Arizona Department of Insurance

2009 Market Monitoring

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I. Rate System:

Arizona's "open competition" law, applicable to Homeowners' (HOs) insurance, prohibits insurers from charging excessive, inadequate or unfairly discriminatory rates or rates that will have the effect of destroying competition or establishing a monopoly. As a matter of law, the Department cannot find a rate to be excessive if "a reasonable degree of price competition" ("RDPC") exists at the consumer level. The law presumes a competitive market exists unless the Director, after a public hearing, determines that a RDPC does not exist in the market.

II. Market Monitoring Methodology:

The Department relies upon insurers' rate filings and their annual statements filed with the Department, insurers' responses to an annual Department survey, current trade press articles and A.M. Best data to monitor the market.

The purpose of market monitoring is twofold: to assist the Director in determining whether competition exists; and, to assist consumers with their questions and concerns about the availability of insurance.

III. Annual Statement Data:

The 2008 annual statements for all HO segments evidence that:

- The incurred loss ratio increased (48.51%, 2008) from the prior year (46.10%, 2007).
- Direct written premium ("DWP") decreased .15% ($1,156,400,595 in 2008 compared to $1,158,182,025 in 2007).
- Fifteen groups each wrote 1% or more of the market. Within those groups, 17 insurers wrote at least 1% of the market, two less than in 2007. Of these 17 insurers, the insurer with the smallest market share wrote more than $12.9 million in DWP.
- One Hundred Sixteen insurers wrote $100,000 or more in premium (113 in 2007).
- More insurers entered (seven) than exited (three). The insurers exiting rolled their business into affiliated Arizona licensed insurers.
- The Top Five insurers wrote $23,699,390 less in DWP than in 2007 for a decrease of 4.1%.
- The combined market share of the Top 25 insurers decreased by 1.12% in 2008 compared to a 1.77% decrease in 2007.

Historical Experience (All Insurers Page 20, Line 04, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned	Paid Losses
2008	$1,156,400,595	$1,155,005,853	$536,915,932
2007	$1,158,182,025	$1,156,734,500	$523,661,238
2006	$1,144,952,830	$1,118,318,593	$400,526,424
2005	$1,093,484,529	$1,051,411,684	$390,860,273

	4	5
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)
2008	$560,268,550	48.51%
2007	$533,228,245	46.10%
2006	$430,540,293	38.50%
2005	$380,987,524	36.24%

IV. Survey Responses:

In 2009, 125 insurers responded to the Department's HOs' survey, 116 of which, with a 2008 market share of 99.81%, completed the survey.

Most insurers completing survey responded that:

- HOs are a major national line for them.
- Coverage availability is substantially the same as in 2008.
- Competition for HOs business is intense in Arizona.
- HOs business is very important to their presence and success in Arizona.
- It is very easy to enter the Arizona HOs market.
- Arizona's Open Competition law is highly effective.
- Reinsurance is not a problem.
- The current soft market stage of the underwriting cycle has influenced their decisions in HOs, resulting in rate decreases.
- The market shows signs of rates leveling. Fifty-eight percent of the market reported that prices have not changed.
- The national market in some manner and to some degree impacts insurer's local HO decisions in Arizona.
- They are actively seeking new business (92 insurers up from 82 in 2008).
- The number of declinations and/or non-renewals has not substantially changed since 2008. Most insurers (87 up from 85 in 2008) will maintain their current underwriting approach, and 13 said they would begin to relax their underwriting restrictions by year-end 2009.

V. Major HOs Market Trends:

Trend # 1: Groups writing in Arizona continue to add eligible insurers, but none experienced any significant change in their market share. Seven additional insurers from seven different groups reported new activity on their 2008 annual statements. Fifteen groups, each with an insurer in the Top 25, control 78.82% of the market.

Trend # 2: The market is concentrated in a few insurers among which competition is intense. The Top Five continue to have a sizable portion of the market (48.13% in 2008, 50.11% in 2007) and competition is intense. Three of the Top Five insurers lost market share in 2008.

Rank	Company	2008 Market Share
1.	State Farm Fire & Casualty Co	19.43%
2.	Farmers IC Of AZ	10.99%
3.	American Family Mutual IC	7.89%
4.	Allstate Indemnity Co	4.94%
5.	Allstate Property & Casualty IC	4.89%
	Total:	**48.13%**

Trend # 3: Few insurers report low historical profitability for the HOs line. Nine insurers having 15.94% (down from ten insurers with 21.07% of the market in 2008) of the market responded that their underwriting profitability in this line was historically low.

Only 11 insurers with a combined market share of 23.79% (21 in 2008) out of 103 insurers reported that they had made any meaningful underwriting profit on their Arizona HOs writings.

Trend # 4: Not all insurers with authority to write HOs insurance are actually writing HOs insurance. While 200 insurers reported some HOs activity in their 2008 annual statements, only 92 said they are seeking new business (82 said they were seeking new business in 2008). The remaining insurers have the legal authority to write HOs in Arizona, but have elected not to actively participate in the market for reasons of their own. Nonetheless, these latent insurers, although currently not actively seeking new business, can immediately enter the market at any time if they wish.

Trend # 5: Insurers view the level of competition in the market as high. Eighty-four of the responding insurers (78 in 2008) controlling 91.73% of the market said that, in their opinion, the level of competition in the HOs market was high.

Trend # 6: Most Insurers intend to maintain their current underwriting stance through year-end 2009. This is the sixth consecutive year that most (87 out of 108) responding insurers reported they were maintaining their current underwriting stance, as opposed to becoming more conservative. As a result, consumers will enjoy market accessability and stability.

Trend # 7: The incurred loss ratio increased over 2007. The Arizona 2008 all-company incurred loss ratio increased to 48.51%, up from 46.10% in 2007. Traditionally, there are peaks and valleys in HOs loss ratios, primarily due to storm and wildfire property claim volatility. Yet, despite storms and wildfires, the HOs line remains profitable.

Trend # 8: Mold litigation claims against Arizona HOs insurers continue; however, there has been a decrease in claims reported. The number of insurers that experienced a mold claim within the past three years decreased from 23 in 2008 to 17 in 2009.

Trend # 9: The soft market continues; however, losses and rates are trending upward. In 2008, the market share weighted average total rate change was 6.07%, compared to - 5.49% in 2007. Dry weather conditions, storm and wildfire exposures will impact the possibility of continued market softening in 2009.

Trend # 10: More insurers entered the market than exited. Seven insurers entered the market and three exited. The insurers that entered wrote $2,995,826 in DWP during 2008, a .25% market share.

VI. Conclusions:

Overall, the Arizona HOs market has remained stable. Coverage is readily available and at competitive prices; competition is healthy; consumers have a choice among insurers; insurers are maintaining their underwriting stance resulting in consistency and stability in the market; and while the market remains soft, more insurers are taking rate increases.