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Date: May 11, 2018

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 25 – Financial Update: 1 st Quarter 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 \$357 million were 0.7% more than the prior year.
- Combined ratio of 128.6% was lower than the same period last year which resulted in underwriting loss of \$102 million.
- Net income of \$48 million was \$79 million less than the same period in the prior year.
- Policyholders’ surplus grew by \$15 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
Three Months Ended March 31, 2018

The following summarizes our statutory financial results for the three months ended March 31, 2018. Our results reflect a slight 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 \$357 million were 0.7% higher than the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 99.3% were 1 point lower than prior year.
 - Underwriting expense ratio of 29.3% was 3 points lower than the same period last year.
 - Combined ratio of 128.6% was 4 points lower than the same period last year mainly due to the decrease in our underwriting expenses.
- Investment and other non-underwriting results
 - Net investment income of \$156 million was \$3 million lower than the same period in prior year.
 - Realized capital gains of \$10 million were \$83 million lower than the same period in prior year. This was the result of the liquidation of holdings from the termination of an equity portfolio manager in the first quarter of 2017.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$7 million higher than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$48 million was \$79 million lower than the same period in the prior year mainly due to better underwriting results and lower realized capital gains.
 - Policyholders' surplus grew by \$15 million since December 31, 2017.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2017 Actual	2018 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	354	357	2	0.7%
Losses	262	257	(5)	-2.1%
Loss adjustment expenses	94	97	3	3.3%
UW expenses	114	104	(9)	-8.3%
Underwriting results	(116)	(102)	14	12.1%
Net investment income	159	156	(3)	-1.8%
Realized capital gain (loss)	93	10	(83)	-88.9%
Other income (expense)	(9)	(16)	(7)	-81.4%
Income before dividends to policyholders	127	48	(79)	-61.8%
Dividends to policyholders (credits)	0	0	(0)	-44.5%
Net income (loss)	127	48	(79)	-61.8%
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	32.0%	29.3%		-2.7%
Combined ratio	132.6%	128.6%		-4.0%
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 prior year.				
Red represents worse than prior year.				