

THE TEXAS DEPARTMENT OF INSURANCE (TDI) went through an administrative transition in Fiscal Year 1999 while conducting its core functions of regulating the \$50 billion-a-year insurance industry and protecting Texas consumers.

Elton Bomer resigned after almost four years as Commissioner to accept appointment as Secretary of State and Senior Advisor to Governor George W. Bush. Effective January 11, 1999, Governor Bush appointed Jose Montemayor to complete the final few days of Bomer's second two-year term and then to his own two-year term beginning February 1, 1999. Montemayor had been with TDI since 1992, most recently as Associate Commissioner of the Financial Program.

Montemayor realigned certain TDI functions effective September 1, the first day of Fiscal Year 2000. He said the realignment would help the agency "strengthen customer service, reduce regulatory costs to insurers and sharpen our focus on underserved areas." The thrust of the changes, he said, was to link similar activities in a more logical manner.

Principal features of the realignment were:

- Property and casualty and title functions of the former Regulation and Safety Program were split off and joined with the former Technical Analysis Program's P&C Actuarial, Special Projects and Data Service activities to form a new Property and Casualty Program.
- A new Life, Health and Licensing Program was created to include the Life/Health, HMO, Licensing and Filings Intake Divisions.
- The Public Protection Classification system was transferred to the State Fire Marshal's Office.
- The Early Warning and the Special Deputy Receiver Contracting Process, which had been under Technical Analysis, moved to the Financial Program.

This annual report, however, looks at TDI as it was organized throughout FY 99, prior to the changes. This Preface discusses the Department's operations as directed by Bomer from September 1, 1998, through January 10, 1999, and Montemayor from January 11, 1999, through August 31, 1999.

Availability & Affordability

Insurance is a critical necessity for most businesses and citizens to function in our modern society.

In recent years, legislators and TDI have been concerned about reports that Texans in some areas are having difficulty finding affordable property and/or auto insurance. Addressing these concerns was a priority during FY 99, reflected in both broad actions to keep rates as low as possible and in a relatively new program aimed particularly at underserved areas.

Benchmark Rate Actions

By law, the Commissioner of Insurance each year must hold a hearing on setting new benchmark rates for automobile and residential property insurance sold by rate-regulated companies. Once the Commissioner sets these benchmark rates, rate-regulated insurers must file new rates within 30 days after the effective date. Unless they obtain the Commissioner's prior approval, these companies must keep their new rates within a "flexibility band" of 30 percent above and 30 percent below benchmark rates. Benchmark rates vary among 52 rating territories for automobile insurance and 23 rating territories for residential property insurance.

The process begins early each year with the Commissioner informing administrative law judges with the State Office of Administrative Hearings which issues should be considered in hearings on the benchmark rates. The administrative law judges hold public hearings and make recommendations to the Commissioner on benchmark rates and on rates for the Texas Automobile Insurance Plan Association (TAIPA), the state's assigned-risk plan. After considering recommendations from administrative law judges (ALJs) and hearing arguments from parties in each benchmark case, the Commissioner issues final decisions.

On November 12, 1998, Commissioner Bomer cut homeowners insurance benchmark rates by a statewide average of 6 percent. On December 8, 1998, he ordered private passenger auto insurance benchmark rate reductions averaging 5.5 percent statewide. On December 22, 1998, he reduced rates for drivers covered through the state's assigned-risk plan, the Texas Automobile Insurance Plan Association (TAIPA) by an average of 27.4 percent. TAIPA rates are set directly by the Commissioner without a flexibility band but by law must be at a level sufficient to cover TAIPA losses. Effective dates for the new rates were: February 1, 1999, for homeowners, February 15, 1999, for auto and March 1, 1999, for TAIPA. Rates must take effect not more than 60 days after they are filed at TDI. These rates are subject to TDI staff review, however, and for the second year in a row, the staff negotiated lower rates with some auto insurance groups.

The benchmark rate process for calendar year 1999 was delayed while the 76th Texas Legislature considered proposals that would have changed the rate-setting process, including elimination of benchmark rates. No changes were approved, but the delay postponed SOAH and TDI actions on auto and residential property insurance until later in the year than normal.

The majority of the private passenger auto insurance market remains in rate-regulated companies, although the state's 23 active county mutual insurers, which are exempt by law from rate regulation, have increased their share in recent years. This trend saw a slight reversal in calendar year 1998, when the rate-regulated companies' share of premium written rose to 71.4 percent at the end of the year, compared with 70.6 percent for 1997 (See Figure I).

The share of rate-regulated companies in the residential property market continued to drop, however. At the end of calendar year 1998, only 22.7 percent of the direct premium written in homeowners multiple peril was in the rate-regulated market.

Figure I Comparison of Texas Private Passenger Automobile Insurance Market (Rate-Regulated/Non Rate-Regulated Insurers, 1993–1998)

YEAR	NUMBER OF VEHICLES INSURED ¹			% OF VEHICLES INSURED	
	RATE-REGULATED ²	NON RATE-REGULATED	TOTAL	RATE-REGULATED	NON RATE-REGULATED
	1993	7,881,680	1,210,450	9,092,130	86.7%
1994	8,067,506	1,483,783	9,551,289	84.5%	15.5%
1995	8,078,856	1,634,022	9,712,878	83.2%	16.8%
1996	7,903,124	2,145,112	10,048,236	78.7%	21.3%
1997	7,950,495	2,475,455	10,425,950	76.3%	23.7%
1998	8,317,465	2,543,571	10,861,036	76.6%	23.4%

YEAR	AMOUNT OF PREMIUM WRITTEN ³			% OF PREMIUM WRITTEN	
	RATE-REGULATED	NON RATE-REGULATED	TOTAL	RATE-REGULATED	NON RATE-REGULATED
	1993	\$5,361,488,501	\$1,370,879,294	\$6,732,367,795	79.6%
1994	\$5,688,060,661	\$1,576,439,099	\$7,264,499,760	78.3%	21.7%
1995	\$5,859,332,046	\$1,762,885,914	\$7,622,217,960	76.9%	23.1%
1996	\$5,796,258,626	\$2,152,607,943	\$7,948,866,569	72.9%	27.1%
1997	\$5,856,932,799	\$2,436,436,967	\$8,293,369,766	70.6%	29.4%
1998	\$5,975,246,388	\$2,390,247,747	\$8,365,494,135	71.4%	28.6%

¹ Figures are as of year-end, except for 1998, which is as of the end of the 3rd quarter.
Source: Texas Private Passenger Automobile Statistical Plan, Quarterly Market Report

² Rate-regulated includes assigned risk figures.

³ Source: State of Texas P&C Insurance Experience by Coverage and Carriers Report.

Auto Market Assistance Program

July 1, 1999, marked the one-year anniversary of an innovative program put into effect in an attempt to help good drivers in underserved areas find less expensive car insurance.

The auto Market Assistance Program (MAP) attempts to address the problem of good drivers being placed in the nonstandard market (county mutual companies and TAIPA), which primarily is designed to insure "high risk" drivers at rates commensurate with their greater probability of having accidents. The program uses a password-protected Internet site at TDI to link

good drivers in 382 underserved ZIP codes with 10 voluntarily participating insurance companies. Consumers contact the program through a toll-free number: 1-888-799-MAPP (6277).

FY 99 was a period of experimentation with the program, which is believed to be unique in the nation. The Department tried both periodic news releases and some targeted advertising to inform the public about the program. But by the end of the fiscal year on August 31, the program had attracted only about 3,000 eligible applicants and only 364 policies had been issued (See Figure II). Almost 11,000 Texans had called, however, and those who were not eligible were offered TDI rate guides to help them shop for less costly insurance.

**Automobile Insurance MAP Activity
July 1, 1998–August 31, 1999**

Figure II

	AUSTIN	DALLAS FT. WORTH	EL PASO	HOUSTON	SAN ANTONIO	LOWER RIO GRANDE VALLEY	STATEWIDE
Total Calls	379	1,007	261	1,671	3,342	259	10,955
Eligible Applicants	85	349	97	504	848	113	2,477
Offered Policies	140	211	117	330	505	96	1,705
Policies Accepted	31	43	13	67	111	25	354

Note 23% of the callers were eligible applicants; 69% were offered a policy; 21% accepted. Also offers outnumbered eligible applicants in Austin and El Paso because the numbers included results from some calls received during FY98.

After reviewing the program, Commissioner Montemayor pledged expanded efforts to make it a success. At an Austin news conference on September 7, he announced plans to visit many of the underserved areas to gather information on why good drivers buy nonstandard policies and to promote the program in local news media outlets. He called the new consumer awareness effort “Good Rates for Good Drivers.”

In another development related to insurance availability, TDI in FY 99 won a commitment from the Nationwide group of insurance companies to increase auto and homeowners policy sales in high-minority neighborhoods in Texas. Commissioner Montemayor announced on May 28, 1999, that Nationwide would open 20 new sales offices and increase its sales in these neighborhoods in every major city where it offers insurance. The agreement, which concluded a two-year TDI study of Nationwide’s lack of sales in minority neighborhoods, included both interim and long-range goals that Nationwide must meet.

Nationwide agreed to open eight new agencies in Houston, four in El Paso, two in Dallas, two in Austin and one in Fort Worth, plus an urban sales and service center in Dallas, a similar center in McAllen and a storefront agency in Hidalgo County. Prior to the agreement, the company had no offices serving the Lower Rio Grande Valley.

Tort Reform

The Texas Legislature in 1993 and 1995 adopted tort reform laws designed to reduce the number of lawsuits and encourage more reasonable insurance settlements. Among legislation enacted was a statute ordering the Commissioner to reduce liability insurance rates in each of the next five years to assure that savings from tort reform would be passed through to consumers. On October 2, 1998, Commissioner Bomer ordered savings of \$697.9 million. Commissioner Montemayor held the final tort reform hearing on August 25, 1999, and on October 1 announced savings estimated at \$685.5 million for calendar year 2000. The 2000 savings pushed the five-year total to \$2.9 billion (See Figure III). Beginning in 2001, insurance companies’ rates are expected to reflect tort reform savings because of reduced losses. Tort reform has had its biggest impact on auto insurance and business liability policies.

Figure III Premium and Saving Reported by Line of Insurance (in millions)¹

	1996 ACTUAL SAVINGS	1997 ACTUAL SAVINGS	1998 ² ACTUAL SAVINGS	1999 ACTUAL SAVINGS	2000 PROJECTED SAVINGS
Farmowners/ranchowners liability	\$0.8	\$0.9	\$0.8	\$1.2	\$1.2
Medical malpractice	\$32.7	\$34.9	\$43.2	\$51.6	\$54.9
General liability	\$115.8	\$105.8	\$197.5	\$201.8	\$206.2
Commercial multi peril	\$36.0	\$48.3	\$73.3	\$76.0	\$80.9
Products liability	\$11.9	\$11.1	\$21.1	\$25.0	\$26.6
Commercial automobile	\$59.8	\$62.3	\$73.1	\$99.7	\$103.9
Private passenger auto					
Rate-regulated	\$142.9	\$141.0	\$191.7	\$166.2	\$133.8
Non rate-regulated	\$35.6	\$36.9	\$55.7	\$77.9	\$77.9
Totals	\$435.5	\$441.2	\$656.4	\$699.5	\$685.5

¹ October 13, 1999 summary of tort reform filings received by the Texas Department of Insurance.

² Because reductions are expressed as a percentage of rates, total 2000 savings will depend on the premium volume.

Note Some liability coverages have been combined under one grouping. Medical Malpractice includes doctors' and hospital malpractice; Commercial Auto includes garage liability; General Liability includes personal umbrella, farm liability, commercial umbrella, other professional liability, pollution liability, fire, legal and contractual liability and owners and contractors protective railroad and liquor liability. Two other lines, employers' liability of workers' comp and homeowners liability, are not shown because no rate adjustment was made in those lines.

Workers' Compensation

The decline in workers' compensation rates that began with reforms effective in 1991 continued in FY 99, with one of the biggest dips in recent years in the first quarter of 1999 (see Figure V). One factor in lower rates during FY 99 was the Department's revision of job classification base rates, known as "classification relativities." On March 24, 1999, Commissioner Montemayor announced that carriers had cut their filed rates by an average of 10.5 percent in response to new base rates issued by the Department.

Insurance companies collect about \$1.65 billion per year in workers' compensation premiums in Texas. The market remained competitive in FY 99, as signaled by the industrywide loss ratio (incurred losses expressed as a percentage of earned premiums) dropping from 72.9 to 70.7 (See Figure IV). This remains higher than any loss ratio since 1992 but reverses an upward trend that began in 1995 after an all-time low of 38.7 in 1994.

By the end of FY 99, filed rates averaged 30.61 percent below 1991 levels. Figure V tracks the decline in the average filed rates since the reform legislation took effect in 1992. Rates are expressed as percentages below those of 1991, the last year of standard rates promulgated by the former State Board of Insurance.

Figure IV Workers' Compensation Premiums and Losses, 1988-1998

YEAR	EARNED PREMIUM	INCURRED LOSSES	LOSS RATIO
1988	\$2,879,387,379	\$3,157,071,342	109.6
1989	3,415,483,998	3,497,452,087	102.4
1990	4,077,110,907	3,870,449,094	94.9
1991	4,482,722,277	3,566,693,254	79.6
1992	2,840,828,895	2,021,781,554	71.2
1993	2,035,422,991	1,288,450,392	63.3
1994	1,918,794,111	743,389,241	38.7
1995	1,723,022,767	1,055,689,547	61.3
1996	1,686,697,985	1,156,101,631	68.5
1997	1,672,488,152	1,220,053,994	72.9
1998	1,704,485,612	1,204,965,598	70.7

Source: Texas Department of Insurance, 1998 State of Texas Property and Casualty Insurance Experience by Coverage and Carriers, p.7.

**Workers' Compensation Average Rate Changes in Texas
by Quarter, 1993–1999**

Figure V

	PERIOD	RATE CHANGE	CUMULATIVE ¹
1993	1	-2.62%	-2.62%
	2	0.30%	-2.32%
	3	0.80%	-1.54%
	4	-3.27%	-4.76%
² 1994	1	-3.76%	-8.34%
	2	-0.73%	-9.01%
	3	-3.88%	12.54%
	4	-5.18%	-17.08%
1995	1	-0.80%	-17.74%
	2	-1.27%	-18.79%
	3	0.99%	-17.99%
	4	-4.65%	-21.80%
1996	1	3.13%	-19.35%
	2	-3.97%	-22.55%
	3	0.42%	-22.88%
	4	-0.17%	-23.01%
³ 1997	1	-2.10%	-24.63%
	2	-0.43%	-24.95%
	3	-1.03%	-25.72%
	4	-0.91%	-26.40%
1998	1	1.07%	-25.61%
	2	-0.04%	-25.64%
	3	-0.06%	-25.69%
	4	0.58%	-25.26%
⁴ 1999	1	-10.20%	-32.88%

¹ Cumulative since 12/92

² New relativities 1/1/94.

³ New relativities 1/1/97.

⁴ New relativities 1/1/99. Assumed a -30% reduction on average. Companies modified their deviations from -24% to almost -3% of published class rates.

The percentages shown in Figure V are based on filed rates. Actual rates in the marketplace are lower because of such considerations as experience rating and the use of schedule rating plans. A schedule rating plan provides for higher or lower rates based on such factors as safety devices, condition and care of workplace premises and employee selection, training and supervision. TDI's Technical Analysis staff has estimated that the experience rating plan reduces average premiums, and schedule rating produced an estimated average premium credit of 16.6 percent.

Windpool

Because of the threat of hurricanes, insurance companies often are reluctant to offer full homeowners coverage in areas near the Gulf Coast. That means coastal residents often must buy windstorm and hail insurance separate from their homeowners policies. This coverage is available from the Texas Windstorm Insurance Association (TWIA) and can be purchased through local licensed insurance agents.

For several years, the Department studied the possibility of strengthening the state's building code that must be met for a residence to qualify for this coverage. The purpose was to make coastal housing more hurricane resistant and thereby encourage insurers to write more voluntary wind and hail business in coastal counties. A new *Building Code for Windstorm Resistant Construction* went into effect on September 1, 1998. Significant actions in FY 99 involving this coverage were:

- September 3, 1998, Commissioner Bomer adopted changes in the code on an emergency basis so builders could begin using them immediately. The revisions, such as exempting historic buildings from code requirements when they are repaired or renovated, were

recommended by a citizens' advisory committee based on builders' suggestions made at seminars held in coastal cities.

- On February 5, 1999, the Department announced new windstorm and hail insurance discounts of up to 32 percent for new coastal homes that meet the new building code, effective February 28. The discounts were mandated by legislation.
- On May 25, 1999, Commissioner Montemayor acted to improve TWIA coverage and offer its coastal customers more options, including premium discounts if they install hail-resistant roofs. The changes took effect June 15, 1999, and affected about 80,000 policies in coastal areas.

Figure VI Texas Windstorm Insurance Association Policies Written and End-of-Year Risks in Force, CY 90–98

YEAR	POLICIES WRITTEN	RISKS IN FORCE
1990	43,051	56,155
1991	44,980	54,145
1992	51,663	55,471
1993	57,144	64,804
1994	63,348	68,681
1995	68,903	89,660
1996	72,977	100,527
1997	75,361	105,243
1998	80,029	108,633

Source: Texas Windstorm Insurance Association Quarterly Report for Period Oct. 1 to Dec. 31, 1998, issued February 19, 1999.

Solvency

Monitoring the financial condition of insurers and taking action when that condition seems shaky are two of the key tasks of insurance regulators. The goal is to spot solvency problems early and to act quickly to make sure the public is protected. At TDI, solvency is considered a consumer protection matter. Company failures can cause major inconvenience and even financial loss for policyholders.

Figure VII Texas Domestic Insurance Company Receiverships, FY 83-99

	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	¹ 5	
1992	6	4	
1993	6	3	
1994		6	1
1995	0	1	
1996	0	1	
1997	1	2	
1998	² 3	1	
1999	³ 3	0	0

¹ Two of these companies were placed in receivership but were released shortly afterwards.

² Includes one fraternal benefit society.

³ Includes 1 HMO and 2 life, accident and health companies.

Year 2000 Problem

As with thousands of businesses and agencies around the world, TDI in FY 99 faced important decisions about the Year 2000 computer problem. This refers to the potential of date-reliant electronic systems failing because they were not designed to read four-digit dates. In 1997, the

agency took the lead among regulators by conducting a special examination of about 3,400 licensed insurance-related entities and found that 43.1 percent of them had no written plan to address the problem. That represented about 30.5 percent of the insurance companies and HMOs licensed to do business in Texas.

During FY 99 TDI continued to address the Year 2000 problem out of a concern that unprepared insurers could become insolvent or at least cause difficulties for their customers, ranging from billing system failures to improper cancellation of policies. In the fall of 1998, the agency recruited a dozen insurance industry leaders in Y2K preparation to provide valuable how-to information for other companies. TDI also arranged for more than a dozen of the state's top Y2K technology consultants to help staff complete some 500 exams to verify insurer readiness for the new millennium. As vice-chair of the National Association of Insurance Commissioner's Y2K Industry Preparedness Task Force, TDI played an active role in reviewing the state of readiness of all nationally significant insurance companies.

Commissioner Montemayor said the agency had a fairly wide range of regulatory options for dealing with the handful of companies that cannot make the deadline. If necessary, the agency could place a company into conservatorship and arrange a merger with a company that is Y2K ready. He added that he had seen few companies so ill-prepared that TDI needed to take regulatory action. The Department generally believes that most insurance companies have taken the steps needed to be ready for Y2K. Some insurers, however, may encounter a few Y2K-related problems.

Health Care

Two important trends in Texas' health care industry continued in FY 99:

- the steady enrollment growth of basic service HMOs, and
- the troubling financial losses of a majority of HMOs.

As shown by Figure VIII, enrollment jumped almost 300 percent from 1990 to 1999. By the end of FY 99, almost 20 percent of the state's residents were enrolled in basic service HMOs. Enrollment in Medicare HMOs prepared for a major decline in enrollment as FY 99 ended with five Texas HMOs announcing plans to pull out of Medicare on January 1, 2000. TDI made special efforts to inform the approximately 31,000 Texans affected by the withdrawals about their alternatives in seeking other Medicare coverage.

Texas HMO Enrollment, Calendar Years 1981–1999

Figure VIII

YEAR	¹ TOTAL HMO MEMBERSHIP	
1981	114,300	
1982	170,100	
1983	272,446	
1984	392,800	
1985	564,430	
1986	780,598	
1987	1,043,823	
1988	1,300,000	
1989	1,626,099	
	BASIC SERVICE MEMBERSHIP	SINGLE SERVICE MEMBERSHIP
1990	1,320,707	542,315
1991	1,423,933	626,027
1992	1,485,764	857,515
1993	1,612,327	960,352
1994	1,806,109	1,131,716
1995	2,188,330	1,294,079
1996	2,717,778	1,936,345
1997	3,204,998	2,288,976
1998	3,768,999	2,421,847
1999 (through June)	3,820,041	2,695,696

¹Note is on page 8

¹ **Note:** From 1986 through 1989, the “approximate” membership count included “Basic Service” HMOs and “Single Service” HMOs combined. There were no “Single Service” HMOs before 1986. Taken from FY 90 Annual Report, State Board of Insurance. Membership numbers were compiled from annual statements filed by the HMOs. They include only HMO members. They do not include members of self-funded plans for which the HMOs had administrative services only (ASO) contracts. There may be overlap between basic service and single service enrollment.

The worrisome string of money-losing quarters for Texas’ basic service HMOs stretched to 14 in FY 99, adding up to total losses of \$1.15 billion for those quarters. During calendar year 1998 alone, basic service HMOs lost \$333 million on their Texas business and only 13 of the 50 individual HMOs recorded a profit.

During FY 99, the state recorded its first HMO insolvency since 1991. A state district court judge in Austin placed WellChoice HMO of San Antonio into temporary receivership on February 3, 1999. WellChoice is the trade-style name, or “dba,” of Comprehensive Health Services of Texas Inc. TDI acted quickly to arrange for all 17,000 WellChoice members to transfer to PacifiCare of Texas Inc. The agency also issued a bulletin and news release warning health care providers that the *Texas Insurance Code*’s “hold harmless” provisions prohibited them in most cases from billing patients for charges WellChoice could not pay. The HMO failure left network doctors with more than \$5 million in unpaid bills.

TDI rules implementing Senate Bill 385, the 1997 major rewrite of HMO statutes, had established tougher financial requirements, but former Commissioner Elton Bomer and then Commissioner Montemayor felt that more protection was needed for the public. As part of its recommendations to the 1999 Texas Legislature, the agency asked for legislation to strengthen its hand in analyzing HMOs financial health. The result was House Bill 3023, which as of September 1, 1999, established true net worth requirements for HMOs and allows TDI to establish risk-based capital requirements for HMOs. Prior to HB 3023, HMOs did not have to set aside assets to support all of their liabilities when determining compliance with minimum statutory requirements. For example, claim liabilities covered by hold harmless clauses did not have to be supported by corresponding HMO assets. SB 3023 was considered by TDI regulators to be an important piece of solvency legislation that could help head off future failures such as WellChoice.

Insurance Fraud

Insurance fraud is one of the costliest white-collar crimes in the nation, ranking second only to tax evasion. Fraud drives up the cost of insurance and, in the extreme, can even threaten the financial health of an insurance company. The National Insurance Crime Bureau estimates that the average insurance consumer pays an extra \$200 to \$300 per year in premiums because of fraud. The total cost of insurance-related fraud in the United States exceeds \$120 billion a year. TDI’s Insurance Fraud Unit attacks fraud of various types and on various levels with the ultimate goal of protecting consumers from crooked agents, unlicensed insurers and higher premium costs resulting from claim fraud.

The Fraud Unit conducted a lengthy investigation into the fraudulent practice of “clean sheeting.” In a common “clean sheeting” scenario, an agent colludes with terminally ill persons to submit life insurance applications falsely presenting the applicants as healthy. They carefully apply only for policies with death benefits below the amount that triggers a physical examination. After the policies are issued, the insureds soon sell them to investors through viatical settlement brokers. The agents profit by collecting commissions on the fraudulently obtained policies. Potential losers in the process are viatical settlement investors, many of whom are elderly, and insurance companies.

In June 1999, a Dallas County grand jury indicted 32 people for “clean sheeting,” including the vice president of marketing for a viatical settlement company, life insurance agents and individuals who applied for the policies.

The indictments culminated an eight-month investigation by the Insurance Fraud Unit, the State Securities Board and the Dallas County District Attorney's Office.

Another arm of TDI works to detect fraudulent claims that can drive up property insurance rates. The State Fire Marshal's Office is on the front lines in arson investigations in the state. For example, in December 1998, the Flatonina Police Department asked the SFMO to investigate a suspicious house fire. A six-month investigation resulted in indictment of the property owners who had filed to collect \$70,415 on an insurance policy.

Looking to the Future

FY 99 saw significant movement in Washington, D.C., toward adoption of legislation to repeal the federal law that has separated the insurance, banking and securities industries since the 1930s. One result would likely be an insurance market considerably different from today's.

The focus at the publishing deadline of this report was on Senate Bill 900, the Financial Services Modernization Act of 1999. Supporters said the proposal would make U.S. financial services industries more competitive worldwide, lead to more cross-industry mergers that should reduce insurer expenses through economies of scale and translate into lower prices and better services for consumers.

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 and other orders designed to protect Texas insurance consumers.

As part of his regulatory duties, the Commissioner issues benchmark rates for automobile and residential property insurance and presumptive rates for credit life and credit disability insurance. He promulgates rates for title insurance, Texas Automobile Insurance Plan Association ("assigned risk plan") coverages and the Texas Windstorm Insurance Association ("Windpool"), formerly the Texas Catastrophe Property Insurance Association ("Catpool").

In addition, the Commissioner reviews auto and residential property rates outside the flexibility bands and workers' compensation insurance rates, as necessary. 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 commercial, general liability, glass, miscellaneous liability, mortgage guaranty, medical malpractice, other professional liability and commercial umbrella.

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 FY 99, the Commissioner's Office included the Chief of Staff and six activities. Effective September 1, 1999, the Chief Economist position was transferred to the new Property and Casualty Program.

Chief of Staff and Senior Associate Commissioner for Administration oversees Administrative Operations, which includes the agency's computer and data services, business planning and redesign, accounting, budget, building and records management, purchasing, mail services, personnel and staff development, as well as the agency ombudsman and ethics advisor charged with helping encourage positive solutions to workplace problems.

General Counsel and Chief Clerk serves as the Commissioner's chief legal adviser on contested cases, coordinates all rate hearings and assists in developing rules, setting rates and handling various appeals to the Commissioner. In addition, the office coordinates matters involving contested cases and rulemaking, performs legal research, certifies rules for the agency and maintains records of proceedings involving Commissioner actions. The office also handles several hearings-related duties, including coordinating hearing notices and scheduling hearings with the State Office of Administrative Hearings (SOAH), along with providing a court reporter as required.

Chief Economist served during FY 99 as the Commissioner's chief research and technical adviser, providing studies of insurance markets and developing analyses of regulatory policies, including the impact of proposed rules on markets and rates.

Executive Services provides clerical and other support services to the Commissioner and staff.

Internal Audit serves as an independent activity within the Department to evaluate financial, administrative, operational and compliance controls and to make recommendations to the Commissioner and agency management for improvement. An important part of Internal Audit's role is to identify ineffective, inefficient and inappropriate policies, procedures, programs, activities and processes and to serve as a resource and adviser to management.

Government Relations serves as TDI's liaison with the Legislature and other governmental entities. Major responsibilities include:

- Overseeing implementation of legislation.
- Helping the Commissioner determine the legislative needs of the agency.
- Representing the Commissioner on the Texas Healthy Kids Corporation board of directors.
- Serving as TDI's liaison to the Texas Health Insurance Risk Pool.
- Preparing a biennial report to the Legislature.
- Coordinating and tracking agency-wide responses to legislative and constituent inquiries.
- Monitoring and analyzing legislation affecting the agency.
- Updating agency staff on status of legislation.
- Coordinating the appearance of agency staff for testimony before various legislative committees.
- Indexing all insurance and agency-related legislation adopted by the Legislature.
- Distributing requested information to legislators, committees and other governmental entities.
- Researching and reviewing possible appointments to various boards and committees required to assist the department or administer certain programs.

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

- **Media**—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 TDI's Internet Web site; operating NEWSline, a toll-free information line that gives radio stations prerecorded insurance information; maintaining an Internet Web page for information of interest to the news media; providing weekly news media tips on upcoming hearings; providing expertise in radio-television production; and responding to information requests.
- **Insurance Regulators**—coordinating electronic mail among TDI, other state insurance departments and the National Association of Insurance Commissioners.
- **Legislators**—coordinating the writing and editing of the Annual Report to the Governor and Legislature.

- **Public/Industry**—writing speeches; writing and editing the agency’s regulatory newsletter (*Texas Insurance News*); working with other TDI programs to provide information through an Internet Web site; writing and overseeing production of radio and television public service announcements (PSAs) and other videos; writing and editing consumer brochures and consumer-oriented newspaper columns in cooperation with other TDI divisions; designing, illustrating and producing agency publications and related print materials; and responding to information requests.
- **Internal**—producing the agency’s employee newsletter (*The Bulletin Board*); providing a weekly summary of significant trade journal articles; issuing electronic news and information bulletins to TDI staff; sending out electronic agency news items; and helping edit various agency reports and documents.

Accomplishments & Actions

Major insurance regulatory actions and accomplishments of the Texas Department of Insurance in Fiscal Year 1999 included:

Administration

- Realigning functions effective September 1, 1999, to establish separate programs for Life, Health and Licensing and for Property and Casualty and to move Early Warning and SDR Contracting to Financial.
- Completing testing in the summer of 1999 in preparation for joining NAIC’s System for Electronic Rates and Forms Filing (SERFF).

Agents

- Waiving Texas residency requirements for issuance of local recording agents’ licenses to nonresidents whose home states meet reciprocity and other requirements.
- Undertaking several measures to enable Agents Licensing to answer more incoming calls, including installing an automated voice response system to handle the majority of incoming calls.
- Working with the Agents Licensing Advisory Committee to recommend
 - elimination of 17 license types,
 - provisions that all agents take exams and participate in continuing education and
 - revision of laws on nonresident agents and corporate agencies.

Automobile

- Surveying companies on after-market parts. Some 94 percent of the companies said they pay for an original equipment manufacturer’s part if the consumer or repair shop complains about the fit or quality of an after-market part.
- Cutting private passenger auto benchmark rates an average of 5.5 percent.
- Reducing Texas Automobile Insurance Plan Association rates by 27.4 percent.

Consumer Protection

- Providing staff assistance to:
 - victims of a May 1999 tornado that damaged parts of DeKalb in Bowie County in Northeast Texas;
 - victims of flooding in October 1998 in the San Antonio, New Braunfels, Victoria, Wharton and Cuero areas;
 - victims of Hurricane Bret, which brought high winds and flooding to South Texas in August 1999;
 - victims of wind and hail damage in San Angelo and Midland-Odessa areas in April 1999;
 - victims of Del Rio flooding that began in August 1998.

Enforcement

- Reaching an agreement that obligates Nationwide to open new agencies in minority neighborhoods and increase auto insurance sales in 100 ZIP codes with minority populations exceeding 60 percent.
- Reaching an agreement requiring Allstate to pay \$4.5 million in restitution to people who paid too much for car insurance because their age 50-64 discounts were computed against benchmark rates instead of the individuals' actual rates.

Financial

- Continuing to deal with the Year 2000 computer problem by hiring more than a dozen top Y2K consultants to perform more than 400 Y2K readiness examinations and soliciting Y2K-compliant insurers to be "merger partners" of companies unprepared for the Year 2000.
- Eliminating appeal of exam reports to the Commissioner and replacing it with a two-level appeal process with final decision at the senior associate commissioner level.
- Approving Aetna's acquisition of Prudential's health care business with certain conditions.
- Approving the acquisition of Blue Cross and Blue Shield of Texas by Blue Cross Blue Shield of Illinois.

Fraud

- Investigating cleansheeting cases that led to Dallas County grand jury indictments of 32 people, including three agents.

Health Care

- Adopting a rule requiring HMOs to give 90 days' notice before dropping drugs from their formularies.
- Issuing a bulletin warning WellChoice providers against balance billing enrollees of the insolvent San Antonio HMO.
- Issuing a bulletin reminding insurers and HMOs about the rights of individuals whose Medicare HMOs pulled out of Texas or certain counties in Texas.
- Making certain that utilization review agents understand their obligation to notify patients of their right to independent review following denial of treatment.
- Adopting major HMO rules implementing Senate Bill 385 and other health care bills passed by the 75th Legislature, including certain solvency and deficiency reserve liability requirements that HMOs must follow when their rates are insufficient to pay all expenses.

Legislation

- Making 16 recommendations to the Legislature. Legislators enacted 12 of the recommendations, including a true net worth requirement for HMOs.

Life Insurance

- Issuing a bulletin to life insurers advising how to avoid cleansheeting of applications.
- Warning life insurers against applying new contestable and suicide periods to converted policies.

Property

- Mandating Windpool premium discounts as high as 32 percent for new homes built to the *Building Code for Windstorm Resistant Construction*.
- Providing for separate commercial and residential policy forms for the Texas Windstorm Insurance Association, and expanding coverages to be consistent with policies in the voluntary market, including discounts for installing hail-resistant roofing.
- Reducing homeowners benchmark rates by an average of 6 percent statewide.

Title

- Notifying the title industry that settlement statements must disclose any splitting of the real estate broker's commission.

Tort Reform

- Ordering tort reform rate reduction factors totaling \$697.9 million for 1999.

Workers' Compensation

- Adjusting classification relativities for 1991–95 experience and reducing the number of classifications by 30 percent.

Other Highlights

General Counsel/Chief Clerk

- Reviewing, briefing and advising the Commissioner in 65 rulings in connection with contested cases set and/or heard by the State Office of Administrative Hearings, including benchmark and other rate cases. Also reviewing, briefing and advising the Commissioner on other rate matters concerning title insurance, home equity insurance, the Texas Windstorm Insurance Association (TWIA) and tort reform.
- Briefing and advising the Commissioner on 21 appeals. These included appeals from decisions of TWIA, Texas Medical Liability Insurance Underwriting Association (Joint Underwriting Association) and the Texas Workers' Compensation Insurance Facility, now known as the Facility Insurance Corporation.
- Providing legal, technical and editorial services in connection with the adoption of 18 new rules, the repeal of 15 rules and the amendment of 28 previously adopted rules. Forty-two proposed rules were pending at the end of FY 99.
- Providing some 109 computer files to the *Texas Register*, including tables on all previously adopted rules.
- Processing for legal staff 37 assurances of voluntary compliance (AVC) and 262 consent orders involving agents and insurers.
- Reviewing and processing, plus advising the Commissioner on, 12 Manual rules under Articles 5.96 and 5.97 of the *Texas Insurance Code*. Sixteen were still pending at the end of FY 99.
- Continuing to streamline the agency's internal rulemaking process.
- Updating additional portions of TDI's database of Commissioner orders and Bulletins. The database now includes 36 years of orders by insurance commissioners and the former State Board of Insurance.
- Maintaining the Commissioner's Agendas on TDI's Web site and working with other areas to circulate proposed rules and bulletins via the Internet.
- Approving and processing bulletins and other non-disciplinary or rate orders signed by the Commissioner of Insurance.
- Maintaining and preparing 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 assisting the Office of the Attorney General in any related appeals filed with the District Court.
- Providing editing and formatting changes to the *Texas Administrative Code*, Chapter 11, Health Maintenance Organizations. The changes involved 13 subchapters and affected numerous rules.
- Briefing and advising the Commissioner of Insurance and other staff members in various rule and other types of hearings.

Chief Economist

- Investigating computer catastrophe models, their use in ratemaking and the process by which insurers and modelers can justify their relevancy.
- Studying the effects of tort reform legislation on the industry.
- Developing recommendations for designating underserved markets in automobile insurance.
- Analyzing the factors leading to automobile insurance underserved markets.

- Participating in the review and recommendation concerning homeowners and automobile benchmark rates.
- Participating in the process of reviewing title insurance rates and rules.
- Participating in reviewing presumptive credit life and credit disability insurance rates.

Executive Services

- Helping the Commissioner and staff respond to all inquiries directed to the Commissioner of Insurance.
- Coordinating the activities of the Commissioner of Insurance and agency staff as directed by the Commissioner.

Internal Audit

- Conducting eight financial-related or performance audits, including completion of a performance measure review for the State Fire Marshal's Office, reviews of property inventory controls, travel paid from non-state sources, claim and settlement process for damaged equipment and a statutorily required audit of seized/forfeited property. Two of the eight audits were ongoing at fiscal year-end.
- Serving as the Department's liaison to external auditors on three projects, including the State Auditor's Office (SAO) review of TDI's EDP (Electronic Data Processing) General Controls, completion of the FY 98 Statewide Financial Audit and preparation for the SAO's upcoming audit of the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Association. One project was on-going at fiscal year-end.
- Serving as an advisor on 10 projects. Five of these were long-term projects that span multiple years and include the Planning Work Group Advisory, the Year 2000 Advisory, the Performance Measure Self-Audit, an advisory involving the definitions and methodologies of TDI's performance measures and the Document Management Advisory. Other advisory projects started in FY 98 include the Open Records Tracking System Advisory (Phase I), Policy Approval Tracking System (PATK) Redesign Advisory (both completed in FY 99) and on-going work on the State Agency Internal Audit Forum (SAIAF) Peer Review Workgroup. The 1999 advisory projects include the Billing System Advisory, which was completed during FY 99, and the Status of FY 98-99 TDI Internal Audit Recommendations, which was near completion at fiscal year-end.
- Conducting nine investigations as authorized under Section 2102.003 (2) (E) of the *Government Code*. One of the nine investigations was in process at fiscal year-end.
- Conducting two information system/telecommunication audits: an audit of telephone services for FY 99 and a review of EDP General Controls. Both of these projects were completed by fiscal year-end.
- Performing two quality assurance audits. One quality assurance audit was a peer review of the Texas Railroad Commission's Internal Audit division, which began in the latter part of FY 98. This review was part of the State Agency Internal Audit Forum's (SAIAF) program to ensure an on-going, high level of quality and integrity of internal audit work. The other quality assurance audit was a review of TDI's Compliance with Year 2000 Requirements. Each of these audits was completed by fiscal year-end.

Government Relations

- Providing legislators and committees with information and agency witnesses on 13 TDI recommendations during the 1999 legislative session. (The *Texas Insurance Code* requires that the Commissioner recommend necessary changes in state insurance laws to each legislative session.)
- Tracking 2,005 bills during the 1999 legislative session.
- Working with bill authors, sponsors, industry groups, consumer groups, agency staff and other interested parties to implement 170 insurance-related bills passed during the 1999 legislative session.

- Providing technical assistance to legislators concerning requirements of the *Texas Insurance Code* and TDI rules adopted and published in the *Texas Administrative Code*.
- Coordinating legislative implementation plans for TDI and publishing the plans on TDI's Internet Web page.
- Providing technical assistance on HMO and health insurance to be provided through the Children's Health Insurance Program (CHIP).
- Posting indexes of insurance related legislation adopted during the 1999 legislative session, as well as on-line links to electronic copies of the bills via TDI's Internet Web page.
- Coordinating recommendations for appointment of numerous members to advisory committees and boards.

Public Information Office

- Working with Consumer Protection, Information Services, the Webmaster and Gatekeepers to create a new "physician/provider" Web page to keep doctors updated on the agency's key health insurance-related actions.
- Working with Consumer Protection and other areas of the agency to produce *Insurance on the Internet—Shopping Tips and Dangers*, an online publication for consumers considering the purchase of insurance on the Internet, and to update one of the agency's major publications, *Your Health Care Coverage* (previously called, *Questions About Your Health Care Coverage*).
- Working with the Chief of Staff's Office to ensure that applications and software used by the Commissioner's Office would operate properly on and after January 1, 2000.
- Working with the Inspections Division to educate consumers on the state's new *Building Code for Windstorm Resistant Construction* for the Texas coastal counties. That project included meeting with reporters and producing a television spot to let coastal residents know how the new code and inspection requirements will affect new home construction and home renovation.
- Helping the State Fire Marshal's Office produce its quarterly newsletter, FireLines, and a 30-second public service announcement on arson awareness.
- Designing and helping introduce new letterhead, memo, envelope and fax cover designs and templates for the agency, as well as a standard agency ID card.
- Working with Consumer Protection and Regulation and Safety to create a new "Good Rates for Good Drivers" public information campaign promoting TDI's auto market assistance program (MAP). Although much of the work on the program occurred in FY 99, the news conference to announce the new program was held in FY 2000 (September 7, 1999). The auto MAP program is designed to help good drivers in underserved areas obtain coverage at reasonable rates. PIO's effort included production of consumer columns, news releases, press conference material, graphic presentations and TV public service announcements for the underserved areas.
- Maintaining and updating an Internet Web site for the Texas Health Insurance Risk Pool throughout FY 99.
- Helping draft the agency's comprehensive disaster plan, especially sections involving ways of informing the public and news media in an emergency.

Summary of Activity—Commissioner's Office

Figure I-1

	FY98	FY99
Commissioner Hearings/Meetings	80	² 43
¹ Commissioner's Orders	1,457	1,798

¹ Commissioner's Orders in FY99 included 253 disciplinary orders, 74 rules/manual orders, 1,295 company activities orders, 70 authority orders for temporary acting commissioner, 7 delegation orders for routine actions and 99 other types of orders

² The number of hearings/meetings was down because FY99 was a Legislative session year.

Figure I-2 Commissioner’s Contested Case Hearings by Type, FY98–FY99

	FY98	FY99
Total Hearings		
¹ Conducted for Commissioner	74	52
Rate Hearings	3	2
Disciplinary	46	30
License Applications	5	5
² Appeals/Other	20	15

¹ Total number of actual hearings conducted for the Commissioner by the State Office of Administrative Hearings (SOAH). The count excludes prehearing conferences and second and more days of extended hearings.

² “Appeals/Other” includes appeals of actions taken by the Texas Workers’ Compensation Insurance Facility, now known as the Facility Insurance Corporation, the Texas Catastrophe Property Insurance Association (“Catpool”), now known as the Texas Windstorm Insurance Association (“Windpool”), and the Texas Medical Liability Insurance Underwriting Association (Joint Underwriting Association).

Figure I-3 Summary of Activity–Internal Audit

	FY98	FY99
Projects Completed	17	30
Reports Issued	15	19

Figure I-4 Summary of Activity–Public Information Office

	FY98	FY99
¹ Press Releases	117	73
News Tips	51	50
NEWSLine Audio Releases	28	15
Speeches/Testimony	27	28
Graphic Design Orders Filled	381	204
General Information Requests	5,092	4,133
Electronic Bulletins	652	560
Electronic Managers’ Memos	0	0

¹ Press releases do not include the 24 Consumer Columns issued each year by the Commissioner of Insurance (12 English and 12 Spanish). Also not included in the summary are 12 issues of Texas Insurance News, a regulatory newsletter aimed at agents and others interested in the insurance industry, and 12 issues of the Bulletin Board, the TDI employee newsletter.

Legal and Compliance

LEGAL AND COMPLIANCE enforces the *Texas Insurance Code*, investigates and takes action in connection with company and agent misconduct, drafts rules and regulations and provides legal advice and support to the agency.

Legal and Compliance consists of five sections:

Agency Counsel section provides legal advice to the Commissioner and agency staff regarding internal agency operations, including contract matters, personnel matters and open records requests. The section staff also negotiates contracts, drafts proposed policies and rules and assists in drafting legislation.

Regulation and Safety section drafts rules and regulations and provides legal advice and expertise in matters relating to property and casualty lines; life, accident and health insurance; managed care plans; workers’ compensation; and other regulated lines of insurance. Regulation

and Safety also assists on rate-related issues and agents' licensing matters. (Effective September 1, 1999, this section is called the Regulated Lines Counsel section.)

Financial section provides legal advice and representation in matters involving financial solvency and conservation, drafts rules, reviews holding company transactions and provides support regarding company licensing matters. Financial also brings enforcement actions against insurers, HMOs and title companies resulting from statutorily mandated examinations.

Enforcement section brings administrative actions as warranted against licensed companies and agents for violations of the *Texas Insurance Code* or the *Texas Administrative Code*. It also investigates allegations of illegal activities and prosecutes disciplinary actions that may result in cease-and-desist orders, license denials, revocations, administrative penalties and restitution to harmed consumers. The section refers cases for criminal prosecution and works with the Office of the Attorney General (OAG) on appeals of enforcement actions. It also prosecutes violations that affect marketing and servicing of insurance products or TDI's ability to regulate the industry, recognizing that insurance must be sold and serviced in a fair and competitive market, free from deceptive practices and unlawful competition.

Compliance Intake Unit provides data and file management and public assistance telephone support to the Legal and Compliance Division. The section is also responsible for analyzing and referring complaints and reports to the appropriate areas within Legal and Compliance. Such referrals generally are made within 48 hours of receipt.

Legal and Compliance includes a Special Litigation Counsel and International Regulatory Counsel/Special Counsel to the Commissioner. The program also oversees the agency's Library.

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

International Regulatory Counsel/Special Counsel to the Commissioner provides legal advice and support to the agency and the Commissioner on international insurance regulatory issues. The Counsel's office was created to monitor and comply with the agency's requirements under the North American Free Trade Agreement and other trade accords, as well as resolving legal disputes and serving as liaison to insurers, government agencies and other countries on crossborder insurance matters.

Highlights

Major accomplishments by Legal and Compliance for Fiscal Year 1999 included:

- Providing \$893,440 in restitution to consumers and obtaining payment of \$3,469,718 in administrative penalties, fines and forfeitures. The restitution and penalties included:
 - Restitution of \$423,061 in overcharges to Government Employees Insurance Company and GEICO General Insurance Company policyholders in connection with rates charged for private passenger automobile insurance policies written prior to March 17, 1998, but effective on or after that date.
 - Restitution of \$408,802 in overcharges to Texas Farmers Insurance Group policyholders who qualified for the group's "preferred" company but were placed with a more expensive "standard" company because they wished to purchase greater than the state-mandated minimum amount of liability insurance but did not choose to purchase physical damage coverage. This requirement was a violation of 28 TAC §21.1005. The company also paid an administrative penalty of \$100,000.
 - A penalty of \$1,283,000 against Financial Insurance Exchange in which the company was asked to cease marketing, soliciting or selling any credit insurance coverage that extends beyond the vendor's security interest in the goods sold.
- Obtaining a consent order requiring restitution of \$3,100,758 to 71 policyholders of the Orion Insurance Group who did not receive refunds of surplus workers' compensation

premiums paid into the Texas Workers' Compensation Facility for retrospectively-rated insurance during 1991–92.

- Working closely with the Financial Program in a joint effort to assure that all licensed insurers in Texas are prepared to continue operations into the year 2000 without an interruption of service to policyholders. All companies that did not adequately respond to TDI Y2K inquiries were requested to attend a management conference with Financial Program and Financial Section attorneys. After the management conferences, Financial initiated administrative actions against several companies.
- Providing legal assistance and preparing amendments to the tort reform rate reduction rules to establish new rate reduction percentages for liability policies issued in 1999.
- Participating in five industry-wide rate proceedings: the title insurance rate hearing, the credit insurance rate hearing, the private passenger and commercial automobile insurance benchmark rate hearing, the Texas Automobile Insurance Plan Association (TAIPA) rate hearing and the residential property rate hearing. In each of these proceedings, staff retained an actuarial expert and provided testimony and evidence.
- Concluding an innovative settlement with Nationwide Insurance Company over allegations that Nationwide had engaged in discrimination by locating its offices outside minority neighborhoods as part of a marketing strategy to systematically exclude racial minorities from access to Nationwide's homeowners and personal auto products. After more than eight months of negotiations, Nationwide agreed to sign an Assurance of Voluntary Compliance (AVC) requiring the company to establish 20 new agencies that would focus sales efforts in ZIP codes where the minority population exceeded 60 percent. The AVC includes a commitment that, for the first time, Nationwide will provide auto and homeowner coverage products in the Lower Rio Grande Valley. A significantly expanded presence also is planned in approximately 100 ZIP codes in six major cities that have predominantly minority populations.
- Coordinating with Liquidation Oversight to identify problems with the handling of workers compensation claims by the Property and Casualty Guaranty Association, and drafting orders to remedy the situation. The effort has ensured the payment of valid workers' compensation benefits by TPCIGA, expedited the processing of claims and lowered the costs of administration.
- Working closely with the Title Division to identify numerous title agencies suspected of having financial problems. Efforts included contacting the companies and requesting that they provide balance sheets or financial information that reflect a solvent position. In the cases where insolvency was indicated, agencies were required to make capital infusions or issue stock in lieu of loans to reverse their insolvency or hazardous financial condition.
- Negotiating with attorneys representing the Life, Accident, and Health Guaranty Associations of numerous states and with several insurers to finalize a liquidation plan for a recent receivership. The plan provided for the assumption of almost all of the insolvent insurer's policies, which resulted in preservation of estate assets and greater continuity of coverage for the policyholders.
- Working with other areas of the agency to update the agency's personnel and operational policies. TDI employee manuals are located on the agency's shared network drive to facilitate access. Distribution of hard-copy manuals has been reduced to management and special requests. This has eliminated printing and paper costs, while ensuring that each employee has access to the most recent information on agency policies.
- Amending the TDI Contracting Manual, which provides for writing and executing contracts. Contract forms contain standard language included in all TDI contracts. Standardization decreases the percentage of staff time required to write and review contracts and associated documents, increases efficiency, allows non-attorneys to begin basic drafting of documents for an attorney's review and ensures that essential language is included to provide legal protection to the agency.

- Implementing a revamped computerized system for tracking and maintaining information about open records requests received by the agency. This system will help ensure that the agency continues to provide timely and customer friendly responses to requests for information under the Texas Public Information Act.
- Providing significant legislative assistance regarding agents licensing, mandatory liability insurance and life/health/HMO issues.
- Implementing the new home equity constitutional amendment.
- Providing substantive and administrative support for a major rewrite of Texas Windstorm Insurance Association policy forms, endorsements and manual rules.

Summary of Activity – Legal and Compliance Figure I-5

	FY95	FY96	FY97	FY98	FY99
Cases received ¹	2,425	2,535	1,541	1,160	1,021
Cases closed ²	2,975	2,530	1,654	1,320	1,059
License revocations ³	95	108	76	62	59
License denials ⁴	14	51	41	57	23
License suspensions/suspensions of writing ⁵	4	6	11	5	12
Cease and desist orders ⁶	26	4	4	3	1
Monetary forfeitures/restitution orders ⁷	74	71	54	128	162
Assurances of voluntary compliance ⁸	0	44	50	32	31
Forfeitures/assessments/Restitution ⁹	\$19,324,154	\$2,179,383	\$78,270,762	\$15,623,697	\$4,363,158
Cases referred to attorney general/district attorneys ¹⁰	134	0	1	0	0

- ¹ The Fraud Unit became a separate division in FY96, causing a reduction in cases received by Legal and Compliance. Procedures changed to link complaints received to existing cases when possible.. In addition, complaints are now more closely scrutinized and resolved before a case is opened.
- ² The Fraud Unit became a separate division in FY96, causing a reduction in cases received and closed by Legal and Compliance.
- ³ Revocations have decreased as TDI has relied more on probation, payment of a fine and restitution to consumers rather than license revocation.
- ⁴ Previously all license denials went to Legal and Compliance for processing, which increased the number of cases opened. License denials are now handled by the Licensing Group. Only those denials where a hearing is requested are referred to Legal and Compliance.
- ⁵ This includes actions against financially hazardous companies under Article 1.32, Texas Insurance Code.
- ⁶ The number of cease and desist orders in the Legal and Compliance Program decreased as a result of the Fraud Unit becoming a separate division in FY96.
- ⁷ These orders have almost tripled since FY97. More agents and companies are being assessed fines and payment of restitution instead of revocation of licenses. This number does not include assurances of voluntary compliance; only orders are included. It also includes Fire Marshal orders.
- ⁸ TDI is focusing more on commissioner's orders rather than voluntary agreements.
- ⁹ In FY97 and FY98, TDI resolved several large enforcement cases. The FY99 total does not include an estimated \$3.1 million in restitution to be paid to policyholders of the Orion Group. Although the order was entered in FY99, the actual amount paid will be assessed in FY 2000.
- ¹⁰ The Fraud Unit, which became a separate division in FY96, now handles the referral of these kinds of cases.

Insurance Fraud Unit

THE INSURANCE FRAUD UNIT prepares cases for criminal prosecution based on evidence of fraud committed by persons engaged in the insurance business, whether licensed or unauthorized, and claim fraud committed by policyholders, service providers and others.

The unit also refers cases for civil litigation and may refer cases to the Attorney General for injunctive relief. Beginning September 1999, all civil and administrative enforcement activities were transferred to TDI's Legal and Compliance Division. The Insurance Fraud Unit will concentrate on criminal insurance fraud investigations.

The Unit consists of four sections:

Unit Management includes the Associate Commissioner, Deputy Commissioner/Chief Investigator and Special Projects Officer. By statute, the Chief Investigator supervises and directs all peace officers and coordinates and oversees all investigations conducted by the Fraud Unit.

Insurer Fraud, which includes Licensed Entities and Unauthorized Insurance sections:

- investigates fraud cases involving companies, agents and other TDI licensees, including third party administrators, continuing care retirement communities and eligible surplus lines insurers and
- fraud cases involving unlicensed insurance operations. Among these are entities falsely claiming exemption from regulation under the Employee Retirement and Security Income Act (ERISA), including unlicensed Multiple Employer Welfare Associations (MEWAs).

Claimant and Provider Fraud, which includes Property and Casualty and Health Care sections, investigates

- staged accident rings, arson and fake burglary claims, staged slip-and-fall cases and other suspicious liability insurance claims and
- examines 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 overbilling, double-billing, billing for procedures not performed and “unbundling” of charges to artificially inflate billings.

Legal Section provides both civil and criminal legal resources for the unit’s investigations, including drafting search warrants and enforcement orders, coordination with district attorneys and assistance with prosecution of cases.

Fraud Unit History

Concern over insurance fraud and the Department’s ability to detect it resulted in legislation passed in 1989 giving the Travis County District Attorney statewide jurisdiction to prosecute insurance fraud.

Improvement in fraud-fighting efforts continued when the 72nd Legislature created the Insurance Fraud Unit in 1991. The Fraud Unit became active in January 1992.

The 74th Legislature in 1995 made significant changes in TDI’s fraud enforcement authority. Legislation authorized the Commissioner of Insurance to commission eligible fraud investigators as peace officers, removed the requirement that a pattern of fraud be established before TDI could investigate alleged consumer and provider fraud cases and defined insurance claim fraud in greater detail and provided criminal penalties, ranging from a Class C misdemeanor to a first degree felony, for insurance claim fraud.

TDI’s Fraud Unit has doubled in size since FY95 with the addition of investigators, criminal analysts and attorneys. The Texas Commission on Law Enforcement Officer Standards and Education recognized the unit as a law enforcement agency, effective September 1, 1995. Law enforcement agency status, with commissioned peace officers, enhances TDI’s anti-fraud efforts by giving the agency:

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

On a national level, the unit works with the Coalition Against Insurance Fraud, the National Insurance Crime Bureau, the National Association of Insurance Commissioners (NAIC) and federal law enforcement agencies such as the FBI, IRS, U.S. Postal Service and U.S. Attorneys.

Highlights

Major accomplishments by the Insurance Fraud Unit for Fiscal Year 1999 included:

- Obtaining 119 indictments on 113 individual subjects on charges that included theft, conspiracy, insurance fraud, misapplication of fiduciary property, securing execution of a document by deception and unauthorized insurance activity.
- Arresting, either directly or with other law enforcement officers, 16 suspects indicted on charges involving alleged insurance fraud.
- Obtaining 60 convictions, through various Texas district attorneys, on charges resulting from Fraud Unit investigations.
- Installing a new ASIS CaseManager investigation management system to increase efficiency and effectiveness.
- Instituting a ranking system, with a clear chain of command, coupled with shifting of more authority and responsibility to section chiefs to improve accountability and more evenly distribute management and administrative responsibilities.
- Establishing the position of Criminal Analyst, one for each section, to assist investigators in conducting detailed analytical work. The change is resulting in much more efficient use of investigators' time.
- Shifting intake of criminal fraud complaints from Legal and Compliance to the Fraud Unit, and shifting remaining civil and administrative functions from the Fraud Unit to Legal and Compliance.
- Participating in numerous criminal task forces around the state that involve white-collar crime and insurance fraud.
- Reducing the number of operational sections from five to three, decreasing the management-to-staff ratio and providing more streamlined management and administration of the Unit.
- Establishing a Deputy Commissioner position and giving section chiefs supervisory responsibility to create a more structured chain of command.
- Hosting the first Summit of State Insurance Fraud Units in October 1998.
- Hosting the first annual statewide training session for insurance company Special Investigation Units in January 1999.
- Hosting a seminar presented by Steve Shaw on Organized Insurance Fraud Rings in July 1999. The seminar was attended by insurance company Special Investigation Unit investigators, state and federal law enforcement officers and Fraud Unit investigators.
- Establishing a TechNet connection and terminal with DPS for Agents Licensing to use in conducting criminal history checks. This is the first time DPS has allowed a state agency to have a terminal solely for that purpose.

Summary of Activity—Insurance Fraud Unit

Figure I-6

	FY98	FY99
Cases Received (Reports of Fraud) ¹	1,619	1,623
Cases Closed	456	491
Enforcement Actions:		
Cease and Desist Orders	9	14
Other Enforcement Orders	6	0
Assurances of Voluntary Compliance	11	5
Total Enforcement Actions	26	19
Monetary Forfeiture/Restitution Orders	36	31
Forfeitures/Assessments ² (Fines & Penalties)/Restitution ³	\$1,649,498	\$775,115
Cases Referred to Attorney General/District Attorneys ⁴	88	178
Indictments ⁵	79	119
Arrests By Fraud Unit Peace Officers ⁶	5	16
Convictions	54	60

¹ Term used in Fraud Unit and in Fraud Unit performance measures.

² Terms used in Fraud Unit and in performance measures.

³ The reduction in forfeitures/assessments (fines and penalties)/restitution during FY99 represents a transition toward investigating only criminal insurance fraud that culminated in shifting all civil enforcement activities to Legal and Compliance effective September 1, 1999.

⁴ This figure for FY99 constitutes a total of 178 referrals on 146 individuals.

⁵ This figure for FY99 constitutes a total of 119 indictments returned on 113 individual subjects.

⁶ This figure represents only arrests executed directly by Fraud Unit Peace Officers or in which Fraud Unit Peace Officers participated.

Figure I-7 Judgments Assessed Against Unauthorized Insurance Operations, FY96–FY99

JUDGMENT	FY96	FY97	FY98	FY99
Civil Penalties	\$8,182,000	\$726,200	\$25,500	\$151,500
Premium Tax Liabilities	\$10,692	\$126,735	\$8,417	\$196,341
¹ Miscellaneous Liabilities	\$216,810	\$5,000	\$19,157	\$5,218
¹ Direct Restitution to Consumers	\$166,747	² \$13,025,000	³ \$79,871	\$7,693

¹ Includes amounts of money believed to represent a loss to consumers through unauthorized operations in Texas, and does not fit any of the other categories.

² FY 97's \$13 million in direct restitution was the result of consent orders against rental car firms that used unlicensed agents to sell supplemental liability coverage.

³ FY 98's figure included restitution ordered in a statewide unauthorized scheme involving a large number of consumer victims.

Financial

FINANCIAL LICENSES all companies operating in Texas and monitors the solvency and market conduct of 2,103 licensed insurance companies and health maintenance organizations (HMOs). In addition, the program seeks to rehabilitate companies that fall short of solvency standards and eventually liquidates the few that cannot be rehabilitated.

The total of all insurers, HMOs, third party administrators and continuing care retirement communities (CCRCs) holding certificates of authority from the Texas Department of Insurance is 2,758 for Fiscal Year 1999. Annual statements filed by insurers and HMOs for Calendar Year 1999 reported \$ 48.0 billion in Texas premiums and \$40.3 billion in claim payments to Texas policyholders. These companies reported aggregate assets of \$ 3.8 trillion, liabilities of \$ 3.3 trillion and capital and surplus of \$ 540.2 billion. More information from insurance company annual statements may be found in Part IV of this report.

Financial Program consists of five activities.

Insurer Services licenses both foreign and domestic insurance companies, maintains company charter files and processes and approves certain transactions for admitted insurance companies. Insurer Services also processes licensing applications for health maintenance organizations. It registers eligible non-admitted insurers and risk retention/purchasing groups, oversees statutory deposits of licensed companies and corporate agencies and maintains the agency database of both licensed and registered companies. The activity tracks purchasing alliances formed under the Small Employer Health Insurance Availability Act.

Financial Monitoring reviews annual and interim financial statements, CPA audits, examination reports, reinsurance arrangements and other documents to determine the financial condition of insurance companies, health maintenance organizations (HMOs) and other licensed insurance entities and to initiate recommendations for regulatory actions as appropriate, such as supervision and conservation. It reviews changes of control, mergers, affiliate agreements and investments and holding company registration statements of insurance companies domiciled, or commercially domiciled, in Texas. In addition, Financial Monitoring reviews all applications for admission, service area expansions, and agreements/contracts of HMOs and monitors the operational and financial condition trends of the HMO industry in Texas.

Actuarial Division performs actuarial examinations that focus on the adequacy of reserves and other actuarial items for HMOs, life and health insurance companies and property and casualty insurance companies. These actuarial examinations are coordinated with other exams performed by the Examinations activity. Actuarial also performs actuarial analyses and actuarial projects that relate to solvency, availability of coverage, policy values, disclosure and consumer equity.

Examinations performs statutory examinations of a variety of entities regulated by the Department, including insurers, health maintenance organizations (HMOs), premium finance companies, managing general agents (MGAs), reinsurance intermediaries and multiple employer welfare arrangements (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. The activity suggests ways to correct deficiencies uncovered by the examinations and initiates referrals for further regulatory action. In addition, the activity 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.

Conservation and Liquidation Oversight provide supervision and conservatorship services and receivership oversight. If a company cannot be rehabilitated, it is placed in receivership by the District Court in Travis County. Receivership involves liquidation of the insurer by a special deputy receiver (SDR) and payment of outstanding covered claims by the appropriate guaranty association.

Rehabilitation tools include informal actions, such as management conferences, as well as progressively more formalized tools, including required filings of business plans with TDI analysts assigned to a financially troubled company. The more formal actions are administered by the Conservation Division and may include placing a financially troubled entity into supervision or conservation. Formal actions also include issuing hazardous financial condition orders that provide for the company to plan and implement specific corrective actions.

Supervision may last up to 180 days. Conservation field examiners use that time to work with owners and management to determine the company's financial condition, check internal management controls and operating procedures and prepare a rehabilitation plan. Conservation releases the company if it can show that the requirements of the Commissioner's supervision order have been satisfied.

Conservatorship requires that a conservator be appointed to take charge of the company. It lasts for 90 days, with possible 30-day extensions for up to six months.

If supervision or conservatorship fails, the Commissioner may ask the Attorney General to petition the District Court in Travis County to place the company in receivership, which involves liquidation of the insurer by a special deputy receiver and payment of outstanding covered claims by the appropriate guaranty association. Such petitions may be requested if the company's financial condition has deteriorated, rehabilitation is not possible and the company is insolvent and/or impaired.

Liquidation Oversight (Oversight) monitors and evaluates each SDR's performance in handling receivership case administration by analyzing business plans, which include financial statements, cost benefit analyses, budgets, estimated general administrative expenses and other planned activities, as required by the *Texas Insurance Code*. Oversight also monitors the state's guaranty associations to ensure the appropriate and fair processing of receivership related claims and complaints, as well as maintains the records of delinquent insurers during and after receivership.

Conservator's Report at the beginning of Fiscal Year 1999 showed Conservation had 35 insurance companies under supervision, conservatorship or special administrative and court-directed actions. Another 30 came to Conservation during the fiscal year, while 30 were closed, leaving a year-end balance of 35 companies.

Liquidation Oversight's Receivership Report showed three insurers placed in receivership during Fiscal Year 1999: one health maintenance organization and two life, accident and health companies. No closed receiverships were re-opened. Four insurers - one property and casualty company and two life, accident and health companies and one fraternal - were placed in receivership in Fiscal Year 1998. Two property and casualty companies and one life, accident and health company were placed into receivership in Fiscal Year 1997.

In FY 99, the Commissioner issued orders declaring three foreign companies—life, accident and health companies—to be impaired. 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. The majority of receivership actions against foreign companies are left to the states where the companies are domiciled.

The Texas Property and Casualty Insurance Guaranty Association made a \$12,000,000 assessment in FY 99 and made no refunds to member insurers. The Texas Life, Accident, Health and Hospital Service Guaranty Association made \$25,154,027 in assessments in Fiscal Year 1999 and refunded \$6,985,234 to member insurers. The Title Insurance Guaranty Association made no assessments in FY 99.

No unauthorized entities were placed into receivership in FY 99. Such actions are now generally handled through cease-and-desist orders or actions by the Texas Attorney General.

During FY 99, five receivership estates were liquidated and closed. That left 30 active receiverships in the process of liquidation—21 property and casualty companies, seven life, accident and health companies, no title companies, one fraternal company and one health maintenance organization.. Liquidation Oversight anticipates closing 21 of the 30 receiverships in FY 2000.

Three key components in overseeing receiverships are:

Special Deputy Receivers—When insolvent insurers are placed in receivership by the District Court in Travis County, Texas, the Commissioner is designated as Receiver. As Receiver, the Commissioner contracts with an SDR to administer the receivership. The *Insurance Code* mandates that the SDR is selected through a competitive bid process.

Guaranty Associations—Some claims against an insolvent insurer are payable by one of three guaranty associations: Texas Property and Casualty Insurance Guaranty Association; the Life, Accident, Health and Hospital Service Guaranty Association; and the Texas Title Insurance Guaranty Association. Funds utilized by the guaranty associations to pay claims are derived from two sources: assessments of member insurers and distributions from receiverships.

Receivership Court (The Special Master)—The District Court in Travis County, Texas is designated by statute as the Receivership Court. It is this Court where receivership actions are brought by the Texas Attorney General, as well as the Court where suits by and against the Receiver are brought. The Court also has exclusive venue over suits against guaranty associations. In addition, the *Insurance Code* provides that the Receivership Court provide judicial supervision for each receivership. The Receivership Court has appointed a Special Master to assist it in this role. The appointment of the Special Master to supervise receivership court proceedings provides a resource for collective expertise in the complex area of receivership law. Receivership assets fund receivership court costs.

Part III, the Receiver's and Conservator's Report, provides more complete information on the individual receiverships and guaranty association accounts.

Highlights

Major accomplishments by the Financial Program for Fiscal Year 1999 included:

- Conducting special on-site examinations to determine insurers' preparedness for the Year 2000.
- Creating a business plan to guide the Program through Fiscal Year 2001.
- Developing a disaster recovery plan to ensure continuation of mission critical functions in the event of a disaster.
- Concluding several multi-billion dollar acquisitions or restructuring filings under the Texas Holding Company Act and other statutes.
- Reviewing approximately 434 license applications, service area expansions, service agreements and other HMO filings.
- Improving a professional training program that resulted in 4,156 hours of continuing professional education for Financial Program staff.
- Recovering \$42,529,337 (net of expenses) in cash from receivership, while holding recovery costs to only 14 percent of asset recovery.
- Distributing \$26,674,049 in cash from receiverships to the property and casualty guaranty association., which increased the funds available to pay claims of insolvent insurance companies and decreased the assessment of member insurers.
- Initiating several regulatory interventions (mainly supervision and conservatorship) in cases involving potentially troubled insurers and other entities.
- Conducting a second examination of the largest surplus lines carrier in the world, Lloyd's of London, and presenting a report of findings to the National Association of Insurance Commissioners. This special review team, consisting of TDI staff, NAIC representatives and other state regulators, was led by Texas Commissioner of Insurance, Jose Montemayor.
- Approving numerous filings related to HMOs, including applications for licensure. From December 31, 1993, to year-end 1997, the number of HMOs in Texas increased from 32 to 70, and HMO basic plan enrollees increased from 1.6 million to 3.2 million.
- Implementing Bar Code System for the Correspondence Files.
- Creating a web site on the Internet to provide Forms and HMO data electronically.
- Conducting an HMO Executive Seminar and a Premium Deficiency Reserve Calculation training session to aid in educating the HMO industry on key topics of interest.

Insurance Companies in Supervision/Conservatorship

Figure I-8

	FY98	FY99
Balance of Companies		
Beginning of Fiscal Year	37	35
Referred During Fiscal Year	16	9
Total	53	44

Insurers Under Court-Directed/Special Administrative Action

Figure I-9

	FY98	FY99
Under Court-Directed Action	0	0
Under Special Administrative Action	7	16
Under Hazardous Financial Condition Action (Article 1.32)	8	5
Total	15	21

Figure I-10 Disposition of Companies Under Rehabilitation

	FY98	FY99
Total (Figure I-8 & Figure I-9)	68	65
Cases Closed		
Rehabilitated	9	10
In Receivership	5	4
Dissolved	3	8
¹ Other Changes	16	8
Total Cases Closed	33	30
Balance at End of Fiscal Year	35	35

¹ FY99: Other changes included: 2 entities moved from supervision to conservatorship; 2 entities moved from supervision to Article 1.32; 1 entity moved from supervision to administrative oversight; 1 entity moved from conservatorship to administrative oversight; 1 entity moved from administrative oversight to supervision; and 1 entity moved from Article 1.32 to confidential conservatorship.

Figure I-11 Texas Guaranty Association Assessments, 1975–1999

YEAR	LIFE/A&H	P&C	TITLE	TOTAL
¹ 1999	\$25,154,027	\$12,000,000	\$0	\$37,154,027
² 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		57,590,000
1988				-0-
1987	33,500,000	41,680,000		75,180,000
1986	5,000,000	20,000,000		25,000,000
1985	8,000,000	20,000,000		28,000,000
1984	4,000,000			4,000,000
1983				-0-
1982	10,000,000			10,000,000
1981	3,000,000			3,000,000
1980				-0-
1979	1,840,000			1,840,000
1978	1,200,000			1,200,000
1977				-0-
1976		4,120,000		4,120,000
1975	600,000	3,305,000		3,905,000

¹ Property & Casualty assessments were billed December 29, 1998, however, no payments were received until calendar year 1999.

² Life/A&H made \$25.1 million in assessments in 1999; however, it refunded \$6.9 million to its member insurers.

Assessments for Life, Accident & Health Guaranty Fund, FY75–FY99

Figure I-12



¹ Due to carryover from assessments in prior years.

Assessments for Property & Casualty Guaranty Fund, FY75–FY99

Figure I-13



¹ Due to carryover from assessments in prior years.

Please note: the two graphs above are not drawn to the same scale.

Summary of Activity—Holding Company

Figure I-14

	FY98	FY99
Applications for Affiliate Transactions and Acquisition of Control or Exemptions Received	681	747
Pending Applications Closed	691	726

Figure I-15 Summary of Closed Applications—Holding Company

	CLOSED AT END OF FY98	CLOSED AT END OF FY99
Reinsurance Arrangements	106	148
Management, Data Processing Service, Cost Sharing Arrangements	173	137
Pledge of Assets and Pooling of Assets	6	3
Investment in, Valuation of, Affiliates	17	26
Purchase of Securities, Real Estate, Automobile Treasury Stock	33	57
Affiliate Loans and Mortgage Loan Participation	6	10
Lease Arrangements	14	33
Issuance of Surplus Debentures/Notes	24	22
Payments On Money Advanced	16	19
Dividends and Other Distributions to Shareholders	155	145
Consolidated Tax Returns	32	30
Financing Arrangements	6	8
Exemption from Commercially Domiciled	9	10
Demutualizations	0	1
Acquisitions of Control	37	38
Exemptions from Acquisition of Control	51	35
MGA Agreements	5	3
Informational Filing by HC Exempt Insurers	0	0
Disclosure of Material Transactions	1	1
Total	691	726

Figure I-16 Amount Paid for Control of Domestic Insurance Companies, FY95–FY99

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

The figure for **FY95** includes one acquisition with a total purchase price of \$1.1 billion. It also includes a portion of the purchase price associated with the recapitalization of an insurance group.

The figure for **FY96** includes one acquisition with a total purchase price of approximately \$4.0 billion and another for approximately \$1.75 billion. This figure does not include the value attributable to several restructurings or mergers involving the issuance of stock.

The figure for **FY97** includes one acquisition with a purchase price of \$3 billion and another for \$2.62 billion.

The figure for **FY98** includes three acquisitions with purchase prices of \$42.6 billion, \$3.124 billion and \$2.3 billion.

The figure for **FY99** includes four acquisitions with purchase prices of \$3.450 billion, \$2.846 billion, \$2.6 billion and \$1.8 billion; and total Health Maintenance Organization acquisitions totaling \$1.279 billion.

Figure I-17 Texas Policyholder Premiums, Claim Payments, CY94–CY98

YEAR	PREMIUMS	CLAIM PAYMENTS	PAYMENTS AS % OF PREMIUM
CY 1994	\$39.7 billion	\$29.0 billion	73.1%
CY 1995	\$42.1 billion	\$33.0 billion	78.4%
CY 1996	\$43.9 billion	\$33.2 billion	76.0%
CY 1997	\$46.4 billion	\$35.0 billion	75.4%
CY 1998	\$48.0 billion	\$40.3 billion	*84.0%

* The dramatic increase in **PAYMENTS AS % OF PREMIUM** in CY98 is due to changes in company reporting and in the surplus lines industry.

Figure I-18 Total Capital/Surplus of Insurance Companies Operating in Texas, CY94–CY98

YEAR	PREMIUMS
CY 1994	\$308.6 billion
CY 1995	\$356.3 billion
CY 1996	\$401.4 billion
CY 1997	\$479.1 billion
CY 1998	\$540.2 billion

Number of Examinations, FY95–FY99

Figure I-19

YEAR	NUMBER OF EXAMINATIONS
FY 1995	160
FY 1996	163
¹ FY 1997	157
² FY 1998	221
³ FY 1999	215

¹ Includes 21 examinations conducted by third party contractors during FY 97.

² Includes 34 contracted examinations and 7 examinations of LRAs

³ Includes 39 contracted examinations

Number of Quality of Care (QOC) Examinations, FY97–FY99

Figure I-20

YEAR	NUMBER OF EXAMS
¹ FY 1997	20
¹ FY 1998	13
FY 1999	25

¹ New function in FY 97. FY 97 exams were produced by third party contractors. In FY 98 staff was retained and procedures developed to perform the function in-house, although this process required over 6 months of FY 98 to implement.

Number of Actuarial Opinions Reviewed, FY95–FY99

Figure I-21

YEAR	NUMBER REVIEWED
1995	1,844
1996	2,012
1997	1,937
1998	2,023
1999	1,627

Number of Actuarial Examinations Performed, FY95–FY99

Figure I-22

YEAR	NUMBER OF EXAMS
1995	89
1996	97
¹ 1997	83
¹ 1998	82
1999	80

¹ Does not include examinations conducted by third party contractors.

Actuarial Projects Completed, FY95–FY99

Figure I-23

YEAR	PROJECTS COMPLETED
1995	286
1996	255
1997	281
1998	267
1999	401

Note: Actuarial Projects are shown as completed when one or more hours are spent on written responses. They also include reports, meetings or other long-term efforts. Long-term efforts spanning several months are counted as a project for each month in which such efforts continue.

Number of Reinsurance Arrangements Reviewed, FY95–FY99

Figure I-24

YEAR	ARRANGEMENTS REVIEWED
1995	¹ 168
1996	¹ 169
1997	209
1998	200
1999	226

¹ The number of reinsurance reviews has decreased due to merger of the Financial Analysis, Holding Company and Reinsurance activities in FY94. Prior to the merger, some overlapping of responsibilities led to duplication of reviews.

Figure I-25 Continuing Care Retirement Communities (CCRCs) Filings

	FY98	FY99
Applications Reviewed	0	0
Licenses Issued	0	0
Disclosure Statements Filed	17	18

Figure I-26 Number of Company Licenses Under Commissioner’s Jurisdiction

LICENSE TYPE	FY95	FY96	FY97	FY98	FY99
Insurance Companies	2,108	2,074	2,053	2,027	2,011
Health Maintenance Organizations	36	62	70	73	73
Premium Finance Companies	304	308	300	290	292
Continuing Care Retirement Communities	18	19	19	19	19
Third Party Administrators	467	513	552	607	655
Total	2,933	2,976	2,994	3,016	3,050

Regulation and Safety

REGULATION AND SAFETY oversees the licensing of insurance agents and utilization review agents; monitors a wide range of insurance lines from auto to prepaid legal; and explores ways of cutting insurance costs by reducing losses.

Primary responsibilities include:

- Regulating policy forms for life, accident and health, credit life and disability, health maintenance organizations, prepaid legal, viatical settlements, and various property and casualty lines, including title, commercial auto, commercial property, general liability, bond, personal auto, homeowners, professional liability and workers’ compensation.
- Reviewing rate filings for credit, Medicare supplement, long-term care, HMO and accident and health insurance.
- Licensing of agents, third party administrators, premium finance companies, independent review organizations and utilization review agents.
- Residential Market Assistance Program (MAP) and the Automobile Market Assistance Program (AUTO-MAP), providing safety services to industry, consumers and other government agencies.

Regulation and Safety consists of a General Management section and nine divisions:

General Management, led by a senior associate commissioner, provides management and operational direction for all the activities. Each activity operates independently while sharing information and expertise as needed.

Commercial Property/Casualty Division drafts and presents rules affecting commercial property and casualty insurance; reviews individual insurer filings of forms, endorsements, and rules for all commercial property and casualty insurance (general liability, commercial property, inland marine, crime, bond, glass, professional liability, and other miscellaneous commercial lines); responds to inquiries from agents, consumers and insurers and resolves complaints.

Automobile/Homeowners Division drafts and presents rules affecting property, automobile and residential insurance; the Texas Windstorm Insurance Association (TWIA) Plan of Operation; the TWIA manual, forms and endorsements, and general oversight of the TWIA; Residential Market Assistance Program (MAP) and the Automobile Market Assistance Program (AUTO-MAP); approves rules and forms for personal lines; and responds to inquiries and complaints on automobile, homeowners and windstorm insurance. It consists of two groups.

The Automobile Group consists of two sections.

Personal Auto Section reviews personal auto form filings; reviews prescribed rules and policy forms; and proposes changes due to changing public need; and provides technical information to consumers, agents and insurers.

Commercial Auto Section reviews commercial auto form filings; reviews prescribed rules, policy forms; proposes changes due to changing public need; and provides technical information to consumers, agents and insurers.

Residential Property Group consists of two sections.

Homeowners Section provides technical assistance to consumers, agents, insurers, and staff members at TDI; reviews residential property form and endorsement filings; and updates and maintains the Texas Personal Lines Manual. Processes and issues premium reduction certificates as per Article 5.33A and 5.33B of the *Texas Insurance Code*; and assists consumers with both telephone and written complaints and inquiries. This section also administers both the Residential Market Assistance Program (MAP) and the Automobile Market Assistance Program (AUTO-MAP).

Windstorm Section provides technical assistance to consumers, agents, insurers, and staff members; and updates and maintains the TWIA policy forms, endorsements and TWIA manual.

Inspections Division drafts and presents proposed rules affecting property and casualty insurance and the Texas Windstorm Insurance Association (TWIA) Plan of Operation (Building Codes). The division also represents the Department on the building code advisory committee required by statute, provides oversight of established commercial fire rates by outside entities, ensures loss control compliance of insurers, administers the amusement ride safety program, renders oversight and approval of 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 rates 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; and provides complaint resolution in the case of inspections, classification or a base fire rate 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 five field offices and one satellite office, inspects and certifies property constructed, repaired or modified in the 14 counties along the Gulf of Mexico and certain specified areas in Harris County. Inspectors in five field offices and one satellite office 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 the TWIA.

Engineering Services Section provides support to all sections in the Inspections Division. Staff approves public and private fire suppression rating schedules; evaluates and approves designs for compliance with TWIA building codes, including wind load designs; reviews and develops TWIA building codes; evaluates building products; assesses commercial and residential automatic sprinkler systems; and reviews calculation and building design plans certified by engineers.

Loss Control Section conducts mandatory inspections of insurance companies licensed in Texas and those seeking to be licensed to ensure that loss control and accident prevention services 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. The staff also administers and oversees the Amusement Ride Safety Inspection and Insurance Act to monitor compliance of approximately 250 amusement ride operators and 1800 amusement rides. In addition, the Loss Control section monitors insurers' Y2K compliance as they relate to loss control.

Filings Intake Division consists of three sections.

P&C Intake Section receives all rule, rate and policy form filings for all property and casualty lines, including workers' compensation, and conducts an initial screening of the filings for compliance with basic filing requirements.

Life/Health and HMO Section receives all rate and policy form filings for the Life, Health, Credit, Accident and HMO lines and conducts an initial screening of filings for compliance with basic filing requirements.

Optical Section images closed files for Property and Casualty Lines, Life, Health & HMO Divisions and field reports for the Windstorm Section.

Title Division regulates 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 regulates insurance companies writing 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, administers job safety incentive programs for employers and reviews group purchase plans. It consists of three sections.

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.

Retrospective/Group/Deductibles reviews group purchase plans and deductible filings and administers loss control incentive programs (retrospective ratings plans) for employers.

Licensing Division oversees the licensing and regulation of insurance agents, adjusters, risk managers, life insurance counselors, reinsurance intermediaries, third party administrators, premium finance companies, and those involved in selling insurance products in travel agencies, self-service storage facilities, retail establishments and rental car companies. It consists of five sections.

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

Customer Assistance Section responds to inquiries from agents, companies and the public, including questions about licenses, appointment status, and general inquiries about the licensing process. The section also oversees the self-service modem access program that allows agents and companies to check the status of individual licenses directly from our agent license database.

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

Administrative Review and Data Management Section researches and reviews all applications with a criminal history and 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 on license status, cancels licenses when requested by the licensee, records address and name changes for all licensees, processes open record requests, prepares records for microfilm processing and manages division 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 (ERISA or non-ERISA). TPAs often handle claims processing and the collection of premiums for life, health, accident, annuities, disability, pension and other employee benefits. TPAs that administer only single-employer ERISA self-funded plans may apply for an exemption from regulation. In FY 99, 70 new TPAs were licensed and 45 TPAs received exemptions. The section also licenses independent finance companies, insurance agents, insurance companies, banks and savings and loans that engage in the business of financing insurance premiums. In FY 99 the Licensing Division issued 23 new premium finance licenses and renewed 279 licenses.

Life/Health Division reviews life, annuity, accident and health, credit life and credit accident and health policies, certificates, applications, endorsements and riders and processes viatical settlement registrations. The Division consists of five sections: Accident and Health Section; Life, Annuity and Credit Section; Actuarial Section; Legislative Section and Administration staff.

Accident and Health reviews and analyzes form filings for Medicare supplement, Medicare select, long-term care, and individual and group accident and health products, including large and small employer groups and non-employer groups, to ensure compliance with state and federal statutes and regulations; reviews combination life and accident and health products; reviews rate filings for accident and health, long-term care, and Medicare supplement policies and small employer plans; and reviews documents for Multiple Employee Welfare Arrangements. Accident and Health consists of two teams: the Group and Individual Products Team and the Senior Products Team.

Life, Annuity and Credit reviews and analyzes form filings for life, annuity, and credit life and credit disability insurance policies, prepaid legal insurance filings, rate filings for credit insurance, name changes, assumptions, mergers and viatical settlements; registers viatical settlement companies and brokers; processes notifications from charitable organizations issuing charitable gift annuities; analyzes credit life and disability data and tracks annual certifications for appointments of actuaries and lists of forms subject to the life illustration rule. Life, Annuity and Credit consists of the Life Team, the Annuity/Prepaid Legal Team, the Credit/Policy Approval Team and the Viatical Team.

Actuarial reviews, analyzes, and evaluates individual accident and health, long-term care, Medicare supplement and HMO premium rate filings, actuarial data required for individual and group life, accident, health, long-term care and Medicare supplement insurance policies, small employer health benefit plans and HMOs. Also, staff reviews the Texas Health Insurance Risk Pool rates and reviews and makes recommendations on bids for the Texas Healthy Kids Corporation.

Legislative analyzes and provides comments on proposed legislation; implements enrolled legislation, including rule development; informs industry and other interested parties of legislative and rule changes through bulletins or other means; analyzes and proposes rule changes as necessary to respond to or implement federal legislation; and develops petitions to the commissioner regarding issues affecting the life and health industry or addressing new products or changes in the life or health field. The Unit also collects, analyzes and reports on industry data as required by state and federal law. Staff represents the commissioner on several councils or boards, such as the Texas Health Care Information Council.

Administration oversees development and implementation of the business plan and special projects and provides automation, open records, and administrative support.

In addition to the above, all areas of Life/Health educate the insurance industry on regulatory requirements through bulletins, compliance workshops, manuals and checklists. Life/ Health provides technical assistance to other TDI staff regarding complaints, consumer publications, enforcement actions, reviews of advertising materials and withdrawals from market(s). The Division often is called upon to provide technical assistance to external entities including, but

not limited to, the Employees Retirement System, the National Association of Insurance Commissioners, the Texas Department of Banking, the Texas Health Insurance Risk Pool, the Texas Healthy Kids Corporation and the Office of the Attorney General.

Health Maintenance Organization/Utilization Review Agent/Independent Review Organization (HMO/URA/IRO) Division regulates health maintenance organizations (HMOs), utilization review agents (URAs), and independent review organizations (IROs). The Division also investigates complaints against these licensed entities and reviews HMO and URA form filings. The HMO/URA/IRO Division consists of three sections, the Compliance/URA/IRO Section, the Quality Assurance Section and Administration staff.

Compliance/URA/IRO reviews and analyzes HMO form filings such as evidences of coverage, provider and administrative services contracts and other related filings for HMOs writing commercial, Medicare risk, and small employer coverage, to ensure compliance with state and federal statutes and regulations; certifies utilization review agents to conduct business in Texas; registers insurers and HMOs to conduct utilization review; reviews utilization review agent form filings; issues renewals of utilization review agent certifications and registrations; reviews IRO applications for certificates of authority; reviews form filings required of IROs and processes IRO requests received from utilization review agents, insurers and HMOs.

Quality Assurance Section investigates all complaints against HMOs and, where necessary, initiates enforcement actions having to do with the availability, accessibility and quality of health care provided through HMOs. Most complaints are resolved through negotiations with the HMO. However, when excessive or particularly severe complaints are received, the section conducts on-site examinations to determine whether an HMO is fully complying with quality standards. This section conducts other quality of care examinations that are required prior to the agency issuing certificates of authority and approving HMO service area expansion requests. Staff also provides clinical consultation to other divisions in rule development and educates consumers about industry issues.

Administration develops and implements the business plan, compiles and analyzes data, provides administrative support for all of HMO/URA/QA, tracks legislation, executes the legislative implementation plan and responds to public inquiries.

In addition to the above, all areas of HMO/URA/QA develop and implement rules, respond to Open Records requests, educate industry, provider and consumer groups via bulletins, compliance workshops, manuals, checklists and speaking engagements. The HMO/URA/QA Division often provides technical assistance to other State agencies and outside entities such as the Texas Employees Retirement System, the Texas Department of Health, the Texas Health and Human Services Commission, the Texas Department of Mental Health and Mental Retardation, the Texas Commission on Alcohol Drug Abuse, the Texas Workers' Compensation Commission, the Texas Department of Criminal Justice, the Texas Healthy Kids Corporation, the National Association of Insurance Commissioners and the Health Care Financing Administration of the United States Department of Health and Human Services.

Highlights

Major accomplishments by the Regulation and Safety Program during Fiscal Year 1999 included:

General Management

- Assisting each division with disseminating information and clarifying and interpreting appropriate rules and regulations.
- Coordinating and assisting with the development and implementation of the Program's Business Plan.
- Providing technical assistance on various division projects.
- Coordinating and assisting with the reporting of performance measures.
- Providing technical support with the drafting of an *Administrative Review Procedures Manual*.

- Coordinating, assisting and providing technical assistance for the Program's human resource, budget, purchasing and various reporting requirements.
- Helping develop forms to implement the federal Violent Crime Control and Law Enforcement Act.

Commercial Property/Casualty Division

- Assisting with the implementation of the SERFF project.
- Recommending rule amendments allowing optional regulation of electronic equipment protection as a class of inland marine insurance.
- Giving priority to processing insurer endorsement and rule filings related to the Year 2000 date recognition exposure as discussed in Commissioner's Bulletin B-0060-98.
- Providing detailed analysis and comments on insurance bills considered by the 1999 Legislature.
- Increasing the efficient and effective use of division resources by implementing streamlined procedures and a staff cross training program.

Automobile/Homeowners Division

- Monitoring and promoting availability and affordability of homeowners and auto insurance through the Residential Market Assistance Program (MAP) and the newly created Automobile Market Assistance Program (AUTO-MAP).
- Providing technical assistance to the Public Information Office, Consumer Protection Program, the public, governmental agencies, insurance agents and insurance companies.
- Assisting with adoption of several staff recommendations, including:
 - Amendments to the Texas Automobile Rules and Rating Manual concerning physical damage rating symbols, rental car companies, installment payment plan, certified risks
 - financial responsibility laws, credit for young driver training, youth group member discount, youthful operator classifications Texas Driving Insurance Plan, elimination of pre-printed dates.
 - Amendments to the Texas Standard Provisions for Automobile Policies: waiver of deductible for glass repair in lieu of glass replacement, rental liability policies, mobilowners policy declarations.
 - Amendments to the *Texas Administrative Code*, prescribing notice about repair shops and parts.

Inspections Division

- Maximizing resources by reorganizing and combining the Loss Control Section, Commercial Property Oversight and Amusement Ride Safety under one manager.
- Conducting commercial property oversight inspection and pursuing private inspection entities with excessive error ratios. (Assurance of Voluntary Compliance with ISO).
- Conducting commercial lines loss control audits and taking a more aggressive regulatory approach to companies with "inadequate" programs. (Commissioner's Bulletin No. B-0028-99).
- Putting new coastal building code into effect September 1, 1998.
- Conducting an intense media tour along the Texas Gulf Coast informing the public of the TDI inspection program, TWIA and the new coastal building code.
- Assisting in the development of rules allowing licensed engineers to serve as windstorm inspectors and holding a hearing to determine qualifications necessary for licensed engineers to serve as windstorm compliance inspectors. To date, the Department has appointed 308 Texas licensed professional engineers as qualified inspectors.
- Developing and maintaining a massive Windstorm Inspection section on the agency's Web site. The Web site now provides easy public access to the *Windstorm Resistant Construction Guide*, *the Building Code for Windstorm Resistant Construction*, product evaluations, maps of the designated catastrophe areas, lists of appointed

- engineers, requirements for product evaluations, windstorm discount information, publication forms, inspection forms, frequently asked questions (FAQs) and education workbooks.
- Evaluating construction designs and test reports on the ability of building products to withstand windload requirements found in the *Windstorm Resistant Construction Guide* and the *Building Code for Windstorm Resistant Construction*. The Engineering Section issued 911 new and revised product evaluations in FY 99.

Filings Intake Division

- Implementing phase two of the nationwide electronic filing system known as SERFF and testing the new system with the help of the Commercial Lines area of Property and Casualty.
- Acquiring an optical storage and retrieval system (OSRS) to minimize file retrieval time and to standardize Regulation and Safety's system for electronically processing closed files.

Title Division

- Completing a three-year project for staggering all title insurance agent, direct operation and escrow officer license renewal dates.
- Uploading to the TDI Internet site the complete Basic Manual of Rules, Rates and Forms for the Writing of Title Insurance in the State of Texas.
- Providing, with help from Consumer Protection, a means for the public to file online title complaints using the agency's Web site.
- Uploading the Title Insurance Consumer Complaint Form to the TDI Internet site.
- Drafting, proposing and presenting 17 rule proposals at the Biennial Title Hearing.
- Drafting, proposing and presenting rules proposals for controlled business organizations.
- Assisting the Senate Interim Committee on Title Insurance and other legislators in developing statutory language to clarify and streamline reporting requirements and close enforcement loopholes relative to agents and escrow officers.

Workers' Compensation Division

- Working with members of the Texas Legislature to draft legislation refunding maintenance tax surcharge to policyholders.
- Continuing the random review of workers' compensation policies to determine compliance with rules and regulations in accordance with TDI's Business Plan.
- Assisting with adoption of several staff recommendations to the classifications contained in the *Texas Basic Manual of Rules, Classifications and Experience Rating Plan for Workers' Compensation and Employers' Liability Insurance*.

Licensing Division

- Offering easy access via the Internet to licensing information and forms.
- Working with the Commissioner to draft a bulletin outlining a new agency policy allowing non-resident agents to be licensed in Texas on behalf of an authorized insurance company if their state has signed a Uniform Treatment Declaration or granted full reciprocity to Texas agents.
- Registering full-time home office salaried employees as required by Commissioner's Order 98-1341, which became effective November 18, 1998.
- Implementing an Interactive Voice Response (IVR) unit on August 27, 1999 to increase the Division's ability to field more calls from companies, agents and the public. The IVR allows the Licensing Division to respond to 90 percent of the average 17,000 phone calls received per month. Before the IVR was implemented, the Division hired temporary employees to attain a call pick-up rate of 80 percent. The IVR provides 24-hour, 7-day-a-week access to licensing information.
- Helping develop new legislation to streamline and improve requirements for obtaining an agent's license in Texas. Two major bills were introduced and passed by the Legislature in 1999. One bill creating four new specialty license types won legislative approval. The four new licenses streamline the licensing of credit life, travel, rent car and self-service storage

facility insurance agents. Another bill that would have consolidated and streamlined the licensing process was vetoed.

- Assisting with the completion of the Report of the Commissioner of Insurance on Agents' Licensing Statutes. This report was submitted to the Legislature on December 23, 1998.

Life/Health Division

- Reviewing and analyzing 25,828 life, accident and health related form filings.
- Developing rules that implement legislation adopted by the Texas Legislature in 1997, including:
 - Diabetes rules, Article 21.53G (Senate Bill 163) and Article 21.53D (Senate Bill 162).
 - Preferred Provider Organization rules, Article 3.70-3C (Senate Bill 383 and House Bill 2846)
 - Medical Child Support rules regarding comparable coverage, Article 3.96-1 through 3.96-10. (Senate Bill 29)
 - Rules clarifying the provisions in Article 21.53 F (House Bill 102), Article 21.24-2 (House Bill 864) and Article 21.53F (Senate Bill 258)
 - Point-of-service plans for dental health maintenance organizations (Senate Bill 385).
 - Assisting with a rewrite of HMO rules (Senate Bill 385).
- Developing rules to amend Medicare Supplement rules for compliance with federal implementation of the Balanced Budget Act of 1997.
- Developing other rules that were adopted to address industry and consumer issues
- Completing and presenting to the Legislature the report "Health Insurance Regulation in Texas: The Impact of Mandated Health Benefits," as required by House Bill 1, passed by the Legislature in 1997 (75th Legislature).
- Participating in the Credit Life and Credit Accident and Health hearing at the State Office of Administrative Hearings.
- Assisting the Texas Department of Health in developing the Children's Health Insurance Plan as established by Senate Bill 445 passed during the 1999 legislative session (76th Legislature).
- Completing comments on approximately 1,470 bill versions during the 76th Legislature.
- Reviewing and commenting on responses to the Texas Health Insurance Risk Pool's and Employee Retirement System's "requests for proposals."
- Reviewing and commenting on the "request for proposals" to offer HMO or PPO coverage to Texans eligible for coverage through the state's new Children's Health Insurance Program (CHIP).
- Surveying insurance companies on coverage of mental illness under long-term disability insurance policies.
- Developing Commissioner's Bulletins to the insurance industry on:
 - Summary of legislation enacted by the 76th Legislature.
 - Medicare beneficiaries' right to change medical coverage.
 - The practice of "cleansheeting."
 - Credit data call for credit life and accident and health insurance.
 - Medicare supplement regulation changes under the federal Balanced Budget Act of 1997.
 - Contestable and suicide periods in converted policies concerning life insurance.
 - *The Long Term Care Shopper's Guide.*
- Representing the Commissioner of Insurance on the Texas Health Care Information Council.
- Making five presentations to consumer and industry groups.
- Serving as a member of the East Texas Rural Access Program.
- Serving as a member of the Texas Department of Health Hospital Data Advisory Committee.

**Health Maintenance Organization/Utilization Review Agent/
Independent Review Organization (HMO/URA) Division**

- Assisting the Texas Department of Health in developing the Children’s Health Insurance Plan as established by Senate Bill 445 passed during the 1999 legislative session (76th Legislature).
- Reviewing and commenting on the “request for proposals” to offer HMO or PPO coverage to Texans eligible for coverage through the state’s new Children’s Health Insurance Program (CHIP).
- Making six presentations to consumer and industry groups.
- Summarizing, analyzing and commenting on more than 200 bills during the 76th legislative session.
- Developing a Commissioner’s bulletin on balance billing issues.
- Developing rules implementing legislation passed by the Legislature in 1997, including:
 - Diabetes rules, Article 21.53G (Senate Bill 163) and Article 21.53D (Senate Bill 162).
 - HMO Comprehensive Rules (Senate Bill 385, Chapter 20A, *Texas Insurance Code*).
 - Community mental health rules (House Bill 587, Section 534, *Health and Safety Code*).
 - Chapter 26 rules (House Bill 864, Article 21.24-2, Senate Bill 258, Article 21.53E, House Bill 102, Article 21.53F).
 - Limited service HMO (mental health) rules (Senate Bill 382, Chapter 20A, TIC).
 - Chemical dependency utilization review rules (Article 21.58A, TIC).
 - Point-of-service dental rules (Senate Bill 385, Chapter 20A, 38, TIC).
 - Medical child support rules (Senate Bill 29, Article 3.96, TIC).
 - Prescription drug formulary (Senate Bill X, Chapter 20A).
- Developing rules to amend Medicare supplement rules and comply with federal implementation of the Balanced Budget Act of 1997.
- Helping draft amendments to association rules to comply with the Health Insurance Portability and Accountability Act of 1996.

Figure I-27 Summary of Activity – Personal Property

	FY98	FY99
Requests for Information	15,480	16,051
Certificates Issued	9,721	10,439
Complaints Processed	823	698
Rules, Rates and Policy Forms Processed	¹ 157	134

Figure I-28 (Formerly Figure I-29-33)

Summary of Activity – Commercial Property/Casualty Division

	FY98	FY99
Professional Liability		
Form and Rule Filings Processed	1,207	² 3,087
Commissioner’s Orders	3	² 138
⁴ Bulletins	1,398	-
¹ Requests for Information	-	71
Complaints	34	28
¹ Legislative Inquiries	-	104
¹ Telephone Calls Received	-	1,940
¹ Visitors	-	22
¹ Other Inquiries	-	53
General Liability		
Form and Rule Filings Processed	3,708	² 6,626
¹ Commissioner’s Orders	-	² 185
¹ Bulletins	-	-
¹ Requests for Information	-	72
Complaints	13	9
¹ Legislative Inquiries	-	170
³ Telephone Calls Received	5,892	3,505
³ Visitors	-	6
¹ Other Inquiries	-	44

Continued on page 39

(Formerly Figure I-29-33)

Figure I-28

Summary of Activity—Commercial Property/Casualty Division

	FY98	FY99
Bond, Miscellaneous Casualty		
Form and Rule Filings Processed	681	² 1,383
Experience Ratings	0	37
Consent to Rate Applications	3,040	694
Commissioner's Orders	-	² 31
¹ Bulletins	-	1
Requests for Information	113	41
¹ Complaints	-	55
¹ Legislative Inquiries	-	125
¹ Telephone Calls Received	-	2,463
¹ Visitors	-	5
¹ Other Inquiries	-	284
Commercial Property		
Form and Rule Filings Processed	3,106	² 5,033
¹ Commissioner's Orders	-	² 124
¹ Bulletins	-	4
⁴ Requests for Information	9,140	13
Complaints	26	31
¹ Legislative Inquiries	-	8
¹ Telephone Calls Received	-	2,165
¹ Visitors	-	18
¹ Other Inquiries	-	50

¹ New information being reported

² Increased volume is attributed to Y2K endorsement filings received and approved by this division

³ Combined in FY 98—reported as separate line items in FY 99

⁴ FY 98 data included letters and memos written by the division. FY 99 data does not reflect this because it was determined that this information was not required to monitor operations of this section.

Summary of Activity—Personal & Commercial Automobile

Figure I-29

	FY98	FY99
Total Experience Rating Files Processed	70,638	76,890
State Agency Auto Policies	32	33
Processed Telephone Calls	35,082	37,605
Outgoing Letters		13,394
Resolved Complaints/Inquiries	298	156
Open Records Request	166	259
Visitors	285	234
Total Customer Services	35,831	51,648
Rate and Form Filings Processed	1,303	3,529
Individual Risk Submissions (IRS)	2,482	2,307
Bulletins/Mailings/Commissioner Orders	13,154	4,986
Hearings/Meetings (In Hours)	631.5	561.5
Special Projects (In Hours)		2,128.25

Summary of Activity—Title Insurance

Figure I-30

ACTIVITY	FY98	FY99
Annual Escrow Audits Reviewed	589	558
Field Examinations/Audits Conducted	282	350
Technical Examinations	0	0
New Agency Contracts/Revisions	324	345
Complaints	152	187
General Information Requests	4,385	3079
Rates, Rules and Policy Forms	10	20
Commissioner Orders	3	2
¹ Hearings	46	51
¹ Meetings	108	440
Licenses Issued (includes renewals)	4,899	3840
Licenses Cancelled	2,391	1232

¹ Reported in hours.

Figure I-31 Numbers of Agents/Licenses Under Commissioner’s Jurisdiction– Title Insurance

AGENTS/LICENSES	FY98	FY99
Title Agents	538	536
Title Agent Licenses	1,487	1,584
Direct Operations	24	26
Direct Operation Licenses	24	26
Escrow Officers	4,324	4,679
Escrow Officer Licenses	4,521	4,996

Figure I-32 Summary of Activity – Intake Unit Filings Received/Processed

	FY98	FY99
Flex-rate Filings		
Personal Auto	837	1,182
Commercial Auto	637	983
Homeowners	205	194
Total	1,679	2,359
Other Rate Filings		
Commercial Property	837	1,057
Workers’ Compensation	110	338
General Liability	2,566	2,835
Professional Liability	926	1,062
Bond, Burglary, Title	369	415
Multi-Peril	1,795	2,281
Total	6,603	7,988
Policy Form, Endorsement and Rule Filings		
Personal Automobile	93	117
Commercial Automobile	439	507
Intake Unit	4	16
Homeowners	74	49
Commercial Property	1,627	1,991
General Liability	2,793	3,788
Bond, Burglary	573	922
Workers’ Compensation	155	203
Professional Liability	809	2,289
Multi-Peril	3,738	5,242
Total	10,305	15,124
Rating Manual		
Bond, Burglary	0	0
Commercial Automobile	0	0
General Liability	6	0
Homeowners	0	0
Intake Unit	0	0
Multi-Peril	0	1
Personal Automobile	0	0
Professional Liability	0	0
Commercial Property	0	0
Workers’ Compensation	0	0
Total	6	1
Rating Plans		
Bond, Burglary	0	0
Commercial Automobile	0	0
General Liability	0	0
Multi Peril	0	0
Personal Automobile	0	0
Professional Liability	0	0
Commercial Property	0	0
Workers’ Compensation	0	0
Total	0	0
Total P & C Filings Received	18,593	25,472
Intake Unit Filings Processed	479	748

Summary of Activity—Commercial Property Oversight Inspections**Figure I-33**

INSPECTIONS (FORMERLY INSPECTION AND FIRE SAFETY)	FY98	FY99
Property Inspections Conducted	1,193	1,150
Telephone Calls Processed	1,706	1,793
¹ Number of VIP Licenses/Certificates Issued	41	39

¹ Under the VIP (Voluntary Inspection Program), a home receives a "certification of insurability" if it passes an inspection by a credentialed inspector qualified by TDI.

Summary of Activity—Windstorm Operations**Figure I-34**

	FY98	FY99
Applications	24,555	15,936
Inspections	45,936	33,969
Certificates of Compliance	23,270	25,059
Windstorm Fees Received	\$77,035	\$20,305

Summary of Activity—Engineering Services**Figure I-35**

	FY98	FY99
Supplements Published	28	¹ 0
Key Rates Reviewed	288	¹ 489
Building Code Interpretations	1,909	1,899
Product Evaluations	804	911
Visitors Served	205	137
Telephone Calls Processed	4,729	5,271

¹ As of January 1998, this data is no longer gathered due to the transition of TDI Key Rate to ISO's Public Protection Class. TDI still reviews ISO's PPC filings, however.

Summary of Activity—Loss Control**Figure I-36**

	FY98	FY99
Total Evaluations Completed	201	256
Companies Rated Adequate	192	215
Companies Rated Less Than Adequate	9	41
Number of Companies Evaluated for Licensure	15	15
Loss Control Representative Applications Reviewed	97	105
Field Safety Representatives with a Specialty in Hospitals	28	14

Summary of Activity—Amusement Ride Safety and Insurance Act**Figure I-37**

	FY98	FY99
Policies Approved	296	277
Inspection Certificates Approved	1,315	1,357
Number of Injuries	55	132
Inspector Applications Approved	10	6
Number of Owners Under Compliance Monitoring	263	262

Summary of Activity—Workers' Compensation Oversight Group**Figure I-38**

	FY98	FY99
Written Inquiries Processed	136	118
Complaints Processed	83	55
Letters Written	1,055	1089
Telephone Calls Processed	6,385	5838
Number of Experience Rating Modifiers Reviewed	380	506
Number of Policies Reviewed	991	640
Complaints Referred to Texas Workers' Compensation Commission	648	542

Summary of Activity—Workers' Compensation Classification**Figure I-39**

	FY98	FY99
Number of Inspections	343	289
Number of Days Traveled	125	101
Total Miles Traveled	27,860	23,026
Average Travel Cost Per Inspection	\$47.47	\$48.26
Letters & Telephone Calls	19,331	19,204
Visitors	13	14

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Figure I-39 Summary of Activity–Workers’ Compensation Classification

Types of Inspections Made:	FY98	FY99
Agent Requests	43	24
Department Requests	174	154

Figure I-40 Summary of Activity–Workers’ Compensation Management/Retrospective Rating/Group Purchase/Deductibles

	FY98	FY99
Number of Telephone Calls	1,206	1,255
Number of Letters	728	805
Number of Visitors	51	68
Number of Groups Certified	62	55
Number of Circular Letters Distributed	3,300	3395
Number of Rate Guides Distributed	283	0
Number of Open Records Requests:	150	178
Forms Received:		
Retro Option V	326	282
Retro Large Risk Option	283	227
Retro Tabular Option	7	5
Deductible Notifications		
Filings Reviewed:		
Group Programs	75	87
¹ Rate Filings	38	263
Rating Plans & Misc. Filings	129	167
Retro Election Notices	616	514

¹ In FY 1999, The Workers’ Compensation Division began receiving a copy of each workers’ compensation rate filing to review and use in updating the **Workers’ Compensation Rate Guide** on the web page.

Figure I-41 Number of Licenses and Certificates Under Commissioner’s Jurisdiction

LICENSE TYPE	FY95	FY96	FY97	FY98	FY99
¹ Agents	187,070	203,603	216,493	231,680	244,878
Adjusters	26,958	28,897	31,458	32,620	35,390
² Vehicle Rental	N/A	N/A	N/A	30	48
Life Counselors	91	98	113	120	124
Risk Managers	1,012	1,084	1,115	1,121	1,125
Reinsurance Intermediary	919	1,054	1,125	1,184	1,322
Premium Finance Companies	304	308	300	290	106
Third-Party Administrators	467	513	649	710	655
Title	*	*	*	*	0
Escrow Officers	*	*	*	*	0
Direct Operations	*	*	*	*	0
¹Grand Total of Lines Regulated	216,821	235,557	251,253	267,761	286,146

* FY95–FY98 Title, Escrow, Director licenses are reported by Regulation and Safety’s Property and Casualty Division. See Page 40.

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

² License type created by the 75th Legislature.

Figure I-42 Summary of Activity–Licensing Group

	FY98	FY99
Total Filings Processed by Licensing Group	599,577	497,246
Telephone Inquiries Answered	201,439	129,611

Figure I-43 Five-Year Summary of Agents License Statistics

TOTAL LICENSES	FY95	FY96	FY97	FY98	FY99
Issued	48,801	54,522	49,785	51,330	59,736
Renewed	61,752	89,906	71,253	97,242	84,527
Total Appointment Transactions	269,633	303,430	287,785	237,761	267,666
Total Current Licenses Agents & Adjusters	214,028	232,500	247,951	264,300	280,268
² Other Licenses	² 2,793	3,057	3,302	3,461	5,872
¹Grand Total of Licenses Regulated	216,821	235,557	251,253	267,761	286,146

¹ Title, Escrow and Direct Licenses are now reported by Property and Casualty.

² Includes title, escrow, direct operation, counselor, risk manager, reinsurance, TPA, premium finance.

Numbers and Types of Agents' Licenses FY98–FY99

Figure I-44

AGENTS	FY98	FY99
Group I Life	104,129	108,214
Group II Life	32,460	32,946
Variable Contracts	27,561	31,049
Local Recording	25,168	26,858
Solicitor	16,405	17,209
Insurance Service Rep	2,273	2,463
Non-Resident Fire/Casualty	7,097	7,819
Managing General	3,897	4,063
State/Salary/Special	5,395	5,331
Agricultural	280	312
Surplus Lines	2,368	2,582
Prepaid Legal	4,647	6,032
Total	231,680	244,878

Summary of Activity–Miscellaneous Lines

Figure I-45

	FY98	FY99
TPA On-Site Examinations	31	19
TPA New Licenses Issued	88	70
TPA License Exempt Granted	38	45
New Premium Finance Licenses Issued	24	23
Premium Finance Licenses Renewed	280	279

Number of Premium Finance Companies, Loans, Value, CY94–CY98¹

Figure I-46

CALENDAR YEAR	NUMBER OF COMPANIES	NUMBER OF PREMIUM LOANS	VALUE OF LOANS
1994	307	645,682	\$1.83 billion
1995	308	563,364	\$1.46 billion
1996	306	404,532	\$1.65 billion
1997	300	443,278	\$1.76 billion
1998	292	455,492	\$1.54 billion

¹ These figures are reported in calendar year, and 1997 is last full calendar year available.

Summary of Activity–Life/Health Policy Forms Reviewed

Figure I-47

	FY98	FY99
Filed	26,807	25,998
Accepted	25,115	24,617
Approved	8,749	7,337
Disapproved	3,441	4,047
¹ Exempt	7,123	5,218

Health Maintenance Organization (HMO) Filings

Figure I-48

	FY98	FY99
New Forms Received	3,433	2,249
¹ Forms Completed	3,340	3,563

¹ Forms Completed reflects not only forms from the current fiscal year, but also forms carried over from the previous fiscal year.

Utilization Review Filings

Figure I-49

	FY98	FY99
Applications Received	46	98
Applications Pending Review	79	12
Registered Utilization Review Agents Approved	3	10
Certified Utilization Review Agents Approved	37	54

HMO Compliants

Figure I-50

	FY98	FY99
Complaints Received	5,735	6,886
Complaints Closed	4,910	7,067

Consumer Protection

CONSUMER PROTECTION assists Texas consumers by reviewing and 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. Complaints Resolution staff examine complaints for violations of the *Texas Insurance Code* and the *Texas Administrative Code* and recommend enforcement action when appropriate. The complaints resolution process routinely results in the return of millions of dollars in premium refunds and additional claims payments to consumers. Complaints Resolution Property and Casualty handles complaints involving mostly home and auto coverage; Complaints Resolution Life, Accident and Health handles mostly life and health coverage complaints.

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 members answer common questions regarding most lines of insurance, furnish information about the license status of companies and agents, provide other company information—complaint histories, financial information and financial ratings from a nationally recognized rating organization—and advise consumers about filing complaints. Staff members also process requests for complaint forms, rate guides and other consumer publications.

Information Assistance assists non-English speakers through

- its Spanish-speaking operators,
- automated telephone service messages and instructions in Spanish and
- use of the AT&T Language Line. Service for the hearing or speech impaired is provided through Relay Texas at 1-800-735-2989 (TDD/TTY).

Public Education, in cooperation with other TDI activities, develops informational materials to increase consumers' understanding of insurance products, encourage wise insurance shopping and promote TDI consumer services. Publications include rate guides, brochures and fliers available in English, Spanish and Vietnamese. Many publications also are accessible through the Internet. Consumers may order complaint forms and information brochures 24 hours a day, seven days a week, by calling a toll-free automated telephone attendant at 1-800-599-SHOP (7467). Public Education also coordinates a Speakers Bureau that delivers public presentations and workshops to civic and community organizations, minority groups and business and industry associations. 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 with insurance concerns.

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.

Special Work Assignments Team (SWAT) enhances the program's business processes by developing means of improving efficiency and effectiveness. SWAT coordinates the program's budgeting, legislative tracking, NAIC and business planning activities and oversees production of program information published on the agency's Web site.

Highlights

Major accomplishments by Consumer Protection during Fiscal Year 1999 included:

- Responding to more than 347,000 inquiries—including more than 326,000 calls handled by Information Assistance, and 21,000 handled by Complaints Resolution. Complaints Resolution also processed more than 22,000 written complaints.
- Producing nearly \$25.6 million in additional claims paid and premium refunds to consumers through intervention in consumer complaints. The total is an increase of nearly 13 percent from FY 98.
- Continued promotion, in cooperation with the Regulation and Safety program and the Public Information Office, of the automobile Market Assistance Program (MAP) for consumers residing in underserved ZIP codes.
- Initiating or expanding partnerships with governmental agencies to promote MAP and other TDI services, including partnerships with:
 - Department of Public Safety to mail MAP information to Texas drivers in their license renewal packets and include MAP information in the Texas Drivers Handbook section on insurance
 - The cities of Dallas and Beaumont to distribute MAP information in utility bills
 - County tax assessor-collectors to distribute MAP information at tax offices
 - Texas high schools to distribute information about insurance to students
 - Texas Education Agency to revise the state's drivers education curriculum to include information about insurance.
- Conducting 475 Speakers Bureau presentations throughout Texas on insurance issues.
- Continuing an educational outreach program to older Texans, reaching more than 350,000 individuals. The agency's HICAP Program was recognized for its efforts to provide information to seniors with an award from the federal Health Care Financing Administration.
- Distributing a record 1.6 million publications, including more than 284,000 rate guides. Rate guides provide information that can help Texans obtain the best value for their insurance dollar.
- Receiving an "A" grade from the Consumer Federation of America for the agency's consumer publications.
- Hosting a "Consumer Outreach Summit" with representatives of 10 other state agencies to investigate ways to cooperate and share resources to improve information delivery to Texas consumers.
- Continuing, in cooperation with the Financial and Legal programs, an outreach campaign to assist Holocaust survivors and their heirs with information about how to file a claim for unpaid insurance settlements from policies issued in Europe between 1928 and 1945. Through the end of FY 99, TDI had assisted 112 Holocaust survivors and heirs with filing claims.
- Reviewing more than 4,800 insurance advertisements and referring violations to TDI's Legal and Compliance program, which resulted in penalties totaling \$27,500.
- Improving staff's ability to provide consumers with superior customer service and accurate information by enhancing technological supports for staff. This included developing the second-generation Consumer Protection Infobase-2 (CPI), an on-line information database that provides TDI staff with electronic information about insurance, statutes and rules to assist consumers efficiently and quickly.
- Maintaining the Consumer Protection page on TDI's Internet Web site. The page recorded nearly 162,000 hits in FY99. Items accessed most frequently were company profiles, auto rate guides and the Internet Complaint Inquiry System.
- Hosting, in cooperation with the TDI Purchasing Division and other TDI programs, several historically underutilized business (HUB) fairs to acquaint HUB vendors with TDI contract bid opportunities.

- Assisting consumers in Del Rio, Houston, the Guadalupe River Valley, DeKalb and surrounding areas following flooding and tornadoes in FY99 and assisting consumers in South Texas and the Gulf Coast area following Hurricane Bret in late August 1999. TDI staff provided information, responded to consumer questions and monitored insurance company activities.

Figure I-51 Total Number of Complaint Cases Closed, FY95–FY99

YEAR	CASES CLOSED
FY95	20,847
FY96	16,709
FY97	17,650
FY98	18,829
FY99	22,472

Figure I-52 Additional Claim Payments to Consumers, FY95–FY99

YEAR	CLAIM PAYMENTS
FY95	\$10.6 million
FY96	\$14.8 million
FY97	\$17.0 million
FY98	\$21.3 million
FY99	\$24.4 million

Figure I-53 Restitutions/Refunds to Consumers, FY95–FY99

YEAR	RESTITUTIONS/ REFUNDS
FY95	\$1.9 million
FY96	\$1.2 million
FY97	\$1.2 million
FY98	\$1.3 million
FY99	\$1.2 million

Technical Analysis

TECHNICAL ANALYSIS reviews and analyzes statistical data, reviews Property and Casualty rate filings and prepares reports on insurance rates and markets to assist policy makers and consumers with insurance-related decisions. In addition, it supports agency efforts to detect problem insurance companies and helps contract with special deputy receivers, private sector contractors who act as liquidators for insolvent insurance companies.

Technical Analysis consists of four activities:

Property and Casualty Actuarial provides actuarial review of rate and rating plan filings and conducts in-depth analyses of the Texas insurance market. The division also makes sure that file-and-use rates meet applicable legal standards, verifies their appropriateness, makes recommendations on prior-approval rate filings and verifies that flex-rate filings either fall within the flexibility band or receive prior approval to go outside the band. The flexibility band is a percentage range within which companies may charge more or less than benchmark rates without receiving prior approval. To go outside the band, a company must receive TDI approval.

Property and Casualty Actuarial monitors the industry's implementation of tort reform rate reductions and measures the impact of those rate reductions. Tort reform legislation passed by the 1995 Legislature was aimed at curbing lawsuit abuses and unreasonably high judgments in cases affecting liability insurance. *Texas Insurance Code* Article 5.131 directs the Commissioner of Insurance to issue an order by October 1 each year through 1999, reducing liability insurance rates to reflect the anticipated impact of tort reform on losses. Insurers are required to file reductions with TDI. The first Commissioner's order under this statute was issued September 29, 1995.

During FY 99, actuarial staff reviewed more than 5,600 tort reform rate adjustment filings. Analysis of these adjustment filings showed that Texas liability policyholders will save almost \$ 700 million in calendar year 1999 premiums. In addition to monitoring these filings, actuarial staff

assisted in preparing for the fifth tort reform rate adjustment hearing. As a result of the August 25, 1999 hearing, the Commissioner ordered an estimated \$685.5 million in tort reform rate cuts for Calendar Year 2000. Because the reductions are expressed as a percentage of rates, total 2000 savings will depend on the premium volume. Based on the 2000 estimate, Texas liability policyholders will have saved almost \$3 billion during the five years of tort reform.

Private passenger auto benchmark rates fell by an average of 5.5 percent in February 1999. This was only the second rate decrease since the flexible rating system was introduced in 1991. The first reduction occurred in early 1998. Because of the significant decrease in bodily injury liability, drivers carrying only liability insurance saw benchmark rate cuts averaging 7.8 percent in 1999. Under the flexible rating system, rate-regulated insurers are allowed to set their own rates without prior approval so long as the rates fall within a flexibility band of 30 percent above and 30 percent below the benchmark set by the Commissioner.

As of September 1998, rate-regulated policies covered more than 75 percent of the vehicles insured in the voluntary market. Due to the generally lower rates in the rate-regulated market, premium market share for rate-regulated companies was 71 percent of the voluntary market. Non rate-regulated county mutuals covered the balance of the voluntary market.

State-mandated auto liability premiums for “high risk” (assigned) drivers decreased by an average 26.5 percent on March 1, 1999 with reductions in optional coverages bringing the overall decrease to an average of 32.1 percent. Optional coverages include personal injury protection and uninsured motorist.

Homeowners’ insurance benchmark rates for rate-regulated companies decreased by an average of 6 percent effective February 1, 1999. Benchmark rate changes vary among Texas’ 23 rating territories but the largest reductions were in the southern half of the state.

The benchmark rate for homeowners along the Gulf coast were reduced by an average of 12.6 percent. Benchmark rates for residents of the Central-South Zone fell by an average of 13.3 percent. Benchmark rates for residents of the Central-North and Northwest zones increased 1.4 and 3.2 percent, respectively. The actual changes will vary by rating territory within each of these zones.

Rate-regulated policies covered approximately 17 percent of Texas residences with homeowners coverage in 1998 while non rate-regulated policies covered approximately 83 percent of insured residences.

New windstorm and hail insurance discounts of up to 32 percent were approved for new coastal construction that meet the state’s building code for windstorm resistant construction. The discounts became available on policies issued, renewed or delivered by the Texas Windstorm Insurance Association (Windpool) on or after February 28, 1999.

Discounts in the 14 coastal counties and portions of Harris County on Galveston Bay ranged from 24 percent to 32 percent for new homes and 19 percent to 25 percent for contents. The discounts varied by home location and building standard, with higher discounts for homes built to higher-than-required standards. Affected counties are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Harris (east of Highway 146 in the city limits of Seabrook, La Porte, Morgan’s Point, Shoreacres and Pasadena), Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy.

Texas Windstorm Insurance Association coverages were improved and more options, including premium discounts for hail-resistant roofs, took effect on June 15, 1999. These changes affected approximately 80,000 policies in the 14 Texas coastal counties plus portions of Harris County on Galveston Bay.

Both Property and Casualty and Special Projects participated with Legal and Compliance in the auto insurance analysis and negotiation that lead to Nationwide's agreement to open 20 new sales offices and increase its auto and homeowner insurance sales in predominantly minority neighborhoods. Signed in May 1999, the agreement commits Nationwide to increasing its sales in about 100 ZIP codes where minority populations exceed 60 percent. The company has agreed to bring its auto and homeowners sales in minority neighborhoods up to "parity" within five years. (Parity means Nationwide's percentage marketshare in minority neighborhoods would at least equal its percentage marketshare statewide. In this instance, marketshare is Nationwide's percentage of auto policies and homeowners policies.)

Eight new agencies will open in Houston, four in El Paso, two in Dallas, two in Austin and one in Fort Worth. In addition, Nationwide will open an urban sales and service center in Dallas and another in McAllen and a storefront agency in Hidalgo County. Nationwide currently has no agencies serving the Lower Rio Grande Valley. As interim goals, Nationwide agreed to insure 23,000 additional vehicles in heavily minority ZIP codes by the end of 2001 and more than 5,200 additional homes in such neighborhoods by the end of 2002. Failure to reach its interim goals or to achieve parity in minority ZIP codes in five years would obligate Nationwide to add still more sales offices in high-minority neighborhoods.

TDI continues to look at other insurance companies that may be discriminating against predominantly minority neighborhoods in their auto and homeowners insurance sales practices.

Property and Casualty Actuarial also works with Data Services to improve the quality and reliability of data and with the Special Projects unit 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. Data is obtained through statistical plans, data calls or downloads from the NAIC computer database. Data collection activities include:

The Quarterly Call for Experience, which collects premium and loss data for the following lines of coverage: general liability, commercial fire and allied lines, product liability, commercial multi-peril, private passenger automobile, homeowners multi-peril, boiler and machinery, crime, glass, miscellaneous professional liability, medical professional liability and workers' compensation insurance. The information is checked for reasonability and is used to produce the Quarterly Legislative Report on Market Conditions.

Texas Liability Closed Claim Report, which includes data on the final disposition of Texas claims of \$10,000 or more under general liability, medical professional, other professional liability and commercial automobile liability policies and the liability portion of commercial multi-peril policies. Insurers also are required to file a report to reconcile their annual statements with the closed claim reports they have submitted. Findings developed from this data are used for the Texas Liability Insurance Closed Claim Annual Report.

Texas Title Insurance Agents and Underwriters Reports, which collect information on income and expenses in the title insurance industry.

Disallowed Expense Report, which collects data on insurer expenses that, by statute, may not be considered in the determination of rates.

Credit Call, which collects credit insurance data to be analyzed by TDI's Life/Health Group for use in credit insurance rate hearings.

Additional reports include the *State of Texas Property and Casualty Insurance Experience by Coverage and Carriers* (often called the *Texas Page 15 Report*) and the *Insurance Expense Exhibit*, which are compilations of data downloaded from the National Association of Insurance Commissioners (NAIC).

Data Services also oversees compliance with quality standards in the collection of the state's workers' compensation data by the National Council on Compensation Insurance (NCCI). The data is collected for use with the *Texas Workers' Compensation Statistical Plan*, the *Texas Detailed Claim Information Statistical Plan* and the *Texas Workers' Compensation Financial Call 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 developing class code relativities, research and other regulatory purposes. Data Services publishes standard workers compensation reports developed by NCCI for TDI.

Special Projects provides data analysis, collects information through special calls and surveys, produces data compilations and oversees the agency's residential property, private passenger automobile and commercial lines statistical data collection agents.

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 is collected for use 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 benchmark rate hearings and other regulatory purposes.

In addition to seeing that data is prepared for the residential property and auto benchmark rate hearings, Special Projects provides statistical plan and special call data for market analysis and other projects. These include:

- Analyzing market data used in identifying underserved areas for both residential property and auto insurance.
- Providing data for calculating assigned risk auto quotas.
- Providing data for calculating insurer participation levels in the Texas Catastrophe Property Insurance Association.
- Providing data for determining the effect of the newly adopted fire suppression rating system.
- Calculating the impact of special programs designed to improve auto insurance availability.
- Evaluating market trends.
- Providing data for pricing newly adopted residential property and auto endorsements.
- Overseeing calculating of division performance measures.

Early Warning supports agency-wide efforts to detect potentially troubled insurance companies quickly.

The unit administers the Early Warning Information System, a computer database that provides quick and effective sharing of information among agency divisions and that identifies favorable and unfavorable trends within companies. In addition to collecting and providing information to various TDI divisions, the Early Warning unit participates in Recommendation Committee meetings and Rehabilitation Task Force activities coordinated by TDI's Financial Program.

Early Warning staff analyzes companies that have triggered indicators of potential trouble. This analysis may result either in referral to another TDI division with a recommendation for appropriate regulatory action or in further review. In addition, Early Warning gathers information on the status of regulatory actions taken throughout the agency, provides training presentations on the Early Warning system and conducts solvency related studies.

Technical Analysis also:

- Oversees the SDR and subcontractor application process. This oversight includes determining eligibility through background and reference checks and the evaluation and processing of private sector applicants to liquidate insolvent insurers placed into receivership by the agency. A total of five new SDR applications and 28 new subcontractor applications were reviewed in FY 99. Additional responsibilities include assisting the Commissioner of Insurance Selection Committee, handling bid solicitations and contract negotiations and overseeing contract compliance for the 14 SDRs under contract who manage 29 active receiverships.
- Provides the Department with Geographic Information System (GIS) maps and demographic analysis.

Highlights

Major accomplishments by Technical Analysis for Fiscal Year 1999 included:

- Reviewing more than 5,600 tort reform rate adjustment filings, reflecting that Texas liability insurance policyholders will save almost \$700 million in premiums during the fourth year of tort reform.
- Assisting in the fifth annual tort reform hearing that resulted in the Commissioner ordering rate reductions that will save Texas liability policyholders an estimated \$685.5 million in premium in Calendar Year 2000. That brings the five-year premium savings total to almost \$3 billion.
- Implementing benchmark rates for private passenger auto by an average of 5.5 percent. Rates for state-mandated liability premiums for assigned risk drivers were reduced by an average of 26.5 percent. Reductions in optional coverages brought the overall reduction in assigned risk rates to 32.1 percent.
- Implementing benchmark rates for homeowners' insurance by an average of 6 percent. Discounts of up to 32 percent were approved for new coastal homes covered by the Texas Windstorm Insurance Association (Windpool).
- Participating in the data analysis and negotiations that lead to Nationwide agreeing to open 20 new sales offices in predominantly minority areas.

Figure I-54 Premium and Saving Reported by Line of Insurance (in millions)¹

	² 1995 DIRECT WRITTEN PREMIUM	1996 ACTUAL SAVINGS	1997 ACTUAL SAVINGS	³ 1998 ACTUAL SAVINGS	1999 ACTUAL SAVINGS	2000 PROJECTED SAVINGS
Farmowners/ranchowners liability	\$53.7	\$0.8	\$0.9	\$0.8	\$1.2	\$1.2
Medical malpractice	\$320.8	\$32.7	\$34.9	\$43.2	\$51.6	\$54.9
General liability	\$1,087.2	\$115.8	\$105.8	\$197.5	\$201.8	\$206.2
Commercial multi peril	\$431.7	\$36.0	\$48.3	\$73.3	\$76.0	\$80.9
Products liability	\$95.6	\$11.9	\$11.1	\$21.1	\$25.0	\$26.6
Commercial automobile	\$588.8	\$59.8	\$62.3	\$73.1	\$99.7	\$103.9
Private passenger auto						
Rate-regulated	\$2,121.5	\$142.9	\$141.0	\$191.7	\$166.2	\$133.8
Non rate-regulated	\$588.6	\$35.6	\$36.9	\$55.7	\$77.9	\$77.9
Totals	\$5,287.9	\$435.5	\$441.2	\$656.4	\$699.5	\$685.5

¹ October 13, 19998 summary of tort reform filings received by the Texas Department of Insurance.

² Estimates are based on 1995 Direct Written Premium.

³ Because reductions are expressed as a percentage of rates, total 2000 savings will depend on the premium volume.

Note Some liability coverages have been combined under one grouping. Medical Malpractice includes doctors' and hospital malpractice; Commercial Auto includes garage liability; General Liability includes personal umbrella, farm liability, commercial umbrella, other professional liability, pollution liability, fire, legal and contractual liability and owners and contractors protective railroad and liquor liability. Two other lines—employers' liability of workers' comp and homeowners liability—are not shown because no rate adjustment was made in those lines.

Closed Claim and Quarterly Market Data Reports Collected

Figure I-55

	FY98	FY99
Individual closed claim reports	¹ 19,596	² 9,940
Summary closed claim reports	642	677
Closed claim reconciliation reports	843	803
Supplemental Closed Claim Data Call Responses	958	³ 0
Special Closed Claim Survey Forms Collected	2,730	2,834

¹ Includes 6,861 electronically processed reports.

² 2nd Quarter processing delayed due to tort reform

³ Supplemental Closed Claim Data Call was not collected in FY99.

Other Statistical Reports Collected

Figure I-56

	FY98	FY99
Title insurance agents	538	546
Title insurance underwriters	16	16

Rate and Rating Plan Filings in FY98-99

Figure I-57

	FILINGS PROCESSED FY98	FILINGS PROCESSED FY99	PROCESSED IN 90 DAYS FY98	PROCESSED IN 90 DAYS FY99
Regular filings	3,502	6,192	42.4%	55.0%
Tort reform filings	2,631	5,690	45.7%	58.9%
Total filings processed	6,133	11,882	43.8%	56.9%

Summary of Activity—Early Warning

Figure I-58

COMPANY REVIEW PERFORMED BY STAFF	FY98	FY99
Referrals to other TDI divisions for appropriate regulatory action	12	8
Follow-up memoranda regarding prior referrals	0	0
FYI memoranda to other TDI divisions regarding companies already subject to regulatory activity	23	4
Reviewed by Early Warning staff and deferred to other divisions' prioritization schemes	587	0
¹ Reviewed by Early Warning staff and "passed" in accordance with agreed criteria	1,020	2,616
Totals	1,642	2,628

¹ "Passed" means referral to other TDI divisions was not required.

State Fire Marshal's Office

THE STATE FIRE MARSHAL'S OFFICE develops, fosters and promotes methods of protecting the lives and property of the citizens of Texas from fire and related hazards. The Office 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 State Fire Marshal's Office maintains regional offices at the Capitol Complex in Austin, Conroe, Corpus Christi, Duncanville, Lubbock and Tyler. Several field personnel also are located in satellite offices throughout the state, allowing for rapid response for investigations and inspections and reduced travel expenses.

The Office consists of five divisions:

Licensing includes two sections, Licensing Administration and Licensing Investigation.

Licensing Administration issues registrations to organizations and licenses to individuals working in the fire extinguisher, fire alarm, fire sprinkler and fireworks industries and issues permits for all public fireworks displays in the state. This section also administers examinations, performs criminal history background checks, analyzes insurance compliance and reviews corporate documents to ensure compliance with statutory licensing requirements.

Licensing Investigation conducts investigations of existing fire alarm, sprinkler and extinguisher systems to ensure that they are installed by licensed entities and comply with adopted technical standards. In addition, this section inspects retail fireworks stands in accordance with adopted safety standards.

Additionally, the **Engineering Assistance** program is administered through the Licensing division. This program handles requests for assistance from fire departments, local governments and other entities concerning technical questions and issues related to fire prevention and suppression. These requests include questions for research, installation plan reviews and various other technical subjects.

Public Education and Information provides fire protection information and education, including school district curriculum material on fire prevention. That includes developing and distributing brochures on home fire safety, presentation of fire safety skills to school children using the "Fire Safety House," administration of a statewide Juvenile Firesetter Intervention Program and maintenance of the Texas Fire Incident Reporting System (TEXFIRS). TEXFIRS collects data from local fire departments and compiles statistics on Texas fires.

Fire Safety Inspections conducts fire safety inspections of public buildings and private facilities throughout the state. Included are 24-hour care facilities, state buildings, day care centers, hotels and motels and other buildings upon request or complaint. Inspections of storage, handling and use of flammable liquids also are conducted at retail service stations throughout the state.

Fire/Arson Investigations investigates fire scenes throughout the state upon request. The division maintains five equipment trailers supplied with various investigation tools, an "Arson Response Command" vehicle, four accelerant detection canine teams and a forensic arson laboratory. The lab provides accelerant testing services and analyzes fire scene debris for all law enforcement and public safety organizations in the state.

Administration coordinates and handles open records requests, purchases, budgets, planning and personnel and provides support services for all divisions, including regional and satellite offices.

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 the 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 Office of State Fire Marshal to TDI. The physical relocation of the State Fire Marshal's Office headquarters from 12675 Research to 333 Guadalupe was completed in April 1998.

Highlights

Major accomplishments by the State Fire Marshal's Office for Fiscal Year 1999 included:

- Receiving a high customer satisfaction rating as indicated by the 1999 Assessment Project.
- Completing conversion of databases from Paradox to Access.
- Providing training on Juvenile Firesetter Intervention to 86 entities.
- Conducting more than 8,800 initial inspections and reinspections of buildings for fire safety hazards.
- Presenting 2,300 fire safety and fire prevention programs.

- Processing 873,049 fire and non-fire incident reports from fire departments.
- Issuing more than 9,500 licenses, permits and registrations to alarm, extinguisher, sprinkler and fireworks firms and individuals.
- Completing 514 fire investigations

Summary of Activity—Fire Marshal’s Office

Figure I-59

	FY98	FY99
TEXFIRS incident reports processed	813,756	873,049
Informational/educational presentations conducted	1,811	2,331
Number of requests for engineering assistance	162	183
Number of initial and follow-up fire investigations	1,120	1,372
Number of samples analyzed in arson laboratory	2,156	2,058
Number of Juvenile Firesetter Intervention programs formed or expanded	12	52
Number of companies and personnel licensed for Fireworks, Extinguisher, Alarm and Sprinkler	9,820	9,553
Number of investigations/inspections of complaints Against fire protection equipment and fireworks Industries	1,244	1,201
Number of buildings inspected/reinspected for fire safety	8,222	8,838

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.

Information Services (IS) provides automation and computer support for all agency programs and activities and is managed by the agency’s Information Resource Manager. The activity’s primary goals are to ensure that automation applications and technology are maintainable, available, of good quality and meet agency standards. IS supports agency programs by:

- providing advice and assistance in applying technology to solve business problems.
- building new applications to meet agency needs.
- recognizing that data is a valuable agency asset and working to manage it efficiently and effectively.
- providing appropriate and timely training to employees who require it.
- planning and implementing agency-wide automation and information technology projects.

IS consists of four sections.

Planning and Administration develops and implements the IS planning process, manages system security and the IS disaster recovery plan, oversees the IS budget, tracks division spending, provides technical writing and technical librarian functions and handles other administrative duties, including IS personnel matters. The section also works closely with the agency’s business planning function to ensure all automation projects are supported and funded based on agency-wide business needs.

Development develops new software applications and enhancements, maintains existing computer software applications, resolves production problems and handles “rapid response” assignments. The Rapid Response Unit oversees day-to-day operation of the Internet web server and handles short-term automation tasks that are, by their nature, difficult to anticipate.

Customer Support Center includes the Help Desk, Desktop Support and Telecommunications Services units. It offers on-site computer consulting and classroom training in computer basics and various software products. The Help Desk acts as an intake unit for all requests for IS service. The center also manages the agency's telephone and telecommunications needs.

Production maintains and repairs the automation systems, including local area networks (LANs), wide area networks (WANs), cabling, desktop computers and printers. The section manages the Sequent/UNIX operating system and the office automation systems, database support, network and software management, production control and operations and hardware repair, as well as quality assurance and acceptance testing.

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 books and 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 the agency's monthly performance 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, copy center and administers the agency's Risk Management Program. It also handles, tracks and delivers all mail, including inter-agency memos and correspondence.

Purchasing and Contract Administration purchases goods and services for the agency.

Figure I-60 Comparison of Maintenance Tax Rates, FY90–FY99

	MAX LEGAL RATE	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Motor Vehicle	.2	.133	.091	.07	.058	.069	.068	.055	.066	.056	.058
Fire	1.25	.711	.711	.574	.525	.606	.656	.436	.418	.370	.381
Workers' Compensation	.6	.467	.268	.217	.200	.386	.120	.093	.096	.085	.072
Casualty	.4	.318	.297	.210	.210	.295	.319	.209	.251	.197	.232
Title	1	.464	.322	.178	.132	.187	.171	.110	.135	.174	.123
Life, Accident and Health	.04	.040	.040	.040	.040	.040	.040	.040	.040	.040	.040
Third-Party Administrators	1.0	1.0	1.0	.8	.5	.222	.235	.310	.339	.313	.244
¹ HMO Multi-Service	\$2.00	\$1.21	\$1.21	1.25	\$0.78	\$1.23	\$1.27	\$0.68	\$0.80	\$1.21	\$1.08
¹ HMO Single Service		\$.61	\$.60	\$.62	\$0.42	\$0.62	\$0.38	\$0.22	\$0.27	\$0.41	\$0.36
¹ HMO Limited Service										\$0.41	\$0.36
Prepaid Legal	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

¹ HMO rates reflect an amount per enrollee. Other rates are given as a percentage.

Human Resources promotes agency goals primarily by developing, implementing and interpreting agency personnel policies and procedures, handling personnel and benefit needs and assisting in the professional development of employees and managers.

Human Resources consists of Program Administration and two sections.

Program Administration includes the Director, Assistant Director and management team personnel. This team analyzes and researches human resources issues and develops human

resources initiatives, including coordinating and implementing the division's business plan. In addition, Program Administration administers the Americans with Disabilities Act (ADA) and the Employee Assistance Program and works with managers in addressing and resolving various employment issues.

Personnel and Benefits handles personnel, payroll, benefits and other day-to-day operations, including managing and monitoring agency hiring, payroll records, employment records, personnel actions, time records and leave programs, employee insurance and benefits, the agency performance management system, employee exit interviews, recruitment and the agency's Human Resources Information System (HRIS) that maintains employment statistics required by agency policy and state and federal law.

Professional Development assesses employee and agency training needs; provides technical insurance training; designs, coordinates and delivers management and employee training, including new employee orientation and workplace conduct; tracks and maintains employee training records; produces various statistical training reports; coordinates the agency's Tuition Reimbursement Program; and coordinates the agency's Wellness Program. TDI switchboard and Information Desk personnel report to the manager of this section.

Business Planning and Redesign Division works with other agency planners and managers to:

- examine the agency to identify areas for improvement
- refine processes for developing and implementing business plans, and
- facilitate the agency planning process by integrating the strategic planning and business planning processes.

In FY 1999, Business Planning and Redesign led several projects designed to improve program or agency operations, including a review of the organizational structure of the State Fire Marshal's Office and a multi-phased, complex project aimed at improving the way TDI creates, uses and archives documents, memoranda and forms. The division continued to evaluate employee suggestions for agency improvements and developed implementation plans for approved suggestions. Business Planning and Redesign worked closely with the programs, individually and through the Planning Work Group, to monitor progress on current year business plans, to develop TDI's FY 2000-2001 Program Business Plans, and to reinforce the value of business planning as a tool that helps achieve TDI's strategic goals. Business Planning and Redesign staff also supported the programs by refining and communicating the process for developing project proposals for approval and by providing advice and consultation on specific project proposals. The division leads the agency's disaster recovery planning efforts, and division employees are assigned key roles should a disaster be declared.

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

Major accomplishments by Administrative Operations during Fiscal Year 1999 included:

Information Services

- Verifying Y2K compliance of all automated applications used at TDI. Standards also were developed for entering and displaying dates with a four-digit century/year format and for storing dates in files that are received from or sent to outside organizations. All computer assets were inventoried and fixed or replaced. Post-implementation monitoring and testing will continue through 2000.
- Completing agency-wide and IS contingency plans that provide the basis for choosing an appropriate and effective recovery solution. A contract was signed June 15 with Northrup Grumman (SunGard) for a mobile recovery solution that provides for the delivery of

critical hardware to the Cameron Road Training Facility (CRTF). In addition, the CRTF received additional telecommunication capabilities to support critical TDI functions following a business and/or telecommunications interruption at the Hobby Building.

- Upgrading the agency's network by installing category 5 cabling and new switches, hubs and routers to improve network throughput and speed. Major benefits include lower costs, increased capacity, decreased troubleshooting time and an improved network to meet the agency's future Internet requirements. Faxing from desktop workstations also was made available.
- Switching the agency's network from Token Ring to Ethernet to improve speed and reliability.
- Upgrading other portions of the agency's network, servers, printers, client network printers and 500 PCs.
- Replacing limited hard drives with 3-gigabyte devices, providing for storage of more applications on the PC and improving network response time.
- Helping enhance the agency's Internet presence. TDI has become a leader among the nation's insurance regulators through the scope and breadth of information maintained on its Web. On-line consumer complaint capability and direct public input to the Commissioner of Insurance keep TDI at the forefront of consumer protection and industry regulation.
- Improving dial-in remote access for windstorm inspectors, financial examiners and State Fire Marshal's Office field staff.
- Updating the IS Security Manual. IS and HR will provide the required security training in 2000.
- Purchasing various additional hardware and software products to improve the agency's overall computing capabilities. These included:
 - A CD-ROM tower to increase access to various software and information products through the network.
 - Backup hardware and software, including a robotic tape backup system, to create an efficient and centralized storage and recovery system.
 - A Support Magic software upgrade and purchase of a digital announcer to improve the capabilities of the Help Desk.
- Completing the following projects for specific program areas:
 - Providing a user-friendly Graphical User Interface (GUI) by converting several applications from Oracle Forms 3.0 to Forms 4.5 client/server.
 - Purchasing, testing and finally contracting with an outside vendor to host the agency's system for Electronic Rate and Form Filing (SERFF). Outsourcing will save TDI administrative fees. A server originally purchased for SERFF will be used elsewhere.
 - Assisting Fraud in acquiring and installing a comprehensive Investigative Management System to help with the Unit's anti-fraud activities.
 - Rebuilding an application to support the recently purchased Interactive Voice Response (IVR) automated phone system that the Licensing Group will use to increase responsiveness to agents, insurance companies and the public.
 - Testing an Oracle Webserver to provide Internet access to the Oracle database. The testing will help determine additional infrastructure requirements and the best method of allowing public access to key agency databases.
 - Completing a detailed study on the feasibility of automating fee billing and processing.
 - Assisting with installation of Consumer Protection's Phone Monitoring System, which helps assure that quality customer service is delivered via TDI's toll-free consumer help line.
 - Replacing Regulation and Safety's microfilm archiving system with a faster and more efficient optical storage and retrieval system.
 - Improving Windstorm's automated system for certifying and engineers as required by law.
 - Developing Y2K compliant automated systems that allow the State Fire Marshal's Office to track Arson Lab cases and historical fire inspection records.

Administrative Services

- Coordinating an internal fiscal note system that enabled TDI to submit 310 fiscal notes to the Legislative Budget Board during the 76th Legislative Session.
- Presenting the agency's FY2000/01 Legislative Appropriations Request to the Legislature during the 76th Legislative Session.
- Conducting an end-of-fiscal year and new fiscal year purchasing process with enhanced internal controls.
- Implementing extensive new provisions passed by the 76th Legislature, including requirements governing contract workforce, delinquent debt collections, contracting guidelines and prompt payment of invoices.
- Preparing the FY 98 *Annual Financial Report* and the *Binding Encumbrance and Accounts Payable Report*.
- Developing rates for maintenance tax, examination/overhead assessment, premium finance assessment and the workers' compensation maintenance tax surcharge.
- Processing 7,348 payment vouchers and 28,343 cash receipts.
- Implementing a Statewide Travel Charge Card Policy.
- Developing and producing the agency's FY 2000 Operating Budget.
- Monitoring and projecting agency expenditures by strategy, object of expense and organizational unit.
- Maintaining a salary and travel cap tracking system that enabled the agency to operate in compliance with the General Appropriations Act, Article IX, Section 64, (travel limitations) and Section 16b (salary cap).
- Assisting in preparation of the quarterly FTE State Employee Reports to the State Auditor's Office, pursuant to the General Appropriations Act, Article IX, Section 36.
- Developing and publishing monthly and quarterly performance reports to monitor and evaluate progress on strategic plan performance measures.
- Coordinating self-audits of strategic plan performance measures and assisting with corrective actions.
- Developing requirements for enhancement of the agency's accounting system and participating in an interagency contract to improve the system.
- Implementing processes to capture encumbrances in the agency's accounting system.
- Acquiring a new purchasing system which will be implemented during FY2000.
- Processing more than 2,840 purchase orders and 117 non-appropriated contracts.
- Posting procurement opportunities on the statewide Electronic Bulletin Board.
- Processing 1.1 million pieces of agency mail.
- Microfilming 903,076 documents and storing 2,013 cubic feet of records through the Texas State Library for records retention.
- Coordinating planning, necessary renovations and purchase of modular furniture to meet the Legislature's mandate on space utilization.
- Renovating and reorganizing the agency mailroom and copy center to provide more efficient service and reduced operating expenses by eliminating an FTE.
- Analyzed agency's inventory of copiers, developed an obsolescence plan and prepared a more defined acquisition program.

Human Resources (HR)

- Receiving recognition from the State Auditor's Office HR Task Force for its State Employee Incentive Program (SEIP) campaign, "Got Ideas, TDI." This promotional campaign was named in the State Auditor's Office Human Resources Best Practices Guide.
- Extending the capabilities of the Career Advancement Planning System (CAPS) Guide, an employee career development tool for managers and employees.
- Completing the job classification conversion of employees in affected classification titles to comply with the new State Classification Plan.

- Delivering 645 hours of training, including segments on new employee orientation, Spanish, communication, customer service and management.
- Fulfilling the legislative mandate to train all agency employees on sexual harassment and discrimination during the FY 98–99 biennium.
- Delivering 281 hours of insurance training, including in-house Chartered Property Casualty Underwriter (CPCU) and insurance regulation courses. TDI's passing ratio for insurance examinations is consistently higher than the national average.
- Implementing the Personal Registrar system on the agency intranet, allowing employees immediate access to course schedules and their training transcripts.
- Processing 1,130 personnel actions for the agency, including merit raises, promotions, transfers, releases and other forms of separation in FY 99.
- Converting the agency leave accounting system from DIR to USPS to increase tracking and reporting capabilities.
- Completing the Human Resources Disaster Recovery Plan.
- Completing a thorough review of the Human Resources Internal Procedures Manual to ensure consistency, efficiency and effectiveness of all HR procedures.
- Disseminating information gathered in the most recent University of Texas Survey of Organizational Excellence to all agency management and staff.

Business Planning and Redesign Division (BPR)

- Monitoring and reporting on the status of FY 1999 business plan initiatives.
- Coordinating Planning Work Group meetings that provide an agency-wide forum for discussing and prioritizing projects requiring Administrative Operations support.
- Redesigning the business planning process and leading the agency in developing business plans for FY 2000-2001.
- Helping agency work groups plan implementation of legislative and business projects.
- Assisting programs in doing cost-benefit analyses on projects requiring Administrative Operations support.
- Working with Information Services, Administrative Services and program areas to refine the agency-wide process for developing and seeking approval of proposed projects.
- Assisting programs in developing grant proposals to be submitted to the Foundation for Insurance Regulatory Studies in Texas.
- Initiating and leading a multi-phased, complex project aimed at improving the way TDI creates, uses and archives documents, memoranda and forms.
- Leading an intra-agency team to design standardized TDI stationery and templates that eliminate the need for printed letterhead and save more than \$6,000 a year in printing costs.
- Conducting a review of the organizational structure of the State Fire Marshal's Office and recommending ways to increase effectiveness.
- Completing an extensive study comparing TDI's resources and structure to those of other large state insurance regulatory departments.
- Working with Human Resources 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.
- Working with Information Services, Administrative Services and program areas to complete development of disaster recovery/business continuity plans for each work group and the agency as a whole.

Employee Ombudsman and Ethics Advisor

- Assisting TDI employees to effectively resolve a variety of workplace issues and conflict through counseling, coaching, mediation and facilitation.
- Creating and providing effective management skills assistance as requested by specific divisions and departments within TDI.

- Representing TDI as a speaker and presenter at conferences, workshops and seminars that addressed various workplace issues and behaviors, including conducting six sessions of legislatively mandated sexual harassment and discrimination training for all employees of the Office of the Governor.
- Completing, with 100 percent compliance, legislatively required sexual harassment workshops for all agency employees.

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