



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 69.5% in 2014. By March 2016, TWIA had over 268,832 policies in force.

Yet the artificially 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 2016 hurricane season, TWIA had somewhere around \$581.3 million in the Catastrophe Reserve Trust Fund to pay claims. Average claims along the coast could range from \$5.3 billion in Galveston County and \$4 billion in Nueces County to \$588 million in Cameron County. Altogether, TWIA's direct liability exposure was \$ 77.9 billion.

This inefficient and woefully inadequate funding scheme presents a grave risk to all Texans in the event of a catastrophe, from TWIA policyholders whose policies have no definite funding source, to private insurers who remain vulnerable to unlimited assessments, and average taxpayers who could see a potential impact on the general revenue fund.

The Facts

- TWIA's market share along the coast grew from 17.9% in 2001 to 69.5% in 2014.
- Here is the exposure for TWIA in three areas of the coast:
 - Galveston County: \$23.8 billion
 - Nueces County: \$14.5 billion
 - Cameron County: \$5 billion
- In the case of a strike by a Class 4 hurricane, here is the average projected loss in each area:
 - Galveston County: \$5.3 billion
 - Nueces County: \$4 billion
 - Cameron County: \$588 million
- At the start of the 2016 hurricane season, TWIA had somewhere around \$581.3 million in the Catastrophe Reserve Trust Fund to pay claims.
- The number of TWIA policyholders increased from 68,756 in 2001 to 268,832 at the end of March 2016.

Recommendations

- Eliminate the Texas Windstorm Insurance Association.

2017-2018 LEGISLATOR'S GUIDE TO THE ISSUES

- 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

[*The Great Windstorm Divide: Isolating the Texas Coast*](#) by Bill Peacock, Texas Public Policy Foundation (May 2015).

[*Texas' Windstorm Insurance System Still Does Not Work*](#) by Bill Peacock, Texas Public Policy Foundation (March 2013).

[*Next Steps to Reforming Texas Windstorm Insurance*](#) by Bill Peacock and Ryan Brannan (Nov. 2010).

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 (April 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 (March 2008).

