Arizona Department of Insurance
2013 Market Monitoring
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I. Rate System:

Arizona's "open competition" law, applicable to Private Passenger Automobile ("PPA") 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. By statute, a rate is not 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:

The Department relies upon annual statements filed with the Department, insurers' responses to an annual Department survey, current trade press articles, and A.M. Best data to monitor the market.

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

III. Annual Statement Data:

The 2012 annual statements for all PPA segments evidence that:

- In 2012, insurers' direct written premiums increased 3.18% from 2011 and their direct incurred loss ratio decreased by 0.20%.
- Only 21 insurers wrote more than 1% of the market.
- There are 296 insurers that reported PPA data in 2012, but of these only 133 are actively seeking new business.
- The Top 25 PPA insurers wrote 76.94% of the market.

Historical Experience (All Insurers' Arizona State Page, Lines 19.1, 19.2 and 21.1, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2012	$3,373,608,055	$3,325,621,512	$2,084,364,945
2011	$3,269,648,568	$3,281,922,687	$2,037,060,148
2010	$3,347,849,636	$3,377,615,518	$2,137,914,516
2009	$3,452,551,103	$3,481,895,928	$1,912,883,158
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2012	$2,081,911,255	62.60%	
2011	$2,062,313,040	62.80%	
2010	$2,176,416,207	64.44%	
2009	$1,874,981,108	53.85%	

IV. Survey Responses:

In 2013, 189 insurers responded to the Department's PPA survey. These insurers had a 2012 market share of 99.10%. Overall, their response regarding current PPA market conditions was favorable and positive.

- **The majority of surveyed insurers said that:**
  - Competition is intense in the PPA market;
  - Price is important;
  - Coverage availability is not a problem;
  - Current pricing levels are just about right; and,
  - Reinsurance is not problematic for 49.17% of the market.
- **The majority of the surveyed insurers said that their particular company:**
  - Considers the PPA line to be very important to their presence and success in Arizona;
  - Is competing in the market with much intensity;
  - Has had neither historical underwriting profitability nor unprofitability in PPA in Arizona;
  - Will maintain their current underwriting and risk-eligibility approach at least through year-end 2013;
  - Is actively seeking new business;
  - Has not materially increased its declinations in 2013 as compared to 2012;
  - Considers Arizona's "open competition" rate law to be highly or very effective; and
  - Considers PPA to be a major line nationally.

V. Major PPA Market Trends:

Trend # 1. PPA market concentration continues in the Top 25 and its market share increased slightly in 2012. The Top 25 market share increased to 76.94%, an increase of 1.04% since 2011. Although State Farm Mutual Automobile IC lost 0.15% market share, while Farmers IC of AZ increased their market share by 0.21%, those two insurers maintained their market position as the top two insurers. Progressive Advanced IC took the third position replacing American Family Mutual IC. The top three insurers' 2012 market share rank as follows:

Rank	Company	2012 Market Share
1.	State Farm Mutual Auto IC	15.15%
2.	Farmers IC of AZ	9.11%
3.	Progressive Advanced IC	5.76%
	Total:	**30.02%**

The top three insurers' 2012 market share (30.02%) is up from 29.80% in 2011.

Trend # 2. Market concentration has not discouraged new insurers from entering the Arizona market. Four of the 189 insurers responding to the survey have been writing in Arizona less than three years. However, of the 296 insurers reporting data on their annual statements in Arizona, 163 are latent insurers that could reenter the market.

Trend # 3. The majority of the market is actively seeking new business. In 2013, 79.70% of the market responded that it was highly or intensely seeking new business.

Trend # 4. Intense competition continues. The majority of the market (94.86%) responded in 2013 that market competition is high. The market share of nonstandard insurers has increased (10.20%, 2012; 9.10%, 2011). The continued decrease in applications to the Arizona Assigned Risk Plan (the involuntary market) indicates the nonstandard market is writing risks that would otherwise go into the Assigned Risk Plan.

Trend # 5. It appears that a few large groups will dominate the market and that smaller, non-group affiliated insurers will have difficulty competing with them. All Top 25 insurers are members of 13 groups. In 2012, there was an overall market share net gain of 1.05% for the Top 25 insurers.

Trend # 6. Total written premiums and rates increased for Arizona's insurers in 2012, while insurer participation diminished. In 2012, Arizona's Direct Written Premium (DWP) increased 3.18% compared to a decrease of 2.34% in 2011. Insurer rate changes during 2012 resulted in a weighted average total rate change of 5.43%, up from the 0.29% in 2011. Increased DWP and rates, coupled with diminished insurer participation suggests a tightening of the market.

Trend # 7. The average policy premium increased. In 2012, the DWP and the policy count increased. As a result, the 2012 average policy premium increased to $1,130 from $1,101 in 2011. In addition, the average premium per vehicle increased from $776 in 2011 to $782 in 2012.

Trend # 8. More insurers report historical unprofitability for the PPA line. In 2013, 5.80% of the market does not view PPA as profitable, compared to 4.41% of the market in 2012. Although the overall PPA incurred loss ratio decreased from 62.80 % in 2011 to 62.60% in 2012, the combined loss ratio increased from 104.26% in 2011 to 113.50% in 2012.

Trend # 9. The number of paid claims and the average paid claim dollar amounts have increased. This represents an increase in both claim frequency and severity for 2012. This could be due, in part, to an 8.7% increase in Arizona motor vehicle traffic fatalities as reported in the National Highway Traffic Safety Administration's (NHTSA) 2011 Fatality Analysis Report. Although the information contained in the NHTSA report was based on 2010 data, the residual impact on current claim frequency and severity can be seen.

Trend #10. Underwriting is becoming less liberal. Insurers (5.46%, 2013; 5.61%, 2012) continue to take a less liberal underwriting stance as losses and underwriting expenses continue to climb. More insurers are turning to predictive analytics and other innovative technologies to help analyze risk selection, better identify and price risks, fight fraud, retain profitable customers, and attract new customers and growth. Insurers have begun modernizing policy administration systems, establishing web-based portals and mobile platforms, offering high-tech mobile applications and telematics devices/services to attract and develop stronger customer relationships. Competition and underwriting both have an effect on insurers and the approach they take to increase their market share while remaining profitable.

VI. Conclusions:

The Arizona PPA market remains healthy and competitive, and insurers view the Arizona market favorably. This environment attracts new insurers to enter the market, even though the intense competition makes it more difficult for new, independent insurers to write sufficient premium volume to offset expenses, pay claims, and remain profitable.

Competition among the Top 25 and insurer groups is intense. The public is benefiting from rates that remain relatively stable and from competition for increased market share. Fewer drivers need to seek coverage in the higher priced Assigned Risk Plan as the market is willing to insure the higher rated risks.