

**Homeowners Insurance Market in Texas**  
**Exhibits presented in testimony by Texas Insurance Commissioner Mike Geeslin**  
**Senate Committee on Government Organization**  
**March 23, 2009**

**Exhibit 1-1: summary of key findings in the SB 310 report issued in Spring 2003.**

The SB 310 report was requested by the Legislature to take a look at cost spikes that occurred during the mold years (2000-2002). It is presented to provide historical context to the present discussion of the homeowners insurance market in Texas.

**SB 310 78<sup>th</sup> Legislature (2003)**  
**2003 Rate Actions SB 14 78<sup>th</sup> Legislature**

**ABOUT SB 310:** On February 25, 2003, Governor Perry signed SB 310 requiring rate information to be filed by certain insurers writing residential property insurance. The commissioner was required to prepare a summary report for the 78<sup>th</sup> Legislature containing a review of the rates to inform the legislature as to whether the rates are just, adequate, reasonable and not excessive or unfairly discriminatory; and to assist in the determination of the most effective and efficient regulatory system for residential property insurance in Texas.

**KEY POINTS FROM THE SB 310 REPORT**

- During 2002, the Commissioner took a number of regulatory actions including modifying the previous HO-B form, which now excludes mold testing and remediation. Companies adopted this change throughout 2002 and also began converting to other approved policy forms providing less coverage.
- The Department determined that homeowners rates increased statewide an average of 45% between 2000 and early 2003. The increase would have been at least 65% without the Department's actions to modify the coverage under the HO-B policy form and to approve individual company policy forms.
- A portion of this increase would have occurred under a rate-regulated market due to deterioration in experience, even in the absence of mold claims.
- During the 2002 policy forms conversion process, companies generally reduced rates by an average of 13.5% because of the limitation in coverage.

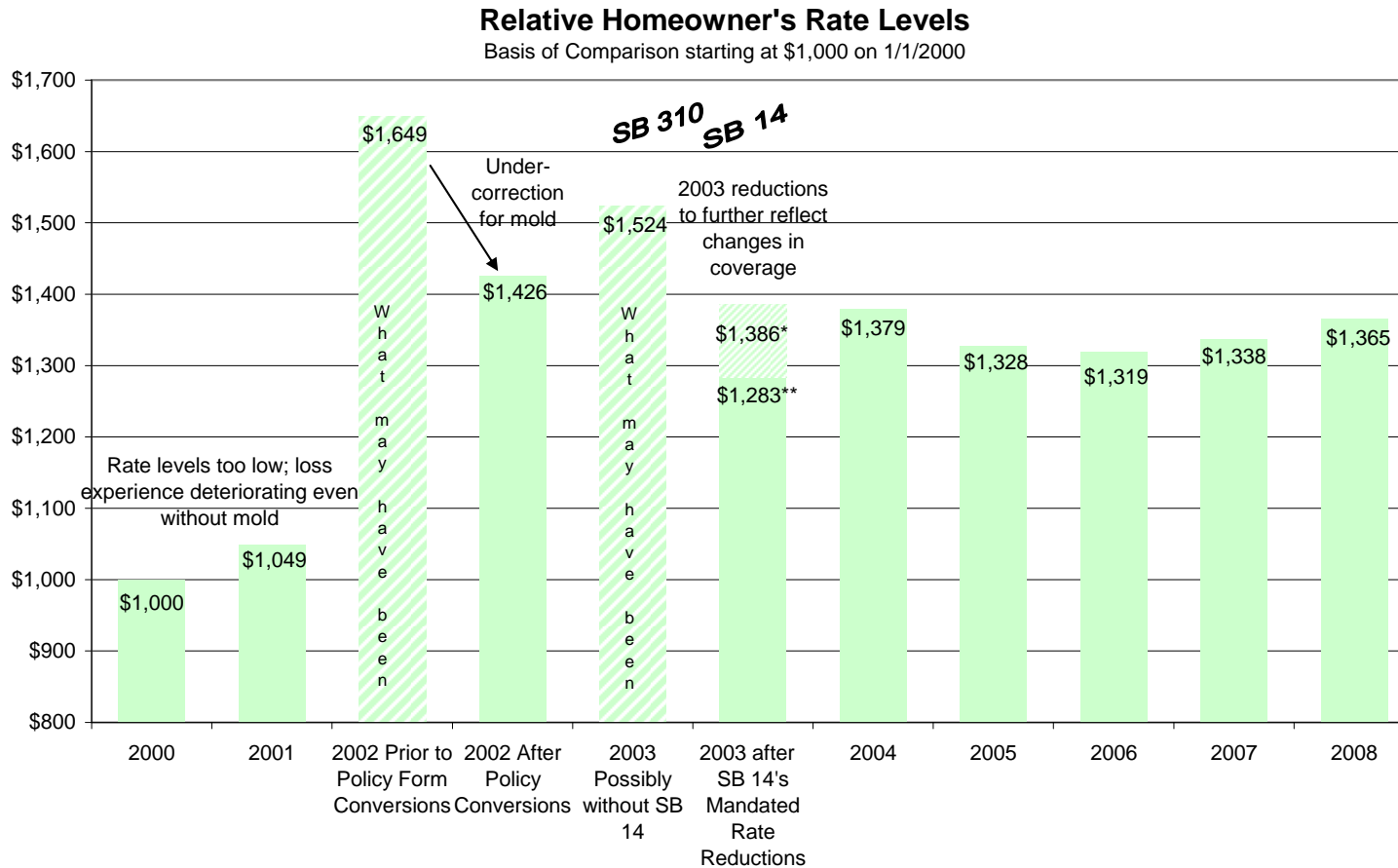
- The Department estimated that individual company rates could be further reduced anywhere from 0% to 25% from their rate levels in early 2003. The companies reviewed were evenly distributed within this range.
- The determination of how much rates might be excessive was based primarily on three factors: 1) loss trend assumptions; 2) target net rate of return, or profit, when calculating the premiums; and 3) accounting for coverage differences and the corresponding reduction in risk exposure.

**KEY ACTION UNDER SB 14**

- The 2003 rate reductions were aimed at reducing rates to reflect changes in coverage.

**Exhibit 1-2: effect of rate changes based on a hypothetical \$1,000 premium in 2000.**

This exhibit shows the impact on a hypothetical homeowners insurance premium from the mold crisis and subsequent TDI regulatory intervention.



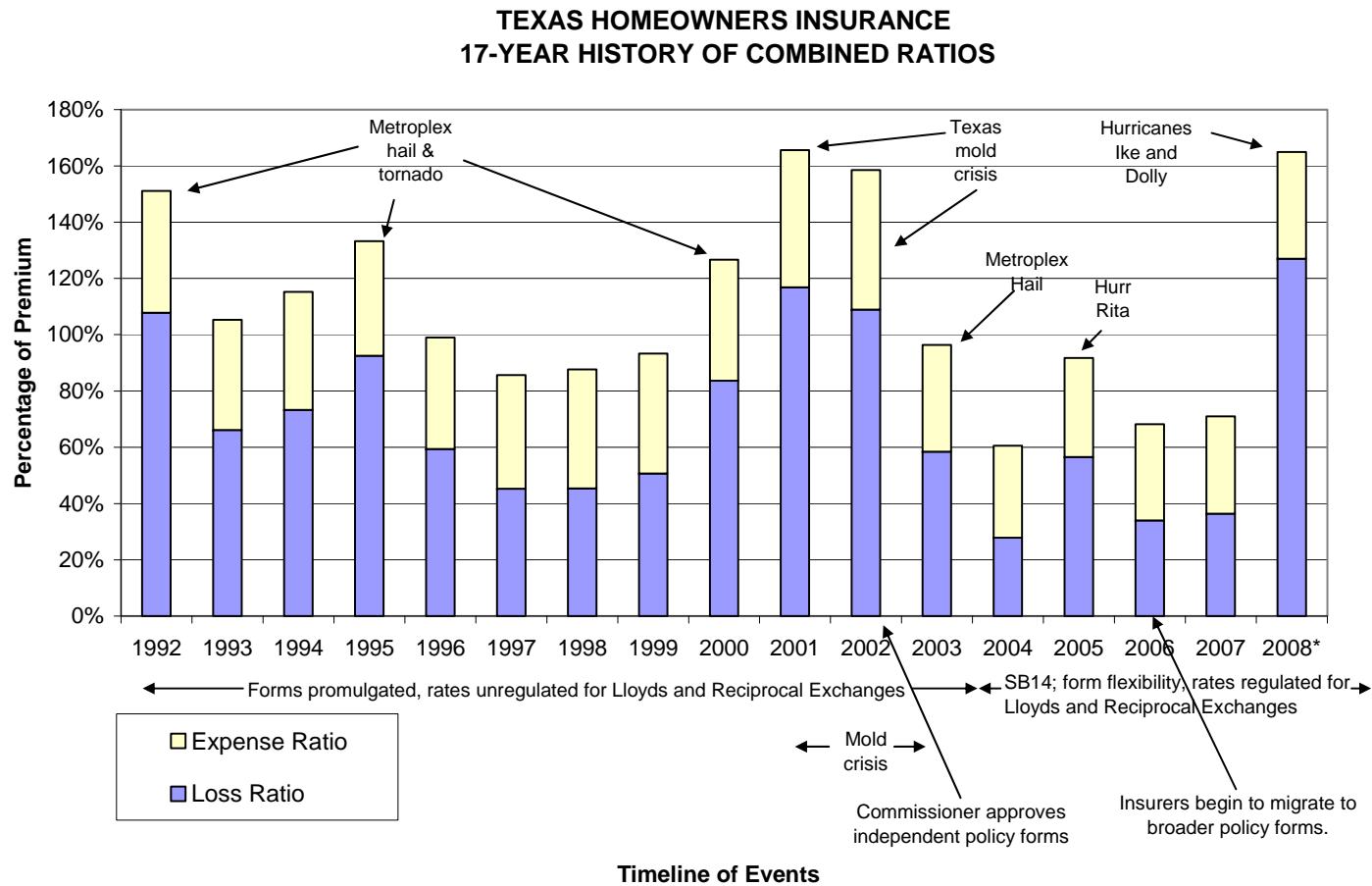
Policies currently sold vary by company. They include enhanced versions of the HO-A, the state's named peril policy; various national forms that have been approved for use in Texas; as well as the traditional HO-B, the state's most comprehensive form. This illustration is based on rate filings of ten top insurers for residential property. It does not reflect the effects of deductible shifts, amount of insurance changes, or insureds moving between companies that would influence the actual average premiums being charged.

\* Represents the relative rate level with the rates of State Farm and Farmers unchanged.

\*\* Represents the relative rate level if State Farm and Farmers had taken their mandated rate changes.

**Exhibit 2-1: loss and combined ratios (loss=blue, combined=blue+yellow) for Texas homeowners from 1992-2008 and a timeline of events at the bottom.**

This exhibit shows the direct relationship between severe weather events and homeowners insurance losses over time, with key regulatory actions noted.



**Exhibit 2-2: HO combined ratios for 1 year, 3 year, 5 year and 10 year periods.**

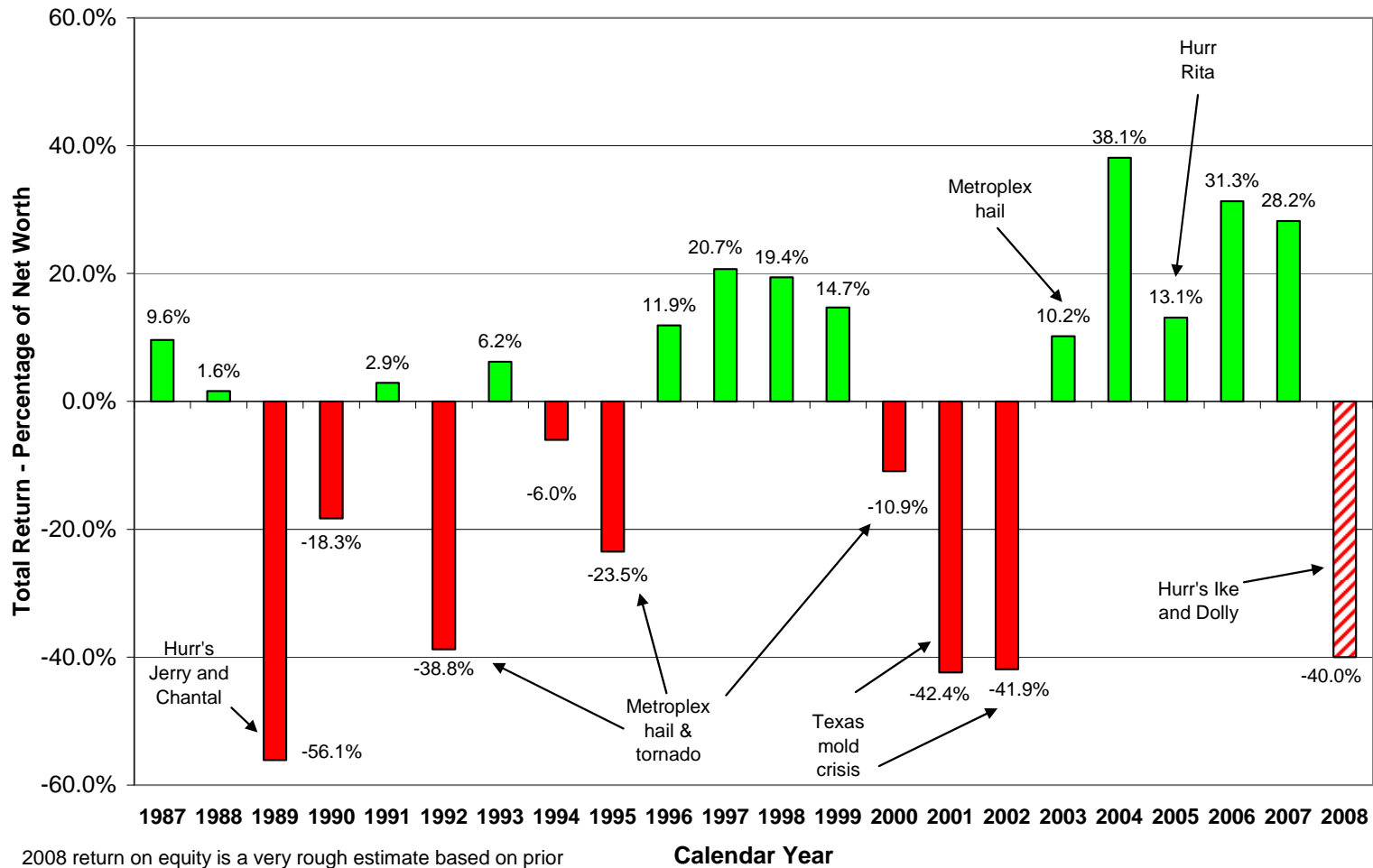
This exhibit shows combined loss ratios over time to provide long-range context.

**Homeowners**

2008 Combined Ratio (Preliminary)	165.0%
3 Yr. Combined Ratio (2006-2008)	103.0%
5 Yr. Combined Ratio (2004-2008)	93.0%
10 Yr. Combined Ratio (1999-2008)	107.5%

**Exhibit 2-3: HO historic returns on equity (aka return on net worth) from 1987-2007 with a 2008 rough estimate.**

This exhibit shows how the Texas homeowners insurance industry has performed over time taking investment income into account.



2008 return on equity is a very rough estimate based on prior loss ratios and their resulting returns on equity.

**Exhibit 3-1: comparison of old HO-B with forms currently offered in the market place.**

This exhibit shows where changes in homeowners policy forms have occurred (primarily water coverage but also Additional Living Expenses). A breakdown on water coverage follows.

**Homeowners Insurance Policy Comparison**  
**HO-B Policy – “Pre-Mold Crisis” 2001 compared to Today’s Policies 2009**

Coverages	HO-B (Pre-Mold 2001)	Allstate AFH1	Farmers 56-4970 Texas Family Home Policy	State Farm FP 7955 TX	Texas Farm Bureau HO-A Amended w/HO-754A	Travelers HO-3 Special Form	USAA HO-3RTX Special Form	Texas FAIR Plan HO-A
<u>Type of Coverage</u>								
<b>Building</b>	All Risk	Named Perils	Named Perils	All Risk	Named Perils	All Risk	All Risk	Named Perils
<b>Contents</b>	Named Perils	Named Perils	Named Perils	Named Perils	Named Perils	Named Peril	Named Peril	Named Perils
<b>Personal Liability</b>	●	●	●	●	●	●	●	●
<b>Additional Living Expenses</b>	●	◐	●	●	◐	◐	◐	◐
<b>Fire</b>	●	●	●	●	●	●	●	●
<b>Windstorm, Hurricane &amp; Hail</b>	●	●	●	●	●	●	●	●
<b>Theft</b>	●	●	●	●	●	●	●	●
<b>Vandalism &amp; Malicious Mischief</b>	●	●	●	●	●	●	●	●
<b>Water</b>	●	◐	◐	◐	◐	◐	◐	○

**Key:** ● Yes    ◐ Partial    ○ None

**Notes:** This chart is intended to provide a qualitative comparison of coverage under the basic policy in a summary format and may not reflect all variations in coverage. Some coverages not provided in the basic policy form may be available by endorsement. Next page provides a breakdown of types of water coverage.

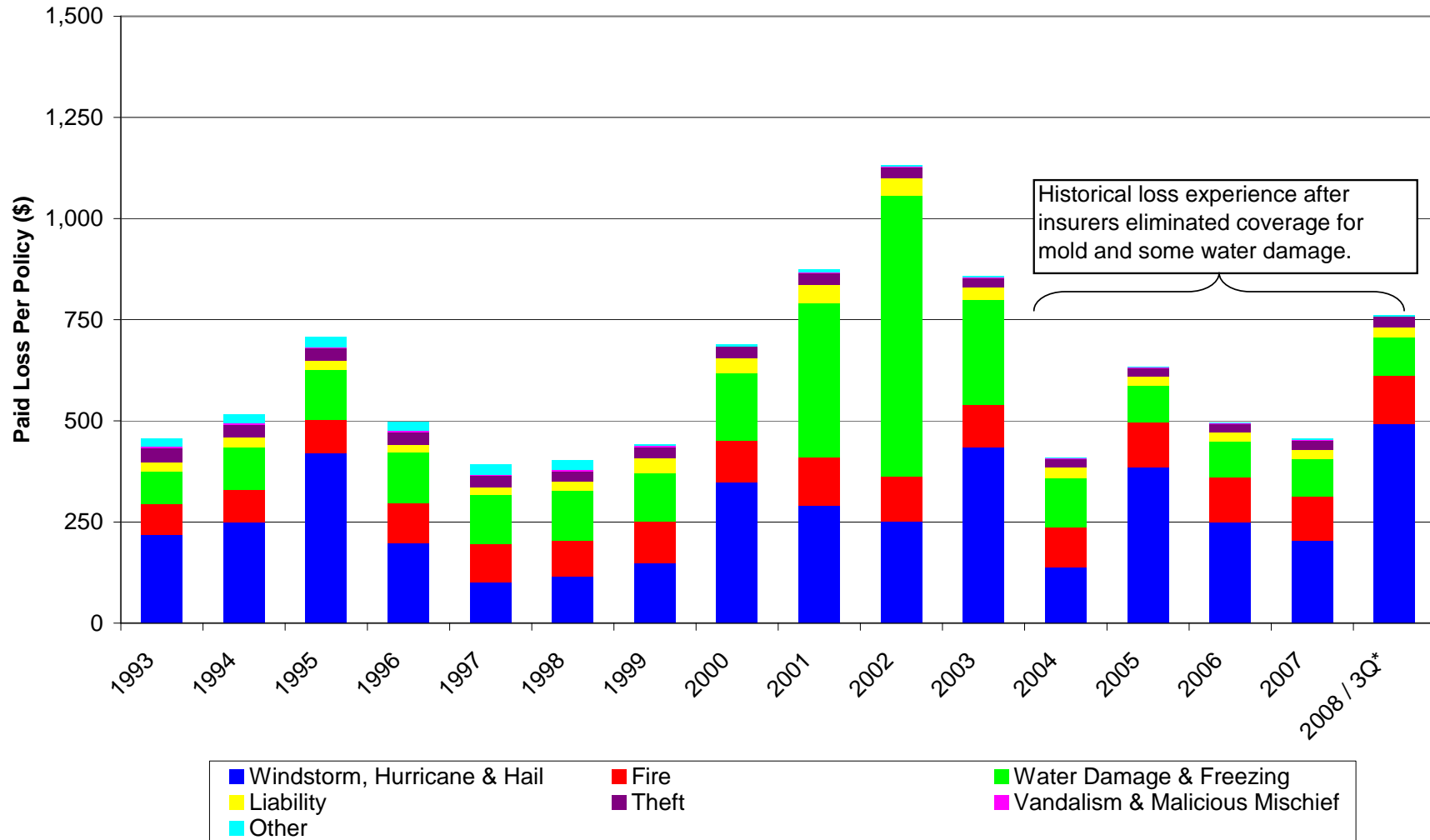
### Breakdown of Types of Water Coverage

Types of Water Coverage	HO-B (Pre-Mold 2001)	Allstate AFH1	Farmers 56-4970 Texas Family Home Policy	State Farm FP 7955 TX	Texas Farm Bureau HO-A Amended w/HO-754A	Travelers HO-3 Special Form	USAA HO-3RTX Special Form	Texas FAIR Plan HO-A
<b>Sudden and Accidental discharge or overflow</b>	Yes	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	No
<b>Continuous or Repeated Leakage</b>	Yes	No	No	No	No	No	No	No
<b>Backup of Sewers/Drains</b>	Yes	No	No	Yes, with limitations.	No	No	No	No
<b>Freezing of plumbing or heating system</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>Damage to Foundation/Slab</b>	Yes	Yes, with limitations.	No	No	No	No	No	No
<b>Mold</b>	Yes – if a result of an ensuing covered water loss.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.	Yes, with limitations.
<b>Cost of Mold Testing, Remediation</b>	Yes, if a covered loss.	Yes – Included in the \$5,000 limit for Mold.	No	No	No	Yes – Included in the limit listed on the Declarations page.	No	No



**Exhibit 3-2: statewide HO average loss per policy from 1993-2008/3Q.**

This exhibit shows that normal water damage was not eliminated as a coverage after the policy form conversions of 2002-2003, and shows that weather-related losses are the most variable and expensive peril impacting homeowners losses, with the exception of water damage during the mold years 2000-2002.



**Exhibit 4-1: Average Premium and Policy Size.**

This exhibit shows that average homeowners premium in Texas has held fairly steady while average policy size has increased. Detail by geographic regions around the state follows.

<b>Average Premium and Average Policy Size, 2002-2008/3Q</b>				
<b>YEAR</b>	<b>HOMEOWNERS AVERAGE STATEWIDE PREMIUM</b>	<b>% CHANGE OVER PRIOR YEAR</b>	<b>HOMEOWNERS AVERAGE STATEWIDE POLICY SIZE</b>	<b>% CHANGE OVER PRIOR YEAR</b>
2002	\$1,232	NA	\$142,400	NA
2003	\$1,249	1.4%	\$151,400	6.3%
2004	\$1,244	-0.4%	\$161,100	6.4%
2005	\$1,222	-1.8%	\$169,000	4.9%
2006	\$1,215	-0.6%	\$181,100	7.2%
2007	\$1,251	3.0%	\$196,100	8.3%
2008/3Q*	\$1,280	2.3%	\$192,200	-2.0%

\*preliminary data.

**Exhibit 4-2: historic average premiums and average coverage amount for seven counties and Texas statewide from 2003-2007.**

This exhibit shows that premiums have decreased in most parts of the state with the notable exceptions of coastal areas.

**OWNER-OCCUPIED HOMEOWNERS INSURANCE  
HISTORIC AVERAGE PREMIUMS AND POLICY SIZES**

**EL PASO COUNTY**

Year	Average Premium Per Policy	Percentage Change in Premium	Average Policy Size	Percentage Change in Policy Size
2003	543	N / A	108,000	N / A
2004	516	-5.0%	119,100	10.3%
2005	509	-1.4%	125,900	5.7%
2006	513	0.8%	133,000	5.6%
<u>2007</u>	<u>532</u>	<u>3.7%</u>	<u>143,800</u>	<u>8.1%</u>
Total		-2.0%		33.1%

**GALVESTON COUNTY**

Year	Average Premium Per Policy	Percentage Change in Premium	Average Policy Size	Percentage Change in Policy Size
2003	1,828	N / A	147,200	N / A
2004	1,874	2.5%	160,600	9.1%
2005	1,907	1.8%	167,700	4.4%
2006	2,067	8.4%	183,500	9.4%
<u>2007</u>	<u>2,280</u>	<u>10.3%</u>	<u>202,400</u>	<u>10.3%</u>
Total		24.7%		37.5%

**HARRIS COUNTY**

Year	Average Premium Per Policy	Percentage Change in Premium	Average Policy Size	Percentage Change in Policy Size
2003	1,514	N / A	165,600	N / A
2004	1,463	-3.4%	172,800	4.3%
2005	1,424	-2.7%	180,600	4.5%
2006	1,442	1.3%	193,300	7.0%
<u>2007</u>	<u>1,499</u>	<u>4.0%</u>	<u>209,200</u>	<u>8.2%</u>
Total		-1.0%		26.3%

**TRAVIS COUNTY**

Year	Average Premium Per Policy	Percentage Change in Premium	Average Policy Size	Percentage Change in Policy Size
2003	1,131	N / A	201,300	N / A
2004	1,106	-2.2%	211,200	4.9%
2005	1,088	-1.6%	220,000	4.2%
2006	1,069	-1.7%	233,600	6.2%
<u>2007</u>	<u>1,089</u>	<u>1.9%</u>	<u>251,700</u>	<u>7.7%</u>
Total		-3.7%		25.0%

**BEXAR COUNTY**

<b>Year</b>	<b>Average Premium Per Policy</b>	<b>Percentage Change in Premium</b>	<b>Average Policy Size</b>	<b>Percentage Change in Policy Size</b>
2003	1,023	N / A	131,600	N / A
2004	1,019	-0.4%	142,400	8.2%
2005	999	-2.0%	148,900	4.6%
2006	991	-0.8%	160,800	8.0%
<u>2007</u>	<u>1,016</u>	<u>2.5%</u>	<u>174,500</u>	<u>8.5%</u>
Total		-0.7%		32.6%

**DALLAS COUNTY**

<b>Year</b>	<b>Average Premium Per Policy</b>	<b>Percentage Change in Premium</b>	<b>Average Policy Size</b>	<b>Percentage Change in Policy Size</b>
2003	1,498	N / A	180,600	N / A
2004	1,496	-0.1%	184,200	2.0%
2005	1,481	-1.0%	192,000	4.2%
2006	1,457	-1.6%	204,400	6.5%
<u>2007</u>	<u>1,483</u>	<u>1.8%</u>	<u>221,200</u>	<u>8.2%</u>
Total		-1.0%		22.5%

**NUECES COUNTY**

<b>Year</b>	<b>Average Premium Per Policy</b>	<b>Percentage Change in Premium</b>	<b>Average Policy Size</b>	<b>Percentage Change in Policy Size</b>
2003	1,857	N / A	117,500	N / A
2004	1,818	-2.1%	128,200	9.1%
2005	1,789	-1.6%	137,200	7.0%
2006	1,839	2.8%	149,900	9.3%
<u>2007</u>	<u>1,937</u>	<u>5.3%</u>	<u>163,700</u>	<u>9.2%</u>
Total		4.3%		39.3%

**STATEWIDE**

<b>Year</b>	<b>Average Premium Per Policy</b>	<b>Percentage Change in Premium</b>	<b>Average Policy Size</b>	<b>Percentage Change in Policy Size</b>
2003	1,249	N / A	151,400	N / A
2004	1,244	-0.4%	161,100	6.4%
2005	1,222	-1.8%	169,000	4.9%
2006	1,215	-0.6%	181,100	7.2%
<u>2007</u>	<u>1,251</u>	<u>3.0%</u>	<u>196,100</u>	<u>8.3%</u>
Total		0.2%		29.5%