State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Office of Financial and Insurance Services
Frank M. Fitzgerald, Commissioner

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DATE: August 20, 2001

TO: Interested Parties

FROM: Frank M. Fitzgerald
Commissioner of the Office of Financial and Insurance Services

SUBJECT: Final Report and Certification Regarding the State of Competition in the Workers' Compensation Insurance Market and Commercial Liability Insurance Market

Pursuant to Public Act 8 of 1982 and Public Act 318 of 1986, I am submitting a consolidated final report on the state of competition in the workers' compensation insurance market and the commercial liability insurance market. The analyses and economic tests of data performed since publication of the preliminary reports on February 28, 2001 indicate that there have been no substantive changes in the results of such analyses and economic tests. Accordingly, I am adopting the above-referenced preliminary reports as the final reports on the state of competition in the workers' compensation and commercial liability insurance markets.

I am also submitting my certification as to the presence of workable competition in the commercial liability insurance market and the workers' compensation insurance market.

CERTIFICATION OF THE STATE OF
COMPETITION IN THE

WORKERS' COMPENSATION INSURANCE MARKET

I hereby certify that, based on the results of the economic tests specified in MCLA 500.2409, a reasonable degree of competition exists at this time in the Michigan workers' compensation insurance market.

Frank M. Fitzgerald
Commissioner of the Office of Financial and
Insurance Services

DATE: August 23, 2001

State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

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MEMORANDUM

DATE: February 28, 2001

TO: Interested Parties

FROM: Frank M. Fitzgerald
Commissioner of Financial and Insurance Services

SUBJECT: Preliminary Report and Certification Regarding the State of Competition in the Workers' Compensation Insurance Market

Attached is a copy of the preliminary report on the state of competition in the workers' compensation insurance market and my certification as to the presence of workable competition in the market during 2000.

This report and certification were prepared in accordance with the requirements of Section 2409 of the Michigan Insurance Code of 1956, as amended, MCL 500.2409; MSA 24.12409.

FMF/CJK/amf

Attachment

STATE OF MICHIGAN

DEPARTMENT OF CONSUMER & INDUSTRY SERVICES

OFFICE OF FINANCIAL AND INSURANCE SERVICES

THE STATE OF COMPETITION IN THE WORKERS' COMPENSATION INSURANCE MARKET PRELIMINARY REPORT 2000

By: Frank M. Fitzgerald

Commissioner of Financial and Insurance Services

Dated: February 2001

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EXECUTIVE SUMMARY

This report reviews and evaluates the state of competition in the market for Workers' Compensation insurance in Michigan. The report evaluates this market for calendar year 2000 as required by Act No. 8 of the Public Acts of 1982. Its purpose is to determine if competition in this market has ensured the availability of workers' compensation insurance and effectively restrained premiums to reasonable levels that are not excessive or unfairly discriminatory. Economic analysis was used to determine whether current market structure, conduct, and performance are conducive to workable competition.

On November 28, 2000, a public hearing was held to obtain public comment on the state of competition in the workers' compensation insurance. Three individuals attended the hearing. Jerry Stage, President of the Compensation Advisory Organization of Michigan (CAOM), provided oral and written testimony. Mr. Stage highlighted data showing that there is reasonable competition in the market for workers' compensation insurance.

Jon Heikkinen, Senior Vice President Data Services for CAOM, testified that carriers appear to have responded favorably to open ratings to the benefit of both carriers and employers. Evidence was presented showing competition is working in the workers' compensation insurance market. It was noted that information from the Data Collection Agency indicated a slight decline in rates, while the assigned risk rates edged higher.

Historically, businesses have not testified having difficulty finding an insurer, which appears to indicate that competition has worked to make workers' compensation insurance available at reasonable rates.

The significant variation in premiums indicates that insurers are not fixing premium rates. Such variation in premium rates should enable employers that shop around to avoid paying excessive premium rates.

The results of analysis and economic tests performed on data received in December 2000, continue to show that the market structure is conducive to workable competition in the workers' compensation insurance market. No single company or group of companies controls more than 15% the market. Concentration, as measured by the top 4, 8, and 20 insurers, continues to indicate an unconcentrated market. Aside from the market share of the top 20 groups, market share controlled by the top 4 and 8 companies and groups and the top 20 companies increased slightly in 2000.

Market conduct data (latest data available from "Michigan Workers' Compensation Status of Competition," Compensation Advisory Organization of Michigan, June 2000) show that there is significant variation in rates within classifications suggesting that rates are not being fixed. Employers that shop around should be able to reduce their insurance costs. Declining rates, on average, continue to reflect competitive pressures.

The Division of Insurance has observed that open competition has enabled employers shopping for insurance coverage to find competitively priced insurance. The evidence indicates that there is a reasonable degree of competition in the market for workers' compensation insurance. The survey of rate filings indicates that the workers' compensation insurance market may be approaching the end of the soft phase of the underwriting cycle. The small increases in the percentages of premium and payroll in the Placement Facility appears to support this conclusion.

Based on the results of the economic tests specified in MCL 500.2409, a reasonable degree of competition exists in the Michigan workers' compensation insurance market.

I. BACKGROUND

In 1982, the Legislature passed Public Acts 7 and 8, which established a competitive regulatory environment for workers' compensation insurance. These acts provide for price competition to be the principal regulator of rates. The legislation creates and maintains market conditions conducive to competition by:

(1) Allowing insurers to file rates and use them without first receiving approval from the insurance commissioner.

(2) Prohibiting cartel rate filings and abolishing rating bureaus.

(3) Allowing insurers to share only untrended loss cost information needed to make pricing decisions.

(4) Prohibiting insurers from requiring the purchase of other types of insurance as a condition for obtaining workers' compensation insurance.

A necessary part of the legislation is to evaluate competition in the workers' compensation insurance market to determine whether prices exceed a level consistent with a fair rate of return on investment to cost efficient insurers. The legislation directs the commissioner annually to evaluate the state of competition using relevant economic tests.

Theory of Competition

Economic theory provides that an industry is perfectly competitive only when the number of firms selling a homogeneous commodity is so large, and each individual firm's share of the market is so small, that no firm is able to affect the price of the commodity. In addition, under perfect competition, there are no barriers to the entry of new firms, i.e., resources can easily enter and exit an industry. Buyers and sellers must be fully informed about market conditions.

The long-run equilibrium outcome of a competitive market possesses three desirable properties that will ensure an optimal allocation of resources:

(1) The cost of producing the last unit of output -- the marginal cost -- is equal to the price paid by consumers for that unit.

(2) “Above normal" profits will be absent. Investors will receive a return just sufficient to induce them to maintain their investment at the level required to produce the industry's equilibrium output efficiently.

(3) Each firm will be producing at an output level where its average cost will be minimized.

Of course, the conditions for perfect competition are ideal. We would never expect to find these conditions fully satisfied in the real world. For this reason, we use workable competition as the standard by which to evaluate markets. A market could be considered workably competitive when it reasonably approaches the structural, conduct, and performance characteristics of perfect competition. We adopt workable competition as the standard in the workers' compensation insurance market.

The number of buyers and sellers and their size distribution, the extent of barriers to entry into the market, cost structures, the availability of information to buyers and sellers, and the degree of product differentiation determine market structure. Market conduct reflects the behavior of firms in pricing, setting output levels, designing products, advertising, innovation, and capital investment. Market performance refers to price, profit, and output levels, the degree of cost efficiency, and the rate of technological progress.

While the above conditions for perfect and workable competition apply to a static analysis, the underwriting cycle plays a role in the short-term performance of the property and liability insurance industry. The cycle is characterized by alternating periods of increasing and decreasing competition. Competitive or "soft" markets are characterized by falling rates, increasing availability, growing loss ratios, and diminishing surplus. These conditions eventually raise loss ratios sufficiently to cause insurers to raise their rates and reduce their volume, which ultimately restores profitability and surplus. This situation, in turn, spurs additional price-cutting, which continues the cycle.

Current data indicate that this market has been experiencing the softer phase of the underwriting cycle. This soft market is reflected in several ways. The pure premium indications for 1995 through the year 2000 are negative. The preliminary pure premium indications for 2001 are negative as well. Most of the rate filings since 1994 have been for decreases. Average observed premium rates have fallen since 1992. During the period from 1993 through 1998, all measures of overall market share of the assigned risk facility were down. In 1999, the percentages of policies and payroll in the assigned risk facility fell slightly while the percentage of premium rates edged higher. In 2000, the percentage of policies in the assigned risk facility declined slightly, but the percentage of premium in the facility increased nearly a full percentage point and the percentage of payroll moved slightly higher.

Given the uncertainties of the underwriting cycle, competition in the Michigan workers' compensation insurance market must be evaluated in a long-term context. Short-term increases in rate levels and profitability do not necessarily indicate a lack of competition if rates previously charged have not covered costs. A lack of competition would be indicated by a *sustained* period of excessive rates with no retrenchment to reasonable levels. The evidence indicates the market for workers' compensation insurance continues to experience the swings of the underwriting cycle. After a mildly hard phase, the market began to soften in 1994 and has remained soft through 2000. Competition has resulted in lowered rates following higher insurer profitability. To date, these reports have found premium rates to be neither excessive nor inadequate since the inception of open competition in 1982.

Discussion of the Statutory Criteria for Competition

The inclusion of the self-insured market and the assigned risk market is both conceptually and empirically problematic. Under Section 2409(3) of the Insurance Code of 1956, as amended, MCL 500.2409(3); MSA 12409(3), an insurer shall not be considered to control the workers' compensation insurance market unless it has more than a 15% market share. With respect to the 15% market share measure for the current report, there is no measure of premiums for self-insurers. Therefore, it is not possible to calculate the amended market share measure.

The concentration measures in this and previous reports do not adjust for the self-insured segment of the market. The economic study of markets requires information on both buyers and sellers participating in such markets. If the price of a good or service is above a buyer's demand schedule he or she will not purchase in the market. Potential buyers will seek either lower-priced substitutes or produce the good or service themselves.

A greater share of the market going to self-insurance could indicate that insureds believe premiums are too high. These perceptions could be erroneous if the high prices stem from the high cost of resolving liability claims that is not realized by those opting for self-insurance. The perception that premiums are too high could also be due to realized market inefficiencies. Employers opting to self-insure risk may have incorrect perceptions about costs or being forced into the placement facility if they return to the insurance market. Notwithstanding these risks, a significant number of employers are currently self-insured. Whether perceptions about high premiums are correct, more employers being self-insured may not bode well for competition. This means that evaluation of concentration of an insurance market requires that self-insurance be omitted from the calculations.

For similar reasons, the assigned risks associated with the placement facility probably should be excluded from market concentration measures used for regulatory purposes. Premiums for such assigned business are predetermined by formula and the business is reinsured and purchasing decisions are made by the assignment of 16.67% of premium to each of the six assigned risk carriers. Therefore, such placement facility business has little or no connection with the voluntary insurance market for workers' compensation.

The problems associated with the amendments to Section 2409(3)(a) leave the Division of Insurance in a quandary on how to interpret this concentration measure. Since the 15% figure was somewhat arbitrarily chosen, the Legislature could have simply raised the figure to a higher level. The only figures available to the Division of Insurance with respect to self-insureds are indemnity losses (no medical losses) that are reported by self-insurers to the Bureau of Workers' Disability Compensation, the number of companies self-insured, and estimates of the number of employees covered. If the concentration limit of 15% were simply raised by the percentage of indemnity losses attributable to self-insureds, 42-43% in recent years, the limit would be raised to 21 or 22%. It is suggested that the Legislature amend Section 2409(3)(a) to return it to the former language, substituting 21 or 22% for the 15% limit.

In the absence of some acceptable measure of self-insureds or guiding legislation, the Division of Insurance will use market share as a measure of competition.

Trends in Competition

This is the 18th preliminary report of the commissioner on the state of competition in the workers' compensation insurance market as required by the Public Act 8 of 1982. The final reports in 1992 and 1993 found evidence of a moderately hard market. Final reports for 1994 through 1999 showed evidence of market softening. The data for 2000 continue to indicate a soft market. Historically, the reports indicated that premium rates have not risen excessively in hard markets and insurance was readily available. All previous reports have concluded that the workers' compensation insurance market is reasonably competitive.

The data used in this report come primarily from reports provided to the commissioner by the designated advisory organization, the Compensation Advisory Organization of Michigan (CAOM), as required by R 500.1359. A public hearing addressing competition in the workers' compensation insurance market was held on November 28, 2000. Information and testimony gathered from that hearing were also used in preparing this report.

The remainder of the report is organized into four sections. The first section analyzes market structure. The second and third sections examine market conduct and performance, respectively, and each section will evaluate whether current conditions are consistent with a finding of workable competition. The final section presents conclusions with respect to the status of competition. All of the exhibits (and one chart) referred to herein can be found in Appendix A.

II. MARKET STRUCTURE

The first two economic tests for competition contained in Section 2409(3) deal with market structure. For calendar years since 1995, they are:

(a) The extent to which any insurer controls all or a portion of the workers' compensation insurance market. With respect to statewide competition, an insurer shall not be considered to control the workers' compensation insurance market unless it has more than a 15% market share.

(b) Whether the total number of companies writing workers' compensation insurance in this state is sufficient to provide multiple options to employers.

Size and Number of Insurers

Exhibits 1(a) and 1(b) identify preliminarily the 30 leading workers' compensation insurance carriers and affiliated insurer groups for calendar year 2000 and show their market shares of written premiums for 1990 through 2000.[1] Evaluation of insurer group market shares is more relevant when analyzing competition since carriers within a group are under common control and are not likely to compete with each other.

Exhibits 1(a) and 1(b) from this and prior reports reveal that no company or group had a market share in excess of 15% in any year other than 1989, 1990, and 1993. The time lags for reporting data to CAOM varied amongst reporting companies and biases measures of concentration. Larger, local insurers, especially The Accident Fund Company, tend to report data more quickly. The final share of The Accident Fund Company exceeded 15% in 1989, 1990, and 1993, but it had been explicitly exempted from the 15%

[1] Market shares for 1999 are based on total estimated annual premium as provided by CAOM. Market shares based on total estimated annual premium may vary from those based on either final audited premium or premium reported on page 14 of the annual statement.

statutory concentration cap as a state fund prior to its conversion to a private insurer in 1994.

In previous years, the Accident Fund Company's final market shares have been clustered around 15% after declining several percentage points from higher preliminary estimates. In the years 1990, 1991, 1992, and 1993, preliminary Accident Fund market share estimates were 21.7%, 20.5%, 18.3%, and 18.8%, respectively. The corresponding final numbers were 16.9%, 14.5%, 14.6%, and 15.1%, respectively, indicating an average decline of 4.4 percentage points. The Accident Fund Company's preliminary market shares in 1994 and 1995 were 18.5% and 16.9%, respectively, but registered under 15% in the final report.

A review of market share data shows that between 1990 and 2000, Michigan-domiciled insurers expanded their market shares. Michigan-based companies occupied five of the top 20 positions in 1990, peaked with 10 in 1995, and have nine in 2000. The market share of Michigan-based carriers in the top 20 in 2000 was 38.5%. The Accident Fund Company continues to be the largest insurer. This evidence suggests that no insurer controls the workers' compensation insurance market according to the criterion contained in Section 2409(3).

Although higher concentration tends to be associated with less competition, neither economic theory nor experience establishes a level of concentration at which competition is threatened or firms gain excessive market power. Exhibit 2 presents concentration ratios or the combined market shares for the top four, eight, and twenty carriers and groups for 1990 through 2000. Company and group data after 1990 show decreasing concentration through 1998. In 1999, apart from the slight increase in the share of the market controlled by the top four carriers, market shares continued to decline. In 2000, the market share numbers increased for all company and group categories except the share controlled by the top 20 groups which fell 3.2 percentage points. The group data in Exhibit 2 continues to show a relatively unconcentrated market not likely subject to uncompetitive behavior.

A review of preliminary data in Exhibit 3 indicates that 127 groups and 250 companies wrote workers' compensation insurance in 2000. These data indicate that employers had numerous workers' compensation insurance options. There had been some concern about the trend in the number of insurers in the market. In 1982, there were 115 groups with 231 individual carriers. After bottoming out in 1990, the number of carriers has trended higher and, in each year since 1996, the number of carriers has surpassed the number in 1982. This has occurred even with the recent consolidation of insurance groups.

The data suggest that no single insurer controls the Michigan workers' compensation insurance market and there are many competing insurers. The likelihood that the industry is sufficiently concentrated among the largest companies as to foster price collusion or otherwise limit their competition seems remote. Indeed, the continuation of the softening phase of the underwriting cycle indicates there is vigorous competition among companies.

Exit and Entry

Workable competition requires relatively low barriers to entry into the market. Entry into the Michigan workers' compensation insurance market should be relatively easy. Studies suggest that entry barriers into the property-liability insurance industry generally are not high. The physical facilities needed to produce insurance are not considerable and economies of scale appear to be moderate given the availability of a cheap and reliable source of loss cost information. This means that small carriers can be cost competitive with large carriers. Insurers can also use the same facilities to market several lines of insurance which facilitates entry into any line.

In practice, it is difficult to directly quantify the height of entry barriers. We can, however, review entry and exit data, to serve as an indirect and crude measure of entry barriers. If the workers' compensation insurance market is workably competitive, one would expect to find fairly significant entry and exit activity by companies. Aggressive competition would tend to result in a shakeout of inefficient firms while low entry barriers would facilitate entry by new firms. Growth in demand and above-normal profits will also encourage entry.

Exit and entry data for groups in the Michigan workers' compensation insurance market are shown in Exhibit 3. Rates of exit and entry are measured as a percentage of the previous year's groups. From 1990 to 1997 the number of carriers and groups in the market has trended higher, in spite of several group mergers. The preliminary data, which can be understated, show a small decline in the numbers of companies and groups in 2000. The number of new entrants into the market provides evidence that the existing barriers to entry in Michigan do not bar entry.

The figures in Exhibit 3 reveal significant entry and exit activity in the industry since 1990. Overall, the data show that there are 28 more insurer groups operating in the market in 2000 than in 1990. Since the trough in 1990, the number of groups has increased in spite of diminished insurer profitability in 1990 through 1992. Thus, the overall exit and entry pattern would be consistent with low entry barriers and workable competition.

Considering these factors, the structure of the workers' compensation insurance market in Michigan generally appears to be conducive to competition. With regard to the structural tests for competition contained in Section 2409(3), The Accident Fund's share exceeded 15% in 1990 and 1993. However, the Accident Fund's market share in 1994 through 1998 was less than the 15% and, since 1990, has declined each year through 1998, followed by small increases in 1999 and 2000. Overall, concentration is not high enough to warrant concern about competition. In addition, the level of entry into the market is consistent with a reasonable degree of competition.

Later sections examine whether the industry's conduct and performance show a competitive pattern.

III. MARKET CONDUCT

According to the structure-conduct-performance hypothesis, a competitive market structure should result in competitive conduct by sellers. Firms behave competitively when they independently and aggressively seek business by offering the most favorable terms to buyers while earning a normal profit. Noncompetitive conduct would be characterized by collusive behavior aimed at restricting output and fixing prices to raise profits. If workers' compensation insurers are behaving competitively, we should see no evidence of rate fixing or other kinds of tacit agreements or joint actions designed to limit competition.

Information from the last few years shows the market to be in an extended soft phase of the underwriting cycle. Over the last six years, the data shown in Exhibit 5 indicate filed rates are retreating, although a few insurers have increased their manual rates slightly in the last couple of years. Premium rates, as presented in Exhibit 6, rose to a peak in 1991 and have subsequently fallen each year. In Exhibit 7(a), data from 1995 through 1999 show that manual rates will fall in line with the decline in pure premium for several major insurers. Additionally, greater use of large deductible policies and premium discounts has further reduced premiums.

Testimony from the Compensation Advisory Organization of Michigan

Three individuals attended the hearing on the status of competition in the workers' compensation market on November 28, 2000: Jerry Stage, President of the Compensation Advisory Organization of Michigan (CAOM); Jon Heikkinen, Senior Vice President Data Services for CAOM; and Peter Dewan of the Michigan Construction Insurance Mutuals. Mr. Stage was the only person to provide oral and written testimony.

Mr. Stage highlighted data showing that there is reasonable competition in the market for workers' compensation. In a letter dated November 28, 2000 to Commissioner Frank M. Fitzgerald, Mr. Stage noted that the 2000 voluntary market share data indicate that no carrier controls more than a 15% share of the market. The data indicate that there were nine more carriers writing workers' compensation insurance in Michigan in 2000. Based on the data submitted, CAOM concluded that the workers' compensation insurance market continued to be competitive in 2000.

Mr. Stage's letter also referred to the percentage of payroll by classification in the residual market for the 30 classifications with the highest percentage of payroll in the Facility. CAOM's analysis indicated that the classifications having a high percentage of their payroll in the Facility were primarily limited to classes not underwritten by many carriers.

Mr. Heikkinen testified that carriers appear to have responded favorably to open rating, which has benefited both carriers and employers. Evidence was presented showing that competition exists in the workers' compensation market. It was also noted that information from the Data Collection Agency indicated a slight decline in rates, while the residual market rates edged higher.

Discussion of Market Conduct

The evidence on market conduct indicates small overall rate increases from 1990 to 1993 after which rates have trended lower. As the next section shows, competition for customers has not only led to decreasing premiums but also less restrictive underwriting practices. Insurers cite as evidence of vigorous price competition the loss of accounts to competitors, diminishing profit margins, and the significant disparity in rates.

The rate increases of the 1990 to 1993 period restored insurer profitability and improved surplus positions (to be discussed in detail below), which has improved availability. As reflected in Exhibit 8, since 1992, the amount of policies, payroll, and premiums in the placement facility declined each year through 1999. In 2000, the percentages of premium and payroll increased slightly while the percentage of policies in the Placement Facility fell. The Division of Insurance is not aware of any employers that have been unable to obtain quotes in the voluntary market for insurance due to restricted availability or more stringent underwriting practices.

That no firm testified at the November 28, 2000 hearing appears to indicate that the workers' compensation insurance market has not been a problem in the last year. The Division of Insurance has received few complaints, which may stem in part from the information and advice on workers' compensation insurance provided by the Bureau of Workers Disability Compensation and the Michigan Economic Development Corporation.

The variation in premium rates within classifications as presented in Exhibit 4 indicates that, as of year-end 1999, insurers were not fixing premium rates. Exhibit 4 presents final data for 1999 drawn from CAOM's "Michigan Workers' Compensation Status of Competition," June 2000. It is expected that CAOM will provide comparable data for 2000 in June 2001. The variation in premium rates means that employers that shop around should be able to avoid paying higher premiums. Based on the evidence on market conduct, it would appear that insurance is reasonably available and there is no indication that insurers' market conduct is not competitive.

IV. MARKET PERFORMANCE

According to economic theory, a competitive market will achieve an optimal allocation of resources. This means that the market price will equal the cost of producing the last unit of output, each firm will produce at a level of output where its average cost is minimized, and investors will receive a rate of return just equal to the cost of capital. In effect, a competitive market structure causes firms to behave competitively, which in turn leads to "good" market performance. If the Michigan workers' compensation insurance market is workably competitive, its performance should reasonably approach the perfectly competition ideal.

The remaining tests for competition specified in Section 2409(3) fall within the scope of market performance. Again, they are:

(a) The disparity among workers' compensation insurance rates and classifications to the extent that such classifications result in rate differentials.

(b) The availability of workers' compensation insurance to employers in all geographic areas and all types of business.

(c) The residual market share.

(d) The overall rate level which is not excessive, inadequate or unfairly discriminatory.

The remainder of this section will cover the variation in rates, the level of rates, the profitability of insurers, and the availability of insurance.

Variation in Manual Rates

Data were obtained on the distribution of manual rates actually charged on policies written in the 100 largest classifications, on the basis of payroll in 1999. Exhibit 4 shows the lowest rate charged, the highest rate charged, and the percentage of policies written at rates in each of five quintiles from low to high rates. For example, for a classification with a low rate of $5.00 and a high rate of $10.00, range 1 would include policies written at rates from $5.00 to $6.00, range 2 would cover policies written at rates from $6.00 to $7.00, etc.

Although the pattern of distribution revealed in Exhibit 4 is generally skewed towards lower rates, a number of policies are purchased at rates significantly exceeding the lowest rate. On average, 81.6% of all policies were written at rates within the lowest three divisions of the respective classifications. Most policies were written at rates in the lower-middle and middle ranges. The skewness (the extent and direction of the lack of symmetry in a distribution) toward lower rates has been diminishing since 1995. However, the mode of policies remains in the lower-middle range. Rates have become less centralized in the distribution with a more even dispersion of rates since 1995.

Exhibit 4 continues to show considerable variation in pricing. Uniform pricing has not continued under open competition. Employers with similar operations have continued to pay a variety of prices. On the surface, this may raise some concern. In the long run, competition should cause prices for a homogeneous commodity to converge around a level just sufficient to enable an efficiently run company to earn a fair return on investment. Here it appears that, for each classification, some employers are paying much higher manual rates than others.

There are several possible explanations for this variation in prices, none of which involve market failure. For example, variances in manual rates among carriers are substantially offset by differences in policies toward schedule credits, experience rating, premium discounts, and other rating adjustments.

Also, manual rate variances simply reflect that workers' compensation insurance is not a homogeneous commodity. Carriers with higher rates may offer additional services that other carriers do not provide. Experience and schedule rating may not fully accommodate insureds of varying risk. Hence, it is common for insurers to use preferred and standard carriers with different rates within the same group for this purpose. Finally, some variation in pricing is expected in a market that is subject to varying external forces that require adjustments by producers. These explanations are not inconsistent with workable competition.

Rate Levels

Since the inception of competitive rating, changes in the overall rate level in the workers' compensation insurance market has been of interest. The rate level was relatively easy to determine under uniform rating. Measurement of the rate level has become much more difficult now that carriers set their own rates. It is possible to measure changes in the rate level in several different ways. Each approach provides somewhat different information about the market.

One approach is to measure the overall change in the manual rates charged by insurers in the various classifications. The overall manual rate level changes filed by each carrier can be averaged to approximate the overall manual rate level change. This approach indicates movement in the "listed" or "posted" manual rate level. A survey of rate filings for the current top 20 carriers in Michigan since 1990 is shown in Exhibit 5. Since the Division of Insurance no longer tracks overall rate changes, data have been taken from reports produced by a private firm, the M & R Group, which tracks workers' compensation rates.

In Exhibit 5, the bottom two rows of averages represent the straight average of the current top 20 carriers and the straight average of the top 20 carriers as reported for each year. In the bottom row, there was a large 11.2 % increase in 1990. The 1990 increase was the largest after 1985. Widespread increases in 1992 resulted in average annual increases of 7.1 %. After 1992, rate increases began to decline, falling to 2.9% in 1994. In 1996, average filed rates fell 9.8%, which is the largest decline since the initiation of open competition. The downward trend in filed rates continued in 1998 and 1999 with reductions of 1.7% and 2.8%. In 2000, filed rates rose 1.2%.

The 1990 increase appeared to stem from insurers using the "indicated changes" in historical loss costs collected and published by the Data Collection Agency as a base for 1990 rate filings.

Manual rate increases from 1990 to 1993 reflect the most recent hard market. In 1993, the market began to soften as many insurers filed large reductions to remain competitive and maintain market share.
A problem with the above measure is that it only reflects changes in the manual rates filed by carriers and does not reflect changes in policies toward schedule credits and other adjustments of the manual premium. The above measure also does not indicate the manual rates or net premiums that employers are paying. If employers are shifting their business to carriers with lower rate structures, then the indicated "listed" rate level change will overstate the changes in the rates paid by employers. These considerations, of course, only arise with a competitive rating system in which carriers can charge different premiums for the same policy.

Another way to measure the rate level is to simply divide written premiums by covered payroll. This measure indicates the actual premiums that employers are paying for their workers' compensation insurance in relation to their payroll. In this respect, it reflects changes in the use of deductibles, schedule credits and other adjustments to the manual premium as well as how much increasing rates have caused employers to seek lower-priced insurers.

CAOM maintains comparable figures on the number of policies, written standard premium, manual premium and covered payroll for the period 1990 to 2000. These figures and average rates per $100 of payroll are set forth in the fifth column of Exhibit 6. The sixth column provides an index of average standard rates relative to the base year 1982. The last two columns show manual rates and the percentage difference between manual and standard premiums.

Data in Exhibit 6 vary somewhat between preliminary, final reports and subsequent final reports because of difficulties aggregating the data sent in by companies for each individual policy sold in the state. Estimated policy counts from policy declarations tend to run roughly 10% higher than actual policies written due to duplications where policy revisions occur. Since standard premium from earlier years excludes expense constants and premium discounts, it is slightly lower than total estimated annual premium from most recent years.

A problem with rates calculated as premiums divided by payroll, however, is that a shift in payroll toward higher-rated classifications would boost the average rate and overstate any increase in manual rates. For instance, a given employer might have to pay a higher premium, without a change in manual rates, if a change in operations shifts some of its payroll from lower- to higher-rated classifications. Such employer might pay a higher premium even though its payroll was unchanged.

Exhibit 6 data reveal that, after a brief spike to $2.91 in 1991, the highest average since 1982, average rates have trended downward to $1.27 in 1999. In 2000, average rates increased to $1.37, which is roughly 45% less than the average rate in 1982.

In the face of rising insurer loss costs, rates fell from 1991 to 1993, largely reflecting increased use of deductible policies. The recent declines in average rates stems from improved market conditions reflecting the market softening in recent years. The growing differential between manual and standard rates shown in the final column of Exhibit 6 from 1991 to 1994 indicates that a significant part of the decline in average premiums stemmed from the use of large deductible policies. Unfortunately, the benefits of large deductibles only affected 1,097, or less than 1% of the 146,503 policies in 1999. The decreases in manual rates over the last six years are due to improving market conditions. This would appear to be the case because the growth in the difference between standard and manual premium slowed after 1994.

Average placement facility rates have declined significantly since peaking in 1993. Participation by employers in the facility is used later as a measure of availability. The fall in facility rates may reduce the incentives for placed employers to shop for cheaper coverage in the voluntary market. However, many employers having no other choice will enjoy a rate reduction. Employers able to obtain voluntary coverage will benefit from the additional competitive pressure from the facility.

As will be shown in the profitability section, total manual rate increases between 1990 and 1994 were not likely excessive given insurer cost increases. That increase in rates reflected only a portion of the increase in the cost of medical benefits in excess of the increase in wages. Had the costs of medical benefits grown at the same rate as wages, the total cost of claims surely would have fallen. Pure premium publications have shown how much medical benefits have risen faster than the cost of indemnity benefits. To control the growth of medical benefit costs a medical fee schedule to place a cap on medical fees was initiated in 1989. The advisory pure premium publication incorporated a 9.8% reduction factor to anticipate the impact of the schedule. CAOM statistics reveal that estimates of the impact of the schedule on medical costs show that savings have ranged from 10.1% to 10.6%.

Rate reductions alone are not sufficient to warrant a conclusion that a market is competitive. The relationship of price to cost or the rate of return on capital is much more meaningful. In a workably competitive workers' compensation insurance market, premiums would be no higher than necessary to cover costs and provide a fair return on investment.

In this context, rate increases are justified if current rates do not cover costs. Conversely, rates should decline if they produce above normal profits. Rates should tend to move with projected changes in the pure premium, which is incurred losses divided by covered payroll. Rate changes in any given year, however, will also be affected by the adequacy of premiums in the previous year. For instance, if rates were inadequate in the previous year, then they would have to increase more than costs in the current year for premiums to be adequate.

The Data Collection Agency's DCA Pure Premium Publication, also produced by the CAOM, provides loss cost information to insurers for rate-setting purposes and also estimates the annual change in pure premiums.

Exhibit 7(a) summarizes the history of indicated pure premium changes since 1983. Although not shown in Exhibit 7(a), historically, the accumulated change in pure premiums over the 18 years of indications has been – 0.2%, reflecting virtually no change since 1982. This is remarkable considering the rising litigation and health care costs and benefits plaguing other states. It may indicate increased insurer efficiency or decreased profitability. It had been anticipated that many insurers would continue reducing rates by following the 2.7% reduction for 2000. In 2001, the preliminary indicated pure premium change is down 2.6%.

In addition to changes in loss costs, the cost of reinsurance to direct insurers can also affect rates. Insurers typically use reinsurance to expand their capacity to underwrite by obtaining excess limits coverage. During the insurance crisis of the mid-1980s reinsurers restricted certain kinds of coverages such as aggregate cumulative trauma disorders. However, the restrictive underwriting by reinsurers has eased in recent years as direct writers have sought to retain as much of their business as possible without sharing risk and hence, premiums, with reinsurers.

Reviewing the growth of pure premium indications, standard premium rates, and filed changes in manual rates since 1982, accumulated pure premium indications through 2000 were only actually 0.2% below 1982. It has also been determined that the accumulated average of filed manual rates is 24% above 1982 levels. The average of estimated standard rates employers actually paid in 1998 however is over 40% less than in 1982.

Exhibit 7(b) compares these variables over the period since 1982. Indices of the accumulated changes of each of these variables (as was done in column 6 of Exhibit 6) were calculated. The base year of the indices is 1982, where all indices start at 1.0 or 100%. A chart of line graphs of these variables was then constructed for the years since 1982. The highest line, which represents filed rates, could be high for several reasons. One reason is that the estimated impact on rates of filed changes is based upon a static analysis, i.e., numbers and types of insureds are assumed to remain the same before and after the change.

Employers facing higher rates will shop for lower rates. Average rates, therefore, will not increase as much as filed rates so that the upward bias in filed rate increases is magnified. Increasing use of large deductible policies and shift toward a lower premium service economy could also magnify this bias. The chart shows the anomaly in the 1989 pure premium indication and the remarkably steady average of standard premium rates through 1994.

Due to the time lag in reporting data, indicated changes in the pure premium tend to lag behind changes in actual experience. However, actual filed rate changes seem to coincide with pure premium indications. Past experience has shown that insurers tend to be slow to match downward moves in premium indications. Therefore, we might not expect rates to fall as much as pure premiums might indicate. Accordingly, rates continued falling through the end of 1999 and continued to decline in 2000. The chart also illustrates that insurers, cognizant of their own experience, may make rate changes prior to changes in pure premiums. This indicates that insurers are strongly competing for business.

Profitability

A useful index of the industry's overall efficiency and profitability is the statewide loss ratio, which can be calculated by dividing incurred losses by earned premium. The loss ratio reveals the amount of actual loss protection received for each premium dollar paid. The portion of premiums not paid out in losses is available for expenses and profits. All else equal, higher loss ratios suggest greater cost efficiency and/or decreased profitability, while lower loss ratios imply lower cost efficiency and/or increased profitability. Higher loss ratios are expected if there is an increase in competition and lower rates. Lower loss ratios are expected if there is less competition and higher rates.

Since workers' compensation claims are often paid out over a long period of time, only a small portion of calendar year losses are actually attributable to premiums earned that year. Thus, calendar year loss ratios are only a rough estimate of true loss ratios for this type of coverage.

There is a question of what loss ratio would permit insurers to earn a fair rate of return on investment and be consistent with a reasonable degree of competition. The derivation of such a loss ratio would be dependent upon assumptions about investment income, expenses, premium-to- surplus ratios, as well as the kind of data to which it was to be applied.

Subsequent to the hard market period of 1991 and 1992 insurers have returned to making profits. The period of 1993 to 1999 has been the most profitable since the initiation of competition. This increased profitability has resulted in declining premium rates, diminished market share for the workers’ compensation insurance placement facility and negative pure premium indications as insurers compete for more business. Overall, these figures indicate that for employers, the Michigan workers’ compensation insurance market has improved since the introduction of competitive rating.

One might conclude from the very low loss ratios and high profits since 1994 that premium rates are not reacting as quickly as expected in a smoothly operating market. However, much of the reason for the low loss ratios is the result of better-than-anticipated loss costs from earlier years. Insurers have released reserves from prior years, which has positively affected their profitability.

Availability

The last aspect of market performance that is evaluated is the availability of workers' compensation insurance coverage. Ideally, insurers should be willing to offer any employer coverage at a fair market price. In practice, of course, some businesses will be unable to obtain coverage in the voluntary market and, therefore, must obtain coverage through the Michigan Workers' Compensation Insurance Placement Facility. In some cases, insurers cannot adequately price a business under the existing rating system. This should happen less often now if insurers enjoy increased pricing flexibility under open competitive rating, but some residual market placements are probably inevitable even with workable competition.

At the same time, however, there are concerns about "redlining" against certain types of employers or geographic areas. "Redlining" refers to instances where businesses are unable to get coverage or can only obtain it at an exorbitant price due to an unsupported bias by insurers or a conscious attempt to discriminate based on price. Such practices are not consistent with workable competition.

Exhibit 8 shows the percentage of policies, premiums, and payroll insured through the Michigan Workers' Compensation Insurance Placement Facility. The percentage of payroll in the facility is a better indicator of the relative significance of the residual market and overall availability. This can be attributed to higher premiums in the facility reflecting a higher percentage of poor risks. The data for each year after 1993 until 1999 indicates that all facility placement measures are down. The preliminary results for 2000 show small increases in premium and payroll, but preliminary results can be overstated.

In Exhibit 8, the data for 1991 through 1992 show poorer results with policies and premium showing increases. The reduction in availability of insurance through the voluntary market is another indication that the market had hardened through 1992. Improved availability began during 1993 and strengthened in 1994 and has continued through 1998. In 1999, policies and payroll showed increased availability while premium exhibited slightly poorer results. Policies in 2000 continued to show increased availability, but premium and payroll indicated increases in the placement facility's market share. Overall, the increases in the Michigan Workers' Compensation Insurance Placement Facility's market share for premium and payroll do not yet pose serious concerns about availability.

It should be noted that many smaller employers have not enjoyed this improved availability. The great reduction in percent of premium and payroll in the facility but smaller reduction in policies seems to support this observation.

To many observers it is counterintuitive that insurance availability moves inversely with rates. One would expect that as rates increase insurers would write more policies rather than fewer. In fact, insurers try to regulate the volume of their business according to their level of surplus; that is, they attempt to maintain a premium-to-surplus ratio within a certain acceptable range. Diminished surplus due to a period of relatively low pricing will cause insurers to increase their rates in order to restore profitability as well as restrict their volume of business in order to maintain an acceptable premium-to-surplus ratio. The recent data now show that as rates have fallen, availability has improved.

Omitted from this year's report is the exhibit providing the 30 classes with the highest percentage of payroll in the placement facility. Most of the classifications are relatively high risk and often are occupations with federally mandated coverages having high benefits. Such classifications tend to have low numbers of insureds and have difficulty obtaining voluntary coverage. They are often employers that have been in the placement facility for many years.

Concerns have been raised that small employers are subject to greater availability problems than large employers. Exhibit 9 shows the relative participation in the facility by premium size for the years 1990 through 1999. Relative participation is measured by dividing the percentage of policies (or premium) in the facility for a particular premium size category by the percentage of policies (or premium) for that category in the voluntary market. For example, if 40% of all voluntary risk policies were $500 or less, and if 50% of all placement facility policies were in the same range, a ratio of 1.25 (50% divided by 40%) would be generated. A ratio of 1.0 means the group is equally represented in both the voluntary-risk and residual markets. Thus, a smaller ratio would be preferred by policyholders in a given premium range.

Exhibit 9 reveals that the smallest risks usually have accounted for a larger share of the facility business than of the voluntary market. However, over the period from 1990 to 1995 or 1996, the larger premium size classes have shown a significant increase in their relative participation in the facility. The recent data for the smallest and next-to-smallest range after 1995 indicate a relatively high participation rate in the facility. The ratios of

5.0, 9.4 and 8.3 for this ratio in the next-to- smallest class in 1997, 1998 and 1999, respectively, are particularly bothersome. This is somewhat mitigated by the ratio of 1.5, 2.6 and 2.7 based on percent of policies for this same premium range for those years.

It is unclear why the ratios based on premiums are so high. It is possible that small construction or manufacturing operation classifications that typically have high rates have a disproportionate participation in the facility in this range. These smaller groups will tend to have better rates with the facility because of higher minimum premiums charged by the voluntary market. Minimum premiums encourage many smaller employers to purchase a policy through the placement facility or push those in the voluntary market into a higher range until a payroll audit produces a final determination of premium that is reported in the unit statistical reports. The evidence from Exhibit 9 shows that general reduction in the facility participation rates in recent years has not helped such smaller employers as much as the larger ones.

Overall, the residual market data indicate that, with the move to open competition there were a few years of improvement. The slightly harder market of 1991 and 1992 is reflected in somewhat higher facility participation and in 1993. Data during and subsequent to 1993 indicate that availability began to improve. The soft market, which began about 1994, is reflected by significant improvements in every measure of assigned risk market share over each of the last six years. However, smaller employers do not appear to have benefited from competition as much as large employers.

V. <u>CONCLUSION</u>

A review of the market tests for competition specified in Section 2409(3) of the Insurance Code of 1956, as amended, MCL 500.2409(3); MSA 24.12409(3) indicates that the structure of the workers’ compensation market is conducive to competition. Many insurance options exist and no one insurer or group of insurers dominates the market. The high disparity in manual rates indicates the lack of price fixing. While the rates filed by the leading insurers increased from 1990 to 1992, they have fallen subsequently. Overall, there is no indication that employers are paying excessive premiums for workers' compensation insurance.

Availability has become less of a concern due to the downward trend in the percentage of insureds in the facility, which began in 1994. On the other hand, some smaller businesses may not be seeing as great an improvement in availability as others. The positive effect of improved profitability and expanded insurers' capacity to write policies may explain the reduced market share of the facility.

Loss costs appear to have been contained over the last several years and a market softening that began in 1993 has continued through the end of 1999. The data are showing that expanding availability has followed moderating premium rates as had been anticipated in previous reports. Profitability, as indicated by the latest available loss ratios and the profit on insurance transaction ratio information from the NAIC, has improved dramatically. Improved profitability, as reflected by the loss ratios from 1993 to 1998 and profit on insurance transaction ratios from 1993 to 1997, has resulted in improved insurer surplus. This has allowed insurers to lower rates and to expand availability, resulting in fewer employers remaining in the placement facility.

The workers’ compensation insurance market continues to be soft as reflected in the declining premium rates paid since 1994. Requested manual rate changes, as well as average filed rates from 1995 through 1999, have been for reductions and the pure premium indications for 1995 through the year 2000 are negative. On the other hand, loss ratios began to increase in 1998 and actual manual filings have been mixed with increases and decreases in 2000. These two findings could indicate at least the end of softer markets; however, they do not necessarily point to a hardening market.

In summary, the evidence available on market structure, conduct and performance indicates that there is a reasonable degree of competition in the workers' compensation insurance market.

APPENDIX A

Exhibit 1(a)

Voluntary Market Shares for the 30 Leading Carriers*

1990 - 2000

Carriers Names	Premiums Written 2000	Sum Market Shares	Market Shares 2000	Percentage Market Share for Given Calendar Year 1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
The Accident Fund Company	92,014	13.61	13.61	13.50	11.91	11.99	12.22	12.98	14.34	15.14	14.62	14.53	16.90
Citizens Insurance Co of America	45,065	20.28	6.67	7.15	7.02	7.59	8.50	9.57	9.67	9.50	9.78	9.51	8.14
Frankenmuth Mutual Insurance Company	31,109	24.88	4.60	3.74	3.31	3.44	3.40	3.85	3.34	2.76	1.98	1.26	1.06
Michigan Cnstrctn Industry Mutual	26,074	28.74	3.86	0.00									
Auto-Owners Insurance Company	18,465	31.47	2.73	2.44	2.44	2.96	3.31	3.29	2.81	2.62	2.18	1.71	1.51
Amerisure Insurance Co	16,483	33.91	2.44	2.55	2.82	2.63	2.26	2.20	2.03	1.73	1.99	1.58	1.79
Hastings Mutual Insurance Company	14,415	36.04	2.13	1.87	1.71	1.80	1.83	1.91	2.03	1.92	1.83	1.43	1.18
Liberty Mutual Fire Insurance Company	13,538	38.04	2.00	2.32	3.14	3.74	3.90	4.20	5.23	6.04	6.81	7.00	6.95
American Home Assurance Company	11,990	39.81	1.77	1.56	0.16	0.15	0.29	0.14	0.05	0.02	0.12	0.01	0.04
Valley Forge Insurance Company	9,858	41.27	1.46	2.38	2.99	2.34	1.09	0.14	0.04	0.10	0.06	0.04	0.04
Cincinnati Casualty Company	9,520	42.68	1.41	1.32	1.30	1.22	1.15	1.17	1.05	0.90	0.71	0.47	0.21
American Compensation Insurance Co	9,474	44.08	1.40	1.36	1.14	0.63							
Farm Bureau General Ins Co of Mich	9,448	45.48	1.40	1.14	1.30	1.31	1.28	1.31	1.26				
Insurance Co of the State of Pennsylvania	9,317	46.86	1.38	1.17	2.08	1.51	1.76	1.28	0.67	0.68	0.47	0.18	0.17
Transcontinental Insurance Company	7,939	48.03	1.17	1.70	2.01	2.24	2.39	2.45	1.87	1.25	1.00	0.84	0.97
Transportation Insurance Company	7,531	49.14	1.11	0.57	0.63	0.97	1.19	1.39	1.81	1.80	3.00	4.39	3.98
Citizens Insurance Company of Ohio	6,874	50.16	1.02	0.05									
American Physicians Ins. Corp.	6,854	51.17	1.01	0.86	0.77	0.44	0.22	0.08	0.01				
Fremont Casualty Insurance	6,772	52.17	1.00	1.32	0.92	0.12							
American Manufacturers Mutual Ins	6,768	53.17	1.00	0.90	0.66	0.40	0.39	0.32	0.18	0.18	0.32	0.43	0.35
American States Insurance Company	6,703	54.16	0.99	0.85	0.73	0.79	0.84	0.87	0.81	0.87	1.07	1.15	1.11
Home-Owners Insurance Company	6,496	55.12	0.96	0.69	0.38	0.12							
Federal Insurance Company	6,463	56.08	0.96	1.08	0.97	1.05	1.09	1.12	0.80	0.84	0.68	0.49	0.13
Travelers Indemnity Co of Illinois	6,276	57.01	0.93	0.75	1.38	1.04	0.67	0.96	1.53	1.00	1.01	0.55	0.10
Michigan Insurance Company	6,228	57.93	0.92	0.42	0.09								
Fremont Indemnity Company	6,095	58.83	0.90	1.07	0.96	1.56	1.45	0.00	0.01	0.01	0.00	0.01	0.00
Westfield Insurance Company	5,872	59.70	0.87	0.76	0.80	0.81	0.78	0.75	0.58	0.52	0.41	0.26	0.18
Twin City Fire Insurance Company	5,508	60.51	0.81	0.81	0.50	0.37	0.36	0.51	0.46	0.71	0.93	3.04	3.24
Liberty Insurance Company	5,493	61.32	0.81	0.63	0.95	1.06	0.91	0.95	0.97	0.99	0.77	0.68	0.55
Lake States Insurance Company	5,327	62.11	0.79	0.95	1.21	1.20	1.49	1.61	1.04	0.78	0.47	0.16	0.00

1990 - 1998 market shares based on standard premium obtained from unit statistical reports or policy declarations filed by insurers.
1999 - 2000 market shares based on standard premium obtained from policy declarations filed by insurers.

Exhibit 1(b)

Voluntary Market Shares for the 30 Leading Groups*

1990 - 2000

Group Names	Premiums Written 2000	Sum Market Shares	Market Shares 2000	Percentage of Market Shares for Given Calendar Year 1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
The Accident Fund Company	92,014	13.61	13.61	13.50	12.96	11.99	12.22	12.98	14.34	15.14	14.62	14.53	16.90
Allmerica Financial Group	52,301	21.35	7.74	7.29	7.22	7.67	8.55	9.64	9.82	9.59	9.87	9.58	8.23
CNA Insurance Group	33,048	26.24	4.89	6.44	7.24	6.85	6.26	6.87	6.51	4.45	5.21	6.17	6.03
Frankenmuth Mutual Insurance Co	31,109	30.84	4.60	3.74	3.29	3.44	3.40	3.85	3.34	2.76	1.98	1.26	1.06
Michigan Cnstrctn Industry Mutual	26,074	34.70	3.86										
American International Group	25,924	38.53	3.83	3.84	3.48	3.42	3.39	2.48	1.85	2.34	3.78	5.57	4.93
Liberty Mutual Insurance Company	25,502	42.29	3.76	3.63	5.06	5.83	5.73	5.75	7.01	7.84	8.54	8.30	7.94
Amerisure Companies	21,141	45.42	3.13	3.55	4.06	4.17	4.32	4.67	4.77	4.47	4.77	4.11	4.93
Travelers Insurers Group	20,483	48.44	3.02	3.00	3.71	3.35	1.90	2.34	2.38	1.75	1.56	2.11	2.58
Auto-Owners Group	18,465	51.17	2.73	2.44	2.44	3.08	3.31	3.29	2.81	2.62	2.18	1.71	1.51
Fremont General Group	18,071	53.84	2.67	3.31	2.45	2.06	1.45	0.00	0.01	0.01	0.00	0.01	0.00
Hartford Fire & Casualty Group	17,094	56.36	2.52	2.65	2.45	2.34	2.29	2.50	2.76	3.07	2.75	4.42	4.25
Kemper Insurance Company Group	15,072	58.58	2.22	2.24	2.63	2.09	2.18	1.70	11.69	2.55	3.44	3.54	3.58
Hastings Mutual Insurance Co	14,415	60.71	2.13	1.87	1.71	1.80	1.83	1.91	2.03	1.92	1.83	1.43	1.18
Cincinnati Financial CP	14,188	62.81	2.10	1.85	1.85	1.77	1.61	1.56	1.44	1.22	1.04	0.73	0.62
Michigan Farm Bureau	14,038	64.89	2.08	1.74	1.99	2.05	1.93	1.97	1.86	1.82	1.67	1.22	0.98
Orion Group Inc.	12,632	66.76	1.87	2.58	2.70	1.89	1.59	1.53	1.19	0.75	0.41	0.08	0.03
Fireman's Fund Group	11,800	68.50	1.74	2.05	2.24	1.86	1.65	1.70	1.72	2.10	1.82	1.16	0.86
St. Paul Companies	10,300	70.02	1.52	1.77	0.87	0.92	0.78	0.66	0.60	0.53	0.87	0.94	0.82
Reliance Comp, Inc.	10,077	71.52	1.50	2.20	1.41	1.52	1.29	1.11	1.26	1.78	1.02	1.43	1.45
Chubb and Son Inc.	9,654	72.96	1.44	2.26	2.41	2.18	1.90	1.76	1.30	1.28	1.16	0.89	0.94
American Compnstion Ins. Group	9,474	74.36	1.40	1.36	1.14	0.63							
Nationwide Corporations	8,965	75.68	1.32	2.02	1.86								
William Life Insurance Group	8,340	76.91	1.23	1.36	1.18								
Zurich-American Insurance Cos.	7,927	78.08	1.17	1.37	1.49								
Westfield Companies	7,646	79.21	1.13	0.94	0.95								
American Physicians Ins. Corp.	6,854	80.22	1.01	0.86	0.77	0.44	0.22	0.08	0.01				
Auto-Owners Group	6,496	81.18	0.96	0.69	0.38								
West Bend Mutual	6,228	82.10	0.92	0.42	0.09								
Zurich-American Insurance Cos.	5,938	82.98	0.88	0.87	1.47	3.18	3.23	3.25	2.09	1.98	1.65	1.72	1.58

1990 - 1998 market shares based on standard premium obtained from unit statistical reports or policy declarations filed by insurers.

1999 - 2000 market shares based on standard premium obtained from policy declarations filed by insurers.

Exhibit 2

Combined Market Shares

1990 - 2000

	Market Share Top 4		Market Share Top 8		Market Share Top 20	
Year	Company	Group	Company	Group	Company	Group
1990	36.6	39.1	49.9	57.8	67.7	79.9
1991	36.4	38.6	49.7	56.6	67.2	78.8
1992	35.2	38.2	46.3	54.4	63.8	75.8
1993	33.6	37.0	43.6	53.0	60.7	75.7
1994	32.6	37.7	43.4	54.9	59.6	75.0
1995	30.6	34.0	41.8	49.7	59.1	75.6
1996	28.1	33.1	39.5	50.0	57.2	75.4
1997	26.8	32.3	37.4	46.8	54.1	75.1
1998	25.9	31.2	36.4	46.1	52.9	75.3
1999	26.4	30.6	35.8	45.1	51.6	74.7
2000	28.7	30.8	38.0	45.4	53.2	71.5

1990-1998 market shares based on standard premium obtained from unit statistical reports or policy declarations filed by insurers.

1999-2000 market shares based on total estimated annual premium obtained from policy declarations filed by insurers.

Source of Data: Compensation Advisory Organization of Michigan

Exhibit 3

Exit and Entry by Groups

1990 - 2000

	Entries		Exits		Net Change		Groups	Carriers
Year	Number	Percent*	Number	Percent*	Number	Percent*	Number	Number
1990	3	2.9%	6	5.9%	-3	-2.9%	99	225
1991	7	7.1%	3	3.0%	4	4.0%	103	229
1992	5	4.9%	2	1.9%	3	2.9%	106	234
1993	3	2.8%	5	4.7%	-2	-1.9%	104	228
1994	4	3.8%	5	4.8%	-1	-1.0%	103	230
1995	3	2.9%	4	3.9%	-1	-1.0%	102	237
1996	10	9.8%	6	5.9%	4	3.9%	106	236
1997	11	10.3%	6	5.6%	5	4.7%	112	247
1998	22	19.5%	7	6.2%	15	13.3%	128	246
1999	6	4.7%	3	2.3%	3	2.3%	131	255
2000	1	0.76%	5	3.82%	-4	-3.05%	127	250

* Percent of previous year's groups.
1990 - 1998 market shares based on standard premium obtained from unit statistical reports and policy declarations filed by insurers.
1999-2000 market shares based on total estimated annual premium obtained from policy declarations filed by insurers.

Source of Data: Compensation Advisory Organization of Michigan

Exhibit 4

Distribution of Policies by Manual Rates - 1999

Class Code	Class Description	Number of Policies	High Rate	Low Rate	Percentage of Policies by Range (Low to High) 1	2	3	4	5
11	Farm-Mkt or Truck	1,680	6.30	2.49	62	31	4	3	1
42	Landscape Gardening	3,063	10.04	4.00	10	43	34	13	0
129	Dairy/Livstck Farm	1,663	11.72	4.25	50	31	7	10	2
2003	Bakeries	589	7.50	2.82	4	20	40	33	4
2157	Beverage Mfg	21	17.25	3.51	86	10	0	0	5
2501	Misc Sewing Mfg	309	8.05	3.75	18	33	30	17	3
2790	Pattern/Shoe Mfg	354	3.15	1.07	34	30	18	17	1
2812	Cabinet Mfg	509	7.51	2.12	7	69	15	3	6
2881	WoodenGoodsAsmbly	337	6.86	2.13	47	39	7	3	5
3076	Metal Goods Assmbly	579	5.46	2.29	7	32	31	25	6
3096	Tool Mfg	765	4.60	1.87	15	15	50	15	5
3113	Tool Mfg-NOC	370	5.10	2.31	18	51	18	13	1
3116	Tool Mfg DiesJigsFx	508	4.80	1.90	7	26	44	18	5
3131	Button&Fastener Mfg	132	7.92	2.25	35	49	13	1	2
3145	Screw Mach Pro Mfg	225	6.14	2.29	4	27	44	14	10
3146	Hdw Mfg-NOC	382	8.36	1.75	1	29	45	16	10
3179	Elec App Mfg-NOC	373	6.19	2.53	21	38	29	8	3
3400	MetalGoods Mfg-NOC	267	12.98	4.51	4	39	42	14	1
3628	Machinery Mfg NOC	820	4.90	1.95	3	26	33	33	5
3629	Mach Parts Mfg-NOC	1,124	4.31	1.66	1	60	25	12	2
3632	Machine Shop-NOC	1,046	8.57	1.50	0	13	49	21	17
3643	Elec Pwr Equip Mfg	253	5.86	1.78	6	39	27	20	8
3681	Tele/Elc-ApprtsMfg	167	6.34	1.55	29	53	9	2	6
3685	Instr Mfg-NOC	262	3.10	1.32	4	22	22	41	11
3724	Apparatus Installtn	1,046	14.56	5.62	6	18	46	28	2
3807	Auto Radiator Mfg	14	8.11	4.05	79	7	7	0	7
3808	Auto Mfg or Assmbly	74	9.24	4.25	27	15	26	19	14
4239	Fiber Goods Mfg	44	8.43	2.60	11	30	45	9	5
4299	Printing	1,200	5.00	1.78	7	37	41	13	2
4361	Photographer	458	1.79	0.68	6	24	44	10	16
4410	Rubber Goods Mfg	127	10.98	3.48	9	28	40	20	3
4459	Plastics Mfg-Basic	168	7.18	3.08	18	27	35	15	4
4484	Molded Plastics Mfg	554	10.91	2.93	20	40	28	10	2
4511	Analytical Chemist	1,449	2.39	0.73	7	33	35	19	6
4611	Drug & Rx Preparation	114	2.19	1.00	11	25	32	18	12
4829	Acid Mfg	44	5.29	0.62	59	2	7	5	27
5022	Masonry Erection	1,331	23.06	8.50	11	38	36	14	0
5183	Plumbing Instl&Serv	2,483	8.96	3.62	11	50	33	5	1
5190	Elec Wiring Instltn	2,422	6.55	2.52	28	38	27	3	5
5191	Office Mach Instl	1,852	2.57	0.88	3	37	44	9	6
5221	ConcreteWork Floors	2,395	13.26	5.69	6	36	47	10	0
5403	Carpentry-NOC	1,289	19.16	7.90	8	21	53	17	2
5437	Carpentry-finishwrk	2,552	11.22	4.25	3	26	61	9	1
5445	Wallboard Instltn	1,115	12.25	5.07	2	13	50	32	4
5476	Painting/Papering	2,055	19.14	7.93	13	77	9	2	0
5538	ShtmtlWrkErctn-NOC	995	11.69	4.82	15	18	38	15	14
5550	Heating & AC Instltn	832	10.03	4.76	66	29	4	1	1
5606	ExecSupervsr Constr	2,577	5.07	1.81	4	36	44	17	0
5645	Carpentry-Detached	6,464	17.18	6.89	3	56	36	5	0
6217	Excavation-NOC	2,011	15.98	5.04	14	35	43	5	3

Source of Data: Compensation Advisory Organization of Michigan, June 2000 Status of Competition Report

Exhibit 4 - Continued

Distribution of Policies by Manual Rates - 1999

Class Code	Class Description	Number of Policies	High Rate	Low Rate	Percentage of Policies by Range (Low to High) 1	2	3	4	5
6504	Processed Food Mfg	102	7.67	2.50	36	41	13	6	4
7208	Drivers- Trckng NOC	1,138	21.25	6.88	25	29	41	2	2
7219	Trckng NOC- No Drvr	525	19.75	5.82	15	59	17	2	6
7230	Parcel Delivery	36	10.32	4.24	19	19	11	47	3
7380	Drivers NOC	11,228	10.69	2.81	1	29	63	6	0
7600	Elec Line Stringing	299	8.15	2.51	11	44	35	8	2
7610	Radio/TV Bdcstng	418	1.18	0.38	3	30	40	19	8
7720	Police Officers	575	6.49	2.10	9	17	5	65	5
8006	Retail Grocery	1,339	5.03	1.77	6	33	58	2	1
8008	RetlClothing Store	1,257	1.93	0.73	5	26	50	14	4
8010	Hardware Store	3,931	2.87	0.95	5	51	36	6	1
8013	Store-Jewelry	566	0.98	0.40	9	44	27	17	3
8017	Retail Store-NOC	10,841	3.20	0.87	8	57	36	0	0
8018	WholesaleStore-NOC	1,172	8.37	2.76	5	34	40	18	3
8033	Supermarket	1,002	5.48	1.70	30	59	6	5	1
8039	Department Store	45	3.10	1.31	18	38	24	9	11
8044	Furniture Store	580	4.68	1.75	17	48	28	7	1
8059	Contract Packaging	283	8.31	2.80	28	30	12	24	5
8106	Iron/Steel Merchant	221	14.95	3.79	45	38	14	0	2
8107	Machine Dlr Oil Well	363	8.12	2.31	9	43	42	5	1
8227	Contractor's Yard	1,784	6.69	2.49	2	30	46	12	10
8232	Bldg Materials Yard	699	9.03	3.65	25	64	9	1	1
8292	Storage Warehouse	583	10.98	2.78	17	60	18	3	2
8387	Auto Serv Station	2,379	9.50	2.64	51	23	24	2	0
8393	Auto&Trck Body Shop	1,607	5.64	1.62	20	68	2	8	3
8395	Auto Repair Shop	5,814	7.11	2.25	1	53	36	8	2
8601	Survyr/Engnr/Archt	2,005	1.81	0.50	13	49	23	13	2
8742	Outside Sales	28,772	1.10	0.27	12	43	36	9	0
8748	AutoSales/Leasing	1,244	1.40	0.42	7	38	37	18	1
8755	Labor Union	332	1.43	0.30	11	77	3	9	0
8803	Auditors/Accts	1,578	0.38	0.09	11	41	28	20	1
8810	Office Clerks	82,291	0.58	0.16	13	34	15	36	1
8820	Attorney	2,178	0.64	0.10	30	48	7	10	6
8829	Nursing Home	222	9.03	2.68	7	54	35	2	3
8831	Animal Hosp&Grmng	913	2.71	1.06	34	16	37	12	0
8832	Physician	9,406	0.67	0.28	8	16	48	27	2
8833	Hospital Prof Emp	340	2.76	1.03	2	14	23	16	45
8835	Domstc&Nursg Servs	648	7.67	2.99	16	28	53	1	2
8868	Schl&Chrch ProEmpl	8,369	0.60	0.20	72	14	4	2	8
8901	Telephone Co - Office	89	0.94	0.25	52	25	2	16	6
9015	Janitorial Service	14,121	8.90	1.61	9	19	28	43	1
9052	Hotel Oth Empls	1,776	6.16	0.44	6	3	56	25	9
9058	Food Serv Wrkrs	10,358	4.19	1.25	5	55	33	1	6
9060	Prvt Club Empls	813	4.94	1.74	2	62	33	3	1
9061	Clubs-NOC	1,105	4.56	1.91	16	8	6	10	60
9101	Schl&Chrch Othr Emp	2,355	5.69	1.72	69	16	13	1	1
9403	Refuse Collection	144	21.26	7.93	10	41	6	8	36
9501	Paint Shop Only	481	11.45	2.78	22	42	29	6	1
9522	Upholstering Autos etc.	233	9.05	2.04	41	20	30	5	3
9586	BarberBeautyParlor	1,688	1.20	0.50	19	35	7	37	2

Source of Data: Compensation Advisory Organization of Michigan June 2000 Status of Competition Report

Exhibit 5

Survey of Rate Filing Changes For The Twenty Leading Carriers

The values indicate overall percentage changes filed for given years as of January 7, 1999.

Manual Rate Survey Results	2000	1999	1998	1996	1994	1992	1990
TheAccident Fund Company	7.4%	1.8%	0.3%	-9.2%	4.1%	8.2%	-8.0%
Citizens Insurance Co of Am	3.7%	-0.6%	-1.5%	-6.4%	0.6%	23.0%	5.7%
Frankenmuth Mutual Ins	3.7%	-6.5%	-2.3%	0.2%	2.4%	7.6%	7.7%
MI Cnstrctn Indstry Mut Ins Co	0.0%						
Auto-Owners Insurance Co	0.0%	0.0%	0.0%	-1.1%	2.6%	6.5%	12.8%
Amerisure Insurance Co	0.0%	0.0%	-0.7%	0.0%	10.0%	1.0%	16.9%
Hastings Mutual Ins Co	-4.2%	-10.8%	0.1%	-9.3%	4.7%	12.9%	16.6%
Liberty Mut. Fire Ins Co	-3.2%	-3.3%	-2.7%	-16.0%	-6.0%	19.0%	5.5%
American Home Assurance	-4.0%	0.0%	-2.7%	-18.0%	8.5%	7.9%	29.9%
Valley Forge Insurance Co	10.2%	0.0%	2.2%	-16.8%	3.1%	7.2%	15.0%
Cincinnati Casualty Co	-1.5%	-2.7%	0.9%	-18.0%	0.0%	13.6%	0.0%
American Comp Ins Co	6.9%	0.0%	-2.7%	0.0%			
Farm Bur Genl I C of MI	-8.5%	-14.7%	-12.8%	-9.0%	2.2%	18.0%	6.4%
Ins Co of State of PA	0.0%	-4.0%	2.7%	-18.0%	8.5%	7.9%	29.9%
Transcontinental Ins Co	10.2%	0.0%	2.2%	-16.8%	3.1%	7.2%	15.0%
Transportation Insurance Co	0.0%	0.0%	2.2%	-16.8%	3.1%	7.2%	15.0%
Citizens Ins Co of Ohio	2.9%						
MI Physicians Mut Liab Co	0.0%						
Fremont Casualty Ins Co	0.0%	-4.0%	0.0%				
American Mnfctrers Mut Ins	0.0%						
Averages (Current Top 20)	1.2%	-2.8%	-1.3%	-10.3 %	3.4%	10.5%	12.0%
Top 20 Average By Year	1.2%	-2.8%	-1.7%	-9.8%	2.9%	7.1%	11.2%

Source of Data: Insurance Division and M&R Group

Exhibit 6

Policies, Premiums, and Payroll

1990 - 2000

		Standard		Average Rate Per $100 Payroll			
		Premiums	Payroll	Standard		Manual	
Year	Policies	(000's)	(000's)	Rate	Index	Rate	Difference
			Voluntary Market				
1990	138,275	1,093,277	41,327,945	2.65	107.0%	2.96	-10.8%
1991	137,063	1,171,189	42,571,896	2.75	111.3%	3.04	-9.4%
1992	135,236	1,158,091	43,422,865	2.67	107.9%	3.18	-16.3%
1993	135,831	1,228,362	46,208,984	2.66	107.5%	3.49	-23.9%
1994	138,726	1,292,476	49,515,440	2.61	105.6%	3.68	-29.1%
1995	142,361	1,253,291	55,273,594	2.27	91.7%	3.44	-34.0%
1996	146,730	1,174,702	59,859,220	1.96	79.4%	2.93	-33.1%
1997	151,244	1,053,245	66,185,521	1.59	64.4%	2.56	-37.8
1998	154,000	1,010,174	71,662,683	1.41	57.0%	2.44	-42.3%
1999	159,157	895,068	72,081,909	1.24	50.2%	2.34	-46.9%
2000	128,414	676,106	50,762,915	1.33	53.9%	2.24	-40.4%

1990 - 1998 Standard and manual premium from unit statistical reports.
1999 - 2000 Total estimated annual premium obtained from policy declarations or unit statistical reports.
Source of Data: Compensation Advisory Organization of Michigan

Exhibit 6 - Continued

Policies, Premiums, and Payroll

1990 - 2000

Year	Policies	Standard Premiums (000's)	Payroll (000's)	Average Rate Per $100 Payroll: Standard Rate	Index	Manual Rate	Difference
			Placement Facility				
1990	21,766	130,910	2,549,993	5.13	152.5%	4.13	24.4%
1991	23,165	152,509	2,934,739	5.20	154.4%	4.03	29.0%
1992	25,581	173,018	3,073,777	5.63	167.2%	4.31	30.5%
1993	27,296	172,086	2,910,745	5.91	175.6%	4.66	27.0%
1994	26,121	136,304	2,347,976	5.81	172.5%	5.02	15.6%
1995	25,217	100,687	1,914,227	5.26	156.3%	4.25	23.8%
1996	24,718	62,920	1,516,209	4.15	123.3%	3.55	16.8%
1997	22,740	42,627	1,197,444	3.56	144.0%	3.41	4.3%
1998	21,463	33,210	1,029,748	3.23	130.4%	2.81	14.7%
1999	20,308	31,801	896,181	3.55	143.5%	2.47	43.5%
2000	15,299	30,450	732,732	4.16	168.1%	2.97	40.0%
			Total				
1990	160,041	1,224,187	43,877,938	2.79	111.8%	3.03	-8.0%
1991	160,228	1,323,698	45,506,635	2.91	116.6%	3.10	-6.2%
1992	160,817	1,331,109	46,496,642	2.86	114.7%	3.26	-12.2%
1993	163,127	1,400,448	49,119,729	2.85	114.3%	3.56	-19.9%
1994	164,847	1,428,780	51,863,416	2.75	110.4%	3.74	-26.4%
1995	167,578	1,353,978	57,187,821	2.37	94.9%	3.46	-31.6%
1996	171,448	1,237,622	61,375,429	2.02	80.8%	2.95	-31.6%
1997	173,984	1,095,872	67,382,965	1.63	65.2%	2.57	-36.8%
1998	175,463	1,043,384	72,692,431	1.44	57.5%	2.45	-41.4%
1999	179,465	926,869	72,978,090	1.27	50.9%	2.34	-45.8%
2000	143,713	706,566	51,495,647	1.37	55.0%	2.25	-38.9%

1990-1998 Standard and manual premium from unit statistical reports.
1999-2000 Total estimated annual premium obtained from policy declarations or unit statistical reports.
Source of Data: Compensation Advisory Organization of Michigan

Exhibit 7(a)

Indicated Changes in Pure Premium
from 1983 to Present

Year	Indicated Changes	Accumulated Changes	Annualized Changes
1983	5.6%	5.6%	5.6%
1984	-8.7%	-3.6%	-1.8%
1985	-1.6%	-5.1%	-1.7%
1986	14.4%	8.5%	2.1%
1987	9.8%	19.2%	3.6%
1988	-8.2%	9.4%	1.5%
1989	-5.5%	3.4%	0.5%
1990	21.0%	25.1%	2.8%
1991	-3.2%	21.1%	2.1%
1992	11.5%	35.0%	3.0%
1993	4.0%	40.4%	3.1%
1994	7.2%	50.5%	3.5%
1995	-5.5%	42.2%	2.7%
1996	-15.7%	19.9%	1.3%
1997	-8.4%	9.8%	0.6%
1998	-2.7%	6.9%	0.4%
1999	-4.0%	2.6%	0.2%
2000	-2.7%	-0.2%	0.0%
2001	-2.6%	-2.8%	-0.1%

Source of Data: Insurance Division and Data Collection Agency

Exhibit 7(b)

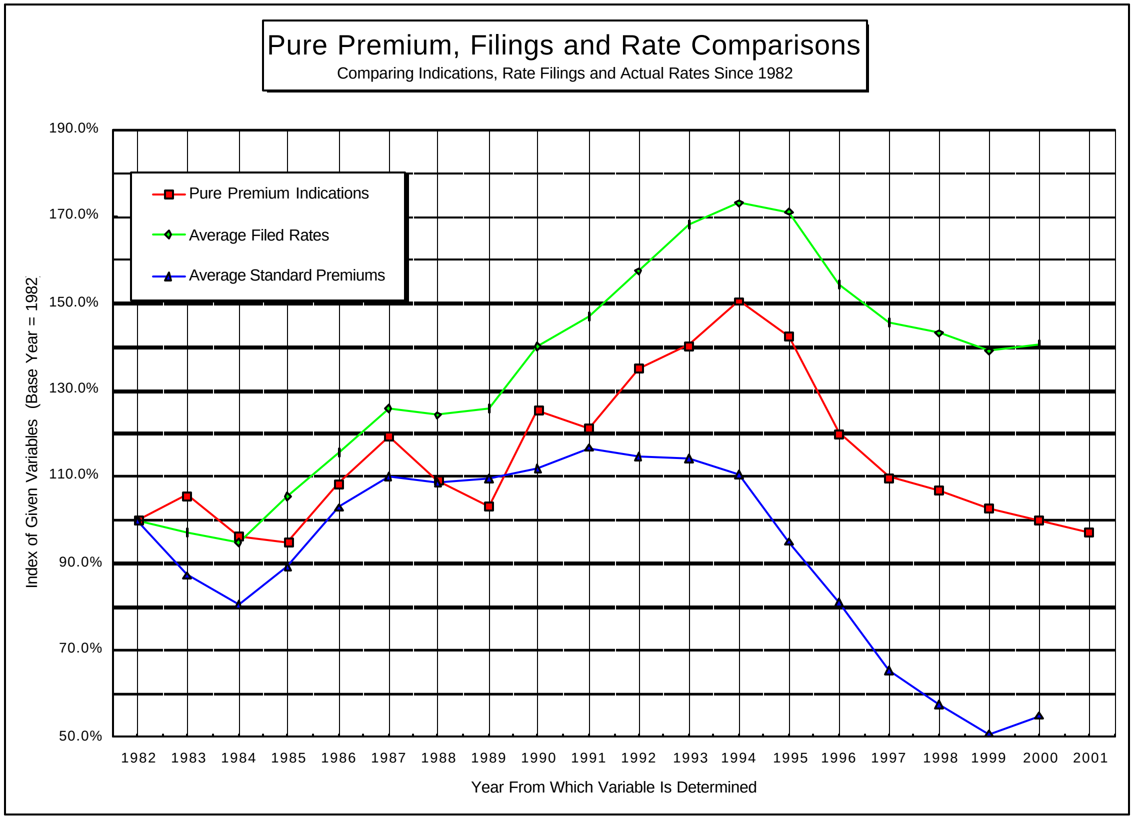

Exhibit 8

Percentage of Policies, Premium, and Payroll
in the Placement Facility

1990 - 2000

Year	Policies	Premium	Payroll
1990	13.6%	10.7%	5.8%
1991	14.5%	11.5%	6.4%
1992	15.9%	13.0%	6.6%
1993	16.7%	12.3%	5.9%
1994	15.8%	9.5%	4.5%
1995	15.0%	7.4%	3.3%
1996	14.4%	5.1%	2.5%
1997	13.1%	3.9%	1.8%
1998	12.2%	3.2%	1.4%
1999	11.3%	3.4%	1.2%
2000	10.6%	4.3%	1.4%

1990-1998 standard premium from unit statistical reports or policy declarations.
1999-2000 total annual premium obtained from policy declarations.
Source of Data: Compensation Advisory Organization of Michigan Exhibit 1 of Biannual Report

Exhibit 9

Placement Facility Participation Ratios*
Premium Range Groups to Industry-wide

1990 - 2000

Premium Ranges	Ratio of	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
0 - 500	Premiums	2.25	3.31	3.94	3.53	4.33	2.97	2.13	1.68	1.60	1.52	1.58
	Policies	0.79	0.92	1.64	1.66	1.88	1.87	1.72	1.61	1.55	1.39	1.41
501 - 1,000	Premiums	7.08	9.62	6.09	5.03	3.11	2.22	1.71	1.36	1.05	1.38	1.15
	Policies	2.72	2.73	1.58	1.47	1.04	1.04	0.99	0.99	0.84	1.15	0.89
1,001 - 5,000	Premiums	1.11	1.48	2.06	1.87	1.68	1.26	1.14	0.95	0.85	0.84	0.89
	Policies	0.46	0.46	0.53	0.55	0.58	0.61	0.68	0.70	0.70	0.66	0.69
5,001 - 10,000	Premiums	0.70	1.03	1.30	1.35	1.20	0.93	0.93	0.78	0.75	0.74	0.81
	Policies	0.27	0.29	0.31	0.37	0.38	0.43	0.52	0.54	0.59	0.56	0.62
10,001 - 50,000	Premiums	0.70	0.73	0.97	1.07	1.11	0.97	0.99	0.94	0.95	1.03	1.10
	Policies	0.26	0.22	0.25	0.29	0.36	0.43	0.54	0.63	0.71	0.74	0.79
50,001 - 100,000	Premiums	0.66	0.38	0.72	0.68	0.95	1.17	1.20	1.09	1.19	1.43	1.38
	Policies	0.24	0.11	0.16	0.18	0.31	0.53	0.67	0.75	0.92	1.08	1.03
100,000 – 499,999	Premiums	0.87	0.40	0.42	0.64	0.80	0.88	1.08	1.23	1.37	1.37	1.24
	Policies	0.35	0.13	0.09	0.19	0.26	0.41	0.62	0.85	1.10	1.12	1.06
Over 500,000	Premiums	0.53	0.42	0.17	0.11	0.28	0.81	0.61	0.74	0.62	0.56	0.58
	Policies	0.32	0.23	0.07	0.07	0.19	0.10	0.43	0.57	0.72	0.57	0.45

* - Percentage of total placement facility premiums or policies divided by percentage of total voluntary premiums or policies. Note: A value of 1.00 means the percentage of that premium range group in the assigned risk facility equals the percentage in that premium range group in the voluntary market.
1990 - 1997 premium ratios based on standard premium obtained from unit statistical reports filed by insurers.
1998 - 1999 premium ratios based on total estimated annual premium obtained from policy declarations filed by insurers.
Source of Data: Compensation Advisory Organization of Michigan

APPENDIX B

Section 2409 of Public Act 8 of 1982

Sec. 2409. (1) The Commissioner shall hold a public hearing and shall issue a tentative report detailing the state of competition in the workers' compensation insurance market on a statewide basis and delineating specific classifications, kinds or types of insurance, if any, where competition does not exist not later than January 15, 1984 and each year thereafter. The report shall be based on relevant economic tests, including but not limited to those in subsection (3). The findings in the report shall not be based on any single measure of competition, but appropriate weight shall be given to all measures of competition. The report shall include a certification of whether or not competition exists. Any person who disagrees with the report and findings of the commissioner may request a contested hearing pursuant to Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.315 of the Michigan Compiled Laws, not later than 60 days after issuance of the tentative report.

(2) Not later than August 1, 1984 and each year thereafter, the commissioner shall issue a final report which shall include a final certification of whether or not competition exists in the workers' compensation insurance market. The final report and certification shall be supported by substantial evidence.

(3) All of the following shall be considered by the commissioner for purposes of subsection (1) and (2):

(a) The extent to which any insurer controls the workers' compensation insurance market, or any portion thereof. With respect to competition on a statewide basis, an insurer shall not be considered to control the workers' compensation insurance market unless it has more than a 15 percent market share. This subdivision shall not apply to the State Accident Fund.

(b) Whether the total number of companies writing workers' compensation insurance in state is sufficient to provide multiple options to employers.

(c) The disparity among workers' compensation insurance rates and classifications to the extent that such classification result in rate differentials.

(d) The availability of workers' compensation insurance to employers in all geographic areas and all types of business.

(e) The residual market share.

(f) The overall rate level which is not excessive, inadequate or unfairly discriminatory.

(g) Any other factors the commissioner considers relevant.

(4) The reports and certifications required under subsections (1 and (2 shall be forwarded to the governor, the clerk of the house, the secretary of the senate, all the members of the house of representatives committees on insurance and labor, and all the members of the senate committees on commerce and labor and retirement.

(5) Not later than 90 days after receipt of the final report and final certification, the legislature, by concurrent resolution, shall approve or disapprove the certification by a majority roll-call vote in each house. If the certification is approved, the commissioner shall proceed under section 2409a.

With the passage of Public Acts 195 through 201 of 1993, to be effective with the sale of the State Accident Fund, Section 2409(3)(a) is amended to read:

(a) The extent to which any insurer controls all or a portion of the worker's compensation insurance market. With respect to competition on a statewide basis, an insurer shall not be considered to control the worker's compensation insurance market unless it has more than a 15% market share. In making a determination under this subdivision, the commissioner shall use all insurers in this state, including self-insurers, group self-insurers as defined in chapter 65, and insurers writing risks under the placement facility created in chapter 23 as a base for calculating market share.

CERTIFICATION OF THE STATE OF

COMPETITION IN THE

WORKERS' COMPENSATION INSURANCE MARKET

I hereby certify that, based on the results of the economic tests specified in MCLA 500.2409, a reasonable degree of competition exists at this time with respect to the Michigan workers' compensation insurance market.

Frank M. Fitzgerald

Frank M. Fitzgerald
Commissioner of Financial and Insurance Services

Date: February 28, 2001