



# Arizona Residual Market State Activity Report

First Quarter 2019



## Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the First Quarter 2019 *Arizona Residual Market State Activity Report*.

Readers will notice that the order of our charts and tables has been reorganized, based on customer feedback. This will provide a more streamlined picture of the key measurement factors and issues relating to the operation of the Arizona Plan. Residual Market demographics contained in this report include:

## Table of Contents

Residual Market Demographics	
Residual Market Total Policies and Premium in Force .....	1
Arizona Residual Market Reinsurance Pool Booked Loss Ratio .....	2
Arizona Residual Market Reinsurance Pool Ultimate Net Written Premium .....	2
Arizona Residual Market Reinsurance Pool Net Operating Results.....	3
Collections/Indemnification.....	4
Voluntary Coverage Assistance Program.....	5
Total Applications Bound .....	6
Total Application Premium Bound.....	6
Residual Market Total Policy Counts .....	7
Residual Market Total Premium Volume.....	7
Total Premium Distribution by Size of Risk.....	8
Residual Market Top 10 Classification Codes by Policy Count .....	9
Residual Market Top 10 Classification Codes by Premium Volume .....	9
Glossary of Terms.....	10

If you have any questions or comments about this report, please feel free to contact the individual listed below.

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## Residual Market Demographics

### Residual Market Total Policies and Premium in Force

#### As of March 31, 2019—compared to prior year

Total number of Assigned Risk Plan policies and estimated premium volume in force reported as of the date listed above. The other exhibits in this report describe quarterly and year-to-date data.

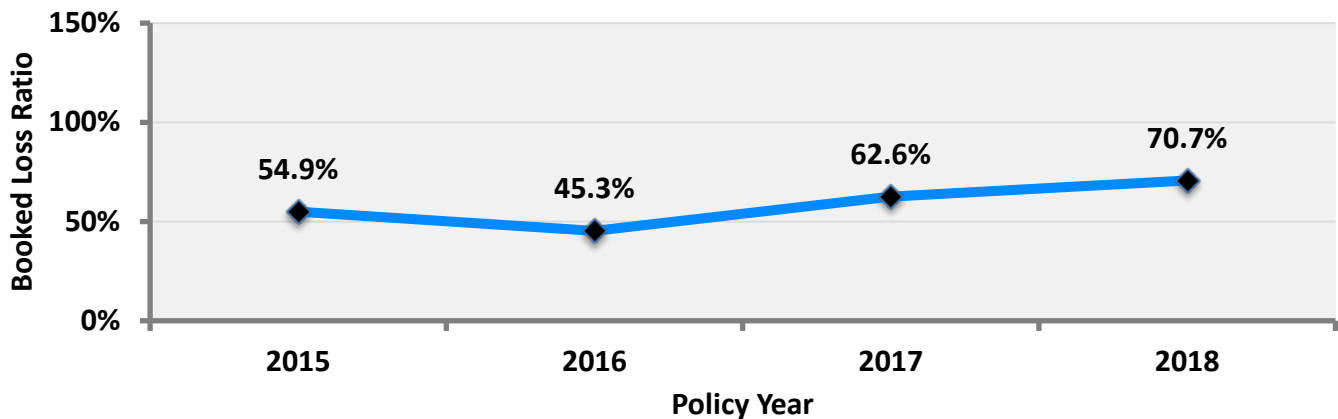
	2019	2018	2019 vs. 2018 #	2019 vs. 2018 %
<b>Policy Count</b>	5,803	5,762	41	0.7%
<b>Premium Volume</b>	\$34,353,636	\$37,108,937	\$-2,755,301	-7.4%



## Residual Market Demographics

### Arizona Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 4th Quarter 2018 for 2018 and prior years\*

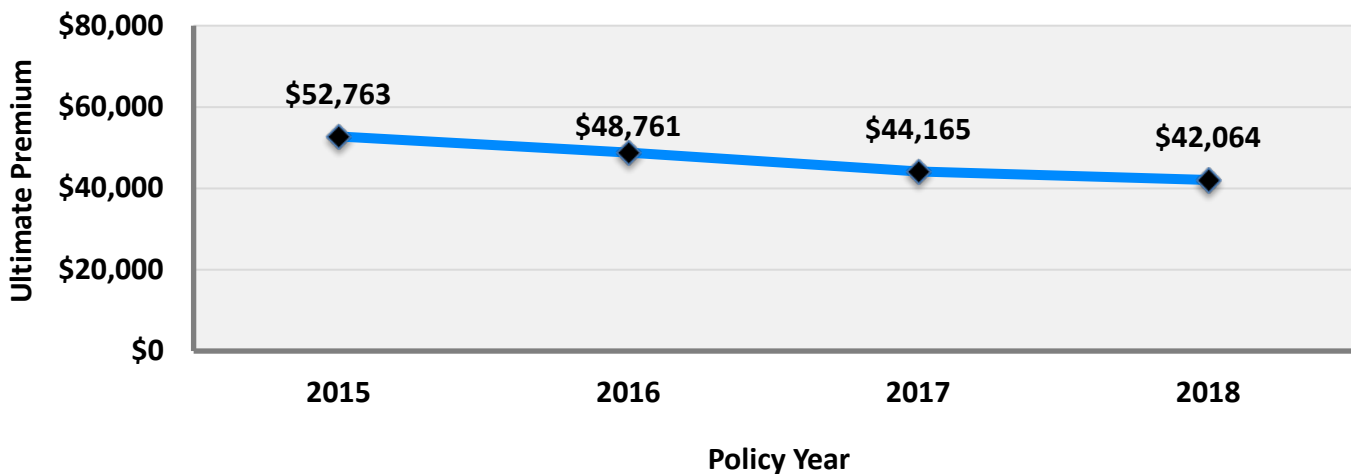
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



### Arizona Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

#### Policy Year Financial Results through 4th Quarter 2018 for 2018 and prior years\*

The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



\*1st Quarter 2019 data will be available the end of July 2019 due to the timing of data reporting

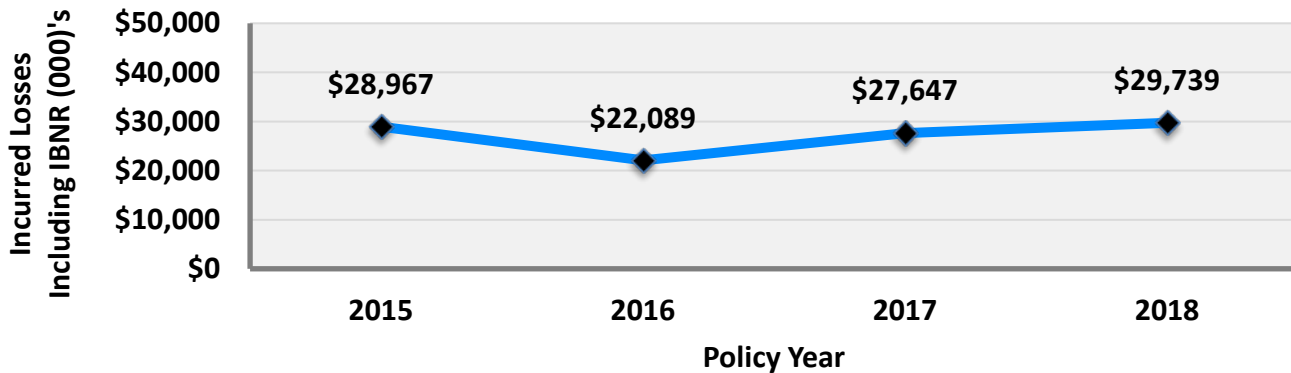


## Residual Market Demographics

### Arizona Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

#### Policy Year Financial Results through 4th Quarter 2018 for 2018 and prior years\*

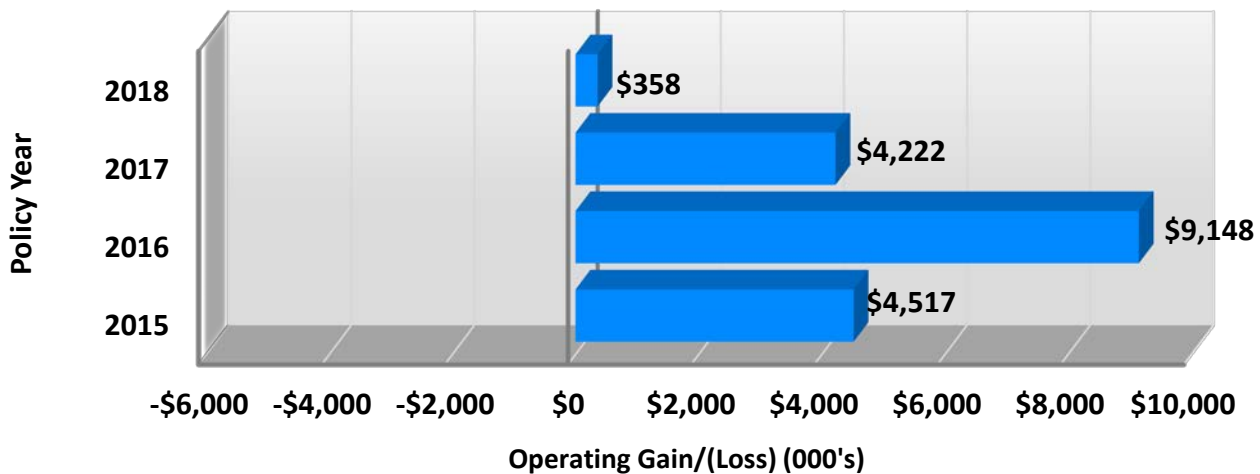
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



### Arizona Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

#### Policy Year Financial Results through 4th Quarter 2018 for 2018 and prior years\*

The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



\*1st Quarter 2019 data will be available the end of July 2019 due to the timing of data reporting



## Residual Market Demographics

### Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arizona for Policy Years 2014-2018, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 4th Quarter 2018.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2014	\$57,210,356	\$4,143,458	7.2%
2015	\$56,013,426	\$3,250,609	5.8%
2016	\$50,723,800	\$1,962,897	3.9%
2017	\$47,481,891	*	N/A
2018	\$34,880,862	*	N/A

\* The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the uncollectible premium data has not yet developed for the more recent policy years.



## Residual Market Demographics

### Voluntary Coverage Assistance Program

#### First Quarter Data through March 31, 2019

The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP<sup>®</sup> Service**. The following shows the results **VCAP<sup>®</sup> Service** has provided during First Quarter 2019.

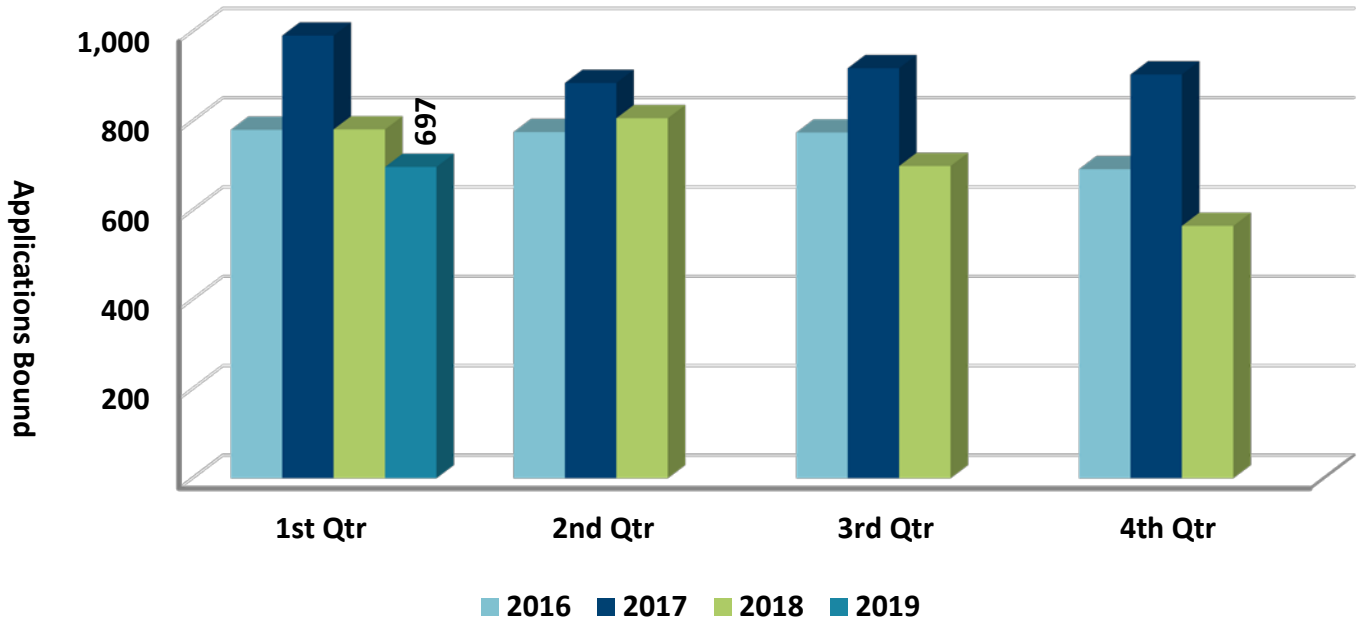
Number of Applications Reviewed by <b>VCAP<sup>®</sup> Service</b>	748
Number of <b>VCAP<sup>®</sup> Service</b> Matches	616
<b>VCAP<sup>®</sup> Service</b> Offers as a % of Matches	6.98%
Number of Confirmed <b>VCAP<sup>®</sup> Service</b> Policies	41
Confirmed <b>VCAP<sup>®</sup> Service</b> Policies as a % of Applications Reviewed	5.48%
Savings as a % of Redirected Assigned Risk Premium	12.00%



## Residual Market Demographics

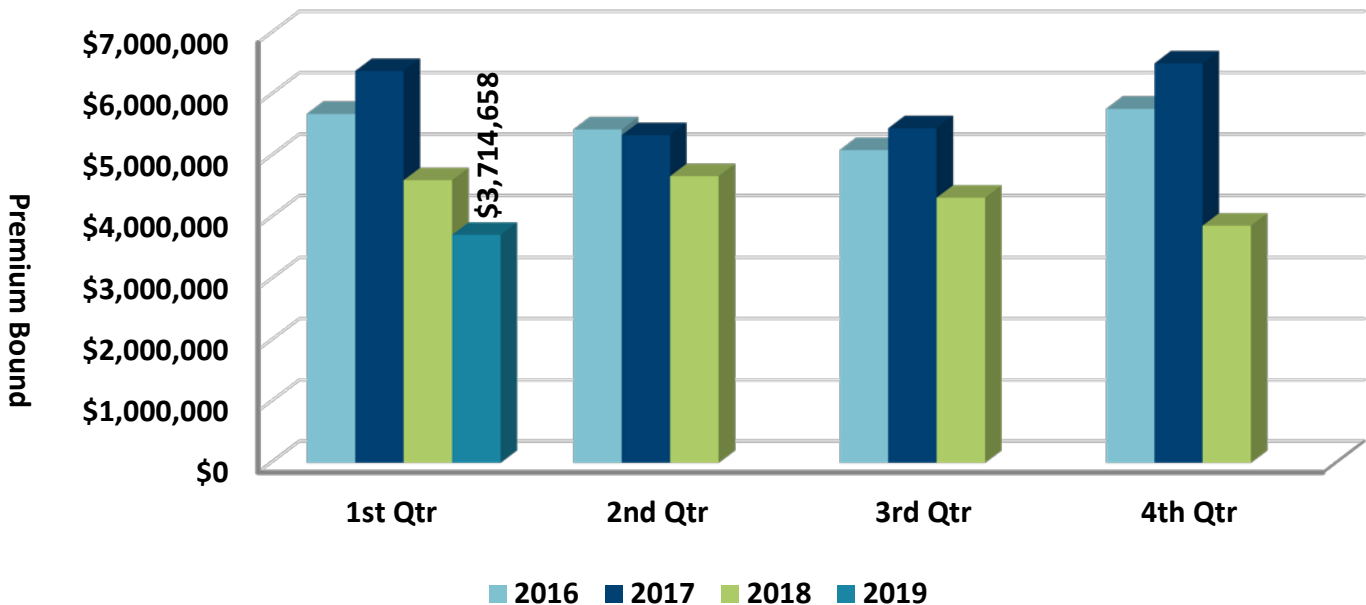
### Total Applications Bound — 2016 vs. 2017 vs. 2018 vs. 2019

The number of applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



### Total Application Premium Bound — 2016 vs. 2017 vs. 2018 vs. 2019

The total estimated premium on bound applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).





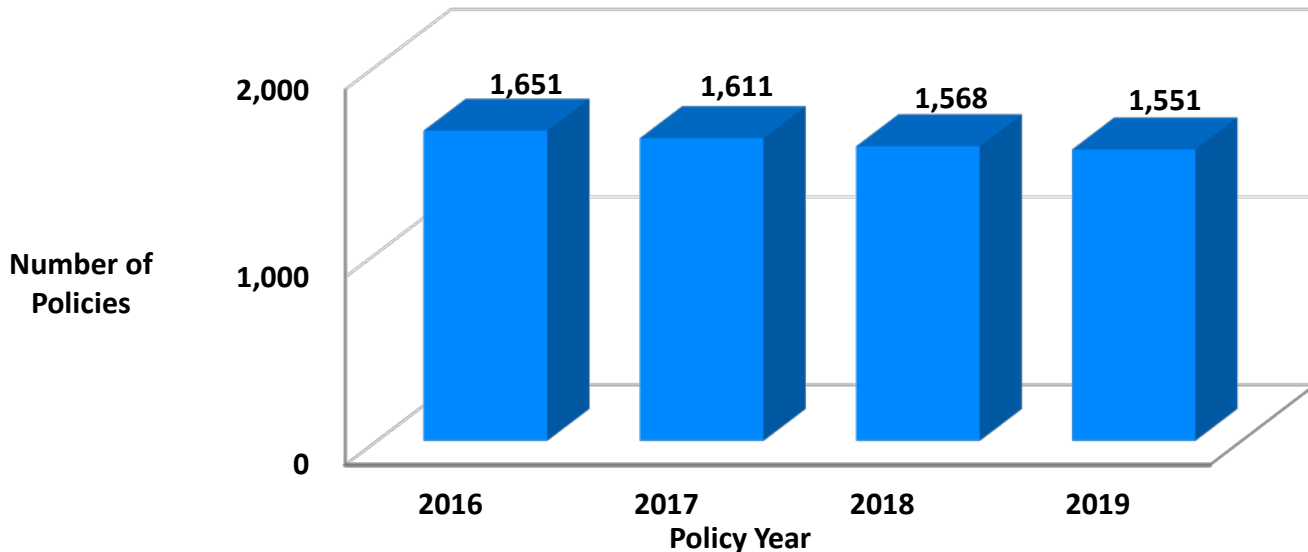


## Residual Market Demographics

### Residual Market Total Policy Counts

#### First Quarter Data for Policies Reported through March 31, 2019

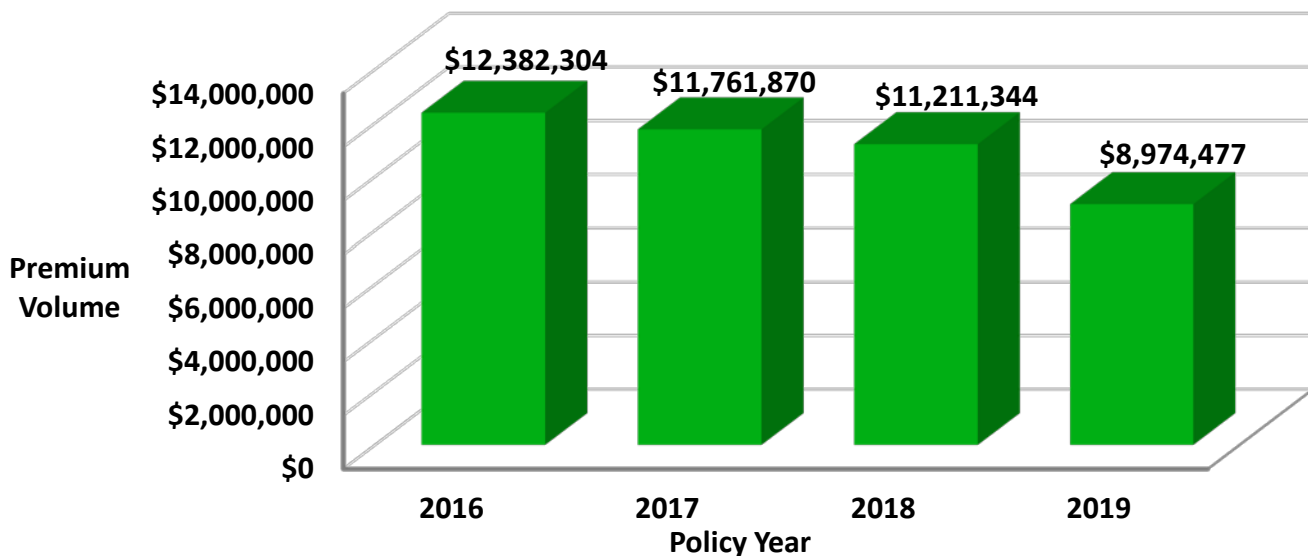
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



### Residual Market Total Premium Volume

#### First Quarter Data Reported through March 31, 2019

Total amount of all Assigned Risk Plan premium with effective dates during the calendar period listed above.





## Residual Market Demographics

### Total Premium Distribution by Size of Risk

#### First Quarter Data Reported through March 31, 2019

The total number of Assigned Risk Plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	891	57.5%	\$974,838	10.9%	\$1,094
\$2500–4999	275	17.7%	\$973,575	10.9%	\$3,540
\$5000–9999	188	12.1%	\$1,346,869	15.0%	\$7,164
\$10000–19999	115	7.4%	\$1,632,279	18.2%	\$14,193
\$20000–49999	55	3.6%	\$1,635,543	18.2%	\$29,737
\$50000–99999	20	1.3%	\$1,339,907	14.9%	\$66,995
\$100000–199999	6	0.4%	\$834,888	9.3%	\$139,148
\$200000 +	1	0.1%	\$236,578	2.6%	\$236,578
Total	1,551	100.0%	\$8,974,477	100.0%	\$5,786

### First Quarter 2018 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	843	53.8%	\$917,255	8.2%	\$1,088
\$2500–4999	296	18.9%	\$1,044,678	9.3%	\$3,529
\$5000–9999	197	12.6%	\$1,380,406	12.3%	\$7,007
\$10000–19999	130	8.3%	\$1,772,628	15.8%	\$13,635
\$20000–49999	69	4.4%	\$2,144,972	19.1%	\$31,086
\$50000–99999	21	1.3%	\$1,468,521	13.1%	\$69,929
\$100000–199999	8	0.5%	\$1,032,312	9.2%	\$129,039
\$200000 +	4	0.3%	\$1,450,572	12.9%	\$362,643
Total	1,568	100.0%	\$11,211,344	100.0%	\$7,150



## Residual Market Demographics

### Residual Market Top 10 Classification Codes by Policy Count First Quarter Data Reported through March 31, 2019

The top 10 governing class codes by total policy count—policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	94	6.1%
2	5606	Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	75	4.8%
3	5551	Roofing-All Kinds & Drivers	75	4.8%
4	8835	Home, Public, and Traveling Healthcare - All Employees	71	4.6%
5	7219	Trucking - NOC-All Employees & Drivers	63	4.1%
6	5474	Painting NOC & Shop Operations, Drivers	51	3.3%
7	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	43	2.8%
8	8810	Clerical Office Employees NOC	42	2.7%
9	5437	Carpentry-Installation of Cabinet Work or Interior Trim	42	2.7%
10	5445	Wallboard, Sheetrock, Drywall, Plasterboard, or Cement Board Installation - Within Buildings & Drivers	30	1.9%

### Residual Market Top 10 Classification Codes by Premium Volume First Quarter Data Reported through March 31, 2019

The top 10 governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5551	Roofing-All Kinds & Drivers	\$635,231	7.1%
2	7219	Trucking - NOC-All Employees & Drivers	\$571,327	6.4%
3	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	\$549,693	6.1%
4	5606	Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	\$470,658	5.2%
5	0106	Tree Pruning, Spraying, Repairing - All Operations & Drivers	\$288,263	3.2%
6	8835	Home, Public, and Traveling Healthcare - All Employees	\$284,928	3.2%
7	0006	Farm or Ranch - All Employees & Drivers	\$278,420	3.1%
8	9082	Restaurant NOC	\$241,380	2.7%
9	5474	Painting NOC & Shop Operations, Drivers	\$212,143	2.4%
10	5610	Cleaner-Debris Removal - Construction	\$197,590	2.2%



## Glossary of Terms

**Applications Bound**—The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

**Earned Premium or Premiums Earned**—That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, “premiums earned” describes the premiums written during a period, plus the unearned premiums at the beginning of the period, less the unearned premiums at the end of the period.

**In Force (Policies/Premium)**—All policies and associated estimated premium that are current as of a given date.

**Incurred But Not Reported (IBNR)**—Pertaining to losses where the events that will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include “bulk” reserves for estimated future development of case reserves.

**Loss Ratio**—The ratio of total incurred losses to total earned premiums in a given period, expressed as a percentage. The formula for loss ratio is  $(\text{loss} + \text{loss adjustment expense}) / \text{earned premium}$ .

**Premium Bound**—The total estimated annual premium on bound applications.

**Underwriting Gain/ (Loss)**—The financial statement presentation that reflects the excess of earned premium over incurred losses.

**VCAP<sup>®</sup> Service**—Voluntary Coverage Assistance Program is a supplemental program to NCCI’s Workers Compensation Insurance Plan. As part of NCCI’s strategic vision of maintaining and depopulating the residual market, NCCI’s **VCAP<sup>®</sup> Service** redirects coverage opportunities for employers to voluntary market insurers, which generally provide coverage at a lower cost. **VCAP<sup>®</sup> Service** provides an additional source for producers and employers to secure voluntary workers compensation coverage prior to entering the residual market for coverage.