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NEW MEXICO PROPERTY/CASUALTY COMPETITIVE MARKET ANALYSIS

2007 Edition

Purpose

This analysis of the competitiveness of various property/casualty markets in New Mexico has been performed to comply with the mandate of [Section 4 of Senate Bill 483] of the Insurance Rate Regulation Law. We intend to enhance and update this report annually. The determination of the markets that lack a reasonable degree of competition matters since the rates in those markets will require the prior approval of the Superintendent.

Markets Considered

Since this report represents the Insurance Division's initial effort at formally analyzing marketplace competition, we have restricted our analysis to those Annual Statement lines whose aggregate New Mexico statistics are readily available to us from the National Association of Insurance Commissioners (NAIC). It should be noted that this relatively high level of analysis can produce competitive indications in lines such as Other Liability that may conceivably contain types of insurance that are not competitive. It can also produce, for a given line, competitive indications on a statewide basis but noncompetitive indications on a territorial (e.g. rural vs. urban) basis. For this reason we intend to explore markets at subline and territorial levels in future annual reports.

Factors Considered

A wide variety of factors are (in theory) available to the Superintendent for his analysis of competition, including such considerations as market share, profitability, rate differentials among competitors, ease of entry and exit to and from the market, and competitive measurements statistics such as the Herfindahl-Hirschman Index (HHI).

For this initial report we have chosen to focus our analysis on factors readily obtainable to us from the NAIC database. These factors include the raw and normalized Herfindahl-Hirschman Indexes, the market share of the top competitors, the number of competitors, and the level of entry and exit activity. Furthermore, we chose to define affiliations of insurers as single rather than multiple competitors in recognition of their common ownership and control.

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Lines Examined in Detail

As a preliminary step we generated HHIs and top competitor market shares by product line for calendar year 2006, as shown in Exhibit A. We focused on lines with HHIs above 1800, with top competitor market shares above 33% and/or with combined top four competitor market shares above 75%. Based on this preliminary analysis we selected the following lines to examine in further detail: farmowners multiple peril, medical malpractice, credit, boiler & machinery, multiple peril crop, mortgage guaranty, and financial guaranty.

Markets with Non-Competitive Indications

Exhibits B.1 through B.7 show the results of our detailed analyses of these seven lines. Based on our observation and consideration of the factors shown, we find that the following markets lack a reasonable degree of competition and should be subject to prior approval rate filing: farmowners multiple peril, medical malpractice, credit, and mortgage guaranty.

NEW MEXICO
PROPERTY/CASUALTY COMPETITIVE MARKET ANALYSIS

Calendar Year 2006 Data

<u>Line</u>	<u>Direct Written Premium (\$000s)</u>	<u>Number of Groups Writing in NM</u>	<u>Average Written Premium per Group</u>	<u>Market Share of Top Group</u>	<u>Market Share Top 4 Group</u>	<u>HH Index</u>	<u>Normalized HH Index</u>	<u>Examine in Further Detail?</u>
Farmowners MultiPeril	18,931	15	1,262	49.0%	81.3%	2898	2391	YES
Medical Malpractice	47,442	34	1,395	43.8%	76.3%	2335	2103	YES
Credit	2,905	11	264	46.2%	78.8%	2673	1940	YES
Boiler & Machinery	5,491	33	166	33.9%	78.6%	2079	1832	YES
Workers Comp	278,619	86	3,240	32.1%	62.1%	1500	1400	NO
Homeowners MultiPeril	306,835	41	7,484	25.6%	68.9%	1480	1267	NO
Ocean Marine	1,354	22	62	26.4%	62.1%	1337	924	NO
Personal Auto	1,020,155	54	18,892	20.0%	55.9%	1022	853	NO
MultiPeril Crop	14,477	10	1,448	23.3%	80.5%	1767	852	YES
Fidelity	3,733	34	110	20.8%	59.3%	1114	844	NO
Aircraft	11,332	21	540	23.5%	64.1%	1269	833	NO
Burglary & Theft	518	29	18	18.5%	58.1%	1060	740	NO
Fire	31,218	76	411	19.2%	45.9%	757	633	NO
Surety	35,999	74	486	15.2%	46.5%	734	607	NO
Mortgage Guaranty	29,719	8	3,715	23.5%	75.6%	1752	574	YES
Other Liability	192,618	158	1,219	13.5%	38.4%	516	456	NO
Inland Marine	65,556	104	630	10.1%	37.2%	545	453	NO
Product Liability	14,012	55	255	13.6%	37.3%	597	422	NO
Commercial MultiPeril	209,971	83	2,530	11.7%	34.8%	529	413	NO
Allied Lines	33,041	80	413	10.9%	34.2%	503	382	NO
Commercial Auto	184,062	96	1,917	8.4%	29.9%	417	316	NO
Financial Guaranty	6,689	6	1,115	25.1%	81.7%	1927	312	YES
All Other P&C Lines	50,872							
Total All Lines	2,565,549	271	9,467					

Note: All data is from NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: FARMOWNERS MULTIPERIL

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	10,985	11,756	12,289	13,001	14,482	14,502	16,551	17,569	18,360	18,931	
Number of Groups Writing	19	19	15	16	15	16	16	15	14	15	
Average Written Premium per Group	578	619	819	813	965	906	1,034	1,171	1,311	1,262	948
Number of Groups Entering	N/A	2	3	2	1	2	1	1	0	1	
Entry Ratio	N/A	10.5%	20.0%	12.5%	6.7%	12.5%	6.3%	6.7%	0.0%	6.7%	9.1%
Number of Groups Exiting	2	7	1	2	1	1	2	1	0	N/A	
Exit Ratio	10.5%	36.8%	6.7%	12.5%	6.7%	6.3%	12.5%	6.7%	0.0%	N/A	11.0%

Market Shares

Raw Herfindahl-Hirschman Index	1867	1884	2038	2298	2430	2501	2658	2875	2768	2898	2422
Normalized Herfindahl-Hirschman Index	1415	1433	1470	1784	1889	2001	2169	2366	2211	2391	1913
Market Share of Top Group	35.4%	35.5%	37.6%	38.3%	37.2%	44.4%	45.8%	48.9%	47.6%	49.0%	42.0%
Identity of Top Group	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	Iowa Farm Bureau	
Market Share of Top Four Groups	73.2%	73.1%	76.8%	83.3%	85.3%	81.2%	82.6%	81.4%	79.6%	81.3%	79.8%

Observations

- Herfindahl-Hirschman Indexes: Both raw and normalized indexes are high and are increasing.
- Number of Competitors: Reasonable number of competitors for the premium volume.
- Entrance and Exit Ratios: Somewhat low.
- Dominance of Top Groups: Dominance of the top group, Iowa Farm Bureau, has grown to almost half the market.

Indication: Non-Competitive

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: **MEDICAL MALPRACTICE**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	28,662	33,100	31,520	27,432	31,307	39,742	39,541	44,474	46,668	47,442	
Number of Groups Writing	32	33	35	33	34	32	34	32	33	34	
Average Written Premium per Group	896	1,003	901	831	921	1,242	1,163	1,390	1,414	1,395	1,116
Number of Groups Entering	N/A	4	9	1	4	4	3	4	4	2	
Entry Ratio	N/A	12.1%	25.7%	3.0%	11.8%	12.5%	8.8%	12.5%	12.1%	5.9%	11.6%
Number of Groups Exiting	3	7	3	3	6	1	6	3	1	N/A	
Exit Ratio	9.4%	21.2%	8.6%	9.1%	17.6%	3.1%	17.6%	9.4%	3.0%	N/A	11.0%

Market Shares

Raw Herfindahl-Hirschman Index	1791	2086	2090	1796	1839	1548	2129	2549	2479	2335	2064
Normalized Herfindahl-Hirschman Index	1526	1838	1858	1540	1591	1275	1890	2308	2244	2103	1817
Market Share of Top Group	29.2%	34.9%	35.7%	30.3%	29.1%	28.5%	40.8%	45.8%	46.1%	43.8%	36.4%
Identity of Top Group	AP Capital	Zurich	Zurich	AP Capital	AP Capital	AP Capital	AP Capital	AP Capital	AP Capital	AP Capital	
Market Share of Top Four Groups	75.6%	80.4%	79.6%	76.8%	75.0%	70.0%	72.2%	79.0%	75.4%	76.3%	76.0%

Observations

- Herfindahl-Hirschman Indexes: Both raw and normalized indexes are high and have increased noticeably since 2004.
- Number of Competitors: Reasonable number of competitors for the premium volume.
- Entrance and Exit Ratios: Somewhat low.
- Dominance of Top Groups: AP Capital, which specializes in physicians & surgeons, has increasingly dominated the market since 2000.

Indication: **Non-Competitive**

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: **CREDIT**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	1,474	1,326	864	1,291	855	1,392	1,868	2,483	3,035	2,905	
Number of Groups Writing	17	16	11	12	12	11	13	12	13	11	
Average Written Premium per Group	87	83	79	108	71	127	144	207	233	264	140
Number of Groups Entering	N/A	2	1	2	3	2	2	2	1	2	
Entry Ratio	N/A	12.5%	9.1%	16.7%	25.0%	18.2%	15.4%	16.7%	7.7%	18.2%	15.5%
Number of Groups Exiting	3	6	1	3	3	0	3	0	4	N/A	
Exit Ratio	17.6%	37.5%	9.1%	25.0%	25.0%	0.0%	23.1%	0.0%	30.8%	N/A	18.7%

Market Shares

Raw Herfindahl-Hirschman Index	1312	1051	1619	2344	2127	2261	2926	3806	2600	2673	2272
Normalized Herfindahl-Hirschman Index	769	454	781	1648	1412	1487	2336	3243	1983	1940	1605
Market Share of Top Group	21.6%	17.6%	24.9%	38.7%	35.1%	40.8%	47.3%	56.3%	44.2%	46.2%	37.3%
Identity of Top Group	Orion Capital	Orion Capital	HSBC	HSBC	HSBC	HSBC	American National	American National	American National	Allstate	
Market Share of Top Four Groups	64.9%	52.3%	73.8%	84.6%	83.9%	76.9%	84.7%	90.2%	82.5%	78.8%	77.3%

Observations

- Herfindahl-Hirschman Indexes: Both raw and normalized indexes are high and have increased substantially since 2003.
- Number of Competitors: High number of competitors for the premium volume.
- Entrance and Exit Ratios: Reasonable.
- Dominance of Top Groups: Since 2003 the top group has controlled almost half the market.

Indication: Non-Competitive

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: **MORTGAGE GUARANTY**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	14,056	15,948	17,420	19,979	22,804	25,359	26,921	28,562	29,098	29,719	
Number of Groups Writing	8	8	7	7	8	8	8	8	8	8	
Average Written Premium per Group	1,757	1,994	2,489	2,854	2,851	3,170	3,365	3,570	3,637	3,715	2,940
Number of Groups Entering	N/A	0	0	0	1	0	0	0	0	1	
Entry Ratio	N/A	0.0%	0.0%	0.0%	12.5%	0.0%	0.0%	0.0%	0.0%	12.5%	2.8%
Number of Groups Exiting	0	1	0	0	0	0	0	0	1	N/A	
Exit Ratio	0.0%	12.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.5%	N/A	2.8%

Market Shares

Raw Herfindahl-Hirschman Index	1714	1572	1721	1722	1748	1771	1810	1806	1791	1752	1741
Normalized Herfindahl-Hirschman Index	530	367	341	343	569	595	640	636	618	574	521
Market Share of Top Group	24.5%	21.5%	21.3%	22.2%	23.0%	24.8%	26.7%	25.5%	25.4%	23.5%	23.8%
Identity of Top Group	GE Global	MGIC	Radian	Radian	Radian	MGIC	MGIC	MGIC	MGIC	MGIC	
Market Share of Top Four Groups	73.8%	69.9%	75.2%	74.4%	74.6%	74.2%	75.2%	76.3%	75.4%	75.6%	74.5%

Observations

- Herfindahl-Hirschman Indexes: Borderline raw index, low normalized index.
- Number of Competitors: Small number of competitors for the premium volume.
- Entrance and Exit Ratios: Very low.
- Dominance of Top Groups: MGIC and Radian consistently dominate the market.

Indication: Non-Competitive

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO PROPERTY/CASUALTY COMPETITIVE MARKET ANALYSIS

Type of Insurance: **BOILER & MACHINERY**

<u>Competitor Entries and Exits</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>10-Year Average</u>
Direct Written Premium (\$000s)	2,724	3,096	2,711	3,033	3,683	5,440	5,433	4,921	4,802	5,491	
Number of Groups Writing	28	29	29	27	26	37	34	31	34	33	
Average Written Premium per Group	97	107	93	112	142	147	160	159	141	166	132
Number of Groups Entering	N/A	5	5	4	2	12	2	5	7	5	
Entry Ratio	N/A	17.2%	17.2%	14.8%	7.7%	32.4%	5.9%	16.1%	20.6%	15.2%	16.4%
Number of Groups Exiting	4	5	6	3	1	5	8	4	6	N/A	
Exit Ratio	14.3%	17.2%	20.7%	11.1%	3.8%	13.5%	23.5%	12.9%	17.6%	N/A	15.0%

Market Shares

Raw Herfindahl-Hirschman Index	1802	1659	1738	1681	1721	1715	1739	1858	1961	2079	1795
Normalized Herfindahl-Hirschman Index	1498	1361	1443	1361	1390	1485	1489	1586	1717	1832	1516
Market Share of Top Group	37.9%	33.9%	29.5%	27.5%	31.8%	33.2%	31.6%	28.1%	35.0%	33.9%	32.2%
Identity of Top Group	Hartford Steam Boiler	Hartford Steam Boiler	Hartford Steam Boiler	AIG	FM Global	FM Global	FM Global	AIG	AIG	AIG	
Market Share of Top Four Groups	63.2%	66.7%	71.7%	71.3%	70.0%	71.9%	73.3%	75.9%	76.8%	78.6%	72.0%

Observations

- Herfindahl-Hirschman Indexes: Borderline raw and normalized indexes, increasing in recent years.
- Number of Competitors: High number of competitors for the premium volume.
- Entrance and Exit Ratios: Reasonable.
- Dominance of Top Groups: AIG and FM Global in competition for top group, with Zurich a strong third.

Indication: **Competitive**

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: **MULTIPERIL CROP**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	3,033	5,561	6,562	5,873	8,330	8,735	9,769	12,466	9,849	14,477	
Number of Groups Writing	9	10	8	8	10	10	10	11	9	10	
Average Written Premium per Group	337	556	820	734	833	874	977	1,133	1,094	1,448	881
Number of Groups Entering	N/A	1	1	1	2	2	2	2	1	1	
Entry Ratio	N/A	10.0%	12.5%	12.5%	20.0%	20.0%	20.0%	18.2%	11.1%	10.0%	14.9%
Number of Groups Exiting	0	3	1	0	2	2	1	3	0	N/A	
Exit Ratio	0.0%	30.0%	12.5%	0.0%	20.0%	20.0%	10.0%	27.3%	0.0%	N/A	13.3%

Market Shares

Raw Herfindahl-Hirschman Index	2679	2893	3097	2980	2563	1762	2106	1948	2037	1767	2383
Normalized Herfindahl-Hirschman Index	1764	2104	2111	1977	1737	847	1228	1143	1041	852	1481
Market Share of Top Group	35.3%	38.8%	41.2%	40.7%	41.1%	24.4%	29.1%	29.0%	34.0%	23.3%	33.7%
Identity of Top Group	Allianz	Allianz	ACE	ACE	ACE	Allianz Agri General	Allianz Agri General	Allianz	Allianz	American Agri	
Market Share of Top Four Groups	93.8%	90.2%	92.8%	93.1%	82.2%	77.8%	86.3%	80.9%	79.3%	80.5%	85.7%

Observations

- Herfindahl-Hirschman Indexes: High raw index but reasonable normalized index. Both indexes have decreased since 2002.
- Number of Competitors: Reasonable number of competitors for the premium volume.
- Entrance and Exit Ratios: Reasonable. Frequent entrance of strong competitors.
- Dominance of Top Groups: While Allianz has remained strong, there has been healthy turnover among the top groups.

Indication: **Competitive**

Note: All data is from the NAIC and is for New Mexico only.

NEW MEXICO P&C COMPETITIVE MARKET ANALYSIS

Type of Insurance: **FINANCIAL GUARANTY**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-Year Average
Competitor Entries and Exits											
Direct Written Premium (\$000s)	2,323	2,979	1,899	2,568	2,129	2,384	3,044	11,630	9,253	6,689	
Number of Groups Writing	5	4	4	6	4	4	6	5	7	6	
Average Written Premium per Group	465	745	475	428	532	596	507	2,326	1,322	1,115	851
Number of Groups Entering	N/A	0	0	2	0	0	3	1	2	0	
Entry Ratio	N/A	0.0%	0.0%	33.3%	0.0%	0.0%	50.0%	20.0%	28.6%	0.0%	14.7%
Number of Groups Exiting	1	0	0	2	0	1	2	0	1	N/A	
Exit Ratio	20.0%	0.0%	0.0%	33.3%	0.0%	25.0%	33.3%	0.0%	14.3%	N/A	14.0%

Market Shares

Raw Herfindahl-Hirschman Index	3607	6331	4215	2634	3422	2764	2381	3980	2616	1927	3388
Normalized Herfindahl-Hirschman Index	2009	5108	2286	1161	1229	352	857	2475	1385	312	1717
Market Share of Top Group	52.5%	78.5%	60.4%	35.0%	49.2%	34.6%	33.3%	55.6%	38.1%	25.1%	46.2%
Identity of Top Group	Ambac	Ambac	Ambac	Municipal Bond	Ambac	Municipal Bond	Ambac	Municipal Bond	Ambac	CFG	
Market Share of Top Four Groups	99.9%	100.0%	100.0%	88.6%	100.0%	100.0%	90.7%	99.9%	91.3%	81.7%	95.2%

Observations

- Herfindahl-Hirschman Indexes: High raw index, volatile normalized index.
- Number of Competitors: Reasonable number of competitors for the premium volume. Unusual premium volume behavior since 2004.
- Entrance and Exit Ratios: Reasonable. Strong entry by CFG at end of 2005.
- Dominance of Top Groups: New entrant CFG has overtaken historical rivals Ambac and Municipal Bond.

Indication: **Competitive**

Note: All data is from the NAIC and is for New Mexico only.