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2008 Market Share for Insurers in Texas

What a difference a year makes!

The 2008 Texas premium and loss data indicates insurers abruptly ended their five-year streak of record profits last year. Loss ratios in all lines included in this report – except worker's compensation - were at high levels not seen since the mold crisis. Hurricane Ike was obviously the primary culprit, but soft market pricing and the recession may also be taking its own toll on insurance company profits.

Here are the highlights in summary for 2008.

The aggregate loss ratio for all Texas companies for all lines of business was 89.2 percent (up from 53.2 percent in 2007), compared to the national loss ratio of 66 percent (up from 54 percent in 2007).

The Texas loss ratio was higher than the national average in all lines except workers' compensation.

Texas independent agencies lost a little bit of position in the annual battle for personal lines market share. Or did they? The numbers make it look like independent agents lost ground in 2008 – with 25.6 percent of the personal auto and homeowners premiums, down 1.2 points from 26.8 percent in 2007. But A.M Best Co. is unable to distinguish between a true "direct writer" like State Farm and a hybrid company like Allstate or Nationwide, where even the premium produced by independent agent is combined into the group premium volume. A.M. Best still puts those companies into the "direct writer" column. And now there is Safeco, which was acquired by Liberty Mutual in 2008. Safeco is a leading personal lines writer exclusively for independent agents, but now A.M. Best throws all that premium into Liberty Mutual, a "direct writer." In 2007, Safeco's market share was 1.6 percent in personal auto and homeowners, so if you add 1.6 points to the 2008 number for independent agents, it's possible to believe that independent agents actually gained rather than lost.

Texas policyholders paid out $36.3 billion in premium for all lines of insurance (up from $35.4 billion in 2007), which is 7.6 percent of the national premium volume of $475.l billion (down from $487.8 billion in 2007).

The soft market and recession are affecting Texas to a significantly lesser degree than the rest of the country. Premium for all lines was up 2.5 percent in Texas from 2007 to 2008, while the national premium volume actually decreased by 2.6 percent, reflecting the comparatively robust Texas economy compared to the national downturn.

The following is an analysis of the Texas premium, loss and market share data for 2008: The loss ratio of 129.1 percent looks like the catastrophe year it was, thanks to Hurricane Ike. The highest loss ratio of any year in the previous five years was only 58.5 percent in 2003 (at the tail end of the mold crisis) and the lowest was 28.1 percent in 2004. It was a good run while it lasted – insurance companies made $13.7 billion over a 5–year period (before expenses) and lost $1.5 billion in 2008. They can stand a few more cycles like that.

The top 20 companies were almost unchanged in 2008, with MetLife moving up from #21 to #20 due to the Liberty Mutual/Safeco combination.

The Texas Fair Plan Association stayed the same at #13 with $50 million in premium, compared to $58.8 million in 2007.

THE 2009 OUTLOOK

Insurers will look in the rear-view mirror and hope 2008 is not repeated anytime soon. Through the middle of August when this report went to press, hail losses have been about average for Texas and we have yet to see any activity in the tropics.

It is clear from reports in the field, however, that the soft market and the recession continue to take a toll on written premiums, especially in the commercial property, liability and workers' compensation lines. If the economy picks up later in the year, Texas may be able to again avoid a decline in actual written premiums, contrary too much of the rest of the country.

If the good luck continues through the remainder of the year and recession loosens its grip and insurers can firm up the pricing, 2009 could return Texas to the profitable side of the equation.

Ref: Insurance Journal, September 2009 Issue