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Date: November 8, 2019

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 21 – Financial and President’s Report: 3Q 2019
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO and 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 \$896 million were 12.5% lower than prior year due to continued competition, a rate decrease of 10% effective January 2019, and lower audited premium compared to last year.
- Combined ratio of 136.1% was 3 points higher than prior year.
- Net income before dividends of \$193 million was \$43 million higher than prior year mainly due to increase in investment income and capital gains.
- State Fund declared dividends to policyholders of \$105 million for policies that have incepted January 1, 2019 through August 19, 2019.
- Policyholders’ surplus grew by \$215 million since December 31, 2018.

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, 2019

The following summarizes our statutory financial results for the nine months ended September 30, 2019. Our results reflect a 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 underwriting cycle.
 - Net premiums earned of \$896 million were 12.5% lower than the prior year which can be attributed to continued competition in the soft market, our filed rate decrease of 10% effective January 2019, and lower audited premium compared to last year. The most significant factor is actually the lower audited premium as last year audited premium was unusually high due to delays in 2017 that arose from the implementation of AB 2883.
 - Loss and loss adjustment expenses (LAE) ratio of 99.8% were 0.5 points higher than prior year.
 - Underwriting expense ratio of 36.3% was 2.4 points higher than prior year due to lower net premiums written. Overall, the underwriting loss of \$324 million was 3.6% lower than prior year.
- The Combined ratio of 136.1% was 3 points higher than prior year.
- Investment and other non-underwriting results
 - Net investment income of \$476 million was \$11 million higher than prior year.
 - Realized capital gains of \$91 million were \$32 million higher than prior year primarily due to sales of stocks during favorable market conditions.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$13 million higher than prior year. We believe this increase is also attributable to the implementation of AB 2883 which resulted in a delay in audits and unusually high audited premium in 2018, as mentioned earlier.
- Net income and policyholders' surplus
 - Net income before dividends of \$193 million was \$43 million higher than prior year mainly due to increase in investment income and capital gains.
 - State Fund declared dividends to policyholders of \$105 million for policies that have incepted January 1, 2019 through August 19, 2019.
 - Policyholders' surplus grew by \$215 million since December 31, 2018.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2018 Actual	2019 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,024	896	(128)	-12.5%
Losses	737	627	(110)	-14.9%
Loss adjustment expenses (LAE)	280	267	(12)	-4.4%
Underwriting (UW) expenses	344	326	(18)	-5.2%
Underwriting results	(336)	(324)	12	3.6%
Net investment income	465	476	11	2.4%
Realized capital gain (loss)	59	91	32	53.9%
Other income (expense)	(38)	(51)	(13)	-34.1%
Income before dividends to policyholders	150	193	43	28.4%
Dividends to policyholders (credits)	0	105	105	688559.2%
Net income (loss)	150	88	(62)	-41.6%
Standard Industry Ratios				
Loss ratio	72.0%	70.0%		-2.0%
LAE ratio	27.3%	29.8%		2.5%
Loss and LAE ratio	99.3%	99.8%		0.5%
UW expense ratio	33.9%	36.3%		2.4%
Combined ratio	133.2%	136.1%		2.9%

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.