



P&C insurers accounted for more than half of U.S. industry net premiums written in 2021.



2022 State of the Texas Property & Casualty Insurance Market

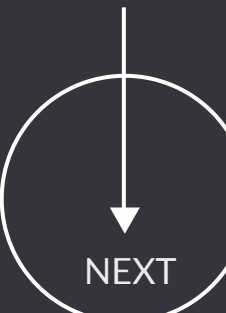


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In 2022, the economy and inflation are the major topics of discussion for the Texas property and casualty industry. In 2021, we saw driving habits return to normal, a major winter storm cause unprecedented losses in a state more accustomed to hailstorms, tornadoes, flooding, and hurricanes. We are experiencing record-high inflation with the rise in prices for construction materials, vehicles, and other factors in the loss payment process. Therefore, insurers have faced a changing reinsurance market, increased replacement costs for personal lines, labor shortages in auto repair and construction markets, coupled with supply chain issues, and social inflation in litigation. The impacts on the marketplace have increased pressure on rates across multiple lines of business.

In 2021, we had increases in premium volume, a testament to the continued growth in the Texas economy, but also some significant increases in losses in certain lines. Thankfully, Texas has a strong competitive insurance market and generally, insurers have the financial strength needed to service claims and take care of their policyholders. Texas is the second largest insurance market in the country with nearly \$71 billion in direct written premiums in 2021, making our industry an important part of the state's economy. For consumers, this means they have a variety of choices when shopping for insurance with options to fit their needs. Texans can be assured their property is protected when they experience a covered loss.

ICT is proud to serve this industry and the people of this state and appreciate the opportunity to keep you informed and serve as the voice of the Texas property and casualty industry.

On behalf of the ICT staff and board of directors, we present the 2022 State of the Texas Property & Casualty Insurance Market Report.



ALBERT BETTS, JR.

ICT Executive Director

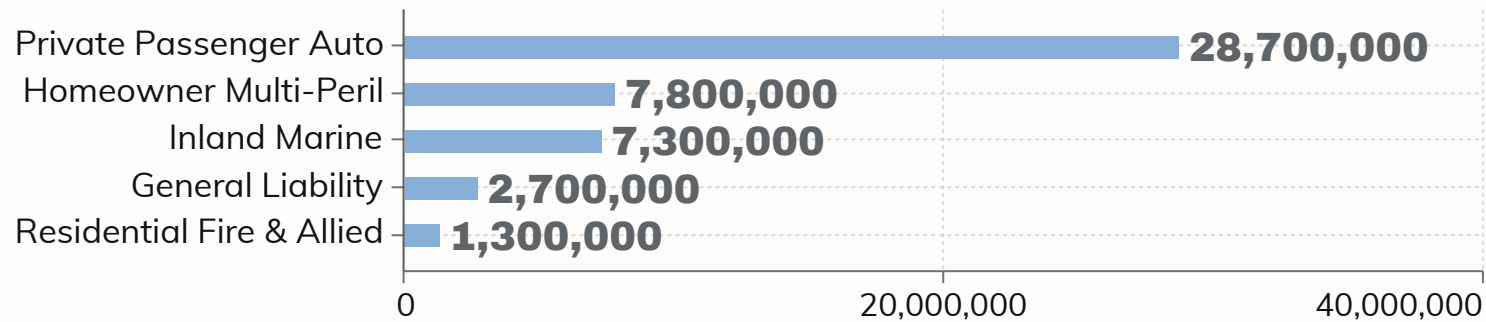


The Texas Market is Competitive

IN 2021, THERE WERE 1,180 GROUPS AND 2,978 COMPANIES
WRITING PROPERTY AND CASUALTY INSURANCE IN TEXAS.

Top Lines by Policies Written

PRIVATE PASSENGER AUTO LEADS ALL LINES IN TEXAS BY A WIDE MARGIN.



In 2021, Direct Written Premium (DWP) for property & casualty insurance in Texas was **\$70.7 billion**.

This is the second largest market in the nation, behind California.

Private Passenger Auto

Private passenger auto saw a **7% increase** over the previous year.



Inland Marine

Inland Marine was up from 5.3 million in 2020, an **increase of 37.7%**.

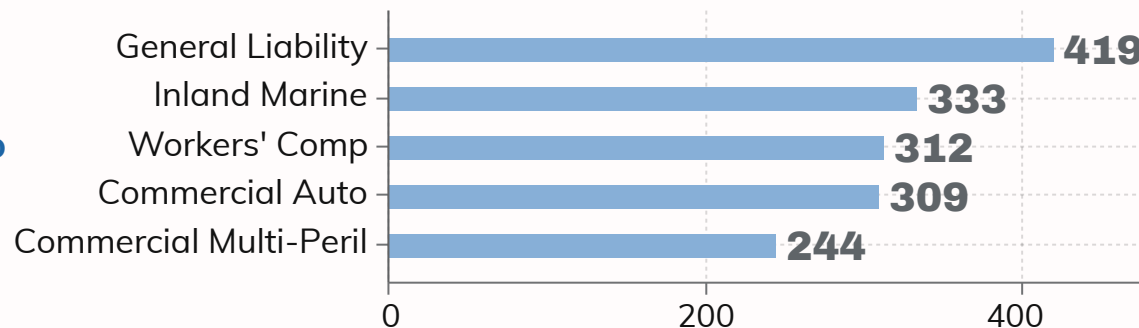


Total Policies Written

The Texas market saw an **increase of 4.5 million** Total Policies Written, a **9.8% increase** over the previous year.

Top 5 number of companies writing policies in Texas, by line

Workers' Comp moved ahead of Commercial Auto in 2021



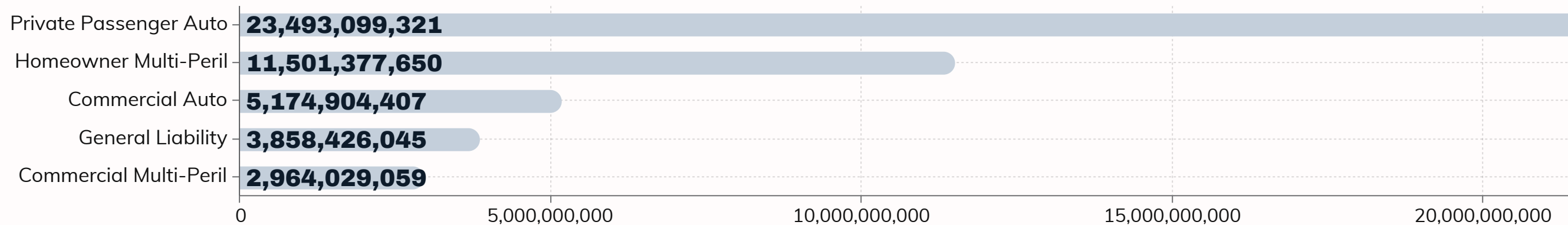
There were 198 domestic insurance companies in Texas in 2020, the **greatest amount of domestic companies in the nation**. This is about 8% of the P&C companies nationwide.



Premiums

DWP for property & casualty insurance in Texas increased 9.6% from 2020.

Top 5 Direct Written Premium in Texas, by line (\$)

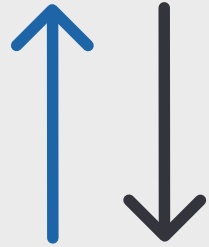


In 2021, Texas paid \$2.7 billion in premium taxes, which is second to CA (\$3.11 billion).

The Texas insurance industry is the sixth largest revenue source for the state.



Industry Impact



In 2021 total insurance industry* net premiums, written increased 5.5%.
*(*including life, annuity and P&C)*

U.S. PROPERTY AND CASUALTY (P&C) INSURERS ACCOUNTED FOR 53% OF THE \$1.4 TRILLION IN TOTAL INSURANCE NET PREMIUMS WRITTEN IN 2021.

P&C insurers accounted for more than half of U.S. industry net premiums written in 2021.

In 2021, U.S. direct written premium (DWP) for P&C totaled **\$797.8 billion** - a **9.4% increase** from 2020.



Jobs Jobs Jobs

The U.S. insurance industry employed **2.5 million people** in 2021, according to the U.S. Department of Labor. **P&C insurers employed 628,600 workers.**



Economic Engine

The insurance industry contributed **\$674.2 billion** to the \$22.9 trillion GDP in 2021.



Taxes & Investments

Insurance companies across all lines paid **\$26.3 billion** in premium taxes in 2021.

Insurers invested more than **\$500 billion** in U.S. municipal securities in 2020, funding roads, schools and other public projects.

Issue Spotlight: Rates

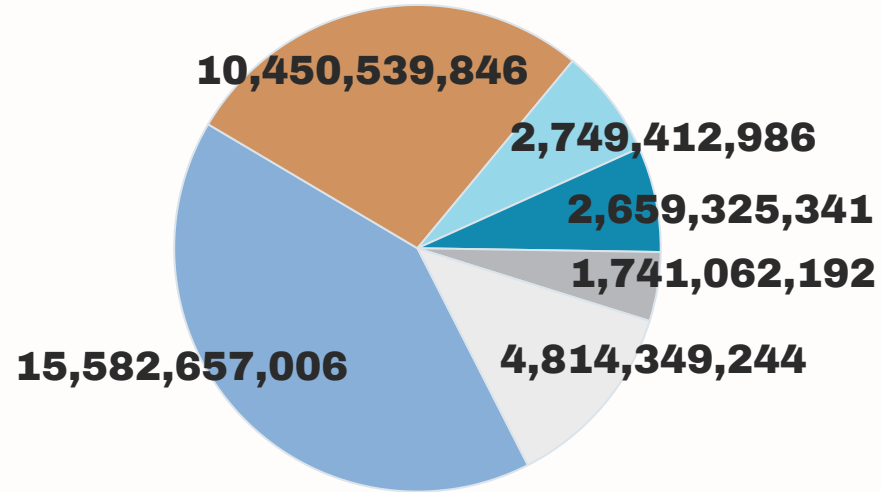
Factors (such as the rise in construction costs and an increase in traffic fatalities during COVID-19) that were emerging as industry issues during the time the last ICT P&C market report was published, are continuing to impact auto and homeowners' insurance today.

Additionally, the P&C industry is experiencing loss pressures due to supply chain disturbances and historically high inflation, which are impacting replacement costs. This in-turn results in increased pressure on rates.

As consumers see an across-the-board rise in the cost of goods and services, insurance rates are increasingly spotlighted.



Top 5 Direct Losses, by line (\$)



- Private Passenger Auto 15,582,657,006
- Homeowner Multi-Peril 10,450,539,846
- Commercial Auto 2,749,412,986
- Commercial Multi-Peril 2,659,325,341
- General Liability 1,741,062,192
- All Other Lines 4,814,349,244



Losses

2021 Total Direct Losses in Texas:

\$37,997,346,615*

This is a
37%
increase from 2020.



Homeowner Multi-Peril losses increased a massive 83.2% from 2020, mainly due to the 2021 winter storm.



Similarly, Commercial Multi-Peril losses increased 82.2% from 2020.



Private Passenger Auto losses increased 24.3% from 2020.

Natural Catastrophes



Estimated insured property losses in the U.S. from **natural catastrophes** rose to **\$92 billion in 2021**, from **\$84.7 billion in 2020**.

According to the National Oceanic and Atmospheric Administration (NOAA), at least 20 individual billion-dollar disasters occurred in the U.S. in 2021.

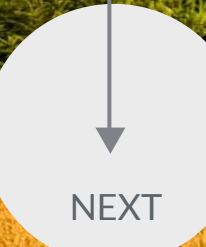
Damages from these 20 events totaled approximately \$145 billion.

Texas had two cities - [Austin at #5](#) and [San Antonio at #10](#) - in Insurance Information Institute's (Triple-I) Top 10 Metro Areas by Greatest Loss Potential From Wildfires, 2020.

In 2021, Texas also ranked second in Top 10 States for Wildfires Ranked By Number Of Fires and By Number Of Acres Burned.



WILDFIRE RISK



#1

HAIL

In 2021, Texas was **first** in number of major hail events with 688, more than double the amount of Kansas, in second with 303.

#1

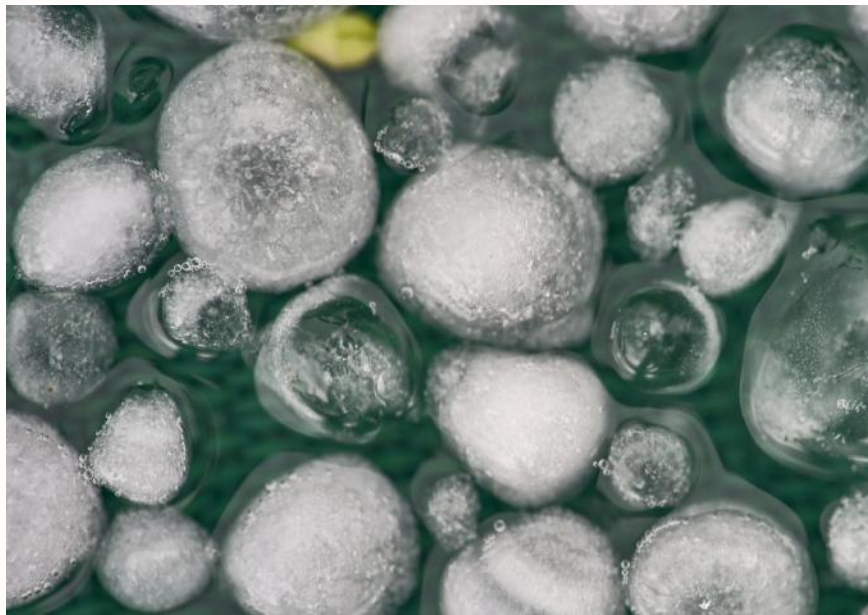
TORNADOES

In 2021, Texas was ranked **first** in number of tornadoes with 118. Alabama came in second (100) and Mississippi third (92).

#2

LIGHTNING

Texas is **second** in the US for estimated number and cost of lightning claims in 2021, with 4,490 claims valued at \$95.2 million - an average cost per claim of \$21,206.



[NEXT](#)

FLOOD

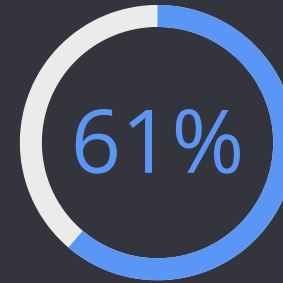
Flood insurance saw a major change with the introduction of FEMA's Risk Rating 2.0 program, which took effect Oct. 1, 2021.

These changes may create an environment for additional private companies to write more flood coverage in certain parts of the country.

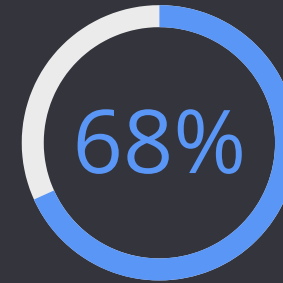


The methodology leverages industry best practices and cutting-edge technology to enable FEMA to deliver rates that are actuarially sound, equitable, easier to understand and better reflect a property's flood risk.

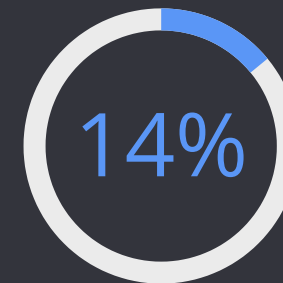
It allows FEMA to equitably distribute premiums across all policyholders based on the value of their home and unique flood risk of their property. Under the former methodology, many policyholders with lower-value homes were paying more than they should and policyholders with higher-value homes were paying less than they should.



A First Street study estimates economic damage due to flooding will grow over the next 30 years by 61% for an estimated total loss of \$32.3 billion.



Nationally, private flood insurance net premiums written totaled \$506,820,000 in 2021, which was an increase of 67.6% increase from 2020.



There are about 5.3 million home insurance policies in Texas, but only about 753,000 federal flood policies. That means only about 14% of Texas homeowners are covered by flood insurance.

Issue Spotlight: Auto

COVID-19 and Driver Behavior

The COVID-19 pandemic impacted auto insurance rates in several ways. At the beginning of the pandemic, anticipating fewer accidents during the economic shutdown when people were driving less, insurers issued refunds and account credits to their policyholders. Nationwide, \$14 billion was returned to policyholders during the height of the pandemic in 2020; \$1.4 billion was given back to Texas policyholders by insurers according to a Texas Department of Insurance (TDI) report to the legislature. Recent rate increases originate from those pandemic lows. What resulted instead was that even if miles driven declined and accident frequency *initially* dropped early in the pandemic, accident frequency and severity are rising quickly, which factors into more losses.

Cost to Repair and Replace Vehicles

Pandemic-related supply chain and labor disruptions have exacerbated the cost of repairing a motor vehicle. According to Triple I, replacement cost of parts has risen 13%. The Bureau of Labor Statistics consumer price index (CPI), which tracks changes in the prices paid by consumers for a representative basket of goods and services, showed a 5.61% increase in the CPI for motor vehicle body work in 2021. The price of new and used vehicles is also increasing, by 5.9% and 26.6% respectively. Replacement cost is expected to increase by \$886 million in Texas, which marks the third largest increase behind California and Florida. Since many auto insurance policies cover them during repairs, the rising cost of rental vehicles also augments the amount of a claim.



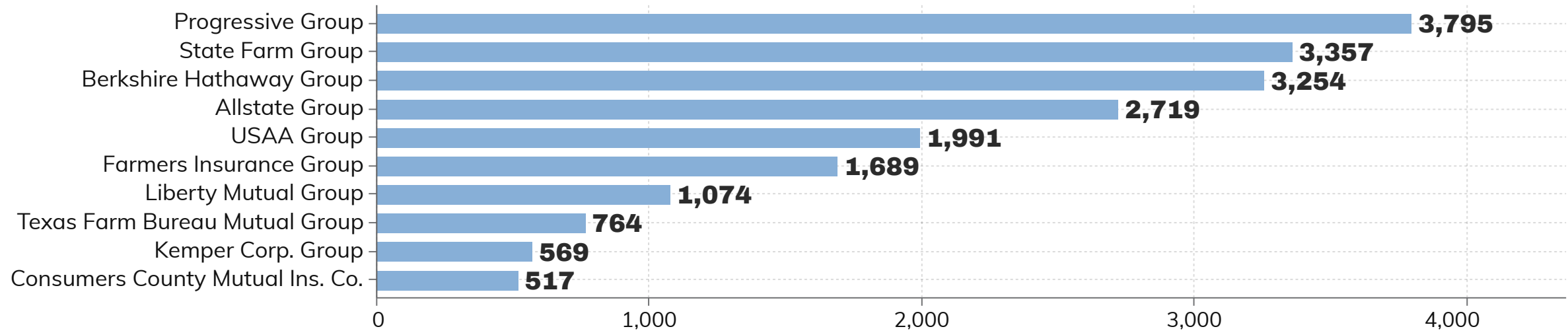
Private Passenger Auto

THERE WERE A TOTAL OF **28.7 MILLION** PRIVATE PASSENGER AUTO POLICIES WRITTEN IN TEXAS IN 2021 - UP 7% FROM 2020.



Top 10 Private Passenger Auto Groups by Premiums Written

(\$'000,000's)



Auto Premiums

There was a 5.51% increase in written premium for private passenger auto from \$22,266,670,903 in 2020 to \$23,493,099,321 in 2021. This is following a 3.32% decrease from 2019 to 2020.



Market Share

The top 10 writers represent **83.97%** of the market. This is up about **2%** from last year.



Healthy Marketplace

There were 78 groups (187 companies) that had direct premiums written for private passenger auto in 2021.

LOSSES

Private Passenger Auto Direct Losses Paid



Direct losses increased by a massive 24.3% in 2021!

Losses decreased 12% in 2020.

This could be attributed to the driving behavior after COVID-19 and increases on severity of auto losses.

The direct loss ratio increased to **65.17%** from 56.31% in 2020.

2021 ended with a **\$562,231,785** net underwriting loss.





COMPLAINTS

In 2021, TDI showed that there were **355 confirmed complaints** for private passenger auto out of **28,711,744** policies (.00124% of complaints per policy).

This is very low, and still a decrease (2020: 503 confirmed complaints - .00188%).

The number of confirmed complaints increased for commercial auto, **49** from 44 (0.00536%) out of 914,448 commercial auto policies.

Homeowners increased to **338** from 265 (0.00436%) out of 7.9 million policies.

Workers' Compensation increased to **435** from 320 (0.15720%) out of 276,724 policies written.

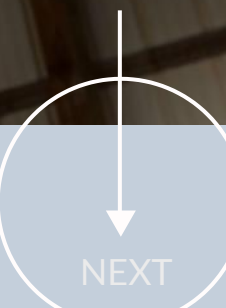
Issue Spotlight: Theft and Fraud

Auto Theft

Be it the pandemic, economic downturn, or something else, auto theft is increasing. According to the National Insurance Crime Bureau (NICB) car thefts nationwide increased by 16.5% in 2021 compared to 2019 and nearly 29% compared to 2017. Texas ranked second in total passenger vehicle thefts among all US states in 2021 and accounted for approximately 10% of all reported passenger vehicle thefts in the US.

Catalytic Converter Theft

Catalytic Converter theft has also surfaced as a big issue. An analysis of insurance theft claims has shown catalytic converter thefts have increased dramatically since 2019. In 2021, there were 52,206 reported catalytic converter theft claims, representing a 1,215% increase from 2019. Catalytic converters are small devices that convert hazardous exhaust to less harmful gases and use platinum, palladium, or rhodium to do so. The value of these precious metals has risen, which helped spur an increase in theft. Removing a catalytic converter takes only minutes and uses basic tools but is costly to fix—anywhere from \$1,000 to \$3,000. In 2021, Texas ranked second in the nation in catalytic converter thefts (with a total of 5,429 claims). Lt. Governor Dan Patrick has made catalytic converter theft a key issue that will be addressed during the upcoming 88th Texas legislative session.



Issue Spotlight: Theft and Fraud

Catastrophic Event Fraud

Between 2019 and 2021, there were 3,463 catastrophic (CAT) related Questionable Claims (QCs) submitted to ISO claim submissions. Texas ranked first in the Top Ten QC Loss States (2019-2021) with 864 QCs submitted. When analyzed by city, 50% of CAT related losses in the Top 10 were in Texas cities. In the Top 10 CAT related QC loss states, 50% were directly related to hail damage, and 40% were directly related to tropical cyclone/hurricane.

Many of the QCs involved alleged unscrupulous contractors and public adjusters following catastrophic events. Contractor fraud schemes and red flags identified by NICB include:

- Contractors who intentionally damage roofing shingles and property to replicate catastrophic event type damage to include wind damage.
- Demanding deposits or payments without completing promised work.
- Acting in the capacity of a public adjuster without proper licensure.
- Billing member insurance companies for work that was not performed.
- Taking advantage of elderly individuals that were impacted by storms.

Texas Paper Tags

According to NICB, an ongoing issue in Texas has been the illegal selling of fraudulent temporary Texas tags through a loophole with the Texas Department of Motor Vehicles (TXDMV). These paper tags can help criminals hide stolen vehicles and/or can be helpful in avoiding detection when committing other crimes such as robbery, smuggling, or other violent vehicle related crimes. These fraudulent Texas tags are being sold online and being seen throughout the United States causing problems for other state law enforcement agencies as well. The problem has become lucrative for fraudsters with some estimating it as a \$200 million a year black market business.

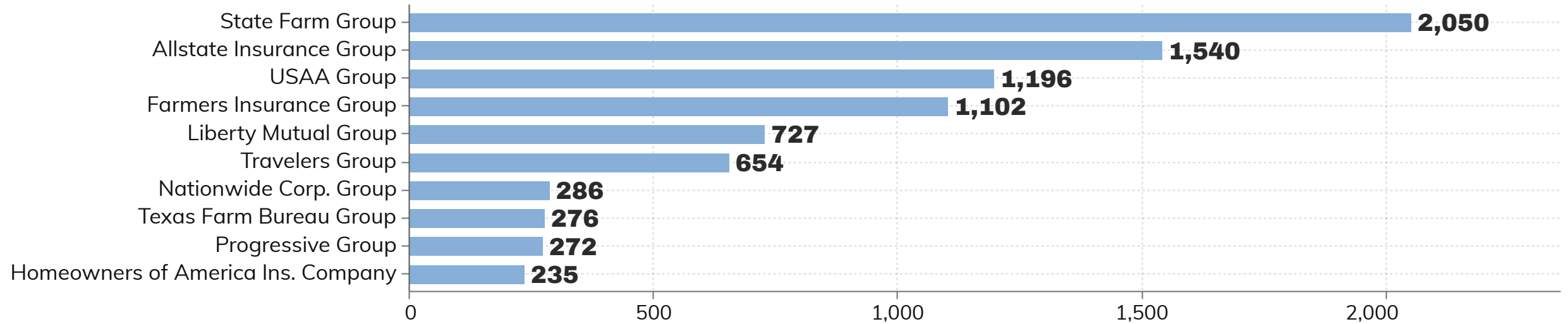
Homeowners Multi-Peril

THERE WERE 7.9 MILLION HOMEOWNER MULTI-PERIL POLICIES IN 2021, WHICH IS A SLIGHT INCREASE FROM THE 7.3 MILLION POLICIES IN 2020.



Top 10 Homeowner Multi-Peril Groups by Premiums Written

(\$'000,000's)



Home Premiums

Total premium written in 2021 was **\$11,501,377,650**.



Market Share

The top 5 groups represent **57.52%** of the market.



Growing Numbers

#1 State Farm Group showed a 10.98% increase from 2020, while #6 Travelers Group saw an increase of 20.56% from 2020.



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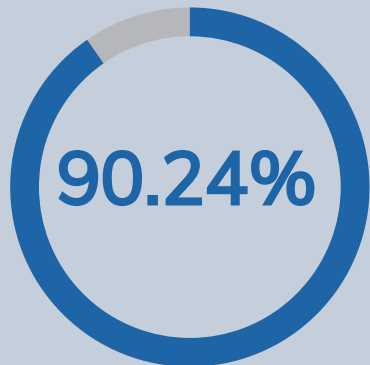
LOSSES

Homeowners Multi-Peril

In 2021, the groups had a net underwriting loss of **\$3,809,805,701**.

Direct losses paid for 2021 totaled **\$10,450,539,846**, which is up 83.2% from 2020 losses of **\$5,705,723,725**.

↑ **83.2%**



The 2021 loss ratio was **90.24%**, which is up from **54.13%** in 2020.

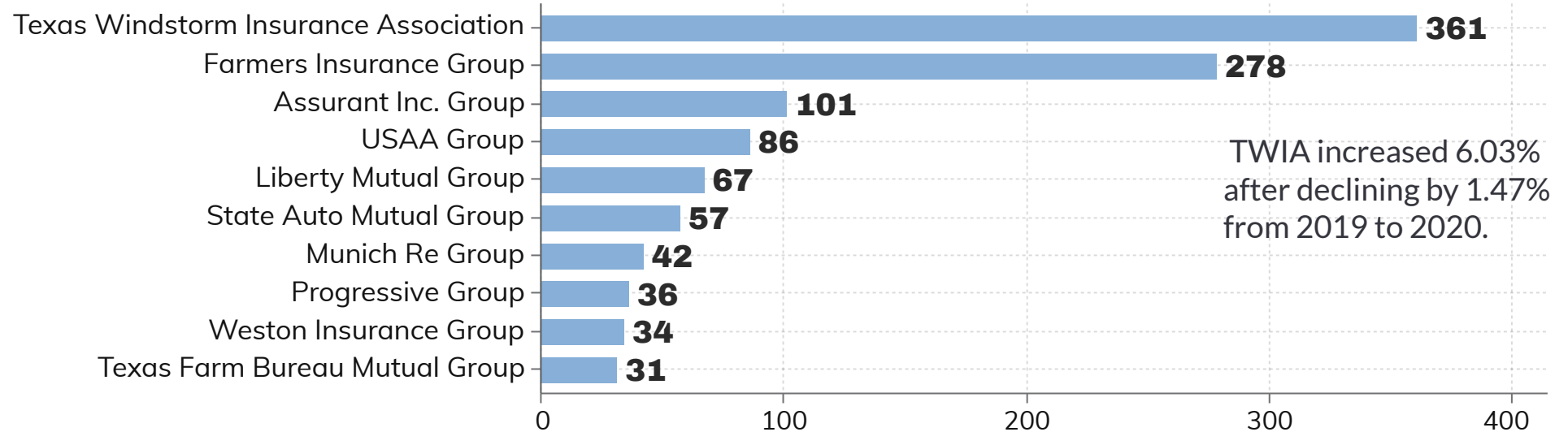




Residential Fire and Allied Lines

Top 10 Residential Fire and Allied Lines Groups by Premiums Written

(\$000,000's)



Losses

Direct losses paid for 2021 totaled **\$706,967,549**, with a loss ratio of 50.79%.



Market Share

The top 10 represent **78.58%** of the market.



Growing Premiums

There was a 6.93% increase in premiums written from 2020 to 2021.

2021 Texas Winter Storm

As of December 31, 2021, there were 508,529 claims reported and insurers expected to ultimately pay about \$11.2 billion. Reinsurance is expected to cover \$3.4 billion.

\$7.5
billion

paid to policyholders
through 12/31/2021

Payment to Policyholders

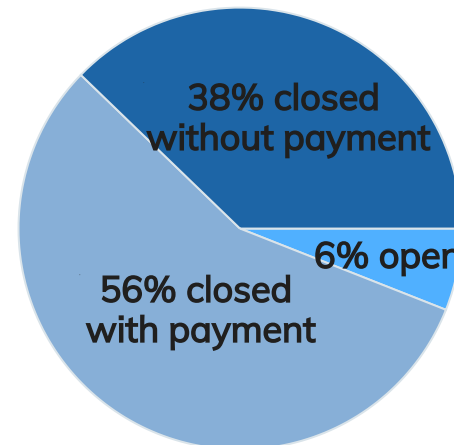
- \$4.3 billion residential
- \$3.2 billion commercial
- \$61 million personal auto
- \$89 million all other lines

Average case-incurred loss:

- \$17,200 for residential property policies;
- \$145,600 for commercial property policies;
- \$4,600 for automobile policies; and
- \$60,600 for all other.

At \$11.2 billion, the winter storm is the largest insured loss for a weather event in Texas behind Hurricanes Harvey and Ike. The 2021 Texas event is now the costliest winter storm in the U.S. from 1950-2021.

CLAIMS STATUS



- 85.1% of the claims were on residential property policies.
- 10.1% were on commercial property policies.
- 3.9% were on personal auto physical damage policies.

Issue Spotlight: Homeowners

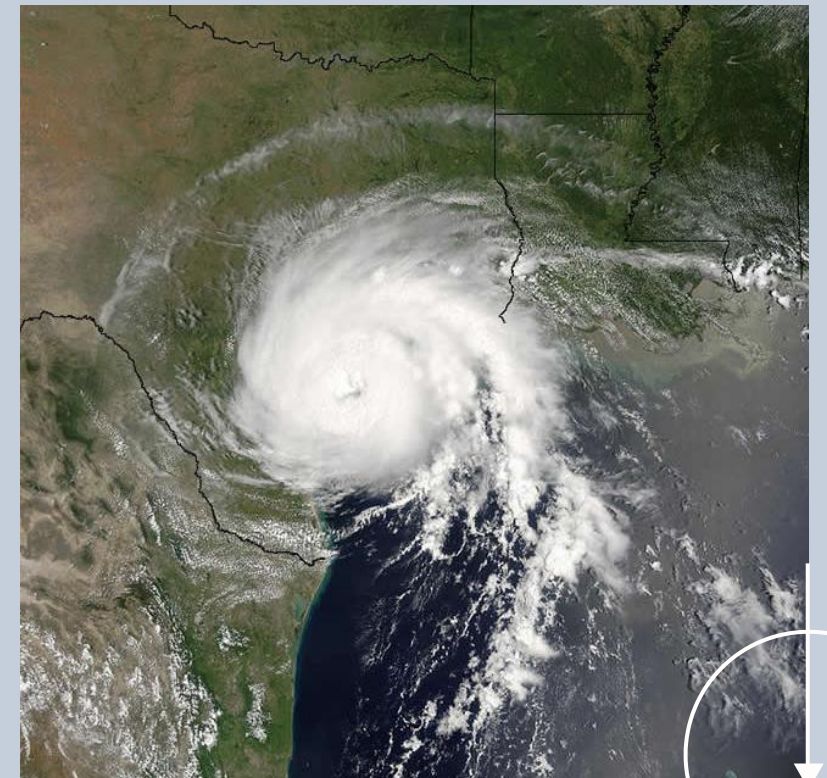
Increasing Home Repair and Rebuilding Costs

Building materials and labor costs are being driven up by inflation, supply chain issues, and labor shortages. The price of construction materials grew by 44.1% from 2020 to 2021. The CPI of services to residential construction (including trade services, transportation, and warehousing) has climbed 13.3% since the start of 2022. According to one of the major suppliers, roofing prices increased by at least 4-6% in 2021. At \$1.3 billion (year-over-year), Texas has the highest replacement cost increase in the nation.



Catastrophic Losses on the Rise

The growth in insured losses due to natural catastrophes has played a factor in homeowners insurance rates. In a presentation given on Jan. 28, 2022, Dr. Robert P. Hartwig, Clinical Associate Professor of Finance, Risk Management & Insurance at the University of South Carolina, showed that the average catastrophe insured loss per year for 1980-2020 was \$22.2 billion. In stark comparison, the insured catastrophe losses in the U.S. for 2021 totaled \$92 billion. Texas experiences an array of natural catastrophes—hurricanes, hail, floods, tornadoes, and wildfires—often ranking at the top nationwide.



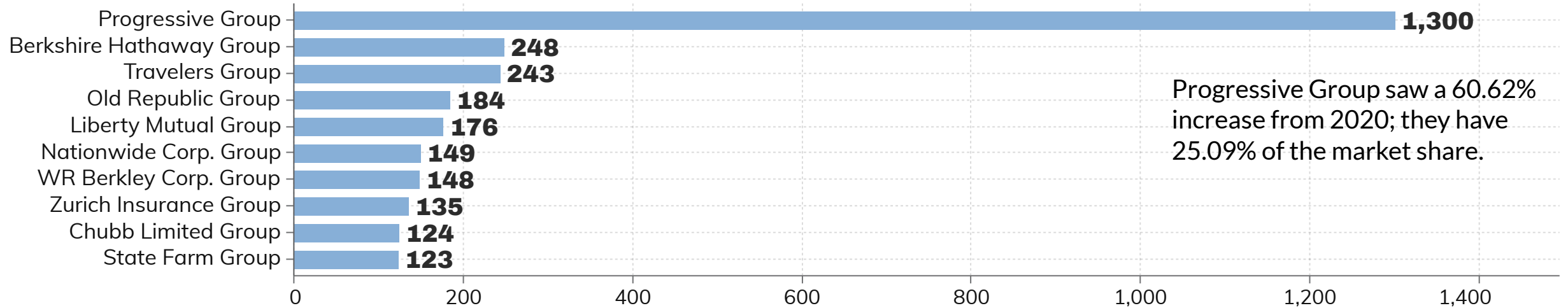


Commercial Auto

THERE WERE 914,448 COMMERCIAL AUTO POLICIES WRITTEN IN 2021.

Top 10 Commercial Auto Groups by Premiums Written

(\$'000,000's)



Progressive Group saw a 60.62% increase from 2020; they have 25.09% of the market share.

Premium Growth

There was a 21.21% increase in premiums written to **\$5,174,904,407** in 2021 from \$4,269,259,247 in 2020.



Market Share

The top 10 writers represent **54.65%** of the market share.



Groups/Companies

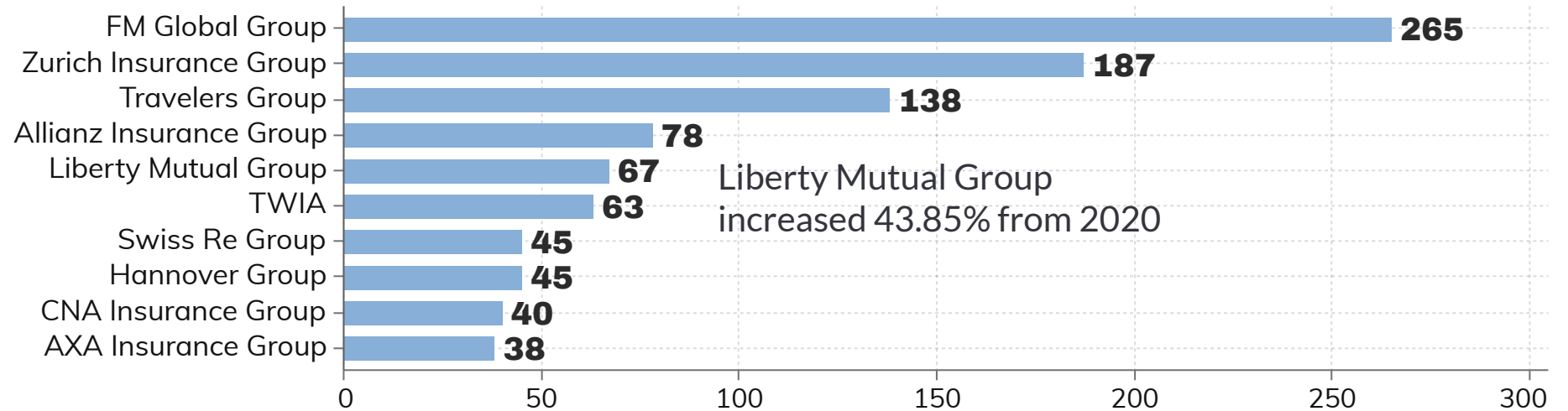
There were 115 groups (322 companies) that had direct premiums written for commercial auto in 2021.



Commercial Fire & Allied Lines

Top 10 Commercial Fire & Allied Groups by Premiums Written

(\$'000,000's)



Premium Growth

There was an 11.47% growth in direct written premium from 2020 to 2021. 2020 showed a 15.6% growth in DWP from 2019.



Market Share

The top 10 represent 68.48% of the market.



Healthy Marketplace

There were 78 groups (211 companies) that had direct premiums written for commercial fire and allied lines in 2021.

Issue Spotlight: Commercial

Commercial rates are also subject to the same market pressures and factors we are seeing in the other areas. Insurance replacement cost drivers have increased in both commercial auto and multi-peril.

According to Triple I, in commercial auto, a big driver is the cost of used vehicles, while construction costs are impacting commercial multi-peril.

Texas has the highest replacement cost for commercial multi-peril in the nation with an increase of \$484 million.

Texas is slightly behind California (\$40 million), for commercial auto replacement cost increase at \$39 million.

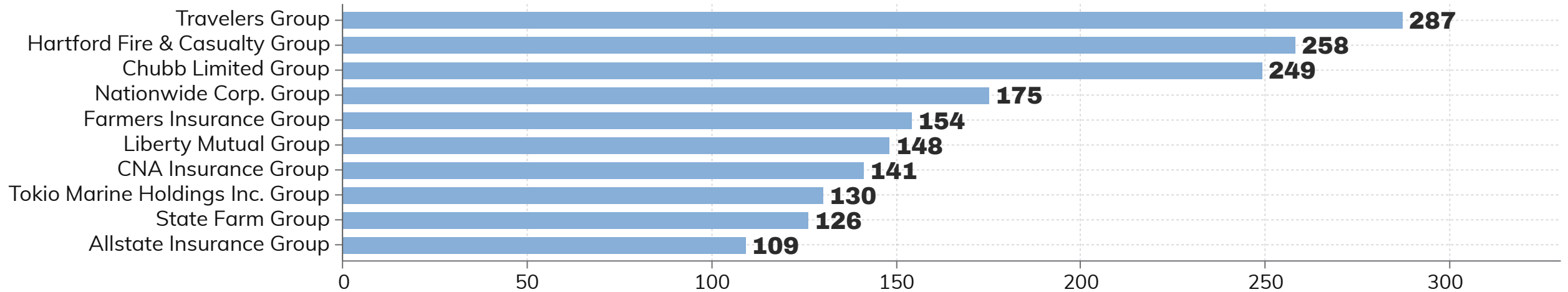




Commercial Multi-Peril

Top 10 Commercial Multi-Peril Groups by Premiums Written

(\$000,000's)



Premium Growth

Direct written premium grew by **12.80%** in 2021.



Market Share

The top 10 represent **59.8%** of the market, compared to **60.35%** of the market in 2020.



Healthy Marketplace

There were 93 groups (256 companies) that had direct premiums written for commercial multiple peril in 2021.



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Commercial Losses

Commercial Auto:

Direct losses paid for 2021 were **\$2,749,412,986**.

In 2021 there was a net underwriting loss of \$262,687,917, compared to a net underwriting profit of \$919,214 in 2020.



Commercial Fire & Allied Lines:

In 2021 there was a net underwriting loss of **\$731,502,716**, compared to a net underwriting profit of \$331,835,210 in 2020.

In 2021 direct losses paid were **\$1,327,955,506**, up from \$947,603,494 in 2020.

Commercial Multi-Peril:

In 2021 there was a net underwriting loss of \$1,441,051,707, compared to a net underwriting profit of \$173,417,019 in 2020.

Loss ratio increased from 55.53% in 2020 to 89.66% in 2021.

Direct losses paid in 2021 were \$2,659,325,341; up from \$1,459,213,904, an 82.2% increase.



82.2% increase

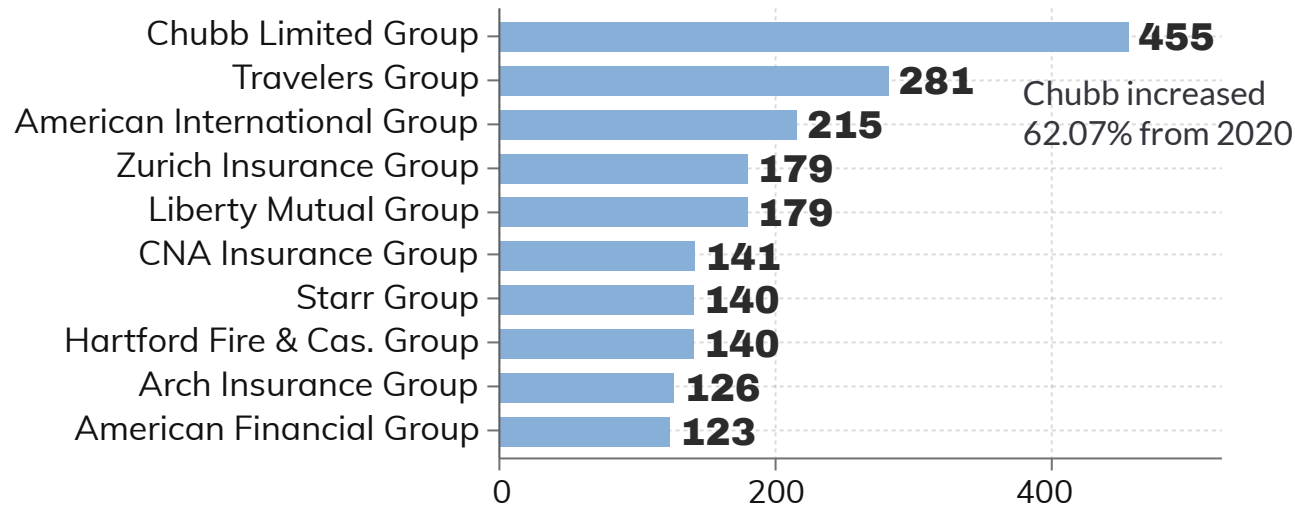


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General Liability

DIRECT WRITTEN PREMIUM GREW BY 16.61% IN 2021 FROM 2020.

Top 10 General Liability Groups by Premiums Written
(\$000,000's)



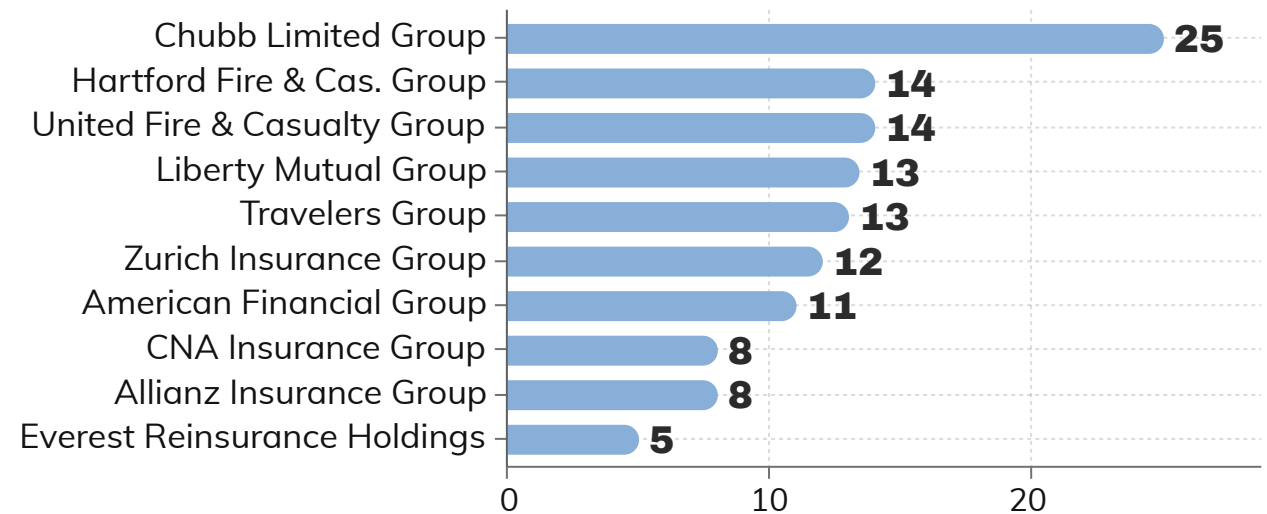
General Liability Losses

Direct losses paid in 2021 were **\$1,741,062,192.**

Product Liability

DIRECT PREMIUM FOR PRODUCT LIABILITY DROPPED BY 6.50% FROM 2020.

Top 10 Product Liability Groups by Premiums Written
(\$000,000's)



Product Liability Losses

Direct losses paid were **\$68,482,015**; this is a decrease from the \$78,064,613 in 2020.

Issue Spotlight: Reinsurance Costs

Reinsurance costs are also increasing, which also impacts rates. Reinsurance rates are increasing from 10%-35% for higher to mid-layers of reinsurance towers, according to *Artremis*.

More significant increases are also possible in some lower layers of reinsurance towers and for those that have been affected by repeated wind seasons.

Supply and demand dynamics are also at play, as the reinsurance capacity has not been as available.

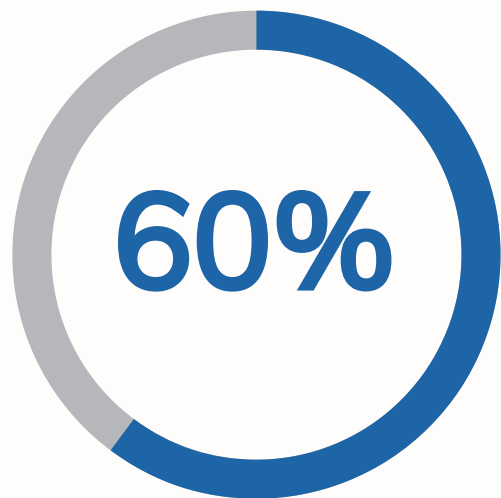


Protecting the Texas Coast

Texas insurers protect the majority of Texas coastal homeowners and businesses.

Insurers who write coverage in the 14 coastal counties and the Harris County catastrophe area:

- Review their risks and potential losses
- Have sufficient reserves and meet financial requirements of the Insurance Code
- Plan for potential storm losses in the area, and
 - Set their rates accordingly



The private market accounts for 60% of residential wind coverage policies written in these counties, as well as 61.4% of written premium, and 59.3% of the exposure (\$61 billion).

Texas insurers are required by law to pay up to **\$1 billion in assessments** to cover TWIA, the insurer of last resort, losses resulting from storms in any calendar year.

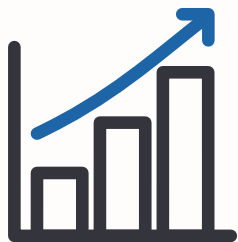
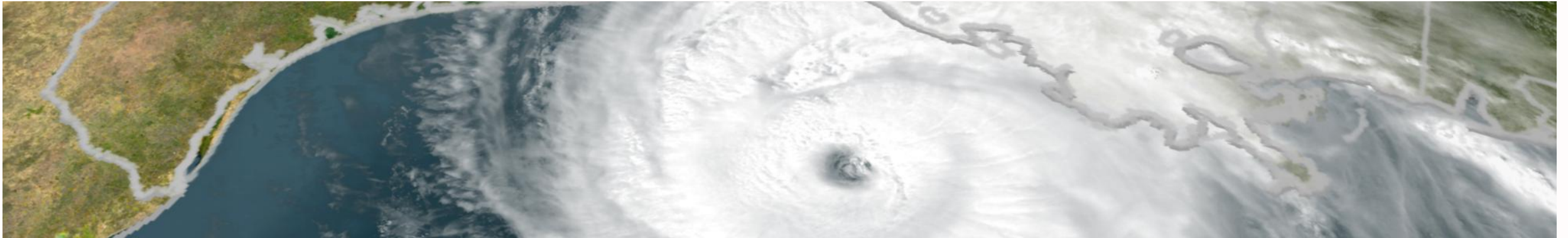
For example, after Hurricane Harvey, insurers paid **\$372 million** in assessments to help pay Texas Windstorm Insurance Association (TWIA) losses. This was in addition to the \$8.9 billion insurers paid for their policyholders' auto, home, and business losses after Harvey.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

The number of TWIA policies is rising for the first time since 2014.

As of April 30, 2022, TWIA, the **insurer of last resort** in Texas, provides coverage for approximately 194,221 residential and commercial property owners.



Direct Written Premium for 2021 was **\$395.1 million**, an increase of \$25.5 (6.9%) from 2020.

There were 12,525 claims in 2021.

TWIA's 2021 actuarial analysis found the Association's rates to be inadequate by **39%** for residential policies and **46%** for commercial policies.

In August 2021, TWIA approved a 5% increase for residential and commercial policies issued or renewed on or after January 1, 2022. This was the first rate increase since 2018.



TWIA is required by statute to file annual updates with TDI to the **maximum liability limits** under a windstorm and hail policy based on construction indices. TDI can accept, reject, or modify the filing. In 2021, TDI modified the filing to reject all proposed increases to the maximum liability limits, except an increase for mobile homes from \$84,000 to \$96,000.

The maximum limits are:

Dwellings and individually owned townhouses:

\$1,773,000

Contents of an apartment, condo, or townhouse:

\$374,000

Commercial structures and associated content:

\$4,424,000

Comparison to Other Beach and Windstorm Plans:

Texas had the most DWP in beach and windstorm plans with **\$395 million**.
Second was North Carolina at \$390.5 million.



Texas had the second most policies for beach and windstorm plans (202,435), as well as the second most amount of exposure (\$59.5 billion), behind North Carolina (220,988 and \$83.9 billion, respectively).

Texas had the highest maximum liability limits for habitational and commercial policies.



TWIA Legislative Oversight Board

The TWIA Legislative Oversight Board is tasked to study TWIA's funding structure, how other states' catastrophic risk pools operate, hold public meetings with testimony, and submit a report with findings and recommendations no later than January 1, 2023. They have not yet met. House appointments to the Board include **Abel Herrero**, (D-Robstown), **Ryan Guillen** (D-Rio Grande City), **Mayes Middleton**, (R-Wallisville) and **Ed Thompson**, (R-Pearland). Senate appointees includes Senators **Dr. Charles Schwertner**, (R-Georgetown), **Brandon Creighton**, (R-Conroe), **Juan "Chuy" Hinojosa** (D-McAllen), and **Lois Kolkhorst** (R-Brenham).

In July 2021, Representative **Briscoe Cain** requested an opinion from Attorney General Ken Paxton asking if TWIA's actions during the 87th legislative session violated the prohibition against lobbying by state agencies. In Opinion No. KP-0398 the AG concluded that Chapter 2210 of the Insurance Code does not establish TWIA as a state agency for purposes of Chapter 556, Government Code (which governs political activities by certain public entities and individuals).



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Ongoing TWIA Issues

- Rates and ratemaking process,
- Funding structure (debt and expenses/costs)
- TWIA as a competitor to the private market
- Reinsurance needs
- Board Composition
- Hurricane Risk Modeling
- Location of headquarters

Click here
to read the
AG opinion.

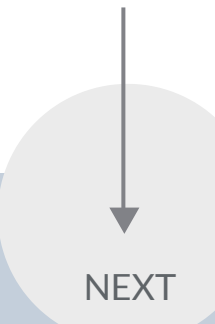
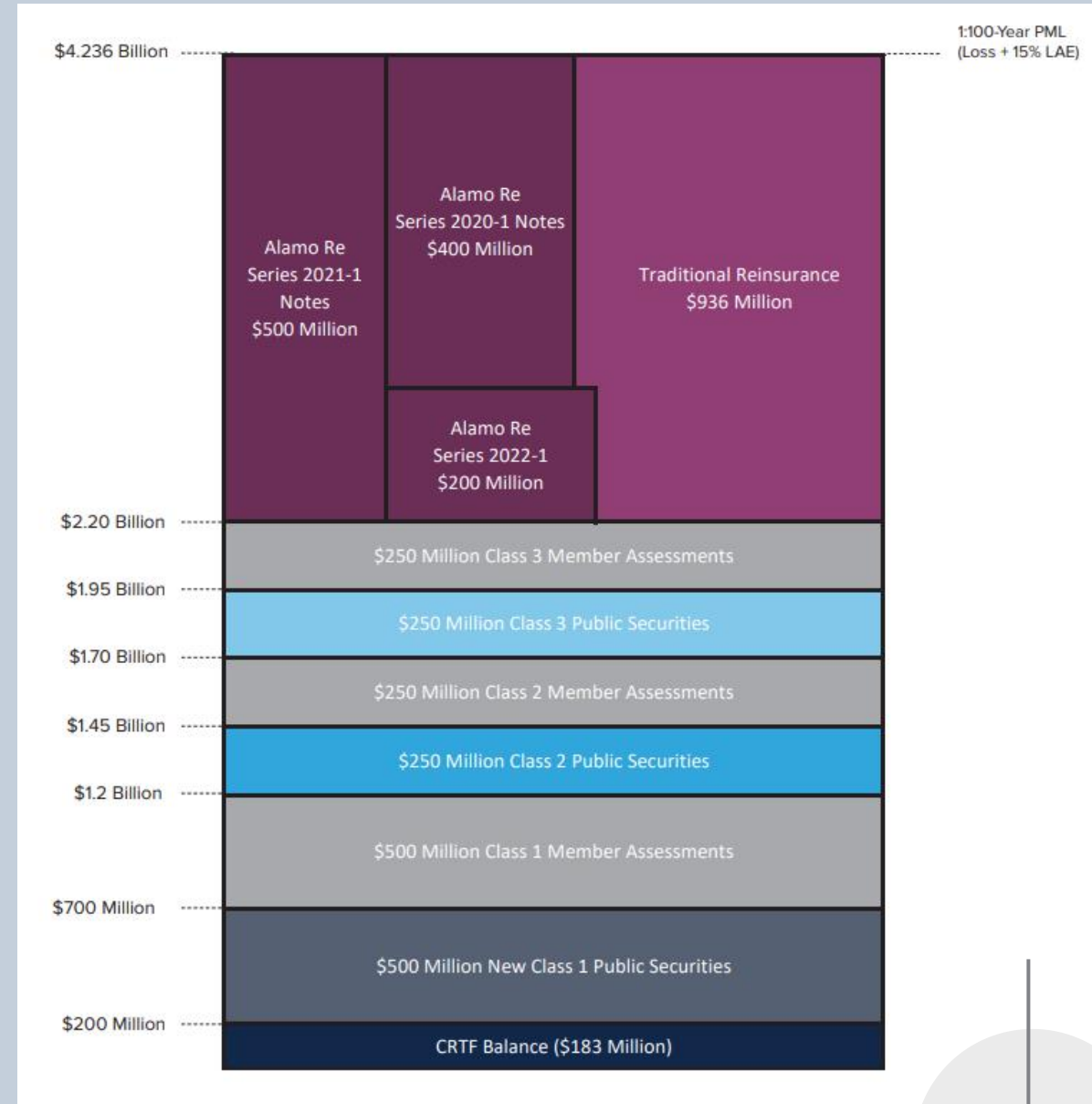
Issue Spotlight: TWIA Funding

TWIA is not a state agency and does not receive general revenue. Rather, TWIA is an insurance company that collects premiums, issues, and services policies, and is responsible for paying covered losses. Traditional insurers must have sufficient reserves and meet the financial requirements of the Insurance Code, plan for potential storm losses in the area, and set their rates accordingly. TWIA is different as it does not have the financial reserves of a traditional insurance company and limited revenue.

TWIA’s current funding structure, which relies heavily on debt, is not sustainable. ICT did an analysis of potential scenarios of storms hitting the Texas coast. In one scenario, if a hurricane such as Laura, that barely missed Texas in 2020 and caused an estimated \$8+ billion in losses, would have made a direct hit on the Texas coast, all levels of TWIA’s funding would have been exhausted.

TWIA rates, board structure, reinsurance needs, and even headquarters location were issues during the last legislative session. Given its precarious nature, TWIA’s funding structure will undoubtedly be (and should be) a topic for the next Texas Legislative Session. The industry has proposed the creation of a contingent hurricane relief surcharge program, requiring all property insurers to collect up to \$1 billion on property policies and remit the surcharges to support coastal insurance losses. This would replace the current debt funded portion for TWIA and help reduce TWIA’s expenses. Currently, for TWIA, 60% of their premium revenue is already allocated to expenditures. Insurers would continue to have a potential \$1 billion in assessments to help pay losses.

2022-2023 TWIA Funding Model



Other Residual Markets

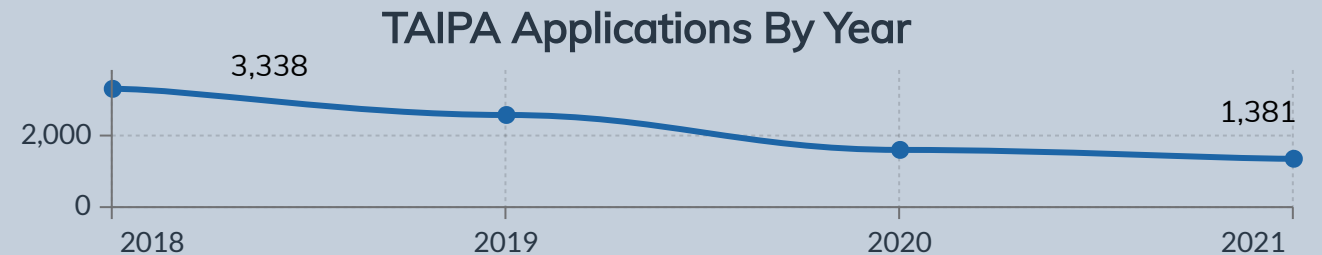
TWIA IS AN ANOMALY WHEN IT COMES TO RESIDUAL MARKETS IN TEXAS. OTHER RESIDUAL MARKETS SUCH AS THE TEXAS FAIR PLAN (TFPA), TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION (TAIPA), AND THE JOINT UNDERWRITING ASSOCIATION (JUA) HAVE REMAINED SMALL AND EVEN DECREASED IN PARTICIPATION OVER TIME.

Texas FAIR Plan

- Direct written premiums for the year ended December 31, 2021 totaled **\$75.6 million**, a decrease of 4.8% from 2020.
- **Policies in force as of December 31, 2021, totaled 66,512.** At year end 2020 total policies were 73,713.
- The TFPA Governing Committee analyzed and considered the 2021 actuarial analysis for TFPA and approved a rate increase averaging 7.6% statewide for homeowners. TDI approved the rate change and it will apply to new and renewal business beginning August 1, 2022.

TAIPA

TAIPA sells liability, PIP, and UM/UIM coverages to those who cannot find a company willing to sell them a policy.



JUA

The JUA was created by statute in 1975 as a temporary solution to a market restriction in availability of Medical Professional Liability Insurance. There are less than 10 policies in the JUA.

Legislative Activity



The 87th legislative session adjourned sine die on May 31, 2021. Three special sessions followed focusing on issues such as election reform, redistricting, prohibition on vaccine mandates, and transgender student athletes, ending on Oct. 19, 2021.

Texas Senate and House leadership released interim charges for committees to study, hold hearings on, and make recommendations prior to the 2023 legislative session.

- The **House Insurance Committee** will examine ways to promote competition and identify barriers to entry, as well as reviewing insurance anti-rebating laws and model legislation related to rebates.
- The **Senate Criminal Justice Committee** is tasked with examining automobile parts theft, including catalytic converters. The Committee held a meeting in Houston and heard from members of law enforcement.
- The **Senate Transportation Committee** is studying safety and factors leading to increased number of crashes. The Committee met and discussed the increase in fatalities and things that might be done to improve safety.
- The **Senate Natural Resources Committee** is charged with looking at wildfires and prescribed burns. They are also evaluating the implementation of HB 4110, which relates to metal recycling. The Committee had a hearing and discussed the availability of insurance for private landowners who do prescribed burns. The metal recycling discussion centered around catalytic converter theft.

Legislative Activity



The 88th legislative session begins January 10, 2023

Possible Property and Casualty Insurance Issues in 2023

- Economic Pressures and Regulatory and Legislative Response
- Litigation and Social Inflation
- Appraisal Process
- Replacement Costs in Residential Policies
- County Mutual Exemptions
- Requirements for OEM Parts in Vehicle Repair
- UM/UIM and Attorney Fees
- TWIA Funding
- ESG

Regulatory Activity



In September 2021, Governor Greg Abbott appointed Cassie Brown as the Commissioner of Insurance for a term set to expire on Feb. 1, 2023. She had previously served as commissioner of workers' compensation insurance at TDI-DWC since 2018.

Trade Practices in Texas Administrative Code

TDI adopted nonsubstantive changes to rules on trade practices in the Texas Administrative Code. Changes include updated statutory citations, updated contact information for TDI, and grammatical corrections.

Sale of Substitutes to Workers' Compensation Insurance

TDI adopted the repeal of 28 TAC §5.6302, regarding the sale of substitutes to workers' compensation insurance. HB 3769, passed during the 87th legislative session, requires disclosure on policy forms for certain occupational insurance policies designed or marketed to provide coverage to an employer that elects not to maintain workers' compensation insurance coverage under Chapter 406, Labor Code. §5.6302 is no longer needed because each provision in it is now superseded or addressed by statute.

TWIA Rate Filings and Reinsurance Purchase

TDI adopted new 28 TAC §5.4702, regarding TWIA's rate filings and reinsurance purchases. This new rule implements HB 769, which passed during the 87th regular legislative session. HB 769 prohibits the TWIA board of directors from voting on a proposed rate increase if there is a vacancy on the board that has existed for at least 60 days at the time the vote is taken. It also prohibits TWIA from buying reinsurance from any insurer or broker involved in executing catastrophe models that TWIA relies on in determining its PML or in adopting rates. TWIA is also required to conform their plan of operations to these changes.

Regulatory Activity

Disallowed Expenses Data Call

TDI issued a mandatory data call for disallowed expenses. "Disallowed expenses" are defined in §2251.002(1-a), Insurance Code and include things such as administrative expenses and lobbying expenses. The data call applies to licensed companies that wrote premium in 2021 for any of the following lines of insurance in Texas: fire, allied lines, private crop, farm owners multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, medical malpractice, other general liability, products liability, private passenger automobile, commercial automobile, fidelity, or surety. The reporting period is January 1, 2021 to December 31, 2021. The deadline to submit the data was July 8, 2022.

Data Call for 2021 Catastrophe Premiums

TDI issued a special data call to companies writing commercial property or businessowners insurance in Texas and certain farm mutuals writing property insurance for 2021 property direct written premium in the Texas catastrophe area. The data call is necessary to supplement TDI's statistical information and to enable TWIA to calculate shares for assessments (if required in 2022). The reporting period is January 1, 2021 to December 31, 2021. The data may also be used in 2023 before data for 2022 is available.

Credit for Reinsurance

TDI adopted amended 28 TAC §7.614 (adoption of forms by reference), and new 28 TAC §7.615 (credit for reinsurance related to reciprocal jurisdictions) and §7.616 (reserving practices related to credit for reinsurance). HB 1689, which passed during the last regular legislative session, eliminated collateral requirements for certain insurers and prevents federal preemption. The amended and new sections are necessary to ensure TDI retains its authority to regulate credit for reinsurance matters associated with covered agreements, align TDI's rules with the current approach to regulate reserve financing arrangements for certain life insurance policies, and align TDI's rules with updates to the National Association of Insurance Commissioners' (NAIC) accreditation requirements.

Grace Period for TWIA Renewals

TDI adopted rules to establish a grace period for TWIA policy renewals. HB 2920, which passed during the 87th legislative session, required TDI to adopt rules to establish a grace period of not more than 10 days after the due date for the receipt of payment of premium for the renewal of a policy.

Attorney General Adopts Child Support Rules

The Texas Attorney General adopted rule amendments to TAC §§55.601-55.605 addressing insurance reporting and intercept of certain insurance settlements and awards for child support payments. This adoption comes following several years of discussion and review. In 2015, the Texas Legislature passed SB 1174 which made additional statutory changes, regarding certain 1st and 3rd party claims, to the insurance claims intercept requirements and these changes necessitated updates to the AG rules. In 2016, ICT provided comments for suggested changes to the proposed rules based on input from our members. The rules were then proposed again in December 2021 with ICT's suggested changes included.

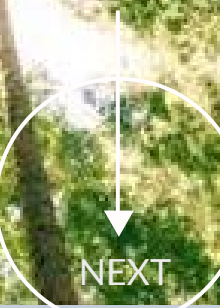


Issue Spotlight: Environmental, Social, and Governance (ESG)

Corporations are increasingly including non-financial factors, such as environmental and social impacts of operations and investment practices, into business analyses to help them identify risks and growth opportunities. These are referred to as environmental, social, and governance (ESG) and have become more significant due to globalization, concerns about climate and extreme weather, and social media making inequity and injustice more visible in time. As pointed out by Triple I, ESG priorities are not new to insurers since they have long been involved in understanding and addressing these and other risk factors as a fundamental part of doing business.

One area of particular interest is climate and extreme weather concerns. Research shows that average insured natural catastrophe losses have risen nearly 700% since the 1980s. Given this, something needs to be done to plan for potential disasters to come.

The NAIC recently took a significant step in approaching climate risk. In a bipartisan effort led by co-chairs Insurance Commissioners Ricardo Lara of California and David Altmaier of Florida, the NAIC Climate Risk & Resiliency Task Force (Task Force) adopted a new standard for insurance companies to report their climate-related risks, in alignment with the international Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD standard is the international benchmark for climate risk disclosure. The approach is that adopting it will help insurance regulators and the public to better understand the climate-related risks to the U.S. insurance market (which is the largest in the world) and move the focus from the politics to adapting and managing climate risks. Fifteen states have committed to utilize the NAIC survey in 2022 for insurance companies licensed in their jurisdictions, representing nearly 80% of the U.S. insurance market. U.S. financial regulators, such as the U.S. Securities and Exchange Commission are also taking steps towards requiring TCFD-aligned disclosures for other financial institutions.



Issue Spotlight: Environmental, Social, and Governance (ESG)

During the last legislative session, HB 3433 by Representative John Smithee aimed to prohibit refusal or renewal of an insurance policy based on political affiliation or expression. While the bill failed to pass, it did surface an issue that may play out during the next legislative session in some form.

In April 2022, Representative Briscoe Cain sent a letter to the Chief Executive Officer of Lyft, asking them to rescind their policy which pays the travel expenses for women seeking abortion. He said that legislation will be introduced in the next session that bars corporations from doing business in the state of Texas if they pay for abortions or reimburse abortion related expenses, regardless of the law in the jurisdiction where the abortion occurs. Legislation such as this can put those doing business across multiple states in a precarious position.



Sources

Insurance Information Institute:

- [Insurance Industry At A Glance](#)
- [U.S. Insurance Industry Premiums](#)
- [Texas stats](#)
- [Employment and economic contributions](#)
- [Companies by State](#)
- [Major Catastrophes](#)
- [Flood Insurance](#)

Texas Department of Insurance

- [2021 Annual Legislative Report on Market Conditions](#)
- News Release: [Only 14% of Texas homeowners have a flood policy.](#)
- Report: [Insured Losses Resulting from the February 2021 Texas Winter Weather Event](#)

National Insurance Crime Bureau

- [Reports and Statistics](#)

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2022 State of the Texas Property & Casualty Insurance Market