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Storm insurance irresponsibly cheap

By Matthew Glans

Contributor

Texas is a model of fiscal stability compared with most other states — with one glaring exception. Texas is one hurricane away from bankrupting its state-run wind insurance pool.

The Texas Windstorm Insurance Association, Texas' insurance market of last resort for coastal property owners who don't have private insurance, is living on borrowed time and borrowed money.

Coastal insurance rates are priced below market and below the risk posed by coastal properties.

This makes coastal voters happy, but it is unfair to inland taxpayers and fiscally irresponsible. The huge damage claims paid after Hurricane Ike wiped out TWIA reinsurance and catastrophe reserves.

Texas legislators struggled last session to keep coastal voters happy and also stabilize TWIA with new funding sources. The Legislature made some changes to windstorm law that improved the process, but rates remain artificially low.

The TWIA's own experts recommended a 19 percent increase on commercial properties and 26 percent increase on residential properties, but state law limited the insurer's board to recommending a maximum increase in coastal rates of only 10 percent.

The rate-hike approval now sits with Texas Insurance Commissioner Mike Geeslin. He can do the right thing by approving the full increase or respond to narrow populist pressure and deny the increase.

This year, Texas earned a "D" from The Heartland Institute in its annual 50-state report card on property and

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casualty insurance policies.

One reason for this poor grade is the politicization of the state's hurricane insurance market. Not allowing insurers to set risk-based rates is fiscally irresponsible and political pandering at its worst.

Using insurance rates as a political tool forces some ratepayers to subsidize others, destabilizes the capital markets that will be called upon to stabilize the state's economy after a major storm and can cause companies to flee the state.

This isn't just a theory. Similar efforts by Gov. Charlie Crist of Florida earned his state an "F-minus" on Heartland's insurance report card and have driven most of the state's largest property insurance companies out of the state, including State Farm.

The Florida Legislature passed a measure giving Crist a chance to allow insurers more freedom in setting risk-based rates, but he took the fiscally irresponsible populist position and vetoed the bill. Now Florida is one hurricane away from needing a federal bailout or being forced to impose huge tax increases on its residents.

Texas Gov. Rick Perry should encourage Geeslin, his appointee, to approve the full rate increase. This would be a good start toward scaling back TWIA and allowing rates to reflect risk, encouraging responsible building practices and competition that will lead to a greater variety of products at lower prices. That would be good for consumers and taxpayers alike.

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