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Setback feared in storm insurance market recovery

A big hurricane would likely raise premiums even more

By PURVA PATEL
HOUSTON CHRONICLE
May 31, 2010, 8:12AM

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A major hurricane blowing through Texas this year would likely leave consumers with fewer choices and higher rates in an insurance market still recovering from Hurricane Ike.

The past two years have hit insurers with major losses, both from severe weather and depressed investment markets. That has translated into higher rates for many consumers. And for those living along the coast, it has become more difficult to find a company willing to sell them windstorm coverage.

As another hurricane season begins, experts note a major storm could make things worse.

"We're very worried about it. We had always understood the risk on the coast, and Ike brought it home to everyone in the state," said Beaman Floyd, director of Texas Coalition for Affordable Insurance Solutions, an industry trade group.

Justified premium hikes?

From 2008 to 2009, the average homeowner's premium increased 7.7 percent to \$1,666 in Harris County, 8.2 percent to \$1,648 in Fort Bend County, and 8.1 percent to \$2,688 in Galveston County, according to the Office of Public Insurance Counsel, a state consumer agency. Statewide, the average increase 5.3 percent to \$1,359 over the same period.

Based on the agency's review of rates filed with the state, many coastal policyholders will experience even larger increases in premium through the end of this year, said Deeia Beck, director of the agency. And not all those increases are necessarily justified, she said.

"You have to look at it on a carrier-by-carrier basis, but we still think homeowners insurance is overpriced, including on the coast," Beck said.

Insurers say they're facing higher costs as well as increased risks of severe weather, factors they consider when projecting the rates they need. Some consumer advocates, however, say insurers have enjoyed enough profitable years to bear the latest losses without increasing rates and are calling on more regulation of the industry.

Market stabilizing

In the past year, the state's three biggest — State Farm, Farmers Insurance and Allstate — have hiked rates. State Farm, the largest, announced two increases within eight months.

The industry paid out about \$1.02 in claims and expenses for every dollar in premiums it collected, down from \$1.76 the year before, according to loss ratio data from the insurance department.

Still, insurance Commissioner Mike Geelsin testified last week that the market is showing signs of stabilization. At least two carriers, Travelers and USAA, have agreed to sell more policies along the coast, according to the department.

"And that's in the face of some incredible loss ratios," he said before the Sunset Advisory commission, a panel of lawmakers reviewing the effectiveness of the agency.

Though the numbers point to improvement, insurers worry about the possibility of another catastrophic storm as well as what they consider too much regulation, which they say could prevent them from charging the rates they say they need to stay in business. Since Hurricane Ike, 23 companies filed to partially or completely withdraw from the Texas market, according to the insurance department. Companies only have to file withdrawal notices if they cut the premiums they collect by more than 50 percent, so some companies that pulled back may not have been included in that figure.

Protecting consumers

Some consumer advocates take issue with the industry's claims.

Alex Winslow, of Texas Watch, notes that before the industry started complaining about unpredictable weather, it suffered from soaring mold claims.

"Is severe weather new in Texas?" he said, adding that he thinks lawmakers need to ensure regulators have enough tools to protect consumers, including the ability to approve rate changes before they're implemented.

"Regardless of loss ratios and profitability that everyone wants to talk about to muddy the waters, consumers need to be protected," he said. "We know that since 2003, most homeowner policies cover less and cost more."

Winslow said he's not sure if requiring regulatory approval of rate changes would lead to lower rates, but "you have to have a level of protection between the insurance company and consumer."

During the sunset hearing, Sen. Troy Fraser, R-Horseshoe Bay, said he planned to raise the issue during the next legislative session, noting that State Farm has managed to effectively dodge an order to cut its rates by wrangling with regulators in court for seven years.

Insurer of last resort

Another looming threat to the insurance market is uncertainty surrounding the state's windstorm insurer of last resort, which usually charges more than other insurers for less coverage. Many homeowners along the coast are turning to the Texas Windstorm Insurance Association, a state-created but privately run insurer, that sells coverage to homeowners that can't find it elsewhere. It has about 232,000 policyholders as of April, up from nearly 110,000 five years ago.

Hurricanes Ike and Dolly effectively depleted the association's funds. Last year, lawmakers gave the insurer the ability to raise about \$2.5 billion through collecting fees from private insurance companies and issuing bonds, among other things.

State lawmakers would have to convene for a special session to determine how to fund losses beyond that.

Still, some experts say more companies are likely to sell coverage in Texas since lawmakers last year removed

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the association's ability to collect unlimited fees from insurers to fund catastrophic losses.

"Now that we've seen some TWIA reforms, we'll see more people coming in and writing and that will help ease some of that pressure," said Bill Peacock, director of the Texas Public Policy Foundation's Center for Economic Freedom, a conservative think tank.


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Topshef wrote:

Insurance companies happily collect premiums year after year, and then, when they actually have to pay out claims, they complain about it and raise rates! Isn't that the nature of the business? Some years are great and others aren't?

5/31/2010 3:52:31 AM

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JJMclure wrote:

These jokers need to go back and redefine what insurance is. I'd start by getting rid of all their risk assessors. Soon enough they will be offering snow insurance in Houston, hurricane insurance in Denver, and volcano insurance in New York. I guess what their commercials should start to say is, We'll provide you insurance, when we know we aren't going to pay out!

5/31/2010 12:44:39 AM

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FXSTC2008 wrote:

1. If you pay out more than you take in, you won't be in business much longer;
2. Insurance is not meant to remodel your home;
3. Take care of your house, insurance is not meant to take care of your laziness;
4. Don't inflate your losses, that is FRAUD;
5. Don't have someone tear up your roof and call it wind damage, that is FRAUD;
6. If you don't like insurance, self-insure your home. Good luck paying out more than you have stuck back.

5/31/2010 7:09:17 AM

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GMan611 wrote:

I've lived in Houston for over 50 years. Insurance rates have never been the hot issue it is today until 1999 when a jury in Plano Texas made MOLD a covered peril. This drained every insurance dollar in Texas while the insurance commissioner sat on his hands. Several companies went belly up. The remaining companies have been struggling to accumulate proper reserves in a very tough financial environment and major hurricanes to pay for. None of them have taken Government bailout money like the banks that pay out huge executive bonuses.

5/31/2010 6:26:47 AM

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CToTheJ wrote:

Screw the insurance companies...that's what they do to their customers over and over.

5/31/2010 2:39:00 PM

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Schoenberg wrote:

againstbadfaith....wrote:
You obviously work for an insurance company. I can tell because they have taught you how to "spin" a story. You already know there is a lot of proof about misinformation by insurance companies, but I will offer one link to get you started. This article is about State Farm "cooking the books."
<http://www.al.com/opinion/press-register/insight.ssf?/base/opinion/123650383775340.xml&coll=3>
Be sure to check out <http://www.marlawfirm.com> for additional information about State Farm including some interesting news videos about State Farm teaching its employees to destroy documents and lie under oath.

This is becoming typical. You again are speaking of something you don't know. Your comments/assumptions are revealing. Why would it matter who I work for if the information is correct? I'm not trying to spin anything; I'm using the reliable source. Don't bother responding if you're looking for another comment from me. I'm afraid this argument isn't worth my time. Have a good one.

5/31/2010 12:01:47 PM

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AgainstBadFaithInsurance wrote:

(0)

Response to Schoenberg: You obviously work for an insurance company. I can tell because they have taught you how to "spin" a story. You already know there is a lot of proof about misinformation by insurance companies, but I will offer one link to get you started. This article is about State Farm "cooking the books."
<http://www.al.com/opinion/press-register/insight.ssf?/base/opinion/123650383775340.xml&coll=3>
 Be sure to check out <http://www.marlawfirm.com> for additional information about State Farm including some interesting news videos about State Farm teaching its employees to destroy documents and lie under oath.
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