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State Farm seeks 47.1 percent rate increase in Florida

By Julie Patel

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State Farm, Florida's largest private property insurer, on Wednesday asked the state for an average rate increase of 47.1 percent on homeowner policies.

State Farm Florida Insurance Co. says it needs to increase premiums to have the cash to pay claims if major storms strike.

The planned increase flies in the face of the Legislature's efforts to curb property insurance prices that doubled or tripled in some cases after hurricanes in 2004 and 2005.

The state Office of Insurance Regulation will conduct a hearing Aug. 12 to consider the increase, which would affect windstorm and contents coverage for home and condominium owners and renters.

State Farm's proposed increase could be as high as 70 percent in parts of South Florida, according to its rate-adjustment request to the state. The company calculated rates to include a plan of raising \$1 for its claims-paying reserves for every \$1 in premiums collected.

State Farm has faced the reverse trend in recent years, company spokesman Justin Glover said. Since 2000, for every \$1 in premiums collected the company spent \$1.20 in claims and other expenses, including salaries and profits.

"I am deeply disappointed by the size and timing of State Farm's new rate hike request. I believe it is outrageously high," Sen. Jeff Atwater, R- North Palm Beach, said in a statement.

Atwater, who co-wrote the insurance law passed this year, said rates "must conform with state-approved scientific and actuarial models, not State Farm's profit goals. No ratepayer should see an increase in their insurance premiums before the filing has been thoroughly examined and passes the strict new tests imposed by the legislature this year."

Legislation this year and last helped regulators reject rate hikes, bringing prices down last year by a statewide average of 16 percent. Whether the legislation has a long-term effect remains to be seen, and the State Farm case is one test.

State Farm proposed lowering rates by a statewide average of 7 percent last year but cut rates by 9 percent after pressure from regulators. In 2006, the state allowed the company to raise prices by a



statewide average of 52 percent.

State Farm is dropping 50,000 policies in coastal areas prone to hurricanes and it isn't taking on new property insurance policies statewide, except for allowing some policy transfers, according to the company's rate filing.

"Even with these steps, further action is needed. At present rate levels, the company soon will not have the financial capital to support the risks it has underwritten. Rates will need to rise and/or risk will need to further decrease in order to operate the company in a responsible manner," State Farm's filing said.

While the State Farm companies' net income collectively increased last year by 3 percent -- to \$5.46 billion from \$5.32 billion in -- State Farm Florida's net income dropped about 19 percent, to \$108 million from \$134 million in 2006. Hurricanes in 2004 wiped out State Farm Florida's \$600 million surplus and the insurer borrowed \$750 million from its parent company, Glover said. Bob Hunter, insurance director for the Consumer Federation of America, said it's no surprise State Farm collected less since 2000 because there were eight hurricanes. He said rate increases could be another blow for consumers already coping with the faltering economy.

"It's another very troubling cost for something that people to have to buy because banks require it," Hunter said. "They can't say 'Oh well, the price is too high, I'm not going to take it this year' like you can do with a car or TV."

Rate increases may come as a shock to consumers but they don't surprise Sam Miller, executive vice president of the Florida Insurance Council, an industry trade group. State Farm also saw a drop in premiums collected because of a state law that requires insurers to provide discounts for homes that are upgraded to be more hurricane-resistant.

Other insurers are concerned about the dip in premiums as more people upgrade homes, Miller said.

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