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Date: May 4, 2021

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial and President’s Report: 1Q 2021
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO and Peter Guastamachio, Chief Financial Officer
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

- Net premiums earned of \$286 million were 25.3% higher than prior year
- Combined ratio of 139.6% was 8.8 points higher than the same period in the prior year.
- Net income of \$50 million was \$29 million lower than the same period last year.
- Policyholders’ surplus increased by \$56 million since December 31, 2020.

VI. ANALYSIS /BACKGROUND:

- Statutory financial results are filed with the California Department of Insurance and the National Association of Insurance Commissioners on a quarterly basis.
- Highlights are also shared with the Board on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Three Months Ended March 31, 2021

The following summarizes our statutory financial results for the three months ended March 31, 2021. Our results reflect an increase in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$286 million were 25.3% higher than prior year mainly due a \$45 million reduction in estimated audit premium in prior year and none this year.
 - The 2021 loss and loss adjustment expense (LAE) ratios were 74.2% and 26.3%, respectively. Together these ratios were 7.4 points higher compared to last year mainly due to the projected negative impact of COVID-19 pandemic and increased reserves in transportation more specifically parcel delivery.
 - Underwriting expense ratio of 39.1% was 1.5 points higher than the same period in the prior year due to higher commissions.
 - The combined ratio of 139.6% was 8.8 points higher compared to the same period last year. Loss ratio was higher by 4.2 points because of medical legal fees schedule and Covid claims. LAE ratio was higher by 3.1 points due to \$10 million reserve release in prior year and none this year.
- Investment and other non-underwriting results
 - Net investment income of \$136 million was \$21 million lower than the prior year mainly due to lower interest rates and increased amortization expense.
 - Realized capital gains of \$21 million were \$8 million higher than prior year.
 - Other income this year represents charge-off recoveries and a change in the charge-off policy that became effective this year.
- Net income and policyholders' surplus
 - Net income of \$50 million was \$29 million lower than the same period in the prior year due to \$21 million increase in underwriting loss and \$21 million decrease in net investment income, offset by \$13 million increase in realized capital gain and other income.
 - Policyholders' surplus went up by \$56 million since December 31, 2020. This increase was attributed to the net income of \$50 million, an increase of \$21 million in unrealized capital gains, offset by a decrease of \$15 million in non-admitted assets.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2020 Actual	2021 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	228	286	58	25.3%
Losses	160	212	52	32.8%
Loss adjustment expenses (LAE)	53	75	22	42.2%
Underwriting (UW) expenses	106	110	4	4.1%
Underwriting results	(90)	(112)	(21)	-23.7%
Net investment income	157	136	(21)	-13.1%
Realized capital gain (loss)	13	21	8	63.8%
Other income (expense)	(0)	5	5	3040.5%
Net income (loss)	79	50	(29)	-36.6%

Standard Industry Ratios

Loss ratio	70.0%	74.2%	4.2%
LAE ratio	23.2%	26.3%	3.1%
Loss and LAE ratio	93.2%	100.5%	7.4%
UW expense ratio	37.6%	39.1%	1.5%
Combined ratio	130.8%	139.6%	8.8%

Numbers or ratios may not foot due to rounding.

Dash (-) represents a null value.

Zero (0) represents a calculated zero or number which rounds to zero

Green represents better than plan and prior year.

Red represents worse than plan and prior year.