

State Farm rate debate hinges on \$1 billion question

Tuesday, June 16, 2009

Pick a dollar amount between zero and 1 billion. Depending on whom you ask, that's what State Farm Insurance owes its Texas customers for overcharging on homeowner policies dating to 2003.

The Office of Public Insurance Counsel, the state's consumer advocate for insurance, says in documents filed this month that Texas' largest property insurer owes policyholders \$785 million plus interest, or nearly \$1 billion. State Farm has 1.2 million customers in Texas.

The Texas Department of Insurance calculates the overcharges at about \$250 million, plus nearly \$100 million in interest.

State Farm says it owes customers nothing, that it didn't overcharge them, and that its rates have always been fair and competitive. The dispute dates to 2003 when Texas ordered State Farm and other companies to reduce premiums the state considered excessive.

State Insurance Commissioner Mike Geeslin will have to decide who is right, a ruling that could have significant political implications in next year's campaigns, the Dallas Morning News reported. Geeslin, an appointee of Gov. Rick Perry who held hearings on the case in the spring, is expected to rule this summer.

U.S. Sen. Kay Bailey Hutchison, who is challenging Perry for the Republican nomination for governor, has indicated that she will make insurance rates a major part of her campaign.

"It's a very big deal, no doubt about it," Alex Winslow of Texas Watch, a consumer group active in insurance issues, told the Morning News. "There are now real questions about whether State Farm will have to give back every penny they owe or whether the commissioner will let them off and order them to pay only pennies on the dollar."

Winslow said any decision by Geeslin that is short of the full \$1 billion will be "a slap in the face" for State Farm policyholders.

"State Farm should not be allowed to benefit financially in any way from their overcharges, including investment earnings off those overcharges," he added.

State Farm said in its filings that it is not responsible for any refunds.

"Our position has never changed. Our rates have always been fair and reasonable," spokesman Kevin Davis said.

The rate dispute began after a massive overhaul of insurance law by the Legislature in 2003, which put home insurance rates under state control after a tumultuous period of record premium hikes.

The increases were triggered by massive mold and water damage claims across the state.

State Farm was told to cut its rates 12 percent; it responded by suing the state in a case that remains unresolved.

In the latest ruling, Geeslin was told to convene a hearing on the allegations of overcharging and hear from the company, the insurance department and the Office of Public Insurance Counsel.

Geeslin is expected to order some refunds, although probably less than the \$1 billion called for by the public insurance counsel.

A figure that large "would make the largest Texas homeowners insurer insolvent," and the department's \$350 million proposal would undermine the company's financial condition for several years, State Farm attorney Susan Conway wrote this month.

During the hearing in the case, State Farm attorneys said the insurer is still paying off a \$1 billion loan that it had to take out from its parent company to stave off bankruptcy six years ago, when mold claims were at their peak.

Source: Statesman.com