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Date: November 4, 2016

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 3 rd 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 \$1.18 billion were 1.5% less than the prior year.
- Combined ratio of 129.2% was comparable to the same period last year which resulted in underwriting loss of \$350 million.
- Net income of \$154 million was \$27 million less than the same period in the prior year.
- Policyholders' surplus grew by \$101 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 of Directors on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2016

The following summarizes our statutory financial results for the nine months ended September 30, 2016. Our results reflect a slight decline in premiums earned and an 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, unemployment and market pricing.
 - Net premiums earned of \$1.18 billion were 1.5% less than the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.3% and our underwriting expense ratio of 22.9% were comparable to the same period last year.
 - Similarly, our combined ratio of 129.2% was comparable to the same period last year. We did see a decrease in our loss ratio of 4.0% and an increase in our LAE ratio of 3.9%.
- Investment and other non-underwriting results
 - Net investment income of \$474 million and realized capital gains of \$49 million were both \$10 million lower than the same period in prior year.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$10 million higher than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$154 million was lower than the same period in the prior year mainly due to lower net premiums earned, investment income, and realized capital gains along with higher charge-offs of uncollected premiums.
 - Policyholders' surplus grew by \$101 million since December 31, 2015.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2015 Actual	2016 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,199	1,181	(18)	-1.5%
Losses	935	874	(62)	-6.6%
Loss adjustment expenses	341	381	40	11.9%
UW expenses	275	275	0	0.1%
Underwriting results	(352)	(350)	2	0.7%
Net investment income	484	474	(10)	-2.0%
Realized capital gain (loss)	59	49	(10)	-16.3%
Other income (expense)	(9)	(19)	(10)	-108.0%
Income before dividends to policyholders	181	154	(27)	-14.8%
Dividends to policyholders (credits)	-	-	-	n/a
Net income (loss)	<u>181</u>	<u>154</u>	(27)	-14.8%
Standard Industry Ratios				
Loss ratio	78.0%	74.0%		-4.0%
LAE ratio	28.4%	32.3%		3.9%
Loss and LAE ratio	106.4%	106.3%		-0.1%
UW expense ratio	22.8%	22.9%		0.1%
Combined ratio	<u>129.2%</u>	<u>129.2%</u>		0.0%

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.