



Southwestern Insurance Information Service

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FACT SHEET

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Bring an end to misleading rhetoric about Texas homeowners insurance costs

Allegations that Texas homeowners insurance rates are the highest in the nation are riddled with deceptive information intended to mislead consumers and create a false impression that serves only one purpose and that is to confuse end users of insurance.

The Texas Department of Insurance found that homeowner's insurance prices in the state are less than those in Louisiana and Florida partly because those states do not include premiums paid into their markets of last resort. Texas includes wind pool risks in the Texas Windstorm Insurance Association, the market of last resort. Markets of last resort are for those consumers unable to obtain homeowners insurance from private insurers.

Texas home insurance costs are indeed more expensive than other states but one must consider Texas is prone to just about every weather-related peril imaginable with the possible exception of earthquakes.

Texas had the greatest number of wildfires in the country during 2008 with over 16,000 wildfires burning over 1.6 million acres. Also during 2008 Texas had 98 tornadoes, the eighth highest in the country, and two hurricanes making landfall in Texas that same year.

During 2008 insurers paid a total of \$37 billion in property and casualty insurance claims in Texas. According to the Federal Emergency Management Agency, Texas leads the nation in the number of declared disasters.

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Texas also led the nation in 2009 with \$2.45 billion in catastrophe losses even with no hurricanes striking the state. The total U. S. catastrophe losses in 2009 were \$10.5 billion.

Further contributing to the price of insurance is the rising cost of replacing or repairing a home. Until the last year or so the cost to restore or rebuild a home rose significantly.

The TDI study also revealed that the average annual homeowners premium in 2007 was \$1,251 in Texas which was less than the \$1,401 average premium in Louisiana and \$1,560 average premium Floridians pay.

Another study by the Independent Insurance Agents of Texas underscored the TDI examination and concluded that the average rate per \$1,000 in value for a home in Texas was \$8.65 per \$1,000 in 2002 compared to \$6.35 per \$1,000 in 2008.

Insurers collect premiums for two very distinct reasons. The first reason is to have the financial strength to pay claims and the second is to cover administrative cost associated with operating an insurance company.

Texas homeowners insurers have lost money in the state for the past 10 years. Between 1999-2008 the return on net worth in Texas was -0.8 percent compared to 4.6 percent countrywide.

Insurance is not priced the way other products or services are priced. The premiums collected today are not used to pay for losses which have already happened. Doing so is strictly prohibited in Texas. Instead, the premiums one pays today go to pay for losses which will occur in the future.

The insurance industry is a business not unlike other forms of commerce where a reasonable return on investment is fundamental to the principle of a market-based economy. A considerable investment is needed to start, run and grow a business, with no guarantees of success.

Homeowners insurance is especially risky because one significant sized catastrophe, or multiple catastrophes like Texas saw in 2008, has the potential to put an under funded company out of business leaving thousands of consumers in the lurch.

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Those who continue to criticize insurance pricing would better serve consumers by carefully analyzing the relevant facts which contribute to the cost of insurance in Texas and end the practice of planting seeds of mistrust, doubt and suspicion.

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