

Arizona Department of Insurance 2009 Market Monitoring

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Private Passenger Automobile Insurance

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	Index:	Page
I	Rate System	1
II	Market Monitoring Methodology	1
III	Annual Statement Data	1
IV	Survey Responses	1, 2
V	Major PPA Market Trends	2, 3
VI	Conclusions	3

I. Rate System:

Arizona's "open competition" law, applicable to Private Passenger Automobile ("PPA") 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. By statute, a rate is not 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 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 PPA segments evidence that:

- In 2008, insurers' direct written premiums decreased 0.82% from 2007 and their direct incurred loss ratio decreased by 2.49%.
- Only 22 insurers wrote more than 1% of the market.
- There are 298 insurers that reported PPA liability data in 2008, but of these only 152 are actively seeking new business.
- The Top 25 PPA insurers wrote 73.31% of the market.

Historical Experience (All Insurers' Arizona State Page, Lines 19.1, 19.2 and 21.1, Annual Statement Data, Year Ending December 31)

CY	1	2	3
	Written Premium	Earned Premium	Paid Losses
2008	\$3,565,809,936	\$3,559,616,940	\$2,113,522,342
2007	\$3,595,071,976	\$3,575,564,780	\$2,179,019,038
2006	\$3,567,778,489	\$3,526,137,761	\$2,029,137,152
2005	\$3,401,141,117	\$3,354,828,610	\$1,905,471,309
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2008	\$2,114,796,649	59.41%	
2007	\$2,213,337,688	61.90%	
2006	\$2,065,184,282	58.57%	
2005	\$1,968,557,592	58.68%	

IV. Survey Responses:

In 2009, 197 insurers responded to the Department's PPA survey. These insurers had a 2008 market share of 99.07%. Overall, their response regarding current PPA market conditions was favorable and positive.

- **The majority of surveyed insurers said that:**
 - Competition is intense in the PPA market;
 - Price is important;
 - Coverage availability is not a problem;
 - Current pricing levels are just about right; and
 - Reinsurance is not problematic for 57.16% of the market.
- **The majority of the surveyed insurers said that their particular company:**
 - Considers the PPA line to be very important to their presence and success in Arizona;
 - Is competing in the market with some intensity;
 - Has had neither historical underwriting profitability nor unprofitability in PPA in Arizona;
 - Will maintain their current underwriting and risk-eligibility approach at least through year-end 2009;
 - Is actively seeking new business;
 - Has not materially increased its declinations in 2009 as compared to 2008;
 - Considers Arizona's "open competition" rate law to be highly or very effective; and
 - Considers PPA to be a major line nationally.

V. Major PPA Market Trends:

Trend # 1. The PPA market continues to be concentrated in the Top 25, but its market share decreased slightly in 2008. The Top 25 market share decreased to 73.31%, a decline of 0.10% since 2007. All of the Top Three insurers have maintained their market position and while the market share of State Farm Mutual Automobile IC increased, the market shares of Farmers IC of AZ and American Family Mutual IC show a slight decrease. The Top Three insurers' 2008 market share rank as follows:

Rank	Company	2008 Market Share
1.	State Farm Mutual Auto IC	13.99%
2.	Farmers IC of AZ	9.41%
3.	American Family Mutual IC	6.90%
	Total:	30.30%

The Top Three insurer's 2008 market share (30.30%) is down from 30.44% in 2007.

Trend # 2. Market concentration has not discouraged new insurers from entering the Arizona market. Twenty-one of the 197 insurers responding to the survey have been writing in Arizona less than three years. Of 298 insurers reporting liability data on their annual statements in Arizona, there are 146 latent insurers that could reenter the market.

Trend # 3. The majority of the market is actively seeking new business. In 2009, 88.27% of the market responded that it was highly or intensely seeking new business.

Trend # 4. Competition continues to be intense. The majority of the market (96.11%) responded in 2009 that market competition is high. The market share of non-standard insurers has increased (8.35%; 2008, 7.45%; 2007). As applications to the Arizona Assigned Risk Plan, the involuntary market, have continued to decrease, it appears the non-standard market is writing risks that would otherwise go into the Assigned Risk Plan.

Trend # 5. It appears that a few large groups will dominate the market and that smaller, non-group affiliated insurers will have difficulty competing with them. All Top 25 insurers are members of twelve groups. Seven of the groups gained market share and four lost while one new group was added resulting in an overall net loss of 0.10% for the twelve groups.

Trend # 6. Total written premiums for Arizona's insurers decreased in 2008. In 2008, Arizona's Direct Written Premium (DWP) decreased 0.82% compared to a 0.76% increase in 2007. Although insurer rate changes during 2008 resulted in a weighted average total rate change of +3.72%, the DWP growth decline is the first DWP decrease during the time period for which information is available (15 years).

Trend # 7. The average annual policy premium decreased. In 2008, the DWP decreased while policy counts increased. As a result, the 2008 average policy premium decreased to \$1,204 from \$1,216 in 2007. In addition, the 2008 average annual premium per vehicle decreased to \$881 from \$896 in 2007.

Trend # 8. Fewer insurers report historical unprofitability for the PPA line. In 2009, 4.19%, a significant decrease (compared to 9.32% in 2008), of the market does not view PPA as profitable. For insurers surveyed, the 2008 incurred loss ratio decreased to 59.41% (down from 62.25% in 2007); however, the combined ratio was 100.26% (a 0.01% increase over 2007).

Trend # 9. The market is starting to show signs of hardening and underwriting is becoming more conservative. Of those insurers filing rate changes, the 2008 market share weighted average total rate change is +3.72% (compared to -0.32% in 2007). Insurers are taking a more conservative underwriting stance as only 15.83% (compared to 16.45% in 2008) of the market will take a more liberal underwriting stance by year-end 2009. Competition, underwriting, and investment income all impact insurer strategy for increased market share and profitability.

VI. Conclusions:

The Arizona PPA market remains highly competitive. The Arizona PPA industry, overall, is slightly unprofitable; however, insurers continue to view the Arizona market favorably and new insurers continue to enter the market.

Competition among the Top 25 and insurer groups is intense. The public is benefiting from rates that remain relatively stable and from competition for increased market share. Fewer drivers need to seek coverage in the higher priced Assigned Risk Plan as the market is willing to insure the higher rated risks.