

# **Maryland Insurance Administration**

## **2009 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland**



**January, 2010**

# Maryland Insurance Administration

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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 2008.

## **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 2008, there were 148 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 2008 written premium for the insurer group as well as each individual company. Of the 148 companies writing private passenger automobile insurance, 55 are a part of the top ten insurer groups.

The market share for the top ten insurer groups has remained relatively stable between 2003 and 2008. (See Exhibit 1.) In 2003, these top ten insurer groups accounted for about 85 percent of the private passenger automobile insurance market increasing to just over 89 percent by 2008.<sup>2</sup> Over this six year period, the market share for GEICO, Allstate, Liberty Mutual and Travelers has increased and the market share for State Farm, 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 2008, the HHI for Maryland is 1183 up from 1044 for 2003, suggesting a minimally concentrated market.<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 66.6 percent of the direct premiums written countrywide in 2008 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 2008 from the National Association of Insurance Commissioners, the HHI for the nation as a whole is 642, 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 2003, MAIF had 6.39 percent of the private passenger auto insurance market. This decreased by about 55 percent in 2008 to 2.85 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 2003 through 2008.<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
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%
2008	531	-2.39%	2008	422	-2.09%

<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 minimally 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 2008, there were 117 companies actively providing homeowners insurance in Maryland.<sup>6</sup> Of the 117 actively writing homeowners insurance, 44 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 2008 written premium for the insurer group as well as each individual company.

The market share for the top ten insurer groups increased between 2003 and 2008. In 2003, these top ten insurer groups accounted for about 80 percent of the homeowner's insurance market increasing to about 86 percent by 2008. Over this six year period, the market share for Allstate, Travelers, Liberty Mutual, and Fireman's Fund increased and the market share for Nationwide, Erie, USAA, Chubb, and Zurich has fluctuated somewhat, but have basically remained stable, while State Farm and the Joint Insurance Association's ("JIA's") market share decreased. Using the market share for each of the top ten insurers for Maryland 2008, the HHI for Maryland is 1137 up from 1065 for 2003, suggesting a minimally 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 2003, JIA had about 0.24 percent of the homeowner's insurance market. This decreased by about 50 percent by 2008 to about 0.12

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<sup>6</sup>

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 still 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 2008 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**

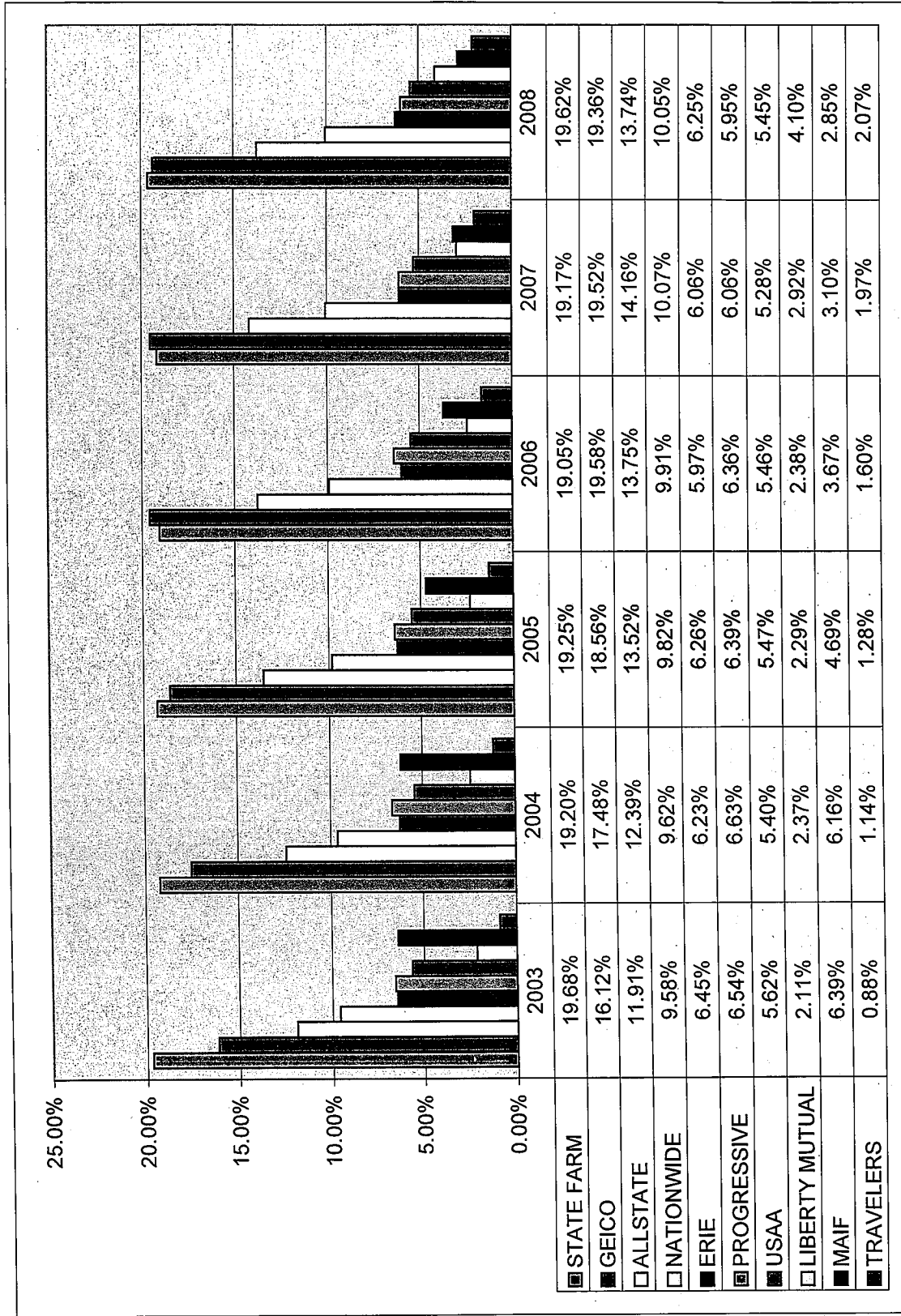
**Exhibit 1:** Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2003 to 2008

**Exhibit 1A:** List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2008

**Exhibit 2:** Comparison of Market Share of the Top Ten Insurer Groups for Homeowners and the JIA from 2003 to 2008

**Exhibit 2A:** List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2008

**Exhibit 1**  
**Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2003 to 2008**



Note: Data includes the effects of mergers and acquisitions since 2003 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 Insurers Groups for**  
**Private Passenger Automobile Insurance for 2008**

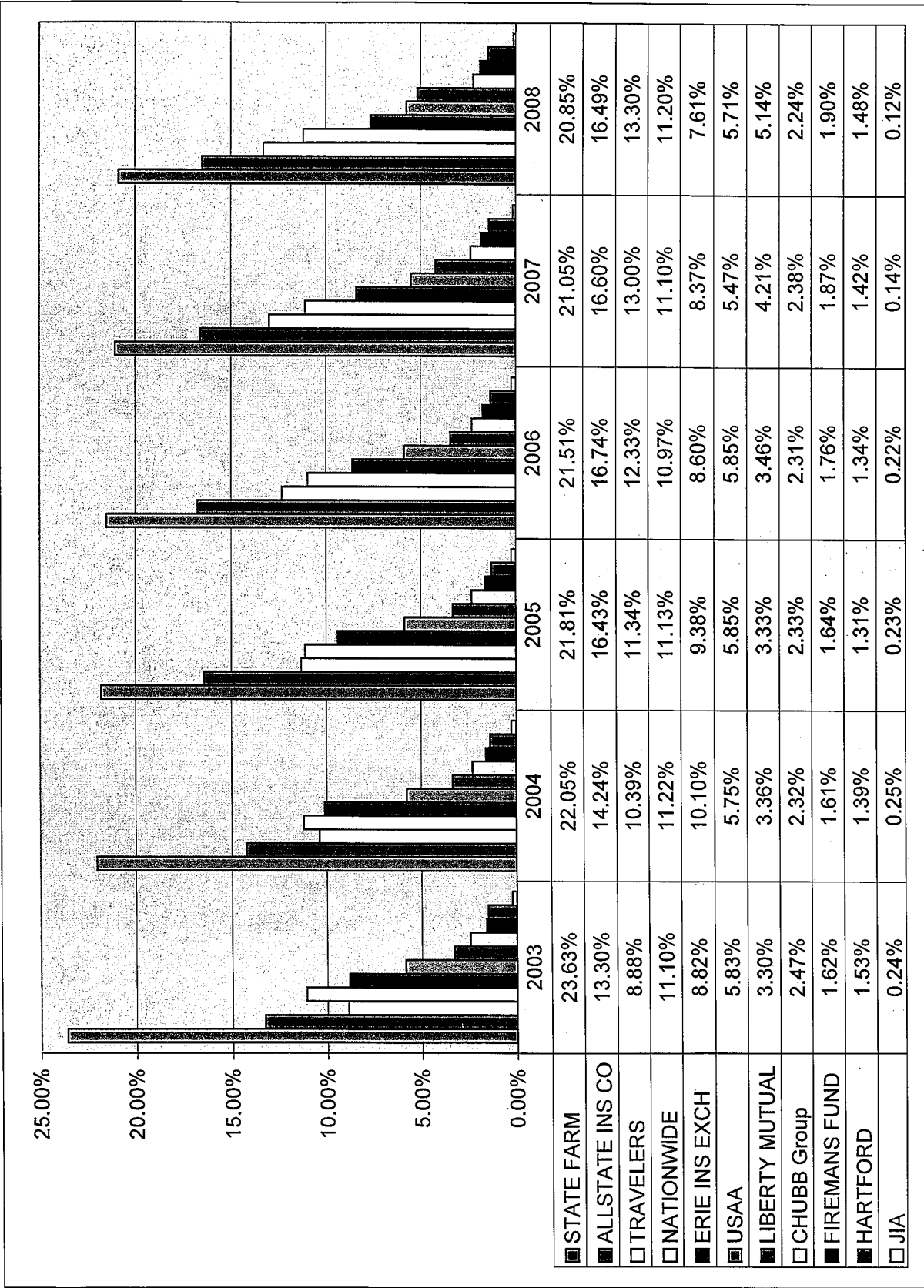
2008 Premium Rank	Insurer Group Name	2008 Group Written Premium	Company Name	2008 Written Premium
1	STATE FARM GRP	714,981,810	STATE FARM MUT AUTO INS CO STATE FARM FIRE AND CAS CO	633,611,956 81,369,854
2	GEICO/BERKSHIRE HATHAWAY GRP	705,365,307	GEICO GEN INS CO GOVERNMENT EMPLOYEES INS CO GEICO IND CO GEICO CAS CO	310,400,541 262,249,551 91,302,255 41,412,960
3	ALLSTATE INS GRP	500,564,694	ALLSTATE INS CO ALLSTATE PROP & CAS INS CO ENCOMPASS IND CO ALLSTATE IND CO ENCOMPASS INS CO OF AMER ENCOMPASS HOME & AUTO INS CO DEERBROOK INS CO	275,944,841 125,996,965 26,047,674 25,554,840 25,039,175 21,969,060 12,139
4	NATIONWIDE CORP GRP	366,130,441	NATIONWIDE MUT INS CO NATIONWIDE GEN INS CO NATIONWIDE MUT FIRE INS CO TITAN IND CO NATIONWIDE INS CO OF AMER NATIONWIDE PROP & CAS INS CO NATIONWIDE ASSUR CO VICTORIA FIRE & CAS CO AMCO INS CO DEPOSITORS INS CO ALLIED PROP & CAS INS CO	200,114,760 81,132,207 53,816,680 12,440,896 11,805,268 5,415,951 1,127,863 232,246 36,065 5,120 3,385
5	ERIE INS GRP	227,774,318	ERIE INS EXCH ERIE INS CO	220,705,473 7,068,845

Exhibit 1A

List of Insurers in the Top Ten Insurers Groups for Private Passenger Automobile Insurance for 2008

2008 Premium Rank	Insurer Group Name	2008 Group Written Premium	Company Name	2008 Written Premium
6	PROGRESSIVE GRP	216,992,347	PROGRESSIVE ADVANCED INS CO PROGRESSIVE AMERICAN INS CO PROGRESSIVE DIRECT INS CO PROGRESSIVE CLASSIC INS CO PROGRESSIVE SPECIALTY INS CO PROGRESSIVE CAS INS CO PROGRESSIVE NORTHERN INS CO	62,518,280 53,943,435 51,434,593 34,774,852 10,537,305 2,668,208 1,115,674
7	UNITED SERV AUTOMOBILE ASSN GRP	198,486,223	USAA USAA CAS INS CO USAA GENERAL IND CO GARRISON PROP & CAS INS CO	112,838,645 72,469,855 8,773,704 4,404,019
8	LIBERTY MUT GRP	149,235,737	LIBERTY MUT FIRE INS CO SAFECO INS CO OF AMER MONTGOMERY MUT INS CO SAFECO INS CO OF IL OHIO CAS INS CO FIRST LIBERTY INS CORP LIBERTY INS CORP WEST AMERICAN INS CO AMERICAN STATES PREFERRED INS CO FIRST NATL INS CO OF AMER AMERICAN STATES INS CO	78,662,331 23,248,546 13,111,218 10,419,696 8,690,718 7,126,100 3,544,042 3,151,903 948,950 331,296 937
9	MAIF	103,855,069	MAIF	103,855,069
10	TRAVELERS GRP	75,545,306	TRAVELERS HOME & MARINE INS CO TRAVELERS IND CO TRAVELERS COMMERCIAL INS CO STANDARD FIRE INS CO TRAVELERS IND CO OF AMER TRAVCO INS CO	39,094,531 14,364,320 8,238,620 6,296,749 6,186,974 1,364,112

**Exhibit 2**  
**Comparison of Market Share of the Top Ten Insurer Groups for Homeowners**  
**and the JIA From 2003 to 2008**



Note: Data includes the effects of mergers and acquisitions since 2003 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 2008**

2008 Premium Rank	Insurer Group Name	2008 Group Written Premium	Company Name	2008 Written Premium
1	STATE FARM GRP	250,457,229	STATE FARM FIRE AND CAS CO	250,457,229
2	ALLSTATE INS GRP	198,120,383	ALLSTATE INS CO ENCOMPASS INS CO OF AMER ENCOMPASS IND CO ALLSTATE PROP & CAS INS CO ENCOMPASS HOME & AUTO INS CO ALLSTATE IND CO	152,934,304 17,351,684 13,821,848 7,519,767 5,343,780 1,149,000
3	TRAVELERS GRP	159,792,393	STANDARD FIRE INS CO TRAVELERS IND CO OF AMER	153,681,190 6,111,203
4	NATIONWIDE CORP GRP	134,537,784	NATIONWIDE MUT FIRE INS CO NATIONWIDE PROP & CAS INS CO NATIONWIDE MUT INS CO SCOTTSDALE INS CO ALLIED PROP & CAS INS CO	91,088,298 26,061,447 17,240,036 125,304 22,699
5	ERIE INS GRP	91,393,764	ERIE INS EXCH	91,393,764
6	UNITED SERV AUTOMOBILE ASSN GRP	68,637,697	USAA USAA CAS INS CO GARRISON PROP & CAS INS CO USAA GENERAL IND CO	42,339,522 24,500,954 1,076,314 720,907

**Exhibit 2A  
List of Insurers in the Top Ten Insurer Groups for  
Homeowners Insurance for 2008**

2008 Premium Rank	Insurer Group Name	2008 Group Written Premium	Company Name	2008 Written Premium
7	LIBERTY MUT GRP	61,711,930	LIBERTY MUT FIRE INS CO SAFECO INS CO OF AMER MONTGOMERY MUT INS CO WEST AMERICAN INS CO OHIO CAS INS CO AMERICAN FIRE & CAS CO FIRST LIBERTY INS CORP	39,855,795 8,517,174 8,256,497 4,158,888 532,308 391,759 -491
8	CHUBB & SON INC GRP	26,914,224	GREAT NORTHERN INS CO VIGILANT INS CO FEDERAL INS CO PACIFIC IND CO CHUBB CUSTOM INS CO	10,527,058 6,202,442 6,032,436 4,149,881 2,407
9	ALLIANZ INS GRP	22,770,030	AMERICAN INS CO FIREMANS FUND INS CO NATIONAL SURETY CORP AMERICAN AUTOMOBILE INS CO ASSOCIATED IND CORP FIREMANS FUND INS CO OF OH	12,054,694 7,389,045 3,113,703 96,333 82,166 34,089
10	HARTFORD FIRE & CAS GRP	17,797,880	HARTFORD INS CO OF THE MIDWEST SENTINEL INS CO LTD TWIN CITY FIRE INS CO CO HARTFORD CAS INS CO HARTFORD UNDERWRITERS INS CO HARTFORD FIRE IN CO PROPERTY & CAS INS CO OF HARTFORD	12,084,805 2,690,887 2,481,211 369,447 98,496 68,561 4,473