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Insurance News

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Proposed windstorm changes could affect rainy day fund, coastal residents

Coastal homeowners would pay more for windstorm insurance and be required to purchase federal flood coverage under a sweeping plan filed this week by the chairman of the House Committee on Insurance.

In the event of a hurricane driving down the balance in the state's last-resort insurance fund overseen by the Texas Windstorm Insurance Association, Rep. John Smithee's proposal envisions the state lending up to \$1.5 billion from its "rainy day" fund to cover claims.

The fund, which serves Texans in 14 coastal counties and a portion of Harris County near Galveston Bay, was depleted last year by claims associated with Hurricane Ike.

"We have to do something," Smithee said. "We're going to have significant problems with a major storm this time," both in initially covering claims and ultimately replenishing the TWIA fund.

Smithee said the plan was deliberately filed as [House Bill 911](#) to signify that windstorm coverage is an emergency.

Without action, Smithee said, it's questionable whether TWIA will have enough money to buy reinsurance to cover claims exceeding the balance in the fund, which is built on premiums paid by residential and commercial property owners.

Under current law, when the fund empties, insurance companies are assessed a share of the remaining cost of claims. The companies, in turn, are allowed to recover their assessments by charging customers for a share of what they pay and writing off the rest of the costs through state tax credits.

Smithee's proposal also would permit the TWIA to file rate changes with the Texas Department of Insurance and implement them. Under current law, the insurance commissioner must approve rate changes before they're imposed.

Smithee, who nearly achieved approval of windstorm fund proposals in 2005 and 2007, said he expects coastal legislators to object afresh to rate increases and coverage changes affecting their constituents. He said he believes that's not reasonable because insurance costs should be higher in high-risk areas.

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Bill Peacock of the Texas Public Policy Foundation, which advocates lower taxes and smaller government, called the approach a good step in the right direction, though he said that all its parts need to pass for his assessment to stick.

Among aspects of the proposal that would mark a change from current law:

—Windstorm insurance coverage would be capped at \$250,000 per residence. The existing cap exceeds \$1 million. Smithee said some houses with TWIA coverage are vacation homes. Such owners, he said, currently pay a rate highly subsidized by other rate-payers and the state.

—Applicants for windstorm coverage would face a 60-day waiting period before seeking payment for any losses. Smithee said the change would allow the association to build up premium income before it incurs a loss. TWIA now bars applicants from coverage if they apply after a hurricane has crossed a certain point in the Gulf of Mexico.

—Windstorm insurance rates would vary by geographical location, meaning coastal residents would pay more than residents inland.

—The windstorm association would be required to purchase reinsurance protecting the state against future losses that exceed money accumulated in the fund. There's no reinsurance requirement in state law now, though the association has been buying reinsurance.

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