



Legislators' Guide to the Issues

HOMEOWNERS' INSURANCE 86

THE ISSUE

The homeowners' insurance market in Texas has seen dramatic improvement since the mold crisis at the beginning of the decade. At that time, mold claims and homeowners' premiums were skyrocketing, and several companies were on the verge of leaving the Texas market—some homeowners were having a hard time finding policies at any price. However, late in 2002, the Texas Department of Insurance finally allowed insurance companies to use new forms that excluded coverage for mold, which had first been authorized by Senate Bill 1499 back in 1997. Further improvements followed the passage of Senate Bill 14 (2003) that relaxed some regulations on insurance prices, though unfortunately closed the Lloyds exception that allowed many insurers to compete in an unregulated market. Since these changes, the mold crisis has completely disappeared, consumers have generally benefited from reduced rates, and many insurance companies have returned to profitability.

The Texas Department of Insurance reported to the Texas Legislature in March 2003 “rates in 2003 appear to be leveling off.” TDI claimed insurance premiums could have increased as much as 20 percent without form deregulation—the primary reason for the end of the crisis. After the market stabilized, it became less concentrated, with smaller market shares for the largest companies and at least 17 new companies writing policies. The year 2004 signaled a return to profitability and price stability, though one year could not make up for an average annual underwriting loss over the previous decade of 10.6 percent. The 2004 level of profitability was not repeated in 2005, which featured hurricanes Rita and Katrina. However, today Texans hear political calls to regress to our roots of high government regulation on homeowners' insurance.

Though Texas officially has a “file and use” system for rate setting that would allow competition to regulate the marketplace, SB 14 left TDI with too much authority over prices, resulting in a system that is still too politicized and regulated. Total price and form deregulation is needed to bring the best products at the best rates to Texans. Consumer choice, not government regulation, has provided the best value for policyholders. More of this, along with some fair weather, will lead to lower insurance costs for Texas homeowners.

THE FACTS

- ★ “Toxic” mold claims caused insurance loses to soar with average claims of \$15,000 to \$30,000 that could reach upwards of \$100,000.
- ★ High levels of consumer stickiness indicate the presence of a very efficient market in which consumers can more readily confirm the validity of the choices they have made based on value. Loyal, i.e., sticky, customers are a sign of healthy competition.



- ★ The file and use system has the potential of creating a marketplace that allows companies to set rates based on competition with each other and consumer demand—if it is allowed to operate without government interference.
- ★ The Herfindahl Index for Competitiveness in the Texas Homeowners' Insurance Market dropped from 1662.736 in 1998 to 1388.108 in 2003, indicating Texas has become more competitive regarding homeowners' insurance.
- ★ Illinois, with no price regulation since 1970, has the highest number of companies writing homeowners' policies in the nation at or below the national average.

RECOMMENDATIONS

- ★ TDI should focus on market conduct, solvency, and consumer information, leaving pricing and forms to the market.
- ★ The Texas Legislature should develop a long-term plan for eliminating price regulation of homeowners' insurance that includes codifying terms to ensure a true, least-regulatory form of file and use that allows competitive pricing to determine the cost of insurance premiums.

RESOURCES

- *Consumer Stickiness: A Sign of Healthy Competition* by Bill Peacock, Texas Public Policy Foundation (Mar. 2005) <http://www.texaspolicy.com/pdf/2006-03-consumerstickiness-bp.pdf>.
- *Is the Free Market Working for the Texas Homeowners' Insurance Market?* by Bill Peacock, Texas Public Policy Foundation (Feb. 2006) <http://www.texaspolicy.com/pdf/2006-02-PP-homeowners-bp.pdf>.
- *Homeowners' Insurance: Moving Toward Competition or More Regulation?* by Bill Peacock, Texas Public Policy Foundation (May 2005) <http://www.texaspolicy.com/pdf/2005-05-homeowners.pdf>.
- *Deregulation, Pricing And Availability Issues In The Texas Personal Homeowners' Insurance Market* by Patricia M. Arnold and Patrick Brockett, Texas Public Policy Foundation (Dec. 2004) <http://www.texaspolicy.com/pdf/2004-12-home.pdf>.
- *Homeowners Insurance Price Comparisons* Texas Department of Insurance, <http://www.tdi.state.tx.us/consumer/txshoph.html>.
- *Comparing Homeowners Policy Coverages* Office of Public Insurance Counsel, <http://www.opic.state.tx.us/hoic.php>.
- *The Insurance Industry and Homeowners Adapt to a New Regulatory Framework* House Research Organization (Oct. 2004) <http://www.capitol.state.tx.us/hrofr/interim/int78-9.pdf>.