



**2011 Report on the Effect of
Competitive Rating on the Insurance
Markets in Maryland**

December 1, 2011

Maryland Insurance Administration

2011 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland

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I. Preface

Each year, the Maryland Insurance Commissioner (“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 2010.

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

generally will act to decrease rates and/or relax underwriting restrictions to increase their market share. When claims experience deteriorates, it is anticipated that insurers generally will 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 underwriting business cycle because insurers are not willing to raise rates to the point where they will lose significant market share to one or more competitors. Moreover, competition encourages insurers to accept more risks, making insurance widely available to consumers. Factors relevant to market competitiveness include, among other things, the number of insurers providing coverage in the market; the market share concentration of those insurers; and changes in market share of the insurers.

III. Private Passenger Automobile Insurance

During calendar year 2010, there were 159 companies actively providing private passenger automobile insurance and related products in the State of Maryland, compared to 167 companies in 2009. Many of these companies are owned by holding companies. This report refers to individual companies owned by a common holding company as an “insurer group.”¹ Exhibit 1A identifies the top ten insurer groups by 2010 written premium, the individual companies comprising each insurer group and the 2010 written premium for the insurer group as well as for each individual company. Of the 159 companies writing private passenger automobile insurance, 53 are a part of a top ten insurer group.

¹ Insurer groups are being used in this report as opposed to individual companies as this provides a more consistent comparison of data over the years due to individual company mergers and acquisitions.

The market share for the top ten insurer groups has remained relatively stable between 2005 and 2010. (See Exhibit 1.) In 2005, these top ten insurer groups accounted for about 87.5 percent of the private passenger automobile insurance market, increasing to about 89.7 percent in 2010.

A commonly accepted measure of market concentration is the Herfindahl-Hirschman Index (HHI).² Markets in which the 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 the private passenger automobile industry for Maryland in 2010, the HHI for Maryland is 1189, up from 1188 for 2009, suggesting basically no change in market concentration.

In the private passenger automobile insurance market, individuals with risk characteristics that private passenger automobile insurers are unwilling to accept are able to obtain coverage from the Maryland Automobile Insurance Fund (MAIF). Over the six-year period from 2005 to 2010, MAIF's market share declined from approximately 4.7 percent to approximately 2.7 percent. During that same period, market share for the top insurer groups *excluding* MAIF increased from approximately 82.8% in 2005 to approximately 87.0 % in 2010. These figures suggest that private passenger automobile insurers have competed for greater market share by accepting more risk.

² 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.

IV. Homeowners Insurance

During calendar year 2010, there were 129 companies actively providing homeowners insurance in Maryland. This figure is unchanged from 2009. Of the 129 companies actively writing homeowners insurance, 47 belong to top ten insurer groups. Exhibit 2A identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2010 written premium for the insurer group as well as for each individual company.

The market share for the top ten insurer groups remained essentially stable from 2005 (approximately 85 percent) to 2010 (approximately 86 percent). Using the market share for the homeowners insurance industry for Maryland in 2010, the HHI for Maryland is 1116, down from 1135 for 2009, suggesting a modest reduction in market concentration for homeowners insurance.

Another indicator of competition is the percentage of business held by the Joint Insurance Association (“JIA”), the State’s residual property insurer. In 2010, JIA’s market share was 0.09 percent, representing an approximately 60 percent reduction from its 2005 market share of 0.2 percent. These figures suggest that homeowners insurers have competed for greater market share by accepting more risk.

Although the homeowners insurance market is moderately concentrated, Maryland consumers continue to have many options when shopping for homeowners insurance. The Maryland Insurance Administration (MIA) will continue to monitor the market for any signs of reduced competitiveness, particularly in coastal areas of the State from which certain carriers have withdrawn or in which they no longer write new policies.³

³ Pursuant to Annotated Code of Maryland, Articles of Insurance, Section 2- 210 and COMAR 31.02.06, the Commissioner will hold a quasi-legislative hearing on the availability and affordability of personal and commercial property and casualty insurance in coastal areas of Maryland on December 13 and 14, 2011.

V. Conclusion

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 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 2010 indicates that Maryland's private passenger automobile insurance and homeowners insurance markets are moderately concentrated. For private passenger automobile insurance, the number of competitors in the market and a declining market share for MAIF suggest that this moderately concentrated market is competitive. Likewise, for homeowners insurance, the number of competitors and small market share for the residual market are indicators of a competitive market.

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

I. Exhibits

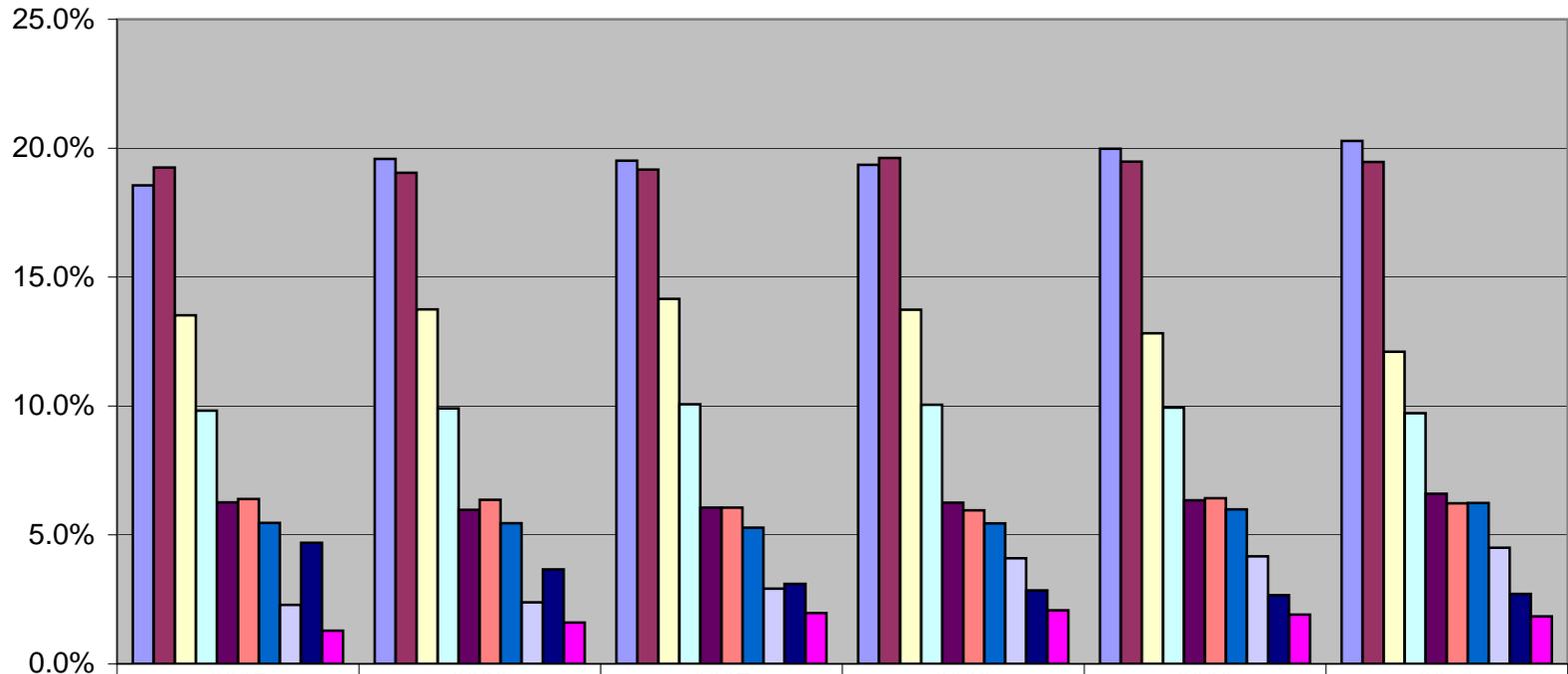
Exhibit 1: Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2005 to 2010

Exhibit 1A: List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2010

Exhibit 2: Comparison of Market Share of the Top Ten Insurer Groups for Homeowners and the Joint Insurance Association (JIA) from 2005 to 2010

Exhibit 2A: List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2010

Exhibit 1
Comparison of Market Share of the Top Ten Insurer Groups for Private
Passenger Automobile Insurance for 2005 to 2010



| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------|--------|--------|--------|--------|--------|--------|
| ■ GEICO | 18.56% | 19.58% | 19.52% | 19.36% | 19.98% | 20.28% |
| ■ STATE FARM | 19.25% | 19.05% | 19.17% | 19.62% | 19.48% | 19.46% |
| ■ ALLSTATE | 13.52% | 13.75% | 14.16% | 13.74% | 12.82% | 12.11% |
| ■ NATIONWIDE | 9.82% | 9.91% | 10.07% | 10.05% | 9.94% | 9.72% |
| ■ ERIE | 6.26% | 5.97% | 6.06% | 6.25% | 6.34% | 6.60% |
| ■ PROGRESSIVE | 6.39% | 6.36% | 6.06% | 5.95% | 6.42% | 6.23% |
| ■ USAA | 5.47% | 5.46% | 5.28% | 5.45% | 5.99% | 6.24% |
| ■ LIBERTY MUTUAL | 2.29% | 2.38% | 2.92% | 4.10% | 4.17% | 4.50% |
| ■ MAIF | 4.69% | 3.67% | 3.10% | 2.85% | 2.66% | 2.71% |
| ■ TRAVELERS | 1.28% | 1.60% | 1.97% | 2.07% | 1.91% | 1.84% |

Exhibit 1A
List of Insurers in the Top Ten Groups for
Private Passenger Automobile Insurance for 2010

| 2010 Rank | 2010 Group Code | Insurer Group Name | 2010 Group Written Premium | Company Name | 2010 Written Premium |
|-------------------|------------------------|----------------------------|-----------------------------------|------------------------------|-----------------------------|
| 1 | 31 | GEICO | 765,784,302 | GEICO GEN INS CO | 341,068,302 |
| | | | | GOVERNMENT EMPLOYEES INS CO | 271,784,558 |
| | | | | GEICO IND CO | 112,791,289 |
| | | | | GEICO CAS CO | 40,140,153 |
| 2 | 176 | STATE FARM GRP | 734,841,209 | STATE FARM MUT AUTO INS CO | 650,971,742 |
| | | | | STATE FARM FIRE & CAS CO | 83,869,467 |
| 3 | 8 | ALLSTATE INS GRP | 457,110,775 | ALLSTATE INS CO | 230,246,632 |
| | | | | ALLSTATE PROP & CAS INS CO | 122,259,956 |
| | | | | ALLSTATE IND CO | 52,251,598 |
| | | | | ENCOMPASS HOME & AUTO INS CO | 24,079,505 |
| | | | | ENCOMPASS INS CO OF AMER | 18,743,152 |
| | | | | ENCOMPASS IND CO | 9,525,574 |
| | | | | DEERBROOK INS CO | 4,358 |
| 4 | 140 | NATIONWIDE CORP GRP | 367,102,724 | NATIONWIDE MUT INS CO | 157,214,929 |
| | | | | NATIONWIDE GEN INS CO | 132,650,782 |
| | | | | NATIONWIDE MUT FIRE INS CO | 51,616,677 |
| | | | | TITAN IND CO | 16,277,332 |
| | | | | NATIONWIDE INS CO OF AMER | 5,285,228 |
| | | | | NATIONWIDE PROP & CAS INS CO | 1,454,829 |
| | | | | AMCO INS CO | 1,158,927 |
| | | | | VICTORIA FIRE & CAS CO | 719,135 |
| | | | | NATIONWIDE ASSUR CO | 455,994 |
| | | | | ALLIED PROP & CAS INS CO | 240,083 |
| DEPOSITORS INS CO | 28,808 | | | | |

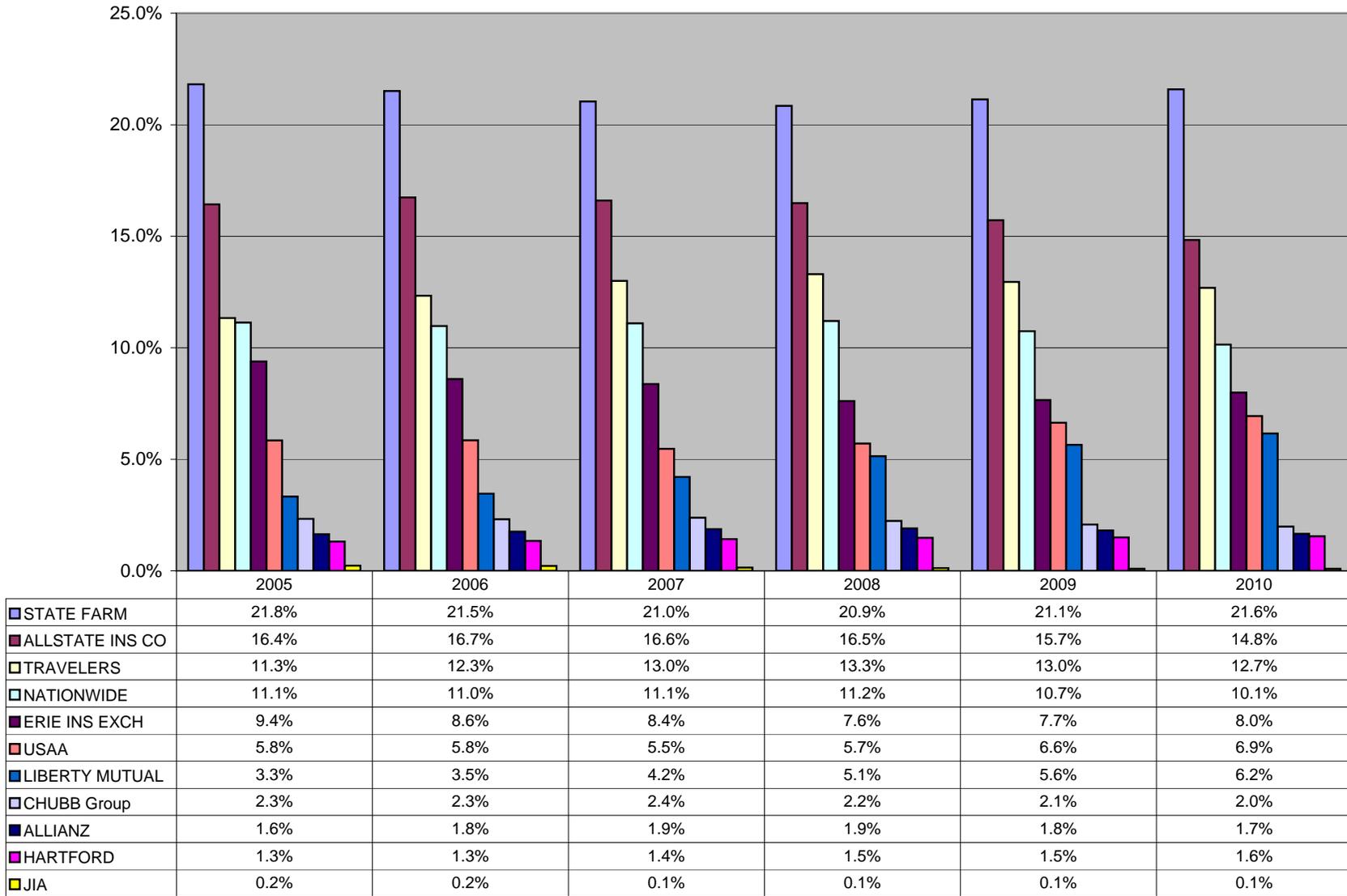
Exhibit 1A
List of Insurers in the Top Ten Groups for
Private Passenger Automobile Insurance for 2010

| 2010 Rank | 2010 Group Code | Insurer Group Name | 2010 Group Written Premium | Company Name | 2010 Written Premium |
|------------------|------------------------|---------------------------|-----------------------------------|--|--|
| 5 | 213 | ERIE INS GRP | 249,014,350 | ERIE INS EXCH ERIE INS CO | 243,347,920 5,666,430 |
| 6 | 200 | USAA GROUP | 235,452,332 | UNITED SERV AUTOMOBILE ASSN USAA CAS INS CO USAA GEN IND CO GARRISON PROP & CAS INS CO | 123,604,694 83,131,575 15,510,883 13,205,180 |
| 7 | 155 | PROGRESSIVE GRP | 235,019,592 | PROGRESSIVE ADVANCED INS CO PROGRESSIVE SPECIALTY INS CO PROGRESSIVE DIRECT INS CO PROGRESSIVE AMER INS CO PROGRESSIVE CLASSIC INS CO PROGRESSIVE CAS INS CO PROGRESSIVE NORTHERN INS CO | 104,893,011 42,120,902 32,848,105 28,332,896 24,239,887 1,862,855 721,936 |
| 8 | 111 | LIBERTY MUT GRP | 170,078,549 | LIBERTY MUT FIRE INS CO AMERICAN STATES PREFERRED INS CO FIRST LIBERTY INS CORP SAFECO INS CO OF AMER MONTGOMERY MUT INS CO SAFECO INS CO OF IL OHIO CAS INS CO LIBERTY INS CORP WEST AMER INS CO FIRST NATL INS CO OF AMER | 91,583,983 32,031,201 9,915,562 9,652,507 8,639,612 7,500,748 6,621,587 2,017,644 1,924,715 190,990 |

Exhibit 1A
List of Insurers in the Top Ten Groups for
Private Passenger Automobile Insurance for 2010

| 2010 Rank | 2010 Group Code | Insurer Group Name | 2010 Group Written Premium | Company Name | 2010 Written Premium |
|------------------|------------------------|---------------------------|-----------------------------------|--------------------------------|-----------------------------|
| 9 | 0 | MAIF | 102,336,300 | MAIF | 102,336,300 |
| 10 | 3548 | TRAVELERS GRP | 69,571,488 | TRAVELERS HOME & MARINE INS CO | 40,983,009 |
| | | | | TRAVELERS IND CO | 10,720,550 |
| | | | | TRAVELERS COMMERCIAL INS CO | 8,296,558 |
| | | | | TRAVELERS IND CO OF AMER | 4,943,120 |
| | | | | STANDARD FIRE INS CO | 3,763,553 |
| | | | | TRAVCO INS CO | 864,698 |

Exhibit 2
Comparison of Market Share of the Top Ten Insurer Groups for Homeowners
and the Joint Insurance Association (JIA) From 2005 to 2010



For a list of carriers that comprise each insurer group, see Exhibit 2A.

Exhibit 2A
List of Insurers in the Top Ten Insurer Groups
For Homeowners Insurance in 2010

| 2010 Rank | 2010 Group Code | Insurer Group Name | 2010 Group Written Premium | Company Name | 2010 Written Premium |
|------------------|------------------------|----------------------------|-----------------------------------|--------------------------------|-----------------------------|
| 1 | 176 | STATE FARM GRP | 275,667,674 | STATE FARM FIRE & CAS CO | 275,667,674 |
| 2 | 8 | ALLSTATE INS GRP | 189,421,666 | ALLSTATE INS CO | 137,172,843 |
| | | | | ALLSTATE PROP & CAS INS CO | 18,545,646 |
| | | | | ENCOMPASS INS CO OF AMER | 13,897,828 |
| | | | | ENCOMPASS HOME & AUTO INS CO | 10,521,971 |
| | | | | ENCOMPASS IND CO | 8,208,297 |
| | | | | ALLSTATE IND CO | 1,017,803 |
| | | | | NORTH LIGHT SPECIALTY INS CO | 57,278 |
| 3 | 3548 | TRAVELERS GRP | 161,994,013 | STANDARD FIRE INS CO | 132,900,631 |
| | | | | TRAVELERS HOME & MARINE INS CO | 23,245,190 |
| | | | | TRAVELERS IND CO OF AMER | 4,761,638 |
| | | | | TRAVELERS COMMERCIAL INS CO | 1,086,554 |
| 4 | 140 | NATIONWIDE CORP GRP | 129,504,220 | NATIONWIDE MUT FIRE INS CO | 77,340,438 |
| | | | | NATIONWIDE PROP & CAS INS CO | 33,340,329 |
| | | | | NATIONWIDE MUT INS CO | 18,478,527 |
| | | | | ALLIED PROP & CAS INS CO | 230,851 |
| | | | | SCOTTSDALE INS CO | 114,085 |
| | | | | AMCO INS CO | -10 |
| 5 | 213 | ERIE INS GRP | 102,021,427 | ERIE INS EXCH | 102,021,427 |
| 6 | 200 | USAA GROUP | 88,616,745 | UNITED SERV AUTOMOBILE ASSN | 52,257,857 |
| | | | | USAA CAS INS CO | 31,077,927 |
| | | | | USAA GEN IND CO | 2,835,318 |
| | | | | GARRISON PROP & CAS INS CO | 2,445,643 |

Exhibit 2A
List of Insurers in the Top Ten Insurer Groups
For Homeowners Insurance in 2010

| 2010 Rank | 2010 Group Code | Insurer Group Name | 2010 Group Written Premium | Company Name | 2010 Written Premium |
|-----------|-----------------|-------------------------|----------------------------|-----------------------------------|----------------------|
| 7 | 111 | LIBERTY MUT GRP | 78,627,526 | LIBERTY MUT FIRE INS CO | 42,732,212 |
| | | | | SAFECO INS CO OF AMER | 14,608,466 |
| | | | | LIBERTY INS CORP | 9,636,794 |
| | | | | MONTGOMERY MUT INS CO | 7,140,851 |
| | | | | WEST AMER INS CO | 3,717,588 |
| | | | | OHIO CAS INS CO | 445,068 |
| | | | | AMERICAN FIRE & CAS CO | 346,784 |
| | | | | LM INS CORP | -100 |
| | | | | FIRST LIBERTY INS CORP | -137 |
| 8 | 38 | CHUBB & SON INC GRP | 25,324,570 | GREAT NORTHERN INS CO | 10,831,566 |
| | | | | FEDERAL INS CO | 5,395,067 |
| | | | | VIGILANT INS CO | 5,376,264 |
| | | | | PACIFIC IND CO | 3,600,344 |
| | | | | CHUBB NATL INS CO | 121,329 |
| 9 | 761 | ALLIANZ INS GRP | 21,195,437 | AMERICAN INS CO | 12,146,317 |
| | | | | FIREMANS FUND INS CO | 6,283,607 |
| | | | | NATIONAL SURETY CORP | 2,591,211 |
| | | | | AMERICAN AUTOMOBILE INS CO | 92,862 |
| | | | | ASSOCIATED IND CORP | 72,489 |
| | | | | FIREMANS FUND INS CO OF OH | 8,951 |
| 10 | 91 | HARTFORD FIRE & CAS GRP | 19,822,479 | HARTFORD INS CO OF THE MIDWEST | 14,167,846 |
| | | | | SENTINEL INS CO LTD | 3,094,190 |
| | | | | TWIN CITY FIRE INS CO CO | 2,170,675 |
| | | | | HARTFORD CAS INS CO | 251,084 |
| | | | | HARTFORD UNDERWRITERS INS CO | 93,187 |
| | | | | HARTFORD FIRE IN CO | 42,188 |
| | | | | PROPERTY & CAS INS CO OF HARTFORD | 3,309 |