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Date: August 9, 2019

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial and President’s Report: 2Q 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 \$587 million were 15.4% lower than prior year due to stiffer competition, file rate decrease of 10% effective January 2019, and lower audited premium compared to last year.
- Combined ratio of 135.1% was 3 points higher than prior year.
- Net income of \$121 million was \$49 million higher than prior year.
- Policyholders’ surplus grew by \$261 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
Six Months Ended June 30, 2019

The following summarizes our statutory financial results for the six months ended June 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 insurance profitability cycle.
 - Net premiums earned of \$587 million were 15.4% 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 audit 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 35.2% was 2 points higher than prior year due to lower net premiums written. Overall, the underwriting loss of \$207 million has been 7.7% lower than prior year.
- Combined ratio of 135.1% was 3 points higher than prior year.
- Investment and other non-underwriting results
 - Net investment income of \$320 million was \$10 million higher than prior year.
 - Realized capital gains of \$48 million were \$34 million higher than prior year primarily due to sales of stocks during favorable market condition.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$12 million higher than prior year. We believe this increase is also attributable to the implementation of AB 2883 which resulted in unusually high audited premium in 2018, as mentioned earlier.
- Net income and policyholders' surplus
 - Net income of \$121 million was \$49 million higher than prior year.
 - Policyholders' surplus grew by \$261 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)	694	587	(107)	-15.4%
Losses	499	411	(89)	-17.7%
Loss adjustment expenses (LAE)	189	175	(14)	-7.6%
Underwriting (UW) expenses	229	208	(21)	-9.2%
Underwriting results	(224)	(207)	17	7.7%
Net investment income	310	320	10	3.3%
Realized capital gain (loss)	15	48	34	226.3%
Other income (expense)	(28)	(40)	(12)	-44.3%
Income before dividends to policyholder	73	121	49	67.2%
Dividends to policyholders (credits)	0	(0)	(0)	-176.3%
Net income (loss)	72	121	49	67.3%
Standard Industry Ratios				
Loss ratio (CY)	72.0%	70.0%		-2.0%
LAE ratio (CY)	27.3%	29.8%		2.5%
Loss and LAE ratio (CY)	99.3%	99.8%		0.5%
UW expense ratio (CY)	33.2%	35.2%		2.0%
Combined ratio (CY)	132.5%	135.1%		2.6%

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 plan and prior year.

Red represents worse than plan and prior year.