

WHAT'S HAPPENING WITH HOMEOWNERS INSURANCE IN THE GULF COAST AREA

By Basil Housewright

Home Insurance rates are on the increase in the Texas Gulf Coast area since Hurricane Ike in September 2008. Prior to Ike there were several major storms, which did not hit the Texas Gulf Coast directly but resulted in numerous home insurance claims. These were Hurricane Katrina, Rita and Gustave as well as many other tropical storms. 2009 and 2010 were not as bad in regard to hurricanes but we still had numerous weather related claims due to several violent hailstorms. Prior to this we had been very fortunate that numerous Insurance Companies had begun to write new home insurance policies in our area.

In 1998 to 2002 we had the mold crisis, which substantially curtailed home insurance availability in Texas and drove the price of home insurance up sharply. With the actions of Texas Department of Insurance promulgating the mold exclusions and limitations of mold coverage on a home insurance policy and the deregulating of home insurance business to a rate and file system, many Insurance Companies saw the Texas home insurance marketplace as a new opportunity and entered or re-entered the Texas marketplace. This created a price and availability situation in the favor of homeowners with lower prices and more choices of where to purchase their home insurance. Some Insurance Companies began selling new home insurance policies at 50% or less of the market rates. Then along came Ike and most all the home insurance carriers have reacted with double-digit rate increases in 2010 and 2011 with reports of the same in 2012. Homeowners in Fort Bend and Harris County are again experiencing a limited availability of home insurance options as many Insurance Companies are limiting their writing of new home insurance policies in this area and renewal rates and deductible options are increasing.

One major issue driving this situation is hail & windstorms and roof issues. Many homeowners do not replace the roofing materials on their homes when it has reached its useful life. Many homes are supplied with a 15 to 30 year warranty on the roofing material when built new. This means the manufacturer does not intend the material to last much longer than this time period. In fact in our weather conditions with extremely hot and humid summers if the roof lasts half of the manufacture warranty period you are fortunate. When asphalt shingle roofing material remains on a home after it has reached it's life expectancy and is just "worn out", it becomes brittle, very rigid and curls up. This leads to roof leaks and shingles breaking away during only mild wind and hailstorms. More and more homeowners do not replace their roofs when it is worn out, they just hope for a hailstorm so they can have their insurance company perform this maintenance activity for them. With the prevalence of wind & hail storms in Texas the past few years, Insurance Companies are replacing roofs at an extremely high rate.

To counter this Insurance Companies have been requiring higher windstorm and hail deductibles for new and renewing home insurance policies. The goal of the higher windstorm and hail deductibles is to place the roof maintenance costs on the homeowner. But what has happened the roofing industry has been successful in substantially increasing the "Insured Cost of Roof Replacement." Now if I as a homeowner go out and solicit bids to replace my roof without using my home insurance the marketplace is very competitive and much lower than the "Insured Cost of Roof Replacement." So much lower that I can replace my roof for the cost of pretty close to my windstorm and hail deductible. What does this mean? Could it be the roofing industry is still working with homeowners to "fade" their deductible?

A few home Insurance Companies have recently revised how they handle roof claims, which basically tightened the controls on verification of payment of the entire full deductible amount by the homeowner to repair or replace their roof. Bottom line if we want affordable home insurance with reasonable deductibles a homeowner is going to need to assume the cost of roof repairs and replacements. The Home Insurance Companies are going to require high enough deductibles and controls to make sure this happens. I have owned several homes through the years and have had several roofs replaced and only once paid for a total roof replacement out of pocket. But that roofing job I paid for out-of-pocket was almost half of what my "Insured Cost of Roof Replacement" was. It looks like it is time for this to change if we want affordable home insurance with reasonable deductibles. I still like my roof repair guy.

Another issue is our area has many large, mature trees throughout our subdivisions. And our subdivisions are mostly built on very small lots so all these large trees are within a close proximity of our homes. During high wind events like Hurricane Ike substantial damage is caused by falling tree limbs not to mention creating a substantial amount of debris to be removed. Another significant issue is as our homes get older they are more susceptible to problems which result in a home insurance claims dealing with many water related damages. Leaking plumbing, burst water pipes, faulty water heaters leaking, and leaking shower pans are many common problems associated with older homes. The resulting damage from these home appliance and fixture failures are frequently a covered item on the home insurance policy. These are significant considerations Home Insurance Companies make when considering how and if they will offer home insurance in our area.

Home Insurance Companies, like most all types of property insurance providers purchase re-insurance as a standard business practice. Re-insurance is an insurance policy with a very large deductible per claim event. How it works is the primary home Insurance Company purchases a re-insurance program with another Insurance Company (called a Reinsurer). The program works something like this – primary Insurance Company pays first \$500,000 in claims for a claim event like a Windstorm on a particular date. If the total claims for that primary Insurance Company exceeds \$500,000 for that claim event then the Reinsurer will reimburse the primary Insurance Company for those claims over \$500,000 up to an agreed upon limit depending on the re-insurance program purchased.

The cost of Re-insurance in the Gulf Coast is going up sharply so the primary Insurance Companies must pass this increased cost on in the form of home insurance rate increases. The Reinsurer also reviews the primary Insurance Company's operating practices. If the primary Insurance Company is still offering lower windstorm and hail deductibles in the Gulf Coast area the Reinsurer will charge substantially higher rates or may not offer to provide reinsurance for that primary Insurance Company at all.

Reinsurance is sold on a worldwide basis, which means severe weather events like earthquakes, tsunamis or other catastrophic events taking place all over the World will increase the overall cost of reinsurance to everyone no matter where you live and purchase insurance.

There are four very distinct choices for Insurance Companies in these matters:

Continue what they are doing with modest rate increases and go out of business.

Discontinue doing business in the Texas Gulf Coast area.

Continue what they are doing and raise the average homeowners premium to between 10% and 20% per year to allow them to pay claims, cover their overhead and make a modest profit.

Provide policies comparable to current pricing structures but substantially raise the deductibles for coverage for windstorm, hail, and water damage.

Providing home insurance in the Texas Gulf Coast is riskier than any dice or card game you play in Vegas.

Basil is manager of Texans Insurance & Financial Group, Inc a local Independent Insurance Agency operating in Sugar Land since 1991. He can be reached at (281) 277-7800, Fax (281) 277-7801, E-Mail – basil@texansinsure.com. Visit www.texansinsure.com.