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Updated May 2015
Center for Economic Freedom

The Great Windstorm Divide: Isolating the Texas Coast

Senate Bill 900

by Bill Peacock, *Vice President of Research and Director of the Center for Economic Freedom*

Far from being a provider of last resort, the Texas Windstorm Insurance Association (TWIA) is the primary windstorm insurer on the Texas coast. Overall, it has 69 percent of the market share along the coast, with 84 percent in Galveston County and 69 percent in Nueces County. The good news is that the growth of TWIA's market share has slowed significantly lately as rates have been allowed to increase by at least 5 percent per year since 2008, allowing more private sector competition in some areas.

However, SB 900 would reverse this trend. It would result in more difficultly in moving TWIA toward actuarial soundness, an increase in TWIA's market share, a more permanent market isolation of Texas' coastal regions from the rest of the state, and increased subsidies flowing from inland to coastal residents. The current system, while flawed, is preferable to SB 900.

SB 900 Increases TWIA's Permanence

The only way to solve the problem of TWIA's hold on the coastal windstorm insurance market is to allow private insurers to operate independently of TWIA to capture more market share. However, SB 900 moves Texas in the other direction, blurring the lines between the government and private sector. For instance, Section 6 of the bill calls for "market" incentives to increase "voluntary issuance of windstorm and hail insurance." However, these incentives would further disrupt and diminish the operation of the market, especially the suggested "possible" incentive that would make the issuance of a windstorm policy "mandatory … in conjunction with the issuance of a homeowners policy in the seacoast territory."

SB 900 Decreases TWIA's Transparency

Prior to changes made in 2009, TWIA's funding mechanism was fairly transparent; if Texas had a major storm that exceeded reserves, insurers picked up the tab but then were reimbursed for part of the costs by the state through premium tax credits. Under today's system of assessments and bonds, the dispersal of costs is not so easy to understand. SB 900 makes the system even more convoluted. For starters, the continued reliance on debt to pay claims maintains the difficulty in understanding that the premiums charges by TWIA may be insufficient to meet claims. But the multiple changes in to what type of debt is used and how that debt is paid off in Sections 8, 10, 11, 12, 26, and 27 make it even more difficult for the general public to discern who is responsible for covering the cost of damages from hurricanes along the Texas coast.

SB 900 Reduce TWIA's Actuarial Soundness

The underlying problem with TWIA is that the Insurance Code contains numerous restrictions that prohibit TWIA and the insurance commissioner from using actuarial sound principles in promulgating rates. For instance, Sec. 2210.355(i) restricts the ability of TWIA to use territorial ratings. Additionally, Sec. 2210.359 caps TWIA's rate increases and decreases. SB 900 exacerbates this problem in two ways. First, in Section 19 it mandates that sufficient reinsurance be purchased "in an amount equal to the probable maximum loss for the association for a catastrophe year with a probability of one in 100." The level of reinsurance should be determined by the market, not in statute. Second, the change to TWIA's board in Section 14 of the bill could in result less support on the board for actuarial sound rates. The end result of these changes would be to mask the inadequacy of the rating practices at TWIA. ✯

About the Author

Bill Peacock is the vice president of research and director of the Texas Public Policy Foundation's Center for Economic Freedom. He has been with the Foundation since February 2005. Peacock has extensive experience in Texas government and policy on a variety of issues including, economic and regulatory policy, natural resources, public finance, and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses, and consumers. Prior to joining the Foundation, Peacock served as the Deputy Commissioner for Coastal Resources for Commissioner Jerry Patterson at the Texas General Land Office.

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