

# Arizona Department of Insurance 2009 Market Monitoring

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Businessowners' Insurance

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The Businessowner ("BOP") policy is a multiple-line insurance policy for small and medium-sized businesses (e.g., retail businesses, etc.) that meets each insurer's program specifications and qualifications. Insurers originally designed the BOP as an alternative to the commercial multi-peril policy ("CMP"). While BOPs are easier to read and understand, their limits and coverages are generally less flexible than CMPs.

## I. Rate System:

Arizona's "open competition" law applicable to BOP 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:

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

## III. Annual Statement Data:

Insurers combine their BOP and CMP experience for annual statement reporting purposes to the Department. See Table A. The BOP comprises about 30% of the reported CMP direct written premium ("DWP"). BOP 2008 data evidence that:

- Insurers' 2008 DWP decreased about 4% over 2007.
- Their direct incurred loss ratio increased to 80% (includes loss adjustment expense) in 2008 compared to 59% in 2007.
- Business is concentrated in the Top 25 insurers.
- Insurance company groups (i.e., affiliated companies) dominate the entire market with Zurich Financial Services, CNA Insurance Companies, St. Paul Travelers Companies, Auto-Owners Group and Liberty Mutual Insurance Group controlling 43.96% of the market. These five company groups have a total of 32 affiliates writing BOP business in Arizona.
- The number of insurers that have the authority to write BOP business exceeds the number actually writing the coverage.

**Table A: Commercial Multi Peril versus Businessowner's Historical Experience (Year Ending 12/31)**

CY	Line	Written Premium	Earned Premiums	Losses Paid	Losses Incurred	Incurred Loss Ratio *
2008	CMP	\$555,879,290	\$565,859,546	\$274,807,296	\$246,929,532	43.64%
	BOP (28.74% of CMP)	\$159,743,454	\$157,370,915	\$75,268,041	\$100,742,067	64.02%
2007	CMP	\$577,984,619	\$577,214,782	\$234,662,461	\$238,904,916	41.38%
	BOP (28.94% of CMP)	\$167,255,732	\$159,678,175	\$67,176,390	\$67,419,452	42.22%
2006	CMP	\$578,623,018	\$559,163,269	\$224,347,051	\$221,975,147	39.70%
	BOP (28.45% of CMP)	\$164,594,783	\$155,207,165	\$68,015,748	\$77,443,692	49.90%
2005	CMP	\$535,697,008	\$523,757,496	\$228,718,487	\$254,321,205	48.55%
	BOP (29.87% of CMP)	\$159,995,084	\$158,295,122	\$60,863,252	\$80,657,314	50.95%
2004	CMP	\$502,718,663	\$483,855,767	\$195,732,857	\$224,221,512	46.34%
	BOP (30.90% of CMP)	\$155,349,934	\$147,324,199	\$44,545,775	\$59,937,121	40.68%
2003	CMP	\$465,464,220	\$440,309,472	\$218,292,643	\$264,647,001	60.11%
	BOP (29.55% of CMP)	\$137,774,871	\$128,934,901	\$57,485,732	\$63,313,028	74.00%
2002	CMP	\$425,493,804	\$425,493,804	\$285,417,578	\$263,574,048	66.13%
	BOP (25.35% of CMP)	\$107,849,903	\$101,269,356	\$65,734,991	\$69,886,133	69.01%

\* Incurred Loss Ratios do not include loss adjustment expenses.

#### IV. Survey Responses:

In 2009, 75 active insurers responded to the ADOL's BOP survey and reported that they are seeking new policies while also retaining their existing business. Overall, insurers' responses regarding market conditions were positive.

- **The majority of surveyed insurers said that:**
  - Competition is high;
  - Coverage is available;
  - Groups play a major role;
  - Combined ratios have increased;
  - Pricing is important and levels are adequate;
  - It is not difficult to enter the market; and,
  - Reinsurance is readily available.
  
- **The majority said that their particular company:**
  - Adjusted rates in 2008;
  - Is actively seeking new business;
  - Considers the BOP, in Arizona and nationally, to be of major importance;
  - Has improved its Arizona BOP underwriting profitability;
  - Has not materially increased declinations, cancellations, or non-renewals in 2008; and,
  - Will maintain its current underwriting and risk-eligibility approach at least through 2009.

#### V. Major BOP Market Trends:

**Trend # 1:** Not all insurers possessing the authority to write BOP insurance are actually writing. Of the 297 insurers that reported some CMP activity in their annual statements for 2008, only 75 wrote BOP business. The remaining 222 insurers have the legal authority to write the BOP in Arizona, but for reasons of their own, have elected not to participate in the market. These "latent" insurers, although currently not actively seeking new business, potentially could immediately enter the market.

**Trend # 2:** Market concentration continues in the Top 25. The market share for the Top 25 decreased to about 88%, down from 89% in 2007. The Top Five insurers have a 46.70% share of the market. Competition among these insurers is particularly intense. Hartford Casualty IC is the market leader for the ninth consecutive year. American Family Mutual IC, Truck Insurance Exchange, AMCO IC and State Farm Fire and Casualty Co. round out the Top Five.

The Top Five's 2008 market share and rank follow:

Table B

Rank	Company	2007 Market Share
1.	Hartford Casualty IC	13.21%
2.	American Family Mutual IC	9.51%
3.	Truck Insurance Exchange	8.93%
4.	AMCO IC	8.17%
5.	State Farm Fire and Casualty Co.	6.88%
	<b>Total:</b>	<b>46.70%</b>

**Trend # 3:** Policy count and average premium decreased. Policy counts decreased less than 1% in 2008 while the average premium charged per policy decreased 4%. Although 30 insurers reported rate changes within the past year, the majority of the market (85.95%) believes that 2008 rates have not substantially changed in the past year. The decrease in policy count and decrease in average premium is consistent with property and casualty insurance industry results. A declining average premium size is an indication that the BOP market remains in the soft market stage of the underwriting cycle.

**Trend # 4:** Loss ratios, average claim payment and the number of claims increased. The direct incurred loss ratio in 2008 was 80% compared to 59% in 2007 and claim payments averaged \$12,386 in 2008 compared to \$11,792 in 2007. Also, the actual number of claims increased to 6,077 in 2008 compared to 5,697 in 2007. Increased competition in the market may have caused insurers to become more relaxed in their use of deductibles to attract new business. The increased average claim payment and number of claims has resulted in a higher incurred loss ratio in 2008.

**Trend # 5:** Price is important to insurers. Pricing is a major consideration for insurers and the majority believes pricing levels are adequate. However, it appears that the deterioration in underwriting results is due to lower pricing and an increase in losses and/or loss adjustment expenses. In 2008, some insurers expressed concern that pricing is too low. In this highly competitive market, 100% of the responding insurers agreed that price is important.

**Trend # 6: Insurers report an improved BOP profitability.** Over the past three years the Arizona BOP combined ratio has increased (115%, 2008; 95%, 2007; 93%, 2006); however, in 2008 insurers continue to project a favorable perception of BOP's underwriting profitability. While loss adjustment and underwriting expenses impact results, an insurer's losses primarily determine its profitability. Recent mergers and acquisitions within larger groups possibly distorted the combined ratio increases. While loss adjustment and underwriting expense ratio's are slightly lower, the incurred loss ratio has increased resulting in an increased combined ratio. Insurer's efforts to re-underwrite their book of business and adjust rates potentially came at the cost of an increased loss ratio in 2008.

**Trend # 7: It is not difficult to enter the BOP market.** The majority of insurers stated that entry into the BOP market is not difficult. While the Top 25 insurers control of the market evidences high competition (88% market share), there are many latent insurers that could, at any time, begin writing this coverage.

**Trend # 8: Reinsurance does not appear to be problematic.** All insurers surveyed, responded that reinsurance is readily available.

## **VI. Conclusions:**

The BOP is an important line for insurers who continue to prosper and increase their business in a competitive market. Mergers and acquisitions have increased group concentration in the market. Insurers can easily enter or exit this market. Consumers will find a broad range of insurers able to provide an insurance package geared to meet their specific needs at an affordable price. The market is experiencing a high degree of competition, and perceived adequate pricing levels; but with higher loss ratios, insurers will look for new ways to market this product line, increase their premium writings and reduce losses.