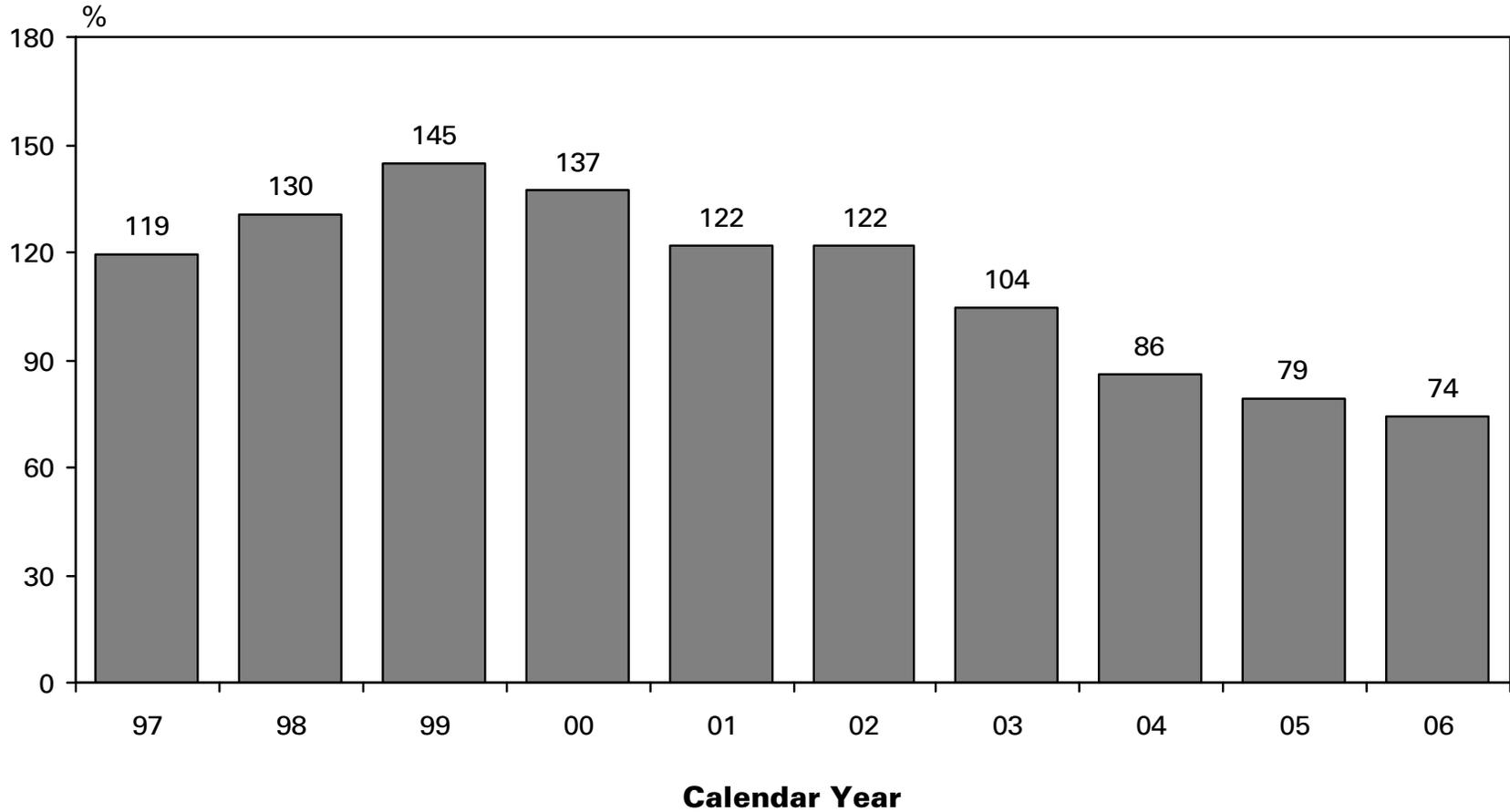


# California Workers' Compensation Calendar Period Loss Ratios

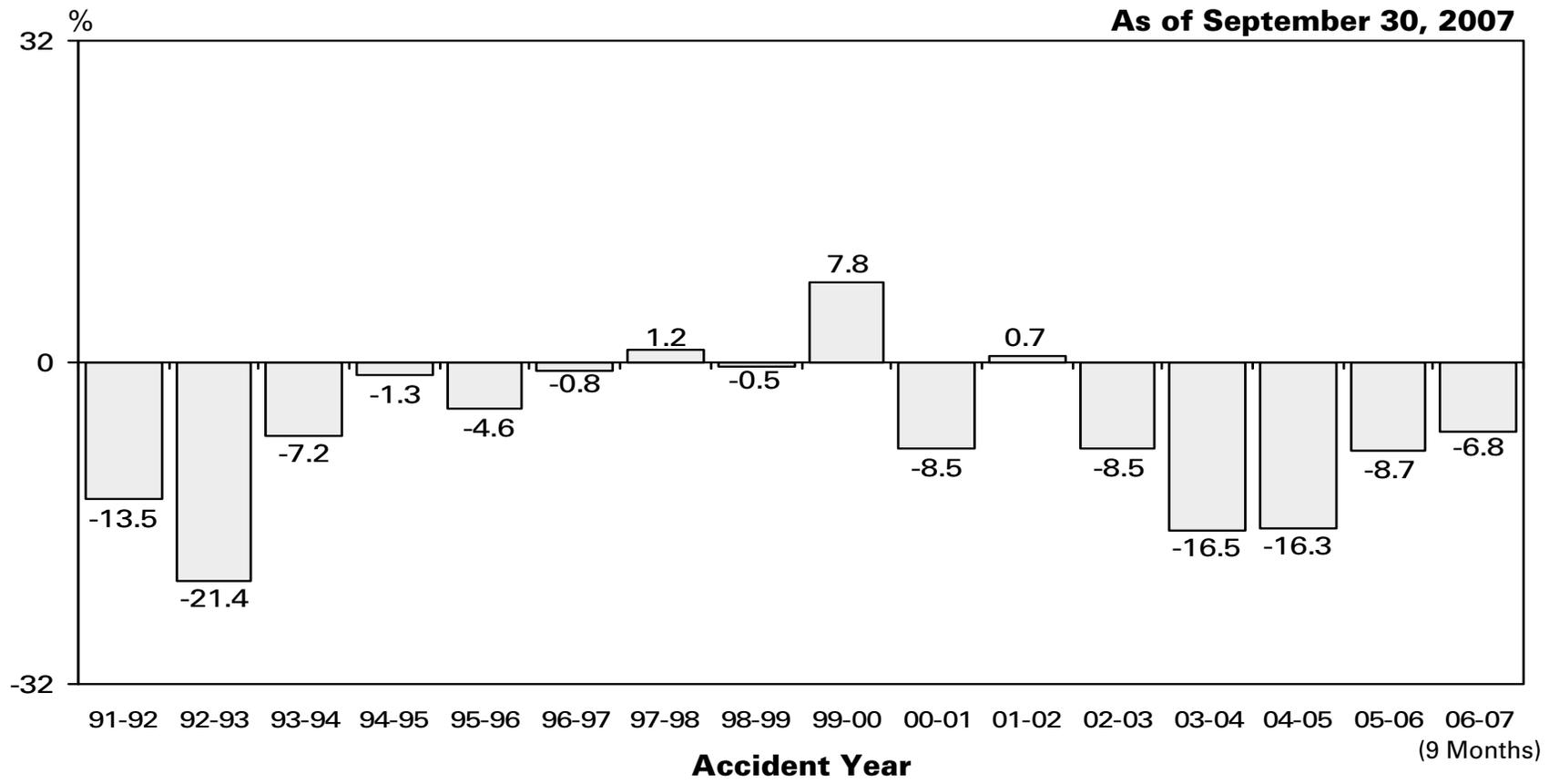
As of September 30, 2007



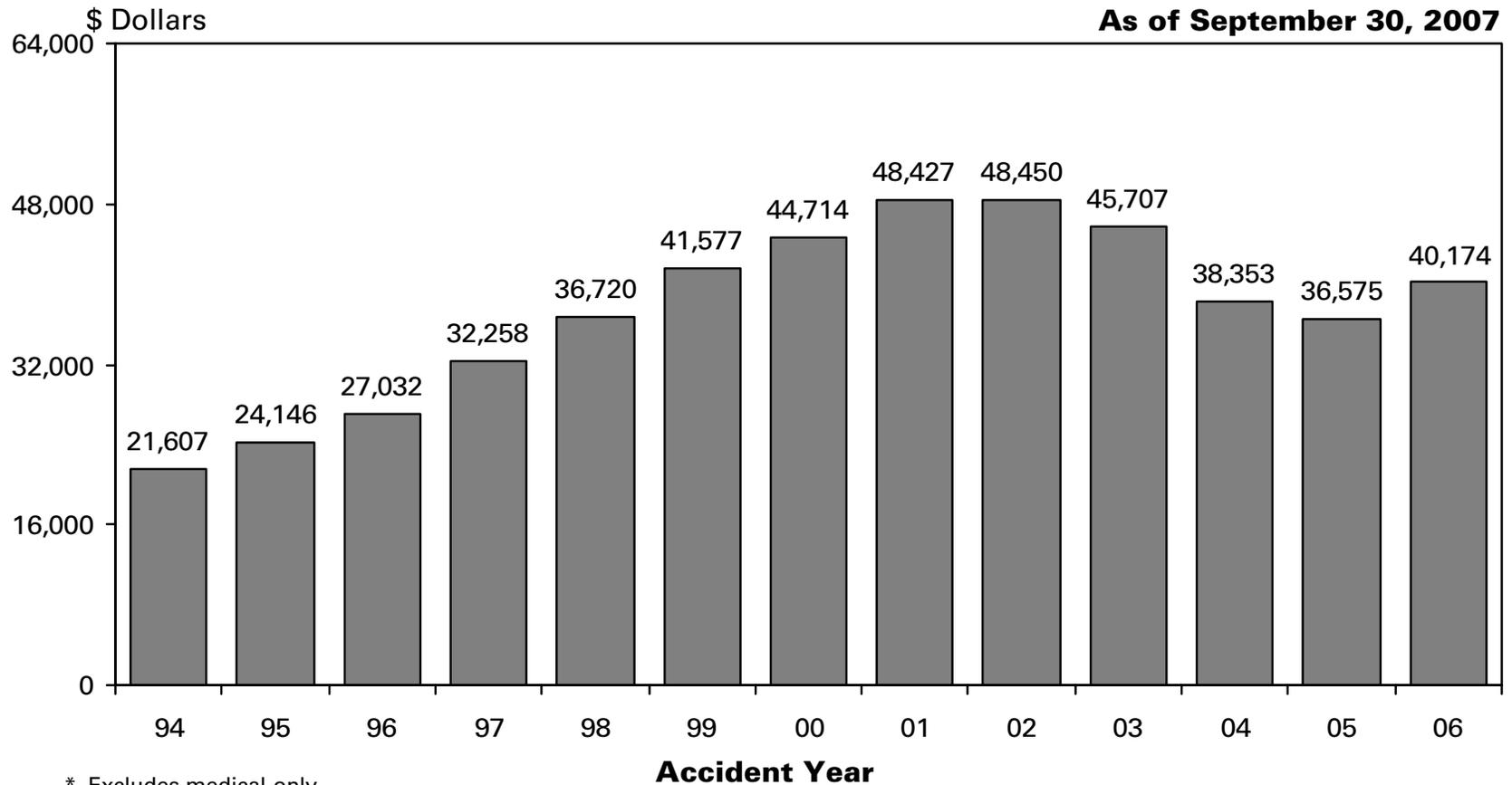
# California Workers' Compensation Calendar Year Combined Loss and Expense Ratios



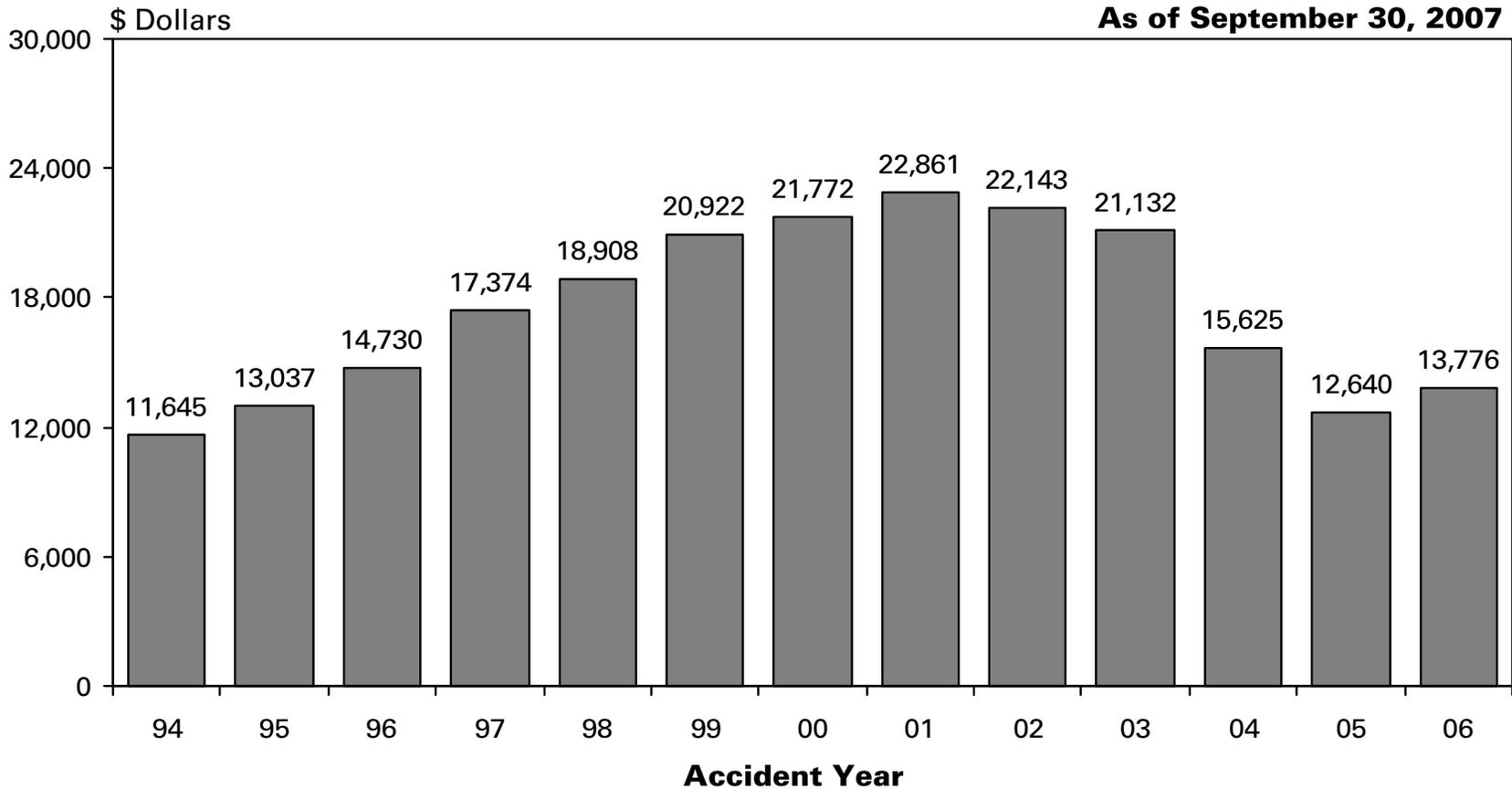
# California Workers' Compensation Estimated Percentage Change in Indemnity Claim Frequency by Accident Year



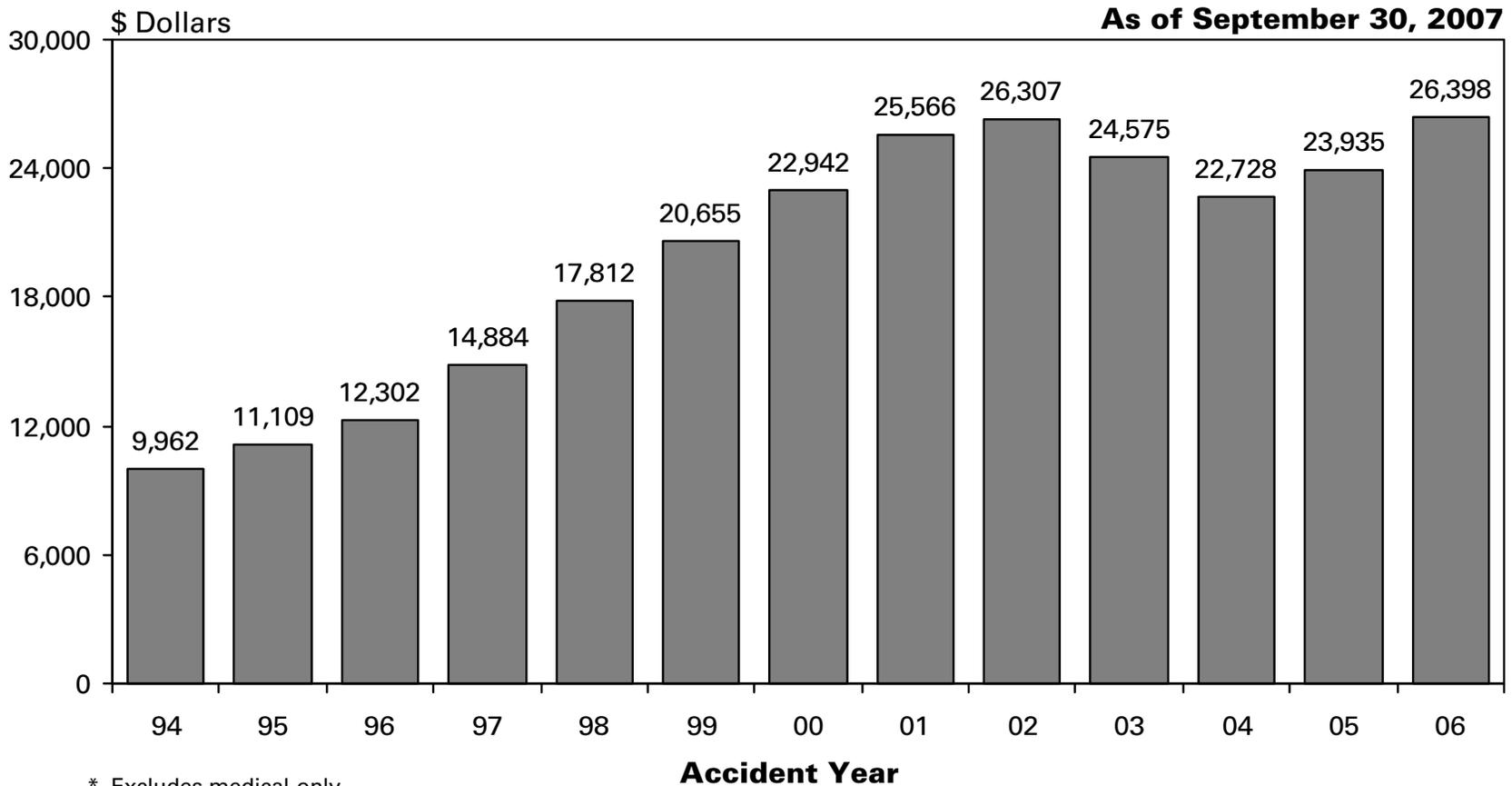
# California Workers' Compensation Estimated Ultimate Total Loss\* per Indemnity Claim



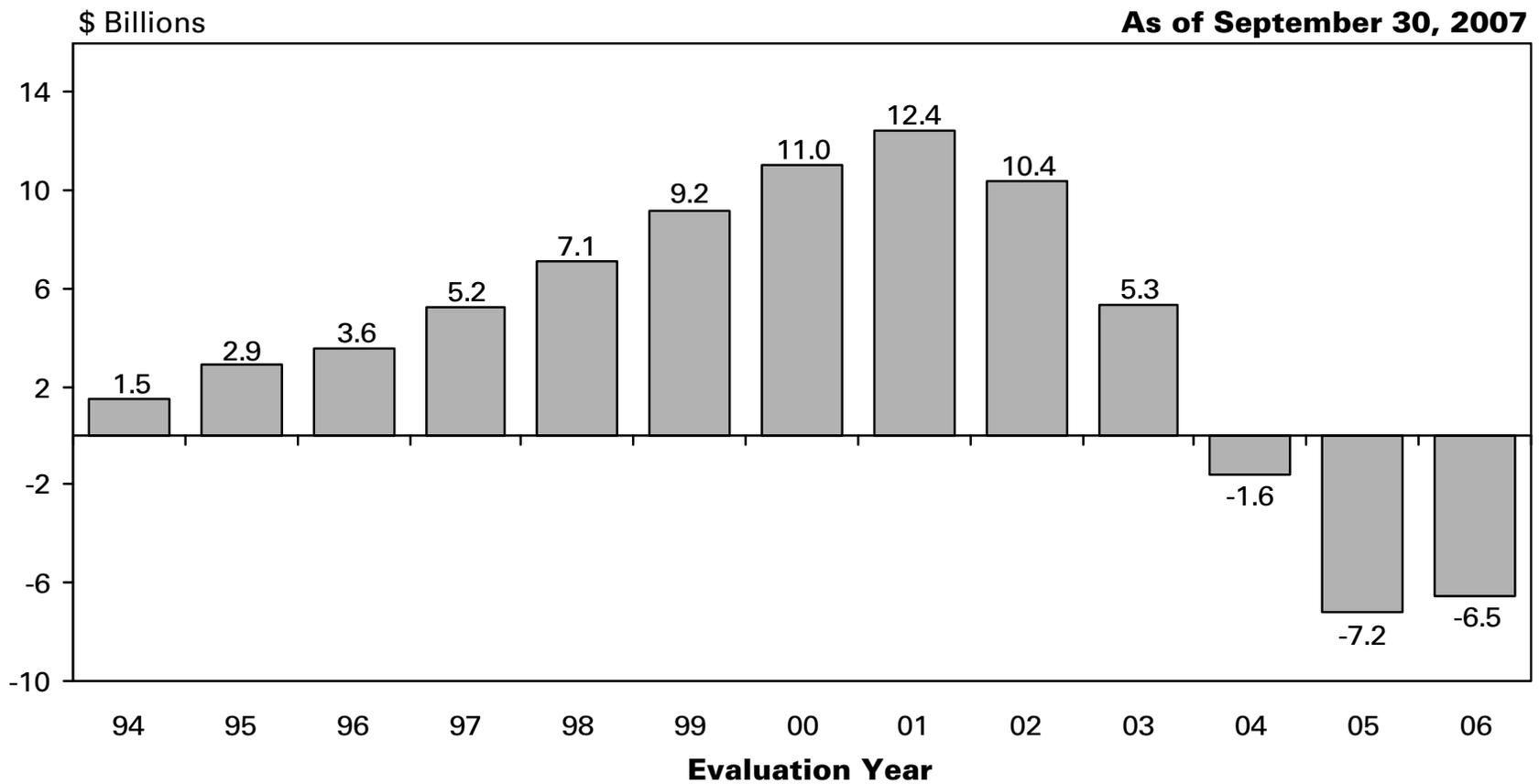
# California Workers' Compensation Estimated Ultimate Indemnity per Indemnity Claim



# California Workers' Compensation Estimated Ultimate Medical\* per Indemnity Claim

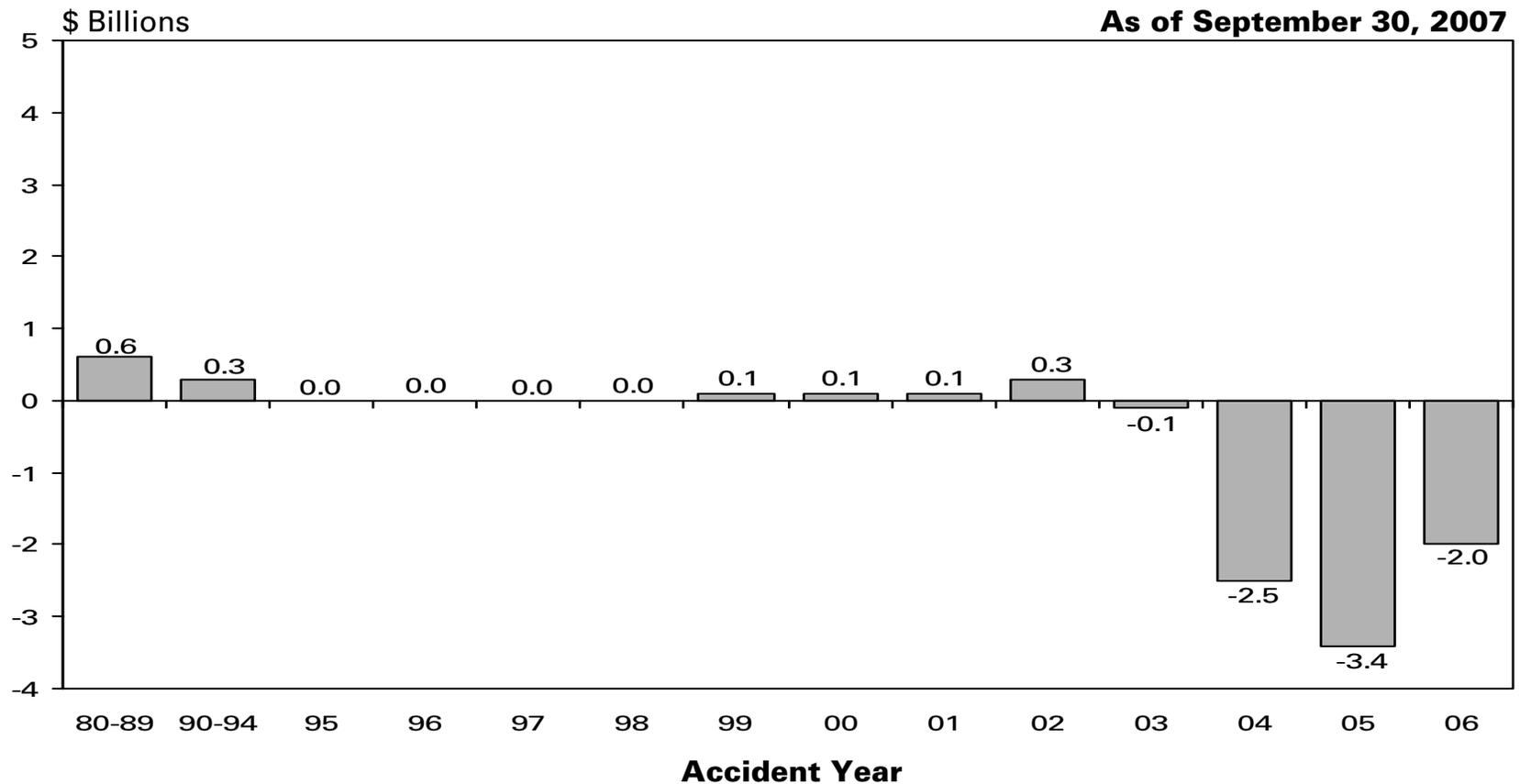


# California Workers' Compensation Estimated Ultimate Losses Less Reported Losses at Successive December 31 Evaluations



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# California Workers' Compensation Estimated Ultimate Losses as of September 30, 2007 Less Reported Losses at December 31, 2006



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