



2860 Gateway Oaks Drive
 Sacramento, CA 95833
 (415) 263-5400
 www.statefundca.com

Date: November 1, 2022

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Financial and President’s Report: 3Q 2022
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO 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 \$886 million were 2.6% lower than prior year.
- Combined ratio of 134% was 6.8 points lower than the same period in the prior year.
- Net income of \$57 million was \$78 million lower than the same period last year.
- Policyholders’ surplus decreased by \$222 million since December 31, 2021.

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
Nine Months Ended September 30, 2022

The following summarizes our statutory financial results for the nine months ended September 30, 2022. Our results reflect a decrease in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$886 million were 2.6% lower than prior year due to less policy renewals and new business, partially offset by our filed rate increase of 8% effective January 1, 2022.
 - The 2022 loss and loss adjustment expense (LAE) ratios were 70.4% and 26.2%, respectively. Together these ratios were 4.2 points lower compared to last year. Our loss ratio was lower by 4.2 points mainly due to \$45 million increase in loss reserves released this year. LAE ratio was higher by 0.1 point.
 - Underwriting expense ratio of 37.4% was 2.7 points lower than the same period in the prior year mainly due to \$28 million favorable decrease in underwriting expenses.
 - The combined ratio of 134% was 6.8 points lower compared to the same period last year mainly due to the above-mentioned decreases in loss and underwriting expense ratios.
- Investment and other non-underwriting results
 - Net investment income of \$377 million was \$17 million lower than the prior year due to an increase in investment expense due to increase in self-rent expenses resulting from a change in the functional allocation and lower reinvestment rates from the past two years. Notably reinvestment rates have increased and we are now able to purchase bonds at yields higher than our current book yields. Realized capital gains of \$30 million were \$59 million lower than the prior year due to lower market values of stocks and less activities in bond sales.
 - Other income of \$11 million this year is mostly due to charge-off recoveries.
- Net income and policyholders' surplus
 - Net income before dividends to policyholders of \$116 million was \$19 million lower than prior year mainly due to \$84 million decrease in realized capital gains, investment income, and other income, offset by \$65 million favorable decrease in underwriting loss.
 - State Fund declared regular dividends of \$55 million and large account safety dividend of \$4 million for policies that have incepted from January 1, 2021 through December 31, 2021. Therefore, total declared dividends were \$59 million, which resulted in our net income after dividends of \$57 million.
 - Policyholders' surplus went down by \$222 million since December 31, 2021. This decrease is due to a decrease of \$228 million in unrealized capital gains and an unfavorable increase of \$51 million in non-admitted assets, offset by the net income of \$57 million.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2022

Financial Results (\$ millions)	2022 Actual	2021 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	886	910	(24)	-2.6%
Losses	624	679	(55)	-8.1%
Loss adjustment expenses (LAE)	232	238	(6)	-2.4%
Underwriting (UW) expenses	332	360	(28)	-7.7%
Underwriting results	(303)	(367)	65	17.7%
Net investment income	377	394	(17)	-4.2%
Realized capital gain (loss)	30	89	(59)	-65.9%
Other income (expense)	11	19	(8)	-42.2%
Income before dividends to policyholders	116	135	(19)	-13.8%
Dividends to policyholders (credits)	59	(0)	59	n/a
Net income	57	135	(78)	-57.5%
Standard Industry Ratios				
Loss ratio	70.4%	74.6%		-4.2%
LAE ratio	26.2%	26.2%		0.1%
Loss and LAE ratio	96.6%	100.8%		-4.2%
UW expense ratio	37.4%	40.1%		-2.7%
Combined ratio	134.0%	140.8%		-6.8%

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.