

State Farm under fire for hundreds of violations – but experts say Californians won't lose coverage

NY Post

Regulators want State Farm barred from writing new policies for a year for allegedly violating state law after the Los Angeles wildfires — but experts say current customers shouldn't panic.

“Auto insurance and home insurance contracts are one year contracts, and they commenced at different times for different people. Suspension of the license would not vitiate those contracts,” Dave Jones, the former California Insurance Commissioner, told The California Post.

“You'd still have your existing contract, it would mean, though, that it wouldn't be able to get renewed,” Jones added.

State regulators are pushing a multimillion-dollar fine and possible license suspension for State Farm after a California Department of Insurance probe found it delayed claims, lowballed payouts, and shuffled adjusters, sowing confusion for policyholders.

The probe, released in part on Monday, found a staggering 398 violations of state law in 114 of the 220 sample claims that were looked into.

“What I hope is that State Farm recognizes that they have gone too far and that the Department of Insurance recognizes that its responsibility is to Californians not to State Farm,” Douglas Heller, Consumer Federation of America's Director of Insurance, told the Post.

Heller doesn't believe the insurance giant is likely to have its license suspended, but hopes it's the catalyst that forces State Farm to reform its practices.

“I don’t think it’s a huge chance because hopefully State Farm will will get serious and respond to this action in a productive way, meaning changing their practices, getting money back into people’s hands and speeding up their processing of claims,” Heller said.

A sentiment echoed by Jones, who said there’s “about zero probability” the insurer loses its license.

“They are substantial writer of home insurance in a market that, you know, already only has about 110 or so insurance companies writing,” Jones said. “I think it’s unlikely that the commissioner, even if a recommendation comes up from an administrative law judge to suspend, I think it’s very unlikely we’ll do so.”

However, in the slim chance it does happen, Jones noted that people could have difficulty finding another insurer.

“It’s not that people will face higher rates, it’s that they will they’ll need to go get insurance from another insurance company, and those companies are not required to write insurance,” Jones said, underscoring that other carriers might not want the additional exposure in a state where wildfire risks have increased.

“Some number of them will pick up policyholders, but some may conclude they can only do so much because they don’t they don’t want to expand their footprint too much in California,” he said.

State Farm pushed back on the state’s investigation, claiming it is a “politically motivated attack that could ultimately cripple California’s homeowners insurance market.”

We reject any suggestion that State Farm engaged in a general practice of mishandling or intentionally underpaying wildfire claims, and we will respond through the process,” the insurance giant, which insures over a million in California, said in a statement.

Amy Bach, who co-founded United Policyholders that advocates for consumers of all types of insurance, told The Post State Farm is needed in California as “it’s not clear that other insurers other reputable insurers can fill in the gaps that they would leave,” however they need to make serious changes.

“We want State Farm to straighten up and fly right and get back to their old reputation of being a good neighbor, but they have a mess to clean up here and they’re gonna have to clean it up,” she said.

If an administrative law judge finds the state's findings have merit, penalties could range between \$5,000 per violation to \$10,000 if willful.

But Heller points out it could take months before a decision is actually reached.

"This will play out for awhile because even if they go through this process, which could be several several months or longer in hearings, State Farm has all sorts of rights that it that it will likely want to exhaust," Heller said.