

From last resort to first choice

The state windstorm association's rates may encourage unwise building

By PURVA PATEL Copyright 2008 Houston Chronicle

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Lawmakers created the Texas Windstorm Insurance Association as a last resort for homeowners and businesses unable to find coverage elsewhere.

But in recent years, relatively cheap premiums, a shrinking private market and lenient eligibility requirements have caused the wind pool to swell and encouraged building in areas susceptible to hurricanes, those advocating reforms for the agency say.

"If we're going to make this rational and have people face the consequences of building on the coast, we need to let TWIA charge higher rates," said Bill Peacock, of the free-market-leaning Texas Public Policy Foundation's Center for Economic Freedom.

The state-created but privately run association long has complained it is underfunded and its policies underpriced, but staggering losses this year have brought the idea of reforms back to the forefront.

The wind pool has racked up more than 87,000

Ike-related claims so far and estimates it will incur \$2.7 billion in losses, much of which state law allows to be passed on indirectly to taxpayers.

"TWIA was organized to be the market of last resort, and they have become a market of first choice," said Jerry Johns, a spokesman for the association.

Generally cheaper

The association's policies generally are cheaper than windstorm coverage sold by private insurers.

That's because in 2001 the Legislature capped annual rate increases at 10 percent per year to protect consumers from drastic hikes each year.

"That was my bill," said Rep. Craig Eiland, D-Galveston.

"My concern all along was insurance companies should not be raising rates when there was no storm to justify raising our rates."

But the cap, coupled with legal limits on how it calculates rates, has led to underpricing and rapid growth in how many homes and businesses the association insures, Peacock said.

As of Sept. 30, the association had 228,894 policies in 14 coastal counties and a sliver of Harris County. That's three times the 73,815 policies in 2001, when lawmakers capped its rate hikes.

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‘Crowded out’

“Essentially, private insurers are being crowded out,” Peacock said. “But I can imagine a scenario where there’s a lot of political pressure on home insurers to write along the coast. If they wanted to do right here in Texas, they would consider that as part of their responsibility.”

Eiland said he supports letting the state insurance commissioner lift the cap in light of Ike, but only temporarily.

“I think, now at least, people can understand the justification for it,” he said.

But Sen. Mike Jackson, R-La Porte, sent a letter to Insurance Commissioner Mike Geeslin urging him to keep the cap.

“Coastal Texans are still struggling to get their lives back together after Hurricane Ike struck Galveston Bay on Sept. 13,” he said. “Even now, many of my constituents are still unable to return to their homes due to extensive damage, and jobs are still uncertain.”

Reducing exposure

Insurers generally have not cited competition from the association as the reason they have limited the policies they sell on the coast.

Instead, companies point to a need to reduce their exposure and a desire to keep rates affordable for their consumers.

“Our first concern would be to be able to take care of our customers when they have a claim and be there to serve them,” said Bill Mellander, a spokesman for Allstate, which started limiting coverage on the coast in 2006.

‘An appropriate rate’

“If we were to insure greater volumes of risk along the coast, it would require an appropriate rate, and that would likely be more expensive for the consumer. So, managing the amount of risk we assume in those areas helps us keep those rates down and helps keep them affordable.”

State Farm, which is locked in a rate battle with the state and, unlike other companies, had to have its rates approved before implementing them for about two years, said it had to drop some customers for similar reasons.

Companies must be allowed to charge higher rates if they’re expected to take on more risk, it argues.

“When adequate rates are not available, coverage and capital disappear,” said Kevin Davis, a spokesman for the company. “Full utilization of a free, open and competitive market is more important than ever to encourage and sustain competition along the seacoast.”

Too easy to buy?

Some advocates of reform also say it is too easy to get a policy from the association.

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State law does not require property owners to prove they were unable to find windstorm insurance in the private market before turning to TWIA.

So, in addition to consumers who truly need it, those who are merely looking for a low-priced alternative can get into the pool, unnecessarily exposing the association to greater liability, reform advocates say.

Another state-created insurer that sells basic coverage in inland counties, the Texas Fair Access to Insurance Requirements Plan, makes homeowners provide two denials from private insurers to qualify for coverage.

Next year, lawmakers are expected to introduce windstorm association reforms, such as adding a surcharge to insurance policies statewide to raise funds for it.

‘Statewide solution’

Until now, it has been difficult to persuade inland residents, who see it as a coastal issue, to foot some of the association’s funding.

“I think it’s going to be an even more difficult argument this session,” said David VanDelinder, director of the Independent Insurance Agents of Texas. “There has to be some statewide solution.”

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