

THIRTY-NINTH REPORT
For the Period
JANUARY 1, 1989 THROUGH DECEMBER 31, 1989
FISCAL YEAR ENDING AUGUST 31, 1990
and
MINUTES OF ANNUAL MEETING
AUSTIN, TEXAS

November 6, 1990

REPORT FOR THE PERIOD FROM JANUARY 1, 1989 THROUGH DECEMBER 31, 1989

TEXAS AUTOMOBILE INSURANCE PLAN

Austin, Texas

November 6, 1990

The Thirty-Ninth annual meeting of the subscribers to the Texas Automobile Insurance Plan was held in the Austin South Room at the Radisson Plaza Hotel in Austin, Texas, beginning at 9:00 A.M., Tuesday, November 6, 1990.

The meeting was called to order by Chairman Awbrey who requested the Manager to read the Anti-Trust Statement. After the reading of this statement, the Chairman requested the Manager to read the call for the annual meeting. The call was read.

Chairman Awbrey next introduced the Honorable James E. Saxton, Jr., Chairman of the State Board of Insurance. Mr. Saxton then addressed the group. He gave a brief speech on the general condition of the insurance industry in Texas at this time, and then opened the floor for discussion and questions.

The first order of business was the reading of the minutes of the annual meeting held on September 18, 1989. Upon motion duly carried, the reading of those minutes was dispensed with inasmuch as copies had been sent to the subscribers and since no objection or corrections had been submitted, the minutes were approved as written.

The reports of the Manager and the Chairman of the Governing Committee were then heard.

MANAGER'S REPORT

On behalf of the Plan staff I welcome everyone to our 39th Annual Meeting. In addition to conducting our official business, we look forward to an opportunity to visit with you and discuss any problems or suggestions you might have. And now for my report.

The Plan has shown a slight decrease in new applications and renewals comparing 1988 to 1989. However, there has been a slight increase through the first 10 months of 1990 in contrast to the same period in 1989. Specifically, in 1989 we processed 140,227 new applications and 69,525 renewals, or a 10% reduction in new and renewal business compared to 1988. For the first 10 months of 1990 we processed 138,822 new applications for a 15% increase compared to the first 10 months of 1989.

Total premiums written in the Plan for 1988 were \$91.1 million, for 1989, \$94.9 million, and we estimate that 1990 premiums will total \$115 million. The L. A. D. program is in its third year and continues to be successful. There are 49 companies, or 71% of those eligible, participating as Buy-Out Companies. These companies would have been assigned \$5.3 million in premiums had they not participated in the program in 1990.

In 1990, we had three Servicing Companies, State Farm, USAA and Employers Casualty. The Buy-Out Fee for 1990 is 25%.

The Governing Committee has approved a Buy-Out Fee of 35% for 1991. We have four companies committed as Servicing Carriers in 1991. They are State Farm, USAA, Employers Casualty and Farmers. If you are eligible to Buy-Out under L. A. D. and are not participating at this time, our staff would be glad to discuss this at your convenience.

In January of 1990, we compared data furnished by statistical bureaus to figures reported on page 14 of each company's annual statement. The following month, we contacted 28 companies that appeared to have inconsistencies in their reporting. After careful study, we have satisfied ourselves that these companies are in compliance. For the record, we found that 12 companies were reporting under another company or group name, five were in receivership or conservatorship, one was a risk retention company and 10 companies were late in reporting data to the Plan through a statistical agent. We will make a similar evaluation in succeeding years.

In February 1990, we conducted a survey of incoming telephone calls to document the amount of time our employees spend on the telephone, and to find out who and why people were calling the Plan. Our goal was to learn how we could reduce the time our employees spend on the phone.

During the survey period we received 1,768 calls: 85% were from agents, 11% were from companies, 1% from insureds and 3%, other.

The four most frequent reasons for agent's calls were inquiries to see if assignment was made, for a total of 29%, commercial or public rating questions, 17%, manual interpretation, 12% and non-owner rating, 10%.

Since the last three inquiries are specifically covered in the Texas Automobile Manual and the Plan Agent's Guide, we can only suggest to the agents that they rely upon these resource documents in future cases.

Since our office provides two day turnaround service, we were concerned with expediting mailing procedures. We discovered that although the U. S. Post Office previously helped design the assignment card mailed by us to the agents and insureds, current Post Office equipment could not read the cards, thus necessitating sorting by hand. We have since worked with the postal service on a new design and are now using cards that can be easily read by their sorting machine.

Regretfully, we continue to have problems in that one out of 10 agents submit only one copy of the application. Although the effective date is not jeopardized, this burdens staff unnecessarily and delays processing. We have advised both agent's associations and individual agents on this matter, but we have yet to see any improvement. We will continue to monitor this situation.

In the last 12 months the Plan has continued to help companies collect unearned commission from agents. We received information from 17 companies and requested \$60,334 unearned commission from 1,400 agents in April 1990 and \$72,307 unearned commission from 1,521 agents in September 1990. Approximately 33% of the unearned commission was paid by the agents. This has been a successful project and we will continue it on a semiannual basis.

Since our last annual meeting we have made three changes that we believe will help insureds, agents and companies. The installment payment Option 3 was made available to any vehicle written on a Personal Auto Policy. This includes motorcycles, motorhomes, non-owner coverage and others.

We also liberalized our backdating procedure on applications returned to agents for corrections.

Effective January 1, 1990, the Plan started using "Semi All Inclusive" SR-22 forms. This will help companies by not requiring them to file amended SR-22s other than from changing from non-owners to owners and vice-versa.

As you may recall, effective September 1, 1987, the Governing Committee approved a change concerning effective dates of applications received by the Plan. The change allowed agents to submit applications to the Plan by Registered mail, Certified mail or other special mailing or delivery. The effective date of coverage was 12:01 AM the day following the carrier date shown on the envelope. Prior to this, coverage was available only on the day following the date received in the Plan, regardless of mailing procedure. In looking back over the last three years, this has turned out to be a very popular change, with 18% of applications currently using this procedure. While it takes Plan staff longer to handle these specialized mailings, we believe its benefits outweigh any liabilities.

In regard to the future, you should know that I have looked into my 1991 crystal ball and observe that we may see enactment of legislation which greatly stiffens penalties for driving without automobile insurance, and that there exists the possibility that the Plan could be flooded with new applications on a level not experienced since enactment of the compulsory liability law in 1982.

However, my vision is clouded with uncertainty over what role the Plan may be expected to serve should no-fault legislation be enacted, and therefore we find it difficult at best to estimate the workload and staffing needs the coming year. But as in the past, I am confident of our ability to react quickly to legislative mandates while continuing a high level of service to Texas motorists and our member companies.

In conclusion, I would like to thank the members of the Governing Committee for their guidance and support; in particular, our Chairman Stuart Aubrey, Vice Chairman Jess Baker and Secretary Ron Nichols, our attorneys, Dick Geiger and Jack Cleveland, and the Insurance Information Institute. Also, the State Board of Insurance, in particular, Tom Jackson, Dan Collins and Grover Corum, and last but by no means least, the Plan staff.

Of particular notice, I have been fortunate to have worked with three fantastic colleagues, whose combined service on behalf of the Plan totals 65 years--Susan Epperson, Margaret Alsobrook and Marilyn Kinsey.

Thank you for your attention. I will be happy to answer any of your questions at the conclusion of the meeting.

CHAIRMAN'S REPORT

Chairman Saxton's comments and those in the Manager's report indicate that next year will be a challenging one.

In the past, the Plan and Governing Committee has enjoyed a good working relationship with the State Board staff. On behalf of the Governing Committee, I pledge that the Plan office and the Governing Committee will do all that it can to maintain that relationship.

The Governing Committee has met 6 times since the last annual meeting, September 18, 1989.

In order to reduce costs, the number of Governing Committee meetings were reduced to 4 in 1990, including this meeting. This has been accomplished through making greater use of subcommittees. In that way the work continues as required to serve the needs of the industry.

Here is a summary of some of the accomplishments:

Bobby mentioned the success of the L. A. D. program. A great deal of time and concern has been spent on this program. The L. A. D. has been very beneficial in providing better service to insureds and greater efficiency to the industry.

Some adjustments were made in the L. A. D. quota procedure to ensure that servicing carriers will continue to receive their proportionate share of the Buy-Out business.

In addition, a lot of time and effort has gone into a review of the whole program. Specifically, the goal has been to obtain additional servicing carriers. Bobby mentioned the latest results.

I am appreciative very much of the efforts Jim Miner made to obtain Farmers' agreement to become a Servicing Carrier. As mentioned before, this is a vital program and this action helps ensure that the L. A. D. program will continue. I commend the efforts made by several others of the Governing Committee to get additional companies to agree to become Servicing Carriers.

Rule 80, related to named non-owner coverage, was revised after thorough study and coordination with the State Board staff. The change allows a higher rate to be charged for this coverage when there is a youthful driver exposure and there is not a primary policy rated for a youthful driver.

There were about 10 other Plan rule changes which have been, or soon will be, announced in bulletins.

A major 2 year study of the application assignment quota procedure and, specifically, the impact of Class 2 and Class 6 premium credits on the quotas was concluded. The result is a new quota assignment procedure that becomes effective January 1, 1991.

The net effect of this change is that a company must be assigned at least 20% of its annual quota regardless of the amount of its premium credits. This means that all subscriber companies that have a quota will participate in the writing of the Plan's business beginning in 1991.

It was necessary to re-activate the Data Processing subcommittee because the Plan's mainframe vendor advised that within 18 months it would no longer service the mainframe because the equipment was outdated.

Fortunately, most of the members of this subcommittee are the ones who served on the original subcommittee which set up the current processing system.

Since activation of the subcommittee, the vendor has advised that it will continue to service the equipment for up to 5 additional years.

The subcommittee's assignments were expanded during yesterday's Governing Committee meeting. The new assignments include a look at systems security and a disaster plan.

The subcommittee will continue with its original assignments, but on an expanded time frame. Those assignments are:

Review the current programming documentation and determine what safeguards need to be in place to assure minimum disruption in the event the current programming service is disrupted.

Develop alternatives for replacement of the current hardware. This includes analyzing outside processing services.

The subcommittee has completed one task. That was to develop the hardware and training needs to install and implement a personal computer in the Plan office. The PC will be installed this week and training will begin shortly.

The PC will greatly expand the ability of Plan management to analyze data and to prepare special reports. Additional uses are being identified as this conversion progresses.

A very important task is the regular review and adjustment of the salaries and benefits provided to the Plan staff. I feel strongly that this program is very important to a well run Plan office and that the employees have a right to both continuity and constantcy. To support that goal, several actions were taken this year.

First, a very thorough analysis of the needs was completed and changes were implemented this year. A major change was implementation of a 401A benefit program.

The Executive Committee met with the employees at the Plan office to introduce the changes. This provided the opportunity for the employees to ask questions. In addition, it allowed the Executive Committee, on behalf of the Governing Committee, to express appreciation for the good work that has been done.

That effort was accomplished by a subcommittee chaired by the Governing Committee's Vice Chairman, Jess Baker. This subcommittee was very ably assisted by local personnel from State Farm and Farmers, as has been the case for several years.

To gain the goal of continuity and constancy, a standing compensation and benefits subcommittee has been established to be chaired by the current vice chairman. In that way, the involvement of that person should span over at least 2 years while serving as Vice Chairman and later as Chairman.

It has been a very exciting, a very busy, and a very rewarding year for me. I appreciate the honor to have served as Chairman of this group

The accomplishments that have been achieved could not have been done without the support and hard work of the Governing Committee and the various subcommittees. In particular, Jess Baker, Vice Chairman, and Ron Nichols, Secretary, have been very supportive.

On behalf of the Governing Committee I thank the Plan management and staff for their positive support and hard work.

Special thanks go to Bobby White who provides great support. He is very good at anticipating what a Chairman will need and provides it before being asked. I have the opportunity to see other Plan Managers operate around the country. In comparison, Bobby ranks with the best.

However, those of us who know Bobby realize that it is Marilyn Kinsey, his assistant, that keeps him moving. In addition, he has two very capable and supportive managers, Susan Epperson and Margaret Alsobrook. They are the ones who keep the applications flowing and handle all the accounting and reporting that must be done.

That concludes my remarks.

The next order of business was the determination of the Governing Committee for the ensuing year. The designated companies are as follows:

AMERICAN INSURANCE ASSOCIATION

Mr. Jack Casner, Hartford, Connecticut
The Travelers

Mr. Eugene E. Flynn, Hartford, Connecticut
The Hartford

ALLIANCE OF AMERICAN INSURERS

Mr. Jess Baker, Long Grove, Illinois
Kemper Group

Mr. Howard Haun, Dallas, Texas
Employers Casualty Company

NATIONAL ASSOCIATION OF INDEPENDENT INSURERS

Mr. Edward F. Held, Northbrook, Illinois
Allstate Insurance Company

Mr. Stuart Aubrey, San Antonio, Texas
United Services Automobile Association

NON AFFILIATED COMPANIES

Mr. Ron Nichols, Austin, Texas
State Farm Insurance Company

Mr. Jim Miner, Austin, Texas
Texas Farmers Insurance Company

ASSOCIATION OF FIRE AND CASUALTY COMPANIES IN TEXAS

Mr. Synott L. McNeel, Galveston, Texas
American Indemnity Company

Mr. Eldon L. Farek, Dallas, Texas
Trinity Universal Insurance Company

The Chairman then inquired if there was any new or unfinished business to be laid before the meeting. There being no further business, the meeting was adjourned. Following the adjournment, the Governing Committee convened and re-elected Mr. Stuart Aubrey as Chairman, Mr. Jess Baker as Vice Chairman and Mr. Ron Nichols as Secretary.

RESUME OF ACTIVITIES

	12 Months 1989	12 Months 1988
Applications Assigned		
Private Passenger	125,557	129,646
All Other	14,670	15,816
Not Qualifying	10	14
Policies Renewed		
Private Passenger	62,954	77,970
All Other	5,963	6,800
Policies Cancelled		
Private Passenger	64,522	72,990
All Other	5,003	6,522
Appeals Heard	0	0
Sustained	0	0
Denied	0	0
Premiums (Private Passenger)	\$80,698,474	\$76,017,084
Premiums (All Other)	\$14,198,842	\$15,153,692
Expenses Incurred	\$584,251	\$634,796
Cost Per Policy	\$2.79	\$2.76

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID

TEXAS AUTOMOBILE INSURANCE PLAN
(a non-profit organization)

For the years ended August 31, 1990 and 1989

	1990	1989	Increase Amount	(Decrease) Percent
REVENUE COLLECTED				
Member's assessments	\$566,602	\$603,702	(37,100)	(6.15)
Assessment penalties	412	0	412	100.00
Interest on time deposits	18,338	15,433	2,905	18.82
	<u>585,352</u>	<u>619,135</u>	<u>(33,783)</u>	<u>(5.46)</u>
EXPENSES PAID				
Contribution-employees pension plan	24,732	21,904	2,828	12.91
401 A Benefit plan	874	0	874	100.00
Depreciation	28,477	29,497	(1,020)	(3.46)
Dues and subscriptions	2,979	2,916	63	2.15
Educational-seminars	1,056	929	127	13.67
Governing committee	50,647	30,319	20,328	67.05
Insurance	2,764	3,488	(724)	(20.76)
Insurance-group	18,999	14,524	4,475	30.81
Legal	18,367	9,924	8,443	85.08
Auditing	1,935	1,920	15	00.78
Contingencies	1,278	686	592	86.30
Office supplies and expense	16,397	20,213	(3,816)	(18.88)
Postage and telephone	75,306	76,977	(1,671)	(2.17)
Rent	44,314	39,228	5,086	12.97
Rent adjustment-prior year	7,628	0	7,638	100.00
Rental of equipment	782	814	(32)	(3.93)
Salaries	305,130	298,867	6,263	2.10
Computer expense	23,652	17,783	5,869	33.00
Software programming expense	15,750	11,200	4,550	40.63
Taxes-social security - ad valorem	25,666	25,430	236	00.93
Travel and entertainment	2,473	2,652	(179)	(6.75)
	<u>669,206</u>	<u>609,271</u>	<u>59,935</u>	<u>9.84</u>
EXCESS OF REVENUE COLLECTED OVER EXPENSES PAID	<u><u>\$(83,854)</u></u>	<u><u>9,864</u></u>	<u><u>(93,718)</u></u>	<u><u>(950.10)</u></u>

STATEMENTS OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

TEXAS AUTOMOBILE INSURANCE PLAN
(a non-profit organization)

August 31, 1990 and 1989

	1990	1989	Increase Amount	(Decrease) Percent
ASSETS				
Petty cash	\$ 100	\$ 100	\$ 0	
Cash on deposit:				
Checking accounts	5,531	8,933	(3,402)	(38.08)
Savings account	82,241	48,657	33,584	69.02
Time deposits	100,000	200,000	(100,000)	(50.00)
TOTAL CASH	<u>187,872</u>	<u>257,690</u>	<u>(69,818)</u>	<u>(27.09)</u>
Furniture and equipment (net of accumulated depreciation) at cost	39,956	54,845	(14,889)	(27.15)
Prepaid expenses:				
Insurance	3,575	582	2,993	514.26
Service contracts	6,041	6,024	17	00.03
Postage	3,856	2,443	1,413	57.84
	<u>\$241,300</u> =====	<u>321,584</u> =====	<u>(80,284)</u> =====	<u>(24.97)</u> =====
LIABILITIES AND RESERVE FOR OPERATIONS				
L. A. D. fees owed	\$ 3,675	0	3,675	100.00
Payroll taxes due- unemployment	\$ 0	105	(105)	(100.00)
TOTAL LIABILITIES	3,675	105	3,570	3,400.00
Reserve for operations	237,625	321,479	(83,854)	(26.08)
	<u>\$241,300</u> =====	<u>321,584</u> =====	<u>(80,284)</u> =====	<u>(24.97)</u> =====

ANALYSIS OF RESERVE FOR OPERATIONS

Balance at August 31, 1989	\$321,479
Add excess of expenses paid over revenue collected for the year ended August 31, 1990	(83,854)
Balance at August 31, 1990	<u>\$237,625</u> =====