

Maryland Insurance Administration

2006 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland



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I. Preface

The Maryland Insurance Administration (“MIA”) is an independent state agency, created by the Maryland General Assembly in 1993. Among other things, the MIA is charged with:

- Monitoring the solvency of Maryland entities that engage in the business of insurance;
- Encouraging competition in the industry;
- Protecting consumers from fraud, misrepresentation, and unfair trade practices;
- Ensuring that consumers are treated fairly and with respect;
- Combating insurance fraud; and
- Regulating the insurance industry

Pursuant to §11-338 of the Insurance Article, Annotated Code of Maryland, the MIA is charged with annually reporting to the Governor and the General Assembly on the effect of competitive rating on the property and casualty insurance markets in the state. As the last report filed was in September 2005, this report will cover calendar year 2005.

II. The Competitive Market

The Insurance Reform Act of 1995 (HB 923, Competitive Rating) authorized insurers to use rates for certain lines of business that are presumed to be within a competitive market without the prior approval of the Commissioner. Maryland has adopted "file and use" laws for these lines of business which require insurers to file rates with the MIA before using them. The goal of this Act is to permit insurers to respond to competitive market conditions in a timely manner and to improve the availability of insurance in the State.

In an ideal competitive market, insurance is readily available from numerous sources and prices are generally stable and affordable. When claims experience is favorable, insurers generally react by decreasing rates and/or relaxing underwriting restrictions so as to accept more risk. When both occur simultaneously, the market is considered to be healthy and competitive as insurers have sufficient capacity to write new business at affordable rates.

When claims experience deteriorates, insurers generally react by increasing rates and/or tightening their underwriting standards or some combination of these actions so as to accept less risk. In a competitive market, an insurer can reasonably be expected to raise rates in order to continue making its product available or tighten its underwriting standards in order to maintain or decrease its exposure to risk and to keep up with insurance based inflationary pressures. When these occur simultaneously, the market's

availability to write new business may become limited and/or the rates may be higher than consumers consider affordable.

III. Evaluating the Competitive Market

The Maryland Insurance Administration (“MIA”) considers several factors when evaluating the competitiveness of a market to ensure adequate rate levels and availability of insurance products. The factors used to evaluate the competitiveness of a market include the following:

- The number of insurers providing coverage in the market;
- The concentration of market share of those insurers;
- Changes in market share of the insurers; and
- Ease of entry for new insurers/products.

One of the MIA’s numerous duties is to monitor rate levels in two of the most important lines of insurance subject to competitive rating: private passenger automobile insurance and homeowners insurance. This report concentrates on the private passenger automobile insurance and the homeowners insurance markets for calendar year 2005.

IV. Comparing Market Shares for Private Passenger Automobile Insurer Groups (2000 - 2005)

During Calendar Year 2005, there were 142 companies (out of the 158 licensed companies) actively providing private passenger automobile insurance and related products in the State of Maryland. Of those companies, 43 comprise the top ten insurer groups (See Exhibit 1A) which accounts for approximately 87.5% of the market. Insurer groups are being used in this report as opposed to individual carriers as this provides a consistent comparison of data over the years due to individual carrier mergers and acquisitions.

Exhibit 1 provides a comparison of market share among the Top Ten Insurer Groups for years 2000 through 2005. An analysis of this exhibit reveals that although the percentages of market share vary by a few points from year to year, State Farm, GEICO, and Allstate have consistently been the major providers of private passenger automobile insurance in the State of Maryland from 2000 through 2005. Further analysis suggests that market share fluctuation in the other insurer groups during this same time period may be attributable to the fact that other insurers have offered coverage on more favorable terms resulting in a shift in market share varying by company.

Additionally, Exhibit 1 illustrates that the Maryland Automobile Insurance Fund (MAIF) has and maintains a small market share which indicates that MAIF is fulfilling its role as a residual market mechanism for Maryland citizens unable to obtain automobile

insurance in the private market. It also suggests that the private passenger automobile insurance market in Maryland is healthy and competitive.

In the private passenger automobile insurance market, companies that decide to enter the Maryland marketplace for the first time or companies wishing to expand their market share will, by necessity, create new programs and products. Under competitive rating, the goal of speed to market is more easily met which means that new programs and products are available to Maryland citizens in a more timely manner.

V. Comparing Market Shares for Homeowner Insurer Groups (2000 – 2005)

During the calendar Year 2005, there were 121 companies (out of 132 licensed companies) actively providing homeowners insurance in the state of Maryland. Of those companies, 38 comprise the top ten insurer groups (See Exhibit 2A), which account for approximately 85% of the market. Insurer groups are being used in this report as opposed to individual carriers as this provides a consistent comparison of data over the years due to individual carrier mergers and acquisitions.

Exhibit 2 provides a comparison of market share among the Top Ten Insurer Groups for years 2000 through 2005. An analysis of this exhibit reveals that State Farm, Allstate, Nationwide, and St. Paul Travelers have consistently been the major providers of homeowners insurance in Maryland from 2000 to 2005 with the percentage of market share varying from year to year. Further analysis suggests that the increase in the St. Paul Travelers market share in 2005 may be attributable to the fact that they have offered coverage on more favorable terms resulting in a shift in market share varying by company.

The Joint Insurance Association (“JIA”) acts as the residual market with regard to property insurance; including homeowners insurance. The number of risks insured within the residual market mechanism generally increase when insurers impose substantial underwriting restrictions within this line of insurance or, due to deteriorating experience, capacity in the private market is reduced. Exhibit 2 illustrates that JIA has a

limited market share which indicates that it is fulfilling its role as a residual market mechanism for Maryland citizens. It also suggests the homeowners insurance market in Maryland is healthy and competitive.

In the homeowners insurance market, companies that decide to enter the Maryland marketplace for the first time or companies wishing to expand their market share will, by necessity, create new programs and products. Under competitive rating, the goal of speed to market is more easily met which means that new programs and products are available to Maryland citizens in a more timely manner.

VI. Measuring the Availability of Insurance and Monitoring Rate Levels

In a competitive insurance market, coverage is readily available and rates are responsive to competitive market conditions. As shown in the tables below, both the automobile and homeowners insurance premiums paid have shown increases over the years; although homeowners insurance has increased at a higher rate.

Table 1 below shows the average premium expenditure for automobile liability and physical damage (comprehensive and collision combined) for years 2000 through 2005.

This expenditure represents the average premium paid per vehicle for each of the coverages separately. Combined coverage expenditure information is not available.

During this time period, coverage expenditures have been rather stable with the exception of an increase in the rate of growth for 2004. One possible reason for the expenditure growth in 2004 is the major winter storm that occurred in mid-February of 2003.

Table 1: Maryland Statewide Average Automobile Premium Expenditures:

Year	Auto Liability Expenditure	% Change	Year	Auto Physical Damage Expenditure	% Change
2000	453		2000	359	
2001	456	0.66%	2001	379	5.57%
2002	473	3.73%	2002	402	6.07%
2003	472	-0.21%	2003	402	0%
2004	570	20.76%	2004	464	15.42%
2005	573	0.53%	2005	462	-0.43%

Table 2, shown below, lists the average premium expenditure for homeowners, renters and condominium insurance policies for years 1999 through 2003. Premium expenditure data for 2004 and subsequent years will no longer be available since the 1999 amendments to §11-321 through §11-323 of the Insurance Article abrogated on June 30, 2004. This abrogated amendment authorized the collection of homeowners data to calculate the average premium. The average premium expenditure represents the average premium paid per exposure (insured location). The average homeowners, renters, and condominium premium expenditures have steadily increased from 1999 through 2002 with a markedly large increase from year 2002 to 2003; particularly for homeowners and condominium insurance. Several factors have contributed to this increase, including rapidly increasing housing values, increasing costs of building materials and labor, and multiple weather-related catastrophes.

Table 2: Maryland Statewide Average Homeowners Premium Expenditures:

Year	Homeowners Expenditure	% Change	Renters Expenditure	% Change	Condominium Expenditure	% Change
1999	385		138		160	
2000	402	4.42%	141	2.17%	165	3.13%
2001	434	7.96%	150	6.38%	177	7.27%
2002	461	6.22%	163	8.67%	179	1.13%
2003	576	24.95%	172	5.52%	231	29.05%

VII. Summary

When healthy competition exists in the private passenger automobile insurance and homeowners insurance markets, Maryland consumers have a variety of choices with respect to coverages and pricing. The MIA, in evaluating the competitiveness of the market, takes into consideration the number of insurers in the marketplace, the concentration of market shares of those insurers and the changes in market share that occur over time. When these factors are monitored and new products and new insurers continue to enter the marketplace, Maryland consumers are the beneficiaries as they have more choices, are able to shop around and able to obtain the best coverage for their dollars.

The Maryland Insurance Administration assists in maintaining a healthy and competitive marketplace by:

- Encouraging new insurers to enter the Maryland insurance market;
- Reviewing rates to ensure that they are not excessive, inadequate or unfairly discriminatory;
- Maintaining a Consumer Education and Advocacy Unit to assist consumers with understanding the insurance products that are available; and
- Publishing private passenger automobile insurance and homeowners insurance comparison guides to assist consumers in comparing premiums; as well as publishing consumer guides explaining the coverage available in these lines of insurance so

consumers can make informed choices with regard to the coverages they may elect to purchase.

VIII. Exhibits

Exhibit 1: Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance From 2000 to 2005

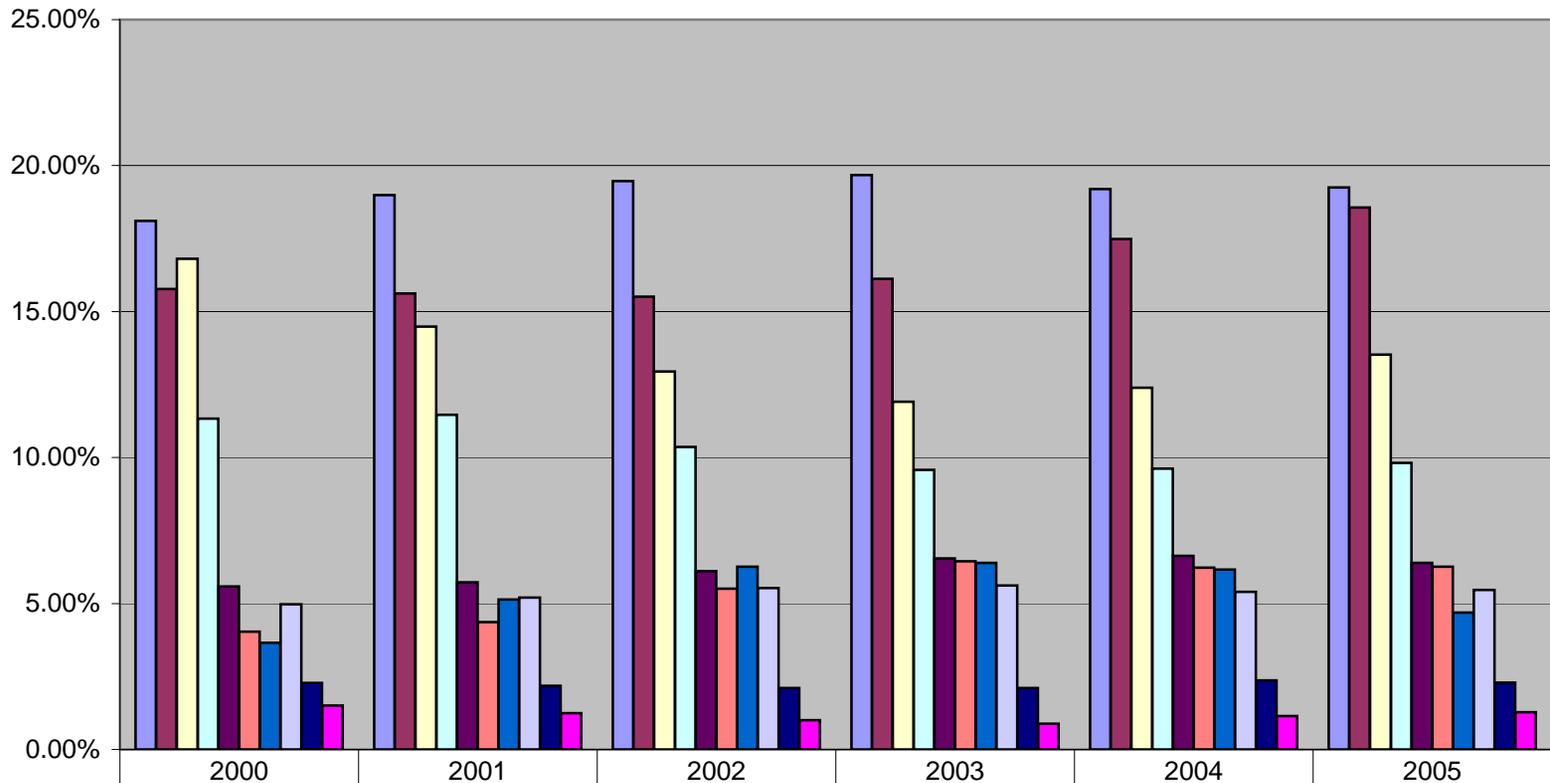
Exhibit 1A: List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance From 2000 to 2005

Exhibit 2: Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance From 2000 to 2005

Exhibit 2A: List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance From 2000 to 2005

Exhibit 1

Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance From 2000 to 2005



	2000	2001	2002	2003	2004	2005
STATE FARM	18.11%	18.99%	19.47%	19.68%	19.20%	19.25%
GEICO	15.77%	15.62%	15.51%	16.12%	17.48%	18.56%
ALLSTATE	16.81%	14.49%	12.95%	11.91%	12.39%	13.52%
NATIONWIDE	11.33%	11.46%	10.36%	9.58%	9.62%	9.82%
ERIE	5.59%	5.73%	6.11%	6.54%	6.63%	6.39%
PROGRESSIVE	4.04%	4.36%	5.51%	6.45%	6.23%	6.26%
MAIF	3.65%	5.14%	6.26%	6.39%	6.16%	4.69%
USAA	4.97%	5.20%	5.53%	5.62%	5.40%	5.47%
LIBERTY MUTUAL	2.28%	2.18%	2.10%	2.11%	2.37%	2.29%
ST PAUL TRAVELERS	1.51%	1.24%	1.00%	0.88%	1.14%	1.28%

Note: Data includes the effect of mergers and acquisitions since 2000 throughout the five year period.

For a list of companies that comprise each Insurer Group, see Exhibit 1A.

Exhibit 1A
List of Insurers in the Top Ten Insurer Groups for
Private Passenger Automobile Insurance from 2000 to 2005

Private Passenger Automobile Insurer Group	Insurer
State Farm	State Farm Mutual Automobile Ins Co State Farm Fire and Casualty Co
GEICO	GEICO General Ins Co Government Employees Ins Co GEICO Indemnity Co GEICO Casualty Co
Allstate	Allstate Ins Co Allstate Property & Casualty Co Encompass Insurance Co of America Encompass Indemnity Co Allstate Indemnity Co Deerbrook Ins Co
Nationwide	Nationwide Mutual Ins Co Nationwide Mutual Fire Ins Co Nationwide Insurance Co of America Nationwide Property & Casualty Ins Co Nationwide Assurance Co Amco Ins Co Allied Property & Casualty Ins Co Nationwide General Ins Co
Erie	Erie Ins Exchange Erie Ins Co
Progressive	Progressive Halcyon Ins Co Progressive Classic Ins Co Progressive American Ins Co Progressive Casualty Ins Co Progressive Northern Ins Co
USAA	United Services Automobile Assoc USAA Casualty Ins Co USAA General Indemnity Co
MAIF	MAIF
Liberty Mutual	Liberty Mutual Fire Ins Co Montgomery Mutual Ins Co Liberty Ins Corp First Liberty Ins Corp LM Property & Casualty Ins Co
St Paul Travelers	Standard Fire Ins Co Travelers Indemnity Co of America Bankers Independent Ins Co

Exhibit 1A

**List of Insurers in the Top Ten Insurer Groups for
Private Passenger Automobile Insurance from 2000 to 2005**

Travco Ins Co

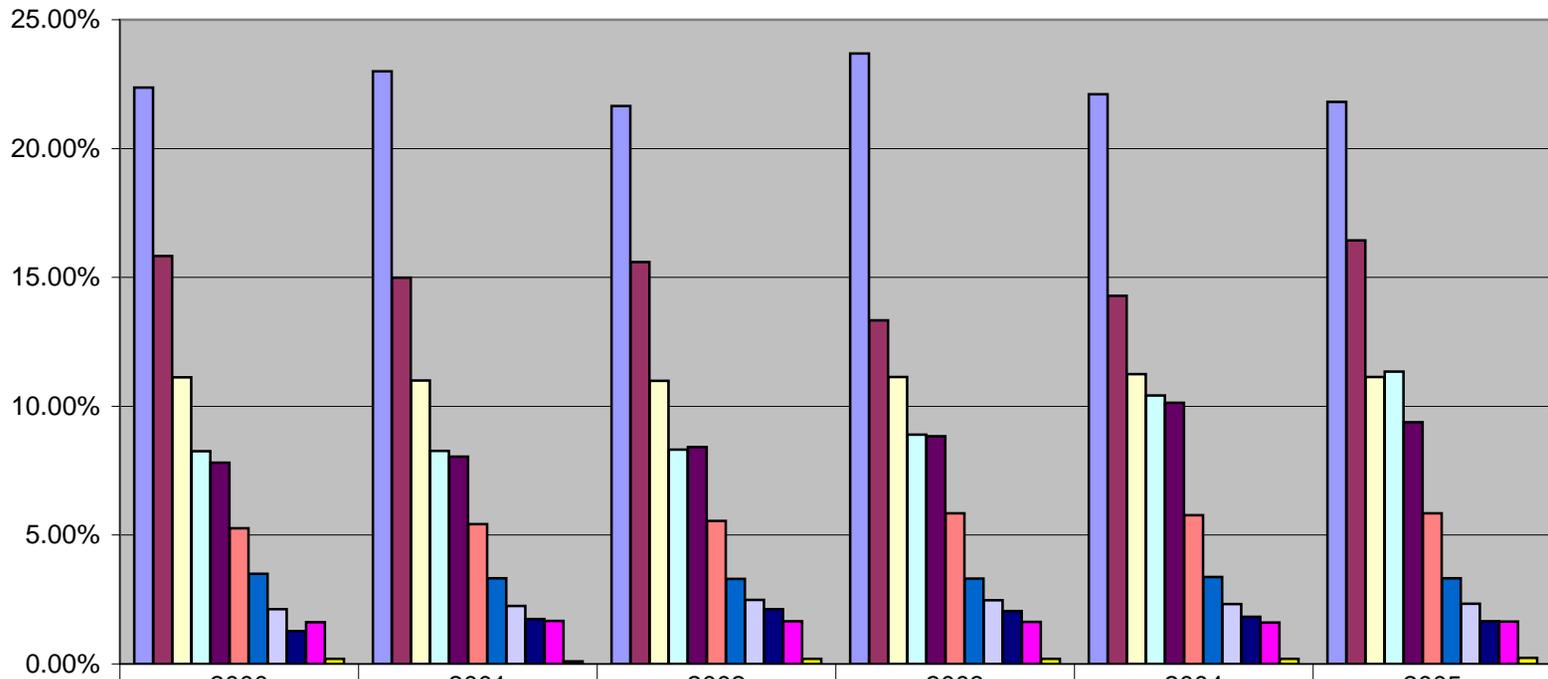
American Independent Ins Co

Farmington Casualty Co

Travelers Property Casualty Co of America

Exhibit 2

Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance From 2000 to 2005



	2000	2001	2002	2003	2004	2005
STATE FARM	22.37%	23.00%	21.65%	23.69%	22.11%	21.81%
ALLSTATE	15.83%	14.99%	15.59%	13.34%	14.28%	16.43%
NATIONWIDE	11.12%	11.00%	10.99%	11.13%	11.25%	11.13%
ST PAUL TRAVELERS	8.25%	8.27%	8.32%	8.90%	10.42%	11.34%
ERIE	7.81%	8.04%	8.41%	8.84%	10.13%	9.38%
USAA	5.27%	5.43%	5.55%	5.84%	5.77%	5.85%
LIBERTY MUTUAL	3.50%	3.33%	3.30%	3.31%	3.37%	3.33%
CHUBB	2.12%	2.25%	2.49%	2.47%	2.32%	2.33%
ZURICH	1.27%	1.74%	2.13%	2.05%	1.83%	1.65%
ALLIANZ	1.62%	1.67%	1.65%	1.63%	1.61%	1.64%
JIA	0.20%	0.10%	0.20%	0.20%	0.20%	0.23%

Note: Data includes the effect of mergers and acquisitions since 2000 throughout the five year period. JIA market share is based upon fiscal year premium ending September 30th.

For a list of companies that comprise each Insurer Group, see Exhibit 2A.

Exhibit 2A
List of Insurers in the Top Ten Insurer Groups for
Homeowners Insurance from 2000 to 2004

Homeowner Insurer Group	Insurer
State Farm	State Farm Fire and Casualty Co
Allstate	Allstate Insurance Co Encompass Insurance Co of America Encompass Indemnity Co Allstate Indemnity Co
St Paul Travelers	Standard Fire Ins Co Travelers Ind Co of America Travelers Property Casualty Co of America
Nationwide	Nationwide Mutual Fire Ins Co Nationwide Mutual Ins Co Nationwide Property & Casualty Ins Co Scottsdale Ins Co
Erie	Erie Ins Exchange
USAA	United Services Automobile Assoc USAA Casualty Ins Co
Liberty Mutual	Liberty Mutual Fire Ins Co Montgomery Mutual Ins Co First Liberty Insurance Corp LM Property and Casualty Ins Co
CHUBB	Great Northern Ins Co Vigilant Ins Co Federal Ins Co Pacific Indemnity Co Chubb Custom Ins Co
Zurich	Farmers New Century Ins Co Empire Fire & Marine Ins Co Foremost Ins Co Foremost Property & Cas Ins Co Zurich American Ins Co Foremost Signature Ins Co Centre Ins Co
Allianz	American Ins Co Firemans Fund Ins Co National Surety Corp American Automobile Ins Co Associated Indemnity Corp Firemans Fund Ins Co of Ohio
JIA	Joint Insurance Association