

Homeowners' and Windstorm Insurance in Texas



**BILL PEACOCK, DIRECTOR
CENTER FOR ECONOMIC FREEDOM**



Texas Public Policy Foundation

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Texas Homeowners' Insurance: A Brief History



- 1997 – Legislature authorizes form deregulation – TDI refuses to deregulate
- 1999 – Court reinterprets standard HO-A form: awards Melinda Ballard \$32 million for mold claim
- 2001 – Mold claims grow from 1,050 (2000) to 14,706; 1,300 percent increase & 70 percent of national total
- 2002 – Texas gubernatorial election heats up debate
- 2002 – TDI allows new forms; requires price cuts
- 2003 – Market crises over, political crisis reaches peak

Texas Homeowners' Insurance: A Brief History



- 2003 – Legislature enacts new file and use system, eliminates Lloyd's exemption from rate regulation
- 2003-2007 – TDI attempts to force rate reductions, several companies fight, one still fighting today
- 2005 - TDI sues Allstate to force payment of living expenses, despite clear language in form
- 2006 – Texas Select Lloyds Insurance Company declared insolvent
- 2007 – TDI rejects or threatens to reject three rate filings, Texas system operates as prior approval

Texas Homeowners' Insurance – Challenges



- TDI regulatory focus on “affordability,” not risk
- Inattention to solvency or adequacy
- Refusal to allow file and use: government seen as alternative to markets for price discovery
- Belief that markets can't handle homeowners' due to various characteristics: Inelastic demand & windstorm pool problem
- Politics – “Consumer” groups constantly attacking policymakers and pushing for regulation

Storm of 1900 - Galveston



Storm of 1900 – Galveston



- **Houston, Texas**
11:25 P.M.
September 9, 1900
To: Willis Moore
Chief, U.S. Weather Bureau
- **First news from Galveston just received by train which could get no closer to the bay shore than six miles (10 km) where Prairie was strewn with debris and dead bodies. About two hundred corpses counted from train. Large Steamship stranded two miles (3 km) inland. Nothing could be seen of Galveston. Loss of life and property undoubtedly most appalling. Weather clear and bright here with gentle southeast wind.**
- **G.L. Vaughan**
Manager,
Western Union, Houston

Storm of 1900 - Galveston



- **Deadliest natural disaster in U.S. History**
- **Entire island under water: 15 foot storm surge vs. 8.7 feet highest elevation**
- **Death toll – 8,000 plus**
- **3,600 hundred homes destroyed**
- **\$483 million in damages (2006 USD)**

Storm of 1900 – Galveston: In Denial



- National Weather Service never used “hurricane” to describe the storm: prohibited Cuban telegrams
- Last weather forecast: “For Eastern Texas: Rain Saturday, with high northerly winds; Sunday rain, followed by clearing”
- Business on island was conducted as usual: husbands left families at home in rising water to return to work after lunch
- Chief meteorologist Isaac Cline advised neighbors to stay in homes near beach rather than seek high ground

Texas Windstorm Insurance: In Denial



- **The Texas Windstorm Insurance Association is a pool of all property and casualty (P&C) insurance companies authorized to write coverage in Texas.**
- **Exposure: \$49.108 billion**
- **100 Year Storm at Galveston: \$3 billion in losses**
- **250 Year Storm at Galveston: \$5 billion in losses**
- **Available resources: \$1.084 billion**

Texas Windstorm Insurance



- **TWIA's Available Resources: \$1.084 billion**
 1. \$45 million from TWIA premiums for calendar year
 2. \$100 million assessment on insurance industry
 3. \$739 million from Catastrophe Reserve Trust Fund & reinsurance
 4. \$200 million assessed to insurance industry
 5. Assessment on insurance industry – impacts Texas General Revenue up to \$500 million per year through premium tax credit

Texas Windstorm Insurance



- **TWIA originally intended to be insurer of last resort, but now is first choice along the Texas Gulf Coast**
 - 2001 - 68,756 policyholders
 - 2007 - 173,404 policyholders

Texas Windstorm Insurance

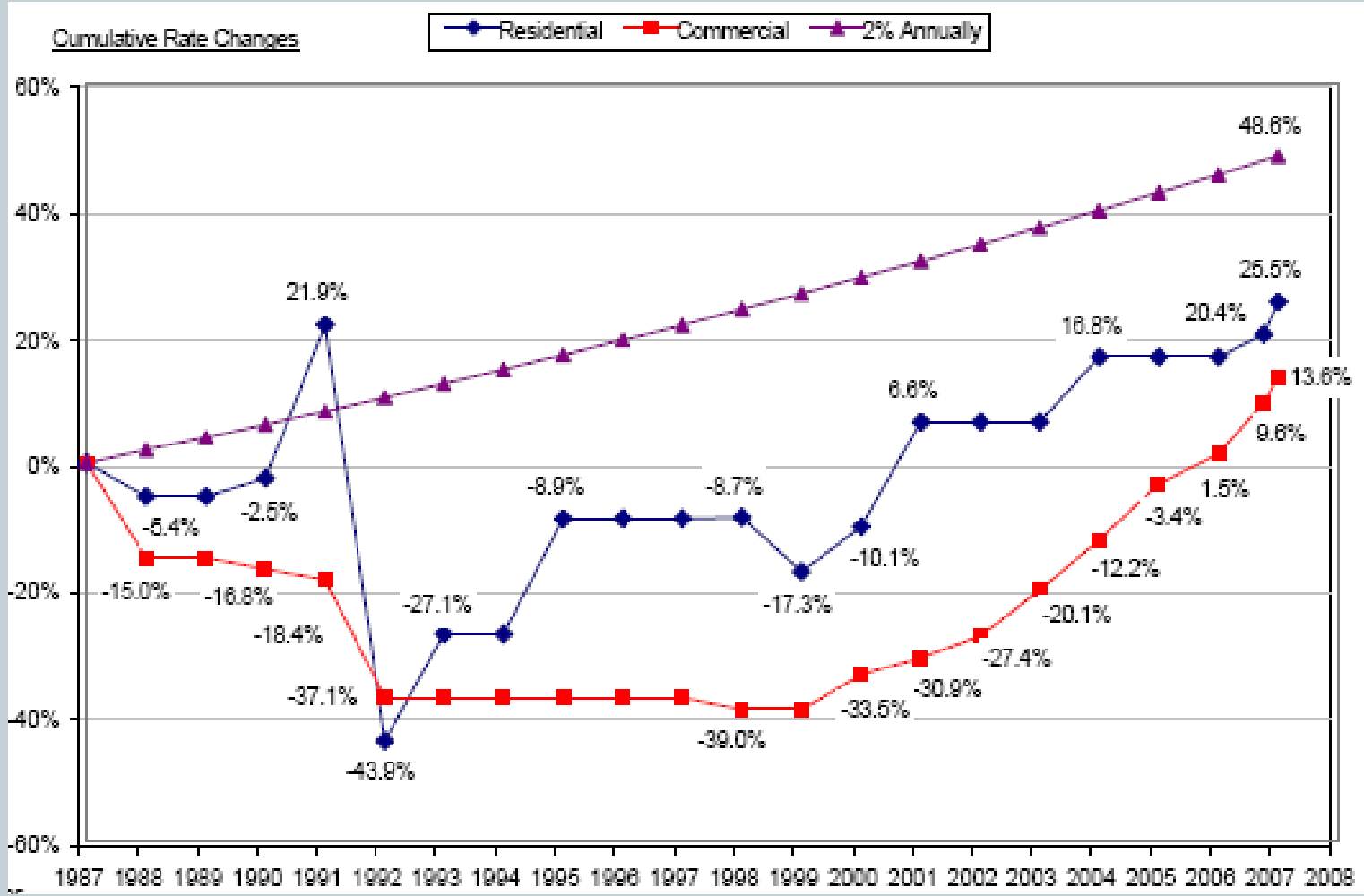


Billions of Total Liability



Data Source: Quarterly Statistical Report from Texas Windstorm Insurance Association

Texas Windstorm Insurance



Texas Windstorm Insurance - Challenges



- Modeling not allowed for determining rates; bases analysis on past 30 years
- TDI notes that TWIA has broken even or made profit for last 20 years
- Texas Legislature has failed to address problem in three successive sessions: 2003, 2005 & 2007
- Deadlock between coastal and inland delegations
- TDI is focused on minor issues and harmful policies

Texas Windstorm Insurance - Challenges



- **TDI is focused on minor issues and harmful policies:**
 - Bonds to replace, rather than enhance, reinsurance
 - Streamline TWIA renewal process and reduce renewal commissions based on actual savings to agents
 - Increase reporting requirements on engineers
 - Monitor TWIA expense ratios
 - Review insurer rates to ensure rates reflect any reduced loss exposure

Texas Insurance Solutions



- **Fixing Homeowners' Insurance**
 - TDI regulatory emphasis on fairness/solvency
 - Deregulate homeowners' insurance rates
 - Allow Texans to buy from companies licensed in other states
- **Return Windstorm to the Private Sector**
 - Make TWIA truly a provider of last resort
 - Require TWIA to base rates on 100 year storm
 - Allow TWIA to offer differentiated rates based on risk

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