

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



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. TWIA's market share along the coast grew from 17.9% in 2001 to 62% in 2011.

Yet the low rates that make TWIA an unbeatable competitor do not result in sufficient reserves to pay for the most likely claims caused by a major hurricane. At the start of the 2012 hurricane season, TWIA had somewhere between \$250 and \$275 million in the Catastrophe Reserve Trust Fund to pay claims. Average claims along the coast could range from \$4.4 billion in Galveston and \$3.7 billion in Corpus Christi to \$606 million in Brownsville.

The Facts

- TWIA's market share grew from 17.9% in 2001 to 62% in 2011.
- Here is the exposure for TWIA in three areas of the coast:
 - Galveston: \$37.9 billion
 - Corpus Christi: \$15.3 billion
 - Brownsville: \$4.9 billion
- In the case of a strike by a Class 4 hurricane, here is the average projected loss in each area:
 - Galveston: \$4.4 billion
 - Corpus Christi: \$3.7 billion
 - Brownsville: \$606 million
- At the start of the 2012 hurricane season, TWIA had somewhere between \$250 and \$275 million in the Catastrophe Reserve Trust Fund to pay claims.
- The number of TWIA policyholders increased from 68,756 in 2001 to 257,818 at the end of June 30, 2012.

Recommendations

- Eliminate the Texas Windstorm Insurance Association.
- Replace TWIA with a true provider of last resort, much like the Texas FAIR plan for automobile insurance policies.
- Require that the new windstorm rates be actuarially sound.
- Require that the new windstorm rates be higher than any competing private sector offers.

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).

Texas' Windstorm Challenge: Unprepared for the Worst by Bill Peacock, Drew Thornley, and Machir Stull, Texas Public Policy Foundation (Dec. 2007).

A Better Homeowners' Insurance Market Awaits by Drew Thornley, Texas Public Policy Foundation (June 2008).

"Can't Compete," *Letter to the Editor* by Drew Thornley, Texas Public Policy Foundation, Corpus Christi Caller-Times (Apr. 2008).

Q&A on Homeowners' Insurance Regulation in Texas by Drew Thornley and Bill Peacock, Texas Public Policy Foundation (Feb. 2008).

Missing the Big Picture in Homeowners' Insurance Debate by Drew Thornley, Texas Public Policy Foundation (Mar. 2008).

Homeowners' and Windstorm Insurance in Texas, PowerPoint presentation by Bill Peacock, Texas Public Policy Foundation (Oct. 2007).

