



March 16, 2006

Circular 2006-06

To: All Members

Re: Profitability Results

The National Association of Insurance Commissioners (NAIC) recently released its latest report "*Report on Profitability by Line by State in 2004*" published in March 2006. The data used in this report were extracted from insurance company annual statements filed with the NAIC.

As has been the trend for over ten years, the latest **Indiana workers compensation results (16.8%) are better than the countrywide results (10.5%)**. Please see chart on next page. Indiana's results are fourth best in the country.

These positive results attract insurance companies to Indiana. *They want to do business here.* Because of the higher anticipated return on investments, there exists a pro-jobs economic climate. Insurance companies can afford to provide better quality jobs and increase payroll. And once doing business in Indiana, they are more inclined to keep operations here.

As proof of the attractive climate, an AM Best report **ranks Indiana 2 out of 51 states (including D.C.) in number of insurance company groups writing workers compensation** in the state at 114. In addition, Indiana ranks 4 out of 51 states in total number of individual workers compensation writers in the state at 393.

A key strategy of the Indiana Economic Development Corporation is to find good companies to pursue, identify economic tools used by other states that Indiana could adopt, and eliminate ineffective incentives. Fortunately Indiana enjoys a strong economic tool to attract business to the state in our healthy workers compensation insurance climate.

This climate is favorable for both insurance companies and their customers – our Hoosier employers who buy over 100,000 workers compensation insurance policies every year. A state of Oregon report shows **Indiana employer rates for workers compensation are the second lowest in the country**. As the most cost-effective state rating bureau in the country, the ICRB continually commits to its core value to be the "best deal" for Indiana business.

Sincerely,

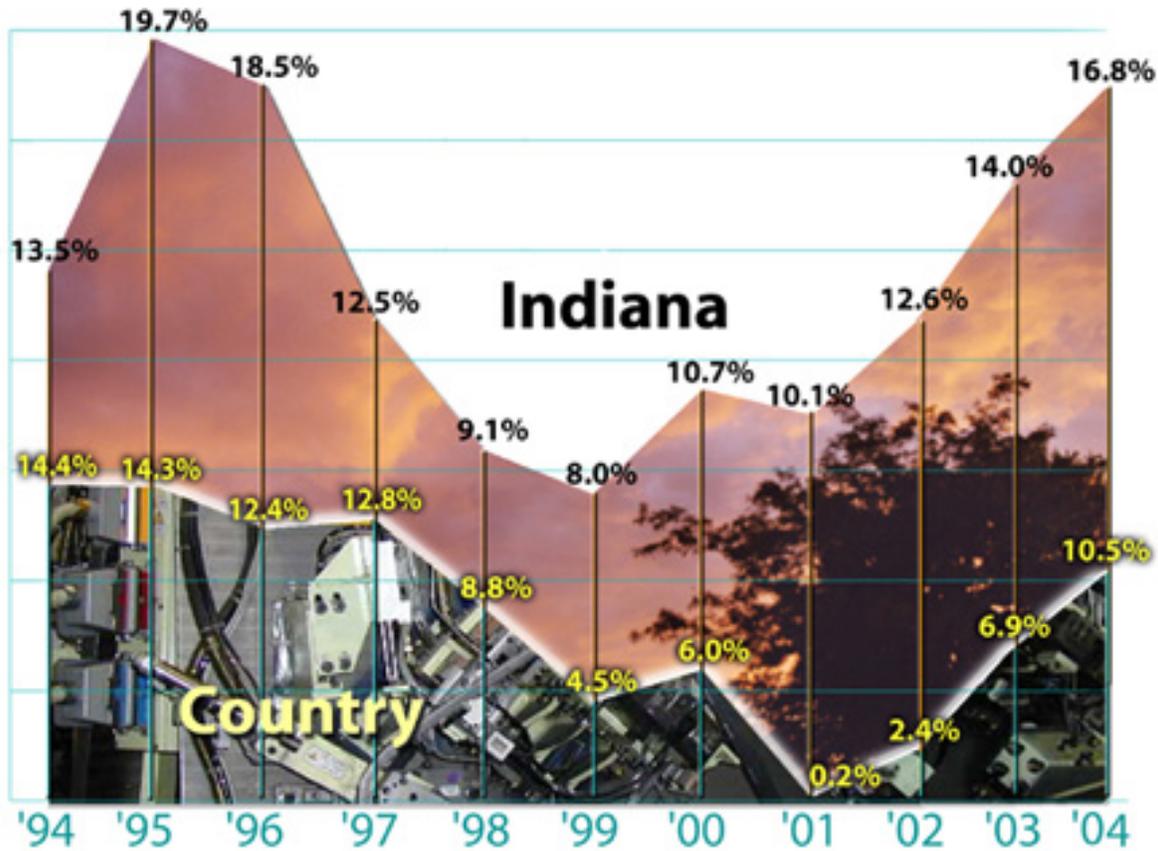
Ronald W. Cooper, CWCP
President

Attachments: WC Results – Profitability

WC Results - Profitability

Whereas combined ratios exclude the effect of investment income, return on net worth includes return on investment. Return on net worth therefore, is an important measure when looking at the success of a line of insurance since large sums of money are set aside for the payment of future losses (reserves). This is especially relevant for the workers compensation line.

The return on net worth calculation helps to evaluate the profits earned in relation to the net worth that is committed to that market. The return is equal to profit after taxes divided by allocated capital and surplus adjusted to place it on a GAAP basis.



**Percent of Direct Premiums Earned
Return on Net Worth**

Source: NAIC "Profitability by Line by State in 2004" published March 2006

Disclaimers:

1. NAIC recommends that readers be aware of caveats and limitations on the uses of these data and should read disclaimers in introduction of report.
2. NAIC report is intended to be an important starting point that could be combined with other information in a complete market performance analysis.
3. NAIC feels that the usefulness of showing return on net worth by state and by line outweighs the fact that it may not exactly match any actual process undertaken by individual carriers.