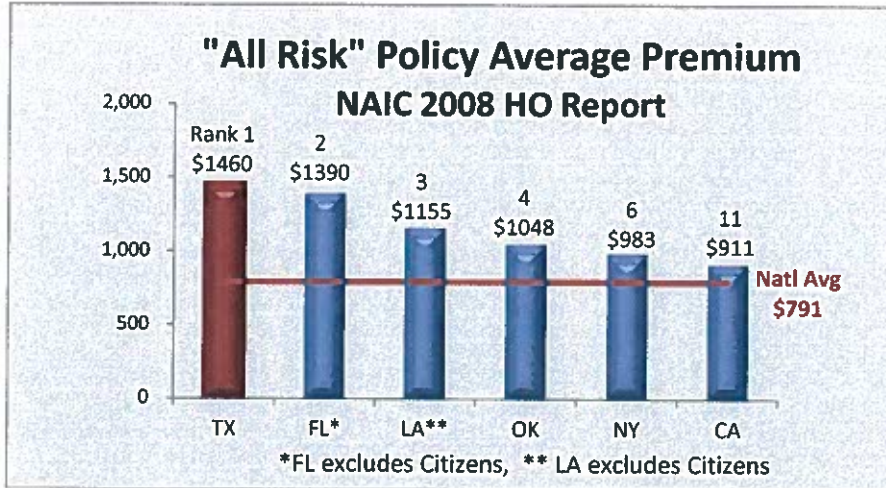


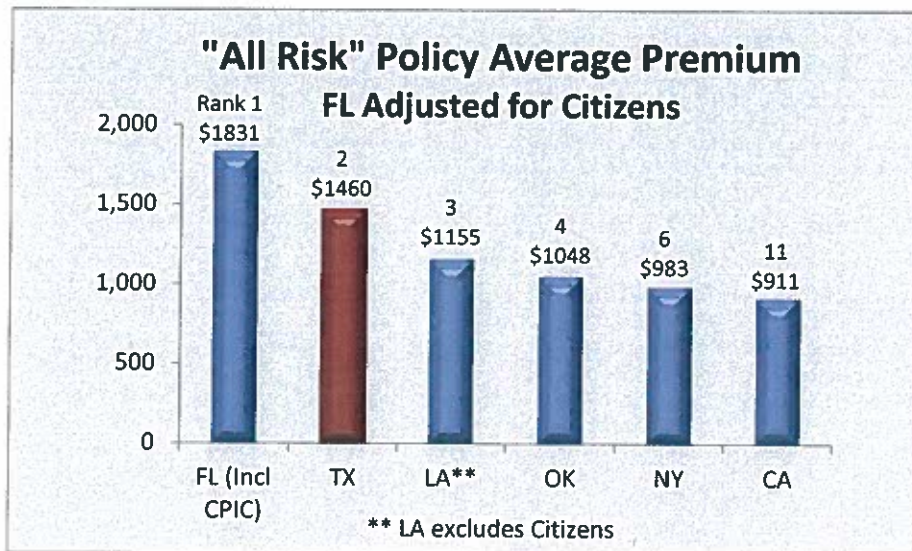
**Report of the Texas Department of Insurance
to the Senate Business & Commerce Committee
January 10, 2012**

Homeowners Insurance in Texas

According to a report of the National Association of Insurance Commissioners (NAIC) of 2008 average homeowners insurance premiums (the latest data available), Texas has the nation's highest average premiums for an All Risk policy.¹



The NAIC report includes TWIA for Texas, but does not include data for the massive Citizen's companies in Florida (\$1 billion written premium) and Louisiana (\$130 million in written premium).² After adjusting Florida's average premium to include Citizen's policies, Florida surpasses Texas as the highest ranking state.³



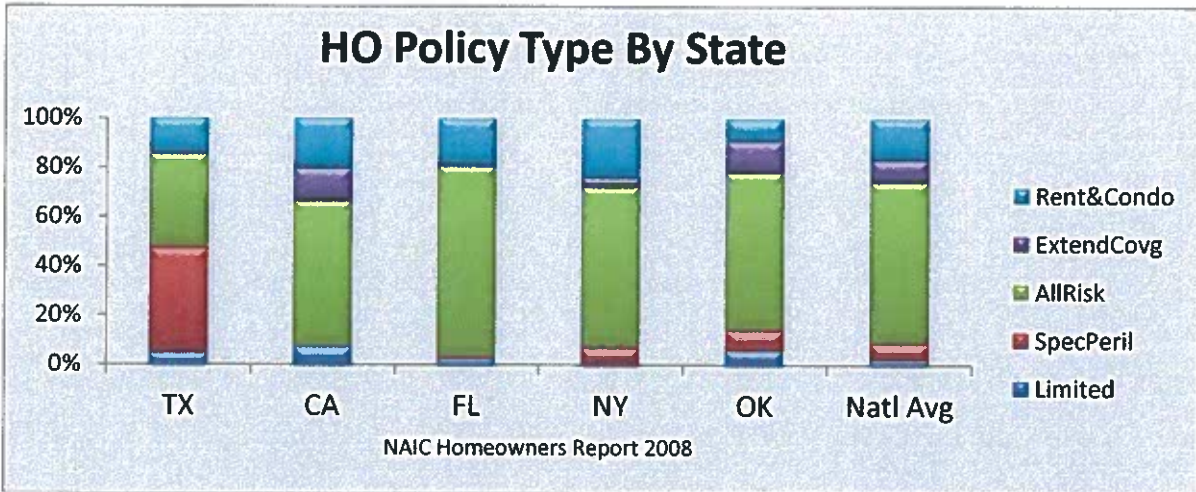
¹ National comparisons of homeowner rates are problematic because of variations in property values, coverage provided, policy forms and the influence of residual markets.

² Florida and Louisiana Citizen's write full homeowners coverage, not wind only like TWIA.

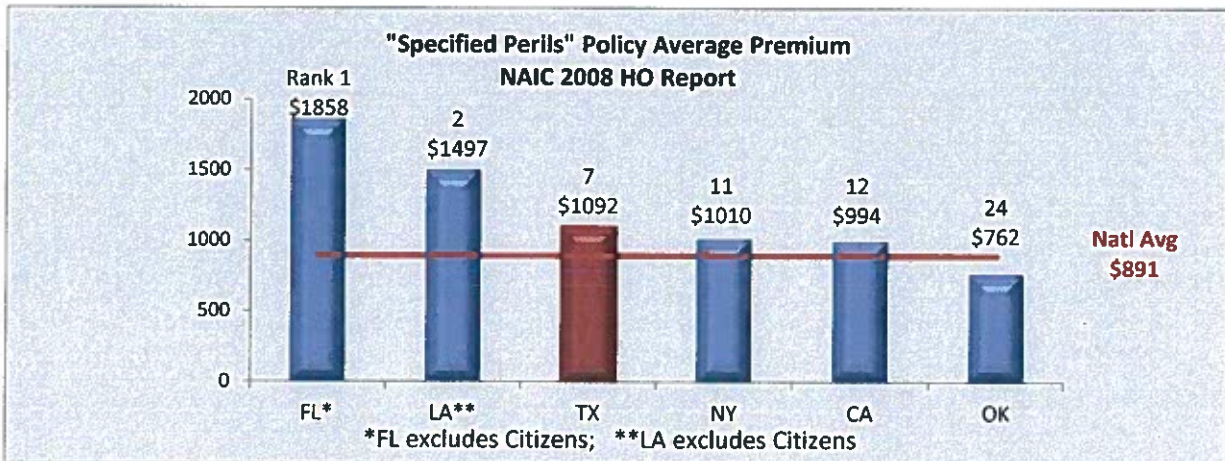
³ Policy count information for Louisiana Citizen's was not available, so Louisiana's average premium could not be accurately calculated. Texas likely drops to third under a true apples-to-apples comparison.

Homeowners Policy Coverage in Texas

Nationally, most homeowner policies are All Risk policies, which cover the home and contents for loss due to any cause that is not specifically excluded, at a higher average premium. Fewer than 60% of Texas homes are covered by an All Risk policy. Texas is the only state in the US with a substantial proportion of Specified Peril Homeowner's policies, which cover the home and contents for a loss due only to specific defined events such as windstorm, hail, fire, sudden water damage, vandalism, etc.⁴ All Risk policies are available in Texas at an average 20% higher premium.



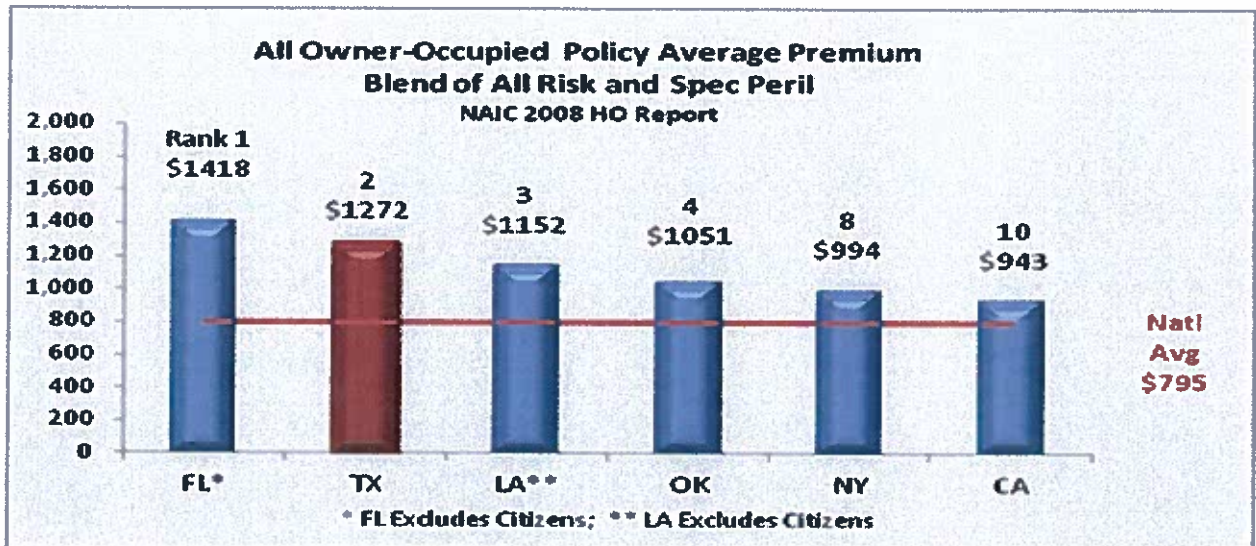
Texas ranks seventh nationally on a comparison of Specified Peril policy average premiums.⁵



⁴ Prior to 2000, 90% of Texas homeowners were insured under an All Risk policy with coverage provisions prescribed by TDI. By 2002, many insurers had shifted to the Specified Perils policy form, probably as a result of the mold crisis in the early 2000s. It is important to note that Specified Perils policies do not generally reduce catastrophic coverage, but limit coverage for water damage occurring over time and subsequent mold remediation.

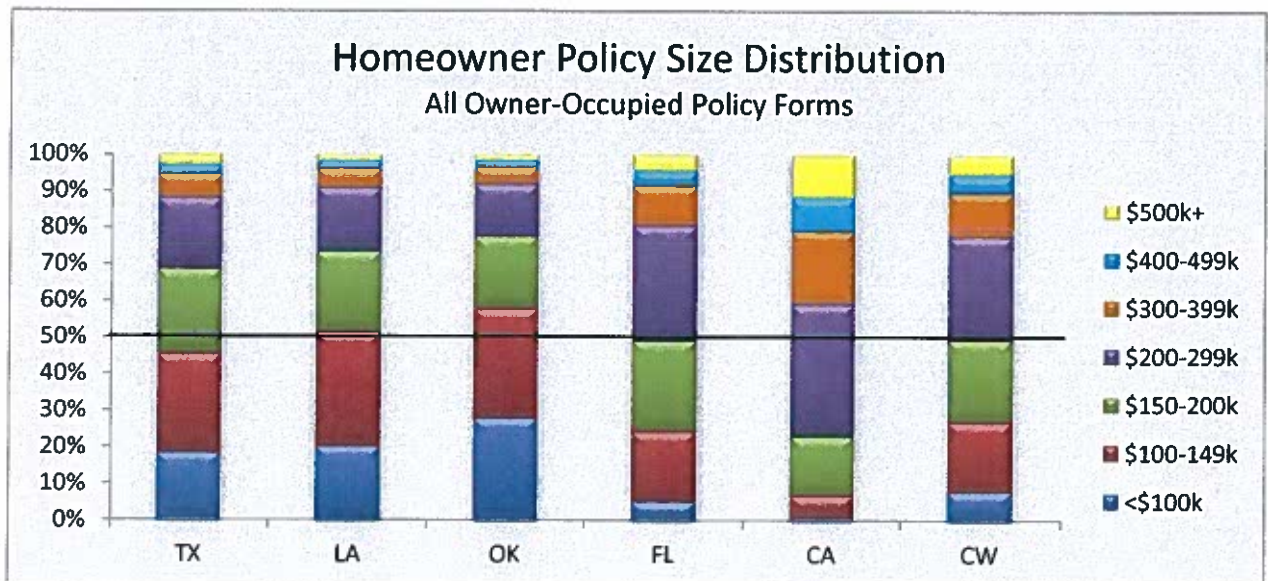
⁵ Average premium for Specified Perils policies is higher in all states except Texas, perhaps because it is not a mainstream product as it is in Texas but, rather, is a borderline non-standard product in most states, so product mix is skewed toward lower credit scores and higher fire protection classifications.

Combining all homeowner policy types, Texas average premium ranks second at \$1,272, compared with the countrywide average of \$795.

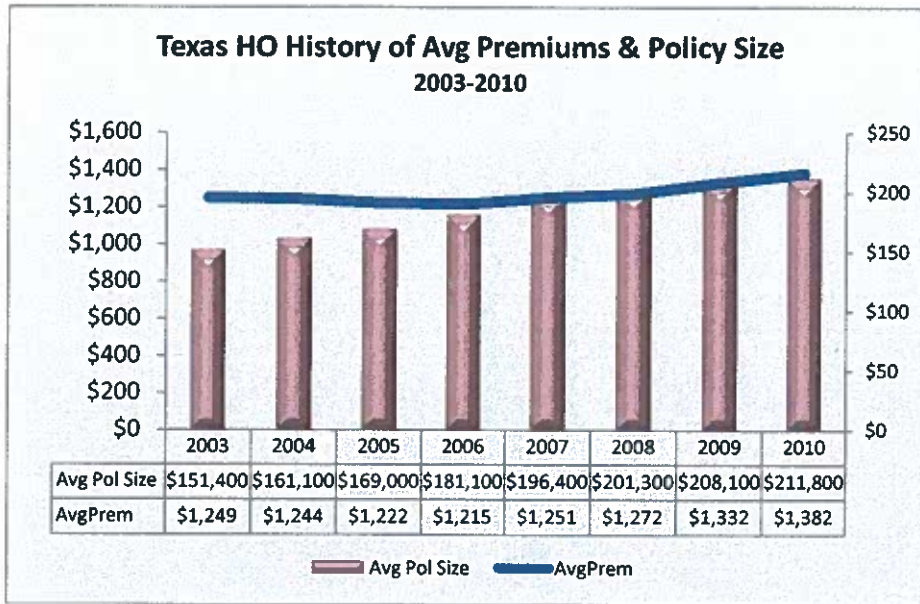


Policy Size

The median (50th percentile) insurance value (cost to replace) in Texas is in the \$150-174k range (green band), which is below the countrywide median value at the low end of the \$200-299k range (purple).

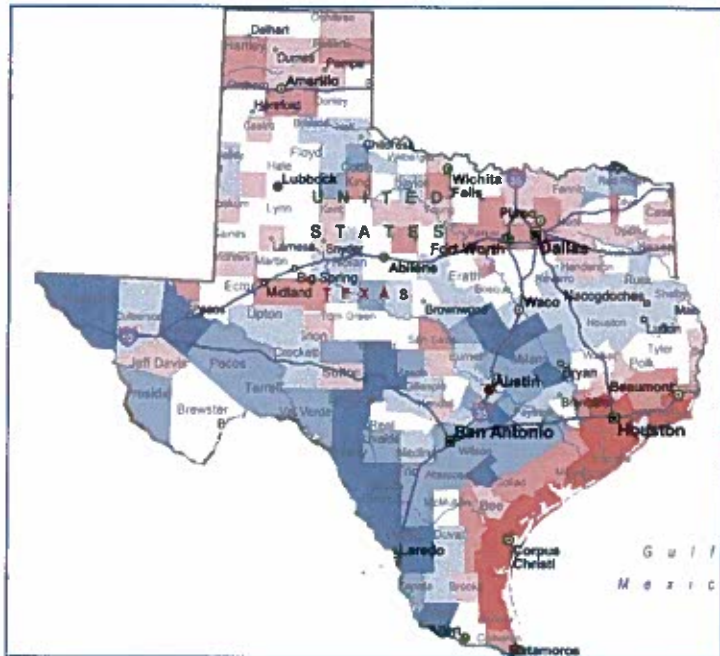


Texas average policy size increased 40% (from \$151,000 to \$212,000) between 2003 and 2010, while average policy premium increased only 10% (from \$1249 to \$1382) over the same period. Premiums per dollar of coverage were actually lower in 2007 - 2010 than in 2003 - 2006.



Premiums across the state

Average premiums vary considerably across the state, with average premiums in coastal counties 30%-60% higher than the Dallas-Fort Worth Metroplex and 2-3 times higher than rural, inland counties.



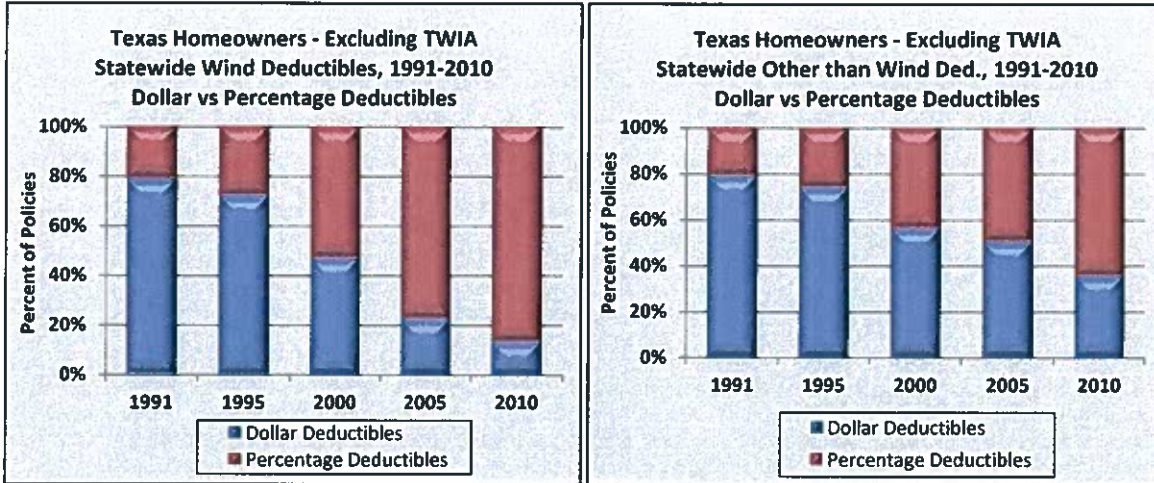
Avg Premium	# Counties	
\$600-904	18	7%
\$905-1049	31	12%
\$1050-1150	49	19%
\$1151-1260 Median	65	26%
\$1261-1400	42	17%
\$1401-1700	34	13%
\$1701-2700	15	6%

TDI 2010 Avg HO Prem

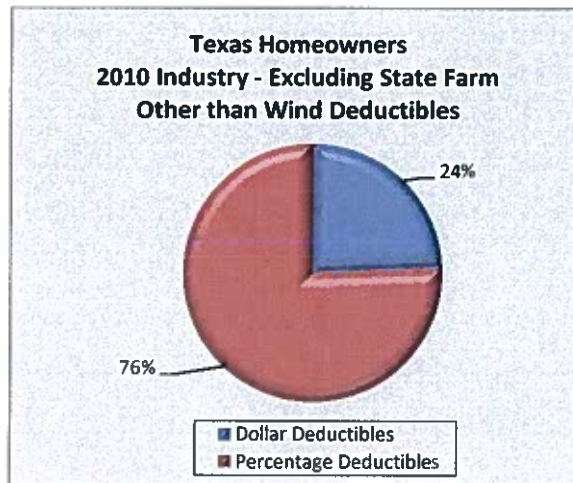
Counties shaded in blue have premiums below the statewide median of \$1206, and red-shaded counties have premiums above the median.

Recent Rate Activity

The average rate change for the preceding 12 months is +8.4%.⁶ Additionally, while changes in deductibles have been in the news lately, percentage deductibles are not new in Texas.



In 2010, over 75% of policies statewide had percentage deductibles for non-wind coverage.⁷



⁶ See Attachment 1 for detailed breakdown of rate changes by top ten insurer groups.

⁷ Market leader State Farm did not previously require percentage deductibles for its non-wind coverage. With its 10/15/11 filing, percentage deductibles are mandatory for all coverages on most of its policies.

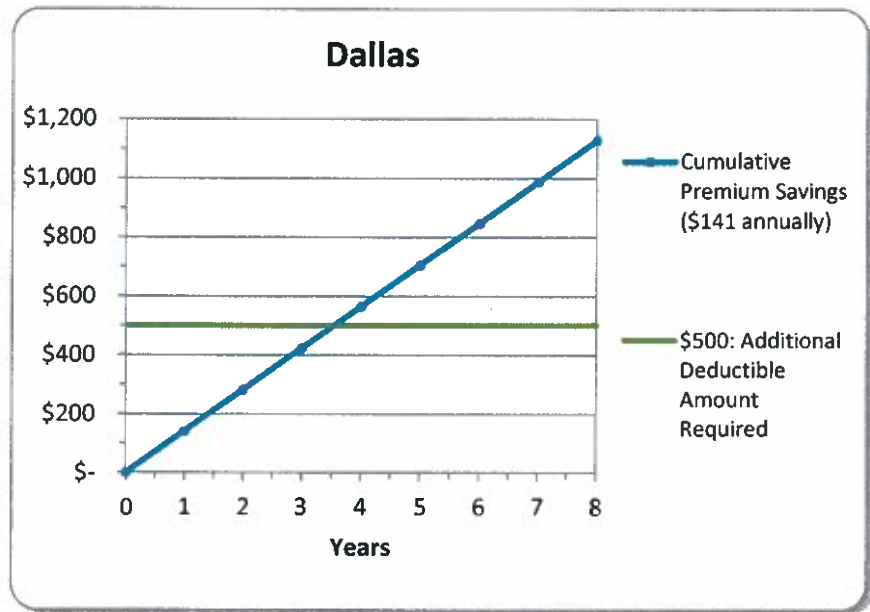
Percentage deductibles *may* save money for some consumers.

Cost vs. Savings of Deductible Change
 Moving from a \$1,000 deductible to a 1% deductible
 (From State Farm Lloyds Texas Homeowners Filing effective 10/15/11)

Break Even Point:

Number of years after which premium savings equals additional deductible amount with one claim.

Break-Even Point	
Location	Years
Houston	3.1
Dallas	3.5
San Antonio	5.3
Austin	5.3

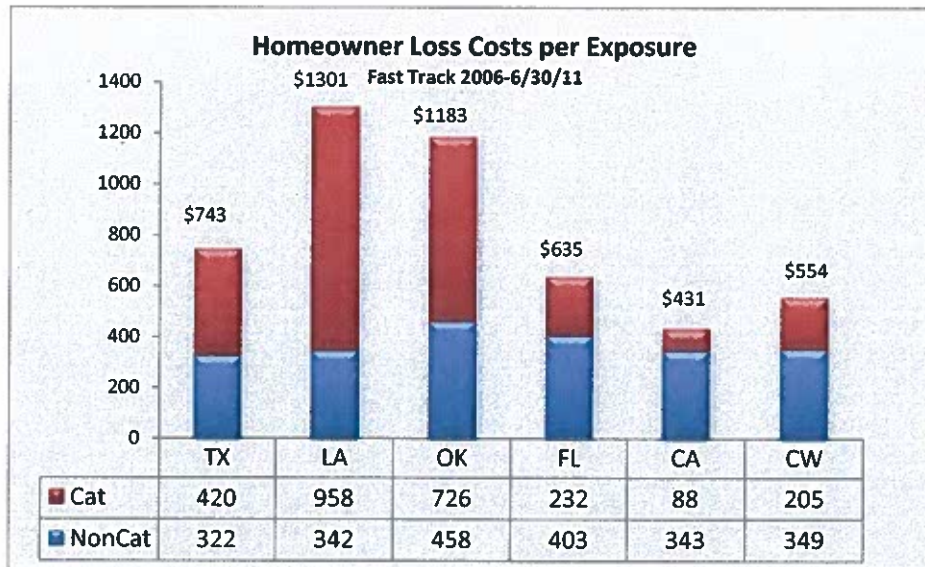


Policy characteristics: \$150,000 coverage, 10-year-old frame home, average credit, claim-free for 5 years, 25% home/auto discount. Locations: 77040 (Houston), 75229 (Dallas), 78233 (San Antonio), 78723 (Austin).
 Source: sample rates from Helpinsure.com and rates effective 12/1/2011 filed in Link 116366.
 Premiums reflect rate change effective 12/1/2011 and assume no future changes to rate levels or rating characteristics.

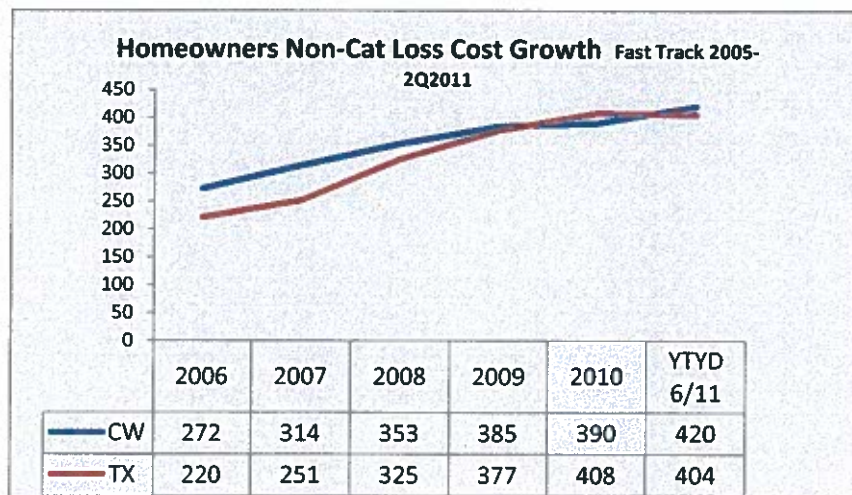
The impact of changing from fixed deductible amounts to percentage deductibles will vary by company, territory, reductions in premium (or reductions in rate of premium increases) size of policy, and other factors, and are scrutinized by TDI pursuant to its statutory rate review authority.

Losses⁸

Loss costs in Texas have averaged \$743 per policy, one-third higher than the national average. The national average homeowner *premium* of \$795 would just barely cover Texas *losses*.



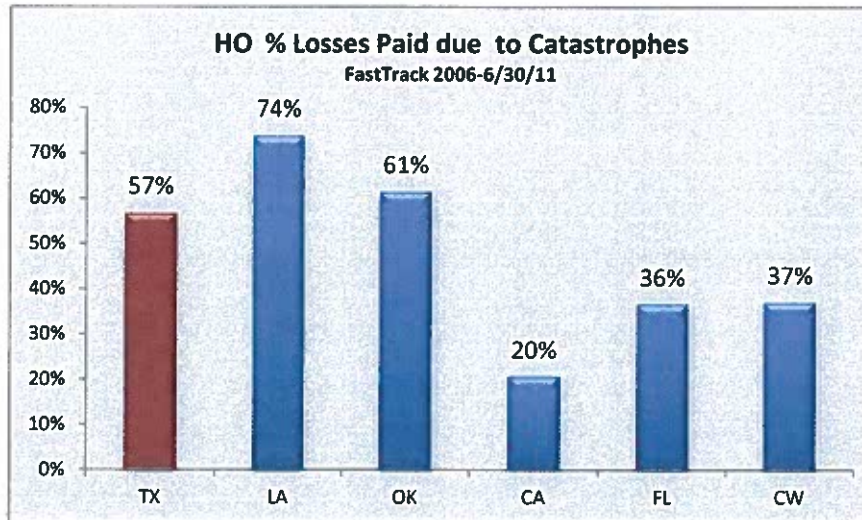
Non-catastrophic loss costs in Texas have been within 5% of the national average since 2009. From 2006-2009, however, these costs grew 71%, much faster than the national average increase of 41%. In 2010 and 2011, Texas non-catastrophic loss costs have flattened out, while the national average has continued to grow slightly.



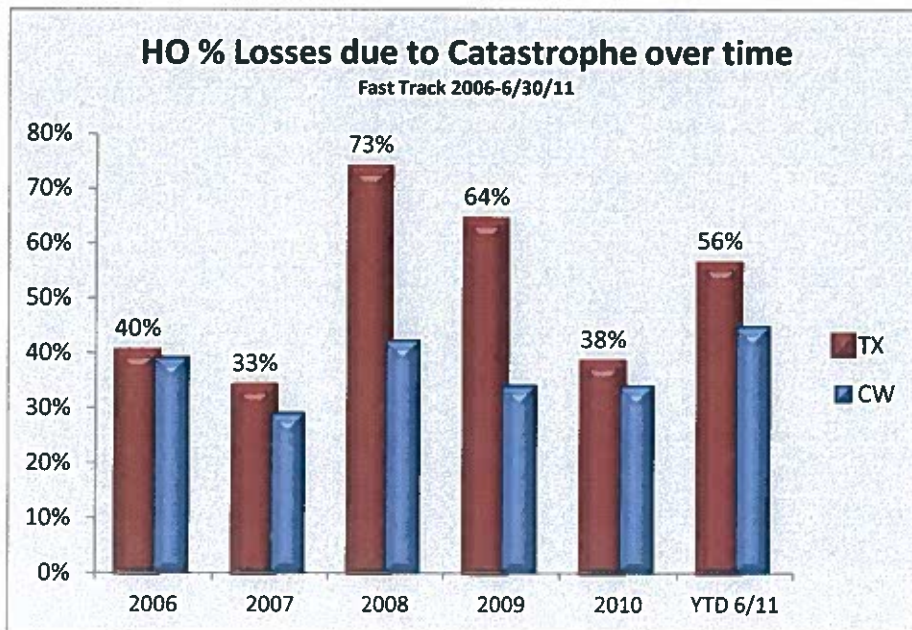
⁸ Loss data comes from Fast Track Monitoring Service, an industry reference published jointly by various statistical agencies. Fast Track includes national insurers representing 73% of Texas homeowners premiums, but does not include any residual markets. Loss costs are pure losses and do not include any loss adjustment or other expenses.

Catastrophe Losses

The percentage of total losses paid for catastrophe claims is more than 50% higher in Texas than the national average. Texas average loss cost per policy of \$420 is more than double the national average of \$205. (See bar graph on p. 7)

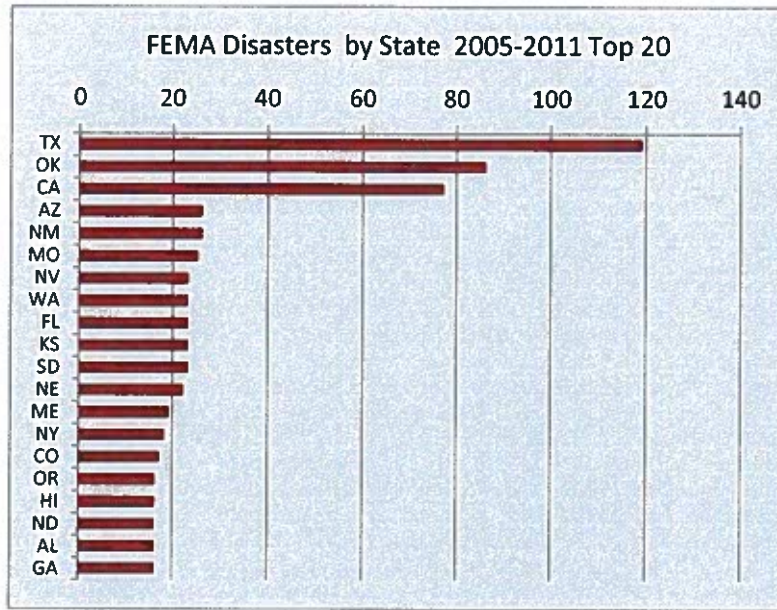


The percentage of catastrophe losses paid in Texas has exceeded the national average every year since 2006.

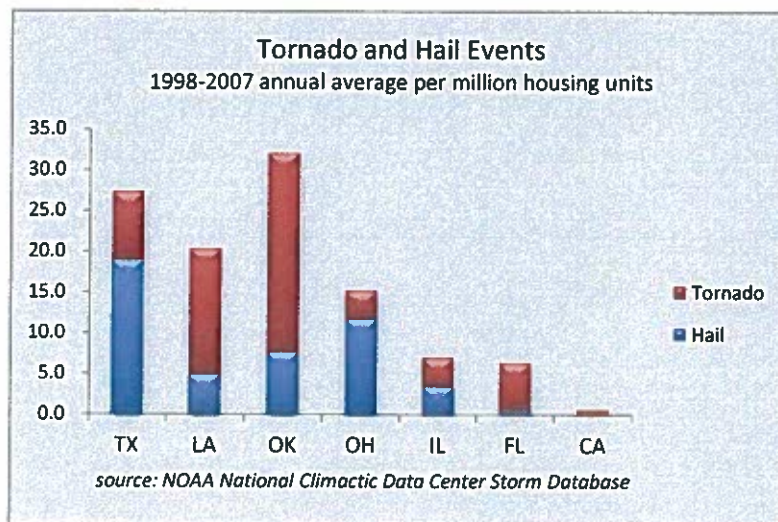


Severe Weather

Since 2005, Texas has had more FEMA declarations (disasters, emergencies and fire management events) than any other state since 2005 – a total of 119. Oklahoma was a distant second with 86. The national average is 2.6. Every Texas county was affected.



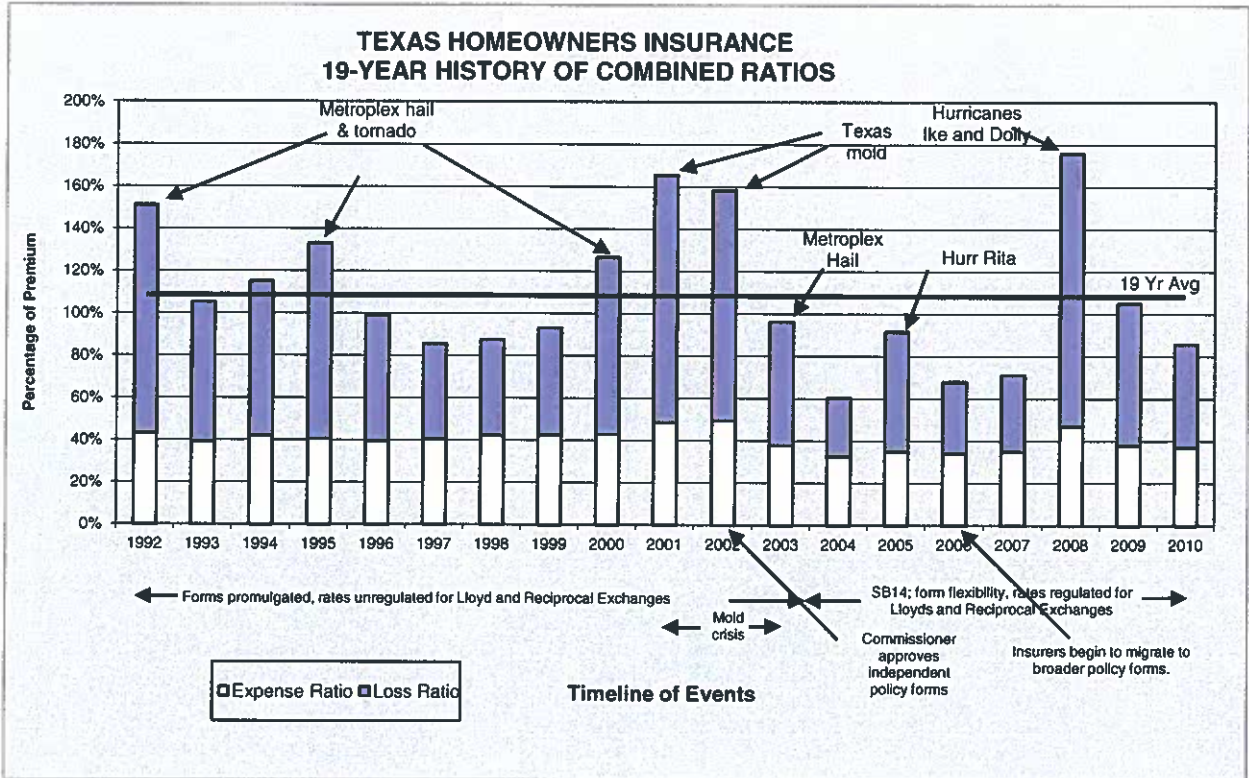
Texas experiences hail and tornado storm frequencies well-above the national average, even when normalized for its large geography and high population. Only neighboring states Louisiana and Oklahoma are close to Texas in severe storm frequency.



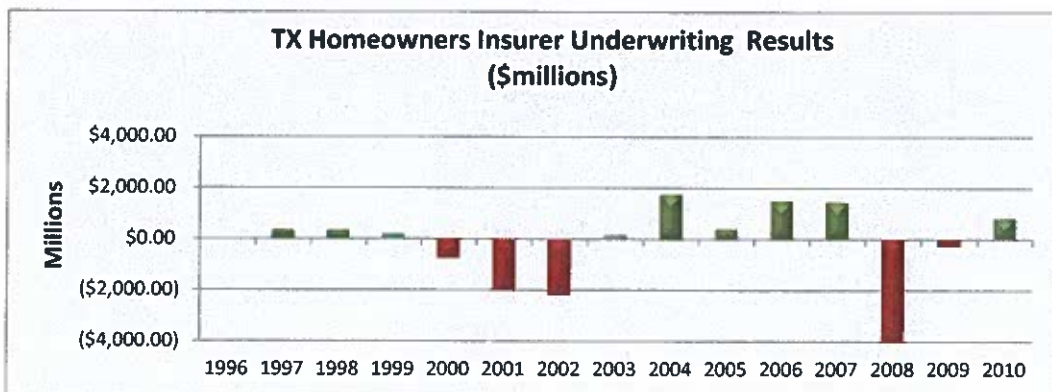
Texas and Oklahoma are among the few states that are well above average for **both** types of events.

Industry Results

Insurers use the combined Ratio to compare all losses and other expenses paid to premiums collected. A combined ratio of 100 represents breakeven. From 1992 – 2010, the industry recorded a 106.7 Combined Ratio, meaning that insurers paid \$106.70 in losses and operating expenses for every \$100 in premiums collected.

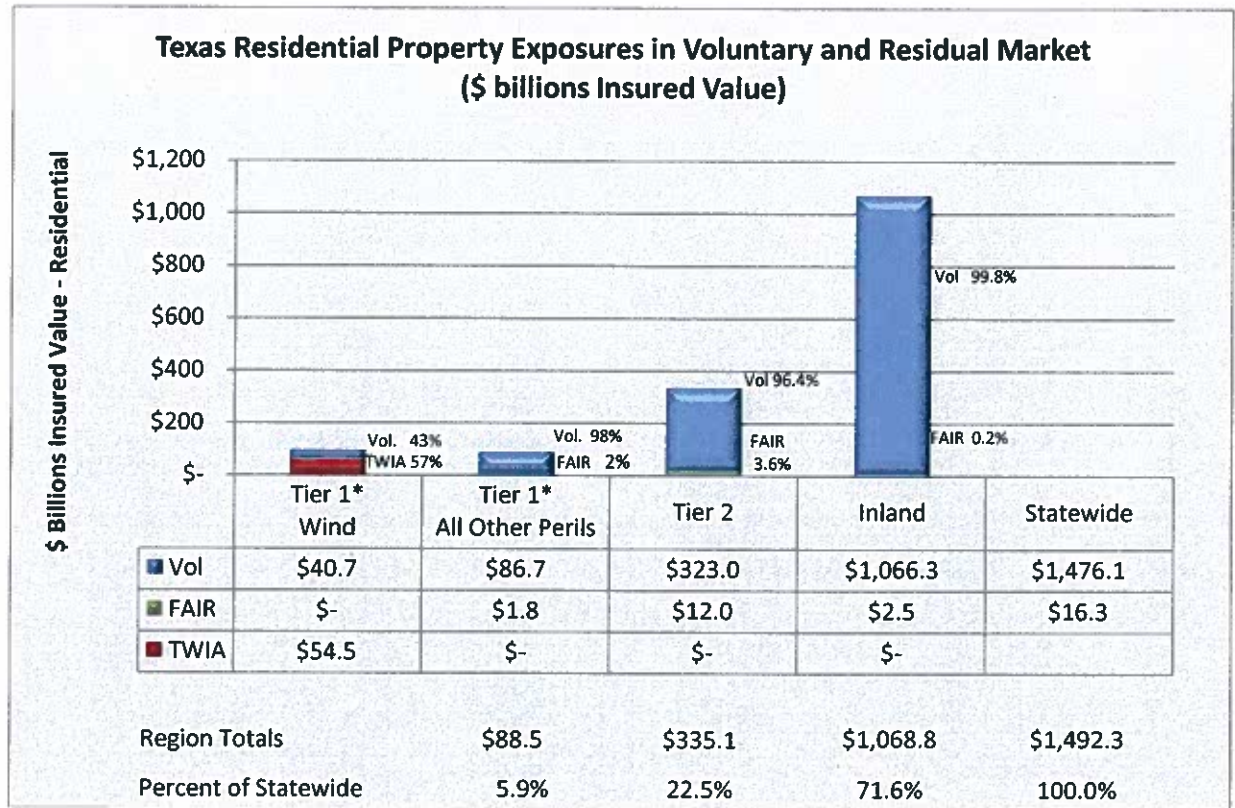


Homeowners insurers have experienced volatile results in Texas over the last 15 years. The industry as a whole accumulated a 15-year total underwriting loss of \$2.4 billion on premium revenue of \$59 billion, for a return on revenue of -4.1%. The industry has earned a profit in 10 of the last 15 years, averaging \$658 million in profits in each profitable year. But in the five unprofitable years, the industry lost an average of \$2.0 billion per year.

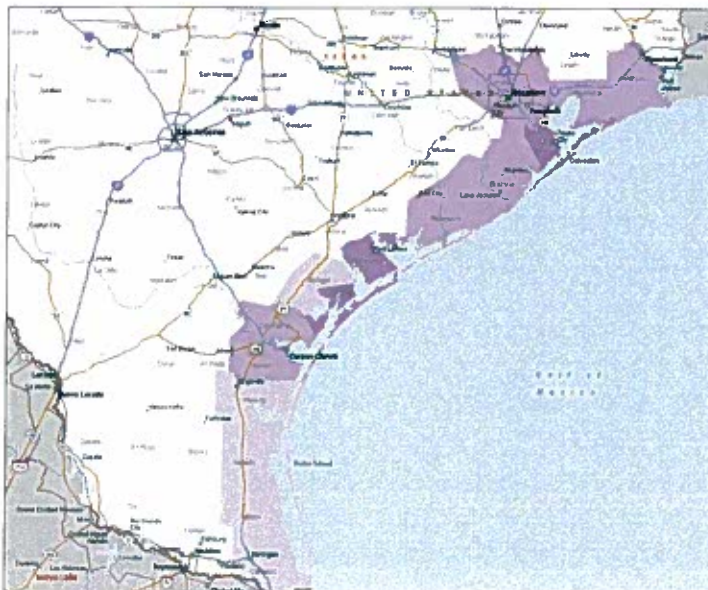


Availability

Over 99% of Texas residents in non-coastal areas have coverage in the voluntary market.



TWIA Wind-Only policies are available in state-designated catastrophe zones. TWIA share ranges from 14% of policies (Kenedy) to 74% (Aransas and Galveston).



TWIA Wind Share	
0%	240
1-33%	5
34-66%	8
67-80%	3

Conclusion

The cumulative effect of being above average in exposure to and frequency and severity of most major natural catastrophe risks,⁹ is overwhelming. In 1897, Mark Twain is believed to have said that everyone talks about the weather, but no one does anything about it. TDI can't do anything about the weather, but we can certainly try to better understand it and explore ways of assisting consumers in better managing the financial risk of weather in Texas.

⁹ Excluding flood, which is largely not insured in the private market.

Top 10 Groups Rate Changes

Texas Homeowners

Rate Change Filings Received in Previous 12 Months

Group Market Share	Company	Market Share	Rate Change	Effective Date
State Farm 29.4%	State Farm Lloyds	29.3%	9.6%	10/15/11
Allstate 12.7%	Allstate TX Lloyds	8.4%	5.7%	12/12/11
	Allstate Fire & Casualty	3.6%	9.8%	12/12/11
	Allstate IC	0.3%	15.6%*	7/25/11
	Allstate Indemnity	0.2%	20.0%*	7/25/11
	Encompass Home & Auto	0.1%	5.0%	7/7/11
	Encompass Indemnity	0.1%	5.0%	7/7/11
Zurich 12.6%	TX Farmers IC	5.5%	9.8%	3/16/12
	Farmers Ins Exchange	3.8%	3.3%	3/16/12
	Fire Ins Exchange	1.8%	0.5%	3/16/12
	Foremost Lloyds of TX	1.5%	9.0%	7/1/11
USAA 7.8%	USAA	4.0%	5.6%	5/14/12
	"		4.9%	12/19/11
	"		4.0%	3/31/11
	USAA TX Lloyds	3.8%	5.7%	5/14/12
	"		4.8%	12/19/11
	"		4.0%	3/31/11
Liberty Mutual 5.3%	Safeco IC of Indiana	2.2%	12.0%	12/10/11
	Liberty Lloyds Of TX	0.9%	11.7%	10/19/11
	Liberty Mutual Fire	0.8%	11.2%	10/19/11
	Liberty Ins Corp	0.7%	9.0%	5/17/11
	Safeco Lloyds	0.4%	13.0%	12/10/11
	Peerless Ind	0.2%	22.4%	2/15/12
	America First	0.1%	18.5%	2/15/12
	America First Lloyds	0.0%	14.2%	2/15/12
Travelers 4.9%	Travelers Lloyds Of TX	3.4%	5.4%	4/29/11
	Travelers Home & Marine	1.4%	2.1%	10/19/11
	"		2.2%	4/29/11
	Travelers Commercial	0.1%	2.0%	10/19/11
	"		1.3%	4/29/11
	Travelers Personal Security	0.0%	4.6%	4/29/11
Nationwide 3.7%	Nationwide P&C	2.2%	3.5%	11/26/11
	Nationwide Lloyds	1.4%	4.4%	11/26/11
	Allied P&C	0.1%	5.0%	6/22/11
	"		-3.0%	2/1/11
TX Farm Bureau Mutual 2.6%	Texas Farm Bureau UW	1.4%	9.8%	1/1/12
	"		1.0%	4/15/11
	Texas Farm Bureau Mutual	1.2%	9.8%	1/1/12
	"		0.9%	4/15/11
Chubb & Son 2.0%	Chubb Lloyds IC of TX	2.0%	5.6%	2/11/12
Hartford Fire & Casualty 1.8%	P&C Ins Co Of Hartford	0.7%	8.2%	5/7/11
	Sentinel	0.7%	9.5%	7/9/11

Effective date is for new business; effective date for renewal business may be different.

*Allstate IC and Allstate Indemnity filings are for renters and condos business only.

FAIR Plan filed a 14.7% rate change, effective 1/1/12.

TWIA filed a 5.0% rate change, effective 1/1/12.

ATTACHMENT 1

As of 1/9/2012