To the Joint Committee on Financial Services,
the Senate Committee on Ways and Means,
and the House Committee on Ways and Means
of the Massachusetts General Court,
as well as the Attorney General
and the Secretary of the Commonwealth:

PURSUANT TO THE AUTHORITY AND DIRECTION OF M.G.L. c. 175, §§ 4A & 4B,[1] I HEREBY SUBMIT THE FOLLOWING REPORT ON THE CURRENT STATE OF THE HOMEOWNERS INSURANCE MARKET IN THE COMMONWEALTH

Julianne M. Bowler
Commissioner of Insurance

November 29, 2006

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[1] M.G.L. c. 175, §§ 4A & 4B are attached as Exhibits 1 & 2.

Acknowledgement

The enclosed report was prepared by the State Rating Bureau staff of the Massachusetts Division of Insurance (“Division”). Kevin P. Beagan, State Rating Bureau Director, Gerald Condon, State Rating Bureau Researcher and Caleb Huntington, State Rating Bureau Mathematician prepared the report and provided analysis included in the report. The report is primarily based on responses from companies and statistical reporting organizations reflecting the experience of companies in the homeowners insurance market.

<u>The Division makes all appropriate efforts to check the completeness and consistency of data reported by insurance companies and their statistical agents, but does rely on the insurance companies for the accuracy of all reported information.</u>

Annual Reports

The Commissioner issued her first annual report, *Report on the Current State of the Massachusetts Homeowners Insurance Market Pursuant to the Authority and Direction of Chapter 93 of the Acts of* 1996 in October 1996 reviewing Massachusetts homeowners insurance data for the calendar years 1994-1995. The statistical agents were required to provide premium and loss experience by individual insurance company by standard ISO rating territories for all companies that had written homeowners insurance business in 1994 and 1995. The top twenty-five insurers were required to provide, by designated zip code, the number of policies in force, the number of cancellations and the number of nonrenewals for calendar years 1994 and 1995.

Eleventh Annual Report

This year’s report reviews Massachusetts homeowners insurance data for calendar year 2005. The statistical agents were required to provide for all reporting insurers voluntary aggregate 2003, 2004 and 2005 written premium data by all Massachusetts zip codes and by ISO Massachusetts homeowners insurance territories. ISO, as the current statistical agent for the FAIR Plan, provides corresponding data for the FAIR Plan.

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History of Homeowners Multi-Peril Insurance

Fire insurance on real property has been commonplace in the United States since the nineteenth century. The 1950's saw the introduction of the homeowners multi-peril insurance policy which provided a more comprehensive coverage for damage from fire and additional perils as well as coverage for personal liability arising from use of the real property. These homeowner multi-peril insurance policies became the standard by the 1960's with Insurance Services Office, Inc. (ISO), an industry rating and statistical organization, as the lead sponsor of the standard homeowners insurance policies since that time.[2] The Division of Insurance maintains a listing on its website[3] of the over 70 commercial insurance companies that have indicated they are offering homeowners insurance policies in Massachusetts, along with lists by county that identify the insurance companies are offering homeowners coverage in that county.

History of the Massachusetts FAIR Plan

In the 1960's, there were periods of civil unrest in the United States resulting in extensive property damage (not to mention loss of life) in a number of large metropolitan areas across the United States. The periods of civil unrest lead to the lack of available property coverage in urban areas. This led to a significant change in the insurance and reinsurance markets in relation to the protection of urban property. A national advisory panel on the nation's cities advised the President of the United States that fair access to property insurance was a prerequisite for revitalization of urban America. Following the recommendation of the advisory panel, Congress enacted the Urban Property and Reinsurance Act of 1968. This federal Act authorized the establishment of "FAIR (Fair Access to Insurance Requirements) Plans" in the states along with the development of federal riot reinsurance to insurers.

Massachusetts enacted Chapter 731 of the Acts of 1968 to establish the Massachusetts FAIR Plan, formally known as the Massachusetts Property Insurance Underwriting Association (MPIUA). The Massachusetts FAIR Plan was established to operate in a manner similar to a traditional insurance company in that it inspects property, collects premium, issues its own policies, and adjusts its own claims, but with the requirement that it offer coverage to those denied coverage in the private market. It offers a standard fire insurance policy on both a personal and commercial lines basis, as well as coverage against direct loss from the perils of vandalism and malicious mischief, and extended coverage to homeowners in specific urban areas of the Commonwealth. Originally, the

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[2] General revisions of these homeowners policies have historically been filed by ISO on an intermittent basis, usually once every five to ten years.

[3] The listing of homeowners insurance companies on the Division of Insurance website can be located at: http://www.mass.gov/?pageID=ocasubtopic&L=4&L0=Home&L1=Consumer&L2=Insurance&L3=Homeowners+Insurance&sid=Eoca

Commissioner determined that the MPIUA would operate in “urban areas”,[4] which was set to include one county and a number of Massachusetts cities.[5]

In 1970, the Commissioner of Insurance promulgated 211 CMR 5.00 (FAIR Plan), broadening the definition of “urban area” to include the entire Commonwealth of Massachusetts. This regulation also established that the commission rate to producers placing business in the MPIUA would be 12% of the premium charged to the insured.[6] This was followed in 1975 by the promulgation of 211 CMR 21.00 (Extension of the FAIR Plan). This regulation broadened the personal lines coverage offered by the MPIUA from what was covered in the standard fire insurance policy and extended coverage to what is included in the homeowners multi-peril insurance policy. In addition, this regulation required that premium rates charged by the MPIUA to homeowners be tied to the published manual rates of the ISO (Insurance Services Offices) rating organization for standard homeowners risks.[7] Both regulations were found to be inconsistent with Chapter 93 of the Acts of 1996 and were subsequently repealed.

Studies of Urban Insurance Availability (Redlining)

Recognizing a lack of insurance availability in urban areas caused some analysts to claim that insurance companies might have been “redlining” or unfairly discriminating against a risk solely due to the geographic location and/or the racial or ethnic characteristics of its potential insureds. “Redlining” is and has been a controversial issue in property insurance since at least the 1960’s and charges of redlining have been raised against certain property insurers and the property insurance industry as a whole over the years.

In 1993-95 the National Association of Insurance Commissioners (NAIC)[8] undertook several studies on the issues of availability and affordability of urban insurance in the personal automobile and homeowners insurance markets[9], but the studies were not conclusive regarding redlining in urban areas. These studies did identify problems in obtaining coverage in many urban areas, but they were not able to pinpoint whether this could be solely tied to company underwriting practices, or whether it was also due to the lack of urban insurance producers (agents or brokers), rate inadequacy for certain urban

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[4] Chapter 731 of the Acts of 1968 defined “urban area” as “any city or town, or streets or sections thereof, in the commonwealth so designated by the commissioner after appropriate hearing.” This designation was subsequently accomplished through regulation, 211 CMR 5.00.

[5] The County of Suffolk and the cities of Brockton, Cambridge, Fall River, Haverhill, Lawrence, Lowell, Lynn, New Bedford, Somerville, Springfield and Worcester.

[6] The 12% commission rate has remained constant since that time.

[7] The ISO rates were based on premium and loss data from all insurance companies that reported their premium and loss data to ISO as their statistical agent. These insurers at that time collectively wrote more than 70% of the homeowners insurance market in Massachusetts.

[8] This association of state insurance commissioners was formed for the purposes of gathering and exchanging information relative to insurance as well as the development of uniformity and consistency of individual state regulation through model laws and regulations.

[9] *A Preliminary Analysis of Urban Insurance Markets*, Robert W. Klein, 1994. *Urban Insurance Problems And Solutions: Interim Report*, National Association of Insurance Commissioners Insurance Availability and Affordability (EX3) Task Force, 1994. *The Impact of Loss Costs on Urban Homeowners Insurance Markets*, Robert W. Klein, 1995.

areas, and carrier misconceptions relative to urban risks. It was generally found, however, that premiums were higher in urban areas, as were the loss costs (cost of claims) associated with homes and businesses in those areas.

In 1995, following the release of the NAIC studies, the Massachusetts Division of Insurance (DOI) through its Special Investigative Unit (SIU) conducted an examination of eight insurers who were major writers of coverage in the Massachusetts homeowners insurance market and representative of the homeowners market as a whole.[10] The SIU examination focused on the marketing and underwriting practices of these insurers in the Boston area. The purpose of the examination was to determine whether any of the eight insurers were engaged in illegally discriminatory underwriting in Boston or any of its neighborhoods. This examination did not reveal any illegal discrimination by these insurers.

While the NAIC studies were not definitive, they did help focus attention on the need for insurers to reassess their approach to urban markets. In Massachusetts this resulted in at least two small changes. First, a brokerage system[11] was designed to help insurers find potential customers who met their underwriting criteria. Second, a cooperative effort between the Massachusetts Affordable Housing Alliance (MAHA) and several insurers was undertaken to encourage risk management training for insureds in urban areas, with discounted premiums as a reward for completion of the training.

Chapter 93 of The Acts of 1996

Following the publication of the NAIC studies and the subsequent DOI examination of urban homeowners policies, those parties with a role in the homeowners market - including insurers, insurance producers, consumers, legislators, and regulators - wanted to address the availability of homeowners insurance in urban and coastal areas in the voluntary market.[12] In addition, they examined whether there should be monetary incentives for insurers to write urban and coastal property in the voluntary market, changes in the way that FAIR Plan (MPIUA) rates were determined, and regular reporting so that analysis of comprehensive homeowners insurance data on both an individual company and industry basis could be undertaken.

On May 20, 1996, Chapter 93 of the Acts of 1996, “An Act Relative to Insurance Redlining”, was signed into law by Governor Weld and took effect immediately.[13] Among the major points of this legislation, it provided for the following changes:

1. Provided MPIUA assessment credits in 1997-98 for insurers writing voluntary business in territories where the MPIUA had high market penetration.

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[10] *Report of Examination of Homeowner Insurance Availability in The Metropolitan Boston Area*, Massachusetts Division of Insurance, November 1995.

[11] This market assistance plan (MAP) was required by Chapter 93 of the Acts of 1996. See description below.

[12] The voluntary market is a group of insurers who elect to write insurance in an environment that allows the right to accept and reject business submitted. The voluntary market does not include Excess or Surplus Lines.

[13] Chapter 93 of the Acts of 1996 had an emergency preamble that made the statute effective on enactment.

2. Required MPIUA to provide assessment credits starting January 1, 1999 for insurers writing voluntary business in zip codes where the MPIUA had high market penetration.

[The following represent 2005 approved MPIUA's calendar year credit eligible zip codes along with their respective weights:

Zip Code	*City/Town*	*Weight*
02119	*(BOSTON)*	*1.0*
02121	*(BOSTON)*	*1.0*
02047	*(HUMAROCK)*	*1.0*
02125	*(BOSTON)*	*.90*
02128	*(BOSTON)*	*.90*
02150	*(CHELSEA)*	*.80*
02713	*(CUTTYHUNK)*	*.80*
01841	*(LAWRENCE)*	*.80*
02124	*(BOSTON)*	*.70*
02020	*(BRANT ROCK)*	*.70*
02126	*(MATTAPAN)*	*.70*
02055	*(MINOT)*	*.70*
02065	*(OCEAN BLUFF)*	*.70*
02045	*(HULL)*	*.70*
02744	*(NEW BEDFORD)*	*.70*
02120	*(BOSTON)*	*.60*
02122	*(BOSTON)*	*.60*
02303	*(BROCKTON)*	*.60*
01840	*(LAWRENCE)*	*.60*
01903	*(LYNN)*	*.60*
02381	*(WHITE HORSE BCH)*	*.60*
01901	*(LYNN)*	*.50*
01610	*(WORCESTER)*	*.50*
01608	*(WORCESTER)*	*.40]*

3. Provided MPIUA assessment credits ("take-out credits") for insurers writing voluntary business in coastal territories where more than 60% of the territory business had previously been written in the MPIUA.

4. Required MPIUA to provide take-out credits starting January 1, 1999 for insurers writing voluntary business in coastal zip codes where the MPIUA had a greater than 60% market penetration.

[The following represent 2005 approved MPIUA's calendar year coastal zip codes eligible for take out-credits:

Zip Code	*City/Town*
02535	*(CHILMARK)*
02539	*(EDGARTOWN)*
02568	*(VINEYARD HAVEN)]*

5. Tied MPIUA rate changes to rate changes in the voluntary market[14].

MPIUA Rate Changes Since 1996 Reform Law

Effective Date	Overall Rate Change
12/31/96	+5.30%
12/31/97	+2.23%
12/31/98	+0.92%
12/31/99	+0.13%
12/31/00	-0.51%
12/31/01	-0.17%
12/31/02	+1.92%
12/31/03	+2.80%
12/31/04	+3.20%

[MPIUA submitted its ninth homeowners insurance rate filing under this law on September 9, 2004. A public hearing on this proposal was held on November 24, 2004. The parties to this hearing (MPIUA, State Rating Bureau, and Attorney General) reached a stipulated agreement with an overall increase of 3.20% effective December 31, 2004. The Commissioner of Insurance approved the stipulation on November 30, 2004.]

6. Provided for the top twenty-five insurers and the MPIUA to annually provide detailed cancellation and nonrenewal information by zip code for homeowners insurance.

[This is the eleventh consecutive year this type of data has been provided. (See Appendix A)]

7. Provided that statistical agents for homeowners insurance in Massachusetts are to submit premium and loss data reports by zip code and type of coverage, including detail on the causes of loss for each reported company.[15]

8. Provided that the Commissioner of Insurance report annually on the state of the Massachusetts homeowners insurance market after substantial analysis of the data submitted in (6) and (7). (Note: "homeowners insurance" has several forms, but the general touchstone is that the insured is the occupant. Real and personal property may be covered as well as personal liability.)

[This report is the eleventh such annual report.]

9. Authorized alternative loss settlement practices subject to the use of disclosure forms designed by the Commissioner.

[The Division in 1998 reviewed ISO's Actual Cash Value/Functional Replacement Cost loss settlement options for homeowners and dwelling fire insurance policies and put this information on file. These options became effective March 1, 1999 and are available on forms 02 & 03.]

10. Required the MPIUA to offer an installment plan and provide coverage for scheduled personal property.

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[14] Chapter 436 of the Acts of 2004 (An Act Relative to the Joint Underwriting Association) unties the rate with respect to the effects of predicted hurricane losses and the cost of catastrophe reinsurance.

[15] The first data submission provided in 1996 was exclusively on a territorial basis. All subsequent data submissions have been required to include certain data on a zip code basis.

[MPIUA implemented its Premium Installment Payment Program effective October 15, 1997. The program requires a 25% down payment with three equal installment payments.

MPIUA Scheduled Personal Property Coverage was made available effective September 1, 1997. MPIUA's program and rates for this coverage are consistent with and similar to the programs and rates utilized by insurers in the Massachusetts voluntary market.]

11. Required the MPIUA to develop a market assistance plan (MAP) to assist applicants to obtain homeowners insurance in the voluntary market.

[MPIUA implemented its initial Massachusetts Market Assistance Plan (MA-MAP) effective October 15, 1997. A review of MA-MAP statistics for the first two years of operation show that more than 90% of insureds whose policies were referred to the MA-MAP and were offered policies in the voluntary market declined such offers.[16] *As a result the initial MA-MAP was revised effective July 1, 1999, so that every qualifying MPIUA homeowners insured*[17] *is given the option of participating in the MA-MAP. At present, nine (9) insurers are participating in MA-MAP. The following revisions to MA-MAP were approved by the Commissioner effective July 1, 1999:*

1. All qualifying new business and renewal MPIUA applications for coverage will be sent to participating insurers on the request of the applicant; and
2. Applicants with two or more losses during the prior 24 months will not be eligible. Additionally, applicants against whom a dog bite claim, not involving trespass, has been filed are not eligible.

Generally, the MA-MAP also includes a 15% commission level to participating broker/agents and the provision to each participating insurer of a quarterly list of FAIR Plan properties that have been "loss free" for five years or more.]

Causes of Loss for 2005

In order to examine homeowners insurance loss trends, the Division of Insurance collected information reported in Exhibit 8 regarding the overall causes of loss. As illustrated in Exhibit 8, the 2005 distribution of the causes of loss as a percentage of total claims are very similar to the 2004 distribution of causes of loss. The one notable exception is the *wind and hail* category which accounts for 6.6% more of the causes of loss in 2005 than it did in 2004.

Claims total due to damage from the *water damage and freezing* category accounted for 46.8% of 2004 claims and 46.9% of 2005 claims. This is surprising because the amount of snowfall recorded for 2004 Boston was 29.0 inches as compared to 87.3 inches in 2005 (Exhibit 14, page 1). While the level of snowfall in Boston snowfall may be used as a proxy for the snowfall across the state, it is not a perfect indicator of snowfall in other parts of the state since claims can also be related to other water damage and the number of freeze/melt cycles in an areas.

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[16] *1999 Report on the Current State of The Homeowners Insurance Market in The Commonwealth*, Exhibit 21, page 2.

[17] Under the original MA-MAP every qualifying new business owners form applicant was automatically submitted to the MA-MAP.

While there was a small reduction in the number of claims associated with *fire, lightning, and removal* (decreasing from 11.7% of total claims in 2004 to 10.5% in 2005), *theft* (decreasing from 0.5% in 2004 to 8.4% in 2005) and *liability and medpay* (decreasing from 3.6% in 2004 to 3.3% in 2005) claims, it is noteworthy that the number of claims associated with *wind and hail* increased from 7.6% of total claims in 2004 to 14.2% of total claims in 2005. Although there were not any significant hurricanes or named storms that struck Massachusetts directly, the Commonwealth was impacted by two catastrophic events[18] in both 2004 and 2005 involved *wind and hail* and w*ater damage and freezing.*

The remaining cause of loss category, named *all other* cause of loss, is used (a) when the claim doesn't fit one of the other causes of loss, (b) when there is some question as to which cause of loss among several possible causes of loss caused the claim, or (c) when the cause of loss is not known initially; in general, claims initially classified as *all other* are not subsequently reclassified. Claims coded in the *all other* category dropped as a percentage of all claims from 19.7% of the total in 2004 to 16.7% in 2005.

It is indicated in Exhibit 10 that there are relatively stable numbers of claims submitted for non-weather-related causes of loss from year-to-year, but that weather-related causes of loss can have relatively large swings in annual claim counts due to fluctuations in the weather. As is noted in Exhibit 10, claims and losses stemming from the weather-related causes of loss - *wind & hail* and *water damage & freezing* - experience large changes due to severe or catastrophic weather events. There may be changes in claims reported for non-weather-related causes of loss, but these tend to change gradually over time.

[18] Massachusetts catastrophe code numbers were assigned by Property Claims Services, Inc. (PCS), a subsidiary of ISO, Inc. This organization assigns catastrophe code numbers to natural events when insurable losses resulting from a natural event exceed $25 million and at least 2,000 claims.

Cause of Loss Analysis by Territory

Cause 1, fire, lightning and removal

Losses

Overall *fire, lightning and removal* losses as a percentage of total statewide losses increased from 33.1% of total statewide losses in 2004 to 35.4% of total statewide losses in 2005. On a territorial basis, Territory 33 (New Bedford) had the biggest change as the proportion of losses due to *fire, lightning and removal* increased from 25.6% in 2004 to 46.8% of losses in 2005.

In addition, the following other territories experienced larger proportional losses due to *fire, lightning and removal* in 2005 as compared to 2004:

- In Territory 3 (Boston - District B) *fire, lightning and removal* losses increased from 6.5% of total losses in 2004 to 23.0% in 2005;
- In Territory 38 (Lawrence), *fire, lightning and removal* losses increased from 41.1% of total losses in 2004 to 55.6% in 2005; and
- In Territory 45 (Worcester), *fire, lightning and removal* losses increased from 20.7% of total losses in 2004 to 40.4% in 2005.

In addition, although there was not a significant shift from 2004 to 2005, the following territories had relatively high *fire, lightning and removal* losses relative to the statewide average:

- In Territory 4 (Boston - District C), *fire, lightning and removal* accounted for 62.7% of total losses; and
- In Territory 42 (Lowell), *fire, lightning and removal* accounted for 61.4% of losses.

Claims

The statewide average *fire, lightning and removal* claim cost was approximately $24,547 in 2004 versus $24,794 in 2005. The statewide number of *fire, lightning and removal* claims increased from 8,926 (11.7% of total) in 2004 to 9,633 (10.5% of total) in 2005.

Exhibit 8, the following is noteworthy:

- In Territory 3 (Boston – District B), the number of *fire, lightning and removal* claims decreased from 19 claims in 2004 to 17 claims in 2005. At the same time, the average fire claim cost in Boston - District B increased from approximately $10,543 to $28,022.
- In Territory 4 (Boston - District C) the number of *fire, lightning and removal* claims increased from 26 in 2004 to 70 in 2005, however its average fire claim cost decreased from approximately $97,060 to $36,104 over the same period.
- In Territory 38 (Lawrence) the number of *fire, lightning and removal* claims increased from 36 in 2004 to 48 in 2005 and its average fire claim cost also increased from approximately $33,333 to $59,323 over the same period.
- In Territory 42 (Lowell) the number of *fire, lightning and removal* claims decreased from 110 in 2004 to 73 in 2005 while its average fire claim cost increased from approximately $52,431 to $63,110 over the same period.

- In Territory 45 (Worcester) the number of *fire, lightning and removal* claims increased from 130 in 2004 to 155 in 2005. The average *fire, lightning and removal* claim cost for Territory 45 (Worcester) also increased from approximately $17,158 to $34,885 over the same period.

Cause 2, wind & hail losses

Losses

Overall, *wind and hail* losses as a percentage of statewide losses increased from 2.8% to 6.9% of in 2005. The majority of territories experienced an increase in *wind losses* as a percentage of total statewide losses. On a territorial basis, Territory 33 (New Bedford) had the biggest change as the proportion of losses due to *wind and hail* increased from 3.2% in 2004 to 11.4% of losses in 2005.

In addition, the following other territories experienced larger proportional losses due to *wind and hail* in 2005 as compared to 2004:

- In Territory 37 (Barnstable, Dukes and Nantucket), *wind and hail* losses increased from 1.3% of total losses in 2004 to 9.4% in 2005;
- In Territory 12 (Brookline), *wind and hail* losses increased from 1.2% of total losses in 2004 to 6.7% in 2005;
- In Territory 35 (Brockton), *wind and hail* losses increased from 2.5% of total losses in 2004 to 8.0% in 2005; and
- In Territory 30 (Quincy), *wind and hail* losses increased from 2.4% of total losses in 2004 to 7.5% in 2005.

Claims

The statewide average *wind and hail* claim cost was approximately $3,228 in 2004 and $3,580 in 2005.

- Territory 44 (Middlesex Remainder) experienced the largest increase in *wind and hail* claims increasing from 1,012 in 2004 to 1,995 in 2005. At the same time its average *wind and hail* claim cost increased from $3,027 to $3,622.

Cause 3, water damage and freezing

Losses

Overall, *water damage and freezing* losses as a percentage of total homeowner losses decreased from 36.7% in 2004 to 35.9% in 2005. The following territories experienced significant shifts in the percentage of losses attributable to *water damage and freezing*:

- In Territory 30 (Quincy), 47.2% of all 2004 losses were due to *water damage and freezing* but this fell to38.0% of all losses in 2005. Territory 30 claims for this cause increased from 449 in 2004 to 490 in 2005, but the average claim cost decreased from approximately $7,327 to $5,866 over the same period;
- In Territory 33 (New Bedford), 31.2% of all 2004 losses were due to *water damage and freezing* but this fell to 21.3% of all losses in 2005. Total claims for this cause in New Bedford increased from 291 in 2004 to 415 in 2005, but the average claim cost decreased from $5,568 to $3,343 over the same period; and

- In Territory 45 (Worcester), 43.8% of all 2004 losses were due to *water damage and freezing* in 2004 but this fell to 32.9% of all losses in 2005. Total claims for this cause increased from 820 in 2004 to 981 in 2005, but the average claim cost decreased from $5,761 to $4,484 over the same period.

Cause 4, theft

Losses

Overall, *theft* losses as a percentage of total homeowner losses decreased from 2.9% of all losses in 2004 to 2.7% in 2005. The average statewide *theft* claim cost increased from $2,371 in 2004 to $2,408 in 2005, while the statewide number of claims decreased from 8,010 in 2004 to 7,655 in 2005. The following territories experienced significant shifts in the percentage of losses attributable to *theft*:

- In Territory 30 (Quincy), the number of claims due to *theft* decreased from 125 in 2004 to 74 in 2005;
- In Territory 32 (Fall River) he number of claims due to *theft* decreased from 128 in 2004 to 108 in 2005;
- In Territory 37 (Barnstable, Dukes and Nantucket), the number of claims due to *theft* decreased from 314 in 2004 to 254 in 2005, which is a decrease of 19.1%;
- In Territory 47 (Springfield), the number of claims due to *theft* decreased from 279 in 2004 to 222 in 2005; and
- In Territory 50 (Berkshire and Franklin), the number of claims due to *theft* decreased from 220 in 2004 to 180 in 2005.

Cause 6, liability and medical payments

Losses

Overall, statewide *liability and medical* losses as a percentage of total homeowner losses decreased from 8.8% of all losses in 2004 to 8.1% in 2005. The average statewide *liability and medical* claim cost increased from $20,916 in 2004 to $18,236 in 2005, while the statewide number of *liability and medical* claims decreased from 2,782 in 2004 to 2,985 in 2005. The following territories experienced significant shifts in the percentage of losses attributable to *liability and medical*:

- In Territory 2 (Boston – District B) average *liability and medical* claim costs decreased from $40,568 to $12,646 from 2004 to 2005 while claim counts actually increased from 33 to 116 over the same period;
- Territory 4 (Boston – District C) average *liability and medical* claim costs decreased from $73,660 to $10,727 from 2004 to 2005 while claim counts increased from 7 to 30 over the same period; and
- Territory 12 (Brookline) average *liability and medical* claim costs decreased from $18,382 to $5,630 from 2004 to 2005 while claim counts remained the same at 43.

Cause 9, all other causes

Losses

Overall, statewide *all other causes* losses as a percentage of total homeowner losses decreased from 15.7% of all losses in 2004 to 11.0% in 2005. The average statewide *all other causes* claim cost increased from $6,911 in 2004 to $4,821 in 2005, while the statewide number of *all other causes* claims increased from 15,051 in 2004 to 15,324 in 2005. There did not appear to be any significant shifts in the percentage of losses attributable to *all other causes* on a territorial basis.

MPIUA (FAIR Plan) Results

The overall MPIUA (FAIR Plan) market share, based upon written premium, has increased from 7.0% in calendar year 2003 to 11.2% in calendar year 2005. The MPIUA territorial market share by year, based upon calendar year 2003-2005 written premium, is shown in Exhibit 15. This exhibit shows relatively stable increases in most noncoastal areas, and significant changes in Territory 37 (Barnstable, Dukes and Nantucket), where the FAIR Plan's share of the home insurance market expanded by another 5.2% from 2004 to 2005. In addition, the FAIR Plan has reported that its statewide HO-2 & HO-3 policy counts from December 31, 2005 to June 30, 2006 have continued to increase, rising from 138,059 to 145,459 or 5.4%.

Although the FAIR Plan's market share in Territory 38 (Lawrence) decreased slightly, by 0.3% from 2004 to 2005, the FAIR Plan's market share increased in all other markets. In addition to the significant increase in Territory 37, the FAIR Plan's share of the market in Territory 33 (New Bedford) increased by 3.7% and in Territory 5 (Suffolk County, except for Boston – Districts A, B, C and D) increased by 3.3%. Although the market share percentage may not have changed as significantly, the FAIR Plan's coverage of dwelling forms in the Boston and non-Boston territories also increased in raw numbers. Business in the coastal territories[19] as a percentage of FAIR Plan business, on average, appears to have increased both in percentage and raw numbers (as shown in Exhibit 17).

History of FAIR Plan in Massachusetts

When examining the FAIR Plan's position in the Massachusetts market, it is appropriate to review not only changes in the past year, but also changes that have occurred over the past decade. Exhibit 16 includes a history of the number of homeowners policies issued by the Fair Plan from fiscal years 1996 through 2005. As illustrated in that exhibit, the number of policies increased from 63,652 in 1996 to 167,970 in 2005, an increase of approximately 164% over that period, with the total number of policies issued increasing every year except between 1999 and 2000.

From a historical perspective, the first large increase (6.1%) in FAIR Plan homeowners policies occurred between fiscal year 1996 and fiscal year 1997, which may be attributable to changing underwriting guidelines in the private market as companies became more aware of the true impact of Hurricane Andrew (1992) on Florida's coastal communities when it caused extensive damage in the southeastern United States. The 1996/1997 increase was followed by annual increases in the number of MPIUA homeowners policies issued of 2.7% from 1997 to 1998, and 4.1% from 1998 to 1999. The 1.3% decrease from 1999 to 2000 (72,197 to 71,288) represented the first annual decline in policy counts since 1996.

Between 2000 and 2001, the increase accelerated, with the FAIR Plan total policy count increasing by 4.7% from 2000 to 2001, 12.8% from 2001 to 2002, 18.0% from 2002 to 2003, 36.0% from 2003 to 2004 and 24.4% from 2004 to 2005. It should be noted that the 36.0% increase from 2003 to 2004 (99,283 to 135,000) represented the largest increase during the 1996-2005 period.

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[19] For purposes of calculations under this section, territories 34, 36 & 37 are considered coastal.

The large increases in FAIR Plan homeowners policies have largely been driven by the influx of coastal property policies into the FAIR Plan, as illustrated in Exhibit 17, indicating the number of HO-2 & HO-3 (dwelling forms) policy totals by year by rating territory. As is shown in this exhibit, while Boston territories represented 25.9% and coastal territories accounted for 22.7% of the number of FAIR Plan dwelling policies on December 31, 1998, these Boston territories accounted for 11.7% and coastal territories accounted for 40.0% of total FAIR Plan policies on December 31, 2005. Between 1998 and 2005, the number of dwelling policies written through the FAIR Plan increased from 11,884 in 1998 to 55,244 in 2005, an increase of 364.9%.

In the coastal areas, Territory 37 (Cape Cod & the Islands, also known as Barnstable, Dukes and Nantucket Counties), the FAIR Plan increased from 4,685 policies in 1998 to 37,701 policies in 2005, an increase of 704.7%. The number of FAIR Plan policies written in Territory 36 (Plymouth County, excluding Brockton) increased from 5,645 in 1998 to 12,582 in 2005, an increase of 122.9%. The number of FAIR Plan policies written in Territory 34 (Bristol County, excluding Fall River and New Bedford) increased from 1,554 in 1998 to 4,961 in 2005, an increase of 219.2%.

In addition to increased FAIR Plan policies in coastal areas, the following territories had large percentage increases in FAIR Plan policies throughout the 1998-2005 period:

Territory 31 (Norfolk County Remainder) - policies increased by 186.6%;
Territory 32 (Fall River) - policies increased by 290.9%;
Territory 33 (New Bedford) - policies increased by 155.9%;
Territory 40 (Essex County Remainder) - policies increased by 151.1%;
Territory 45 (City of Worcester) - policies increased by 149.8%
Territory 46 (Worcester County Remainder) - policies increased by 233.8%;
Territory 47 (Springfield) - policies increased by 262.4%;
Territory 48 (Chicopee & Holyoke) – policies increased by 335.4%;
Territory 49 (Hampden & Hampshire Remainder) policies increased 367.6.5%; , and
Territory 50 (Franklin & Berkshire Counties) policies increased by 343.1%.

FAIR Plan Financial Results

A review of the FAIR Plan's statutory profit or loss position as illustrated in Exhibit 16, shows that the FAIR Plan had a homeowners insurance underwriting profit of $25.32 million in fiscal year 2005,[20] which is the second consecutive year that the FAIR Plan experienced an underwriting profit, following the underwriting profit of $3.04 million reported for Fiscal Year 2004. (The last year prior to Fiscal Year 2004 that the FAIR Plan reported an underwriting profit was Fiscal Year 1998 when the FAIR Plan reported a $7.70 million underwriting profit.) When these figures are used to derive an average underwriting profit per policy, the FAIR Plan experienced a Fiscal Year 1998 underwriting profit of $111 per policy, as compared to an underwriting profit per policy of $23 in Fiscal Year 2004 and of $151 per policy in Fiscal Year 2005. In comparison, the FAIR Plan reported underwriting losses per policy of $26, $113, $84 and $138 for

[20] The MPIUA fiscal year runs from October 1st of one calendar year to September 30th of the following calendar year, *e.g.*, fiscal year 2005 runs from October 1, 2004 to September 30, 2005.

Fiscal Years 2000, 2001, 2002 and 2003, respectively. When considering all the fiscal years from 1996-2005, the FAIR Plan reported a total underwriting loss of $16 per policy.

In the period between 1996-2005, FAIR Plan underwriting subsidies ranged from a low of -$151 (surplus) per policy in 2004 to a high of $253 per policy in 1996. The MPIUA rate subsidies have been present in urban area rates for a number of years. Factors in addition to rate subsidies forced coastal insureds to seek coverage in the MPIUA after the voluntary market tightened for these types of risks. These factors included the unavailability of voluntary market insurance due to the cost of reinsurance and restrictions imposed on primary insurers by their reinsurers.

The reader should note that it is possible for rate subsidies in a residual or non-voluntary market to restrict the size of the overall voluntary homeowners insurance market. If the residual market has very high losses and homeowners insurance companies are assessed for the cost of the high residual market losses based on their voluntary market share, companies may have an overall net loss per policy written if the assessments are greater than any profits they may generate on the voluntarily written policies. In these circumstances, companies may elect to reduce writing voluntary policies to reduce the risk of high residual market assessments per policy,[21] Massachusetts did experience this effect in its workers' compensation and private passenger automobile markets prior to the initiation of legislative reforms[22]. The MPIUA did not have a deficit in 2005, and has not had a deficit at an extremely high level since its inception. The MPIUA deficits shown on Exhibit 16 should be measured against a Massachusetts voluntary homeowners insurance market of more than $1.2 billion in annual written premium.

Review of FAIR Plan Rate Compared to Private Market

A review of FAIR Plan rates relative to rates in the voluntary market (Exhibit 19) shows that FAIR Plan rates continue to be a bargain in most territories[23]. The FAIR Plan rates are often among the lowest when compared to the top ten insurers by market share[24]. The FAIR Plan rates appear to be even higher than they really are when the voluntary market underwriting criteria are factored into the comparison. These rates are low despite loss experience that would warrant a significant rate increase to bring rates to the break-even point, but for statutory prohibitions. As the FAIR Plan pursues reinsurance against the risk of hurricanes, the cost of reinsurance may warrant higher rates.

One of the impediments to reducing the FAIR Plan's market share has been the observed fact that FAIR Plan rates have often been more affordable than identical homeowners coverage in the voluntary market. This is supported by statistics from the MPIUA

[21] Even if there is no underwriting deficit in a particular year, the cost to voluntary insurers to reinsure their assessment risk may create a deficit.
[22] Chapters 398 and 399 of the Acts of 1991 and Chapter 273 of the Acts of 1988.
[23] This exhibit shows MPIUA rates effective as of 12/31/04.
[24] An insurer's lower rate for a certain classification of risk can be misinterpreted as competitive if the insurer's underwriting criteria result in relatively few offers of voluntary policies to risks in that classification.

Market Assistance Plan (MA-MAP) as illustrated in Exhibit 18. As illustrated in Exhibit 18, there has been a small number of insureds that have even requested to be shopped around in the voluntary market, *i.e.*, less than 100, despite the fact that the FAIR Plan is writing approximately 167,970 homeowners policies. One would expect that if coverage under a voluntary market policy was a primary concern for FAIR Plan insureds, then a higher number of them would check off the box on the FAIR Plan application so that the FAIR Plan would shop their homeowners insurance coverage in the voluntary market. Exhibit 18 page 3 lists the nine companies that participate in the MA-MAP program. It is clear that price is more important to these insureds, than the issue of which insurer provides coverage.

Analysis of Premium and Loss Experience

2005 Loss Ratio Experience

Loss ratio (incurred losses divided by earned premium) is a generally accepted measure of the underwriting success or failure of property insurance. Based upon the submitted loss data, the 2005 overall loss ratio inclusive of loss adjustment expense for the total Massachusetts homeowners insurance market was 50.1%. The following is a history of the corresponding loss ratios by year include since 1994:

Year	Loss Ratio
1994	67.9%
1995	48.4%
1996	87.2%
1997	49.6%
1998	45.8%
1999	46.9%
2000	55.1%
2001	56.6%
2002	51.1%
2003	59.4%
2004	55.2%
2005	50.1%

Homeowners insurance losses often are tied to the frequency and severity of weather related (see Exhibit 14) and catastrophic events. In 2005, although there was an increase in Massachusetts snowfall, there were the same number of catastrophes as there were last year. Overall non-weather related causes of loss have generated fewer sharp increases in losses[25] and claims from year-to-year, whereas the weather-related causes of loss often show more significant fluctuations from year-to-year (Exhibit 10).

The total market overall loss ratio for 2005 of 50.1% can be further examined according to the following types of homeowners policy forms:

Form	Loss Ratio
Condominium	43.5%
Dwelling	51.3%
Renter	19.3%
All	50.1%

From a review of the voluntary market and MPIUA (FAIR Plan) portions of the overall 2005 loss ratio results (Exhibits 5 & 6), it appears that the voluntary market carriers had more favorable experience than did the FAIR Plan. The 2005 loss ratios for the voluntary market and FAIR Plan were 48.1% and 65.5%, respectively, with the loss ratio for the FAIR Plan approximately 17.4% percentage points higher than the loss ratio for

[25] Fire losses are an exception to this in so far as fires involving multiple dwellings can significantly impact losses for the year.

the voluntary market carriers. This is not surprising or unexpected since the FAIR Plan must take all risks, even those turned down by the voluntary market, and subsidies in the FAIR Plan rates result from statutorily required rate setting practices.

A closer look at the loss ratios for the FAIR Plan owner forms by territory[26] (Exhibits 5 & 6) indicates the following:

Massachusetts Homeowners Insurance Loss Ratios
All Owners Forms

Territory	Territory Description	2002-2004 FAIR Plan Mkt. Share	2005 Loss Ratios Vol. Market	FAIR Plan
2	Boston - District A	44.1%	37.9%	53.6%
3	Boston - District B	4.9%	20.2%	15.4%
4	Boston - District C	68.9%	76.9%	52.9%
5	Suffolk (except Boston)	30.1%	43.4%	80.3%
11	Boston – (except Districts A, B & C)	16.1%	29.0%	73.1%
12	Brookline	2.4%	50.4%	97.0%
30	Quincy	11.7%	45.1%	44.8%
31	Norfolk (except Brookline & Quincy)	3.2%	61.4%	67.8%
32	Fall River	16.7%	56.4%	49.0%
33	New Bedford	24.8%	46.5%	84.1%
34	Bristol (except Fall River & New Bedford)	5.8%	50.7%	52.9%
35	Brockton	23.6%	54.1%	70.7%
36	Plymouth (except Brockton)	10.1%	62.6%	102.9%
37	Barnstable, Dukes and Nantucket	19.7%	30.4%	43.0%
38	Lawrence	45.8%	72.2%	53.6%
39	Lynn	25.1%	40.5%	58.4%
40	Essex (except Lawrence & Lynn)	4.8%	52.0%	54.2%
41	Cambridge & Somerville	6.2%	46.4%	44.4%
42	Lowell	14.6%	40.9%	155.7%
43	Newton	2.2%	50.5%	59.9%
44	Middlesex Remainder	2.8%	48.1%	99.9%
45	City of Worcester	13.5%	51.0%	72.5%
46	Worcester (except City of Worcester)	3.8%	53.0%	91.4%
47	Springfield	13.3%	52.0%	99.0%
48	Chicopee & Holyoke	6.4%	68.0%	141.5%
49	Hampshire & Remainder of Hampden	3.8%	48.2%	85.9%
50	Berkshire & Franklin	4.7%	52.7%	69.1%
	Statewide	**9.5%**	**49.4%**	**65.7%**

[26] The owner form, compared to the condominium form and tenant form, represents the largest market share in each territory.

The FAIR Plan results have slightly moderated across most territories shown above compared to 2003 and 2004 loss ratio results, when loss ratios for this form were 84.5% and 73.5%, respectively. As demonstrated in Exhibit 10, total market water damage & freezing claims increased 20.2%. There was also an increase in Boston's 2005 annual snowfall, a proxy for Massachusetts snowfall, as shown in Exhibit 14, page 1. The voluntary market results shown above give mixed results, with more territories' loss ratios lower and fewer territories' loss ratios higher than the 2004 results. However, the statewide voluntary market loss ratio for 2005 is the second lowest for the 2002-05 period (49.4% vs. 48.9%, 59.1% and 54.7%). This also shows that the overall voluntary market results are generally more consistent from year to year than the FAIR Plan results (65.7% vs. 101.8%, 84.5% and 73.5%) over the same period. However, this is not surprising given that FAIR Plan loss ratio data is not as highly credible from a statistical standpoint.[27]

The number of FAIR Plan earned house-years by territory is so low that the loss ratio experience can be expected to experience significant random fluctuations from year to year within individual territories. One example of this is territory 12 (Brookline). The voluntary market in 2005 had 12,758 total earned exposures that generated a total of 677 incurred claims. The FAIR Plan had 437 total earned exposures in the same territory that generated a total of 14 claims. It is not surprising in this territory that the FAIR Plan loss ratio dropped from 234.6% in 2004 to 86.3% in 2005 given this limited exposure and the resulting low credibility of the experience. Care should be exercised so as to not place too much weight upon any FAIR Plan individual territory loss ratio result for any one year since that loss ratio is likely to be based upon a relatively small number of house-years of insurance.

[27] Exhibits 5 & 6 show the Voluntary Market with approximately 1.66 million written house years and 84,265 claims and the FAIR Plan with approximately 158,978 written house years and 7,292 claims.

As expected, a comparison of 2004 and 2005 loss ratio experience by territory reveals more variability in the FAIR Plan than the voluntary market.

Changes in Massachusetts Homeowners Insurance Loss Ratios All Homeowners Forms

		Voluntary Market Loss Ratios All Forms		FAIR Plan Loss Ratios All Forms	
Territory	**Territory Description**	**2004**	**2005**	**2004**	**2005**
2	Boston - District A	46.2%	35.1%	81.4%	53.4%
3	Boston - District B	52.7%	31.8%	54.5%	31.1%
4	Boston - District C	47.0%	74.4%	81.5%	52.7%
5	Suffolk (except Boston)	52.1%	42.0%	85.3%	79.5%
11	Boston – (except Dists A/B/C)	35.9%	29.7%	70.8%	71.1%
12	Brookline	53.4%	41.5%	234.6%	86.3%
30	Quincy	53.9%	52.5%	45.7%	49.8%
31	Norfolk (except Brookline/Quincy)	51.4%	58.9%	84.4%	67.8%
32	Fall River	55.8%	55.1%	62.2%	49.4%
33	New Bedford	41.6%	45.6%	82.3%	83.3%
34	Bristol (except Fall River/New Bedford)	56.1%	50.1%	43.8%	52.5%
35	Brockton	59.5%	53.5%	83.1%	70.5%
36	Plymouth (except Brockton)	52.0%	61.6%	86.8%	104.9%
37	Barnstable, Dukes and Nantucket	59.8%	30.2%	62.1%	42.7%
38	Lawrence	31.2%	71.7%	52.8%	53.2%
39	Lynn	38.8%	39.9%	66.6%	58.9%
40	Essex (except Lawrence & Lynn)	53.7%	49.5%	82.8%	56.1%
41	Cambridge and Somerville	57.2%	44.0%	34.1%	44.3%
42	Lowell	63.2%	40.4%	225.7%	154.1%
43	Newton	70.3%	48.2%	59.9%	57.6%
44	Middlesex Remainder	55.1%	47.4%	46.5%	98.2%
45	City of Worcester	47.9%	50.5%	46.9%	72.7%
46	Worcester (except City of Worcester)	47.8%	51.8%	62.6%	90.1%
47	Springfield	51.4%	51.3%	102.4%	99.7%
48	Chicopee & Holyoke	50.9%	64.4%	39.0%	136.7%
49	Hampshire & Remainder of Hampden	51.8%	47.1%	90.1%	84.6%
50	Berkshire & Franklin	63.1%	51.9%	80.4%	68.6%
Total	Statewide	53.5%	48.1%	72.8%	65.5%

Cancellation & Nonrenewal in 2005

Under the provisions of M.G.L. c. 175, §4B, the Division collects information from the top twenty-five homeowners insurers[28] according to their share of the Massachusetts statewide written premium in the homeowners market and the FAIR Plan, all of whom are required[29]under Chapter 175, §4B to report to the Division a listing of policies in-force, total cancellations, and total nonrenewals for each zip codes designated by the Commissioner on a calendar year basis for policies written for the reporting period. (This requirement is detailed in Exhibit 2.)

Aggregate Cancellation/Nonrenewal Data

Information associated with total cancellations and nonrenewals for the noted companies are included within Appendix A-1 of this report, sorted by company and by zip code. Although the experience is different from one year to the next, the most prominent difference involves the number of nonrenewals that are associated with geographic withdrawals. The individual insurer listings and the MPIUA listing are detailed in Appendix A-1. The industry aggregate (top twenty-five insurers) listing of cancellations and nonrenewals by designated zip codes is shown in Appendix A-2.

It should be noted that the Division only collects information for certain zip codes which is not a complete picture of the Massachusetts market. This partial dataset is used in this analysis to present findings but the reader should be aware that it is not possible to draw conclusions from partial information because it may skew reported results and the Division will seek to adjust for this in future reports. Additional detail on cancellations and nonrenewals, including company explanations associated with cancellation and nonrenewals is included in the next sections.

As is shown at the end of Appendix A-2, the top 25 companies and the FAIR Plan reported that they had a total of 386,122 policies in-force in the designated zip codes as of December 31, 2005 with a total of 267,068 policies in-force in those zip codes identified as urban areas and 119,054 policies in force in those zip codes identified as coastal areas.

As is also illustrated in Appendix A-2, the top 25 companies and the FAIR Plan report that there were a total of 47,140 policies cancelled during 2005 in those areas identified as either urban or coastal areas. Of this total, 36,929 policies were cancelled in those zip codes identified as urban areas and 10,211 policies were cancelled in those zip codes identified as coastal areas. This total figure includes cancellations made by the policyholder, as well as those made by the insurer. It should be noted that under current law – M.G.L. c. 175 §99 - insurers may cancel policies for any reason within the first 59 days of the policy and following that period for the following more limited reasons:

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[28] Exhibit 20 provides a list of the 25 insurers, primarily insurer groups, that were writing homeowners insurance in Massachusetts in 2005 based on written premium data from the National Association of Insurance Commissioner's database for homeowners multiple peril. Some of these insurer groups are better known by the names of their individual insurance companies.

[29] Cancellation and nonrenewal data are not currently captured by any of the homeowners statistical plans.

(1) nonpayment of premium;
(2) conviction of a crime arising out of acts increasing the hazard insured against;
(3) discovery of fraud or material misrepresentation by the insured in obtaining the policy;
(4) discovery of willful or reckless acts or omissions by the insured increasing the hazard insured against;
(5) physical changes in the property insured which result in the property becoming uninsurable; or
(6) a determination by the commissioner that continuation of the policy would violate or place the insurer in violation of the law.

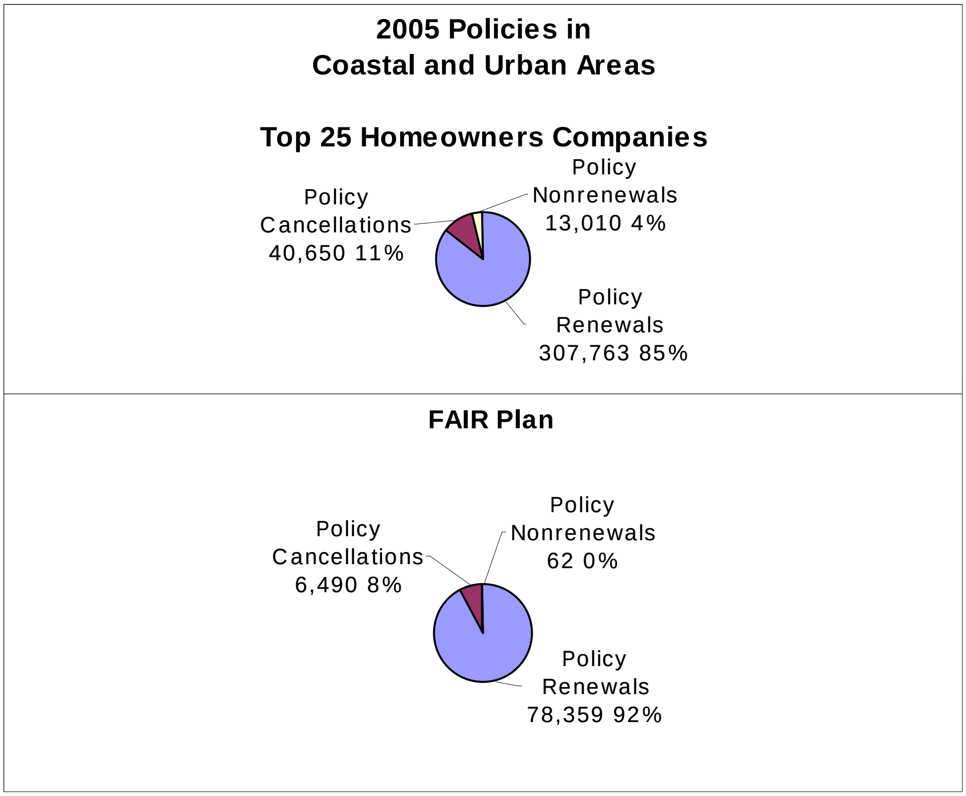
As is also illustrated in Appendix A-2, the top 25 companies and the FAIR Plan report that there were a total of 13,072 policies nonrenewed in the designated zip codes in 2005, with 4,036 policies nonrenewed in those zip codes identified as urban areas and the other 9,036 policies in coastal areas. (It should be noted that this information includes 62 FAIR Plan nonrenewals - 55 in urban areas and 7 in coastal areas - according to standards in the MPIUA Plan of Operations that permit the MPIUA not to renew certain properties).

Supplementary Information About Cancellations/Nonrenewals

For the first time this year, the Division requested that the top 25 companies and FAIR Plan provide information beyond what is required by statute to explain some of the reasons for cancellations and nonrenewals in the urban and coastal areas. In examining these cancellations, the Division asked whether cancellations were policyholder-initiated or insurer-initiated, and if insurer-initiated, whether they were made in the first 59 days (when an insurer may do so without reason under M.G.L. c. 175 §99) or were due to nonpayment or for other reasons permitted under the provisions of M.G.L. c. 175 §99 after the first 59 days of a policy. In examining nonrenewals, the Division requested information regarding the number of nonrenewals specifically associated with geographic concerns as opposed to those undertaken for any other reasons. Also, the Division requested information regarding prior claims for those who were renewed. This information can be reviewed in new appendixes labeled B-1 (cancellations), B-2 (nonrenewals), B-3 (claims history of persons renewed and nonrenewed in 2005).

Care should be exercised in drawing conclusions from one year's experience. Although the Division has investigated information that appears to be reported inconsistently, due to time constraints, it has not done a statistical audit to confirm compliance with requested information - reporting protocols. The information is presented to help the reader better understand the experience of the top 25 insurance companies and the FAIR Plan, where relevant, for future analysis and explanation of the Massachusetts homeowners insurance market.

The following chart represents a summary of what happened to policies in 2005 that were in-force as of the end of 2005.



Cancellations

According to Massachusetts statute (M.G.L. c. 175, § 99, clause 12), a homeowners insurance policy "shall be cancelled at any time at the request of the insured." Homeowners insurance companies may, however, only cancel an in-force policy prior to that policy's renewal date if they meet certain notification requirements [30] and only according to the following conditions:

> "after [a] policy has been in effect for sixty days, or after sixty days from the anniversary date, no notice of cancellation shall be effective unless it is based on the occurrence, after the effective date of the policy, of one or more of the following:
> (1) nonpayment of premium;
> (2) conviction of a crime arising out of acts increasing the hazard insured against;

[30] Under M.G.L. c. 175, § 99, clause 12, a "policy may be cancelled at any time by this company by giving to the insured a five days written notice of cancellation, and to the mortgagee to whom this policy is payable twenty days written notice of cancellation except where the stated reason for cancellation is nonpayment of premium where, in such instance, this policy may be cancelled at any time by this company by giving the insured a ten days written notice of cancellation, and the mortgagee a twenty days written notice of cancellation, with or without tender of the excess of paid premium above the pro rata premium for the expired time, which excess, if not tendered, shall be refunded on demand." It is further noted in this section that the "[n]otice of cancellation shall state said excess premium, if not tendered, will be refunded on demand and shall state or be accompanied by a statement of the specific reason or reasons for such cancellation." In addition, "[w]here the stated reason is nonpayment of premium, the insured may continue the coverage and avoid the effect of cancellation by payment at any time prior to the effective date of cancellation."

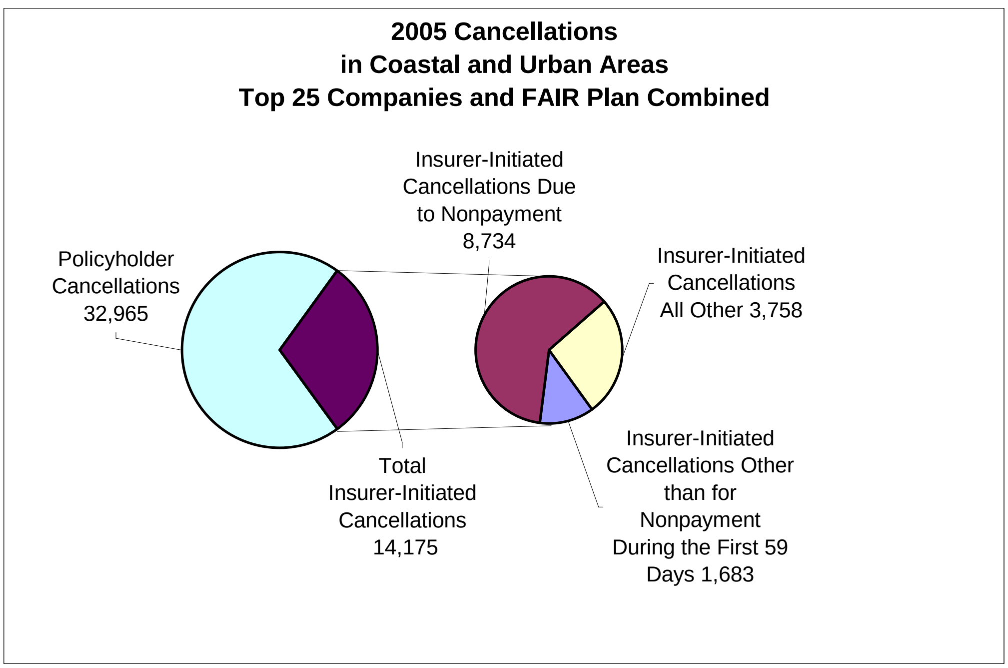
(3) discovery of fraud or material misrepresentation by the insured in obtaining the policy;
(4) discovery of willful or reckless acts or omissions by the insured increasing the hazard insured against;
(5) physical changes in the property insured which result in the property becoming uninsurable; or
(6) a determination by the commissioner that continuation of the policy would violate or place the insurer in violation of the law."

In order to help understand the nature of the cancellation information reported, the Division requested that companies distinguish between what is initiated by the insurer and what is initiated by the policyholder. The Division also requested in its survey that companies distinguish among insurer-initiated cancellations according to whether the cancellation was made:

(a) during the first 59 days (during which time the law permits the company to cancel a policy for any reason),
(b) for reasons of nonpayment or
(c) for any other reason, including the statutory reasons (identified in M.G.L. c. 175 §99) permitted after the first 59 days or for other administrative reasons.

As is indicated in Appendix B-1, in aggregate, the top 25 companies and the FAIR Plan reported:

- 47,140 cancellations during 2005;
  - 32,965 were initiated by the policyholder and
  - 14,175 were initiated by the company with
    - 1,683 initiated by the insurer in the first 59 days
    - 8,734 cancelled due to nonpayment; and
    - remaining 3,758 due to administrative terms or other reasons permitted by law.



From an examination of those policies that were in-force in those zip codes identified as urban areas:

- 11,810 cancellations were initiated by the company, with
    - 1,390 initiated in the first 59 days;
    - 7,188 cancelled due to nonpayment; and
    - the remaining 3,232 cancellations were made for other reasons permitted by law or administrative cancellations.

From an examination of those policies that were in-force in those zip codes identified as coastal areas:

- 2,365 cancellations were initiated by the company with
    - 293 with initiated in the first 59 days;
    - 1,546 cancelled due to nonpayment; and
    - the remaining 526 cancellations were made for were for other reasons permitted by law.

Nonrenewals

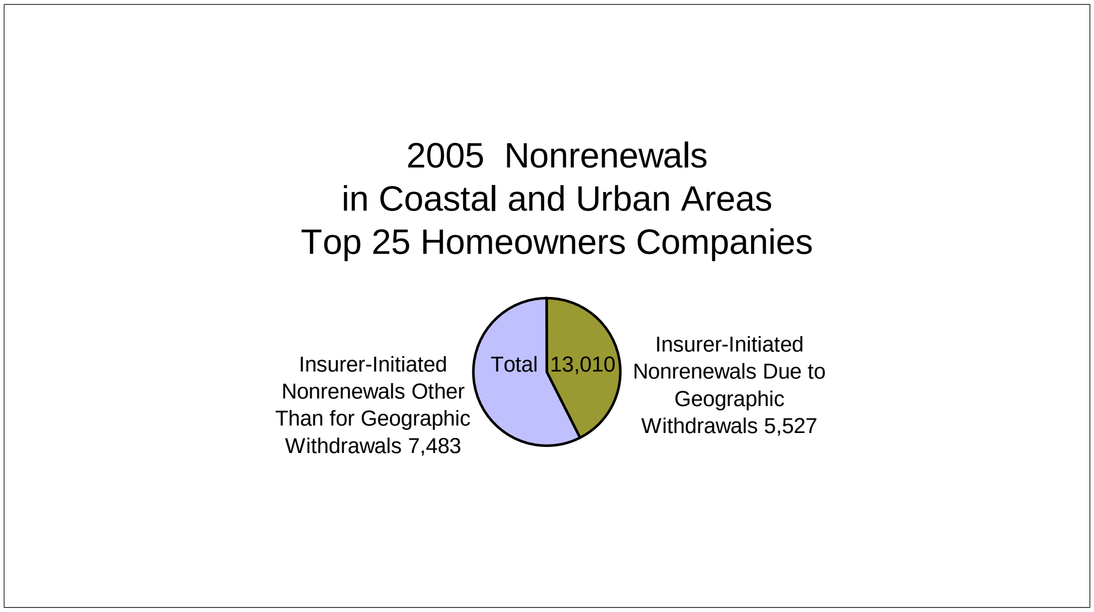
Homeowners insurance products are term products, almost always written with a one-year policy period. At the end of the one year period, insurance companies must decide whether to continue the coverage for another policy period or to nonrenew the policy. Although there are not any Massachusetts statutes that limit the reasons for the nonrenewal of coverage, the following is required under Massachusetts statute (M.G.L. c. 175, § 193P):

> "no policy providing protection against loss by reason of fire [including traditional homeowners insurance policies] to a dwelling or contents thereof shall be issued unless it contains a provision that the insurer will give written notice of its intent not to renew or reissue a policy to the insured at least forty-five days prior to the expiration of the policy which notice shall state or be accompanied by a writing stating the specific reasons for such decision."

In order to understand the nature of the reported nonrenewal information reported by the companies, the Division requested in its data survey that companies not include policies where a renewal offer was made and the policyholder did not accept the offer, instances where the policyholder requested that the policy not be renewed, and any nonrenewals connected to an agency that did not produce business for the company during the years 2003, 2004, and 2005 (This last group of nonrenewals may be based not on a policyholder's risk but on an administrative action.) Based upon the resulting information, the Division requested that companies identify which nonrenewals were made: (a) based on the risk of natural perils (*i.e.*, windstorm, hurricane) that are usually covered under the standard homeowners policy (such nonrenewals may generally be considered a withdrawal from a geographic area) or (b) based on any other reason.

As illustrated in Appendix B-2, the top 25 companies report that there were a total of 13,010 policies nonrenewed in the designated zip codes in 2005, with 5,527 nonrenewed as insurers withdrew from certain geographic areas and 7,483 nonrenewed for other reasons. (In addition to the top 25 company nonrenewals, the FAIR Plan did nonrenew

62 policies according to what is permitted within its Plan of Operations, including properties whose value exceeds the $1,000,000 cap for FAIR Plan covered properties.)



Of the reported 5,527 that were nonrenewed because the insurer decided to withdraw from a geographic area, 5,472 of the identified nonrenewals were due to withdrawal from a geographic area were in those zip codes identified as coastal areas, with the remaining 55 in zip codes identified as urban areas.

Of the reported remaining 7,483 nonrenewals for reasons other than a decision to withdraw from a geographic area, 3,557 were nonrenewals in those zip codes identified as coastal areas and 3,926 were nonrenewals in those zip codes identified as urban areas.

Claims History of Persons Renewed and Nonrenewed in 2005

In the 2005 survey, the Division asked the top 25 homeowners insurance companies to report the claims history of the above-noted persons who were either nonrenewed or renewed during 2005. In collecting the claims history for those persons renewed in 2005, the Division requested in its survey that the company report the number of claims reported and dollars of claims paid during each of 2003, 2004 and 2005. Similarly, in collecting the claims history for those persons nonrenewed in 2005, the Division requested that the company report the number of claims reported and dollar of claims paid during each of 2002, 2003, 2004 and 2005.

As illustrated in Appendix B-2, the top 25 companies report that there were a total of 13,010 policies nonrenewed in the designated zip codes in 2005, with 3,981 policies nonrenewed in those zip codes identified as urban areas and 9,029 policies nonrenewed in those zip codes identified as coastal areas. (The FAIR Plan was excluded from this chart because of the limited nature of FAIR Plan nonrenewal decisions.)

2005 Policies in Coastal and Urban Areas Top 25 Homeowners Policies						
	Renewed Policies[1]			**Nonrenewed Policies**[3]		
	Policies	Estimated Claims Filed per 1,000 Policies[2]	Average Claim Size	Policies	Estimated Claims Filed per 1,000 Policies[2]	Average Claim Size
Coastal + Urban[4]	307,763	75	4,440	7,483	302	8,953
Coastal	90,699	74	5,893	3,557	225	11,257
Urban	217,064	75	3,841	3,926	371	7,687

[1]Includes all Top 25 policies in force in urban and coastal areas as of 12/31/05 except policies that were issued in 2005. Does not include any FAIR Plan Policies.
[2]Excludes claims not closed by 12/31/05.
[3]Includes only nonrenewal policies in urban and coastal areas of the top 25 companies with the nonrenewal decision made for reasons other than geographic withdrawal. Does not include any FAIR Plan policies.
[4]Does not include approximately 1.2 million policies written by top 25 voluntary writers outside designated urban and coastal zip codes.

Of the reported 307,763 policies renewed by the top 25 homeowners insurance companies, there were an estimated 22,963 claims filed in 2003, 2004 and half of 2005 or an average of 75 claims filed per 1,000 policies that were renewed in 2005. Among these renewed policies, the top 25 homeowners insurance companies reported that they paid $126,468,253 for the claims that were filed in 2003, 2004 and 2005 by those who were renewed in 2005. The average claim size these claims was $4,440.

As can be seen, there were 74 claims filed per 1,000 coastal policies, as compared to 75 claims filed per 1,000 urban policies. In addition, the average claim size was $5,893 per claim for coastal policies, as compared to $3,841 per claim for urban policies.

Of the reported 7,483 policies nonrenewed by the top 25 homeowners insurance companies, there were a total of 2,257 claims filed in 2003, 2004 and the first half of 2005, or an average of 302 claims filed per 1,000 policies that were nonrenewed in 2005. Among these nonrenewed policies, the top 25 homeowners insurance companies reported that they paid $20,205,876 for the claims that were filed in 2003, 2004 and 2005 by those who were nonrenewed in 2005. The average size of these claims was $8,953.

For persons who were nonrenewed, there were 225 claims filed per 1,000 coastal policies, as compared to 371 claims filed per 1,000 urban policies. The average claim size was $11,257 per claim for coastal policies, as compared to $7,687 per claim for urban policies.

While it is true that the above-noted information does indicate that persons who have been nonrenewed on average have filed more claims and more expensive claims during the experience period, it is also noteworthy that a significant number of people who were renewed also filed claims, with 28,486 filed in 2003, 2004 and 2005; these persons received total payments of $126,468,253 for the claims they filed.

Under existing law, companies may nonrenew for any reason, thus they may tend to nonrenew those persons who on average have had more expensive claims history. However, this analysis demonstrates that these companies have renewed many people who have filed claims and received payments under their policies.

Premium & Loss Experience by Designated Zip Code

According to Chapter 175, § 4A, the FAIR Plan and statistical agents for Massachusetts homeowners insurance are required to submit premium and loss experience by designated zip code for the top twenty-five Massachusetts homeowners insurers designated by written premium each year. The Division has produced a 2005 aggregate premium and loss experience report for the top twenty-five insurers and the FAIR Plan for the designated zip codes in Appendix C.

Care should be exercised in drawing conclusions from one year's loss experience for a particular zip code. The data for most individual zip codes may not be 100% statistically credible. This means that one can expect significant random variation in the individual zip code loss experience from year to year. For example, the loss ratio for a particular zip code could be a favorable 25% in one year and an unfavorable 175% the next year. Focusing on the individual year experience from a good or bad year will not provide correct inferences regarding the underlying loss potential for an individual zip code. That being said, the overall total market loss ratio experience for the designated zip codes is 43.0%**.** This loss ratio result is approximately 11.8% lower than the 2004 loss ratio result of 54.8% for similar zip code areas.

This year's report also includes a summary comparison of urban and coastal writings by insurer (see Exhibit 21). This exhibit compares the number of individual insurer urban and coastal policies in-force in 2005 in the selected zip codes relative to each percent of statewide voluntary market share. This is one way to make an insurer-by-insurer comparison of the number of urban and coastal writings in the selected zip code areas.

In Exhibit 21, it is noted that only a few insurers are ranked near the top of the list who write policies in urban and coastal zip code areas by percent of voluntary market share. They are the Hingham Mutual Group (2nd & 2nd), the Providence Group (8th & 5th) and the Vermont Mutual Group (7th & 10th), in urban and coastal areas respectively. Other insurers ranked near the top in one of the two categories. In the urban category the Preferred Mutual Insurance Company (1st), Union Mut-VT (3rd) and the Arbella Insurance Group (4thth), represented some of the top urban writers by policies as a percentage of voluntary market share. In the coastal category the Barnstable Group (1st), New London County (3rd), the White Mountains Group (4th) ranked near the top. However, urban and coastal property continues to be a problem for some insurers. The Barnstable Group (25th), Chubb & Son, Inc. (24th), and the Allianz Group (23rd) had the lowest number of 2005 urban policies-in-force per percent of voluntary market share. The Andover Group (25th), the Commerce Group, Inc. (24th), and the Allianz Group (23rd) had the lowest number of 2005 coastal policies-in-force per voluntary market share.

Two insurers, the Allstate Insurance Group and New London County, moved into the top twenty-five homeowners insurer list and two insurers, the CNA Insurance Group and the Harleysville Group, moved out of the top twenty-five homeowners insurer list. The Allstate Insurance Group was added to the top twenty-five insurers list. CNA Insurance Group was removed from the top twenty-five insurers list primarily because it transferred the Encompass Insurance Company of Massachusetts to the Allstate Insurance Group.

The percentage changes among the top twenty-five homeowners insurers by overall voluntary market share ranges from -0.5% to +0.4%. The insurers that had the largest overall voluntary market share increases were Chubb & Son, Inc., the St. Paul Travelers Group, the Preferred Mutual Insurance Company and the Andover Group at +0.4%, +0.3%, +0.3% and +0.2%, respectively. The Allmerica Financial Corporation, the White Mountains Group, the Hingham Mutual Group and the Plymouth Rock Insurance Group showed the greatest voluntary market share decreases at -0.5%, -0.4%, -0.3% and -0.2%, respectively.

This year's report includes an exhibit that shows insurer urban and coastal nonrenewals as a percentage of urban and coastal policies in force (see Exhibit 22). This is one more way to make comparisons between insurers.

Exhibit 22 shows that the insurers that have the lowest percentage of insurer nonrenewals[31] of urban & coastal policies in force are the Allstate Insurance Group (0.10%), the Liberty Mutual Insurance Group (0.05%) and the USAA Group (0.13%). The insurers that are highest are the Andover Group (25.3%), the Hingham Mutual Group (11.64%), and the Plymouth Rock Insurance Group (9.26%).

If an insurer's rates are higher than the FAIR Plan premium rates in a particular urban or coastal rating territory, then the insurer may not get business in that territory because its rates are not competitive with the FAIR Plan. A review of Exhibit 19 shows that rates for a number of the top ten insurers in urban areas are higher than those offered by the FAIR Plan. Thus, in those territories insurers' rates are a disincentive for a potential insured to select a voluntary policy of the same type that is offered by the FAIR Plan. Again, if an insurer has no agents or production offices in urban or coastal areas, then it usually would have few policies in those areas.

[31]Nonrenewal percentages for purpose of this exhibit include both "Total Nonrenewals" and "Insurer Initiated Nonrenewals Co's Geographic Withdrawal" data in the calculation.

Coastal Property

When Hurricane Andrew struck southeastern Florida in 1992, it was a watershed event in the history of American property insurance carrying well beyond the southeastern United States area that experienced the physical impact of this hurricane. That catastrophe, along with the damage from the Northridge, California earthquake in 1994, and the costs of the terrorist attacks against the United States federal building in Oklahoma City in 1995 and against the World Trade Center and Pentagon in 2001, led the insurance industry to re-examine its property coverage exposure in relation to catastrophic occurrences.

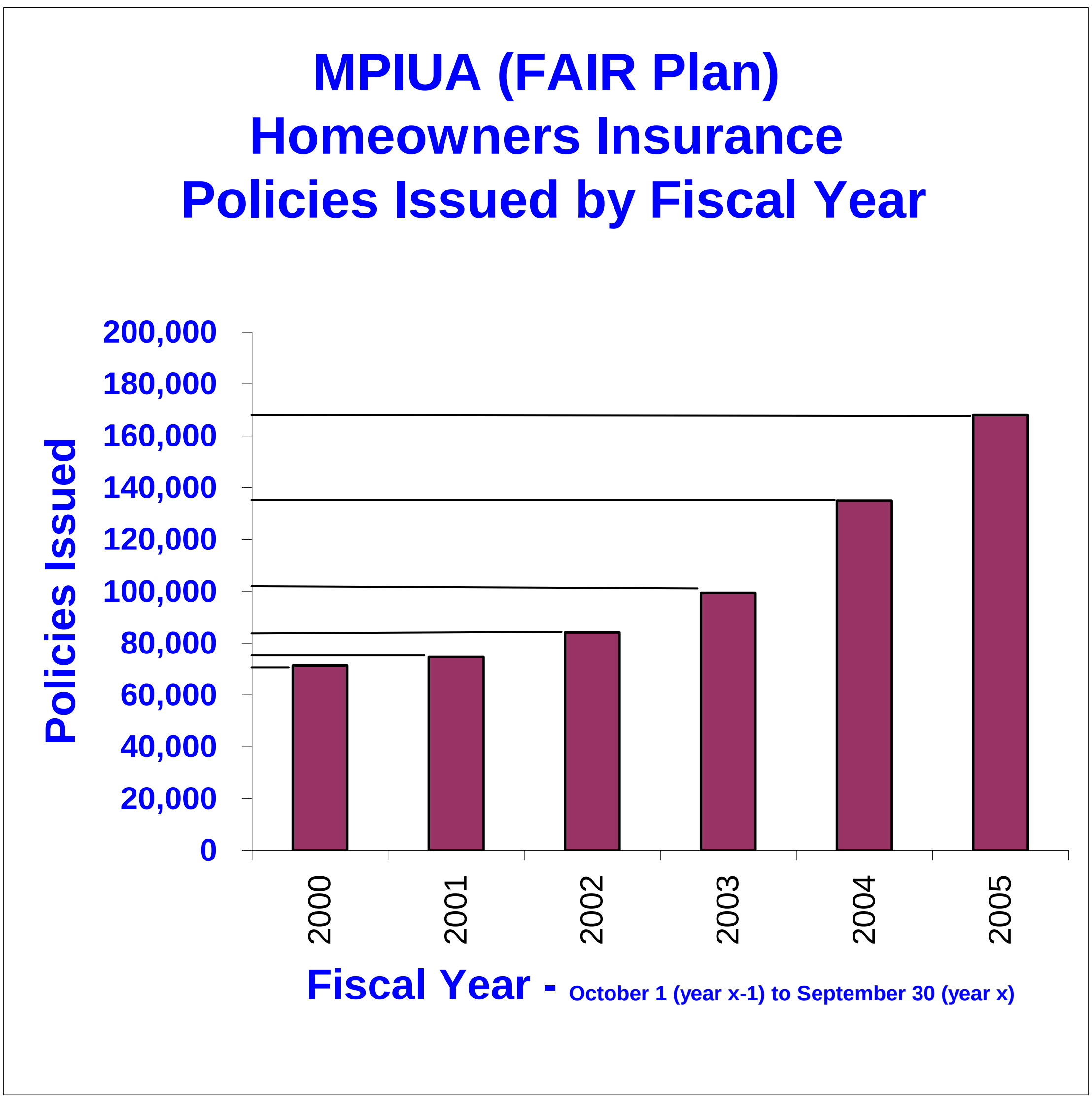
Following the noted catastrophic events, reinsurers increased general reinsurance rates and the number and price of catastrophe reinsurance contracts. While there were times in the 1990s, following Hurricane Andrew and the Northridge, California earthquake when there was excess capacity in the reinsurance markets and decreases in reinsurance costs from the high points following Andrew and Northridge, the terrorist attacks exposed vulnerability to additional reinsurance risks which led to the relative unavailability of reinsurance coverage. Scientists' and actuaries' subsequent development of revised catastrophe models, has fueled overall increase in the cost of reinsurance.

Property insurers are still feeling the effects of reported reinsurance price increases for the same or even less coverage. Additionally, most reinsurers are excluding losses resulting from acts of terrorism. While the terrorism exclusion by reinsurers may not have much direct impact on homeowners insurance, the reinsurance price increases, along with writing restrictions, *e.g.*, restrictions on coastal property or increased cost due to the level of coastal property, have direct impacts on the cost and availability of reinsurance coverage. Some reinsurers have even put restrictions on the level of reinsurance they will write for certain property insurers' with significant books of business in exposed areas. In Massachusetts, these are most notably in the coastal areas, especially in the Cape and Islands (Barnstable, Dukes and Nantucket Counties territory).

As a result of the changing availability and cost of reinsurance, many companies that have had significant numbers of policies in coastal areas have notified their customers that they are nonrenewing all policies in those areas. This is permitted by law, provided that the insurer provides at least 45 days advance notice to the policyholder or the policyholder's producer in advance of the nonrenewal. In 2004, the Division was notified that the Andover Group elected to nonrenew approximately 14,000 coastal policies in order to reduce its catastrophe exposure. During the past few years, the Division of Insurance has also been notified by a number of companies that they intended to nonrenew their coastal exposures. In addition to these nonrenewals, another insurance group – the Vesta Insurance Group - was put into receivership by the state of Texas during the summer of 2006, affecting approximately 5,300 Cape and Island policyholders. All of the affected policyholders could seek coverage from other companies offering homeowners coverage in this area, but most likely most of these affected policyholders found coverage through the Massachusetts FAIR Plan. The following catalogues the company withdrawals or receiverships and the estimated number of policyholders affected by the nonrenewals:

2004	Andover Group	14,000
2005	Patrons Mutual	1,400
	Preferred Mutual	600
	Vermont Mutual	5,000
	Hingham Mutual	8,000
	Quincy Mutual	7,000
	National Grange (NGM)	2,000
2006	Vesta Insurance Group	5,300

As the following chart demonstrates, the FAIR Plan's growth is directly tied to these sorts of nonrenewals with dramatic increases in number of covered persons beginning in 2004. Most parties who have transferred to FAIR Plan coverage have received virtually the same coverage as was available through a private insurance company.



Changing Features of Coastal Coverage

Wind Deductibles

The aftermath of Hurricane Andrew also saw the introduction of insurer-imposed wind deductibles and mandatory flood insurance requirements. Many homeowners insurers require all insureds or insureds located in certain coastal territories, such as Territory 37 (Barnstable, Dukes and Nantucket Counties), or insureds within 1,000 or 2,500 feet of the coast to have a minimum wind or hurricane deductible[32] that is either a flat dollar amount or a percentage of the covered dwelling amount. The FAIR Plan, for example, currently requires certain insureds to have a minimum wind percentage deductible of 1% to 5% (of the coverage amount for the dwelling and attached structures) or a minimum fixed dollar deductible of up to $5,000, depending on the property's county, distance from the coast and coverage A limit. In these situations, it is essential that consumers be given clear disclosures as to the coverage they have in the event of wind or hurricane loss. These disclosures are to be given to consumers before the consumer has placed coverage with the insurer and the Division has encouraged producers to obtain written acknowledgements.

Many homeowners insurers also require coastal insureds who may be susceptible to ocean storm surge to purchase federal flood insurance as an underwriting requirement. In this situation, the insured would have coverage and the insurer and the Federal Insurance Administration (FIA) could determine whether the homeowners insurance policy or the flood insurance policy is liable for the losses. In recent years, the FIA has encouraged having one adjuster for both claims to help streamline the claims process for insureds. Insureds who have mortgages owned by the Federal National Mortgage Association (Fannie Mae) are required to purchase flood insurance if the property is located in areas susceptible to storm surge or floods.

The federal government is working through the Federal Emergency Management Administration (FEMA) to help assure that properties damaged in natural disasters are rebuilt/repaired to strengthen their ability to sustain, or avoid, the next similar disaster. This means that homeowners policies will need to be able to provide coverage for the risk that rebuilding to the pre-loss condition (or even at the pre-loss location) might not be allowed. Stricter building codes are being encouraged by FEMA and the Massachusetts Emergency Management Administration (MEMA), (the state agency that works with FEMA on such matters). Both are also engaged in encouraging improvements in structures that would help mitigate losses.

[32] A wind deductible is a deductible that applies only to losses caused by wind.

Flood Insurance Exclusions
One of the problems related to ocean storm surge damage is the question of whether the loss was caused by wind that is a peril covered by the homeowners insurance or by ocean storm surge that is not covered by the homeowners insurance policy. In these cases, if the insureds have not purchased federal flood insurance, there is the potential of a homeowners company denial and no recovery for the loss. If the insured has both homeowners and flood insurance, then the insured will have coverage whether the cause of loss is determined to be wind or ocean storm surge. Hurricane Isabel is a good example of when this problem was an issue.

Use of Hurricane Models in Ratemaking
Prior to Hurricane Andrew, insurers used several decades of wind experience to determine an average excess wind factor to load into their rates. The purpose was to smooth out the effects of a catastrophic event such as a hurricane or tornado and prevented rate shock immediately following the catastrophic event. After Hurricane Andrew, insurers felt that the average excess wind methodology significantly understated the average wind load needed to compensate insurers for the potential catastrophic loss. This has led to the development of hurricane models in order to predict potential hurricane losses.

Hurricane models are proprietary computerized hurricane simulation models that combine multiple disciplines such as wind theory, meteorology, building engineering, historical enforcement of building codes, and financial theory. Although such models may be developed by differing researchers, hurricane models developed by a relative few modeling firms, such as Risk Management Services (RMS) and AIR are used by the majority of homeowners insurers and reinsurers. These models have been refined and recalibrated in recent years and continue to be used to evaluate the exposure to wind, especially in coastal communities.

In the Massachusetts market, as homeowners insurers evaluate their position in the market, they need to evaluate their exposure to Possible Maximum Losses (PMLs) as calculated through the hurricane simulation models. As the relative exposure becomes more apparent through the models, companies may decide to nonrenew coverage. If they instead decide to renew coverage, they may need to increase rates to account for the cost of paying for more and more expensive reinsurance to protect against the PMLs associated with catastrophic hurricane damage.

Cape Cod and Hurricanes
Because of the perceived increase in coastal hurricane risk, the Cape Cod and Islands area (composed of Barnstable, Dukes and Nantucket Counties) has needed to face a market with more expensive and reduced options for homeowners coverage. With the wealth of statistical experience that was derived from damage associated with Hurricane Andrew that struck south Florida in the early 1990s, experts have developed better and more sophisticated hurricane models that predict the probable maximum loss that would occur in the event of a catastrophic hurricane striking land. With the availability of more accurate topographic information and experience from recent hurricanes in Florida in 2005, the models are predicting greater potential losses across the eastern seaboard.

The Cape Cod and Islands area is situated in a vulnerable position geographically. Although most hurricanes strike in the Caribbean and Southeastern United States, if a hurricane does proceed beyond Cape Hatteras in North Carolina, and strikes land, based on historical records, it is much more likely to strike New England than the Mid-Atlantic States. There is also the likelihood that if it strikes the Cape Cod and Islands area the storm will stall off coast, as do many winter Northeasters, prolonging the incident and causing more catastrophic damage. In addition, the development of expensive homes along the shore in the Cape Cod and Islands area, the presence of many trees in that area rooted in relatively sandy soil, and the difficulty in transporting materials to repair damaged property, has produced a situation in which possible losses in the Cape Cod and Islands area could be tremendous in the instance of a category 4 or 5 hurricane.

Despite the possibility of enormous losses, many residents are unaware of the real risk of such a storm. While forecasters predict that locales such as Florida should prepare for a category 4 or 5 storm at least once per decade, they predict, based on historical patterns, that Massachusetts may see such a storm only once per century. While many seniors recall the fury of the Hurricane of 1938 and the destruction in eastern New England, it is a faded memory for most New Englanders. Many cities and towns have therefore not taken the precautions that could reduce their exposure to the so-called "storm of the century". It is in this environment, in spite of recent newsworthy losses in New Orleans and Port Arthur, Louisiana from Hurricanes Katrina and Rita, that many residents of the Cape Cod and Islands area are unaware of the potential risk of hurricane damage.

Although policyholders may not fully understand their exposure, homeowners insurance companies have been forced to recognize these risks, because the advent of the new hurricane models have predicted substantially greater potential costs in the Cape Cod and the Island areas than formerly contemplated. In order to reduce their potential exposures, these homeowners insurance companies need to purchase reinsurance from private reinsurers. They have found that they need to buy more and more expensive reinsurance in order to maintain their financial strength ratings. Insurance companies can either pass their increased costs along to their policyholders or decide to reduce the number of covered exposures.

As noted above, the following companies notified the Division of Insurance during 2005 that they would nonrenew Cape Cod homeowners policies citing their concerns about increased hurricane exposure in coastal areas:

2005

Patrons Mutual	1,400
Preferred Mutual	600
Vermont Mutual	5,000
Hingham Mutual	8,000
Quincy Mutual	7,000
National Grange (NGM)	2,000

There are no state laws that require homeowners insurance carriers to offer coverage in any area or to continue to cover properties following a renewal date. Instead companies are only required to provide 45 day advance notification to policyholders so that they may secure other coverage either through the voluntary market or the FAIR Plan. As a short-term solution, most of the nonrenewed policyholders found replacement coverage from the Massachusetts Property Insurance Underwriting Association, also known as the MPIUA or the FAIR Plan.

In Massachusetts, the FAIR Plan is considered the insurer of last resort, since it will cover most properties that are not picked up by other homeowners insurance carriers. Coverage available through the FAIR plan is, generally, identical to what is available in the voluntary market, and the rates charged by the FAIR Plan have been statutorily constrained. The result of this has been that the Plan is competitive with the voluntary market. Within the past year, mostly due to the policy nonrenewals along with its competitive coverage and rates, the FAIR Plan has doubled its Cape Cod and Islands exposures. Although this increase in FAIR Plan writings would seem not to affect policyholders, it does concern homeowners insurance companies that make up the Association. If the FAIR Plan has a fiscal year underwriting loss, all other homeowners carriers will be assessed for the FAIR Plan losses; any such assessments would be ultimately passed along to insureds in the form of rate increases.