

SUBJECT: Lower catastrophic insurance rates for new residential construction

COMMITTEE: Insurance — committee substitute recommended

VOTE: 7 ayes — Van de Putte, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise
2 nays — Smithee, Averitt

WITNESSES: For — Jim Shawn, Texas Catastrophe Property Insurance Association
Against — Jay Thompson, Association of Fire and Casualty Companies of Texas
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.

In order to obtain insurance through the CatPool, properties must meet building code standards established by the Texas Department of Insurance and laid out in the CatPool plan of operation. Current CatPool building codes were adopted in 1972.

DIGEST: CSHB 3383 would require the insurance commissioner to mandate rate reductions in the CatPool region for new residential construction complying with building standards, specifications, or guidelines adopted by the commissioner after May 1, 1997. If the commissioner did not establish rate reductions by the 180th day after a new building code was implemented, a 15-percent across-the-board rate reduction for qualified properties would automatically take effect.

CSHB 3383 would take immediate effect if finally approved by a two-thirds record vote of the membership in each house.

SUPPORTERS
SAY:

CSHB 3383 would provide a rate rollback to help offset the increased cost of building residences in coastal counties if, as expected, stricter building codes are adopted for the CatPool region. Stricter building code standards based on updated engineering methods should help reduce losses due to windstorm and hail. However, the cost of building to meet these stricter codes is estimated to be approximately two to five percent higher than current costs. CSHB 3383 would ensure that some of the savings that would result from reduced losses were refunded to those consumers required to pay the cost of building safer structures.

OPPONENTS
SAY:

CSHB 3383 would give CatPool policyholders a rate rollback when current rates may not be high enough to cover losses should a major hurricane hit the Texas coast. If the CatPool was not sufficiently funded, insurance companies would have to take money from other areas to cover the losses, meaning that property owners from other parts of the state would ultimately subsidize coastal property owners.

OTHER
OPPONENTS
SAY:

Rather than the rate rollback provided in CSHB 3383, residential policyholders should receive a rate discount that is tied annually to the savings insurers realize as a result of stricter building codes. This rate discount should be included in statute and taken into account as part of annual rate hearings.

NOTES:

Rep. Eiland plans to introduce a floor amendment reducing the required rate rollback from 15 percent to 6 percent.

The committee substitute specified that new building codes would have to be adopted by the insurance commissioner and that the rate rollback provisions would apply only to properties insured through the CatPool.

HB 3031 by Eiland, which would allow CatPool insurers to recommend raising deductibles and lowering coverage, and HB 1853 by Eiland, which would allow the CatPool to increase maximum policy limits, have also been set for second reading on today's calendar.