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Date: August 2, 2023

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE:</b>	Open Agenda Item 5 – Financial and President’s Report: 2Q 2023
<b>II. NAME AND PROGRAM:</b>	Vernon Steiner, President and CEO Peter Guastamachio, Chief Financial Officer
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<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 \$554 million were 6.4% lower than prior year.
- Combined ratio of 143.8% was 6.5 points higher than the same period in the prior year.
- Net income of \$49 million was \$43 million higher than the same period last year.
- Policyholders’ surplus increased by \$27 million since December 31, 2022.

**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**  
**Six Months Ended June 30, 2023**

The following summarizes our statutory financial results for the six months ended June 30, 2023. Our results reflect a decrease in premiums earned and an increase in policyholders' surplus.

- Underwriting results
  - Net premiums earned of \$554 million were 6.4% lower than prior year due to less new and renewal business written.
  - The 2023 loss and loss adjustment expense (LAE) ratios were 78.2% and 25.8%, respectively. Together these ratios were 4.5 points higher compared to last year. Our loss ratio was higher by 7.8 points mainly due to \$75 million reserve release in June 2022 and none this year. The LAE ratio was lower by 3.3 points due to decrease in actuarial estimate in general salary adjustment and claims adjustment cost, and continuous improvement on the claims closing rate.
  - The underwriting expense ratio of 39.8% was 2.1 points higher than the same period in the prior year mainly due to \$36 million decrease in net premiums written in spite of decrease in underwriting expenses of \$2 million.
  - The combined ratio of 143.8% was 6.5 points higher compared to the same period last year mainly due to the above-mentioned increases in loss and underwriting expense ratios, partially offset by the decrease in LAE ratio.
- Investment and other non-underwriting results
  - Net investment income of \$278 million was \$19 million higher than the prior year due to increase in reinvestment rates and income from additional investments acquired. State Fund is purchasing bonds at yields higher than our current book yields. Realized capital gain of \$12 million were \$9 million lower than the prior year mainly due to equity impairments and slow recovery on the equity portfolio.
  - Other income of \$4 million this year is mostly due to charge-off recoveries.
- Net income and policyholders' surplus
  - Net income of \$49 million was \$43 million higher than prior year mainly due to the total declared dividends of \$59 million in February 2022 for policies that incepted from January 1, 2021 through December 31, 2021 and \$19 million increase in investment income, offset by \$23 million increase in underwriting loss, and \$12 million decrease in realized capital gains and other income.

**STATE COMPENSATION INSURANCE FUND**  
**Report on Statutory Financial Results**  
**Six Months Ended June 30, 2023**

- Policyholders' surplus grew by \$27 million since December 31, 2022. This increase was attributed to the net income of \$49 million, a net increase of \$6 million in unrealized capital gains in equities and alternative investments, offset by an unfavorable increase of \$28 million in non-admitted assets.

Financial Results (\$ millions)	2023 Actual	2022 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	554	591	(38)	-6.4%
Losses	433	416	16	3.9%
Loss adjustment expenses (LAE)	143	172	(29)	-17.0%
Underwriting (UW) expenses	223	225	(2)	-0.9%
Underwriting results	(245)	(222)	(23)	-10.3%
Net investment income	278	259	19	7.5%
Realized capital gain (loss)	12	21	(9)	-44.0%
Other income (expense)	4	8	(4)	-47.5%
Income before dividends to policyholders	49	65	(16)	-24.8%
Dividends to policyholders (credits)	-	59	(59)	n/a
Net income (loss)	49	6	43	714.3%
<b>Standard Industry Ratios</b>				
Loss ratio	78.2%	70.4%		7.8%
LAE ratio	25.8%	29.1%		-3.3%
Loss and LAE ratio	104.0%	99.5%		4.5%
UW expense ratio	39.8%	37.8%		2.1%
Combined ratio	143.8%	137.3%		6.5%

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.