

TEXAS AUTOMOBILE INSURANCE PLAN
ASSOCIATION

FIFTH REPORT

FOR THE PERIOD

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

AND

MINUTES OF ANNUAL MEETING

AUSTIN, TEXAS

MARCH 11, 1999

FIFTH REPORT FOR THE PERIOD FROM JANUARY 1, 1998
THROUGH DECEMBER 31, 1998

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Austin, Texas March 11, 1999

The Fifth Annual Meeting of the members of the Texas Automobile Insurance Plan Association was held in the Omni Austin Hotel in Austin, Texas, beginning at 8:30 A.M., Thursday, March 11, 1999.

The meeting was called to order by Chair Jack Crisci 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 in Texas (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. Jon Smanz 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. Mike Cleveland, 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 Crisci 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
Marie Tucker, Union Standard Insurance Company
Helen Morris, Travelers Property & Casualty
Jack Crisci, United Services Automobile Association
Jon Smanz, Allstate Insurance Company
Bill Jeter, The First Houston Group
Warren J. Reed, Colonial Penn Group
Richard S. Geiger, Thompson, Coe, Cousins & Irons, L.L.P.
Grover Corum, Texas Department of Insurance
Jose Montemayor, Commissioner, Texas Department of Insurance
Carol Berthold, GEICO
Phil Scott, State Farm Mutual Automobile Insurance Company
Pete Hamel, Hamel Insurance Agency
Eric Brown, Austin Energy
John Lusardi, Eagle Insurance
Trish Ballard, Hartford Insurance
Mary Rash, Liberty Mutual Insurance Company
Jerry Johns, Southwestern Insurance Information Service, Inc.
Andrea Walton, Credit General
Pat Bonds, Hilb, Rogal & Hamilton Company of Dallas
Dan Shaner, Faske Lay & Company
Ronny Armstrong, Faske Lay & Company
Bobby W. White, TAIPA Manager
Margaret Alsobrook, TAIPA Operations Manager
Marilyn Kinsey, TAIPA Plan Services/Human Resources Manager
Michael Green, TAIPA Plan Services Supervisor

Michael Alder, TAIPA Producer Certification Unit Supervisor
Dolores Reedy, TAIPA Operations Specialist
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 Industries Fire Insurance Company
American Mercury Insurance Company
American Modern Home
American Modern Lloyds Insurance Company
Amica Mutual Insurance Company
Argonaut Great Central Insurance Company
Avemco Insurance Company
Berkley Regional Insurance Company
Carolina Casualty Insurance Company
Casualty Reciprocal Exchange
Chubb Indemnity Insurance Company
Chubb Lloyds of Texas
Chubb National Insurance Company
Church Mutual Insurance Company
Cincinnati Indemnity Company
Cincinnati Insurance Company
Columbia Insurance Company
Commercial America Insurance Company
Commercial Union Insurance Company
Continental Heritage Insurance Company
European Re Corp. of America
Executive Risk Indemnity Inc.
FFG Insurance Company
Federal Insurance Company
Federated Mutual Insurance Company
Financial Indemnity Company
Foremost Insurance Company
GAN National Insurance Company
General Casualty Company of WI
Germania Fire & Casualty Company
Germania Insurance Company
Great Northern Insurance Company
Heritage Mutual Insurance Company
Horace Mann Insurance Companies
Houston United Casualty Insurance Company
Insurance Corporation of Hannover
Markel Insurance Company
Metropolitan Casualty Insurance Company
Metropolitan Direct Property & Casualty Insurance Company
Metropolitan General Insurance Company
Metropolitan Group Property and Casualty Insurance Company

Metropolitan Lloyds Insurance Company of TX
Michigan Mutual Insurance Company
Mid-Continent Casualty Company
Northwestern Insurance Company
Ohio Casualty Insurance Company
Old United Casualty Company
Orion Capital Companies
Pacific Indemnity Company
Pacific Specialty Insurance Company
Pathfinder Insurance Company
Pennsylvania National Mutual Casualty Insurance Company
Protection Mutual Insurance Company
QBE Insurance Corporation
Quadrant Indemnity Company
RLI Insurance Company
Regent Insurance Company
Republic Insurance Company
Republic Underwriters Group of Companies
Safety National Casualty Corporation
Sentry Insurance a Mutual Company
Sunbelt 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 Pacific Indemnity Company
Texas Hospital Insurance Exchange
United Americas Insurance Company
United States Liability Insurance Company
Vesta Fire Insurance Corporation
Vesta Lloyds Insurance Company
Vigilant Insurance Company
Virginia Surety Company, Inc.
Yasuda Fire & Marine Insurance Company
Zale Indemnity Company

ASSOCIATION MANAGER'S REPORT

Good Morning,

While the application count continued to decline in 1998, it was a year for review and preparation for TAIPA staff. Approximately 55,000 applications were assigned in 1998 compared to roughly 95,000 in 1997 and 215,000 in 1996. However, TAIPA was busy with a thorough Operational Review conducted by AIPSO, a Human Resource Review conducted by HR Austin, and in addition, the staff reviewed all Standard Operating Procedures (SOPs), job descriptions and manuals. While TAIPA did not receive a perfect score on these reviews, we received a solid grade and have made and are continuing to make changes to improve our operating efficiency.

While our Governing Committee approved the TAIPA budget in November 1998, they allowed the purchase of new computer equipment to be on-line March 31, 1999. Staff has been extremely busy preparing for this project. In 1998, we prepared numerous Requests for Proposal (RFPs), including those for the Operational and Human Resource audits, new computer system and wiring, actuarial and econometric services, and many other products and services.

In closing, TAIPA staff would like to thank the TAIPA Governing Committee, especially our officers, Mr. Crisci, Mr. Gerik, Mr. Jeter and Mr. Smanz, for their guidance and support.

CHAIRPERSON'S REPORT

Ladies and Gentlemen, as TAIPA Chairman, I want to note a few accomplishments since our last annual meeting, but I promise to be brief. TAIPA achieved much more in the past year than I'm going to mention, but here are some of the significant items worth noting.

First of all, we scheduled and completed an audit of TAIPA operations-just about everything that takes place on a daily basis was included, except financials and human resources, which were audited separately. After your Governing Committee reviewed several bids from companies providing audit services, AIPSO, a vendor of residual market services, was selected to conduct the audit. The audit showed that TAIPA is doing its thing very well. The audit results showed no major items for concern. There were, however, a few recommendations for improvement, some of which have already been implemented. Others are being reviewed by the Operations Subcommittee. Congratulations are appropriate to the staff on what amounted to a pretty clean bill of health.

Separate from the Operational audit, and also after several bids were reviewed by your Governing Committee, we also had a Human Resources audit conducted by HR Austin Consulting Firm. The results of that audit were also very good and identified several areas where improvements could be achieved. One result is TAIPA's new "All Purpose Leave" Program, a combination of what were separate, paid time off programs. Updates were made to TAIPA's sexual harassment and drug abuse policies. And, technology created the need for TAIPA to adopt a formal policy regarding the use of electronic mail. This HR audit forced us to review the entire employee manual, all of TAIPA's HR programs, and the procedures followed by staff in dealing with employees. The result was an updating of TAIPA programs, changes to some of our procedures and a complete revision to TAIPA's Employee Manual. An audit of employee benefits and their costs was part of the HR audit but is still in progress. The results of a financial audit will be reviewed at the Governing Committee meeting later today.

I mentioned when discussing the audits that the Governing Committee reviewed several bids and that also results from a procedure implemented last year. TAIPA staff has always cleared items of major expense with the Committee before incurring the expense, but there was no formal policy in effect. So, last year the Governing Committee formalized a policy to require a bidding process on any single items of expense in excess of \$5,000 when there are known multiple vendors. I believe your

Governing Committee is fiscally responsible and this is one of several ways of being sure the industry's money is spent prudently.

As we speak, based on a budget item approved by the Governing Committee, TAIPA's computers are being replaced. Some are already installed. The primary reason for this is that the existing computers are an age when experts suggest replacement. The new computers, and systems that go with it should pretty much guarantee that TAIPA is ready for the year 2000. Incidentally, the budgeted cost for the new equipment and related systems is \$150,000, but it looks like the final cost will be somewhat less.

TAIPA's workload has been decreasing over time as a result of decreasing numbers of applications coming to the Plan. While there are some functions that aren't sensitive to volume, there are many functions that are, particularly TAIPA's primary function which is to process and assign applications. The Governing Committee asked the Manager to review the organizational structure of TAIPA and its staffing in view of the decreasing volume. Sometimes hard decisions have to be made, and this was one of those times. Our Manager proposed and implemented, with Governing Committee approval, a new organizational structure that eliminated a level of management and reduced staff by about 15%. Another example, I think, of fiscal responsibility and a credit to our Manager who handled the reductions in staff fairly and compassionately.

And finally, a word or two about rates and Plan volume. In 1990, TAIP received about 168,000 applications. In 1991, TAIP rates were increased about 4% with another increase, about 1% effective in 1992. The indicated rate increase in 1991, according to TAIP's actuary, was about 70%. The number of applications increased significantly and exceeded 715,000 in both 1993 and 1994. A rate increase of about 48% became effective in mid-1995 and for that year application volume went down to about 460,000. A 26% rate increase in mid 1996 and volume for that year again declined to about 215,000 applications. Volume continued its downward trend in 1997, and in 1998, which included a 4 ½% rate increase in April, only 55,000 applications were received. Another way of looking at the changes in volume, and using some information our counsel put together, TAIPA accounted for 8.4% of the vehicles on policies in force as of March 31, 1995. After the several rate increases, this went down to .6% as of March 31, 1998.

Effective a week ago last Monday, TAIPA rates were reduced 27.4%. I've been asked several times if that might reverse the downward trend and cause an increase in TAIPA volume. I don't know, but let me give you a perspective that might help you guess. An axiom in our business is that when assigned risk rates are competitive with voluntary rates applications to the Plan increase and when assigned risk rates aren't competitive, Plan volume decreases. Clearly our history over the last 8 or 9 years suggests this is true.

Prior to last week's 27% rate reduction, TAIPA rates were about 95% above the benchmark rate. Since the upper limit of the flexband is 30% above benchmark, TAIPA rates were about 50% above the upper limit of the flexband. The new TAIPA rates are still about 60% above the new benchmark which is approximately 25% above the upper limit. Are TAIPA rates close enough to the benchmark and flexband to be competitive, thereby causing volume to increase? And what about the role County Mutuels play and their impact on TAIPA volume? I don't have the answers. But I assure you the Governing Committee and staff will be watching volume very closely. If volume does increase, we'll take whatever actions are necessary, consistent with good

management, to avoid degrading the service we now provide companies, producers, regulators and insureds. Only time will tell.

I want to thank the Governing Committee members-company, producer and consumer representatives-for putting up with me over the past year. I'm very proud of our committee and they can be very proud of themselves. They work well together and most important, they all contribute to the successful operation of TAIPA. They all contribute to resolving issues. TAIPA's staff, from Manager Bobby White on down, deserve accolades for what they do so efficiently for our industry. We have the benefit of excellent counsel from Dick Geiger. And the assistance we get from those who serve on our subcommittees is very much appreciated. And last but certainly not least, thank you to the Texas Department of Insurance and their representatives that work with our Governing Committee and subcommittees. Your perspective and knowledge of the regulatory framework is very important in helping us develop responses to various issues. Please continue to attend our meetings.

And that, ladies and gentlemen, concludes my report. Thank you.

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

	<u>1998</u>	<u>1997</u>
Changes in unrestricted net assets:		
Revenues		
Members assessments	\$1,724,768	\$1,721,478
Binders	20,126	33,641
Registration fees	-	5,555
Interest Income	28,190	30,189
Assessment penalties	7,972	6,910
Other income	<u>11,016</u>	<u>12,597</u>
Total Revenues	<u>1,792,072</u>	<u>1,810,370</u>
Expenses		
Salaries and related expenses	1,111,009	1,162,907
Office supplies and expense	21,144	25,219
Computer supplies and expense	12,511	19,125
Postage and delivery	42,277	71,196
Occupancy expenses	193,972	173,324
Binders expense	28,199	51,663
Staff expenses	1,461	2,372
Governing committee	30,537	35,510
Data processing committee	33	-
Operating committee	7,992	19,902
Producer review	6,286	10,904
Finance committee	150	513
Producer expenses	-	6,786
Education/seminars	6,888	4,913
Bulletin/newsletter expense	8,805	5,477
Producer seminars	-	19,993
Company seminars	-	2,592
Professional services	375,131	354,541
Miscellaneous	<u>14,985</u>	<u>19,009</u>
Total expenses before depreciation and amortization	1,861,380	1,985,946
Depreciation and amortization	<u>102,705</u>	<u>106,893</u>
Total expenses	<u>1,964,085</u>	<u>2,092,839</u>
Decrease in net assets	(172,013)	(282,469)
Net assets, beginning of year	<u>684,019</u>	<u>966,488</u>
Net assets, end of year	512,006 =====	684,019 =====

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

	<u>1998</u>	<u>1997</u>
ASSETS		
Current Assets		
Cash	\$302,557	\$409,692
Accounts receivable	4,053	10,417
Prepaid expenses	<u>18,157</u>	<u>17,879</u>
Total current assets	324,767	437,988
Fixed assets, at cost		
Furniture and equipment	458,232	455,086
Computer equipment	169,591	165,098
Leasehold improvements	10,668	10,668
Computer software and program development costs	<u>261,570</u>	<u>261,570</u>
	900,061	892,422
Less: accumulated depreciation and amortization	<u>678,933</u>	<u>576,228</u>
	<u>221,128</u>	<u>316,194</u>
Total Assets	\$545,895	\$754,182
	=====	=====
LIABILITIES		
Current Liabilities		
Obligations under capital lease	\$4,607	\$3,912
Accounts payable	<u>24,862</u>	<u>57,563</u>
Total current liabilities	29,469	61,475
Obligations under capital lease, less current portion	<u>4,420</u>	<u>8,688</u>
Total Liabilities	33,889	70,163
NET ASSETS		
Unrestricted	<u>512,006</u>	<u>684,019</u>
Total net assets	<u>512,006</u>	<u>684,019</u>
Total liabilities and net assets	\$545,895	\$754,182
	=====	=====