

**Legislative Testimony Submitted to the Senate Select Committee on Workers'  
Compensation by Russell R. Oliver, President, Texas Mutual Insurance Company**

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Texas Mutual Insurance Company is keenly interested in assisting the Legislature in addressing the important issues you face in dealing with the workers' compensation system.

With respect to this committee's charge to study issues associated with workers' compensation premiums, perhaps a historical perspective will help. Until 1992, Texas operated under a promulgated rate system, with the State Board of Insurance (now called the Texas Department of Insurance) setting the rate to be used by all insurance companies. The late 1980's saw a crisis in availability of coverage for Texas businesses, as carriers drastically reduced their writings in our state, saying that the state-promulgated rates were insufficient to cover the rapidly increasing claim costs in the old system.

A symptom of the crisis was the old Assigned Risk Pool, where Texas businesses had to turn for coverage when the private market would not accommodate them. The "Pool" grew from covering about 20,000 businesses with about \$51 million in premium in 1983, to covering almost 86,000 businesses in 1990, who paid over \$1.25 billion in premium. Even after the Legislature had passed workers' compensation reform in 1989, more change was needed on the insurance side to deal with this crisis.

The result was legislation that passed in 1991 that (1) eliminated state-promulgated rates, moving to a competitive file-and-use rate system; (2) phased out the “Pool” or “Facility” as it was known by then; and created the Texas Workers’ Compensation Insurance Fund, as Texas Mutual Insurance Company was formerly known. The purpose of creating Texas Mutual was to add a competitive feature to the newly deregulated rate environment and to eventually replace the “Facility” as insurer of last resort, which occurred in 1994.

The revised system has worked well for Texas businesses who buy workers’ compensation coverage, in our judgment. TDI information indicates that on average Texas businesses are paying less per \$100 of payroll for workers’ compensation coverage than they did in 1995. This is a result of two factors: the workers’ compensation reforms passed in 1989, which helped to control claim costs as compared to the 1980’s system; and a competitive market system for insurance.

Texas Mutual Insurance Company and all carriers that write coverage in Texas operate in a competitive market. About 99% of Texas Mutual’s business comes to us through independent agents. Because they are independent, these agents have multiple carriers that they can and do place business with. Our job is to compete for the business that these agents handle for their clients. When we issue a quote on a policy, we know it likely will be competing with other quotes the agent can get from other carriers, or even with quotes a different agent may be getting from carriers on behalf of the same business. Carriers compete on price and service. As an independent agent once told me, “You get the account with price, but you keep it with service.” We try to be competitive on both.

We must keep in mind that the workers' compensation insurance market is cyclical, just as other business sectors are cyclical. A "soft" market, or buyer's market, is one where lots of carriers compete on price, driving prices down. The other end of the cycle spectrum is a "hard" market, where for varying reasons carriers are less willing to write business, or to write certain types of business, so less carriers compete for business, and prices go up. You have to keep the entire market cycle in mind when you are trying to assess what is going on: Looking at just a few years can present a mistaken impression. For example, if you looked at just the 1995 to 1999 period in Texas you would have seen total premiums paid ranging in the \$1.7 billion to \$1.9 billion range. This is down from \$4.2 billion in 1991 and \$2.8 billion in 1992. Deductibles and self-insurance account for a large part of the precipitous decline in total premiums paid in the early 90's, while heated competition in the mid 1990's also helped keep total premium down.

During this same period, price competition was so heated that many carriers under-priced their product and did damage to their ability to continue in business. A number of carriers who were writing business in Texas as late as 1999, are no longer in business at all. Their problems probably were not solely attributable to workers' compensation insurance, but were due to a "soft" market in other lines of insurance as well. For these reasons, a snapshot of the market in the late 1990's would have looked really ugly.

Nevertheless, total premiums paid in Texas started rising in 2000 as the hyper-competitive market cooled down some, partly because those carriers who had contributed to the hyper-competition withdrew from the market or just went broke.

Now total premiums paid are up, but still are around the 1992 level, even though Texas' economy has grown since then.

The market cycle still exists. We are seeing signs that the market may be beginning to soften now. We think it likely that the market will be more competitive next year than it is this year, leading to lower premiums.

The last point we want to make relates again to Texas Mutual Insurance Company. We were created in 1991 to add competition to the market place. We remember that and we believe we benefit many businesses even when we do not write their workers' compensation coverage, because another carrier had to compete with us for their business in order to get it. Nevertheless, we work hard to offer competitive pricing and value-added services to attract and retain customers in a competitive market place.

We will continue to compete in the market place, and you can rest assured that if the Legislature passes cost-saving measures, Texas Mutual will pass along our cost savings to our customers in the form of lower premiums.

Thank you for allowing us to submit comments to the Senate Select Committee on Workers' Compensation.