Arizona Department of Insurance

2013 Market Monitoring

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For purposes of this document "nursing home" includes all of the types of facilities identified in Section IV.

I. Rate System:

Arizona's "open competition" law, applicable to nursing home liability ("NHL") insurance, prohibits insurers from charging excessive, inadequate or unfairly discriminatory rates, or rates that will have the effect of destroying competition, or establishing a monopoly. As a matter of law, the Department cannot find a rate to be excessive if "a reasonable degree of price competition" ("RDPC") exists at the consumer level. The law presumes a competitive market exists unless the Director, after a public hearing, determines that a RDPC does not exist in the market.

II. Market Monitoring Methodology:

To monitor NHL, the Arizona Department of Insurance ("ADOI") primarily relies upon insurers' responses to an annual ADOI survey, industry studies, and current trade press articles. Survey responses provide insurers' input about their activity in and their perception of the market. ADOI collects and analyzes all information, identifies trends, and summarizes its findings.

The purpose of market monitoring is twofold: to assist the Director in determining whether competition exists; and assists consumers with their questions and concerns about the availability of NHL insurance.

III. National Industry Studies:

National studies show that the countrywide annual loss cost per occupied bed increased the last four years and is at its highest level in the last nine years. The countrywide loss cost per occupied bed was $1,250 in 2009, $1,360 in 2010, $1,430 in 2011 and $1,480 in 2012. This trend appears to be a result of countrywide severity per claim increasing from $120,000 in 2006 to $168,000 in 2012. Frequency of losses remained relatively stable during the same period of time.

IV. Survey Responses:

Of the 214 insurers that responded to the ADOI's 2013 survey, only three insurers, under extremely limited conditions, will write any new business in the following classes.

<u>Skilled or intermediate care facilities</u> – no admitted insurers write this class.
<u>Assisted living facilities with on premises care</u> – Church Mutual IC, GuideOne Elite IC and GuideOne Specialty IC write this class.
<u>Rest homes with health care</u> – no admitted insurers write this class.
<u>Personal care facilities or residential homes with skilled care or other health care including adult foster homes</u> – Church Mutual IC writes this class.
<u>Convalescent homes with continuous nursing or other medical care</u> – no admitted insurers write this class.
<u>Continuing care retirement communities with a NH on campus</u> – no admitted insurers write this class.
<u>Any other adult extended care facility that provides nursing or other medical care</u> – no admitted insurers write this class.

V. NHL Market Trends:

Trend # 1: Competition is non-existent in the admitted NHL market. Those insurers willing to write coverage will not write all classes of nursing homes and wrote fewer policies in 2012 when compared to 2011. Coverage for some categories of nursing homes is simply not available.

Trend # 2: Most insurers, while possessing the authority to write NHL, are choosing not to write it at any price. Admitted insurers wrote only seven NHL policies in 2012, compared to nine in 2011. Of the seven policies written, none were skilled or intermediate care facilities.

Trend # 3: Self-imposed moratoriums are the primary reason for insurers' exit/non-entry in the Arizona NHL market. The most common reason insurers gave for their decision to not seek new business is because of their self-imposed moratoriums. The Arizona 2012 admitted market NHL combined ratio (30.5%) is down from 56.8% in 2011. Direct written premium has remained relatively the same for the past five years ($172,319, 2008; $188,365, 2009; $169,860, 2010; $122,171, 2011; $177,655, 2012). With minimal NHL writings, one loss can dramatically impact an insurer's combined ratio.

Trend # 4: It is unlikely that admitted insurers will consider entering the NHL market in the near future. There were no admitted insurer entries into the 2012 NHL market. None of the three insurers with written premium in 2012 are actively seeking new business. As insurers responded in the survey that they will not change their underwriting stance in 2013, it is unlikely a meaningful number of insurers will enter the NHL market.

Trend # 5: Reinsurance availability remains about the same. All three of the insurers with NHL writings responded in neutral fashion in the 2013 survey as to whether obtaining reinsurance is becoming more problematic. This represents no change from the 2012 survey when the same three insurers writing NHL responded in similar fashion.

Trend # 6: Alternative markets for NHL. Risk retention groups, captive insurers and surplus lines insurers provide alternative markets for NHL. While we do not have any way to determine how much of the NH market is self-insured, we do know that alternative markets provide coverage for NHL exposures.

VI. Conclusions:

The NHL market remains extremely stressed. Only three admitted insurers will write NHL, and only under very limited conditions. Coverage for some NHL categories is simply not available in the admitted market. Presently, most insurers with the authority to write NHL choose not to write it. NHL loss experience has driven insurers to implement self-imposed moratoriums, which will likely deter new insurers from entering the market in the immediate future. Alternative markets provide viable liability insurance options for nursing homes in Arizona.