

No. 03-0128

Official Order  
*of the*  
**Commissioner of Insurance**  
*of the*  
State of Texas  
Austin, Texas

Date: FEB 26, 2003

**Subjects Considered:**

**FILING OF RESIDENTIAL PROPERTY INSURANCE RATES  
AND SUPPORTING INFORMATION FOR REPORT TO THE  
TEXAS LEGISLATURE PURSUANT TO INSURANCE CODE  
CHAPTER 5, SUBCHAPTER P, ARTICLE 5.141, ENACTED  
BY THE 78TH LEGISLATURE ON FEBRUARY 26, 2003**

**General remarks and official action taken:**

On this day came on for consideration by the Commissioner of Insurance (Commissioner) the matter of the filing of residential property insurance rates and supporting information for a report to the Texas Legislature pursuant to Insurance Code Chapter 5, Subchapter P, Article 5.141, enacted by the 78th Legislature on February 26, 2003.

Article 5.141, §3(a) requires insurers to file residential property insurance rates and supporting information with the Commissioner in accordance with the requirements determined by the Commissioner under Article 5.141. Section 3(c) of the article sets forth the general types of information that the insurer must file in a format specified by the Commissioner, including an electronic format.

Article 5.141, §3(d) requires each insurer that has a share of the residential property insurance market in this state of five percent or more to file the rating information required under §3 and, furthermore, provides that the Commissioner shall determine which insurers that have a share of the residential property insurance market

in this state of less than five percent are required to file the rating information under §3.

Article 5.141, §3(e) provides that the Commissioner shall determine the date on which the filing is due. Section 3(g) of the article provides that the Commissioner shall issue an order specifying the information that insurers must file to comply with Article 5.141 and the date on which the filing is due. Section 3(h) of the article provides that the Commissioner is not required to hold a hearing before issuing the order.

Article 5.141, §1 requires on a one-time basis that, immediately after the effective date of Article 5.141, insurers writing residential property insurance in this state (holding five percent or more of the residential property market in this state and other insurers designated by the Commissioner) must file rates and supporting data with the Commissioner for the purpose of the preparation of a summary report for submission to the 78th Legislature.

Article 5.141, §6 requires the Commissioner to prepare a summary report from the information submitted under Article 5.141, §3. Section 6 of the article further requires that the report shall contain a review of the rates, presented in a manner that protects the identity of individual insurers: (1) to inform the legislature as to whether the rates are just, adequate, and reasonable and not excessive or unfairly discriminatory; and (2) to assist the legislature in the determination of the most effective and efficient regulatory system for residential property insurance in Texas.

Article 5.141, §2 defines "residential property insurance" as "insurance against loss to residential real property at a fixed location or tangible personal property provided in a homeowners policy, which includes a tenant policy, a condominium owners policy, or a residential fire and allied lines policy."

After due consideration the Commissioner has determined that the insurers designated in Exhibits A and B, attached hereto and incorporated herein, include: (1) each insurer that has a share of the residential property insurance market in this state of five percent or more and (2) insurers that have a share of the residential property insurance market in this state of less than five percent. After further consideration, the Commissioner has determined that the insurers designated in Exhibits A and B are each required to file the information as set forth in this Order.

Furthermore, the Commissioner has determined that the insurers designated in Exhibits A and B are required to file the following information concerning residential property insurance as defined in Article 5.141, §2 in all or part as specified by the Commissioner in this Order, in a written document format and, if available, a commonly used electronic format, including spreadsheet or comma-delimited:

1. Complete rating manual for current rates or proposed rates.
2. Complete copy of underwriting guidelines relating to residential property insurance.
3. Historic rate change information by policy form from January 1, 2000 to the present on a statewide basis and by territory if territorial

relativities were changed. If territorial relativities were not changed, so indicate. Provide definitions of the territorial boundaries.

4. Estimated rate changes for the six-month period following February 26, 2003, including the effect of any expected changes in policy forms.

5. Policy form information including:

(a) Current policy form being sold and typical endorsements included.

(b) Date of change or date of each sequence of changes to current policy form (identify each primary policy form used).

(c) Estimate of change(s) in premium rates as a result of change(s) in standard policy form.

(d) Estimated reduction(s) in policy coverage.

6. Actuarial support for the rates provided in Item 1 which must include the data and methodologies utilized and address each of the following if they apply:

(a) Premiums at current rate level.

(b) Loss and claim development factors.

(c) Current level factors.

(d) Premium and loss trend factors.

(e) Rate relativities (classification, territory, amount of insurance, etc.).

(f) Increased limits factors.

(g) Hurricane and non-hurricane catastrophe factors.

(h) Definition of a catastrophe and how has it changed over the experience period used to calculate the provisions.

(i) Deductible credits and debits.

(j) Description and support for discounts and surcharges.

(k) Off-balance factors if there have been changes in discounts, surcharges, territorial definitions, etc.

(l) Credibility.

(m) Investment income from all sources.

- (n) Expense and profit provisions.
- (o) Any contingency provisions.
- (p) Description of how final rates are determined.

7. Identification of the policy form(s) under which the experience underlying the insurer's rates was derived and what assumptions were made for the reduced coverage, if any, in setting the insurer's rates and supporting information for the form currently being used.

8. Information on the use of credit history in underwriting and rating, including credits, debits, surcharges or tiering, and the date on which the system of credits/debits/surcharges/tiering was adopted, as well as the date(s) of any modifications. If credit scoring (including insurance scores or credit history) is used in rating, provide actuarial support for credits, debits, surcharges or tiering.

9. Any policy fees, service fees, and other fees that are charged under Insurance Code, Articles 21.35A or 21.35B, and actuarial support for such fees. If such fees have changed since January 1, 2000, provide the history of such changes.

10. Estimate of direct written premium volume for 2002 (separately for homeowners, tenants, dwellings and condominiums). Provide the most current quarterly summaries on which this estimate is based.

11. A complete explanation, and an electronic copy, of all computer models used by the insurer, including credit scoring and catastrophe models, not protected by a contract with a third party, as this information relates to the requested rates and underwriting guidelines pursuant to this Order.

12. A complete explanation of all changes to underwriting guidelines, rates and supplementary rating information since January 1, 2000.

13. Information on losses and gains from investments in securities, whether publicly or privately traded, including investments in the securities of companies required by any oversight agency to restate earnings within the 24 months preceding February 26, 2003, possessed and used by the insurer to determine premiums or underwriting for residential property insurance, as this information relates to the rates described by Article 5.141, §1. Distinguish between capital gains and losses and state whether such capital gains and/or losses were realized or unrealized. "Security" or "securities" has the meaning assigned by Section 4, The Securities Act (Article 581-4, Vernon's Texas Civil Statutes).

14. State to what extent, if any, losses on investments and reductions in interest rates affected the insurer's underwriting guidelines and rates in

the 24 months preceding February 26, 2003. Be specific.

15. Information on costs of reinsurance, including costs incurred subsequent to September 11, 2001, used to determine premiums or underwriting for residential property insurance, as this information relates to the rates described by Article 5.141, §1. Include the following:

(a) The cost of all reinsurance contracts, including the effective and expiration dates for each contract, beginning with the contract in effect as of January 1, 2000 through February 26, 2003. Provide separate cost information for each year or partial year for each individual contract.

(b) A brief description of each reinsurance contract (e.g. whether proportional reinsurance or excess of loss, effective dates, etc.).

(c) A detailed discussion of how reinsurance has affected residential property insurance rates of the insurer.

(d) A detailed explanation on whether the cost of reinsurance has affected the insurer's underwriting guidelines.

IT IS ACCORDINGLY THE ORDER of the Commissioner that the insurers designated in Exhibit A, attached hereto, shall file the information concerning residential property insurance as set forth in Items 1 through 15 of this Order by 5:00 p.m. on March 10, 2003 in a written document format and, if available, in a commonly used electronic format, including spreadsheet or comma-delimited. IT IS FURTHER HEREBY ORDERED by the Commissioner that the insurers designated in Exhibit B, attached hereto, shall file the information concerning residential property insurance as set forth in Items 1, 2, 4, 8, 9, 10, 13, 14, and 15 of this Order by 5:00 p.m. on March 18, 2003 in a written document format and, if available, in a commonly used electronic format, including spreadsheet or comma-delimited. With regard to Item 2, insurers designated in Exhibit B may submit the insurers' entire underwriting guidelines or those portions pertaining to age and value of home, construction type, protection class, claim activity, credit history and placement of risks into tiers, programs, or companies within a group.

IT IS FURTHER HEREBY ORDERED by the Commissioner that failure to comply with any request for information, including additional, reasonable information for purposes of the clarification or completeness of the initial rate submission, issued by the Commissioner pursuant to Insurance Code Article 5.141, as enacted by the 78th Legislature, is subject, after notice and opportunity for hearing, to sanctions as provided by Chapters 82 and 84 of the Insurance Code.

AND IT IS SO ORDERED.

TEXAS DEPARTMENT OF INSURANCE

\_\_\_\_(Original signed by Jose Montemayor)\_\_\_\_\_

JOSE MONTEMAYOR

COMMISSIONER OF INSURANCE

Recommended by:

\_\_\_\_(Original signed by Philip O. Presley)\_\_\_\_\_

Philip O. Presley

Chief Actuary

Property and Casualty Division