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# INSURANCE NEWS

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## Editorial

### Is it time to drain the windstorm pool?

By LOREN STEFFY Copyright 2010 Houston Chronicle

If only the claims could have been settled as quickly as the lawsuits.

The Texas Windstorm Insurance Association, facing about 1,000 lawsuits from homeowners over its handling of insurance claims after Hurricane Ike, has begun a flurry of settlements.

The settlement binge comes, not surprisingly, as key TWIA managers were facing court-ordered depositions that might have revealed more embarrassing details about mishandled claims.

Of course, we already have a pretty good idea of what was going on within the state's insurer of last resort for coastal wind coverage. The lawsuits have uncovered internal TWIA e-mails that appear to show the insurance pool used below-market rates in estimating repair and materials costs, limited payouts on certain types of claims and discouraged policyholders from reopening claims that had been denied.

TWIA told the Chronicle earlier this week that settling the cases is in everyone's best interest.

Now, facing public criticism, mounting regulatory scrutiny and the possibility of damaging testimony from its own employees, TWIA has had a change of heart, settling as fast as it can, as if papering over the problems is the same as fixing them.

"You wind up with an organization that did everything it could to underpay if not outright deny legitimate claims," Alex Winslow, executive director of Texas Watch, an Austin-based consumer group that specializes in insurance issues, told me recently. "There is a real lack of professionalism at TWIA and a real lack of respect for their customers."

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In other words, the organization the state created to counter the actions of private insurance companies is now itself acting like a private insurance company.

The Texas Legislature created TWIA to sell insurance to those along the coast who couldn't find policies in the private market. Now, it comprises almost 230,000 homeowners.

The problem, though, is that private insurers still wield too much influence over TWIA. The pool is funded, in part, by assessments from private insurers who choose not to write policies on the coast. Even though the state grants the insurers tax credits to offset those payments, they still have to front the cost.

The fewer claims TWIA pays, the less often it has to ask private insurers for more money.

Ike, coming after two previous storms, basically wiped out TWIA's funds, which only shows the system is far better for insurers than policyholders.

The state revamped the funding mechanism last summer, but TWIA's impact reaches far beyond the coast. It speaks to a system of regulation that for far too long has put insurers ahead of policyholders.

As egregious as TWIA's handling of claims after Ike may have been, a far bigger problem is the pool's continued existence.

TWIA exists because the state allows large private insurers to cover only certain portions of the state. In other words, they get to cherry-pick the most profitable customers while turning coastal residents over to a pool that concentrates risk and, ultimately, results in a higher cost of coverage than if that risk were spread across a larger pool of policyholders.

Rather than setting up narrow risk pools, the state should simply require that large insurers write policies for the entire state, rather than allowing them to pick markets by counties or regions.

The insurance industry has long argued that mandating statewide coverage would prompt companies to leave, a threat that rings more hollow now than ever.

In the worst economy in two decades, it's unlikely a major insurer is going to abandon a state in which it makes healthy profits, especially when that state's population is growing faster than any other's.

"The insurance companies are making an enormous amount of money in Texas," Winslow said. "Texas is entirely too profitable for them to pull out."

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If, on the other hand, the state is going to continue to shoulder what amounts to the property and casualty equivalent of a public option, then the state-created pool should operate more like a safety net and less like a private insurance company.

Maybe then claims could be addressed as quickly as lawsuits are now.

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