

SUBJECT: Changing coverage and deductibles of catastrophe insurance

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise
0 nays

WITNESSES: For — Jim Shawn, Texas Catastrophe Property Insurance Association; Jay Thompson, Association of Fire and Casualty Companies of Texas
Against — None
On — Lyndon Anderson, Texas Department of Insurance

BACKGROUND : The Catastrophe Property Insurance Pool Act governs the availability and issuance of insurance coverage for coastal areas subject to frequent and severe windstorm or hail damage. Under the act, the Texas Catastrophe Property Insurance Pool Association (“CatPool”), composed of all property and casualty insurers doing business in Texas, is charged with developing a plan of operation for windstorm and hail insurance in catastrophic areas, issuing policies, proposing rates within statutory guidelines, reinsuring and ceding reinsurance. The CatPool serves as the insurer of last resort for residential and commercial properties unable to get insurance through the regular, or voluntary, market.

The CatPool is required to file its rates and rules with the Texas Department of Insurance, and is prohibited from filing changes that would result in reduced coverage or increased deductibles for a policy.

DIGEST: CSHB 3031 would allow the CatPool to recommend to the insurance commissioner reductions in coverage or increases in deductibles, provided they were accompanied by proposed rate credits. After notice and hearing, the commissioner could accept, modify or reject the recommendations. CSHB 3031 would specify that hearings about this issue would be conducted before the insurance commissioner, not the State Office of Administrative Hearings.

CSHB 3031 would take immediate effect if finally approved by a two-thirds record vote of the membership in each house.

**SUPPORTERS
SAY:**

CSHB 3031 would give the CatPool more flexibility in the insurance deduction options it can offer policyholders. Most insurance lines offer consumers the option of accepting higher deductibles in return for lower premiums, but the CatPool is currently limited by statute to a few deductible options. Many consumers, particularly commercial policyholders, would rather “self insure” for smaller losses in exchange for lower premiums.

CSHB 3031 would also help reduce insurers' exposure by allowing higher deductibles, so that policyholders assume a portion of the risk for smaller losses.

**OPPONENTS
SAY:**

CSHB 3031 should specify that higher deductibles in exchange for rate reductions would be optional. Policyholders should be able to decide whether they want to accept a higher deductible in exchange for a lower insurance premium. The bill would allow the CatPool to set the policy deductible or reduce coverage with the insurance commissioner's approval, but it doesn't prohibit the CatPool from eliminating the lower deductible. Policyholders could lose the option of paying higher premiums in exchange for a low deductibles.

NOTES:

The committee substitute amended a different section of the Insurance Code.

HB 3383 by Eiland, which would allow CatPool insurers to lower rates for new residential construction complying with new building standards, and HB 1853, which would allow the CatPool to increase coverage limits for residential and commercial property, have also been set on the calendar for second reading on today.