

# Arizona Department of Insurance

## 2010 Market Monitoring

Volume 8, Issue 2

Private Passenger Automobile Insurance

April 2010

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### 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 2009 annual statements for all PPA segments evidence that:

- In 2009, insurers' direct written premiums decreased 3.18% from 2008 and their direct incurred loss ratio decreased by 5.56%.
- Only 20 insurers wrote more than 1% of the market.
- There are 309 insurers that reported PPA liability data in 2009, but of these only 152 are actively seeking new business.
- The Top 25 PPA insurers wrote 74.27% 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
2009	\$3,452,551,103	\$3,481,895,928	\$1,912,883,158
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
4		5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2009	\$1,874,981,108	53.85%	
2008	\$2,114,796,649	59.41%	
2007	\$2,213,337,688	61.90%	
2006	\$2,065,184,282	58.57%	

### IV. Survey Responses:

In 2010, 196 insurers responded to the Department's PPA survey. These insurers had a 2009 market share of 99.09%. 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 51.21% 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 2010;
  - Is actively seeking new business;
  - Has not materially increased its declinations in 2010 as compared to 2009;
  - 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. PPA market concentration continues in the Top 25 and its market share increased slightly in 2009.** The Top 25 market share increased to 74.27%, an increase of 0.96% since 2008. 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 slight decreases. The Top Three insurers' 2009 market share rank as follows:

Rank	Company	2009 Market Share
1.	State Farm Mutual Auto IC	14.44%
2.	Farmers IC of AZ	8.41%
3.	American Family Mutual IC	6.45%
	<b>Total:</b>	<b>29.30%</b>

The Top Three insurer's 2009 market share (29.30%) is down from 30.30% in 2008.

**Trend # 2. Market concentration has not discouraged new insurers from entering the Arizona market.** Sixteen of the 196 insurers responding to the survey have been writing in Arizona less than three years. Of 309 insurers reporting liability data on their annual statements in Arizona, there are 157 latent insurers that could reenter the market.

**Trend # 3. The majority of the market is actively seeking new business.** In 2010, 83.95% of the market responded that it was highly or intensely seeking new business.

**Trend # 4. Intense competition continues.** The majority of the market (95.64%) responded in 2010 that market competition is high. The market share of nonstandard insurers has increased (8.80%; 2009, 8.35%; 2008). Continued decreases in applications to the Arizona Assigned Risk Plan (the involuntary market) indicates 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 thirteen groups. In 2009, there was an overall market share net gain of 0.96% for the Top 25 insurers.

**Trend # 6. Total written premiums for Arizona's insurers decreased in 2009.** In 2009, Arizona's Direct Written Premium (DWP) decreased 3.18% compared to a decrease of 0.82% in 2008. Although insurer rate changes during 2009 resulted in a weighted average total rate change of +0.62%, the DWP decline is the second DWP decrease during the time period for which information is available (16 years).

**Trend # 7. The average annual policy premium decreased.** In 2009, the DWP decreased while policy counts increased. As a result, the 2009 average policy premium decreased to \$1,149 from \$1,204 in 2008. In addition, the 2008 average annual premium per vehicle decreased to \$824 from \$881 in 2008.

**Trend # 8. Fewer insurers report historical unprofitability for the PPA line.** In 2010, 3.39%, a slight decrease (compared to 4.19% in 2009), of the market does not view PPA as profitable. For all insurers, the 2009 incurred loss ratio decreased to 53.85% (down from 59.41% in 2008); however, the combined ratio for insurers surveyed was 101.04% (an increase of 0.78% over 2008).

**Trend # 9. Underwriting is becoming more liberal.** Insurers are taking a more liberal underwriting stance as 16.35% (compared to 15.83% in 2009) of the market will take a more liberal underwriting stance by year-end 2010. Competition and underwriting both have an effect on insurers and the approach they take to increase their market share while remaining profitable.

## **VI. Conclusions:**

The Arizona PPA market remains highly competitive, yet 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.