

Senate Business & Commerce Committee
August 24, 2010

Testimony by Lee Otis Zapp, Jr., President of GWACI, which “hosts” the informal ‘Coastal’ Coalition called CWIC, the name for which he appears today.

Thank you for allowing CWIC to testify before this important committee. Please consider CWIC a ‘RESOURCE’ for grassroots policyholder input on windstorm insurance issues, available to this committee and its staff. We offer information based on **actual experience from before 1960**.

In an effort to be brief this morning, this oral testimony will not include all the information submitted as written testimony. Please refer to it; ask any questions it may call to mind.

The principle message I hope I can communicate—one Texan to another—is that a *part of Texas*—said to generate 30% of Texas economic activity—needs **help from this Legislature**. HB 4409 has removed 100% of TWIA **state treasury** exposure, and has reduced consequences to Texas property **insurers** by 99.86% of TWIA exposure. Unfortunately, in the process, it created unnecessary access problems, harmful costs, and uncertainty of claim payments for **Policyholders**.

Hundreds of thousands of Texas residential and commercial property owners are dependent on TWIA because they **have** NO adequate ‘voluntary’ market; they **need** an insurer like TWIA was... before HB 4409. Because it is monopolistic in nature, it must be regulated, actuarially rated, and properly funded..

Some of the significant policyholder needs today include:

- Need ‘on hand’, certain, and adequate claims funding.
- Avoid 10 year borrowing costs; they exaggerate loss costs by half or more.
- Restore financial responsibility to Insurers who non-renew policies or exclude wind from their policies. They *retain* reserves paid in prior no-loss years for those policies [TWIA starts with zero reserves and cannot be expected to be fully reserved for unfunded insurer decisions to abandon customers for geographic reasons]. 52% of TWIA policies have paid TWIA premiums less than 5 years—1, 2, 3, or 4 years!

- Restoration of statutory rate language and procedures.
- eliminate 'file and use' privilege for TWIA, a *non-competitor*.
- Restore notice and hearing for public input;

Restoration of serious insurer financial responsibility for TWIA losses [originally 100% of TWIA exposure 1971 – 1979; was reduced to 5.5% in 1979 by the premium tax credit; is 1.2% today] can be expected to increase the incentive for insurers to “write themselves out” of any part of TWIA “participation” by writing their share of the Catastrophe Area exposure voluntarily. Voluntary writings REDUCE TWIA.

Additional help and incentive, in the form of state sponsored reinsurance should be passed, such as SB 1379 filed in the 81st session by Senator Hinojosa. This concept was originally advocated by Commissioner Montemayor as a means to provide predictable and significantly lower reinsurance cost, at no expense to the state—after reimbursement of ‘seed’ money—encouraging voluntary writing as less risky.

FINALLY, THE FOLLOWING REBUTTAL IS OFFERED TO WHAT SEEMS TO BE WHAT “THEY” HAVE STATED—WHOEVER “THEY” MIGHT BE—that appears to have become the basis of passing HB 4409: The following are false premises, *each followed by correct statements*; they are NOT true, but apparently have been accepted as true:

-“Policyholder choices *caused* TWIA and its exponential growth”.

Insurer decisions to withdraw their market since the 1960’s is the CAUSE.

-“TWIA rates are not actuarial”.. *TWIA rate filings have been developed by an actuary following statutory actuarial methodology, they have been reviewed by OPIC, GWACI and other actuaries opinions at TDI hearings; all this actuarial data is reviewed by TDI actuaries before the commissioner issues his order. Who can say that these rates are not actuarial or that the rates are actuarially inadequate? This important process needs to be restored.*

-“TWIA rate inadequacy caused increased costs in the rest of Texas”.

“Manual” rates were actuarially developed for the whole state by territories starting in the 1940’s; they isolated the loss costs of each territory from the others. Later, the Seacoast Territory was divided into 2 second tier and 3 first tier Territories, still separating loss costs by territory. TWIA rates were derived from these Territorial rates and should not have affected inland rates in any way. In 2003, “manual” rates were repealed. If after 2003 any insurers included TWIA costs in their rate filings as “operating expense”,

which were actually loss costs properly applicable to TWIA, the solution is to refine the file and use rules to eliminate any double dip.. There is NO doubt that all were included in TWIA rate development.

Thank you for listening, and thank you for your service to our great state of Texas.

Coastal Windstorm Insurance Coalition [CWIC]
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