



333 Bush Street
 San Francisco, CA 94104
 (415) 263-5400
 www.statefundca.com

Date: November 1, 2013

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 - Financial Update: 3 rd Quarter 2013
II. NAME AND PROGRAM:	Daniel J. Sevilla, Jr., Executive Office
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:

- Estimated annual premiums were 11% more than budget and 23% more than the same period in the prior year.
- Our combined ratio of 128.3% was 6 points lower than budget and 9 points lower than the same period in the prior year.
- Net income of \$304 million was \$15 million more than budget and policyholders' surplus grew by 5% to more than \$6.3 billion since December 31, 2012.

VI. ANALYSIS/BACKGROUND:

- Statutory financial results are filed with the California Department of Insurance on a quarterly basis.
- Highlights are also shared with the Board on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2013

The following summarizes our statutory financial results for the nine months ended September 30, 2013. Our results reflect improved underwriting results and modest growth in policyholders' surplus.

- Underwriting results
 - Due to the nature of our business, our underwriting results are significantly impacted by economic conditions, unemployment and market pricing.
 - We continued our disciplined approach to underwriting. We wrote approximately 100,000 policies, which approximated budget and was 2% less than the nine months ended September 30, 2012 (the same period in the prior year). Estimated annual premiums were 11% more than budget and 23% more than the same period in the prior year. The average premium per policy written was approximately \$8,600 or 10% more than budget and 26% more than the same period in the prior year.
 - Net premiums earned on policies in force of \$764 million were 16% more than budget and 8% more than the same period in the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 97.5% was on budget and consistent with the same period in the prior year.
 - Our underwriting expense ratio of 30.8% was 6 points lower than budget and 9 points lower than the same period in the prior year.
 - Our combined ratio of 128.3% was 6 points lower than budget and 9 points lower than the same period in the prior year, and the related underwriting loss of \$217 million was 7% lower than budget and 12% less than the same period in the prior year.
- Investment and other non-underwriting results
 - Net investment income of \$513 million was 5% lower than budget, and 12% less than the same period in the prior year. Reinvestment yields were lower than planned and investing in equities started later than planned.
 - Realized capital gains of \$4 million were \$4 million more than budget and \$27 million less than the same period in the prior year.
 - Other expenses mostly represent charge-offs of uncollectible premiums and were \$9 million less than budget and \$4 million less than the same period in the prior year.
 - \$14 million of 2011 policyholders' dividends reserves in excess of estimated payments were released.
- Net income and policyholders' surplus
 - Net income of \$304 million was \$15 million more than budget and \$48 million less than the same period in the prior year.
 - Policyholders' surplus grew by 5% to more than \$6.3 billion since December 31, 2012.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2013

Financial Results (\$ millions)	2012 Actual	2013 Budget	2013 Actual	Variance to Budget	Variance to Prior Year
Net premiums earned	705	660	764	16%	8%
Losses	528	495	573	16%	8%
Loss adjustment expenses (LAE)	159	149	172	16%	8%
Underwriting expenses	265	249	236	-5%	-11%
Underwriting results	(248)	(232)	(217)	7%	12%
Net investment income	583	540	513	-5%	-12%
Realized capital gain (loss)	31	-	4	4	-27
Other income (expense)	(14)	(19)	(10)	9	4
Income before dividends to policyholders	352	289	290	0%	-18%
Dividends to policyholders (credits)	-	-	(14)	-14	-14
Net income	352	289	304	15	-48
Standard Industry Ratios					
Loss ratio	75.0%	75.0%	75.0%	0%	0%
LAE ratio	22.5%	22.5%	22.5%	0%	0%
Loss and LAE ratio	97.5%	97.5%	97.5%	0%	0%
Underwriting expense ratio	39.6%	37.1%	30.8%	-6%	-9%
Combined ratio	137.1%	134.6%	128.3%	-6%	-9%

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 or prior year.

Red represents worse than plan or prior year.