



# Arizona Residual Market State Activity Report

Annual 2020



## Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the Annual 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 December 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 %
<b>Policy Count</b>	5,067	5,356	-289	-5.4%
<b>Premium Volume</b>	\$32,712,487	\$35,603,490	-\$2,891,003	-8.1%

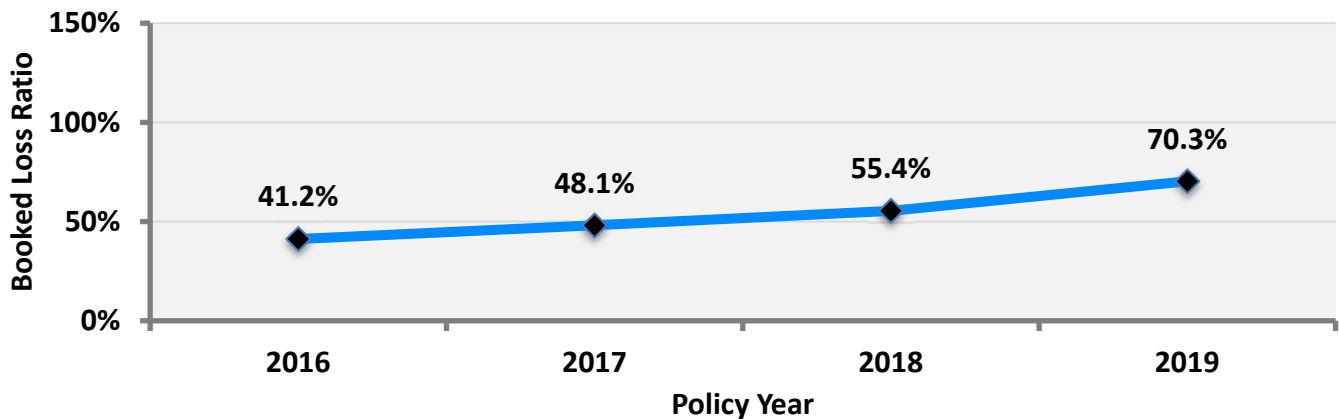


## Residual Market Demographics

### Arizona Residual Market Reinsurance Pool Booked Loss Ratio

#### Policy Year Financial Results through 3rd Quarter 2020 for 2019 and prior years\*

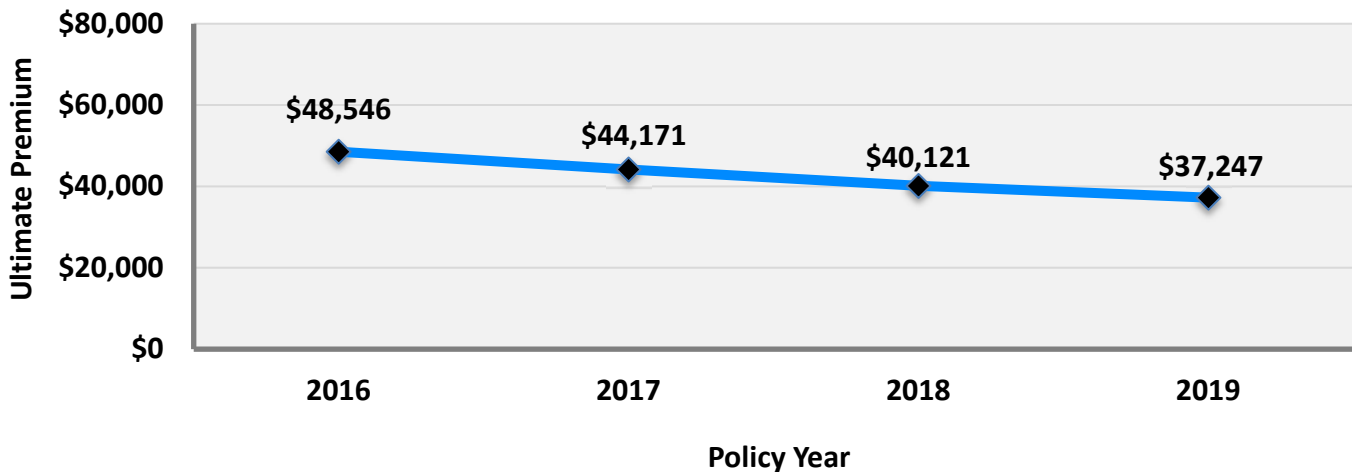
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



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

#### Policy Year Financial Results through 3rd Quarter 2020 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.



\*4th Quarter 2020 data will be available the end of April 2021 due to the timing of data reporting

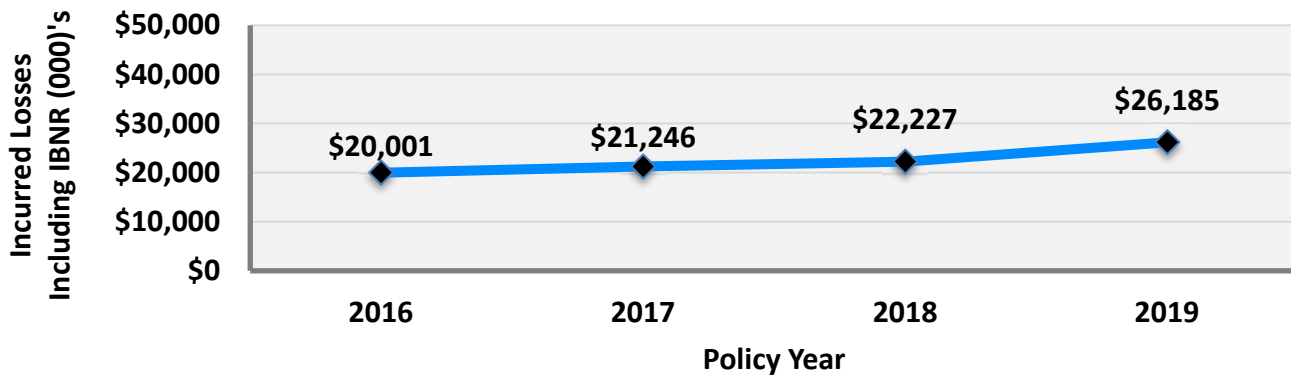


## Residual Market Demographics

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

#### Policy Year Financial Results through 3rd Quarter 2020 for 2019 and prior years\*

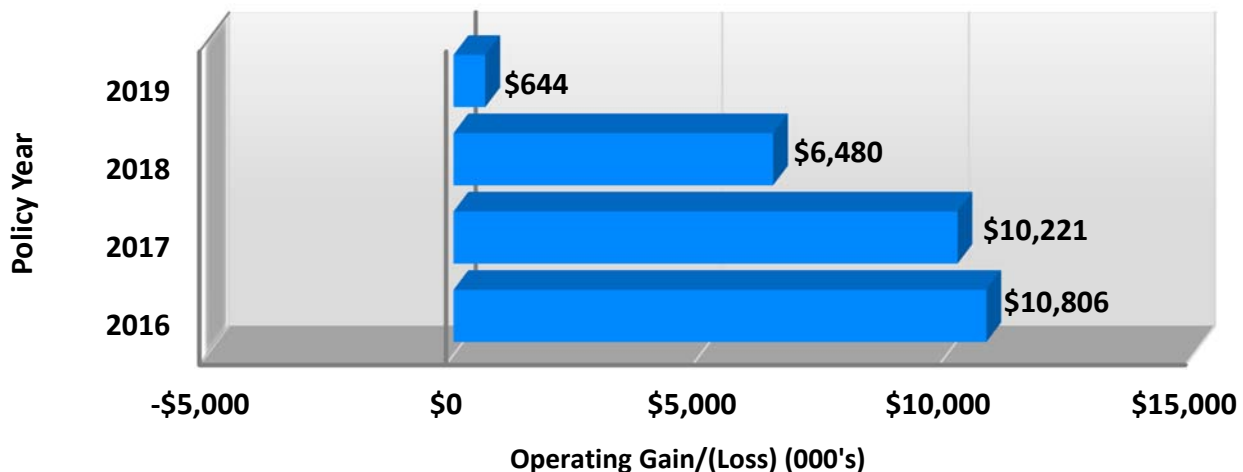
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

#### Policy Year Financial Results through 3rd Quarter 2020 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.



\*4th Quarter 2020 data will be available the end of April 2021 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 2016-2020, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 3rd Quarter 2020.

Policy Year	Gross Written Premium \$	Uncollectible Premium \$	Percentage
2016	50,687,204	2,141,350	4.2%
2017	46,552,130	2,381,060	5.1%
2018	42,782,739	2,669,523	6.2%
2019	39,136,058	*	N/A
2020	22,173,576	*	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

#### Annual Data through December 31, 2020

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 Annual 2020.

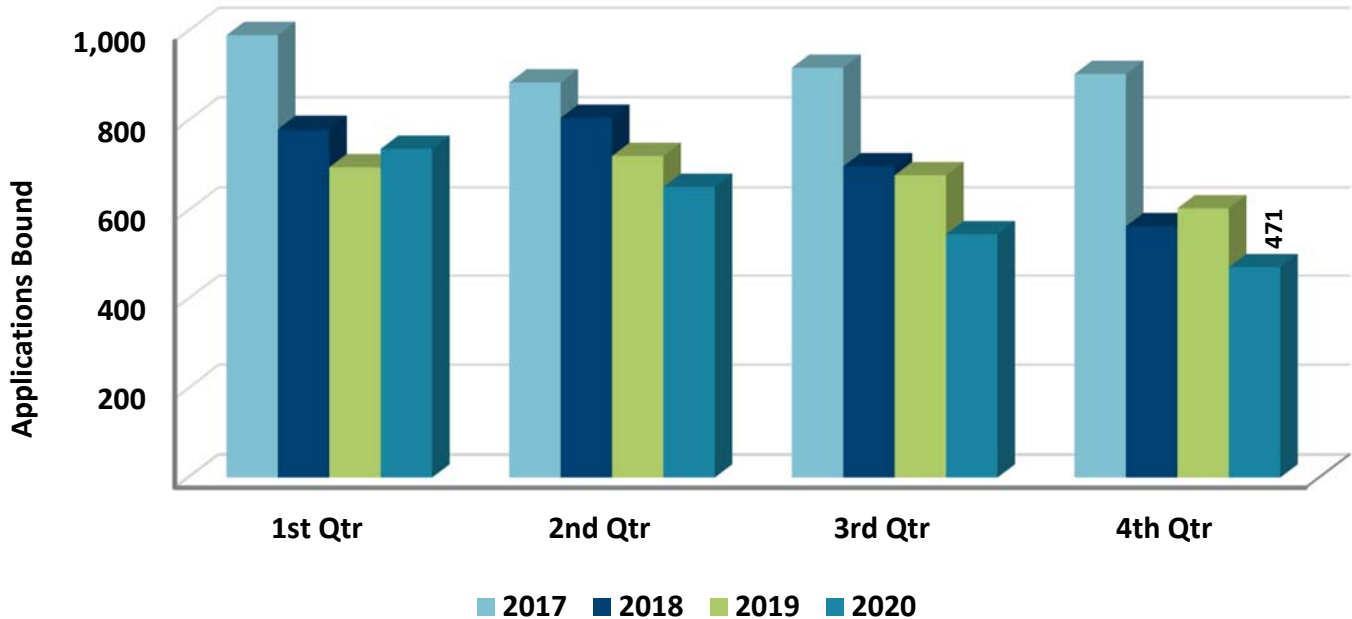
Number of Applications Reviewed by <b>VCAP<sup>®</sup> Service</b>	2,754
Number of <b>VCAP<sup>®</sup> Service</b> Matches	1,795
<b>VCAP<sup>®</sup> Service</b> Offers as a % of Matches	18.16%
Number of Confirmed <b>VCAP<sup>®</sup> Service</b> Policies	323
Confirmed <b>VCAP<sup>®</sup> Service</b> Policies as a % of Applications Reviewed	11.73%
Savings as a % of Redirected Assigned Risk Premium	14.00%



## Residual Market Demographics

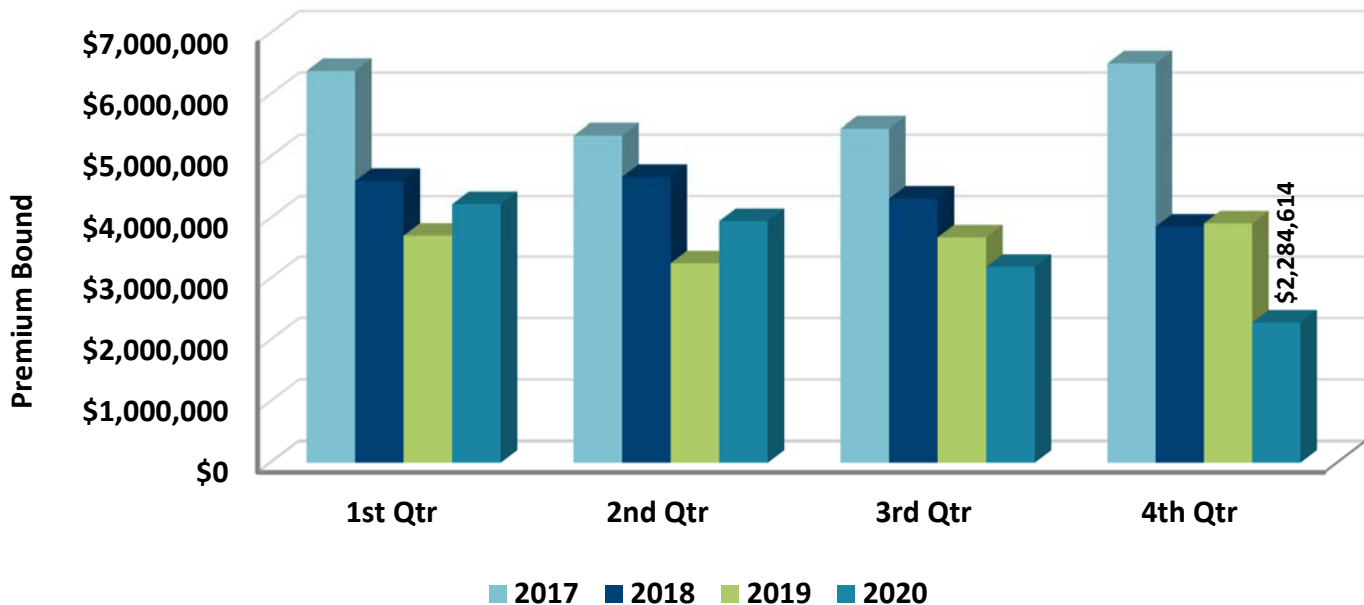
### Total Applications Bound — 2017 vs. 2018 vs. 2019 vs. 2020

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).





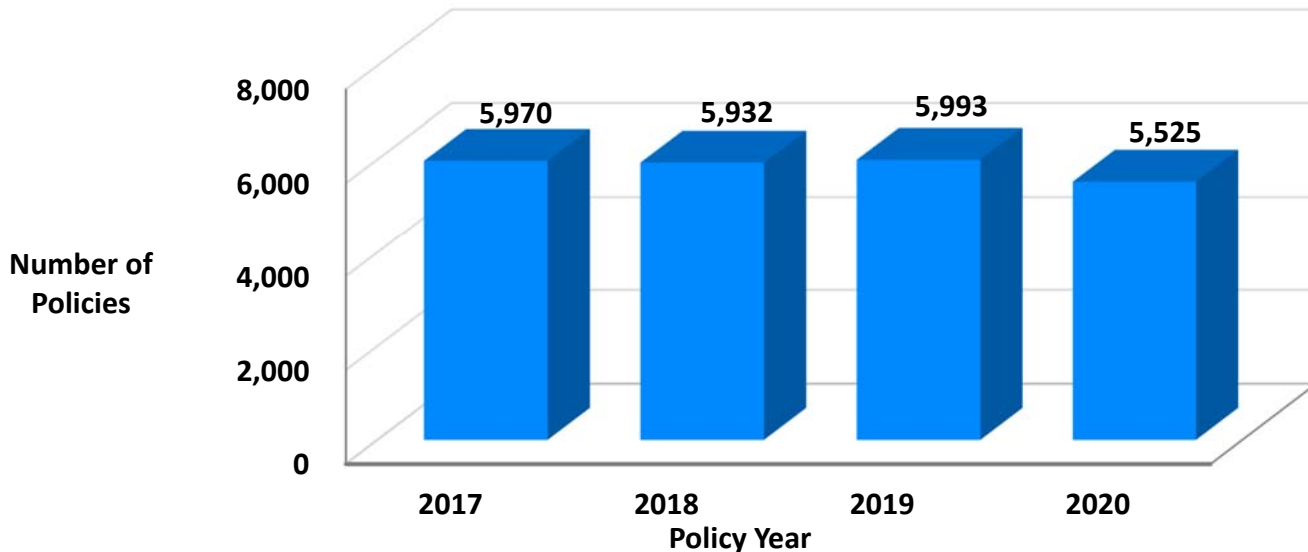


## Residual Market Demographics

### Residual Market Total Policy Counts

#### Annual Data for Policies Reported through December 31, 2020

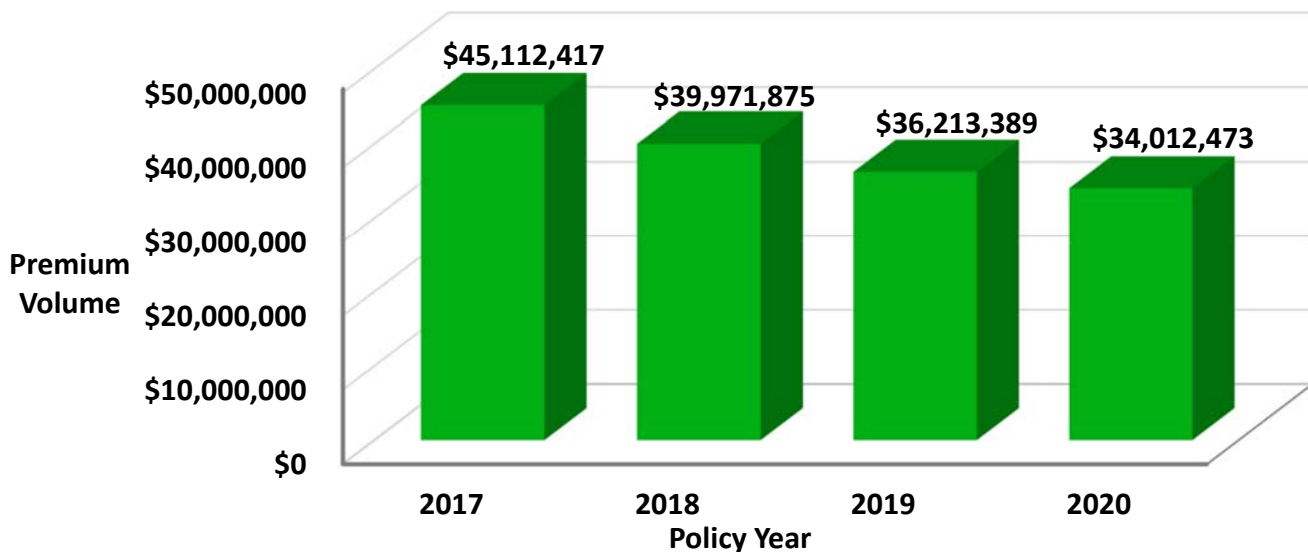
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



### Residual Market Total Premium Volume

#### Annual Data Reported through December 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 Annual Data Reported through December 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	3,071	55.6	3,701,922	10.9	1,205
\$2500–4999	1,003	18.2	3,550,032	10.4	3,539
\$5000–9999	707	12.8	5,003,679	14.7	7,077
\$10000–19999	408	7.4	5,653,473	16.6	13,857
\$20000–49999	247	4.5	7,563,892	22.2	30,623
\$50000–99999	60	1.1	4,151,748	12.2	69,196
\$100000–199999	24	0.4	3,195,826	9.4	133,159
\$200000 +	5	0.1	1,191,901	3.5	238,380
Total	5,525	100.0	34,012,473	100.0	6,156

### Annual 2019 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium \$	% of Total Premium	Average Premium \$
\$0–2499	3,286	54.8	3,724,856	10.3	1,134
\$2500–4999	1,054	17.6	3,752,316	10.4	3,560
\$5000–9999	770	12.8	5,424,019	15.0	7,044
\$10000–19999	515	8.6	7,217,095	19.9	14,014
\$20000–49999	278	4.6	8,200,300	22.6	29,497
\$50000–99999	69	1.2	4,847,502	13.4	70,254
\$100000–199999	17	0.3	2,153,254	5.9	126,662
\$200000 +	4	0.1	894,047	2.5	223,512
Total	5,993	100.0	36,213,389	100.0	6,043



## Residual Market Demographics

### Residual Market Top 10 Classification Codes by Policy Count Annual Data Reported through December 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 and Description	Policy Count	% of Policies
1	5645 - Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	392	7.1
2	5551 - Roofing-All Kinds & Drivers	355	6.4
3	5606 - Contractor - Project Manager, Construction Executive, Construction Manager, Or Construction Superintendent	267	4.8
4	8835 - Home, Public, And Traveling Healthcare - All Employees	199	3.6
5	7219 - Trucking - NOC-All Employees & Drivers	193	3.5
6	5474 - Painting NOC & Shop Operations, Drivers	171	3.1
7	9014 - Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	147	2.7
8	8810 - Clerical Office Employees NOC	146	2.6
9	5437 - Carpentry-Installation of Cabinet Work or Interior Trim	131	2.4
10	7720 - Police Officers & Drivers	118	2.1

### Residual Market Top 10 Classification Codes by Premium Volume Annual Data Reported through December 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 and Description	Premium \$	% of Premium
1	5645 - Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	2,945,796	8.7
2	5551 - Roofing-All Kinds & Drivers	2,881,151	8.5
3	7219 - Trucking - NOC-All Employees & Drivers	1,190,291	3.5
4	5606 - Contractor - Project Manager, Construction Executive, Construction Manager, or Construction Superintendent	1,107,763	3.3
5	0106 - Tree Pruning, Spraying, Repairing - All Operations & Drivers	923,375	2.7
6	8824 - Retirement Living Centers - Health Care Employees	864,398	2.5
7	0017 - Farm-Gardening-Market or Truck and Vineyards-All Employees	752,241	2.2
8	7720 - Police Officers & Drivers	643,788	1.9
9	9014 - Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	643,348	1.9
10	8835 - Home, Public, And Traveling Healthcare - All Employees	599,489	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.