

CWIC Good and Bad points on “5 – 2” Temporary Funding Amendment

Description: ADD 2210.0581 [“5 – 2”] to an otherwise *unchanged Chapter 2210*, as a means to quickly restore capital to the TWIA Catastrophe Reserve Trust Fund [CRTF] in the form of a 5 year plan including the following three sources:

- 1.) TWIA insurer members would be assessed \$300 Million each year, according to each member’s ‘participation’ share;
- 2.) Catastrophe Area property and casualty policies [except: Flood, Worker’s Comp, Accident and Health, and Medical Malpractice] would each be surcharged 5%;
- 3.) All other property and casualty policies [same exceptions] in the state would each be surcharged 2%;
- 4.) The entire apparatus would terminate after 5 years.

ADVANTAGES:

- a) *A stitch in time saves nine.* Collecting reserves in *advance* **saves substantial Costs**. Pre event funding avoids very substantial costs of reinsurance, securities issuance and sales costs, and other comparable methods costs. It is also enhanced substantially by **earnings from invested funds**.
- b) Advance funding is **certain**; securities to be sold after an event are NOT.
- c) As funds are received, the ‘attaching point’ of any reinsurance can be safely raised, **reducing reinsurance cost**. More TWIA net income **increases CRTF** reserves.
- d) 5 - 2 increases the burden on insurers, **increasing the incentive** for insurers to write voluntarily. To the extent an insurer’s voluntary writings increase, its TWIA assessments decrease—potentially, to zero. **TWIA also decreases**.
- e) Funds collected before an event are available **immediately**. ‘Post event’ sources are delayed and less certain.
- f) Cost levels in this plan are **relatively affordable** for all sources.
- g) This plan can **COST LESS** than costs under existing law without 5 - 2.
- h) Starting 5 – 2 in 2009 will **set the stage** for reforms to avoid inappropriately spreading of TWIA costs statewide in 2011.
- i) Concerns are ‘capped’ by the **5 year termination** [light at the end of the tunnel]..

DISADVANTAGES:

- a) 5 – 2 funding surcharges are not presently in place; they will have to be set up.
- b) The **three funding sources** may have empathy today for the 2008 Coastal victims, but may be less accepting of even these amounts as memories of 2008 fade.
- c) The purpose to incentivize insurers to write voluntarily is realistic, but insurers may threaten to *leave Texas* because of this new burden. These same insurers are the CAUSE of the existence of and the growth of TWIA. They should bear responsibility for having created the problem by geographic underwriting, which is defined in Texas law as **“Unfair Discrimination”**.

This plan can motivate insurers to help themselves, by helping Texans find voluntary policies.

CWIC [Coastal Windstorm Insurance Coalition] Lee Otis Zapp, Jr., April 22, 2009