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**STATEMENT OF THE MASSACHUSETTS INSURANCE FEDERATION TO
THE DIVISION OF INSURANCE IN CONNECTION WITH ITS
INFORMATIONAL HEARINGS ON HOMEOWNERS' INSURANCE
December 23, 2015**

On October 15, 2015, the Division of Insurance (the “Division”) announced that it would hold a series of informational hearings around the Commonwealth on rate filings and other materials submitted to the Division regarding the marketing and sale of homeowners’ insurance in the state, along with other matters relating to homeowners insurance identified in the announcement. Among the specific items the Division identified in the announcement to be considered were the levels of availability and affordability of homeowners’ insurance in various regions throughout the state.

The Massachusetts Insurance Federation (the “Federation”) submits this statement to the Division in connection with its review of homeowners’ insurance. Our goal in making this submission is to assist the Division in its inquiry about how the Massachusetts homeowners’ insurance market is working.

The Federation is the leading voice of property casualty insurance companies in the Commonwealth. Its members account for 60% of the voluntary homeowners’ insurance premiums in the state. In addition to its 25 member insurance companies, three national property casualty insurance company trade associations (The American Insurance Association, The National Association of Mutual Insurance Companies, The Property Casualty Insurers Association of America) are associate members of the Federation.

Overview

By all indications, the Massachusetts homeowners’ insurance market is healthy and competitive, providing consumers with a large variety of companies, coverage and premium options. Furthermore, the statutory rate regulatory structure – which is based on a competitive market model – is working as intended. The Division of Insurance provides focused and careful oversight of insurers and the marketplace through its expert staff, ensuring that rates meet the statutory standard that they not be excessive (to prevent exorbitant profits), inadequate (to make sure insurance companies are financially solvent so they can pay claims) or unfairly discriminatory (price differences reflect exposure and expense differences). Moreover, coverage is readily available throughout the Commonwealth – generally from a variety of diverse, voluntary market writers, but if necessary from the FAIR Plan if voluntary market coverage is not available. In addition, the available data indicate that there is no affordability issue for homeowners’ insurance provided in the Commonwealth.

The Massachusetts Homeowners' Insurance Market

The Massachusetts homeowners' insurance market consists of two major components -- the voluntary market and the residual market in the form of the Massachusetts Property Insurance Underwriting Association (commonly known as the FAIR Plan).

The Voluntary Market. There is a vibrant and competitive voluntary insurance market for homeowners' insurance in the Commonwealth. In 2013, more than \$2 billion in premiums was written in the voluntary market by 76 different companies, according to the Division of Insurance's Annual Home Insurance Report for Calendar Year 2013 (the most recent report available) (the "2013 DOI Home Insurance Report"). See <http://www.mass.gov/ocabr/docs/doi/consumer/mass-home-insurance-2013.pdf>.

That business is widely dispersed, with no company or group having a dominant market share. The largest writer in 2013 was MAPFRE (formerly known as Commerce) with an 11.2% share of the market. The 10 top-writing companies accounted for only 58.1% of the total voluntary market, indicating that the market is not very concentrated. Consumers enjoy a wide variety of choice and no single player dominates the market.

Competitiveness. The competitiveness of the Massachusetts homeowners' insurance market is further confirmed by the Herfindahl-Hirshman Index ("HHI") and other data. The HHI is, according to the U. S. Department of Justice ("DOJ"), a commonly accepted measure of market concentration.¹

The Insurance Information Institute ("III") has calculated the HHI for the Massachusetts homeowners' insurance market. That calculation shows that the Massachusetts market has an HHI value of 576, which is less than all the other New England states except Connecticut (which is only slightly less at 568). The III explains that markets with scores of less than 1,500 are not concentrated. Based on its HHI score, the III concludes as follows: "The Massachusetts homeowners insurance market is competitive and not concentrated." See Appendix A, p.2.

The III has also computed the number of homeowners' insurers in the Northeast States. That analysis indicates the Massachusetts has more homeowners' insurance company options than in any other New England state. See Appendix A, p.3.

¹ The DOJ explains the HHI as follows: ". . . The HHI takes into account the relative size distribution of the firms in a market. It approaches zero when the market is occupied by a large number of relatively equal size and reaches its maximum of 10,000 points when a market is controlled by a single firm. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

The [government] agencies generally consider markets in which the HHI is between 1,500 and 2,500 points to be moderately concentrated, and consider markets in which the HHI is in excess of 2,500 points to be highly concentrated. . . ."

Massachusetts' homeowners' insurance market is competitive and unconcentrated. That means an insurer must be cognizant of strong rate competition. If a company seeks too-large of an increase in rates, it can easily find itself losing business. Thus, Massachusetts' competitive market incents insurers to maximize rating accuracy and minimize rate increases to preserve market share.

The FAIR Plan. The FAIR Plan is the statutorily created residual market mechanism for homeowners' insurance. It makes property insurance available to any applicant who cannot obtain coverage in the voluntary market. Under the FAIR Plan statute, all companies writing property insurance in the Commonwealth are required to participate in the FAIR Plan and to share in the writings, expenses, profits and losses in proportion to each company's writings of property insurance. *See* G.L. c. 174C, § 4. The FAIR Plan has been designed to operate in a manner similar to a traditional insurance company in that it inspects property, collects premium, issues its own policies, and adjusts its own claims.

One indicator of the competitiveness and health of the voluntary homeowners' insurance market is the declining market share of the FAIR plan in recent years. In 2007, the FAIR plan's size peaked with 16.1% of the total homeowners' premium written in the state. This pinnacle followed 5 years of significant growth—starting from 5.9% of the market in 2002. Since 2007, the FAIR Plan's market share has been steadily declining and by the end of 2013 it was down to 12.1% of the total homeowners' written premium in the state. *See* the 2013 DOI Home Insurance Report. While still a larger than desirable residual market, the trajectory has been headed in the right direction because of the vibrancy of the voluntary market.

Auto Insurance Managed Competition Impact on the Homeowners Insurance Market and New Homeowners Writers. The 2013 DOI Home Insurance Report contains a discussion at page 9 regarding the impact of the system of managed competition for auto insurance that was introduced in 2008 on the homeowners' insurance market, as follows:

As of the printing of this report, 15 insurance companies have entered the Massachusetts' private passenger motor vehicle insurance market since reform. Some of these offer home insurance or are affiliated with home insurance companies. It is expected that these and other companies will look to expand their writing of home insurance in order to increase the marketability of their private passenger coverage.

In addition to the arrival of new companies, since market reform many insurance companies which were already writing personal lines have begun offering expanded multi-policy premium discounts to insureds who buy both their home insurance and automobile insurance coverage from the same company.

<http://www.mass.gov/ocabr/docs/doi/consumer/mass-home-insurance-2013.pdf>

Furthermore, several companies focusing exclusively on writing homeowners insurance have entered the Massachusetts market in recent years. The combined effect of the introduction of auto insurance managed competition and the entry of several new homeowners' insurance companies has made the homeowners' market even more competitive. *See* Appendix B.

Availability and Affordability

In its announcement about the homeowners' insurance informational hearings, the Division indicated it was seeking comments about "the levels of availability and affordability of homeowners' insurance in various regions throughout the state, including consumer experience with decisions to deny applications for coverage." This section of our statement addresses those issues.

Availability. Homeowners' insurance coverage is readily available in every region of the Commonwealth. This is reflected not only by the relatively large number of voluntary market participants with diverse market shares writing in the state, but also by the availability of the FAIR Plan to provide coverage in any territory where voluntary market coverage is not available. *See* the discussion above under the heading "The Massachusetts Homeowners' Insurance Market." As noted in that discussion, Massachusetts has more homeowners' insurance company options than in any other New England state. There is generally ready availability in the voluntary market. We noted above how the FAIR Plan overall market share has been declining in recent years, to the point that it is down to 12.1% statewide in 2013. Further, the 2013 DOI Home Insurance Report shows that in almost every territory, the FAIR Plan's market share has been declining or flat in the period from 2011 – 2013, even in those territories where the FAIR Plan has, by far, the largest market share. *See* Exhibit 4C to the 2013 DOI Home Insurance Report.

Ready availability throughout the Commonwealth is also verified by the data on cancellations and non-renewals in the Division's home insurance reports. The 2013 DOI Home Insurance Report indicates that 96.5% of policies *with claims* in urban areas were renewed, while 97% of policies *with claims* in coastal areas were renewed. The Division's Home Insurance Reports for 2011 and 2012 report on similarly high renewal rates for policies with claims in urban and coastal areas. Among the top 25 carriers, there were only slightly less than 1.5% of the policies in force that were non-renewed in coastal and urban areas in 2013. With respect to cancellations, the 2013 DOI Home Insurance Report indicates that 13.1% of the in-force policies in coastal and urban areas written by the top 25 carriers and by the FAIR Plan were cancelled. Significantly, 73% of those cancellations initiated by policyholders and another 18.2% initiated by the insurers and the FAIR Plan due to non-payment of premiums. *See* 2013 DOI Home Insurance Report, pages 28 – 33. The Division does not collect, compile and report data on cancellations and non-renewals in other than coastal and urban areas.

Affordability. We are not aware of any Division data on affordability. We have obtained data on voluntary market average premiums. According to data compiled by

PCI from the National Association of Insurance Commissioners (“NAIC”), the average premium in 2012 for the standard homeowners’ insurance policy in Massachusetts was \$1,150, compared to the national average \$1,034. Although Massachusetts has the 11th highest average premium among the states and the District of Columbia, when homeowners’ premiums are viewed as a percentage of income, Massachusetts is lower than the countrywide average and ranks 25th among the states. *See Appendix C.*

The NAIC also reported that the average premium for the country rose 5.6% in 2012, 7.7% in 2011, 3.3% in 2010, 6% in 2009 and 1% in 2009. In the most recent 5-year period (2008 through 2012), the NAIC data indicate that countrywide average homeowners’ premium has risen from \$791 in 2008 to \$1,034 in 2012, an increase of 30.7% or slightly more than 6% per year. By comparison, in Massachusetts the average rose from \$1,026 in 2008 to \$1,150 in 2012 -- an increase of only 12.1% in total and only 2.4% per year (or less than 40% of the countrywide rate of increase over the 5-year period). In short, homeowners’ premiums have been consistently rising around the country, yet the rate of increase has happened more slowly in Massachusetts.

These data indicate that homeowners’ insurance affordability is not a significant or widespread problem throughout the Commonwealth. The low consumer turnout at the six listening sessions conducted by the Division further supports this premise. At the 5 sessions held before the Hyannis hearing, a total of only 8 people spoke – and several of those raised issues that did not really relate to their homeowners’ insurance policy or premiums. At the Cape session, a total 16 people spoke and they addressed a variety of issues along with rate and premium increases (and to a lesser extent affordability). Among those other issues were: the understandability of the insurance policy; wind vs. hurricane deductibles; replacement vs. reconstruction costs; and the use of hurricane and other models. At none of the sessions was there any comment about an availability problem anywhere in the Commonwealth.

The Federation is prepared to work with the Division to address any of the issues that arose during the listening sessions that it determines require some form of regulatory (or legislative) response.

The Federation appreciates the opportunity to offer our perspective on the homeowners’ insurance marketplace to the Division of Insurance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John P. Murphy". The signature is fluid and cursive, with a large, sweeping underline that loops back under the first name.

John P. Murphy
Executive Director