THE MASSACHUSETTS MARKET FOR HOME INSURANCE 2009

A report to the Joint Committee on Financial Services,
the Senate Committee on Ways and Means, and
House Committee on Ways and Means
of the Massachusetts General Court,
the Attorney General,
and the Secretary of the Commonwealth

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

Acknowledgements

This report was prepared by the State Rating Bureau staff of the Massachusetts Division of Insurance ("Division"). Kevin P. Beagan, State Rating Bureau Director, Gerald B. Condon, State Rating Bureau Researcher, and Caleb E. Huntington, State Rating Bureau Mathematician, 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, includes 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. Insurers and their statistical agents were required to provide aggregate 2007, 2008 and 2009 data for all Massachusetts zip codes and Insurance Services Office, Inc. (ISO) territories.

For the 2009 Report, many of the statistical tables that were incorporated in previous annual reports have been included in a separate Statistical Supplement to this report.

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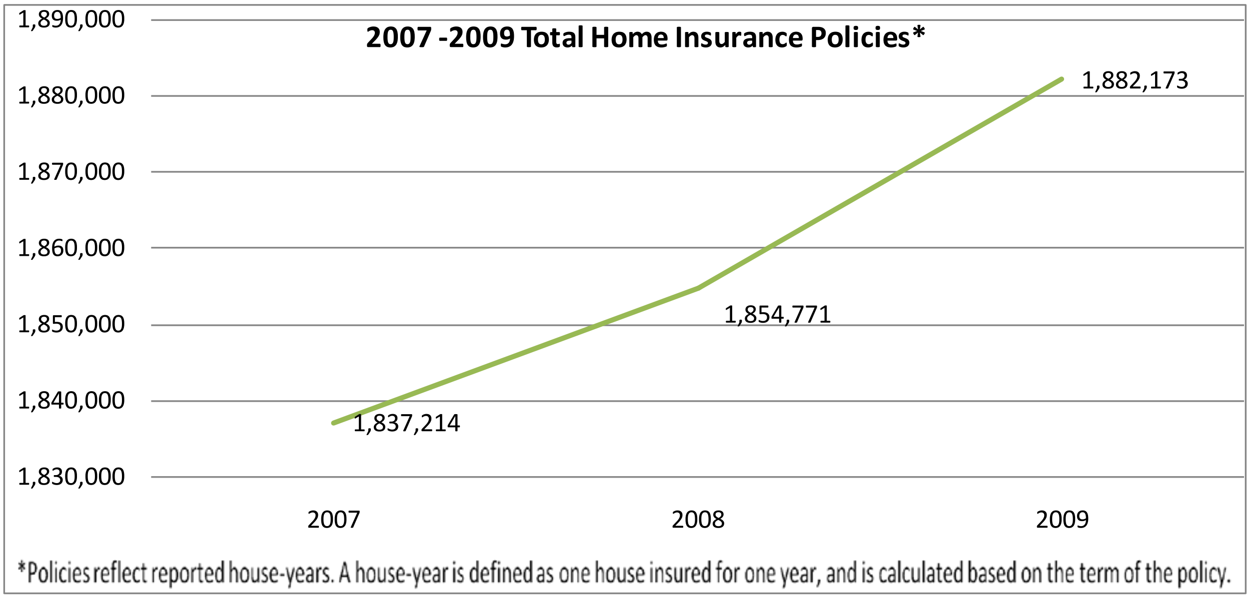
Executive Summary

Among the material presented in this report:

- Home insurance policies increased by 27,402 or 1.5% between 2008 and 2009.



- Total enrollment in the FAIR Plan[1] decreased by 4,814 policies in 2009 with the FAIR Plan writing 14.7% of 2009 home insurance premium.

- In coastal areas the FAIR Plan accounted for 45.3% of policies in the Cape and Islands even though it dipped below its 2007 peak. There have been signs of greater availability of coverage as Narragansett Bay Insurance Company has expanded and new companies have indicated their desire to increase marketing of home insurance to those who purchase their automobile policies.

- Insurance company loss ratios – losses in relation to earned premiums – decreased from 43.5% in 2008 to 42.9% in 2009. When company expenses are added to losses, the resulting combined ratio – losses and expenses in relation to earned premiums – was approximately 80.0% for a fourth straight year.

- There were no events in 2009 that were 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").

Composition of the Massachusetts Market

Home insurance covers non-commercial property for the risks of damage to structural and personal property and personal liability claims. In 2009, insurance companies collected over $1.7 billion in written premium for home insurance policies in Massachusetts, making it the largest line of property and casualty coverage other than private passenger automobile 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 people covered under the three major types of home insurance: condominium, traditional homeowners and rental insurance changed is illustrated in Figure 1.[3]

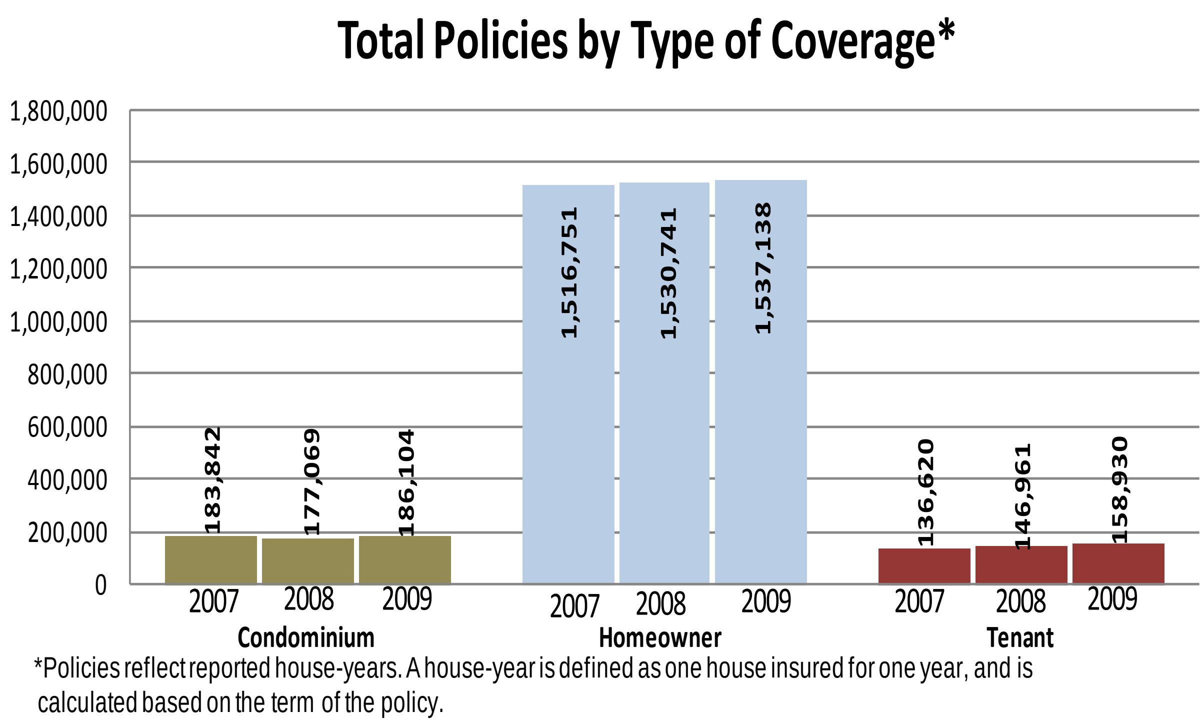


Figure 1

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 insurance company operates according to the statutory

2 Even though 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.

nondiscrimination and disclosure requirements.[4] There are 68[5] licensed insurance companies offering home insurance in the Commonwealth.[6]

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,[7] 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.[8]

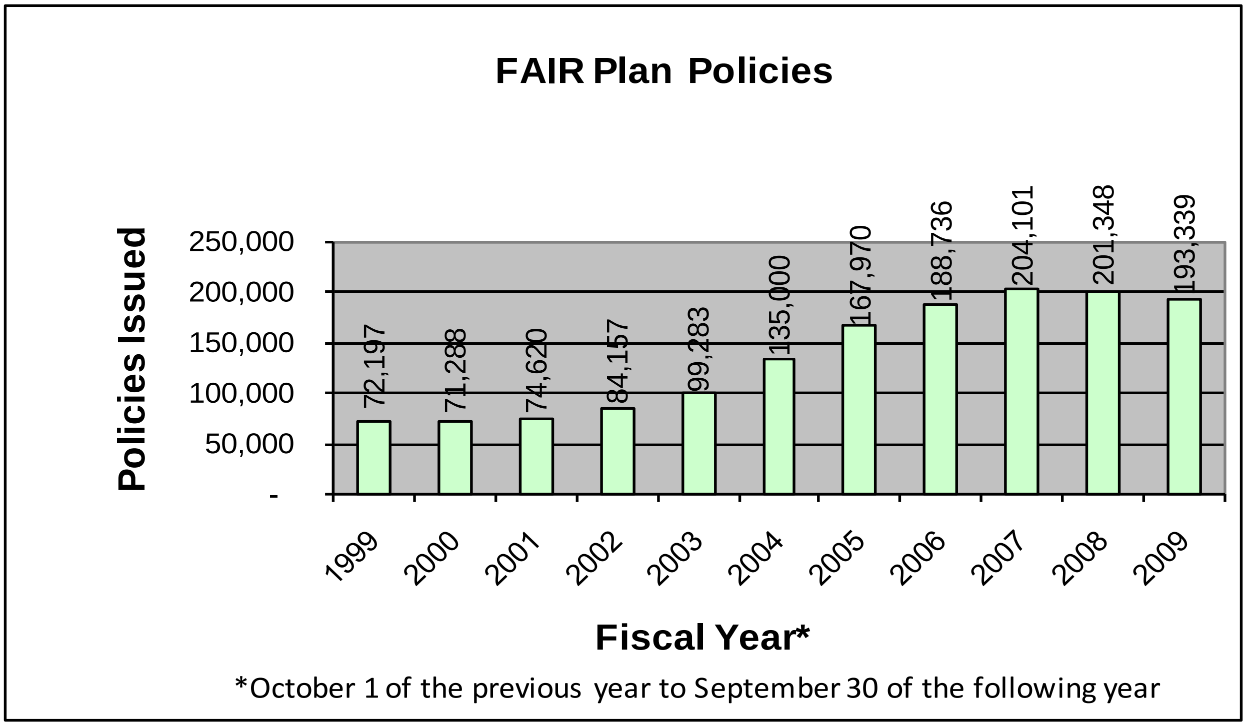


Figure 2

The FAIR Plan decreased by 8,009 policies issued between fiscal year[9] s 2008 and 2009.

4 M.G.L. c. 175, §§ 4C and 99.

6 The company indicates that it has written ten or more policies HO3 form of policy or similar between July 1, 2009 and December 31, 2009.

6 A list of companies offering homeowners insurance by region in Massachusetts is on the Division's website at: http://www.mass.gov/?pageID=ocaterminal&L=4&L0=Home&L1=Consumer&L2=Insurance&L3=Homeowners+Insurance&sid=Eoca&b=terminalcontent&f=doi_Consumer_css_homeowner_ins_list&csid=Eoca

7 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.

8 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.

9 The FAIR Plan's fiscal year is between October 1 and September 30 of the following year.

As noted in Figure 3, the FAIR Plan's market share is 14.7% based on premium volume[10] - almost one and a half times that of the largest commercial carrier.

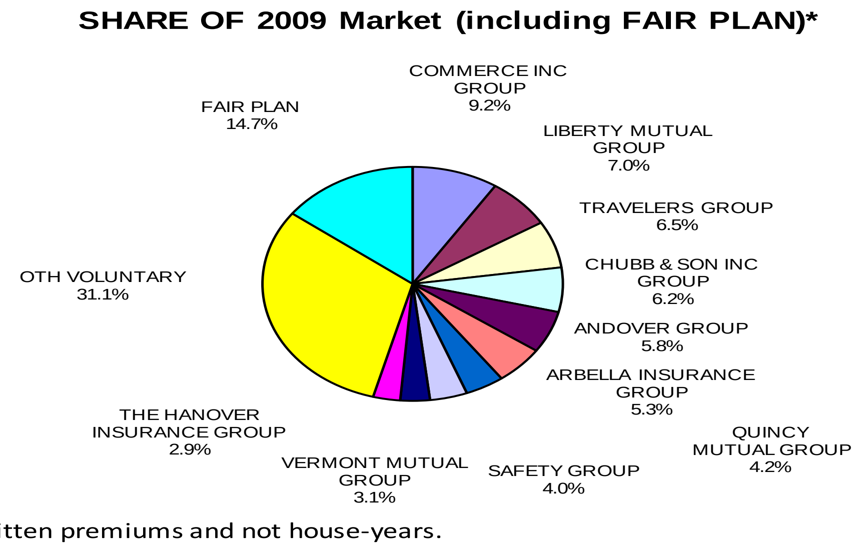


Figure 3

As noted in Figure 4, the FAIR Plan accounted for 14.7% of written premium in 2009. The FAIR Plan's share of the market[11] peaked at 16.1% in 2007.

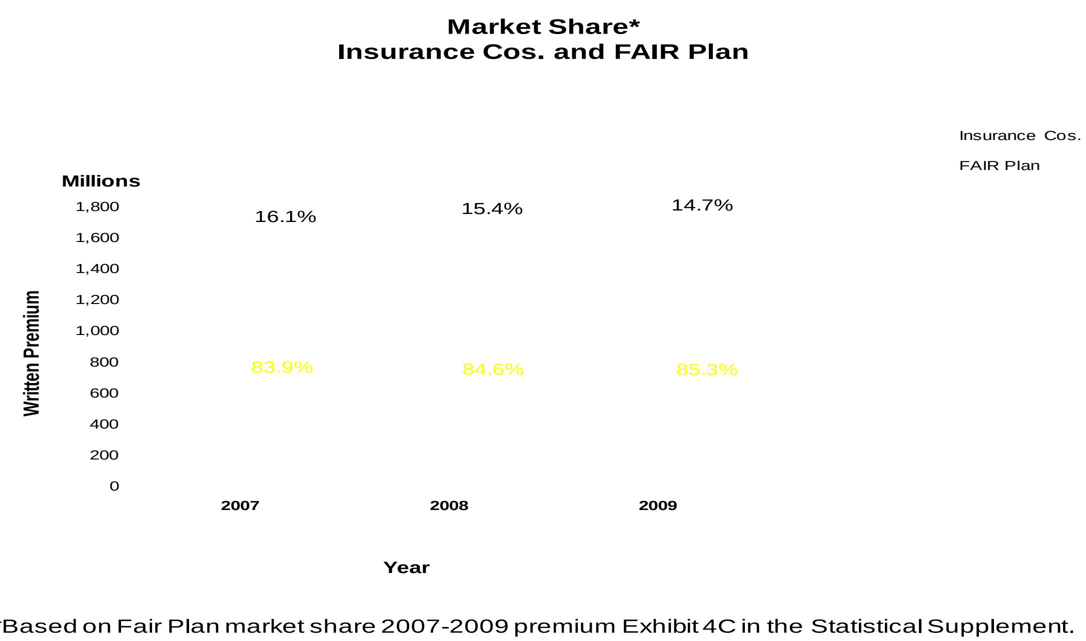


Figure 4

[10] Market share based on 2009 Massachusetts home insurance written premium.
[11] FAIR Plan market share is based upon FAIR Plan and total market 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 63.5% of coverage written by the private insurance companies in the market.

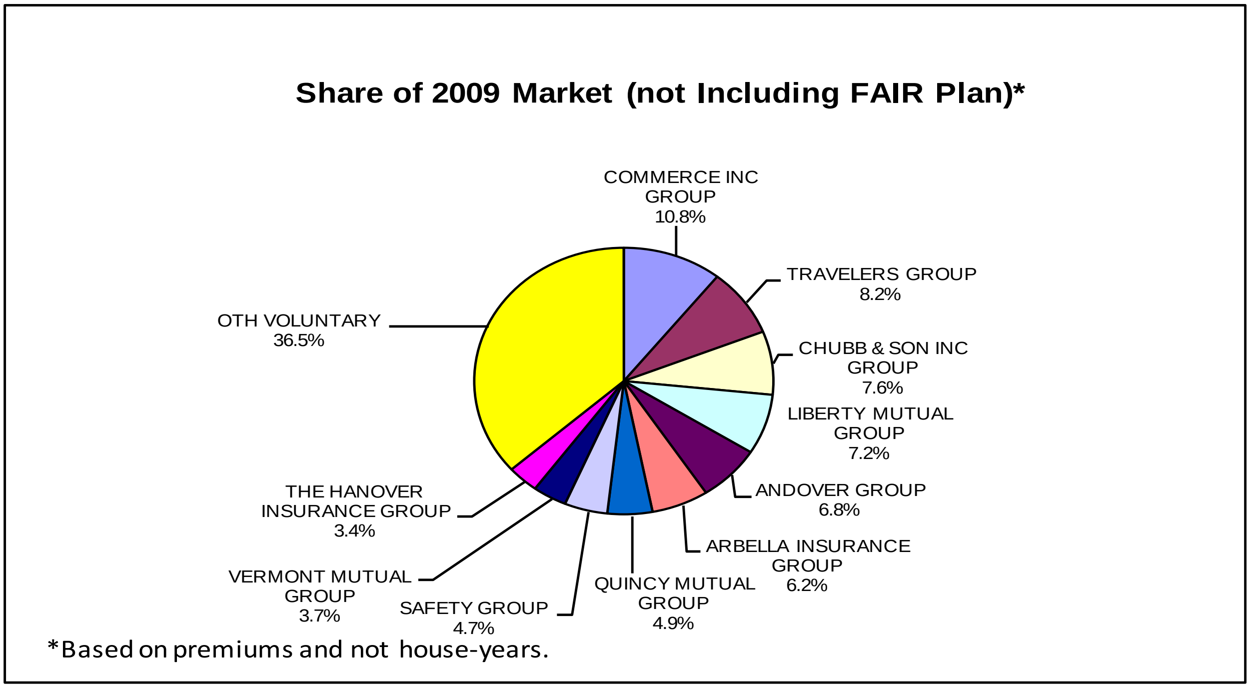


Figure 5

The Commerce Group Inc. had the largest share of the voluntary – non-FAIR Plan - market with 10.8% of the insurance policies written. Each of the next nine largest insurance groups had between 3.4% and 8.2% of the market. If the analysis is extended to the 25 insurance companies with the largest Massachusetts home insurance market share,[12] they are responsible for 92.4% of

[12] The top 25 Massachusetts home insurers based upon overall direct written premiums for calendar year 2009 are:

Allianz Insurance Group	Main Street American Group
American International Insurance Group	Metropolitan Group
Amica Mutual Group	Norfolk & Dedham Group
Andover Group	Plymouth Rock Insurance Group
Arbella Insurance Group	Preferred Mutual Insurance Group
Barnstable Group	Providence Group
Chubb & Son Group Inc.	Quincy Mutual Group
Commerce Group Inc.	Safety Group
Country Insurance & Financial Services Group	Travelers Group
(The) Hanover Insurance Group	United Services Automobile Association Group
Harleysville Group	Vermont Mutual Group
Hingham Mutual Group	White Mountain Group
Liberty Mutual Group	

the non-MPIUA insurance market. The remaining 45 company groups[13] each account for less than 1.0 percent of the non-MPIUA market.

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 three – the Travelers Group, the Liberty Mutual Group and Chubb & Son Group, Inc. – offer home insurance nationally. The remaining companies are regional companies offering coverage primarily in the Northeast.

Changes in Coverage

As noted in Figure 6, the number of total home policies written by insurance companies or the FAIR Plan increased between 2008 and 2009 by 27,402 or by 1.5%.

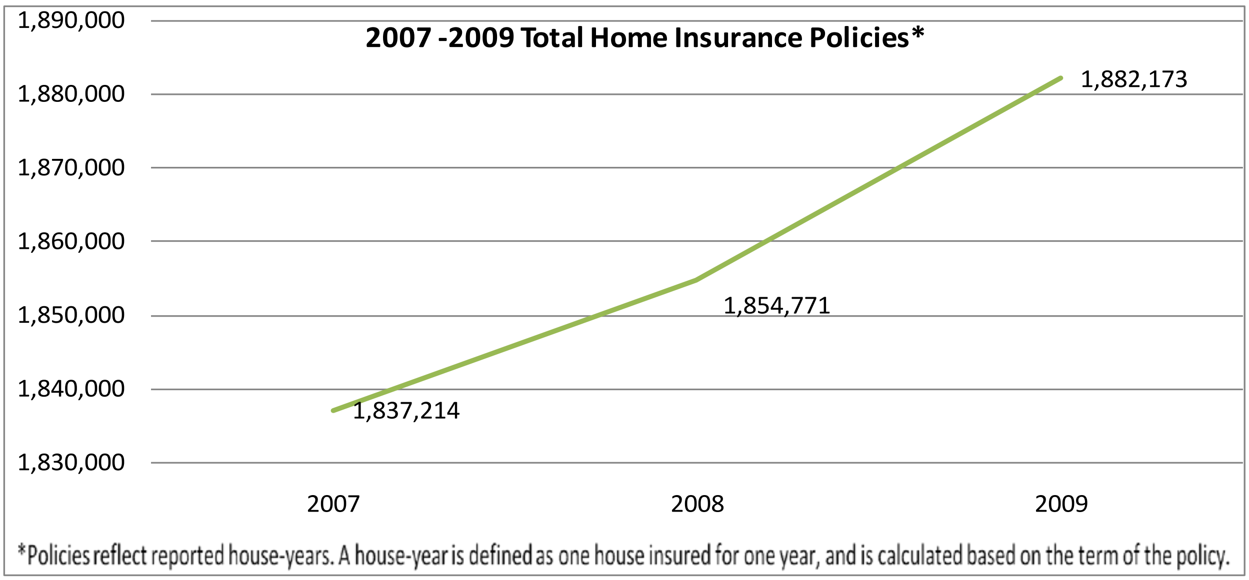


Figure 6

When grouping counties according to Massachusetts policies,[14] as is illustrated in Figure 7, Middlesex County had the largest population[15] and at 420,992 home insurance policies, that area

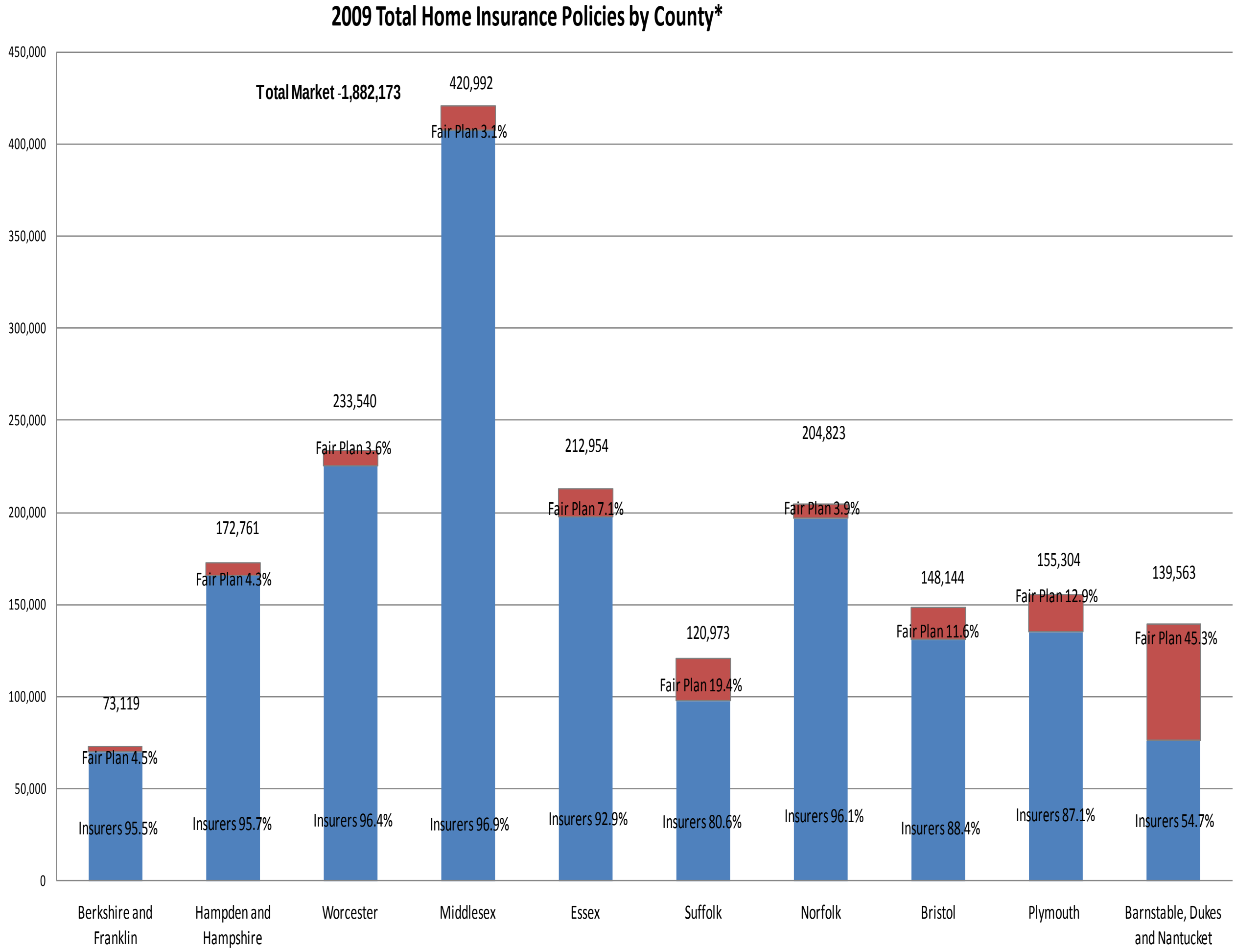
[13] Based on 2009 National Association of Insurance Commissioners home insurance multiple peril direct written premium by company group. Company groups often have more than one licensed insurer writing home insurance.

[14] 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.

had the highest number of policies in-force. After Middlesex County, the next three largest counties for home insurance are: Worcester (233,540), Essex (212,954) and Norfolk (204,823).



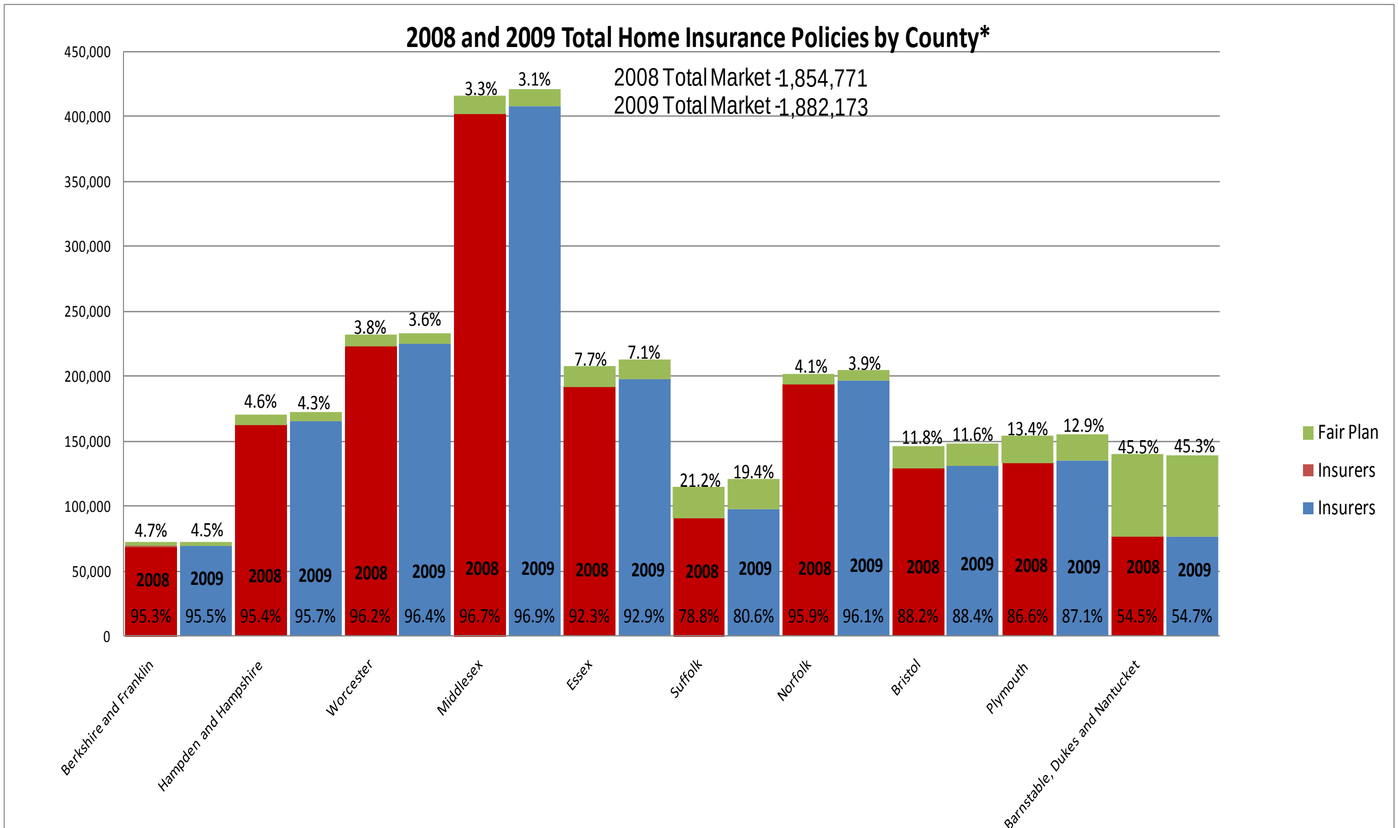
*Policies reflect reported house-years. A house-year is defined as one house insured for one year, and is calculated based on the term of the policy.

Figure 7

The proportion of FAIR Plan policies written by area varies greatly. While the FAIR Plan writes 45.3% of the home insurance in Barnstable, Dukes and Nantucket Counties (an area also known as the Cape and Islands) and 19.4% of the home insurance in Suffolk County, it writes less than 15% of the policies in each of the other areas

[15] Source: Annual Estimates of the Population for Counties of Massachusetts, Population Division, U.S. Census Bureau. Release Date: March 2010.

When comparing home insurance between 2008 and 2009, as presented in Figure 8, the number of home insurance policies grew in most territories.



*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

Changing Availability of Coverage in Massachusetts

Even before insurance companies suffered severe losses with Hurricane Katrina in 2004 and other hurricanes affecting Gulf States in 2005, there had been significant changes in the ways that insurance carriers have approached risk in coastal areas on the Eastern Seaboard. Due to changes in the availability and cost of reinsurance, many insurers along the Atlantic Ocean with significant numbers of policies in coastal areas have been notifying their customers of declining interest to renew policies in those areas for some time. Many companies nonrenewed coverage and many of the affected policyholders received their coverage from the Massachusetts FAIR Plan with the same coverage terms that had been available through their former company

Since 2004 the Division of Insurance has been notified by a number of insurers that they would nonrenew all their coastal exposures in Massachusetts. The following catalogues those withdrawals and the estimated number of policyholders:

2004	Andover Group	14,000
2005	Patrons Mutual	1,400
	Preferred Mutual	600
	Vermont Mutual	5,000
	Hingham Mutual	8,000
	Quincy Mutual	7,000
	National Grange (NGM)	2,000
2006	Vesta Insurance Group	5,300

In addition to the companies listed above, the Hanover Insurance Group took steps beginning in 2007 to nonrenew over 1,800 Cape and Island properties - a significant proportion of its covered properties in coastal areas. The White Mountain Group announced in December 2008 that over 2,000 property risks in total would be nonrenewed beginning in 2009. There have not been any other significant nonrenewals of other companies.

Even though the Division maintains a list on its website[16] of companies which indicate that they are writing business in coastal counties, many of those companies will write new business only in areas that are not near coastlines. There are very few companies that have a significant share of their business written in Cape Cod and the Islands.

Despite the severe reduction in availability of coverage outside the FAIR Plan, there have been signs that there may be greater availability in the future. During 2007, the Division approved the entry of a new entrant - Narragansett Bay Insurance Company – to write predominantly in coastal markets; that company has been writing an increasing number of homes in coastal areas in 2008. There have not been any other entrants who have entered this market.

[16] The list of companies may be accessed at the following internet address: http://www.mass.gov/?pageID=ocaterminal&L=4&L0=Home&L1=Consumer&L2=Insurance&L3=Homeowners+Insurance&sid=Eoca&b=terminalcontent&f=doi_Consumer_css_homeowner_ins_list&csid=Eoca.

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 to expand their home insurance coverage in Massachusetts because they believed they could not operate within the rules in place for private passenger coverage.

Prior to April 1, 2008, Massachusetts private passenger automobile insurance companies operated in a highly regulated market subject to “fix-and-establish” rules. Following the conclusion of annual regulatory hearings, the Commissioner of Insurance formally approved all policy forms and fixed the rates to be used by all companies in the market at the end of annual rate setting hearings.

Following a series of steps taken by then Commissioner Nonnie S. Burnes in 2007, 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 11 new insurance companies operating in Massachusetts’ private passenger motor vehicle insurance market, some of which 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 addition of new companies, many existing insurance companies are offering expanded multi-policy premium discounts when insureds buy both their home insurance and automobile insurance coverage from the same company. In order to understand the affect that the changes to private passenger coverage may have had to the home insurance market, the top 25 home insurance companies were asked to report the level of home insurance premium credits provided in 2008[17] and 2009 for those policyholders who also had motor vehicle coverage with the same or an affiliated insurer.[18]

[17] A number of companies have corrected their 2008 data affecting 2008 totals reported.

[18] 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 $24.3 million in 2008 to $33.8 million in 2009.

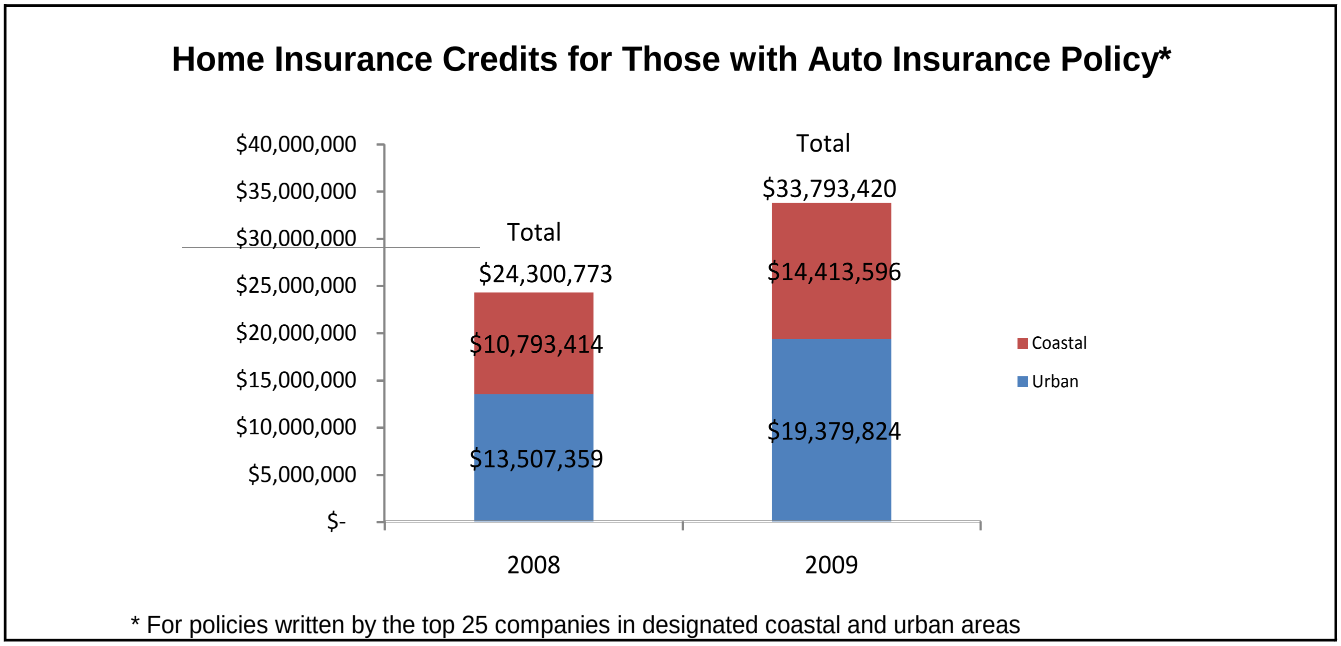


Figure 9

When looking at the number of policies affected, over 18,000 more home insurance policies in urban areas obtained premium credits for related automobile insurance coverage in 2009 than in 2008. In coastal areas, over 5,000 more home insurance policies obtained premium credits in 2009 than in 2008 because they had related private passenger coverage.

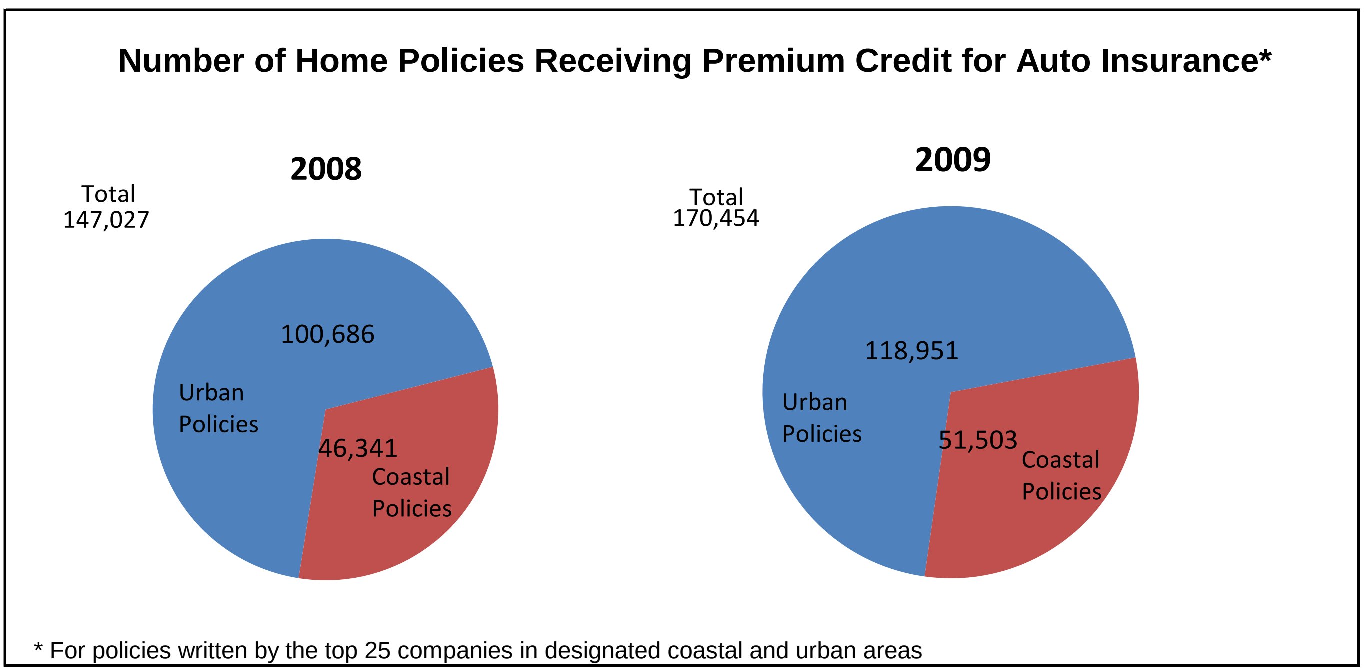


Figure 10

The overall average credit increased from $165 per policy in 2008 to $198 per policy in 2009. As illustrated in Figure 11, the average percentage level of premium credit per policy increased between 2008 and 2009 with the most significant increases in urban areas where the credit increased from 10.9% to 13.2% of the average policy premium.

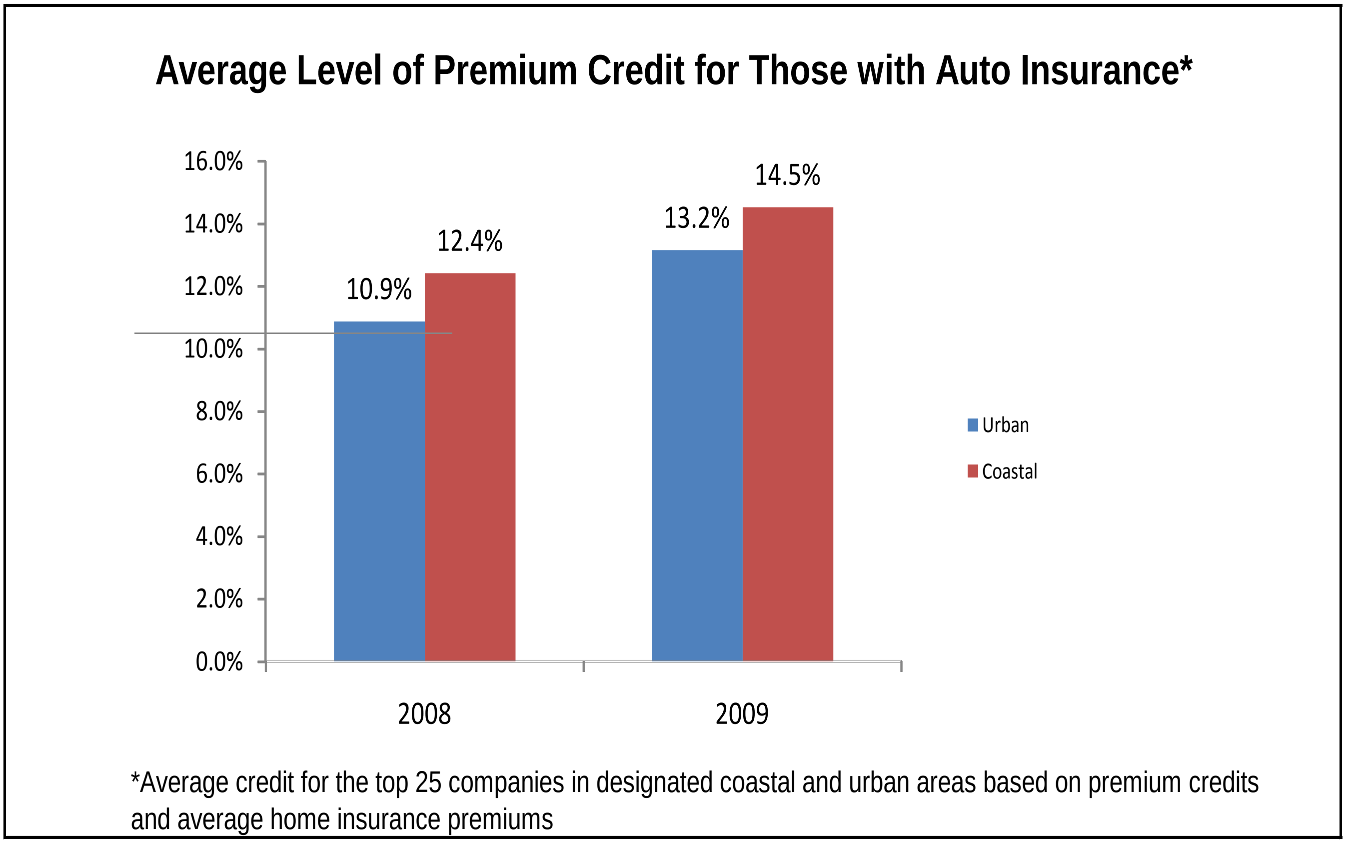


Figure 11

Wind Deductibles and Flood Exclusions

Wind Deductibles

In order to reduce their risk, many home insurance companies added mandatory wind deductibles[19] to policies which apply to any wind-related damages that may occur in certain coastal territories, such as - 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 consumers purchase coverage, it is unclear whether consumers understand the potential impact of the limitations.

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[21] or 5% of the coverage for the main structure.[22] 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, 47.8% had a mandatory wind deductible on their coverage in 2009. For those who lived in coastal areas, 78.0%% had a mandatory wind deductible. For those who lived in urban areas, 27.1% of the policyholders had a mandatory wind deductible.

Beginning in 2006, the Division of Insurance encouraged insurance companies to allow covered persons to reduce or eliminate their wind deductible by taking steps to reduce the potential costs to 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, installed hurricane-proof garage, patio, and other doors and/or installed 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] There is one company that has a $7,500 mandatory flat windstorm deductible for homes with main structure coverage from $600,001 to $999,999 and $10,000 mandatory flat windstorm deductible for homes with main structure coverage on $1,000,000 and over.

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

Flood Exclusions

In the United States, insurance policies do not cover damages associated with floods.[23] 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.

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. Flood insurance is mandatory only for those homes whose mortgage is through a federally-backed lender for property in high-risk flood areas.

FEMA has estimated that more than 11 million U.S. homes are in flood zones and that about one-fourth of the homeowners located in Special Flood Hazard Areas (SFHA)[24] are covered by NFIP-issued or NFIP-backed flood insurance. The proportion of homeowners with flood coverage is low because many people underestimate the risk of flooding. As presented in Figure 12, FEMA reports that 52,001 homes in Massachusetts had flood insurance in 2009; this is an increase of 3.5% over the 50,229 reported for 2008.

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

County	V-Zone Policies	A-Zone Policies	Other Policies	2009 Total Policies	2008 Total Policies	Total Premium	Total Coverage
Berkshire & Franklin	0	862	347	1,209	1,150	$1,166,046	$218,867,100
Hampden & Hampshire	0	992	598	1,590	1,493	$1,674,783	$327,223,400
Worcester	0	950	551	1,501	1,579	$1,925,414	$368,064,600
Middlesex	0	3,709	2,043	5,752	5,499	$4,500,395	$1,198,050,900
Essex	304	4,216	2,435	6,955	6,637	$6,635,389	$1,494,357,300
Suffolk	31	3,299	818	4,148	3,934	$3,800,912	$867,123,700
Norfolk	55	4,001	1,230	5,286	5,070	$4,413,506	$1,126,304,000
Bristol	386	2,527	1,134	4,047	3,696	$4,594,137	$879,925,000
Plymouth	788	6,618	2,098	9,504	9,506	$11,889,061	$2,117,182,500
Barnstable, Dukes & Nantucket	868	6,290	4,851	12,009	11,665	$13,644,046	$2,959,134,200
State Total :	**2,432**	**33,464**	**16,105**	**52,001**	**50,229**	**$54,243,689**	**$11,556,232,700**

*Data is based on information received from the Federal Emergency Management Agency as 08/05/09 (excludes a small percentage of unknown data) for 2008 policies as of 07/01/2010 for 2009 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).

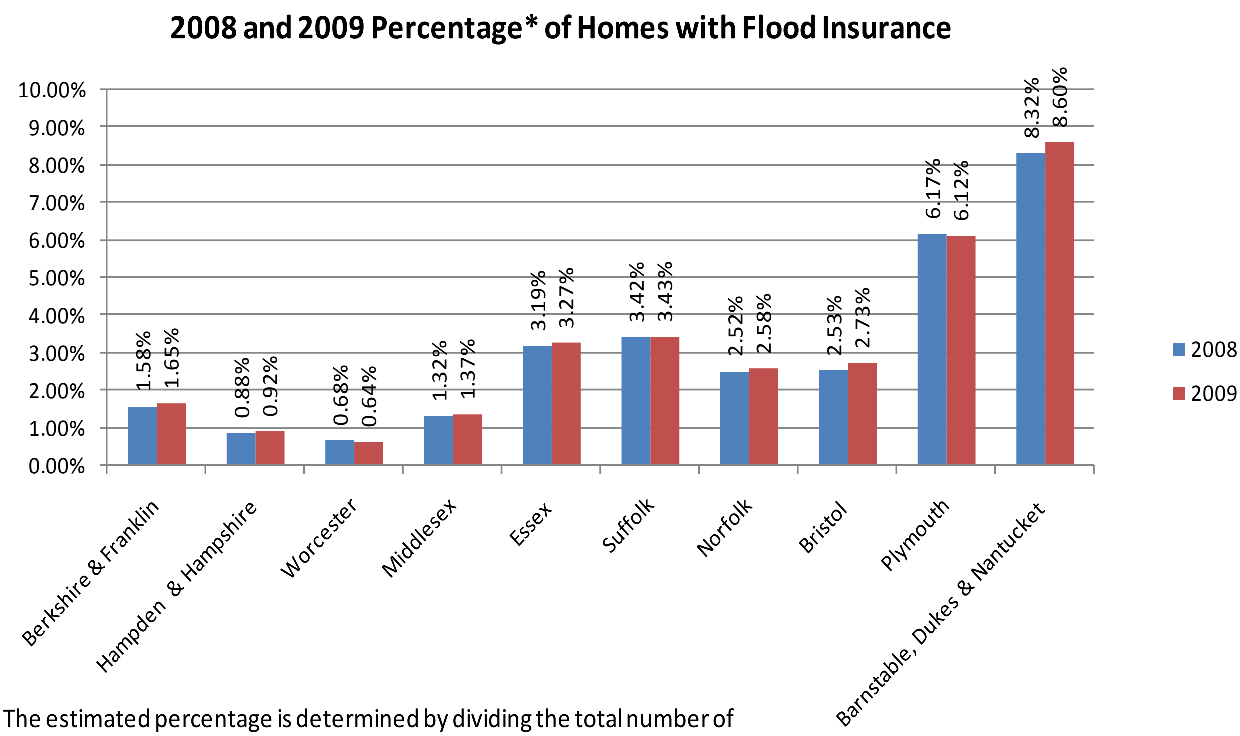
Figure 12

[23] Automobile insurance policies usually do cover flood damage to a motor vehicle.

[24] 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 has kept statistics on national purchases of flood insurance and reported that in 2004 only 28.0% of homes in SFHAs and 0.6% of homes outside of SFHAs purchased flood insurance.[25] 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. Barnstable County - with 8.3% of its homes with NFIP coverage – was the only county where more than 8% of the homes did hold flood insurance in 2004.

Although the Division issued Bulletin 2006-05 to remind insurers and insurance producers to offer flood insurance to all state residents, as illustrated in Figure 13, the Division estimates the number of Massachusetts homes with flood insurance continues to be relatively low for 2009.



*The estimated percentage is determined by dividing the total number of flood policies in each county by the number of policies (defined as written house-years)

Figure 13

[25] 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.

Financial Results

Premiums

In 2009, insureds paid more than $1.7 billion in premium – .7% more than was reported for 2008. Of the total premium, 93.4% was for traditional homeowners insurance. Between 2008 and 2009, traditional homeowners insurance premiums increased by $5.2 million.

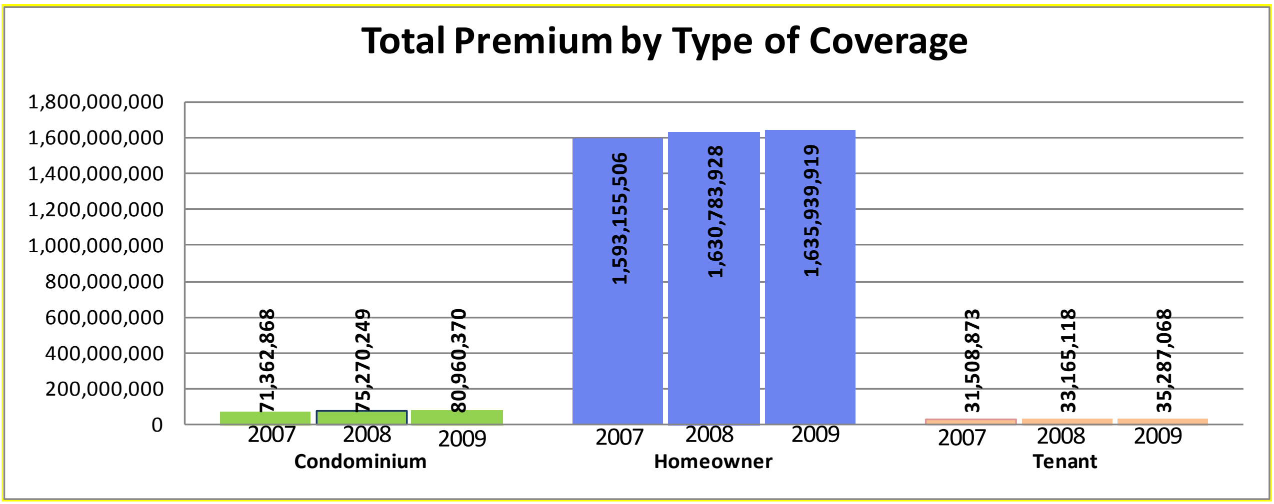


Figure 14

Average premiums increased in 2009 for condominium and traditional homeowners coverage, while tenant premiums decreased slightly.

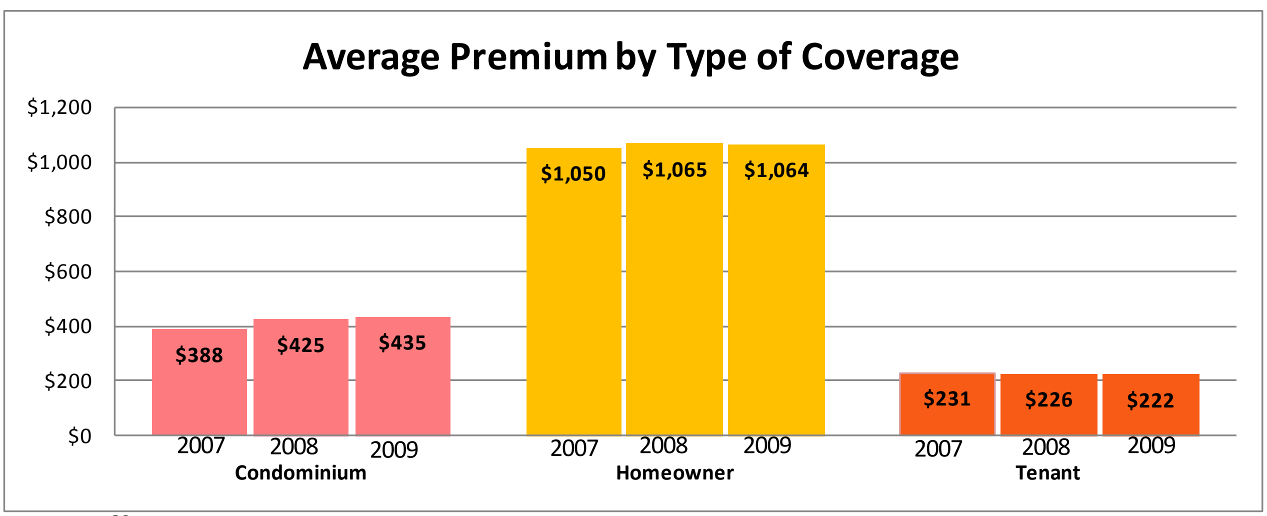


Figure 15[26]

[26] See footnote 1

Costs

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

Filed Claims

In 2009, insureds filed a total of 68,177 claims to their Massachusetts home insurance companies – 25.7% less than the 91,781 filed in 2008 - with 89.3% of the claims filed on traditional homeowners insurance policies. As illustrated in Figure 16, only the condominium coverage type had an increase between 2008 and 2009 in the number of claims filed.

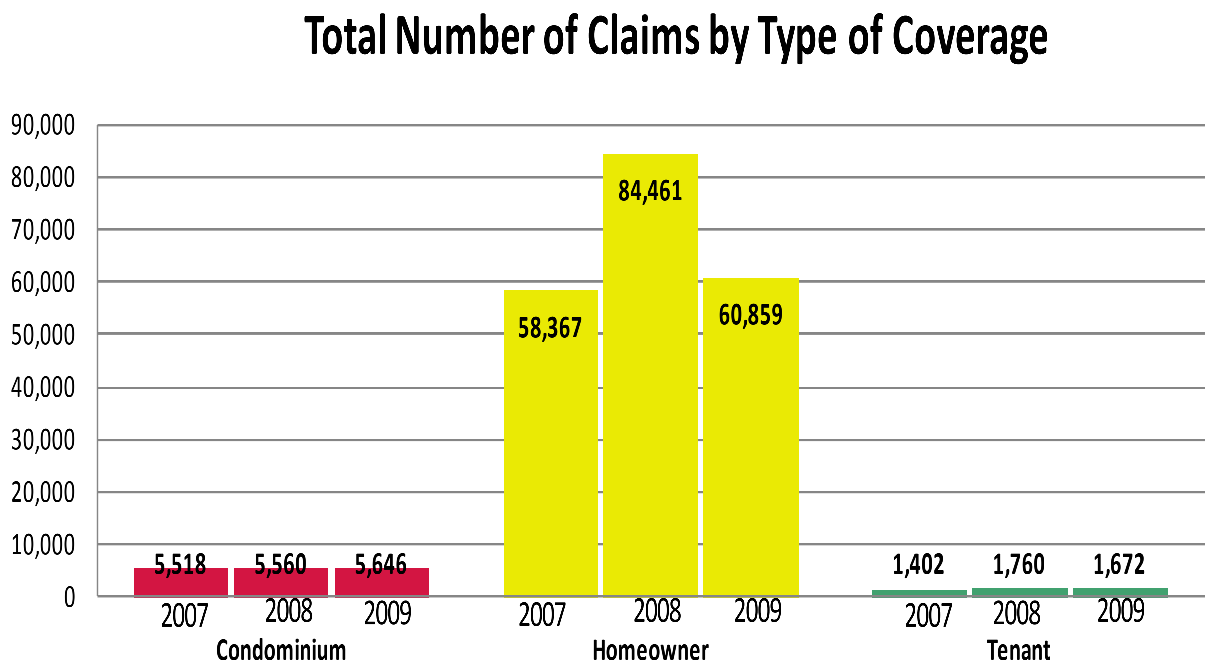


Figure 16

Claim trends tend to fluctuate with damage-causing weather patterns. While Massachusetts' 2007 and 2009 storms were relatively mild, a much higher number of claims were associated with the winter storm on December 11-13, 2008.

While the total number of filed claims decreased last year, as illustrated in Figure 17, the average incurred claim for traditional home insurance increased between 2008 and 2009 by $3,169 or by 37.8%. The size of the average incurred claim for condominium insurance decreased by 11.4%. The size of the average incurred claim for tenants between 2008 and 2009 increased by 4.1%.

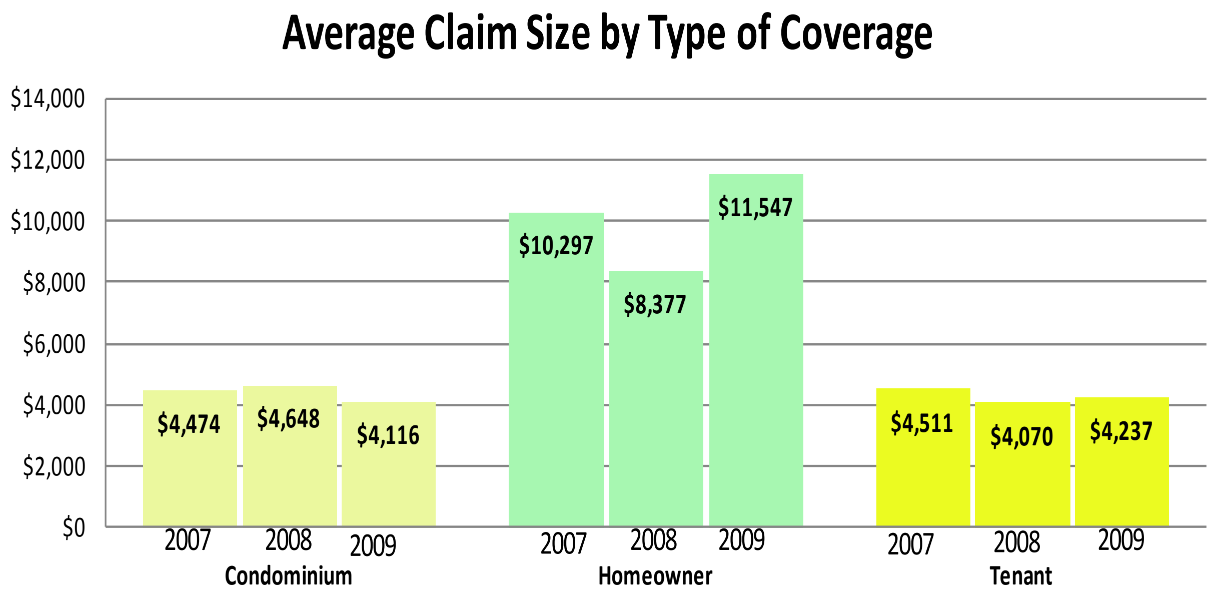


Figure 17

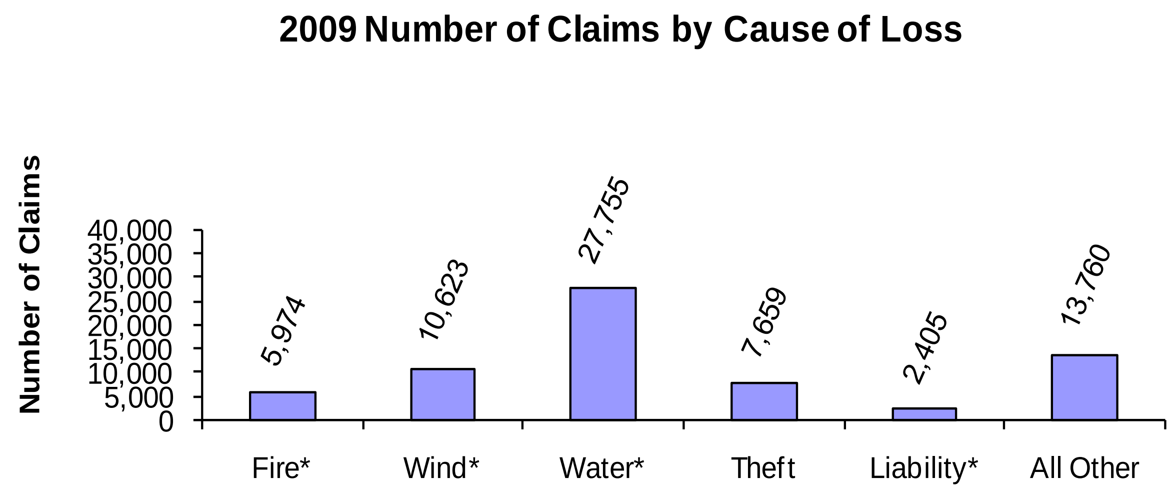
Analysis of Claims Experience

When recording reported claims, companies categorize submitted claims according to the cause of loss in order to project future claims, as well as to consider loss control programs that may reduce future losses. Although certain events are natural (such as earthquakes) and others are manmade (such as theft) - companies track both types of losses to develop loss controls that are tailored to various events. In general, company groups submitted claims according to the following categories:

Fire, lightning and removal;
Wind and hail;
Water damage and freezing;
Theft;
Liability and medical; and
All other.[27]

As illustrated in Figure 18, the highest number of claims – 27,755 – in 2009 was submitted for water damage and freezing losses; this is a little more than 40.7% of total claims. Policyholders also submitted 5,974 claims for fire, lightning and removal damages and 10,623 claims for wind and hail damages, accounting respectively for 8.8% and 15.6% of total claims filed. There were a total of 13,760 claims filed under the "all other" category, which represents 20.2% of total claims filed.

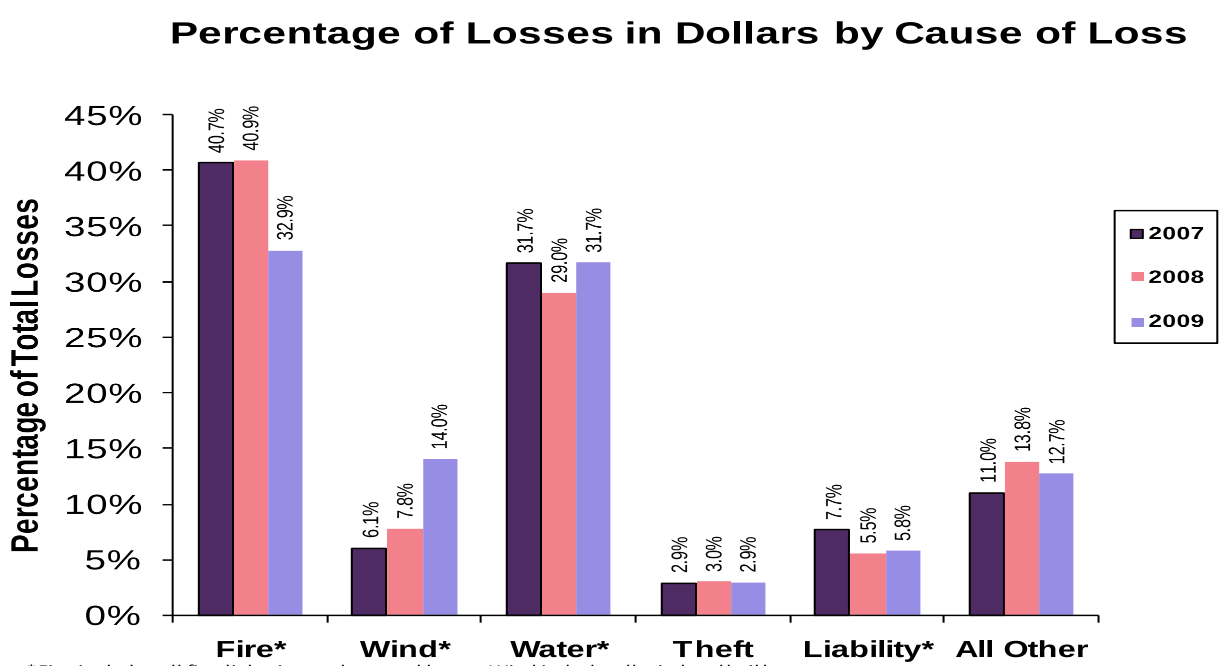
[27] The "all other" category is used when: (a) the claim does not fit one of the other causes of loss, (b) when there is some question as to which cause of loss among several possible causes of loss caused the claim or (c) when the cause of loss is not known initially.



*Fire includes all fire, lightning, and removal losses, Wind includes all wind and hail losses,
Water includes all water damage and freezing losses, Liability includes all liability and medpay losses

Figure 18

When considering the dollar cost of claims, as illustrated in Figure 19, the losses are distributed because certain types of claims (i.e., fires) have a higher average cost than other types of claims. While the distribution of losses remained constant for most of the losses, *wind and hail*-related losses increased from 7.8% of all claims in 2008 to 14.0% in 2009, and *fire, lightning, and removal* losses decreased from 40.9% of all claims in 2008 to 32.9% in 2009.



*Fire includes all fire, lightning, and removal losses, Wind includes all wind and hail losses,
Water includes all water damage and freezing losses, Liability includes all liability and medpay losses

Figure 19

Additional Detail on Each Cause of Loss

Fire, lightning and removal dollar losses as a percentage of statewide losses decreased from 40.9% in 2008 to 32.9% in 2009. The statewide average *fire, lightning and removal* claim cost was $40,541 in 2009 as compared to $32,977 in 2008.

Wind & hail losses accounted for 14.0% of total losses in 2009, as compared to only 7.8% in 2008. Although the majority of the state had lower wind losses in 2009 than in 2008, the Middlesex and Worcester areas had upward changes, as the proportion of losses due to *wind and hail* increased from 7.0% and 13.6% in 2008 to 19.0% and 51.4% of losses in 2009.[28] The statewide average claim cost for wind and hail damages, increased from $3,924 in 2008 to $9,745 in 2009.

Water damage and freezing losses accounted for 31.7% of total losses in 2007, as compared to 29.0% in 2008 and to 31.7% in 2009.

Theft losses accounted for 3.0% of total losses in 2008 and 2.9% of total losses in 2009. The total number of theft claims decreased from 7,702 in 2008 to 7,659 in 2009 and the average statewide *theft* claim cost decreased from $2,850 in 2008 to $2,810 in 2009.

Liability and medical payments losses accounted for 5.5% of total losses in 2008 and 5.8% of total losses in 2009. The average statewide *liability and medical* claim cost decreased from $17,862 in 2008 to $17,657 in 2009.

All other claims losses accounted for 12.7% of total losses in 2009 compared to 13.8% of total losses in 2008. The total number of claims filed also decreased from 21,571 in 2008 to 13,760 in 2009, although the average claim cost increased from $4,739 in 2008 to $6,791 in 2009.

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 2009 overall loss ratio for all FAIR Plan and insurance company policies was 42.3%.

[28] See accompanying statistical supplement Exhibit 7A for specific detail on a region by region basis.

Figure 20 presents a history of the loss ratios for the entire market since 2000:

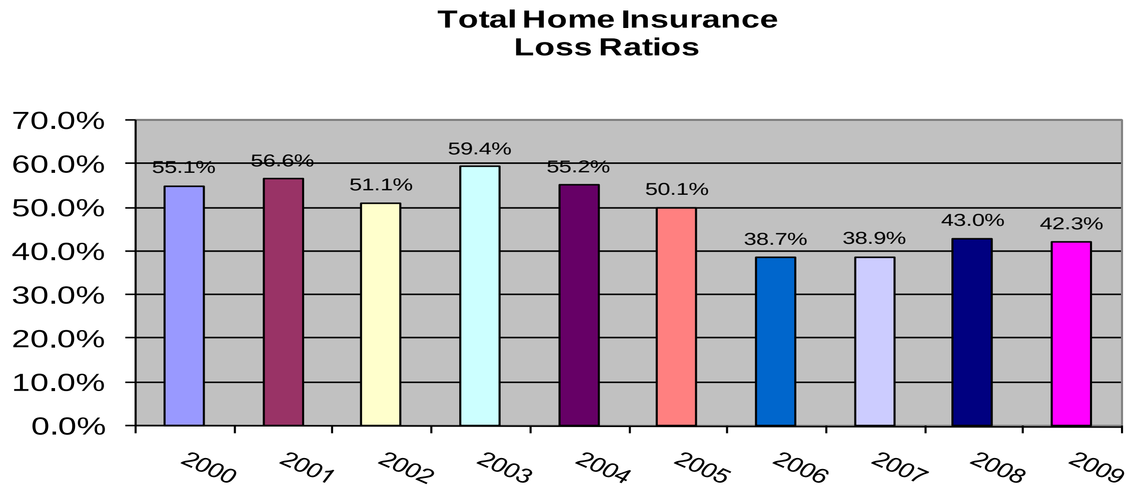


Figure 20

Non-weather events do not usually cause major shifts in loss trends;[29] weather-related events can cause such shifts but it depends on the severity of the events. For example, even though there were two "catastrophe"[30] events in 2007 and one in 2008 and none in 2009, the resulting losses varied with the severity of the event.

As presented in Figure 21, the traditional homeowners loss ratio is consistent with the statewide average, but the condominium and tenant coverage's at 30.0% and 20.9% are significantly lower than the overall rate of 42.3%.

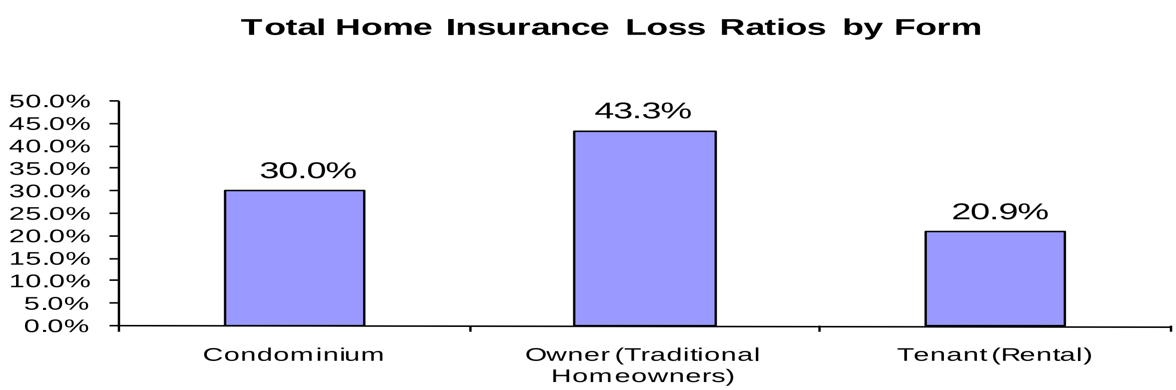


Figure 21

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

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

Combined Ratios: Loss and Expense Experience Compared to Premiums Collected

Combined ratios (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.

Although companies submit incurred loss ratio experience as part of the annual home insurance data call, in order to derive a picture of the market, the following table derives general and other expenses based on aggregate reported financial information for the past four years for insurers – not including the FAIR Plan.

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)
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%**
2007	1,374,607	520,492	**37.9%**	587,578	**42.7%**	18.9%	2.6%	7.5%	4.3%	33.3%	**76.0%**	0.6%	**76.6%**
2006	1,285,696	480,453	**37.4%**	550,171	**42.8%**	19.6%	2.8%	7.5%	5.2%	35.1%	**77.9%**	0.7%	**78.5%**
2005	1,193,270	573,842	**48.1%**	632,350	**53.0%**	19.5%	2.6%	6.6%	4.3%	33.0%	**86.0%**	0.7%	**86.7%**

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

Figure 22

Figure 22 presents how other home insurance company expenses can be compared to premiums. The adjusted combined ratio,[31]illustrates how other necessary expenses when combined with losses can be compared to homeowners insurance premiums. The adjusted combined ratio of 82.6% for 2009 is slightly lower than the ratio of 82.7% for 2008 but is higher than the same ratios for 2007 and 2006.

The above analysis does not reflect what companies pay for catastrophe and hurricane reinsurance because this information is not readily available within the aggregate financial statements for Massachusetts homeowners business. Based upon information submitted as part of individual company rate filings, reinsurance expenses have increased over the past four years and could account for as much as 25% of a company's premiums depending on that company's portfolio of coastal exposures.

[31] Insurance companies pay claims handling expenses (also known as "loss adjustment expenses") which if added to incurred losses to calculate an adjusted loss ratio to 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.

FAIR Plan Financial Results

During its 2009 fiscal year, the FAIR Plan had an underwriting profit of $26,331,000 million,[32] (see accompanying Statistical Supplement) which is a sixth consecutive year of underwriting profit[33] following four years of underwriting losses.

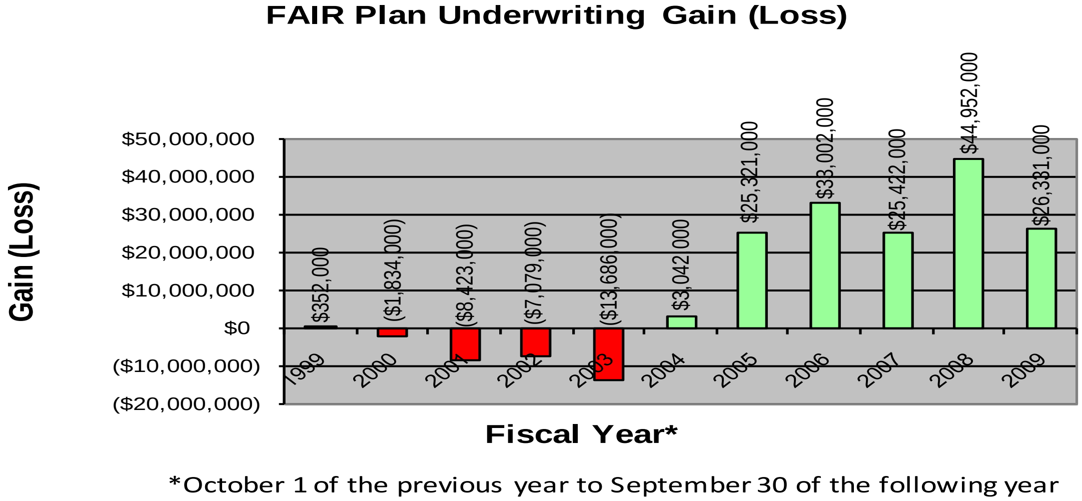


Figure 23

As illustrated in Figure 24, the FAIR Plan experienced a Fiscal Year 2009 underwriting profit – often called the FAIR Plan's contribution to surplus - of $136 per policy, as compared to an underwriting profit per policy of $223 in Fiscal Year 2008.

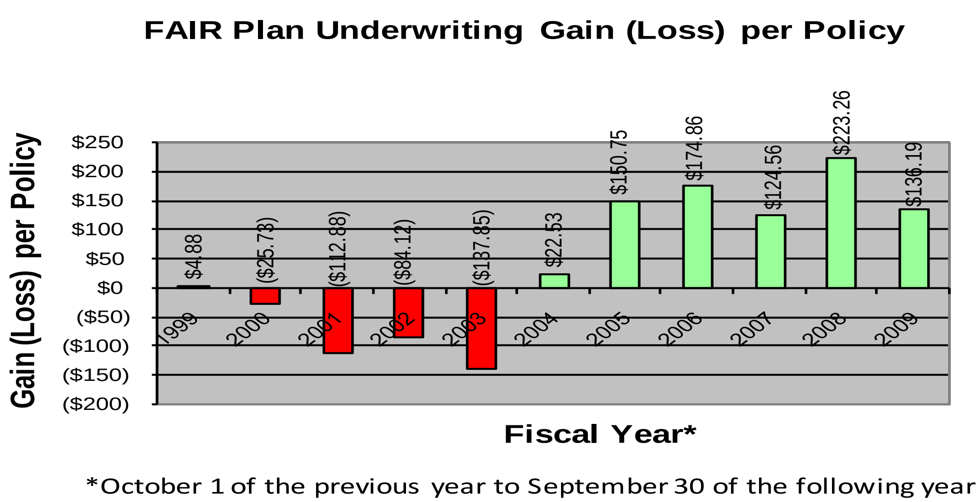


Figure 24

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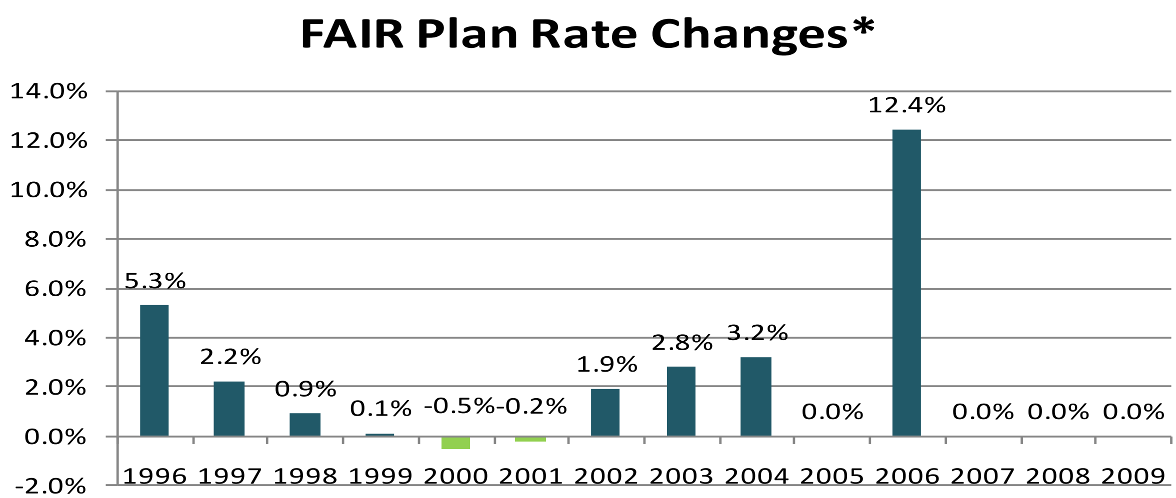
[32] The FAIR Plan fiscal year runs from October 1st of one calendar year to September 30th of the following calendar year.

[33] 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.

Changes in FAIR Plan Rates

As illustrated on Figure 25, the FAIR Plan modified its average rates between 1996 and 2004 on an annual basis by changes ranging from a low of -0.51% to a high of 5.30%. 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. 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.[34] 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.



*There was no rate change in 2005 pending the conclusion of a regulatory hearing concluded in 2006. There was no rate change in 2007, 2008 and 2009 due to a pending regulatory hearing concluded in 2008 and 2010.

Figure 25

In March 2007, the FAIR Plan submitted a request for a statewide rate increase of 13.2%, including a 25.0% rate increase in Barnstable, Dukes and Nantucket Counties, to be effective July 1, 2007. The hearing on this rate proceeding concluded in 2008 and the requested rate increase was denied because the Commissioner found that the MPIUA had failed to meet its burden of supporting in its filings each aspect of its rate requests and proving, by a preponderance of the evidence, that its rates satisfy the statutory requirements. Based on this ruling, the 2006 FAIR Plan rates did not increase.

[34] 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

The FAIR Plan's rates have often been more affordable than essentially the same coverage in the voluntary market. As a result, many persons who have lost coverage as their company pulled out of coastal markets have found that their coverage has been more affordable under the FAIR Plan than from their former insurer.

It also appears that consumers who are assigned to the FAIR Plan may not be shopping around aggressively for other coverage. In 2009, only 127 people of the 193,339 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 in 2009

The Division collects information from the top twenty-five insurers[35] according to their share of the Massachusetts statewide written premium in the homeowners market and the FAIR Plan. All are required under Massachusetts General Laws, Chapter 175, §4B to report to the Division a listing of policies in-force, total cancellations, and total nonrenewals for each zip code designated by the Commissioner on a calendar year basis for policies written for the reporting period.[36]

Aggregate Cancellation/Nonrenewal Data[37]

The top 25 companies and the FAIR Plan reported that they had a total of 444,969 policies in-force in urban and coastal areas as of December 31, 2009 and as illustrated in Figures 26-A and 26-B, the top 25 companies covered 318,200 homes and the FAIR Plan covered 126,769 homes. Of the total policies in-force, there were 264,167 policies in urban areas and 180,842 policies in coastal areas.

During 2009, there were a total of 61,753 policies cancelled in urban or coastal areas, with 44,873 cancelled by the top 25 companies and 16,880 cancelled by the FAIR Plan. Of the total number of cancellations, 39,339 policies were cancelled in urban areas and 22,414 policies were cancelled in coastal areas.

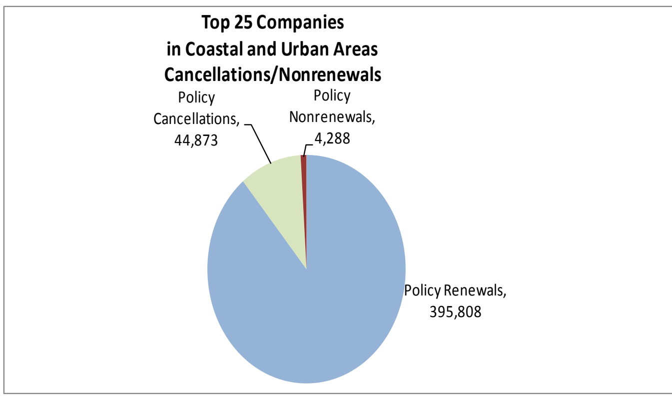


Figure 26-A

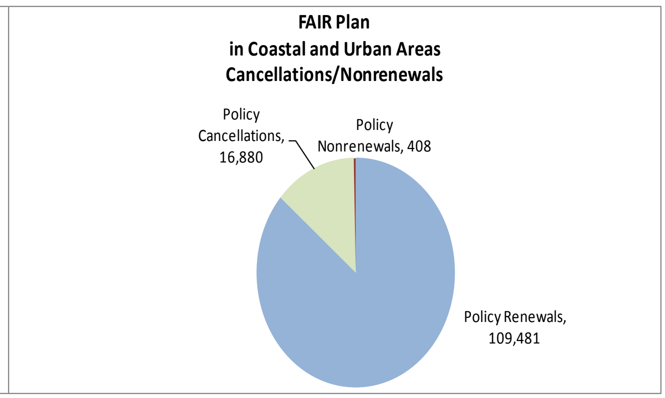


Figure 26-B

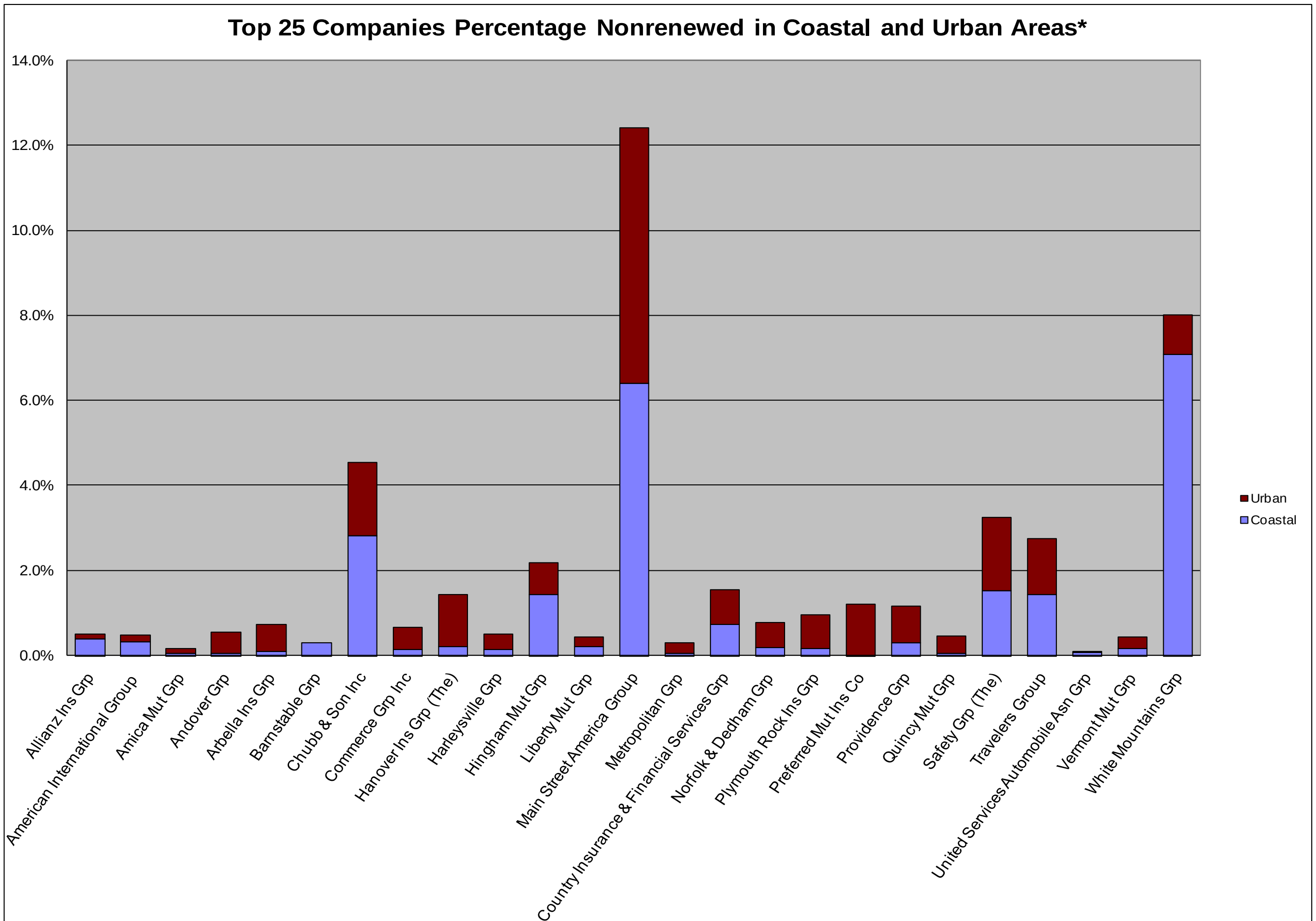
The top 25 companies and the FAIR Plan report that there were a total of 4,623 policies nonrenewed in the designated zip codes in 2009 with 4,215 policies nonrenewed by the top 25 companies and 408 nonrenewed by the FAIR Plan. Of the total number of nonrenewals, 2,443 policies were nonrenewed in urban areas and 2,180 policies were nonrenewed in coastal areas.

[35] The list of the top 25 insurers, primarily insurer groups that were writing homeowners insurance in Massachusetts in 2009 based on written premium data from the National Association of Insurance Commissioner's database for homeowners multiple peril is listed within footnote 4. Some of these insurer groups are better known by the names of their individual insurance companies.

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

[37] 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.

When examining the information submitted on a company-by-company basis, as illustrated in Figure 27, three companies – Chubb & Son, Inc., Main Street America Group and the White Mountains Group had the highest numbers of nonrenewals in 2009 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 Co's Geographic Withdrawal".

Figure 27

<u>Supplementary Information About Cancellations/Nonrenewals</u>
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 <u>after</u> 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.

<u>Cancellations</u>

The top 25 companies and the FAIR Plan reported:

- 61,753 cancellations during 2009;
  - o 41,497 were initiated by the policyholder and
  - o 20,256
  - o were initiated by the insurer with
    - 1,460 initiated by the insurer in the first 59 days
    - 12,287 cancelled due to nonpayment; and
    - 6,509 cancelled for other reasons permitted by law.

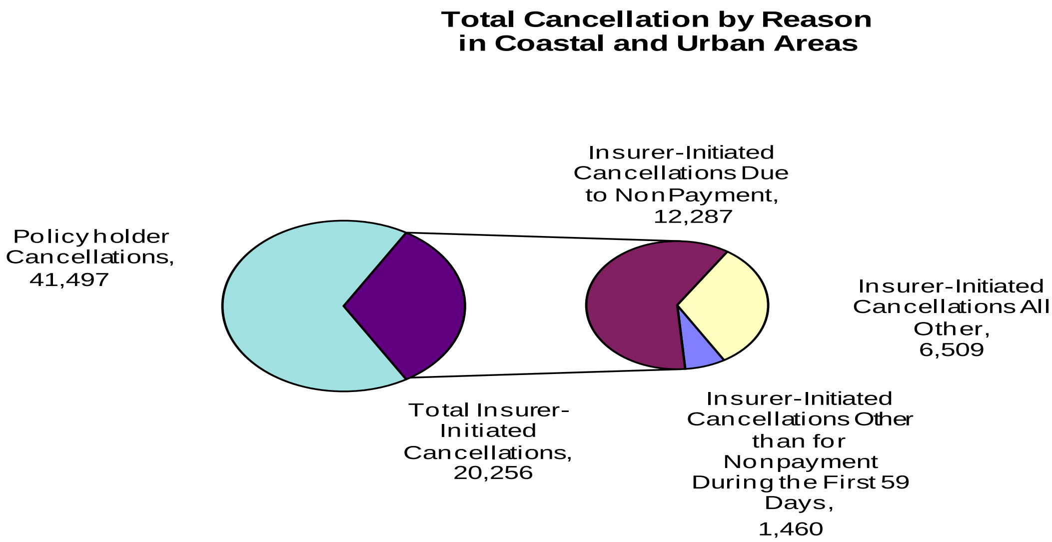


Figure 28

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

- 39,339 cancellations during 2009
  - 26,116 were initiated by the policyholder and
  - 13,223 were initiated by the insurer with
    - 880 initiated in the first 59 days;
    - 8,486 cancelled due to nonpayment; and
    - 3,857 cancelled for other reasons permitted by law.

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

- 22,414 cancellations during 2009
  - 15,381 were initiated by the policyholder and
  - 7,033 were initiated by the insurer with
    - 580 initiated in the first 59 days;
    - 3,801 cancelled due to nonpayment; and
    - 2,652 cancelled for other reasons permitted by law.

Nonrenewals

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, 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 2007, 2008, and 2009. 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 4,288 insurer initiated policies nonrenewed in the designated zip codes[38] in 2009, with 73 of those nonrenewed as insurers withdrew from certain geographic areas and 4,215 nonrenewed for other reasons. (See Figure 29.) This compares with a total of 3,382 policies nonrenewed in the designated zip codes in 2008 (906 more than in 2008), with 290 nonrenewed as insurers withdrew from certain geographic areas (217 fewer than in 2008) and 3,092 nonrenewed for other reasons (1,123 more than in 2008) (In addition to the top 25 company nonrenewals, the FAIR Plan did not renew 408 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.)

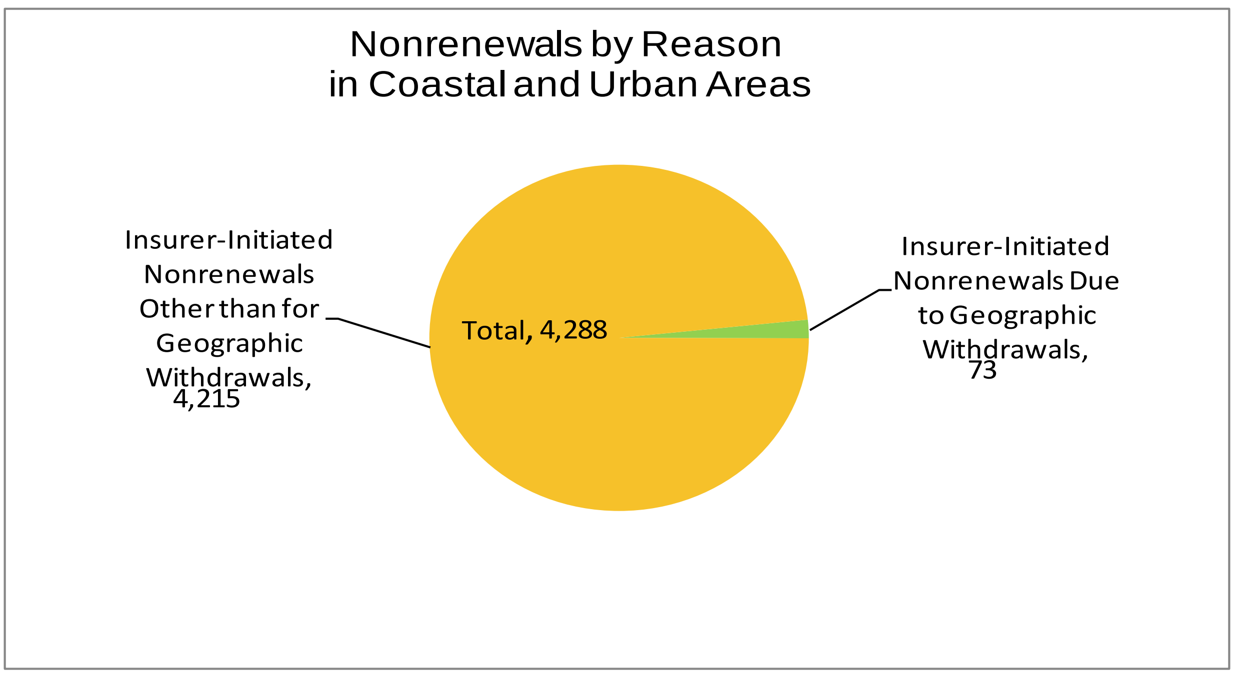


Figure 29

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

Of the reported 73 that were nonrenewed because the insurer decided to withdraw from a geographic area, all were in those zip codes identified as coastal areas.

Of the reported remaining 4,215 nonrenewals for reasons other than a decision to withdraw from a geographic area, 2,075 were nonrenewals in those zip codes identified as coastal areas and 2,140 were nonrenewals in those zip codes identified as urban areas.

Claims History of Persons Renewed and Nonrenewed in 2009

In the 2009 survey, the Division asked the top 25 home insurance companies to separately report the claims history of policies that were nonrenewed and those that were renewed during 2009.[39] The top 25 companies report that there were a total of 4,215 policies nonrenewed in the designated zip codes in 2009, with 2,140 policies nonrenewed in those zip codes identified as urban areas and 2,075 policies nonrenewed in those zip codes identified as coastal areas.

Claims Filed for Renewed/Nonrenewed Policies

	Renewed Policies[1]					
	(1)	(2)	(3)	(4)=1000*(3)/(1)	(5)	(6)=((5)/(2))
	Policies	Number of Claims Filed in 2007, 2008 and 2009	Estimated Number of Claims Filed in 2007, 2008 and half of 2009[2]	Estimated Claims Filed per 1,000 Policies[3]	Total Claims Dollars[3] Due to Claims Filed in 2007, 2008 and 2009	Average Claim Size
Urban + Coastal [5]	318,200	31,003	25,779	**81**	$160,633,440	**$5,181**
Urban	211,843	23,587	19,621	**93**	$82,002,956	**$3,477**
Coastal	106,357	7,416	6,158	**58**	$36,493,114	**$4,921**
	Nonrenewed Policies[4]					
	(7)	(8)		(9)=1000*(8)/(7)	(10)	(11)=((10)/(8))
	Policies	Number of Claims Filed in 2007, 2008 and 2009		Estimated Claims Filed per 1,000 Policies[3]	Total Claims Dollars[3] Due to Claims Filed in 2007, 2008 and 2009	Average Claim Size
Urban + Coastal [5]	4,215	950		**225**	$14,997,743	**$15,787**
Urban	2,140	647		**302**	$10,232,938	**$15,816**
Coastal	2,075	303		**146**	$4,764,804	**$15,725**

[1] Includes all Top 25 policies in force in urban and coastal areas as of 12/31/09 except policies that were issued in 2009. Does not include any FAIR Plan Policies. Reflects updated values for 2007 and 2008.

[2] Renewed Policies were exposed to risk of loss for all of 2009. Non-renewed policies were exposed to risk of loss on average for half of 2009; therefore, to facilitate comparison between renewed and nonrenewed policies, one half of the claims on renewed policies during 2009 have been removed from column (3).

[3] Excludes claims not closed by 12/31/09.

[4] Includes only nonrenewal policies in urban and coastal areas of the top 25 companies with the nonrenewal decision made for reasons other than geographic withdrawal. Does not include any FAIR Plan policies.

[5] Does not include approximately 1.4 million policies written by top 25 voluntary writers outside designated urban and coastal zip codes.

Figure 30

[39] In collecting the claims history for those policies renewed in 2009, the Division requested in its survey that the company report the number of claims reported and dollars of claims paid during each of 2007, 2008 and 2009. Similarly, in collecting the claims history for those policies nonrenewed in 2009, the Division requested that the company report the number of claims reported and dollar of claims paid during each of 2007, 2008 and 2009.

Of the reported 318,200 policies renewed by the top 25 home insurance companies, there were an estimated 31,003 claims filed during the reporting period; this is an average of 81 claims filed per 1,000 policies renewed in 2009. The companies reported having paid $160,633,440 in claims during the reporting period for those renewed in 2009 with an average claim size of $5,181.

When comparing urban and coastal renewed policies, there were 58 claims filed per 1,000 coastal policies, as compared to 93 claims filed per 1,000 urban policies. The average claim size for renewed people was $4,921 per claim for coastal policies, as compared to $3,477 per claim for urban policies.

Of the reported 4,215 policies nonrenewed by the top 25 insurance companies, there were a total of 950 claims filed during the reporting period; this is an average of 225 claims filed per 1,000 nonrenewed policies in 2009. The companies reported having paid $14,997,743 in claims during the reporting period for those nonrenewed in 2009 with an average claim size of $15,787.

When comparing urban and coastal nonrenewed policies, there were 146 claims filed per 1,000 coastal policies, as compared to 302 claims filed per 1,000 urban policies. The average claim size for renewed people was $15,725 per claim for coastal policies, as compared to $15,816 per claim for urban policies.

Summary

While the results are not identical, it is apparent from the survey data collected over the 2008 and 2009 reports 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. As noted in the 2008 report, 312,671 of those whose coverage was renewed in 2008 did file claims sometime in the prior three years and companies made payments of $144,169,445 on these claims. As noted in this 2009 report, 318,200 of those who coverage was renewed in 2009 did file claims sometime in the prior three years and companies made payments of $160,633,440 on these claims.

Changes to Coverage Limits Tied to Changes in Replacement Cost Estimates

In the 2009 survey, the Division asked the top 25 home insurance companies and the FAIR Plan to report how they establish and change homeowners' Coverage A limits and whether there have been changes in the ways that they estimate the cost of replacing covered houses.

This section catalogues the responses the Division has received from these companies.

1. How does your Company determine Coverage A Limits for Homeowners policies?

The vast majority of the respondents (24 of 26) indicated that their agents or companies rely on commercially available pricing tools that have been developed by Marshall & Swift Boeckh or ISO to determine the coverage A amount. The other respondents indicated that the coverage A amount reflects the amount agreed to by the policyholder and the insurance company after considering estimates developed by pricing tools, as well as company inspections and cost per square foot estimates.

2. What is your company's required level of Coverage A limit in relation to replacement cost (*e.g.*, 70%, 80%, 90% or 100% of replacement cost)?

Just over half of the respondents (14 of 26) require Coverage A limits to be at 100% of estimated replacement cost and another company indicated it requires 98% of estimated replacement costs. The remaining respondents indicated that they require the Coverage A limits to be between 80% and 100% of estimated replacement costs dependent on the policyholder and the type of coverage options that the policyholder is enrolled in through the coverage.

3. Who determines the Coverage A limit (Agent, Insured or Company)? Please explain how this may differ based on the type of property or other circumstances.

For those companies who rely on Marshall & Swift Boeckh or ISO pricing tools and require 100% replacement cost coverage, the independent agent or the direct writing company determine the Coverage A limit. For those companies where the insured can choose between 80% and 100% coverage, the agent and insured work collaboratively to determine the limit.

4. Are Coverage A limits verified by the company?
If yes, are they verified by
Interior and exterior inspection by an independent contractor or employee of company?
Exterior inspection only by an independent contractor or employee of the company?
If yes to either inspection, are the results analyzed using a replacement cost engine?

All the respondents indicated that they do verify initially determined Coverage A limits by either an interior and exterior inspection or by an exterior only inspection by an independent contractor or employee of the company and the results of the inspection are analyzed by a replacement cost estimator such as those developed by Marshall & Swift Boeckh. The companies did indicate, however, that the inspections may not be performed on all properties and may be limited to new properties, or on the value of the property, availability of the homeowner or the coverage limit that a policyholder may request.

5. What are company guidelines for inspecting new and renewal homes?

Regarding new business, almost half of the respondents (12 of 26) indicated that they inspect the homes of all or most new policyholders. For those who inspect only most of the homes, the companies indicated that they have chosen not to inspect newly built homes or homes where the policyholder has extensive valuations completed by a third party. For the remaining respondents, they have indicated that they will inspect new policyholders based on company specific underwriting criteria, including whether the home is:

a multi-family home (7 companies);
in a coastal area (1 company);
is older than a certain age (older than 1940-2 companies; older than 1900-1 company);
has certain animals in the home (2 companies);
has a swimming pool on the property (3 companies);
has sources of heating not professionally installed (1 company); or
has a Coverage A greater than a certain value
$500,000-2 companies;
$600,000-1 company;
$650,000-2 companies;
$700,000-1 company;
$750,000-2 companies; and
$1,000,000-2 companies.

Regarding renewal business, only 5 of the 26 indicated that every renewal property is reinspected at least every 6 years. Of the remaining respondents, 8 of the 26 indicated that they do not have any set guidelines for renewal inspections and the decision is based on the individual responsible for underwriting the property. The remaining companies do reinspect the homes of renewal policyholders but only based on specific underwriting criteria, including whether the home is:

a multi-family home (3 companies);
is older than a certain age (older than 1900-1 company);
or has a Coverage A greater than a certain value
$650,000-2 companies;
$750,000-1 company.

6. Does the company annually adjust Coverage A Limits?
If yes, is the adjustment based on
A fixed percentage adjustment for all policies or geographically specific;
An inflation-based increase;
A commercially available construction cost index; or
Company-specific estimates of replacement cost changes?

All the respondents indicated that they annually adjust the Coverage A limits for all policies. More than half of the respondents (20 of the 26) rely on a commercially available construction cost index to establish the amount of the annual increase and 2 of the 26 apply a fixed percentage increase of at least 4% per year. Of the remaining respondents, all six apply a company-specific adjustment that they develop based on knowledge derived from commercially available construction cost indices combined with their own knowledge gathered from their own construction cost surveys, interviews of contractors and analysis of their own loss cost trends.

7. Once a replacement cost is determined, how often is it re-inspected?

Almost all the respondents (19 of 26) indicated that they did not have fixed reinspection schedules and would schedule reinspections based on underwriting criteria (e.g., age or value of the house or whether it is a multi-family house, is in a coastal are or there is presence of certain risks including certain animals, swimming pools, or certain uninstalled sources of heat). Of the remaining 5 respondents, they indicated reinspecting according to the following schedules:

at least every 3 years (3 companies);
at least every 5 years (2 companies);
at least every 6 years (1 company); and
at least every 10 years (1 company)

Two of the companies without set schedules indicated that they intended to implement set schedules in the future.

8. Complete the following regarding changes to the Coverage A limits in 2009:
Number of homeowners policies that renewed in 2009
Number of renewing policies whose home was inspected in year prior to 2009 renewal
Total Coverage A limit prior to 2009 renewal
Total Coverage A limit upon the 2009 renewal
Number of renewing policies whose home was NOT inspected in year prior to 2009 renewal
Total Coverage A limit prior to 2009 renewal
Total Coverage A limit upon the 2009 renewal

The majority of the companies (14 of 26) identified that their data systems did not collect information in a way that would allow them to report the information requested for this question. Many of these companies could report the number of policies renewing during 2009 and changes in coverage A limits, but not in a sufficiently consistent way to provide confidence in their responses to these questions.

Of the 12 companies who could report the information requested for this section, these companies had 484,685 renewals during 2009. A total of 56,221 (11.6%) of these renewals had a reinspection in the year prior to the 2009 renewal and 428,464 (88.4%) of these renewals did not have a reinspection in the year prior to the 2009 renewal. One respondent accounted for over half of the total reinspections and two respondents accounted for reinspection rates that were higher than the 11.6% average.

Of these companies who could report, the total value of Coverage A limits for all their policies increased in 2009 by 4.2% over the Coverage A limits in place in 2008. When looking at the differences between policies based on reinspections:

- Total Coverage A limits for these 12 companies' renewing policies that were inspected increased in 2009 by 5.4% over total Coverage A limits in 2008.

- Total Coverage A limits for these 12 companies' renewing policies that were NOT inspected increased in 2009 by 4.0% over total Coverage A limits in 2008.

- Total Coverage A limits for these 12 companies' renewing policies that were inspected increased in 2009 over 2008 by 1.2 percentage points higher than those renewing policies that were inspected. This would appear to point out that information gathered as part of the inspection process identified risks that led to Coverage A limits being set at higher levels for inspected properties over those for those properties that were NOT inspected.

Four of the companies who could respond to this question increased Coverage A limits for properties that were inspected more than the increases to the properties they did not inspect. The range of these differences was about 2% to about 16%. Four other companies increased the uninspected coverage A amounts by a higher percentage than they did for the reinspected properties. Here the differences ranged from 1 to 9 percentage points. For three companies the rate of increase was nearly identical whether or not they inspected. These increases ranged from 3% to 5%.[40]

- **Provide the effective date and overall rate effect of any rate/rule changes that became effective from January 1, 2009 through December 31, 2009 that affected 2009 renewal premiums for homeowners policies.**

Half of the responding companies (13 of 26) reported that they did not implement any rate/rule changes in 2009 that affected 2009 renewal premiums for homeowners policies. Of the companies that did file rate/rule changes in 2009, they reported the following:

4 reported filing changes that reduced average rates;
6 reported filing changes that increased average rates by less than 5.0%; and
3 reported filing changes that increased average rates by between 5.0% and 8.7%.

SUMMARY

In general, the information is incomplete because the majority of companies could not report all requested information. The Division will collect this information for the 2010 report in order to obtain more complete information on the number of property reinspections occurring among the Top 25 homeowners insurance companies and the FAIR Plan, the level of Coverage A limits increase that is being applied to policies and the difference in increase that may be based on whether or not the company has reinspected the property.

[40] Where the percentage changes in coverage A values are identical, whether or not inspections were undertaken, one can also question the accuracy of the reporting.

Home Insurance Complaints Filed with During 2009

The Consumer Services Section (CSS) responds to inquiries and assists consumers in resolving complaints against insurers, producers and other licensees. In addition to providing consumers with general insurance information in the form of brochures and guides, the CSS also advises consumers of their options and rights under their policies, state laws and insurance regulations.

Any consumer of an insurance product marketed or sold in Massachusetts may file a consumer complaint with the CSS against an insurer or insurance producer. Licensees must reply to the Division within 14 days and examiners advocate for the rights of consumers where appropriate. The Division keeps track of all such complaints to understand trends in the insurance industry and investigate any patterns of behavior that may require investigations by the Division's Special Investigation Unit or its Market Conduct Section.

During 2009, CSS staff received nearly 25,000 calls to the consumer hotline. Of those consumer calls approximately 7.5% were associated with questions or complaints regarding home insurance. This is a decrease from 8.6% in 2008. Among consumers calling for general information, inquiries on home insurance represented 7% of all hotline calls, compared to 12% of all hotline calls with specific complaints.

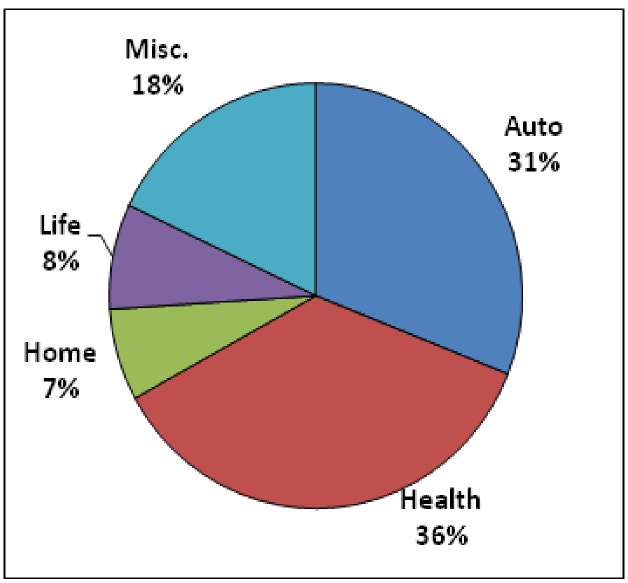


Figure 31 **Consumer Information Calls** **Figure 32** **Consumer Complaints**

CSS staff also handled over 1,700 formal written complaints from consumers. 13% of these formal complaints were associated with home insurance. While 2009 saw a slight increase in the number of formal complaints (130 to 135), the overall trend remains downward since a peak of 151 complaints filed in 2005. The high number in 2005 is associated with heavy rainfall during May of that year that resulted in widespread flooding across northeastern Massachusetts.

As shown in the chart below, the rate of complaints per 10,000 policies also shows an overall decline over the past five years with only a modest increase in 2009.

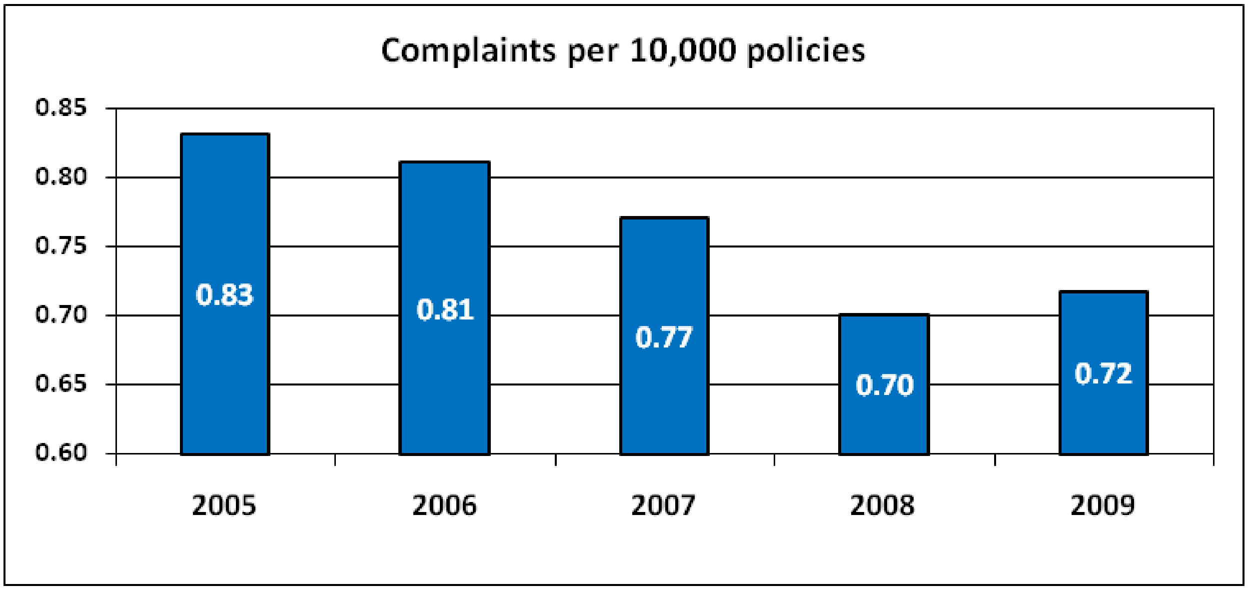


Figure 33

Analysis of Home Insurance Complaints

The CSS further catalogues complaints according to three categories: Underwriting, Policy Pricing and Claims Handling. Based on complaints submitted over the five-year period stretching between 2005 and 2009, consumer complaints regarding claims handling procedures constitute nearly half of all complaints. The ratio of complaints under these three major headings is consistent from year to year.

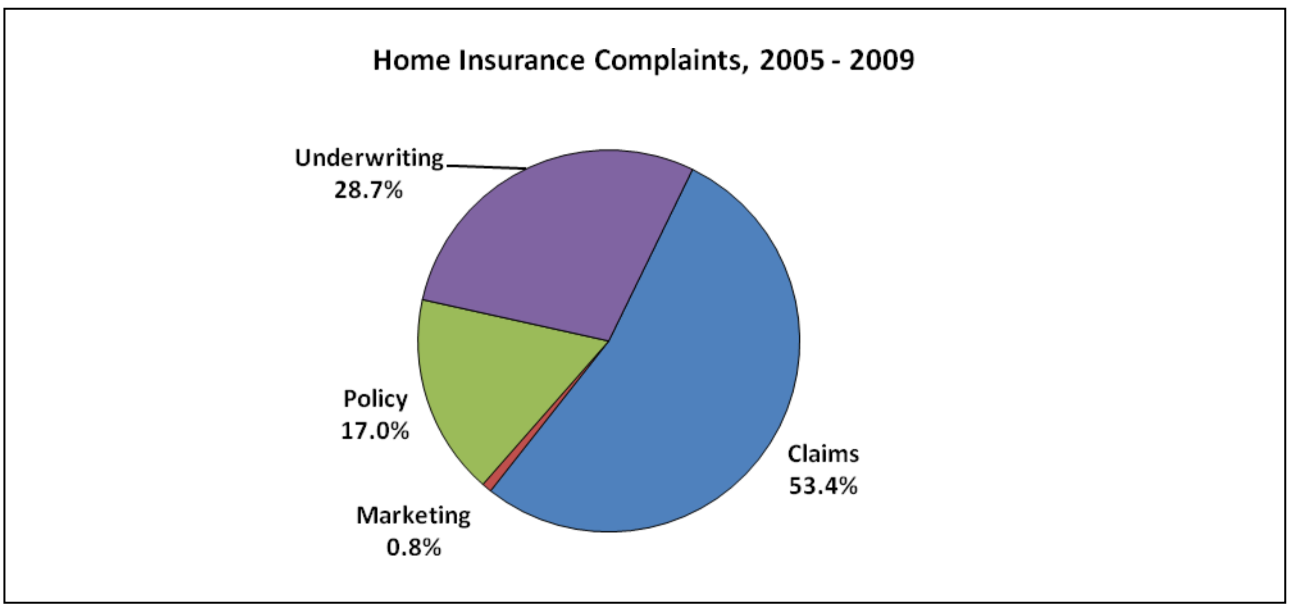


Figure 34

When examining the complaints filed against individual insurers, the number of complaints filed in a single year is too small to be a meaningful. As a result, the Division looks at company by company complaint figures in a five-year window in order to ensure that the reported differences between companies are not the result of chance.

From a detailed review of the filed complaints between 2005 and 2009, the FAIR Plan covers the most homes and had the most complaints, with 146 or 20.7% of the total filed. In general, when looking at the top 25 company groups participating in the Massachusetts market - plus the FAIR plan - they collect 93.3% of the written policy premiums, but account for only 89% of the total complaints filed. Smaller companies - collectively responsible for 6.7% of the market premium - account for 11% of the total complaints filed.

The Division has taken its complaint files to develop complaint ratio charts (see the accompanying Statistical Supplement) to examine each company's proportion of filed home insurance complaints in relation to that company's proportion of the market premiums and will investigate companies with abnormally high ratios.

When looking at complaints filed on a regional basis, the chart below illustrates that the highest number of complaints filed per 100,000 residents were in Hampden, Plymouth, Berkshire and Barnstable/Dukes/Nantucket Counties. The nature of the complaint can differ by county with underwriting complaints accounting for 41% of the complaints in Plymouth County and claims handling problems accounting for 61% in Essex County. A detailed listing of complaints by topic in each Massachusetts area for the period between 2005 and 2009 can be found in the Statistical Supplement.

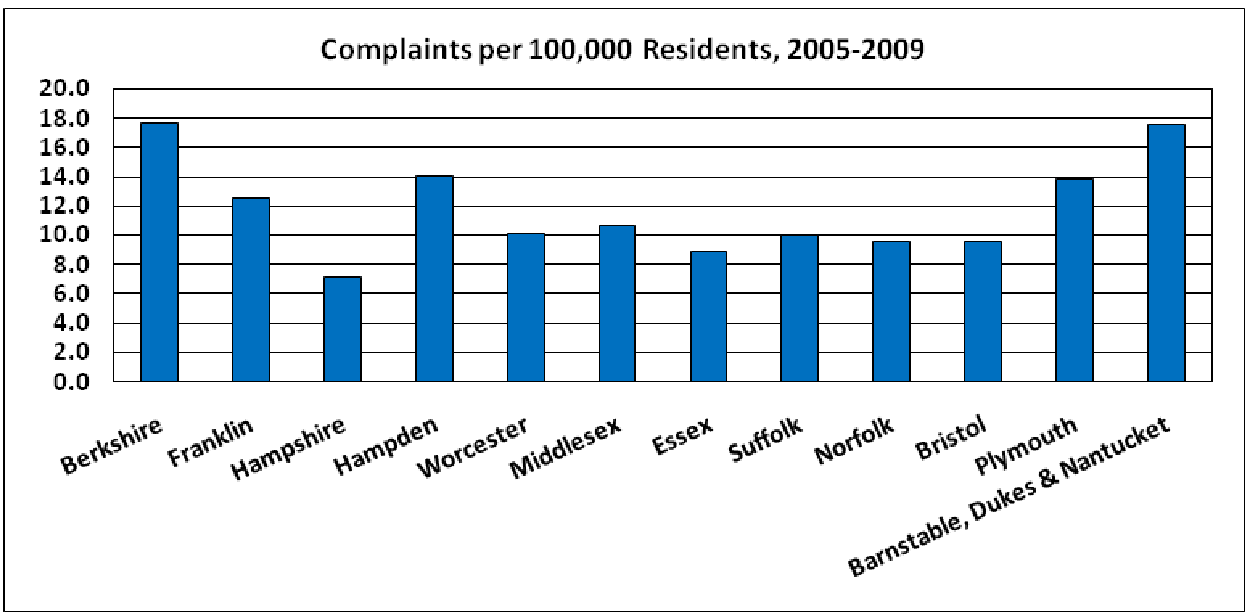


Figure 35

The raw number of overall complaints from each county tends to correlate with population differences between counties. Nonetheless, differences between counties remain even when complaint numbers are normalized by county population.

We Can Help!

The Division of Insurance (Division) exists to serve the citizens of the Commonwealth of Massachusetts. The Division is a source of unbiased information and assistance, such as verifying if a producer or insurance company is licensed to do business in the Commonwealth or providing answers to many frequently asked insurance questions.

If a consumer has a complaint against an insurance company, the Division recommends that the consumer contact the insurance company first and try to settle the matter. Most insurance companies have policyholder service offices to handle questions. If the consumer is still not satisfied, he/she may contact the Division's Consumer Service Section staff to help with the problem. Although the Division's staff cannot represent a consumer legally against an insurance company or adjuster, staff can make an appropriate investigation into potential violation of insurance laws or regulations based on a complaint.

The Consumer Service Section can be contacted at 617-521-7777, Monday - Friday 8:45 A.M. - 5:00 P.M. or consumers can visit the Division's web site at www.mass.gov/doi. A consumer may also contact or send in a consumer complaint by writing to the Consumer Service Section at the Commonwealth of Massachusetts Division of Insurance, 1000 Washington Street, Suite 810, Boston, MA 02118. A consumer complaint form may be printed from the Division's web site.