

# TAIPA NEWSLINE

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## JUDGES HEAR TESTIMONY AT TAIPA RATE HEARING

At an Oct. 3-4 rate hearing in Austin, witnesses for TAIPA and the Office of Public Insurance Counsel (OPIC) testified before two administrative law judges from the State Office of Administrative Hearings. TAIPA requested an overall 73% rate increase. This is the first TAIPA rate hearing implementing changes in the rate setting process which were enacted through HB 1461, the "sunset" bill of 1993.

The magnitude of TAIPA's rate request reflects the cumulative effect of years of rate inadequacy which has led to an explosion in losses on TAIP business.

Underwriting losses, which were \$26 million for fiscal year ending June 30, 1991, soared to \$189 million for the fiscal year ending June 30, 1993 and are expected to approach a quarter billion dollars for calendar year 1993.

Premiums generated from the rate request would be sufficient only to pay future losses and expenses; insurers' past losses cannot be recouped.

Although OPIC's consulting actuary calculated a +34% rate need based upon his analysis of the data, Public Insurance Counsel Mark Kincaid recommended that no adjustment be made to TAIPA rates.

If the defensive driving discount were to be eliminated, as Commissioner Hunter proposed in his policy statements to the administrative law judges, TAIPA's rate level indication would drop to 72%; Schwartz's to 32.7%.

Broken down by coverage, TAIPA's request calls for +62.2% for minimum limits bodily injury liability, +32.9% for property damage liability, +179.3% for personal injury protection, +367.3% for UM/UIM bodily injury, and 211.5% for UM/UIM property damage.

Because there is not sufficient Texas assigned risk commercial automobile insurance data to perform a credible actuarial analysis, TAIPA's consulting actuary recommended that TAIPA commercial auto in-

urance rates be set equal to rate-regulated commercial benchmark auto rates.

The judges will review the evidence, issue findings of fact and conclusions of law, and submit a proposal for decision to Texas Insurance Commissioner Robert Hunter for his consideration. The commissioner is supposed to issue a final order within 60 days of the Oct. 4 close of the hearing.

Although the commissioner is not bound by the judges' recommendation, his final order must be based upon the record created during the hearing process. Alternatively, he could send the case back for additional evidence. The statute requires that rates be set at a level "sufficient to carry all claims to maturity and to meet the expenses incurred in writing and servicing the business."

It is unlikely that new TAIPA rates will be in effect before March 1, 1995. Until the effective date for new TAIPA rates, policies written through TAIPA will be based upon current TAIP rates.

## PLAN OF OPERATION IN PLACE; TAIPA TO TAKE OVER JAN. 1

Commissioner Hunter has signed off on the TAIPA Plan of Operation, paving the way for TAIPA to take over all administrative functions as the successor organization to TAIP next year.

Creation of TAIPA was provided for in HB 1461 as lawmakers sought to address concerns regarding the Texas automobile insurance residual market. The statute specified changes in eligibility requirements and restructured the governing committee to include producer and other public members.

The TAIPA Plan of Operation, which will take effect Jan. 1, 1995 is the culmination of an arduous year of drafting, redrafting and negotiations spearheaded by governing committee member Gene Flynn of ITT Hartford.

Flynn chaired the committee which was charged with drafting a Plan of Operation which would encompass

changes mandated by the statute; reflect the diverse interests of insurers, producers and consumers; and serve as a readable tool for producers.

Other members of the committee included Enrique Valdivia, Texas Rural Legal Aid; Pete Hamel, Hamel Insurance Agency; Terry Mack, State Farm Insurance Co.; and Dianna Bush, Allstate Insurance Co.

Before the end of the year, the Plan will issue a bulletin with an updated producer's guide that addresses routing procedures as well as changes associated with the transition, including:

**Eligibility:** The applicant and producer must certify as part of the application that within 60 days prior to the application, the applicant has been rejected by at least two licensed insurers actively writing auto liability in Texas, which can include insurers which are not rate-regulated. The applicant is also ineligible if he or she has obtained excess private passenger auto liability coverage elsewhere.

**Installment Premium Payment Option:** The initial down payment will be reduced from 25% to 20%, followed by eight additional installments of one-eighth the remaining premium, plus the \$3 installment service charge. As in the past, the installment service charge increases by \$.50 for each incremental \$250 above \$500 in annual premium. Payments shall be made by one instrument.

**Dishonored Producer or Premium Finance Company Checks:** In the event that the producer or premium finance company check is not paid upon presentation, the Plan Manager shall immediately notify the Commissioner of Insurance.

**Premium Deposit Requirements:** Producers will submit all deposit premiums, installments and additional premium payments in full. Premium finance checks will not be accepted for premium deposit.

Because the TAIPA Plan of Operation is included with the Texas Auto Manual, customers who have contracted with their vendors to receive routine manual updates will receive the new TAIPA Plan of Operation.

## NEW TAIPA APPLICATION TO REPLACE TAIP-1000

A new TAIPA application will soon be available from vendors for use effective Jan. 1, 1995. **Any application received in the Plan office after Dec. 31, 1994 must be on the new application.**

The new application reflects TAIPA eligibility requirements and will pick up additional vehicle use information which TAIP had collected on the supplemental application.

The new application will contain information required to be reported under the new Texas Department of Insurance statistical plan. This information includes: date of birth, gender and marital status of the rated driver; vehicle use; principal operator; miles to work or school; estimated annual mileage; passive restraint discount; and whether there was prior insurance within the last 30 days.

As of Jan. 1, 1995, if the producer has not reported this information on the application, the assigned company is required to make two attempts to obtain the necessary information from the applicant. This causes unnecessary expense for the companies as well as inconvenience and confusion to the applicant. Failure to provide this essential underwriting information may cause delay in issuance and, in some cases, cancellation of the policy.

## TAIPA SELECTS VENDOR TO IMPLEMENT ELECTRONIC SUBMISSION PROCEDURES

The governing committee has selected the AIPSO, a Rhode Island-based insurance service corporation, to implement a system by which producers who have met specific certification standards may bind coverage by phone and issue written binders. Our goal is to have this program on line by May 1, 1995.

Producers will be issued a limited number of binder forms and information related to issuance of the forms must be kept by the producer in a log which is subject to audit. The binder forms will be consecutively numbered and contain other antifraud features.

To bind coverage for eligible applicants, qualifying producers will dial a designated phone number, key in a personal identification number and minimal application information.

Coverage will be effective, for losses, at the time the call is placed, and the producer can immediately issue a TAIPA binder good for a limited time period.

If determined to be eligible and when the application is assigned, TAIPA will send a temporary card specifying which company has received the assignment. The insurer will thereafter issue the insured's auto liability proof of insurance card.

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