Massachusetts Division of Insurance
Annual Home Insurance Report
For Calendar Year 2014

Daniel R. Judson
Commissioner of Insurance

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, Daniel M. D'Amico, State Rating Bureau Research Analyst, and Bashiru Abubakare, State Rating Bureau Intern, provided the analysis and prepared the report. 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.

<u>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.</u>

Annual Reports

The Division annually produces a home insurance report pursuant to M.G.L. c. 175, §§ 4A & 4B and has done so since 1996. For the current report, insurers and their statistical agents were required to provide aggregate 2012, 2013 and 2014 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 this report apply to all home insurance policies in the entire Commonwealth, other results apply only to policies written by the 25 largest Massachusetts home insurance companies, FAIR Plan 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 of Insurance ("Commissioner") has specified to be included in the report due to historical skepticism regarding availability of coverage in these areas. The zip codes include both coastal areas and urban areas. This report provides specific scrutiny in response to such concerns. A list of the top 25 home insurance companies can be found under footnote 9. The full list of designated zip codes can be found in Exhibit 8A of the Statistical Supplement to this report.

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/insurance/home-insurance/report-on-homeowners-insurance/ and is available upon request.

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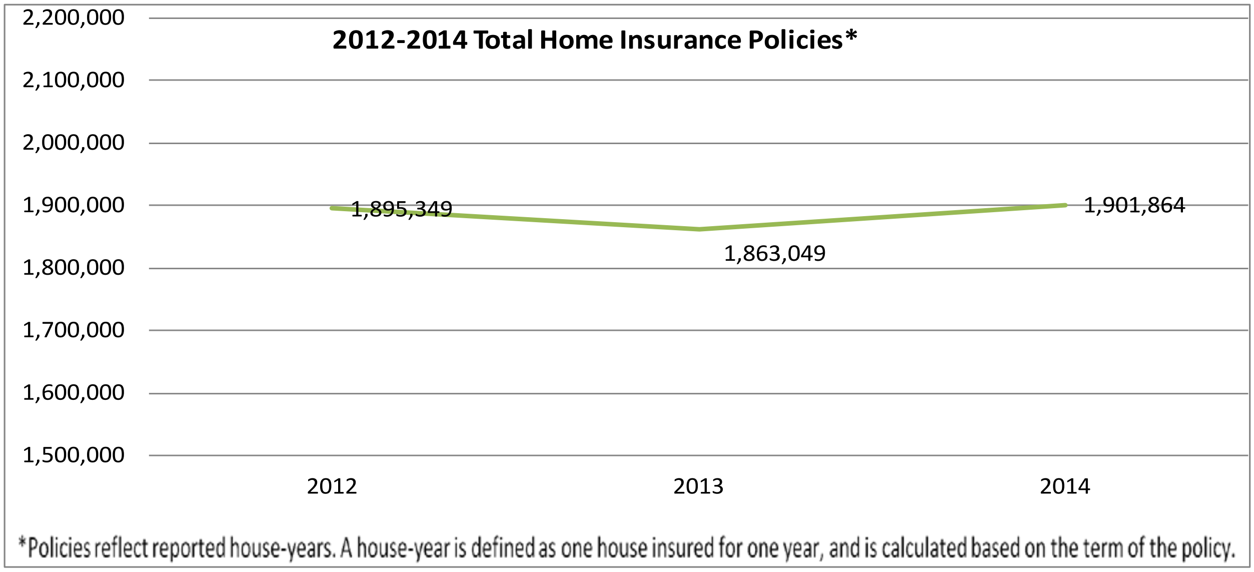
Executive Summary

Among the material presented in this report:

- The total number of home insurance policies increased by 38,815, or 2.1%, between 2013 and 2014, after decreasing slightly between 2012 and 2013.



- Total enrollment in the FAIR Plan[1] decreased by 24 policies in 2014, with the FAIR Plan writing 11.6% of 2014 home insurance premium.

- For the Cape and Islands market, the FAIR Plan accounted for 43.3% of policies.

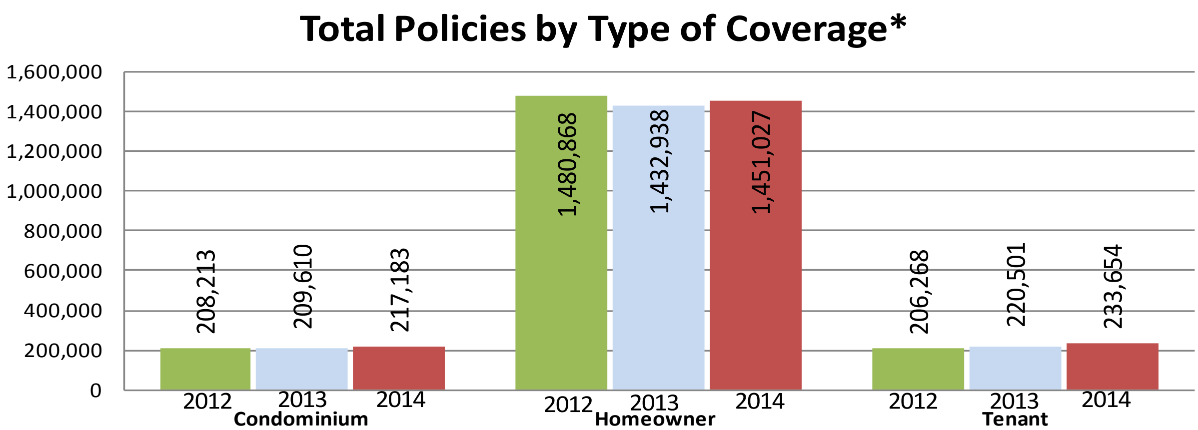
- There were two events that were classified as loss catastrophes in 2014. The first catastrophe taking place between January 3 and 5 consisted of flooding, freezing ice, and high winds and resulted in estimated property losses in Massachusetts of $41.4 million. The second catastrophe taking place between July 26 and 28 consisted of flooding, hail, tornadoes, and high winds and resulted in estimated property losses in Massachusetts of $39.7 million.

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

Composition of the Massachusetts Market

Home insurance covers non-commercial property for the risks of damage to structural and personal property as well as for the risk of personal liability claims. In 2014, insurance companies collected approximately $2 billion in written premium for home insurance policies in Massachusetts, making it the largest line of property and casualty coverage after 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 home insurance.[2] Figure 1 shows the total number of households covered under the three major types of home insurance (condominium, traditional homeowners and rental insurance) in the past three years as calculated by "written house-years," which is a measure equivalent to average number of homes insured.



*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.

Figure 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.[3] There are 70 licensed insurance companies offering home insurance in the Commonwealth.[4]

[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. However, according to Chapter177 of the Acts of 2014, which became effective in November 2014, certain lenders are prohibited from requiring flood insurance coverage in an amount greater than the mortgage amount.

[3] See M.G.L. c. 175, §§ 4C and 99.

[4] A list of companies offering homeowners insurance by region in Massachusetts is on the Division's website at http://www.mass.gov/ocabr/insurance/home-insurance/home-insurance-service-areas/. The companies are listed only if they have written ten or more HO-3 or similar type policies in a county between July 1, 2014 and December 31, 2014.

The FAIR Plan

If no licensed insurance company 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, is required to offer coverage to homes with a replacement cost of up to $1 million.[5] 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.[6]

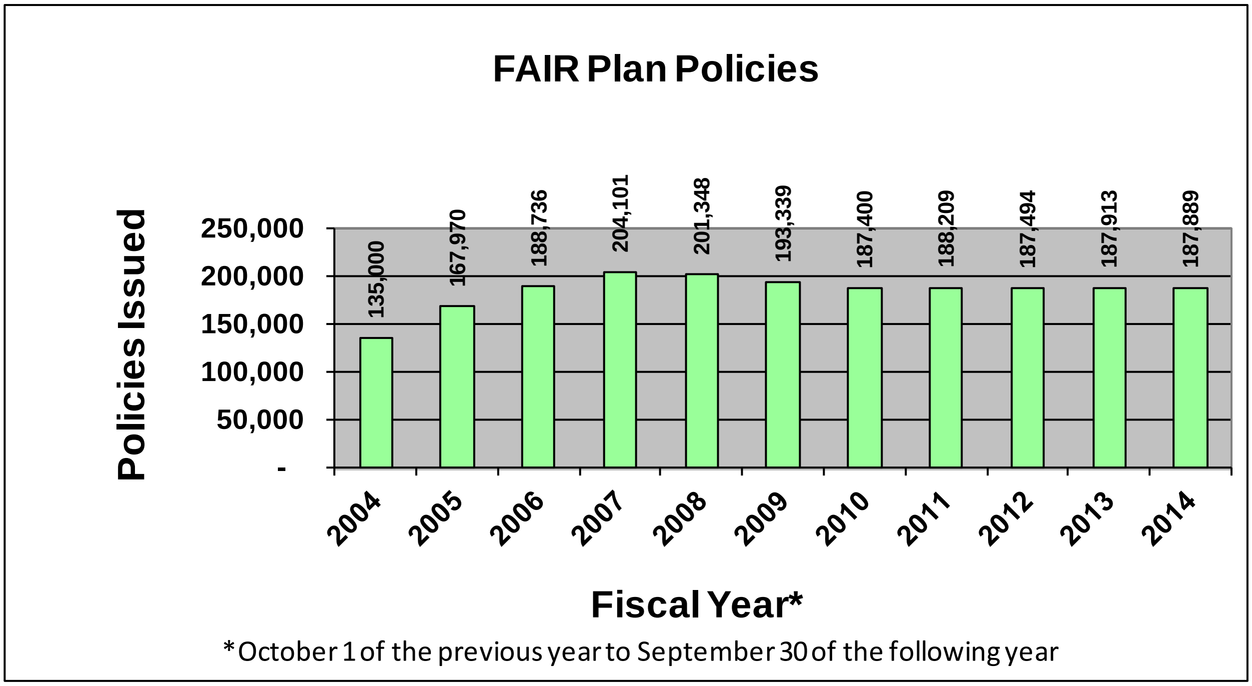


Figure 2

The FAIR Plan's business, as reported by the FAIR Plan and which comprises owner, condominium and tenant policies, decreased by 24 policies issued between fiscal years 2013 and 2014.[7]

As noted in Figure 3 (below), the FAIR Plan accounted for 11.6% of written premium in 2014. Its market share peaked at 16.1% in 2007.[8]

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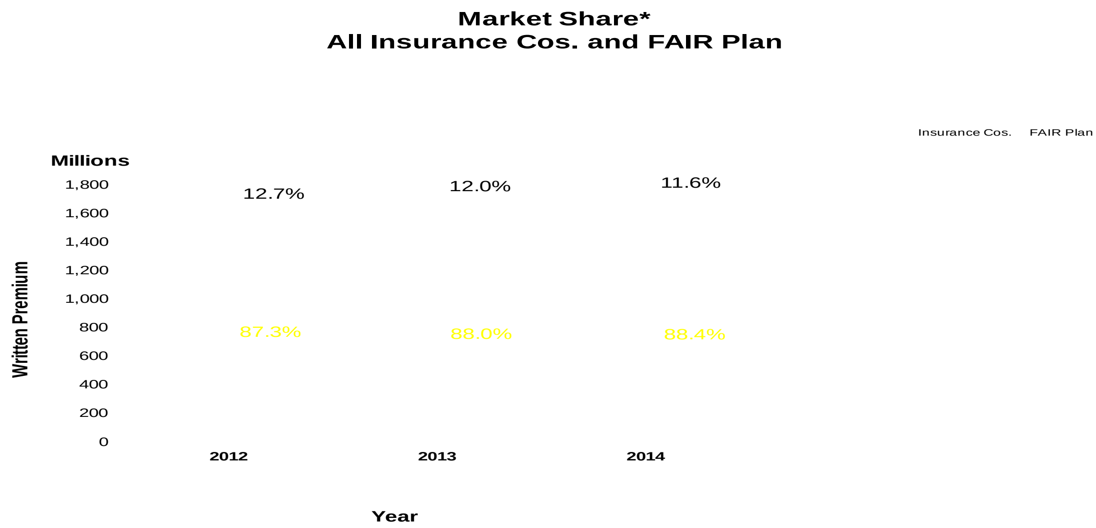
5 See M.G.L. c. 175C, §4(4a), which requires all home insurance companies licensed to and engaged in writing property insurance in the Commonwealth to be members of a joint underwriting association that shall provide basic property insurance to eligible applicants who are otherwise unable to obtain such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

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

7 The FAIR Plan's fiscal year is between October 1st of one year and September 30th of the following year.

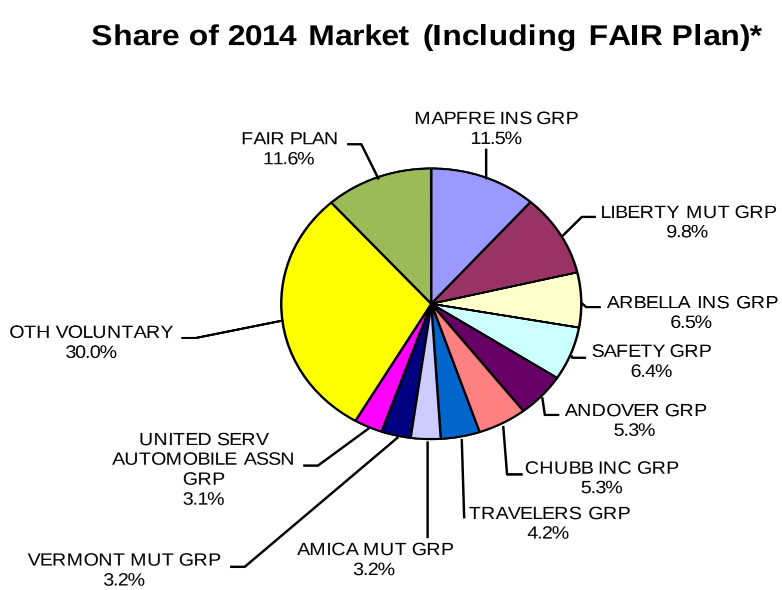
8 FAIR Plan market share is based upon FAIR Plan and total market written premium.



*Based on FAIR Plan market share 2012-2014 premium Exhibit 4C in the Statistical Supplement.

Figure 3

As noted in Figure 4, the FAIR Plan's market share, at 11.6% of total premium written, is slightly greater than that of the market share of the largest commercial carrier, the Mapfre Insurance Group.



*Based on total premium collected/written and not house-years.

Figure 4

Relative Shares of the Private Insurance Market

When excluding the FAIR Plan, Figure 5 illustrates that the top 10 insurance companies account for 66.1% of coverage written by the private insurance companies in the market.

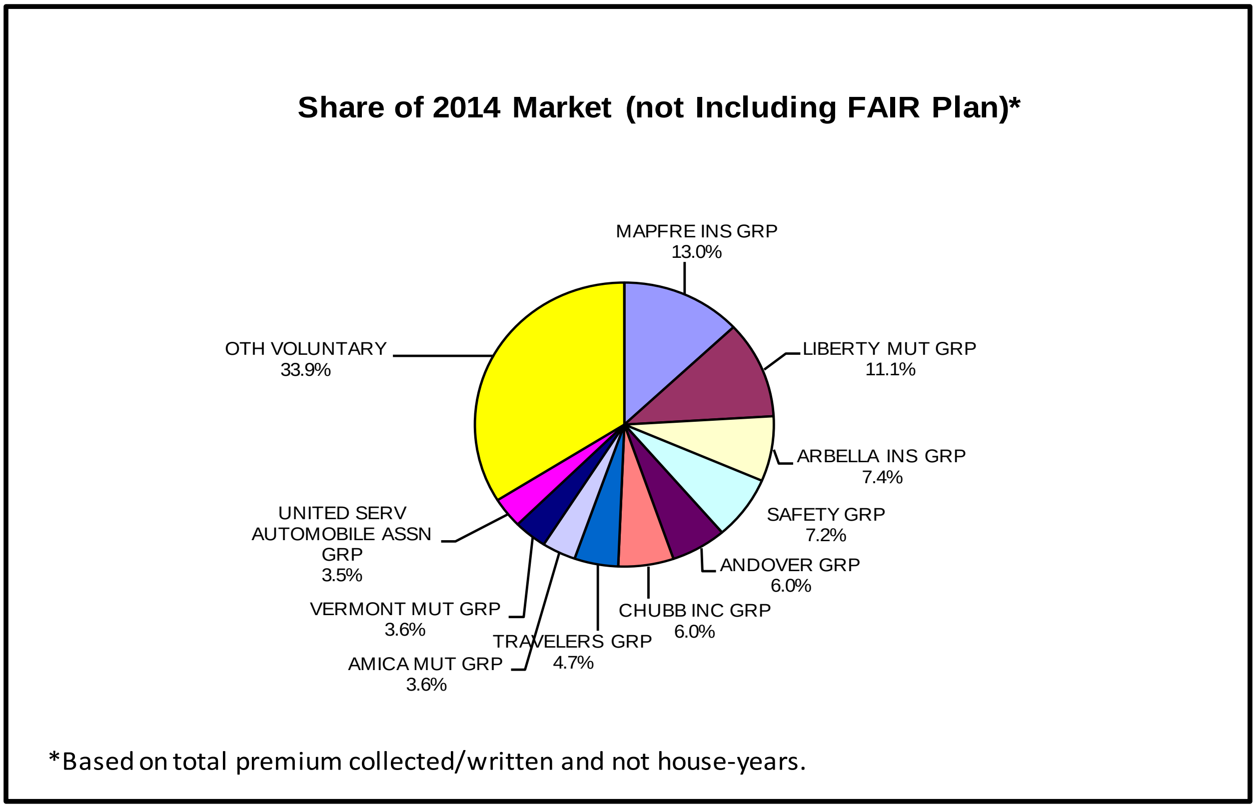


Figure 5

Unlike other states, a preponderance of insurance companies that offer coverage in Massachusetts consists of local or regional companies. Among the top 10 home insurance companies in the market, only five – the Travelers Group, the Liberty Mutual Group, Chubb & Son Group, Inc., the Amica Mutual Group, and United Services Automobile Association Group – offer home insurance nationally. The remaining companies are regional companies offering coverage primarily in the Northeast.

The Mapfre Insurance Group, which is the parent company of Commerce Insurance Company, had the largest share of the 2014 voluntary (i.e., non-FAIR Plan) market with 13.0% of the home insurance policies written. Each of the next nine largest insurance groups had between 3.5% and 11.1% of the voluntary market. If the analysis is extended to the 25 insurance companies with the largest Massachusetts home insurance market share,[9] they are responsible for 91.6% of the non-MPIUA insurance market. Each of the remaining 51 company groups accounts for less than 1.0% of the non-MPIUA market.[10]

Changes in Coverage

As reflected in Figure 6, the number of total home policies written by insurance companies and the FAIR Plan increased between 2013 and 2014 by 38,815, or 2.1%.

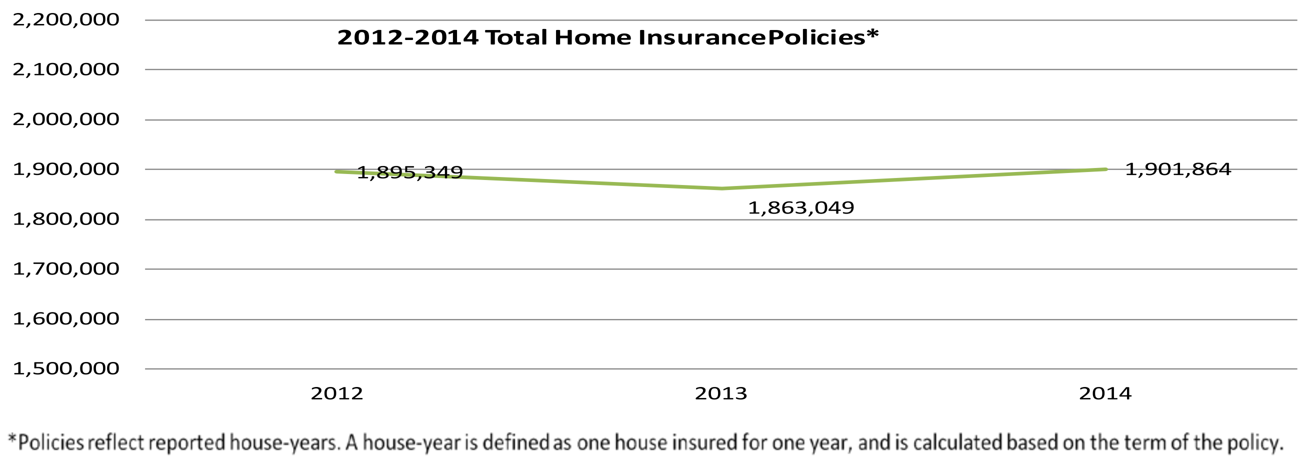


Figure 6

[9] The top 25 Massachusetts home insurers based upon overall direct written premiums for calendar year 2014 are:

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

[10] Based on the National Association of Insurance Commissioners' 2014 data on 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

Comparing the state by county,[11] as in Figure 7, Middlesex County, which had the largest population,[12] also had the highest number of home insurance policies in force: 435,834. After Middlesex County, the next three largest counties for home insurance are Worcester (231,534), Norfolk (208,776) and Essex (201,270).

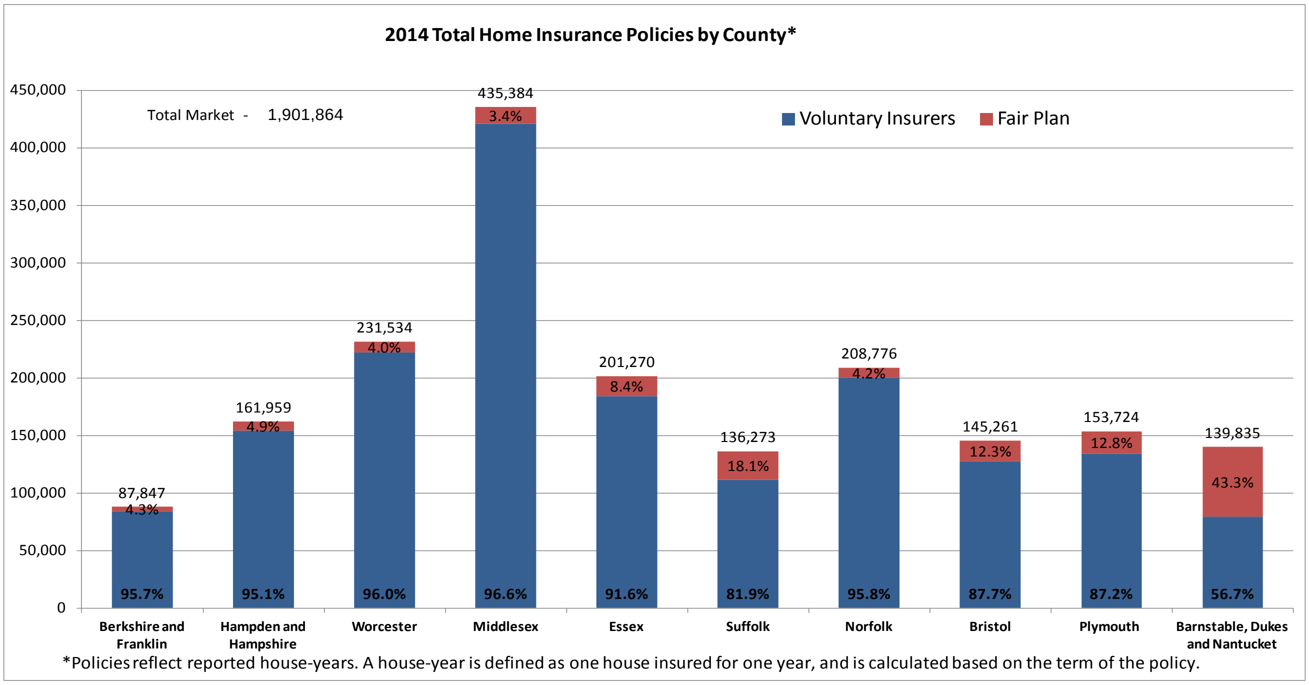


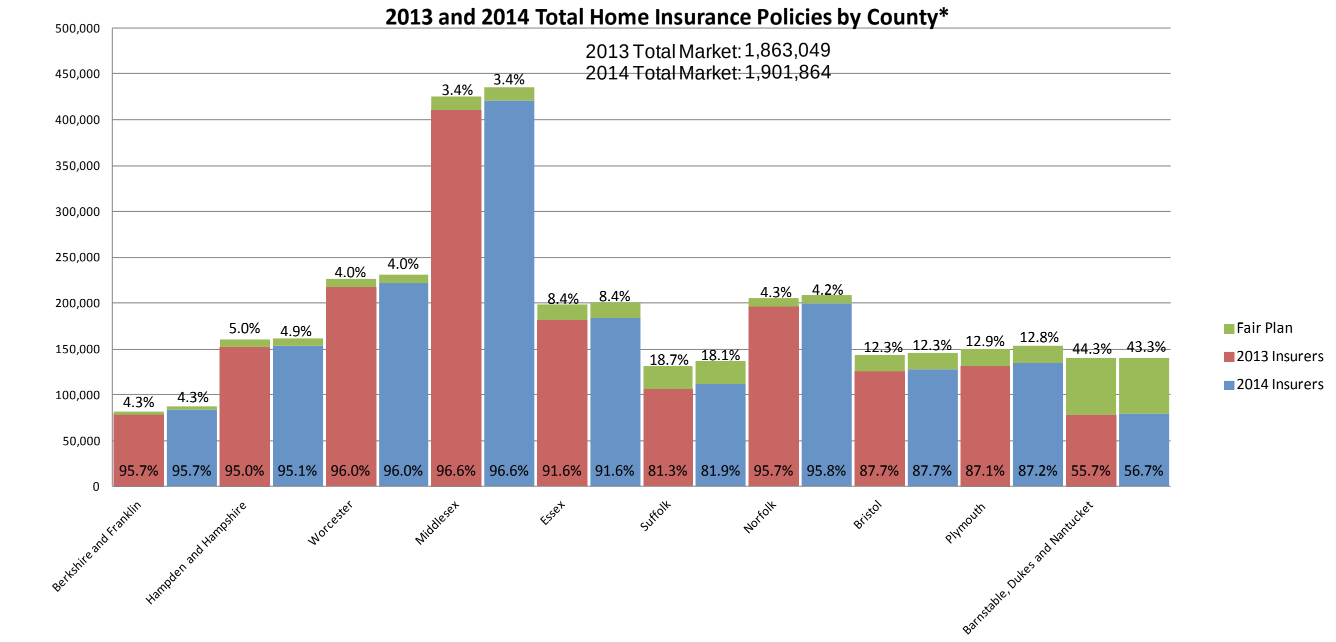
Figure 7

The proportion of FAIR Plan policies written by area varies greatly. While the FAIR Plan writes 43.3% of the home insurance for the Cape and Islands (comprising Barnstable, Dukes and Nantucket counties) and 18.1% of the home insurance in Suffolk County, it writes less than 13% of the policies in each of the other counties in the state (see Figure 7).

[11] For the purpose of reporting information by county, certain ISO statistical reporting territories were combined in the following ways:
Berkshire and Franklin Counties include ISO territory 50.
Hampden and Hampshire Counties include ISO territories 47, 48 and 49;
Worcester County includes ISO territories 45 and 46;
Middlesex County includes ISO territories 41, 42, 43 and 44;
Essex County includes ISO territories 38, 39 and 40;
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; and
Barnstable, Dukes and Nantucket Counties include ISO territory 37.
Detailed information for each territory is included in the Statistical Supplement to this report.

[12] Source: Annual Estimates of the Resident Population for Counties of Massachusetts: April 1, 2010 to July 1, 2014, Population Division, U.S. Census Bureau.

Also, between 2013 and 2014, the number of home insurance policies remained fairly consistent in most counties (see Figure 8).



*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.

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 then in place for the private passenger automobile insurance market.

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 rate. Beginning on April 1, 2008, companies began to actively compete for business in the new Massachusetts market.

As of the printing of this report, 15 insurance companies have entered the Massachusetts' private passenger automobile insurance market since the 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 insurance companies that were already writing personal lines also have begun offering expanded multi-policy premium discounts to insureds who buy both home insurance[13] 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 2013 and 2014 for those policyholders who also had motor vehicle coverage with the same or an affiliated insurer.[14,15]

[13] Home insurance in this case includes 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.

[14] The composition of the top 25 home insurance companies has changed between 2013 and 2014. In addition, a number of companies have corrected or updated their 2013 data as reported in the Division's calendar year 2013 report, and the corrected or updated data is reflected in this year's report.

[15] 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 filings.

As illustrated in Figure 9, insurers reported that premium credits on home insurance coverage for those with a related auto insurance policy increased from $55 million in 2013 to $58.8 million in 2014.

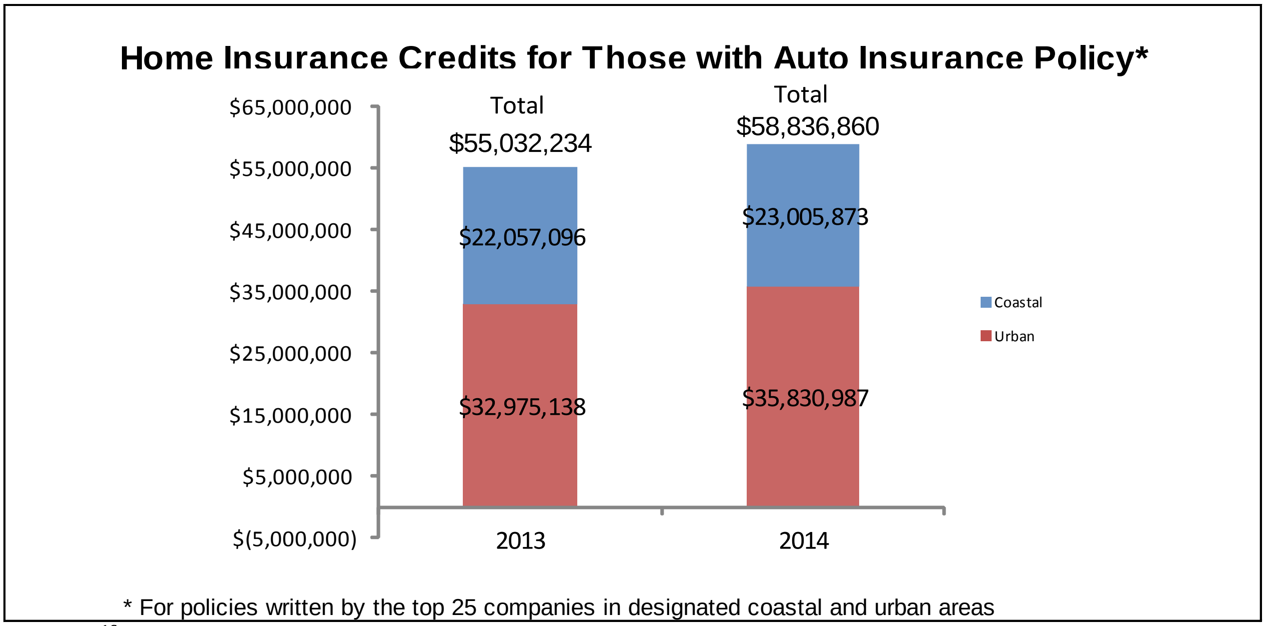


Figure 9[16]

When looking at the number of policies affected, as illustrated in Figure 10 (below), 2,528 more home insurance policies in urban areas obtained premium credits for related private passenger coverage in 2014 than in 2013. Overall, 550 more home insurance policies obtained premium credits in 2014 than in 2013 because they had related private passenger coverage.

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

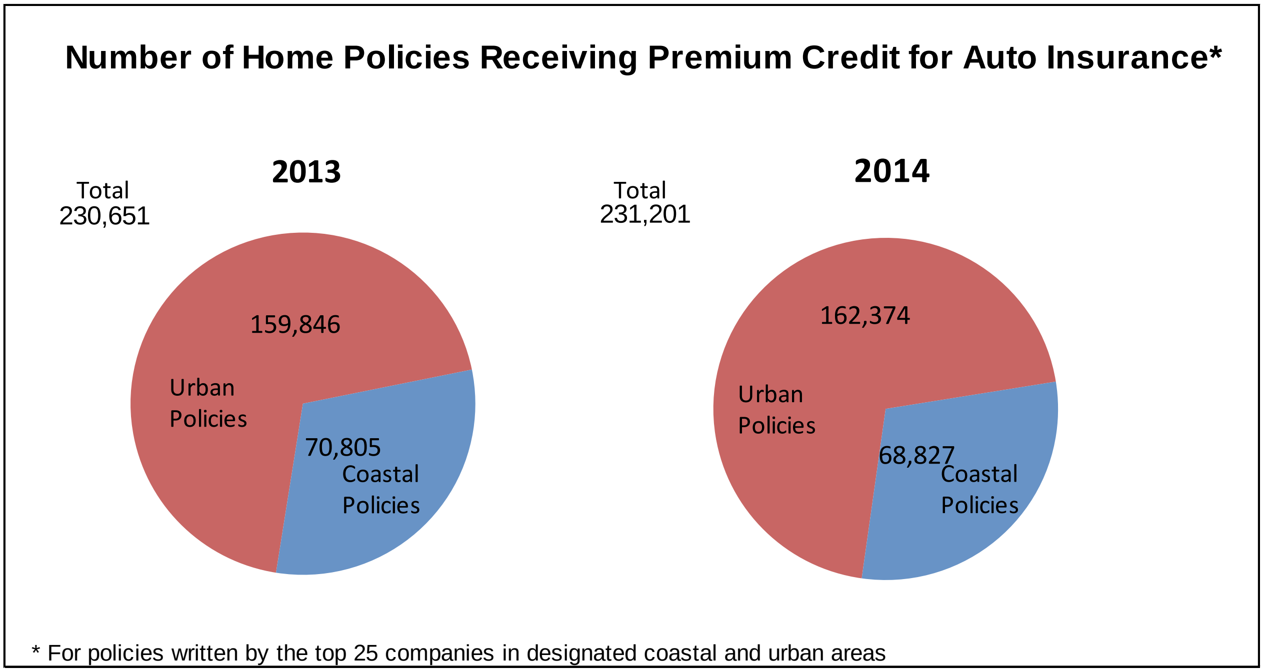


Figure 10

The overall average credit increased from $239 per policy in 2013 to $254 per policy in 2014.

As illustrated in Figure 11, between 2013 and 2014, the average percentage level of premium credit per policy increased from 14.5% to 15.1% of the average policy premium in urban areas and from 15.1% to 16.4% in coastal areas.

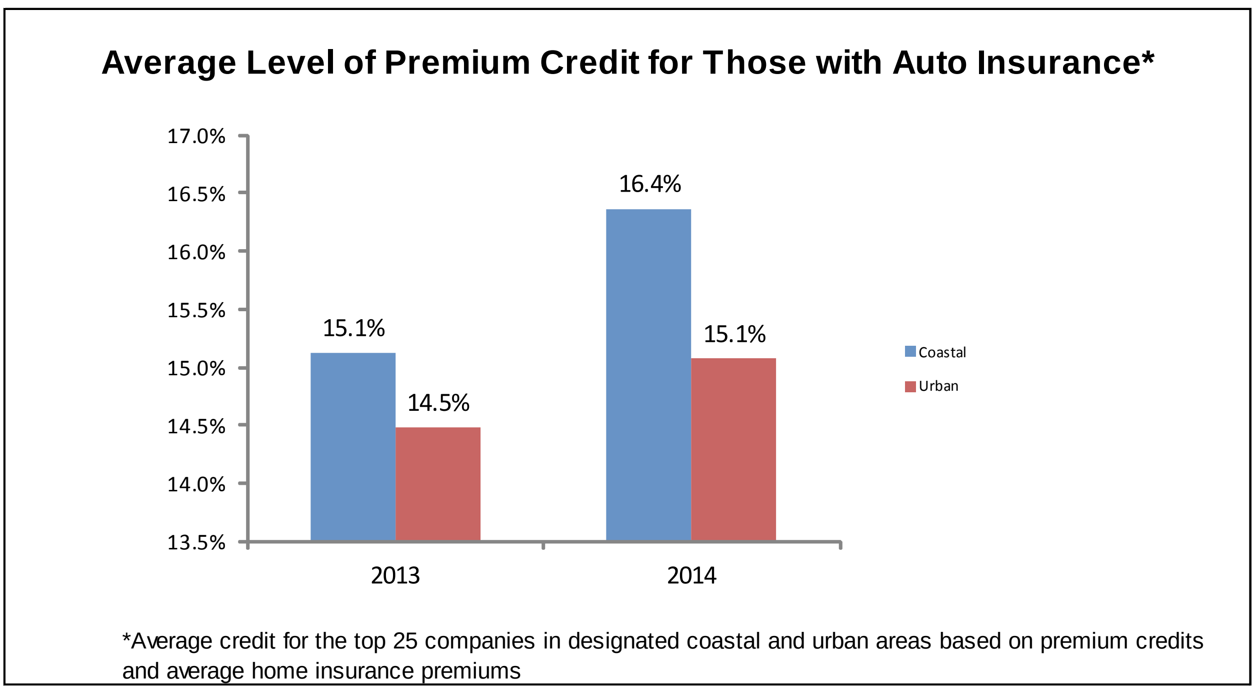


Figure 11

Limitations on Coverage

Wind Deductibles

In order to reduce their risk, many home insurance companies have amended their standard policies to include mandatory wind deductibles.[17] These deductibles may apply to any wind-related damage that occurs in specified coastal territories, typically located in 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.[18] 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 two companies reported that they have mandatory wind deductibles that are part of the coverage they offer in the market, with deductibles as high as 5% of the coverage for the main structure.[19] The largest wind deductibles are being imposed in the coastal parts of Bristol, Plymouth, Barnstable, Dukes and Nantucket counties.

Of all policyholders living in a coastal or urban area who are covered by the FAIR Plan or the top 25 home insurance companies, 45.1% had a mandatory wind deductible on their coverage in 2014. In coastal areas, 71.6% had a mandatory wind deductible. In urban areas, 27.4% had a mandatory wind deductible.

Beginning in 2006, the Division encouraged insurance companies to allow consumers to reduce or eliminate their wind deductibles 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 reduce wind deductibles for policyholders who install hurricane shutters or shatterproof glass, hurricane-proof garages or patios, 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.

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

[18] 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.

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

Flood Exclusions

In the United States, home insurance policies do not cover damage associated with floods.[20] 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 and assumes the financial risk for damages while relying on private insurance agents to sell policies.

Flood insurance is mandatory only for those homes that have been identified by FEMA mapping as located in high-risk flood areas and that are mortgaged 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.

Prior to the current re-mapping of flood zones in Massachusetts, FEMA had estimated that more than 11 million U.S. homes were in flood zones and that about one-fourth of the homes located in Special Flood Hazard Areas ("SFHA")[21] were 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.

[20] Automobile insurance policies, however, usually do cover flood damage to a motor vehicle.

[21] 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.

As presented in Figure 12, FEMA reports that 60,018 policyholders in Massachusetts had flood insurance in 2014, which is an increase of 4.8% from the 57,275 reported for 2013.

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

County	V-Zone Policies	A-Zone Policies	Other Policies	2014 Total Policies	2013 Total Policies	Total Premium	Total Coverage
Berkshire & Franklin	0	791	415	1,206	1,298	$1,423,758	$244,840,600
Hampden & Hampshire	0	944	764	1,708	1,805	$2,166,853	$399,455,300
Worcester	0	1,040	847	1,887	1,955	$2,713,655	$480,676,500
Middlesex	0	3,336	3,444	6,780	7,071	$7,236,165	$1,880,846,900
Essex	290	4,373	4,610	9,273	8,212	$10,838,415	$2,542,031,000
Suffolk	15	2,928	1,107	4,050	4,281	$5,082,713	$1,087,516,100
Norfolk	52	3,806	2,899	6,757	5,815	$7,106,684	$1,816,526,700
Bristol	336	2,097	1,531	3,964	4,044	$5,856,619	$996,816,300
Plymouth	753	6,227	3,087	10,067	10,392	$16,067,407	$2,550,664,200
Barnstable, Dukes & Nantucket	720	6,318	7,288	14,326	12,402	$20,139,089	$3,940,385,100
State Total :	**2,166**	**31,860**	**25,992**	**60,018**	**57,275**	**$78,631,358**	**$15,939,758,700**

Figure 12

*Data is based on information received from the Federal Emergency Management Agency as 6/17/2014 for 2013 policies and as of 6/3/2015 for 2014 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 primarily coastal 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, including those held by owners who have received disaster assistance and are now required to purchase policies and those owners who have purchased optional flood insurance policies (preferred risk policies).

The NFIP continually updates statistics on national purchases of flood insurance and periodically will produce special reports on the matter. According to the NFIP's monthly countrywide policy statistics, as of 6/30/15 Massachusetts ranked 14th in the country in the number of policies in place through the flood insurance program. Also, the U.S. Census Bureau, ranked Massachusetts as the 14th populous state.[22]

[22] Massachusetts population ranking is based on the 2010 U.S. Census Bureau statistics, available at https://www.census.gov/compendia/statab/2012/tables/12s0014.pdf

Although the Division issued Bulletin 2006-05 to remind insurers and insurance producers to offer flood insurance to all state residents, the Division estimates that the number of Massachusetts homes with flood insurance continues to be relatively low for 2014. Barnstable County – with 10.2% NFIP coverage – was the only county where more than 10% of the homes were covered by flood insurance in 2014 (see Figure 13).

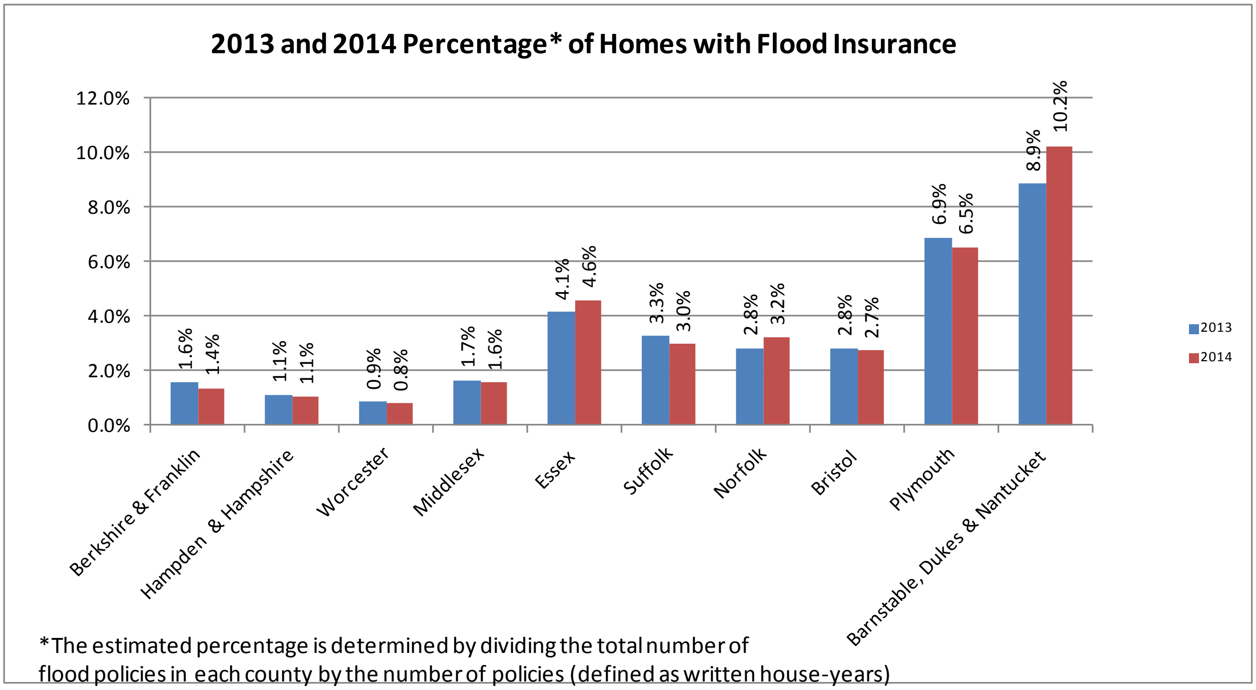


Figure 13

Changes to National Flood Insurance Program

In July 2012, reflecting the experiences following Hurricane Katrina and Super Storm Sandy, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 ("Biggert-Waters") to require the NFIP to develop procedures which will ensure its long-term actuarial soundness. Among the key provisions, the NFIP was required to make the program more financially stable by increasing flood insurance premiums to reflect true flood risk and updating the Flood Insurance Rate Map ("FIRM"). In 2013, many homeowners, particularly in coastal communities, were required to buy flood insurance for the first time or pay a significantly higher premium on their existing flood insurance policies due to changes implemented since Biggert-Waters.

In 2014, the U.S. Congress passed two acts that altered Biggert-Waters. The Consolidated Appropriations Act of 2014 prohibited the implementation of certain sections of Biggert-Waters, effectively stopping certain rate increases while new laws were being developed to address rate concerns. The Homeowner Flood Insurance Affordability Act of 2014 repealed certain parts of Biggert-Waters, restored grandfathering, placed limits on certain rate increases, continued the use of subsidized (lower) premiums for some new NFIP policies (resulting in premium refunds), updated the approach to ensuring the fiscal soundness of the fund through an annual surcharge to all policyholders, authorized FEMA to designate a position of Flood Insurance Advocate for NFIP policyholders, and allowed a higher policy deductible option of up to $10,000.

Changes to Massachusetts Law With Regard to Flood Insurance

In 2013, the Massachusetts legislature enacted a law limiting the amount of flood insurance that could be required of consumers whose loans are held by state-regulated banks. Chapter 177 of the Acts of 2014 specifies that such residential property owners may only be required to purchase flood insurance in the amount of their mortgage or home equity loan balance and that the amount of such insurance must be based on the value of the structure only and not the building's contents.

Financial Results

Premiums

In 2014, Massachusetts insureds purchased approximately $2.1 billion in home insurance, as measured in premium paid, which is 5.4% more than was reported for 2013. Of the total premium, 93% was for traditional homeowners insurance. Between 2013 and 2014, traditional homeowners insurance premiums increased by approximately $101.3 million.

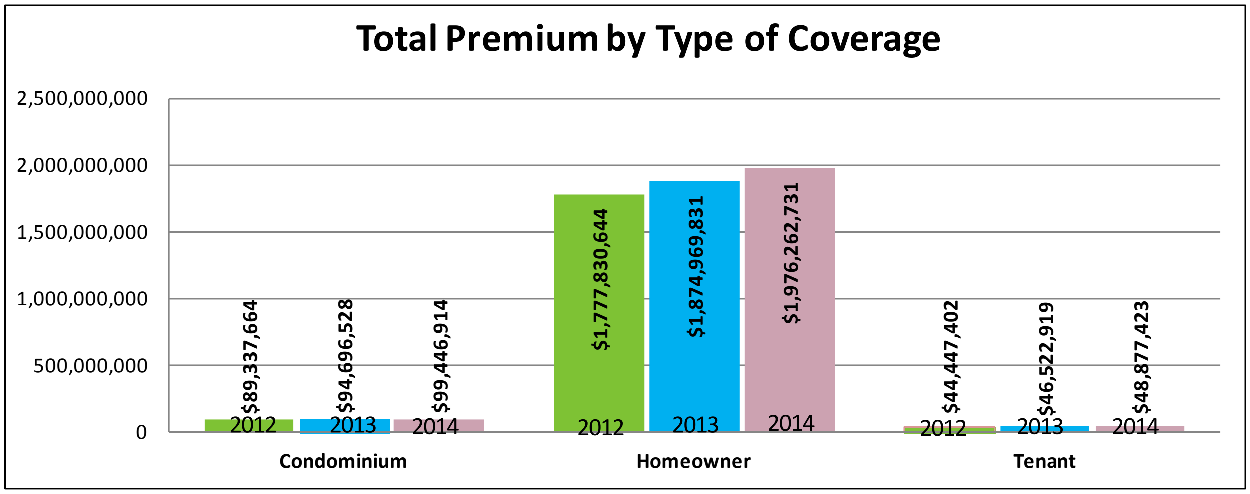


Figure 14

Average premiums increased in 2014 for traditional homeowners and condominium coverage, while average premiums for tenant coverage decreased slightly.

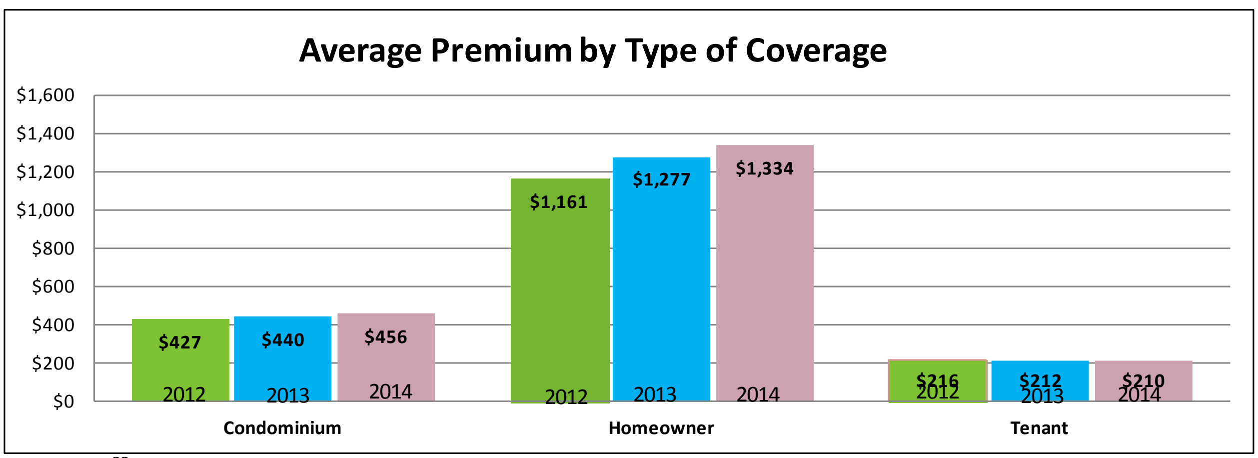


Figure 15[23]

[23] This year's Home Insurance report, as did last year's, uses a different premium basis from prior reports 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 2014, insureds filed a total of 64,237 claims with their home insurance companies, 18.5% fewer than the 78,813 filed in 2013. Eighty-six percent of these claims were filed on traditional homeowners insurance policies; however, as illustrated in Figure 16, condominium and tenant coverage types also experienced decreases in the number of reported claims between 2013 and 2014.

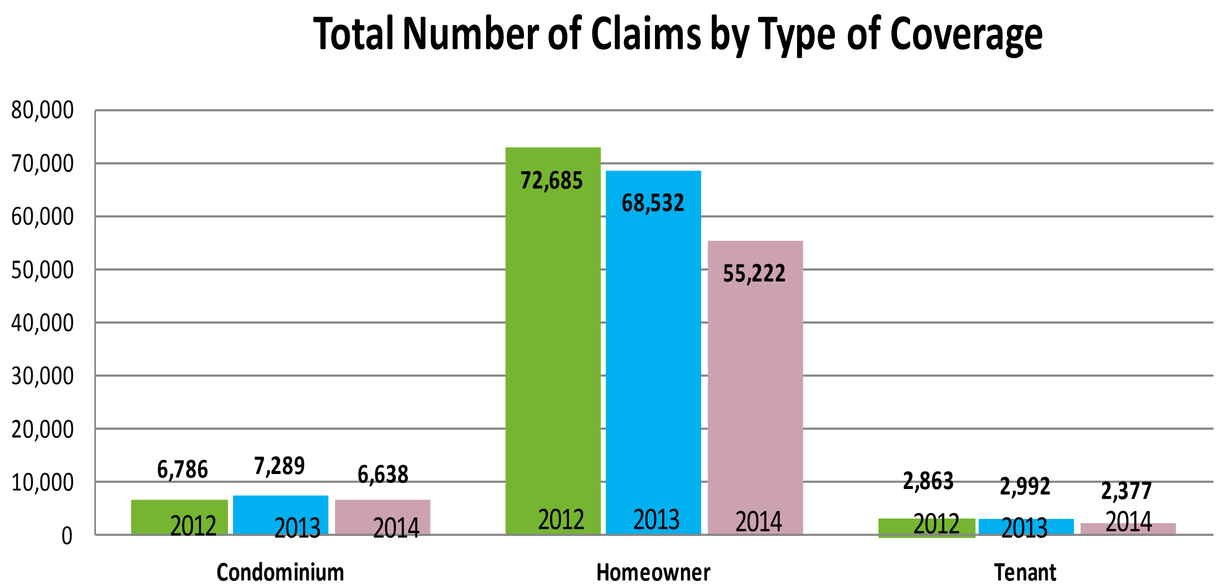


Figure 16

Claim trends tend to fluctuate with damage-causing weather patterns. Even though 2014 had two catastrophes with estimated Massachusetts property losses of $81.1 million from flooding, freezing, hail, ice, tornadoes and wind, the decrease was associated with the absence of larger catastrophes, such as Hurricane Sandy, which caused an estimated Massachusetts property losses of $210 million in 2012. Please see footnote 26 for further information.

While the total number of filed claims decreased, as illustrated in Figure 17 (below), the average size of incurred claims increased 29.7% for traditional home insurance, 29.3% for condominiums, and 36.8% 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).

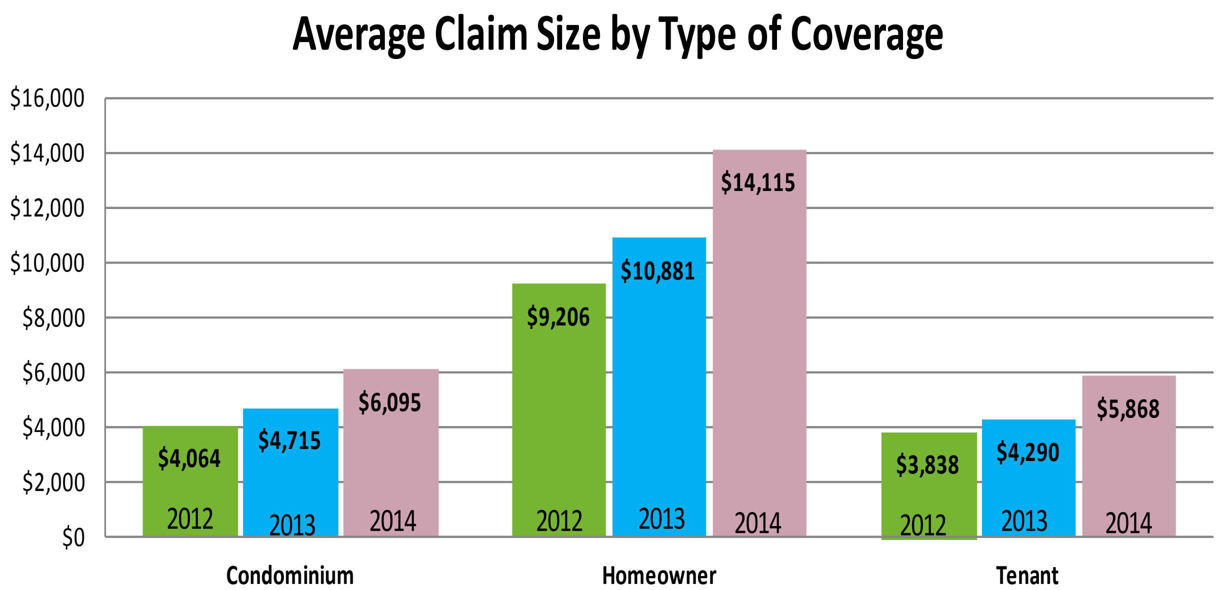


Figure 17

Analysis of Claims Experience

When recording reported claims, companies categorize submitted claims according to the cause of loss in order to project future claims and to develop loss control programs aimed at reducing 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; and
- All other.[24]

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

As illustrated in Figure 18, 32,791, or 51.4%, of total claims, were submitted for water losses for non-flood related water damage and freezing. This large percentage is estimated to reflect water damage associated with the cold winter. Policyholders also submitted 5,531 claims for fire, lightning and removal damages and 8,603 claims for damages classified as "all other losses," accounting respectively for 8.7% and 13.5% of total claims filed. There were a total of 8,820 claims filed under the wind category, which represents 13.8% of total claims filed.

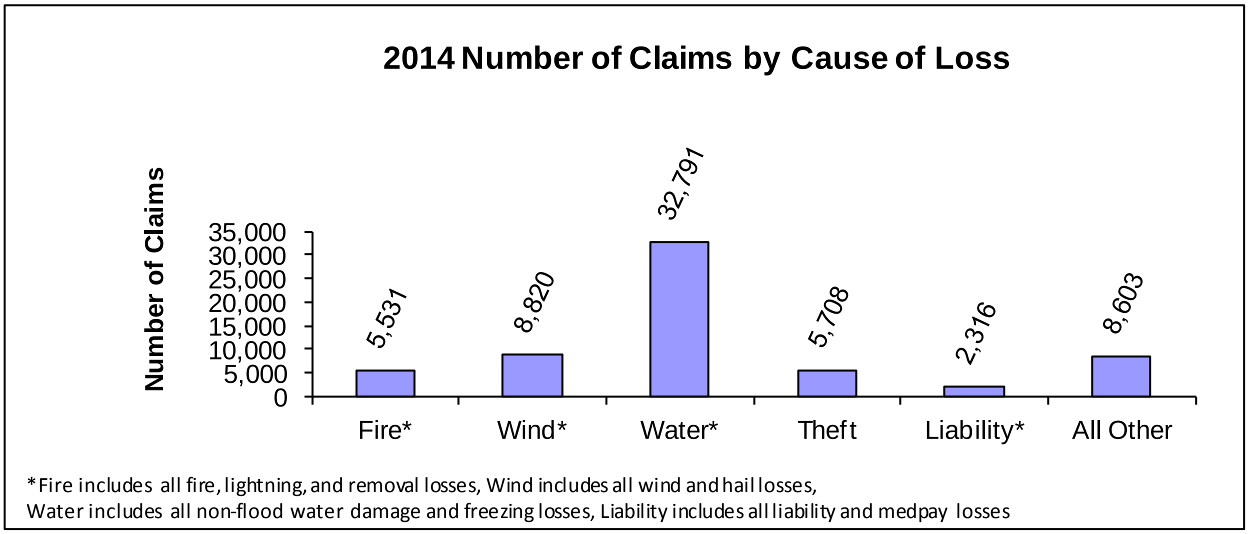


Figure 18

When considering the dollar cost of claims, as illustrated in Figure 19, the distribution of losses reflects the fact that certain types of claims (viz., fires) have a higher average cost. Notably, fire losses decreased from 37.6% of all total losses in 2013 to 33.8% in 2014. Theft and liability losses decreased from 2.9% and 5.7% in 2013 to 2.2% and 5.4% in 2014, respectively.

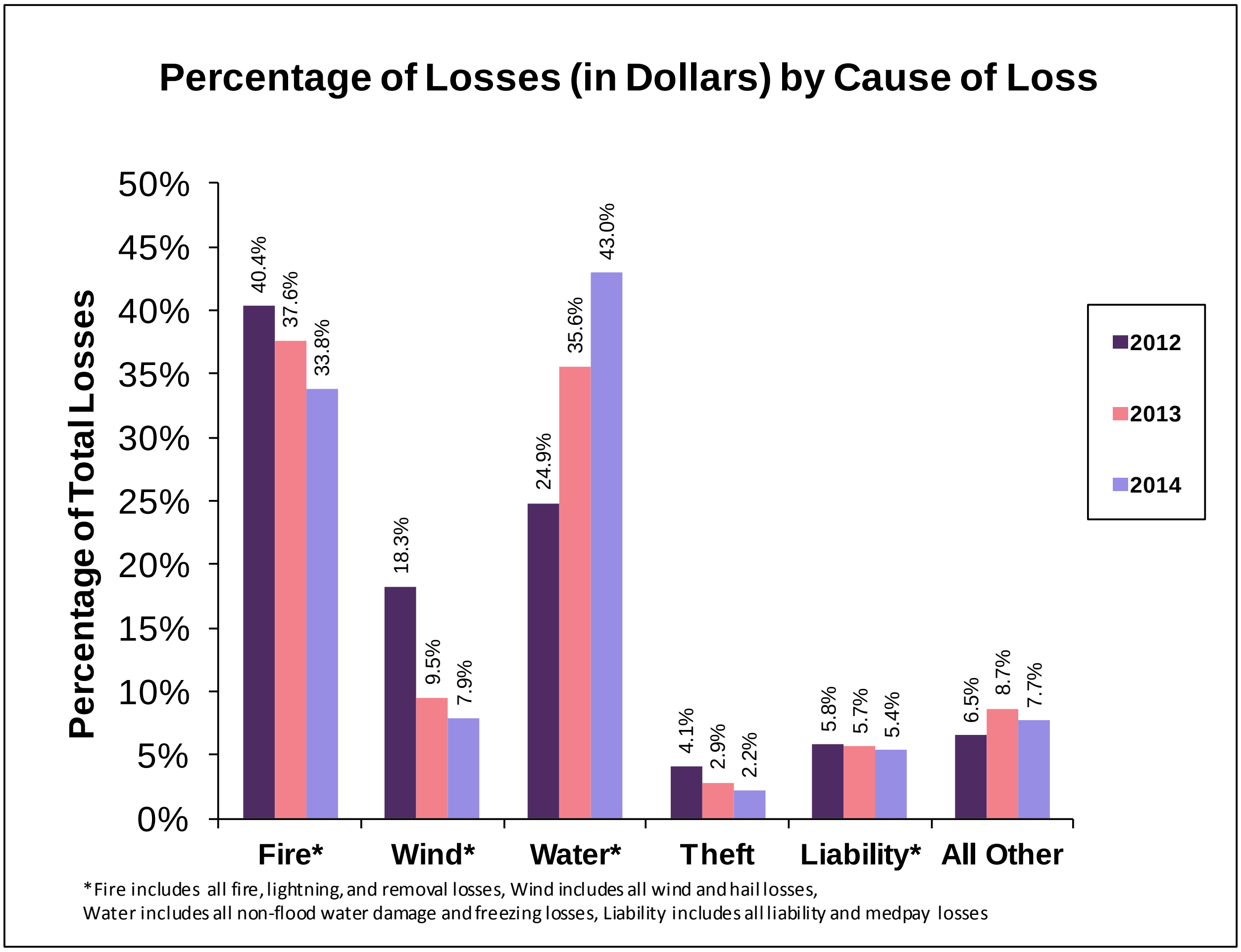


Figure 19

Additional Detail on Each Cause of Loss

Fire, Lightning and Removal dollar losses as a percentage of statewide losses decreased from 37.6% in 2013 to 33.8% in 2014. The statewide average fire, lightning and removal claim cost was $51,039 in 2013, decreasing to $50,951 in 2014.

Wind & Hail losses accounted for 7.9% of total losses in 2014, down from 9.5% in 2013. The statewide average claim cost for wind and hail increased from $5,441 in 2013 to $7,465 in 2014.

Non-Flood Water Damage and Freezing losses accounted for 35.6% of total losses in 2013 and 43.0% of total losses in 2014. The statewide average claim cost for non-flood water damage and freezing increased from $10,195 in 2013 to $10,920 in 2014.

Theft losses accounted for 2.9% of total losses in 2013 and 2.2% of total losses in 2014. The total number of theft claims decreased from 7,541 in 2013 to 5,708 in 2014, and the average statewide theft claim cost increased from $3,021 in 2013 to $3,225 in 2014.

Liability and Medical Payments dollar losses accounted for 5.7% of total losses in 2013 and 5.4% of total losses in 2014. The average statewide liability and medical claim cost increased from $18,864 in 2013 to $19,355 in 2014.

All Other claims losses accounted for 7.7% of total losses in 2014, compared to 8.7% in 2013. Total filed claims decreased from 9,431 in 2013 to 8,603 in 2014. The average claim cost was $7,290 in 2013, increasing to $7,464 in 2014.

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 will have overall losses after paying for administrative expenses. Based on the submitted loss data, the 2014 overall loss ratio for all FAIR Plan and insurance company policies was 40.3% across all types of residences (viz., traditional homes, condominiums, rentals).

Figure 20 presents a history of the loss ratios for the entire market since 2005:

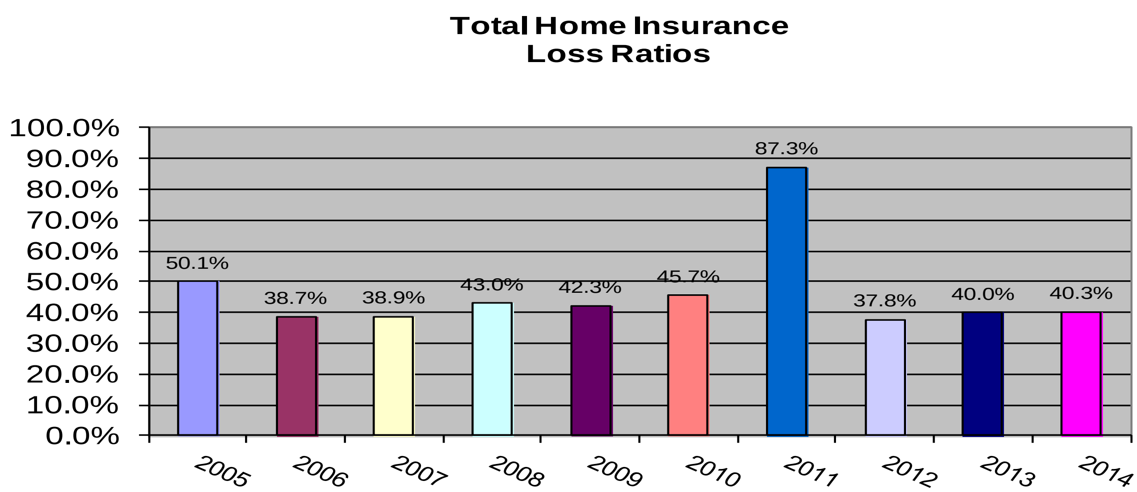


Figure 20

Non-weather events do not usually cause major shifts in loss trends;[25] weather-related events can cause significant shifts, depending on the severity of the events. For example, there was one "catastrophe" event in 2008, none in 2009, four each in both 2010 and 2011, one in 2012, none in 2013 and two in 2014,[26] but the resulting losses varied with the severity of the events. The loss ratio for 2014 is slightly higher than in 2013 due to the variability of the weather and of the number of homes impacted. As presented in Figure 21, the traditional homeowners loss ratio was 40.5%, the condominium loss ratio was 41.8%, and the tenant coverage was 29.4% in 2014.

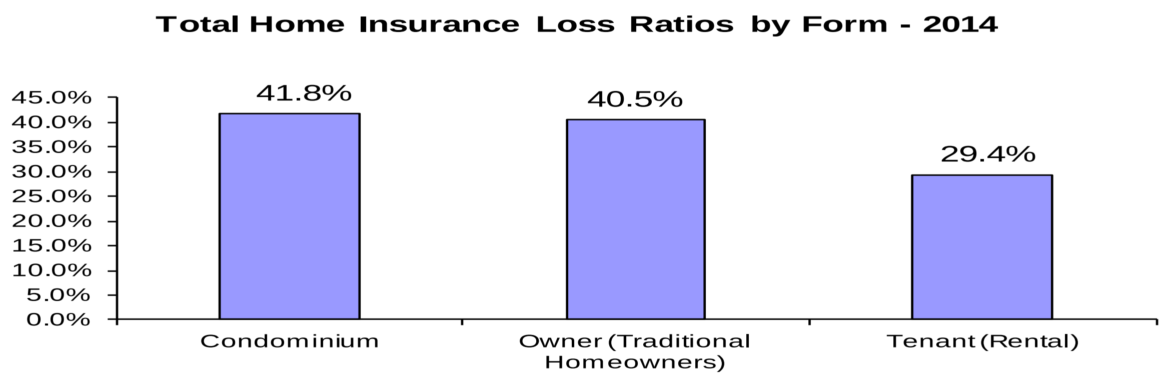


Figure 21

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

[26] 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. PCS has also provided Massachusetts catastrophe property loss estimates.

Combined Ratios: Loss and Expense Experience Compared to Premiums Collected

The combined ratio (the combination of company expenses and incurred claims costs divided by earned premium) is a measure of the overall experience of property insurance companies in a market. A lower combined ratio corresponds with a higher potential profit for the company. 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, the Division has incorporated industry expense data that insurance companies submit as part of their annual financial statements. Figure 22 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) Combined Ratio (Adj Loss Ratio + Expense Ratio)	(L) Mutual Company Dividends to Policyholders	(M)= (K)+(L) Adjusted Combined Ratio (incl Mutual Divs)
2014	2,068,660	833,892	**40.3%**	948,349	**45.8%**	16.8%	2.8%	8.8%	5.5%	33.9%	**79.7%**	0.7%	**80.4%**
2013	1,739,644	660,369	**38.0%**	755,269	**43.4%**	17.0%	2.9%	7.8%	4.7%	32.4%	**75.8%**	0.7%	**76.4%**
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%**

* 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 22

Figure 22 also presents various home insurance company expenses as a percentage of premiums. The adjusted combined ratio illustrates how other necessary expenses, when combined with losses, can be compared to homeowners insurance premiums.[27] The adjusted combined ratio of 80.4% for 2014 is similar to the ratios for most of the other years, indicating the level of losses carriers experienced in 2014.

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 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, or payments from reinsurers to insurance companies that partially reimburse the insurance company for losses paid.

[27] 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 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.

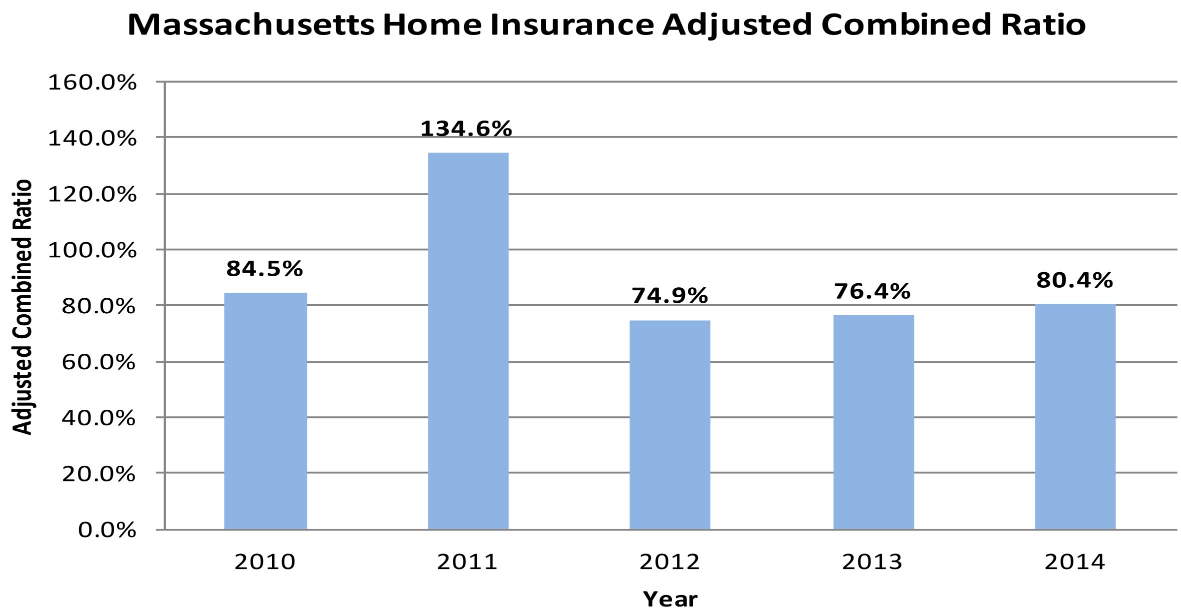


Figure 23

Figure 23 illustrates how weather-related disasters can cause significant fluctuations in the market's adjusted combined ratio, as observed, for example, in the higher combined ratio in 2011 when Massachusetts was impacted by tornadoes and Tropical Storm Irene.

FAIR Plan Financial Results

During its 2014 fiscal year, the FAIR Plan had an underwriting profit of $25,967,007[28] (see accompanying Statistical Supplement). The last underwriting loss to the FAIR Plan was in 2011. Please note that the FAIR Plan underwriting results are on a direct basis and do not reflect reinsurance premiums paid by the FAIR Plan or reinsurance recoveries.

[28] The FAIR Plan fiscal year runs from October 1st of one calendar year to September 30th of the following calendar year.

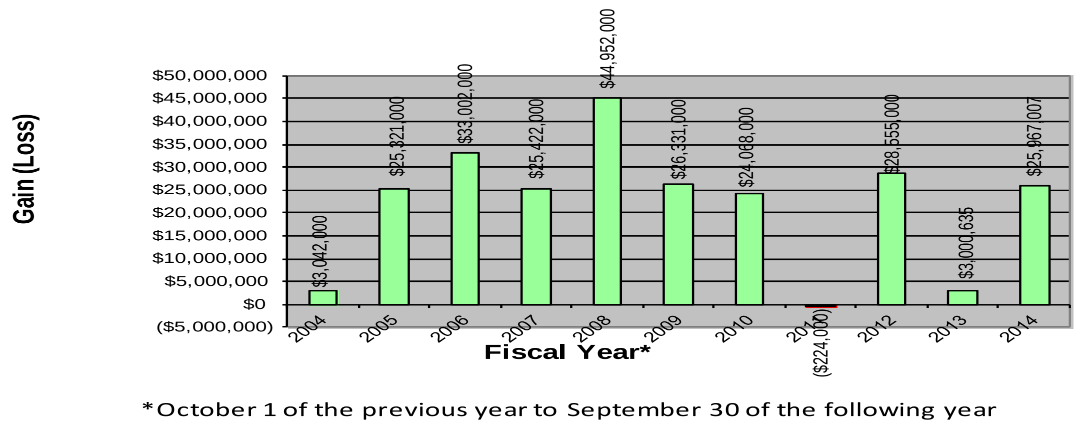


Figure 24

As illustrated in Figure 25, the FAIR Plan experienced a Fiscal Year 2014 underwriting profit – usually called the FAIR Plan's contribution to surplus[29] – of $138 per policy, as compared to an underwriting profit per policy of $16 in Fiscal Year 2013.

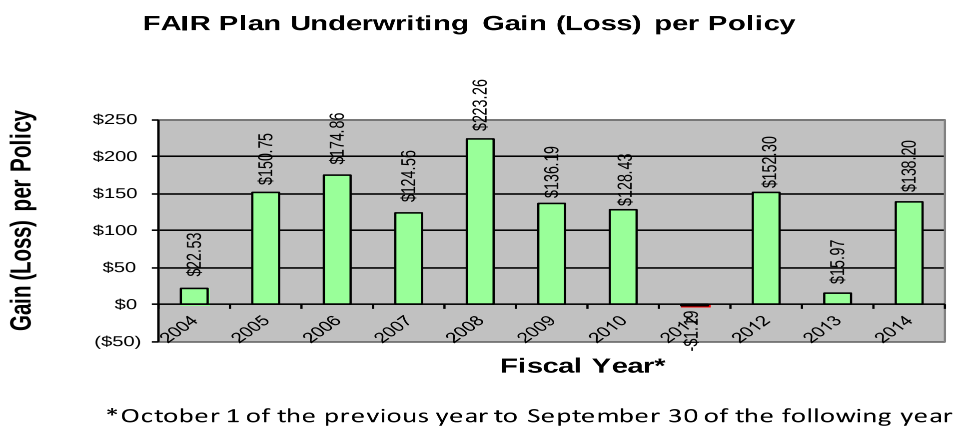


Figure 25[30]

[29] 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.

[30] 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 26, the FAIR Plan revised its annual average rates between 1996 and 2010 from a low of -1.0% (decrease) in 2010 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 scheduled 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.

However, 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.[31] 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 26

In spring 2013, the FAIR Plan submitted a request for an overall statewide increase of 6.8%. The hearing on this rate proceeding concluded in 2014 and the requested rate increase was denied after the Commissioner found that the FAIR Plan had failed to meet its burden of support for two aspects of its rate request and to prove, by a preponderance of the evidence, that its rates satisfied the statutory requirements.

[31] 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 2014, only 83 policyholders of the 187,889 policies written through the FAIR Plan took advantage of the FAIR Plan's Market Assistance Plan, where the FAIR Plan offers the applicant's coverage to any other insurer writing in the market (see Statistical Supplement for details on this program).

Cancellations and Nonrenewals

Under M.G.L. c. 175, §4B, the Division collects information from the top 25 insurers[32] 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.[33]

Aggregate Cancellation/Nonrenewal Data for Urban/Coastal Areas[34]

Figures 27A and 27B 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 477,692 policies in force in urban and coastal areas as of December 31, 2014. Of the total policies in force, there were 286,530 policies in urban areas and 191,162 policies in coastal areas. The top 25 companies covered 355,733 homes and the FAIR Plan covered 121,959 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 2014, there were a total of 60,917 policies cancelled in urban or coastal areas, with 45,647 cancellations among the top 25 companies and 15,270 cancelled FAIR Plan policies. Of the total number of cancellations, 41,643 policies were cancelled in urban areas and 19,274 policies were cancelled in coastal areas.

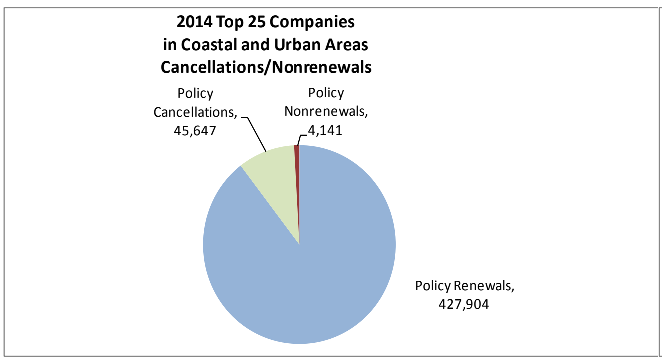


Figure 27A

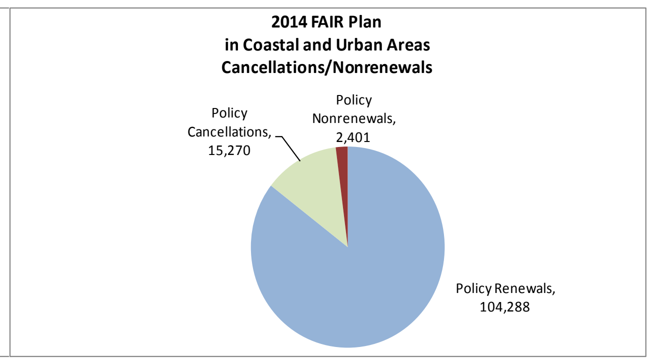


Figure 27B

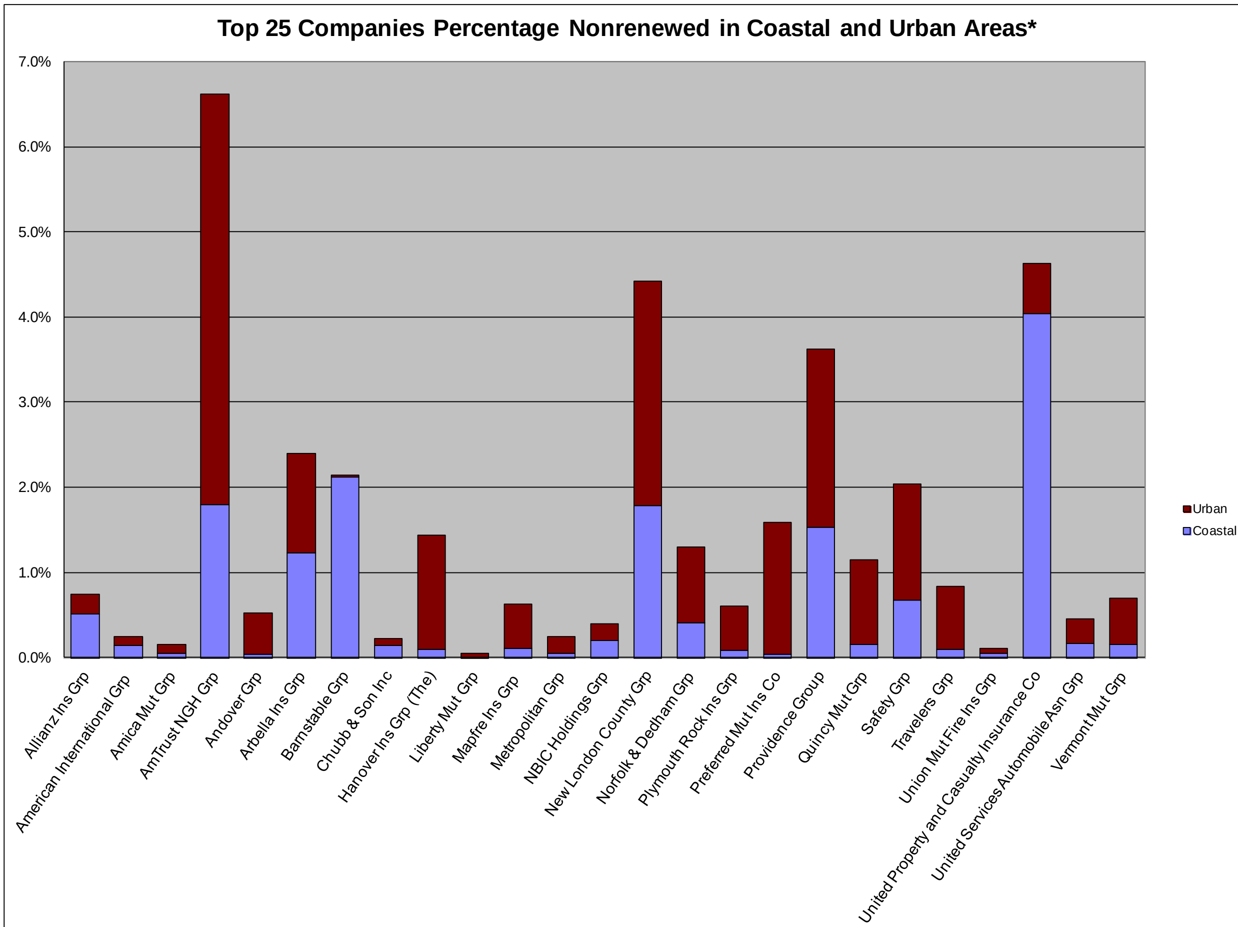
[32] The top 25 insurers, primarily insurer groups that were writing homeowners insurance in Massachusetts in 2014 based on written premium data from the National Association of Insurance Commissioner's database for homeowners multiple peril, are listed within footnote 9. Some of these insurer groups are better known by the names of their individual insurance companies.

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

[34] 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.

Policy nonrenewal 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 when it expires. The top 25 companies and the FAIR Plan report that there were a total of 6,497 policies nonrenewed in the urban and coastal designated zip codes in 2014, with 4,096 policies nonrenewed among the top 25 companies and 2,401 nonrenewed FAIR Plan policies. Of the total number of nonrenewals, 3,734 policies were nonrenewed in urban areas and 2,763 policies were nonrenewed in coastal areas.

When examining the information submitted on a company-by-company basis, as illustrated in Figure 28, four companies – AmTrust NGH Group, New London County Group, Providence Group, and United Property and Casualty Insurance Company – had the highest numbers of nonrenewals in 2014.



*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 28

Cancellations 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 60 days (when an insurer may do so without reason) or were due to nonpayment or for other permitted reasons after the first 60 days of a policy. The Division requested information regarding the number of cancellations specifically associated with geographic concerns, as opposed to those undertaken for any other reasons.

The top 25 companies and the FAIR Plan reported:

- 60,917 cancellations during 2014.
  - 44,160 were initiated by the policyholder; and
  - 16,757 were initiated by the insurer, of which:
    - 1,390 initiated by the insurer in the first 60 days,
    - 11,764 cancelled due to nonpayment, and
    - 3,603 cancelled for other reasons permitted by law.

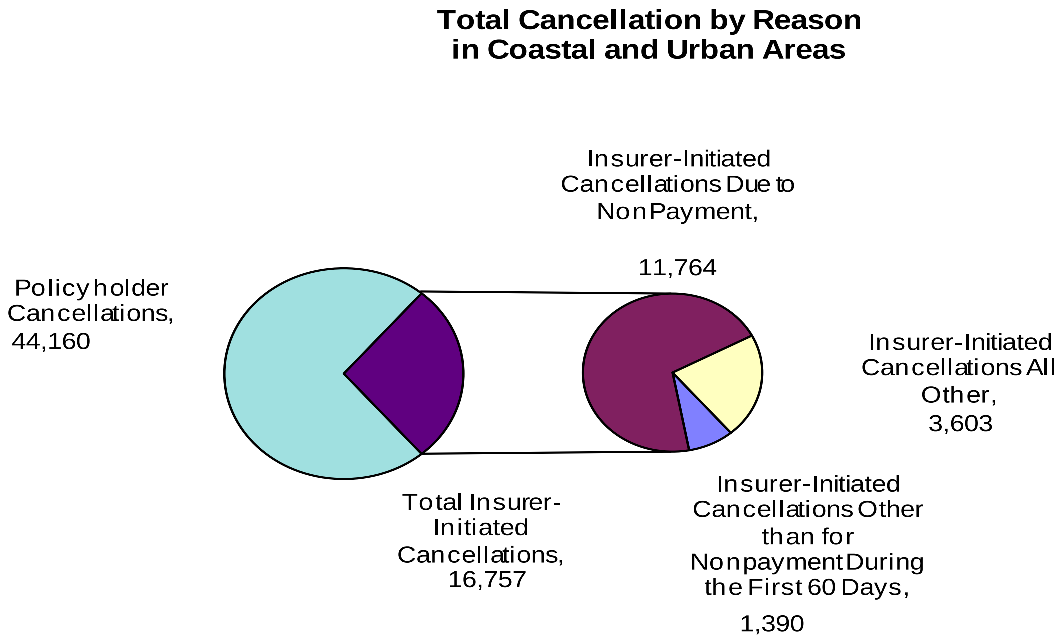


Figure 29

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

- 41,643 cancellations occurred during 2014.
    - 29,859 were initiated by the policyholder; and
    - 11,784 were initiated by the insurer, of which:
        - 960 initiated in the first 60 days,
        - 8,494 cancelled due to nonpayment, and
        - 2,330 cancelled for other reasons permitted by law.

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

- 19,274 cancellations occurred during 2014.
    - 14,301 were initiated by the policyholder; and
    - 4,973 were initiated by the insurer, of which:
        - 430 initiated in the first 60 days,
        - 3,270 cancelled due to nonpayment, and
        - 1,273 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 2012, 2013, and 2014. 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 and (b) all other reasons.

The top 25 companies reported that there were a total of 4,141 insurer-initiated policies nonrenewed in the urban and coastal designated zip codes in 2014,[35] with 45 of those nonrenewed as insurers withdrew from certain geographic areas and 4,096 nonrenewed for other reasons. This compares with a total of 5,363 policies nonrenewed in the urban and coastal designated zip codes in 2013, with 40 nonrenewed as insurers withdrew from certain geographic areas and 5,323 nonrenewed for other reasons. Of the reported 45 in 2014 that were nonrenewed because the insurer decided to withdraw from a geographic area, three were in those zip codes identified as coastal areas. Of the reported remaining 4,096 nonrenewals for reasons other than a decision to withdraw from a geographic area, 1,759 were nonrenewals in those zip codes identified as coastal areas and 2,337 were nonrenewals in those zip codes identified as urban areas.

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

In addition to the top 25 company nonrenewals, the FAIR Plan did not renew 2,401 policies according to what is permitted within its Plan of Operations, including properties whose value exceeds the FAIR Plan's $1,000,000 cap.

Claims History of Policyholders Renewed and Nonrenewed in Urban/Coastal Areas in 2014

In the 2014 survey, the Division asked the top 25 home insurance companies to separately report the claims history of policies that were renewed or nonrenewed.[36]

In 2014, of the reported 355,733 urban or coastal policies renewed by the top 25 home insurance companies, there were an estimated 26,701 claims filed during the reporting period, an average of 75 claims filed per 1,000 policies renewed in 2014. The companies reported having paid $241,334,527 in claims during the reporting period for those renewed in 2014, with an average claim size of $7,477. By comparison, in 2013, of the reported 358,766 policies renewed by the top 25 home insurance companies, there were an estimated 42,465 claims filed during the reporting period, or an average of 118 claims filed per 1,000 policies renewed. The companies reported having paid $298,670,025 in claims during the period for those renewed, with an average size of $6,058.

When comparing urban and coastal renewed policies, there were 79 claims filed per 1,000 coastal policies, as compared to 73 claims filed per 1,000 urban policies. The average claim size for renewal policies was $8,673 per claim for coastal policies, as compared to $6,846 per claim for urban policies.

Of the reported 4,096 policies nonrenewed by the top 25 insurance companies, there were a total of 1,049 claims filed in 2014, or an average of 256 claims filed per 1,000 nonrenewed policies. The companies reported having paid $20,968,234 in claims during the reporting period, with an average claim size of $19,989.

When comparing urban and coastal nonrenewed policies, there were 193 claims filed per 1,000 coastal policies, as compared to 303 claims filed per 1,000 urban policies. The average claim size for nonrenewed policies was $21,278 per claim for coastal policies, as compared to $19,371 per claim for urban policies.

Summary of Cancellation/Nonrenewals in Urban/Coastal Areas

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 2013, approximately 50,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $298,670,025 on these

[36] In collecting the claims history for those policies renewed in 2014, the Division requested in its survey that the company report the number of claims reported and dollar value of claims paid during each of 2012, 2013 and 2014. Similarly, in collecting the claims history for those policies nonrenewed in 2014, the Division requested that the company report the number of claims reported and dollar of claims paid during each of 2012, 2013 and 2014.

claims. In 2014, approximately 32,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $241,334,527 on these claims.

In urban areas, 96.8% of those policyholders with claims who sought to renew were renewed by their insurers. Similarly, 97% of those policyholders with claims in coastal areas who sought to renew were renewed by their insurance companies.[37] See Figures 30A and 30B.

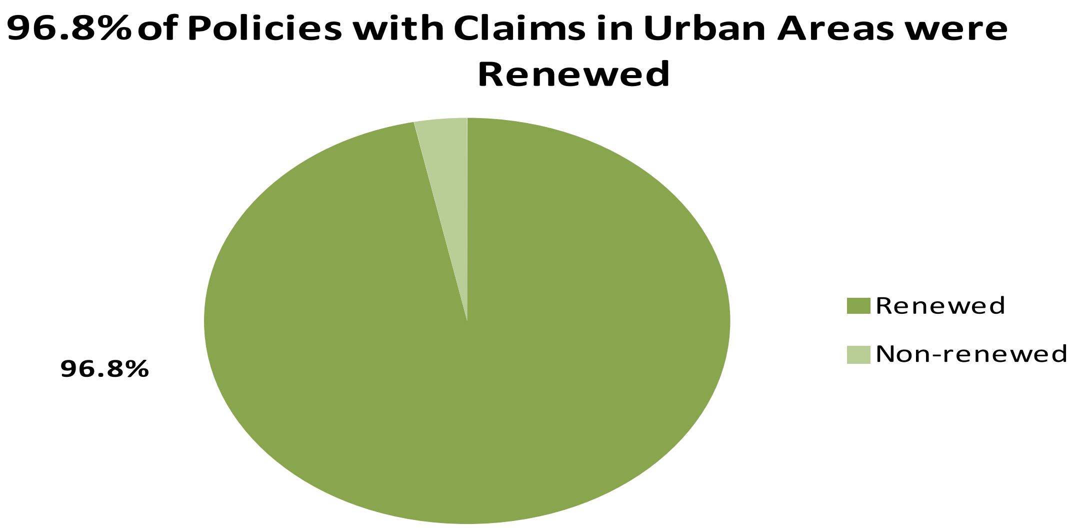


Figure 30A

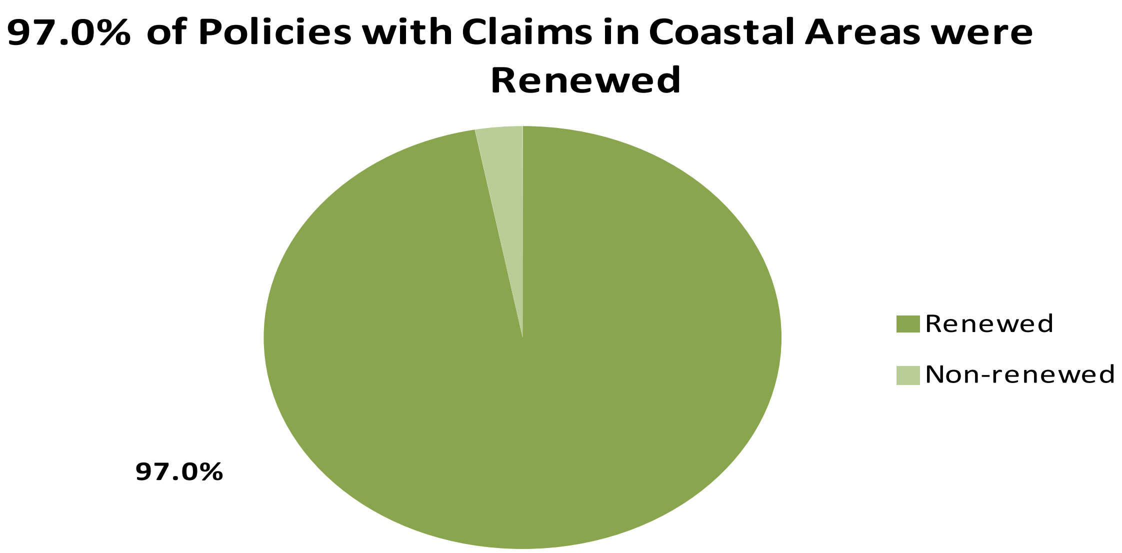


Figure 30B

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