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Do the right thing for consumers

By STEVE POCIASK

It is time for some straight talk about homeowners insurance in Texas. Most consumers are not aware that their premiums are higher than they should be because state politicians chose to make some consumers subsidize others.

Over the years, the state insurance commissioner has not allowed insurers to set coastal rates more in line with risks, instead requiring that premiums be set below cost. No matter the industry or service, when government officials set rates below costs, shortages always result. In this case, below-market pricing has led to the lack of available insurance for consumers living predominantly in coastal areas. In order to fix these shortages caused by government regulations, two programs were instituted to make insurance more available in some coastal areas — namely, the Texas Wind Insurance Association (TWIA) and the Texas Fair Access to Insurance Requirements (FAIR).

But here lies the problem: the Texas Insurance Commissioner, appointed by the governor, has the authority to approve or disapprove all rate filings submitted by either TWIA or the Texas FAIR Plan. Consequently, the current rates for these two programs are far below the actual cost of insuring these properties, leaving other policy holders in Texas responsible for picking up the real costs. This is because when claims exceed premiums for these state-run plans, private insurance companies are assessed the difference, which they charge to their other policy holders.

Gov. Rick Perry and Insurance Commissioner Mike Geeslin need to do the right thing for Texas consumers, not the politically expedient thing, and allow these rates to become more aligned with the costs.

Charging predatory rates reduces competition and consumer choice, encourages more coastal development at the detriment to inland development, reduces natural coastal storm barriers, increases

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storm loss that other consumers must reimburse, raises insurance rates across the state, and puts more lives at risk.

The TWIA board has recommended a 10 percent premium increase to bolster the severely financially distressed wind pool fund, an increase that experts estimate to be only a partial step towards solvency. The Texas FAIR Plan board (made up of the same people as the TWIA board) is proposing a 19.5 percent increase in premiums but will still leave the plan more than 40 percent in the red. While it is easy for the commissioner to hold prices artificially low in the name of saving some consumers money, this is merely a bait-and-switch tactic that makes the vast majority of Texas insurance consumers secretly pay more by underfunding these programs.

The FAIR Plan allows homeowners to have up to seven insurance claims in a three-year period before they are rejected, a fact that demonstrates the foolishness of these plans in not addressing the problem, only exacerbating it. The bottom line is that both the FAIR Plan and TWIA should have rates more in line with risk and discourage, to paraphrase the New Testament, a foolish man from building on sand. The governor and commissioner need to stop the foolishness and make these programs financially solvent.

The problem with coastal insurance in Texas is not one of market failure but government failure; and the shortage of available insurance that these programs seek to correct is primarily the product of the commission's own doing.

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