

TEXAS AUTOMOBILE INSURANCE PLAN
ASSOCIATION

FOURTH REPORT

FOR THE PERIOD

JANUARY 1, 1997 THROUGH DECEMBER 31, 1997

AND

MINUTES OF ANNUAL MEETING

AUSTIN, TEXAS

MARCH 12, 1998

FOURTH REPORT FOR THE PERIOD FROM JANUARY 1, 1997
THROUGH DECEMBER 31, 1997

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Austin, Texas March 12, 1998

The Fourth Annual Meeting of the members of the Texas Automobile Insurance Plan Association was held in the Omni Austin Hotel Southpark in Austin, Texas, beginning at 8:30 A.M., Thursday, March 12, 1998.

The meeting was called to order by Chairperson Terry Mack who asked the Association Manager if a quorum was present. Once confirmed, the Chairperson requested that the Anti-Trust Statement be read. The Association Manager read the statement.

The Association Manager was asked to report on the selection of the trade association representatives, as prescribed in Section 14.B. of the Plan of Operation. The trade association representatives selected were: American Insurance Association (AIA)-The Travelers, National Association of Independent Insurers (NAII)-Allstate Insurance Company, Alliance of American Insurers (AAI)-Liberty Mutual Insurance Company, Association of Fire and Casualty Companies (AFACT)-Union Standard Insurance Company. The Non-Affiliated insurers ballot, as prescribed in Section 14.B.2, resulted in the election of State Farm Mutual Automobile Insurance Company.

The Chairperson asked for the report of the Nominating Committee for the At Large representatives, in keeping with Section 14.B.3. Those representatives nominated were: United Services Automobile Association (USAA), Farmers Insurance Group of Companies and Southern Farm Bureau Casualty Insurance Company. Chairperson Mack made a motion to elect the nominated representatives; the motion was seconded, and voted upon. The companies nominated were elected.

Governing Committee representation for the designated companies is as follows:

American Insurance Association

Ms. Helen Morris, Queensbury, NY
Travelers Property & Casualty

National Association of Independent Insurers

Mr. Jon Smanz, Northbrook, Illinois
Allstate Insurance Company

Alliance of American Insurers

Mr. Michael Mott, Irving, Texas
Liberty Mutual Insurance Company

Association of Fire and Casualty Companies in Texas

Ms. Marie Tucker, Irving, Texas
Union Standard Insurance Company

Non Affiliated Companies

Mr. Mike Wey, Dallas, Texas
State Farm Insurance Companies

At Large Members

Mr. Jack Crisci, San Antonio, Texas
United Services Automobile Association

Mr. John Hageman, Austin, Texas
Farmers Insurance Group of Companies

Mr. Mike Gerik, Waco, Texas
Southern Farm Bureau Casualty Company

The Chairperson asked Bobby White, Association Manager, to give his report. The report was read. Chairperson Mack then gave his report.

The Chairperson 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 elected Mr. Jack Crisci as Chair, Mr. Mike Gerik as Vice-Chair, Mr. Bill Jeter as Second Vice-Chair and Mr. Jon Smanz as Secretary.

Annual Meeting Attendees:

Terry Mack, State Farm Mutual Automobile Insurance Company
Mike Gerik, Southern Farm Bureau Casualty Insurance Company
Lisa Muska, Southern Farm Bureau Casualty Insurance Company
Dianna Bush, Allstate Insurance Company
Marie Tucker, Union Standard Insurance Company
Helen Morris, Travelers Insurance
Jack Crisci, United Services Automobile Association
Tim Grieve, Liberty Mutual Insurance Company
Jon Smanz, Allstate Insurance Company
Dan Shaner, Faske Lay & Company, CPAs
Reid Warner, Mason Warner & Company, P.C.
Warren J. Reed, Colonial Penn Group
Mary Carol Awalt, Public Member, Guy E. Hopkins & Associates
Paul Stulgaitis, Robert Plan
Mark Solomon, Axess Insurance Agency
Richard S. Geiger, Thompson, Coe, Cousins & Irons, L.L.P.
Bobby W. White, TAIPA Manager
Margaret Alsobrook, TAIPA Operations Manager
Marilyn Kinsey, TAIPA Plan Services/Human Resources Manager
Larry Tod Peterson, TAIPA Operations Supervisor
Michael Green, TAIPA Plan Services Supervisor
Dianna Brooks, TAIPA Secretary
Douglas Eastwood, TAIPA Accountant

The following member companies were represented by proxy at the Annual Meeting:

Allendale Mutual Insurance Company
American Agricultural Insurance Company
American Alternative Insurance Corporation
American Contractors Insurance Company RRG
American Fire & Casualty Insurance Company
American Fire & Indemnity Company
American Hardware Mutual Insurance Group
American Indemnity Company
American Mercury Insurance Company
American Modern Lloyds Insurance Company
American Reliable Insurance Company
American Risk Funding Insurance Company
Amerisure Insurance Company
Argonaut Great Central Insurance Company
Arkwright Mutual Insurance Company
Atlantic Mutual Insurance Company
Automobile Club Insurance Company
Auto-Owners Insurance Company
Avemco Insurance Company
British American Insurance Company
Central States Indemnity Co. of Omaha
Church Mutual Insurance Company
Cincinnati Casualty Company
Cincinnati Insurance Company
Columbia Insurance Company
Continental Heritage Insurance Company
Continental National Indemnity Company
Dallas Fire Insurance Company
Electric Insurance Company
Emcasco Insurance Company
Employers General Insurance Company
Employers Mutual Casualty Company
Evergreen National Indemnity Company
FFG Insurance Company
Fairmont Insurance Company
Federated Mutual Insurance Company
Federated Service Insurance Company
First Excess & Reinsurance Corporation
First General Insurance Company
First National Insurance Company of America
Foremost Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
General Insurance Company of America
General Reinsurance Corporation
General Star National Insurance Company
Genesis Insurance Company
Georgia Casualty & Surety Company

Germania Fire & Casualty Company
Germania Insurance Company
Government Employees Insurance Company
Great Divide Insurance Company
Great West Casualty Company
Guaranty National Insurance Co. of CA
Heritage Mutual Insurance Company
Insurance Corporation of Hannover
Integon Indemnity Corporation
Integon National Insurance Company
Landmark American Insurance Company
Lumbermens Underwriting Alliance
Markel Insurance Company
Metropolitan Casualty Insurance Company
Metropolitan General Insurance Company
Metropolitan Group Property and Casualty Insurance Company
Metropolitan Lloyds Insurance Company of TX
Michigan Mutual Insurance Company
Millers Casualty Insurance Company
Millers Mutual Fire Insurance Company
National American Insurance Company
National Indemnity Company
National Liability & Fire Insurance
National Lloyds Insurance Company
Nationwide General Insurance Company
Nationwide Insurance Enterprise
Nationwide Lloyds
Nationwide Mutual Fire Insurance Company
Nationwide Mutual Insurance Company
Nationwide Property & Casualty Insurance Company
New South Insurance Company
Ohio Casualty Insurance Company
Peak Property & Casualty Company
Pennsylvania National Insurance Company
Protection Mutual Insurance Company
Ranger Insurance Company
Ranger Lloyds
Resolute Reinsurance Company
Safeco Insurance Company of America
Safeco Insurance Company of Illinois
Safeco Insurance Company of PA
Safeco Lloyds Insurance Company
Safety National Casualty Corporation
Security National Insurance Company
Sentry Insurance a Mutual Company
Star Insurance Company
Sumitomo Marine & Fire Insurance Company
Surplus Underwriters Casualty Insurance Company
T.H.E. Insurance Company
TIG American Specialty Insurance Company
TIG Indemnity Company

TIG Insurance Company
TIG Insurance Company of Michigan
TIG Insurance Company of Texas
TIG Insurance Corporation of America
TIG Lloyds Insurance Company
TIG Premier Insurance Company
Texas General Indemnity Company
Trinity Lloyds Insurance
Trinity Universal Insurance Company of KS
Union Insurance Co. of Providence
United Americas Insurance Company
United Casualty Insurance Co. of America
United Fire & Casualty Company
Unitrin P & C/Trinity Universal
US Specialty Insurance Company
Virginia Surety Company, Inc.
West American Insurance Company
Westchester Fire Insurance Company
Yosemite Insurance Company

ASSOCIATION MANAGER'S REPORT

Thank you for attending Texas Automobile Insurance Plan Association's Fourth Annual Meeting.

In 1996 there were 214,741 applications processed. In 1997 there were 95,460 applications processed. Comparing 1997 to 1996 there was a 56% reduction in the number of applications processed.

On behalf of TAIPA's staff I want to thank the Governing Committee, Operations Subcommittee, Finance Subcommittee, Producer Review Panel and the Texas Department of Insurance for their guidance and support.

CHAIRPERSON'S REPORT

In my report last year, I mentioned that 1996 turned out to be a pretty good year for TAIPA. In most aspects it seems 1997 can be looked back on as being even better than 1996. With the exception of a long drawn out rate case, the affairs of TAIPA went very smoothly in 1997. Let's look back on some of the noteworthy events of 1997.

TAIPA Volume

The downward spiral continued in 1997. As Bobby mentioned our total assignments for the year were under 100,000. This is a 56% decline from 1996 and represents the lowest yearly assignment number in the 1990s. November of 1997 showed only 4,923 assignments made; this is the lowest monthly figure of the 1990s.

Again the subscribing companies are thankful for the decline in volume. The decline signals a healthy voluntary market and more adequate TAIPA rates. Based on the current conditions, we anticipate no upsurge in volume during 1998.

TAIPA Seminars

On September 24, 1997, TAIPA conducted a Company Seminar attended by 53 people. TAIPA staff presented a program containing information on application processing, filings, take-outs, suspense procedures, forms and producer complaints.

On October 9, 1997, TAIPA conducted a Producer Seminar via teleconference to 10 sites around the state. TAIPA staff presented a program similar in content to the Company Seminar and also had a question and answer session following the formal program. The overall review of the Producer Seminar was positive and the teleconference format worked well.

TAIPA staff is to be commended for their efforts in putting on both seminars.

Take-Outs

The TAIPA mandatory take-out program generated much discussion and work in 1997. The Texas Department of Insurance expressed concern with a perceived low percentage of take-out acceptances. Communication with TDI resulted in a special data call aimed at actually determining the total number of take-out acceptances.

The data call went extremely well and showed a take-out acceptance rate of almost 70%. The subscribing companies appreciate TDI's cooperation and assistance in finally showing an accurate measurement of the success of the mandatory take-out program. Work continues between TDI, TAIPA, and the companies in evaluating take-out offers not acted on by some insureds.

Producer Review Panel

The panel did not have to meet often in 1997. This is a good sign that producer performance overall is within the set standards. Again thanks to our Panel members, Chairman Nan Burley Richie, TAIPA staff, and our attorneys for their work in this important function.

1997 also brought the first appeal of a Producer Review decision. A producer whose certification in TAIPA was revoked, appealed the decision to the Texas Department of Insurance. Subsequent review by TDI upheld the revocation.

TAIPA Manual

At the suggestion of producers and companies, the TAIPA Operations Subcommittee worked with TIO to develop a TAIPA only manual. TIO now publishes and maintains the TAIPA only manual. The new manual helps producers and companies more easily locate TAIPA only provisions previously contained throughout the Texas Auto Manual.

Looking Ahead in 1998

As we enter another new year our attention again turns to rates. The TAIPA rate hearing is scheduled for April 28, 1998. Hopefully, the rate process will be expedited this year and the future will bring a more efficient process to Texas.

Internally at TAIPA, expense control will continue to be evaluated. Data processing system upgrades need to be evaluated and addressed by year end. An operational audit of TAIPA should be considered since the last one was completed over four years ago. Finally with the current volume low and agendas smaller, the Governing Committee may want to consider quarterly rather than bi-monthly meetings.

Conclusion

This Governing Committee continues to work well together while representing various interests. I appreciate your efforts and especially commend the public and producer members who take time out of their busy schedules to help us administer the affairs of TAIPA.

TAIPA staff also continues to provide excellent cost effective service to all interested parties. Bobby White and his management team have exhibited strong administrative and people skills. I thank them for making my job as chairman easier. The industry thanks them for running an efficient customer oriented operation.

The Operations Subcommittee chaired by Mike Gerik and the Finance Subcommittee chaired by Reid Warner have made the Governing Committee members' lives easier. I thank them for researching and explaining the various issues assigned to them.

Excellent service has also been provided to us by our attorneys, Dick Geiger and Mike Jones, Actuary Mike Miller, and Economist David Appel. As always we benefit from our contacts with TDI, OPIC and TIO.

Finally, this will be my last meeting as a Governing Committee member. My company has decided to fill our seat with a Texas based person. Operations Vice President Mike Wey of our Dallas area office will replace me in May. I plan to continue attending the meetings as State Farm's corporate contact.

I have thoroughly enjoyed my two years on the Governing Committee. The chairmanship of this group has been extremely rewarding to me. I'm sure you all will give the next Chair the same responsiveness and commitment. Thanks again for all your efforts.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31,

	<u>1997</u>	<u>1996</u>
Changes in unrestricted net assets:		
Revenues		
Members assessments	\$1,721,478	\$2,315,593
Binders	33,641	81,970
Registration fees	5,555	2,310
Interest Income	30,189	33,216
Assessment penalties	6,910	6,668
Other income	<u>12,597</u>	<u>5,672</u>
 Total Revenues	 <u>1,810,370</u>	 <u>2,445,429</u>
Expenses		
Salaries and related expenses	1,162,907	1,360,444
Office supplies and expense	25,219	37,671
Computer supplies and expense	19,125	28,338
Postage and delivery	71,196	124,032
Occupancy expenses	173,324	198,035
Binders expense	51,663	107,186
Staff expenses	2,372	4,273
Governing committee	35,510	56,659
Operating committee	19,902	30,898
Peer review	10,904	22,377
Finance committee	513	363
Producer expenses	6,786	5,538
Education/seminars	4,913	8,199
Bulletin/newsletter expense	5,477	13,642
Producer seminars	19,993	3,549
Company seminars	2,592	--
Professional services	354,541	316,838
Miscellaneous	<u>19,009</u>	<u>22,071</u>
 Total expenses before depreciation and amortization	 1,985,946	 2,340,113
Depreciation and amortization	<u>106,893</u>	<u>115,846</u>
 Total expenses	 <u>2,092,839</u>	 <u>2,455,959</u>
Decrease in net assets	(282,469)	(10,530)
Net assets, beginning of year	<u>966,488</u>	<u>977,018</u>
Net assets, end of year	684,019 =====	966,488 =====

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31,

	<u>1997</u>	<u>1996</u>
ASSETS		
Current Assets		
Cash	\$409,692	\$582,011
Accounts receivable	10,417	5,337
Prepaid expenses	<u>17,879</u>	<u>19,491</u>
Total current assets	437,988	606,839
Fixed assets, at cost		
Furniture and equipment	455,086	455,086
Computer equipment	165,098	163,521
Leasehold improvements	10,668	10,668
Computer software and program development costs	<u>261,570</u>	<u>260,150</u>
	892,422	889,425
Less: accumulated depreciation and amortization	<u>576,228</u>	<u>469,334</u>
	<u>316,194</u>	<u>420,091</u>
Total Assets	\$754,182	\$1,026,930
	=====	=====
LIABILITIES		
Current Liabilities		
Obligations under capital lease	\$3,912	\$3,870
Accounts payable	<u>57,563</u>	<u>43,972</u>
Total current liabilities	61,475	47,842
Obligations under capital lease, less current portion	<u>8,688</u>	<u>12,600</u>
Total Liabilities	70,163	60,442
NET ASSETS		
Unrestricted	<u>684,019</u>	<u>966,488</u>
Total net assets	<u>684,019</u>	<u>966,488</u>
Total liabilities and net assets	\$754,182	\$1,026,930
	=====	=====