
CWIC
COASTAL WINDSTORM INSURANCE COALITION
www.cwictx.org

The Problem

The State of Texas has recognized that an adequate market for windstorm insurance (and other forms of insurance) is necessary to the economic welfare of the State. The present market for windstorm insurance in the coastal regions severely impedes orderly growth and development within the State. The time has come for the Texas Windstorm Insurance Association's ("TWIA") current Plan of Operation to be revised to promote insurer participation in the coastal windstorm market. Currently, TWIA is experiencing an accelerated increase in the number of windstorm policies it must write as the insurer of last resort due solely to the unilateral abandonment of the coastal region by voluntary insurers. Not only has TWIA been required to underwrite more windstorm policies, there is no meaningful capital/asset replacement plan other than raising policy holders premiums. Furthermore, the enactment of HB 4409 (2009) and HB 3 (2011) unduly burden coastal policy holders when compared to non-coastal policy holders. In short, the present market for windstorm insurance is not adequate for Coastal Texans.

The Two Step Solution

CWIC recommends a two-step process be implemented to establish an adequate market for windstorm insurance for Coastal Texans. First, both TWIA and the Texas Department of Insurance ("TDI") should reject or at least delay for one year the proposed "Territorial Rating" within the coastal regions of Texas. Second, TWIA, TDI and the Office of Public Insurance Counsel ("OPIC") should draft modifications to the current Plan of Operation and/or seek adequate legislation to secure adequate funding/capital to cover the risk within the coastal regions of Texas.

TWIA and TDI need to start off on the right foot by rejecting the "Territorial Rating" system currently under review. The "Territorial Rating" system, if accepted, will compute Coastal Texan's rates based on computer modeling and geo-coding without regard to historical loss experience and the rate cap.

TWIA, with TDI guidance, should seek adequate funding by pursuing regulations or legislation that would restore member insurers' participation in TWIA to the 100% level legislated in 1971 and continuing until 1979. This is the "best" incentive for each individual insurer to "write itself out" voluntarily, provides TWIA with adequate access to capital, and protects each insurer by allowing it to decide how much TWIA "participation" it will have.

BASIC PREMISE

Every property company writing business in the State of Texas should be required to provide coverages to all of Texas.

Original windstorm legislation sponsored by State Senator A.R. “Babe” Schwartz established TCPIA, now know as TWIA, authorizes TWIA to function as a reinsurance facility providing windstorm insurance to Texas on the Gulf Coast as a matter of last resort.

TWIA, as structured today by law, cannot possibly raise enough annual premium to pay all loss costs indicated by Probable Maximum Loss models. When it was created in 1971, its members’ participation shares provided the necessary capital—until June 19, 2009, the date on which HB 4409 became effective. TWIA has always existed as a market of last resort, saddling it with the expectable results of adverse risk selection. It is now considering exacerbating rate inaccuracies by abandoning its 41-year use of relatively “large numbers” base, dividing into 33 rating sub-territories.

Millions of dollars have been spent trying to justify raising rates on a small segment of Texas without creating a permanent solution.

Normally, TWIA policyholders have a homeowners or fire “companion” policy written by a voluntary insurer, thus creating a double expense factor for each Texan on the Gulf Coast that no other Texas policyholder must endure.

A thorough cost analysis of TWIA’s operating account would reveal a substantial reduction in costs estimated as high as 22.5%, by reducing millions spent each year processing two sets of policies on the same property, paying for larger staffs, computers, and computer services, policyholder billing, individual risk underwriting, even postage. A TWIA “make-over” as a reinsurance facility would remove it from doing business with the general public. This would allow TDI and the legislature to more clearly oversee their operation and reduce administrative and oversite costs.

STATUTORY/REGULATION FRAMEWORK REGARDING REINSURANCE

TWIA, in accordance with the Texas Insurance Code may:

1. assume reinsurance from the members;
2. cede reinsurance to the members; and
3. purchase reinsurance on behalf of the members

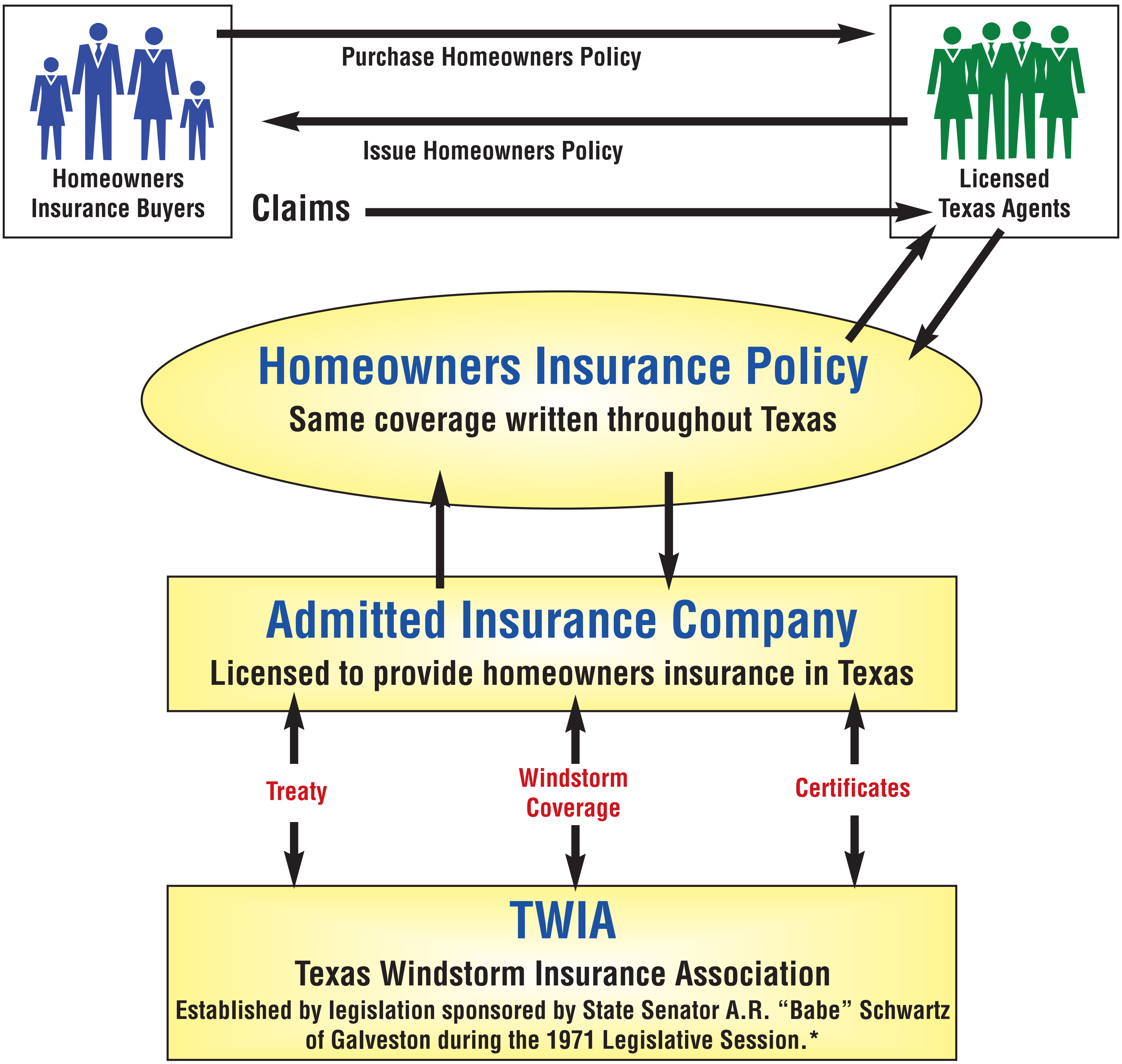
See TEX. INS. CODE §2210.053(a)(2) through (4). Such activities must be included in TWIA's Plan of Operation and must comply with TEX. INS. CODE §§2210.151 through 2210.153. In particular, the Plan of Operation (contained in TEX. ADMIN. CODE §5.4001 and other provisions of the Texas Administrative Code) must "provide for the efficient, economical, fair, and non-discriminatory administration of the association; and include procedures for accepting and ceding reinsurance." See TEX. INS. CODE §2210.152(a). Currently, there are no provisions within the Administrative Code nor TWIA's Plan of Operation which address the ability of the Association assuming or ceding reinsurance from/to its members.

It would appear from past documents and records, that TWIA's use of the term "ceding reinsurance" is limited to the Association entering into reinsurance agreements with subscribing reinsurers, rather than entering into reinsurance agreements with the members.

In short, TWIA has the statutory authority to assume or cede reinsurance from/to the members. It need only craft the requisite regulations and amend its Plan of Operation to perform such activities. And in the event TWIA take little interest in exercising its statutory authority to assume or cede reinsurance, then an interested party has the right to petition the commissioner to modify TWIA's Plan of Operation. See TEX. INS. CODE §2210.153(c). Any petition filed must conform with the provisions of Chapter 2001 of the Government Code. Of course, specific legislation on how TWIA could exercise its reinsurance authority is an alternative.

HOW “CEDING” WORKS

The insurance-buying public never deals with TWIA



*TWIA was established as insurance of last resort.

For more information contact:

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Definition of a "Ceding Company"

An insurance company that passes part or all of its risks from its insurance policy portfolio to a reinsurance firm. Passing off risk in this manner allows the ceding company to hedge against undesired exposure to loss and frees up capital to use in writing new insurance contracts.

The ceding company retains liability for the reinsured policies, so although claims should be reimbursed by the reinsurance firm, if the reinsurance company defaults, the ceding company may still have to make a payout on reinsured policy risks.

Insurance: Law of Large Numbers

TWIA writing windstorm only on the Gulf Coast is considered adverse selection and the insurance-buying public could never pay a large enough amount of premiums to keep TWIA solvent, and continuous rate increases are ultimately counterproductive as more and more homeowners do not renew coverage due to an affordability issue.