



Arizona Residual Market State Activity Report

Third Quarter 2018



Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the Third Quarter 2018 *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 September 30, 2018—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.

| | 2018 | 2017 | 2018 vs. 2017 # | 2018 vs. 2017 % |
|-----------------------|--------------|--------------|--------------------|--------------------|
| Policy Count | 5,741 | 5,902 | -161 | -2.7% |
| Premium Volume | \$36,565,163 | \$39,836,579 | \$-3,271,416 | -8.2% |

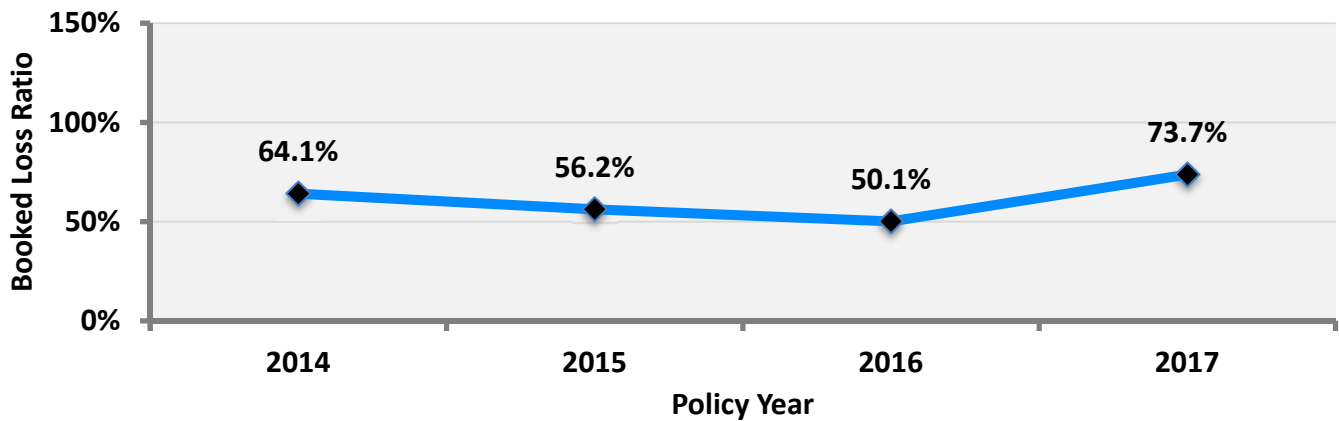


Residual Market Demographics

Arizona Residual Market Reinsurance Pool Booked Loss Ratio

Policy Year Financial Results through 2nd Quarter 2018 for 2017 and prior years*

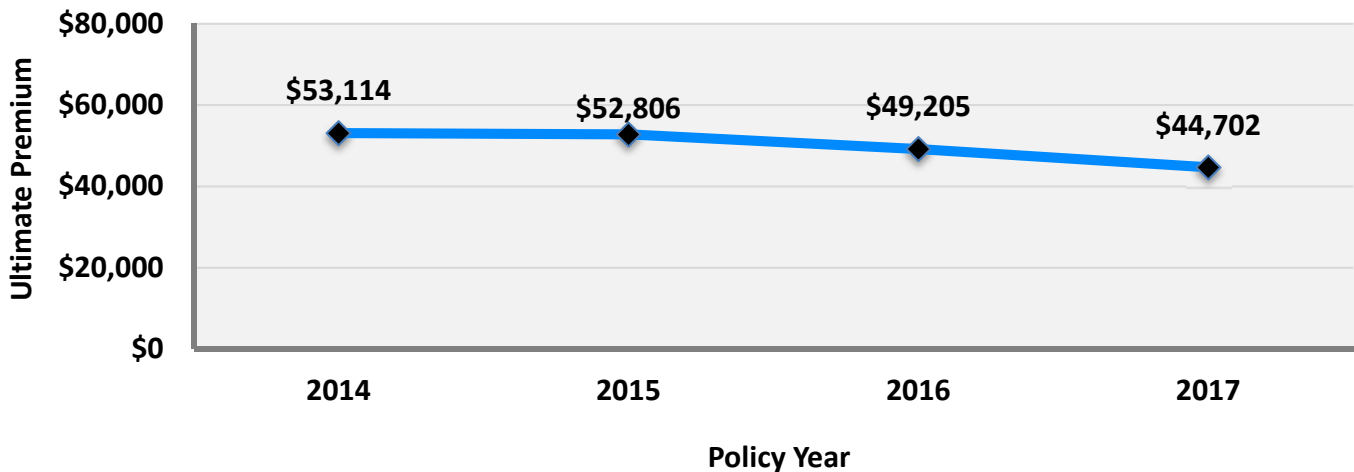
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



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

Policy Year Financial Results through 2nd Quarter 2018 for 2017 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.



* Third Quarter 2018 data will be available the end of January 2019 due to the timing of data reporting

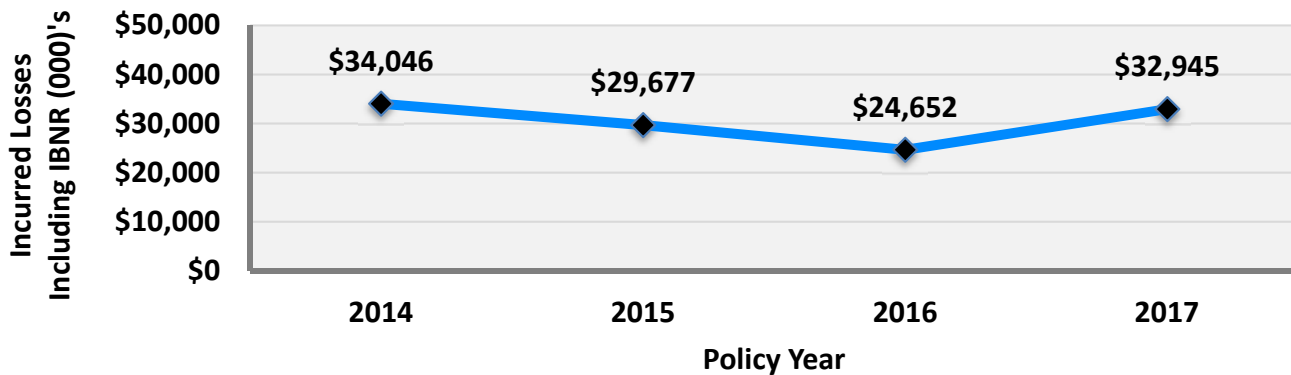


Residual Market Demographics

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

Policy Year Financial Results through 2nd Quarter 2018 for 2017 and prior years*

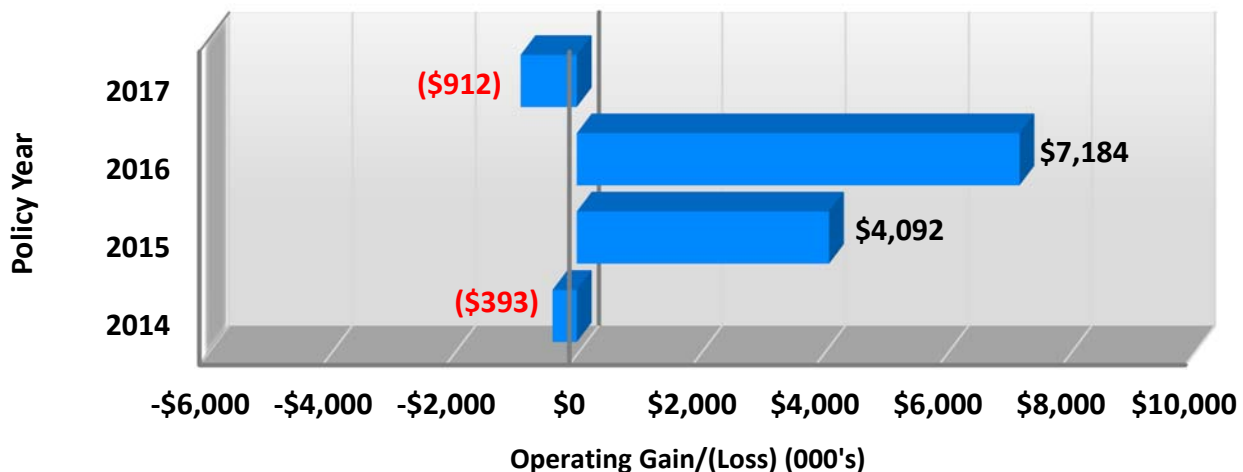
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

Policy Year Financial Results through 2nd Quarter 2018 for 2017 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.



* Third Quarter 2018 data will be available the end of January 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 2nd Quarter 2018.

| Policy Year | Gross Written Premium | Uncollectible Premium | Percentage |
|-------------|-----------------------|-----------------------|------------|
| 2014 | \$57,324,566 | \$4,210,939 | 7.3% |
| 2015 | \$55,820,302 | \$3,014,091 | 5.4% |
| 2016 | \$52,255,029 | \$3,216,446 | 6.2% |
| 2017 | \$44,880,306 | * | N/A |
| 2018 | \$15,331,422 | * | 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

Third Quarter Data through September 30, 2018

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 Third Quarter 2018.

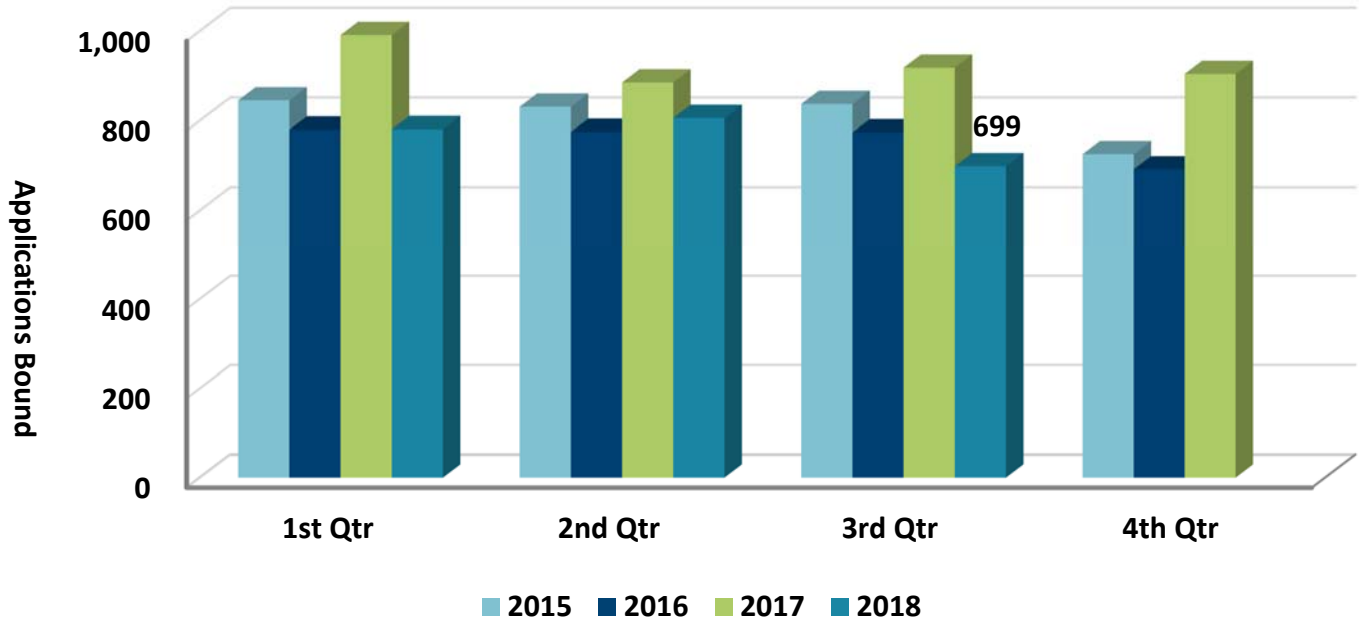
| | |
|--|--------|
| Number of Applications Reviewed by VCAP[®] Service | 715 |
| Number of VCAP[®] Service Matches | 588 |
| VCAP[®] Service Offers as a % of Matches | 3.91% |
| Number of Confirmed VCAP[®] Service Policies | 23 |
| Confirmed VCAP[®] Service Policies as a % of Applications Reviewed | 3.22% |
| Savings as a % of Redirected Assigned Risk Premium | 13.93% |



Residual Market Demographics

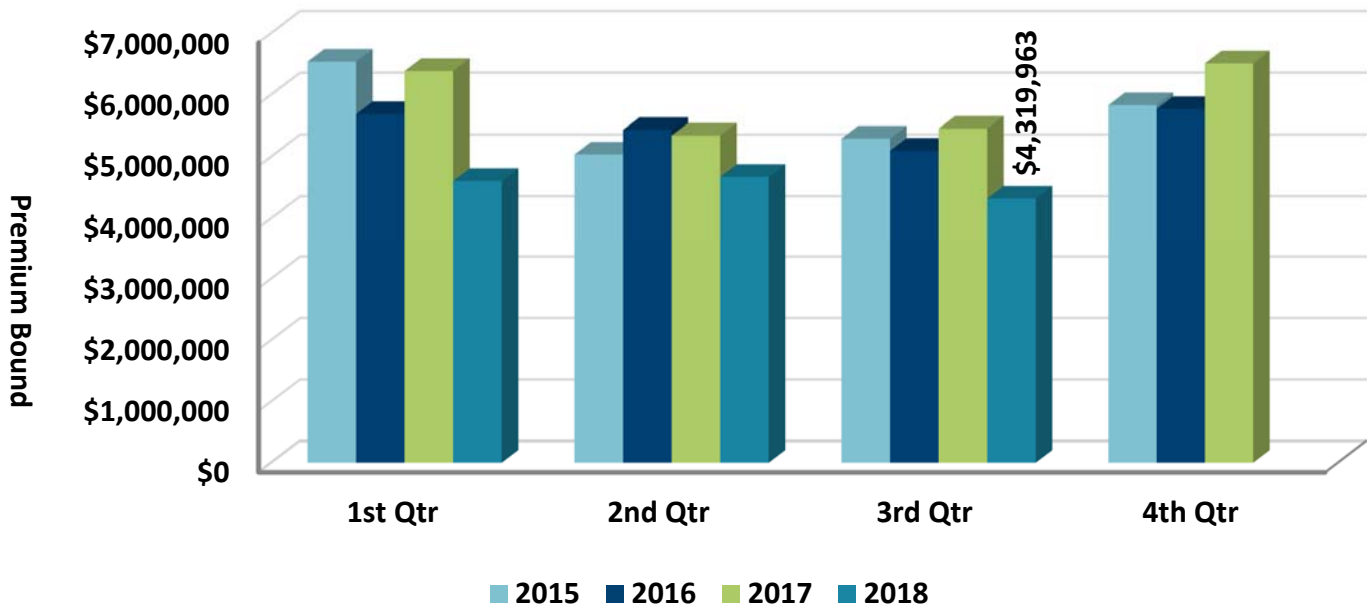
Total Applications Bound — 2015 vs. 2016 vs. 2017 vs. 2018

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 — 2015 vs. 2016 vs. 2017 vs. 2018

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).



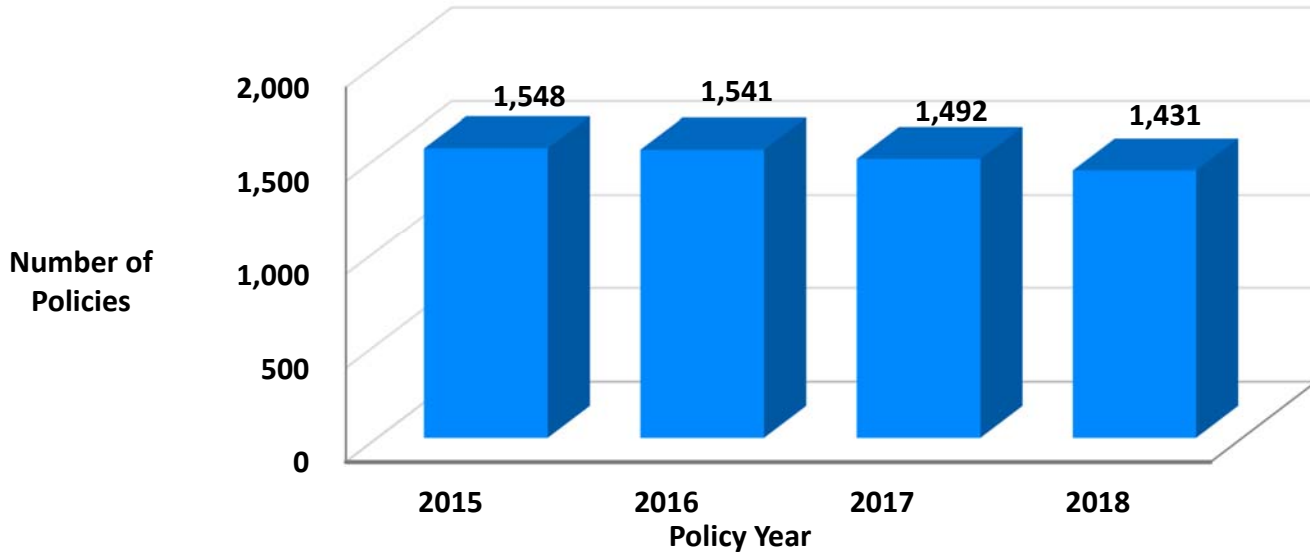


Residual Market Demographics

Residual Market Total Policy Counts

Third Quarter Data for Policies Reported through September 30, 2018

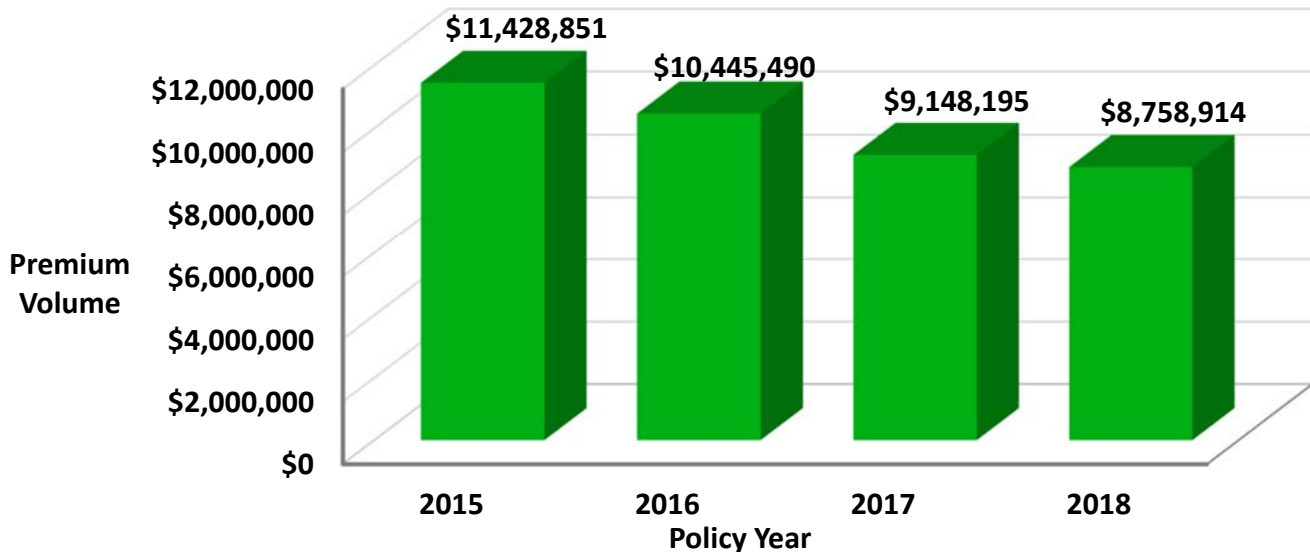
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



Residual Market Total Premium Volume

Third Quarter Data Reported through September 30, 2018

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

Third Quarter Data Reported through September 30, 2018

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 | 809 | 56.5% | \$949,210 | 10.8% | \$1,173 |
| \$2500–4999 | 261 | 18.2% | \$928,933 | 10.6% | \$3,559 |
| \$5000–9999 | 169 | 11.8% | \$1,171,924 | 13.4% | \$6,934 |
| \$10000–19999 | 110 | 7.7% | \$1,512,098 | 17.3% | \$13,746 |
| \$20000–49999 | 53 | 3.7% | \$1,560,531 | 17.8% | \$29,443 |
| \$50000–99999 | 20 | 1.4% | \$1,401,345 | 16.0% | \$70,067 |
| \$100000–199999 | 9 | 0.6% | \$1,234,873 | 14.1% | \$137,208 |
| \$200000 + | 0 | 0.0% | \$0 | 0.0% | \$0 |
| Total | 1,431 | 100.0% | \$8,758,914 | 100.0% | \$6,121 |

Third Quarter 2017 Data for Comparison

| Premium Interval | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0–2499 | 822 | 55.1% | \$935,857 | 10.2% | \$1,138 |
| \$2500–4999 | 257 | 17.2% | \$926,981 | 10.1% | \$3,606 |
| \$5000–9999 | 194 | 13.0% | \$1,350,339 | 14.8% | \$6,960 |
| \$10000–19999 | 126 | 8.5% | \$1,748,064 | 19.1% | \$13,873 |
| \$20000–49999 | 68 | 4.6% | \$2,130,544 | 23.3% | \$31,331 |
| \$50000–99999 | 18 | 1.2% | \$1,126,540 | 12.3% | \$62,585 |
| \$100000–199999 | 7 | 0.5% | \$929,870 | 10.2% | \$132,838 |
| \$200000 + | 0 | 0.0% | \$0 | 0.0% | \$0 |
| Total | 1,492 | 100.0% | \$9,148,195 | 100.0% | \$6,131 |



Residual Market Demographics

Residual Market Top 10 Classification Codes by Policy Count Third Quarter Data Reported through September 30, 2018

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 | 75 | 5.2% |
| 2 | 7219 | Trucking - NOC-All Employees & Drivers | 66 | 4.6% |
| 3 | 5606 | Contractor - Project Manager Construction Executive Construction Manager or Construction | 65 | 4.5% |
| 4 | 5551 | Roofing-All Kinds & Drivers | 62 | 4.3% |
| 5 | 5474 | Painting NOC & Shop Operations Drivers | 53 | 3.7% |
| 6 | 8835 | Home Public and Traveling Healthcare - All Employees | 50 | 3.5% |
| 7 | 9014 | Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers | 46 | 3.2% |
| 8 | 8842 | Group Homes - All Employees & Salespersons Drivers | 41 | 2.9% |
| 9 | 8810 | Clerical Office Employees NOC | 31 | 2.2% |
| 10 | 5437 | Carpentry-Installation of Cabinet Work or Interior Trim | 30 | 2.1% |

Residual Market Top 10 Classification Codes by Premium Volume Third Quarter Data Reported through September 30, 2018

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 | \$816,227 | 9.3% |
| 2 | 7219 | Trucking - NOC-All Employees & Drivers | \$517,662 | 5.9% |
| 3 | 5551 | Roofing-All Kinds & Drivers | \$469,946 | 5.4% |
| 4 | 0017 | Farm-Gardening-Market or Truck and Vineyards-All Employees | \$415,564 | 4.7% |
| 5 | 8842 | Group Homes - All Employees & Salespersons Drivers | \$298,112 | 3.4% |
| 6 | 5606 | Contractor - Project Manager Construction Executive Construction Manager or Construction | \$233,650 | 2.7% |
| 7 | 0037 | Farm: Field Crops & Drivers | \$230,958 | 2.6% |
| 8 | 8380 | Automobile Service or Repair Center & Drivers | \$219,770 | 2.5% |
| 9 | 0106 | Tree Pruning Spraying Repairing - All Operations & Drivers | \$191,972 | 2.2% |
| 10 | 8835 | Home Public and Traveling Healthcare - All Employees | \$186,328 | 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.