



Texas Department of Insurance

SENATE BILL 14 FREQUENTLY ASKED QUESTIONS

The information contained in this document does not cover each portion of Senate Bill (SB 14), and therefore may not address a particular circumstance applicable to the reader. Additionally, this information is presented in a generalized language adapted from the bill text; please consult the bill text as needed for specific language; this can be found at the Texas Legislative website www.capitol.state.tx.us.

The references to draft rules and deadlines are preliminary and subject to formal rulemaking processes. With some exceptions, TDI anticipates having rules available for comment in August.

As it becomes available, the Department will supplement this document with additional questions and answers and updated information regarding rule proposals.

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SB 14 – FREQUENTLY ASKED QUESTIONS

RESIDENTIAL PROPERTY

Q. What is “residential property insurance”?

A. As defined in SB 14, “residential property insurance” means insurance coverage against loss to residential real property at a fixed location or tangible personal property provided in a homeowners policy, including a tenants policy, a condominium owners policy, or a residential fire and allied lines policy.

NOTICE REQUIREMENTS

Q. Is it necessary to send two notices to comply with both notice requirements under Articles 1 and 2?

A. No.

Q. Can an insurer send a notice to all policyholders, including those policyholders who did not receive a rate increase of 10% or more, explaining the rate increases?

A. SB 14 does not prohibit sending notice to all policyholders.

Q. Will the renewal statement suffice as the required notice?

A. No, unless the renewal statement includes a notice that is easily identified and complies with the requirements of Article 6 of SB 14. The intent is to inform an insured of a significant rate increase and to allow more time to obtain alternative coverage.

RATES - Initial Rate Filing (SB 14-Article 4)

Q. How much time does TDI have to approve or modify the rates filed with the initial rate filings?

A. For insurer groups with 2002 residential property insurance annual premium volume of \$10 million or more, TDI has until August 10, 2003 (60 days after the effective date of the bill) to approve or modify filed rates or the rates are deemed approved. For insurer groups with premium volume of less than \$10 million, TDI has until September 9, 2003 (90 days after the effective date of the bill) to approve or modify filed rates or the rates are deemed approved.

RATES - Filings After Initial Rate Filing (SB 14 – Article 1)

Q. What is the regulatory system for residential property rate filings before December 1, 2004?

A. Until December 1, 2004, insurers’ rate filings are subject to prior approval with a 30-day deemer. However, the Commissioner may extend the period for approval or disapproval of a rate filing for an additional 30-day period. There are provisions in the statute that allow the “clock” to stop if and when additional information is requested by the Department. SB 14 also provides that the Commissioner may adopt rules to allow small and new insurers to operate under a file and use system if they do not change their rates significantly. The intent of the Department is to propose rules to accommodate small and new insurers.

- Q.** When can insurers make a rate filing under this provision of the statute?
A. **Right now. This article of SB 14 is effective immediately.**
- Q.** When can the Commissioner be expected to adopt rules regarding filing requirements and the small and new insurer exemption?
A. **Department staff is currently working on rules with a target date of proposing rules sometime in August 2003. Interested parties will be provided the opportunity to comment on the proposed rules at the appropriate time. The rules shall address the filing requirements and the immediate use of rates for certain insurers.**
- Q.** What is required to be filed under the provisions of the statute?
A. **Until such time as new rules are adopted and a new Property & Casualty Filings Made Easy is published, an insurer may continue to file the same forms in the same manner as provided in the current Property & Casualty Filings Made Easy.**
- Q.** Can a Lloyds insurer which currently offers tiered rates still offer tiers under the new law?
A. **Yes, however rates may not be excessive, inadequate, unreasonable, or unfairly discriminatory for the risks to which they apply. All tier structures shall be subject to the applicable standards of SB 14.**
- Q.** What is the regulatory system for residential property rate filings starting December 1, 2004?
A. **All residential property filings will be subject to a file-and-use system starting December 1, 2004, with certain exemptions for insurers serving underserved markets.**

CONFORMING AMENDMENTS; REPEALER (SB 14 – Article 21) - Discounts

- Q.** Now that various mandatory discounts have been repealed, are insurers authorized to use the discounts? Is any action required to use them?
A. **Insurers may use discounts as long as the discounts are justified and justification is filed with TDI, however until filings are made, insurers are subject to the discounts set forth in the Texas Personal Lines manual.**

POLICY FORMS & ENDORSEMENTS (SB 14 – Article 2)

- Q.** Can an insurer continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.35? Is there a deadline for notification?
A. **Yes, however an insurer is required to provide written notification to the Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department.**
- Q.** Where does an insurer send form notification?
A. **Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.**

- Q. How soon can an insurer file new policy forms and endorsements?
A. Immediately, effective June 11, 2003.
- Q. Are county mutual insurers required to immediately file policy forms?
A. A county mutual insurer may continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.35 and is required to provide written notification to the Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department. Forms that have not been approved or adopted must be filed and approved under Article 5.13-2.
- Q. Where does a county mutual insurer send form notification?
A. Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.

CANCELLATION OF CERTAIN INSURANCE POLICIES (SB 14 – Article 16)

- Q. Is an insurer required to amend the cancellation provisions of its policies to comply with the new 60 day cancellation provisions for homeowners policies?
A. Yes, pursuant to Article 21.49-2B, Section 4, Subsections i. and j., effective June 11, 2003.
- Q. Is an insurer required to file the amended cancellation provisions with the Department?
A. Yes, refer to Commissioner's Bulletin No. B-0028-03.
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PERSONAL AUTOMOBILE

- Q. What is "personal automobile insurance"?
A. As defined in SB 14, "personal automobile insurance" means motor vehicle insurance coverage for the ownership, maintenance, or use of a private passenger, utility, or miscellaneous type motor vehicle, including a motor home, trailer, or recreational vehicle that is: (a) owned or leased by an individual or individuals; and (b) not primarily used for the delivery of goods, materials, or services, other than for use in farm or ranch operations.

RATES (SB 14 - Articles 1 & 6)

- Q. What is the regulatory system for personal automobile rate filings before December 1, 2004?
A. With the exception of county mutuals, until December 1, 2004, insurers' rate filings are subject to the current benchmark system. All provisions of Article 5.101 apply.
- Q. Is an insurer required to make a rate filing?
A. An insurer is not required to make a rate filing unless it plans to change its rates.

- Q.** When can an insurer make a rate filing?
A. Insurers can make a rate filing at any time, subject to the applicable provisions of Article 5.101. For example, if the rates filed are outside the current flex band, then the rates must be approved prior to use.
- Q.** When will the Commissioner adopt new benchmark rates?
A. There are no plans in the near future to change the current benchmark rates. The Department will monitor data and take action when appropriate.
- Q.** What is required to be filed?
A. Until rules are adopted, insurers may refer to the current Property & Casualty Filings Made Easy for filing requirements.
- Q.** If an insurer elects to continue using the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06, what rules and rates apply?
A. The rules and rates of the Texas Automobile Rules and Rating Manual continue in effect for personal automobile insurance until December 1, 2004 for the policy forms and endorsements promulgated or adopted by the Commissioner. The rates approved for individual insurer filed and approved endorsements continue in effect.
- Q.** What is the regulatory system for personal automobile rate filings starting December 1, 2004?
A. All personal automobile rate filings will be subject to a file-and-use system starting December 1, 2004, with certain exemptions for insurers serving underserved markets.
- Q.** What is the regulatory system for county mutual insurers for personal automobile rate filings before December 1, 2004?
A. County mutuals' rates are subject to certain rate standards, i.e. rates may not be unreasonable, unfairly discriminatory, excessive, or inadequate for the risks to which they apply. In addition to the schedule of charges that current law requires county mutuals to file with the Department, SB 14 also mandates that county mutuals provide TDI their premium, expense and loss data. Department staff is currently working on rules for this requirement with a target date of proposing rules sometime in August 2003.

CONFORMING AMENDMENTS; REPEALER (SB 14 – Article 21) - Discounts

- Q.** Now that various discounts have been repealed, are insurers authorized to use the discounts? Is any action required to use them?
A. Insurers are subject to the rules and rates of the Texas Automobile Rules and Rating Manual for personal automobile insurance until December 1, 2004.

POLICY FORMS & ENDORSEMENTS (SB 14 – Article 2)

- Q.** Can an insurer continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06? Is there a deadline for notification?
A. Yes, however an insurer is required to provide written notification to the

Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department.

- Q. Where does an insurer send form notification?**
A. Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.
- Q. How soon can an insurer file new policy forms and endorsements?**
A. Immediately, effective June 11, 2003.
- Q. Are personal automobile insurance policy forms and endorsements filed for approval required to meet the minimum coverage standards as required by Article 5.06 prior to the effective date of SB 14?**
A. No, the minimum coverage standards do not apply. Personal automobile policy forms and endorsements are regulated under Article 5.145, governed by the provisions of Section 8, Article 5.13-2. Among other provisions, policy forms and endorsements may not contain provisions or titles/headings which are unjust, encourage misrepresentation, are deceptive, or violate public policy.
- Q. Are county mutual insurers required to immediately file policy forms?**
A. A county mutual insurer may continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06 and is required to provide written notification to the Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department.
- Q. Where does a county mutual insurer send form notification?**
A. Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.
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COMMERCIAL AUTOMOBILE

RATES (SB 14 - Article 5)

- Q. What is the regulatory system for commercial automobile rate filings?**
A. Effective immediately, all commercial automobile rate filings are subject to a file-and-use system, pursuant to Article 5.13-2. This provision applies to all insurers, including county mutuals.
- Q. Is an insurer required to make a rate filing?**
A. An insurer is not required to make a rate filing unless it plans to change its rates or rating rules. Absent a filing to change its rates or rating rules, it is assumed that an insurer is using the current rates that it currently has on file with TDI. For commercial automobile, an insurer that was subject to the benchmark rating system prior to the enactment of SB 14, it is assumed that it is using all the rules that are contained in the Texas Automobile Rules and Rating Manual unless it files a manual or files to modify the Texas Automobile Rules and Rating Manual.

- Q. What information is an insurer required to provide in a commercial automobile rate filing?
- A. Until rules are adopted, insurers may refer to the current Property & Casualty Filings Made Easy for filings made in accordance with Article 5-13-2.**
- Q. If an insurer elects to continue using the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06, what rules apply?
- A. Insurers shall be subject to the rules and rates of the Texas Automobile Rules and Rating Manual until filings are made in accordance with Article 5.13-2.**
- Q. Can an insurer currently using benchmark rates continue to use the benchmark rates under 5.13-2?
- A. Yes.**
- Q. What is the regulatory system for county mutual insurers for commercial automobile rate filings?
- A. County mutuals writing commercial automobile insurance are subject to Article 5.13-2 effective immediately. A county mutual insurer is not required to make a rate filing unless it plans to change the rates or rating rules that it has on file with the Department. Absent a filing to change rates or rating rules, it is assumed that a county mutual insurer is using the current rates and rules that it currently has on file with TDI. Department staff is working on rules clarifying the filing requirements with a target date of proposing rules sometime in August 2003. Exception: Under previous regulation, county mutual insurers were only required to file a "schedule" of its rates. If an insurer does not have all of its rates and rules on file, it should file a complete set of its rates and rules with the Department. If an insurer has not filed all information required to be filed in accordance with 5.13-2, it should file such information immediately.**

POLICY FORMS & ENDORSEMENTS (SB 14 – Article 2)

- Q. Can an insurer continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06? Is there a deadline for notification?
- A. Yes, however an insurer is required to provide written notification to the Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department.**
- Q. Where does an insurer send form notification?
- A. Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.**
- Q. Are commercial automobile insurance policy forms and endorsements filed for approval required to meet the minimum coverage standards as required by Article 5.06 prior to the effective date of SB 14?
- A. No, the minimum coverage standards do not apply. Commercial automobile policy forms and endorsements are subject to Article 5.13-2. Among other provisions, policy forms and endorsements may not contain provisions or titles/headings which are unjust, encourage misrepresentation, are deceptive, or violate public policy.**

- Q. Are county mutual insurers required to immediately file policy forms?
A. **A county mutual insurer may continue to use the policy forms and endorsements promulgated, approved, or adopted by the Commissioner under Article 5.06 and is required to provide written notification to the Commissioner regarding what forms and endorsements it will use. While there is no deadline provided, insurers are expected to provide prompt notice to the Department.**
- Q. Where does a county mutual insurer send form notification?
A. **Mail notification to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.**
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CERTAIN COMMERCIAL AND PERSONAL LINES OF INSURANCE (SB 14 – Article 5)

- Q. When will the Department propose rules governing the manner in which forms and rates for the various classifications of risks insured under inland marine insurance are regulated?
A. **The Texas Definition of Inland Marine Insurance, 28 TAC § 5.5002, will continue to apply. The Department does not plan to amend the definition at this time.**
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CREDIT SCORING (SB 14 – Article 3)

- Q. When is the deadline for insurers to file credit scoring models?
A. **An insurer that is using an insurance credit scoring system to underwrite and rate risks (or entity acting on behalf of that insurer) on June 11, 2003 must file with TDI its credit scoring models not later than September 9, 2003 (the 90th day after June 11, 2003). An insurer that uses an insurance credit scoring system after June 11, 2003, must file the insurer's insurance credit scoring models with TDI before using the models.**
- Q. Where does an insurer file credit scoring models?
A. **Submit credit scoring models to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.**
- Q. Does an insurer need TDI's approval before using its credit scoring model?
A. **SB 14 does not require an insurer to obtain the approval of TDI prior to using its credit scoring model, however TDI will review credit scoring models to ensure compliance with the provisions set forth in SB 14.**
- Q. Are credit scoring models filed with TDI open to the public?
A. **Yes. SB 14 specifically states that credit scoring models are considered to be public information and cannot be withheld from disclosure. The models are not subject to any exceptions to disclosure under Chapter 552 of the Government Code.**

- Q. How much time do insurers have before they need to comply with the statutory requirements regarding the use of credit information as set forth by SB 14?
- A. Except for the filing requirements, all other requirements regarding the use of credit scoring are effective January 1, 2004. Thus, all policies delivered, issued for delivery, or renewed on or after that date must be in compliance with the statutory requirements set forth in SB 14.**
- Q. To what extent can insurers use credit scores to determine the rates policyholders are charged?
- A. SB 14 requires the commissioner to adopt rules that establish the extent credit scores can be used to determine the rates policyholders are charged. Department staff is currently working on rules with a target date of proposing rules sometime in August 2003.**
- Q. Which insurance policies are subject to the credit scoring requirements of SB 14?
- A. 1. personal automobile insurance policies;
2. residential property insurance policies;
3. residential fire and allied lines insurance policies; or
4. noncommercial insurance policies covering a boat, personal watercraft, snowmobile, or recreational vehicle.**
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TERRITORIAL RESTRICTIONS (SB 14 – Article 1, Subchapter U)

- Q. Can an insurer use its own territorial definitions?
- A. Yes, provided that there is actuarial support for classifying these territories. Insurers also need to make sure that they've met the appropriate filing, and in some cases, approval process. Article 5.171 of SB 14 prohibits an insurer from using rating territories that subdivide a county unless the rate for any subdivision within a county is no greater than 15% more than any other rate used by the insurer in any other subdivision of that county. However, the commissioner may adopt rules to allow for larger differences.**
- Q. Does TDI plan to adopt rules to allow companies to go beyond the 15% limitation established by SB 14?
- A. Department staff is currently working on rules with a target date of proposing the rules sometime in August 2003.**
- Q. How much time do insurers have before they need to comply with the territorial restrictions set forth by SB 14?
- A. All policies delivered, issued for delivery, or renewed on or after June 11, 2003 (effective date of SB 14) must be in compliance with this requirement, except pursuant to Article 5.172, this subchapter does not apply to a county mutual insurance company, a Lloyd's plan, and a reciprocal or interinsurance exchange before January 1, 2004.**
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UNDERWRITING GUIDELINES (SB 14 – Article 8)

Underwriting Guidelines For Personal Automobile and Residential Property Insurance

- Q.** When is an insurer required to file underwriting guidelines?
- A.** **Effective June 11, 2003, each insurer writing personal automobile and residential property insurance must file a copy of its underwriting guidelines with the Department. An insurer must update its filing each time the underwriting guidelines are changed. If a group of insurers files one set of underwriting guidelines for the group, they shall identify which underwriting guidelines apply to each company in the group. While there is no deadline provided, insurers are expected to promptly submit underwriting guidelines to the Department.**
- Q.** Where does an insurer file underwriting guidelines?
- A.** **Submit underwriting guidelines to the Texas Department of Insurance, Property & Casualty Intake Unit, Mail Code 104-3B, P.O. Box 149104, Austin, TX 78714-9104 or e-mail to PCFilingsIntake@tdi.state.tx.us.**
- Q.** Are underwriting guidelines for personal automobile and residential property confidential?
- A.** **Underwriting guidelines for personal automobile and residential property are subject to disclosure pursuant to the provisions of the Public Information Act.**
- Q.** What are insurers required to file?
- A.** **Department staff is currently working on rules to further clarify the filing requirements for underwriting guidelines with a target date of proposing rules sometime in August 2003.**