

TEXAS WATCH

815 Brazos Street, Suite 603 • Austin, TX 78701 • (512) 381-1111 • www.TexasWatch.org

MEMORANDUM

TO: Members, 81st Texas Legislature
FROM: N. Alex Winslow, Executive Director
DATE: March 15, 2010
SUBJECT: Texas Homeowners Insurance

State Farm – the state’s largest insurance provider – has filed a 4.5% rate hike with the Texas Department of Insurance. This comes on the heels of an 8.8% increase last October and a controversial settlement with the company to end its years-long rate dispute with TDI. The settlement allowed State Farm to keep an estimated \$700 million in overcharges that should have been returned to Texas homeowners.

In his letter to the company, Commissioner Geeslin writes that rate hikes so close together “may indicate a lack of rate making discipline and lead to market instability.” Geeslin also expressed concern that State Farm’s rate hike could embolden other insurers to increase their rates too. He says that “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.”

State Farm spokesman Kevin Davis told several media outlets that the company would discuss the matter with TDI, but that the company intended to move forward with a rate hike anyway.

Despite his reservations, there is ultimately nothing that Commissioner Geeslin can do to stop State Farm if the company chooses to move forward with a rate hike anyway. Under current law, even if the commissioner formally disapproves this rate filing, State Farm could simply modify its filing and implement a new rate without giving the commissioner the opportunity to completely review it.

Our current regulatory scheme does not give the insurance commissioner enough authority to stop an insurer from making a rate change he believes is unwarranted and, as the commissioner says in his letter to State Farm, “not in the best interests of Texas consumers.” At the very least, the insurance commissioner should be given the ability to completely review all filings before they are imposed on policyholders.

In order to protect Texas homeowners, the Legislature needs to give the insurance commissioner the authority to completely review all rate filings and deny rate hikes he believes are excessive or unwarranted before they are imposed on Texas policyholders.

We encourage you to re-examine our regulatory framework and adopt a “streamlined prior approval” system that gives the commissioner the opportunity to review all rate filings and affirmatively approve or deny them before they are imposed on policyholders. This would improve our market by:

- Streamlining the regulatory process by requiring the commissioner to approve or deny rate changes within a reasonable time frame;
- Eliminating the incentive for insurers to engage in drawn out litigation in order to continue charging rates that state regulators believe are excessive; and
- Ensuring that the rates paid by homeowners are fair, reasonable, and adequate.

We look forward to working with you and your staff during the interim and into the next legislative session to enact common sense insurance reforms that will balance the needs of both the insurance industry and consumers. Please feel free to contact us to discuss this or any other matter at 512-381-1111.