

# Arizona Department of Insurance

## 2011 Market Monitoring

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Homeowners' Insurance

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### 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 2010 annual statements for all HO segments evidence that:

- The incurred loss ratio increased (139.18%, 2010) from the prior year (47.08%, 2009).
- Direct written premium ("DWP") increased 1% (\$1,198,005,968 in 2010 compared to \$1,186,127,609 in 2009).
- Sixteen groups each wrote 1% or more of the market. Within those groups, 18 insurers wrote at least 1% of the market. Of these 18 insurers, the insurer with the smallest market share wrote \$13.7 million in DWP.
- One Hundred Eighteen insurers wrote \$100,000 or more in premium (121 in 2009).
- More insurers exited (five) than entered (three). Three of the insurers exiting rolled their business into affiliated Arizona licensed insurers.
- The Top Five insurers wrote \$11,595,118 less in DWP than in 2009 for a decrease of about 2%.
- The combined market share of the Top 25 insurers decreased by .62% in 2010 compared to a .09% increase in 2009.

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

	1	2	3
CY	Written Premium	Earned	Paid Losses
2010	\$1,198,005,968	\$1,195,040,202	\$1,188,587,125
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
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2010	\$1,663,207,356	139.18%	
2009	\$550,568,626	47.08%	
2008	\$560,268,550	48.51%	
2007	\$533,228,245	46.10%	

#### IV. Survey Responses:

In 2011, 139 insurers responded to the Department's HO's survey, 128 of which, with a 2010 market share of 99.63%, 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 2010.
- 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, 86.65% of the market reported that prices have not changed substantially compared to 2010.
- The national market in some manner and to some degree impacts insurer's local HO decisions in Arizona.
- They are actively seeking new business (105 insurers down from 106 in 2010).
- The number of declinations and/or non-renewals has not substantially changed since 2010. Most insurers (95 up from 92 in 2010) will maintain their current underwriting approach, and 15 said they would begin to relax their underwriting restrictions by year-end 2011.

#### V. Major HO's Market Trends:

**Trend # 1:** Groups writing in Arizona continue to add eligible insurers; however, none experienced any significant (1% or greater) change in their market share. Three additional insurers from three different groups reported new activity on their 2010 annual statements. Sixteen groups, each with an insurer in the Top 25, control 78.29% 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 (45.63% in 2010, 46.24% in 2009) and competition is intense. Only two of the prior Top Five insurers gained market share in 2010.

Rank	Company	2010 Market Share
1.	State Farm Fire & Casualty Co	21.12%
2.	Farmers IC Of AZ	7.97%
3.	American Family Mutual IC	7.29%
4.	Allstate Property & Casualty IC	5.28%
5.	Farmers Insurance Exchange	3.97%
	<b>Total:</b>	<b>45.63%</b>

**Trend # 3:** Few insurers report low historical profitability for the HO's line. Fourteen insurers having 3.69% of the market responded that their underwriting profitability in this line was historically low.

Only 27 (out of 120) insurers with a combined market share of 11.43% 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 185 insurers reported some HO's activity in their 2010 annual statements, only 105 said they are seeking new business (106 said they were seeking new business in 2010). 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-seven of the responding insurers (95 in 2010) controlling 91.15% 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 2011. This is the eighth consecutive year that most (95 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 increased substantially over 2009. The Arizona 2010 all-company incurred loss ratio increased to 139.18%, up from 47.08% in 2009. The 2010 hail storm losses contributed to this major swing. 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 over the long run.

**Trend # 8:** Mold litigation claims against Arizona HOs insurers continue; although there has been a decrease in claims reported. The number of insurers that experienced a mold claim within the past three years decreased from 26 in 2010 to 21 in 2011.

**Trend # 9:** The soft market continues; however, rates trended upward; although, to a lesser degree than in 2009. In 2010, the market share weighted average total rate change was 2.92% (5.32% in 2009). Dry weather conditions, storm and wildfire exposures could impact pricing in 2011.

**Trend # 10:** More insurers exited the market than entered. Three insurers entered the market and five exited. The insurers that entered wrote \$3,720,090 in DWP during 2010, a .31% 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.