

Agency questions insurance rate hikes

by Mark Lavergne

The Texas Department of Insurance (TDI) has strongly indicated twice this summer that it would reject rate filings from two large insurance companies in the last month—Farmers Insurance and Allstate Texas Lloyds. Both companies — Allstate most recently on July 26 — withdrew their filings before TDI had to officially disapprove.

The state agency and the companies themselves insist they are working together to reach an understanding on the rationale for the rate hikes. But that hasn't stopped certain interests from sounding off on the issue.

Some think that TDI's questioning of the insurance companies amounts to excessive meddling in the market rice bowl. Others believe TDI should force the companies not merely to keep the rates where they are, but actually *lower* them.

In early June, Allstate and Farmers both filed with TDI for rate increases. Allstate sought an overall increase of 6.9 percent in homeowners' insurance, which would have been consistent across Texas.

During that interim period, TDI's actuaries looked at the filing and asked Allstate to justify certain sections. "Ultimately some of those questions were not answered," said TDI spokesman **Ben**

Gonzalez. "They didn't have enough time to answer them before the effective date, and Allstate decided to withdraw that filing."

Farmers did likewise. They had proposed a 6.6 percent average increase in Texas homeowners' insurance rates. But Farmers was different for one important reason—it was variable depending on where in Texas one lives. "Much higher along the coast, a lot less inland," Gonzalez said. "In fact, some areas of Texas would have seen a decrease. They were trying to protect themselves from risks along the coasts."

Gonzalez said TDI is in continuing dialogue with both companies to determine justifications for the rate hikes. Allstate and Farmers both plan to refile. Farmers plans to resubmit the proposals in the next month or two, and Allstate is hazy on the timeframe.

"In all rates, TDI wants to make sure that they are justified," Gonzalez said, "That's the bottom line."

Gonzalez said the Galveston area's insurance hikes proposed from the base rate by Farmers was 24.7 percent. Dallas and other inland areas were going to go down. "Any increases that a company's going to propose have to be actuarially proven," Gonzalez explained. "They have to show us the justifications for

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those raises ... That's the questions that remained."

Allstate and Farmers representatives said dialogue between their companies and TDI will move forward, to determine *whether* (from TDI's perspective) and *that* (from the companies' perspectives) the rates are justified.

Bill Peacock, director of the Texas Public Policy Foundation's (TPPF) Center for Economic Freedom, argued that TDI's managing of the insurance rates merely got in the way of natural market forces. "...[W]hen demand increases relative to supply, prices go up," he said. He recalled the mold crisis in the early part of this decade. State price regulation then was looser. But the insurance commission did regulate policies, so that all insurance companies had to offer mold coverage. Trial lawyers started suing insurance companies, essentially forcing rates to skyrocket, in Peacock's estimation. Companies eventually started leaving, which made the skyrocketing rates even worse, he said.

Now, argues Peacock, history threatens to repeat itself, in that if TDI's stringent standards of proof for proposed rate hikes continue, companies may simply pack up and leave the state.

"[I]f the companies determine that the opinions of the Texas Department of Insurance are limiting their ability to make money here in Texas," Peacock said, "... then you're gonna start seeing withdrawals of capital here in Texas again ... and

therefore we're gonna see prices start to go up again because supply is going down, and of course demand is continuing to go up."

Texas Watch executive director **Alex Winslow** rejoined, "We believe that across the board we should be seeing significant rate reductions given the current state of our homeowners' insurance market...The insurance industry in our state has been overcharging policyholders to the tune of billions of dollars over the last several years, and homeowners deserve real rate relief, not additional rate hikes ... The reality is that the insurance companies have made exceedingly high profits in the last several years and have plenty of resources to cover potential losses."

Not so, says Allstate spokesman **Joe McCormick**. "When you look at the insurance industry in general, homeowners' has not been a profitable line, period, over the past 20 years. It's gotta be looked at long term because of the weather factor. ... You've got to be prepared, and you've got to have adequate rates to be there for your customers when the weather turns bad ... You can't look at what happened last year in terms of setting your rate. That would be irresponsible."

Representatives from Allstate, Famers and TDI have said the process is ongoing.


Said McCormick: "...[W]e certainly will work with them to ... answer the questions that they have and clarify anything that they need clarified."

Although McCormick was not sure when Allstate would refile the rate proposals, he indicated sooner is better than later.

"Certainly we'd like to move forward with this progress and get things [done] as quickly as possible," he said. "... [W]e certainly look to submit a filing as soon as we can. I mean we have a rate need." McCormick didn't want to speculate about the ramifications of failure to meet a rate need.

Peacock also argued that the state's rate regulations are hurting the windstorm insurance industry. He argued that Texas could take a "multi-billion dollar hit in General Revenue if we get a big hurricane in a populated area." The reason? The state has not allowed the Texas Windstorm Insurance Association to charge adequate rates, which has resulted in a large amount of customers getting their windstorm protection at TWIA. Which means private sector companies, like Allstate, are abandoning that market.

With so many customers, TWIA, originally intended as an insurer of last resort, has now become an insurer of first resort, Peacock argues. Which means it is vastly under-funded.

TDI is coming under Sunset in 2009. Peacock thinks this will provide a good opportunity for the Legislature to end the department's role in rate regulation. "There is a role for the Texas Department of Insurance to play in rate regulation," he said. "And it's mainly around solvency and market conduct. If there's fraud or abuse, TDI can certainly help monitor those things, although I'd say we have law enforcement personnel who can do that as well." 

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