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### **California -- Projected Loss Ratio Down to 31% in California: Top [10/12/06]**

Workers' compensation rates charged to California employers in the first half of this year dropped 42% from their peak in late 2003, but insurers' loss ratios also plummeted to a record low, according to a report released by the Workers' Compensation Insurance Rating Bureau late Wednesday.

The rating bureau said in its latest summary of insurer experience that average premiums in California dropped to \$3.75 per \$100 of payroll, down from \$6.37 in the second half of 2003.

But the historically low ultimate accident year loss ratio of 31% suggests there is significant room for further cuts.

The rating bureau projected a 2005 calendar year loss and expense ratio of 55%, the third straight year that saw losses and claims adjusting expenses were less than 80 cents per \$1 in premium.

If the projection proves accurate, carriers will earn 45 cents on each dollar of premium they collected in 2005, not including income from investments.

But Sam Sorich, president of the Association of California Insurance Companies, cautioned that the rating bureau's summary is based on projections. He said each carrier has to develop its own comfort level with long-lasting workers' compensation claims, where true costs aren't known for the most expensive claims until years after the date of injury.

"All of these statistics are really a snapshot, a picture of how things look at a particular point in time," Sorich said. "I think the system is coming back into balance, and the fact that the loss ratio was at a particular point does not mean that the marketplace isn't continuing to adjust to put losses in line with premiums."

Other data in the rating bureau report:

\* Ultimate accident year losses for 2006 are projected to be \$6.7 billion, a 7% decrease from estimated ultimate losses in 2005 and a 44% drop from the ultimate losses currently projected for accident year 2002.

\* The calendar period loss ratio reported for the first six months of 2006 is 44%, 12 percentage points below the ratio for the first six months of 2005 and 10 percentage points below the full calendar year 2005 loss ratio. The calendar year combined ratio for 2005 is 79%.

\* Indemnity claim frequency for the first six months of 2006 is estimated to be 17% lower than for the first six months of 2005. The rating bureau estimates 2006 indemnity claim frequency is less than one-third of its all-time high in 1991 and 46% below the level estimated for 2002.

\* The projected average cost of a 2005 indemnity claim is \$39,600. This severity is 7% more than the estimated average cost of a 2004 indemnity claim, but still 16% less than the average cost of a 2002 claim. Both indemnity and medical average costs per claim show increases in 2005.

\* The rating bureau's current estimate of ultimate losses on all injuries that occurred on or before Dec. 31, 2005 is approximately \$7 billion less than the amounts reported by insurers. In particular, the WCIRB's current estimates of ultimate losses on accident years 2004 and 2005 are significantly less than those reported by insurers.

To download a copy of the rating bureau report, click [here](#).

Source: WorkCompCentral

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