



Windstorm Insurance



The Issue

The Texas Windstorm Insurance Association (TWIA) provides windstorm and hail coverage in the 14 coastal counties and a few other specially-designated areas. All property insurers in Texas must participate in TWIA and must help pay losses. Although TWIA is thought of as a program to provide windstorm insurance coverage only to those who could not purchase insurance in the voluntary market, it is no longer an insurer of last resort.

TWIA's unrealistically low rates have made TWIA an unbeatable competitor that is crowding out the private market. TWIA's market share along the coast grew from 17.9% in 2001 to 57.2% in 2010. Similarly, in 2001 TWIA had 68,756 policies in-force. By February 2014, that had grown to 270,487.

Not surprisingly, the artificially low rates that make TWIA an unbeatable competitor do not result in sufficient reserves to pay for the most likely claims caused by a major hurricane. At the start of the 2014 hurricane season, TWIA had around \$211 million in the Catastrophe Reserve Trust Fund to pay claims. Claims along the coast for large storms could range from \$4.7 billion in Galveston and \$3.9 billion in Corpus Christi to \$598 million in Brownsville. Altogether, TWIA's direct liability exposure was \$ 76.9 billion.

This inefficient and inadequate funding scheme presents a risk to all Texans in the event of a catastrophe. TWIA policyholders have policies with no definite funding source. Private insurers remain vulnerable to large assessments. And average consumers and taxpayers could see an increase in their homeowners insurance rates or be forced to subsidize losses with tax dollars.

The Facts

- TWIA's market share along the coast grew from 17.9% of all residential properties in 2001 to 63.35% in 2012.
- Here is the exposure for TWIA in three areas of the coast:
 - Galveston: \$23.3 billion
 - Corpus Christi: \$13.8 billion
 - Brownsville: \$5.1 billion
- In the case of a strike by a Class 4 hurricane, here is the average projected loss in each area:
 - Galveston: \$4.7 billion
 - Corpus Christi: \$3.9 billion
 - Brownsville: \$598 million
- At the start of the 2014 hurricane season, TWIA had somewhere around \$211 million in the Catastrophe Reserve Trust Fund to pay claims.
- The number of TWIA policyholders increased from 68,756 in 2001 to 270,487 at the end of February 2014.

Recommendations

- Eliminate the Texas Windstorm Insurance Association.
- Replace TWIA with a true provider of last resort, much like the Texas FAIR plan for automobile insurance policies.
- Require that the new windstorm rates be actuarially sound.
- Require that the new windstorm rates be higher than any competing private sector offers.

Resources

Texas' Windstorm Insurance System Still Does Not Work by Bill Peacock, Texas Public Policy Foundation (Mar. 2013)

Next Steps to Reforming Texas Windstorm Insurance by Bill Peacock and Ryan Brannan, Texas Public Policy Foundation (Nov. 2010).

Consumers, Competition, and Homeowners' Insurance: A Sunset Report on the Texas Department of Insurance and the Office of Public Insurance Counsel by Drew Thornley and Bill Peacock, Texas Public Policy Foundation (Aug. 2008).

Texas' Windstorm Challenge: Unprepared for the Worst by Bill Peacock, Drew Thornley, and Machir Stull, Texas Public Policy Foundation (Dec. 2007).

A Better Homeowners' Insurance Market Awaits by Drew Thornley, Texas Public Policy Foundation (June 2008).

"Can't Compete," *Letter to the Editor* by Drew Thornley, Texas Public Policy Foundation, *Corpus Christi Caller-Times* (Apr. 2008).

Q&A on Homeowners' Insurance Regulation in Texas by Drew Thornley and Bill Peacock, Texas Public Policy Foundation (Feb. 2008).

Missing the Big Picture in Homeowners' Insurance Debate by Drew Thornley, Texas Public Policy Foundation (Mar. 2008).

Homeowners' and Windstorm Insurance in Texas, PowerPoint presentation by Bill Peacock, Texas Public Policy Foundation (Oct. 2007).

