

# PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

Vol. 27#4/628

Aug. 3, 2020

## INSIDE

**Tables: State Farm homeowners premium and loss ratio by state, 2018-2019. Pages 2-3**

**Prices are down**, but homeowners profits stay up for State Farm. **Page 3**

**45% of Arizonans** live in the WUI. **Page 5**

**Fear of howling haboobs.** **Page 7**

**Effective valves** still a hard sell. **Page 9**

### Study: Smart Water-Shutoff Valve Cuts Home Claims

Customers had 96% fewer water damage claims after installing an in-line water-shutoff system, according to a [study](#) from LexisNexis.

The study adds evidence that smart shutoff valves can stem property losses – a long held insurance industry assumption that has lacked extensive substantiation. As more customers adopt smart home devices, insurers hope to both accumulate data that can lead to better underwriting and prevent claims that result from leaking pipes or water heaters. Residential water damage is the most significant source of preventable homeowners insurance claims, according to LexisNexis.

If insurers want to benefit from

*Please see SHUTOFF on Page 9*

## Will State Farm's National Pricing Attack Set the Stage for Growth?

State Farm has been more aggressive with its homeowners multiperil pricing than all of its large competitors for the past five years, and it shows no signs of backing down, according to our analysis of RateWatch data from **S&P Global Market Intelligence**. The result has been a significant loss in market share, although the company has been able to maintain profitability.

The aggressive pricing strategy is comprehensive. We have pricing data for 47 of the 51 markets in which State Farm operates. In every single one, it has either raised rates less or reduced rates more than the average of the top 10 insurers. There are no exceptions, and no other insurer comes close to matching State Farm's activity.

This is not an isolated behavior. In personal auto insurance, State Farm is showing similar aggressiveness, with

*Please see STATE FARM on Page 2*

## Wildfire Risk Becomes a Hot Topic in Fast-Growing Arizona

Home insurers face heightened concern about wildfire risk in **Arizona** as some of the largest fires in state history blazed simultaneously this spring and summer, coming closer to population centers than usual and threatening upscale housing developments.

The increased scrutiny of fire risk in a fast-growing, competitive market comes as several large carriers take substantial rate hikes and Arizona welcomes a new insurance regulator to lead the recently combined and renamed **Arizona Department of Insurance and Financial Institutions**.

On July 10, Gov. **Doug Ducey** appointed **Evan Daniels** to succeed **Keith Schraad**, who left the director's job after two years to become chief innovation officer at **Blue Cross Blue Shield of Arizona**.

Daniels spent five years in the **Arizona Attorney General's Office**, most recently as unit chief counsel of the

*Please see ARIZONA on Page 5*



**STATE FARM** Continued from Page 1

similarly falling market share while maintaining profit. (Email us for a copy of this week's *Auto Insurance Report*.)

Here are some of the details:

In **Texas**, the biggest homeowners market for State Farm and second-largest in the United States, State Farm did not change prices overall in 2018 as the 10 largest insurers averaged more than a 5.2% increase. In 2019, State Farm received approval from regulators for a 2.6% rate decrease as the top 10 increased rates more

than 2.9%. So far in 2020, State Farm has not changed rates, and the industry has raised rates more than 0.3%. From 2015 to 2020, according to RateWatch, State Farm has lowered rates a cumulative 4.9% while the industry has raised rates more than 20.1%.

**California** is the second-largest homeowners market for State Farm and third-largest in the nation. Despite suffering through enormous wildfires in 2017 and 2018, State Farm has raised rates just 1.2% on average since 2015, compared

Please see **STATE FARM** on Page 3

### State Farm Mutual Homeowners Multiperil Insurance By State 2019 (000)

State	Written Premium 2019	Market Share 2019	Group Loss Ratio 2019	Industry Loss Ratio 2019	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Premium Change 2018-19
Texas	\$1,861,663	18.3%	47.4%	66.4%	\$1,847,041	19.6%	36.9%	44.6%	0.8%
California	\$1,604,187	17.6%	57.4%	31.1%	\$1,469,169	17.6%	89.4%	175.7%	9.2%
Illinois	\$1,283,333	32.8%	85.3%	82.0%	\$1,230,199	33.1%	81.4%	66.7%	4.3%
Georgia	\$923,431	25.8%	56.3%	55.8%	\$893,527	26.7%	75.1%	74.5%	3.3%
New York	\$726,429	12.9%	56.5%	49.0%	\$710,618	13.1%	62.0%	55.8%	2.2%
Florida	\$641,797	6.4%	41.0%	76.9%	\$660,970	6.9%	58.4%	103.3%	-2.9%
Ohio	\$619,780	20.3%	73.6%	68.2%	\$620,767	20.9%	49.2%	45.8%	-0.2%
Pennsylvania	\$607,312	17.3%	64.6%	65.0%	\$607,186	17.7%	63.4%	59.1%	0.0%
Minnesota	\$583,345	25.2%	75.5%	82.9%	\$555,674	25.4%	72.2%	58.4%	5.0%
Missouri	\$559,935	25.0%	57.2%	54.6%	\$538,715	25.3%	46.8%	44.4%	3.9%
Colorado	\$530,687	19.5%	84.9%	74.6%	\$498,710	20.1%	121.8%	127.2%	6.4%
Tennessee	\$516,453	23.5%	52.4%	48.5%	\$500,004	23.8%	46.9%	46.6%	3.3%
Indiana	\$500,100	24.2%	60.2%	57.9%	\$502,702	25.3%	49.9%	47.5%	-0.5%
Louisiana	\$497,373	25.5%	43.1%	43.9%	\$497,617	26.2%	39.3%	34.9%	-0.0%
Alabama	\$496,918	27.2%	43.3%	47.7%	\$490,816	28.2%	56.8%	63.7%	1.2%
Oklahoma	\$492,909	28.0%	61.8%	55.7%	\$479,025	28.1%	42.1%	35.4%	2.9%
North Carolina	\$488,636	16.9%	51.8%	56.3%	\$483,717	17.9%	78.2%	93.6%	1.0%
Michigan	\$464,219	15.9%	65.1%	59.4%	\$466,736	16.4%	57.0%	50.5%	-0.5%
Virginia	\$428,903	17.3%	49.1%	53.8%	\$410,895	17.6%	75.9%	77.0%	4.4%
South Carolina	\$370,908	20.0%	39.7%	39.2%	\$360,553	20.4%	43.3%	41.8%	2.9%
Maryland	\$345,314	17.6%	68.5%	62.8%	\$333,203	18.1%	90.0%	90.8%	3.6%
Washington	\$328,916	16.8%	53.9%	56.8%	\$311,354	17.0%	44.2%	53.2%	5.6%
Arizona	\$312,537	17.4%	52.6%	56.3%	\$303,259	18.0%	55.2%	62.4%	3.1%
New Jersey	\$296,286	10.3%	53.0%	49.7%	\$295,259	10.7%	57.8%	55.4%	0.3%
Kentucky	\$293,463	23.4%	51.8%	50.1%	\$288,233	23.7%	50.0%	49.5%	1.8%
Mississippi	\$267,334	26.1%	43.5%	49.0%	\$258,432	26.1%	38.8%	41.1%	3.4%
<b>Totals</b>	<b>\$18,685,957</b>	<b>17.95%</b>	<b>58.8%</b>	<b>58.2%</b>	<b>\$18,170,244</b>	<b>18.40%</b>	<b>61.9%</b>	<b>72.4%</b>	<b>2.8%</b>

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.

Loss ratio is incurred losses as a percentage of direct premium earned and does not include dividends or loss adjustment expense.

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**STATE FARM** *Continued from Page 2*

to a 16.5% average increase for the top 10 home insurers.

There are plenty of such examples, but one that really stands out is **Florida**, where State Farm is the second-largest home insurer. While working in one of the highest risk markets in the nation, State Farm reduced rates 22.0% from 2015 to 2020, while the other nine insurers in the top 10 raised rates 34.0%.

With all this rate action, it is not surprising that State Farm was able to grow its homeowners

written premium only 2.8% to an industry leading \$18.69 billion, compared to 5.4% industry growth. The company's market share has fallen to 17.95%, the lowest level in decades.

While cutting prices, State Farm has managed to keep its loss ratio right in line with the industry's, posting an incurred loss ratio of 58.8% in 2019, essentially the same as the industry's 58.2%. We don't put too much stock in single-year loss ratios for homeowners insurance, so we calculated a combined loss ratio

*Please see STATE FARM on Page 10*

### State Farm Mutual Homeowners Multiperil Insurance By State 2019 (000)

State	Written Premium 2019	Market Share 2019	Group Loss Ratio 2019	Industry Loss Ratio 2019	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Premium Change 2018-19
Kansas	\$263,792	21.0%	61.9%	64.1%	\$258,637	21.5%	38.3%	41.1%	2.0%
Arkansas	\$256,670	26.3%	65.3%	61.3%	\$246,486	26.2%	72.9%	66.4%	4.1%
Wisconsin	\$251,897	16.3%	46.4%	54.7%	\$244,183	16.4%	64.3%	52.0%	3.2%
Iowa	\$216,918	25.5%	57.3%	55.5%	\$211,028	26.0%	74.5%	66.9%	2.8%
Oregon	\$198,280	21.6%	64.8%	56.7%	\$191,818	22.1%	46.5%	46.2%	3.4%
Nebraska	\$194,091	23.4%	92.8%	101.2%	\$187,198	24.3%	62.2%	51.4%	3.7%
Hawaii	\$127,008	30.6%	33.9%	40.7%	\$124,057	31.1%	34.1%	47.0%	2.4%
Nevada	\$126,163	19.0%	55.8%	51.5%	\$122,816	19.8%	48.3%	52.6%	2.7%
West Virginia	\$117,365	25.4%	56.4%	54.8%	\$115,967	25.4%	64.3%	63.9%	1.2%
New Mexico	\$114,951	19.8%	62.1%	60.6%	\$109,485	20.0%	57.4%	64.6%	5.0%
Utah	\$101,367	16.6%	68.3%	66.1%	\$96,669	17.0%	60.6%	59.7%	4.9%
Connecticut	\$97,033	6.2%	56.9%	42.8%	\$89,699	5.9%	72.3%	67.6%	8.2%
Montana	\$90,308	24.1%	116.2%	139.9%	\$85,697	24.3%	55.1%	51.1%	5.4%
Delaware	\$74,925	25.0%	46.8%	47.4%	\$71,335	25.2%	52.5%	53.8%	5.0%
Idaho	\$63,003	14.8%	63.3%	58.3%	\$58,272	15.1%	107.8%	98.3%	8.1%
Alaska	\$54,845	32.1%	31.0%	41.6%	\$55,290	32.2%	73.0%	60.2%	-0.8%
Maine	\$54,154	12.0%	42.1%	36.8%	\$51,976	12.0%	51.6%	38.1%	4.2%
South Dakota	\$54,088	19.4%	63.8%	67.3%	\$52,018	19.9%	72.0%	73.7%	4.0%
Wyoming	\$47,599	21.4%	108.8%	93.2%	\$46,209	21.9%	122.8%	126.9%	3.0%
New Hampshire	\$42,744	9.8%	50.3%	45.3%	\$41,545	9.9%	49.1%	45.7%	2.9%
District of Columbia	\$36,734	21.4%	37.6%	43.4%	\$37,038	22.3%	69.0%	71.8%	-0.8%
North Dakota	\$34,773	15.1%	54.9%	70.6%	\$34,332	15.7%	34.0%	43.2%	1.3%
Vermont	\$16,357	7.7%	61.0%	46.9%	\$15,475	7.5%	59.5%	42.1%	5.7%
Massachusetts	\$7,356	0.3%	47.5%	36.1%	\$7,397	0.3%	95.5%	44.5%	-0.6%
Rhode Island	\$1,364	0.3%	50.4%	42.3%	\$1,238	0.3%	29.8%	55.3%	10.2%
<b>Totals</b>	<b>\$18,685,957</b>	<b>17.95%</b>	<b>58.8%</b>	<b>58.2%</b>	<b>\$18,170,244</b>	<b>18.40%</b>	<b>61.9%</b>	<b>72.4%</b>	<b>2.8%</b>

**Source:** S&P Global Market Intelligence and the *Property Insurance Report* database.  
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# Arizona

## Homeowners Multiperil Insurers

Groups Ranked by Total 2019 Direct Premium Written (000)

Group Name	2019 Premium	Mkt share 2019	Loss Ratio 2019	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017
State Farm Mutual	\$312,537	17.4%	52.6%	\$303,259	18.0%	55.2%	\$294,086	18.3%	46.3%
Farmers Insurance Group	\$218,043	12.1%	57.3%	\$219,578	13.0%	51.1%	\$221,129	13.7%	41.2%
USAA Insurance Group	\$166,150	9.3%	60.8%	\$146,815	8.7%	70.5%	\$138,445	8.6%	58.9%
Liberty Mutual	\$156,950	8.7%	45.9%	\$145,779	8.6%	58.6%	\$135,762	8.4%	42.5%
American Family Insurance Group	\$155,713	8.7%	55.6%	\$146,428	8.7%	55.2%	\$145,095	9.0%	50.1%
Allstate Corp.	\$152,916	8.5%	59.1%	\$145,772	8.6%	55.7%	\$145,228	9.0%	42.6%
Travelers Companies Inc.	\$93,867	5.2%	61.4%	\$69,712	4.1%	65.3%	\$59,227	3.7%	52.2%
Hartford Financial Services	\$42,023	2.3%	51.3%	\$40,901	2.4%	48.2%	\$41,848	2.6%	50.4%
CSAA Insurance Exchange (NorCal)	\$38,157	2.1%	56.0%	\$37,265	2.2%	62.5%	\$36,605	2.3%	40.6%
Chubb Ltd.	\$32,699	1.8%	83.9%	\$32,892	2.0%	94.7%	\$32,344	2.0%	47.8%
Progressive Corp.	\$31,708	1.8%	51.7%	\$25,631	1.5%	58.5%	\$16,024	1.0%	48.9%
WT Holdings Inc./Stillwater	\$27,959	1.6%	51.9%	\$29,235	1.7%	87.7%	\$27,267	1.7%	70.1%
Nationwide Mutual Group	\$27,860	1.6%	75.3%	\$27,065	1.6%	87.2%	\$27,337	1.7%	51.0%
Auto-Owners Insurance	\$24,678	1.4%	52.5%	\$20,514	1.2%	55.8%	\$16,934	1.1%	52.2%
Farm Bureau Financial Services	\$20,807	1.2%	53.6%	\$19,139	1.1%	76.9%	\$18,249	1.1%	60.8%
MetLife Inc.	\$18,897	1.1%	44.3%	\$20,545	1.2%	67.3%	\$21,475	1.3%	49.7%
Munich Re/American Modern Ins Group	\$18,352	1.0%	55.9%	\$16,593	1.0%	68.8%	\$15,241	1.0%	39.1%
National General Holdings Corp.	\$17,795	1.0%	58.5%	\$18,572	1.1%	102.7%	\$10,070	0.6%	48.9%
First American P&C Group	\$15,101	0.8%	50.2%	\$14,573	0.9%	73.4%	\$13,763	0.9%	65.1%
Global Indemnity	\$14,878	0.8%	45.2%	\$14,628	0.9%	114.3%	\$14,466	0.9%	41.2%
Country Financial	\$14,085	0.8%	46.3%	\$14,109	0.8%	76.0%	\$14,247	0.9%	39.7%
National Lloyds Corporation	\$13,178	0.7%	59.7%	\$13,200	0.8%	91.1%	\$13,143	0.8%	61.2%
Assurant	\$12,917	0.7%	35.2%	\$13,378	0.8%	40.6%	\$13,345	0.8%	34.0%
Pekin Insurance	\$12,843	0.7%	67.2%	\$12,890	0.8%	88.3%	\$13,133	0.8%	62.7%
QBE Insurance Group Ltd.	\$12,452	0.7%	45.3%	\$13,560	0.8%	28.9%	\$12,822	0.8%	25.2%
Amica Mutual Insurance	\$12,121	0.7%	41.5%	\$11,432	0.7%	52.7%	\$10,372	0.6%	41.8%
Western Mutual Insurance	\$8,870	0.5%	55.3%	\$8,684	0.5%	66.3%	\$8,724	0.5%	43.6%
Mutual of Enumclaw	\$8,121	0.5%	66.3%	\$8,008	0.5%	73.9%	\$5,484	0.3%	52.5%
Cincinnati Financial Corp.	\$7,261	0.4%	91.8%	\$6,678	0.4%	89.5%	\$6,007	0.4%	70.8%
AXIS Capital Holdings	\$7,019	0.4%	77.4%	\$6,385	0.4%	79.6%	\$5,830	0.4%	39.3%
State Auto Insurance Companies	\$7,019	0.4%	70.7%	\$5,767	0.3%	90.6%	\$4,810	0.3%	58.5%
Tokio Marine/PURE	\$6,871	0.4%	67.3%	\$5,630	0.3%	33.9%	\$4,157	0.3%	32.9%
American National Insurance	\$6,369	0.4%	70.4%	\$5,579	0.3%	98.1%	\$5,132	0.3%	62.9%
Standard Casualty Co.	\$5,988	0.3%	109.2%	\$4,901	0.3%	264.9%	\$4,216	0.3%	73.6%
Acuity Mutual Insurance	\$5,880	0.3%	61.8%	\$6,009	0.4%	96.6%	\$6,201	0.4%	63.9%
American International Group	\$5,710	0.3%	58.8%	\$5,730	0.3%	66.6%	\$5,612	0.4%	36.7%
Central Insurance Companies	\$5,604	0.3%	67.7%	\$5,715	0.3%	101.8%	\$5,591	0.4%	43.4%
Kemper Corp.	\$5,147	0.3%	70.3%	\$5,147	0.3%	79.5%	\$5,256	0.3%	75.2%
CSE Insurance	\$5,031	0.3%	47.0%	\$4,993	0.3%	124.3%	\$3,883	0.2%	72.7%
<b>Statewide Totals</b>	\$1,795,395		56.3%	\$1,687,244		62.4%	\$1,610,131		48.0%

**Source:** S&P Global Market Intelligence and the *Property Insurance Report* database.

Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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## State Market Focus: ARIZONA

*Continued from Page 1*

Technology, Innovation and Privacy Unit. His work included oversight of Arizona's regulatory "sandbox" for fintech, which has enabled startups to launch financial services products on a limited scale without incurring the typical regulatory costs and burdens.

Daniels will be overseeing a very competitive homeowners insurance market that insurers find attractive because of its fast-growing population and generally low catastrophe exposure. Arizona's population grew by more than 120,600 people last year, the third-largest increase in both number and percentage growth, according to the **U.S. Census Bureau**. Phoenix gained more people from 2010 to 2019 than any other large city, averaging 25,330 new residents each year.

Even amid the COVID-19 pandemic, fast-growing Maricopa County, which includes Phoenix, has seen a year-over-year increase in building permits, according to the Planning and Development Department. Since 2000, 7,743

residential units have been built in downtown Phoenix, with a particular explosion in luxury condos and apartments in the last couple of years, according to **Downtown Phoenix Inc.**, a nonprofit alliance focused on development. As of April, another 4,153 units were under construction or near completion. Increasingly, newcomers are attracted to the growing number of jobs in finance and technology.

The most common source of claims for insurers in Arizona tends to be nonweather water claims, and the state is occasionally walloped by hail, as it was in 2010, when a storm that produced \$2.7 billion in insured losses and drove the loss ratio to 139.3%.

But the threat that is currently most concerning is wildfire, as Arizona experiences longer and more intense fire seasons, with fires nearing more heavily populated areas. State forestry officials estimate that 45% of the state's population lives in the wildland-urban interface.

*Please see ARIZONA on Page 6*

<b>Arizona</b>												
<b>Property Insurance Profit Margins</b>												
<b>10-Year Summary, % of Direct Premiums Earned, With National Averages</b>												
<b>Line of Business</b>	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	Avg Total Profit	
State Homeowner	7.1	16.6	14.6	16.0	14.7	12.1	16.3	-18.4	-49.4	14.9	4.5	
Nat'l Homeowner	-2.0	-2.6	11.8	14.0	13.9	16.5	8.1	-3.8	7.2	5.7	6.9	
State Fire	25.5	13.5	8.1	22.8	16.8	38.6	13.8	3.6	16.5	12.4	17.2	
Nat'l Fire	4.8	4.7	11.0	24.2	21.4	26.9	24.7	24.8	27.6	24.5	20.2	
State Comm MP	2.8	15.1	11.9	15.6	7.5	16.7	16.9	-43.2	-39.0	22.7	2.7	
Nat'l Comm MP	4.1	0.6	9.8	14.5	12.4	14.9	9.0	4.1	13.2	11.0	9.4	
State Allied	-31.6	-10.5	-9.6	6.5	-0.7	48.6	-3.7	-58.2	-79.1	-10.6	-14.9	
Nat'l Allied	2.2	-37.6	10.6	19.2	15.7	6.3	-19.4	5.7	28.5	21.2	5.2	

Note: Profit calculations are by *Property Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

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**State Market Focus: ARIZONA**

Continued from Page 5

In addition to extreme drought and heat exacerbated by climate change, officials point to an incursion of highly ignitable invasive vegetation species, including buffelgrass in the Sonoran Desert.

“This is the first wildfire season where I’ve seen it this close to both Phoenix and Tucson,” said **Terri Edwards**, executive vice president of

the **Independent Insurance Agents and Brokers of Arizona**. “It’s shaping up to be a bad season.” As of July 24, some 1,414 fires burned almost 635,000 acres in Arizona this year, compared with fewer than 385,000 acres that burned all of last year. Three of this year’s fires rank among the largest in state history.

Though most of the damage was in the wildlands, officials said dry, windy conditions pushed fires closer to communities – including upscale developments – and forced the evacuation of several thousand residents.

The East Desert Fire, the Ocotillo Fire, the Aquila Fire and the Avondale Fire threatened homes in communities within the Phoenix metropolitan area. The Bighorn Fire in the Catalina Mountains northwest of Tucson, which was ignited by lightning on June 5, burned nearly 120,000 acres over 48 days, threatening more than 850 homes around the Catalina Foothills and Oro Valley. The Bush Fire in Gila County, northeast of Mesa, burned almost 190,000 acres, forcing the evacuation of 1,700 people.

Please see ARIZONA on Page 7

**Arizona**

**Commercial Multiperil Nonliability Insurers Groups Ranked by 2019 Premiums Written (000)**

Group Name	2019 Premiums	Mkt share	Loss Ratio
Farmers Insurance Group	\$39,914	9.9%	55.0%
Travelers Companies Inc.	\$34,358	8.5%	86.5%
Tokio Marine Group/PURE	\$22,877	5.7%	56.2%
Hartford Financial Services	\$21,812	5.4%	43.0%
Chubb Ltd.	\$17,912	4.5%	52.4%
Argo Group International	\$17,500	4.3%	71.8%
Auto-Owners Insurance	\$16,396	4.1%	62.7%
Nationwide Mutual Group	\$16,390	4.1%	46.4%
Allstate Corp.	\$15,966	4.0%	61.3%
Liberty Mutual	\$15,923	4.0%	42.3%
American Family Insurance Group	\$15,484	3.9%	-210.9%
State Farm Mutual	\$15,092	3.8%	76.3%
CNA Financial Corp.	\$13,619	3.4%	35.4%
Cincinnati Financial Corp.	\$11,275	2.8%	64.0%
Hanover Insurance Group	\$8,807	2.2%	57.8%
Allianz Group	\$7,007	1.7%	38.7%
Country Financial	\$6,215	1.5%	99.1%
Brotherhood Mutual Ins Co.	\$5,388	1.3%	53.4%
National General Holdings Corp.	\$5,287	1.3%	115.1%
Farm Bureau Financial Services	\$5,150	1.3%	31.1%
Markel	\$5,082	1.3%	58.4%
Munich Re	\$4,901	1.2%	28.6%
W. R. Berkley Corp.	\$4,520	1.1%	36.1%
Secura Insurance Companies	\$4,248	1.1%	137.6%
American International Group	\$4,210	1.1%	106.5%
Berkshire Hathaway Inc.	\$4,206	1.1%	66.3%
Zurich Insurance Group	\$3,927	1.0%	81.0%
Westfield Insurance	\$3,911	1.0%	76.0%
Pekin Insurance	\$3,838	1.0%	147.9%
Central Insurance Companies	\$3,699	0.9%	79.3%
<b>Statewide Totals</b>	<b>\$402,466</b>		<b>49.6%</b>

Source: S&P Global Market Intelligence and the Property Insurance Report database. Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

**Arizona 2017 Insured Home Values (HO3 Policy Form)**

Home Value	Arizona	National Average
<\$50K	0.2%	0.2%
\$50-75K	0.4%	0.4%
\$75-100K	1.2%	1.4%
\$100-125K	3.6%	3.8%
\$125-150K	7.3%	6.4%
\$150-175K	11.2%	8.8%
\$175-200K	12.4%	9.5%
\$200-300K	37.2%	32.8%
\$300-400K	14.6%	18.2%
\$400-500K	5.3%	8.1%
>\$500K	6.1%	9.8%
Total exposures	1,090,070	48,523,436

Source: NAIC, Property Insurance Report

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## State Market Focus: ARIZONA

Continued from Page 6

While some fires are caused by lightning strikes, the majority of fires have human causes. A car fire started the Bush Fire, but other common causes are illegal target shooting, abandoned campfires and towing chains that scrape along the highway, throwing off sparks.

As the fires die down, communities face an increased risk of flash flooding as Arizona's summer monsoon storms drop heavy rains over fire-scarred land.

While there have been larger and more deadly fires, the most expensive Arizona wildfire in terms of property damage was the Rodeo-Chediski Fire in 2002, which burned almost 470,000 acres and destroyed close to 500 buildings. Insured losses reached about \$120 million.

**Verisk** estimates that 242,200 housing units in Arizona, representing 9% of the total, are at high or extreme wildfire risk.

While it's nothing like the challenge they face in **California**, insurers are taking notice of the rising potential for property damage.

"Now that we are seeing the potential for more of it, I want to be careful with the kind of risk I'm writing, particularly on higher value homes," one insurance executive said.

While regulators haven't assessed the impact of the fires on the homeowners insurance market, "we are seeing that some insurers are using more wildfire modeling techniques to better underwrite and price the risk associated with property on the wildland urban interface," said **Stephen Briggs**, spokesman for the **Arizona Department of Insurance**.

For the most part, Arizona has been a healthy market for home insurers, though profits are modest. For the decade ended 2018, Arizona's average annual profit margin of 4.5% ranked 37th, compared with the national average of 6.9%.

The 2019 statewide loss ratio improved to

56.3% from 62.4% in 2018, when Phoenix was hit by the remnants of Tropical Storm Rosa in the fall as well as several dust storms, known as "haboobs," and microbursts with wind damage, according to Edwards. In both years, Arizona outperformed the national average.

In general, Arizona is a competitive market

*Please see ARIZONA on Page 8*

### Arizona Fire Insurers

#### Groups Ranked by 2019 Premiums Written (000)

Group Name	2019 Premiums	Mkt share	Loss Ratio
Travelers Companies Inc.	\$17,269	11.5%	58.2%
American International Group	\$12,896	8.6%	13.6%
Liberty Mutual	\$12,152	8.1%	12.0%
FM Global	\$10,492	7.0%	21.5%
Zurich Insurance Group	\$8,955	5.9%	8.4%
Farmers Insurance	\$5,440	3.6%	125.1%
Auto-Owners Insurance	\$5,212	3.5%	38.9%
STARR Companies	\$4,681	3.1%	18.5%
Allianz Group	\$4,637	3.1%	-6.9%
Chubb Ltd.	\$4,386	2.9%	-17.0%
Berkshire Hathaway Inc.	\$3,513	2.3%	68.2%
USAA Insurance Group	\$3,320	2.2%	53.8%
Munich Re	\$3,267	2.2%	349.2%
CSAA Insurance Exchange	\$3,212	2.1%	49.6%
Assurant	\$3,065	2.0%	29.4%
Nationwide Mutual Group	\$2,906	1.9%	66.4%
AXA SA	\$2,752	1.8%	36.2%
CSE Insurance	\$2,449	1.6%	81.7%
Alleghany Corp.	\$2,164	1.4%	9.5%
National General Holdings Corp.	\$1,950	1.3%	4.3%
SCOR	\$1,800	1.2%	19.7%
Sompo Holdings Inc.	\$1,785	1.2%	12.1%
Swiss Re	\$1,584	1.1%	152.7%
National Lloyds Corporation	\$1,490	1.0%	-2.8%
Markel	\$1,421	0.9%	8.9%
Federated Insurance	\$1,355	0.9%	-30.3%
Great American Insurance	\$1,332	0.9%	-17.4%
CNA Financial Corp.	\$1,249	0.8%	11.6%
IAT Insurance	\$1,220	0.8%	90.4%
HDI V.a.G	\$1,161	0.8%	11.8%
<b>Statewide Totals</b>	\$150,751		48.2%

**Source:** S&P Global Market Intelligence and the *Property Insurance Report* database.

Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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## State Market Focus: ARIZONA

Continued from Page 7

in which “price really matters,” according to the insurance executive. And while most large carriers have kept rate increases rather small in the last couple of years, a few insurers are raising rates substantially this year even as State Farm, the state’s largest insurer with 17.4% of the market, lowered rates 5.2% for renewals that became effective Feb. 1, according to RateWatch from S&P Global Market Intelligence.

### Arizona

#### Allied Lines Insurers

##### Groups Ranked by 2019 Premiums Written (000)

Group Name	2019 Premiums	Mkt share	Loss Ratio
FM Global	\$20,618	13.4%	-2.6%
Farmers Insurance Group	\$15,214	9.9%	6.3%
Travelers Companies Inc.	\$14,083	9.1%	5.2%
USAA Insurance Group	\$12,023	7.8%	52.9%
Liberty Mutual	\$11,112	7.2%	47.2%
Assurant	\$7,118	4.6%	41.1%
American International Group	\$6,808	4.4%	62.1%
Zurich Insurance Group	\$6,323	4.1%	94.0%
Nationwide Mutual Group	\$6,101	4.0%	35.7%
Chubb Ltd.	\$4,044	2.6%	77.5%
Sompo Holdings Inc.	\$3,729	2.4%	97.2%
Munich Re	\$2,777	1.8%	41.9%
WT Holdings Inc.	\$2,176	1.4%	33.0%
Markel	\$1,747	1.1%	4.2%
Berkshire Hathaway Inc.	\$1,628	1.1%	76.8%
Alleghany Corp.	\$1,626	1.1%	25.6%
Selective Insurance Group Inc.	\$1,624	1.1%	11.6%
Great American Insurance	\$1,531	1.0%	40.1%
EMC Insurance Companies	\$1,511	1.0%	39.4%
CNA Financial Corp.	\$1,454	0.9%	-2.0%
American National Insurance	\$1,408	0.9%	68.9%
National General Holdings Corp.	\$1,326	0.9%	50.3%
Everest Re	\$1,324	0.9%	-52.0%
Progressive Corp.	\$1,303	0.9%	47.4%
Federated Insurance	\$1,171	0.8%	18.5%
Pekin Insurance	\$1,108	0.7%	71.7%
Fairfax Financial	\$1,097	0.7%	72.8%
AXIS	\$1,074	0.7%	35.7%
<b>Statewide Totals</b>	<b>\$154,148</b>		<b>44.4%</b>

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.  
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

By contrast, **USAA**, the No. 3 writer, is raising rates a groupwide average of 8.7% beginning Aug. 12; **Chubb**, the 10th-largest homeowners group, raised rates a groupwide average of 9.7% in the spring; and **Travelers**, the seventh-largest group, raised rates an average 12.6% in May.

Arizona homeowners premiums has been quite affordable. The average premium in 2017 was \$825, among the lowest in the country, according to the most recent data from the **National Association of Insurance Commissioners**. On our HURT Index, which compares premium to income as an indicator of affordability, Arizona ranked 38th.

Despite a revolving door of regulators in recent years, insurers say the workings of the insurance regulatory apparatus has remained stable. Insurers report greater scrutiny of filings, as regulators seek additional actuarial support for older programs.

“I think they are trying to put some standardization in place,” an insurance executive said.

The political environment is much more volatile. Though Arizona has been reliably conservative, the political winds appear to be shifting along with demographics with younger voters, more Hispanic voters and more migrants from California.

In 2018, Arizona elected its first Democrat-senator in 30 years, Sen. **Kyrsten Sinema**, a moderate. State Democrats are also increasingly optimistic that former Vice President **Joe Biden** could beat President **Donald Trump** in November. Democrats are also trying to flip the state legislature, where Republicans hold slim majorities in both houses.

During a session abbreviated because of the pandemic, lawmakers passed Senate Bill 1038, which allows insurers to move a policy into an affiliated company without having to nonrenew. They also passed SB 1040, updated state laws to allow for electronic delivery of documents. **PIR**

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**SHUTOFF** *Continued from Page 1*

these devices, however, they have to overcome a significant barrier: The LexisNexis study also found that consumers are far less likely to buy smart devices that detect water leaks than other smart home devices, like thermostats and doorbells.

The national study compared 2,306 homes with a Flo by Moen water-shutoff device with a control group of 1.3 million homes of similar size and value in a similar geography that did not have a smart water-shutoff valve. Claims for homes with the device were evaluated two years prior to installation and one year after installation, according to the LexisNexis white paper. The control group was monitored during the same time period.

Homes with the device had 96% fewer claims after installation, while homes without the device showed a 10% rise in claims during the same time period. Claims severity for Flo homes also dropped 72% while severity for homes in the control group increased 1%.

The study noted that homes that installed the Flo devices had an average claim severity almost three times higher than the control group prior to installation, meaning customers likely bought the device in response to repeated or severe damage.

“It’s becoming clear that there seems to be a tipping point where homeowners are willing to invest in stopping these events from happening again,” according to the white paper.

It also implies that some homeowners with the devices likely had new or repaired pipes or water heaters following the earlier claim.

“It certainly stands to reason that there might be a number of mitigating factors leading to improved loss costs among the Flo cohort,” said study author **Dan Davis**, director of Internet of Things and emerging markets at LexisNexis. “This study makes a case that having a smart water-leak shutoff system is likely one of those mitigating factors.”

The white paper recommends that insurance



companies encourage or offer incentives to policyholders to adopt smart devices before they reach the “tipping point” in order to reduce the number and severity of claims and to gain a better understanding of claim frequency and other loss trends.

The Flo device reports water temperature, pressure and flow rate to the homeowner, and it enables homeowners to remotely shut off the water to their home. Additionally, parameters can be set that enable the valve to shut off water automatically. (PIR 10/16/17) A handful of competitors make similar or related products, like Australia-based **AquaTrip** and Boston-based **Water Hero**, among others, which both make leak detection systems and shutoff valves that, like Flo, require professional plumbers for installation.

Other companies are providing more simple sensors as a way to reduce water claims, such as **Roost** and **Notion**, which have attracted the attention of insurers interested in providing sensors to customers for free or at a discounted price.

Despite their benefits, water-shutoff valves lag other smart home devices in consumer awareness, according to LexisNexis.

Consumers buying smart home devices have chosen utility devices like smart lightbulbs (20%) and smart thermostats (26%), or security devices like security cameras (20%) and video doorbells (19%), rather than protection devices like smart water leak sensors (7%) or smart smoke detectors (16%). [PIR](#)

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**STATE FARM** *Continued from Page 3*

for 2015-2019. The incurred loss ratio for that period was 64.2% for the industry and 63.9% for State Farm. And evidence suggests that there are not any reserving high jinks going on either. The paid loss ratio for those four years combined was 61.3% for the industry and 62.7% for State Farm. It seems very clear from the available data that State Farm has been able to lower its prices relative to the competition, while maintaining its profitability.

It is important to note that just because State Farm has been aggressive relative to its competitors in recent years does not mean it is a price leader. That would depend on where its prices stood relative to the competition when the rate-slashing began. In many if not most markets, some insurers still have a lower price than State Farm. But there are now fewer of them.

Why is State Farm doing this? One reason is that as a mutual insurer, it has no reason to run sustained low loss ratios. With a loss ratio about in line with the competition, State Farm would be making even more money than it is making now if it kept prices high. It just doesn't need to. Rather than issue dividends, State Farm is reducing prices.

Another reason is the dream of selling more insurance policies to new customers attracted by lower prices, and keeping more existing customers who might have been lured away by a lower-price competitor. In homeowners, customers tend to stay put until there is a life event – such as moving – or there is a claims event that goes wrong. Price shopping is less prevalent than in auto insurance, but that doesn't mean it doesn't happen.

With a firm plan to bundle auto and home as much as possible, State Farm's move in homeowners matches its activity in auto.

While a monoline homeowners customer might not often shop based on price, a lower homeowners premium might make the home-auto bundle more price competitive than those on

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offer from a competitor.

State Farm isn't stopping with that standard bundle. The company is the nation's seventh-largest life insurer, and it is rolling out a partnership with **Quicken Loans** – the nation's largest lender – and its **Rocket Mortgage** subsidiary, the largest online retail mortgage lender. The rollout won't be completed in time to take advantage of the current refinancing frenzy, but over time State Farm agents have a chance to become potent mortgage originators.

Auto, home, mortgage and life insurance make a powerful package relationship that is infinitely easier to defend than home or auto alone. If the company has success in its latest effort to bring in investment products for its agents to sell, then life will only get tougher for competitors.

That's one reason why State Farm might not be fixated on homeowners premium growth. The enterprise needs more customers for its broader range of products, not more homeowners premium. In time, it just might get both. **PIR**

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