



Southwestern Insurance Information Service

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## Insurance News

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### Companies plan for losses

**Re: "Coverage at what cost? Homeowners pay higher insurance premiums, yet many policies limited," week four of the four-week "State of Neglect" series that concluded last Sunday.**

Insurance is not priced the way other products and services are priced. The premiums collected today are not used to pay for losses that have already happened. Doing so is prohibited in Texas.

Instead, premiums you pay today go to help pay for losses that will occur in the future. Texas has experienced billion-dollar-plus losses from catastrophes in nine of the past 27 years, and the average annual catastrophe losses are \$940 million.

Insurance is a business not unlike other forms of commerce, where a reasonable return on investment is fundamental to the principle of a market-based economy. A considerable investment is needed to start, run and grow insurance companies, with no guarantee of success.

No one would be willing to take on those kinds of risks unless there was a reasonable expectation of earning a return on investment commensurate with the risk of a catastrophic loss.

*Jerry Johns, President, Southwestern Insurance Information Service*

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