



**2007 Report on the Effect of  
Competitive Rating on the Insurance  
Markets in Maryland**

**November 2007**

# Maryland Insurance Administration

## 2007 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 November of 2006, this report will cover calendar year 2006.

## **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 insurance 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 2006.

#### **IV. Comparing Market Shares for Private Passenger Automobile Insurer Groups (2001 - 2006)**

During Calendar Year 2006, there were 148 companies (out of the 154 licensed companies) actively providing private passenger automobile insurance and related products in the State of Maryland. Of those companies, 42 comprise the top ten insurer groups (See Exhibit 1A) which accounts for approximately 87.7% of the market. 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.

Exhibit 1 provides a comparison of market share among the Top Ten Insurer Groups for years 2001 through 2006. 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 2001 through 2006. 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 insurance consumers in a more timely manner.

## **V. Comparing Market Shares for Homeowner Insurer Groups (2001 – 2006)**

During the calendar Year 2006, there were 114 companies (out of 120 licensed companies) actively providing homeowners insurance in the state of Maryland. Of those companies, 31 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 companies as this provides a consistent comparison of data over the years due to individual company mergers and acquisitions.

Exhibit 2 provides a comparison of market share among the Top Ten Insurer Groups for years 2001 through 2006. An analysis of this exhibit reveals that State Farm, Allstate, Nationwide, and Travelers have consistently been the major providers of homeowners insurance in Maryland from 2001 to 2006 with the percentage of market share varying from year to year.

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 insurance consumers. It also suggests the homeowners’ insurance market in Maryland is generally 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 insurance consumers in a more timely manner.

It should be noted, however, that although the homeowner insurance market in Maryland appears generally to be healthy and competitive, there are certain portions of the State, notably the Eastern Shore and Southern Maryland, which may be starting to display signs of decreased competition. 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. The Task Force's report and any recommendations is not due until December 31, 2007. The Maryland Insurance Administration is prepared to work collaboratively with all parties to ensure Maryland insurance consumers retain access to necessary insurance products at affordable prices.

## 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 2001 through 2006.

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
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%
2006	547	-4.54%	2006	445	-3.68%

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 insurance consumers have a variety of choices with respect to coverages 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. When these factors are monitored and new products and new insurers continue to enter the marketplace, Maryland insurance consumers are the beneficiaries as they have more choices, are able to shop around and able to obtain the best coverage for them at the best possible price.

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**

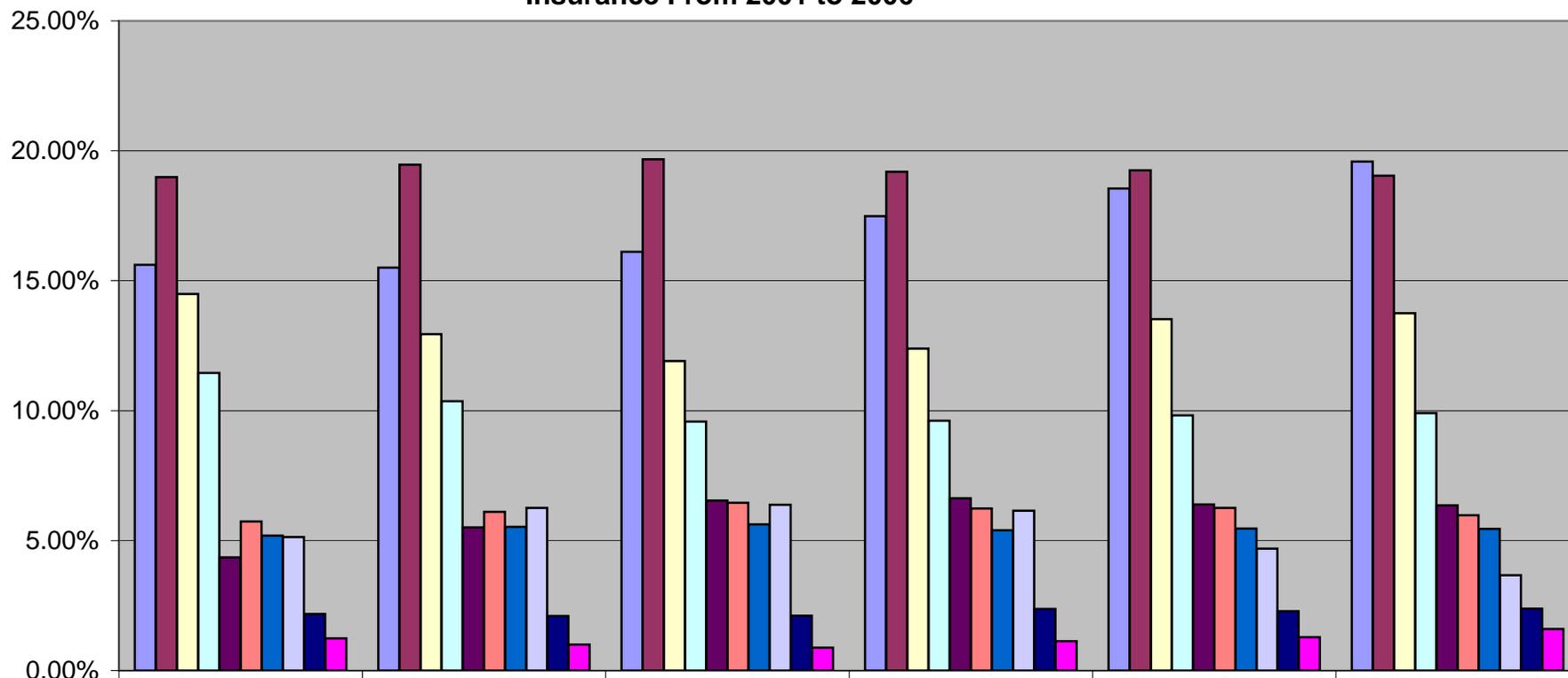
**Exhibit 1:** Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2001 to 2006

**Exhibit 1A:** List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2001 to 2006

**Exhibit 2:** Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance from 2001 to 2006

**Exhibit 2A:** List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance from 2001 to 2006

### Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance From 2001 to 2006



	2001	2002	2003	2004	2005	2006
■ GEICO	15.62%	15.51%	16.12%	17.48%	18.56%	19.58%
■ STATE FARM	18.99%	19.47%	19.68%	19.20%	19.25%	19.05%
■ ALLSTATE	14.49%	12.95%	11.91%	12.39%	13.52%	13.75%
■ NATIONWIDE	11.46%	10.36%	9.58%	9.62%	9.82%	9.91%
■ PROGRESSIVE	4.36%	5.51%	6.54%	6.63%	6.39%	6.36%
■ ERIE	5.73%	6.11%	6.45%	6.23%	6.26%	5.97%
■ USAA	5.20%	5.53%	5.62%	5.40%	5.47%	5.46%
■ MAIF	5.14%	6.26%	6.39%	6.16%	4.69%	3.67%
■ LIBERTY MUTUAL	2.18%	2.10%	2.11%	2.37%	2.29%	2.38%
■ TRAVELERS	1.24%	1.00%	0.88%	1.14%	1.28%	1.60%

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 from 2001 to 2006**

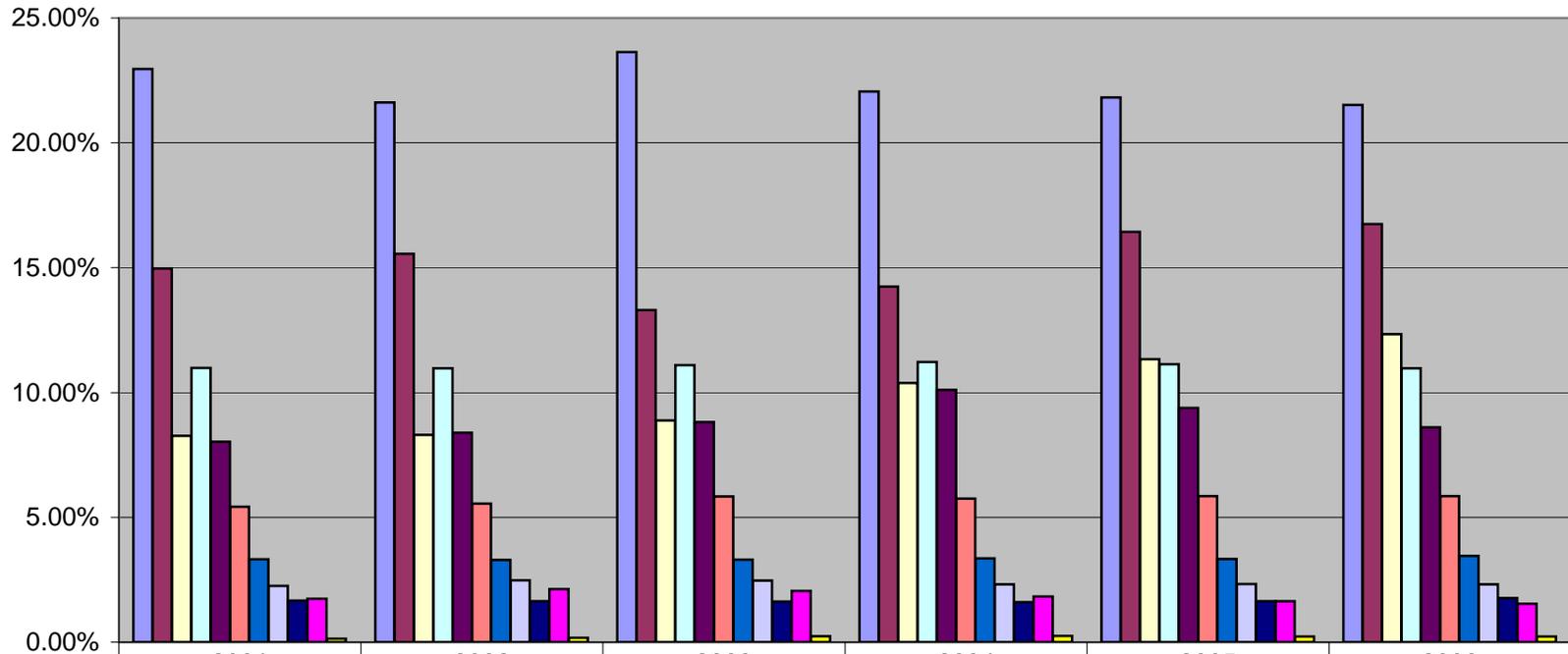
Insurer Group Name	2006 Group Written Premium	Insurer	2006 Written Premium
<b>GEICO</b>	<b>725,358,750</b>	GEICO GENERAL INS CO	307,692,088
		GOVERNMENT EMPLOYEES INS CO	278,118,510
		GEICO IND CO	94,925,286
		GEICO CAS CO	44,622,866
<b>STATE FARM</b>	<b>705,440,528</b>	STATE FARM MUT AUTO INS CO	640,818,802
		STATE FARM FIRE AND CAS CO	64,621,726
<b>ALLSTATE</b>	<b>509,212,497</b>	ALLSTATE INS CO	312,257,551
		ALLSTATE PROP & CAS INS CO	115,528,892
		ENCOMPASS IND CO	34,304,891
		ENCOMPASS INS CO OF AMERICA	33,505,775
		ALLSTATE IND CO	13,567,176
		DEERBROOK INS CO	48,212
<b>NATIONWIDE</b>	<b>366,982,412</b>	NATIONWIDE MUT INS CO	246,105,503
		NATIONWIDE MUT FIRE INS CO	55,731,996
		NATIONWIDE INS CO OF AMER	32,062,886
		NATIONWIDE PROP & CAS INS CO	20,708,138
		NATIONWIDE GENERAL INS CO	8,827,609
		NATIONWIDE ASSUR CO	3,537,335
		AMCO INS CO	8,945
<b>PROGRESSIVE</b>	<b>235,601,902</b>	PROGRESSIVE DIRECT INS CO	110,938,933
		PROGRESSIVE CLASSIC INS CO	63,575,961
		PROGRESSIVE AMERICAN INS CO	54,849,298
		PROGRESSIVE CAS INS CO	4,510,535
		PROGRESSIVE NORTHERN INS CO	1,727,355
		UNITED FNCL CAS CO	-180

**Exhibit 1A**  
**List of Insurers in the Top Ten Insurer Groups for**  
**Private Passenger Automobile Insurance from 2001 to 2006**

<b>Insurer Group Name</b>		<b>Insurer</b>	<b>2006 Written Premium</b>
<b>ERIE</b>	<b>221,248,002</b>	ERIE INS EXCH	211,914,298
		ERIE INS CO	9,333,704
<b>USAA</b>	<b>202,076,810</b>	USAA	118,869,850
		USAA CAS INS CO	76,244,957
		USAA GENERAL IND CO	6,399,399
		GARRISON PROPERTY AND CAS INS CO	562,604
<b>MAIF</b>	<b>135,758,332</b>	MARYLAND AUTOMOBILE INSURANCE FUND	135,758,332
<b>LIBERTY MUTUAL</b>	<b>88,197,806</b>	LIBERTY MUT FIRE INS CO	68,315,133
		MONTGOMERY MUT INS CO	7,624,014
		LIBERTY INS CORP	6,891,163
		FIRST LIBERTY INS CORP	5,367,496
<b>ST PAUL TRAVELERS</b>	<b>59,182,204</b>	TRAVELERS IND CO	20,059,473
		TRAVELERS HOME & MARINE INS CO	14,064,939
		STANDARD FIRE INS CO	11,362,373
		TRAVELERS IND CO OF AMER	8,527,316
		TRAVELERS COMMERCIAL INS CO	2,699,284
		TRAVCO INS CO	2,468,819

Exhibit 2

**Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the JIA From 2001 to 2006**



	2001	2002	2003	2004	2005	2006
STATE FARM	22.96%	21.61%	23.63%	22.05%	21.81%	21.51%
ALLSTATE INS CO	14.97%	15.56%	13.30%	14.24%	16.43%	16.74%
TRAVELERS	8.26%	8.30%	8.88%	10.39%	11.34%	12.33%
NATIONWIDE	10.98%	10.97%	11.10%	11.22%	11.13%	10.97%
ERIE INS EXCH	8.03%	8.39%	8.82%	10.10%	9.38%	8.60%
USAA	5.42%	5.54%	5.83%	5.75%	5.85%	5.85%
LIBERTY MUTUAL	3.32%	3.30%	3.30%	3.36%	3.33%	3.46%
CHUBB Group	2.25%	2.48%	2.47%	2.32%	2.33%	2.31%
FIREMANS FUND	1.66%	1.64%	1.62%	1.61%	1.64%	1.76%
ZURICH NA	1.74%	2.13%	2.05%	1.83%	1.65%	1.54%
JIA	0.14%	0.18%	0.24%	0.25%	0.23%	0.22%

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 from 2001 to 2006**

<b>Insurer Group Name</b>	<b>2006 Group Written Premium</b>	<b>Insurer</b>	<b>2006 Written Premium</b>
<b>STATE FARM</b>	<b>251,283,536</b>	STATE FARM FIRE AND CAS CO	251,283,536
<b>ALLSTATE</b>	<b>195,589,455</b>	ALLSTATE INS CO ENCOMPASS INS CO OF AMERICA ENCOMPASS IND CO	159,815,113 19,059,020 15,368,020
<b>TRAVELERS</b>	<b>144,077,301</b>	STANDARD FIRE INS CO TRAVELERS IND CO OF AMER	138,825,021 5,252,280
<b>NATIONWIDE</b>	<b>128,197,369</b>	NATIONWIDE MUT FIRE INS CO NATIONWIDE MUT INS CO NATIONWIDE PROP & CAS INS CO	101,042,318 14,631,278 12,523,773
<b>ERIE</b>	<b>100,451,836</b>	ERIE INS EXCH	100,451,836
<b>USAA</b>	<b>68,331,256</b>	USAA USAA CAS INS CO GARRISON PROPERTY AND CAS INS CO USAA GENERAL IND CO	43,557,228 24,609,444 97,199 67,385
<b>LIBERTY MUTUAL</b>	<b>40,387,466</b>	LIBERTY MUT FIRE INS CO MONTGOMERY MUT INS CO LM PROPERTY AND CASUALTY INS. CO.	32,928,906 7,458,560 -916

**Exhibit 2A**  
**List of Insurers in the Top Ten Insurer Groups for**  
**Homeowners Insurance from 2001 to 2006**

Insurer Group Name	2006 Group Written Premium	Insurer	2006 Written Premium
<b>CHUBB</b>	<b>27,032,853</b>	GREAT NORTHERN INS CO	9,579,333
		VIGILANT INS CO	6,899,795
		FEDERAL INS CO	5,967,308
		PACIFIC IND CO	4,586,417
<b>FIREMANS FUND</b>	<b>20,564,541</b>	AMERICAN INS CO	9,359,152
		FIREMANS FUND INS CO	7,923,479
		NATIONAL SURETY CORP	3,104,492
		ASSOCIATED IND CORP	89,415
		AMERICAN AUTOMOBILE INS CO	88,003
<b>ZURICH AMERICAN</b>	<b>17,940,649</b>	FARMERS NEW CENTURY INS CO	11,394,579
		EMPIRE FIRE & MARINE INS CO	3,417,540
		FOREMOST INS CO	2,489,328
		FOREMOST PROPERTY & CAS INS CO	520,200
		FIDELITY & DEPOSIT CO OF MD	397,902
		CENTRE INS CO	-14
		ZURICH AMERICAN INS CO	-278,900