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Date: August 7, 2015

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 2 nd Quarter 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 \$132 million was \$3 million lower than the same period in the prior year.
- Our combined ratio of 129.6% was 4 points lower than the same period in the prior year.
- Policyholders' surplus grew by \$55 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
Six Months Ended June 30, 2015

The following summarizes our statutory financial results for the six months ended June 30, 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 \$787 million were 8% more than the same period last year.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.6% were 5 points lower than the same period last year.
 - Our underwriting expense ratio of 23% was 1 point higher than the same period last year.
 - Our combined ratio of 129.6% was 4 points lower than the same period last year and the related year-to-date underwriting loss was \$234 million, \$8 million less than last year.
- Investment and other non-underwriting results
 - Net investment income of \$327 million was 1% lower than the same period in prior year.
 - Realized capital gains of \$43 million were \$4 million lower than the same period in prior year.
 - Other expenses mostly represent charge-offs of uncollectible premiums and were \$3 million higher than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$132 million was \$3 million lower than the same period in prior year.
 - Policyholders' surplus grew by \$55 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	726	787	60	8%
Losses	545	614	69	13%
Loss adjustment expenses (LAE)	264	225	(39)	-15%
Underwriting expenses	160	182	22	14%
Underwriting results	(242)	(234)	8	4%
Net investment income	331	327	(4)	-1%
Realized capital gain (loss)	47	43	(4)	-9%
Other income (expense)	(1)	(3)	(3)	-300%
Income before dividends to policyholders	135	132	(3)	-2%
Dividends to policyholders (credits)	-	-	-	-
Net income	<u>135</u>	<u>132</u>	(3)	-2%
Standard Industry Ratios				
Loss ratio	75.0%	78.0%		3%
LAE ratio	36.4%	28.6%		-8%
Loss and LAE ratio	<u>111.4%</u>	<u>106.6%</u>		-5%
Underwriting expense ratio	<u>22.2%</u>	<u>23.0%</u>		1%
Combined ratio	<u>133.6%</u>	<u>129.6%</u>		-4%

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.