

101

INSURANCE



**Independent
Insurance
Agents of Texas**



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INSURANCE INDUSTRY: BIG PICTURE

Major Financial Institutions

- Invest billions of dollars in economy

Large Employers

- Agents and companies

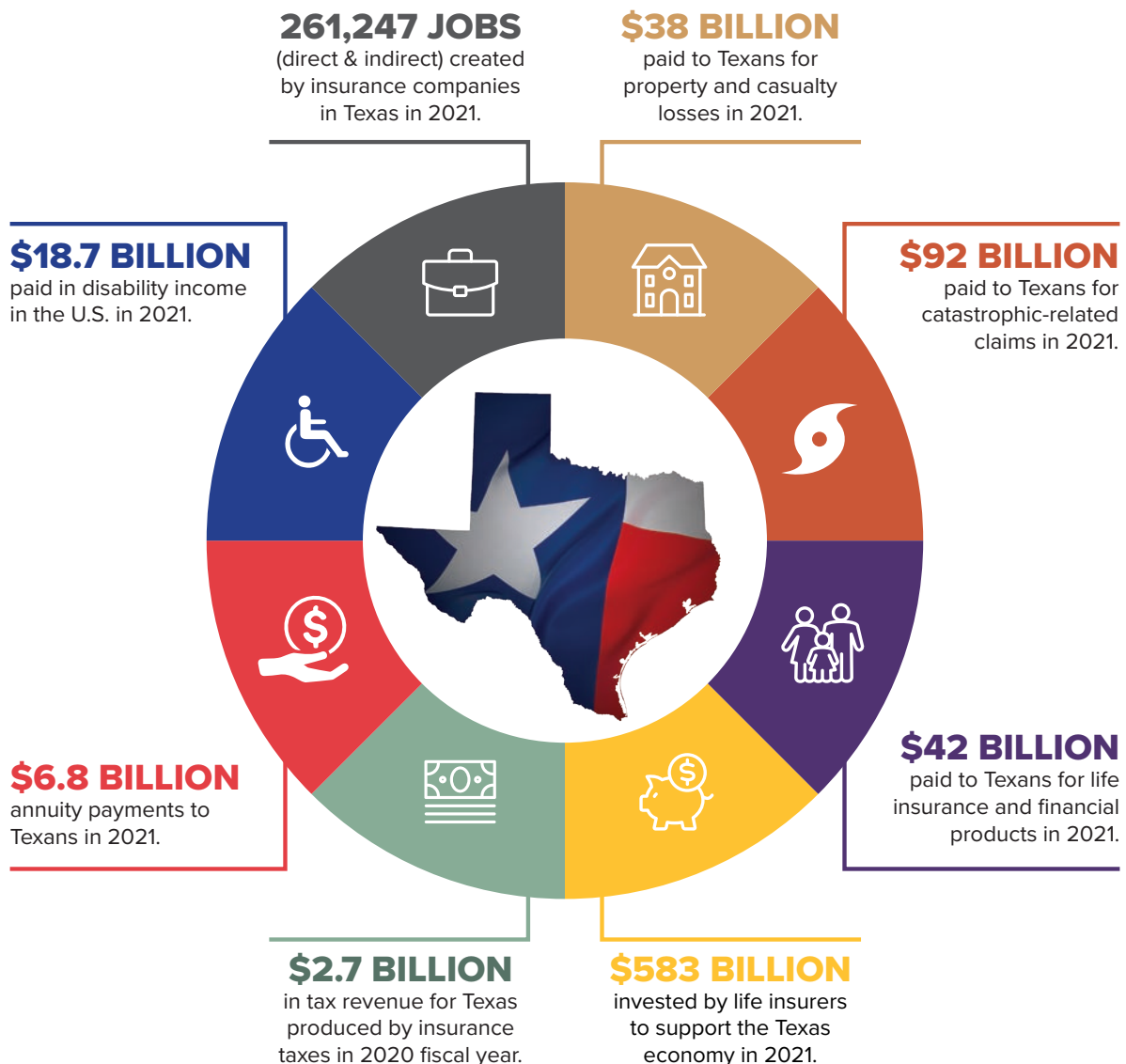
Social Good

- Rebuild after a disaster
- Pay for health care
- Assure lenders' debts will be paid
- Take care of beneficiaries



INSURANCE WORKING FOR TEXAS

Insurance companies are dependable economic and financial partners for Texas and Texans playing a vital role in keeping the Lone Star State vibrant and strong.





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HOW INSURANCE WORKS

Only product sold before the true cost of the product is known

- Underwriting is the process of evaluating the risk to be insured
 - » How likely it is that the loss will occur
 - » How much the loss could be
- This information is used to determine how much a consumer should pay to insure against the risk
- In Texas, underwriting cannot be discriminatory and must be based on actuarially justifiable standards
- Insurers use health records, driving records, insurable interest





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REGULATION BASICS

- **Highly Regulated Industry**
- **Primarily State Regulation (McCarran Ferguson Act)**
- **National Association of Insurance Commissioners (NAIC)**
 - » Meets in person 3 times a year; conference calls
 - » Develops model acts
 - » No separate enforcement ability
 - » Accreditation
- **National Council of Insurance Legislators (NCOIL)**
 - » Meets in person 3 times a year; conference calls
 - » Develops model acts
- **State Regulation**
 - » Texas Department of Insurance (TDI)
 - » Commissioner of Insurance – appointed by Governor for a two-year term
 - » Division of Workers' Compensation Commissioner - appointed by Governor for a two-year term





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BASICS OF STATE REGULATION

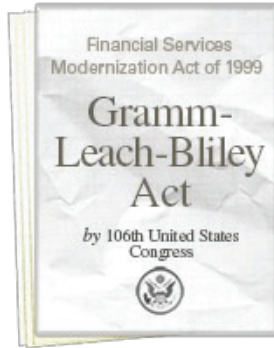
- Solvency and Capitalization Requirements
- Formation (Companies) and Licensing (Companies, Agents & other Licensees)
- Affiliated (Holding Company) Transactions
- Policies, Endorsements, and Other Forms—mostly prior approval
- Rates
 - » Most property casualty are file and use
 - » Life insurance rates must be actuarially justifiable
 - » Long-term care rates are regulated
 - » Credit life & health are regulated
 - » Health insurance—major medical subject to some federal regulation and some state review
- Guaranty Associations



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FEDERALIZATION



Gramm Leach Bliley Act (GLB)
(a/k/a Financial Services Modernization Act) November 1999



Affordable Care Act



Dodd-Frank Act
Federal Insurance Office (FIO)



GUARANTY ASSOCIATION

- Life & Health Insurance
- Property & Casualty Insurance
- Title Insurance





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TYPES OF AGENTS

TWO TYPES OF AGENTS

- 1 Captive Agents**
Represent a single insurance company and are required to only do business with that one company.
- 2 Independent Agents**
Represent multiple companies and work on behalf of the client (not the insurance company) to find the most appropriate policy.

TYPES OF LICENSES



PROPERTY & CASUALTY

- General Lines Property and Casualty
- Managing General
- County Mutual



LIFE, ACCIDENT & HEALTH

- General Lines Life, Accident and Health
- Limited Life
- Funeral Pre-Need



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OTHER TYPES OF LICENSES

Specialty Licenses

- Rental Car Companies
- Credit Insurance
- Travel Insurance
- Self Service Storage Facilities
- Portable Electronic Vendor
- Reinsurance Intermediaries
- Adjuster
- Public Adjuster
- Third Party Administrator (TPA)
- Risk Manager
- Utilization Review
- Navigators for Health Benefit Exchanges

TYPES OF P&C BUSINESS



COMMERCIAL LINES COVERAGES

- General Liability
- Property
- Workers' Compensation
- Surety
- Auto
- Professional Liability
- D & O Coverage
- Excess
- Umbrella
- Accident & Health type coverages



PERSONAL LINES COVERAGES

- Homeowners
- Personal Auto
- Tenants Liability & Property
- Umbrella
- Dwelling
- Accident Only & Health



OTHER COVERAGES

- Surety-Construction
- Fidelity Bonds
- License Bonds
- Crop
- Inland Marine
- Aircraft
- Ocean Marine
- Flood



SURPLUS LINES VS. ADMITTED LINES

How are they different:

- **Admitted Lines:** Regulated by TDI with strict oversight
- **Surplus Lines:** Limited regulation by TDI but must meet financial requirements

What they cover:

- **Admitted Lines:** Homeowners, personal auto, commercial property, liability – common coverages
- **Surplus Lines:** Hazardous exposures; unique risks – Tom Brady's passing arm

Solvency:

- **Admitted Carriers:** Protected by Texas Guarantee Association
- **Surplus Lines:** No protection for insolvency



RESIDUAL MARKETS (TWIA/FAIR/TAIPA)



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Texas Windstorm Insurance Association (TWIA) – Insurer of last resort for 14 coastal counties for wind/hail coverage.



TEXAS FAIR PLAN
ASSOCIATION

Texas FAIR Plan Association (FAIR) – Statewide insurer of last resort for property insurance.



Texas Automobile Insurance Plan Association (TAIPA) – Insurer of last resort for personal auto insurance – minimum limits

WORKERS' COMPENSATION

- Protection for employees due to work-related injury or disease
- Limited liability for employer if providing Workers' Compensation coverage through state system (exception for gross negligence)



TYPES OF LIFE AND HEALTH BUSINESS

Sold as both Group and Individual Policies



LIFE INSURANCE

- Term
- Whole life
- Universal
- Variable
- Pre-need funeral
- Credit life

ANNUITIES

- Variable
- Fixed
- Equity-indexed

HEALTH INSURANCE

- Major medical
- Accident only
- Specified disease
- Supplemental
- Vision or dental only
- Long-term care
- Disability income



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ANNUITIES

An annuity is a long-term agreement (contract) between you and an insurance company that allows you to accumulate funds on a tax-deferred basis for later payout in the form of guaranteed income that you cannot outlive.





ACRONYMS

TDI: Texas Department of Insurance (*Commissioner Cassie Brown*)

OPIC: Office of Public Insurance Counsel (*David Bolduc/Acting*)

DWC: Division of Workers' Compensation (*Commissioner Jeff Nelson*)

OIEC: Office of Injured Employee Counsel (*Vacant*)

AFACT: Association of Fire and Casualty Insurance Companies in Texas (*Jay Thompson*)

TALHI: Texas Association of Life & Health Insurers (*Jennifer Cawley*)

NAMIC: National Association of Mutual Insurance Companies (*Jon Schnautz*)

ACLI: American Council of Life Insurers (*Melissa Young*)

TAHP: Texas Association of Health Plans (*Jamie Dudensing*)

TAHU: Texas Association of Health Underwriters (*Shannon Meroney*)

IIAT: Independent Insurance Agents of Texas (*Lee Loftis & Regan Ellmer*)

NAIFA-Texas: National Association of Insurance & Financial Advisors (*Elizabeth Hadley*)

APCIA: American Property Casualty Insurance Association (*Lee Ann Alexander & Scot Kibbe*)

TCAIS: Texas Coalition for Affordable Insurance Solutions (*Beaman Floyd*)

RAA: Reinsurance Association of America (*Paul Martin*)

TWIA: Texas Windstorm Insurance Association

JUA: Texas Medical Liability Insurance Underwriting Association

ISO: Insurance Services Office

TAIPA: Texas Automobile Insurance Plan Association

ICT: Insurance Council of Texas (*Albert Betts*)

TPCGIA: Texas Property & Casualty Guaranty Association

TLHIGA: Texas Life & Health Insurance Guaranty Association



GLOSSARY OF INSURANCE TERMS

GENERAL

Actuary: A specialist in the mathematics of insurance who calculates rates, reserves and dividends.

Agent: Individual who sells and services insurance policies in either of two classifications:

- **Independent Agent** represents at least two insurance companies and services clients by searching for the most advantageous price for the most coverage. The agent receives a percentage of the premium as compensation and may include a fee for servicing. The fee must be disclosed in advance.
- **Direct or Exclusive Agent** represents only one company and sells only that company's policies. They also receive a percentage of the premium as compensation.

Dividend: The return that some policyholders will receive as part of the distribution of a portion of an insurance company's profits, as decided by the Board of Directors of the company.

Grace Period: The period of time a policy remains valid even after a premium payment is due and goes unpaid.

Guaranty Association: An organization of member insurance companies established by statute that transfers the financial obligations of an insolvent member to the remaining members.

Indemnity: Restoration to the position prior to a loss by payment, repair, or replacement.

Lapse: The closure of an insurance policy because of failure to pay the premiums within the defined grace period.



GLOSSARY OF INSURANCE TERMS

Loss Ratio: The ratio of incurred losses and loss adjustment expenses to net premiums earned. This ratio measures the company's underwriting profitability both by type of insurance and overall.

Loss Reserve: The estimated future payments, as it would appear in an insurer's financial statement, for claims that have occurred but are unpaid as of a given evaluation date. Includes losses incurred but not reported (IBNR), losses due but not paid, and amounts not yet due. For individual claims, the loss reserve is the estimate of what will ultimately be paid out on that claim.

Policy: The written contract effecting insurance, or the certificate thereof, including all clauses, riders, endorsements, and papers attached thereto and made a part of.

Premium: The amount of money an insurer charges to provide the coverage described in the policy.

Rate: The amount of money necessary to cover losses, expenses, and provide a profit to the insurer for a single unit of exposure.

Reinsurance: Insurance that an insurance company buys for its own protection. The risk of loss is spread among other insurers so a disproportionately large loss under a single policy is shared to preserve solvency. Reinsurance allows a company to assume larger risks; stabilize its underwriting results; finance its expanding volume; secure catastrophe protection; withdraw from a line of business or a geographical area within a specified time limit.

Rider: A provision of an insurance policy that can be purchased separately to provide further benefits beyond those included in the original policy, at additional cost.



GLOSSARY OF INSURANCE TERMS

Solvency: Having sufficient assets to satisfy financial and regulatory requirements to be eligible to transact insurance business and pay claims.

Underwriting: The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process includes rejection of those risks that do not meet an individual company's standards.

LIFE & HEALTH

Accelerated Death Benefits: In a life insurance policy, death benefits that are available prior to the death of the insured. Sometimes called Living Benefits, they are usually accessible in cases of chronic or terminal illness.

Accidental Death and Dismemberment Insurance: An insurance policy that pays out only if the insured dies, becomes blind or is dismembered in an accident.

Annuity: A contract that pays a fixed sum of money at regular intervals, usually for life.

Beneficiary: The individual who receives proceeds from a life insurance policy at the death of the insured.

Cash Surrender Value: The cash amount you would get if you voluntarily terminate life insurance coverage before a policy becomes payable by death or maturity.

Death Benefit: The amount of money paid to the beneficiary of a life insurance policy when the policyholder dies.

Disability Insurance: Provides a portion of your income if you become sick, injured, and unable to work.



GLOSSARY OF INSURANCE TERMS

Disability Waiver of Premium: A condition that states that the life insurance company will not require the insured to pay the usual recurring fee to maintain the life insurance policy if the insured person becomes disabled.

Evidence of Insurability: A statement of the prospective policyholder's physical health and other information, such as assets and income, which helps the insurance company decide whether the applicant is eligible for insurance.

Face Amount: The amount of life insurance that an individual buys. The Face Amount will be paid in the event of the policyholder's death or when the policy reaches maturity.

Incontestable Clause: The clause in a life insurance policy that enables an insurance company to cancel the contract for up to two calendar years from the original policy issuing date if the policy-holder did not disclose critical information that would have made him or her ineligible for coverage.

Insurable Interest: Proof that a person who takes out a life insurance policy on someone else has a substantial and lawful emotional or financial interest in that person's continued wellbeing.

Life Insurance: A form of protection from risk that guarantees payment upon the death of the policyholder.

Living Benefits: An advance cash payment of a portion of life insurance before the insured person dies. It allows for financial assistance to the insured individual while he or she is still alive.

Long Term Care Insurance: Services that include medical and non-medical care provided to people who are unable to perform basic activities of daily living such as dressing or bathing.



GLOSSARY OF INSURANCE TERMS

Paid-Up Insurance: A life insurance policy for which all premiums have been paid and the coverage is still effective.

Permanent Life Insurance or “Perm”: A life insurance policy that provides coverage until the death of the insured person.

Surrender Charges: The fee deducted from a life insurance policy pay-out when a policyholder terminates the policy for cash value.

Term Life Insurance: A life insurance policy for a specific time period that stipulates the insurance company must deliver a tax-free payment if the insured person dies within that timeframe.

Universal Life Insurance: A type of permanent life insurance policy that offers the low-cost protection of term life insurance as well as a savings element, which is invested to allow for cash value to build up over time.

Whole Life Insurance: A type of permanent life insurance policy that provides death benefit coverage for the life of the insured. In addition to paying a death benefit, whole life insurance also contains a savings component in which cash value may accumulate.

PROPERTY & CASUALTY

Adjuster: A representative of the insurance company who seeks to determine the extent of the insurer’s liability for loss when a claim is submitted.

Casualty Insurance: Insurance that primarily covers the legal liability of a person for injuries to others or damage to their property. Additional types of insurance that are included in the casualty area are crime, plate glass, boiler and machinery, and aviation insurance.



GLOSSARY OF INSURANCE TERMS

Catastrophe: A severe loss characterized by extreme force and/or sizeable financial loss. A catastrophe loss is usually of such magnitude as to be difficult to predict and therefore rarely self-insured or retained.

Catastrophe Bond: A derivative debt investment vehicle issued by insurers and reinsurers designed to raise investor capital to cover catastrophic loss events. "Cat" bonds are issued to cover either a specifically identified event or the possibility of a certain magnitude of loss associated with hurricane activity in a particular geographic location.

Commercial Lines: Insurance lines used to cover commercial risks as opposed to personal lines, which cover personal risks. Examples include commercial general liability, workers' compensation and commercial property insurance.

County Mutual: An auto insurance company authorized by the insurance code that was originally designed to insure high-risk drivers.

Employers' Liability Insurance: Coverage against common law liability of an employer for accidents to employees as distinguished from liability imposed by a workers' compensation law.

Farm Mutual: A statutorily designed insurance company owned by policyholders and authorized to accept risks in rural areas.

File-and-Use Rating: State-based laws that permit property & casualty insurers to adopt new rates without the prior approval of the insurance department. In most states the commissioner has the authority to reject the rates based upon statutory requirements.

Liability Insurance: Insurance that pays and renders services on behalf of an insured for loss arising out of his tort liability due to negligence either direct or assumed under a contract.



GLOSSARY OF INSURANCE TERMS

Personal Lines: Insurance for individuals and families such as auto and homeowners insurance.

Standard Form or Standard Policy: A insurance policy form that is designed to be used by many different insurers and has exactly the same provisions, regardless of the insurer issuing the policy. Most standard insurance policy forms are developed by insurance advisory organizations, such as Insurance Services Office, Inc. (ISO), American Association of Insurance Services (AAIS), the Surety Association of America (SAA), and National Council on Compensation Insurance, Inc. (NCCI).

Surplus Lines Insurance: Refers to coverage lines that need not be filed with state insurance departments as a condition of being able to offer coverage. The types of risks typically insured in the surplus lines insurance markets can usually be categorized as risks with adverse loss experience, unusual risks, and those for which there is a shortage of capacity within the standard market.

Texas Auto Insurance Plan Association (TAIPA): A statutorily created mechanism that assigns high risk drivers to member companies. The company receiving the assignment is obligated to offer only the statutory minimum limits of liability, personal injury protection and uninsured motorist coverage.

Texas FAIR Plan: The homeowners insurer of last resort. The FAIR Plan was created under the governing statutes of the Texas Windstorm Insurance Association during a highly restricted homeowners market due to mold.

Texas Windstorm Insurance Association (TWIA): A statutorily created association of insurers designed to provide windstorm insurance in the first tier of counties along the Texas coast. TWIA also includes a small section of Harris County.



GLOSSARY OF INSURANCE TERMS

Tort: A private wrong, independent of contract and committed against a person, which gives rise to legal liability and is adjudicated in civil court. A tort can be intentional or unintentional. Liability insurance is designed to cover unintentional torts.

Uninsured Motorist Coverage: An additional auto coverage that provides benefits for the policyholder should they be involved in a not-at-fault accident with an uninsured driver.

Voluntary Market: A group of property & casualty insurers who elect to write insurance in a competitive environment retaining the right to accept and reject business submitted. More specifically, the term also applies to the two types of mandatory insurance: automobile liability and workers' compensation. In these instances, voluntary market refers to the insurers who provide coverage to desirable risks while rejecting the less attractive risks which must then be afforded coverage through assigned risk markets.



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H. Lee Loftis

Chief Legislative Officer

(512) 493-2418 (office)

(512) 460-9243 (mobile)

lloftis@iiat.org

Regan Ellmer

Director of Government Affairs

(512) 493-2454 (office)

(512) 657-2229 (mobile)

rellmer@iiat.org



Elizabeth Hadley

Greenberg Traurig, LLP

(512) 320-7227 (office)

(512) 810-8991 (mobile)

Elizabeth.Hadley@gtlaw.com



Jennifer Cawley

President & CEO

(512) 472-6886 (office)

(512) 656-2850 (mobile)

jcawley@talhi.com