

# Arizona Department of Insurance

## 2009 Market Monitoring

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### I. Rate System:

Arizona's "open competition" law, applicable to Commercial Automobile ("CA") 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 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. See Volume 2, Issue 1 for a more complete description of the procedure and process.

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

### III. Annual Statement Data:

The 2008 CA annual statement data evidence that:

- Current trends are consistent with past trends except, that for the second straight year, there was a decrease in direct written premium and the incurred loss ratio:
  - Number of insurers remained fairly constant.
  - Direct written premium decreased (9.89%).
  - Incurred loss ratio decreased (2.78%).
- The market remains concentrated in the Top 25 that wrote 55.80% of the market in 2008 compared to 56.48% in 2007.

#### Historical Experience (All Insurers, including Top 100 Insurers Bodily Injury and Physical Damage, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Earned Premium	Incurred Losses	Incurred Loss Ratio
2008	\$472,674,155	\$248,147,022	52.5%
2007	\$504,978,464	\$279,170,320	55.3%
2006	\$527,925,756	\$308,801,804	58.5%
2005	\$495,904,523	\$273,693,304	55.2%
2004	\$467,704,356	\$245,892,591	52.6%

### IV. Survey Responses:

In 2009, 100 insurers, having a market share of 90.67%, responded to the Department's CA survey. Overall, their response regarding current CA market conditions was positive.

- **The majority surveyed said that:**
  - Competition remains intense;
  - Price is considered important;
  - It is not difficult to enter the market;
  - Coverage is more available;
  - Current pricing levels have decreased slightly; and,
  - Reinsurance is not problematic.
- **The majority of the surveyed insurers said that their particular company:**
  - Considers CA to be very important/extremely important to their presence and success in Arizona;
  - Made a rate change(s) in 2008;
  - Experienced moderate CA historical underwriting profitability in Arizona;

- Is neither conservative nor liberal in their underwriting stance;
- Is actively seeking new business; and,
- Considers CA to be a major line nationally.

## V. Major CA Market Trends:

**Trend # 1.** Direct written premiums (“DWP”) continued decreasing. This is a result of intense competition among insurers using similar rates and the increased number of insurer rate changes within the last year.

**Trend # 2.** Incurred loss ratio for CA Liability decreased. The overall incurred loss ratio has decreased for the second straight year. With a decreasing loss ratio, a decrease in premium writings and policy count, plus, an underwriting stance that is more balanced, it appears that intense competition should continue among insurers in an effort to increase their premium writings.

**Trend # 3.** The CA Liability Top 25 continues to hold its market share despite recent decreases. The Top 25 market share decreased to 55.80% in 2008 down from 56.48% in 2007 while its DWP decreased 9.15% in 2008. An indication of the Top 25's relative stability is that 22 insurers in the Top 25 in 2008 were also in the Top 25 in 2007.

**Trend # 4.** Easy market entry and exit. The number of insurers transacting some CA liability increased (338, 2008; 332, 2007; 319, 2006; 322, 2005). Those writing \$100,000 or more in premium fluctuates, indicating that insurers can easily enter and exit the market (186, 2008; 180, 2007; 175, 2006; 163, 2005). No insurer has significant control of the market. While the Top 25 have substantial market share, no one insurer dominates the market. Healthy competition currently exists.

**Trend # 5.** Insurers consider price important. This is a reflection of either insurer satisfaction with the rate changes taken over the past several years, or an underwriting stance that is neither conservative nor liberal. Seventy-seven out of 100 insurers reported rate changes within the last year compared to 66 in the 2008 survey.

**Trend # 6.** The market is becoming more balanced for insurers and their underwriting stance for the immediate future. In 2009, 85.26% of the market assessed its future underwriting stance as more balanced compared to 77.27% in 2008. Because of this factor, it would appear that there is a movement from the soft underwriting cycle towards the hard market stage.

**Trend # 7.** Insurers are actively seeking new business. Insurers (64) representing 65.91% of the market are either highly or intensely seeking new business.

**Trend # 8.** Reinsurance is available. Reinsurance is not problematic and is available under the terms and conditions and at the price insurers desire.

## VI. Conclusions:

Although it appears that the market is moving from the soft stage of the underwriting cycle to the hard stage, uncertainty remains in the market. If the economy does not improve to the satisfaction of insurers, the hard market stage may become the norm; however, if the economy shows signs of recovery, the more aggressive insurers could start their move toward the soft market by stepping up the level of price competition. Regardless of what happens, insurers are actively engaged in the market and it remains relatively healthy.