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Coastal crisis: Windstorm insurance rates could rise, but who will pay?

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HOUSTON -- If you own a home in Texas, you're paying by far the highest insurance rates in the nation.

And it only gets worse if you live in a coastal county.

Patti Ardeel has a weekend home on Galveston Island.

"My homeowners insurance in Houston is about \$1,000 a year, and it's about three grand here," Ardeel said.

The big difference is because of special windstorm insurance. It alone costs the average coastal homeowner \$1,200 a year.

But could it be they aren't paying enough?

"The reality is that some coastal residents are underpaying for the risk their insurance policy covers," Drew Thornley of the Texas Public Policy Foundation said.

In Austin next year, lawmakers will be debating that very issue: If you want to live along the coast where hurricanes hit, shouldn't you pay extra for that risk?

As things now stand, critics say all Texas taxpayers are at risk.

"So yes, we should be quite worried that if another Rita or Katrina or Ivan or Wilma-type storm comes along, we're going to be on the hook for a lot of money," Thornley said.

That's because windstorm insurance is not provided by big insurance companies. They refuse to take that risk.

Instead, the job falls to the State of Texas.

But the Texas Windstorm Insurance Association might not have nearly enough to cover a catastrophic storm.

The state's wind insurance association is currently on the hook to cover damage to some 250,000 properties up and down the coast. Their total

value is over \$65 billion.

The state's windstorm fund only holds \$470 million.

In the last major hurricane to hit the Houston area, Alicia in '83, the fund ran out of money, and the state had to make up millions.

Now, as a Band-Aid, the state bought what's called re-insurance – a sort of jumbo insurance policy.

But that's costing millions of dollars in premiums for insurance that, so far, the state has never had to use.

“So we have spent probably \$400 million to purchase re-insurance that got us nothing of value at the end of the day,” Rep. Craig Eiland of Galveston said.

Fixing the windstorm fund will mean charging more, but who should pay?

By one estimate, average rates for coastal property owners would have to more than double.

Coastal lawmakers said it would be better to spread the cost to homeowners nowhere near the coast.

“We have to. If not, we're going to crater the economies of the coastal communities,” Eiland said.

Some believe windstorm premiums are already bad enough.

“I have people I know well who are literally not insuring. They're going bare because they can't handle it,” Otie Zapp of the Galveston Windstorm Action Committee said.

Residents make the argument that many who live here have to for jobs at petrochemical plants, the port or in tourism.

In fact, only 2 percent of the homes insured by the windstorm fund are worth more than \$400,000 – the kind of luxury weekend homes going up by the dozens on Galveston Island.

The challenge is to find a way to insure all of it at a price Texans can afford.