

State Farm ordered to refund rate inflations back to California policyholders



By Chandra Lye

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SACRAMENTO — A court has ordered insurance company State Farm to repay California policyholders millions of dollars in a case that stems from a petition filed by the Consumer Federation of California (CFC) questioning the company's decision to raise rates in July 2015.

State Farm raised rates 6.9 percent, which would cost policyholders \$77 million. The CFC reviewed the application State Farm made for the increased rates and declared the increase unwarranted. The CFC also said the current rates that State Farm was charging was too high.

CFC and Consumer Watchdog filed petitions that called on the U.S. Department of Insurance to force State Farm to reduce its rates. After 13 days of hearings, an administrative law judge agreed with the CFC that the rates were too high and decided State Farm needed to reduce them by seven percent, retroactive to July 2015.

The judge also ordered the company to pay back the interest owed to policyholders who allegedly were overcharged the past 16 months.

The company said it was considering an appeal.

"State Farm is disappointed with the commissioner's decision regarding State Farm General Insurance Co. homeowners rates in California," the company said in a statement provided to the *Northern California Record*.

"We do not believe the mandated rate reduction and rate refund are lawful, and we are considering our options, including taking legal action."

CFC's executive director Richard Holober said payments to policyholders would proceed despite the threat of an appeal.

"We believe based on what I have been told by people who practice law in this area that the refunds will be issued and the reductions will occur. In the meantime, the company can go ahead and appeal. It is not going to stop the refunds," Richard Holober told the *Northern California Record*.

He added that the CFC considered it a win for all residents.

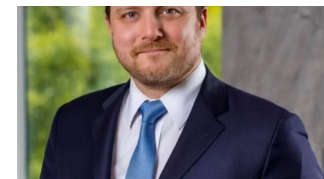
"I think everyone in California should be happy to know that we have a very effective law that was enacted by voters – proposition 103," Holober said. "It is a good demonstration that California's law works to allow insurance companies to make a reasonable profit, which they need to do to stay in business."

He added that State Farm was already considered "too profitable" according to

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the rules of California law. Holober said the decision has saved policyholders billions of dollars.

“This one instance alone has savings at about \$312 million dollars over about a two-year period," he said. "It would be wonderful if every other state adopted a law modeled on proposition 103 and it would protect consumers at the same time, keeping the insurance marketplace fair and competitive.”

As a result of the decision, 1.7 million policyholders will be refunded about \$104 million.

State Farm was founded in 1922 by George Mercherle. It has expanded from automobile insurance to home insurance to life insurance. The company is ranked 35 in the **Fortune 500**. Its revenues have been estimated at more than \$75 million and it has approximately 70,000 employees. It is ranked 93 on the **Global 500**.

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