

Arizona Department of Insurance

2010 Market Monitoring

Volume 8, Issue 5

Homeowners' Insurance

June, 2010

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

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 2009 annual statements for all HO segments evidence that:

- The incurred loss ratio decreased (47.08%, 2009) from the prior year (48.51%, 2008).
- Direct written premium ("DWP") increased 2.57% (\$1,186,127,609 in 2009 compared to \$1,156,400,595 in 2008).
- Fifteen groups each wrote 1% or more of the market. Within those groups, 17 insurers wrote at least 1% of the market. Of these 17 insurers, the insurer with the smallest market share wrote more than \$16.4 million in DWP.
- One Hundred Twenty-one insurers wrote \$100,000 or more in premium (116 in 2008).
- More insurers entered (five) than exited (one). The insurers exiting rolled their business into affiliated Arizona licensed insurers.
- The Top Five insurers wrote \$1,684,068 more in DWP than in 2008 for an increase of about .3%.
- The combined market share of the Top 25 insurers increased by .09% in 2009 compared to a 1.12% decrease in 2008.

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

	1	2	3
CY	Written Premium	Earned	Paid Losses
2009	\$1,186,127,609	\$1,169,338,518	\$543,278,369
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
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2009	\$550,568,626	47.08%	
2008	\$560,268,550	48.51%	
2007	\$533,228,245	46.10%	
2006	\$430,540,293	38.50%	

IV. Survey Responses:

In 2010, 139 insurers responded to the Department's HO's survey, 128 of which, with a 2009 market share of 99.6%, completed the survey.

Most insurers completing surveys responded that:

- HO's are a major national line for them.
- Coverage availability is substantially the same as in 2009.
- Competition for HO's business is intense in Arizona.
- HO's business is very important to their presence and success in Arizona.
- It is very easy to enter the Arizona HO's market.
- Arizona's Open Competition law is highly effective.
- Reinsurance is not a problem.
- The current soft market stage of the underwriting cycle has a positive influence on their HO's decisions for the Arizona consumer.
- The market shows signs of rates increasing. However, 62% of the market reported that prices have not changed substantially compared to 2009.
- The national market in some manner and to some degree impacts insurer's local HO decisions in Arizona.
- They are actively seeking new business (106 insurers up from 92 in 2009).
- The number of declinations and/or non-renewals has not substantially changed since 2009. Most insurers (92 up from 87 in 2009) will maintain their current underwriting approach, and 20 said they would begin to relax their underwriting restrictions by year-end 2010.

V. Major HO's Market Trends:

Trend # 1: Groups writing in Arizona continue to add eligible insurers; however, only a few experienced any significant (1% or greater) change in their market share. Five additional insurers from five different groups reported new activity on their 2009 annual statements. Fourteen groups, each with an insurer in the Top 25, control 87.50% 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 (47.07% in 2009, 48.13% in 2008) and competition is intense. Three of the Top Five insurers lost market share in 2009.

Rank	Company	2009 Market Share
1.	State Farm Fire & Casualty Co	20.51%
2.	Farmers IC Of AZ	9.53%
3.	American Family Mutual IC	7.63%
4.	Allstate Property & Casualty IC	5.18%
5.	Allstate Indemnity Co	4.22%
	Total:	47.07%

Trend # 3: Few insurers report low historical profitability for the HO's line. Nine insurers having 2.04% of the market responded that their underwriting profitability in this line was historically low.

Only 29 insurers with a combined market share of 9.64% out of 120 insurers reported that they had made any meaningful underwriting profit on their Arizona HO's writings.

Trend # 4: Not all insurers with authority to write HO's insurance are actually writing HO's insurance. While 194 insurers reported some HO's activity in their 2009 annual statements, only 106 said they are seeking new business (92 said they were seeking new business in 2009). The remaining insurers have the legal authority to write HO's 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. Ninety-five of the responding insurers (84 in 2009) controlling 81.55% 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 2010. This is the seventh consecutive year that most (92 out of 121) responding insurers reported they were maintaining their current underwriting stance, as opposed to becoming more conservative. As a result, consumers will enjoy market accessibility and stability.

Trend # 7: The incurred loss ratio decreased over 2008. The Arizona 2009 all-company incurred loss ratio decreased to 47.08%, down from 48.51% in 2008. 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; as a result, there has been an increase in claims reported. The number of insurers that experienced a mold claim within the past three years increased from 17 in 2009 to 26 in 2010.

Trend # 9: The soft market continues; however, rates trended upward; although, to a lesser degree than in 2008. In 2009, the market share weighted average total rate change was 5.32% (6.07% in 2008). Dry weather conditions, storm and wildfire exposures will impact the possibility of continued market softening in 2010.

Trend # 10: More insurers entered the market than exited. Five insurers entered the market and one exited. The insurers that entered wrote \$5,304,101 in DWP during 2009, a .45% 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.