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Date: May 10, 2019

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 6 – Financial and President’s Report: 1Q 2019
<b>II. NAME AND PROGRAM:</b>	Vernon Steiner, President and CEO and Peter Guastamachio, Chief Financial Officer
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<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 \$288 million were 19.3% lower than prior year due to stiffer competition, filed rate decrease of 10% effective January 2019, and lower audited premium compared to last year.
- Combined ratio of 135.3% was 7 points higher than prior year due to premiums declining faster than losses and expenses.
- Net income of \$56 million was \$8 million higher than prior year.
- Policyholders’ surplus grew by \$153 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**  
**Three Months Ended March 31, 2019**

The following summarizes our statutory financial results for the three months ended March 31, 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 \$288 million were 19.3% lower than the prior year which can be attributed an ongoing competitive environment, 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 35.5% was 6 points higher than prior year due to lower net premiums written. Overall, the underwriting loss of \$103 million was flat compared to last year.
- Combined ratio of 135.3% was 7 points higher than prior year.
- Investment and other non-underwriting results
  - Net investment income of \$160 million was \$4 million higher than prior year.
  - Realized capital gains of \$27 million were \$17 million higher than prior year due to sales of stocks during favorable market conditions.
  - Other expenses, mostly representing charge-offs of uncollectible premiums, were \$11 million higher than prior year. We believe this increase is also attributable to the unusually high audited premium in 2018.
- Net income and policyholders' surplus
  - Net income of \$56 million was \$8 million higher than prior year.
  - Policyholders' surplus grew by \$153 million since December 31, 2018.

**STATE COMPENSATION INSURANCE FUND**  
**Report on Statutory Financial Results**  
**Three Months Ended March 31, 2019**

Financial Results (\$ millions)	2018 Actual	2019 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	357	288	(69)	-19.3%
Losses	257	201	(55)	-21.5%
Loss adjustment expenses (LAE)	97	86	(12)	-11.9%
Underwriting (UW) expenses	104	104	(1)	-0.7%
Underwriting results	(102)	(103)	(1)	-1.2%
Net investment income	156	160	4	2.3%
Realized capital gain (loss)	10	27	17	162.3%
Other income (expense)	(16)	(27)	(11)	-71.9%
Income before dividends to policyholders	48	56	8	15.7%
Dividends to policyholders (credits)	0	0	(0)	-18.7%
Net income (loss)	48	56	8	15.7%
<b>Standard Industry Ratios</b>				
Loss ratio	72.0%	70.0%		-2.0%
LAE ratio	27.3%	29.8%		2.5%
Loss and LAE ratio	99.3%	99.8%		0.5%
UW expense ratio	29.3%	35.5%		6.2%
Combined ratio	128.6%	135.3%		6.7%

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 prior year.

Red represents worse than prior year.