Speech - May 16, 2002

Text of Gov. Perry's Remarks at Homeowners Insurance Policy Announcement

(Note: Governor Perry frequently deviates from prepared text.)

Today, homeowners across Texas are facing rate-shock from the rising cost of homeowners insurance policies. With weather factors such as wind storms, tornadoes, and hail, Texas has long been considered one of the most expensive states to insure a home.

But those factors do not go far enough in explaining exorbitant rate increases - in some cases as much as 200 percent - that homeowners now face.

It has become increasingly clear the Big Three companies - Allstate, Farmers, and State Farm - have been engaged in practices that stick Texans with an unfair bill. With two-thirds of the homeowner customers in Texas, the Big Three have used their market power and market leverage to inflate insurance costs for Texas consumers.

As a conservative, I generally support deregulation as a means to lower cost and improve services for consumers. But like former President Teddy Roosevelt, I disdain unfair market practices where one, or a handful of companies, use their power to manipulate the market.

I am visiting with Texans in their homes because it is time to put an end to rate shock, and to unfair rate practices, and today I want to discuss four solutions to help bring rates back to reality.

My first proposal will close the regulatory loopholes in the law, allowing the Texas Department of Insurance to conduct a rate review of previously unregulated companies. Ninety-five percent of insurance policies are written by unregulated companies in Texas. That is going to change.

Next session, I will grant emergency legislative status to insurance rate regulation legislation. And within the legislation calling for a rate review, I want the Commissioner of Insurance to have authority to order a rate freeze while a rate review is ongoing.

The calls and letters to my office show that many Texans are experiencing rate hikes based on credit scoring techniques - the practice of insurance companies using a customer's credit history to help determine insurance costs.

While this is currently legal in some cases, the insurance companies are not being forthcoming about what additional risk a homeowner represents when they raise rates. The insurance companies need to explain to Texas consumers how they are using credit reports.

Abusive credit scoring is unfair to many Texans, like the elderly woman who has never filed a claim, who has always paid her bills on time, and yet has her rates increased. She deserves an answer...more than that, she's looking for a solution, and I am prepared to give her one.

Under my second proposal, insurance companies will not be able to raise rates based on credit scoring if it is proven that credit history has no actual bearing on a homeowner's
risk or is used as the sole factor to determine rates.

We have also seen troubling practices related to the handling of claims. Too often, foot-dragging by insurance companies allows a minor problem to become a major hazard. For example, simple water claims, when not quickly addressed, can become major problems that cause monetary damages to multiply.

These practices are unacceptable, and so is the hiring of questionable contractors who lack the expertise to address claims.

My third proposal would grant the Insurance Commissioner the authority to impose stringent standards on any type of claim where an insurance company has acted irresponsibly, and demonstrated a lack of consumer concern.

I will also support establishing standards for remediators of water-mold claims, and licensing of public adjusters to ensure that third parties to an insurance claim are not unjustifiably inflating costs. That includes opportunistic plaintiff attorneys who inflate claims and threaten to sue if an insurance company does not settle for the maximum amount.

When the public adjustors or plaintiffs lawyers game the system, we all pay higher prices. That's why we need reasonable limits, and sensible legal fees, for civil damage awards.

Rates and claims responses are only one side of the equation. The level of coverage we have is another.

It stands to reason that if you take care of your home, you should be able to tailor your coverage for events that are truly unforeseen. In the past, Texans did not have that option. However, in February I talked about standardized policies - known as national forms - that are used to cover homeowners in other states.

We have since approved one national form and anticipate approving other alternative forms of coverage so that consumers can now have a choice. The HO-W, to be made available to State Farm customers, will provide rate discounts ranging from 5% to 40%.

Today I am announcing the approval of greater consumer choice through a new Texas homeowner form. This form, developed by the Insurance Service Office (ISO), will enable companies to offer more affordable coverage. It will increase competition by allowing smaller companies to more equitably compete. That's good for consumers.

Currently, Texans have the choice between very basic and very extensive coverage, but nothing in between. Now Texans can seek alternative forms of coverage that meet them in the middle. And I have asked the Department Of Insurance to make this option available in the next two to three weeks.

Allowing for greater choice and more affordable options is good for consumers. Creating policies with more predictable loss potential will enable more companies to compete in the market, and bring greater stability to prices.

By performing a rate review, expanding consumer choice, stopping credit scoring abuses, and improving claims responses, we can make owning a home in Texas more affordable.

If the industry hasn't figured it out, hear this: Texans are fed up, and I will sign legislation
that prevents a handful of companies from bringing a state to its knees. Today I offer solutions that simply put Texans first. I call on the industry to do the same.