



**OFFICE OF PUBLIC INSURANCE COUNSEL**

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**Via Hand Delivery**

J'ne Byckovski, FCAS, MAAA  
Chief Actuary, Property and Casualty  
Texas Department of Insurance  
333 Guadalupe Street, MC 105-5F  
Austin, TX 78728

**Re: State Farm Lloyds  
Residential Property Rate Filing  
TDI Link # 106911**

Dear Ms. Byckovski:

Pursuant to TEX. INS. CODE ANN. Section 2251.106, the Office of Public Insurance Counsel (OPIC) objects to the above captioned residential property rate filing. The filing would, if implemented, produce rates that are excessive, unreasonable, and unfairly discriminatory pursuant to the statutory rating standards set forth in TEX. INS. CODE ANN. Sections 2251.051, 2251.052, and Article 1.02.

OPIC believes the filing fails to support the 4.5% statewide rate increase proposed.

We ask that the Commissioner disapprove the filing pursuant to his authority as set forth in TEX. INS. CODE ANN. Section 2251.103.

Although we object to numerous aspects of the filing, OPIC calls specific attention to the following:

**1. Insufficient Actuarial Justification**

TAC §5.9332 states:

e) Except as provided in Division 9 of this subchapter (relating to Filings Made Easy--Reduced Filing Requirements for Certain Insurers), insurers must provide supporting information as necessary for the department to establish that a filing produces rates which are adequate, not excessive or unfairly discriminatory for the risks to which they apply. (emphasis added)

This filing fails to fully satisfy this requirement. Insufficient support is provided for the contingency provision, reinsurance / uncertainty provision, catastrophe provisions, overall expense levels, loss adjustment expenses and the profit provision.

## **2. Excessive Underwriting Profit and Contingency Provision**

The company's 9% combined provision for underwriting profit and contingencies is excessive. We further believe support in the filing for a 2% contingency provision is inadequate<sup>1</sup>. OPIC also takes issue with the company's assertion that the overall profit and contingencies provision in the filing would generate no more than a 9.8% return on capital. We believe it will generate an unreasonably excessive return on capital.

## **3. Inappropriate Provision for Reinsurance**

OPIC continues to believe that State Farm's purchase of catastrophe reinsurance is an unreasonable expense given the company's size, national diversification and risk-mitigation strategies. In fact, we question how much of the purchase is actual reinsurance. In past filings, the vast majority of State Farm Lloyds's reinsurance has been purchased from the national State Farm holding company. This type of arrangement essentially allows a holding company to capitalize their Texas affiliate at a much higher rate of return than the regulated environment would normally allow. OPIC believes the entire net cost of reinsurance should be disallowed from the filing as an unreasonable expense.

## **4. Inappropriate Provision for Repayment of Surplus Note**

State Farm Lloyds's filing includes a provision for repayment of surplus note debentures provided by State Farm's national holding company in prior years. The surplus note provision has been found unreasonable and disallowed in prior cases by the Commissioner and by an administrative court. This type of arrangement, like the previously discussed reinsurance agreement, simply allows a holding company to capitalize their Texas affiliate at an unreasonably high rate of return.

## **5. Loss Trends**

OPIC believes the selected loss trends, in aggregate, are too high. This contributes to the excessive rate indication.

## **6. Unreasonable Expenses**

OPIC believes the expense provisions in the filing are excessive and also contribute to the excessive rate indication.

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<sup>1</sup> OPIC asserts that the contingency provision is inappropriate and should be disallowed.

**Summary**

The above list should not be construed as a complete enumeration of OPIC's disagreements with the filing. We reserve the right to modify our positions as additional information becomes available. OPIC notes that State Farm is the only major insurance carrier in Texas that did not lower homeowners insurance rates subsequent to legislative insurance reforms in 2003. Beyond that, if implemented, this filing would be State Farm's third rate increase in two years and its second in eight months as it continues a court battle with the Commissioner of Insurance.

Based on our preliminary review, OPIC believes no increase in the rate level is supported and that the company's existing rates are likely excessive.

Sincerely,



Deeia Beck  
Public Counsel

cc: Sara Frankowiak, Pricing Manager  
State Farm Insurance  
One State Farm Plaza  
Bloomington, IL 61710  
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