

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

SIXTH REPORT

FOR THE PERIOD

JANUARY 1, 1999 THROUGH DECEMBER 31, 1999

AND

MINUTES OF ANNUAL MEETING

AUSTIN, TX

MARCH 2, 2000

SIXTH REPORT FOR THE PERIOD FROM JANUARY 1, 1999 THROUGH
DECEMBER 31, 1999

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Austin, Texas March 2, 2000

The Sixth 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 2, 2000.

The meeting was called to order by the Vice-Chair, Mike Gerik, who asked the Association Manager if a quorum was present. Once confirmed, the Vice-Chair 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 TAIPA Plan of Operation. The trade association representatives selected were: Alliance of American Insurers – Liberty Mutual Insurance Company, American Insurance Association – Kemper Insurance Company, Association of Fire and Casualty Companies in Texas – Union Standard Insurance Company, and National Association of Independent Insurers – Allstate 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.

In keeping with Section 14.B.3, Vice-Chair Gerik announced the nomination of Farmers Insurance Group of Companies, United Services Automobile Association, and Southern Farm Bureau Casualty Company, for the at-large member positions. Since no other nominations were received, a motion was made, seconded, and unanimously adopted, to elect the nominated representatives as follows:

Alliance of American Insurers
Liberty Mutual Insurance Company
Mary Frances Rash, Irving, TX

American Insurance Association
Kemper Insurance Company
Jim Bolling, Bedford, TX

Association of Fire and Casualty Companies in Texas
Union Standard Insurance Company
Marie Tucker, Irving, TX

National Association of Independent Insurers
Allstate Insurance Company
Jon Smanz, Northbrook, IL

Non Affiliated Companies:
State Farm Insurance Company
Fred Marsh, Dallas, TX

At-Large Members
Farmers Insurance Group of Companies
Jim Snikeris, Austin, TX

Southern Farm Bureau Casualty Company
Mike Gerik, Waco, TX

USAA
Jack Crisci, San Antonio, TX

The Vice-Chair asked Bobby White, Association Manager, to read the Chairman's Report and the Manager's Report. The reports were read.

The Vice-Chair then inquired if there was any new or unfinished business to be laid before the members. There being no further business, the meeting was adjourned. Following the adjournment, the Governing Committee convened and elected Mr. Mike Gerik as Chair, Mr. Jon Smanz as Vice-Chair, Mr. Bill Jeter as Second Vice-Chair and Ms. Mary Frances Rash as Secretary.

Annual Meeting Attendees:
Margaret Alsobrook, TAIPA
Carol Berthold, GEICO
Patrick Bonds; Hilb, Rogal & Hamilton Company of Dallas
Dianna Brooks, TAIPA
Dianna Bush, Allstate Insurance Company
Mike Gerik, Southern Farm Bureau Casualty Company
Becky Jackson-Birnbaum, OPIC
Jerry Johns, Southwest Insurance Information Service, Inc.
Michael Jones; Thompson, Coe, Cousins & Irons
Marilyn Kinsey, TAIPA
Terry Mack, State Farm Insurance Companies
Erin Martens, OPIC
Lisa Muska, Southern Farm Bureau Casualty Company
Mary Frances Rash, Liberty Mutual Insurance Company
Warren Reed, GE & Home Insurance Company
Jon G. Smanz, Allstate Insurance Company

Marie Tucker, Union Standard Insurance Company
Bobby White, TAIPA

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

ACE American Insurance Company
ACE American Reinsurance Company
ACE Fire Underwriters Insurance Company
ACE Indemnity Insurance Company
ACE Insurance Company of Texas
ACE Property and Casualty Insurance Company
American Agricultural Insurance Company
American Alternative Insurance Company
American Contractors Insurance Company Risk Retention Group
American Economy Insurance Company
American Horizon Property & Casualty Insurance Company
American Mercury Insurance Company
American Mercury Lloyd's Insurance Company
American Re-Insurance Company
American Risk Funding Insurance Company
American States Insurance Company
American States Insurance Company of Texas
American States Lloyds Insurance Company
American States Preferred Insurance Company
Armed Forces Insurance Exchange
Bankers Insurance Company
Bankers Standard Fire and Marine Company
Bankers Standard Insurance Company
Berkley Regional Insurance Company
Blue Ridge Insurance Company
Camden Fire Insurance Association, The
Carolina Casualty Insurance Company
Casualty Reciprocal Exchange
Century Indemnity Company
Century Reinsurance Company
Chubb Indemnity Insurance Company
Chubb Lloyds of Texas
Chubb National Insurance Company
Church Mutual Insurance Company
Cigna Lloyds Insurance Company
Commercial American, U.S. Branch
Continental Western Insurance Company
Electric Insurance Company
Equity Mutual Insurance Company

Executive Risk Indemnity Incorporated
Factory Mutual Insurance Company
Fairmont Insurance Company
Farmers & Merchants Insurance Company
Federal Insurance Company
Federated Mutual Insurance Company
Federated Service Insurance Company
First National Insurance Company of America
General Accident Insurance Company of America
General Casualty Company of Illinois
General Casualty Company of Wisconsin
General Insurance Company of America
Great Divide Insurance Company
Great Northern Insurance Company
Hawkeye-Security Insurance Company
Indemnity Insurance Company of North America
Indiana Lumbermen's Mutual Insurance Company
Industrial Underwriters Insurance Company
Instant Auto Insurance Company
Insurance Company of North America
KOA Fire & Marine Insurance Company, LTD. (U.S. Branch), The
Lumbermen's Underwriting Alliance
Midwestern Insurance Company
Millers Casualty Insurance Company, The
Millers Direct Insurance Company, The
Millers Insurance Company, The
Mercury Casualty Company
Northwestern Insurance Company
Pacific Employers Insurance Company
Pacific Indemnity Company
Pacific Specialty Insurance Company
Pathfinder Insurance Company
Pennsylvania General Insurance Company
Pharmacists Mutual Insurance Company
Potomac Insurance Company of Illinois
Quadrant Indemnity Company
Regent Insurance Company
Republic Insurance Company
Republic Lloyds
Republic Underwriters Insurance Company
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
SAFECO Lloyds Insurance Company
Safety National Casualty Corporation
Signet Star Reinsurance Company

Starnet Insurance Company
Southern Insurance Company
Southern Vanguard Insurance Company
Texas Builders Insurance Company
Texas Pacific Indemnity Company
TIC Countrywide Insurance Company
TIG Indemnity Company
TIG Insurance Company
TIG Insurance Company of Michigan
TIG Insurance Corporation of America
TIG Premier Insurance Company
TIG Reinsurance Company
Transguard Insurance Company of America, Inc.
Tri-State Insurance Company
Unigard Insurance Company
United Americas Insurance Company
Union Insurance Company
Union Standard Insurance Company
Union Standard Lloyds
Vigilant Insurance Company
Westchester Fire Insurance Company
Winterthur International America Insurance Company
Winterthur International America Underwriters Insurance Company
Young America Insurance Company

Association Manager's Report

Good Morning

In 1999, approximately 47,000 applications were processed by TAIPA compared to 55,000 in 1998, for a 14% reduction of applications processed. However, for the last six months of 1999, there were 18,099 application processed compared to 17,105 for the same period in 1998, for a 6% increase in application volume.

In 1999 TAIPA expenses totaled \$1,738,794 compared to 1,861,380 in 1998, for a 7% reduction in expenses.

I would like to thank TAIPA staff, members of the Governing Committee, attorneys, member companies, and producers for their continued cooperation in 1999. For his wisdom and guidance as TAIPA Chairman over the last two years, we all owe a very special thank you to Jack Crisci.

This concludes my report.

Chairperson's Report

TAIPA achieved a lot in the year since our last annual meeting. I want to mention some of the more significant items, but I promise to be brief.

TAIPA has some good benefit programs for TAIPA Employees and, as a result has been able to retain a highly competent staff. But, as a non-profit organization supported by industry, it can be a challenge to attract and retain good employees. Since our last meeting, the Governing Committee approved and TAIPA implemented an employee assistance program to provide counseling services for TAIPA Employees. At no cost to employees, this new program, together with our other employee benefit programs will help keep TAIPA competitive with the Austin human resources environment.

Toward the end of 1998, TAIPA brought in new hardware and software with help from AIPSO and approval for the expense from the Governing Committee. The reason was that TAIPA's systems were at the age when system experts tell us it's appropriate to consider modernizing – before we reach the point where performance is seriously compromised. For this reason, and to be better able to meet the challenges of Y2K, the Governing Committee concluded that new hardware and software was appropriate. Bids were solicited, a vendor chosen and everything was installed before the end of 1999, within budget and with no disruption to TAIPA services. TAIPA entered the year 2000 with no major system problems.

We faced a serious problem late last year when a Texas Appeals Court, considering a suit over the proprietary nature of company data, concluded that the Texas Department of Insurance could not release the quarterly market report to TAIPA. This contains the data used to calculate each company's basic quota. Without this, quota determination could have become an expensive, time consuming process. However, after discussions with the Insurance Department, the Attorney General's Office, and Attorneys representing companies involved in the lawsuit that gave rise to this situation, a solution was reached. That was to have the Texas Department of Insurance calculate each company's basic quota. The Texas Department of Insurance agreed, as did the Attorney General, that giving quotas to TAIPA without allowing TAIPA, or anyone else, to have the underlying, proprietary data in the quarterly market report, satisfied the spirit of the court's ruling. We thank the Texas Department of Insurance for their understanding and willingness to help. Anything else would have been terribly expensive. We only missed one quarter of quota determination, which we can adjust, for in the future. The new procedure began with the 1st quarter of 2000.

A word about the volume of applications coming in to TAIPA. The number of applications has been decreasing, and that's not unique to Texas, it's happening countrywide. Texas hit a high of about 725, 000 application in 1993. Since then volume has decreased each year. In 1998, application volume was 55, 000 and for 1999, 47,000, the lowest it's been in more that ten years (and maybe even longer). But unfortunately, as Bobby mentioned in his Manager's Report, it's not all good news. Comparing volume by month to the previous year, volume is going up. What I mean is that for August 1999,

applications were higher than September 1998, and the same for October, November, December and January 2000. It hasn't been up a lot, but the increases have been obvious and they've been consistent, it's happened each month for the last six months. From what I've seen around the country, most states are predicting further decreases, but our Governing Committee found it necessary to approve a budget for 2000 which assumes an increase in volume to about 60,000 applications compared to the 47,000 in 1999.

And the last item I want to mention is rates. One of the reasons for the decrease in volume since 1993 may be due to rates becoming non-competitive with the voluntary market. Two very significant increases and one smaller increase have been implemented since 1994. Our last change however, directed by a former Commissioner, was a decrease of 27% effective in March 1999. It may be that TAIPA rates are no longer as non-competitive as they were with some portion of the voluntary market, like the county mutual market. If so, last year's decrease could be partly responsible for the slight volume increases we've seen in the last six months. In any event, at the direction of the Governing Committee TAIPA submitted a filing based on the latest available data for a 13.4% increase. The Texas Department of Insurance recommended an increase of 2.2% and OPIC recommended a decrease of 20.2%. The proposals were considered at a hearing in December 1999. Allowing time for preparation of the transcript, filing briefs and replies, and the time allowed for the Administrative Law Judges (ALJ) to consider the arguments, we anticipate that at Proposal for Decision (PFD) won't be out until late March. After that, time is allowed for filing exceptions and replies to the PFD, and that gets us to at least mid-April. Then the Commissioner has a hearing to consider the ALJ's recommendations. He then issues his written order specifying the rate changes to be implemented, if any, which can't become effective sooner than sixty days from the written order. We anticipate that any rate changes, based on filings that were made last year, won't become effective before July 1 or August 1 or later is more likely.

Ladies and Gentlemen, in closing I want to thank the Governing Committee Members – Company, Producer and Public Representatives – for putting up with me over the past year. Our Governing Committee members 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. We have the benefit of excellent Counsel from Dick Geiger and Mike Jones. And, we get very valuable assistance from those who serve on our subcommittees. Thank you to the Texas Department of Insurance and their representatives who work with our Governing Committee and Subcommittees. Their perspective and knowledge of the regulatory framework is very important in helping us develop responses to various issues. And lastly, the biggest accolade has to go the TAIPA Staff, from Manager Bobby White on down. For what they do so efficiently for our industry. TAIPA couldn't exist without them.

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