

SUBJECT: Title insurance premium reserves

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G.  
Lewis, Olivo, Wise

0 nays

WITNESSES: For — Allison Evers, Stewart Title Guaranty Company

Against — None

BACKGROUND : Under the Insurance Code, Texas title insurers are required to set aside in reserve a portion of the income from the title policies sold each year to pay claims and related expenses if a title insurance company becomes insolvent. Over a twenty-year policy period, title insurers are allowed to draw down five-percent of the premium reserves each year to pay claims and other company expenses. By the end of the twenty-year period, all reserves for a policy year are exhausted.

DIGEST: CSHB 3007 would raise the amount premium title insurers would be required to set aside, and change the formula for the release of those reserves over a 20 year period. Companies would be allowed to draw down 26 percent of the premium reserve in the first year, 20 percent in the second year, and 10 percent in the third year. By the last six years of the 20-year period, companies could draw down one percent of the policy amount per year.

In 1998 and subsequent years, statutory premium reserves would be based on the company's liabilities, rather than on premium income.

The commissioner could require foreign title insurers to maintain the statutory premium reserves outlined in the bill.

Each year, an actuary would have to review every title insurer's premium reserves to ensure that they are sufficient to cover claims and other required costs. If the actuary determined that a company's reserves were not

adequate, the company would be required to establish an additional, non tax-deductible supplemental reserve.

The insurance commissioner could reevaluate the adequacy of the revised statutory premium reserves and make recommendations for legislative changes as appropriate.

CSHB 3007 would take effect beginning with reports due for the 1997 calendar year.

**SUPPORTERS  
SAY:**

CSHB 3007 would address concerns among regulators about the adequacy of title insurance premium reserves by increasing the initial amount insurers are required to set aside, and by allowing companies to draw money from the reserves in a pattern that better reflects the time frame in which title insurance claims are made. These adjustments would ensure that title insurance reserve formulas are sufficient to cover title claims and other costs.

Because most title insurance claims are reported in the first few years of a policy, title insurers need to draw down more money from premium reserves in the early years of a policy period. Under current law, however, title insurers must draw down the policy reserve in five percent increments over the 20-year policy period. This may result in a shortage of funds in the early years, when most claims are made, and an excess in later years, when few claims are made. The draw down adjustments made in CSHB 3007 would better reflect the actual claims pattern in title insurance.

By requiring an annual actuarial review of title insurance premium reserves, CSHB 3007 also would ensure that title insurance premium reserves are sufficient to pay claims even if a company becomes insolvent.

**OPPONENTS  
SAY:**

No apparent opposition.

**NOTES:**

The committee substitute reduced the set-aside amounts in the formula for large companies and increased set-aside amounts in the formula for small companies. It also added the stipulation that the commissioner would have the authority to evaluate the adequacy of premium reserves and to require

foreign companies to adhere to Texas premium reserve requirements, rather than reserves required by their own countries.

The companion bill, SB 1388 by Patterson, passed the Senate on May 1 on the Local and Uncontested Calendar, and is now pending in the House Insurance Committee.