

Texas state insurance faces the perfect storm

Dr. **William M. Gray**, the famed professor of Atmospheric Science at Colorado State University, is noted for his courageous predictions of seasonal hurricane activity. This year, according to Gray, the U.S. can expect to be visited by seven Atlantic hurricanes and at least 13 named storms.

He said that at least one major hurricane will come ashore on the U.S. coastline.

It's not important that Dr. Gray's predictions almost always are off the mark. His forecasts are helpful but not essential to emergency responders and ocean going vessels. As a result, Dr. Gray and his meteorological team regularly amend their predictions midway through the June-November hurricane season.

What is important is that both Texas and Florida are unprepared to cope with the potentially enormous financial losses which would be incurred by category 3, 4, or 5 hurricanes raging along their vulnerable coastlines.

It isn't a stretch to suggest that in Texas some homeowners, seeking indemnity for hurricane damage, could discover that their insurance companies have become insolvent.

Texas Gov. **Rick Perry** and Florida Gov. **Charlie Crist**, both Republicans, realize that low insurance premiums can win elections. And that raising premiums rates can lose them. No mental exercises needed to make that point. The political strategy is simple: *Do whatever is necessary to lower homeowners insurance, make voters happy, and tomorrow will take care of itself.*

"Tomorrow," in this case will arrive between June 1 and Nov. 30, 2008.

In Texas, (as LSR has previously reported), the looming homeowners insurance crises began when a technicality in the Senate rules caused the failure last year of legislation affecting the state-run Texas Windstorm Insurance Association (TWIA). Without passage, the TWIA couldn't raise homeowners insurance premium rates, which would have put it on the pathway to solvency.

As a result, the TWIA now can call upon

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only \$1.3 billion in assets to meet some \$65 billion of storm risks it assumed along the Texas coastline. Property insurance companies are obligated to pay their own hurricane claims plus most of TWIA's losses. That's how insurance company insolvencies could happen.

Perry might have mitigated TWIA's cash crunch problem in 2007 by immediately calling the Legislature back for a two-day special session. Such housekeeping special sessions are routine, and the bill easily would have passed. But the Governor remembered the political principle: "Lowering insurance premium rates make voters happy. Raising them doesn't." It wasn't a hard decision for Perry to make.

Texas, having weathered the 2007 season, now must navigate through this year's hurricane season before the 2009 Legislature will have the opportunity to correct its mistake.

But by that time the TWIA will have underwritten many more risks and could have guaranteed billions more in insurance protection from the \$65 billion it guarantees today. If the TWIA were a private sector company, rather than state controlled, Texas insurance regulators would never allow it to exist and its management likely would face malfeasance charges.

In a recent editorial, *The Wall Street Journal* commented that "financial disaster is looming off the Florida coast ever since Gov. Charlie Crist socialized the state's hurricane insurance market and put taxpayers on the hook for billions."

Crist earned the reproach, in the paper's view, when he signed into law a bill making state government the state's dominant insurer but without the dollar reserves that would be required of private sector insurers.

You guessed it; the artificially low premium rates for Florida's coastal homes do not generate enough cash in the state-owned company to pay its claims. When the inevitable multi-billion dollar storm takes its toll on

Florida's beaches, taxpayers will be asked to pony up for the damages. Only then will Crist learn how unhappy voters can become.

Is there a business ethic condoning the manipulation of property and casualty insurance rates by state authorities? Is there historical evidence that the insurance industry is an esoteric science incapable of participating in the competitive, free enterprise, open market system? Absolutely not.

When state insurance departments began to be organized more than one hundred years ago, their charters never hinted that premium rate regulation and control of insurer profits would become primary responsibilities. The primary reason for state insurance regulation was, and should be, consumer protection.

State insurance regulators in the beginning were focused on preventing and dealing with insurance fraud, ascertaining the solvency of insurers, and making certain that companies functioned in compliance with state insurance laws.

The insurance industry's growth reflected the open market and free enterprise prosperity of America. Because nothing happens in our free enterprise, multi-industry society until an insurance contract is written and a premium has been paid, the insurance industry generated enormous wealth and influence.

It didn't take state officials long to understand that control of the insurance industry meant an extension of their powers. There is a straight line from that understanding to the shorelines of Texas and Florida.

It would be difficult to heap more abuse on Texas and Florida insurance consumers than what already has been done by their leaders. Except, of course, a Category 5 storm. ☐

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