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WINDSTORM INSURANCE STATUS REMAINS A "LEAKY BANDAID"

Borrowing money to cover claims on a big storm would leave only bad options

As Texas heads into another hurricane season, the state's ability to handle another big storm can still best be described as a good news and bad news situation. That was the big takeaway from today's lunch hour discussion at the ***Texas Public Policy Foundation*** on whether the state is ready for the next "big one."

First, the good news. The tiers of post-storm bonding set up last legislative session should be sufficient to handle an Ike-sized storm, according to **Jim Murphy**, an actuary with the ***Texas Windstorm Insurance Association***.

The state has roughly $2.5 billion in bonding capacity set up in three different funding layers. ***Hurricane Ike***, by comparison, caused about $1.8 billion in losses. Since last session, ***TWIA*** has been working to create the mechanisms that would facilitate the taking out of bond debt in the aftermath of a storm. Murphy said that ***TWIA*** has quick access to $300 million to get help immediately to an affected area with the remainder of the money becoming available as the state goes to the market to sell bonds.

Meanwhile, with state lawmakers deciding to forego reinsurance and instead focus for now on post-event bonding, Murphy said that ***TWIA*** is able to put $150 million to $250 million annually toward rebuilding its catastrophe trust fund – a funding source that was wiped out entirely by Hurricanes Dolly and Ike in 2008.

But in some quarters, that policy decision to rely on debt to finance storm recovery remains problematic. As was pointed out as long ago as last summer, that first band of bonding – worth $1 billion – relies on ***TWIA*** policyholders to repay the bonds, a payer pool that might not be robust enough to support a bond issue of that size. So the state might not be able to count on being able to take out the entire $2.5 billion in debt.

Panelist **Eli Lehrer** of ***The Heartland Institute*** said today the decision to rely solely on debt wasn't good from a policy standpoint. In the event of a bad storm, he said that the assessments wouldn't be enough to pay back the debt. That puts the state in the position of having to choose between two poor options – either raise a broad based tax that would cause insurers to flee the state or take on a level of debt that would jeopardize bond ratings.

Such an event "won't destroy the state," he said, "but it's still going to be a bad thing."

He suggested that ***TWIA*** scale back the number of policies, returning the fund to being more of a safety valve instead of the primary windstorm policy writer on the Coast. He also suggested allowing ***TWIA*** rates to move upward to be more on par with the rates charged in the private market. To help shield middle and lower income coastal residents, Lehrer also suggested that the state provide money for retrofitting homes to be more storm resistant, which would allow the homeowner to qualify for better insurance rates.

When lawmakers passed windstorm legislation last session, the consensus among those in the discussion was that the bill amounted to a holding action to see the state through for the next two years. That understanding was still evident today, as the image of choice for ***TWIA's*** funding structure was that of a Band-Aid, and a leaky one at that.

Assuming that lawmakers can give windstorm issues further attention next session (not a slam dunk assumption given the multitude of priorities in 2011), the policy questions of whether the state should purchase windstorm reinsurance as well as whether to make coastal residents shoulder more of the risk for building along the water should be expected to emerge again.

By John Reynolds