

INSURANCE COUNCIL OF TEXAS

service, information, and representation for the property and casualty insurance industry

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Rulings Spell More Trouble for Texas Windpool

Despite the damage caused by Hurricane Rita and forecasts that more hurricanes are on the way, Texas Insurance Commissioner Mike Geeslin ordered a rate increase of only 3.1 percent on windstorm policies for Texas homeowners who live on the Gulf coast and an 8 percent rate increase for commercial property located the Texas coast.

The commissioner's decision today keeps rates inadequately low for the Texas Windstorm Insurance Association (TWIA) and only aggravates the association's existing problems. TWIA was created in 1971 by the Texas Legislature to be the insurer of last resort for homes and businesses located in the hurricane-prone Texas Gulf Coast. Typically, TWIA insures property that is at greatest risk to the damaging winds and hail caused by tropical storms and hurricanes.

The TWIA board, which consists of consumers, agents and insurers, had recommended rate increases of 19 percent for homeowners and 24 percent for commercial property.

"You don't have to look far to see what happens when you charge artificially low rates and the inevitable bad storm comes along," said Mark Hanna, a spokesman for the Insurance Council of Texas. "Look at the dramatically higher rates coastal homeowners in Florida, Louisiana and Mississippi are now paying. If you have adequate rates in place to begin with, you don't get clobbered with huge rate increases after a hurricane strikes."

"One clear example is Mississippi's windpool request this week for a 397.8 percent rate increase on windstorm coverage for homeowners," Hanna said. "It all catches up to you eventually, and when it does, the entire state suffers financially."

Compounding TWIA's problems, the Commissioner also ordered that coastal homeowners have the option of paying a surcharge on windstorm rates in lieu of obtaining a windstorm inspection certificate necessary to be eligible for a TWIA policy. The TWIA board had recommended a 25 percent surcharge, but Geeslin ruled that 5 percent was all that will be required for homes that lacked an inspection certificate attesting to their wind resistive construction.

“This ruling on the inspection certificate opens the floodgates for homeowners to obtain windstorm policies from TWIA at a price that does not match the risk involved,” said Hanna. “Many of these homes will not have gone through an inspection process, will likely be much more prone to windstorm damage and thus place a greater financial burden on TWIA, when it responds to a major hurricane striking a populated Texas coastal city.”

“We are creating a ticking financial time bomb that can only be defused if we have adequate rates and charge consumers a price that matches the risk being insured,” said Hanna. “We have to start somewhere to avert a disaster that will impact all Texans and we just missed an opportunity to take two very important first steps.”

The Insurance Council of Texas is a nonprofit trade association consisting of 515 companies authorized to write property and casualty insurance in Texas

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