

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**February 15, 2003**

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

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB748** by Smithee (Relating to automobile and residential property insurance rate regulation.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB748, As Introduced: an impact of \$0 through the biennium ending August 31, 2005.

**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	\$158,119	(\$158,119)	2.0
2005	\$148,757	(\$148,757)	2.0
2006	\$148,757	(\$148,757)	2.0
2007	\$148,757	(\$148,757)	2.0
2008	\$148,757	(\$148,757)	2.0

According to the Comptroller of Public Accounts, the bill would not significantly change the amount of insurance premium taxes. To the extent that the provisions of this bill are effective in restraining unfair or unwarranted premium increases, it would exert some downward pressure on premium tax collections. However, to the extent that its provisions are equally effective in promoting insurance availability, it would encourage premium and premium tax growth.

**Fiscal Analysis**

The bill would amend Chapter 5 of the Insurance Code by adding Subchapter P, which would restructure automobile and residential property insurance rate regulation under a file and use system.

This system would require companies to file rates for review by the Commissioner of Insurance before they take effect. Lloyds, county mutuals, and other companies that write policies which are not rate regulated under current law would be included in the file and use system. Farm mutuals and the Texas

Windstorm Insurance Association are exempt.

The commissioner would be required to submit a report to the Governor, Lieutenant Governor, and Speaker of the House summarizing insurers' submissions of loss, premium, and market share data.

### **Methodology**

The Texas Department of Insurance (TDI) estimates it would require two additional full-time equivalent (FTE) positions.

TDI would review 350 additional auto insurance filings. It is anticipated that many insurers would elect to use their own rating manuals, requiring additional resources to review these documents. The agency estimates that one additional FTE (Actuary IV) would be needed to review the additional filings and company rating manuals. A move to the file and use system for auto insurance would eliminate the need for benchmark rate hearings. The agency estimates that a savings of .25 FTE (Actuary IV) would result from the elimination of these hearings.

The overall result of moving to a file and use system for auto insurance would be an increase of .75 FTE (Actuary IV).

TDI estimates an increase of approximately 350 property insurance filings under the file and use system. Insurers would also have more freedom to use their own manuals, and the agency expects many would do so. It is estimated that 1.5 additional FTEs (Actuary IV) would be needed to review the additional filings and company rating manuals. A move to the file and use system would eliminate the need for benchmark rate hearings. TDI estimates that a savings of .25 FTE (Actuary IV) would result from the elimination of these hearings.

The overall result of moving to a file and use system for property insurance would be an increase of 1.25 FTEs (Actuary IV).

It is assumed that TDI would adjust insurance maintenance fees and assessments to cover its costs in implementing the provisions of the bill.

The bill would take effect on June 1, 2003 if passed by at least a two-thirds majority on a record vote in both houses. Otherwise, it would take effect on September 1, 2003.

### **Technology**

The Department of Insurance would need two additional computers and software at a cost of \$3,564.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller Of Public Accounts, 359 Office Of Public Insurance Counsel, 454 Department Of Insurance

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