SB 18: Transition to Market Rate Program

SB 18 requires all residential policies covered by TWIA and the FAIR plan to be assigned to private carriers through the Texas Property Insurance Program (TPTP) beginning in 2015. In order to bring the private market back to the Texas coast, the policies will eventually reflect market rates. However, SB 18 provides for a transition period during which time certain properties are eligible for a "transition rate". (SB 18, Sections 2214.452 - 2214.458) This approach will provide for a gradual increase allowing residents and insurers to adjust over time.

*The following is based on the committee substitute for SB 18. An outline of the program as reflected in the introduced version of the bill is below.

RATES DURING TRANSITION PERIOD

- Rate increases for homeowners policies during the 10-year period following their initial TPIP assignment are capped at a fixed percentage each year based on the following:
  - If replacement cost is less than **$100,000**, the maximum rate increase will be the greater of:
    - 5 percent; or
    - the statewide average increase minus 3 percent.
  - If replacement cost is between **$100,000** and **$150,000**, the maximum increase will be the greater of:
    - 6 percent; or
    - the statewide average increase minus 2 percent
  - If replacement cost is between **$150,000** and **$250,000**, the maximum increase will be the greater of:
    - 7 percent; or
    - the statewide average increase minus 1 percent.
  - If replacement cost is between **$250,000** and **$350,000**, the maximum increase will be the greater of:
    - 8 percent; or
    - the statewide average increase plus 1 percent.
  - If replacement cost is between **$350,000** and **$500,000**, the maximum increase is the greater of:
    - 9 percent; or
    - the statewide average increase plus 2 percent.
  - If replacement cost is **$500,000**, **or greater**, the maximum increase is the greater of:
    - 10 percent; or
    - the statewide average increase plus 3 percent.

- For tenant and condominium owner policies, the maximum increase is the greater of 10 percent, or the statewide average premium per dollar coverage increase.

INSURER TRANSITION RATE RECOVERY

- During the transition period, insurance carriers may recover any difference between transition rates paid by policyholders and the true cost of risk being insured through:
  - 50% recovery through premium tax credits; and
  - 50% recovery through the spreading of costs in rates statewide.

- After year 10, the 50/50 transition rate recovery for insures will no longer apply and insurers may recover any remaining transition premium difference through a premium surcharge on all residential property and personal auto policies with property or vehicles located or principally garaged in tier 1 or tier 2 coastal counties.

***Note: SB 18 transition program in filed version.**

Transition Rate Eligibility

- A person is eligible if:
  - Non-renewed by TWIA or FAIR on or after 1/1/14;
  - Continually insured by TWIA or FAIR for past year; and
  - Dwelling replacement cost is less than or equal to $250,000, or tenant/condo policy is less than $80,000.

Transition Rate Term

- 10 years - Dwelling policy with replacement cost of $100,000 or less.
- 5 years - Dwelling policy with replacement cost of $100,000-$150,000.
- 3 years - Dwelling policy with replacement cost of $150,000-$250,000.
- 3 years - Tenant or condo policy.