



Southwestern Insurance Information Service

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## Insurance News

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### Coastal home insurance fund needs patching

#### Resources

##### Rapid Growth

As private insurers pulled out of the coast, the Texas Windstorm Insurance Association has grown its exposure.

- **2001:** 68,756 policies, \$13.2 billion
- **March 31, 2009:** 226,305 policies, \$62.2 billion

##### Southwestern Insurance Information Institute

As hurricane season approaches, Texas lawmakers are trying to figure out how to shore up the state's windstorm insurer of last resort, and if one state senator has his way, that could mean more expensive policies for coastal property owners.

Those insured by the state-created Texas Windstorm Insurance Association would pay a 20 percent surcharge on their policies for one year, under SB 14 by Sen. Troy Fraser, R-Horseshoe Bay. Others living in the 14 coastal counties and a sliver of Harris County but not insured by TWIA would pay a 3 percent surcharge.

The bill also creates a 20 percent surcharge for second homes on the coast, repeals an annual 10 percent cap on the association's rates hikes, and levies up to \$400 million in annual charges on insurers statewide — costs they can pass on to consumers across Texas.

"It's going to be very much more expensive, and depending on how many of those surcharges stay in the bill, it could hurt the entire coastal economy," said Lee Otis Zapp Jr., a retired Galveston resident who has already seen his rates climb in recent years.

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A substitute bill from Fraser is expected this week, but it's unclear how it will change. He couldn't be reached for comment Monday.

TWIA has grown dramatically in recent years as private insurers limited selling along the coast. And last year, it ran through all its funds to pay for claims from hurricanes Ike and Dolly.

TWIA, which provides coverage to homeowners in 14 coastal counties and a part of Harris County who can't find it elsewhere, must now raise funds from private insurers to pay claims when the next hurricane strikes Texas.

In turn, the industry can take state tax credits for any amount above the first \$300 million it gives the association to help it pay claims.

Lawmakers have several proposals on the table including eliminating industry tax credits. Some bills allow the association to issue bonds, accept state disaster recovery funds and use catastrophe models similar to what private insurers use to set rates, which could potentially mean higher policyholder rates.

TWIA has long complained it is underfunded and its policies underpriced, but previous attempts to reform the association's funding ended in a stalemate as the debate pitted inland lawmakers against coastal ones.

Tensions ran high again at a House Insurance Committee hearing last week.

Rep. Todd Hunter, R-Corpus Christi, threatened to bring bus loads of constituents to oppose windstorm rate hikes that hit heavily on coastal residents.

"Should the coastal counties and the counties that edge up next to them bear the brunt?" of funding TWIA, asked Hunter.

The issue is getting more attention this year with the state budget under pressure and insurance companies already getting \$230 million in tax credits due to payouts in the last hurricane season.

TWIA expects to pay out more than \$2 billion for Ike.

At last week's House hearing, Rep. Craig Eiland, D-Galveston, said lawmakers should look at both short-term and long-term funding mechanisms, including reinsurance, bonds and "areas not traditionally looked at."

"We can't fund TWIA through excessive charges to the coast and stop all economic activity," said Eiland, whose bill would eliminate tax credits insurance companies get in exchange for paying assessments

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Rep. John Smithee, R-Amarillo, has introduced HB 4733, similar to his bill that passed the House last session but faced opposition because it allowed higher rates for coastal residents.

The bill would also remove any guarantee by the association that policyholders would be able to collect fully for claims if the association runs out of money.

He calls the bill a starting place but acknowledged at last week's hearing that some of its provisions, such as raising money through bonds, are no longer viable because of the economy.

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