



# Arizona Residual Market State Activity Report

Second Quarter 2023



## Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2023 *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.

Sally Laub, Plan Administration

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## Residual Market Demographics

### Residual Market Total Policies and Premium in Force

As of June 30, 2023—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.

	2023	2022	2023 vs. 2022 #	2023 vs. 2022 %
<b>Policy Count</b>	3,972	4,291	-319	-7.4%
<b>Premium Volume</b>	\$26,341,651	\$29,266,942	-\$2,925,291	-10.0%

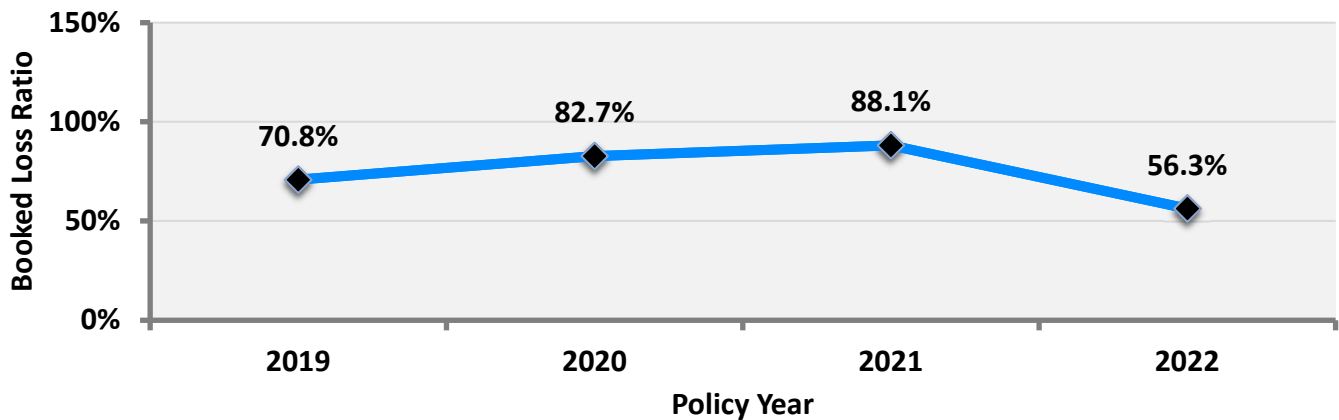


## Residual Market Demographics

### Arizona Residual Market Reinsurance Pool Booked Loss Ratio (Projected to Ultimate)

#### Policy Year Financial Results through 1st Quarter 2023 for 2022 and prior years\*

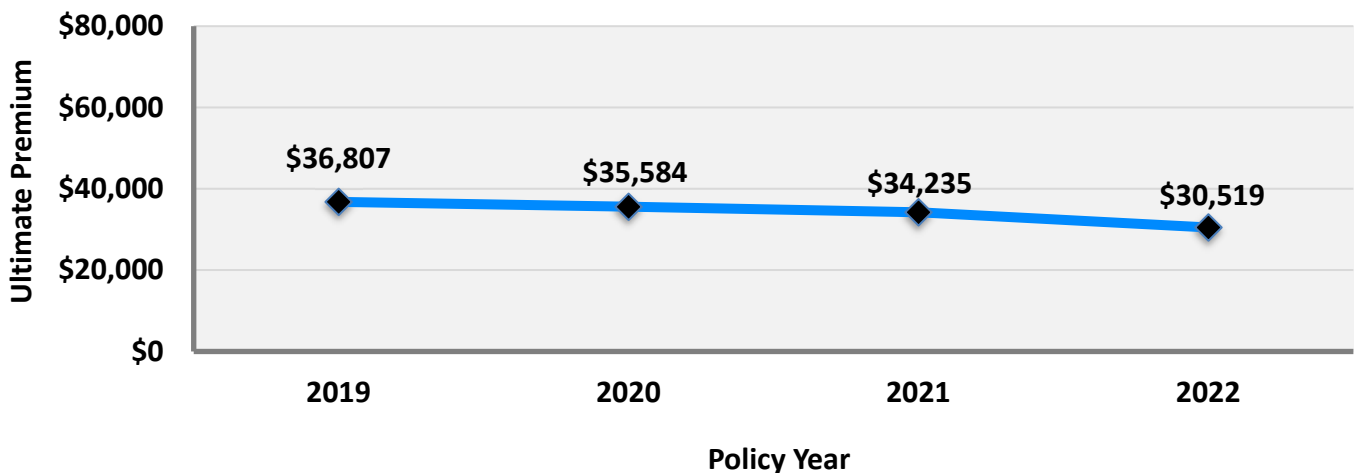
The ratio of total incurred losses to total net premiums (net of uncollectible premium) in a given period, in this state, expressed as a percentage.



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

#### Policy Year Financial Results through 1st Quarter 2023 for 2022 and prior years\*

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



\*2nd Quarter 2023 data will be available the end of October 2023 due to the timing of data reporting

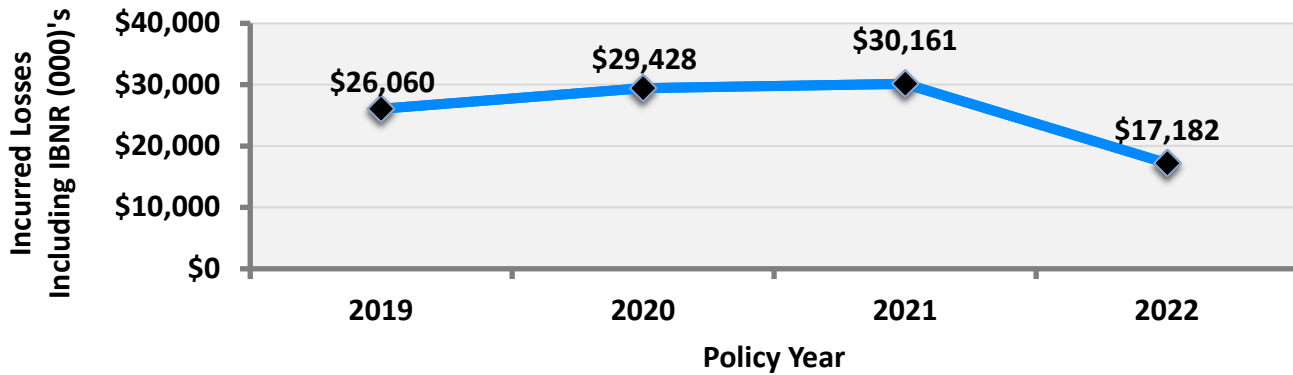


## Residual Market Demographics

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

#### Policy Year Financial Results through 1st Quarter 2023 for 2022 and prior years\*

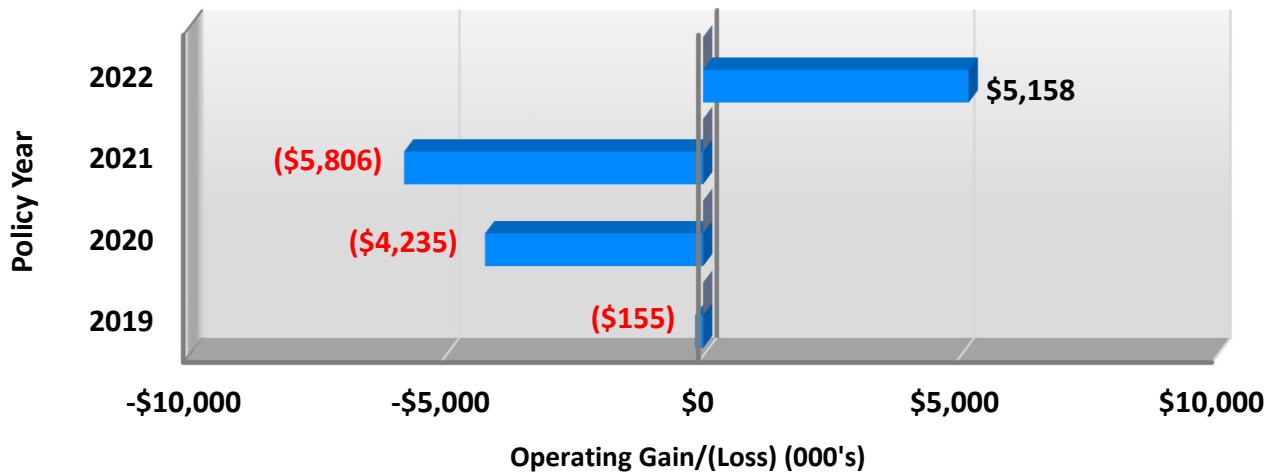
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



### 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 2023 for 2022 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.



\*2nd Quarter 2023 data will be available the end of October 2023 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 2019-2023, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 1st Quarter 2023.

Policy Year	Gross Written Premium \$	Uncollectible Premium \$	Percentage
2019	39,331,468	2,524,151	6.4%
2020	37,839,494	2,255,353	6.0%
2021	38,813,979	3,593,057	9.3%
2022	29,235,422	--	--
2023	5,594,072	--	--

\* 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, 2023

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 2023.

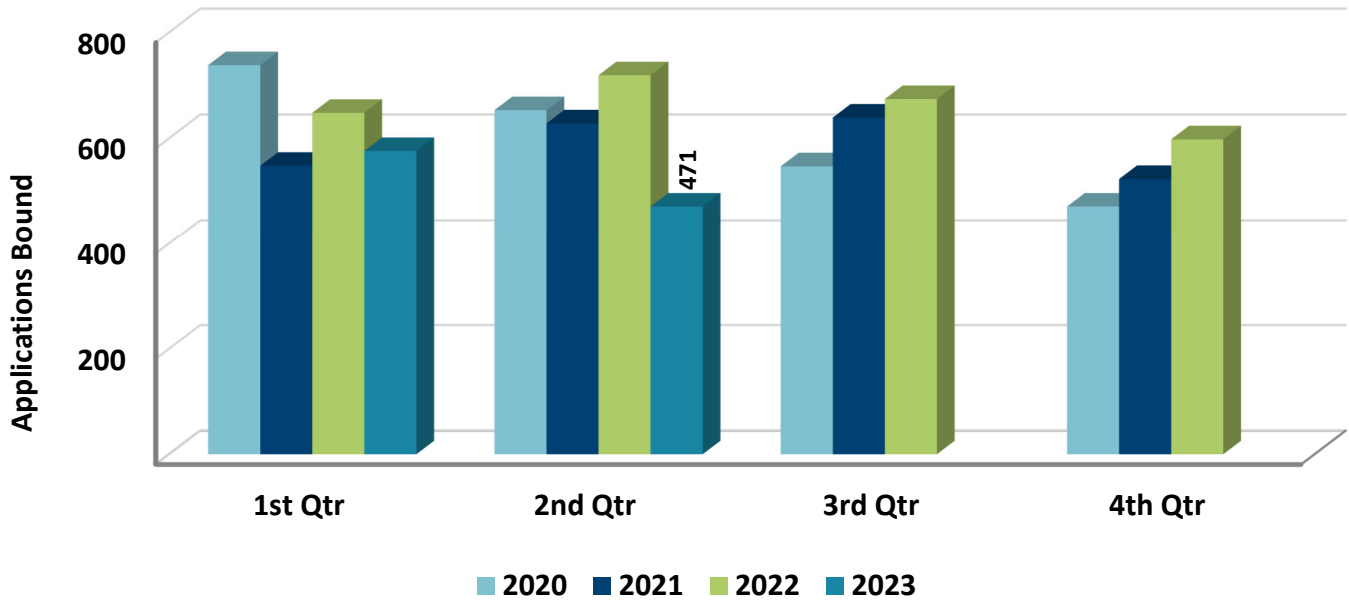
Number of Applications Reviewed by <b>VCAP<sup>®</sup> Service</b>	560
Number of <b>VCAP<sup>®</sup> Service</b> Matches	488
<b>VCAP<sup>®</sup> Service</b> Offers as a % of Matches	17.83%
Number of Confirmed <b>VCAP<sup>®</sup> Service</b> Policies	86
Confirmed <b>VCAP<sup>®</sup> Service</b> Policies as a % of Applications Reviewed	15.36%
Savings as a % of Redirected Assigned Risk Premium	12.36%



## Residual Market Demographics

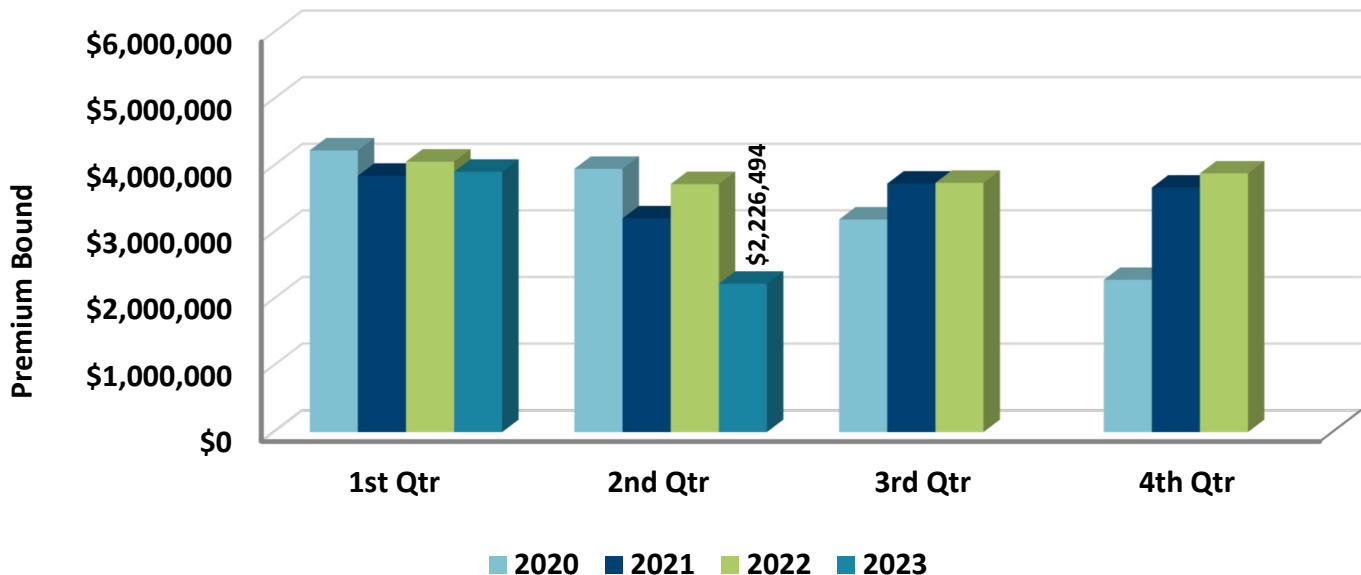
### Total Applications Bound — 2020 vs. 2021 vs. 2022 vs. 2023

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



### Total Application Premium Bound — 2020 vs. 2021 vs. 2022 vs. 2023

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





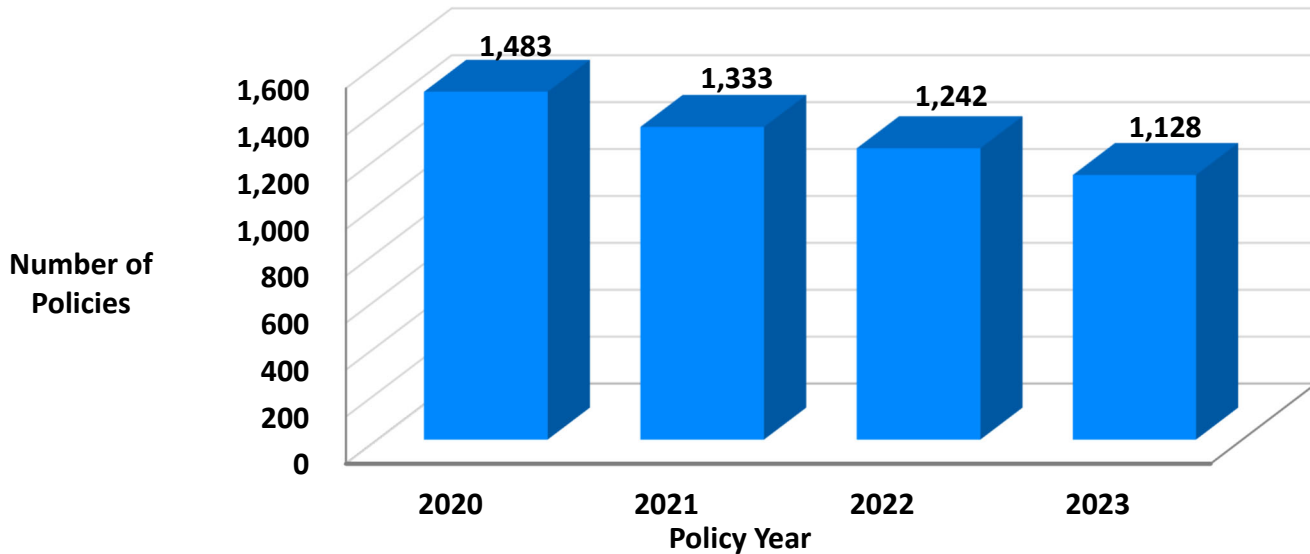


## Residual Market Demographics

### Residual Market Total Policy Counts

#### Second Quarter Data for Policies Reported through June 30, 2023

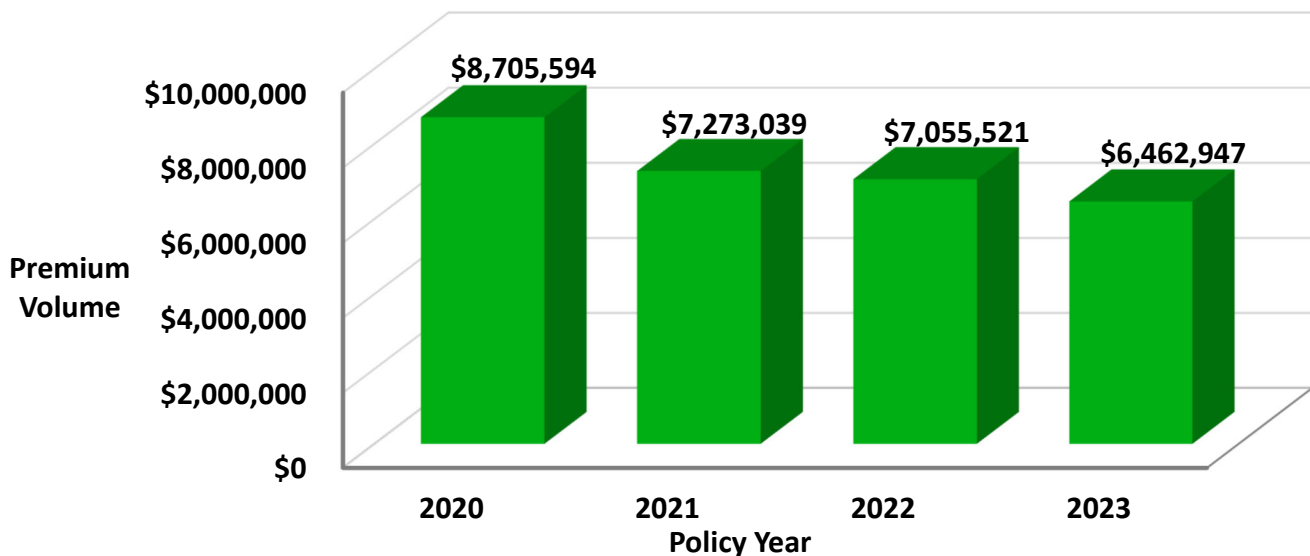
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



### Residual Market Total Premium Volume

#### Second Quarter Data Reported through June 30, 2023

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, 2023

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	657	58.2	736,006	11.4	1,120
\$2500- \$4999	181	16.0	638,590	9.9	3,528
\$5000- \$9999	134	11.9	948,744	14.7	7,080
\$10000- \$19999	85	7.5	1,202,074	18.6	14,142
\$20000- \$49999	53	4.7	1,585,788	24.5	29,921
\$50000- \$99999	16	1.4	1,074,898	16.6	67,181
\$100000- \$199999	2	0.2	276,847	4.3	138,424
\$2000000+	0	0.0	0	0.0	0
Total	1,128	100.0	6,462,947	100.0	5,730

### Second Quarter 2022 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium \$	% of Total Premium	Average Premium \$
\$0- \$2499	721	58.1	764,955	10.8	1,061
\$2500- \$4999	216	17.4	754,173	10.7	3,492
\$5000- \$9999	138	11.1	967,244	13.7	7,009
\$10000- \$19999	88	7.1	1,238,676	17.6	14,076
\$20000- \$49999	58	4.7	1,729,463	24.5	29,818
\$50000- \$99999	16	1.3	990,161	14.0	61,885
\$100000- \$199999	5	0.4	610,849	8.7	122,170
\$2000000+	0	0.0	0	0.0	0
Total	1,242	100.0	7,055,521	100.0	5,681



## Residual Market Demographics

### Residual Market Top 10 Classification Codes by Policy Count Second Quarter Data Reported through June 30, 2023

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 and Description	Policy Count	% of Policies
1	5551 - Roofing-All Kinds & Drivers	99	8.8
2	5645 - Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	85	7.5
3	5606 - Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	79	7.0
4	8835 - Home, Public, And Traveling Healthcare - All Employees	39	3.5
5	5474 - Painting NOC & Shop Operations, Drivers	37	3.3
6	8824 - Retirement Living Centers - Health Care Employees	35	3.1
7	7219 - Trucking - NOC-All Employees & Drivers	27	2.4
8	5403 - Carpentry NOC	25	2.2
9	0106 - Tree Pruning, Spraying, Repairing - All Operations & Drivers	24	2.1
10	7720 - Police Officers & Drivers	24	2.1

### Residual Market Top 10 Classification Codes by Premium Volume Second Quarter Data Reported through June 30, 2023

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 and Description	Premium \$	% of Premium
1	5551 - Roofing-All Kinds & Drivers	762,835	11.8
2	5645 - Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	532,843	8.2
3	5403 - Carpentry NOC	338,069	5.2
4	5606 - Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	254,955	3.9
5	7219 - Trucking - NOC-All Employees & Drivers	181,378	2.8
6	5474 - Painting NOC & Shop Operations, Drivers	179,791	2.8
7	5479 - Insulation Work NOC & Drivers	140,434	2.2
8	5022 - Masonry NOC	133,393	2.1
9	7720 - Police Officers & Drivers	130,860	2.0
10	6217 - Excavation & Drivers	116,954	1.8



## 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.