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Date: November 2, 2021

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Financial and President’s Report: 3Q 2021
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO 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 \$910 million were 23.8% higher than prior year.
- Combined ratio of 140.8% was 1 point higher than the same period in the prior year.
- Net income of \$135 million was \$25 million higher than the same period last year.
- Policyholders’ surplus increased by \$138 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
Nine Months Ended September 30, 2021

The following summarizes our statutory financial results for the nine months ended September 30, 2021. Our results reflect an increase in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$910 million were 23.8% higher than prior year mainly due to an increase in reported payroll policies resulting from reopening of businesses and due to a \$45 million reduction in estimated audit premium last year.
 - The 2021 loss and loss adjustment expense (LAE) ratios were 74.6% and 26.2%, respectively. Together these ratios were 8.5 points higher compared to last year. Loss ratio was higher by 4.6 points because of COVID claims, increased medical legal fees and increased reserves in transportation more specifically parcel delivery. LAE ratio was higher by 3.9 points mainly due to lower LAE reserve release this year, increase in salary and other claims adjustment cost, and higher reported claims count in transportation, manufacturing, and retail.
 - Underwriting expense ratio of 40.1% was 7.5 points lower than the same period in the prior year mainly due to the increase in premiums written compared to last year and a decrease to underwriting expense represented by the \$37 million COVID-19 Safety Funds incurred last year and none this year.
 - The combined ratio of 140.8% was 1 point higher compared to the same period last year mainly due to the increase of loss and LAE ratios, mostly offset by the decrease of underwriting expense ratio.

- Investment and other non-underwriting results
 - Net investment income of \$394 million was \$44 million lower than the prior year mainly due to the lower interest rates and increased amortization expenses. Realized capital gains of \$89 million were \$19 million higher than prior year due to increase in gain on sale of equity investments.
 - Other income of \$19 million 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 before dividends to policyholders of \$135 million was \$50 million lower than prior year due to \$51 million increase in underwriting loss and \$44 million decrease in net investment income, offset by \$45 million increase in other income and realized capital gain. Net income after dividends to policyholders of \$135 million was \$25 million higher than last year because of the aforementioned reasons and State Fund's \$75 million declared dividends to policyholders in August 2020 but none this year.
 - Policyholders' surplus went up by \$138 million since December 31, 2020. This increase is a result of the net income of \$135 million, an increase of \$35 million in unrealized capital gains, offset by an unfavorable increase of \$32 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)	735	910	175	23.8%
Losses	514	679	165	32.0%
Loss adjustment expenses (LAE)	164	238	74	45.4%
Underwriting (UW) expenses	373	360	(13)	-3.4%
Underwriting results	(316)	(367)	(51)	-16.1%
Net investment income	438	394	(44)	-10.1%
Realized capital gain (loss)	71	89	19	26.4%
Other income (expense)	(8)	19	27	352.2%
Income before dividends to policyholders	185	135	(50)	-26.9%
Dividends to policyholders (credits)	75	(0)	(75)	-100.0%
Net income (loss)	110	135	25	23.2%
Standard Industry Ratios				
Loss ratio	70.0%	74.6%		4.6%
LAE ratio	22.3%	26.2%		3.9%
Loss and LAE ratio	92.3%	100.8%		8.5%
UW expense ratio	47.5%	40.1%		-7.5%
Combined ratio	139.8%	140.8%		1.0%

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.