

Editor's Note

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Matters of Evolution; Revolution

By Bill Roof
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With the possible exception of Charles Darwin, matters of evolution generally take a back seat on the news bus to matters of revolution. So it has been with the 23 bills affecting the insurance industry that struggled through the 77th Texas law-making process.

Lots of electrons, paper and ink about agent licensing laws, privacy protection for consumers and workers' compensation laws...all rather revolutionary, as such matters go. But two other bills that awaited the governor's signature last week (before Sunday's signing deadline) were also important, though perhaps not as profound, if noise is any measure.

Both bills fall into the rate regulation category...a subject of much ongoing study nationwide. If HB 45 becomes law, it will create a mileage-based rating plan for Texas auto insurance. Essentially rates would be based on miles driven and time spent driving. Insurers using the plan would be exempt from benchmark rate regulation but must report statistics, according to the IIAT. Only one carrier is testing such a rating system at the moment in Texas and results are not complete. This bill, if made law, would become effective in 2004.

More important is the impact of HB 2102, the bill aimed at speeding up the state's arcane benchmark rate-making system. This bill would remove the administrative law judge hearing step from the rate-setting process for auto and homeowners' insurance. Most observers agree with the IIAT analysis that it would shorten the ratemaking process by at least six months, thereby more closely reflecting current market conditions.

As a practical matter rate changes based on the benchmark process only affect 11 percent of the homeowners' market statewide and 75 percent of the statewide auto market. Lloyds companies and reciprocal exchanges account for about 89 percent of the homeowners' market and write at unregulated rates so are unaffected directly by the benchmark process. County mutuals write 25 percent of the auto market. They also are not regulated under the benchmark system.

Consumer attempts to promulgate some form of rate regulation for Lloyd's and county mutuals got nowhere this session and there were no deregulation efforts.

Under the benchmark process rate-regulated companies set their own rates within a 30 percent range above or below benchmark in each rating territory. Residential property benchmark rates are determined each year based on claim losses in the 23 rating territories. The result, of course, is hundreds of benchmark rates, which poses a grand sweep of management challenges. The TDI has set an open meeting for July 17 in room 100 at 1:30 in the TDI building to explore revising the benchmark rate for 2001. The Insurance Council, through the ALJ, wants rates reduced six-tenths of a percent on all property lines and 1.3 percent on homeowners'. The TDI is looking for reductions of 2.7 percent on all lines and 3.5 percent on HO. The fact-finding session could be the last in the wake of HB2102.

The benchmarking system probably ought to go, especially in light of new and as yet unproven Internet marketing channels, which have created a more vigorous competitive marketplace. But efforts at such radical reform in the previous legislature stalled in committee signaling that a softer evolutionary approach might be in order in the 77th session. It worked. A more logically defensible file and use process would seem to be the next evolutionary step come Session 78.