



STATE OF CONNECTICUT
INSURANCE DEPARTMENT



**Study of the Connecticut Homeowner Insurance Market
And Coastal Affordability and Availability**

Katharine L. Wade
Insurance Commissioner
January 12, 2017

Our homes are among our most important investments. The ability to access homeowners insurance helps us protect that investment from a variety of risks that exist in Connecticut – from coastal storms to severe winter weather. All homeowners benefit when there is a competitive insurance market in the state. Competition means more choices with plans that best suit your needs and your budget.

The Connecticut Insurance Department (CID) has taken the pulse of the market in a data collection that took place over multi-year period stretching from 2013 through June 2015. We wanted to make sure that carriers were writing policies in all corners of the state and that the impacts of recent damaging weather events – Tropical Storm Irene, Superstorm Sandy and record winters – did not have a detrimental effect on the availability of coverage, particularly for coastal homeowners.

The CID worked with the National Association of Insurance Commissioners (NAIC) to compile information from a voluntary data call of 94 homeowner insurance companies in the traditional Personal Lines Homeowner market. The data included the number of policies for each carrier and where those policies were issued. We also tracked premium rates over the last three years. The CID reviews rates proposed by a company to ensure they are actuarially justified and reports those results annually. CID reviews have helped save homeowners more than \$56 million in premium increases since 2012.

Some highlights of the report include:

- 65% of all new business written in 2014 was in the coastal counties
- Average CT premium for new policies has increased by 6.5% since 2013
- Average CT premium for new coastal policies had decreased by 1.4% between 2013 and mid-2015
- Since 2010, 19 new licensed insurers have begun or expanded their homeowners business in Connecticut.

Our data show that the homeowners market remains competitive throughout the state and with new carriers entering the state, there is availability along the coast. The CID will continue to closely monitor availability, particularly in areas where this report has identified trends that may affect future availability and affordability issues.

The CID is committed to our mission of protecting the insurance consumer. I encourage anyone with questions or concerns about their insurance to contact the CID either [online](#) or by phone at 800-203-3447.



Katharine L. Wade
Insurance Commissioner

Background

A previous CID study on the availability of coastal homeowners insurance was issued in December 2006. That study focused solely on availability. The report identified three main factors that contributed to availability concerns for property owners who lived certain distances from the shoreline. They were:

- More conservative reviews of insurers by rating agencies
- Cost and availability of reinsurance
- Enhanced and more detailed catastrophe models

Based on our more recent study, it is clear that those three factors no longer have the same impact on narrowing coverage availability as had been the case in 2006. This is due primarily due to the increased availability and affordability of reinsurance¹, and the industry's development of other risk-transfer innovations which have resulted in greater capacity in the retail homeowners market.

Although not a new factor in coverage availability, companies still depend on catastrophe models and continue to fine tune those models. Rating agencies, regulators and in-house risk managers all conduct financial stress tests on carriers to ensure they are adequately capitalized to withstand the impacts of significant events.

Since that 2006 report, the state has experienced several significant weather events over a period of several years that caused significant damage in all corners of the state.



¹ Reinsurance cost and availability became very difficult following 2004 and 2005 hurricane seasons. Florida, which was hit by four hurricanes in 2004: **Charley**, **Frances**, **Ivan**, and **Jeanne**, was impacted again by several more in 2005 including **Dennis**, **Katrina**, **Rita**, and **Wilma**.

The events underscored the big risks inherent in this small New England state:

- \$675 billion worth of property insured on CT coastline, 6th highest of 18 Atlantic states
- 64% of all insured property in the state is on the coastline, 3rd behind FL and NY
- Nearly 60% of CT is forested and the state is among the most densely populated

In 2011, Tropical Storm Irene and a powerful October nor'easter struck within two months of each other. A year later in 2012 Superstorm Sandy, a storm of historic proportions, slammed Connecticut again. The state also experienced record winter snowfalls that collapsed roofs and pipe-bursting extreme cold around the same time.



Insurers paid more than \$1 billion in claims from those events. Until 2014, carriers in the state-regulated market could decline new business if a homeowner didn't have pre-drilled or cut plywood on the premises for windows to mitigate future losses. State lawmakers responded with public policy changes in [Public Act No. 14-175](#) that, in part, prohibited this practice to ensure homeowners could obtain insurance without the plywood conditions.

In the wake of the weather events, public policy changes and other factors, the CID felt it necessary to re-examine the market with a voluntary data call of state-regulated Personal Lines homeowner carriers in Connecticut.

This study was compiled with the assistance of the NAIC and presents the findings of that data call and other market trends.

2015 Data Call Summary

The following is a summary of the survey. The full NAIC analysis of the data is attached as Exhibit 1 of this report.

Companies: Breakdown of the types of companies surveyed. A captive agent is an insurance agent who works exclusively for one company.

| Type of Company | Group | Company |
|----------------------------|----------------------|-----------|
| Mutual – Agent/Captive | 5 | 8 |
| Mutual – Agent/Independent | 17 | 22 |
| Mutual – Direct | 5 | 7 |
| | Mutual Totals | 27 |
| Stock – Agent/Captive | 3 | 4 |
| Stock – Agent/Independent | 18 | 44 |
| Stock – Direct | 6 | 9 |
| | Stock Totals | 57 |
| | Grand Totals | 54 |

Premiums average (2013-2015) The average premium for new policies increased 6.5 percent statewide and *decreased* 1.4 percent on the coast. The average premium for renewed policies increased 8.4 percent statewide and 9 percent on the coast.

| New Business | 2013 Average Premium | 2014 Average Premium | 2015 Average Premium |
|--------------|----------------------|----------------------|----------------------|
| Coastal | \$1,701 | \$1,716 | \$1,678 |
| Non-Coastal | \$1,070 | \$1,119 | \$1,149 |
| Statewide | \$1,170 | \$1,214 | \$1,246 |

| Renewals | 2013 Average Premium | 2014 Average Premium | 2015 Average Premium |
|-------------|----------------------|----------------------|----------------------|
| Coastal | \$2,111 | \$2,221 | \$2,301 |
| Non-Coastal | \$1,340 | \$1,399 | \$1,453 |
| Statewide | \$1,485 | \$1,551 | \$1,610 |

New entrants to the CT homeowners market:

| New Carriers entering CT Homeowner Market |
|--|
| 2012 |
| Universal North American |
| American Commerce |
| ACE |
| Pacific Specialty |
| Old Dominion |
| Ohio Mutual |
| AAA |
| Fidelity National |
| PURE |
| Cincinnati Companies |
| 2015 |
| MapFre |
| Stillwater |
| United Property & Casualty |
| National Specialty |
| 2016 |
| Narragansett |
| Ironshore |
| AM Trust |
| Nationwide |

Change in number of companies writing homeowner insurance on the coast:

| | Fairfield County | Middlesex County | New Haven County | New London County |
|-------------|------------------|------------------|------------------|-------------------|
| 2013 | 43 | 42 | 43 | 44 |
| 2014 | 46 | 42 | 45 | 44 |
| 2015 | 42 | 39 | 44 | 44 |

Market Trends – Claims costs, rates and underwriting

Since 2011 Connecticut direct written premium (DWP) has grown from \$1.12 billion to \$1.40 billion² which represents 25 percent growth. Most of this growth is due to rate increases following the weather events the state experienced starting in 2010. The charts

² A.M. Best Market Share report

below show the storm impacts on claims costs and the average rate increase requests that carriers filed with the CID since 2010.

| Storm | Claims | Claims Paid |
|----------------------------------|--------|---------------|
| Sandy (2012) | 62,000 | \$493 million |
| Irene (2011) | 60,000 | \$235 million |
| October Nor'easter (2011) | 93,000 | \$247 million |
| Winter 2010-2011 | n/a | \$165 million |

| Year | Requested Increase | Approved Increase |
|-------------|--------------------|-------------------|
| 2010 | 9.1% | 8.1% |
| 2011 | 4.7% | 4.3% |
| 2012 | 12.4% | 9.7% |
| 2013 | 8.5% | 7.9% |
| 2014 | 6.8% | 4.8% |
| 2015 | 4.6% | 4.0% |

Rate requests – CID rate reviews saved policyholders nearly \$57 million

Industry Underwriting and Marketing Trends:

Carriers have filed with the Department various restrictive criteria in an effort to mitigate exposure. Carriers attempt to back up their requirements by using models that calculate storm surge potential and the damage that could occur to homes in certain locations and elevations, called predictive modeling. For example, some sought to mitigate their losses on damaged roof claims by paying based on the age of the roof or limiting the settlement to the actual cash value. The CID has disapproved many of these filings because a homeowner policy in Connecticut is a replacement cost policy. While the CID understands the need for predictive modeling it is essential that the practice not be discriminatory nor impede the availability of homeowner insurance.

Insurance agents marketing the policies for the carriers also provided anecdotal information on availability of coverage on the shoreline. CID staff visited with agents in each of the four coastal counties and learned that since the implementation of P.A. 14-175 in 2014 placing homeowner business in nearly all counties has been much easier. The CID continues to monitor the issue and will begin a market conduct investigation if there is any indication that carriers are directing agents to discourage placing new business on the coast.

Coverage Through Non-Traditional Markets

The CID also has examined trends in the non-traditional markets such as Excess & Surplus Lines (E&S), which is not regulated by the CID and the FAIR Plan, the plan of “last resort.”

The [FAIR Plan](#) does not compete in the voluntary market. It is an insurance association that provides coverage for property owners who have been unable to obtain it elsewhere. The policies have generally higher average premiums and provide limited coverage, significantly lower than that found in the standard market. Since 2007, the number of policies issued by FAIR Plan has been decreasing:

| Year | No. of FAIR Plan Policies | Written Premium |
|------|---------------------------|-----------------|
| 2016 | 2,345 | \$3.22M |
| 2015 | 2,538 | \$3.47M |
| 2014 | 2,779 | \$3.67M |
| 2013 | 2,829 | \$3.48M |
| 2012 | 2,964 | \$3.29M |
| 2010 | 3,178 | \$3.30M |
| 2009 | 3,436 | \$3.23M |
| 2008 | 3,817 | \$3.51M |
| 2007 | 4,207 | \$3.90M |

The E&S market is also a market of last resort. The carriers whose policies are placed through the E&S market are not admitted in Connecticut, meaning the carriers and the products in this market are not regulated by the CID to the same extent the admitted personal and commercial markets are. Therefore consumers do not have the same regulatory protections afforded to policyholders within the traditional or “admitted” market and may also be offered policies with less coverage than required in the admitted market. For example, a homeowner with an E&S policy is not protected by the Guaranty Fund, should the carrier become insolvent. It is important for homeowners to be aware of the regulatory distinction between the traditional and non-traditional markets. There have been indications, however, that the E&S homeowners’ market has been growing, and this is a trend the CID will be closely monitoring. The CID encourages homeowners to talk to their agents or contact the CID with any questions.

Ensuring Future Availability & Affordability of Coverage

Based upon our findings, the homeowners market is currently competitive throughout Connecticut, including the coastline. New carriers continue to enter the state and provide

consumers with competitive choices. However, the CID has identified some potential areas of concern that require regulatory vigilance to ensure the market remains robust. Those areas are:

Credit Ratings

An insurance company's access to capital is linked to its credit rating. Additionally, financial resilience, along with the continued ability to market products, are affected by a company's credit rating and its financial strength rating. The higher the credit rating, the greater flexibility a company has to acquire additional capital when necessary. Access to new capital can be vital in order for a company to continue to pay claims and remain solvent after a catastrophic event. The Department will continue to monitor changes to rating agencies' standards to gauge how they may affect company ratings.

Excess & Surplus Lines Trend

The passage of Public Act 14-175 was intended to provide more coastal homeowners with greater access to the admitted (i.e., fully regulated) market by prohibiting carriers from refusing to issue or renew a homeowners' policy simply because the homeowner did not have pre-drilled and cut plywood on the premises or any type of storm shutters installed on the house. However, the CID has identified some growth in the E&S market as the overall premium volume has increased. One driver of such growth could be that premiums are generally lower for the pared down offerings in an E&S homeowner policy. The CID believes that the pricing dynamic may be inducing many consumers or their brokers to seek out this "non-admitted" market, despite the reduced coverage and lack of Guaranty Fund protection. As a result, the CID will include E&S carriers in subsequent data calls for purposes of assessing availability and affordability of homeowner policies.

The CID will continue to monitor the business practices of agents, reminding them moving a customer into the E&S market because of lower premium is not an acceptable reason for leaving the admitted market and ultimately jeopardizes consumer protection.

Coastal Business Practices

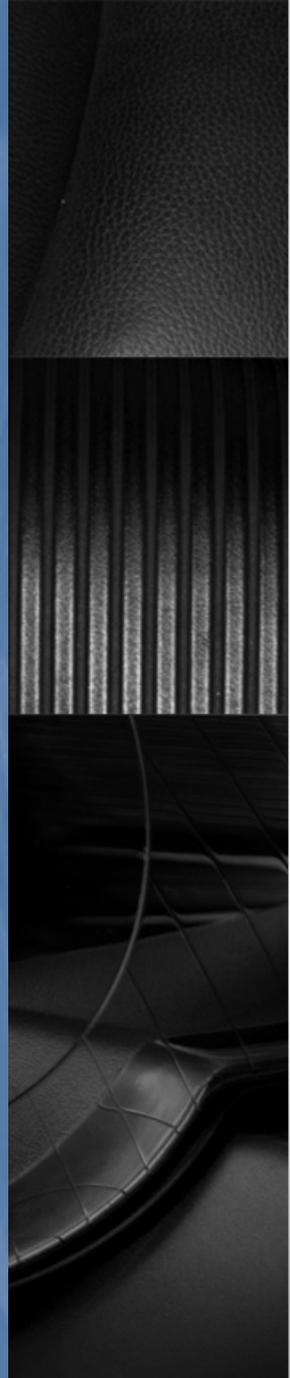
The CID will continue to ensure that neither insurance carriers nor their agents are engaging in business practices that discourage the marketing of policies along the coast. The CID will remind the industry that this practice is unacceptable and may result in market conduct investigations and penalties.

Exhibit 1

NAIC Analysis of Connecticut Homeowner Insurance Data Call

Connecticut Homeowner Market Study

2016



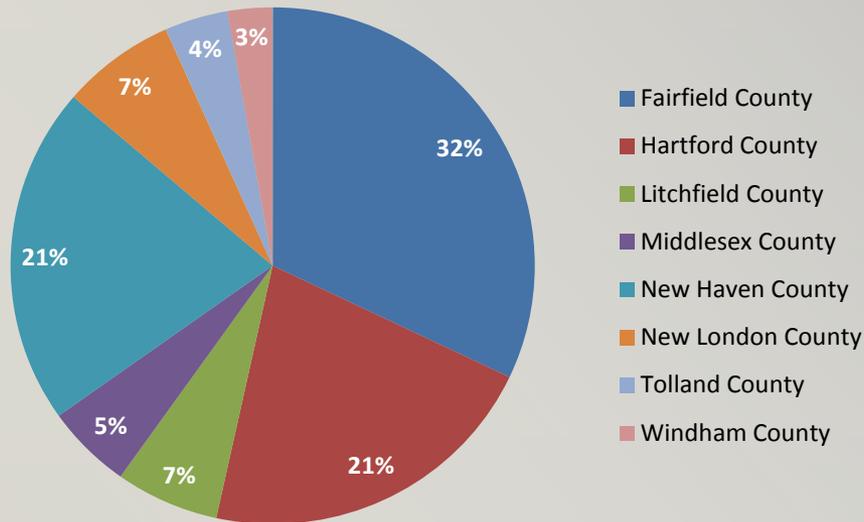


Introduction & Background

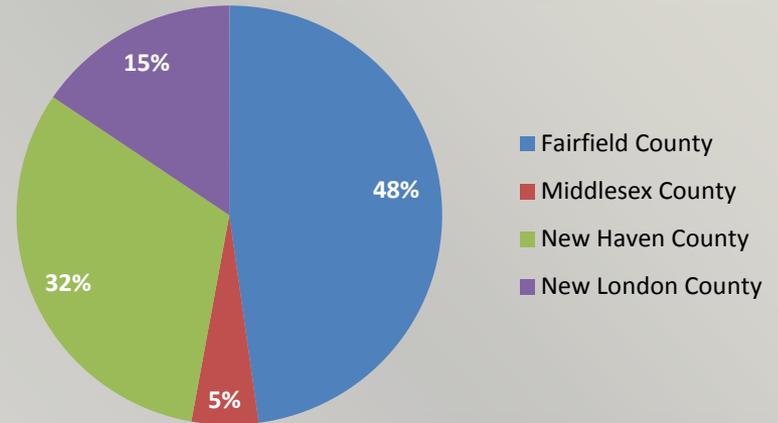
- The reason for the study is to determine the availability and affordability of homeowners insurance along the coast of Connecticut.
- A total of 94 companies submitted their information for this study. Forty-four companies classified themselves as Stock-Agent/Independent, 22 Mutual-Agent/Independent, 9 Stock-Direct, 8 Mutual-Agent/Captive, 7 Mutual-Direct, and 4 Stock-Agent/Captive.
- This study will take a look at the total business written across the state as well as and in comparison to business written in the coastal zip codes, as provided by the Connecticut Department of Insurance.
- The NAIC obtained all information contained in the study from companies who submitted individual company data in a prescribed format.
- The accuracy of the reports included in this publication depends on the accuracy of the information contained in the company submissions. While the NAIC exercises a great deal of care in validating and capturing data, as with any statistical project, errors can occur. Consequently, the NAIC makes no representations or warranties with respect to the accuracy of the data and statistics in this report.

2014 New Business Written

New 2014 Written Premium



New 2014 Written Premium - Coastal Zip Codes

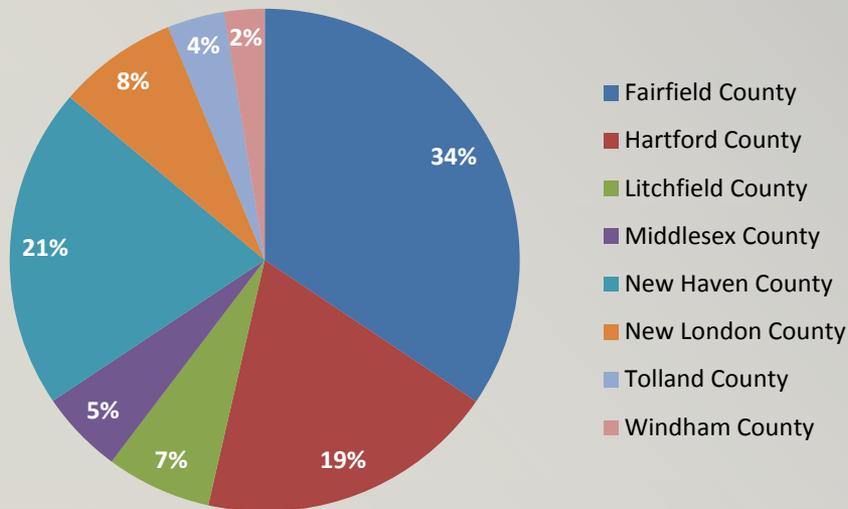


65% of all new business written in 2014 was in the coastal counties.

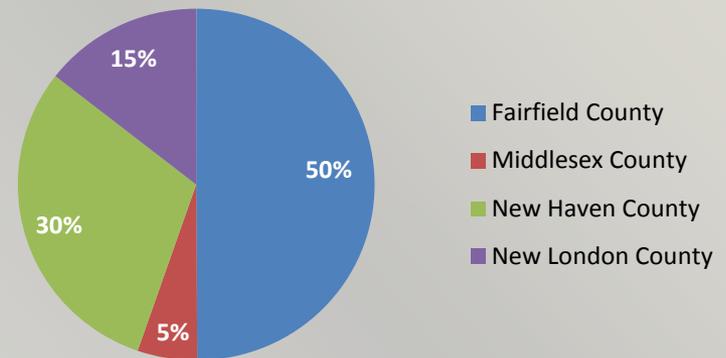
Approximately 50% of business written in the coastal zip codes is in Fairfield County.

2014 Renewal Business Written

2014 Renewal Written Premium



Renewal 2014 Written Premium - Coastal Zip Codes

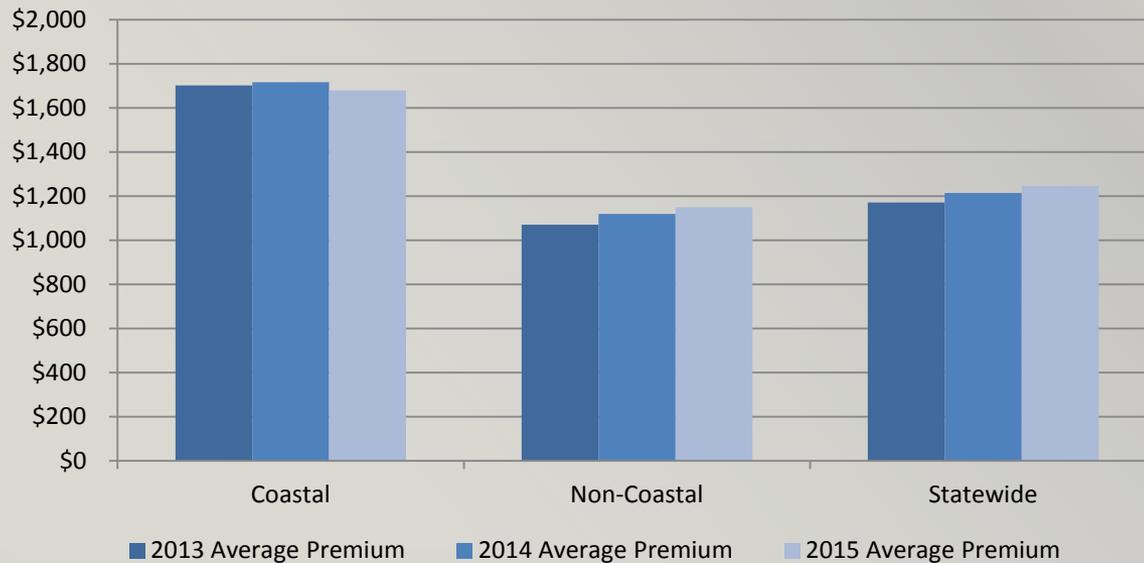


68% of all renewal business written in 2014 was in the coastal counties.

Approximately 50% of business written in the coastal zip codes is in Fairfield County.

Average Premiums for New Written Premium

Average New Premiums



Average premium cost has increased by 6.5% over the past three years for the state.

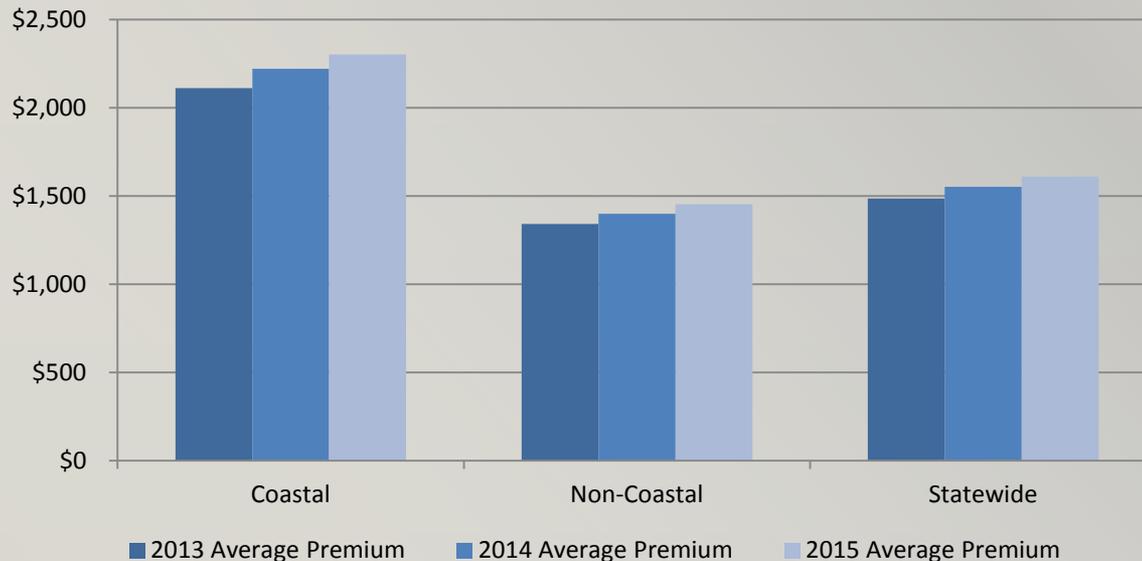
Average premium cost in coastal zip codes has decreased by 1.4% over the past three years.

*2015 represents 6 months of data.

| NEW BUSINESS | 2013 Average Premium | 2014 Average Premium | 2015 Average Premium |
|--------------|----------------------|----------------------|----------------------|
| Coastal | \$1,701 | \$1,716 | \$1,678 |
| Non-Coastal | \$1,070 | \$1,119 | \$1,149 |
| Statewide | \$1,170 | \$1,214 | \$1,246 |

Average Premiums for Renewal Written Premium

Average Renewal Premiums



Average renewal premiums has increased by 8.4% over the past three years for the state.

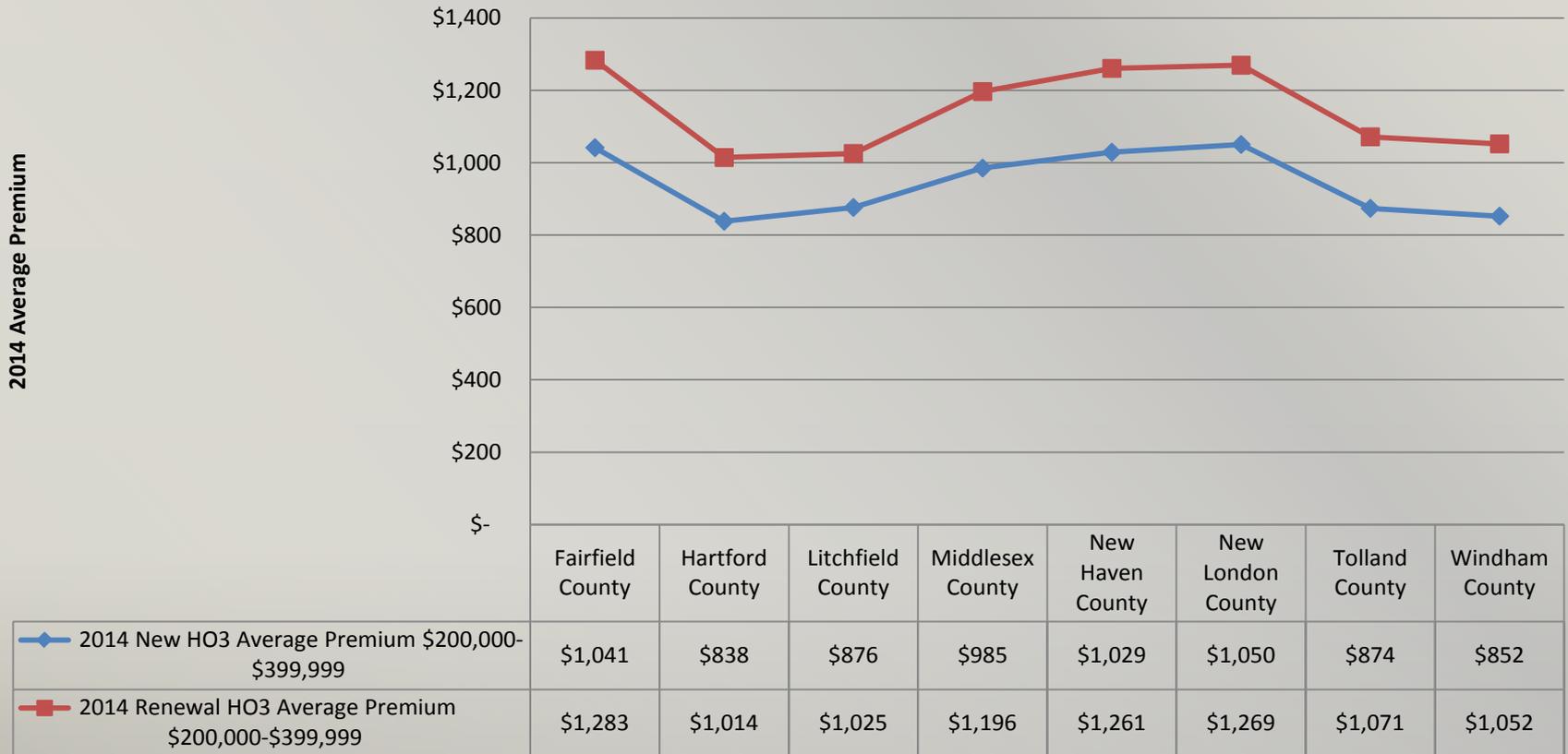
Average renewal premiums in the coastal zip codes increased by approximately 9% over the past three years.

*2015 represents 6 months of data.

| RENEWALS | 2013 Average Premium | 2014 Average Premium | 2015 Average Premium |
|-------------|----------------------|----------------------|----------------------|
| Coastal | \$2,111 | \$2,221 | \$2,301 |
| Non-Coastal | \$1,340 | \$1,399 | \$1,453 |
| Statewide | \$1,485 | \$1,551 | \$1,610 |

Average 2014 HO3 New and Renewal Premiums by County \$200,000-\$399,999 Exposure Range

**2014 HO3 New and Renewal Average Premiums
\$200,000-\$399,999 Range**



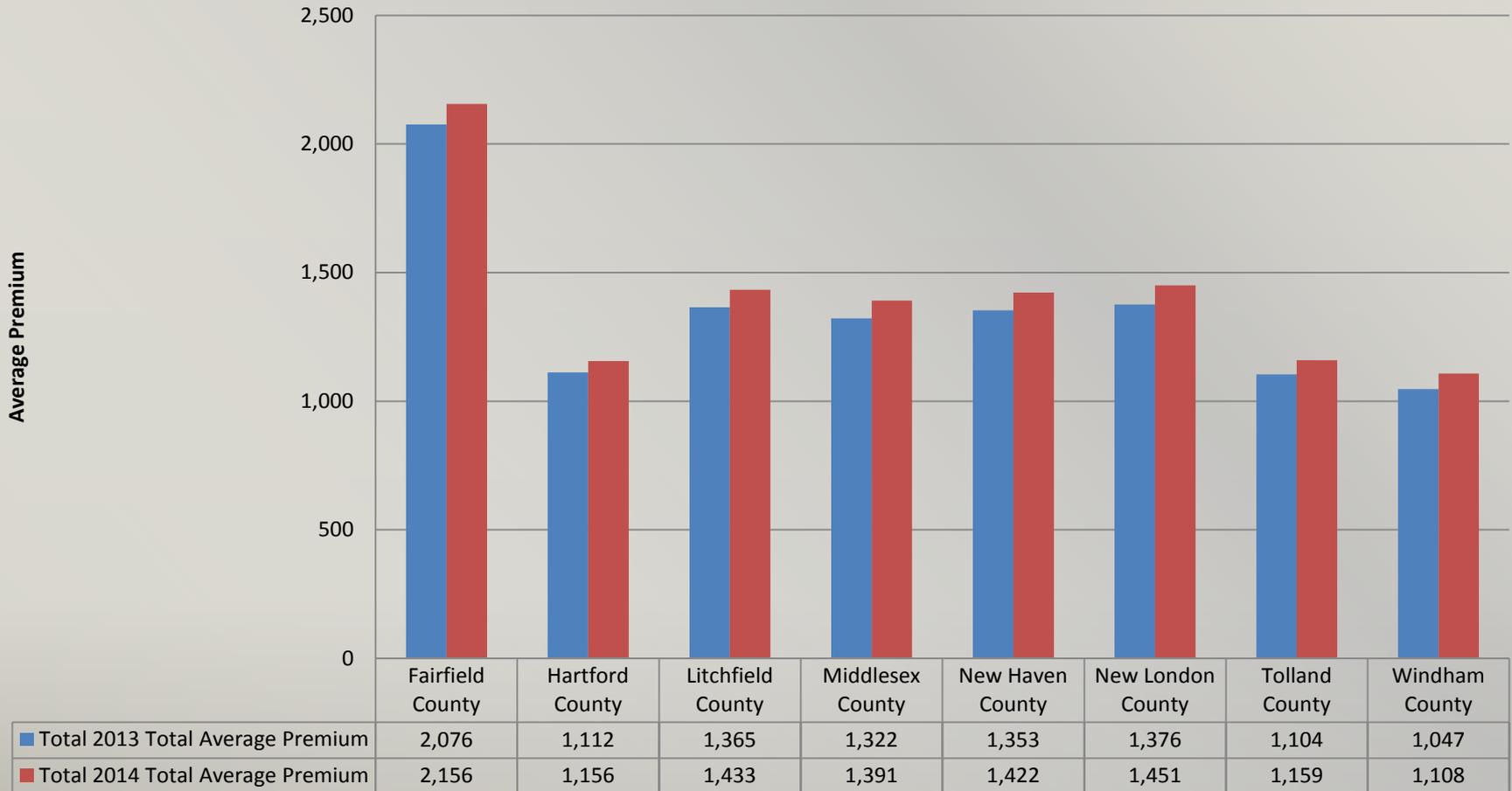
Average 2014 HO5 New and Renewal Premiums by County \$200,000-\$399,999 Exposure Range

**2014 HO5 New and Renewal Average Premiums
\$200,000-\$399,999 Range**



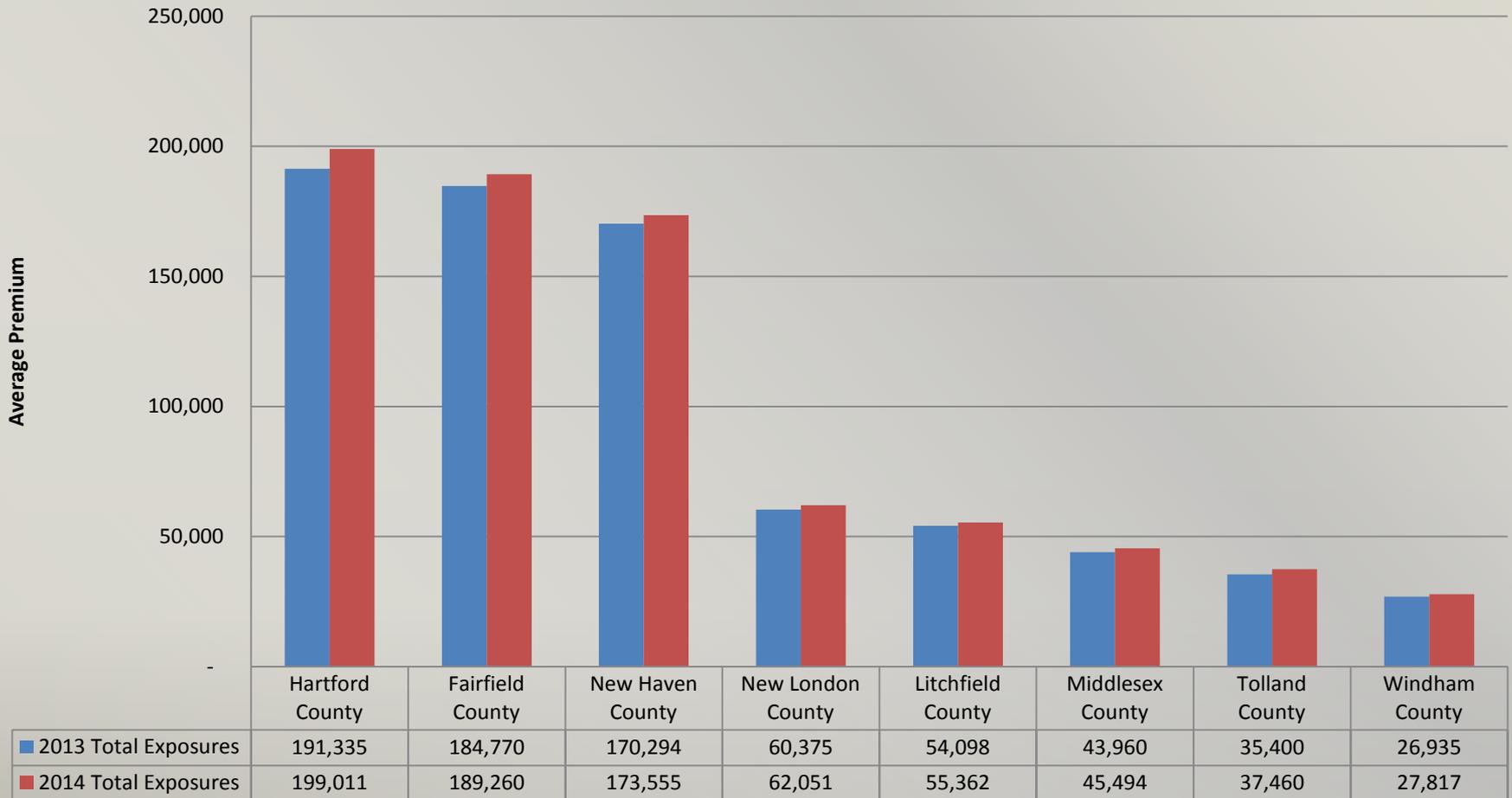
Average Premiums by County - New and Renewal 2013 to 2014

Change in Total Average Premium by County



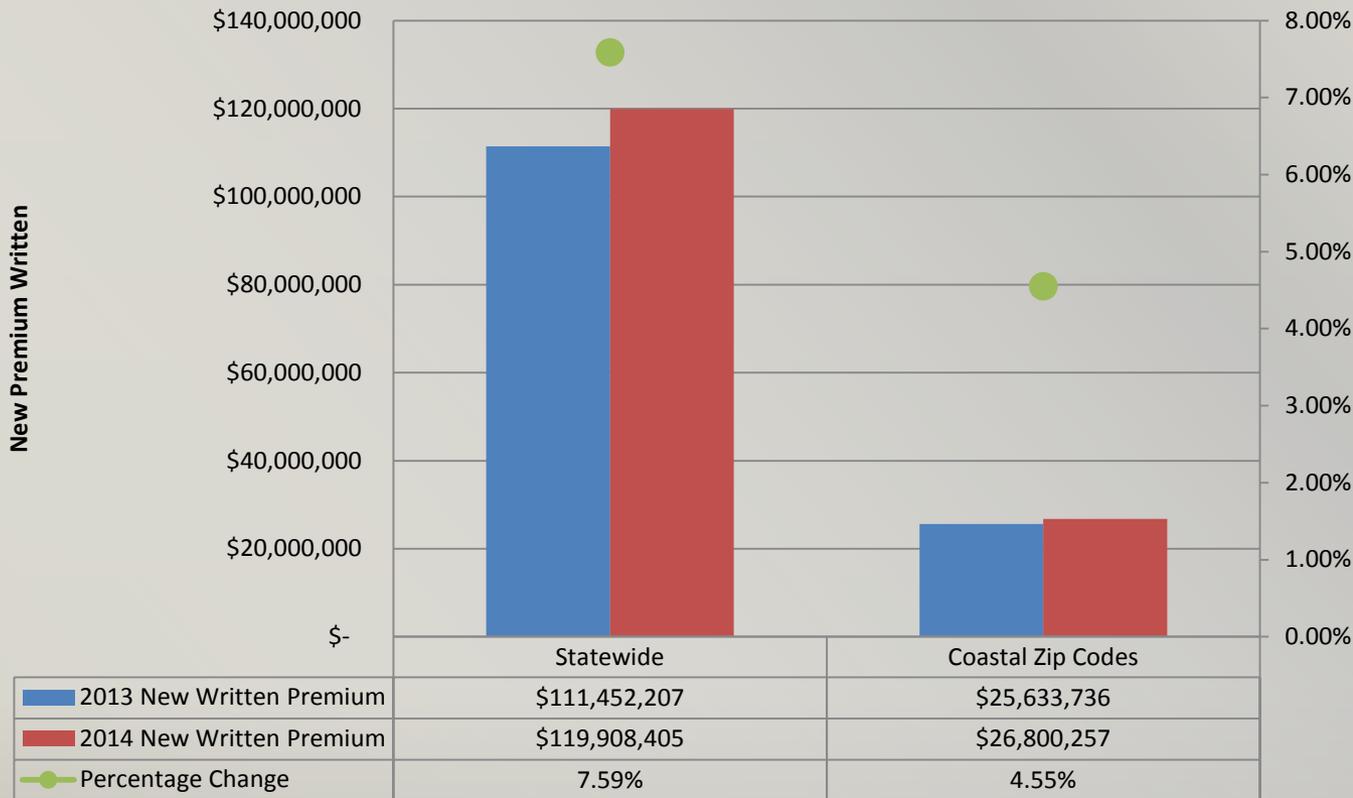
Exposures by County - New and Renewal 2013 to 2014

Change in Total Exposures by County



Change in New Written Premium - 2013 to 2014

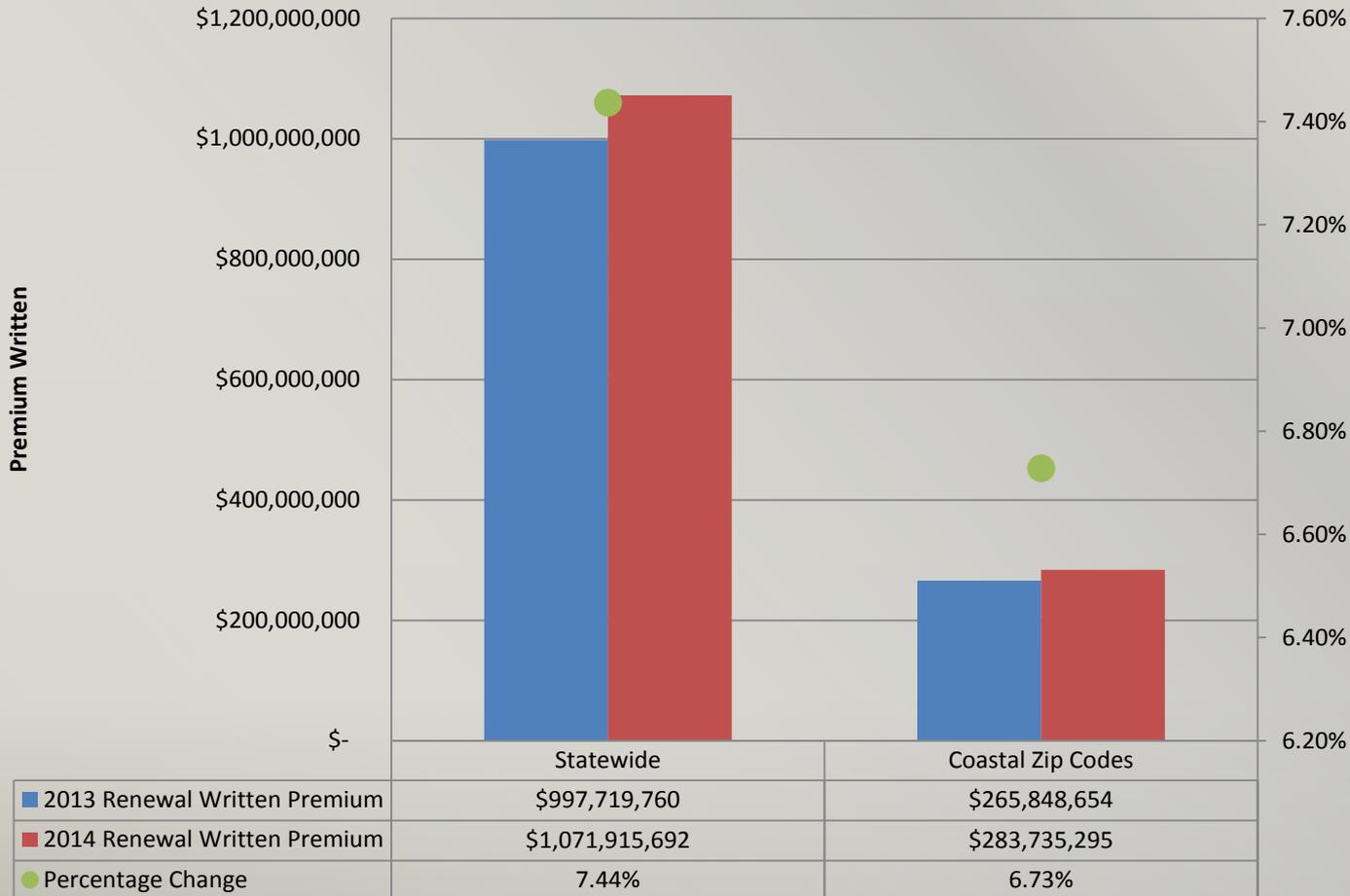
Change in New Written Premium



The increase in new business written in the coastal zip codes was only 4.55%, compared to 7.59% statewide.

Change in Renewal Written Premium - 2013 to 2014

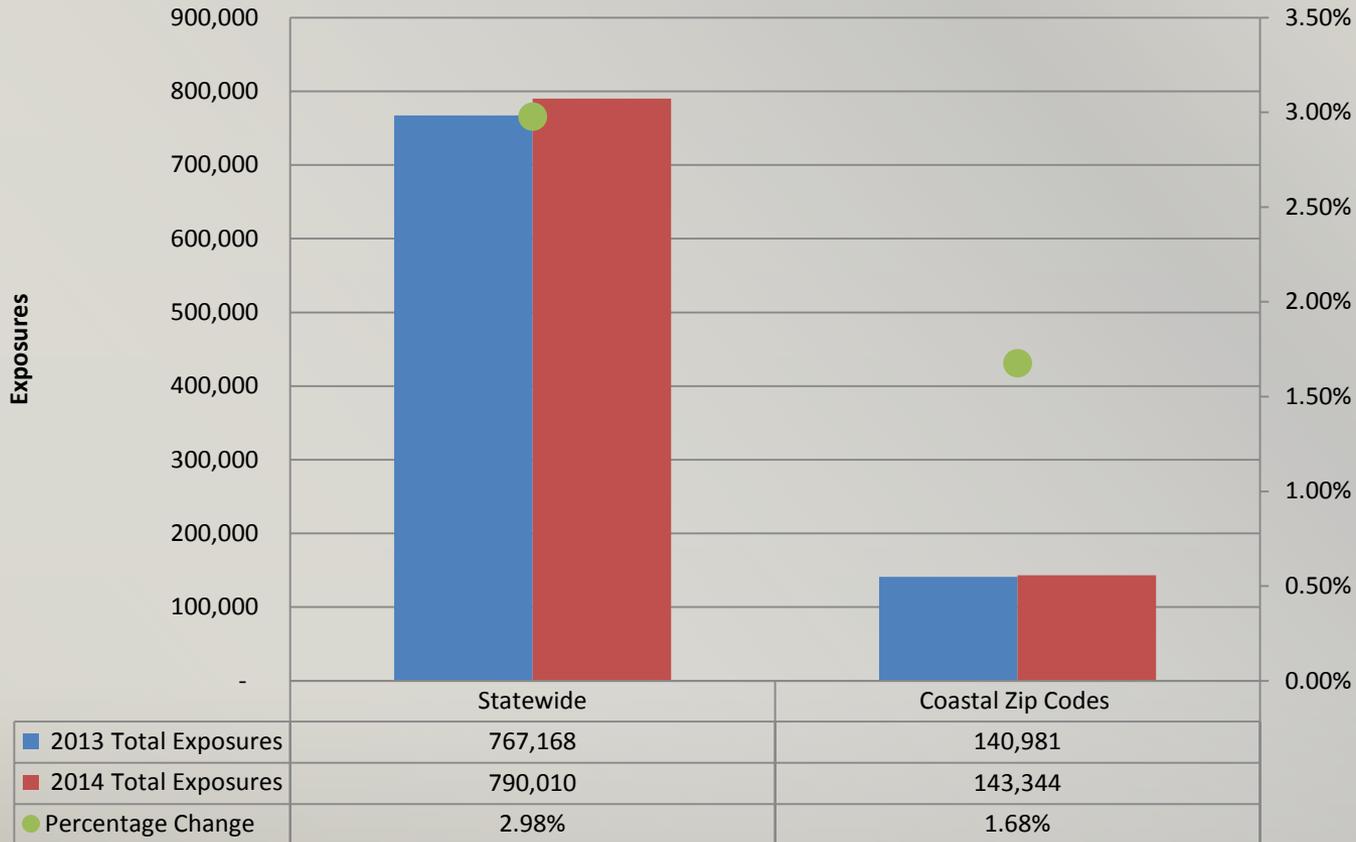
Change in Renewal Written Premium



Renewal business written in the coastal zip codes increased by 6.73% compared to 7.44% statewide.

Change in Exposures - 2013 to 2014

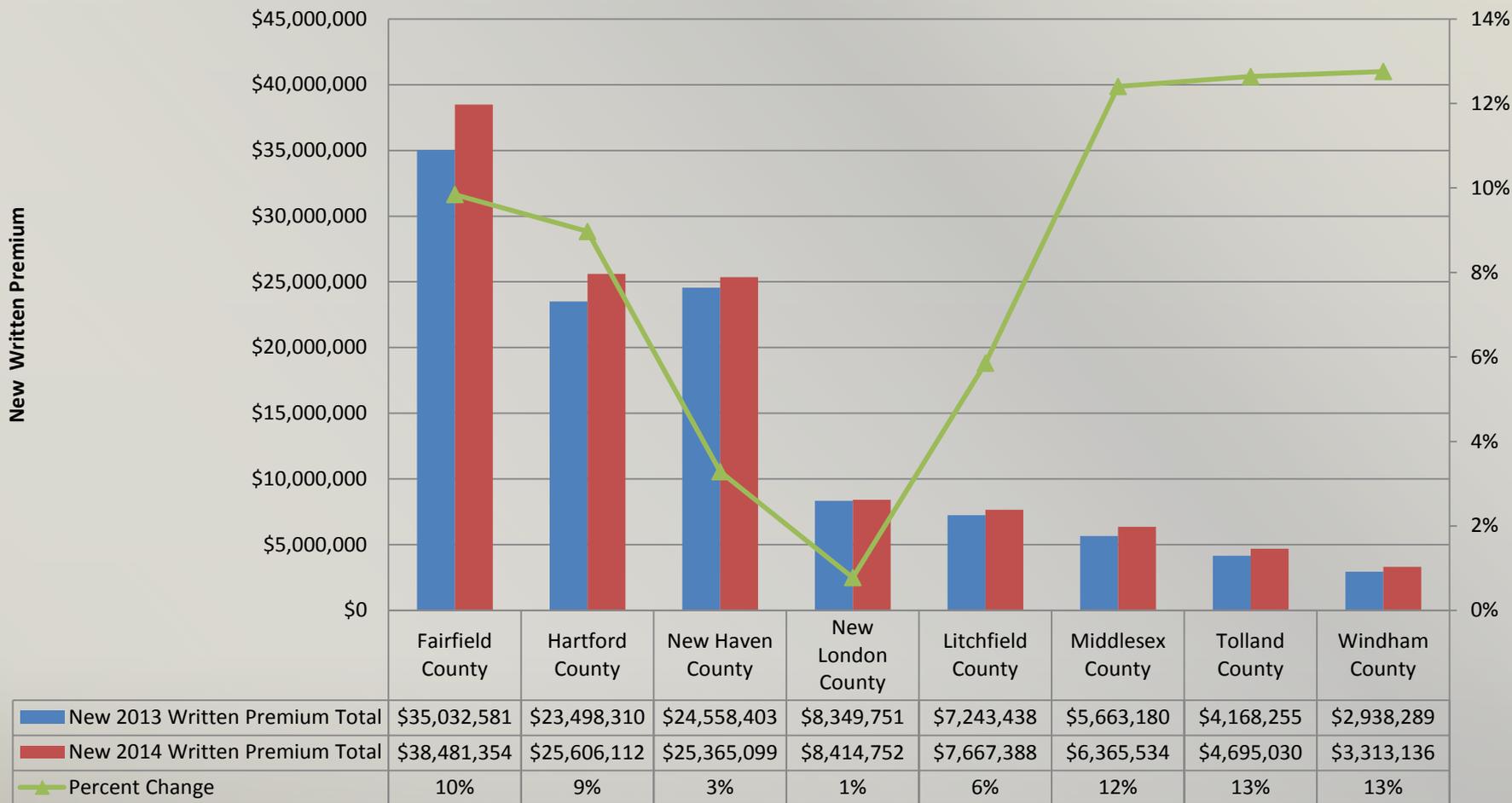
Change in Exposures



Exposures increased by 1.68% in the coastal zip codes in 2014 (the latest year with a full 12 months of data) compared to an increase of 2.98% statewide .

Change in New Written Premium by County - 2013 to 2014

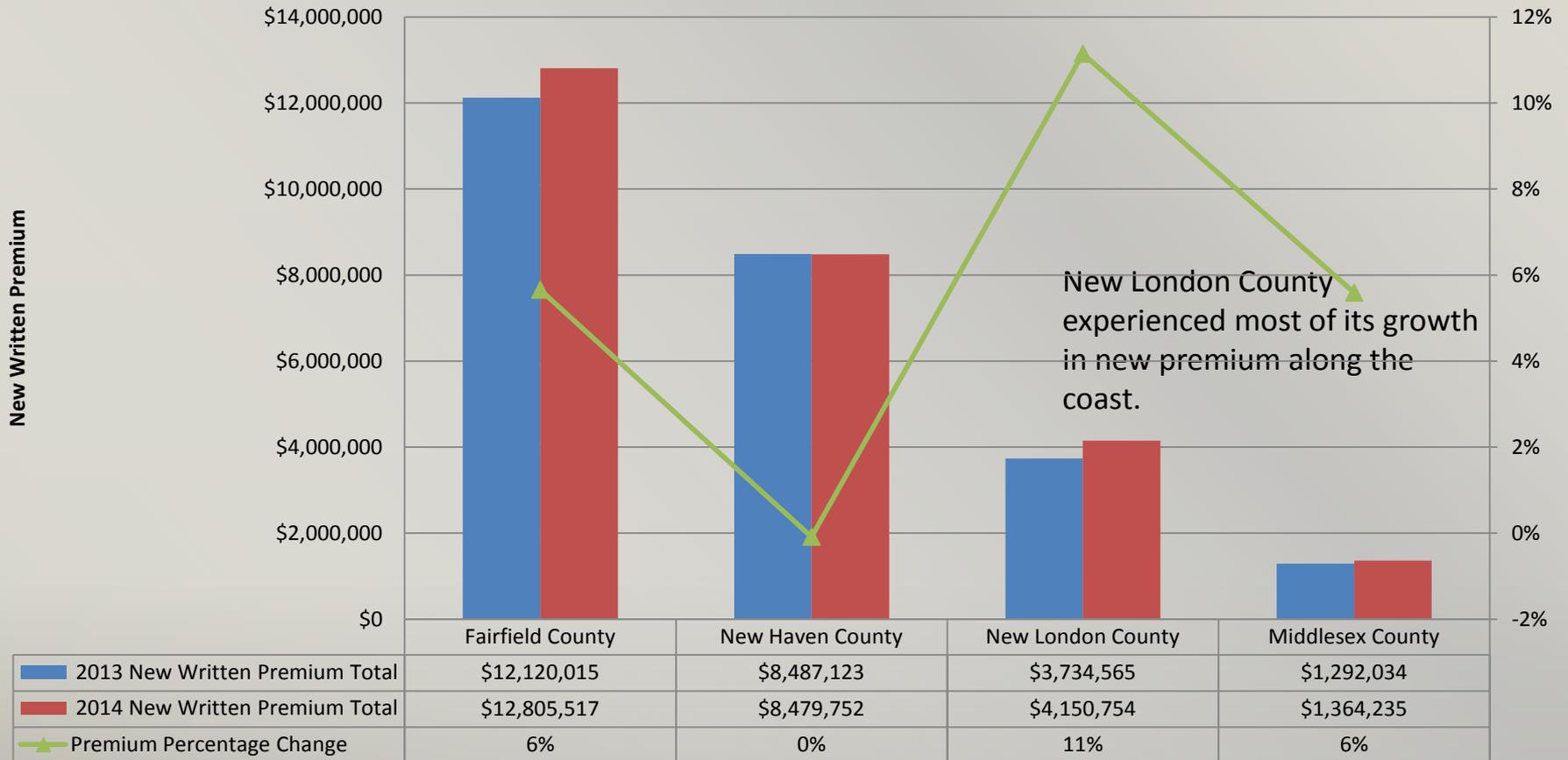
Annual Change in New Written Premium by County



New London County experienced the least growth from 2013 to 2014.

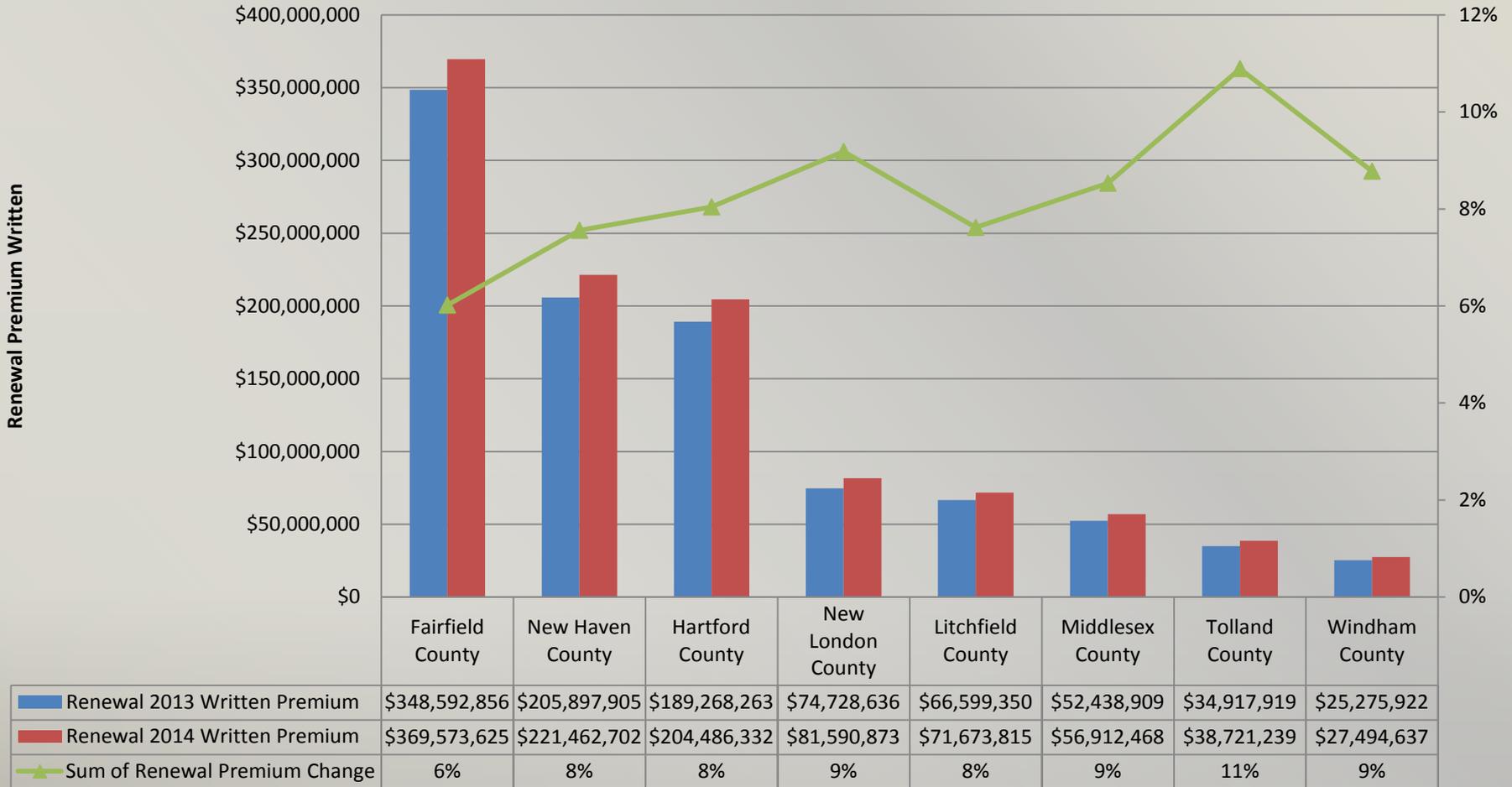
Change in New Written Premium by County 2013 to 2014 – Coastal Zip Codes

Annual Change in New Written Premium by County - Coastal Zip Codes



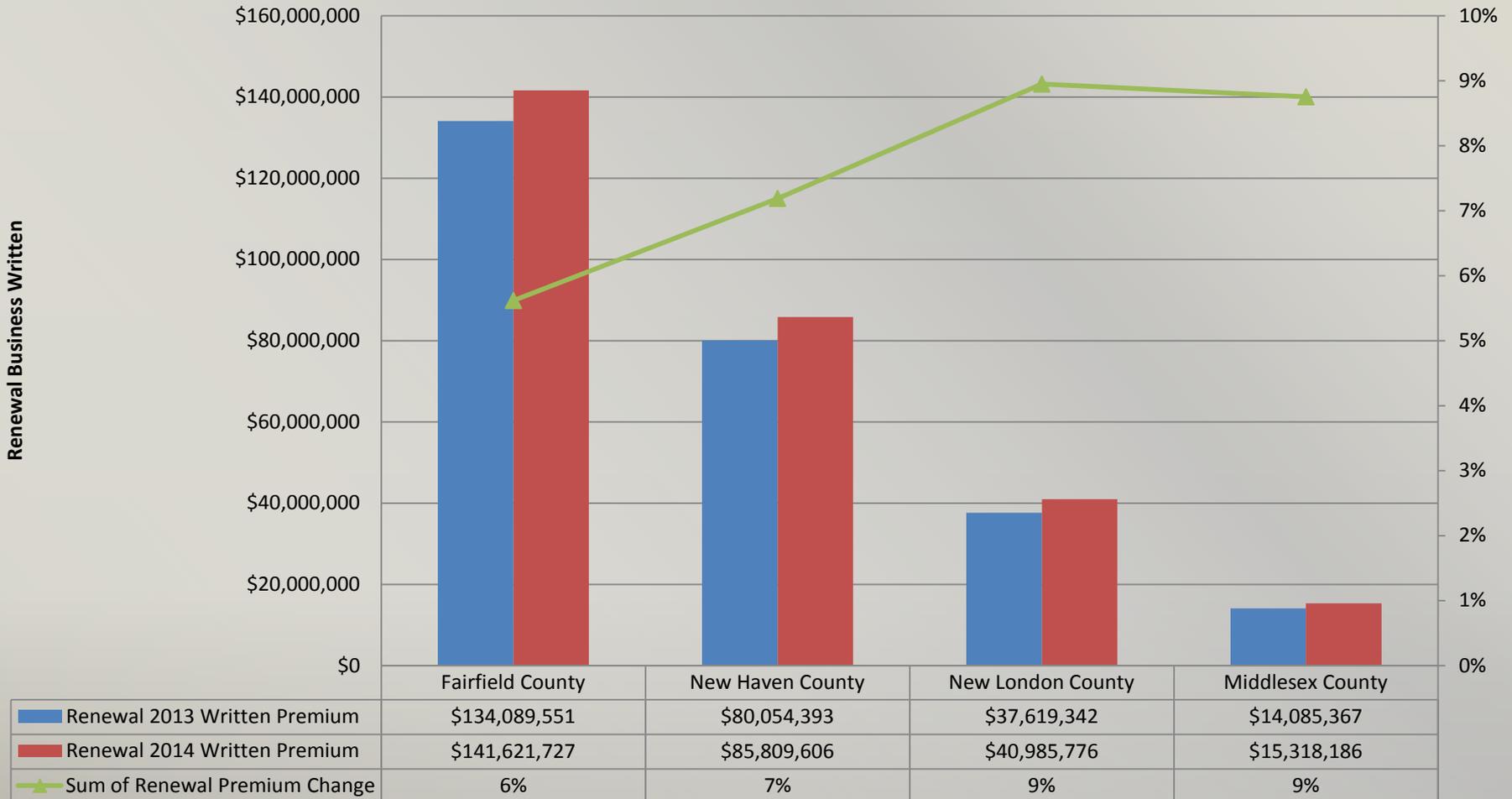
Change in Renewal Written Premium by County 2013 to 2014

Annual Change in Renewal Written Premium by County



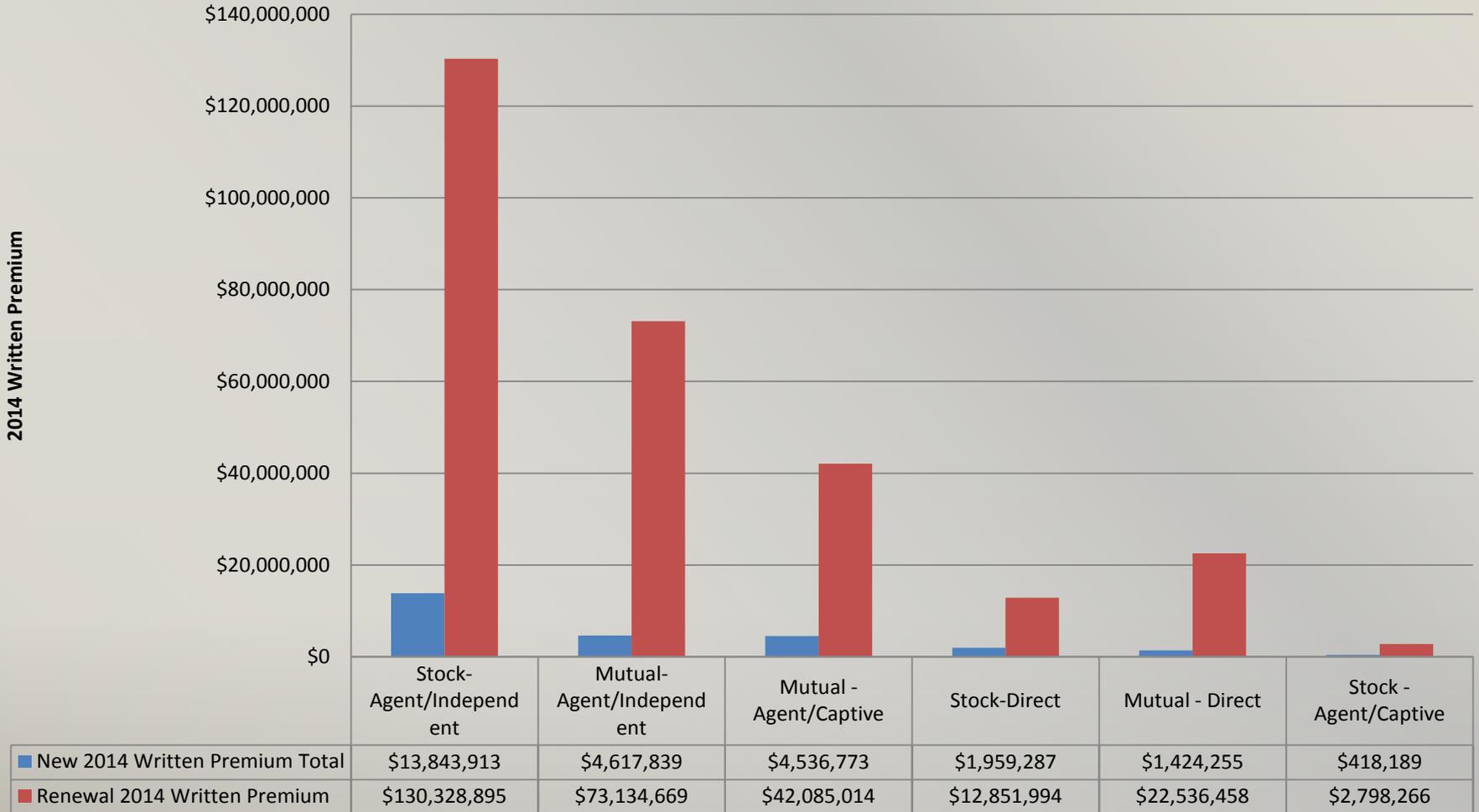
Change in Renewal Written Premium by County 2013 to 2014 – Coastal Zip Codes

Annual Change in Renewal Written Premium by County



Coastal Business by Company Type

2014 Premiums in Coastal Zip Codes by Company Type



List of Companies by Type

■ Mutual – Agent/Captive

- CSAA Fire & Casualty Insurance Company
- Liberty Insurance Corporation
- Liberty Mutual Fire Insurance Company
- Nationwide General Insurance Company
- Nationwide Mutual Fire Insurance Company
- Nationwide Property & Casualty Insurance
- State Farm Fire and Casualty Company
- California Casualty Indemnity Exchange

■ Mutual – Direct

- Amica Mutual Insurance Company
- Homesite Insurance Company
- LM Insurance Corporation
- United Services Automobile Association
- USAA Casualty Insurance Company
- USAA General Indemnity Company
- 21st Century Premier Insurance Company

■ Mutual - Agent/Independent

- Allstate Indemnity Company
- Allstate Insurance Company
- Cambridge Mutual Fire Insurance Company
- Casco Indemnity Company
- Central Mutual Insurance Company
- Employers Mutual Casualty Company
- General Insurance Company of America
- Graphic Arts Mutual Insurance Company
- Harleysville Preferred Insurance Company
- Harleysville Worcester Insurance Company
- Merrimack Mutual Fire Insurance Company
- Middlesex Mutual Assurance Company
- National Grange Mutual
- New England Mutual Insurance Company
- New London County Mutual Insurance Company
- Patrons Mutual Insurance Company of Connecticut
- Providence Mutual Fire Insurance Company
- Republic-Franklin Insurance Company
- Safeco Insurance Company of America
- Union Mutual Fire Insurance Company
- Utica First Insurance Company
- Vermont Mutual Insurance Company

List of Companies by Type

- Stock – Agent/Independent
 - AIG Property Casualty Company
 - American Automobile Insurance Company
 - American Commerce Insurance Company
 - ASIC Connecticut
 - Associate Indemnity Corporation
 - Automobile Insurance Company of Hartford
 - Bankers Standard Insurance Company
 - Bunker Hill Insurance Company
 - Chubb National Insurance Company
 - Cincinnati Insurance Company
 - Citizen's Insurance Company of America
 - Economy Premier Assurance Company
 - Encompass Indemnity Company
 - Encompass Insurance Company of America
 - Federal Insurance Company
 - Fireman's Fund Insurance Companies
 - General Casualty Company of Wisconsin
 - Great Northern Insurance Company
 - Hartford Casualty Insurance Company
 - Hartford Fire Insurance Company
 - Hartford Insurance Company of the Southeast
 - Hartford Underwriters Insurance Company
 - Integon National Insurance Company
 - Kemper Independence Insurance Company
 - Mass Bay Insurance Company
 - Massachusetts Homeland Insurance Company
 - Merastar Insurance Company
 - Metropolitan Property and Casualty Insurance
 - National Surety Corporation
 - Pacific Indemnity Company
 - Praetorian Insurance Company
 - Priviledge Underwriters Reciprocal Exchange
 - Sentinel Insurance Company, Limited
 - Standard Fire Insurance Company
 - The Hanover American Insurance Company
 - The Hanover Insurance Company
 - Tower Insurance Company of NH
 - Travelers Home and Marine Insurance Company
 - Travelers Indemnity Company of America
 - Travelers Personal Security Insurance Company
 - Twin City Fire Insurance Company
 - Unitrin Direct Property and Casualty Company
 - Unitrin Preferred Insurance Company
 - Universal North America Insurance Company
 - Vigilant Insurance Company

List of Companies by Type

■ Stock – Agent/Captive

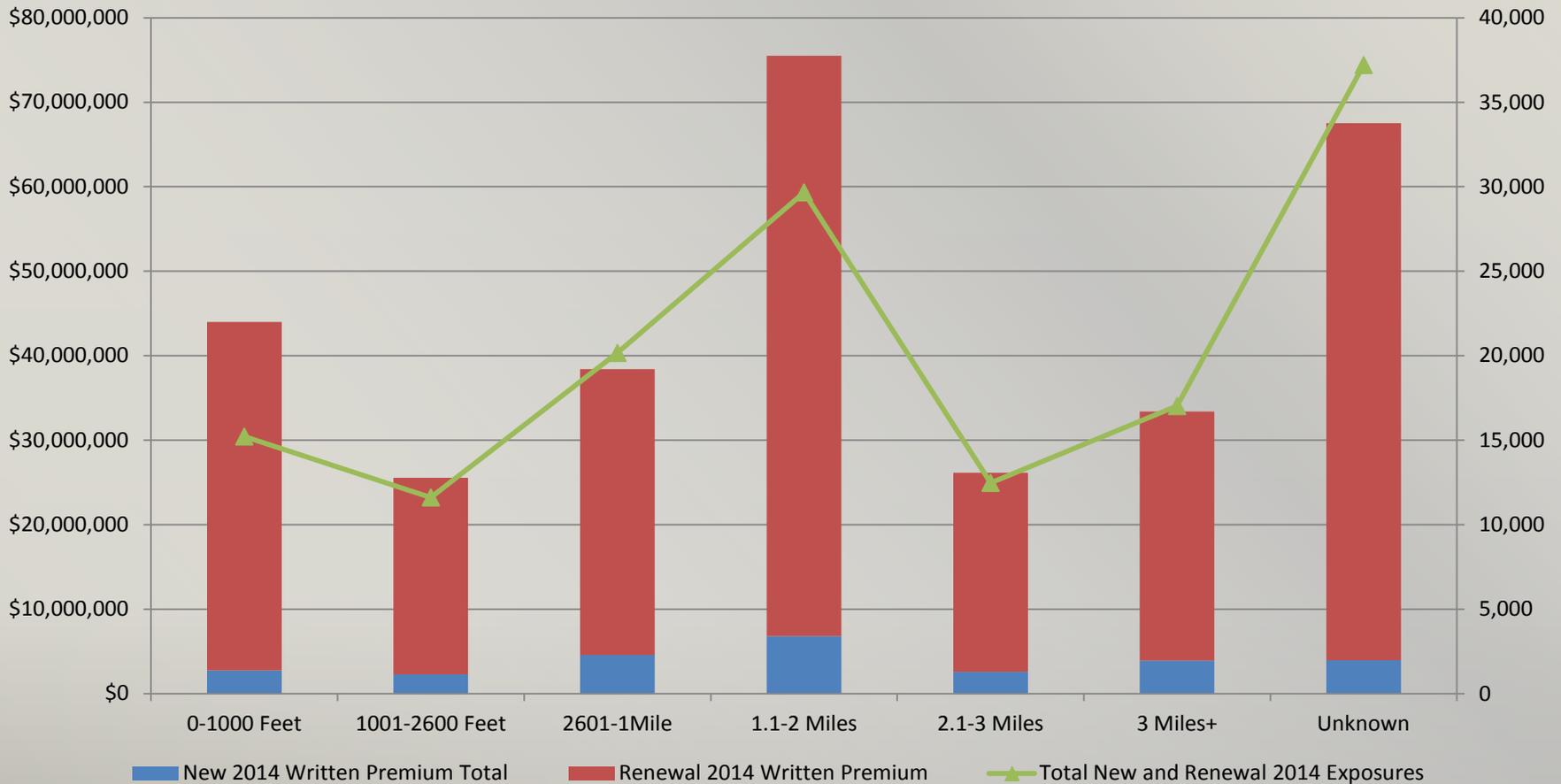
- Covenant Insurance Company
- Farm Family Casualty Insurance Company
- Horace Mann Insurance Company
- Teachers Insurance Company

■ Stock – Direct

- Electric Insurance Company
- Hartford Accident and indemnity Company
- IDS Property & Casualty Insurance Company
- Metropolitan Group Property and Casualty
- Property and Casualty Insurance Company
- Trumbull Insurance Company
- Hartford Insurance Company of the Midwest
- Pacific Specialty Insurance Company
- Stillwater Property and Casualty Insurance

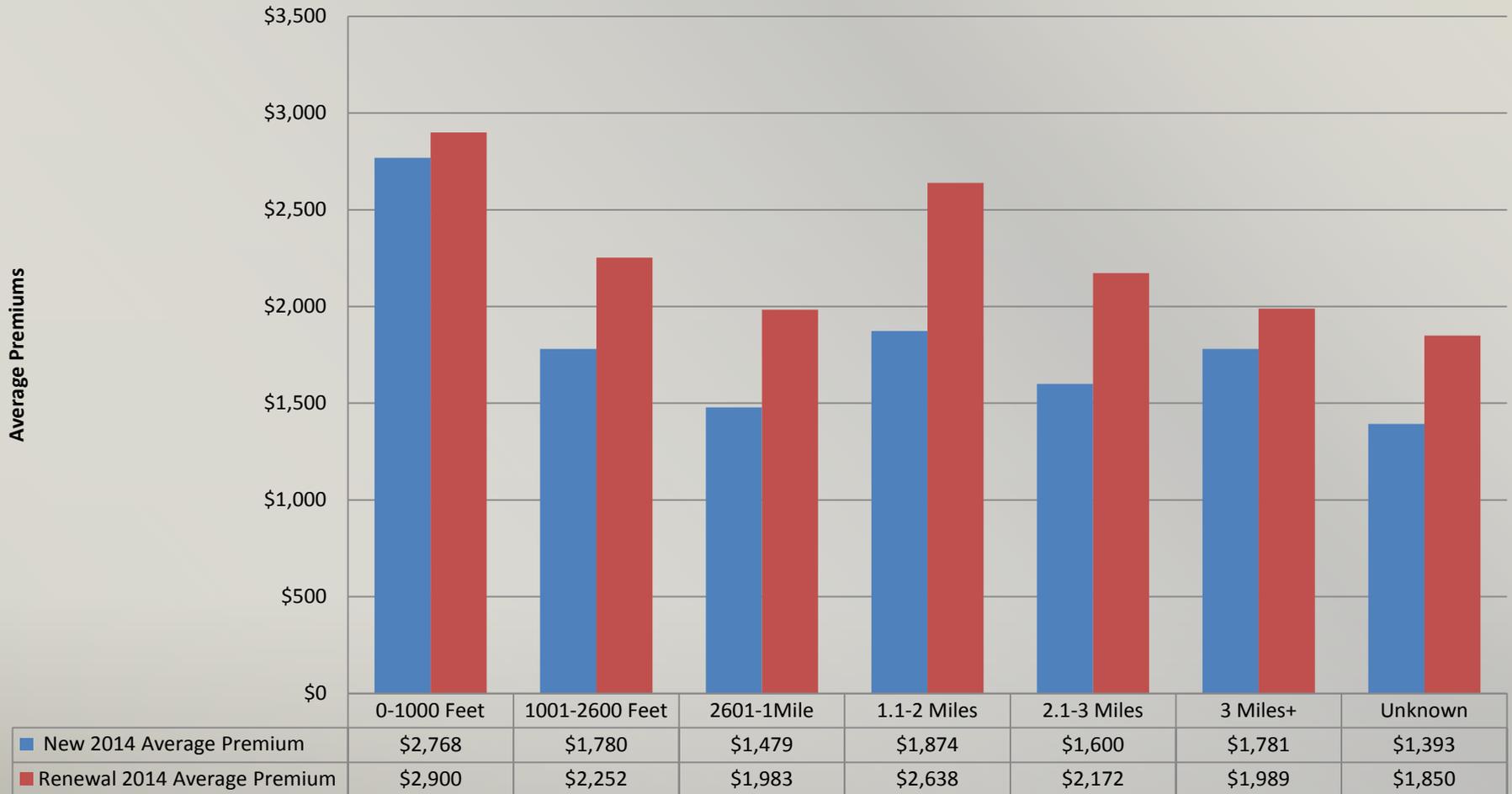
Coastal Business by Distance From Shore

2014 Premiums & Exposures by Feet from Shore Coastal Zip Codes



Average Premiums by Distance from Shore

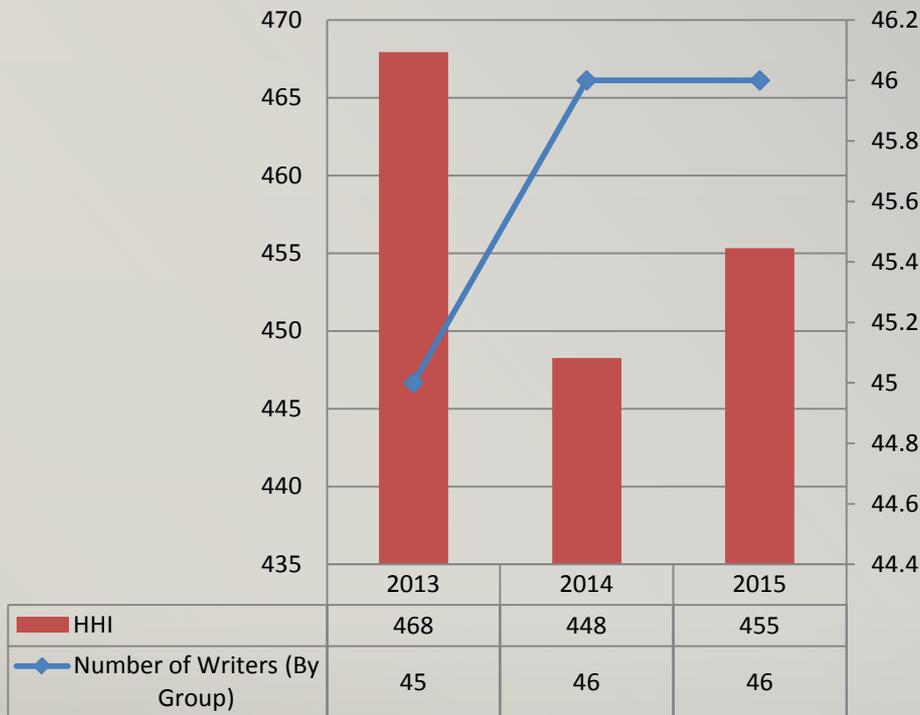
**2014 Average Premiums by Feet from Shore
Coastal Zip Codes**



Statewide Market Competition

Herfindahl Hirschman Index and Number of Writers

Statewide Market Competition

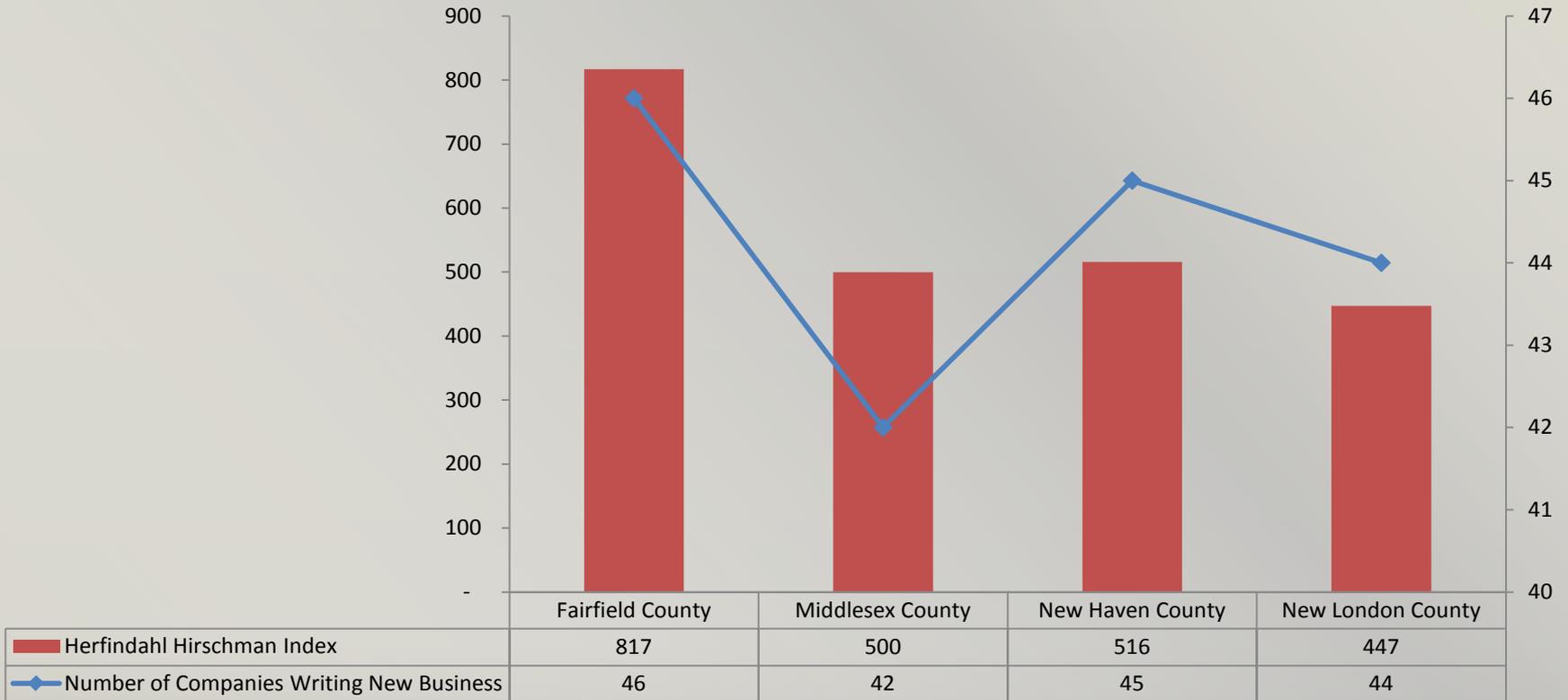


Herfindahl-Hirschman Index (HHI):

The HHI is calculated by summing the squares of the market shares (as a percentage) of all groups in the market. For example, if a market had only one seller, its market share would be 100% and the HHI would be 10,000. If a market had 10 sellers, each with an equal 10% of the market, the HHI would be 1,000. Although there is no precise point at which the HHI indicates that a market or industry is concentrated highly enough to restrict competition, the U.S. Department of Justice has developed guidelines with regard to corporate mergers. Under these guidelines, if a merger of companies in a given market causes the HHI to rise above 1,800, the market is considered highly concentrated. If, after the merger, the HHI is between 1,000 and 1,800, the market is considered moderately concentrated. An HHI of less than 1,000 is considered not concentrated. Because these numbers are guidelines, judgment must be used to interpret what information the HHIs provide for a particular market.

2014 Market Competition – Coastal Zip Codes

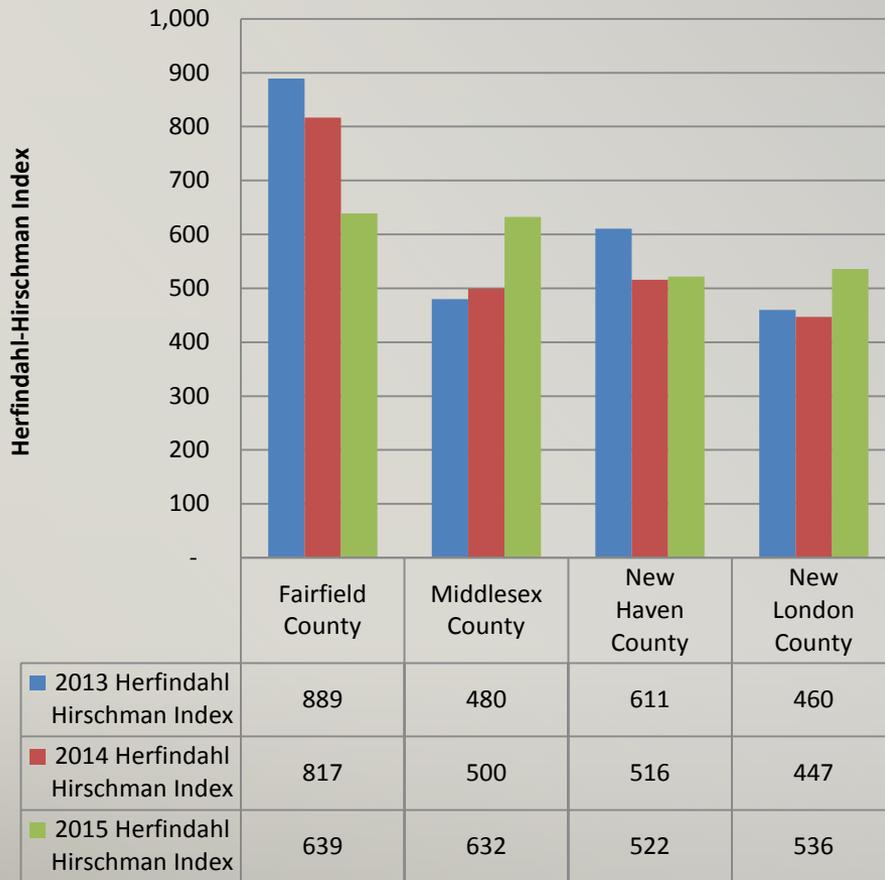
Market Competition in Coastal Counties



The greater the Herfindahl Hirschman Index number, the less competitive the market. An HHI of less than 1,000 is considered not concentrated.

Annual Market Competition – Coastal Zip Codes

Change in Market Competition by County



Change in Number of Groups Writing New Business by County - Coastal Zips Only

