2012 Minnesota Homeowners Report

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The Minnesota Homeowners Report is completed annually by the Minnesota Department of Commerce to provide Minnesota residents with a general understanding of trends in the Minnesota Homeowners Marketplace so that they can make informed decisions when insuring often their most valuable investment. Minnesota has a relatively competitive homeowners insurance market – the largest group has roughly one-quarter of the market share with a total of sixty-eight groups participating. In 2011, the size of the market was roughly $1.6 billion and has grown at a rate of approximately $100 million per year in recent years.

Homeowners Insurance Market Highlights:

- Overall rate increases for the last four years are at a rate slightly under 10% per year.
- During the same time period, insurers' loss ratios (actual claim activity) excluding expenses (commissions, underwriting, claim adjusting expenses, etc.) have been significantly above the level needed to be profitable after expenses have been addressed.
- A contributing factor to the insurance companies' poor results has been an increase in costs associated to weather related activities in the recent years.

Homeowners' coverage is a fairly broad line of insurance, with many different forms and coverages available to consumers. Typically, it is a package policy with coverage for the property (dwelling, other structures, contents, loss of use, etc.) and liability. However, consumers have multiple options depending on their situation. For example, different policy programs (forms) cover renters, condominium owners and single dwelling units. A renter does not need to insure the structure from a loss, only the contents; an insured individual owning a single unit dwelling purchases insurance for protection from losses to the structure (and often is required to, if they have a mortgage on the unit) and the personal property inside.

Different policy forms are available for consumers to choose from, which either cover named perils or all perils except those specifically excluded. The value of the insured dwelling can vary greatly as well, depending on the size and expense of the home. Finally, there are multiple endorsements that are often used and ways of modifying standard coverages.

This report covers broad trends observed in the Minnesota Homeowners Market during recent years. Consumers interested in further details related to changes in the types of forms, coverages, or value of dwellings should refer to the National Association of Insurance Commissioners (NAIC) report entitled, "Dwelling Fire, Homeowners Owner-Occupied and Homeowners Tenant and Condominium/Cooperative Unit Owners Insurance: Data for 2010" which compares various forms, amounts of insurance and cost by state.

Finally, this report provides Consumer Tips for purchasing Homeowners insurance.

Exhibit I identifies the largest companies and insurance groups in the Minnesota Homeowners Market. When assessing the marketplace for competition, it is standard to evaluate insurance groups rather than companies, as companies within a group most likely do not compete directly with each other. Minnesota's market appears competitive, as 68 groups (132 companies) each wrote more than $500 of premium during 2011. The largest group, State Farm, has just over a quarter of the market share. The next largest group, American Family, is approximately half as large as State Farm. Together these two companies have 39.7% of the market share. There are three other groups (Zurich, Allstate and Auto Owners) that have more than a 5% market share. In all, the top five groups make up roughly 60% of the market share, the next five (those ranked from 6 to 10) around 15% of the market share, the next ten (those groups ranked from 11 to 20) around another 15% of the market share, with the remaining groups comprising the final 10% of the market. Although the market appears competitive, State Farm, and possibly American Family have enough market share that could cause a reaction within the remainder of the market if any significant program changes are implemented by these organizations.

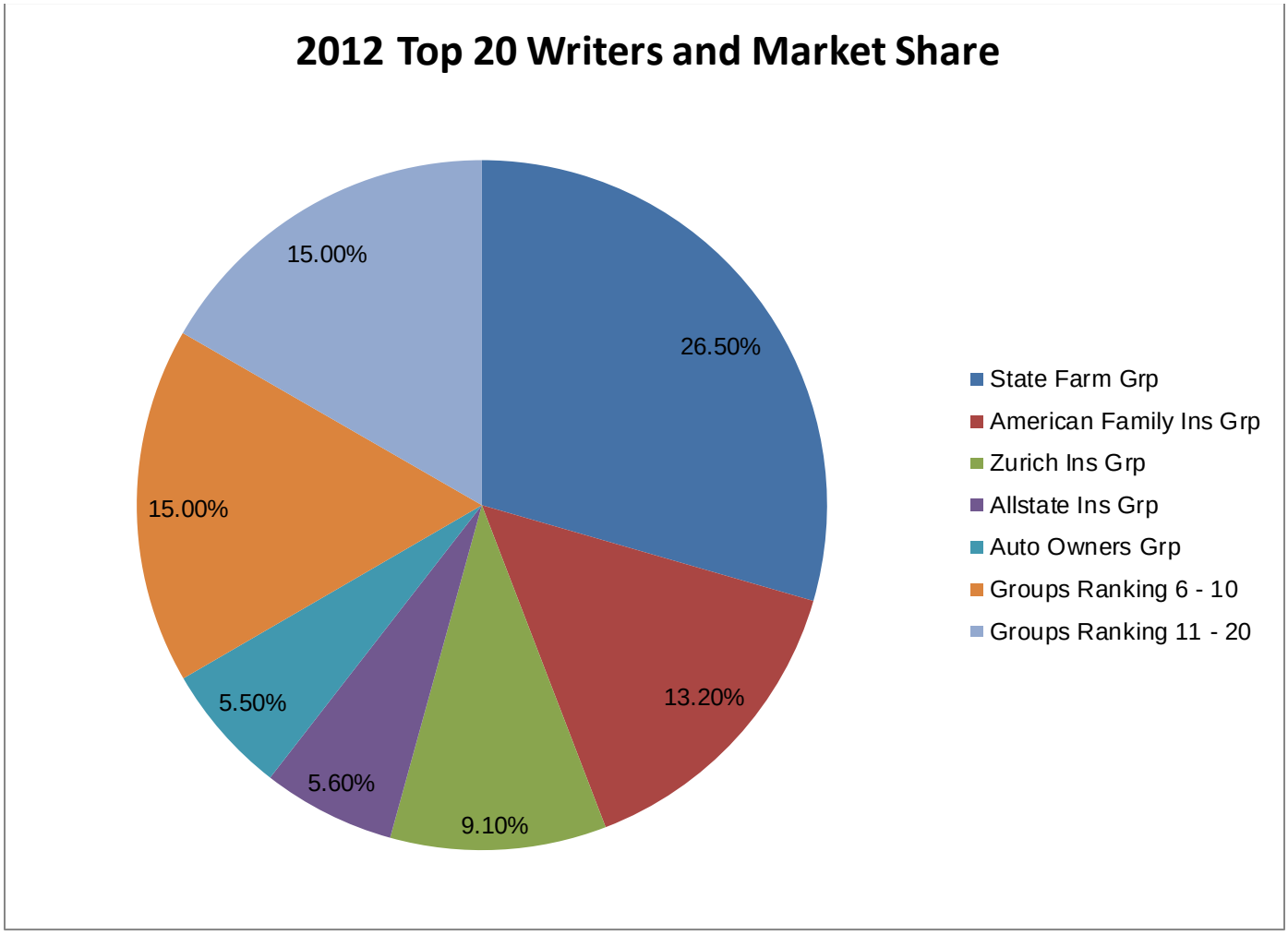


Exhibit II identifies the growth of Minnesota's market. Written premium for calendar year 2011 was just under $1.6 billion. Between the years 2007 and 2011, the size of the market grew at approximately $100 million per year, or a rate of roughly 7%. Market concentration over this time period was not dissimilar to past market behavior. Similar growth patterns were observed for each of the company size groupings (top five, six through ten, eleven through twenty and the remainder).

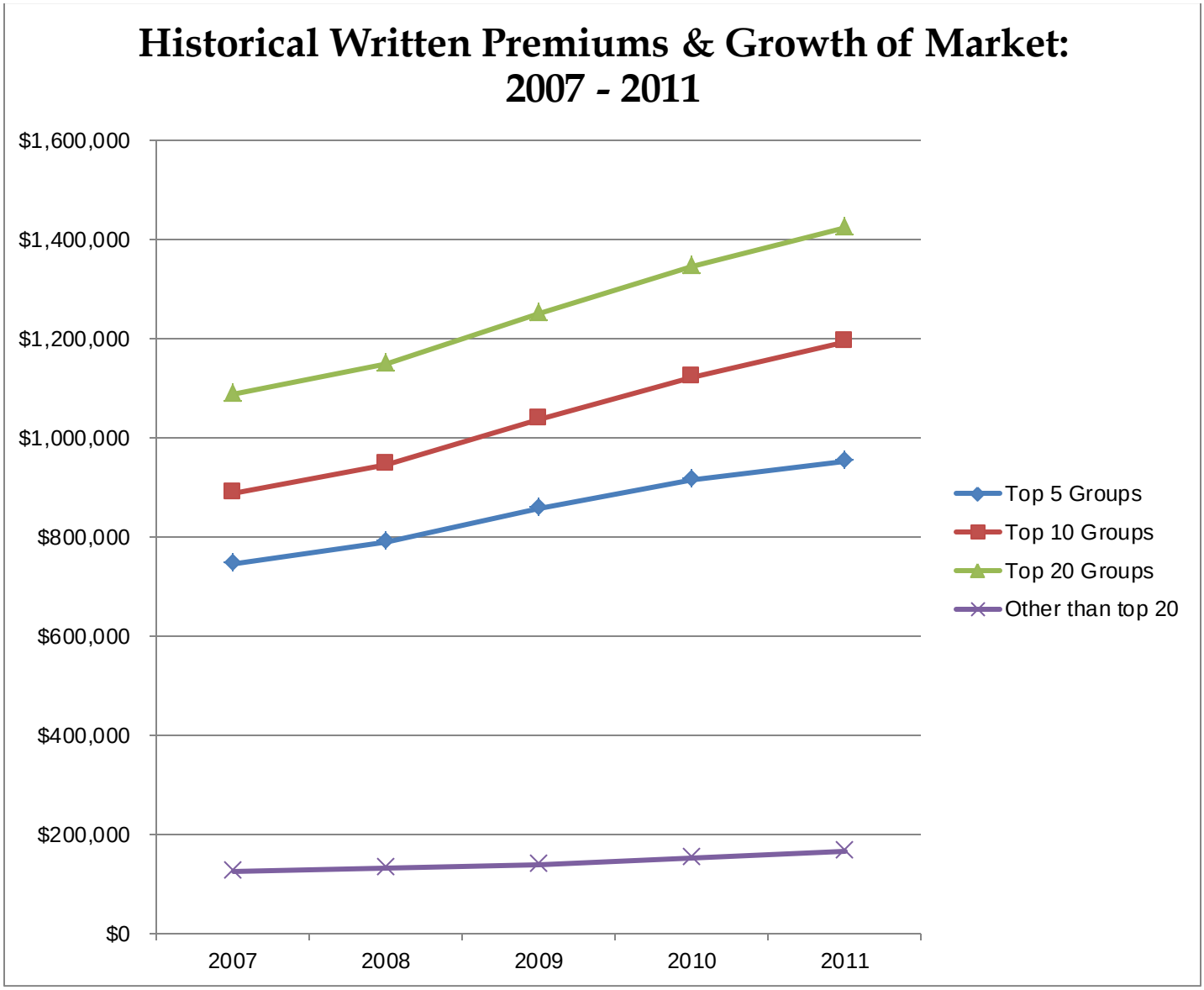
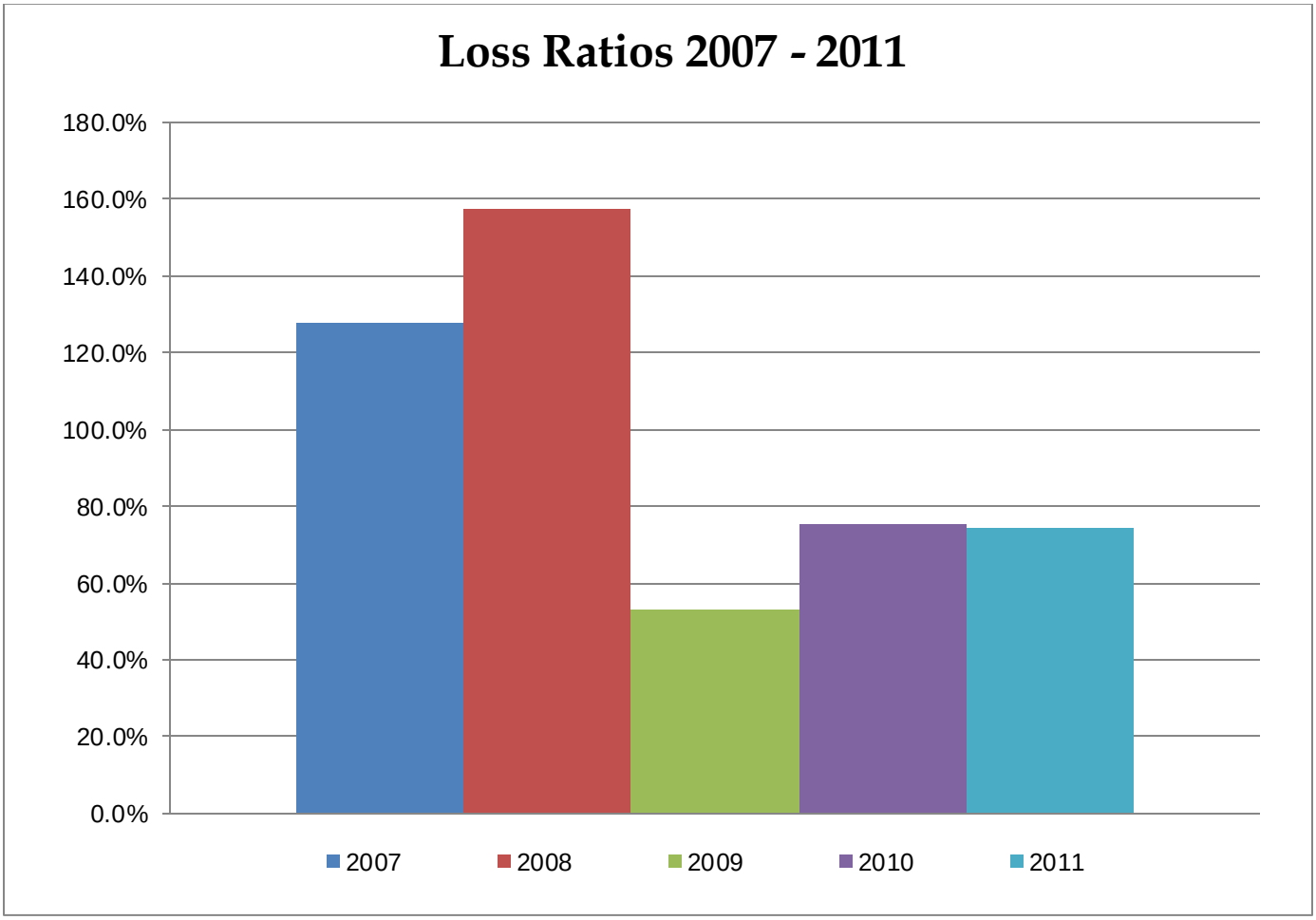


Exhibit III of the report shows accumulated rate changes for each year 2009 through 2012. The rate change information is calculated from actual filings and the 2011 market share is used to calculate the average changes. The rate changes are shown for the top five, top ten, top twenty and the remainder of the companies and groups as well. As demonstrated by this exhibit, the rate changes have been increasing on average just under 10% per year. The residual groups' rate change is larger for the more recent years while the larger carriers reported the largest change in 2009. This trend could be the result of two factors: 1) that the smaller carriers in the market follow the largest carriers and there is a delay in implementing the changes, or 2) that the largest carriers have better, more credible information available.



The above chart illustrates the loss ratios for all insurance companies combined annually for calendar years 2007 through 2011. The loss ratios have been roughly 75% for each of the last two calendar years, in the low 50% range for calendar year 2009, and above 100% for 2007 and 2008. For homeowners insurance, it is a general industry standard that approximately 60% loss ratio is the break-even point after paying out the expenses of adjusting claims, commissions and other overhead expenses. As a result, for the past five years, (except for 2009) the industry has been unprofitable.

Exhibit IV demonstrates the loss ratios for the top five, top ten, top twenty and remainder of the groups for comparison purposes versus the aggregate totals for the entire market. Although movement in the loss ratios is similar to the loss ratio shown for all groups combined, it appears that the smaller groups, except for 2007, have had a less favorable experience than the larger companies. This could partially explain why rate filings for the smaller groups have been larger than those for larger groups in the most recent years (see Exhibit III). The data suggest that a large factor for the relatively poor profit experience and consequent increasing rates is an increase in frequency (number of claims) and severity (average cost of a claim) of catastrophic weather events recently. For example, one large carrier in Minnesota uses a procedure to calculate the ratio of catastrophe losses to the amount of insurance to determine the appropriate portion to charge for potential catastrophes. For 1980 through 1996, there was one year that had more catastrophic losses than other losses using this procedure, whereas for 1997 through 2011, thirteen of fifteen years had more catastrophes than other losses. The average ratio for 1980 through 1996 was 34.1% whereas it increased to 272.5% for 1997 through 2011. This demonstrates the increased impact of weather-related catastrophes in Minnesota.

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Loss Ratios for Prior Five Calendar Years

	2011 Loss Ratio	2010 Loss Ratio	2009 Loss Ratio	2008 Loss Ratio	2007 Loss Ratio
Total	74.3%	75.3%	53.0%	157.3%	128.0%
Top 5 Groups	71.3%	73.5%	52.6%	163.9%	137.9%
Top 10 Groups	73.8%	72.2%	53.0%	164.0%	134.4%
Top 20 Groups	73.8%	74.1%	52.7%	156.1%	128.2%
Other than top 20	78.0%	86.0%	55.5%	168.0%	126.1%

Notes:
(1) Loss ratios exclude all loss adjustment expenses.
(2) Earned premium and incurred losses are from annual statement, state page for each entity.
(3) Loss ratio is for each calendar year as specified in the column heading.
(4) Insurer group size category defined by 2011 market share for every year.

Another large carrier uses a somewhat different procedure. Wind/hail losses are adjusted to current conditions (including trend, current deductible distribution and treatment of siding the entire house) and take the ratio to exposure units (house years). From 1986 through 1996, this average loss cost per house year was $57 whereas for 1997 through 2011 it increased to $629. In addition, between the years of 1997 and 2011, thirteen of the fifteen years indicated loss costs above $100, whereas for 1986 through 1996 all eleven of the years were $100 or less. This methodology also indicates the higher cost of weather related loss activity.

ISO is a leading source of information about property/casualty insurance risk and is often utilized by a large number of carriers. ISO calculates excess wind losses based upon a function of the long-term (50 year) average (median) of wind to non-wind and water losses. They do a similar procedure for water. The ratio of excess losses to non-wind and water losses for wind and water combined for 1997 and subsequent is ten times that for the years prior to 1997. Also for the years prior to 1997, only 10 of 36 years had excess losses whereas all years since has had some excess loss.

Other carriers use an approach where they model losses for catastrophic events (such as wind or hail) in their rate filings. The results from this approach are similar, meaning the catastrophe load is significant for the most recent year. All of these approaches meet actuarial standards.

Information from the National Weather Service for Minnesota was also looked at for this report. From 1950 through 1996, property damage losses were approximately $126 million per year due to wind and hail events in inflation adjusted dollars. Experience worsened significantly in more recent years. For 1997 through 2012, the average amount increased to $208 million dollars. While there are many variables that contribute to these increases it does demonstrate a large increase in weather related activity on homeowners' losses.

Exhibit V reports total losses from all claims for all companies combined for each of the calendar years 2007 through 2011. In addition, the losses are shown for the top five, ten, twenty and outside the top twenty groups. Please note that all loss adjustment expenses are excluded from these figures.

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Incurred Losses for Prior Five Calendar Years

	2011 Incurred Losses	2010 Incurred Losses	2009 Incurred Losses	2008 Incurred Losses	2007 Incurred Losses
Total	$1,146,686	$1,086,638	$704,287	$1,960,107	$1,529,911
Top 5 Groups	$666,097	$649,276	$431,843	$1,257,946	$1,011,458
Top 10 Groups	854,689	778,254	523,766	1,501,660	1,167,923
Top 20 Groups	1,021,909	960,430	629,723	1,743,856	1,374,262
Other than top 20	124,777	126,208	74,564	216,251	155,649

Notes:

(1) Incurred losses exclude all loss adjustment expenses.
(2) Incurred losses are from annual statement, state page for each entity.
(3) Incurred losses for each calendar year as specified in the column heading.
(4) Insurer group size category defined by 2011 market share for every year.
(5) Loss dollars are in thousands.

Exhibit VI displays expense ratios for the homeowners' insurance industry. With the expenses of adjusting claims, commissions, and other general overhead are combined, they are equal to approximately 40% of premium. Note that with the exception of premium taxes, this exhibit uses countrywide data, as allocations of certain expenses to states (such as general or unallocated loss adjustment expenses) are often unreliable.

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Countrywide Expenses for Homeowners Insurance

Year	Written Premium	Earned Premium	Incurred LAE Ratio	Commission & Brokerage Ratio	Other Underwriting Expense Ratio	Tax Ratio	Total Expenses & Tax Ratio
2002	43,051,555	40,034,806	11.5%	14.0%	14.4%	2.0%	41.9%
2003	48,781,997	45,731,638	9.8%	13.9%	13.9%	2.0%	39.6%
2004	53,551,073	51,050,100	9.7%	14.1%	13.8%	2.0%	39.6%
2005	57,259,762	55,211,226	10.8%	13.9%	13.4%	2.0%	40.1%
2006	60,742,022	58,647,566	8.4%	13.9%	13.8%	2.0%	38.1%
2007	62,610,944	61,818,006	8.3%	13.9%	14.2%	2.0%	38.4%
2008	64,127,342	63,398,729	10.4%	13.4%	14.8%	2.0%	40.6%
2009	66,817,796	65,027,363	10.5%	13.4%	14.6%	2.0%	40.5%
2010	69,822,326	68,110,155	9.1%	13.3%	14.6%	2.0%	39.0%
2011	72,071,910	70,633,433	10.3%	13.2%	14.6%	2.0%	40.1%
Total	598,836,727	579,663,022	9.8%	13.7%	14.2%	2.0%	39.7%

Notes: (1) Written and earned premium is in thousands.
(2) Information on this exhibit is from Best's Aggregates and Averages.
(3) 2011 data was the latest available when this report was created.
(4) LAE is loss adjustment expenses.
(5) LAE ratio is to earned premium, while the remainder of expenses are to written premium.
(6) The tax provision is the premium tax rate charged for Minnesota (instead of what is in Bests).

Consumers Tips for Purchasing Homeowners Insurance Coverage:

1. SHOP AROUND

Homeowners insurance can be costly, but necessary. The premiums charged for homeowners insurance vary widely from company to company, so it pays to take the time and effort to shop around to get the best value for your insurance dollar.

2. STICK WITH THE COMPANY THAT OFFERS THE BEST DEAL

Once you've considered the alternatives and chosen a company that fits your needs, consider multiple policies with that company. Some companies offer what is called a multi-policy discount. If you purchase your homeowners and automobile policies from the same insurer, you may receive a small discount.

3. CHANGE YOUR DEDUCTIBLE

If your policy contains a standard "all peril" deductible, of $250 for example, you would collect the amount of any covered property loss, less the $250 deductible. With a deductible, the monthly premium cost for your policy is lower than a policy without a deductible. When choosing the deductible amount, consumers need to feel comfortable about the amount you feel you can afford in an emergency situation. Deductibles reduce premiums more than one may expect, because for all claims, large and small, the insurance company is responsible for paying less in losses. Contact your insurance company to see if they offer higher deductibles, such as $500 and $1,000, on your homeowners insurance coverage.

4. DISCOUNT OPPORTUNITIES

Consumers should check with their insurance company to see if premium discounts are offered for the use of dead-bolt locks, smoke alarms, fire extinguishers, sprinkler systems and security systems. Check with your insurance agent for more information about additional discounts that may be available under your policy.

5. ACTUAL CASH VALUE VS. REPLACEMENT COST

One important factor to consider when shopping for your homeowners insurance policy is "actual cash value" vs. "replacement cost" coverage. While it may not affect your short-term premiums, it may make a large difference when you submit a claim. Actual cash value coverage, as the name implies, will reimburse you for the cost of the property at the time of the claim, minus your deductible. It is important to account for depreciation when considering this coverage option. For example, if you lose an audio system that was purchased five years prior to the claim, you will be reimbursed for the current value of the system. This may result in a lower claim payment than you expect. Replacement cost coverage, on the other hand, will reimburse you for the full value of a new audio system — after you purchase the new system and submit your receipts. While the up-front cost is greater, you are more likely to receive adequate compensation for your possessions in order to replace the items.

6. COVERAGE LAPSES

Do not let your Homeowners' insurance lapse, especially if you have a mortgage. If you allow it to lapse or do not provide appropriate documentation to the lender notifying them of your coverage change, you may be required to purchase force-placed insurance which can be very expensive and may not cover beyond the lender's interest in the property. Often the borrower signs an agreement when granted a mortgage loan that the borrower will insure the property and if they do not insure the property, the lender will provide insurance for the lender's interest in the property, which the borrower is responsible for the premiums. When changing homeowners' insurance carriers, consumers should make sure their lender is informed in writing.

Annual Insurance Check-up Questions:

When reviewing your policy, first find the answers to these three questions:

1. **What type of coverage do I have?**

   - **Homeowners or Renters Insurance**
     A homeowners insurance policy covers the structure, belongings and legal obligations if someone is injured at your home. A renter's policy does not insure the structure, but otherwise provides similar coverage.

   - **Replacement Values.** Check the type of replacement value provided in the policy. Actual cash value (ACV) is the amount it would take to repair damage to a home or to replace its contents after allowing for depreciation. Replacement cost is the amount it would take to rebuild or replace a home and its contents with similar quality materials or goods, without deducting for depreciation.

   - **Liability Limits.** Liability insurance protects you from legal obligations arising from accidents involving visiting non-residents. With a few exceptions, such as auto or boating accidents, all-purpose liability coverage follows wherever you go. An umbrella policy can extend the liability limits of a homeowners or renter's policy if the policy limit is insufficient.

   - **Medical payments.** Homeowner's and renter's policies typically include limited medical expense payments for injuries occurring on your premises to visiting non-residents. It may also cover medical expenses of another individual injured by you, a member of your family, or a family pet while away from the home.

2. How much coverage do I need?

- **Make a home inventory.** A home inventory is the best way to determine the appropriate level of coverage needed for contents. It is also a useful tool to have in case of a loss. When doing the home inventory, make sure to include as much detail as possible about the items

- **Do not over insure.** Homeowners do not need to insure the value of the land a home sits on, but coverage should include any outdoor structures on the property. For both homeowners and renters, concentrate on an accurate list of belongings and be sure liability limits are at a proper level.

3. What are my deductibles and discounts?

Save money on homeowners or renter's insurance. Deductibles and discounts are generally the easiest places to save money on this type of policy. Most companies offer discounts for people who have more than one type of insurance policy with them, and for people who have had few claims or are long-term customers. When it comes to the deductible -- which is the amount you have to pay if there is a loss, -- usually the higher it is, the lower the premium. It's normal to consider raising a deductible to save on premium, but remember, the uninsured loss will be that much more following a claim.

Five Questions to ask your insurance agent or company:

1) Is the coverage on my home and its contents adequate? Is it too much?
The home inventory will help this. If you have any special items like art, jewelry, memorabilia or collections (such as stamps or coins), mention that, too. These items may require special coverage. And, running a small business at home will affect the premium, so mention that.

2) Is my premium as low as I can expect it to be? Are there additional discounts available?Can or should I raise my deductible? What about mitigating against damage from local threats?
Mitigation or taking steps to reduce a potential loss before it happens can help limit your home's exposure to certain local risks. Ask if there are risk mitigation programs and discounts available.

3) Are there any losses like flood or earthquake I need to worry about that are not covered in my current policy?
Neither floods nor earthquakes are covered by a standard homeowners or renter's policy. There are optional insurance policies for both disasters. Ask about available options or visit www.Floodsmart.gov for details on flood insurance.

4) **Would my long-term financial health benefit from an umbrella policy?**
An umbrella policy provides excess liability limits and possibly other additional coverage above a homeowner's or renter's policy. For example, an umbrella policy can extend the liability to $1 million or more above the $250,000 limit of liability that might be in a basic homeowner's policy. As your asset portfolio grows, your insurance company or agent may suggest an umbrella policy for better protection.

5) **Has anything changed in my coverage in the last year?**
Insurers may change policy terms at renewal, but they must notify you first. Read all notices and information sent from the insurance company. When talking with the agent, ask if there are any anticipated changes when the policy renews.

The Commerce Department Can Help

For specific questions about coverage or about an insurance company or agent, check our License Lookup tool or contact the Minnesota Department of Commerce, Consumer Response Team at 651-539-1600 or 1-800-657-3602 (MN only outside the Twin Cities area).