



Texas Department of Insurance

Office of the Commissioner, Mail Code 113-1C

333 Guadalupe • P.O. Box 149104, Austin, Texas 78714-9104

512 463-6464 telephone • 512 475-2005 fax • www.tdi.state.tx.us

March 5, 2010

Mr. Phillip Hawkins
State Farm Lloyds
P. O. Box 149300
Austin, TX 78714-9300

VIA FACSIMILE

Re: Homeowners Program Rate Filing

Dear Mr. Hawkins:

This letter is in response to State Farm Lloyds' rate increase filing for its homeowners, renters, and condominium owner's program on March 2, 2010. The effective dates of the rate increases are May 1, 2010, for new business and June 1, 2010, for renewal business. These rate increases follow closely on the heels of the last rate increase made by State Farm Lloyds for its homeowners program that was effective this past October. I am providing a copy of the filing with this letter.

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 rate 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.

Sincerely,

A handwritten signature in black ink that reads "Mike Geeslin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Geeslin
Commissioner of Insurance

Enclosure

STATE FARM LLOYDS COMPANY
Texas Homeowners Program
Filing Memorandum
Effective Dates: 05/01/2010 New Business
06/01/2010 Renewal Business

I. Indicated Rate Change and Rate Revision

Attached for your review is our methodology for forecasting premiums, losses, and expenses to arrive at an indicated change (see Exhibits 1-9). The projections underlying the indicated change include the impact of applicable coverage changes. The result of the procedure is a 26.1% overall indicated change. This filing represents an overall 4.5% change for the Texas Homeowners Program. The loss experience by year is shown in Exhibit 10.

II. Summary of Indications and Changes by Form

Shown below are the indicated changes by Form and the overall changes.

Policy Form	Indicated Rate Change	Summary Of Changes
Homeowners	26.5%	4.5%
Renters	13.1%	4.5%
Condominium Unitowners	23.8%	4.5%
Homeowners Program	26.1%	4.5%

Exhibit 11 shows the development of the indicated changes by Form.

III. Homeowners Program Changes

A. Rate Manual Changes

We are introducing a new rating approach which will simplify our personal lines manual. Under this approach, we will preprint base premiums by zone and include separate rating factors for subzone, construction, and Coverage A amount. To obtain the premium for a particular policy, the system will then multiply the zone base premium by each of its rating factors. This will replace our current approach of preprinting already expanded basic premiums in the personal lines rating manual. Please refer to our manual pages for additional detail.

Individual policies will only be affected by this change when rounding or interpolating differences exist between the current and new approach.

B. Home/Auto Discount

We are increasing the Home/Auto Discount from 15% to 20%. Please see Exhibit 12 for support for this change.

C. Zone Definition Pages

The Zone and Subzone Definition manual pages have been updated to reflect ZIP Code boundary changes and expired ZIP Codes.

IV. Homeowners Policy Basic Premium Changes

After including the impact of all other changes in this filing, we are implementing a statewide basic premium change in order to achieve the average 4.5% rate change for the Non-Tenant policy form.

V. Tenants Policy Changes

A. Basic Premiums

After including the impact of all other changes in this filing, we are implementing basic premium changes that result in a statewide average 4.5% rate change for the Renters and Condominium Unitowners policy forms.

B. Condominium Unitowners Occupancy Rating Rule

We are changing the presentation of the Condominium Unitowners Occupancy Rating Rule. Specifically, we are changing the rating to be based on 'number of weeks' rented rather than the 'number of days' rented. This change will not result in any policies getting a different charge than they receive today.

State Farm Lloyds
Texas Homeowners
Index of Exhibits

Exhibit	Description
1	Calculation of Indicated Rate Level Adjustment
2	Average Premium Per Policy
3	Non-Cat Average Paid Claim and Claim Frequency
4	Adjustments to Paid Loss Ratio
5	Catastrophe Provision
6	Underwriting Expense Exhibit
7	Provision for Underwriting Profit and Contingencies Total Financial Needs Analysis
8	Description of Adjusted Losses
9	Frequency, Severity and Pure Premium by Peril
10	Gross Underwriting Profit or Loss
11	Indicated Rate Level Adjustment by Form
12	Support for Increase in Home/Auto Discount
Supplemental	
C	Statewide Average Rate Level Information
D	Historical Experience
E	Expense Information – Including Disallowed Expense Adjustment
L	Profit Provision Adjustment

Exhibit 1
 State Farm Lloyds
 Texas Homeowners
 Indicated Rate Level Adjustment
 Policies Effective: 5/1/2010 New 6/1/2010 Renewal

Premiums, Losses and Expenses Per Policy Projected To 6/1/2011

	<u>\$Per Policy</u>	<u>% Of Earned Premium</u>
Earned Premium	1,425.11	100.0
Non-Catastrophe Incurred Losses and Loss Adjustment Expenses	507.75	35.6
Incurred Losses	389.19	27.3
Incurred Loss Adjustment Expenses	118.56	8.3
Catastrophe Losses and Loss Adjustment Expense	612.54	43.0
Total Losses and Loss Adjustment Expenses	1,120.29	78.6
Total Underwriting Expenses	348.75	24.5
Fixed Expenses	127.32	8.9
Variable Expenses	221.43	15.6
Surplus Note	85.51	6.0
Total Loss and Expenses	1,554.55	109.1

Indicated Rate Level Adjustment

The Rate Level adjustment is derived by solving the following formula:

$$IC = ((L + F) / (100 - V - S - P) - 1) * 100$$

where: *IC* = Indicated Change to Rate Level

L = Total Loss and Loss Adjustment Expenses

F = Fixed Expenses

V = Variable Expenses

S = Surplus Note

P = Profit and Contingencies

all expressed as a percent of projected earned premium

Solving the equation using the data shown above and a 9.0% provision for profit and contingencies yields:

$$\begin{aligned} IC &= (((78.6 + 8.9) / (100 - 15.6 - 6.0 - 9.0)) - 1) \times 100 \\ &= ((87.5 / 69.4) - 1) \times 100 \\ &= (1.261 - 1) * 100 \\ &= 26.1\% \text{ increase} \end{aligned}$$

Exhibit 2
State Farm Lloyds
Texas Homeowners
Average Premium Per Policy

Premium per policy for the current calendar year is projected by adjusting actual premium writings to current premium levels to reflect items such as changes in rates, inflation and distributions. The resulting current level written premium is then forecast by estimating the effects the same elements (rates, inflation and distribution changes) will have in future years. Written premium per policy and earned premium per policy are projected to the mid-point of the period proposed rates are to be in effect by straight-line interpolation between the appropriate calendar year forecasts.

I. Premium Adjustments

A. Rate Change Adjustment

Rather than assume a uniform distribution of premium writings by month to determine rates at current rate level, we assign a rate change factor by month and apply the factor to monthly written premium distributions.

Actual written premium per policy is adjusted to current rate level in recognition of the following rate changes.

Effective Date		
New	Renewal	Effect
6/1/2008	8/1/2008	2.8
6/1/2008	8/1/2008	0.0
8/25/2008	9/25/2008	0.0
12/1/2008	12/1/2008	0.0
1/15/2009	3/15/2009	0.0
9/1/2009	10/1/2009	8.5

B. Inflation Adjustment

Actual written premium is further adjusted to reflect inflationary changes. Currently, a 1.0% change in policy amount results in a 0.744% change in policy premium.

The anticipated increase in policy amount and the resulting premium increase are shown below for Texas.

	2009	2010	2011	2012
Increase in Policy Amount	1.040	1.040	1.040	1.040
Premium Equivalence Factor	0.744	0.744	0.744	0.744
Resulting Effect on Premium	1.030	1.030	1.030	1.030

C. Adjustments For Anticipated Shifts in Distributions

Written premium per policy is further adjusted to recognize any projected changes in our distribution of business that are not reflected in current data or trends.

	2009	2010	2011	2012
Adjustment Factor	1.000	1.000	1.000	1.000

Exhibit 2 (Continued)

II. Premium Calculations

A. Current Calendar Year

Historical written premium is adjusted to reflect changes in rate level, inflation and distribution to get an estimate of the current calendar year written premium at current level, by month.

Earned premium is estimated by earning the premium written uniformly over a 13-month period with the first and last month each earning 1/24th and the remaining months each earning 1/12th of the premium written. This produces a more accurate estimate of earned premium than can be produced using the traditional parallelogram method.

Our estimate of 2009 premium per policy is: \$1366.90.

This estimate reflects latest actual premium per policy adjusted for items such as current rates and inflation.

B. Subsequent Calendar Years

Each subsequent calendar year's written premium is estimated by applying adjustment factors for inflation and distribution changes to written premium distributions by month for the prior year. Since those written premiums have already been adjusted to current rate level no further rate change adjustment is necessary. Earned premium is estimated in the same manner as above.

Year	Prior Year Written Premium Per Policy	Adjustment Factors		Projected Written Premium Per Policy
		Inflation Coverage	Distribution Change	
2010	1366.90	1.030	1.000	1407.91
2011	1407.91	1.030	1.000	1450.14
2012	1450.14	1.030	1.000	1493.65

C. Period of Proposed Rates

The estimated premium per policy of the period that proposed rates are to be in effect is determined via straight-line interpolation between the appropriate calendar years to the mid-point of the annual period the rates are to be in effect. This is analogous to applying current level premium adjustments to the historical earned premium and a projection factor for inflationary effects.

Calendar Year	Projected Written Premium Per Policy	Projected Earned Premium Per Policy
2010	1407.91	1386.92
2011	1450.14	1428.53
6/1/2011	1446.67	1425.11

Exhibit 3
State Farm Lloyds
Texas Homeowners
Non-Cat All Peril: Frequency, Severity and Pure Premium

Historical Data

Period	Severity	Frequency	Pure Premium
9/2002	6,377	13.83	882.24
12/2002	6,305	14.06	886.41
3/2003	6,132	13.16	806.97
6/2003	5,807	11.56	671.36
9/2003	5,448	9.26	504.64
12/2003	5,191	7.71	399.97
3/2004	5,098	6.81	347.28
6/2004	5,171	6.16	318.68
9/2004	5,101	5.80	295.83
12/2004	5,000	5.62	281.14
3/2005	4,971	5.52	274.21
6/2005	4,954	5.39	267.03
9/2005	4,992	5.44	271.45
12/2005	5,178	5.32	275.40
3/2006	5,361	5.30	284.17
6/2006	5,472	5.39	294.75
9/2006	5,531	5.30	292.90
12/2006	5,433	5.38	292.29
3/2007	5,394	5.34	287.95
6/2007	5,347	5.39	288.49
9/2007	5,365	5.47	293.43
12/2007	5,456	5.51	300.59
3/2008	5,497	5.55	304.88
6/2008	5,643	5.48	308.97
9/2008	5,868	5.41	317.31
12/2008	6,020	5.43	326.67
3/2009	6,190	5.45	337.52
6/2009	6,346	5.48	347.68

Trended Values❖

28 Point	5,686	6.84	388.92
20 Point	6,624	5.45	361.01
12 Point	6,928	5.43	376.19

Selected Values

Selected	7,141	5.45	389.19
----------	-------	------	--------

- ❖ Trended Values represent an ordinary Least Squares trend for Severity. The Frequency value is an average of the points selected. Trended and selected values are for the mid-point of the period that these rates would be in effect (6/1/2011).

The historical and selected Pure Premium figures are shown for All Perils. The selected figures are based on an in-depth analysis of Frequency, Severity and Pure Premium separately for each of the perils of Fire-Lightning, Fire Other, Wind/Hail, OEC, Crime, Section II (Liability). An analysis by peril reveals trends and highlights abnormal results that cannot be determined in an analysis of All Perils data. The results are summed by peril to determine the selected figures shown. This figure is checked against historical Pure Premium data for reasonableness as shown above. The selected Pure Premium figures are consistent with historical data and recent trends.

Refer to Exhibit 9A for information by peril and to Exhibit 9B for adjusted data considered in determining projections.

Exhibit 4
State Farm Lloyds
Texas Homeowners
Adjustments to Non-Catastrophe Paid Loss Ratio

I. Factor to Adjust Non-Cat Paid Loss to Non Cat Incurred Loss

Year	Ratio of Non-Cat Incurred Losses to Non-Cat Paid Losses		
2004	0.8823		
2005	0.8864		
2006	0.9148		
2007	0.9700		
2008	0.9931		
06/2009	0.9958		
3 Year Average	0.9593		
5 Year Average	0.9293		
		Paid Loss Per Policy	Incurred Loss Per Policy
Selected 6/1/2011	1.0000	\$389.19	\$389.19

Non-Catastrophe Incurred Losses Projected To 6/1/2011: \$389.19

II. Factor to Adjust Non-Cat Incurred Losses to Non-Cat Incurred Loss and Loss Adjustment Expense (includes both Allocated and Unallocated Loss Adjustment Expenses)

Year	Non-Catastrophe Loss Adjustment Expenses Divided by Incurred Losses			Incurred Loss Per Policy	Adj. Expense
	A.L.A.E.*	U.L.A.E.*	Total		
2004	0.1091	0.3047	0.4139		
2005	0.0385	0.3032	0.3417		
2006	0.0505	0.2956	0.3461		
2007	0.0381	0.2909	0.3290		
2008	0.0607	0.3122	0.3729		
06/2009	0.0595	0.2917	0.3511		
3 Year Average	0.0498	0.2996	0.3493		
5 year Average	0.0594	0.3013	0.3607		
				Incurred Loss Per Policy	Adj. Expense
Selected 6/1/2011	0.0450	0.2597	0.3047	\$ 389.19	\$ 118.56

Non-Catastrophe Loss Adjustment Expenses Projected To 6/1/2011: \$ 118.56

* Beginning January 1, 1998, ALAE and ULAE are defined according to the Annual Statement Instructions. ALAE refers to "Claim Adjustment Services" including defense, litigation, and medical cost containment. ULAE refers to all remaining expenses associated with adjusting and recording policy claims.