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Date: May 4, 2022

**TO: MEMBERS, BOARD OF DIRECTORS**

|                                     |   |
|-------------------------------------|---|
| <b>I. AGENDA ITEM # AND TITLE :</b> | Open Agenda Item 5 – Financial and President’s Report: 1Q 2022  |
| <b>II. NAME AND PROGRAM:</b>        | Vernon Steiner, President and CEO<br>Peter Guastamachio, Chief Financial Officer  |
| <b>III. ACTIVITY:</b>               | <input checked="" type="checkbox"/> Informational<br><input type="checkbox"/> Request for Direction<br><input type="checkbox"/> Action Proposed<br><input type="checkbox"/> Exploratory |
| <b>IV. JUSTIFICATION:</b>           | <input checked="" type="checkbox"/> Standard/Required Item<br><input type="checkbox"/> Board Request – New Item<br><input type="checkbox"/> New Topic from Staff                        |

**V. EXECUTIVE SUMMARY:**

- Net premiums earned of \$290 million were 1.3% higher than prior year.
- Combined ratio of 137.3% was 2.3 points lower than the same period in the prior year.
- Net loss of \$24 million was \$74 million lower than the same period last year.
- Policyholders’ surplus decreased by \$95 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**  
**Three Months Ended March 31, 2022**

The following summarizes our statutory financial results for the three months ended March 31, 2022. Our results reflect a slight increase in premiums earned and a decrease in policyholders' surplus.

- Underwriting results
  - Net premiums earned of \$290 million were 1.3% higher than prior year mainly due to filed rate increase of 8% effective January 1, 2022.
  - The 2022 loss and loss adjustment expense (LAE) ratios were 70.4% and 29.1%, respectively. Together these ratios were 1 point lower compared to last year. Loss ratio was lower by 3.8 points mainly due to \$12 million increase in loss reserves release this year. LAE ratio was higher by 2.8 points mainly due to an increase in salary, claims adjustment cost, and the IT digital claims related project costs.
  - Underwriting expense ratio of 37.8% was 1.3 points lower than the same period in the prior year mainly due to \$10 million increase in net premiums written.
  - The combined ratio of 137.3% was 2.3 points lower compared to the same period last year mainly due to the above-mentioned decreases in loss and underwriting expense ratios, partially offset by the increase in LAE ratio.
- Investment and other non-underwriting results
  - Net investment income of \$128 million was \$8 million lower than the prior year mainly due to the lower reinvestment rates. Realized capital gains of \$12 million were \$9 million lower than prior year due to less activity in equity sales.
  - Other income of \$5 million this year is mostly represented by charge-off recoveries.
- Net income and policyholders' surplus
  - Net income before dividends to policyholders of \$35 million was \$15 million lower than prior year mainly due to lower investment income, realized capital gain, and other income.
  - 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 loss after dividends of \$24 million.
  - Policyholders' surplus went down by \$95 million since December 31, 2021. This decrease is a result of the net loss of \$24 million, a decrease of \$45 million in unrealized capital gains and an unfavorable increase of \$26 million in non-admitted assets.

**STATE COMPENSATION INSURANCE FUND**  
**Report on Statutory Financial Results**  
**Three Months Ended March 31, 2022**

| Financial Results (\$ millions)          | 2022 Actual   | 2021 Actual   | Actual vs. Prior Year<br>\$ Diff | Actual vs. Prior Year<br>% Diff |
|--|---------------|---------------|----------------------------------|---------------------------------|
| Net premiums earned (NPE)                | 290           | 286           | 4                                | 1.3%                            |
| Losses                                   | 204           | 212           | (8)                              | -3.9%                           |
| Loss adjustment expenses (LAE)           | 84            | 75            | 9                                | 12.2%                           |
| Underwriting (UW) expenses               | 110           | 110           | 0                                | 0.1%                            |
| Underwriting results                     | (109)         | (112)         | 3                                | 2.5%                            |
| Net investment income                    | 128           | 136           | (8)                              | -6.1%                           |
| Realized capital gain (loss)             | 12            | 21            | (9)                              | -44.1%                          |
| Other income (expense)                   | 5             | 5             | (0)                              | -4.7%                           |
| Income before dividends to policyholders | 35            | 50            | (15)                             | -29.7%                          |
| Dividends to policyholders (credits)     | 59            | 0             | 59                               | n/a                             |
| Net (loss) income                        | <u>(24)</u>   | <u>50</u>     | (74)                             | -147.2%                         |
| <b>Standard Industry Ratios</b>          |               |               |                                  |                                 |
| Loss ratio                               | 70.4%         | 74.2%         |                                  | -3.8%                           |
| LAE ratio                                | 29.1%         | 26.3%         |                                  | 2.8%                            |
| Loss and LAE ratio                       | 99.5%         | 100.5%        |                                  | -1.0%                           |
| UW expense ratio                         | 37.8%         | 39.1%         |                                  | -1.3%                           |
| Combined ratio                           | <u>137.3%</u> | <u>139.6%</u> |                                  | -2.3%                           |

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.