

State Farm Stiff-Arms Texas Regulators, But Insurer Says It's Protecting Clients

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Apr. 14--AUSTIN -- To leading lawmakers and even some insurance industry experts, State Farm hasn't exactly been like a good neighbor in recent dealings with state regulators.

The state's largest property insurer shows no sign of compromising on its marathon legal battle over the state's ruling that it overcharged homeowners hundreds of millions of dollars.

The insurer -- which had an improved bottom line in 2009, according to figures released Monday by the state -- has yet to pay a penny to policyholders.

After filing twice in eight months to increase rates, company officials gave a cold shoulder last month to state Insurance Commissioner Mike Geeslin, who suggested State Farm needed to give its customers a break.

And on Thursday, State Farm will take Geeslin and the Texas Department of Insurance to court in an effort to keep the agency from publicizing documents related to the rate spikes, which represent a statewide increase of 13 percent.

Company representatives insist that State Farm is just protecting its financial interests and those of its 1.2 million Texas customers with homeowner policies. State Farm also insures about 3 million drivers in Texas.

"Quite frankly, we do this on a regular basis because we have to react whenever necessary to remain in a financial position that allows us to meet our obligations" to policyholders, said Kevin Davis, a spokesman for State Farm in Texas.

Consumer advocates and some lawmakers, who will consider new insurance regulations next year, contend that State Farm has no incentive to abandon its tough-minded tactics as long as the law allows insurers to implement rate increases without the state's consent.

"I don't think any insurance company should be allowed to get to the point where they are too big and powerful to be regulated," said Alex Winslow of Texas Watch, a consumer group active in insurance issues. He accused State Farm of "taking advantage of the marketplace."

Public Insurance Counsel Deeya Beck, whose state agency represents consumers, said that while State Farm has "a legal right to do what they're doing, I don't think it has been a good path to choose" -- particularly for its customers.

She noted that the company has used similar tactics in Louisiana and in Florida, where State Farm declared last year that it was going to pull out of the state. It reversed course only after state regulators agreed to let the company raise homeowner rates nearly 15 percent and drop about 125,000 policies. Social Security changes you need to know now.

State Farm's longest-running dispute with Texas is litigation over a 2003 state order for the company to slash its rates 12 percent and issue refunds for excessive charges.

The state's public insurance counsel said last year that the company owed nearly \$1 billion in overcharges and penalty interest. Geeslin offered to settle the case for \$310 million in refunds, but State Farm held firm that it owed nothing. The case is back in court again.

"State Farm's rates are, and always have been, competitive and reflect the risks of the Texas market," Davis said.

Among the risks, the company argues, are unpredictable weather. Davis also noted that the company has paid billions in claims in recent years and ranks high in customer-service ratings compiled by the state.

Davis rejected the assertion that State Farm constantly battles with the Insurance Department, noting that the company and department staffers frequently cooperate on a variety of regulatory issues.

But some lawmakers are growing impatient, particularly after the company announced the back-to-back rate hikes.

"Most families in North Texas haven't seen their incomes go up by double digits this year, yet these big insurance companies think it's OK to increase their premiums by double-digit increases," said Rep. Chris Turner, D-Burleson. "With Texans already paying the second-highest homeowners insurance rates in the nation, this is unacceptable."

Several other House members have made similar comments about State Farm in recent weeks.

Sen. Glenn Hegar, who as chairman of the Sunset Advisory Commission will lead a review of insurance regulations soon, voiced unhappiness with State Farm's decision to try to block publication of certain documents related to the company's two rate hikes. The agency has already posted most of the rate filings on its Web site -- the first time it has done so for any insurer.

"Texans have an absolute right to full transparency and disclosure when an insurance company is attempting to increase rates on its customers," said Hegar, R-Katy. "I will not allow [insurers] to hide behind the curtain of confidentiality when their actions impact ratepayers and Texas consumers."

State Farm contends that the documents contain proprietary information that could harm its business interests if competitors see it. The company says no other state allows the release of such information.

One industry insider with close ties to many legislators said he was "amazed at how belligerent State Farm has been in dealing with the Insurance Department." He also voiced concern that the disagreements could lead to legislation next year that would put a tighter grip on insurance company premiums.

Most talked-about among lawmakers is a switch to a system that would require home and auto insurers to get prior approval from the state before implementing a rate increase. Under the current file-and-use law, companies are allowed to immediately impose higher rates once they have notified the insurance department.

The commissioner can object and order refunds -- plus penalty interest -- if the new rates are deemed excessive.

When State Farm notified Geeslin of its most recent increase, the commissioner said the timing was "not in the best interests of Texas consumers" and asked company officials to voluntarily withdraw the rate plan. State Farm refused and said it will implement the changes next month.

"State Farm is the poster child for what is wrong with the system, and the commissioner has given them too much latitude," said Winslow of Texas Watch.

Davis countered that a prior-approval requirement would be a mistake because the current system fosters competition among companies -- and better prices.

"Competition is the most effective regulator of rates," he said, also pointing out that the commissioner has the ability to regulate rates under the current system.

State Farm's battles with the state:

May 2003: The Legislature approves an insurance overhaul to combat record increases in homeowner rates caused by massive claims for mold and water damage.

September 2003: Ordered by the Texas Department of Insurance to reduce its "excessive" rates 12 percent, State Farm files suit to block the order, arguing that its rates are fair.

December 2004: Lt. Gov. David Dewhurst, citing a record \$600 million in profits by State Farm over a 15-month period, calls on the company to quit stalling and cut its rates.

July 2006: Insurance Commissioner Mike Geeslin rejects a bid by State Farm to increase rates 23 percent in Dallas County and 11 percent statewide. Geeslin also requires prior approval for future hikes.

May 2008: A state appeals court overturns Geeslin's prior-approval order and sends the case back to Geeslin for hearings to determine whether the company has overcharged its customers.

April 2009: The commissioner begins hearings in the State Farm case. The Texas Department of Insurance and the Office of Public Insurance Counsel contend the company owes hundreds of millions of dollars in refunds while State Farm says it owes nothing.

November 2009: Geeslin orders State Farm to refund \$310 million to its Texas customers for overcharges dating to 2003. The amount is far less than the \$1 billion that the state's public insurance counsel says is owed.

November 2009: State Farm rejects Geeslin's order and says it will take the long-running case back to state court. A spokesman for the company compares the order to the financial stress that State Farm faced with its massive Hurricane Ike losses in 2008.

SOURCE: http://insurancenewsnet.com/oarticle/2010/04/14/state-farm-stiff-arms-texas-regulators-but-insurer-says-its-protecting-clients-a-179825.html#.U_n1n2O8Dpx