

## State Farm disses other insurers in Florida

In Florida, it seems that State Farm is dropping customers and then warning them not to buy policies from other private insurers.

In Florida, it seems that State Farm is dropping customers and then warning them not to buy policies from other private insurers. State Farm agents are pushing the state-run Citizens Property Insurance Company as more reliable than the private companies offering coverage in Florida. This is counter to the official industry line that the state plan is risky and private insurers are not.

State Farm's agents pushing Citizens

BY MATT REED

Florida Today Watchdog blog

Originally published 10:10 a.m., April 24, 2008

Every day, I get a phone call about hurricane insurance that goes exactly like this:

Caller: "Um, yes . . . I received a notice from State Farm saying they were dropping me."

Me: "Yup. They announced months ago they're dropping almost everyone and not selling new policies."

Caller: (Pause) "Well, another agent put me with one of these new companies, and it's about \$1,000 a year less."

Me: "Great. So, what's the problem?"

Caller:  
"I just got a scary letter from my old State Farm agent saying companies like mine have terrible ratings and I should buy a policy with Citizens."

So, with letters in hand, I checked out the scare tactics State Farm agents are now using on the same people their company summarily ditched. Why would they steer former clients to Citizens Property Insurance Co., the state chartered insurer of last resort?

## CITIZENS PAYS THEM

Bottom line: State Farm agents lose business if their clients don't buy from Citizens. Unlike Allstate or Nationwide, State Farm has no agreement with a new regional company to pick up homeowners' policies. The only other home insurance its agents can sell is Citizens.

For that, State Farm agents collect commissions of 6.9 percent to 8.6 percent for home policies (depending on risk) and 12 percent for commercial policies.

If they can hang on to homeowners, they also stand a chance of keeping clients' auto, umbrella and life insurance policies.

Citizens "is backed by the financial strength of the State of Florida," says one letter from a State Farm agent.

That's not exactly true, Citizens spokesman John Kuczanski said. Citizens does have the power to assess all Florida policyholders to raise money if it falls short, but its policies aren't backed by the state general fund.

## THE RATINGS GAME

But the scariest parts of the State Farm letters are those pointing to bad strength ratings by A.M. Best or Moody's for Florida's new, competing companies such as First Protective, Universal, Royal Palm, and Edison. Another rating company recommended by the state, Demotech Inc., gives those companies "A" ratings for stability. One State Farm letter slams Demotech as "inconsistent."

"That sort of upset me," said Virginia Paddock of Vero Beach, who researched her First Protective policy before buying through an agency in Indialantic. "It's a little scary."

Why do ratings differ?

A.M. Best and Moody's measure factors including depth of reserves, company age, profitability and diversification across regions and lines of insurance.

If you can get an affordable policy with an "A" rating from A.M. Best, take it. But new Florida-based companies that

specialize in homeowner's insurance and rely on backup "reinsurance" to pay hurricane claims stand little chance with the agency.

Demotech primarily measures a company's ability to remain solvent and pay claims in a crisis.

And that's what you really need to know, right?

"In 2004, four hurricanes and one tropical storm struck Florida," Demotech President Joseph Petrelli told me by e-mail. "There were nearly 100 newer, regional insurers and only one failed. The Florida office of Insurance Regulation and Demotech are doing a fine job."

And remember, no rating predicts how quickly an insurer - big or small - will send an adjuster to accurately pay you.