



Arizona Residual Market State Activity Report

First Quarter 2020



Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the First Quarter 2020 *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:

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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, 2020—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.

	2020	2019	2020 vs. 2019 #	2020 vs. 2019 %
Policy Count	5,730	5,892	-162	-2.7%
Premium Volume	\$33,058,970	\$35,024,498	-\$1,965,528	-5.6%

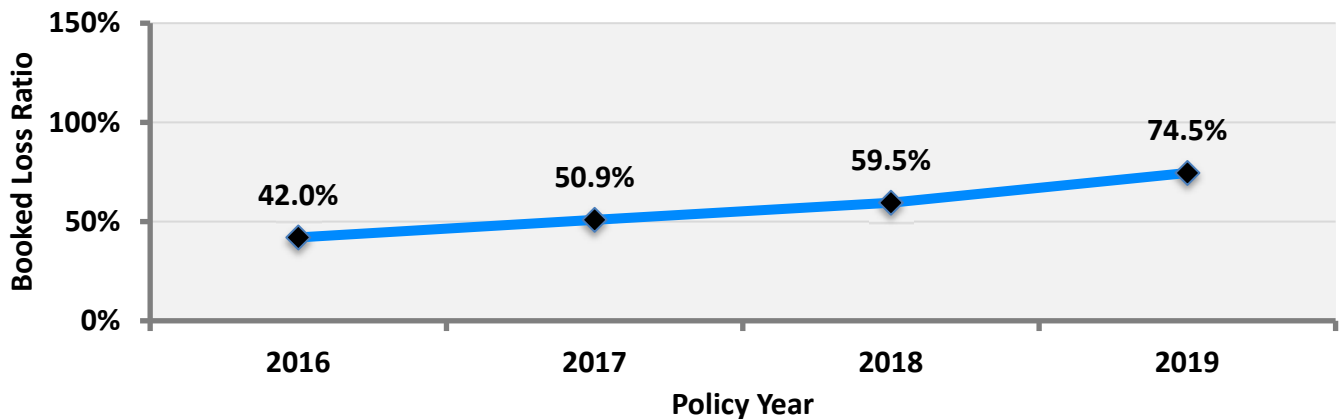


Residual Market Demographics

Arizona Residual Market Reinsurance Pool Booked Loss Ratio

Policy Year Financial Results through 4th Quarter 2019 for 2019 and prior years*

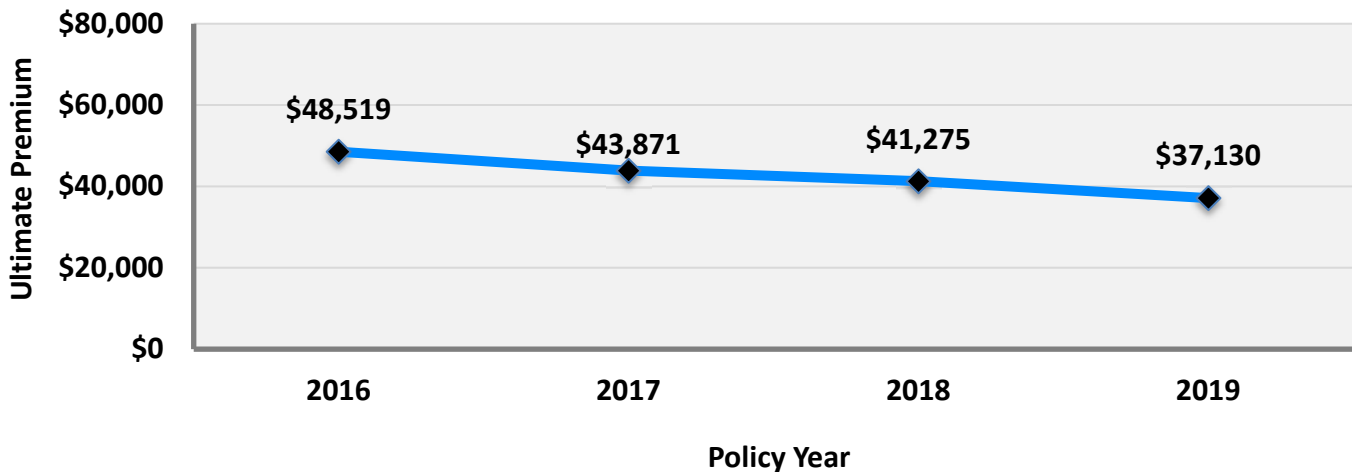
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



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

Policy Year Financial Results through 4th Quarter 2019 for 2019 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 2020 data will be available the end of July 2020 due to the timing of data reporting

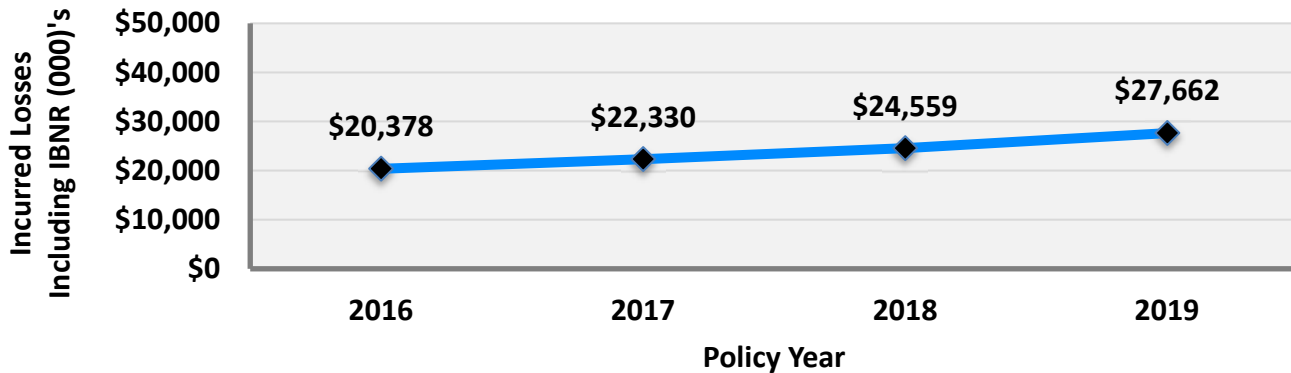


Residual Market Demographics

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

Policy Year Financial Results through 4th Quarter 2019 for 2019 and prior years*

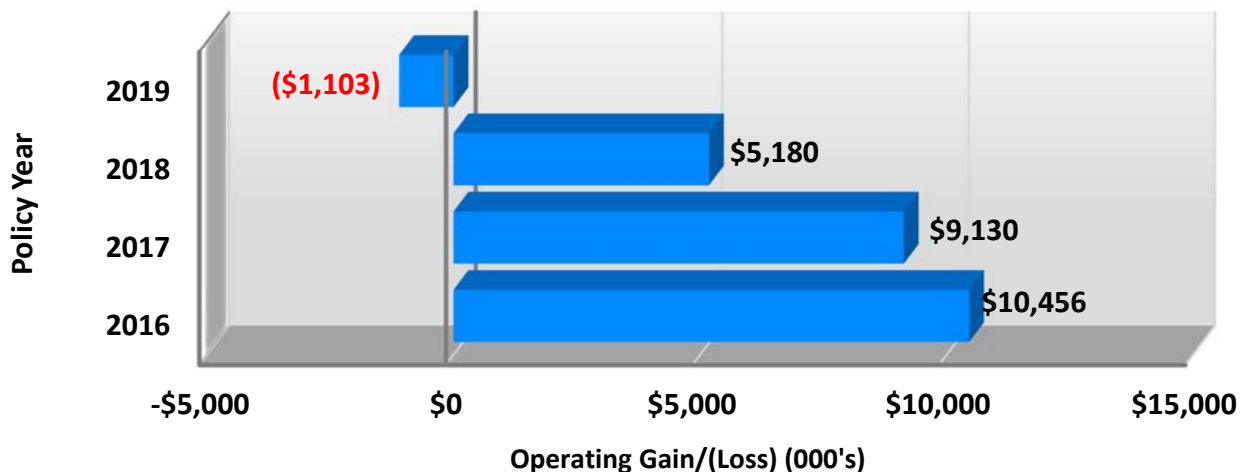
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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 2019 for 2019 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 2020 data will be available the end of July 2020 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 2015-2019, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 4th Quarter 2019.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2015	\$55,980,308	\$2,942,583	5.3%
2016	\$50,767,827	\$2,248,991	4.4%
2017	\$46,662,478	\$2,791,910	6.0%
2018	\$43,523,618	*	N/A
2019	\$31,323,806	*	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, 2020

The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP[®] Service**. The following shows the results **VCAP[®] Service** has provided during First Quarter 2020.

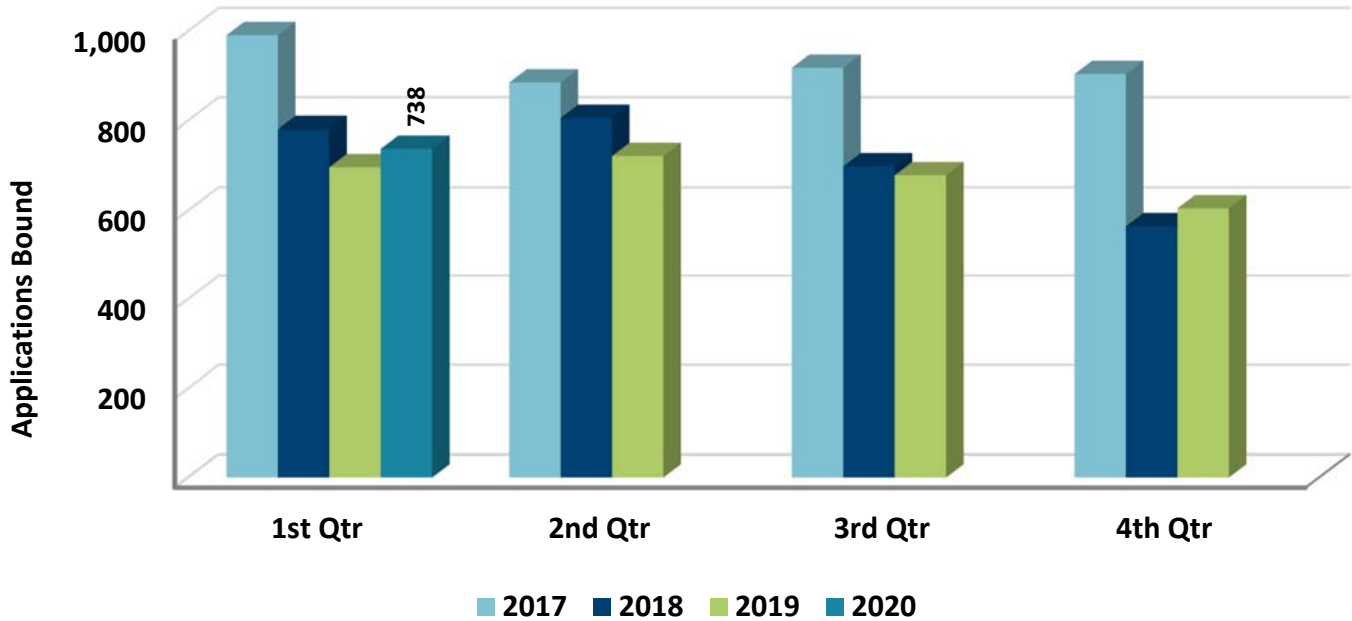
Number of Applications Reviewed by VCAP[®] Service	798
Number of VCAP[®] Service Matches	478
VCAP[®] Service Offers as a % of Matches	11.51%
Number of Confirmed VCAP[®] Service Policies	55
Confirmed VCAP[®] Service Policies as a % of Applications Reviewed	6.89%
Savings as a % of Redirected Assigned Risk Premium	33.14%



Residual Market Demographics

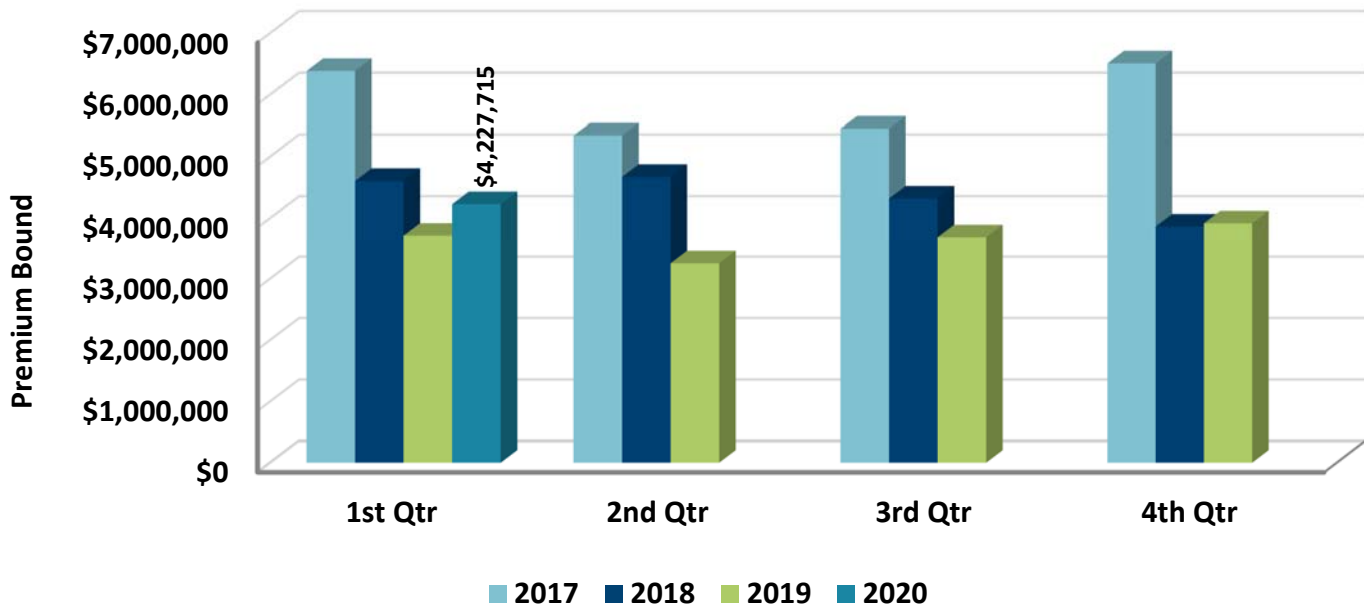
Total Applications Bound — 2017 vs. 2018 vs. 2019 vs. 2020

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 — 2017 vs. 2018 vs. 2019 vs. 2020

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).



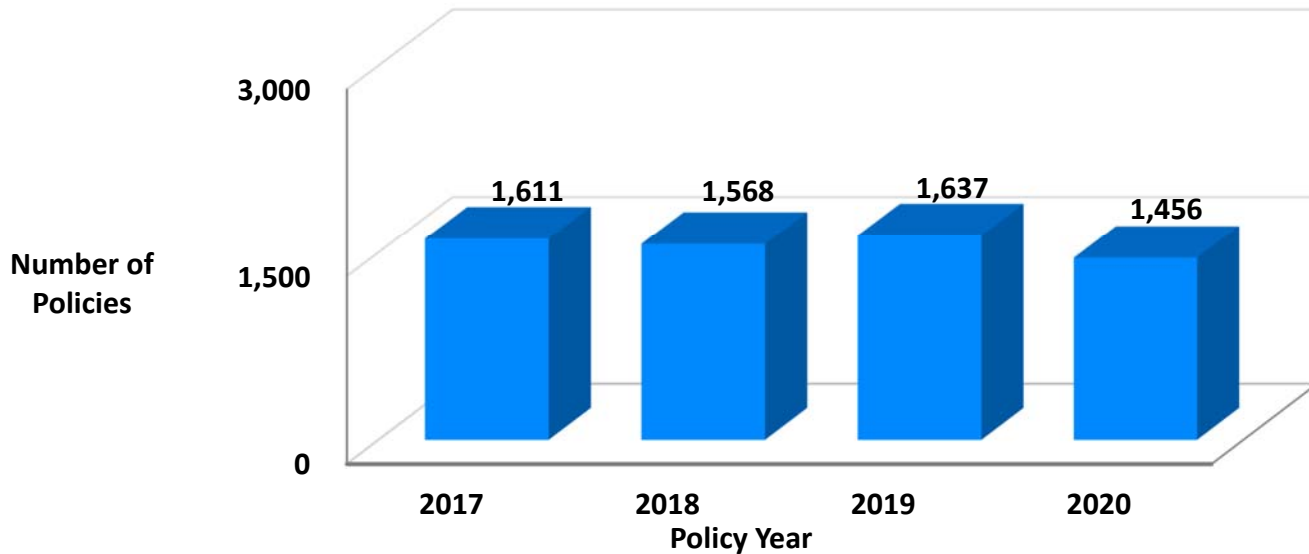


Residual Market Demographics

Residual Market Total Policy Counts

First Quarter Data for Policies Reported through March 31, 2020

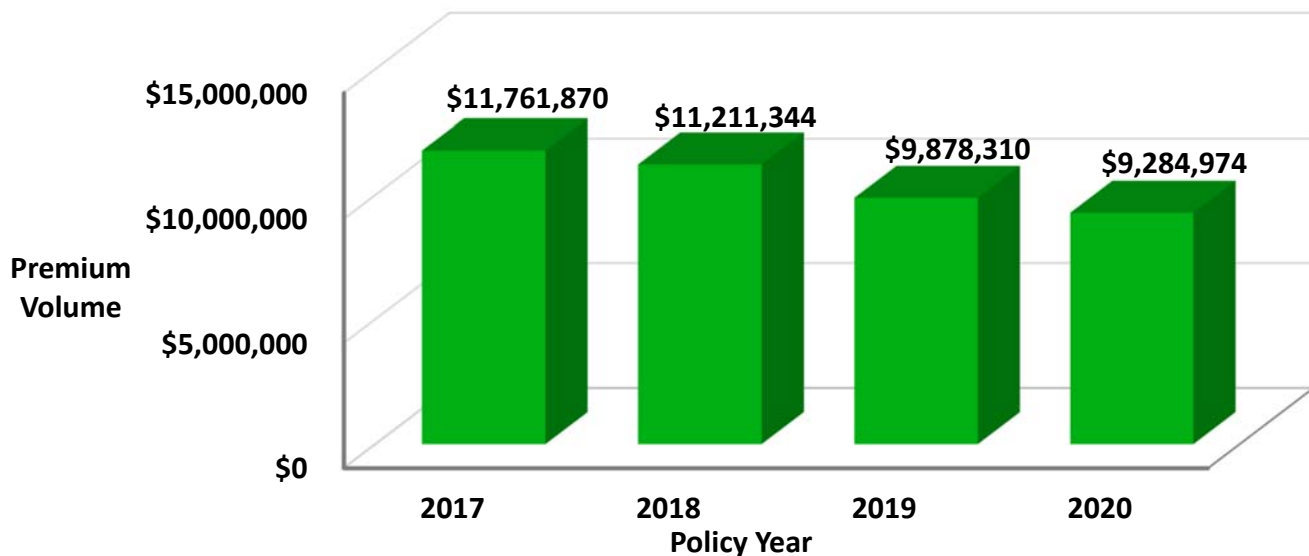
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



Residual Market Total Premium Volume

First Quarter Data Reported through March 31, 2020

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, 2020

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	836	57.4%	\$893,766	9.6%	\$1,069
\$2500–4999	241	16.6%	\$872,037	9.4%	\$3,618
\$5000–9999	184	12.6%	\$1,336,468	14.4%	\$7,263
\$10000–19999	102	7.0%	\$1,365,244	14.7%	\$13,384
\$20000–49999	64	4.4%	\$1,971,729	21.2%	\$30,808
\$50000–99999	19	1.3%	\$1,297,123	14.0%	\$68,269
\$100000–199999	9	0.6%	\$1,310,568	14.1%	\$145,618
\$200000 +	1	0.1%	\$238,039	2.6%	\$238,039
Total	1,456	100.0%	\$9,284,974	100.0%	\$6,377

First Quarter 2019 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	947	57.9%	\$986,273	10.0%	\$1,041
\$2500–4999	276	16.9%	\$989,682	10.0%	\$3,585
\$5000–9999	194	11.9%	\$1,393,238	14.1%	\$7,181
\$10000–19999	124	7.6%	\$1,788,840	18.1%	\$14,426
\$20000–49999	69	4.2%	\$2,064,113	20.9%	\$29,914
\$50000–99999	18	1.1%	\$1,229,507	12.5%	\$68,305
\$100000–199999	6	0.4%	\$742,537	7.5%	\$123,756
\$200000 +	3	0.2%	\$684,120	6.9%	\$228,040
Total	1,637	100.0%	\$9,878,310	100.0%	\$6,034



Residual Market Demographics

Residual Market Top 10 Classification Codes by Policy Count First Quarter Data Reported through March 31, 2020

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	105	7.2%
2	5551	Roofing-All Kinds & Drivers	95	6.5%
3	5606	Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	75	5.2%
4	8835	Home, Public, and Traveling Healthcare - All Employees	64	4.4%
5	7219	Trucking - NOC-All Employees & Drivers	45	3.1%
6	8810	Clerical Office Employees NOC	42	2.9%
7	5474	Painting NOC & Shop Operations, Drivers	41	2.8%
8	5437	Carpentry-Installation of Cabinet Work or Interior Trim	38	2.6%
9	7720	Police Officers & Drivers	30	2.1%
10	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	30	2.1%

Residual Market Top 10 Classification Codes by Premium Volume First Quarter Data Reported through March 31, 2020

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	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories In Height	\$857,513	9.2%
2	5551	Roofing-All Kinds & Drivers	\$807,919	8.7%
3	7219	Trucking - NOC-All Employees & Drivers	\$467,887	5.0%
4	0106	Tree Pruning, Spraying, Repairing - All Operations & Drivers	\$383,029	4.1%
5	5606	Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	\$370,598	4.0%
6	5474	Painting NOC & Shop Operations, Drivers	\$233,595	2.5%
7	7720	Police Officers & Drivers	\$232,571	2.5%
8	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	\$211,300	2.3%
9	0006	Farm or Ranch - All Employees & Drivers	\$203,284	2.2%
10	5437	Carpentry-Installation of Cabinet Work Or Interior Trim	\$195,734	2.1%



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[®] 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[®] Service** redirects coverage opportunities for employers to voluntary market insurers, which generally provide coverage at a lower cost. **VCAP[®] Service** provides an additional source for producers and employers to secure voluntary workers compensation coverage prior to entering the residual market for coverage.