

2006 Annual Report

Texas Department of Insurance



Texas Department of Insurance

Office of the Commissioner, Mail Code 113-1C

333 Guadalupe • P.O. Box 149221, Austin, Texas 78714-9221

512 463-6464 telephone • 512 475-2005 fax • www.tdi.state.tx.us

November 20, 2006

The Honorable Rick Perry, *Governor*
The Honorable David Dewhurst, *Lieutenant Governor*
The Honorable Tom Craddick, *Speaker of the House*

Dear Governors and Speaker:

I am pleased to submit the *131st Annual Report* of the Texas Department of Insurance for Fiscal Year 2006, in compliance with *Texas Insurance Code* Chapter 32, Section 32.021.

Copies of this report will be filed simultaneously with the State Auditor, Legislative Budget Board, Comptroller of Public Accounts, Legislative Reference Library and State Library. Copies of this report will be provided to insurance commissioners in other states, as well as selected members of the Texas Legislature or upon request. This report is also available on TDI's Web site at <http://www.tdi.state.tx.us/commish/reports/annual01.html>

As in 2005, TDI's *Annual Financial Report*—formerly published as Part V of the agency's Annual Report—is published under separate cover for Fiscal Year 2006.

If you have questions about the contents of this report or affairs of the Texas Department of Insurance, I will be happy to respond.

A handwritten signature in black ink that reads "Mike Geeslin".

Mike Geeslin, *Commissioner of Insurance*

A large, stylized number '131' is rendered in white against a dark maroon background. The '1' is a simple vertical bar. The '3' is a thick, rounded shape with a dark maroon oval cutout in its center. The second '1' is a thick vertical bar. The number is positioned on the right side of the page, partially overlapping a white rectangular area.

131st Annual Report

to the Governor & Legislature

**For Fiscal Year 2006
ending August 31, 2006**

Mike Geeslin,
Commissioner of Insurance

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Agency Vision

The Texas Department of Insurance envisions a financially stable and fair marketplace and an effective and efficient workers' compensation system.

Agency Mission

The Texas Department of Insurance regulates the marketplace firmly and fairly by enforcing and implementing the law. TDI strives to enhance internal and external communication for efficient and effective regulation and to promote outreach to educate the public.

Agency Regulatory Approach

The Texas Department of Insurance will exemplify friendly, courteous, ethical, and professional behavior in all areas of performance by:

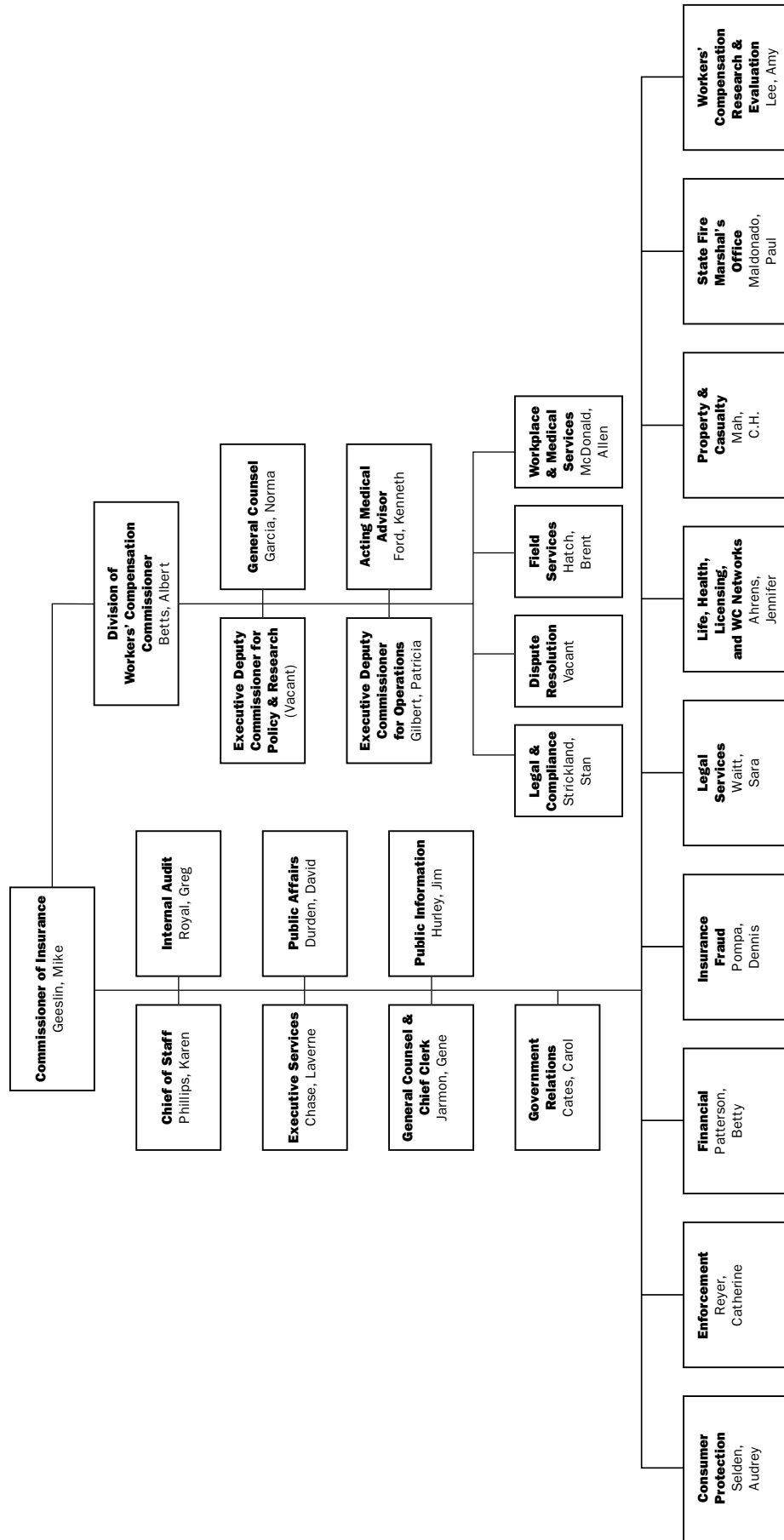
- providing the best value in services to the people of Texas
- applying the law and the agency policy fairly and consistently throughout the state, and
- communicating openly and providing timely and accurate information to the public we serve, and to all our fellow employees.

Explanatory Note

References to statutes and insurance-related legislation: Unless otherwise noted, statutory references, including citations of articles, refer to the *Texas Insurance Code*. SB refers to a Senate bill and HB refers to a House bill. Bill references are to those enacted by the 79th Texas Legislature (2005) unless otherwise indicated.

Agency Organization Chart

August 31, 2006



A large, stylized graphic of the number '131' in a light beige color, set against a dark maroon background. The '1' is on the left, the '3' is in the middle, and the '1' is on the right. The numbers are composed of thick, rounded strokes.

Part I Report of Program Activities

This section of the Texas Department of Insurance's *131st Annual Report* gives a brief summary of major activity of agency programs and divisions during Fiscal Year 2006. This report reflects the agency structure as it existed on August 31, 2006.

issued by the

Texas Department of Insurance

Preface

FY 2006 WAS AN EVENTFUL YEAR for the Texas Department of Insurance (TDI). The fiscal year began with one major planned event – the transfer of workers' compensation functions to TDI on September 1, 2005 – and two major unplanned events: Hurricanes Katrina and Rita. The repercussions that continue to challenge the insurance industry pale in comparison to the impact these hurricanes had on coastal residents.

Although the state experienced a relatively mild spring storm season (usually a significant cost driver in pricing Texas insurance risk), other significant weather-related events occurred in the form of extensive wildfire damage in North and West Texas over the winter and severe flooding in El Paso during the summer. In both of these events TDI deployed staff to the affected areas to assist consumers with insurance-related issues.

Workers' Comp Reform

House Bill (HB) 7, passed by the 79th Legislature, transferred the functions of the Texas Workers' Compensation Commission to TDI effective September 1, 2005, creating the Division of Workers' Compensation (DWC). One notable system change from the legislation is the introduction of workers' compensation health care networks, a new approach to delivery of medical care for employees injured on the job. The purpose of networks is to achieve cost-effective delivery of medical care while instituting quality of care measures through ongoing monitoring and performance report cards. In the past year more than a dozen health care provider networks have been certified to operate in Texas, with almost 20 applications pending.

Other key HB 7 changes include initiatives to streamline the medical dispute resolution process, improve return-to-work outcomes, enhance employee services, and improve overall outcomes through performance-based oversight. Eight major rules or rules revisions were adopted by the Division of Workers' Compensation in FY 2006.

Homeowners Insurance

Companies are continuing to file changes to policy forms and endorsements, designed to provide companies with the ability to custom fit insurance policies to meet consumer needs. Overall, the market continues to be competitive in terms of pricing. Last year there were 35 rate decreases filed (from 27 different companies, representing 33 percent of the market), 15 rate increases (from 14 different companies, representing 27 percent of the market), and 56 additional rate filings that were rate neutral. However, the largest writer of homeowners insurance in the state continues to pursue its appeal of a 2003 TDI order to reduce excessive rates.

Hurricane activity in FY 2006 has had an impact on pricing and availability of residential and commercial property insurance on the Texas coast due to rising reinsurance costs, readjustment of catastrophe models, and reevaluation of coastal exposure. As a result, some voluntary market insurers have indicated that they will be limiting their wind coverage along the coast, which in turn will shift more consumers to the Texas Windstorm Insurance Association.

Vesta Fire Insurance Corporation, based in Birmingham, Alabama, was severely compromised by recent hurricane losses. Its subsidiary, Texas Select Lloyds (the only company in the group with Texas policyholders and the sixth largest writer of homeowners insurance in the state), was placed into receivership in July 2006. TDI financial and consumer protection staff worked to effect an orderly liquidation and assist consumers in making a timely transition to a sound insurer.

Medical Malpractice Insurance

Tort reform in 2003 capped medical malpractice awards at \$250,000. Since then, the medical malpractice market in Texas has stabilized. More companies are writing and rates have trended downward. The Texas Medical Liability Trust, the largest writer in the state insuring almost half of all

Texas doctors, cut its medical malpractice insurance rates an average 7.5 percent in FY 2006. Similar moves by other insurers in the last two years and a rising number of high-risk specialists practicing in the state are attributed to the 2003 reforms. Overall, TMLT has cut rates an average 29.5 percent since the law took effect.

Health Insurance

Texas continues to face one of the highest uninsured rates in the country, and increasing numbers of Texans may be underinsured. Rising health insurance costs, a high percentage of immigrants, low participation rates in employment-based insurance and government-sponsored plans all contribute to Texas' growing uninsured population. Federal funding in the form of a State Planning Grant has enabled TDI to study the problem in detail. In FY 2006 the agency completed the planning phase of the grant and has begun the implementation phase. Data from a survey and over two dozen focus groups with Houston-area small business owners resulted in the design of a model small employer health plan for Harris County, which may be able to be expanded to other parts of the state.

TDI continues to maintain and expand TexasHealthOptions.com, a one-stop website designed to provide consumers with specific health insurance information targeted to their particular needs. In addition, TDI stepped up outreach efforts in FY 2006 to promote the formation of healthcare cooperatives.

Disaster Readiness and Response

TDI staff members participated in the response and recovery efforts to Hurricanes Katrina and Rita by providing evacuees with insurance information and assisting the evacuees with insurance claims at the Federal Emergency Management Agency (FEMA) Disaster Recovery Centers (DRCs). In addition to staffing the DRCs, the agency's consumer assistance activities expanded to include answering telephone inquiries for extended hours and on weekends, delivering ice and water to rural areas, completing fire safety surveys, promoting consumer awareness, and inspecting repairs to homes and commercial buildings so consumers could qualify for windstorm coverage. At the industry level, the Commissioner issued 17 bulletins to communicate the agency's expectations of company behavior during the time of crisis.

The impact of Hurricanes Katrina and Rita emphasized the critical need for preparedness so that local, state, and federal agencies can execute a rapid, coordinated response to disasters and other emergencies. Equally important, TDI monitors insurers' overall financial condition, including the ability to continue coverage and services in the event of a disaster.

Commissioner's Office

THE COMMISSIONER OF INSURANCE, appointed by the Governor with the advice and consent of the Senate, is the agency's chief executive and administrative officer.

As the agency's chief administrator, the Commissioner oversees agency regulatory functions, establishes agency operating procedures and enforces state insurance laws. Enforcement includes disciplinary and legal actions against violators.

As part of his regulatory duties, the Commissioner issues presumptive rates for credit life and credit disability insurance. He also reviews and regulates all residential property rates and can order reductions when appropriate. The Commissioner also promulgates rates for title insurance and Texas Automobile Insurance Plan Association (TAIPA) coverages. The Texas Windstorm Insurance Association (TWIA) must submit its proposed rates for the Commissioner's approval.

The Commissioner reviews rates submitted to TDI under "file-and-use" provisions for such lines as boiler and machinery, business owners, commercial multi-peril, credit and involuntary unemployment, crime, fire and allied lines commercial, general liability, glass, miscellaneous liability, mortgage guaranty, medical malpractice, other professional liability and commercial umbrella.

The Commissioner adopts rules, implements new laws and addresses problems in regulating companies and agents. In addition, the Commissioner appoints individuals to advisory boards and committees and oversees their operation.

In FY 2006, the Commissioner's Office included the Chief of Staff and five activities.

Chief of Staff oversees the Administrative Operations Division, which includes the agency's financial services, information technology services, human resources, purchasing and contract administration and staff services. The Chief of Staff also coordinates executive communications and assists the agency ombudsman and ethics advisor in matters not requiring the Commissioner's action.

General Counsel/Chief Clerk serves as the Commissioner's legal adviser on both contested and non-contested cases and assists in developing rules, setting rates and handling various appeals to the Commissioner, including appeals from decisions of Boards and Associations supervised by the Commissioner. In addition, the office coordinates matters involving contested case proceedings, policy issues, and rule-making; performs legal research; certifies rules for the agency; approves all bulletins issued by the agency and the Commissioner; and maintains records of proceedings involving the Commissioner and Commissioner actions. The office also handles hearings-related duties including contested case proceedings, coordinating hearing notices and scheduling of hearings with the State Office of Administrative Hearings (SOAH), along with providing a required court reporter.

Executive Services provides executive support services to the Commissioner and staff.

Internal Audit supports the agency's overall mission by providing independent, objective assurance and consulting activities designed to add value and improve the agency's operations. Internal Audit helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Government Relations serves as TDI's liaison with the Legislature and other governmental entities. Major responsibilities include helping the Commissioner develop legislative recommendations for improving insurance regulation in Texas; reporting information regarding TDI activities and the insurance market to the Legislature; coordinating and tracking agency-wide responses to legislative and constituent inquiries, including responding to inquiries related to workers' compensation or coordinating responses with the Division of Workers' Compensation; assisting TDI's Workers' Compensation Research and Evaluation Group on research projects; monitoring and analyzing legislation affecting the agency; updating agency staff on the status of legislation; coor-

dinating the appearance of agency staff for testimony before various legislative committees; overseeing implementation of legislation; compiling and indexing all insurance and agency-related legislation for inclusion on TDI's website; distributing requested information to legislators, committees and other governmental entities; and researching and reviewing possible appointments to various boards and committees required to assist the Department.

Public Information Office serves as the agency's primary contact with the news media. The office also responds to information requests from consumers, the insurance industry and other regulators and government agencies. Major communication responsibilities include:

- Researching, writing, editing and distributing news releases announcing agency actions; conducting and coordinating interviews with the news media; assisting the Commissioner in drafting articles and consumer columns for various publications; and responding to information requests from the media.
- Managing content of TDI's websites, with assistance from Information Services and other divisions.
- Coordinating electronic mail among TDI, other state insurance departments and the National Association of Insurance Commissioners (NAIC), and coordinating general information e-mails via TDI's website.
- Coordinating the writing and editing of the Annual Report to the Governor and Legislature.
- Writing and editing the agency's regulatory newsletter (*TDInSight*).
- Designing, illustrating and producing agency publications and related print materials.
- Writing and overseeing production of radio and television public service announcements and other videos.
- Producing the agency's Bulletin Board@TDINet, an in-house electronic bulletin board for TDI information.
- Preparing information and fact sheets for speeches and helping edit various agency reports and documents.

Highlights

In Fiscal Year 2006, the Commissioner's Office:

General Counsel/Chief Clerk

- Reviewed, briefed and advised the Commissioner of Insurance on 53 contested cases heard by SOAH, and 31 hearings and public meetings conducted by the Commissioner. Also reviewed, briefed and advised the Commissioner on other rate matters including title insurance, the Texas Windstorm Insurance Association (TWIA) interim filing requesting modification of the annual commercial rate filing, and TWIA manual rates.
- Briefed and advised the Commissioner on 13 appeals of TWIA decisions.
- Provided legal and technical review in connection with the adoption of 12 new Texas *Administrative Code* (TAC) rules, the repeal of 4 TAC rules, and the amendment of 23 TAC rules. Eleven proposed TAC rules were pending at the end of FY 2006.
- Provided legal and technical review in connection with the adoption of 14 manual rule proposals under Articles 5.96, 21.49-1 and 21.81 of the *Texas Insurance Code*. Five proposals to adopt new or amended manual rules were pending at the end of FY 2006.
- Reviewed and advised the Commissioner regarding orders in connection with agents and insurers, including 203 consent orders, 96 default orders, 48 contested, and three Cease and Desist orders; also reviewed and advised the Commissioner on 60 appointment or reappointment orders, nine TDI Activity orders (approval of TDI Manuals), and seven Rate Matter orders.
- Continued work on streamlining the agency's internal rulemaking process.
- Continued work on updating and revising portions of TDI's database of Commissioner orders and bulletins. The database now includes 43 years of orders by insurance commissioners and the former State Board of Insurance.
- Maintained the Commissioner's agendas, bulletins, TAC and manual rules posted on the agency website.
- Approved and processed 68 Commissioner's bulletins.
- Maintained and prepared for archiving all contested-case hearing files (Official Administrative Record) and all other administrative hearing files of the Commissioner of Insurance or his delegate, as well as assisted the Office of the Attorney General in related appeals filed with the District Court.
- Briefed and advised the Commissioner and TDI staff in hearings concerning rules and other regulatory matters.

Executive Services

- Assisted the Commissioner and staff in responding to all inquiries directed to the Commissioner of Insurance.
- Coordinated the activities of the Commissioner and agency staff as directed by the Commissioner.

Internal Audit

- Conducted five financial-related or performance audits. Fieldwork was completed on two other audits that were ongoing at fiscal year-end.
- Conducted four information system/telecommunication audits. Conducted two monitoring projects related to agency-wide Internet and telephone usage.
- Conducted two investigations as authorized under Section 2102.003 (3) (E) of the *Government Code*. Both of the investigations were completed by the end of FY 2006.
- Served as TDI's liaison to external auditors on three State Auditor's Office projects completed during the year and one Comptroller audit started during the fiscal year.
- Assisted in preparation of the agency response to the Governor's Fraud Initiative, RP 36, and served as the agency's facilitator to implement a program of internal fraud prevention and elimination.
- Served as an advisor on two advisory/monitoring projects that were long-term information systems projects spanning multiple years.
- Served in an advisory/monitoring role on four agency project committees/teams.

Government Relations

- Tracked and coordinated implementation activities of 126 insurance-related bills passed during the 79th Legislative Session (2005), which resulted in approximately 302 implementation items for TDI.
- Published bill implementation information on the agency's website.
- Worked with bill authors and sponsors of legislation and kept them advised of implementation developments.
- Monitored and attended meetings of various boards and committees, including legislative interim committees, for the Commissioner of Insurance.
- Coordinated and prepared presentations by the Commissioner or TDI staff for interim legislative committees charged with studying insurance-related issues.
- Continued to maintain a consumer liaison for insurance inquiries and a consumer liaison specifically for workers' compensation inquiries.
- Assisted TDI staff with appointment of members to advisory committees and boards, including the establishment of the Health Coverage Awareness and Education Task Force pursuant to Senate Bill (SB) 261 enacted during the 79th Legislative Session.
- Co-managed implementation of SB 1670, 79th Legislature, Regular Session, among various implementing agencies and working group members. SB 1670 added Subchapter N to Chapter 601 of the *Transportation Code*, which requires TDI, in consultation with the Texas Department of Public Safety, the Texas Department of Transportation, and the Texas Department of Information Resources to establish a program for verification of whether owners of motor vehicles have established financial responsibility.
- Assisted staff of TDI and TDI's Division of Workers' Compensation with implementation of HB 7, 79th Legislature, Regular Session, with special focus on administrative consolidation, rule development, and coordination of ongoing transition decisions.
- Provided and coordinated staff support for the Government Relations Office within the Division of Workers' Compensation.

Public Information Office

- Published six bimonthly issues of *TDInSight* in FY 2006. *TDInSight* provides industry stakeholders and policymakers with timely information on key issues and regulatory actions, in a readable, visually interesting format.
- Produced four quarterly issues of the employee newsletter *Bulletin Board* as an electronic publication on the TDI intranet.
- Wrote and coordinated dissemination of 46 press releases to statewide Texas media in FY 2006, including nine releases within six weeks in response to developments with Hurricanes Katrina and Rita.

- Provided presentation assistance for the Commissioner at 23 events statewide during the fiscal year.
- Responded to 436 media calls and interview requests.
- Completed the merging of TWCC's web and intranet sites with those of TDI.
- Implemented Collage content management software for TDI's websites to allow automation of routine maintenance and audit/recovery capabilities, including training more than 100 TDI employees in Collage.
- Created website/intranet site for the Office of Injured Employee Counsel (OIEC), established by House Bill (HB) 7, 79th Legislature.
- Enhanced TDI web presence by improving online search function, implementing more precise online translation software, and creating automatic email notices (RSS subscription feeds) for those who want to easily keep up with new web content, especially news items and bulletins.
- Joined with representatives from the Red Cross, Federal Emergency Management Agency (FEMA), and Insurance Council of Texas on week-long tour of coastal media markets to speak with media and civic groups regarding hurricane preparedness.
- Participated in Health Coverage Awareness and Education Task Force and Workers' Compensation Networks Communication Team.
- Gave print design and media presentation at Juvenile Firesetter Intervention Program conference sponsored by State Fire Marshal's Office.
- Continued to provide daily news clipping service, monitoring all major Texas newspapers for insurance-related news.
- Provided live and archived Internet audio of public hearings.

Figure 1 Summary of Activity: Commissioner's Office

	FY 2005	FY 2006
Commissioner's Hearings/Meetings	20	31
Commissioner's Orders*	1,187	1,319

* Commissioner's Orders in FY 2006 included 350 disciplinary orders (including contested, consent, Cease & Desist and default orders), 36 TAC rules, 14 Manual orders, 788 company activities orders, 45 orders for temporary acting commissioner, 8 delegation orders for routine actions, 9 TDI Activity actions, 60 Appointment or Reappointment orders, and 9 other orders regarding rate filings or disapproval of rates.

Figure 2 Commissioner's Contested Cases by Type

	FY 2005	FY 2006
Total Hearings Conducted for Commissioner*	40	53
Disciplinary†	28	27
License Applications	9	13
Appeals/Other‡	3	13

* Total number of actual hearings conducted for the Commissioner by the State Office of Administrative Hearings (SOAH). The count excludes prehearing conferences and additional days of extended hearings.

† Includes State Fire Marshal Office

‡ Appeals/Other includes appeals of actions taken by the Texas Windstorm Insurance Association (TWIA) and the Texas FAIR Plan Association (TFPA).

Legal and Compliance

LEGAL AND COMPLIANCE enforces the *Texas Insurance Code*, investigates and takes action in connection with company and agent misconduct, drafts rules and provides legal advice and support to the agency. Legal and Compliance consists of five sections and four special counsels.

Agency Counsel provides legal advice to the Texas Insurance Commissioner and the Division of Workers' Compensation (DWC) Commissioner, as well as their staff, regarding internal agency operations, personnel matters, open records requests, and contracts. Agency Counsel Section attorneys negotiate contracts and draft proposed agency policies and manuals. The section oversees the agency's open records process.

Property & Casualty Counsel and Life, Health, & Licensing Counsel provide comprehensive legal support on matters as requested by the Life, Health, and Licensing Program, Property and Casualty Program, and Consumer Protection Program. This includes drafting rule proposals and adoption orders, legal opinions, legislative assistance, assistance with correspondence, interpretations of statutes and rules, and other legal analysis. Legal support is provided for the following lines of insurance:

- Life, accident, and health;
- Managed care;
- Personal auto;
- Commercial auto;
- Residential property;
- Commercial property;
- General liability;
- Professional liability;
- Workers' compensation; and
- Title.

Other areas where legal support is provided include:

- Consumer protection;
- Workers' compensation networks;
- DWC rules;
- Utilization review and independent review organizations (IROs);
- Prompt pay and clean claim issues;
- Agent licensing;
- Property and casualty actuarial;
- Texas Windstorm Insurance Association (TWIA);
- FAIR (Fair Access to Insurance Requirements) Act;
- Medical Liability Insurance Underwriting Association;
- Texas Health Reinsurance System;
- Interstate Compact; and
- Technical Advisory Committee on Claims Processing (TACCP).

Financial Counsel consists of TDI staff attorneys and the Special Counsel to the Receiver. Collectively, Financial Counsel provides comprehensive legal services to all areas of the Financial Program and, when requested, assists other areas of the agency with financial and receivership related matters. Some of the legal assistance provided includes:

- Providing advice and assistance concerning conditions that indicate hazardous financial condition and drafting various Commissioner's orders including supervision, conservatorship and Article 1.32 (hazardous financial condition) orders and letters of administrative oversight;
- Reviewing and advising agency staff regarding various complicated holding company and licensing transactions;
- Providing advice and assistance concerning financial examination issues;

- Initiating actions against insurers, HMOs, and title companies for code violations related to transactions and other financial matters;
- Drafting rule proposals and adoption orders related to financial issues;
- Drafting receivership pleadings and coordinating with the Office of the Attorney General (OAG) for representation in receivership actions;
- Representing the receiver at guaranty association meetings; and
- Representing the receiver in proceedings before the district court-appointed special master.

Enforcement investigates allegations of illegal activities by insurance agents, companies, HMOs, and other licensed entities and brings disciplinary actions that may result in:

- Cease-and-desist orders;
- License denials;
- License revocations and suspensions;
- Monitored agent probations;
- Administrative penalties; and
- Restitution to harmed consumers.

The Enforcement Section refers cases to the Fraud Unit for criminal prosecution and assists appropriate prosecutors in criminal prosecutions. Enforcement works with the OAG on appeals of disciplinary actions and on enforcement actions conducted by the OAG's Consumer Protection Division.

Compliance Intake Unit provides data and file management and public assistance telephone support to the Legal and Compliance program. The section also is responsible for analyzing and referring complaints and reports to the appropriate areas within Legal and Compliance and other areas of TDI.

Fraud Counsel provides legal services for TDI's Insurance Fraud Unit. Fraud Counsel offers legal advice and support on matters ranging from general legal matters to issues specific to an investigation. The Fraud Counsel also can serve as a special prosecutor to a county for criminal prosecution of insurance fraud.

International Regulatory Counsel/Special Counsel to the Commissioner provides legal advice and support to the Commissioner and agency staff primarily on regulatory issues relating to availability and affordability of cross-border and international insurance for all lines. Issues addressed include reinsurance and surplus, admissions, licensing, inquiries relating to alien insurers and non resident agents, market conduct and opportunities, unauthorized and fraudulent operations, and compliance with related statutes and trade agreements. Counsel also serves as agency liaison to the NAIC, federal and state agencies, and the state legislature on these matters.

Special Litigation Counsel provides advice, analysis and assistance to the agency in connection with complex and significant enforcement, litigation, and regulatory issues.

Special Regulatory Counsel was created in June 2004 to assist the Legal and Compliance division and General Counsel with special projects. Some of these projects have included coordination of the agency's review of the recodification of the *Texas Insurance Code* and review of draft federal legislation on federal coordination of nationwide uniform insurance regulations to assist the NAIC in providing input to Congressional committees.

Highlights

In Fiscal Year 2006, Legal and Compliance:

- Ordered \$24,816,099 in restitution for consumers and assessed \$8,671,183 in administrative penalties, fines and forfeitures. Details regarding specific cases included:
 - A cease and desist order and penalty of \$1 million was assessed against Employers Resource Management for engaging in the business of insurance without proper authorization and engaging in deceptive acts by making misrepresentations about its health benefits plan.
 - A \$4 million penalty was assessed against United Healthcare Insurance Company for violating the insurance laws relating to compliance with Texas prompt payment statutes and rules.
 - TDI entered into a multi-state regulatory settlement agreement in and between American-Amicable Life Insurance Company of Texas that resulted in \$10,710,000 restitution for Texas consumers. It was alleged that the company, in the ordinary course of marketing and

- selling Horizon Life to members of the United States military, violated insurance or consumer protection statutes in their respective jurisdictions.
- Melvin Dean Marshall was ordered to pay restitution in the amount of \$2,556,650. He participated in and benefited from dishonest and deceptive practices in the business of insurance, resulting in financial losses to retired elderly people.
 - Unum Life Insurance Company of America paid \$8,573,212 in restitution for improper claims settlement practices in individual and group long-term disability income insurance policies.
 - Following a contested case hearing at the State Office of Administrative Hearings (SOAH), Allstate Texas Lloyd's was ordered to reduce its homeowners insurance rates by 5 percent and to pay restitution to policyholders in an amount estimated to be more than \$57,000,000.
 - In March 2006, the enforcement function of DWC was delegated to TDI's Legal Division, Enforcement Section. Since that delegation, the number of DWC medical dispute resolution cases docketed at SOAH has decreased from 3,919 to 1,877.
 - Property & Casualty Counsel and Life, Health, & Licensing Counsel finalized the adoption of the following rules between September 1, 2005 and August 31, 2006:
 - 28 TAC Chapter 10, Subchapters A-G, §§10.1 – 10.122 (concerning workers' compensation health care networks). This new chapter was necessary to implement provisions of HB 7 (79th Legislature, Regular Session) concerning workers' compensation health care networks. Chapter 10 establishes standards for the certification, administration, evaluation, and enforcement of the delivery of health care services to injured employees through workers' compensation health care networks contracting with or established by carriers and certain self-insuring employers and governmental entities, other persons, and third parties operating under HB 7, Article 4. The standards and requirements relate to network certification, contracting, notice, plain language, selection of a treating doctor, dispute resolution related to whether an employee lives within the network service area, network operations, utilization review, retrospective review, and complaints.
 - 28 TAC Chapter 21, Subchapter FF, §§21.4001 - 21.4003. This new subchapter was necessary to implement and interpret §§1 and 2 of SB 51, enacted by the 79th Legislature, Regular Session, which added *Texas Insurance Code* §§843.210 and 1301.0061 concerning the obligation of certain group health coverage policyholders and contract holders to continue premium payment, and a carrier's corresponding obligation to continue coverage, after notice of an individual's lost group eligibility.
 - 28 TAC §§21.3901 – 21.3905. These new sections were necessary to implement HB 1602, enacted by the 79th Legislature, Regular Session, which added new *Texas Insurance Code* Chapter 1653, authorizing carriers to apply deductible or co-payment requirements to benefits, including state-mandated health benefits, to qualify a health benefit plan as a high deductible health plan.
 - 28 TAC §§21.21.01 – 21.2103, 21.2105 and 21.2106. These new sections were necessary to implement HB 1485, enacted by the 79th Legislature, Regular Session, which added *Texas Insurance Code* Chapter 1370, mandating certain benefits related to the detection of human papillomavirus and cervical cancer.
 - 28 TAC 21.2802, 21.2807, 21.815 and 21.2821. These new sections were necessary to implement SB 50, enacted by the 79th Legislature, Regular Session, and other provisions concerning submission of clean claims. The amendments ensure carrier awareness of the responsibility to process a clean claim submitted together with deficient claims. The amendments further ensure that penalties for statutory claims payment violations are calculated consistently and according to statute and make consistent the dates of quarterly reporting of claims data and annual reporting of declinations of requests for verification.
 - 28 TAC §21.1007. These amendments were necessary to implement HB 941 and HB 1328, enacted by the 79th Legislature, Regular Session, which amended new *Texas Insurance Code* Articles 5.35-4 §2 and 21.21-11 §3(4)(A). The amendments concern prohibitions on the use of unfair underwriting guidelines involving water damage claims, previous mold damage, or mold damage claims.
 - 28 TAC §§21.2302 - 21. 2306. These amendments were necessary to implement SB 809, enacted by the 79th Legislature, Regular Session, effective January 1, 2006, which, in part, amends the *Texas Insurance Code* §1506.152 to address eligibility for pool coverage and make risk pool operations more cost-effective, efficient, and equitable.

- 28 TAC §21.1004. This new section was necessary to implement the amendments enacted under SB 14, enacted by the 79th Legislature, which amended *Texas Insurance Code* Article 5.43 (relating to optional premium discounts for certain residential property insurance policies) and §551.107 (relating to premium surcharges for residential property insurance policies). The new section concerns the use of residential property insurance claims in rating programs, including premium surcharge and claims-free programs.
- 28 TAC §§19.1011, 19.1020 and 19.1021. Amendments to §19.1011 and new §19.1020 were necessary to implement the continuing education credits for agents who are active members of state and national insurance associations as directed by SB 265, enacted by the 79th Legislature, Regular Session, and new §19.1021, concerning national flood insurance education training.
- 28 TAC §§26.401 – 26.405, 26.407 – 26.411. These amendments were necessary to implement SB 805, enacted by 79th Legislature, which amended *Texas Insurance Code* Chapter 1501 with respect to the standards by which insurance companies and HMOs provide group health benefit plan coverage to health group cooperatives comprised of small or large employers.
- 28 TAC §3.3703 and 28 TAC §11.901. These amendments were necessary to implement SB 50, enacted by the 79th Legislature, Regular Session, and requires insurers and HMOs to include a provision in the provider contract providing that the insurer or the insurer's clearinghouse may not deny or refuse to process an electronic clean claim because the claim is submitted together with or in a batch submission of claims that are deficient.
- 28 TAC §§21.3801 – 21.3808. These new sections were necessary to implement SB 1149, enacted by the 79th Legislature, requiring carriers to provide certain eligibility information to contracted physicians and providers;
- 28 TAC §5.4501. These amendments to §§5.4101, 5.4201, 5.4401 and 5.4501 concern the adoption by reference of TWIA dwelling, commercial, and mobile home policy forms, new increased cost of construction endorsements for use with the dwelling and commercial policy forms, and manual rules and rates applicable to the two new endorsements.
- 28 TAC §5.4606. This section, concerning the temporary appointment of qualified inspectors to conduct inspections of residential structure re-roofing in Jefferson and Chambers counties, pursuant to *Texas Insurance Code* Article 21.49 §6A, for purposes of insurability for windstorm and hail insurance from TWIA.
- 28 TAC §5.4607. This new section concerns the procedures for the appointment by the Commissioner, based on demonstrated need, of temporary qualified inspectors to conduct windstorm inspections in designated catastrophe areas pursuant to the *Texas Insurance Code* Article 21.49 §6A.
- 28 TAC §5.9310, 5.9332, 5.9340, 5.9341, and 5.9357. These amendments concern form, rate, underwriting guidelines, and reduced filing requirements for certain property and casualty insurers.
- 28 TAC §9.1. This amendment adopts by reference a change to the Texas Reverse Mortgage Endorsement, Form T-43, which is contained in the Basic Manual of Rules, Rates, and Forms for the Writing of Title Insurance in the State of Texas (Basic Manual). The amendment was necessary to facilitate the issuing of mortgagee title policies insuring home equity liens on homestead property.
- Established the TDI Honors Internship Program for the Texas Department of Insurance.
- Facilitated Financial Literacy work group to prepare ideas for interim presentation.
- Property & Casualty Counsel and Life, Health, & Licensing Counsel also provided legal support for the following DWC rules between September 1, 2005 and August 31, 2006:
 - Medical dispute resolution;
 - Return to work guideline;
 - Treating doctor;
 - Designated doctor;
 - Peer review;
 - Electronic medical billing;
 - Permanent preauthorization;
 - Permanent medical billing;
 - Requesting interlocutory orders;
 - Treatment planning;
 - Treatment guideline;
 - Implementation of HB 251; and
 - Rights and responsibilities.

Figure 3 Summary of Activity: Legal and Compliance

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Cases received	1,321	1,121	1,007	1,001	1,239
Cases closed	1,012	958	999	1,111	1,119
License revocations	48	60	95	88	89
License denials	10	27	43	32	26
License suspensions/ suspensions of writing*	18	15	32	20	19
Cease and desist orders	6	8	8	19	16
Monetary forfeitures/ restitution orders†	232	292	251	281	248
Forfeitures/assessments/ restitution	\$80,834,638	\$32,599,248	\$36,421,894	\$30,452,285	\$25,393,582

* This includes actions against financially hazardous companies under Article 1.32, Texas Insurance Code and license suspensions with probation.

† This number includes Commissioner and State Fire Marshal orders.

Effective August 1, 2006, Legal and Compliance split into two divisions, Legal Services and Enforcement. Even though the organizational changes were effective August 1, 2006, changes reflecting measures did not become effective until September 1, 2006.

- The Enforcement section became a separate division and reports directly to the Commissioner.
- Compliance Intake Unit (CIU) became part of the Enforcement Division.
- Property & Casualty Counsel and Life, Health, & Licensing Counsel combined into one section, Policy Development Counsel section of Legal Services.

Listed below are other changes that took effect FY 2006.

- Effective December 1, 2005, the Fraud Counsel function became a part of the Fraud Division.
- Effective March 1, 2006, the Special Regulatory Counsel function was transferred to General Counsel Division.

Insurance Fraud Unit

THE INSURANCE FRAUD UNIT investigates, prepares and refers cases for criminal prosecution. All cases are based on evidence of insurance fraud alleged to have been committed by persons engaged in the insurance business, whether licensed or unauthorized; and claim fraud committed by policyholders, service providers, third party claimants and others. The Fraud Unit is comprised of three investigative sections with commissioned peace officers and civilian investigators, an administrative section and an intake section. Unit Management includes the Associate Commissioner, Chief Investigator, and Fraud Counsel. By statute, the Chief Investigator supervises and directs all peace officers and coordinates and oversees all investigations conducted by the Fraud Unit. The investigative sections are staffed with a supervisor who assists investigators in developing cases for referral. In addition, there is an office manager who directs the Unit's administrative staff.

The Insurer Fraud Section investigates fraud schemes involving companies, agents and other TDI licensees (including third party administrators), and eligible surplus lines insurers, as well as fraud schemes involving unlicensed insurance operations. Among these are entities falsely claiming exemption from regulation under the Federal Employee Retirement and Security Income Act (ERISA), including unlicensed Multiple Employer Welfare Associations (MEWAs). Investigators within the Insurer Fraud Section are also tasked with the responsibility for conducting investigations of major fraud allegations involving complex transactions and/or significant losses.

The Claimant and Provider Fraud Section investigates various claim fraud schemes, such as, inflated claims, fictitious receipts for personal property, staged accident rings, fake burglary claims, staged slip-and-fall cases and other suspicious liability insurance claims. Investigators also examine reports of fraudulent billing by health care providers, as well as reports of unlicensed providers and fraud rings involving health insurance claimants, providers and attorneys.

Fraudulent billing may include instances of over-billing, double billing, billing for procedures not performed and "unbundling" of charges to artificially inflate billings. Investigators within the Claimant and Provider Fraud Section are also tasked with the responsibility for conducting investigations of major fraud allegations involving complex transactions and/or significant losses.

The Workers' Compensation Fraud Section investigates various reports of suspected workers' compensation fraud involving claimants, providers and employers. Workers' compensation insurance fraud schemes may include a claimant receiving benefits while working at another full time job, or may include a provider over billing for services or billing for treatments never rendered. It may also include an employer who misrepresents payroll or employee classifications in the procurement of workers' compensation insurance.

Fraud Unit History

The 72nd Texas Legislature created the Insurance Fraud Unit in 1991. The Fraud Unit became active in January 1992. In 1995 the 74th Legislature made significant changes to TDI's fraud enforcement authority when it authorized the Commissioner of Insurance to commission eligible fraud investigators as peace officers.

The Texas Commission on Law Enforcement, Officer Standards and Education licensed the Fraud Unit as a law enforcement agency, effective September 1, 1995. Law enforcement agency status, with commissioned peace officers, enhances TDI's anti-fraud efforts by giving the agency:

- access to law enforcement intelligence, including national and regional crime databases, that only peace officers may legally receive;
- authority to make arrests and execute search warrants; and
- authority to take cases to grand juries and request and serve grand jury subpoenas.

On a national level, the Fraud Unit works with the Coalition Against Insurance Fraud, the National Insurance Crime Bureau, the National Association of Insurance Commissioners

(NAIC), the National Health Care Anti-Fraud Association, the National White Collar Crime Center (NWCCC), and Regional Organized Crime Information Center (ROCIC). It also works with federal law enforcement agencies such as the FBI, IRS, U.S. Postal Service, and U.S. Attorneys.

On March 1, 2006, the Commissioner for the Division of Workers Compensation delegated the responsibility for investigating suspected fraudulent worker's compensation acts to the Fraud Unit.

Highlights

In Fiscal Year 2006, the Insurance Fraud Unit:

- Assumed responsibility for investigating fraud associated with workers' compensation insurance and established an investigative section to pursue those cases.
- Renewed a memorandum of agreement with the Dallas County District Attorney's Office to continue the insurance fraud prosecutor initiative.
- Implemented procedures associated with the provisions of the newly enacted suspected insurance fraud reporting requirements.
- Received and analyzed more than 9,700 suspected insurance fraud reports, a 43 percent increase from the previous fiscal year.
- Through enhanced relationships with state-wide prosecutors, in addition to the efforts of the TDI Fraud Prosecutor, realized a 54 percent increase in convictions for insurance fraud with restitution, fines, and penalties ordered in excess of \$4.2 million.
- Hosted the 8th Annual Fraud Conference in January 2006 with more than 150 fraud investigators from state government, law enforcement and the insurance industry in attendance.
- Made 19 public presentations on insurance fraud.
- Fraud Unit investigators made over 350 liaison contacts with law enforcement throughout the state.
- Participated in statewide task forces in several metropolitan areas.
- Participated in the Texas Committee on Insurance Fraud to address insurance fraud on a united front with industry, law enforcement, other state agencies, legislators and citizen advocate groups.
- Continued to respond to Governor Perry's Executive Order RP 36, relating to preventing, detecting and eliminating fraud, waste and abuse.
- Maintained a toll-free hotline for persons to report suspected insurance fraud.
- Provided assistance to the agency by utilizing the Fraud Unit's duty officer and toll free hotline for the purpose of responding to reports of fraud, waste and abuse at TDI.
- All Fraud Unit attorneys and peace officers completed their legislatively mandated training requirements.
- Developed requirements for the procurement of a new investigative case management system.

Figure 4 Summary of Activity: Insurance Fraud Unit

	FY 2005	FY 2006
Reports of Fraud	6,810	9,712
Cases Opened	294	448
Cases Referred to Prosecutors	190	182
Indictments	109	114
Arrests By Fraud Unit Peace Officers*	18	8
Convictions	64	98
Assessments (Fines & Penalties)/Restitution	\$520,188	\$4,366,275

* This figure represents only arrests executed directly by Fraud Unit Peace Officers or in which Fraud Unit Peace Officers participated.

Financial

THE FINANCIAL PROGRAM oversees insurance companies “from the cradle to the grave” – from incorporating and licensing new companies to liquidating insolvent companies that cannot be rehabilitated. In between, Financial monitors the solvency and market conduct of 1,947 licensed insurance companies, health maintenance organizations (HMOs) and Multiple Employer Welfare Arrangements (MEWAs) and attempts to rehabilitate any entities operating in a hazardous condition. Annual statements filed by insurers and HMOs for Calendar Year 2005 reported \$80.2 billion in Texas premiums and \$55.3 billion in claim payments related to Texas policyholders. These companies reported aggregate assets of \$5.8 trillion, liabilities of \$5.1 trillion and capital and surplus of \$747.1 billion. Part IV of this report contains more information from insurance company annual statements.

The Financial Program consists of five activities.

Company Licensing & Registration incorporates most types of domestic insurance companies, licenses both foreign and domestic insurance companies, maintains company charter files, and processes and approves certain transactions for licensed insurance companies, including the review of withdrawal plans and assessment of their impact on the marketplace. Company Licensing & Registration also processes licensing applications for HMOs, registers eligible surplus lines insurers and risk retention/purchasing groups, oversees statutory deposits of licensed companies and corporate agencies, and maintains the agency database of both licensed and registered companies. The Company Licensing Division also administers the Early Warning Information System, a computer database that captures information from agency divisions. The Contract Administrator for the Financial Program is housed in this Division and coordinates contract functions related to Special Deputy Receivers, contract examinations and contract actuaries.

Financial Analysis & Examinations encompasses both in-house and on-site monitoring of licensed insurance entities. Financial Analysis staff review annual and interim financial statements, CPA audits, examination reports, reinsurance arrangements and other documents to determine the financial condition of insurance companies, HMOs and other licensed insurance entities. Staff also initiate recommendations for regulatory actions as appropriate, such as supervision and conservation. Staff review changes of control, mergers, affiliate agreements and investments, and holding company registration statements of companies domiciled, or commercially domiciled, in Texas. In addition, staff review all applications for admission, service area expansions, and agreements/contracts of HMOs, and monitor the operational and financial condition trends of the HMO industry in Texas.

Examinations staff perform statutory examinations of a variety of entities regulated by TDI, including insurers, HMOs, premium finance companies, managing general agents (MGAs), reinsurance intermediaries and MEWAs. These examinations evaluate a company’s financial condition and compliance with performance standards required by law, including treatment of policyholders. Examinations occur on-site at company locations throughout the United States and may last from a few days to several months. Staff suggest ways to correct deficiencies uncovered by the examinations and initiate referrals for further regulatory action when appropriate. In addition, Examinations processes annual operations reports required of premium finance companies. To hold down travel expenses and provide adequate oversight of the examination process, regional offices are maintained in Dallas, Houston, and San Antonio.

The Actuarial Division performs actuarial examinations that focus on the adequacy of reserves and other actuarial issues for both life insurance companies and property and casualty insurance companies. These actuarial examinations are coordinated with examinations performed by the Financial Analysis & Examinations Division. Actuarial staff review actuarial opinions, process Certificates of Valuation and provide input to other divisions in the review of actuarial reports for HMOs and other entities.

During FY 2006, Actuarial worked closely with the Examinations Division to keep pace and achieve the performance measure target for actuarial examinations completed. Actuarial also completed the review of actuarial opinions in record time to include new filing requirements on opinion summaries. Staff responded to requests from TDI's Life, Health and Licensing program on various product issues as needed. Actuarial also performed actuarial analyses and actuarial projects that relate to solvency, availability of coverage, policy values, disclosure and consumer equity. Staff were involved in developing national standards for preferred risks and interim guidance pre-principles-based standards.

Conservation of Companies administers a wide range of regulatory intervention activities including administrative oversight, Article 1.32 orders, supervisions and conservatorships. Interventions generally follow other regulatory actions such as management conferences, letters of materiality, examinations, or required filings of business plans with TDI's Financial Analysis and Examinations Division. The primary objectives of an intervention are to preserve company assets, determine the feasibility of rehabilitation, and otherwise protect the interests of policyholders. Once a company has been placed in regulatory intervention, Conservation staff analyze and evaluate the financial condition and statutory compliance of the assigned company, check internal controls and operating procedures and assist in the preparation of rehabilitation plans. If a company can show that it can implement necessary corrective actions, Conservation staff will monitor the company while it implements the corrective action plan. By statute, Supervision is limited to 180 days. Conservatorship shall not extend beyond 90 days, but may be extended for six additional successive periods not to extend more than 30 days each. In the event a company cannot implement a viable plan, under Supervision or Conservatorship, Conservation staff will wind-down the company or facilitate the transition from regulatory intervention to statutory receivership. In cases where a court has ordered receivership for the purpose of rehabilitation, Conservation will continue to be involved in the rehabilitation efforts.

At the beginning of FY 2006, the Conservation Activity had 22 insurance companies under regulatory intervention, with another nine being added and 16 released or closed, leaving a year-end balance of 15.

Liquidation Oversight oversees insurance companies placed into receivership. Effective September 1, 2005, the Insurer Receivership Act Chapter 21A replaced *Texas Insurance Code* 21.28 governing receiverships. The new legislation expanded the allowable corrective measures for troubled insurers, enabling the Commissioner to make a determination of whether to initiate a seizure order or undertake a receivership action for the purpose of rehabilitation or liquidation. In such cases the Commissioner may request the Attorney General to petition the District Court in Travis County to place the company into receivership. Day-to-day management of the receivership estates is usually conducted by a Special Deputy Receiver (SDR) who is selected through a competitive bidding process, and who acts on behalf of the Commissioner as Receiver or Rehabilitator. Liquidation Oversight supervises and evaluates SDR performance through cost benefit analyses, site visits, review of monthly and quarterly reports including financial statements and ongoing interaction with the SDR and staff. Liquidation Oversight, along with Conservation and the SDR, is responsible for the recovery and efficient utilization of assets to maximize distribution to the claimants of the receivership in a fair and equitable manner as mandated by the Receivership Act. In addition, Liquidation Oversight monitors the operations of the Texas guaranty associations, including the appropriate and fair processing of the claims of impaired companies. Payment of covered claims is made by the affected guaranty associations, which are funded through receivership estate assets and/or assessments made to its member insurers.

During FY 2006, two life, accident and health insurers, and seven property and casualty insurers were placed into receivership. In FY 2006, the Commissioner issued six orders declaring Texas companies impaired and no orders declaring foreign companies (i.e., companies domiciled outside Texas) as being impaired.

The Texas Property and Casualty Insurance Guaranty Association made no assessments to member insurers in CY 2005, and made no refunds. The Texas Life, Accident, Health and Hospital Service Guaranty Association made \$22.5 million in assessments to member insurers in CY 2005, and paid approximately \$4.4 million in refunds. The Title Insurance Guaranty Association made no assessments in CY 2005 and made no refunds to member insurers. Assessments are based upon prior, current, and projected future receiverships, including foreign and domestic insurers.

Effective September 1, 2005, HB 1353, 79th Legislature, created the Texas Self-Insurance Group Guaranty Fund. Liquidation Oversight monitors the operations of this guaranty fund, including the appropriate and fair processing of receivership-related workers' compensation claims and complaints.

During FY 2006, seven receivership estates were liquidated and closed, leaving 20 active receiverships in the process of liquidation, and four insurers in receivership for the purposes of rehabilitation: 17 property and casualty companies, four life, accident and health companies, two HMOs and one MEWA. Liquidation Oversight anticipates closing about ten of the 24 active receiverships in FY 2007.

Highlights

In Fiscal Year 2006, the Financial Program:

- Carried out an extensive assessment, recovery and monitoring strategy in anticipation of, during, and after Hurricane Rita. This included tracking the storm, evaluating companies and exposures in the path of disaster, contacting company management, requiring their participation in multi-state reporting of losses and claim payments, and conducting examinations of companies with large numbers of complaints related to Hurricane Rita.
- Actively sought redomestication of four insurance companies in the Vesta Group to gain better regulatory oversight and control, taking over five insurance companies, and one attorney-in-fact, in an effort to place policyholders with a financially sound group; ultimately moved to liquidation of four insurance companies, working exhaustively with internal staff, the Special Deputy Receiver, guaranty funds across the country, agents and lending institutions, and an assuming carrier to cancel policies, move policyholders, and facilitate expedited payment of claims and unearned premium by guaranty funds.
- Made significant updates to company licensing information on the TDI website to make it more informative for prospective applicants.
- Completed the review of 1,072 transactions in FY 2006, a substantial increase from previous years, involving incorporations, mergers, new applications, and an increasing number of unique, first-time transactions.
- Worked with industry to establish the Workers' Compensation Self-Insurance Group Guaranty Fund Board.
- Remained at the forefront of national efforts to coordinate solvency monitoring, examination and scrutiny of change of control transactions involving insurer groups.
- Made significant progress implementing SB 14, 78th Legislature, and SB 14, 79th Legislature, regarding requirements for market conduct desk analysis, company prioritization, and improving the process of market conduct examinations.
- Working with DWC and other TDI staff, led the first ever series of joint examinations of workers' compensation insurers to review claim handling procedures.
- Conducted the first ever examinations of workers' compensation self-insured trusts.
- Began training examiners for implementation of the new Risk Assessment Examiners Handbook being developed by the National Association of Insurance Commissioners (NAIC).
- Implemented the new Actuarial Opinion and Memorandum Regulation that required all life insurance companies to perform asset adequacy analysis and file a Regulatory Asset Adequacy Issues Summary (RAAIS).
- Helped to develop and implement a new requirement for the Actuarial Opinion Summary and formal guidance on common questions of opining actuaries.
- Participated in the first symposium given by the American Academy of Actuaries for P&C appointed actuaries entitled "Effective P/C Loss Reserve Opinions: Tools for the Appointed Actuary."
- Worked with the American Academy of Actuaries Standards Board in writing a new Actuarial Standard of Practice on "P/C Unpaid Claims and Claim Adjustment Expense Liability."
- Both Life and P&C actuaries were active in their professional organizations by making presentations in formal meetings of the respective actuarial societies, conducting discussions on current topics in workshops, and engaging in discourse and debate as experts in a variety of panel discussions.

- Active member of the American Academy of Actuaries Committee on Financial Reporting (COPLFR) - one of two regulators invited to be a member of this Industry Committee that works closely with the NAIC to develop solutions to situations that have actuarial implications. The Committee publishes the P&C Practice Note for loss reserve opinion practitioners, as well as a Law Manual of applicable state laws and regulations.
- Played key roles in the American Academy of Actuaries and in the NAIC to implement a trend test in the property and casualty risk-based capital requirements, which are expected to be a significant improvement in promoting solvency and adequate capital requirements.
- Continued to participate in efforts to further the national development of a principles-based reserving approach for annuity and life products, which ultimately is expected to eliminate redundant reserves and benefit consumers through greater availability and lower costs.
- Participated in national efforts to implement select valuation mortality tables, which are anticipated to provide significant reserve relief and promote availability of life products at a potentially more reasonable cost to the consumer.
- Examining Actuaries continued to pursue credentials by taking actuarial exams.
- TDI's intervention efforts led to the successful transition of policyholders from AMIL HMO & AMIL PPO. The successful sale of this business to an A+ rated company also generated \$2 million to allow the AMIL HMO & AMIL PPO to pay claims and wind down operations.
- TDI's intervention efforts led to the successful rehabilitation of more companies than the target set by the Legislative Budget Board.
- Issued a Request for Proposals to obtain applications from individuals and businesses interested in becoming eligible to bid for Special Deputy Receiver contracts for the liquidation or rehabilitation of troubled insurers.
- Began coordination with NAIC for inclusion of Texas receivership data in the Global Receivership Information Database.
- Participated in the legislative process that resulted in HB 2157, 79th Legislature, known as the Insurer Receivership Act, and developed implementation plans through internal and external working group meetings.
- Oversaw the recovery of \$44.1 million through the receivership process, utilizing only \$4.0 million in expenditures, resulting in net recoveries of \$40.1 million.
- Paid \$10.4 million in distributions and \$7.6 million in early access, for a total of \$18 million in total distributions to policyholders and/or guaranty associations.
- Obtained judgments in excess of \$75 million related to suits filed post-receivership involving misrepresentation of financial condition and accounting malpractice.

**Figure 5
Number of Company Licenses Under Commissioner's Jurisdiction**

LICENSE TYPE	FY 02	FY 03	FY 04	FY 05	FY 06
Insurance Companies	1,978	1,949	1,920	1,912	1,909
Health Maintenance Organizations	57	55	50	55	52
Premium Finance Companies	230	247	274	293	270
Continuing Care Retirement Communities	21	21	21	23	24
Third Party Administrators	724	739	736	750	747
Total	3,010	3,011	3,001	3,033	3,002

Note: Does not include foreign risk-retention groups (93) and surplus lines carriers (168).

Figure 6 Texas Policyholder Premiums, Claim Payments CYs 95-05

CALENDAR YEAR	PREMIUMS	CLAIM PAYMENTS	PAYMENTS AS A % OF PREMIUM
1995	\$ 42.1 billion	\$ 33.0 billion	78.4%
1996	\$ 43.9 billion	\$ 33.2 billion	76.0%
1997	\$ 46.4 billion	\$ 35.0 billion	75.4%
1998	\$ 48.0 billion	\$ 43.3 billion	90.2%
1999	\$ 60.7 billion	\$ 45.6 billion	75.1%
2000	\$ 63.5 billion	\$ 48.6 billion	76.5%
2001	\$ 71.5 billion	\$ 52.5 billion	73.4%
2002	\$ 78.2 billion	\$ 53.3 billion	68.1%
2003	\$ 79.4 billion	\$ 49.8 billion	63.0%
2004	\$ 80.3 billion	\$ 47.0 billion	58.5%
2005	\$ 78.7 billion	\$ 55.3 billion	70.3%

Figure 7 Total Capital/Surplus of Insurance Companies Operating in Texas CYs 95-05

CALENDAR YEAR	TOTAL CAPITAL / SURPLUS
1995	\$ 356.3 billion
1996	401.4 billion
1997	479.1 billion
1998	540.2 billion
1999	548.2 billion
2000	541.5 billion
2001	524.3 billion
2002	530.4 billion
2003	633.4 billion
2004	703.5 billion
2005	747.1 billion

Figure 8 Summary of Activity: Holding Company

	FY 2005	FY 2006
Pending Action from Previous Fiscal Year	98	76
Applications for Affiliate Transactions & Acquisition of Control or Exemption Received	733	827
Applications not closed as of 8/31	76	99
Pending Applications Closed	755	804

Figure 9 Summary of Closed Applications: Holding Company

	CLOSED AT END OF FY 2005	CLOSED AT END OF FY 2006
Reinsurance Arrangements*	113	139
Management, Data Processing Service, Cost Sharing Arrangement	194	205
Pledge of Assets & Pooling of Assets	2	9
Investment in, Valuation of, Affiliates	19	20
Purchase of Securities, Real Estate, Automobile Treasury Stock	25	18
Affiliate Loans & Mortgage Loan Participation	11	8
Lease Arrangements	26	20
Issuance of Surplus Debentures / Notes	21	32
Payment of Money Advanced	62	61
Dividends & Other Distributions to Shareholders	139	146
Consolidated Tax Returns	24	26
Financing Arrangements	0	3
Exception from Commercially Domiciled	10	8
Bonus Compensation	17	15
Acquisitions of Control	23	23
Exemptions from Acquisition of Control	15	22
MGA Agreements	12	16
Informational Filing by HC Exempt Insurers	0	0
Disclosure of Material Transactions	1	0
Relocation of Books & Records	25	17
Disclaimer	17	16
Quasi Reorganization	0	0
Total	756	804

* Reinsurance arrangements between affiliates within a holding company system.

Figure 10 Number of Reinsurance Agreements Reviewed, FYs 96-06

FISCAL YEAR	ARRANGEMENTS REVIEWED
1996	169
1997	209
1998	200
1999	226
2000	251
2001	194
2002	142
2003	183
2004	181
2005	234
2006	198

Note: Does not include insurance company affiliates within a holding company system; however, could include affiliate HMOs.

Figure 11 Amount Paid for Control of Domestic Insurance Companies, FYs 95-06

FISCAL YEAR	AMOUNT PAID
1995	\$2,550,643,350
1996	\$6,319,751,750
1997	\$7,130,712,854
1998	\$51,194,884,952
1999	\$14,023,005,912
2000	\$8,787,693,620
2001	\$57,461,684,313
2002	\$153,643,899
2003	\$433,677,597
2004	\$31,651,072,589
2005	\$3,057,867,603
2006	\$2,956,953,000

Figure 12 Number of Examinations, FYs 96–06

Fiscal Year	Number of Examinations
1996	163
1997	157
1998	221
1999	215
2000	207
2001	195
2002	167
2003	167
2004	159
2005	160
2006	157

Figure 13 Number of Actuarial Examinations Performed, FYs 96–06

FISCAL YEAR	NUMBER OF EXAMS
1996	97
1997	83
1998	82
1999	80
2000	82
2001	79
2002	80
2003	81
2004	80
2005	84
2006	79

Figure 14 Number of Actuarial Opinions Reviewed, FYs 96–06

FISCAL YEAR	NUMBER REVIEWED
1996	2,012
1997	1,937
1998	2,023
1999	1,627
2000	1,877
2001	*667
2002	*626
2003	*407
2004	*513
2005	*508
2006	*575

** Number reviewed decreased for 2001 forward to focus on domestic companies and selected foreign companies. This has enabled a more in-depth review of our domestic companies and those foreign companies of greater concern based on prioritization given in Financial Analysis.*

Figure 15 Texas Guaranty Association Assessments: CYs 75–05

CALENDAR YEAR	LIFE & HEALTH	PROPERTY & CASUALTY	TITLE	TOTAL
2005	\$22,493,770	0	0	\$22,493,770
2004	0	0	0	0
2003	1,726,797	30,274,649	0	32,001,446
2002	7,700,492	59,165,397	0	66,865,889
2001	30,821,449	86,161,687	0	116,983,136
2000	16,549,759	0	0	16,549,759
1999	15,231,151	0	0	15,231,151
1998	25,154,027	12,000,000	0	37,154,027
1997	23,954,748	0	0	23,954,748
1996	51,186,830	0	0	51,186,830
1995	68,882,786	(127,000,000)	0	(58,117,214)
1994	83,026,366	0	0	83,026,366
1993	22,101,673	194,938,801	0	217,040,474
1992	66,238,272	119,261,000	0	185,499,272
1991	63,257,000	112,328,000	0	175,585,000
1990	24,970,000	122,602,000	6,215,000	153,787,000
1989	112,476,000	61,019,000	5,560,000	179,055,000
1988	16,359,000	41,231,000	0	57,590,000
1987	0	0	0	0
1986	33,500,000	41,680,000	0	75,180,000
1985	5,000,000	20,000,000	0	25,000,000
1984	8,000,000	20,000,000	0	28,000,000
1983	4,000,000	0	0	4,000,000
1982	0	0	0	0
1981	10,000,000	0	0	10,000,000
1980	3,000,000	0	0	3,000,000
1979	0	0	0	0
1978	1,840,000	0	0	1,840,000
1977	1,200,000	0	0	1,200,000
1976	0	0	0	0
1975	0	4,120,000	0	4,120,000

Property and Casualty

PROPERTY AND CASUALTY monitors a wide range of property and casualty insurance lines from auto to workers' compensation; reviews form and rate filings; explores ways of cutting insurance costs by reducing losses; reviews and analyzes statistical data; and prepares reports on insurance rates and markets to assist policymakers and consumers with insurance-related decisions. Property and Casualty consists of a General Management section and seven activities.

General Management, led by a Senior Associate Commissioner, provides program-wide management and operational support, including strategic and budget planning; research assistance, including Geographic Information System (GIS) mapping and demographic analysis; and administrative support. In addition it oversees the implementation of SB 1670, the motor vehicle financial responsibility program established by the 79th Legislature.

Personal and Commercial Lines Division drafts administrative rules for personal and commercial lines and presents rules to the Commissioner; reviews individual insurer filings of forms, endorsements, and rules; shares with the Inspection Division oversight of the Texas Windstorm Insurance Association (TWIA), including the TWIA Plan of Operation, manual, forms and endorsements. It oversees the Texas Medical Liability Insurance Underwriting Association (JUA), the Texas Fair Access to Insurance Requirements Plan Association ("FAIR Plan"), and the Texas Automobile Insurance Plan Association (TAIPA), including the JUA, FAIR and TAIPA Plans of Operation, manual rules, forms, and endorsements. It also responds to inquiries from agents, consumers and insurers, and resolves complaints. Additionally, staff work closely with the Property and Casualty Actuarial Division to monitor the marketplace and propose changes due to changing public needs. The division consists of the Personal Lines Section and the Commercial Property and Casualty Section.

Inspections Division drafts and presents proposed rules affecting property and casualty insurance and the TWIA Plan of Operation (Building Code), represents TDI on the building code advisory committee, and provides oversight of a variety of program designed to reduce loss costs through four sections.

Commercial Property Oversight Inspections Section ensures consumers receive fair and equitable commercial property loss costs through random statewide spot-check inspections, mitigates fire losses through evaluation of commercial property rating schedules, issues licenses to individuals conducting underwriting inspections for determining insurability of residences, and inspects and classifies residential property for superior fire resistive construction.

Windstorm Inspections Section, through four field offices, inspects and certifies property constructed, repaired or modified in the 14 coastal counties along the Gulf of Mexico and certain specified areas in Harris County. This section is also responsible for issuing the Certificates of Compliance for construction that is inspected and approved by either a TDI inspector or a party designated by the Commissioner of Insurance to make inspections to determine eligibility for coverage through TWIA.

Engineering Services Section provides education on the windstorm codes to consumers and professionals; provides oversight of Texas licensed engineers appointed as qualified inspectors; evaluates and approves designs for compliance with TWIA building codes including product evaluations, and provides support to other divisions and non-TDI entities regarding fire rating and suppression ratings.

Loss Control Section conducts mandatory inspections of insurance companies to ensure that loss control and accident prevention services are provided for policyholders of general liability, professional liability, medical professional liability for hospitals and commercial automobile lines of insurance, as well as registering loss control and field safety representatives and monitoring compliance of amusement rides with statutory requirements.

Title Division oversees policy forms and rates for title insurance and oversees licensing and financial examination of title agents. The Title Division consists of two sections:

Title Insurance Section oversees licensing of title agents, direct operations and escrow officers; responds to consumer complaints and inquiries; and assists with rule and rate hearings.

Title Examinations Section conducts comprehensive, limited scope and restricted compliance audits of title agents licensed in Texas.

Workers' Compensation Classification, Premium Calculation & Research Division oversees the insurance companies licensed to write workers' compensation insurance in Texas and performs research on various issues relating to the operational effectiveness of the Texas workers' compensation system. This division determines the appropriate workers' compensation classification for employers' businesses, handles inquiries and complaints, oversees the calculation of experience modifiers by insurance companies, reviews form filings, administers job safety incentive programs for employers, reviews group purchase plans and provides objective workers' compensation information and data to policymakers and system stakeholders. It consists of four sections:

General Management handles administrative and management responsibilities, reviews form filings, reviews group purchase plans and administers loss control incentive programs (retrospective ratings plans and deductible plans) for employers.

Oversight oversees calculation of experience modifiers, resolves workers' compensation complaints and processes general inquiries about workers' compensation.

Classifications determines appropriate classification codes for policyholders and processes classification inquiries about workers' compensation.

Research and Evaluation Group conducts research projects on system-wide issues such as medical costs and utilization and care trends in Texas, return-to-work outcomes for injured Texas workers and employer participation in the Texas workers' compensation system. The Research Group also presents findings and provides testimony for various legislative committees and produces an annual report card for certified workers' compensation health care networks and political subdivisions. It should be noted that this group was made a stand-alone division in August 2006, reporting directly to the Commissioner.

Property and Casualty Actuarial provides actuarial review of rate and rating plan filings, reviews credit models for statutory compliance, conducts in-depth analyses of the Texas insurance market and performs special studies to assist the agency and policymakers. The division also ensures that file-and-use rates meet applicable statutory rate standards, verifies their appropriateness and makes recommendations on prior-approval rate filings. It is also responsible for the calculation of workers' compensation classification relativities and rating values.

Property and Casualty Actuarial works closely with Personal and Commercial Lines, Workers' Compensation and the Title divisions in monitoring the marketplace to assist policymakers and consumers with insurance-related decisions; with Data Services to improve the quality and reliability of data; and with Special Projects on market analysis projects.

Data Services collects and maintains statistical data, produces statistical reports for the Legislature, the agency, the public and the insurance industry, and oversees the agency's workers' compensation statistical agent. Policy, premium, loss, expense and claim data are obtained through statistical plans maintained by the division, through data calls collected by the division and extracted from data collected by the NAIC.

Data Services also provides consumer support in finding homeowners insurance. The Helpinsure online bulletin board assists in matching consumers looking for homeowners insurance with agents writing homeowners insurance.

Special Projects provides data analysis, collects information through special calls and surveys, produces data compilations (including data for use by Property and Casualty Actuarial for review of rate filings), oversees the agency's residential property, private passenger automobile and commercial lines statistical data collection agents, and is responsible for managing the collection of underwriting guidelines.

Special Projects also oversees compliance with quality standards in the collection of the state's residential property and private passenger automobile data by the Texas Insurance Checking Office (TICO) and commercial lines data by the Insurance Services Office (ISO). The data are collected in accordance with the Residential Property Statistical Plan, the Private Passenger Automobile Statistical Plan and the Commercial Lines Statistical Plan. Oversight includes modifying statistical plans, ensuring compliance with TDI performance standards, overseeing statistical agent audits,

resolving problems between reporting companies and the statistical agents, and ensuring the delivery of data for regulatory purposes, including:

- Providing data for calculating assigned risk auto quotas for the Texas Automobile Insurance Plan Association (TAIPA).
- Providing data for calculating insurer participation levels in the Texas Windstorm Insurance Association (TWIA).
- Providing data for pricing newly adopted residential property and auto endorsements.

Highlights

- An enforcement action against a major insurance carrier resulted in refunds to homeowners policyholders of approximately \$54 million.
- Within a week after Hurricane Rita struck the Texas Coast, the Windstorm Inspection Staff began conducting inspections on structures damaged from the storm. During the period from October through February, teams of windstorm inspectors performed 12,723 inspections – almost four times as many inspections as performed during the same time period in the previous fiscal year.
- In response to Hurricane Rita, a Temporary Qualified Inspector Rule was adopted by the Commissioner to appoint qualified inspectors to assist the Department in certifying structures in the aftermath of a major disaster.
- Due to the tremendous damage caused by Hurricane Rita, staff developed several educational brochures on Wind Resistant Construction and Making Repairs after the Storm to assist homeowners in repairing their homes to meet building code requirements.
- Collected Hurricane Rita data to identify losses and potential claims paying problems.
- Assisted in writing a new rule to protect Texas homeowners from increases in residential property insurance rates and premiums that vary greatly between renewal periods. The rule places restrictions on the use of residential property insurance claims in rates and premiums due to the introduction of, or changes to, a claims-free program or premium surcharge program.
- Engaged in an intensive requirements gathering and bid process to select a vendor to develop and operate the mandated financial responsibility program (SB 1670, 79th Legislative Session) in conjunction with the Texas Department of Public Safety, Texas Department of Transportation and Texas Department of Information Resources.
- Commercial and Personal Lines staff continued to participate in the Operational Efficiencies Working Group of the Speed to Market Task Force under the Speed to Market-Improvements to State Based Systems Plan (STM-IS3 Plan) adopted by the NAIC.
- Staff made presentations to various consumer, charity, civic and trade groups on topics such as homeowners, renters, recreational vehicle, not-for-profit directors and officers, medical professional liability, and windstorm insurance.
- During FY 2006, the Commissioner of Insurance adopted the Research Group's first research agenda. In addition to its normal research activities in FY 2006, the Research Group also assisted the Health and Workers' Compensation Network Certification and Quality Assurance Division with the development of the workers' compensation network rules, and also aided the newly created Division of Workers' Compensation with the review of proposed rules and the monitoring and validation of the Division's data collection activities.

Figure 16 Rate and Form Filings Reviewed

TYPE OF INSURANCE	FY 2005 FORMS	FY 2005 RATES	FY 2005 TOTAL	FY 2006 FORMS	FY 2006 RATES	FY 2006 TOTAL
Personal Liability/Umbrella	70	50	120	75	48	123
Bond and Misc. Lines	1,097	400	1,497	787	376	1,163
Commercial Automobile	1,543	791	2,334	1,055	431	1,486
General Liability	3,760	1,691	5,451	3,026	845	3,871
Homeowners	226	146	372	234	154	388
Interline Filing	58	6	64	209	48	257
Identity Theft	*	*	*	6	2	8
Intake Unit	9	11	20	6	0	6
Commercial Multi-Peril	4,264	883	5,147	3,437	779	4,216
Personal Automobile	265	499	764	404	323	727
Professional Liability	406	231	637	359	125	484
Commercial Property	2,144	694	2,838	1,955	795	2,750
Workers' Compensation	231	125	356	295	241	536
Total	14,073	5,527	19,600	11,848	4,167	16,015

* Not reported as line of business prior to Fiscal Year 2006

Figure 17 Summary of Complaints

	FY2005	FY2006
Professional Liability	28	14
General Liability	30	12
Bond, Miscellaneous Casualty	36	42
Commercial Property	18	16
Commercial Multi-Peril	13	6
Commercial Automobile	1	1
Homeowners	511	364
Personal Auto	4	3
Title	393	366
Workers' Compensation	82	85

Figure 18 Summary of Other Personal and Commercial Lines Activity

	FY 2005	FY 2006
Commercial Automobile Individual Risk Submissions (IRS)	1,235	304
Homeowners Premium Reduction Certificates Processed	6,957	5,795

Figure 19 Summary of Title Insurance Activity

	FY 2005	FY 2006
Annual Escrow Audits Reviewed	556	598
Field Examinations/Audits Conducted	257	263
Rates, Rules and Policy Forms	15	34
Licenses Issued (includes renewals)	5729	7218
Licenses Cancelled	1945	2364

Figure 20 Number of Agents/Licenses Under Commissioner's Jurisdiction (Title Insurance)

AGENTS/LICENSES	FY 2005	FY 2006
Title Agents	602	619
Title Agent Licenses	1682	1720
Direct Operations	17	16
Direct Operation Licenses	17	16
Escrow Officers	6704	6906
Escrow Officer Licenses	7106	7602
Underwriters	31 (22 active)	34
Escrow Accounts	\$201 Billion	\$216 Billion

Figure 21 Summary of Activity: Commercial Property Oversight Inspections (formerly Inspection and Fire Safety)

	FY 2005	FY 2006
Property Inspections Conducted	1,160	1,170
Residential/Special Inspections	5	7
VIP Licenses/Certificates Issued	250	154

Figure 22 Summary of Activity: Windstorm Operations

	FY 2005	FY 2006
Applications	32,191	56,265
Inspections	8,780	25,893*
Certificates of Compliance	29,164	55,187
Windstorm Fees Received	\$6,224	\$7,889

* This is a combined total of both TDI (18,923) and TWIA (6,970) inspections.

Figure 23 Summary of Activity: Engineering Services

	FY 2005	FY 2006
Building Code Interpretations	2,158	3,512
Product Evaluations	2,247	1,619

Figure 24 Summary of Activity: Loss Control

	FY 2005	FY 2006
Total Evaluations Completed	202	200
Companies Rated Adequate	202	198
Companies Rated Less Than Adequate	0	2
Companies Evaluated for Licensure	9	2
Loss Control Representative Applications Reviewed	87	75
Field Safety Representatives with a Specialty in Hospitals	40	13

Figure 25 Summary of Activity: Amusement Ride Safety and Insurance Act

	FY 2005	FY 2006
Policies Reviewed	371	335
Inspection Certificates Approved	1,464	1,410
Injuries	87	89
Inspector Applications Approved	0	0
Owners Under Compliance Monitoring	405	401

Figure 26 Summary of Activity: Workers' Compensation Classification, Premium Calculation & Research Division (formerly the Workers' Compensation Division)

	FY 2005	FY 2006
Experience Rating Modifiers Reviewed	496	477
Complaints Referred to Texas Workers' Compensation Commission	465	483
Responses to Written CIS Inquiries (Non Complaints)	1,114	1,149
Groups Certified	64	53

Figure 27 Summary of Activity: Workers' Compensation Research Group

	FY 2005	FY 2006
Number of legislative hearings attended/provided testimony	16	2
Number of legislative/public information requests completed	529	435
Number of analyses completed	10	14

Figure 28 Other Statistical Reports Collected

	FY 2005	FY 2006
Title insurance agents	574	0
Title insurance underwriters	22	0

Note: Data call delayed until FY 2007.

Life, Health, Licensing and Workers' Compensation Networks

The Life, Health, Licensing and Workers' Compensation Networks (L/H/L) program regulates Health Maintenance Organizations (HMOs) and a wide range of life, annuity, accident and health insurance, and related coverages offered by insurance companies. L/H/L also licenses insurance agents, adjusters and public insurance adjusters (PIAs), third-party administrators (TPAs), viatical and life settlement providers, provider representatives and brokers, premium finance companies, utilization review agents (URAs) and independent review organizations (IROs). In addition, L/H/L resolves HMO complaints and conducts quality of care examinations of HMOs. Beginning January 1, 2006, the Health and Workers' Compensation Network Certification and Quality Assurance (HWCN) Division began accepting applications and certifying workers' compensation health care networks.

Primary responsibilities include:

- Regulating policy forms, evidences of coverage and related documents for life, accident and health insurance, HMOs, consumer choice and cooperative health plans, credit life insurance, credit accident and health insurance, viatical and life settlements, annuities and nonprofit pre-paid legal plans.
- Reviewing rate filings for credit life and credit accident and health, Medicare supplement, Medicare SELECT, long-term care, individual accident and health insurance, HMO coverage, and filings concerning rates and savings for consumer choice health plans.
- Investigating and resolving complaints related to HMOs and conducting quality of care examinations of HMOs. On January 1, 2006, complaint resolution and exam functions began including workers' compensation health care networks.
- Issuing licenses and license renewals to insurance agents, adjusters and PIAs, TPAs, premium finance companies, URAs, and IROs.
- Certifying workers' compensation health care networks.
- Issuing certificates of registration to viatical and life settlement providers, provider representatives and brokers.
- Receiving and screening filings for property and casualty lines, as well as the coverages listed above.
- Auditing the activities of TPAs and URAs.
- Assigning requests for independent review to IROs.
- Recording companies' appointments and terminations of insurance agents.
- Providing public speakers on a wide variety of topics involving L/H/L's regulatory requirements.
- Educating regulated entities and other interested parties on regulatory requirements through bulletins, the TDI website, compliance workshops, manuals, checklists and responding to inquiries.
- Implementing state and federal legislation and monitoring the extensive federal activities related to life insurance, health coverage, and licensing.
- Regulating continuing education (CE) providers through registration of CE providers and courses.
- Auditing CE providers' compliance with CE rules and insurance agents' and adjusters' compliance with statutory continuing education requirements; recommending or assessing penalties for noncompliance.

L/H/L consists of a General Management Section and four divisions: Filing and Operations, Licensing, Life/Health (L/H) and HWCN.

General Management, led by an Associate Commissioner (AC), provides management and operational direction for the program. The AC chairs the Technical Advisory Committee on Claims Processing (TACCP) established by SB 418, 78th Legislature and acts as the Provider Ombudsman. The AC and/or staff represent the Commissioner or oversee L/H/L staff's repre-

sentation on the Interagency Council on Genetic Services, Traumatic Brain Injury Advisory Council, and participates in the East Texas Rural Access Program. Additionally, the AC is TDI's liaison for the boards of the Texas Health Insurance Risk Pool (THIRP), Children's Health Insurance Program (CHIP), and the Texas Health Care Policy Council, and attends board meetings of the Texas Health Reinsurance System (THRS).

General Management provides technical assistance to the Texas Health and Human Services Commission (HHSC), Texas Department of State Health Services (DSHS), Office of Attorney General (OAG), THIRP, THRS and the federal Centers for Medicare and Medicaid Services (CMS) of the United States Department of Health and Human Services. The AC and division deputies serve on various National Association of Insurance Commissioners (NAIC) working groups. General Management staff collect and analyze data related to the Texas health insurance market on an ongoing basis. Data and information is used to continually evaluate and monitor health insurance availability and affordability, trends and indicators within the Texas market and how they impact Texas consumers and the industry. General Management staff also report on industry data as required by state and federal law and provide technical assistance to legislative interim and oversight committees and task forces. General Management staff also direct the federal State Planning Grant study of options for expanding health insurance in Texas.

General Management has been monitoring federal requirements associated with the Health Insurance Portability and Availability Act (HIPAA) administrative simplification (electronic claims filing) requirements and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Additionally, General Management's Special Projects staff assist the AC in developing regulatory policies for all divisions in L/H/L, communicating with consumers and the regulated community, and providing technical assistance to other state and federal agencies. General Management Regulatory Development staff track, analyze, and coordinate TDI's comments on proposed legislation pertaining to L/H/L. Regulatory Development staff also inform industry and other interested parties of legislative and rule changes through bulletins or other means, draft rules to implement both state and federal legislation and respond to changes in the industry.

General Management develops the program's business plan and the program's portion of the TDI strategic plan, annual report, appropriations request and budget, and handles ad hoc special projects.

Filing and Operations Division, led by a Deputy Commissioner, consists of four sections:

Property and Casualty Section receives all rule, rate and policy form filings for property and casualty (P/C) lines, including workers' compensation, and conducts an initial screening of the filings for compliance with basic filing requirements. The majority of the filings are received via paper; however, staff also receives electronic filings via the NAIC System for Electronic Rate and Form Filing (SERFF). Staff enters all filing data into the Oracle tracking system and forward the filings to the appropriate divisions for review and final action. Intake staff manages the P/C tracking database and serve as SERFF Administrator. Staff prepares various management reports, NAIC reports and serves as liaison with information technology staff for the tracking system and SERFF issues and enhancements.

Life/Health and HMO Section receives all rate and policy form filings for life, annuity, accident and health, credit life, credit accident and health, HMO, nonprofit prepaid legal, viatical and life settlements, and related products, and conducts an initial screening of filings for compliance with basic filing requirements. The majority of the filings are received via paper; however staff also receives electronic filings through SERFF and Multi-State Review (MSR) I-File system. The MSR allows a company to submit a single filing to the states of California, Florida, Texas, Georgia and Nevada for approval. Intake staff enters all filing data into the Oracle tracking system and forwards the filings to the appropriate divisions for review and final action. Intake staff serves as the SERFF Administrator. Staff prepares NAIC reports and serves as liaison with information technology staff for tracking system and SERFF issues and enhancements.

Micrographics Section produces electronic images of closed files for P/C, life, annuities, accident and health, credit, HMO, nonprofit prepaid legal, viatical and life settlements and related products, title agent license and title examination files, workers' compensation employer files, and the field reports for P/C's Windstorm Section. Staff serves as the liaison with building services to assist the divisions in making arrangements to destroy files according to their retention schedules. Imaging staff serve as liaison on program and agency imaging projects.

Operations Section is responsible for program operations, including project management, forms management, strategic planning and performance measures. Operations staff serves as the liaison between L/H/L divisions and Administrative Services on operations matters. Operations staff serves as the Agency Planning and Technology Team member representing L/H/L matters.

Licensing Division, led by a Deputy Commissioner, oversees the licensing and regulation of insurance agents, adjusters, public insurance adjusters, risk managers, life insurance counselors, reinsurance intermediaries, third party administrators, premium finance companies, and persons involved in selling insurance products in travel agencies, self-service storage facilities, retail establishments and rental car companies. The division has five sections:

Applications Section reviews and processes new license applications for agents and adjusters, oversees the agent criminal history review process, registers additional trade names and trade locations, and records sponsors of subagents and insurance service representatives.

Customer Assistance Section responds to inquiries and telephone calls from agents, companies and the public, including questions regarding licenses, appointment status, and general inquiries about the licensing process.

Renewals, Appointments and Continuing Education Section reviews and processes renewals, records and cancels agent and subagent appointments, registers continuing education providers and courses, processes reciprocal agreements with other states and oversees the training courses for agents and adjusters.

Administrative Review and Data Management Section researches and reviews all applications with a criminal history, makes recommendations on issuance or denial of a license, and recommends appropriate action on all non-routine agent applications, renewals and cancellations for cause. This section also produces certificates and other records regarding a license's status, cancels licenses when requested by the licensee, records address and name changes for all licensees, processes open record requests and manages the division's files.

Third-Party Administrator (TPA) and Premium Finance Section licenses, regulates, and examines TPAs, which administer plans under contract with insurance companies, HMOs, and/or self-funded plans, and licenses premium finance companies.

Life/Health (L/H) Division, led by a Deputy Commissioner, reviews and completes life, annuity, accident and health, nonprofit prepaid legal, credit life, and credit accident and health policies, certificates, applications, endorsements, riders, and rates for credit life, credit accident and health, Medicare supplement, Medicare SELECT, long-term care, HMO, and individual accident and health, to ensure compliance with state and federal statutes and regulations. The L/H staff also performs data calls for credit life and credit accident and health experience and expense data, which is then used to develop presumptive rate recommendations for rule proposal. Staff also registers viatical and life settlement providers, along with provider representatives and brokers, and reviews contractual forms related to viatical and life settlements.

The Deputy Commissioner chairs the annuities team of the Interstate Compact National Standards working group, and along with other L/H staff, participates in conference calls and discussions about policy form standards for life, disability and policy form, and advertising standards for long-term care. The NAIC Interstate Compact National Standards working group is charged with developing draft annuities, life, long-term care and disability policy and related forms standards, for the Interstate Compact consideration. The Deputy Commissioner also participates in the following NAIC groups: Senior Issues Task Force, which is charged with addressing issues pertaining to Medicare Supplement, Medicare SELECT, Medicare Advantage and Medicare Part D; Long-Term Care Working Group, charged with reviewing and, where appropriate, recommending changes to the NAIC model law and regulations, and, when possible, the Operational Efficiencies Working Group, charged with developing process and electronic efficiencies to the form review process. The Deputy Commissioner also participates in the Interstate Compact interim subcommittee charged with reviewing the standards developed by the Interstate Compact National Standards working group and making recommendations to the Interstate Compact management committee consideration.

The L/H Division consists of the following four sections:

The Accident and Health Section reviews and analyzes form filings for individual and group accident and health products, which include Medicare supplement, Medicare SELECT, long-term care, large and small employer groups, non-employer groups, and combination life and

accident and health products. The section coordinates the review of rate filings for accident and health, long-term care, Medicare supplement, Medicare SELECT, individual accident and health, and small employer rating methodologies. The section tracks small employer annual certifications and assists companies and other TDI staff in coordinating withdrawals from individual, large, and small employer group markets and discontinuance of products in these markets. The section also reviews documents for Multiple Employer Welfare Arrangements, THIRP and CHIP.

The Life, Annuity and Credit Section reviews and analyzes form filings for life, annuity, credit life, credit accident and health, nonprofit prepaid legal plans, viatical and life settlements, and filings for name changes, assumptions, demutualizations and mergers. The section also coordinates the review of rate filings for credit life and credit accident and health. Life, Annuity and Credit staff maintain communication with the Texas Funeral Service Commission and the Texas Department of Banking on issues related to life and annuity products used in the prepaid funeral market. Staff also coordinates the review of combination long-term care and annuity or life products. The section registers viatical and life settlement providers, provider representatives and brokers, processes notifications from charitable organizations issuing charitable gift annuities, analyzes credit life and credit accident and health data call information and tracks certifications pertaining to forms subject to the life illustration rule.

The Actuarial Section reviews, analyzes, and evaluates rate filings pertaining to certain individual accident and health, long-term care, Medicare supplement, Medicare SELECT, credit life, credit accident and health, and HMO coverage. The section also analyzes credit life and credit accident and health data call information and works closely with an outside contractor to develop credit life and credit accident and health presumptive rates. In addition, staff review actuarial data pertaining to individual and group life, individual accident and health, long-term care, Medicare Supplement and Medicare SELECT coverage, changes to small employer rating methodologies, risk assuming applications for small employer carriers and HMO applications for certificate of authority and service area expansions. Staff review the THIRP's actuarial memorandum and premium rates as well as assist the Consumer Protection program with the resolution of consumer inquiries and complaints regarding rating issues.

Administration develops and implements the L/H Division's business plan, executes the division's legislative implementation plan, responds to public inquiries, provides technical training for division staff, responds to open records requests, and provides administrative and automation support.

In addition to the above, all sections of the L/H Division assist in the development and implementation of rules; education of the insurance industry on regulatory requirements through bulletins, compliance conferences, manuals and checklists; and presentations to trade groups. The L/H Division provides technical assistance to other TDI staff regarding complaints, consumer publications, enforcement actions, market withdrawals, assumptions and name changes. The division is often called upon to provide technical assistance to external entities including, but not limited to, the Employee Retirement System (ERS), the Teacher Retirement System (TRS), the NAIC, the Texas Department of Banking, DSHS, HHSC, THIRP, OAG, and CMS.

Health and Workers' Compensation Network (HWCN) Division, led by a Deputy Commissioner, regulates HMOs, certifies and regulates Utilization Review Agents (URAs) and certifies and regulates Independent Review Organizations (IROs). The division investigates complaints against these licensed entities, conducts quality of care examinations, and reviews HMO, workers' compensation network and URA form filings.

In 2006, the division began accepting applications from workers' compensation health care networks, processing complaints, and conducting examinations relating to these networks. The division was reorganized during the past year into a single entity rather than two sections, and an administrative area. One manager and four team leaders supervise four functional areas that include Complaints, Intake and Form Filings, IRO/URA certification and IRO assignment, and Examinations. Staff members are cross-trained in all functions and perform multiple functions on a daily basis.

The complaints functional area includes investigation and resolution of complaints received concerning HMOs, URAs, IROs, and WC networks. The processes and procedures are aligned with agency procedures, including utilizing the agency complaint database (CIS) and the paperless workflow that is also used by Consumer Protection and the DWC Complaint Resolution and Customer Service programs.

The intake and Form Filing functional area reviews and analyzes form and other related filings for HMOs writing commercial and small- and large-employer coverage and WC network form filings and performs scanning and data entry for complaints and WC network applications URA filings, IRO filings, examinations and IRO assignments.

The IRO/URA Certification and IRO assignment functional area certifies URAs to conduct business in Texas, registers insurers and HMOs to conduct utilization reviews, reviews URA form filings, issues renewals of URA certifications and registrations, reviews IRO applications for certification and renewals of those certificates, reviews form filings required of IROs and processes requests for IRO assignments received from URAs, insurers and HMOs for health insurers and in FY07 will add assignment of IRO reviews for all workers' compensation insurers.

The examinations functional area performs examinations of HMOs and WC networks. Examinations of HMOs are routinely scheduled based on licensure date. The section has statutory authority to examine an HMO anytime in the first three years of operation and thereafter every three years. Should problems or issues be identified that cause concern, complaint examinations can be scheduled to determine compliance with applicable statutes and rules. Examinations of WC networks can be conducted at any time at the commissioner's discretion.

Administration develops and implements the division's business plan, compiles and analyzes data, provides administrative support for the division, executes the division's legislative implementation plan and responds to public inquiries.

In addition to the above, all HWCN staff assist in the development and implementation of rules; respond to open records requests; educate industry, provider and consumer groups through bulletins, compliance workshops, manuals, checklists and speaking engagements; and provide technical assistance to other TDI staff regarding complaints, consumer publications, enforcement actions and withdrawals from HMO markets. The division provides technical assistance to external entities such as the ERS, DSHS, HHSC, OAG, the Texas Department of Aging and Disability Services, DSHS, the Texas Department of Criminal Justice, NAIC and CMS.

Highlights

L/H/L accomplishments and highlights of Fiscal Year 2006 include:

General Management

- With other divisions of L/H/L, assisted in developing the following rules adopted by the Commissioner:
 - Chapter 3 Preferred Provider Plans
 - Chapter 10 Workers' Compensation Health Care Networks
 - Chapter 11 Physician and Provider Contracts and Arrangements
 - Chapter 19 Continuing Education and Adjuster Prelicensing Education Programs
 - Chapter 19 Utilization Review Agents
 - Chapter 21 Mandatory Benefit Notice Requirements
 - Chapter 21 High Deductible Health Plans
 - Chapter 21 Obligation to Continue Premium Payment and Coverage After Notice of Lost Group Eligibility
 - Chapter 21 Submission of Clean Claims
 - Chapter 21 Eligibility Statements
 - Chapter 21 Notice of Availability of Coverage under the Texas Health Insurance Risk Pool
 - Chapter 26 Health Group Cooperatives.
- Worked on the following proposed rules:
 - Chapter 1 Effect of Criminal Conduct
 - Chapter 3 Viatical and Life Settlements
 - Chapter 5 Workers' Compensation Insurance Group Self Insurance Coverage
 - Chapter 7 Insurance Holding Company System Regulatory Act
 - Chapter 11 HMOs
 - Chapter 19 Fingerprint Card Requirement for Applicants for License
 - Chapter 19 Licensing of Public Insurance Adjusters
- Assisted in drafting the following Commissioner's Bulletins:
 - Balance Billing by Out-Of-Network Health Care Providers (B-0033-06)
 - Call for 2005 Report on Community Investments in the State of Texas (B-0032-06)
 - The Federal Violent Crime Control and Law Enforcement Act of 1994 (B-0030-06)

- Individual Employer Health Plan Coverage (B-0028-06)
- Texas Disaster Plan Survey (B-0027-06)
- Appropriate Use Requirements for a Data Condition in Professional ASC X12n 837/ Use of “Referring Provider Name” Field (B-0023-06)
- Tailored Networks (B-0021-06)
- Appropriate Use of DEA Registration Numbers (B-0011-06)
- Updates to URA Certification Applications for Utilization Review Agents that Perform Utilization Review for Workers' Compensation Health Care Networks (B-0004-06)
- Medicare Part D, Medicare Advantage Plans, Medicare Advantage Prescription Drug Plans, Prescription Drug Plans or 1876 Cost Plans (B-0070-05)
- Hurricane Rita State Of Emergency Natural Disaster - Medical Equipment Supplies and Services (B-0055-05)
- Hurricane Rita: State Of Emergency Natural Disaster - Preauthorized Health Care, Referrals, Notification Of Hospital Admissions, Medical Necessity Reviews (B-0054-05)
- Hurricane Rita: an Extraordinary Event Claim Adjusting For Hurricane Victims or Evacuees (B-0051-05)
- Hurricane Rita State of Emergency Natural Disaster - Claim Filing Deadlines and Catastrophic Events (B-0049-05)
- Hurricane Rita State of Emergency Natural Disaster - Out-Of-Network Services (B-0048-05)
- Hurricane Rita State of Emergency Natural Disaster - Prescription Medication Coverages (B-0047-05)
- Legislation Enacted - 79th Legislative Session (B-0041-05)
- Tracked 787 bills or versions of bills during the 79th Legislature Regular Session, and developed and monitored implementation plans for 60 enacted bills.
- Maintained updated information on TDI's Implementation Plan spreadsheet for L/H/L.
- Maintained and updated electronic database of mandated benefit premium and claim experience for group and individual insurance and HMO plans. Submitted required annual report to the Legislature.
- Provided testimony and information to legislative committees including House Insurance Committee, House Business & Industry Committee, Senate Business & Commerce Committee, Senate State Affairs Committee, and Senate Health & Human Services Committee.
- Developed life insurance standards to be used for the Multi-State Review (MSR) agreement with Florida, California, Georgia and Nevada providing a single filing source for insurers, which allows compliant filings to be approved in all five states.
- Co-chaired TACCP and developed drafts of report to the Legislature required by SB 418 (78th Legislative Session).
- Represented TDI at THIRP and THRS board meetings and worked with THIRP and THRS on issues as they arose.
- Represented TDI on National Data Interchange Standards Task Force.
- Completed the planning phase of the federally funded State Planning Grant and began the implementation phase. In this final phase of the project, staff, together with a wide range of interest groups, designed a small employer benefit plan for Harris County. Activities included surveying employers, development of a unique insurance plan, and 25 focus groups with Houston area small business owners.

Filing and Operations Division

- Received 27,184 Life/Health rate and form filings.
- Received 1,541 HMO rate and form filings.
- Processed 7,559 Exempt Life/Health rate and form filings.
- Received 16,734 Property and Casualty rate and form filings.
- Processed 189 Property and Casualty rate and form filings.
- Processed \$429,150 in filing fees for Life and Health rate and form filings.
- Processed \$99,822 in filing fees for HMO rate and form filings.
- Processed \$57,650 in regulatory fees for Viatical Settlement filings.
- Scanned 673,276 images for Property and Casualty Program.
- Scanned 372,164 images for Life/Health and HWCN Divisions.
- Scanned 11,724 images for Division of Workers Compensation (DWC).
- Implemented scanning for the DWC Complaints Resolution Division.
- Represented Texas on the following NAIC Working Groups: System for Electronic Rate and

Form Filing (SERFF) Working Group, Product Steering Committee (PSC), Filing Submission Uniformity/Metrics Subgroup, and Review Standards Checklist Subgroup.

- Represented the Filing & Operations Division or Department at various meetings and seminars.

Licensing Division

- Consistently exceeded the target for completing 98 percent of licenses completed within 60 days to meet TDI performance measure.
- Consistently exceeded the target for completing 95 percent of agent license filings completed within 15 days to meet TDI performance measure.
- Continued to remain efficient in the average processing time for the more than 700,000 filings received each year. In the past few years, the Licensing Division's average processing time has moved from 5.2 days in FY 2002 to 3.0 days in FY 2003, and to 2.2 days in FY 2004.
- Participated in developing, proposing and adopting the Criminal History Fingerprint Rule (amending 28 TAC 1.501 and adding new 1.503 through 1.509). The Criminal History Fingerprint Rule will transfer the \$39 cost of processing fingerprints to the applicant. TDI will be able to submit 100 percent of fingerprints and obtain a state and national fingerprint criminal history on all applicants. The proposal is necessary to maintain effective regulation of the insurance industry by establishing requirements and procedures to further ensure that persons receiving licensure and authorizations, including the officers, directors, partners, and controlling shareholders of insurance agencies, insurance companies and other regulated entities, are honest, trustworthy, reliable, and fit to hold those positions. The proposal establishes a reasonable procedure and funding mechanism for the Department to obtain necessary information to make those determinations. An additional positive outcome of adoption of the rule is a projected increase in revenue to the state general fund in the amount of \$600,000 annually since approximately 40,000 applicants will be paying a \$15 fee to the Department of Public Safety.
- Licensing Deputy Commissioner served as a member of the NAIC Producer Licensing Working Group by attending meetings and conference calls in the development of the following draft model acts:
 - Fingerprint Model Act
 - Public Adjuster Model Act
 - Producer Licensing Fiduciary Model Act
- Direction and leadership led to the Texas Agent Licensing Division being honored as the Regulatory Unit of the Year 2005 by the Securities and Insurance Licensing Association (SILA). The Texas Licensing Division was the first licensing division to be awarded this recognition by the SILA organization.
- Expanded electronic processing capabilities in July 2006 through opening up the Department's ability to accept Electronic Nonresident Renewals processed and submitted by the National Insurance Producer Registry.
- Licensing Deputy Commissioner selected to serve as an Advisory Board Member of the Securities and Insurance Licensing Association which serves over 800 members from the insurance industry who are involved in the licensing of insurance agents and adjusters.

Life/Health Division

- Received and completed 26,588 policies, contracts, related forms, rates, certifications, applications for registrations, risk assuming applications, rating methodologies and reports as appropriate for life, annuity, various accident and health products, nonprofit prepaid legal, credit life, credit accident and health, viatical and life settlement, accident and health small and large employer, long-term care, life illustration and Medicare supplement.
- Reviewed and completed 23 filings, representing 103 forms, under the MSR through ongoing meetings and conference calls with Florida, California, Georgia and Nevada departments of insurance staff.
- Reviewed and completed 618 filings, representing 1,388 forms, through SERFF.
- Issued certificates of registration to 109 new viatical and/or life settlements providers, provider representatives or brokers and processed 181 Annual Reports for existing entities.
- Responded to a GAO survey regarding competitiveness and choice available in the small group health insurance market.
- Responded to a Health Policy Institute survey regarding small group rating.
- Responded to numerous legislative, consumer and agent inquiries.

- Updated checklists on TDI's website to comply with new legislation.
- Participated in the Agent Licensing Exam Focus Group.
- Participated in conference calls and meeting of the NAIC Standards Working Group.
- Participated in discussions with the HHSC regarding the implementation of SB 1188, 79th Legislative session.
- Participated in discussions with the HHSC regarding the evaluation of the impact of implementing the Long Term Care Partnership program in Texas.
- Participated with HHSC in the development of the Long-Term Care Awareness campaign grant application.
- The Deputy Commissioner of Life/Health chaired the annuity team of the NAIC Interstate Compact Standards Working Group.
- Completed the implementation of HB 2159 (77th Legislative Session) relating to credit life and credit accident and health with the adoption of presumptive rates.
- The Deputy Commissioner of Life/Health served as a member of the following NAIC Working Groups: Senior Issues, Long-Term Care Working Group, Interstate Compact Implementation, Speed to Market and Operational Efficiencies.
- L/H Division staff served as members of the Advertising Workgroup.
- Participated in the development of various bulletins.
- Participated in the development of various rules.

HWCN Division

- Completed review of 1,577 HMO forms filings.
- Conducted 22 quality of care examinations of HMOs.
- Completed 1,329 complaints regarding HMOs.
- Assigned 246 IRO case reviews.
- Certified and renewed 89 URAs.
- Certified and renewed 15 IROs.
- Responded to 117 open record requests.
- Assisted HHSC with operation of the CHIP and Medicaid Programs.
- Participated in Technical Advisory Committee on Claims Processing (TACCP) meetings.
- Participated in Workers' Compensation Working Group (WCWG) meetings.
- Represented the Commissioner on the Interagency Council on Genetic Services and Texas Department of State Health Services (DSHS) Morbid Obesity Task Force.
- Represented TDI on the Traumatic Brain Injury Advisory Council.
- Represented TDI on HHSC Telemedicine Advisory Committee.
- Represented TDI on the Texas Board of Medical Examiner's credentialing committee.
- Certified 15 workers' compensation health care networks.
- Participated in the development of various bulletins.
- Participated in the development of various rules.

Figure 29 Summary of Activity: Intake Division Filings Received/Processed

	FY 2005	FY 2006
Flex-Rate and Other Rate Filings		
Auto Home (Personal Liability and Personal Umbrella)	**See Note Below	37
Personal Automobile	562	545
Personal Property**	256	207
<i>Total</i>	<i>818</i>	<i>789</i>
Other Rate Filings		
Bond, Burglary, Title	415	330
Commercial Automobile	636	554
Commercial Property	707	801
General Liability	1,291	965
Identity Theft****	N/A	3
Intake	8	0
Interline***	7	57
Multi-Peril	889	811
Professional Liability	145	138
Workers' Compensation	315	424
<i>Total</i>	<i>4,413</i>	<i>4,083</i>
Policy Form, Endorsement and Rule Filings		
Auto Home (Personal Liability and Personal Umbrella)	**See Note Below	57
Personal Automobile	280	383
Personal Property**	314	228
Bond, Burglary, Title	976	794
Commercial Automobile	1,508	1,119
Commercial Property	1,959	2,047
General Liability	3,720	2,991
Intake Unit	9	6
Identity Theft****	N/A	7
Interline***	58	215
Multi-Peril	3,994	3,348
Professional Liability	416	372
Workers' Compensation	200	295
<i>Total</i>	<i>13,434</i>	<i>11,862</i>
Total P & C Filings Received	18,665*	16,734*
Intake Unit Filings Processed	468	189

* Total Includes 3,492 SERFF Filings.

** Auto Home Category (AH) totals included in Personal Property [formerly Homeowners]) totals for FY 2005. Now counted separately.

*** Interline Filings became effective February 10, 2005.

**** Effective December 2005, Identity Theft Insurance was added.

**Figure 30
Number of Licenses, Certificates and Registrations
Under Commissioner's Jurisdiction**

LICENSE TYPE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Agents (1)	216,464	234,992	246,923	259,743	273,502
Adjusters	46,458	43,452	44,498	54,810	66,244
Full-Time Home Office Salaried Employees	3,205	3,721	2,087	1,292	1,259
Specialty - Credit	2,030	2,537	2,792	2,888	2,908
Specialty - Travel	455	529	643	699	721
Specialty - Rental Car Company	64	73	73	72	68
Specialty - Self Service Storage Facility	49	62	60	74	74
Specialty - Telecommunication Equipment Vendor (2)	0	6	8	11	13
Life Counselors	143	158	179	235	273
Public Insurance Adjusters (3)	0	0	78	115	167
Risk Managers	1,081	1,095	1,091	1,100	1,098
Re-insurance Intnermediary	1,638	1,203	1,446	1,441	1,503
Premium Finance Companies	286	304	328	293	323
Third-Party Administrators	724	739	736	750	747
Grand Total of Lines Regulated	272,597	288,871	300,942	323,523	348,900

1 An agent may hold more than one type of license; these statistics do not represent numbers of individual agents.

2 Specialty Telecommunication License created by the 77th Legislature.

3 Public Insurance Adjusters License created by the 78th Legislature.

Figure 31 Summary of Activity: Licensing Division

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total Filings Processed by Licensing Division	724,305	699,971	747,271	734,141	772,268
Telephone Inquiries Answered*	170,407	160,478	133,581	128,784	149,198

* Licensing uses an Interactive Voice Response (IVR) to improve the Division's ability to respond to calls from companies, agents and the public. The IVR provides 24-hour, 7-day-a-week access to licensing information.

Figure 32 Five-Year Summary of Agents License Statistics

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Issued	51,654	53,660	56,636	58,059	68,693
Renewed	81,662	75,186	92,505	84,984	101,767
Total Appointment Transactions	510,650	479,618	503,347	496,117	515,260
Total Current Agents & Adjusters Licenses	262,922	278,444	291,499	314,668	339,913
Other Licenses	9,675	10,427	9,443	8,855	8,897
Grand Total of Licenses Regulated	272,597	288,871	300,942	323,523	348,900

Figure 33 Numbers and Types of Agents Licenses, FYs 02-06

License Type	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
County Mutual	4,623	4,193	3,694	3,462	3,481
General Lines -					
Life, Accident, Health and HMO	124,146	136,944	145,209	150,348	158,373
General Lines - Property and Casualty	61,940	67,416	76,646	87,684	95,298
Insurance Service Representative	2,249	2,477	2,368	2,069	1,832
Life not to Exceed \$15,000	1,466	1,320	1,230	1,026	973
Limited Lines	16,860	15,364	10,841	7,622	5,876
Managing General Agent	1,646	1,713	1,551	1,643	1,596
Pre-Need	1,472	3,146	2,584	2,504	2,376
Surplus Lines	2,062	2,419	2,800	3,385	3,697
Total	216,464	234,992	246,923	259,743	273,502

Figure 34 Summary of Activity: Miscellaneous Lines

	FY 2003	FY 2004	FY 2005	FY 2006
TPA On-Site Examinations	0	0	0	0
TPA Desk Audits Conducted	1	0	0	0
TPA New Licenses Issued	47	64	47	44
TPA License Exemptions Granted	84	90	104	99
New Premium Finance Licenses Issued	37	41	32	3
Premium Finance Licenses Renewed	270	297	320	307

Figure 35 Number of Premium Finance Companies and Loans' Value, CYs 97-05

CALENDAR YEAR	NUMBER OF COMPANIES	NUMBER OF PREMIUM LOANS	VALUE OF LOANS
1997	300	443,278	\$1.76 billion
1998	292	455,492	\$1.54 billion
1999	291	468,129	\$1.68 billion
2000	283	408,892	\$1.69 billion
2001	281	387,866	\$1.90 billion
2002	304	332,663	\$2.54 billion
2003	317	300,673	\$3.08 billion
2004	333	275,215	\$2.95 billion
2005	329	265,944	\$2.60 billion

Figure 36 Summary of Activity: Life/Health Filings

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Filed	31,133	33,449	28,558	30,945	27,184
Accepted	30,195	32,197	27,079	29,914	26,591
Approved	9,354	8,398	9,438	9,655	9,432
Disapproved	3,072	3,177	2,574	2,993	1,977
Exempt	8,735	11,681	7,075	6,324	7,559

Figure 37 Summary of Activity: Health Maintenance Organization Filings

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
New Forms Received	3,599	2,640	2,003	1,452	1,189	1,391
Forms Completed	3,258	2,447	2,026	1,596	1,538	1,577

Figure 38 Summary of Activity: Utilization Review Filings

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Applications Received	31	17	15	15	17	14
Applications Pending Review	16	7	6	7	3	NA
Registered Utilization Review Agents Approved	5	2	1	1	2	1
Certified Utilization Review Agents Approved	51	21	15	12	15	12
Certified URAs Renewed	94	76	94	105	83	77

Figure 39 Summary of Activity: HMO Complaints

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Complaints Received	7,716	9,468	7,261	3,511	3,028	2,086
Complaints Closed	*7,131	9,414	7,537	3,620	3,298	1,329
Medicare Complaints Forwarded	*5,132	3,362	563	192	137	277
HMO Quality of Care Examinations Completed	*21	23	28	22	16	22

* Note: Data revised after 2001 Annual Report released.

Figure 40 Summary of Activity: HMO Projects/Inquiries

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Projects/Inquiries Received	145	248	197	124	119	169
Projects/Inquiries Completed	145	248	197	124	117	163

Figure 41 Summary of Activity: IRO Applications

	FY 2004	FY 2005	FY 2006
IRO Applications Received	4	4	8
IRO Applications Pending	2	3	NA
IRO Applications Approved	3	3	5
IRO Renewals Approved	3	10	10

Consumer Protection

CONSUMER PROTECTION assists Texans by helping resolve insurance complaints; providing insurance information to the public through a toll-free Consumer Help Line, publications and the Internet; and reviewing insurance advertising.

The Consumer Protection Program consists of five activities:

Complaints Resolution reviews consumer disputes with insurance companies, agents and other regulated insurance entities. Staff examine complaints for violations of the *Texas Insurance Code* (TIC) and the *Texas Administrative Code* (TAC) and recommend enforcement action when appropriate. The complaints resolution process results in the return of millions of dollars in additional claims payments and premium refunds to consumers each year. Staff handle complaints involving home, auto, life and health coverage.

Information Assistance responds to calls to the agency's toll-free Consumer Help Line, 1-800-252-3439. This telephone line is staffed from 8 a.m. to 5 p.m. Central time, Monday through Friday. Staff answer questions regarding most lines of insurance; provide information about companies and agents, including license status and complaint histories; and help consumers file insurance-related complaints. The section also maintains TDI.nfo, an electronic information database to help TDI respond consistently and efficiently to consumer questions. Information Assistance helps non-English speakers through its Spanish-speaking staff and use of the AT&T Language Line. Service for hearing- or speech-impaired consumers is provided through Relay Texas at 1-800-735-2989 (TDD/TTY).

Public Education develops and distributes informational materials to increase consumers' understanding of insurance products and to help consumers shop wisely for the insurance they need. Publications also are accessible through the Internet. Consumers may order complaint forms and publications 24 hours a day, seven days a week, by calling a toll-free automated telephone line, 1-800-599-SHOP (7467). Public Education also coordinates a Speakers Bureau that provides presentations for civic and community organizations, consumer groups, and the insurance industry. In partnership with other state and federal agencies, Public Education operates the federally funded Health Information, Counseling and Advocacy Program (HICAP), which provides statewide training to volunteer benefits counselors who assist senior citizens in their local communities.

Advertising reviews industry marketing materials to evaluate compliance with statutes and rules governing solicitation and trade practices. Those materials include brochures, phone and sales scripts, agent presentations, newspaper, magazine, radio and TV ads, form letters, illustrations, Web pages, and other materials. Significant violations are referred to TDI's Enforcement Division for possible enforcement action.

The Special Work Assignments Team (SWAT) enhances Consumer Protection's business processes by developing means of improving efficiency and effectiveness. SWAT coordinates the program's business planning activities and oversees production of program information published on the agency's website.

Highlights

In Fiscal Year 2006, Consumer Protection:

- Assisted persons impacted by Hurricanes Katrina and Rita. Following the storms, 279 TDI staff volunteered to assist in a variety of ways. TDI volunteers staffed Disaster Recovery Centers (DRCs) established across the state by the Federal Emergency Management Agency (FEMA). DRCs were often operated in conjunction with evacuation shelters and provided a centralized location for storm victims to receive direct, one-on-one assistance and information. Disaster volunteers also delivered ice and water to those without power, answered inquiries during extended hours via TDI's toll-free Consumer Help Line, developed Internet resource pages, resolved disaster-related insurance complaints, inspected property damage, conducted educa-

tional outreach events, and joined staff from state and federal agencies at the State Operations Center. TDI volunteers remained in the field assisting consumers from September 5, 2005, to February 17, 2006. In addition, two teams of TDI volunteers were dispatched to Louisiana in February and March to assist Louisiana consumers with outstanding complaints and insurance problems arising from Hurricanes Katrina and Rita. Following Hurricane Rita, TDI staff helped resolve 1,858 insurance complaints, resulting in more than \$25.7 million in additional claims payments to victims. Consumer Protection also worked with the Texas State Disaster Coalition to assist consumers during disasters.

- Assisted consumers in north central Texas following wildfires in the region in December 2005, and in El Paso County following flooding in the area in August 2006. TDI also developed Internet resource pages following both disasters.
- Assisted consumers following the insolvency of Texas-domiciled companies in the Vesta Insurance Group, including Texas Select Lloyds Insurance Company, in July and August 2006. Expanded the hours of operation for the Consumer Help Line to 6 p.m. on weekdays, 8 a.m. to 5 p.m. on Saturdays, and noon to 5 p.m. on Sundays, through the end of August. Developed an Internet resource page with information about the insolvency and court proceedings; frequently asked questions; links to news releases and consumer and agent notices; and shopping tips and tools.
- Returned more than \$56 million to consumers in additional claims payments and refunds as a result of complaints resolution.
- Responded to more than 995,000 consumer inquiries.
- Continued monitoring to ensure prompt payment of health care claims. Assisted in negotiation of consent order against a major health carrier for noncompliance with prompt pay law and rules. Issued the Technical Advisory Committee on Claims Processing report to the Legislature.
- Facilitated several working groups to distribute information and enhance industry regulation, including the Technical Advisory Committee on Claims Processing, the Workers' Compensation Working Group, and the Advertising Workgroup.
- Conducted more than 640 Speakers Bureau presentations throughout Texas on insurance issues.
- Distributed more than 3.5 million publications, including more than 941,000 rate guides. Rate guides provide information to help Texans save money on their insurance. TDI publishes rate guides for automobile, homeowners, Medicare supplement, long-term care, small employer health benefit plans and workers' compensation insurance.
- Developed new consumer information regarding workers' compensation networks and devised outreach strategy.
- Maintained consumer information on TDI's Internet website. Items accessed most frequently were company profiles, publications, the on-line complaint form and the Internet Complaint Information System.
- Maintained TexasHealthOptions.com, a "one-stop" resource for Texans shopping for health insurance. The website features step-by-step information on finding affordable coverage and provides information, lists of companies offering various types of health plans and lists of agents selling health coverage.
- Reviewed more than 6,000 insurance advertisements to ensure compliance with state laws and TDI rules.
- Initiated or continued partnerships with governmental agencies to promote TDI services and enhance outreach activities, including partnerships with:
 - The Children's Hospital of Austin, the Seton Healthcare Network, the City of Austin and the Travis County Health and Human Services Commission to provide information to parents of uninsured children and to people utilizing services provided at mobile health clinics.
 - The Texas Hospital Association, the Texas Medical Association, the Texas Association of Health Plans, and other organizations and groups to educate physicians, providers, and insurance industry representatives throughout Texas about laws and rules related to the prompt payment of health care claims. TDI also maintained a provider resource page on the agency's home page with educational materials about prompt pay.
 - The National Association of Insurance Commissioners (NAIC) and the International Commission on Holocaust-Era Insurance Claims (ICHEIC) to assist Holocaust survivors and their heirs settle unpaid claims on insurance policies issued in Europe between 1920 and 1945.

- County tax assessor-collector offices statewide to distribute rate guides and other insurance information.
- The Texas Workforce Commission to provide information about insurance to employers attending Texas Business Conferences across the state.
- The Texas Department of Aging and Disability Services, the Texas Legal Services Center, and local Area Agencies on Aging statewide to assist older Texans and to offer training to volunteer benefits counselors in local communities.
- The Governor’s Division of Emergency Management and representatives of the insurance industry in the Texas State Disaster Coalition, which is designed to enhance responses to disasters.

Figure 42 Total Number of Complaint Cases Closed, FYs 97–06

FISCAL YEAR	CASES CLOSED
1997	17,650
1998	18,829
1999	22,472
2000	28,005
2001	28,996
2002	34,364
2003	41,294
2004	29,505
2005	24,132
2006	24,122

Figure 43 Additional Claim Payments to Consumers, FYs 97–06

FISCAL YEAR	CLAIM PAYMENTS
1997	\$17.0 million
1998	21.3 million
1999	24.4 million
2000	32.0 million
2001	31.4 million
2002	46.6 million
2003	45.9 million
2004	39.0 million
2005	37.6 million
2006	54.6 million

Figure 44 Restitutions/Refunds to Consumers, FYs 97–06

FISCAL YEAR	RESTITUTIONS OR REFUNDS
1997	\$1.2 million
1998	1.3 million
1999	1.2 million
2000	1.8 million
2001	*636,000
2002	1.9 million
2003	2.2 million
2004	1.2 million
2005	1.8 million
2006	1.6 million

* Fewer complaints involving large refunds of annuity premiums were received in FY 2001.

State Fire Marshal's Office

THE STATE FIRE MARSHAL'S OFFICE (SFMO) works to proactively develop and promote methods of preventing and reducing fire losses. This is accomplished through collaboration with private sector entities, the regulated fire service industry, the Texas fire service, local and state agencies, and the public. Since 1997 the SFMO has been part of the Texas Department of Insurance as directed by SB 371, 75th Legislature.

The State Fire Marshal's Office consists of four divisions:

- Fire Industry Licensing Services and Investigations
- Fire Prevention Outreach Services
- Fire Safety Inspection Services, and
- Fire/Arson Investigations

In addition to the service provided by these four divisions, the SFMO is also statutorily responsible for the investigation of firefighter fatalities. The 77th Texas Legislature established this authority and empowers the SFMO to investigate the manner and cause of firefighter line-of-duty deaths. The State Fire Marshal is directed, by statute, to publish a report on the findings of each investigation and an annual report to the Texas Insurance Commissioner.

The firefighter fatality investigation program is multi-disciplinary, involving staff with a broad range of expertise and experience. The SFMO also involves members of the Texas fire service to assist with the fire ground operations review component of the investigation. These volunteers represent numerous organizations and are chosen for their substantial fire ground investigation expertise.

Fire Industry Licensing Services and Investigations Division is divided into two sections:

- **Licensing Administration**

Fire Industry Licensing issues registrations, licenses and permits to those working in the fire alarm, extinguisher, sprinkler, and fireworks industries.

- **Investigations**

Fire Industry Investigators respond to complaints concerning the illegal, improper, and unsafe installation of fire alarm, extinguisher and sprinkler systems by licensed entities. They also inspect fireworks retail sites to ensure compliance with adopted laws.

Fire Prevention and Outreach Services Division activities include:

- **Texas Fire Incident Reporting System**

The Texas Fire Incident Reporting System (TEXFIRS) collects data from fire departments and analyzes statistics to determine the impact of fire on lives and property. Each year a summary of the fires reported, *Fires in Texas*, is published.

- **Fire Safety Education for Children and the Elderly Via Community Based Partnerships**

The SFMO coordinates a variety of fire safety education products for children and the elderly. These include assisting communities in establishing and maintaining Juvenile Firesetter Intervention Programs, providing Fire Safety House presentations to Texas school children in communities around the state, and helping communities implement nationally endorsed community-based education programs, such as Risk Watch and Remembering When.

- **Public Protection Classification Oversight Officer**

The Public Protection Classification Oversight officer assists local fire departments, upon request, with Public Protection Classifications (PPC) and the International Standards Organization (ISO) Fire Suppression Rating Schedule. Through the authority of the State Fire Marshal, this employee is responsible for approving or disapproving proposed PPC ratings for communities.

Fire Safety Inspection Services Division conducts fire safety inspections of public buildings and private facilities in Texas, including 24-hour care facilities, state buildings, daycare centers, hotels and motels. This division also conducts a comprehensive, multiyear fire safety inspection of all

Texas state-supported institutions of higher education. Published reports are available on the agency's website. Inspections are conducted based on need or in response to a request or complaint. Upon complaint, inspections of storage, handling and use of flammable liquids also are conducted at retail service stations throughout the state.

Fire/Arson Investigations Division is responsible for the following activities:

- **Fire/Arson Investigations**

Upon request, Fire/Arson Investigations investigates fire scenes throughout the state and provides assistance to local law enforcement authorities. SFMO investigators travel to the fire scene and assist local officials with determining origin and cause, and with criminal investigations when appropriate.

- **Canine Teams**

Canine Teams consist of a handler, who is a certified fire investigator, and a canine that has been certified and trained to detect hydrocarbons. The canines' keen sense of smell helps them identify areas for evidence collection at fire scenes.

- **Forensic Arson Laboratory**

The Forensic Arson Laboratory, based in Austin, provides accelerant testing services and analysis of fire scene debris to law enforcement and public safety organizations. The lab is accredited by the American Society of Crime Laboratories Directors.

Highlights

In Fiscal Year 2006, the State Fire Marshal's Office:

- Restructured Prevention and Outreach Division by the inclusion of a Director and Information Specialist to more actively promote fire safety and prevention efforts.
- Joined with other state agencies and local fire service organizations throughout Texas to designate "Have an Exit Strategy" as the theme for the 2006 Fire Prevention Week. The State Fire Marshal's Office, together with local fire departments and fire service organizations, works with families, universities, schools and communities to help people identify potential fire and emergency hazards and show them the benefit of escape plans.
- Conducted 26,686 building safety surveys following Hurricane Rita in Beaumont, Port Arthur, Port Neches, Groves, Nederland and rural Jefferson County. These surveys identified buildings with damage to utilities that could present a hazard upon the reconnection of electrical utilities.
- Assisted local authorities with investigations of wild land fires along with other state agencies. The State Fire Marshal's Office investigated approximately 89 wild land fires.
- Completed the recertification of the SFMO's Forensic Arson Laboratory. The Lab is accredited by the American Society of Crime Laboratory Directors Laboratory Accreditation Board.
- Continued an aggressive, on-site fire safety inspection project on state university campuses with a special focus on full-campus inspections. SFMO inspectors worked with university officials to remedy any dangerous situation uncovered by the inspections.
- Conducted three firefighter line-of-duty death investigations.
- Sponsored an annual State Fire Marshal's Conference in Austin with more than 150 local fire marshals in attendance. The conference focused on enhancing local understanding of the state's regulatory process and on increasing interaction among fire marshals statewide.
- Provided PPC Oversight assistance to local communities resulting in approximately 25 on-site visits, 520 phone calls, and responses to 832 emails and 352 phone messages.
- Processed over 131 monthly submissions by ISO for approval prior to the use of the community ratings in Texas.

Figure 45 Summary of Activity: Fire Marshal's Office

	FY 2005	FY 2006
TEXFIRS incident reports processed	3,023,020	4,351,851
Fire investigations completed	493	650
Reported value of property fires investigated	\$627,872,943	\$1,672,387,341
Percent of fire investigations found to be incendiary	40%	43%
Number of suspects referred for prosecution	111	130
Percent of referred suspects indicted	68%	96%
Conviction rate of indicted suspects	82%	63%
Samples analyzed in arson laboratory	3,273	3,383
Companies and personnel licensed for Fireworks, Extinguisher, Alarm and Sprinklers	11,708	11,786
Investigations/inspections of complaints against Fire protection equipment/fireworks industries	1,134	1,198
Buildings inspected/re-inspected for fire safety hazards	5,482	5,172
Number of children participating in a Fire Safety House demonstration	5,248	5182

Administrative Operations

ADMINISTRATIVE OPERATIONS is headed by the agency's Chief of Staff. It performs the agency's internal financial functions and provides operational support ranging from computer and database services to professional development and training. It also provides administrative support to the Office of Injured Employee Counsel (OIEC) and monitors TDI's compliance with oversight requirements set for state agencies by the Legislature.

Administrative Operations was affected by the passage of House Bill 7 (HB 7) by the 79th Legislature. HB 7 required the Texas Department of Insurance to merge with the former Texas Workers' Compensation Commission (TWCC). TWCC became a division of TDI and is known as the Division of Workers' Compensation (DWC). Additionally, the bill created a new agency, the Office of Injured Employee Counsel (OIEC). The bill required the consolidation of administrative support activities of TDI and DWC, and the consolidation has been the highest priority of Administrative Operations this year.

The program consists of six activities.

Financial Services, led by the Chief Financial Officer, maintains the agency's financial records, prepares supporting documents required for a proper audit trail, establishes internal financial controls to detect errors and irregularities, prepares the agency's annual financial report and develops and recommends rates for maintenance taxes and assessments. The division manages budget and planning functions, including the preparation of the agency's Legislative Appropriations Request (LAR), Strategic Plan, annual operating budget, and performance measure reports. In addition, the division monitors expenditures, develops projections to help programs stay within budget, monitors performance against targets in the Strategic Plan, conducts business planning and re-design activities, and monitors compliance with certain Article IX provisions of the General Appropriations Act.

Staff Services manages all building-related services, including space planning and management, security, employee parking, records retention, property inventory and warehousing, and copy services. It also administers the agency's Safety and Risk Management Program. In addition, Staff Services handles, tracks and delivers all mail, including inter-agency memos and correspondence.

Purchasing and Contract Administration is responsible for procuring all goods and services for the agency, managing the agency's Historically Underutilized Business (HUB) Program and administering contracts. The agency's procurement process includes establishing contracts, soliciting procurement opportunities on the Electronic State Business Daily and maintaining an audit trail for all procurements. The Purchasing division also tracks all contracted employees, procurements of recycled items, and contracts with established out-of-state vendors. The HUB Program ensures that the agency makes a good faith effort to utilize minority and woman-owned businesses when purchasing goods and services. The Contract Administration Program monitors all service contracts and large dollar procurements and ensures that they are properly administered by agency customers.

Information Technology Services (ITS) provides automation and computer support for all agency programs and activities under the direction of the agency's Information Resource Manager (IRM). The primary goals of ITS are to ensure that automation applications and technology are of good quality, are maintainable and available, and meet agency and state standards. ITS supports

agency programs by providing advice and assistance in applying technological solutions to business problems; building and maintaining new applications or purchasing applications and systems to meet agency needs; monitoring emerging technologies and support issues, including legislative directives and mandates; working to manage agency data efficiently and effectively, including establishing appropriate access; supplying appropriate and timely technical training to employees; planning and implementing agency wide automation and information technology projects; and managing access to agency hardware, software, and telecommunications resources.

The ITS Division provides consulting services and business, process, and data analysis and is responsible for designing applications and defining system requirements. It also provides a Help Desk with desktop and telecommunication technical service in response to requests from agency staff. The division is responsible for running batch jobs from the DWC Mainframe and for processing Electronic Data Interchange (EDI) transmissions. It creates and maintains the agency's desktop and laptop images; develops new software applications, as prioritized by the Agency Planning and Technology Team (APTT), as well as for the enhancement and maintenance of existing applications. It is responsible for the day-to-day maintenance of the agency's enterprise computing platforms, databases, and network infrastructure and is responsible for developing and implementing an information technology planning process that is integrated with all other TDI planning processes, including a wide range of strategic, tactical, information security, and contingency planning functions.

Human Resources (HR) responds to the needs of agency management and personnel and fulfills a wide range of human resource functions to support agency operations. This division ensures the agency maintains compliance with state and federal employment laws, provides workforce planning, and enforces and reviews the agency performance management system. It also manages the agency hiring process, processes and maintains payroll records and information, maintains agency employment records, reviews and processes personnel actions, reviews and maintains agency time records and leave programs, provides information and assistance to employees regarding insurance, disability, and retirement benefits and programs, conducts and analyzes employee exit interviews, and reports state and federal personnel/payroll information.

This division is also responsible for employee professional development. It develops and implements agency programs to maintain high employee satisfaction and conducts management and technical insurance training, new employee orientation, and soft-skills training.

Human Resources promotes agency goals by: developing, implementing, and interpreting personnel policies and procedures; assisting customers with personnel and benefits needs; providing staff development opportunities to assist employees and managers in obtaining professional development, ultimately increasing the overall effectiveness of the agency workforce; and staffing the agency switchboard and information desk.

Human Resources analyses and researches HR issues and develops division initiatives. In order to provide more efficient and effective human resources services to the agency, HR is also actively engaged in quality control and ongoing review and improvement of internal policies and procedures. In addition, the team ensures compliance with the Americans with Disabilities Act and coordinates the Employee Assistance Program and the State Employee Incentive Program.

Employee Ombudsman and Ethics Advisor gives employees an outlet to discuss their concerns and problems in private. The ombudsman also is charged with helping encourage positive communication between agency managers and employees, helping resolve workplace complaints, grievances or disputes and helping agency employees with ethics questions.

Highlights

In Fiscal Year 2006, Administrative Operations:

Financial Services

- Consolidated TDI and DWC budgeting, accounting and planning functions, policies and procedures.
- Provided administrative support to OIEC, such as bill paying, processing travel reimbursements, development of FY 2007 operating budget and guidance in development of the 2008/2009 Legislative Appropriations Request.
- Developed and produced the agency's FY 2007 Operating Budget.
- Prepared and submitted the FY 2008/09 Legislative Appropriations Request.
- Prepared and submitted the agency's FY 2007/2011 Strategic Plan
- Monitored and projected agency expenditures by strategy, object of expense and organizational unit.
- Maintained a travel cap tracking system that enabled the agency to operate in compliance with the General Appropriations Act.
- Assisted in preparation of the quarterly FTE State Employee Reports to the State Auditor's Office, pursuant to the General Appropriations Act.
- Monitored performance measures monthly to evaluate progress on strategic plan performance measures.
- Reported performance measures quarterly to the Legislative Budget Board.
- Prepared the FY 2005 Annual Financial Report and the Binding Encumbrance and Accounts Payable Report on behalf of TDI and TWCC.
- Developed maintenance tax rates, examination/overhead assessment and premium finance assessment.
- Developed workers' compensation Weekly Benefits Rates, Seasonal Workers Rates and Discount Interest Rates
- Assisted programs with implementing their FY 2006-2007 business plan projects by monitoring progress and coordinating agency involvement on projects affecting multiple program areas.
- Analyzed current and future staffing levels, workforce skills, and demographic composition to develop an agency 2007-2011 workforce plan in accordance with guidelines developed by the State Auditor's Office.
- Coordinated process to update TDI manuals to ensure that agency policies are consistent with current law and agency practices.
- Initiated an Enterprise Risk Management (ERM) pilot project to assess TDI's exposure to operational risks and evaluate controls for identified risks.
- Coordinated with DWC to develop a program-level disaster recovery and business continuity plan
- Developed and monitored progress on implementation strategies to support the State of Texas Homeland Security Strategic Plan.

Purchasing and Contract Administration

- Posted procurement opportunities on the Electronic State Business Daily.
- Administered the agency Contract Management and Administration Process.
- Administered the HUB Subcontracting Program in the agency's Special Deputy Receiver Program.
- Administered support to the HUB program and made good faith efforts to utilize HUBs in the agency's procurement process.
- Agency's HUB participation reached 37.5 percent in FY 2006.

- Prepared and submitted the agency's FY 2005 Recycle Report to the Texas Building and Procurement Commission (TBPC).
- Prepared and submitted semi-annual and annual reports to TBPC of all contracts established with vendors not residing in Texas.
- Tracked and reported all contracts requiring LBB contract notification.
- Tracked and reported all contracts requiring bid out and awarded to HUBs.
- Tracked and reported all contract workforce contracts through the Comptroller's USAS contract profile system.
- Processed approximately 1,908 purchase orders.
- Received a 99.57% accuracy rate on TBPC's post-payment audit report.

Staff Services

- Hobby Building (central location of TDI) processed 986,352 pieces of agency mail.
- Metro Center (central location of DWC) processed 1,389,562 pieces of agency mail plus adjuster items from the various carrier representatives.
- Hobby Building microfilmed 330,934 documents and stored 794 cubic feet of records through the Texas State Library for record retention.
- Metro Center microfilmed 4,020,804 documents. Metro Center stored 1,421 cubic feet of records through the Texas State Library for record retention.
- Hobby Building processed 1,483 work orders through TBPC.
- Metro Center processed 356 work orders through the building Lessor.
- Coordinated 25 building improvement projects and modular furniture installations and renovations in the Hobby Building.
- The Hobby Building had 6 of 9 program areas accident/injury free in FY 2006.
- Metro Center had 2 of 5 program areas accident/injury free in FY 2006.
- Finalized combining the Support Services Division of the Texas Workers Compensation Commission with TDI.
- Developed a security enhancement proposal project for the Hobby Building.

Information Technology Services

- Consolidated TDI and DWC business and technology environments as an effect of HB 7 by:
 - Merging DWC's workstations into TDI's current domain to eliminate inefficiencies and to enhance ITS's functionality over the DWC workstations.
 - Modifying software applications to address the need to accept data for new Workers' Compensation Networks.
 - Combining Help Desk services into one location and cross-training staff to assist TDI and DWC employees.
 - Providing a single Help Desk contact number to the agency, and synchronizing Help Desk hours of operation.
 - Combining duplicative Help Desk tracking systems into a single system, training staff, and customizing application functions for TDI operational processes.
 - Integrating e mail systems and standardizing e-mail policies
 - Consolidating agency Internet and Intranet sites to provide uniform access to information about TDI and establishing OIEC Internet and Intranet websites.
 - Consolidating duplicative software and canceling other product licenses as permitted by contractual agreements after products were compared and the best product for each function was selected.
 - Merging timekeeping systems by incorporating DWC and OIEC personnel records into TDI's Humanic Human Resources system, enabling DWC and OIEC employees to begin using TDI's Automated Leave Accounting System (ALAS).

- Consolidating information security policies and manuals and designating Customer Service Request (CSR) Liaisons for DWC and OIEC.
- Coordinating disaster recovery planning by incorporating solutions for DWC disaster recovery needs into the Information Technology Services Disaster Recovery Plans.
- Combining technology planning process by including DWC in its Technical Infrastructure Roadmap planning process to address future technology needs related to the merger.
- Preparing a plan to offer ongoing information technology support for OIEC.
- Reorganizing ITS Staff to ensure adequate coverage for critical projects and relocating staff from the Metro facility to the Hobby Complex.
- Acquired and began taking action on the Business Process Improvement Project as an effect of HB 7 by:
 - Completing an analysis of the status of the project, which was entering its final funded biennium.
 - Changing the project's scope significantly to improve the likelihood of meeting project timeframes with the amount appropriated to the project and notifying the State Auditor's Office (SAO) and the Quality Assurance Team (QAT) about the change in scope.
 - Modifying the Project Charter to clarify the amended goals, scope, and roles and responsibilities in response to the legislative changes during the 79th Session.
 - Dedicating considerable resource hours to the project, focusing on the prescribed project priorities: stabilization of the system, processing of EDI Submissions of Medical Billing Data (837) from external Trading Partners, and reconciling EDI submissions for First Report of Injury (FROI 148), Subsequent Report of Injury (SROI A49), and Proof of Coverage (POC).
- Identified and completed initiatives as an effect of HB 1516 of the 79th Legislature that required the division to adjust its internal procedures to address the three core components of the bill (data center consolidation, commodity procurement unification, and adherence to a Texas Project Delivery Framework) by:
 - adopting processes for reporting commodity procurements and for applying the Texas Project Delivery Framework to technology projects with minimal impact.
 - providing detailed specifications related to its current server and mainframe environment, including all contractual agreements for related software and hardware maintenance in preparation for selection of a vendor to provide data center services, and
 - responding to requests for verification of information previously provided and for additional information.

In addition to the major initiatives described above, ITS also:

- Supported agency staff and external customers by responding to 24,000 Help Desk calls, an increase of 80 percent compared to FY 2005.
- Helped enhance the agency's tenth year of Internet presence by: continued participation as one of eight original state agencies on the TexasOnline website.
- Promoted use of TDI's website. The consolidation of TDI's and DWC's websites resulted in an increase in monthly "hits" from an average of 1,763,000 per month in FY 2005 to over 3,355,000 per month in FY 2006, representing an increase of nearly 90 percent.
- Helped promote the conduct of state business on the Web by:
 - Working with agency program areas to add pertinent and timely information to the website, including proposed rules, interactive insurance company profile information, interactive consumer complaint forms, a variety of pamphlets and publications, rate guides, lists of agents and companies, and insurance agency forms.
 - Offering insurance agents the ability to renew licenses online, including paying their renewal fees, and allowing citizens and businesses to search for information about insurance agents.

Each month over 600,000 queries were executed to obtain license information, an increase of 33 percent from FY 2005. Also, more than 5,000 license renewals are performed online, an increase of 66 percent from FY 2005.

- Providing the capability for attorneys to register as representatives of workers' compensation claimants.
- Providing the capability to query workers' compensation coverage status for Texas employers and providing contact information for the insurance carriers.
- Enabling the public to search for doctors and health care facilities that participate in the Texas workers' compensation system.
- Enabling users of the website to submit inquiries and fraud complaints electronically.
- Enabling online public comment on proposed agency rules.
- Refined information security at TDI by:
 - Updating antivirus, e-mail filtering, and firewall software to strengthen agency security.
 - Providing informational articles and material to agency personnel regarding best security practices.
 - Providing information security training classes for new employees as part of the agency New Employee Orientation program and providing refresher training courses for current agency staff.
- Completed business unit information technology initiatives, including:
 - Modifying the agency's leave accounting system to allow the system to track staff time dedicated to disaster relief support.
 - Providing a secure and accessible electronic method to allow Property and Casualty staff to store, view, and query underwriting guidelines, credit scoring models, and actuarial information.
 - Assisting the Consumer Protection division in the creation of a Complaint Resolution and Customer Services (CRCS) business unit by collocating the newly created CRCS with the existing Consumer Protection, Agents License and Human Resources TDI call centers, adopting the same call monitoring system, and modifying the existing paperless complaint tracking to accommodate the CRCS workflow.
 - Designing a technology strategy to replace obsolete servers in DWC field offices with a centralized solution by deploying Citrix technologies. TDI adjusted its capital budget spending to allow for the procurement of Citrix technologies with FY 2006 funding. The replacement of field office servers with the Citrix solution will take place in the first quarter of FY 2007.
 - Providing technology support for agency staff who made physical moves when their divisions were reorganized.
 - Providing technology support for agency field offices that made physical moves or needed assistance as a result of weather or emergency situations.

Human Resources

- Processed and tracked 1,906 personnel actions including merit raises, promotions, new hires, transfers, and separations of employment. In addition to this number, 67 personnel action were processed for the OIEC.
- Met 100% of all payroll reporting deadlines
- Processed 5,320 job applications
- Answered 80,353 switchboard calls
- Delivered 589.5 hours of instructor led professional development training and 270 hours of training through mediums such as video-streaming, video and CDROM. Training included new employee orientation and courses on communication, customer service, defensive driving, insurance training, management training and orientation and policy review provided to DWC staff at the Austin headquarters and 24 field offices across the state.

- Brokered or coordinated an additional 33.5 hours of employee training, and
- Delivered 9 Wellness events.

In addition, HR:

- Delivered instructor-led training to 900+ DWC employees, including staff in 24 field offices. Training sessions consisted of orientation on TDI policies and procedures, automated leave accounting system, harassment and discrimination training, and training on the performance evaluation process.
- Completed payroll conversion for 900+ DWC staff. Payroll conversion completed for 4% increase for approximately 1800 staff. Bi-monthly payroll discontinued for DWC staff effective 9/1/06.
- Downloaded prior state service and date-of-hire data for DWC staff into Human Resources Information System (HRIS).
- Completed language survey to collect data on language-usage among TDI staff.
- Developed FEMA coding in leave accounting system for employees to earmark disaster-duty work time.
- Completed transfer of approximately 100 staff to Office of Injured Employee Counsel (OIEC).
- Began offering Employee Roundtable information-sharing sessions to DWC staff.
- Completed Texas Workforce Commission-Division of Civil Rights audit with no findings.
- Met with program areas and considered classification changes; however, after review and research, no changes were submitted to the State Auditor's Office (SAO).
- Held recognition ceremony to present awards for state service.
- Coordinated agency participation in the State Employee Charitable Campaign.
- Continued participation in the Texas State Human Resource Association (TSHRA), State Agency Coordinating Committee (SACC), the SACC Human Resources Subcommittee and the SACC Training and Development Subcommittee.
- Monitored mandated management- to-staff ratios to ensure TDI continues to meet required mandates.
- Administered Survey of Organizational Excellence for agency with 67% of the agency responding. Discussed results with each Senior Deputy Commissioner and with DWC field managers. Discussed interventions for divisions with low scores. The survey showed a high level of satisfaction in most constructs. Human Resources also assisted Internal Audit with an Ethics Survey.
- Continued working with Agency Counsel, Chief of Staff, ITS and agency Risk Manager to develop guidelines for Telecommuting.
- Continued mandatory management training for managers new to the agency, including DWC managers.

Employee Ombudsman and Ethics Advisor

- Initiated and conducted sexual harassment and discrimination classes, which are mandated by the Legislature and must be completed by all agency employees for the biennium.
- Traveled to all DWC field offices and conducted orientation, sexual harassment, and discrimination classes.
- Met and consulted with agency Senior Associate Commissioners and department heads regarding results of both the Survey of Organizational Excellence and the Ethics Survey.

Figure 46 Comparison of Maintenance Tax Rates FY 1999–FY 2006

TYPE	MAX LEGAL RATE	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Motor Vehicle	0.2	0.058	0.055	0.057	0.060	0.053	0.035	0.036	0.062
Fire	1.25	0.381	0.358	0.352	0.401	0.330	0.188	0.184	0.291
Workers' Compensation	0.6	0.072	0.055	0.060	.069	.051	.030	0.027	0.051
Casualty	0.4	0.232	0.200	0.186	0.210	0.180	0.091	0.073	0.119
Title	1.0	0.123	0.144	0.086	0.111	0.073	0.045	0.037	0.107
Life, Accident and Health	0.04	0.040	0.040	0.040	0.040	0.040	0.026	0.026	0.040
Third-Party Administrators	1.0	0.244	0.218	0.237	0.330	0.265	0.150	0.125	0.149
*HMO Multi-Service	\$2.00	\$1.08	\$1.08	\$1.11	\$1.10	\$1.32	\$0.89	\$1.02	\$1.53
*HMO Single Service	\$2.00	\$0.36	\$0.36	\$0.37	\$0.37	\$0.44	\$0.30	\$0.34	\$0.51
*HMO Limited Service	\$2.00	\$0.36	\$0.36	\$0.37	\$0.37	\$0.44	\$0.30	\$0.34	\$0.51
Prepaid Legal	1.000	1.000	0.030	0.020	0.030	0.022	0.022	0.022	0.044
Division of Workers' Comp.	N/A	N/A	1.72	1.71	1.67	1.51	.01125	.9200	1.051

* HMO rates reflect an amount per enrollee. Other rates are given as a percentage.

Division of Workers' Compensation

The Texas Department of Insurance, Division of Workers' Compensation (DWC) was established on September 1, 2005 when the former Texas Workers' Compensation Commission was abolished (House Bill 7, 79th Legislature).

The primary duties of the DWC are to regulate and administer the business of workers' compensation in Texas; and ensure that the Texas Workers' Compensation Act, *Texas Labor Code* and other laws regarding workers' compensation are implemented and enforced. The basic goals of the Texas workers' compensation system are as follows:

- Each employee shall be treated with dignity and respect when injured on the job;
- Each injured employee shall have access to a fair and accessible dispute resolution process;
- Each injured employee shall have access to prompt, high-quality medical care within the framework established by Chapter 402, *Texas Labor Code*; and
- Each injured employee shall receive services to facilitate the employee's return to employment as soon as it is considered safe and appropriate by the employee's health care provider.

The Commissioner of Workers' Compensation is appointed by the Governor, with the advice and consent of the Senate, to administer the DWC within the Texas Department of Insurance (TDI). The Commissioner oversees DWC regulatory functions and has the authority to adopt rules to implement and enforce the Texas Workers' Compensation Act and the *Texas Labor Code*. The Commissioner may sanction parties to prevent them from participating in the workers' compensation system.

The Commissioner makes recommendations to the Legislature regarding changes to state workers' compensation laws, appoints individuals to advisory committees and serves as a member of the Texas Certified Self-Insurer Guarantee Association. The Commissioner has the authority to approve Certificates of Authority to Self Insure for workers' compensation claims for certain eligible employers with employees in Texas.

The Division consists of a Commissioner's Administration area and five major sections: Dispute Resolution, Field Services, Legal and Compliance, Medical Advisor and Workplace and Medical Services.

Commissioner's Administration provides DWC-wide operations, policy and research, data collection and monitoring, and special projects support to the Commissioner. This area also manages technology strategies and business processes including the TXCOMP claims and coverage system. A General Counsel advises the Commissioner on legal matters affecting the DWC and may conduct public hearings, review litigation, provide support for compliance efforts and coordinate policy issues. A Commissioner's Ombudsman responds to inquiries and complaints brought to the Commissioner's attention by system participants. This area also includes staff from TDI's Government Relations area and Public Information Office.

Dispute Resolution oversees both indemnity (income) and medical dispute resolution under a single Deputy Commissioner for Dispute Resolution to ensure greater consistency and expediency in dispute decisions. The functions of the two program areas are as follows:

- Indemnity Dispute Resolution conducts benefit review conferences and contested case hearings in the Division's central office and field offices, and conducts appeal proceedings through the Appeals Panel. A team in the central hearings office is responsible for processing and distributing dispute reports, decisions, and orders. The team also functions as DWC's Chief Clerk for appeals to the State Office of Administrative Hearings (SOAH).
- Medical Dispute Resolution (MDR) manages disputes related primarily to medical necessity of a service provided or the fee and reimbursement of a service provided. MDR staff are the point of intake for all requests, calls, and documentation, manage the processing of disputes, and support the auditing staff in their processes. Auditing staff utilize the law, rules, and fee guidelines to make a determination toward resolving the dispute.

Field Services provides system participants with information about their rights and responsibilities as well as expertise regarding claims handling and the dispute resolution information system (DRIS). Field Services also monitors the Division's customer service and has integrated complaint resolution functions with TDI's complaint resolution system. The section is comprised of five program areas:

- Field Operations delivers customer assistance and claims service in 24 field offices located throughout the state. Field offices assist system participants by providing information on the Texas Workers' Compensation Act and Rules, return to work, workplace safety and accident prevention services, indemnity dispute resolution, official requests for required medical examinations, change of treating doctor, income benefits and designated doctor selection. Field Operations also conducts public education outreach efforts.
- Complaint Resolution and Customer Services processes reports of violations of the Texas Workers' Compensation Act, the *Texas Labor Code* and the *Texas Administrative Code*, and Division rules as well as complaints about quality of care. This program area provides information and claims services to the public through a toll-free Customer Service Line.
- Designated Doctor Scheduling Program analyzes requests received via DWC Form-32, *Request for Designated Doctor*, and schedules designated doctor appointments.
- Records Archiving provides safe storage and maintenance of injured employee claim files and employer insurance coverage files in paper form; microfilms claim files and employer insurance coverage files according to the DWC Records Retention Schedule and established quality standards, then safely stores the microfilm; produces files, paper copies and information pertaining to claimant or coverage files to internal and external customers; coordinates Open Records requests for claim file information in accordance with the Texas Public Information Act; and serves as the focal point for records management support and guidance to the Division.
- Records Processing consists of three sections:
 - Document Claims Processing receives, creates and updates claims from paper source documents by scanning into TXCOMP, an automated system.
 - Electronic Data Interchange (EDI) Claims Processing processes claims information received from EDI transactions in TXCOMP and provides customer service to insurance carriers/trading partners.
 - Insurance Coverage Processing updates the insurance coverage database with information received from insurance carriers and employers and provides customer service for inquiries on insurance coverage.

Legal and Compliance section reflects a new enforcement and compliance approach based on examining overall compliance by system participants. The Division's Deputy Commissioner for Legal and Compliance oversees two sections, Legal Services and Compliance and Audits, and one Special Counsel who assists the Deputy Commissioner in rules and policy matters.

Legal Services Section provides legal support for the Division. This includes:

- Advising Division program staff and management regarding the interpretation and application of the Texas Workers' Compensation Act, Division rules, policies and procedures, and other applicable laws;
- Assisting Division program staff in all aspects of the rulemaking process (development, drafting, tracking, coordination, publication, and adoption);
- Representation of the Division in appeals to SOAH regarding denials of applications and removals from the Approved Doctor List;
- Drafting and reviewing Division contracts, memorandums of understanding, memorandums of agreement, and related documents;
- Advising and providing legal assistance to Division staff regarding requests for information pursuant to the Public Information Act and other laws;
- Administering the Subsequent Injury Fund, with responsibilities including:
 - Reimbursing insurance carriers for benefits paid on a decision or order that is reversed or modified;
 - Reimbursing insurance carriers for benefits paid to injured employees based on wages earned at other jobs held at time of injury; and
 - Paying lifetime income benefits to eligible injured employees.
- Providing litigation support to the Office of the Attorney General in its representation of the Division in court proceedings and providing recommendations to management regarding agency intervention in court proceedings.

Compliance and Audits Section is responsible for monitoring compliance of system participants, identifying non-compliance, and recommending appropriate action to ensure future compliance. This includes:

- Monitoring the conduct of all persons subject to the Texas Workers' Compensation Act through investigations and performance reviews; and
- Maintaining an investigation unit, making referrals to other authorities, and initiating administrative actions.

The Medical Advisor advises the Division regarding the adoption of rules and policies as well as the admission and removal of providers from the Approved Doctor's List. The Medical Advisor reviews complaints on quality of care received through the Complaint Resolution and Customer Services section and serves as chair of the Medical Quality Review Panel. The panel reviews the actions of doctors, other health care providers, insurance carriers, utilization review agents, and independent review organizations in the workers' compensation system.

Workplace & Medical Services oversees DWC education and public outreach to health care providers, employers and other system participants. This section is comprised of five sections under the direction of a Deputy Commissioner for Workplace and Medical Services:

Healthcare Services monitors and regulates the delivery of medical benefits to control medical costs and to ensure that injured employees receive reasonable, necessary and quality health care; and establishes fee guidelines, health care administration policies and procedures.

Outreach and Education educates system participants through on-site company training and regional seminars, return-to-work training, health care delivery and administration training, safety and health videos and publications, and other forms of outreach.

Occupational Safety and Health Consultation (OSHCN) Program provides safety consultations to smaller employers in high-hazard industries. The program is largely funded by a grant from the Occupational Safety and Health Administration (OSHA), but is non-regulatory in nature.

Self-Insurance Regulation administers a program of certified self-insurance for large private employers that have operations in Texas. Approval as a Certified Self-Insurer affords the applicant company protection under the Texas Workers' Compensation Act.

Workplace Safety provides Texas employers and employees with health and safety resources and services to prevent occupational injuries and illnesses. Programs administered by Workplace Safety include:

- Accident Prevention Services (APS) Program inspects insurance companies to ensure that they are providing required accident prevention services to their policyholders;
- Rejected Risk (RR) Program works with companies needing safety and health assistance as identified by the Texas Mutual Insurance Company. Inspections of these employers are conducted to confirm implementation of accident prevention plans;
- Safety Violations Hotline is a 24-hour, toll-free hotline (800-452-9595) to report violations of workplace health and safety laws.
- Safety Information Systems (SIS) Program collects, analyzes, and distributes occupational injury, illness, and fatality information for the state of Texas. Data collection programs include the Bureau of Labor Statistics (BLS) Annual Survey of Occupational Injuries and Illnesses, the BLS Census of Fatal Occupational Injuries, and the annual OSHA survey.

Highlights

Strategic Management Plan

As required by HB 7, the Division adopted a Strategic Management Plan in May 2006 with input from system stakeholders. The plan identifies five major focus areas and related strategies for the Division to address, and outlines the reorganization of the Division to better evaluate overall performance and to address shortfalls in the workers' compensation system.

The five focus areas of the strategic management plan are:

- Injured employee services;
- Return to work;
- Medical quality, cost and access;
- Dispute resolution and;
- Performance-Based Oversight.

The full Division Strategic Management Plan is posted on the TDI website at: <http://www.tdi.state.tx.us/reports/dwc/documents/dwctstratplan.pdf>.

Administrative Reorganization

Major changes made in the administration of the Division and the workers' compensation system during FY 2006 included:

- Consolidation of administrative services of former TWCC with TDI services.
- Transfer of DWC ombudsmen and staff to Office of Injured Employee Counsel (OIEC).
- Transfer of workers' compensation fraud investigations from the Division to the TDI Fraud Unit.
- Combination of legal/enforcement functions of DWC with those of TDI for better coordination between insurance regulation and workers' compensation administration functions.
- Creation of EDI Help Desk to assist trading partners with the submission of electronic medical billing data to the Division.

Performance-Based Oversight

The Division involved system stakeholders to plan the establishment of a performance-based oversight system that includes development of key regulatory goals for assessing insurance carriers and health care providers, tiering of carriers and providers based on performance, and development of regulatory incentives to promote compliance. Performance-based oversight also will include other regulatory incentives developed by the Commissioner of Workers' Compensation to promote overall compliance and performance.

- Established six key regulatory goals for performance-based oversight of the workers' compensation system and drafted discussion papers on regulatory tiers and performance incentives for insurance carriers and health care providers.

Rulemaking

In order to implement system changes under HB 7, the Division modified rulemaking and policy-making to include stakeholder input earlier and more frequently in the processes. The Commissioner of Workers' Compensation prioritized administrative rules and rule revisions to be adopted in FY 2006. The Commissioner of Insurance, with input from the Commissioner of Workers' Compensation, adopted a rule in November 2005 to certify Workers' Compensation Health Care Networks to treat injured employees.

The Commissioner of Workers' Compensation adopted other rules on the following subject matters:

- Return-to-Work Pilot Program for Small Employers;
- Treating doctor examination;
- Designated doctor examinations and required medical examinations;
- Peer review;
- Medical preauthorization;
- Medical billing requirements;
- Electronic medical billing; and
- Interlocutory orders.

The Division also initiated rulemaking related to changes in the medical dispute resolution process, adoption of medical treatment and return-to-work guidelines for the workers' compensation system, and revisions to hospital fee guidelines.

Return to Work

The Division emphasized return to work of injured employees through internal and external training, and improved cooperation with other state agencies offering vocational rehabilitation and employment services.

- Conducted cooperative training with Department of Assistive and Rehabilitative Services to educate staff about injured employee return to work as a part of vocational rehabilitation.
- Employed a Certified Rehabilitation Counselor (CRC) to assist with internal and external return-to-work training.
- Through public information outreach, informed business organizations across the state about the Return-to-Work Pilot Program for Small Employers, which reimburses certain employers

for expenses in accommodating the early return to work of injured employees.

- Published joint report with Department of Assistive and Rehabilitative Services titled “New Approaches to Providing Vocational Rehabilitation Services to Injured Employees in the Texas Workers’ Compensation System.” Submitted report to Legislature on August 1, 2006.
- Exceeded LAR Performance Measure for average number of participants per return-to-work seminar (89 participants).
- Exceeded LAR Performance Measure for number of persons receiving return-to-work training products and services (29,444 persons).

TXCOMP and Data Collection

The TXCOMP project began in FY 2000 as an agency-wide re-engineering study that recommended replacement of the mainframe system, implementing imaging and workflow technology to reduce the internal processing of paper and modifying business processes, such as consolidating and simplifying forms.

In September 2005, the Division deployed the e-Claims portion of TXCOMP, which includes a claim and coverage submission system and a document management system, for Division staff. However, the system experienced significant downtime and technical problems with electronic data submission and document management. The Division took immediate steps to remedy hundreds of system defects, contracted with IBM for stabilization assessment, and purchased upgraded hardware and software. During FY 2006, TDI changed TXCOMP’s scope significantly to improve the likelihood of meeting project timeframes with the funding appropriated to the project.

In the area of data collection in FY 2006, the Division:

- Proposed and adopted Electronic Billing and Reimbursement (eBill) rules, which define the manner and content of medical billing and payment data exchanged electronically between health care providers and insurance carriers.
- Developed companion guides for the use of national standard electronic format implementation guides for eBill, which include billing, payment, and documentation/attachments.
- Collaborated with the California DIR, DWC and the IAIABC to develop companion guides for use in both states, which might also be used as the foundation for national workers’ compensation eBill standards for workers’ compensation.

Other Highlights for the Division of Workers’ Compensation:

- Coordinated with OIEC to provide office space and administrative support for ombudsmen and support staff at field offices and central office.
- Adopted discount and interest rates for the workers’ compensation system for Fourth Calendar Quarter, 2005 and First, Second and Third Calendar Quarters 2006.
- Commissioner of Workers’ Compensation approved 51 companies to self-insure for workers’ compensation claims during FY 2006. Each company was approved for a one-year Certificate of Authority to Self-Insure.
- Revised and updated approximately 117 forms and notices used by workers’ compensation system participants to reflect change from TWCC to DWC.
- Division staff joined other TDI staff in volunteering to serve at Disaster Recovery Centers in the wake of Hurricanes Katrina and Rita.
- Commissioner of Workers’ Compensation personally visited seven Division field offices and communicated with all staff via teleconference, small group meetings and training conferences regarding changes in administration of the workers’ compensation system.
- Created the Workers’ Compensation Working Group comprised of system stakeholders, key staff from TDI and OIEC to discuss implementation of workers’ compensation health care networks as well as strategic management initiatives for the Division and the workers’ compensation system. Conducted eight working group meetings in FY 2006.
- Published quarterly *Workers’ CompUpdate* newsletter to inform system participants of Division developments, news about the workers’ compensation system, and to communicate the policies and direction of the Division and the Commissioner of Workers’ Compensation to stakeholders.
- Appointed a Commissioner’s Ombudsman to respond to complaints and inquiries brought to the attention of the Commissioner by system participants. Created a Special Response Team comprised of representatives from all Division program areas to review claimant and other issues.

- Commissioner issued data call to 25 largest workers' compensation insurance carriers, comprising 75 percent of the market in Texas, to provide information on the use of peer review doctors and how peer review recommendations effect claims decisions and injured employee's medical care.

Dispute Resolution

- Exceeded Legislative Appropriations Request (LAR) Performance Measure for average number of days to resolve benefit dispute (46 days).
- Realigned staff and resources to address backlog of medical fee disputes by encouraging parties to participate in informal dispute resolution discussions, identifying common errors made by disputing parties and educating parties to reduce future disputes, and directing insurance carriers and health care providers frequently involved in disputes to attempt resolution outside of the formal process.
- Improved coordination of medical necessity dispute resolution and indemnity dispute resolution to prevent any unnecessary delays in treatment of injured employees.
- Improved communication with injured employees about income benefit dispute resolution with information posted on website including a document offering guidance to system participants in reaching agreement on settlement of indemnity disputes.
- Enacted changes to Benefit Review Conference (BRC) processes including limit to two BRCs and new role of Benefit Review Officers as impartial mediator.
- During FY 2006, Benefit Review Officers held 16,318 benefit review conferences; Hearing Officers conducted 6,233 contested case hearings; and Appeals Panel Judges reviewed 2,811 appeals.
- Implemented mandatory 40 hours of training in dispute resolution/mediation techniques for Benefit Review Officers.
- Multiple panels of administrative law judges replaced by a single, three-member Appeals Panel to facilitate consistency of panel decisions.
- Appeals Panel Decision Manual drafted and posted to agency website.
- Consolidated Independent Review Organization (IRO) processes that were previously different for health care provided in a network and non-network health care. Improvements included creation of a single form for parties to request an IRO.
- Conducted annual conference for hearing and benefit review officers.

Legal and Compliance

- In FY 2006, Legal Services Section provided substantial legal assistance for the proposal and/or adoption of numerous major rules in an effort to assist with the implementation of HB 7 and other bills passed by the 79th Legislature.
- In FY 2006, the Compliance and Audits Section assessed \$1,738,860 in administrative penalties and issued 1,707 warnings for investigations and performance reviews. Details regarding some specific cases include:
 - \$399,359 in penalties issued against three insurance carriers for inappropriately denying medical bills.
 - \$245,791 in penalties issued against an insurance carrier for inappropriately denying medical bills.
 - An insurance carrier paid a penalty of \$112,485 for inappropriately denying medical bills.
 - A health care provider paid a penalty of \$8,640 for untimely submission of the DWC Form-69, *Report of Medical Evaluation*.
 - A health care provider paid a penalty of \$7,780 for untimely submission of the DWC Form-69, *Report of Medical Evaluation*.

Field Services

- Trained field office managers and staff to effectively communicate with system participants about their rights and responsibilities. Conducted more than 60 informal, "brown bag" educational sessions at field offices across the state where system participants were invited to ask questions and suggest topics for future sessions.
- Provided customer service training to all staff with direct contact with injured employees and monitored staff for adherence to established customer service standards.
- Provided extensive input during the development of designated doctor and required medical

- examination rules as well as development of training programs for designated doctors.
- Created Complaint Resolution/Customer Service team within Field Services program area; relocated to TDI Hobby Building to better utilize agency's automated workflow system.
- Conducted annual Field Office Managers Conference with training on new Division processes and opportunities for managers to communicate concerns to the Commissioner and senior Division staff.
- Created Business in Government (BIG) discussion group to review the business processes of Division field offices and to examine new ways of doing business.
- Microfilmed 4,020,804 images of claim file information for mandatory records retention.
- Received 16,069 income/indemnity claim files for records storage.
- Received 17,626 requests for pre-employment record checks for workers' compensation claims; received 9,753 requests for other workers' compensation record checks.

Workplace & Medical Services

FY 2006 activities included:

- Conducted 3,307 Occupational Safety and Health Consultations (OSHCON), Accident Prevention Services policyholder inspections, and Rejected Risk inspections, affecting 216,721 employees.
- Conducted inspections of 56 insurance groups for accident prevention services, representing 123 insurance companies.
- Provided OSHCON services to 2,617 unique employers directly impacting 117,683 unique employees working at these sites.
- Received national recognition from Occupational Safety and Health Administration (OSHA) for OSHCON staff serving on the Management Reports Workgroup.
- Collected data from 8,683 employers for the Bureau of Labor Statistics 2005 Annual Survey of Occupational Injuries and Illnesses and 4,381 employers for the 2006 OSHA Data Initiative.
- The Texas incidence rate of nonfatal workplace injuries and illnesses for 2004 as reported in December 2005 was 3.7 injuries and illnesses per 100 full-time workers, down from 4.0 injuries and illnesses in 2003.
- Processed 495 case files for the Bureau of Labor Statistics 2005 Census of Fatal Occupational Injuries.
- Provided safety educational information or training to 8,602 Texas employers and 122,854 Texas employees.
- Provided return-to-work educational information or training to 29,448 Texas employees.
- Worked closely with the Department of Rehabilitative Services (DRS) and conducted multi-faceted training to 300 Division staff, 685 DRS staff, and 168 OIEC staff.
- Provided workers' compensation health care administration training to 4,739 health care providers and other system participants.
- Electronically provided over 1.8 million safety and health care administration products to various consumers.
- Received and responded to 413 Safety Violations Hotline calls, eliminating 425 workplace hazards.
- Monitored 89 Certified Self-Insured Employers and processed 51 applications or renewals (225 companies).
- Completed 61 health care provider and 10 insurance carrier medical quality reviews.
- Processed 4,326 applications for the Approved Doctor List and the Designated Doctor List.
- Processed 3,419 requests to provide health care on a case-by-case exception basis to the Approved Doctor List.
- Assisted in the development of rules related to medical billing requirements; preauthorization of medical services; Return-to-Work Pilot Program for Small Employers; and designated doctor and required medical exams.
- Assisted in the development of rules related to required medical examinations, Designated Doctor processes, and compensability examinations by treating doctor.
- Maintained list of Private Providers of Vocational Rehabilitation Services and the list of Work Hardening and Work Conditioning Programs excepted from Preauthorization (Programs accredited by Commission on Accreditation of Rehabilitation Facilities).

Office of Medical Advisor

- Office of Medical Advisor worked with the Commissioner of Workers' Compensation and stakeholders to restructure the Medical Quality Review Panel (MQRP) to make the quality review process as transparent and user-friendly as possible to all parties.
- Assisted in developing a Request for Qualifications (RFQ) to become a member of the Medical Quality Review Panel (MQRP).
- Screened applicants for MQRP and made recommendations to the Commissioner based on criteria including areas of specialization, knowledge of evidence-based medicine, and experience in workers' compensation or utilization review.
- Assisted in the development of disability management rules and peer review and Designated Doctor rules.
- Oversaw the work of two ad hoc committees appointed by the Medical Advisor and submitted reports to the Commissioner.
- Processed 874 quality of care complaints referred by the Compliance Resolution and Customer Service program area.
- Conducted quality of care reviews on 10 insurance carriers and made recommendations for improvement.

Texas Department of Insurance Division of Workers' Compensation

August 31, 2006

