

State Farm's Exit Likely To Benefit Smaller Insurers [Tampa Tribune, Fla.]

Jan. 29, 2009 - After State Farm revealed plans Tuesday to withdraw from the property insurance market in Florida, its customers wasted no time in searching for new coverage.

The online Home Insurance Buyers Guide (www.homeinsurancebuyers.org), a Web site that helps homeowners find, screen and contact insurance companies, was overwhelmed Tuesday by State Farm policyholders worried about finding replacement coverage, said Michael Letcher, who operates the paid-membership site.

"People aren't going to wait around. They want out," said Letcher, a former vice president of finance for Bank of America who started the Web site two years ago after struggling to find coverage for a new home.

Under the plan State Farm Florida submitted to regulators Tuesday, the company would drop 1.2 million policies, including 800,000 policies for homes and condominiums, over two years, beginning in late October.

For State Farm customers looking strictly for homeowners insurance, chances are their new premium with another insurer will be lower, said Jeff Grady, president of the Florida Association of Insurance Agents.

"State Farm is near the top in terms of rates," Grady said. "They can likely find a lower price on that part of their insurance."

Many State Farm customers have purchased several lines of insurance, however, including homeowners and auto, in packaged deals that are discounted. Those customers will likely end up paying more for insurance if they have to buy property insurance from a different company.

"An overall cost increase could be in their future," Grady said.

Private Market May Get Boost

State regulators and insurance executives say the Florida insurance market can absorb the vast majority of the State Farm policies. Since 2006, the state has licensed 30 new insurance companies.

"A good many, if not all, of the State Farm customers that may lose their coverage will end up with one of the private companies," said Ed Domansky, spokesman for the state's Office of Insurance Regulation.

State Farm's departure is sure to benefit companies such as American Integrity Insurance of Tampa, a small property insurer established two years ago.

"I do think we could see a 20 percent increase in our business," said Bob Ritchie, the company's chief executive officer.

Ritchie anticipates the private market will be able to absorb most of State Farm's customers.

"There will be new investors that see this as yet another opportunity," he said.

Keeping State Farm customers in the private market could be difficult if the Legislature does not allow state-run Citizens Property Insurance Corp. to raise its rates.

Citizens' low rates could lure too many State Farm customers to the state-backed company. Increasing the policy count of Citizens will increase the liability of Florida taxpayers and policyholders.

The need to return Citizens to its original role as the state's insurer of last resort has been magnified by State Farm's drastic move.

"If we don't do that, then I think the percentage going into Citizens will be greater," Ritchie said.

Agents Could Lose Customers

Letcher, who tracks the number of companies writing new homeowners business in Florida, thinks the private market isn't capable of absorbing all the State Farm policies.

Only 40 insurance companies are writing new homeowners policies in Florida, Letcher said.

"That's pathetic when you consider there are 450 licensed to write homeowners," he said.

Although state regulators have licensed 30 new insurance companies since 2006, only 10 of those companies are writing new homeowners policies, Letcher said.

The rest are takeout companies, which were created to assume policies from state-run Citizens, he said.

For the more than 800 State Farm agents in Florida, property insurance probably accounts for about half of their business, Grady said.

For State Farm agents, the loss could be greater because customers who lose their homeowners coverage will likely drop auto and other lines of insurance written by State Farm, he said.

"I don't know how they make it without a property line," Grady said. "It's not just the property line they lose. They lose the other coverages as well."

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