

SUBJECT: Amending the Property and Casualty Insurance Guaranty Act

COMMITTEE: Insurance — favorable, without amendment

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

WITNESSES: For — Beaman Floyd, American Insurance Association
Against — None
On — Jan Ferguson, Texas Property and Casualty Insurance Guaranty Association

BACKGROUND : The Texas Property and Casualty Insurance Guaranty Association is a non-profit unincorporated legal entity composed of all insurance companies in Texas. The association protects against insurer insolvencies and assesses a fee among insurers for this protection.

When an insurance company is found to be insolvent, the guaranty association is required to pay the covered claims of that insurer. The association pays the claims out of its fund and assesses a fee on all of the other insurance companies if necessary. Funds used to pay the covered claims of impaired insurers are a loan from the association and must be repaid by the impaired insurer. The insolvent company cannot issue new policies or renew policies until these monies are repaid.

A covered claim, as defined by the act, is an unpaid claim that arises out of an insurance policy issued or assumed by an insurer doing business in Texas, the claimant is a resident of Texas at the time of the insured event, and the insurer is found to be impaired. A covered claim is also a first-party claim for damage to property that is permanently located in Texas.

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The association is required to pay covered claims up to certain limits. The Insurance Code establishes a limit of \$100,000 on covered claims, and unearned premium refunds are limited to 75 percent, up to a maximum of \$1,000.

DIGEST: HB 2437 would delete the 75 percent limit on unearned premiums and raise the maximum allowable amount to be paid on these claims to \$25,000. It would raise the limit on individual covered claims to \$300,000.

The bill would take effect September 1, 1997.

SUPPORTERS SAY: HB 2437 would enhance protection against insurance company insolvency for Texas homeowners and businesses. Currently, a family could easily experience a homeowners insurance loss in excess of \$100,000, and this is especially true in the event of a natural disaster. In addition, a business could easily pay \$50,000 or more in medical malpractice, general liability or auto premiums, yet according to current law, only receive \$1,000 back if the company goes under. HB 2437 would allow the insurance guaranty association to help Texas companies and families recover losses from unpaid insurance claims at higher rates than currently allowed.

The \$1,000 and \$100,000 limits are outdated by several years and have not kept up with inflation. HB 2437 is necessary to update the Insurance Code to reflect today's housing prices and business markets.

OPPONENTS SAY: No apparent opposition.