

HOMEOWNERS CRISIS IN TEXAS

Background

The proliferation of water and mold claims has taken a devastating toll on the homeowners insurance market in Texas. Despite the approval and use of new policy forms beginning in late 2002, losses from mold claims continue to mount.

Texas already faced more weather-related catastrophes than any other state prior to the onset of mold claims that began multiplying in the first quarter of 2000. The state's residential property benchmark rate is supposed to justify what insurers should charge today for homeowners insurance, but it is unresponsive to marketplace conditions. For example, the current benchmark rate does not include the \$3 billion in mold claims that insurers have paid out the last four years.

Facts

- Insurers continue to pay the price for homeowner policies that cover mold remediation. Paid losses due to mold claims have increased nearly every month in 2002. 2002 losses now total \$1.5 billion just through August. This exceeds the dollar amount of mold losses experienced in all of 2001.
- Claims paid related to mold losses reached \$512 million in 2000 and then doubled in 2001 with more than \$1.2 billion.
- Other related losses in Texas outpace those experienced in other states. According to the study, *American Hazardscapes: The Regionalization of Hazards and Disasters*, "Texas ranks first for both deaths and damage from tornados, with almost twice as many as the next closest ranking state." The report goes on to say, "Similar to the pattern of tornados, Texas is number one for events as well as damages from hail, again partly due to climate, location and sheer size." The study tracked severe weather events from 1975 to 1998.

Summary

Given the frequency and severity of weather events and water losses and mold claims, it is no surprise that Texas also has the highest homeowners insurance rates in the country. We had the distinction even before mold claims became the problem they are. Legislators, regulators and industry officials are working to make changes to policy options and coverage that may help bring stability to the homeowners insurance market, but the effects from these changes will not be realized for at least 18 months.