MARYLAND
INSURANCE ADMINISTRATION

2012 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland

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Maryland Insurance Administration

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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* Ins. Art. §11-338.) This report summarizes Maryland's competitive rating law and provides information on competitiveness in two of the most important insurance markets for consumers, private passenger automobile insurance and homeowners insurance, for calendar year 2011.

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* Ins. Art. §11-307.) Rates may not be excessive, inadequate, or unfairly discriminatory. (Ins. Art. § 11-306(b)(1).) Under competitive rating, the Commissioner may not find a rate to be excessive unless 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 a market to which the rate is applicable. (Ins. Art. §11-306.)

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 rates 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 2011, there were 157 companies actively providing private passenger automobile insurance and related products in the State of Maryland, compared to 159 companies in 2010. Many of these companies are owned by holding companies. This report refers to two or more individual companies owned by a common holding company as an "insurer group."[1] Exhibit 1 identifies the top ten insurer groups by 2011 written premium, the individual companies comprising each insurer group and the 2011 written premium for the insurer group as well as for each individual company within the group. Of the 157 companies writing private passenger automobile insurance, 59 are part of a top ten insurer group.

The market share for the top ten insurer groups has remained relatively stable between 2006 and 2011. (*See* Exhibit 1A) In 2006, these top ten insurer groups accounted for about 87.7 percent of the private passenger automobile insurance market, increasing to about 90.0 percent in 2011.

[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.

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. The following chart reflects the number of insurers offering private passenger automobile insurance in Maryland for the five-year period from 2007 through 2011, as well as the HHI for each year.

	2007	2008	2009	2010	2011
Number of PPA Insurers	134	148	151	159	157
HHI	1180	1188	1193	1189	1226

The change in HHI from 2010 to 2011 may be attributable to a one percent increase in market share for the market leader, as well as purchases of smaller insurers by other top ten insurer groups. Although there has been a modest change in market concentration, an HHI of 1226 is indicative of a market that remains moderately concentrated.

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). Another indicator of the competitiveness of the private automobile insurance market is the market share held by MAIF. Over the six-year period from 2006 to 2011, MAIF's market share declined from approximately 3.7 percent to approximately 2.0 percent. During that same period, market share for the top insurer groups *excluding* MAIF increased from approximately 84.1 percent in 2006 to

[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.

approximately 88.0 percent in 2011. These figures suggest that private passenger automobile insurers have competed for greater market share by accepting more risk.

IV. Homeowners Insurance

During calendar year 2011, there were 119 companies actively providing homeowners insurance in Maryland, compared to 129 in 2010. Of the 119 companies actively writing homeowners insurance, 47 belong to top ten insurer groups. Exhibit 2 identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2011 written premium for the insurer group as well as for each individual company within the group.

The market share for the top ten insurer groups remained essentially stable from 2006 (85 percent) to 2011 (85.3 percent) (*See* Exhibit 2A.) The following chart reflects the number of insurers offering homeowners insurance in Maryland for the five-year period from 2007 through 2011, as well as the HHI for each year.

	2007	2008	2009	2010	2011
Number of Homeowners Insurers	110	117	129	129	119
HHI	1143	1137	1122	1116	1106

An HHI of 1106 indicates that the homeowners insurance market in Maryland remains moderately concentrated.

Another indicator of competition is the percentage of business held by the Joint Insurance Association ("JIA"), the State's residual property insurer. In 2011, JIA's market share was 0.10 percent, representing an approximately 55 percent reduction from its 2006 market share of 0.22 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]

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. In evaluating the competitiveness of the marketplace, the MIA 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 2011 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.

[3] Pursuant to Insurance Article Section 2-210 and COMAR 31.02.06, the Commissioner held 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. A report on those proceedings can be found at http://www.mdinsurance.state.md.us/sa/docs/documents/home/reports/coastal-report-10-31-2012.pdf.

VI. Exhibits

Exhibit 1: List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

Exhibit 1A: Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2006 to 2011

Exhibit 2: List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

Exhibit 2A: Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the Joint Insurance Association from 2006 to 2011

Exhibit 1
List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
1	31	BERKSHIRE HATHAWAY GRP	812,285,778	GEICO GEN INS CO	354,587,013
				GOVERNMENT EMPLOYEES INS CO	274,430,331
				GEICO IND CO	153,729,313
				GEICO CAS CO	29,539,121
2	176	STATE FARM GRP	740,323,463	STATE FARM MUT AUTO INS CO	655,088,813
				STATE FARM FIRE & CAS CO	85,234,650
3	8	ALLSTATE INS GRP	481,535,695	ALLSTATE INS CO	211,091,110
				ALLSTATE IND CO	101,646,245
				ALLSTATE PROP & CAS INS CO	101,074,362
				ENCOMPASS HOME & AUTO INS CO	29,516,947
				ENCOMPASS INS CO OF AMER	15,720,475
				ESURANCE PROP & CAS INS CO	11,147,438
				ENCOMPASS IND CO	6,772,046
				ESURANCE INS CO	4,567,072
4	140	NATIONWIDE CORP GRP	349,236,318	NATIONWIDE MUT INS CO	133,943,586
				NATIONWIDE GEN INS CO	125,482,636
				NATIONWIDE MUT FIRE INS CO	51,097,192
				NATIONWIDE AFFINITY CO OF AMER	16,054,056
				TITAN IND CO	12,462,195
				NATIONWIDE INS CO OF AMER	4,252,425
				AMCO INS CO	3,212,357
				VICTORIA FIRE & CAS CO	844,384
				NATIONWIDE PROP & CAS INS CO	835,390
				ALLIED PROP & CAS INS CO	700,726
				NATIONWIDE ASSUR CO	303,764
				DEPOSITORS INS CO	47,607

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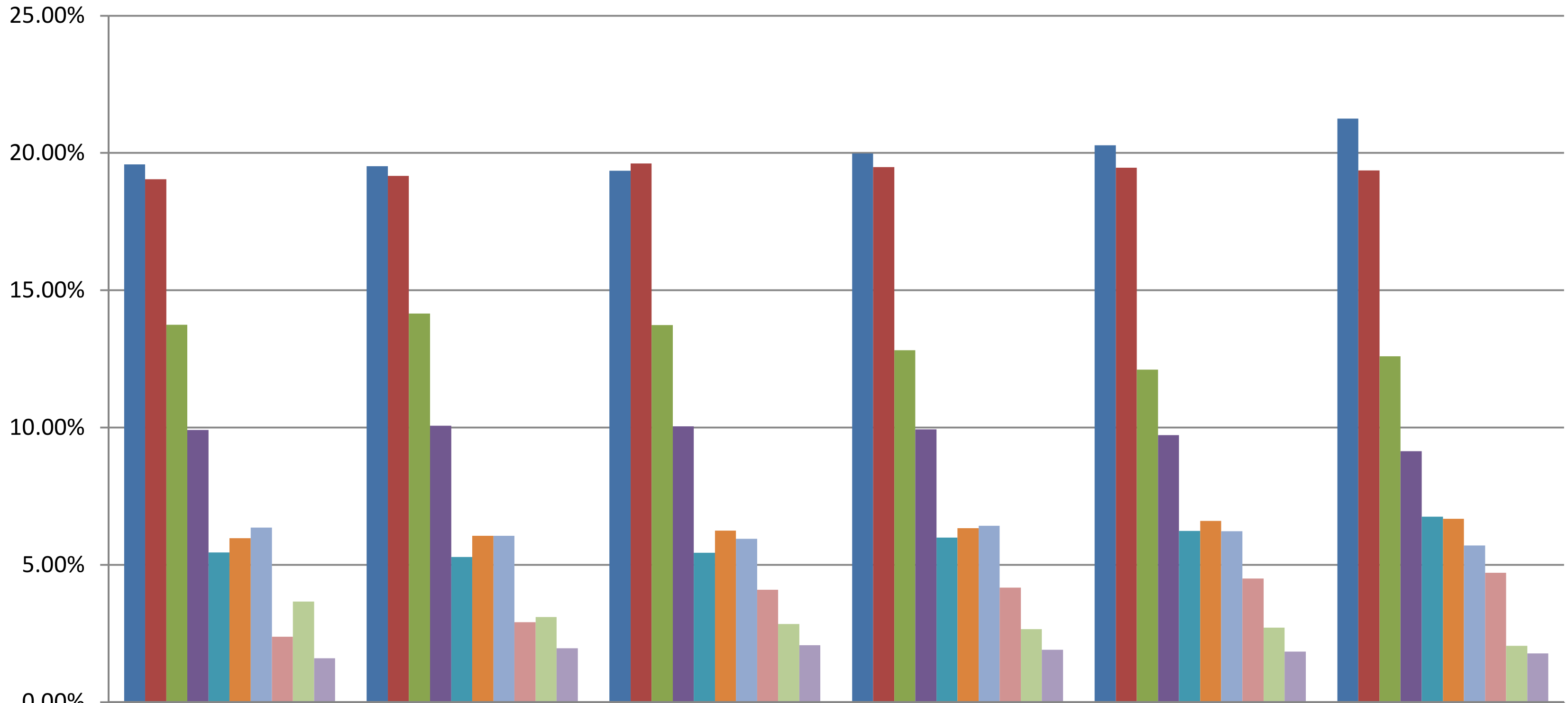
List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
5	200	UNITED SERV AUTOMOBILE ASSN GRP	258,200,058	UNITED SERV AUTOMOBILE ASSN	128,775,070
				USAA CAS INS CO	87,725,797
				GARRISON PROP & CAS INS CO	22,641,805
				USAA GEN IND CO	19,057,386
6	213	ERIE INS GRP	255,363,878	ERIE INS EXCH	250,437,391
				ERIE INS CO	4,926,487
7	155	PROGRESSIVE GRP	218,348,707	PROGRESSIVE ADVANCED INS CO	75,186,727
				PROGRESSIVE SPECIALTY INS CO	39,441,835
				PROGRESSIVE SELECT INS CO	32,979,743
				PROGRESSIVE DIRECT INS CO	27,940,886
				PROGRESSIVE AMER INS CO	20,597,184
				PROGRESSIVE CLASSIC INS CO	20,087,165
				PROGRESSIVE CAS INS CO	1,520,255
				PROGRESSIVE NORTHERN INS CO	594,912
8	111	LIBERTY MUT GRP	179,991,228	LIBERTY MUT FIRE INS CO	92,120,331
				AMERICAN STATES PREFERRED INS CO	39,947,124
				FIRST LIBERTY INS CORP	10,330,347
				LM GEN INS CO	7,391,452
				SAFECO INS CO OF IL	6,738,874
				SAFECO INS CO OF AMER	6,610,967
				MONTGOMERY MUT INS CO	6,405,228
				OHIO CAS INS CO	5,955,555
				LIBERTY INS CORP	1,832,075
				WEST AMER INS CO	1,505,366
				LM INS CORP	999,117
				FIRST NATL INS CO OF AMER	154,792

Exhibit 1
List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
9	0	MAIF	78,509,015	MAIF	78,509,015
10	3548	TRAVELERS GRP	67,849,502	TRAVELERS HOME & MARINE INS CO	42,551,291
				TRAVELERS IND CO	9,104,947
				TRAVELERS COMMERCIAL INS CO	8,012,882
				TRAVELERS IND CO OF AMER	4,269,705
				STANDARD FIRE INS CO	3,191,423
				TRAVCO INS CO	719,254

Exhibit 1A
Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2006 to 2011



	2006	2007	2008	2009	2010	2011
GEICO	19.58%	19.52%	19.36%	19.98%	20.28%	21.25%
STATE FARM	19.05%	19.17%	19.62%	19.48%	19.46%	19.37%
ALLSTATE	13.75%	14.16%	13.74%	12.82%	12.11%	12.60%
NATIONWIDE	9.91%	10.07%	10.05%	9.94%	9.72%	9.14%
USAA	5.46%	5.28%	5.45%	5.99%	6.24%	6.75%
ERIE	5.97%	6.06%	6.25%	6.34%	6.60%	6.68%
PROGRESSIVE	6.36%	6.06%	5.95%	6.42%	6.23%	5.71%
LIBERTY MUTUAL	2.38%	2.92%	4.10%	4.17%	4.50%	4.71%
MAIF	3.67%	3.10%	2.85%	2.66%	2.71%	2.05%
TRAVELERS	1.60%	1.97%	2.07%	1.91%	1.84%	1.77%

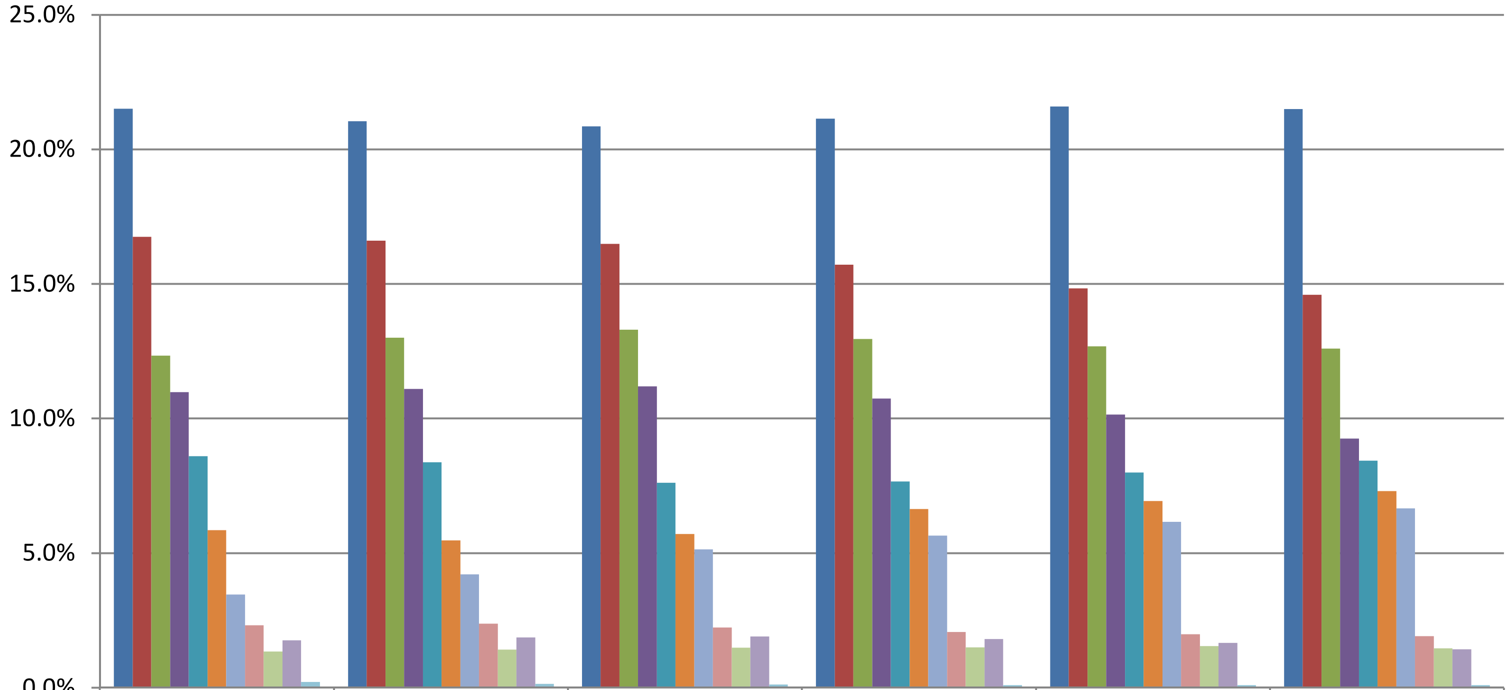
Exhibit 2
List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
1	176	STATE FARM GRP	281,845,543	STATE FARM FIRE & CAS CO	281,845,543
2	8	ALLSTATE INS GRP	191,470,587	ALLSTATE INS CO	132,820,628
	8			ALLSTATE PROP & CAS INS CO	24,278,818
	8			ENCOMPASS HOME & AUTO INS CO	14,604,942
	8			ENCOMPASS INS CO OF AMER	11,966,999
	8			ENCOMPASS IND CO	6,813,221
	8			ALLSTATE IND CO	985,979
3	3548	TRAVELERS GRP	165,145,509	STANDARD FIRE INS CO	123,524,391
	3548			TRAVELERS HOME & MARINE INS CO	35,762,135
	3548			TRAVELERS IND CO OF AMER	4,276,341
	3548			TRAVELERS COMMERCIAL INS CO	1,582,642
4	140	NATIONWIDE CORP GRP	121,376,367	NATIONWIDE MUT FIRE INS CO	66,253,118
	140			NATIONWIDE PROP & CAS INS CO	34,699,365
	140			NATIONWIDE MUT INS CO	19,793,611
	140			ALLIED PROP & CAS INS CO	630,273
5	213	ERIE INS GRP	110,645,425	ERIE INS EXCH	110,645,425
6	200	UNITED SERV AUTOMOBILE ASSN GRP	95,745,944	UNITED SERV AUTOMOBILE ASSN	54,537,553
	200			USAA CAS INS CO	32,731,118
	200			USAA GEN IND CO	5,157,314
	200			GARRISON PROP & CAS INS CO	3,319,959

Exhibit 2
List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
7	111	LIBERTY MUT GRP	87,360,750	LIBERTY MUT FIRE INS CO	41,136,104
	111			SAFECO INS CO OF AMER	17,710,260
	111			LIBERTY INS CORP	14,923,848
	111			MONTGOMERY MUT INS CO	6,165,365
	111			WEST AMER INS CO	3,606,203
	111			LM INS CORP	3,094,179
	111			OHIO CAS INS CO	398,699
	111			AMERICAN FIRE & CAS CO	326,092
8	38	CHUBB INC GRP	25,195,202	GREAT NORTHERN INS CO	10,826,830
	38			FEDERAL INS CO	5,407,796
	38			VIGILANT INS CO	5,224,989
	38			PACIFIC IND CO	3,479,154
	38			CHUBB NATL INS CO	256,433
9	91	HARTFORD FIRE & CAS GRP	19,168,127	HARTFORD INS CO OF THE MIDWEST	14,283,723
	91			SENTINEL INS CO LTD	2,635,037
	91			TWIN CITY FIRE INS CO CO	2,124,317
	91			HARTFORD UNDERWRITERS INS CO	87,900
	91			TRUMBULL INS CO	29,330
	91			HARTFORD ACCIDENT & IND CO	5,422
	91			PROPERTY & CAS INS CO OF HARTFORD	3,010
	91			HARTFORD FIRE IN CO	899
	91			HARTFORD CAS INS CO	-1,511
10	761	ALLIANZ INS GRP	18,796,578	AMERICAN INS CO	10,714,327
	761			FIREMANS FUND INS CO	5,584,861
	761			NATIONAL SURETY CORP	2,357,409
	761			ASSOCIATED IND CORP	75,997
	761			AMERICAN AUTOMOBILE INS CO	63,984

Exhibit 2A
Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the Joint Insurance Association from 2006 to 2011



	2006	2007	2008	2009	2010	2011
STATE FARM	21.5%	21.0%	20.9%	21.1%	21.6%	21.5%
ALLSTATE INS CO	16.7%	16.6%	16.5%	15.7%	14.8%	14.6%
TRAVELERS	12.3%	13.0%	13.3%	13.0%	12.7%	12.6%
NATIONWIDE	11.0%	11.1%	11.2%	10.7%	10.1%	9.3%
ERIE INS EXCH	8.6%	8.4%	7.6%	7.7%	8.0%	8.4%
USAA	5.8%	5.5%	5.7%	6.6%	6.9%	7.3%
LIBERTY MUTUAL	3.5%	4.2%	5.1%	5.6%	6.2%	6.7%
CHUBB Group	2.3%	2.4%	2.2%	2.1%	2.0%	1.9%
HARTFORD FIRE & CAS GRP	1.3%	1.4%	1.5%	1.5%	1.6%	1.5%
FIREMANS FUND	1.8%	1.9%	1.9%	1.8%	1.7%	1.4%
JIA	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%