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Insurance News

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Senate keeps controversial insurance rate system

AUSTIN, Texas — Brushing aside Democrats who wanted greater consumer protections, the Texas Senate voted Monday to renew the state Department of Insurance and a system that allows companies to raise homeowner rates and start collecting before regulators review them.

It was a major victory for insurance companies who say the so-called "file-and-use" system encourages competition for the best prices. Democrats have complained it has not lowered rates or increased competition to promised levels.

Texans pay the highest homeowner rates in the nation. According to the National Association of Insurance Commissioners, the most common homeowner policy cost Texans \$1,409 a year on average, compared to a national average of \$804.

"The insurance industry in Texas historically has gone hog wild," said Sen. Rodney Ellis, D-Houston. "That's why their rates are so high."

The department and the file-and-use system are under scrutiny in a process called "sunset," in which lawmakers periodically review operations of government departments.

The insurance department regulates companies that do business in Texas, their rates, forms and licensing of agents. It is due to be abolished on Sept. 1 unless renewed by the Legislature.

The bill now goes to the House.

Democrats wanted companies to get prior approval from regulators before changing rates. They had managed to block the bill from coming up for a vote last week but hard-core resistance melted away over the weekend.

Many attempts to add consumer protections were batted down along party lines. Republicans hold a 19-12 Senate majority and knocked down calls for prior approval, to ban companies from using credit scores to set rates and to replace the appointed insurance commissioner with an elected one.

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Sen. Glenn Hegar, the Katy Republican who authored the bill, said the bill protects consumers by clarifying the file-and-use system that he says has been inconsistent in recent years.

Once an insurance company files a rate and starts collecting, the insurance commissioner must act within 30 days if he intends to reject it. The commissioner could file two 30-day extensions to review the rate.

Democrats were allowed to amend the bill to hit companies with large penalties if they continue to fight for rate increases that are judged to be improper.

Hegar said 29 new companies have started writing policies in Texas since 2003. Rates have actually increased only slightly compared to a housing market that saw home values jump 35 percent in recent years, he said.

"We need to remember there is no magic formula for lowering insurance rates," Hegar said.

Jerry Johns of the industry trade group Southwestern Insurance Information Service, said prior-approval systems kill incentives for companies to compete for the best prices and products.

"Unfortunately, things are not first rate for Texas consumers but we are moving forward," Johns said. "If people want to step back 20 years and have a one size fits all insurance policy and a lack of product choices then prior approval is the answer."

Texas Watch, a consumer group that tracks insurance issues, said the bill doesn't help homeowners.

"The Texas Senate has missed a once a decade opportunity to rein in insurance abuses," Texas Watch said in a statement.

In other insurance-related matters, the Senate passed a bill that gives Texans a few days after purchasing an annuity a chance to back out and get a refund.

Supporters said the so-called "free look" periods allow consumers who buy annuities, often seniors citizens, a chance to consult with family, friends and financial advisers about whether the long-term investment is right for them.

Some states allow up to 45 days. Hinojosa's bill allow a free look period for 15 days. The window goes up to 30 days if the purchaser is 65 or older or if the agreement is done by mail.

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