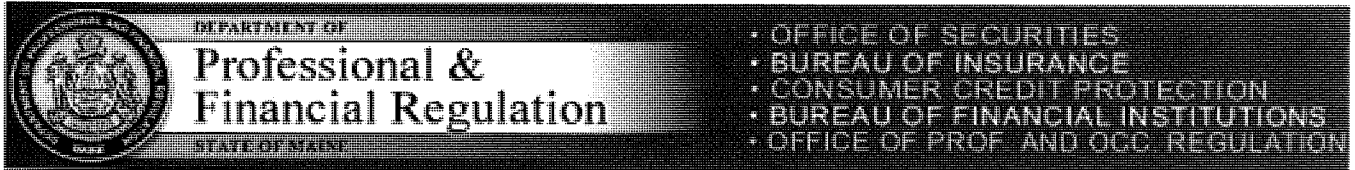


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# The Availability of Insurance in the Maine Property & Casualty Market

Prepared by the Maine Bureau of Insurance  
January 2014

Paul R. LePage  
Governor

Anne L. Head  
Commissioner

Eric A. Cioppa  
Superintendent

## EXECUTIVE SUMMARY

This report is prepared in accordance with 24-A M.R.S.A. § 2325 A(5), which requires the Superintendent of Insurance to report each year to the joint standing committee having jurisdiction over insurance as to whether there is, or may be, a lack of availability in any line of insurance.

Property and casualty coverages are generally available in Maine in the admitted market,<sup>1</sup> with a small percentage of coverage in surplus lines.<sup>2</sup> During 2012, the market for most lines of property and casualty insurance was relatively stable. Although insurance is generally available, some consumers continue to experience difficulty finding affordable coverage in certain property and casualty lines. The most notable price change has occurred in the homeowners market.

Overall, the homeowners market in Maine continues to be quite competitive and among the most affordable in the nation. The greatest problem is affordability for some consumers who have specific exposure issues or claims history. Due to adverse loss experience in recent years, rates in this line are increasing. The cost of reinsurance<sup>3</sup> has also been pushing up the cost of primary insurance, especially for coastal property exposures. Additionally, reinsurers have required primary insurers to adhere to more restrictive underwriting criteria.

On the commercial side, professional liability rates for physicians and surgeons remained stable, with no changes during the calendar year.

## PERSONAL AUTOMOBILE INSURANCE

The personal auto insurance market in Maine continues to offer consumers low rates and a wide choice of insurers. The Consumer Federation of America's November 2013 *What Works: A Review of Auto Insurance Regulation in America* identified Maine's auto market as one of the best in the country. This in-depth national study examined the past two decades of auto insurance regulation, analyzing the success of different regulatory approaches in holding down prices and encouraging competition. Its competitive scaling analysis determined Maine to be the most competitive market of all the states. In addition, it showed Maine as having the 8<sup>th</sup> lowest change in average expenditure on auto insurance from 1989 to 2010 (despite Maine's mandatory minimum limits increasing from \$20,000 per person/\$40,000 per accident bodily injury and \$10,000 property damage, to \$50,000 per person/\$100,000 per accident bodily injury and \$25,000 property damage on July 1, 1998). Maine also has the lowest percentage of uninsured drivers, at 4.5% (tied with Massachusetts).

Additionally, the most recent auto report from the National Association of Insurance Commissioners (NAIC) shows that Maine is continuing its climb in the top ten states for the lowest premium in this line, with the third lowest average premiums in the country for 2011, the latest data reviewed. Maine had been ranked fifth in 2010, sixth in 2009, seventh in 2008, and ninth in 2007.<sup>4</sup>

<sup>1</sup> Admitted insurance is sold by a company that has been licensed by the state in which the policy is purchased.

<sup>2</sup> Surplus lines refer to specialized property or liability coverage provided by a non-admitted insurer in instances where it is not available from insurers licensed by the state.

<sup>3</sup> Reinsurance is a practice in which the primary insurer spreads a portion of its risk assumed from policyholders to a reinsurer. This limits the total loss the primary insurer would bear, in case of a disaster, to protect its solvency. The cost of reinsurance affects the rates charged to policyholders.

<sup>4</sup> This ranking is even more profound when the mandatory minimum limits are considered, as Maine's required minimum limits are the highest in the country at \$50,000 injury per person/\$100,000 injury per accident, and \$25,000 property damage per accident. (The majority of states have injury limits of \$25,000/\$50,000, with the lowest at \$10,000/\$20,000, and property damage limits ranging from \$5,000 to \$25,000.) Only Alaska matches Maine's required limits, and Alaska is ranked at the tenth *highest* average premium for 2011. The only states with lower average premiums than Maine (Idaho and Iowa) have required minimum limits of \$25,000/\$50,000/\$15,000 and \$20,000/\$40,000/\$15,000.

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## HOMEOWNERS INSURANCE

According to the NAIC, Maine had the 11<sup>th</sup> lowest average homeowners premiums in 2011, the most recent year for which data is available, dropping from 9<sup>th</sup> in 2010. Maine was also ranked 11<sup>th</sup> lowest in 2009 and 2008. Maine has had the lowest average premiums in New England for several years.

At the same time, the homeowners market has changed in recent years, both locally and nationally. Some applicants and policyholders, particularly coastal property owners, may continue to find affordable coverage elusive. For the fourth consecutive year, many insurers increased base rates in response to the continuing increase in frequency and severity of claims.<sup>5</sup> Although the overall cost trend for this line showed a moderate increase in 2013, Maine's homeowner rates remain among the most affordable in the country.

Maine's homeowners insurance market continues to be competitive, with the number of active companies and market distribution remaining steady. In 2012, the most recent year for which complete data is available, 97 insurance companies were actively writing this coverage. The top 10 companies wrote only 49.5% of the market, and the leading carrier had an 11% market share.

Homeowners coverage is generally provided on either a replacement cost or an actual cash value basis. Many insurers continue to focus on efforts to assure that a property's coverage amount is 100% of its replacement cost. This coverage encourages policyholders to match their property coverage with the cost to rebuild their homes, and usually comes with an annual inflation adjustment. Replacement cost coverage allows for full indemnity for covered losses within the limit of insurance, as long as the insurance-to-value requirements are met, without deduction for depreciation.

Actual cash value (ACV) coverage, defined by statute as replacement cost less depreciation, is another option available to policyholders.<sup>6</sup> It can be a more affordable option for those whose homes<sup>7</sup> would be costly to insure to full replacement value. The limits provided for personal property, detached garages, and out buildings are commonly written as a percentage of the limit on the dwelling itself.

Insurers continue to take steps to reduce policy exposure to loss, which can also reduce premiums. For example, some insurers offer separate deductible options for windstorm, water, and hail damages. Other insurers have amended deductibles from a flat amount, such as \$500 or \$1000 for each loss, to a percentage<sup>8</sup> of the amount of insurance on the home for all losses, or for losses resulting from certain named perils, such as windstorm or water damage. While this type of deductible increases the policyholder's financial contribution if a loss occurs, it also lowers the premium. Relatively low deductibles of \$250 or \$500 are still available with some insurers, but for a higher premium.

Due to the increased frequency and severity of storms, the affordability of property insurance for coastal and island property remains problematic. Windstorm damage is a major concern for such properties, and new coastal property applicants have some difficulty finding coverage in the admitted market.

In addition to new coastal and island coverages, new applicants continue to experience difficulty in obtaining coverage for the following types of risks:

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<sup>5</sup> Other factors include increases in reinsurance costs and very low investment income.

<sup>6</sup> 24-A M.R.S.A. §3004-A

<sup>7</sup> Standard homeowners policies provide personal property (contents) coverage (for furniture, appliances, clothing, and other belongings) on an ACV basis, with replacement cost coverage available for an additional charge.

<sup>8</sup> For example, a 1% deductible on a \$175,000 limit policy would result in a deductible of \$1,750 for each loss.

- Homes with prior claims;
- Older mobile homes or manufactured homes;
- Properties that are not well-maintained;
- Homes with businesses on premises;
- Applicants with certain breeds of dog or dogs with a bite history;
- Homes that are vacant or unoccupied; and
- Homes that have been uninsured for a period of time.

The surplus lines market has provided coverage for many of these types of exposures, but still only accounts for less than 1% of the homeowners written premiums for 2012, just 0.49%, which is a slight increase from 0.41% of the market in 2011.

### **MEDICAL LIABILITY (MEDICAL MALPRACTICE) INSURANCE**

The medical malpractice market in Maine is highly concentrated, with 71.2% of the coverage provided by Medical Mutual of Maine. Medical Mutual's most recent rate filing was effective October 1, 2011. There were no rate changes in 2012. Some physicians and many facilities, especially nursing homes, continue to depend upon the surplus lines market, paying higher premiums for less coverage.

### **SURPLUS LINES MARKET**

Insurance in Maine may be written by admitted insurers or non-admitted insurers; however, only non-admitted insurers write in the surplus lines market. The Bureau of Insurance authorizes admitted insurers to write specific lines of business, such as life, health, homeowners, liability, or workers' compensation.

The Bureau determines the eligibility of non-admitted insurers to write in the surplus market, subject to solvency requirements and satisfactory claims-handling practices. Surplus lines insurers write business that admitted insurers are unwilling to write because of an unacceptable risk of loss. Maine law provides that property and casualty insurance coverage can be written in the surplus lines market only if an admitted market does not exist for the risk, unless the risk (i.e. the insured) is an exempt commercial purchaser as defined in 24-A M.R.S.A. § 2003(6).

Admitted insurers are subject to form and, in most cases, rate regulation by the Bureau, and their claims payment obligations are backed by the Maine Insurance Guaranty Fund, which protects policyholders in the event of insolvency of an insurance company.

Policies written through surplus lines do not have these protections. In 2012, the most recent year for which data is available, surplus lines premiums represented only 2.51% of the entire Maine insurance market.<sup>9</sup> As of December 18, 2013, 153 companies were eligible as surplus lines insurers.

Coverage in surplus lines is often more expensive, does not provide the same level of consumer protections, and covers fewer perils than insurance obtained in the admitted market. The surplus lines market does, however, serve an important function in Maine's insurance market by providing coverage that would otherwise not be available. In 2013, some commercial risks, including excess workers' compensation, property, liability, wet marine, and surety bonds found coverage in the surplus market.

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<sup>9</sup> 2012 surplus lines premium information includes a breakdown by foreign and domestic insurers only. State-specific premium data for alien insurers (i.e., insurance companies formed outside of the United States) is not tracked by the NAIC.