



MAINE DEPARTMENT OF
**Professional
& Financial
Regulation**

**A Report to the Joint Standing Committee on
Insurance and Financial Services of the
121st Maine Legislature**

**Market Conditions and Trends
For Property and Casualty Insurance in Maine**

**Submitted by the Bureau of Insurance,
Department of Professional and Financial Regulation**

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Executive Summary

On May 27th 2003, the Governor signed into law Public Law 310 requiring the Superintendent of Insurance to prepare a report that assesses market conditions for property and casualty insurance in the State of Maine. The report is to place emphasis on homeowners insurance and commercial insurance coverages for small businesses.

Accordingly, the Superintendent has analyzed the market conditions for property and casualty insurance in Maine covering the past three and one half years. This report is the result of that review. In preparing the report, the Superintendent sought input from policyholders, the public, independent insurance producers, insurers, and insurance regulators in other New England states. A review of relevant literature was also undertaken with specific information obtained from A.M. Best Aggregate and Averages, Conning Research & Consulting, Inc., and the National Association of Insurance Commissioners.

Additionally, the Bureau of Insurance (the “Bureau”) reviewed the financial condition and the operating results of property and casualty carriers in the United States and the general economic factors affecting them.

The Bureau collected market condition data through a series of surveys directed towards the public, producers, and insurers. Strategic Marketing Services of Portland was engaged by the Bureau to conduct a statewide consumer survey of 400 individuals and 100 small businesses. In an effort to gather additional policyholder experience the Superintendent and Bureau staff conducted public meetings in Ellsworth, Presque Isle, Gardiner, and South Portland. The Bureau has also been closely following events throughout the United States with specific attention on homeowners insurance.

All sources of information reviewed by the Bureau identified homeowners and apartment owners insurance as difficult to obtain in the marketplace. Insurance producers identified general contractors who subcontract 50% or more of their work as a difficult risk classification to insure. Other small commercial businesses and not-for-profit entities had also experienced price increases and maintenance directives at policy renewal. Overall, policyholders expressed confusion and frustration with the quick pace of the insurance industry’s changes to underwriting rules and standards.

Homeowners Insurance

Homeowners insurance policies protect against a specific number of perils. Perils are events that cause damage to property. Three examples are: fire, windstorm, and theft. In addition to coverage for named perils, each package policy usually contains four additional types of coverage: property damage, additional living expenses, personal liability, and medical payments. Homeowners insurance policies apply to most owner-occupied single family homes and are changed slightly for residents of apartments and condominiums. All sources indicated that the Maine homeowners market was characterized by generally stricter underwriting criteria, premium increases and insurer-imposed increases to property valuations. “Protection class 10”

(properties located more than five miles from a fire station) and coastal properties were particularly affected.

Underwriting Changes

During the review period leading insurers implemented changes to underwriting criteria for homeowners insurance including but not limited to the following:

- Enhanced standards for maintenance and upgrades
- Elimination of low deductibles (co-insurance)
- Exclusions for home businesses
- Exclusion for breeds of dogs
- Company initiated property value increases

Policy Pricing and Market Share

Between 2000 and 2003 stricter underwriting rules were adopted and strictly followed by company underwriters. Policyholders were faced with requirements to repair property deficiencies or face nonrenewal of their policies. Average premium per policy increased 30% during that time while there was a 6% decline in the number of insured properties. The increase in average premium is only partially attributable to rate increases as increased amounts of coverage are also a factor. The market leader, York Insurance Company, reported an average per policy price increase of 64% and a 38% decline in policy count. At the public meetings some policyholders reported price increases of up to 300% over the amount paid in 2000. In response to these price increases, policyholders have sought alternative insurance options.

Property Valuation

Many policyholders noted an emphasis by insurers on increased replacement cost valuation. Insurers base a significant portion of the premium on the best estimate of the replacement cost of the property. Replacement cost is the amount necessary to restore the property to its original condition with materials and construction methods used in the original construction of the property. This valuation procedure can result in older properties being valued at prices higher than market prices.

An alternative to replacement-cost coverage is functional replacement cost coverage, which allows for repair or replacement using less expensive construction materials and methods that are the functional equivalent of the obsolete, antique, or custom construction materials and methods used in the original construction. This coverage is available in Maine under Insurance Services Office (ISO) endorsement form HO 05 30 although it did not seem to be broadly available from the carriers.

Protection Class 10 Properties

Protection class 10 properties were identified as among those difficult to place for coverage. Protection class 10 properties are those located more than five miles from a fire station. Many homes in Maine fall into this classification. Insurers also consider in the underwriting process whether the property is visible to neighbors, has year round access, and if an alternative water source is available.

Coastal & Island Properties

Coastal and island property owners are experiencing greater difficulty obtaining or maintaining homeowners insurance coverage because insurers have established and are strictly enforcing underwriting rules for such properties. Among the risks identified as unacceptable by insurers were:

- Properties located within 1000 feet of the water at high tide
- Properties located less than 25 feet above the high-water line
- Properties exposed to the ocean and not protected by a retaining or sea wall
- Properties not protected from wind by other buildings, tree line, or other means.

Coastal and island properties also appear to be subjected to more stringent maintenance criteria than other properties.

Commercial Property and Liability Insurance

The Bureau's review also focused on the commercial property and liability insurance market particularly as it affects small business. Property insurance for apartment buildings and general contractor's liability insurance were identified as particularly difficult coverages to obtain in the market.

Apartment House Insurance

Apartment house insurance coverage was identified as one of the most difficult types of business for which to secure insurance coverage. Although insurers did not articulate specific reasons why they did not write this coverage they implied a reluctance to do so because of poor claims experience and financial results.

At the statewide public meetings policyholders indicated that insurance companies had mandated extensive maintenance and upgrades be made to their buildings in order for policies to be renewed. Policyholders also identified older buildings, subsidized housing facilities, and seasonal apartment rentals as properties for which obtaining insurance was problematic. Joyce Ach of the Maine State Housing Authority and Carlton Winslow, President of Apartment Owners Association, which represents 2200 members, confirmed the lack of adequate apartment house insurance.

General Contractors Insurance

General contractors insurance provides protection against legal liability arising from the performance of their work. In the event of an on the job injury, a contractor may be held liable for the negligent acts of a subcontractor hired to perform work. The difficulty of obtaining or maintaining general contractors' insurance coverage is directly related to the amount of work the contractor subcontracts. On a scale of 1 to 5, with 5 being the most difficult, producers rated the degree of difficulty in obtaining coverage for a contractor who subcontracts 75% of their work at 4.4 compared to 2.4 for those contractors who subcontract little or none of their work. It also appears that for general contractors, insurance companies tend to favor contractors whose workers have three or more years of experience, as well as artisans and skilled workers to general laborers. Premium comparisons for commercial business are difficult, but based on

insurance company responses, the premium increase for general contractors who subcontract 75% of the work is estimated to be four times the amount reported for those contractors who subcontract little or no work.

Other Commercial Insurance

Some participants at the public meetings also raised the issue of increased cost and lack of availability for small businesses and nonprofit entities. Among the businesses represented were a marina and an emergency medical service company. Representatives of snowmobile clubs also indicated a general unwillingness by companies to provide liability coverage.

Other Relevant Topics

Maine Case Law

The Bureau reviewed leading Maine decisions in the areas of property and casualty insurance and tort law that have been rendered since 2000. While there is a Court decision, *Warren Elliot v. Hanover Insurance Company*, 711 A.2d 1310, 1998 ME 113, that insurers view as increasing their duty to defend insureds and sometimes provide as a reason for policy nonrenewal, the Bureau otherwise did not discern any overall trends arising from these cases that have adversely affected the market for homeowners and general liability insurance coverages.

The Bureau also reviewed appeals from hearings held under the Maine Property Insurance Cancellation Control Act. One currently pending appeal to the Law Court stands out as presenting a potential threat to the efficacy of hearings held under that Act.

In Maine Superior Court, Civil Action, Docket No. AP-02-59 & AP-02-65, York Insurance Company of Maine (“York”) appealed the Findings and Decision of the Superintendent of the Bureau of Insurance in two separate hearings. York appealed the Superintendent’s findings that the company had not met its burden of establishing adequate grounds for nonrenewal of two homeowners’ insurance policies. Both instances involved the operation of a daycare business on the homeowners’ premises. Despite the fact that the homeowners in each case had obtained separate insurance policies to cover claims related to the daycare business, York asserted that the presence of a business increased its liability exposure with regard to its obligation to defend.

In reversing the decisions of the Superintendent, the court determined that “(i)t is not the province of the Superintendent of the Bureau of Insurance, through the Hearing Officer, to determine the level of acceptable risks for an insurance company. The only determination necessary was whether York met its burden for issuing a nonrenewal notice... The evaluation of such risks is the primary responsibility of the underwriters for York Insurance, not the Superintendent of Insurance.” The Bureau of Insurance has appealed this decision to the Law Court.

If the decision stands that the Superintendent cannot intervene in determining the level of acceptable risks for an insurance company, and that evaluation of such risks is the primary responsibility of the company, then some of the existing consumer protections may be effectively diminished and the Superintendent’s responsibility for solvency regulation could also be

impugned when reviewing a company's risk profile. (For further information on Maine case law related to homeowners insurance see Appendix A.)

The Bureau reviewed Maine legislation affecting tort law generally and property and liability insurance. Although there have been several bills that would relate to specific issues, the Bureau did not discern any enactments to which a significant effect on the Maine property and casualty insurance market during the review period could be attributed.

Fair Access Insurance Requirements Plans (FAIR Plans)

In light of the pending legislation regarding FAIR Plans (LD 1601) the Bureau reviewed materials prepared by the Property Insurance Plan Services Office Inc. (PIPSO). PIPSO is a not for profit corporation established in 1995. Their stated purpose is to promote the efficient and economical operation of the state residual property insurance plans by encouraging research, exchange of information, and by collecting and disseminating statistics related to the operation of the plans.

FAIR plans serve as the residual market vehicle by providing basic property insurance to property owners who are otherwise unable to obtain insurance from admitted (licensed) carriers because of the location of their property or for any other reason. In jurisdictions with FAIR plans membership is mandatory for all licensed property insurers; members are assessed for losses in proportion to their share of the voluntary market. Some plans use servicing carrier(s) to underwrite, issue, and service policies on behalf of the plan members.

At present there are 33 plans operating in 33 states. Twenty seven (27) states have a FAIR Plan, 4 states have a beach or wind storm plan and two states have both types. During the time period 1998 through 2002 the market share of the plans ranged from 1.58% to 2.33% with an average market share of 1.97% for the five year period. The financial results varied among the plans. During 2002 fifty-five percent (55%) of the FAIR plans (the habitational* portion only) had combined ratios (losses + expenses) in excess of 100% and, for the entire period of 1998 through 2002, in aggregate, sixty-five percent (65%) of the plans were unprofitable. However, when considering habitational and commercial coverages taken as a whole, FAIR plans were profitable for 3 of the 5 years. Results varied considerably by state, for instance Connecticut was unprofitable for each year while Kansas reported a profit in each of the five years.

* According to Commercial Property and Multiple Lines Underwriting by E.P. Hollingsworth and J.J. Launie (1984) apartments, hotels, motels and nursing homes are included in the habitational category and that "Habitational occupancies include the whole gamut of common hazards, with the addition of certain special hazards which are the result of the occupancy." It cites supervising activities of tenants, converted buildings with older wiring, heating and trash disposal systems, financial stability of the owner.... among those hazards..

Possible Responses to Problems Identified in Homeowners Insurance

In compiling the information for this report the Bureau sought to provide a balanced perspective on the Maine market conditions for property and casualty insurance. In doing so a variety of issues were identified as well as possible responses to those issues. The list below is not intended to endorse any of the proposed responses, but rather to provide a framework for discussion by the Legislature in their consideration of possible measures to address property and casualty insurance market place issues.

- Allow the market to self balance.
- Prohibit nonrenewals based solely on valid claims from prior 2 years unless the insurer can demonstrate multiple losses of the same nature during the 2 year period.
- Prohibit nonrenewals based on prior claims incurred by the previous owner if the necessary repairs have been completed.
- Permit exclusions on coverage until property has been repaired (example – roof repair).
- Allow surcharges for certain losses but exclude weather-related or catastrophic losses over which the insured has no control.
- Reinstatement by the prior insurer if stated reason for nonrenewal is repaired and insured has been without coverage or had to obtain coverage in the surplus lines market.
- Prohibit nonrenewals in cases which the insured can demonstrate good faith intent to complete the necessary repairs in a reasonable timeframe (example – contract with roofing contractor or having financing in place).
- Prohibit refusal to insure based solely on the age of the dwelling.
- Nonrenewal notices should provide more detailed information to policyholders especially in regard to property repairs.
- Encourage functional replacement property coverage on older dwellings or dwellings with replacement cost well in excess of market value.
- Insurers should consider the creation of a formal internal process for policyholders to appeal increased insurer property valuations.
- Require 4 months notice for nonrenewal where the reason for nonrenewal is that repairs to the property are necessary to maintain the insurability of the property. The 4 month notice period will allow time for repairs to be made.
- Underwriting inspections should be done by qualified personnel.
- Dog breed criteria for non issuance or nonrenewal should be based on the animal's manifested behavior rather than solely on the breed.
- Consider the establishment of a Market Assistance Plan (MAP).
- Consider the establishment of a Fair Access Insurance Requirements plan (FAIR Plan).
- Clarify insurer's "duty to defend" responsibility under Maine law.
- Encourage the offer of higher deductible options in lieu of a nonrenewal.

Producer Survey

Independent insurance producers are a primary distribution network for property and casualty insurance business in Maine. In an effort to obtain their perspective on the availability and affordability of property and casualty insurance the Bureau prepared a survey instrument designed to identify the types of insurance business written by each office and further identify the specific insurance coverage(s) where they perceived affordability or availability to be an issue. (See Appendix B for the survey)

The Maine Independent Agents Association provided a list of their members which was used to identify the 30 largest independent producers in Maine. Their respective locations were reviewed to ensure that the entire State population was reflected in the survey. In addition 2 surplus line producers were contacted to gather information on changes in their marketplace. The Bureau did not survey any captive producers since their response would likely mirror the company responses in the company survey. Producers were asked to respond to the survey based on their working knowledge of the Maine marketplace.

The distribution of written premium for the relevant lines of insurance as reported by the producers reasonably matched Maine's population distribution as indicated in the 2001 Supplementary Survey by the US Census Bureau. (See Table 1)

Table 1 – Premium Distribution

	<i>Producer Premium</i>	<i>Population Distribution</i>
<i>I-95 Corridor</i>	71%	72%
<i>Downeast</i>	6%	7%
<i>Aroostook</i>	5%	6%
<i>Western</i>	9%	12%
<i>Other Coastal</i>	9%	3%
	100%	100%

Table 3 – Unable To Obtain Coverage At Least Once Over The Past Three Years.

<i>Line</i>	<i>% of Producers</i>
<i>Homeowners</i>	80%
<i>Apartment House</i>	27%
<i>Personal Auto</i>	10%
<i>Physical Damage Used Auto Dealers</i>	7%
<i>Umbrella</i>	7%
<i>Mobile Homes</i>	7%
<i>General Contractor</i>	7%
<i>All Lines</i>	7%
<i>Commercial Auto Garage</i>	3%
<i>Driver Training School</i>	3%
<i>Horse Liability</i>	3%
<i>Tenants Policy</i>	3%
<i>Taxi</i>	3%
<i>Charter Agent Legal Liability</i>	3%
<i>Tree Removal</i>	3%
<i>Commercial Property</i>	3%
<i>Commercial General Liability</i>	3%

Producers were specifically asked to identify coverage issues which may result in an insurer electing not to underwrite insurance protection. The question covered their five most difficult risks and requested an explanation of the risk element. The two most often cited risk elements were prior losses and dogs. Prior losses include both claims filed by the applicant and claims made by prior owners of the property. Dogs include all pets known to have aggressive tendencies and include but is not limited to Pit Bulls, Rotweilers, Dobermans, German Shepherds, Husky-Shepherd mixed breeds, hybrid wolves, or other exotic pets. (See Table 4)

Table 4 – Risks Related To Refusals To Write Coverage

<i>Underwriting Criteria (Risk Element)</i>	
<i>Prior Losses</i>	33%
<i>Dogs</i>	21%
<i>Trampoline</i>	17%
<i>Wiring</i>	13%
<i>Shared Flue</i>	13%
<i>Island Property</i>	13%
<i>Poor Upkeep</i>	8%
<i>Foundation Type Or Posts</i>	8%
<i>Protection Class 10</i>	8%
<i>No Prior Coverage</i>	8%
<i>Total Value/High Value</i>	8%
<i>Diving Board</i>	4%
<i>Daycare In Home</i>	4%
<i>Business On Same Lot</i>	4%
<i>Insured To Value</i>	4%
<i>Secondary Homes Unless Primary Home Also Written</i>	4%
<i>No Protection And/Or Vacant Part Of Year</i>	4%
<i>Wind Or Protection Class</i>	4%
<i>Seasonal Within 1,000 Ft Of Ocean</i>	4%

Producers were also asked to identify products which have been subject to significant underwriting and rule changes in recent years. Seventy-six percent of the agents identified homeowners insurance with claim history (losses), trampolines, and dog/pets as the top three underwriting criteria considered by a company that declines to underwrite a risk.

Taking into consideration all the questions posed to producers in regard to homeowners insurance we found that the following risk elements, either alone or in conjunction, had the most affect on a producer’s ability to secure insurance coverage for their clients.

- Dog (pet) ownership
- Prior loss history
- Presence of a trampoline
- Condition of electrical service
- Residence located in a Protection Class 10 zone
- Island location
- Shared flue
- Coastal location (wind exposure)
- Poor property maintenance or upkeep

It was necessary to review the overall availability of commercial insurance coverage in order to isolate specific class problems. For producers the survey identified apartment owners and general contractors’ coverages as difficult to obtain. We asked producers to provide, on a scale of 1 to 5, the degree to which they have experienced difficulty in obtaining commercial insurance coverages. (See Table 5)

Table 5 - Degree Of Difficulty Obtaining Commercial Coverages

<i>Coverage Type</i>	<i>Degree Of Difficulty 1 (Low) – 5 (High)</i>
<i>Apartment (Seasonal Tenants)</i>	4.5
<i>Roofer</i>	4.4
<i>General Contractor - 75% Subcontracted</i>	4.4
<i>General Contractor - 50% Subcontracted</i>	4.0
<i>Multi Family Dwelling</i>	3.7
<i>Apartment (Full Time Tenants)</i>	3.6
<i>General Contractor - 25% Subcontracted</i>	2.7
<i>Carpenter</i>	2.6
<i>General Contractor – None Subcontracted</i>	2.4
<i>Sheet Rocker</i>	2.2
<i>Plumber</i>	1.8

Apartment-owner coverage is divided into three segments:

- Apartment with seasonal tenants - rated the most difficult by the producers, includes off campus student tenants (4.5)
- Multi-family dwelling - rated fifth most difficult (3.7)
- Apartments with full-time tenants - rated sixth most difficult (3.6)

Producers indicated that the building's age, upkeep and maintenance, type of heat, condition of electrical service, number of units (over 8), number of floors (over 4), and subsidized housing as major concerns regarding availability of insurance. Nineteen of the thirty producers identified apartments at least once in the four questions related to availability. Of these, thirteen were located in urban areas, notably in proximity to a college campus.

The difficulty of obtaining general contractor coverage is directly related to the amount of work subcontracted by the contractor. A significant availability difference exists between general contractors who subcontract 75% of their work and contractors who do not subcontract work. The degree of difficulty in obtaining coverage for a contractor subcontracting 75% of his work was 4.4, compared with 2.4 for those contractors who subcontract little or no work. Among contractors roofing contractors were identified as the second most difficult risk for which to place coverage.

Statewide Consumer Survey

The Bureau contracted with Strategic Marketing Services (SMS) of Portland to survey Maine consumers relative to the availability of insurance in the state. The survey questions were designed to identify markets or risk classes within those markets in which insurance was difficult to obtain or not available. The survey was divided between personal and commercial insurance products. (See Appendix C SMS Report)

SMS administered a telephone survey to Maine residents throughout the state. Interviews were conducted from August 14, 2003 to August 19, 2003 with a randomly selected, stratified statewide sample of 400 Maine citizens. (See Table 6) Respondents had to be at least 18 years of age and be responsible for making decisions regarding personal insurance in their households. Individuals did not qualify for participation in the survey if they did not insure any property or vehicles in Maine. The total results of the residential portion of the study command statistical validity at the 95% confidence level, with a margin of error of plus or minus 4.90%. The personal insurance products included homeowners, tenants, personal automobile, recreational vehicles, and umbrella coverages.

Table 6 – Demographic Stratification (Personal Lines Insurance)

	<i>Survey Respondent</i>	<i>U.S. Census</i>
<i>Androscoggin</i>	8%	8%
<i>Cumberland</i>	21%	21%
<i>Kennebec</i>	9%	9%
<i>Penobscot</i>	11%	11%
<i>Sagadahoc</i>	3%	3%
<i>Hancock</i>	4%	4%
<i>Knox</i>	3%	3%
<i>Lincoln</i>	3%	3%
<i>Waldo</i>	3%	3%
<i>Washington</i>	3%	3%
<i>York</i>	15%	15%
<i>Franklin</i>	2%	2%
<i>Oxford</i>	4%	4%
<i>Piscataquis</i>	1%	1%
<i>Somerset</i>	4%	4%
<i>Aroostook</i>	6%	6%
	100%	100%

SMS also administered a telephone survey of small businesses (having fewer than 10 employees) throughout the state. Interviews were conducted from August 18, 2003 to August 21, 2003 with a randomly selected, stratified statewide sample of 100 Maine businesses. Respondents were those

responsible for making decisions regarding business related insurance policies. The total results of the commercial portion of the study command statistical validity at the 95% confidence level with a margin of error of plus or minus 9.79%. (See Table 7)

Table 7 – Demographic Stratification – (Business Insurance)

	<i>Survey Respondents</i>	<i>US Census</i>
<i>Androscoggin</i>	7.00%	6.73%
<i>Cumberland</i>	24.00%	23.77%
<i>Kennebec</i>	8.00%	8.32%
<i>Penobscot</i>	10.00%	9.93%
<i>Sagadahoc</i>	2.00%	2.25%
<i>Hancock</i>	5.00%	5.35%
<i>Knox</i>	4.00%	4.35%
<i>Lincoln</i>	4.00%	3.63%
<i>Waldo</i>	3.00%	2.90%
<i>Washington</i>	3.00%	2.57%
<i>York</i>	14.00%	14.08%
<i>Franklin</i>	2.00%	2.18%
<i>Oxford</i>	4.00%	3.84%
<i>Piscataquis</i>	1.00%	1.34%
<i>Somerset</i>	4.00%	3.41%
<i>Aroostook</i>	5.00%	5.35%
	100.00%	100.00%

While a majority of respondents have a homeowners/tenants insurance policy, only a small percentage had problems securing or maintaining their coverage.

- A total of 326 respondents (81.5%) currently have a homeowners/tenants policy or had such a policy in the past three years.
- Only a small percentage of respondents had a homeowners/tenants policy that was not renewed (2.8%) or cancelled (.9%) in the past three years. In addition, few respondents were denied coverage (3.1%) in that time.
- Some of the top reasons respondents gave as to why they had a homeowners/tenants policy cancelled or nonrenewed or why they were denied coverage include that their property is seasonal, they have a wood stove, the age of the property, that they have a dog, prior claim experience, coastal/island property, the property is not located near a fire hydrant or their insurer no longer offers insurance in Maine.

A strong majority of respondents agree that homeowners/tenants insurance is becoming expensive and many have experienced a large increase in their premium over the past three years.

- Nearly two-thirds of respondents (63.9%) either “agree” or “strongly agree” that homeowners/tenants insurance is becoming expensive. Fifteen percent of those polled (15.4%) either “disagree” or “strongly disagree” that homeowners/tenants insurance is becoming expensive and 18.5% of those polled “neither agree nor disagree” with this statement.
- Over sixty percent (61.1%) of the respondents reported an increase in their homeowners/tenants premium over the past three years. While 23.1% of those surveyed stated that their homeowners/tenants premium had remained about the same over the past three years and only 1.2% reported a decrease during that time.
- While approximately four in ten respondents whose premium increased in the past three years could explain why the cost increased, 24.2% indicated that their insurance had gone up without any change in coverage and 31.3% said that they are unsure of why their insurance premium increased.

General liability and automobile insurance policies are the most common types of insurance which the businesses surveyed maintain. Few businesses have experienced problems with availability, as most have been able to secure and maintain their business insurance policies.

- Eighty-three (83%) of businesses surveyed stated that they have general liability insurance and 47% reported having automobile insurance. Other types of business insurance policies held by respondents include contractor’s liability insurance (19%), umbrella insurance (16%), and habitational insurance (13%).
- Six of 83 respondents (7.2%) who said their business has general liability insurance indicated that they have had a policy that was nonrenewed in the past three years and one respondent has had a policy cancelled in that time. Two of the 19 respondents whose business is covered by contractors’ liability insurance (10.5%) said that their policy was nonrenewed in the past three years. Of the 47 respondents with company automobile policies, only one respondent indicated that an automobile policy was nonrenewed or cancelled in the past three years.
- None of the businesses surveyed have been denied coverage for, or had a habitational or umbrella policy that was nonrenewed or cancelled in the past three years.
- The primary reason businesses had policies that were either nonrenewed or cancelled was that their insurance company was “no longer writing that line of business”.

Respondents generally agreed that business insurance policies are becoming expensive with the exception of umbrella policies. In addition, most businesses have experienced a significant increase in their insurance premium over the past three years.

- Of the five different types of business insurance examined, current automobile policyholders are more likely than other policyholders to “agree” or “strongly agree” that automobile insurance is becoming expensive.
- Habitational insurance policyholders also tend to agree that this type of insurance is becoming expensive followed by contractor’s liability and general liability.
- Current umbrella policyholders appear most satisfied with their current premium.

- Eighty-two percent (82%) of the 83 with general liability insurance reported an increase in premium over the past three years, with 26.5% experiencing an increase of 25% or more.
- Eighty-four percent (84%) of the 19 respondents with contractors liability insurance experienced a premium increase over the past three years with 52.6% reporting an increase of 25% or more.
- Umbrella policy premium appear to be the most stable of the policies examined, as half of the 16 respondents have not experienced a change in premium over the past three years.
- The vast majority of automobile insurance policyholders have also seen an increase in their premium (93.7%).

Statewide Public Meetings

The Bureau conducted four public meetings during October 2003. These meetings provided an opportunity for the Superintendent to provide attendees an overview of the Maine insurance market, to gather public comment on problems and issues related to property and casualty insurance and to provide information relating to consumer assistance available from the Bureau. The public meetings were held from 7:00pm to 10:00pm on the following dates:

- October 14, 2003 – Ellsworth City Hall
- October 15, 2003 – University of Maine at Presque Isle
- October 22, 2003 - Department of Professional and Financial Regulation, Gardiner
- October 23, 2003 – Marriott Hotel, South Portland

A total of 142 individuals attended the meetings and significant interest was evident in all regions with extensive press coverage afforded to all the sessions. The Ellsworth meeting attracted approximately 25 attendees; 11 individuals were in attendance at Presque Isle; 50 at Gardiner; and 56 at South Portland.

As one might expect with a meeting of this type generally, only individuals with insurance problems or concerns provided commentary. Interestingly, at the Ellsworth meeting 2 insurance producers presented positions that validated many of the problems experienced by policyholders. Homeowners and apartment insurance were the insurance products primarily addressed. Other products discussed at the meetings included contractors, small business owners and farmowners insurance coverage.

In an effort to supplement policyholder comments, the Bureau made available on its webpage a revised consumer survey form. Participants could either fill in the form on line or download it and mail it in to the Bureau. While not intended to be a statistically valid sample it nonetheless affirmed comment received at the public meetings.

Concerns about Homeowners Insurance

For the most part, the issues presented by attendees – almost all of which pertained to homeowners insurance – served to confirm and support other information gathered by the Bureau during the development of this report. The issues included:

- Companies mandating certain levels of coverage for the property regardless of the amount of coverage desired by the insured
- Premium increases ranging from 50% to over 300%
- Homeowners with in-home businesses cancelled or deemed ineligible for insurance
- Apartments nonrenewed due to seasonal tenants (college students)
- The age of a property (home or apartment)
- Homes with attached barns
- Homeowners not renewed due to distance from fire station (Protection Class 10)

- Island property owners not renewed or renewed at an exorbitant rate
- Inspection of property being done by non qualified inspectors
- Insurers giving unrealistic timelines to complete maintenance issues
- The cost of small business insurance is such that the enterprise cannot recoup the added cost, causing some to go without insurance coverage, others to go out of business
- Companies seemingly looking for ways to cancel or not renew rather than work with the policyholder to remedy the undesirable risk elements
- Availability and affordability of apartment house coverage

Homeowners stressed that it appeared as if insurers were changing the rules for underwriting homeowners risks. The following were cited as examples:

- Companies are mandating that repairs, updates, and other changes to the property be completed in a short period of time or in unreasonable times of the year in order for coverage to be renewed.
- Companies are dictating the amount of property coverage provided by the policy regardless of the amount desired by the consumer. They indicated that the value insured under the property section of their policies has often tripled in the past three years, with a corresponding increase to the policy premium. This was more prominently noted by policyholders in northern and eastern Maine than those in southern Maine where the real estate market is more dynamic.
- Policyholders noted an increased emphasis by insurance companies on property valuation. This valuation is the basis for determining the amount of premium charged and represents a best estimate of the replacement cost of the property. Replacement cost is the amount of money required to restore the property to its original condition with materials and construction methods used in the original construction of the property. This valuation procedure could result in older properties being valued at prices higher than market prices.
- In both Gardiner and South Portland, policyholders described the insurance problems of apartment and island property owners. Older apartment buildings, maintenance, and apartments with seasonal tenants, particularly students, were the most repetitive reasons given by policyholders for companies refusing to provide coverage.
- Policyholders pointed out that a large part of the Maine economy is tied to small business operations. Maine businesses already face high medical insurance cost, high property taxes, and now high business insurance cost, including workers' compensation insurance cost. These costs discourage economic growth in the small business community. Additionally many Maine small businesses are based in the same building where the policyholder resides. Some policyholders were of the view that underwriting decisions to non-renew policies due to a business use of the premises were being made by urban-based underwriters unfamiliar with Maine's rural lifestyle.
- Policyholders complained about nonrenewals due to the policyholder's ownership of certain breeds of dogs. One policyholder noted that insurers should focus on a dog's "deed, not the breed".

- Policyholders expressed frustration that some insurers non-renew coverage if policyholders file multiple small claims. The concern noted by policyholders is that if insurers don't want to insure small claims, they should not charge for that coverage.
- Policyholders noted that, although some insurers are now using credit scores as underwriting and pricing factors, no information is available to specific policyholders as to how they may improve their specific credit scores.

Post-Forum Public Reaction

Press coverage of the forums resulted in the Bureau receiving numerous phone calls, letters and e-mail messages. The following letter from a policyholder is representative of those communiqués.

Dear Sir:

I am writing because I recently learned from Bangor Daily News that you have been scheduling hearings, etc. about people's insurance problems. Since I did not make the hearing, I would like to take this medium to tell you about my problem:

I am a senior citizen who has a small business which I will have to close because of insurance problems. Six years ago when I retired, I had a garage type building erected adjacent to my home to use for an antique and collectible shop. I am open only during the summer months and do not have heat in the building. I invested in this building and stocked it with the idea that I could continue to operate my business for many years into my future. My shop has given me a small income to supplement my social security as well as provide an opportunity to overcome the social isolation of my rural community.

Last year I received a questionnaire from my insurance company, Patrons Oxford, which I have carried for over thirty years. After I returned the questionnaire, I received a form letter with a checkmark on the line that said my homeowners insurance would not be renewed. I wrote and asked for an explanation and received a rude letter stating that they did not have to renew nor provide an explanation if one conducts business on the premises.

My local agency could not locate another insurance company to cover our home until finally I obtained coverage from LLOYDS OF LONDON at a cost of about \$1,000 in addition to my having another separate policy on my shop for another \$400. With the added insurance costs, it is no longer profitable for me to operate this business. I have always paid my premiums promptly and have never had a major claim, only a couple of minor water damage claims and think my current situation is very unfair. Ironically, Patrons renewed the insurance on our camp for which we have had a theft claim.

Apparently, the insurance companies of Maine only want its customers to pay in to them, but not to collect anything back if they need it. There is something wrong when one has to go to another country for insurance coverage because our own insurance companies won't provide it.

Consumer Complaints

The Bureau's property and casualty unit is responsible for assisting policyholders and consumers with complaints related to property and casualty insurance. The subject matter for complaints ranges from claim payments, coverage issues, sales practices, nonrenewals to policy cancellations. For this report we reviewed the property and casualty complaints that were filed during the period January 2000 through December 18, 2003. The following tables illustrate trend development over the review period.

Table 8 - Complaint Case Mix By Coverage

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003*</i>	<i>Average</i>
<i>Homeowners</i>	21.7%	25.5%	31.3%	28.0%	26.6%
<i>Personal Automobile</i>	58.6%	55.3%	51.8%	55.2%	55.2%
<i>Commercial Multi Peril</i>	5.8%	7.3%	1.8%	2.0%	4.2%
<i>Commercial Automobile</i>	7.2%	8.1%	5.7%	4.5%	6.4%
<i>Other</i>	6.7%	3.8%	9.4%	10.4%	7.6%
	100%	100%	100%	100%	

*Year to date through December 18, 2003

Table 9 – Complaint Distribution By Coverage

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003*</i>	<i>4 Yr Total</i>
<i>Homeowners</i>	136	192	224	156	708
<i>Personal Automobile</i>	367	417	371	308	1,463
<i>Commercial Multi Peril</i>	36	55	13	11	115
<i>Commercial Automobile</i>	45	61	41	25	172
<i>Other</i>	42	29	67	58	196
	626	754	716	558	2,654

*Year to date through December 18, 2003

Table 10 – Change in Homeowners Complaints

	<i>Complaints</i>	<i>Yr/Yr Difference</i>	<i>% Change By Year</i>	<i>Cumulative 2000 – 2003</i>
<i>2000</i>	136			
<i>2001</i>	192	56	41.2%	41.2%
<i>2002</i>	224	32	16.7%	64.7%
<i>2003*</i>	156	-68	-30.4%	14.7%

*Year to date through December 18, 2003

Table 11 - Change in Personal Automobile Complaints

	<i>Complaints</i>	<i>Yr/Yr Change</i>	<i>% Change By Year</i>	<i>Cumulative 2000 – 2003</i>
2000	367			
2001	417	50	13.6%	13.6%
2002	371	-46	-11.1%	1.1%
2003*	308	-63	-17%	-16.1%

*Year to date through December 18, 2003

Table 12 – Change in Commercial Multi Peril Complaints

	<i>Complaints</i>	<i>Yr/Yr Change</i>	<i>% Change By Year</i>	<i>Cumulative 2000 – 2003</i>
2000	36			
2001	55	19	52.8%	52.8%
2002	13	-42	-76.4%	-63.9%
2003*	11	-2	-15.4%	-69.4%

*Year to date through December 18, 2003

Table 13 – Change in Commercial Automobile Complaints

	<i>Complaints</i>	<i>Yr/Yr Change</i>	<i>% Change By Year</i>	<i>Cumulative 2000 – 2003</i>
2000	45			
2001	61	16	35.6%	35.6%
2002	41	-20	-32.8%	-8.9%
2003*	25	-16	-39%	-44.4%

*Year to date through December 18, 2003

Table 14 – Change in Other Property & Casualty Coverage Complaints

	<i>Complaints</i>	<i>Yr/Yr Change</i>	<i>% Change By Year</i>	<i>Cumulative 2000 – 2003</i>
2000	42			
2001	29	-13	-31%	-31%
2002	67	38	131%	59.5%
2003*	58	-9	-13.4%	38.1%

*Year to date through December 18, 2003

Cancellation Control Act Hearings

The Maine Automobile Insurance Cancellation Control Act (24-A M.R.S.A. Ch 39 subchapter II) and the Maine Property Insurance Cancellation Control Act (24-A M.R.S.A. Ch 41 subchapter V) were enacted in the 1970s to protect consumers. These laws set rules under which an insurance company may cancel or non-renew certain personal automobile, property, and liability insurance policies.

Cancellation is the termination of a policy at some point between the effective date of the policy and its anniversary date.

Nonrenewal is when an insurance company decides that it will not issue another policy after the anniversary date of the current policy.

In the case of a new policy, the insurance company can cancel the policy within the first 60 days if the applicant does not meet the company's current requirements. The insurance company must issue a written notice of cancellation before the 60 days expires.

When a policy is more than 60 days old, an insurance company may cancel for only one of the reasons listed in the law. Some of these reasons are: nonpayment of premium, loss of license, fraud, material misrepresentation, and changes in the risk making it uninsurable.

The Maine Automobile Insurance Cancellation Control Act lists the specific reasons which allow nonrenewal of car insurance. Some of the reasons are:

- three speeding convictions in the prior three years
- conviction of operating under the influence during the prior three years
- when one automobile is insured, two at-fault accidents in the prior three years in which there was resulting bodily injury or property damage in excess of \$1,000

The Maine Property Insurance Cancellation Control Act pertains to owner-occupied real property which is used solely for residential purposes and which consists of not more than four apartments

In the case of nonrenewal, the insurance company must notify the insured in writing at least 30 days before the expiration advising that it does not intend to renew the policy. For a cancellation, the insurance company must provide the insured with at least 20 days written notice, except if the cancellation is for nonpayment of premium, then only ten days notice is required.

The notice period begins three days from the mailing date of the notice for nonrenewal and five days from the mailing date of the notice for cancellations.

Except for policies that have been in effect for less than 60 days, a notice of cancellation of homeowners coverage must contain the reason for cancellation. A notice of nonrenewal of homeowners coverage must contain the reason for nonrenewal. The reason must "be a good faith

reason rationally related to the insurability of the property." The reason must be explicit; explanations such as "underwriting reasons", "loss record", "location of risk", "credit report" and similar generic reasons are not by themselves sufficient explanations.

Except with respect to policies that have been in effect for less than 60 days, an insured homeowner receiving a notice of cancellation or nonrenewal may, within 30 days of receipt of a statement of a reason, request a hearing before the Superintendent. The purpose of this hearing is limited by statute to establishing the existence of the proof or evidence used by the insurer in its reason for cancellation or nonrenewal notice. The burden of proof of the reason for the intended cancellation or nonrenewal is on the insurer.

With respect to property insurance on risks not subject to the Property Insurance Cancellation Control Act, such as commercial property and casualty coverages, the right to a hearing at the Bureau of Insurance exists only with respect to mid-term cancellations, and not nonrenewals. The specific time frames for providing notice of cancellation and for requesting a hearing differ for commercial as opposed to personal lines.

Table 15 – Hearings Held for Property Insurance before the Superintendent

	<i>Hearings Held</i>	<i>Policyholder Prevailed</i>	<i>Insurance Co Reinstated</i>	<i>Policyholder Dropped Request</i>	<i>Company Prevailed</i>	<i>Pending</i>
2001	130	41	47	10	32	
2002	350	116	164	13	57	
2003	317	100	132	19	51	15

Table 16 – Homeowners Hearing Results

	<i>In Favor of Policyholders</i>	<i>In Favor of Company</i>
2001	88 (68%)	42 (32%)
2002	280 (80%)	70 (20%)
2003	232 (77%)	70 (23%)

Table 17 – Reasons for Hearing Request

	2001	2002	2003	Totals
<i>Animals - Miscellaneous</i>	0	1	3	3
<i>Breach of Contract</i>	0		1	1
<i>Business on Premises</i>	5	7	11	20
<i>Condition of Property</i>	12	80	63	149
<i>Conviction of Insured</i>	2		3	5
<i>Daycare on Premises</i>	1	9	12	20
<i>Dogs - Bite History</i>	8	17	9	30
<i>Dogs - Breed</i>	2	4	5	10
<i>Electrical System Issues</i>	2	0	4	5
<i>Failure to Provide Information</i>	1	4	10	14
<i>Failure to Maintain</i>	1		2	2
<i>Failure to Comply w/Requests</i>	3	15	23	37
<i>Incomplete/Poor Construction</i>	1	3	7	9
<i>Increased Change in Exposure</i>	2	10	7	21
<i>No Central Heat</i>		2		2
<i>Location</i>	0	2	2	3
<i>Losses</i>	72	116	75	255
<i>Miscellaneous - Other Reasons</i>		8		8
<i>Misrepresentation</i>	1	9	11	20
<i>Missed 60-day</i>	0	7	9	14
<i>Mobile Home</i>	0		2	2
<i>Negligent/Careless</i>	0	4	1	5
<i>Nonpayment</i>	2	13	9	24
<i>Occupancy</i>	9	24	25	56
<i>Reinsurance</i>	1		4	3
<i>Single Flue Chimney</i>		2		2
<i>Skate Ramp</i>	0		1	1
<i>Swimming Pool Issues</i>	0	0	6	6
<i>Theft Losses</i>	2	4	3	8
<i>Trampoline</i>	3	4	5	12
<i>Woodstove</i>	0	5	8	12
Total	130	350	317	797

* Includes data through October 3, 2003

Hearings: Personal Automobile Insurance

Table 18 – Hearings Held for Personal Automobile Insurance before the Superintendent

	<i>Hearings Held</i>	<i>Policyholder Prevailed</i>	<i>Insurance Co Reinstated</i>	<i>Policyholder Dropped Request</i>	<i>Company Prevailed</i>
2001	62	8	20	12	22
2002	119	29	41	12	37
2003*	89	15	29	9	26

* Includes data through October 3, 2003

Table 19 – Personal Automobile Hearing Results

	<i>In Favor of Policyholders</i>	<i>In Favor of Company</i>
2001	28 (45%)	34 (55%)
2002	70 (59%)	49 (41%)
2003*	44 (56%)	35 (44%)

* Includes data through October 3, 2003

Rates, Rules, and Forms

Regulation of insurance rates by the Bureau is intended to ensure that rates are not excessive, inadequate, or unfairly discriminatory. Rate regulation is not intended to prohibit or discourage reasonable competition. The rate review process considers, among other things, past and prospective loss experience, past and prospective expenses, conflagration and catastrophe exposure, and a reasonable margin for underwriting profit and contingencies after giving consideration to investment income. As part of the rate review process, the Bureau reviews supplementary rating information used in the determination of the amount charged including but not limited to minimum premium, policy fees, rating rules, underwriting rules, classification schedules, and statistical plan data.

Companies continually update their rates and rating plans to respond to changes in the market. They may use their own internal data (independent filing) or use data accumulated by licensed advisory organizations. An advisory organization accumulates loss statistics data provided by its member companies. It then uses the loss statistics, in aggregate, to provide loss trend information to regulatory authorities. The loss statistics of the advisory organization are combined with individual company expense and profit data in the determination of premium rates. Advisory organizations include but are not limited to the Insurance Service Office (ISO), the American Association of Insurance Services (AAIS), and Automobile Insurance Plan Statistical Office (AIPSO).

An insurance policy, endorsement form, renewal form, or any other form which constitutes part of a policy must be approved by the Bureau prior to its use in Maine. Forms may be independently developed or developed by an advisory organization and submitted to the Bureau for approval. Companies using the form developed by an advisory organization must file their intention with the Bureau for approval.

For purposes of this report rate, rule, and form filings of the ten largest writers of homeowners insurance were reviewed for the past three years. Filed rate increases for the period of January 1, 2000 through August 31, 2003 ranged from 11% to 43% on a cumulative basis over the 44 months. The degree of the rate increase is dependent on each individual company's base rates at the start of the period. (See Table 20)

Table 20 – Cumulative Filed Rate Increases 2000 – 2003 (Homeowners)

Massachusetts Bay Insurance Company	43%
Allstate Insurance Company	42%
York Insurance Company of Maine	36%
Vermont Mutual Insurance Company	34%
Patrons Oxford Insurance Company	28%
MMG Insurance Company	26%
Liberty Mutual Fire Insurance Company	24%
Concord General Mutual Insurance Company	22%
State Farm Fire and Casualty Company	20%
Peerless Insurance Company	11%

The applications for rate adjustments included various changes to the coverage provided. The most prevalent of these changes pertained to mold coverage. Changes to mold coverage ranged from limiting the amount of coverage provided to excluding coverage entirely. Several companies adopted limited coverage for fungi, wet or dry rot, and bacteria.

The filings also included increases to minimum limits offered, increased level of deductibles, and modified additional liability limits for sundry and enhancement coverages.

The filings did not contain information that indicates a particular homeowners risk characteristic would result in insurance being unavailable for that specific risk.

Insurer Financial Results & the Maine Market

Based on information filed with the NAIC, property and casualty insurance companies wrote approximately \$1.6 billion premium in the State of Maine during 2002. (See Table 21) Twenty licensed companies accounted for over 55% of the total Maine market for property and casualty insurance in 2002. (See Table 22)

Table 21 - Direct Premium by Line of Property & Casualty Business in Maine

<i>Line of Business</i>	<i>Direct Written Premium</i>
<i>Private Passenger Automobile</i>	\$ 556,269,000
<i>Workers Compensation</i>	\$ 222,435,000
<i>Homeowners Multiple Peril</i>	\$ 185,955,000
<i>Commercial Multiple Peril</i>	\$ 174,188,000
<i>Commercial Auto</i>	\$ 136,006,000
<i>Other Liability</i>	\$ 112,209,000
<i>Medical Malpractice</i>	\$ 40,151,000
<i>Inland Marine</i>	\$ 33,544,000
<i>Fire</i>	\$ 27,445,000
<i>Ocean Marine</i>	\$ 20,607,000
<i>Group Accident & Health</i>	\$ 18,934,000
<i>Allied Lines</i>	\$ 18,746,000
<i>Other Accident & Health</i>	\$ 15,937,000
<i>Mortgage Guaranty</i>	\$ 12,981,000
<i>Surety</i>	\$ 11,150,000
<i>Other</i>	\$ 9,965,000
<i>Boiler & Machinery</i>	\$ 7,092,000
<i>Products Liability</i>	\$ 6,996,000
<i>Aircraft</i>	\$ 6,032,000
<i>Multiple Peril Crop</i>	\$ 4,694,000
<i>Fidelity</i>	\$ 3,545,000
<i>Federal Flood</i>	\$ 3,212,000
<i>Farmowners Multiple Peril</i>	\$ 2,344,000
<i>Financial Guaranty</i>	\$ 1,740,000
<i>Credit</i>	\$ 1,382,000
<i>Credit Accident & Health</i>	\$ 1,226,000
<i>Earthquake</i>	\$ 1,192,000
<i>Burglary & Theft</i>	\$ 136,000
Total	\$ 1,636,113,000

Table 22 - Top 20 Writers of Property & Casualty Insurance in Maine

	<i>Direct Written Premium</i>	<i>Market Share</i>
<i>York Insurance Company of Maine</i>	\$142,343,000	8.7%
<i>Maine Employers Mutual</i>	120,965,000	7.4%
<i>Acadia Insurance Company</i>	68,281,000	4.2%
<i>State Farm Mutual Auto Insurance Company</i>	65,118,000	4.0%
<i>Allstate Insurance Company</i>	56,961,000	3.5%
<i>Hanover Insurance Company</i>	54,638,000	3.3%
<i>Peerless Insurance Company</i>	51,833,000	3.2%
<i>Concord General Mutual Insurance Company</i>	49,946,000	3.1%
<i>Maine Mutual Group</i>	38,988,000	2.4%
<i>Liberty Mutual Fire Insurance Company</i>	33,246,000	2.0%
<i>State Farm Fire and Casualty Company</i>	29,814,000	1.8%
<i>Medical Mutual Insurance Company</i>	24,377,000	1.5%
<i>Patrons Oxford Insurance Company</i>	24,183,000	1.5%
<i>Progressive Casualty Company</i>	23,836,000	1.5%
<i>Massachusetts Bay Insurance Company</i>	20,765,000	1.3%
<i>Middlesex Insurance Company</i>	20,387,000	1.2%
<i>North East Insurance Company</i>	20,062,000	1.2%
<i>Progressive Northwestern Insurance Company</i>	20,057,000	1.2%
<i>Dairyland Insurance Company</i>	20,041,000	1.2%
<i>Factory Mutual Insurance Company</i>	16,488,000	1.0%
<i>Subtotal</i>	902,329,000	55.20%
<i>All Other Carriers</i>	733,784,000	44.80%
<i>Total</i>	\$1,636,113,000	

In 2002, in addition to the \$1.63 billion of written premium approximately \$49.7 million was written by the excess or surplus lines companies. Business is placed in the surplus lines market when standard (licensed) insurance companies will not underwrite particular risks. Surplus lines companies are authorized to do business (but are not licensed) in a jurisdiction and generally are not subject to the regulation of rates or forms. An illustration of the market dynamics in the Maine market is that premium written by surplus lines carriers increased 34% in 2000, 38% in 2001, and 34% in 2002.

Table 23 – Direct Written Premium (2002): All Companies v. Companies Surveyed by the Bureau

	<i>All Companies</i>	<i>Companies Surveyed By the Bureau</i>	<i>ME Market Share</i>
<i>Fire</i>	\$27,445,000	\$6,330,000	23%
<i>Allied Lines</i>	18,746,000	3,208,000	17%
<i>Farmowners Multiple Peril</i>	2,344,000	1,135,000	48%
<i>Homeowners Multiple Peril</i>	185,955,000	121,088,000	65%
<i>Commercial Multiple Peril</i>	174,188,000	118,803,000	68%
<i>Inland Marine</i>	33,544,000	13,966,000	42%
<i>Earthquake</i>	1,192,000	330,000	28%
<i>Other Liability</i>	112,209,000	20,624,000	18%
<i>Products Liability</i>	6,996,000	571,000	8%
<i>Private Passenger Auto</i>	556,269,000	366,482,000	66%
<i>Commercial Auto</i>	136,006,000	88,763,000	65%
Total – Lines Targeted	1,254,894,000	741,300,000	59%
Total – Lines Not Targeted	381,219,000	46,320,000	12%
Grand Total	\$1,636,113,000	\$787,620,000	48%

* Source – National Association of Insurance Commissioners Financial Database

The combined policyholder surplus (net worth) of the 24 companies included in the Bureau's survey declined from \$69.8 billion at year end 1999 to \$54.3 billion at year end 2002. The decline of \$15.5 billion is detailed Table 24.

Table 24 – Change In Surplus Of Companies Surveyed by the Bureau (1999-2002)

<i>Policyholder Surplus – December 31, 1999</i>	<i>\$69,825,710,000</i>
Net Income (Loss)	<i>(\$849,180,000)</i>
Unrealized Investment Gains Or Losses	<i>(\$16,619,721,000)</i>
Change In Accounting	\$3,494,863,000
Cash Dividends To Stockholders	<i>(\$3,644,584,000)</i>
Change In Deferred Tax Asset	\$2,386,684,000
Other Surplus Changes	<i>(\$318,885,000)</i>
<i>Policyholder Surplus – December 31, 2002</i>	<i>\$54,274,887,000</i>

In each of the past nine years, the cost of insurance protection (claims) for all property and casualty companies in the United States has exceeded insurance revenue (premium) – that is, the industry has experienced underwriting losses. Underwriting losses ranged from \$1.6 billion in

1997 to \$50.8 billion in 2001, with a nine-year average of \$24.7 billion. During the same period, income from investment activity, excluding unrealized gains or losses, ranged from \$36.0 billion in 1994 to \$59.1 billion in 1998, with a nine-year average of \$48.0 billion. (See Table 25)

Table 25 – Underwriting Losses 1994 - 2002

	Underwriting Loss 1994-2002	Pre Tax Investment Income
1994	(\$18,446,000,000)	\$36,044,000,000
1995	(\$14,167,000,000)	\$42,818,000,000
1996	(\$14,353,000,000)	\$48,259,000,000
1997	(\$1,642,000,000)	\$53,542,000,000
1998	(\$12,548,000,000)	\$59,116,000,000
1999	(\$20,617,000,000)	\$53,020,000,000
2000	(\$28,164,000,000)	\$58,245,000,000
2001	(\$50,841,000,000)	\$45,621,000,000
2002	(\$29,726,000,000)	\$42,882,000,000

Source - AM Best Aggregate & Averages

Revenue from investment activity, as a percent of total revenue, increased from 12.7% in 1994 to a high of 17.4% in 1998, thereafter declining to a low of 9.3% in 2002. Return on capital, including unrealized gains or losses, increased from 5.1% in 1994 to a high of 23.2% in 1997, declining thereafter to negative 8.1% in 2001.

Table 26 – Revenue Sources & Return on Capital

	Investment Revenue	Premium Revenue	Return on Capital
1994	13%	87%	5%
1995	14%	86%	19%
1996	15%	85%	15%
1997	16%	84%	23%
1998	17%	83%	13%
1999	16%	84%	7%
2000	16%	84%	1%
2001	13%	87%	-8%
2002	11%	89%	-5%

Source - AM Best Aggregate & Averages

The following tables summarize key financial indicators for the U.S. property and casualty industry.

Table 27 – US Property & Casualty Industry Capital & Surplus Change 2000-2002

Capital & Surplus at January 2000	\$336,462,000,000
Net Income (Loss)	23,071,000,000
Unrealized loss on Equity Securities	(61,215,000,000)
New Capital	32,966,000,000
Dividends to Shareholders	(35,196,000,000)
Other Changes	(4,941,000,000)
Capital & Surplus at December 31, 2002	\$291,147,000,000

Source: AM Best, Aggregate and Averages

Table 28 – Pre Tax Income (Loss) 1994 - 2002

Year	Underwriting		Investment*		Total
1994	(\$21,732,000,000)	\$	36,044,000,000	\$	14,312,000,000
1995	(\$17,522,000,000)	\$	42,818,000,000	\$	25,296,000,000
1996	(\$18,040,000,000)	\$	48,259,000,000	\$	30,219,000,000
1997	(\$6,769,000,000)	\$	53,542,000,000	\$	46,773,000,000
1998	(\$17,718,000,000)	\$	59,116,000,000	\$	41,398,000,000
1999	(\$25,482,000,000)	\$	53,020,000,000	\$	27,538,000,000
2000	(\$32,171,000,000)	\$	58,245,000,000	\$	26,074,000,000
2001	(\$52,472,000,000)	\$	45,621,000,000	\$	(6,851,000,000)
2002	(\$30,534,000,000)	\$	35,569,000,000	\$	5,035,000,000

*excludes unrealized investment gains or losses

As pre-tax investment income declined, companies looked to reduce losses from underwriting operations in order to generate a positive return on equity. The amount of premium an insurer may write is related to its level of capital and surplus. It is generally accepted that a premium-to-surplus ratio of greater than 3 to 1 can be considered as excessive and a domiciliary state may require a company to reduce this ratio. An insurer may establish an internal target ratio which is used to determine the amount of premium it is willing to write relative to surplus. This target ratio is a function of available operating resources required to process the business and policyholder surplus.

As the Conning Report overview pointed out, “Years of inadequate prices, increasing loss severity for liability claims, and declining investment returns have contributed to the industry’s decrease in surplus in 2002 – the first recorded three-year decrease.”

Table 29 – U.S. Property and Casualty Industry Recent History & Projections

<i>Year</i>	<i>Premium Growth</i>	<i>Loss Ratio</i>	<i>Expense Ratio</i>	<i>Combined Ratio</i>	<i>Return on Equity (GAAP)</i>
<i>1994</i>	3.3%	81.1%	26.0%	108.4%	4.8%
<i>1995</i>	3.3%	78.8%	26.3%	106.4%	6.7%
<i>1996</i>	3.5%	78.3%	26.3%	105.7%	8.0%
<i>1997</i>	2.4%	72.7%	27.0%	101.4%	9.8%
<i>1998</i>	2.1%	76.1%	27.6%	105.5%	5.9%
<i>1999</i>	2.0%	78.6%	28.0%	107.8%	4.4%
<i>2000</i>	4.5%	81.2%	27.4%	109.9%	2.8%
<i>2001</i>	10.0%	88.4%	26.4%	115.6%	-2.4%
<i>2002E</i>	13.1%	81.3%	26.0%	108.1%	0.4%
<i>2003F</i>	9.2%	78.2%	25.6%	104.7%	2.1%
<i>2004F</i>	5.4%	77.8%	25.4%	104.2%	3.0%

Source: Conning Research and Consulting, Inc.'s Midyear 2003 Update Report.

The Conning report further stresses “The most important forces affecting the property-casualty market are changing economic conditions, adjustments to more intense focus on corporate governance, the exposure to catastrophes, advancing technology, and developments in the litigious environment.” Lower returns on investments are resulting in insurers placing more attention to underwriting profit. In order to achieve underwriting profit insurers are tightening underwriting rules, increasing prices, and reducing coverage.

Catastrophes

According to data prepared by the Insurance Services Office (ISO), nation-wide catastrophe losses in the U.S. for the three years ending December 31, 2002, totaled \$38.5 billion. A catastrophe is defined as an event that causes \$25 million or more in insured-property losses and affects a significant number of property/casualty policyholders and insurers. See Table 30 for a 10 year history.

Table 30 – ISO Designated Property Catastrophes

<i>Year</i>	<i>Events</i>	<i>Claims</i>	<i>Losses</i>
1993	36	1,200,000	\$ 5,620,000,000
1994	38	2,500,000	\$ 17,010,000,000
1995	34	2,700,000	\$ 8,320,000,000
1996	41	3,900,000	\$ 7,370,000,000
1997	25	1,600,000	\$ 2,600,000,000
1998	37	3,500,000	\$ 10,070,000,000
1999	27	3,300,000	\$ 8,340,000,000
2000	24	1,400,000	\$ 4,600,000,000
2001	20	1,600,000	\$ 28,100,000,000
2002	25	1,800,000	\$ 5,800,000,000
TOTAL	307	23,500,000	\$97,830,000,000

Source: Insurance Services Office

General economic and social changes/pressures have always had a significant impact on the insurance market; some of the key changes/pressures over the last four years have included:

- Interest rates that have declined to levels last seen in the late 1950s. Lower interest rates have resulted in lower investment returns, which in turn have led companies to seek to reduce underwriting losses in order to provide a return on capital for investors.
- The equity markets declined sharply further depleting policyholder surplus. (The decline is somewhat mitigated due to statutory investment restrictions imposed upon U.S. insurers)
- Recent years have seen a surge in toxic mold claims for homeowners coverage particularly in Texas and Florida.
- Mold-related claims are increasingly being made on commercial buildings including office buildings, apartments, and schools. Building, general, mechanical (heating, ventilation & air conditioning), and refrigeration contractors are subject to mold-related claims.
- Reinsurance costs, particularly since September 11, 2001, have escalated. Primary insurers are either paying more or obtaining less reinsurance coverage. The additional cost is passed on to policyholders through increased insurance prices.
- The cost of litigation must be factored in the cost of providing insurance coverage. For example in 2002 defense and cost containment for liability lines represented approximately 12.5% of all incurred losses. (See Table 31)

Table 31 – Defense & Cost Containment Expenses as a Percent of Incurred Losses, 2002

<i>Line of Business</i>	
<i>Workers Comp</i>	7.5%
<i>Private Passenger Auto Liability</i>	7.4%
<i>Commercial Auto Liability</i>	10.8%
<i>Comm Multi Peril Liability</i>	29.0%
<i>Other Liability</i>	20.9%
<i>Medical Malpractice</i>	36.4%
<i>Homeowners Multiperil</i>	4.5%
<i>Products Liability</i>	17.6%
<i>Total Liability Lines</i>	12.5%

Source: AM Best's Aggregates & Averages, Property/Casualty USA, 2003 Edition

As a direct result of lower returns on investments, poor financial performance and large court judgments, underwriting of insurance risks has tightened. Underwriters have redefined the risks they are willing to underwrite; risks that previously qualified are now being nonrenewed or renewed at substantially higher prices. To fully understand the impact of underwriting changes, it is first necessary to know how insurers classify risks.

Insurance companies classify policyholders into five general categories:

- The low-risk or preferred customer is desired by all companies in the marketplace. Companies use price incentives to compete for this type of customer.
- The medium-risk or standard customer is desired by all companies, but is not offered price incentives.
- The high-risk or non-standard customer is desired by few companies and, when offered insurance, it includes surcharges.
- The hard-to-place-risk customer, for whom insurance may be written through the excess and surplus-lines market. This market generally provides less coverage at a higher cost.
- The unacceptable or assigned-risk customer.

The change in underwriting standards has resulted in fewer customers being classified as low or medium risks. Because more policyholders are now in higher risk categories, they are paying more for their insurance protection and a number of them may have to obtain coverage in the surplus lines markets.

Hard and Soft Markets

Hard markets can be characterized as periods of diminished capacity and increasing prices. Soft markets are characterized by increased capacity, lower prices and a willingness to relax underwriting standards. The effects of hard markets are exaggerated for moderate and hard-to-place-risk profiles since companies try to price their products competitively for the low risk policyholder. For the first 90 years of the last century the property and casualty markets behaved in a relatively consistent pattern trending from hard to soft markets approximately every three

years. That pattern changed in the early 90s as the soft market continued into early 2001. The events of September 11th further accelerated the transition from the soft to the hard market. In the course of less than two hours approximately \$40 - \$50 billion dollars of the capital underpinning the industry was committed to pay for the September 11th losses. The supply of reinsurance completely dried up for a period of time and if it was available it was substantially more expensive. This resulted in primary insurers having to absorb additional risk and to pass along the increased cost to their policyholders. The escalation of reinsurance costs combined with a reduction in reinsurance coverage, a decline in base interest rates and a significant downturn in the stock market. The industry has reacted by increasing prices and tightening the underwriting rules for risk acceptance.

Company Survey

The Bureau surveyed 24 of Maine's property and casualty insurers to better understand the market dynamics from the company perspective. (See Appendix D for survey) The surveyed companies included 17 of the top 20 underwriters in the Maine market plus 7 additional companies based on the market share. The 3 property and casualty companies omitted from the survey were Maine Employers Insurance Company (a workers compensation specialty company), Medical Mutual Insurance Company (a medical malpractice carrier) and Factory Mutual Insurance Company (an underwriter of fire, allied, inland marine, and boiler/machinery coverage). The 24 companies accounted for approximately 59% of the nearly \$1.3 billion of the subject premium written in Maine in 2002. The mix of survey companies includes those doing business in Maine only as well as those who do business on a regional or national basis. See Table 32 for the percentage of carriers offering specific coverage types in the Maine market.

Table 32 – Specific Coverages in Maine Market

<i>Coverage</i>	<i>% Of Companies Offering Coverages</i>
<i>Automobile</i>	94.1%
<i>Condominium</i>	64.7%
<i>Umbrella</i>	64.7%
<i>Homeowners</i>	58.8%
<i>Apartment</i>	52.9%
<i>Recreational Vehicle</i>	47.1%
<i>Mobile Home</i>	47.1%
<i>Dwelling Fire</i>	23.5%
<i>Watercraft</i>	23.5%
<i>Inland Marine</i>	17.6%
<i>Motorcycle</i>	17.6%
<i>Gentleman's Farm</i>	11.8%
<i>Snowmobile</i>	11.8%

The respondents were asked to provide premium and policy count data for homeowners and tenants insurance by geographical distribution. For purposes of geographic assignment the companies utilized the five territories as designated by Insurance Service Office (ISO).

Territory #	Area
002	Aroostook County
030	City of Portland
031	Cumberland (excluding Portland), Hancock, Knox, Lincoln, Sagadahoc, Waldo, Washington, and York Counties
032	Androscoggin, Kennebec, and Penobscot Counties
033	Franklin, Oxford, Piscataquis, and Somerset Counties

Table 33 illustrates the premium rate distribution for homeowners insurance by territory for the period of 2000 through 2003.

Table 33 - Homeowners Insurance Premium Trend in Maine 2000-2003

Territory	Range of Average Premium	Mean Premium of Range	Range of Average Premium	Mean Premium of Range	Average Premium Increase	Policy Count Increase/(Decrease)
	2000	2000	2003	2003		
002	\$263-366	\$286	\$310-430	\$365	27.7 %	< 1 %
030	\$263-446	\$367	\$310-590	\$452	23.2 %	(8 %)
031	\$263-435	\$344	\$310-642	\$429	24.7 %	(7 %)
032	\$263-466	\$330	\$310-542	\$414	25.4 %	(7 %)
033	\$263-470	\$336	\$310-550	\$422	25.4%	(6 %)

The surveyed companies indicated that they had initiated significant changes to their criteria for the acceptance or declination of homeowners' insurance applications. This was true for both new business and renewal business. In response to the following question "During the period of December 31, 1999, through June 30, 2003, please advise what HO3 (homeowners) underwriting rule changes you have implemented". A digest of the responses is listed below.

- Modified age of property requirements with regard to eligibility
- Modified electric service requirements (updated service)
- Modified plumbing requirements (copper or pvc)
- Modified age of heating system with regard to eligibility
- Withdrew daycare liability endorsement
- Required roof replacement within last 15 years
- Required full foundation or slab
- Made homes with trampolines ineligible for coverage
- Increased Coverage A limits – the value of the home
- Modified terms of replacement cost availability
- Eliminated low deductible amounts
- Considered prior loss experience
- Made property with prior water damage ineligible

- Made homes with certain dog breeds ineligible
- Tightened builders risk (insured building own home) guidelines
- Limited Coverage A protection available to Protection Class 9 (limited fire protection)

The following restrictions applied specifically to coastal property:

- Not acceptable if located in a flood zone
- Not acceptable if located within 1000 ft. of water at normal high tide
- Not acceptable if located less than 25 ft above high-water line
- Not acceptable with docks
- Not acceptable if exposed to ocean and not protected by a retaining wall/sea wall or levee
- Not acceptable if not protected from wind by buildings, tree line, or other barrier
- Minimum deductibles are \$500, \$1000, \$2500, or \$5000 depending on property
- Deductibles must be 2% of value if within 2,500 ft of shore, 1% if between 2,500 ft and one mile from shore
- Roof must be fewer than 15 years old
- Roof must be self sealing/interlocking tiles or asphalt shingles
- Roof, layering new over old, is not acceptable
- Roof must be attached per local building code
- Must be insured 100% to value
- Exterior walls may not be more than 25% glass including skylights
- Landscape must be shredded bark or similar (not gravel or rock)
- Shrubbery must be trimmed and weak branches pruned
- Dependant on occupancy – primary or seasonal

The following applied specifically to Protection Class 10 properties:

- Occupancy, primary or secondary
- Distance to fire department
- General accessibility of property
- Visible to neighbors
- Year-round access
- Limited Coverage A protection available
- Alternative water source
- Supplemental heating

The respondents also noted the following issues related to the underwriting process and criteria changes.

- None of the companies identified homeowners or a specific risk profile within the homeowners line that they were not renewing
- Companies indicated an increase in claim costs from water damage and mold prevention
- Companies noted an increase in the frequency of claims associated with ice dams, roof collapse or damage, and theft
- Companies acknowledged that they review prior claims experience and changes to risk exposure as part of the renewal reviews

The following table shows the results by territory for tenants insurance premium rates for the period 2000 through 2003.

Table 34 - Tenants Insurance Premium Trend 2000-2003

<i>Territory</i>	<i>Average Premium 2000</i>	<i>Average Premium 2003</i>	<i>Average Increase</i>	<i>Policy Count Increase/(Decrease)</i>
002	\$104	\$123	18.3 %	(1.4 %)
030	\$106	\$119	11.5 %	(15.7 %)
031	\$124	\$142	14.7 %	(15.6 %)
032	\$112	\$128	14.5 %	(11.5 %)
033	\$117	\$144	20.9 %	(4.6 %)

Underwriting Rule Changes 2000 to 2003 – Tenants Policies

In response to the question about underwriting criteria changes the following rule changes were noted by the respondents.

- The minimum and maximum levels of personal property coverage (Coverage C) were redefined; the minimum level was generally increased to between \$20,000 and \$30,000.
- Theft and lightning damage to appliance claims increased in frequency.
- The renewal process includes a review of prior claims and changes to the risk exposure.
- Most companies indicated renewals are processed on an automated basis.
- Certain companies imposed a maximum limit of \$100,000 on personal property coverage.

Of particular note is that during the five year period ending December 31, 2002, the leading writer of homeowners/tenants insurance, York Insurance Company, experienced a 6.2% market share decrease from 22% in 1998 to 15.8% in 2002. The next four leading writers of this line reported an aggregate market share decline of 0.1% over the same period.

The average premium determined from the survey data and the rate increases filed and approved by the Bureau over the period commencing January 2000 and ending August 2003, are comparable (within a 10% deviation) with the exception of York Insurance Company. In the latter case the increase in average premium per the survey exceeds the compounded increase calculated from the rate filings by over 25%. This differential can be indicative of significant changes in the insurance coverage provided and may be the product of increases to property values and other coverage limits. Many of the underwriting rule changes previously noted are attributable to the market leader, York.

Companies were also asked to provide base prices and comparisons for commercial coverage including general contractors, roofers, garage-owners, and apartment owners' for the period 2000 and 2003. Identification of the specific insurance provided was made possible through the use of ISO class codes.

Table 35 identifies the percentage of surveyed companies offering specific commercial coverages in the Maine market.

Table 35 – Specific Commercial Coverages

Bar	6%
Taxi/Livery Service	12%
Fishing Industry	18%
Marinas	24%
Commercial Trucking (Long Haul)	29%
Campground/Hunt/Fishing Camp	29%
Roofer	35%
Daycare	41%
Small Manufacturer	47%
Bed & Breakfast	53%
Garage Owner	53%
New/Used Car Dealer	53%
Condominium Association	59%
Restaurant/Restaurant With Bar	59%
Commercial Trucking (Local)	59%
Boiler & Machinery	59%
Completed Operations	71%
Apartment Owner	71%
Plumber	76%
Sheet Rocker	76%
Snowplow/Gardener	76%
Retailer	76%
Convenience Stores	76%
Carpenter	76%

Insurance prices for commercial insurance are difficult to compare as the risk elements insured have a greater tendency to change as the business changes. In addition, an insurer may change its

risk appetite within a particular category, making direct price comparison inappropriate. For purposes of price comparisons, significant price increases or decreases are assumed to be the result of a change in the risk characteristics and have been excluded from the data compiled. For this same reason, direct price comparisons between companies are difficult since the coverage provided is not directly comparable.

The degree of increase for an individual company is dependent on the adequacy of the base rate. For example, Company A with a base rate of \$100 in 2000 has increased the base by 200% to \$300 in 2003; Company B with a base rate of \$200 in 2000 has increased its premium 50% to \$300 in 2003. Therefore, on a simple average basis the percent increase will be reported as 125%. Price comparisons for commercial insurance have assumed simple averages in providing overall price changes.

Companies surveyed were requested to provide base prices, by class of general contractor, for 2000 and 2003. The average price increase for contractors insurance was approximately 35%. See Table 36 for the average price increases, by class of business, in which the price change was greater than 35%.

Table 36 – Average Price Increase: General Contractors

<i>Class of Business</i>	<i>Average Price Increase 2000 - 2003</i>
<i>Contractors – Subcontracted Work</i>	49%
<i>Excavation</i>	41%
<i>Interior Decorating</i>	59%
<i>Landscaping/Gardening</i>	51%
<i>Plastering/Stucco</i>	52%
<i>Plumbing – Commercial</i>	46%
<i>Plumbing – Residential</i>	55%
<i>Septic Tank, Cleaning</i>	41%
<i>Septic Tank, Installation Or Repair</i>	40%
<i>Sheet Metal Work</i>	40%

In response to questions about underwriting changes during the review period the respondents provided the following items.

- A decreased preference for the general contractor, with a preference for artisans or skilled workers
- For new business policies [for contractors], three years of related-business experience was generally required, preferably in a supervisory or management capacity.
- With regard to loss control programs, the following was noted:
 - One company indicated they had conducted a 10-hour OSHA regulated general contractor safety program.

- One company indicated they offer and deliver control services including job site inspections and assistance with insureds' safety programs.
- Other companies indicated they provide general loss-control services, but provided no specifics.

Most notable was that few companies are willing to underwrite insurance coverage for roofers, however from the responses we were able to observe the following points.

- Two companies indicated they offer coverage on an accommodation basis in conjunction with other products sold
- Two companies indicated they had no specific roofers program, but may offer roofers coverage under their general contractor programs
- The price increase, for those companies willing to provide this coverage, amounted to 18.4% for the period reviewed
- One company responded to the general contractors questions by indicating that they have rates for both commercial and residential roofers coverage (price increase 37%), but responded that they did not write this coverage

Garage-owners insurance includes the following classifications: repair shops, service stations, storage garages, trailer dealerships, and car dealerships. The survey responses identified the following issues for this coverage class.

- Nine companies continue to offer garage-owners insurance
- Two companies have withdrawn or were currently withdrawing from this market. No specifics were provided regarding the withdrawals
- For those that do write this line of insurance the companies indicated paint spray booths for repair facilities must be compliant with the National Fire Protection Association (NFPA) and the property subject to an on site inspection

Apartment or habitational coverage pertains to various-sized apartments and rental dwellings. These include classes based on number of units or number of families. Survey responses yielded the following information for the period between 2000 and 2003:

- The cost of insurance for apartments increased by an average 46.8%.
- The cost of insurance for rental dwellings increased 117.9%.
- The individual price increases reported by the companies ranged from 6% to over 200%, eliminating the extremes the majority of the increase was between 30% and 125%.
- None of the companies provided specific information pertaining to the type of apartment risk they deem acceptable or undesirable.

Changes to underwriting guidelines for this product line included:

- A new business moratorium on buildings more than 25 years old.

- Stopped writing new business for the apartment class; maintained renewals subject to underwriting guidelines.
- De-emphasis on this class of business.
- Guidelines more cautious due to experience.
- Older habitational and one-to-four family dwellings were no longer eligible under business owners' policy; but will write as a commercial multi-peril policy. (This allows the insurer more pricing flexibility.)
- Individual risks subject to evaluation.
- Consider quality accounts.
- Focus on smaller (fewer than 4 unit) properties.
- Eight of the 11 companies who write this type of coverage reported the specific use of inspections or loss-control efforts in evaluating this risk.

For start-up or “new-in-business” risks premium costs are not uniquely identified as such and are combined with other businesses of a similar type.

Nine of the thirteen companies responding to this section of the survey indicated they write this type of insured, provided the insured has a minimum of three years related experience. Approximately one half of these respondents indicated related management experience was essential.