ANNUAL REPORT OF THE
STATE CORPORATION COMMISSION

The Level of Competition, Availability, and Affordability in the Commercial Liability Insurance Industry

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 25

COMMONWEALTH OF VIRGINIA
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COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION

December 21, 1988

TO: The General Assembly of Virginia

The report contained herein is pursuant to §38.2-1905.1 of the Code of Virginia and addresses the level of competition, availability, and affordability of personal injury and property damage liability insurance covering commercial entities.

This report also designates the lines and subclassifications of such insurance for which the Commission has reasonable cause to believe that competition may not be an effective regulator of rates. Supplemental reports for these lines and subclassifications of insurance are required to be filed with the Commission on or before May 1, 1989.

Respectfully submitted,

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cc: The Honorable Mary Sue Terry
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EXECUTIVE SUMMARY

The Code of Virginia requires the State Corporation Commission to report to the General Assembly each year:

- The level of competition among insurers with respect to personal injury and property damage liability coverages for business entities;

- The availability of those liability coverages; and

- The affordability of those liability coverages.

The report must identify any specific liability lines or subclassifications for which the Commission has reasonable cause to believe that competition may not be an effective regulator of rates. Insurers will subsequently be required to file supplemental reports with the Commission for the lines and subclassifications found to be potentially noncompetitive, indicating their direct experience (including premiums and losses) attributable to these liability lines.

In preparation for the 1988 report, the Bureau of Insurance conducted approximately 33 separate surveys of consumers, consumer groups, insurance companies, agencies, and surplus lines brokers. The Bureau's research also included reviews of similar surveys and studies conducted by private or independent research firms, investment research groups, and the federal government. In addition, information was solicited from the Bureau's Consumer Services Section as respects complaints received regarding the availability or affordability of commercial liability coverages. Surplus lines affidavits (which must be filed with the Bureau when coverages are written by nonadmitted companies) were reviewed to determine the liability lines most often being written by these insurers. The Office of the Attorney General was also encouraged to provide the Bureau with any relevant information developed by the Division of Consumer Counsel.

In the course of two written surveys (conducted in May and October of 1988), the Bureau questioned numerous insurers, agents, and surplus lines brokers to determine:

- The number of insurers currently writing various commercial liability coverages;

- The extent to which insurers are seeking to write these coverages;

- The degree to which rates are established by rate service organizations; and

- The extent and nature of rate differentials among insurers for these coverages.

In addition to the numerous lines and subclassifications specifically listed in the Bureau surveys, insurers, agents, and surplus lines brokers were asked to identify any other liability lines where they perceived availability or affordability problems. Approximately two thirds of the 300 insurers surveyed provided usable information, while approximately half of the more than 1,150 agencies surveyed provided relevant data. More than half of the 204 surplus lines brokers submitted pertinent information.

Extensive telephone surveys of consumers and consumer groups were also conducted, for example:

- One hundred fifty-two child care providers throughout the state were contacted from a listing provided by the Virginia Department of Social Services and questioned as to the availability and affordability of day care liability coverage.

- Four other day care centers were selected at random and asked for specific details of their most recent liability insurance renewal premium quotations.

- Two child care providers' associations were contacted for information regarding their members' insurance problems.

- A number of state insurance departments were asked to provide information regarding any special programs developed to assist consumers in the day care market segment.

- Telephone surveys of companies and agencies separately addressed day care liability coverage provided as part of Homeowners policies (as opposed to commercial liability policies).

- Administrators/Managers of 49 towns, 24 counties and ten cities in Virginia were surveyed by telephone with regard to the availability and affordability of municipal liability coverages.

- Two additional towns and two additional counties were contacted for specific details of their most recent renewal premium quotations.

- Nine major insurers were surveyed with respect to special liability insurance programs for commercial contractors.

- Competitive quotes were solicited and received from 26 companies for a hypothetical commercial contracting risk.

- Fifty-six establishments licensed by the Virginia Alcoholic Beverage Control Board were surveyed by phone with respect to the availability and affordability of liquor liability coverage.

- Thirty-five pest control operators were surveyed to determine the level of competition within this market segment.

- Twenty real estate agents throughout the state were contacted for information regarding availability and affordability of professional liability coverage.

- Fifty-three consumers within 16 different subclassifications in the recreational liability market definition (including campgrounds, parades, fairs, bowling alleys, health clubs, skating rinks, etc.) were contacted in an effort to identify specific classes experiencing availability or affordability problems.

Similar telephone surveys of consumers, insurers, agents, and appropriate consumer groups were also conducted with respect to other lines and subclassifications where availability or affordability problems were perceived.

Overall, survey results indicate that market conditions have improved and that most forms of commercial liability insurance are more available and affordable than they were 12 months ago. After considering the information developed from the extensive surveys and other research conducted by the Bureau of Insurance, the Commission has identified the following commercial liability lines and subclassifications for which competition may not be an effective regulator of rates. These lines and subclassifications were not separately designated as potentially noncompetitive in the Commission's 1987 report to the General Assembly.

- Asbestos Abatement Contractors Liability
- Dams (existence hazard) Liability
- Detective or Investigative Agencies Liability (private)
- Gas Companies Liability
- Landfill Liability
- Public Officials Errors and Omissions Liability
- Rental Stores (machinery or equipment) Liability
- School Board Errors and Omissions Liability
- Security and Alarm Systems Installation Liability
- Security Guards Liability
- Sewage Treatment Plants Liability
- Underground Storage Tanks Liability
- Volunteer Fire Departments and Rescue Squads Liability

- Water Treatment Plants Liability

In view of the questionable accuracy of the 1988 supplemental reports, and after considering the results of the current surveys, the Commission has also designated as potentially noncompetitive the same lines and subclassifications that were designated in the 1987 report to the General Assembly.

Results of the following independent studies conducted on a countrywide basis tend to supplement and support the conclusions developed from Bureau surveys:

- The United States General Accounting Office Insurance Study revealed an overall increase in availability and affordability in 1988. Although premium increases in 1986 were relatively large, insurance costs remained a small proportion of annual gross receipts. Given this small percentage, it was deemed unlikely that (1) increased insurance costs could have had a great effect on the cost of goods and services or (2) the viability of the organizations was threatened.

- The Goldman Sachs Insurance Rate Survey, conducted by an independent investment research firm, concluded that premiums are not rising fast enough to keep up with costs of claims and, consequently, loss ratios are headed significantly higher.

- Standard and Poor's composite average of stocks demonstrated that the property and casualty insurance industry has not earned excessive profits relative to other sectors of the economy. This finding was supported by a Value Line report (which focused on a number of specific property and casualty insurers) as well as a study by the American Academy of Actuaries.

Another independent study, published by the Palmer Bellevue Corporation, concluded that open competition, rather than prior approval regulation, tends to result in higher pure loss ratios and, therefore, greater value for insureds.

Currently under development by the Bureau of Insurance is a program to assist consumers in locating insurance companies seeking to write coverages where the consumer has encountered an availability problem. This program will be in the form of an information and referral system developed from market research conducted by Bureau personnel.

To provide for a dialogue between regulators and insurance consumers, consumer advisory committees will be established and public hearings will be conducted throughout the state on a regular basis.

In October, 1988, the Commission recommended to the General Assembly's Joint Subcommittee studying insurance issues that the Code of Virginia be amended to prohibit rate service organizations from filing final rates, which include average expense factors, on behalf of their member companies. The result of this change would be to require each insurer to add its own expense component to the loss cost data provided by the rate service organization and file its own final rates. It is anticipated that this change will serve to enhance competition in the commercial liability lines and subclassifications where final rates are currently developed and filed by rate service organizations.

Approximately 25 Bureau staff members were involved in surveys and other research related to this project. The areas of expertise of these individuals include all facets of property and casualty insurance, insurance law, and regulatory procedures. Input was also obtained from experts in actuarial science and economics.

The standards enumerated in Section 38.2-1905.1 of the Code of Virginia were applied to the accumulated survey data to determine whether there is reasonable cause to designate a particular line or subclassification as potentially noncompetitive.

Based upon the information developed by the comprehensive surveys conducted by the Bureau of Insurance, and due to the questionable accuracy of the data developed by the 1988 supplemental reports, the Commission has reasonable cause to believe that competition may not be an effective regulator of rates for the following lines and subclassifications of commercial liability insurance:

- Architects and Engineers Professional Liability
- Asbestos Abatement Contractors Liability
- Commercial Contractors Liability (approximately 100 subclassifications)
- Dams (existence hazard) Liability
- Day Care Liability
- Detective or Investigative Agencies Liability (private)
- Directors and Officers Liability
- Environmental Impairment Liability
- Gas Companies Liability
- Insurance Agents Professional Liability
- Landfill Liability
- Law Enforcement Agencies Liability
- Lawyers Professional Liability
- Liquor Liability
- Medical Professional Liability

- Municipal Liability
- Pest Control Liability
- Products and Completed Operations Liability (approximately 1000 subclassifications)
- Public Housing Liability
- Public Officials Errors and Omissions Liability
- Real Estate Agents Professional Liability
- Recreational Liability (approximately 200 subclassifications)
- Rental Stores Liability (machinery or equipment)
- School Board Errors and Omissions Liability
- School Divisions Liability
- Security and Alarm Systems Installation Liability
- Security Guards Liability
- Sewage Treatment Plants Liability
- Underground Storage Tanks Liability
- Volunteer Fire Departments and Rescue Squads Liability
- Water Treatment Plants Liability

These lines and classifications include the 17 which were designated in last year's report as well as 14 additional classes identified from this year's survey data and represent more than 1,300 individual subclassifications and types of coverages.

For the lines and subclassifications not listed, survey data indicates that competition is active and is an effective regulator of rates. The generally competitive lines and subclassifications include most habitational classes (apartments and rental housing), retail and wholesale establishments, service businesses and processing risks, as well as many professional liability lines.

Insurers writing commercial liability lines and subclassifications designated as potentially noncompetitive will be required to file, on or before May 1, 1989, supplemental reports for further investigation and hearings by the State Corporation Commission.

I. INTRODUCTION

Legislative Directive

Section 38.2-1905.1 of the Code of Virginia directs the State Corporation Commission to report to the General Assembly, at least annually, indicating:

1. The level of competition among insurers in Virginia for the lines or subclassifications of liability insurance defined in Sections 38.2-117 and 38.2-118 of the Code (personal injury and property damage liability);
2. The availability of those lines or subclassifications of insurance; and
3. The affordability of those lines or subclassifications of insurance.

The report shall also designate all insurance lines or subclassifications defined in Sections 38.2-117 and 38.2-118, insuring a commercial entity, for which the Commission has reasonable cause to believe that competition may not be an effective regulator of rates.

Summary of the 1987 Report

The Commission's 1987 report provided an analysis of the level of competition, availability and affordability in the commercial liability insurance market. Based on the findings of that study, it appeared that competition was an effective regulator of rates for many lines and subclassifications. Some of the generally competitive areas included:

1. Premises/Operations Liability

    A. Trade Contractors Not Engaged in Commercial Construction
    B. Habitational Properties; i.e., apartments and rental housing
    C. Retail and Wholesale Business Operations
    D. Other Service and Mercantile Businesses

2. Commercial Umbrella (Excess Liability)

The report designated the following lines and subclassifications as potentially noncompetitive:

1. Products and Completed Operations Liability (Including Discontinued Operations)

2. Environmental Impairment Liability

3. Liquor Liability

4. Directors and Officers Liability

5. Premises/Operations Liability for:

   A. Commercial Contracting
   B. Hazardous Waste Contracting
   C. Pest Control/Exterminators
   D. Government Entities
   E. Law Enforcement Agencies
   F. School Divisions
   G. Public Housing
   H. Recreational Exposures
   I. Day Care/Child Care

6. Professional Liability for:

   A. Medical Professionals
   B. Lawyers
   C. Insurance Agents
   D. Architects
   E. Engineers
   F. Real Estate Agents

Pursuant to Virginia Code Section 38.2-1905.2.C., insurers writing any of these potentially noncompetitive lines and subclassifications were required, on or before May 1, 1988, to file supplemental reports for further review by the State Corporation Commission.

Environmental impairment and hazardous waste contracting were combined into one class, as were architects and engineers, due to similarities in exposures.

Results of Supplemental Reports

Administrative Letter 1988-3, dated January 26, 1988, outlined the lines and subclassifications of commercial liability insurance for which supplemental reports were required. The Administrative Letter contained a copy of the Commission's order adopting the report format, a blank reporting form, and a list of the market definitions most commonly used in reporting commercial liability statistics. The companies were required to report in the greatest detail possible their direct experience for each of the 17 designated lines or subclassifications.

According to the Bureau's records, 394 of the 590 licensed companies filed on or before the deadline. Settlement offers were sent to 124 companies that filed reports after the due date. Companies that did not respond at all were requested to justify their failure to file. Most of these companies indicated that they did not write business in the designated market definitions and, therefore, were not required by the law to file a response.

The Bureau determined that of the 890 reports received which contained data on the various market definitions, only 393 reports were acceptable for limited use (primarily to indicate premium volume). The quality of the reports ranged from a few detailed submissions to a large number that were sketchy and unreliable. Aggregation of this data, because of its poor quality, did not yield credible information.

Hearing Conducted by the Commission

On June 29, 1988 the Commission held a hearing to determine whether competition was an effective regulator of rates for the lines and subclassifications of commercial liability insurance designated in the 1987 report. Representatives from Industry, the Attorney General's Office, and the Bureau of Insurance presented the Commission with information on the extent of competition within the commercial liability insurance market.

Position of the Insurance Industry

Representatives from insurance companies and industry professional associations indicated that the commercial liability insurance market in Virginia was competitive. They stated that their position was supported by a general analysis of the structure of the property and casualty market as follows:

1. The current insurance market consists of active licensed insurers, active surplus lines companies, inactive writers (currently licensed but not writing) and self-insurers.

2. Ease of entry and exit characterize the insurance market and market power cannot be exercised without barriers to entry.

3. The minimum efficient scale (the smallest size at which an operation is efficient) in the property and casualty insurance industry occurs in small-sized firms, allowing them to compete effectively with large firms.

4. Concentration within a line or subclassification may result from efficiency of certain insurers in writing particular types of risks; however, even if a particular market segment is characterized by a relatively high degree of concentration, the insurer would be unable to exercise undue influence in the market because:

a) the insurance products are very similar;
b) there are no barriers to entry; and
c) smaller firms can expand output and compete effectively on a cost basis.

5. Price competition in the property and casualty market is enhanced by the use of pricing techniques such as rate deviations, package modifiers, schedule rating and experience modifications.

Industry representatives also indicated that the market for several lines and subclassifications was expanding and that companies were actively and aggressively seeking new business. Industry's consensus was that, with the exception of environmental impairment liability, competition was an effective regulator of rates for the lines in question.

Position of the Office of the Attorney General

After analyzing approximately 400 supplemental reports, the Attorney General's Office concluded that competition was not an effective regulator of rates for any of the lines and subclassifications that were designated as potentially noncompetitive in the 1987 report.

According to the Attorney General's witness, the primary criterion used to examine the level of competition was profitability. Specifically, the data on earned premiums and incurred losses was reviewed for each of the lines and subclassifications of insurance. The witness testified that, with the exception of environmental liability, the results of the analysis indicated that there was excess profitability and the excessively high rates of return signaled that the competitive process was not working effectively because, in a market characterized by ease of entry, new firms would bid away any excess profit.

A secondary factor considered in the Attorney General's analysis was the number of companies utilizing rate service organizations and the extent of deviations from the rates filed by such organizations. It was observed that most, if not all, of the companies used rate service organizations; however, only a small percentage used deviations.

In the Attorney General's analysis, it was also argued that the concentration ratio, rather than the number of firms in the market, is a more appropriate test of the level of competition. The concentration ratio indicates the share of the market dominated by the top few firms. The Attorney General's witness testified that the supplemental reports indicated that, in most cases, the top four or five companies accounted for 90 percent or more of the earned premiums within a particular line or subclassification. The witness concluded that such concentration would give the few dominant firms considerable price control.

Position of the Bureau of Insurance

Based on an analysis of the supplemental reports, the Bureau testified that competition was an effective regulator of rates for the following lines, subclassifications and types of coverages:

1. Products and Completed Operations Liability (Including Discontinued Operations)
2. Governmental or Municipal Liability
3. Day Care/Child Care Liability
4. Recreational Liability
5. Commercial Contracting Liability
6. School Divisions Liability

A relatively large number of carriers reported premiums for the above lines and subclassifications. Additionally, the companies had on file a variety of methods which could be used to modify rates. Such methods included experience and schedule rating plans, rate deviations and package modifications. There were also numerous special programs filed for these market definitions. These methods and programs significantly increased the possibility of rate variance.

Due to the poor quality of the information contained in the supplemental reports, the Bureau's analysis provided no compelling evidence to indicate that the following lines and subclassifications were competitive:

1. Lawyers Professional Liability
2. Medical Professional Liability
3. Public Housing Liability
4. Real Estate Agents Professional Liability
5. Insurance Agents Professional Liability
6. Law Enforcement Agencies Liability
7. Pest Control Liability

The Bureau, therefore, recommended that these lines and subclassifications be declared noncompetitive and placed under the delayed effect rate filing provisions of Section 38.2-1912 of the Code of Virginia.

The Bureau concluded that four other lines or subclassifications of liability insurance were noncompetitive but recommended that these classes be exempted from rate filing requirements pursuant to Section 38.2-1903 of the Code of Virginia as the most effective way to facilitate the continued availability of these lines.

The recommended exemptions were:

1. Environmental Impairment Liability
2. Directors and Officers Liability
3. Liquor Liability
4. Architects and Engineers Professional Liability

The diverse exposures and specialized coverages inherent in these lines do not lend themselves to class rating. The Bureau concluded that insurers would be forced out of the market if they were presented with an inflexible rating structure for these types of coverages.

Commission's Decision

After hearing the testimony and reviewing the evidence presented, the Commission ruled that the evidence supported adoption of the recommendations of the Bureau of Insurance. The Commission noted that the basis for the Bureau's recommendations was not that there was evidence of noncompetition within certain lines of insurance; rather, there was insufficient information in the reports to determine whether competition was an effective regulator of rates for such lines.

The Commission indicated that the 1987 enactments have placed the burden of proof, that competition is an effective regulator of rates, on the insurance industry. If this were not so, the industry, by withholding the information which it alone possesses, would be able to attain its desired results through default. The Commission concluded that the information required to be submitted by the industry is within Industry's control, and that the analysis of this information by the Bureau of Insurance is totally dependent upon the quality and sufficiency of the reported information.

The Commission commented that 1988 was the first year in which this type of detailed information was required, and consequently anticipated that future supplemental reports would be of higher quality and provide more competent data. The Commission found it unnecessary to make further provision for medical malpractice liability insurance since it had already renewed the applicable prefiling rule for this line in a separate order entered July 13, 1988.

The Commission, in its order entered September 16, 1988, held that competition was not an effective regulator of rates charged for:

1. Lawyers Professional Liability;
2. Public Housing Liability;
3. Real Estate Agents Professional Liability;
4. Insurance Agents Professional Liability;
5. Law Enforcement Agencies Liability; and
6. Pest Control Liability.

Pursuant to Section 38.2-1912 of the Code of Virginia, the Commission ruled that any rates or supplementary rate information with regard to these lines must be filed with the Commissioner of Insurance at least 60 days prior to their effective date.

The Commission also found that competition was not an effective regulator of rates charged for:

1. Environmental Impairment Liability;
2. Directors and Officers Liability;
3. Liquor Liability; and

4. Architects and Engineers Professional Liability.

However, after consideration of the evidence presented, the Commission ruled that rates for these lines would be exempted from filing requirements pursuant to Section 38.2-1903 of the Code of Virginia.

II. THE 1988 REPORT

Research Methodology

In preparation for the State Corporation Commission's 1988 report to the General Assembly, the Bureau of Insurance conducted extensive surveys to determine the level of competition, availability and affordability within the commercial liability insurance market.

Although the survey questionnaires were tailored individually for companies, agencies, and brokers, they were all structured to provide information relevant to the following factors outlined in Section 38.2-1905.1 of the Code of Virginia:

1. The number of insurers actually writing insurance within the line or subclassification;
2. The extent to which insurers licensed to write the line or subclassification are seeking to write or obtain new business;
3. The respective market share of insurers actually writing insurance within the line or subclassification;
4. The degree to which rates within the line or subclassification are established by rate service organizations;
5. The extent and nature of rate differentials among insurers within the line or subclassification; and
6. The ease of entry into the line or subclassification by insurers not currently writing such line or subclassification.

The Bureau also addressed other factors in its research which may be pertinent to the determination of whether competition is an effective regulator of rates within the various lines and subclassifications of commercial liability insurance, such as the relative profitability of the insurance industry and the probable effects of the 1986 Tax Reform Act.

This report is only the first step in the review process and is not meant to be the definitive determination by the Commission. While the Bureau's research has been comprehensive, it does not include the more detailed information which will be developed from the supplemental reports that insurers will file with the Commission for those lines and subclassifications identified as "potentially noncompetitive" in this report. Because of the inconclusive nature of the 1988 supplemental reports, it has been decided that it would be appropriate to again survey the market in the 1989 supplemental reports with respect to the following types of liability coverages:

- Architects and Engineers Professional Liability
- Day Care Liability
- Directors and Officers Liability
- Environmental Impairment Liability
- Insurance Agents Professional Liability
- Law Enforcement Agencies Liability
- Lawyers Professional Liability
- Liquor Liability
- Medical Professional Liability
- Municipal Liability
- Pest Control Liability
- Public Housing Liability
- Real Estate Agents Professional Liability
- Recreational Liability
- School Divisions Liability

Surveys were mailed to 299 licensed property and casualty insurers who reported written premium for liability, other than auto liability, in 1987. A total of 230 responses were received of which 35 were rejected, either because the insurers wrote only personal lines liability coverages or they were involved only in specialty markets such as reinsurance or credit-related products.

The companies were asked to indicate whether they currently write, and also whether they are willing to write, the listed lines, subclassifications and types of coverage. Other questions requested information as to rates being used, rate service organizations subscribed to and modifications applied to rates published by rate service organizations. Insurers were also asked to list any other lines or subclassifications of commercial liability insurance where availability or affordability problems exist.

Surveys were sent to 1,153 licensed property and casualty agencies. A total of 591 responses were received of which 91 were rejected, either because the agencies did not write or attempt to write commercial liability coverages or because the respondent could not be identified.

Agencies were asked whether they represent a licensed insurer who will write the listed liability coverages. They were also asked for an opinion as to whether availability and affordability for these lines had improved, worsened or remained unchanged over the past 12 months. Agents were then asked to list any additional commercial liability lines for which they perceived significant availability or affordability problems.

The Bureau mailed survey forms to 204 licensed surplus lines brokers. Of the 132 responses received, 21 were rejected because the brokers were inactive or were specializing in lines other than commercial liability.

Brokers were asked whether they are associated with an approved surplus lines company that will write the lines and coverages specified. They were also asked to identify any other lines or subclassifications of commercial liability insurance where availability or affordability problems exist.

Telephone surveys of consumers, companies, agencies, trade associations and consumer groups were targeted to address availability and affordability concerns with respect to specific lines or coverages.

To gain additional insight into commercial liability insurance availability and affordability problems, Bureau of Insurance Property and Casualty Consumer Services staff members were surveyed. In addition, a review was made of surplus lines affidavits filed during 1988 in order to ascertain the types of commercial liability coverages currently being written in the surplus lines market.

Mail and phone surveys were also separately conducted with respect to liability coverage for commercial contractors and products and completed operations exposures. Due to the broad nature of the products and completed operations classification, it was not practical to separately survey consumers in this market segment; however, these coverages were included in several surveys with regard to specific subclassifications. Commercial contractors liability and products and completed operations liability will also be included in the 1989 supplemental report forms.

Survey Results

In the following pages, the results of the surveys of companies, agencies and surplus lines brokers are summarized separately as they apply to each line or subclassification of liability insurance. Where applicable, the results of consumer surveys and other research are also explained.

Each section will address the issue of availability from the viewpoint of companies, agencies, and surplus lines brokers and, where possible, consumers.

The concentration of written premium among insurers writing each coverage will be noted as derived from the 1988 supplemental reports. Comparisons will be made between the number of insurers indicating in current Bureau surveys that they are willing to write specific coverages and the number of insurers who indicated in the 1988 supplemental reports that they were seeking to write new business in these market definitions. It should be noted, however, that the 1988 supplemental reports asked this question only of insurers currently writing the particular liability line, whereas the current surveys also asked insurers not currently writing a particular line whether they would be willing to write the coverage.

The existing rate structure, the degree to which rates are established by rate service organizations and, where appropriate, the extent of rate deviations and modifications being used will also be addressed.

The relative ease or difficulty with which new writers may enter the market will be explained as it relates to each type of coverage.

Architects and Engineers Professional Liability

Professional liability insurance coverage for architects and engineers pays on behalf of the insured sums which he becomes legally obligated to pay as damages if legal liability arises out of the performance of professional services for others and is caused by an error, omission or negligent act of the insured or of any person or organization for whom the insured is legally liable.

Bureau surveys found nine companies currently writing this coverage and each of these companies is willing to write new business. Additionally, the surveys identified eight companies willing to write this coverage that do not currently have policies in effect for this market segment. This represents a marked difference when compared to the 1988 supplemental reports which found no insurers seeking to write new business in this liability line.

Of the agencies surveyed, 97 stated that they represent licensed insurers that will provide the coverage. Of the agents surveyed who felt that market conditions had changed with respect to this coverage, 77% said that availability had improved and 65% said that affordability had improved in the past 12 months.

Sixty surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top two writers accounted for more than 99% of the 1987 written premium.

According to a local agent who specializes in architects and engineers professional liability insurance (and who is currently providing coverage for 160 design firms), availability is improving and rates are down. Virginia has lower rates than every state except North Carolina with one of the major writers of this coverage. The agent further stated that, with two major admitted carriers offering coverage to a broad range of architectural and engineering disciplines, and nine surplus lines companies seeking to write new business, there is no shortage of carriers.

Ease of entry into this market segment is somewhat limited in that some specialized expertise in underwriting and claims management is needed. Furthermore, since this line is not filed by rate service organizations, each insurer must file forms independently.

Since this class of insurance is currently exempt from rate filing requirements, premiums are developed on an individual risk basis. The companies responding to our survey reported three different approaches to ratemaking for this line. Rates for this type of coverage are not promulgated by rate service organizations. Insurers have indicated that the diversity of these exposures makes each architect's or engineer's practice unique and, therefore, not adaptable to class rating.

Approximately 56 Virginia architects have written to the Insurance Commissioner to express their concern with regard to the exemption of this line of insurance from rate filing requirements. Many of these individuals specifically requested that rates for architects professional liability be designated for prior filing under Section 38.2-1912 of the Code of Virginia. In response to these requests, research was undertaken to determine whether a requirement for prior filing of specific rates would adversely affect availability or affordability in this market definition.

The two primary licensed companies offering this coverage indicated that, due to the infinite variation in exposures, the lack of a credible data base, and the fact that the other major writers of this coverage are primarily surplus lines companies (whose rates are unregulated), the flexibility of individual risk rating is vital to their ability to provide this coverage. Evidence was presented that, while rates are not specific, by class, and are not subject to filing requirements, they also are not arbitrary and are based on sound actuarial and underwriting procedures.

Based upon the arguments presented and the information developed in the surveys conducted with respect to this coverage, the Bureau of Insurance recommends that the rate filing exemption under Section 38.2-1903 be continued. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Commercial Contracting Liability

In May of 1988, a survey of insurance company regional managers, agents and surplus lines brokers was conducted to determine the level of availability, affordability, and competition within the commercial contracting liability market definition. This broad market definition is made up of almost 100 separate subclassifications including such diverse exposures as masonry, plumbing, air conditioning, excavation, carpentry and demolition.

Approximately 85% of the 56 insurers responding to the survey indicated that they had written this type of business within the past year and more than 80% were actively seeking to write this coverage. Approximately 79% reported that they applied downward deviations to filed rates in pricing these risks.

Eighty-one percent of the 772 agents responding indicated that they are writing this type of business and over 55% of the surplus lines brokers responding stated that they are writing this coverage.

The 1988 supplemental reports showed written premium reported in this line in 1987 by 89 companies with the largest writer accounting for only 19% of the market share.

While individual commercial contracting risks may be experiencing increases in final premiums, this appears to be due largely to factors other than rate increases. Rates for commercial contracting classifications are based upon inflation-sensitive, or growth-sensitive, units of measure. Premiums for both ongoing and completed operations are developed by rates applied "per $1,000 of payroll". Under conditions of economic growth, payrolls increase and, therefore, premiums increase. This will be true even when the rate per $1,000 of payroll does not increase. Nonresidential construction set new records in Virginia during 1987. The total of 10,903 permits issued was the highest number recorded since 1980, as was the aggregate value of these permits -- $1.98 billion dollars.[1]

A telephone survey of nine major insurers with offices in Richmond revealed that each had on file a special program for contractors. Six programs included independently filed rates while three programs were based on Insurance Services Office (ISO) rates. Two different ISO filings were being used (1987 rates and 1988 rates) with rate deviations and modifications ranging from credits of up to 40% to debits of up to 40%. All of these carriers indicated that they were aggressively seeking new business in this market segment.

In an effort to determine the actual level of competition within this market definition, applications for coverage for a hypothetical commercial contractor were sent to 37 companies. These insurers were asked to provide the developed premium before and after application of any experience and schedule rating modifications and to indicate the effective (edition) date of the rates being used. Exhibit I displays the 26 responses received and demonstrates the extremely competitive conditions which exist in this market segment. Premiums quoted ranged from $18,278 to $71,347.

There would appear to be no effective regulatory or operational barriers to entry for this market definition and the necessary rules, rates and forms are filed by rate service organizations.

While this liability line exhibits signs of aggressive competition, due to the incomplete nature of the 1988 supplemental reports, this market segment will also be designated as potentially noncompetitive and included in the 1989 supplemental report forms.

Day Care Liability

Sixty-four companies reported in the survey that they currently have policies in effect providing day care liability coverage. Sixty of these companies are seeking to write new business in this market segment. Additionally, 14 companies not currently writing this coverage expressed a willingness to write. In all, 74 companies are willing to write new business in this market definition. The 1988 supplemental reports, in contrast, indicated only eight companies seeking new business.

Fifteen of the companies surveyed indicated that they file independent rates for this coverage while 43 companies use rate service organization filings. Deviations from, and modifications to, filed rates varied from credits of up to 67.5% to debits of up to 142% with 85% of the companies indicating that deviations or modifications are applied when appropriate.

Of the agencies surveyed, 166 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 79% said that availability had improved and 70% said that affordability had improved in the past 12 months.

Fifty-seven surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports show 26 companies writing this coverage with the top three insurers accounting for over 62% of the 1987 written premium.

A telephone survey of the top 20 writers of Homeowners insurance in Virginia, representing 72% of the market share, revealed that 78% currently offer coverage for home day care exposures under Homeowners policies. Premiums charged for this additional coverage range from zero to $140 per year and vary depending upon policy limits and the number of children being cared for by the policyholder.

A telephone survey of 19 licensed insurers indicated commercial liability coverage is available for small, medium and large-sized day care facilities, with church-affiliated facilities being preferred to some extent over public, for profit facilities. Typical underwriting requirements include state licensing, physical inspections of premises, fenced play areas, specific child/staff ratios, and experienced, trained or certified personnel. Forty-two percent of the companies contacted indicated that their policies exclude sexual abuse or child molestation.

A telephone survey of 44 agencies developed a list of 24 different companies (admitted carriers and approved surplus lines companies) providing coverage. When asked whether any insured day care center had been cancelled or non-renewed in the past three years, 75% responded that they had not experienced this problem.

In order to obtain information from consumers regarding the availability and affordability of day care liability coverage, the Bureau obtained lists of "licensed child care centers" and "licensed family day care homes" from the Virginia Department of Social Services.

Generally, a child day care facility must be licensed by the Department of Social Services as a "family day care home" if it provides care during part of the day to at least six children in a private family home. If the facility provides care during part of the day to at least 10 children in a private family home, it must be licensed as a "child care center". If the facility is located in other than a private family home and provides care during part of the day to at least two children, it must be licensed as a "child care center".

A systematic sampling of "licensed child care centers", by locality and size, was selected and 91 such centers were surveyed. All 91 centers were commercially insured with at least 27 different licensed and surplus lines insurers being represented. Of the centers contacted, 69% indicated they had experienced no problems with availability or affordability. Of the centers reporting difficulties, half complained of affordability problems while the remainder indicated primarily availability problems. Eighty percent indicated no problems with cancellation or non-renewal; however, 18% indicated coverage had been non-renewed in the past three years because their insurer had ceased writing this coverage.

Sixty-one "licensed family day care homes" were surveyed in six Virginia localities. Of those contacted, 57% were insured with a variety of licensed and surplus lines carriers, with 11 different companies being represented. Of those insured, 69% obtained coverage under their Homeowners policies. Approximately 48% of those contacted reported problems with availability or affordability.

Results of these two phone surveys are displayed in Exhibit II.

The information developed in several of these surveys appears to indicate that availability problems exist primarily when more than three children are cared for in a private family home. This is also confirmed by a survey of complaints received by the Consumer Services Section of the Bureau of Insurance. Conditions in these day care operations frequently do not meet insurance company underwriting requirements as previously described.

A representative of the Tidewater Area Planning Council indicated that, although day care coverage is available to their members at a cost of $250 per year, fewer than 20 of the 177 homes in the system have purchased the coverage.

A spokesperson for the Roanoke Valley Chapter of Family Child Care Providers expressed amazement at the number of child care providers who do not carry liability insurance. She observed that coverage is more available and affordable now than in the past and indicated that coverage can be purchased for about $80 per year.

Four Virginia day care centers were selected at random and contacted for specific details of liability insurance quotes they had received for their most recent renewal. The following summarizes the information received:

1. A center providing foster care for 52 "troubled" children up to age 18 obtained coverage at limits of $500,000/1,000,000 for an annual premium of $240.

2. A day care facility caring for 80 children obtained limits of $1,000,000/2,000,000 for an annual premium of $439.

3. A center caring for 55 children obtained limits of $1,000,000 for an annual premium of $647.

4. A center caring for 120 children obtained limits of $1,000,000 for an annual premium of $1,100.

These examples demonstrate that a variety of rates are being used ($4.62, $5.49, $11.76 and $9.17 per child) and that the average rate, per child, per year, is $7.90 for this group for average limits of $1,000,000. This amounts to just over $.03 per child, per day, based on 52 five-day weeks per year.

Out of 19 state insurance departments responding to a recent survey, five reported active market assistance programs for this coverage; a sixth state has instituted a telephone "hot line" to assist consumers in obtaining coverage. A seventh state, where homeowners insurance non-renewals are a concern, has urged insurers to provide coverage under homeowners policies where the exposure exists and to cease non-renewals based on this exposure. An eighth state has an active joint underwriting association providing this coverage. Other states responding have not specifically recognized or addressed this problem.

This market segment is relatively free from barriers to entry for new writers since rates and forms are filed by rate service organizations and no specialized underwriting or claims expertise is required.

While this liability line exhibits evidence of active competition, due to the poor quality of the 1988 supplemental report data, this market segment will also be designated as potentially noncompetitive and included in the 1989 supplemental report forms.

Directors and Officers Liability

Directors and officers liability insurance pays on behalf of insureds sums they are legally obligated to pay because of wrongful acts, errors or omissions committed in the course of their duties as directors and officers.

Seventy-three companies reported that they currently have policies in effect for this liability line. Sixty-seven of these companies also reported a willingness to write new business. Additionally, seven companies with no policies currently in effect expressed a willingness to write this coverage. In all, 74 companies indicated that they are willing to write directors and officers liability. This contrasts with the 1988 supplemental reports which indicated only 12 companies were seeking to write this coverage.

Of the agencies surveyed, 258 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 91% said that availability had improved and 85% said that affordability had improved in the past 12 months.

Seventy-five surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top three writers accounted for more than 75% of the 1987 written premium.

This coverage is currently rated on an individual risk basis and rates are exempt from filing requirements. Rate service organizations do not promulgate rates for this line. The 73 companies currently writing this coverage described at least 20 different rating plans based on approximately 10 different types of exposure units.

Operational barriers to entry in this market segment vary with the type of exposure to be insured. Relatively little specialized knowledge would be required with respect to such exposures as condominium directors and officers, whereas financial institutions present a more complex exposure. Since rate service organizations do not file this line of commercial liability insurance, companies writing this coverage must file their forms independently.

Due to the infinite variations in exposures within this market definition, this liability line does not lend itself to class rating. Bureau research indicates that continuation of the rate filing exemption under Section 38.2-1903 of the Code of Virginia is essential to the continued availability of this coverage. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Environmental Impairment Liability

Environmental impairment liability insurance generally covers the insured's liability for bodily injury and property damage resulting from pollution and associated cleanup costs.

Ten companies reported that they currently write this coverage and all ten are willing to write new business. An additional six companies that are not currently writing this liability line expressed a willingness to provide the coverage. This contrasts with the 1988 supplemental reports which found only five companies seeking to write this coverage.

However, of the agents surveyed who felt that market conditions had changed with respect to this coverage, 56% said that availability had worsened and 75% said that affordability had worsened in the past 12 months. Fifty-nine agents stated that they represent licensed insurers that will provide the coverage.

Thirty-five surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top three writers accounted for almost 90% of the 1987 written premium.

This coverage is currently rated on an individual risk basis and rates are exempt from filing requirements. Rate service organizations do not promulgate rates for this line. The companies writing this coverage reported at least four different rating methods and base rates.

This market definition consists of a wide variety of exposures, including manufacturing, landfills, pesticide application, and asbestos abatement. Availability varies depending upon a number of factors. One exposure which has experienced severe availability problems is the existence of underground storage tanks.

In response to the Environmental Protection Agency's underground storage tank regulations on the federal level, the Bureau of Insurance has proposed a regulation to permit the formation of group self-insurance pools by owners and operators of underground storage tanks. The proposed pools will assist owners and operators of such tanks in meeting the EPA requirements for evidence of financial responsibility and should be especially helpful to owners of small gasoline stations and convenience stores who might otherwise be unable to meet the EPA requirements. The Commission will conduct a hearing to consider the Bureau's proposal.

This market segment could pose significant barriers to entry for new insurers due to the need for specialized knowledge in underwriting and claims handling. The evaluation of exposures and the complex legal environment surrounding these exposures would require a significant and long-term investment of a prospective insurer's resources. The degree of difficulty would, of course, vary with the types of risks being underwritten. While some forms for this coverage are filed by rate service organizations, some exposures may require the development of specialized forms or endorsements.

Continuation of the rate filing exemption for this liability line is crucial to the existence of a market for this coverage. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Insurance Agents Professional Liability

Insurance agents professional liability coverage pays on behalf of insured agents or brokers damages arising out of negligent acts, errors or omissions in the performance of their professional duties. Covered claims may be brought by agency customers or by companies which the agent represents.

Sixteen companies indicated on the survey that they are currently writing this coverage. An additional seven companies that are not currently writing expressed a willingness to write this liability line. In all, the survey found 23 companies willing to provide the coverage. This demonstrates a significant difference when compared to the 1988 supplemental reports, which found only four companies seeking new business.

Of the agencies surveyed, 161 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 64% said that availability had improved; however, 69% said that affordability had worsened in the past 12 months.

Fifty-two surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top three writers accounted for over 85% of the 1987 written premium.

A telephone survey was made of agents, as consumers of this coverage, in which 52 agencies were contacted. Fifty-one of the agencies surveyed were insured with licensed insurers; one was self-insured and had been for the past three years. Fifteen percent of those surveyed reported problems related to affordability or availability. Eighty-one percent of the agencies surveyed are insured under plans endorsed or sponsored by professional associations. Twenty-six agencies indicated their coverage was secured through the Independent Insurance Agents of America (IIAA) with Employers Reinsurance Corporation, while 16 agencies obtained coverage through the Professional Insurance Agents Association (PIA) with Utica Mutual Insurance Company.

The endorsement of specific carriers by these associations may discourage competition with respect to this coverage. New carriers entering the market may have difficulty obtaining a viable market share in the absence of a trade association endorsement.

Insurers writing this coverage file their rates independently since rates for this coverage are not developed by rate service organizations. Seven different rates were reported in the survey; some based upon agency premium volume and others based upon the number of licensed personnel.

Barriers to entry in this market segment would appear to be minimal, although sponsorship of specified insurers by two major professional associations may be perceived as preventing new insurers from obtaining a significant market share. Since rate service organizations do not file this line of liability insurance, companies wishing to write this coverage must develop and file their forms and rates independently. Rates for this coverage are currently regulated under Section 38.2-1912 of the Code of Virginia and must be filed, with full supporting data, at least 60 days prior to their effective date.

The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Law Enforcement Agencies Liability

Twelve companies reported in Bureau surveys that they currently write liability coverage for law enforcement agencies. Of the 11 companies that indicated in the survey that they are willing to write the coverage, eight are companies currently writing while three are companies that do not have policies in effect in this market segment. This contrasts with the 1988 supplemental reports which found no insurers seeking new business in this liability line.

Of the agencies surveyed, 50 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 62% said that availability had improved and 57% said that affordability had improved in the past 12 months.

Forty-eight surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicated only three insurers in the market with the top two accounting for 99% of the 1987 written premium.

Three insurers indicated in the survey that they file independent rates for this coverage. Of companies using rate service organization filings, three indicated deviations or modifications ranging from credits of up to 70% to debits of up to 40%; however, rate service organizations include this exposure in rates for municipalities, which are published on an advisory basis only.

Law enforcement agencies liability is, in actuality, a part of the municipal liability market definition since it consists of coverage for police departments, sheriffs' departments and other similar governmental divisions. The exposure is automatically covered under the most commonly used general liability forms unless specifically excluded by endorsement. A few insurers have independently filed forms which provide coverage on a basis akin to professional liability, i.e., based specifically upon occurrences arising out of the insured's performance of law enforcement activities. Since no separate code is used and no separate charge is made when coverage is written as a part of the municipal exposure, statistics indicating only a limited number of writers may be misleading in that they refer only to coverage written separately.

Of 25 companies surveyed with respect to municipal liability coverage, six companies indicated that they are not willing to write the law enforcement agencies exposure. Eleven of the 35 agencies surveyed with regard to municipal liability indicated insurers are excluding coverage for law enforcement activities.

Market surveys also indicated that there may be an availability problem with respect to the related classes of security guards and investigative services.

There would appear to be minimal barriers to entry for new writers in this market segment. Rate service organizations file forms which may be used to write this insurance; however, insurers who write this coverage as a form of "professional" liability file independent forms and rates.

Rates for this market segment are currently subject to the 60-day prior filing requirements of Section 38.2-1912 of the Code of Virginia. In the 1989 supplemental report forms, an effort will be made to identify the separate segments of this market definition, i.e., coverage written as part of the municipal exposure, coverage written separately as "professional" liability, and related coverage written for security guards and investigative services. It appears that availability, affordability and competition may vary within these several subclassifications. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Lawyers Professional Liability

Lawyers professional liability insurance covers claims arising out of alleged neglect, errors, or omissions in the performance of services in a professional legal capacity.

Sixteen companies indicated on the survey that they currently have policies in effect for this market segment and all of these expressed a willingness to write new business. Additionally, two companies that are not currently writing this line indicated that they are willing to provide the coverage. In contrast, the 1988 supplemental reports found four companies seeking to write new business.

Of the agencies surveyed, 130 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 76% said that availability had improved but 54% said that affordability had worsened in the past 12 months.

Sixty-three surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top three writers accounted for almost 85% of the 1987 written premium.

The 16 companies writing this coverage reported using a variety of rates, ranging from $500 to $3,000 per attorney based on limits ranging from $75,000 to $1,000,000.

A Virginia State Bar report indicates that, compared to a 1984 survey, the number of attorneys practicing privately without professional liability insurance does not appear to be increasing. However, a spokesperson for the Virginia Trial Lawyers Association stated, in a letter to the Bureau of Insurance, that many members of the Association have been unable to obtain the coverage they need at any price.

Although some degree of underwriting and claims-handling expertise is a prerequisite for new writers entering this market segment, there would appear to be no significant barriers to entry. Sponsorship of the Virginia State Bar Association has, however, tended to result in a high percentage of written premium with a single insurer. Rate service organizations file forms and rates for this coverage; however, most major writers file both forms and rates independently. Rates for this coverage are currently subject to the 60-day prior filing requirements of Section 38.2-1912 of the Code of Virginia. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Liquor Liability

Seventy-four companies reported on the survey that they are currently writing this coverage and willing to write new business. An additional seven companies indicated that they are willing to write the coverage but do not have policies currently in effect. This demonstrates a marked difference when compared to the 1988 supplemental reports which indicated that only 15 companies were seeking to write this coverage.

Of the agencies surveyed, 230 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 76% said that availability had improved and 70% said that affordability had improved in the past 12 months.

Forty-three surplus lines brokers stated that they could place this type of business.

In spite of the relatively large number of insurers writing this coverage, the 1988 supplemental reports indicated that the top three writers accounted for more than 76% of the written premium in 1987.

A telephone survey of 56 establishments licensed by the Virginia Alcoholic Beverage Control Board found that 30 of the 56 were insured with at least 14 different insurance companies. Of the 26 remaining, 23 were not insured and three were not sure whether or not they had this coverage. Of the 23 who were not insured, only two had attempted to obtain coverage. Of the 30 who were insured, only two complained of rate increases.

Rates for this coverage are developed on an individual risk basis and are exempt from filing requirements. The insurers surveyed reported using 12 different rates and four different exposure bases.

A study of the Virginia legal environment with respect to liquor liability would suggest that coverage should be readily available at a nominal cost. Whereas a number of states have instituted "dram shop" laws which hold a seller or server of alcoholic beverages liable for injury or damage caused to third parties by customers who were over-served or served in violation of the law, Virginia has no such statute. Further, there is no common-law precedent in Virginia for a finding of liability on the part of servers or sellers of alcoholic beverages. Virginia courts have held that the proximate cause of the third party's injury in these cases is the drinking of the intoxicant and not the serving thereof.

Since rate service organizations file forms for this coverage and rates are currently exempt from filing requirements, barriers to entry for new writers of this coverage are virtually non-existent.

The Bureau of Insurance recommends that the justification for continued exemption from rate filing requirements with respect to this market segment be investigated. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Medical Professional Liability

Twenty-seven companies indicated on the survey that they have policies currently in effect for this market segment and all are willing to write new business. An additional seven companies that are not currently writing the coverage indicated a willingness to write. This contrasts with the 1988 supplemental reports which found only 12 companies seeking new business.

Of the agencies surveyed, 131 stated that they represent licensed insurers that will provide the coverage. However, of the agents who felt that market conditions had changed with respect to this coverage, 60% said that availability had worsened and 83% said that affordability had worsened in the past 12 months.

Fifty-eight surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top three writers accounted for more than 87% of the 1987 written premium.

It must be noted that the broad category of medical professional liability is made up of many specific coverages and exposures, each with its own unique market conditions. While some classes, such as nurses, optometrists and dentists may have relatively few problems with availability or affordability, other classes, such as obstetricians, hospitals, nurse anesthetists and neurosurgeons may be faced with serious availability or affordability problems.

The Virginia Medical Malpractice Joint Underwriting Association (JUA) was established in November of 1986 to provide coverage for physicians and surgeons unable to obtain coverage in the voluntary market. In March of 1988, the Commission added nurse practitioners, nurse anesthetists and nurse midwives as eligible classes under the Virginia JUA. As of October 1, 1988, 376 physicians and surgeons and 37 professional partnerships and corporations had secured coverage. No nurse practitioners, nurse anesthetists or nurse midwives had applied for coverage through the JUA.

In the area of tort reform, the Birth-Related Neurological Injury Compensation Act became effective January 1, 1988 to provide no-fault funding as a sole remedy with respect to certain permanently disabling injuries to infants at the time of labor and delivery. It is anticipated that one effect of this legislation will be to remove a number of potentially catastrophic claims from the claims experience of insurers writing professional liability coverage for physicians practicing obstetrics.

It is apparent that the need for specialized underwriting and claims-handling expertise represents a significant barrier to entry for new writers within this market segment. Due to the fact that claims presented within the market definition often develop over long periods of time, long-term commitments of insurer resources are also required. While forms and rates for these coverages are filed by rate service organizations, most major writers file both rates and forms independently. Rates for this liability line have been subject to prior filing statutes since 1975, due to a lack of effective competition. The Commission continues to find that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Municipal Liability

The most commonly used commercial liability forms provide coverage for the majority of the premises and operations exposures of municipal entities. These exposures may include, for example, courthouses, public utilities, police and fire departments, swimming pools, schools, and landfills.

Sixty-six companies reported that they are currently writing this coverage, 58 of which are willing to write new business. An additional 14 companies that are not currently writing indicated that they are willing to write coverage for this market segment. This demonstrates a marked difference when compared to the 1988 supplemental reports which found only 12 companies seeking to write this coverage.

Of the agencies surveyed, 176 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 77% said that availability had improved and 66% said that affordability had improved in the past 12 months.

Fifty-nine surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicated that five companies accounted for over 70% of the 1987 written premium.

Eleven insurers indicated in the survey that they file independent rates for this exposure. Rate service organizations publish only suggested rates for municipalities; however, companies using the suggested rates reported applying modifications ranging from credits of up to 75% to debits of up to 142%.

A telephone survey of insurers writing this exposure indicated that the majority limit their writings to smaller cities, towns, and counties - predominantly those with populations under 15,000. The coverages most frequently excluded by the carriers surveyed included landfills, pollution exposures and dams. Of the 25 companies surveyed by phone, eight stated that they would not provide errors and omissions coverage for public officials. This exposure is not covered by the most commonly used commercial liability forms and must be written using forms filed independently by insurers. Of the companies surveyed, none required significant retentions on small or medium-sized risks and the majority were willing to provide limits of $1,000,000 or more.

A telephone survey of 35 agencies writing municipal liability revealed that coverage is being placed with a number of licensed carriers and approved surplus lines companies. A total of 19 different insurers were named by the 35 agents contacted. Only one agent reported a problem with cancellations or non-renewals. Agencies confirmed that insurers prefer to write smaller municipalities. The majority of the agents surveyed were unable to place public officials liability with admitted carriers. Agents reported insurers requiring significant retentions only on larger risks, and limits of $500,000 to $5,000,000 were reported as being readily available. The most commonly applied exclusions included pollution, dams, landfills, sewage and water treatment plants, and gas utilities.

A number of the insurers and agents surveyed indicated a reluctance to write municipal business due to difficulties associated with the bid process and the nature of the specifications being used.

An examination of the bid forms and specifications used by several municipalities revealed the following special requests:

1. Agreements were requested from agencies to provide risk management services. Similar services (including written contracts for same) were requested from insurers.

2. Although loss control services were requested, insurers were asked to keep inspections prior to quoting to a minimum.

3. Insurers were asked to name other municipalities as additional insureds without limitation and with no explanation provided.

4. Most forms required that cancellation and non-renewal notice be extended from the statutory 45 days to 60 or more days. Similar notification was often required for reductions in coverage and changes in rates or rating plans.

5. Companies were required to issue policies on a "guaranteed cost" basis and waive premium audit provisions.

6. Many manuscripted broadenings of coverage, such as deletion of pollution exclusions, deletion of punitive damage exclusions, and deletion of discrimination exclusions were required.

7. Some specifications required insurers to agree not to use the sovereign immunity defense in the handling of any claims against the municipality.

A number of the insurers and agencies surveyed commented that the numerous broadened and specialized coverages required, coupled with the need to keep premiums competitive, make writing this type of business unprofitable.

Twenty-five percent of all cities, towns and counties in Virginia, selected to include a variety of population sizes, were surveyed by phone and asked whether they carry liability insurance and, if so, the name of the insurer. Those not insured were asked whether they are self-insured, members of the Virginia Municipal Pool, or members of a risk retention group.

Ten cities were contacted, with populations ranging from 6,300 to 217,700. Five were insured with commercial insurers, three were self-insured and two were members of the Virginia Municipal Pool. Of the four reported problems, two were related to availability and two were affordability problems. The five commercially insured cities obtained coverage from five different insurers, including three admitted carriers and two approved surplus lines companies.

Twenty-four counties were surveyed with populations ranging from 4,200 to 175,400. Nine were commercially insured, 11 were members of the Virginia Municipal Pool, and four were self-insured. The nine commercially insured counties purchased coverage from seven different licensed insurers. Eleven counties reported a variety of problems including rate increases, landfill exclusions, inadequate coverage, and inability to obtain coverage.

Forty-nine towns were contacted with populations ranging from 200 to 19,100. Forty were commercially insured, eight were members of the Virginia Municipal Pool, and one was self-insured. Twelve different licensed insurers were identified by the 27 towns that were able to name their insurers.

Of the eight towns with populations under 500, only one problem was reported and it was a rate increase of 35% to 40%.

Of the eight towns with populations between 501 and 1,000, no problems were reported.

Of the nine towns with populations between 1,001 and 2,000, the three reported problems included higher deductibles and lower limits, a 45% rate increase (two years ago), and an unspecified rate increase.

Of the eight towns with populations between 2,001 and 3,000, only one reported general problems with availability and affordability.

Of the eight towns with populations between 3,001 and 5,000, three reported problems, all related to affordability.

Of the eight towns with populations over 5,000, four reported problems, primarily with affordability. Rate increases of 50% to 100% in the past three years were reported in this category.

Additionally, two counties and two towns were contacted for specific information with regard to quotes received for their most recent liability insurance renewals. The results were as follows (all figures are approximate):

1. One county, with a population of 11,100 received two quotes; one for $9,493 and one for $21,238. Both quotes excluded landfill coverage. Landfill coverage was obtained separately from another carrier for $7,500 and public officials errors and omissions liability coverage was purchased separately for $7,471.

2. A second county, with a population of 7,200, obtained only one bid in the amount of $9,680. Landfill coverage was excluded. Public officials coverage was obtained separately at a cost of $3,903. This county also reported that it was unable to obtain the limits it wished to carry.

3. A town with a population of 4,420 obtained two quotes; one for $14,523 and another for $14,879. Both quotes excluded law enforcement activities. The first quote also excluded landfill coverage while the second quote excluded public utilities, firemen and pollution. This town was able to obtain only <u>one</u> quote last year.

4. A second town, with a population of 2,760, also obtained two quotes; one for $5,167 and another for $5,929. No special exclusions were noted.

These examples, although limited in scope, appear to indicate that coverage is generally available and that some degree of competition exists for these exposures.

While some insurers may consider the bid process and expanded coverage requirements to be a barrier to entry into this market, many exposures are the same as those encountered with respect to other types of risks, and the need for specialized underwriting or claims-handling expertise would appear to be nominal. Rate service organizations file forms and promulgate advisory rates for this market segment. Some related coverages, such as Public Officials Errors and Omissions liability, are written separately, using forms or endorsements which must be filed independently by the insurer.

In view of the mixed results obtained in these various surveys, an attempt will be made to differentiate between the various municipal exposures in the 1989 supplemental report forms in order to identify any specific problem areas.

Due to the poor quality of the 1988 supplemental report data, the Commission finds that competition may not be an effective regulator of rates for this market segment and designates this liability line as potentially noncompetitive.

Pest Control Liability

Twenty-five companies reported on the survey that they currently write this coverage and 14 of these are willing to write new business. An additional 13 companies that are not currently writing pest control operators indicated a willingness to provide the coverage. This demonstrates a marked difference when compared to the 1988 supplemental reports which found only three companies seeking new business in this market segment.

Of the agencies surveyed, 69 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 51% said that availability had improved and 57% said that affordability had improved in the past 12 months.

Forty-nine surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicated that the top three writers accounted for more than 86% of the 1987 written premium.

Only one insurer reported filing independent rates for this coverage. Of the companies using rate service organization filings, 23 apply deviations and modifications ranging from credits of up to 56% to debits of up to 100%.

A telephone survey was conducted of 35 pest control operators who were selected at random from a statewide list of members of the Virginia Pest Control Association. All of the 35 operators were insured, 15 with a risk retention company and 20 with a variety of licensed and surplus lines insurers (at least seven companies were represented). Approximately half of the operators reported experiencing some form of availability or affordability problems; five reported having been non-renewed because their former insurer was no longer writing this coverage; seven operators reported significant rate increases in the past year; eight reported reductions in coverage.

There would appear to be no barriers to entry with respect to this market segment with the exception of those applicable to the pollution exposure. It should be noted that there is some overlapping of exposures between this market definition and the environmental impairment market definition.

This liability line is currently regulated under the 60-day prior filing provisions of Section 38.2-1912 of the Code of Virginia. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Products and Completed Operations Liability

The broad category of products and completed operations liability incorporates hundreds of individual subclassifications ranging from pencils to parachutes and from drugs to detergents. The most commonly used commercial liability forms provide separate policy limits for claims arising out the insured's products or completed operations when coverage is written for classifications which represent a significant exposure. It should be noted that this market definition overlaps with the completed operations aspect of the commercial contracting market definition.

In May of 1988, a survey of insurance company regional managers, agents and surplus lines brokers was conducted to determine the level of availability, affordability and competition within the products and completed operations liability classifications. The survey separately addressed retail products, wholesale products, manufacturing, and a fourth category described as "all other, including non-manufacturing contractors".

In the retail products category, almost 83% of the 56 insurers responding indicated that they had written this type of business within the past year and the same percentage were actively seeking to write new business in the market segment. Seventy-nine percent reported that they applied downward deviations to filed rates in pricing these risks.

More than 80% of the 772 agencies responding reported writing coverage for retail products and over 57% of the 105 responding surplus lines brokers reported writing this coverage.

In the wholesale products category, 85% of insurers responding indicated that they had written this coverage in the past year and over 80% were actively seeking to write this business with more than 81% applying downward deviations to filed rates.

More than 64% of agencies responding indicated that they write coverage for wholesale products while over 59% of responding surplus lines brokers reported writing this coverage.

In the manufacturing category, over 80% of insurers responding indicated that they had written this type of business within the past year and over 65% were actively seeking to write the coverage. More than 67% reported applying downward deviations to filed rates for these classifications.

More than 47% of agencies responding reported writing coverage for risks in the manufacturing category and more than 60% of responding surplus lines brokers reported writing this coverage.

In the "all other" category, over 83% of insurers responding reported writing this type of business in the past year and over 78% were actively seeking new business. More than 78% reported applying downward deviations to filed rates in pricing this business.

More than 64% of agents responding in the "all other" category indicated that they write this type of coverage and over 56% of responding surplus lines brokers reported writing business in this market segment.

The 1988 supplemental reports reveal an even distribution of market share among 135 different insurers with no one company accounting for more than 7.97% of the 1987 written premium.

Barriers to entry in this market definition would appear to be minimal but would, of course, vary with respect to specific products or exposures. Forms and rates for these coverages are filed by rate service organizations; however, rates are, in some instances, advisory and must be adjusted or developed on an individual risk basis.

Due to the poor quality of the 1988 supplemental report data, the Commission designates this market segment as potentially noncompetitive. This liability line will be included in the 1989 supplemental reports and the Bureau will continue its efforts to identify specific problem areas within this market definition.

Public Housing Liability

Fifteen companies indicated on the survey that they are currently writing this coverage and 11 of these are seeking new business. An additional 26 companies that are not currently writing indicated a willingness to provide this coverage. This demonstrates a significant difference when compared to the 1988 supplemental reports which found only one insurer seeking to write this coverage.

Of the agencies surveyed, 83 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 57% said that availability had improved; however, 53% said that affordability had worsened in the past 12 months.

Forty-seven surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicated that the top two writers accounted for over 95% of the 1987 written premium.

Only one insurer reported filing independent rates for this coverage. The rates developed by rate service organizations for this classification are advisory rates. Companies indicating that they use these advisory rates reported applying modifications ranging from credits of up to 55% to debits of up to 142%.

There would appear to be no operational barriers to entry for new writers in this liability line. Rules, rates and forms are developed by rate service organizations. Rates for this line are subject to the 60-day prior filing provisions of Section 38.2-1912 of the Code of Virginia.

Bureau research indicates that this coverage is often purchased or provided as a part of the coverage for the municipality which owns the housing project. This fact may have caused some distortion with respect to market share data from the 1988 supplemental reports since premiums may have been reported as municipal liability.

The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive. Appropriate adjustments to the 1989 supplemental report forms should produce more reliable data with respect to this liability subclassification.

Real Estate Agents Professional Liability

Real estate agents and brokers purchase this coverage for protection against claims arising out of negligence, errors or omissions in the performance of their professional duties.

Eleven companies reported on the survey that they currently write this coverage and all but one are seeking new business. Two additional companies that are not currently writing indicated a willingness to provide this coverage. This contrasts with the 1988 supplemental reports which found only two companies seeking new business in this market segment.

Of the agencies surveyed, 167 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 77% said that availability had improved and 61% said that affordability had improved in the past 12 months.

Sixty surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate that the top two writers accounted for more than 95% of the 1987 written premium.

Since rate service organizations do not promulgate rates for this coverage, insurers must file their rates independently. Companies responding to the survey reported using at least six different base rates and three different exposure bases to price this coverage.

A telephone survey of 20 members of a Virginia real estate agents' association revealed that 18 of the 20 agents were commercially insured with at least five licensed carriers and one approved surplus lines company. The two agents who do not carry liability insurance stated that they dropped the coverage due to price (eight years ago and five years ago). Three of the insured agents reported significant rate increases in the past year; none reported cancellations or non-renewals.

Barriers to entry would appear to be minimal with respect to this coverage; however, the 1988 supplemental reports seem to indicate that sponsorship of specific insurers by professional associations may have resulted in a concentration of coverage with one or two companies.

This liability line is currently regulated under the 60-day prior filing provisions of Section 38.2-1912 of the Code of Virginia. The Commission finds that competition may not be an effective regulator of rates for this market segment and again designates this liability line as potentially noncompetitive.

Recreational Liability

Forty-eight companies reported on the survey that they currently write this coverage and 42 of these are willing to write new business. Additionally two companies that are not currently writing expressed a willingness to provide the coverage. This contrasts with the 1988 supplemental reports which found only 27 companies seeking new business in this market segment.

Of the agencies surveyed, 138 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 69% said that availability had improved and 67% said that affordability had improved in the past 12 months.

Fifty-three surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports reveal a definite lack of concentration in this market segment, with 64 companies reporting written premium in 1987 and 21% being the largest share written by any one insurer. Each of the other insurers wrote less than 11% of the 1987 written premium.

Seven companies indicated on the survey that they file independent rates for these classifications. The 38 companies reporting that they use rates established by rate service organizations declared rate deviations and modifications ranging from credits of up to 67.5% to debits of up to 55%.

The broad market definition of "recreational liability" consists of more than 90 individual subclassifications representing exposures as diverse as parades, country clubs, large theme parks, fairs, and Little League baseball games. Rates developed by rate service organizations for approximately 28% of these subclassifications are published on an advisory basis only. The remainder are specific rates filed with the Bureau of Insurance prior to use.

A telephone survey was conducted of 16 subclassifications within the recreational liability market segment. Consumers within many of the recreation subclasses are difficult to identify and, in some cases, impossible to locate or contact due to the seasonal or part-time nature of these activities.

Of the 53 consumers surveyed, 49 were insured with a variety of licensed carriers and surplus lines companies. At least 15 different insurers were identified. Seventeen consumers reported difficulty in obtaining coverage; nine reported rate increases; three reported reductions in coverage, and none reported cancellations or non-renewals.

The detailed results of this survey, by subclass, are shown in Exhibit III.

If barriers to entry exist within this market definition, they would consist primarily of the lack of a significant number of similar exposures for some classes, i.e., every parade, fair or exhibit is unique. It is therefore not practicable to apply the same rate to each risk within a class. Forms and rates for this market definition are filed by rate service organizations.

The Commission finds that competition may not be an effective regulator of rates for this market segment and designates this liability line as potentially noncompetitive. This market segment will again be monitored in the 1989 supplemental reports and the Bureau will continue its efforts to identify the problem areas within this market definition.

School Divisions Liability

Seventy-seven companies reported on the survey that they currently write this coverage and 64 of these companies are willing to write new business. An additional six companies that do not currently write this liability line expressed a willingness to provide the coverage. This demonstrates a marked difference when compared to the 1988 supplemental reports which indicated only 12 companies were seeking new business in this market segment.

Of the agencies surveyed, 184 stated that they represent licensed insurers that will provide the coverage. Of the agents who felt that market conditions had changed with respect to this coverage, 83% said that availability had improved and 78% said that affordability had improved in the past 12 months.

Fifty-two surplus lines brokers stated that they could place this type of business.

The 1988 supplemental reports indicate only moderate concentration in this market segment. Thirty-nine companies reported written premium in 1987 with the top three insurers accounting for less than 58% of the market share.

Thirteen insurers reported filing independent rates for these classifications. The 60 companies using rate service organization filings reported rate deviations and modifications ranging from credits of up to 75% to debits of up to 50%.

A telephone survey of five school boards revealed that all five were able to obtain more than one quote for general liability coverage. While it is difficult to make comparisons due to differences in exposures, limits and scope of coverage, the differences between the highest and lowest quoted prices ranged from $4,000 to $48,000. One official interviewed stated that, while last year the school division was self-insured due to unaffordability, premiums quoted this year were much more reasonable, allowing the school division to purchase commercial insurance. Other respondents indicated availability or affordability problems related to School Board Errors and Omissions liability.

There would appear to be no significant operational or regulatory barriers to entry in this market segment. Rules, rates and forms for this coverage are filed by rate service organizations. Some overlaps and similarities exist between this market definition and the municipal liability market definition.

Due to the incomplete nature of the 1988 supplemental report data, the Commission finds that competition may not be an effective regulator of rates for this market segment and designates this liability line as potentially noncompetitive.

This liability line will again be monitored in the 1989 supplemental reports.

III. OTHER STUDIES

United States General Accounting Office Insurance Study

The combined results of the surveys and other research detailed above tend to show an overall increase in availability and affordability of the various lines and subclassifications of commercial liability insurance in recent months. To put these results into perspective, it may be helpful to compare them to the results of a study conducted by the United States General Accounting Office (GAO) that was published in July, 1988.

To obtain information on the availability and affordability of liability insurance, the GAO surveyed the buying experiences of a random sample of members of two national associations representing large and small organizations. The membership of the Risk and Insurance Management Society, Inc. (RIMS) includes 90 percent of the Fortune 1,000, as well as hospitals and universities. The membership of the National Federation for Independent Business, Inc. includes mostly small, owner-operated businesses. The GAO also surveyed a sample of insurance agents and brokers from three national associations: The Professional Insurance Agents of America, Inc., The National Association of Professional Surplus Lines Offices, Ltd., and the National Association of Insurance Brokers. In addition, the GAO obtained information from six state insurance departments (Arizona, California, Illinois, Massachusetts, New York and Pennsylvania).

According to the buyers, agents and brokers that GAO surveyed, most of the frequently purchased types of liability insurance were available in 1985 and 1986. With the exception of environmental liability, few reported either cancellations or non-renewals. Among the buyers, few reported either (1) going completely without coverage perceived as needed or (2) insuring in other ways, such as through self-insurance. But buyers did report that their liability insurance needs were not met as adequately in 1986 as they had been in 1985.

Despite the relative availability of liability insurance coverage, respondents to GAO questionnaires reported that costs increased for the types of coverage purchased most often. Larger organizations experienced much larger premium increases than did smaller organizations. Despite significant premium increases, however, the cost of liability insurance as a percentage of annual gross receipts was relatively small.

According to insurance agents and brokers that the GAO surveyed, policy provisions defining policyholders' responsibilities often changed so as to make the policyholder bear more of the cost of potential liability-related incidents.

Most of the respondents to the buyers survey maintained liability insurance coverage throughout 1985 and 1986. Agents and brokers reported that few of their clients were unable to find any coverage in either year.

Only one type of coverage, primary environmental liability, appeared to present a severe availability problem; according to nearly three-quarters of the Risk and Insurance Management Society respondents, this type of coverage was needed but they were not able to purchase it.

The more frequently purchased types of coverage were relatively unaffected by policy cancellations or non-renewals. However, cancellations and non-renewals did occur for some types of coverage purchased less often. For example, according to over 23% of the respondents to one GAO questionnaire, directors' and officers' liability coverage was either canceled or not renewed; according to nearly two-thirds, at least one policy was not renewed for environmental liability coverage.

For many buyers, policy limits or deductible amounts remained the same, even though premiums increased. Where there were changes, they were almost always to the buyers' detriment; limits decreased, deductibles increased, or both. The experiences of the agents and brokers were consistent with those of the buyers.

For all four types of coverage for which GAO was able to collect sufficient cost data (primary commercial general liability [CGL], primary commercial auto liability, primary directors' and officers' liability, and excess CGL), policyholders paid more in 1986 than in 1985. Depending on the type of coverage, large organizations experienced median premium increases of 43% to 214% for coverage in 1986. Although premium increases were large, insurance costs represented a relatively small proportion of responding large organizations' annual gross receipts; insurance costs rose, on average, from .3% of gross receipts in 1985 to .6% in 1986. Given this small percentage, it seems unlikely that (1) increased insurance costs could have had a great effect on the costs of goods and services provided by the large organizations or (2) the viability of the organizations was threatened. GAO's sample, however, was designed to provide information about the experiences of a broad range of organizations; the sample would not have identified specific pockets of organizations that might have experienced such problems.

The respondents of small businesses, like the respondents of large organizations, reported few problems in obtaining coverage, but of 57 respondents, 33 paid more for 1986 coverage compared with 1985. Median premium increases for primary CGL (14%) and primary commercial auto liability

(8%) were less than increases paid by large organizations. Of the 33 respondents with increased premiums, 19 had no change in deductibles or limits, across all types of coverage. As a percentage of annual gross receipts, the premium for small organizations respondents rose from 1% to 1.2% between 1985 and 1986.

GAO obtained information from six state insurance departments, which took a variety of legislative and regulatory actions. All adopted a Market Assistance Program (MAP)-a program to assist buyers in locating insurers offering coverage. Because of the decreasing numbers of consumers requesting their assistance, most of the department representatives believed that MAPS have been successful. Although data from the states show a decline in the number of requests for assistance in obtaining coverage, the data does not provide information that would allow an assessment of MAPS themselves as crisis-easing mechanisms.[2]

Goldman Sachs Insurance Rate Survey

The Goldman Sachs Insurance Rate Surveys were initiated in January, 1988 to develop an accurate and objective picture of insurance pricing in the "main street" commercial insurance market. The study was undertaken as investment research by an independent research firm.

Survey forms were sent to approximately 1,000 insurance agents across the country with a 19% response rate.

The key conclusions of the July, 1988 survey were as follows:

1. Renewal premiums for commercial lines policies were declining more than they were six months ago. Most agents indicated that renewal premiums were down 11% to 30%, versus 1% to 20% in the January survey.

2. Rate-cutting was still accelerating. More than half the agents said commercial lines premiums were declining more rapidly in July than in April.

3. The general liability and commercial umbrella lines showed the greatest deterioration compared with the January survey. Agents stated renewal premiums were declining 11%-30%, versus 1%-10% in January. The price reductions in these lines did not seem justified given the large underwriting losses companies had sustained in them during the 1980s.

4. Competition was widespread, and increasing with annual premium size per account.

5. Underwriting standards in commercial lines continued to loosen moderately.

6. Coverage was more available; companies were giving larger package credits and offering higher policy limits and broader coverage terms without raising prices; agents were shopping renewal accounts more often; and commercial insurance buyers were purchasing more coverage. These trends are all signs of a softening market. (See Exhibits IV, and V.)

The Goldman Sachs analysts made the following statements based on the data developed in their surveys:

> The gap between agents' and company managements' views of market conditions continues to widen. Most company managements say that rates are not

declining sharply; a few even said that their average renewal premiums rose in the second quarter. Even if the truth lies somewhere in between agents' and managements' descriptions of the market, it seems clear that price competition is worse than managements have been willing to acknowledge. This suggests that price-cutting will continue until reported financial results have deteriorated to the point where surplus begins to decline and net cash flow approaches zero or turns negative. We expect this to occur in late 1989, or more likely, 1990. The industry's combined ratio may peak at 112%-114% versus 104% in 1987.

It is difficult to reconcile either agents' or company managements' statements about pricing with the reported figures for commercial lines premium volume. The industry's commercial lines premium volume was virtually flat in the second half of 1987 and down 2.5% in the first half of 1988. This is not as low as 20%-30% reductions in renewal premiums would suggest, but is well below the long term 11%-12% growth rate in the industry's incurred losses. Moreover, premium growth should currently be above its long term trend; exposures are probably growing rapidly due to above average economic growth and insurers are raising their retentions. One thing is clear: premiums are not rising fast enough to keep up with loss costs. Therefore, combined ratios are headed significantly higher.[3]

Use and Modification of Rates Filed By Rate Service Organizations

A survey was conducted of the top 30 writers of commercial liability insurance (accounting for approximately 73% of the 1987 written premium) to determine the degree to which rates for these insurers are established by rate service organizations and the extent and nature of rate differentials (deviations and modifications) being utilized by these companies.

Of the 30 companies surveyed, 25 indicated that they use rates published by Insurance Services Office (ISO), which is the most commonly used rate service organization for commercial liability lines. Four companies reported that they develop and file their rates independently and one insurer is no longer writing due to regulatory problems.

Exhibit VI demonstrates that, among the 25 companies using ISO rates, many are not using the most recent edition date. This means that many companies have not adopted all of the rate changes filed by ISO. Several companies are still using 1986 and 1987 rates and 24 of the 25 companies are applying a variety of deviations and modifications to the ISO rates.

In addition to the rate modifications displayed on the exhibit, most insurers apply additional discounts when liability insurance is "packaged" with other coverages in a single policy. While the majority of package discounts are in the 5% to 20% range, a number of insurers reported credits of 25%, 35%, and even 77%.

A substantial portion of the written premium for commercial liability is attributable to premiums for coverages not included in the filings of rate service organizations, such as directors and officers liability, umbrella/excess liability, professional liability coverage for real estate agents, insurance agents, accountants, actuaries, broadcasters, book publishers, surveyors, and others. Consequently, the written premium reported by a company identified as a subscriber to rate service organization rates may consist primarily of coverage actually written using rates developed and filed independently by the insurer. Insurers may also file independent programs for specific industry classes in addition to ISO rates.

The relative use of independent rates, deviated rates, and various editions of ISO rates by the top 30 writers is displayed in Exhibit VII.

It may also be relevant to note that the most recent rate filings made by ISO for premises and operations and products and completed operations were overall rate decreases. Summaries of rate level changes for the lines examined in this report are displayed in Exhibits VIII and IX.

Insurance Industry Profitability

In an effort to determine whether a pattern of excessive rates may exist in relation to losses, expenses and investment income, the Bureau researched the general profitability of property and casualty insurers as compared to other types of businesses.

In the decade ending in 1987, Standard and Poor's composite average of stocks shows that the national property and casualty insurance industry earned an average return on common equity of 11.4%. This compares to returns for Standard and Poor's 500 Stocks Composite of 13.2%, 400 Industrials of 13.7%, 40 Utilities of 12.7%, 20 Transportations of 8.5%, 40 Financials of 10.5%, and Multi-Line Insurers of 12.5%. This demonstrates that the property and casualty insurance industry has not earned excessive profits relative to other sectors of the economy. This data is outlined in Exhibit X.

Exhibit XI portrays a similar picture but focuses on a number of specific property and casualty insurers. The overall 5-year average return on year-end common equity for this group was 10.0% for the years 1984-1988.

The Nature of the Insurance Underwriting Cycle

An insurance company derives its revenue from two primary sources: (1) the premiums paid by its policyholders and (2) the investment return which is generated from accumulated assets. The underwriting gain/loss is defined as the premiums earned during a given calendar period minus the losses and expenses incurred during that period.

Historically, the property and casualty insurance industry has functioned in a manner consistent with the economic theory of supply and demand. Unlike other industries, however, the economic cycles of the insurance industry are often driven by sharp changes in supply (called capacity) rather than demand. During periods when profitability is perceived to be high, new capacity is attracted to the market. This results in more competitive pricing and a corresponding deterioration of underwriting profitability.

This process continues until underwriting losses approach or exceed the level of investment income. Eventually, profitability reaches a level low enough to cause capacity to decline. This market contraction might consist of a reduction in writing, or withdrawal from the market, by insurers refusing to compete for business at unprofitable prices. This reduction in supply, combined with unprofitable results, leads to an increase in prices. As prices begin to rise, profitability improves, and the cycle repeats itself.[4]

Measuring Insurer Profitability

The profitability picture of the property and casualty insurance industry has improved over the past two years.

Despite the favorable results of 1986 and 1987, however, insurer profitability cannot be properly analyzed without comparing the industry's long-term financial results with those of other industry groups.

The property and casualty insurance industry is characterized by a lower average rate of return than that of other industry groups. One explanation for this is that during the less profitable years of the underwriting cycle, insurers have had much lower profit ratios than other industries, but during the prosperous years they have only had slightly better profits than other industries. Each time profits increase, competition intensifies, driving prices down and preventing long periods of high profitability.

From an investment standpoint, lower levels of profitability are generally considered acceptable as long as rates of return are fairly stable over time. The more variation in the rates of return, the riskier the investment and the greater the demand for higher profitability. During the 16 year period between 1970 and 1985, however, property and casualty insurers had more variable rates of return (making them riskier) and were less profitable on the average than the majority of other industries.

In summary, although insurer profitability has improved in recent years, the property and casualty insurance industry over the long run does not appear to have been more profitable than the average for other industries over the same period of time. Rates of return have been more variable and periods of increased profitability have not lasted for prolonged periods of time.[5]

Effects of Tax Reform

The Tax Reform Act of 1986 will impose substantial additional taxes on most property and casualty insurers, diminish after-tax income, and consequently have a dramatic effect on the availability and affordability of certain lines and subclassifications of insurance.

Although the maximum corporate tax rate of 46% under the previous law is reduced to 34% in 1988, this decline is more than offset by provisions in the law that broaden the taxable income of property and casualty insurers.

The 1986 Tax Reform Act changes the definition of a property and casualty company's regular taxable income in three ways:

1. Revenue Offset Twenty percent of the annual change in unearned premium reserves will be added to income and 1/6 of 20% of the December 31, 1986 unearned premium reserve will be added to income in each of the six following years (1987-1992).[6]

2. Loss Reserve Discounting This timing device requires immediate payment of taxes on future investment income, rather than a gradual payout over several years.[7]

3. Proration This provision effectively assigns a portion of previously tax exempt income to the taxable category; i.e., 15% of tax exempt municipal bond income from bonds purchased after August 7, 1986 and 15% of the deductible portion of dividends paid on stocks purchased after that date.[6]

The new tax law will have a negative impact on the surplus and profitability of nearly every property/casualty insurer. The magnitude of this impact will depend on the type of business each insurer writes.

Commercial liability insurers are the segment of the industry most seriously affected by the tax law, mainly because of the loss reserve discounting provision and its effect on writers of "long tail" casualty lines. Personal lines insurers' shorter-tailed book of business helps lessen the discounting provision's effects but these insurers will still pay higher taxes. Consequently, the new tax law may have strong repercussions on the availability of some lines of insurance.[8]

So far, however, the industry has avoided the full impact of the tax law changes, and its added obligations have been offset by loss carry-forwards and "fresh start" benefits. (The latter result from the fact that Congress forgave taxes on reserves on the books at the end of 1986, triggering a tax credit based on the difference between the actual loss and the now-discounted reserve set aside to pay for it.) But these credits are now beginning to expire.[9]

IV. **RATE REGULATION**

Insurance rate regulation in Virginia has followed a traditional pattern of reliance on direct government regulation only when competitive forces are restrained or non-existent.

In 1973, Virginia became the 16th state to rely on competition, rather than direct government rate approval, as the primary means of regulating most property and casualty insurance rates. As a result, most property and casualty insurance rates in Virginia are now established primarily by competitive forces in the market place in much the same way that prices are established in other sectors of the economy.

ISO Development of Virginia Commercial Liability Rates

The liability rates filed by Insurance Services Office (ISO) for use in Virginia are based on Virginia data to the extent that data is credible. Virginia rates have not been increased to subsidize any real or perceived rate inadequacies in any other states. Virginia data is 100% credible for premises and operations liability classifications.

Countrywide data is used for the development of products liability rates, since products manufactured in Virginia may be sold or used anywhere. Factors used for trending and loss development are generally based on a combination of Virginia and countrywide data as credibility permits.

Regulation of Rates Under Section 38.2-1912 of the Code of Virginia (Prior Filing)

If a determination is made, after a hearing by the Commission, that competition is not an effective regulator of rates for a particular line or subclassification of insurance, companies will then be required to file their proposed rates or rate changes, with full supporting data, at least 60 days before their effective date.

The Bureau of Insurance subjects these rate filings to actuarial examination to establish whether the rates are excessive, inadequate or unfairly discriminatory and to determine whether rates are based on Virginia data, to the extent that such data is credible, and whether due consideration has been given to the factors outlined in Section 38.2-1904 of the Code of Virginia, including investment income.

When rates submitted are not in compliance with the requirements of Section 38.2-1904, appropriate amendments are requested from insurers before such rates are accepted for filing. Companies may then make the requested changes, withdraw the filing, or request a hearing.

Open Competition vs. Prior Approval

A study published by the Palmer Bellevue Corporation in 1987 was undertaken to determine whether prior approval or open competition regulatory systems are more beneficial to consumers in terms of keeping insurance rates at the lowest possible level without driving insurers out of the market due to inadequate return on capital. Information used in the study was developed from official reports made by almost all insurers in all states, based on actual experience over a ten-year period.

The real question, from a public policy standpoint, is whether customers purchasing insurance are getting the same value for their insurance dollars, or different values in different states, by reason of the type of ratemaking law in effect. The best measure of value is the loss ratio since it measures what the insurer pays out in losses for each dollar the insurer takes in by way of premiums.

The study concludes that there is no indication whatsoever that prior approval systems cause insurers to endure higher pure loss ratios thus giving consumers better value for their insurance dollar. What evidence there is points in the direction of open competition inducing higher loss ratios and, therefore, greater value for insureds.[10]

Proposal to Prohibit Rate Service Organizations From Filing Average Expense Factors

In October, 1988, the Commission recommended to the HJR 120 Joint Subcommittee that Section 38.2-1908 and other related sections of the Code of Virginia be amended to prohibit rate service organizations from filing final rates which include average expense factors.

The result of this change would be to require each insurer to make a separate rate filing with the Bureau of Insurance using its own expense component. The companies would continue to be allowed to use advisory loss cost data published by rate service organizations, with each company adding its own expense component and filing its own final rates.

The Commission has further recommended that the advisory loss costs data filings of rate service organizations be made subject to the 60-day prior filing provisions of Section 38.2-1912 of the Code to allow for actuarial review by the Bureau of Insurance. An appropriate amendment to the statute has been proposed.

Because of statistical credibility considerations, insurance companies have historically been permitted to combine loss cost data; however, this exemption from anti-trust statutes does not logically extend to expense factors. Each company should be able to project its own expense component without reliance on a rate service organization.

The proposed changes to the Code are expected to enhance competition in the commercial liability insurance lines and subclassifications where final rates are currently developed and filed by rate service organizations.

V. ALTERNATE MARKETS

Approved Surplus Lines Insurers

A review of surplus lines affidavits filed during the first three quarters of 1988 indicates that the coverages identified as potentially noncompetitive in the 1987 supplemental report forms are being written, in significant numbers, in the surplus lines market.

It should be noted, however, that the rates and forms used by these insurers for commercial liability insurance are unregulated. Additionally, these companies are not members of the Virginia Property and Casualty Guaranty Association which affords protection to policyholders in the event of insurer insolvency.

Risk Retention Groups and Purchasing Groups

The Federal Liability Risk Retention Act of 1981 was established to respond to the products liability crisis of the late 1970s when products liability insurance became both unavailable and unaffordable. The Federal Act was broadened in 1986 to include most forms of commercial liability.

Chapter 51 was added to Title 38.2 of the Code of Virginia in 1987 to regulate the formation and operation of risk retention groups and purchasing groups in this Commonwealth.

A risk retention group is a corporation or other limited liability association whose primary activity consists of assuming and spreading all, or any portion of, the liability exposure of its group members whose liability exposures must be similar or related in nature. Exhibit XII is a listing of recognized risk retention groups formed to provide coverages identified in the 1988 supplemental reports.

A purchasing group is a group formed for the purpose of purchasing insurance on a group basis for its members' similar or related exposures from a licensed insurer, an approved surplus lines company, or a risk retention group. Exhibit XIII is a listing of recognized purchasing groups providing coverages identified in the 1988 supplemental reports.

Again, it should be noted that, except in the case of purchasing groups using licensed insurers, rates and forms are largely unregulated and the protection of the Virginia Property and Casualty Guaranty Association does not apply.

Group Self-Insurance Pools for Municipalities

Group self-insurance pools for municipalities have become a major alternative to traditional insurance in providing liability coverage for municipalities. A national survey published by the Public Risk Management Association in 1988 revealed that pooling by public entities has increased significantly over the past several years.

In 1986, the Virginia General Assembly enacted legislation allowing the formation of local government group self-insurance pools. The law requires all such pools to be approved by the State Corporation Commission prior to operation.

The Virginia Municipal Liability Pool was licensed on June 30, 1986 and currently has 67 members. Membership in the Virginia Municipal Liability Pool is available to cities, counties, towns and school systems which meet the following underwriting requirements:

1. localities under 50,000 in population;
2. localities between 50,000 and 75,000 in population with good loss ratios, stable population and a strong financial picture; and
3. school systems meeting the above population criteria with a good loss history.

Local government group self-insurance pools are not protected by the Virginia Property and Casualty Insurance Guaranty Association and members may become liable for unpaid claims in the event of insolvency of their pool.

VI. CONSUMER PROTECTION AND ASSISTANCE

A number of amendments to the Code of Virginia have been effected since 1986 in an effort to afford additional protection to commercial liability insurance consumers.

Section 38.2-231 of the Code was added in 1986 to require 45 days written notice of cancellation or non-renewal (15 days if for non-payment of premium). This section was amended in 1987 to extend notice requirements to include increases in rates greater than 25%.

Section 38.2-305 of the Code was amended in 1988 to require insurers to add a notice to every policy providing the address and phone number of the insurer and the Bureau of Insurance and informing the policyholder of the appropriate parties to contact for assistance.

The Bureau of Insurance also maintains a consumer services department and a toll-free "hotline" telephone number for consumer inquiries and complaints. During fiscal year 1986-87, the consumer services section received 285 general liability complaints and 81 medical malpractice complaints. For the 1987-88 fiscal year, the number of complaints decreased to 229 for general liability and 38 for medical malpractice.

The Virginia Market Assistance Program (MAP) was established in January, 1986. This was a voluntary plan to assist commercial liability insurance consumers in alleviating the availability problems encountered with respect to such lines as municipal liability (excluding pollution coverages), day care providers liability, liquor liability, and products liability insurance. Twenty insurance companies participated in the program. The program was deactivated by the Commissioner of Insurance in April 1987, due to the lack of applications for assistance.

Currently under development by the Bureau of Insurance is a program to assist consumers in locating companies seeking to write coverages where the consumer has encountered an availability problem. This program will be in the form of an information and referral system developed from market research conducted by Bureau personnel.

In order to provide for a dialogue between regulators and insurance consumers, consumer advisory committees will be established with respect to the following lines of commercial liability insurance:

- Commercial Contracting Liability
- Day Care Liability
- Municipal Liability
- Products and Completed Operations Liability
- Recreational Liability
- School Divisions Liability

In addition, public hearings with Virginia insurance consumers will be conducted, as often as quarterly, throughout the State to solicit consumer input with respect to the level of competition, availability and affordability of all the various lines and subclassifications of commercial liability insurance.

VII. SUMMARY AND DESIGNATION OF POTENTIALLY NONCOMPETITIVE LINES AND SUBCLASSIFICATIONS

Bureau survey results indicate that competition is increasing in the commercial liability insurance market. Availability has improved for most coverages in the past year and rates have decreased for many classifications. The increasingly competitive nature of the market is demonstrated by the extensive use of rate modifications such as experience, schedule, and package modifiers and rate deviations. (See Exhibit XIV for a summary of some of the survey results.) Bureau surveys also developed evidence of untapped markets with respect to several market segments. Exhibit XV is a listing, by line, of insurers who are willing to write certain coverages but who are not currently writing them.

Due to the questionable accuracy of the data developed with respect to the 17 lines included in the 1988 supplemental reports, the Commission will again require supplemental reports for these lines. Within broad market definitions that are apparently competitive, the Bureau will attempt to identify any specific subclassifications where availability or affordability problems may exist. An attempt will also be made to separate lines and classes which overlap in order to improve the credibility of the data. The excess/umbrella liability market will not be separately surveyed since it is, in fact, an extension of the limits of the primary coverage provided for the various liability lines and subclassifications. The 14 additional troubled lines and subclassifications identified by respondents to the current survey will also be included in the 1989 supplemental report forms. These 31 lines and classes represent more than 1,300 separate liability subclassifications.

The Commission therefore designates as potentially noncompetitive the following lines and subclassifications of commercial liability insurance:

- Architects and Engineers Professional Liability
- Asbestos Abatement Contractors Liability
- Commercial Contractors Liability (approximately 100 subclassifications)
- Dams (existence hazard) Liability
- Day Care Liability
- Detective or Investigative Agencies Liability (private)
- Directors and Officers Liability

- Environmental Impairment Liability
- Gas Companies Liability
- Insurance Agents Professional Liability
- Landfill Liability
- Law Enforcement Agencies Liability
- Lawyers Professional Liability
- Liquor Liability
- Medical Professional Liability
- Municipal Liability
- Pest Control Liability
- Products and Completed Operations Liability (approximately 1000 subclassifications)
- Public Housing Liability
- Public Officials Errors and Omissions Liability
- Real Estate Agents Professional Liability
- Recreational Liability (approximately 200 subclassifications)
- Rental Stores (machinery or equipment) Liability
- School Board Errors and Omissions Liability
- School Divisions Liability
- Security and Alarm Systems Installation Liability
- Security Guards Liability
- Sewage Treatment Plants Liability
- Underground Tanks Liability
- Volunteer Fire Departments and Rescue Squads Liability
- Water Treatment Plants Liability

The remaining lines and subclassifications of commercial liability insurance, not listed above, are found to be generally competitive. Bureau surveys found no evidence to indicate significant availability or affordability problems in these other market segments which include most habitational classes (apartments and rental housing), retail and wholesale establishments, service businesses, and processing risks, as well as many professional liability lines.

DESIGNATION OF DATE TO FILE SUPPLEMENTAL REPORTS

Pursuant to Virginia Code Section 38.2-1905.2.C., insurers writing the potentially noncompetitive lines, subclassifications and types of coverages designated above will be required, on or before May 1, 1989, to file supplemental reports for further investigation and hearings by the State Corporation Commission.

NOTES

1 Housing Units Authorized in Virginia's Counties and Cities (Center for Public Service: University of Virginia, August 1988).

2 Liability Insurance: Effects of Recent "Crisis" on Business and Other Organizations (United States General Accounting Office, July 1988).

3 Property/Casualty Insurance Rate Survey (Goldman Sachs, September 9, 1988).

4 Report on the Property/Casualty Insurance Industry Underwriting Cycle (American Academy of Actuaries, October 1, 1987).

5 Insurer Profitability: A Long-Term Perspective (Insurance Services Office, Inc., April 1987).

6 Owen M. Gleeson, "TRA '86 - Its Effect on Property/Casualty Companies," Actuarial Digest April 1987:5.

7 Susan Narod, "Tax Reform Takes Big Bite From Profits," National Underwriter October 31, 1988:18-19.

8 The Effects of the 1986 Tax Reform Act on the Property/Casualty Insurance Industry (Insurance Services Office, Inc., March 1988).

9 The Value Line Investment Survey (Value Line, Inc., October 14, 1988) 621.

10 Open Competition vs. Prior Approval - Do Ratemaking Laws Make a Difference? (Palmer Bellevue Corporation Conference of Insurance Regulation, February 1987).

EXHIBITS

**Rate Competition Survey -
Commercial Contracting Liability**

The following is a summary of quotations received from major writers of commercial liability coverage for a hypothetical commercial contracting risk.

The specifications presented to each insurer were as follows:

Exposure:	Payroll of $707,600, Receipts of $3,000,000
Classifications:	Masonry Carpentry Painting, interior Painting, exterior Executive Supervisors
Coverages:	Premises and Operations Products and Completed Operations
Limits:	Bodily Injury, Property Damage, Personal Injury and Advertising Injury: $500,000 each occurrence and aggregate Products and Completed Operations: $500,000 each occurrence and aggregate Fire Damage sub-limit: $25,000 (any one fire) Medical Payments sub-limit $5,000 (any one person)

Each insurer was asked to develop their premium based on the company's filed rates, without modification, and to then apply any applicable rate modifiers to develop the actual premium to be charged. Insurers were also asked to indicate the edition date of the ISO rate being used, where applicable.

COMMERCIAL CONTRACTOR QUOTES

Company	Filed Rate Premium	Modified Premium	ISO Rate Edition
Aetna Casualty & Surety Ins. Co.	$45,948.00	$24,624.00	Independent
Bituminous Cas. Corp.	$71,555.00	$46,511.00	12/88
CNA Ins. Cos.	$46,880.00	$18,278.00	4/87
Chubb Group (Federal Ins. Co.)	$35,397.00	$23,575.00	5/86, 3/86
Commercial Union	$72,125.00	$38,948.00	4/87, 7/88
Continental Ins. Co.	$36,686.00	$25,882.00	8/88
Crum & Forster Commercial Ins. Co.	$71,556.00	$22,897.00	12/88
Fireman's Fund Ins. Company	$71,557.00	$50,804.00	10/88
Great American Ins. Company	$96,317.00	$51,722.00	12/88
Hanover Ins. Co.	$71,347.00	$71,347.00	4/87, 7/88
Hartford Ins. Group	$50,950.00	$36,684.00	4/87
Liberty Mutual Ins.	$67,729.00	$32,510.00	12/88
Maryland Casualty Ins. Co.	$61,305.00	$30,898.00	12/88
Ohio Casualty Ins. Company	$60,002.00	$34,801.00	4/87
Pennsylvania Manufacturers' Assoc.	$54,095.00	$40,570.00	4/87
Pennsylvania Nat'l Ins. Co.	$73,564.00	$55,173.00	4/87
Reliance Ins. Co.	$89,545.00	$53,727.00	7/88
Rockwood Ins. Co.	$72,364.00	$68,016.00	12/88
Royal Ins. Co.	$67,729.00	$60,359.00	4/87

Company	Filed Rate Premium	Modified Premium	ISO Rate Edition
St. Paul Fire & Marine Ins. Co.	$72,124.00	$65,633.00	4/87
Selective Ins. Co. of America	$60,393.00	$18,723.00	1/88, 5/87
Travelers Ins.Co.	$71,556.00	$34,204.00	4/87
United States Fid. & Guaranty	$52,452.00	$29,373.00	Independent
Utica National	$72,124.00	$51,929.00	4/87
Virginia Mutual	$24,033.00	$18,794.00	9/86, 5/86 3/86 & 2/82
Zurich-American Ins. Group	$71,348.00	$49,229.00	4/87

LICENSED CHILD CARE CENTER SURVEY RESULTS

Total Surveyed	Have you had Difficulty obtaining insurance?		If yes, was the difficulty Due to:		Have you been cancelled or non-renewed in last 3 years?	
	No	Yes	Availability	Affordability	No	Yes
91	63	28	14	14	73	18
(100%)	(69%)	(31%)	(50%)	(50%)	(80%)	(20%)

LICENSED FAMILY DAY CARE HOMES SURVEY RESULTS

Total Surveyed	Do you have liability Ins?		If yes, is your coverage part of homeowners policy?		Have you had difficulty due to availability or affordability?	
	No	Yes	No	Yes	No	Yes
61	24	35	11	24	32	29
(100%)	*(39%)	(57%)	(31%)	(69%)	(52%)	(48%)

*2 could not answer this question.

	NUMBER SURVEYED	DO YOU HAVE COMMERCIAL LIABILITY INSURANCE? (YES)	(NO)	EXPERIENCED AVAILABILITY PROBLEMS? (YES)	(NO)	CANCELLED OR NON-RENEWED LAST YEAR? (YES)	(NO)	SIGNIFICANT RATE INCREASE LAST YEAR? (YES)	(NO)	REDUCTIONS IN COVERAGE LAST YEAR? (YES)	(NO)
Amateur Athletic Games	2	2		1	1		2	1	1	1	1
Amusement Parks	1	1			1		1	1		1	
Bingo Games	3	2	1		3		2		2		2
…ling Lanes	3	3			3		3		3		3
…mpgrounds	7	7		1	6		7		7		7
Country Clubs	7	7		1	6		7		7		7
Exercise or Health Clubs	7	6	1	4	3		7	1	5		6
…irs	4	4		1	3		4		4		4
…rseback Riding	9	7	2	6	3		7	3	4		7
…iature Golf	1	1			1		1	1			1
Movie Theaters	1	1			1		1		1		1
Neighborhood Recreation Associations	1	1		1			1		1		1
Parades	3	3		1	2		3	1	2		3
Race Tracks	1	1			1		1		1		1
Skating Rinks	2	2		1	1		2		2	1	1
Stadiums	1	1			1		1	1			1
		(YES)	(NO)	(YES)	(NO)	(YES)	(NO)	(YES)	(NO)	(YES)	(NO)
TOTALS	53	49	4	17	36	0	50	9	40	3	46

EXHIBIT IV

COUNTRYWIDE SURVEY OF INSURANCE AVAILABILITY
GENERAL LIABILITY

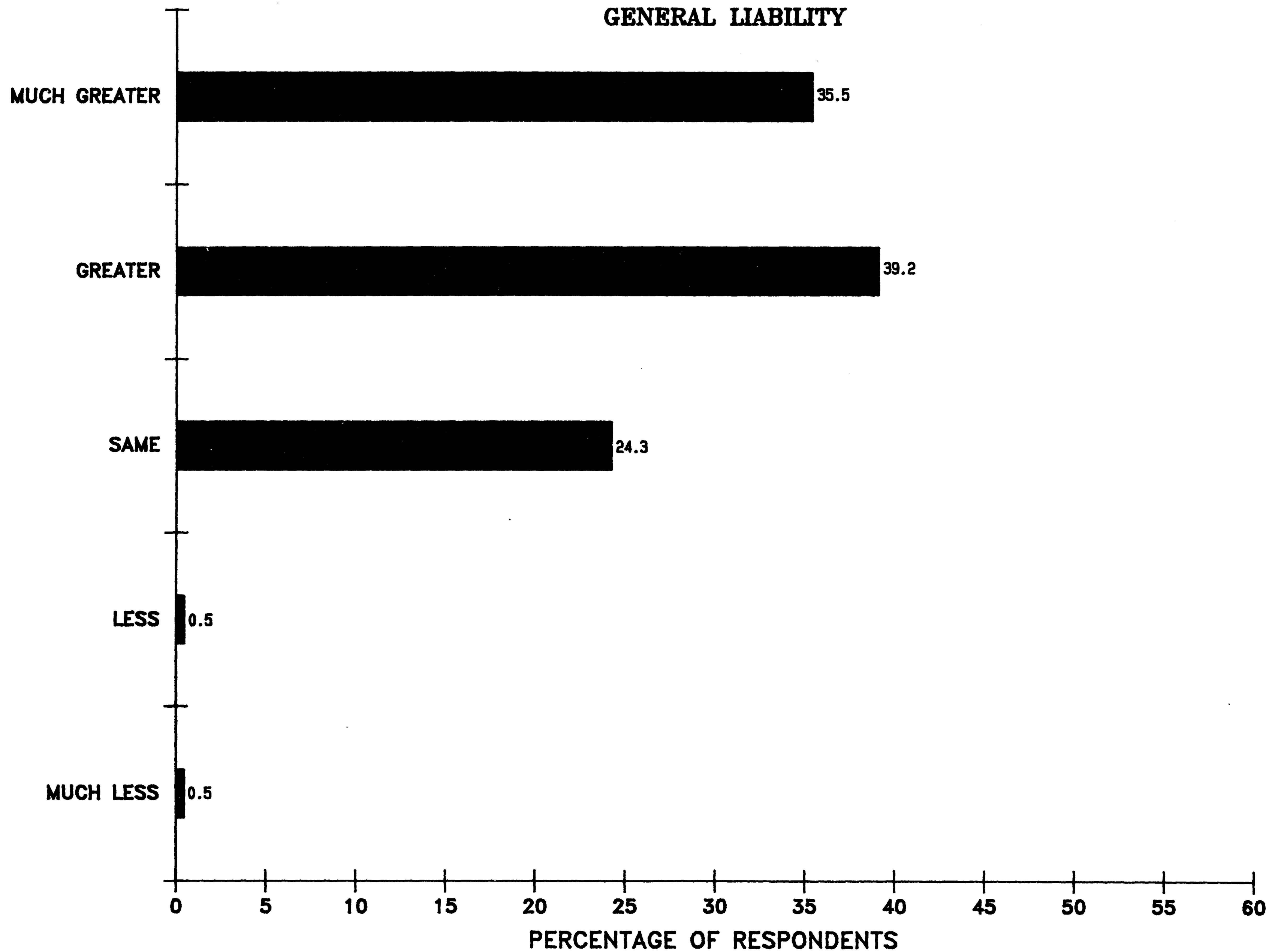
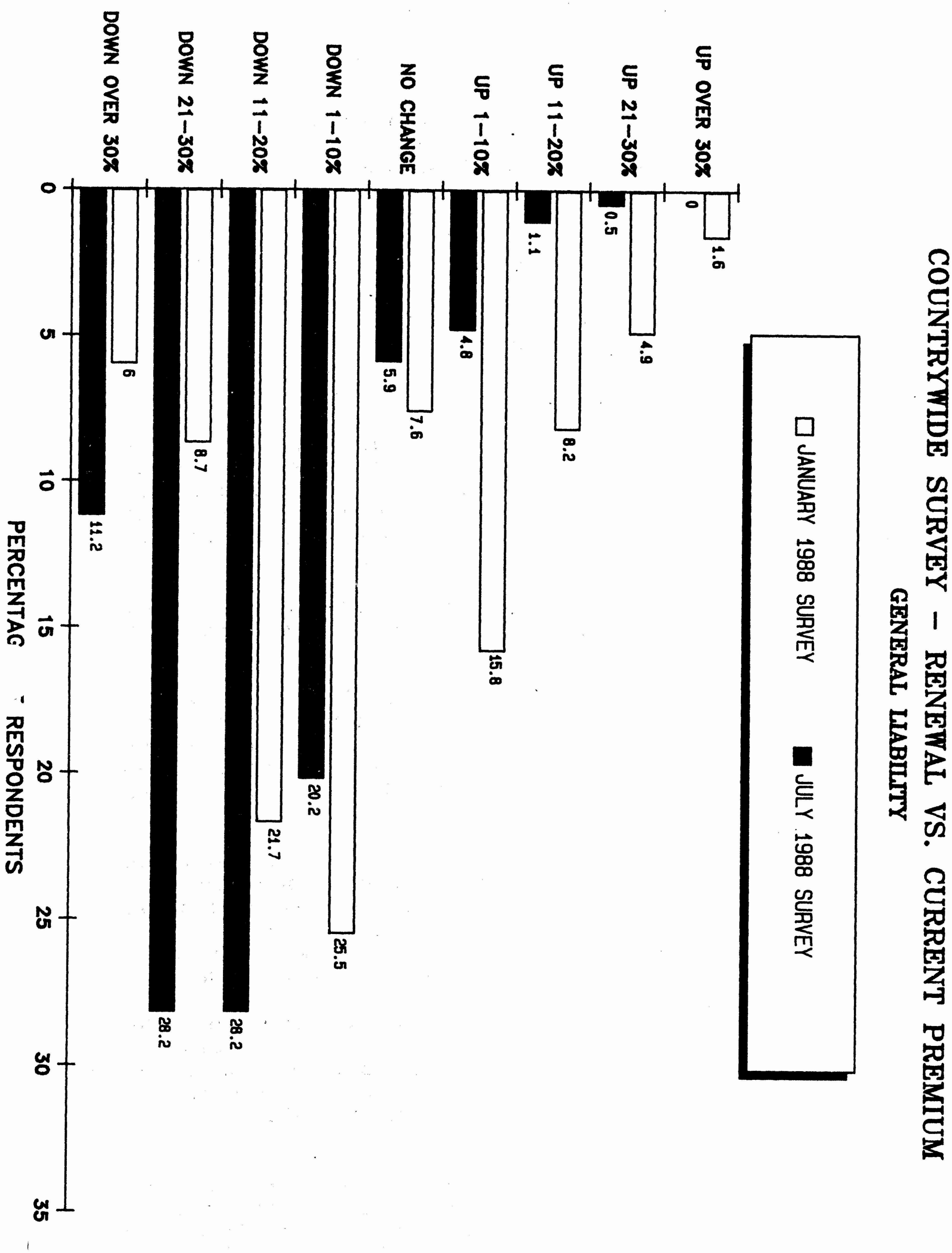


EXHIBIT V



COUNTRYWIDE SURVEY - RENEWAL VS. CURRENT PREMIUM
GENERAL LIABILITY
JANUARY 1988 SURVEY
JULY 1988 SURVEY
UP OVER 30%
UP 21-30%
UP 11-20%
UP 1-10%
NO CHANGE
DOWN 1-10%
DOWN 11-20%
DOWN 21-30%
DOWN OVER 30%
1.6
0
4.9
0.5
8.2
1.1
15.8
4.8
7.6
5.9
25.5
20.2
21.7
28.2
8.7
28.2
6
11.2
0
5
10
15
20
25
30
35
PERCENTAG - RESPONDENTS

CHART KEY

I. Abbreviations:

GL -	General Liability
O,L&T -	Owners, Landlords and Tenants
M&C -	Manufacturers and Contractors
Prod/CoOp -	Products and Completed Operations
OCP -	Owners and Contractors Protective Liability
Prem/Op -	Premises and Operations
E/S -	Experience/Schedule

II. Column Headings

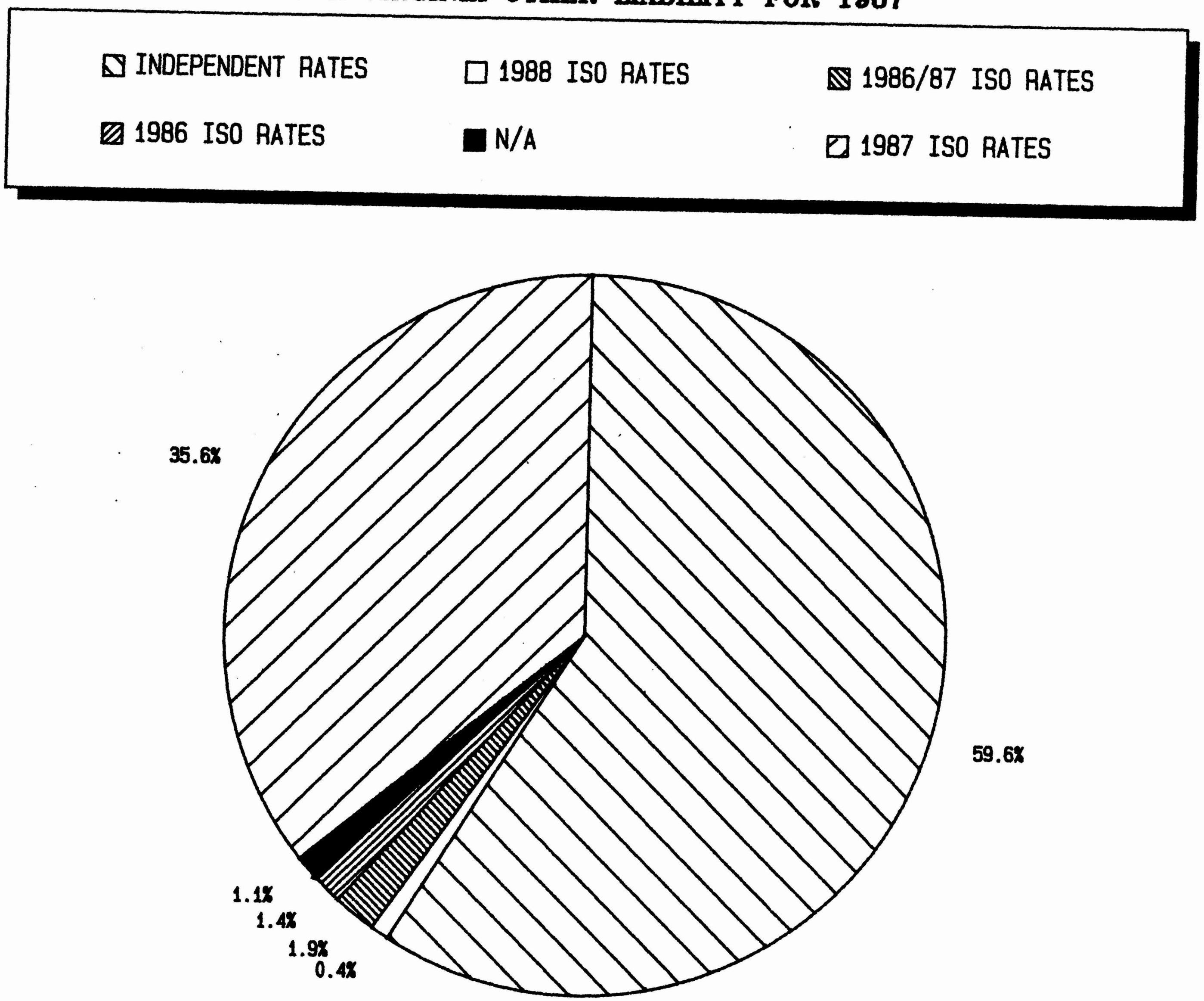
Co. # -	See corresponding list of companies for individual company name. Companies are listed by market share with #1 being the company with the largest written premium for 1987.
GL Rates Edition Dates -	The edition date of the rates being utilized by the specified company.
GL Deviations -	A deviation is a statement filed by an insurer that the insurer will use, with every policy, rates which differ from ISO rates by a specified percentage.
Schedule Credit/Debit -	A credit or debit applied to an individual risk based on the characteristics of that particular risk (i.e., good management would produce a credit, whereas poor management would produce a debit).
Expense Debit/Credit -	A debit or credit applied to an individual risk to reflect a difference in company expenses (such as agency commission) applicable to that risk.
Method of Combining E/S and expenses -	Indicates the method the company is utilizing to combine experience rating, schedule rating and expense modifications into one factor. Experience modification reflects the individual risk's paid losses compared to premiums charged.

Company #	Company Name
1	National Union Fire Insurance Company of Pittsburgh, PA
2	The Aetna Casualty and Surety Company
3	Federal Insurance Company
4	Hartford Accident and Indemnity Company
5	Liberty Mutual Insurance Company
6	The Virginia Insurance Reciprocal
7	Continental Casualty Company
8	The Travelers Indemnity Company
9	United States Fidelity and Guaranty Company
10	The American Road Insurance Company
11	Insurance Company of North America
12	The Charter Oak Fire Insurance Company
13	Nationwide Mutual Insurance Company
14	United States Fire Insurance Company
15	The Travelers Indemnity Company of Illinois
16	Pennsylvania Manufacturers Association Insurance Company
17	St. Paul Fire and Marine Insurance Company
18	Fidelity and Guaranty Insurance Underwriters, Inc.
19	International Insurance Company
20	The Home Indemnity Company
21	Federated Mutual Insurance Company
22	State Farm Fire and Casualty
23	The Continental Insurance Company
24	The Cincinnati Insurance Company
25	The Home Insurance Company
26	The American Insurance Company
27	American Casualty Company of Reading, Pennsylvania
28	Imperial Casualty and Indemnity Company
29	New Hampshire Insurance Company
30	Old Republic Insurance Company

CO #	GL RATES EDITION DATES	GL DEVIATIONS	SCHEDULE CREDIT/DEBIT	EXPENSE CREDIT/DEBIT	METHOD OF COMBINING E/S & EXPENSE
1	4-87	None	-25% to +25%	None	Multiply
2	4-87	-6%	-50% to +50%	None	Add
3	O,L&T 8-86 M&C 5-86 OCP 2-82 Prod/CoOp 3-86	None	-50% to +50%	-20% to +20%	Multiply
4	4-87	-15%	-25% to +25%	-25% to +25%	Add
5	4-87	None	-25% to +25%	None	Multiply
6	4-87	Hospital related risk -50% All others - 0	-25% to +25%	None	Add
7	4-87	None	-50% to +50%	-15%	Multiply
8	4-87	None	-40% to +40%	-25% to +25%	Multiply
9	Company Files Independent Rates				
10	Company Files Independent Rates				
11	4-87	None	None	None	N/A
12	4-87	None	-25% to +25%	-5%	Add
13	4-87	None	-25% to +25%	None	Multiply
14	4-87	None	-40% to +40%	-25% to +25%	Add
15	4-87	None	-40% to +40%	None	Add
16	4-87	-25%	-25% to +25%	-25% to +25%	Multiply
17	O,L&T 4-87 M&C 5-87 Prod/CoOp 4-87	None	-40% to +40%	-15% to +15%	Multiply
18	O,L&T 8-86 M&C 4-87 Prod/CoOp 3-86	O,L&T -36% M&C -42%	-40% to +25%	None	Multiply
19	7-88	None	-40% to +40%	-25% to +25%	(Add E/S) x Expense
20	8-86	None	-40% to +40%	-14%	(Add E/S) x Expense
21	4-87	Prem/Op -30% Prod/CoOp -30%	-35% to +35%	None	Multiply
22	Company Files Independent Rates				
23	O,L&T 8-86 M&C 3-87 Storekeepers 8-86 Prod/CoOp 3-87	None	-25% to +25%	-25% to +25%	Multiply
24	Company Files Independent Rates				
25	4-87	None	-40% to +40%	-14%	(Add E/S) x Expense
26	4-87	None	-25% to +25%	-25% to +25%	(Add E/S) x Expense
27	4-87	-15%	-50% to +50%	-25% to +25%	(Add E/S) x Expense
28	Company Is Not Writing Business Currently				
29	4-87	None	-25% to +25%	None	Add
30	4-87	None	-50% to +50%	None	Multiply

EXHIBIT VII

TOP THIRTY COMPANIES SURVEYED
73% OF TOTAL PREMIUM VOLUME
FOR VIRGINIA OTHER LIABILITY FOR 1987



ISO RATE LEVEL CHANGES
Premises and Operations Coverage
for Pest Control, School Divisions
Recreational Classes and Day Care Liability

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
43470	Exterminators		-4.1%
47473	Public High Schools		
	Territory 1		-4.7%
	2		no change
	3	+7.7%	
	4		-6.3%
47471	Public Primary & Middle Schools		
	Territory 1	+5.2%	
	2	+3.9%	
	3	+21.9%	
	4		-6.3%
47474	Trade or Vocational Schools		
	Territory 1		-4.1%
	2		-3.2%
	3		-10.9%
	4		-5.5%
67507	Schools-NOC		
	Territory 1		-3.3%
	2		no change
	3		-11.0%
	4		no change
10015	Amusement Centers		
	Territory 1		-20.7%
	2		-24.9%
	3		-12.4%
	4		-24.9%
40046	Saddle Animals for Rent		
	Territory 1		-2.1%
	2	+4.1%	
	3		-4.8%
	4		-3.3%

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
40047	Saddle Animals-Private		
	Territory 1		no change
	2	+5.3%	
	3		-4.1%
	4		-2.3%
10052	Archery Ranges-Indoor		
	Territory 1		-4.8%
	2	+5.4%	
	3		no change
	4		-5.6%
10054	Archery Ranges-NOC		
	Territory 1		-4.8%
	2	+5.4%	
	3		no change
	4		-5.6%
40060	Athletic Games Sponsored by Insured		
	Territory 1		no change
	2	+14.8%	
	3	+4.4%	
	4		no change
40062	Athletic Games or Contests in Bldg. (lessees)		
	Territory 1		-21.6%
	2		-8.0%
	3		-11.9%
	4		-14.0%
10131	Bazaars-operated by insured		no change
10120	Bathhouses		
	Territory 1		-1.9%
	2	+4.0%	
	3		-5.3%
	4		-2.5%
47420	Saunas & Baths-Public		
	Territory 1		-8.5%
	2		-1.8%
	3		-10.9%
	4		-7.7%

Class Code	Description	Rate Level Change Increase	Decrease
10133	Beach Chairs & Umbrellas Rentals		
	Territory 1		-15.4%
	2	+3.4%	
	3		-4.0%
	4		-15.1%
48924	Swimming Pools-Commercially Operated		
	Territory 1		-3.9%
	2	+4.2%	
	3		-4.9%
	4		-3.7%
48925	Swimming Pools-NOC		
	Territory 1		-1.9%
	2	+4.0%	
	3		-5.1%
	4		-2.8%
10151	Bicycles-rented to others		
	Territory 1		-1.2%
	2	+3.6%	
	3		-5.2%
	4		-2.5%
10160	Billiard or Pool Halls		
	Territory 1		-5.9%
	2		-2.4%
	3		-10.9%
	4		-7.2%
10220	Bowling Lanes		
	Territory 1		-6.0%
	2		-2.5%
	3		-11.1%
	4		-7.3%
40075	Bingo Games-Public Halls-Commercial		
	Territory 1		-3.0%
	2	+3.5%	
	3		-5.0%
	4		-6.8%
10107	Boat Yards or Marinas-Public	+3.5%	
10110	Canoes or RowBoats for Rent		no change
40111	Canoes or Rowboats not for Rent		no change

ISO Rate Level Changes
Page 4

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
10117	Motor or Sailboats Rented to Others		no change
41421	Camps-For Profit		
	Territory 1	+23.7%	
	2	+22.6%	
	3	+23.8%	
	4	+25.0%	
10330	Campgrounds		
	Territory 1		-9.9%
	2		-8.1%
	3		-12.5%
	4		-9.3%
41422	Camps-Not for Profit		
	Territory 1	+24.6%	
	2	+24.2%	
	3	+24.5%	
	4	+24.1%	
10377	Carnival or Circus-in tents- sponsors risk		
	Territory 1		-20.2%
	2		-8.6%
	3		-11.4%
	4		-7.5%
10376	Carnival-outside-sponsors risk		no change
11138	Clubs-country or golf		
	Territory 1		-8.3%
	2		-2.9%
	3		-9.8%
	4		-9.5%
41664	Clubs-horseback riding		
	Territory 1		-19.2%
	2		no change
	3		-6.0%
	4		-22.0%
41665	Clubs-Raquet Sports & Handball		
	Territory 1		-4.8%
	2	+5.4%	
	3		no change
	4		-5.6%

ISO Rate Level Changes
Page 5

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
11270	Dance Halls or Ballrooms		
	Territory 1		-2.0%
	2	+4.0%	
	3		-6.1%
	4		-4.5%
44311	Exercise or Health Clubs		
	Territory 1		-8.5%
	2		-1.8%
	3		-10.9%
	4		-7.7%
63212	Exhibition or Convention Buildings		
	Territory 1		-22.5%
	2		no change
	3		-12.9%
	4		-8.7%
63213	Exhibitions in Buildings-NOC		
	Territory 1		-21.8%
	2		-8.1%
	3		-11.8%
	4		-14.2%
43421	Exhibitions Outside		
	Territory 1		-18.4%
	2		-21.8%
	3		-12.0%
	4		-12.0%
43422	Exhibitions Outside-Grandstands & Ushers		
	Territory 1		-21.8%
	2		-18.9%
	3		-11.8%
	4		-14.2%
43518	Fairs-Outside-Operators Risk		
	Territory 1		-20.2%
	2		-8.6%
	3		-11.4%
	4		-7.5%
43626	Fireworks-Contractors Risk		no change

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
43627	Fireworks-Sponsors Risk		
	Territory 1		-21.3%
	2		-8.6%
	3		-12.8%
	4		-10.8%
43760	Fishing Ponds-Commercial		no change
44071	Golf Driving Ranges		
	Territory 1		-5.1%
	2	+5.2%	
	3		no change
	4		-5.1%
44069	Miniature Golf Courses		
	Territory 1		-5.2%
	2	+5.3%	
	3		no change
	4		-5.7%
44070	Golf Courses-Municipal or Public		
	Territory 1		no change
	2	+8.1%	
	3		-4.2%
	4		-1.7%
44072	Golfmobiles-rented to others		
	Territory 1		-7.6%
	2		-2.2%
	3		-11.1%
	4		-9.3%
44275	Halls		
	Territory 1		-23.5%
	2		-9.3%
	3		-12.4%
	4		-12.8%
66309	Libraries		
	Territory 1		-4.0%
	2		no change
	3		-10.7%
	4		no change
46425	Museums		
	Territory 1		-4.0%
	2		no change
	3		-10.7%
	4		no change

ISO Rate Level Changes
Page 7

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
15655	Nightclubs, Discotheques		
	Territory 1		-1.8%
	2	+4.3%	
	3		-5.9%
	4		-4.2%
46911	Race Tracks-Motor Vehicles-operators		
	Territory 1		-2.5%
	2		-14.6%
	3		-18.0%
	4		-16.4%
46912	Race Tracks-NOC-operators		
	Territory 1		-24.9%
	2		-14.9%
	3		-17.5%
	4		-17.6%
47221	Riding Academies		
	Territory 1		-19.3%
	2		no change
	3		-5.9%
	4		-22.1%
47318	Rodeos		
	Territory 1		-21.0%
	2		-5.9%
	3		-10.2%
	4		-8.5%
48177	Ice Skating Rinks		
	Territory 1		-18.3%
	2		-1.0%
	3		-4.9%
	4		-23.3%
48178	Roller Skating Rinks		
	Territory 1		-20.7%
	2		-3.4%
	3		-7.0%
	4		-21.3%
48206	Skeet or Trap Shooting Ranges		no change
48252	Ski Lifts, Tows or Runs		
	Territory 1		no change
	2	+5.6%	
	3		-3.6%
	4		-2.4%

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
48441	Soap Box Derbies		no change
48556	Social Gatherings & Meetings		no change
99111	Stables-Boarding, Livery, Racing		-0.8%
48634	Stadiums-operated by insured		
	Territory 1		-20.9%
	2		-25.0%
	3		-12.1%
	4		-13.2%
48808	Sun Tanning Salons		
	Territory 1		-8.5%
	2		-1.8%
	3		-10.9%
	4		-7.7%
49111	Tents or Canopies Rental		no change
49182	Theatres-NOC		
	Territory 1		-8.5%
	2		-3.7%
	3	+24.6%	
	4		-12.6%
49181	Drive-In Theatres		
	Territory 1		-22.6%
	2		-1.2%
	3		-11.0%
	4		-11.4%
49183	Motion Picture Theatres		
	Territory 1		-21.3%
	2		-8.0%
	3		-15.9%
	4		-11.3%
99718	Traveling Theatrical Companies	+2.7%	
49333	Travel Agency Tours		no change
49870	YMCA, YWCA & similar institutions		
	Territory 1		no change
	2	+2.8%	
	3		-4.5%
	4		-2.3%

Class Code	Description	Rate Level Change Increase	Rate Level Change Decrease
41712	Day Care Centers (rated by area-sq.ft.)		
	Territory 1		-3.2%
	2		no change
	3		-4.0%
	4		-3.3%
41714	Day Care Centers (rated by number of persons)		no change

ISO RATE LEVEL CHANGES FOR PRODUCTS AND COMPLETED OPERATIONS

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	RATE LEVEL CHANGE DECREASE
10010	Air Conditioning Equipment - dealers		-14.1%
10040	Appliance Distributors - household	+6.4%	
10042	Appliance Stores - household	+18.4%	
10060	Army and Navy Stores		-40.0%
10070	Automobile Parts and Supplies - distributors	+12.0%	
10071	Automobile Parts and Supplies - stores		-17.1%
10073	Automobile Repair or Service Shops		-10.3%
10075	Automobile Repair Shops - self-service		-17.1%
10100	Bakeries	+50.0%	
10115	Beauty Parlors & Hair Styling Salons	+35.0%	
10140	Beverage Distributors - alcoholic, not beer		-8.1%
10141	Beverage Distributors - nonalcoholic and beer		-21.1%
10145	Beverage Stores - liquor and wine	+42.9%	
10146	Beverage Stores - soft drinks and beer	+38.8%	
10255	Building Material Dealers		-18.3%
10256	Building Material Dealers - secondhand materials		-18.3%
10257	Building Material Distributors		-18.3%
10352	Candy or Confectionery Store	+38.9%	
11020	Catalog or Premium Coupon Redemption Store	+16.1%	
11039	Caterers	+30.4%	
11125	Clothing or Wearing Apparel Store		-40.0%
11138	Clubs - country or golf	+49.5%	
11203	Contractors Equipment Dealers - ladders, excluding hoists, scaffolds, or towers	+20.0%	
11204	Contractors Equipment Dealers - ladders, hoists, scaffolds, or towers	+26.2%	
11234	Cosmetic Hair or Skin Preparation Stores	+44.7%	
11257	Dairy Products or Butter and Egg Stores	+38.8%	
11288	Delicatessens	+47.6%	
12014	Dental Laboratories	+4.9%	
12356	Department or Discount Stores	+21.2%	
12361	Distributors - food or drink		-22.5%
12373	Drug Distributors	+2.2%	
12374	Drugstores - no table or counter service for beverage or food	No Change	
12375	Drugstores	No Change	
12391	Electrical Equipment Distributors	+6.4%	
12651	Fence Dealers		-12.4%
12707	Fire Protection Equipment Dealers		-20.0%
12805	Floor Covering Stores	+24.1%	
13049	Frozen Food - distributors		-25.4%
13111	Fruit or Vegetable Dealers	+37.1%	
13112	Fruit or Vegetable Distributors		-17.5%
13201	Fuel Dealers or Distributors - coal or wood		-4.3%
13202	Fuel Oil or Kerosene Dealers	+49.4%	
13203	Fuel Oil or Kerosene Distributors	+50.0%	
13350	Furniture Stores	+24.1%	
13407	Gas Dealers - LPG		-20.8%
13409	Gas Distributors - LPG	+28.6%	
13590	Glass Dealers and Glaziers	+1.7%	
13621	Grain Milling	No Change	
13670	Grocery Distributors		-17.5%
13671	Grocery Stores	+37.1%	
13715	Hardware and Tool Distributors	+18.5%	
13716	Hardware Stores	+16.1%	
13759	Hearing Aid Stores	No Change	
13930	Heating or combined Heating and Air Conditioning Systems or Equipment - dealers or distributors only		-15.1%
14279	Home Improvement Stores		-18.3%
14401	Ice Cream Stores	+49.1%	
15063	Machinery or Equipment Dealers - yard or garden	+21.5%	
15118	Markets - open air	+38.8%	
15223	Meat, Fish, Poultry or Seafood - distributors		-22.1%
15224	Meat, Fish, Poultry or Seafood Stores	+50.0%	
15406	Metal Scrap Dealers		-28.1%
15733	Oil Refineries		-19.6%

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	DECREASE
15839	Optical Goods Stores	No Change	
16005	Paper Products Distributors		-28.3%
16403	Pet Stores		-26.2%
16527	Plumbing Supplies and Fixtures - Dealers and Distributors	+18.5%	
16604	Produce Handling or Packing		-22.5%
16705	Refrigeration Equipment - Dealers and Distributors - commercial		-1.9%
16811	Restaurants - with tray service	+30.6%	
16812	Restaurants - self-service or self-ordering	+30.6%	
16813	Restaurants - no alcohol - with dance floor	+19.1%	
16814	Restaurants - no alcohol - no dance floor		-17.6%
16815	Restaurants - sale of alcohol less than 75% total receipts and dance floor	+2.9%	
16816	Restaurants - sale of alcohol less than 75% - without dance floor		-17.6%
16817	Restaurants - sale of alcohol greater than 75% - with dance floor	+45.8%	
16818	Restaurants - sale of alcohol greater than 75% - without dance floor		-14.6%
18109	Shoe Repair Shops		-21.3%
18110	Shoe Stores	+48.0%	
18205	Sporting Goods or Athletic Equipment Mfg		-17.9%
18206	Sporting Goods or Athletic Equipment Stores		-30.6%
18335	Stationary or Paper Products Stores		-7.4%
18433	Stores - food or drink	+38.8%	
18506	Tailor Merchants - man or boys		-40.0%
18507	Tailoring or Dressmaking Establishments - Custom		-40.0%
18616	Tire Dealers		-17.1%
18707	Tobacco Products Distributors		-26.2%
18910	Variety Stores	+22.4%	
41666	Clubs - swimming	+49.5%	
45819	Lumberyards		-18.3%
45901	Mail Order Houses	+16.1%	
49239	Tire - retreading or recapping		-15.3%
49617	Vending Machine Operations - confection, food, beverage, or ice		-15.2%
49618	Vending Machine Operations - tobacco products		-26.3%
49619	Vending Machine Operations		-23.3%
51001	Aerosol Container Mfg		-1.2%
51116	Air Conditioning Equipment		-20.5%
51205	Alarm Mfg - burglar		-26.0%
51206	Alarm Mfg - fire or smoke	+15.9%	
51220	Appliances and Accessories Mfg - commercial - gas		-11.8%
51221	Appliances and Accessories Mfg - commercial - not gas	+7.3%	
51222	Appliances and Accessories Mfg - household - gas		-11.8%
51224	Appliances and Accessories Mfg - household - not gas	+7.3%	
51230	Asbestos Goods Mfg	+49.1%	
51240	Asphalt or Tar Distilling or Refining		-5.2%
51241	Asphalt Works		-5.2%
51252	Auto, Bus or Truck Parts Mfg - not operating parts		-23.8%
51254	Auto, Bus or Truck Parts Mfg - passenger restraining device	+49.9%	
51300	Baby Food Mfg - in glass containers	+6.0%	
51305	Baby Food Mfg	+44.1%	
51315	Bakery Plants	+50.0%	
51330	Battery Mfg - dry cell	+18.3%	
51333	Battery Mfg - wet cell or storage		-14.2%
51350	Beer, Ale, Malt Liquor Mfg - in bottles	+34.0%	
51351	Beer, Ale, Malt Liquor Mfg - in cans		-14.7%
51352	Beer, Ale, Malt Liquor Mfg - not bottled or canned		-3.2%
51355	Beverage Bottler - soft drinks - carbonated - in cans or plastic bottles	+9.6%	
51356	Beverage Bottler - soft drinks - carbonated - in glass bottles		-11.8%
51357	Beverage Bottler - soft drinks - in metal cylinders	+22.2%	

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	DECREASE
51358	Beverage Bottler - soft drinks - in paper containers		-5.2%
51359	Beverage Bottler - soft drinks - not carbonated - in bottles or cans		-5.2%
51370	Bicycle Mfg - not motorized	+12.8%	
51380	Billiard or Pool Table Mfg		-8.7%
51500	Belt, Nut, Rivet, Screw or Washer Mfg		-11.8%
51550	Bottle and Jar Mfg - glass - not for use under pressure	No Change	
51551	Bottle and Jar Mfg - glass - for use under pressure - nonreturnable		-10.1%
51552	Bottle and Jar Mfg - glass - for use under pressure - returnable		-4.3%
51600	Brick Mfg	+6.4%	
51613	Brush or Broom Mfg	+10.5%	
51734	Can Mfg - metal	+18.1%	
51741	Candle Mfg		-6.9%
51752	Candle or Confectionery Products Mfg	+7.0%	
51767	Carbon Paper or Inked Ribbon Mfg	+1.8%	
51777	Carpet or Rug Mfg	+7.1%	
51808	Cement, Concrete Mix or Plaster Mfg - packaged	+3.4%	
51809	Cement or Plaster Mfg - bulk	+0.6%	
51833	Charcoal or Coal Briquette Mfg		-7.7%
51869	China, Porcelain or Earthware Mfg	+29.6%	
51877	Clay Products Mfg	+29.6%	
51889	Clock Mfg		-5.8%
51896	Clothing Mfg		-16.8%
51900	Coffins or Caskets Mfg		-11.3%
51909	Coke Mfg		-9.1%
51926	Communication or Recording Systems or Equipment Mfg - industrial or commercial		-13.2%
51927	Communication or Recording Systems or Equipment Mfg	+3.9%	
51934	Composition Goods Mfg - not floor coverings		-2.8%
ˋ1956	Concrete - mixed in transit		-3.7%
1957	Concrete or Plaster Product Mfg - not structural		-8.7%
51958	Concrete Products Mfg - presstressed		-26.2%
51960	Contact Lenses Mfg	+6.8%	
51970	Cosmetic Mfg		-10.1%
51982	Cotton Batting, Wadding or Waste Mfg		-11.9%
51986	Cotton Gin Operations		-11.9%
51999	Cutlery (not powered) and Flatware Mfg		-5.5%
52002	Dairy Products Mfg	+38.2%	
52075	Detergent Mfg - Household		-15.4%
52134	Door or Window Mfg	+9.3%	
52315	Door or Window Mfg - wood		-6.3%
52433	Electrical Equipment Mfg - for direct and indirect application to the body	+21.7%	
52505	Electronic Games Mfg		-13.2%
52547	Electroplating	+14.3%	
52581	Elevator Mfg	+26.3%	
52744	Escalator or Moving Sidewalk Mfg	+8.9%	
52911	Extracts Mfg	+39.6%	
52967	Eye Glass Lens Mfg		-1.3%
53077	Fertilizer Mfg		-19.7%
53121	Fiberglass Mfg		-7.4%
53333	Floor Covering Mfg - not carpets, rugs, ceramic or stone tiles		-2.7%
53374	Food Products Mfg - dry	No Change	
53375	Food Products Mfg - frozen	+10.7%	
53376	Food Products Mfg - not dry - in glass container	+3.5%	
53377	Food Products Mfg - not dry - in other than glass containers	+6.9%	
53565	Fruit or Vegetable Juice Mfg - no bottling of carbonated beverages		-5.2%
53631	Fur Garment Mfg		-16.8%
3732	Furniture Mfg or Assembling - other than wood		-8.7%
6733	Furniture Mfg or Assembling - wood		-8.7%
3906	Gasoline Distributors		-16.9%
54077	Glass or Glassware Mfg	+29.6%	
55010	Heating Equipment Mfg - coal or wood		-26.8%
55011	Heating Equipment Mfg - electric		-3.9%
55012	Heating Equipment Mfg - fuel oil or kerosene		-5.3%

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	DECREASE
55013	Heating Equipment Mfg - gas or liquefied petroleum gas		-11.8%
55214	Hone, Oilstone or Whetstone Mfg		-4.8%
55371	Honey Extracting	+3.5%	
55597	Inner Tubes Mfg	+50.0%	
55715	Insulating Material Mfg - mineral		-8.1%
55716	Insulating Material Mfg - organic		-8.1%
55802	Jewelry Mfg		-5.9%
55918	Ladder Mfg	+22.6%	
55919	Ladder Mfg - wood	+26.3%	
56040	Lamp Shade Mfg		-8.7%
56202	Leather Goods Mfg		-2.9%
56390	Light Bulbs or Tubes Mfg	+7.3%	
56391	Lighting Fixtures Mfg	+7.3%	
56427	Lime Mfg		-4.8%
56488	Liquor Mfg	+10.0%	
56690	Match Mfg	+1.9%	
56699	Mattress or Box Spring Mfg	+23.9%	
56758	Meat, Fish, Poultry or Seafood - curing	+7.3%	
56759	Meat, Fish, Poultry or Seafood Processing - in airtight containers		-3.0%
56760	Meat, Fish, Poultry or Seafood Processing - not in airtight containers	+3.7%	
57001	Milk Depots or Dealers		-22.0%
57002	Milk Processing	+28.1%	
57146	Modular Units Mfg	+21.2%	
57257	Musical Instruments Mfg	+13.0%	
57410	Net Mfg	+2.4%	
57600	Optical Goods Mfg		-1.3%
57611	Ore Milling or Processing		-4.8%
57651	Packing Houses	+3.7%	
57690	Paint, Varnish, Shellac or Lacquer Mfg	+7.6%	
57716	Paper Coating or Finishing	+1.8%	
57725	Paper Goods Mfg	+1.8%	
57726	Paper Mfg	+1.8%	
57810	Pattern Mfg - paper	+1.8%	
57871	Pencil, Pen, Crayon or Chalk Mfg		-2.
57998	Photographic Equipment Mfg	No Change	
57999	Photographic Supplies Mfg	No Change	
58095	Plumbing Fixtures Mfg		-1.4%
58096	Plumbing Supplies	+17.9%	
58301	Plywood, Veneer or Veneer Products Mfg		-19.0%
58302	Plywood, Veneer or Veneer Products Mfg - without processing		-19.0%
58397	Prefabricated Building Mfg	+11.1%	
58503	Pulp Mfg		-8.8%
58627	Records or Tapes Mfg - pre-recorded		-9.1%
58663	Refrigeration Equipment Mfg	+0.5%	
58737	Rope Mfg	+2.4%	
58802	Saddles, Harnesses or Horses Furnishing Mfg		-2.9%
58837	Salt, Borax, Potash or Phosphate - producing or refining		-4.8%
58840	Salt Mfg	No Change	
58873	Saw Mills or Planning Mills		-4.4%
58922	Sheet Metal Work - shop only		-4.0%
59005	Shoe, Boot or Slipper Mfg	+4.8%	
59188	Slate Milling		-4.8%
59189	Slate Splitting or Slate Roofing Mfg		-8.5%
59223	Soap Mfg	+6.8%	
59378	Steal Wool or Wire Wool Mfg	+4.5%	
59481	Stone Crushing		-12.5%
59537	Sugar Refining		-18.8%
59647	Syrups or Molasses - refining, blending or mfg		-19.4%
59713	Tent or Canopy Mfg	+3.9%	
59738	Tie, Post or Pole Yard		-18.3%
59750	Tire Mfg - auto, bus or truck		-37.5%
59773	Tobacco Products Mfg - cigars or cigarettes	+7.4%	
59774	Tobacco Products Mfg	+28.6%	
59775	Tobacco Products Mfg - plug or snuff	+6.6%	
59781	Tool Mfg - accessories	No Change	
59886	Twin or Cordage Mfg	+7.2%	
59904	Vegetable Oil Mfg - by solvent extraction	+3.5%	
59905	Vegetable Oil Mfg	+3.5%	
59923	Watch or Watch Case Mfg	+18.4%	
59925	Water Bottling in Siphons		-3.3%

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	RATE LEVEL CHANGE DECREASE
59926	Water Bottling - spring or well - not sparkling or carbonated		-3.0%
59927	Water Bottling - spring or well - sparkling or carbonated		-1.4%
59931	Wax or Wax Products Mfg	+9.0%	
59932	Wax, Wax Products or Polish Mfg - floor		-14.7%
59955	Wigs or Hair Pieces Mfg		-1.1%
59963	Wine Mfg - sparkling	+2.7%	
59964	Wine Mfg - still	+27.6%	
59970	Wire Cloth Mfg		-17.8%
59984	Wood Preserving		-4.4%
91111	Air Conditioning Systems or Equipment - dealers or distributors and installation, servicing or repair		-13.7%
91125	Airport Runway or Warming Apron - paving or repairing, surfacing, resurfacing or scraping		-19.7%
91127	Alarm and Alarm Systems - installation, servicing or repair		-9.9%
91150	Appliances and Accessories - installation, servicing or repair - commercial	+16.6%	
91155	Appliances and Accessories - installation, servicing or repair - household	+16.6%	
91235	Boat Repair and Servicing	+2.4%	
91265	Bridge or Elevated Highway Construction - iron or steel		-15.9%
91266	Bridge or Elevated Highway Construction - concrete		-15.9%
91280	Building Structure - raising or moving	+1.4%	
91340	Carpentry - construction of residential property not exceeding three stories in height		-1.9%
91341	Carpentry - interior		-1.9%
91342	Carpentry		-1.9%
91343	Carpentry - shop only		-1.9%
91436	Ceiling or Wall installation - metal		-3.9%
91507	Clay or Shale Digging		-5.1%
91551	Communication Equipment Installation - industrial or commercial		-15.0%
91560	Concrete Construction		-9.5%
91577	Conduit Construction for Cables or Wires		-17.7%
92053	Dredging - gold - endless bucket or ladder type		-17.2%
92054	Dredging - gold - floating dragline type		-17.2%
92055	Dredging		-17.2%
92101	Drilling	+34.7%	
92102	Drilling - water		-20.4%
92215	Driveway, Parking Area or Sidewalk - paving or repairing	+13.9%	
92338	Dry Wall or Wallboard Installation		-3.5%
92446	Electric Light or Power Line Construction		-8.1%
92447	Electric Light or Power Line Construction - rural electrification administration projects only		-8.1%
92451	Electrical Apparaters - installation, servicing or repair	+21.9%	
92478	Electrical Work - within buildings		-9.9%
94007	Excavation		-7.3%
94276	Fence Erection Contractors		-27.7%
94381	Fire Suppression Systems - installation, servicing or repair		-19.6%
94404	Fireproofing - structures		-11.5%
94569	Floor Covering Installation - not ceramic, tile or stone		-7.3%
95310	Gas Mains or Connections Construction		-18.4%
95410	Grading of Land		-5.1%
95455	Grain Elevator Operations		-6.3%
95505	Guniting or Shot-Crete	+12.2%	
95647	Heating or Combined Heating and Air Conditioning Systems or Equipment - dealers or distributors and installation, servicing or repair - no liquefied petroleum gas (LPG) equipment sales or work		-1.4%
96053	House Furnishings Installation	+11.5%	
96408	Insulation Work - plastic	+3.5%	
96409	Insulation Work - organic or plastic in solid state	+3.5%	

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	DECREASE
96410	Insulation work - mineral	+3.5%	
96611	Interior Decorators		-3.8%
97221	Machinery or Equipment - farm - installation, servicing, repair or erection	+21.9%	
97222	Machinery or Equipment - industrial - installation, servicing or repair	+21.9%	
97223	Machinery or Equipment - installation, servicing or repair	+16.9%	
97447	Masonry	+0.8%	
97650	Metal Erection - decorative or artistic		-27.7%
97651	Metal Erection - frame structures iron work on outside of buildings		-8.3%
97652	Metal Erection - in the construction of dwellings not exceeding two stories in height		-8.3%
97653	Metal Erection - nonstructural		-27.7%
97654	Metal Erection - steel lock gates, water tower, tanks, prison cells, fire or burglarproof vaults		-8.3%
97655	Metal Erection - structural		-27.7%
98002	Mining		-5.1%
98152	Oil or Gas Lease Work by Contractors - not lease operation		-4.9%
98157	Oil or Gas Wells - drilling or redrilling, installation or recovery of casing		-11.7%
98163	Oil Rig or Derrick Erecting or Dismantling - wood or metal		-27.7%
98164	Oil Still Erection or Repair		-27.7%
98303	Painting - exterior - buildings or structures - exceeding three stories in height		-5.9%
98304	Painting - exterior - buildings or structures - three stories or less in height		-20.7%
98305	Painting - interior - buildings or structures		-20.7%
98306	Painting - oil or gasoline tankers		-20.7%
98307	Painting - ship hulls		-5.9%
98308	Painting - shop only		-20.7%
98344	Paperhanging	+1.0%	
98449	Plastering or Stucco Work	+12.2%	
98482	Plumbing - commercial and industrial	+3.6%	
98483	Plumbing - residential or domestic	+4.5%	
98502	Prefabricated Building Erection		-4.6%
98636	Refrigeration Systems or Equipment - dealers and distributors and installation, servicing or repair - commercial		-19.7%
98659	Rigging - ship or boat	+2.4%	
98677	Roofing - commercial		-18.2%
98678	Roofing - residential		-18.2%
98805	Septic Tank Systems - cleaning	+13.5%	
98806	Septic Tank Systems - installation, servicing or repair	+49.3%	
98813	Sewer Cleaning		-19.8%
98820	Sewer Mains or Connection Construction		-19.8%
98884	Sheet Metal Work - outside		-3.9%
98914	Ship Ceiling or Scaling	+2.4%	
98949	Ship Repair or Conversion	+2.4%	
98967	Siding Installation	+13.5%	
99003	Sign Painting or Lettering - inside	+1.0%	
99004	Sign Painting or Lettering on Buildings or Structures		-20.7%
99080	Solar Energy Contractors	+3.6%	
99163	Steam Mains or Connections Construction		-19.2%
99315	Street or Road Construction or Reconstruction		-15.2%
99321	Street or Road Paving or Repaving, Surfacing or Resurfacing or Scraping		-15.2%
99613	Telephone, Telegraph or Cable Television Line Construction		-8.1%
99650	Television or Radio Receiving Set Installation or Repair	+16.6%	
99746	Tile, Stone, Marble, Mosaic or Terrazzo Work - interior construction	+12.0%	
99803	Underpinning Buildings or Structure	+42.0%	
99826	Upholstering		-4.6
99827	Upholstering - shop only		-5.2%
99946	Water Mains or Connections Constructions		-19.2%
99948	Water Softening Equipment - installation, servicing or repair	+16.9%	
99952	Waterproofing - by pressure apparatus	+5.2%	

CLASS CODE	DESCRIPTION	RATE LEVEL CHANGE INCREASE	DECREASE
99953	Waterproofing - by trowel - exterior	+5.2%	
99954	Waterproofing - by trowel - interior or insulation work	+5.2%	
99955	Waterproofing	+5.2%	
99969	Welding or Cutting	+0.5%	

EXHIBIT X

TABLE 1
RATES OF RETURN ON YEAR-END COMMON EQUITY
TEN YEAR PERIOD 1978 - 1987[1]

COMPOSITE AVERAGE OF STANDARD & POORS STOCKS

YEAR	500 COMPOSITE	400 INDUST.	40 UTILITIES	20 TRANSPORT.	40 FINANCIALS	MULTI-LINE INSURERS	PROPERTY/ CASUALTY INSURERS
1978	14.5%	14.6%	11.9%	11.6%	15.4%	19.0%	19.9%
1979	15.8	16.5	12.1	11.4	15.0	17.4	16.9
1980	14.5	14.9	12.3	10.7	13.3	15.2	13.6
1981	14.0	14.4	13.2	8.8	12.8	13.9	14.4
1982	11.2	11.1	13.2	5.4	11.9	12.6	8.9
1983	12.0	12.1	13.7	8.6	10.9	10.4	8.8
1984	13.6	14.6	13.5	10.8	7.0	6.9	3.7
1985	11.7	12.1	12.2	8.6	6.8	3.4	<2.2>
1986	11.4	11.6	12.5	1.0	11.5	13.1	12.0
1987	13.0	15.3	12.6	8.4	0.2	12.9	18.1
AVG.	13.2%	13.7%	12.7%	8.5%	10.5%	12.5%	11.4%

1/ _Standard & Poor's Analyst's Handbook_, 1988 Annual Edition.

TABLE 2
RATES OF RETURN ON YEAR-END COMMON EQUITY FOR
VALUE LINE PROPERTY AND CASUALTY INSURANCE GROUP[1]
FIVE YEAR PERIOD 1984 - 1988

	1984	1985	1986	1987	1988[2]	AVG.
Chubb Corp.	11.2%	6.3%	17.4%	16.5%	15.6%	13.4%
Continental Corp.[3]	11.6	2.6	17.4	8.5	9.8	10.0
Fireman's Fund Corp.	<0.4>	<3.3>	17.3	21.8	11.8	9.4
Ohio Casualty Corp.	6.5	8.2	17.0	14.5	14.4	12.1
Orion Capital Corp.[4]	1.8	<17.6>	<27.4>	12.8	6.8	<4.7>
Progres. Corp. of Ohio	24.2	21.5	17.8	23.0	24.1	22.1
Safeco Corp.	11.3	14.5	17.3	17.5	16.4	15.4
St. Paul Cos. Inc.	<19.4>	9.3	15.3	20.2	16.3	8.3
Siebels Bruce Gr. Inc.	<26.3>	19.4	<1.5>	11.5	12.6	3.1
Select. Ins. Gr. Inc.	4.0	<3.2>	19.2	24.8	19.1	12.8
US F&G Cor.[5]	8.5	<16.3>	19.2	16.4	11.6	7.9
AVERAGE	3.0%	3.8%	11.7%	17.0%	14.4%	10.0%

1/ Per October 14, 1988 issue of Value Line, excluding Fremont General, Geico, Hartford Steam, and Home Group due to incomplete data for entire period or different reporting bases.

2/ Based on first 6 months.

3/ Return on net worth due to 1% preferred equity.

4/ Return on net worth due to 23% preferred equity.

5/ Return on net worth due to 9% preferred equity.

Note: Rates of return shown in Value Line adjusted to include realized capital gains and losses, nonrecurring gains and losses, and income tax benefits.

EXHIBIT XII

VIRGINIA RECOGNIZED RISK RETENTION GROUPS PROVIDING COVERAGE IN POTENTIALLY NON-COMPETITIVE MARKET SEGMENTS

DATE RECOGNIZED	NAME OF GROUP	TYPE OF COVERAGE
02-23-86	American Contractors Insurance Company Risk Retention Group	Commercial Contracting
02-28-88	American Feed Industry Ins. Co. Risk Retention Group, Inc.	Products & Completed Operation
05-26-88	Anesthesiologists Professional Assurance Company, A Risk Retention Group	Medical Professional
07-08-87	Association of Trial Lawyers Assurance (A Mutual Risk Retention Group)	Lawyers Professional Liability
05-18-88	Beverage Retailers Ins. Co. Risk Retention Group	Liquor Liability
10-21-88	Consumers Specialties Ins. Co. Risk Retention Group	Products & Completed Operations
08-23-88	Environment Protection Ins. Co. Risk Retention Group	Environmental Impairment
07-27-87	Environmental Risk Ins. Company, A Retention Group	Commercial Contracting
06-30-88	Financial Institutions Reserve Risk Retention Group, Inc.	D&O
05-02-88	Food Processors Risk Retention Group, Inc.	Products & Completed Operations
04-30-88	General Eastern Ski Ins. Company Risk Retention Group	Recreational Liability
06-15-87	Housing Authority Risk Retention Group, Inc.	Public Housing
09-26-88	Mental Health Risk Retention Group, Inc.	D&O & Medical Professional
01-11-88	National Dental Mutual Ins. Co. A Risk Retention Group	Medical Professional
09-11-87	Ophthalmic Mutual Ins. Co. A Risk Retention Group	Medical Professional
12-17-87	Osteopathic Mutual Ins. Co. Risk Retion Group	Medical Professional
02-10-88	Petroleum Marketers Mutual Insurance Company, Risk Retention Group	Environmental Impairment
09-21-88	Physicians National Risk Retention Group	Medical Professional
09-27-88	Preferred Physicians Mutual Risk Retention Group	Medical Professional
03-01-88	States Self-Insurance Risk Retention Group	Governmental or Municipal Liability
07-07-87	S.E.C.U.R.E. Risk Retention Group	Pest Control Liability
09-20-88	Title Industry Assurance Co. Risk Retention Group	Professional for title abstracters & title insurance agents
01-27-88	United Educators Ins. Risk Retention Group, Inc.	D&) Liability

EXHIBIT XIII

VIRGINIA RECOGNIZED PURCHASING GROUPS PROVIDING COVERAGE IN POTENTIALLY NON-COMPETITIVE MARKET SEGMENTS

DATE RECOGNIZED	NAME OF PG	TYPE OF COVERAGE	NAME OF CARRIER *
10-11-88	American Mosquito Management Ins. Assoc.	Pest Control	Homestead Ins. Co.
10-3-88	Appraisers Liability Ins. Trust Purchasing Group	Liab. for real estate appraisers	Savers Prop. & Cas. Ins. Co.
10-14-88	Internal Medicine Purchasing Group of America	Medical Professional	Doctors Interinsurance Exchange
10-11-88	International Special Events & Recreation Association, Inc.	Recreational	Homestead Ins. Co.
10-19-88	NACHC Insurance Consortium Purchasing Group	D&O & Prop. Liability	Evanston Ins. Co.
10-4-88	OUM Group Chiropractor Program	Medical Professional	Pacific Ins. Co.
10-4-88	OUM Group Podiatrist Program	Medical Professional	Pacific Insurance Co.
10-18-88	Pathologists Liability Insurance Purchasing Group	Medical Professional	Doctors Interinsurance Exchange
9-30-88	Roofing Contractors Purchasing Group	Contractors Liability	Essex Ins. Co.
10-17-88	Western Continent Realty Liab. Assoc.	Real Estate E&O	Homestead & Southern America
10-17-88	National Society of Dental Practitioners Purchasing Group	Medical Professional	IL Ins. Exchange

* INSURERS ARE APPROVED SURPLUS LINES CARRIERS

SUMMARY

Liability Line	Number of Insurers Writing	Number of Insurers Seeking to Write	Respective Market Share*	Rates Estab. By RSO's	Rate Modifi-cations Applied	Ease of Entry
Architects & Engineers***	9	17	Top 2 = 99%	No	N/A	Moderate Operational Barriers
Commercial Contractors	87*	48*	Largest Writer = 19%	Yes (w/except.)	Numerous & Substantial	No Barriers
Day Care	64	74	Top 3 = 62%	Yes (w/except.)	Numerous & Substantial	No Barriers
Directors & Officers***	73	74	Top 3 = 75%	No	N/A	Moderate - Vary With Class
Environmental Impairment***	10	16	Top 3 = 90%	No	N/A	Significant Barriers for Some Classes
Insurance Agents**	16	23	Top 3 = 85%	No	N/A	Minimal Barriers
Law Enforcement**	12	11	Top 2 = 99%	No	N/A	Minimal Barriers
Lawyers Professional**	16	18	Top 3 = 85%	Yes, but rarely used	N/A	Moderate Barriers
Liquor Liability***	74	81	Top 3 = 76%	No	N/A	No Barriers
Medical Professional**	27	34	Top 3 = 87%	Yes, but rarely used	N/A	Significant Barriers for Some Classes
Municipalities	66	72	Top 5 = 70%	No	N/A	No Barriers
Pest Control**	25	27	Top 3 = 86%	Yes	Numerous & Substantial	No Barriers
Products & Completed Operations	143*	64*	Even Distribution	Yes (w/except.)	Numerous *	Minimal - Vary With Class
Public Housing**	15	37	Top 2 = 95%	No	N/A	No Barriers
Real Estate Agents**	11	12	Top 2 = 95%	No	N/A	Minimal Barriers
Recreational	48	44	Largest Writer = 21%	Yes (w/except.)	Numerous & Substantial	Minimal Barriers
School Divisions	77	70	Top 3 = 58%	Yes (w/except.)	Numerous & Substantial	No Barriers

*Information developed by 1988 supplemental reports - accuracy questionable.
**Currently regulated under the 60-day prior filing requirements of Section 38.2-1912 of the Code of Virginia.
***Currently exempted from rate filing requirements under Section 38.2-1903 of the Code of Virginia.

COMPANIES INDICATING THAT THEY ARE WILLING TO WRITE LINES FOR WHICH THEY CURRENTLY HAVE NO POLICIES IN FORCE

A. Architects and Engineers

1. Acstar Insurance Company
2. Home Insurance Companies: City Insurance Company
3. Home Indemnity
4. Home Insurance Company
5. Home Insurance of Indiana
6. Planet Insurance Company
7. Progressive Casualty Insurance Company
8. Virginia Surety Company, Inc.

B. Day Care/Child Care

1. Albany Insurance Company
2. Atlas Assurance Company of America
3. CNA Companies: Continental Casualty
4. National Fire Insurance Company of Hartford
5. American Casualty Company of Reading, Pennsylvania
6. Transportation Insurance Company
7. Transcontinental Insurance Company
8. Valley Forge Insurance Company
9. Colonia Insurance Company: U.S. Branch
10. Erie Insurance Company
11. Frontier Insurance Company
12. Planet Insurance Company
13. Rockwood Insurance Company
14. United Community Insurance Company

C. Directors and Officers

1. Acstar Insurance Company
2. Firemen's Insurance Company of Washington, D. C.
3. Harbor Insurance Company
4. New Hampshire Insurance Company
5. Planet Insurance Company
6. United Community Insurance Company
7. Virginia Surety Company, Inc.

D. Environmental Impairment

1. Acstar Insurance Company
2. AETNA Group: The AETNA Casualty and Surety Company
3. The Standard Fire Insurance Company
4. The Automobile Insurance Company of Hartford, Connecticut
5. AETNA Casualty and Surety Company of Illinois
6. Planet Insurance Company

E. Insurance Agents

1. Acstar Insurance Company
2. AETNA Group: The AETNA Casualty and Surety Company
3. The Standard Fire Insurance Company
4. The Automobile Insurance Company of Hartford, Connecticut
5. AETNA Casualty and Surety Company of Illinois
6. Insurance Company of Evanston
7. Virginia Surety Company, Inc.

F. Law Enforcement Agency

1. Erie Insurance Exchange
2. Erie Insurance Company
3. Planet Insurance Company

G. Lawyers Professional

1. Planet Insurance Company
2. Virginia Surety Company, Inc.

H. Liquor Liability

1. Acstar Insurance Company
2. Albany Insurance Company
3. Atlas Assurance Company of America
4. Allianz Insurance Company
5. Industrial Indemnity Insurance
6. Planet Insurance Company
7. United Community Insurance Company

I. Medical Professional

1.	AETNA Group:	The AETNA Casualty and Surety Company
2.		The Standard Fire Insurance Company
3.		The Automobile Insurance Company of Hartford, Connecticut
4.		AETNA Casualty and Surety Company of Illinois
5.	Harbor Insurance Company	
6.	Jefferson Insurance Company of New York	
7.	Planet Insurance Company	

J. Municipal or Government

1.	American Mutual Insurance	
2.	Erie Insurance Company	
3.	Home Insurance Companies:	City Insurance Company
4.		Home Indemnity
5.		Home Insurance Company
6.		Home Insurance Company of Indiana
7.	Lancer Insurance Company	
8.	Planet Insurance Company	
9.	Rockwood Insurance Company	
10.	St. Paul Group:	St. Paul Fire and Marine Insurance Company
11.		St. Paul Mercury Insurance Company
12.		St. Paul Guardian Insurance Company
13.	United Community Insurance Company	
14.	Virginia Surety Company, Inc.	

K. Pest Control/Exterminators

1.	Colonia Insurance Company - U. S. Branch	
2.	Empire Fire and Marine Insurance Company	
3.	Erie Insurance Company	
4.	Home Insurance Companies:	City Insurance Company
5.		Home Indemnity
6.		Home Insurance Company
7.		Home Insurance of Indiana
8.	CIGNA Group:	Insurance Company of North America
9.		Pacific Employers Insurance Company
10.		CIGNA Insurance Company
11.		CIGNA Property and Casualty Insurance Company
12.		Indemnity Insurance Company of North America
13.		Bankers Standard Insurance Company

L. Public Housing

1.	Continental Companies:	Boston Old Colony Insurance Company
2.		Buckeye Union Insurance Company
3.		Commercial Insurance Company of Newark, NJ
4.		Continental Insurance Company
5.		Fidelity and Casualty
6.		Firemen's Insurance Company of Newark, NJ
7.		The Glens Falls Insurance Company
8.		Kansas City Fire and Marine Insurance Company
9.		Niagara Fire Insurance Company
10.	Erie Insurance Company	
11.	Erie Insurance Exchange	
12.	First of Georgia Insurance	
13.	Home Insurance Companies:	City Insurance Company
14		Home Indemnity
15.		Home Insurance Company
16.		Home Insurance of Indiana
17.	CIGNA Group:	Insurance Company of North America
18.		Pacific Employers Insurance Company
19.		CIGNA Insurance Company
20.		CIGNA Property and Casualty Insurance Company
21.		Indemnity Insurance Company of North America
22.		Bankers Standard Insurance Company
23.	St. Paul Companies:	St. Paul Fire and Marine Insurance Company
24.		St. Paul Mercury Insurance Company
25.		St. Paul Guardian Insurance Company
26.	Northfield Insurance Company	

M. Real Estate Agents

1. Jefferson Insurance Company of New York
2. Planet Insurance Company

N. Recreation

1. Erie Insurance Company
2. Planet Insurance Company

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O. School Divisions

1. American Mutual Insurance
2. Erie Insurance Company
3. Lancer Insurance Company
4. Northfield Insurance Company
5. Planet Insurance Company
6. Vermont Mutual Insurance Company