

'05 good for state's insurers: Even with hurricane claims, most saw profit; some will have to justify homeowner rates

TERRENCE STUTZ / The Dallas Morning News

AUSTIN — Despite extensive property losses from Hurricane Rita, Texas home insurers enjoyed a financially successful 2005, according to state regulators, who plan to ask the most profitable companies to justify their homeowner rates.

Financial reports released Tuesday by the Texas Department of Insurance indicated that the vast majority of companies operated well into the black last year — though their earnings were far short of the record profits the industry reported in 2004.

"Overall, it was a profitable year for the industry," said Jim Hurley, a spokesman for the Insurance Department. "While we did have Hurricane Rita, there were no major hail storms in the state — and that helped hold losses down."

The past year marked the third straight year of healthy profits for the industry, which was in turmoil the early part of the decade because of massive mold and water losses that slammed insurers and their customers — who saw record premium increases for their homeowner policies. Texans pay the highest home insurance premiums in the country.

Overall, the industry had an average loss ratio of 56.9 percent in 2005, according to insurance department reports. In other words, insurers paid out 56.9 percent of the \$4.6 billion in premiums they collected.

That figure does not include agent commissions, premium taxes and administrative overhead, which can add another 35 percent in expenses.

Loss ratio is considered the key barometer of profitability for insurance companies.

While leading consumer groups said the new figures offer proof that some companies should be forced to lower their rates, an industry spokesman said insurers are finally operating in the black after dealing with a decade of property losses that outpaced all other lines of insurance.

Mr. Hurley of the Insurance Department insisted the overall loss ratio is close to where the industry should be, reflecting rates and a profit margin that are fair and

reasonable. But, he said, some companies' loss ratios were well below the statewide average, and they will be called on by the insurance commissioner to justify their rates.

"Once we've analyzed the 2005 data, we will ask those companies to file and justify their rates. It's too early to say how the rates will be affected, but there may be some movement. We'll just have to wait and see," he said.

Under an insurance reform law passed by the Legislature in 2003, the commissioner can order any company to reduce premiums found to be excessive.

State Farm, the largest insurer in Texas, has been fighting the state in court since fall 2003 over an order to decrease homeowner premiums by an average 12 percent. In 2005, State Farm beat the average loss ratio in Texas by paying out 50.4 percent of its premiums to cover losses. A year earlier, the company was just over 30 percent.

"Clearly, State Farm has been overcharging its policyholders for three years now," said Alex Winslow of Texas Watch, a consumer group active in insurance matters. "It is time for them to lower their rates and return the overcharges to their policyholders."

State Farm officials have adamantly defended their rates, arguing that they are fair and competitive. The officials also have pointed to preliminary court rulings that were in favor of the company.

Regarding the loss figures for the industry in 2005, Mr. Winslow said, "Even in a year when we had a major hurricane hit the Texas coast, insurance companies are making extremely handsome profits on the backs of Texas homeowners."

"The Texas Department of Insurance needs to flex its muscle and force insurance companies to lower their rates, which the department has plenty of authority to do."

Industry spokesman Jerry Johns, president of Southwestern Insurance Information Service, said the loss ratio is somewhat misleading because it doesn't include such expenses as overhead and

agent commissions.

"We will be the first to admit that last year was a good year, but we are entitled to a few good years after so many unprofitable years in the past," he said. "Homeowners insurance has been a loss leader in the industry for most of the past decade."

"What we are now seeing is a market that is a lot more competitive and one that is bringing more insurance companies into Texas."

Mr. Johns also said the state was lucky that Hurricane Rita did not hit Galveston and Houston, which would have added \$4 billion to \$5 billion in property losses. As it was, Texas homeowners and businesses sustained about \$2.2 billion in damages from the hurricane — most of it in Beaumont, Orange and Port Arthur.

Among the three largest companies in Texas, State Farm paid out less than the state average in claims, while Farmers paid out slightly more. Allstate, on the other hand, paid out 89.6 percent of the premiums it took in.

Mr. Hurley said the number appears to reflect a large number of Allstate policyholders in areas affected by Hurricane Rita.

Allstate and state regulators skirmished over the company's refusal to pay the temporary living expenses of some policyholders displaced by Hurricane Rita last year.

Allstate also is fighting a state order to lower its home insurance rates by 9 percent. The case is before a state judge, who is expected to rule any day.

The most recent rate comparisons compiled by the Insurance Department indicate that the average premiums for a \$100,000 brick veneer home in Dallas County with a 1 percent deductible and \$40,000 coverage on contents are about \$950 a year for a 6-year-old house and \$1,028 for a 15-year-old house. For a frame home, the average premiums are \$1,127 for a six-year-old house and \$1,220 for a 15-year-old house.

SURE FIRE PROFIT-MAKING RECIPE

MADE DAILY BY INSURERS:

Begin with state-endorsed, out of control premium rate hikes.

Add heaping amounts of lowball tactics and claims denials. To add cover, hire only those "experts" who will say anything for a buck.

Finely shred any document that supports policyholder's position.

Go heavy on campaign contributions to those who will enable insurance-committed fraud and bad faith.

When the facts are against you and you can no longer justify claims handling practices, threaten to leave the state.

If some unbought judge or regulator actually has the nerve to force you to honor policies, ask the benefactors of your campaign contributions for a government bail out and make ALL taxpayers pay the price of your stupidity.

Be sure to garnish with a fuzzy sounding slogan so the general public believes you to be a solid corporate citizen.

Spend a ton of dough on advertising so the media will either not report the frauds you've committed or slant their reporting to your favor.

Add a bit of credit scoring and CLUE Reporting o taste.

Insurance Companies Report Biggest Profits WLBT TV, Jackson, MS

Recent reports show homeowner and auto insurers made record profits in 2005, despite paying out tens of billions of dollars in Hurricane Katrina claims. But this may be misleading news for Mississippians.

Katrina produced a record \$56.8 billion in disaster losses, but insurance companies had their most profitable year ever. Attorney General Jim Hood responds to a recent article in the *LA Times* that reports insurance companies made nearly \$45 billion in 2005, and boosted their surplus to \$427 billion. "What they're doing is they're shifting the liability to the rate payers and the government and that's why they're making record profits," Hood says.

But Insurance Commissioner George Dale says, "In some parts of the country and in some types of insurance, perhaps they have, but not in Mississippi."

Dale points to State Farm as an example of insurance companies

struggling in Mississippi. He says they're losing money on their homeowners policies. Last year State Farm paid out \$782 million dollars in claims, while only taking in \$175 million. Dale says the trend goes back over the last five years, even before Katrina.

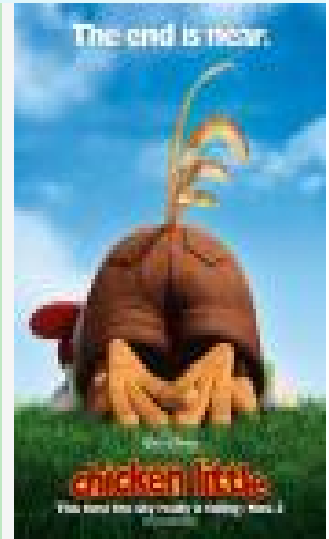
"Someone that says there are record profits... Really it's misleading to the general public and further inflames our people."

Dale says \$5 billion have been paid out in Mississippi since Katrina in homeowner and flood insurance claims, but Hood says insurance companies have only paid out 30% of what they owe, and is suing them to pay the rest. "What's so frustrating is the insurance companies say they are going to go broke if they have to pay out these claims," says Hood.

Despite record profits for insurers, Mississippians can be sure their premiums will be going up, as companies say offering

homeowners insurance in this state is costly.

A bill has been introduced in the U.S. Senate that would allow insurance companies to set premiums without any approval.



"THE SKY IS FALLING AND THE END IS NEAR. WE WILL GO BROKE IF WE PAY THESE CLAIMS"

Insurance industry

Fear not consumer. They said the same thing about AIDS, Mold, and everything else that caused their CEOs loss of a good night's sleep.