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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

Memorandum

DATE: May 18, 2004
TO: All interested parties
FROM: Linda A. Watters *LAW*
SUBJECT: Determination on Degree of Competition in Commercial Liability Insurance Market

Pursuant to MCL § 500.2409c, I have determined that a reasonable degree of competition in the statewide commercial liability insurance market exists. Although the commercial liability insurance market is in the hard phase of the underwriting cycle (characterized by higher premiums), I conclude that the market is reasonably competitive based on an analysis of the factors cited in the statute for which data are available.

The rising premiums result directly from several factors. First, the commercial liability insurance market experienced an extended soft market of declining premiums (dating from about 1994 through 2000). During this period, premiums declined dramatically threatening profitability. The market had begun to harden early in 2001 with the surprise terrorist attack on September 11, 2001 contributing to a further rise in premiums. The economy began to weaken in the middle of 2000 following a large stock market correction and historically low interest rates, which reduced insurance company reserves.

Last year, OFIS' Determination on Degree of Competition in Commercial Liability Insurance Market cited the same factors. This year, OFIS finds that the commercial liability insurance market remains reasonably competitive. Again, the number of companies (209) writing this coverage is sufficient to offer enough options to companies. No insurer appears to control all or a significant portion of the commercial liability insurance market. Based on the latest available data, the largest insurer controlled 9.2 % of the written premiums and the top 10 accounted for 47.3% of the market.

In 2003, the premiums written by surplus lines carriers rose to \$14,831,763, constituting 3.2 % of direct premiums written, from \$12,760,494, accounting for 2.8 % of direct premiums written, in 2002. These data show only a slight hardening of the market for commercial liability insurance.

The Office of Financial and Insurance Services is not aware of any serious availability problems in any area of the state in any line of insurance.