

BILL ANALYSIS

C.S.H.B. 2760
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Insurance
Committee Report (Substituted)

BACKGROUND AND PURPOSE

On and after December 1, 2004, Article 5.13-2 of the Insurance Code applies to county mutual insurers, which means the county mutuals' rates for personal auto (and certain other coverage's) are subject to rate regulation. Prior to December 1, 2004, county mutuals' rates were not subject to rate regulation. The rating requirements of Article 5.13-2 require that rates may not be excessive, inadequate, unreasonable, or unfairly discriminatory for the risks to which they apply.

County mutuals often write business through managing general agents (MGAs). These MGAs often have individual insurance programs that they market to consumers. The statutes are currently unclear as to whether the rates used by county mutuals should be evaluated at the company level or at the individual program (MGA) level. In many cases, there can be more than one MGA writing for the same county mutual company, and the rates between them may vary due to different limits or coverages offered or due to differences in operational expenses and reinsurance support. As a practical matter, the different MGAs operate as separate insurance companies today.

C.S.H.B. 2760 clarifies that county mutuals' rates will be evaluated and the rating standards will be applied at the program level. C.S.H.B. 2760 also sets forth guidelines in which a MGA program, will be considered independent of other program rates. The MGA must be appointed by a county mutual that historically writes through MGA's at nonstandard rates. This is designed to ensure that the exemption for companies writing at nonstandard rates remains narrow as intended in SB 14 from last session.

The C.S.H.B. 2760 clarifies that the new statutory provisions apply to a county mutual that writes personal auto policies only at nonstandard rates.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Commissioner of Insurance in SECTION 1 (Insurance Code Section 912.002, new Subsection (c-2)) of this bill.

ANALYSIS

SECTION 1. Amends Section 912.002 of the Insurance Code by amending Subsection (c) and adding Subsections (c-1) and (c-2). Subsection (c) specifies that Article 5.13-2 rate regulation for a personal automobile policy and a residential fire and allied lines insurance policy written by a county mutual insurance company includes a policy written through one of multiple insurance programs marketed or offered to consumers by managing general agents appointed by the same county mutual insurance company. For the purposes of Subsection (c), rates for such a program shall be considered independently of the others rates of that county mutual insurance company if the county mutual insurance company has historically written business through managing general agents, was writing business through managing general agents as of December 1, 2004, and is issuing or writing personal automobile policies only at nonstandard rates, as that term is defined by Section 13(e) of Article 5.13-2.

Subsection (c-1) makes an independent program of a county mutual insurer described by Subsection (c) subject to the rate standards of Article 5.13-2.

Subsection (c-2) authorizes the Commissioner of Insurance to adopt rules as necessary to implement Subsections (c) and (c-1).

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SECTION 2. States that the Act applies only to an insurance policy delivered, issued for delivery, or renewed on or after January 1, 2006.

SECTION 3. States that the Act takes effect September 1, 2005.

EFFECTIVE DATE

September 1, 2005. The Act applies beginning with January 1, 2006.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The C.S.H.B. 2760 amends section C and C (3) of the original bill by specifying that the new statutory provisions apply to a county mutual that writes personal auto policies only at nonstandard rates.