

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 51% in 2017](#). As of June 8, 2018, [TWIA had 221,770 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 end of the 2017 hurricane season, TWIA had \$900,387 in the Catastrophe Reserve Trust Fund to pay claims. As of June 2018, TWIA had received 70,209 claims after Hurricane Harvey that made landfall on August 25, 2017, as a Category 4 hurricane with sustained winds of 130 mph. TWIA expects total losses and loss adjustments to be in the ballpark of \$1.6 billion.

Direct insurance in force along the coast ranged from \$20.5 billion in Galveston County to \$12.2 billion in Nueces County to \$1.1 billion in Harris County. Altogether, TWIA's direct liability exposure was \$63.8 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 51% in 2017.
- Here is the exposure for TWIA in three areas of the coast:
 - Galveston County: \$20.5 billion
 - Nueces County: \$12.2 billion
 - Harris County: \$1.1 billion
- At the end of the 2017 hurricane season, TWIA had \$900,387 in the Catastrophe Reserve Trust Fund to pay claims but increased to \$2.9 million by May 31, 2018.
- The number of TWIA policyholders increased from 68,756 in 2001 to 221,770 at the end of June 2018.

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

[Texas Windstorm Insurance Association Overview](#) by Texas Department of Insurance (June 2018).

[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, Texas Public Policy Foundation (Nov. 2010).