No. 07-0719

OFFICIAL ORDER
of the
COMMISSIONER OF INSURANCE
of the
STATE OF TEXAS
AUSTIN, TEXAS

Date: AUG 2 0 2007

Subject Considered:

ALLSTATE TEXAS LLOYD'S
3075 Sanders Road, Suite H1A
Northbrook, Illinois 60062 -7127

General remarks and official action:

On this day came on for consideration by the Commissioner of Insurance ("Commissioner") the homeowner's insurance rate filings received by the Texas Department of Insurance ("TDI") from Allstate Texas Lloyd's.

JURISDICTION & LEGAL AUTHORITY

The Commissioner has jurisdiction of this matter pursuant to TEX. INS. CODE ANN. art. 1.02, TEX. INS. CODE ANN. §§ 801.051-801.102, 941.101-941.103 and 2251.001-2251.252.

FINDINGS

Based upon the evidence presented the Commissioner makes the following findings:

1. Allstate Texas Lloyd's is a domestic Lloyd's plan insurer currently holding a certificate of authority to transact the business of insurance in Texas pursuant to TEX. INS. CODE ANN. §§ 801.051-801.102 and 941.101-941.103. Allstate Texas Lloyd's is subject to rate regulation under TEX. INS. CODE ANN. § 2251.001-2251.252.

2. Pursuant to TEX. INS. CODE ANN. § 2251.101, Allstate Texas Lloyd's made two homeowners insurance rate filings ("subject filings") that were received by TDI on August 20, 2007. These filings were identified by Allstate Texas Lloyd's under company filing numbers R18592 (proposing a 5.9% increase) and R18590 (proposing a 2.1% increase). These filings were assigned TDI Rate Filing No. 9212483879 with Link No. 90863 and TDI Rate Filing No. 9212483880 with Link No. 90864 respectively.

3. The subject filings assert that the rates contained therein apply to policies written on or after August 20, 2007. Allstate Texas Lloyd's contract language makes their policies effective at 12:01 a.m. of the date they are made effective. The rates contained in the subject filings were not filed until 10:37 a.m. and 10:43 a.m. Central Daylight Savings Time on August 20, 2007. Texas law requires an insurer file their rates prior to their use. See TEX. INS. CODE ANN. § 2251.101. Therefore, rates filed by Allstate Texas Lloyd's at 10:37 a.m. and 10:43 a.m. on August 20, 2007 cannot be applied to policies before 12:01 a.m. on August 21, 2007.

4. In addition, Allstate Texas Lloyd's has represented that filing R18592 (proposing a 5.9% increase) is an update to filing R18185 (proposing a 6.9% increase). Allstate Texas Lloyd's also represented that filing R18590 (proposing a 2.1% increase) is an update to filing R17786 (proposing a 2.1% increase). Filings R18185 and R17786 were made on June 6, 2007. Allstate Texas Lloyd's withdrew these on July 25, 2007. Prior to their withdrawal TDI requested and Allstate Texas Lloyd's provided additional information regarding these filings. Filing R18185, filing R17786 and Allstate Texas Lloyd's representations regarding these filings were therefore relied upon by the Commissioner in issuing this Order.

5. The subject filings were filed on the same day, with the same stated effective date, for the same line of insurance. Therefore, the Commissioner analyzed the subject filings together and considered the cumulative effect of the subject filings in reaching the conclusions found in this Order.

6. The standards established under TEX. INS. CODE ANN. art. 1.02(b), require that rates be just, fair, reasonable, not excessive for the risks to which they apply, and not unfairly discriminatory.

7. The standards established under TEX. INS. CODE ANN. § 2251.052(b), prohibit rates that are excessive, inadequate, unreasonable, or unfairly discriminatory for the risks to which they apply.

8. Under TEX. INS. CODE ANN. § 2251.051(b) and TEX. INS. CODE ANN. art. 1.02(c)(1), a rate is excessive if it is likely to produce a long-term profit that is unreasonably high in relation to the insurance coverage provided.

9. Under TEX. INS. CODE ANN. § 2251.051(d) and TEX. INS. CODE ANN. art. 1.02(c)(3), a rate is unfairly discriminatory if the rate is not based on sound actuarial principles or if the rate does not bear a reasonable relationship to the expected loss and expense experience among risks.

10. TEX. INS. CODE ANN. § 2251.103(a) requires the Commissioner of Insurance to disapprove a rate filing if it does not meet the standards established under TEX. INS. CODE ANN. § 2251.052(b).

11. The subject filings, separately and in combination, contain rates that are excessive, inadequate, unreasonable, and/or unfairly discriminatory for the risks to which they apply, in violation of TEX. INS. CODE ANN. § 2251.052(b).

12. Specifically, with respect to rate filing R18592:

    (a) The adjustments to losses to reflect new underwriting actions in Coastal Zones 2 and 3 did not remove certain non-hurricane catastrophe losses that would be excluded by the higher minimum tropical cyclone deductibles required in those zones, thereby producing excessive rates.

    (b) The factor for unallocated loss adjustment expense used in the calculation of the total non-modeled catastrophe provision and the projected non-catastrophe pure premiums overstates likely expenses, thereby producing excessive rates.

    (c) The selected trends for premiums and losses, when taken together, are inconsistent, and do not reasonably reflect changes in deductibles and amounts of insurance purchased, and produce excessive rates.

    (d) The selected trend for premiums does not reasonably consider adjustments to insureds' policy limits for changes in the Boeckh Index, and produces excessive rates.

    (e) The stated provision for underwriting profit underlying the proposed rates, 10.43 percent, taken together with all other cost and revenue components, results in an expected excessive total return relative to the Allstate cost of capital, thereby producing a long-term profit that is unreasonably high in relation to the insurance coverage provided and excessive rates.

    (f) The selected one percent contingency provision has not been justified, and produces excessive rates.

    (g) The projection of General and Other Acquisition Expense did not reflect likely savings due to improvements in productivity, and produces excessive rates.

    (h) The discount applied to rates to reflect the application of the Wind, Hurricane and Hail Exclusion endorsement (HO-140) insufficiently reflects likely loss reductions and produces excessive rates.

(i) The rate components identified above in subparagraphs 12(a) through 12(h) are likely to produce a long-term profit that is unreasonably high in relation to the insurance coverage provided and therefore produce excessive rates.

(j) No change is proposed in the existing rating zone relativities even though experience, including projected catastrophe losses, indicates that the relativities should differ substantially from the existing relativities in many instances. The proposed rates are therefore unfairly discriminatory because they are not based on sound actuarial principles and do not bear a reasonable relationship to the expected loss and expense experience among risks.

13. Specifically, with respect to rate filing R18590:

(a) The net cost of reinsurance calculation imputes additional costs on amounts retained within the Allstate Insurance Group but not actually incurred, artificially raising apparent premium needs for the policyholders of Allstate Texas Lloyd's and producing excessive rates.

(b) The stated provision for underwriting profit underlying the proposed rates, 10.43 percent, taken together with all other cost and revenue components, results in an expected excessive total return relative to the Allstate cost of capital, thereby producing a long-term profit that is unreasonably high in relation to the insurance coverage provided and excessive rates.

14. Additionally, for the same reasons set forth above, the subject filings violate TEX. INS. CODE ANN. art. 1.02(b) which requires that rates be just, fair, reasonable, not excessive for the risks to which they apply, and not unfairly discriminatory.

IT IS THEREFORE ORDERED by the Commissioner of Insurance that the homeowners insurance rate filing made by Allstate Texas Lloyd's under TDI Rate Filing Nos. 9212483879 and 9212483880 are disapproved and may not be used by Allstate Texas Lloyd's.

IT IS FURTHER ORDERED by the Commissioner of Insurance that failure to abide by this Order may subject Allstate Texas Lloyds to administrative penalties, sanctions and actions as described in TEX. INS. CODE ANN. § 2251.151 and TEX. INS. CODE ANN. §§ 82.001-82.055 and 84.001-84.022.

JG MIKE GEESLIN
COMMISSIONER OF INSURANCE