



Legislative Study Group

Texas House of Representatives

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LSG Policy Update: Homeowner Insurance Rates Continue to Rise

State Farm Increases Homeowner Insurance Rates

State Farm has announced that they will raise homeowner insurance rates by 4.5 percent in May. This comes on the heels of an 8.8 percent increase in October.¹ Texas homeowners already pay the second highest insurance premiums in the country; such a steep rate increase hurts Texas homeowners financially as they navigate through the worst recession in a generation.

Unfortunately, this is not the first time that Texas homeowners have been charged excessive premiums. In November, State Farm was ordered to repay its customers \$310 million for overcharging homeowners for coverage dating back to 2003.² This sum was actually \$700 million less than what consumer advocates and the state’s Public Insurance Counsel recommended.

The state’s largest provider of homeowner’s insurance has announced another rate hike. Because of legislation passed in 2003, the state is powerless to act on behalf of homeowners. Lawmakers should pass “prior approval” legislation to regulate insurance companies and provide relief to Texas homeowners, who pay some of the highest premiums in the country.

In addition, the policies provided by State Farm and other companies have cut back on the level of coverage provided to Texas homeowners, meaning Texans are effectively paying more while getting less.

Background on Insurance Legislation in Texas

As a result of a dramatic increase in mold claims prior to 2003, homeowner insurance rates were pushed to record heights. In response, legislators in the 78th Legislature passed SB 14, which, among other things, moved Texas to a “file and use” system.

Previously, rates were established by the Commissioner of the Texas Department of Insurance, and companies had to petition the department for approval to raise their rates above the established level. However, a loophole allowed most companies to shift their policies outside of the regulations, meaning consumers still saw high premiums.

¹ Dallas Morning News, March 12, 2010

http://www.dallasnews.com/sharedcontent/dws/news/localnews/stories/DN-statefarm_12tex.ART.State.Edition1.4bd1f60.html

² Dallas Morning News, November 17, 2009

<http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/111709dntexstatefarm.2c28a11ab.html>

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The “file and use” system passed in 2003 did little to alleviate the problem. Under the new system, insurance companies were simply required to inform the department of a rate change before they implemented it. The department had no mechanism to regulate insurance companies as they implemented premium rates.

Texas homeowners have failed to see any significant relief from the rates that were in place prior to 2003.

Texas Department of Insurance

The Texas Department of Insurance has not undergone a sunset review since 1993. As mentioned previously, there have been many significant developments in the insurance market in Texas during that time.

The department was slated to undergo its review during the past legislative session, but the Legislature failed to act before adjourning Sine Die. A special session was called to pass a safety net bill that extended the life of the Department of Insurance and five other agencies until 2011.

It is unfortunate that the TDI sunset bill did not reach the floor of the House for a vote. Since the 2003 session when lawmakers passed, and Governor Perry signed, the ineffective “file and use” system, lawmakers have proposed a “prior approval” system that could provide effective relief for Texas homeowners. Such legislation was drafted again this session as an amendment to be voted on by the House during floor debate on the sunset bill. Lawmakers that filed such amendments included Representative John Smithee and LSG members Representatives Jessica Farrar and Trey Martinez Fischer.

Similar bills were filed during the 81st session by LSG members Representatives Anchia, Coleman, Herrero, Martinez Fischer, Rose and Vaught. On the Senate side, Senators Van De Putte, Hinojosa, and LSG member Senators Ellis also filed legislation.

Ineffectiveness of Department

Since no legislation that gave such regulatory power to the Department of Insurance passed, insurance companies are free to continue raising rates. The Commissioner has been left only with the ability to write a disapproving letter to companies.

After State Farm informed the Department of Insurance that they would institute a 4.5 percent hike a mere seven months after an 8.8 percent hike, Mike Geeslin, the Commissioner of the Texas Department of Insurance, wrote in a letter to State Farm³:

³ March 5, 2010 Letter from Mike Geeslin, Commissioner of Insurance, to Phillip Hawkins, State Farm Lloyds

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*"The timing of this filing causes me concern. State Farm Lloyds last rate change for its homeowners program was an increase of 8.8% effective September 1, 2009, for new business, and October 1, 2009 for renewal business. State Farm Lloyds has had this increase in effect for only seven months. **Multiple rates increases within such a short period of time may indicate a lack of rate making discipline and lead to market instability.***

*Given that State Farm Lloyds is the market leader, writing nearly 30% of the homeowners market, other companies may follow suit which would lead to further market instability. **It appears that the timing of this is not in the best interests of Texas consumers. Consumers deserve a stable and competitive market. It is my hope that State Farm Lloyds reconsider the timing of this filing and will voluntarily withdraw it.***

(emphasis added)

Prior Approval

Currently, while acknowledging the damaging effect of multiple rate increases, the best that the Department of Insurance can do is ask State Farm to "voluntarily withdraw" their rate increase.

The Legislature should pass real insurance reform for Texas homeowners to rectify this disappointing lack of proper regulation. Included in such reform should be a "prior approval" provision, similar to the ones filed by lawmakers in past sessions. Such a system would require the Commissioner of Insurance to approve a rate increase before a company can implement it. This would ensure that insurance companies justify their rate increases, protecting policyholders from excessive charges.

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