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Date: May 4, 2023

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial and President’s Report: 1Q 2023
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 \$271 million were 6.6% lower than prior year.
- Combined ratio of 144.5% was 7.2 points higher than the same period in the prior year.
- Net income of \$19 million was \$43 million higher than the same period last year.
- Policyholders’ surplus decreased by \$16 million since December 31, 2022.

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, 2023

The following summarizes our statutory financial results for the three months ended March 31, 2023. Our results reflect decreases in premiums earned and in policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$271 million were 6.6% lower than prior year due to less new and renewal business written.
 - The 2023 loss and loss adjustment expense (LAE) ratios were 78.0% and 27.9%, respectively. Together these ratios were 6.4 points higher compared to last year. Our loss ratio was higher by 7.6 points mainly due to \$37 million reserve release in March 2022 and none this year. The LAE ratio was lower by 1.2 points due to decrease in actuarial estimate in general salary adjustment and claims adjustment cost.
 - The underwriting expense ratio of 38.6% was 0.8 points higher than the same period in the prior year mainly due to \$18 million decrease in net premiums written in spite of decrease in underwriting expenses of \$5 million.
 - The combined ratio of 144.5% was 7.2 points higher compared to the same period last year mainly due to the above-mentioned increase in loss ratio.
- Investment and other non-underwriting results
 - Net investment income of \$139 million was \$11 million higher than the prior year due to increase in reinvestment rates for bonds. State Fund is purchasing bonds at yields higher than our existing book yields. The decrease in realized capital gain of \$12 million from prior year is due to the slow recovery on the market value of equity portfolio, less equity sales, and equity impairment.
 - Other income of \$2 million this year is mostly due to charge-off recoveries.
- Net income and policyholders' surplus
 - Net income of \$19 million was \$43 million higher than prior year mainly due to the total declared dividends of \$59 million in February 2022 for policies that incepted from January 1, 2021 through December 31, 2021 and \$11 million increase in investment income, offset by \$27 million decrease in underwriting loss, realized capital gains, and other income.

STATE COMPENSATION INSURANCE FUND
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- Policyholders' surplus went down by \$16 million since December 31, 2022. This decrease is a result of \$20 million decrease in unrealized capital gain, and an unfavorable increase of \$15 million in non-admitted assets, offset by the net income of \$19 million. The \$20 million decrease in unrealized capital gain is due to the \$27 million conversion of common stocks into a partnership, offset by a total of \$7 million of increase in unrealized capital gain for the rest of the equity portfolio and other invested asset.

Financial Results (\$ millions)	2023 Actual	2022 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	271	290	(19)	-6.6%
Losses	211	204	7	3.5%
Loss adjustment expenses (LAE)	76	84	(9)	-10.4%
Underwriting (UW) expenses	106	110	(5)	-4.3%
Underwriting results	(122)	(109)	(13)	-11.6%
Net investment income	139	128	11	8.3%
Realized capital gain (loss)	(0)	12	(12)	-101.9%
Other income (expense)	2	5	(2)	-48.1%
Income before dividends to policyholders	19	35	(16)	-46.0%
Dividends to policyholders (credits)	-	59	(59)	n/a
Net income (loss)	19	(24)	43	180.4%
Standard Industry Ratios				
Loss ratio	78.0%	70.4%		7.6%
LAE ratio	27.9%	29.1%		-1.2%
Loss and LAE ratio	106.0%	99.5%		6.4%
UW expense ratio	38.6%	37.8%		0.8%
Combined ratio	144.5%	137.3%		7.2%

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.