

Arizona Department of Insurance

2011 Market Monitoring

Volume 9, Issue 5

Private Passenger Automobile Insurance

May 2011

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

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 2010 annual statements for all PPA segments evidence that:

- In 2010, insurers' direct written premiums decreased 3.0% from 2009 and their direct incurred loss ratio increased by 10.59%.
- Only 19 insurers wrote more than 1% of the market.
- There are 306 insurers that reported PPA liability data in 2010, but of these only 135 are actively seeking new business.
- The Top 25 PPA insurers wrote 75.28% 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)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2010	\$3,347,849,636	\$3,377,615,518	2,137,914,516
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
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2010	\$2,176,416,207	64.44%	
2009	\$1,874,981,108	53.85%	
2008	\$2,114,796,649	59.41%	
2007	\$2,213,337,688	61.90%	

IV. Survey Responses:

In 2011, 190 insurers responded to the Department's PPA survey. These insurers had a 2010 market share of 98.99%. 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 50.00% 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 much 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 2011;
 - Is actively seeking new business;
 - Has not materially increased its declinations in 2011 as compared to 2010;
 - 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 2010. The Top 25 market share increased to 75.28%, an increase of 1.01% since 2009. All of the Top Three insurers have maintained their market position and while the market shares of State Farm Mutual Automobile IC and Farmers IC of AZ increased, the market share of American Family Mutual IC decreased slightly. The Top Three insurers' 2010 market share rank as follows:

Rank	Company	2010 Market Share
1.	State Farm Mutual Auto IC	15.03%
2.	Farmers IC of AZ	8.60%
3.	American Family Mutual IC	5.99%
	Total:	29.62%

The Top Three insurer's 2010 market share (29.62%) is up from 29.30% in 2009.

Trend # 2. Market concentration has not discouraged new insurers from entering the Arizona market. Five of the 190 insurers responding to the survey have been writing in Arizona less than three years. However, of the 306 insurers reporting liability data on their annual statements in Arizona, 184 are latent insurers that could reenter the market.

Trend # 3. The majority of the market is actively seeking new business. In 2011, 90.08% of the market responded that it was highly or intensely seeking new business.

Trend # 4. Intense competition continues. The majority of the market (96.62%) responded in 2011 that market competition is high. The market share of nonstandard insurers has increased (9.15%; 2010, 8.80%; 2009). The continued decrease 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 fifteen groups. In 2010, there was an overall market share net gain of 1.01% for the Top 25 insurers.

Trend # 6. Total written premiums for Arizona's insurers decreased in 2010. In 2010, Arizona's Direct Written Premium (DWP) decreased 3.0% compared to a decrease of 3.18% in 2009. Insurer rate changes during 2010 resulted in a weighted average total rate change of -4.47%. This contributed to the DWP decline, which is the third DWP decrease during the time period for which information is available (17 years).

Trend # 7. The average annual policy premium decreased. In 2010, the DWP decreased while policy counts increased. As a result, the 2010 average policy premium decreased to \$1,081 from \$1,149 in 2009. In addition, the 2010 average annual premium per vehicle decreased to \$765 from \$824 in 2009.

Trend # 8. More insurers report historical unprofitability for the PPA line. In 2011, 4.20% of the market does not view PPA as profitable, an increase from 3.39% in 2010. For all insurers, the 2010 incurred loss ratio increased to 64.44% (up from 53.85% in 2009); similarly, the combined ratio for insurers surveyed was 104.08% (an increase of 3.04% over 2009).

Trend # 9. The number of paid claims and the average paid claim dollar amount have increased. This represents an increase in both claim frequency and severity for 2010. This is due, in part, by an intense hail storm that whipped through Phoenix in October, 2010. Insurers experienced dramatic physical damage losses due to the storm.

Trend #10. Underwriting is becoming less liberal. Insurers are taking a less liberal underwriting stance as 7.82% (compared to 16.35% in 2010) of the market will take a liberal underwriting stance by year-end 2011. 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.