

Can other carriers cover the loss of State Farm?

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Like a sudden storm, State Farm's decision to pull out of Florida's property insurance market arrived much bigger than anticipated, and the state could've used more time to get ready.

The state's property insurance overhaul was supposed to seed dozens of small, Florida-based insurance companies with homeowners policies and trust they could handle the overflow when out-of-state insurers pull back or pull out.

Ideally, that spreads the risk and keeps state-run Citizens Property Insurance from ballooning further, which could expose Floridians to paying billions more after a major hurricane.

Since 2006, more than 30 property insurance companies have been created in Florida, but they still represent a fraction of the marketplace. Citizens, State Farm and a handful of insurers who aren't writing new policies handle more than half the state's property coverage.

Even if eager, smaller insurers want to absorb State Farm's 1.2 million policies, they would have to come up with more capital and more reinsurance (an added layer of insurance for insurance companies) in a difficult financial climate.

Both Florida Insurance Commissioner Kevin McCarty and Citizens executives said they're confident that other insurers could absorb the bulk of the policies State Farm intends to drop over the next two years.

Citizens spokesman John Kuczanski notes that insurers have taken 400,000 policies out of Citizens since the company peaked at a high of 1.4 million policies in 2007.

Others say that's wishful thinking. More likely Citizens, which already is juggling nearly 1.1 million policies, will be flooded by hundreds of thousands more policies, they argue. Many of the 50,000 policies State Farm dropped earlier wound up in Citizens, they point out.

Steering to Citizens

State Farm agents even have an incentive to point policyholders to Citizens.

After years of fighting with insurance regulators, last year State Farm successfully lobbied for a law that allows them to offer auto insurance customers discounts if the same agent also places a homeowners policy in Citizens Property.

The law change not only gave State Farm a competitive edge in automobile insurance, but encouraged State Farm agents with a financial incentive to steer policyholders toward Citizens, its competitors say. Other insurers fear that the "multi-line discounts" will guide the depopulation of State Farm directly into Citizens.

"I think (State Farm has) been misleading to their policyholders and very much promoting going into Citizens," said Ray Blackledge, general counsel for American Traditions Insurance Co. and Modern USA Insurance Co., which are seeking to take over some State Farm policies. "That may benefit State Farm, but it doesn't really benefit the citizens of Florida."

The group of experts assembled to analyze Citizens over the past few months, Citizens Mission Review Task Force, plans to suggest that lawmakers repeal the law.

State Farm spokesman Chris Neal denied that agents steer policyholders and said they just point out who the best insurer is for the customer.

"Our agents are insurance professionals, and they counsel their clients on the best options," Neal said. "If they think Citizens is the best option, they will certainly recommend that. That's what I'd expect them to do."

If State Farm policyholders flood into Citizens, and it can't rid itself of those policies before a major hurricane strikes, the consequences could be felt in the pocketbook of every property policyholder in the state. Citizens, unlike private insurers, can assess even non-Citizens policyholders if it can't pay its claims after a storm.

No real remedy

State Farm's filing on Tuesday triggered a 90-day review by state regulators, and if the plan is approved, the company could start dropping policies 180 days after that.

Ed Domansky, a spokesman for the Florida Office of Insurance Regulation, said McCarty could reject State Farm's withdrawal plan. For instance, he said, McCarty might determine that the scattered marketplace of small insurers doesn't have the capacity to handle the State Farm surge.

But rejecting the withdrawal plan could prove futile. State Farm warned that its Florida operation will go insolvent by 2011 if it can't drop policies.

"Certainly the plan can be disapproved," Domansky said, "but how do you force someone to stay in business if they say eventually they're not going to pay their claims?"

Upset with the news, some State Farm customers have already taken matters into their own hands.

Michael Letcher, who runs the Home Insurance Buyers Guide in Palm Beach County (www.homeinsurancebuyers.org), saw a huge spike in traffic on his two-year old Web site late Tuesday. Residents from Orlando and Pensacola were buying his guide to homeowners insurance at 2 a.m.

"People aren't going to wait for this to play out," Letcher said. "There's a lot of people out there who still feel like State Farm is too expensive and they're canceling policies now."