

# **A Financial Analysis of Homeowners Insurance**



**State of West Virginia**

Offices of the Insurance  
Commissioner

July 2004

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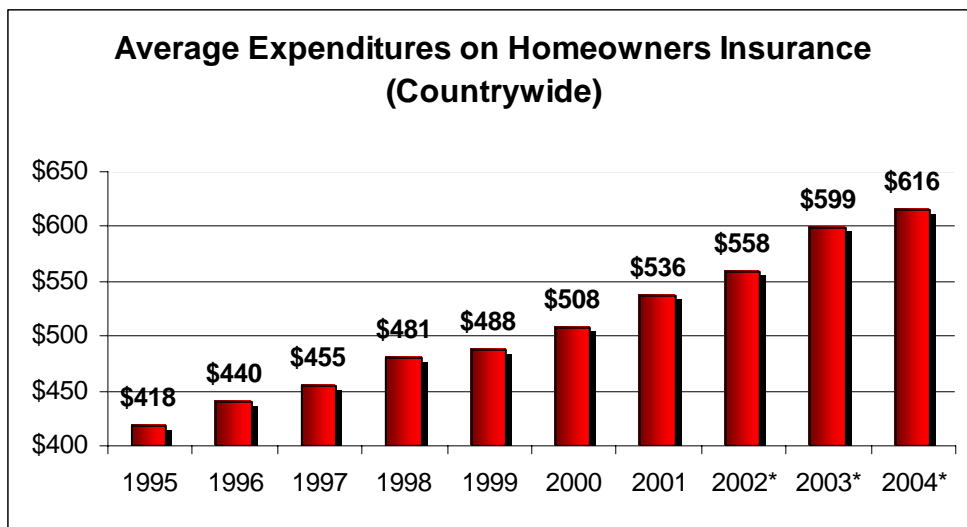
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## Introduction

This report examines homeowners insurance in West Virginia. It compares average premiums in West Virginia with those in other states, examines results in West Virginia against the industry, and discusses why rates are rising and what factors are driving the increases. The report also looks at the major homeowners writers in West Virginia, their loss ratios and rate history.

Recently, concerns about both *affordability* (as rates have been rising) and *availability* (as some insurers have tightened their underwriting standards and, in certain cases, stopped writing new homeowners business) are being raised in West Virginia and throughout the country.

Nationally, homeowners insurance premiums have been on the rise. Company underwriting standards have tightened considerably. Customers filing too many claims are being dropped and some customers are finding that their insurer is using credit information to adjust their premium up or down. Since 1995, premium increases had been running in the 2%-5% range. In 2003, the average homeowners premium jumped about 7% (countrywide) and the outlook for 2004 is an additional 3%. West Virginia increases have been even more substantial.



\*III estimates based on U.S. Bureau of Labor CPI data, company filings and trend projections  
Sources: National Association of Insurance Commissioners, Insurance Information Institute

## Background on Homeowners Policies

A homeowners insurance policy is a package policy that combines coverage against the insured's property being destroyed or damaged by various perils, and coverage for the insured's liability exposures. Thus, the homeowners insurance policy covers against loss to the insured's property as well as extending to the insured's personal liability exposures. There are six generally recognized types of homeowners insurance policies explained more fully below: HO-1; HO-2; HO-3; HO-4; HO-5; and HO-6.

**HO-1** covers eleven (11) basic risks (fire or lightning, explosion, riot, aircraft, vehicles, smoke, vandalism, windstorm or hail, theft, damage by glass and volcanic eruption). It is an "old" form of coverage and no longer used much.

**HO-2** is also a basic coverage and adds six (6) more risks than HO-1. They are falling objects, weight of ice, snow or sleet, and three (3) categories of water related damage from home utilities to electrical surge damage.

**HO-3** provides the most common form of homeowners insurance. It provides extended coverage and covers the seventeen (17) standard perils plus any other peril not specifically excluded in the policy. Some common examples of excluded loss are: earthquakes and floods (covered separately by government flood insurance), war and nuclear accident.

**HO-4** is renters insurance and covers personal property (no dwelling coverage) only under the seventeen (17) standard perils.

**HO-5** is the top of the line and costs about 15% more than the HO-3. It bundles up all the extra type of riders that might be available with other policies such as; coverage for jewelry, furs, etc. It even can include coverage for sewer backup and building code upgrades.

**HO-6** covers condo and co-op owners but just for personal property and only under the standard seventeen (17) perils.

A product similar to a homeowners insurance policy is a mobile homeowners insurance policy which generally provides coverages matching those available under a homeowners insurance policy for an insured's property and liability exposures associated with ownership of a manufactured home.

Another product available is a dwelling fire policy or dwelling fire coverage. This is a limited form of property insurance which generally only provides coverage for loss to the structure. There are three (3) typical types of dwelling fire policies (DF-1, DF-2 and DF-3) which provide different degrees of coverage against loss to the insured structure; however, a dwelling fire policy does not offer the same amount or types of coverage available under a homeowners insurance policy (for

example; personal liability coverage; loss of use/additional living expenses; valued policy law protections).

### **Types of Coverage:**

1. **Valued Policy**: West Virginia has a valued-policy law requiring insurance companies to pay to the insured, in case of total loss, the full amount of the insurance, regardless of the actual value of the property at the time of loss. West Virginia *does not* presently allow actual cash value policies, which provide for a reduction in payout, for depreciation of the property.
2. **Replacement Cost**: This policy pays the cost of rebuilding/repairing your home or replacing your possessions up to a stated amount without a reduction for depreciation.
3. **Guaranteed or extended replacement cost**: This policy offers the highest level of protection. A guaranteed replacement cost policy pays whatever it costs to rebuild your home as it was before the fire or other disaster – even if it exceeds the policy limit. A guaranteed replacement cost policy may not be available if you own an older home. An extended replacement cost will generally pay the replacement cost plus 20 to 25 percent above the policy limit.

## Homeowners Results

The table below provides Industry and West Virginia **Combined Ratio** results over the last six years:

### Homeowners Direct Industry vs. West Virginia Results (000's)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	Underwriting Expenses	Combined Ratio
<b>Countrywide</b>							
<b>1997</b>	\$29,149,847	\$28,144,268	\$15,507,492	55.1%	11.0%	29.2%	95.3%
<b>1998</b>	\$30,958,768	\$29,957,341	\$19,082,826	63.7%	11.7%	29.8%	105.2%
<b>1999</b>	\$32,540,368	\$31,711,261	\$20,200,073	63.7%	10.9%	30.0%	104.6%
<b>2000</b>	\$34,661,215	\$33,848,285	\$22,475,261	66.4%	10.6%	29.9%	106.9%
<b>2001</b>	\$37,568,297	\$36,165,647	\$27,919,879	77.2%	12.2%	29.2%	118.6%
<b>2002</b>	\$43,042,146	\$40,026,435	\$26,337,394	65.8%	11.5%	28.4%	105.7%
<b>Total</b>	\$207,920,641	\$199,853,237	\$131,522,925	<b>65.8%</b>	<b>11.3%</b>	<b>29.4%</b>	<b>106.5%</b>

Source: A.M. Best

<b>West Virginia</b>							
<b>1997</b>	\$152,282	\$147,958	\$91,070	61.6%	11.2%	31.0%	103.8%
<b>1998</b>	\$164,045	\$157,855	\$155,580	98.6%	17.9%	33.0%	149.6%
<b>1999</b>	\$171,734	\$167,789	\$106,677	63.6%	11.0%	31.8%	106.4%
<b>2000</b>	\$180,054	\$179,399	\$116,845	65.1%	10.3%	32.9%	108.3%
<b>2001</b>	\$190,178	\$187,048	\$140,210	75.0%	10.8%	31.5%	117.3%
<b>2002</b>	\$208,244	\$197,976	\$202,529	102.3%	15.3%	28.3%	145.9%
<b>Total</b>	\$1,066,537	\$1,038,025	\$812,911	<b>78.3%</b>	<b>12.7%</b>	<b>31.3%</b>	<b>122.3%</b>

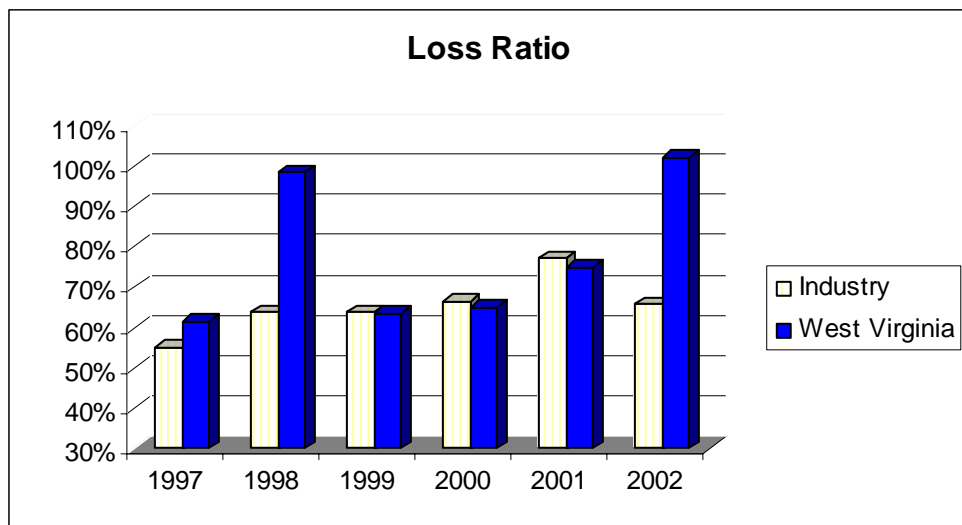
Source: NAIC

Items of note:

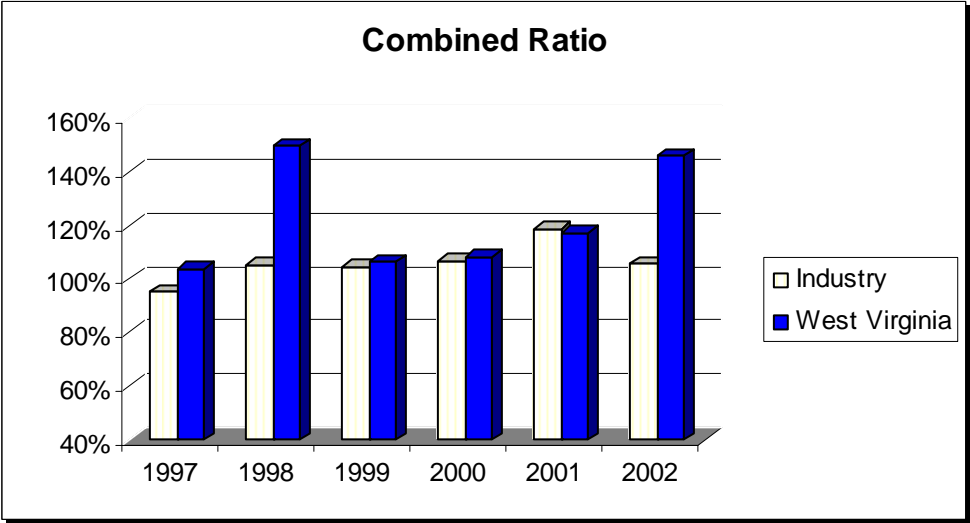
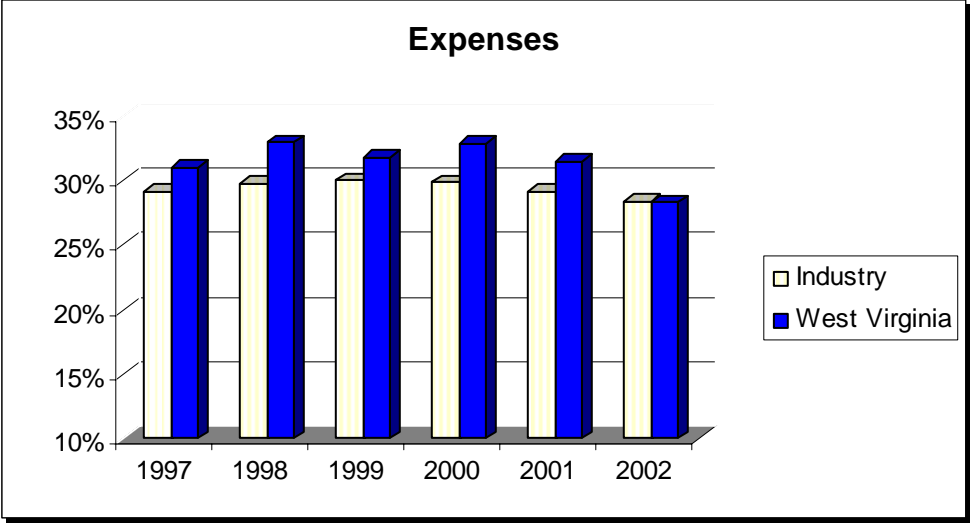
- Over the past six years, West Virginia produced significantly poorer results than the industry countrywide figures. The West Virginia loss ratio for the 1997 to 2002 period (78.3%), on average, has exceeded the countrywide result (65.8%) by 12.5 points.

- Both 1998 and 2002 were catastrophe years for West Virginia (primarily hail and windstorm damage). The overall *poorer loss ratio results in West Virginia are driven by the catastrophe results of 1998 and 2002*. All other years are comparable to countrywide in terms of loss ratio.
- Similarly, loss adjustment expenses are higher than countrywide over the time period shown. Again, the *catastrophe years caused abnormally higher loss adjustment expenses in 1998 and 2002*.
- Underwriting expenses are higher in West Virginia by about 2 points.
- The result of the ***higher loss ratio and higher expense ratio is a significantly higher combined ratio*** in West Virginia.

Visually, the figures in the table on page 7 can be displayed:







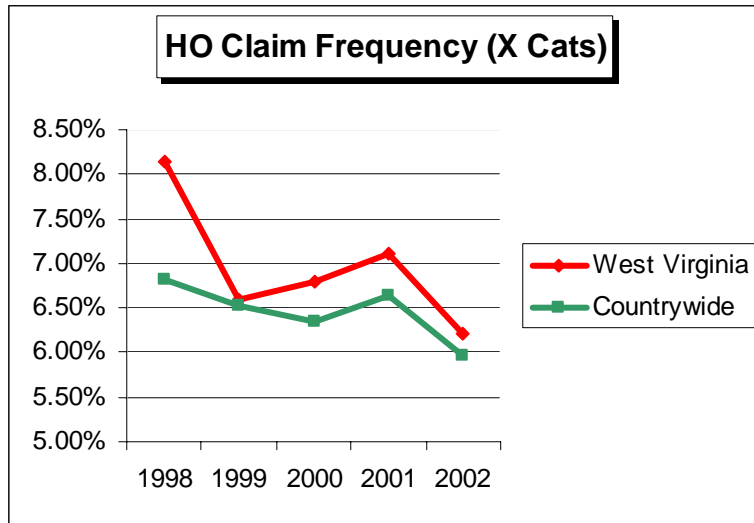
## Cost Drivers for West Virginia Results

**Loss Ratio:** The loss ratio is the result of *claim frequency* and *claim severity*. As a property line of business, homeowners insurance is subject to catastrophe losses. The table below compares claim frequency and claim severity for West Virginia with countrywide:

West Virginia			Countrywide		
	<u>Frequency</u>	<u>Severity</u>		<u>Frequency</u>	<u>Severity</u>
Homeowners excluding Catastrophes			Homeowners excluding Catastrophes		
1998*	8.14%	\$2,706	1998	6.81%	\$2,786
1999	6.60%	\$3,121	1999	6.53%	\$3,122
2000	6.80%	\$3,233	2000	6.35%	\$3,478
2001	7.11%	\$3,724	2001	6.63%	\$4,022
2002*	6.21%	\$4,222	2002	5.96%	\$4,639
Homeowners including Catastrophes			Homeowners including Catastrophes		
1998*	11.57%	\$2,858	1998	9.66%	\$2,757
1999	6.86%	\$3,141	1999	8.91%	\$3,134
2000	7.23%	\$3,144	2000	8.34%	\$3,554
2001	7.40%	\$3,653	2001	9.13%	\$3,978
2002*	9.51%	\$4,135	2002	7.76%	\$4,460
Homeowners Catastrophes			Homeowners Catastrophes		
1998*	3.43%	\$3,219	1998	2.84%	\$2,688
1999	0.25%	\$3,644	1999	2.39%	\$3,168
2000	0.43%	\$1,734	2000	1.99%	\$3,797
2001	0.29%	\$1,899	2001	2.50%	\$3,860
2002*	3.30%	\$3,969	2002	1.80%	\$3,866

\* 1998 and 2002 were significant Catastrophe years for West Virginia.

The best comparison in the table above is the Homeowners frequencies and severities **excluding** catastrophes. Looking at a frequency comparison shows:



With the exception of 1998, West Virginia's claim frequencies correspond very closely with the countrywide claim frequencies. The largest difference is under 0.5%, which is statistically insignificant. The 1998 year shows a more significant difference. It is often the case that companies do not identify and report all catastrophe claims as such. It is very likely that the frequency difference in 1998 is due to that effect (more prevalent when there are a series of catastrophic events and the line between identifying claims as arising from a particular catastrophe or a normal event becomes blurred).

Based on the above, it appears that ***high claim frequency is NOT a major cause for poor West Virginia Homeowners results.***

Likewise, looking at claim severities for Homeowners, excluding catastrophes, shows that ***severities for West Virginia are very comparable to countrywide.***

**Underwriting Expense:** A comparison of underwriting expenses between West Virginia and countrywide is much more straightforward. Underwriting expense is made up of General Expenses, Commissions, Other Acquisition Expense and Taxes, Licenses and Fees. The next table displays these components for comparison:

### Underwriting Expense Comparison

	General Expense		Commissions		Taxes+Surcharges	
	WV	C/W	WV	C/W	WV	C/W
<b>1998</b>	5.4%	5.5%	22.7%	22.7%	<b>6.2%</b>	2.5%
<b>1999</b>	5.5%	5.6%	22.7%	23.1%	<b>4.3%</b>	2.4%
<b>2000</b>	5.5%	5.6%	22.7%	19.4%	<b>4.8%</b>	2.4%
<b>2001</b>	5.2%	5.2%	22.0%	21.7%	<b>4.8%</b>	2.4%

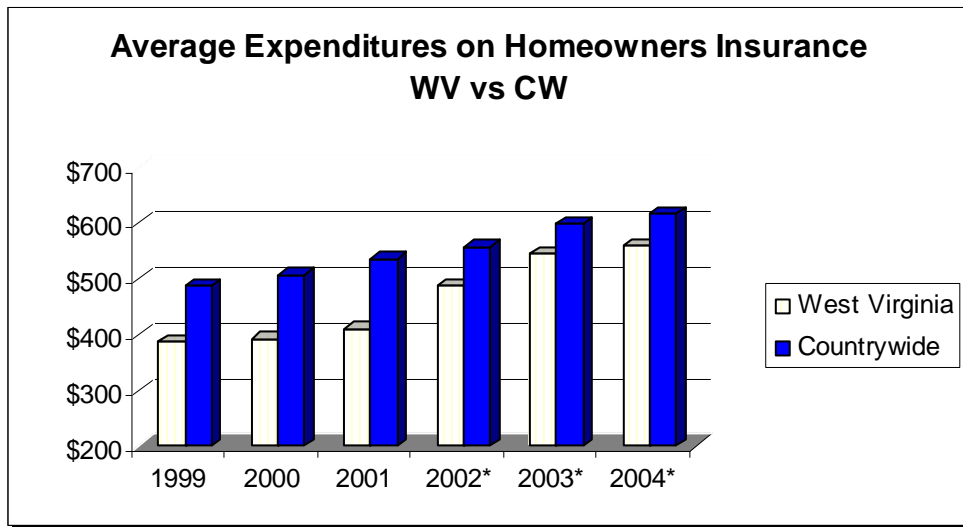
Source: NAIC Profitability Report

The ***primary reason for the higher homeowners underwriting expense in West Virginia is the premium tax and surcharges.*** General Expenses are identical and commissions vary due to the mix of companies, commission rates, types of delivery systems, etc. within the state.

At this point, the ***conclusion would have to be that West Virginia homeowners rates have not been adequate to cover the exposure written.*** In particular, West Virginia experienced significant catastrophe losses in 1998 and 2002. These ***catastrophe losses appear to be the principal driver of the recent rise in homeowners rates.*** The next section of this report looks at how West Virginia compares with other states.

## Comparing West Virginia Homeowner Rates with Other States

In the INTRODUCTION to this report, the average yearly expenditures countrywide for homeowner insurance were shown graphically. Comparing those figures with West Virginia projections (using average rate increases) shows:



Source: 2003 PCI Greenbook

In 2001, West Virginia ranked **42nd** from the highest average premium in the country (Texas). If the projections above hold true, West Virginia is rapidly catching up to the countrywide averages. The next chart shows the average homeowners premium by state from highest to lowest. (Note: 2001 is the latest year for which this information is available as of the writing of this report.)

**Ranking of Average Premiums by State**

<b>Geographic Area</b>	<b>Ranking</b>	<b>2001 Average Premium</b>	<b>Geographic Area</b>	<b>Ranking</b>	<b>2001 Average Premium</b>
<b>United States</b>		<b>\$536</b>	Missouri	26	\$480
Texas	1	\$955	North Carolina	27	\$484
Louisiana	2	\$758	Georgia	28	\$471
Florida	3	\$709	Michigan	29	\$470
Oklahoma	4	\$668	Minnesota	30	\$464
District of Columbia	5	\$655	North Dakota	31	\$463
New York	6	\$631	Arizona	32	\$460
Kansas	7	\$619	Washington	33	\$456
Alaska	8	\$614	Vermont	34	\$451
Mississippi	9	\$613	New Mexico	35	\$449
Connecticut	10	\$608	New Hampshire	36	\$444
California	11	\$599	Pennsylvania	37	\$441
Colorado	12	\$595	Kentucky	38	\$437
Massachusetts	13	\$571	Illinois	39	\$428
Rhode Island	14	\$562	Indiana	40	\$421
South Carolina	15	\$559	Maryland	41	\$419
Hawaii	16	\$553	<b>West Virginia</b>	<b>42</b>	<b>\$410</b>
Arkansas	17	\$537	South Dakota	43	\$410
Nebraska	18	\$526	Virginia	44	\$404
New Jersey	19	\$523	Utah	45	\$381
Alabama	20	\$501	Maine	46	\$372
Wyoming	21	\$499	Ohio	47	\$358
Nevada	22	\$490	Delaware	48	\$358
Tennessee	23	\$489	Oregon	49	\$356
North Carolina	24	\$484	Idaho	50	\$334
Montana	25	\$482	Wisconsin	51	\$308

Source: NAIC

Texas, Louisiana and Florida rank at the top because of their hurricane exposure and, more recently, mold claims. It may be argued that we should compare West Virginia with states of comparable population, so the next table does that:

**A Comparison of Average Premiums for States of Similar Population  
to West Virginia (1,000,000 to \$3,000,000)  
Homeowners**

Geographic Area	1-Jul-03 Population	2001 Average Premium	Ranking High to Low
<b>United States</b>	290,809,777	<b>\$536</b>	
Montana	917,621		
Rhode Island	1,076,164	\$562	3
Hawaii	1,257,608	\$553	4
New Hampshire	1,287,687	\$444	9
Maine	1,305,728	\$372	13
Idaho	1,366,332	\$334	14
Nebraska	1,739,291	\$526	6
<b>West Virginia</b>	<b>1,810,354</b>	<b>\$410</b>	<b>10</b>
New Mexico	1,874,614	\$449	8
Nevada	2,241,154	\$490	7
Utah	2,351,467	\$381	12
Kansas	2,723,507	\$619	1
Arkansas	2,725,714	\$537	5
Mississippi	2,881,281	\$613	2
Iowa	2,944,062	\$382	11
Connecticut	3,483,372		

Source: US Census Bureau and NAIC

Comparing states with similar population, West Virginia's average homeowners premium ranks 10<sup>th</sup> from the highest, out of a group of fourteen (14) states. Another way to view West Virginia's homeowners premium is to compare average premiums for homes of comparable value. Over 70% of the homes in West Virginia are valued between \$50,000 and \$125,000. Using the same states above, but showing the average premium for homes valued between \$50,000 and \$125,000 gives the next table:

**A Comparison of Average Premiums for States of Similar Population  
to West Virginia (1,000,000 to \$3,000,000)**

**Homeowners**

**\*\*\*\*Properties between \$50,000 and \$125,000\*\*\*\***

Geographic Area	1-Jul-03 Population	2001 Average Premium	Ranking High to Low
<b>United States</b>	290,809,777	<b>\$424</b>	
Montana	917,621		
Rhode Island	1,076,164	\$412	5
Hawaii	1,257,608	\$338	11
New Hampshire	1,287,687	\$344	9
Maine	1,305,728	\$294	14
Idaho	1,366,332	\$268	13
Nebraska	1,739,291	\$456	3
<b>West Virginia</b>	<b>1,810,354</b>	<b>\$359</b>	<b>8</b>
New Mexico	1,874,614	\$369	7
Nevada	2,241,154	\$375	6
Utah	2,351,467	\$303	12
Kansas	2,723,507	\$516	2
Arkansas	2,725,714	\$460	4
Mississippi	2,881,281	\$538	1
Iowa	2,944,062	\$341	10
Connecticut	3,483,372		

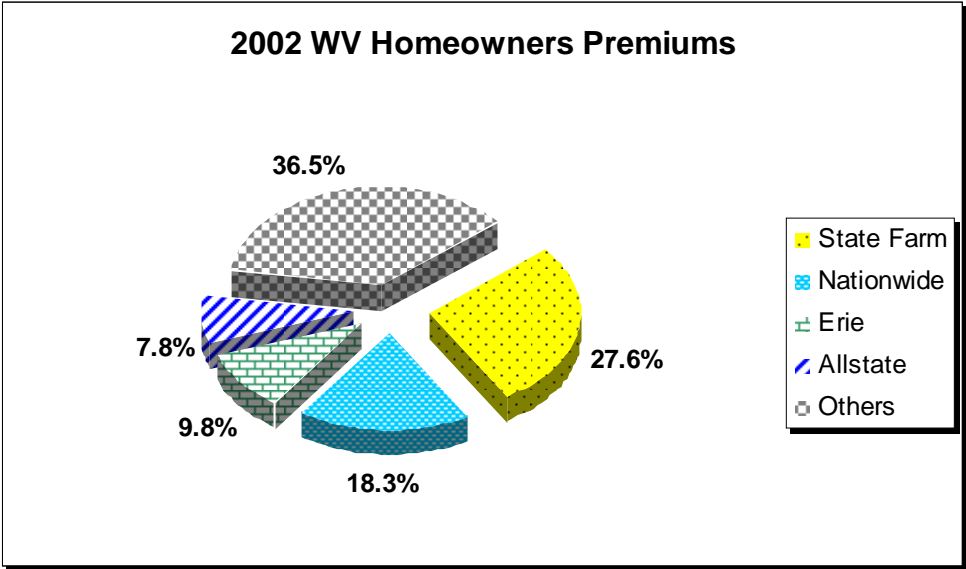
Source: US Census Bureau and NAIC

In this comparison, West Virginia ranks 8<sup>th</sup> from the highest; or about in the middle. ***None of the comparisons suggest that the average premium for homeowners in West Virginia is unusually high.*** It should be noted, however, that average premium data is only available for 2001 at this time.



# Writers of Homeowners Insurance

There are presently four insurance groups that write over 60% of the West Virginia homeowners market: State Farm Group (27.6%), Nationwide Group (18.3%), Erie Group (9.8%) and Allstate Group (7.8%) are the major writers for 2002.



## STATE FARM

### State Farm Group Homeowners West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$46,548,429	30.6%	\$44,414,862	\$27,617,673	62.2%	42.2%	104.4%
1998	\$50,282,625	30.7%	\$48,553,187	\$45,563,160	93.8%	50.9%	144.7%
1999	\$51,836,409	30.2%	\$50,306,804	\$31,766,718	63.1%	42.8%	105.9%
2000	\$50,006,703	27.8%	\$52,322,257	\$35,878,604	68.6%	43.2%	111.8%
2001	\$54,330,756	28.6%	\$53,676,597	\$46,221,954	86.1%	42.3%	128.4%
2002	\$57,537,563	27.6%	\$55,668,837	\$57,156,943	102.7%	43.6%	146.3%
<b>Total</b>	\$310,542,485		\$304,942,544	\$244,205,052	80.1%	44.0%	124.1%

\*Statewide

### Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	62.2%	8.9%
1998	93.8%	2.4%
1999	63.1%	0.0%
2000	68.6%	0.0%
2001	86.1%	0.0%
2002	102.7%	40.3%
2003	N/A	13.7%

For State Farm, serious adverse results appeared in 2001, with the loss ratio moving into the '80's. As is often the case in personal lines, rates will move upward after an unfavorable year or two occurs. However, the movement of rates is generally not as cause and effect related as the State Farm scenario above. Competition, investment returns, expenses, corporate strategies, etc. will also impact a company's need to seek a rate adjustment. Additionally, in State Farm's case, the company was known to use homeowners as a 'loss leader' in order to attract the larger premiums of personal automobile and underwrite the account. Despite significant rate increases in 2002 and 2003, State Farm is still not writing new homeowners business as of this report.

## NATIONWIDE

### Nationwide Group Homeowners West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$24,640,159	16.2%	\$24,041,100	\$13,734,962	57.1%	42.2%	99.3%
1998	\$26,580,724	16.2%	\$25,419,610	\$24,745,292	97.3%	50.9%	148.2%
1999	\$28,018,981	16.3%	\$27,276,155	\$16,594,332	60.8%	42.8%	103.6%
2000	\$30,229,581	16.8%	\$28,869,814	\$19,527,873	67.6%	43.2%	110.8%
2001	\$32,813,642	17.3%	\$31,803,514	\$24,975,392	78.5%	42.3%	120.8%
2002	\$38,204,338	18.3%	\$35,043,529	\$32,851,557	93.7%	43.6%	137.3%
<b>Total</b>	\$180,487,425		\$172,453,722	\$132,429,408	76.8%	44.0%	120.8%

\*Statewide

### Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	57.1%	0.0%
1998	97.3%	3.4%
1999	60.8%	0.0%
2000	67.6%	9.9%
2001	78.5%	9.9%
2002	93.7%	19.9%
2003	N/A	13.2%

Nationwide's figures show the impact of coming off good years in 1997 and 1999 by not adjusting rates upward, despite the severe catastrophe losses suffered in 1998. However, worsening results starting in 2000 have led to some significant rate adjustments over the last few years. Nationwide's market share in West Virginia has been growing since 1998.

## ERIE

### Erie Group Homeowners West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$10,583,770	7.0%	\$9,892,900	\$6,666,674	67.4%	42.2%	109.6%
1998	\$12,039,229	7.3%	\$11,260,945	\$12,286,807	109.1%	50.9%	160.0%
1999	\$13,468,612	7.8%	\$12,716,047	\$8,205,906	64.5%	42.8%	107.3%
2000	\$14,562,087	8.1%	\$14,018,430	\$8,511,708	60.7%	43.2%	103.9%
2001	\$16,458,415	8.7%	\$15,265,114	\$9,949,098	65.2%	42.3%	107.5%
2002	\$20,316,439	9.8%	\$18,147,915	\$26,225,239	144.5%	43.6%	188.1%
Total	\$87,428,552		\$81,301,351	\$71,845,432	88.4%	44.0%	132.4%

\*Statewide

### Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	67.4%	5.5%
1998	109.1%	6.8%
1999	64.5%	5.6%
2000	60.7%	0.3%
2001	65.2%	4.4%
2002	144.5%	5.8%
2003	N/A	20.8%

Erie shows better management of its rate revisions by generally taking more moderate increases each year. Thus, apart from the catastrophe years of 1998 and 2002, loss ratios have remained in the '60's. Notice the significant increase in market share that Erie is showing for West Virginia.

## ALLSTATE

### Allstate Group Homeowners West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$13,078,080	8.6%	\$12,659,798	\$7,958,065	62.9%	42.2%	105.1%
1998	\$13,826,323	8.4%	\$13,465,652	\$14,438,797	107.2%	50.9%	158.1%
1999	\$14,333,035	8.3%	\$14,004,828	\$8,561,686	61.1%	42.8%	103.9%
2000	\$14,826,050	8.2%	\$14,554,250	\$7,898,786	54.3%	43.2%	97.5%
2001	\$15,479,415	8.1%	\$15,445,919	\$9,328,116	60.4%	42.3%	102.7%
2002	\$16,290,639	7.8%	\$15,832,706	\$15,907,598	100.5%	43.6%	144.1%
<b>Total</b>	<b>\$87,833,542</b>		<b>\$85,963,153</b>	<b>\$64,093,048</b>	<b>74.6%</b>	<b>44.0%</b>	<b>118.6%</b>

\*Statewide

### Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	62.9%	4.0%
1998	107.2%	2.0%
1999	61.1%	0.0%
2000	54.3%	3.5%
2001	60.4%	0.0%
2002	100.5%	21.8%
2003	N/A	11.6%

After filing modest increases since 1997, Allstate came back with double-digit rate increases in 2002 and 2003. Despite these increases, Allstate's market share has declined suggesting they are writing little if any new business in West Virginia.

## STATEWIDE

### Loss Ratio vs Rate Changes

	<b>Loss Ratio</b>	<b>Rate Change*</b>
<b>1997</b>	61.6%	3.5%
<b>1998</b>	98.6%	2.6%
<b>1999</b>	63.6%	0.6%
<b>2000</b>	65.1%	3.5%
<b>2001</b>	<b>75.0%</b>	2.4%
<b>2002</b>	<b>102.3%</b>	<b>18.9%</b>
<b>2003</b>	N/A	<b>11.7%</b>

\*Based on 80% of Market

Looking at the statewide loss ratios vs. the average rate changes (see Appendix, Exhibit 1) for most of the West Virginia market (about 80%), the pattern of higher loss ratios followed by a number of years of rate increases is again evident. Compared with countrywide rate increases (below), West Virginia has experienced larger increases than countrywide in 2002 and 2003.

## COUNTRYWIDE

### Loss Ratio vs Rate Changes

	<b>Loss Ratio</b>	<b>Rate Change*</b>
<b>1997</b>	55.1%	3.4%
<b>1998</b>	63.7%	5.7%
<b>1999</b>	63.7%	1.5%
<b>2000</b>	<b>66.4%</b>	4.1%
<b>2001</b>	<b>77.2%</b>	<b>2.4%</b>
<b>2002</b>	<b>65.8%</b>	<b>2.3%</b>
<b>2003</b>	N/A	<b>7.0%</b>

\*Based on 100% of Market

## **Availability of Homeowners Insurance in West Virginia**

In 2002, twenty-six (26) insurance companies wrote \$1,000,000 or more homeowners premium in West Virginia. In addition to the large national companies State Farm, Nationwide, Erie and Allstate, West Virginia is fortunate to have a number of domestic mutual companies to assist in filling gaps which might otherwise occur in the homeowners market. Domestic mutuals such as Farmers and Mechanics Mutual Fire Insurance of West Virginia, West Virginia Insurance Company, Municipal Mutual Insurance Company, Farmers Mutual Insurance Company, Panhandle Farmers Mutual Insurance Company and Safe Insurance Company each write well over \$1,000,000 in homeowners premium.

However, as was noted earlier in this paper, the homeowners market in West Virginia and elsewhere has hardened. Tighter underwriting standards and rate increases together with little or no new writing by State Farm and Allstate are making homeowners insurance more difficult to find. Unique situations, such as finding insurance for rental property, can often be difficult even in a soft market; and are more so in a tight market.

## Consumer Shopping Tips

- **Shop Around**: Get at least three (3) price quotes. Get quotes from different types of companies. Some companies sell through **direct agents, independent agents**, mail, phone, or internet.
- **Maintain good credit**: Companies are increasingly relying on your credit rating (developing a '**credit score**') as an additional factor in pricing your insurance. A good credit history may result in a lower insurance cost.
- **C.L.U.E. Report**: Additionally, check your **C.L.U.E.** report, which your agent or insurer can direct you to. New homebuyers should ask sellers for a copy of their C.L.U.E. report because insurers now consider what claims have been made on a property when calculating your premium, even if you didn't own the home at the time.
- **Consider higher deductibles**: Raising your deductible to \$500 or \$1,000 will lower your premium; in fact many companies no longer offer a \$250 deductible. Raising your deductible from \$500 to \$1,000 could reduce your premium considerably.
- **Inquire about discounts**: Often employers, alumni groups or other affiliations may qualify you for a discount. Companies will usually give a discount if you purchase your homeowners insurance and auto insurance from the same company. Other discounts may include homes equipped with burglary alarms and smoke/fire detectors.
- **Know your policy**: Many insurers are now requiring a windstorm deductible of 1 or 2 percent of the insured policy. For example, if a windstorm damages the roof on your \$100,000 home, you would be responsible to pay the first \$2,000 of loss.



## Summary

- Homeowners insurance premiums have increased in West Virginia sharply in the last two (2) years. Combined ratio results in West Virginia support the need for a correction in West Virginia homeowners rates.
- Significant West Virginia catastrophe losses in 1998 and 2002 (hail and windstorm damage) appear to be the primary cause for the recent steep rise in rates.
- Homeowners results have been worse in West Virginia than countrywide over the last six (6) years.
- Lower interest rates over the last couple of years are forcing insurers to revise their profit provisions placing further upward pressure on rates. Most insurers are now setting rates to generate an underwriting profit in the homeowners line.
- Both claim frequency and claim severity in West Virginia have been comparable to countrywide. This suggests that rates have not been adequate for homeowners in the state.
- In 2001, the average homeowners premium in West Virginia ranked 42nd from the highest in the country.
- Even accounting for lower average property values in West Virginia, it appears that homeowners premiums here have been below countrywide.
- 60% of West Virginia homeowners insurance is written by State Farm, Nationwide, Erie and Allstate. However, roughly twenty-six (26) companies write \$1,000,000 in premium or more.
- Creation of a fraud unit may contribute to better loss experience in West Virginia.
- Consumers should shop for homeowners insurance, as rates and discounts vary widely by company.

# **APPENDIX**

## **GLOSSARY**

**(All words in the report in BLUE)**

**Claim Frequency:** For homeowners, the number of claims per one hundred (100) insured homes.

**Claim Severity:** The average cost per claim.

**C.L.U.E.:** Comprehensive Loss Underwriting Exchange. Through C.L.U.E., which is assembled by a company called Choicepoint, information on individuals automobile and homeowners claim history is collected. This information is often used for underwriting in combination with credit scoring.

**Combined Ratio:** The sum of an insurer's loss ratio and expense ratio. A Combined Ratio under 100% means the insurer made an underwriting profit; over 100% means an underwriting loss. Investment income is quite limited for the homeowners line, thus producing a combined ratio under 100% is generally necessary for profitability.

**Credit Score (also known as Insurance Score):** Derived from a consumer's credit history (and sometimes, also the loss history), it is used by some companies to aid in pricing the consumer's insurance.

**Direct:** Direct figures, such as premiums, losses and loss ratios are numbers prior to the effect of reinsurance. In contrast, **Net** figures are *after* reinsurance.

**Direct Agents:** Agents that only write insurance for a particular company, for example, Nationwide agents.

**Independent Agents:** Agents that represent and can offer insurance for a number of companies.

**Loss Ratio:** The ratio of losses to earned premiums.

**Loss Adjustment Expense:** Expenses related to claim adjustment and legal costs.

**Underwriting Expenses:** Expenses relating to the operation of an insurance company in acquiring and underwriting (assessing) business.

Exhibit 1

**West Virginia Homeowners Rate History**

Company	2002 Market Share	Year	Rate Change
State Farm Fire & Casualty		1996	0.0%
		1997	8.9%
		1998	2.4%
		1999	0.0%
		2000	0.0%
		2001	0.0%
	27.6%	2002	40.3%
		2003	13.7%

Company	2002 Market Share	Year	Rate Change
Farmers Mutual Ins Co*		1996	Unknown
		1997	Unknown
		1998	Unknown
		1999	Unknown
		2000	Unknown
		2001	Unknown
	2.0%	2002	Unknown
	2003	Unknown	

Nationwide Mutual Ins Co		1996	0.0%
		1997	0.0%
		1998	3.4%
		1999	0.0%
		2000	9.9%
		2001	9.9%
	18.4%	2002	19.9%
		2003	13.2%

Ohio Farmers Ins Co		1996	0.0%
		1997	0.0%
		1998	8.3%
		1999	0.0%
		2000	9.0%
		2001	0.0%
	1.8%	2002	20.8%
	2003	16.5%	

Erie Ins Property & Casualty		1996	0.0%
		1997	5.5%
		1998	6.8%
		1999	5.6%
		2000	0.3%
		2001	4.4%
	9.8%	2002	5.8%
		2003	20.8%

Prudential P&C Co		1996	0.0%
		1997	0.0%
		1998	7.6%
		1999	0.0%
		2000	0.0%
		2001	0.0%
	1.2%	2002	11.2%
	2003	0.0%	

Allstate Insurance Company		1996	0.0%
		1997	4.0%
		1998	2.0%
		1999	0.0%
		2000	9.0%
		2001	0.0%
	7.6%	2002	21.8%
		2003	11.6%

State Auto P&C Co		1996	0.0%
		1997	5.3%
		1998	-0.1%
		1999	4.4%
		2000	2.0%
		2001	0.0%
	1.1%	2002	3.9%
	2003	8.5%	

Farmers & Mechanics Mut*		1996	Unknown
		1997	Unknown
		1998	Unknown
		1999	Unknown
		2000	Unknown
		2001	Unknown
	4.7%	2002	Unknown
		2003	Unknown

Safeco Ins Co		1996	0.0%
		1997	0.0%
		1998	-1.9%
		1999	3.0%
		2000	9.9%
		2001	0.0%
	1.0%	2002	21.0%
	2003	0.0%	

WV Ins Co*		1996	Unknown
		1997	Unknown
		1998	Unknown
		1999	Unknown
		2000	Unknown
		2001	Unknown
	2.9%	2002	Unknown
		2003	Unknown

United Services Auto Assoc		1996	0.0%
		1997	0.0%
		1998	0.0%
		1999	-4.9%
		2000	0.0%
		2001	0.0%
	1.0%	2002	12.0%
		2003	11.0%

Municipal Mutual Ins Co*		1996	Unknown
		1997	Unknown
		1998	Unknown
		1999	Unknown
		2000	Unknown
		2001	Unknown
	2.9%	2002	Unknown
		2003	Unknown

Farm Family Cas Ins Co		1996	0.0%
		1997	0.0%
		1998	7.6%
		1999	-4.8%
		2000	0.0%
		2001	0.0%
	1.0%	2002	19.6%
		2003	19.6%

Glens Falls Ins Co		1996	0.0%
		1997	0.0%
		1998	-2.2%
		1999	-0.2%
		2000	11.4%
		2001	0.0%
	2.7%	2002	0.0%
		2003	49.5%

Foremost Ins Co		1996	0.0%
		1997	-3.2%
		1998	0.0%
		1999	4.4%
		2000	0.0%
		2001	1.2%
	0.9%	2002	9.5%
		2003	0.0%

Westfield Ins Co		1996	0.0%
		1997	0.0%
		1998	8.0%
		1999	0.0%
		2000	9.4%
		2001	0.0%
	2.7%	2002	11.6%
		2003	10.0%

WV Fire & Cas Co		1996	0.0%
		1997	4.4%
		1998	0.0%
		1999	5.9%
		2000	9.0%
		2001	15.0%
	0.8%	2002	27.3%
		2003	0.0%

Shelby Cas Ins Co		1996	0.0%
		1997	4.5%
		1998	0.0%
		1999	0.0%
		2000	0.0%
		2001	0.0%
	2.0%	2002	9.9%
		2003	15.1%

<b>Combined*</b>		1996	<b>0.0%</b>
		1997	<b>3.5%</b>
		1998	<b>2.6%</b>
		1999	<b>0.6%</b>
		2000	<b>3.5%</b>
		2001	<b>2.4%</b>
	92.1%	2002	<b>18.9%</b>
		2003	<b>11.7%</b>

\*Domestic Farm Mutuals not required to make rate filings.

\*Total Excluding Farm Mutuals

<b>79.6%</b>
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