

Arizona Department of Insurance

2015 Market Monitoring

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Homeowners' Insurance

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I. Rate System:

Arizona's "open competition" law, applicable to Homeowners' (HOs) 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:

The Department relies upon insurers' rate filings and their 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 2014 annual statements for all HO segments evidence that:

- The incurred loss ratio decreased (48.77%, 2014) from the prior year (51.97%, 2013).
- Direct written premium ("DWP") increased 6.16% (\$1,443,986,859) in 2014 compared to \$1,353,758,552 in 2013.
- Sixteen groups each wrote 1% or more of the market. Within those groups, 23 insurers wrote at least 1% of the market. Of these 23 insurers, the insurer with the smallest market share wrote \$14.4 million in DWP.
- One hundred twenty insurers wrote \$100,000 or more in premium (117 in 2013).
- Five insurers entered the market and one exited.
- The Top Five insurers wrote \$20,513,259 more in DWP than in 2013 for an increase of about 3.47%.
- The combined market share of the Top 25 insurers decreased by .55% in 2014 compared to a .55% decrease in 2013.

Historical Experience (All Insurers Page 19, Line 04, Annual Statement Data, Year Ending December 31)

CY	1	2	3
	Written Premium	Earned Premium	Paid Losses
2014	\$1,443,986,859	\$1,399,294,605	\$668,549,739
2013	\$1,353,758,552	\$1,313,051,138	\$685,549,739
2012	\$1,275,172,750	\$1,246,756,721	\$700,565,038
2011	\$1,221,243,565	\$1,208,811,889	\$1,543,316,236
CY	4	5	
	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2014	\$682,465,591	48.77%	
2013	\$682,421,688	51.97%	
2012	\$595,315,269	47.75%	
2011	\$1,173,632,461	97.09%	

IV. Survey Responses:

In 2015, 136 insurers responded to the Department's HOs' survey, with 122 insurers completing the survey. These 122 insurers have a 2014 market share of 99.44%. Of these 122 insurers, five write only mobile homeowners policies.

Most insurers completing surveys responded that:

- HOs is a major national line for them.
- Coverage availability is substantially the same as in 2013.
- Competition for HOs business is intense in Arizona.
- HOs business is very important to their presence and success in Arizona.
- It is very easy to enter the Arizona HOs market.
- Arizona's Open Competition law is highly effective.
- Reinsurance is not a problem.
- The market stage of the underwriting cycle has an influence on their HOs' decisions for the Arizona consumer.
- The market is seeing rate increases. A market share of 11.17% reported that prices have changed substantially compared to 2014.
- The national market in some manner and to some degree impacts insurer's local HO decisions in Arizona.
- They are actively seeking new business (80 insurers down from 89 in 2014).
- The number of declinations and/or non-renewals has not substantially changed since 2014. Most insurers (99 down from 109 in 2014) will maintain their current underwriting approach, and eight said they would begin to relax their underwriting restrictions by year-end 2014.

V. Major HOs Market Trends:

Trend # 1: Groups writing in Arizona continue to add eligible insurers; only one experienced any significant (1% or greater) change in its market share. Two new additional insurers from two additional groups reported new activity on their 2014 annual statements. Seventeen groups, each with an insurer in the Top 25, control 76.65% of the market.

Trend # 2: The market is concentrated in a few insurers among which competition is intense. The Top Five continue to have a sizable portion of the market (41.59% in 2014, 42.87% in 2013) and competition is intense. Only one of the prior Top Five insurers gained market share in 2014.

Rank	Company	2014 Market Share
1.	State Farm Fire & Casualty Co	20.46%
2.	Farmers Insurance Exchange	6.69%
3.	American Family Mutual IC	6.31%
4.	Farmers IC Of AZ	4.40%
5.	Allstate Property & Casualty IC	3.72%
	Total:	41.59%

Trend # 3: Few insurers report low historical profitability for the HOs line. Twenty-seven insurers having 13.82% of the market responded that their underwriting profitability in this line was historically low.

Only 14 (out of 116) insurers with a combined market share of 10.91% reported that they had made any meaningful underwriting profit on their Arizona HOs writings.

Trend # 4: Not all insurers with authority to write HOs insurance are actually writing HOs insurance. While 172 (172 in 2014) insurers reported some HOs activity in their 2014 annual statements, only 96 said they are seeking new business in 2015. The remaining insurers have the legal authority to write HOs in Arizona, but have elected not to actively participate in the market for reasons of their own. Nonetheless, these latent insurers, although currently not actively seeking new business, can immediately enter the market at any time if they wish.

Trend # 5: Insurers view the level of competition in the market as high. Eighty-two of the responding insurers (88 in 2014) controlling 79.80% of the market said that, in their opinion, the level of competition in the HO market was high.

Trend # 6: Most insurers intend to maintain their current underwriting stance through year-end 2015. This is the 12th consecutive year that most (99 out of 116) responding insurers reported they were maintaining their current underwriting stance, as opposed to becoming more conservative. As a result, consumers will enjoy market accessibility and stability.

Trend # 7: The incurred loss ratio decreased. The Arizona 2014 all-company incurred loss ratio decreased to 48.77%, down from 51.97% in 2013. Wildfires and wind storms contributed to the 2013 incurred loss ratio. Traditionally, there are peaks and valleys in HO loss ratios, primarily due to storm and wildfire property claim volatility. Yet, despite storms and wildfires, the HO line remains profitable over the long run.

Trend # 8: The number of mold suits decreased. In 2015, 18 insurers reported having been named in a mold suit (21 insurers in 2014). This represents a downward trend from the 26 claims filed in 2010.

Trend # 9: Rates appear to be stabilizing. In 2014, the market share weighted average total rate change was 5.70% (7.71% in 2013). Dry weather conditions, storm and wildfire exposures could impact pricing in 2015.

Trend # 10: Five insurers entered the market and one exited. The insurers that entered wrote \$1,701,385 in DWP during 2014, a .11% market share.

VI. Conclusions:

Overall, the Arizona HO market has remained stable. Coverage is readily available and at competitive prices, competition is healthy, consumers have a choice among insurers, insurers are maintaining their underwriting stance resulting in consistency and stability in the market, and rates are showing signs of stabilizing, even though they are still trending upward.