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Date: May 13, 2016

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 1 st Quarter 2016
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 \$368 million were 6.0% less than the prior year.
- Combined ratio of 128.6% was 1 point lower than the same period in the prior year which resulted in underwriting loss of \$111 million.
- Net income of \$67 million was \$7 million less than the same period in the prior year.
- Policyholders’ surplus grew by \$44 million since December 31, 2015.

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, 2016

The following summarizes our statutory financial results for the three months ended March 31, 2016. Our results reflect continued growth in premiums written 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 \$368 million were 6.0% less than the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.3% was comparable to the same period last year.
 - Our underwriting expense ratio of 22.3% was 1 point lower than the same period last year.
 - Our combined ratio of 128.6% was 1 point lower than the same period last year due to a slight decrease in underwriting expenses.
- Investment and other non-underwriting results
 - Net investment income of \$162 million was \$2 million lower than the same period in prior year.
 - Realized capital gains of \$21 million were \$1 million lower than the same period in prior year.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$6 million higher than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$67 million was lower than the same period in the prior year mainly due to lower investment income and gains along with higher charge-offs of uncollected premiums.
 - Policyholders' surplus grew by \$44 million since December 31, 2015.

STATE COMPENSATION INSURANCE FUND
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Three Months Ended March 31, 2016

	2015 Actual	2016 Actual	Actual vs. Prior Year \$ Variance	Actual vs. Prior Year % Variance
Net premiums earned	391	368	(24)	-6%
Losses	305	272	(33)	-11%
Loss adjustment expenses (LAE)	110	119	9	8%
Underwriting expenses	89	88	(1)	-1%
Underwriting results	(113)	(111)	1	1%
Net investment income	164	162	(2)	-1%
Realized capital gain (loss)	22	21	(1)	-4%
Other income (expense)	1	(5)	(6)	-471%
Income before dividends to policyholders	75	67	(7)	-10%
Dividends to policyholders (credits)	0	0	0	n/a
Net income	75	67	(7)	-10%
Standard Industry Ratios				
Loss ratio	78.0%	74.0%		-4%
LAE ratio	28.0%	32.3%		4%
Loss and LAE ratio	106.0%	106.3%		0%
Underwriting expense ratio	23.1%	22.3%		-1%
Combined ratio	129.1%	128.6%		-1%

Numbers or ratios may not foot or cross 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.