Comment: Choices ease Texas homeowners' insurance burden

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Since it is an election year, it must be time for homeowners insurance to be in the news.

In 2002, the last time Texas elected a governor, the rhetoric was hot and heavy as politicians sought to blame each other and the insurance industry for high premiums. And like clockwork, 2006 started with allegations of rate-gouging, failed reforms and broken promises, along with calls for increased regulation.

The first round of salvos was ignited by a report released in January by the National Association of Insurance Commissioners showing Texas with the highest average homeowners rates in the country.

However, Texas is being singled out even though the report warned against using the data to compare rates state by state. Even worse, the price of insurance today is being disparaged based on data from 2003.

There is no information in the report that can shed light on the Texas insurance market today. The only accurate conclusion to be drawn is that in the midst of the insurance crisis almost three years ago, Texans had to pay a lot for homeowners insurance. That is hardly news.

However, though the data are never completely up to date, it is possible to get a pretty good picture of how consumers are faring in the homeowners market in real time. One way is by looking at the recent history of premiums and losses.

In 1999, an explosion in mold claims sent losses through the roof. In a three-year period from 1998 to 2001, losses per policy almost doubled from about $800 to just under $1,600. Of course, premiums began to rise during that time as insurance companies tried to keep up with increasing losses. However, it wasn't until 2003 that they caught up — and they did so only because free-market reforms adopted by the state in 2002 and 2003 put an end to the rising losses.

Though 2004 signaled a return to profitability, that one year could not make up for an average annual underwriting loss over the previous decade of 10.6 percent. And the 2004 level of profitability is unlikely to repeat in 2005, which featured Hurricanes Rita and Katrina.

The report that led to the barrage of criticism said the average homeowners premium across the country was $668. Yet Texas Department of Insurance figures show the average yearly loss per policy for Texas insurers over the past 15 years is $693. The average Texas consumer receives more money for claims than the average U.S. consumer pays in premiums.

In addition, the highest rates in Texas are concentrated in areas where the probability of incurring losses is the highest. For instance, Houstonians must pay for the damage that will likely be incurred from future hurricanes and tropical storms.

The data indicate today's homeowners premiums generally reflect justified attempts by companies to adjust for the costs of doing business in Texas.

Another way to judge consumer welfare is to look at the competitiveness of the market.

In 2003, companies writing homeowners insurance had abandoned Texas in droves, declining from 166 in 1997 to 101. Additionally, several of the largest insurers had announced they would stop writing new policies or perhaps leave the state altogether. It was hard to find insurance at any price.

In contrast, today's market looks very competitive. The market is less concentrated, with smaller market shares for the largest companies and at least 17 new companies writing policies. Companies are aggressively seeking new customers.

This means consumers have choices. If they do not like the price they are paying or the product they are receiving, they can take their business elsewhere. Companies cannot "overcharge" their customers.

This is the case in Texas in 2006. Consumer choice, not government regulation, has provided the best value for policyholders. More of this, along with some fair weather, is what will lead to lower insurance costs for Texas homeowners.

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