

SUBJECT: CatPool insurance coverage for roof damage

COMMITTEE: Insurance— favorable, without amendment

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G.
Lewis, Olivo, Wise

0 nays

SENATE VOTE: On second reading, April 25 — 22-6 (Barrientos, Ellis, Gallegos, Madla,
Moncrief, Truan)

WITNESSES: None

BACKGROUND : The Texas Catastrophe Property Insurance Pool Association (“CatPool”), which is composed of all property and casualty insurers doing business in Texas, offers windstorm and hail insurance coverage in coastal areas and other parts of Texas subject to frequent and severe windstorm or hail damage. The CatPool serves as the insurer of last resort for residential and commercial properties unable to get insurance through the regular, or voluntary, market.

Under the Insurance Code, the CatPool may sell windstorm or hail insurance policies that provide replacement cost coverage for one- and two-family dwellings. If the policy covers 80 percent or more of the full replacement cost of the home, the CatPool must pay the full cost of repair or replacement, without a deduction for depreciation.

An alternative to replacement cost coverage is actual cash value coverage, which provides coverage only for the actual value of the property rather than the cost of replacing it with comparable new property.

DIGEST: SB 1387 would authorize the insurance commissioner to adopt rules allowing the CatPool to provide actual cash value coverage instead of replacement cost coverage on roofs of insured properties. The commissioner would have to determine the conditions under which the CatPool could provide this coverage, the appropriate premium reductions, and the disclosure that would have to be provided to policyholders.

A hearing on this matter would have to be held before the commissioner or the commissioner's designee.

SB 1387 would take effect September 1, 1997, and would apply to policies delivered, issued for delivery, or renewed on or after January 1, 1998.

**SUPPORTERS
SAY:**

SB 1387 would allow the CatPool to offer consumers the option of buying actual cash value coverage at a lower rate than policies that cover full replacement coverage. Currently, the CatPool offers either full replacement coverage for roofs or no coverage at all. In many cases, consumers who cannot get replacement cost coverage may qualify for actual cash value coverage. This would expand the availability of coverage under the CatPool.

SB 1387 would help the CatPool contain costs by paying for the actual value of roofs damaged by hailstorms, hurricanes or other weather-related events, rather than paying the full cost of replacing the roof. Currently, the CatPool must pay full replacement cost even if a roof was damaged or in disrepair before the storm. In the case of a major hailstorm or hurricane, the cost of paying full replacement costs on thousands of damaged roofs can be enormous, and can lead to higher premiums for all CatPool policyholders. SB 1387 would give the CatPool more flexibility in issuing policies that reflect the actual risk involved.

**OPPONENTS
SAY:**

SB 1387 would allow the CatPool to deny replacement cost coverage to consumers who have been paying for this coverage for years and have the right to expect that their roof would be replaced if it were damaged by a hailstorm or hurricane. Whether a roof is brand new or twenty years old, it may still need to be completely replaced if it is severely damaged or destroyed by a hailstorm or hurricane. In most cases, the actual cash value of a roof would be less than the cost of replacing it. Homeowners who could not afford to pay the difference might be unable to repair the damage to their roof. This would defeat the purpose of having insurance coverage in the first place.