



Southwestern Insurance Information Service

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Insurance News

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Hurricane Ike Painful For Texas Insurers

AUSTIN – Texas insurers, slammed by one of the most destructive hurricanes in state history, recorded massive losses last year, ending five straight years of hefty profits.

A single beachfront home stands amid the wreckage of neighboring houses in Gilchrist after Hurricane Ike hit the area in September. New financial reports released by the state Department of Insurance on Monday indicated that most companies took a big hit in 2008 primarily because of Hurricane Ike, which blasted Galveston and the Houston area in September.

In terms of property damage, Ike was the costliest in Texas history, but there were also sizable losses from hailstorms in North Texas last spring and Hurricane Dolly in South Texas last summer.

Overall, the industry had an average loss ratio of 127 percent in 2008, according to the state reports. In other words, insurers paid out all premiums collected plus an additional 27 percent from reserves to cover property losses. A loss ratio of 60 percent is considered a good target for profitability, and companies had been below that percentage for the previous five years.

The losses come just as the Legislature considers changes to insurance regulation. Years of hefty profits and reports that consistently show Texans paying the highest homeowner rates in the nation have prompted some lawmakers to consider major changes in the system.

But industry representatives pointed to the numbers Monday as evidence for their arguments that home insurance rates in Texas are justifiable.

"We have our good years, and then we have our storm-plagued years," said Mark Hanna of the Insurance Council of Texas, an industry group. "We can be thankful that Texas had a string of good years prior to 2008 so that the industry was able to meet its financial obligations in the aftermath of the weather-related catastrophes" last year.

Consumer groups countered that five straight years of solid profits for Texas insurers should have more than prepared companies to handle the setbacks of 2008. They also questioned whether the data released by the insurance department overstated the adverse impact on the industry.

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Alex Winslow of Texas Watch, a consumer group active in insurance issues, said the figures don't reflect the actual claims paid "after the insurance industry employs its well-documented deny, delay and underpayment tactics."

Winslow also said another set of figures released by the department – combined loss and expense ratios – included industry costs such as "bloated overhead expenses, CEO salaries and fat agent commissions that consumers shouldn't have to pick up the tab for."

Hanna said the new data from the insurance department show that "the residential property insurance market remains a losing proposition for insurers over the past 16 years." The report indicated the cumulative loss ratio from 1992 to 2008 in Texas was 68.4 percent.

Jerry Johns of the Southwestern Insurance Information Service said that not only hurricanes on the coast, but also hailstorms in North Texas – the "hail capital of the world" – are driving the huge sums that insurers are paying out to cover losses.

"Hardly a year goes by that we don't have significant, weather-related losses," he added.

Testifying before a Senate committee Monday, state Insurance Commissioner Mike Geeslin said that while the loss ratios for last year were very high, the cumulative loss ratio for the past six years was just over 58 percent, right at the desired profitability level for companies of 58 percent to 60 percent.

"Insurance markets can take some stress and still come back as long as that stress is spread out over time," he said, noting that insurers also had to deal with the losses in their stock investments. Some saw a minus-40 percent return on equity last year.

Consumer groups are pushing for a change in the law that would require companies to get prior approval from the state before increasing rates, a proposal strongly opposed by the industry.

Texas now uses a file-and-use rate system for auto and home insurance that allows companies to immediately increase premiums without prior state approval once they notify the Texas Department of Insurance. The department can challenge any increase it deems excessive.

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