

TEXAS WINDSTORM INSURANCE

THE ISSUE

The Texas Windstorm Insurance Association (TWIA) provides windstorm and hail coverage in the 14 coastal counties and a few other specially-designated areas. All property insurers in Texas must participate in TWIA and must help pay losses. Although TWIA was intended to provide windstorm insurance coverage only to those who could not purchase insurance in the voluntary market, it is no longer an insurer of last resort.

While TWIA may have been intended as a residual provider, it has become anything but that. Its unrealistically low rates have made TWIA an unbeatable competitor and are crowding out the private market.

The current funding system was designed in 1993, when TWIA had about \$6.5 billion in exposure. As of the end of January 2009, TWIA's total exposure was \$68.0 billion. However, TWIA member assessments and the Catastrophe Reserve Trust Fund can only cover about \$2.3 billion of losses, much less than the potential losses from major hurricanes. Any additional losses would be paid from unlimited assessments against insurers, in return for premium tax credits. This would place a serious strain on the state's general revenue fund. In 2005 alone, property and casualty insurers paid \$472 million in premium taxes.

THE FACTS

- ★ The number of TWIA policyholders increased from 68,756 in 2001 to 217,237 at the end of November 2008.
- ★ As of January 31, 2009, TWIA had \$68.0 billion in total exposure (\$62.1 billion in direct exposure with an additional \$5.9 billion in indirect exposure).
- ★ TWIA member assessments and the Catastrophe Reserve Trust Fund can only cover about \$2.3 billion of losses.

RECOMMENDATIONS

- ★ Fully implement a file-and-use system for TWIA rates, allowing TWIA members to get rates to the windstorm insurance market more quickly due to their not having to haggle over rates with the commissioner prior to using the rates. The commissioner could reject only rates already in use.

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- ★ Specify that TWIA coverage is available only if an applicant cannot obtain coverage in the private marketplace. The Insurance Code should be amended to reflect the language in the TDI Rule stating TWIA's purpose is to be the state's windstorm insurance provider of last resort.
- ★ Eliminate many of the rate-setting requirements related to windstorm insurance.
 - ★ Change Texas law to require TWIA to use updated catastrophe modeling methods to calculate rates. The current method of relying on historical storm data means that TWIA offers rates that leave consumers at risk in the event of the next big storm. Therefore, Texas should update the methods by which TWIA calculates its rates to include catastrophe modeling.
 - ★ Allow a larger benchmark within which TWIA insurers may adjust rates without commissioner approval. Under the current system, TWIA must file for rate changes annually. However, rate changes cannot exceed 10 percent, unless they are approved by the commissioner. This statutory 10 percent cap should be eliminated. Increased rate flexibility will create a more solvent and financially responsible organization better benefiting consumers in the event of a major storm.
 - ★ Allow TWIA to differentiate rates based upon actual risk, rather than offering uniform rates in all first-tier coastal counties, as required by the Insurance Code. This reform will allow TWIA insurers to charge higher rates in higher-risk locations, while charging lower rates in lower-risk locations. In addition to being more fair, allowing rate variation within coastal areas to reflect actual risk (i.e., territorial rating) will create a system whereby rates reflect sound insurance principles, rather than uniform pricing.

RESOURCES

- *Consumers, Competition, and Homeowners' Insurance: A Sunset Report on the Texas Department of Insurance and the Office of Public Insurance Counsel* by Drew Thornley and Bill Peacock, Texas Public Policy Foundation (Aug. 2008) <http://www.texaspolicy.com/pdf/2008-08-RR06-TDISunset-dt-bp.pdf>.
- *Texas' Windstorm Challenge: Unprepared for the Worst* by Bill Peacock, Drew Thornley, and Machir Stull, Texas Public Policy Foundation (Dec. 2007) <http://www.texaspolicy.com/pdf/2007-12-PP31-windstorm-CEF.pdf>.
- *A Better Homeowners' Insurance Market Awaits* by Drew Thornley, Texas Public Policy Foundation (June 2008) http://www.texaspolicy.com/commentaries_single.php?report_id=1997.
- "Can't Compete," Letter to the Editor by Drew Thornley, Texas Public Policy Foundation, *Corpus Christi Caller-Times* (Apr. 2008) <http://www.texaspolicy.com/pdf/2008-04-08-CCCT-DT.pdf>.
- *Q&A on Homeowners' Insurance Regulation in Texas* by Drew Thornley and Bill Peacock, Texas Public Policy Foundation (Feb. 2008) <http://www.texaspolicy.com/pdf/2008-02-PP05-Q&A-Sunset-dt-bp.pdf>.
- *Missing the Big Picture in Homeowners' Insurance Debate* by Drew Thornley, Texas Public Policy Foundation (Mar. 2008) http://www.texaspolicy.com/commentaries_single.php?report_id=1833.
- *Homeowners' and Windstorm Insurance in Texas*, PowerPoint presentation by Bill Peacock, Texas Public Policy Foundation (Oct. 2007) <http://www.texaspolicy.com/pdf/2007-Homeowners-Windstorm-presentation-bp.pdf>.

