

**H**omeowners and auto insurance policies are essential products for most Texans—not optional purchases. Auto liability insurance is required by law for drivers, and collision and comprehensive coverage are required by lenders for anyone with a car loan. Mortgage lenders require homeowners insurance. More fundamentally, it is the way families protect their most important and expensive assets—home and car.

But homeowners insurance rates for the major companies increased 38 percent last year—some of the largest companies neared 70 percent, and there are reports of some homeowners rates more than doubling. Even before these increases, Texas rates already ranked among the highest in the nation.

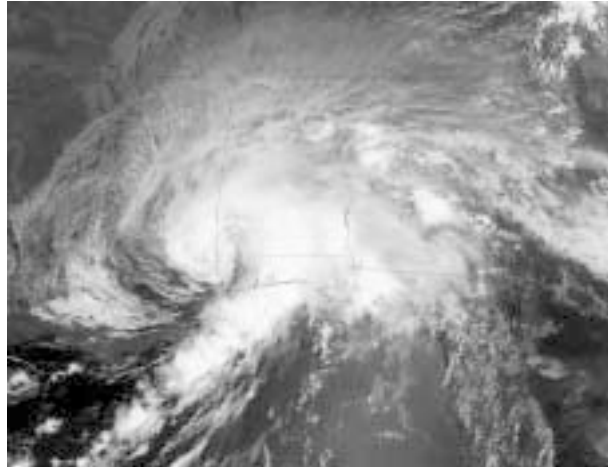
Since 1991, homeowners insurance companies have shifted almost all their business—95 percent of the market—into unregulated *Lloyds* companies. A similar trend is occurring in automobile insurance, with major companies shifting their customers to deregulated affiliates called *county mutuals*.

Although companies claim that approval of new, scaled-back national policy forms add options for consumers, often it is the companies that decide which policies to sell you and at what rate. If companies decide to, they can stop writing coverage. Regulators have few tools to manage the market when companies threaten the availability of essential coverage.

Finally, water claims can wreak havoc on a family's home, especially if an insurance company fails to handle a claim properly. And, company adjusters and mold remediators often lack training to minimize losses following water damage.

## Auto and Homeowners Insurance Rate Regulation

Texans enjoyed greater market stability, lower rates, and better coverage before insurance companies moved most customers into deregulated companies and pressured for coverage limits.



Tropical storm Allison heading towards Texas. In Southeast Texas alone Allison damaged 3,500 homes and dropped 25 inches of rain on Houston. While homeowners insurance does not cover flooding, thousands filed claims after the wind and rain damaged their homes.

### RECOMMENDATIONS

Texas needs to fundamentally reform regulation for automobile and homeowners insurance.

- Reinstate the regulatory system of checks and balances that has been undermined by the insurance industry. Subject companies selling homeowners and auto insurance to rate oversight by adopting a prior approval system or bringing all companies under the benchmark system.

- Require companies to use fair underwriting guidelines that are subject to state approval and public inspection. Ban the use of credit scores to underwrite auto and homeowners insurance.

- Assure that standard coverage is available from every insurance carrier. All companies writing homeowners policies in Texas should offer a standard "HO-B" policy that includes coverage for losses from water damage. Side-by-side comparisons of

coverage should be easy to understand and consumers should have a true choice to customize their policies.

- Strengthen Texas' existing prompt payment of claims provisions. Strict timelines should be set for the handling of water claims — including that a homeowner's call be attended

to within 48 hours. Specialized training should be required for adjusters handling water claims to prevent mold damage as well as oversight of mold remediators.

- Prevent market disruptions (like those that occur when companies with substantial market share announce they will leave the market) by requiring an orderly plan of withdrawal if they stop writing new business or selling a previously available policy form. Companies that try to cherry-pick their business by halting the sale of essential coverage during tough times should be barred from selling other coverage in Texas.

### In Short

Texas insurance companies used a legal loophole to instigate rate deregulation-- and now consumers face high prices and regulators can do little to help them. Rates were less volatile and claims coverage more reliable when TDI held all companies to a "benchmark" rate for a standardized policy.