



State of the Residual Market

Cliff Merritt, Senior Division Executive—
Residual Markets

RESIDUAL MARKET
FORUM
2023

State of the Residual Market

Premium continues gradual decline—aided by depopulation programs



Self-funded in the aggregate



High hazard concentration creates potential volatility



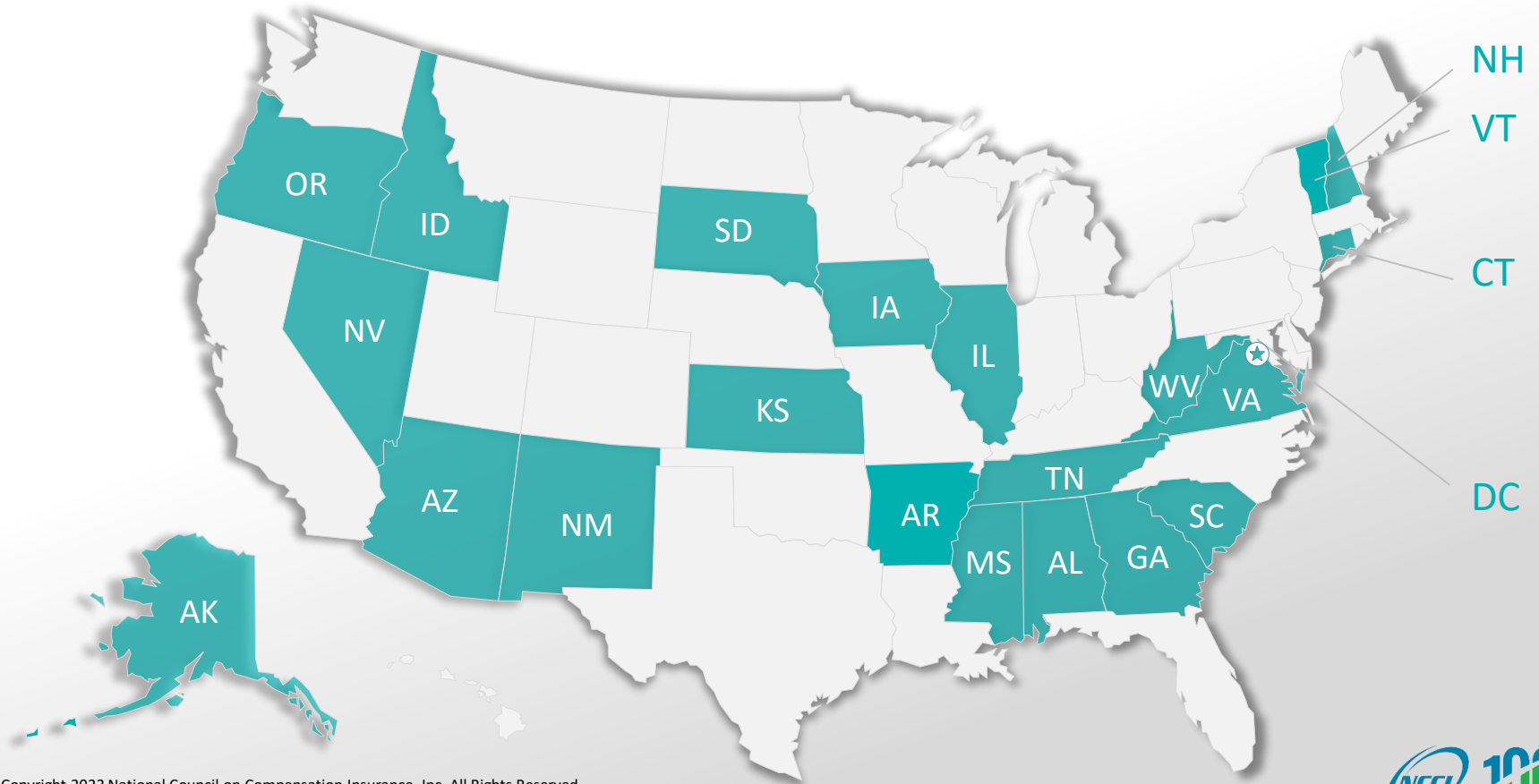
Uncollectible premium a concern



TOPICS

- Assigned Risk Plan volumes, composition, and year-over-year trends
- Depopulation programs
- Reinsurance Pool financial results and trends
- 2022 administration achievements
- Developments and activities—2023 and beyond
- 2023 Servicing Carrier bid states

Plan Data



In-Force Plan Premium

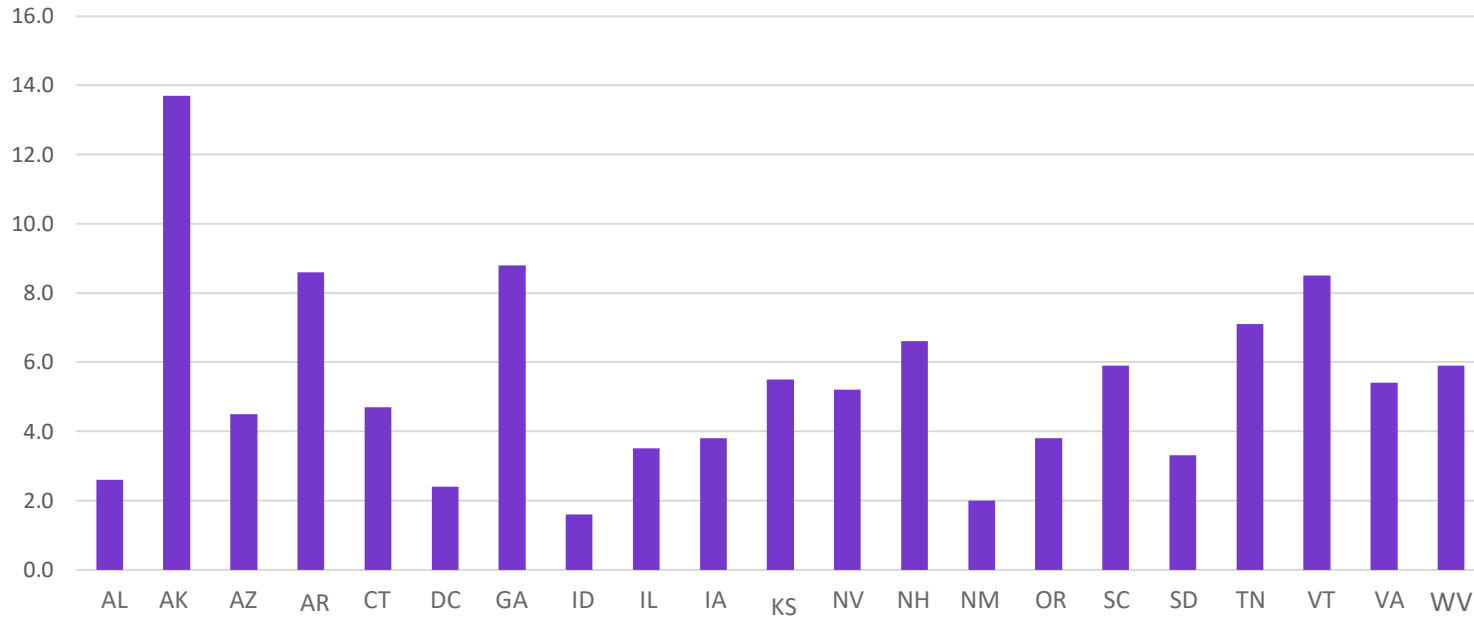
As of December 31, 2020–December 31, 2022

	2020	2021	2022
Premium	\$559.6MM	\$543.0MM	\$491.0MM
Policies	140,312	131,886	126,052
Average Policy Size	\$3,988	\$3,860	\$3,895
Policies < \$5K	87%	87%	87%
Policies < \$10K	94%	94%	94%

Residual Market Premium Market Share

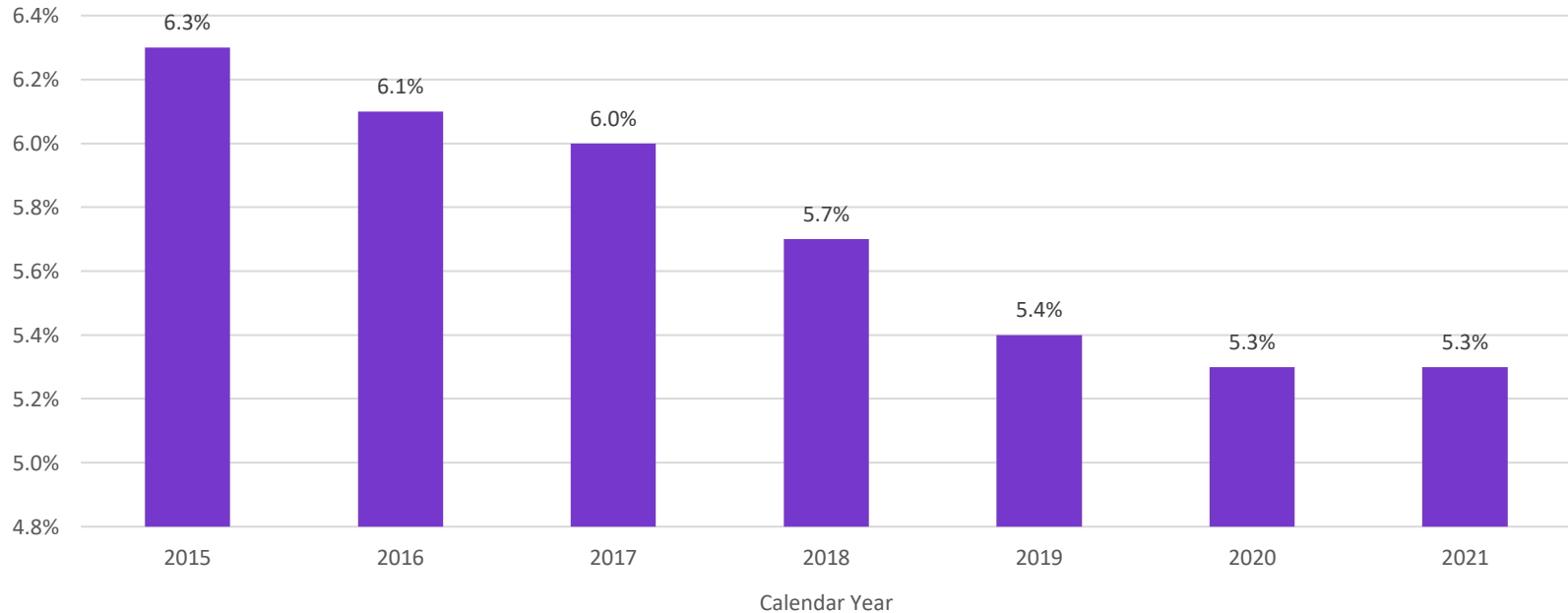
Calendar Year 2021

% of Total State Premium



Residual Market Share

Share of Calendar Year Direct Written Premium
NCCI Plan Administration States



Residual Market Top 10 Classification Codes

2022 Policy Effective Dates

Plan Policy Count

5645—Carpentry (13.02%)

5551—Roofing (6.29%)

5437—Carpentry (6.21%)

5474—Painting (5.86%)

7219—Trucking (5.17%)

5445—Wallboard, Sheetrock, Drywall, Plasterboard (2.71%)

9014—Janitorial Services by Contractors (2.4%)

5022—Masonry (2.18%)

5190—Electrical Wiring (1.65%)

0106—Tree Pruning, Spraying, Repairing (1.62%)

Plan Premium Volume

5645—Carpentry (10.29%)

5551—Roofing (8.15%)

7219—Trucking (4.14%)

5474—Painting (3.40%)

5437—Carpentry (3.01%)

0106—Tree Pruning, Spraying, Repairing (2.48%)

9014—Janitorial Services by Contractors (1.92%)

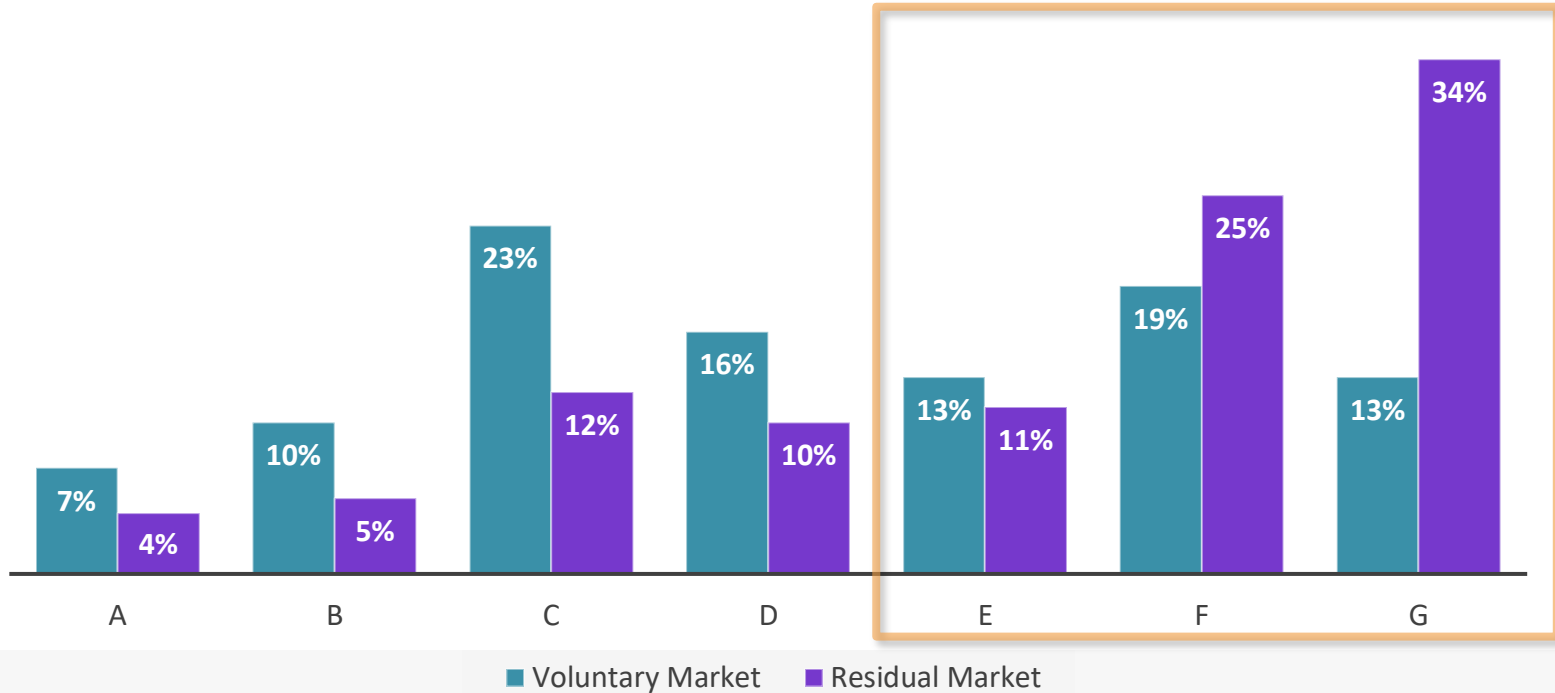
5445—Wallboard, Sheetrock, Drywall, Plasterboard (1.87%)

5403—Carpentry (1.67%)

7720—Police Officers & Drivers (1.57%)

Hazard Group Premium Concentration

2022 Policy Year





Interesting 2022 Accounts



Interesting 2022 Accounts

- Moose Chiropractor



Interesting 2022 Accounts

- Moose Chiropractor
- Professional Sports League



Interesting 2022 Accounts

- Moose Chiropractor
- Professional Sports League
 - Single-state policy
 - Largest RM policy—
\$2.4MM premium
 - 21% of state's RM premium

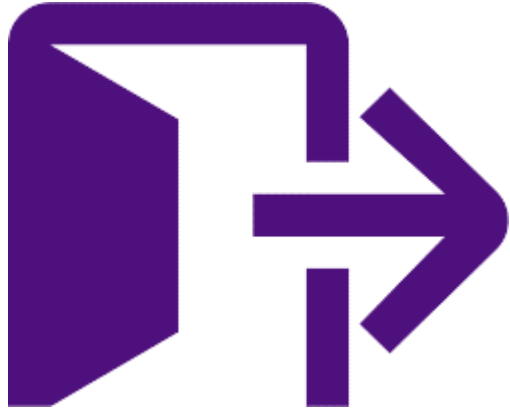


Depopulation Programs




Depopulation

Take-Out Credit Program



- Eliminates disincentives
- Provides credits towards voluntary premium
- In 2021,
 - \$111MM generated in credits
 - 23,000 policies removed or kept out of the residual market

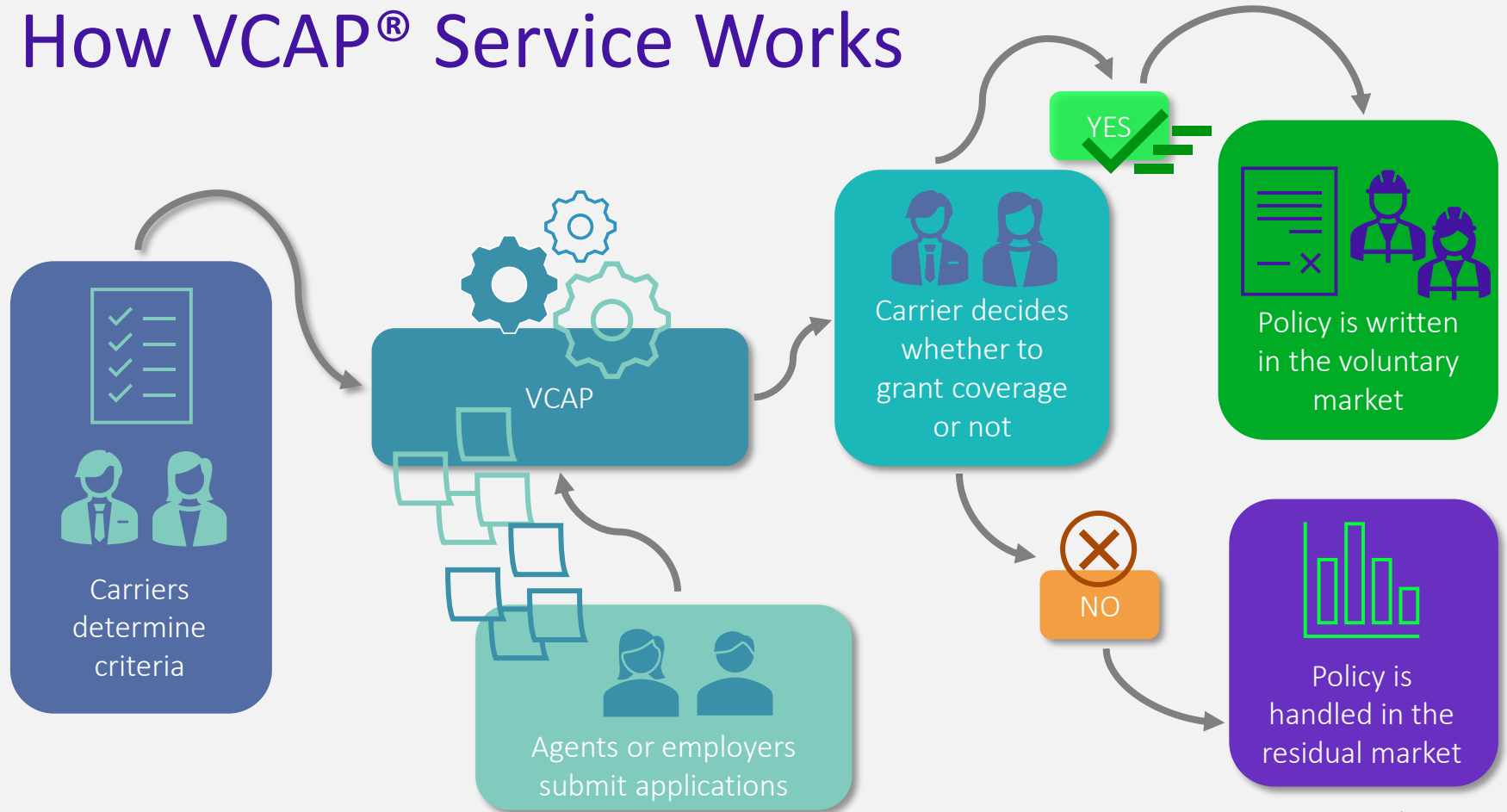
Depopulation | VCAP[®] Service



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

2022

- \$22.4MM Premium
- 4,170 Policies
- 14% Savings

Pool Data Sources

26



POOL
STATES

23



NWCRA*
NATIONAL POOL

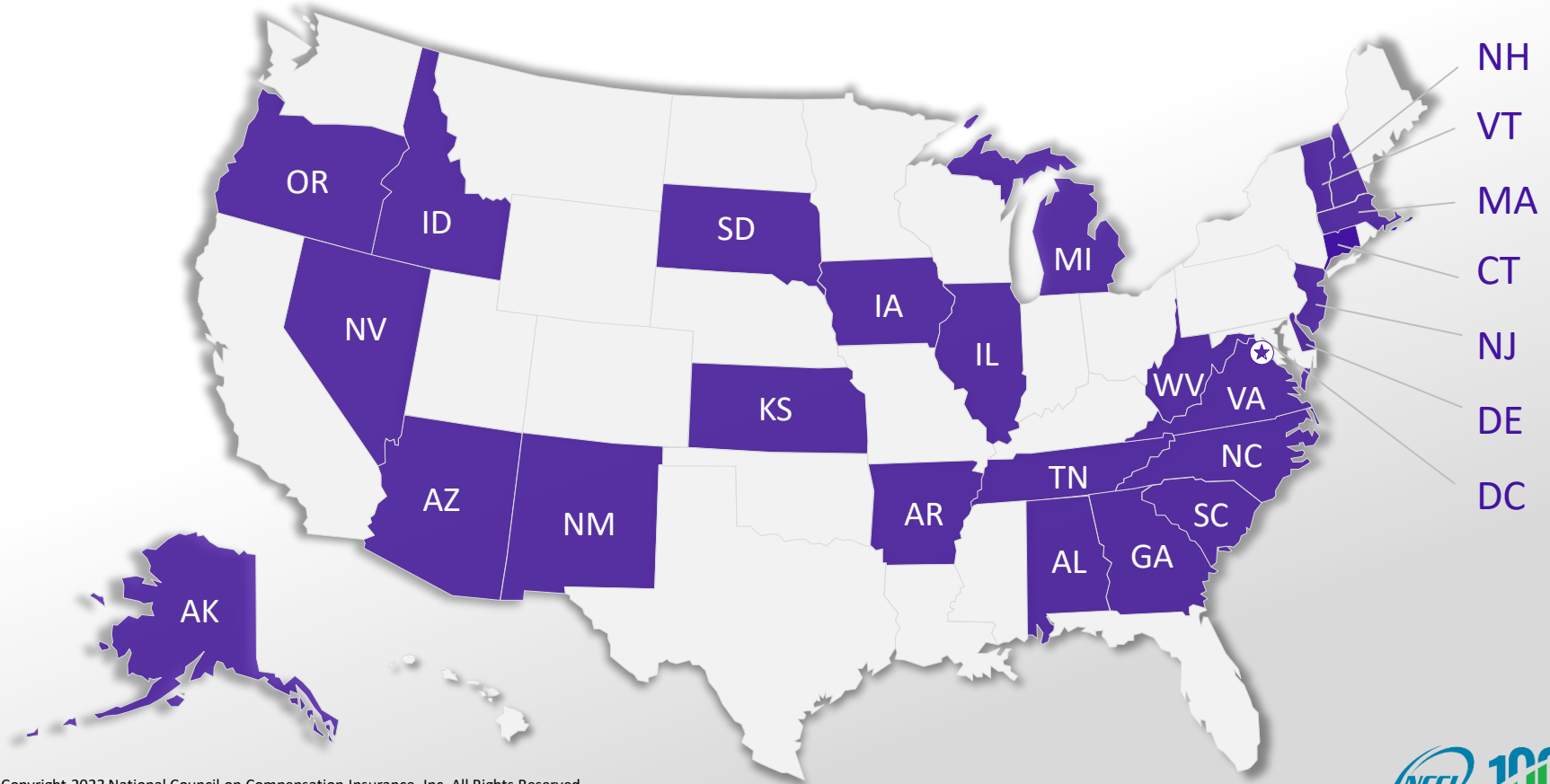
03



SINGLE-STATE
POOLS

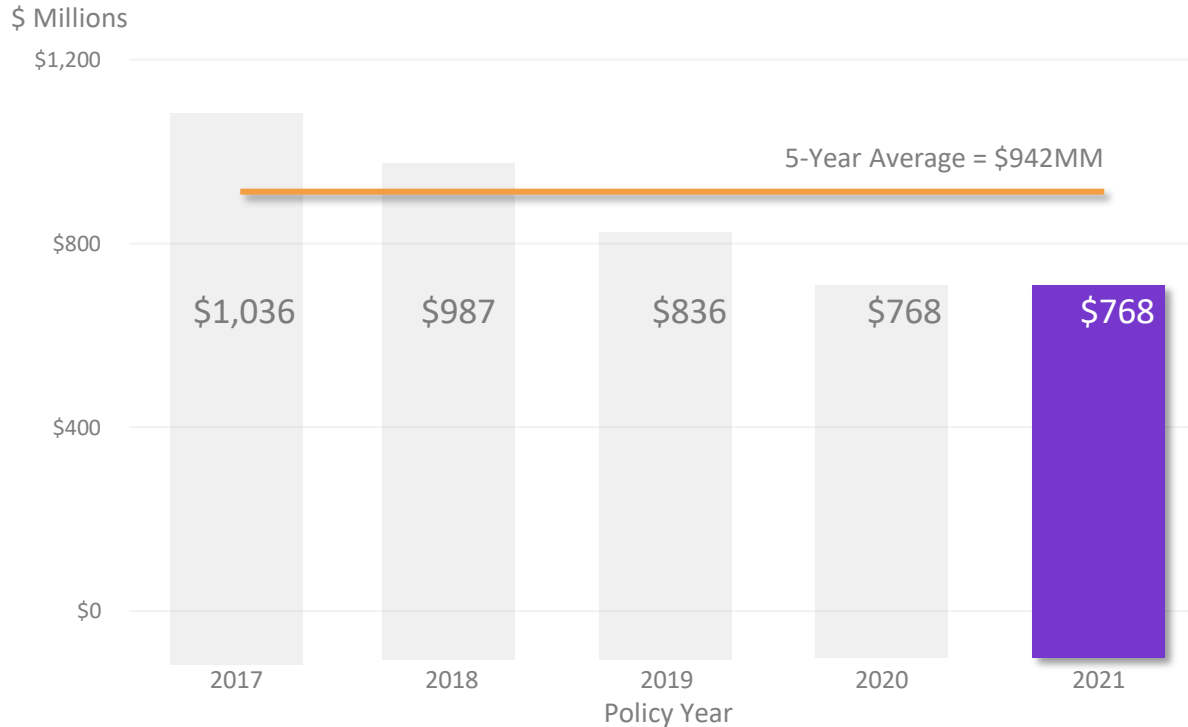
*National Workers Compensation Reinsurance Association

Pool Data Sources



Pool Premium Volume and Trending

Projection to Ultimate



26%

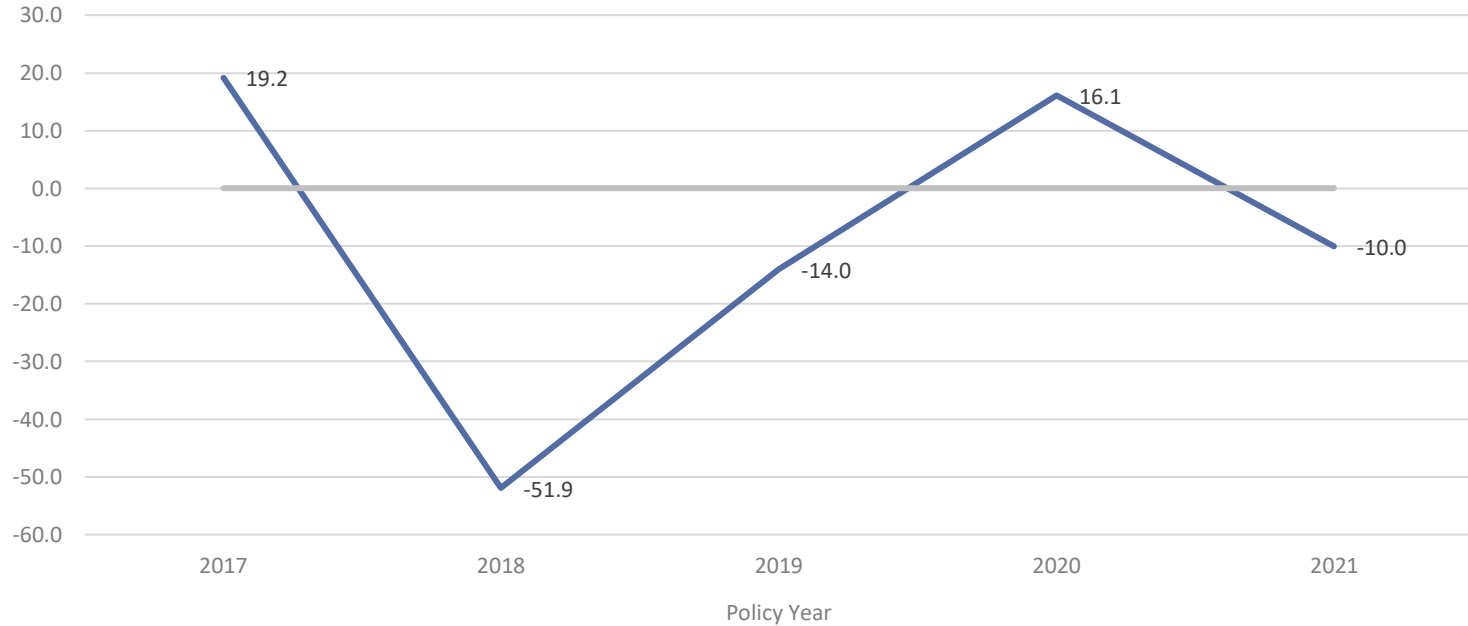


SELF-SUFFICIENT

Policy Year Operating Results

Projection to Ultimate

\$ Millions



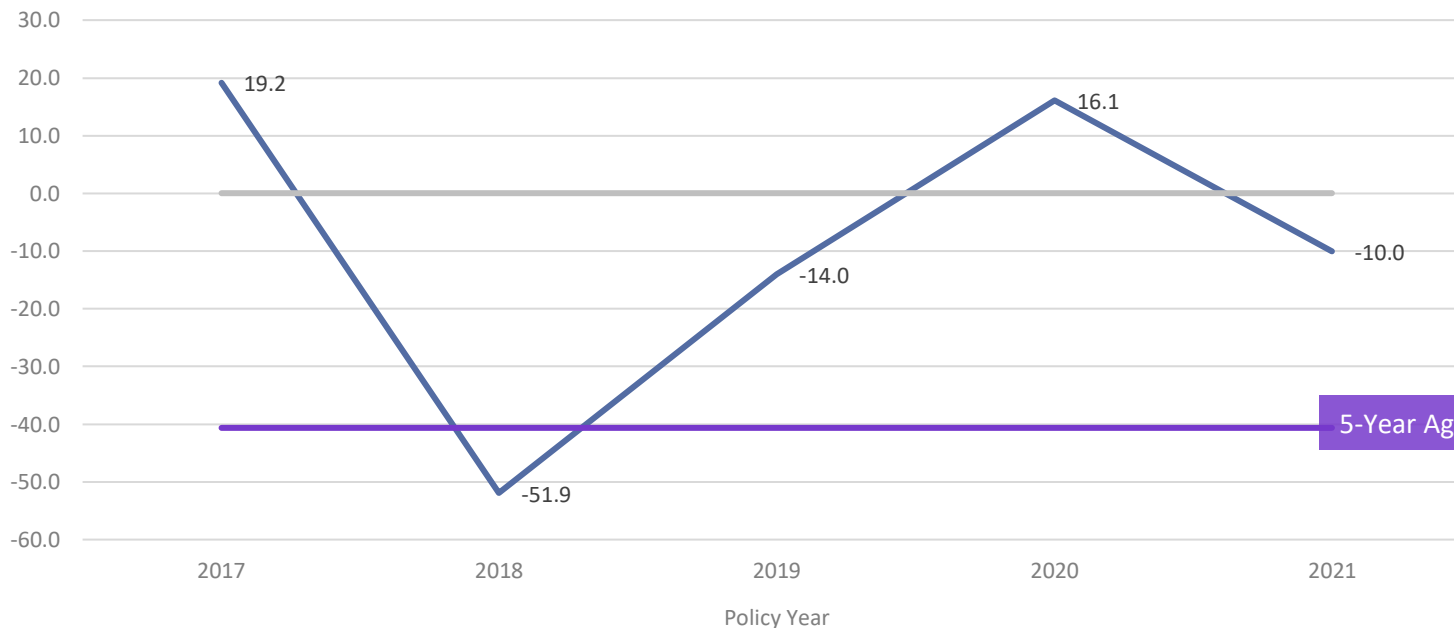
Policy Year Operating Results

Operating Gain/Loss

5-Year Aggregate

Break Even

\$ Millions

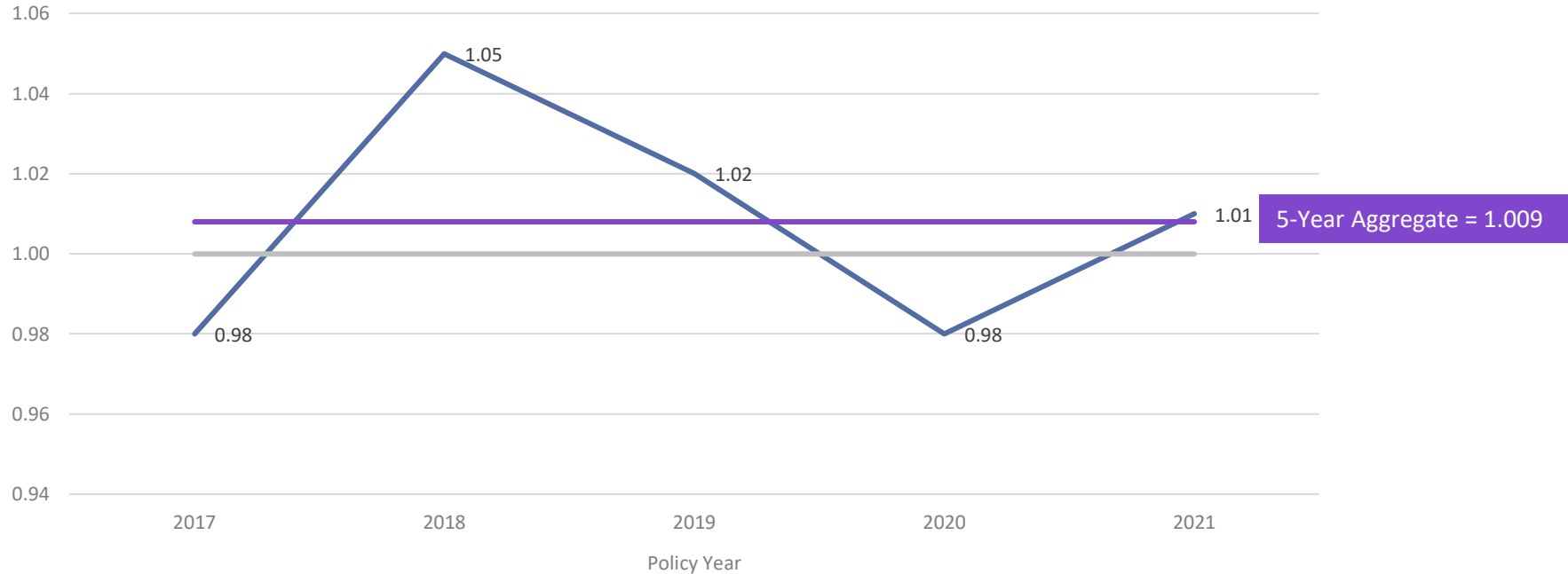


Combined Ratios | Trending

Annual Combined Ratio

5-Year Aggregate

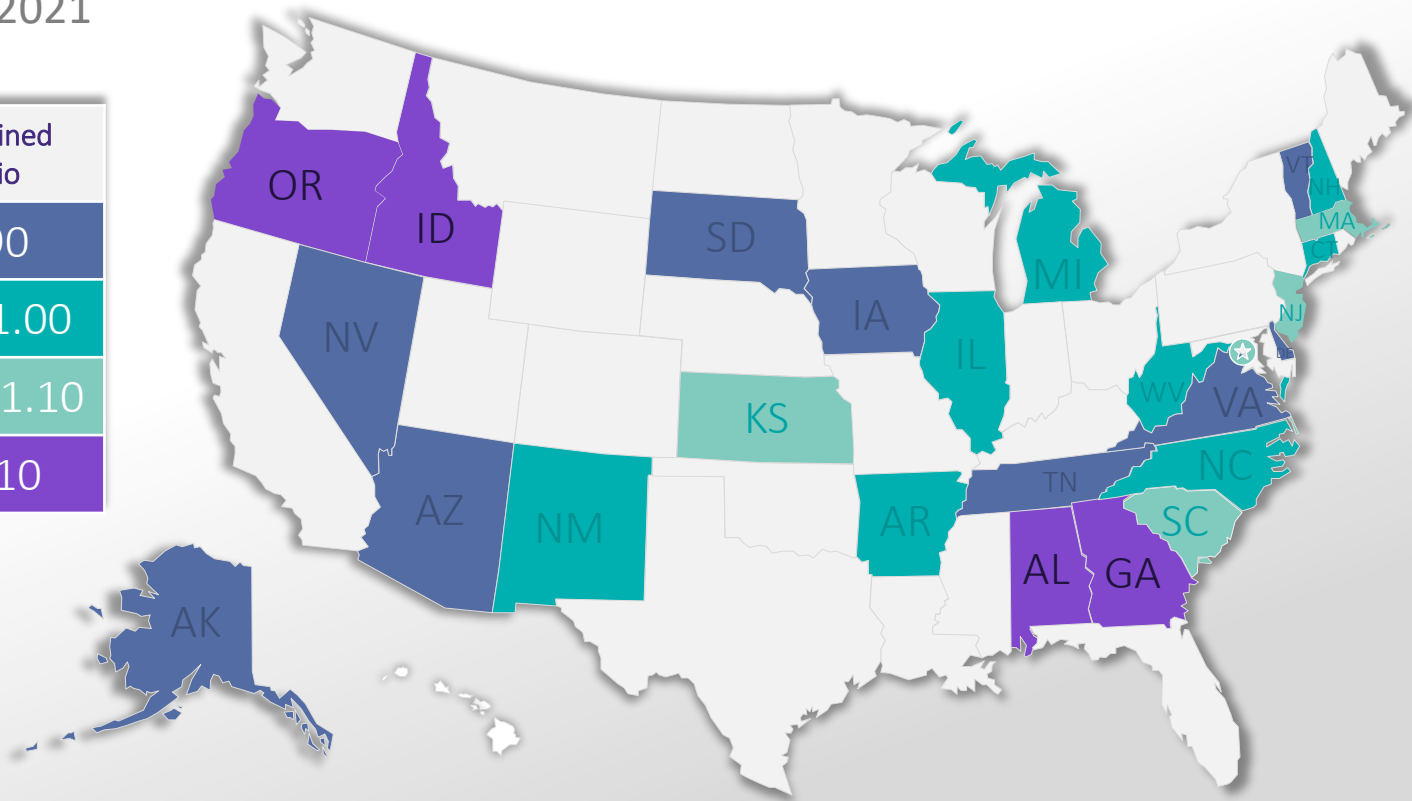
Break Even



Combined Ratios | By Jurisdiction

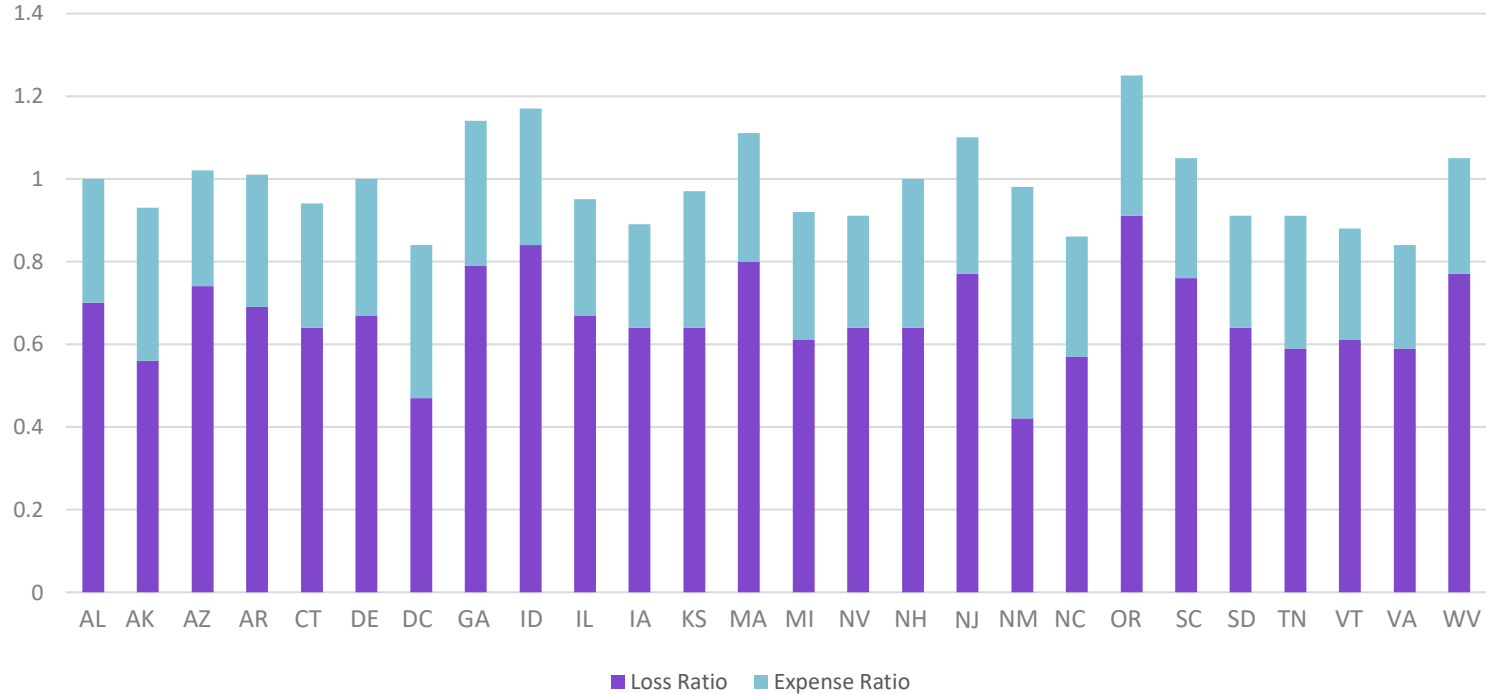
Policy Years 2017–2021

Number of Jurisdictions	Combined Ratio
9	<.90
8	.90–1.00
5	1.01–1.10
4	>1.10



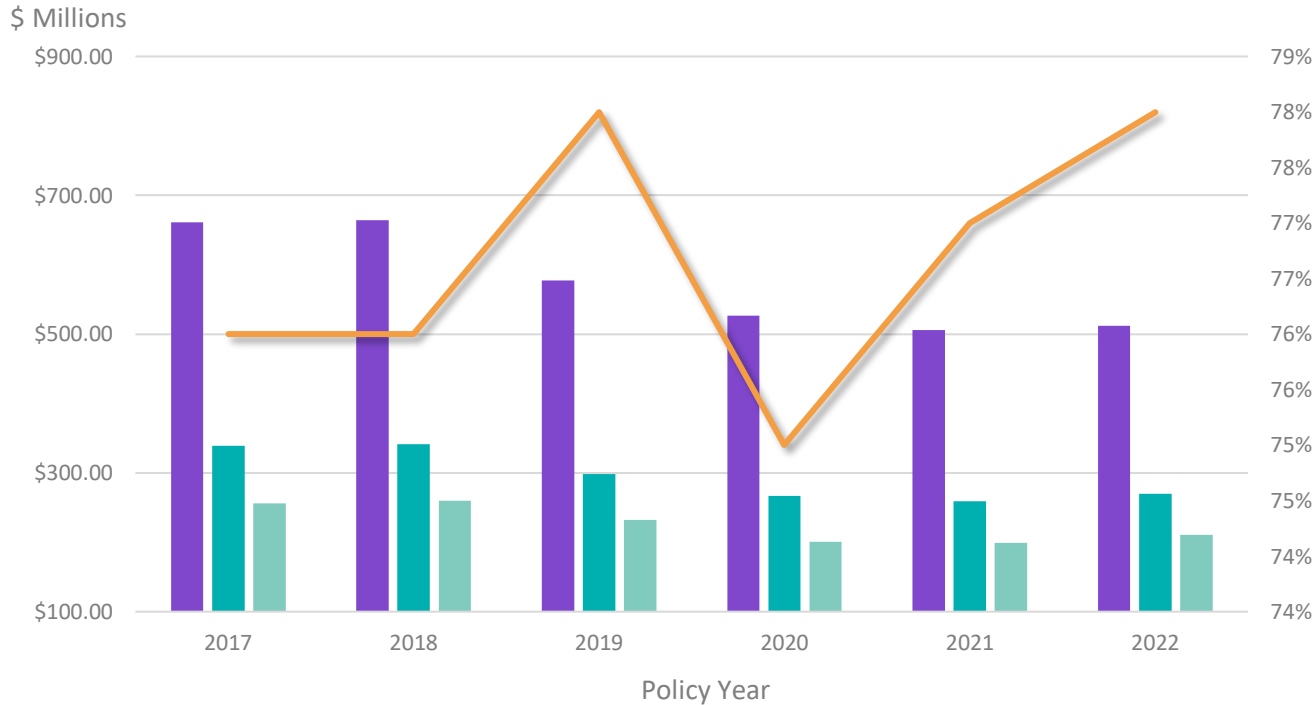
State Combined Ratios

Policy Year 2021—Projected to Ultimate



Policy Years 2017–2022

Valued at Nine Months

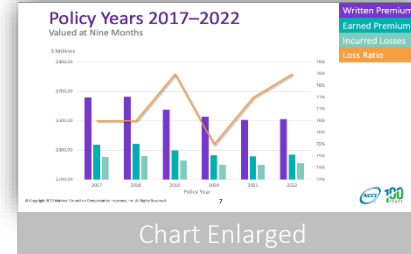


Written Premium

Earned Premium

Incurred Losses

Loss Ratio



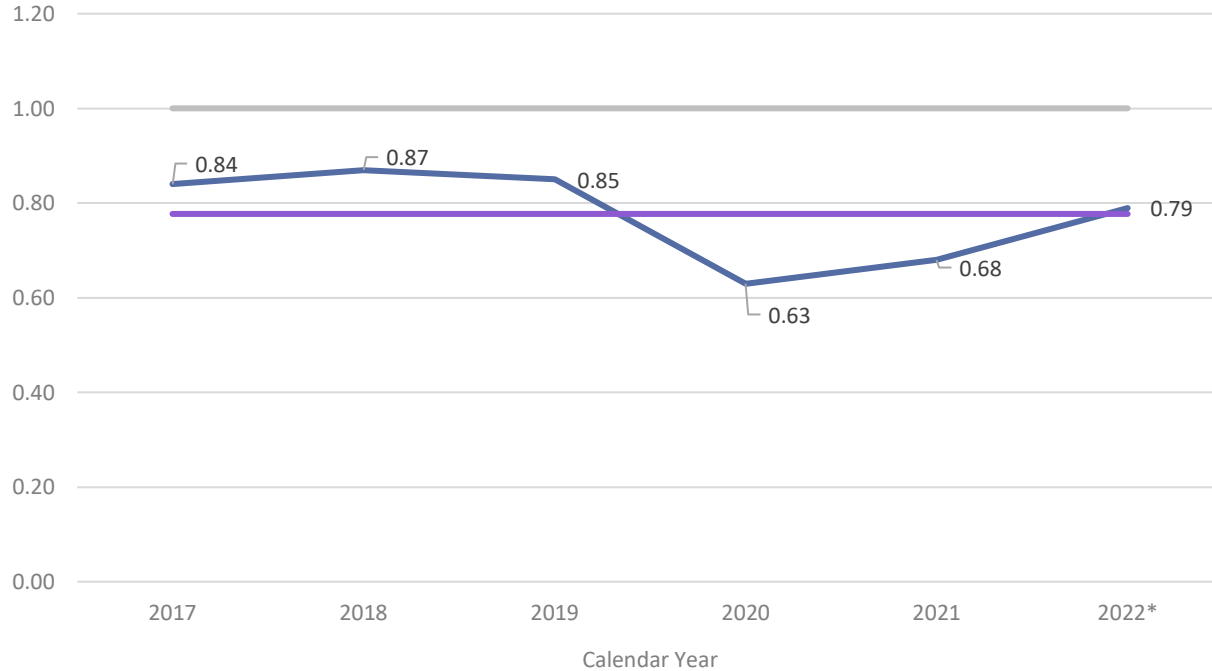
Combined Ratios

Calendar Year

Combined Ratio
Calendar Year

5-Year Aggregate

Break Even

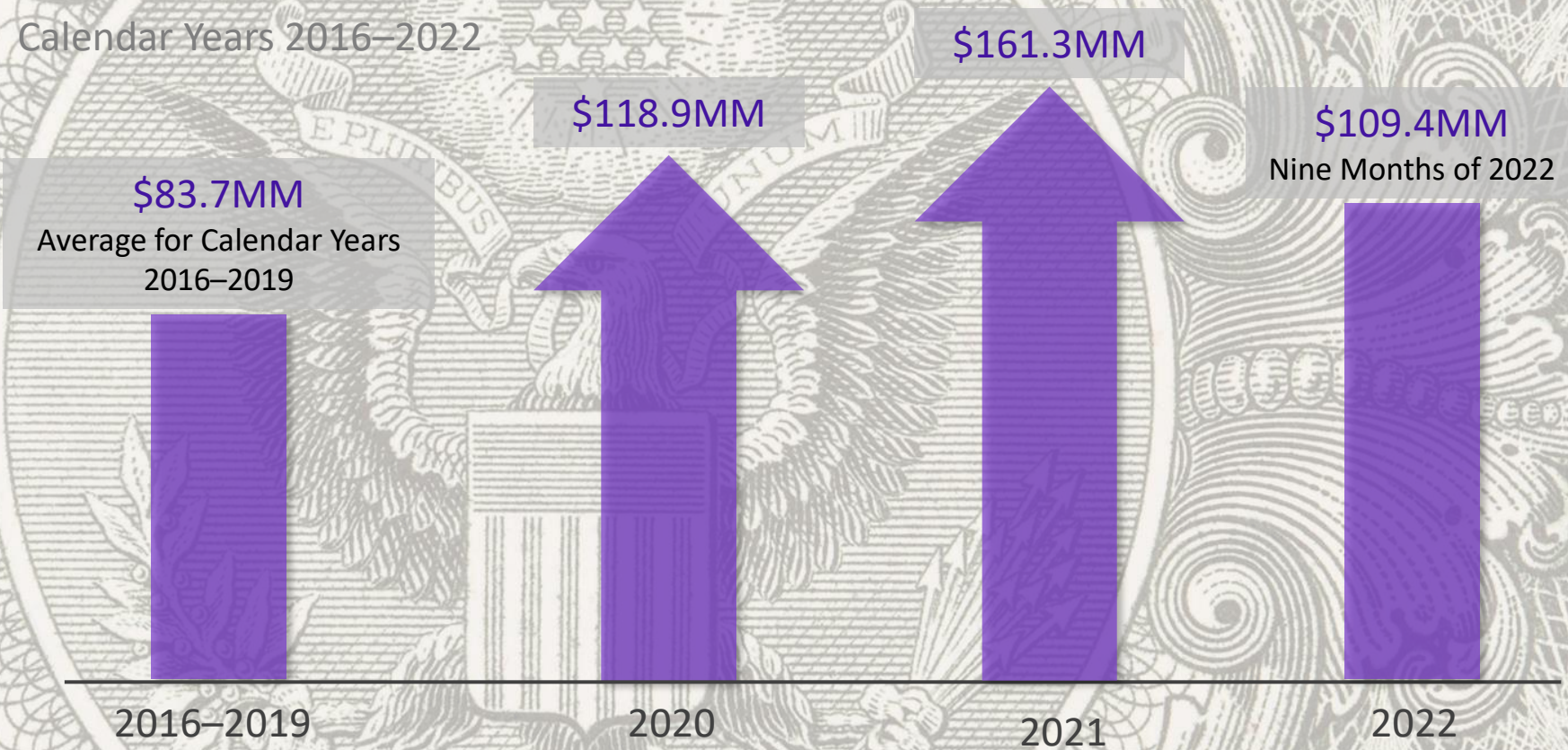


5-Year Aggregate = 0.79

*Nine months of data

Uncollectible Premium

Calendar Years 2016–2022

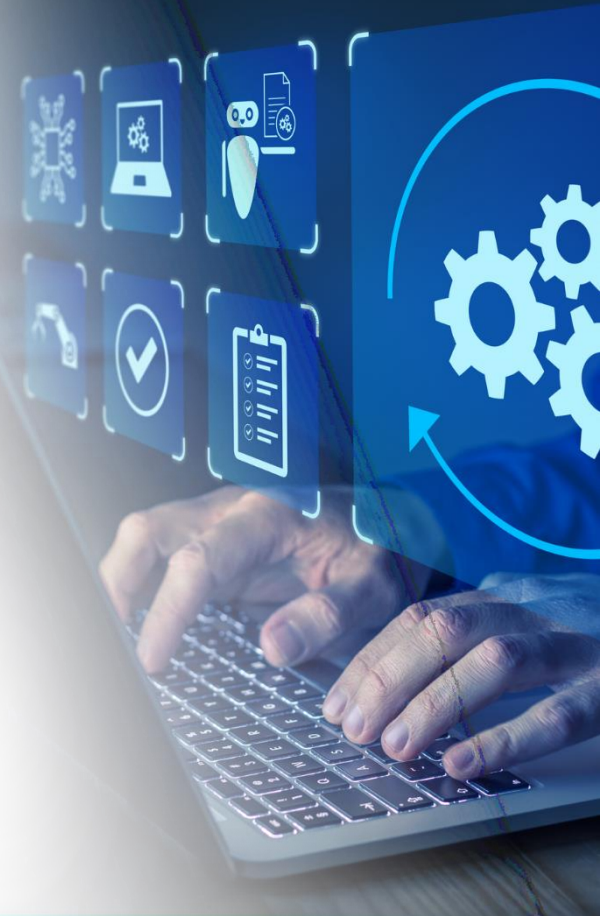


2022 Achievements

- Residual Market operating losses held to 0.1% of voluntary market premium
- System enhancements and rewrites
 - Residual Market Management System (RMMS)—replaces PPM
 - ***Pool Indemnification Management System (PIMS)***
 - ***Pool Uncollectible Premium System (PUPS)***
 - ***Carrier Audit Program (CAP)***
 - Pool Reserving System
- NCCI designated as Plan Administrator for Oklahoma

Initiatives for 2023 and Beyond


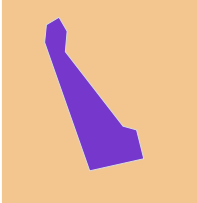
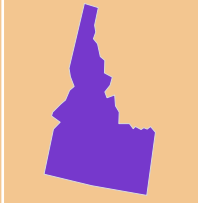
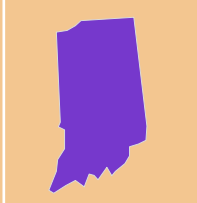
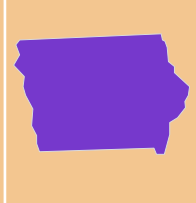
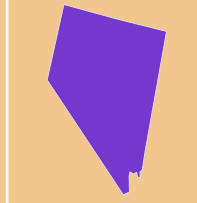
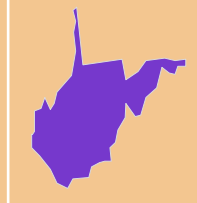
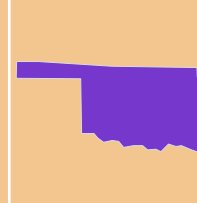
- Updating *Servicing Carrier Reference Guide (SCRG)*
- Enhancing Servicing Carrier RFP/Bid Process
- Revising *Assigned Carrier Performance Standards (ACPS)*
- Improving Policy Noncompliance (PNC) monitoring
- Reviewing *VCAP® Service* program and process
- Implementation of Oklahoma WCIP



Oklahoma WCIP

- Plan modeled after other NCCI Plan states
- Includes option for reinsurance through NWCRA's "National Pool"
- Effective date of June 1, 2024
- Servicing Carrier RFP to be included in 2023 bid cycle

2023 Bid States | In-Force Volumes

ALASKA	DELAWARE	IDAHO	INDIANA	IOWA	NEVADA	WEST VIRGINIA	OKLAHOMA*
Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium
\$21.7 MM	\$10.8 MM	\$7.5 MM	\$39.1 MM	\$20.8 MM	\$16.4 MM	\$7.9 MM	*
Policy Count	Policy Count	Policy Count	Policy Count	Policy Count	Policy Count	Policy Count	Policy Count
5,478	1,750	2,647	7,715	3,137	3,243	1,793	*
Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size	Average Policy Size
\$3,968	\$6,166	\$2,816	\$5,071	\$6,615	\$5,071	\$4,405	*
							

State of the Residual Market

Residual market premium continues its gradual decline—aided by depopulation programs



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



Concentration in high hazard groups creates potential volatility



Uncollectible premium remains a concern

