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EDITORIAL

Texas taxpayers, policyholders at risk with hurricane fund

Legislature takes on problem of insurance against hurricanes and must decide how much of the risk should rest on the entire state, not just on coastal residents and businesses.

Over the past few weeks, Texas coastal communities have been aroused to fury over proposed legislation that, they say, would make insurance against windstorm damage — hurricanes — unaffordable or even unavailable and thus ruin their local economies.

People in the rest of the state should not dismiss this as just a coastal issue.

The cost of insurance against windstorm and hail damage for coastal residents and businesses is shared by policyholders and taxpayers all across Texas. That's not necessarily a bad thing — but there must be limits, and that's where the controversy lies.

At the center of the political storm is Rep. John Smithee, chairman of the House Insurance Committee. Smithee, a Republican from Amarillo, has pushed for years to limit the exposure of state government and Texas property owners to the cost of covering hurricane damage.

The problem is the Texas Windstorm Insurance Association, a state-created insurer of last resort for coastal county residents and businesses that can't get insurance against windstorm and hail damage because private insurers shun the risk — as they started doing especially after Hurricane Rita in 2005.

Jim Oliver, general manager of TWIA, says the association has 55 percent of the residential market along the Texas coast — 74 percent in Galveston County and 60 percent in Nueces County (Corpus Christi), and 98 percent of the market on the islands. Today, TWIA has about \$68.4 billion in insured coverage.

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For years the association has gotten by mostly on premiums and investments alone, but claims paid for damage caused by Hurricanes Ike and Dolly last year blew the association's \$470 million reserve. In all, TWIA will pay out about \$2.3 billion in claims, Oliver said. (Reinsurance — insurance for insurance companies — also helped pay claims.)

Critics say TWIA is effectively bankrupt.

But TWIA will be able to pay any claims from future storms because it can reach into the pockets of insurance companies, if necessary.

It can assess the state's property and casualty insurance companies — whether they provide coverage on the coast or not — up to \$300 million to help meet claims. Of course, insurers will take those assessments into account in setting their homeowner rates throughout the state.

TWIA also can assess insurers any amount over \$300 million — but, over a period of years, they in turn can deduct the assessed amount from the taxes on insurance premiums they owe the state. Those deductions will cost the state treasury — taxpayers — about \$250 million for the recent hurricanes, Smithee estimates.

What worries Smithee and others is the hurricane that would hit Galveston dead-on, roar up the ship channel and go through Houston. That worst-case scenario would mean a hit of up to \$10 billion to TWIA, he said.

One proposal from Smithee that particularly aroused the coast was to limit TWIA coverage for a home to \$250,000, versus the current cap of \$1.7 million. With that kind of limit, coastal interests say, home building might simply stop because no one could get a mortgage, and businesses couldn't function without coverage.

On the other hand, in the 14 coastal counties TWIA serves, it cannot charge a higher rate for a homeowner who lives directly on the beach than for one who lives 20 miles inland. That's not right.

On Tuesday the House Insurance Committee is holding what is likely to be a packed and lengthy hearing on bills by Smithee; Rep. Craig Eiland, D-Galveston; and Rep. Todd Hunter, R-Corpus Christi, to shore up TWIA's reserve fund.

Coastal Texas is a valuable part of the state and it should not be expected to carry all the insurance risk by itself. But there's a reason insurers are shunning the risk, and taxpayers and policy holders in the rest of the state cannot be expected to make up the entire difference.

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