

RAISING IRE IN POLK

Local Residents Irked About State Farm's Pullout From Fla.

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THE LEDGER

Published: Saturday, February 21, 2009 at 11:10 p.m.

When Ron Hall heard State Farm would be dumping him and 1.2 million other property insurance policyholders in Florida, he didn't get mad.

He got new coverage. First for his home - and soon, his car.

"I knew it would be two years possibly before they dropped me, but then I'd be getting into the market with everybody else. I figured that really wasn't in my best interest to wait until the flood hits," said Hall, 66, a retired teacher and 25-year State Farm customer.

"They killed their loyalty agreement with me by pulling out of the state," the Dundee resident said. "I'll give someone else my business."

It's been nearly a month since State Farm announced it would phase out its property insurance business in Florida, which includes some 933,000 residential policies, within two years. And Polk County customers - current and former alike - are still roiled.

Some said they consider the debacle just the latest example of a national insurer trying to strong-arm Floridians into paying excessive rates for coverage.

Others said they view it as the consequence of state regulators' irresponsible attitude toward private insurers, who bear a tremendous amount of risk in hurricane-prone Florida.

This much is certain: The Florida Office of Insurance Regulation has approved State Farm's pullout, and everyone affected will need a backup plan.

"This aggravates me. It's the last thing I wanted to deal with," said JaNeanne Miles, 46, who relies on State Farm to cover her existing home in Bartow, as well as one she's building in Alturas.

State Farm made the announcement last month after the state's insurance regulation office rejected a 47.1 percent average rate increase request from the company.

NEEDED TO BORROW

State Farm Florida, based in Winter Haven, absorbed billions of dollars in losses in the 2004 hurricanes and was able to continue operating only by borrowing \$750 million from its Illinois-based parent company, officials of the firm said.

The company also said high operating costs and state-mandated discounts were eating into critical revenues, reducing State Farm's money available for paying claims by \$201 million in the first three quarters of 2008.

Nevertheless, the insurance regulation office has routinely denied increase proposals since rate reforms were enacted in 2007, and the office doesn't appear to be fretting over the loss of Florida's largest private insurer.

"Florida has about 30 new companies that are eager to grow their businesses and to show Florida consumers what they can do," regulation office spokesman Ed Domansky said in an e-mail to The Ledger. "Commissioner (Kevin) McCarty is optimistic that most, if not all, State Farm customers will find coverage in the private market."

STATE ALTERNATIVE

The alternative would be state-backed Citizens Property, already the largest home insurer in Florida with more than 1.1 million policies. Michael Letcher, a Lake Worth-based publisher of the independent Home Insurance Buyers Guide (www.homeinsurancebuyers.org), says just 40 of a total 466 insurers in Florida are currently writing new policies.

The insurance regulation office's unyielding stance doesn't sit well with policyholders like Bob Schneider, who has little faith in the crop of unproven insurers rushing to take State Farm's place.

"If there's a catastrophe or hurricane, I would never be comfortable that I would get my claim paid. If it got paid for, it would probably be on the backs of the taxpayers," said Schneider, 39, of Lakeland, a State Farm customer since 1992.

"I would rather my rates not go up, but I would be able to sleep at night."

Ford Heacock, president of Lakeland-based Heacock Insurance Group, says those concerns are legitimate.

"The reality is, the marketplace is being filled by smaller Florida-based insurance companies," Heacock said. "All of these companies are well-intended and well-run, but they're not well-capitalized."

But do regulators have a case?

In the years after Hurricane Andrew in 1992, State Farm raised Florida homeowners rates a cumulative 523 percent, according to figures provided by the insurance regulation office. Rates are up nearly 71 percent since 2003.

In addition, documents from a hearing on State Farm's 47 percent increase request raised questions about the company's purported losses and expenses.

Judge Daniel Manry, wrote the ruling for the Division of Administrative Hearings, said part of State Farm's revenue declines can be attributed to its non-renewals of homeowner policies or the removal of wind-damage coverage.

He also noted that State Farm Florida was paying a "significant portion" of its reinsurance premiums to parent State Farm Mutual - about \$550 million of a total \$700 million paid for the backup coverage.

"The economic reality is that State Farm Florida is merely the legal form in which State Farm Mutual chooses to do business in Florida," wrote Manry, who likened the reinsurance purchases to "sham transactions which may distort the economic costs."

STATE FARM DISPUTES JUDGE

State Farm says Manry's ruling is full of errors, and the company plans to appeal it "because of the poor precedent it sets," said Chris Neal, a spokesman for State Farm in Winter Haven.

"The parent company has seen significant losses through having State Farm Florida," Neal told The Ledger. "They've contributed far more capital here than they've been able to take out."

However, Manry isn't the only one who now doubts State Farm.

Several readers who responded to a Ledger query this month said they no longer trust the company and will cancel their auto policies (ones that State Farm still intends to honor) and other business in response to the discontinued homeowners coverage.

"Had State Farm not decided to pull out of Florida, I never would have looked anywhere else," wrote Andy Cristofaro of Lakeland. "Good riddance, and take your car and health insurance out of Florida with you when you leave."

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