



# Arizona Residual Market State Activity Report

Second Quarter 2017



## Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2017 *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 June 30, 2017—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.

	2017	2016	2017 vs. 2016 #	2017 vs. 2016 %
<b>Policy Count</b>	5,831	5,938	-107	-1.8%
<b>Premium Volume</b>	\$39,461,088	\$45,872,130	-\$6,411,042	-14.0%

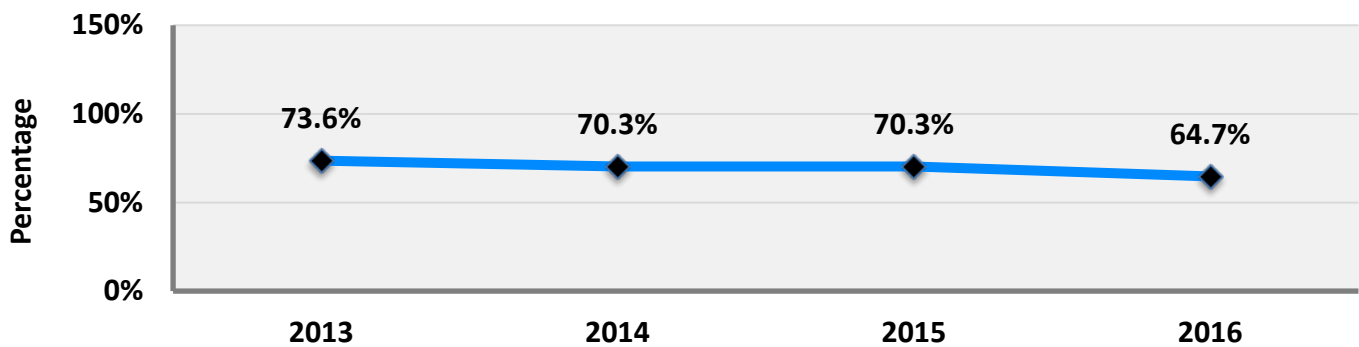


## Residual Market Demographics

### Arizona Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 1st Quarter 2017 for 2016 and prior years\*

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

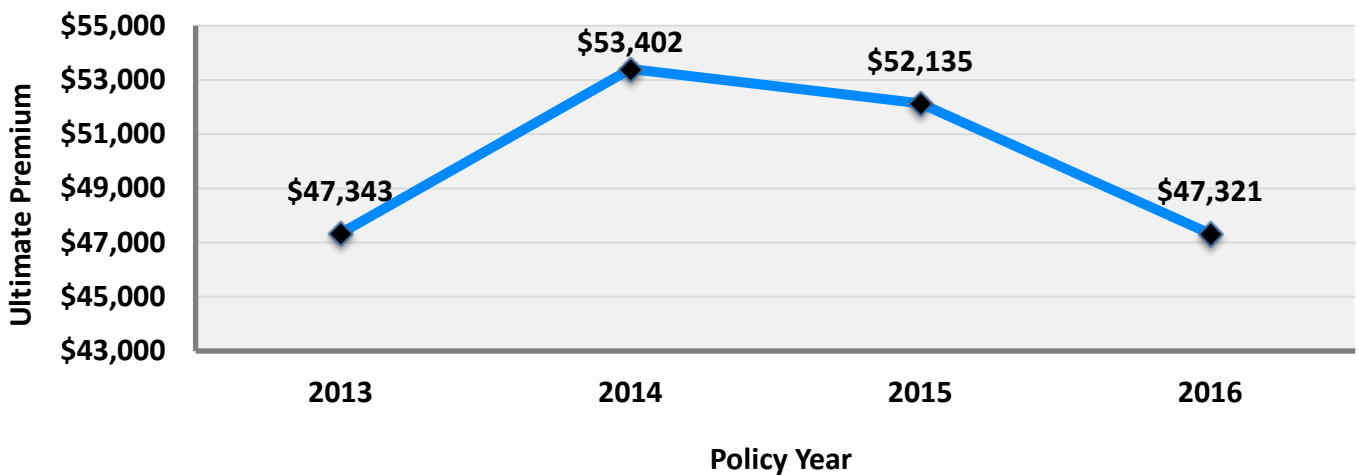
#### Booked Loss Ratio



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

#### Policy Year Financial Results through 1st Quarter 2017 for 2016 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.



\* Second Quarter 2017 data will be available the end of October 2017 due to the timing of data reporting

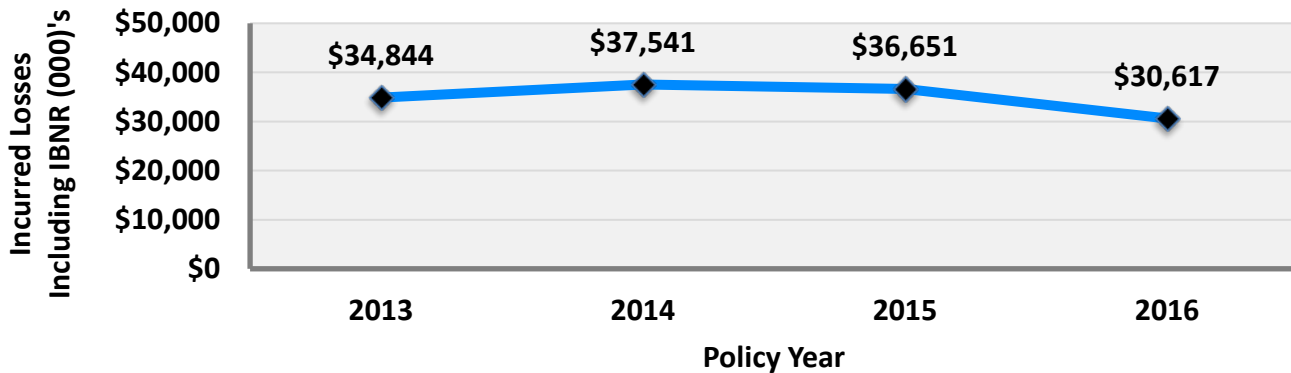


## Residual Market Demographics

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

#### Policy Year Financial Results through 1st Quarter 2017 for 2016 and prior years\*

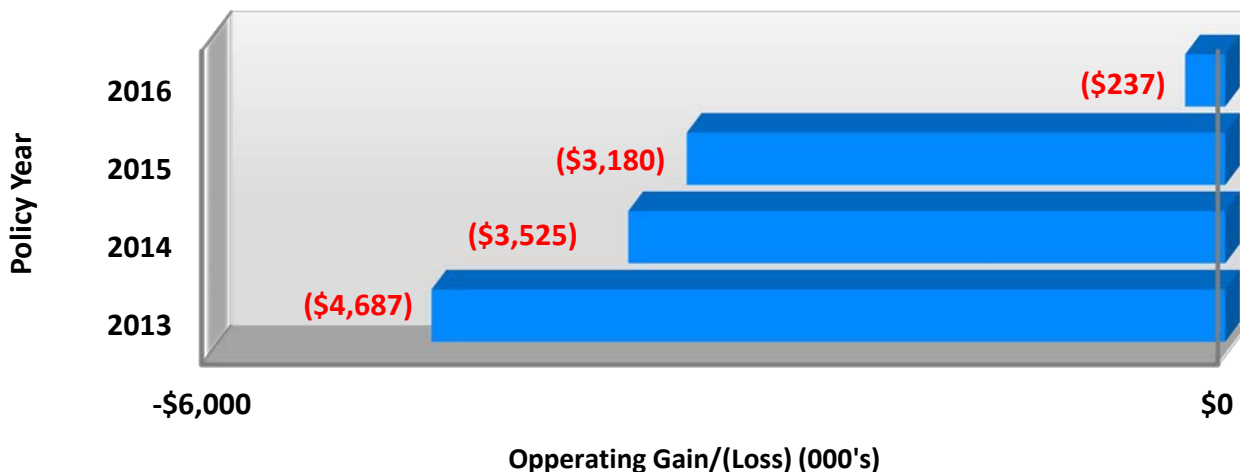
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

#### Policy Year Financial Results through 1st Quarter 2017 for 2016 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.



\* Second Quarter 2017 data will be available the end of October 2017 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 2013-2017, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through First Quarter 2017.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2013	\$50,000,670	\$2,658,115	5.3%
2014	\$57,398,651	\$3,997,083	7.0%
2015	\$55,656,130	\$2,888,284	5.2%
2016	\$47,154,018	*	N/A
2017	\$7,398,346	*	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 Second Quarter Data through June 30, 2017

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 Second Quarter 2017.

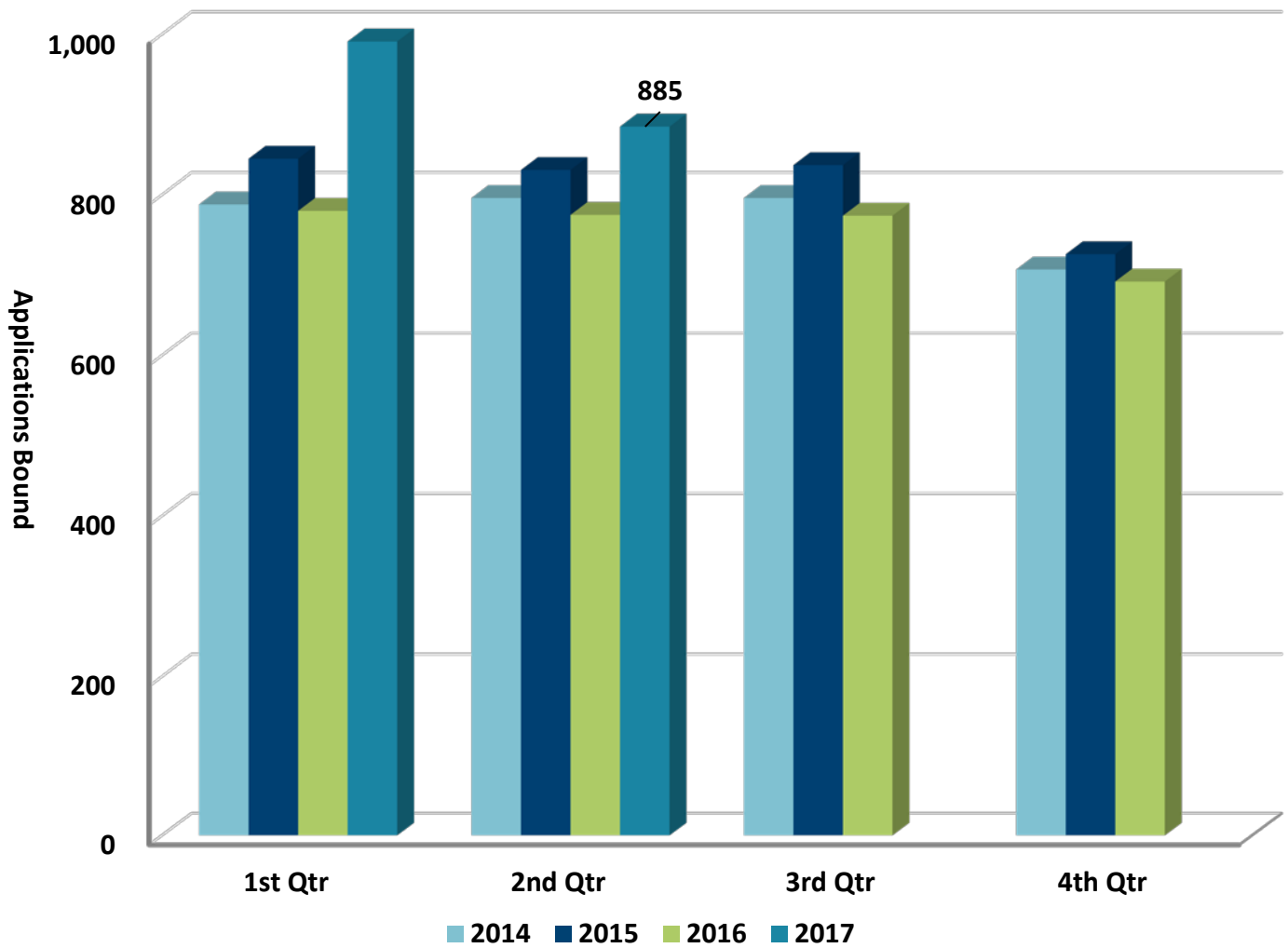
Number of Applications Reviewed by <b>VCAP<sup>®</sup> Service</b>	904
Number of <b>VCAP<sup>®</sup> Service</b> Matches	823
<b>VCAP<sup>®</sup> Service</b> Offers as a % of Matches	3.52%
Number of Confirmed <b>VCAP<sup>®</sup> Service</b> Policies	28
Confirmed <b>VCAP<sup>®</sup> Service</b> Policies as a % of Applications Reviewed	3.10%
Savings as a % of Redirected Assigned Risk Premium	16.30%



## Residual Market Demographics

### Total Applications Bound 2014 vs. 2015 vs. 2016 vs. 2017

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



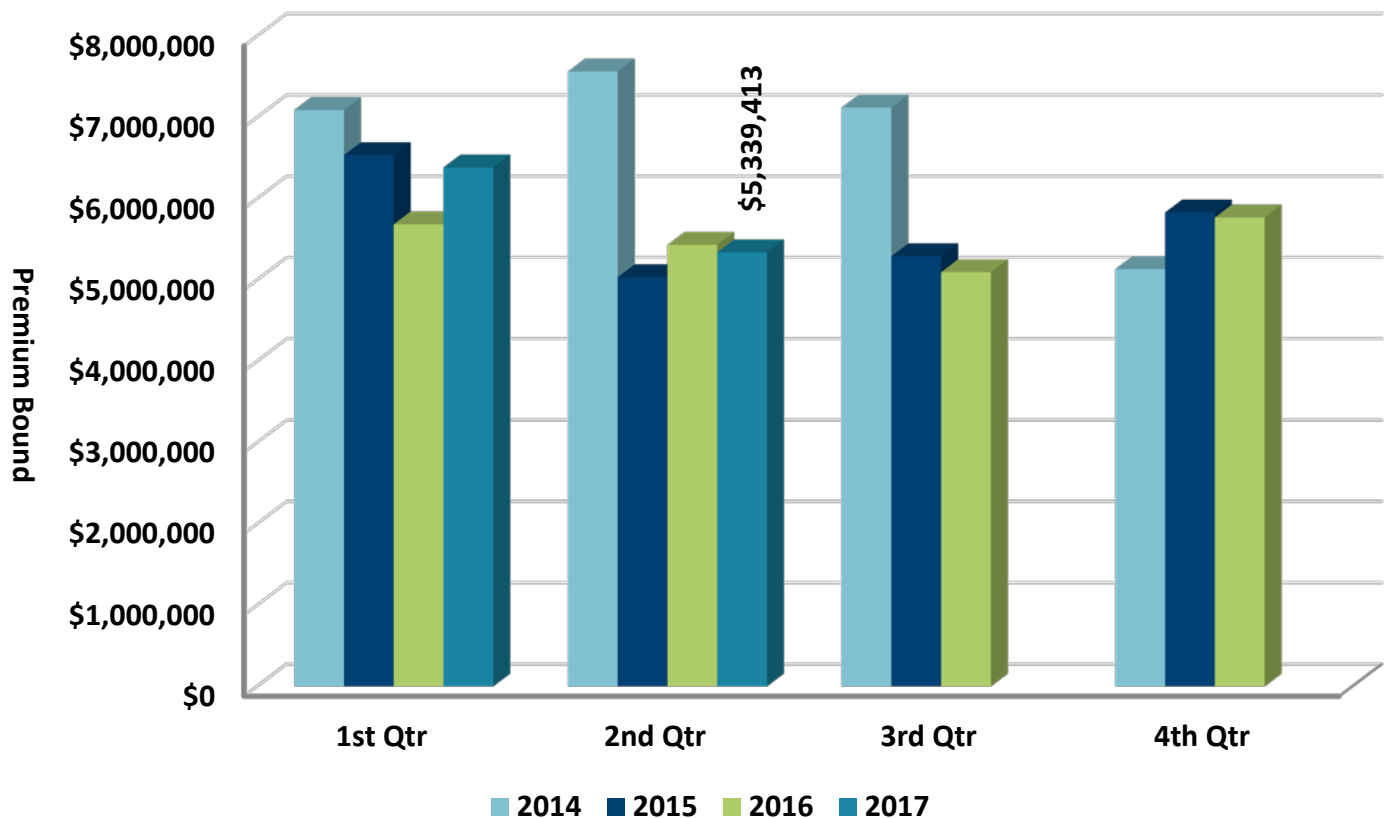




## Residual Market Demographics

### Total Application Premium Bound 2014 vs. 2015 vs. 2016 vs. 2017

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).



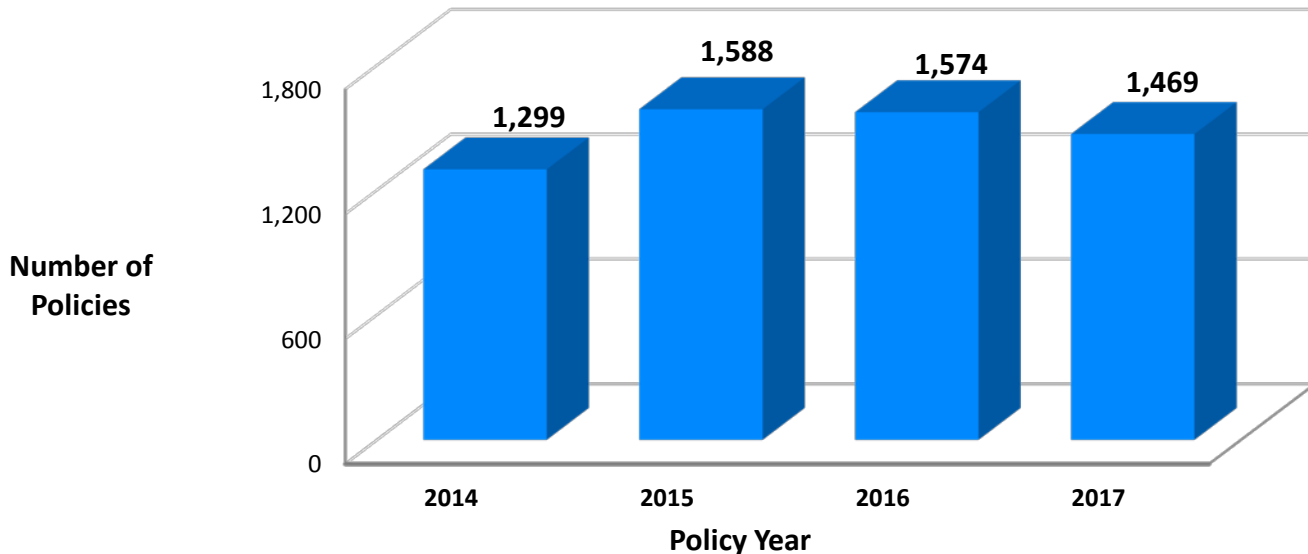


## Residual Market Demographics

### Residual Market Total Policy Counts

#### Second Quarter Data for Policies Reported through June 30, 2017

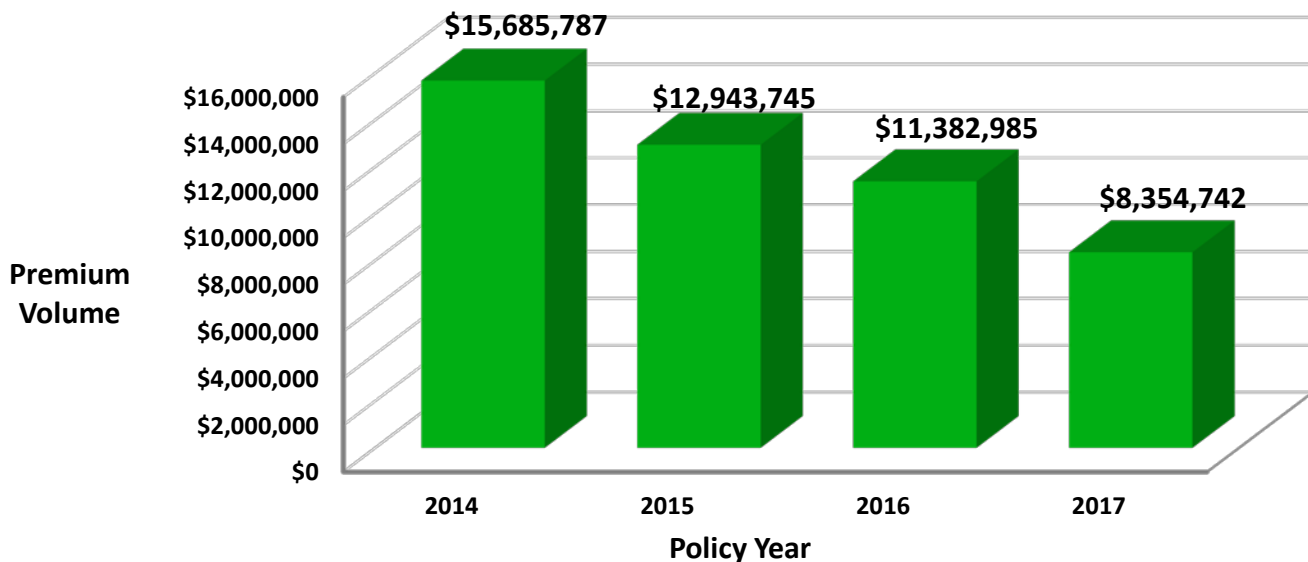
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



### Residual Market Total Premium Volume

#### Second Quarter Data Reported through June 30, 2017

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

#### Second Quarter Data Reported through June 30, 2017

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	815	55.5%	\$924,772	11.1%	\$1,134
\$2500–4999	280	19.1%	\$1,012,065	12.1%	\$3,614
\$5000–9999	165	11.2%	\$1,169,833	14.0%	\$7,089
\$10000–19999	124	8.4%	\$1,723,839	20.6%	\$13,901
\$20000–49999	65	4.4%	\$1,912,990	22.9%	\$29,430
\$50000–99999	13	0.9%	\$811,959	9.7%	\$62,458
\$100000–199999	7	0.5%	\$799,284	9.6%	\$114,183
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,469	100.0%	\$8,354,742	100.0%	\$5,687

### Second Quarter 2016 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	786	49.9%	\$853,744	7.5%	\$1,086
\$2500–4999	308	19.6%	\$1,102,318	9.7%	\$3,578
\$5000–9999	202	12.8%	\$1,446,646	12.7%	\$7,161
\$10000–19999	148	9.4%	\$2,097,196	18.4%	\$14,170
\$20000–49999	92	5.8%	\$2,663,534	23.4%	\$28,951
\$50000–99999	29	1.8%	\$2,037,924	17.9%	\$70,273
\$100000–199999	8	0.5%	\$979,345	8.6%	\$122,418
\$200000 +	1	0.1%	\$202,278	1.8%	\$202,278
Total	1,574	100%	\$11,382,985	100%	\$7,232



## Residual Market Demographics

### Residual Market Top 10 Classification Codes by Policy Count Second Quarter Data Reported through June 30, 2017

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	79	5.4%
2	5606	Contractor - Project Manager Construction Executive Construction Manager	65	4.4%
3	7228	Trucking-Local Hauling Only-& Drivers	56	3.8%
4	5551	Roofing-All Kinds & Drivers	55	3.7%
5	8835	Nursing-Home Health Public and Traveling-All Employees	51	3.5%
6	5437	Carpentry-Installation of Cabinet Work or Interior Trim	48	3.3%
7	5474	Painting NOC & Shop Operations Drivers	41	2.8%
8	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	38	2.6%
9	8810	Clerical Office Employees NOC	37	2.5%
10	5190	Electrical Wiring-Within Buildings & Drivers	26	1.8%

### Residual Market Top 10 Classification Codes by Premium Volume Second Quarter Data Reported through June 30, 2017

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	\$590,271	7.1%
2	5551	Roofing-All Kinds & Drivers	\$575,006	6.9%
3	7228	Trucking-Local Hauling Only-& Drivers	\$301,736	3.6%
4	8835	Nursing-Home Health Public and Traveling-All Employees	\$285,126	3.4%
5	0017	Farm-Gardening-Market or Truck and Vineyards-All Employees	\$242,357	2.9%
6	6217	Excavation & Drivers	\$240,657	2.9%
7	7229	Trucking-Long Distance Hauling-& Drivers	\$219,193	2.6%
8	5437	Carpentry-Installation of Cabinet Work or Interior Trim	\$176,437	2.1%
9	0037	Farm: Field Crops & Drivers	\$176,109	2.1%
10	5474	Painting NOC & Shop Operations Drivers	\$163,024	2.0%



## 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.