

SUBJECT: Regulation of insurance policy forms used for insuring certain large risks

COMMITTEE: Insurance — favorable, without amendment

VOTE: 7 ayes — Frullo, G. Bonnen, Guerra, Meyer, Paul, Vo, Workman

0 nays

1 absent — Muñoz

1 present, not voting — Sheets

WITNESSES: For — (*Registered, but did not testify*: Michael Chatron, AGC Texas Building Branch; Jon Fisher, Associated Builders and Contractors of Texas; Jim Sewell, Gallagher Construction Services; Lee Loftis, Independent Insurance Agents of Texas; Perry Fowler, Texas Water Infrastructure Network (TxWIN))

Against — Paul Martin, National Association of Mutual Insurance Companies; (*Registered, but did not testify*: John Marlow, ACE Group; Thomas Ratliff, American Insurance Association; Lee Ann Alexander, Liberty Mutual Insurance; Joe Woods, Property Casualty Insurers Association of America; Bill Hammond, Texas Association of Business)

On — (*Registered, but did not testify*: Mark Worman, Texas Department of Insurance)

BACKGROUND: Insurance Code, sec. 2301.006 prohibits an insurer from delivering or issuing for delivery in the state a form for use in writing certain insurance unless the form has been filed with and approved by the commissioner of the Texas Department of Insurance (TDI).

Sec. 2301.007(a) allows the TDI commissioner to disapprove a filed form or to withdraw approval of a form if the form violates any law or contains a provision, title, or heading that is unjust or deceptive, encourages misrepresentation, or violates public policy. Sec. 2301.007(b) allows the

TDI commissioner to withdraw approval of a form after notice and hearing for good cause shown.

Sec. 2301.008 allows the TDI commissioner to adopt standard insurance policy forms, printed endorsement forms, and related forms other than insurance policy forms and printed endorsement forms, that an insurer may use instead of the insurer's own forms in writing certain insurance.

DIGEST:

HB 1132 would raise the threshold for an insured entity's total insured property values, total annual gross revenues, and total premiums for property insurance, general liability insurance, or multiperil insurance for certain policies to be exempt from requirements under Insurance Code, ch. 2301 related to insurance forms. The thresholds would be adjusted as follows:

- the total insured property value threshold would increase from \$5 million to \$10 million or more;
- the total annual gross revenues threshold would increase from \$10 million to \$20 million or more; and
- the threshold for property insurance, general liability insurance, and multiperil insurance each would increase to \$100,000 or more.

The bill would take effect September 1, 2015, and would apply only to an insurance policy that was delivered, issued for delivery, or renewed on or after that date.

**SUPPORTERS
SAY:**

HB 1132 would make it easier for smaller contractors to get commercial general liability insurance coverage and to understand what they were buying. Contractors that need insurance with values above the current threshold in statute but below the higher threshold specified in HB 1132 often have issues with insurance carriers attaching manuscript endorsements to their policies that are written outside of a standardized form and that can more narrowly define the risks under the contractor's insurance contract. Manuscript endorsements are difficult for a smaller contractor to decipher without hiring an attorney, which creates a burden for these contractors. It also can result in contractors buying insurance that

does not have the coverage they need.

HB 1132 would raise the threshold for which insurers would be required to file their forms with the commissioner of the Texas Department of Insurance (TDI). Requiring this review would make it easier for smaller contractors to ensure that a manuscript endorsement had not narrowly redefined the risks under their insurance contract and would improve a contractor's ability to know what they were buying.

The bill would not impact high-end commercial clients because those clients' insurance policies would fall above the \$100,000 threshold set in the bill. For that reason, high-end commercial clients and their insurers would not be subject to the form requirements under HB 1132. High-end commercial clients have the legal resources to understand a manuscript endorsement and are large enough to successfully negotiate an unfavorable contract. The bill would not affect these clients but would allow smaller contractors to have the information they need to buy appropriate coverage.

**OPPONENTS
SAY:**

HB 1132 would increase the time it took commercial insurance companies to bring products to market. The lower thresholds in existing statute are designed to require review of forms only for smaller policy holders, not for large, sophisticated policy holders that would fall under the newly raised threshold under HB 1132. The increased time for TDI to process forms under the new threshold created by the bill would make it harder for commercial insurers to bring their product to market and harder for high-end clients to find innovative products.