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Hofmann Holds Forth on Need for Changes in Mass.

*Auto, Homeowners Markets Require Attention,
Agent Tells N.E. 1752 Club*

FRAMINGHAM, MASS. — Introducing competition into the Massachusetts private passenger automobile insurance market would challenge agents in the state to work harder, a prospect that William F. Hofmann, CPCU, CIC, AAI, LIA, executive vice president of the Provider Insurance Group, says does not concern him.

"I compete for every line of insurance except for Mass. auto — homeowners, workers' compensation, everything but auto," the Belmont, Mass., agent told members of the New England 1752 Club last week.

Most proponents of change have said that transforming the auto residual market is a necessary step to introducing competition, a thought echoed by Hofmann.

There are significant differences of opinion over the changes that have been proposed, he commented. Hofmann was recently reappointed to a six-year term on the Governing Committee of the Commonwealth Automobile Reinsurers (CAR). The residual market mechanism is in the process of changing its rules of operation, with the assistance of the Massachusetts Division of Insurance.

Learning to Compete

As a 42-year veteran of the agency system, Hofmann observed that the Massachusetts auto insurance system has treated agents fairly well.

However, Hofmann added, too many insurers have left the market in recent years. He cited Fireman's Fund, which has indicated its intention to withdraw from the private passenger auto insurance market.

"Yes, they're small, but who's next?" Hofmann remarked. Insurers need to collect adequate premiums, he asserted, adding that the state should not be "willing to test companies into bankruptcy."

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**William F. Hofmann,
CPCU, CLU, CIC, AAI, LIA,
executive vice president of
the Provider Insurance Group**

The departure of insurers means markets for agents have shrunk in recent years, he said.

"We need to be bigger and better to give companies a reason to do business with us," Hofmann stated.

The Massachusetts auto insurance system is one that has guaranteed the survival of too many agencies, Hofmann stated. He pointed out that there are approximately 2,200 agencies in the Bay State. In California, a state with a dramatically larger population and size, he

noted, there are around 1,400 agencies.

There are a number of agencies "that don't belong" in the Massachusetts market, Hofmann told the members of the 1752 Club.

Introducing competition into the auto insurance industry would likely winnow out the weaker agencies in Massachusetts, he added.

Eyeing Realities

John Keaveny of Hingham Mutual Group and a member of the 1752 Club, asked Hofmann whether changing the way that CAR operates would be enough to lure national insurers such as GEICO and Progressive into the market, with the standard Massachusetts Auto Policy and the Safe Driver Insurance Plan in effect.

Hofmann acknowledged that legislative changes would likely be needed to alter the standard policy and the way rates are set.

However, he stated that "the first step" would be what changes CAR is able to make. Redistributing the losses pro-

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duced by the state's auto residual market drivers could "change" the balance sheets of some companies, he hinted.

Critique of Crisis

Turning to the homeowners insurance market in the Bay State, Hofmann was asked whether he believed coastal areas are in a "crisis situation."

"Yes," the agent replied. He strongly criticized the decision of the Andover Companies to withdraw from the Cape Cod homeowners insurance market (see **The Standard**, March 5).

The insurer should have examined other options, such as purchasing more reinsurance or raising policyholder premiums, according to Hofmann. He added that the increasingly common practice of requiring a separate deduct-

ible for wind coverage is an "intriguing" solution and a method that will continue.

The largest insurer on the Cape is now the FAIR Plan, the state's insurer of last resort for property insurance, Hofmann stated, adding that all homeowners insurers in Massachusetts bear the cost of losses for FAIR Plan risks.

According to Hofmann, companies need to be more "creative" in developing a new niche to deal with the developing situation with coastal properties.

"I think the industry has resilience and some company will be creative and make money at it," he suggested.

Larger Scope

Hofmann briefly addressed some na-

tional issues that affect the Massachusetts market, including tort reform and the need for the insurance industry to remain politically active.

Renewal of the Terrorism Risk Insurance Act (TRIA) is "pretty well done," according to Hoffman. He added that although terrorism coverage might not affect smaller towns and cities in Massachusetts, many properties in Boston would be left without coverage if TRIA lapses as scheduled in December 2005.

A bill to renew TRIA passed the House Financial Services Committee last week (see story, page 1).

Hofmann noted that Rep. Michael G. Oxley (R-Ohio), chairman of the Committee, understands insurance and is "a friend to the industry." ■