

TEXAS INSURANCE NEWSLETTER

A Copyrighted Publication of the Insurance Council of Texas

January 13, 2005

79th Legislative Session Gearing Up

On Nov. 8, Legislators began pre-filing bills to be considered during next year's Legislative Session which convened at noon on Jan. 11, 2005. Any of the bills can be designated by the Governor for emergency consideration which allows for preferential treatment throughout the Session. Once passed by the Legislature, an emergency bill can become law as soon as it is signed by the Governor.

If you are a member of the Insurance Council of Texas (ICT), you can keep abreast of the most current issues for the next Session, by going to the ICT website at www.insurancecouncil.org and then click on the "Member Login". Log on and then click on "Legislative Updates" on the side-bar and you will be able to view a report with the most current information on the insurance bills that have been filed. The "Calendar" will keep members informed of all Legislative committee meetings as they are scheduled. Once the Session convenes, ICT members will receive a comprehensive weekly report via email updating the bills impact on the insurance industry.

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- HB 15** Relating to liability for injury arising from a motor vehicle accident.
- HB 21** Relating to the use of safety belts and child passenger safety seat systems.
- HB 23** Relating to the use of credit scoring in certain lines of personal insurance.
- HB 28** Relating to state taxes.
- HB 90** Relating to state taxes and financing schools through those taxes.
- HB 91** Relating to the disclosure of certain public information collected by the Department of Insurance.
- HB 117** Relating to the application of the franchise tax to certain entities.
- HB 118** Relating to the repeal of certain tax exemptions and deductions.
- HB 125** Relating to liability for injury arising from a motor vehicle accident.
- HB 153** Relating to certain requirements for construction contracts with governmental entities.
- HB 160** Relating to motor vehicles equipped with recording devices.
- HB 195** Relating to motor vehicles equipped with recording devices.
- HB 251** Relating to the release of certain information regarding a workers' compensation claim.
- HB 280** Relating to the impoundment of motor vehicle license plates for failure to maintain financial responsibility.
- HB 281** Relating to the authority of certain counties to apply a county fire code to certain buildings.

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- HB 337** Relating to a landowner's liability for injuries incurred during certain recreational activities.
- HJR 15** Relating to providing for the approval of an income tax adopted by the legislature and allowing revenue from the tax to be spent on education and other purposes.
- SB 14** Relating to disapproval by the Commissioner of Insurance of certain property and casualty insurance rates.
- SB 71** Relating to the prohibition of certain disclosures of a consumer's financial information.
- SB 100** Relating to a request for placement of a security freeze on a consumer file maintained by a consumer reporting agency.
- SB 120** Relating to an offense of using a telephone while operating a motor vehicle by certain minors.
- SB 153** Relating to use of safety belts and child passenger safety seat systems.

TDI Study Confirms Link Between Credit Scores and Claims

On Jan. 3, the Texas Department of Insurance released a study, mandated by the legislature, regarding the use of credit scoring by insurers in Texas. The preliminary findings of the study indicate a strong relationship between an individual's credit scores and their claims experience.

Go to www.tdi.state.tx.us/general/pdf/credital04.pdf to view a copy of the study.

Go to www.insurancecouncil.org/news/2005/Txcreditslide.pdf to view a PowerPoint presentation regarding credit scoring in Texas by Dr. Robert P. Hartwig, senior vice president and chief economist of the Insurance Information Institute.

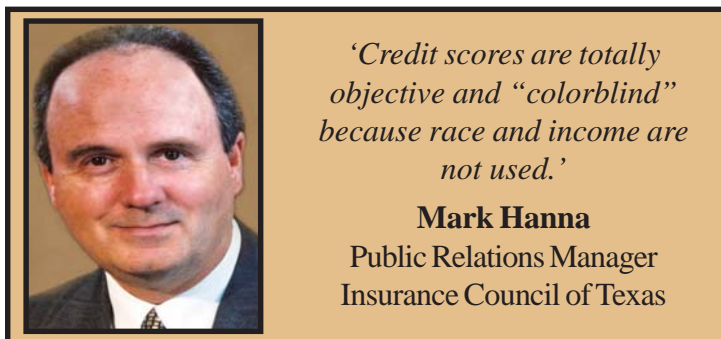
Mark Hanna, public relations manager for the Insurance Council of Texas, said that the TDI's report to the 79th Legislature on the industry's use of credit scores clearly states that the use of credit scores is an accurate predictor of insurance losses. He said, "credit scores are totally objective and 'colorblind' because race and income are not used. Credit scores focus totally on a person's verifiable credit history".

Hanna said that the use of credit scores is an every day fact of life. They are used in obtaining jobs, finding an apartment, purchasing a home and buying nearly every type of major appliance.

Credit scores are an underwriting factor that an individual can control and improve. By paying bills on time and managing their finances, policyholders can see a marked improvement in their credit score, which can lead to better insurance rates.

Hanna said credit scoring is an important tool that insurance companies can use to better assess risk so they can fairly and accurately establish the price each consumer pays for their home and auto insurance coverage.

It remains a fact that the use of credit scores has been proven actuarially sound and that they accurately predict insurance losses.



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Sponsorships Still Available 2005 Annual Mid-Year Symposium

On July 14, 2005, the 13th annual Mid-Year Property & Casualty Insurance Symposium will be held at the Austin Marriott at the Capitol in Austin, Texas. Registration announcements for the 2005 Symposium will be sent to you in March.

'As most of you probably know, this major Texas industry event attracts some three hundred attendees and for all practical purposes has come to serve as the annual meeting of the Texas property and casualty insurance industry. We were fortunate last year to have the symposium sponsored by a cross section of both Texas and national insurance organizations. We are expecting a similar response this year and encourage you to join in supporting this very special industry event.'



Rick Gentry
Executive Director
Insurance Council of Texas

As you can see from the schedules shown below, you will be in good company sponsoring an event at the symposium. To reserve your sponsorship or for more information, contact Barbara Schoenfeld at bschoenfeld@insurancecouncil.org or 512.444.9611.

Still Available

	<u>Sponsorship</u>	<u>Co-Sponsorship</u>
Luncheon	\$7,000	\$3,500 x 2
Symposium Memento	\$2,000	\$1,000 x 2
Audio Visual	\$2,400	\$1,200 x 1
Benefactor	\$2,500	None
Patron	\$1,500	None
Partner	\$750	None
Associate	\$500	None
Friend	\$250	None

Thank You 2005 Sponsors

Early Bird Dinner/Reception	Gen Re
Morning Coffee	Travelers
Keynote Speaker	Zurich
Dr. Robert Hartwig	The Republic Group (Co-Sponsor)
Dr. Robert Hartwig	IIAT (Co-Sponsor)
Morning Speaker	USAA
Luncheon Speaker	Texas Farm Bureau
Panel Discussion	Liberty Mutual
Symposium Associate	United Fire Group
Symposium Associate	The Broadmoor
Symposium Associate	Safeco
Symposium Friend	Safeway Insurance Group

EARLYBIRD FORECAST 2005

By Dr. Robert P. Hartwig, Ph.D., CPCU, Senior Vice President & Chief Economist,
Insurance Information Institute

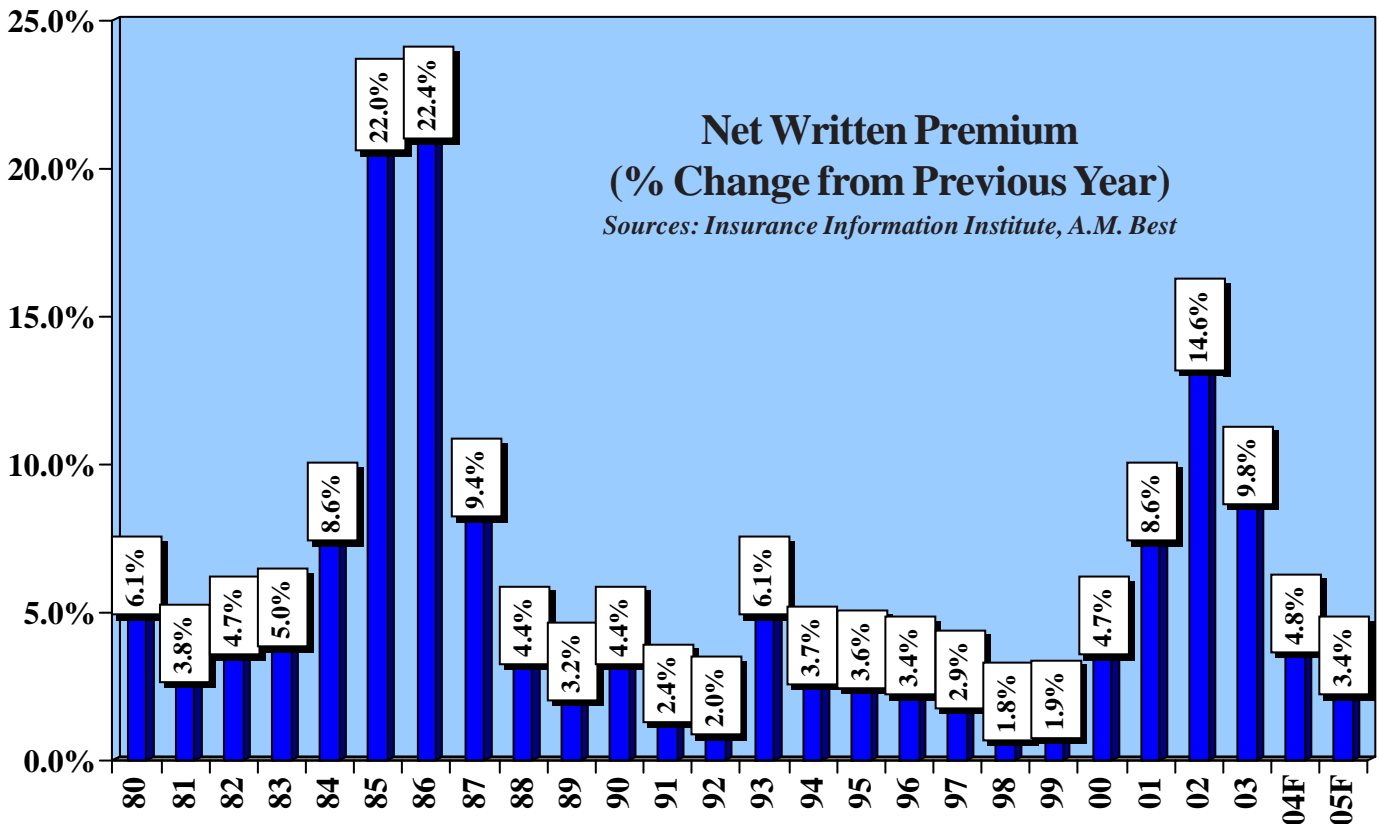


SURVEY OF ANALYSTS PROJECTS SLOWING OF P/C PREMIUM GROWTH IN 2005

Each year the Insurance Information Institute invites a panel of Wall Street stock analysts and industry professionals to review the prospects for the industry in the current and coming year. The survey reveals that the industry's effort to recover from its worst-ever performance in 2001 ran into hurricane force headwinds in 2004, as the quartet of storms that struck the southeast coast transformed what would have been the industry's best year in decades into a breakeven performance. In 2005, analysts expect little change from 2004, though on a catastrophe-adjusted basis it is clear that the cyclical deterioration in underwriting performance will begin to make its presence known. The poll also shows that analysts uniformly expect premium growth to slow in 2004 (to roughly half of what it was in 2003, on average) and for that deceleration to continue in 2005.

PREMIUM GROWTH: SLOWING, SLOWING, BUT NOT QUITE GONE

The average forecast calls for an increase in net written premiums of 3.4 percent in 2005, down from an estimated 4.8 percent in 2004. The 2004 figure itself represents more than a halving of the 9.8 percent increase in 2003. It is also worth noting that premium growth in 2004 came in well below even the pessimistic of analysts' expectations from a year ago. In last year's Early Bird survey the consensus estimate was for net written premium growth of 8.1 percent and the lowest estimate of the 13 respondents was 5.2 percent, nearly a half point above the current estimate of 4.8 percent. In contrast to previous years, when gains were chiefly the result of higher rates, the sharp weakening in the pricing environment over the past year means that current gains are more directly related to increased exposure growth and higher demand associated with the current economic recovery. Until 2004, exposure growth was concentrated on the personal lines side, as low interest rates propelled new home construction to record levels while at the same time boosting auto sales. During 2004, however, business investment and hiring finally began to perk up, pushing up demand for commercial insurance.



COMBINED RATIO: MUCH BETTER THAN IT APPEARS

The combined ratio, which is the ratio of losses and expenses to premiums, for 2005, is projected to be 99.0, little changed from the 100.0 estimated for 2004 and the 100.1 recorded in 2003. Nevertheless, the forecasts are vast improvements over the terrorism-impacted 115.7 result in 2001. Were the combined ratio in 2004 or 2005 to come in under 100, it would mark the first underwriting profit in the property-casualty insurance industry since 1978. Moreover, had catastrophe experience in 2004 been "normal" (insured losses for the four hurricanes that struck during the third quarter of 2004 are estimated at \$20.5 billion) the year's combined ratio would have been in the neighborhood of 95—its lowest level since 1972.

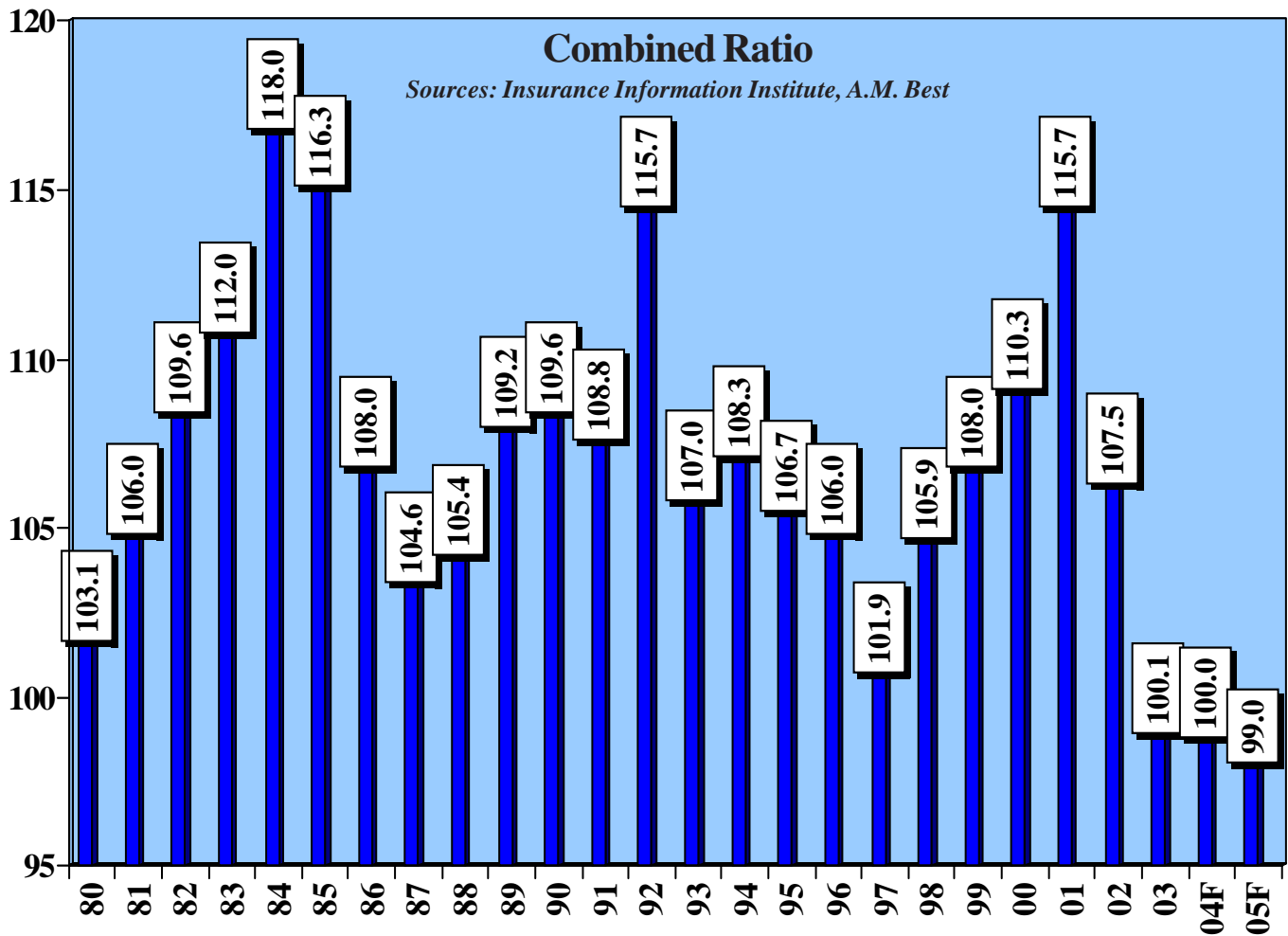
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While the survey results show some expected improvement, the bottom line is that the industry will still be paying out almost exactly the same amount in claims and associated expenses as it earns in premiums, thereby increasing the importance of investment earnings. Given the current low yield, high volatility investment environment, it is clear that Fortune 500-level returns on equity in the neighborhood of 13 to 14 percent cannot be generated without a contribution from underwriting.

2005: LOOKING RELATIVELY GOOD, BUT CONCERNS ARE MOUNTING

What are the biggest potential downside risks for 2005? High on the list is a loss of pricing and underwriting discipline. Differing views on the likelihood of pricing discipline being maintained likely explain the disparity among analysts' forecasts for net written premium growth in 2005, which range from 1.1 percent on the low end to 6.0 percent on the high side. So far, pricing is clearly easing but cannot yet be characterized as destructive.



Among major external risks, tort costs remain among the factors that most significantly affect insurer financial performance. The failure of class action, asbestos and medical malpractice reform legislation was among the industry's biggest disappointments in 2004. At a minimum, Congress will likely revisit the issue of class action reform in 2005, which fell short of passage by a single vote in the Senate in 2004. The failure to get the Terrorism Risk Insurance Act extended in 2004 was also a major disappointment. Many commercial policies (with the exception of workers compensation) with inception dates after January 1, 2005 will now include terrorism exclusions in the event that the Act—currently scheduled to sunset at the end of 2005—is not extended.

While not directly impacting the operating performance of insurers, 2004 is likely to be remembered as the year in which New York State Attorney General Eliot Spitzer initiated an investigation of some insurance industry practices. The ultimate impact of this investigation, which has resulted in at least two dozen additional probes launched by state attorneys general and insurance departments around the country, is still unknown. However, insurer (and broker) expenses are certain to rise in 2005 as compliance costs increase as new regulations come online and fines and penalties are levied and paid.

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A table summarizing the estimates and forecasts of the surveyed participants follows.

Net Written Premium (% Change from Prior Year)		
Ranked highest to lowest for 2005.		
Company	Est. 2004 %	Forecast 2005 %
Standard & Poor's	6.3	6.0
Goldman Sachs	4.8	4.5
Lehman Brothers	4.5	4.0
Prudential Securities	4.3	4.0
Firemark Investmens	4.4	3.5
Merrill Lynch	4.5	3.5
Raymond James	4.4	3.5
Morgan Stanley	4.4	3.4
Conning	5.5	3.3
Gill & Roeser	4.7	3.0
Tillinghast-Towers Perrin	5.0	2.7
A.G. Edwards	5.0	2.0
ISO	4.1	1.1
Average	4.8	3.4

Combined Ratio (After Dividends)		
Ranked highest to lowest for 2005.		
Company	Est. 2004	Forecast 2005
Gill & Roeser	100.0	102.3
Tillinghast-Towers Perrin	102.2	102.0
Conning	101.7	101.1
Lehman Brothers	101.2	100.7
A.G. Edwards	100.5	100.0
ISO	97.7	99.0
Merrill Lynch	96.0	99.0
Morgan Stanley	102.2	98.2
Standard & Poor's	100.1	97.9
Goldman Sachs	99.1	97.7
Firemark Investments	98.6	97.3
Raymond James	99.6	96.8
Prudential Securities	100.6	95.6
Average	100.0	99.0

Did You Know?

...The *New York Times* reports that in the last three years, crashes of U.S. commercial airlines have resulted in 34 fatalities, making the period one of the safest in the history of U.S. aviation. The only fatal crash of a scheduled U.S. airline last year occurred in October when a Corporate Airline twin-engine turboprop went down as it approached the Kirksville Regional Airport in Missouri, killing 13 people. Ellen Engelmann Connors, chairwoman of the National Transportation Safety Board, compared the safety record of the aviation industry favorably with highway travel, which kills approximately 42,000 people each year.

...According to the U.S. National Oceanic and Atmospheric Administration's Storm Prediction Center, there were a record 1,717 tornadoes reported in 2004. The previous record of 1,424 tornadoes occurred in 1998.

...The World Meteorological Organization, an agency of the United Nations, says that 2004 was the fourth-hottest year on record, confirming a trend that began in the 1990's. The agency also said that the month of October was the warmest October ever recorded.

...Drivers who fall asleep at the wheel get into some 100,000 crashes each year in the U.S., causing at least 71,000 injuries and 1,500 deaths, according to the National Highway Traffic Safety Administration. Young people, ages 18-29, are the most likely to drive drowsy, with one study finding 70 percent admitting they have driven while tired. Other studies have found that driving after being awake for 18 hours is like driving with a blood-alcohol of 0.05 percent, and after 24 sleepless hours, like 0.10 which is above the legal limit for drunk driving. Police re-



port that often drivers they stop because they appear to be drunk are actually just tired.

...The Office of Applied Studies at the Substance Abuse and Mental Health Administration released a report showing that over 4 million Americans 20 years or younger drove under the influence of alcohol or drugs in 2003. As many as one in five drivers between the ages of 16 to 20 may have driven while intoxicated at least once during 2003. The study found that the number of young Americans driving under the influence of alcohol or drugs declined from 22 percent to 20 percent between 2002 and 2003.

...According to the National Insurance Crime Bureau, property/casualty insurers lose over \$30 billion a year in fraudulent claims and according to the Coalition Against Insurance Fraud, auto insurance fraud alone costs insurers about \$14 billion a year.

INSURANCE COUNCIL COMMITTEE UPDATE

The **ICT Personal Lines Committee** reviewed the Texas Department of Insurance proposal to amend the approved credit scoring rules for personal lines of insurance to allow insurers to apply only a +/- 10 percent rate difference due to insurance scoring. ICT staff prepared and forwarded written comments based on the committee recommendations. The previously adopted rule had no rate limitations. However, the proposed rule allows TDI to consider an insurers' request for a rate difference of greater than 10 percent with actuarial justification. The Commissioner held a hearing on Jan. 7, 2004. Numerous industry and consumer representatives testified. Insurers emphasized that the more the Commissioner restricts insurance scoring; consumers who responsibly manage their credit will unfairly pay more while those consumers with poor credit histories will unfairly pay less. Individual companies and agent representatives warned the Commissioner that adopting the current rule with the limitations would cause up to 60 percent of their customers to be inaccurately rated. After consideration, the Commissioner withdrew the rule and has now proposed an amended rule still allowing insurers to apply only a +/-10 percent rate difference. Go to www.tdi.state.tx.us/commish/rules/0621-059.html to view a copy of the amended TDI proposal.

The **ICT Personal Lines Committee** and **ICT Commercial Lines Committee** reviewed a draft proposal by the Texas Department of Insurance regarding guidelines for submitting various filings relating to property and casualty insurance. TDI held an open meeting on Sept. 9, 2004 to provide interested parties the opportunity to share information and provide input regarding TDI's proposal. TDI has now published a formal rule. The committees reviewed the formal rule. A hearing was held on Nov. 30, 2004 and the Commissioner has not yet made a decision. Go to www.tdi.state.tx.us/commish/rules/1018-059.html to view a copy of the formal rule.

The **ICT Personal Lines Committee** is currently reviewing a formal proposal by the Office of Public Insurance Council (OPIC) amending the Consumer Bill of Rights for both personal auto and personal property. Go to www.tdi.state.tx.us/commish/rules/1011-059.html to view the proposal.

The **ICT Personal Lines Committee** reviewed a proposal by TDI to more accurately inform renters regarding their personal auto insurance policy liability coverage while operating a rental vehicle. The Commissioner has now adopted the proposal to be effective Jan. 20, 2005. Go to www.tdi.state.tx.us/commish/rules/0105-059.html to view the adopted rule.

CALENDAR

Texas Department of Insurance

Hobby Building - 333 Guadalupe St. - Austin, Texas

- *Wednesday, January 26, 2005 - 9:30 a.m. - Room 100*

Docket No. 2610: The Commissioner will hold a public hearing to consider the Texas Windstorm Insurance Association's (Association) filing of proposed additional increases to the limits of liability for certain Association policies of windstorm and hail insurance. This notice is made pursuant to the Texas Insurance Code, Art. 21.49 §8D (g) which requires notification and a hearing prior to the Commissioner's approval, disapproval, or modification of the Association's proposed additional increases to the limits of liability for its policies of windstorm and hail insurance.

Texas FAIR Plan Association

Four Seasons Hotel - 98 San Jacinto Blvd., Austin, Texas

- *Monday, March 14, 2005 - 2:30 p.m.*
Texas FAIR Plan Association to hold their governing committee meeting.

Texas Windstorm Insurance Association

TWIA Office - 5700 South MoPac, Bldg. E, #530, Austin, Texas

- *Friday, January 28, 2005, 10:00 a.m.*
Texas Windstorm Insurance Association to hold their board of directors teleconference on TWIA Legislative Changes.

Four Seasons Hotel - 98 San Jacinto Blvd., Austin, Texas

- *Tuesday, March 15, 2005, 8:30 a.m.*
Texas Windstorm Insurance Association to hold their board of directors meeting.

CPI For Auto Insurance Up 3.1 Percent For November 2004

The U.S. Department of Labor released the November 2004 figures for the consumer price index (CPI).

	<u>Percentage change from a year ago</u>		
	2003 Full Year	2004 Oct.	2004 Nov.
Overall Index	2.3	3.2	3.5
Auto Insurance and Related Items			
Motor Vehicle Insurance	7.8	2.0	3.1
Motor Vehicle Body Work	1.7	3.5	3.4
Total Medical Care	4.0	4.5	4.4
Physicians' Services	2.7	4.3	4.3
Hospital Services	7.4	5.6	4.8
Legal Services	5.0	5.0	4.9
Motor Vehicles			
New Vehicles	-1.5	-0.4	0.3
New Cars	-1.9	-0.4	0.4
New Trucks	-1.2	-1.0	-0.3
Used Cars and Trucks	-6.0	1.3	3.6
Household Insurance and Related Items			
Tenants' and Household Insurance	5.6	0.3	3.0
Repair of Household Items	4.7	7.2	6.9
Existing Single Family Homes*	7.5	8.8	n/a

*Median sales price. Data from the National Association of Realtors.