

Texas Hurricane Risk

**Testimony of David W. Crump for the Windstorm Insurance Legislative Oversight Board
November 1, 2012**

I appreciate the service of our legislators and their staff.

Core Value = Ability to Pay Claims

The core value of any insurance contract is to pay a claim according to the terms of policy. Without the money to backup the promises of an insurance contract, what value does any insurance contract have?

I agree with Representative John Smithee of Amarillo that an insurance salesman has an obligation to warn a client that the insurance contract from TWIA is not adequately backed.

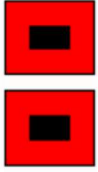
One of the core missions of the Texas Department of Insurance is to monitor any insurance entity operating in Texas and to enforce adequate finances. The department has the authority to stop any insurer deemed insufficiently financed from selling policies in Texas. I am concerned that the Texas Department of Insurance allows the Texas Windstorm Insurance Association (TWIA) to continue to sell new insurance contracts in the face of it's known inability to meet expected claim obligations.

TWIA Insecure

Representative Todd Hunter of Aransas Pass asked the right question back at the public hearing in September — Can TWIA pay its claims? He demanded and reluctantly received a very clear answer from Commissioner Eleanor Kitzman and from the TWIA General Manager, John Polak. Both indicated that TWIA can not.

Based on the data provide to me from TWIA, the potential claims shortfall from a category 4 hurricane strike is huge. A direct strike on Galveston is estimated at \$6.6 billion and Corpus Christi is estimated at \$5.5 billion. The current financial structure would leave TWIA billions short and many policyholders exposed 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 75th Percentile result for a category 4 hurricane strike which I have highlighted.



Texas Hurricane Risk

Hurricanes: A Natural Part of Texas

Ignoring our risk of a major hurricane strike on Texas is a rejection of our climate history. Galveston is 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 had two of the ten most intense hurricanes recorded with landfalls in the United States nearby, Indianola 1886 and Carla 1961. Brownsville was close to a rare Category 5 hurricane strike, Hurricane Beulah 1967.

Fix or Replace?

The Texas Legislature is responsible for structuring the finances of TWIA to grapple with its obligations or to find a different solution. The first step is to understand we have a problem.

I see seven broad strategies to response to our hurricane risks. I refer you to the second item in the hand-out. No single strategy will solve our TWIA solvency problem — a combination will be needed.

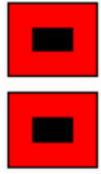
Danger of Not Acting

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.

The coastal region is a major economic engine for the entire state. A TWIA failure and its consequences will have an adverse economic impacts across Texas. Economic damage, about half of our current solution, is not acceptable.

In Conclusion

This legislature cannot leave Texas naked to a clear risk of an overwhelmed TWIA and the economic damage that would result.



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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)

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