

# Texas Hurricane Risk

**Testimony of David W. Crump for the Seacoast Territory Insurance Committee hearing,  
September 12, 2012**

I appreciate the service of our legislators and their staff.

The Texas Legislature is responsible for structuring the finances of TWIA to grapple with its obligations or to find a different solution. I am encouraged today that we are having a hearing to explore solutions.

The first step in solving any problem is to understanding it.

## **TWIA Insecure**

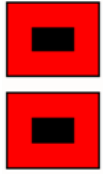
The current financial structure for TWIA is inadequate and exposes TWIA policy holders to unpaid claims.

I refer you to the response I received from TWIA to my Public Information Request in the hand-out. My focus is on “Probable Maximum Loss” which is represented by the 75<sup>th</sup> Percentile result for a category 4 hurricane strike which I have highlighted.

It is simple math. TWIA can muster, mostly with the hope of selling post-event bonds, approximately \$3.6 billion to pay claims. That gives TWIA a shortfall of paying claims for a Category 4 hurricane strike on Galveston of \$3 billion and on Corpus Christi of \$2 billion. I call that “Naked”.

## **Hurricanes: A Natural Part of Texas**

Ignoring our risk of a major hurricane strike on Texas is a rejection of our climate history. Galveston gets struck by a major hurricane, a storm of Ike’s level or greater, on average every 20 years. Corpus Christi, while a lower frequency of a major hurricane landfall, has been struck by two of the ten most intense hurricanes recorded with landfalls in the United States, Indianola 1886 and Carla 1961. Brownsville was close to a rare Category 5 hurricane strike, Hurricane Beulah, in 1967.



# Texas Hurricane Risk

## Seven Strategies to Pay for Hurricanes

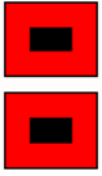
I know that today's hearing is to discuss solutions. I see seven broad strategies to response to our hurricane risks. I refer you to the second item in the hand-out. Given time constraints, I will focus on two them: Economic Damage and Pay Over Time.

Economic Damage is essentially a strategy of not coping with our risk of a major hurricane strike. An overwhelmed TWIA means that many home and business owners won't get the money from a claims settlement to rebuilt after a storm. This will impact whole communities in the storm's path leaving them collectively without the money needed to rebuild. An overwhelm TWIA also will impact the availability of bank loans across the entire coast region it serves because the loan collateral can't be insured. Economic damage, about half of our current solution, what I call "Naked", is not acceptable.

I think the "Pay Over Time" option holds some promise that has not be exploited. Think of it as buying a mortgage loan on your home instead of renting. As the four years since Hurricane Ike demonstrates, we do often get time without a major hurricane strike. Instead of renting our hurricane funds annually with re-insurance, a pre-event bond program, essentially buying our hurricane funds like a mortgage, would pre-load money we need to grapple with Texas hurricane strikes. It also reduces the uncertainty of selling bonds after a major hurricane strike by having more of our funds in-hand. We can then pay off our pre-event bond "mortgage" during the lulls between the storms.

## Conclusion

This legislature cannot leave Texas naked to a clear and probable risk of an overwhelmed TWIA and the economic damage that would result. This hearing is a clear demonstration that we have taken the first step to solving our windstorm insurance dilemma – recognizing that we have a problem. Only an honest assessment of our situation and realistic solutions will get Texas safe!



# Texas Hurricane Risk

## Seven Ways to Pay for Hurricanes:

(Note: It is how we pay --- not, if we pay)

1. **Risk Reduction** — Enforcement of building codes, Incentives to upgrade structures

2. **Pay in Advance** — Insurance Surplus, Re-insurance

3. **Pay When it Happens** — Emergency Assessments

4. **Pay After it Happens** — Post-Event Bonds

5. **Pay Over Time** — Pre-Event Bonds

6. **Displace Risk** – Shift risk to others

7. **Economic Damage** – Direct and In-direct Costs to overall Economy  
(claims not paid)