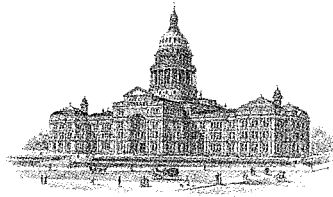


# The Senate of The State of Texas



Senator Eddie Lucio, Jr.

July 7, 2008

The Honorable Carl Isett  
Chair, Texas Sunset Advisory Commission  
P.O. Box 13066  
Austin, Texas 78711

Dear Chairman Isett,

Thank you for the leadership and hard work you and your colleagues on the Sunset Advisory Commission have done to review the agencies currently under the Sunset process. I am writing to express my concern about the state of homeowners' insurance in Texas and would like to provide my feedback for consideration by your commission regarding the Sunset staff report and recommendations relating to the Texas Department of Insurance (TDI), the Office of Public Insurance Counsel (OPIC), and the Texas Windstorm Insurance Association (TWIA).

In 2003 the Legislature passed comprehensive insurance reforms in the hopes of balancing the insurance marketplace in Texas and stabilizing homeowners' insurance rates. It is disappointing to me that given these reforms, Texans still pay the highest homeowners premiums in the nation and have only seen a 3.5% decrease in premiums for half the coverage they were receiving since the passage of Senate Bill 14 in 2003. Yet, loss ratios for insurers have decreased dramatically from 108% in 2002 to 36.5% in 2007. The reforms have served to benefit the insurance industry's bottom line, while the people of Texas continue to struggle with rising insurance premiums.

It has been five years since the Legislature passed SB 14. Policyholders have not seen the relief we promised them. In fact, it is my opinion that the staff report recommendations will serve only to protect the interest of insurance companies by suggesting more clarification and fewer encumbrances from the agency. TDI is a state agency that should protect the interest of both insurers and consumers. Now is an opportune time to address some of the shortfalls of the 2003 reforms by specifically recommending tools to strengthen TDI's responsibility to not only regulate insurers and foster competition, but ALSO ensure that policyholders get fair, affordable rates, with good consumer education and guidance. The consumer protection element is largely missing from the report.



One tool that may better balance the market place for consumers is a prior approval system. A prior approval with a 30 to 60 day deemer would protect consumers by allowing TDI to approve rates prior to use. This would prevent a situation under the file and use system where policyholder rates are held in limbo if insurers refuse to lower rates per TDI's orders and instead seek appeals to contest the order. As we are well aware, this happened with two insurers with nearly half the market share. It may take years to settle and prolongs excessive rates to consumers. A short deemer period would provide insurers certainty in knowing the rates would be considered quickly and put to use immediately once approved.

Requiring at least one or two standardized homeowners' policies would help policy holders better compare and shop for policies. SB 14 allows insurers to offer numerous policies with varying levels of coverage which makes it difficult to cost compare "apples to apples" among different insurers. Requiring each insurer to offer a basic standard policy form would allow for this and additional coverage could still be added based on a policyholder's needs. This requirement would help consumers lessen the confusion and time spent shopping for the best policy.

Additionally, I agree with the report that certain expectations for insurers should be clarified and tracked; however, I do not believe TDI should be limited in the supplemental information they need to ensure rates are fair for all parties.

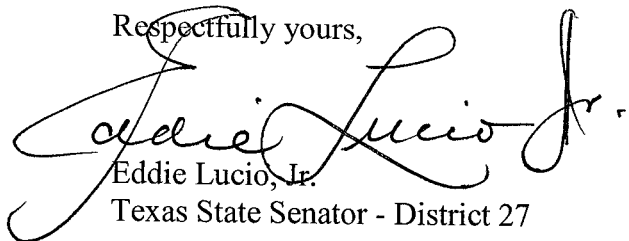
Regarding OPIC, I disagree with the staff's recommendation that the agency be abolished and its responsibilities and duties transferred to a Consumer Representative at TDI. I believe consumers need education, representation and guidance from OPIC. In fact, OPIC should be given more responsibilities and authority to protect consumers.

I ask that you tread carefully when considering recommendations for TWIA. Many of my constituents that live on the coast depend on this insurance pool as some private insurers have stopped writing there and pulled out of the coast. This has created a shortage of options that are very expensive. I strongly object to Recommendation 2.4, which would "remove unnecessary rate restrictions in law, permitting the Association to consider additional factors in developing rates." My concern here is that it would enable the use of hurricane forecast modeling, an unsubstantiated tool that would greatly increase rates. Instead I ask that you recommend penalizing insurers who stop writing on the coast by prohibiting their ability to write in other areas of Texas.

Last session, I authored Senate Bill 611 to establish an online tool to help consumers navigate and compare homeowners and auto insurance policies. TDI expects to unveil the website on September 1, 2008. It is this type of consumer education and assistance that should be a priority for TDI and OPIC. I encourage you to consider recommending ways for TDI and OPIC to focus on providing consumers the tools to make educated choices about their insurance policies.

Again, thank you for your leadership and hard work on the Sunset Advisory Commission. I appreciate your consideration of my comments. I look forward to reading about the Commission's final recommendations.

Respectfully yours,



Eddie Lucio, Jr.  
Texas State Senator - District 27

ELJ/pc

cc: Senator Glenn Hegar, Jr.  
Representative Dan Flynn  
Senator Kim Brimer  
Representative Linda Harper-Brown  
Senator Robert F. Deuell, M.D.  
Representative Lois Kolkhorst  
Senator Craig Estes  
Representative Ruth Jones McClendon  
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Ike Sugg, Public Member, Sunset Commission  
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