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TX Legislature Plans to Discuss Hurricane Insurance

AUSTIN (AP) - Hurricane Ike was the big storm Texas officials feared would hit the coast - and the state's way of paying for it afterward.

When lawmakers convene Tuesday, they'll face the financial devastation left by the Category 2 storm that walloped the upper Gulf Coast on Sept. 13, devastating Galveston and nearby counties.

They'll look to restructure the state's windstorm insurance association, which is filling in the gap left by private insurers who stopped issuing policies in some Gulf coast counties, and consider whether to put money into a state disaster fund that Galveston officials found out the hard way was empty.

"The Legislature was wise in setting up the disaster fund, but we were cheap in not funding it," said Democratic Rep. Craig Eiland of Galveston. "A fund that doesn't have any money in it is pretty much like no fund at all."

Overall Ike costs could sock state government with a potential \$6 billion to \$8 billion bill, said House Appropriations Chairman Warren Chisum. Some of that impact may be spread over four years because of the way the Texas Windstorm Insurance Association is set up to allow insurance companies to seek state tax credits over time, Chisum said.

Total Hurricane Ike costs are estimated to top \$15 billion, but the state expects the federal government to cover most of that.

Revamping the windstorm fund has been on the minds of some legislators since private companies began pulling away from the Texas coast after hurricanes Katrina and Rita in 2005. The fund - replenished in large part by payments from private insurers - became the last resort insurer for homes and businesses in 14 counties.

Since Hurricane Ike, the windstorm fund has moved into the statewide spotlight.

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"Certainly we expect the Legislature will take that up very, very quickly once they convene," said Jerry Johns, president of the Southwestern Insurance Information Service, an organization representing the windstorm association and other Texas property insurers. "It's being talked about by just about every member of the Legislature."

More than \$750 million has been paid to windstorm association policy holders for claims from Hurricane Ike, and the final bill is not yet known, Johns said.

Those who want to restructure the fund say allowing it to issue bonds may be one way to bring in additional money.

Eiland, who serves on the House insurance committee, said he also wants the state to have its own reinsurance pool for the windstorm association. That means instead of buying reinsurance - which is backup insurance sold to insurance companies each year - the state pool would provide backup money that could be tapped when a costly storm strikes.

It would save money because the reinsurance wouldn't have to be bought each year, he said. The backup pool would just roll over and remain in place from year to year if it's unused.

He also wants to eliminate insurance companies' tax credits that prevent money from going into the state budget or make those credits only available far in the future so their budget effects would be negligible.

Lawmakers may address what type of damage the windstorm fund covers. Currently its policies cover wind and hail damage across the state. The consumer group Texas Watch criticized the windstorm association for not paying for storm surge damage in Hurricane Ike. The association insisted it would only cover destruction from wind, not hurricane-related water damage. Chisum said it may be time for lawmakers to take a stand on the question.

"We probably need to make some legislation that says it doesn't make any difference for insuring the house. So if the house flooded or the house blew away, if you're the insurer you've got to pay," he said.

Besides attempts to rework the windstorm account, there are calls on many fronts for a better state disaster fund.

Republican Gov. Rick Perry's office oversees a relatively small amount budgeted for disaster needs. He asked lawmakers to allocate \$50 million to a disaster fund in 2007, but they didn't.

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The governor will ask legislators this time for \$50 million to \$150 million to help pay for evacuations and other immediate costs that arise, said Perry senior adviser Mike Morrissey.

It would be used to reimburse local governments and vendors, like evacuation bus contractors, even if their expenses are covered by federal disaster aid that is slow in arriving. Then if federal dollars come in that money would replenish the state fund. It would not cover personal losses or expand existing reimbursement items, Morrissey said.

In 2007, lawmakers approved legislation to create a new disaster fund but it was never supplied with money. Galveston City Manager Steve LeBlanc said the city applied for help from the fund but learned only then there was no money in it.

"I find that unacceptable," LeBlanc said. "Something like this could have helped many coastal communities."

Numerous communities affected by the hurricane agree, Eiland said, noting that even if the Federal Emergency Management Agency covers a disaster expense, a local government often must provide 25 percent of the cost. In some cases communities wait years for FEMA reimbursements, he said.

"You think the city of Galveston has an extra tax laying around to make those huge upfront payments?" he said. "It seems sometimes FEMA forgets the 'e' stands for 'emergency,' and not 'eventually.' "

Meanwhile, the national group Protecting America wants Texas to create a "catastrophe fund" to prepare for a wide range of needs before, during and after a natural disaster. The money would be invested in financial markets and presumably grow over time, much like a 401K retirement plan, though the proponents acknowledge the current economic climate makes those types of financial investments risky.

Protecting America envisions creating a national catastrophe fund available to states that have created one for themselves, said retired Coast Guard Admiral James M. Loy, who co-chairs the group with former FEMA director James Lee Witt. If Texas creates such a fund it would position itself well for response to disasters, Loy said. "It's not a matter of if," he said, "it's a matter of when."

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