



August 24, 2010

Dear Chairman Corona and Committee Members,

Thank you for your work and the opportunity to respond to the interim study charges addressing the financing of the Texas Windstorm Insurance Association. The dedication and diligence in considering public opinion on this matter is greatly appreciated.

The Heartland Institute, a think tank that aims to discover, develop, and promote free-market solutions to social and economic problems, has long taken a strong interest in the nature and performance of property and casualty insurance markets. In this context, I would like to offer some brief comments concerning the provisions regarding the implementation of HB 4409.

Though the elimination of unlimited assessments of the private insurance industry were an improvement, transparent direct assistance from the state is preferable to the limited assessments proposed by the legislation. Losses will still be shifted to third parties, but the state could use broad based taxes instead of levying a tax on one industry attempting to recover from a major loss such as a hurricane.

Additionally, while some lawmakers have rejected the purchase of reinsurance, it is permissible under the statute and provides an alternate method of financing TWIA's exposure. Reinsurance provides a manner in which to mobilize resources from around the world to assist Texans in rebuilding businesses and residences in a voluntary, contractual fashion (as opposed to the probable taxation of the public in case of multiple storms in a single year). Further, reinsurance purchased on the open market eliminates any subsidy of coastal residents by those residing inland.

The challenge associated with relying solely on internal savings of the Catastrophe Reserve Trust Fund and the bonding secured by self-assessments is the potential of policy-holder default and the resulting difficulty in bond issuance.

Though coastal counties are less affluent than the remainder of the state, TWIA is a market of last resort, not simply an affordable option. Instead of charging TWIA policy holders artificially low rates, risk based rates should be assessed coupled with a system of direct assistance to low income households. The assistance should be limited to customers residing in the TWIA coverage area at the time of the policy change, to assist only those who have previously benefitted from TWIA rates. Such transparency would yield accountability and public confidence.



Finally, there is no adequate provision in the case of a loss exceeding \$2.5 billion. Such short sighted legislation adversely affects Texans by impacting the private insurance market and relying on a special session to resolve the impact on the state government.

Respectfully submitted,

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The Heartland Institute