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Date: May 8, 2015

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 1Q 2015
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 income of \$75 million was \$27 million more than the same period in the prior year.
- Our combined ratio of 129% was 11 points lower than the same period in the prior year.
- Policyholders' surplus grew by \$35 million since December 31, 2014.

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, 2015

The following summarizes our statutory financial results for the three months ended March 31, 2015. Our results reflect continued growth in premiums and 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, unemployment and market pricing.
 - Net premiums earned of \$391 million were 14% more than the same period last year.
 - Our loss and loss adjustment expenses (LAE) ratio of 106% were 11 points lower than the same period last year.
 - Our underwriting expense ratio of 23% was 1 point lower than the same period last year. The improvement in this expense ratio was attributable to a combination of factors: disciplined expense controls, improved operating efficiencies in our underwriting systems and growth in premiums.
 - Our combined ratio of 129% was 11 points lower than the same period last year and the related year-to-date underwriting loss was \$113 million.
- Investment and other non-underwriting results
 - Net investment income of \$164 million was 2% lower than the same period in prior year.
 - Realized capital gains of \$22 million were \$1 million more than the same period in prior year.
- Net income and policyholders' surplus
 - Net income of \$75 million was \$27 million more than the same period in prior year.
 - Policyholders' surplus grew by \$35 million since December 31, 2014.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2014 Actual	2015 Actual	Actual vs. Prior Year \$ Variance	Actual vs. Prior Year % Variance
Net premiums earned	342	391	49	14%
Losses	257	305	49	19%
Loss adjustment expenses (LAE)	142	110	(33)	-23%
Underwriting expenses	82	89	7	9%
Underwriting results	(139)	(113)	26	19%
Net investment income	166	164	(3)	-2%
Realized capital gain (loss)	21	22	1	4%
Other income (expense)	(1)	1	2	234%
Income before dividends to policyholders	48	75	27	56%
Dividends to policyholders (credits)	-	-	-	0
Net income	48	75	27	56%
Standard Industry Ratios				
Loss ratio	75.0%	78.0%		3%
LAE ratio	41.6%	28.0%		-14%
Loss and LAE ratio	116.6%	106.0%		-11%
Underwriting expense ratio	23.7%	23.1%		-1%
Combined ratio	140.3%	129.1%		-11%

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.