

# **Maryland Insurance Administration**

## **2010 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland**



**December, 2010**

**Maryland Insurance Administration**

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Markets in Maryland**

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## **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 2009.

## **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 2008.

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

During calendar year 2009, there were 351 separate companies actively providing private passenger automobile insurance and related products in the State of Maryland. Many of these

companies are owned by the same holding company (hereinafter “insurer group”).<sup>1</sup> Exhibit 1A identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2009 written premium for the insurer group as well as each individual company. Of the 351 companies writing private passenger automobile insurance, 54 are a part of the top ten insurer groups.

The market share for the top ten insurer groups has remained relatively stable between 2004 and 2009. (See Exhibit 1.) In 2004, these top ten insurer groups accounted for about 87 percent of the private passenger automobile insurance market increasing to about 90 percent by 2009.<sup>2</sup> Over this six year period, the market share for GEICO, Liberty Mutual and Travelers has increased and the market share for State Farm, Allstate, Nationwide, Erie, Progressive, 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>3</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 2009, the HHI for Maryland is 1187 up from 1183 for 2008, suggesting a very minimal change in market concentration.<sup>4</sup>

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<sup>1</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>2</sup> According to the National Association of Insurance Commissioners, the top ten insurer groups accounted for 68.6 percent of the direct premiums written countrywide in 2009 for private passenger automobile insurance.

<sup>3</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>4</sup> Using market share for the top ten insurer groups for 2009 from the National Association of Insurance Commissioners, the HHI for the nation as a whole is 689, 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 2004, MAIF had 6.16 percent of the private passenger auto insurance market. This decreased by about 57 percent in 2009 to 2.66 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 2004 through 2009.<sup>5</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
2004	570	4.01%	2004	464	4.74%
2005	573	0.53%	2005	462	-0.43%
2006	560	-2.27%	2006	448	-3.03%
2007	544	-2.86%	2007	432	-3.57%
2008	536	-1.47%	2008	422	-2.31%
2009	533	-0.56%	2009	406	-3.79

<sup>5</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 2009, there were 129 separate companies actively providing homeowners insurance in Maryland.<sup>6</sup> Of the 129 actively writing homeowners insurance, 47 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 2009 written premium for the insurer group as well as each individual company.

The market share for the top ten insurer groups increased between 2004 and 2009. In 2004, these top ten insurer groups accounted for about 83 percent of the homeowner's insurance market increasing to about 86 percent by 2009. Over this six year period, the market share for Allstate, Travelers, and Liberty Mutual, increased and the market share for State Farm, Nationwide, USAA, Chubb, Allianz, and Zurich has fluctuated somewhat, but have basically remained stable, while Erie, and the Joint Insurance Association's ("JIA's") market share decreased. Using the market share for each of the top ten insurers for Maryland 2009, the HHI for Maryland is 1122 down from 1137 for 2008, suggesting a modest improvement in the availability of homeowner insurance.

Another measure of competition is the percentage of business held by the Joint Insurance Association ("JIA"), the State's residual property insurer. In 2004, JIA had about 0.25 percent of

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the homeowner's insurance market. This decreased by about 64 percent by 2009 to about 0.09 percent. Over this six year period, homeowner's insurers appear to have competed for greater market share by accepting more risk.

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.

Although the homeowner's insurance market may be moderately concentrated, Maryland consumers continue to have many insurers to choose from when shopping for homeowner's insurance.. However, the Maryland Insurance Administration will continue to monitor the market to ensure that consumers both affordable and 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 2009 suggests Maryland's private passenger auto insurance and homeowner's insurance markets are minimally 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, competitiveness and availability.

## **VII. Exhibits**

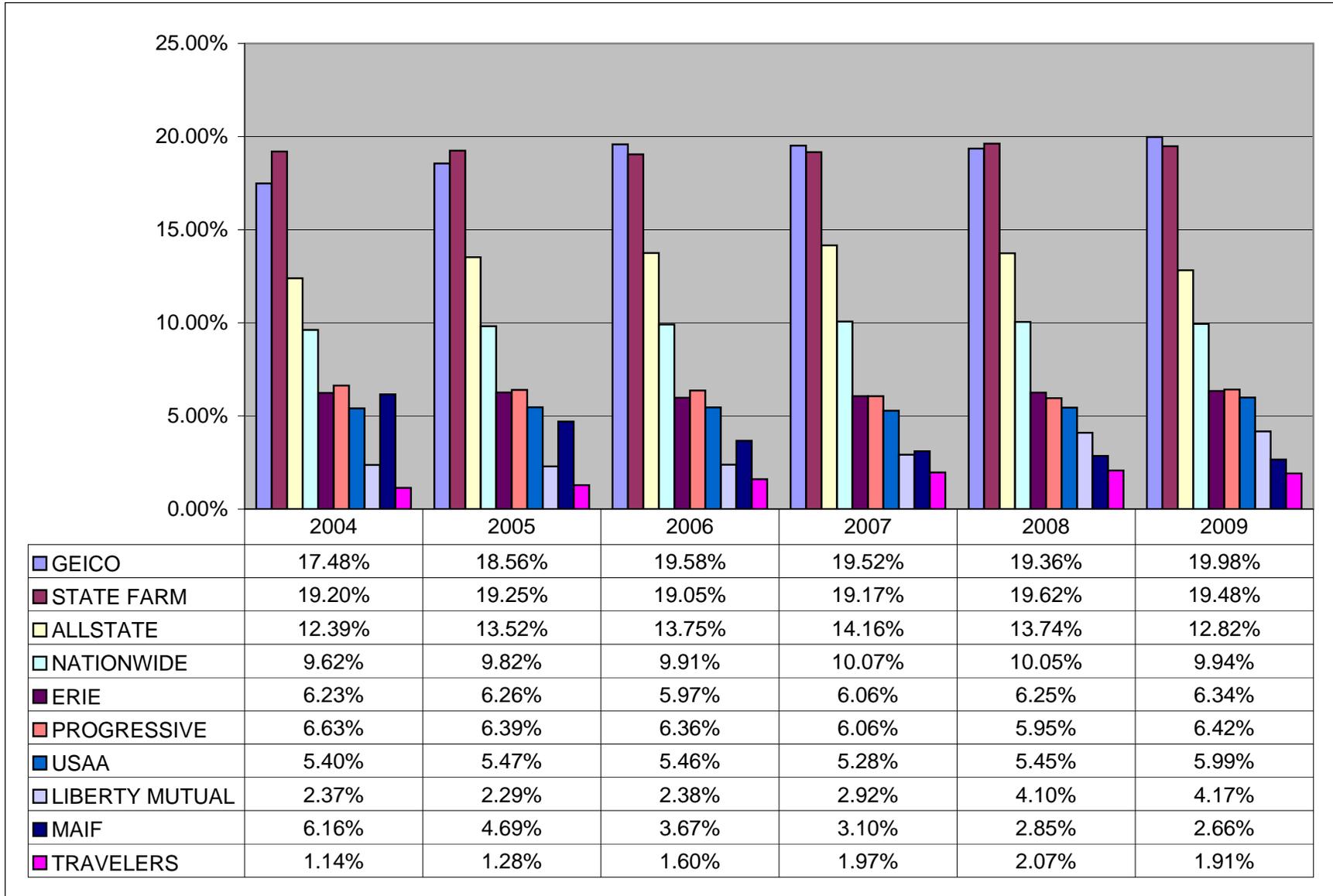
**Exhibit 1:** Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2004 to 2009

**Exhibit 1A:** List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2009

**Exhibit 2:** Comparison of Market Share of the Top Ten Insurer Groups for Homeowners and the JIA from 2004 to 2009

**Exhibit 2A:** List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2009

**Exhibit 1**  
**Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2004 to 2009**



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

**Exhibit 1A**  
**List of Insurers in the Top Ten Groups for**  
**Private Passenger Automobile Insurance for 2009**

<b>2009 Rank</b>	<b>Insurer Group Name</b>	<b>2009 Group Written Premium</b>	<b>Company Name</b>	<b>2009 Written Premium</b>
<b>1</b>	<b>GEICO</b>	<b>737,514,661</b>	GEICO GEN INS CO	328,332,956
			GOVERNMENT EMPLOYEES INS CO	267,984,940
			GEICO IND CO	98,256,930
			GEICO CAS CO	42,939,835
<b>2</b>	<b>STATE FARM</b>	<b>719,070,387</b>	STATE FARM MUT AUTO INS CO	638,619,464
			STATE FARM FIRE & CAS CO	80,450,923
<b>3</b>	<b>ALLSTATE</b>	<b>473,143,768</b>	ALLSTATE INS CO	250,736,696
			ALLSTATE PROP & CAS INS CO	121,767,424
			ALLSTATE IND CO	39,165,716
			ENCOMPASS HOME & AUTO INS CO	24,520,967
			ENCOMPASS INS CO OF AMER	21,867,803
			ENCOMPASS IND CO	15,076,516
			DEERBROOK INS CO	8,646
<b>4</b>	<b>NATIONWIDE</b>	<b>367,101,683</b>	NATIONWIDE MUT INS CO	179,295,735
			NATIONWIDE GEN INS CO	109,442,348
			NATIONWIDE MUT FIRE INS CO	50,623,012
			TITAN IND CO	16,518,181
			NATIONWIDE INS CO OF AMER	6,783,775
			NATIONWIDE PROP & CAS INS CO	2,681,107
			VICTORIA FIRE & CAS CO	705,580
			NATIONWIDE ASSUR CO	693,001
			AMCO INS CO	324,282
			ALLIED PROP & CAS INS CO	23,352
			DEPOSITORS INS CO	11,310

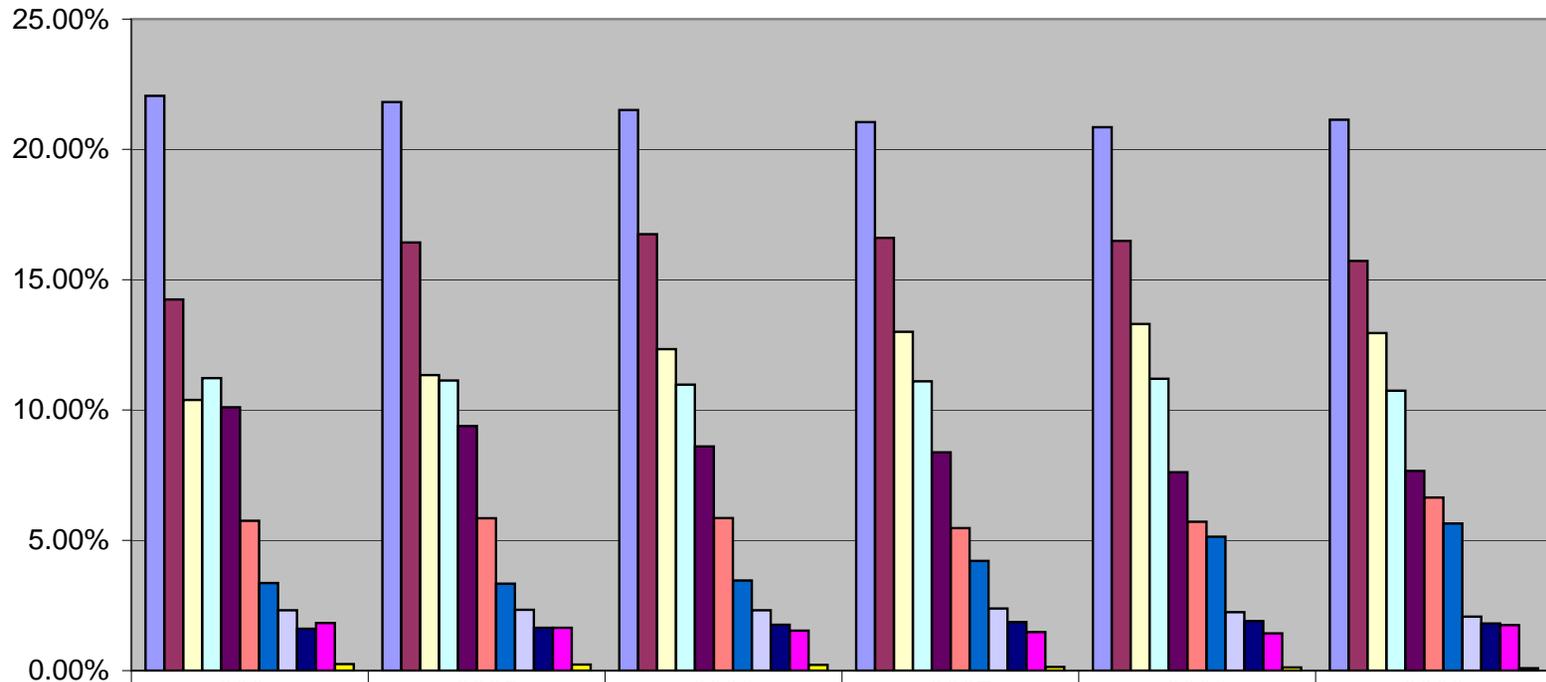
**Exhibit 1A**  
**List of Insurers in the Top Ten Groups for**  
**Private Passenger Automobile Insurance for 2009**

2009 Rank	Insurer Group Name	2009 Group Written Premium	Company Name	2009 Written Premium
5	PROGRESSIVE	237,114,879	PROGRESSIVE ADVANCED INS CO	88,735,894
			PROGRESSIVE SPECIALTY INS CO	40,922,479
			PROGRESSIVE DIRECT INS CO	38,515,643
			PROGRESSIVE AMER INS CO	37,174,070
			PROGRESSIVE CLASSIC INS CO	28,691,625
			PROGRESSIVE CAS INS CO	2,171,671
			PROGRESSIVE NORTHERN INS CO	903,497
6	ERIE	234,118,972	ERIE INS EXCH	227,749,756
			ERIE INS CO	6,369,216
7	USAA	221,292,211	USAA	122,428,433
			USAA CAS INS CO	79,714,688
			USAA GEN IND CO	12,217,087
			GARRISON PROP & CAS INS CO	6,932,003
8	LIBERTY MUTUAL	153,870,360	LIBERTY MUT FIRE INS CO	84,926,291
			SAFECO INS CO OF AMER	14,058,256
			AMERICAN STATES PREFERRED INS CO	13,216,944
			MONTGOMERY MUT INS CO	11,669,338
			SAFECO INS CO OF IL	8,663,640
			FIRST LIBERTY INS CORP	8,505,568
			OHIO CAS INS CO	7,717,640
			WEST AMER INS CO	2,457,523
			LIBERTY INS CORP	2,422,390
			FIRST NATL INS CO OF AMER	232,770

**Exhibit 1A**  
**List of Insurers in the Top Ten Groups for**  
**Private Passenger Automobile Insurance for 2009**

<b>2009 Rank</b>	<b>Insurer Group Name</b>	<b>2009 Group Written Premium</b>	<b>Company Name</b>	<b>2009 Written Premium</b>
9	MAIF	98,268,674	MAIF	98,268,674
10	TRAVELERS	70,567,320	TRAVELERS HOME & MARINE INS CO	38,549,964
			TRAVELERS IND CO	12,441,319
			TRAVELERS COMMERCIAL INS CO	8,256,120
			TRAVELERS IND CO OF AMER	5,613,445
			STANDARD FIRE INS CO	4,652,004
			TRAVCO INS CO	1,054,468

**Exhibit 2**  
**Comparison of Market Share of the Top Ten Insurer Groups for Homeowners**  
**and the JIA From 2004 to 2009**



	2004	2005	2006	2007	2008	2009
STATE FARM	22.05%	21.81%	21.51%	21.05%	20.85%	21.14%
ALLSTATE INS CO	14.24%	16.43%	16.74%	16.60%	16.49%	15.72%
TRAVELERS	10.39%	11.34%	12.33%	13.00%	13.30%	12.95%
NATIONWIDE	11.22%	11.13%	10.97%	11.10%	11.20%	10.74%
ERIE INS EXCH	10.10%	9.38%	8.60%	8.37%	7.61%	7.66%
USAA	5.75%	5.85%	5.85%	5.47%	5.71%	6.64%
LIBERTY MUTUAL	3.36%	3.33%	3.46%	4.21%	5.14%	5.65%
CHUBB Group	2.32%	2.33%	2.31%	2.38%	2.24%	2.07%
ALLIANZ	1.61%	1.64%	1.76%	1.87%	1.90%	1.81%
ZURICH	1.83%	1.65%	1.54%	1.48%	1.43%	1.75%
JIA	0.25%	0.23%	0.22%	0.14%	0.12%	0.09%

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 2009**

2009 Premium Rank	Insurer Group Name	2009 Group Written Premium	Company Name	2009 Written Premium
1	STATE FARM GRP	264,055,547	STATE FARM FIRE & CAS CO	264,055,547
2	ALLSTATE INS GRP	196,392,829	ALLSTATE INS CO	147,684,763
			ENCOMPASS INS CO OF AMER	15,788,993
			ALLSTATE PROP & CAS INS CO	13,652,457
			ENCOMPASS IND CO	9,980,167
			ENCOMPASS HOME & AUTO INS CO	8,175,207
			ALLSTATE IND CO	1,111,242
3	TRAVELERS GRP	161,810,255	STANDARD FIRE INS CO	145,040,563
			TRAVELERS HOME & MARINE INS CO	10,710,907
			TRAVELERS IND CO OF AMER	5,532,458
			TRAVELERS COMMERCIAL INS CO	526,327
4	NATIONWIDE CORP GRP	134,196,351	NATIONWIDE MUT FIRE INS CO	85,021,606
			NATIONWIDE PROP & CAS INS CO	30,750,301
			NATIONWIDE MUT INS CO	18,263,312
			SCOTTSDALE INS CO	117,620
			ALLIED PROP & CAS INS CO	43,512
5	ERIE INS GRP	95,674,006	ERIE INS EXCH	95,674,006
6	UNITED SERV AUTOMOBILE ASSN GRP	82,964,913	USAA	50,333,914
			USAA CAS INS CO	29,461,960
			GARRISON PROP & CAS INS CO	1,786,453
			USAA GEN IND CO	1,382,586

**Exhibit 2A**  
**List of Insurers in the Top Ten Insurer Groups**  
**for Homeowners Insurance for 2009**

2009 Premium Rank	Insurer Group Name	2009 Group Written Premium	Company Name	2009 Written Premium
7	<b>LIBERTY MUT GRP</b>	<b>70,553,035</b>	LIBERTY MUT FIRE INS CO	42,290,290
			SAFECO INS CO OF AMER	10,694,345
			MONTGOMERY MUT INS CO	7,981,735
			LIBERTY INS CORP	4,899,439
			WEST AMER INS CO	3,853,342
			OHIO CAS INS CO	471,209
			AMERICAN FIRE & CAS CO	362,534
			FIRST LIBERTY INS CORP	141
8	<b>CHUBB &amp; SON INC GRP</b>	<b>25,907,945</b>	GREAT NORTHERN INS CO	10,562,670
			FEDERAL INS CO	5,848,279
			VIGILANT INS CO	5,684,226
			PACIFIC IND CO	3,782,735
			CHUBB NATL INS CO	27,538
			CHUBB CUSTOM INS CO	2,497
9	<b>ALLIANZ INS GRP</b>	<b>22,590,724</b>	AMERICAN INS CO	12,774,236
			FIREMANS FUND INS CO	6,831,700
			NATIONAL SURETY CORP	2,770,330
			AMERICAN AUTOMOBILE INS CO	103,756
			ASSOCIATED IND CORP	80,070
10	<b>ZURICH INS GRP</b>	<b>21,846,206</b>	FARMERS NEW CENTURY INS CO	9,731,948
			AMERICAN INTL INS CO	3,956,004
			EMPIRE FIRE & MARINE INS CO	3,211,597
			FOREMOST INS CO GRAND RAPIDS MI	2,882,078
			TRUCK INS EXCH	1,247,587
			FOREMOST PROP & CAS INS CO	602,436
			FIDELITY & DEPOSIT CO OF MD	214,556