



333 Bush Street
 San Francisco, CA 94104
 (415) 263-5400
www.statefundca.com

Date: August 14, 2020

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 4 – Financial and President’s Report: 2Q 2020
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO
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 \$468 million were 20.3% lower than prior year because State Fund filed a rate decrease of 10%, the reduction of estimated audit premium bills, and the impact of COVID-19.
- Combined ratio of 145.7% was 10.7 points higher than the same period in the prior year mainly due to the decrease in written premiums and increase in underwriting expenses.
- Net income of \$98 million was \$23 million lower than the same period last year.
- Policyholders’ surplus decreased by \$57 million since December 31, 2019.

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, 2020

The following summarizes our statutory financial results for the six months ended June 30, 2020. Our results reflect a decrease in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$468 million were 20.3% lower than prior year mainly due to the reduction of estimated audit premium bills of \$45 million, lower audit premium, decrease in rate filed of 10%, and the impact of COVID-19.
 - Loss and loss adjustment expenses (LAE) ratio of 99.8% was unchanged compared to the same period last year.
 - Underwriting expense ratio of 45.9% was 10.7 points higher than the same period in the prior year due to \$67 million decrease in written premiums and \$32 million increase in underwriting expenses of which \$18.5 million was from COVID-19 Safety Funds.
- The combined ratio of 145.7% was 10.7 points higher than the same period last year mainly due to the decrease in written premiums and increase in underwriting expenses.
- Investment and other non-underwriting results
 - Net investment income of \$301 million was \$19 million lower than the prior year mainly due to federal funds' interest rate cuts this year which lowered our reinvestment rates on the investment portfolio.
 - Realized capital gains of \$39 million were \$9 million lower than prior year, however, we did see \$17 million in bond gains as we implemented our Environmental, Social, Governance (ESG) initiative to reduce our carbon footprint. Other expenses, mostly representing charge-offs of uncollectible premiums were \$37 million higher in the prior year than this year. AB 2883 resulted in unusually high audited premium billings in 2018, part of which were charged off in 2019. This was a one-time occurrence.
- Net income and policyholders' surplus
 - Net income of \$98 million was \$23 million lower than the same period in the prior year mainly due to the increase in underwriting expenses, decrease in investment income and realized capital gains, partially offset by the decline in charge-offs of uncollectible premium mentioned above.
 - Policyholders' Surplus went down by \$57 million since December 31, 2019. This was mainly due to the reclassification of \$42 million of restricted surplus to recognize State Fund's share of Other Post Employment Benefit (OPEB). Additionally, there was an unfavorable change in unrealized capital gains in our stock portfolio which was a result of COVID-19 pandemic, a drop in the price of oil, and the following recession.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Six Months Ended June 30, 2020

Financial Results (\$ millions)	2019 Actual	2020 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	587	468	(119)	-20.3%
Losses	411	327	(83)	-20.3%
Loss adjustment expenses (LAE)	175	139	(36)	-20.3%
Underwriting (UW) expenses	208	240	32	15.6%
Underwriting results	(207)	(239)	(32)	-15.7%
Net investment income	320	301	(19)	-6.0%
Realized capital gain (loss)	48	39	(9)	-18.8%
Other income (expense)	(40)	(3)	37	92.2%
Income before dividends to policyholders	121	98	(23)	-19.3%
Dividends to policyholders (credits)	(0)	(0)	0	n/a
Net income (loss)	121	98	(23)	-19.3%
Standard Industry Ratios				
Loss ratio	70.0%	70.0%		-
LAE ratio	29.8%	29.8%		0.0%
Loss and LAE ratio	99.8%	99.8%		0.0%
UW expense ratio	35.2%	45.9%		10.7%
Combined ratio	135.1%	145.7%		10.7%

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.