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INSURANCE NEWS

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Farmers Insurance, state agree to cut 'excessive' rate hike

AUSTIN – Farmers Insurance agreed Monday to scale back a double-digit rate hike for homeowners coverage in Texas. But the company will get to keep millions of dollars it has collected the past six months, even though the state declared those premiums excessive.

Farmers, one of the largest insurers in Texas, had proposed a statewide increase of 10 percent, with an 11 percent hike for the Dallas area, in June. The company said the rates were necessary because of increased property losses and a jump in the cost of reinsurance – which insurers buy to help pay claims after a catastrophic event such as a hurricane.

State Insurance Commissioner Mike Geeslin, who called the initial rate plan "excessive and unfairly discriminatory," signed a consent order Monday agreeing to a 4.5 percent increase for the 300,000 customers of Farmers' largest home insurance subsidiary.

But the order does not require the company to lower its rates until March 16, nor will it have to issue refunds for the higher premiums it has charged policyholders since last summer. The insurance department couldn't say how many Farmers customers paid too much, but the majority of the company's policyholders have been affected because their policies would have been renewed in that time.

Under the provisions of the order, the state's third-largest home insurer will leave its new rates in effect until at least March 16, 2011.

Also agreeing to the lower rate hike was Public Insurance Counsel Deeia Beck, who said Monday that the reduced percentage represents "significant savings" to policyholders.

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A consumer group sharply criticized the agreement, saying state regulators should have gotten a better deal for hundreds of thousands of Farmers customers.

"The Texas Department of Insurance is failing to protect consumers by allowing Farmers to pocket these overcharges instead of returning the money to policyholders," said Alex Winslow of Texas Watch. "This is a gimmick for Farmers to claim they are lowering rates. ... Farmers should never have been allowed to charge rates this high."

Winslow said the situation is a "perfect example" of why the Legislature should require that insurance rates be approved before they take effect.

"Instead of homeowners having to pay excessive rates and the commissioner coming in on the back end to straighten things out, we should have a system where the insurance company has to get approval before it raises rates," he said.

Under current law, an auto or home insurer can raise rates immediately after notifying the insurance department.

Jerry Hagins, a spokesman for the department, acknowledged that the commissioner's order addresses rates "going forward," and therefore does not include refunds.

"This is an example of rate regulation at work," he said, citing efforts by the department, the public counsel and Farmers to strike a compromise.

Jerry Davies, a spokesman for Farmers, said the agreement shows that the company "is committed to the Texas marketplace, and that is why we have consented to reduce rates 5.3 percent, effective in March."

The new rates affect policyholders for Texas Farmers Insurance Co. Two smaller subsidiaries, Farmers Insurance Exchange and Fire Insurance Exchange, boosted premiums nearly 10 percent and 12.6 percent, respectively, last year without objection by the state.

Farmers provides coverage for more than 700,000 homeowners in Texas.

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