Insurance Council of TEXAS

October 1, 2024

Commissioner Brown,

On August 6, 2024, the TWIA board of directors voted 6-2 in favor of filing a 10% rate increase for TWIA residential and commercial risks. The rate change decision followed a public hearing by the TWIA Board. Before that, the TWIA Actuarial and Underwriting Committee, in a public meeting, reviewed the staff's rate analysis, which found residential rates to be 38% inadequate and commercial rates 45% inadequate, and voted to recommend the Board file a 10% increase. Both meetings included public input and comments when many testified against any increase, and a few commenters, written and in person, supported a rate change given the rate inadequacy and financial needs of TWIA.

The 6-2 vote included three industry representatives and three non-coastal representatives voting in favor of a rate change. By law, the board is composed of three public members residing in Tier 1 coastal counties, three non-coastal representatives residing more than 100 miles from the coast, and three industry representatives. We note the board composition given recent assertions that the board consists of a majority of insurer representatives. Statutory changes in 2015 reduced the number of insurer representatives on the board to three.

After the board vote, TWIA filed its proposed rate increase with TDI as required by law. TDI is now reviewing that increase and has until October 15 to approve, disapprove, or take no action on the filing (the rate would be allowed to go into effect January 1, 2025, if TDI takes no action).

As you consider the rate increase filing, we urge you to carefully consider TWIA's actuarial analysis and the requirements of the Insurance Code for TWIA rates and rating standards.

TWIA's Rate Filing is Subject to Rating Standards in the Insurance Code

Texas Insurance Code §2210.355© requires that TWIA rates be:
*"reasonable, **adequate**, not unfairly discriminatory, and **nonconfiscatory as to any class of insurer**." (Emphasis added)*

In addition, Texas Insurance Code §2251.052(c), states that a rate is inadequate if:

(1) the ***rate is insufficient to sustain projected losses and expenses to which the rate applies***; and

(2) continued use of the rate: (A) endangers the solvency of an insurer using the rate: or (B) has the effect of substantially lessening competition or creating a monopoly in a market. (Emphasis added)

In addition, the Texas Insurance Code requires TWIA rates to be "not unfairly discriminatory." Under Texas Insurance Code §2251.051, a rate is unfairly discriminatory if:

(1) the rate is not based on sound actuarial principles;

(2) the ***rate does not bear a reasonable relationship to the expected loss and expense experience among risks***; or

(3) the rate is based wholly or partly on the race, creed, color, ethnicity, or national origin of the policyholder or an insured. (Emphasis added).

We understand there were multiple public comments against any rate increase, and understandably, policyholders would prefer not to pay any additional amount for their wind and hail insurance. However, the Insurance Code, which governs rate requirements, does not have any provisions or requirements allowing public sentiment to outweigh or overrule legal or financial requirements for rates.

Impact of a 10% Rate Increase on Policyholders

During interim committee hearings, TWIA has testified that their average rate for a wind and hail policy from TWIA is $2300 annually. This means that a 10% increase would cost the average TWIA policyholder an additional $230 per year, or a little under $20 per month. There are going to be some TWIA policyholders who pay more than this, or less, but generally, this amount should not be characterized as onerous or financially ruinous to coastal policyholders or the coastal economy. Rising costs are not exclusive to TWIA as policyholders statewide are also contending with similar inflationary pressures and rising costs and the resulting rate changes.

TWIA's ABC Change is Not a Rate Increase

Another clarification we would like to make is that the 10% rate increase should not be conflated with the TWIA adjusted building cost (ABC) that policyholders can opt out of. The 2024 ABC adjustment was 13%. This policy coverage adjustment for replacement cost policies has been referred to as a "rate increase" but this is inaccurate as it is a change in policy limit coverage designed to reflect rising replacement costs and to protect the policyholder from being underinsured in the event of a loss. Any coverage limit increase does not necessarily equate to an identical increase in premiums.

Regardless of the outcome of the rate filing, we remain committed to working on a funding solution for TWIA that reduces the reliance on debt funding and related long-term expenses. During the last legislative session, nearly all our members supported the TWIA funding structure as proposed in the version of House Bill 1588 that passed the Texas House. In a letter from a group of legislators dated August 9, the legislators urged disapproval of the 10% increase and alleged that "member insurers vigorously opposed legislation to reform TWIA's setting of the probable maximum loss and funding structure." To clarify, during the 2023 legislative session, industry representatives worked closely with legislators and officials from the coastal area to find a funding solution for TWIA that would reduce the dependence on debt to pay for losses. There was industry opposition to Senate amendments that would have required TWIA to adopt the lowest 1 in 100 PML, prohibited the use of LAE in TWIA's calculation of PML, and would have required assessments on insurers earlier in the funding structure after TWIA used its CRTF to pay losses.

We appreciate your consideration of this important decision regarding TWIA and your willingness to consider all input on the matter pending before TDI.

If you or your staff have any questions of the industry, please let us know and we'd be happy to discuss.

Sincerely,

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