

Reinsurers Gouge Texas Wind Pool

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The Texas Wind Pool is proposing to purchase \$1.5 billion of reinsurance above a self-insured retention of \$600 million. That means the wind pool will cover the first \$600 million in wind pool losses, with the reinsurance covering three layers from \$600 million to \$2.1 billion. The reinsurance premiums will cost \$201.25 million.

The first \$500 million reinsurance layer, from \$600 million to \$1.1 billion, will cost \$86.25 million. That means the wind pool will pay a premium that is more than 1/6 of the insurance coverage where the risk models estimate there is a 1 in 12 chance of needing any reinsurance and a 1 in 22 chance of needing the entire \$500 million.

The next \$500 million layer, from \$1.1 billion to \$1.6 billion, will cost \$62.5 million. The wind pool will pay a premium equal to 1/8 of the coverage where the probability of reaching \$1.1 billion is estimated to be 1 in 22 and the probability of reaching \$1.6 billion is about 1 in 35.

The third \$500 million layer, from \$1.6 billion to \$2.1 billion will cost \$52.5 million. The wind pool will pay a premium that is more than 1/10 of the coverage where the probability of reaching \$1.6 billion is estimated at 1 in 35 and the probability of reaching \$2.1 billion is about 1 in 45.

The Texas wind pool is not alone in being gouged by the reinsurance industry. The Mississippi wind pool is paying \$65 million in premiums for reinsurance to cover \$470 million of the first \$570 million in wind pool losses. The wind pool has a self-insured retention to cover the other \$100 million.

The Texas Department of Insurance

Commissioner's Agenda for May 1, 2008

The Commissioner of Insurance will consider the following matters:

Docket

No. 2683: Consideration of petition by the Texas Windstorm Insurance Association requesting approval of a reinsurance program to operate in addition to or in concert with the catastrophe reserve trust fund established under Subchapter J, Chapter 2210 of the Insurance Code.

TWIA's Petition and Attachment