



Southwestern Insurance Information Service

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## Insurance News

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### **Some homeowners turn to alternative insurers But 'surplus lines carriers' aren't regulated, backed by Texas**

#### **RISING RATES**

Here's the latest statewide average rate hike's announced by the state's top insurers

**Company, increase, date implemented**

**State Farm: 8.5%, Sept. 1**

**Allstate: 3.7%, July 13**

**Farmers: 9.9%, June 16**

**Nationwide: 8.7%, Sept. 13**

**Travelers: 4.5%, Feb. 28**

**Texas Farm Bureau: 5.9%, April 15**

**Texas Department of Insurance**

#### **DWINDLING COVERAGE**

*For Additional Information:*

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**Insurers are limiting what they sell near the coast. Here's what some insurers have done in Harris County**

**Allstate stopped selling new policies and stopped renewing coverage on thousands of non-brick homes**

**Columbia Lloyds not selling new policies in southeast Houston**

**Nationwide plans to non-renew 5,300 Houston-area policies starting Sept. 17**

**National Lloyds stopped selling new policies July 1**

**Chronicle Research**

**The state's largest home insurance companies have hiked rates or announced increases this summer, hitting coastal areas such as Harris County the hardest. Meanwhile, others have pulled out, stopped selling new policies, or stopped selling windstorm coverage in the county.**

**As a result, some homeowners are turning to companies, known as "surplus lines carriers," that aren't regulated or backed by the state. If the company goes belly up, there's no guarantee that policyholders' claims will get paid.**

**Policyholders of traditional companies, like State Farm and Allstate, would be paid by the state guaranty fund should the companies go under.**

**"People really need to be educated about what they're buying, and if the agent's not telling them, it's dangerous," said Randy Templeton, an insurance agent in north Houston who tries to avoid selling consumers surplus lines coverage.**

**Insurers blame increasing claims and construction costs as well as higher risk of catastrophes in the area for their retreat from the coast. But for homeowners who turn to surplus lines companies, experts said, it often means paying more for less coverage to insurers who generally charge more because they take on customers other companies won't accept.**

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**Surplus lines companies are sometimes licensed in other states or countries, but aren't subject to Texas law on the rates they charge. Twenty-five such companies sell home insurance in Texas, including England-based Catlin Insurance and Markel International Insurance.**

**State insurance regulators receive annual statements from the companies to make sure they have minimum capital requirements, but regulators don't conduct audits or detailed financial analysis, according to the Texas Department of Insurance.**

**"I certainly would encourage the insurance commissioner to keep an eye on this and make sure it doesn't become a trend whereby insurance companies are trying to make an end run around any sort of rate oversight," said Alex Winslow, head of consumer group Texas Watch.**

**The companies may not be licensed in Texas, but they are required to have a minimum of \$15 million in capital available after their expenses have been paid, often more than other companies, said Phil Ballinger, executive director of the Surplus Lines Stamping Office of Texas, a state-created non-profit that oversees the out-of-state insurers.**

**"Surplus lines are known as the relief valve. If there is no surplus lines market, people couldn't get insurance," he said, noting that the last time homeowners turned to such insurers in large numbers was in 2003 when insurers faced large losses on mold claims.**

### **Exposure on coast**

**Despite being an alternative, surplus lines companies also will only sell so many policies along the coast, he said.**

**"They too are concerned about their exposure," Ballinger said.**

**Overall, the total premiums collected by surplus lines companies have declined in recent years. But since January, at least seven have reported increases, according to data collected by state regulators. And two new companies have started selling homeowners insurance, signaling potential growth in the market.**

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**“We're always concerned about availability on the coast,” said Jerry Hagins, a spokesman for the Texas Department of Insurance who noted that the seven companies could be indicative of a trend, but it's not showing up in statewide data yet.**

**Still, it could be building as other companies pull back and raise rates.**

### **Limits in Harris County**

**Allstate and National Lloyds have stopped selling new policies in Harris County, while others such as Nationwide and Hartford are doing so on a “limited basis,” but spokesmen for the companies declined to elaborate.**

**“After Ike everybody re- assessed what the right amount of business was given that Ike was a category 2 and not 2 a 5,” said Parker Rush, CEO of Republic Insurance, which has started to rein in its growth in Harris County.**

**State Farm and Farmers haven't restricted selling in Harris County, representatives said, but both have raised rates this year, as has Allstate.**

**“Lots of companies are dropping business indirectly by increasing the price,” said Mabel Bryant, an agent in northwest Houston. “If it goes up 50 percent or more, they're telling you to go somewhere else.”**

**Sometimes Bryant refers homeowners to the Texas FAIR Plan Association, which sells coverage to those who can't find it elsewhere. But it too is often more expensive than the private market and offers limited coverage, discouraging many homeowners, she said.**

**The number of policyholders in the FAIR Plan has dropped to about 45,000 in Harris County as of June 2009, down from nearly 52,700 in June 2008.**

**The decline may indicate the surplus lines market is absorbing some consumers, said Jerry Johns, a spokesman for Southwestern Insurance Information Service, an industry trade group. But it also signals that the overall home insurance market in Texas is competitive, he said.**

**What's true for the state isn't necessarily true for those closer to the coast.**

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### **'GO BEGGING'**

**Some traditional companies, including Columbia Lloyds, aren't selling new policies in southeast Houston.**

**"For folks living in the southeast quadrant, they're really going to go begging and surplus lines is the only for them to go," said Jeff Cross, with Houston-based broker Wortham Insurance.**

**He worries it may only get worse because insurers usually take up to a year to settle claims and evaluate their losses to determine if they need higher rates and should limit selling after a major catastrophe. "I don't think the other shoe has quite dropped yet."**

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