Massachusetts Division of Insurance
Annual Report on Home Insurance

Joseph G. Murphy
Commissioner of Insurance

2012

Acknowledgements

This report was prepared by the State Rating Bureau staff of the Massachusetts Division of Insurance ("Division").Matthew M. Mancini, State Rating Bureau Director, Gerald B. Condon, State Rating Bureau Researcher, Caleb E. Huntington, State Rating Bureau Mathematician, and Daniel M. D'Amico, State Rating Bureau Research Analyst, prepared the report and provided the analysis. The report is based primarily on responses from companies and statistical reporting organizations reflecting the experience of companies in the home insurance market. Unless otherwise noted in the report, references to "home insurance" include traditional homeowners insurance as well as condominium and rental insurance.

The Division makes all appropriate efforts to check the completeness and consistency of data reported by insurance companies and their statistical agents, but does rely on the insurance companies for the accuracy of all reported information.

Annual Reports

The DOI produces a home insurance report pursuant to M.G.L. c. 175, §§ 4A & 4B and has done so since 1996. For this report, insurers and their statistical agents were required to provide aggregate 2010, 2011 and 2012 data sorted according to Massachusetts zip codes and Insurance Services Office, Inc. (ISO) territories.

It is important to note that while some of the results in the report apply to all home insurance policies in the entire Commonwealth, other results apply only to policies written by the Massachusetts "top 25" home insurance companies and/or only to particular zip codes in the Commonwealth. These particular zip codes are identified as "designated" zip codes because they are the zip codes that the Commissioner has specified to be included in the report. The zip codes include both coastal areas and urban areas where there has historically been skepticism about availability of coverage. This report offers specific scrutiny in response to such concerns. The full list of designated zip codes can be found in Exhibit 8A of the Statistical Supplement to this report.

For the past few years, many of the statistical tables that were incorporated in previous versions of this report have been included in a separate Statistical Supplement. The Statistical Supplement can be found on the Division's web site at http://www.mass.gov/ocabr/consumer/insurance/home-insurance/.

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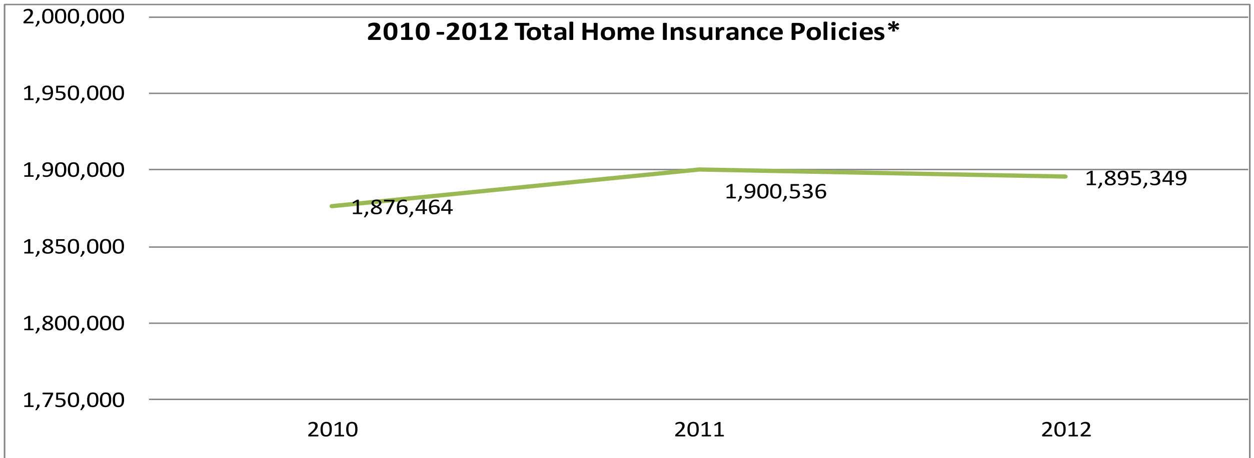
Executive Summary

Among the material presented in this report:

- Home insurance policies decreased by 5,187 or -.03% between 2011 and 2012, after increasing slightly between 2010 and 2011.



*Policies reflect reported house-years. A house-year is defined as one house insured for one year, and is calculated based on the term of the policy.

- Total enrollment in the FAIR Plan[1], decreased by 715 policies in 2012, with the FAIR Plan writing 12.7% of 2012 home insurance premium.

- For the Cape and Islands market, the FAIR Plan accounted for 45.9% of policies.

- There was one event known as Storm Sandy that occurred in late October of 2012 that was classified as a loss catastrophe.

[1] The FAIR Plan is the residual market for homeowners insurance operated by the Massachusetts Property Insurance and Underwriting Association ("MPIUA").

Significant Events

Storm Named Sandy

On October 29, 2012, homes and property in Barnstable, Bristol, Dukes, Nantucket, Plymouth and Suffolk Counties suffered catastrophic damage as a result of severe weather conditions which came to be known as “Storm Sandy”. The Division assisted Governor Deval L. Patrick with the filing of an Emergency Disaster Declaration Request with the federal government on behalf of those counties in the state affected by these weather conditions. On December 19, 2012, President Barack Obama declared those areas in the Governor’s request as a federal disaster area, qualifying residents and business owners for certain federal assistance.

The Division of Insurance initiated an examination of the FAIR Plan and the top 25 home insurance groups in Massachusetts to the level of claims that carriers were processing for property damages associated with Storm Sandy. The examination did not include information associated with any flood damage which is not considered under traditional home insurance and commercial property policies. The Federal Emergency Management Agency (FEMA) administers the National Flood Insurance Program and collected Storm Sandy data separately.

Based on the information collected as of August 30, 2013, the FAIR Plan and the top 25 home insurance groups reported handling over 25,000 Storm Sandy-related claims for claims totaling more than $100 million. In particular, the companies’ aggregate experience indicated that:

- More than 95% of the 24,174 personal property claims associated with Storm Sandy had been settled by August 30, 2013, with insurance companies paying $88.5 million for damage to automobiles, homes, and associated personal property. The average payment per claim for personal property claims was $3,659.29.

- Over 91% of the 1,504 commercial property claims associated with Storm Sandy had been settled by August 30, 2013, with insurance companies paying $12.3 million for damage to commercial vehicles and property including business interruption. The average payment per claim for commercial property claims was $8,159.73.

Composition of the Massachusetts Market

"Home insurance" covers non-commercial property for the risks of damage to structural and personal property as well as personal liability claims. In 2012, insurance companies collected approximately $1.9 billion in written premium for home insurance policies in Massachusetts, making it the largest line of property and casualty coverage other than private passenger motor vehicle insurance.

Although it may be fiscally prudent to protect one's assets from loss or damage, there are no laws that require property owners to purchase any home insurance.[2] Based on "written house years" - a measure equivalent to average number of homes insured - the total number of households covered under the three major types of home insurance (condominium, traditional homeowners and rental insurance) is illustrated in Figure 1.[3]

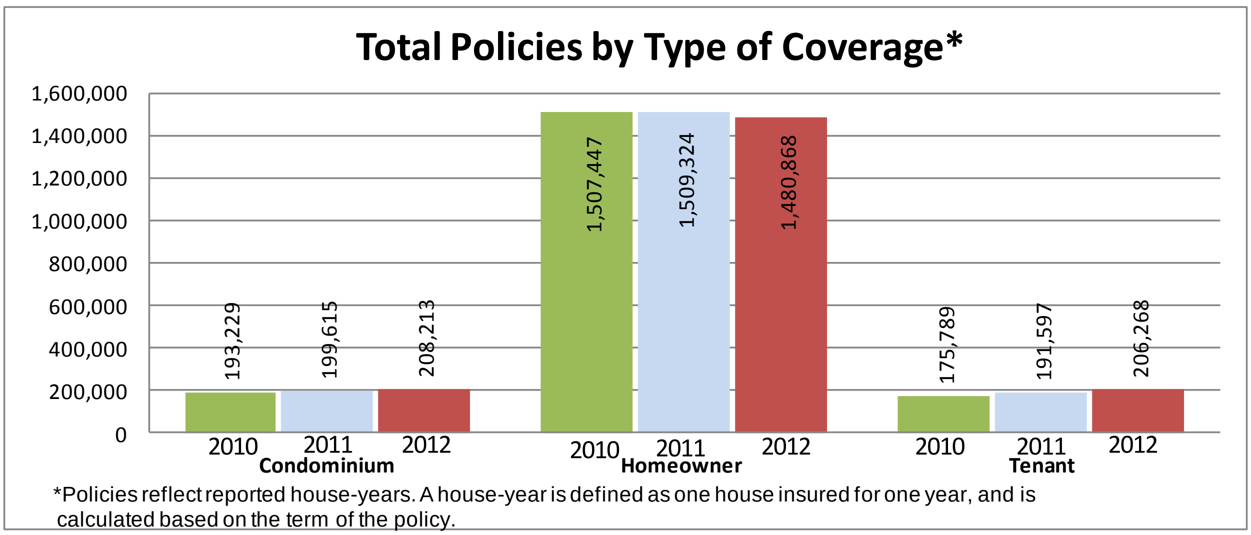


Figure 1

[2] Even though home insurance is not required by law, most lenders will require that an owner have sufficient home insurance as a condition of a mortgage on the property.

[3] See footnote 1.

Companies Offering Coverage

Just as an individual may choose whether or not to secure insurance for his/her home, an insurance carrier has the legal right to decide whether to offer, cancel, terminate or renew insurance coverage, provided that the decision adheres to statutory nondiscrimination and disclosure requirements.[4] There are 72 licensed insurance companies offering home insurance in the Commonwealth.[5]

The FAIR Plan

If none of the licensed insurance companies is willing to issue coverage for a specific home, the owner may apply to the Massachusetts Property Insurance and Underwriting Association ("MPIUA", also known as the "FAIR Plan"), which, by statute,[6] is required to offer coverage to homes with a replacement cost of up to $1.0 million. If an owner cannot obtain a policy from an insurance company and the home's value is beyond what the FAIR Plan will cover, an owner can seek coverage in the surplus lines market.[7]

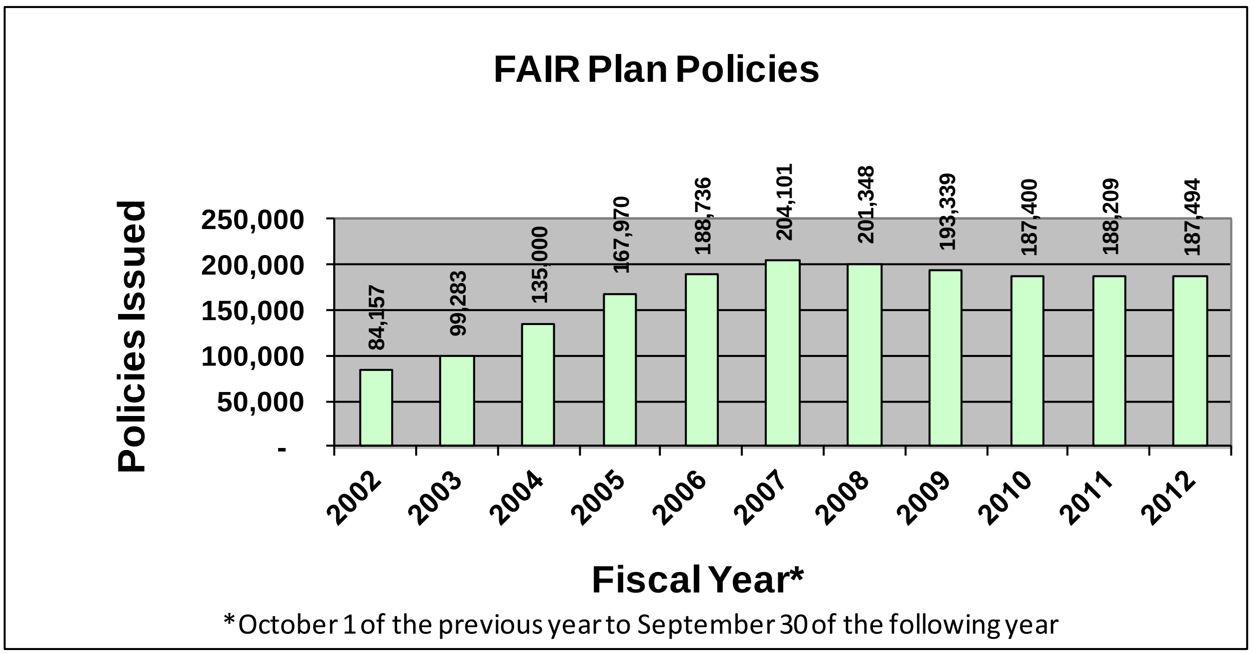


Figure 2

4 M.G.L. c. 175, §§ 4C and 99.

5 The Companies are listed only if they have written ten or more HO-3 or similar type policies between July 1, 2012 and December 31, 2012. A list of companies offering homeowners insurance by region in Massachusetts is on the Division's website at: http://www.mass.gov/ocabr/consumer/insurance/home-insurance/home-insurance-service-areas/.

6 According to M.G.L. c. 175C, §4(4a), all home insurance companies licensed to and engaged in writing property insurance in the commonwealth must be members of a joint underwriting association which shall provide basic property insurance to eligible applicants who are otherwise unable to obtain such coverage in the voluntary market.

7 Surplus lines companies are insurers which are not "licensed" or "admitted" in Massachusetts although they are "licensed" in another state (or country) and can only issue coverage through specially licensed surplus lines brokers. This document does not include statistical information on the surplus lines market.

The FAIR Plan's business decreased by 715 policies issued between fiscal years[8] 2011 and 2012.

As noted in Figure 3 (below), the FAIR Plan accounted for 12.7% of written premium in 2012. Its market share[9] peaked at 16.1% in 2007.

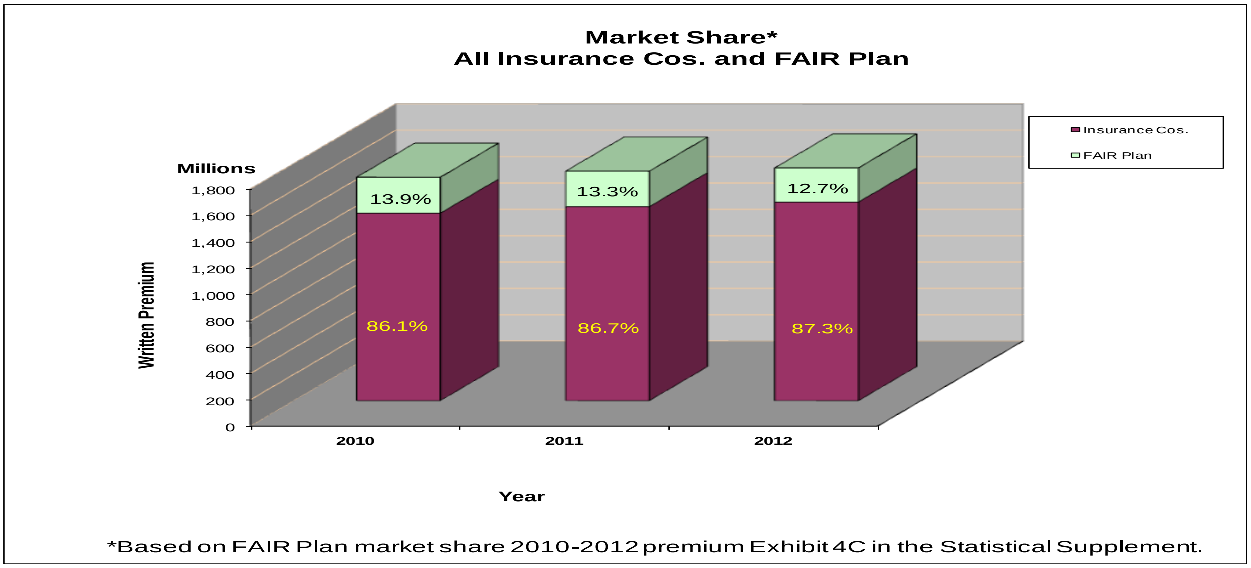


Figure 3

As noted in Figure 4, the FAIR Plan's market share, at 12.7% (based on premium volume[10]), is slightly greater than that the market share of the largest commercial carrier.

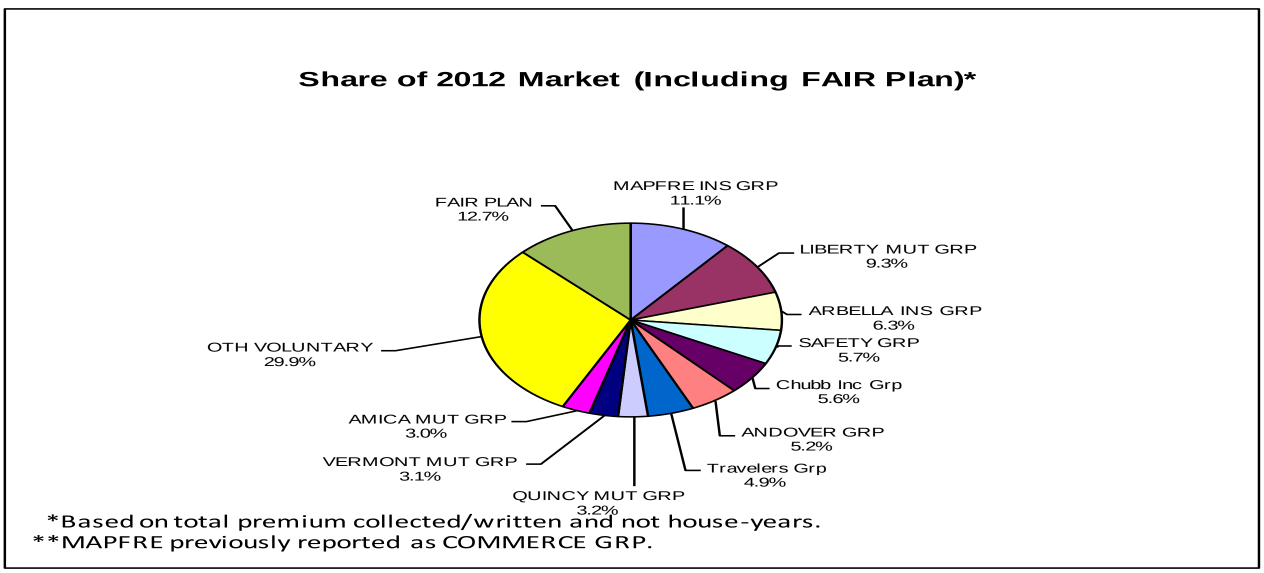


Figure 4

[8] The FAIR Plan's fiscal year is between October 1st of one year and September 30th of the following year, as reported by the FAIR Plan, for owner, condominium and tenant policies issued. Fair Plan restated numbers for 2010 and 2011.

[9] FAIR Plan market share is based upon FAIR Plan and total market written premium.

[10] Market shares are share based on 2012 Massachusetts home insurance written premium.

Relative Shares of the Private Insurance Market

When excluding the FAIR Plan, Figure 5 illustrates that the top 10 insurance companies account for 65.7% of coverage written by the private insurance companies in the market.

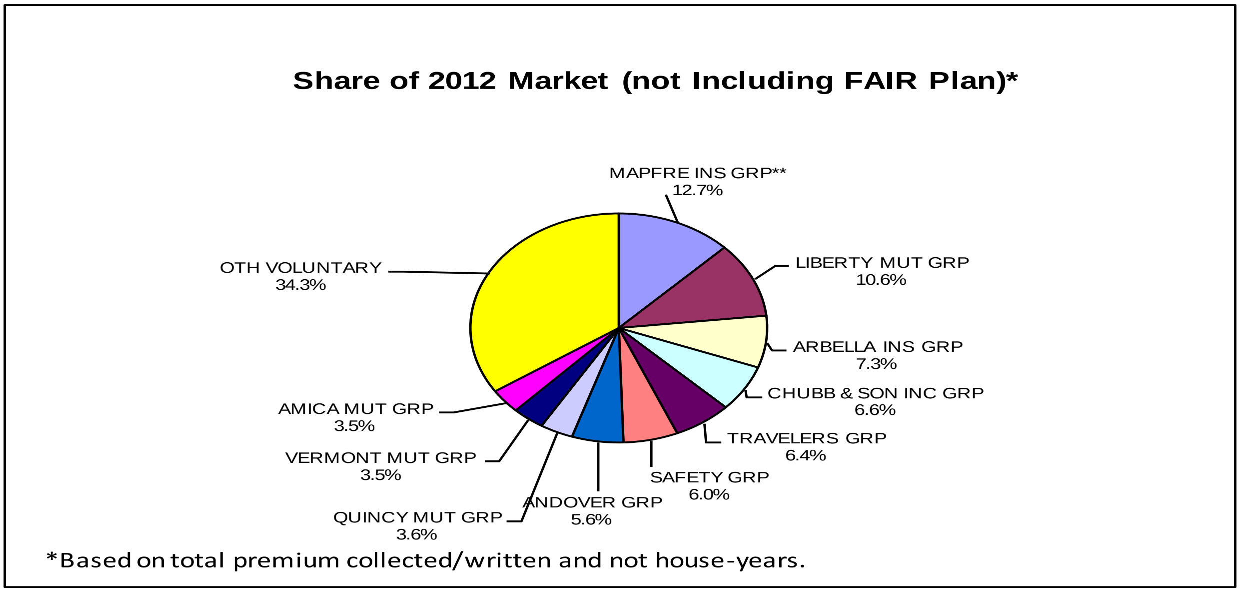


Figure 5

Unlike other states, the vast majority of insurance companies that offer coverage in Massachusetts are local or regional companies. Among the top 10 home insurance companies in the market, only four – the Travelers Group, the Liberty Mutual Group, Chubb & Son Group, Inc. and the Amica Mutual Group – offer home insurance nationally. The remaining companies are regional companies offering coverage primarily in the Northeast.

The Mapfre Insurance Group (which includes the Commerce Insurance Company) had the largest share of the 2012 voluntary (i.e., non-FAIR Plan) market with 12.7% of the insurance policies written. Each of the next nine largest insurance groups had between 3.5% and 10.6% of the market. If the analysis is extended to the 25 insurance companies with the largest Massachusetts home insurance market share,[11] they are responsible for 92.8% of the non-MPIUA insurance market. The remaining 49 company groups[12] each account for less than 1.0% of the non-MPIUA market.

Changes in Coverage

As noted in Figure 6, the number of total home policies written by insurance companies or the FAIR Plan decreased between 2011 and 2012 by 5,187 or a reduction of .03%.

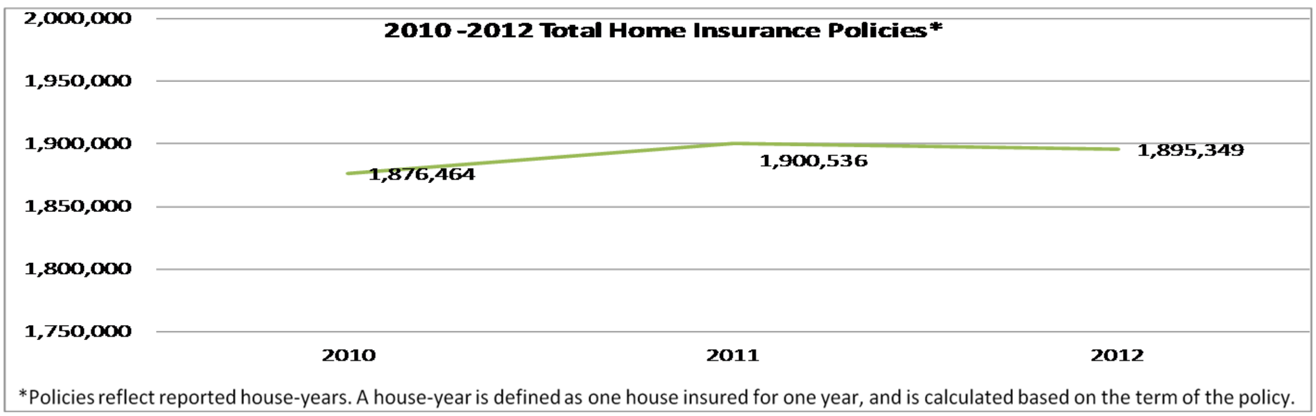


Figure 6

[11] The top 25 Massachusetts home insurers based upon overall direct written premiums for calendar year 2012 are:

Allianz Insurance Group	New London County Group
American International Insurance Group	Norfolk & Dedham Group
Amica Mutual Group	Plymouth Rock Insurance Group
Andover Group	Preferred Mutual Insurance Company
Arbella Insurance Group	Providence Group
Barnstable Group	Quincy Mutual Group
Chubb & Son Group Inc. Group	Safety Group
(The) Hanover Insurance Group	Tower Group
Liberty Mutual Group	Travelers Group
Main Street American Group	Union Mutual Fire Insurance Group
Mapfre Insurance Group	United Services Automobile Association Group
Metropolitan Group	Vermont Mutual Group
NBIC Holdings Group	

[12] Based on 2012 National Association of Insurance Commissioners home insurance multiple peril direct written premium by company group. Company groups often have more than one licensed insurer writing home insurance.

Coverage by Geography

When grouping Massachusetts policies according to counties,[13] as is illustrated in Figure 7, Middlesex County had the largest population[14] and at 433,227 home insurance policies, the highest number of policies in-force. After Middlesex County, the next three largest counties for home insurance are Worcester (232,957), Essex (212,585) and Norfolk (207,678).

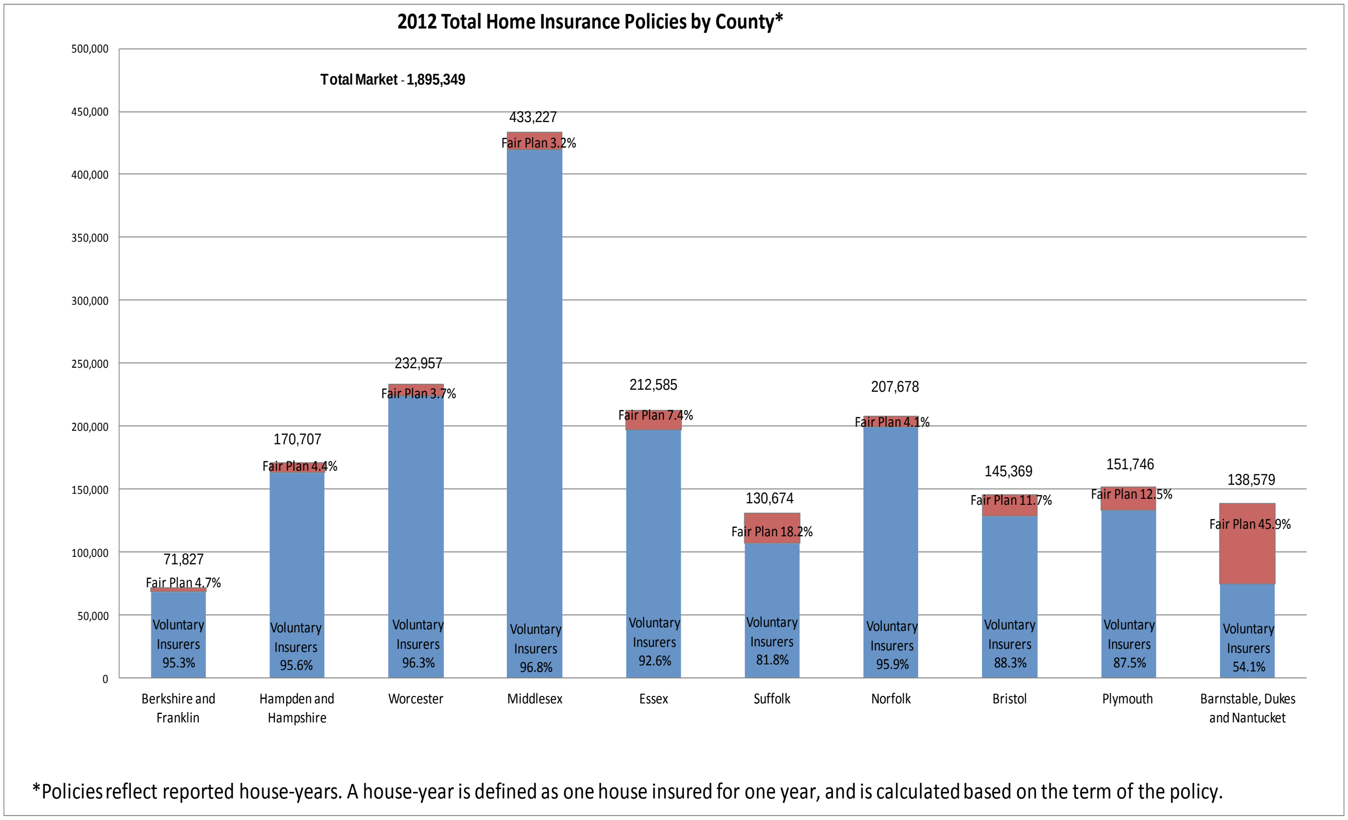


Figure 7

[13] For the purpose of reporting information by county, certain Information Services Office (ISO) statistical reporting territories were combined in the following ways:
Berkshire and Franklin County include territory 50.
Hampden and Hampshire Counties include ISO territories 47, 48 and 49; and
Worcester County includes ISO territories 45 and 46;
Essex County includes ISO territories 38, 39 and 40;
Middlesex County includes ISO territories 41, 42, 43 and 44;
Suffolk County (including the City of Boston) includes ISO territories 2, 3, 4, 5 and 11;
Norfolk County includes ISO territories 12, 30, and 31;
Bristol County includes ISO territories 32, 33 and 34;
Plymouth County includes ISO territories 35 and 36;
Barnstable, Dukes and Nantucket Counties include ISO territory 37;
Detailed information for each territory is included in the Statistical Supplement to this report.

[14] Source: Annual Estimates of the Resident Population for Counties of Massachusetts: April 1, 2010 to July 1, 2012, Population Division, U.S. Census Bureau. Release Date: March 2013.

The proportion of FAIR Plan policies written by area varies greatly. While the FAIR Plan writes 45.9% of the home insurance for the Cape and Islands (comprising Barnstable, Dukes and Nantucket counties) and 18.2% of the home insurance in Suffolk County, it writes less than 15% of the policies in each of the other counties in the state.

When comparing home insurance between 2011 and 2012, as presented in Figure 8, the number of home insurance policies remained fairly similar in most territories.

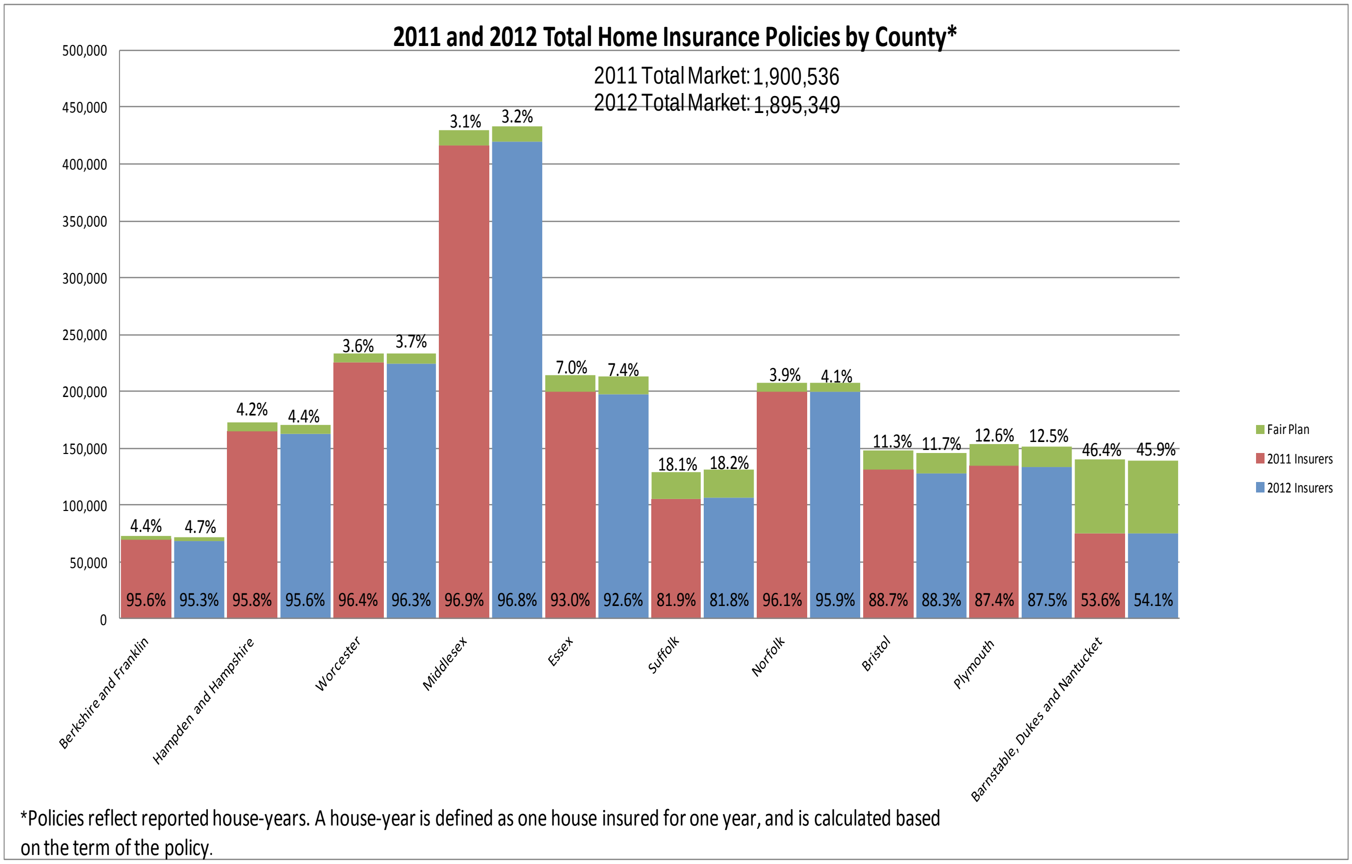


Figure 8

Impact of Private Passenger Automobile Insurance Reforms on Home Insurance

Many property and casualty insurance companies actively participate in insurance markets when they can offer a wide array of their products to customers. In personal lines insurance markets, many companies will only actively market home insurance when they are also marketing private passenger automobile coverage to applicants. During hearings held in the mid-2000s, certain large national companies indicated that they were not interested in expanding their home insurance coverage in Massachusetts because they believed they could not operate within the rules in place for private passenger auto coverage.

Prior to April 1, 2008, Massachusetts private passenger automobile insurance companies operated in a highly regulated market subject to “fix-and-establish” rules. After a series of steps taken by then - Commissioner Nonnie S. Burnes in 2007, and following annual regulatory hearings in 2008, the rules affecting private passenger coverage were rewritten to permit “managed competition.” For the first time in over 30 years, insurance companies were permitted to offer their own coverage options and rates according to transition rules. Beginning on April 1, 2008 companies began to actively compete for business in the new market.

As of the printing of this report, there are 15 new insurance companies that 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, many existing insurance companies are offering expanded multi-policy premium discounts to insureds who buy both their home insurance[15] and automobile insurance coverage from the same company. In order to understand the effect that the changes to private passenger coverage may have had on the home insurance market, the top 25 home insurance companies were asked to report the level of home insurance premium credits provided in 2011[16] and 2012 for those policyholders who also had motor vehicle coverage with the same or an affiliated insurer.[17]

[15] Owner, condominium and tenant policies that combine liability insurance with one or more other types of insurance such as property damage, personal property damage, medical payments, and additional living expense.

[16] A number of companies have corrected their 2011 data affecting 2012 totals reported.

[17] This report does not include the level of expanded premium discounts that are provided on private passenger automobile policies for those persons who also have home insurance with the same company. The Division is aware that many private passenger automobile companies did file such premium discounts with their private passenger automobile rate filing.

As illustrated in Figure 9, premium credits on home insurance coverage for those with a related auto insurance policy increased from $47.8 million in 2011 to $52.7 million in 2012.

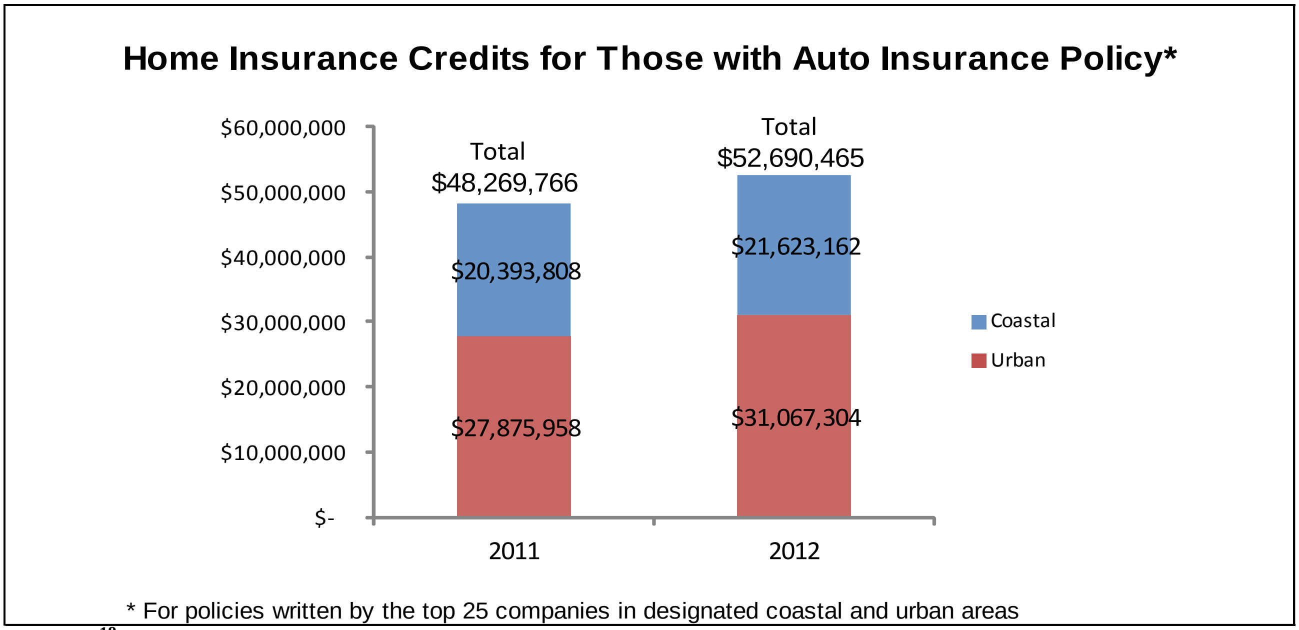
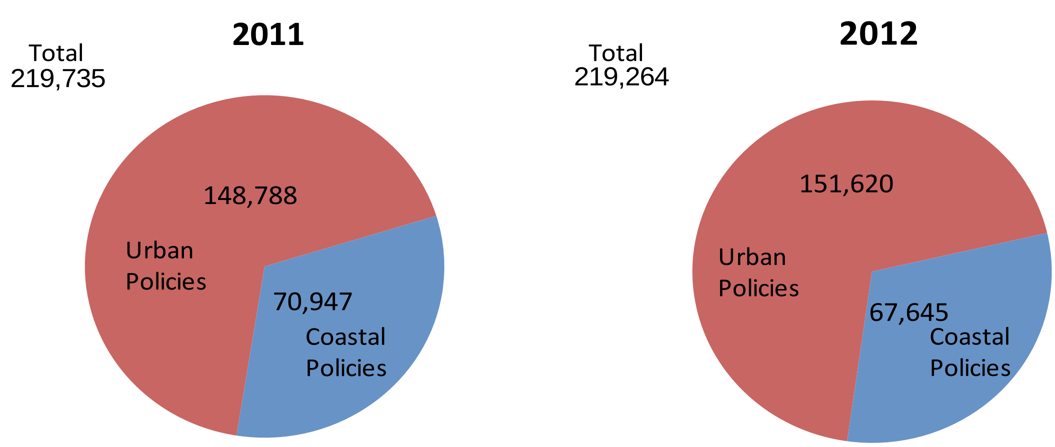


Figure 9[18]

When looking at the number of policies affected, as illustrated in figure 10 (over), 2,832 more home insurance policies in urban areas obtained premium credits for related automobile insurance coverage in 2012 than in 2011. In urban areas, 2,832 more home insurance policies obtained premium credits in 2012 than in 2011 because they had related private passenger coverage.

[18] For a complete listing of the zip codes, please refer to Exhibit 8A in the Statistical Supplement.

Number of Home Policies Receiving Premium Credit for Auto Insurance*



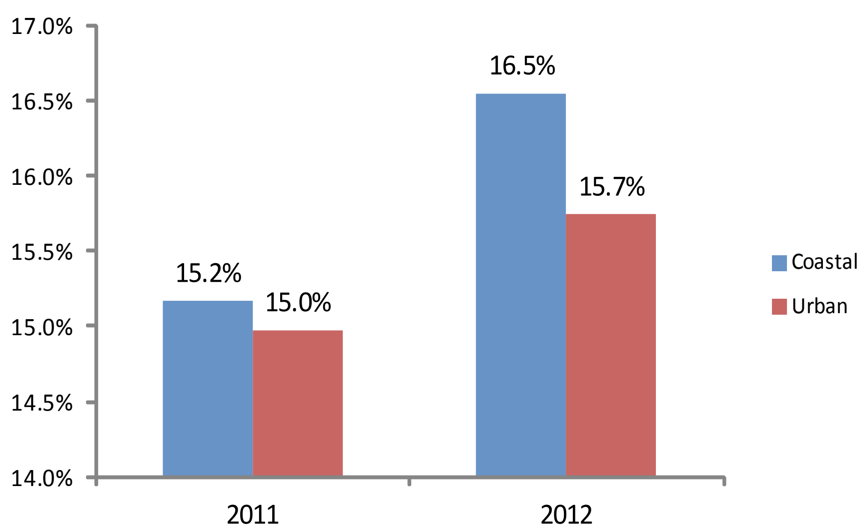
* For policies written by the top 25 companies in designated coastal and urban areas

Figure 10

The overall average credit increased from $220 per policy in 2011 to $240 per policy in 2012.

As illustrated in Figure 11, the average percentage level of premium credit per policy increased between 2011 and 2012 in urban areas from 15.0% to 15.7% of the average policy premium, and increased in coastal areas from 15.2% to 16.5%.

Average Level of Premium Credit for Those with Auto Insurance*



*Average credit for the top 25 companies in designated coastal and urban areas based on premium credits and average home insurance premiums

Figure 11

Limitations on Coverage

Wind Deductibles

In order to reduce their risk, many home insurance companies have amended their insurance policies to include mandatory wind deductibles.[19] These deductibles may apply to any wind-related damage that occurs in specified coastal territories, typically coastal areas such as Bristol, Plymouth, Barnstable, Dukes and Nantucket counties, or within a certain distance from the shore. These deductibles are imposed either as flat dollar amounts or as a percentage of the covered dwelling amount.[20] Although the Division has required that consumers be given clear disclosures of the deductibles before they purchase coverage, it remains unclear whether consumers understand the potentially large sums they may be responsible for paying in the event of a wind-related loss.

According to information submitted to the Division from the FAIR Plan and the top 25 companies in the market, all but one company reported that they have mandatory wind deductibles that are part of the coverage they offer in the market, with deductibles as high as a flat $5,000 or 5% of the coverage for the main structure.[21] The largest wind deductibles are being imposed in the coastal parts of Bristol, Plymouth, Barnstable, Dukes and Nantucket counties.

Of all the policyholders living in a coastal or urban area who are covered by the FAIR Plan or the top 25 home insurance companies, 44.9% had a mandatory wind deductible on their coverage in 2012. For those who lived in coastal areas, 74.1% had a mandatory wind deductible. For those who lived in urban areas, 25.2% of the policyholders had a mandatory wind deductible.

Beginning in 2006, the Division of Insurance encouraged insurance companies to allow consumers to reduce or eliminate their wind deductible by taking steps to mitigate the potential exposure of their property in the event of a wind event. Drawing upon the experience of other states, most notably Florida, the Division encouraged companies to credit policyholders who installed hurricane shutters or shatterproof glass, hurricane-proof garage, patio, and other doors and/or roof/foundation anchor bolts. The Division has worked with many carriers to establish clear rules for mitigation programs and to establish ways to document that mitigation steps have been taken.

[19] A wind deductible is a deductible that applies only to losses caused by wind.

[20] The FAIR Plan, for example, currently requires certain insureds to have a minimum wind percentage deductible of 1% to 5% (of the coverage amount for the dwelling and attached structures) or a minimum fixed dollar deductible of up to $5,000, depending on the property's county, distance from the coast and coverage.

[21] Additional detailed information is included in the Statistical Supplement to this report.

Flood Exclusions

In the United States, home insurance policies do not cover damages associated with floods.[22] Recognizing this lack of protection, Congress enacted legislation in 1968 to create the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA). Under the program, the government plays the role of underwriter - assuming financial risk for damages - and relies on private insurance agents to sell policies.

Flood insurance is mandatory only for those homes in high-risk flood areas whose mortgage is through a federally-backed lender. However, the NFIP makes flood coverage available for all property holders as long as the property is located in an approved NFIP community. The property does not need to be in a flood plain to qualify for coverage.

FEMA had estimated that more than 11 million U.S. homes are in flood zones and that about one-fourth of the homes located in Special Flood Hazard Areas (SFHA)[23] are covered by NFIP-issued or NFIP-backed flood insurance. The proportion of property with flood coverage is believed to be low because many people underestimate the risk of flooding.
As presented in Figure 12, FEMA reports that 59,635 policyholders in Massachusetts had flood insurance in 2012; this is an increase of 6.0% over the 56,238 reported for 2011.

Federal Emergency Management Agency (FEMA)
National Flood Insurance Program Report
MASSACHUSETTS*

County	V-Zone Policies	A-Zone Policies	Other Policies	2012 Total Policies	2011 Total Policies	Total Premium	Total Coverage
Berkshire & Franklin	0	914	484	1,398	1,373	$1,477,185	$258,806,600
Hampden & Hampshire	0	1,046	701	1,747	1,691	$2,080,915	$376,561,600
Worcester	0	1,275	823	2,098	2,064	$2,565,951	$489,436,500
Middlesex	0	4,362	3,160	7,522	7,173	$6,893,411	$1,738,175,600
Essex	341	4,832	3,569	8,742	7,448	$8,995,018	$1,990,612,100
Suffolk	25	3,211	962	4,198	4,290	$4,467,854	$893,892,200
Norfolk	58	4,336	2,115	6,509	6,035	$6,009,086	$1,450,443,400
Bristol	394	2,410	1,297	4,101	4,082	$5,344,755	$938,186,600
Plymouth	835	6,929	2,984	10,748	9,760	$14,894,955	$2,532,767,300
Barnstable, Dukes & Nantucket	886	6,535	5,151	12,572	12,322	$16,785,625	$3,197,463,300
State Total :	**2,539**	**35,850**	**21,246**	**59,635**	**56,238**	**$69,514,755**	**$13,866,345,200**

Figure 12

*Data is based on information received from the Federal Emergency Management Agency as 04/2012 for 2011 policies and as of 04/2013 for 2012 policies.
Flood insurance is required for insurable structures within high-risk areas to protect Federal financial investments and assistance used for acquisition and/or construction purposes within communities participating in the National Flood Insurance Program.
V-Zone Policies - policies, in primarilycoastal flood hazard areas (high risk), that have a one percent chance in any given year to be flooded.
A-Zone Policies - policies, in primarily flood hazard areas (high risk), that have a one percent chance in any given year to be flooded.
Other Policies - policies outside V and A Zones that people who have received disaster assistance and are now required to purchase a policy and those people who have purchased an optional flood insurance policies (preferred risk policy).

[22] Automobile insurance policies usually do cover flood damage to a motor vehicle.
[23] There are two types of Special Flood Hazard Areas: (1) a V-zone or coastal high hazard area including “the inland limit of a primary frontal dune along an open coast and any other area subject to high velocity wave action from storms or seismic sources" and (2) an A-zone area that is expected to be flooded once every 100 years.

The NFIP continually updates statistics on national purchases of flood insurance, and periodically produces special reports on the matter. While more recent figures are not available, in 2004 only 28.0% of homes in SFHAs and just 0.6% of homes outside of SFHAs purchased flood insurance.[24] According to that report, Massachusetts was the nation's 13th most populous state in 2004, but ranked 18th in the number of policies in place through the National Flood Insurance Program.

Although the Division issued Bulletin 2006-05 to remind insurers and insurance producers to offer flood insurance to all state residents, the Division estimates the number of Massachusetts homes with flood insurance continues to be relatively low for 2012 (see Figure 13). Barnstable county - with 9.1% NFIP coverage – was the only county where more than 8% of the homes were covered by flood insurance in 2012.

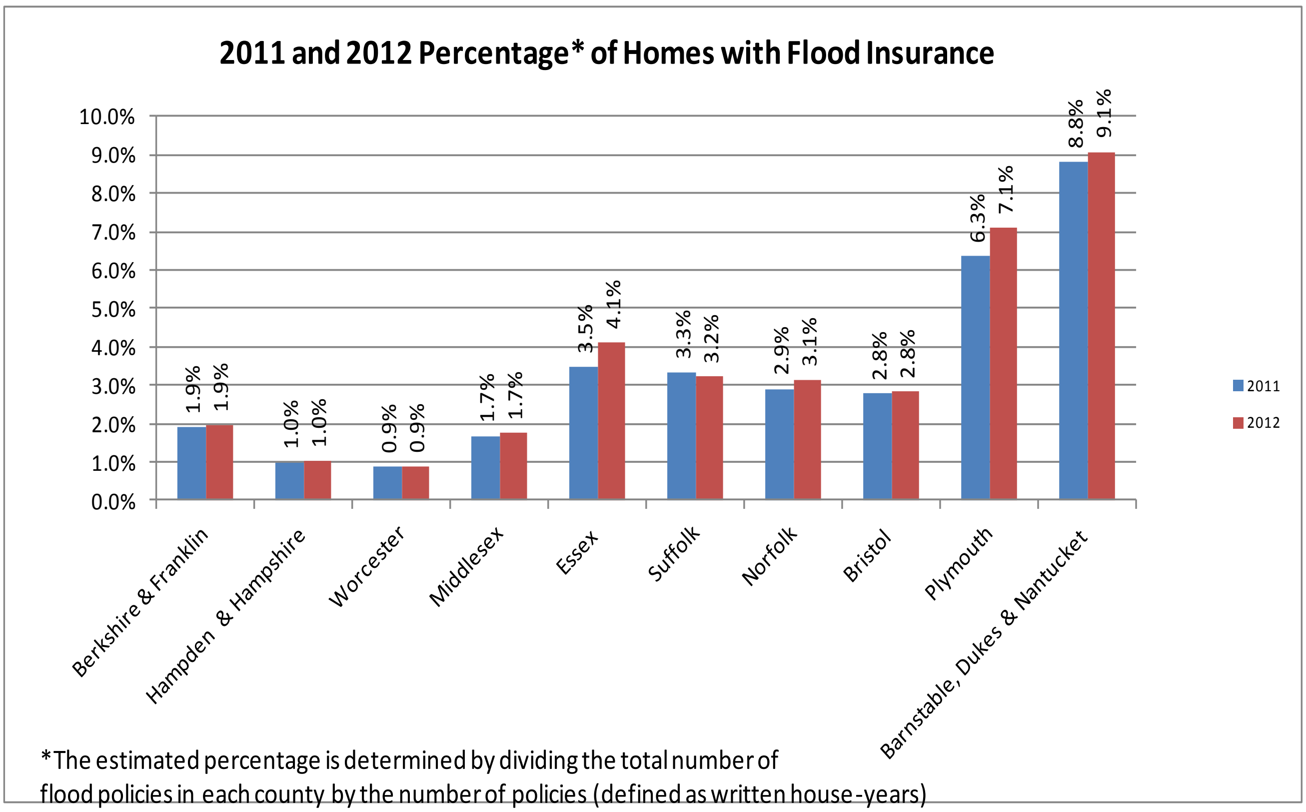


Figure 13

Changes to National Flood Insurance Program

The Federal Emergency Management Agency (FEMA) administers the National Flood Insurance Program.

[24] The National Flood Insurance Program's Market Penetration Rate: Estimates and Policy Implications, RAND Corporation, Lloyd Dixon, Noreen Clancy, Seth A. Seabury, Adrian Overton, February 2006.

In July 2012, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 to require changes to the way the National Flood Insurance Program (NFIP) is run. Among the key provisions, the NFIP will be required to make the program more financially stable by, among other provisions, increasing flood insurance premiums to reflect true flood risk and updating the Flood Insurance Rate Map (FIRM). Although some have projected that these changes may increase the premiums of some Massachusetts policyholders, these changes will only be made clear as the federal government completes the steps necessary to recalculate rates and redraw the flood maps in 2013.

Financial Results

Premiums

In 2012, Massachusetts insureds paid approximately $1.9 billion in home insurance premiums, 4.1% more than was reported for 2011. Of the total premium, 93.0% was for traditional homeowners insurance. Between 2011 and 2012, traditional homeowners insurance premiums increased by approximately $69 million.

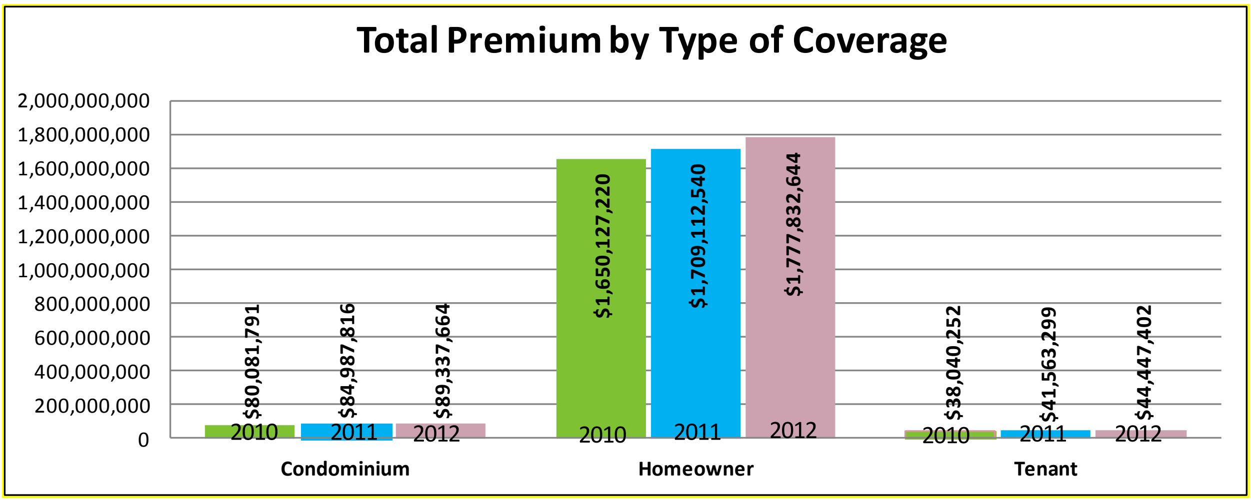


Figure 16

Average premiums increased in 2012 for traditional homeowners and condominium coverage, while average tenant premiums decreased slightly.

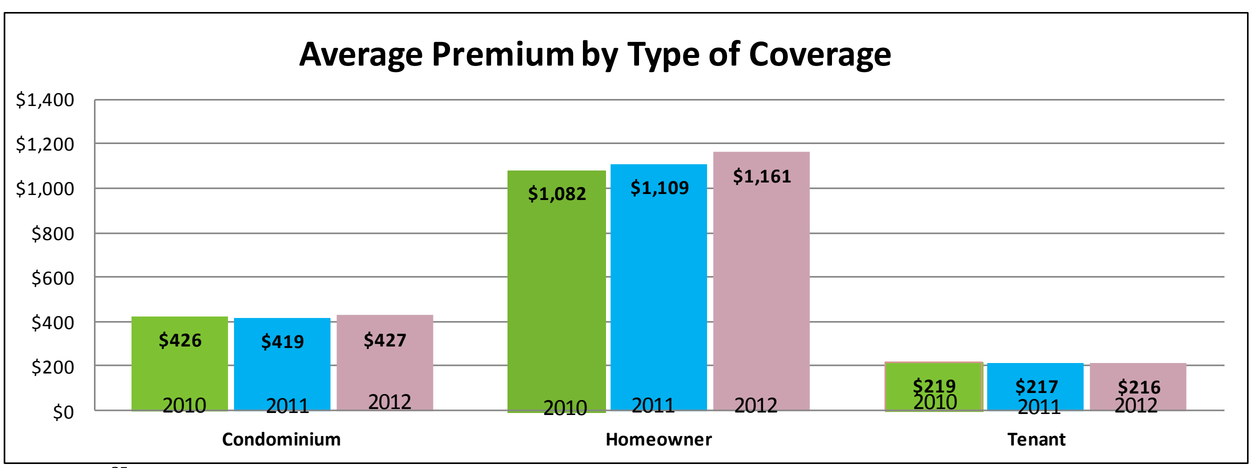


Figure 17[25]

[25] This year's Home Insurance report, as did last year's, uses a different premium basis for calculating the average premium in order to more accurately reflect average premium changes between years.

Costs

Insurance rates are based on individual company projections of future claims and expenses, which are, in turn, based on prior years' experience. This section looks at past claims and expense trends.

Filed Claims

In 2012, insureds filed a total of 82,334 claims with their home insurance companies – 66.0% fewer than the 241,857 filed in 2011. 88.3% of these claims were filed on traditional homeowners insurance policies; however, as illustrated in Figure 18, all coverage types had a decrease in the number of reported claims between 2011 and 2012.

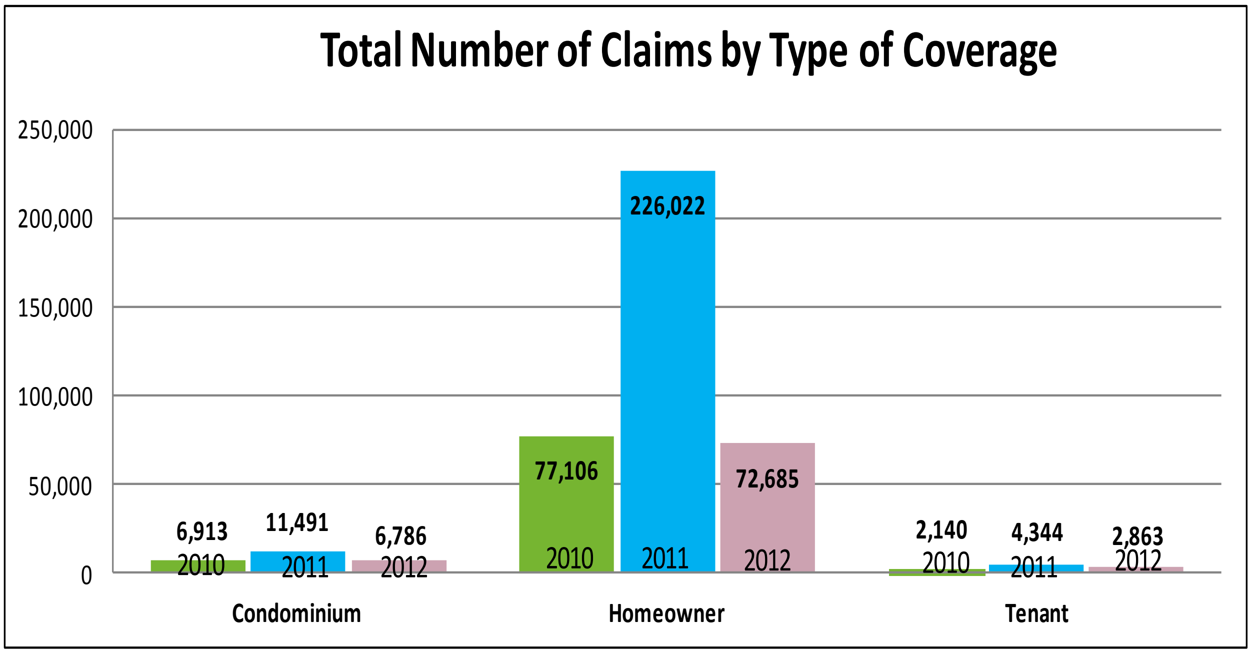


Figure 18

Claim trends tend to fluctuate with damage-causing weather patterns. Much of the 2012 decrease was associated with fewer weather events being classified as loss catastrophes.

While the total number of filed claims decreased dramatically, as illustrated in Figure 19 (over), the average size of incurred claims increased by the following amounts: 35.7% for traditional home insurance, 27.4% for condominiums and 45.0% for tenants. The increase in average claim size reflects the reduced number of weather-related claims, which typically are smaller than fire claims (see following section discussing cause of loss).

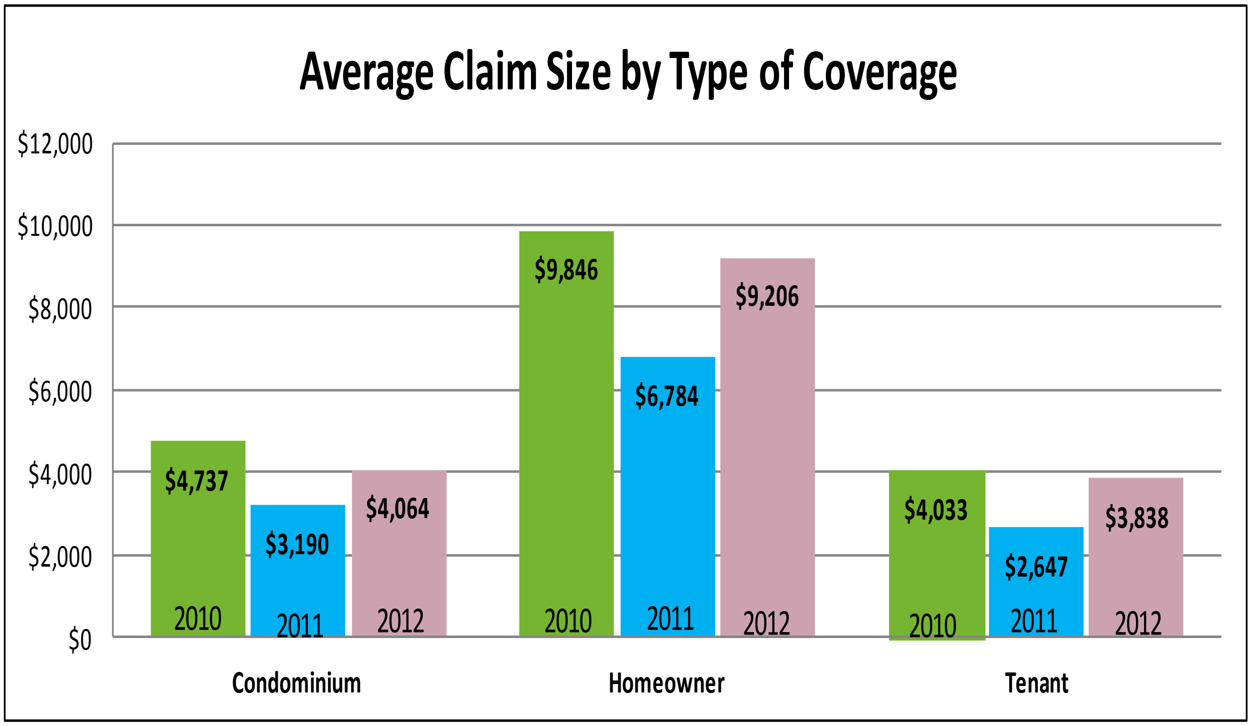


Figure 19

Analysis of Claims Experience

When recording reported claims, companies categorize submitted claims according to the cause of loss in order to project future claims, as well as to consider loss control programs that may reduce future losses. Although companies track losses from both natural events (such as earthquakes) and man-made events (such as thefts) to develop loss controls that are tailored to various events, in general, company groups categorized claims as follows:

Fire, Lightning and Removal
Wind and Hail
Water Damage and Freezing
Theft
Liability and Medical
All Other[26]

[26] The "all other" category is used when: (a) the claim does not fit one of the other causes of loss, (b) when there is some question as to which cause of loss among several possible causes of loss caused the claim or (c) when the cause of loss is not known initially.

As illustrated in Figure 20, one-third of total claims – 22,650 – was submitted for Wind losses. This large percentage is estimated to reflect one major storm. Policyholders also submitted 6,092 claims for fire, lightning and removal damages and 7,231 claims for "All Other Losses" damages, accounting respectively for 9.0% and 10.7% of total claims filed. There were a total of 20,643 claims filed under the water category, for non-flood related water damage and freezing, which represents 30.6% of total claims filed.

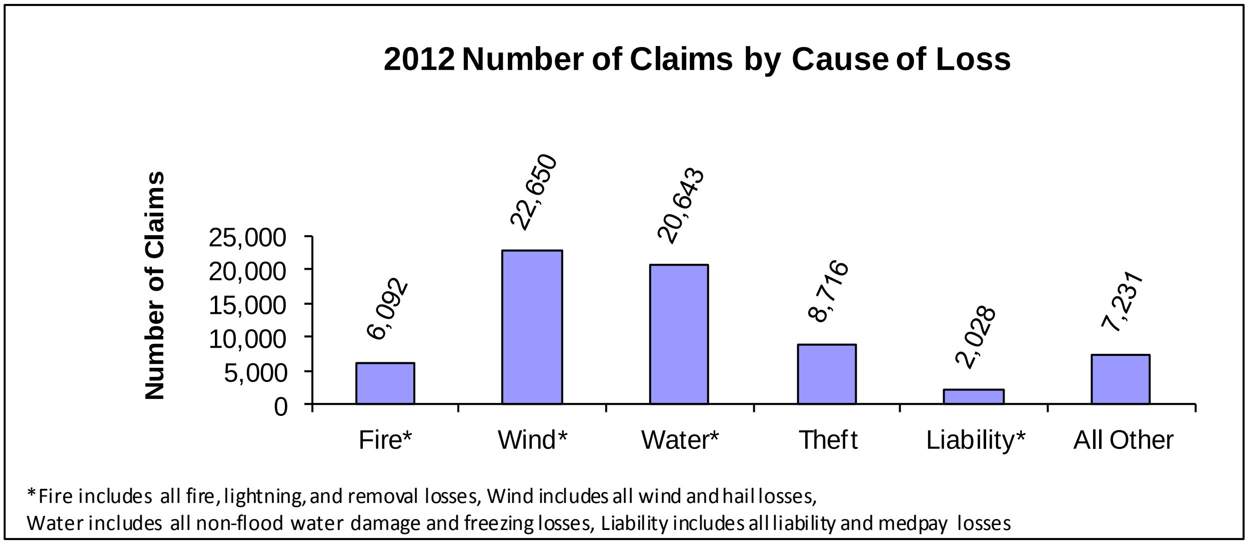


Figure 20

When considering the dollar cost of claims, as illustrated in Figure 21, the distribution of losses reflects the fact that certain types of claims (viz., fires) have a higher average cost. Notably, Fire losses increased from 16.6% of all claims in 2011 to 40.4% in 2012. Theft and Liability losses increased from 1.7% and 3.0% in 2011 to 4.1% and 5.8% in 2012 respectively.

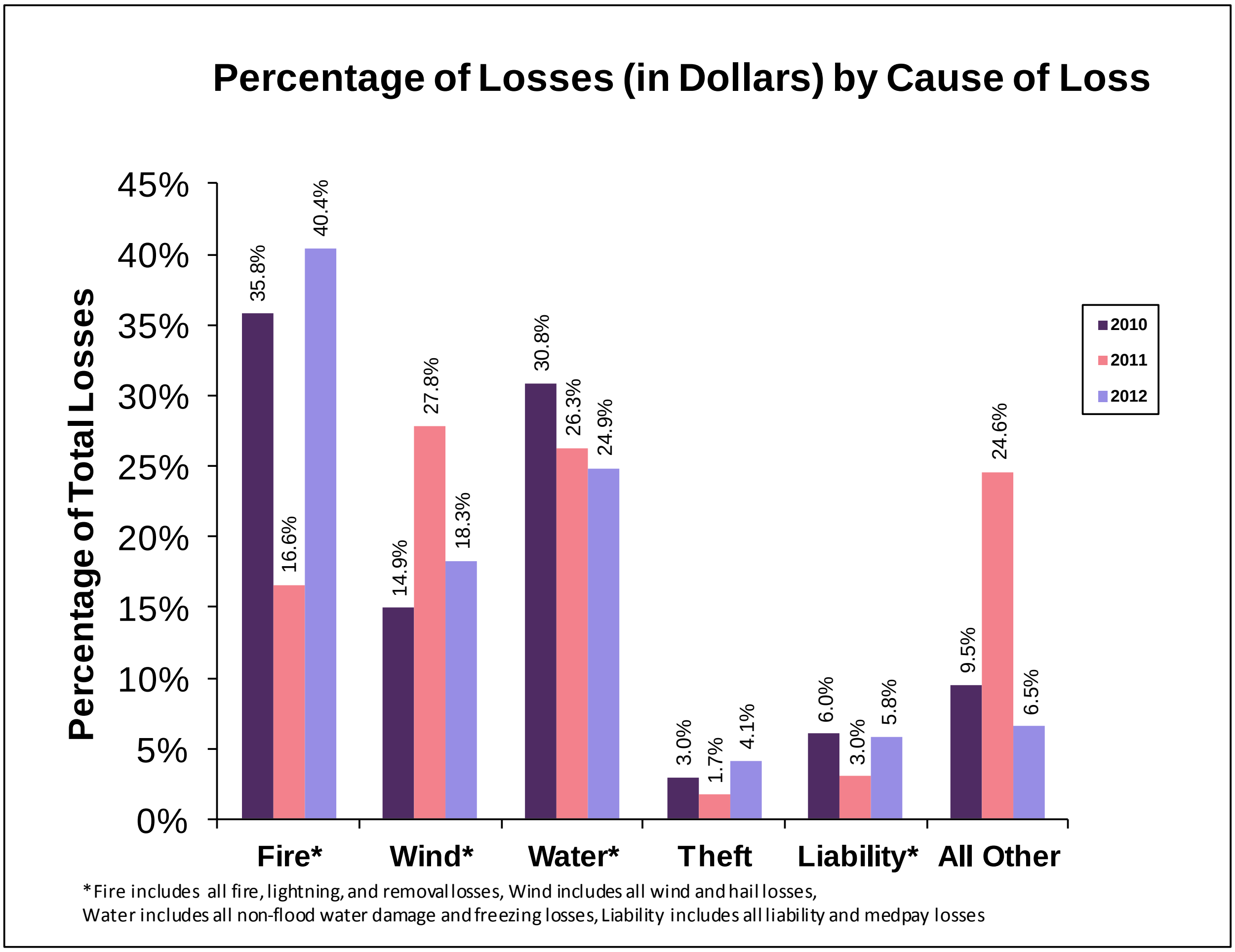


Figure 21

Additional Detail on Each Cause of Loss

Fire, Lightning and Removal dollar losses as a percentage of statewide losses increased from 16.6% in 2011 to 40.4% in 2012. The statewide average fire, lightning and removal claim cost was $44,921 in 2012 as compared to $41,490 in 2011.

Wind & Hail losses accounted for 18.3% of total losses in 2012, down from 27.8% in 2011. The statewide average claim cost for wind and hail decreased from $7,685 in 2011 to $5,466 in 2012.

Non-flood Water Damage and Freezing losses accounted for 26.3% in 2011 and to 24.9% in 2012. The statewide average claim cost for non-flood water damage and freezing increased from $8,084 in 2011 to $8,169 in 2012.

Theft losses accounted for 1.7% of total losses in 2011 and 4.1% of total losses in 2012. The total number of theft claims increased from 8,193 in 2011 to 20,643 in 2012 and the average statewide theft claim cost increased from $3,318 in 2011 to $8,169 in 2012.

Liability and Medical Payments dollar losses accounted for 3.0% of total losses in 2011 and 5.8% of total losses in 2012. The average statewide liability and medical claim cost increased from $19,025 in 2011 to $19,516 in 2012.

All Other claims losses accounted for 6.5% of total losses in 2012 compared to 24.6% in 2011. Total filed claims decreased from 61,915 in 2011 to 7,231 in 2012. The average claim cost was $6,285 in 2011 and $6,134 in 2012.

Loss Ratios

Loss Experience Compared to Earned Premiums

Loss ratio (incurred losses divided by earned premium) is a generally accepted measure of the underwriting success or failure of property insurance. The higher the cost to the company of reinsurance and other expenses, the lower the company's loss ratio must be for it to continue to operate. The higher the loss ratio, the more likely companies have overall losses after paying for administrative expenses. Based upon the submitted loss data, the 2012 overall loss ratio for all FAIR Plan and insurance company policies was 37.5% across all types of residences (viz., traditional homes, condominiums, rentals). Figure 22 presents a history of the loss ratios for the entire market since 2003:

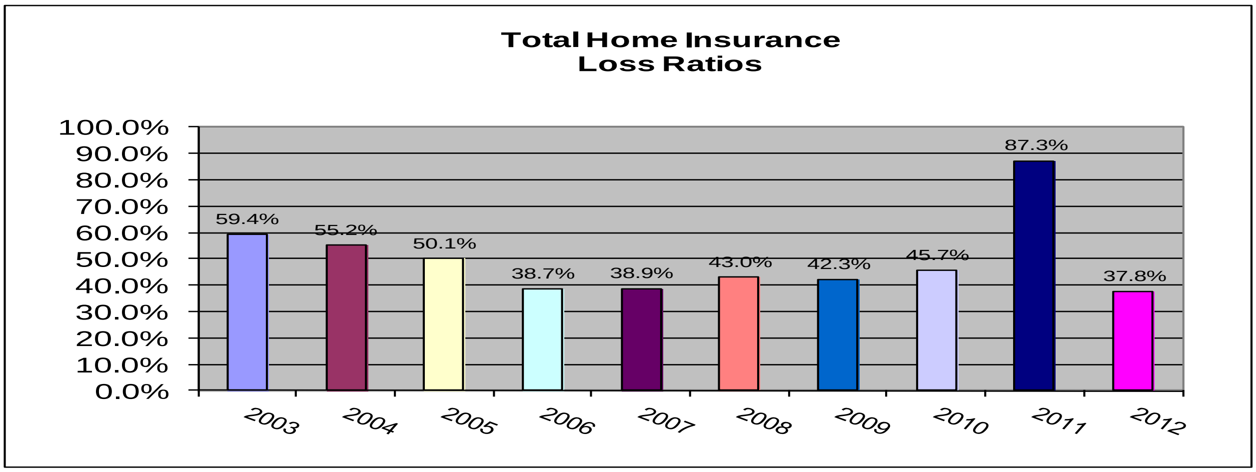


Figure 22

Non-weather events do not usually cause major shifts in loss trends;[27] weather-related events can cause significant shifts, depending on the severity of the events. For example, there were two "catastrophe"[28] events in 2007, one in 2008, none in 2009, four in both 2010 and 2011, and one in 2012 but the resulting losses varied with the severity of the events. The loss ratio for 2012 is significantly less than 2011 due to the variability of the catastrophe events and of the number of homes impacted. As presented in Figure 23, the traditional homeowners loss ratio was 38.4%. The condominium loss ratio is 31.7%, while the tenant coverage is at 25.6%.

[27] Fire losses are an exception since fires involving multiple dwellings can significantly impact losses for a year.

[28] Massachusetts catastrophe code numbers are assigned to natural events by Property Claims Services, Inc. (PCS), a subsidiary of ISO, Inc. when insurable losses resulting from a natural event exceed $25 million and produce at least 2,000 claims.

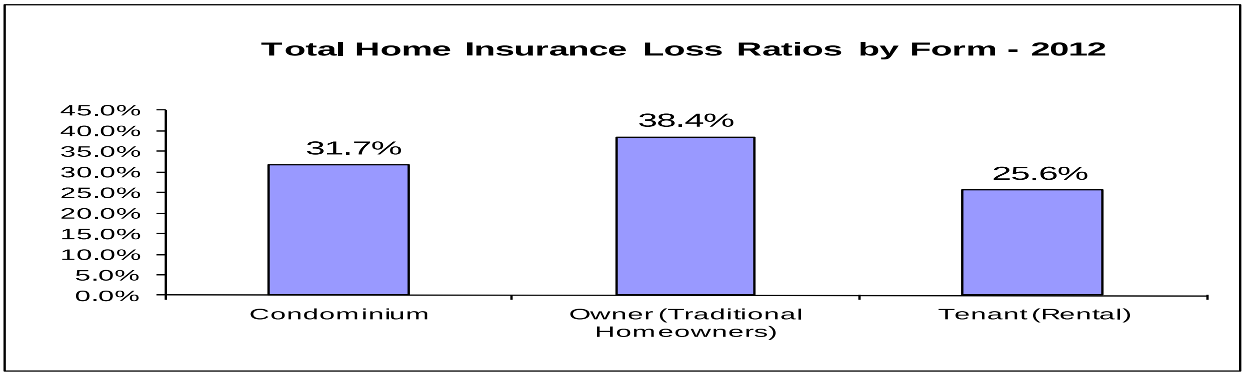


Figure 23

Combined Ratios: Loss and Expense Experience Compared to Premiums Collected

The combined ratio (the combination of company expenses and incurred claims divided by earned premium) is a measure of the overall experience of property insurance companies in a market. The lower the combined ratio, the higher the company's potential profit. The research which forms the basis for this report does not include information on insurance company operating expenses. In order to get a more complete picture of insurers' financial results we have incorporated industry expense data that insurance companies submit as part of their annual financial statements. Figure 24 calculates the percentage of premium that insurance companies paid out for Massachusetts home insurance losses and the percentages of premium that can be attributed to various operating expenses. The result is an "Adjusted Combined Ratio" for the Massachusetts home insurance market.

Calculation of Adjusted Combined Ratios

Year	(A) Earned Premium ($000's)	(B) Incurred Losses ($000's)*	(C) = (B)/(A) Loss Ratio*	(D) Incurred Losses + All Loss Adj Expenses ($000's)	(E)= (D)/(A) Adjusted Loss Ratio (incl All Loss Adjust Expenses)	(F) Producer Commissions	(G) Taxes and Licensing Fees	(H) Other Acquisition Expense	(I) General Expenses	(J) = (F)+(G)+(H)+(I) Expense Ratio	(K)= (E+J)/A Combined Ratio (Adj Loss Ratio + Expense Ratio)	(L) Mutual Company Dividends to Policyholders	(M)= (K)+(L) Adjusted Combined Ratio (incl Mutual Divs)
2012	1,627,267	607,289	**37.3%**	684,780	**42.1%**	17.3%	2.8%	7.7%	4.3%	32.2%	**74.3%**	0.7%	**74.9%**
2011	1,564,579	1,442,793	**92.2%**	1,600,343	**102.3%**	16.6%	2.8%	7.8%	4.5%	31.7%	**134.0%**	0.6%	**134.6%**
2010	1,496,800	683,987	**45.7%**	764,215	**51.1%**	17.7%	2.7%	8.0%	4.4%	32.8%	**83.8%**	0.7%	**84.5%**
2009	1,470,373	630,921	**42.9%**	721,140	**49.0%**	17.8%	2.7%	7.8%	4.6%	32.9%	**81.9%**	0.7%	**82.6%**
2008	1,449,187	630,002	**43.5%**	703,746	**48.6%**	18.5%	2.7%	7.7%	4.6%	33.5%	**82.1%**	0.6%	**82.7%**

* For the purpose of these columns, incurred losses includes both incurred losses and allocated loss adjustment expenses (defense and cost containment expenses).
Premium & loss data is voluntary market only. Reinsurance expenses are not included in this calculation and are more fully discussed below.

Figure 24

Figure 24 also presents various home insurance company expenses as a percentage of premiums. The adjusted combined ratio[29] illustrates how other necessary expenses, when combined with

[29] Insurance companies pay claims handling expenses (also known as "loss adjustment expenses") which, if added to incurred losses to calculate an adjusted loss ratio, provide a clearer picture of the proportion of premium dollars that are devoted to

losses, can be compared to homeowner's insurance premiums. The adjusted combined ratio of 74.9% for 2012 is similar to the ratios for most of the other years, indicating the level of losses carriers experienced in 2012.

This analysis does not include what insurance companies pay to reinsurers for catastrophe and hurricane reinsurance, information which is not readily available within the aggregate financial statements for Massachusetts homeowners business. Based upon information submitted as part of individual company rate filings, the Division estimates that reinsurance expenses have increased over the past seven years and could account for as much as 25% of a company's premiums, depending on that company's portfolio of coastal exposures. The analysis also omits reinsurance recoveries – payments from reinsurers to insurance companies that partially reimburse the insurance company for losses paid.

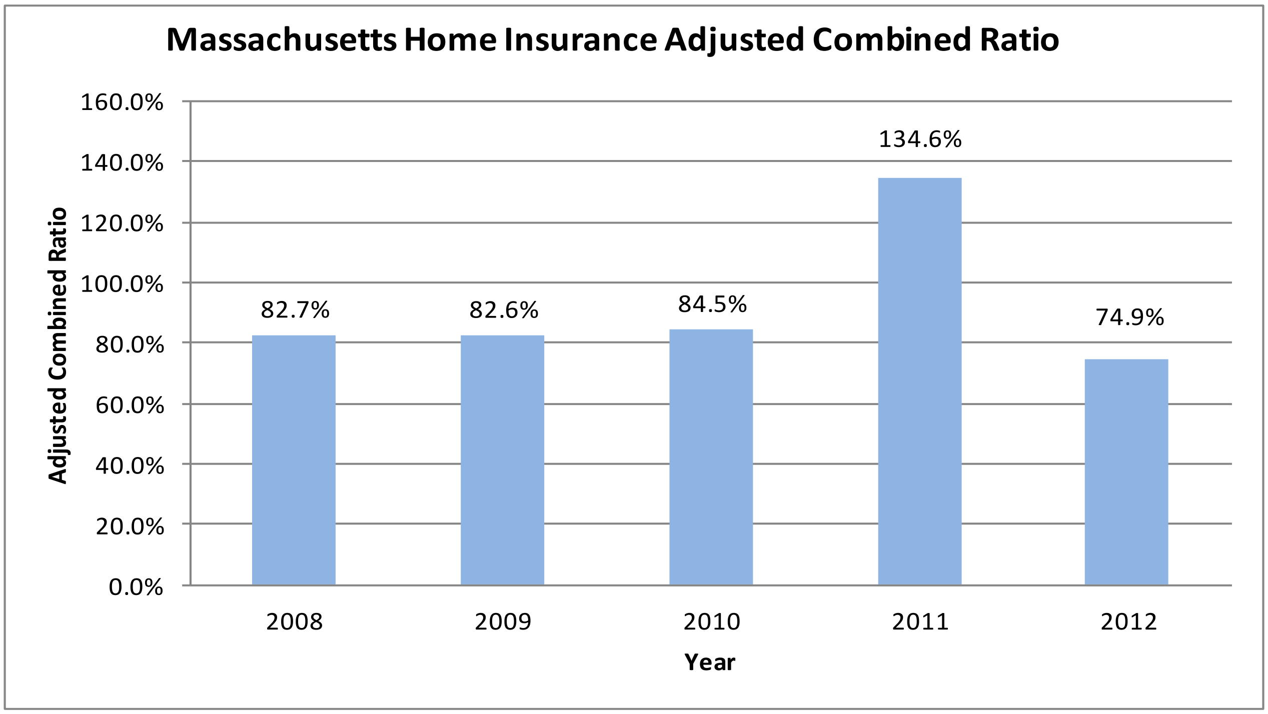


Figure 25

Figure 25 illustrates how weather-related disasters can cause significant fluctuations in the market's adjusted combined ratio.

claims and claims handling expenses. In addition to claims, companies need to pay other expenses, including producer commissions, taxes and licensing fees, other acquisition costs, and general administrative expenses in order to run their businesses. These expenses, when combined with the adjusted loss ratio, generate a combined ratio reflecting the overall costs of business during a calendar year. Finally, some mutual insurance companies make payouts to policyholders in the form of dividends that should be factored into the analysis, as these are real expenses paid out by companies to their policyholders.

FAIR Plan Financial Results

During its 2012 fiscal year, the FAIR Plan had an underwriting profit of $28,555,000[30] (see accompanying Statistical Supplement). Last year there was an underwriting loss.

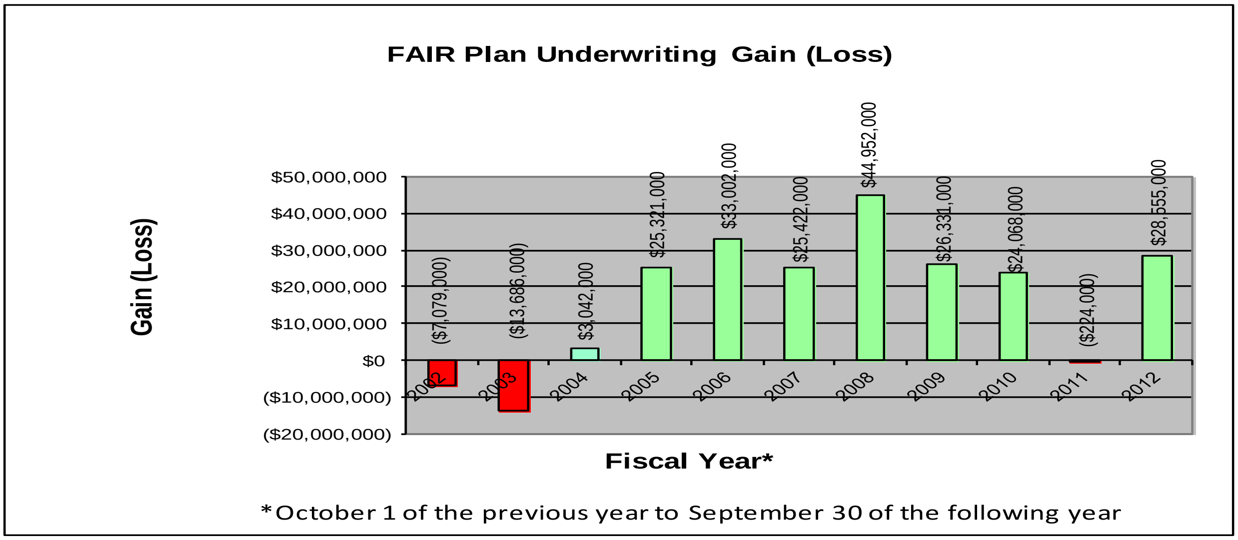


Figure 26

As illustrated in Figure 27, the FAIR Plan experienced a Fiscal Year 2012 underwriting profit of $152 per policy, as compared to an underwriting loss[31] – usually called the FAIR Plan's contribution to surplus – per policy of $1 in Fiscal Year 2011.

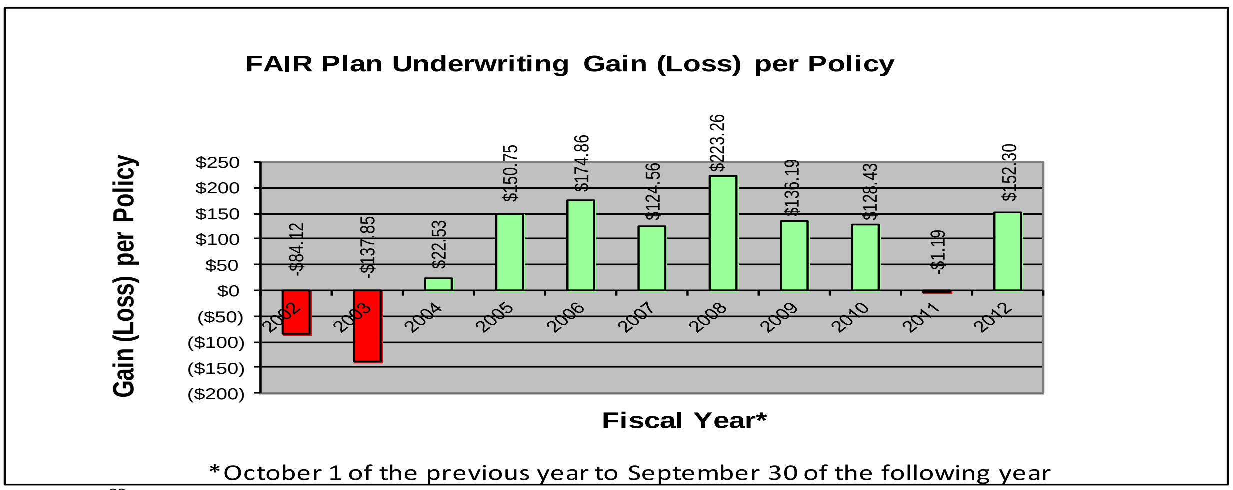


Figure 27[32]

[30] The FAIR Plan fiscal year runs from October 1st of one calendar year to September 30th of the following calendar year. Fair Plan restated numbers for 2010 and 2011.

[31] Since the FAIR Plan is not an insurance company per se, it refers to its underwriting profit as its contribution to surplus. For the purpose of this analysis, the report will continue to refer to this as an underwriting profit, for owner, condominium and tenant policies, as reported by the FAIR Plan.

[32] Fair Plan underwriting gain (loss) per policy is calculated by dividing the fiscal year's underwriting profit (loss) by the number of fiscal year owner, condominium and tenant policies issued.

Changes in FAIR Plan Rates

As illustrated in Figure 28, the FAIR Plan revised its annual average rates between 1996 and 2006 from a low of -0.5% (decrease) in 2000 to a high of 12.4% (increase) in 2006. Each of these filings was reviewed according to the standards in M.G.L. c. 175C and hearings were noticed as required by that statute. In most of the years between 1996 and 2012, the proceedings on those filings were ultimately resolved by rate stipulations agreed to by the parties.

In 2005, the FAIR Plan submitted a request for a 12.5% statewide rate increase, including a request for a 25.0% rate increase in Barnstable, Dukes and Nantucket counties.[33] Following an administrative hearing, the FAIR Plan was granted a 12.42% statewide increase, including a 25.0% rate increase in Barnstable, Dukes and Nantucket counties to take effect in 2006.

FAIR Plan Home Insurance Rate Changes

Effective Date*	Percent
12/31/1996	5.3%
12/31/1997	2.2%
12/31/1998	0.9%
12/31/1999	0.1%
12/31/2000	-0.5%
12/31/2001	-0.2%
12/31/2002	1.9%
12/31/2003	2.8%
12/31/2004	3.2%
10/1/2006	12.4%
3/31/2010	-1.0%

*Years not shown had no rate change

Figure 28

In late 2011, the FAIR Plan submitted a request for an overall statewide increase of 7.2%. The hearing on this rate proceeding concluded in 2012 and the requested rate increase was denied after the Commissioner found that the MPIUA had failed to meet its burden to support each aspect of its rate requests and prove, by a preponderance of the evidence, that its rates satisfied the statutory requirements.

[33] Identified as ISO statistical territory 37, and is commonly known as the Cape Cod and Islands area.

Review of FAIR Plan Compared to Private Market

It appears that consumers who are assigned to the FAIR Plan may not be shopping around aggressively for other coverage. In 2012, only 224 people of the 187,494 policyholders written through the FAIR Plan took advantage of the FAIR Plan's Market Assistance Plan (see Statistical Supplement for detail on this program), where the FAIR Plan offers the applicant's coverage to any other insurer writing in the market.

Cancellations and Nonrenewals

Under Massachusetts General Laws, Chapter 175, §4B the Division collects information from the top 25 insurers[34] and the FAIR Plan regarding policies in-force, total cancellations, and total nonrenewals for each urban and coastal zip code designated by the Commissioner for additional review and reporting. The data is collected on a calendar year basis for policies written during the reporting period.[35]

Aggregate Cancellation/Nonrenewal Data for Urban/Coastal Areas[36]

Figures 29A and 29B depict the percentage of cancellation and nonrenewal in the designated areas. The top 25 companies and the FAIR Plan reported that they had a total of 478,585 policies in force in urban and coastal areas as of December 31, 2012. Of the total policies in-force, there were 285,975 policies in urban areas and 192,610 policies in coastal areas. The top 25 companies covered 355,411 homes and the FAIR Plan covered 123,174 homes.

A policy cancellation is the termination of a policy before its one year effective period has expired. The cancellation may be effected at the request of the insured or, under certain circumstances, by the insurance company. During 2012, there were a total of 59,809 policies cancelled in urban or coastal areas, with 44,119 cancelled by the top 25 companies and 15,690 cancelled by the FAIR Plan. Of the total number of cancellations, 40,441 policies were cancelled in urban areas and 19,368 policies were cancelled in coastal areas.

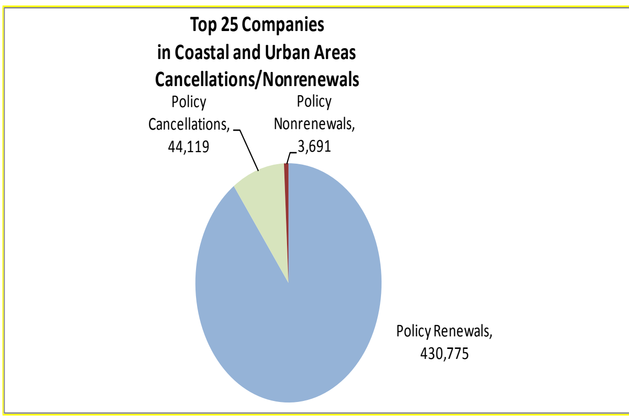


Figure 29A

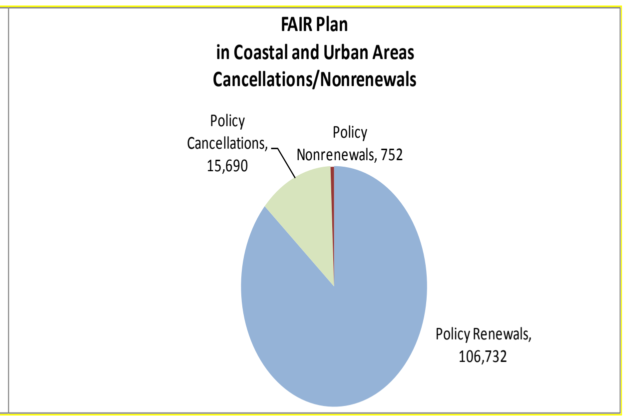


Figure 29B

[34] The list of the top 25 insurers, primarily insurer groups that were writing homeowners insurance in Massachusetts in 2012 based on written premium data from the National Association of Insurance Commissioner's database for homeowners multiple peril is listed within footnote 17. Some of these insurer groups are better known by the names of their individual insurance companies.

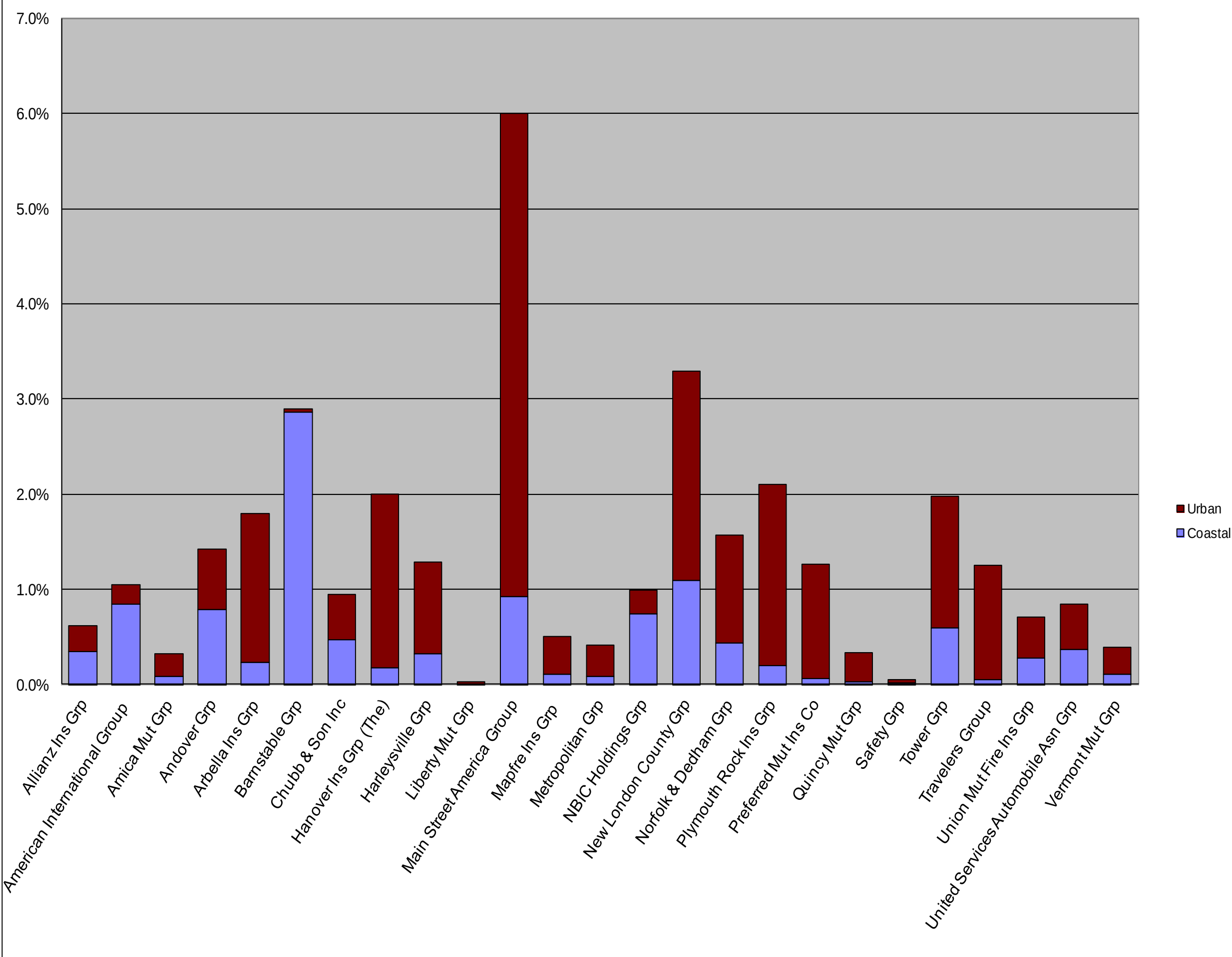
[35] The designated zip codes are identified in Exhibit 8A of the Statistical Supplement to this report.

[36] Statutory cancellation and nonrenewal provisions can be found in M.G.L. c. 175, §§ 4C, 99 and 193P. Detailed information identifying the number of cancellations and nonrenewals by zip code for each of the noted companies is included within the Statistical Supplement to this report.

"Nonrenewal" simply refers to either the policyholder electing not to renew the policy when it expires or to the insurance company not offering to renew the policy after the old policy has expired. The top 25 companies and the FAIR Plan report that there were a total of 4,443 policies nonrenewed in the urban and coastal designated zip codes in 2012, with 3,691 policies nonrenewed by the top 25 companies and 752 nonrenewed by the FAIR Plan. Of the total number of nonrenewals, 2,865 policies were nonrenewed in urban areas and 1,417 policies were nonrenewed in coastal areas.

When examining the information submitted on a company-by-company basis, as illustrated in Figure 30, three companies – Barnstable Group, Main Street America Group and the New London County Group – had the highest numbers of nonrenewals in 2012 in coastal and urban areas.

Top 25 Companies Percentage Nonrenewed in Coastal and Urban Areas*



*The number of nonrenewals percentage is relative to the number of in-force policies each insurer has in designated zip codes .
"Nonrenewals consist of both "Total Nonrenewals" and "Insurer initiated Nonrenewals due to Company's Geographic Withdrawal".

Figure 30

Nonrenewals for Urban/Coastal Areas

In examining cancellations in urban and coastal areas, the Division asked companies to report whether cancellations were policyholder-initiated or insurer-initiated, and if insurer-initiated, whether they were made in the first 59 days (when an insurer may do so without reason) or were due to nonpayment or for other permitted reasons after the first 59 days of a policy. The Division requested information regarding the number of nonrenewals specifically associated with geographic concerns, as opposed to those undertaken for any other reasons.

Cancellations for Urban/Coastal Areas

The top 25 companies and the FAIR Plan reported:

- 59,809 cancellations during 2012
  - 42,207 were initiated by the policyholder and
  - 17,602 were initiated by the insurer, of which:
    - 1,117 initiated by the insurer in the first 59 days
    - 11,460 cancelled due to nonpayment; and
    - 5,025 cancelled for other reasons permitted by law.

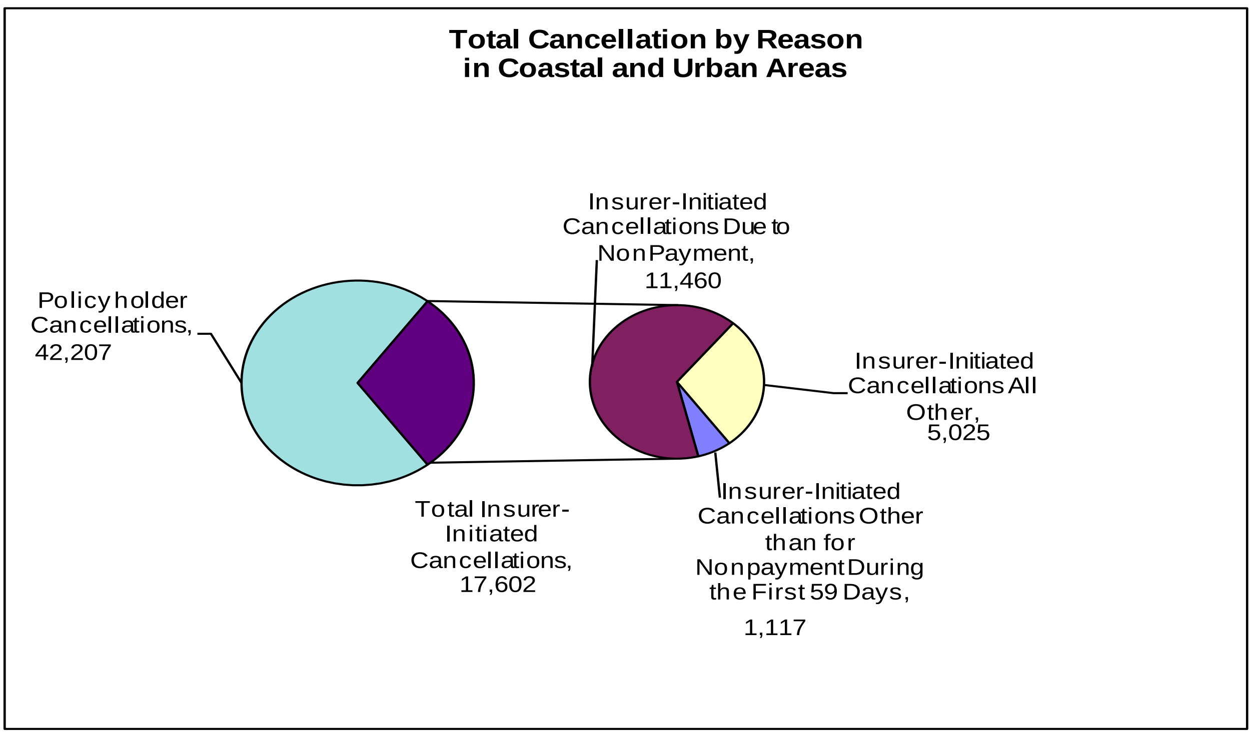


Figure 31

From an examination of those policies that were in urban areas:

- 40,441 cancellations during 2012
    - 28,222 were initiated by the policyholder and
    - 12,219 were initiated by the insurer with
        - 750 initiated in the first 59 days;
        - 8,117 cancelled due to nonpayment; and
        - 3,352 cancelled for other reasons permitted by law.

From an examination of those policies that were in coastal areas:

- 19,368 cancellations during 2012
    - 13,985 were initiated by the policyholder and
    - 5,383 were initiated by the insurer with
        - 367 initiated in the first 59 days;
        - 3,343 cancelled due to nonpayment; and
        - 1,673 cancelled for other reasons permitted by law.

Home insurance products are term products, almost always written with a one-year policy period. At the end of the one year period, insurance companies and insureds must decide whether to continue the coverage for another policy period or to nonrenew the policy. There are no Massachusetts statutes that limit the reasons for the nonrenewal of coverage by an insurer, but an insurer must provide the policyholder or policyholder's insurance producer with at least 45 days advance notice.

The Division requested that companies not report data where a renewal offer was made and the policyholder did not accept the offer, instances where the policyholder requested that the policy not be renewed, and any nonrenewals connected to an insurance agency that did not produce business for the company during the years 2010, 2011, and 2012. The Division requested that companies distinguish between nonrenewals that were made based on: (a) the risk of natural perils (*i.e.*, windstorm, hurricane) that are usually covered under the standard homeowners policy or (b) all other reasons.

The top 25 companies report that there were a total of 3,691 insurer-initiated policies nonrenewed in the urban and coastal designated zip codes[37] in 2012, with 161 of those nonrenewed as insurers withdrew from certain geographic areas and 3,530 nonrenewed for other reasons. This compares with a total of 2,999 policies nonrenewed in the urban and coastal designated zip codes in 2011, with 3 nonrenewed as insurers withdrew from certain geographic areas, and 2,996 nonrenewed for other reasons. In addition to the top 25 company nonrenewals, the FAIR Plan did not renew 753 policies according to what is permitted within its Plan of Operations, including properties whose value exceeds the $1,000,000 cap for FAIR Plan covered properties.

Of the reported 161 that were nonrenewed because the insurer decided to withdraw from a geographic area, 157 were in those zip codes identified as coastal areas.

[37] The designated zip codes are identified in Exhibit 8A of the Statistical Supplement to this report.

Of the reported remaining 3,530 nonrenewals for reasons other than a decision to withdraw from a geographic area, 1,105 were nonrenewals in those zip codes identified as coastal areas and 2,425 were nonrenewals in those zip codes identified as urban areas.

Claims History of Policyholders Renewed and Nonrenewed in Urban/Coastal Areas in 2012

In the 2012 survey, the Division asked the top 25 home insurance companies to separately report the claims history of policies that were renewed or nonrenewed.[38] The top 25 companies report that there were a total of 3,530 policies nonrenewed in the urban and coastal designated zip codes in 2012, with 2,425 policies nonrenewed in those zip codes identified as urban areas and 1,105 policies nonrenewed in those zip codes identified as coastal areas.

In 2012, of the reported 355,411 urban or coastal policies renewed by the top 25 home insurance companies, there were an estimated 50,121 claims filed during the reporting period, an average of 141 claims filed per 1,000 policies renewed in 2012. The companies reported having paid $314,604,186 in claims during the reporting period for those renewed in 2012, with an average claim size of $5,397. By comparison, in 2011, of the reported 350,716 policies renewed by the top 25 home insurance companies, there were an estimated 50,756 claims filed during the reporting period, or an average of 105 claims filed per 1,000 policies renewed. The companies reported having paid $326,087,696 in claims during the period for those renewed, with an average size of $6,425.

When comparing urban and coastal renewed policies, there were 98 claims filed per 1,000 coastal policies, as compared to 163 claims filed per 1,000 urban policies. The average claim size for renewal policies was $4,360 per claim for coastal policies, as compared to $4,189 per claim for urban policies.

Of the reported 3,530 policies nonrenewed by the top 25 insurance companies, there were a total of 1,919 claims filed in 2012, or an average of 544 claims filed per 1,000 nonrenewed policies. The companies reported having paid $33,650,592 in claims during the reporting period, with an average claim size of $17,535.

When comparing urban and coastal nonrenewed policies, there were 253 claims filed per 1,000 coastal policies, as compared to 676 claims filed per 1,000 urban policies. The average claim size for nonrenewed policies was $14,795 per claim for coastal policies, as compared to $18,004 per claim for urban policies.

Summary of Cancellation/Nonrenewals in Urban/Coastal Areas

[38] In collecting the claims history for those policies renewed in 2012, the Division requested in its survey that the company report the number of claims reported and dollars of claims paid during each of 2010, 2011 and 2012. Similarly, in collecting the claims history for those policies nonrenewed in 2012, the Division requested that the company report the number of claims reported and dollar of claims paid during each of 2010, 2011 and 2012.

While the results are not identical, it is apparent from survey data that insureds who have been nonrenewed have on average filed more claims and more expensive claims during the experience period. Nevertheless, a significant number of insureds whose policies were renewed also filed claims. In 2011, approximately 50,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $326,087,696 on these claims. In 2012, approximately 60,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $314,604,186.

In urban areas, 96.4% of those policyholders with claims who sought to renew were renewed by their insurers. Similarly, 98.1% of those policyholders with claims in coastal areas who sought to renew were renewed by their insurance companies.[39] See figures 32A and 32B.

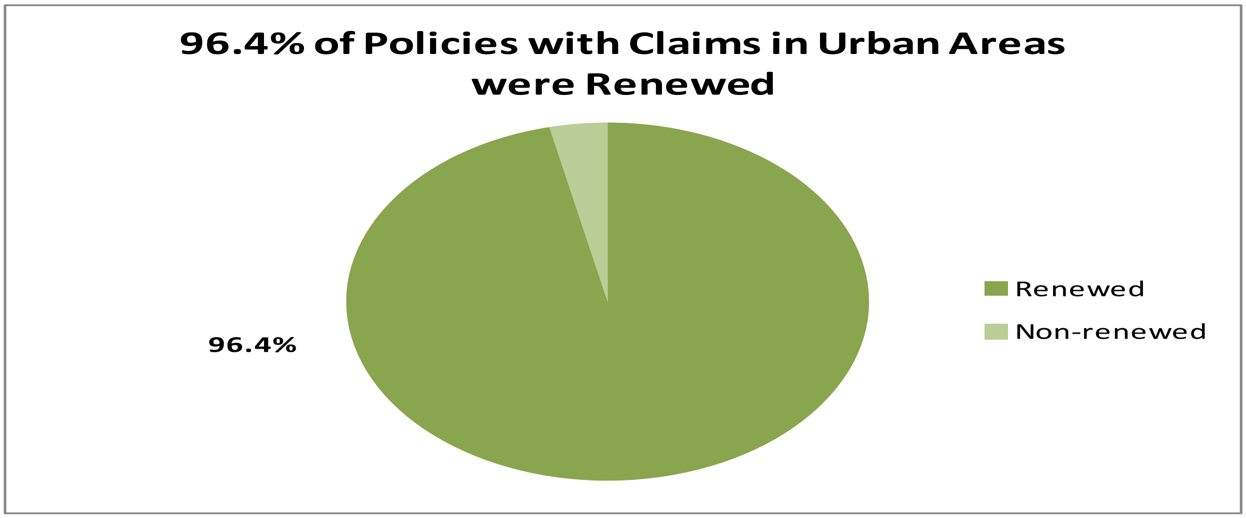


Figure 32A

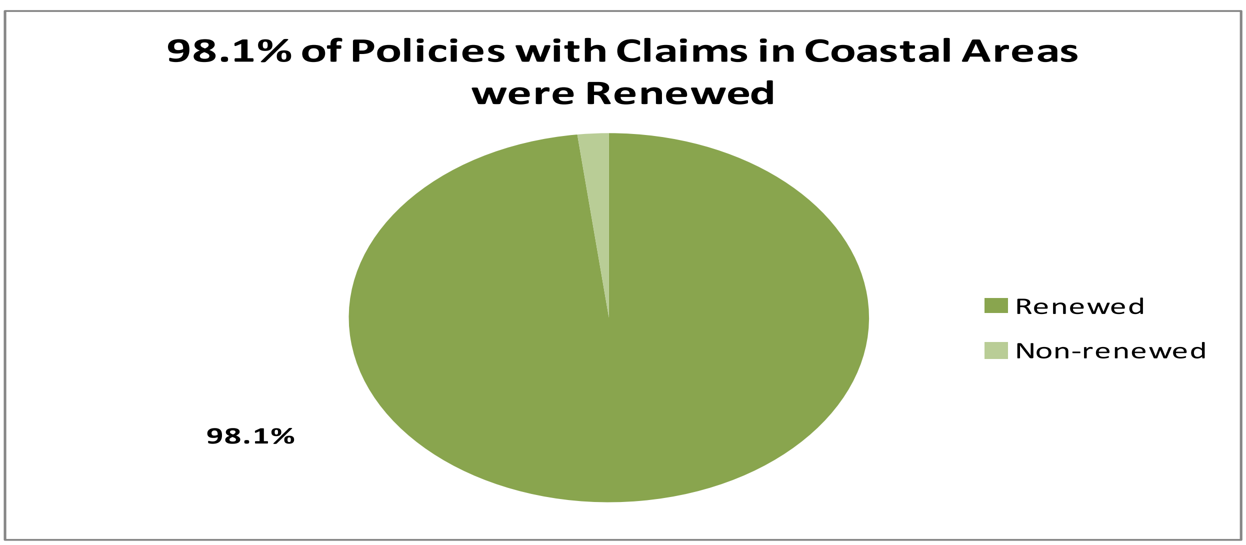


Figure 32B

[39] Based on the assumption that there was only one claim per policyholder.