R Street's Property Insurance Objectives in Texas
2013 Legislative Session

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The R Street Institute is a national think tank based in Washington, D.C. with offices in Austin, Texas; Columbus, Ohio; and Tallahassee, Fla. The following is a preliminary outline of issues the Texas Legislature should address with regard to property insurance and, in particular, the Texas Windstorm Insurance Association, during the 2013 legislative session. Above all, we believe that Texas should strive to create a vibrant *private* property insurance market where private carriers want to do business in all areas of the state and can make money doing so.

1. ***Avoid creating a statewide catastrophe fund or other similar entity:*** Proposals are being advanced to create a statewide "catastrophe fund" that would pay all catastrophic losses above a certain level. These proposals are terrible ideas that cannot possibly work as advertised. Quite simply, insurance works best when risk is spread across a broad pool. A single-state catastrophe fund would concentrate risk rather than diffusing it, the way that the private market does. The one similar state-level cat fund, the Florida Hurricane Catastrophe Fund, imposes billions of dollars in potential liabilities on that state, has not attracted additional private carriers, and has left the state served largely by undercapitalized Florida-only companies. Texas should not go down this road.
2. ***Protect taxpayers from TWIA:*** Insofar as it exists, TWIA should follow the practices it engaged in prior to Hurricane Ike and transfer as much of its risk as possible to the private sector via reinsurance and/or catastrophe bonds. TWIA should also be subject to tough conflict-of-interest standards that ensure it receives objective advice as to its own financial capacity.
3. ***Encourage risk-based rates:*** Rates for both TWIA and private Texas carriers should reflect the risk of living in coastal areas. TWIA should charge actuarially adequate rates to all policyholders. TDI's rate approval process should focus on policing insurer solvency and rate adequacy, not lowering rates to please politically favored groups. A fair, market-based regulatory regime is the key to attracting private carriers into the market.
4. ***Limit TWIA's own coverage:*** Insofar as it continues to exist, TWIA should be a true insurer-of-last-resort that provides coverage only to people unable to find it in the private market. TWIA should not add additional coverage like evacuation coverage and should not provide more than $500,000 (roughly three times the median home price in Texas) in coverage to anybody. A TWIA that does not compete with the private market will leave more room for private carriers.
5. ***Insist on prudent TWIA underwriting standards:*** When underwriting new properties, TWIA should not write policies for the riskiest properties. In particular, it should avoid underwriting any new policies in wetlands areas and other areas designated as environmentally significant. In addition, it should not write new polices for homes that do not meet the minimum standards (which should be determined by regulation) for structural safety and soundness. Such standards should be at least as stringent as the current IBC/IRC model code. R Street opposes a statewide building code for Texas.
6. ***Encourage mitigation:*** Texas should establish a statewide commission to study mitigation and create a sales tax holiday for mitigation-related supplies. The state should also seek flexibility in allowing it to use federal funding—particularly Community Development Block Grant funds and (provided the program continues) Department of Energy Home Retrofit funds – for mitigation purposes.