



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

Date: November 2, 2018

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 20 – Financial and President’s Report
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 \$1,024 million were 0.4% lower than prior year.
- Combined ratio of 133.2% was slightly lower than prior year.
- Net income of \$150 million was \$60 million lower than prior year.
- Policyholders’ surplus grew by \$123 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
Nine Months Ended September 30, 2018

The following summarizes our statutory financial results for the nine months ended September 30, 2018. Our results reflect a slight decrease 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 \$1,024 million were 0.4% lower than the prior year mainly due to the net effect of the decrease in renewal business and increase in audited premium.
 - Loss and loss adjustment expenses (LAE) ratio of 99.3% were 1 point lower than prior year.
 - Underwriting expense ratio of 33.9% was 1 point higher than prior year.
 - Combined ratio of 133.2% was slightly lower than prior year mainly due to lower underwriting loss.
- Investment and other non-underwriting results
 - Net investment income of \$465 million was \$4 million lower than prior year.
 - Realized capital gains of \$59 million were \$55 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 \$3 million higher than prior year.
- Net income and policyholders' surplus
 - Net income of \$150 million was \$60 million lower than prior year mainly due to lower realized capital gains.
 - Policyholders' surplus grew by \$123 million since December 31, 2017.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2018

Financial Results (\$ millions)	2017 Actual	2018 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,028	1,024	(4)	-0.4%
Losses	761	737	(24)	-3.1%
Loss adjustment expenses	273	280	6	2.2%
Underwriting (UW) expenses	334	344	10	3.0%
Underwriting results	(340)	(336)	3	1.0%
Net investment income	469	465	(4)	-1.0%
Realized capital gain (loss)	115	59	(55)	-48.2%
Other income (expense)	(34)	(38)	(3)	-9.9%
Income before dividends to policyholders	210	150	(60)	-28.5%
Dividends to policyholders (credits)	0	0	(0)	-81.0%
Net income (loss)	210	150	(60)	-28.4%
Standard Industry Ratios				
Loss ratio	74.0%	72.0%		-2.0%
LAE ratio	26.6%	27.3%		0.7%
Loss and LAE ratio	100.6%	99.3%		-1.3%
UW expense ratio	32.7%	33.9%		1.2%
Combined ratio	133.3%	133.2%		-0.1%

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.