

# TEXAS INSURANCE 101

*Your guide to understanding and shopping for  
auto and homeowners insurance in the Lone Star State.*



Allstate ☆ American Insurance Association  
Nationwide ☆ State Farm ☆ USAA

## *Who We Are*

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The Texas Coalition for Affordable Insurance Solutions (TCAIS) is a proactive alliance of insurance providers and trade organizations, committed to working with state legislators, regulators, consumers, and others to find public-policy solutions that will improve insurance affordability and accessibility in Texas.

TCAIS believes that a stable, competitive auto and homeowners insurance marketplace will best serve both buyers and sellers of insurance and advocates legislative, regulatory, and individual action aimed at:

- Increasing consumer choices of insurance companies, products and services;
- Spurring price competition among insurers;
- Providing appropriate regulatory oversight;
- Minimizing costs in the system;
- Fighting insurance fraud and abuse; and
- Providing an environment to attract new businesses and jobs to Texas.

TCAIS promotes these goals by engaging elected officials, regulators, the media, and the public through ongoing research, communication, education and advocacy.

**To learn more about TCAIS and the insurance market in Texas, visit our website at [www.TCAIS.org](http://www.TCAIS.org).**

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## OVERVIEW OF INSURANCE

### *The Concept of Insurance*

**A Transfer of Risk:** We all face risks every day – some small, some large. If a storm destroyed our home or an accident crushed our car, it would be very hard for most of us to pay for the damage out of our own pocket. By transferring risks to insurance companies, we exchange the possibility of large losses with potentially devastating financial effects for smaller, known costs – through insurance deductibles and premiums.

**Sharing of the Losses:** As policyholders of an insurance company, we share the costs of one another's losses. We each pay premiums, which the company holds to pay claims that are submitted by those who suffer covered losses. So, even though an individual may not have had any claims, if claim costs for the group are predicted to be higher than previously expected, premiums may need to be increased so that sufficient funds are available to pay everyone's future claims. Conversely, if the group has lower than expected insurance costs, premiums may be lowered.

**Not a Savings Account:** When we pay premiums for many years and have no claims, it is tempting to wonder what the insurance company does with “our money.” Actually, once premiums are paid to the company, the money is no longer assigned to a particular individual in a separate account. Rather, the premiums from all policyholders are pooled together to pay for the group's claims that may occur in the future.

**Types of Insurance:** There are many types of insurance, but the information contained in this booklet relates to the two most common types of property and casualty insurance for individuals and families: auto and homeowners.

## *Insurance Company Functions*

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Many different insurance companies sell auto and homeowners insurance. Some are national companies, which write policies in many different states, while others may write business only in Texas or in a part of the state or country. In addition, companies may specialize in writing a single line of insurance or may be “multiple line” companies that offer a variety of products. All insurance companies have three basic functions: sales, underwriting, and claims.

**Sales:** Insurance is generally sold by companies either through agents or directly to customers. All agents are licensed and regulated by the state. Some companies use exclusive agents, who generally represent only one company. Other companies use independent agents, who may represent multiple companies. Finally, direct writers do not use agents but rather use employees to sell their insurance products directly to consumers over the phone, through the mail, or via the Internet. Many insurers now offer agent locators, no-obligation quotes, claim services, information and more on their websites. The Texas Department of Insurance (TDI) website [www.tdi.state.tx.us](http://www.tdi.state.tx.us) allows users to quickly check the status of agent and company licenses.

**Underwriting:** Insurance companies have certain parameters to work within when they are selling or renewing insurance. These are generally called “underwriting guidelines” and are developed by each company to manage the level of risk they are willing to assume and to properly place each policyholder in a group that poses similar risks.

Having different underwriting guidelines is one of the primary ways that insurers compete. Guidelines must be filed with the Texas Department of Insurance but for competitive reasons are kept confidential. Companies must be able to demonstrate a sound actuarial basis for underwriting guidelines based on past data and statistical trends. In addition, the guidelines must not

unfairly discriminate on the basis of race, religion, national origin, or other prohibited reasons. Examples of commonly used underwriting guidelines include the type of vehicle, a driver's age, where the person lives, the type of home construction, certain credit characteristics, etc.

**Claims:** Policyholders pay money to insurance companies for protection against future losses. When accidents occur, policyholders expect to be compensated fairly and promptly for the losses as promised by the company. When a loss occurs, a claim is reported to the agent or the insurance company. The claim is usually assigned to a

claim adjuster to investigate and settle, although some agents may have authority to settle small claims.

Claim adjusters are generally employees of the insurance company and are subject to state licensing requirements. Some adjusters are independent adjusters who do work for insurers on a contract basis, typically for overflow work, and also are subject to state licensing requirements. Public adjusters are now also licensed or regulated, but are not employees of insurance companies. Most public adjusters earn their money by taking a percentage of the claim proceeds paid by the insurer to the insured.

### *How Insurance Companies Price Their Policies*

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When manufacturers sell products, such as cars or appliances, they know exactly how much it costs to make these products. After factoring in any other expenses, like sales commissions, the manufacturers then price their products appropriately to make sure they make a reasonable profit. In other

words, they simply charge more than it costs to make the products.

When an insurance company sells a product, it has no way of knowing whether it will have to pay for a large claim, a small claim or none at all during the policy period. Instead, the

company has to make an estimate. This estimate is based on past experience and trends, including loss ratios and combined loss ratios. “Loss ratio” refers to the amount an insurer pays out in claims compared to the premium received. For instance, a 70% loss ratio means that the insurer paid \$70 dollars of every \$100 dollars of premium for claims. “Combined loss ratio” (CLR) refers to the total expenditures of an insurer compared to the premium received, and includes expenses like overhead, investigations, taxes, and others. A CLR of 101% means that for every \$100 dollars of premium, the insurer expended \$101 dollars.

The general formula that insurance companies use to determine the price to charge for their products is:

$$\text{Rate} = \text{Estimated Claims} + \text{Estimated Expenses} + \text{Profit}$$

The “Estimated Claims” portion is based on trends of previous losses for the past few years. Using multiple years of experience provides more statistically reliable data and

helps avoid cost extremes. “Estimated Expenses” include expenses the company incurs like sales commission, employee salaries, claim investigation and litigation, taxes, equipment, reinsurance, etc. “Profit” is the percentage that the insurer hopes to make after all expenses and losses are paid. Some insurance companies share profits with their policyholders; others share profits with their shareholders. Profits also allow companies to reduce rates, seek more customers, or strengthen their financial positions to prepare for catastrophes.

Just like any business, each insurance company must decide on the appropriate level of profit, since it is factored into the price of the product. If a company seeks too much profit, its product will not be competitively priced. On the other hand, if the profit level is set too low, the company will lose money or not have sufficient funds to pay claims.

## HOMEOWNERS INSURANCE BASICS

### *Choosing the Coverage You Need*

For many years, the State of Texas allowed only two types of homeowners policies, but this changed in 2003. Insurers may now offer a variety of approved policies (forms) and endorsements which allows them to compete for business and allows customers to choose the coverage that best fits their needs. Policy types fall in the two broad categories of Named Peril and All Peril:

**Named Peril:** A basic homeowners insurance policy that provides coverage for specific perils that are named. These perils typically include damage from fire, lightning, windstorms, hurricanes, hail, vehicles, and smoke. The policy frequently does not cover or provides limited coverage for water damage from leaky roofs or broken pipes. This type of policy usually pays for the actual cash value of the damage, which includes depreciation. Replacement cost coverage, which consumers may choose to buy, covers the cost to rebuild, which is typically higher than the market value of the home due to access issues, building code changes, debris removal, materials cost increases, etc.

**All Peril:** A comprehensive homeowners insurance policy that provides coverage for all

perils except those that are specifically excluded. This policy typically pays for the replacement cost of any damage. In other words, any property that is damaged is replaced with new property, without regard for any depreciation.

Additionally, some coastal residents have the option of purchasing wind and hail insurance from companies in the marketplace or from the Texas Windstorm Insurance Association (TWIA). TWIA is a state-created organization that provides Texas' coastal residents and businesses with wind and hail coverage when it is not widely available in the private insurance marketplace. Every Texas homeowner, regardless of where they live, helps fund TWIA. You can learn more about TWIA at [www.twia.org](http://www.twia.org).

**Because a wide variety of coverage options are now available, shopping for insurance is more important and potentially more beneficial than in years past.** Competing insurance companies now offer extensive

information on their websites, and public entities like the Texas Department of Insurance ([www.tdi.state.tx.us](http://www.tdi.state.tx.us)) offer coverage comparisons for homeowners insurance between companies.

## *Factors Affecting the Price You Pay*

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How much you pay for your homeowners insurance depends on the risk you present to a company. While each company evaluates risk differently, there are some common factors that most insurance companies use in determining the rate that you ultimately pay:

- Age of home
- Type of construction
- Type of roof
- Geographic location
- Proximity to a fire hydrant and fire station
- Claim history (both to the home and to the customer)
- Certain credit characteristics
- Purchase of optional endorsements

One of the most important factors affecting the price you ultimately pay for your

homeowners insurance is your deductible. The higher your deductible, the lower your premiums will be since you are assuming more of the risk at the time a claim is filed.

Most insurance companies offer a variety of discounts that can impact your final rate. You should always be sure to check with your insurance company or agent to see if you qualify. Some of the more common discounts are:

- Home security system
- Smoke detection system
- Impact-resistant roof materials
- Multi-line discount (when you purchase more than one line of insurance, such as homeowners and auto, from one company)

## *Shopping for the Best Deal*

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When your homeowners policy comes up for renewal, you should ask the following questions:

- Has the coverage offered in the insurance policy changed since last year?
- Has the value of my property increased in the last year?
- Have I made any improvements to my property in the last year?
- Have I purchased enough coverage for my property?
- Do I want or need replacement coverage?
- Does my policy now include separate deductibles for risks like mold or hail?
- Do I live in a flood plain or area prone to flooding?
- Can I save money by raising the deductible?

- Are there discounts for which I might qualify?
- Should I comparison-shop for better rates?

Insurance companies compete for your business, so it certainly pays to compare price quotes. However, you should also compare the products and coverages being offered as well as the service capability of various companies. A good resource is the “Homeowner Price Comparisons” page on the TDI website ([www.tdi.state.tx.us](http://www.tdi.state.tx.us)). The TDI also publishes *“Shopping Smart: Tips for Texans Purchasing Auto, Homeowners & Rental Insurance”* and has set up a website to assist consumers with purchasing automobile and homeowners insurance – [www.helpinsure.com](http://www.helpinsure.com).

## *Before a Claim Occurs*

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Property owners can take several steps to help better protect their property from potential loss and to help expedite the claim process when damage results in a loss to your property.

- **Create an up-to-date home inventory of personal belongings** accompanied by photographs and video to be stored away from your home or in a safe place. The TDI

and other organizations such as the Insurance Information Institute – [www.iii.org](http://www.iii.org) – offer free software to make compiling an inventory easy.

- **Help *prevent* damage to your property.** Visit the Institute for Business and Home Safety (IBHS) at [www.ibhs.org](http://www.ibhs.org) and the Federal Alliance for Safe Homes (FLASH) at [www.flash.org](http://www.flash.org) to learn how to **make simple improvements to your home to strengthen it against natural disasters such as hail, hurricanes or tornadoes.**
- **Speak with your insurer about steps you can take to potentially save money on your windstorm premium.**

## *Filing a Claim*

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Once damage has occurred to your home or property, you may need to file a claim. If so, you should take the following steps:

- **If a crime is involved, report it to the police.** Be sure to get a police report and write down the names of the law enforcement officers.

- **Review your homeowners policy and declaration page** to better understand what is and is not covered by your policy. Ask your agent or insurer if you have any questions.

When bad weather is imminent, the following steps are encouraged to keep your families safe and protect your property:

- **Take a copy of your homeowners insurance** policy and home inventory with you if you are forced to evacuate.
- **Complete simple mitigation tips** to better protect your property like securing outdoor furniture and other objects.
- Follow directions of the civil authorities regarding any evacuations.

- **Contact your insurance agent or insurance company directly to file a claim.** Most companies have a time limit on filing claims. Be sure to ask your agent or company the following to help determine if you want to file a claim or not:
  - Is my claim higher than my deductible?

- How long will it take to process my claim?
- Do I need to get an estimate?
- **Prepare a list of damaged or lost contents.** Write down a description of all damages and losses. It's also a good idea to photograph or videotape the damage. Be sure to save all damaged items for your insurance adjuster and begin collecting receipts for those items.
- **Begin making appropriate repairs.** Take reasonable steps to protect your home from further damage. Save all your receipts for submission to your insurance company.
- **Be sure to get claims forms.** In Texas, your insurer is required to send you all required forms within 30 days. Fill out and return these forms as soon as possible to avoid delays.
- **Have your home inspected by an adjuster.** Your insurance company will likely arrange for an adjuster to inspect your home.

The entire claim process normally takes less than 60 days. Under Texas law, insurance companies have:

- 15 days to acknowledge the claim;
- 15 days to begin collecting data, receipts and estimates;
- 15 days to accept or reject the claim, after all information, receipts and estimates are received; and
- 5 days to pay the claim.

The faster the homeowner provides information to the insurance company, the more expedited a claim can be handled. Companies are allowed to extend this deadline up to 45 days if they notify you that more time is needed and tell you why. After the notice of claim approval, your insurance company must pay the claim within 5 days. If your claim results from a weather-related catastrophe or other major natural disaster, your insurance company may take 45 additional days to approve or deny your claim and 15 additional days to pay your claim.

## AUTO INSURANCE BASICS

Automobile insurance helps protect drivers and their passengers from the devastating losses that can result from an accident. In Texas, proof of “financial responsibility” is required by law when driving a car. Lenders who finance auto purchases normally require insurance coverage to protect the loan. For these reasons, most people buy an automobile insurance policy.

### *Choosing the Coverage You Need*

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Until recently, the Texas private passenger automobile policy was developed by the TDI and had to be used by all insurance companies. Now insurers may offer a variety of approved policies (forms) to compete for business and offer Texans more choices of needed coverage. Many have done so.

The auto insurance policy typically includes six main types of coverage:

- **Liability for bodily injury:** This coverage applies to injuries that the driver or policyholder cause to someone else. Texas requires drivers to carry liability insurance, although you can purchase additional coverages to protect assets such as your home and savings.
- **Property damage liability:** If you, or someone driving your car with your permission, cause damage to someone else’s property, this coverage would pay for that damage.
- **Collision coverage:** This coverage pays for damage to your car resulting from an accident with another car or as a result of a large pothole or a rollover. Even if you are at fault for the accident, collision coverage will pay for the damage to your vehicle after subtracting your deductible.
- **Comprehensive:** Comprehensive coverage allows you to be reimbursed for car theft or damage caused by something other than a collision (such as weather, flying objects or hitting an animal).

- **Coverage for medical bills:** Two types of coverage can be purchased to cover medical bills:
  - “Medical payments coverage” reimburses the cost of incurred medical bills and funeral expenses to the driver and passengers of the policyholder’s car.
  - “Personal injury protection coverage” reimburses the costs of incurred medical bills, funeral expenses and lost wages of the driver and passengers of the policyholder’s car unless it is rejected in writing.
- **Uninsured and underinsured motorist coverage:** If a covered motorist is hit by an uninsured or hit-and-run driver, or if your damages exceed the amount of insurance purchased by the person responsible for the accident, this coverage will pay for or supplement the compensation you received for your damages and/or injuries; unless rejected in writing.

For many years, Texas has required all drivers to have liability insurance in the amount of

\$20,000 per person or \$40,000 for all persons injured in an accident, and \$15,000 for property damage. To cover rising costs of medical and auto repairs, the law changed in April 2008 to increase these minimum limits to \$25,000 per person and \$50,000 for all persons injured in one accident, and \$25,000 for property damage. Additional increases are slated for 2011.

Because 20% of vehicles on Texas roads have no insurance coverage, the Texas Legislature directed the Texas Departments of Insurance, Public Safety, Transportation, and Information Resources to develop a system to reduce the number of uninsured motorists. Working together, the agencies have compiled a database – TexasSure – that connects every registered vehicle in the state by its license plate, vehicle identification number (VIN), and liability insurance policy. With TexasSure, law enforcement officers and tax assessor-collectors can immediately access the database and verify if you are driving without insurance. You can learn more at [www.texassure.com](http://www.texassure.com).

## *Factors Affecting the Price You Pay*

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How much you pay for your auto insurance depends on the risk you present to a company. While each company evaluates risk differently, most insurance companies use some common factors to determine the rate you ultimately pay. These factors are:

- Type of car
- Age and sex of driver
- Garaging location of the vehicle
- Accident history
- Driving record
- Certain credit characteristics
- Purchase of optional endorsements
- Amount of coverage purchased

One of the most important factors affecting the price you ultimately pay for your auto insurance is your deductible. The higher your

deductible, the lower your premiums will be since you are assuming more of the risk at the time a claim is filed.

Most insurance companies offer a variety of discounts that can impact your final rate. You should always be sure to check with your insurance company or agent to see if you qualify. Some of the more common discounts are:

- Anti-theft equipment
- Air bags and anti-lock brakes
- Defensive driving program
- Good student
- Multi-line discount (when you purchase more than one line of insurance, such as homeowners and auto, from one company)

## Shopping for the Best Deal

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When your auto policy comes up for renewal, you should ask the following questions:

- Has the coverage offered in the insurance policy changed since last year?
- Can I save money by raising the deductible?
- Should I comparison-shop for better rates?
- Do I want or need replacement coverage?

Insurance companies compete for your business, so it certainly pays to compare price quotes. However, you should also compare the products and coverages being offered as well as the service capability of various companies. A good resource is the Auto Rate Comparison page on the TDI website ([www.tdi.state.tx.us](http://www.tdi.state.tx.us)). The TDI also publishes *“Shopping Smart: Tips for Texans Purchasing Auto, Homeowners & Rental Insurance.”*

## Before a claim occurs

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Owners can take several steps to avoid auto accidents and to help expedite the claim process when an accident occurs.

- **Keep your car in good condition.** Pay attention to the manufacturer's recommended maintenance schedule to better the chances your car will perform as intended.
- **Beware of blind spots.** Adjust your side mirrors and rearview mirror to provide one near-seamless panoramic scene of the view

behind you, but don't rely solely on them. Also consider the blind spots of other drivers around you, especially truckers, and try to minimize the amount of time you spend in them.

- **Pay attention to road conditions.** Try to avoid driving in severe weather such as heavy rain, snow or fog. If you have to drive, slow down. Roads can be more slippery than they would seem. If you can't see the road's edge, pull off on the right -- well out of the traffic lane -- and turn on

the emergency flashers. Wait until visibility improves before you continue.

- **Be cell phone savvy. Talking or texting while driving may be convenient, but hazardous.** Cell phone users are four to five times more likely to have crashes than non-users. Do not use your cellular phone in distracting traffic situations. Pull off the road to make a call, and never send a text message while driving.

- **Don't be an emotional driver.** Anger, aggressiveness, arrogance and other negative attitudes are the leading causes of accidents. Keep your emotions in check on the road and avoid eye contact or making obscene gestures with/at an aggressive driver.

In short, remember, be cautious, aware and responsible while driving.

## *Filing a Claim*

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If you are involved in an auto accident or if your vehicle is damaged, you may need to file a claim. If so, you should take the following steps:

- **Report any crime to the police.** Get a police report and write down the names of the law enforcement officers and any potential witnesses. Also, take photos of any damage to your automobile.
- **Call your insurance agent or company to report the accident.** Your insurer will

ask for information for filing the claim. Be sure to ask your agent the following:

- Is there a time limit for filing the claim?
- Is my claim higher than my deductible?
- How long will it take to process my claim?
- When will I be contacted by the insurance company?
- Do I need to get an estimate for repairs?
- Will I be reimbursed for a rental car?

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- **Follow your insurer's instructions.** Filing claims in a timely manner will help you get reimbursed more quickly.

The entire claim process normally takes less than 60 days. Under Texas law, insurance companies have:

- 15 days to acknowledge the claim;
- 15 days to begin collecting data, receipts and estimates;
- 15 days to accept or reject the claim after all data, receipts and estimates are collected; and

- 5 days to pay the claim.

Companies are allowed to extend this deadline up to 45 days if they notify you that more time is needed and tell you why. After the notice of claim approval, your insurance company must pay the claim within 5 days. If your claim results from a weather-related catastrophe or other major natural disaster, your insurance company may take 45 additional days to approve or deny your claim and 15 additional days to pay your claim.

## INSURANCE REGULATION IN TEXAS

### *Texas Department of Insurance (TDI)*

The TDI is the state agency responsible for monitoring the insurance marketplace, regulating the insurance industry where necessary, and looking out for the public through consumer protection. The TDI licenses insurance companies, agents, adjusters, and other insurance-related businesses to operate in Texas.

It has authority to monitor rates and policy forms for auto and homeowners insurance companies and to regulate auto and homeowners insurers market practices. To make sure that insurance companies remain solvent and have the funds to pay claims, the agency monitors the financial condition of insurance companies.

The head of the agency is the Commissioner of Insurance, who is appointed by the Governor. In 2006, the TDI had approximately 1,845 employees. The TDI

budget is funded primarily by payments from insurance companies of premium taxes, maintenance taxes, licensing fees, examination fees, and other administrative payments.

## *Office of Public Insurance Counsel (OPIC)*

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OPIC is a state agency that represents consumer interests regarding auto and homeowners and other lines of insurance. This agency was created by the Texas Legislature in 1991.

The head of the agency is the Public Insurance Counsel, an attorney appointed

by the Governor to a two-year term. OPIC has approximately 19 employees. The agency is funded by an assessment of 5.7 cents on each property and casualty insurance policy purchased by Texas homeowners and auto owners.

## *Regulatory Structure*

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Insurance is a highly regulated industry. Here are a few of the key aspects of insurance regulation.

**Financial:** A key function of insurance regulation is to make sure insurers are able to pay claims and remain in business. Insurers must submit audited financial statements quarterly, and are subject to financial examinations by state regulators on a periodic

basis. Insurers must maintain specific capital and surplus, and must pay the appropriate premium tax to the state. Regulators watch key financial indicators to determine early warning signs of financial trouble.

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**Market Conduct:** Regulators may examine the market practices of insurers on a regular basis or as specific concerns arise. Practices may include underwriting, claims procedures, marketing and sales practices, billing, or other business practices.

**File and Use:** In December 2004, the Texas system for regulating homeowners and automobile insurance rates changed to a "file and use" system. Under this system, all home

and auto insurers must file their rates and may use them immediately. Market competition is the main regulator of rates in a file and use system. Rates are subject to disapproval if the TDI determines they are inadequate, excessive, unreasonable, or unfairly discriminatory. An insurer may withdraw or modify its filing, or appeal the disapproval. Policy forms and endorsements must always be approved by the TDI prior to use.

## *Insurance Value*

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Texas policymakers have worked for the last two decades to modernize the insurance marketplace in the Lone Star State. For the first time in decades, consumers have real choice in price, product, and service. As a result, shoppers can now tailor their insurance purchases to suit their needs.

As with any good or service in the economy, individuals should consider which factors are

most important to them. Some shoppers might be chiefly concerned with the financial strength of their company, others with service and personal interaction, still others with price. At the end of the day, a healthy marketplace should be diverse and robust enough to serve any of these priorities, and deliver good value to consumers.

## COMMONLY USED INSURANCE TERMS

**Actual Cash Value:** The method used by insurance companies to assign value to piece of property at the time that it is damaged or destroyed. ACV is estimated by taking the cost of replacing the property minus the depreciation from age or "wear and tear". For example, the ACV of a 20-year-old roof would be less than the ACV for 2-year-old version of the same roof.

**Actuary:** An expert in statistical insurance information. Actuaries are responsible for reviewing and evaluating the potential for future claims costs and using this information to determine rates and rating methods.

**Additional Living Expenses (ALE):** Extra charges covered by some homeowners policies over and above the policyholder's customary living expenses. They kick in when the insured requires temporary shelter due to damage by a covered peril that makes the home temporarily uninhabitable and incurs additional costs.

**All Perils Policy:** A comprehensive policy that covers all types of perils. Generally speaking, unless a relevant peril is specifically excluded, it is covered under the policy.

**Assigned Risk Plans:** Plans designed to give insurance to high-risk drivers who are unable to find insurance in the regular market. Under assigned risk plans, the state requires auto insurance companies to insure a certain number of high-risk drivers. The number of drivers they must insure is proportional to the total number of policies they sell in the state.

**Combined Loss Ratio:** This figure represents the percentage of each premium dollar that an insurer spends on claims and expenses (i.e., a combination of the "loss ratio" and "expense ratio"). A combined ratio of less than 100 % indicates an underwriting profit; anything over 100 represents an underwriting loss.

**County Mutuels:** A special type of mutual insurance company in Texas that originated in rural areas for hard-to-find coverage. Special rate flexibility led to the companies being used to provide insurance for high-risk drivers, and eventually for all types of drivers. Now county mutuels are regulated just like other types of insurers, except that they are allowed to surcharge for minor traffic violations while other companies may not.

**Declaration Page/Dec Page:** A summary of your policy coverage and fees charged sent by your insurer with your insurance policy.

**Deductible:** The amount of a claim that the policyholder must pay him or herself. Policies with higher deductibles generally have lower premiums.

**Endorsement:** A specific addition to a policy that alters the coverage and therefore the price of that policy. Endorsements can either add or remove specific types of coverage. In many cases, consumers can buy a basic policy and then custom-tailor it to their needs through specific endorsements.

**Exclusion:** An exclusion is a provision in an insurance policy that removes coverage for certain risks, people, property, or locations. Exclusions can make policies more affordable by eliminating coverage for unnecessary risks.

**Expense Ratio:** A figure that represents the insurer's operating expenses divided by net premiums written (expenses include salaries, commissions, administrative expenses, losses, and loss adjustment expenses).

**FAIR Plan:** The Texas Fair Access to Insurance Requirements ("FAIR") plan is an insurance pool that sells coverage to property owners who cannot buy policies in the private market. FAIR plans require all insurers licensed in a state to contribute to a pool of funds that offers property insurance for these high-risk properties.

**File and Use:** Form of rate regulation where insurers must file rate changes with their regulators, and may use them without waiting for review and approval. Rates may be disapproved at any time by regulators after notice and opportunity for hearing.

**Forms/Policy Forms:** A contract between an insurer and a policyholder that specifies coverages and benefits.

**Fraud:** Any intentional lying or misrepresentation by policyholders or claims adjusters in order to inflate a claims payment or receive a claims payment that would otherwise not be paid.

**Insurance Score:** A number that is determined by using a formula that includes several different risk factors. In most cases, these factors include past claim history and certain aspects of an individual's credit history. Insurance companies use this number as another tool to help them assess potential future risk. Each insurer's method of calculating the score is different.

**Lloyd's Companies:** Companies modeled after the Lloyd's of London insurance syndicate. In Texas, Lloyd's companies sell primarily homeowners insurance. In the past Lloyd's companies had rate filing flexibility, but are now regulated just like other insurers.

**Market Conduct:** The way that insurance companies treat potential and existing customers. It includes the decisions companies make regarding whether to offer an insurance policy and what rate to charge. Market conduct also refers to how companies handle claims.

**Mitigation:** Efforts to reduce risk exposure and lessen the amount of loss or potential loss, such as implementing and enforcing building codes, covering a roof leak to prevent further damage prior to repairs, or providing safety training.

**Named Peril Policy:** Insurance policy for specially named perils.

**Uninsured Motorist/Underinsured Motorist (UM/UIM):** Coverage purchased by a policyholder to protect themselves when they have a loss caused by someone who does not have insurance or has inadequate insurance limits of liability.

**Policy:** A written contract for insurance between an insurance company and policyholder stating details of coverage. Same as "Forms," above.

**Pure Loss Ratio:** Percentage of each premium dollar that an insurer spends on claims. Example: A loss ratio of 94 means that the insurer spends 94 cents of each \$1 of premiums on claims.

**Reinsurance:** An agreement between two property-casualty insurers to share financial consequences of a loss. The primary insurer buys reinsurance (essentially insurance for insurance companies) in order to diversify and transfer risks, and to share potentially devastating losses.

**Replacement Cost:** A method that assigns value to property by considering the cost of repairing or replacing the property without taking into account depreciation.

**Reserve:** This term can apply to: 1) an amount representing actual or potential liabilities kept by an insurer to cover obligations to policyholders and third-party claimants; or, 2) an amount allocated for a special purpose. Note: A reserve is usually a liability and not an extra fund. On occasion, a reserve may be an asset, such as a reserve for taxes not yet due.

**Solvency:** For insurance companies, solvency means that they have sufficient funds in their reserves to pay claims. If a company appears to be at risk for insolvency, the TDI will advise the company to take measures to increase their reserve funds. These measures can include raising rates, adjusting the company's investment portfolio, and soliciting investments in the company.

**Texas Windstorm Insurance Association (TWIA):** A market of last resort for residential and commercial property on the Texas coast for wind and hail coverage when property owners can't find coverage in the voluntary insurance marketplace.

**Third Party Coverage:** Liability coverage purchased by the policyholder as a protection against possible claims filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.

**Tort Reform:** An effort by state lawmakers to change legal procedures in order to prevent lawsuit abuse and make liability insurance more affordable. Tort reform includes revising the laws that determine responsibility for damages and reducing the amount of punitive damages that civil actions can seek.



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