

The Availability of Insurance in the Maine Property & Casualty Market

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Janet T. Mills
Governor

Anne L. Head
Commissioner

Robert L. Carey
Superintendent

EXECUTIVE SUMMARY

This report is prepared in accordance with 24-A M.R.S. § 2325 A (5), which requires the Superintendent of Insurance to report each year to the joint standing committee having jurisdiction over insurance as to whether there is, or may be, a lack of availability in any line of insurance. Most of the data provided by the Bureau in this report is from company annual statements filed in 2023 that report data as of December 31, 2022.

Property and casualty coverages are generally available in Maine in the admitted market,¹ with a small percentage of coverage in surplus lines.² In 2022, the market for most lines of property and casualty insurance was relatively stable. Although insurance is generally available, some consumers continue to experience difficulty finding affordable coverage in certain property and casualty lines.

Overall, the personal automobile and homeowners' markets in Maine continued to be quite competitive and among the most affordable in the nation. The greatest problem has been affordability in the homeowners' market for some consumers who have specific exposure issues or claims history.

However, the current state of the auto and homeowners' insurance markets is less positive than it has been in prior years. Recently, we've seen higher rates in both markets. This is due, in part, to more severe and more frequent storms and natural disasters. In 2023 there were five disaster declarations and one emergency declaration. So far in 2024 there have been two disaster declarations. By comparison, the Maine Emergency Management Agency (MEMA) reported that between 1970 and today, the state averaged one disaster declaration per year.

Maine homeowners are not immune from the impact of disasters in other parts of the country and the world. Property insurers, like most insurance companies, purchase reinsurance to limit their financial exposure in the event of catastrophes. As floods, wildfires, hurricanes, hailstorms, and other climate-related disasters occur more frequently and with greater intensity, the cost of reinsurance has climbed.

In addition, insurance rates are affected by the broader economy, which has experienced increases in the cost of labor and materials. The Associated Builders and Contractors reports that building material costs have increased 38% since 2020; and labor costs have risen more than 20%.

Finally, insurers set premiums, in part, on prior experience and lagging data. This means insurers are just now beginning to build these costs into their rates.

¹ Admitted insurance is sold by a company that has been licensed by the state in which the policy is purchased. The Bureau of Insurance authorizes admitted insurers to write specific lines of business, such as life, health, homeowners, liability, and workers' compensation.

² "Surplus lines" refers to specialized property or liability coverage provided by a non-admitted insurer in instances where, due to unacceptable risk, it is not available from insurers licensed by the state. The Bureau determines the eligibility of non-admitted insurers to write in the surplus market, subject to solvency requirements and satisfactory claims-handling practices. With limited exception, Maine law provides that property and casualty insurance coverage can be written in the surplus lines market only if an admitted market does not exist for the risk. See 24-A M.R.S. § 2004.

The cost of auto insurance is also on the rise. More expensive cars and trucks that are heavily computerized are more expensive to repair and replace. Parts, labor, and computer chips are all key factors driving up the cost of auto insurance.

Regarding commercial insurance, professional liability rates for physicians and surgeons decreased slightly on January 1, 2024. Medical malpractice rates for hospital liability increased on January 1, 2024, for the first time since 2011.

PERSONAL AUTOMOBILE INSURANCE

In 2022, the personal auto insurance market in Maine continued to offer consumers relatively low rates and a wide choice of insurers. Based on information received from the National Association of Insurance Commissioners (NAIC), Maine maintained its position as the state in the country with the lowest premium in personal auto for 2021, the most recent year for which data is available. Maine has held this top ranking since 2017.

Maine's personal automobile insurance market remained competitive, with the number of active companies and market distribution remaining steady. In 2022, the most recent year for which complete data is available, 104 insurance companies were actively writing this coverage. The top 10 companies wrote 58.6% of the market, and the leading carrier had a 12.6% market share.

Maine was tied with Idaho for the 2nd lowest percentage of uninsured drivers in the country at 6.2%, according to an October 2023 report from the Insurance Research Council, based on 2022 data. The U.S. average uninsured driver rate was 14%.

HOMEOWNERS INSURANCE

According to the NAIC, Maine had the 11th lowest average homeowners' premiums in 2021, the most recent year for which data is available. Maine has held the 9th, 10th or 11th position for lowest homeowner premiums across the country since 2009. Maine has had the lowest average premiums in New England for several years. Although homeowners with certain risks may have experienced difficulty in finding affordable coverage, overall Maine's homeowner rates remained among the most affordable in the country.

Maine's homeowners' insurance market continued to be competitive, with the number of active companies and market distribution remaining steady. In 2022, the most recent year for which complete data is available, 107 insurance companies were actively writing this coverage. The top 10 companies wrote 48.7% of the market, and the leading carrier had a 12.1% market share.

Homeowners' coverage is generally provided on either a replacement cost or an actual cash value basis. Many insurers continue to focus on efforts to assure that a property's coverage amount is 100% of its replacement cost. This coverage encourages policyholders to match their property coverage with the cost to rebuild their homes, and usually comes with an annual inflation

adjustment. Replacement cost coverage allows for full replacement or rebuilding with similar type and quality of materials, provided the insurance-to-value requirements are met, without deduction for depreciation, up to the policy limit.

Actual cash value (ACV) coverage, defined by statute as replacement cost less physical depreciation, is another option available to policyholders.³ It can be a more affordable option for those whose homes⁴ would be costly to insure to full replacement value. The limits provided for personal property, detached garages, and outbuildings are commonly written as a percentage of the limit on the principal dwelling itself.

Insurers continue to take steps to reduce policy exposure to some types of loss, which can also reduce premiums. For example, some insurers offer separate deductible options for windstorm, water, and hail damages. Other insurers have amended deductibles from a flat amount, such as \$500 or \$1000 for each loss, to a percentage⁵ of the amount of insurance on the home for all losses, or for losses resulting from certain named perils, such as windstorm or water damage. While this type of deductible increases the policyholder's financial contribution if a loss occurs, it also lowers the premium. Relatively low deductibles of \$250 or \$500 are still available with some insurers, but for a higher premium.

Due to the increased frequency and severity of storms, the affordability of property insurance for coastal and island property can be problematic for some homeowners. Windstorm damage is a major concern for such properties, and new coastal property applicants have some difficulty finding coverage in the admitted market. To help these homeowners obtain more affordable coverage, the Bureau adopted a rule ten years ago that permits insurers to apply a Hurricane Deductible under certain conditions. This regulation allows insurers to apply a higher deductible for hurricanes, while also protecting policyholders by limiting its applicability to the time period during which the location is actively under a hurricane warning from the National Weather Service and ending 24 hours after the last warning for that forecast area expires. The rule also requires notification to the policyholder when the policy is issued that a hurricane deductible applies to the coverage.

New applicants also continue to have trouble obtaining coverage for the following types of risks:

- Homes with prior claims;
- Older mobile homes or manufactured homes;
- Properties that are not well-maintained;
- Homes with businesses on the premises;
- Applicants with certain breeds of dogs or dogs with a bite history;
- Homes that are vacant or unoccupied;
- Homes that have been uninsured for a period of time; and

³ 24-A M.R.S. §3004-A

⁴ Standard homeowners policies provide personal property (contents) coverage (for furniture, appliances, clothing, and other belongings) on an actual cash value basis, with replacement cost coverage available for an additional charge.

⁵ For example, a 1% deductible on a \$175,000 limit policy would result in a deductible of \$1,750 for each loss.

- Homes with a woodstove or heat pump as the primary source of heat. (Underwriting guidelines may allow a heat pump or woodstove as a supplemental heat source but will usually require a homeowner to have a central heating system.)

The surplus lines market has provided coverage for many of these types of exposures, but accounts for just 0.6% of homeowners' written premiums in 2022, with no change from the 2021 percentage.

MEDICAL LIABILITY (MEDICAL MALPRACTICE) INSURANCE

The medical malpractice market in Maine is highly concentrated, with 77.8% of the coverage provided by Medical Mutual of Maine. Medical Mutual's most recent rate filings were effective January 1, 2024, with a -3.1% decrease for physicians and surgeons and a 10% increase for hospital liability. Medical Mutual also submits Consent to Rate filings to the Bureau for specific risks that require higher rates based on adverse loss experience for some hospitals or medical practices. Some physicians and many facilities, especially nursing homes, continue to depend upon the surplus lines market, paying higher premiums for less coverage. Surplus lines accounted for 9.4% of this market in 2022.

SURPLUS LINES MARKET

In 2022, the most recent year for which data is available, surplus lines premiums represented only 4.4% of the entire Maine insurance market.⁶ As of May 1, 2024, 242 companies are eligible as surplus lines insurers.

Coverage in surplus lines is often more expensive, does not provide the same level of consumer protections,⁷ and covers fewer perils than insurance obtained in the admitted market. The surplus lines market does, however, serve an important function in Maine's insurance market by providing coverage that would otherwise not be available. In 2023, some commercial risks, including excess workers' compensation, property, liability, wet marine, and surety bonds found coverage in the surplus market.

⁶ 2022 surplus lines premium information includes a breakdown by foreign and domestic insurers only. State-specific premium data for alien insurers (i.e., insurance companies formed outside of the United States) is not tracked by the NAIC.

⁷ Admitted insurers are subject to form and, in most cases, rate regulation by the Bureau, and their claims payment obligations are backed by the Maine Insurance Guaranty Fund, which protects policyholders in the event of insolvency of an insurance company. Policies written through surplus lines do not have these protections.