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February 7, 2002

Senator Lloyd LaFountain, Chair
Representative Christopher O'Neil, Chair
Members of the Joint Standing Committee on Banking and Insurance
State House – Room 427
Augusta, ME 04333

RE: Insurance Availability

Dear Senator LaFountain, Representative O'Neil and members of the Committee:

Pursuant to Title 24-A MRSA § 2325-A(5), I am required to report to you whether there is, or may be within the year, a lack of availability in any line of insurance.

During 2001, insurers began to tighten their underwriting criteria for virtually all types of risks. Among the factors contributing to this market development are reduced capacity, unfavorable loss development in some lines, insolvencies and a low return on equity. The result has been a gradual, although in some cases a marked increase in insurance premium for some risks.

The events of September 11, 2001 insurers are also contributing to the increasing cost of all lines of insurance, principally because of the increasing cost for reinsurance. For certain exposures such as terrorism, some insurers have been unable to purchase reinsurance at all. Reinsurance is used by insurance companies to insure a portion of the risk that they have assumed from policyholders. This allows them to improve their risk profile and contributes to the primary insurer's financial soundness by diversifying and dispersing risk concentration.

Although insurance is generally available at this point in time, there are some property and casualty lines that are demonstrating stress. In particular, medical malpractice insurance is becoming more difficult to obtain, particularly professional liability and general liability coverages for nursing homes. The decreasing availability in the medical malpractice and medical professional liability lines of insurance has been aggravated by the decision by the St. Paul Companies to withdraw from the medical malpractice market altogether and the placement of PHICO Insurance Company, a Pennsylvania domestic insurer into rehabilitation. In 2000, the St. Paul companies wrote 32.6% of Maine hospital premium, 43.6% of the nursing home or other healthcare facility premium and 10.6% of the physician and surgeon premium, while PHICO wrote approximately 6% of the admitted market in Maine.

Liability insurance for air operations has also become less available and subject to greater cost pressures. The problem is especially of concern to small operators, such as charter operations. This is a specialized market with few participating insurers and the withdrawal of an insurer has a substantial impact on availability.

Finally, insurers have begun to restrict their underwriting of certain types of residential risks, especially those with certain breeds of dogs, trampolines, swimming pools with diving boards, or other exposures where there is a potential for large liability claims. And, when a homeowner has a history of claims or has been canceled or nonrenewed by another insurer, many admitted insurers are reluctant to accept the risk as new business

To summarize, although at this point in time, insurance is generally available for most risks, I believe the nature of the market and the increasing costs bear mentioning before there is a crisis in any one line of insurance.

Sincerely,

Alessandro A. Iuppa
Superintendent