

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 31, 2003

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB8 by Smithee (Relating to regulation of certain types of insurance and the conduct of certain insurers.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB8, As Introduced: an impact of \$0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$0
2006	\$0
2007	\$0
2008	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/ (Loss) from <i>DEPT INS OPERATING</i> <i>ACCT</i> 36	Probable Savings/(Cost) from <i>DEPT INS OPERATING</i> <i>ACCT</i> 36	Change in Number of State Employees from FY 2003
2004	\$589,929	(\$589,929)	9.5
2005	\$543,037	(\$543,037)	9.5
2006	\$543,037	(\$543,037)	9.5
2007	\$498,647	(\$498,647)	8.5
2008	\$498,647	(\$498,647)	8.5

Fiscal Analysis

The bill would require the Texas Department of Insurance (TDI) to adopt a prior approval system as the rate filing and forms system for all residential and personal auto insurance. The system must ensure rates would not be excessive, inadequate, unreasonable or unfairly discriminatory. TDI is given authority to require insurers to file any information necessary to implement the rate provision of the bill and to impose specific requirements for coverage under forms and endorsements.

TDI may require an insurer authorized to write residential or motor vehicle insurance, including a Lloyd's plan, county mutual insurance company, farm mutual insurance company or reciprocal or

interinsurance exchange, to file underwriting guidelines for approval, consideration or information, and would have authority to prohibit or limit the use of guidelines it determines unreasonable or unfairly discriminatory.

Lloyd's plans, reciprocals or interinsurance exchanges, farm mutuals, and county mutual companies would be subject to all laws governing rates, policy forms or endorsements for residential property and motor vehicle insurance.

The bill would take effect on September 1, 2003.

Methodology

The Texas Department of Insurance (TDI) estimates 2.5 additional FTEs (Actuary IV) would be needed to review additional auto and property policy filings and additional auto and property company rating manuals. A move to a prior approval system would eliminate the need for benchmark rate hearings and TDI estimates a savings of 0.5 FTE (Actuary IV) from the elimination of these hearings. The overall result of moving to a prior approval system would be in an increase of 2 FTE (Actuary IV) at an annual salary of \$112,872.

TDI estimates the need for 3 additional FTEs (Insurance Specialist III), at an annual salary of \$96,946, to handle additional filings by auto and residential insurers. As the need for maintaining existing manuals and promulgated forms declines, existing staff would be able to absorb some of this work and the additional staff requirement would fall from 3 FTEs to 2 FTEs in fiscal year 2007, at an annual salary of \$64,631.

TDI would require an additional 0.5 actuarial FTE (Actuary IV), with a total annual salary of \$28,218, to ensure compliance with underwriting standards set by the commissioner for credit models.

Implementation of the bill would require 1.5 FTEs (Attorney IV), with a total annual salary of \$74,610, in order to meet the numerous deadlines specified in the bill, given the highly technical nature of the bill and the amount of existing regulations that will need to be concurrently repealed, amended and have new rules adopted. The attorneys would also assist with rate filings required by the bill, required hearings, detailed orders if rate filings are disapproved, and drafting of reports required by the bill.

TDI anticipates the bill would increase the number of contested case hearings by 12 and the number of cases resolved through negotiated settlement by 23. However, because the prior approval system would eliminate the need for benchmark rate hearings, the agency anticipates the increased legal workload related to contested case hearings and negotiated settlements would be offset by a decrease in legal workload related to benchmark rate proceedings.

The agency indicates that 0.5 additional FTE (Attorney IV), with a total annual salary of \$24,870, would be needed to handle an anticipated 7 additional complex residential property cases related to the disapproval of initial rates filed by companies writing \$10 million or more in premiums for residential property insurance.

TDI would need 2 additional FTEs (1 Investigator VI and 1 Legal Secretary II), with a total annual salary of \$65,556, to provide assistance to attorneys for additional cases related to Commissioner disapproval of filings.

TDI would spend \$186,857 in fiscal year 2004, \$139,965 in fiscal years 2005 and 2006, and \$127,890 in fiscal years 2007 and 2008 for travel, telephones, supplies, equipment, employee retirement and group insurance, and other expenses related to the additional FTEs.

It is assumed the agency would adjust the Insurance Maintenance Tax to offset any additional costs associated with the implementation of the bill.

Technology

The Texas Department of Insurance would require \$17,820 in fiscal year 2004 for the purchase of computers, software, and related equipment for additional FTEs.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 454 Department of Insurance

LBB Staff: JK, JO, JRO, RT, RB