

Part I

Report of Program Activities



This section of the Texas Department of Insurance's *129th Annual Report* gives a brief summary of major activity of agency programs and divisions during Fiscal Year 2004. Some agency reorganization occurred during the fiscal year. This report reflects the agency structure as it existed on August 31, 2004.

issued by the **Texas Department of Insurance**

FOLLOWING THE MAJOR INSURANCE REFORMS passed by the 78th Texas Legislature in 2003, FY2004 was a year of putting the new laws into practice. Following are some of the key developments in FY2004.

Homeowners Insurance

Rate Reductions Ordered. The reforms of Senate Bill 14, passed by the 78th Legislature in 2003, were historic. For the first time, all companies writing homeowners insurance are subject to rate regulation (previously, 95 percent of homeowners insurance carriers were exempted from regulation). In August 2003, Commissioner Montemayor ordered 32 companies to reduce their homeowners rates by an average reduction of 12.5 percent, for a total of \$510 million in rate reductions. During FY2004 those reductions have been showing up as lower premiums as homeowners renew their policies.

However, State Farm Lloyds and Farmers, ordered to reduce their rates by 12 percent and 17.5 percent respectively, challenged the ordered rate reductions in district court. The court cases are in progress as of the end of FY2004. Policyholders with these two companies will not see the ordered reductions until the court case is resolved. State Farm and Farmers currently have more than 40 percent of the Texas homeowners insurance market. Their ordered reductions account for \$243 million of the \$510 million in ordered reductions.

Return to Health. In the midst of these industry changes, insurance companies have continued their strong performance since coming out of the mold crisis in 2000 and 2001. Combined first and second quarter loss ratios for Texas insurers averaged 38 percent, meaning an average of 38 cents was paid out in losses for each dollar of premium received. Loss ratios do not tell the complete story regarding insurer profits, however, since other expenses such as agent commissions, operating expenses, and provisions for catastrophes must be added in. Such additional expenses typically add 45-50 percent to an insurer's cost of doing business.

Even with these additional expenses, Texas insurers are on track to see significant profits in 2004. This return to profitability should signal lower rates for consumers in the near future. TDI will be closely monitoring the market to ensure that the industry responds to the improving market conditions by competing for customers with better rates and more product choices.

Overall, the homeowners insurance reforms of 2003 are working. In 2004, homeowners' insurance rates are stabilizing and competition is returning to the market.

Auto Insurance

Full Rate Regulation. As a result of SB 14, the regulatory environment for personal auto insurance has changed. As of December 1, 2004, all personal auto insurers will be subject to uniform rate standards enforced by TDI. Rates must be reasonable, adequate, not excessive and not unfairly discriminatory. Companies also must justify their rates with data based on sound principles and demonstrate that they used a reasonable rating methodology. This includes county mutual insurers that previously were exempt from rate regulation. This change will provide more complete rate protection for consumers as well as regulatory recourse through TDI's consumer complaint process.

Product Flexibility. Another change enacted in SB 14 is that insurance companies now have more flexibility in the products they sell. Essentially, companies can develop new policies, with TDI approval, that will give consumers more choices and perhaps more or different discounts. Previously, personal auto insurers used a uniform policy. Consumers now have the opportunity to comparison shop on product as well as price and service.

Some of the changes already filed with TDI that consumers may see in their new automobile insurance policies are:

- Policies may require individuals to be specifically listed on the policy for coverage to be provided.
- Policies may provide no coverage, or limit coverage to the minimum financial responsibility limits, for accidents occurring while in the commission of a crime.
- A period of less than 30-days notice may be required for newly acquired autos to be covered.
- Policies may have a provision requiring all owned autos be insured by the same company.
- Policies may not provide Liability or Physical Damage coverage for the use of a vehicle with a Gross Vehicle Weight in excess of 10,000 pounds.
- Policies may not provide Liability Property Damage coverage for damage to a non-owned auto which has been borrowed or rented.
- Policies may not provide Physical Damage coverage for drivers under age 15 or who do not have a valid drivers' license.
- Non-owned autos may be insured under Physical Damage coverage, but only if Physical Damage coverage already applies to autos listed in the policy.
- Policies may specifically exclude payment for improvements made to the vehicle.
- Policies may have a provision limiting payment for repairs unless repairs are made at a repair facility selected by the company.
- Policies may contain mold, pollution, or racing exclusions.

Change to File-and-Use. Lastly, SB 14 also established a file-and-use system of rate filing for insurers beginning in December 2004 that will allow companies to quickly adjust to changing market conditions. File-and-use is a more modern form of rate setting than the previous benchmark system used in personal auto insurance, and should make Texas a more stable and competitive marketplace.

Medical Liability Insurance

From 1999–2003, the number of medical liability insurance carriers writing policies in Texas dwindled from 17 to 3. Under those market conditions, it was difficult for Texas to attract or retain medical malpractice insurance companies.

Passage of HB 4 and Proposition 12 in 2003, which limit non-economic damages in medical malpractice lawsuits, has already had a positive impact on the Texas medical malpractice market. In FY2004, actions were taken on a number of fronts that demonstrate the positive impact of Proposition 12.

Rate Reduction. The largest medical malpractice insurance carrier in Texas, the Texas Medical Liability Trust (TMLT), reduced its medical malpractice insurance rates by 12 percent across the board on January 1, 2004. This meant relief for more than one-third of Texas physicians only four months after the passage of Prop 12. TMLT further reduced its rates by an additional 5 percent in September 2004, bringing its rates down a total of 17 percent. Another insurer cancelled a scheduled rate increase and is revising rates to reflect the savings.

Rate Stabilization. TDI disapproved two separate rate increases that did not take into account the reduced exposure resulting from limits on non-economic damages. One of those companies whose rate increase was disapproved, G.E. Medical Protective, subsequently moved its physicians to its risk purchasing group and implemented a 10 percent rate increase. TDI staff has since brought an enforcement action against the company through the State Office of Administrative Hearings.

New Interest in the Texas Market. In FY2004, TDI has been contacted by more than two dozen companies wanting start-up and licensing information. Thirteen of these companies are now participating in the Texas market. Additionally, four existing carriers announced that they will expand or have expanded physician writings in Texas.

Surplus Lines Markets Respond. The Surplus Lines Stamping Office of Texas reported that in 2003, medical malpractice surplus lines coverage showed a drop in average premium per policy of more than 31 percent.

Influx of Claims. Medical liability insurers are dealing with a large influx of claims that began in June 2003 and ended in September 2003. These claims spiked in June after passage of HB 4 but prior to its implementation. Elevated claim levels continue in July and August, with a larger spike occurring in September. While this spike in claims must be taken into consideration, it should be viewed as an anomalous situation rather than a trend. As such, it should not be a factor in future rate making.

Health Insurance

Uninsured in Texas

Texas continues to be challenged by a high rate of people without health insurance—currently 25.2 percent according to data released by the U.S. Census Bureau in August 2004. It is a problem that impacts everyone in the state, from local tax-payers footing the bill for emergency room visits by the indigent, to business owners unable to afford health benefits for their employees, faced with lost productivity because of sick workers. These serious impacts are in addition to the human toll exacted because of poor access to quality health care services. A lack of regular preventative care can often lead to more serious—and more expensive—health problems.

In an effort to seek solutions, TDI sponsored a Stakeholder Forum in May 2004. The forum was part of *Working Together for a Healthy Texas*, the ongoing effort that began more than three years ago with a Federal State Planning Grant awarded to TDI to study the problem of Texans without health insurance and develop options for expanding coverage. Several of the ideas developed under the study have been implemented, including two major legislative initiatives passed by the 78th Texas Legislature that were implemented in FY2004:

Consumer Choice Plans. Senate Bill 541 allows HMOs and insurance companies to offer “Consumer Choice Plans.” State-mandated health benefits required in traditional health insurance plans are optional in Consumer Choice Plans. Insurers are now able to offer a variety of plans to fit a variety of budgets. Consumers are no longer stuck with the “all or nothing” approach to health insurance that has left too many Texans without any health coverage. Any carrier that markets to small businesses must offer a Consumer Choice Plan as one of its options. In February 2004, TDI adopted rules to implement SB 541. To date, 119 Consumer Choice Plans have been filed. The statute requires the reporting of the number of enrollees that were previously uninsured, enabling the impact of this reform to be monitored going forward.

Health Cooperatives. Senate Bill 10 provides employers with another health care option that was previously unavailable. Businesses can band together in “Health Group Cooperatives” in order to improve their buying power when shopping for group health coverage for their employees. These co-ops must be composed of at least 10 separate employers, with the help of a licensed health insurance provider or HMO. The goal is to encourage more employers to provide health benefits to their employees. In February 2004, TDI adopted rules to implement SB 10.

Prompt Pay Rules. In October 2003 TDI adopted final rules to implement Senate Bill 418, the prompt pay legislation passed by the 78th Legislature. These rules apply to all health care provider contracts that are entered into or renewed on or after October 5, 2003 and to certain non-contracted providers for services provided on or after that date.

Senate Bill 418 made significant changes in the laws requiring HMOs and preferred provider insurance carriers to promptly pay clean claims submitted by contracted physicians and providers. Some of the rules also apply to non-contracted physicians and providers who offer emergency care or other services.

To date TDI has achieved a 98 percent compliance threshold with the new prompt payment rules. In 2004, the number of complaints from health care providers was approximately half that of the previous year.

Health of the HMO Industry. One measure of the fiscal health of the health care industry is reflected in the quarterly financial statements of HMOs operating in Texas. FY2004 saw a continuation of consecutive profitable quarters for basic-service HMOs, a trend that began in 2002. Prior to 2002, the industry had experienced 23 consecutive quarters of losses going back to 1996. The recent positive results should encourage other insurers to enter the Texas market, yielding more competition and more choices for consumers.

Fraud

Unauthorized Insurers. One of the most unfortunate consequences of our state's need for affordable health coverage is the proliferation of fraudulent health plans and insurance schemes. As employers and individuals seek affordable options to provide health care for themselves and their families, they can be at risk of falling prey to unauthorized insurers. These criminal enterprises often portray their products as federally exempt ERISA plans, and typically offer them at prices well below that of legitimate insurers—but it's no bargain. The products being sold are often worthless. The bogus companies collect payments from their victims, but when health care claims begin to come in, the companies may fold or simply disappear. Victims not only lose the money paid to these unauthorized insurers, they are also left responsible for their unpaid medical bills.

Anti-Fraud Initiatives. In January 2004 the Fraud Unit hosted its 6th Annual Fraud Conference. Attendees were comprised of investigators from insurance companies, federal and state law enforcement agencies and other state agencies. The conference provided a forum for networking and idea sharing between the participating organizations and also gave investigators the opportunity to earn continuing education credit.

A major new anti-fraud initiative was announced at the Fraud Conference. A memorandum of understanding was signed between TDI and the Dallas County District Attorney's Office to fund a special prosecutor focusing exclusively on insurance fraud cases. This initiative represented the first such partnership between state and local enforcement authorities to specifically address insurance fraud. The prosecutor will be a TDI employee but will only prosecute fraud cases in Dallas County.

The Conference also featured the inaugural meeting of the Texas Committee on Insurance Fraud, comprised of representatives from all areas of the insurance industry, law enforcement and national anti-fraud organizations. Working groups were formed to explore various anti-fraud initiatives, including enhancing statutes related to fraud enforcement, expanding the use of special prosecutors, and increasing publicity efforts to publicize successful fraud prosecution. A working group will draft suggestions for anti-fraud legislation in time for the 2005 session, incorporating ideas and proposals developed in the individual working groups.

Other FY2004 Accomplishments

Credit Scoring Concerns Addressed

SB 14 made provisions for the use of credit scoring by the insurance industry but mandated that the Texas Insurance Commissioner regulate its use. Texas insurers using credit scoring filed their credit scoring models with TDI at the beginning of FY2004 (September 2003). In November 2003 TDI adopted rules governing disclosure and appeals processes that, along with the statutory provisions in SB 14, are among the strongest in the country regulating the use of credit scoring.

In January 2004 TDI held a public hearing to receive testimony regarding allowable differences in rates charged by insurers due solely to differences in credit scores. TDI's proposal (in

the form of an amendment to the current rules on credit scoring) called for a rate difference that cannot be greater than +/-10 percent from what would have been charged had credit scoring not been used. The proposal further provided that if the +/-10 percent limitation would result in rate increases for policyholders, the insurer must request and justify a variance to support its proposed rating structure. This amendment has not yet been adopted.

Also in FY2004, TDI began a major study of credit scoring to examine whether its use results in a disproportionate impact on any class of individuals such as race, income, ethnicity, age, gender, etc. The study will also explore whether there is a correlation between insurance scores and losses, and if so, the extent to which the correlation can be explained by existing rating variables. The study is scheduled for completion toward the end of 2004 prior to the next legislative session.

Race-Based Pricing Settlement Reached

In June 2004, Texas-based American National Insurance Company (ANICO) agreed to provide an estimated \$3.2–\$3.5 million in additional benefits to African-American and Hispanic consumers whose policies were affected by race-based pricing. Commissioner Montemayor served as the lead regulatory negotiator for a five-state group that acted on behalf of all the members of the National Association of Insurance Commissioners (NAIC).

New Rule Addresses Rebating in Title Insurance

A new rule went into effect April 1, 2004 that had a significant impact on the way title insurance is marketed to lenders, realtors, construction companies and other ‘producers’ that steer consumers to a particular title agent or underwriter. Article 9.30 of the *Texas Insurance Code* prohibits the giving or receiving of a thing of value contingent upon the referral of title insurance business. New Procedural Rule P-53 in the *Basic Manual of Rules, Rates, and Forms for the Writing of Title Insurance in Texas* makes the prohibitions clearer and enforcement actions easier to prosecute.

The new rule also addresses “blended” rates in multi-state transactions involving Texas property. If the title insurance premium for the property outside Texas is deeply discounted to attract the Texas piece of the title insurance business, TDI may treat that as a prohibited rebate.

Penalties are stiff: up to \$10,000 for each violation and for each day of violation. TDI has the option of penalizing each party up to three times the value of the rebate where that will be a more effective deterrent. Penalties apply to the giver and the recipient of the rebate and TDI intends to focus on both the supply and demand. A producer receiving a rebate has engaged in the unauthorized business of insurance and has committed a third degree felony.

Workers’ Compensation Research Group Formed

HB 28 (78th Legislature, third called session) transferred the research function of the former Research and Oversight Council on Workers’ Compensation (ROC) to TDI. In November 2003 the Department expanded its workers’ compensation capabilities by forming the Workers’ Compensation Research Group, comprised of researchers from the former ROC. The Research Group immediately got to work on projects requested by several interim legislative committees examining the Texas workers’ compensation system. In FY2004 the Research Group presented findings related to workers’ compensation medical cost trends in Texas; the various medical cost drivers in the system; the overall quality of medical care provided to Texas injured workers; and current estimates of the level of nonsubscription to the Texas workers’ compensation system.

First Policy Forms Approved through Multi-State Review Agreement

In June 2004, TDI and insurance departments in California and Florida announced simultaneous approval for two annuity products that were each submitted in a single filing. Joint approval was granted to the New England Life Insurance Company for a Single Premium Deferred

Annuity policy, and in July 2004 to ING Life Insurance and Annuity Company for an Individual Fixed Deferred Flexible Premium Annuity policy. These approvals were granted after the policy forms were filed, reviewed and accepted under the Multi-State Review Project (MSRP) – an innovative new program that allows single source filing and uniform standards for multi-state approval. Presently, the MSRP is made up of Texas, California, and Florida, though a number of other states have expressed interest in joining. Participation in the MSRP is voluntary and intended to jump-start the “speed to market” national initiative by providing access to multiple states with a single filing.

Business Development Liaison Added

In recognition of the interdependency of insurers and the business community at large, TDI added a Business Development liaison in May 2004. Encouraging new insurers to enter the Texas market has long been a goal of the agency, but there is also a growing recognition that the success of the state’s economy in general is a powerful force in fostering a healthy insurance industry. Conversely, insurers and the availability of insurance products can be a deciding factor in whether a new business decides to come to Texas or whether an existing business moves forward with an expansion. A Business Development Specialist coordinates the agency’s efforts to encourage participation in the Texas insurance market by companies not currently in Texas, facilitates existing Texas writers’ efforts to expand their market share, and hosts meetings with insurance and local economic development officials to encourage insurance companies’ participation in local economic development and community investment.

Straight Talk About Insurance

As a result of the major legislative reforms passed by the 78th Legislature, there was widespread attention focused on insurance issues in FY2004. To meet information needs of the public in a straightforward manner, TDI’s Public Information Office launched a web publication called “Straight Talk About Insurance.” Lines covered in “Straight Talk” include, but will not be limited to, Homeowners, Auto, Health, and Medical Malpractice insurance. The goal is to provide insight into the internal working of insurance markets, not only just reporting on “what” is happening but also, in the best judgment of the Department, “why.” The new “Straight Talk” is updated on an ongoing basis as developments occur and new information needs arise.

Commissioner’s Office

THE COMMISSIONER, 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 is authorized to issue presumptive rates for credit life and credit disability insurance. He also promulgates rates for title insurance and Texas Automobile Insurance Plan Association (“assigned risk plan”) coverages. The Texas Windstorm Insurance Association must submit its proposed rates for the Commissioner’s approval.

The Commissioner may review rates submitted to the Department 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. Up to and including FY2004, the Commissioner was authorized to issue benchmark rates for auto insurance and review auto rates outside the flexibility bands, as necessary. He also reviewed and regulated all residential property rates. As of December 1, 2004, the benchmark system for personal lines will change to a system of file-and-use.

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

In FY2004, the Commissioner's Office included the Chief of Staff and five activities.

Chief of Staff and Senior Associate Commissioner for Administration oversees the Administrative Operations Division, which includes the agency's computer and data services, business planning and redesign, accounting, budget, building and records management, purchasing, mail services, human resources and the agency ombudsman and ethics advisor.

General Counsel/Chief Clerk serves as the Commissioner's legal adviser on 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; issues, indexes and maintains records and proceedings involving Commissioner actions. The office also handles several hearings-related duties related to contested case proceedings, including 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 is an independent, objective assurance and consulting activity 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 Texas Workers' Compensation Commission; assisting TDI's Workers' Compensation Research Group on research projects; monitoring and analyzing legislation affecting the agency; updating agency staff on the status of legislation; coordinating 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, answering 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 **BulletinBoard@TDINet**, an in-house electronic bulletin board for TDI information.
- Writing speeches and helping edit various agency reports and documents.

Highlights

In Fiscal Year 2004, the Commissioner's Office:

General Counsel/Chief Clerk

- Reviewed, briefed and advised the Commissioner of Insurance on 44 contested cases heard by the State Office of Administrative Hearings (SOAH), and 30 hearings and public meetings conducted by the Commissioner. Also reviewed, briefed and advised the Commissioner on other rate matters including the Texas Windstorm Insurance Association (TWIA) commercial rate filing.
- Briefed and advised the Commissioner on six appeals of TWIA decisions and one appeal of the Texas Medical Liability Insurance Underwriting Association (JUA).
- Provided legal and technical review in connection with the adoption of 17 new *Texas Administrative Code* (TAC) rules, the repeal of four TAC rules, and the amendment of 22 previously adopted TAC rules. Fourteen proposed TAC rules were pending at the end of FY2004.
- Provided legal and technical review in connection with the adoption of 15 manual rule proposals under Article 5.96 of the *Texas Insurance Code*. Twenty-three proposals to adopt new or amended manual rules were pending at the end of FY2004.
- Reviewed and advised the Commissioner regarding 359 consent orders and 118 default orders in connection with agents and insurers.
- 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 41 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 bulletins and other non-disciplinary and non-rate orders.
- 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 of Insurance and agency staff as directed by the Commissioner.

Internal Audit

- Conducted six financial-related or performance audits, including a statutorily-required audit of seized/forfeited property. Two of the six audits were ongoing at fiscal year-end.
- Served as the Department's liaison to external auditors on one State Auditor's Office project.
- Served as liaison to the State Comptroller on the Post-Payment Voucher Audit.

- Served as an advisor on three advisory/monitoring projects. Two of the three were long-term projects that spanned multiple years. One involved serving as an advisor to the Planning Work Group, while the other involved participation in the State Agency Internal Audit Forum (SAIAF) Peer Review Workgroup.
- Conducted three investigations as authorized under Section 2102.003 (2) (E) of the *Government Code*. All three of the investigations were completed by the end of FY2004.
- Conducted four information system/telecommunication audits, including an audit of telephone services, an audit of TDI's Internet firewall logs, and a review of Agents License (COSMOS) automated application controls. All four of these were completed by the end of the fiscal year. One of these four, A Review of End-User Computing Application Documentation, was begun in FY2003 and was completed during FY2004.

Government Relations

- Tracked and coordinated implementation activities of 106 insurance-related bills passed during the 78th legislative session (2003), which resulted in approximately 327 implementation items for TDI.
- Worked with bill authors and sponsors of legislation and kept them advised of implementation developments.
- Published bill implementation information on the Department's website.
- Monitored and attended meetings of various boards and committees, including legislative interim committees, for the Commissioner of Insurance.
- Prepared 15 committee presentations for use by the Commissioner or TDI staff during the interim for seven regular and interim legislative committees charged with studying insurance related issues.
- The research function of the Research and Oversight Council on Workers' Compensation was transferred over to TDI, resulting in the establishment of a liaison for workers' compensation inquiries.
- Assisted TDI's Workers' Compensation Research Group on a research project involving multi-state data gathering.
- Assisted TDI staff with appointment of members to advisory committees and boards, including the Fire Extinguisher Advisory Council, Fire Protection Sprinkler System Advisory Council and the Fire Detection and Alarm Devices Advisory Council.

Public Information Office

- Launched new regulatory newsletter, ***TDInSight***, and published six bimonthly issues in FY2004. TDInSight is designed to provide industry stakeholders and policymakers with timely information on key issues and regulatory actions, in a readable, visually-interesting format.
- Designed and implemented new web publication **Straight Talk about insurance** linked from TDI's homepage. **Straight Talk** provides accurate, up-do-date information on current insurance topics to address issues that often receive conflicting interpretations from special interest groups.
- Planned and implemented major overhaul of TDI's Internet website to enhance utility, organization, and ease of navigation (in process at end of FY2004).
- Reinstated the employee newsletter **BulletinBoard** as an electronic publication on the TDI intranet.
- Redesigned the employee intranet website to be more user friendly, better organized, and more intuitive.
- Wrote and coordinated dissemination of 23 press releases to statewide Texas media in FY2004.
- Provided speechwriting and presentation assistance for the Commissioner at 39 events statewide during the fiscal year.
- 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.

- Coordinated media stops for the Commissioner during a tour of hail damage in West Texas (June 2004).
- Coordinated press briefing and media appearances in conjunction with TDI's Sixth Annual Fraud Conference (January 2004).
- Assisted in the design and procurement of more than 170 print projects for the agency.
- Assisted the State Fire Marshal's Office with media relations on fire-related stories, and presented a workshop on writing and producing effective print publications at the Annual Juvenile Firesetter Intervention Conference in Austin (June 2004).

Figure 1 Summary of Activity: Commissioner's Office

	FY2003	FY2004
Commissioner's Hearings/Meetings	37	30
*Commissioner's Orders	1,244	1419

* Commissioner's Orders in FY2004 included 521 disciplinary orders (including contested, consent and default orders), 55 rules/manual orders, 710 company activities orders, 67 authority orders for temporary acting commissioner, 8 delegation orders for routine actions and 58 other orders.

Figure 2 Commissioner's Contested Cases by Type

	FY2003	FY2004
*Total Hearings Conducted for Commissioner	51	44
†Disciplinary	26	25
License Applications	21	12
*Appeals/Other	4	7

* 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 Medical Liability Insurance Underwriting Association (JUA).

Legal and Compliance

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

Agency Counsel provides legal advice to the Commissioner and agency staff regarding internal agency operations, including 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.

Regulated Lines Counsel provides comprehensive legal support on matters as requested by the Life, Health, and Licensing Program, the Property and Casualty Program, Consumer Protection Program and the State Fire Marshal. 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;
- worker's compensation; and
- title.

Other areas where legal support is provided include:

- agent licensing;
- Texas Windstorm Insurance Association;
- Amusement Ride Safety Inspection and Insurance Act;
- loss control;
- property and casualty rate-related issues; and
- consumer protection.

Financial Counsel consists of Department 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 Department with financial and receivership related matters. Some of the legal assistance provided includes:

- Drafting rule proposals and adoption orders;
- Reviewing and advising department staff regarding various holding company and licensing transactions;
- Drafting various Commissioner's orders including supervision, conservatorship and Article 1.32 (hazardous financial condition) orders and letters of administrative oversight;
- Providing advice and assistance in the enforcement of Commissioner's orders;
- Initiating enforcement actions against insurers, HMOs, and title companies for code violations related to financial matters;
- 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 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. In addition, the section 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 international and border insurance regulatory issues, including availability and affordability of cross-border and international insurance, admissions and licensing of alien insurers and agents, market conduct and opportunities, unauthorized and fraudulent operations, and compliance with related

statutes and trade agreements. Counsel also serves as agency liaison to state and federal agencies relating to 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, Property and Casualty division, and General Counsel with special projects. Some of these projects have included coordination of the Department's review of the recodification of the *Insurance Code* and, to assist the NAIC in providing input to Congressional committees, a review of draft federal legislation on federal coordination of nationwide uniform insurance regulations.

Highlights

In Fiscal Year 2004, Legal and Compliance obtained \$28,085,133 in restitution for consumers and assessed \$8,336,761 in administrative penalties, fines and forfeitures. Details regarding specific cases included:

- Approximately \$17,300 in penalties was levied against agents who failed to comply with continuing education requirements, and approximately \$68,300 in penalties was assessed against 17 continuing education providers.
- A penalty of \$128,234 and restitution of \$1,564,516 was assessed against American National Insurance Company for engaging in race based pricing practices.
- A lawsuit was concluded that resulted in a \$3 million agreed judgment (plus attorney fees) against PacifiCare. The agreed judgment included \$3 million as penalty/reimbursement (\$1.5 million penalty and \$1.5 million reimbursement for administrative services) and over \$13 million in restitution to providers. Initially PacifiCare sued TDI for exceeding its authority. Consequently under TIC Article 31.005, TDI sought representation by the Texas Office of the Attorney General (OAG) and countersued PacifiCare. TDI/OAG successfully obtained an agreed judgment and permanent injunction for its portion of the case against PacifiCare.
- A \$250,000 penalty and restitution of \$5.3 million was assessed against Brown and Brown Insurance Services of Texas for performing the acts of an agent on behalf of unlicensed entities and individuals in the State of Texas.
- Restitution payments totaling \$5.2 million was paid by Reliable Life Insurance Company as a result of a May 2002 order for using race-based underwriting practices.
- A total of 92 orders were entered against individuals involved in selling unauthorized insurance of various types, including health, property and casualty, life, title and workers' compensation. Eight orders were entered against unauthorized health insurance plans.

Regulated Lines Counsel Section provided substantial legal assistance for several major rules adopted during the year, as well as provided assistance for implementation of bills from the 78th Legislative Session, including the following:

- SB 541 related to Consumer Choice Plans. The adoption of §§21.3501–21.3505, 21.3510–21.3518, 21.3525–21.3530, 21.3535, and 21.3540–21.3544 increases the availability of more affordable health benefit plans; develops a well-defined, efficient process for bringing those plans to market; and institutes appropriate safeguards to ensure consumer understanding of, and freedom to choose between, health benefit plan options. The Department also adopted rules in Chapter 11 that identify basic health care services that are not tied to the specific requirements of federal law.
- SB 418, which amended the prompt pay rules in 28 TAC Chapters 3, 11 and 21 related to disclosure requirements, claim filing and payment deadlines, clean claim elements, refunds due to overpayments, additional information requests, ID cards, catastrophic events, applicability to certain non-contracting physicians and providers, duplicate claims, penalties, and general reporting requirements. In addition, rules were adopted in Chapter 19 regarding preauthorization and the newly created verification process. Rules were also adopted

regarding pharmacy reporting requirements and the waiver of electronic claim filing requirements. Lastly, the following bulletins were issued: B-0041-03—carriers’ refusal to verify; B-0042-03—verification provisions of SB 418; and B-0017-04—disclosure of information such as fee schedules.

- SB 14, related to various insurance issues including rate regulation and credit scoring. Commissioner’s Orders were issued mandating or consenting to residential property rate reductions by many insurance companies pursuant to *Insurance Code* Article 5.26-1. In addition, rules were adopted concerning the use of credit information or credit scoring in certain personal lines of insurance pursuant to *Insurance Code* Article 21.49-2U. Also, Commissioner’s Bulletin No. B-0048-03 was issued.
- SB 127 and HB 329, related to water damage claims. Rules were adopted concerning restrictions on the use of underwriting guidelines based on previous mold damage, mold damage claims, a water damage claim, or appliance-related claims pursuant to *Insurance Code* Article 5.35-4 and Article 21.21-11.

Summary of Activity **Figure 3** Legal and Compliance

	FY2000	FY2001	FY2002	FY2003	FY2004
Cases received	1,049	1,062	1,321	1,121	1007
Cases closed	1,008	868	1,012	958	999
License revocations	69	55	48	60	95
License denials	16	17	10	27	43
*License suspensions/suspensions of writing	14	4	18	15	32
Cease and desist orders	0	0	6	8	8
†Monetary forfeitures/restitution orders	202	224	232	292	251
*Assurances of voluntary compliance	5	3	0	0	0
Forfeitures/assessments/Restitution	\$9,451,047	\$22,118,832	\$80,834,638	\$32,599,248	\$36,421,894

* 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.

‡ TDI is focusing more on commissioner’s orders rather than voluntary agreements.

Insurance Fraud Unit

THE INSURANCE FRAUD UNIT investigates, prepares and refers cases for criminal prosecution. All cases are based on evidence of 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 and others. The Fraud Unit is comprised of two investigative sections with commissioned peace officers and civilian investigators, and one administrative section. Unit Management includes the Associate Commissioner and Chief Investigator. By statute, the Chief Investigator supervises and directs all peace officers and coordinates and oversees all investigations conducted by the Fraud Unit. Each of the two investigative sections is staffed with a team leader. In addition, there is an office manager who supervises the Unit’s administrative staff.

The Insurer Fraud Section investigates fraud cases involving companies, agents and other TDI licensees (including third party administrators), and eligible surplus lines insurers, as well as fraud cases 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). A team of investigators within the Insurer Fraud Section has been 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 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. A team of investigators within the Claimant and Provider Fraud Section has been tasked with the responsibility for conducting investigations of major fraud allegations involving complex transactions and/or significant losses.

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 Division recognized 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:

- 1)** access to criminal intelligence, including national and regional crime databases, that only peace officers may legally receive;
- 2)** authority to make arrests and execute search warrants; and
- 3)** 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), National Health Care Anti-Fraud Association, 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.

Highlights

In Fiscal Year 2004, the Insurance Fraud Unit:

- Received more than 5,700 reports of fraud and opened 265 investigations.
- Made 181 referrals of suspects to appropriate agencies for prosecution.
- Obtained 102 indictments that included theft, conspiracy, insurance claim fraud, misapplication of fiduciary property, securing execution of a document by deception, unauthorized insurance activity, mail fraud, and money laundering.
- Arrested, either directly or with other law enforcement officers, seven suspects indicted on charges involving alleged insurance fraud.
- Secured 66 convictions through the courts on charges resulting from Fraud Unit investigations.
- Referred 18 investigations to prosecutors involving water damage, mold and alternate living expense claims with a total dollar amount of over \$246,000 in losses.
- Adopted an agency initiative to hire a special prosecutor for the Dallas County District Attorney’s office to assist in the prosecution of the cases referred by the TDI Fraud Unit.
- Responded to Governor Perry’s Executive Order RP36 relating to preventing, detecting, and eliminating fraud, waste and abuse.
- Established a formal agreement to meet on a regular basis with other state professional licensing agencies to address issues relating to suspected fraudulent activities.
- Participated in the formation of the Texas Committee on Insurance Fraud to address insurance fraud on a united front with industry, law enforcement, other state agencies and legislators.

- Participated in numerous criminal task forces around the state involving white-collar crime and insurance fraud.
- Hosted the sixth annual statewide training session for insurance company special investigation units and law enforcement in January 2004.
- Maintained a toll-free hotline for persons to report suspected insurance fraud and received more than 2,100 calls in FY2004.
- Provided on-line reporting forms for insurers and consumers to report suspected insurance fraud.
- Added an Insurance Specialist position with responsibilities as a criminal analyst to support Fraud Unit investigators and prosecutors.

Summary of Activity **Figure 4**
Insurance Fraud Unit

	FY2003	FY2004
Reports of Fraud	4,490	5,738
Cases Opened	325	265
Assessments (Fines & Penalties)/Restitution	\$13,701,178	\$2,068,105
Cases Referred to Prosecutors	183	181
Indictments	100	102
*Arrests By Fraud Unit Peace Officers	3	7
Convictions	69	66

* 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 1,970 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 2003 reported \$79.4 billion in Texas premiums and \$49.8 billion in claim payments to Texas claimants. These companies reported aggregate assets of \$5.0 trillion, liabilities of \$4.4 trillion and capital and surplus of \$633.4 billion. More information from insurance company annual statements may be found in Part IV of this report.

The Financial Program consists of five activities.

Company Licensing & Registration incorporates most types of domestic 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 market place. Company Licensing and 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. In addition to licensing and deposit functions, the Company Licensing Division includes the Early Warning Unit, which supports agency-wide efforts to quickly detect indications that an insurance company is in trouble. The unit administers the Early Warning Information System, a computer database that captures information from agency divisions to identify favorable and unfavorable trends within companies. Early Warning is now increasing its focus on industry and sub-industry trends, and utilizing the Internet, Securities Exchange Commission filings, and rating agency actions to supplement the agency’s

data on companies and groups. 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. They also initiate recommendations for regulatory actions as appropriate, including 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 the Department, 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 and Examinations activity. The Actuarial Division reviews actuarial opinions, processes Certificates of Valuation and provides input to other divisions in the review of actuarial reports for HMOs and other entities. During FY2004 Actuarial worked closely with TDI's Life, Health and Licensing Program in the evaluation of new products offered to Texas consumers. Actuarial also performs actuarial analyses and actuarial projects that relate to solvency, availability of coverage, policy values, disclosure and consumer equity.

Conservation of Companies administers a wide range of regulatory intervention activities including administrative oversight letters, 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 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 field 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.

While under supervision, the company has no more than 180 days to comply with the requirements of the supervision. If it is determined that supervision is inadequate to accomplish the rehabilitation of the company, a conservator may be appointed who shall immediately take charge and conduct the business of the company. The duration of the conservator's responsibilities 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, Conservation staff will wind-down the company or facilitate the transition from regulatory intervention to receivership. In cases where a court has ordered that rehabilitation continue even after receivership, Conservation will continue to be involved in the rehabilitation efforts.

At the beginning of FY2004 the Conservation Activity had 26 insurance companies under regulatory intervention, with another nine being added and nine being released or closed, leaving a year-end balance of 26.

Liquidation Oversight assumes responsibility for the estates of companies that cannot be rehabilitated and are found to be insolvent. The agency evaluates on a case-by-case basis whether to seek district court orders allowing seizure and liquidation of company assets or holdings located in Texas. In such cases, the Commissioner may ask the Attorney General to petition the District Court in Travis County to place the company in receivership, which generally involves liquidation of the insurer by a Special Deputy Receiver (SDR) selected pursuant to a competitive bidding process to act on behalf of the Commissioner of Insurance as Receiver, and payment of outstanding covered claims by the appropriate guaranty association, if applicable. The guaranty associations fund claims payments from assets of the receivership estate, if any, and assessments made to their member insurers. In rare cases the court may order that rehabilitation efforts continue after receivership, in which case Liquidation Oversight coordinates rehabilitation activities with the SDR and TDI's Conservation of Companies division. Liquidation Oversight monitors and evaluates each SDR's performance by analyzing business plans, including financial statements, cost benefit analyses, budgets, estimated general administrative expenses, and other planned activities, and maintains the records of insolvent insurers during and after receivership as required by the *Texas Insurance Code*. Liquidation Oversight also monitors the operations of the state's guaranty associations, including the appropriate and fair processing of receivership-related claims and complaints. During FY2004, one HMO and two property and casualty insurers were placed in receivership. In FY2004 the Commissioner issued one order declaring a Texas company impaired and two orders declaring foreign companies (companies domiciled outside Texas) to be impaired.

The Texas Property and Casualty Insurance Guaranty Association assessed member insurers \$30,274,649 in FY2004, with no offsetting refunds. The Texas Life, Accident, Health and Hospital Service Guaranty Association made assessments of \$1,726,797 and refunded \$10,143,091 to member insurers in FY2004. The Title Insurance Guaranty Association made no assessments in FY2004 and made no refunds to member insurers. Assessments are based upon prior, current and projected future receiverships, including both foreign and domestic insurers.

During FY2004, five receivership estates were liquidated and closed, leaving 21 active receiverships in the process of liquidation: 13 property and casualty companies, 4 life, accident and health companies, 3 HMOs and 1 MEWA. Liquidation Oversight anticipates closing about 5 of the 21 active receiverships in FY2005.

Highlights

In Fiscal Year 2004, the Financial Program:

- Led a national effort to coordinate the state-based system of insurance regulation in the area of company licensing.
- Led national efforts to improve multi-state coordination of group-wide examinations.
- Adopted rules to implement SB 2095 and began licensing Workers' Compensation Self Insured Groups.
- Initiated efforts to move from paper and microfilm storage to electronic imaging of licensing records, which are among the most frequently requested records maintained by TDI.
- Completed the review of approximately 13 acquisitions or restructurings of insurance companies or HMOs based in Texas, with purchase prices totaling more than \$31.6 billion.

- Remained at the forefront of national efforts to coordinate solvency monitoring, examination and scrutiny of change of control transactions involving insurer groups.
- Played a key role in responses by the National Association of Insurance Commissioners (NAIC) to the International Accounting Standards Board's exposure drafts for developing international accounting standards.
- Oversaw the recovery of \$25.5 million through the receivership process, utilizing only \$3.5 million in expenditures, leaving a net pay-out to policyholders of \$22 million.
- Paid \$10.5 million in distributions and \$18.7 million in early access, for a total of \$29.2 million in total distributions to policyholders and/or guaranty associations.
- Assisted efforts to draft and adopt a new NAIC model law requiring better information in the Actuarial Opinion for property and casualty companies to support solvency oversight.
- Developed automation to calculate nonforfeiture values for annuities based on SB 681.
- TDI's Managing Actuary selected for membership on the American Academy of Actuaries Life Practice Council.
- Made significant contributions to speed to market efforts through both the interstate compact and the multi-state project involving Texas, Florida, and California.
- Made substantial progress in automating the examination process and using a centralized repository for work papers on multi-state examinations.
- Initiated a series of market conduct examinations to verify insurer compliance with SB 14 requirements for establishing fair rates for homeowners insurance.

Figure 5 Insurance Companies Under Regulatory Intervention

	FY2003	FY2004
Balance of Companies Beginning of Fiscal Year	41	26
Placed Under Supervision/Conservatorship	12	7
Placed Under Court-Directed Action	0	1
Placed Under Special Administrative Action	6	4
Placed Under Hazardous Financial Condition Action (Art.1.32)	6	2
Total	65	40

Figure 6 Disposition of Companies Under Rehabilitation

	FY2003	FY2004
<i>Total (Figure 5)</i>	65	40
Cases Closed		
Rehabilitation	13	6
In Receivership	8	3
Dissolved	6	0
*Other Changes	12	5
<i>Total Cases Closed</i>	39	9
Balance at End of Fiscal Year	26	26

* FY2004 Other Changes: 1 Entity moved from Supervision to Conservatorship; 1 moved from Supervision to Article 1.32; 1 moved from Conservatorship to Article 1.32; 1 moved from Article 1.32 to Court Order; 1 moved from Administrative Oversight to Supervision.

Figure 7 Texas Domestic Insurance Company Receiverships FY1983-2004

YEAR	LIFE & HEALTH	PROPERTY & CASUALTY	TITLE
1983	2	3	
1984	0	0	
1985	2	3	
1986	1	1	
1987	2	3	1
1988	3	6	0
1989	14	5	1
1990	13	6	
1991	7	15	
1992	6	4	
1993	6	3	
1994	6	1	<i>continued</i>

Texas Domestic Insurance Company Receiverships (continued) Figure 7
FY1983–2004

YEAR	LIFE & HEALTH	PROPERTY & CASUALTY	TITLE
1995	0	1	
1996	0	1	
1997	1	2	
1998	² 3	1	
1999	³ 3	0	0
2000	2	1	0
2001	1	0	0
2002	1	2	0
2003	44	4	0
2004	³ 1	2	

- 1 Two of these companies were placed in receivership but were released shortly afterwards.
 2 Includes one fraternal benefit society.
 3 Includes one Health Maintenance Organization (HMO).
 4 Includes one HMO. A third-party administrator affiliated with the HMO also was placed in receivership.

Texas Guaranty Association Assessments Figure 8
1975–2004

YEAR	LIFE/ACCIDENT & HEALTH	PROPERTY & CASUALTY	TITLE	TOTAL
2004	*1,726,797	†30,274,649	0	32,001,446
2003	7,700,492	59,165,397	0	66,865,889
2002	30,821,449	86,161,687	0	116,983,136
2001	16,549,759	0	0	16,549,759
2000	15,231,151	0	0	15,231,151
1999	25,154,027	12,000,000	0	37,154,027
†1998	23,954,748	0	0	23,954,748
1997	51,186,830	0	0	51,186,830
1996	68,882,786	(127,000,000)	0	(58,117,214)
1995	83,026,366	0	0	83,026,366
1994	22,101,673	194,938,801	0	217,040,474
1993	66,238,272	119,261,000	0	185,499,272
1992	63,257,000	112,328,000	0	175,585,000
1991	24,970,000	122,602,000	6,215,000	153,787,000
1990	112,476,000	61,019,000	5,560,000	179,055,000
1989	16,359,000	41,231,000	0	57,590,000
1988	0	0	0	0
1987	33,500,000	41,680,000	0	75,180,000
1986	5,000,000	20,000,000	0	25,000,000
1985	8,000,000	20,000,000	0	28,000,000
1984	4,000,000	0	0	4,000,000
1983	0	0	0	0
1982	10,000,000	0	0	10,000,000
1981	3,000,000	0	0	3,000,000
1980	0	0	0	0
1979	1,840,000	0	0	1,840,000
1978	1,200,000	0	0	1,200,000
1977	0	0	0	0
1976	0	4,120,000	0	4,120,000
1975	600,000	3,305,000	0	3,905,000

* Life/Accident & Health made \$1.7 million in assessments in 2004; however, it refunded \$10.1 million to its member insurers.

† Property & Casualty assessments were \$30.3 million and there were no refunds to member insurers.

Summary of Activity Figure 9
Holding Company

	FY2003	FY2004
Pending Action from Previous Fiscal Year	89	92
Applications for Affiliate Transactions and Acquisition of Control or Exemption Received	781	738
Applications not closed as of 8/31	92	98
Pending Applications Closed	778	732

**Figure 10 Summary of Closed Applications
Holding Company**

	CLOSED AT END OF FY2003	CLOSED AT END OF FY2004
Reinsurance Arrangements	178	114
Management, Data Processing Service, Cost Sharing Arrangement	155	182
Pledge of Assets and Pooling of Assets	21	8
Investment in, Valuation of, Affiliates	2	17
Purchase of Securities, Real Estate, Automobile Treasury Stock	33	24
Affiliate Loans and Mortgage Loan Participation	5	1
Lease Arrangements	14	19
Issuance of Surplus Debentures/Notes	41	47
Payment of Money Advanced	29	40
Dividends and Other Distributions to Shareholders	128	117
Consolidated Tax Returns	39	37
Financing Arrangements	0	0
Exemption from Commercially Domiciled	9	9
Bonus Compensation	0	19
Acquisitions of Control	17	13
Exemptions from Acquisition of Control	46	29
MGA Agreements	14	8
Informational Filing by HC Exempt Insurers	0	0
Disclosure of Material Transactions	0	1
Relocation of Books and Records	28	34
Disclaimer	18	13
Quasi Reorganization	1	0
Total	778	732

Note: Reinsurance arrangements between affiliates within a holding company system.

**Figure 11 Amount Paid for Control of Domestic Insurance Companies
FY1995–FY2004**

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	57,461,681,313
2002	153,643,899
2003	433,677,597
2004	31,651,072,589

Note: The figure for FY2004 includes two acquisitions with purchase prices of \$16 billion and \$15.6 billion

**Figure 12 Texas Policyholder Premiums, Claim Payments
CY1994–CY2003**

YEAR	PREMIUMS	CLAIM PAYMENTS	PAYMENTS AS % OF PREMIUM
CY1994	\$39.7 billion	\$29.0 billion	73.1%
CY1995	42.1 billion	33.0 billion	78.4%
CY1996	43.9 billion	33.2 billion	76.0%
CY1997	46.4 billion	35.0 billion	75.4%
CY1998	48.0 billion	43.3 billion	90.2%
CY1999	60.7 billion	45.6 billion	75.1%
CY2000	63.5 billion	48.6 billion	76.5%
CY2001	71.5 billion	52.5 billion	73.4%
CY2002	78.2 billion	53.3 billion	68.1%
CY2003	79.4 billion	49.8 billion	63.0%

**Figure 13 Total Capital/Surplus of Insurance Companies Operating in Texas
CY1994–CY2003**

YEAR	TOTAL CAPITAL/SURPLUS
CY1994	\$ 308.6 billion
CY1995	356.3 billion

continued

Total Capital/Surplus of Insurance Companies Operating in Texas Figure 13
CY1994–CY2003 (continued)

YEAR	TOTAL CAPITAL/SURPLUS
CY1996	401.4 billion
CY1997	479.1 billion
CY1998	540.2 billion
CY1999	548.2 billion
CY2000	541.5 billion
CY2001	524.3 billion
CY2002	530.4 billion
CY2003	633.4 billion

Number of Examinations Figure 14
FY1995–FY2004

YEAR	NUMBER OF EXAMINATIONS
FY1995	160
FY1996	163
FY1997	157
FY1998	221
FY1999	215
FY2000	207
FY2001	195
FY2002	167
FY2003	167
FY2004	159

Note: FY1997 includes 21 examinations conducted by third party contractors. FY1998 includes 34 contracted examinations and 7 examinations of local recording agents. FY1999 includes 39 contracted examinations. FY2000 includes 33 contracted examinations. FY2001 includes 28 contracted examinations.

Number of Actuarial Opinions Reviewed Figure 15
FY1995–FY2004

YEAR	NUMBER REVIEWED
FY1995	1,844
FY1996	2,012
FY1997	1,937
FY1998	2,023
FY1999	1,627
FY2000	1,877
FY2001	*667
FY2002	*626
FY2003	*407
FY2004	*513

* Number reviewed decreased beginning in FY2001 due to focus on domestic companies and selected foreign companies. Previously we reviewed all companies licensed in Texas.

Number of Actuarial Examinations Performed Figure 16
FY1995–FY2004

YEAR	NUMBER OF EXAMS
1995	89
1996	97
*1997	83
*1998	82
1999	80
2000	82
2001	79
2002	80
2003	81
2004	80

* Does not include examinations conducted by third party contractors.

**Figure 17 Number of Reinsurance Agreements Reviewed
FY1995–FY2004**

YEAR	ARRANGEMENTS REVIEWED
1995	168
1996	169
1997	209
1998	200
1999	226
2000	251
2001	194
2002	142
2003	183
2004	181

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

Figure 18 Number of Company Licenses under Commissioner’s Jurisdiction

License Type	FY99	FY00	FY01	FY02	FY03	FY04
Insurance Companies	2,011	1,999	1,998	1,978	1,949	1,920
Health Maintenance Organizations	73	64	62	57	55	50
Premium Finance Companies	292	291	219	230	247	274
Continuing Care Retirement Communities	19	19	21	21	21	21
Third Party Administrators	655	696	714	724	739	736
Total	3,050	3,069	3,014	3,010	3,011	3,001

Note: Does not include foreign risk retention groups (50) and surplus lines carriers (162).

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; administers the Auto and Residential Property Market Assistance Program (MAP); 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.

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) and the Texas Fair Access to Insurance Requirements Plan Association (“FAIR Plan”), including the JUA and FAIR Plan of Operation, manual rules, forms, and endorsements; 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 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*). The Division also represents the Department on the building code advisory committee as required by statute, provides oversight of established commercial fire loss costs by outside entities, ensures loss control compliance

of insurers, administers the amusement ride safety program, assists the State Fire Marshal's Office with establishment of public protection classifications by outside entities and conducts windstorm inspections for compliance with building codes. It consists of four sections.

Commercial Property Oversight Inspections Section ensures consumers receive fair and equitable commercial property loss costs through random statewide spot-check inspections. It works to mitigate fire losses through evaluation of building codes, classification of building materials and construction techniques and commercial property rating schedules. The section also provides complaint resolution as needed concerning inspections, classifications, or a base fire and extended coverage loss cost assigned by a private inspection entity. Additionally, this section issues licenses to individuals conducting underwriting inspections for determining insurability of residences. Oversight inspectors inspect and classify residential property for superior fire resistive construction.

Windstorm Inspections Section, through six field offices and one satellite office, 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. Windstorm Inspectors ensure compliance with the building specifications and standards set forth in the Texas Windstorm Insurance Association (TWIA) Plan of Operation before coastal property is declared eligible for coverage written through TWIA.

Engineering Services Section provides support to all sections in the Inspections Division. Staff provide education on the windstorm codes to consumers and professionals; provide oversight of Texas licensed engineers appointed as qualified inspectors; evaluate and approve designs for compliance with TWIA building codes, including wind load designs; evaluate and recommend applicable building code standards for the TWIA building specifications; evaluate building products; assess commercial and residential automatic sprinkler systems; review calculation and building design plans certified by engineers; support the Building Code Advisory Committee; support the State Fire Marshal's Office in evaluating public and private fire suppression rating schedules; and support the Personal and Commercial Lines division in evaluating rate filings and rate reduction proposals.

Loss Control Section conducts mandatory inspections of insurance companies licensed in Texas and those seeking licensure 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. The section registers loss control and field safety representatives who meet state requirements. Staff also administer and oversee the Amusement Ride Safety Inspection and Insurance Act to monitor compliance of amusement ride owner/operators and amusement rides.

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 Division oversees the insurance companies licensed to write workers' compensation insurance in Texas. This group 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 information and data on the operational effectiveness of the Texas workers' compensation system 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) 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 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.

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.

The Division also provides consumer support in finding auto and homeowners insurance. The Auto and Residential Property Market Assistance Programs link eligible consumers with insurers writing in the standard market. 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.
- Providing data for calculating insurer participation levels in the Texas Windstorm Insurance Association.
- Providing data for pricing newly adopted residential property and auto endorsements.

Highlights

Fiscal Year 2004 activities include:

- The Title Division assisted with rules, rates, and forms hearings which resulted in the largest rate cut in Texas title insurance history

- The Title Division developed and adopted Procedural Rule P-53, which provided clarification and structure to the rebating prohibitions of Article 9.30 of the *Texas Insurance Code*.
- The Title Division processed a record number of escrow officer licenses, driven by a variety of industry and market forces.
- Property and Casualty produced three reports regarding medical professional liability insurance rates charged for physicians and other health care providers in Texas as directed by HB 7, 78th Texas Legislature, third called session. Data was also reported showing companies entering and leaving the Texas medical professional liability insurance market.
- HB 28 (78th Legislature, third called session) created a new workers' compensation research function at TDI by transferring the statutory research duties of the former Research and Oversight Council on Workers' Compensation (ROC) to the agency. This new research function has provided findings and testimony at several House and Senate interim committee hearings on issues such as:
 - Medical cost and utilization of care trends in Texas;
 - Return-to-work outcomes for injured Texas workers;
 - Income and medical benefit comparisons of the various state workers' compensation insurance programs;
 - Managed care network standards and certification requirements in other state workers' compensation systems;
 - Comparisons of income and medical benefit structures in other state workers' compensation systems; and
 - Employer participation in the Texas workers' compensation system.
- Property and Casualty assisted in promoting the affordability and availability of residential property insurance through:
 - a rate review of the homeowners insurance market, resulting in ordered rate reductions leading to consumer savings of more than \$510 million;
 - the development and implementation of rules to implement SB 127 and HB 329, prohibiting the use of certain underwriting guidelines based on a water-damage claim(s), previous mold damage or a mold damage claim(s); and,
 - the approval of several new homeowners and auto policy forms.
- The agency continued to address insurance availability in residential property and automobile insurance through its Market Assistance Programs for underserved markets and the Fair Access to Insurance Requirements (FAIR) Plan. In late 2002, market availability conditions in residential property insurance triggered the implementation of the FAIR Plan as insurer of last resort for Texas consumers who are unable to secure coverage in the standard market. It is operated by the Texas FAIR Plan Association (Association) as an insurance pool with the Association assuming all liabilities for policies written. FAIR Plan premiums are set to be adequate to cover the losses and expenses of the Association. In the event of a shortfall, certain insurers pay assessments to cover the deficit. After a period of rapid growth, enrollment in the FAIR Plan leveled off in mid 2004.
- Property and Casualty assisted in the disapproval of a requested 19 percent rate increase by Med Pro for medical liability insurance. When Med Pro attempted to raise its rates by 10 percent by shifting all its insured doctors into a purchasing group, TDI filed a petition before the State Office of Administrative Hearing (SOAH) to disapprove the rates of the purchasing group. A decision is pending from the Administrative Law Judge as of the end of FY2004.
- Property and Casualty assisted in the adoption of new rules requiring companies using credit scoring to provide a disclosure statement to the consumer once an insurance application is received. The disclosure also explains the consumer's right to appeal a ruling that results in higher rates or other adverse actions. The company must provide a contact telephone number which the consumer can call to dispute inaccurate or prohibited information. Additional rules related to credit scoring were under review at the end of FY2004.

- Property and Casualty assisted in adoption of the *International Residential Code* as the building standard to determine eligibility for coverage for coastal property with the Texas Windstorm Insurance Association. In tandem with the adoption of the new codes, every TDI windstorm inspector successfully passed exams and became certified by the International Code Council to inspect for new code compliance. TDI also performs oversight on the work of professional engineers appointed by the Commissioner to certify structures as meeting building code requirements. In addition to oversight inspections, TDI staff provide training on the applicable building code standards for engineers, builders, architects, and homeowners to promote compliance with building code requirements in order to mitigate windstorm losses to structures and reduce financial exposure to the TWIA and the state's General Revenue fund.
- Property and Casualty staff made several presentations to various consumer groups and trade groups on topics such as general liability insurance, professional liability insurance, and legislation passed by the 78th Legislature.
- Property and Casualty staff held a compliance workshop for insurance company representatives and other industry professionals that was designed to provide participants with a better understanding of TDI's regulatory requirements. Topics presented by Property and Casualty staff included an overview of recent property and casualty bulletins and rules as well as rate and form filing requirements for personal and commercial lines of insurance.
- Commercial and Personal Lines staff continued to participate in the Review Standards Checklists Subgroup and the Operational Efficiencies Working Group under the Speed to Market-Improvements to State Based Systems Plan (STM-IS3 Plan) adopted by the NAIC.

Figure 19 Rate and Form Filings Reviewed

TYPE OF INSURANCE	FY2003 FORMS	FY2003 RATES	FY2003 TOTAL	FY2004 FORMS	FY2004 RATES	FY2004 TOTAL
Bond and Misc. Lines	1,241	415	1,656	908	268	1,176
Commercial Automobile	788	303	1,091	677	341	1,018
General Liability	4,551	1,180	5,731	3,298	1,309	4,607
Homeowners	235	96	331	342	237	579
Interline Filing	18	5	23	4	2	6
Intake Unit	4	0	4	64	30	94
Commercial Multi-Peril	4,812	849	5,661	3,902	851	4,753
Personal Automobile	161	424	585	204	621	825
Professional Liability	735	255	990	518	244	762
Commercial Property	2,365	534	2,899	1,948	577	2,525
Total	14,910	4,061	18,971	11,865	4,480	16,345

Figure 20 Summary of Activity Homeowners

	FY2003	FY2004
Premium Reduction Certificates Processed	9,046	8,824
Open Records Request	164	175
Complaints Processed	2,884	1,140
Telephone Calls Received	11,218	9,914

Figure 21 Summary of Activity Commercial Property/Casualty

	FY2003	FY2004
Professional Liability		
Open Records Requests	67	53
Complaints	40	31
Telephone Calls Received	1,951	1,696
General Liability		
Open Records Requests	111	128
Complaints	31	16
Telephone Calls Received	2,275	2,714
Bond, Miscellaneous Casualty		
Open Records Requests	68	42
Complaints	62	45
Telephone Calls Received	427	1,656

continued

Summary of Activity Figure 21

Commercial Property/Casualty (continued)

Commercial Property	FY2003	FY2004
Open Records Requests	44	48
Complaints	59	35
Telephone Calls Received	791	1,161
Commercial Multi-Peril		
Open Records Requests	159	139
Complaints	19	6
Telephone Calls Received	275	301
Commercial Automobile		
Open Records Requests	159	32
Complaints	19	1
Telephone Calls Received	275	1,039
Individual Risk Submissions (IRS)	2,797	2,391

Summary of Activity Figure 22

Personal Automobile

	FY2003	FY2004
Open Records Requests	181	158
Complaints	9	4
Telephone Calls Received	12,387	7,212

Summary of Activity Figure 23

Title Insurance

ACTIVITY	FY2003	FY2004
Annual Escrow Audits Reviewed	413	556
Field Examinations/Audits Conducted	233	264
Complaints	296	361
General Information Requests	2,156	2,353
Rates, Rules and Policy Forms	0	40
Licenses Issued (includes renewals)	4,371	6,589
Licenses Cancelled	1,229	1,727

Number of Agents/Licenses Under Commissioner's Jurisdiction Figure 24

Title Insurance

Agents/Licenses	FY2003	FY2004
Title Agents	547	571
Title Agent Licenses	1,636	1,631
Direct Operations	15	17
Direct Operation Licenses	15	17
Escrow Officers	5,855	6,387
Escrow Officer Licenses	6,029	6,639
Underwriters	29 (21 active)	29 (21 active)
Escrow Accounts	\$150 Billion	\$150 Billion

Summary of Activity Figure 25

Commercial Property Oversight Inspections (formerly Inspection and Fire Safety)

	FY2003	FY2004
Property Inspections Conducted	1,141	1,205
Residential/Special Inspections	15	2
Telephone Calls Processed	537	363
VIP Licenses/Certificates Issued	231	154

Summary of Activity Figure 26

Windstorm Operations

	FY2002	FY2003	FY2004
Applications	29,364	34,643	31,890
Inspections	15,715	16,429	40,025
Certificates of Compliance	26,095	32,657	32,002
Windstorm Fees Received	\$17,397	\$16,145	\$7,882

Figure 27 Summary of Activity
Engineering Services

	FY2003	FY2004
Building Code Interpretations	2,049	2,770
Product Evaluations	582	996
Visitors Served	83	97
Telephone Calls Processed	3,635	3,911

Figure 28 Summary of Activity
Loss Control

	FY2003	FY2004
Total Evaluations Completed	244	197
Companies Rated Adequate	233	191
Companies Rated Less Than Adequate	11	6
Companies Evaluated for Licensure	4	2
Loss Control Representative Applications Reviewed	86	78
Field Safety Representatives with a Specialty in Hospitals	25	15

Figure 29 Summary of Activity
Amusement Ride Safety and Insurance Act

	FY2003	FY2004
Policies Reviewed	375	369
Inspection Certificates Approved	2,035	1,608
Injuries	114	88
Inspector Applications Approved	0	0
Owners Under Compliance Monitoring	361	367

Figure 30 Summary of Activity
Workers' Compensation Oversight Group

	FY2003	FY2004
Written Inquiries Processed	344	272
Complaints Processed	96	79
Letters Written	1,286	1,355
Telephone Calls Processed	6,146	6,175
Experience Rating Modifiers Reviewed	634	531
Complaints Referred to Texas Workers' Compensation Commission	695	558

Figure 31 Summary of Activity
Workers' Compensation Classification

	FY2003	FY2004
Inspections	121	*0
Letters & Telephone Calls	12,293	10,038
Visitors	3	1
Types of Inspections Made		
Insured Requests	13	N/A
Insurer Requests	35	N/A
Agent Requests	18	N/A
Department Requests	55	N/A

* Inspections are no longer made on a routine basis due to cut-back in travel money. Correct classifications are determined through correspondence.

Figure 32 Summary of Activity
Workers' Compensation Management/Retrospective Rating/Group Purchase/Deductibles

	FY2003	FY2004
Telephone Calls	870	579
Letters	682	485
Visitors	64	37
Groups Certified	57	49
Open Records Requests	85	91
Filings Reviewed		
Group Programs	107	139
Rate Filings & Schedule Rating Plans	492	88
Rating Plans & Misc. Filings	66	73
Retro Election Notices	627	591
Endorsement/Forms Approved	246	246
Endorsement/Forms Withdrawn	152	146

Summary of Activity Figure 33

Workers' Compensation Research Group

	*FY2003	FY2004
Number of legislative hearings attended/provided testimony	N/A	10
Number of legislative/public information requests completed	N/A	371
Number of analyses completed	N/A	12

* This function was not part of TDI prior to FY2004.

Other Statistical Reports Collected Figure 34

	FY2003	FY2004
Title insurance agents	546	559
Title insurance underwriters	20	21

Life, Health and Licensing

THE LIFE, HEALTH AND LICENSING (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.

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 non-profit prepaid legal plans.
- Reviewing rate filings for credit life and accident and health, Medicare supplement, Medicare SELECT, long-term care, 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.
- Issuing licenses and license renewals to insurance agents, adjusters and PIAs, TPAs, viatical and life settlement providers, provider representatives and brokers, premium finance companies, URAs, and IROs.
- Receiving and screening filings for property and casualty lines, as well as the coverages listed above.
- Providing public speakers on a wide variety of topics involving L/H/L's regulatory requirements.
- Implementing state and federal legislation and monitoring the extensive federal activities related to life insurance, health coverage, and licensing.

L/H/L consists of a General Management Section and four divisions: Filings Intake, Licensing, Life/Health (L/H), and HMO.

General Management, led by a Senior Associate Commissioner (SAC), provides management and operational direction for the program. The SAC co-chairs the Technical Advisory Committee on Claims Processing established by SB 418, 78th Legislature; and the SAC and/or staff represent the Commissioner or oversee L/H/L staff's representation on the Texas Health Care Information Council (THCIC), the Interagency Council on Genetic Services, Traumatic Brain Injury Working Group, and participates in the East Texas Rural Access Program. Additionally, the SAC is TDI's liaison for the boards of the Texas Health Insurance Risk Pool (THIRP) and Children's Health Insurance Program (CHIP), and attends board meetings of the Texas Health Reinsurance System (THRS).

General Management also provides technical assistance to the Texas Health and Human Services Commission (HHSC), Texas Department of State Health Services (TDSHS), 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 SAC and division deputies serve on various National Association of Insurance Commissioners (NAIC) working groups. General Management staff also collect, analyze, and 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 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 (HR 1). Additionally, General Management's Special Projects staff assist the SAC 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.

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. Staff enter filing data into the Oracle tracking system.

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. Staff enter filing data into the Oracle tracking system.

Micrographics Section produces electronic images of closed files for P/C, life, 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.

Operations Section is responsible for all program operations, budget, purchasing, personnel, contract management, planning and performance measures.

Licensing Division, led by a Deputy Commissioner, oversees the licensing and regulation of insurance agents, adjusters, PIAs, risk managers, life insurance counselors, reinsurance intermediaries, TPAs, 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 edu-

cation 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 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 Division also registers viatical and life settlement providers, provider representatives and brokers, and reviews contractual forms related to viatical and life settlements. The Deputy Commissioner chairs or participates in the standards working group of the interstate compact on annuities, life, long-term care, disability, and operational efficiencies. The L/H Division consists of four sections:

Accident and Health Section reviews and analyzes form filings for individual and group accident & health products, which include Medicare supplement, Medicare SELECT, long-term care, large and small employer groups, non-employer groups, and combination life and accident & 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, HMO 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 (MEWA), THIRP and CHIP.

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, 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 coordinate 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.

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 rates. In addition, staff review actuarial data required for 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 and education of the insurance industry on regulatory requirements through bulletins, compliance workshops, 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 and market withdrawals. 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 National Association of Insurance Commissioners (NAIC), the Texas Department of Banking, TDSHS, HHSC, THIRP, OAG, and CMS.

Health Maintenance Organization (HMO) Division, led by a Deputy Commissioner, regulates HMOs, certifies and regulates Utilization Review Agents (URAs) and certifies Independent Review Organizations (IROs). The Division investigates complaints against these licensed entities, conducts quality of care examinations, and reviews HMO and URA form filings. The division consists of three sections:

Compliance/URA/IRO reviews and analyzes form and other related filings for HMOs writing commercial and small and large employer coverage, 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, investigates complaints against URAs conducting utilization review under a workers' compensation policy, reviews IRO applications for certification and renewals of those certificates, reviews form filings required of IROs, and processes requests for IRO reviews received from URAs, insurers and HMOs.

The HMO Quality Assurance Section in the HMO Division performs many regulatory functions. The two main functions of the unit are examinations and investigation of all complaints filed with the Department against HMOs. The complaints are categorized to identify the nature of the complaint (e.g., network availability, timely payment of claims, access to urgent care, etc.), which enables the section to monitor health plan performance. 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.

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. Additionally, the section includes the micrographics intake staff, which produces electronic images of incoming complaints, documents, IRO and URA applications and other documents. The section will add imaging of examination documents within the next year.

In addition to the above, all HMO sections 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, TDSHS, HHSC, OAG, the Texas Department of Mental Health and Mental Retardation, the Texas Commission on Alcohol and Drug Abuse, the Texas Workers' Compensation Commission, the Texas Department of Criminal Justice, THCIC, NAIC, and CMS.

In Fiscal Year 2004, Life/Health and Licensing:

General Management

- With other divisions of L/H/L, assisted in developing the following rules adopted by the commissioner:
 - Public Insurance Adjusters Rules of Professional Conduct and Ethics, §19.73
 - Waiver of electronic filing requirements, §21.3701
 - Reporting requirements for pharmacy claims, §21.2821
 - Health group cooperatives, §§26.401–26.413
 - Dental care benefits, §§21.3601–21.3606
 - Dental prompt pay, §§21.2802 and 2803
 - Exclusive Provider Benefit Plans (EPOs) §§3.9201–3.9212
 - Effect of criminal conduct on licenses, §§1.501 and 1.502
 - Repeal of criminal conduct, §§1.501 and 1.502
 - Basic health care services and state-mandated benefits for HMOs, §§11.2, 11.508 and 11.509
 - Consumer choice health benefit plans, §§21.3501–21.3505, 21.3510–21.3518, 21.3525–21.3530, 21.3535, and 21.3540–21.3544
 - Identification (ID) cards issued by insurers, §21.2820
 - Waiver of prompt payment—Medicaid and CHIP plans, §21.2826
 - Data collection—mandated benefits and offers of coverage, §§21.3402 and 21.3404
 - Required contracting provisions, PPOs, §3.3703 (emergency adoption withdrawn 9/15/03)
 - Required contracting provisions, HMOs, §11.901 (emergency adoption withdrawn 09/15/03)
 - Preauthorization and verification of health care services, §§19.1703, 19.1723, and 19.1724 (emergency adoption withdrawn 9/15/03)
 - Submission of Clean Claims, §§21.2801–21.2809, 21.2811–21.2819, 21.2821–21.2825 (emergency adoption withdrawn 9/15/03)
 - Public Insurance Adjusters, §§19.603, 19.802, and 19.1002, and §§19.701–19.712
- Worked on the following rule revisions in progress:
 - Health Maintenance Organizations-Chapter 11
 - Small and Large Employer Rules-Chapter 26
- Assisted in drafting the following Commissioner’s Bulletins:
 - Provider Claims Processing, January-March 2004, 04/15/04 (B-0018-04)
 - Compliance with Notice Requirements of 28 TAC §§3.3703 and 11.901, 03/31/04 (B-0017-04)
 - SB 418 Mandatory Data call 01/15/04 (B-0004-04)
 - 2003 Policy Count Exhibit, 01/02/04 (B-0001-04)
 - Reminder to file CCP Forms, 12/29/03 (B-0051-03)
 - Medicare Beneficiaries’ Right to Change Medicare Coverage, 11/10/03 (B-0044-03)
 - 78th Session-Bill Summary and Highlights Pertinent to Life and Health Coverage, 10/29/03 (B-0043-03)
 - Verification Provisions of Prompt Payment Laws (SB 418), 10/29/03 (B-0042-03)
 - Carriers’ Refusal to Verify, 10/29/03 (B-0041-03)
- Maintained updated information on the Department’s Implementation Plan spreadsheet for L/H/L.
- Reviewed and provided comments on CMS non-renewal notice for Medicare+Choice coverage.
- Participated in OAG’s legislatively-mandated task force to examine HIPAA preemption of state laws relating to privacy of individually identifiable health information.
- Developed an electronic database for collecting mandated benefit premium and claim experience for group and individual insurance and HMO plans.

- Provided testimony and information to several interim legislative committees including House Select Committee on State Health Care Expenditures; House Insurance Committee; Joint Interim Committee on Nutrition and Health in Public Schools; Senate Select Committee on Workers' Compensation; Senate State Affairs Committee; and House Business and Industry Committee.
- Developed information for TDI's website on the Health Care Tax Credit and assisted with its implementation.
- Entered into MOU with Florida and California to provide a single filing source for insurers which allows compliant filing to be approved in all three states. Sixteen multistate review annuity product checklists were developed and are available for insurers to use.
- Worked on the TAC rule review required by *Texas Government Code* §2001.039. The chapters reviewed by L/H/L were Chap. 1, 3, 12, 13, 22, 25, and 29.
- Co-chaired TACCP and developed drafts of report to the Legislature required by SB 418.
- Assisted with the 2004 L/H/L Compliance Workshop and the P&C Compliance Workshop held 6/2-6/3/2004, with other divisions of L/H/L.
- Chaired TDI Privacy Task Force.
- Attended 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.
- Began the first year of work on the federally funded supplemental State Planning Grant study of options for expanding health insurance to uninsured Texans. Activities begun in FY2004 and continuing in 2005 include a statewide survey of small employers and a survey of Texas universities to identify health insurance options for enrolled students. Under the grant, TDI hosted a stakeholder's discussion forum in May 2004 to discuss a broad range of ideas for reducing the number of uninsured Texans.

Filing and Operations Division

- Received 28,558 Life/Health rate and form filings.
- Received 1,643 HMO rate and form filings.
- Processed 7,075 Exempt Life/Health rate and form filings.
- Received 17,728 Property and Casualty rate and form filings.
- Processed 577 Property and Casualty rate and form filings.
- Processed \$529,630 in filing fees for Life and Health rate and form filings.
- Processed \$89,100 in filing fees for HMO rate and form filings.
- Processed \$34,050 in filing fees for Viatical Settlement form filings.
- Scanned 533,518 images for Property and Casualty Program.
- Scanned 356,243 images for Life/Health and HMO Divisions.
- Represented Texas on the following NAIC Working Groups: System for Electronic Rate and Form Filing (SERFF) Working Group, Filing Submission Uniformity/Metrics Subgroup, and Review Standards Checklist Subgroup.
- Represented the Filings Intake Division or Department at various meetings and seminars.
- Assisted the HMO Division with implementing an imaging workflow system for HMO complaints, which was implemented 7/19/2004.
- Coordinated the Conference on the Uninsured held 5/11/2004.

Licensing Division

- Continued to improve the average number of days to process a license application.
- Implemented electronic nonresident licensing, making Texas the 28th state to begin accepting and processing electronic nonresident applications via the National Insurance Producer Registry's automated system, and decreasing processing time for applications filed through this system.
- Implemented an automated process for verifying home state licensure of nonresident licensing applicants, reducing license processing time.

- Improved Licensing Division's average renewal processing time from 2.8 days to 2.0 days through implementation of electronic and automated processes.
- Installed a new Dictaphone recording system to monitor customer service calls and better train staff through review and analysis of performance.
- Implemented an electronic process for letter of certification requests through an outside vendor that has been utilized by 50 percent of requestors.

Life/Health Division

- Reviewed and processed policies, contracts, related forms, rates, certifications, applications for registrations, risk assuming applications, rating methodologies and reports as appropriate for life, annuity, accident and health, nonprofit prepaid legal, accident and health, 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.
- Provided comments on several Government Accountability Office (GAO) reports and the CMS non-renewal notice for Medicare+Choice.
- Responded to numerous legislative, consumer, and agent inquiries.
- Updated checklists and product resource guides on the TDI website.
- Participated in the Agent Licensing Exam Focus Group.
- Participated in various conference calls and attended meeting for the development of standards for life, annuity, disability and long-term care products for the NAIC Interstate Compact Working Group.
- Continued implementing HB 2159 relating to credit life and credit accident and health.
- Participated in recodification of the *Texas Insurance Code* by reviewing and comparing new language to existing language.
- Published expense data for credit life and credit accident and health insurance data for years 2000, 2001, and 2002.
- Received and completed filings under the multistate pilot program and continued to process SERFF filings.

HMO Division

- Completed review of 1,596 HMO forms filings.
- Conducted 22 quality of care examinations of HMOs.
- Completed 3,620 complaints regarding HMOs.
- Assigned 344 IRO case reviews.
- Assisted HHSC with implementation and operation of the CHIP Program.
- Represented the Commissioner on the Interagency Council on Genetic Services and TDSHS Morbid Obesity Task Force.
- Participated in TDSHS Diabetes Council's Standards and Outcomes Subcommittee.
- 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.
- Participated in TACCP meetings.
- Continued development of an MOU to coordinate HMO examination elements and function with the HHSC.
- Certified and renewed 118 URAs.
- Certified and renewed 10 IROs.
- Responded to 124 open record requests.

Figure 35 Summary of Activity
Intake Division Filings Received/Processed

	Flex-Rate Filings	FY2003	FY2004
Personal Auto		446	829
Commercial Auto		382	N/A
*Homeowners		221	302
<i>Total</i>		<i>1,049</i>	<i>1,131</i>
Other Rate Filings			
†Commercial Automobile		N/A	403
Commercial Property		725	698
Workers' Compensation		528	281
Intake Unit		5	32
General Liability		1,324	1,368
Professional Liability		320	177
Bond, Burglary, Title		453	470
Multi-Peril		886	853
<i>Total</i>		<i>4,241</i>	<i>4,282</i>
Policy Form, Endorsement and Rule Filings			
Personal Automobile		161	214
Commercial Automobile		835	709
Intake Unit		9	68
Interline		13	0
Homeowners		234	354
Commercial Property		2,111	2,022
General Liability		4,143	3,363
Bond, Burglary		1,167	942
Workers' Compensation		418	239
Professional Liability		740	463
Multi-Peril		4,377	8,374
<i>Total</i>		<i>14,208</i>	<i>12,315</i>
*Total P & C Filings Received		19,498	17,728
Intake Unit Filings Processed		559	577

* In FY2003, approximately 85–95 percent of homeowners coverage was written in non-rate regulated companies (such as Lloyds companies). These companies did not fall under the benchmark rate structure. Only rate-regulated companies were required to file their rates with TDI.

† Effective June 12, 2004, per SB 14, Commercial Automobile insurance is now regulated under Article 5.13-2 of the Texas Insurance Code.

‡ Total includes 1,276 SERFF Filings. Note: Rating Manual portion removed. Rating manuals are now included in Rate Filing figures.

Figure 36 Number of Licenses, Certificates and Registrations
under Commissioner's Jurisdiction

License Type	FY2001	FY2002	FY2003	FY2004
¹ Agents	261,951	216,464	234,992	246,923
Adjusters	37,524	46,458	43,452	44,498
² Full-Time Home Office Salaried Employees	3,707	3,205	3,721	2,087
³ Specialty-Credit	1,250	2,030	2,537	2,792
³ Specialty-Travel	330	455	529	643
³ Specialty-Rental Car Company	60	64	73	73
⁴ Specialty-Self-Service Storage Facility	48	49	62	60
⁵ Specialty-Telecommunication Equipment Vendor		0	6	8
Life Counselors	122	143	158	179
⁵ Public Insurance Adjusters				78
Risk Managers	1,111	1,081	1,095	1,091
Re-insurance Intermediary	1,361	1,638	1,203	1,446
Premium Finance Companies	275	286	304	328
Third-Party Administrators	714	724	739	736
¹ Grand Total of Lines Regulated	308,453	272,597	288,871	300,942

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

2 Registration only. Created by the 75th Legislature. Rules adopted in FY1998.

3 Specialty License types created by the 76th Legislature.

4 Specialty Telecommunication License types created by the 77th Legislature.

5 Public Insurance Adjusters License types created by the 78th Legislature.

Summary of Activity Figure 37
Licensing Division

	FY2001	FY2002	FY2003	FY2004
Total Filings Processed by Licensing Division	655,670	724,305	699,971	747,271
*Telephone Inquiries Answered	138,067	170,407	160,478	133,581

* 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.

Five-Year Summary of Agents License Statistics* Figure 38

Total Licenses	FY2000	FY2001	FY2002	FY2003	FY2004
Issued	61,679	56,963	51,654	53,660	56,636
Renewed	103,397	67,865	81,662	75,186	92,505
<i>Total Appointment Transactions</i>	<i>280,355</i>	<i>459,682</i>	<i>510,650</i>	<i>479,618</i>	<i>503,347</i>
Total Current Agents & Adjusters Licenses	294,142	299,475	262,922	278,444	291,499
Other Licenses	8,009	8,978	9,675	10,427	9,443
Grand Total of Licenses Regulated	302,151	308,453	272,597	288,871	300,942

* Beginning in FY2001, a renewal for a license that has multiple qualifications is counted as one renewal; previously, each qualification was counted as a separate renewal.

Numbers and Types of Agents Licenses Figure 39

	FY2002–FY2004*		
	FY2002	FY2003	FY2004
County Mutual (Part of Group 2)	4,623	4,193	3,694
General Lines-Life, Accident, Health and HMO (Group 1 Life)	124,146	136,944	145,209
General Lines-Property and Casualty (Local Recording, Solicitor and Non-Resident Fire/Casualty)	61,940	67,416	76,646
Insurance Service Representative	2,249	2,477	2,368
Life not to Exceed \$15,000 (Part of Group 2)	1,466	1,320	1,230
Limited Lines (Prepaid Legal Services, Agricultural and part of Group 2)	16,860	15,364	10,841
Managing General Agent	1,646	1,713	1,551
Pre-Need (Part of Group 1)	1,472	3,146	2,584
Surplus Lines	2,062	2,419	2,800
Total	216,464	234,992	246,923

* Some licenses were consolidated and/or re-named by SB 414, 77th Legislature.

Summary of Activity Figure 40
Miscellaneous Lines

	FY2002	FY2003	FY2004
TPA On-Site Examinations	0	0	0
TPA Desk Audits Conducted	7	1	0
TPA New Licenses Issued	61	47	64
TPA License Exemptions Granted	83	84	90
New Premium Finance Licenses Issued	20	37	41
Premium Finance Licenses Renewed	288	270	297

Number of Premium Finance Companies and Loans' Value Figure 41
CY1996–CY2002*

CALENDAR YEAR	NUMBER OF COMPANIES	NUMBER OF PREMIUM LOANS	VALUE OF LOANS
1996	306	404,532	\$1.65 billion
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

* These figures are reported in calendar years, and 2003 is the last full calendar year available.

Figure 42 Summary of Activity
Life/Health Filings

	FY2001	FY2002	FY2003	FY2004
Filed	26,788	31,133	33,449	28,558
Accepted	25,853	30,195	32,197	27,079
Approved	6,614	9,354	8,398	9,438
Disapproved	3,486	3,072	3,177	2,574
Exempt	7,343	8,735	11,681	7,075

Figure 43 Summary of Activity
Health Maintenance Organization Filings

	FY2001	FY2002	FY2003	FY2004
New Forms Received	3,599	2,640	2,003	1,452
Forms Completed	3,258	2,447	2,026	1,596

Figure 44 Summary of Activity
Utilization Review Filings

	FY2001	FY2002	FY2003	FY2004
Applications Received	31	17	15	15
Applications Pending Review	16	7	6	7
Registered Utilization Review Agents Approved	5	2	1	1
Certified Utilization Review Agents Approved	51	21	15	12
Certified URAs renewed	94	76	94	105

Figure 45 Summary of Activity
HMO Complaints

	FY2001	FY2002	FY2003	FY2004
Complaints Received	7,716	9,468	7,261	3,511
Complaints Closed	*7,131	9,414	7,537	3,620
Medicare Complaints Forwarded	*5,132	3,362	563	192
HMO Quality of Care Examinations Completed	*21	23	28	22

* *Note: Data revised after 2001 Annual Report released.*

Figure 46 Summary of Activity
HMO Projects/Inquiries

	FY2001	FY2002	FY2003	FY2004
Projects/Inquiries Received	145	248	197	124
Projects/Inquiries Completed	145	248	197	124

Figure 47 Summary of Activity
IRO Applications

	FY2004
IRO Applications Received	4
IRO Applications Pending	2
IRO Applications Approved	3
IRO Renewals Approved	3

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 businesses. 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 premium refunds and additional claim payments 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. These phone lines are 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 and consumer groups. 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 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 Legal and Compliance Program 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 2004, Consumer Protection:

- Assisted consumers in Port Lavaca, Victoria, and other areas of Southeast Texas following Hurricane Claudette in September 2003 and in Amarillo following hail storms in June 2004.
- Returned more than \$40 million to consumers in additional claims payments and refunds as a result of complaints resolution.
- Responded to more than 938,000 inquiries, including more than 262,200 calls to the Consumer Help Line, approximately 1,200 written inquiries, and more than 674,600 inquiries made via the Internet.
- Conducted 561 Speakers Bureau presentations throughout Texas on insurance issues.
- Distributed 3.3 million publications, including more than 700,000 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 and workers' compensation insurance.
- 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. Consumer publications recorded more than 2.7 million hits.
- Reviewed more than 6,000 insurance advertisements to ensure compliance with state laws and TDI rules.

- Initiated or expanded partnerships with governmental agencies to promote TDI services and enhance outreach activities, including partnerships with:
 - The Children’s Hospital of Austin and the Seton Healthcare Network to provide insurance information to parents of children 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 established 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. Through the end of FY2004, 598 Texas claims had been filed with ICHEIC. Of those, 21 had resulted in settlement offers totaling \$586,953. An additional 90 Texas claimants received humanitarian payments of \$1,000 each.
 - County tax assessor-collector offices to distribute rate guides and other insurance information.
 - Texas high schools and defensive driving schools to distribute information about insurance to students.
 - The Texas Department on Aging, the Texas Legal Services Center and local Area Agencies on Aging statewide to conduct the HICAP Program for older Texans.
 - The 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 48 Total Number of Complaint Cases Closed
FY1997–FY2004**

YEAR	CASES CLOSED
FY1997	17,650
FY1998	18,829
FY1999	22,472
FY2000	28,005
FY2001	28,996
FY2002	34,364
FY2003	41,294
FY2004	29,505

**Figure 49 Additional Claim Payments to Consumers
FY1997–FY2004**

YEAR	CLAIM PAYMENTS
FY1997	\$17.0 million
FY1998	21.3 million
FY1999	24.4 million
FY2000	32.0 million
FY2001	31.4 million
FY2002	46.6 million
FY2003	45.9 million
FY2004	39.0 million

**Figure 50 Restitutions/Refunds to Consumers
FY1997–FY2004**

YEAR	RESTITUTIONS OR REFUNDS
FY1997	\$1.2 million
FY1998	1.3 million
FY1999	1.2 million
FY2000	1.8 million
FY2001	*636,000
FY2002	1.9 million
FY2003	2.2 million
FY2004	1.2 million

* Fewer complaints involving large refunds of annuity premiums were received in FY2001.

THE STATE FIRE MARSHAL'S OFFICE (SFMO) develops and promotes methods of protecting the lives and property of the citizens of Texas from fire and related hazards. The SFMO works in cooperation with the public, regulated fire service industry, all branches of the fire service, local governments and other state governments. In addition to staff located in the headquarters office, the SFMO deploys field staff throughout the state, providing rapid response for investigations and inspections and reducing travel expenses.

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

Fire/Arson Investigation Services

- Upon request, Fire/Arson investigators respond to fire scenes throughout the state. They assist local law enforcement entities in determining the origin and cause of the fire, and with criminal investigations, if required.
- The Arson Hotline is a toll-free number for the public to report suspicious activity involving fires. The hotline, 1-877-4FIRE45 (1-877-434-7345), is staffed 24 hours a day.
- Canine Teams consist of a handler, who is a certified peace officer/arson 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.
- 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.
- The Mobile Response Unit houses a self-contained command center, interview room, computer and audio-visual workstations and telecommunications systems used at fire scenes.

Fire Industry Licensing Services

- Fire Industry Licensing issues registrations, licenses and permits to individuals and companies working in the fire alarm, extinguisher, sprinkler and fireworks industries.
- Fire Industry Investigations, upon complaint, conducts investigations of fire alarm, extinguisher and sprinkler systems to ensure compliance with state law. This section also inspects fireworks retail sites to ensure compliance with adopted safety standards.

Fire Safety Inspection Services

- Fire Safety Inspections conducts fire safety inspections of public buildings and private facilities in Texas, including 24-hour care facilities, state buildings, universities, prisons, day-care centers, hotels and motels.
- Inspections are conducted based on need or in response to a request or complaint. Inspections of storage, handling and use of flammable liquids are conducted at retail service stations throughout the state.

Fire Prevention and Outreach Services

- Fire Safety for Texans is a series of fire and burn prevention curriculum guides for grades K–12 developed by the State Fire Marshal's Office. The SFMO believes the key to reducing fires and fire deaths is a comprehensive, age-appropriate approach to fire safety education. Each guide includes lesson plans, teacher and student materials.
- The Juvenile Firesetter Intervention Program assists fire departments in establishing their own community-based fire setter intervention programs for juveniles. An advisory team of fire prevention professionals in existing juvenile intervention programs helped develop a "model" intervention program that can be easily adapted to meet the individual needs of fire departments. Assistance is extended to existing programs by providing information, material and technical support, and by providing a means of networking among the various local programs in Texas.
- Public Protection Classification (PPC) Oversight assists local fire departments, upon request, with PPC and the ISO Fire Suppression Rating Schedules. These ratings affect insurance premiums for local property insurance.

- The Texas Fire Incident Reporting System (TEXFIRS) collects data from fire departments and compiles statistics to determine the impact of fire on lives and property. Each year a summary of reported fires, *Fires in Texas*, is published. This data helps in the development of laws, standards and prevention programs. Data and reports are available to all fire departments and to the public upon request. Information is used to plan fire prevention programs at the state level.

In addition, the 77th Texas Legislature established the authority for the SFMO to investigate the manner and cause of firefighter line-of-duty deaths (LODD). 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 LODD investigation program utilizes a multi-disciplinary approach, involving staff with a broad range of expertise and experience. The SFMO also involves members of the Texas fire service to assist with the fireground operations review component of the investigation. These volunteers represent numerous organizations and are chosen for their substantial fireground investigation expertise.

History

The Legislature established the position of State Fire Marshal in 1910 and charged the State Board of Insurance members to select one of its members to be “Fire Marshal of the State Insurance Board.” Duties included investigating fires to determine their cause, inspecting buildings to identify fire hazards and requiring the removal and correction of identified fire hazards.

The Fire Marshal’s duties were redefined by the Legislature seven more times between 1913 and the early 1970s, with the Commissioner of Insurance handling State Fire Marshal duties for many years. In 1975, a separate Office of the State Fire Marshal was established, and in 1991, the Legislature removed the office from the Texas Department of Insurance (TDI) and merged it with the Texas Commission on Fire Protection. In 1997, the Legislature returned the State Fire Marshal’s Office to TDI.

Highlights

In Fiscal Year 2004, the State Fire Marshal’s Office:

- 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.
- Completed a comprehensive fire safety evaluation for Jeff Davis County (and the UT McDonald Observatory) and began an evaluation for Galveston County.
- 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.
- Continued its focus on new indoor fireworks retail outlet inspections where greater safety hazards exist.
- Began an in-depth analysis of fire safety issues associated with bars. This initiative included on-site inspections within selected counties.
- Provided PPC Oversight assistance to local communities resulting in approximately 25 on-site visits, 900 telephone assistance conferences and processing over 100 submissions.

**Figure 51 Summary of Activity
Fire Marshal’s Office**

	FY2003	FY2004
TEXFIRS incident reports processed	3,260,431	1,817,849
Fire investigations completed	550	507
Reported value of property fires investigated	\$357,769,202	\$171,571,448

Summary of Activity **Figure 51**
Fire Marshal's Office (continued)

	FY2003	FY2004
Percent of fire investigations found to be incendiary	50%	45%
Number of suspects referred for prosecution	87	96
Percent of referred suspects indicted	89%	73%
Conviction rate of indicted suspects	92%	92%
Samples analyzed in arson laboratory	2,568	3,315
Juvenile Firesetter Intervention	70	87
Programs formed or expanded		
Companies and personnel licensed for Fireworks, Extinguisher, Alarm and Sprinklers	11,445	12,039
Investigations/inspections of complaints against Fire protection equipment/fireworks industries	1,038	1,179
Buildings inspected/re-inspected for fire safety hazards	8,701	4,849

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. The program consists of five activities.

Administrative Services, led by the Chief Financial Officer, supports the agency in the areas of budget and planning, accounting, purchasing, mail services, and building and records management. It also monitors TDI's compliance with oversight requirements set for state agencies by the Legislature. It consists of three divisions:

Financial Services 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. In addition, the Division handles budget and planning functions, including the Legislative Appropriations Request (LAR), the agency's Strategic Plan, the agency's annual operating budget and performance measure reports. Finally, the Division monitors expenditures, develops projections to help programs stay within budget, monitors the agency's performance against targets in the Strategic Plan and monitors the agency's compliance with certain Article IX provisions of the General Appropriations Act.

Staff Services deals with all building-related services, including space planning and management, security, employee parking, records retention, property inventory and warehousing, and copy center. 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, verifying taxes, 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 Division's primary goals are to ensure that automation applications and

technology are of good quality and are maintainable, 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/or systems to meet agency needs.
- Working to manage agency data efficiently and effectively.
- Supplying appropriate and timely technical training to employees.
- Planning and implementing agency-wide automation and information technology projects.

The Information Technology Services division consists of four sections:

Customer Services is composed of two subgroups: Help Desk and Business Analysis. It is the responsibility of the Help Desk to oversee the process whereby requests for service are received, evaluated, and tracked to completion. Business Analysis provides consultative services, including helping customers define automation requirements as they relate to agency strategies and business processes. A Data Analyst ensures that logical data models are mapped effectively and efficiently into physical data models to take advantage of the characteristics of the agency's database management system.

Computer Strategic Initiatives staff are responsible for mapping the direction of the Division to ensure current developments and trends in technology are addressed and prioritized. This section is composed of a Project Management Planning and Security subgroup and a Systems Analysis team. This unit is also 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. Additionally, the group plans and monitors the capital and operational budgets, oversees technology-related development projects, administrates software documentation, administrates a technical library that houses all authorized software licenses and documentation, and performs personnel and timekeeping functions.

Innovative Development is composed of the Applications group and three subgroups: Rapid Deployment, Training and Support, and Desktop Support. The Applications group is responsible for the development of new applications, as prioritized by the Planning Work Group (PWG), as well as for enhancement and maintenance of existing applications. The Rapid Deployment subgroup addresses short-term automation requests from program areas as well as any unscheduled system maintenance requirements and production problems. The Training and Support group evaluates new and existing software in order to identify and document best practices; provides training and quality assurance review to enforce those practices; and provides technical assistance to application programmers on an as-needed basis. Desktop Support staff provide assistance to users directly at their workstations as well as by remote control. They also furnish a wide-range of support functions, ranging from offering classroom training for all standard business products, to monitoring and supporting all network and local printing services, as well as supporting telephone services, cabling and other telecommunication services.

Network Management staff are responsible for the effective and efficient operation of the agency's computing platforms. They provide capacity planning and ensure that the agency's infrastructure and networked computer systems, including Local Area Networks (LAN), Wide Area Networks (WAN), and server-based software, such as e-mail, are fully operational. Protecting the agency against intrusion attempts and viruses on the agency's networks, Web server, and e-mail is a high priority; therefore all protection software is monitored and updated, if necessary, on a daily basis. Statistical reports are provided to document any intrusion attempts as well as any Web access issues and to provide website blocking updates. Networking staff also verify that a current disaster recovery plan for TDI's infrastructure is in place and functional through a process of technical planning and periodic testing.

Within the Network Management group are two subgroups: Network DBA and Network Operations sections. The Network Database Administrator (DBA) section provides technical expertise in the design, implementation, and maintenance of the relational database management system that supports TDI's business applications. The DBA responsibilities also include establishing policies and procedures pertaining to the management, security, and use of the database management system in accordance with emerging technologies and new design approaches. Network Operations staff are responsible for the day-to-day monitoring of the agency's major computing platforms. They ensure the agency's networked computer systems, including server-based software, such as Oracle, are fully operational. Network Operations provide file/data backups and recovery. Networking staff also monitor systems for disaster recovery planning to ensure TDI's infrastructure is current and functional. Network Operations staff assist in periodic testing and continuous monitoring of backup processes.

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.
- Staffing the agency switchboard and the Hobby Building information desk.

The Human Resources Director and Assistant Director are responsible for the day-to-day operations of HR. The Division reduced staffing and reorganized in the fall of 2003 to comply with HB 3442, which required a staffing ratio of one Human Resources full-time equivalent position for every 85 agency employees.

Human Resources responds to the needs of agency management and personnel and fulfills a wide range of human resource functions for the agency, including:

- Maintaining compliance with state and federal employment laws
- Workforce planning
- Agency hiring process
- Payroll records and information
- Agency employment records
- Personnel actions
- Agency time records and leave programs
- Insurance, disability, and retirement benefits and programs
- Agency performance management system
- Employee exit interviews, and
- Training to include management training, technical insurance training, new employee orientation and soft skills training.

Business Planning and Redesign (BPR) works with other agency planners and managers to facilitate agency planning by coordinating the business and strategic planning processes. The primary functions of Business Planning and Redesign are leading the business planning process, developing and managing projects, facilitating intra-agency communication, analyzing agency processes, recommending changes that are aimed at improving the agency, leading TDI's disaster recovery planning activities, and enhancing TDI's ability to respond to customer needs.

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 2003, Administrative Operations:

Administrative Services

- Developed and produced the agency's FY2005 Operating Budget.
- Prepared and submitted the FY2006/07 Legislative Appropriations Request.
- Prepared and submitted the agency's FY2005/09 Strategic Plan.
- Prepared and submitted the agency's Proposed Changes to Agency Budget Structure for the 2006/07 Biennium.
- 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 (LBB).
- Prepared the FY2003 Annual Financial Report and the Binding Encumbrance and Accounts Payable Report.
- Developed maintenance tax rates, examination/overhead assessment and premium finance assessment.
- Participated in the Post-Payment Audit by the Claims Division of the Comptroller of Public Accounts. TDI had so few exceptions that none merited a dollar projection against the whole population.
- Posted procurement opportunities on the Electronic State Business Daily.
- Administered the agency Contract Management and Administration Process.
- Administered support to the Historically Underutilized Business (HUB) program and made good faith efforts to utilize HUBs in the agency's procurement process.
- Administered the HUB Subcontracting Program in the agency's Special Deputy Receiver Program.
- Prepared and submitted the agency's FY2003 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 1,984 purchase orders.
- Processed 1,043,296 pieces of agency mail.
- Microfilmed 464,340 documents and stored 1,621 cubic feet of records through the Texas State Library for record retention.
- Processed 1,747 work orders through TBPC.
- Coordinated eight building improvement projects and modular furniture installations and renovations.
- In May 2004, TDI received the Gold Safety Award from the State Office of Risk Management. Three program areas were accident/injury free in FY2004.

Comparison of Maintenance Tax Rates Figure 52
FY1993–FY2004

Type	MAX LEGAL RATE	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Motor Vehicle	0.2	0.058	0.069	0.068	0.055	0.066	0.056	0.058	0.055	0.057	.060	.053	.035
Fire	1.25	0.525	0.606	0.656	0.436	0.418	0.370	0.381	0.358	0.352	.401	.330	.188
Workers' Compensation	0.6	0.200	0.386	0.120	0.093	0.096	0.085	0.072	0.055	0.060	.069	.051	.030
Casualty	0.4	0.210	0.295	0.319	0.209	0.251	0.197	0.232	0.200	0.186	.210	.180	.091
Title	1.0	0.132	0.187	0.171	0.110	0.135	0.174	0.123	0.144	0.086	.111	.073	.045
Life, Accident and Health	0.04	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040	.040	.040	.026
Third-Party Administrators	1.0	0.5	0.222	0.235	0.310	0.339	0.313	0.244	0.218	0.237	.330	.265	.150
*HMO Multi-Service	\$2.00	\$0.78	\$1.23	\$1.27	\$0.68	\$0.80	\$1.21	\$1.08	\$1.08	\$1.11	1.10	\$1.32	\$0.89
*HMO Single Service	0	\$0.42	\$0.62	\$0.38	\$0.22	\$0.27	\$0.41	\$0.36	\$0.36	\$0.37	0.37	\$0.44	\$0.30
*HMO Limited Service	0	0	0	0	0	0	\$0.41	\$0.36	\$0.36	\$0.37	0.37	\$0.44	\$0.30
Prepaid Legal	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.030	0.020	0.30	.022	0.22

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

Information Technology Services

- Supported technology planning at the state level by participating in the Architecture Components for the Enterprise (ACE) initiative of the Department of Information Resources (DIR), and at the national level by participating in the System for Electronic Rate and Form Filing (SERFF) Consortium as well as NAIC's Strategic Systems Planning Working Group. ITS was well-represented in the ACE initiative, with its Director having served on the Steering Committee and technical staff members having been selected to serve on all nine subcommittees. For both national groups the ITS Director demonstrated a strong leadership presence by serving as Chairman of the Board of Directors for the SERFF Consortium and Chair of the NAIC Working Group.
- Supported agency planning by updating the agency Technology Infrastructure Roadmap for fiscal years 2004 through 2007 to guide TDI's future technology decisions. Additional strategic planning activities included submission of data to DIR as part of the Statewide Information Technology Asset Reporting (SITAR), submission of the Information Resource Strategic Plan for fiscal years 2005 to 2009 to DIR, and submission of the Information Technology Detail to the Legislative Budget Board.
- Created a Project Management Planning group to streamline the project initiation, management, and oversight process. The group's goal is to ensure the percentage of scheduled projects completed on time and within budget remain consistently high. Eighty-three percent of all projects met this goal in FY 2004.
- Supported agency staff by responding to over 15,000 Help Desk calls.
- Helped enhance the agency's eighth year of Internet presence by:
 - Promoting use of TDI's website. Monthly "hits" increased to more than 1.8 million per month by August 2004, up over 300,000 from August 2003.
 - Working with agency programs to add pertinent and timely information to the website, including proposed rules, interactive company profile information, interactive consumer complaint forms, a variety of pamphlets and publications, rate guides, lists of agents and companies, and insurance/agency forms.
- Helped encourage state business on the Web, including:
 - Continuing participation as one of eight original state agencies on the TexasOnline website by 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 more than 2,000 license renewals are performed online and over 450,000 queries are executed to obtain license information, with peak months generating more than 900,000 queries.
- Improved the agency's infrastructure and electronic communications by:
 - Converting all Oracle Form Applications from a Client/Server environment to web-enabled environment.

- Upgrading Help Desk software, upgrading web development tools, and migrating data stored on local drives from a Novell environment to a Windows environment.
- Redesigning the ITS Intranet to enable agency staff to locate technical information more readily.
- Continued agency-wide and ITS specific disaster recovery and contingency planning by:
 - Conducting an Information Technology Services disaster recovery exercise at the agency's disaster recovery site.
 - Reformatting and updating the Division's disaster recovery plan to reflect procedural and personnel changes.
 - Utilizing older servers and other available information technology equipment at the disaster recovery site to eliminate the need for TDI to obtain outside disaster recovery services.
- 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.
 - Updating the agency's Computer Security Manual to reflect procedural and personnel changes and responsibilities.
- Completed business unit Information Technology initiatives, including:
 - Developing a browser-based electronic leave accounting system to provide TDI employees the ability to submit leave time electronically and to view projected leave balances. The system interfaces with the State Comptroller Office's Uniform Statewide Payroll/Personnel System (USPS) system.
 - Developing a web-based application to gather data from insurers and Health Maintenance Organizations (HMOs) in accordance with the amendments cited in *Texas Administrative Code* Article 3.70-3C and *Texas Insurance Code* Chapter 843.
 - Developing a web-based application to allow consumers to access Windstorm Certificate of Compliance information online.
 - Assisting in the implementation of an electronic workflow management system for the HMO Complaints application by integrating the HMO system with existing VisiFlow workflow technology to improve customer service and increase efficiency within the HMO Division.

Human Resources

- Developed and delivered comprehensive end of fiscal year annual reports to program areas, information on vacancies, time to fill positions, turnover rates and projections on human resource-related issues. This included meeting with each program head to discuss the reports and update workforce planning issues.
- Delivered results of Survey of Organizational Excellence to program heads and agency staff.
- 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.
- Delivered legislatively-mandated sexual harassment and discrimination training.
- Completed development of in-house leave accounting system and implemented Automated Leave Accounting System (ALAS) in April 2004.
- Held recognition ceremony to present awards for state service.
- Processed 1,138 personnel actions for the agency, including merit raises, promotions, new hires, transfers and separations of employment.
- Coordinated agency participation in the State Employee Charitable Campaign.
- Delivered 28 Wellness Program events through a new year-round wellness program initiative.
- Delivered 1,020 hours of training, including segments on new employee orientation, communication, customer service, defensive driving, insurance training and management training.
- Contracted with various outside trainers to enhance the management training program.
- Delivered Ethics training to agency Peace Officers.

- Continued delivery of management training in two tracks—one for new managers/team leaders and the other for tenured managers.
- Developed the FY 2002–FY 2009 Workforce Plan for the agency.
- Reorganized Human Resources to comply with legislatively-mandated Human Resources staffing ratio.
- Participated in various parity studies with State Auditor’s Office.
- Visited various field offices to meet with and deliver training to field staff.

Business Planning and Redesign

- Assisted programs with implementing FY 2004–2005 business plan projects and initiatives.
- Coordinated monthly Planning Work Group meetings, which provide a forum for programs to discuss projects with agency-wide impact.
- Led agency project to assess customer levels of satisfaction with TDI services and identified opportunities to improve customer service.
- Advised programs on methods for assessing customer satisfaction and helped programs implement online surveys and focus groups sessions.
- Assisted programs in evaluating the need, costs and benefits of projects requiring Administrative Operations support.
- Worked with Human Resources (HR) to analyze TDI’s staffing levels, workforce skills and workforce composition to develop the 2005–2009 workforce plan.
- Maintained the Agency-Wide Information Page on TDI’s Intranet, providing access to and updates on agency projects and processes.
- Coordinated agency activities with Information Technology Services (ITS), Administrative Services and program areas to test and update the agency disaster recovery/business continuity plans.
- Assisted programs by communicating with the Foundation for Insurance Regulatory Studies in Texas regarding grants that benefit TDI.
- Collaborated with HR to successfully administer the State Employee Incentive Program, with HR responsible for overall program administration and BPR responsible for evaluating the suggestions and preparing implementation plans for approved suggestions.
- Continued to lead a multi-phased project aimed at improving the way TDI creates, uses, revises, processes and stores agency records and forms.
- Streamlined agency process for requesting technology and ITS resources.
- Coordinated process to update agency manuals to ensure that the policies are consistent with current law and agency practices.
- Assisted more than 400 external customers seeking information about TDI forms and nearly 100 customers seeking assistance on customer service issues.

The Business Planning and Redesign division continued to evaluate employee suggestions for agency improvements and develop implementation plans for approved suggestions. The division worked closely with the programs, individually and through the Planning Work Group, to monitor progress on current business plans and business plan projects, and to coordinate agency-wide projects. Additionally, the Business Planning and Redesign director serves as the Commissioner’s designated Customer Relations Representative, TDI’s Forms Manager, and the agency contact for grant proposals submitted to the Foundation for Regulatory Studies in Texas. The division also responds to customers seeking information or assistance from TDI.

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 this biennium, by 8/31/2005.
- Created and presented various training classes to help agency managers and supervisors increase their individual level of appropriate and effective management techniques.

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