

The State of the P&C Insurance Market in Texas

As carrier interest in The Lone Star State grows, understanding the current P&C challenges and getting better geographical exposure management and risk classification are paramount for success.

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Broad insurance market challenges are impacting every state. However, the availability and affordability challenges associated with personal lines coverage, like homeowners or personal auto insurance, are relatively more acute in Texas.

“Current conditions in Texas are a culmination of several factors impacting the market simultaneously,” explained Art Randolph, principal and consulting actuary, Pinnacle Actuarial Resources.

“About five years ago, the pandemic contributed to an ongoing population boom in Texas as people reconsidered their options for places to live and work. In addition, some high-profile large companies, particularly in the tech sector, relocated from places like California to Texas.”

With more people and businesses in the area, coupled with severe and frequent catastrophic weather, the state’s insurance availability and affordability issues have become exacerbated.

“Inflation, population growth, rising home prices and more expensive cars ... have further compounded the market’s economic challenges,” Randolph added.

Naturally, insurers and their Texan insureds want to navigate those market challenges and continue to capitalize on opportunities in the state.

What follows is a deeper look at some of these challenges, carrier appetite, and the benefits of partnering





**Art Randolph,
Principal and
Consulting Actuary,
Pinnacle Actuarial
Resources**

with actuarial experts. These should be experts that understand the unique impact that geographical distribution and risk classification can have on risk mitigation and profitability.

Texas vs. the Broader P&C Landscape

As Randolph noted, there are several factors impacting the Texas P&C landscape today. From population growth to high levels of commercial construction, there are numerous conditions with which insurers need to contend.

Texas is not alone. Those factors are impacting the insurance market in other states as well. A more significant factor adding to the challenges in Texas is the frequency of severe weather events.

“Concentration risk in Texas has been evident in recent events like Hurricane Harvey in 2017 and Hurricane Beryl this year as well as severe convective storms,” Randolph said. “Rapid population growth in metropolitan areas like Houston, Dallas, San Antonio and Austin has led to commensurate increases in population density. That population growth opens the state to more homeowners and auto insurance challenges, because higher population density means more homes, people and cars at risk during weather events.”

Insurers have been tasked with effectively understanding, pricing and managing increasing risk in Texas. That requires proper geographical exposure management and appropriate risk classification which can be an arduous undertaking.

“Geographic exposure management is a pressing issue, and of critical importance for insurers. We provide geographic research, expertise and insights that enable our clients to make more informed decisions when developing their own pricing and growth strategies,” Randolph said.

What’s Interesting Carriers

Randolph hastens to add that it’s not a story of “doom and gloom” for Texas; quite the contrary. Carriers are continuing to explore opportunities in the state and interest is on the rise.

“At Pinnacle, we’ve observed interesting trends in the number of carriers entering the market as well as trends related to key financial ratios. These aggregate insights paint a picture of the competitive landscape and financial health of insurers operating in Texas,” Randolph said.

Texas’ size and impact on the entire property and casualty marketplace in the United States also make it a state of interest to carriers. The substantial population growth in Texas, for example, can be seen as an opportunity for new capital investment and a diversification pathway for carriers writing in other states.

Despite the deteriorating underwriting performance for personal lines coverages in Texas over the past five years, many new entrants perceive this as part of an exacerbated underwriting cycle, Randolph shared.

“They believe that some of the issues can be attributed to the aftermath of COVID-19 and a hard (but moderating) reinsurance market,” he said.

Moreover, Texas is considered a business-friendly state from a regulatory perspective.

“The Texas Department of Insurance is welcoming to new entrants, as they are concerned about maintaining sufficient capacity in the market. This regulatory environment further contributes to the continued interest from insurers looking to enter the Texas market,” Randolph said.

Of course, with new entrants there is also risk. That explains why having geographical insight and a sophisticated rating plan in place is key.

“When advising clients, especially new entrants, about the Texas market, it’s crucial to understand and accommodate for the dynamics at play. With auto, for example, the non-standard market in Texas represents a large percentage of total writings, and there are various explanations and viewpoints for why that is,” Randolph said.

Legacy companies, which have operated in Texas for over a decade, also require a level of guidance for navigating the current market, according to Randolph. Oftentimes, they may not have been early adopters of predictive analytics and other technologies, and, in order to compete with newer carriers, need assistance in bolstering and leveraging their data.

Insurance companies also struggle with establishing adequate reserves due to the cascading implications of recent inflation levels. “They sometimes lose sight of broader market trends that are not representative of their historical loss experience, which can significantly impact their financial statements,” Randolph said.

Given the unique situation in Texas, geographical exposure management and risk classification are critical aspects for carriers endeavoring to enter the market. Understanding the area in which one operates, and its specific challenges, goes a long way in creating a successful risk management strategy — one that benefits all parties involved in the process.

Geographical Exposure Management Done Right

Pinnacle Actuarial Resources has teams dedicated to both the reserving and ratemaking aspects of the business, as well as a renowned predictive analytics team. It has the resources available and a research infrastructure to help promote sound and strategic decision-making for carriers.

“At Pinnacle, we advise our clients to take a comprehensive approach to assessing their exposures and adjusting their rates accordingly. One key differentiator for Pinnacle is our ability to provide clients with specific, data-driven insights,” Randolph said.

In Texas, the Pinnacle team regularly presents its research through various forums to share its perspectives and help market stakeholders navigate the state’s challenges.

Pinnacle’s predictive analytics team is also utilized to partner with clients, further ensuring clients’ pricing models can generate premiums that are commensurate with the underlying risk exposure.

“By leveraging our extensive expertise and advanced analytical tools, we help carriers make informed decisions that align with their risk appetites and business objectives. Our tailored solutions enable clients to maintain a competitive edge while ensuring long-term stability and profitability,” Randolph said.

To learn more, visit: <https://www.pinnacleactuaries.com/>.



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