

REPORT FOR THE PERIOD FROM JANUARY 1, 1990 THROUGH DECEMBER 31, 1990

TEXAS AUTOMOBILE INSURANCE PLAN

Austin, Texas

November 5, 1991

The Fortieth 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 5, 1991.

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.

The first order of business was the reading of the minutes of the annual meeting held on November 6, 1990. 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.

Chairman Awbrey next introduced the guest speaker, Mr. Richard F. Reynolds, Member of the Board, from the Texas Department of Insurance. Mr. Reynolds discussed what the industry's future might be, given the current political and regulatory conditions in Texas. He predicted that the insurers will come under increased pressure to solve what are essentially public policy problems. Due to the current atmosphere of mistrust of the insurance industry, Mr. Reynolds reminded the membership that it was their job to represent the industry forcefully, as it is an integral part of the Texas economy.

Mr. Richard Geiger, TAIP Counsel, spoke next to the subscribers. He warned that a poor perception by the industry or unfair regulations could result in the Texas Automobile Insurance Plan becoming the biggest insurer. Mr. Geiger highlighted some of the new claims statutes which now lay the burden of proof on the insurance company to show that the insured is not entitled to recover under the policy. Policyholders must be informed of settlement negotiations, the insurer must pursue the third party for recovery of the deductible, and the insured has the right to select the shop where repairs to their vehicle will be made.

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

## MANAGER'S REPORT

On behalf of the Plan staff we would like to welcome you to our 40th Annual Meeting. Regardless of what anyone in the room says, I have not attended all 40, but this is my 24th Annual Meeting; however, there is a person in this audience who has attended all 40, Mr. J. W. Townsend. J. W., please stand up and be recognized.

The Plan's applications increased 17% comparing calendar year 1989 to 1990, processing 140,227 new application in 1989 in contrast to 168,135 in 1990. There has been a 101% growth through October of this year in comparison to the same period in 1990, processing 279,072 applications so far this year verses 138,882 for the same period in 1990. Total premiums through the Plan in 1989 were \$94.9 million, for 1990, \$113.4 million, and for 1991 we estimate \$230 million.

In 1991 we had four servicing carriers, Employers Casualty, Farmers, State Farm Mutual and USAA, with a 35% Buy Out Fee. The Texas Automobile Insurance Plan Governing Committee approved a Buy Out Fee of 50% for 1992. At the present time we have three servicing carriers, Farmers, State Farm Mutual and USAA. We are still aggressively pursuing others.

In 1991, the Plan staff continued to audit data reported by the statistical agents against information provided from company reports filed with the Texas Department of Insurance. In this audit process we compare data reported from statistical agents (AAIS, ISO, NAI and NISS), to premiums reported on page 14 of the companies' annual reports to corroborate that they are being appropriately reported. Also for the first time, data used by the Plan in compiling company quotas (from statistical agents), was provided to the Governing Committee officers, (Chairman, Vice Chairman and Secretary), for their critique.

The Plan continues to assist companies in collecting unearned commissions from agents. During 1991, we received information from 21 companies and requested \$83,418 in unearned commission from 1,838 agents. Approximately, \$23,550 was collected by the Plan. Because of its success, this project will be continued.

Agents use of registered, certified, or special mailing to establish an effective date has continued to increase, rising from 18% of new applications received in 1990 to 25% in 1991. While this requires special handling by the Plan staff, it provides a valuable benefit to the agent.

At last year's meeting I stated, and I quote, "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 insurance law in 1982." Unfortunately, it appears this crystal ball gazing has come true. After this foray into the future, I reluctantly look toward 1992. After again consulting my crystal ball and my learned constituents of my social club, I can see nothing but continued Plan growth in 1992 with the real possibility of the Plan assigning in excess of 750,000 new assignments.

To prepare for the increase in 1991 and 1992, the Governing Committee authorized upgrading the Unisys computer to manage up to two million new assignments annually, to buy new printers and other equipment to speed up the processing time, and to purchase and install by November 1, 1991, a voice response system and a 1-800 number to use with this voice response system to permit agents to inquire on assignments and rating information. This allows Plan staff to perform other duties without disturbance.

In our preparation for the influx of new applications, Plan management was featured on a video produced by the Professional Insurance Agents of Texas, to tutor its agents on procedures. The application form was revised for more efficient handling by the agent, Plan and company. The Agent's Guide was updated and distributed to over 3,500 agents and 200 insurance companies. In working with the Texas Department of Insurance and the United States Postal Service, we devised a binder card that insureds could use as proof of insurance until proof was received from the company. We further provided informational material to the state agencies charged with enforcing the new law about the binder card. We also furnished these agencies information about the Plan, its origin, function, and place in the insurance industry.

At this time last year, staffing numbered 18 permanent employees. At the present time in 1991, we number 22 permanent, 4 seasonal and 33 temporaries. A second shift of employees was used starting mid September, and terminating at the end of October.

In closing we would like to thank members of our Governing Committee for their guidance, continued support, and most of all, for their patience. Chairman Stuart Awbrey, Vice Chairman Jess Baker, and Secretary Ron Nichols, have spent untold hours on the phone, and in the Plan office assisting the Plan staff during this growth period. All of our subcommittees are to be thanked for their hard work, particularly James Cross, State Farm, Chairman of our data processing subcommittee, and special guru to myself and Marilyn in our everyday struggles with our personal computer. Thanks go to our attorneys Dick Geiger, Jack Cleaveland and Tracy Bowden for their legal counseling, and Rick Gentry and Susan Slivinske of the Insurance Information Institute for their handling of the press in these troubled times. The agents' associations representatives Wilmot Davis and Dick Mattinson have served their organizations and the Plan loyally for many years and are going to be dearly missed by all. Thanks are in order for Teo Van Eaton of the PIA of Texas for his leadership and direction in the TAIP video. We thank the Department of Insurance. Last but by no stretch of the imagination least, we thank the staff of the Texas Automobile Insurance Plan, who in the last four months have put in long hours without even a whimper, were innovative in setting up new procedures, courteous and friendly with the public, and were supportive of their Manager, even with his temperamental behavior.

4 We would like to ask your support in continuing to provide proper service on assignments through the Plan. Thank you for your attention and we will be happy to answer any questions at the conclusion of this meeting.

#### CHAIRMAN'S REPORT

Some of you may be thinking that 1991 was the year of challenge and that is correct, but there will likely be even greater challenges in 1992. For now, I will emphasize our accomplishments.

While it is the Chairman who presents this report, it is given on behalf of the Governing Committee, the Plan management and staff. These two groups have worked very hard this past year and have faced many new issues.

The Governing Committee is committed to providing, as required by law, a market of last resort, for those risks who are unable to obtain insurance in the voluntary market, needed to satisfy the financial responsibility requirements. The vehicle to do that is the Automobile Insurance Plan.

To accomplish that goal, the Governing Committee must assure that proper regulations and procedures are in place. Very important is the role of the Plan rates. Simply stated, if rates are inadequate the Plan will no longer be the opportunity of last resort, but will become competitive with the voluntary market.

The Governing Committee is directly responsible for the operation of the Plan office. We have an excellent management team and a good staff. The Governing Committee, as you have already heard, and I give more examples, makes sure that qualified personnel are in place and that the resources necessary are available to process and assign the applications.

The major impact on the Plan this year has been its growth as described by Bobby. Last year, I announced that the data processing subcommittee had been re-activated to consider replacement of the computer main frame. With the passage of HB 2 and the expected increase in Plan volume, it became obvious that this would not be a good time to make such a major change. The Governing Committee then authorized the Data Processing Subcommittee to make changes to the processing system necessary to handle the increased workload and to maintain appropriate service levels.

The initial surge of new applications were received during the middle two weeks of September. During that time, the turnaround time, the time an application is received at the Plan office until it is assigned and mailed to the company, peaked at five days. Part of the increase in turnaround time was due to two different computer outages.

The turnaround goal is 2 to 3 days and that goal has continuously been met since the last of September. By the way, the turnaround goal in other states is 5 days.

The theme for insurance this year in Texas has been reform. Early in the year I recommended that the Governing Committee form 3 new subcommittees, Operations, Actuarial, and Claims. The overall goal of the subcommittees' activities was to conduct a thorough review of the Plan. Their reports provided the Governing Committee with the information necessary to determine that the Plan is fulfilling its obligations under the law and is providing the proper service to the market for which it was created. Those 3 subcommittees are currently active.

5 The Operations Subcommittee has a continuing responsibility to review legal requirements, Plan rules, and Plan office procedures.

The claims subcommittee has been charged to review the claims situation statewide on Plan business. In particular they are to evaluate current claims fraud and the potential fraud to develop in Texas. Their recommendations will provide the information necessary for the Governing Committee to take any action necessary to control fraud. This subcommittee will also be available to work with the Department's new fraud bureau that was authorized by HB 2.

The Actuarial Subcommittee is currently reviewing the adequacy of Plan rates. HB 2 did not specifically mention the Plan in regards to rate making, or for that matter, in any context. At this time, there are several options open to the Plan in the rate making process.

Early indications are that current Plan rates are inadequate. Some producers have reported that Plan rates for classes 1A and 1B, in some territories, are lower than those available in the voluntary market.

The Governing Committee will continue to do everything possible to assure adequate rates for Plan business. (It should be noted that the Governing Committee will not include a profit loading in any rate request.)

Here are some of the other accomplishments for the year. Bobby mentioned installation of the audio response system. This is an excellent example of an investment that will automate some of the office workload while improving service for producers who need to know the status of an application or how to rate an application.

During the year, the Plan acquired its first PC.

Several times this morning I have emphasized the importance of qualified personnel. The Governing Committee believes that it is important to provide a stable and positive environment for Plan staff. A very important factor to most of us is fair compensation.

To assure that is provided to the Plan staff, a standing subcommittee for compensation has been created. The subcommittee evaluates and furnishes a recommendation on salary ranges and benefits each year to the Governing Committee. To ensure continuity in this area, the subcommittee will be chaired by the Governing Committees' Vice Chairman. Members of the Subcommittee include the Governing Committee Chairman and others with expertise or interest in compensation.

I have not mentioned all that has been done by the Governing Committee and the Plan staff. Hopefully, what you have heard will give you an indication of the effort that is being expended to the Texas Automobile Insurance Plan

I will close by thanking all those who have made my task as Chairman much easier. Special thanks go to the Plan Manager, Bobby White. A good manager is invaluable to the Chairman. Bobby does that very well. My thanks are extended to his management team and the Plan employees. You have done a great job, especially considering all that has gone on.

6 Thanks to the members of the Executive Committee, Vice Chairman, Jess Baker, and secretary Ron Nichols. We have met many times and have had many conversations during the last two years. They have given super support.

The other members of the Governing Committee have been just as supportive. I sit on several Governing Committees around the country, and truly, the cooperation and support among the members of this committee is not exceeded anywhere.

Thank you.

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. Ernest Ivaldi, Dallas, Texas  
The Travelers

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

ALLIANCE OF AMERICAN INSURERS

Mr. Michael Mott, Irving, Texas  
Liberty Mutual

Mr. Howard Haun, Dallas, Texas  
Employers Casualty Company

NATIONAL ASSOCIATION OF INDEPENDENT INSURERS

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

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

NON AFFILIATED COMPANIES

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

Mr. Clint Gardner, 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 Awbrey as Chairman, Mr. Ed Held was elected as Vice Chairman, and Mr. Ron Nichols was re-elected as Secretary.

## RESUME OF ACTIVITIES

	12 Months 1990	12 Months 1989
Applications Assigned		
Private Passenger	151,078	125,557
All Other	17,057	14,670
Not Qualifying	12	10
Policies Renewed		
Private Passenger	57,727	62,954
All Other	5,543	5,963
Policies Cancelled		
Private Passenger	63,055	64,522
All Other	4,958	5,003
Appeals Heard	0	0
Sustained	0	0
Denied	0	0
Premiums (Private Passenger)	\$101,214,857	\$80,698,474
Premiums (All Other)	\$12,162,856	\$14,198,842
Expenses Incurred	\$709,588	\$584,251
Cost Per Policy	\$3.07	\$2.79