



2011 TWIA REFORM GOALS

Significant changes to the Texas Windstorm Insurance Association (TWIA) are needed to ensure the long term stability of coastal Texas, the Texas insurance marketplace and our state's broader economy.

What is the Texas Windstorm Insurance Association (TWIA)?

Created in 1971, TWIA provides basic wind and hail insurance coverage to property owners in the 14 coastal counties and part of Harris County. TWIA is designed to be the state's insurer of last resort, providing coverage not offered by homeowners' insurance companies.

Efforts to reform TWIA

The Texas Windstorm Insurance Association (TWIA) has been the subject of serious policy debate for a number of years. When the 2008 storm season, with several storms including Hurricane Ike, illuminated TWIA's weaknesses, TWIA funding reform was declared an "emergency item" by Gov. Rick Perry for the 2009 legislative session. Although the Texas Legislature did pass some reforms, more are required to stabilize TWIA and create a more competitive and stable marketplace for Texans across the state.

Legislative changes to TWIA still needed

If properly reformed, TWIA can accomplish its mandated mission as a stable insurance provider of last resort without threatening the state's insurance marketplace.

TCAIS advocates two basic reforms:

- **Fund TWIA primarily through pre-event mechanisms (premiums, reinsurance) rather than its existing reliance on post-event assessments (Capitalized Approach vs. Debt Approach), minimizing the risk to the state's general revenue account.**

TWIA requires adequate funding – and an appropriate funding structure – to protect Texas consumers and the state's revenues. Pre-funding of losses should be a priority because it is less expensive than post-funding of losses.

To start, TWIA premiums must be adjusted to actuarially sound rates (see below) to help build a healthier Catastrophe Reserve Trust Fund (CRTF). Second, TWIA must purchase reinsurance when the market is advantageous. Reinsurance lets Texas transfer risk to international financial markets, bringing more certainty to TWIA's potential losses and protecting other TWIA financial layers. The cost of reinsurance (even if not used) can be significantly less than the cost to the state of even a moderate storm.

TWIA's current funding mechanism – which relies largely on post-event assessments – could be more costly to TWIA policyholders in the event of major or multiple storms. Additionally, large TWIA assessments on the state's other insurers jeopardize the solvency of these companies and spread the cost of funding TWIA losses to policyholders across the state.

(more)

- **Return TWIA to its original mission as “insurer of last resort”**

TWIA was created as a “insurer of last resort” for coastal residents when other insurers’ policies did not cover wind and hail. But rather than a last resort, TWIA has become the de facto primary insurer for hail and wind in its coverage area, because (1) the coverages and limits offered by TWIA are far beyond basic coverages and limits generally associated with insurers of last resort; and (2) TWIA charges a rate so inadequate, far below the rate considered to be actuarially sound, that private insurers are deterred from competing. Actuarially based rates improve the odds of more private market competition in coastal areas. Such competition would ease the risk burden on TWIA by decreasing the number of its policyholders.

Policy Initiatives to Reform TWIA

Reforms to stabilize TWIA and return it to its role as an insurer of last resort include incremental measures that will improve rate adequacy and accuracy, reduce exposure, mitigate coastal risk, and ultimately shrink its market share. Such reforms include:

- Incremental increases of insufficient rates
- Use of proven catastrophe modeling systems in rating
- Accurate use of tier or territorial rating
- Enhanced, enforced coastal building codes
- Review and revision of policy benefits to reduce overall TWIA exposure
- Better land use restrictions
- Clear definition of TWIA as a residual market provider
- Solvency requirements for TWIA
- Quantification and reporting of subsidies in the coastal insurance marketplace