

No. 2018 - 5632

**Official Order
of the
Texas Commissioner of Insurance**

Date: SEP 10 2018

Petition and Filing Numbers:

Homeowners (HO-A), P-0618-06; S655785
Dwelling (TDP-1), P-0618-05; S655786
Tenant (HO-BT), P-0618-04; S655787
Condominium (HO-CONB), P-0618-03; S655788

Subject Considered:

2018 Rate Filings for the Texas Fair Access to Insurance Requirements Plan Association

General remarks and official action taken:

This order addresses the proposed changes in the residential property insurance rates filed by the Texas Fair Access to Insurance Requirements (FAIR) Plan Association with the Texas Department of Insurance (TDI) on June 11, 2018, as required by Insurance Code Section 2211.056.

The following findings of fact and conclusions of law are adopted:

FINDINGS OF FACT

1. The FAIR Plan is established under Insurance Code Section 2211.051 to deliver residential property insurance in designated areas in Texas. The FAIR Plan Association is the nonprofit association established under Insurance Code Section 2211.054 to issue the residential property insurance.
2. On June 11, 2018, the FAIR Plan Association filed residential property insurance rates for its homeowners (HO-A), dwelling (TDP-1), tenant (HO-BT), and condominium (HO-CONB) policy forms with TDI. TDI assigned filing numbers S655785, S655786, S655787, and S655788 to the homeowners (HO-A), dwelling (TDP-1), tenant (HO-BT), and condominium (HO-CONB) filings, respectively.

3. The FAIR Plan Association proposed changes to its rates and fees and introduced several new fees. The FAIR Plan Association:
- revised rates by territory;
 - introduced an insufficient funds fee, or NSF, of \$15;
 - amended the installment billing service fee from \$3 to \$5 for the quarterly and semi-annual payment plans;
 - introduced a \$5 late fee;
 - introduced a \$10 pay-by-phone e-payment fee;
 - eliminated the 15 percent discount for electronic burglar alarms; and
 - eliminated the 8 percent automatic sprinkler discount.
4. The Insurance Code requires the FAIR Plan Association's rates to be reasonable and sufficient to carry all claims to maturity and meet the expenses incurred in writing and servicing the business.

Rate Indications

5. The FAIR Plan Association used its premiums, losses, and expense data for five calendar/accident years ending December 31, 2013, through December 31, 2017, to develop rate indications by zone.
6. The FAIR Plan Association averaged actual expenses incurred in 2015 through 2017 to develop its expense provision.
7. The FAIR Plan Association's indicated and proposed rate changes in filing S655785 for its homeowners (HO-A) policy vary by zone as follows:

<u>Zone</u>	<u>Homeowners</u>	
	<u>Indicated Change</u>	<u>Proposed Change</u>
Greater DFW	41.0%	10.0%
Central North – Other	20.8%	10.0%
Central South	14.0%	10.0%
North/Northwest	41.8%	10.0%
Seacoast – Tier 1	22.0%	10.0%
Seacoast – Tier 2	7.7%	7.7%
Overall Statewide Average	11.5%	8.1%

8. The FAIR Plan Association's indicated and proposed rate changes in filing S655786 for its dwelling (TDP-1) policy are the same statewide for fire but vary by zone for extended coverage as follows:

		<u>Dwelling</u>	
<u>Coverage</u>	<u>Zone</u>	<u>Indicated Change</u>	<u>Proposed Change</u>
Fire	Overall Statewide Average	4.1%	4.1%
Extended Coverage	Central DFW	48.4%	10.0%
Extended Coverage	Central North – Other	50.7%	10.0%
Extended Coverage	Central South	23.5%	10.0%
Extended Coverage	North/Northwest	33.1%	10.0%
Extended Coverage	Seacoast – Tier 1	-56.9%	-10.0%
Extended Coverage	Seacoast – Tier 2	11.8%	10.0%
Extended Coverage	Overall Statewide Average	12.5%	9.5%

9. The FAIR Plan Association's indicated and proposed rate changes in filing S655787 for its tenant (HO-BT) policy vary by zone as follows:

		<u>Tenant</u>	
<u>Zone</u>		<u>Indicated Change</u>	<u>Proposed Change</u>
Central DFW		15.7%	10.0%
Central North – Other		35.6%	10.0%
Central South		2.8%	2.8%
North/Northwest		2.9%	2.9%
Seacoast – Tier 1		-15.6%	-10.0%
Seacoast – Tier 2		31.5%	10.0%
Overall Statewide Average		22.1%	6.7%

10. The FAIR Plan Association's indicated and proposed rate changes in filing S655788 for its condominium (HO-CONB) policy vary by zone as follows:

<u>Zone</u>	<u>Condominium</u>	
	<u>Indicated Change</u>	<u>Proposed Change</u>
Central DFW	25.4%	10.0%
Central North – Other	104.3%	10.0%
Central South	22.6%	10.0%
North/Northwest	-3.3%	-3.3%
Seacoast – Tier 1	-11.7%	-10.0%
Seacoast – Tier 2	20.8%	10.0%
Overall Statewide Average	16.1%	6.9%

- 11. The indicated rate changes vary by zone and policy form. The credibility and the magnitude of its wind provision affect the zone's indications.
- 12. The rate changes proposed by the FAIR Plan Association reflect a cap of 10 percent on the indicated rate increases and -10 percent on the indicated rate decreases.
- 13. Limiting rate changes is a common actuarial practice that promotes rate stability.

Fees

- 14. The FAIR Plan Association proposed an insufficient fund fee, or NSF, of \$15 per instance to offset the administrative costs associated with monitoring and responding to non-payments from insufficient funds and to cover the costs imposed by its bank.
- 15. The FAIR Plan Association proposed to increase its installment billing service fee for quarterly and semi-annual installments from \$3 to \$5. Policies paid in full do not incur billing fees.
- 16. The FAIR Plan Association proposed a \$5 late payment fee on any installment payments not received by the due date. The FAIR Plan Association incurs costs to mail cancellation notices for non-payment when installment payments are made after the three-day grace period expires.
- 17. The FAIR Plan Association proposed a \$10 pay-by-phone e-payment fee to offset the additional costs of allowing policyholders to make emergency premium payments by

phone. Phone payments require a customer service representative to manually enter the information through the FAIR Plan Association's current system.

Electronic Burglar Alarm and Automatic Sprinkler Discounts

18. The FAIR Plan Association submitted amended rating rules as part of its filing. The amendments included eliminating the 15 percent discount for electronic burglar alarms and eliminating the 8 percent discount for automatic sprinkler systems.
19. The FAIR Plan Association did not provide information on why it proposed to eliminate the electronic burglar alarm and automatic sprinkler system discounts, or what impact these changes would have on rates.

CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter under Insurance Code Section 2211.056.
2. The proposed changes addressed in findings of fact numbers 7-17 are consistent with the applicable requirements of the Insurance Code and are approved.
3. The FAIR Plan Association's proposed changes eliminating the discounts for electronic burglar alarms and automatic sprinkler systems addressed in finding of fact number 18 are not supported by sufficient information to determine whether the changes meet the applicable requirements of the Insurance Code. They are therefore disapproved without prejudice.

ORDER

It is ordered that the proposed rates and fees in filings S655785, S655786, S655787, and S655788 are approved, to be effective on October 1, 2018, for new business and November 1, 2018, for renewal business.

It is further ordered that eliminating the electronic burglar and automatic sprinkler discounts in filings S655785, S655786, S655787, and S655788 is disapproved.



Kent C. Sullivan
Commissioner of Insurance