

NATIONAL ASSOCIATION OF
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National Center for Real Estate Research

Overview of Recent Developments
in Residential and Commercial

Property Insurance

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NATIONAL ASSOCIATION
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Overview of Recent Developments in Residential & Commercial Property Insurance*

Final Report

**Prepared for
The National Association of REALTORS®**

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Executive Summary

The following summarizes our key findings based on our review of the most recent trends and developments in residential and commercial property insurance in the U.S.

Homeowners Insurance

Pricing (U.S. Trend)

- From 1990-2002, the cost of home insurance for urban consumers lagged behind the cost of all other items relating to housing. However, the most recent data indicate that the pace of insurance rate increases accelerated in 2002 – the price of home insurance increased 5.5 percent versus increases of only 3.0 percent for the owners' equivalent of rent and 2.3 percent for the overall CPI. This pattern continued in early 2003.

Average Premiums (U.S. and State Trends)

- The cost of home insurance and its rate of increase vary considerably by region and state. Home insurance expenditures as a percentage of dwelling expenditures have varied by region. Since 1992, relative expenditures on insurance have increased in the Northeast and West, remained stable in the Midwest and declined in the South.
- From 1996 to 1999, the average homeowners insurance premium in the U.S. for homes valued between \$175,000-\$200,000 increased only 1.4 percent (\$559 to \$567). By state, some price changes were quite significant - Illinois' average premium increased by 9.8 percent (\$377 to \$414) and Hawaii's average premium decreased 18.6 percent (\$624 to \$508).
- From the 1st Quarter of 1997 through the 3rd Quarter of 2002, the average premium per home in the U.S. increased 39.9 percent (\$452 to \$632). The rate of increase by state varied significantly, ranging from a low in the District of Columbia of 7.6 percent (\$496 to \$533) to a high in Texas of 112.8 percent (\$544 to \$1,157). This measure does not control for the value of homes, as does the measure summarized in the preceding bullet point.
- Other recent surveys reveal sharp increases in the cost of home insurance within the last one to two years in a number of states. A survey of state insurance departments found that three states experienced an average home insurance rate increase in excess of 30 percent in 2002, seven states had an increase of 20-29 percent, 12 states had an increase of 15-19 percent, and 14 states had an increase of 10-14 percent.

Availability

- Availability is more subjective and difficult to measure than price and also depends on the quality of the coverage options available. When the availability of insurance tightens, more homeowners are unable to obtain a policy from an insurer they would prefer. The coverage provisions available to some homeowners also may become more restricted. Finally, some homeowners will be forced into a state FAIR Plan (if their state has such a mechanism) that typically offers more limited coverage and some homeowners will not be able to obtain coverage from any source. Though limited, the data that can be obtained, combined with other information, indicate that there has been a significant constriction in the availability of insurance in at least some states.
- In 2001 (the latest data available), the percentage of homes insured in most of the 30 state FAIR plans was relatively small, i.e., less than two percent.

- However, there have been sharp increases in the number of homes/policies insured in some state FAIR plans from 1992-2001. These states include California (68.6 percent), Georgia (101.7 percent), Louisiana (1,836.8 percent), Massachusetts (71.3 percent), Minnesota (64.4 percent), and Ohio (89.4 percent). In Florida, the number of homes with full coverage in the state's residual market mechanism jumped from 67,200 in 2000 to 206,300 by the end of 2002.
- Use of FAIR Plan data has the following limitations:
 - Since 2001 is the most recent year for which data are available (with the exception of Florida), the data do not reflect the most recent experience;
 - The data do not reflect the extent to which homeowners have been forced to switch to insurers they prefer less; and
 - The data do not reveal anything about the states that do not have FAIR Plans.
- We expect to see further growth in some state FAIR plans in 2002 and 2003.
- In Texas, which only recently established a FAIR Plan, there has been significant movement of insureds from "regulated" insurers to "unregulated" insurers. The unregulated sector tends to have higher rates, so the movement to this sector has probably required most of the affected insureds to pay higher premiums.
- According to an industry survey, the number of households without home insurance increased from 3 percent in 2000 to 8 percent in 2001.

Loss Costs

- There is a need to look at long-term trends in loss costs due to spikes in losses that arise from significant weather-related events and other random occurrences.
- The NAI-ISO Fast Track Data on the average loss per insured home from the 1st Quarter 1997 to the 3rd Quarter 2002 show that average loss costs are generally increasing in most states and the rate of increase appears particularly pronounced in certain states, such as Missouri, Nebraska and Texas.
- Water damage (e.g., mold) appears to be a significant cost driver in certain states, such as California and Texas. Other weather-related perils appear to be significant cost drivers in a number of states, especially in the Midwest. The threat of hurricanes continues to be a significant issue in southern coastal states and territories.

Profitability Indicators

- Insurers' profitability declined significantly from 1997 through 2001. With respect to homeowners insurance, insurers profit on insurance transactions (as a percentage of premiums) steadily dropped from +5.4 percent in 1997 to -10 percent in 2001. The imputed return on equity (ROE) dropped from +12.4 percent to -7.2 percent.
- For the period 1991-2001, the average profit on insurance transactions was negative in 36 states. Several states (Florida, Hawaii, Kansas, Minnesota and North Dakota) experienced annual average losses in excess of 25 percent.

- Early reports indicate that profitability in homeowners insurance began to improve in late 2002 and the first quarter of 2003. This is likely due to the rate increases that insurers have implemented, along with other possible factors.

Market Structure Changes

- For the period 1991-2001, market concentration had increased in most states (94 percent). This is likely due to high merger activity over the decade that increased concentration at the group level, as well as the withdrawal or retrenchment of some insurers from the homeowners market. However, concentration has not increased to a level that would undermine competition.

Market Beginning to Soften

- There are some early indications that the supply of home insurance may be beginning to increase and its price plateau or decrease in some states where insurers perceive that market conditions have improved. However, there may be continued pressure on prices and availability in other jurisdictions.

Commercial Insurance

Prices

The price of commercial property insurance began to rise in the latter part of 2001 and accelerated rapidly through the third quarter of 2002. Most businesses appear to have paid premium increases in excess of 10 percent and increases in the area of 30-50 percent or more were common. Beginning in the 4th quarter of 2002, price increases began to decelerate and some businesses are starting to see premium decreases.

Availability

Hard data are limited, but the evidence indicates that the availability of commercial property insurance was constricted as the market hardened. A significant portion of property owners/managers surveyed indicated that their insurance coverage was cancelled or non-renewed in 2002-2003 and they were forced to obtain coverage from another carrier, often at a higher premium. Terrorism coverage was unavailable after September 11, 2001 and prior to the enactment of the federal terrorism reinsurance program. Initially, this coverage has been relatively expensive and many businesses declined to purchase it. This may change somewhat as the price of terrorism coverage begins to fall. Also, most property owners/managers reported that they did not have coverage for mold.

Profitability Indicators

Insurers' profitability in commercial lines that include property coverages has been better than in homeowners insurance, but profits have been significantly below a reasonable rate of return. We expect to see improved profitability when 2002 data become available, due to rate increases and tighter underwriting.

Market Structure Changes

Commercial insurance markets have become more concentrated due to mergers and acquisitions and the withdrawal/retrenchment of some insurers from these markets. However, concentration has not increased to a level that would undermine competition.

Factors Influencing Market Conditions

Underwriting and Coverage Issues

- Mold is a significant issue in Texas and California and has received attention in other states. Insurers are modifying contract provisions to either exclude or limit coverage for mold or price for it.
- The risk of hurricanes and earthquakes continues to be a significant problem in areas that are most vulnerable to these events. Important issues concerning this risk have not been resolved.
- Terrorism is not perceived as a significant risk for most homeowners. The notable exceptions are individuals who have residences in New York City and the District of Columbia. Concern about terrorism risk varies for commercial structures, depending on their location and profile.
- The use of credit scoring and prior claims history in underwriting home insurance has received considerable criticism. Insurers have not adequately explained why these practices are valid and appropriate. States are beginning to enact or contemplate rules governing the use of such information and competition should motivate insurers to refine their methods.

Pricing and Investment Income

- Economic theory and the empirical evidence do not support the allegation that insurers are charging excessive prices to recoup losses from poor investment choices. Insurers' investments returns have fallen with the decline of financial markets and this has necessarily decreased the discount of insurance prices to reflect income on invested reserves.

Reinsurance

- Reinsurance markets are affected by many of the same factors that affect direct insurance markets. The supply of reinsurance has tightened and its cost has increased since 2000. This has contributed to hard market conditions in residential and commercial property insurance. There are some early indications that the price of reinsurance has begun to plateau.

Regulation

- Economic theory and empirical studies indicate that regulation has not reduced insurance rates or provided any other benefits to consumers. At best, rate regulation has been ineffective. At its worst, regulatory attempts to suppress rates have caused severe market problems.

I. Introduction

A. Purpose of Report

The purpose of this report is to review recent developments in residential and commercial property insurance markets in the U.S. There are numerous media accounts of rising prices and greater difficulty in obtaining homeowners insurance coverage. Commercial property insurance markets have experienced similar problems, with the added complication of coverage for terrorist events. Real estate professionals have experienced these problems first hand in their various capacities in facilitating real estate transactions and managing properties.

A number of factors have been blamed for causing the adverse price and availability trends, with insurers and consumer groups offering differing opinions on the causes. Among the causal factors that have been asserted by one group or another, are:

- The rising cost of claims;
- Underpricing by insurers in the middle and late 1990s;
- A decline in the value of insurers' assets;
- Loss shocks that have reduced insurers' surplus and capacity; and
- Uncertainty about new risks such as mold and terrorism.

To better understand insurance market conditions, this report examines key market structure and performance indicators to quantify price and availability trends and several factors associated with these trends. We discuss patterns revealed by available data and offer some opinions on factors that are more obscure. We focus initially on conditions in homeowners insurance markets and then review commercial insurance markets. We follow with further observations on the factors affecting conditions in these markets.

B. Summary of Findings

Our analysis confirms that increases in the price of homeowners insurance have accelerated. The rate of increase varies considerably among states, with a number of states experiencing price increases in excess of 10 percent in 2002, and some experiencing considerably higher increases. The information obtainable on the availability of insurance suggests that homeowners in some states have had to search more widely for coverage and some have been forced to switch to less desirable sources of coverage.

It appears that the cost of claims also has been rising rapidly, particularly in some states, suggesting that it is the primary factor behind the price increases and tightened availability. Fierce competition among insurers during the 1990s caused prices to lag behind cost increases – this increased the magnitude of the rate hikes needed to bring prices to adequate levels. The cost of and greater uncertainty about new risks, such as mold contamination, have been added factors in some jurisdictions (e.g., Texas). Weather-related perils also may be contributing to rising costs and prices in a number of states, and the risk of earthquakes and hurricanes continues to be an issue in areas subject to these perils. It is hoped that the clarification of policy language governing coverage for mold will have a beneficial effect on the cost, supply and price of insurance. Mitigating the impact of weather-related perils and natural disasters may prove more difficult.

There is some indication that the supply of homeowners insurance may be beginning to increase in some areas, which should have a beneficial impact on prices (i.e., prices will plateau or even decrease) and availability. This is more likely to occur in states where rates have reached adequate levels and costs appear to be under control. However,

there may be other jurisdictions where prices remain inadequate to cover costs and/or costs are still rising substantially. Supply could remain tight in these states imposing continued upward pressure on prices.

The price and availability of commercial property insurance also tightened considerably starting in 2001. The commercial insurance market was already hardening when the 9/11 terrorist attacks further ratcheted market pressures. The price of commercial property insurance accelerated rapidly in 2002 and terrorism coverage was essentially unavailable until the federal government established a backstop program. The overall market now shows signs of softening as price increases have decelerated. When terrorism coverage was reintroduced to the market it was very expensive and many firms declined to purchase the coverage if they had that option. However, there is some indication that the price of terrorism coverage is falling and more businesses may purchase it as it becomes less expensive.

II. Residential Property Insurance

A. Prices

Our analysis focuses on homeowners multiperil insurance, which is the form of property coverage carried on most homes. A smaller proportion (less than 10 percent) of homes are covered by dwelling fire and extended coverages and there is less information for these coverages. We focus first on trends in the price of homeowners insurance, noting the many recent accounts of insurers implementing rate increases in various states.

To measure the price of a good or service, it is necessary to specify what it is. There are several basic policy forms for homeowners insurance with the HO-3 form being the most common (key features of the primary policy forms are summarized in Box II.1). Further, the premium charged for a policy will vary with the value of the property insured and the policy limits chosen by the insured. Individual policies are sometimes modified by special endorsements (that expand coverage) and exclusions (that limit coverage) that will also affect the premium. Some of the price measures available generalize across policy forms and amounts of coverage. Consequently, these measures will be affected by changes in the policy forms and amounts of coverage purchased, as well as changes in the “true” price of coverage.

Table II.1 shows the Consumer Price Index for All Urban Consumers for several elements of housing costs including Household Insurance for the years 1990-2002 (1990=100). Figure II.1 plots the indices for "Owners Equivalent of Rent" and "Household Insurance." We can see from both the table and the figure that the cost of insurance lagged behind the cost of all items and other elements of housing during this period. This lag became more pronounced after 1997. Between 1990 and 2002, the cost

Box II.1
Homeowners Multiperil Policy Provisions and Options

Coverage	Form			
	HO-2	HO-3	HO-5	HO-8
Dwelling (A)	Minimum varies by company.	Minimum varies by company.	Minimum varies by company.	Minimum varies by company.
Other Structures (B)	10% of A	10% of A	10% of A	10% of A
Personal Property (C)	50% of A	50% of A	50% of A	50% of A
Loss of Use (D)	30% of A	30% of A	30% of A	10% of A
Personal Liability (E)	\$100,000	\$100,000	\$100,000	\$100,000
Medical Payments (F)	\$1,000 per person	\$1,000 per person	\$1,000 per person	\$1,000 per person
Perils	Named	Open-Dwelling Named-Contents	Open	Named, Limited
Loss Settlement	RC - Dwelling ACV - Contents	RC - Dwelling ACV - Contents	RC - Dwelling ACV - Contents	RC - Dwelling ACV - Contents

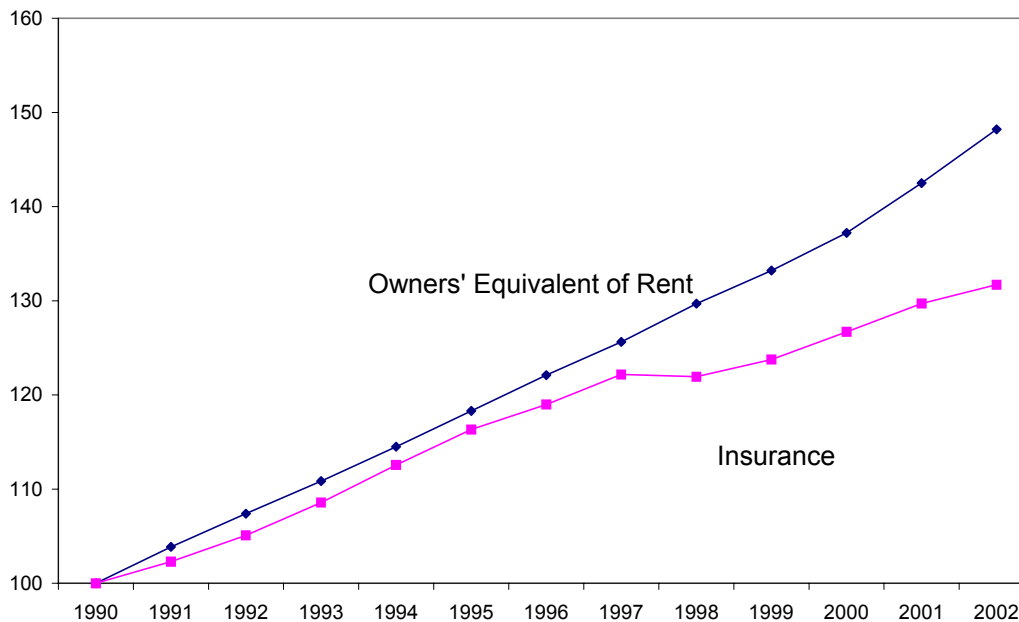
Source: Insurance Services Office

Table II.1
Consumer Price Indexes for All Urban Consumers
Housing: 1990-2002 (1990 = 100)

Year	All Items	All Housing	All Shelter	Homeowners Costs			
				All Costs	Owners Equivalent Rent	Household Insurance	Maintenance & Repair
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	104.2	104.0	104.5	103.9	103.9	102.3	103.4
1992	107.3	107.0	108.0	107.4	107.4	105.1	105.2
1993	110.6	109.9	111.9	110.8	110.8	108.6	106.9
1994	113.4	112.7	114.6	114.5	114.5	112.6	107.0
1995	116.6	115.6	118.4	118.3	118.3	116.3	110.5
1996	120.0	118.9	122.1	122.1	122.1	119.0	113.7
1997	122.8	122.0	125.9	125.5	125.6	122.2	117.6
1998	124.7	124.8	130.1	NA	129.7	121.9	NA
1999	127.5	127.5	133.8	NA	133.2	123.8	NA
2000	131.8	127.5	133.8	NA	137.2	126.7	NA
2001	135.6	137.3	143.3	NA	142.5	129.7	NA
2002	137.6	140.2	148.4	NA	148.2	131.7	NA

Source: Bureau of Labor Statistics

Figure II.1
CPI for Housing & Insurance



Source: Bureau of Labor Statistics

of insurance increased by 31.7 percent, compared to a 37.6 percent increase for all items and a 48.2 percent increase for the owners equivalent of rent.

These data seem to contrast with recent accounts of sharp premium increases for home insurance. There may be a couple of explanations for the discrepancy. One, greater increases in the cost of insurance may be fairly recent or pending and not yet reflected in the annual CPI data. Table II.2 shows monthly indices (seasonally adjusted) for housing and insurance in 2002 and early 2003. We see here that that tenants and household insurance increased by 5.6 percent from January through December 2002, compared to a 2.3 percent increase for the overall CPI and a 3.0 percent increase for the owners' equivalent of rent. During the first four months of 2003, the cost of insurance increased by 1.7 percent compared to a 0.9 percent increase for the overall CPI and a 0.6 percent increase for the owners equivalent of rent. This suggests that increases in the price of insurance accelerated during 2002 and the first part of 2003.

A second consideration is that the CPI generalizes insurance costs for the entire country (regional or state indices are not published) and it may be the case that cost increases have been more severe in certain areas of the country. Table II.3 shows average consumer expenditures for maintenance, repair and insurance from 1984 to 2001. We can see from this table that this category of expenditures, since 1992, has increased as a percentage of total housing expenditures in the Northeast and the West, remained relatively stable in the Midwest, and declined modestly in the South. Unfortunately, more recent data are not available to assess how these trends may have changed since 2001.

Table II.4 shows the average premium per home by state for an HO-3 policy with a dwelling coverage limit between \$175,000-\$200,000 for the years 1996, 1998 and 1999.

Table II.2
Consumer Price Indexes for All Urban Consumers*
Housing: Monthly Indices 2002-2003 (1982-84 = 100)**

Month	All Items	All Housing	All Shelter	Owners Equivalent Rent	Household Insurance
December 2001	177.3	177.9	204.3	210.7	106.3
January	177.6	178.2	205.0	211.4	106.4
February	178.0	178.7	206.0	212.2	106.8
March	178.6	178.9	206.2	212.8	106.8
April	179.5	179.5	207.1	213.5	107.2
May	179.5	180.0	207.6	213.9	107.6
June	179.7	180.1	207.8	214.5	107.8
July	179.9	180.3	208.2	215.1	108.6
August	180.5	180.9	209.0	215.7	109.6
September	180.8	181.1	209.3	216.2	110.0
October	181.3	181.6	209.8	216.8	110.0
November	181.5	181.9	210.4	217.1	111.4
December	181.6	182.2	210.8	217.7	112.3
January 2003	182.2	182.9	211.4	218.3	113.9
February 2003	183.3	183.4	211.5	218.7	114.1
March 2003	183.9	184.1	211.4	218.9	114.0
April 2003	183.3	184.0	211.6	218.9	114.2
% Chg. 2002	2.4%	2.4%	3.2%	3.3%	5.6%
% Chg. Dec-April 2003	0.9%	1.0%	0.4%	0.6%	1.7%
* Seasonally adjusted					
** Insurance on a 1997=100 basis.					
Source: Bureau of Labor Statistics					

Table II.3
Consumer Expenditures
Total Owned Dwelling and Other Expenditures
1984-2001

Year	Northeast			Midwest			South			West		
	Total Owned Dwelling	Maint., Rep., Insur., Other	Percent of Total	Total Owned Dwelling	Maint., Rep., Insur., Other	Percent of Total	Total Owned Dwelling	Maint., Rep., Insur., Other	Percent of Total	Total Owned Dwelling	Maint., Rep., Insur., Other	Percent of Total
1984	\$1,917	\$410	21.4%	\$1,968	\$381	19.4%	\$2,025	\$387	19.1%	\$2,429	\$386	15.9%
1985	\$1,938	\$447	23.1%	\$2,265	\$430	19.0%	\$2,130	\$411	19.3%	\$2,854	\$500	17.5%
1986	\$2,448	\$528	21.6%	\$2,027	\$412	20.3%	\$2,011	\$436	21.7%	\$3,016	\$468	15.5%
1987	\$2,598	\$511	19.7%	\$2,137	\$448	21.0%	\$2,106	\$410	19.5%	\$2,882	\$451	15.6%
1988	\$2,669	\$552	20.7%	\$2,446	\$480	19.6%	\$2,237	\$470	21.0%	\$3,162	\$502	15.9%
1989	\$3,104	\$661	21.3%	\$2,591	\$485	18.7%	\$2,360	\$451	19.1%	\$3,715	\$596	16.0%
1990	\$3,305	\$569	17.2%	\$2,566	\$484	18.9%	\$2,428	\$531	21.9%	\$3,932	\$591	15.0%
1991	\$3,918	\$599	15.3%	\$2,772	\$512	18.5%	\$2,766	\$569	20.6%	\$4,104	\$562	13.7%
1992	\$4,007	\$562	14.0%	\$2,957	\$574	19.4%	\$2,654	\$539	20.3%	\$4,110	\$578	14.1%
1993	\$3,815	\$657	17.2%	\$2,936	\$585	19.9%	\$2,843	\$624	21.9%	\$4,141	\$657	15.9%
1994	\$4,088	\$629	15.4%	\$3,153	\$600	19.0%	\$2,919	\$628	21.5%	\$4,252	\$774	18.2%
1995	\$4,308	\$659	15.3%	\$3,515	\$663	18.9%	\$3,022	\$699	23.1%	\$4,684	\$857	18.3%
1996	\$4,378	\$765	17.5%	\$3,611	\$641	17.8%	\$3,157	\$734	23.2%	\$4,447	\$786	17.7%
1997	\$4,704	\$784	16.7%	\$3,785	\$742	19.6%	\$3,059	\$650	21.2%	\$4,818	\$836	17.4%
1998	\$5,105	\$828	16.2%	\$4,108	\$851	20.7%	\$3,387	\$649	19.2%	\$4,989	\$845	16.9%
1999	\$5,313	\$842	15.8%	\$4,451	\$854	19.2%	\$3,541	\$749	21.2%	\$5,468	\$1,032	18.9%
2000	\$5,271	\$858	16.3%	\$4,525	\$879	19.4%	\$3,673	\$744	20.3%	\$5,393	\$932	17.3%
2001	\$5,509	\$924	16.8%	\$4,786	\$922	19.3%	\$3,899	\$759	19.5%	\$5,596	\$874	15.6%

Source: Bureau of Labor Statistics

**Table II.4
Average Homeowners Insurance Premiums
HO3 Policy: Policy Limit \$175,000-\$200,000**

State	1996	1998	1999	Pct. Chg.
Alabama	\$738	\$748	\$755	2.3%
Alaska	\$685	\$684	\$668	-2.5%
Arizona	\$514	\$514	\$503	-2.1%
Arkansas	\$756	\$755	\$776	2.6%
California	\$568	\$592	\$582	2.5%
Colorado	\$647	\$663	\$662	2.3%
Connecticut	\$539	\$564	\$558	3.5%
Delaware	\$382	\$380	\$377	-1.3%
District of Columbia	\$596	\$603	\$587	-1.5%
Florida	\$894	\$944	\$934	4.5%
Georgia	\$525	\$544	\$536	2.1%
Hawaii	\$624	\$497	\$508	-18.6%
Idaho	\$462	\$461	\$446	-3.5%
Illinois	\$377	\$443	\$414	9.8%
Indiana	\$472	\$474	\$457	-3.2%
Iowa	\$525	\$508	\$492	-6.3%
Kansas	\$794	\$824	\$815	2.6%
Kentucky	\$490	\$511	\$525	7.1%
Louisiana	\$1,032	\$1,014	\$1,040	0.8%
Maine	\$509	\$509	\$487	-4.3%
Maryland	\$390	\$419	\$414	6.2%
Massachusetts	\$616	\$600	\$588	-4.5%
Michigan	\$514	\$510	\$509	-1.0%
Minnesota	\$504	\$493	\$483	-4.2%
Mississippi	\$908	\$869	\$849	-6.5%
Missouri	\$583	\$586	\$569	-2.4%
Montana	\$641	\$599	\$595	-7.2%
Nebraska	\$624	\$663	\$668	7.1%
Nevada	\$585	\$563	\$552	-5.6%
New Hampshire	\$576	\$566	\$548	-4.9%
New Jersey	\$475	\$499	\$492	3.6%
New Mexico	\$653	\$638	\$602	-7.8%
New York	\$562	\$574	\$568	1.1%
North Carolina	\$489	\$515	\$520	6.3%
North Dakota	\$543	\$583	\$590	8.7%
Ohio	\$382	\$393	\$392	2.6%
Oklahoma	\$956	\$980	\$951	-0.5%
Oregon	\$411	\$400	\$394	-4.1%
Pennsylvania	\$516	\$528	\$520	0.8%
Rhode Island	\$669	\$667	\$658	-1.6%
South Carolina	\$734	\$732	\$714	-2.7%
South Dakota	\$550	\$554	\$562	2.2%
Tennessee	\$594	\$614	\$612	3.0%
Texas	\$1,202	\$1,251	\$1,175	-2.2%
Utah	\$479	\$477	\$476	-0.6%
Vermont	\$592	\$570	\$542	-8.4%
Virginia	\$341	\$371	\$373	9.4%
Washington	\$473	\$470	\$463	-2.1%
West Virginia	\$528	\$542	\$544	3.0%
Wisconsin	\$370	\$358	\$346	-6.5%
Wyoming	\$712	\$700	\$688	-3.4%
Countrywide	\$559	\$578	\$567	1.4%

Source: National Association of Insurance Commissioners

These averages are computed from aggregate insurer data reported to the NAIC and more current figures have not been published. The data indicates that the average premium declined in some states and increased in others during this period. This illustrates how the experience of different states varies. For example, from 1996 to 1999, the average premium increased by 9.8 percent in Illinois but dropped by 18.6 percent in Hawaii. Changes in coverage provisions (e.g., insureds choosing higher deductibles) may affect these average premium measures and the coverage changes may vary across states.

More recent and possibly more telling indications appear in Table II.5 and are plotted in Figures II.2-II.4. Table II.5 contains average premium calculations by state and quarter for 1997 through the third quarter of 2002. These average premiums aggregate all homeowners policies (including renters' and condominium owners' insurance) from a sample of insurers that account for about 60 percent of the entire market. While these data are less precise, they are more current and indicate that the average premium paid has increased in all states over this period and quite sharply in certain states, such as Texas, which experienced a 112.8 percent increase. This pattern seems to be more consistent with anecdotal accounts and insurers' recent announcements of rate increases.

Figure II.2 plots the countrywide average premium and Figure II.3 ranks states from highest to lowest by their average premium in the third quarter of 2002 (from Table II.5). Figure II.2 reveals a fairly steady increase in the average premium countrywide from the beginning of 1997 to the first quarter of 2002. The rate of increase accelerated considerably in the second and third quarters of 2002, particularly the latter – the average premium increased by 9.2 percent just in the third quarter. Looking at past years, it does

Table II.5
Average Premium Per Insured Home by State: Fast Track Data 1997-2002

State	1997				1998				1999				2000				2001				2002			Pct. Change
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Alabama	\$491	\$492	\$498	\$508	\$510	\$512	\$519	\$533	\$537	\$537	\$547	\$561	\$563	\$570	\$581	\$597	\$600	\$609	\$617	\$629	\$631	\$649	\$689	40.4%
Alaska	\$521	\$491	\$492	\$492	\$500	\$502	\$509	\$519	\$529	\$516	\$524	\$522	\$522	\$516	\$516	\$521	\$523	\$523	\$523	\$521	\$518	\$532	\$595	14.2%
Arizona	\$465	\$493	\$495	\$501	\$506	\$502	\$512	\$518	\$519	\$518	\$530	\$533	\$536	\$541	\$555	\$560	\$565	\$571	\$581	\$593	\$604	\$643	\$714	53.7%
Arkansas	\$487	\$472	\$488	\$502	\$510	\$510	\$521	\$540	\$538	\$531	\$537	\$548	\$547	\$555	\$570	\$593	\$600	\$602	\$611	\$637	\$639	\$656	\$716	47.0%
California	\$847	\$860	\$879	\$769	\$908	\$901	\$908	\$918	\$920	\$925	\$924	\$930	\$921	\$936	\$923	\$970	\$931	\$922	\$944	\$948	\$967	\$1,030	\$1,246	47.1%
Colorado	\$570	\$572	\$582	\$599	\$598	\$595	\$603	\$610	\$608	\$611	\$625	\$633	\$631	\$637	\$653	\$663	\$666	\$671	\$683	\$694	\$701	\$724	\$786	37.7%
Connecticut	\$559	\$528	\$548	\$567	\$570	\$549	\$570	\$590	\$604	\$562	\$588	\$611	\$595	\$575	\$588	\$603	\$614	\$608	\$636	\$655	\$650	\$672	\$758	35.5%
Delaware	\$285	\$264	\$267	\$282	\$290	\$269	\$272	\$283	\$293	\$270	\$274	\$286	\$293	\$282	\$284	\$304	\$310	\$305	\$308	\$317	\$330	\$328	\$341	19.7%
District of Columbia	\$496	\$487	\$493	\$506	\$488	\$488	\$497	\$497	\$495	\$484	\$485	\$476	\$470	\$466	\$472	\$474	\$474	\$474	\$484	\$486	\$490	\$499	\$533	7.6%
Florida	\$493	\$500	\$496	\$513	\$508	\$504	\$515	\$508	\$511	\$506	\$516	\$526	\$518	\$520	\$532	\$562	\$535	\$547	\$555	\$581	\$574	\$585	\$653	32.4%
Georgia	\$381	\$380	\$385	\$392	\$391	\$391	\$393	\$398	\$402	\$399	\$401	\$406	\$408	\$410	\$419	\$425	\$427	\$432	\$436	\$441	\$444	\$456	\$494	29.5%
Hawaii	\$378	\$375	\$373	\$373	\$369	\$363	\$349	\$338	\$326	\$329	\$361	\$385	\$404	\$414	\$404	\$396	\$388	\$381	\$377	\$387	\$380	\$386	\$408	7.8%
Idaho	\$403	\$400	\$422	\$414	\$421	\$414	\$419	\$423	\$422	\$412	\$411	\$418	\$413	\$414	\$422	\$427	\$428	\$426	\$442	\$450	\$454	\$477	\$537	33.1%
Illinois	\$437	\$439	\$446	\$453	\$456	\$460	\$466	\$476	\$482	\$476	\$483	\$485	\$484	\$485	\$493	\$501	\$505	\$505	\$511	\$518	\$519	\$543	\$595	36.1%
Indiana	\$360	\$361	\$366	\$375	\$378	\$379	\$385	\$392	\$394	\$382	\$400	\$409	\$413	\$415	\$425	\$435	\$439	\$440	\$449	\$459	\$465	\$479	\$513	42.5%
Iowa	\$321	\$322	\$328	\$331	\$333	\$334	\$340	\$343	\$344	\$343	\$352	\$353	\$353	\$353	\$357	\$360	\$363	\$363	\$371	\$376	\$382	\$395	\$427	32.8%
Kansas	\$585	\$592	\$606	\$613	\$623	\$641	\$639	\$651	\$656	\$657	\$670	\$678	\$682	\$691	\$704	\$714	\$721	\$723	\$739	\$745	\$752	\$768	\$808	38.2%
Kentucky	\$309	\$325	\$330	\$328	\$321	\$342	\$351	\$344	\$354	\$350	\$356	\$365	\$368	\$371	\$382	\$394	\$398	\$398	\$405	\$414	\$418	\$424	\$451	46.2%
Louisiana	\$601	\$602	\$605	\$613	\$619	\$625	\$625	\$634	\$635	\$644	\$658	\$664	\$666	\$672	\$684	\$694	\$698	\$710	\$725	\$744	\$757	\$799	\$893	48.6%
Maine	\$285	\$284	\$284	\$291	\$288	\$291	\$294	\$299	\$302	\$300	\$300	\$315	\$307	\$310	\$316	\$323	\$328	\$331	\$336	\$345	\$352	\$360	\$385	35.2%
Maryland	\$315	\$308	\$316	\$328	\$333	\$324	\$325	\$337	\$343	\$329	\$328	\$342	\$343	\$335	\$338	\$358	\$365	\$375	\$373	\$380	\$393	\$400	\$432	37.3%
Massachusetts	\$541	\$542	\$547	\$558	\$545	\$561	\$568	\$584	\$556	\$553	\$565	\$564	\$545	\$541	\$544	\$556	\$542	\$547	\$564	\$576	\$567	\$572	\$594	9.9%
Michigan	\$364	\$366	\$376	\$387	\$390	\$390	\$398	\$403	\$412	\$403	\$405	\$416	\$422	\$425	\$435	\$448	\$450	\$454	\$465	\$470	\$480	\$499	\$545	49.7%
Minnesota	\$401	\$401	\$407	\$412	\$417	\$418	\$425	\$432	\$433	\$436	\$443	\$446	\$452	\$458	\$475	\$486	\$494	\$502	\$520	\$539	\$556	\$587	\$643	60.6%
Mississippi	\$518	\$511	\$517	\$533	\$541	\$533	\$532	\$550	\$561	\$553	\$561	\$573	\$588	\$582	\$591	\$605	\$606	\$624	\$637	\$662	\$679	\$706	\$760	46.7%
Missouri	\$454	\$454	\$463	\$473	\$477	\$479	\$484	\$491	\$492	\$492	\$500	\$502	\$503	\$505	\$517	\$525	\$531	\$536	\$550	\$555	\$557	\$571	\$603	33.0%

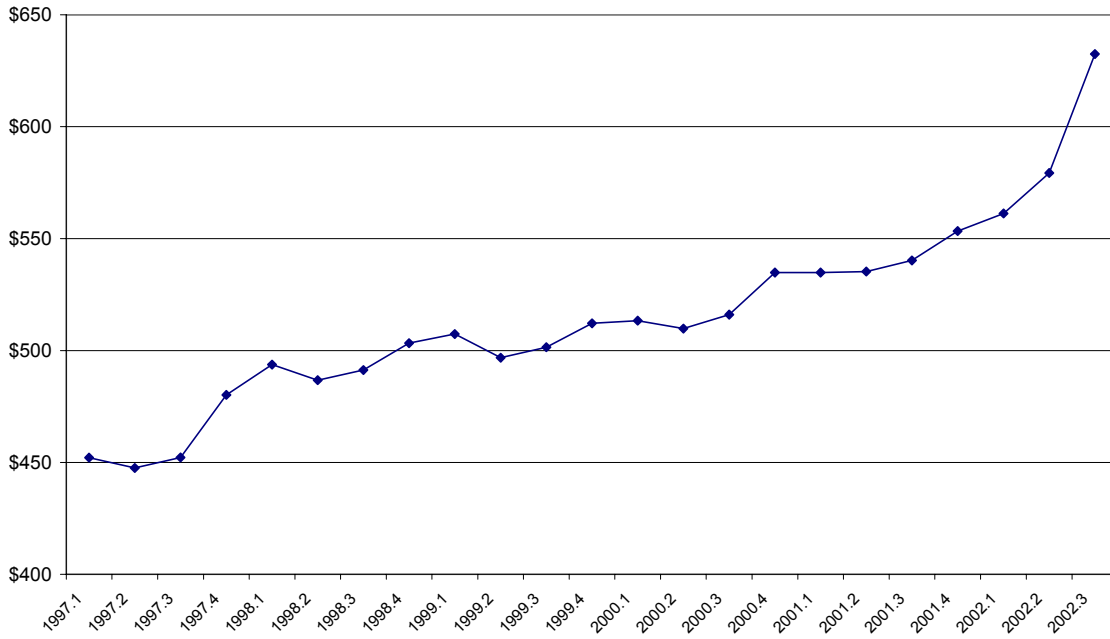
Table II.5 (continued)

Average Premium Per Insured Home by State: Fast Track Data 1997-2002

State	1997				1998				1999				2000				2001				2002			Pct. Change
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Montana	\$509	\$504	\$513	\$514	\$519	\$506	\$510	\$518	\$517	\$512	\$521	\$530	\$522	\$524	\$545	\$560	\$566	\$563	\$586	\$597	\$601	\$613	\$665	30.8%
Nebraska	\$398	\$401	\$412	\$420	\$424	\$427	\$436	\$448	\$449	\$451	\$462	\$469	\$473	\$479	\$491	\$500	\$503	\$508	\$517	\$527	\$533	\$549	\$582	46.0%
Nevada	\$606	\$606	\$611	\$625	\$625	\$610	\$618	\$624	\$620	\$625	\$629	\$631	\$633	\$636	\$645	\$653	\$657	\$660	\$670	\$680	\$698	\$738	\$830	36.9%
New Hampshire	\$359	\$359	\$361	\$369	\$366	\$368	\$369	\$367	\$396	\$360	\$378	\$379	\$379	\$382	\$386	\$391	\$393	\$396	\$402	\$407	\$409	\$419	\$445	23.9%
New Jersey	\$427	\$424	\$434	\$448	\$446	\$447	\$451	\$454	\$448	\$444	\$446	\$445	\$436	\$430	\$432	\$437	\$436	\$437	\$446	\$454	\$455	\$467	\$513	20.3%
New Mexico	\$512	\$512	\$521	\$528	\$542	\$543	\$547	\$556	\$552	\$553	\$559	\$553	\$545	\$555	\$574	\$576	\$576	\$577	\$584	\$584	\$583	\$607	\$679	32.8%
New York	\$570	\$557	\$558	\$570	\$582	\$576	\$563	\$578	\$594	\$568	\$572	\$588	\$596	\$585	\$585	\$603	\$610	\$614	\$604	\$618	\$642	\$655	\$709	24.4%
North Carolina	\$387	\$367	\$374	\$398	\$408	\$388	\$391	\$419	\$419	\$397	\$397	\$429	\$431	\$418	\$420	\$457	\$459	\$458	\$458	\$478	\$481	\$485	\$516	33.6%
North Dakota	\$321	\$323	\$332	\$339	\$344	\$348	\$360	\$369	\$372	\$375	\$383	\$386	\$401	\$408	\$426	\$436	\$439	\$444	\$457	\$463	\$464	\$471	\$502	56.4%
Ohio	\$285	\$264	\$265	\$285	\$299	\$279	\$277	\$300	\$310	\$288	\$289	\$309	\$319	\$299	\$302	\$323	\$334	\$322	\$321	\$336	\$347	\$343	\$365	28.3%
Oklahoma	\$802	\$817	\$835	\$806	\$865	\$859	\$879	\$891	\$889	\$884	\$891	\$896	\$896	\$908	\$933	\$947	\$956	\$960	\$976	\$986	\$1,000	\$1,061	\$1,169	45.7%
Oregon	\$378	\$379	\$385	\$394	\$400	\$395	\$402	\$411	\$411	\$409	\$414	\$417	\$418	\$421	\$430	\$439	\$443	\$442	\$452	\$460	\$463	\$478	\$522	37.9%
Pennsylvania	\$363	\$345	\$349	\$380	\$384	\$364	\$365	\$387	\$396	\$370	\$372	\$393	\$402	\$385	\$384	\$411	\$426	\$413	\$412	\$426	\$437	\$437	\$477	31.6%
Rhode Island	\$446	\$435	\$430	\$446	\$454	\$444	\$442	\$459	\$461	\$443	\$442	\$461	\$464	\$459	\$467	\$494	\$510	\$521	\$519	\$532	\$533	\$552	\$593	33.1%
South Carolina	\$409	\$401	\$405	\$417	\$420	\$411	\$413	\$427	\$425	\$409	\$421	\$438	\$436	\$436	\$448	\$472	\$475	\$483	\$492	\$507	\$515	\$531	\$584	42.7%
South Dakota	\$342	\$346	\$354	\$363	\$365	\$369	\$383	\$391	\$393	\$395	\$402	\$408	\$421	\$430	\$445	\$451	\$452	\$457	\$468	\$475	\$480	\$491	\$515	50.8%
Tennessee	\$396	\$395	\$399	\$412	\$421	\$419	\$427	\$439	\$445	\$440	\$450	\$460	\$459	\$451	\$459	\$471	\$473	\$473	\$483	\$496	\$499	\$507	\$541	36.6%
Texas	\$544	\$538	\$526	\$968	\$992	\$980	\$999	\$1,007	\$995	\$982	\$974	\$955	\$943	\$937	\$947	\$952	\$950	\$945	\$927	\$956	\$995	\$1,074	\$1,157	112.8%
Utah	\$429	\$430	\$435	\$453	\$454	\$448	\$452	\$461	\$462	\$458	\$460	\$461	\$459	\$459	\$467	\$472	\$477	\$476	\$476	\$476	\$478	\$503	\$570	32.8%
Vermont	\$399	\$381	\$387	\$406	\$412	\$399	\$409	\$425	\$443	\$417	\$425	\$439	\$450	\$433	\$438	\$458	\$470	\$468	\$464	\$481	\$487	\$495	\$512	28.4%
Virginia	\$256	\$246	\$252	\$266	\$277	\$269	\$273	\$290	\$295	\$284	\$281	\$296	\$302	\$294	\$296	\$317	\$322	\$318	\$315	\$331	\$337	\$345	\$370	44.5%
Washington	\$442	\$438	\$444	\$450	\$456	\$450	\$458	\$468	\$462	\$459	\$463	\$469	\$472	\$474	\$484	\$493	\$499	\$498	\$515	\$526	\$531	\$553	\$607	37.4%
West Virginia	\$345	\$312	\$310	\$344	\$356	\$331	\$325	\$362	\$369	\$340	\$339	\$374	\$378	\$352	\$349	\$382	\$393	\$377	\$363	\$391	\$394	\$387	\$402	16.7%
Wisconsin	\$247	\$247	\$251	\$254	\$254	\$257	\$263	\$268	\$266	\$269	\$273	\$278	\$283	\$287	\$299	\$307	\$298	\$310	\$321	\$326	\$330	\$339	\$361	46.5%
Wyoming	\$583	\$582	\$609	\$632	\$646	\$643	\$656	\$665	\$674	\$670	\$676	\$680	\$679	\$674	\$689	\$699	\$703	\$695	\$707	\$718	\$709	\$723	\$772	32.5%
Countrywide	\$452	\$448	\$452	\$480	\$494	\$487	\$491	\$503	\$507	\$497	\$502	\$512	\$513	\$510	\$516	\$535	\$535	\$535	\$540	\$553	\$561	\$579	\$632	39.9%

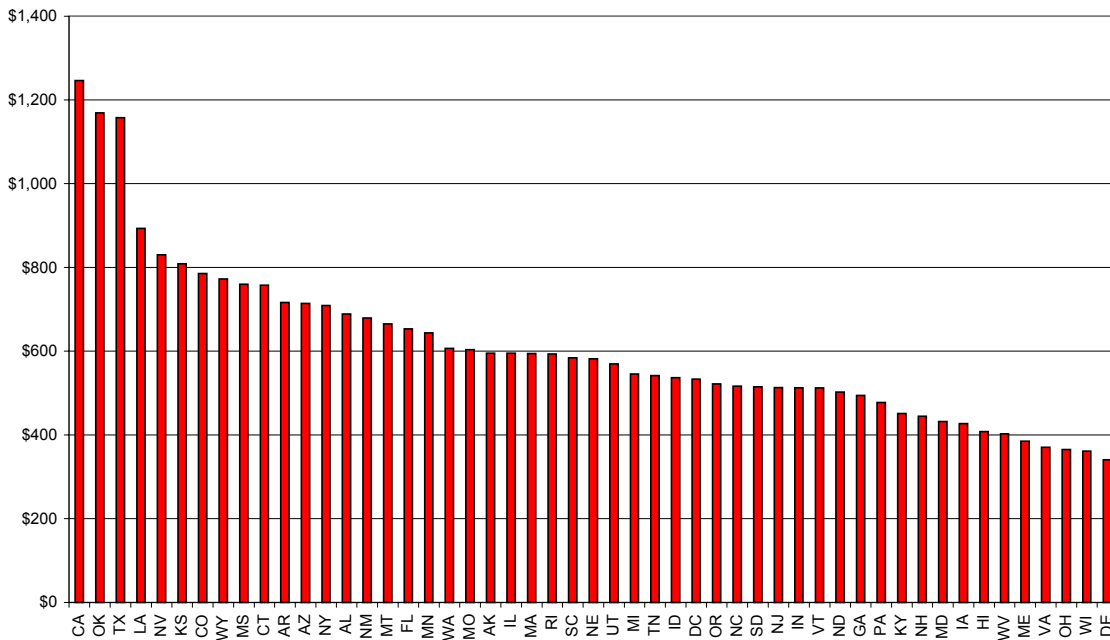
Source: Fast Track Monitoring Reports (NAII/ISO)

Figure II.2
Average Premium Per Insured Home: Countrywide 1997.1-2002.3



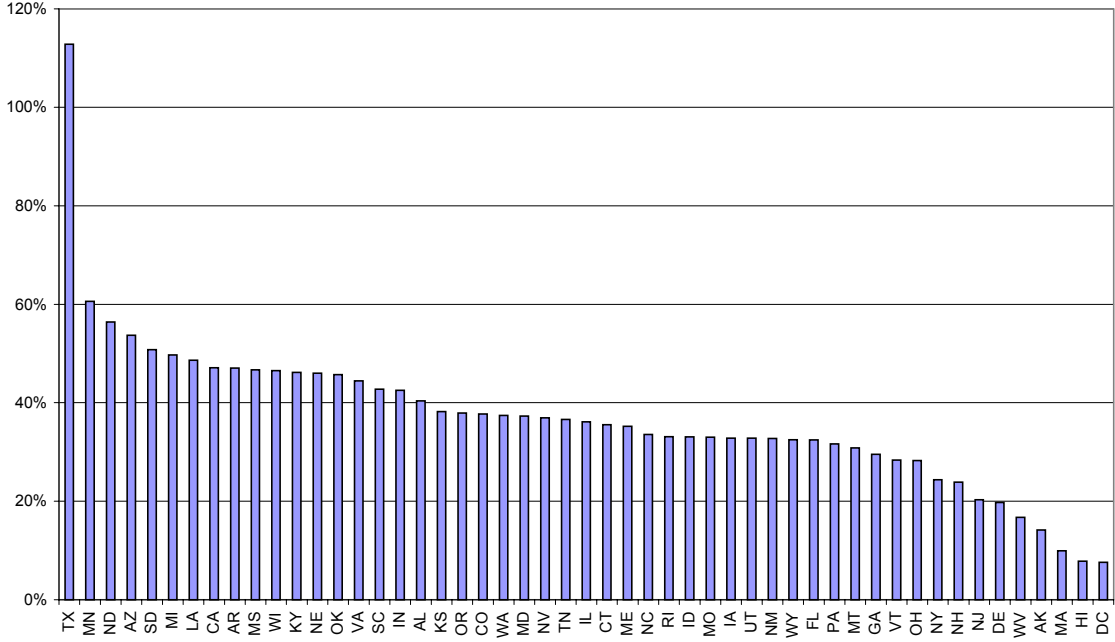
Source: Fast Track Monitoring Reports (NAI/ISO)

Figure II.3
States Ranked by Average HO Premium: 3rd Quarter 2002



Source: Fast Track Monitoring Reports (NAI/ISO)

Figure II.4
Percent Change in Average Premium: 1997Q1-2002Q3



Source: Fast Track Monitoring Reports (NAII/ISO)

not appear that there is a seasonality factor associated with the third quarter. The third quarter increase could reflect the effect of rate increases on policies renewed at mid-year.

Figure II.3 reveals that average premiums vary considerably by state, ranging from \$1,246 in California to \$341 in Delaware for the third quarter of 2002. Oklahoma and Texas ranked second and third with average premiums of \$1,169 and \$1,157, respectively. California experienced a \$211 increase from the second to the third quarter – the reason for this is not clear.

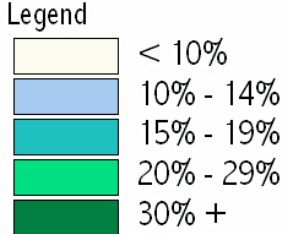
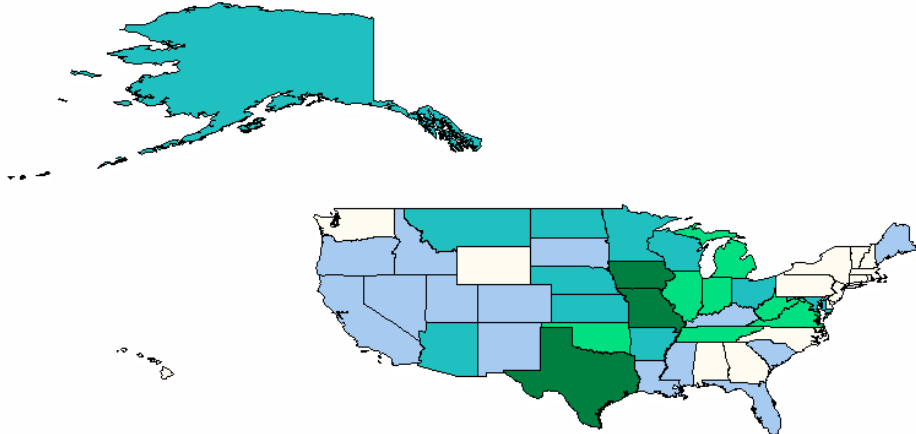
Figure II.4 ranks states by the percent change in the average premium over the entire period 1997.1-2002.3. Texas tops this chart with a 112.8 percent increase. Texas is an outlier in terms of the rate of increase but 18 states (including Texas) had increases exceeding 40 percent. Generally speaking, the states with the largest increases appear to be states that may have a greater exposure to weather-related perils other than hurricanes. In addition to concerns about mold claims in certain states, these changes also could be due in part to increases in the policy limits purchased by insureds.

Another source of information is a recent Money Magazine survey of state insurance departments on homeowners insurance rate level changes in 2002, presented in Table II.6 and Figure II.5. Note these are rate level changes and not average premium changes.¹ We can see that, based on this survey, all states experienced rate increases and some states experienced sharp increases. Iowa, Missouri and Texas had increases in excess of 30 percent and seven states had increases between 20-30 percent. Thirty-six states had increases in excess of 10 percent, which would be considered large in “normal” times.

¹ Typically, an overall rate level change is calculated by computing a weighted average of rate (price) changes for different policies.

Table II.6	
Average Homeowners Insurance Rate Change in 2002	
State	Percent Change
Alabama	<10%
Alaska	15%-19%
Arizona	15%-19%
Arkansas	15%-19%
California	10%-14%
Colorado	10%-14%
Connecticut	<10%
Delaware	<10%
District of Columbia	15%-19%
Florida	10%-14%
Georgia	<10%
Hawaii	<10%
Idaho	10%-14%
Illinois	20%-29%
Indiana	20%-29%
Iowa	>30%
Kansas	15%-19%
Kentucky	10%-14%
Louisiana	10%-14%
Maine	10%-14%
Maryland	15%-19%
Massachusetts	<10%
Michigan	20%-29%
Minnesota	15%-19%
Mississippi	10%-14%
Missouri	>30%
Montana	15%-19%
Nebraska	15%-19%
Nevada	10%-14%
New Hampshire	<10%
New Jersey	<10%
New Mexico	10%-14%
New York	<10%
North Carolina	<10%
North Dakota	15%-19%
Ohio	15%-19%
Oklahoma	20%-29%
Oregon	10%-14%
Pennsylvania	<10%
Rhode Island	<10%
South Carolina	10%-14%
South Dakota	10%-14%
Tennessee	20%-29%
Texas	>30%
Utah	10%-14%
Vermont	<10%
Virginia	20%-29%
Washington	<10%
West Virginia	20%-29%
Wisconsin	15%-19%
Wyoming	<10%
Source: Money Magazine	

Figure II.5
Average Premium Increase by State in 2002



Source: Money Magazine

The results of this survey are consistent with a similar survey by the Consumer Federation of America (2003b).

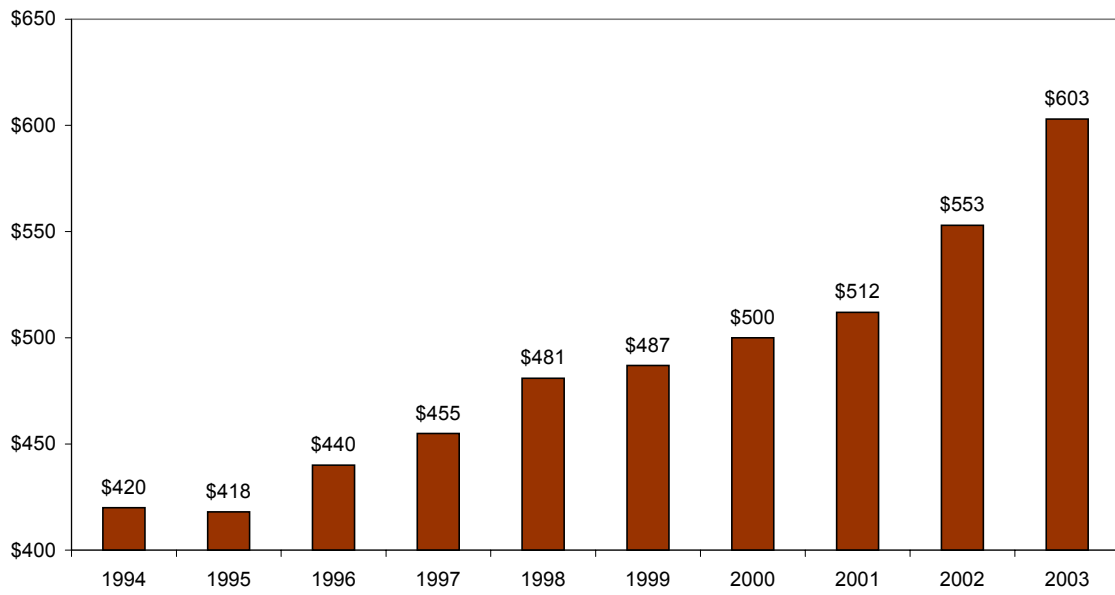
An important question is how rates will change in the months ahead. Will rates plateau or will there be further increases in some states? Key factors affecting rates in the future are the adequacy of current rate levels in covering costs, trends in cost drivers, and the amount of uncertainty about the future cost of risk. The Insurance Information Institute projects that the average consumer expenditure on home insurance countrywide will increase by 9 percent in 2003 (see Figure II.6).

Another indicator of future trends are recent or pending advisory loss cost filings in the various states.² Table II.7.1 shows ISO advisory loss cost level revisions approved or pending in various states. Interestingly, decreases are shown for some states and increases are shown for others. The ISO filings are only advisory and are used by some insurers but not others. Insurers also may modify the ISO advisory loss costs in their own filings. The ISO information suggests that prices may plateau or fall in some states but continue to increase in others, to the extent that insurers adopt the advisory loss costs.

Another indicator of future price trends is insurers' assessment of the adequacy of current rates and the need for further rate increases. Aon recently issued the results of its analysis of homeowners insurance rate adequacy in the various states, presented in Table II.7.2. According to this analysis, significant rate increases are still needed in a number of states to generate a 14 percent rate of return on equity – a rate of return some analysts would consider within the ballpark of insurers' cost of capital. Florida and Oklahoma

² The Insurance Services Office files advisory loss costs (including fully developed and trended loss costs and loss adjustment expense and excluding other expenses and profit) for homeowners insurance in most states. These filings are subject to regulatory approval and regulators sometimes reduce the loss costs approved. Insurers may incorporate the advisory loss costs in their filings of full rates (with or without modification) or they may file their own rates based on their own analysis of expected loss costs.

Figure II.6
Average Consumer Expenditures on Homeowners Insurance



Note: Figures for 2000-2003 are III estimates.

Source: NAIC, III

Table II.7.1
ISO Homeowners Advisory Loss Cost Level Revisions:
2002 through 4th Quarter

State	Date ^a	Changes	Pending	Notes
Alabama	4/1	+ 5.1%		
Alaska	3/1	- 5.7	- 9.9%	
Arizona	7/1	+ 4.0		
Arkansas	12/1	+ 6.9		
California	3/28	- 3.9		
Colorado	2/1	- 5.0		
Colorado	11/1	- 5.0		
Connecticut	6/1	- 3.1		
Delaware	2/1	- 2.8		
Delaware	7/1	+ 0.8		
Dist. of Col.	2/1	+ 1.6		
Florida			- 2.2	
Georgia			- 14.6	(e)
Georgia			- 10.9	(d)
Idaho			+ 4.7	(b)
Illinois	12/1	+ 4.3		
Indiana	9/1	+ 3.6		
Iowa	12/1	+ 9.6		
Kansas	7/1	- 1.1		
Kentucky	9/1	- 7.3		
Maine	4/1	- 0.3		
Maryland	4/1	+ 3.3		
Massachusetts	2/1	- 4.8		
Michigan	9/1	+ 2.0		
Minnesota	4/1	- 4.9	+ 5.4	(c)
Mississippi	10/1	+ 4.8		
Missouri	7/1	- 1.6		
Montana	9/1	+ 2.3		
Nebraska	2/1	- 4.7	+ 7.7	(b)
Nevada	3/1	- 5.9	- 5.1	(b)
New Hampshire			- 5.0	(f)
New Jersey	7/1	+ 3.4		
New Mexico	12/1	+ 1.3		
New York			- 11.3	
North Dakota	3/1	- 3.4	+ 7.3	(b)
Ohio	4/1	- 1.0	+ 7.2	(c)
Oklahoma	4/1	+ 1.1	+ 4.9	
Oregon				
Pennsylvania	9/1	+ 1.4		
Puerto Rico			+ 72.6	(d)
Rhode Island	4/1	0.0		
South Carolina			+ 2.5	(g)
South Dakota	2/1	+ 4.9	+ 15.0	(b)
Tennessee			- 0.7	(b)
Utah	9/1	- 7.2		
Vermont	8/1	- 1.4		
Virginia	4/1	- 1.8		
West Virginia	4/1	- 1.8	+ 7.1	
Wisconsin	3/1	+ 0.7	+ 0.6	(b)
Wyoming	9/1	- 2.5		

(a) Date is effective date (month/day) or manual distribution date (month-year).
(b) Scheduled for implementation or approved effective first quarter 2003.
(c) Scheduled for implementation or approved effective second quarter 2003.
(d) For Insurer information.
(e) Previous filing withdrawn.
(f) Filing Disapproved.
(g) Filing withdrawn.
Source: Insurance Services Office

**Table II.7.2
HO Rate Adequacy by State: Aon Study**

State	Prospective ROE at Current Rates*	Rate Increase Needed for 14% ROE*
Alabama	7.0%	11.7%
Alaska	NA	NA
Arizona	6.9%	10.6%
Arkansas	4.3%	14.6%
California	4.2%	15.6%
Colorado	6.1%	11.8%
Connecticut	15.7%	-2.9%
Delaware	10.1%	6.1%
District of Columbia	NA	NA
Florida	2.3%	26.0%
Georgia	2.8%	16.8%
Hawaii	NA	NA
Idaho	10.9%	4.6%
Illinois	2.1%	18.0%
Indiana	2.4%	17.4%
Iowa	2.2%	17.7%
Kansas	11.2%	4.2%
Kentucky	9.1%	7.4%
Louisiana	8.4%	9.3%
Maine	8.3%	8.8%
Maryland	11.2%	4.2%
Massachusetts	10.0%	6.4%
Michigan	6.4%	11.4%
Minnesota	1.2%	19.2%
Mississippi	4.3%	16.8%
Missouri	1.1%	19.4%
Montana	9.7%	6.5%
Nebraska	1.2%	19.1%
Nevada	11.8%	3.3%
New Hampshire	12.0%	3.1%
New Jersey	7.8%	10.1%
New Mexico	12.9%	1.6%
New York	3.6%	17.0%
North Carolina	6.8%	11.5%
North Dakota	1.2%	19.2%
Ohio	12.0%	3.0%
Oklahoma	-1.2%	22.7%
Oregon	13.2%	1.2%
Pennsylvania	8.1%	8.9%
Rhode Island	13.2%	1.3%
South Carolina	14.3%	-0.5%
South Dakota	8.2%	8.7%
Tennessee	7.4%	10.4%
Texas	4.2%	16.3%
Utah	16.0%	-3.0%
Vermont	11.2%	4.3%
Virginia	6.7%	11.4%
Washington	4.4%	14.5%
West Virginia	10.0%	5.9%
Wisconsin	7.0%	10.5%
Wyoming	12.3%	2.5%

* For 2003 based on 2002 rate filings.
Source: Aon

lead this list with “indicated” rate increases of 26 and 22.7 percent, respectively. Several midwestern states are not far behind with indicated rate increases exceeding 19 percent. Insurers may not seek increases of this magnitude but the Aon analysis indicates the relative pressure on homeowners pricing that could result in further rate increases in some jurisdictions.

Despite this assessment of rate adequacy, other indicators seem to suggest that the supply of homeowners insurance may be beginning to increase in a number of states, which could cause prices to plateau or even fall in some areas. Homeowners insurers reported improved profits for the first quarter of 2003, which will lessen the pressure on rates. At the same time, there may be states where insurers’ experience has not improved sufficiently to prompt a softening of market conditions.

We also examined price differences across various areas in California, Florida and Texas. These are premium comparisons based on hypothetical policies in different locations in a state, so they provide a “purer” (although less comprehensive) indication of price changes than average premium expenditures. Starting with Florida (shown in Table II.8), we can see that price levels and price changes vary considerably by region. For example, for 2003, State Farm’s premium for an “average” home ranges from \$1,845 in Monroe County to \$532 in Osceola County. From 2001 to 2003, the State Farm premium increased by 30.3 percent in Polk County, 24.7 percent in Monroe County, and 23.5 percent in Palm Beach County. In contrast, the premium for Orange County declined slightly by 0.7 percent. It appears that areas with the greatest exposure to tropical storms tend to have the highest rate levels and experienced the greatest rate increases. Other factors may also contribute to this pattern, such as concerns about mold claims.

Table II.8
Florida Home Premium Comparisons
2001 and 2003
State Farm: Premium for “Average Home”

County	2003			2001	
	Premium	High/Low	Pct. Chg.	Premium	High/Low
Monroe	\$1,845	3.47	24.7%	\$1,480	3.02
Dade	\$1,575	2.96	17.0%	\$1,346	2.75
Broward	\$1,340	2.52	9.1%	\$1,228	2.51
Palm Beach	\$1,328	2.50	23.5%	\$1,075	2.19
Polk	\$783	1.47	30.3%	\$601	1.23
Orange	\$580	1.09	-0.7%	\$584	1.19
Osceola	\$532	1.00	8.6%	\$490	1.00

Source: Florida Dept. of Insurance

Table II.9
California Homeowners Insurance Premium Comparisons: 2001 & 2002
State Farm Insurance Company

County	City	2002	2001	Pct. Chg.
Alameda	Fremont	\$1,062	\$978	8.6%
Alameda	Hayward	\$1,062	\$978	8.6%
Alameda	Oakland-Piedmont	\$1,114	\$1,066	4.5%
Los Angeles	Bell	\$1,095	\$999	9.6%
Los Angeles	Long Beach	\$1,095	\$999	9.6%
Los Angeles	Santa Clarita	\$1,249	\$1,110	12.5%
Los Angeles	Santa Monica	\$1,441	\$1,352	6.6%
Los Angeles	Torrance	\$985	\$899	9.6%
Orange	Anaheim	\$1,179	\$1,086	8.6%
Sacramento	Carmichael	\$1,208	\$1,189	1.6%
Sacramento	Sacramento-Rosemont	\$1,208	\$1,189	1.6%
Sacramento	Sacramento-Southgate	\$1,208	\$1,189	1.6%
San Francisco	San Francisco	\$1,025	\$989	3.6%
San Mateo	Daly City	\$985	\$942	4.6%
San Mateo	San Mateo	\$985	\$942	4.6%
Santa Clara	Sunnyvale	\$918	\$861	6.6%
Ventura	Thousand Oaks	\$1,114	\$1,055	5.6%
Yolo	Woodland	\$978	\$954	2.5%

Homeowners: Frame home, \$300,000 limit, \$500 deductible, age of home 7-15 years.
Source: California Department of Insurance

Looking at California (shown in Table II.9), we see that premium differences among various communities are more limited than in Florida. Among the selected communities, State Farm premiums in 2002 (for a \$300,000 frame home) ranged from \$1,441 in Santa Monica to \$978 in Woodland. We should note that these premiums do not include earthquake insurance where risk exposure varies widely among areas in the state. The percentage increase in the State Farm premiums (from 2001 to 2002) ranged from 12.5 percent in Santa Clarita to 1.6 percent in Sacramento.³ A more typical set of cost drivers may be affecting rates in California (compared with Florida), noting that wildfires and mold claims have been significant issues in California.

Comparison premiums in Texas for Farmers Insurance Exchange for 2003 are shown in Table II.10 (we do not have comparable information for previous years). The premiums shown are for a \$100,000 dwelling and \$1,000 deductible. We can see from this table that premiums are high in Texas relative to other states. For example, for an urban frame home with good fire protection, the premium ranges from \$1,407 in Lubbock to \$3,221 in Corpus Christi. The highest premium shown is \$3,849 for a rural home with limited fire protection in Galveston County. Certain areas have a high exposure to tropical storms and many areas may have a high exposure to other weather-related perils. Of course, mold has been a significant issue in Texas as well. These intra-state comparisons indicate that the effects of market conditions on prices vary substantially within states, i.e., homeowners in certain areas are experiencing higher prices and greater price increases than what are indicated by statewide averages.

³ The rate comparison posted by the California Department of Insurance on its website, from which these figures were obtained, indicated that State Farm was not accepting new applications for insurance.

Table II.10
Texas Homeowners Insurance Premium Comparisons
Farmers Insurance Exchange: 2003

County	City in County	Owner Type			
		A	B	C	D
Potter	Amarillo	\$1,540	\$1,849	\$1,726	\$2,066
Lubbock	Lubbock	\$1,178	\$1,407	\$1,464	\$2,303
Dallas	Dallas	\$1,352	\$1,616	\$1,938	\$3,054
Harris	Houston	\$1,686	\$2,016	\$1,769	\$2,117
Bexar	San Antonio	\$1,395	\$1,667	\$1,735	\$2,732
Taylor	Abilene	NA	NA	\$1,361	\$2,140
Galveston	Galveston	\$1,959	\$2,344	\$2,441	\$3,849
Nueces	Corpus Christi	\$2,687	\$3,221	\$2,160	\$3,403
\$100,000 limit on dwelling & \$40,000 limit on contents, \$1,000 deductible. HO-A Amended Policy with replacement cost on structure, contents. Owner A: Brick veneer, urban, good fire protection. Owner B: frame, urban, good fire protection Owner C: brick veneer, rural, limited fire protection Owner D: frame, rural, limited fire protection Source: Texas Department of Insurance					

B. Availability

The second piece of the puzzle is the availability of insurance. Availability is more subjective and difficult to measure than price. For most homeowners, it may be more a matter of the quality of the options available to them than a situation where they cannot obtain insurance from any source. For example, a homeowner may find it more difficult to obtain coverage from an insurer she prefers and/or the breadth of coverage she prefers. Also, reduced choice of insurers can result in paying a higher premium – insurers with less stringent underwriting standards tend to have higher price structures to account for the higher risk of their portfolios of exposures.

One measure of availability commonly used is the number or proportion of policies purchased through state-sponsored FAIR plans. These are residual market mechanisms that exist in 30 states. Texas just recently established a FAIR Plan. Homeowners who cannot obtain coverage through the voluntary market may be able to obtain coverage through a state FAIR Plan. A FAIR Plan effectively assigns insureds proportionately to various insurers according to their shares of the voluntary market. FAIR Plan coverages tend to be more limited than voluntary market coverages and rates are set by regulators. Greater volume in a FAIR Plan suggests less availability of coverage in the voluntary market.

Table II.11.1 presents policy and exposure (amounts of coverage in \$000) information for state FAIR plans for the years 1992 and 1999-2001.⁴ Figure II.7 ranks states by the estimated percentage of insured homes in the FAIR Plan and Figure II.8 ranks states in terms of the percentage increase in FAIR Plan market shares from 1995 to 2001. We can see from Table II.11.1 and Figure II.7 that the FAIR Plan insures a

⁴ The FAIR Plan recently established by Texas is not reflected in Table II.11.

**Table II.11.1
State FAIR Plans
1992, 1999-2001**

State	2001				2000				1999				1992	
	Policies		Exposures (\$000s)		Policies		Exposures (\$000s)		Policies		Exposures (\$000s)		Policies	Exposures (\$000s)
	Number	% Chg.	Amount	% Chg.	Number	% Chg.	Amount	% Chg.	Number	% Chg.	Amount	% Chg.		
California	195,130	-12.5%	34,593,422	-10.0%	223,046	-22.5%	38,431,019	-18.0%	287,725	148.5%	46,885,363	148.5%	115,767	18,866,588
Connecticut	2,938	-6.5%	NA	NA	3,141	-13.1%	NA	NA	3,613	-39.6%	NA	NA	5,985	754,943
Delaware	1,924	0.5%	119,161	8.4%	1,914	-9.3%	109,969	-5.4%	2,111	13.3%	116,228	51.6%	1,864	76,679
DC	1,270	-13.8%	142,278	-7.8%	1,473	-9.6%	154,301	-5.4%	1,630	-40.4%	163,189	-37.6%	2,733	261,312
Florida	102,990	51.5%	41,708,663	64.2%	67,971	-36.9%	25,394,811	40.2%	107,731	-26.9%	18,111,873	98.2%	147,315	9,137,395
Georgia	22,548	-12.4%	1,680,293	7.3%	25,740	-0.2%	1,565,672	3.3%	25,786	130.6%	1,515,180	127.4%	11,181	666,322
Hawaii	855	3.0%	151,616	NA	830	26.5%	NA	-100.0%	656	NA	453	NA	NA	NA
Illinois	11,369	-1.6%	509,310	-8.0%	11,549	-3.2%	553,427	2.9%	11,928	-25.8%	538,011	-14.6%	16,069	630,297
Indiana	3,101	-2.5%	153,908	8.1%	3,182	3.4%	142,433	17.9%	3,077	0.6%	120,844	34.8%	3,058	89,662
Iowa	NA	NA	NA	NA	1,377	3.9%	57,652	62.2%	1,325	22.3%	35,533	29.6%	1,083	27,414
Kansas	3,263	-7.6%	96,978	-0.1%	3,531	-6.6%	97,093	3.8%	3,779	-28.7%	93,544	-27.0%	5,303	128,062
Kentucky	10,537	-7.9%	69,088	-88.7%	11,443	-8.4%	613,714	107.9%	12,495	-67.0%	295,164	18.2%	37,857	249,756
Louisiana	80,455	3.9%	5,328,548	6.4%	77,467	4.6%	5,008,267	2.9%	74,039	1682.4%	4,866,251	2727.0%	4,154	172,132
Maryland	4,751	-9.0%	369,053	-4.9%	5,219	-16.1%	388,269	-16.9%	6,219	-15.0%	467,231	137.7%	7,314	196,541
Massachusetts	88,036	2.5%	16,708,076	9.5%	85,908	-2.9%	15,252,542	47.4%	88,456	72.1%	10,349,393	109.9%	51,403	4,929,965
Michigan	100,493	-9.7%	15,720,862	NA	111,339	-14.4%	NA	NA	130,080	-28.6%	29,289,571	29.5%	182,287	22,611,624
Minnesota	6,745	NA	543,531	NA	NA	NA	NA	NA	NA	NA	NA	NA	4,104	152,970
Missouri	9,053	-10.9%	277,763	-8.6%	10,166	-13.3%	303,836	-11.3%	11,728	-42.8%	342,447	-8.9%	20,520	376,084
New Jersey	52,144	-8.6%	5,230,130	-6.8%	57,030	-14.8%	5,611,530	-19.4%	66,937	33.9%	6,964,417	88.5%	49,981	3,694,897
New Mexico	11,440	-5.8%	421,846	0.4%	12,144	-5.0%	420,232	-4.6%	12,789	6.5%	440,605	-56.4%	12,014	1,010,068
New York	64,285	-8.0%	8,185,668	-3.2%	69,848	-10.0%	8,458,296	-6.4%	77,603	18.3%	9,038,492	66.8%	65,617	5,417,273
North Carolina	63,991	-2.6%	2,759,375	4.1%	65,675	2.6%	2,651,311	2.0%	63,997	24.6%	2,598,600	37.8%	51,354	1,886,103
Ohio	30,581	25.3%	4,817,759	20.2%	24,399	-1.3%	4,009,731	4.7%	24,731	53.2%	3,828,394	1231.6%	16,145	287,511
Oregon	5,789	-4.2%	NA	NA	6,040	-9.3%	356,256	-9.1%	6,661	-5.3%	391,918	33.5%	7,034	293,527
Pennsylvania	48,634	-9.1%	1,980,249	-6.6%	53,475	-9.2%	2,119,150	-7.7%	58,863	-21.2%	2,296,752	-9.2%	74,657	2,530,159
Rhode Island	6,712	6.2%	801,306	12.1%	6,318	-14.5%	714,793	19.8%	7,389	14.9%	596,654	36.9%	6,433	435,878
Virginia	16,055	8.3%	1,031,049	20.6%	14,825	-9.3%	855,071	-1.0%	16,338	15.9%	863,773	63.5%	14,098	528,169
Washington	217	-22.8%	33,212	-9.1%	281	-12.7%	36,531	-14.9%	322	-54.6%	42,913	-34.3%	709	65,288
West Virginia	956	-3.5%	26,335	-4.4%	991	-5.6%	27,539	-3.2%	1,050	-33.3%	28,459	-18.9%	1,574	35,102
Wisconsin	3,135	4.9%	NA	NA	2,989	-10.8%	NA	NA	3,351	-36.9%	NA	NA	5,313	NA
Total	949,577	-0.9%	143,459,479	26.6%	958,571	-13.9%	113,333,445	-19.2%	1,113,418	43.6%	140,281,262	111.3%	775,611	66,374,326

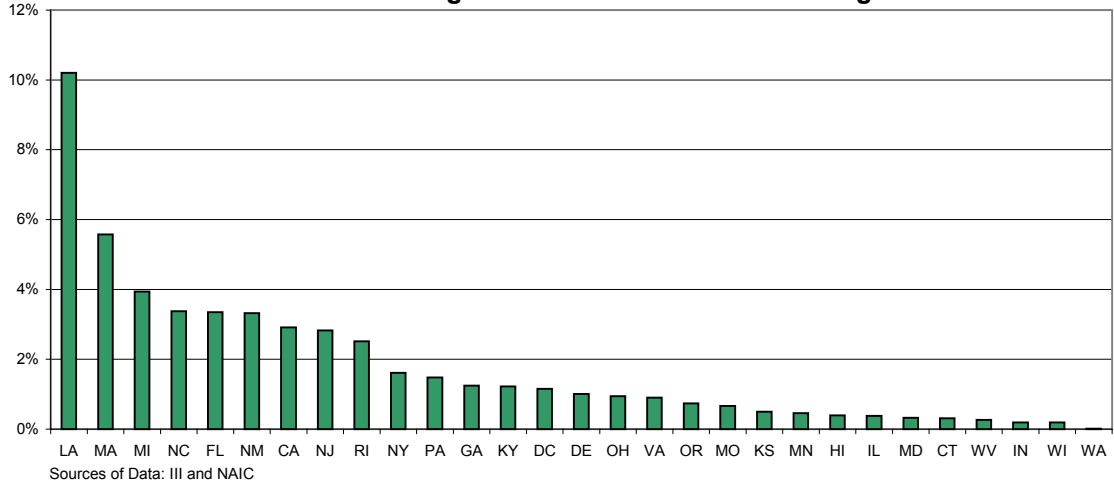
Source: Insurance Information Institute

**Table II.11.2
FAIR Plan Homeowners Coverages by State**

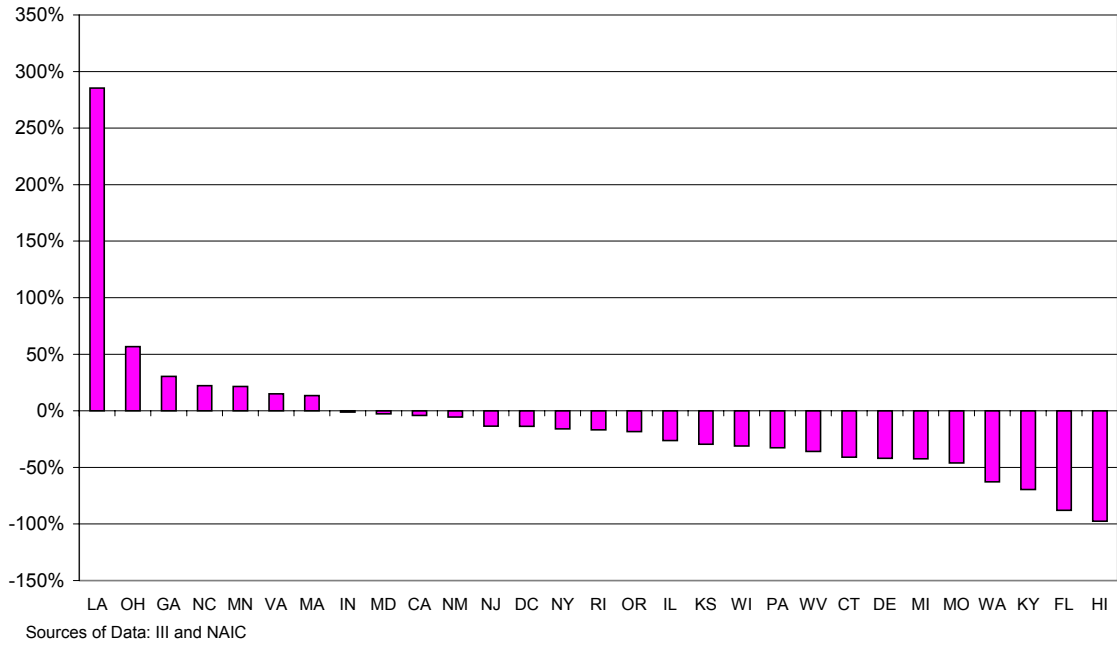
State	Homeowners Provided	Coverage Forms Offered				
		HO2	HO3	HO4	HO6	HO8
California	No					
Connecticut	No					
Delaware	No					
DC	No					
Florida	Yes					X
Georgia	Yes					X
Hawaii	Yes	X		X	X	X
Illinois	Yes	X	X	X	X	X
Indiana	No					
Iowa	No					
Kansas	No					
Kentucky	Yes					X
Louisiana	Yes	X	X	X	X	X
Maryland	Yes					X
Massachusetts	Yes	X		X	X	
Michigan	Yes	X		X	X	
Minnesota	Yes			X	X	X
Missouri	No					
New Jersey	No					
New Mexico	No					
New York	No					
Ohio	Yes	X	X			X
Oregon	No					
Pennsylvania	No					
Rhode Island	Yes	X	X	X	X	X
Virginia	No					
Washington	No					
West Virginia	No					
Wisconsin	Yes					X

Source: Property Insurance Plans Services Office (PIPSO)

**Figure II.7
FAIR Plan Percentage of Estimated Insured Dwellings: 2001**



**Figure II.8
Percent Change in FAIR Plan Market Share: 1995-2001**



relatively small proportion of homes in most states. Generally, a residual market share of under 2 percent is not considered to present a serious problem. Twenty-one states had FAIR Plan market shares of less than 2 percent. Louisiana is the most notable exception with a FAIR Plan share of more than 10 percent. Eight other states had a FAIR Plan share in excess of 2 percent. These appear to be primarily northeastern states with regulatory issues and several other states with catastrophe risk problems.

Interestingly, a number of states show declines in FAIR Plan market shares in 2001, with some notable exceptions – Louisiana increased by almost 300 percent and Ohio increased by more than 50 percent (see Figure II.8). This information is somewhat dated and we were unable to obtain 2002 data (except for Florida discussed further below). More recent data may reveal significant growth in some state FAIR plans resulting from tighter availability in the voluntary market.

The coverages offered by FAIR plans may be of some interest if an increasing number of homeowners are being forced into these plans, at least temporarily. Table II.11.2 shows, by state, whether the FAIR Plan offers homeowners multiperil coverage (versus dwelling fire and extended coverages) and the types of policy forms offered. We can see from this table that less than one-half of the state FAIR plans offer homeowners coverage. Further, most of these plans only offer an HO-8 policy (the most limited coverage form). Only a handful of states offer policy forms with more extensive coverage. This suggests that many homeowners forced into a FAIR Plan may have to accept coverage that is less extensive than what they had in the voluntary market.

Some discussion of how Texas has dealt with “hard-to-place” risks is warranted. In the past, Texas has relied on what is labeled the “unregulated market” instead of a FAIR

Plan. Insurers established as Lloyd's organizations are allowed to sell auto and homeowners insurance without being subject to the form of rate regulation that is normally applied to other personal lines insurers. The idea is that the unregulated market, populated by insurers with more flexible rate structures, would serve as a safety-valve and source of coverage for high-risk insureds. However, market pressures in Texas have led to a substantial movement of homeowners from the regulated market to the unregulated market with insureds paying higher rates in the unregulated market. We discuss this phenomenon in the market structure section below. We should note that Texas has recently established a FAIR Plan to help address its availability problems.

Seven states also have windstorm or beach pools that cover the wind risk of some coastal properties. The majority of these pools appear to be relatively small with the exception of Florida and North Carolina (See Table II.12). The high hurricane exposure in these states, coupled with insurer-regulator disputes over appropriate rate levels, are the primary factors underlying the large relative size of these pools.

Florida's approach to residual markets and recent developments require some further explanation. Florida has had a wind facility for a number of years and established a property insurance joint underwriting association (JUA) after Hurricane Andrew. Both plans grew rapidly in size after Andrew until the JUA began to shrink in 1997. However, after sinking to a low of 68,300 policies in February 2001, the JUA began to grow again. By December 2002, homes with full residual market coverage had risen to 206,256 (see Figure II.9.1), residing in a new Consumer Insurance Protection Corporation (CIPC) that absorbed both the JUA and the wind pool. The CPIC handles homes that would have been previously insured through the wind pool, distinguishing these policies as "high-

Table II.12
State Wind/Beach Pools
1992, 1995, 1999-2001

State	2001				2000				1999				1995				1992	
	Policies		Exposures (\$000s)		Policies		Exposures (\$000s)		Policies		Exposures (\$000s)		Policies		Exposures (\$000s)		Policies	Exposures (\$000s)
	Number	% Chg.	Amount	% Chg.	Number	% Chg.	Amount	% Chg.	Number	% Chg.	Amount	% Chg.	Number	% Chg.	Amount	% Chg.		
Alabama	3,285	-7.0%	319,529	-5.2%	3,532	-3.0%	337,222	-0.8%	3,642	-1.2%	339,858	9.0%	3,688	27.0%	311,793	65.4%	2,904	188,513
Florida	270,766	-40.9%	97,867,113	5.7%	457,818	-9.2%	92,611,793	7.2%	504,076	109.8%	86,382,960	137.9%	240,284	293.4%	36,311,130	384.6%	61,074	7,492,298
Louisiana	9,359	-2.5%	511,380	1.3%	9,601	0.1%	504,950	4.8%	9,594	24.3%	481,890	63.4%	7,721	10.6%	294,852	61.0%	6,984	183,159
Mississippi	9,983	-3.4%	848,624	-1.9%	10,333	-4.9%	864,947	-5.8%	10,871	44.0%	917,935	44.1%	7,547	54.3%	637,076	107.3%	4,891	307,315
North Carolina	53,436	6.7%	11,273,433	14.1%	50,098	14.8%	9,879,082	28.5%	43,640	72.6%	7,685,171	111.7%	25,289	42.3%	3,629,382	71.4%	17,777	2,117,168
South Carolina	17,547	-3.6%	4,002,072	5.0%	18,196	-3.1%	3,811,588	-4.6%	18,772	33.4%	3,993,548	15.3%	14,071	69.4%	3,462,524	170.4%	8,306	1,280,331
Texas	NA	NA	NA	NA	NA	NA	NA	NA	81,747	17.8%	11,972,502	35.6%	69,403	34.4%	8,828,140	61.8%	51,638	5,455,790
Total	364,376	-31.3%	114,822,151	6.3%	530,718	-21.1%	108,009,582	-3.4%	672,342	82.7%	111,773,864	109.0%	368,003	139.6%	53,474,897	214.1%	153,574	17,024,574

Source: Insurance Information Institute

Figure II.9.1
Florida Full-Coverage Residual Market Policies

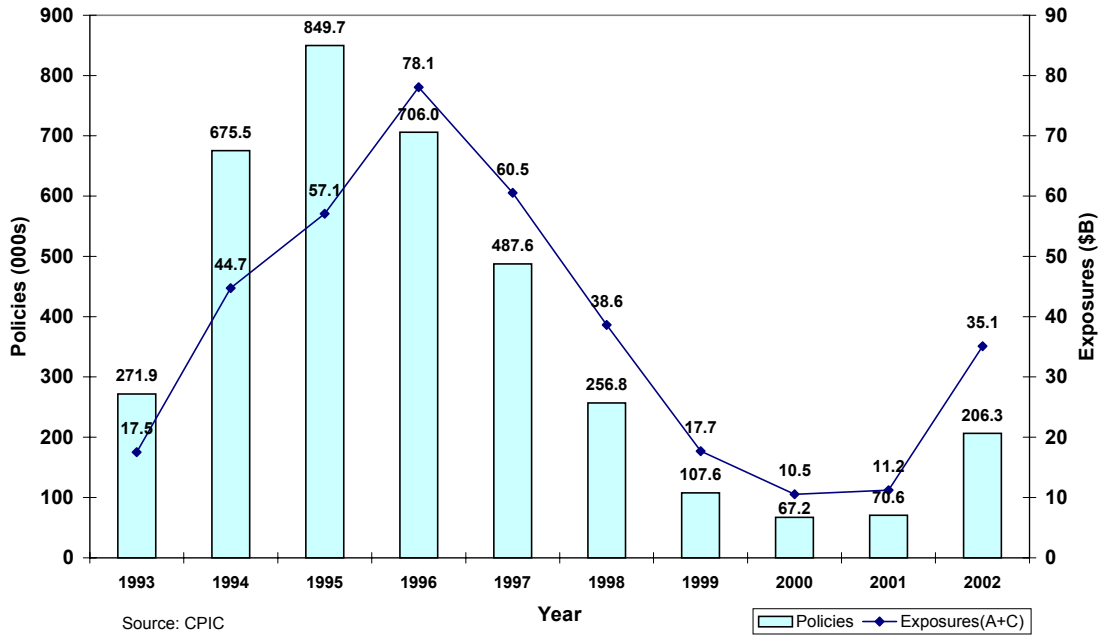
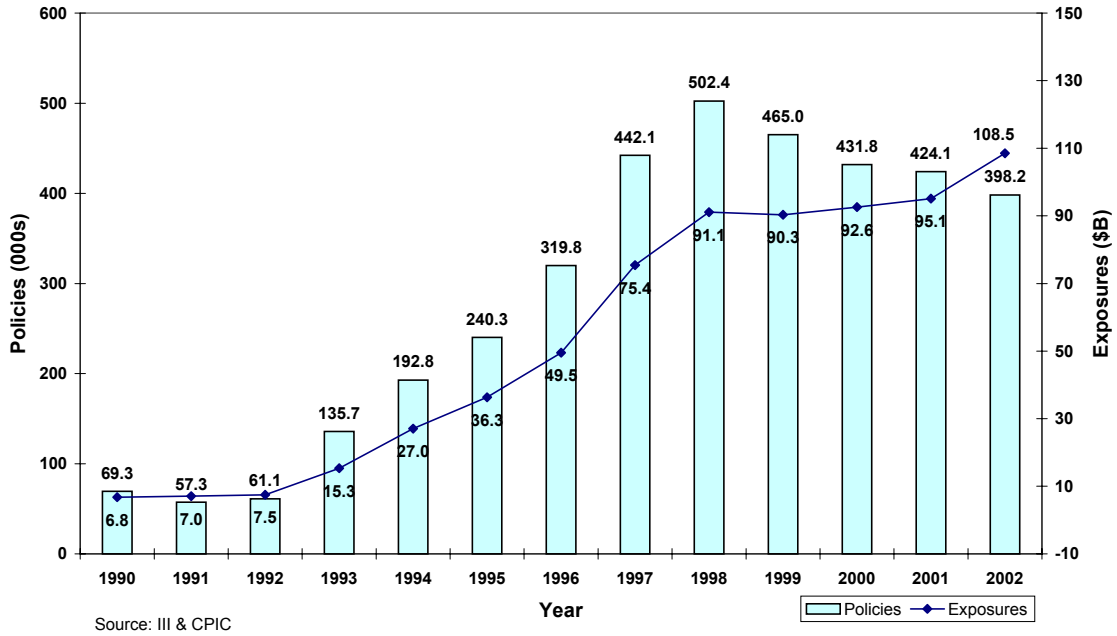


Figure II.9.2
Florida High-Risk (Wind) Residual Market Policies



risk” for which it only provides wind coverage. As of January 31, 2003, there were 398,222 of these policies in the CPIC (see Figure II.9.2). This also reflects an increase from 270,266 policies in 2001. This resurgence of the residual market is of some concern. One factor behind the rise is the expiration of a three-year coverage requirement for new insurers that had taken homes out of the residual market.⁵

There are several limitations to these residual market data. One is that these data do not reflect the most recent experience in these markets except for Florida.⁶ Two, these data do not reflect the extent to which homeowners have been forced to switch to insurers and/or coverage they prefer less in the voluntary market. Three, these data do not reveal anything about states that do not have FAIR plans. This begs the question of what happens to homeowners in states with no residual market mechanism. There is some indication that more homeowners are forgoing insurance. Based on a survey by the Insurance Research Council (see Table II.13), the percentage of homeowners that do not have insurance increased from three percent in 2000 to 8 percent in 2001. It is also possible that the inability to obtain insurance has prevented some people from purchasing a home.

C. Loss Costs

We now turn to loss costs or the claim costs paid or incurred by insurers, which should be the most significant factor driving the price and availability of insurance. Evaluating loss cost trends in homeowners insurance presents a special challenge because of the effects of weather-related events. One storm or a series of storms can cause a spike

⁵ These insurers received a \$100 payment for each policy it took out of the JUA.

⁶ Florida is the only state we were able to find for which residual market data are available online from the website for the residual market mechanism.

Table II.13
Insurance Coverage Reported by
U.S. Households: 1981-2001

Coverage/ Year	% Have Insurance	% Don't Have Insurance	Don't Know/ No Answer
Homeowners:			
1981	95%	1%	4%
1995	95%	4%	1%
1998	96%	4%	0%
2000	97%	3%	0%
2001	88%	8%	4%
Renters:			
1981	32%	61%	7%
1995	22%	75%	2%
1998	29%	69%	2%
2000	24%	75%	1%
2001	48%	46%	6%
Source: Insurance Research Council, III			

in losses in one or more states. Hence, there can be significant variation in homeowners losses from one period to the next. It is necessary to try to distinguish long-term trends from short-term peaks or valleys in losses due to the nature of homeowners perils.

The most current source of loss experience in homeowners insurance is the Fast Track Monitoring system. A sample of insurers representing approximately 60 percent of the market voluntarily report premiums, exposure counts and claims on a quarterly basis to the primary statistical agents – NAI and ISO – that combine the information reported to them. NAI provided Fast Track data to us for the period 1997 through the third quarter of 2002 (this source was also used for the average premiums shown in Table II.5).

Table II.14 presents average loss costs per insured home by quarter and state. We also calculated an intercept and slope coefficient for the average losses in each state. This is a matter of attempting to fit a straight line to the scatter of points that one would see for each state if its average losses were plotted over time. The resulting parameters are somewhat crude measures of the underlying trend in losses in each state. Readers should not attach great significance to the specific values but consider their general direction.

We can see from Table II.14 that average loss costs have been increasing in most states (at least through the third quarter of 2002) and that the rate of increase appears particularly pronounced in certain states, such as Missouri, Nebraska and Texas. Figure II.10 plots the average loss cost for all states combined and we can see that while average losses oscillate from quarter to quarter, there is a significant upward trend over the entire period. The average loss cost is also plotted excluding Missouri, Nebraska and Texas – this line also shows a similar upward trend, but the rate of increase is not as sharp in 2002-2003 as it is when all states are included.

Table II.14

Average Loss Per Insured Home by State

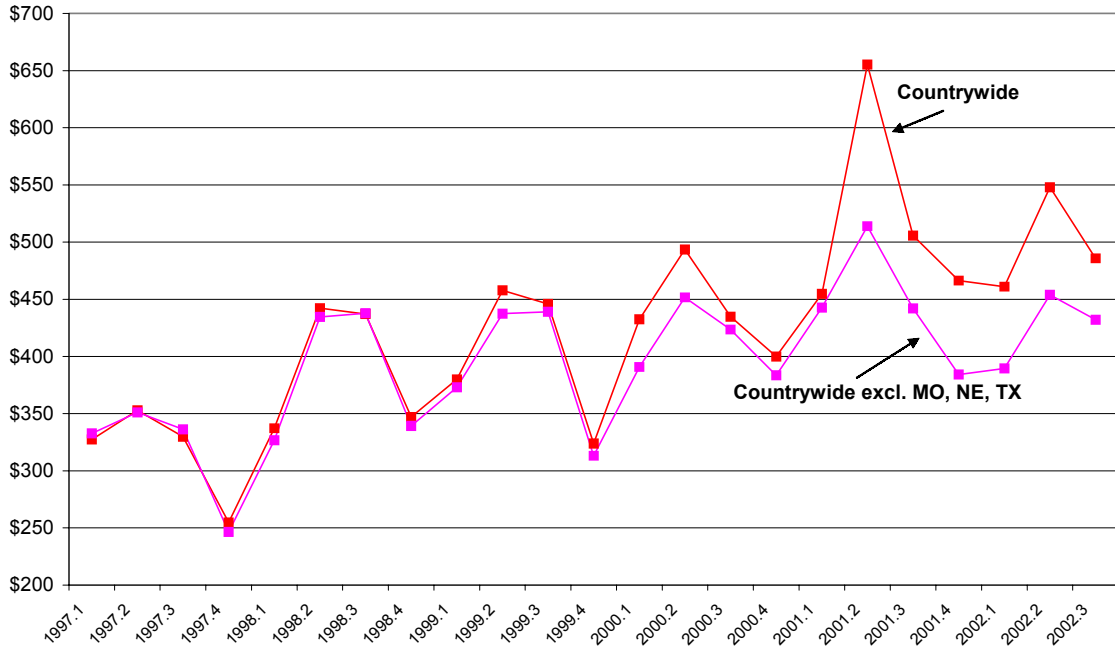
State	1997				1998				1999				2000				2001				2002			Slope Coeff.	Inter- cept	Slope/ Intcpt
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3			
T	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23			
Alabama	\$341	\$413	\$442	\$330	\$413	\$783	\$595	\$340	\$401	\$349	\$401	\$325	\$476	\$465	\$467	\$706	\$736	\$450	\$414	\$462	\$415	\$451	\$499	3.56	421	0.8%
Alaska	\$485	\$279	\$361	\$263	\$429	\$177	\$210	\$376	\$470	\$324	\$303	\$272	\$485	\$510	\$370	\$350	\$413	\$413	\$306	\$358	\$334	\$335	\$307	0.84	343	0.2%
Arizona	\$320	\$333	\$433	\$354	\$329	\$284	\$441	\$361	\$326	\$347	\$752	\$505	\$366	\$397	\$400	\$436	\$369	\$460	\$547	\$450	\$468	\$722	\$738	11.90	298	4.0%
Arkansas	\$774	\$427	\$334	\$255	\$379	\$360	\$90	\$616	\$1,322	\$499	\$370	\$362	\$592	\$572	\$449	\$1,040	\$899	\$497	\$508	\$464	\$441	\$613	\$380	5.31	469	1.1%
California	\$648	\$403	\$412	\$438	\$745	\$488	\$486	\$560	\$509	\$525	\$587	\$597	\$673	\$580	\$562	\$649	\$735	\$615	\$690	\$752	\$679	\$629	\$714	10.10	473	2.1%
Colorado	\$251	\$444	\$827	\$336	\$240	\$352	\$349	\$442	\$378	\$694	\$417	\$265	\$272	\$412	\$375	\$289	\$259	\$506	\$638	\$373	\$350	\$697	\$465	2.78	385	0.7%
Connecticut	\$391	\$316	\$296	\$288	\$336	\$226	\$322	\$288	\$408	\$281	\$405	\$338	\$516	\$440	\$460	\$367	\$443	\$405	\$401	\$416	\$325	\$313	\$479	5.20	306	1.7%
Delaware	\$191	\$225	\$194	\$143	\$286	\$459	\$9	\$183	\$231	\$205	\$515	\$77	\$276	\$296	\$281	\$210	\$219	\$240	\$262	\$233	\$198	\$254	\$160	0.48	227	0.2%
District of Columbia	\$242	\$364	\$230	\$226	\$332	\$274	\$195	\$355	\$286	\$272	\$468	\$274	\$468	\$306	\$286	\$306	\$341	\$402	\$661	\$348	\$222	\$360	\$297	5.09	266	1.9%
Florida	\$193	\$245	\$228	\$223	\$255	\$209	\$245	\$204	\$183	\$197	\$240	\$277	\$185	\$224	\$250	\$263	\$264	\$292	\$388	\$361	\$279	\$289	\$383	5.99	184	3.3%
Georgia	\$266	\$323	\$296	\$227	\$301	\$865	\$459	\$308	\$265	\$337	\$333	\$295	\$517	\$318	\$433	\$291	\$424	\$375	\$310	\$300	\$346	\$356	\$371	0.06	361	0.0%
Hawaii	\$163	\$76	\$198	\$87	\$114	\$63	\$78	\$32	\$48	\$75	\$45	\$131	\$119	\$142	\$69	\$83	\$160	\$125	\$117	\$59	\$191	\$112	\$120	0.86	94	0.9%
Idaho	\$414	\$417	\$264	\$225	\$233	\$225	\$293	\$274	\$308	\$345	\$300	\$250	\$333	\$301	\$350	\$522	\$276	\$303	\$322	\$272	\$467	\$395	\$311	2.90	287	1.0%
Illinois	\$362	\$392	\$454	\$228	\$280	\$382	\$379	\$380	\$491	\$396	\$322	\$270	\$329	\$655	\$627	\$716	\$700	\$706	\$626	\$565	\$434	\$585	\$461	13.61	304	4.5%
Indiana	\$306	\$467	\$380	\$245	\$281	\$474	\$384	\$292	\$375	\$591	\$405	\$489	\$300	\$651	\$469	\$376	\$452	\$512	\$431	\$501	\$366	\$488	\$636	7.92	334	2.4%
Iowa	\$162	\$503	\$258	\$163	\$163	\$897	\$209	\$266	\$158	\$431	\$466	\$165	\$170	\$455	\$386	\$327	\$301	\$1,749	\$766	\$306	\$222	\$472	\$422	13.67	245	5.6%
Kansas	\$229	\$683	\$425	\$213	\$222	\$649	\$403	\$410	\$238	\$1,231	\$661	\$221	\$359	\$781	\$681	\$317	\$271	\$1,685	\$363	\$218	\$672	\$1,030	\$324	12.90	379	3.4%
Kentucky	\$439	\$372	\$250	\$192	\$308	\$850	\$342	\$227	\$335	\$268	\$217	\$241	\$518	\$238	\$259	\$293	\$294	\$293	\$287	\$283	\$343	\$1,198	\$581	7.84	281	2.8%
Louisiana	\$387	\$497	\$287	\$246	\$632	\$359	\$550	\$192	\$469	\$476	\$355	\$292	\$1,773	\$1,284	\$670	\$553	\$525	\$713	\$407	\$477	\$458	\$404	\$513	9.22	434	2.1%
Maine	\$233	\$236	\$173	\$137	\$952	\$240	\$217	\$237	\$229	\$252	\$220	\$131	\$228	\$226	\$214	\$110	\$537	\$335	\$252	\$113	\$228	\$164	\$207	-4.00	303	-1.3%
Maryland	\$246	\$247	\$205	\$185	\$224	\$230	\$249	\$205	\$268	\$200	\$526	\$252	\$305	\$284	\$341	\$273	\$330	\$371	\$403	\$275	\$354	\$649	\$587	12.59	162	7.8%
Massachusetts	\$291	\$320	\$205	\$224	\$243	\$275	\$286	\$226	\$302	\$213	\$291	\$215	\$290	\$262	\$240	\$262	\$345	\$297	\$320	\$237	\$261	\$274	\$264	0.86	257	0.3%
Michigan	\$339	\$433	\$464	\$451	\$319	\$433	\$504	\$385	\$757	\$378	\$441	\$350	\$388	\$521	\$517	\$530	\$896	\$634	\$518	\$549	\$510	\$407	\$491	7.17	402	1.8%
Minnesota	\$356	\$483	\$638	\$194	\$512	\$2,364	\$2,283	\$1,007	\$299	\$797	\$942	\$501	\$379	\$674	\$1,614	\$389	\$446	\$1,412	\$969	\$517	\$347	\$816	\$594	-5.06	866	-0.6%
Mississippi	\$328	\$430	\$301	\$275	\$411	\$461	\$1,713	\$1,216	\$644	\$292	\$390	\$365	\$394	\$374	\$435	\$434	\$1,204	\$630	\$448	\$757	\$519	\$422	\$501	2.74	530	0.5%
Missouri	\$257	\$328	\$275	\$220	\$250	\$475	\$312	\$354	\$399	\$387	\$290	\$268	\$313	\$478	\$453	\$325	\$370	\$2,975	\$687	\$847	\$713	\$681	\$344	31.67	142	22.3%

Table II.14 (continued)
Average Loss Per Insured Home by State

State	1997				1998				1999				2000				2001				2002			Slope Coeff.	Inter- cept	Slope/ Intcpt
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3			
T	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23			
Montana	\$394	\$641	\$785	\$300	\$320	\$282	\$913	\$333	\$256	\$330	\$589	\$437	\$225	\$300	\$648	\$333	\$310	\$567	\$631	\$370	\$256	\$254	\$638	-3.71	484	-0.8%
Nebraska	\$191	\$298	\$323	\$742	\$153	\$505	\$222	\$207	\$181	\$574	\$664	\$204	\$162	\$358	\$419	\$216	\$200	\$4,071	\$1,579	\$889	\$219	\$876	\$493	39.93	118	33.7%
Nevada	\$370	\$373	\$450	\$341	\$376	\$356	\$485	\$428	\$535	\$418	\$467	\$461	\$466	\$447	\$468	\$420	\$427	\$427	\$521	\$538	\$551	\$556	\$551	7.20	367	2.0%
New Hampshire	\$294	\$205	\$152	\$174	\$256	\$244	\$208	\$237	\$284	\$194	\$277	\$203	\$337	\$233	\$284	\$163	\$492	\$495	\$308	\$185	\$214	\$204	\$294	3.73	213	1.7%
New Jersey	\$299	\$245	\$245	\$197	\$293	\$238	\$210	\$258	\$309	\$328	\$515	\$58	\$343	\$252	\$190	\$279	\$349	\$301	\$399	\$232	\$313	\$257	\$365	2.92	247	1.2%
New Mexico	\$297	\$502	\$413	\$208	\$340	\$312	\$260	\$375	\$315	\$434	\$369	\$266	\$318	\$2,503	-\$219	-\$103	\$321	\$329	\$424	\$309	\$408	\$413	\$438	2.94	366	0.8%
New York	\$448	\$392	\$310	\$204	\$365	\$304	\$483	\$310	\$481	\$241	\$400	\$242	\$420	\$350	\$296	\$275	\$435	\$394	\$456	\$296	\$491	\$363	\$411	2.12	338	0.6%
North Carolina	\$283	\$272	\$304	\$196	\$270	\$419	\$557	\$249	\$313	\$252	\$799	\$304	\$348	\$347	\$388	\$281	\$306	\$311	\$281	\$242	\$289	\$245	\$311	-1.45	346	-0.4%
North Dakota	\$241	\$3,094	\$1,449	-\$626	\$251	\$355	\$271	\$144	\$169	\$308	\$1,295	\$211	\$145	\$994	\$447	\$274	\$182	\$5,558	\$2,167	-\$63	-\$4	\$161	\$398	9.46	644	1.5%
Ohio	\$247	\$216	\$217	\$180	\$183	\$227	\$292	\$192	\$299	\$261	\$274	\$208	\$270	\$247	\$382	\$321	\$266	\$469	\$386	\$261	\$350	\$362	\$276	7.01	193	3.6%
Oklahoma	\$487	\$607	\$513	\$320	\$410	\$828	\$656	\$859	\$510	\$7,191	\$438	\$616	\$952	\$829	\$607	\$657	\$691	\$1,407	\$673	\$627	\$876	\$811	\$522	0.89	950	0.1%
Oregon	\$215	\$244	\$256	\$201	\$277	\$190	\$265	\$326	\$356	\$240	\$274	\$315	\$327	\$294	\$264	\$301	\$297	\$272	\$330	\$322	\$490	\$304	\$328	5.63	223	2.5%
Pennsylvania	\$283	\$275	\$217	\$185	\$234	\$273	\$310	\$242	\$302	\$202	\$457	\$218	\$328	\$295	\$278	\$338	\$328	\$343	\$288	\$300	\$321	\$303	\$286	3.40	247	1.4%
Rhode Island	\$229	\$219	\$219	\$136	\$276	\$156	\$247	\$142	\$235	\$170	\$286	\$240	\$419	\$260	\$286	\$300	\$285	\$500	\$369	\$249	\$309	\$283	\$226	6.24	188	3.3%
South Carolina	\$228	\$275	\$267	\$187	\$263	\$376	\$366	\$238	\$275	\$353	\$717	\$232	\$417	\$935	\$350	\$268	\$299	\$322	\$325	\$301	\$316	\$410	\$348	4.95	291	1.7%
South Dakota	\$282	\$702	\$472	\$189	\$166	\$355	\$394	\$231	\$175	\$333	\$301	\$191	\$186	\$430	\$803	\$225	\$199	\$1,481	\$1,084	\$175	\$200	\$286	\$856	13.58	259	5.2%
Tennessee	\$463	\$356	\$267	\$293	\$318	\$852	\$487	\$320	\$481	\$401	\$354	\$347	\$348	\$411	\$370	\$339	\$401	\$343	\$366	\$383	\$367	\$558	\$434	-0.07	403	0.0%
Texas	\$279	\$407	\$233	\$371	\$601	\$564	\$513	\$508	\$523	\$850	\$620	\$559	\$1,252	\$1,261	\$633	\$745	\$732	\$1,630	\$1,416	\$1,696	\$1,672	\$2,165	\$1,504	69.69	65	106.9%
Utah	\$394	\$305	\$236	\$235	\$289	\$236	\$274	\$269	\$240	\$372	\$252	\$235	\$241	\$245	\$313	\$262	\$215	\$338	\$359	\$272	\$317	\$443	\$410	3.27	254	1.3%
Vermont	\$310	\$289	\$197	\$175	\$467	\$264	\$328	\$283	\$342	\$215	\$389	\$269	\$482	\$300	\$244	\$249	\$602	\$655	\$401	\$260	\$401	\$360	\$249	5.57	269	2.1%
Virginia	\$173	\$269	\$297	\$188	\$255	\$199	\$376	\$203	\$213	\$583	\$733	\$461	\$302	\$323	\$353	\$312	\$295	\$289	\$253	\$254	\$238	\$331	\$289	1.91	290	0.7%
Washington	\$651	\$393	\$366	\$340	\$332	\$297	\$351	\$434	\$468	\$380	\$367	\$382	\$439	\$368	\$325	\$373	\$379	\$290	\$309	\$368	\$384	\$343	\$375	-3.80	425	-0.9%
West Virginia	\$253	\$228	\$233	\$235	\$384	\$422	\$634	\$273	\$260	\$298	\$283	\$274	\$262	\$206	\$328	\$405	\$326	\$342	\$349	\$316	\$342	\$786	\$592	9.09	240	3.8%
Wisconsin	\$161	\$295	\$293	\$116	\$186	\$442	\$346	\$365	\$163	\$251	\$288	\$165	\$154	\$872	\$508	\$197	\$313	\$772	\$294	\$260	\$228	\$368	\$293	6.71	238	2.8%
Wyoming	\$285	\$540	\$480	\$233	\$410	\$309	\$400	\$385	\$298	\$433	\$388	\$394	\$282	\$362	\$407	\$307	\$403	\$430	\$557	\$422	\$384	\$487	\$1,636	16.31	249	6.5%
Countrywide	\$327	\$353	\$330	\$255	\$337	\$442	\$437	\$347	\$380	\$458	\$446	\$324	\$433	\$494	\$435	\$400	\$455	\$655	\$506	\$466	\$461	\$548	\$486	9.43	312	3.0%

Source: Fast Track Monitoring Reports (NAII/ISO)

Figure II.10
Average Loss Per Insured Home: Countrywide 1997.1-2002.3



Source: Fast Track Monitoring Reports (NAI/ISO)

It would be problematic to match the rate of increase in losses with the rate of increase in premiums, but we can observe that there is a marked upswing in both.⁷

We also obtained some information on the causes of homeowners insurance losses over time that has been compiled by the Insurance Services Office (ISO), as shown in Table II.15.1. With respect to the property damage portion of homeowners insurance, two causes of loss have accounted for an increasing share of total losses over the period 1996-2000. Fire, lightning and debris removal increased from 26.9 percent to 35.1 percent and water damage/freezing (which would include mold-related claims) increased from 19.2 percent to 22.9 percent. The liability portion of losses declined in relative terms from 9.5 percent in 1996 to 5.8 percent in 2000. Table II.16 further reveals that both the frequency and severity of water damage claims have increased over the period 1997-2000.

Interestingly, the proportion of losses caused by wind and hail was less in 2000 than in 1996, but the percentages swing markedly over the period, reflecting the volatile nature of the wind and hail perils. Indeed, the recent spate of severe storms and tornadoes in the Midwest underscore this point. If insurers believe that there is an underlying long-term upward trend in the frequency and/or severity of wind and hail storms in the Midwest, it would prompt them to increase rates to cover the higher expected loss in any given year.⁸

Tables II.15.2 and II.15.3 show the percentage of claims and losses due to water damage in California and Texas. These figures jump around somewhat from year to year, but it appears that the percentage of losses caused by water damage has generally

⁷ The rates underlying average premiums are based on actuarial estimates of expected losses and include loadings for catastrophe losses and other costs. Because of the volatility in actual losses, the relationship of actual losses to premiums will also oscillate significantly from period to period.

⁸ Because of the random nature of the occurrence of storms and the resulting damage, insurers “price” the associated component of loss costs over a longer time frame than that for other perils.

**Table II.15.1
Causes of Homeowners Insurance Losses: 1996-2000**

Cause of Loss	1996	1997	1998	1999	2000
Property Damage					
Fire, Lightning, Debris	26.9%	34.3%	28.4%	32.7%	35.1%
Wind and Hail	25.4%	16.9%	31.7%	24.1%	20.2%
Water Damage/Freezing	19.2%	17.8%	15.6%	19.9%	22.9%
Theft	5.6%	7.6%	5.7%	5.1%	5.0%
All Other	13.7%	11.7%	10.2%	10.5%	11.2%
Liability					
Bodily Injury/Property Damage	7.8%	9.3%	7.0%	6.2%	4.4%
Medical Payments & Other	1.3%	2.2%	1.2%	1.4%	1.4%
Credit Card & Other	0.1%	0.2%	0.1%	0.1%	0.0%
Source: Insurance Services Office, III					

**Table II.15.2
California Water Damage Claims: 1997-2001**

	1997	1998	1999	2000	2001	Total
Total Water Claims	81,219	105,110	85,826	103,173	91,019	518,507
All Other HO Claims	262,293	254,893	235,028	227,817	197,392	1,282,290
Total HO Claims	343,512	360,003	320,854	330,990	288,411	1,800,797
Water as % of HO	23.6%	29.2%	26.7%	31.2%	31.6%	28.8%
Water Paid Losses	\$206,068,996	\$276,510,651	\$286,547,324	\$383,735,361	\$430,551,042	\$1,726,508,067
All Other HO Paid Losses	\$805,154,575	\$834,804,693	\$910,909,183	\$784,083,516	\$974,602,562	\$4,621,184,803
Total HO Paid Losses	\$1,011,223,571	\$1,111,315,344	\$1,197,456,507	\$1,167,818,877	\$1,405,153,604	\$6,347,692,870
Water as % of HO Paid Losses	20.4%	24.9%	23.9%	32.9%	30.6%	27.2%
* Total includes data from insurer that was unable to provide year-to-year data prior to deadline.						
Table reflects data for insurers representing 63% of California homeowners insurance market						
Source: http://www.iinc.org/pdf/waterlossclaimsdata.pdf						

**Table II.15.3
Texas Water Damage Claims: 1997-2001**

	1997	1998	1999	2000	2001	Total
Total Water Claims	169,038	144,094	124,615	149,547	203,698	790,992
All Other HO Claims	371,142	299,916	296,487	462,151	418,805	1,848,501
Total HO Claims	540,180	444,010	421,102	611,698	622,503	2,639,493
Water as % of HO	31.3%	32.5%	29.6%	24.4%	32.7%	30.0%
Water Paid Losses	\$368,309,095	\$359,847,906	\$363,820,315	\$534,723,504	\$1,248,780,801	\$2,875,481,621
All Other HO Paid Losses	\$917,907,078	\$801,704,356	\$985,188,107	\$1,675,342,790	\$1,630,980,423	\$6,011,122,754
Total HO Paid Losses	\$1,286,216,173	\$1,161,552,262	\$1,349,008,422	\$2,210,066,294	\$2,879,761,224	\$8,886,604,375
Water as % of HO Paid Losses	28.6%	31.0%	27.0%	24.2%	43.4%	32.4%
Source: Texas Department of Insurance						

**Table II.16
Homeowners Claim Frequency & Severity**

Accident Year	Water Damage/Freezing		Total Losses	
	Claim Frequency*	Claim Severity	Claim Frequency*	Claim Severity
1996	2.89	\$2,509	12.28	\$3,071
1997	1.82	\$2,618	8.51	\$3,150
1998	1.93	\$2,656	9.85	\$3,342
1999	2.18	\$2,984	8.63	\$3,773
2000	2.18	\$3,347	7.72	\$4,168
Average	2.19	\$2,828	9.34	\$3,470
* Claims per 100 insured house-years. Source: Insurance Services Office, III				

increased in California and Texas and are significantly higher than the countrywide average. In California, in 2001, water damage claims accounted for 28.8 percent of claims and 27.2 of losses paid. In Texas, in 2001, water damage claims accounted for 30 percent of claims and 32.4 percent of losses paid (down from 43.4 percent in 2000). This is consistent with the perception that water damage, and probably mold claims, have been significant cost drivers in these two states.

D. Profitability Indicators

In setting rates, insurers try to discern the underlying trend in loss costs and make appropriate adjustments that should, over time, generate sufficient premiums to cover the costs of providing coverage. Sometimes, insurers may delay significant rate increases if the underlying trend in loss costs is unclear. Competitive pressures can further discourage large rate increases, at least for a period of time. Regulators also may restrict rate increases. For these and other reasons, the price of insurance often lags behind increases in claim costs. However, if insurers sustain significant losses (i.e., negative income) for several years, pressure will build for tightening the supply of insurance and increasing prices.

Some insights can be drawn from examining commonly-used measures of insurer profitability over time. In this report, we look at several measures defined below.

- Loss Ratio: losses divided by premiums
- Combined Ratio: losses plus expenses divided by premiums
- Operating Ratio: losses plus expenses minus investment income divided by premiums
- Profit on Insurance Transactions: net income divided by premiums

- Return on Equity: net income divided by equity (also called surplus or net worth)

Our review begins with the financial results for the property-casualty insurance industry as a whole for the period 1992-2002. We begin here as overall industry conditions will have some effect on specific lines, such as homeowners, although not necessarily to the degree that some allege. We can see from Table II.17 that industry income after net taxes declined significantly since 1997, despite rising premiums. It was a negative \$7 billion in 2001, reflecting the effect of September 11, 2001 losses, but bounced back to only \$12.4 billion in 2002. Net investment income earned and net realized capital gains also declined over the same period (these are plotted in Figure II.11), but underwriting losses (before investment income and taxes are applied) account for the major portion of the decline in net income. This contrasts with the allegation by some that insurers' investment losses are primarily responsible for the decline in their financial condition and efforts to raise rates. We discuss this issue further in Section IV.

Table II.18 shows profitability measures, along with direct premiums earned and losses incurred, for homeowners insurance for the years 1990-2001. These measures reflect the underlying volatility in homeowners losses, even when combined for all insurers countrywide. For example, the large spike in losses and fall in profits in 1992 were largely caused by Hurricane Andrew and Hurricane Iniki.

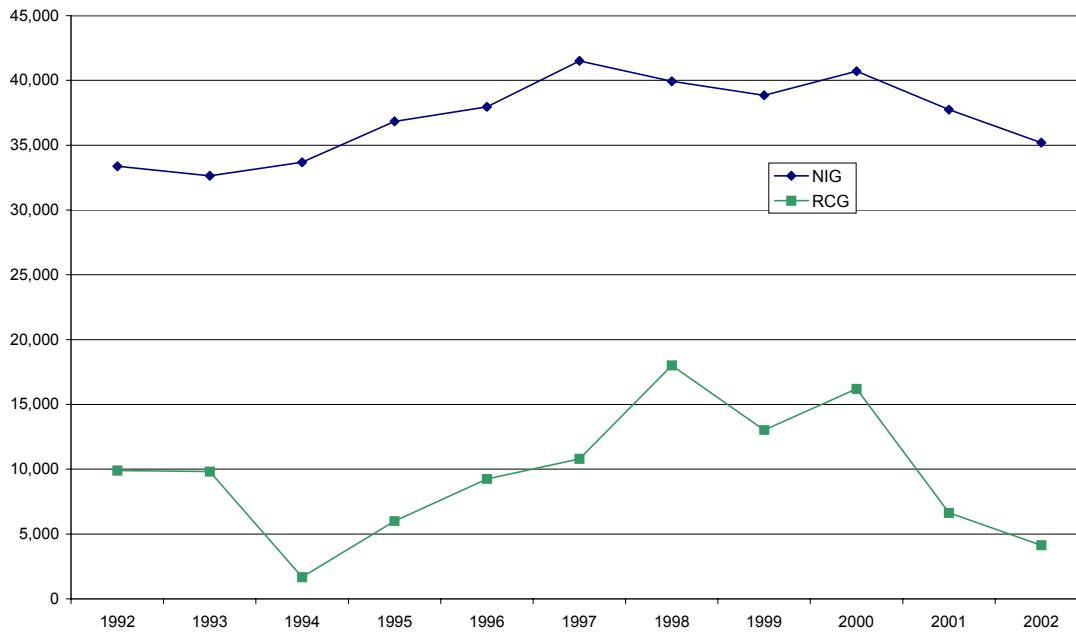
Looking at the entire period, we can see that incurred losses dropped to \$15.5 billion in 1997, which was in the ballpark of losses in 1993-1995. The profit on insurance transactions (PIT) reached 5.4 percent and the estimated return on equity (ROE) was 12.4 percent, both highs for the decade. If insurers believed that this was reflective of what they could expect in terms of the long run (noting the exception of catastrophes), these

Table II.17
Property-Casualty Insurance Industry Financial Results
1992-2002 (\$000s)

Year	Assets	Liabilities	Surplus	Net Premiums Earned	Net Underwriting Gain/Loss	Net Investment Income Earned	Net Realized Capital Gains	Policyholder Dividends	Taxes	Net Income After Taxes
1992	637,312	474,232	163,080	226,060	-33,349	33,374	9,893	2,603	1,527	5,840
1993	671,538	489,263	182,275	235,599	-15,090	32,645	9,818	2,709	5,053	19,316
1994	704,600	511,254	193,346	244,281	-18,973	33,687	1,664	3,218	2,398	10,870
1995	765,230	535,229	230,001	254,020	-14,248	36,834	5,997	3,445	4,858	20,598
1996	802,308	546,781	255,527	263,625	-13,792	37,962	9,244	2,931	5,640	24,404
1997	870,056	561,577	308,479	271,622	-1,136	41,499	10,808	4,691	9,459	36,819
1998	907,767	575,439	333,327	277,588	-12,015	39,925	18,019	4,749	10,600	30,773
1999	918,309	583,961	334,348	282,743	-19,729	38,855	13,016	3,347	5,576	21,865
2000	912,010	594,649	317,361	294,061	-27,324	40,704	16,205	3,896	5,503	20,559
2001	952,609	663,004	289,606	311,602	-50,244	37,739	6,631	2,358	-199	-6,970
2002	NA	NA	273,300	344,533	-24,000	35,200	4,133	1,200	2,800	12,400

Source: A.M. Best Company, Insurance Information Institute

Figure II.11
Net Investment Gain & Realized Capital Gains (\$000s)



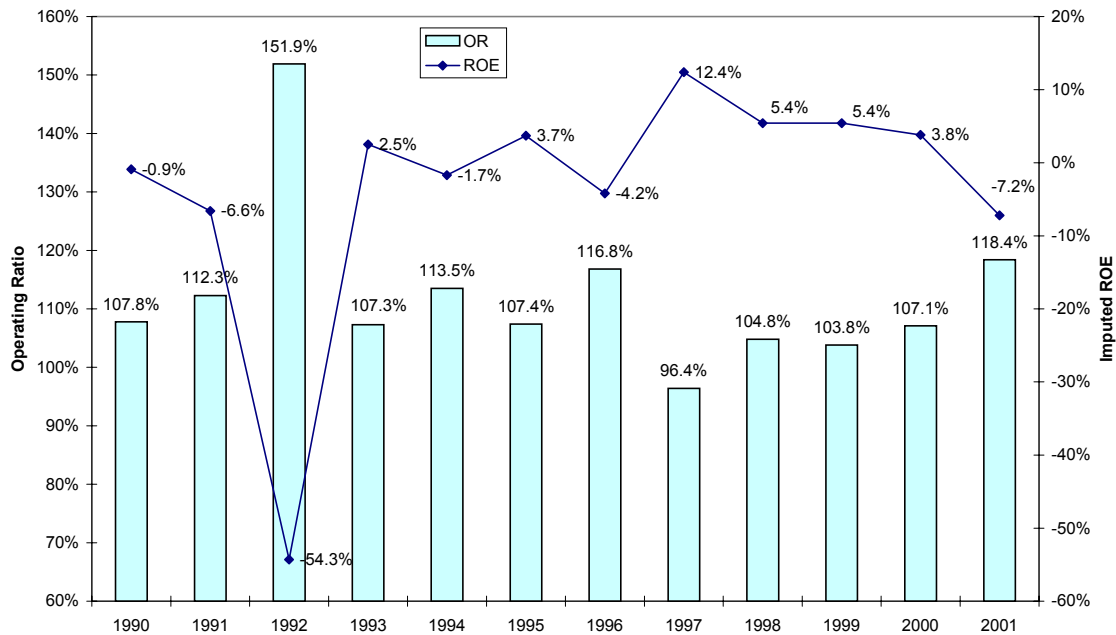
Source: A.M. Best Company, Insurance Information Institute

Table II.18
Profitability: Homeowners Multiperil (Direct Basis)
Countrywide: 1990-2001

Year	DPE (000s)	Losses (000s)	Loss Ratio	Comb. Ratio*	Oper. Ratio*	Profit	ROE
1990	18,504,957	13,157,024	71.1%	113.0%	107.8%	-4.3%	-0.9%
1991	19,352,271	14,688,374	75.9%	117.7%	112.3%	-8.0%	-6.6%
1992	20,537,907	25,590,232	124.6%	158.4%	151.9%	-40.2%	-54.3%
1993	21,923,226	15,236,642	69.5%	113.6%	107.3%	-2.2%	2.5%
1994	23,600,467	16,921,535	71.7%	118.4%	113.5%	-4.4%	-1.7%
1995	24,944,550	16,762,738	67.2%	112.7%	107.4%	-1.2%	3.7%
1996	26,466,652	20,220,522	76.4%	121.7%	116.8%	-7.4%	-4.2%
1997	27,985,192	15,531,782	55.5%	101.0%	96.4%	5.4%	12.4%
1998	29,939,361	19,041,434	63.6%	109.4%	104.8%	-0.7%	5.4%
1999	31,564,464	20,106,564	63.7%	108.2%	103.8%	-0.1%	5.4%
2000	33,893,739	22,507,112	66.4%	111.4%	107.1%	-1.9%	3.8%
2001	36,061,805	27,839,713	77.2%	121.7%	118.4%	-10.0%	-7.2%
Avg.	26,231,216	18,966,973	73.6%	117.3%	112.3%	-6.3%	-3.5%

* From A.M. Best on net basis.
Source: NAIC and A.M. Best

Figure II.12
Homeowners Operating Ratio and Imputed ROE



Source: A.M. Best and NAIC

results could have contributed to an atmosphere in which insurers did not contemplate rate increases in most states.

However, after 1997, losses resumed their climb and did so faster than premiums. In 2001, losses reached \$27.9 billion, even though no major catastrophes occurred that year. The loss ratio climbed to 77.2 percent, the highest loss ratio for the entire period with the exception of 1992. The combined ratio increased to 121.7 percent and the operating ratio rose to 118.4 percent. Correspondingly, the profit on insurance transactions fell to -10 percent and the estimated return on equity dropped to -7.2 percent (see also Figure II.12). This sustained trend of adverse experience, combined with other observed developments, would be expected to increase pressure on insurers to raise rates.

Given that losses have been increasing at different rates in the various states, it would be not surprising that profitability would also vary across the states. Again, some of this variation is due to the volatility of homeowners losses that is more pronounced at the state level, but more sustained differences in profitability also are apparent. Table II.19 shows the PIT for each state for the years 1991-2001. We can see from this table that states that have experienced more sustained negative PITs also tend to be states where average premiums have shown the greatest recent increase. This supports the impression that adverse experience and negative income are factors influencing insurers' motivation to raise rates in a number of states.

Table II.20 shows loss ratios calculated from Fast Track data. This gives us some information on insurers' experience in the first three quarters of 2002. We see from this table that adverse experience continued in certain states such as Texas, where loss

Table II.19												
Homeowners Profit on Insurance Transactions (As Percent of Direct Premiums Earned)												
State	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
Alabama	-9.5	6.6	1.3	1.2	-34.8	-1.2	-1.6	-14.6	5.8	-6.8	-5.4	-5.4
Alaska	-9.9	-14.8	7.6	7.8	2.6	-27.4	6.5	14.6	5.6	0.9	7.8	0.1
Arizona	-6.7	-5.6	1.8	1.9	0.7	-35.0	1.5	5.6	-12.2	0.8	-6.6	-4.9
Arkansas	-6.2	1.4	9.2	-0.4	2.7	-54.1	-13.5	2.6	-29.6	-26.3	-18.4	-12.1
California	-38.4	-7.9	-14.6	-4.7	-8.3	11.2	10.8	6.9	10.8	8.1	-0.8	-2.4
Colorado	-68.3	-5.4	7.6	-9.0	9.7	-1.4	-2.6	13.0	3.3	15.9	6.7	-2.8
Connecticut	5.8	11.1	9.5	-8.1	4.5	-18.7	11.1	13.8	7.4	5.4	7.8	4.5
DC	9.3	21.7	12.1	5.3	13.0	-9.6	13.7	15.7	9.0	10.2	1.5	9.3
Delaware	5.7	16.9	-1.8	13.4	16.1	10.2	0.6	5.2	-1.7	12.5	-5.2	6.5
Florida	0.5	-657.4	-19.9	21.8	6.0	22.0	22.2	22.1	22.1	23.1	15.2	-47.5
Georgia	-1.9	1.2	-5.9	-2.8	-12.0	4.3	3.6	-21.6	0.5	-7.1	-2.3	-4.0
Hawaii	11.5	-722.8	27.0	35.1	36.7	31.8	28.2	32.9	34.3	30.5	29.5	-38.7
Idaho	-9.2	-0.2	1.7	5.9	2.8	1.4	-8.0	6.5	-1.1	-4.0	-2.0	-0.6
Illinois	-1.5	10.7	2.1	1.6	5.1	-17.9	-2.0	-0.4	0.0	-23.6	-31.7	-5.2
Indiana	-9.6	-0.3	-1.1	-1.5	1.3	-55.4	-11.3	-10.2	-20.2	-18.8	-19.7	-13.3
Iowa	-13.2	8.7	2.6	-17.9	8.6	-6.2	-5.4	-29.1	-4.3	-9.6	-70.6	-12.4
Kansas	-72.7	-134.5	-38.1	-11.5	-12.6	-2.9	7.2	4.1	-6.9	0.8	-8.5	-25.1
Kentucky	1.0	7.2	-14.6	-11.3	-4.5	-73.3	-17.2	-33.2	1.1	-5.6	1.6	-13.5
Louisiana	-6.8	-52.5	13.3	16.2	2.0	6.0	12.3	5.1	14.1	-40.6	1.6	-2.7
Maine	-4.7	2.3	-3.2	-2.5	3.0	-3.1	4.0	-42.5	2.9	3.2	-10.0	-4.6
Maryland	5.1	9.1	0.6	-15.5	-1.6	-19.8	4.8	4.3	-10.7	-4.4	-6.7	-3.2
Massachusetts	1.0	11.3	8.5	-8.1	12.6	-11.6	11.1	14.2	13.1	8.8	3.3	5.8
Michigan	-12.0	4.3	6.9	-6.5	-3.1	-8.2	-10.9	-14.5	-20.1	-14.8	-30.2	-9.9
Minnesota	4.5	6.3	5.2	4.1	8.4	-1.1	-17.6	-174.7	-35.2	-47.7	-57.5	-27.8
Mississippi	-11.7	2.6	11.5	-6.5	7.0	-5.1	5.7	-41.8	0.3	4.1	-26.7	-5.5
Missouri	-12.6	6.3	-7.7	-3.6	-11.1	-6.6	9.5	-0.2	3.9	-1.8	-84.3	-9.8
Montana	-141.7	-16.1	2.9	10.9	3.3	-1.4	-24.8	-10.5	-2.3	2.0	-6.6	-16.8
Nebraska	-37.4	-7.7	-19.0	-7.0	-10.6	-52.8	-8.9	6.5	-12.6	6.1	-130.3	-24.9
Nevada	-5.3	25.8	-2.1	8.9	4.6	3.0	7.2	8.2	0.8	3.8	0.8	5.1
New Hampshire	0.3	8.1	10.3	-10.0	5.8	-7.1	12.5	6.1	1.6	4.8	-9.7	2.1
New Jersey	9.1	1.9	2.3	-17.6	7.8	-7.4	12.2	14.4	5.7	11.3	8.1	4.3
New Mexico	-5.2	-16.7	-3.3	0.0	10.2	-2.7	4.0	12.5	9.6	-15.8	7.7	0.0
New York	2.5	3.1	6.6	-7.5	11.5	3.5	13.7	10.4	10.2	12.8	6.2	6.6
North Carolina	5.4	9.5	-4.7	3.9	5.2	-104.1	5.1	-9.9	-20.5	1.4	10.3	-8.9
North Dakota	0.0	16.5	-40.7	-27.2	-87.6	-29.1	-138.6	4.8	-36.0	-21.6	-170.6	-48.2
Ohio	3.7	2.6	1.1	-5.5	2.0	-11.4	-2.3	-2.1	-6.9	-10.4	-16.0	-4.1
Oklahoma	-9.1	-10.7	-14.3	1.2	-1.5	-17.9	10.8	-0.7	-89.5	-3.1	-10.8	-13.2
Oregon	3.3	9.9	1.3	7.8	-17.9	-6.7	8.7	5.9	2.5	5.3	3.5	2.1
Pennsylvania	2.5	3.0	-2.3	-48.5	0.6	-29.5	5.0	2.9	0.0	2.3	3.9	-5.5
Puerto Rico	5.8	15.6	28.6	31.7	30.3	23.3	22.2	-174.7	21.8	26.6	7.7	3.5
Rhode Island	-4.7	13.7	19.2	4.0	15.1	7.2	13.5	19.2	15.1	7.8	11.8	11.1
South Carolina	-1.3	6.2	0.4	4.7	7.4	2.0	13.2	5.9	-7.4	-11.5	-49.4	-2.7
South Dakota	-30.9	-1.5	-48.4	-2.2	-1.6	-24.4	-24.0	-7.4	3.7	-16.5	-2.7	-14.2
Tennessee	-3.7	90.0	2.8	-19.9	-10.9	-7.2	-7.1	-26.7	-9.5	-3.1	-41.3	-3.3
Texas	-1.9	-28.8	0.5	-7.0	-20.0	5.1	12.9	12.8	9.0	-15.0	6.2	-2.4
Utah	-9.5	5.8	-16.1	4.3	8.3	12.1	4.6	13.5	10.7	14.2	-14.5	3.0
Vermont	11.1	13.9	4.7	-3.7	6.5	3.3	8.2	-1.4	4.0	-1.2	0.1	4.1
Virginia	8.6	12.9	1.1	-3.6	6.2	-19.3	-6.7	-8.2	-56.1	-13.9	2.9	-6.9
Washington	-13.7	5.8	-19.5	8.4	-1.1	-14.7	-10.4	-1.2	-4.9	2.0	-9.4	-5.3
West Virginia	-17.0	3.4	2.7	-21.3	3.0	-10.3	-0.4	-30.3	-1.8	-2.7	-33.1	-9.8
Wisconsin	-5.2	6.9	5.6	0.4	6.3	-1.0	-6.9	-34.6	2.0	-43.4	-33.1	-9.4
Wyoming	-10.5	4.2	-12.2	-7.7	7.7	-20.0	5.7	12.7	11.5	10.3	9.9	1.1
Countrywide	-8.0	-40.2	-2.2	-4.4	-1.2	-7.4	5.4	-0.7	-0.1	-1.9	-10.0	-6.4
Source: NAIC												

Table II.20

Loss Ratios by State from Fast Track Reports (Includes Catastrophe Losses)

State	1997				1998				1999				2000				2001				2002		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Alabama	69.5%	84.0%	88.8%	64.9%	81.0%	153.0%	114.6%	63.8%	74.7%	65.0%	73.3%	58.0%	84.5%	81.5%	80.3%	118.4%	122.7%	74.0%	67.2%	73.5%	65.8%	69.5%	72.4%
Alaska	93.1%	56.8%	73.4%	53.3%	85.9%	35.1%	41.4%	72.5%	88.9%	62.9%	57.8%	52.1%	93.0%	98.8%	71.6%	67.3%	78.9%	78.9%	58.5%	68.8%	64.6%	63.0%	51.6%
Arizona	68.8%	67.5%	87.4%	70.7%	65.0%	56.5%	86.2%	69.7%	62.9%	67.0%	142.0%	94.6%	68.3%	73.4%	72.2%	78.0%	65.2%	80.6%	94.2%	75.9%	77.5%	112.4%	103.3%
Arkansas	158.8%	90.6%	68.5%	50.8%	74.2%	70.5%	17.3%	114.1%	245.6%	94.0%	68.9%	65.9%	108.2%	103.0%	78.7%	175.2%	149.9%	82.6%	83.1%	72.8%	69.1%	93.6%	53.0%
California	76.5%	46.9%	46.9%	57.0%	82.0%	54.1%	53.6%	61.0%	55.3%	56.8%	63.5%	64.2%	73.0%	61.9%	60.9%	66.9%	78.9%	66.7%	73.1%	79.3%	70.2%	61.0%	57.3%
Colorado	44.1%	77.7%	142.2%	56.2%	40.1%	59.1%	57.9%	72.5%	62.1%	113.5%	66.7%	42.0%	43.2%	64.6%	57.4%	43.6%	38.9%	75.4%	93.4%	53.8%	49.9%	96.3%	59.2%
Connecticut	70.0%	59.8%	54.1%	50.8%	59.0%	41.1%	56.5%	48.9%	67.6%	50.1%	68.9%	55.3%	86.7%	76.5%	78.3%	60.9%	72.1%	66.6%	63.0%	63.6%	50.0%	46.6%	63.2%
Delaware	67.2%	85.0%	72.7%	50.7%	98.5%	170.7%	3.2%	64.4%	78.8%	75.8%	188.0%	26.8%	94.1%	104.8%	99.0%	69.0%	70.8%	78.7%	85.2%	73.6%	60.0%	77.4%	47.0%
District of Columbia	48.8%	74.9%	46.7%	44.6%	68.0%	56.1%	39.3%	71.3%	57.7%	56.2%	96.5%	57.6%	99.5%	65.7%	60.6%	64.6%	72.0%	84.8%	136.6%	71.6%	45.3%	72.3%	55.7%
Florida	39.2%	48.9%	46.0%	43.5%	50.2%	41.5%	47.5%	40.2%	35.8%	38.9%	46.4%	52.7%	35.8%	43.0%	47.1%	46.8%	49.4%	53.3%	69.9%	62.1%	48.6%	49.4%	58.7%
Georgia	69.9%	84.8%	76.7%	57.8%	76.8%	221.3%	116.7%	77.3%	65.9%	84.3%	83.1%	72.6%	126.7%	77.5%	103.3%	68.6%	99.2%	86.8%	71.2%	67.9%	77.9%	78.0%	75.1%
Hawaii	43.1%	20.3%	53.2%	23.4%	30.8%	17.2%	22.5%	9.5%	14.6%	22.7%	12.3%	34.1%	29.4%	34.4%	17.0%	21.0%	41.2%	32.8%	30.9%	15.3%	50.2%	28.9%	29.5%
Idaho	102.5%	104.2%	62.6%	54.3%	55.4%	54.4%	70.0%	64.8%	72.9%	83.9%	73.1%	59.8%	80.8%	72.7%	82.8%	122.4%	64.4%	71.1%	72.8%	60.3%	103.0%	82.9%	58.0%
Illinois	82.9%	89.3%	101.9%	50.2%	61.4%	83.2%	81.4%	79.9%	101.8%	83.2%	66.6%	55.6%	68.0%	135.0%	127.1%	143.0%	138.6%	139.8%	122.4%	109.2%	83.5%	107.7%	77.5%
Indiana	85.2%	129.4%	103.9%	65.2%	74.3%	125.0%	99.9%	74.5%	95.2%	154.9%	101.2%	119.3%	72.7%	156.7%	110.2%	86.4%	102.8%	116.2%	95.9%	109.1%	78.8%	101.9%	124.1%
Iowa	50.5%	156.3%	78.8%	49.2%	48.9%	268.5%	61.6%	77.5%	45.9%	125.5%	132.3%	46.7%	48.1%	129.0%	108.0%	90.9%	83.1%	481.2%	206.4%	81.2%	58.2%	119.6%	98.7%
Kansas	39.2%	115.3%	70.1%	34.7%	35.6%	101.3%	63.0%	63.0%	36.3%	187.3%	98.6%	32.5%	52.6%	113.0%	96.6%	44.4%	37.6%	233.0%	49.1%	29.2%	89.3%	134.2%	40.0%
Kentucky	142.4%	114.4%	75.7%	58.6%	95.8%	248.9%	97.5%	65.9%	94.7%	76.4%	61.1%	66.1%	140.9%	64.2%	67.9%	74.5%	73.8%	73.7%	70.8%	68.4%	82.0%	282.8%	128.8%
Louisiana	64.4%	82.5%	47.4%	40.2%	102.1%	57.5%	88.0%	30.3%	73.9%	73.9%	54.0%	44.0%	266.3%	191.2%	98.0%	79.6%	75.1%	100.3%	56.1%	64.1%	60.5%	50.6%	57.4%
Maine	81.8%	83.1%	61.0%	47.1%	330.2%	82.7%	74.0%	79.5%	75.7%	84.0%	73.3%	41.5%	74.3%	72.7%	67.8%	34.0%	164.0%	101.2%	75.0%	32.7%	64.8%	45.5%	53.9%
Maryland	78.1%	80.3%	64.8%	56.4%	67.3%	71.0%	76.7%	60.9%	78.3%	60.8%	160.4%	73.6%	88.7%	84.6%	100.8%	76.4%	90.3%	98.9%	108.0%	72.3%	90.0%	162.2%	135.8%
Massachusetts	53.9%	59.1%	37.5%	40.1%	44.7%	49.1%	50.3%	38.7%	54.3%	38.5%	51.5%	38.1%	53.2%	48.4%	44.1%	47.1%	63.7%	54.2%	56.7%	41.2%	46.0%	48.0%	44.4%
Michigan	93.1%	118.0%	123.5%	116.6%	81.7%	111.0%	126.8%	95.6%	183.6%	93.8%	109.0%	84.1%	92.0%	122.7%	118.9%	118.3%	199.2%	139.6%	111.3%	116.8%	106.1%	81.5%	90.0%
Minnesota	88.8%	120.6%	156.9%	47.1%	122.8%	565.2%	536.8%	233.1%	69.2%	182.8%	212.5%	112.2%	84.0%	147.1%	339.9%	80.0%	90.2%	281.3%	186.4%	95.8%	62.4%	139.1%	92.4%
Mississippi	63.3%	84.1%	58.2%	51.6%	76.0%	86.4%	322.0%	221.1%	114.8%	52.8%	69.5%	63.8%	67.0%	64.3%	73.5%	71.7%	198.9%	100.9%	70.3%	114.3%	76.5%	59.8%	65.9%
Missouri	56.7%	72.2%	59.3%	46.4%	52.3%	99.1%	64.6%	72.1%	81.0%	78.6%	58.0%	53.4%	62.3%	94.7%	87.7%	61.9%	69.6%	555.1%	124.9%	152.5%	128.0%	119.3%	57.0%

Table II.20 (continued)

Loss Ratios by State from Fast Track Reports (Includes Catastrophe Losses)

State	1997				1998				1999				2000				2001				2002		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Montana	77.5%	127.2%	153.2%	58.4%	61.7%	55.8%	178.9%	64.2%	49.5%	64.5%	113.1%	82.5%	43.0%	57.3%	118.8%	59.5%	54.7%	100.7%	107.6%	62.0%	42.7%	41.5%	95.9%
Nebraska	48.0%	74.2%	78.5%	176.9%	36.0%	118.3%	51.0%	46.3%	40.3%	127.3%	143.7%	43.4%	34.4%	74.7%	85.2%	43.2%	39.7%	802.1%	305.2%	168.7%	41.1%	159.5%	84.7%
Nevada	61.0%	61.6%	73.6%	54.5%	60.1%	58.3%	78.5%	68.6%	86.3%	66.9%	74.2%	73.0%	73.7%	70.3%	72.5%	64.4%	65.0%	64.6%	77.7%	79.1%	78.9%	75.3%	66.5%
New Hampshire	81.9%	57.2%	42.0%	47.1%	70.0%	66.1%	56.2%	64.5%	71.7%	53.8%	73.2%	53.5%	89.0%	61.0%	73.6%	41.7%	125.3%	124.9%	76.5%	45.5%	52.4%	48.6%	66.2%
New Jersey	70.1%	57.8%	56.4%	44.1%	65.6%	53.2%	46.6%	56.9%	68.9%	74.0%	115.6%	13.1%	78.6%	58.6%	44.0%	63.8%	80.0%	68.9%	89.5%	51.2%	68.9%	55.0%	71.1%
New Mexico	58.1%	98.1%	79.3%	39.4%	62.8%	57.4%	47.4%	67.4%	57.1%	78.4%	66.0%	48.0%	58.4%	451.3%	-38.3%	-17.9%	55.7%	56.9%	72.6%	53.0%	70.0%	68.0%	64.4%
New York	78.6%	70.4%	55.5%	35.8%	62.7%	52.7%	85.9%	53.6%	81.0%	42.4%	69.8%	41.1%	70.5%	59.7%	50.6%	45.6%	71.2%	64.2%	75.5%	47.9%	76.5%	55.5%	57.9%
North Carolina	73.1%	74.1%	81.2%	49.4%	66.2%	108.0%	142.3%	59.4%	74.7%	63.4%	201.1%	70.8%	80.7%	83.1%	92.2%	61.5%	66.6%	67.9%	61.3%	50.5%	60.2%	50.6%	60.2%
North Dakota	74.9%	958.3%	436.2%	-184.4%	72.9%	102.2%	75.4%	39.0%	45.5%	82.1%	338.3%	54.7%	36.0%	243.7%	104.8%	62.8%	41.5%	1251.5%	473.9%	-13.5%	-0.9%	34.1%	79.2%
Ohio	86.9%	81.7%	81.8%	63.1%	61.1%	81.1%	105.6%	64.1%	96.4%	90.4%	94.7%	67.3%	84.5%	82.7%	126.5%	99.4%	79.5%	145.7%	120.0%	77.8%	100.7%	105.5%	75.6%
Oklahoma	60.7%	74.3%	61.4%	39.8%	47.4%	96.5%	74.7%	96.4%	57.4%	813.5%	49.2%	68.7%	106.3%	91.3%	65.1%	69.4%	72.3%	146.6%	68.9%	63.6%	87.7%	76.4%	44.7%
Oregon	56.9%	64.5%	66.6%	51.2%	69.1%	48.1%	66.0%	79.3%	86.6%	58.7%	66.2%	75.6%	78.2%	69.8%	61.5%	68.6%	67.1%	61.4%	73.1%	70.0%	105.8%	63.6%	62.8%
Pennsylvania	78.1%	79.9%	62.1%	48.7%	60.9%	75.0%	85.1%	62.7%	76.3%	54.5%	122.9%	55.4%	81.5%	76.6%	72.4%	82.2%	76.9%	83.1%	69.9%	70.6%	73.6%	69.4%	60.0%
Rhode Island	51.5%	50.4%	51.0%	30.6%	60.8%	35.1%	56.0%	31.0%	51.0%	38.3%	64.7%	52.2%	90.3%	56.7%	61.2%	60.6%	55.9%	96.1%	71.0%	46.7%	58.0%	51.3%	38.2%
South Carolina	55.6%	68.7%	65.9%	44.8%	62.6%	91.5%	88.6%	55.6%	64.7%	86.4%	170.3%	53.0%	95.5%	214.2%	78.0%	56.7%	63.1%	66.6%	66.0%	59.4%	61.4%	77.1%	59.6%
South Dakota	82.4%	203.0%	133.3%	52.0%	45.4%	96.3%	103.0%	58.9%	44.5%	84.4%	74.8%	46.8%	44.2%	100.1%	180.5%	49.9%	44.0%	324.1%	231.6%	36.8%	41.7%	58.2%	166.2%
Tennessee	116.7%	90.3%	66.9%	71.2%	75.6%	203.6%	114.0%	72.8%	108.1%	91.2%	78.6%	75.4%	75.9%	91.0%	80.6%	72.0%	84.7%	72.5%	75.7%	77.2%	73.6%	110.1%	80.3%
Texas	51.3%	75.6%	44.4%	38.3%	60.6%	57.5%	51.3%	50.5%	52.5%	86.6%	63.7%	58.6%	132.8%	134.6%	66.9%	78.2%	77.1%	172.6%	152.8%	177.3%	168.1%	201.6%	129.9%
Utah	91.9%	71.0%	54.2%	51.8%	63.5%	52.7%	60.5%	58.4%	51.8%	81.3%	54.7%	51.0%	52.5%	53.3%	67.1%	55.5%	45.1%	71.0%	75.4%	57.1%	66.4%	88.0%	71.9%
Vermont	77.6%	76.0%	50.7%	43.2%	113.3%	66.1%	80.2%	66.5%	77.3%	51.6%	91.7%	61.3%	107.1%	69.3%	55.8%	54.3%	127.9%	139.9%	86.6%	54.1%	82.3%	72.6%	48.6%
Virginia	67.5%	109.4%	118.1%	70.6%	92.1%	74.1%	137.5%	69.8%	72.1%	205.5%	260.6%	155.9%	100.2%	110.0%	119.1%	98.6%	91.6%	91.0%	80.3%	76.9%	70.7%	96.1%	77.9%
Washington	147.4%	89.9%	82.3%	75.6%	72.9%	66.0%	76.7%	92.8%	101.3%	82.7%	79.4%	81.5%	93.0%	77.7%	67.1%	75.6%	75.9%	58.3%	59.9%	69.9%	72.2%	62.0%	61.9%
West Virginia	73.5%	72.9%	75.2%	68.4%	107.9%	127.5%	195.2%	75.5%	70.5%	87.6%	83.6%	73.4%	69.4%	58.7%	93.9%	106.1%	82.8%	90.8%	96.0%	80.9%	86.7%	203.1%	147.2%
Wisconsin	65.4%	119.3%	116.7%	45.8%	73.3%	171.9%	131.5%	136.0%	61.1%	93.3%	105.4%	59.2%	54.5%	303.7%	169.8%	64.2%	104.9%	248.6%	91.6%	79.7%	69.1%	108.6%	81.2%
Wyoming	49.0%	92.8%	78.7%	36.9%	63.4%	48.1%	61.0%	58.0%	44.3%	64.7%	57.3%	57.9%	41.6%	53.7%	59.1%	43.9%	57.3%	61.9%	78.7%	58.8%	54.1%	67.4%	211.8%
Countrywide	72.4%	78.8%	72.9%	53.1%	68.3%	90.8%	89.0%	68.9%	74.9%	92.1%	88.9%	63.3%	84.3%	96.8%	84.3%	74.8%	85.0%	122.4%	93.6%	84.3%	82.1%	94.6%	76.8%

Source: Fast Track Monitoring Reports (NAII/ISO)

ratios have exceeded 150 percent since the second quarter of 2001, dropping to 129.9 percent in the third quarter of 2002.

However, as mentioned above, the tide may be starting to turn. Preliminary reports of the industry's financial results for the latter part of 2002 and the first quarter of 2003 indicate that profits are on the upswing. Although these results are not specific to homeowners insurance, several prominent writers of personal lines insurance, including homeowners, have reported improved profits for the first quarter of 2003. This improvement has prompted industry observers to predict an easing of the supply of homeowners insurance.

E. Market Structure Changes

The structure of the homeowners insurance market is important to analyze because it may give insights regarding competitive pressures on insurers to cut prices or not increase prices, even if they may be inadequate to cover costs. If a market is extremely concentrated and there are barriers to entry by new firms, firms in the market may be able to exert some market power over prices and contract terms. While homeowners insurance is a relatively homogenous product, specific contract terms and conditions vary a bit across firms (and across states). There are other differences in the ways insurers distribute and service policies. In a competitive environment, no one firm or group of firms acting in concert will have the power to set contract terms or prices. The ability to set contract terms is quite important. For example, in a competitive market some insurers may restrict mold coverage to a greater degree than others. It would be up to the buyer to choose the combination of coverages and price that made the buyer most satisfied. If insurers

possessed market power, they might restrict mold coverage in a more concerted manner and consumers would have fewer options.⁹

While market power can become a concern, there are many factors that impose strong competitive pressures on insurance markets, even when supply is tightening and prices are rising. Insurers that sought to charge excessive prices over any sustained period of time would become subject to being undercut by other insurers, either companies already in the market or new entrants. What may be more important to look for in market structure changes is the withdrawal or retrenchment of some insurers from markets. While these markets are likely to remain competitive, fewer insurers means that consumers have less choice and some consumers may find it difficult to obtain coverage from the insurers they perceive to be the most desirable.

This section examines market structure in three different ways. We first look at the relative concentration of the homeowners industry in a given market based on the combined market share of the largest writers. The second approach employs the Herfindahl-Hirschman Index (HHI) as a summary measure of concentration that encompasses the entire market. In addition to measuring market concentration, the HHI has two additional uses. First, the Department of Justice uses this index to determine whether a market would become highly concentrated as the result of a merger or acquisition. Second, the inverse of the index is used to determine the number of equivalently sized firms that could fit into the market. The smaller this number, the more concentrated the market is. Finally, we also examine market structure changes over time

⁹ One should note, however, that the extent of mold coverage is not solely determined by market power. This is just provided as an example.

during the period 1991-2001. Markets are dynamic and we can see how their structure changes as companies enter and exit homeowners insurance markets.

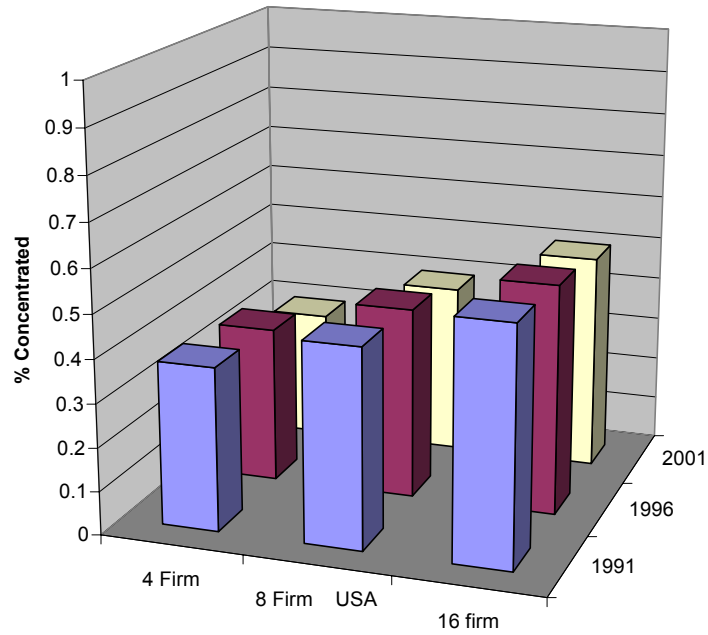
Figure II.13 shows the four, eight and sixteen-firm concentration ratios for homeowners insurance for the U.S. for the years 1991, 1996, and 2001, with firms measured at the company rather than the group level. The four-firm concentration ratio is measured by the ratio of the premiums written by the four largest firms in a market divided by the total market premiums written. The eight- and sixteen-firm concentration ratios are calculated by using the top eight and top sixteen firms, respectively.

1. National and State Market Concentration

If we look at Figure II.13 we see that, at the national level, all three measures of concentration show a slight decrease in concentration from 1991 to 2001. This, however, is not the typical pattern in the states. Figure II.14 (with firms measured at the company rather than the group level) shows a summary of the individual states and how they have changed in terms of the eight-firm concentration ratio over the time period 1991-2001.¹⁰ While the overall U.S. market is becoming less concentrated as more companies are writing business nationally, we see that states are becoming more concentrated. This implies that at least some insurers are retrenching geographically. At one extreme, Texas saw its concentration ratio increase by almost 0.20 in absolute percentage over the decade while at the other extreme Florida experienced a decrease in concentration. Florida's

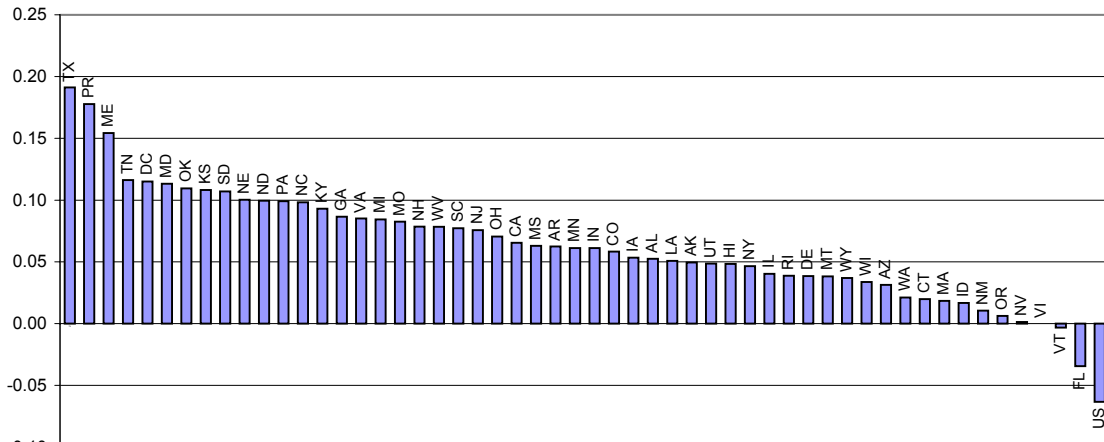
¹⁰ The results of each state are provided in the appendix and can also be generated from an Excel spreadsheet provided to NAR.

Figure II.13
Four, Eight, and Sixteen Firm Concentration Ratios Measured at the Level of the Firm, US



Source: Authors' calculations made from NAIC annual statement data.

Figure II.14
Change in Eight Firm Concentration Ratio by State, 1991-2001



Source: Authors' calculations made from NAIC annual statement data.

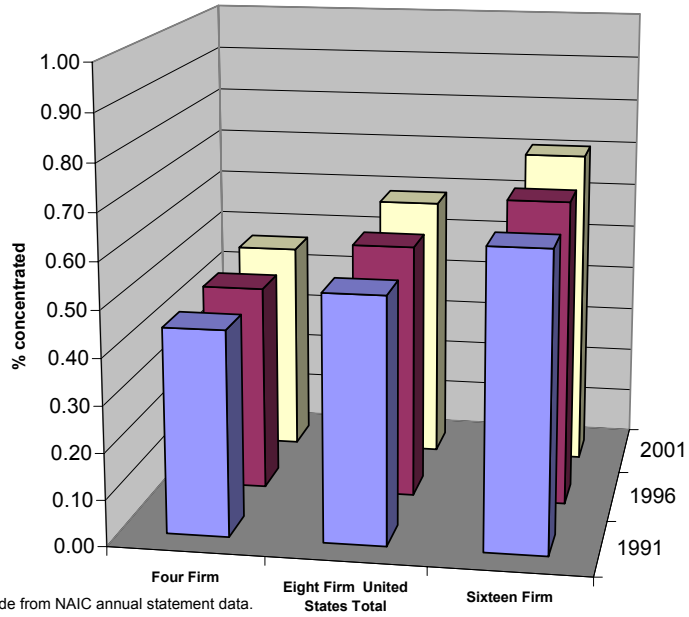
decrease is atypical and represents the result of state policies enacted after Hurricane Andrew to encourage new insurers to enter the market.¹¹

Another way of looking at the data is to examine concentration within the states with firms measured on a group basis, i.e., all the affiliated companies within a group are treated as one entity in determining its market share. The previous figures were based on the assumption that each company is a separate entity. In actuality, it is common for multiple companies affiliated within the same group or holding company to write business in a given state. In most cases, the related companies operating in the same market are selling to different customers. For example company A may have two subsidiaries, X and Y. Company X markets its products to high-risk customers and company Y markets its products to low-risk customers, with corresponding differences in their rates. If an insurer group tightens its underwriting, it may move some insureds from its “low-risk” company to a “higher-risk” company in the group with a higher price structure.

Figure II.15 shows concentration ratios for groups and unaffiliated single companies. This measure assumes that all companies belonging to a common parent are acting as one company. We see that the initial degree of concentration is higher across all levels of aggregation. Secondly, we see that 2001 concentration levels are marginally higher than 1991 levels. This is in contrast to the analysis at the company level shown in Figure II.13 that showed that concentration was lower in 2001 than in 1991. This is likely due to

¹¹ The policies are detailed in Grace, et. al. (2003). Generally, the Florida legislature and insurance department restricted the number of policies that could be terminated in a given year, as well as severely regulating insurance prices. This caused many firms to leave Florida or to reduce the number of customers served over time. Further, the state set up an insurer of last resort for those turned away from the private market. As customers were not able to obtain private coverage, they flocked to the state’s insurer. As a result, the State of Florida became the largest provider of homeowners insurance in the state. To reduce its own risk, the State then subsidized new insurers who took policies previously underwritten by the State. This caused new firms to enter the market.

Figure II.15
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, US



Source: Authors' calculations made from NAIC annual statement data.

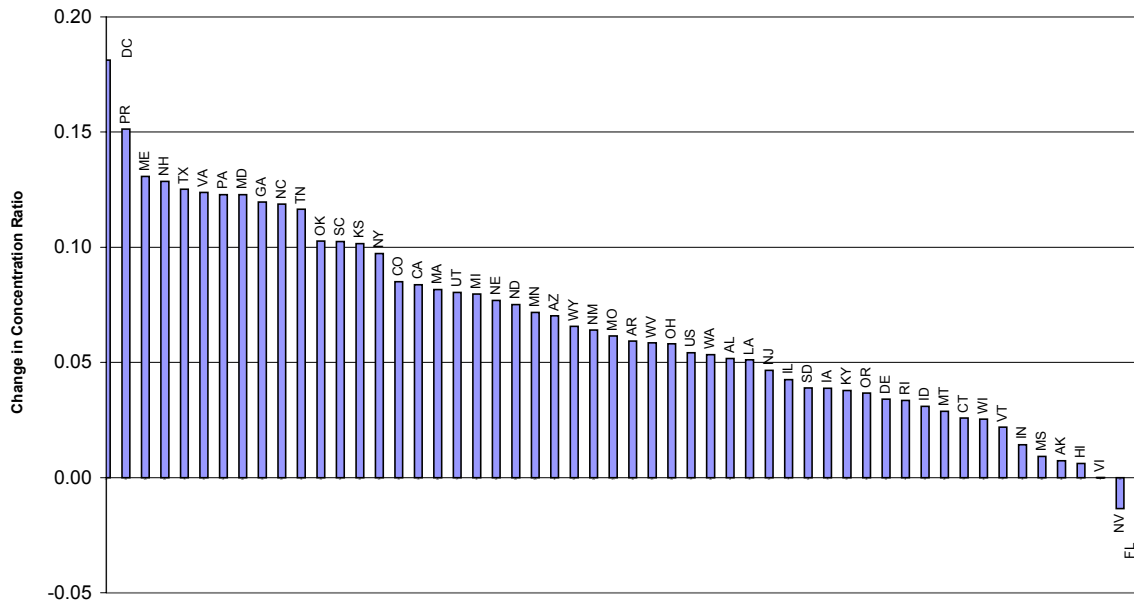
merger activity over the decade that has increased concentration at the group level. There is also some evidence that some insurer groups have established more single-state companies that write business in only one state. At the same time, a number of small companies have started writing in a number of states as larger companies have left or reduced their writings. These small companies do not affect the overall concentration level because they tend not to have significant volume until they have had time to grow. The exception is Florida where are a number of new companies formed after Hurricane Andrew to underwrite a substantial number of homes rejected by other insurers.

Figure II.16 shows the absolute change in the eight-firm concentration ratio for companies aggregated at the group level by state between 1991 and 2001. Again, we see extremes. The absolute increase in concentration for the District of Columbia is just under 0.20. In contrast, Florida experienced a modest decrease in concentration of about 0.025. Further, it is interesting to note that Texas also shows an increase in concentration (measured at the group level) but it ranks 5th in the size of the change in concentration. At the individual firm level, Texas ranked 1st.

Figure II.17 shows the HHI across the states for groups and unaffiliated single companies.¹² In 2001, only three states or territories (Alaska, Puerto Rico and the Virgin

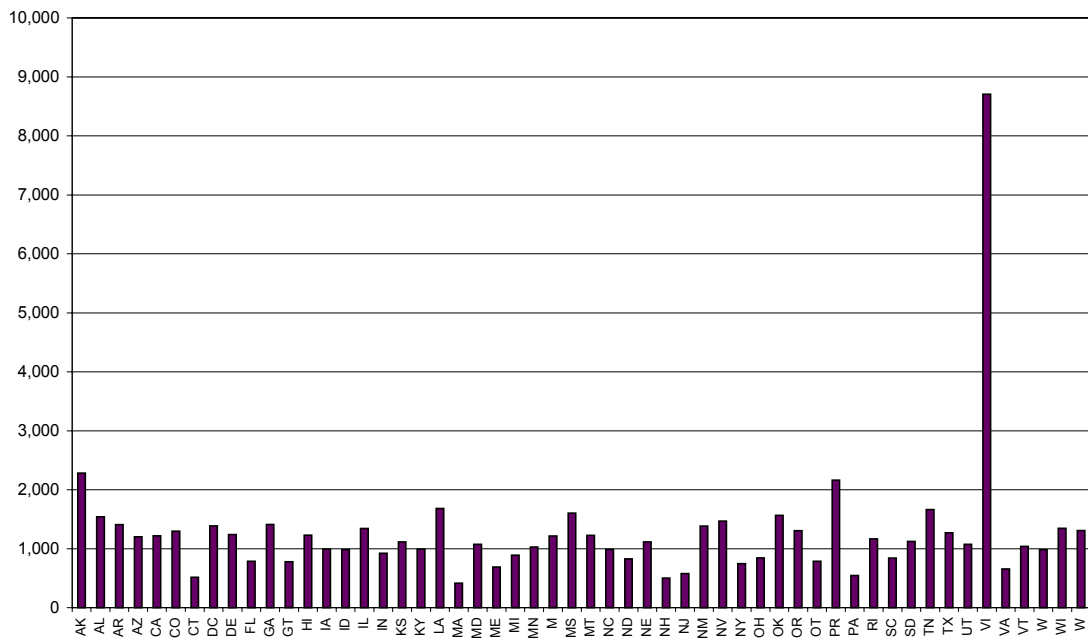
¹² The Hefindahl Index is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. If there were five firms in the market, for example, then the index is $[(ms_1+ms_2+ms_3+ms_4+ms_5) \times 10,000]$ where ms_i is the square of the market share for each company. This index accounts for the relative size and distribution of the firms in a market. The index approaches zero when a market consists of a large number of firms of relatively equal size. The index increases both as the number of firms in the market decreases and as the disparity in size between those firms increases. According to the Department of Justice, "Markets in which the [the index] is between 1,000 and 1,800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1,800 points are considered to be concentrated. Transactions that increase the HHI by more than 100 points in concentrated markets presumptively raise antitrust concerns under the Horizontal Merger Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission." <http://www.usdoj.gov/atr/public/testimony/hhi.htm>.

Figure II.16
Change in Eight Firm Concentration Ratio at Group Level by State, 1991-2001



Source: Authors' Calculations made from NAIC annual statement data.

Figure II.17
Herfindahl Index at Group Level by State, 1991-2001



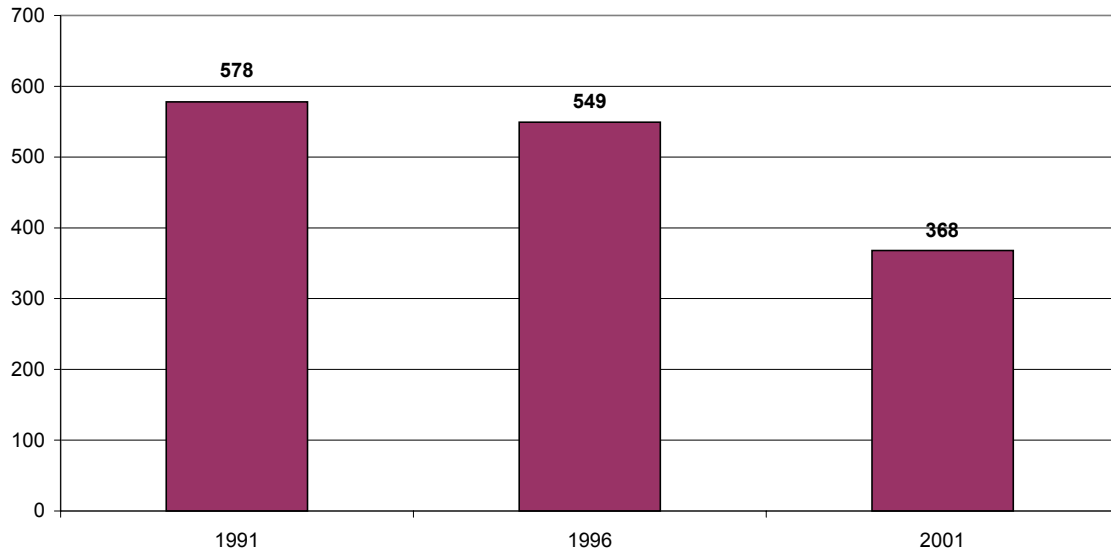
Source: Authors' calculations made from NAIC annual statement data.

Islands) are concentrated under the DOJ definition of concentration (those markets with and Index above 1,800). Some 33 other states are moderately concentrated under the Department of Justice definition which includes those states with index values between 1,000 and 1,800.¹³ In 1991, only 24 states were moderately concentrated while Alaska and the Virgin Islands were concentrated using the DOJ definition. It should be noted that the DOJ guidelines were developed for national markets and, arguably, the thresholds for state markets should be higher given the smaller size of these markets and the greater ease of entry into a given state than entering the overall homeowners insurance market.

If we look at the U.S. as a whole between 1991 and 2001, we see in Figure II.18 that the HHI index did not change substantially. At the level of the states, however, over the time period 1991-2001, we saw that the HHI increased over 100 points for some 38 states. The Department of Justice Merger guidelines state that if a market has an index of 1,800 it is concentrated and that if a merger occurs that increases the concentration by more than 100 points, a presumption of an antitrust problem arises. In our data we do not account for mergers and acquisitions, but we examined the concentration over time. Only the Virgin Islands starts with a concentrated market and had an increase in the HHI of over 100 points between 1991 and 2001. Thus, using the HHI measure, we do not see many markets that are concentrated or that experienced significant increases in concentration over the decade.

¹³ These states are AK, AL, AR, AZ, CA, CO, DC, DE, GA, HI, IL, KS, LA, MD, MN, MO, MS, MT, NE, NM, NV, OK, OR, PR, SC, TN, TX, UT, VA, VI, WA, WV, WY.

Figure II.18
Herfindahl Index Over Time for Homeowners Multiperil



Source: Authors' calculations made from NAIC annual statement data.

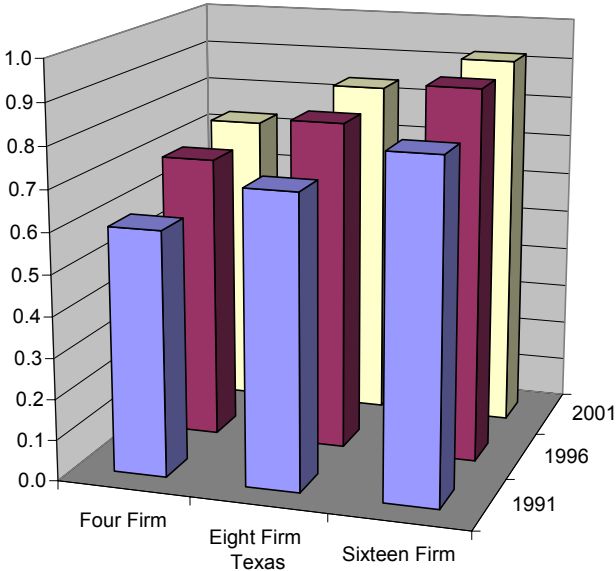
2. Analysis of Specific States

Some interesting states to examine in more detail are Texas, California, Florida, New York, California, Kansas, Missouri, and Illinois. Texas is interesting due to the growth of water claims and the potential for mold related claims based on Texas' historically liberal interpretation of water damage claims. Florida is interesting due to its hurricane risk. New York is included because of its direct tie to the World Trade Center destruction and the losses associated with 9/11. We include California because, like Texas, California has experienced increased mold claims. Kansas and Missouri are included because they are representative states that are not suffering any particular homeowners' crisis, although weather perils are issues in these states and we know that prices have increased significantly in these states. Finally, we include Illinois because it is home to both State Farm and Allstate, the two largest providers of homeowners multiple peril coverage in the United States. Illinois is also unique in the sense that it does not regulate insurance rates or policy forms. Thus, it is a good benchmark state in terms of regulation.

Texas is shown in Figure II.19. We see that concentration measured by group has increased at all levels of aggregation. This reflects insurers' retrenchment and exit from the market. In 1991, some 456 companies (groups and unaffiliated single companies) wrote homeowners insurance in Texas, but by 2001 that number had fallen to 330. Both the exit of some insurers and retrenchment by others could cause increased concentration.

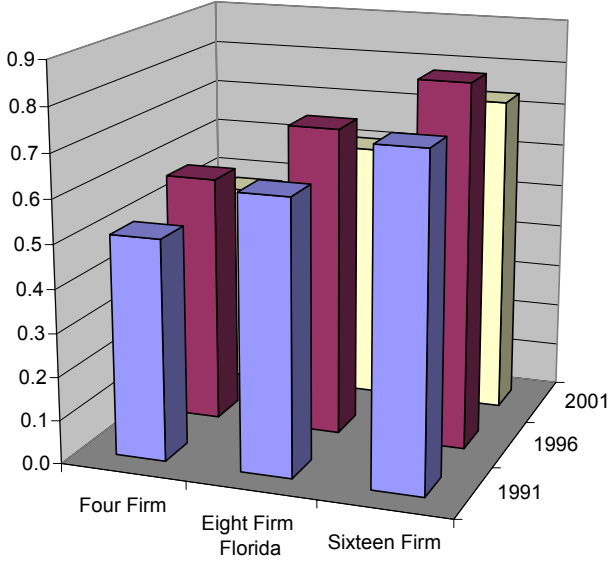
In Florida, (Figure II.20) we see a different picture. Concentration rose and then declined as new entrants came to take business from the state's residual market facility and insurers that wished to reduce their exposures. The facility was set up to provide insurance coverage for those who could not obtain coverage from private insurers. Regulators restricted prices and only allowed them to rise gradually over the decade.

Figure II.19
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, Texas



Source: Authors' calculations made from NAIC annual statement data.

Figure II.20
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, Florida



Source: Authors' calculations made from NAIC annual statement data.

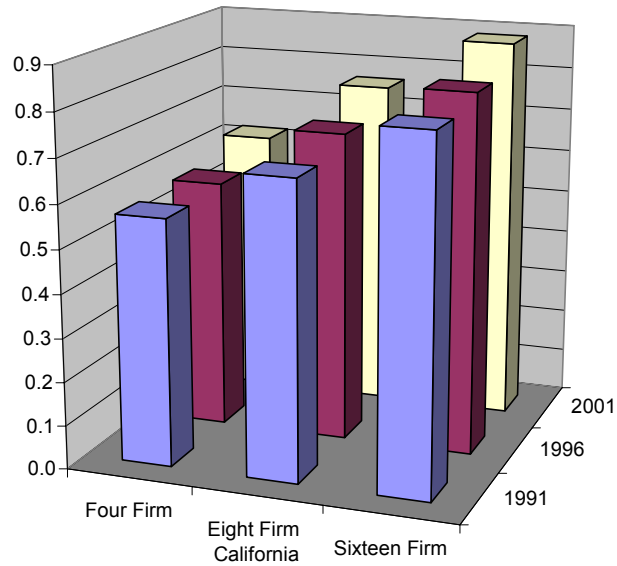
Thus, incumbent insurers did not willingly take on new business leaving more Florida residents to obtain coverage from the state.

In the mid-1990s, the state of Florida was among the biggest suppliers of homeowners insurance. To encourage other companies to write business, the state subsidized new insurers for each policy removed from the state facility. Thus, concentration declined as new entrants assumed business that the state was writing. What is interesting in Florida is that concentration is actually lower in 2001 than it was in 1991. At the same time, we know that the residual market began to grow rapidly in 2001 but 2002 market share data are not yet available for voluntary market insurers so we cannot show the effect on concentration.

Figures II.21 and II.22 show California's and New York's market concentration levels. In both states, we see concentration increasing over the time period. This same pattern is repeated in Figure II.23 (Kansas), Figure II.24 (Missouri) and Figure II.25 (Illinois). Thus, over the decade of the 1990's, most states experienced slight increases in concentration at the group level. This is true in markets that have mold and/or weather risk (California and Texas) and in markets that have predominantly weather risk (Kansas, Missouri, and Illinois).

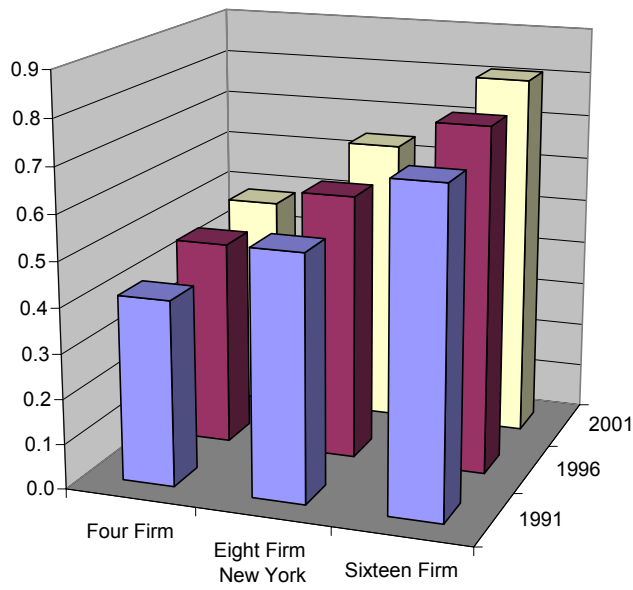
Since 1991 there have been a number of mergers and reorganizations in the property-liability insurance market. These are likely to have an effect on the concentration in the market. However, it should be recognized that many of these mergers are beneficial to the market as inefficient firms are absorbed into more efficient companies. Also, some insurers are selling certain segments of their business to other insurers in order to concentrate on segments where they can be more successful. Recent studies of the insurer

Figure II.21
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, California



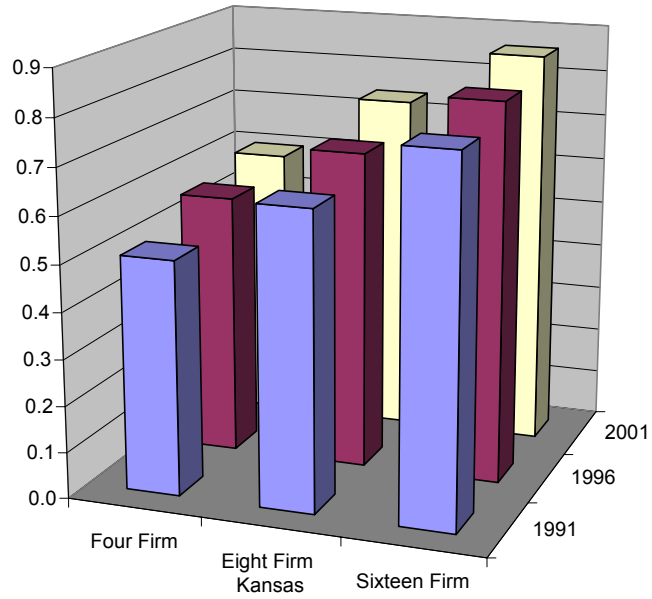
Source: Authors' calculations made from NAIC annual statement data.

Figure II.22
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, New York



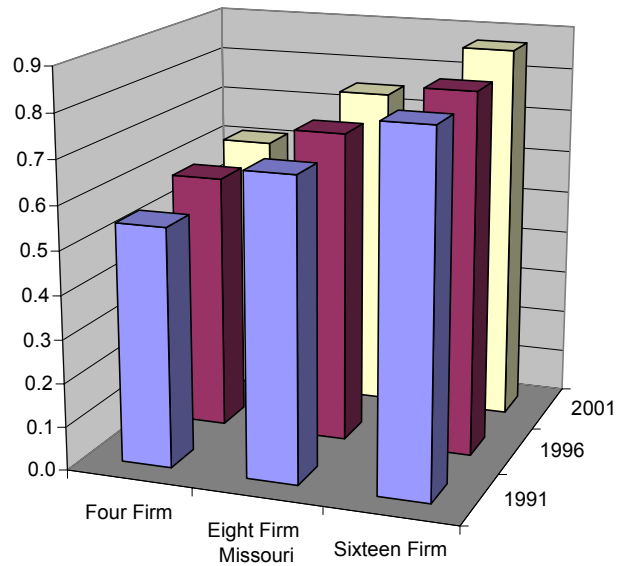
Source: Authors' Calculations made from NAIC annual statement data.

Figure II.23
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, Kansas



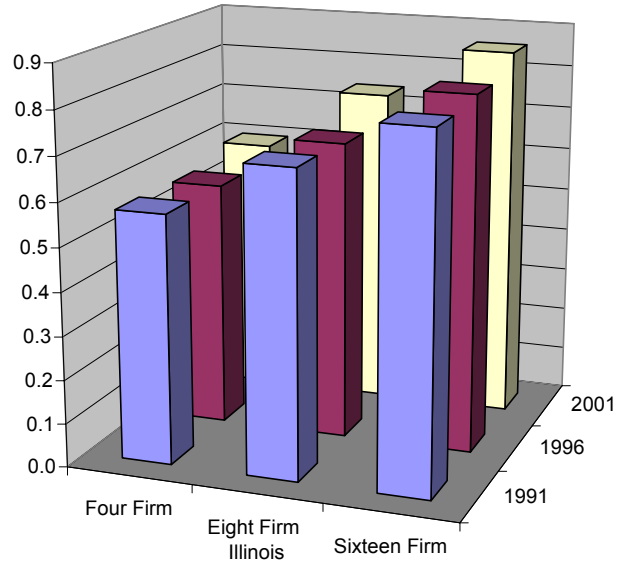
Source: Authors' Calculations made from NAIC annual statement data.

Figure II.24
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, Missouri



Source: Authors' calculations made from NAIC annual statement data.

Figure II.25
Four, Eight, and Sixteen Firm Concentration Ratio at the Group Level, Illinois



Source: Authors' calculations made from NAIC annual statement data.

efficiency and merger activity in the insurance market suggest that a relatively large proportion of the U.S. property-liability industry operates at a scale of operations too low to maximize profits and provide insurance at the greatest level of efficiency (i.e., lowest cost).¹⁴ Thus, increases in merger activity will allow firms to operate more efficiently and, if the market is competitive, consumers will benefit from lower costs.

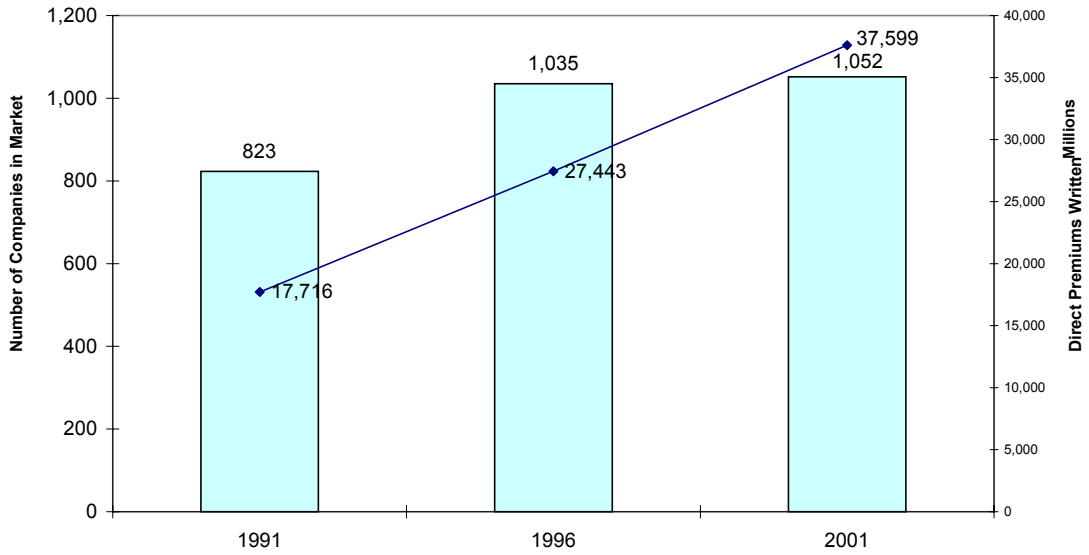
3. Entry and Exit in Markets Over Time

Another indication of market structure is the change in the number of firms due to entry and exit over time. A market that has few firms that are always in the market is a much different than one that experiences entry and exit. The former may experience less dynamic innovation and service, while the latter may be more competitive. Figure II.26 shows the growth in premiums and the growth in the number of companies in the U.S. market over time. We see the number of homeowners companies rising from 1991 to 1996 and then leveling off between 1996 and 2001. Premiums however rise steadily over this period.

Figure II.27 shows Texas. While we see premiums increasing over time, the number of firms writing in the Texas market has declined. Florida (Figure II.28) shows a massive reduction in firms after Hurricane Andrew but since 1996 the number of firms has been increasing. Almost all other states have seen the number of companies decrease since 1991. Again, this is due to insurers changing their focus among the states and the effect of mergers and acquisitions.

¹⁴ See, for example, the papers cited by J. David Cummins and Mary Weiss (2001).

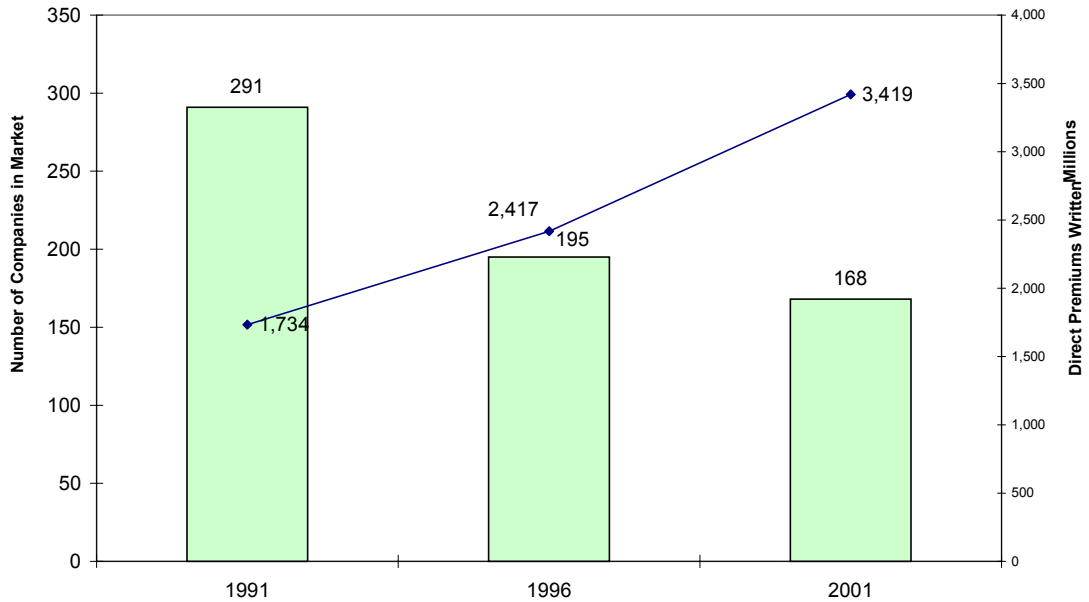
Figure II.26
No. of Firms with HO Premiums Written & Total Direct Premiums Written, US, 1991-2001



Source: Authors' calculations made from NAIC annual statement data.

United States Total Companies — Premiums Written in United States Total

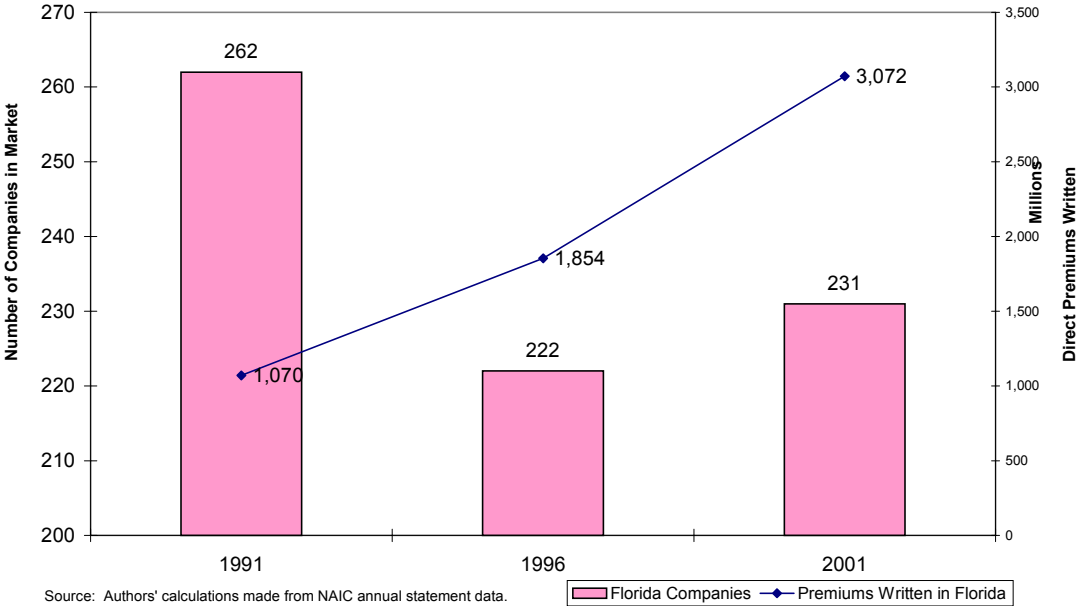
Figure II.27
Number of Firms with HO Premiums Written & Total Direct Premiums Written, Texas, 1991-2001



Source: Authors' calculations made from NAIC annual statement data.

Texas Companies — Premiums Written in Texas

Figure II.28
Number of Firms with HO Premiums Written & Total Direct Premiums Written,
Florida, 1991-2001



The shifting of business among insurers in Texas deserves some further discussion. As we explained above, Texas has had an “unregulated market” segment in which insurers are not subject to the price limitations imposed on insurers in the “regulated market” segment. Based on data obtained from the Texas Department of Insurance summarized in Table II.21, we can see that there has been a significant movement of policies from the regulated market to the unregulated market. In 1993 for example, the unregulated market had a market share of approximately 37 percent. By 2001 it had risen to just over 90 percent. Because insurers in the unregulated market typically have higher price structures, an insured moving from the regulated to the unregulated sector could experience an increase in their insurance premium, even without any changes in the rate structures of insurers. We suspect that this has been a major factor in the increase in average premiums paid by homeowners in Texas.

Table II.21
Homeowners Market Share in Texas
Regulated Versus Unregulated Insurers

	2001	1997	1993
Unregulated Companies	90.3%	75.7%	37.1%
Regulated Companies	9.7%	24.3%	62.9%
Source: Texas Department of Insurance			

III. Commercial Property Insurance

A. Prices

Conditions in commercial property insurance markets are more complex and difficult to quantify than in residential insurance markets. The types of commercial properties, the size or resources of their owners, and the types of insurance coverages vary significantly. For example, the owner of a small retail store is most likely to obtain property coverage through a package Business Owners Policy (BOP) that contains standardized property and liability coverages designed for such businesses. Larger businesses and firms may purchase some form of Commercial Multiperil (CMP) insurance policy that contains several coverage modules that can be customized for a particular insured. The largest firms often purchase more specialized policies that are designed specifically for their particular needs. Alternatively, owners of multi-unit rental properties and apartment buildings may purchase some form of residential or commercial fire coverage depending on the size and number of their properties.¹⁵

Market conditions are also somewhat fluid at this point in time as insurers and buyers adjust to the backstop provided by the recently enacted federal terrorism insurance bill and insurers' financial performance improves due to recent price hikes. For this section, we rely primarily on an NAR/Institute for Real Estate Management (IREM) survey of real estate professionals and Council of Insurance Agents and Brokers (CIAB) quarterly and special surveys, as well as reports and qualitative information from media sources. We also examine profitability measures for pertinent commercial insurance lines to gain

¹⁵ Structures with over four or five units would typically need to be insured under a commercial policy. An owner of several smaller structures also might purchase a commercial policy to cover all the structures.

some insight to the pressures that may be prompting insurers to raise rates, as well as market structure changes.

Commercial property insurance rates may have begun to rise before September 11, 2001, as part of the general hardening of commercial insurance and reinsurance markets. However, the events of September 11 and subsequent developments altered the perception of the perils threatening commercial structures. This fact, coupled with other pressures on commercial insurance and reinsurance markets generally, caused more severe problems for commercial property insurance than residential property insurance. The mold issue also affects commercial property, along with lead and asbestos contamination.

There is no doubt that rates for commercial property insurance rose significantly in 2001 and 2002. Table III.1 summarizes CIAB quarterly survey results on commercial insurance rate changes observed by brokers and agents. Increases in excess of 10 percent were reported for most accounts for commercial property insurance and business interruption insurance for the three months ending September 30, 2001. The survey results indicate that rate increases continued to accelerate through the third quarter of 2002. For example, 59 percent of commercial property accounts experienced rate increases in excess of 30 percent for this quarter. The comparable figures for business interruption and construction insurance were 28 percent and 27 percent, respectively. The increases continued in the 4th quarter but appear to decelerate. For the 1st quarter of 2003, we see further softening in prices. In other words, those accounts experiencing premium increases received smaller increases and a significant portion of accounts received premium decreases.

**Table III.1
Commercial Insurance Rate Changes: Percentage of Accounts by Percent Change**

Coverage/ Pct. Chg.	3 Months Ending							12 Months Ending	
	2001-3Q	2001-4Q	2002-1Q	2002-2Q	2002-3Q	2002-4Q	2003-1Q	2001-4Q	2002-3Q
Property									
10-20% Decrease	0%	0%	0%	0%	0%	0%	1%	0%	0%
1-10% Decrease	0%	0%	1%	0%	1%	2%	8%	0%	0%
No Change	2%	0%	1%	3%	8%	8%	8%	0%	0%
1-10%	7%	10%	5%	4%	9%	16%	24%	2%	2%
10-20%	50%	32%	39%	46%	30%	50%	35%	28%	40%
20-30%							17%		
30-50%	25%	36%	34%	31%	54%	18%	4%	38%	38%
50-100%	14%	16%	13%	13%	5%	3%	0%	26%	13%
>100%	NA	15%	3%	1%	0%	0%	0%	5%	30%
Business Interruption									
1-10% Decrease	0%	0%	0%	0%	0%	0%	3%	0%	0%
No Change	12%	4%	3%	3%	13%	13%	13%	1%	1%
1-10%	17%	14%	10%	8%	17%	19%	33%	8%	5%
10-20%	45%	41%	47%	55%	31%	50%	28%	53%	57%
20-30%							7%		
30-50%	17%	24%	22%	10%	26%	4%	1%	25%	23%
50-100%	6%	9%	7%	1%	2%	0%	0%	9%	5%
>100%	NA	2%	2%	0%	0%	0%	0%	1%	2%
Construction									
10-20% Decrease	0%	0%	0%	0%	0%	0%	1%	0%	0%
1-10% Decrease	0%	0%	0%	0%	0%	0%	3%	0%	0%
No Change	NA	0%	NA	1%	5%	4%	7%	0%	1%
1-10%	NA	4%	NA	1%	8%	8%	5%	1%	2%
10-20%	NA	36%	NA	28%	42%	35%	27%	24%	24%
20-30%							23%		
30-50%	NA	28%	NA	38%	20%	23%	16%	39%	37%
50-100%	NA	10%	NA	15%	7%	9%	3%	19%	15%
>100%	NA	2%	NA	4%	2%	4%	0%	4%	4%

Source: Council of Insurance Agents and Brokers

Additional information is provided by a recent NAR/IREM survey of real estate professionals on commercial insurance market conditions – information on changes in property-casualty insurance premiums is summarized in Table III.2. We can see from this table that many respondents to the survey experienced large increases in their premium from 2001 to 2002, and smaller but still significant increases from 2002 to 2003. The median percentage change, by type of property, are listed below.

	<u>2001-02</u>	<u>2002-03</u>
• Multifamily	41.7%	19.9%
• Office	31%	15%
• Retail	27.6%	8.3%
• Warehouse	51.6%	14.1%

Information on the distribution of changes from the NAR/IREM survey also is provided by quartile range in Table III.2. There was a wide range in reported premium changes. A number of respondents reported no change or even premium decreases, while others reported increases from 100-300 percent. One caution is that some premium changes may have been accompanied by policy or other changes that may have affected the premium changes. For example, until federal legislation was passed in November 2002, coverage for terrorism was excluded on most policies issued after September 11, 2001. Also, agents and brokers report that deductibles and retentions were increased on some commercial policies to reduce the risk borne by the insurers. Other information sources also indicate that larger and more prominent properties tended to experience the largest premium increases.

Table III.2
Results from NAR/IREM Survey - Commercial Property/Casualty Premiums Percent Change

	Multifamily		Office		Retail		Warehouse		Other	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
No. Responses	47	47	19	19	12	12	5	5	3	3
Mean	53.0%	17.3%	63.0%	21.2%	26.2%	4.3%	47.8%	-9.8%	202.3%	-7.5%
Median	41.7%	19.9%	31.0%	15.0%	27.6%	8.3%	51.6%	14.1%	37.5%	13.6%
1st Quartile	15.4%	-51.6%	5.7%	3.1%	0.0%	-0.1%	NA	NA	NA	NA
2nd Quartile	41.7%	19.9%	31.0%	15.0%	27.3%	4.6%	NA	NA	NA	NA
3rd Quartile	60.0%	54.4%	74.5%	20.0%	31.1%	17.6%	NA	NA	NA	NA
Maximum	372.7%	244.8%	441.7%	340.0%	72.7%	139.4%	NA	NA	NA	NA

The most recent forecasts of commercial property insurance rates anticipate increases averaging in the range of 10-20 percent during 2003. These forecasts, coupled with the most recent CIAB survey, suggest that prices are beginning to level off and may stabilize, barring any new events or developments that would renew concerns about risk and increase uncertainty.

Coverage for terrorism risk has received considerable attention. The enactment of the federal Terrorism Risk Insurance Act (TRIA) on November 26, 2002 was intended to provide a government backstop for catastrophe losses from a terrorist incident to support the provision of lower-layer terrorism coverage by private insurers. The Act provides terrorism reinsurance through 2004, which could be extended through 2005 if recommended by the Secretary of the Treasury. The hope is that TRIA will promote a viable private insurance market for terrorism risk that will not require federal support after 2004.

There is considerable interest in how much firms are paying for terrorism coverage provided under the federal backstop. Reports from insurers, brokers and insureds indicate that the relative cost of terrorism coverage varies significantly depending on the type of property or business and its location. The CIAB surveyed brokers on the cost of terrorism coverage and the results of this survey are presented in Table III.3. The survey reveals that for most firms purchasing terrorism coverage, the cost is less than 10 percent of their total premium. At the same time, the relative cost appears to increase with firm or account size (as measured by the commissions/fees received by brokers). For example, for 74 percent of small accounts, 62 percent of medium accounts and 46 percent of large accounts, the cost of terrorism coverage represented less than 10 percent of their total

**Table III.3
Average Cost of Terrorism Insurance (% of Total Premium)**

Size of Account	1-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%	NA
Small: <\$25,000 in Commissions/Fees	74%	11%	3%	0%	0%	0%	1%	1%	1%	1%	9%
Medium: \$25,000-\$100,000 Commissions/Fees	62%	20%	7%	1%	0%	0%	0%	1%	1%	0%	8%
Large: >\$100,000 Commissions/Fees	46%	24%	10%	2%	1%	0%	0%	1%	0%	0%	16%
Source: Survey by Council of Insurance Agents & Brokers											

premiums. For the largest accounts, the cost of terrorism coverage constituted 11-20 percent of the premium for 24 percent of the accounts and it constituted 21-30 percent of the premium for 10 percent of the accounts.

Larger accounts may tend to pay more for terrorism coverage because their facilities are perceived to be at greater risk of attack. Also, large firms may be less likely to decline terrorism coverage because of its cost. This points to a potential bias in the survey results. Firms that would be charged a higher premium for terrorism coverage may be less likely to buy it, all other things equal.

Initial reports indicated that the relatively high cost of terrorism coverage prompted many businesses to decline it. However, there are some recent indications that the price of terrorism coverage is starting to drop for some firms. Moody's Investors Services performed an informal survey of insurance brokers in Manhattan that indicated that premiums for terrorism coverage were averaging in the range of 10-30 percent of a property's overall property-casualty premiums, down from roughly 50 percent six months prior to the survey (Mogel, 2003). One of the survey's authors indicated that increased competition is probably behind the price drop, but cautioned that the survey was an informal snapshot and that no major conclusions should be drawn.

B. Availability

The second area of interest is the availability of commercial insurance. This is even more difficult to measure for commercial insurance than it is for homeowners insurance because of state differences in residual market mechanisms for commercial insurance. Here we rely primarily on the NAR and CIAB surveys and media accounts.

The responses to the NAR/IREM survey indicated that 33 percent (5 of 15 respondents) of retail properties had their insurance cancelled or non-renewed within the last year (see Table III.4.1). Of these respondents, all reported that they were able to replace the coverage with another insurer, but at a higher cost. Of the 55 multifamily property respondents, 13 or 23.6 percent responded that their coverage was cancelled or non-renewed. Of these respondents, two did not replace the coverage, one replaced coverage at the same cost, and ten replaced the coverage at a higher cost. The 22 office property and the five warehouse property respondents did not report any cancellations or non-renewals. Four of the five other respondents had coverage cancelled or non-renewed but replaced it a higher cost.

One matter of considerable interest is the extent to which businesses are purchasing terrorism coverage under the new federal program. Media reports from market participants indicated that many businesses are not purchasing terrorism coverage. The primary reasons cited for this are the relatively high cost of the coverage (compared to a firm's perception of its value) and some firms' perception of a low risk of terrorist incidents that would cause them damages. It appears that the firms most likely to purchase terrorism coverage are those that have "high-visibility" or highly-vulnerable properties and/or are compelled to purchase coverage by lenders or other parties.

Responses to a recent CIAB survey of brokers and agents, summarized in Table III.5, are consistent with anecdotal reports. We can see from this table that 43 percent of brokers reported that less than 5 percent of their small accounts have purchased terrorism coverage. This figure falls to 30 percent for medium accounts and 22 percent for large

Table III.4.1
Results from NAR/IREM Survey - Commercial Property/Casualty Insurance Availability

Type of Structure	No. Responses	Cancelled/Non-Renewed		Replaced?		
		Number	Percent	No	Yes	
					Same Cost	Higher Cost
Multifamily	55	13	23.6%	2	1	10
Office	22	0	0.0%	NA	NA	NA
Retail	15	5	33.3%	0	0	5
Warehouse	5	0	0.0%	NA	NA	NA
Other	5	4	80.0%	0	0	4

Table III.4.2
Results from NAR/IREM Survey - Commercial Terrorism and Mold Coverage

Type of Structure	No. Responses	Terrorism Coverage			Mold Coverage		
		No	Yes, Included	Yes, Separate	No	Yes, Included	Yes, Separate
Multifamily	55	78.2%	18.2%	3.6%	80.0%	14.5%	5.5%
Office	22	40.9%	40.9%	18.2%	45.5%	50.0%	4.5%
Retail	15	46.7%	26.7%	6.7%	86.7%	13.3%	0.0%
Warehouse	5	60.0%	0.0%	20.0%	60.0%	0.0%	20.0%
Other	5	60.0%	40.0%	0.0%	60.0%	40.0%	0.0%

Table III.5
Percent of Accounts Purchasing Terrorism Coverage

Size of Account	1-5%	5-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-100%	NA
Small: <\$25,000 in Commissions/Fees	43%	16%	6%	4%	5%	3%	3%	1%	3%	6%	10%
Medium: \$25,000-\$100,000 Commissions/Fees	30%	18%	14%	5%	4%	6%	1%	3%	4%	5%	10%
Large: >\$100,000 Commissions/Fees	22%	16%	10%	7%	7%	6%	3%	6%	5%	7%	11%

Source: Survey by Council of Insurance Agents & Brokers

accounts. The pattern of large accounts tending to be more likely to purchase terrorism coverage is consistent throughout the table.

The NAR/IREM survey also polled real estate professionals on terrorism coverage (see Table III.4.2). The percentage responding that they did not have terrorism coverage ranged from 40.9 percent for office properties to 78.2 percent for multifamily properties. The varying rates of coverage across types of properties may, at least in part, reflect differences in the perceived level of risk. For example, owners/managers of multifamily properties may believe they are less likely to be a target of (or otherwise suffer losses from) a terrorist attack. Of those properties with terrorism coverage, they were more likely to have this coverage included in their property insurance policy rather than provided through a separate policy.

The cost and declination of this coverage may prompt some to argue that the present federal program and/or its implementation are flawed and that it be revamped. Whether concerns about firms not buying terrorism coverage become more pronounced depends on several things, including further developments in the price and take-up of terrorism coverage, the occurrence of terrorist incidents in the future, losses that would be incurred by firms without coverage, and any resulting changes in the perception of terrorism risk among firms.

The NAR/IREM survey also asked questions about mold coverage and it is interesting to note that fewer properties had mold coverage than terrorism coverage (see Table III.4.2). Of course, the response to this question may be conditioned on the respondents' understanding of the terms of their insurance policies. If coverage for mold was excluded except if caused by the sudden and accidental discharge of water, a

respondent could interpret this as not having mold coverage. While we do not have detailed information on the coverage provisions governing commercial properties, it appears they are significantly affected by the mold issue.

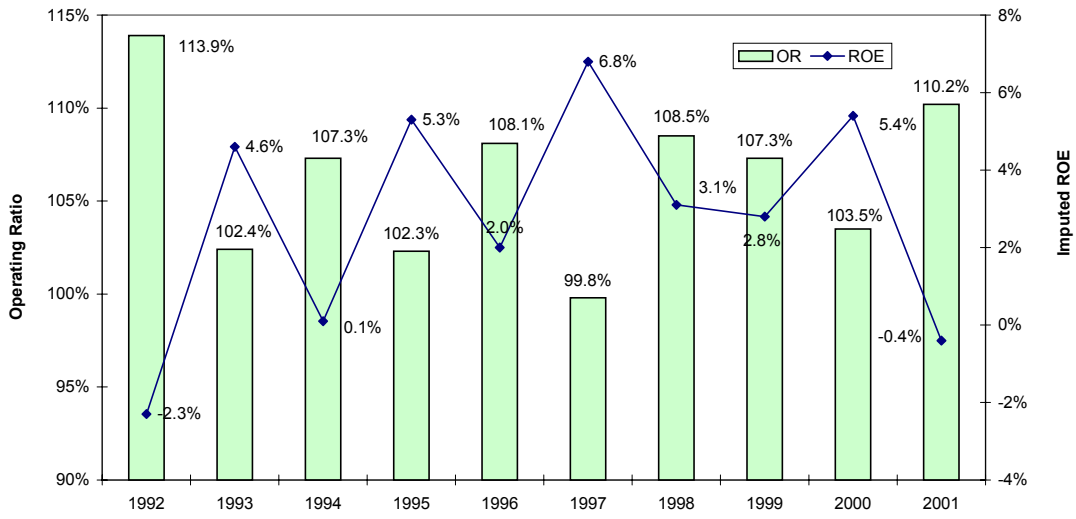
C. Profitability Indicators

Figures III.1-III.3 summarize operating ratios and imputed ROE's for commercial multiperil (CMP), fire and allied lines for the years 1992-2001. These lines of insurance comprise an amalgam of coverages. CMP typically includes standard property coverages, as well as liability coverages. Fire includes both commercial fire policies and dwelling fire policies. Allied lines generally include various extended coverages that are related to property coverage, such as coverage for contents and theft/vandalism.

For CMP, profits appear to oscillate significantly from year to year. This may be partly a function of volatility in property-related losses as well as variations in liability claims. Still, we can see that operating ratios have generally been in excess of 100 percent and the imputed ROE has been typically less than 5 percent. This level of profitability is not sufficient to cover insurers' cost of capital and would be expected to contribute to a hardening market. Of course, this kind of experience was occurring in other commercial lines and the results for CMP do not indicate that insurers would be inclined to except CMP from the tighter underwriting and higher rates that occurred in commercial insurance markets generally.

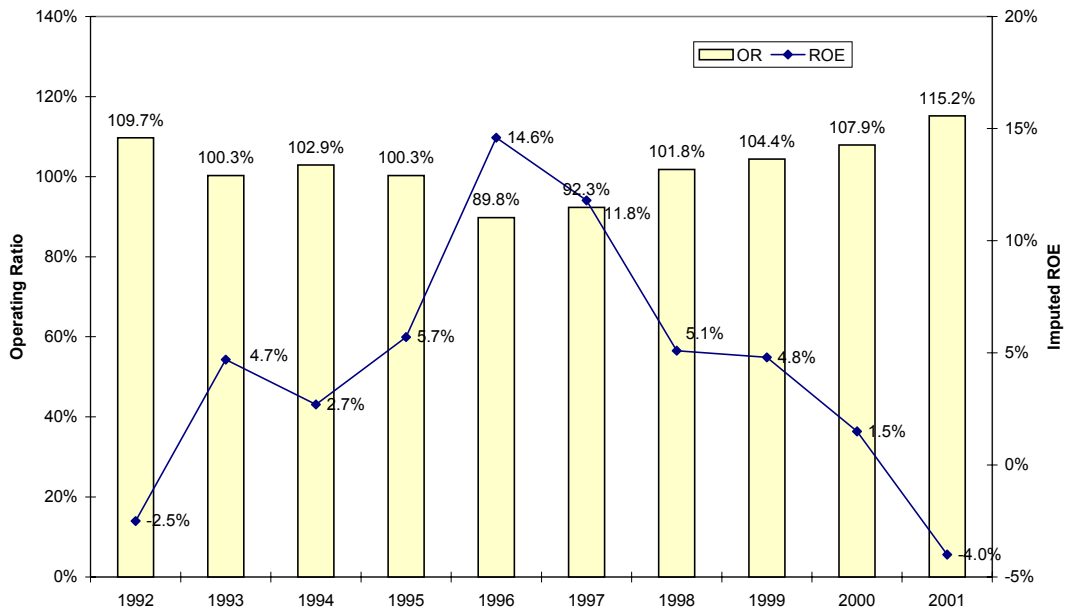
Profitability in fire insurance has been more negative than in CMP, implying that property coverages have been subject to more adverse experience and/or price cutting than liability coverages. From 1996, we see a steady upward trend in operating ratios and a steady downward trend in the imputed ROE. Of course, 2001 was a particularly bad

**Figure III.1
Commercial Multiperil Profitability Results (Net Basis)**



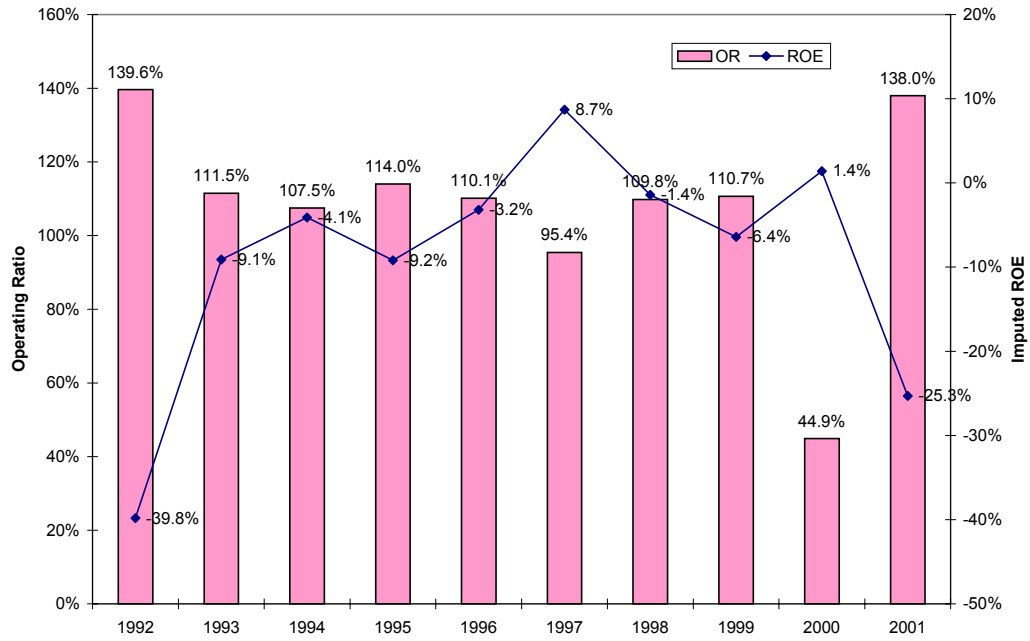
Source: A.M. Best Company, NAIC

**Figure III.2
Fire Profitability Results (Net Basis)**



Source: A.M. Best Company, NAIC

**Figure III.3
Allied Lines Profitability Results (Net Basis)**



Source: A.M. Best Company, NAIC

year, due in part to September 11 losses. At the same time, in 2000, we see a 107.9 percent operating ratio and a 1.5 percent ROE. The sustained nature of the adverse trends suggest more fundamental forces at work, such as steadily increasing claims and/or steadily decreasing prices. Hence, pressures to tighten the supply of fire insurance appear to be even greater than the pressures for CMP.

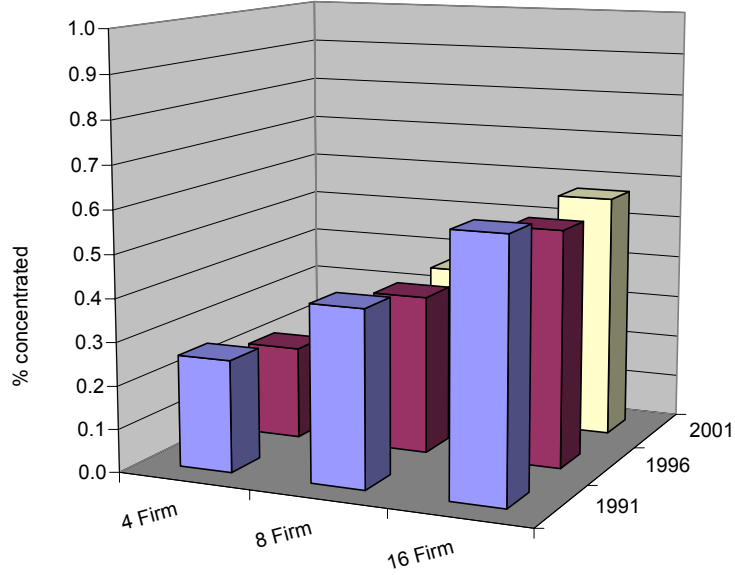
Allied lines also shows adverse experience, although there is a greater variability in these results. Of course, September 11 losses are evident in the 2001 results. Again, the adverse experience in allied lines is consistent with the adverse experience in other commercial lines and, hence, there would be pressure to tighten the supply of allied lines coverages.

D. Market Structure Changes

As with the homeowners market, the structure of the commercial multiperil market provides some indication of competitive conditions and insurers' responses to adverse experience and rising costs. If we look at Figure III.4, we see the four, eight and sixteen firm concentration ratios. The market is relatively un-concentrated - at the 16-firm level, the concentration ratio is less than 60 percent. Further, the 2001 HHI for the United States was 270. This implies that approximately 37 equal sized firms could exist in the national market. This is a relatively low level of concentration at the national level.

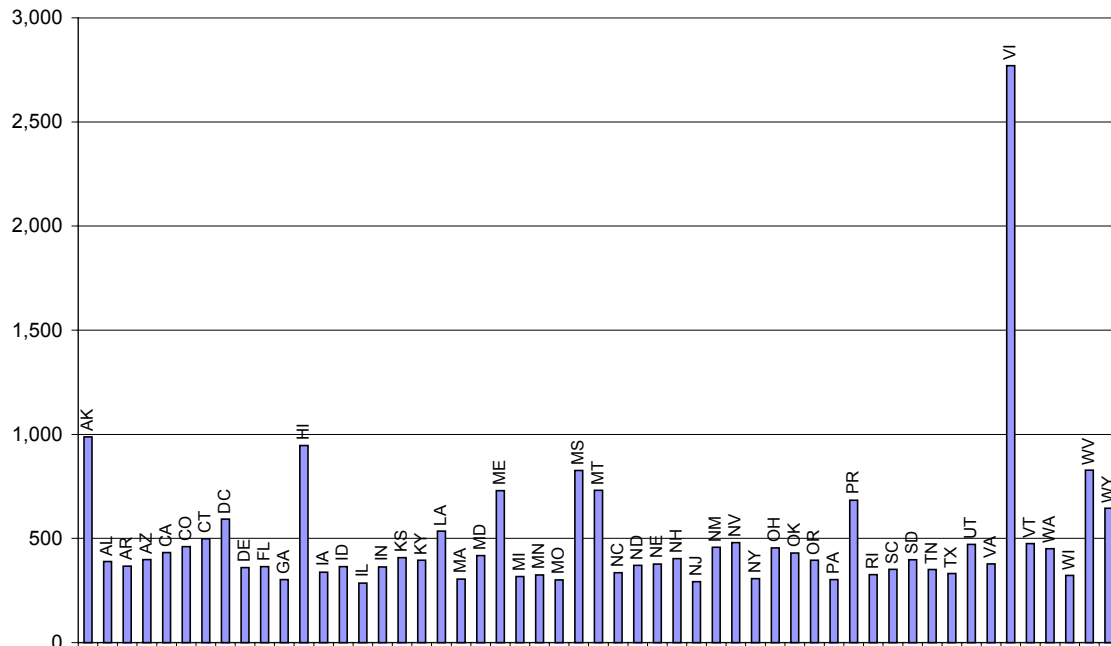
Figure III.5 shows the HHI across the states. The indices are relatively low (with the exception of the US Virgin Islands). Looking across states, we find that, on average, each state has room for approximately 24 equal sized firms. Finally, we see in Figure III.6 that the eight-firm concentration ratio rose in most states between 1991 and 2001. The figure plots the absolute change in the index between 1991 and 2001. A positive number implies

Figure III.4
Commercial Multiperil Concentration Over Time
United States



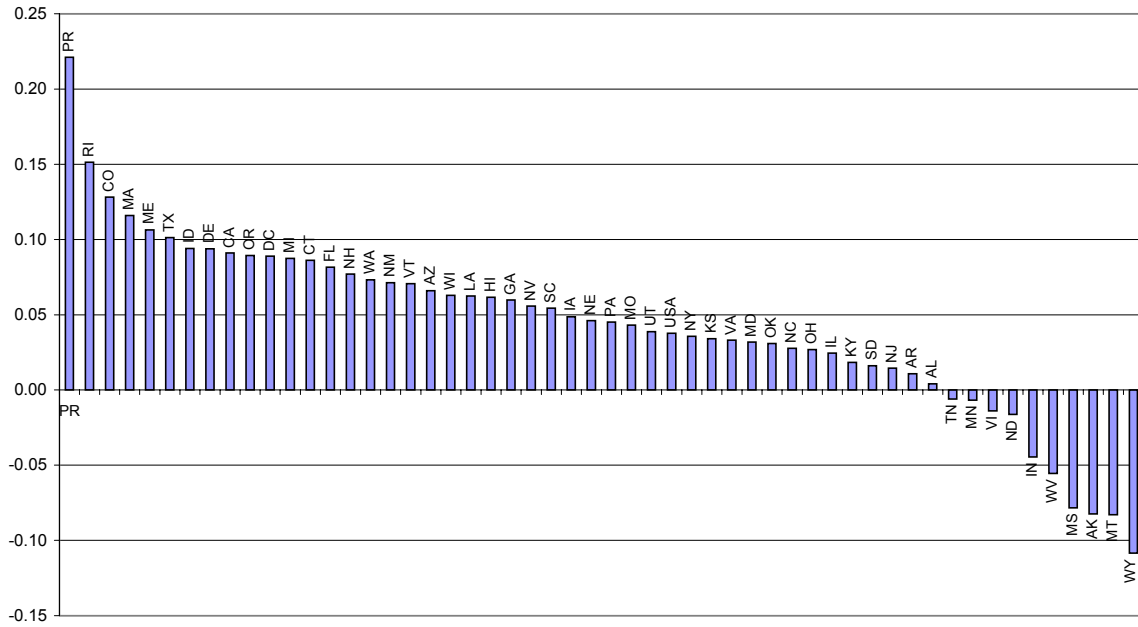
Source: Authors' calculations made from NAIC annual statement data.

Figure III.5
Commercial Multi-Peril Herfindahl Index by State, 2001



Source: Authors' calculations made from NAIC annual statement data.

Figure III.6
Change in 8-Firm Concentration Ratio 1991-2001



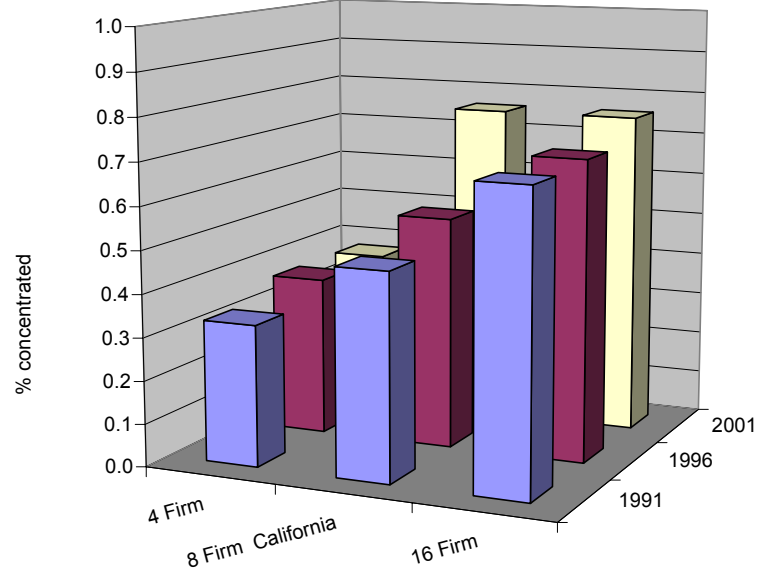
Source: Authors' calculations made from NAIC annual statement data.

that concentration increased at the group level while a negative number implies a decrease in the group level concentration.

If we look at some states (California, Florida, Kansas, Missouri, New York, and Texas - Figures III.7-III.12) we see that concentration has increased over time. However, it is important to place the increases into some context. The national market has seen, as mentioned above, increased merger and acquisition activity. This is not necessarily a bad outcome as research suggests that many of the nation's insurers are operating at too small a size for efficient operation. Thus, mergers and acquisitions may allow the industry to operate at lower costs.

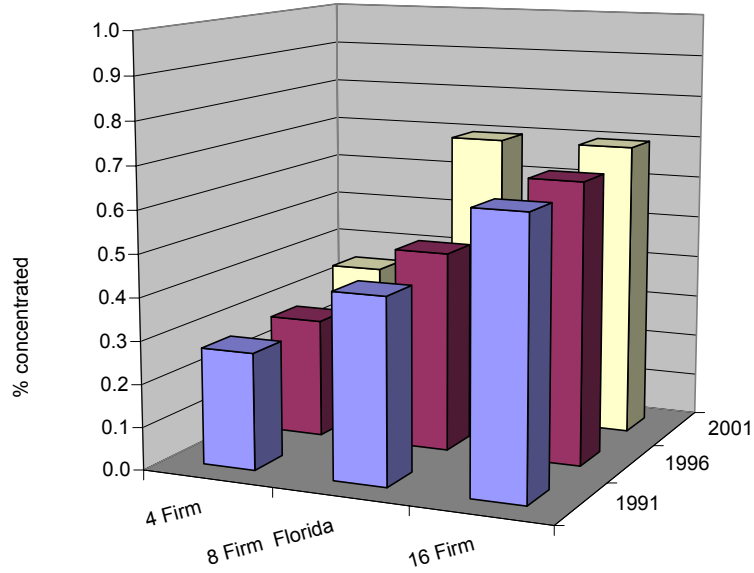
Second, if we look at the Herfindahl indices again, we see that of the states with positive changes in the HHI index, the average increase was about 130 points. An increase of this size is only important under the Department of Justice Merger guidelines if the market index is 1,800 or greater. Only in the Virgin Islands do we see this level of concentration and the relatively small size of this market makes it a special case. The remaining states have index scores less than 1,000, which implies a low level of concentration. Thus, the commercial multiperil market has a market structure that encourages competition and the market structure changes would not be expected to cause prices to rise. Of course, to the extent that some insurers exit or retrench, this will force their insureds to find coverage with another carrier.

Figure III.7
Commercial Multiperil Concentration Over Time
California



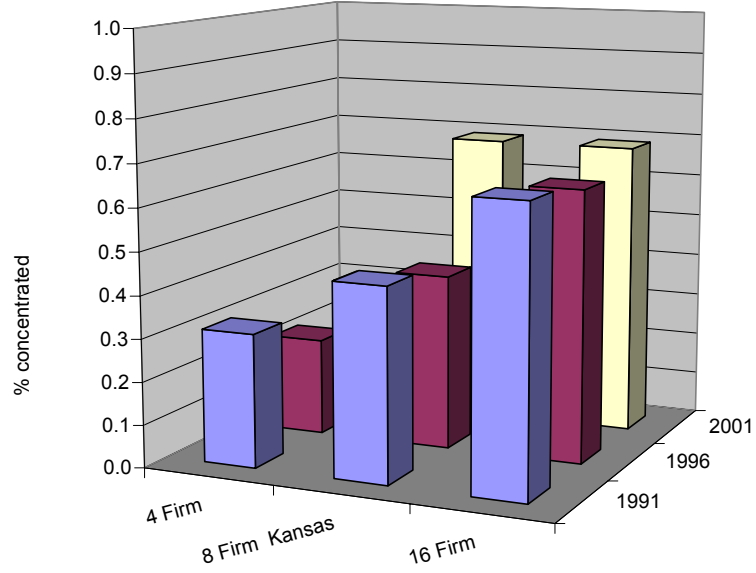
Source: Authors' calculations made from NAIC annual statement data.

Figure III.8
Commercial Multiperil Concentration Over Time
Florida



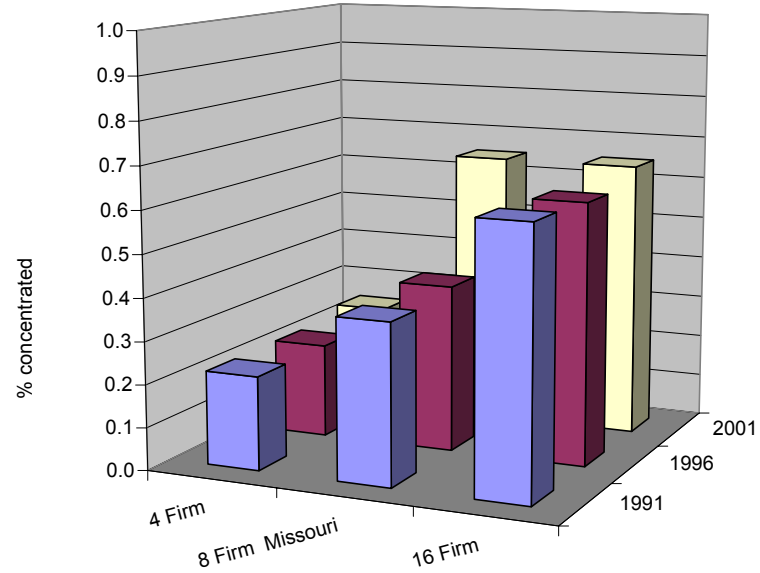
Source: Authors' calculations made from NAIC annual statement data.

Figure III.9
Commercial Multiperil Concentration Over Time
Kansas



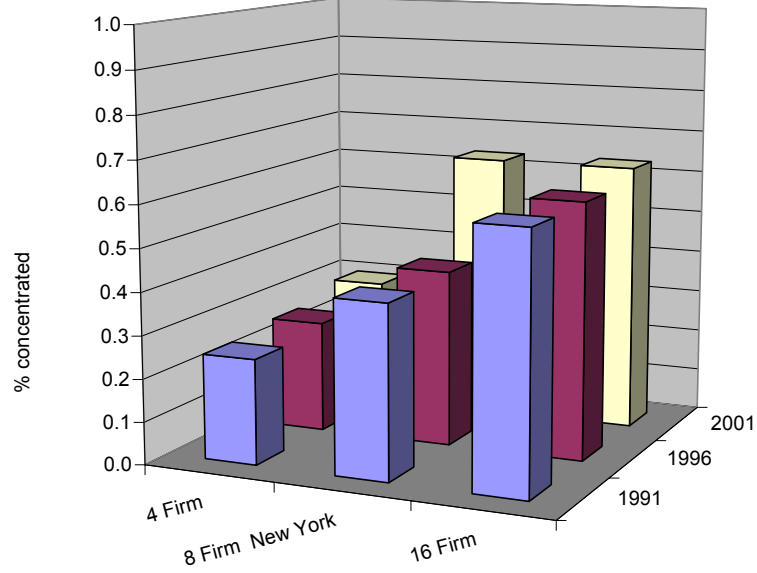
Source: Authors' calculations made from NAIC annual statement data.

Figure III.10
Commercial Multiperil Concentration Over Time
Missouri



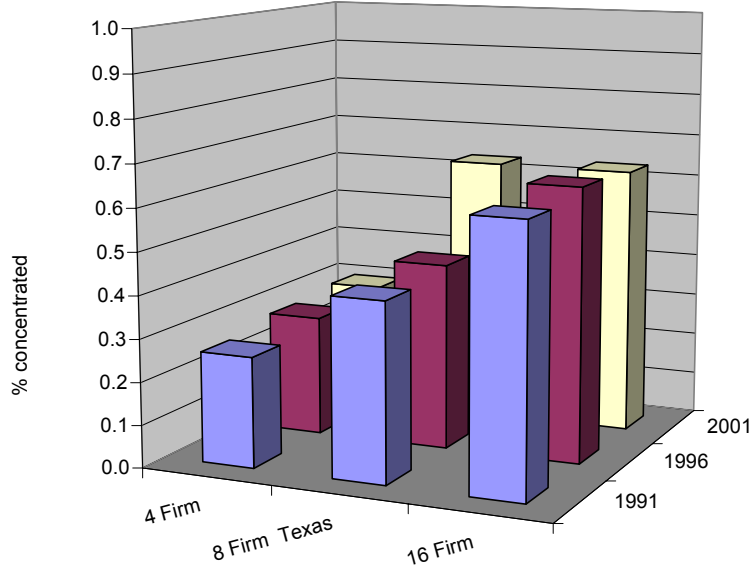
Source: Authors' calculations made from NAIC annual statement data.

Figure III.11
Commercial Multiperil Concentration Over Time
New York



Source: Authors' calculations made from NAIC annual statement data.

Figure III.12
Commercial Multiperil Concentration Over Time
Texas



Source: Authors' calculations made from NAIC annual statement data.

IV. Further Discussion of Factors Influencing Market Conditions

A. Underwriting and Coverage Issues

A number of underwriting issues have arisen in the past two years that may have an important impact on the price of insurance and the willingness of insurers to supply coverage. These include:

- Mold/Water
- Hurricane/Wind
- Terrorism Risk
- Credit Score/Claims Databases.

1. Mold/Water

We focus first on mold/water claims because they have received considerable recent attention and appear to be important in California and Texas. Mold received national attention after a \$32 million damage award in 2001 against a unit of Farmers Insurance in Texas. While the damage award was reversed on appeal, a further appeal to the Texas Supreme Court is under consideration. Some stylized facts from the Texas Coalition for Affordable Insurance Solutions help illustrate the size of the problem:

- In the first quarter of 2000, the estimated number of Texas home insurance claims was only 1,050; by the last quarter of 2001, the number of claims in Texas was almost 15,000.
- In Texas alone, the top five insurance companies saw their mold claims rise over 500% in the past year.
- Texas leads the nation in both the number of mold insurance claims and the number of mold-related lawsuits.
- In 2001, 70% of all mold claims filed nationally were filed in Texas.

- During 2000-2001, over 44,000 mold claims were filed in Texas — at a cost of over \$1 billion to insurers.¹⁶

Traditionally, insurers cover sudden and accidental losses to property. If a pipe bursts, for example, the insurance contract would cover the damage caused by the burst pipe. In contrast, slow leaks which cause damage are not covered under home insurance contracts. If a mold problem develops, it is more likely to be caused by slow leaks or other types of moisture problems, rather than sudden and accidental discharges of water. A majority of states (35), in fact, allow insurers specifically to exclude mold damages.

Several aspects of mold claims engender insurability problems. One problem is identifying the cause or source of mold damage and determining whether it is covered under an insurance policy. A second problem is determining the extent of damages and what is reasonable in terms of remedying mold infestation. A third concern of insurers is their exposure to bad faith lawsuits if an insured is dissatisfied with how a mold claim has been handled – something that is more likely with mold claims because of the first two aspects identified above. Bad faith lawsuits can generate settlements and awards that far exceed the actual amount of payment that is under dispute.

The cost and quality of mold remediation services have further complicated matters. Previously, if there was water damage, bleach was used to control subsequent mold growth. If there is a moist environment in a structure, the previous technology of employing a bleach solution may not have a permanent effect on mold growth. Thus, in some buildings, structural and environmental changes might be necessary. Second, there is a slowly developing set of professional skills needed for mold remediation services. There are many potential service providers who either do not have the skill to remediate

¹⁶ See http://www.tcais.org/insurance/mold_facts.php (1/25/03).

mold completely or who are unscrupulous (or negligent) and offer services that are ineffective.

Unfortunately, legislative attempts to license mold remediation services may not be as helpful as their proponents believe. Such legislation will raise remediation costs as licensing is a known barrier to entry, although some form of certification may provide net benefits in terms of helping homeowners distinguish qualified contractors.¹⁷

According to FITCH Ratings, the concern regarding mold is declining as insurers have responded through coverage and pricing changes. First, some insurers are revising policy provisions to more clearly exclude or limit coverage for mold and mold damages. The objective of such efforts is to mitigate some of the ambiguity and uncertainty in order to make a risk insurable. Second, insurers now are pricing mold coverage in their contracts, to the extent that it is still covered.

The Insurance Services Office (ISO), for example, has recently developed an endorsement that would allow an insurer to offer mold/water coverage for an additional premium. This coverage would be for some fraction of the overall home value. For example, a \$100,000 home may have a “10% rider.” Thus, mold remediation coverage would be granted up to a \$10,000 limit for a \$100,000 home. This endorsement has been approved in 37 states and similar endorsements are likely to be approved in the rest of the states.

While limiting and clarifying coverage for mold in insurance contracts will improve the supply and lower the price of homeowners insurance, homeowners will still be left with uninsured losses from mold infestation that is caused by conditions not covered by

¹⁷ If insurers are liable for remediation costs, they will have the incentives to employ quality providers of services. This information regarding quality may take time to develop but it will likely be less costly for both the insurers and the insureds.

insurance contracts. The answer may be the development of services similar to those provided by firms that prevent and remedy termite infestation. These firms often provide a form of insurance in that they agree to pay for any damage caused (within specified limits) by termites while they have a contract in place with a homeowner. Obviously, this type of contract is based on the premise that most termite infestation can be prevented or treated before there is any substantial damage. Developing a similar type of service or contract for mold infestation could prove more challenging, but some entrepreneurs may be motivated to explore its feasibility.

2. Hurricane/Windstorm Risk¹⁸

There are several forms of homeowners multiperil insurance that differ in terms of the perils insured and the types of losses that are covered. The HO3 policy is the typical contract sold. It has coverages for the home and attached structures, detached structures, personal property (i.e., contents), loss of use, personal liability, and medical payments for others. The major difference between an HO3 policy and an HO5 policy is that the HO5 policy provides open-perils coverage for personal property or contents. Open-perils coverage means that there is insurance for losses due to all causes of loss except for those specifically excluded. An HO3 policy typically covers contents on a “named-perils” basis, although an HO15 endorsement can be purchased to add open-perils coverage on contents, making the combination functionally equivalent to an HO5 policy. The HO8 policy covers a less inclusive list of named perils than either HO3 or HO5 policies. HO8 policies were designed primarily for homes in older urban areas.¹⁹

¹⁸ This section is based on material in Grace, Klein, Kleindorfer, and Murray (2003).

¹⁹ HO-8 policies cover a more limited set of perils than other policy forms and theft coverage is restricted to

There are also options available to cover personal property at a greater value than the standard limits, or to cover liability at a greater level than the standard limit (\$100,000). Also, depending on the state and company, certain coverages may be included or excluded in a specific contract, and special endorsements may be added to provide supplemental coverage, modify standard coverage provisions, or exclude other coverages. Some of these options are discussed further below.

In coastal areas of states subject to hurricanes and tropical storms, some homeowners policies exclude damage by windstorm. Insureds can elect to exclude the wind peril to lower their premium, although this is typically not an option for insureds with a home mortgage who are required to carry hazard insurance. Insurers may decline to offer protection against windstorms in order to reduce their exposure to catastrophe risk. Also, in certain coastal states including Florida, when policies exclude protection against windstorms, a state wind pool may offer a separate policy providing protection against windstorms.²⁰ The flood peril (including flooding associated with hurricanes) must be insured through a separate policy through the federal National Flood Insurance Program (NFIP).²¹

The major innovation of the homeowners multiperil policy (which emerged in the 1960s) was the packaging of liability and property perils and providing broader coverage that previously had to be purchased in separate policies and policy endorsements. The concept of bundling perils and broadening coverage has driven product development over the last four decades, but the catastrophe risk problem may be prompting insurers to

property on the premises with a limit of \$1,000.

²⁰ In 2002, Florida combined its wind pool and its joint underwriting association for residential property insurance into one entity.

²¹ Private insurers may offer excess coverage to homeowners, but it is unusual for a private insurer to underwrite a full non-federal flood policy for a home.

rethink this strategy. At the same time, consumer attitudes and regulatory restrictions may impede insurers' efforts to modify homeowners insurance policies, such as the unbundling of the wind peril in the absence of state wind pools.

Insurers have sought to modify their homeowners insurance policies in response to greater catastrophe risk. The two most noteworthy developments have been the introduction of higher deductibles for windstorm and hurricane losses and credits for hazard mitigation. Some insurers now offer separate wind deductibles that are stated percentages of the dwelling coverage limit (e.g., one, two or five percent) or a fixed amount that is higher than the deductible for other perils. Data presented in Grace, et. al. (2003) indicate that deductibles chosen by insureds increased significantly in Florida over the period 1995 to 1998.

Some insurers offer premium discounts for windstorm protective devices, such as storm shutters, roof clamps, and frame tie-downs. Florida requires all insurers to offer credits for these protective devices. However, insurers are cautious about such credits because of uncertainty about the performance of windstorm protective devices and regulatory rate suppression.

Several other coverage options deserve brief mention, although they do not directly arise from catastrophe risk. These options include: 1) the policy deductible; 2) the basis of loss settlement on personal property (replacement cost or actual cash value); 3) named or open perils coverage (discussed above); 4) ordinance or law coverage; and 5) alternative coverage limits. The traditional homeowners policy carries an overall deductible that applies to all property coverages and perils. This is typically a fixed dollar amount, ranging from \$100-\$1,000 or more, with \$250-\$500 being the most common.

Some insurers also offer deductibles that are a stated percentage of the Coverage A (dwelling) limit for all perils. Most recently, as noted above, insurers have begun to offer separate wind deductibles in high-risk states.

Homeowners policies typically provide replacement cost coverage on the dwelling and other structures and actual cash value coverage on personal property (i.e., contents). However, homeowners may purchase replacement cost coverage on contents through a special endorsement. Ordinance or law coverage pays the additional cost (subject to stated limits) of repairing or replacing a dwelling according to updated and more stringent building codes than those in effect when the structure was built.

Insurers encourage or require insureds to set their Coverage A (dwelling and attached structures) limit to at least 70-80 percent of the value or estimated replacement cost of the insured structures.²² The other property coverage limits are stated as percentages of the Coverage A limit. Insureds may purchase higher or lower limits than those provided in the standard policy, with corresponding adjustments in their premiums. In addition to the insured's coverage options, various rating factors are used to tailor the premium for a particular policy to the risk characteristics of the insured property.

It is also possible to purchase a more limited dwelling fire policy to cover a residential structure or its contents against certain property perils, with or without extended coverage for other perils, including windstorm. Dwelling fire policies are less common than homeowners multiperil policies and generally represent a very small

²² When the Coverage A limit is less than 70-80 percent of the replacement value of the home, typical policy provisions allow insurers to adjust partial losses on a pro-rata basis based on the ratio of the actual limit to the value of the home. Underinsurance proved to be a chronic problem in the 1990s, and insurers have sought to encourage policyholders to raise their policy limits to adequate levels. Also, for "guaranteed" replacement cost policies, insureds are typically required to set the Coverage A limit at 100 percent of the estimated replacement cost of the dwelling.

portion of insured homes.²³ Because these policies remain a small and constant or declining portion of residential insurance, they do not appear to be a significant option in homeowners' choice set for insurance coverage.

Issues associated with insuring the risk of hurricanes and severe tropical storms is discussed in Grace and Klein (2002). Insurers are confronted by two basic problems. One is potentially substantial losses that would be caused by "smaller" storms. Although such losses would not be high enough to bankrupt an insurer, they could severely hurt its financial performance with negative repercussions for the market valuation of the insurer and its management. The second problem is the potential for more catastrophic losses from a larger storm that would threaten the solvency of an insurer. Although insurers can reinsure and/or securitize catastrophe risk, this reinsurance is relatively costly and it is not clear that either consumers or regulators value this catastrophe protection to the degree that would permit insurers to price for it. Consequently, some insurers have sought to limit their exposure to hurricane losses. Other insurers have moved in to take their place but the ability of some of these insurers to pay claims from a significant event is an open question.

As we explained in our 2002 report, the problems associated with the risk of natural disasters have not been solved. That report discusses the types of solutions that have the most merit, but these solutions involve hard choices and are not inexpensive. Public officials may not be motivated to confront catastrophe risk and the hard choices that must be made until another severe event cause significant disruptions in insurance markets.

²³ Dwelling fire policies account for only about 2.6 percent of the homes insured in Florida and 0.6 percent of homes insured in New York according to the NAIC.

3. Terrorism Risk

Terrorism is a potentially substantial risk, but its effects on residential insurance are probably minimal. Most homes are far from what might be considered terrorist targets. The federal Terrorism Risk Insurance Act of 2002 does not address homeowners insurance. This law provides reinsurance for commercial insurers writing commercial property risks. What is interesting is that while most homes are exposed to little or no terrorism risk, there are significant numbers of residences in large cities (e.g., Chicago, New York City and Washington, DC) that could be affected by terrorism. These homes may suffer a loss in value as there is no current market for sharing the risk of terrorism with financial intermediaries. The enactment of the federal program makes it possible for businesses to purchase terrorism coverage. However, as we discuss above, its relatively high cost has discouraged many firms from purchasing it unless they believe they face a high level of risk and/or are required to buy the coverage.

4. Credit Scoring/Claims Data Bases

Credit scoring and databases on insureds' and homes' claims experience are often discussed together, but they are significantly different. Insurers have been using insurance credits scores developed by Fair, Isaacs, and Company. These scores, based on credit reports, are essentially similar to the traditional credit score used in assessing applications for loans. Insurers discovered that the credit score is highly correlated with the propensity to make a claim on a personal auto or a homeowners insurance policy. From a statistical point of view, it works quite well. A recent study commissioned by the Texas legislature confirmed the statistical validity of credit scoring for insurance purposes (Kellison, et. al., 2003).

However, the insurance industry has not adequately explained how and why the relationship between credit and insurance risk is valid. Many regulators, as well as consumers, worry about the fairness of using the score when the industry has not explained why it is related to risk to their satisfaction. Some states have attempted to limit the use of the score, but the limits enacted to date would not appear to affect the usefulness of the score for insurers.²⁴

The issue of credit scoring resides in a broader set of issues associated with risk classification. Insurers are probably attracted to credit scoring as a risk indicator because they have little other information by which to assess the behavior of insureds that would affect their risk of loss and the information is relatively inexpensive to obtain and use relative to its value as a risk indicator. In auto insurance, credit scoring may be eventually replaced by more sophisticated measures of insureds' driving behavior, such as GPS monitoring of autos (Progressive has been experimenting with such a program). However, it is more difficult to conceive of technological means to assess insureds' behavior with respect to homeowners perils and hazards. Means other than credit scoring, such as psychological profiles and analysis of other personal information, might be even more controversial than credit scoring and also potentially more costly to use. Hence, credit scoring is likely to be used for some time in homeowners insurance unless there is a total ban on its use.

A second related concern is the growth of the use of the Comprehensive Loss Underwriting Exchange (CLUE) database. Choicepoint, which maintains the CLUE database, states that over 90 percent of insurers now report claims to the database. This

²⁴ For example, some states require that a consumer be informed that a credit score was used to deny coverage. See, for example, Delaware's approach at <http://www.state.de.us/inscom/Reg87.pdf> Section 6.

means that auto and homeowners claims can be linked to a person, an automobile, and/or a residence. One can see that the potential benefits for reducing fraud and ferreting out high risk properties, autos, and consumers are significant.

Common concerns are that a homeowner might be non-renewed if too many claims are made. This is not necessarily a problem, but there are newspaper reports in California of consumers who cannot obtain insurance on a house they have decided to buy because of the number of previous claims from the house. Second, consumers are non-renewed because insurers do not make a distinction between claims caused by acts of the insured (e.g., a fire caused by a cigarette) versus those claims caused by actions outside the insured's control (e.g., hail damage). Thus, anecdotal evidence suggests that insurance companies may be using the information from the CLUE database in a rather crude way.

These problems are likely to decline in importance as insurers learn how to employ credit scores more accurately and how to combine this information with data from CLUE. In the short-run, this new technology is going to cause disruptions and high transactions costs for good quality risks mislabeled by the data (or the misinterpretation of the data) as bad risks. In the long-run, insurers have an incentive to use CLUE and other information sources in a refined and cost-efficient way. Insurers who fail to do this can be undercut by insurers who are more sophisticated in using this information. As the homeowners insurance market begins to soften, we may see attempts by some insurers to refine their use of this information to gain an edge on their competitors. This will compel other insurers to improve their methods or lose their position in the market.

B. Insurer Pricing and the Effect of Investment Income

1. Overview of Pricing

There are a number of reasons why homeowners' insurance prices are higher today than they were prior to 2001. The reasons center on changes in losses, expenses, and investment returns. We will examine these in turn, but before we do it is important to describe how, in a simple way, insurance prices are set in equilibrium. Based on economic models, equilibrium prices in competitive insurance markets are equal to the present value of loss and expenses net of any interest income earned on investments. Thus:

$$\text{Price} = PV(\text{Losses} + \text{Expenses}) - \text{Investment Income}.$$

When a consumer pays a premium to cover a loss, a portion of the premium is put in reserve. This reserve is invested in financial markets because the insurer knows that the customer is very unlikely to have an immediate claim. Even when a customer has a loss it takes time to adjust and pay the claim. Thus, while claims remain unpaid or unreported the reserves can be earning investment returns in the market. This allows insurers to lower the price of insurance. Hence, the investment of reserves works to the benefit of consumers and would be expected in a competitive market. The failure to invest reserves would be inefficient and constitute a misuse of "policyholders' money."

In sum, as losses increase prices increase. Further, as expenses increase prices increase. Finally, if investment income decreases we would expect increases in equilibrium prices. We look at each of these effects in more detail below to show how prices are influenced by losses and investment returns.

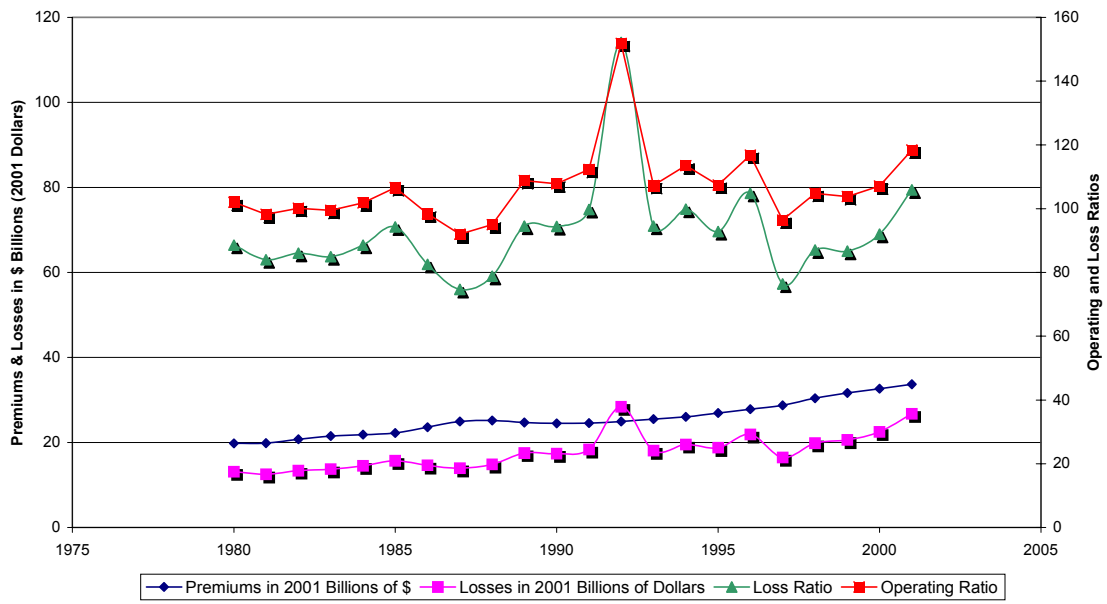
2. Losses and Expenses

There are a number of aspects to looking at losses. Over the last twenty years losses have steadily increased (as measured in 2001 dollars) as shown in the bottom half of Figure IV.1. Note that the premiums are also increasing about the same rate. As we look at the upper half of Figure IV.1, we see the loss ratio and the operating ratio over time. The loss ratio ranges between 56 and 90 percent while the operating ratio ranges from 114 to 151.

The loss ratio is often used to show the relationship between payments for claims and premiums. As the ratio increases, losses make up a greater percentage of the premiums paid. A loss ratio of 80 percent implies that for each dollar of premium paid, the insurer pays out 80 cents in loss or claim payments. In contrast, the operating ratio considers more than losses. It also includes expenses, any dividends paid to policyholders, and investment income allocated to the line of insurance. The insurer breaks even in an accounting sense if the operating ratio is equal to 100 percent. In contrast, the insurer loses money if the ratio is greater than 100 percent and makes money if the ratio is less than 100 percent. During the 1990's, the operating ratio was greater than 100 percent in almost every year. Further, we can see the spike at 151 percent in 1992 due to Hurricane Andrew.

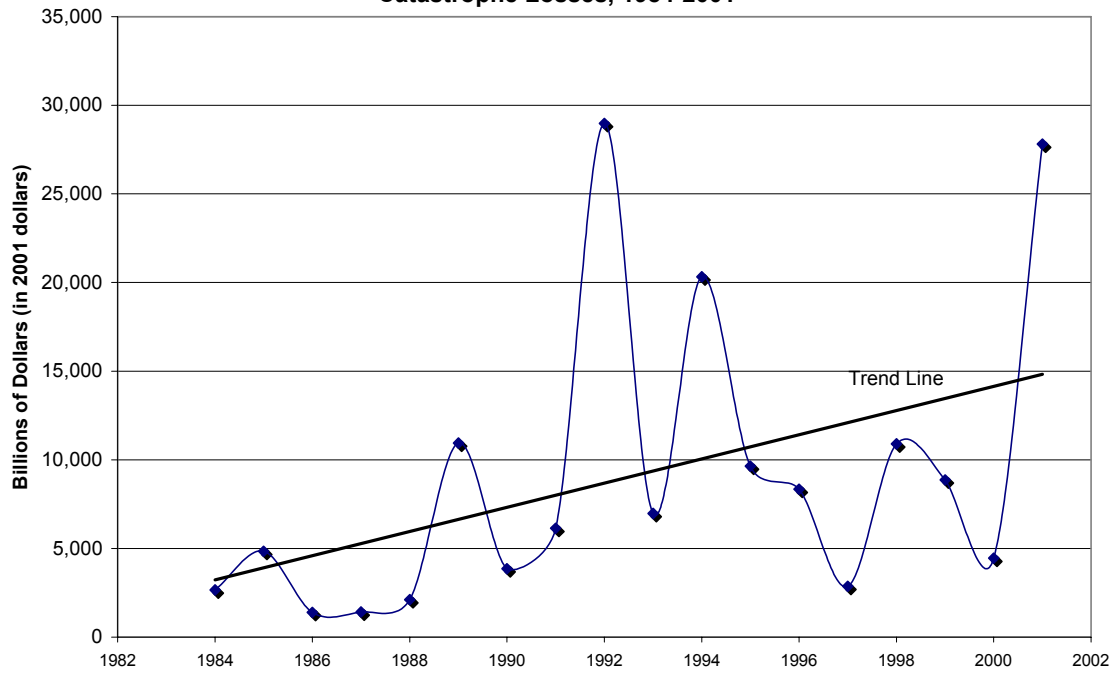
There are a number of reasons for the general increase in losses over the last two decades. First, there is the rise in catastrophe related losses during the period 1980 to 2001. The Insurance Information Institute defines a catastrophe as a loss event that costs more than \$25 million dollars. Figure IV.2 shows that the total value of losses for events of \$25 million or more, while varying from year to year, is generally increasing over time. In particular, one can see a distinct difference between the 1980s and the 1990s.

Figure IV.1
Homeowners Statistics, 1980-2001



Source: A.M. Best

Figure IV.2
Catastrophe Losses, 1984-2001



Source: Insurance Information Institute, *Insurance Fact Book* (Various Years)

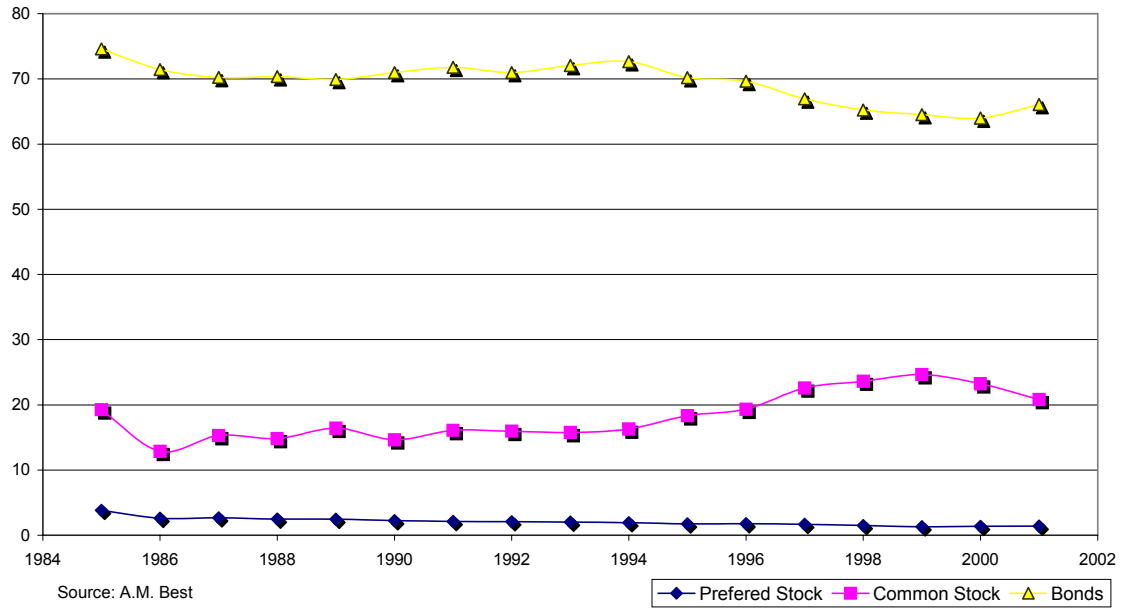
There are a number of other reasons for increased losses. Increased water/mold claims in some states have increased losses. The frequency and severity of windstorms and hail have increased in the Midwest. Snow and ice storms have been a problem in many areas of the country, especially the Northeast. Some western areas have been subject to wildfires. There has been increased housing and commercial development in many areas subject to property perils. Further, because of the nationwide homebuilding boom over the last decade, the cost of rebuilding a house has increased because of the low unemployment rate and the fact that the homebuilding industry was working at a relatively high capacity. Finally, certain types of liability claims, such as those related to dog bites, have been on the rise. Some of these perils and hazards may be subject to greater mitigation that would prove cost-effective, but others may not be as amenable to mitigation given homeowners' preferences.

3. Investment Income

Investment income affects insurance prices according to our pricing equation. As mentioned above, when premiums are paid a portion is invested in the market. If market returns are low, premiums must be higher for an insurer to cover its costs.

Some assert that insurers made poor investment choices and thus investment income has been reduced. This implies that consumers are paying higher prices because of these bad choices by insurers. If we look at insurance industry investment income, we see two things. First, insurance companies are relatively conservative in their investments. In Figure IV.3 we see that the percentage of bonds versus stocks is weighted highly towards bonds, noting that during the 1990s firms allocated more of their investments to equities.

Figure IV.3
Bonds and Equities as a Percentage of Invested Assets in the Property-Casualty Industry, 1985-2001



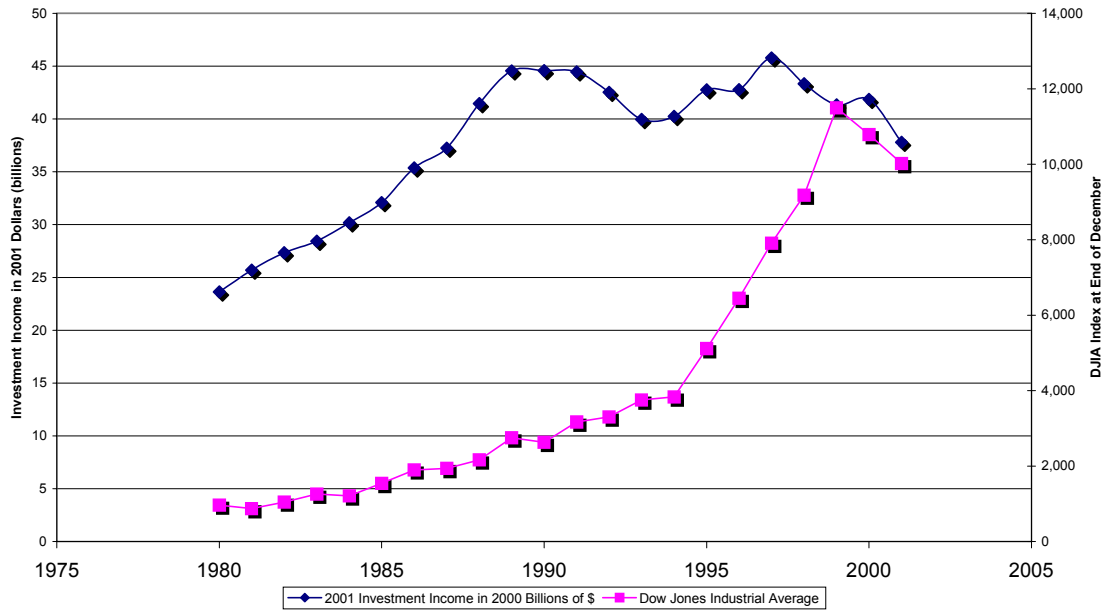
Over time the portfolio has included a decreasing percentage of bonds going from 74 percent (in 1985) to approximately 66 percent in 2001. While the average percentage of equities for the 1990s was higher than for the 1980s, most recently, total equities (both preferred and common) are about the same percentage in 2001 as they were in 1985. We should note that relative changes in the values of equities and debt holdings because of financial market developments will effectively change the distribution of the types of investments, even if a firm takes no active steps to modify its portfolio.

Figure IV.4.1 shows the Dow-Jones Industrial Average over time as well as insurer investment income over time. If we now look at investment income over time we see that in real terms it has been relatively steady over the 1990s. In contrast, the DJIA index rose dramatically throughout the decade. Since 2000, the DJIA has fallen and so has the insurers' investment income, although the Dow had dropped at a greater rate than insurers' investment income. This reflects insurers' investments in fixed income securities and/or stock investments that outperformed the DJIA. If we look further at investment returns we see that during the period 1980-1990 the insurance industry saw investment returns increase on average by 7 percent. In contrast, the DJIA increased by 11 percent. From 1991-2001, the insurance industry saw its investment returns average approximately -1 percent while the DJIA increased by an average rate of 14 percent.²⁵

This can be seen more clearly in the Figure IV.4.2. This figure shows the percentage change of insurer's investment income and the DJIA over the period 1980-2001. We see that the percentage change of the DJIA is quite volatile compared to the insurer's

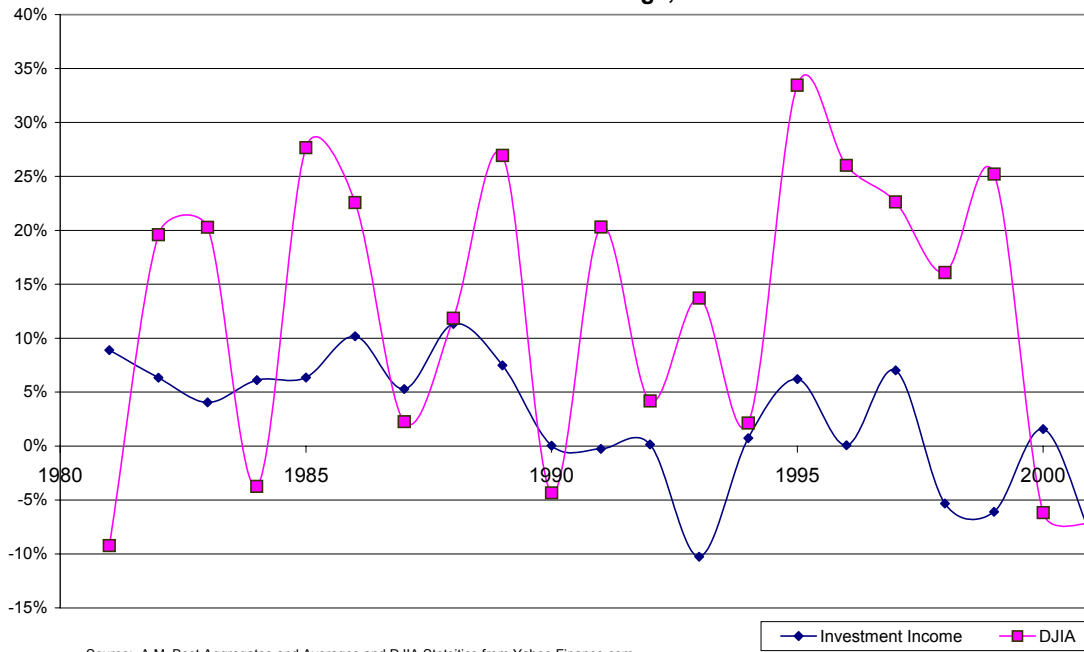
²⁵ Figure IV.4.1 makes it appear that the insurer's investment returns are increasing faster than the DJIA during the 1980s. This is an artifact of the use of different scales. As mentioned above in the text the average returns for both the 1980s and the 1990s are lower than the percentage increase in the value of the DJIA during those same time periods. Figure IV.4.2 shows the two series measured on a similar scale.

Figure IV.4.1
Insurer Investment Income and Dow-Jones Industrial Average, 1980-2001



Source: A.M. Best Aggregates and Averages and DJIA Statistics from Yahoo.Finance.com

Figure IV.4.2
Percentage Change in Insurer Investment Income and Dow-Jones Industrial Average, 1980-2001



Source: A.M. Best Aggregates and Averages and DJIA Statistics from Yahoo.Finance.com

investment income. We see that even during the 1980's the DJIA was having some exceptional year to year changes while the changes in the insurers' investment income were relatively stable.

It is not correct to make a blanket statement that the insurance industry as a whole has made poor investment choices. If the market falls, all investors suffer from reduced investment returns. Only by looking at individual company returns may one criticize investment practices and even if an individual company had a yearly return below that of the market, a yearly return is not the best gauge of investment decisions. One must examine the history of investment choices and the projections for the future before making a conclusion regarding a particular investment strategy. It would be ideal if insurers could foresee which investments will decline in value but no institution or individual investor has this kind of perfect foresight.

We can also use economic theory to show how poor investment choices will not necessarily have a large impact on the insurer pricing. Let us suppose that we have a competitive homeowners insurance market. Suppose there is one group of insurers that has below average investment returns because they made "poor investment" choices. Also assume there is another group that has average returns. Let us further assume that both groups of insurers have similar expectations about the amount of claims they will incur.

The group with below average returns would like to be able to raise its prices according to the price equation described above. The group with the average returns will also use the pricing rule described above but it does not need to raise prices as high as the group with the below average returns.

Competitive pressures will force the level of prices proposed by the group with below average returns down to the level of prices of the group with average returns. Thus, firms experiencing below average returns cannot raise prices with impunity as customers will switch to lower priced insurers. As long as consumers care about the prices they pay for insurance, there cannot be a sustainable increase in prices. This means that the owners of insurers (not consumers) with below-average investment returns will be forced to absorb losses due to poor choices or simple bad luck

Now suppose that the entire industry made poor investment choices. New firms could enter the insurance industry offering prices based upon future expected losses and investment returns. Insurers in a competitive market will realize that price increases will attract competitors. Thus, the incentive to attempt to make up for past losses is also reduced even if all incumbent insurers were somehow afflicted with a disease that made them poor investors.

Finally, it should be noted that not all of an insurer's investment income is from reserves. Owners' equity in a firm is also invested in the financial market. Investments from loss and expense reserves averaged around 50 percent of investment income. This also mitigates the effect of investment returns on the price of insurance.

Another criticism that is often heard is that insurers kept prices artificially low through the use of investment returns to keep their market share intact. The question this raises is whether insurance consumers would rather pay higher prices in times when prices have been relatively low due to higher investment returns (like those experienced in the 1990s) so that when prices rise due to investment declines, the rise is not as great. In other words, should insurers be deterred from passing the benefits of high investment

returns to consumers? Given that both personal and commercial insurance buyers shop aggressively for the lowest price, insurers that sought to maintain a more fixed pricing structure over time (that would not respond to investment returns) would not be viable.

Certain products are sold with contract terms that offer longer term and more stable prices. For example, in states where natural gas distribution has been deregulated, the natural gas distributor will offer two contracts. One is a spot price contract that specifies on a month-to-month basis that the price of natural gas will be determined in the spot market. The other is a fixed price for the year, so that the price per unit of gas is fixed for the entire year. Natural gas prices fluctuate throughout the year while insurance prices fluctuate over a longer period. Nonetheless some insurance consumers might be willing to enter an agreement for a long-term insurance product for five or ten years. These consumers might pay an additional financial risk premium to obtain the fixed rate for the length of the contract. Others would prefer the spot price method. Although this concept has been discussed, currently this is not an option for homeowners insurance and is rarely found in commercial insurance. If there was strong buyer demand for long-term insurance contracts, insurers would be motivated to find ways to offer them.

C. Reinsurance

Reinsurance is an important element in property insurance. Insurers writing business on a direct basis use various types of reinsurance treaties and facultative contracts to diversify a portion of the risk they underwrite.²⁶ Reinsurance markets tend to be affected by many of the same factors that affect direct insurance markets. Rising loss costs, lower

²⁶ Under a reinsurance treaty, the reinsurer agrees to reinsure the risk on a number of exposures (e.g., homes) underwritten by the ceding insurer, according to the terms of the treaty. A facultative reinsurance contract pertains to a specific exposure, e.g., a large office building.

investment returns, and reductions in capacity will necessarily reduce the supply of reinsurance and increase its cost. Developments in reinsurance markets will naturally affect conditions in direct insurance markets, although direct insurers may make some adjustments in their reinsurance purchases in response to the contract terms offered by reinsurers.

Figure IV.5 reflects how the price of catastrophe excess of loss reinsurance has moved over the period 1990-2003. We can see that this price rose sharply in 1992 after Hurricane Andrew and then dropped sharply from 1996-1999 as additional capital flowed into the reinsurance market. Starting in 2000, the price of reinsurance began to rise again, consistent with the hardening of commercial markets generally. This price appears to be leveling off in 2003, again consistent with patterns we are seeing in commercial and residential property insurance markets.

D. Regulation

Some might wonder if rate regulation could halt or slow price increases in property insurance. Our response, based on theory and empirical research, is that rate regulation has not benefited consumers and has caused significant market problems, especially in states where rates are severely suppressed. Conceptually, an economic rationale for price regulation can be formulated for markets where there is a natural or artificial (e.g., state-imposed) monopoly. In such instances, regulators might control the output and prices of the monopolist to prevent the monopolist from abusing its market power to charge prices above cost that will maximize its profits.

In competitively structured markets, such as homeowners insurance, competition among insurers will prevent prices from rising above the level necessary to cover the

Figure IV.5
Catastrophe Excess of Loss Reinsurance Price Index - U.S.



Source: Willis Limited

costs of providing insurance, including the cost of capital. An insurer that sought to charge prices above “the competitive level” would be undercut by and lose business to other insurers.

Historically, insurance rate regulation was instituted in an attempt to place a floor under prices so that aggressive competition among insurers would not result in inadequate prices that would ultimately cause insurers to become insolvent. Regulators sought to establish a uniform rating plan that all insurers were required to use. However, insurers found ways to circumvent uniform rating plans and charge lower prices to increase their volume of business.²⁷ The failure of uniform rating plans and market pressures prompted the states to abandon this system and allow insurers to set rates independently.

Many states retained prior approval authority over insurers’ rates for a while but this proved to be ineffectual. Competition ensured that insurers’ rates would not exceed costs and regulators were unable or unwilling to prevent pricing below costs. Beginning in the 1960s, regulators in some states attempted to suppress rising rates in auto insurance. Severe market dislocations occurred in jurisdictions where regulators suppressed rates significantly below costs. The supply and availability of insurance dried up and state residual market mechanisms were forced to insure large numbers of drivers. A similar phenomenon occurred in workers’ compensation insurance.

In the early 1970s, the NAIC issued a seminal report that strongly endorsed “competitive rating” – a system in which rates may be filed by insurers but are not

²⁷ The pressure for deviations from uniform rating plans was prompted by the differences among insurers and their services noted in Subsection II.E. There is also the problem that a small number of insurers that are not prudently managed will cut prices to the point that it threatens their solvency. This problem is best addressed by proper financial monitoring by regulators, not trying to enforce uniform prices on all insurers.

subject to prior approval (NAIC, 1974). Typically, in competitive rating states, regulators do not attempt to interfere with market-determined prices. A few states already had competitive rating systems when the NAIC issued its report and many more states moved to competitive rating in the 1970s and 1980s.

State rating laws for homeowners insurance are summarized in Table IV.1 (based on the NAIC's most recent summary of state laws). Nineteen states have prior approval systems for homeowners insurance and the other states have systems that are generally categorized as competitive rating. Some caution is advised in reviewing this information as a state may regulate rates in a manner different than what is implied by their statutory category. In addition to subjecting rates to prior approval, a few states seek to regulate insurers' profits in a line ex post through "excess profits" statutes. Florida, for example, regulates homeowners insurance prices and it also requires insurers deemed to have earned excess profits in certain lines such as workers' compensation or commercial casualty insurance to refund the excess profits to the premium payers.

Conceptually, price regulation and profit regulation might be considered analogous. However, in practice there may be different results due to differences in accounting and actuarial assumptions or the relative ease of using one form of regulation over another. Under prior approval regulation, insurers do not have the ability to collect additional premiums if approved rates prove to be less than the costs insurers incur. Under an excess profits statute, presumably insurers are not required to refund premiums if their profits fall below a regulatory benchmark.

While there have been no direct studies of the effects of excess profits laws, there are a number of studies on insurance price regulation that suggest a relative lack of success at

**Table IV.1
State Rate Filing/Approval Requirements
for Homeowners Insurance: 2002**

State	System
Alabama	Prior Approval
Alaska	Prior Approval
Arizona	Use and File
Arkansas	File and Use
California	Prior Approval
Colorado	File and Use
Connecticut	File and Use
Delaware	File and Use
District of Columbia	Use and File
Florida	File and Use
Georgia	File and Use
Hawaii	Prior Approval
Idaho	Use and File
Illinois	Use and File
Indiana	File and Use
Iowa	Use and File
Kansas	File and Use
Kentucky	Use and File
Louisiana	Prior Approval
Maine	File and Use
Maryland	File and Use
Massachusetts	File and Use
Michigan	File and Use
Minnesota	File and Use
Mississippi	Prior Approval
Missouri	Use and File
Montana	File and Use
Nebraska	Prior Approval
Nevada	Prior Approval
New Hampshire	File and Use
New Jersey	Prior Approval
New Mexico	Prior Approval
New York	File and Use
North Carolina	Prior Approval
North Dakota	Prior Approval
Ohio	Prior Approval
Oklahoma	File and Use
Oregon	File and Use
Pennsylvania	Prior Approval
Rhode Island	File and Use
South Carolina	Prior Approval
South Dakota	Prior Approval
Tennessee	Prior Approval
Texas	Flex Rating
Utah	Use and File
Vermont	Use and File
Virginia	File and Use
Washington	Prior Approval
West Virginia	Prior Approval
Wisconsin	Use and File
Wyoming	No Filing

Source: National Assoc. of Insurance Commissioners

accomplishing the goal of reducing prices. Harrington (2002) summarizes the results of these studies:

Available evidence suggests three stylized facts concerning prior approval rate regulation. First, the average effect it has on rates in relation to claim costs, if any, varies over time. Second, the effects of prior approval rate regulation on rates vary among states with such laws. Third, [rate regulation] is associated with larger residual market shares. In addition, there is some (but not uniform) evidence that prior approval regulation increases the volatility of underwriting results. Finally, it may also influence non-claim production expenses and reduce the market shares of direct writers.

Harrington further examined state auto insurance markets over the period 1972-1998 and found that regulation had little or no effect on rate levels or claims costs, but it did reduce coverage availability and increased volatility for both insurers and consumers. We also compare mean and median premium changes and profits (for homeowners insurance) between competitive rating and prior approval states in Table IV.2. The mean premium increase has been slightly higher in competitive rating states but the difference is not statistically significant. The mean profit on insurance transactions (10-year average) has been lower in competitive rating states, but again the difference is not statistically significant.

On the whole, the empirical findings on the effects of insurance price regulation are consistent with economic theory - if prices are forced below costs then the quantity of insurance in terms of coverage will be reduced. In turn, profit regulation in a competitive market will have similar effects. Firms will allocate resources away from business that are less profitable (whether due to regulation or business conditions) to those areas that are more profitable. Consistent with this would be exit from markets and refusal to write new business in the regulated market.

Table IV.2
Regulation and Average Premium Increase

Statistic	Type of Regulation	
	Competitive Rating	Prior Approval
Average Premium Increase		
Number	32	19
Mean	37.9%	35.5%
Prob. Diff in Means being Important.*	0.595	
T-Value	0.535	
Median	35.4%	36.9%
Profits Insurance Transactions		
Number	32	19
Mean	-5.9%	-4.3%
Prob. of Diff. Means being Important.*	0.417	
T-Value	0.819	
Median	-9.1%	-5.3%
<p>*A higher probability implies the two means are different. We normally look for probabilities to be greater than 90% to ascribe any statistical importance to the difference between means.</p>		

Some might perceive excess profits regulation to be a “safer” approach to regulating prices because it only requires insurers to make refunds if they have profits that exceed a regulatory threshold. However, there is a problem with implementing excess profits laws in lines subject to large swings in loss costs from year to year, such as property insurance. Because of the random nature of weather-related perils and certain other causes of loss, insurers must build a significant “catastrophe loading” in their property insurance rates. The funds generated by this loading may not be called upon for a number of years. For example, insurers’ losses from Hurricane Andrew in Florida were 10 times the premiums they collected in 1992. Hence, even using a five-year period for determining “excess profits” for property insurance would be problematic.

E. Insurance Cycles and Crises

Cyclical movements in the supply and price of commercial liability insurance are well known. Historically, cycles in commercial and residential property insurance have been less pronounced. Hence, the more severe soft and hard markets for property insurance since the mid-1990s are anomalous. We have discussed a number of factors that have combined and appeared to contribute to the hard market conditions in property insurance.

Prior to the 1980s, commercial liability cycles tended to more uniform in length – three years of soft market conditions followed by three years of hard market conditions. Since then, soft markets have tended to become much longer and more sustained, while hard markets have remained relatively short in duration but severe. With insurance markets now beginning to soften, it appears that we are experiencing the same pattern that has been witnessed during the last two decades.

Obviously, hard markets cause problems for insurance buyers but there is no magic cure for cyclical movements in the supply and price of insurance. It is difficult for regulators to enforce effective floors under prices and restricting price increases also is problematic. The most constructive measures involve the use of mechanisms that provide short-term safety valves and assist consumers in finding coverage in the voluntary market, as well as efforts to control the legal and institutional factors that drive increases in loss costs.

Encouraging entry by new, prudently-managed insurers also would contribute to restoring the supply of insurance in a state. For example, many banks have undertaken insurance distribution activities and it is only a matter of time before they begin to underwrite and bear risk. Another example is the establishment of insurance companies and alternative risk-bearing entities by firms subject to the vicissitudes of soft and hard commercial liability insurance markets. Some of these new insurers have been very successful and others have failed. The keys to success are proper intentions and competent management.

V. Conclusions

Our research indicates that the price of homeowners insurance has risen substantially in the last two years. The rate of increase varies considerably among states, with a number of states experiencing price increases in excess of 10 percent in 2002, and some experiencing considerably higher increases. Hard data on the availability of insurance are not readily obtainable, but the information that exists suggests that homeowners in some states have had to search more widely for coverage.

It appears that the cost of claims also has been rising rapidly, particularly in some states, implying that it is the primary factor behind the price increases and tightened availability. Fierce competition among insurers during the 1990s caused prices to lag behind cost increases – this increased the magnitude of the rate hikes needed to bring prices to adequate levels. The cost of and greater uncertainty about new risks, such as mold contamination, has been an added factor in some jurisdictions (e.g., Texas). Weather-related perils also may be contributing to rising costs and prices in a number of states, and the risk of earthquakes and hurricanes continues to be an issue in areas subject to these events. It is hoped that clarifying policy language governing coverage for mold will have a beneficial effect on the cost, supply and price of insurance. Mitigating the impact of weather-related perils, natural disasters and other perils/hazards may prove more difficult.

There is some indication that the supply of homeowners insurance may be starting to increase in some areas, which should have a beneficial impact on prices (i.e., prices will plateau or even decrease) and availability. This is more likely to occur in states where rates have reached adequate levels and loss costs appear to be under control. However,

there may be other jurisdictions where prices remain inadequate to cover costs and/or costs are still rising substantially. Supply could remain tight in these states, imposing continued upward pressure on prices.

The price and availability of commercial property insurance also have tightened considerably starting in 2001. The commercial insurance market was already hardening when the 9/11 terrorist attacks further ratcheted market pressures. The price of commercial property insurance accelerated rapidly in 2002 and terrorism coverage was essentially unavailable until the federal government established a backstop program. The overall market now shows signs of softening as price increases have decelerated. When terrorism coverage was reintroduced to the market it was very expensive and many firms declined to purchase the coverage if they had that option. However, there is some indication that the price of terrorism coverage is falling as competition increases and more businesses may purchase this coverage as it becomes less expensive.

There have been concerns about insurers' underwriting practices, particularly with respect to the use of credit scoring and information on prior claims. Insurers may be using this information crudely, but the research suggests that it has some statistical validity. We expect insurers' use of credit and prior claims data will become more refined over time as competition drives insurers to use the most valid and cost-effective measures to price and underwrite insurance policies.

While a decline in insurers' investment returns have contributed to rising insurance prices, there is no evidence to support the criticism that insurers are raising prices to excessive levels to recoup losses due to poor investment decisions. Both economic theory and empirical analysis contradict this argument.

In terms of other factors, reinsurance markets have moved in a manner similar to direct insurance markets. As would be expected, this has reinforced changes in the supply and price of direct insurance. Finally, it does not appear that rate regulation has helped to stabilize insurance pricing. Cycles have been somewhat endemic to liability insurance markets, but less so to property insurance markets. There is no magic fix for these cycles but there are measures that can be taken to mitigate some of loss shocks that spur hard markets as well as ease their impact on insureds.

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Appendix Table 1
Homeowners Lines Concentration Ratios for 4, 8 and 16 Firm and Herfindahl Indices for 1991, 1996, and 2002, by state.

State	1991				1996				2001			
	Four firm	Eight firm	Sixteen firm	Herfindahl Index	Four firm	Eight firm	Sixteen firm	Herfindahl Index	Four firm	Eight firm	Sixteen firm	Herfindahl Index
AK	0.734	0.840	0.951	0.213	0.729	0.848	0.952	0.226	0.729	0.848	0.984	0.218
AL	0.573	0.670	0.786	0.116	0.578	0.685	0.814	0.132	0.578	0.685	0.846	0.140
AR	0.598	0.709	0.805	0.110	0.611	0.757	0.848	0.130	0.611	0.757	0.864	0.135
AZ	0.538	0.642	0.742	0.093	0.556	0.660	0.775	0.098	0.556	0.660	0.789	0.101
CA	0.533	0.629	0.737	0.090	0.534	0.648	0.764	0.093	0.534	0.648	0.795	0.110
CO	0.585	0.679	0.767	0.113	0.625	0.723	0.812	0.128	0.625	0.723	0.833	0.117
CT	0.297	0.406	0.570	0.035	0.284	0.432	0.602	0.036	0.284	0.432	0.612	0.036
DC	0.412	0.624	0.820	0.066	0.492	0.673	0.853	0.086	0.492	0.673	0.907	0.118
DE	0.482	0.634	0.776	0.078	0.522	0.652	0.790	0.097	0.522	0.652	0.809	0.119
FL	0.481	0.568	0.673	0.093	0.507	0.601	0.716	0.105	0.507	0.601	0.650	0.068
GA	0.460	0.559	0.666	0.082	0.512	0.610	0.721	0.112	0.512	0.610	0.748	0.133
HI	0.450	0.708	0.924	0.078	0.601	0.828	0.959	0.115	0.601	0.828	0.951	0.108
IA	0.445	0.582	0.719	0.067	0.457	0.603	0.743	0.079	0.457	0.603	0.765	0.086
ID	0.486	0.666	0.811	0.074	0.488	0.688	0.813	0.080	0.488	0.688	0.802	0.083
IL	0.505	0.635	0.732	0.102	0.556	0.683	0.768	0.123	0.556	0.683	0.764	0.125
IN	0.424	0.537	0.665	0.066	0.443	0.566	0.689	0.081	0.443	0.566	0.731	0.088
KS	0.480	0.594	0.702	0.084	0.541	0.652	0.752	0.098	0.541	0.652	0.801	0.106
KY	0.431	0.537	0.672	0.066	0.451	0.587	0.723	0.079	0.451	0.587	0.777	0.094
LA	0.539	0.638	0.763	0.124	0.574	0.667	0.785	0.141	0.574	0.667	0.809	0.146
MA	0.210	0.339	0.514	0.024	0.207	0.344	0.529	0.025	0.207	0.344	0.564	0.026
MD	0.479	0.600	0.697	0.073	0.546	0.656	0.755	0.094	0.546	0.656	0.804	0.101
ME	0.247	0.395	0.609	0.031	0.286	0.477	0.686	0.039	0.286	0.477	0.735	0.060
MI	0.496	0.622	0.757	0.078	0.503	0.652	0.795	0.081	0.503	0.652	0.818	0.083
MN	0.484	0.574	0.689	0.075	0.522	0.621	0.733	0.089	0.522	0.621	0.749	0.098
MO	0.504	0.611	0.722	0.091	0.532	0.662	0.768	0.105	0.532	0.662	0.791	0.112
MS	0.498	0.692	0.832	0.086	0.624	0.752	0.865	0.145	0.624	0.752	0.835	0.153
MT	0.512	0.655	0.800	0.085	0.542	0.688	0.828	0.094	0.542	0.688	0.818	0.103
NC	0.460	0.541	0.654	0.059	0.523	0.606	0.703	0.075	0.523	0.606	0.743	0.087
ND	0.418	0.547	0.724	0.059	0.459	0.591	0.753	0.067	0.459	0.591	0.817	0.077
NE	0.475	0.620	0.762	0.078	0.539	0.673	0.808	0.097	0.539	0.673	0.826	0.108
NH	0.241	0.370	0.564	0.028	0.285	0.426	0.615	0.034	0.285	0.426	0.654	0.037
NJ	0.373	0.470	0.602	0.046	0.398	0.497	0.634	0.050	0.398	0.497	0.668	0.051
NM	0.580	0.689	0.781	0.120	0.581	0.701	0.818	0.123	0.581	0.701	0.824	0.113
NV	0.628	0.714	0.813	0.128	0.613	0.724	0.843	0.124	0.613	0.724	0.835	0.124
NY	0.361	0.468	0.607	0.052	0.365	0.487	0.621	0.053	0.365	0.487	0.655	0.058
OH	0.396	0.508	0.664	0.053	0.417	0.554	0.723	0.067	0.417	0.554	0.736	0.074
OK	0.542	0.644	0.756	0.105	0.601	0.706	0.802	0.134	0.601	0.706	0.841	0.146
OR	0.557	0.676	0.812	0.094	0.576	0.716	0.837	0.102	0.576	0.716	0.807	0.106
PA	0.392	0.501	0.604	0.047	0.469	0.584	0.688	0.065	0.469	0.584	0.711	0.073
PR	0.594	0.791	0.977	0.124	0.662	0.867	1.000	0.137	0.662	0.867	1.000	0.214
RI	0.314	0.473	0.658	0.040	0.360	0.496	0.676	0.045	0.360	0.496	0.698	0.046
SC	0.492	0.623	0.757	0.086	0.596	0.722	0.829	0.119	0.596	0.722	0.815	0.109
SD	0.369	0.488	0.674	0.055	0.403	0.526	0.692	0.062	0.403	0.526	0.768	0.081
TN	0.460	0.551	0.661	0.076	0.489	0.603	0.729	0.091	0.489	0.603	0.774	0.107
TX	0.430	0.560	0.682	0.070	0.497	0.663	0.803	0.093	0.497	0.663	0.861	0.138
UT	0.576	0.648	0.740	0.114	0.586	0.677	0.781	0.112	0.586	0.677	0.810	0.113
VA	0.490	0.592	0.713	0.074	0.534	0.663	0.773	0.090	0.534	0.663	0.793	0.090
VI	0.968	1.000	1.001	0.289	0.995	1.000	1.000	0.683	0.995	1.000	1.000	0.871
VT	0.314	0.535	0.726	0.045	0.331	0.527	0.706	0.045	0.331	0.527	0.731	0.046
WA	0.519	0.684	0.821	0.079	0.539	0.703	0.823	0.085	0.539	0.703	0.826	0.086
WI	0.433	0.537	0.657	0.075	0.473	0.584	0.700	0.091	0.473	0.584	0.696	0.095
WV	0.488	0.671	0.813	0.084	0.547	0.740	0.872	0.103	0.547	0.740	0.884	0.128
WY	0.557	0.687	0.827	0.121	0.585	0.708	0.827	0.127	0.585	0.708	0.858	0.113
USA	0.375	0.457	0.543	0.058	0.359	0.441	0.529	0.055	0.295	0.394	0.499	0.037

Appendix Table 2
Commercial Lines Concentration Ratios for 4, 8 and 16 Firm and Herfindahl Indices for 1991, 1996, and 2002, by state.

State	1991				1996				2001			
	Four firm	Eight firm	Sixteen firm	Herfindahl Index	Four firm	Eight firm	Sixteen firm	Herfindahl Index	Four firm	Eight firm	Sixteen firm	Herfindahl Index
AK	0.441	0.689	0.891	0.074	0.474	0.711	0.893	0.079	0.582	0.772	0.932	0.099
AL	0.270	0.460	0.676	0.037	0.229	0.413	0.630	0.031	0.309	0.456	0.650	0.039
AR	0.280	0.439	0.659	0.037	0.244	0.411	0.645	0.034	0.275	0.428	0.658	0.037
AZ	0.375	0.544	0.727	0.057	0.305	0.509	0.714	0.042	0.300	0.479	0.695	0.040
CA	0.373	0.572	0.758	0.056	0.372	0.543	0.702	0.051	0.330	0.481	0.692	0.043
CO	0.416	0.610	0.797	0.064	0.318	0.534	0.731	0.045	0.319	0.482	0.710	0.046
CT	0.402	0.555	0.733	0.058	0.358	0.507	0.700	0.053	0.331	0.469	0.668	0.050
DC	0.523	0.674	0.824	0.091	0.461	0.604	0.822	0.076	0.369	0.585	0.797	0.059
DE	0.364	0.545	0.758	0.061	0.274	0.453	0.666	0.038	0.274	0.451	0.657	0.036
FL	0.348	0.514	0.696	0.047	0.280	0.470	0.660	0.037	0.273	0.433	0.642	0.036
GA	0.279	0.440	0.650	0.036	0.234	0.393	0.601	0.029	0.244	0.381	0.582	0.030
HI	0.718	0.872	0.950	0.170	0.589	0.787	0.918	0.110	0.485	0.811	0.941	0.095
IA	0.322	0.469	0.679	0.044	0.247	0.402	0.607	0.031	0.264	0.420	0.635	0.034
ID	0.361	0.542	0.749	0.050	0.256	0.434	0.689	0.038	0.249	0.448	0.690	0.036
IL	0.224	0.398	0.598	0.029	0.210	0.360	0.558	0.026	0.212	0.373	0.590	0.029
IN	0.271	0.409	0.639	0.037	0.278	0.437	0.641	0.035	0.279	0.454	0.651	0.036
KS	0.304	0.485	0.688	0.043	0.227	0.410	0.637	0.032	0.312	0.451	0.661	0.041
KY	0.257	0.444	0.665	0.036	0.267	0.420	0.639	0.035	0.279	0.426	0.647	0.040
LA	0.414	0.594	0.775	0.059	0.366	0.534	0.741	0.050	0.341	0.532	0.752	0.054
MA	0.332	0.499	0.683	0.047	0.282	0.454	0.675	0.039	0.218	0.383	0.618	0.031
MD	0.322	0.502	0.715	0.044	0.306	0.483	0.702	0.041	0.310	0.471	0.686	0.042
ME	0.599	0.739	0.877	0.108	0.584	0.720	0.858	0.112	0.453	0.632	0.837	0.073
MI	0.304	0.477	0.690	0.042	0.282	0.441	0.656	0.037	0.259	0.390	0.590	0.032
MN	0.231	0.400	0.626	0.031	0.226	0.384	0.597	0.029	0.237	0.407	0.647	0.032
MO	0.245	0.419	0.650	0.034	0.221	0.392	0.613	0.030	0.220	0.376	0.621	0.030
MS	0.341	0.521	0.714	0.048	0.381	0.517	0.701	0.064	0.454	0.599	0.751	0.083
MT	0.324	0.503	0.744	0.045	0.366	0.542	0.764	0.064	0.416	0.586	0.789	0.073
NC	0.283	0.455	0.659	0.036	0.260	0.420	0.626	0.034	0.253	0.428	0.648	0.034
ND	0.277	0.438	0.654	0.037	0.241	0.415	0.624	0.032	0.267	0.455	0.680	0.037
NE	0.307	0.494	0.733	0.045	0.328	0.490	0.710	0.049	0.277	0.448	0.679	0.038
NH	0.364	0.551	0.772	0.054	0.322	0.507	0.720	0.045	0.280	0.474	0.708	0.040
NJ	0.246	0.394	0.601	0.031	0.246	0.389	0.596	0.031	0.229	0.380	0.592	0.029
NM	0.398	0.569	0.760	0.059	0.400	0.572	0.761	0.057	0.332	0.498	0.716	0.046
NV	0.473	0.592	0.759	0.079	0.318	0.540	0.761	0.046	0.335	0.536	0.773	0.048
NY	0.296	0.441	0.632	0.037	0.262	0.413	0.601	0.032	0.247	0.406	0.597	0.031
OH	0.338	0.496	0.690	0.051	0.300	0.469	0.653	0.040	0.336	0.469	0.661	0.045
OK	0.348	0.513	0.709	0.050	0.293	0.512	0.733	0.043	0.312	0.482	0.721	0.043
OR	0.372	0.547	0.759	0.058	0.265	0.445	0.681	0.037	0.292	0.458	0.692	0.040
PA	0.264	0.427	0.638	0.034	0.252	0.426	0.637	0.033	0.228	0.382	0.622	0.030
PR	0.522	0.870	1.000	0.104	0.438	0.744	0.992	0.084	0.390	0.649	0.957	0.068
RI	0.366	0.549	0.713	0.052	0.282	0.463	0.650	0.039	0.236	0.398	0.635	0.033
SC	0.314	0.485	0.684	0.040	0.266	0.427	0.655	0.035	0.251	0.431	0.661	0.035
SD	0.292	0.494	0.724	0.042	0.250	0.441	0.674	0.035	0.266	0.478	0.719	0.040
TN	0.299	0.441	0.643	0.038	0.267	0.398	0.578	0.031	0.286	0.447	0.628	0.035
TX	0.359	0.520	0.704	0.049	0.283	0.438	0.643	0.037	0.259	0.418	0.622	0.033
UT	0.380	0.568	0.779	0.059	0.319	0.527	0.754	0.047	0.327	0.530	0.748	0.047
VA	0.319	0.508	0.723	0.044	0.300	0.477	0.698	0.039	0.267	0.475	0.690	0.038
VI	0.852	0.985	1.000	0.221	0.856	0.978	1.000	0.219	0.912	0.999	1.002	0.277
VT	0.403	0.603	0.811	0.060	0.334	0.511	0.753	0.047	0.343	0.532	0.744	0.048
WA	0.371	0.570	0.794	0.059	0.288	0.469	0.714	0.041	0.310	0.497	0.722	0.045
WI	0.289	0.471	0.672	0.038	0.261	0.420	0.616	0.032	0.251	0.408	0.612	0.032
WV	0.380	0.606	0.787	0.056	0.457	0.672	0.821	0.081	0.499	0.661	0.815	0.083
WY	0.332	0.529	0.797	0.049	0.376	0.569	0.778	0.064	0.426	0.638	0.814	0.065
USA	0.259	0.407	0.595	0.030	0.216	0.368	0.549	0.025	0.227	0.369	0.571	0.027

Appendix Table 3

Top 5 Company's Direct Premiums Written and Market Share for Homeowners Insurance by State, 2018

State	Company Name	Direct Premiums Written	Market Share	State	Company Name
AK	State Farm Fire And Cas Co	\$ 26,839,396	34.44%	NC	State Farm Fire And Cas Co
AK	Allstate Ins Co	\$ 22,871,037	29.35%	NC	Nationwide Mut Fire Ins Co
AK	Safeco Ins Co Of Amer	\$ 4,559,349	5.85%	NC	North Carolina Farm Bur Mut Ins Co
AK	United Services Auto Assoc	\$ 4,430,939	5.69%	NC	Allstate Ins Co
AK	Horace Mann Ins Co	\$ 3,490,475	4.48%	NC	Erie Ins Exch
AL	State Farm Fire And Cas Co	\$ 206,933,674	30.55%	ND	State Farm Fire And Cas Co
AL	Alfa Mut Ins Co	\$ 116,487,053	17.20%	ND	American Family Mut Ins Co
AL	Allstate Ins Co	\$ 68,871,532	10.17%	ND	Farmers Union Mut Ins Co
AL	Nationwide Mut Fire Ins Co	\$ 25,139,960	3.71%	ND	Nodak Mut Ins Co
AL	Fire Ins Exch	\$ 20,443,549	3.02%	ND	Fire Ins Exch
AR	State Farm Fire And Cas Co	\$ 85,347,207	26.03%	NE	State Farm Fire And Cas Co
AR	Farm Bureau Mut Ins Co Of AR Inc	\$ 71,099,467	21.68%	NE	Farmers Mut Ins Co Of NE
AR	Farmers Ins Co Inc	\$ 26,432,987	8.06%	NE	American Family Mut Ins Co
AR	Shelter Mut Ins Co	\$ 26,025,861	7.94%	NE	Fire Ins Exch
AR	Allstate Ins Co	\$ 18,785,299	5.73%	NE	Farm Bureau Ins Co Of NE
AZ	State Farm Fire And Cas Co	\$ 131,763,579	20.73%	NH	State Farm Fire And Cas Co
AZ	Farmers Ins Co Of AZ	\$ 119,746,259	18.84%	NH	Peerless Ins Co
AZ	Allstate Ins Co	\$ 61,065,873	9.61%	NH	Concord Genrl Mut Ins Co
AZ	American Family Mut Ins Co	\$ 60,160,856	9.47%	NH	Allstate Ins Co
AZ	United Services Auto Assoc	\$ 16,846,918	2.65%	NH	Liberty Mut Fire Ins Co
CA	State Farm General Ins Co	\$ 911,279,514	22.75%	NJ	State Farm Fire And Cas Co
CA	Fire Ins Exch	\$ 696,279,003	17.38%	NJ	Prudential Prop & Cas Ins Co NJ
CA	Allstate Ins Co	\$ 568,573,559	14.20%	NJ	Allstate NJ Ins Co
CA	California State Auto Asn Inter-Ins	\$ 208,229,733	5.20%	NJ	New Jersey Manufacturers Ins Co
CA	Interins Exch Of The Automobile Club	\$ 135,243,663	3.38%	NJ	Great Northern Ins Co
CO	State Farm Fire And Cas Co	\$ 178,772,384	23.74%	NM	State Farm Fire And Cas Co
CO	Fire Ins Exch	\$ 138,312,839	18.37%	NM	Farmers Ins Co Of AZ
CO	American Family Mut Ins Co	\$ 91,572,231	12.16%	NM	Allstate Ins Co
CO	Allstate Ins Co	\$ 61,568,917	8.18%	NM	Hartford Ins Co Of The Midwest
CO	United Services Auto Assoc	\$ 28,236,011	3.75%	NM	United Services Auto Assoc
CT	Allstate Ins Co	\$ 60,937,923	10.48%	NV	Fire Ins Exch
CT	Standard Fire Ins Co	\$ 47,869,451	8.23%	NV	State Farm Fire And Cas Co
CT	Nationwide Mut Fire Ins Co	\$ 34,316,512	5.90%	NV	Allstate Ins Co
CT	Vigilant Ins Co	\$ 23,479,543	4.04%	NV	California State Auto Asn Inter-Ins
CT	Amica Mut Ins Co	\$ 22,866,963	3.93%	NV	United Services Auto Assoc
DC	State Farm Fire And Cas Co	\$ 15,791,382	23.37%	NY	Allstate Ins Co
DC	Standard Fire Ins Co	\$ 13,423,055	19.86%	NY	State Farm Fire And Cas Co
DC	Allstate Ins Co	\$ 6,672,862	9.88%	NY	Nationwide Mut Fire Ins Co
DC	Great Northern Ins Co	\$ 3,571,669	5.29%	NY	New York Central Mut Fire Ins Co
DC	Nationwide Mut Fire Ins Co	\$ 3,193,283	4.73%	NY	Automobile Ins Co Of Hartford CT
DE	State Farm Fire And Cas Co	\$ 24,101,635	27.79%	OH	State Farm Fire And Cas Co
DE	Nationwide Mut Fire Ins Co	\$ 14,848,491	17.12%	OH	Nationwide Mut Fire Ins Co
DE	Allstate Ins Co	\$ 4,836,972	5.58%	OH	Allstate Ins Co
DE	Old Guard Ins Co	\$ 3,986,882	4.60%	OH	Cincinnati Ins Co

DE	Liberty Mut Fire Ins Co	\$ 2,980,603	3.44%	OH	Grange Mut Cas Co
FL	State Farm Florida Ins Co	\$ 650,452,856	21.17%	OK	State Farm Fire And Cas Co
FL	Allstate Floridian Ins Co	\$ 324,927,747	10.58%	OK	Farmers Ins Co Inc
FL	Clarendon Natl Ins Co	\$ 146,001,613	4.75%	OK	Allstate Ins Co
FL	Nationwide Ins Co Of FL	\$ 145,701,476	4.74%	OK	Oklahoma Farm Bureau Mut Ins Co
FL	Clarendon Select Ins Co	\$ 120,593,764	3.93%	OK	Oklahoma Farmers Union Mut Ins Co
GA	State Farm Fire And Cas Co	\$ 333,895,925	33.11%	OR	State Farm Fire And Cas Co
GA	Allstate Ins Co	\$ 111,585,862	11.06%	OR	Farmers Ins Co Of OR
GA	Georgia Farm Bureau Mut Ins Co	\$ 65,427,074	6.49%	OR	Allstate Ins Co
GA	Cotton States Mut Ins Co	\$ 35,545,029	3.52%	OR	Safeco Ins Co of OR
GA	Nationwide Mut Fire Ins Co	\$ 33,234,148	3.30%	OR	Mutual Of Enumclaw Ins Co
HI	State Farm Fire And Cas Co	\$ 37,535,038	23.68%	PA	State Farm Fire And Cas Co
HI	Zephyr Ins Co Inc	\$ 22,822,622	14.40%	PA	Erie Ins Exch
HI	United Services Auto Assoc	\$ 13,266,881	8.37%	PA	Nationwide Mut Fire Ins Co
HI	Hawaiian Ins & Gty Co Ltd	\$ 11,549,344	7.28%	PA	Allstate Ins Co
HI	Allstate Ins Co	\$ 11,487,094	7.25%	PA	Prudential Prop & Cas Ins Co
IA	State Farm Fire And Cas Co	\$ 64,971,496	23.35%	PR	Universal Ins Co
IA	American Family Mut Ins Co	\$ 26,947,612	9.69%	PR	Royal & Sunalliance Ins PR Inc
IA	Amco Ins Co	\$ 25,658,125	9.22%	PR	Puerto Rican American Ins Co
IA	Allied Prop & Cas Ins Co	\$ 15,658,147	5.63%	PR	Cooperativa D Seguros Multiples PR
IA	Farm Bureau Mut Ins Co	\$ 15,052,193	5.41%	PR	Integrand Assur Co
ID	State Farm Fire And Cas Co	\$ 22,831,181	18.68%	RI	Nationwide Mut Fire Ins Co
ID	Farmers Ins Co Of ID	\$ 16,267,480	13.31%	RI	Amica Mut Ins Co
ID	Allstate Ins Co	\$ 12,042,717	9.85%	RI	Allstate Ins Co
ID	Safeco Ins Co Of Amer	\$ 10,963,178	8.97%	RI	Metropolitan Property & Cas Ins Co
ID	Farm Bureau Mut Ins Co Of ID	\$ 8,754,428	7.16%	RI	Standard Fire Ins Co
IL	State Farm Fire And Cas Co	\$ 445,834,624	31.18%	SC	State Farm Fire And Cas Co
IL	Allstate Ins Co	\$ 158,797,350	11.10%	SC	Allstate Ins Co
IL	Illinois Farmers Ins Co	\$ 101,830,242	7.12%	SC	Nationwide Mut Fire Ins Co
IL	Country Mut Ins Co	\$ 91,200,013	6.38%	SC	South Carolina Farm Bur Mut Ins Co
IL	American Family Mut Ins Co	\$ 78,568,283	5.49%	SC	United Services Auto Assoc
IN	State Farm Fire And Cas Co	\$ 199,603,826	25.33%	SD	State Farm Fire And Cas Co
IN	United Farm Family Mut Ins Co	\$ 65,388,240	8.30%	SD	American Family Mut Ins Co
IN	Allstate Ins Co	\$ 58,949,378	7.48%	SD	Fire Ins Exch
IN	American Family Mut Ins Co	\$ 42,807,639	5.43%	SD	Farmers Mut Ins Co Of NE
IN	Indiana Ins Co	\$ 29,380,184	3.73%	SD	De Smet Farm Mut Ins Co Of SD
KS	State Farm Fire And Cas Co	\$ 104,068,083	23.51%	TN	State Farm Fire And Cas Co
KS	American Family Mut Ins Co	\$ 68,476,400	15.47%	TN	Tennessee Farmers Mut Ins Co
KS	Farmers Ins Co Inc	\$ 55,366,331	12.51%	TN	Allstate Ins Co
KS	Farm Bureau Mut Ins Co Inc	\$ 29,057,291	6.56%	TN	Nationwide Mut Fire Ins Co
KS	Allstate Ins Co	\$ 20,573,548	4.65%	TN	Mid-Century Ins Co
KY	State Farm Fire And Cas Co	\$ 90,421,016	21.17%	TX	State Farm Lloyds
KY	Kentucky Farm Bureau Mut Ins Co	\$ 78,466,285	18.37%	TX	Allstate TX Lloyds
KY	Allstate Ins Co	\$ 31,982,575	7.49%	TX	Farmers Ins Exch
KY	Nationwide Mut Fire Ins Co	\$ 17,468,909	4.09%	TX	Fire Ins Exch
KY	West American Ins Co	\$ 16,398,540	3.84%	TX	United Services Auto Assoc
LA	State Farm Fire And Cas Co	\$ 225,632,605	33.36%	UT	State Farm Fire And Cas Co
LA	Allstate Ins Co	\$ 104,131,431	15.39%	UT	Fire Ins Exch
LA	Louisiana Farm Bureau Mut Ins Co	\$ 34,938,621	5.17%	UT	Allstate Ins Co
LA	Audubon Ins Co	\$ 30,174,708	4.46%	UT	Bear River Mut Ins Co

LA	Standard Fire Ins Co	\$	28,701,265	4.24%	UT	Allied Prop & Cas Ins Co
MA	Merrimack Mut Fire Ins Co	\$	54,332,764	5.90%	VA	State Farm Fire And Cas Co
MA	Quincy Mut Fire Ins Co	\$	49,724,539	5.40%	VA	Nationwide Mut Fire Ins Co
MA	Liberty Mut Fire Ins Co	\$	46,890,237	5.09%	VA	Allstate Ins Co
MA	Phoenix Ins Co	\$	40,305,148	4.37%	VA	United Services Auto Assoc
MA	Arbella Mut Ins Co	\$	35,875,338	3.89%	VA	Standard Fire Ins Co
MD	State Farm Fire And Cas Co	\$	144,779,861	22.93%	VI	Royal & Sunalliance Ins PR Inc
MD	Allstate Ins Co	\$	92,104,060	14.58%	VI	Dorchester Ins Co Ltd
MD	Nationwide Mut Fire Ins Co	\$	66,691,510	10.56%	VI	United Services Auto Assoc
MD	Erie Ins Exch	\$	50,757,440	8.04%	VI	American Intl Ins Co Of PR
MD	Standard Fire Ins Co	\$	48,393,275	7.66%	VI	USAA Cas Ins Co
ME	York Ins Co of ME	\$	28,477,291	17.24%	VT	Co-Operative Ins Co
ME	State Farm Fire And Cas Co	\$	16,256,838	9.84%	VT	State Farm Fire And Cas Co
ME	Allstate Ins Co	\$	10,349,941	6.26%	VT	Northern Security Ins Co Inc
ME	MMG Ins Co	\$	9,822,772	5.95%	VT	Allstate Ins Co
ME	Concord Genrl Mut Ins Co	\$	8,711,178	5.27%	VT	Concord Genrl Mut Ins Co
MI	State Farm Fire And Cas Co	\$	253,810,031	17.88%	WA	State Farm Fire And Cas Co
MI	Home-Owners Ins Co	\$	156,192,809	11.01%	WA	Safeco Ins Co Of Amer
MI	Citizens Ins Co Of Amer	\$	154,082,133	10.86%	WA	Farmers Ins Co Of WA
MI	Auto Club Grp Ins Co	\$	153,045,548	10.78%	WA	Allstate Ins Co
MI	Allstate Ins Co	\$	139,294,234	9.81%	WA	Pemco Mut Ins Co
MN	State Farm Fire And Cas Co	\$	152,443,952	21.98%	WI	American Family Mut Ins Co
MN	American Family Mut Ins Co	\$	108,550,567	15.65%	WI	State Farm Fire And Cas Co
MN	Illinois Farmers Ins Co	\$	95,405,565	13.75%	WI	Acuity A Mut Ins Co
MN	Allstate Ins Co	\$	24,322,434	3.51%	WI	Allstate Ins Co
MN	Owners Ins Co	\$	15,488,559	2.23%	WI	General Cas Co Of WI
MO	State Farm Fire And Cas Co	\$	174,843,366	24.25%	WV	State Farm Fire And Cas Co
MO	American Family Mut Ins Co	\$	142,386,417	19.75%	WV	Nationwide Mut Fire Ins Co
MO	Shelter Mut Ins Co	\$	48,408,117	6.72%	WV	Erie Ins Prop & Cas Co
MO	Mid-Century Ins Co	\$	31,758,127	4.41%	WV	Allstate Ins Co
MO	Safeco Ins Co Of Amer	\$	29,884,498	4.15%	WV	Farmers Mech Mut Fire Ins Of WV
MS	State Farm Fire And Cas Co	\$	113,246,651	30.98%	WY	State Farm Fire And Cas Co
MS	Mississippi Farm Bureau Mut Ins Co	\$	75,599,729	20.68%	WY	Fire Ins Exch
MS	Allstate Ins Co	\$	28,604,855	7.83%	WY	Mountain West Farm Bu Mut Ins Co
MS	Nationwide Mut Fire Ins Co	\$	22,493,225	6.15%	WY	Safeco Ins Co Of Amer
MS	Economy Premier Assur Co	\$	11,547,739	3.16%	WY	Allstate Ins Co
MT	State Farm Fire And Cas Co	\$	25,604,962	23.08%		
MT	Safeco Ins Co Of Amer	\$	16,295,926	14.69%		
MT	Fire Ins Exch	\$	14,135,655	12.74%		
MT	Allstate Ins Co	\$	8,262,047	7.45%		
MT	Farmers Union Mut Ins Co	\$	3,709,157	3.34%		

Appendix Table 4

Top 5 Company's Direct Premiums Written & Market Share for Commercial Multi-Peril Insurance by State

State	Company Name	Direct Premiums Written	Market Share	State	Company Name	Direct Premiums Written	Market Share
AK	Westport Ins Corp	\$ 11,588,011	13.4%	NC	Cincinnati Ins Co	\$ 11,588,011	13.4%
AK	State Farm Fire And Cas Co	\$ 9,248,944	10.7%	NC	Erie Ins Exch	\$ 9,248,944	10.7%
AK	Alaska Nat Ins Co	\$ 7,914,541	9.2%	NC	Hartford Cas Ins Co	\$ 7,914,541	9.2%
AK	Allstate Ins Co	\$ 5,898,399	6.8%	NC	Nationwide Mut Ins Co	\$ 5,898,399	6.8%
AK	American Equity Ins Co	\$ 4,940,865	5.7%	NC	Travelers Ind Co Of IL	\$ 4,940,865	5.7%
AL	Cincinnati Ins Co	\$ 20,590,788	5.7%	ND	Acuity A Mut Ins Co	\$ 20,590,788	5.7%
AL	State Farm Fire And Cas Co	\$ 20,468,185	5.6%	ND	Cincinnati Ins Co	\$ 20,468,185	5.6%
AL	Alfa Mut Ins Co	\$ 17,812,336	4.9%	ND	Farmland Mut Ins Co	\$ 17,812,336	4.9%
AL	Alabama Municipal Ins Corp	\$ 17,052,551	4.7%	ND	Farmers Union Mut Ins Co	\$ 17,052,551	4.7%
AL	Travelers Ind Co Of IL	\$ 13,680,277	3.8%	ND	American Family Mut Ins Co	\$ 13,680,277	3.8%
AR	Cincinnati Ins Co	\$ 10,148,497	5.1%	NE	Catholic Relief Ins Co Of Amer	\$ 10,148,497	5.1%
AR	State Farm Fire And Cas Co	\$ 7,520,701	3.8%	NE	State Farm Fire And Cas Co	\$ 7,520,701	3.8%
AR	Westport Ins Corp	\$ 7,173,426	3.6%	NE	Columbia Natl Ins Co	\$ 7,173,426	3.6%
AR	Union Standard Ins Co	\$ 6,660,232	3.4%	NE	Amco Ins Co	\$ 6,660,232	3.4%
AR	Brotherhood Mut Ins Co	\$ 5,453,975	2.8%	NE	Cincinnati Ins Co	\$ 5,453,975	2.8%
AZ	Owners Ins Co	\$ 16,077,062	4.2%	NH	Acadia Ins Co	\$ 16,077,062	4.2%
AZ	State Farm Fire And Cas Co	\$ 15,205,676	4.0%	NH	Peerless Ins Co	\$ 15,205,676	4.0%
AZ	Hartford Cas Ins Co	\$ 15,112,201	3.9%	NH	York Ins Co of ME	\$ 15,112,201	3.9%
AZ	American Family Mut Ins Co	\$ 11,342,744	3.0%	NH	Vermont Mut Ins Co	\$ 11,342,744	3.0%
AZ	Travelers Ind Co Of IL	\$ 10,612,053	2.8%	NH	American Home Assur Co	\$ 10,612,053	2.8%
CA	State Farm General Ins Co	\$ 190,052,226	5.6%	NJ	Harleysville Ins Co Of NJ	\$ 190,052,226	5.6%
CA	Hartford Cas Ins Co	\$ 153,663,918	4.5%	NJ	Federal Ins Co	\$ 153,663,918	4.5%
CA	Truck Ins Exch	\$ 137,186,271	4.0%	NJ	Travelers Ind Co Of IL	\$ 137,186,271	4.0%
CA	Federal Ins Co	\$ 125,260,873	3.7%	NJ	State Farm Fire And Cas Co	\$ 125,260,873	3.7%
CA	Travelers Ind Co Of IL	\$ 122,074,704	3.6%	NJ	Hartford Fire In Co	\$ 122,074,704	3.6%
CO	American Family Mut Ins Co	\$ 30,507,429	6.8%	NM	Mountain States Mut Cas Co	\$ 30,507,429	6.8%
CO	State Farm Fire And Cas Co	\$ 26,612,181	6.0%	NM	State Farm Fire And Cas Co	\$ 26,612,181	6.0%
CO	Hartford Cas Ins Co	\$ 19,502,223	4.4%	NM	Transcontinental Ins Co	\$ 19,502,223	4.4%
CO	Fire Ins Exch	\$ 13,295,113	3.0%	NM	Colorado Cas Ins Co	\$ 13,295,113	3.0%
CO	Truck Ins Exch	\$ 13,101,363	2.9%	NM	Assurance Co Of Amer	\$ 13,101,363	2.9%
CT	Hartford Fire In Co	\$ 27,213,202	5.9%	NV	Assurance Co Of Amer	\$ 27,213,202	5.9%
CT	Hartford Cas Ins Co	\$ 26,729,171	5.8%	NV	Fire Ins Exch	\$ 26,729,171	5.8%
CT	Westport Ins Corp	\$ 13,153,801	2.8%	NV	Firemans Fund Ins Co	\$ 13,153,801	2.8%
CT	Travelers Ind Co Of IL	\$ 12,419,656	2.7%	NV	State Farm Fire And Cas Co	\$ 12,419,656	2.7%
CT	Charter Oak Fire Ins Co	\$ 12,405,696	2.7%	NV	Maryland Cas Co	\$ 12,405,696	2.7%
DC	Hartford Cas Ins Co	\$ 9,009,164	10.0%	NY	Federal Ins Co	\$ 9,009,164	10.0%
DC	Travelers Ind Co Of IL	\$ 5,324,664	5.9%	NY	Greater NY Mut Ins Co	\$ 5,324,664	5.9%
DC	Harford Mut Ins Co	\$ 5,167,030	5.8%	NY	Hartford Fire In Co	\$ 5,167,030	5.8%
DC	Hartford Fire In Co	\$ 3,982,659	4.4%	NY	Travelers Ind Co Of Amer	\$ 3,982,659	4.4%
DC	Federal Ins Co	\$ 3,929,483	4.4%	NY	Charter Oak Fire Ins Co	\$ 3,929,483	4.4%
DE	Nuclear Electric Ins Ltd	\$ 15,867,341	18.3%	OH	Cincinnati Ins Co	\$ 15,867,341	18.3%
DE	Harleysville Mut Ins Co	\$ 4,198,623	4.8%	OH	Westfield Ins Co	\$ 4,198,623	4.8%
DE	First De Ins Co	\$ 3,633,370	4.2%	OH	State Farm Fire And Cas Co	\$ 3,633,370	4.2%
DE	State Farm Fire And Cas Co	\$ 2,254,422	2.6%	OH	Federal Ins Co	\$ 2,254,422	2.6%

DE	Donegal Mut Ins Co	\$	2,199,791	2.5%	OH	Erie Ins Exch	\$
FL	State Farm Florida Ins Co	\$	69,261,854	4.5%	OK	State Farm Fire And Cas Co	\$
FL	Assurance Co Of Amer	\$	65,841,503	4.2%	OK	Farmers Ins Co Inc	\$
FL	Transcontinental Ins Co	\$	58,151,502	3.8%	OK	Hartford Cas Ins Co	\$
FL	Insurance Corp Of NY	\$	56,104,003	3.6%	OK	Assurance Co Of Amer	\$
FL	Northern Ins Co Of NY	\$	49,927,403	3.2%	OK	Brotherhood Mut Ins Co	\$
GA	State Farm Fire And Cas Co	\$	28,147,527	4.8%	OR	State Farm Fire And Cas Co	\$
GA	Cincinnati Ins Co	\$	22,907,605	3.9%	OR	American Economy Ins Co	\$
GA	Assurance Co Of Amer	\$	21,450,120	3.7%	OR	Westport Ins Corp	\$
GA	Travelers Ind Co Of IL	\$	16,728,518	2.9%	OR	Assurance Co Of Amer	\$
GA	Maryland Cas Co	\$	16,206,137	2.8%	OR	American States Ins Co	\$
HI	First Ind Ins Of HI Inc	\$	13,205,525	12.1%	PA	Erie Ins Exch	\$
HI	First Fire & Cas Ins Of HI Inc	\$	12,698,078	11.6%	PA	Harleysville Mut Ins Co	\$
HI	Firemans Fund Ins Co Of HI Inc	\$	11,249,710	10.3%	PA	Cincinnati Ins Co	\$
HI	State Farm Fire And Cas Co	\$	9,528,609	8.7%	PA	Federal Ins Co	\$
HI	National Surety Corp	\$	6,865,489	6.3%	PA	Travelers Ind Co Of IL	\$
IA	Cincinnati Ins Co	\$	18,851,605	8.9%	PR	Seguros Triples Inc	\$
IA	Amco Ins Co	\$	13,222,402	6.2%	PR	Universal Ins Co	\$
IA	State Farm Fire And Cas Co	\$	9,973,315	4.7%	PR	Integrand Assur Co	\$
IA	Farmland Mut Ins Co	\$	8,379,492	3.9%	PR	Royal & Sunalliance Ins PR Inc	\$
IA	Acuity A Mut Ins Co	\$	7,553,698	3.5%	PR	National Ins Co	\$
ID	ID Counties R M P Underwriters	\$	12,720,304	11.3%	RI	Hartford Fire In Co	\$
ID	Western Community Ins Co	\$	6,389,880	5.7%	RI	Travelers Ind Co Of IL	\$
ID	Coregis Ins Co	\$	5,546,274	4.9%	RI	Charter Oak Fire Ins Co	\$
ID	American Economy Ins Co	\$	5,026,204	4.5%	RI	Federal Ins Co	\$
ID	Continental Western Ins Co	\$	3,769,452	3.4%	RI	Peerless Ins Co	\$
IL	Cincinnati Ins Co	\$	61,401,606	5.4%	SC	Hartford Fire In Co	\$
IL	State Farm Fire And Cas Co	\$	60,176,340	5.3%	SC	State Farm Fire And Cas Co	\$
IL	Federal Ins Co	\$	40,659,830	3.6%	SC	Allstate Ins Co	\$
IL	American Family Mut Ins Co	\$	30,818,792	2.7%	SC	Cincinnati Ins Co	\$
IL	Travelers Ind Co Of IL	\$	30,174,036	2.6%	SC	Owners Ins Co	\$
IN	Cincinnati Ins Co	\$	48,322,280	8.9%	SD	Acuity A Mut Ins Co	\$
IN	Indiana Ins Co	\$	34,291,140	6.3%	SD	State Farm Fire And Cas Co	\$
IN	Monroe Guaranty Ins Co	\$	19,982,873	3.7%	SD	American Family Mut Ins Co	\$
IN	United Farm Family Mut Ins Co	\$	17,786,869	3.3%	SD	Farmland Mut Ins Co	\$
IN	Federal Ins Co	\$	17,455,201	3.2%	SD	Regent Ins Co	\$
KS	State Farm Fire And Cas Co	\$	13,285,057	6.1%	TN	Cincinnati Ins Co	\$
KS	Amco Ins Co	\$	10,471,112	4.8%	TN	State Farm Fire And Cas Co	\$
KS	Cincinnati Ins Co	\$	9,495,123	4.3%	TN	Transcontinental Ins Co	\$
KS	Farmland Mut Ins Co	\$	8,533,818	3.9%	TN	Travelers Ind Co Of IL	\$
KS	American Family Mut Ins Co	\$	8,421,207	3.8%	TN	Westfield Ins Co	\$
KY	Cincinnati Ins Co	\$	24,305,660	8.4%	TX	Travelers Lloyds Ins Co	\$
KY	Kentucky Farm Bureau Mut Ins Co	\$	13,977,252	4.8%	TX	State Farm Lloyds	\$
KY	Federal Ins Co	\$	12,998,631	4.5%	TX	Hartford Lloyds Ins Co	\$
KY	Indiana Ins Co	\$	10,915,323	3.8%	TX	Assurance Co Of Amer	\$
KY	West American Ins Co	\$	10,721,997	3.7%	TX	CU Lloyds Of TX	\$
LA	State Farm Fire And Cas Co	\$	25,755,418	8.3%	UT	State Farm Fire And Cas Co	\$
LA	Travelers Ind Co Of IL	\$	17,437,843	5.6%	UT	Amco Ins Co	\$
LA	American Central Ins Co	\$	13,952,879	4.5%	UT	Charter Oak Fire Ins Co	\$
LA	Allstate Ins Co	\$	13,037,947	4.2%	UT	Owners Ins Co	\$

LA	Valley Forge Ins Co	\$	8,221,622	2.6%	UT	Hartford Cas Ins Co	\$
MA	Massachusetts Bay Ins Co	\$	28,809,118	3.7%	VA	Cincinnati Ins Co	\$
MA	Travelers Ind Co Of IL	\$	27,954,075	3.6%	VA	Erie Ins Exch	\$
MA	Charter Oak Fire Ins Co	\$	26,199,691	3.3%	VA	Hartford Cas Ins Co	\$
MA	Federal Ins Co	\$	25,414,677	3.2%	VA	Nationwide Mut Ins Co	\$
MA	Travelers Ind Co Of CT	\$	23,439,896	3.0%	VA	Harleysville Mut Ins Co	\$
MD	Erie Ins Exch	\$	25,529,322	6.3%	VI	Dorchester Ins Co Ltd	\$
MD	Hartford Cas Ins Co	\$	22,127,051	5.5%	VI	Royal & Sunalliance Ins PR Inc	\$
MD	State Farm Fire And Cas Co	\$	14,027,593	3.5%	VI	St Paul Fire & Marine Ins Co	\$
MD	Harford Mut Ins Co	\$	13,617,039	3.4%	VI	Royal Surplus Lines Ins Co	\$
MD	Hartford Fire In Co	\$	11,718,678	2.9%	VI	Guardian Ins Co Inc	\$
ME	York Ins Co of ME	\$	29,723,932	20.2%	VT	Acadia Ins Co	\$
ME	Massachusetts Bay Ins Co	\$	18,366,087	12.5%	VT	Vermont Mut Ins Co	\$
ME	Acadia Ins Co	\$	16,061,103	10.9%	VT	Cincinnati Ins Co	\$
ME	Peerless Ins Co	\$	6,827,398	4.6%	VT	Peerless Ins Co	\$
ME	Netherlands Ins Co The	\$	5,895,852	4.0%	VT	York Ins Co of ME	\$
MI	Citizens Ins Co Of Amer	\$	90,438,406	9.9%	WA	American Economy Ins Co	\$
MI	Home-Owners Ins Co	\$	56,683,701	6.2%	WA	Mutual Of Enumclaw Ins Co	\$
MI	Cincinnati Ins Co	\$	46,185,397	5.1%	WA	State Farm Fire And Cas Co	\$
MI	Frankenmuth Mut Ins Co	\$	39,250,886	4.3%	WA	American States Ins Co	\$
MI	State Farm Fire And Cas Co	\$	31,111,197	3.4%	WA	Westport Ins Corp	\$
MN	State Farm Fire And Cas Co	\$	21,830,448	4.8%	WI	Acuity A Mut Ins Co	\$
MN	American Family Mut Ins Co	\$	18,743,728	4.1%	WI	American Family Mut Ins Co	\$
MN	Owners Ins Co	\$	18,039,557	4.0%	WI	Society Ins	\$
MN	American Home Assur Co	\$	17,013,550	3.7%	WI	Cincinnati Ins Co	\$
MN	Cincinnati Ins Co	\$	16,875,767	3.7%	WI	Regent Ins Co	\$
MO	American Family Mut Ins Co	\$	28,749,536	5.9%	WV	Westfield Ins Co	\$
MO	Cincinnati Ins Co	\$	22,940,856	4.7%	WV	Erie Ins Prop & Cas Co	\$
MO	State Farm Fire And Cas Co	\$	19,242,014	4.0%	WV	Federal Ins Co	\$
MO	Amco Ins Co	\$	13,493,788	2.8%	WV	Cincinnati Ins Co	\$
MO	Federal Ins Co	\$	11,501,996	2.4%	WV	Nationwide Mut Ins Co	\$
MS	State Farm Fire And Cas Co	\$	12,154,062	6.6%	WY	Mountain West Farm Bu Mut Ins Co	\$
MS	Great River Ins Co	\$	8,104,867	4.4%	WY	Diamond State Ins Co	\$
MS	Assurance Co Of Amer	\$	6,828,409	3.7%	WY	State Farm Fire And Cas Co	\$
MS	Valiant Ins Co	\$	5,835,748	3.2%	WY	Colorado Cas Ins Co	\$
MS	Mississippi Farm Bureau Mut Ins Co	\$	5,142,892	2.8%	WY	American Economy Ins Co	\$
MT	Cincinnati Ins Co	\$	5,244,950	6.1%			
MT	American Economy Ins Co	\$	5,035,934	5.8%			
MT	State Farm Fire And Cas Co	\$	4,029,450	4.7%			
MT	Farmers Union Mut Ins Co	\$	3,374,394	3.9%			
MT	Continental Western Ins Co	\$	2,863,244	3.3%			

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For further information, contact Ellen Roche, Vice President of Research, NATIONAL ASSOCIATION OF REALTORS® at 202-383-1286, or via e-mail at eroche@realtors.org



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