

# **Maryland Insurance Administration**

## **2008 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland**



**November, 2008**

**Maryland Insurance Administration**

**2008 Report on the Effect of Competitive Rating on the Insurance  
Markets in Maryland**

**Table of Contents**

<b>I. Preface</b>	<b>1</b>
<b>II. Competitive Rating</b>	<b>1</b>
<b>III. Evaluating the Competitive Market</b>	<b>2</b>
<b>IV. Private Passenger Automobile Insurance</b>	<b>2</b>
<b>V. Homeowner's Insurance</b>	<b>5</b>
<b>VI. Conclusions</b>	<b>7</b>
<b>VII. Exhibits</b>	<b>8</b>

## **I. Preface**

Each year, the Insurance Commissioner is required to report to the Governor and the General Assembly on the effect of competitive rating on the insurance markets in the State. (*See* §11-338 of the Insurance Article.) This report summarizes Maryland's competitive rating law and provides information on the competitiveness of the market in two of the most important insurance markets for consumers, private passenger automobile insurance and homeowners insurance for calendar year 2007.

## **II. Competitive Rating**

The Insurance Reform Act of 1995 (HB 923, Competitive Rating) authorized insurers to use rates for certain lines of property and casualty insurance without the prior approval of the Commissioner. Each authorized insurer and each rating organization designated by an insurer for the filing of rates must file with the Commissioner all rates and supplementary rate information as well as any changes to rates or supplementary rate information on or before the date they become effective. (*See* §11-307 of the Insurance Article.) In accordance with ratemaking principles, rates may not be excessive, inadequate, or unfairly discriminatory. Under competitive rating, the Commissioner may only find a rate to be excessive if it is unreasonably high for the insurance provided *and* the Commissioner has issued a ruling that a reasonable degree of competition does not exist in the market to which the rate is applicable. (*See* §11-306 of the Insurance Article.)

States moved from prior approval of rates to competitive rating to allow insurers to react quickly to business cycles. When claims experience is favorable, it is anticipated that insurers

will generally act to decrease rates and/or relax underwriting restrictions to increase their market share. When claims experience deteriorates, it is anticipated that insurers will generally act to increase rates and/or tighten their underwriting standards to accept less risk. Proponents of competitive rating maintain that competition between insurers prevents excessive rating even during a downturn in the business cycle because no insurer is willing to raise rates to the point where it will lose significant market share to one or more of its competitors. Moreover, competition encourages insurers to accept more risks, making insurance widely available to consumers.

### **III. Evaluating the Competitive Market**

In determining the competitiveness of a market, the Commissioner must consider all relevant factors including:

- 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.  
(See §11-308 of the Insurance Article.)

The subsequent sections of this report examine the number of insurers providing coverage and the market share for these insurers in two insurance lines, private passenger automobile insurance and homeowners insurance, for calendar year 2007.

### **IV. Private Passenger Automobile Insurance**

During calendar year 2007, there were 134 companies actively providing private passenger automobile insurance and related products in the State of Maryland.<sup>1</sup> Many of these

---

<sup>1</sup> There are a total of 159 companies licensed to write private passenger automobile insurance. Not all of these companies are active in the market.

companies are owned by the same holding company (hereinafter “insurer group”).<sup>2</sup> Exhibit 1A identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2007 written premium for the insurer group as well as each individual company. Of the 134 companies writing private passenger automobile insurance, 51 are a part of the top ten insurer groups.

The market share for the top ten insurer groups has remained relatively stable between 2002 and 2007. (See Exhibit 1.) In 2002, these top ten insurer groups accounted for about 85 percent of the private passenger automobile insurance market increasing to just over 88 percent by 2007.<sup>3</sup> Over this six year period, the market share for GEICO, Allstate, Progressive, Liberty Mutual and Travelers has increased and the market share for State Farm, Nationwide, Erie, and USAA has fluctuated somewhat, but have basically remained stable, while Maryland Automobile Insurance Fund’s (MAIF) market share has decreased significantly.

A commonly accepted measure of market concentration is the Herfindahl-Hirschman Index (HHI).<sup>4</sup> Markets in which HHI is between 1000 and 1800 points are considered to be moderately concentrated and those in which the HHI is in excess of 1800 points are considered to be concentrated. Using the market share for each of the top ten insurers for Maryland 2007, the HHI for Maryland is 1177 up from 1040 for 2002, suggesting a moderately concentrated market.<sup>5</sup>

---

<sup>2</sup> Insurer groups are being used in this report as opposed to individual companies as this provides a consistent comparison of data over the years due to individual company mergers and acquisitions.

<sup>3</sup> According to the Insurance Information Institute, the top ten insurer groups accounted for 64.5 percent of the direct premiums written countrywide in 2007 for private passenger automobile insurance.

<sup>4</sup> This is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

<sup>5</sup> Using market share for the top ten insurer groups for 2007 from the Insurance Information Institute, the HHI for the nation as a whole is 622, an indication of a competitive national market.

In the private passenger automobile insurance market, individuals with risk characteristics that private passenger auto insurers are unwilling to accept are able to obtain coverage from MAIF. In 2002, MAIF had 6.3 percent of the private passenger auto insurance market. This decreased by about 51 percent in 2007 to 3.1 percent. Over this six year period, private passenger auto insurers appear to have competed for greater market share by accepting more risk, a sign of a competitive market.

In a competitive market, rates are responsive to changing conditions. Table 1 below shows the average premium expenditure – representing the average premium paid per vehicle -- for automobile liability and physical damage (comprehensive and collision combined) for years 2002 through 2007.<sup>6</sup> During this time period, coverage expenditures have been rather stable with the exception of an increase in the rate of growth for 2004, which may be attributable to a major winter storm in 2003.

**Table 1: Maryland Statewide Average Automobile Premium Expenditures:**

Year	Auto Liability Expenditure	% Change	Year	Auto Physical Damage Expenditure	% Change
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%
2006	547	-4.54%	2006	445	-3.68%
2007	544	-0.55%	2007	431	-3.15%

<sup>6</sup> Combined coverage expenditure information is not available.

Maryland's private passenger automobile insurance market appears to be moderately concentrated. The drop in MAIF's market share combined with premium changes responsive to market conditions provides evidence that this moderately concentrated market remains competitive. The Maryland Insurance Administration will continue to monitor the market to look for any signs of a concentrated market.

## **V. Homeowner's Insurance**

During calendar year 2007, there were 110 companies actively providing homeowners insurance in Maryland.<sup>7</sup> Of the 110 actively writing homeowners insurance, 38 are a part of the top ten insurer groups. Exhibit 2A identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2007 written premium for the insurer group as well as each individual company.

The market share for the top ten insurer groups increased between 2002 and 2007. In 2002, these top ten insurer groups accounted for about 80 percent of the homeowner's insurance market increasing to about 86 percent by 2007. Over this six year period, the market share for Allstate, Travelers, Liberty Mutual, and Fireman's Fund increased and the market share for State Farm, Nationwide, Erie, USAA, Chubb, and Zurich has fluctuated somewhat, but have basically remained stable, while the Joint Insurance Association's ("JIA's") market share decreased. Using the market share for each of the top ten insurers for Maryland 2007, the HHI for Maryland is 1143 up from 1025 for 2002, suggesting a moderately concentrated market.

Another measure of competition is the percentage of business held by the Joint Insurance Association ("JIA"), the State's residual property insurer. In 2002, JIA had about 0.2 percent of the homeowner's insurance market. This decreased by about 50 percent by 2007 to about 0.1

---

<sup>7</sup> There are a total of 116 companies licensed to write homeowner's insurance. Not all of these companies are active in the market.

percent. Over this six year period, homeowner's insurers appear to have competed for greater market share by accepting more risk.

A potential sign of a concentrated homeowner's insurance market is the unwillingness of some insurers to write business in certain portions of the State, notably the Eastern Shore and Southern Maryland. During the 2007 Legislative Session, a Task Force to study the availability and affordability of property insurance in coastal areas was created. The Task Force held three meetings during the month of October and received testimony from producers, insurers, builders, catastrophe modelers, financial rating organizations and others to investigate the availability and affordability of property insurance in the coastal areas of the State and to learn of possible reasons for the decreasing competition as well as receive suggestions on the best way to maintain the affordability and availability of property insurance products for consumers in Maryland's coastal areas. As a direct result of those meetings and the subsequent report issued by the Task Force, the legislature enacted the Omnibus Coastal Property Reform Act (HB 1353). It is anticipated that this legislation will be of great benefit to Maryland consumers in the future; however, it is too soon to assess its impact at this point in time.

Unfortunately, it is no longer possible for the MIA to determine the extent to which average homeowner's insurance premiums change over time in response to market conditions. The amendments adopted in 1999 to §11-321 through §11-323 of the Insurance Article abrogated on June 30, 2004. This abrogated amendment was the authority the MIA relied upon to collect the homeowners data used to calculate the average premium that was then placed in this report.

The homeowner's insurance market appears to be moderately concentrated and may be concentrated in certain geographic areas. The Maryland Insurance Administration will continue to monitor the market to determine if it becomes concentrated.

## **VI. Conclusions**

When healthy competition exists in the private passenger automobile insurance and homeowner's insurance markets, Maryland insurance consumers have a variety of choices with respect to insurers, products and pricing. The MIA, in evaluating the competitiveness of the marketplace, takes into consideration the number of insurers in the marketplace, the concentration of the market shares of those insurers, and the changes in market share that occur over time.

The market share information for 2007 suggests Maryland's private passenger auto insurance and homeowner's insurance markets are moderately concentrated. For private passenger auto insurance, the declining market share for MAIF and premium changes responsive to the market suggest this moderately concentrated market is competitive. For homeowner's insurance, the small market share for the residual market is an indication of a competitive market. However, the unwillingness of some insurers to write homeowner's insurance in certain portions of the state may be a sign that this market could become concentrated.

The MIA will continue to monitor both markets for changes in market concentration and competitiveness.

## **VII. Exhibits**

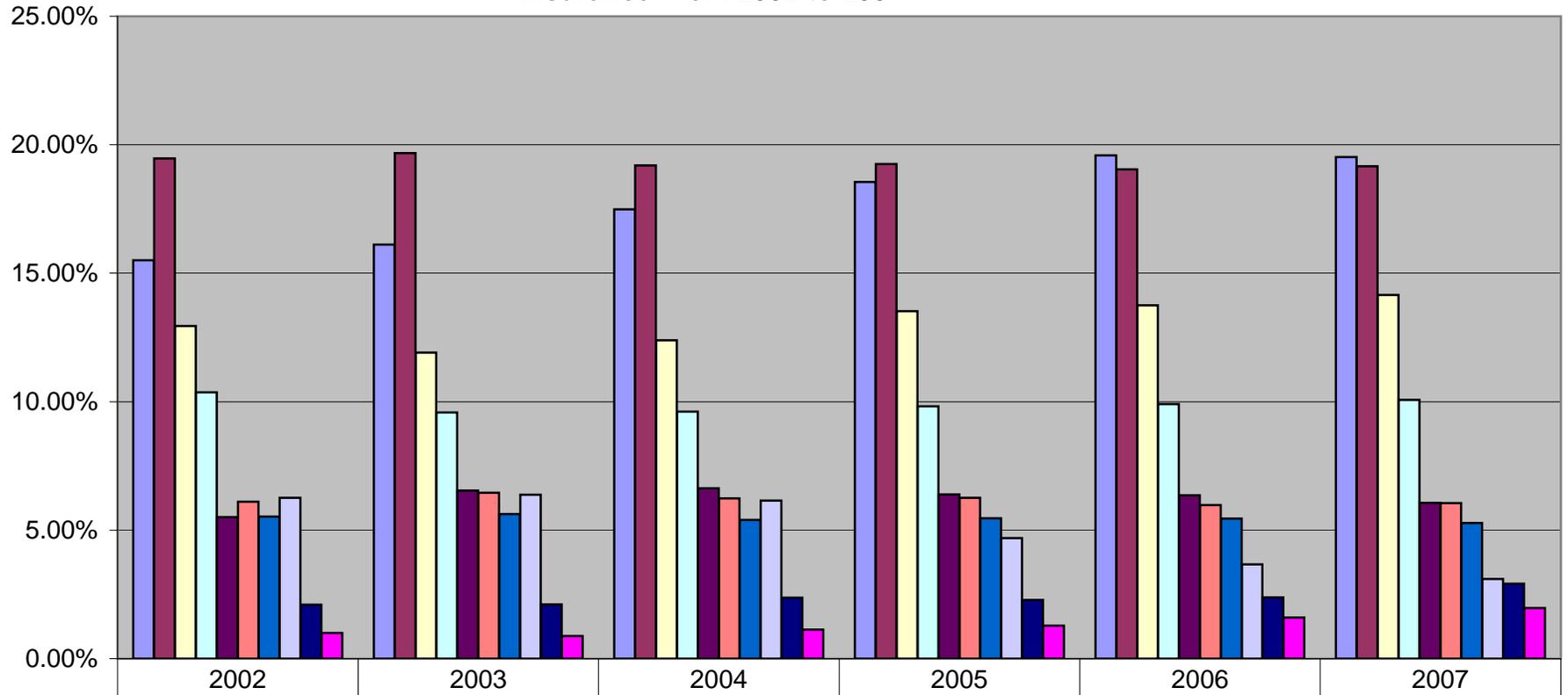
**Exhibit 1:** Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2002 to 2007

**Exhibit 1A:** List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2002 to 2007

**Exhibit 2:** Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance from 2002 to 2007

**Exhibit 2A:** List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance from 2002 to 2007

### Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance From 2002 to 2007



	2002	2003	2004	2005	2006	2007
■ GEICO	15.51%	16.12%	17.48%	18.56%	19.58%	19.52%
■ STATE FARM	19.47%	19.68%	19.20%	19.25%	19.05%	19.17%
■ ALLSTATE	12.95%	11.91%	12.39%	13.52%	13.75%	14.16%
■ NATIONWIDE	10.36%	9.58%	9.62%	9.82%	9.91%	10.07%
■ PROGRESSIVE	5.51%	6.54%	6.63%	6.39%	6.36%	6.06%
■ ERIE	6.11%	6.45%	6.23%	6.26%	5.97%	6.06%
■ USAA	5.53%	5.62%	5.40%	5.47%	5.46%	5.28%
■ MAIF	6.26%	6.39%	6.16%	4.69%	3.67%	3.10%
■ LIBERTY MUTUAL	2.10%	2.11%	2.37%	2.29%	2.38%	2.92%
■ TRAVELERS	1.00%	0.88%	1.14%	1.28%	1.60%	1.97%

Note: Data includes the effect of mergers and acquisitions since 2001 throughout the six 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 for 2007**

<b>2007 Premium Rank</b>	<b><u>Insurer Group Name</u></b>	<b><u>2007 Group Written Premium</u></b>	<b><u>Insurer</u></b>	<b><u>2007 Written Premium</u></b>
<b>1</b>	<b>GEICO</b>	<b>716,721,508</b>	GEICO GEN INS CO GOVERNMENT EMPLOYEES INS CO GEICO IND CO GEICO CAS CO	312,753,257 270,735,563 91,490,676 41,742,012
<b>2</b>	<b>STATE FARM</b>	<b>703,821,602</b>	STATE FARM MUT AUTO INS CO STATE FARM FIRE AND CAS CO	627,851,794 75,969,808
<b>3</b>	<b>ALLSTATE</b>	<b>519,872,369</b>	ALLSTATE INS CO ALLSTATE PROP & CAS INS CO ENCOMPASS IND CO ENCOMPASS INS CO OF AMER ALLSTATE IND CO ENCOMPASS HOME & AUTO INS CO DEERBROOK INS CO	303,848,298 125,080,971 34,971,667 29,785,764 20,493,900 5,674,825 16,944
<b>4</b>	<b>NATIONWIDE</b>	<b>369,660,569</b>	NATIONWIDE MUT INS CO NATIONWIDE MUT FIRE INS CO NATIONWIDE GEN INS CO NATIONWIDE INS CO OF AMER NATIONWIDE PROP & CAS INS CO NATIONWIDE ASSUR CO TITAN IND CO VICTORIA FIRE & CAS CO AMCO INS CO	223,924,221 53,282,400 50,155,286 27,868,995 10,600,422 2,027,448 1,774,725 16,109 10,963
<b>5</b>	<b>ERIE</b>	<b>222,546,895</b>	ERIE INS EXCH ERIE INS CO	214,217,273 8,329,622

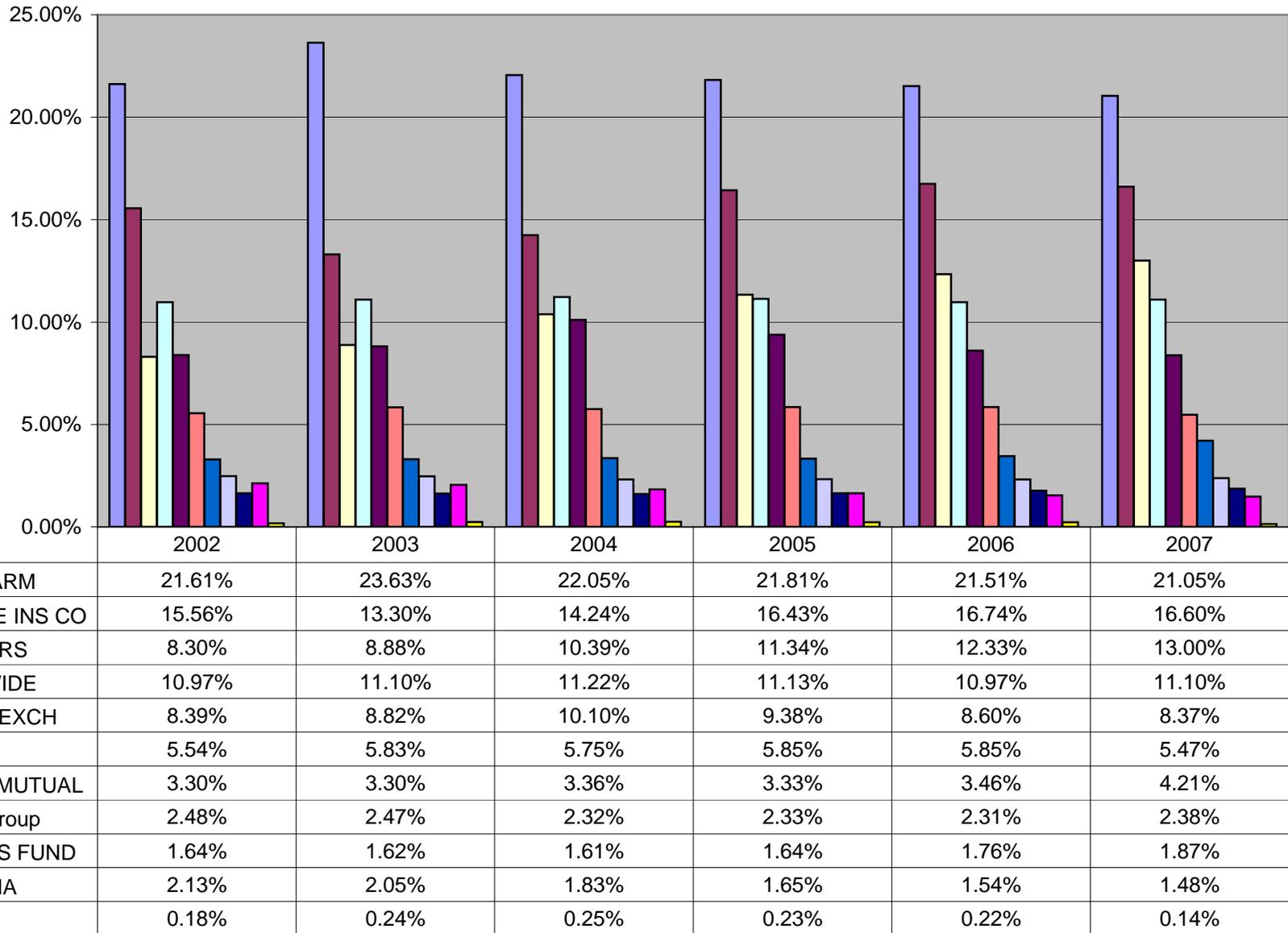
**Exhibit 1A**

**List of Insurers in the Top Ten Insurer Groups for  
Private Passenger Automobile Insurance for 2007**

<b>2007 Premium Rank</b>	<b><u>Insurer Group Name</u></b>	<b><u>2007 Group Written Premium</u></b>	<b><u>Insurer</u></b>	<b><u>2007 Written Premium</u></b>
<b>6</b>	<b>PROGRESSIVE</b>	<b>222,444,779</b>	PROGRESSIVE DIRECT INS CO PROGRESSIVE AMERICAN INS CO PROGRESSIVE CLASSIC INS CO PROGRESSIVE ADVANCED INS CO PROGRESSIVE CAS INS CO PROGRESSIVE NORTHERN INS CO	78,484,747 59,307,045 46,124,295 33,580,558 3,551,319 1,396,815
<b>7</b>	<b>USAA</b>	<b>193,961,652</b>	USAA USAA CAS INS CO USAA GENERAL IND CO GARRISON PROP & CAS INS CO	112,197,769 73,458,697 5,611,639 2,693,547
<b>8</b>	<b>MAIF</b>	<b>113,918,008</b>	MAIF	113,918,008
<b>9</b>	<b>LIBERTY MUTUAL</b>	<b>107,057,487</b>	LIBERTY MUT FIRE INS CO OHIO CAS INS CO MONTGOMERY MUT INS CO FIRST LIBERTY INS CORP LIBERTY INS CORP WEST AMERICAN INS CO LIBERTY MUT INS CO	72,163,827 9,860,286 9,777,713 6,037,750 5,196,528 4,020,180 1,203
<b>10</b>	<b>ST PAUL TRAVELERS</b>	<b>72,252,066</b>	TRAVELERS HOME & MARINE INS CO TRAVELERS IND CO STANDARD FIRE INS CO TRAVELERS IND CO OF AMER TRAVELERS COMMERCIAL INS CO TRAVCO INS CO	31,401,021 16,826,282 8,627,265 7,266,347 6,300,278 1,830,873

Exhibit 2

**Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the JIA From 2002 to 2007**



Note: Data includes the effect of mergers and acquisitions since 2001 throughout the six year period.  
 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 for 2007**

2007 Premium Rank	<u>Insurer Group Name</u>	<u>2007 Group Written Premium</u>	<u>Insurer</u>	<u>2007 Written Premium</u>
1	STATE FARM	250,754,600	STATE FARM FIRE AND CAS CO	250,754,600
2	ALLSTATE	197,824,738	ALLSTATE INS CO ENCOMPASS INS CO OF AMER ENCOMPASS IND CO ALLSTATE IND CO ENCOMPASS HOME & AUTO INS CC ALLSTATE PROP & CAS INS CO	160,470,332 18,241,642 15,890,379 1,245,727 1,127,277 849,381
3	ST PAUL TRAVELERS	154,904,560	STANDARD FIRE INS CO TRAVELERS IND CO OF AMER	149,181,527 5,723,033
4	NATIONWIDE	132,242,380	NATIONWIDE MUT FIRE INS CO NATIONWIDE PROP & CAS INS CO NATIONWIDE MUT INS CO ALLIED PROP & CAS INS CO	96,511,474 19,984,850 15,732,783 13,273
5	ERIE	99,764,757	ERIE INS EXCH	99,764,757
6	USAA	65,161,574	USAA USAA CAS INS CO GARRISON PROP & CAS INS CO USAA GENERAL IND CO	41,740,621 22,516,504 594,487 309,962
7	LIBERTY MUTUAL	50,169,210	LIBERTY MUT FIRE INS CO MONTGOMERY MUT INS CO WEST AMERICAN INS CO OHIO CAS INS CO AMERICAN FIRE & CAS CO FIRST LIBERTY INS CORP	37,114,606 7,468,945 4,556,549 602,407 427,366 -663

**Exhibit 2A**  
**List of Insurers in the Top Ten Insurer Groups for**  
**Homeowners Insurance for 2007**

<b>2007 Premium Rank</b>	<b><u>Insurer Group Name</u></b>	<b>2007 Group <u>Written Premium</u></b>	<b><u>Insurer</u></b>	<b>2007 <u>Written Premium</u></b>
<b>8</b>	<b>CHUBB</b>	<b>28,367,952</b>	GREAT NORTHERN INS CO	10,645,718
			VIGILANT INS CO	6,792,199
			FEDERAL INS CO	6,338,398
			PACIFIC IND CO	4,591,637
<b>9</b>	<b>FIREMANS FUND</b>	<b>22,223,267</b>	AMERICAN INS CO	10,946,874
			FIREMANS FUND INS CO	7,880,393
			NATIONAL SURETY CORP	3,215,102
			AMERICAN AUTOMOBILE INS CO	93,384
			ASSOCIATED IND CORP	87,514
<b>10</b>	<b>ZURICH AMERICAN</b>	<b>17,683,014</b>	FARMERS NEW CENTURY INS CO	10,712,033
			EMPIRE FIRE & MARINE INS CO	3,396,125
			FOREMOST INS CO	2,692,927
			FOREMOST PROP & CAS INS CO	560,643
			FIDELITY & DEPOSIT CO OF MD	321,286