

**FILE COPY**



**OFFICE OF PUBLIC INSURANCE COUNSEL**

Deeja Beck  
Public Counsel

William P. Hobby Building  
333 Guadalupe, Suite 3-120  
Austin, Texas 78701-3942

Phone: (512) 322-4142  
Fax: (512) 322-4148  
www.opic.state.tx.us

2012 OCT -5 A 8:34

October 5, 2012

COMMISSIONER  
OF INSURANCE

Via Hand Delivery

Commissioner Eleanor Kitzman  
Texas Department of Insurance  
333 Guadalupe Street  
Austin, TX 78701

**RECEIVED**

OCT 05 2012

Property & Casualty  
Texas Dept. of Insurance

**Reference: State Farm Lloyds  
Residential Property Rate Filing  
TDI Link # 122902**

Dear Ms. Kitzman:

Pursuant to TEX. INS. CODE ANN. Section 2251.106, the Office of Public Insurance Counsel (OPIC) objects to the above captioned residential property rate filing. The filing appears to produce rates that do not comply with rating standards set forth in TEX. INS. CODE ANN. Sections 2251.051, 2251.052, and 560.002.

OPIC believes the 20% overall rate increase proposed for implementation on November 1, 2012 is excessive and that the extremely wide variation in rate changes between policyholders is unsupported. **For that reason, we respectfully request it be disapproved pursuant to your authority as listed in TEX. INS. CODE ANN. Section 2251.103.** Following are some of the issues we have with the filing.

**1. Underwriting Profit and Contingency Provision**

The 22% underwriting profit and contingency provision is excessive and would result in an unreasonably high rate of return.

**2. Expenses**

Based on the available data, the underwriting as well as loss adjustment expense provisions included in the filing overstate the company's prospective costs.

**3. Non-Hurricane Catastrophe Load**

The company's non-hurricane catastrophe load methodology significantly exaggerates the future expected losses. The methodology, as well as a number of the underlying assumptions, used in the filing is inappropriate.

#### **4. Adjustments to Historical Experience Including the Effect of Deductible Shift**

The company has provided insufficient data to fully evaluate whether the effect of their recent shift to higher deductibles is properly accounted for in the rate calculation. The filing also includes other adjustments to the historical experience which has not been documented or supported. Our initial review raises questions about a number of issues related to this.

#### **5. Reinsurance Cost**

Although the reinsurance cost is not explicitly included in the rate indication, the filing implication is that the very large underwriting and contingency provision is intended to cover this. Even assuming this was theoretically a reasonable procedure, the filing provides insufficient information to support the reinsurance cost stated.

#### **6. Projected Non-Catastrophe Losses**

The company has not supported the values shown for the projected non-catastrophe losses. The deficiencies with the filing include inadequate documentation as to how the adjusted historical loss data was derived from the unadjusted historical loss data, and how the selected projected values for severity, frequency and pure premium by peril were determined.

#### **7. Projected Premium**

Several factors used to derive the projected premium per policy were not supported or documented. These factors include the "Rate Change Adjustment" effective 12/1/12 (renewals) of 1.4% and the "Premium Equivalence Factor" of 0.629.

#### **8. Variation of Rate Changes Across Policyholders**

The rate changes proposed by the company have an extremely wide variation across policyholders, ranging from a minimum of -37.7% to a maximum of +75.3%. The company has not supported this very large range of rate changes across policyholders of more than 100%.

#### **Summary**

The above list should not be construed as a complete enumeration of OPIC's disagreements with the filing. We reserve the right to modify our positions as additional information becomes available. Based on the data presently available, we do not believe that either an overall rate increase of 20%, or the wide variation of rate changes between policyholders, is justified.

Sincerely,

A handwritten signature in black ink, appearing to read "Deeia Beck". The signature is fluid and cursive, with the first name "Deeia" and the last name "Beck" clearly distinguishable.

Deeia Beck  
Public Counsel

cc: J'ne Byckovski, FCAS, MAAA  
Chief Actuary, Property and Casualty  
Texas Department of Insurance  
Via hand delivery

Sara Frankowiak, FCAS, MAAA  
State Farm Insurance Group  
One State Farm Plaza  
Bloomington, IL 61710  
Via email: [sara.frankowiak.g4eb@statefarm.com](mailto:sara.frankowiak.g4eb@statefarm.com)