

Fitch Affirms State Farm's Ratings; Outlook Stable

by Business-Wire

Fitch Ratings has affirmed its 'AA ' insurer financial strength ratings on State Farm Mutual Automobile Insurance Company (State Farm), State Farm Life Insurance Company (State Farm Life), and State Farm Life and Accident Assurance Company. The Rating Outlook is Stable.

The ratings of State Farm favorably reflect its top-tier franchise position, highly productive career agency distribution force, strong capital position from both an absolute dollar and risk-adjusted basis, and diversification across products and geography. Balanced against these strengths are a history of below industry-average underwriting results, volatility in capital from a large investment allocation to equity securities, and the ongoing litigation related to Hurricane Katrina.

The financial strength ratings on State Farm Life and State Farm Life and Accident Assurance Company, collectively referred to as State Farm Life, are supported by the State Farm franchise, a sound capital position, and a more conservative investment portfolio with a smaller allocation of equity securities. Life insurance is considered a core line of business for State Farm along with its personal auto and homeowners insurance lines, and consequently, State Farm Life is rated on a group basis with State Farm.

State Farm reported a nearly \$3 billion underwriting gain and a combined ratio of 93.8% in 2006. Contrast these results with 2005 where the company reported a \$779 million underwriting loss and a combined ratio of 101.5% with approximately 13 percentage points attributable to hurricanes.

Statutory surplus gained \$8 billion in 2006, reaching \$58 billion. State Farm's operating leverage is very conservative at 84%, and the quality of capital is high given the absence of debt and surplus notes. This level and quality of capital provide State Farm with a considerable cushion against adverse conditions.

Fitch affirms the following, with a Stable Outlook:

State Farm Mutual Automobile Insurance Co.

--Insurer financial strength 'AA '.

State Farm Life Insurance Co.

--Insurer financial strength 'AA '.

State Farm Life and Accident Assurance Co.

--Insurer financial strength 'AA '.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times.

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-----Source: Business Wire