

Meeting of the Board of Directors
Texas Windstorm Insurance Association
Teleconference
February 5, 2019
Marriott South Hotel
4415 South IH 35
Austin, TX 78744
9:00 a.m.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Interested parties can listen to the meeting live by going to www.twia.org.
Go to “About Us/Board Meetings” and click on the audio link.

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| 1. Call to Order – Reminder of the Anti-Trust Statement – <i>Josh Fields</i> | <i>5 minutes</i> |
| 2. Introductions – <i>Josh Fields</i> | <i>5 minutes</i> |
| 3. Consideration and Action to: Approve the Minutes from Prior Board of Directors’ Meetings – <i>Josh Fields*</i> | <i>5 minutes</i> |
| 4. Public Comment | <i>15 minutes</i> |
| 5. TWIA Operational Highlights – <i>John Polak</i> | <i>5 minutes</i> |
| 6. Financial Consideration and Possible Action on the Following Financial Topics: A. Report of the Secretary/Treasurer – <i>Debbie King*</i> 1. Income Statement 2. Management Discussion and Analysis B. Financial Statement Review by Staff – <i>Jerry Fadden</i> 1. Income Statement and Expense Statement 2. Balance Sheet 3. Cash & Short-Term Investments 4. Cash Flow Statement 5. Historical Data | <i>15 minutes</i> |
| 7. Actuarial Consideration and Possible Action on the Following Actuarial Topics: A. Reserve Adequacy B. Policy Count/Exposures C. 2019 Funding, Reinsurance and Line of Credit – <i>Guy Carpenter and Jerry Fadden*</i> | <i>25 minutes</i> |
| 8. Internal Audit – <i>Bruce Zaret – Weaver</i> Consideration and Possible Action on the Following Audit Topics: A. Internal Audit Status & Update B. IT Security Audit (Closed Session) | <i>15 minutes</i> |

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| 9. Underwriting – <i>Denise Larzalere</i> | <i>10 minutes</i> |
| A. Operational Review Update | |
| 10. Claims | <i>20 minutes</i> |
| Consideration and Possible Action on the Following Claims Topics: | |
| A. Claims Operations – Overview – <i>Dave Williams</i> | |
| B. Claims Litigation – <i>David Durden</i> | |
| 11. TWIA Operations | <i>30 minutes</i> |
| Consideration and Possible Action on the Following Operations Topics: | |
| A. IT Systems Update – <i>John Polak</i> | |
| B. Depopulation – <i>John Polak</i> | |
| C. Sunset Review – <i>John Polak</i> | |
| D. TDI Draft Examination Report – <i>John Polak</i> | |
| E. Communications Update – <i>Jennifer Armstrong</i> | |
| Lunch break, 11:00 | <i>30 minutes</i> |
| 12. Closed Session (Board Only) | <i>60 minutes</i> |
| A. Personnel Issues | |
| B. Legal Advice | |
| 13. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors | <i>5 minutes</i> |
| 14. Committees – <i>Josh Fields</i> | <i>5 minutes</i> |
| 15. Future Meetings – <i>John Polak</i> | <i>5 minutes</i> |
| • May 7, 2019 – Hyatt Regency – Austin | |
| • August 6, 2019 – Tremont House – Galveston | |
| 16. Adjourn | |

Estimated Total Length of Meeting 4 hours 15 minutes

*Indicates item on which General Manager believes the Board of Directors may take action.

1. Anti-Trust Statement

ANTI-TRUST COMPLIANCE STATEMENT

The Board of Directors of TWIA is committed to strict compliance with federal and state anti-trust laws. The anti-trust laws are designed to promote free and open competition and to penalize any activities that unreasonably lessen business rivalry. Members of the Board of Directors of TWIA may freely discuss and agree upon agenda items relating to their responsibilities as Directors including such topics as coordinating efforts regarding state or federal legislation, discussion of TWIA policy on legislative issues and methods of legislative lobbying including grass-roots lobbying, public relations, testimony before legislative committees and meetings with state and federal legislators and regulators.

Because TWIA meetings bring together competitors, any unauthorized discussion of topics prohibited by the anti-trust laws such as agreements between competitors on prices and rates, agreements to boycott third parties or agreements to divide markets or even individual insureds could lead to an inference that such an illegal agreement among participants to the discussion was in fact reached. Accordingly, the following guidelines apply to any meeting or other activity conducted under the auspices of TWIA:

- Someone on the TWIA staff shall be present at all times during meetings of the TWIA Board of Directors or other official activities such as meetings of various TWIA committees unless such meetings are for the purpose of discussing personnel matters;
- At any such meetings or official activities, there shall be no discussion of voluntary market rates, prices, discounts or other terms and conditions of sale without the General Manager or the General Counsel being present;
- There shall be no discussion of the areas in which TWIA Board members and their respective member companies will compete for the products and services that they will offer; and
- There shall be no discussion of any agreement or understanding to boycott a third party or to deal with a third party only on certain terms.

Texas Windstorm Insurance Association

TWIA Anti-Trust Compliance Statement

Without the prior authorization of TWIA's General Manager or its General Counsel, there shall be no discussion of agreements to deal exclusively with certain parties, requirements that purchasers of particular products or services must purchase other products or services, standard-setting, certification, statistical reporting, or codes of ethics and other self-regulatory activities.

- Only TWIA staff shall keep minutes of TWIA meetings and will immediately terminate any discussion that may violate these guidelines.
- At TWIA meetings, TWIA company representatives should adhere to the written agenda and outside of TWIA meetings should scrupulously avoid discussion of any topic that might violate these guidelines.

Severe civil and criminal penalties, including fines and imprisonment, can result from violations of the anti-trust laws. Whenever in doubt about how to apply these guidelines, the directors, members, officers and guests of TWIA should consult its General Manager and General Counsel and proceed in a conservative manner in order to avoid any actual, or apparent, violation of antitrust guidelines.

Texas Windstorm Insurance Association

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3. Approve the Minutes

**Minutes of the Texas Windstorm Insurance Association
Board of Directors Meeting
Omni Hotel**

900 North Shoreline Blvd.
Corpus Christi, Texas 78401

December 11, 2018

1. Call to Order: Mr. Fields called the meeting to order at 9:00 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel.

The following Board members were present, representing:

- | | | |
|----|-----------------------------------|---------------------------------------|
| 1. | Joshua Fields (Chairman) | First Tier Coastal Representative |
| 2. | Chandra Franklin Womack | First Tier Coastal Representative |
| 3. | Georgia Neblett | First Tier Coastal Representative |
| 4. | Mike Gerik | Industry Representative |
| 5. | Debbie King (Secretary/Treasurer) | Industry Representative |
| 6. | Karen Guard | Industry Representative |
| 7. | Bryan Shofner (Vice Chairman) | Non-Seacoast Territory Representative |
| 8. | R. Scott Kesner | Non-Seacoast Territory Representative |

Absent: Tony Schrader

The following TWIA staff, counsel, and agents were present:

- | | | |
|----|------------------------------------------------------------------|-------------------------|
| 1. | John Polak, General Manager | TWIA |
| 2. | Jerry Fadden, Chief Financial Officer | TWIA |
| 3. | Dave Williams, VP Claims | TWIA |
| 4. | David Durden, VP Legal | TWIA |
| 5. | Denise Larzalere, VP Underwriting | TWIA |
| 6. | Jennifer Armstrong, VP Communications and Legislative Affairs | TWIA |
| 7. | Amy Koehl, Executive Assistant | TWIA |
| 8. | Mike Perkins, Association Counsel | Sneed, Vine & Perry, PC |

The following were also present:

| | |
|----------------|----------------------------------------|
| Clark Thomson | Calhoun, Thomson + Matza |
| Tammy Embrey | City of Corpus Christi |
| Tom Tagliabue | City of Corpus Christi |
| Richard Throop | Corpus Christi Association of Realtors |
| George Taylor | F.B. Taylor Insurance |
| Tad Delk | Guy Carpenter |
| Tyler Thomas | Guy Carpenter |
| Cindy Duck | Guest |

| | |
|--------------------|-----------------------------|
| Joan Polak | Guest |
| Mekalia Hopkins | Home Builders Association |
| Matt Stillwell | ICT |
| Craig Fegley | JP Morgan Chase |
| Tim Peterson | JP Morgan Chase |
| Joe Woods | PCI |
| Sylvia Ramirez | Sen. Hinojosa's Office |
| Beaman Floyd | TCAIS |
| Marianne Baker | TDI |
| Marti Lupurello | Texas Farm Bureau Insurance |
| Corise Morrison | TFPA –Industry Member |
| Melanie Head | TWFGINS |
| Bobbie Gail Torres | TWFGINS |
| Jessica Davidson | TWIA |
| Becky Breum | UBS |
| Brett Nabors | Weaver |
| Bruce Zaret | Weaver |

2. Introductions: Meeting attendees introduced themselves.
3. Approval of Minutes: The minutes from the July 31, 2018 meeting in Galveston, Texas were reviewed. Ms. Neblett moved to approve the minutes as presented. Mr. Kesner seconded the motion. The motion passed.
4. Public Comment: Richard Throop of the Corpus Christi Association of Realtors and Cindy Duck, policyholder, offered public comment.
5. TWIA Operational Highlights: Mr. Polak reported TWIA received 75,039 policy offers from the two participating carriers in the 2018-2019 Assumption Reinsurance Depopulation Program. The Association remains on track to meet objectives for all strategic initiatives in 2018. It exceeds turnaround time and quality standards on underwriting and claims service levels in Q3. It remains below plan in Q3 on litigated claims and complaints.
6. Financial:
 - A. Report of the Secretary/Treasurer: Ms. King reviewed the Treasurer's Report. Mr. Shofner moved to approve the report. Mrs. Neblett seconded the motion. The motion passed.
 - B. Financial Statement Review by Staff: TWIA's results as of September 30, 2018 show net income of \$247.3 million, including the benefit of \$281.8 million in member assessment income. Direct written premiums were \$319.4 million, and the net underwriting loss was \$12.7 million for the nine months ended September 2018.

Year to date direct written premiums show a decrease of 6.8% from September 2017, due to continued policy and exposure decline as well as the depopulation of 1,600 policies on June 1, 2018.

Direct premiums earned decreased to \$309.5 million compared to \$343.3 million in the same period last year. The change is reflective of lower written premiums in 2018.

Mr. Fadden offered an update on assumption reinsurance depopulation. In round one, the quota share reinsurance agreements were effective December 1, 2016 with four participating carriers. As of September 2018, ceded earned premiums for this round were \$11.0 million inception to date. Participating insurers assumed approximately 11,000 policies on June 1, 2017 and resulted in a decrease of approximately \$9.1 million in direct written premiums. All policy changes and policies with renewal effective dates from June 1 to July 31, 2017, will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

In round two, the quota share reinsurance agreements were effective December 1, 2017 with three participating carriers. As of September 2018, ceded earned premiums for this round were \$1.8 million inception to date. Participating insurers assumed approximately 1,600 policies on June 1, 2018 and resulted in a decrease of approximately \$1.4 million in direct written premiums. All policy changes and policies with renewal effective dates from July 1 to July 31, 2018, will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

Through September 30, 2018, non-catastrophe direct loss and loss adjustment expense incurred was \$7.5 million, as a result of favorable prior and current accident year development, compared to \$43.2 million as of September 30, 2017. The ultimate losses and loss adjustment expenses for Hurricane Harvey are \$1.610 billion as of September 2018, an increase of \$164 million from December 2017.

Operating expenses increased from \$18.6 million as of September 2017 to \$22.1 million as of September 2018. Implementation of the expert panel's methodology in settling residential slab claims in specific flood zones began in the last quarter of 2017. Implementation expenses incurred in 2018 total \$3.2 million.

The decrease in commission expense and premium taxes from the prior year is attributable to the decrease in direct written premiums for 2018. Gross investment income is lower due to the decrease in invested cash balances. Interest expense is \$24.7 million for 2018 and \$26.8 million for 2017.

An initial member company assessment request of \$175 million was approved by TDI Commissioner Sullivan on May 25, 2018, followed by the mailing of assessment notices to member companies on June 7, 2018. A second assessment of \$106.8 million was approved by Commissioner Sullivan on August 20, 2018 with assessment notices mailed on August 29, 2018. As of September 30, 2018, \$281.8 million of assessment payments have been received.

7. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret reported that his team has completed fieldwork on the information security, legal and compliance, pricing and reserving, underwriting and agency audits. The fieldwork is in progress on the cash management audit. Accounting staff has updated documentation on the model audit rule and will schedule a review of the update in the second quarter of 2019. Upcoming audits include application development, communications and vendor management.
- B. IT Security Audit (Closed Session): This item was covered in the closed session.

8. Actuarial:

- A. Reserve Adequacy: TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of September 30, 2018. The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is \$1.61 billion, remaining the same from previous review. The actual ultimate costs of Harvey may differ substantially from the indicated \$1.61 billion. This variability arises from the assumption made regarding the potential impact of future reopening of closed claims, 2,800 open claims and unreported claims as of September 30, 2018. Potential litigation is also a significant factor that can contribute to the variability.

As of September 30, 2018, TWIA carried \$253.1 million in total gross loss and loss adjustment reserves with \$0.1 million of the total gross ceded to depopulation carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserve.

In the opinion of the senior actuary, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

- B. Policy Count/Exposures: Mr. Fadden reported that policy counts are down 10.3% year over year. Data is being gathered for CAT modeling. It is expected that exposures will decline with those results.
- C. Status of Required Filings: There were two filings since the last meeting, the mandatory filing related to maximum policy limits and the rate increase filing. Mr. Gerik asked about the governor's suspension on the rate filing. He asked what will happen if the governor doesn't lift the suspension. Mr. Fadden said he expects there to be some response by the new deadline in June 2019, either approving or disproving. TWIA's rates will stay as they are. Mr. Fadden said he expects the board will consider rate adequacy at the August 2019 meeting. He doesn't know what to expect otherwise. Mr. Gerik asked if the governor has to do something before the commissioner can make a decision. Mr. Fadden said he thinks authority will revert to the commissioner upon the expiration of the governor's suspension.

9. Underwriting:

- A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is surpassing this standard with over 95% processed within 10 days. Quality assurance results on underwriting decisions continues to exceed established goals. Telephone service response time continues to meet and exceed expectations. Service quality scores have been in the meets category. Service observation is now standard procedure and as an Association, the departments are calibrating calls and have agreed upon standards for telephone service.

Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

For the period of January 1, 2018 – September 30, 2018, staff has received 13,675 applications for WPI-3. The average turnaround time is less than three days. Reroof is the number one reason for certificates. In 2017, a total of 4,422 WPI-8-Cs were issued. The confirmation of application review completed for applications (WPI-3s) received (June-August) was sent to 64 engineers. Only two issues were discovered, a non-substantive error where the engineer transposed his number and an issue that was referred to the TDI fraud unit. On September 5, 2018, the TDI fraud unit reported they viewed this as an administrative matter rather than a criminal matter but are still evaluating. Staff has not received any further updates. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

Audits were performed on 20 agents (200 policies) in the 3rd quarter to verify compliance with the declination of coverage and flood insurance requirements. Two of the policies/properties selected for review required flood insurance. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage. One of the two policies requiring flood insurance did not meet the requirement for coverage equal to 90% of the TWIA coverage amount. The agency/insured amended the coverage amount to comply. All 20 agents have an active property and casualty insurance license.

10. Claims:

- A. Claims Operations: Mr. Williams pointed board members to a handout provided before the meeting with the most updated claims information. As of December 7, 2018, there are 76,581 new claims, of which 74,561 are closed or 97.40%. As of the morning of the meeting, there were less than 2,000 open claims. Mrs. Neblett asked if it was possible to show a resolution of the TDI complaints. Mr. Durden said staff can provide that information. Mr. Williams said larger, more complex claims are going through appraisal. Mr. Gerik asked if there is any industry data around appraisal? How much it is done? What is staff learning from the differences as this will most likely be on larger claims.

- B. Claims Litigation: Mr. Durden said there are 115 claims in suit and 224 letters of representation. This is a reduction in suits from Harvey. The Daly & Black firm holds the majority of the suits. For total suits, there are 339 with 602 total claims with letters of representation. Mrs. Neblett asked how many outstanding Ike cases remain. Mr. Durden said the Association was down to about seven or eight cases.

11. TWIA Operations:

- A. Receive and Act on Recommendations from Legislative and External Affairs Committee Regarding Recommendations to Legislature and Biennial Report to Legislature: Texas Insurance Code, Section 2210.0025 requires the Texas Windstorm Insurance Association Board of Directors to submit to the Texas Commissioner of Insurance, the Senate Committee on Business and Commerce, the House Committee on Insurance and the Sunset Advisory Commission a written report relating to the operations of the Association during the preceding biennium.

At the Board's request, the TWIA Legislative and External Affairs (LEA) Committee met to deliberate and identify potential legislative recommendations to satisfy TWIA's statutory requirement outlined above. The recommendations the LEA committee is proposing for the Board's consideration are listed in the meeting materials. Sample legislative language is included only for those recommendations that require a change to TWIA's governing statute.

Staff will draft the 2018 Biennial Report to the legislature to include the recommendations approved by the TWIA Board of Directors, the required statement of reasons for the changes and a summary of the Association's accomplishments and operations.

Mr. Polak said next year should be interesting with the legislative session and the Sunset Committee review. He reviewed each of the recommendations. Mrs. Neblett asked about the CRTF contribution being separated from the premium. Mr. Gerik asked about recommendation eight, which suggests greater flexibility in the use and placement of reinsurance within TWIA's overall funding structure. He said the funding structure could change after the session is over. He asked if staff would add a notation about changes to the funding structure be effective on the calendar year. He could see warranties coming back from the reinsurance market after the session looking to renegotiate. The wording needs an effective date. Mrs. Neblett said she thinks that would be a good item to include. Mr. Polak said he couldn't think of any downside. Mr. Gerik moved to include wording in the recommendations that includes funding structure changes be made on January 1 of the calendar year. Mrs. Neblett seconded the motion. The motion passed.

Mr. Fields wanted to discuss the recommendation to do away with the expert panel. Staff attempted to have this rectified by the Sunset Committee and they said no. Most of the money has been spent and it provides some protections. Mrs. Neblett said she isn't sure what the Association is getting for the money.

Mr. Gerik asked what will be done if the expert panel is done away with and there are slab claims. Will it be an internal process, or will something be in place? Mr. Polak said after Ike, staff created a model that adjudicated those claims. There will need to be some sort of process. Mr. Polak thinks the cost will be significantly less. If there was a slab claim, the existing model would be referred. Mrs. Neblett said she thinks the costs for the panel are exorbitant and the money belongs in the CRTF. Mr. Kesner said he didn't think it was fair that TWIA has to pay for it, but the industry can use the findings. Mrs. Neblett moved that all 12 proposals move forward as submitted. Mr. Kesner seconded the motion. The motion passed.

- B. IT System Update: The IT department delivered on all roadmap and departmental projects. The yearly budget is under control and the expenses for both Associations are below projections.

The TFPA program was successfully deployed over the weekend of October 19th. The program consisted of Policy Center, Billing Center, Enterprise Data Warehouse and portals for agents and claims portal for policyholders. The system continues to function in a robust manner and is now in production support mode.

There were several major IT audits in 2018, including the internal audits by Weaver and the TDI financial audit. The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments were met for 2018, including projects, audits and support for Hurricane Harvey.

- C. Depopulation: Mrs. Larzalere said the Association is now in round three of depopulation. Currently policyholders can make the decision to move or not. There are two carriers participating, Weston and Safe Point. At this time, 3800 policies are up for takeout. About 2000-2500 could possibly be assumed by June 1. Only 227 have come back after leaving. Mr. Shofner asked about the financial ratings of the depopulation carriers. Mrs. Larzalere said they are not AM Best rated. Mr. Shofner said he still struggles with the depopulation process. He doesn't understand why there is such a push to go to other markets. They may not be as financially sound as they could be. Until it is a viable option to go to another company, he thinks it is cause for concern.
- D. TWIA Expert Panel: This item was covered earlier in the meeting.
- E. Sunset Review: Mr. Polak reviewed the outcome of the sunset report. Most of the recommendations were neutral or were in favor to the Association. There are a handful of recommendations that staff does not agree with. There is a hearing this Thursday to go over the report again. Mr. Perkins said a detailed response was made to the report. Mrs. Neblett asked if there was access to the comments made. The comments document will be sent to the board members. Ms. King asked about a response to one of the recommendations. The formal TWIA response to the report will be sent to the board members.
- F. Communications Update: Communications continues to act as a resource to state legislators and local officials and community leaders, providing operational updates and responding to constituent inquiries. The annual hurricane preparedness campaign, extending from April through November, is nearing its end. During Q3 2018, staff participated in two coastal outreach events.

In Q3 2018, there were 324 media mentions. A higher percentage of negative mentions in Q3 can be attributed to coverage of TWIA's proposed rate increase for 2019, which included opposition to the proposed rate increase from coastal residents and public officials. Positive and neutral media mentions amounted to 46% of coverage.

The Agency Advisory Group continues to meet regularly. Staff continues to mature the change management program at the Association by focusing on training and communications that help internal and external stakeholders successfully adopt new systems and processes, proactively plan for potential issues and achieve operational efficiency.

- G. Review and Approval of 2019 Budget: The 2019 budget is heavily impacted by (a) the assumption that policy counts will continue to decline, (b) the absence of a rate increase in 2019, (c) significant ongoing loss adjustment expenses associated with the remaining outside Hurricane Harvey claims, and (d) significant contractor and professional fees associated with the implementation of the Guidewire system in TWIA to replace the legacy CGI system.

TWIA policies in force, including residential and commercial policies are expected to decline from a forecast 200,958 at year end 2018 to 178,519 at the end of 2019. With the assumption that no rate increase will be in effect for 2019, direct written premium is projected to decline from forecasted full year 2018 of \$391 million to \$348.6 million. Net earned premium is projected to decline from \$297.3 million in 2018 to \$260 million in 2019, despite a projected reduction in reinsurance costs of \$8 million.

Budgeted loss and loss adjustment expense are based on expected loss ratios that take into consideration average spring storm activity. The budget assumes no adverse development from Hurricane Harvey loss reserves and no new hurricanes in 2019.

Gross operating expenses are expected to be lower in 2019 than 2018 due to a substantial reduction in the level of contractors and temporary help required for Hurricane Harvey claims handling. Net operating expenses are projected to increase from \$30.2 million to \$35.9 million primarily as a result of the TWIA core system implementation that commences in 2019, non-claim related legal expenses associated with TWIA funding initiatives.

TWIA is projected to show net underwriting gain in 2019 of \$107.8 million, which is above the 2018 budgeted net underwriting gain of \$99.8 million.

Mr. Polak said the budget is consistent with prior years. Some items have been delayed due to other pressing needs. Depending on what happens in the legislature, it can be improved upon. Mr. Kesner moved to approve the budget as presented. Mr. Shofner seconded the motion. The motion passed.

12. Closed Session: The meeting went into closed session at 11:27 am. The meeting opened at 11:42 pm.
13. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There were no items to consider.
14. Committees: There was nothing to consider.
15. Future meetings:
 - February 5, 2019 – Marriott South - Austin
 - May 7, 2019 – Hyatt Regency – Austin
 - August 6, 2019 – Tremont House - Galveston
16. Adjourn: The meeting adjourned at 11:45 p.m.

Prepared by: Amy Koehl
Executive Assistant

Approved by: Joshua Fields
TWIA Chairman

Approved by: Bryan Shofner
TWIA Vice Chairman

5. TWIA Operational Highlights

2018 Enterprise Scorecard

Reporting YTD as of December 31, 2018



| | YTD | Trend | Goal | Δ | Performance |
|--------------------------|-----------|-------|----------|-----------|-------------|
| Operating Expenses | 6.9% | → | 7.5% | -0.6% | |
| Net Gain From Operations | \$293.0 M | ↗ | \$83.1 M | \$209.9 M | |
| Enterprise Projects | 90% | → | 90% | 0% | |
| Policy Administration | 97% | → | 90% | 7% | |
| Claims Handling* | 96% | → | 90% | 6% | |
| Disputed Claims | 4.2% | → | 1.6% | 2.6% | |
| Litigated Claims | 0.26% | → | 0.50% | -0.24% | |
| Complaints | 212 | → | 190 | 22 | |

Reference Data

| | |
|----------------------------------|-----------------|
| Policies In-Force | 202,934 |
| Exposures In-Force | \$58.2 billion |
| Written Premiums YTD | \$397.3 million |
| Claims Received YTD ¹ | 7,242 |
| Losses Incurred YTD ² | \$298.5 million |

¹ Includes Harvey and non-Harvey claims received YTD as of December 31, 2018

² Excludes IBNR

Quarterly Key Accomplishments

- Received approval from agents on nearly 4,000 policy offers in the 2018-2019 Assumption Reinsurance Depopulation Program, resulting in 3,552 policy offers being sent to policyholders (after accounting for cancelations and expirations) in December 2018.
- Operating expenses fell slightly below plan and the net gain from operations was well above plan in Q4 2018.
- Met Association objectives for all strategic initiatives in 2018.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q4 2018.
- Remain below plan in Q4 2018 on litigated claims.

6. Financial

6A. Report of the Secretary/Treasurer

6A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement
for the twelve months ended December 31,
(000's omitted)

| | 2018 | 2017 |
|-----------------------------------------------|---------------------|---------------------|
| Direct Premiums Written | <u>\$ 395,552</u> | <u>\$ 423,074</u> |
| Premiums Earned: | | |
| Direct Premiums Earned | \$ 409,954 | \$ 451,347 |
| Ceded Reinsurance Premiums | (106,546) | (94,909) |
| Ceded Reinsurance Premiums - Depopulation | <u>(1,893)</u> | <u>(9,084)</u> |
| Net Premiums Earned | <u>301,515</u> | <u>347,354</u> |
| Deductions: | | |
| Direct Losses and LAE Incurred | 11,718 | 42,618 |
| Direct Losses and LAE Incurred - Harvey | 164,000 | 1,446,000 |
| Direct Losses and LAE Incurred - Ike & Dolly | - | (11,757) |
| Ceded Losses and LAE Incurred - Depopulation | 280 | (1,559) |
| Operating Expenses | 28,237 | 26,228 |
| Commission Expense | 63,281 | 67,661 |
| Ceding commissions / brokerage | (2,247) | (2,074) |
| Ceding commissions / brokerage - Depopulation | (454) | (2,180) |
| Premium / Maintenance Tax | 7,539 | 8,242 |
| Total Deductions | <u>272,353</u> | <u>1,573,178</u> |
| Net Underwriting Gain or (Loss) | <u>29,163</u> | <u>(1,225,824)</u> |
| Other Income or (Expense): | | |
| Gross Investment Income | 7,429 | 6,640 |
| CRTF Funds Received | 0 | 743,213 |
| Member Assessment Income | 281,820 | 0 |
| Interest Expense on Class 1 Bonds | (32,303) | (35,354) |
| Debt Issuance & Other Investment Expenses | (2,457) | (172) |
| Other Income (Expense) | 52 | 55 |
| Total Other Income or (Expense) | <u>254,541</u> | <u>714,382</u> |
| Net Income (Loss) | <u>\$ 283,703</u> | <u>\$ (511,442)</u> |
| Surplus (Deficit) Account: | | |
| Beginning Surplus (Deficit) | \$ (461,390) | \$ - |
| Net Income (Loss) | 283,703 | (511,442) |
| Change in Provision for Reinsurance | - | - |
| Principal Funded on Class 1 Bonds (net) | - | 59,160 |
| Change in nonadmitted assets - Other | 9,282 | (8,400) |
| Statutory Fund Cost | <u>(110,634)</u> | <u>-</u> |
| Ending Surplus (Deficit) | <u>\$ (279,038)</u> | <u>\$ (461,390)</u> |

6A2. Management Discussion and Analysis

Texas Windstorm Insurance Association
Management Discussion and Analysis
December 31, 2018

TWIA's financial results as of the twelve months ended December 31, 2018 reflect net income of \$283.7 million. These results include the benefit of \$281.8 million in member assessment income, partially offset by a prior year increase in Hurricane Harvey loss reserves of \$164.0 million. Direct written premiums were \$395.6 million and the net underwriting gain was \$29.1 million for the year.

Direct Written Premium: Year to date December 2018 gross direct written premiums of \$395.6 million reflect a decrease of 6.5% from December 2017 due to continued policy and exposure declines as well as the depopulation of 1,600 policies on June 1, 2018, partially offset by a 5% rate increase effective January 1, 2018 for new and renewal business.

Direct Premiums Earned: Direct premiums earned decreased to \$409.9 million compared to \$451.3 million in the same period last year. The change is reflective of lower direct written premiums in 2018.

Reinsurance Costs: Reinsurance costs, including premiums on traditional reinsurance and cat bonds, totaled \$106.5 million, reflecting a favorable \$2.0 million adjustment based on lower actual exposure levels (TIV) at October 31, 2018 compared to projected levels.

Loss and Loss Adjustment Expense Incurred: Through December 31, 2018 non-catastrophe direct loss and loss adjustment expense incurred was \$11.7 million, as a result of favorable prior and current accident year development, compared to \$42.6 million as of December 31, 2017. The estimate of ultimate loss and loss adjustment expense for Hurricane Harvey remained at \$1.61 billion as of December 2018.

Operating Expenses: Operating expenses increased from \$26.7 million as of December 2017 to \$28.2 million as of December 2018. Implementation of the expert panel's methodology in settling residential slab claims in specific flood zones began in the last quarter of 2017. Expert panel expenses incurred in 2018 total \$ 4.5 million, compared with \$1.5 million in 2017.

Commission Expense and Premium Taxes: Commission expense and premium taxes decreased from \$8.2 million in 2017 to \$7.5 million in 2018 due to the decrease in direct written premiums in 2018.

Other Income (Expense): Gross investment income for 2018 at \$7.4 million is higher than the \$6.6 million level earned in 2017 as lower invested cash balances were offset

by increased investment yields. Interest expense is \$32.3 million for 2018 and \$35.3 million for 2017. Debt Issuance & Other Investment Expense increase to \$2.5 million from \$172 thousand due to arrangement fees and commitment fees of \$2.2 million on the \$500 million committed line of credit entered into in August 2018.

Member Company Assessments: An initial assessment request of \$175.0 million was billed to member companies on June 7, 2018. A second assessment of \$106.8 million billed on August 29, 2018. As of September 30, 2018, \$281.8 million of assessment payments have been received.

Assumption Reinsurance Depopulation: Effective December 1, 2018 TWIA began ceding earned premium on the third round of the Assumption Reinsurance Depopulation Program. During this period premiums are ceded on an “earned basis” to the participating carriers, with ongoing adjustments to the extent that selected policyholders’ “opt-out” of the depop program and choose to remain with TWIA. At the end of December 2018 TWIA had ceded \$0.5 million of earned premium associated with 3,916 policies selected to be transferred to two participating carriers.

2018 results were also impacted by Round 2 of the Assumption Reinsurance program. The Quota Share Reinsurance Agreements were effective December 1, 2017 with three participating carriers. As of December 2018, ceded earned premiums for this round were \$1.8 million inception to date, with \$1.3 million ceded during 2018.

To date, a total of \$23.0 million of inforce premium and 12,856 policies have been transferred to participating carriers through first two rounds of the Assumption Reinsurance Program. Based on estimated policyholder opt-outs, 2,381 policies representing \$4.2 million of inforce premium are projected to be transferred on June 1, 2019 to the participating carriers.

CRTF Contribution: Subject to the conclusion of its year-end audit TWIA has accrued statutory fund expense of \$110.6 million, reflecting the amount it expects to contribute to the CRTF based on 2018 financial results. This contribution will be made in the first quarter of 2019.

Surplus: The deficit was reduced by \$182.4 million in 2018 to a \$279.0 million as a result of net income of \$287.1 million before CRTF accruals, a \$110.6 million accrual for the CRTF payment and a \$9.3 million change in non-admitted assets.

6B. Financial Statement Review by Staff
6B1. Income Statement and Expense Statement

| TEXAS WINDSTORM INSURANCE ASSOCIATION | | | | |
|-------------------------------------------------------|---------------------|---------------------|-------------------|---------------------|
| Statutory Income Statement (000's omitted) | | | | |
| for the twelve months ended December 31, | | | | |
| | Actuals - 2018 | Budget - 2018 | Variance - 2018 | Actuals - 2017 |
| Premiums Written: | | | | |
| Direct | \$ 395,552 | \$ 405,876 | \$ (10,324) | \$ 423,074 |
| Ceded | (106,546) | (139,385) | 32,839 | (94,909) |
| Ceded - Depopulation | (1,893) | (3,086) | 1,194 | (9,084) |
| Net | <u>287,113</u> | <u>263,405</u> | <u>23,708</u> | <u>319,081</u> |
| Premiums Earned: | | | | |
| Direct | \$ 409,954 | \$ 411,341 | \$ (1,387) | \$ 451,347 |
| Ceded | (106,546) | (139,385) | 32,839 | (94,909) |
| Ceded - Depopulation | (1,893) | (3,086) | 1,194 | (9,084) |
| Net | <u>301,515</u> | <u>268,870</u> | <u>32,646</u> | <u>347,354</u> |
| Deductions: | | | | |
| Direct Losses and LAE Incurred | 11,718 | 70,595 | (58,877) | 42,618 |
| Direct Losses and LAE Incurred - Harvey | 164,000 | 0 | 164,000 | 1,446,000 |
| Direct Losses and LAE Incurred - Ike & Dolly | 0 | 0 | 0 | (11,757) |
| Ceded Losses and LAE Incurred | 0 | 0 | 0 | 0 |
| Ceded Losses and LAE Incurred - Depopulation | 280 | (873) | 1,153 | (1,559) |
| Operating Expenses | 28,237 | 30,998 | (2,762) | 26,228 |
| Commission Expense | 63,281 | 64,939 | (1,658) | 67,661 |
| Ceding commissions / brokerage | (2,247) | (3,860) | 1,613 | (2,074) |
| Ceding commissions / brokerage - Depopulation | (454) | (741) | 286 | (2,180) |
| Premium / Maintenance Tax | 7,539 | 7,996 | (457) | 8,242 |
| Total Deductions | <u>272,353</u> | <u>169,055</u> | <u>103,298</u> | <u>1,573,178</u> |
| Net Underwriting Gain or (Loss) | <u>29,163</u> | <u>99,815</u> | <u>(70,652)</u> | <u>(1,225,824)</u> |
| Other Income or (Expense): | | | | |
| Gross Investment Income | 7,429 | 5,633 | 1,796 | 6,640 |
| CRTF Funds Received | 0 | 0 | 0 | 743,213 |
| Member Assessment Income | 281,820 | 0 | 281,820 | 0 |
| Interest Expense on Debt | (32,303) | (32,303) | 0 | (35,354) |
| Debt Issuance/Maintenance & Other Investment Expenses | (2,457) | (196) | (2,261) | (172) |
| Other Income (Expense) | 52 | 0 | 52 | 55 |
| Total Other Income or (Expense) | <u>254,541</u> | <u>(26,866)</u> | <u>281,407</u> | <u>714,382</u> |
| Net Income (Loss) | <u>\$ 283,703</u> | <u>\$ 72,949</u> | <u>\$ 210,754</u> | <u>\$ (511,442)</u> |
| Surplus (Deficit) Account: | | | | |
| Beginning Surplus (Deficit) | (461,390) | (461,390) | 0 | 0 |
| Net Income (Loss) | 283,703 | 72,949 | 210,754 | (511,442) |
| Change in Provision for Reinsurance | 0 | 0 | 0 | 0 |
| Principal Funded on Class 1 Bonds (net) | 0 | 0 | 0 | 59,160 |
| Change in nonadmitted assets - Income Tax Rec | 0 | 0 | 0 | 0 |
| Change in nonadmitted assets - Other | 9,282 | 10,110 | (828) | (8,400) |
| Other | 0 | 0 | 0 | (708) |
| Statutory Fund Cost | (110,634) | 0 | (110,634) | 0 |
| Ending Surplus (Deficit) | <u>\$ (279,038)</u> | <u>\$ (378,331)</u> | <u>\$ 99,293</u> | <u>\$ (461,390)</u> |
| Key Operating Ratios: | | | | |
| Direct: | | | | |
| Loss & LAE Ratio: | | | | |
| Non Hurricane | 2.9% | 17.2% | -14.3% | 9.4% |
| Hurricane Harvey | 40.0% | 0.0% | 40.0% | 320.4% |
| Hurricanes Ike & Dolly | 0.0% | 0.0% | 0.0% | -2.6% |
| Loss & LAE Ratio | <u>42.9%</u> | <u>17.2%</u> | <u>25.7%</u> | <u>327.2%</u> |
| UW Expense Ratio: | | | | |
| Acquisition | 17.9% | 18.0% | -0.1% | 17.9% |
| Non Acquisition | 6.9% | 7.5% | -0.6% | 5.8% |
| UW Expense Ratio | <u>24.8%</u> | <u>25.5%</u> | <u>-0.7%</u> | <u>23.8%</u> |
| Combined Ratio | <u>67.7%</u> | <u>42.7%</u> | <u>25.0%</u> | <u>351.0%</u> |
| Net: | | | | |
| Loss & LAE Ratio: | | | | |
| Non Hurricane | 4.0% | 25.9% | -22.0% | 11.8% |
| Hurricane Harvey | 54.4% | 0.0% | 54.4% | 416.3% |
| Hurricanes Ike & Dolly | 0.0% | 0.0% | 0.0% | -3.4% |
| Loss & LAE Ratio | <u>58.4%</u> | <u>25.9%</u> | <u>32.4%</u> | <u>424.7%</u> |
| UW Expense Ratio: | | | | |
| Acquisition | 23.3% | 25.9% | -2.5% | 21.9% |
| Non Acquisition | 9.4% | 11.5% | -2.2% | 7.6% |
| UW Expense Ratio | <u>32.7%</u> | <u>37.4%</u> | <u>-4.7%</u> | <u>29.4%</u> |
| Combined Ratio | <u>91.1%</u> | <u>63.3%</u> | <u>27.7%</u> | <u>454.2%</u> |

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)
for the twelve months ended December 31,

| Description | Actuals - 2018 | Budget - 2018 | Variance - 2018 | Actuals - 2017 |
|------------------------------------------|----------------|---------------|-----------------|----------------|
| Personnel Expenses | | | | |
| Salaries & Wages - Permanent | 10,833 | 11,978 | (1,145) | 11,420 |
| Contractor & Temporary Help | 37,351 | 36,655 | 696 | 41,577 |
| Payroll Taxes | 792 | 938 | (146) | 829 |
| Employee Benefits | 4,162 | 3,873 | 289 | 3,701 |
| Recruiting, Training & Other | 218 | 469 | (251) | 277 |
| Subtotal | <u>53,357</u> | <u>53,914</u> | <u>(557)</u> | <u>57,805</u> |
| Professional & Consulting Services | | | | |
| Legal | 782 | 584 | 198 | 496 |
| Accounting & Auditing | 193 | 274 | (82) | 327 |
| Information Technology | 195 | 1,096 | (901) | 96 |
| Actuarial Services | 151 | 29 | 122 | 22 |
| Ombudsman Program | 111 | 114 | (3) | 113 |
| Surveys & Inspections | 1,813 | 2,028 | (215) | 1,945 |
| Disaster Recovery Services | 96 | 105 | (10) | 70 |
| Other Services | 6,808 | 6,893 | (86) | 10,277 |
| Subtotal | <u>10,149</u> | <u>11,125</u> | <u>(976)</u> | <u>13,346</u> |
| Hardware/Software Purchases & Licensing | 3,004 | 3,237 | (233) | 3,231 |
| Rental & Maintenance - Office/Equipment | 1,351 | 1,338 | 13 | 1,255 |
| Travel Expenses | 317 | 394 | (76) | 345 |
| Postage, Telephone and Express | 1,072 | 1,006 | 67 | 1,147 |
| Capital Management Expenses | 2,262 | 196 | 2,066 | 172 |
| Depreciation | 889 | 902 | (13) | 2,706 |
| Other Operating Expenses | 1,333 | 1,100 | 233 | 1,076 |
| Total Operating Expenses | <u>73,734</u> | <u>73,211</u> | <u>522</u> | <u>81,082</u> |
| Capitalization of Fixed Assets | 0 | (50) | 50 | 0 |
| Reimbursement of Depop Servicing Expense | (239) | (374) | 134 | 0 |
| Allocation To ULAE | (42,799) | (41,593) | (1,206) | (54,683) |
| Allocation To Investing & Other Expense | (2,457) | (196) | (2,261) | (172) |
| Net Operating Expense - UW Operations | <u>28,237</u> | <u>30,998</u> | <u>(2,761)</u> | <u>26,288</u> |

6B2. Balance Sheet

| | | | | |
|----|---------------------------------------------------------|--------------------------|--------------------------|----|
| 1 | TEXAS WINDSTORM INSURANCE ASSOCIATION | | | 1 |
| 2 | Statutory Balance Sheet (000's omitted) | | | 2 |
| 3 | | | | 3 |
| 4 | | | | 4 |
| 5 | | <u>December-18</u> | <u>December-17</u> | 5 |
| 6 | Admitted Assets | | | 6 |
| 7 | Cash and short term investments: | | | 7 |
| 8 | Unrestricted | \$ 563,554 | \$ 366,363 | 8 |
| 9 | Restricted - Funds Held at TTSTC | \$ 92,574 | \$ 279,711 | 9 |
| 10 | Restricted - Funds Held at TTSTC (Non Admitted) | - | - | 10 |
| 11 | Total cash and short term investments | <u>656,127</u> | <u>646,074</u> | 11 |
| 12 | Premiums receivable & other | 1,670 | 1,862 | 12 |
| 13 | Assessment receivable | - | - | 13 |
| 14 | Amounts recoverable from reinsurers | 4 | 17 | 14 |
| 15 | Total admitted assets | <u>\$ 657,802</u> | <u>\$ 647,954</u> | 15 |
| 16 | | | | 16 |
| 17 | Liabilities, Surplus and other funds | | | 17 |
| 18 | Liabilities: | | | 18 |
| 19 | Loss and Loss adjustment expenses | \$ 200,780 | \$ 414,734 | 19 |
| 20 | Underwriting expenses payable | 9,741 | 15,278 | 20 |
| 21 | Unearned premiums, net of ceded unearned premiums | 195,050 | 209,453 | 21 |
| 22 | Ceded reinsurance funds payable | 20,572 | 20,972 | 22 |
| 23 | Principal Outstanding on Class 1 Pre Event Bonds | 368,500 | 414,600 | 23 |
| 24 | Interest Payable on Class 1 Pre Event Bonds | 15,201 | 17,102 | 24 |
| 25 | Provision for reinsurance | - | - | 25 |
| 26 | Other payables | 16,364 | 17,206 | 26 |
| 27 | Statutory fund payable | 110,634 | - | 27 |
| 28 | Total liabilities | <u>936,840</u> | <u>1,109,344</u> | 28 |
| 29 | | | | 29 |
| 30 | Surplus and others funds | | | 30 |
| 31 | Unassigned surplus | (279,038) | (461,390) | 31 |
| 32 | Total liabilities, surplus and other funds | <u>\$ 657,802</u> | <u>\$ 647,954</u> | 32 |
| 33 | | | | 33 |
| 34 | | | | 34 |
| 35 | Balance in CRTF | <u>\$ 5,986</u> | <u>\$ 1,220</u> | 35 |
| 36 | | | | 36 |
| 37 | Balance in CRTF including Statutory fund payable | <u>\$ 116,620</u> | <u>\$ 1,220</u> | 37 |

6B3. Cash & Short Term Investments

Texas Windstorm Insurance Association
 Unrestricted Cash and Short Term Investments (\$ in 000's)
 December 31, 2018

1
2
3
4
5

| 6 | Bank | Non Interest Bearing | Interest Bearing | Total Amount of Deposits | Blended Rate of Interest Bearing Investments | Investment Duration of Interest Bearing Investments (in months) | Total Deposit % of TWIA's Portfolio | N.A. Bank Credit Rating | N.A Tier 1 Capital Ratio | N.A. Regulatory Capital | Are funds in excess of the N.A. Regulatory Capital? | 6 |
|----|----------------------------------------------------|----------------------|------------------|--------------------------|----------------------------------------------|-----------------------------------------------------------------|-------------------------------------|-------------------------|--------------------------|-------------------------|-----------------------------------------------------|----|
| 7 | | | | | | | < 40% | Superior or Strong | > 10% | > \$25B | > .2% of N.A. Reg Capital | 7 |
| 8 | Balances as of 12/31/18: | | | | | | | | | | | 8 |
| 9 | Bank of America | 153 | 188,842 | 188,994 | 1.26% | 0.0 | 34% | Superior | 12.2% | \$147 | No | 9 |
| 10 | BlackRock Liquidity Funds (1) | 0 | 91,854 | 91,854 | 1.46% | 0.0 | 16% | N/A | N/A | N/A | N/A | 10 |
| 11 | Citibank | 7 | 46,243 | 46,250 | 1.50% | 0.0 | 8% | Superior | 12.7% | \$129 | No | 11 |
| 12 | JP Morgan Chase | 39,364 | 0 | 39,364 | 0.00% | 0.0 | 7% | Superior | 13.9% | \$189 | No | 12 |
| 13 | JP Morgan U.S. Treasury Plus Money Market Fund (2) | 0 | 197,092 | 197,092 | 2.04% | 0.0 | 35% | N/A | N/A | N/A | N/A | 13 |
| 14 | Wells Fargo | 0 | 0 | 0 | 0.00% | 0.0 | 0% | Superior | 12.0% | \$141 | No | 14 |
| 15 | | | | | | | | | | | | 15 |
| 16 | Total of all financial institutions | 39,523 | 524,030 | 563,554 | 1.61% | 0.0 | 100% | | | | | 16 |
| 17 | | | | | | | | | | | | 17 |
| 18 | Balances as of 12/31/17: | | | | | | | | | | | 18 |
| 19 | Bank of America | 26,560 | 0 | 26,560 | 0.00% | 0.0 | 7% | Superior | 12.7% | \$150 | No | 19 |
| 20 | BlackRock Liquidity Funds (1) | 0 | 186,676 | 186,676 | 0.65% | 0.0 | 51% | N/A | N/A | N/A | N/A | 20 |
| 21 | Citibank | 5 | 933 | 937 | 0.80% | 0.7 | 0% | Superior | 12.6% | \$126 | No | 21 |
| 22 | JP Morgan Chase | 136,976 | 0 | 136,976 | 0.00% | 0.0 | 37% | Superior | 13.9% | \$178 | No | 22 |
| 23 | JP Morgan U.S. Treasury Plus Money Market Fund (2) | 0 | 0 | - | 0.00% | 0.0 | 0% | N/A | N/A | N/A | N/A | 23 |
| 23 | Wells Fargo | 63 | 15,150 | 15,213 | 1.05% | 1.0 | 4% | Superior | 10.8% | \$127 | No | 23 |
| 24 | | | | | | | | | | | | 24 |
| 25 | Total of all financial institutions | 163,604 | 202,759 | 366,363 | 0.68% | 0.6 | 100% | | | | | 25 |
| 26 | | | | | | | | | | | | 26 |

27 (1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.
 28 (2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.
 29

30 Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of January 17, 2019. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

6B4. Cash Flow Statement

| | | | | | |
|----|------------------------------------------------------------|-----------------------|----------------------|------------------------|----|
| 1 | TEXAS WINDSTORM INSURANCE ASSOCIATION | | | 1 | |
| 2 | Statement of Cash Flows (000's omitted) | | | 2 | |
| 3 | for the twelve months ended December 31, | | | 3 | |
| 4 | | | | 4 | |
| 5 | | <u>Actuals - 2018</u> | <u>Budget - 2018</u> | <u>Variance - 2018</u> | 5 |
| 6 | | | | | 6 |
| 7 | Cash flows from operating activities: | | | | 7 |
| 8 | Premiums collected, net of reinsurance | \$ 295,028 | \$ 225,836 | \$ 69,191 | 8 |
| 9 | Losses and loss adjustment expense paid | (389,940) | (157,118) | (232,821) | 9 |
| 10 | Underwriting expenses paid | (97,533) | (69,243) | (28,291) | 10 |
| | CRTF funds received | 0 | 0 | 0 | |
| 11 | Member assessment received | 279,621 | 0 | 279,621 | 11 |
| 12 | Other | (62) | (397) | 336 | 12 |
| 13 | Net cash provided by operating activities | <u>87,114</u> | <u>(922)</u> | <u>88,036</u> | 13 |
| 14 | Cash flows from nonoperating activities: | | | | 14 |
| 15 | Statutory fund paid | 0 | 0 | 0 | 15 |
| 16 | Other | 0 | 0 | 0 | 16 |
| 17 | Net cash provided by nonoperating activities | <u>0</u> | <u>0</u> | <u>0</u> | 17 |
| 18 | Cash flows from investing activities: | | | | 18 |
| 19 | Sales and maturities of investments | 0 | 0 | 0 | 19 |
| 20 | Net investment income | (30,960) | (30,105) | (855) | 20 |
| 21 | Net cash provided by investing activities | <u>(30,960)</u> | <u>(30,105)</u> | <u>(855)</u> | 21 |
| 22 | Cash flows from financing activities: | | | | 22 |
| 23 | Borrowed funds | 0 | 0 | 0 | 23 |
| 24 | Borrowed funds repaid | (46,100) | (46,100) | 0 | 24 |
| 25 | Net cash provided by financing activities | <u>(46,100)</u> | <u>(46,100)</u> | <u>0</u> | 25 |
| 26 | | | | | 26 |
| 27 | Net increase (decrease) in cash and short-term investments | 10,053 | (77,127) | 87,180 | 27 |
| 28 | Cash and short-term investments, Beginning | 646,074 | 723,560 | (77,485) | 28 |
| 29 | Cash and short-term investments, Ending | <u>\$ 656,127</u> | <u>\$ 646,432</u> | <u>\$ 9,695</u> | 29 |
| 30 | | | | | 30 |

6B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1971 - 2018
(\$ with 000's omitted)

| YEAR | GROSS | | | | | NET | | | | CRTF BALANCE END OF PERIOD | |
|--------------|----------------------------------------|-----------------|-------------------------------------|--------|---------------------|------------------------|--------------------|------------------------|--------------------------------------|-------------------------------|-----------------------------|
| | LIABILITY IN FORCE END OF PERIOD | POLICY COUNT | RATE CHANGES RESID COMML | | WRITTEN PREMIUMS | LOSS & LAE INCURRED | EARNED PREMIUMS | LOSS & LAE INCURRED | UNDERWRITING EXPENSES INCURRED | | UNDERWRITING GAIN (LOSS) |
| 1971 | \$ 278,710 | 13,415 | | | \$ 2,393 | \$ 92 | \$ 868 | \$ 92 | \$ 385 | \$ 391 | |
| 1972 | 739,983 | 33,577 | | | 4,138 | 214 | 3,468 | 214 | 849 | 2,405 | |
| 1973 | 1,017,048 | 45,743 | | | 4,286 | 1,427 | 4,288 | 1,427 | 1,099 | 1,763 | |
| 1974 | 1,064,772 | 45,901 | | | 4,512 | 452 | 4,378 | 452 | 1,106 | 2,819 | |
| 1975 | 1,169,763 | 46,365 | | | 6,036 | 592 | 5,263 | 592 | 1,417 | 3,254 | |
| 1976 | 1,387,252 | 48,747 | | | 8,130 | 231 | 6,953 | 231 | 1,878 | 4,844 | |
| 1977 | 1,616,220 | 51,382 | | | 9,922 | 203 | 9,080 | 203 | 2,258 | 6,619 | |
| 1978 | 1,633,521 | 48,820 | | | 10,523 | 296 | 10,249 | 296 | 2,329 | 7,624 | |
| 1979 | 1,816,410 | 46,128 | | | 11,045 | 2,370 | 11,039 | 2,370 | 2,178 | 6,490 | |
| 1980 | 1,936,388 | 43,613 | | | 9,675 | 14,217 | 10,245 | 14,217 | 2,079 | (6,051) | |
| 1981 | 2,105,244 | 42,495 | | | 9,137 | 2,715 | 9,313 | 2,715 | 2,097 | 4,501 | |
| 1982 | 2,285,594 | 51,034 | | | 8,641 | 982 | 9,106 | 982 | 2,095 | 6,029 | |
| 1983 | 2,165,231 | 44,894 | | | 6,900 | 157,112 | 7,585 | 157,112 | 1,937 | (151,463) | |
| 1984 | 3,178,079 | 51,311 | | | 9,450 | 1,294 | 7,989 | 1,294 | 2,493 | 4,202 | |
| 1985 | 4,061,660 | 57,181 | | | 18,232 | 1,510 | 3,534 | 1,510 | 3,638 | (1,614) | |
| 1986 | 4,510,378 | 60,028 | | | 20,987 | 1,202 | 5,229 | 1,202 | 3,997 | 30 | |
| 1987 | 4,401,486 | 57,976 | | | 20,532 | 2,555 | 4,931 | 2,555 | 4,091 | (1,715) | |
| 1988 | 4,266,615 | 56,773 | -5.4% | -15.0% | 19,061 | 2,509 | 3,551 | 2,509 | 4,066 | (3,024) | |
| 1989 | 4,236,600 | 55,401 | - | - | 18,066 | 14,176 | 5,330 | 14,176 | 4,037 | (12,883) | |
| 1990 | 4,248,611 | 56,155 | 3.1% | -2.1% | 18,244 | 1,590 | 16,761 | 1,590 | 4,171 | 11,000 | |
| 1991 | 4,346,209 | 54,145 | 25.0% | -2.0% | 20,504 | 1,783 | 7,167 | 1,783 | 4,343 | 1,042 | |
| 1992 | 5,155,790 | 55,471 | -20% (I)/-75% (B) | -22.9% | 11,495 | 1,321 | 4,014 | 1,321 | 4,220 | (1,527) | |
| 1993 | 6,500,165 | 56,921 | 30.0% | - | 19,377 | 4,778 | 123,515 | 4,778 | 5,161 | 113,576 | |
| 1994 | 7,645,176 | 63,348 | - | - | 26,545 | 1,572 | 25,692 | 1,572 | 6,982 | 17,138 | 124,847 |
| 1995 | 8,828,140 | 69,807 | 25.0% | - | 32,419 | 4,033 | 29,016 | 4,033 | 8,119 | 16,864 | 151,284 |
| 1996 | 10,001,843 | 72,977 | - | - | 40,359 | 1,484 | 37,153 | 1,484 | 10,627 | 25,042 | 179,020 |
| 1997 | 10,907,937 | 75,361 | - | - | 42,463 | 4,133 | 41,045 | 4,133 | 11,038 | 25,874 | 216,896 |
| 1998 | 11,633,935 | 77,261 | 0.2% | -3.0% | 44,411 | 27,235 | 28,256 | 27,235 | 12,181 | (11,160) | 238,221 |
| 1999 | 11,972,502 | 75,947 | -9.4% | - | 44,581 | 11,320 | 28,702 | 11,320 | 11,524 | 5,858 | 250,403 |
| 2000 | 12,052,604 | 73,815 | 8.7% | 9.0% | 48,012 | 7,937 | 28,470 | 7,937 | 11,681 | 8,852 | 268,563 |
| 2001 | 13,249,407 | 77,022 | 18.5% | 4.0% | 54,631 | 8,011 | 31,112 | 8,011 | 12,936 | 10,165 | 280,063 |
| 2002 | 16,003,048 | 85,668 | - | 5.0% | 72,968 | 32,359 | 44,516 | 32,359 | 16,584 | (4,427) | 303,185 |
| 2003 | 18,824,457 | 96,420 | - | 10.0% | 87,987 | 24,955 | 51,702 | 24,955 | 19,682 | 7,065 | 305,599 |
| 2004 | 20,796,656 | 103,503 | 9.6% | 10.0% | 102,384 | 6,115 | 52,230 | 6,115 | 21,911 | 24,204 | 308,729 |
| 2005 | 23,263,934 | 109,693 | - | 10.0% | 113,928 | 178,370 | 65,438 | 178,370 | 25,277 | (138,209) | 311,508 |
| 2006 | 38,313,022 | 143,999 | 3.1% | 13.4% | 196,833 | 5,188 | 85,467 | 5,188 | 37,138 | 43,141 | 361,823 |
| 2007 | 58,641,546 | 216,008 | 4.2% | 3.7% | 315,139 | 17,985 | 135,843 | 17,985 | 51,768 | 66,090 | 388,542 |
| 2008 | 58,585,060 | 215,537 | 8.2% | 5.4% | 331,049 | 2,587,123 | (138,560) | 1,117,123 | 53,759 | (1,309,442) | - |
| 2009 | 61,700,891 | 230,545 | 12.3% | 15.6% | 382,342 | (486,314) | 389,600 | (183,974) | 87,899 | 485,675 | - |
| 2010 | 67,452,357 | 242,664 | - | - | 385,550 | 555,025 | 351,730 | 252,685 | 85,598 | 13,447 | 76,334 |
| 2011 | 71,083,333 | 255,945 | 5.0% | 5.0% | 403,748 | 202,539 | 321,781 | 202,539 | 81,665 | 37,577 | 146,650 |
| 2012 | 74,186,949 | 266,726 | 5.0% | 5.0% | 443,480 | 401,873 | 321,122 | 401,873 | 93,583 | (174,334) | 178,902 |
| 2013 | 76,921,369 | 270,814 | 5.0% | 5.0% | 472,739 | 30,975 | 295,130 | 3,975 | 100,524 | 190,631 | 186,184 |
| 2014 | 78,763,302 | 275,626 | 5.0% | 5.0% | 494,036 | (13,994) | 367,555 | (13,994) | 109,189 | 272,360 | 216,813 |
| 2015 | 78,551,742 | 272,219 | 5.0% | 5.0% | 503,824 | 178,886 | 377,594 | 178,886 | 114,973 | 83,736 | 487,170 |
| 2016 | 73,393,573 | 254,346 | 5.0% | 5.0% | 487,354 | 38,669 | 370,404 | 38,625 | 109,756 | 222,023 | 587,860 |
| 2017 | 65,023,810 | 231,567 | - | - | 423,074 | 1,476,861 | 347,354 | 1,475,302 | 97,878 | (1,225,826) | 1,220 |
| 2018 | 58,041,760 | 215,063 | 5.0% | 5.0% | 395,559 | 175,718 | 301,515 | 175,718 | 96,634 | 29,163 | 5,986 |
| TOTAL | | | | | 6,216,701 | 5,691,678 | 4,263,724 | 4,193,076 | 1,350,830 | (1,280,181) | |

*2018 data through 12/31/18.

7. Actuarial
7A. Reserve Adequacy



MEMORANDUM

REVIEW DATE: January 15, 2019

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of December 31, 2018

TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of December 31, 2018.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is \$1.61 billion, remaining the same as the previous review. The actual ultimate costs of Harvey may differ substantially from the indicated \$1.61B. This variability arises from the assumptions we made regarding the adequacy of case reserves for 1,900 open claims, the potential impact of future re-openings of closed claims as of December 31, 2018 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. Potential future new claims are not expected to be significant factor that would contribute to the variability.

The ultimate estimate for Harvey was outlined in Statement of Harvey Ultimate Estimate.

As of December 31, 2018, TWIA carried \$200.9 million in total gross loss and loss adjustment reserves with \$78,258 of the total gross ceded to De-pop carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

In my opinion, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles, and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

The complete actuarial analysis is available on request.

XL

MEMORANDUM

DATE: January 17, 2019
TO: Jerry Fadden, Chief Financial Officer
RE: **Estimate of Ultimate Losses for Hurricane Harvey**

As of December 31, 2018 ultimate losses and expense related to Hurricane Harvey were estimated to be \$1.61 billion, remaining the same as the previous estimate reviewed at September 30, 2018.

Following table outlines the details:

| Estimated Ultimate Loss from Hurricane Harvey | |
|----------------------------------------------------------|-------------------------|
| Paid Losses and Allocated Loss Adjustment Expenses | \$1,351,121,549 |
| Loss and Allocated Loss Adjustment Expense Case Reserves | \$ 72,161,014 |
| Paid Unallocated Loss Adjustment Expenses | \$ 90,707,745 |
| Incurred but Not Reported Expenses | \$ 95,939,248 |
| <hr/> | |
| Estimated Ultimate Loss &LAE from Hurricane Harvey | \$ 1,609,929,556 |
| Selected Ultimate Loss &LAE from Hurricane Harvey | \$ 1,610,000,000 |

The estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to its unique nature and is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Harvey may differ substantially from the indicated \$1.61B due to variability arising from the assumptions we made regarding the adequacy of case reserves for 1,900 open claims, the potential impact of future reopenings of closed claims as of December 31, 2018 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. The selected ultimate loss and loss adjustment expense is \$1.61B which is our best estimate of the expected cost of Harvey based on all the information known as of December 31, 2018.

XL

7B. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of December 31, 2018



| County | <u>Policies In-Force</u> | | <u>PIF Growth</u> | | <u>Exposure In-Force</u> | | <u>Exposure Growth</u> | | <u>YTD Written Premium</u> | | <u>Premium Growth</u> | |
|--------------|--------------------------|----------------|-------------------|----------------|--------------------------|-----------------------|-------------------------|----------------|----------------------------|--------------------|-----------------------|---------------|
| | 12/31/17 | 12/31/18 | Actual | Percentage | 12/31/17 | 12/31/18 | Actual | Percentage | 12/31/17 | 12/31/18 | Actual | Percentage |
| Aransas | 6,183 | 5,356 | -827 | -13.40% | 2,081,679,669 | 1,799,331,386 | -\$282,348,283 | -13.60% | 14,577,175 | 13,148,656 | -\$1,428,519 | -9.80% |
| Brazoria | 39,077 | 34,246 | -4,831 | -12.40% | 11,357,589,329 | 9,954,997,896 | -\$1,402,591,433 | -12.30% | 68,915,934 | 63,163,897 | -\$5,752,037 | -8.30% |
| Calhoun | 3,848 | 3,631 | -217 | -5.60% | 995,432,807 | 945,654,595 | -\$49,778,212 | -5.00% | 7,430,350 | 7,352,393 | -\$77,957 | -1.00% |
| Cameron | 15,171 | 12,645 | -2,526 | -16.70% | 3,711,145,222 | 3,158,484,420 | -\$552,660,802 | -14.90% | 24,570,356 | 21,999,282 | -\$2,571,074 | -10.50% |
| Chambers | 4,993 | 4,302 | -691 | -13.80% | 1,618,149,013 | 1,380,048,127 | -\$238,100,886 | -14.70% | 9,377,462 | 8,330,740 | -\$1,046,722 | -11.20% |
| Galveston | 64,170 | 59,000 | -5,170 | -8.10% | 20,879,087,260 | 19,276,619,248 | -\$1,602,468,012 | -7.70% | 139,448,418 | 134,761,010 | -\$4,687,408 | -3.40% |
| Harris | 3,602 | 3,390 | -212 | -5.90% | 1,064,112,548 | 1,002,011,783 | -\$62,100,765 | -5.80% | 4,985,695 | 4,789,756 | -\$195,939 | -3.90% |
| Jefferson | 30,807 | 26,955 | -3,852 | -12.50% | 7,213,571,505 | 6,264,716,413 | -\$948,855,092 | -13.20% | 49,143,012 | 44,480,470 | -\$4,662,542 | -9.50% |
| Kenedy | 19 | 16 | -3 | -15.80% | 6,911,341 | 6,280,341 | -\$631,000 | -9.10% | 46,399 | 42,603 | -\$3,796 | -8.20% |
| Kleberg | 1,060 | 921 | -139 | -13.10% | 252,700,160 | 198,170,239 | -\$54,529,921 | -21.60% | 1,896,326 | 1,472,742 | -\$423,584 | -22.30% |
| Matagorda | 5,022 | 4,598 | -424 | -8.40% | 1,242,458,126 | 1,144,142,448 | -\$98,315,678 | -7.90% | 8,409,878 | 8,042,401 | -\$367,477 | -4.40% |
| Nueces | 44,648 | 39,958 | -4,690 | -10.50% | 12,322,232,169 | 10,991,448,220 | -\$1,330,783,949 | -10.80% | 79,550,911 | 74,649,340 | -\$4,901,571 | -6.20% |
| Refugio | 382 | 358 | -24 | -6.30% | 93,942,147 | 95,687,832 | \$1,745,685 | 1.90% | 716,457 | 770,047 | \$53,590 | 7.50% |
| San Patricio | 7,576 | 6,441 | -1,135 | -15.00% | 2,078,982,972 | 1,732,381,547 | -\$346,601,425 | -16.70% | 13,261,129 | 11,827,558 | -\$1,433,571 | -10.80% |
| Willacy | 454 | 391 | -63 | -13.90% | 105,815,634 | 91,785,914 | -\$14,029,720 | -13.30% | 782,327 | 728,299 | -\$54,028 | -6.90% |
| Total | 227,012 | 202,208 | -24,804 | -10.93% | 65,023,809,902 | 58,041,760,408 | -\$6,982,049,494 | -10.74% | 423,111,829 | 395,559,194 | -\$27,552,635 | -6.51% |

Texas Windstorm Insurance Association

Quarterly Liability Report
As of December 31, 2018



| Class of Business | Policies Written | | Risks Written | | Premium Written | | Liability at End of Quarter | | In-Force at End of Quarter | |
|-------------------|------------------|---------------|---------------|---------------|-------------------|-------------------|-----------------------------|----------------------|----------------------------|---------------|
| | During Qtr | YTD | During Qtr | YTD | During Qtr | YTD | Direct | Indirect | Policies | Risks |
| Aransas | | | | | | | | | | |
| Commercial | 101 | 648 | 161 | 1,113 | 305,339 | 2,669,528 | 264,236,551 | 5,446,530 | 394 | 762 |
| Manufactured Home | 16 | 101 | 16 | 102 | 16,033 | 118,280 | 4,788,775 | 0 | 94 | 95 |
| Residential | 955 | 5,071 | 1,002 | 5,350 | 1,970,401 | 10,360,848 | 1,530,306,060 | 129,977,905 | 4,868 | 5,127 |
| Total | 1,072 | 5,820 | 1,179 | 6,565 | 2,291,773 | 13,148,656 | 1,799,331,386 | 135,424,435 | 5,356 | 5,984 |
| Brazoria | | | | | | | | | | |
| Commercial | 223 | 1,190 | 306 | 1,866 | 845,551 | 5,763,526 | 489,045,001 | 11,084,120 | 954 | 1,515 |
| Manufactured Home | 20 | 159 | 20 | 159 | 26,725 | 230,829 | 9,183,505 | 0 | 146 | 146 |
| Residential | 6,957 | 34,616 | 7,147 | 35,615 | 11,703,698 | 57,169,542 | 9,456,769,390 | 1,217,477,926 | 33,146 | 34,100 |
| SUM: | 7,200 | 35,965 | 7,473 | 37,640 | 12,575,974 | 63,163,897 | 9,954,997,896 | 1,228,562,046 | 34,246 | 35,761 |
| Calhoun | | | | | | | | | | |
| Commercial | 53 | 266 | 98 | 467 | 307,693 | 1,348,407 | 110,787,793 | 1,752,150 | 213 | 406 |
| Manufactured Home | 9 | 72 | 9 | 73 | 12,148 | 100,970 | 3,941,134 | 0 | 69 | 70 |
| Residential | 645 | 3,432 | 704 | 3,801 | 1,127,170 | 5,903,016 | 830,925,668 | 69,134,995 | 3,349 | 3,708 |
| SUM: | 707 | 3,770 | 811 | 4,341 | 1,447,011 | 7,352,393 | 945,654,595 | 70,887,145 | 3,631 | 4,184 |
| Cameron | | | | | | | | | | |
| Commercial | 151 | 860 | 283 | 1,629 | 1,282,050 | 8,156,363 | 923,705,706 | 6,386,810 | 661 | 1,341 |
| Manufactured Home | 5 | 58 | 5 | 58 | 7,138 | 59,902 | 2,415,444 | 0 | 57 | 57 |
| Residential | 2,386 | 12,503 | 2,452 | 12,810 | 2,652,707 | 13,783,017 | 2,232,363,270 | 243,131,989 | 11,927 | 12,199 |
| SUM: | 2,542 | 13,421 | 2,740 | 14,497 | 3,941,895 | 21,999,282 | 3,158,484,420 | 249,518,799 | 12,645 | 13,597 |

Texas Windstorm Insurance Association
 Quarterly Liability Report
 As of December 31, 2018



| Class of Business | Policies Written | | Risks Written | | Premium Written | | Liability at End of Quarter | | In-Force at End of Quarter | |
|-------------------|------------------|--------|---------------|--------|-----------------|-------------|-----------------------------|---------------|----------------------------|--------|
| | During Qtr | YTD | During Qtr | YTD | During Qtr | YTD | Direct | Indirect | Policies | Risks |
| Chambers | | | | | | | | | | |
| Commercial | 25 | 125 | 45 | 192 | 166,150 | 610,245 | 55,375,664 | 520,900 | 105 | 169 |
| Manufactured Home | 7 | 84 | 7 | 84 | 12,544 | 60,963 | 2,325,600 | 0 | 80 | 80 |
| Residential | 851 | 4,305 | 897 | 4,513 | 1,447,045 | 7,659,532 | 1,322,346,863 | 173,370,661 | 4,117 | 4,315 |
| SUM: | 883 | 4,514 | 949 | 4,789 | 1,625,739 | 8,330,740 | 1,380,048,127 | 173,891,561 | 4,302 | 4,564 |
| Galveston | | | | | | | | | | |
| Commercial | 427 | 2,345 | 818 | 4,204 | 4,374,649 | 24,725,746 | 2,232,699,958 | 52,472,724 | 1,960 | 3,605 |
| Manufactured Home | 32 | 186 | 32 | 188 | 42,319 | 249,663 | 9,432,179 | 0 | 168 | 170 |
| Residential | 11,882 | 59,150 | 12,365 | 61,352 | 22,150,376 | 109,785,601 | 17,034,487,111 | 1,924,285,103 | 56,872 | 58,998 |
| SUM: | 12,341 | 61,681 | 13,215 | 65,744 | 26,567,344 | 134,761,010 | 19,276,619,248 | 1,976,757,827 | 59,000 | 62,773 |
| Harris | | | | | | | | | | |
| Commercial | 15 | 75 | 20 | 121 | 116,690 | 507,382 | 42,081,397 | 869,730 | 67 | 108 |
| Manufactured Home | 0 | 4 | 0 | 4 | 0 | 3,383 | 135,300 | 0 | 4 | 4 |
| Residential | 714 | 3,427 | 729 | 3,513 | 901,225 | 4,278,991 | 959,795,086 | 122,098,640 | 3,319 | 3,403 |
| SUM: | 729 | 3,506 | 749 | 3,638 | 1,017,915 | 4,789,756 | 1,002,011,783 | 122,968,370 | 3,390 | 3,515 |
| Jefferson | | | | | | | | | | |
| Commercial | 177 | 1,014 | 264 | 1,457 | 600,337 | 4,249,580 | 370,197,058 | 11,142,860 | 844 | 1,249 |
| Manufactured Home | 2 | 29 | 2 | 29 | 2,671 | 51,160 | 1,951,740 | 0 | 27 | 27 |
| Residential | 4,883 | 27,286 | 5,020 | 28,033 | 7,265,400 | 40,179,730 | 5,892,567,615 | 738,621,199 | 26,084 | 26,801 |
| SUM: | 5,062 | 28,329 | 5,286 | 29,519 | 7,868,408 | 44,480,470 | 6,264,716,413 | 749,764,059 | 26,955 | 28,077 |

Texas Windstorm Insurance Association
 Quarterly Liability Report
 As of December 31, 2018



| Class of Business | Policies Written | | Risks Written | | Premium Written | | Liability at End of Quarter | | In-Force at End of Quarter | |
|-------------------|------------------|--------|---------------|--------|-----------------|------------|-----------------------------|---------------|----------------------------|--------|
| | During Qtr | YTD | During Qtr | YTD | During Qtr | YTD | Direct | Indirect | Policies | Risks |
| Kenedy | | | | | | | | | | |
| Commercial | 0 | 1 | 0 | 5 | 0 | 12,438 | 694,441 | 0 | 1 | 5 |
| Manufactured Home | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Residential | 2 | 16 | 6 | 30 | -337 | 30,165 | 5,585,900 | 35,200 | 15 | 29 |
| SUM: | 2 | 17 | 6 | 35 | -337 | 42,603 | 6,280,341 | 35,200 | 16 | 34 |
| Kleberg | | | | | | | | | | |
| Commercial | 12 | 60 | 14 | 86 | 31,896 | 204,542 | 16,273,584 | 460,800 | 47 | 73 |
| Manufactured Home | 0 | 1 | 0 | 1 | 0 | 1,289 | 84,000 | 0 | 1 | 1 |
| Residential | 176 | 917 | 179 | 962 | 234,465 | 1,266,911 | 181,812,655 | 18,802,283 | 873 | 913 |
| SUM: | 188 | 978 | 193 | 1,049 | 266,361 | 1,472,742 | 198,170,239 | 19,263,083 | 921 | 987 |
| Matagorda | | | | | | | | | | |
| Commercial | 47 | 237 | 57 | 393 | 209,372 | 1,143,362 | 91,031,602 | 2,189,985 | 197 | 327 |
| Manufactured Home | 5 | 21 | 5 | 22 | 10,401 | 27,914 | 1,087,297 | 0 | 18 | 19 |
| Residential | 808 | 4,522 | 832 | 4,723 | 1,277,877 | 6,871,125 | 1,052,023,549 | 107,327,096 | 4,383 | 4,566 |
| SUM: | 860 | 4,780 | 894 | 5,138 | 1,497,650 | 8,042,401 | 1,144,142,448 | 109,517,081 | 4,598 | 4,912 |
| Nueces | | | | | | | | | | |
| Commercial | 539 | 2,588 | 902 | 4,312 | 2,898,016 | 13,948,687 | 1,449,449,322 | 43,259,999 | 2,036 | 3,607 |
| Manufactured Home | 3 | 22 | 3 | 22 | 3,714 | 27,949 | 975,500 | 0 | 20 | 20 |
| Residential | 7,497 | 39,585 | 7,645 | 41,025 | 11,712,931 | 60,672,704 | 9,541,023,398 | 1,069,666,423 | 37,902 | 39,244 |
| SUM: | 8,039 | 42,195 | 8,550 | 45,359 | 14,614,661 | 74,649,340 | 10,991,448,220 | 1,112,926,421 | 39,958 | 42,871 |

Texas Windstorm Insurance Association
 Quarterly Liability Report
 As of December 31, 2018



| Class of Business | Policies Written | | Risks Written | | Premium Written | | Liability at End of Quarter | | In-Force at End of Quarter | |
|---------------------------|------------------|---------|---------------|---------|-----------------|-------------|-----------------------------|---------------|----------------------------|---------|
| | During Qtr | YTD | During Qtr | YTD | During Qtr | YTD | Direct | Indirect | Policies | Risks |
| Refugio | | | | | | | | | | |
| Commercial | 7 | 52 | 12 | 82 | 49,689 | 265,371 | 21,100,117 | 45,000 | 40 | 68 |
| Manufactured Home | 2 | 9 | 2 | 12 | 3,670 | 15,447 | 641,253 | 0 | 9 | 12 |
| Residential | 42 | 317 | 45 | 347 | 76,823 | 489,229 | 73,946,462 | 7,482,049 | 309 | 339 |
| SUM: | 51 | 378 | 59 | 441 | 130,182 | 770,047 | 95,687,832 | 7,527,049 | 358 | 419 |
| San Patricio | | | | | | | | | | |
| Commercial | 73 | 403 | 121 | 639 | 244,159 | 1,459,581 | 123,168,131 | 2,950,291 | 279 | 474 |
| Manufactured Home | 4 | 34 | 4 | 34 | 2,743 | 46,738 | 1,808,373 | 0 | 27 | 27 |
| Residential | 1,235 | 6,400 | 1,262 | 6,713 | 2,011,856 | 10,321,239 | 1,607,405,043 | 187,358,102 | 6,135 | 6,439 |
| SUM: | 1,312 | 6,837 | 1,387 | 7,386 | 2,258,758 | 11,827,558 | 1,732,381,547 | 190,308,393 | 6,441 | 6,940 |
| Willacy | | | | | | | | | | |
| Commercial | 5 | 34 | 20 | 62 | 11,424 | 142,095 | 13,614,697 | 128,550 | 29 | 57 |
| Manufactured Home | 0 | 4 | 0 | 4 | 0 | 5,200 | 208,000 | 0 | 4 | 4 |
| Residential | 52 | 379 | 52 | 406 | 78,624 | 581,004 | 77,963,217 | 5,716,411 | 358 | 384 |
| SUM: | 57 | 417 | 72 | 472 | 90,048 | 728,299 | 91,785,914 | 5,844,961 | 391 | 445 |
| Total All Counties | | | | | | | | | | |
| Commercial | 1,855 | 9,898 | 3,121 | 16,628 | 11,443,015 | 65,206,853 | 6,203,461,021 | 138,710,448 | 7,827 | 13,766 |
| Manufactured Home | 105 | 784 | 105 | 792 | 140,106 | 999,687 | 38,978,100 | 0 | 724 | 732 |
| Residential | 39,085 | 201,926 | 40,337 | 209,193 | 64,610,261 | 329,352,654 | 51,799,321,287 | 6,014,485,981 | 193,657 | 200,565 |
| SUM: | 41,045 | 212,608 | 43,563 | 226,613 | 76,193,382 | 395,559,194 | 58,041,760,408 | 6,153,196,429 | 202,208 | 215,063 |

7C. 2019 Funding, Reinsurance and Line of Credit

There is no exhibit for this topic

8. Internal Audit
8A. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: February 5, 2019

SUBJECT: Status of Internal Audit Activities

The following is our internal audit update representing current and planned activities:

➤ **Current Activities:**

- *2019 Audit Planning:*
 - Timing and audit areas are being finalized.
- *Legal and Compliance Audit:*
 - Report has been finalized and ready for Board review.
- *Model Audit Rule:*
 - Accounting Staff has updated documentation. Internal Audit will schedule review of update in second quarter 2019.
- *Pricing and Reserving Audit:*
 - Report drafted and in review by management.
- *Underwriting and Agency Audit:*
 - Report drafting stage.
- *Cash Management Audit:*
 - Fieldwork complete and in review stage.
- *Communications Audit:*
 - Fieldwork complete and in review stage.
- *Upcoming Audits:*
 - Application Development
 - Vendor Management

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association Three-Year Audit Plan (2017-2019)

| 2017 | |
|----------------------------------|-------------|
| Process Area | Risk Rating |
| Model Audit Rule (documentation) | N/A |
| Information Security | High |
| Claims Processing | High |

| 2018 | |
|-----------------------------------|-------------|
| Process Area | Risk Rating |
| Model Audit Rule (light) | N/A |
| Application Development | Moderate |
| Underwriting & Agency | High |
| Actuarial (Pricing and Reserving) | Moderate |
| Legal, Compliance, & Depopulation | High |
| Communications | Moderate |
| Cash Management (Investments) | Low |

| 2019 | |
|-----------------------------------------------------------|-------------|
| Process Area | Risk Rating |
| Model Audit Rule (light) | N/A |
| Database and Application Administration | High |
| Information Technology Services | Moderate |
| Human Resources Administration | Low |
| Accounts Payable and Expense Processing | Moderate |
| Payroll | Low |
| Accounts Receivable <i>Including Agent Commissions</i> | Low |
| Facilities and Services | Low |

8B. Review of IT Security Audit

This Item Will Be Covered in Closed Session

9. Underwriting
9A. Operational Review Update



MEMORANDUM

DATE: January 2019
TO: John Polak, General Manager
FROM: Denise Larzalere, Vice President Underwriting
RE: Update on Underwriting Operational Highlights

Fourth Quarter 2018 Highlights

- I. Service Results:
 - a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 95% processed within 10 days.
 - b. Quality Assurance Results on underwriting decisions continue to exceed established goals.
 - c. Telephone service response time continues to meet and exceed expectations. Service Quality scores have been in the meets category. Service observation (listening to phone calls and scoring them) is now standard procedure and as an Association the departments are calibrating calls and have agreed upon service standards for telephone service.
 - d. Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

- II. Underwriting Activities of Note:
 - a. TWIA Certificate of Compliance on Completed Improvements (WPI-8-Cs) status:
 - i. For the period of January 1, 2018 – December 31, 2018 we have received 16,199 applications (WPI-3);
 - ii. average turnaround time is less than three days;
 - iii. reroof is the number one reason (60% of certificates);
 - iv. in 2017 a total of 4,422 WPI-8-Cs were issued;
 - v. two engineer firms represent approximately 30% of applications;
 - vi. The Confirmation of Application review completed for applications (WPI-3s) received (Sept- Nov) was sent to 91 engineers. Only two issues were discovered:



both were non-substantive errors where the engineer transposed his license number.

- vii. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

III. Agency Compliance Audits:

- a. Audits were performed on 20 agents (200 policies) in the fourth quarter to verify compliance with the declination of coverage and flood insurance requirements. None of the policies/properties selected for review required flood insurance.
 - i. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage.
 - ii. We also reviewed the 200 auto-issued policies to confirm a copy of a WPI-8 had been provided where required. The review identified 23 policies requiring a WPI-8 that did not have the proper documentation uploaded by the agent. These have been referred to underwriting for research and follow-up.
- b. All 20 agents have an active property and casualty insurance license.

10. Claims
10A. Claims Operations

TWIA Claims Operations 2018

Hurricane Harvey

| Harvey Claims Storm Report | TWIA | | | | |
|---------------------------------------|------------------|----------------|----------------|--------------|------------------------|
| | 082517 Harvey | | | | |
| | TWIA Total | Commercial | Residential | Mobile Home | No Policy & Unverified |
| New Claims | 76,594 | 2,666 | 68,429 | 342 | 5,157 |
| Closed Claims | 74,702 | 2,430 | 66,776 | 340 | 5,156 |
| Open Inventory | 1,892 | 236 | 1,653 | 2 | 1 |
| RCC | 0 | - | - | - | - |
| % Closed | 97.5% | 91.2% | 97.6% | 99.4% | 99.98% |
| Closed With Payment | 46,515 | 1,469 | 44,786 | 260 | - |
| % Closed With Payment | 60.7% | 55.1% | 65.5% | 76.0% | - |
| Closed Without Payment | 28,187 | 961 | 21,990 | 80 | 5,156 |
| % Closed Without Payment | 36.8% | 36.1% | 32.1% | 23.4% | 99.98% |
| Open With Payment | 1,672 | 202 | 1,468 | 2 | - |
| % Open With Payment | 2.2% | 7.6% | 2.2% | 0.6% | - |
| Open Without Payment | 220 | 34 | 185 | - | 1 |
| % Open Without Payment | 0.3% | 1.3% | 0.3% | - | 0.02% |
| Paid Indemnity | \$ 1,220,804,185 | \$ 339,041,976 | \$ 877,871,987 | \$ 3,890,222 | \$ - |
| Paid Expense | \$ 132,444,740 | \$ 21,116,633 | \$ 110,773,939 | \$ 552,507 | \$ 1,662 |
| Average Paid | \$ 25,350 | \$ 202,898 | \$ 18,991 | \$ 14,848 | - |
| Avg # Days - FNOL to Inspect | 8.9 | 9.9 | 8.9 | 9.3 | - |
| Avg # Days - Inspect to TWIA | 6.8 | 12.3 | 6.6 | 6.6 | - |
| Avg # Days - TWIA to Payment | 37.6 | 49.2 | 37.2 | 35.7 | - |
| Avg # Days - FNOL to Payment | 49.5 | 68.9 | 48.8 | 51.5 | - |
| TDI Claims Complaints | 257 | 7 | 250 | 0 | 0 |
| # TDI Complaints as a % of All Claims | 0.336% | 0.263% | 0.365% | - | - |

TWIA Harvey Claim Counts by County

| County | Nueces | Galveston | Jefferson | Aransas | San Patricio | Brazoria | Calhoun | Chambers | Matagorda | Harris | Refugio | Kleberg | Cameron | Unverified or NPIF | TWIA TOTAL |
|-------------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|-----------|-----------|--------------------|---------------|
| August 2017 Total | 10,648 | 4,836 | 2,545 | 5,337 | 4,145 | 1,521 | 1,186 | 418 | 224 | 252 | 287 | 8 | 14 | 2,197 | 33,618 |
| September Total | 12,749 | 5,269 | 6,376 | 1,590 | 2,344 | 2,124 | 1,194 | 503 | 563 | 284 | 112 | 18 | 8 | 2,544 | 35,678 |
| October Total | 894 | 532 | 654 | 86 | 136 | 241 | 102 | 47 | 55 | 25 | 11 | 6 | 7 | 190 | 2,986 |
| November Total | 354 | 207 | 203 | 37 | 52 | 84 | 40 | 21 | 18 | 16 | 2 | 1 | 6 | 70 | 1,111 |
| December Total | 210 | 129 | 82 | 13 | 23 | 52 | 21 | 6 | 5 | 10 | 1 | 5 | 3 | 31 | 591 |
| January Total | 205 | 84 | 67 | 26 | 16 | 32 | 13 | 11 | 5 | 8 | 1 | 2 | 3 | 21 | 494 |
| February Total | 200 | 78 | 48 | 5 | 19 | 41 | 12 | 4 | 1 | 12 | 1 | | | 20 | 441 |
| March Total | 191 | 73 | 42 | 5 | 13 | 36 | 13 | 4 | 7 | 8 | | 1 | 1 | 12 | 406 |
| April Total | 120 | 52 | 30 | 7 | 9 | 25 | 11 | 7 | 5 | 5 | | | 1 | 11 | 283 |
| May Total | 100 | 58 | 22 | 11 | 7 | 19 | 1 | 8 | 6 | | | 1 | | 9 | 242 |
| June Total | 95 | 30 | 18 | 5 | 4 | 14 | 6 | 1 | 3 | 2 | 1 | 3 | | 6 | 188 |
| July Total | 95 | 33 | 15 | 3 | 4 | 15 | 2 | | 5 | 1 | | 1 | | 5 | 179 |
| August Total | 125 | 38 | 22 | 12 | 8 | 20 | 9 | 2 | 3 | 6 | | | | 36 | 281 |
| September Total | 13 | 7 | 6 | 3 | | 2 | | | 2 | | | | | 4 | 37 |
| October Total | 11 | 9 | 2 | 2 | | 4 | 1 | | | 1 | | | | | 30 |
| November Total | 3 | 4 | 3 | | | 1 | | | | 2 | | | | | 13 |
| December Total | 2 | 4 | 3 | | | 3 | | 1 | | | | | | 1 | 14 |
| January Total | 1 | | 1 | | | | | | | | | | | | 2 |
| TWIA TOTAL | 26,016 | 11,443 | 10,139 | 7,142 | 6,780 | 4,234 | 2,611 | 1,033 | 902 | 632 | 416 | 46 | 43 | 5,157 | 76,594 |

| TWIA Closed Harvey Claims | | Count | % |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------------|-------------|
| 1. Closed with payment - Full Acceptance ¹ | | 34,499 | 46% |
| 2. Closed with payment - Partial Acceptance ² | | 8,771 | 12% |
| 3. Closed without payment - Depopulation ³ | | 1,505 | 2% |
| 4. Closed without payment - Under Deductible ⁴ | | 14,538 | 19% |
| 5. Closed without payment - Coverage Excluded ⁵ | | 4,125 | 6% |
| 6. Closed without payment - No Policy in Force ⁶ | | 3,304 | 4% |
| 7. Closed without payment - Opened in Error ⁷ | | 5,571 | 7% |
| 8. Closed without payment - Not Pursued ⁸ | | 2,389 | 3% |
| 9. Closed - Pending Reason Code ⁹ | | 0 | 0% |
| 10. Total Closed¹⁰ | | 74,702 | 100% |
| Row Data Descriptions: | | | |
| 1. Closed with payment - Full Acceptance: Claim as presented by policyholder is fully accepted by TWIA, subject to policy provisions, conditions and deductible. | | | |
| 2. Closed with payment - Partial Acceptance: Claim as presented by policyholder is partially accepted & partially denied by TWIA, subject to policy provisions, conditions and deductible. | | | |
| 3. Closed without payment - Depopulation: Claims submitted for a policy with a depopulation carrier. No TWIA policy in force. | | | |
| 4. Closed without payment - Under Deductible: Only includes fully or partially accepted claims for covered repair/replacement costs of damaged property where covered loss amount is below policy deductible. | | | |
| 5. Closed without payment - Coverage Excluded: Claim as submitted is not covered due to application of one or more policy exclusions. This represents a full denial of the claim. | | | |
| 6. Closed without payment - No Policy In Force: Claimant does not have an in-force policy with TWIA for the date of loss. | | | |
| 7. Closed without payment - Opened in Error: Claim was opened by mistake by TWIA, Policyholder, or Agent. Typically involves a duplicate filed claim. | | | |
| 8. Closed without payment - Not Pursued: Before coverage determination is made, claimant advises TWIA they do not want to pursue their claim further. | | | |
| 9. Closed - Pending Reason Code: Closing reason code not selected. These will be assigned codes by 9/29/17 or sooner. | | | |
| 10. Total Closed: Sum of all closed TWIA hurricane Harvey claims. | | | |

Hurricane Harvey Disputed Claims

| TWIA Hurricane Harvey Disputed Claims | | | | | |
|---------------------------------------|-----------------|----------------------|-----------------|------------------|-------|
| Dispute Frequency | | | Type of Dispute | | |
| Total Claims | Disputed Claims | % of Disputed Claims | Appraisals | Notice of Intent | Suits |
| 76,594 | 4,001 | 5.22% | 3,806 | 910 | 309 |

| TWIA Harvey Claims With Appraisal Invoked | | | | | | |
|-------------------------------------------|-------------------|--------------------|---------------------------|-------------------------|-----------|------------|
| Total | Open/Pending | Appraisal Complete | Appraisal Process Stopped | | | |
| Appraisals | Active Appraisals | Appraisal Award | Suspended by Policyholder | Settled with Supplement | Withdrawn | Ineligible |
| 3,806 | 307 | 217 | 704 | 1,643 | 528 | 407 |
| | 8% | 6% | 18% | 43% | 14% | 11% |

| TWIA Harvey Claims With Notice of Intent or Lawsuit | | | | |
|-----------------------------------------------------|----------------------------|----------------------------|-------------------|-------------------|
| Total Nol / Suit | Notices of Intent Received | Notices of Intent Resolved | Lawsuits Received | Lawsuits Resolved |
| 1219 | 910 | 163 | 309 | 0 |

*data as of 01/03/19

- “Dispute Frequency” tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one “type of dispute.”

2018 TWIA Claims Operations

| TWIA Claims - 2018 Results (complete year) | | | | | |
|--------------------------------------------|-----------------------------------------------|------|-----------|------------------|--------------------|
| Key Cycle Times (In days) | Industry Average, TX | TWIA | TWIA Plan | Variance to Plan | % Variance to Plan |
| FNOL to Inspect Property | 5.2 | 3.1 | <3 | 0.1 | 3% |
| Inspect Property to Receipt by TWIA | 3.8 | 2.2 | <8 | -5.8 | -73% |
| Receipt by TWIA to Payment | N/A | 6.2 | <5 | 1.2 | 24% |
| Total Cycle Time FNOL to Payment | N/A | 11.5 | <16 | -4.5 | -28% |
| TDI Complaint Ratio | | | | | |
| 2017 | 0.13% - 103 complaints from 80,257 new claims | | | | |
| 2018 | 2.60% - 188 complaints from 7,242 new claims | | | | |

| Year | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Actual Volume | 433 | 33,997 | 36,256 | 3,350 | 1,315 | 819 | 757 | 633 | 658 | 594 | 524 | 898 | 693 | 582 | 668 | 438 | 562 | 235 |
| Actuarial Projected | 729 | 547 | 466 | 444 | 437 | 437 | 557 | 503 | 708 | 2,464 | 2,543 | 5,391 | 396 | 297 | 287 | 296 | 562 | 296 |
| Median Staffing | 554 | 554 | 554 | 554 | 554 | 554 | 390 | 390 | 390 | 390 | 390 | 390 | 390 | 390 | 390 | 390 | 390 | 390 |
| Open Inventory | 376 | 32,978 | 45,679 | 12,858 | 5,105 | 4,921 | 5,036 | 4,526 | 4,526 | 4,250 | 4,360 | 4,234 | 3,809 | 3,657 | 3,264 | 3,264 | 2,834 | 2,474 |

2018 New Claim Volume

- Projected new claim volume was 9,017
- New claim volume was 7,242 or 1,775 (20%) lower than projected

| Historical TWIA Claim Volume | |
|------------------------------|--------|
| Year | Claims |
| 2005 | 12,783 |
| 2006 | 1,862 |
| 2007 | 4,195 |
| 2008 | 99,813 |
| 2009 | 4,812 |
| 2010 | 4,801 |
| 2011 | 10,608 |
| 2012 | 8,601 |
| 2013 | 10,541 |
| 2014 | 2,843 |
| 2015 | 18,889 |
| 2016 | 8,393 |
| 2017 | 80,257 |
| 2018 | 7,242 |

| TWIA Hurricane Events | |
|-----------------------|-------------|
| Hurricane | TWIA Claims |
| Rita - 2005 | 11,583 |
| Dolly - 2008 | 8,374 |
| Ike - 2008 | 93,046 |
| Harvey 2017 | 76,598 |

2018 Disputed Claims

| TWIA - 2018 Disputed Claims | | | | | |
|------------------------------------|-----------------|----------------------|-----------------|------------------|-------|
| Dispute Frequency | | | Type of Dispute | | |
| Total Claims | Disputed Claims | % of Disputed Claims | Appraisals | Notice of Intent | Suits |
| 7,242 | 306 | 4.23% | 278 | 66 | 19 |

| TWIA - 2018 Disputed Claims With Appraisal Invoked | | | | | | |
|-----------------------------------------------------------|----------------------|--------------------|---------------------------|-------------------------|-----------|------------|
| Total | Open/Pending | Appraisal Complete | Appraisal Process Stopped | | | |
| HB3 Appraisals | Appraisal In Process | Appraisal Award | Suspended by Policyholder | Settled with Supplement | Withdrawn | Ineligible |
| 278 | 7 3% | 6 2% | 66 | 158 | 28 | 13 |
| | | | 95% | | | |

| TWIA - 2018 Claims With Notice of Intent or Lawsuit Served | | | | |
|-------------------------------------------------------------------|----------------------------|----------------------------|-------------------|-------------------|
| Total Nol / Suit | Notices of Intent Received | Notices of Intent Resolved | Lawsuits Received | Lawsuits Resolved |
| 85 | 66 | 20 | 19 | 0 |

- “Dispute Frequency” tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one “type of dispute.”

10B. Claims Litigation



TWIA Litigation Tracking Activity

Litigation Quarter Summary Fourth Quarter 2018

| 4th Quarter 2018 | Summary of TWIA Claims in Suit | | | | | |
|------------------|--------------------------------|-----------|----------|----------|----------|----------|
| | New | | Settled | | Closed | |
| | Pre-HB3 | HB3 | Pre-HB3 | HB3 | Pre-HB3 | HB3 |
| Oct | 0 | 28 | 0 | 0 | 1 | 0 |
| Nov | 0 | 10 | 0 | 0 | 0 | 7 |
| Dec | 0 | 4 | 0 | 0 | 0 | 2 |
| | 0 | 42 | 0 | 0 | 1 | 9 |

| 4th Quarter 2018 | Summary of TWIA Claims with LORs | | | | | |
|------------------|----------------------------------|------------|----------|----------|----------|------------|
| | New | | Settled | | Closed | |
| | Pre-HB3 | HB3 | Pre-HB3 | HB3 | Pre-HB3 | HB3 |
| Oct | 0 | 72 | 0 | 0 | 0 | 45 |
| Nov | 0 | 45 | 0 | 0 | 0 | 51 |
| Dec | 0 | 51 | 0 | 0 | 0 | 24 |
| | 0 | 168 | 0 | 0 | 0 | 120 |



| Dec-18 | TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County | | | | | | |
|--------|------------------------------------------------------------------------|----------|----------|-----------|-----------|--------|-------|
| | Firm | Brazoria | Chambers | Galveston | Jefferson | Nueces | Total |
| | Buzbee | | 3 | 5 | | | 8 |
| | Hodge Law Firm | | | 1 | | | 1 |
| | Mostyn | | | | 1 | | 1 |
| | TOTAL | 0 | 3 | 6 | 1 | 0 | 10 |

| Dec-18 | TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm | |
|--------|---------------------------------------------------------------------|-----|
| | Firm | # |
| | Daly & Black | 316 |
| | Furlow Law Firm | 161 |
| | Scott | 98 |
| | Baker Law | 39 |
| | Carrigan & Anderson | 27 |
| | KRW | 20 |
| | Hodge Law Firm | 17 |
| | Arguello Law Firm | 15 |
| | Lindsay, Lindsay, & Parsons | 15 |
| | Voss Law Firm | 14 |
| | Crowell & Kucera | 13 |
| | Remaining 104 firms | 239 |
| | TOTAL | 974 |

11. TWIA Operations
11A. IT Systems Updates



MEMORANDUM

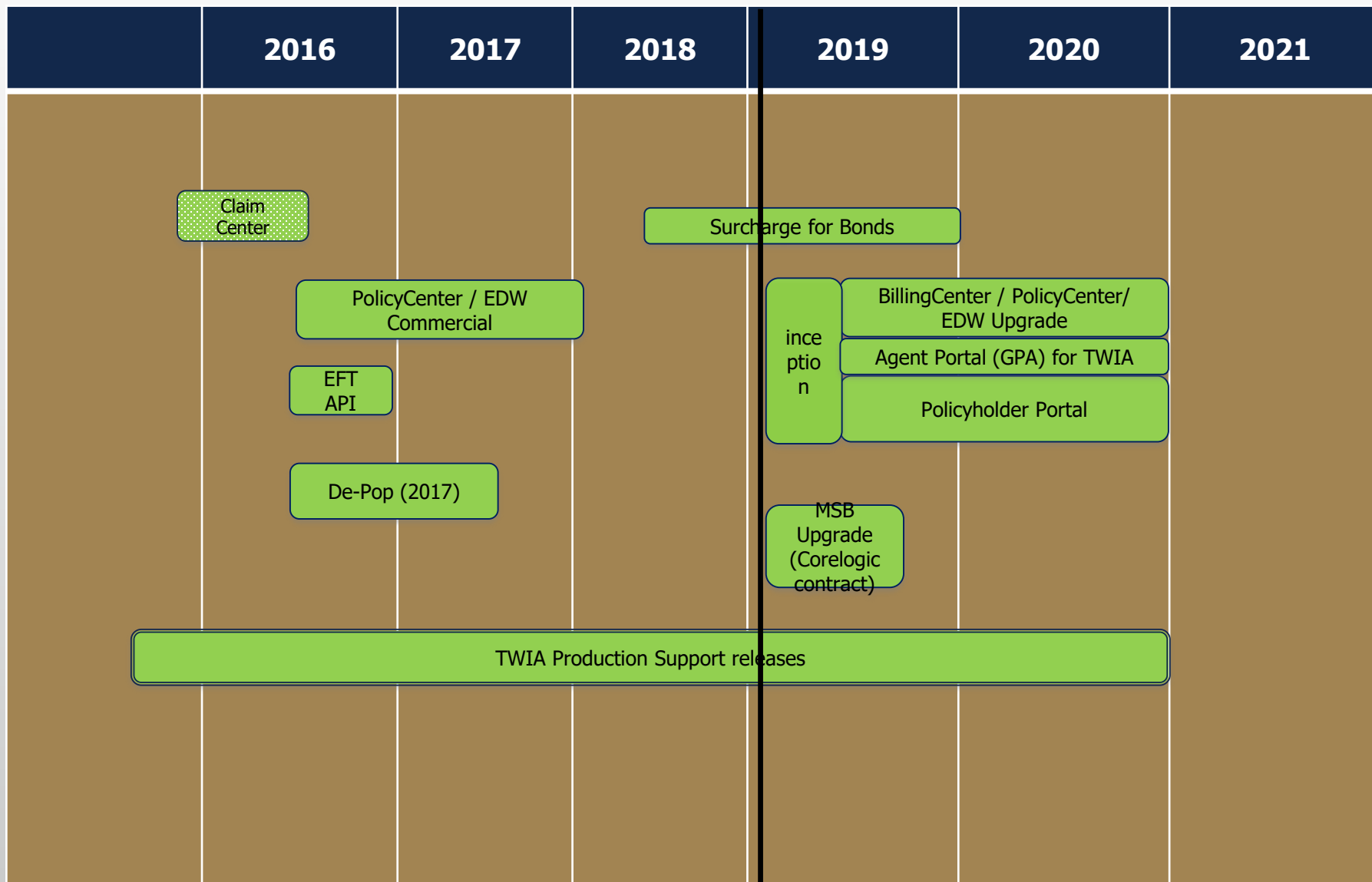
DATE: February 4, 2019
TO: John Polak, General Manager
FROM: Camron Malik, CIO / VP IT
RE: Information Technology status

The TWIA program is on track to start inception in February with development scheduled to start in May.

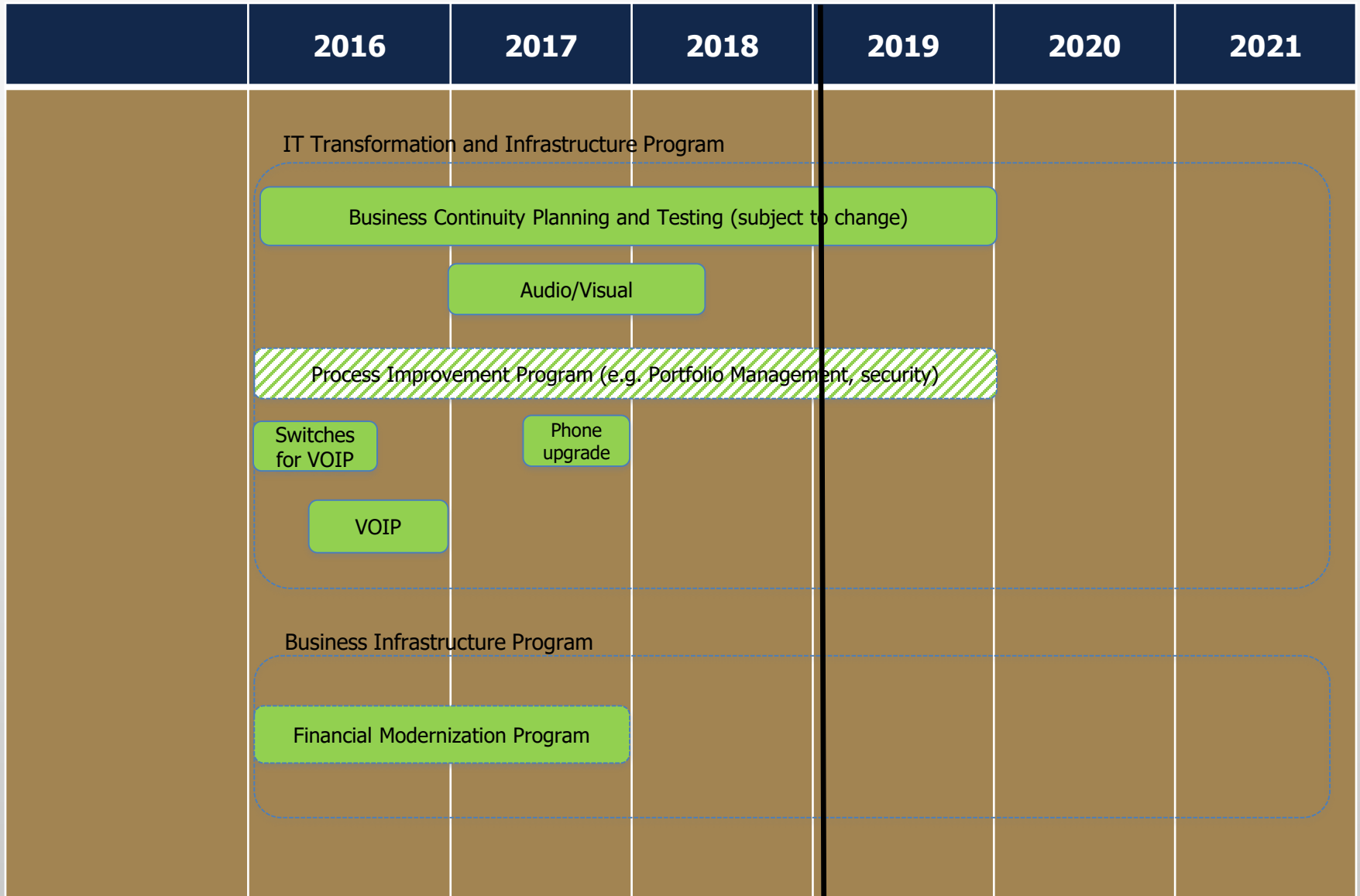
The TFPA program was successfully deployed in October 2018 and is now in production support mode. The development for renewals is complete and the code is going through Quality Assurance testing. The next phase is User Acceptance Testing.

The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments are on track.

TWIA IT Roadmap Projects



TWIA IT Infrastructure Projects



11B. Depopulation

There is no exhibit for this topic

11C. Sunset Review

There is no exhibit for this topic

11D. TDI Draft Examination Report



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

DATE: January 24, 2019
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **TDI Examination Draft Report for TWIA**

We have received the draft reports for the 2017 TDI Financial Examination of TWIA. There are no findings and no financial adjustments indicated in this report. We will be providing TDI with some minor corrections to the draft report and will provide the Board of Directors of TWIA the final version when received.

Please let me know if you have any questions.

JF

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Austin, Texas
January XX, 2019

Honorable Kent C. Sullivan
Commissioner of Insurance
Texas Department of Insurance
State of Texas
Austin, Texas

Pursuant to instructions and in accordance with Section 2210.057 of the Texas Insurance Code (Code), an examination was made of

TEXAS WINDSTORM INSURANCE ASSOCIATION

hereinafter referred to as the “Association,” with its statutory home and administrative offices located at 5700 South Mopac Expressway, Austin, Texas, as of December 31, 2017.

SCOPE OF EXAMINATION

The Texas Department of Insurance (Department) performed a financial examination of the Association. The last examination covered the period of January 1, 2009 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017.

This examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risk of the Association and evaluate system controls and procedures used to mitigate those risks. This examination also included identification and evaluation of significant risks that could cause the Association’s surplus to be materially misstated both currently and prospectively.

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All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles prescribed by the State of Texas. The examination does not attest to the fair presentation of the financial statements included herein. Any adjustments identified during the course of the examination were documented separately following the Association's financial statements.

A concurrent examination of Texas Fair Plan Association (Fair Plan) was also performed. The Association and Fair Plan had common management.

Work completed by the Association's independent auditor supporting its 2017 audit of the Association was accepted to support conclusions in certain areas of the examination. In particular, reviews related to the control environment, consideration of fraud, investments, premiums, losses, reinsurance, and reserve activities were utilized.

DESCRIPTION OF ASSOCIATION

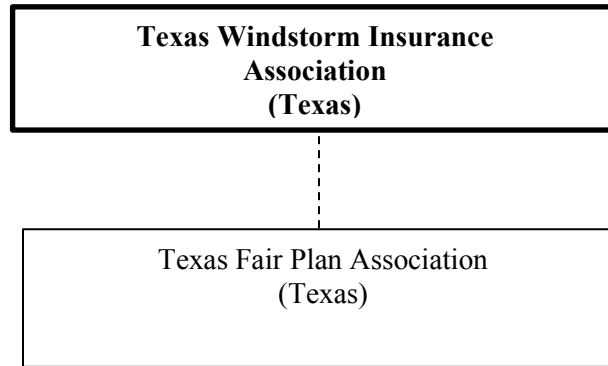
The Association was established on April 29, 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. Membership in the Association consisted of all insurers authorized to transact property insurance in the State of Texas, except companies that were excluded by law. Operations of the Association were conducted under the provisions of Chapter 2210 of the Code. The Association was intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory.

AFFILIATED COMPANIES

The following organizational chart was as of December 31, 2017:

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The dashed line represents control through a service agreement and common management. The Association and Fair Plan were governed by an independent board of directors and governing committee, respectively.

Transactions with Affiliates

Effective December 10, 2002, the Association entered into a service agreement with Fair Plan. Under the terms of the agreement, the Association provided services which were necessary to operate and manage Fair Plan on a daily basis. The Association was reimbursed monthly for direct expenses incurred at cost in the performance of its contractual obligations to Fair Plan. The agreement was approved under Commissioner’s Order No. 02-1093, dated October 23, 2002. Effective April 7, 2005, the Association amended the agreement to state that the agreement would remain in effect for a five year period beginning on June 30, 2003. The amendment was reviewed and signed by the Commissioner. Effective April 1, 2009, the Association amended the agreement to be perpetual in length and terminated by either party with 90 days written notice and upon the payment of all fees and/or reimbursements due under the agreement.

MANAGEMENT AND CONTROL

The board of directors was comprised of nine voting members appointed by the Commissioner of Insurance. The composition of the nine member board of directors must adhere to Section 2210.102 of the Code as follows:

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- Three members representing the insurance industry who actively write and renew windstorm and hail insurance in the first tier coastal counties.
- Three members must, as of the date of the appointment, reside in the first tier coastal counties and one of these members must be a licensed property and casualty agent.
- Three members residing in an area of this state that is located more than 100 miles from the Texas coastline.

The board of directors and officers serving the Association, as of the examination date, were as follows:

Directors

Debbie King
Michael Frank Gerik
Blair E. Crossan
Georgia Rutherford Neblett
Chandra Womack
Joshua Fields
R. Scott Kesner
Tony Schrader
Bryan Shofner

Representing

Industry member
Industry member
Industry member
Coastal first tier member
Coastal first tier member
Coastal first member and agent
Non-seacoast member
Non-seacoast member
Non-seacoast member

Officers

| | |
|----------------------|--------------------------------------|
| David Patrick Durden | Acting General Manager |
| Joshua Fields | Chairman of the Board |
| Bryan Shofner | Vice Chairman of the Board |
| Debbie King | Secretary and Treasurer of the Board |

The day-to-day operations of the Association were the responsibility of David Patrick Durden, the Association's

Acting General Manager, as well as the following individuals:

| | |
|---------------------------|---------------------------------------------------------|
| Jerome Fadden | Chief Financial Officer |
| Xiuyu Li | Senior Actuary |
| David Patrick Durden | Vice President – Legal and Compliance |
| David Scott Williams | Vice President – Claims |
| Denise Ingerson Larzalere | Vice President – Underwriting |
| Juanita Deloris Lester | Vice President – HR and Administration |
| Jennifer Taylor Armstrong | Vice President – Communications and Legislative Affairs |
| Cameron Malik | Vice President – Information Systems |

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CORPORATE RECORDS

Minutes of the board of directors' meetings reflected adequate approval and support of the Association's transactions. The board of directors' meeting minutes reflected that each member reviewed and adopted the previous examination report as required by 28 TAC § 7.83(h). Minutes of the board of directors' meetings reflected a determination of the trust fund balance in accordance with Section 2210.4521(b) and Section 221.452(a) of the Code. After determination of sufficient balance, the board provided notice of the sufficient balance to the comptroller.

TERRITORY AND PLAN OF OPERATION

In accordance with Chapter 2210 of the Code, the Association wrote hail and windstorm insurance in the following counties:

First Tier

| | | | | |
|----------|-----------|-------------------|-----------|--------------|
| Aransas | Cameron | Harris (partial)* | Kleberg | Refugio |
| Brazoria | Chambers | Jefferson | Matagorda | San Patricio |
| Calhoun | Galveston | Kenedy | Nueces | Willacy |

*Harris County located east of Highway 146 or inside the communities of La Porte, Morgan's Point, Pasadena, Seabrook, and Shoreacres.

Policies were written by any agent licensed by the Department to write personal and commercial property coverages. All of the policies issued were one-year term policies with premium paid at inception.

The largest net aggregate amount insured on any one risk was \$4,424,000, as of the examination date.

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GROWTH OF ASSOCIATION

Comparative financial data, as reported in the Association's financial statements, was as follows:

| <u>Year</u> | <u>Net Admitted Assets</u> | <u>Surplus as Regards Policyholder</u> | <u>Gross Premiums Written</u> | <u>Net Income (Loss)</u> |
|-------------|----------------------------|----------------------------------------|-------------------------------|--------------------------|
| 2013 | \$ 440,231,488 | \$ 0 | \$ 472,739,474 | \$ 170,906,848 |
| 2014 | 1,146,483,407 | 0 | 494,036,010 | (5,152,439) |
| 2015 | 993,093,861 | 0 | 503,824,316 | (38,899,025) |
| 2016 | 972,707,900 | 0 | 487,353,537 | 40,455,062 |
| 2017 | 647,953,929 | (461,390,162) | 423,074,138 | (511,441,935) |

Net admitted assets increased from 2013 to 2014 due to the issuance of pre-event bonds and overall net gain from operations during 2014. The 2014 net gain from operations was paid into the Trust Fund in 2015 as required by Section 2210.452 (c) of the Code.

The net loss in 2015, was due to the Association's receipt of a tax refund from the IRS that previously was reflected as a non-admitted asset. When the funds were received, the non-admitted asset was reduced to \$0. Changes in non-admitted assets do not flow through net income. The Association recorded a liability for \$92.7 million for net gain from operations that included the tax refund with the corresponding income statement amount reflected in "Aggregate Write-Ins from Underwriting Deductions".

Net admitted assets decreased from 2016 to 2017 due to the utilization of proceeds from the 2014 bond issuance to assist with the payment of claims from Hurricane Harvey.

The decrease in policyholder surplus in 2017 from 2016 was due to claim settlement activity from Hurricane Harvey. The net loss from operations in 2017 was also due to claim settlement activity from Hurricane Harvey.

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REINSURANCE

The Association utilized both a Catastrophe Reserve Trust Fund (Trust Fund) and reinsurance to reduce the exposure of risk.

Catastrophe Reserve Trust Fund

Effective December 31, 1993, the Trust Fund was established in accordance with Section 2210.452 of the Code. At the end of each calendar year, the Association must use the net gain from operations, including all premium and other revenue in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses to make payments to the Trust Fund and/or to procure reinsurance. During 2017, \$743.2 million from the Trust Fund was used to pay claims associated with Hurricane Harvey, leaving a balance of \$1.2 million as of December 31, 2017.

All money, including investment income, deposited in the Trust Fund constitutes state funds until disbursed as provided by Chapter 2210 of the Code and rules established by the Commissioner of Insurance. The Comptroller acts as custodian of the Trust Fund.

Assumed

The Association did not assume any risk through reinsurance during the period under examination.

Ceded

Effective June 1, 2017, the Association entered into a property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized subscribing reinsurers. Under the terms of the agreement, the Association was indemnified in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurers were liable in the aggregate in respect of losses occurring

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during the term of this contract of 100 percent of the ultimate net loss in excess of an initial ultimate net loss of \$2.8 billion, subject to a limit of liability to the reinsurer of \$2.1 billion.

Effective June 1, 2017, the Association entered into a second property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized subscribing reinsurers. Under the terms of the agreement, the Association was indemnified in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurers were liable in the aggregate in respect of losses occurring during the term of this contract of 100 percent of the ultimate net loss in excess of an initial ultimate net loss of \$0.8 billion, in excess of \$2.0 billion. This reinsurance coverage was purchased to ensure that if an event occurred in 2017 and the Trust Fund was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018.

The Association utilized Guy Carpenter & Company, Inc., Texas, a licensed reinsurance intermediary under Section 4152.051(a) of the Code, to place reinsurance.

Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allowed private insurance companies interested in writing on the Texas coast to assume a portion of the Association's book of business as of a point in time. The Association implemented the Assumption Reinsurance Depopulation Program in 2016. The program required participating insurers to work through agents to identify policies that would receive assumption offers. The following were depopulation programs in effect as of December 31, 2017:

Effective December 1, 2017, the Association entered into a quota share agreement with United Property and Casualty Insurance Company (United Property), Texas. Under the terms of the agreement, 100 percent of the net

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liabilities associated with certain policies that were identified in the reinsurance agreement were ceded to United Property. The Association received a ceding commission equal to 24 percent of all premiums ceded.

Effective December 1, 2017, the Association entered into a quota share agreement with Safepoint Insurance Company (Safepoint), Texas. Under the terms of the agreement, 100 percent of the net liabilities associated with certain policies that were identified the reinsurance agreement were ceded to Safepoint. The Association received a ceding commission equal to 24 percent of all premiums ceded.

Effective December 1, 2017, the Association entered into a quota share agreement with Weston Insurance Company (Weston), Texas. Under the terms of the agreement, 100 percent of the net liabilities associated certain policies that were identified the reinsurance agreement were ceded to Weston. The Association received a ceding commission equal to 24 percent of all premiums ceded.

ACCOUNTS AND RECORDS

The Association's books and records were maintained using Microsoft Dynamics Great Plains (Great Plains), purchased from Microsoft. The hardware infrastructure was a Microsoft Windows Server-based local area network using Microsoft SQL (Structured Query Language) database management software.

The Association outsourced its payroll expenses to ADP (Automatic Data Processing, Inc.); other expenses were processed using Microsoft Excel and Microsoft Dynamics. GP. A combination of internally-developed and externally-purchased software applications were used for processing premium, claims and underwriting activities.

The Association's Data Warehouse, internally-developed using SAP; Policy Center; Claims Center; and Billing Center, purchased from Guidewire Software, Inc.

The Association did not use any significant software applications to process its investment transactions, reinsurance activities or catastrophe readiness.

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Disaster recovery facilities were outsourced to zColo by Zayo in Waco, Texas.

The Association's 2017 general ledger amounts were reconciled to the annual statement.

FINANCIAL STATEMENTS

The financial statements consist of a balance sheet and a statement of income with a capital and surplus account showing the Association's financial condition as filed by the Association with the Department for the period ending December 31, 2017.

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BALANCE SHEET December 31, 2017

| | <u>Assets</u> | | |
|--------------------------------------------------------------------------|---------------------------|-------------------------------------|--------------------------------------|
| | <u>Assets</u> | <u>Nonadmitted</u> <u>Assets</u> | <u>Net Admitted</u> <u>Assets</u> |
| Cash, cash equivalents and short-term investments | \$ 646,074,191 | \$ | \$ 646,074,191 |
| Investment income due and accrued | 260,608 | | 260,608 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 218,108 | 127,934 | 90,174 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 17,332 | | 17,332 |
| Electronic data processing equipment and software | 872,291 | 872,291 | |
| Furniture and equipment, including health care delivery assets | 901,383 | 901,383 | |
| Receivables from parent, subsidiaries and affiliates | 1,426,589 | | 1,426,589 |
| Aggregate write-ins for other than invested assets: | | | |
| Prepaid Reinsurance | 9,054,052 | 9,054,052 | |
| Prepaid Assets | 2,446,746 | 2,446,746 | |
| Security deposit - lease | 111,861 | 111,861 | |
| Amounts receivable - premium finance | 66,870 | | 66,870 |
| Due from depop carriers - assumption | 18,165 | | 18,165 |
| Total Assets | <u>\$ 661,468,196</u> | <u>\$ 13,514,267</u> | <u>\$ 647,953,929</u> |

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BALANCE SHEET
December 31, 2017
(Continued)

Liabilities, Surplus and Other Funds

| | | |
|-----------------------------------------------------------------------|------------------|------------------------------|
| Losses | | \$ 358,214,371 |
| Loss adjustment expenses | | 56,519,895 |
| Commissions payable, contingent commissions and other similar charges | | 4,011,037 |
| Other expenses | | 10,450,434 |
| Taxes, licenses and fees | | 816,051 |
| Borrowed money and interest thereon | | 431,702,250 |
| Unearned premiums | | 209,452,528 |
| Advance premium | | 7,058,606 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 20,603,408 |
| Funds held by company under reinsurance treaties | | 368,530 |
| Remittances and items not allocated | | 2,754,266 |
| Aggregate write-ins for liabilities: | | |
| Pension benefits liability | | 5,051,041 |
| Escheat funds | | 874,457 |
| Lease incentive obligation | | 629,226 |
| Deferred rent liability | | 545,304 |
| Surcharge payable | | <u>292,687</u> |
| Total Liabilities | | <u>\$ 1,109,344,091</u> |
| Unassigned funds (surplus) | \$ (461,390,162) | |
| Total surplus | | <u>(461,390,162)</u> |
| Surplus as regards policyholders | | <u>\$ (461,390,162)</u> |
| Total Liabilities, Surplus and Other Funds | | <u><u>\$ 647,953,929</u></u> |

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STATEMENT OF INCOME

For the Period January 1, 2017 Through December 31, 2017

Underwriting Income

| | |
|--------------------------------------|---------------------------|
| Premiums earned | \$ 347,354,358 |
| Deductions: | |
| Losses incurred | \$ 1,266,241,617 |
| Loss adjustment expenses incurred | 209,060,546 |
| Other underwriting expenses incurred | <u>97,876,127</u> |
| Total underwriting deductions | \$ <u>1,573,178,290</u> |
| Net underwriting gain or (loss) | \$ <u>(1,225,823,932)</u> |

Investment Income

| | |
|-------------------------------|------------------------|
| Net investment income earned | \$ <u>(28,886,165)</u> |
| Net investment gain or (loss) | \$ <u>(28,886,165)</u> |

Other Income

| | |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Aggregate write-ins for miscellaneous income | \$ <u>743,268,162</u> |
| Total other income | \$ <u>743,268,162</u> |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ <u>(511,441,935)</u> |
| Net Income | \$ <u><u>(511,441,935)</u></u> |

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STATEMENT OF INCOME
For the Period January 1, 2017 Through December 31, 2017
(Continued)

Capital and Surplus Account

| | |
|---------------------------------------------------------|-------------------------|
| Surplus as regards policyholders, December 31, 2016 | \$ <u>0</u> |
| <u>Gains and (Losses) in Surplus</u> | |
| Net income | \$ (511,441,935) |
| Change in nonadmitted assets | 50,760,192 |
| Aggregate write-ins for gains and losses in surplus | <u>(708,419)</u> |
| Change in surplus as regards policyholders for the year | \$ <u>(461,390,162)</u> |
| Surplus as Regards Policyholders December 31, 2017 | \$ <u>(461,390,162)</u> |

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CONCLUSION

Based on this examination, the Association had unassigned surplus of \$(461,390,162) as of December 31, 2017.

The Association did not have a minimum surplus requirement pursuant to Chapter 2210 of the Code.

In addition to the undersigned, Kenna Schievelbein, CFE; and information systems examiner, Michelle Kelly, AFE, CISA participated in this examination. Walt Richards completed the actuarial portion of this examination.

Respectfully submitted,

Winona Lewis, CFE
Examiner-in-Charge

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11E. Communications Update



MEMORANDUM

DATE: January 18, 2019
TO: TWIA Board of Directors
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs
RE: Communications & Legislative Affairs Operational Highlights

I. Legislative & Regulatory Affairs

- a) We continue to act as a resource to state legislators and regulatory officials, providing operational updates and responding to constituent inquiries. In Q4 2018, we took part in the following activities:
- David Durden and myself testified before the House Committee on Land & Resource Management, in October 2018, related to the proposed rate increase for 2019.
 - At the request of Rep. Cecil Bell, Jr.'s (Dist. 3-Montgomery/Waller) office, provided proposed simplified language on windstorm building code requirements and Certificates of Compliance (WPI-8 and WPI-8-Cs) for the Texas Real Estate Commission's Seller's Disclosure form; the Representative is considering legislation that would amend the Seller's Disclosure form to create more transparency in coastal home selling transactions.
 - On separate occasions in November 2018, I met with Justin Till, the new Chief of Staff for Rep. Greg Bonnen (Dist. 24-Galveston), and Justin Garrett, the new clerk of the Senate Business & Commerce Committee, at the State Capitol to provide an overview of TWIA operations and answer questions in advance of the 86th Legislative session.
 - Held a Board meeting materials briefing for interested legislative staff in December 2018.
 - Attended a Senate Business & Commerce Committee hearing to act as a resource witness in case of questions related to TDI's testimony on updated Hurricane Harvey claims data in December 2018. We were not called upon to testify and there was no mention of TWIA during the discussion of the data call.
 - Submitted the 2018 Biennial Report to the required recipients in the Texas Legislature and TDI in December 2018.
 - We have begun meeting with Tier 1 legislative offices following the start of session, including the new Speaker's office, Sen. Taylor's office, and Rep. Lozano's office, to review TWIA's legislative recommendations included in the report and answer questions related to potential legislative changes.



- b) We received and responded to 25 legislative inquiries and 20 inquiries from TDI and the Insurance Council of Texas from October 1 through December 31, 2018.
- c) We continue to provide recurring claims and operational email updates to the Board, TDI and Legislative staff.

II. Coastal Outreach

- a) During Q4 2018, we continued our participation in strategic outreach activities on the coast, including:
 - Embarking on an outreach tour in the Houston-Galveston area in October 2018, where we met with a key agency stakeholder to discuss policy submission questions and get feedback on a policyholder collateral project; toured potential venues for our planned BCP/COOP small business workshop planned for Q1 2019; and met with the LaMarque-Texas City and League City Chambers of Commerce.
 - In December 2018, we participated in a Readiness for Resilience workshop in Fulton, where local municipal and disaster-recovery entities shared their Harvey experiences and identified ways to make Texas and the nation better prepared, responsive, and resilient in the face of natural disasters.
- b) In 2018, we participated in a total of 25 outreach events in the coverage area, an average of two events per month.

III. Media Relations

- a) In Q4 2018, the percentage of negative media mentions (28%) related to TWIA decreased by almost half of what it was in the previous quarter (54%), while positive and neutral mentions increased to 72%.
- b) Notably, in October 2018, Governor Abbott announced his suspension of the Commissioner's decision on the proposed 10% rate increase, which resulted in a high volume of media coverage.
- c) In November, following the release of the *Sunset Commission's Staff Report*, TWIA saw a rise in negative media mentions about the Association related to the report's characterization of TWIA as "broke, in debt" and "on the brink of financial extinction", following Hurricane Harvey.
 - In response to several concerned policyholder and agent calls precipitated by one such article on the Sunset Commission's Staff Report by Galveston County's *The Daily News*, we drafted a response, which was published as a guest column in the paper in early December 2018.
- d) In December, neutral media coverage about the Association increased in response to Rep. Joe Deshotel's filing of legislation that would authorize certain coastal counties to operate casinos and use the tax proceeds to help fund TWIA.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

- e) We responded to 18 media inquiries from October 1 to December 31, 2018, the majority related to TWIA's rates, claims litigation, and the Sunset Staff Report.
- f) I interviewed with Rick Spruill of KRIS 6 TV in Corpus Christi about concerns with TWIA's handling of policyholder claims and use of building consultants in November 2018.

15. Future Meetings

May 7, 2019 – Hyatt Regency – Austin

August 6, 2019 – Tremont House – Galveston