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## State Farm plans its strategy to exit Florida

*Paul Flemming*  
*News Journal capital bureau*

TALLAHASSEE — Heading into the most active months of the hurricane season, upcoming regulatory decisions will radically change Florida's property-insurance market and determine the future for millions of consumers.

Pending before Insurance Commissioner Kevin McCarty are negotiations and decisions about the state's two largest property insurers, State Farm Florida and government-run Citizens Property Insurance. The two are separate but inextricably entwined.

"It's six months of stress, for sure," McCarty said of the June-to-November hurricane season.

He could have been speaking of the issues before his agency.

For State Farm's 770,000 property policyholders, the Office of Insurance Regulation is negotiating how it will leave the state. There's an October administrative hearing to settle differences, but McCarty and State Farm officials both say reaching a deal before then is preferred and likely.

There are 12,725 State Farm property policyholders in Escambia County, 4,150 in Santa Rosa

For 1 million Citizens policyholders, already customers of the cash-strapped insurer-of-last-resort, McCarty will set rates in the next two months. Increases are capped this year at 10 percent by law.

There are 15,271 Citizens policyholder in Escambia County and 5,189 in Santa Rosa.

A key question is how many current State Farm customers will end up covered by Citizens. The answers go far beyond the nearly 2 million policies directly involved and bear on every insurance customer in the state.

"I believe (resolution of State Farm's withdrawal from the state) affects Citizens as a company, but more broadly speaking, it's an issue whose solution affects every insured person in the state," said Jim Malone, chairman of the Citizens' Board of Governors.

### State Farm

In August 2008, McCarty rejected State Farm's request for a statewide average 47 percent rate increase. In January, the company — the state's largest private insurer — responded by announcing it would pull out of the state and filed a proposal to do so over two years.

State Farm Florida said without the rate increase, its business in the state was no longer viable and that it would be insolvent by 2011. McCarty doesn't disagree that State Farm's situation is untenable.

"There's no question that State Farm is overexposed. They have too many policies," McCarty said.

McCarty required conditional changes to State Farm's withdrawal plan and is still working out those details. If the two sides can't agree, an administrative hearing is set to begin Oct. 12.

"What we're looking for is an exposure-reduction plan and the potential that maybe State Farm will have some appetite to stay in the Florida marketplace," McCarty said.

Industry advocates don't see it.

"Florida continues to be unwelcome territory for nationally recognized insurance carriers that would bring the state much-needed capital," Christian Camara, Florida Insurance Project director, said last month.

Details are few from either side.

"We definitely have been involved in what we consider to be very productive talks with (regulators) this entire time," said Michal Connoly, a spokeswoman for State Farm.

For the time being, Connoly said customers are still covered and will remain so. "There will be at least a six-month notice before anything changes. There will be time. There will be notices."

How it happens is important.

"One of the things that we don't want to see is just taking these 770,000 policies and putting them in Citizens," McCarty said.

Citizens

That's because Citizens is underfunded and overburdened.

Rates for Florida's largest property insurer have been frozen for three years. In January, the company is required to begin charging actuarially sound rates, enough to cover expected losses for the \$415 billion in property it covers.

The vast majority of Citizens customers face rate increases, capped by the Legislature at 10 percent in an effort to avoid sky-high hikes.

McCarty said efforts to reduce the Citizens' loss-exposure have been successful, pointing to 400,000 policies removed from the government-run company's books. State Farm's exit risks reversing that.

Gov. Charlie Crist vetoed legislation that would have allowed well-capitalized companies to sell homeowner policies at whatever rate the market would bear. Proponents said it would give consumers choice and, perhaps, keep State Farm in Florida.

But Crist said it would lead to increased rates on strapped consumers and pointed to gains in the private market.

McCarty must set Citizens rates within 45 days after the final filings. Getting that right has implications for all insurance customers in the state who would pay for deficits big hurricane losses might cause Citizens.

To get Citizens to financial soundness requires an estimated 48 percent statewide average increase. The Legislature capped rate hikes at 10 percent a year to ease the pain.

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