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State Farm ordered to pay Texas homeowners \$310 million for overcharging

AUSTIN – [State Farm Insurance](#) must repay its customers \$310 million for charging them too much for homeowners coverage dating back to 2003, the state insurance commissioner ruled Monday.

The ruling by Insurance Commissioner Mike Geeslin, the latest in a years-long case, is for far less than the \$1 billion that consumer advocates recommended, and one called it a "joke."

But it's in line with what Geeslin's staff suggested.

"There is evidence, there is law, and between the two you come up with \$310 million," Geeslin said in a summary of his order released late Monday.

State Farm officials, who have insisted the company owes nothing, could not be reached for comment. The insurer has continued to argue that its rates were always fair and reasonable.

But the case may not be over, as State Farm could take the state back to court. And in an unusual twist, the state's own insurance consumer advocate, Public Insurance Counsel Deeia Beck, indicated her office may appeal the decision because it is inadequate.

"State Farm policyholders were entitled to more than this," said Beck, who was seeking more than three times as much as Geeslin ordered. "We will take a close look at the decision to see if it is in the best interests of consumers to appeal, and we will make that determination shortly. But there is a question of whether we continue on and add more years to this process."

Geeslin's decision, and insurance rates in general, could become a pivotal issue in the governor's race next year. U.S. Sen. [Kay Bailey Hutchison](#), who is challenging Gov. [Rick Perry](#) for the [GOP](#) nomination for governor, has

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indicated she will make insurance rates a major part of her campaign to unseat Perry. [Democrats](#) are also expected to hammer the fact that Texas has the highest homeowners insurance rates in the nation.

'Slap in the face'

Alex Winslow of Texas Watch, a leading consumer group on insurance issues, called Geeslin's ruling a "slap in the face," saying it cheats State Farm policyholders out of millions of dollars in excessive premiums.

"The commissioner has shirked his responsibility to Texas homeowners and proved that our current insurance market doesn't work," he said.

"Consumers had a right to expect a full and complete refund of all overcharges plus interest, and the commissioner chose to allow State Farm to pocket hundreds of millions of dollars rather than return that money to policyholders," he added.

Winslow said he expects the long fight over State Farm rates to continue. "This is not the end of this conversation," he added.

Under the order, State Farm could either issue refund checks or provide a credit on policy renewals. Former customers would get checks. Refunds for longtime customers could range from \$200 to \$300. Beck noted that Geeslin agreed with her office and extended the period of overcharges through 2008.

The rate dispute dates back to 2003. The insurance department ordered State Farm Lloyds – the company's home insurance subsidiary – and several other insurers to lower their premiums.

The order came in the wake of a massive insurance overhaul passed by the Legislature that year that put homeowners 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, which was told to cut its rates 12 percent, sued the state, and the case has been rolling around the courts since.

In the most recent court ruling, the commissioner was told to convene a hearing on the overcharge allegations and listen to evidence from the company, the insurance department and the state's consumer advocate.

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Geeslin, a Perry appointee, was expected to order some refunds, but he had to settle on a figure somewhere between the \$1 billion cited by Beck's office and what State Farm called for in its filings – not a dime.

No money for refunds

In her closing brief filed with the commissioner earlier this year, Beck criticized the company's claim that it has not set aside money for refunds if it loses the case.

"State Farm Lloyds should not be allowed to cry poverty and avoid returning the refunds it is lawfully obligated to return," she said. "Texas policyholders have relied on the statements of their legislators and other government officials that any overcharged premiums would be returned to them."

State Farm attorneys had said during the hearings earlier this year that any refund totaling hundreds of millions of dollars could be potentially "crippling" for the company.

The attorneys also noted that 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.

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