

Arizona Department of Insurance 2010 Market Monitoring

Volume 8, Issue 6

Businessowner 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 BOP Trends	2, 3
VI	Conclusions	3

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 BOP’s are easier to read and understand, their limits and coverage is generally less flexible than CMP’s.

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 2009 data evidence that:

- Insurers’ 2009 DWP decreased about 8% over 2008.
- Insurers’ direct incurred loss ratio decreased to 67% (includes loss adjustment expense) in 2009 compared to 80% in 2008.
- 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 45.24% of the market. These five company groups have a total of 30 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 *
2009	CMP	\$504,881,829	\$519,111,473	\$254,820,751	\$179,647,306	34.61%
	BOP (29.14% of CMP)	\$147,101,343	\$146,667,789	\$83,979,909	\$80,547,137	54.92%
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%

* Incurred Loss Ratios do not include loss adjustment expenses.

IV. Survey Responses:

In 2010, 77 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 decreased;
 - 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 2009;
 - 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 2009; and,
 - Will maintain its current underwriting and risk-eligibility approach at least through 2010.

V. Major BOP Market Trends:

Trend # 1: Not all insurers possessing the authority to write BOP insurance are actually writing. Of the 301 insurers that reported some CMP activity in their annual statements for 2009, only 77 wrote BOP business. The remaining 224 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 87%, down from 88% in 2008. The Top Five insurers have a 45.78% share of the market. Competition among these insurers is particularly intense. Hartford Casualty IC is the market leader for the tenth consecutive year. American Family Mutual IC, Truck Insurance Exchange, State Farm Fire and Casualty Co. and AMCO IC round out the Top Five.

The Top Five's 2009 market share and rank follow:

Table B

Rank	Company	2009 Market Share
1.	Hartford Casualty IC	11.49%
2.	American Family Mutual IC	10.00%
3.	Truck Insurance Exchange	8.57%
4.	State Farm Fire and Casualty Co.	7.86%
5.	AMCO IC	7.86%
	Total:	45.78%

Trend # 3: Policy count increased but average premium decreased. Policy counts increased 30% in 2009 while the average premium charged per policy decreased 29%. Although 38 insurers reported rate changes within the past year, the majority of the market (54.62%) believes that 2009 rates have not substantially changed in the past year. On a national level the BOP makes up 30% of the CMP line. The increase in policy count and decrease in average premium may have contributed to a decrease in the overall net premiums written for the CMP lines. Insurers appear reluctant to relinquish market share in this economy resulting in competitive pricing benefiting both consumers and businesses. 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 and number of claims decreased, but average claim payments increased. The direct incurred loss ratio in 2009 was 67% compared to 80% in 2008 and the actual number of claims decreased to 4,940 in 2009 compared to 6,077 in 2008. However, claim payments averaged \$17,000 in 2009 compared to \$12,386 in 2008. With decreased claims, insurers may have used loss control and deductible programs to reduce the overall number of claims filed. The increased average claim payment combined with the decrease in the number of claims resulted in a lower incurred loss ratio in 2009.

Trend # 5: Price is important to insurers. Pricing is a major consideration for insurers and the majority believes pricing levels are adequate; however, the more favorable underwriting results appear to be due to reduced losses and loss adjustment expenses.

In 2010, 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 improved BOP profitability. The Arizona combined ratio decreased (102%, 2009; 115%, 2008; 95%, 2007); and, in 2010 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. Mergers and acquisitions within larger groups can distort the combined ratio changes. While loss adjustment expense ratio is lower and underwriting expense ratio has stayed the same, the incurred loss ratio has decreased. Insurer's efforts to re-underwrite their book of business and adjust rates have resulted in an improved combined loss ratio in 2009.

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 (87% 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, perceived adequate pricing levels and improved loss ratios. Insurers continue to look for new ways to market this product line, increase their premium writings and reduce losses.