



The Source You Trust

RESIDUAL MARKET FORUM

2022

February 10, 2022





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STATE OF THE RESIDUAL MARKET

Cliff Merritt, Executive Director—Residual Markets

State of the Residual Market

COVID-19 Claims

- Limited direct impact on residual market losses
- Uncertain indirect impact on premium/collectability



Residual market premium and market share are on a gradual decline



Concentration in high hazard groups creates potential volatility



The residual market is self-funded in the aggregate



TOPICS

▶ Reinsurance Pool financial results

▶ Assigned Risk Plan volumes, composition, and year-over-year trends

▶ 2022 servicing carrier bid states

▶ Depopulation programs

Pool Data Sources

26



POOL
STATES

23



NWCRA*
NATIONAL POOL

03



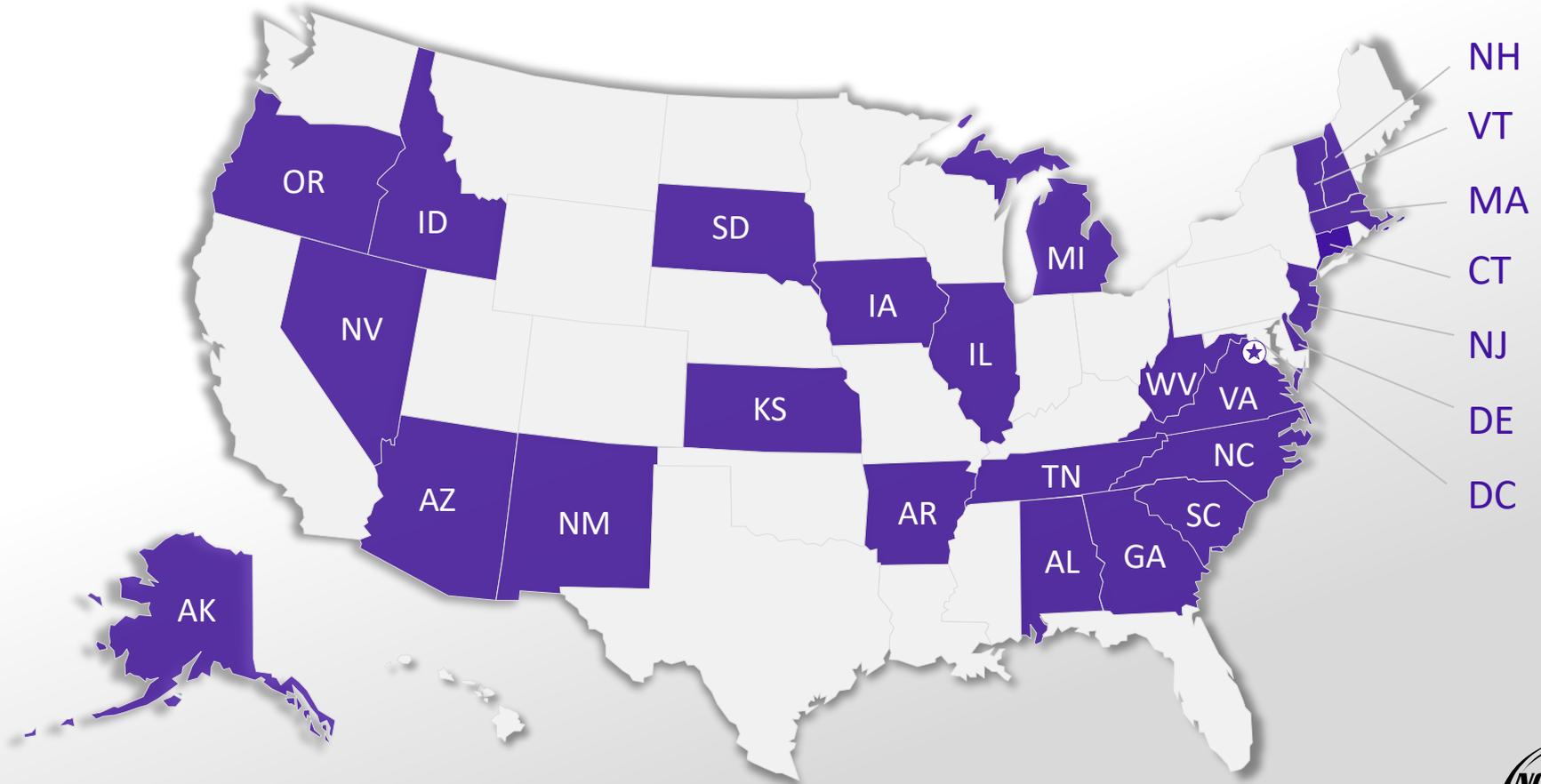
SINGLE-STATE
POOLS

*National Workers Compensation Reinsurance Association

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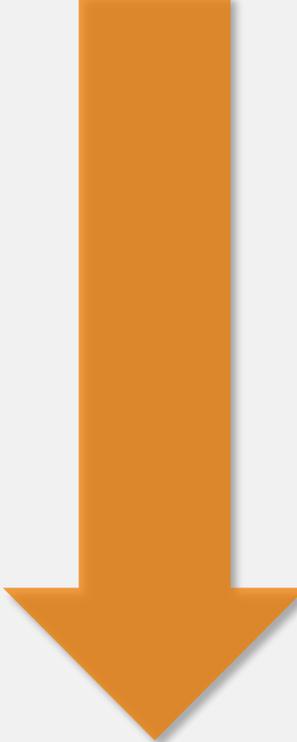
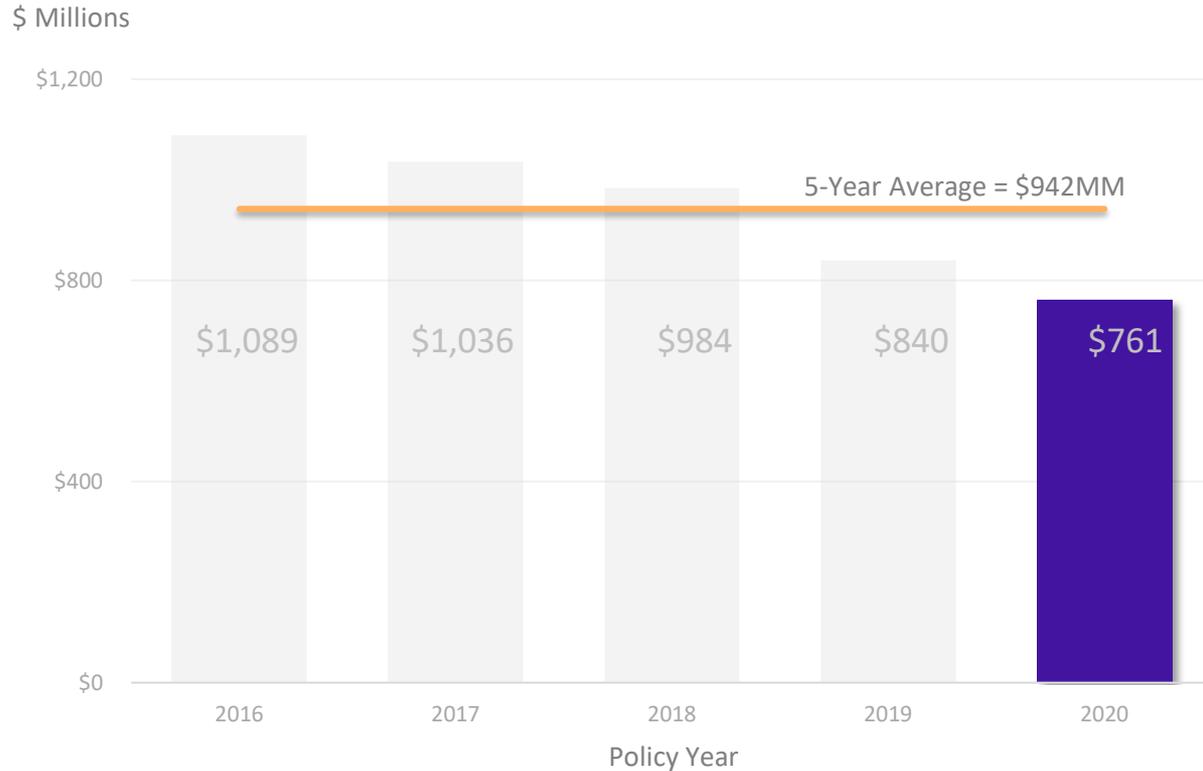


Pool Data Sources



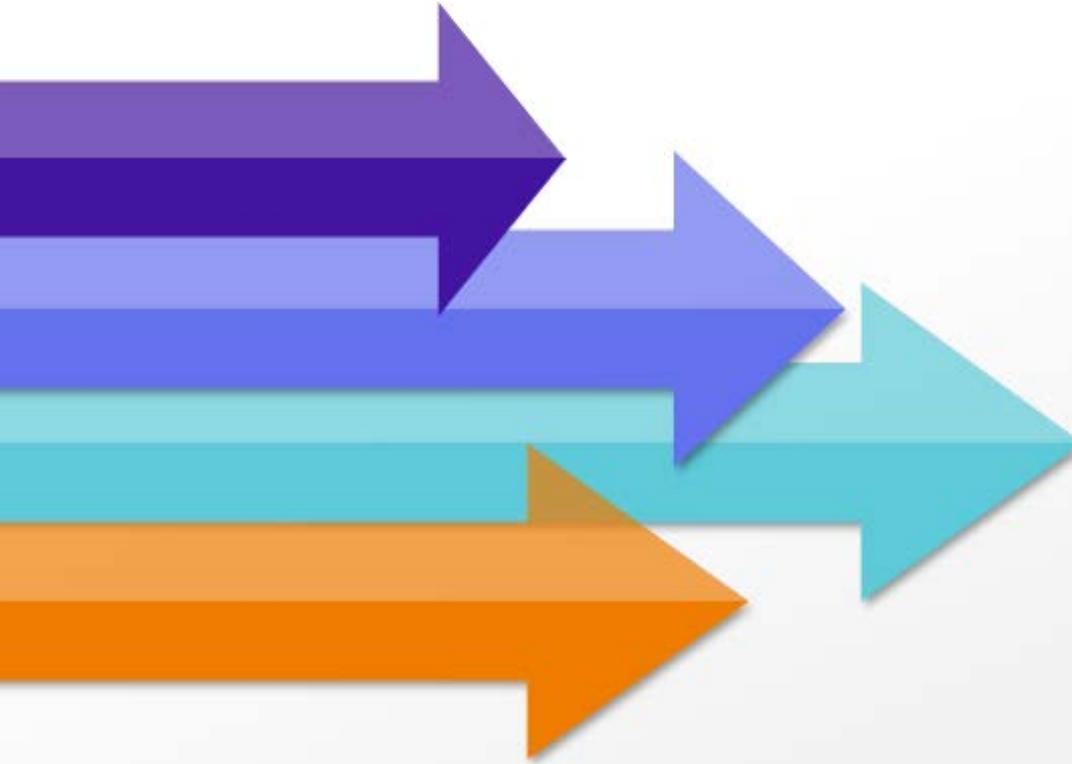
Pool Premium Volume and Trending

Projection to Ultimate



30%

Factors That Can Influence Volume



- Rate changes
- Depopulation or repopulation
- Carrier movement between pool participation and direct assignment
- Uncollectible premium



SELF SUFFICIENT

Policy Year Operating Results

Projection to Ultimate

\$ Millions

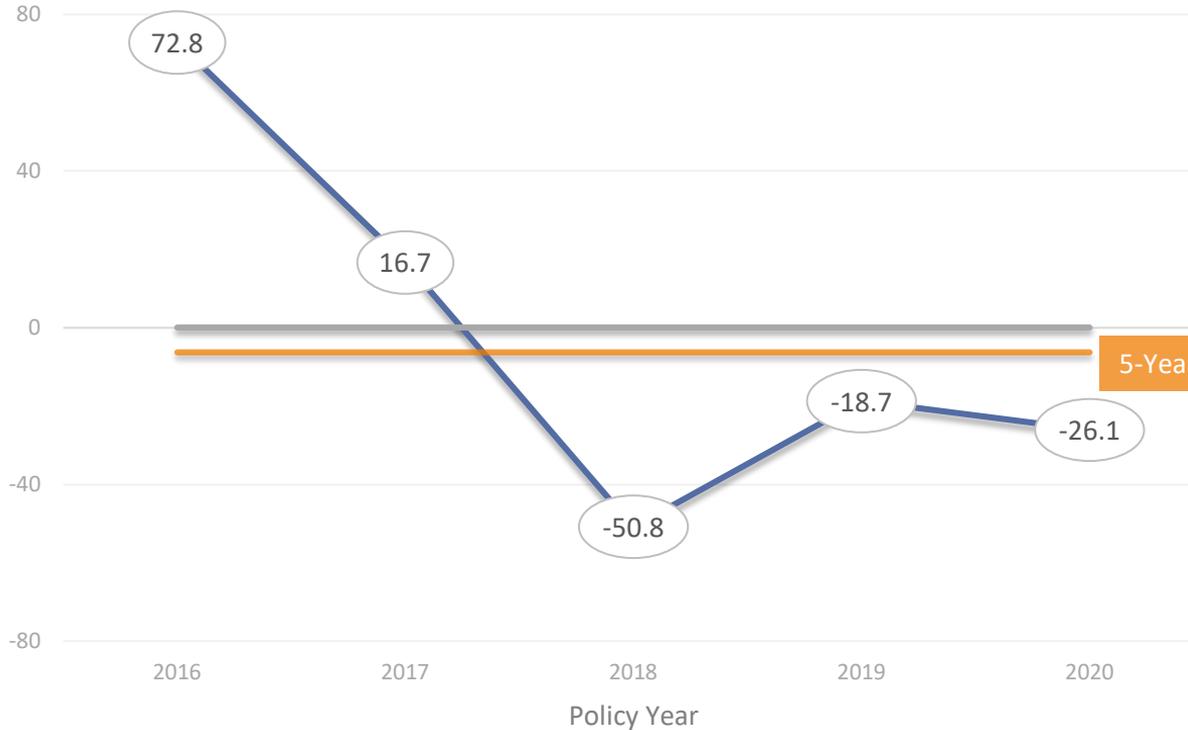


20
20
Policy Year



Policy Year Operating Results

\$ Millions



Combined Ratios Range

Policy Years 2016–2020

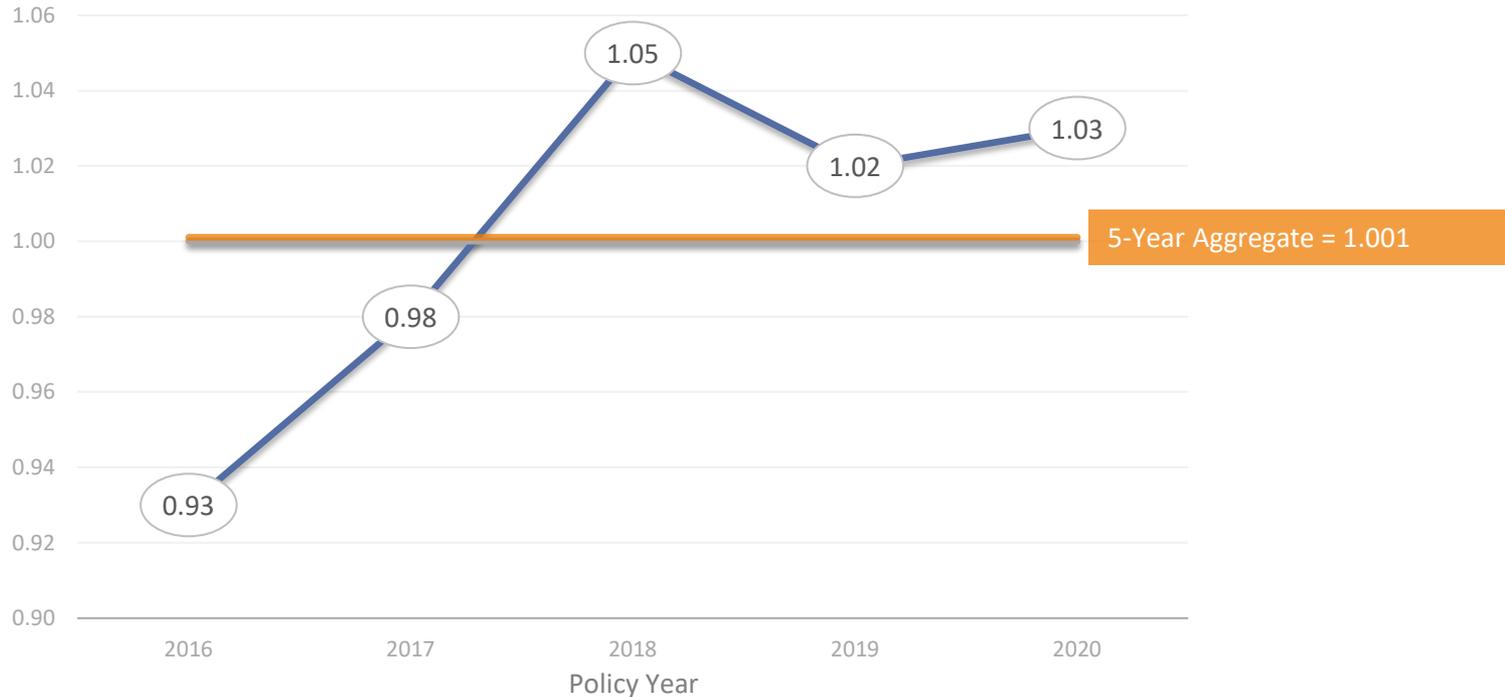


Combined Ratios | Trending

Annual Combined Ratio

5-Year Aggregate

Break Even



Policy Years 2016–2021

Valued at Nine Months

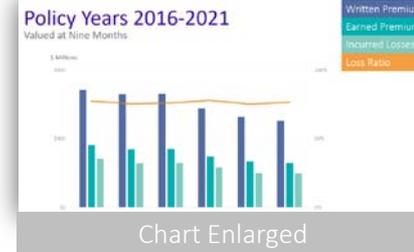


Written Premium

Earned Premium

Incurred Losses

Loss Ratio

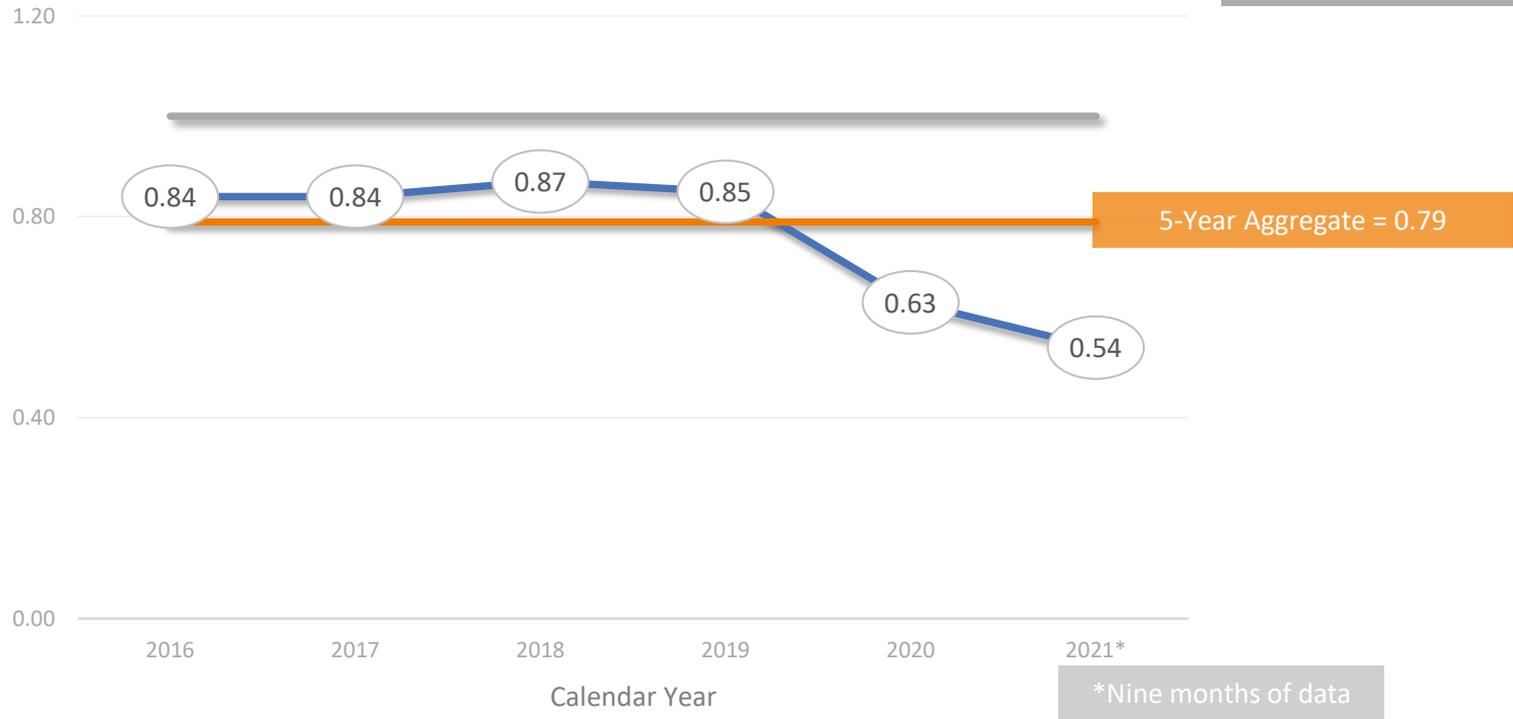


Combined Ratios | Calendar Year

Combined Ratio
Calendar Year

5-Year Aggregate

Break Even



COVID-19 Claims

Accident Years 2020 and 2021 as of Q3 2021

- 400 claims across the 26 Pool states
- No claims reported in 7 of the 26 states
- Total aggregate incurred valuation of less than \$4.5 million



Uncollectible Premium

Calendar Years 2016–2021

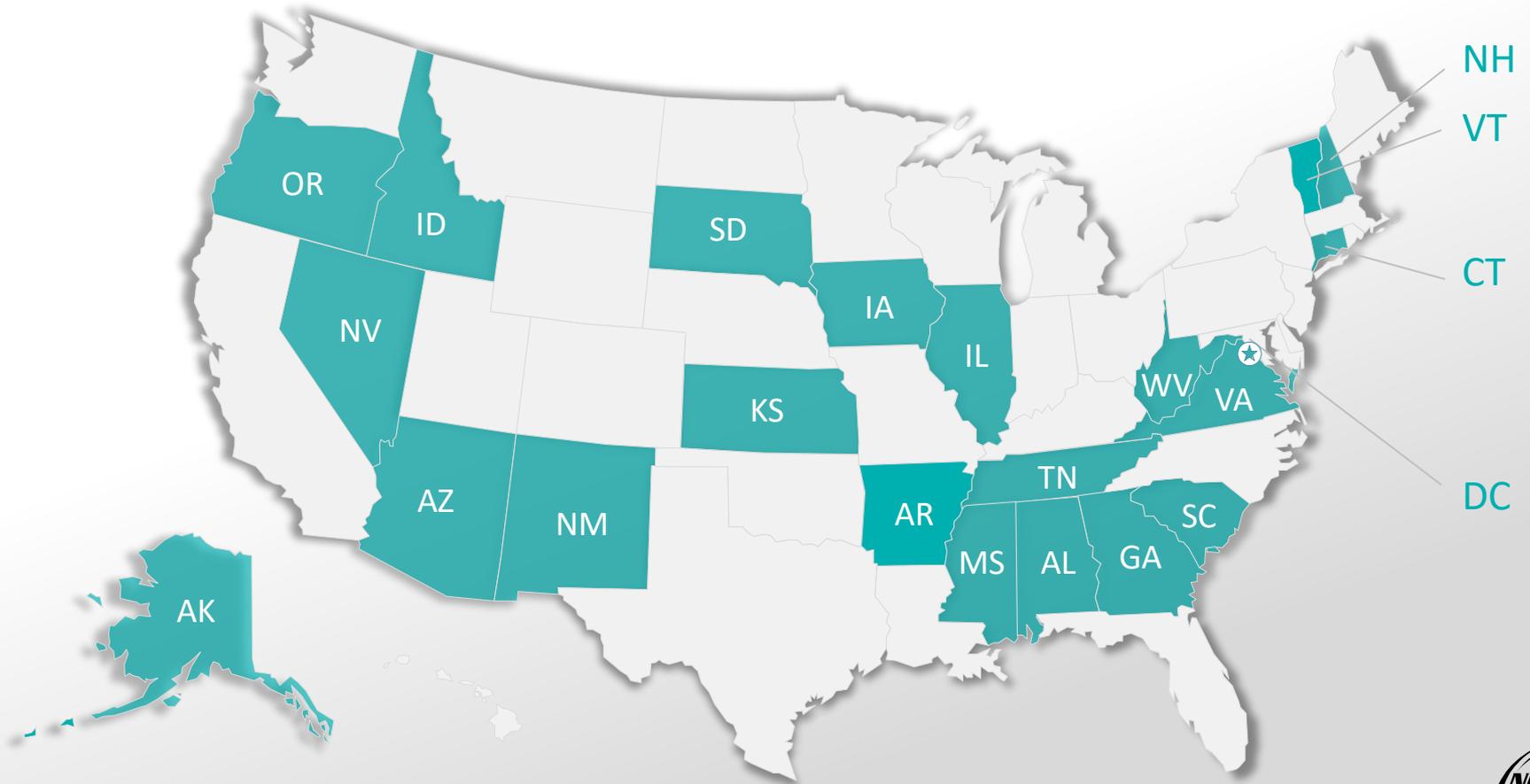
\$83.7 MM
Average for Calendar Years
2016–2019

\$118.9 MM

\$137.5 MM
Nine months of 2021



Plan Data

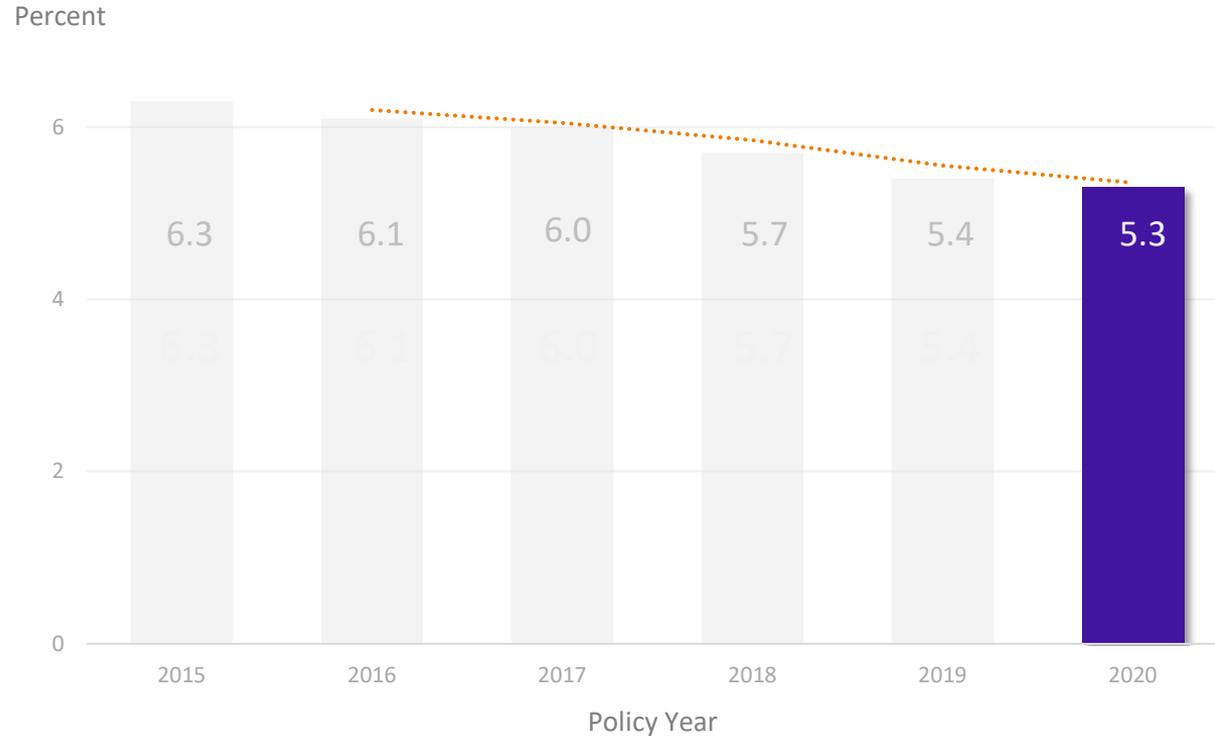


In-Force Plan Premium

As of 12/31/2020 and 12/31/2021

	2020	2021
Premium	\$559.6 MM	\$509.1 MM
Policies	140,312	131,886
Average Policy Size	\$3,988	\$3,860
Policies < \$5K	87%	87%
Policies < \$10K	94%	94%

Residual Market Share Trending



Depopulation Programs



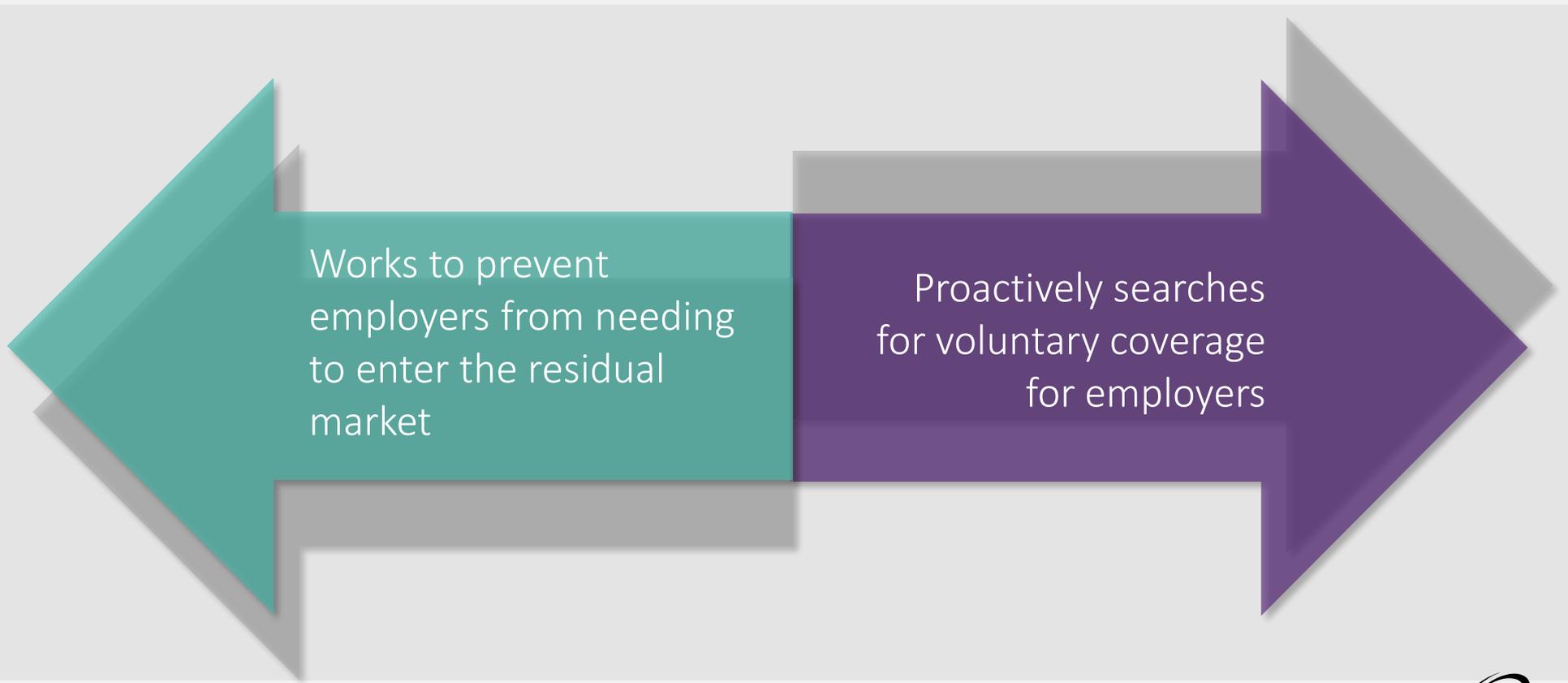
Depopulation

Take-Out Credit Program



- Eliminates disincentives
- Provides credits towards voluntary premium
- In 2020,
 - \$133MM generated in credits
 - 25,000 policies removed or kept out of the residual market

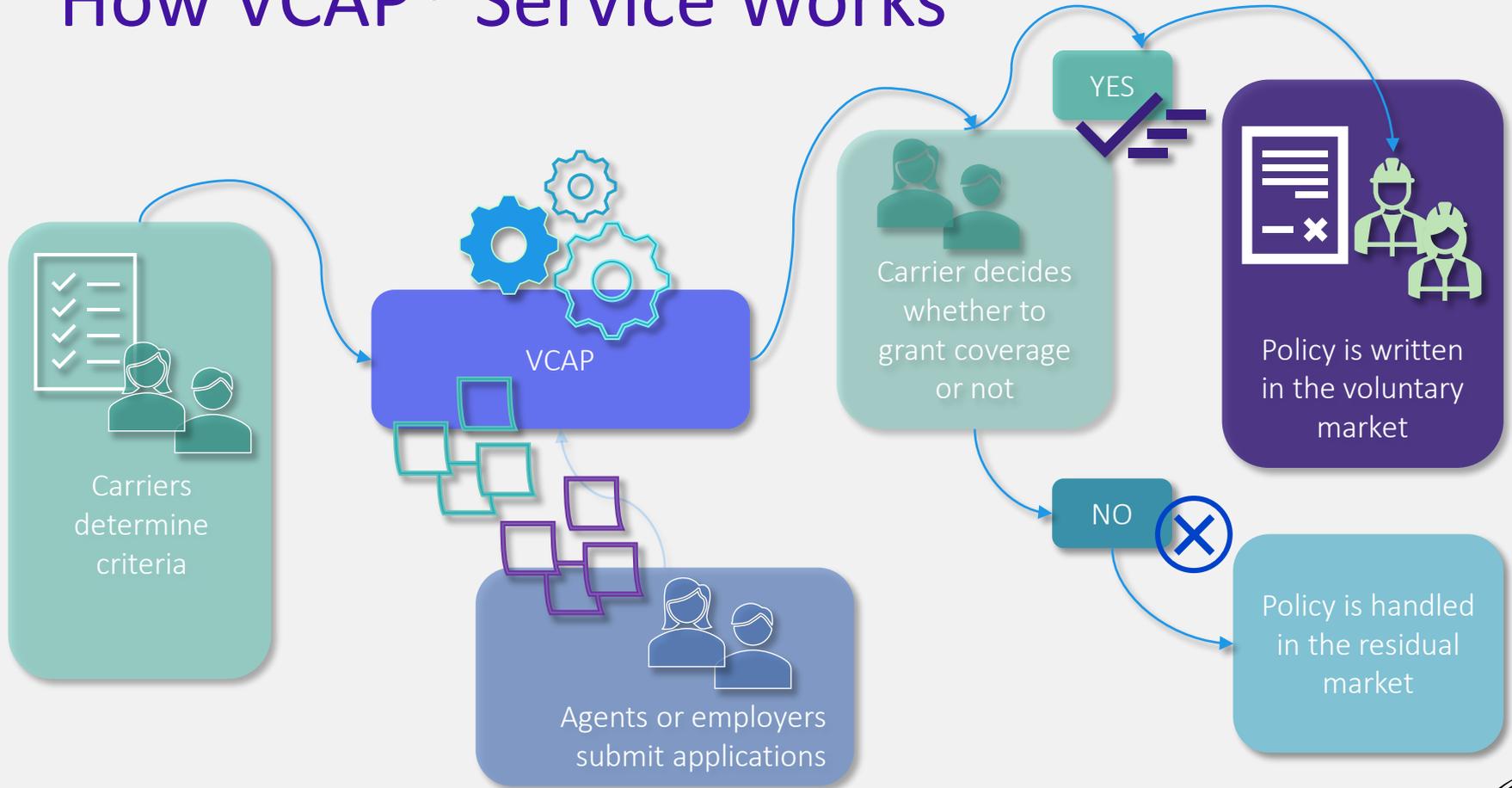
Depopulation | VCAP[®] Service



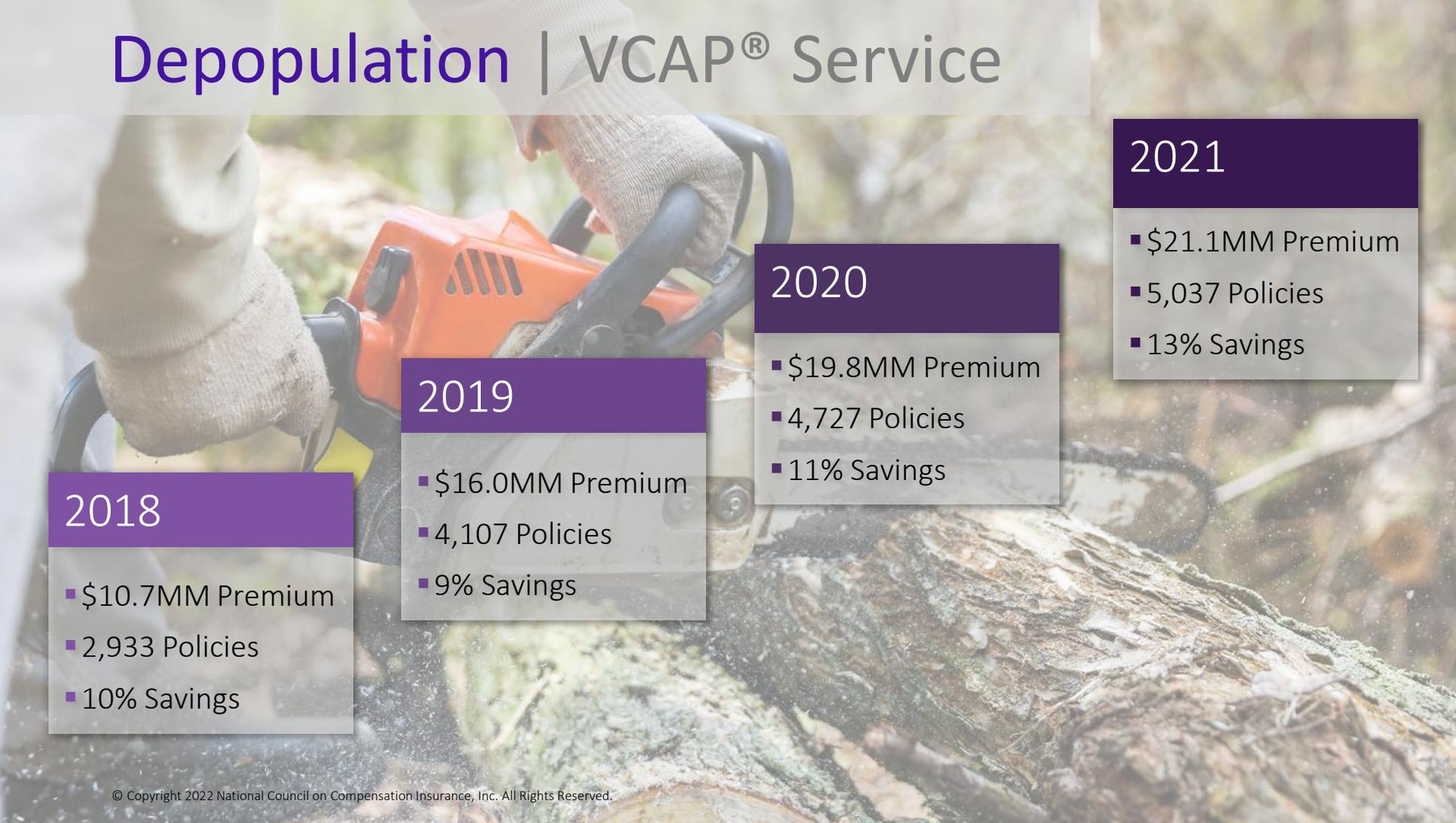
Works to prevent employers from needing to enter the residual market

Proactively searches for voluntary coverage for employers

How VCAP[®] Service Works



Depopulation | VCAP[®] Service



2018

- \$10.7MM Premium
- 2,933 Policies
- 10% Savings

2019

- \$16.0MM Premium
- 4,107 Policies
- 9% Savings

2020

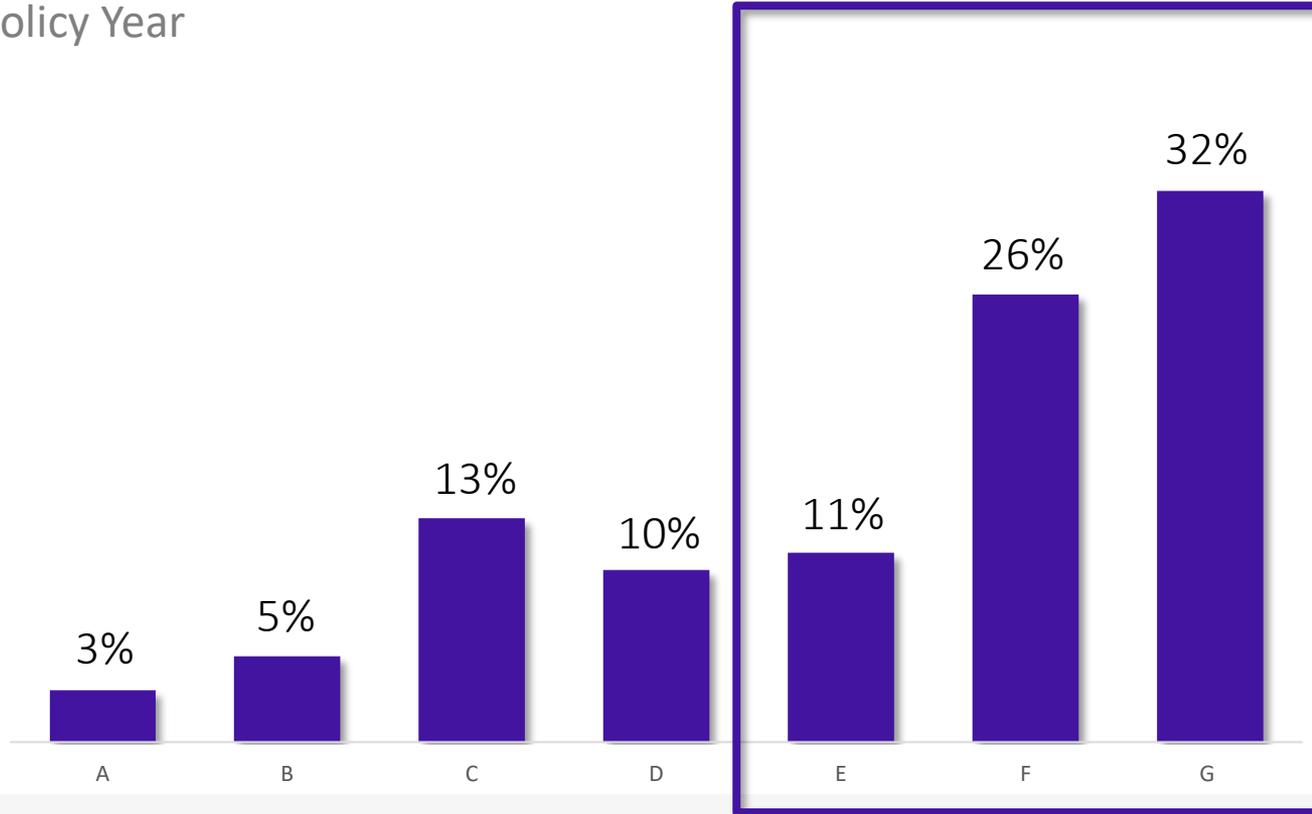
- \$19.8MM Premium
- 4,727 Policies
- 11% Savings

2021

- \$21.1MM Premium
- 5,037 Policies
- 13% Savings

Hazard Group Premium Concentration

2021 Policy Year



Hazard Group

2022 Bid States | In-Force Volumes

ALABAMA	ARKANSAS	WASHINGTON D.C.	GEORGIA	KANSAS	NORTH CAROLINA	OREGON	SOUTH DAKOTA	TENNESSEE
Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium
\$7.9 MM	\$18.6 MM	\$3.4 MM	\$57.6 MM	\$18.3 MM	\$58.8 MM	\$20.8 MM	\$5.3 MM	\$41.0 MM
Policy Count	Policy Count	Policy Count	Policy Count	Policy Count				
1,400	5,322	702	18,300	4,713	22,298	5,010	847	8,160
Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size				
\$5,624	\$3,489	\$4,804	\$3,145	\$3,886	\$2,637	\$4,160	\$6,265	\$5,026
								

State of the Residual Market

COVID-19 Claims

- Limited direct impact on residual market losses
- Uncertain indirect impact on premium/collectability



Residual market premium and market share are on a gradual decline



Concentration in high hazard groups reflects possible volatility in losses and operating results



The residual market is self-funded in the aggregate, but this varies by state



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