

Texas Homeowners Insurance Complaints at 15-Year Low

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

Findings

- Consumer complaints about homeowners insurance in Texas are at a 15-year low.
- Choices abound for consumers shopping for insurance.
- Texas should increase the efficiency of the market by eliminating price and form regulation.

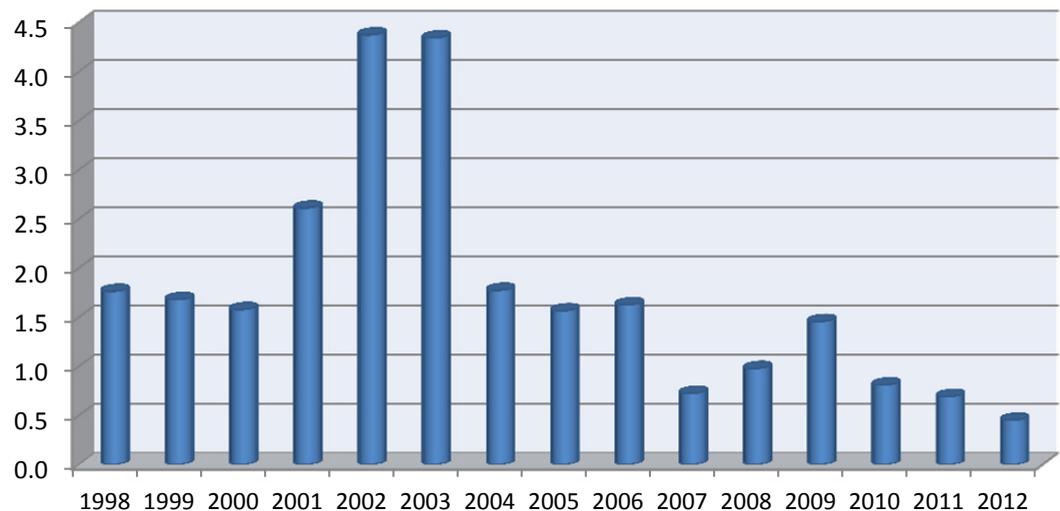
The most recent records of complaints kept by the Texas Department of Insurance (TDI) show that consumer complaints about homeowners insurance are at a 15-year low.

Each year, TDI releases its Homeowners Complaint Index tracking justified complaints against insurance companies that sell homeowners policies in Texas. The most recent release shows that complaints fell by 31 percent in 2012.¹

There were 319 complaints registered in 2012 out of 7,033,444 policies in force, equaling only 0.5 complaints per 10,000 policies—or 0.005 percent. There were 466 complaints registered in 2011.

The decline continues a trend in the reduction of consumer complaints. Except for a three-year period of increasing complaints caused by excessive regulation, consumer complaints have been trending downward for 15 years.

Complaints per 10,000 Policies



Source: Texas Department of Insurance Complaint Information

The main exception to the downward trend is when complaints increased from 814 in 2000 to 2,234 in 2003.² This was a period known as the mold crisis. But the mold crisis was an artificial crisis created when excessive regulation by TDI and the courts forced insurance companies to pay for mold remediation, even though neither Texas law nor the policies in force allowed for mold coverage.

As a result, mold claims under the state-mandated form grew from 1,050 in the first quarter of 2000 to 14,706 in the fourth quarter of 2001. The average cost of mold claims per policyholder per year increased from \$24.32 in 1999 to \$300.50 at the end of 2001, having peaked in the third quarter at \$444.35. From 2000 to 2003, companies writing homeowners' policies in the state shrank from 137 to 101.³

An increase in premiums rapidly followed. In 2001-02, premiums increased over 40 percent.⁴ All Texas homeowners had to pay higher rates, and many were forced into the residual market because of a lack of availability. This was what led to the increase in complaints.

Today, few consumers are complaining. Yet a spokesman for Texas Watch, a liberal advocacy group in Austin, recently stated the Texas insurance market “is extremely hard to shop” because “the insurance industry has dictated terms and can get away with unwarranted rate increases time and time again.”⁵ Yet the evidence shows this is not the case.

Texas consumers shopping for homeowners insurance can discover its price and availability with only a few clicks of a button just as they do when shopping for cell phones, electricity, and computers.

For instance, a Google search for “Texas homeowners insurance quotes” yields 11 ads and 10 links to providers and information on the first page alone.

Or three clicks on the Texas Department of Insurance’s website gets shoppers to a form where answering four quick questions brings up 32 quotes for homeowners insurance in the Austin area, 25 in Houston and 33 in Harlingen.⁶

The cost of coverage for a \$150,000 house on the TDI site ranges from \$652 to \$5,653. That’s a big difference dependent on several factors such as claims history, type of house, and consumer preference.

Texas Watch objects to the existence of the quotes on the higher end of this price range. Its spokesman said that the high price quotes from one particular company are part of a “history of unwarranted, excessive charges for homeowners insurance.”⁷

Yet we’ve already seen that in Texas’ competitive homeowners insurance market consumers have ready access to product information and can choose among dozens of companies and offers. If a company charges prices that consumers see as “excessive,” consumers will simply take their business elsewhere.

Consumer complaints are at a record low. Texas policymakers should take this opportunity to further increase the efficiency of the market by eliminating price and form regulation⁸ by TDI. ★

¹ Texas Department of Insurance, “Complaint Indexes by Calendar Year.”

² Bill Peacock, *Unintended Consequences: Regulation of Policy Forms and the Mold Crisis*, Texas Public Policy Foundation (Oct. 2008).

³ Ibid.

⁴ Ibid.

⁵ Alex Winslow, “State Farm changes far more than rivals to cover Dallas area homes,” *Dallas Morning News* (3 Aug. 2013).

⁶ Texas Department of Insurance, “Home Insurance Price Comparisons,” accessed 8 Aug. 2013.

⁷ Alex Winslow, State Farm.

⁸ Policy forms spell out the coverage provided by the insurance policy. Forms can be regulated for both content, i.e., the insurable events covered by the policy, and clarity.

