Uncollectible Premium and the Residual Market

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RESIDUAL MARKET FORUM 2023

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Key Takeaways

Uncollectible premium has been on the rise

Key Drivers are:

High risk hazard groups and construction class codes

Materially underestimated policies

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Digging Into Data

- Data: Pool, Policy, Unit
- 21 Plan States
- 26 Pool States
- Policy Years range from 2011-2020

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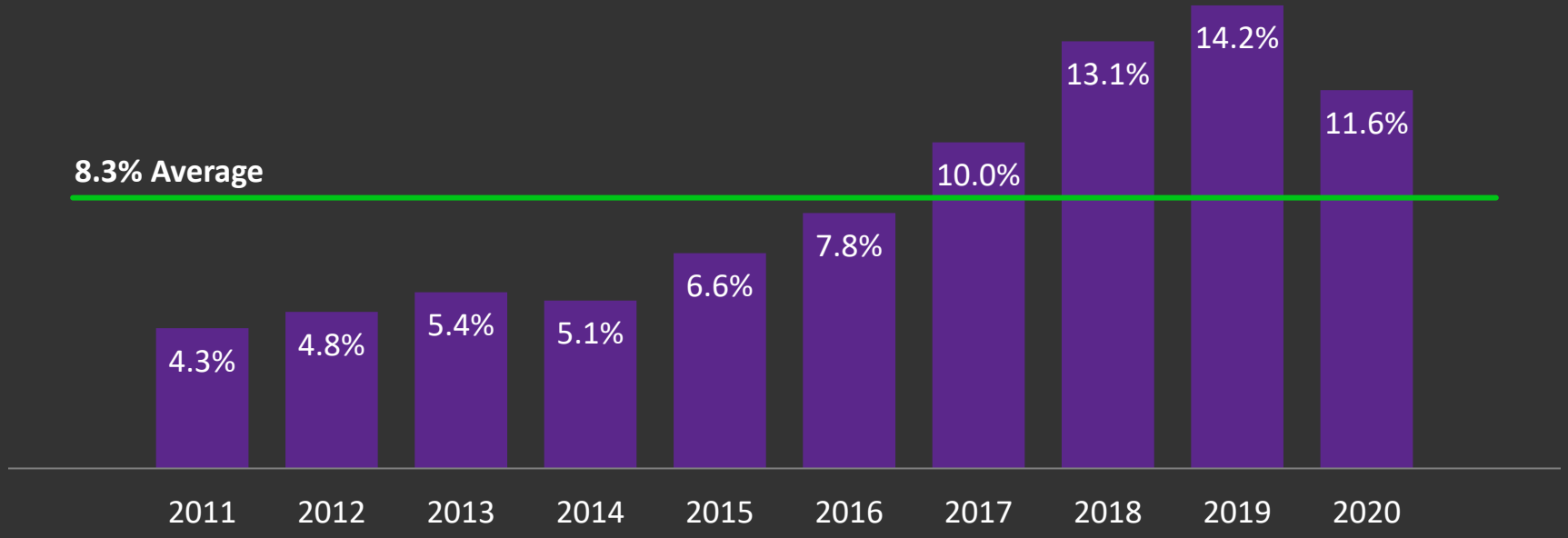
Uncollectible Premium is on the Rise

Valued at 9 months



Data Source: Pool Financial Data
Experience Period: PY 2011-2020
As a % of Written Premium - Ceded

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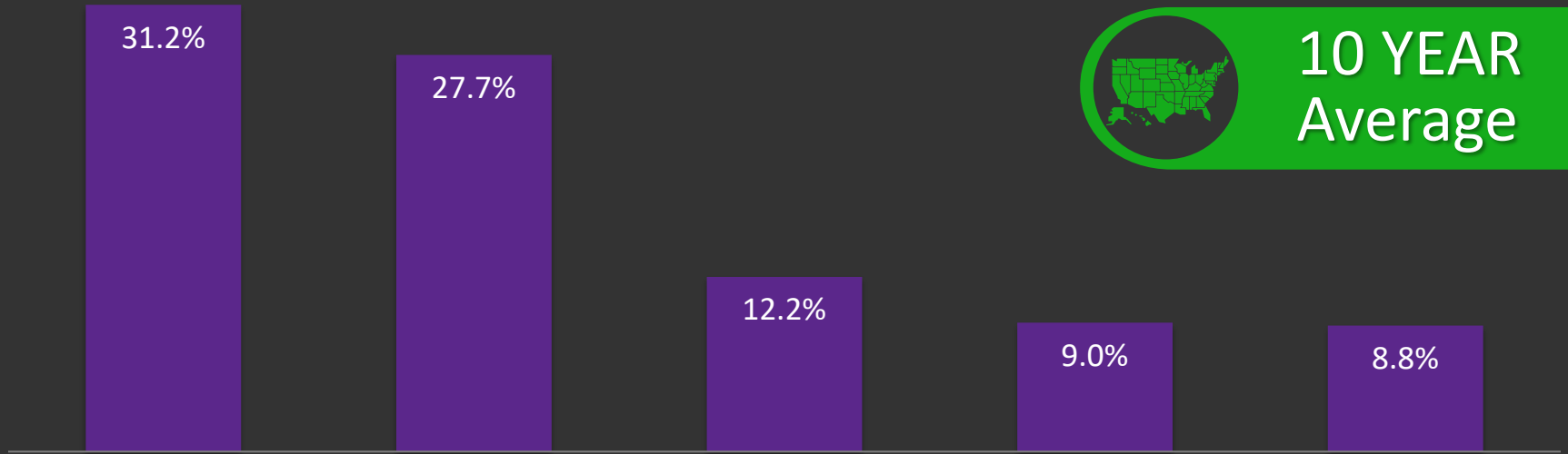
Highest 5 Uncollectible Pool States



Source: Pool Financial Data
Experience Period: PY 2011-2020
Valued at 9 months

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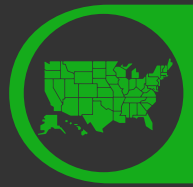
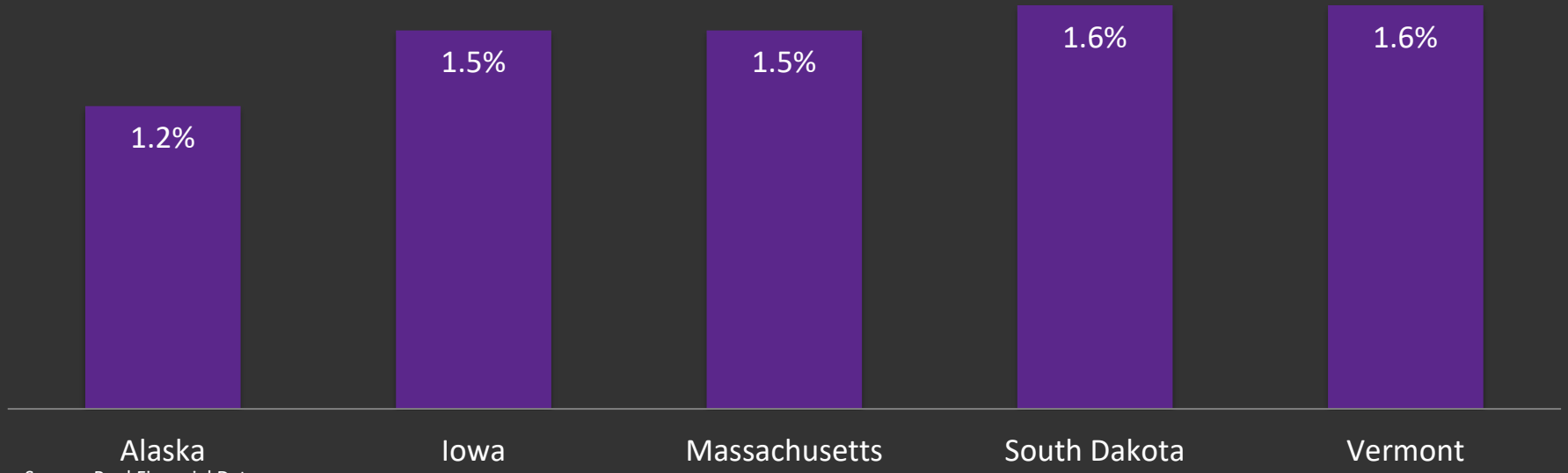
Lowest 5 Uncollectible Pool States



10 YEAR Average



Source: Pool Financial Data
Experience Period: PY 2011-2020
Valued at 9 months

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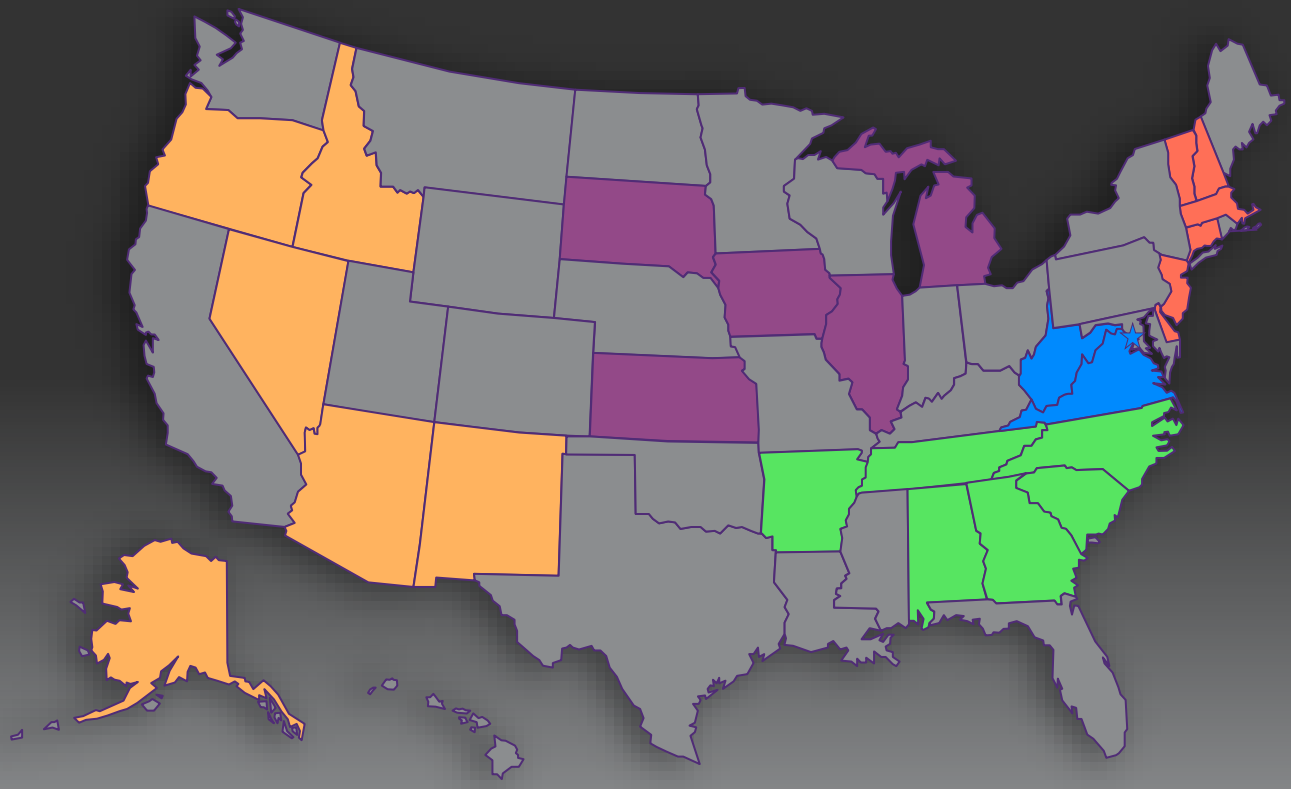
Uncollectible Premium By Region

- 22% Southeast
- 5.2% Midwest
- 4.6% Northeast
- 3.2% Western
- 3.0% Mid Atlantic



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Experience Period: 2011-2020
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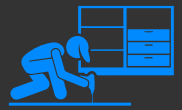
Hazard Groups and Class Codes

-High Hazard Groups F and G

-Construction Class Codes

5551

5645



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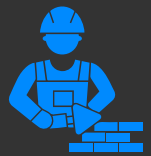

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5474

9014

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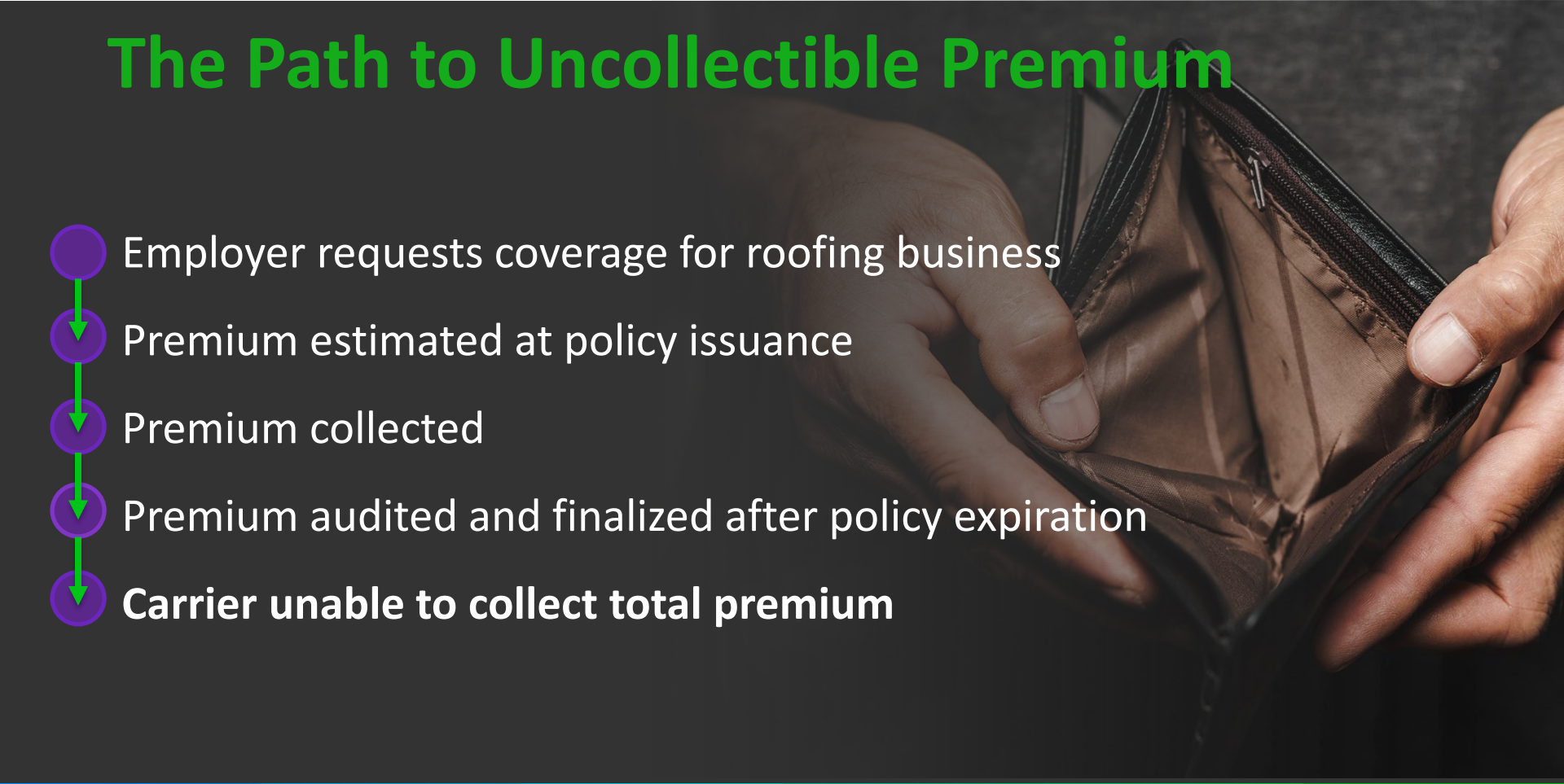
The Path to Uncollectible Premium



- Employer requests coverage for roofing business
- Premium estimated at policy issuance
- Premium collected
- Premium audited and finalized after policy expiration
- **Carrier unable to collect total premium**

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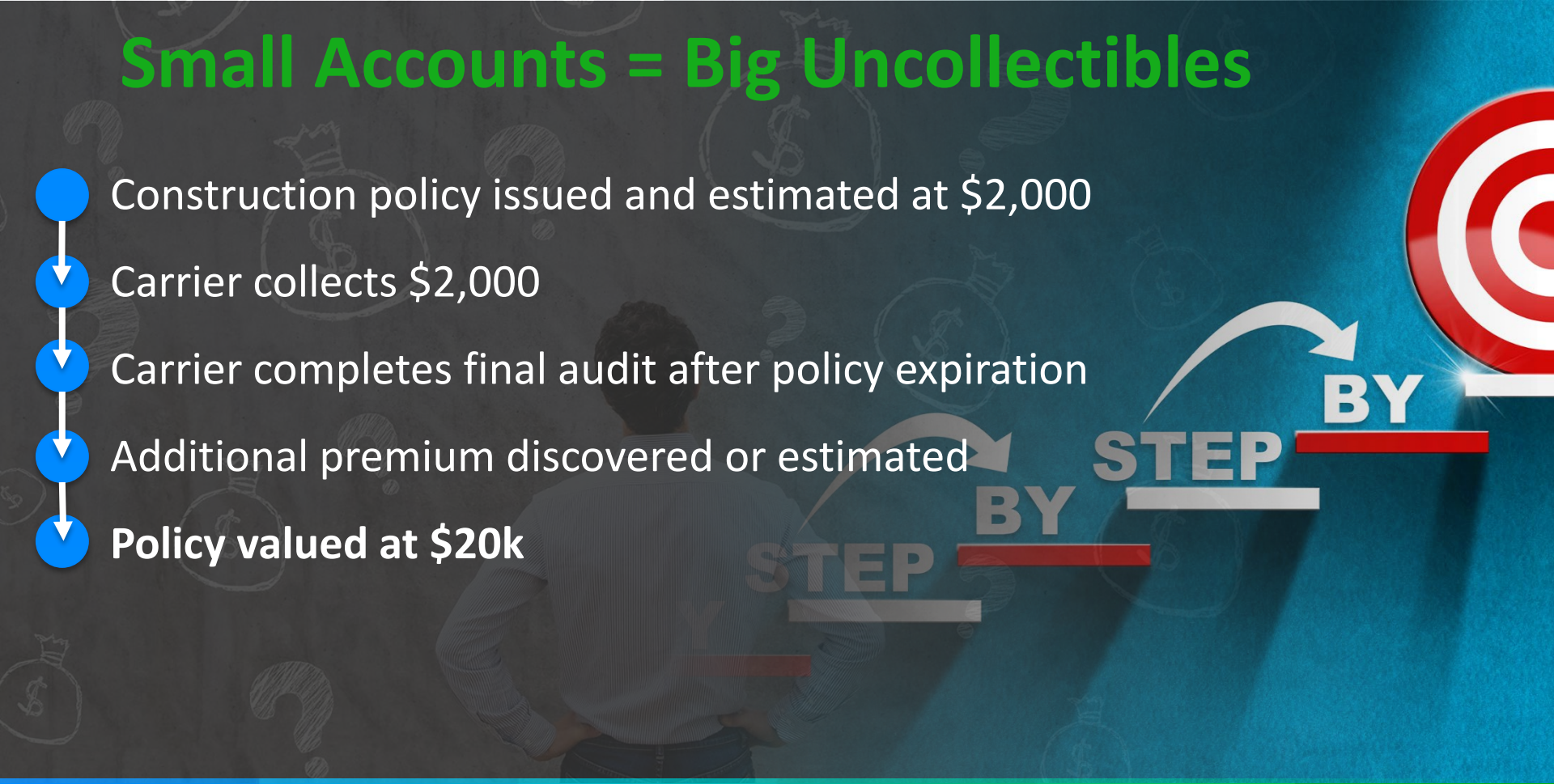
Small Accounts = Big Uncollectibles

- Construction policy issued and estimated at $2,000
- Carrier collects $2,000
- Carrier completes final audit after policy expiration
- Additional premium discovered or estimated
- **Policy valued at $20k**



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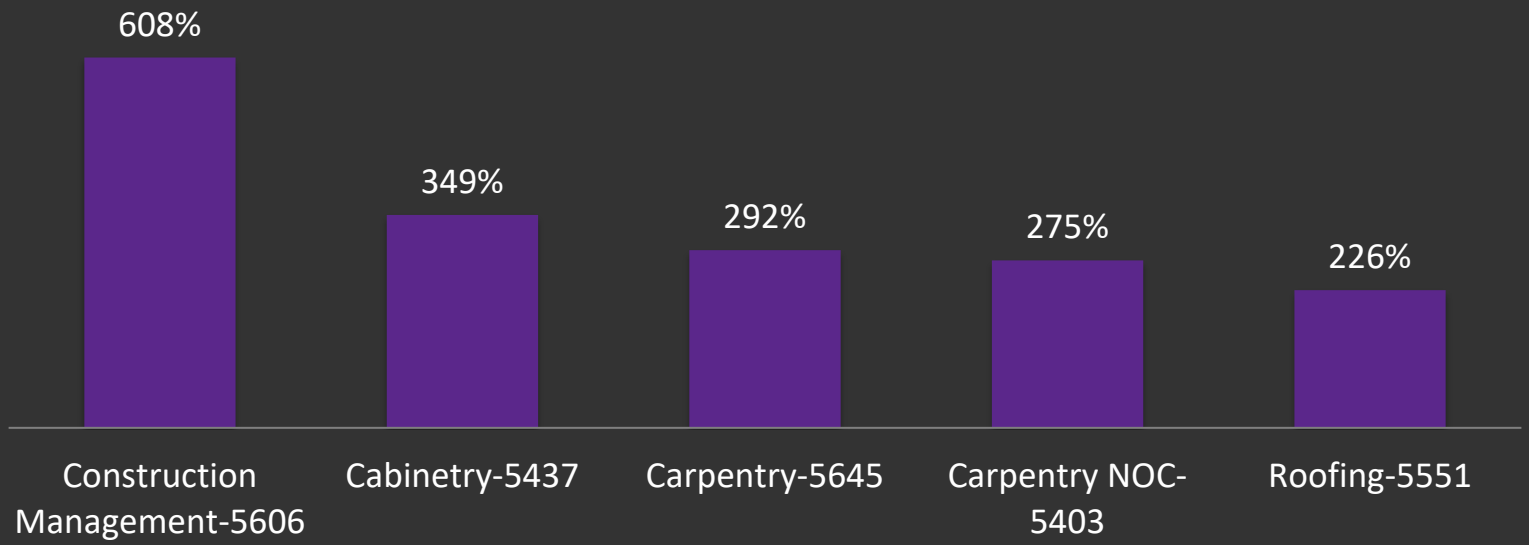
Top 5 Class Code Premium Variances



Premium materially underestimated at policy issuance for these class codes.

Data Sources-Policy and Unit Data
Experience Period-PY 2013-2020

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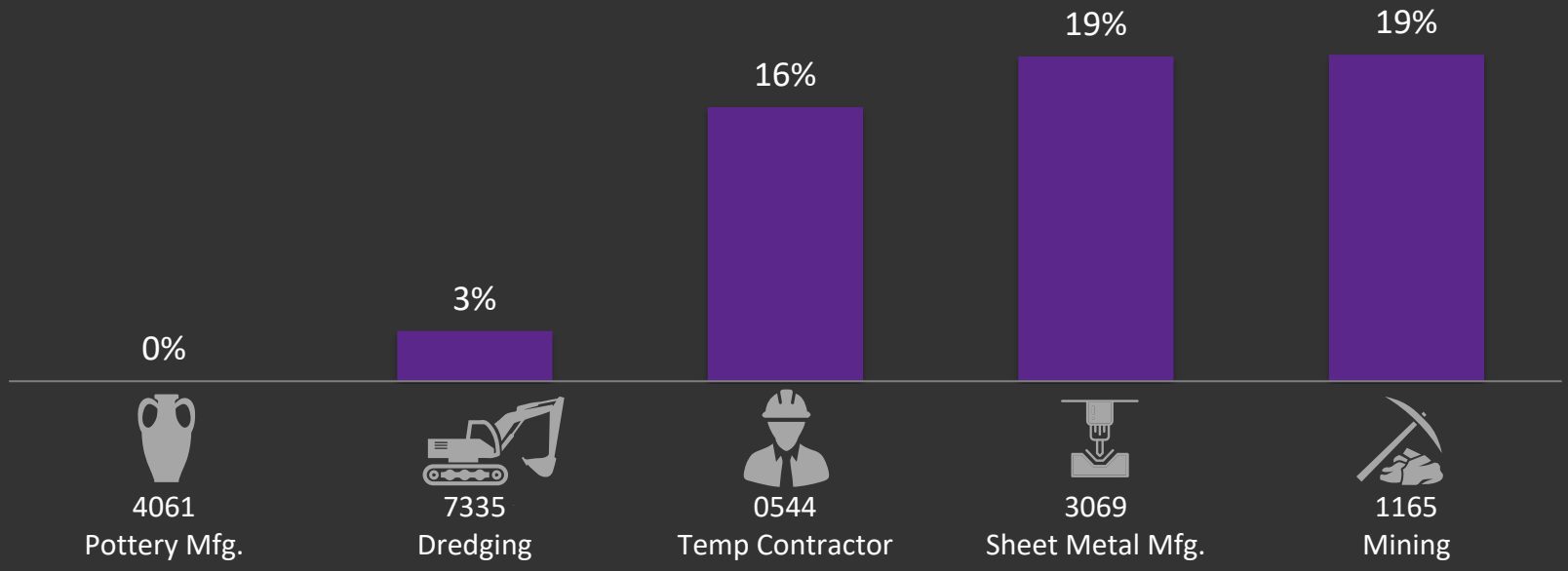
Bottom 5 Class Code Premium Variances



Premium materially overestimated at policy issuance for these class codes.

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Recap

- Uncollectible premium has been increasing
- Large variances within premium range $0-$2,499
- High risk hazard groups and construction class codes
- Policies materially underestimated key driver of uncollectible premium

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