

**SUBJECT:** City ordinances governing taxi insurance in major cities

**COMMITTEE:** Urban Affairs — committee substitute recommended

**VOTE:** 7 ayes — Bailey, Burnam, Clark, Edwards, Ehrhardt, Hodge, Najera  
2 nays — Carter, Hill

**WITNESSES:** For — None  
Against — None  
On — Jon Kettles, Texas Trial Lawyers Association

**BACKGROUND:** Local Government Code, sec. 215.004 governing municipal regulation of taxicabs, allows a city to regulate taxicab services by ordinance. The ordinance may include establishment of safety and insurance requirements.

**DIGEST:** CSHB 2481 would outline conditions for taxicab insurance required by an ordinance adopted by a city with a population of more than one million, located in a county with a population of more than 1.5 million. It would have to be obtained from a reliable insurance company authorized to do business in the state, unless an ordinance permitted the service to be self-insured in accordance with applicable state statutes.

A city could adopt an ordinance regarding the rating and financial strength, including capital and surplus, of an insurance company. An insurance company would satisfy an ordinance adopted under this subsection if it obtained 100 percent reinsurance for the portion of each taxicab risk it ensured, and if the reinsurer would satisfy requirements concerning rating and financial strength laid out in the ordinance. The contract for reinsurance specifically would have to provide that reinsurance would be payable directly to a person injured by the taxicab company in the event of the insolvency of the original insurance company.

The bill would take effect September 1, 1999.

**SUPPORTERS  
SAY:**

CSHB 2481 would eliminate unfair restrictions in some local ordinances on taxicab insurance, promulgated pursuant to sec. 215.004 of the Local Government Code. Certain cities have mandated that insurance companies meet certain ratings published by insurance industry rating companies and other financial requirements preventing smaller, local insurance companies from competing with larger companies with deep pockets. Cities should be supporting local businesses rather than discouraging them.

The bill would give smaller companies a chance while at the same time ensuring that all legitimate claims would be paid. The provisions and requirements laid out in CSHB 2481 would do this.

Requiring an insurance company to obtain 100 percent reinsurance from a financially sound reinsurance company would guarantee that all claims would be covered even if the original insurance company became insolvent. Those injured in an accident with a taxicab would merely have to file their claims, which would be paid either by the insurance company itself, or by a reinsurance company inheriting those claims if the insurance company could not pay them.

**OPPONENTS  
SAY:**

Under current law, large cities may enact ordinances requiring that taxicabs carry insurance from a “well-rated company,” for example, a B+ rating or better. These ratings apply regardless of the size of the company. Small, well-run companies can obtain excellent ratings.

Dallas would be the only city affected by this bill, due to population brackets plus the fact that Houston permits its taxicabs to be self insured. The provisions of CSHB 2481 could force Dallas to accept a taxicab insurer that actually could be on the brink of insolvency. Moreover, it would provide less protection to injured consumers with claims against cab companies.

CSHB 2481 would provide that a company would satisfy the financial requirements as long as it was 100 percent reinsured, and the reinsurer, rather than the original insurance company, met the financial requirements and ratings laid out in the ordinance. It would be the reinsurance company that would pay an injured person in the event that the insurance company became insolvent. This would be less protective of those who might be injured in a taxicab accident than if the original company itself had to meet the ordinance’s financial requirements.

Since the reinsurer would not be bound by the original contract with the insurance company, certain protections in that policy might no longer apply. Injured parties mostly like would drop their claims once they heard the insurance company had become insolvent—unless they became heavily involved in the insolvency process, and found out about the reinsurance provisions. In reality, injured parties would probably be unaware of a statutory requirement that their claims be paid directly by the reinsurance company.

There is simply no reason for Dallas to put its citizens at risk of not being able to collect on legitimate claims when there are many financially stable insurance companies well able to meet the basic financial and rating requirements that may be included in a city ordinance concerning taxicab insurance.

NOTES:

The original bill would have prevented a city from finding that an insurance company was not in compliance with ordinances regulating taxicab insurance unless the company was in bankruptcy, in a state of supervision, or in similar trouble. The bill would have provided that a city could require written certification of certain reinsurance requirements of companies wishing to ensure taxicabs.