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Date: August 29, 2022

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE:</b>	Open Agenda Item 4 – Financial and President’s Report: 2Q 2022
<b>II. NAME AND PROGRAM:</b>	Vernon Steiner, President and CEO 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 \$591 million were 1.7% higher than prior year.
- Combined ratio of 137.3% was 3.4 points lower than the same period in the prior year.
- Net income of \$6 million was \$82 million lower than the same period last year.
- Policyholders’ surplus decreased by \$208 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**  
**Six Months Ended June 30, 2022**

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

- Underwriting results
  - Net premiums earned of \$591 million were 1.7% higher than prior year partially due to our filed rate increase of 8% effective January 1, 2022 and partially due to increased audit premium.
  - The 2022 loss and loss adjustment expense (LAE) ratios were 70.4% and 29.1%, respectively. Together these ratios were 1.1 point lower compared to last year. Our loss ratio was lower by 3.9 points mainly due to \$24 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 transformation related project costs.
  - Underwriting expense ratio of 37.8% was 2.4 points lower than the same period in the prior year mainly due to \$20 million increase in net premiums written without a corresponding increase in expense.
  - The combined ratio of 137.3% was 3.4 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 \$259 million was \$6 million lower than the prior year mainly due to the 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 yield. Realized capital gains of \$21 million were \$20 million lower than prior year due to less activity in equity sales.
  - Other income of \$8 million this year is mostly due to charge-off recoveries.
- Net income and policyholders' surplus
  - Net income before dividends to policyholders of \$65 million was \$23 million lower than prior year mainly due to \$35 million decrease in investment income, realized capital gain, and other income, offset by \$12 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 \$6 million.
  - Policyholders' surplus went down by \$208 million since December 31, 2021. This decrease is due to a decrease of \$173 million in unrealized capital gains and an unfavorable increase of \$41 million in non-admitted assets, offset by the net income of \$6 million.

**STATE COMPENSATION INSURANCE FUND**  
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Financial Results (\$ millions)	2022 Actual	2021 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	591	582	10	1.7%
Losses	416	432	(16)	-3.6%
Loss adjustment expenses (LAE)	172	153	19	12.6%
Underwriting (UW) expenses	225	231	(6)	-2.6%
Underwriting results	(222)	(234)	12	5.2%
Net investment income	259	265	(6)	-2.3%
Realized capital gain (loss)	21	41	(20)	-49.4%
Other income (expense)	8	16	(9)	-53.6%
Income before dividends to policyholders	65	88	(23)	-26.3%
Dividends to policyholders (credits)	59	(0)	59	n/a
Net income	<u>6</u>	<u>88</u>	(82)	-93.2%
<b>Standard Industry Ratios</b>				
Loss ratio	70.4%	74.3%		-3.9%
LAE ratio	29.1%	26.3%		2.8%
Loss and LAE ratio	99.5%	100.6%		-1.1%
UW expense ratio	37.8%	40.1%		-2.4%
Combined ratio	<u>137.3%</u>	<u>140.7%</u>		-3.4%

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.