

# TEXAS WATCH

815 Brazos Street, Suite 603 • Austin, TX 78701 • (512) 381-1111 • www.texaswatch.org

March 1, 2011

*Via hand delivery and electronic mail (bc@senate.state.tx.us)*

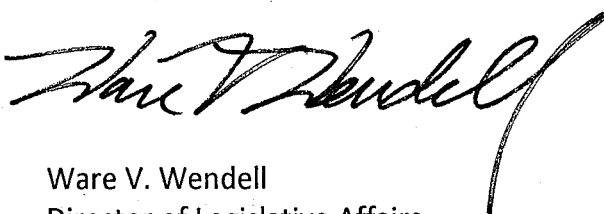
Senate Committee on Business & Commerce  
Attn: Chairman John Carona  
P.O. Box 12068  
SHB 370  
Austin, TX 78711

Re: SB 97 by Lucio; written supplement to testimony

Dear Chairman Carona and Members of the Committee:

Please allow the attached article entitled "Zapped because of his ZIP Code" to serve as a written supplement to my oral testimony in favor of SB 97 by Senator Lucio.

Sincerely,



Ware V. Wendell  
Director of Legislative Affairs

Enclosure (3 pgs.)



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## Zapped because of his ZIP code

AUSTIN — Retired San Antonio firefighter Ralph Arredondo was accustomed to small annual increases in his homeowners insurance, but when his premium shot up \$387 last year, he started asking questions.

The answer surprised him: State Farm said the 18 percent increase was due to the U.S. Postal Service switching his neighborhood in unincorporated northern Bexar County to a different ZIP code.

“I just couldn't believe it. My house is in the same location it has been the last 14 years,” Arredondo said.

It's a dramatic example of how insurance companies use ZIP codes to charge different rates, based on expected claims, within a county. Most do it, particularly for the more populous counties, according to the Texas Department of Insurance.

State Farm said it can't lower Arredondo's premium, because that would violate the company's rating rules on file with the Insurance Department.

Those filings, obtained by the Houston Chronicle through the Texas Public Information Act, reveal how ZIP codes are assigned to 10 “subzones” in urban counties, including Bexar and Harris.

The documents show basic premium costs can vary by ZIP code as much as 75 percent within each county, though the majority differ by 15 percent or less.

Insurers must justify variations of more than 15 percent within a county to state regulators.

“There has to be some semblance of actuarial justification for what they do,” Insurance Commissioner Mike Geeslin said.

Critics of the ZIP code ratings, including some state lawmakers and consumer groups, say there is little reason for rates to differ widely within a county, particularly one that is not near the coast. They worry that defining neighborhoods by ZIP code could lead to abuses similar to redlining, an outlawed method used to charge higher rates or deny coverage to residents of minority neighborhoods.

The insurance industry defends ZIP code ratings as a legitimate predictor of risk, particularly in large counties where property ranges from rural to suburban to inner-city.

“The risk profiles are radically different,” said Beaman Floyd, director of an industry lobby group.

Targeting a neighborhood as more risky if it is served by an ill-equipped volunteer fire department or has high crime can even lead to needed improvements, such as passage of a bond issue to improve fire protection or the hiring of more police officers, he said.

The issue is expected to be part of a debate over homeowners insurance rates that begins this week at the Capitol. The legislative Sunset Advisory Commission will hold a public hearing on reauthorizing the Insurance Department.

One consumer group is calling for letting rates vary no more than 15 percent in all except coastal counties. Texas Watch director Alex Winslow said ZIP code ratings are a method used by the insurance industry to shrink risk pools and deny coverage to people it doesn't want to insure.

“Just because you live on Avenue A doesn't mean that you have a higher likelihood of filing a claim than your neighbor on Avenue B,” Winslow said. “It makes sense to use boundaries that are fixed, such as county boundaries, to ensure predictability for policyholders that have similar risks.

“By relying on fluid boundaries like ZIP codes, you run the risk that policyholders can be doing all the right things and have nothing change but their ZIP code, and they're left with a higher bill as a result.”

Arredondo, 57, says that is exactly what happened to him and his wife, Rose, 54. Their 3,340-square-foot home in Timberwood Park — valued for insurance coverage at \$275,600 — is just outside the San Antonio city limit.

He said there is a fire hydrant across the street from his house and crime has not been a problem.

In 2006, Arredondo paid \$2,184 for his coverage, with a \$500 deductible. The bill due last November was for \$2,571.

Arredondo said he is willing to pay a little more every year to make sure that his coverage keeps up with inflation but was caught off guard by last year's bill.

His State Farm agent blamed the Postal Service, which switched about 2,000 customers to a different ZIP code because of population growth.

“In this particular case, the rating factor for the Arredondos' new ZIP code was higher than the rating factor for the prior ZIP code,” a company manager said in a letter to the state Department of Insurance.

State Farm began using ZIP code ratings in 2001. It told regulators in 2003 that the ZIP code system replaced one that rated neighborhoods within a county solely on fire protection data.

The company said fire accounts for less than one-third of claims and that the ZIP code system looks at all types of insured losses, including wind, hail, water damage, theft and liability.

In Bexar County, basic premiums could range from \$785 to \$1,437 for a \$100,000 wood frame home, according to State Farm's filing. The higher rates apply to ZIP codes in outlying areas.

Rep. Garnet Coleman, D-Houston, would like to see ZIP code ratings banned. He said the system penalizes poorer neighborhoods where homeowners carry lower deductibles and file more claims because they can't afford to pay for minor property damage out of their own pockets.

“This is why people who have little can never get ahead,” he said. “Just to maintain what (insurance) the law says they must maintain, they pay more than people who have money.”

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