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Date: February 1, 2019

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 20 – Financial and President’s Report: Year Ended December 31, 2018
II. NAME AND PROGRAM:	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 \$1.3 billion were 1.9% higher than prior year.
- Combined ratio of 134.7% was 15 points lower than prior year.
- Net income of \$187 million was \$146 million higher than prior year.
- Policyholders’ surplus grew by \$60 million since December 31, 2017.

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
Year Ended December 31, 2018

The following summarizes our statutory financial results for the year ended December 31, 2018. Our results reflect an increase in premiums earned and increase in policyholders' surplus.

- Underwriting results
 - Due to the nature of our business, our underwriting results are significantly impacted by the dynamics that affect California business including economic conditions, market pricing as well as the effects of the insurance profitability cycle.
 - Net premiums earned of \$1.3 billion were 1.9% higher than the prior year.
 - Loss and loss adjustment expenses (LAE) ratio of 99.3% were 18 points lower than prior year mainly due to strengthening of LAE reserves in 2017 which included shift of \$448M from loss reserves and additional \$217M strengthening for prior year accident years.
 - Underwriting expense ratio of 35.4% was 3 points higher than prior year.
 - Combined ratio of 134.7% was 15 points lower than prior year mainly due to strengthening of LAE reserves in 2017.
- Investment and other non-underwriting results
 - Net investment income of \$622 million was \$3 million higher than prior year.
 - Realized capital gains of \$72 million were \$50 million lower than prior year. This was mainly the result of abnormally higher capital gains realized in 2017 due the termination of an equity portfolio manager.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$5 million higher than prior year.
- Net income and policyholders' surplus
 - Net income of \$187 million was \$146 million higher than prior year mainly due to strengthening of LAE reserves in 2017.
 - Policyholders' surplus grew by \$60 million since December 31, 2017.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2018

Financial Results (\$ millions)	2017 Actual	2018 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,310	1,334	24	1.9%
Losses	521	961	439	84.2%
Loss adjustment expenses (LAE)	1,014	364	(649)	-64.1%
Underwriting (UW) expenses	433	470	36	8.4%
Underwriting results	(658)	(460)	198	30.1%
Net investment income	619	622	3	0.5%
Realized capital gain (loss)	122	72	(50)	-40.7%
Other income (expense)	(43)	(48)	(5)	-12.6%
Income before dividends to policyholders	41	187	146	360.5%
Dividends to policyholders (credits)	0	0	(0)	-92.2%
Net income (loss)	40	187	146	361.5%
Standard Industry Ratios				
Loss ratio	39.8%	72.0%		32.2%
LAE ratio	77.4%	27.3%		-50.1%
Loss and LAE ratio	117.2%	99.3%		-17.9%
UW expense ratio	32.2%	35.4%		3.2%
Combined ratio	149.4%	134.7%		-14.7%

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 prior year.

Red represents worse than prior year.