

**Meeting of Board of Directors**  
**Texas Windstorm Insurance Association**  
**Teleconference**  
July 31, 2018  
Tremont House  
2300 Ship's Mechanic Row  
Galveston, Texas 77550  
9:00 a.m.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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

- |   |                   |
|---|-------------------|
| 1. Call to Order – Reminder of the Anti-Trust Statement<br>– <i>Josh Fields</i>   | <i>5 minutes</i>  |
| 2. Introduction of New Board Member – <i>Josh Fields</i>  | <i>5 minutes</i>  |
| 3. Introductions – <i>Josh Fields</i>   | <i>5 minutes</i>  |
| 4. Consideration and Action to:<br>Approve the Minutes from Prior Board of Directors’ Meetings<br>– <i>Josh Fields*</i> | <i>5 minutes</i>  |
| 5. Public Comment   | <i>15 minutes</i> |
| 6. TWIA Operational Highlights – <i>John Polak</i>  | <i>5 minutes</i>  |
| 7. Financial<br>Consideration and Possible Action on the Following Financial Topics:                                    | <i>20 minutes</i> |
| 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  |                   |
| C. Financial Forecast – <i>Jerry Fadden</i>   |                   |
| D. Hurricane Harvey and Member Assessment – <i>Jerry Fadden*</i>  |                   |
| E. 2018 Storm Season Funding – <i>Jerry Fadden</i>  |                   |
| F. Credit Facility – <i>Jerry Fadden*</i>   |                   |
| G. Investment Trust Fund Balances (Sec. 2210.4521) – <i>Jerry Fadden*</i>   |                   |
| H. Selection of Auditors/Accountants for 2018 and Authorization<br>of Non-Audit Services – <i>Jerry Fadden*</i>         |                   |

- |  |                   |
|--|-------------------|
| 8. Internal Audit – <i>Bruce Zaret – Weaver</i><br>Consideration and Possible Action on the Following Audit Topics:<br>A. Internal Audit Status & Update<br>B. Review of IT Security Audit (Closed Session)  | <i>5 minutes</i>  |
| 9. Actuarial – <i>Jerry Fadden</i><br>Consideration and Possible Action on the Following Actuarial Topics:<br>A. Reserve Adequacy<br>B. Hurricane Harvey Ultimate Loss Estimate<br>C. Annual Rate Filing*<br>D. Statutory Limits of Liability*<br>E. Policy Count/Exposures            | <i>20 minutes</i> |
| 10. Underwriting – <i>Denise Larzalere</i><br>A. Operational Review Update   | <i>10 minutes</i> |
| 11. Claims<br>Consideration and Possible Action on the Following Claims Topics:<br>A. Claims Operations – Overview – <i>Dave Williams</i><br>B. Claims Litigation – <i>David Durden</i>  | <i>20 minutes</i> |
| 12. TWIA Operations<br>Consideration and Possible Action on the Following Operations Topics:<br>A. IT Systems Update – <i>John Polak</i><br>B. Depopulation – <i>John Polak</i><br>C. TWIA Expert Panel – <i>Dave Williams</i><br>D. Communications Update – <i>Jennifer Armstrong</i> | <i>30 minutes</i> |
| Lunch break, 11:00   | <i>30 minutes</i> |
| 13. Closed Session ( <b>Board Only</b> )<br>A. Personnel Issues<br>B. Legal Advice   | <i>60 minutes</i> |
| 14. Consideration of Issues Related to Matters Deliberated in Closed Session<br>That May Require Action, if any, of the Board of Directors*  | <i>5 minutes</i>  |
| 15. Committees – <i>Josh Fields</i><br>A. Election of Officers   | <i>5 minutes</i>  |
| 16. Future Meetings – <i>John Polak</i><br><ul style="list-style-type: none"> <li>• December 11, 2018 – Omni Corpus Christi</li> <li>• February 2019 – TBD</li> <li>• May 2019 – TBD</li> </ul>  | <i>5 minutes</i>  |
| 17. Adjourn  |                   |

Estimated Total Length of Meeting 4 hours 10 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**

5700 South MoPac Expressway, Building A, Austin, Texas 78749 • P.O. Box 99090, Austin, Texas 78709-9090  
512-899-4900 / Fax 512-899-4950

#### 4. Approve the Minutes



Lee Loftis	IIAT
Kyle Cottrell	JP Morgan Chase
Craig Fegley	JP Morgan Chase
Tim Peterson	JP Morgan Chase
Karen Guard	Nationwide
Jonna Kay Hamilton	Nationwide
David Nardechia	OPIC
Joe Woods	PCI
Carissa Nash	Sunset Advisory Commission
Marianne Baker	TDI
David Muckerheide	TDI
Frank Baumann	TFPA – Public Member
Marti Lupanello	Texas Farm Bureau Insurance
Jessica Davidson	TWIA
Xiuyu Li	TWIA
Camron Malik	TWIA
Bruce Zaret	Weaver
Keith Willis	Weston Insurance
Michael Cryer	Weston Insurance
Allen Cashin	Willis Re
Alicia Gerte	Willis Re

2. Introductions: Meeting attendees introduced themselves.
3. Approval of Minutes: The minutes from the February 6, 2018 meeting in Austin, Texas were reviewed. Mr. Shofner moved to approve the minutes as presented. Mr. Gerik seconded the motion. The motion passed.
4. Public Comment: There was no public comment.
5. TWIA Operational Highlights: Mr. Polak reviewed the operational scorecard. The Association is on track to meet enterprise objectives for all strategic initiatives in 2018. Policy Center for commercial and manufactured home policies was successfully implemented in February 2018. The Association remains below plan in Q1 2018 on disputes and litigation as a percentage of claims received at 0.2% and 0.0%, respectively.
6. Financial:
  - A. Report of the Secretary/Treasurer: Mrs. King reviewed the Treasurer's Report. Mr. Shofner moved to approve the report. Ms. Neblett seconded the motion. The motion passed.
  - B. Financial Statement Review by Staff: Mr. Fadden reported TWIA's results as of March 31, 2018 show a net loss of \$89.1 million. Direct written premiums were \$83.5 million and the net underwriting loss was \$81.7 million for the three months ended March 2018. Year to date direct written premiums show a decrease of 9% from March 2017 due to continued policy and exposure decline as well as the depopulation of approximately 11,000 policies on June 1, 2017. Direct premiums earned decreased to \$104 million compared to \$118.3 million in the

same period last year. The change is reflective of lower written premiums in 2017 and the first quarter of 2018.

Round one of the quota share reinsurance agreements were effective December 1, 2016 with four participating carriers. As of March 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.

Round two of the quota share reinsurance agreements were effective December 1, 2017 with three participating carriers. As of March 2018, ceded earned premiums for this round were \$1.5 million inception to date.

Through March 31, 2018, non-catastrophe direct loss and loss adjustment expense incurred was negative \$2.6 million, as a result of favorable prior and current year development, compared to \$14.4 million as of March 31, 2017.

The ultimate losses and loss adjustment expenses for Hurricane Ike are \$2.591 billion and \$327.2 million for Hurricane Dolly as of March 2018; no change from December 2017.

The ultimate losses and loss adjustment expenses for Hurricane Harvey are \$1.610 billion as of March 2018, an increase of \$164 million from December 2017.

Operating expenses increased from \$6.46 million as of March 2017 to \$8.51 million as of March 2018. Implementation of the expert panel's methodology in settling residential slab claims in specific flood zones began in Q4 2017. Implementation expenses incurred in Q1 2018 total \$1.95 million.

Commission expense and premium taxes decreased from the prior year and this charge 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 \$8.6 million for 2018 and \$8.6 million for 2017.

- C. Investment Plan Review: Mr. Fadden reported in 2017, the TWIA Board of Directors reviewed and approved the investment plan to clearly state the objectives and guidelines for investing and managing the assets held by TWIA. The primary focus of the investment plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association. The meeting materials contained the current market interest rate ranges for permissible asset types and other comparative investment vehicles, along with an evaluation of financial institutions based on Association criteria. Staff is not recommending any changes to the investment plan. Ms. Neblett moved that the Board of Directors of the Texas Windstorm Insurance Association acknowledge its review of the adequacy and implementation of the investment

plan of the Association and accept staff's recommendation to make no changes to the investment plan at this time. Mr. Shofner seconded the motion. The motion passed.

D. Funding:

D1. Hurricane Harvey Funding Update: Mr. Fadden pointed to the document provided in the meeting materials that outlines the funding structure. Mr. Gerik asked about the Class 1 bonds and whether a full \$500 million is available for use. Mr. Fadden said investors generally require some protection so that there are funds on hand to pay the interest and principal payment. The bonds were issued in 2014 and the Association's financial condition was not as good then.

D2. Member Company Assessment: The estimated ultimate loss and loss adjustment expense for Hurricane Harvey has been revised to \$1.61 billion. As indicated in the meeting materials, the funding received to date, including the TWIA reserves (\$96.3 million), the CRTF balance (\$743.2 million) and the net available proceeds from the Series 2014 Notes (\$449.2 million) totals \$1.288 billion. If the current Hurricane Harvey estimate of ultimate losses proves to be accurate, TWIA will need an additional \$321.3 million in member assessments. As of March 31, 2018, TWIA has paid approximately \$1.23 billion in loss and loss adjustment expenses. Based on the funding received to date, approximately \$58.5 million remains available to fund future losses before an assessment would be required.

Based on the projected payout pattern for unpaid losses and expenses, Association staff proposes an initial assessment of member carriers of \$175.0 million to be considered at the board meeting.

Assuming TDI can approve this assessment promptly and providing time for billing, mailing and collection of the assessment, staff would expect to receive these funds by the end of July. The \$58.5 million of excess funding, 4<sup>th</sup> quarter 2017 earnings of \$42.6 million and a portion of 1<sup>st</sup> quarter 2018 earnings may be required to fund losses in advance of the receipt of assessments. These funds will be restored upon receipt of the assessment proceeds in time for the 2018 hurricane season.

In addition, staff proposes that the board plan to review the ultimate loss estimate and payout experience at the July board meeting, at which time the assessment requirements would be evaluated again. The projections in the meeting materials reflect an additional \$100 million assessment to be received in October 2018 with any balance assessed in 2019. After additional discussion, Mr. Gerik moved to approve the assessment of \$175 million and include an explanation in the bill to insureds of an upcoming additional assessment based on what is known to date about the revised estimate. Ms. Franklin-Womack seconded the motion. The motion passed.

D3. 2018-2019 Funding: Mr. Fadden reported that based on current market conditions and activities to date, Association staff is confident that,

in addition to the sources of funding provided by statute, TWIA will be able to secure coverage consistent with the direction provided by the board of directors at the February 6, 2018 meeting. Therefore, staff is confident the funding plan, when fully implemented, will provide total available loss funding for the 2018 storm season in an amount not less than the probably maximum loss for the Association for a catastrophe year with a probability of 1 in 100.

- E. Financial Audit by Calhoun, Thomson + Matza: Mr. Thomson reviewed the audit documents. Ms. Nebett moved to accept and acknowledge the review by the board of the 2017 audited financial statements as presented by Mr. Clark Thomson of Calhoun, Thomson + Matza. Mr. Shofner seconded the motion. The motion passed.
7. Internal Audit:
- A. Internal Audit Status & Update: Mr. Zaret reported the next step of the model audit is to confirm documentation with accounting and process owners. Scheduling of management's review was targeted for completion by June 30. Due to the extent of IT applications being implemented and other time sensitive projects, the completion date will be moved to third/fourth quarter.

The information security audit is underway and upcoming audits include application development, legal compliance and depopulation and pricing and reserving.

8. Actuarial:
- A. Hurricane Harvey Update: As of April 22, 2018, ultimate losses and expense related to Hurricane Harvey were estimated to be \$1.61 billion, an increase of \$164 million from the previous estimate based on data as of January 12, 2018. The increase was mainly due to adverse development on severity.
- B. Reserve Adequacy: TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2018. The analysis indicates a \$6 million decrease in ultimate non-hurricane loss and expense in prior years due to favorable loss development.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is \$1.61 billion, an increase of \$164 million from the previous analysis mainly due to adverse development of reported claims. The actual ultimate costs of Harvey may differ substantially from the indicated \$1.61 billion. This variability arises from the assumptions made regarding the potential impact of future reopening of closed claims, 3,628 open claims and unreported claims as of April 1, 2018. Potential litigation is also a significant factor that can contribute to the variability. The ultimate estimate for Harvey was outlined in the Statement of Harvey Ultimate Estimate.

As of March 31, 2018, TWIA carried \$417.9 million in total gross loss and loss adjustment reserves with \$0.2 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.

- C. Policy Count/Exposures: Policy counts have decreased year over year. Natural and competitive attrition and the depopulation program are the cause of the drop in counts.
9. Underwriting:
- A. Operational Review Update: Ms. Larzalere said 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. That goal is being exceeded with over 95% processed within 10 days. Quality assurance results on underwriting decisions continues to exceed established goals. Telephone service response time continues to be in the meeting and exceeding categories. Service observation (listening to phone calls and scoring them) is now standard procedure and in 2018, the underwriters will have a quality score included as part of performance evaluations. Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

Ms. Larzalere provided an update on the status of TWIA Certificate of Compliance (WPI-8-C's). For the period of January 1, 2018 – March 31, 2018, staff has received 4397 applications (WPI-3) and 4301 WPI-8-C's have been issued at an average turnaround time of three days. In 2017, a total of 4422 WPI-8-C's were issued. The confirmation of application review completed for applications (WPI-3's) received in the fourth quarter produced one issue requiring follow up and corrective action. TWIA recently met with TDI and the Texas Board of Professional Engineers) to discuss the windstorm inspection program and understand how any complaints from consumers should be addressed.

The Commercial and Manufactured Homes Policy Center project went live in February and the number of issues has been minimal. There have been small increases in call volume. Renewals have started processing in Policy Center as of April.

Agency Compliance audits were performed on 20 agents (200 properties) to verify compliance with the declination of coverage and flood insurance requirements. Once one policy/property selected for review required flood insurance. Agents provided the required declinations on all policies reviewed. Proof of coverage was provided for the one policy requiring flood insurance. All ten agents have an active property and casualty insurance license.

10. Claims:

- A. Claims Operations: Mr. Williams pointed the board to the Harvey disputed claims, noting that they are 2.2% of the 75,503 total claims received. Ms. Neblett said she thinks the Association may be falling short in communications. Mr. Williams said he was working with the communications and legal teams to focus on the quality of letters going to insureds. He is working to make sure staff understands that this event isn't over. One of the biggest challenges was to go from a department of 45 to 1500 who haven't worked for the Association to get them up to understand the organization's commitment to service and accountability. The CAT plan has many after action plans that report on services and comment on the level of accomplishment. Ms. Neblett said she would like staff to put together a "lessons learned" document concerning the Association's service during Hurricane Harvey.
- B. Claims Litigation: Mr. Durden reported that 46 new suits came in during the first quarter of 2018. One suit was settled and six were closed. There were 260 TWIA claims with LOR's in the first quarter. Four were settled and 35 were closed. There is a grand total of 563 TWIA claims with suits/LOR's with active unsettled claims and settled and funded suits.

11. TWIA Operations:

- A. IT System Update: Mr. Malik reported the IT department is focused on delivering all roadmap and departmental projects. The budget is under control and the expenses for both Associations continue to be below projections.

The TWIA Policy Center (Commercial) successfully launched on schedule on February 12<sup>th</sup>. It is now in production support mode.

The production support team continues to meet all commitments. The operations and infrastructure team is also doing an excellent job. The last support tech on the coast was pulled back upon closure of the claims operations center.

The TFPA program stabilization planning is complete. This phase comprises of a cycle of regression testing followed by end-to-end testing and then user acceptance testing. The deployment planning effort has started and a transition team is working on a detailed plan. The exact deployment date will be set once the detailed plan is complete. From a budget perspective, staff continues to monitor expenses to keep them within projected constraints.

- B. Depopulation: Ms. Larzalere said that for round one of the process, 11,000 policies were assumed by carriers. For round two, about 2,000 policies that will be assumed. Ms. King asked if any of the policies have come back. Ms. Larzalere said about 225 policies have come back after they left.
- C. TWIA Expert Panel: Mr. Williams said the project is still on track to be ready by June 1. The software to run the models and the database to populate the model run data are completed. For the last three weeks, they have been going through user acceptance testing by TWIA staff. The findings have shown no defects. The reporting tool that provides the output data for TWIA to use as well as the information that has to be sent to policyholders is complete. The guidelines to be used to train and hold users accountable is 75% completed and will be finished in

the next two weeks. The requirements for the expert panel have been put into the CAT plan for 2018. Every step has been vetted with the expert panel members and they have no concerns.

- D. Communications Update: Ms. Armstrong reported her department continues to act as a resource to state legislators, local officials and community leaders providing operational updates, responding to constituent inquiries and providing written and verbal testimony to the house and senate committees. It also continues to act as a primary point of contact for TDI related to Hurricane Harvey inquiries. Email updates are provided to the board, TDI and legislative staff weekly and as needed. The hurricane preparedness campaign is underway.

Following the closure of the claims support centers in December and February, staff continued to provide policyholder claims assistance through townhall events in January and claims assistance workshops in February and April.

The Agent Advisory Group continues to meet. Mr. Shofner asked about a news report that came out last night from Houston and what was the disconnect with getting the TWIA story out to the media. He felt it seemed one sided. Ms. Armstrong said that was the nature of the beast. The media will tend to focus on the policyholders who aren't happy. Mr. Shofner asked what staff planned to do to address the slanted tone. Ms. Armstrong said her department actively reaches out to reporters with information. Mr. Shofner asked what do you do when they actively don't include the accurate information. Ms. Armstrong said you can provide the information but you can't make them print it.

12. Closed Session: The meeting went into closed session at 11:30 am. The meeting opened at 11:43 am.
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: Mr. Fields reminded the board members that the first meeting of the Legislative and external affairs committee will need to take place shortly.
15. Future meetings:
- July 31, 2018 – Tremont House – Galveston
  - December 11, 2018 – Omni Hotel – Corpus Christi
16. Adjourn: The meeting adjourned at 11:44 a.m.

---

Prepared by: Amy Koehl  
Executive Assistant

---

Approved by: Joshua Fields  
TWIA Chairman

---

Approved by: Bryan Shofner  
TWIA Vice Chairman

## 6. TWIA Operational Highlights

# 2018 Enterprise Scorecard



Reporting YTD as of June 30, 2018

## Reference Data

Policies In-Force	213,278
Exposures In-Force	\$61.3 billion
Written Premiums YTD	\$204.3 million
Claims Received YTD	4,064
Losses Incurred YTD*	\$201.4 million

\*Excludes IBNR

	YTD	Trend	Goal	Δ	Performance
Operating Expenses	7.8%	→	8.7%	-0.9%	
Net Gain From Operations	\$139.7 M	↗	\$62.1 M	\$77.6 M	
Enterprise Projects	100%	→	90%	10%	
Policy Administration	97%	→	90%	7%	
Claims Handling *	96%	→	90%	6%	
Disputed Claims	2.0%	↗	2.0%	0.0%	
Litigated Claims	0.12%	→	0.50%	-0.38%	
Complaints	109	↗	115	-6	

\*Includes Harvey and non-Harvey claims received YTD as of June 30, 2018

## TWIA Key Accomplishments

- Secured \$4.6 billion in total funding for the 2018 hurricane season.
- Depopulated slightly more than 1,600 policies as result of the 2017-2018 Assumption Reinsurance Depopulation Program.
- Remain on track to meet Association objectives for all strategic initiatives in 2018.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q2 2018.
- Remain below plan in Q2 2018 on litigated claims and complaints as a percentage of claims received at 0.12% and 0.2%, respectively.

## Hurricane Harvey Claims and Funding

Data for all reported Harvey claims (August 25, 2017-June 30, 2018)

**76,029**

Hurricane Harvey claims received

**\$1.13 billion**

paid in Hurricane Harvey claims

**40.5 days**

The average claims cycle time from First Notice of Loss to payment

**0.2% ratio**

183 total TDI claims complaints

**4.3% ratio**

3,264 total disputed claims

**\$1.61 B** Ultimate loss and loss adjustment expenses (LAE) from Hurricane Harvey as of March 31, 2018

**\$136.7 M** Available cash utilized to pay Harvey loss and LAE through the end of 2017

- Comprised of \$96.3 million net income through July 31, 2017 and \$40.4 million net income, excluding Harvey expenses, through year end 2017.
- TWIA begun accumulating funds from 2018 operations starting January 1, 2018.

**\$743.2 M** Funds available, and received, from the Catastrophe Reserve Trust Fund (CRTF) in 2017

- The CRTF will be rebuilt with contributions from future operations.

**\$448 M** Amount withdrawn from Class 1 Pre-Event Bonds issued in 2014 and used in 2017

- The remaining \$51 million has been retained for debt reserve funds.

**\$175 M** Initial member company assessment amount requested and approved by TDI in 2018

- TWIA is in the process of receiving individual assessment amounts from the member companies.

## 7. Financial

### 7A. Report of the Secretary/Treasurer

#### 7A1. Income Statement

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Income Statement**  
**for the six months ended June 30,**  
**(000's omitted)**

	2018	2017
<b>Direct Premiums Written</b>	<u>\$ 204,261</u>	<u>\$ 217,763</u>
<b>Premiums Earned:</b>		
Direct Premiums Earned	\$ 207,240	\$ 233,125
Ceded Reinsurance Premiums	(18,109)	(18,115)
Ceded Reinsurance Premiums - Depopulation	<u>(1,364)</u>	<u>(8,599)</u>
Net Premiums Earned	<u>187,766</u>	<u>206,411</u>
<b>Deductions:</b>		
Direct Losses and LAE Incurred	2,266	28,920
Direct Losses and LAE Incurred - Harvey	164,000	0
Direct Losses and LAE Incurred - Ike & Dolly	0	(2,500)
Ceded Losses and LAE Incurred - Depopulation	247	(1,315)
Operating Expenses	16,109	12,680
Commission Expense	32,673	34,842
Ceding commissions / brokerage	(2,458)	(3,054)
Ceding commissions / brokerage - Depopulation	(327)	(2,064)
Premium / Maintenance Tax	<u>3,985</u>	<u>4,290</u>
Total Deductions	<u>216,494</u>	<u>71,799</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>(28,728)</u>	<u>134,612</u>
<b>Other Income or (Expense):</b>		
Gross Investment Income	2,622	3,075
Member Assessment Income	175,000	0
Interest Expense on Class 1 Bonds	(17,102)	(18,252)
Debt Issuance & Other Investment Expenses	(99)	(98)
Other Income (Expense)	<u>50</u>	<u>32</u>
Total Other Income or (Expense)	<u>160,471</u>	<u>(15,244)</u>
<b>Net Income (Loss)</b>	<u>\$ 131,743</u>	<u>\$ 119,368</u>
<b>Surplus (Deficit) Account:</b>		
Beginning Surplus (Deficit)	\$ (461,390)	\$ 0
Net Income (Loss)	131,743	119,368
Change in Provision for Reinsurance	(2,686)	(1,373)
Principal Funded on Class 1 Bonds (net)	0	(23,532)
Change in nonadmitted assets - Other	10,631	(130)
Statutory Fund Cost	0	(94,333)
Ending Surplus (Deficit)	<u>\$ (321,702)</u>	<u>\$ -</u>

## 7A2. Management Discussion and Analysis

**Texas Windstorm Insurance Association**  
**Management Discussion and Analysis**  
**June 30, 2018**

TWIA's results as of June 30, 2018 show net income of \$131.7 million, including the benefit of \$175.0 million in member assessment income. Direct written premiums were \$204.3 million and the net underwriting loss was \$28.7 million for the six months ended June 2018.

Direct Written Premium: Year to date June 2018 written premiums show a decrease of 6% from June 2017, due to continued policy and exposure decline as well as the depopulation of approximately 12,600 policies (11,000 policies on June 1, 2017 and 1,600 policies on June 1, 2018).

Direct Premiums Earned: Direct premiums earned decreased to \$207.2 million compared to \$233.1 million in the same period last year. The change is reflective of lower written premiums in the last quarter of 2017 and first half of 2018.

Assumption Reinsurance Depopulation:

- Round 1: The Quota Share Reinsurance Agreements were effective December 1, 2016 with four participating carriers. As of June 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.

- Round 2: The Quota Share Reinsurance Agreements were effective December 1, 2017 with three participating carriers. As of June 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 June 1 to July 31, 2018, will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

Loss and Loss Adjustment Expense Incurred: Through June 30, 2018 non-catastrophe direct loss and loss adjustment expense incurred was \$2.3 million, as a result of favorable prior and current accident year development, compared to \$28.9 million as of June 30, 2017.

The ultimate losses and loss adjustment expenses for Hurricane Ike are \$2.591 billion and \$327.2 million for Hurricane Dolly as of June 2018, no change from December 2017.

The ultimate losses and loss adjustment expenses for Hurricane Harvey are \$1.610 billion as of June 2018, an increase of \$164 million from December 2017.

Operating Expenses: Operating expenses increased from \$12.77 million as of June 2017 to \$16.29 million as of June 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 \$3.25 million.

Commission Expense and Premium Taxes: Decrease from prior year is attributable to the decrease in direct written premiums for 2018.

Other Income (Expense): Gross investment income is lower due to the decrease in invested cash balances. Interest expense is \$17.1 million for 2018 and \$17.1 million for 2017.

Member Company Assessments: An initial assessment request of \$175.0 million was approved by Commissioner Sullivan on May 25, 2018, followed by the mailing of assessment notices to member companies on June 7, 2018. As of June 30, 2018, \$85.16 million of assessment payments have been received.

**7B. Financial Statement Review by Staff**  
**7B1. Income Statement and Expense Statement**

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
for the six months ended June 30,				
	Actuals - 2018	Budget - 2018	Variance - 2018	Actuals - 2017
<b>Premiums Written:</b>				
Direct	\$ 204,261	\$ 210,796	\$ (6,535)	\$ 217,763
Ceded	(108,654)	(139,385)	30,730	(108,689)
Ceded - Depopulation	(1,364)	(2,561)	1,196	(8,599)
Net	<u>94,242</u>	<u>68,850</u>	<u>25,392</u>	<u>100,475</u>
<b>Premiums Earned:</b>				
Direct	\$ 207,240	\$ 206,029	\$ 1,211	\$ 233,125
Ceded	(18,109)	(23,231)	5,122	(18,115)
Ceded - Depopulation	(1,364)	(2,561)	1,196	(8,599)
Net	<u>187,766</u>	<u>180,237</u>	<u>7,529</u>	<u>206,411</u>
<b>Deductions:</b>				
Direct Losses and LAE Incurred	2,266	59,983	(57,717)	28,920
Direct Losses and LAE Incurred - Harvey	164,000	0	164,000	0
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	(2,500)
Ceded Losses and LAE Incurred - Depopulation	247	(849)	1,096	(1,315)
Operating Expenses	16,109	17,878	(1,769)	12,680
Commission Expense	32,673	33,727	(1,054)	34,842
Ceding commissions / brokerage	(2,458)	(3,860)	1,402	(3,054)
Ceding commissions / brokerage - Depopulation	(327)	(615)	287	(2,064)
Premium / Maintenance Tax	3,985	4,153	(168)	4,290
Total Deductions	<u>216,494</u>	<u>110,417</u>	<u>106,077</u>	<u>71,799</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>(28,728)</u>	<u>69,820</u>	<u>(98,549)</u>	<u>134,612</u>
<b>Other Income or (Expense):</b>				
Gross Investment Income	2,622	2,871	(249)	3,075
Member Assessment Income	175,000	0	175,000	0
Interest Expense on Debt	(17,102)	(17,102)	0	(18,252)
Debt Issuance/Maintenance & Other Investment Expenses	(99)	(95)	(4)	(98)
Other Income (Expense)	50	0	50	32
Total Other Income or (Expense)	<u>160,471</u>	<u>(14,326)</u>	<u>174,797</u>	<u>(15,244)</u>
<b>Net Income (Loss)</b>	<u>\$ 131,743</u>	<u>\$ 55,494</u>	<u>\$ 76,249</u>	<u>\$ 119,368</u>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(461,390)	(461,390)	0	0
Net Income (Loss)	131,743	55,494	76,249	119,368
Change in Provision for Reinsurance	(2,686)	(2,000)	(686)	(1,373)
Principal Funded on Class 1 Bonds (net)	0	0	0	(23,532)
Change in nonadmitted assets - Other	10,631	8,602	2,029	(130)
Statutory Fund Cost	0	0	0	(94,333)
Ending Surplus (Deficit)	<u>\$ (321,702)</u>	<u>\$ (399,294)</u>	<u>\$ 77,593</u>	<u>\$ -</u>
<b>Key Operating Ratios:</b>				
<b>Direct:</b>				
Loss & LAE Ratio:				
Non Hurricane	1.1%	29.1%	-28.0%	12.4%
Hurricane Harvey	79.1%	0.0%	79.1%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	-1.1%
Loss & LAE Ratio	<u>80.2%</u>	<u>29.1%</u>	<u>51.1%</u>	<u>11.3%</u>
UW Expense Ratio:				
Acquisition	17.9%	18.0%	0.0%	18.0%
Non Acquisition	7.8%	8.7%	-0.9%	5.4%
UW Expense Ratio	<u>25.7%</u>	<u>26.6%</u>	<u>-0.9%</u>	<u>23.4%</u>
Combined Ratio	<u>105.9%</u>	<u>55.8%</u>	<u>50.2%</u>	<u>34.7%</u>
<b>Net:</b>				
Loss & LAE Ratio:				
Non Hurricane	1.3%	32.8%	-31.5%	13.4%
Hurricane Harvey	87.3%	0.0%	87.3%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	-1.2%
Loss & LAE Ratio	<u>88.7%</u>	<u>32.8%</u>	<u>55.9%</u>	<u>12.2%</u>
UW Expense Ratio:				
Acquisition	19.2%	19.9%	-0.7%	19.1%
Non Acquisition	8.6%	9.9%	-1.3%	6.1%
UW Expense Ratio	<u>27.8%</u>	<u>29.8%</u>	<u>-2.0%</u>	<u>25.3%</u>
Combined Ratio	<u>116.5%</u>	<u>62.6%</u>	<u>53.8%</u>	<u>37.5%</u>

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Expense Report (000's omitted)**  
**for the six months ended June 30,**

Description	Actuals - 2018	Budget - 2018	Variance - 2018	Actuals - 2017
Personnel Expenses				
Salaries & Wages - Permanent	5,292	5,994	(702)	5,331
Contractor & Temporary Help	22,392	23,771	(1,380)	1,090
Payroll Taxes	421	504	(83)	424
Employee Benefits	2,065	1,920	145	1,745
Recruiting, Training & Other	152	239	(87)	188
Subtotal	<u>30,323</u>	<u>32,429</u>	<u>(2,106)</u>	<u>8,778</u>
Professional & Consulting Services				
Legal	408	297	110	248
Accounting & Auditing	137	163	(26)	204
Information Technology	33	305	(272)	24
Actuarial Services	31	29	2	22
Ombudsman Program	119	114	5	117
Surveys & Inspections	942	1,051	(109)	1,047
Disaster Recovery Services	40	53	(13)	45
Other Services	5,409	5,139	271	1,021
Subtotal	<u>7,119</u>	<u>7,151</u>	<u>(32)</u>	<u>2,728</u>
Hardware/Software Purchases & Licensing	1,574	1,965	(391)	1,427
Rental & Maintenance - Office/Equipment	682	673	8	591
Travel Expenses	147	200	(53)	134
Postage, Telephone and Express	444	628	(184)	424
Capital Management Expenses	84	95	(11)	98
Depreciation	889	894	(5)	1,353
Other Operating Expenses	640	592	48	566
Total Operating Expenses	<u>41,901</u>	<u>44,627</u>	<u>(2,726)</u>	<u>16,099</u>
Capitalization of Fixed Assets	0	(50)	50	0
Reimbursement of Depop Servicing Expense	(176)	(210)	34	0
Allocation To ULAE	(25,517)	(26,395)	877	(3,227)
Allocation To Investing & Other Expense	(99)	(95)	(4)	(98)
Net Operating Expense - UW Operations	<u>16,109</u>	<u>17,878</u>	<u>(1,769)</u>	<u>12,774</u>

## 7B2. Balance Sheet

1	<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>		1
2	<b>Statutory Balance Sheet (000's omitted)</b>		2
3			3
4			4
5		<u>June-18</u>	<u>December-17</u>
6	<b>Admitted Assets</b>		
7	Cash and short term investments:		
8	Unrestricted	\$ 447,545	\$ 366,363
9	Restricted - Funds Held at TTSTC	114,849	279,711
10	Total cash and short term investments	<u>562,395</u>	<u>646,074</u>
11	Premiums receivable & other	1,698	1,862
12	Assessment receivable	89,838	0
13	Amounts recoverable from reinsurers	13	17
14	<b>Total admitted assets</b>	<u><u>\$ 653,944</u></u>	<u><u>\$ 647,954</u></u>
15			
16	<b>Liabilities, Surplus and other funds</b>		
17	<b>Liabilities:</b>		
18	Loss and Loss adjustment expenses	\$ 315,592	\$ 414,734
19	Underwriting expenses payable	16,395	15,278
20	Unearned premiums, net of ceded unearned premiums	115,928	209,453
21	Ceded reinsurance funds payable	68,076	20,972
22	Principal Outstanding on Class 1 Pre Event Bonds	414,600	414,600
23	Interest Payable on Class 1 Pre Event Bonds	17,102	17,102
24	Provision for reinsurance	2,686	0
25	Other payables	25,266	17,206
26	Statutory fund payable	0	0
27	<b>Total liabilities</b>	<u>975,646</u>	<u>1,109,344</u>
28			
29	<b>Surplus and others funds</b>		
30	Unassigned surplus	(321,702)	(461,390)
31	<b>Total liabilities, surplus and other funds</b>	<u><u>\$ 653,944</u></u>	<u><u>\$ 647,954</u></u>
32			
33			
34	<b>Balance in CRTF</b>	<u><u>\$ 3,395</u></u>	<u><u>\$ 1,220</u></u>
35			
36	<b>Balance in CRTF including Statutory fund payable</b>	<u><u>\$ 3,395</u></u>	<u><u>\$ 1,220</u></u>
37			

### 7B3. Cash & Short Term Investments

1  
2  
3  
4  
5

Texas Windstorm Insurance Association  
Unrestricted Cash and Short Term Investments (\$ in 000's)  
June 30, 2018

1  
2  
3  
4  
5

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?
						< 40%	Superior or Strong	> 10%	> \$25B	> .2% of N.A. Reg Capital
<b>Balances as of 6/30/18:</b>										
Bank of America	0	141,378	141,378	1.25%	0.0	32%	Superior	12.2%	\$148	No
BlackRock Liquidity Funds (1)	0	62,806	62,806	1.30%	0.0	14%	N/A	N/A	N/A	N/A
Citibank	8	20,971	20,979	1.00%	0.0	5%	Superior	12.2%	\$129	No
JP Morgan Chase	67,133	0	67,133	0.00%	0.0	15%	Superior	13.6%	\$188	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	155,249	155,249	1.80%	0.0	35%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0	0.00%	0.0	0%	Superior	11.9%	\$141	No
<b>Total of all financial institutions</b>	<b>67,141</b>	<b>380,404</b>	<b>447,545</b>	<b>1.47%</b>	<b>0.0</b>	<b>100%</b>				
<b>Balances as of 12/31/17:</b>										
Bank of America	26,560	0	26,560	0.00%	0.0	7%	Superior	12.7%	\$150	No
BlackRock Liquidity Funds (1)	0	186,676	186,676	0.65%	0.0	51%	N/A	N/A	N/A	N/A
Citibank	5	933	937	0.80%	0.7	0%	Superior	12.6%	\$126	No
JP Morgan Chase	136,976	0	136,976	0.00%	0.0	37%	Superior	13.9%	\$178	No
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
Wells Fargo	63	15,150	15,213	1.05%	1.0	4%	Superior	10.8%	\$127	No
<b>Total of all financial institutions</b>	<b>163,604</b>	<b>202,759</b>	<b>366,363</b>	<b>0.68%</b>	<b>0.6</b>	<b>100%</b>				

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

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of March 31st. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

## 7B4. Cash Flow Statement

1	<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>			1	
2	<b>Statement of Cash Flows (000's omitted)</b>			2	
3	<b>for the six months ended June 30,</b>			3	
4				4	
5		<u>Actuals - 2018</u>	<u>Budget - 2018</u>	<u>Variance - 2018</u>	5
6					6
7	<b>Cash flows from operating activities:</b>				7
8	Premiums collected, net of reinsurance	\$ 158,891	\$ 149,563	\$ 9,329	8
9	Losses and loss adjustment expense paid	(265,650)	(117,638)	(148,012)	9
10	Underwriting expenses paid	(46,834)	(39,232)	(7,602)	10
11	Member assessment received	85,162	0	85,162	11
12	Other	(608)	(397)	(211)	12
13	Net cash provided by operating activities	<u>(69,040)</u>	<u>(7,705)</u>	<u>(61,335)</u>	13
14	<b>Cash flows from nonoperating activities:</b>				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	<b>Cash flows from investing activities:</b>				18
19	Sales and maturities of investments	0	0	0	19
20	Net investment income	(14,640)	(14,326)	(314)	20
21	Net cash provided by investing activities	<u>(14,640)</u>	<u>(14,326)</u>	<u>(314)</u>	21
22	<b>Cash flows from financing activities:</b>				22
23	Borrowed funds	0	0	0	23
24	Borrowed funds repaid	0	0	0	24
25	Net cash provided by financing activities	<u>0</u>	<u>0</u>	<u>0</u>	25
26					26
27	Net increase (decrease) in cash and short-term investments	(83,680)	(22,031)	(61,649)	27
28	Cash and short-term investments, Beginning	646,074	723,560	(77,485)	28
29	Cash and short-term investments, Ending	<u>\$ 562,395</u>	<u>\$ 701,528</u>	<u>\$ (139,134)</u>	29
30					30

## 7B5. 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 COMMML		WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	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	61,267,726	213,278	5.0%	5.0%	204,261	166,266	187,766	166,513	49,982	(28,728)	3,395
<b>TOTAL</b>					<b>6,025,403</b>	<b>5,682,226</b>	<b>4,149,975</b>	<b>4,183,870</b>	<b>1,304,177</b>	<b>(1,338,072)</b>	

\*2018 data through 6/30/18.

## 7C. Financial Forecast



---

## MEMORANDUM

---

DATE: July 13, 2018  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **TWIA Financial Forecast**

---

We have updated the Financial Forecast for year end 2018 with a comparison to the 2018 budget approved in December 2017. We have also included a high level forecast of the 2019 calendar year.

Below are critical assumptions included for 2018 and 2019:

- 1) Premium Changes
  - a. Policy/Exposure Changes
    - i. 2018 – 9.3% policy decline and 7.2% exposure decline for the full year 2018 compared to 2017, including the actual impact of the June 1, 2018 Assumed Reinsurance Depop transfer.
    - ii. 2019 – 6.2% policy decline and 5.3% exposure decline over 2018, including forecasted 2019 depopulation impact (3K policies)
  - b. Rate – The 2018 forecast contains a 5% change in rates consistent with the Board’s decision in 2017. 2019 Forecast 0% rate change, pending Board deliberations.
  - c. Depopulation – The current assumption is that approximately \$6M of annualized premium will be selected for the depopulation assumption in June 2019 and the corresponding quota share reinsurance in December 2018. (Note: We believe this is a conservative assumption and will be firmed up after the Carrier period ends in late August and the Agent period ends in late October.)
- 2) Reinsurance – Assumes that the reinsurance program expense in 2019 will be consistent with 2018. While attachment points for the program may be lower due to projected exposure decline, the 2019 forecast assumes the Board will spend an amount consistent with 2018.
- 3) Projected Losses and Loss Adjustment Expenses
  - a. 2018 Non Cat – Assumes an approximate loss and loss adjustment expense ratio of 3% which includes the favorable results from the 1<sup>st</sup> six months of 2018 and the budgeted ratio for the remaining 6 months.
  - b. 2019 – Forecast included a 17.3% Loss and LAE ratio, consistent with the

2018 ratio.

- 4) Underwriting Expenses
  - a. 2018 Remainder – Actuals to date have been lower than planned, primarily due to timing. It is anticipated that the year-end expenses will be close to the 2018 budget.
- 5) 2019 – Assumed slight improvement in non-acquisition expense ratio to 7.3% compared to forecasted 2018 year end ratio of 7.5%. Class 1 Bonds
  - a. Interest – Remainder of 2018 & 2019 Interest at approximately 8.25%
  - b. Principal – To be funded through operations during the applicable periods.
  - c. Total Interest & Principal Cost in 2018 & 2019 – Will be approximately \$80M.

The current forecast of the income statement indicates a reduction in the deficit balance to \$175M at the end of 2018, and \$79M at the end of 2019. The deficit is currently projected to be eliminated in late 2020.

Please let me know if you have any questions or would like to discuss this matter.

JF

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Income Statement (000's omitted)**

	for the twelve months ended December 31,			
	Forecast - 2018	Budget - 2018	Variance - 2018	Forecast - 2019
<b>Premiums Written:</b>				
Direct	\$ 396,530	\$ 405,876	\$ (9,346)	\$ 373,777
Ceded	(108,654)	(139,385)	30,730	(104,500)
Ceded - Depopulation	(1,890)	(3,086)	1,196	(2,981)
Net	<u>285,985</u>	<u>263,405</u>	<u>22,581</u>	<u>266,296</u>
<b>Premiums Earned:</b>				
Direct	\$ 407,638	\$ 411,341	\$ (3,703)	\$ 383,916
Ceded	(108,654)	(139,385)	30,730	(104,500)
Ceded - Depopulation	(1,890)	(3,086)	1,196	(2,981)
Net	<u>297,093</u>	<u>268,870</u>	<u>28,223</u>	<u>276,435</u>
<b>Deductions:</b>				
Losses and LAE Incurred	12,625	70,595	(57,970)	66,538
Direct Losses and LAE Incurred - Harvey	164,000	0	164,000	0
Ceded Losses and LAE Incurred - Depopulation	223	(873)	1,096	(884)
Operating Expenses	30,613	30,998	(385)	27,895
Commission Expense	63,438	64,939	(1,501)	59,805
Ceding commissions / brokerage	(2,458)	(3,860)	1,402	(2,894)
Ceding commissions / brokerage - Depopulation	(454)	(741)	287	(716)
Premium / Maintenance Tax	7,774	7,996	(222)	7,363
Total Deductions	<u>275,762</u>	<u>169,055</u>	<u>106,707</u>	<u>157,108</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>21,332</u>	<u>99,815</u>	<u>(78,484)</u>	<u>119,326</u>
<b>Other Income or (Expense):</b>				
Gross Investment Income & Other	5,993	5,633	360	7,633
Member Assessment Income	281,855	0	281,855	0
Interest Expense on Debt	(32,303)	(32,303)	0	(28,343)
Debt Issuance & Other Investment Expenses	(2,463)	(196)	(2,267)	(2,852)
Total Other Income or (Expense)	<u>253,082</u>	<u>(26,866)</u>	<u>279,948</u>	<u>(23,562)</u>
<b>Net Income (Loss)</b>	<u>\$ 274,414</u>	<u>\$ 72,949</u>	<u>\$ 201,465</u>	<u>\$ 95,764</u>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(461,390)	(461,390)	0	(174,916)
Net Income (Loss)	274,414	72,949	201,465	95,764
Change in nonadmitted assets - Other	12,061	10,110	1,951	0
Statutory Fund Cost	0	0	0	0
Ending Surplus (Deficit)	<u>\$ (174,916)</u>	<u>\$ (378,331)</u>	<u>\$ 203,416</u>	<u>\$ (79,151)</u>
<b>Key Operating Ratios:</b>				
Direct:				
Loss & LAE Ratio	43.3%	17.2%	26.2%	17.3%
UW Expense Ratio:				
Acquisition	18.0%	18.0%	0.0%	18.0%
Non Acquisition	7.5%	7.5%	0.0%	7.3%
UW Expense Ratio	<u>25.5%</u>	<u>25.5%</u>	<u>0.0%</u>	<u>25.2%</u>
<b>Direct Combined Ratio</b>	<u>68.8%</u>	<u>42.7%</u>	<u>26.1%</u>	<u>42.6%</u>
<b>Net Combined Ratio</b>	<u>91.5%</u>	<u>63.3%</u>	<u>28.2%</u>	<u>57.5%</u>
Ending Balance in CRTF	6,541	6,117	424	12,232
Ending Balance in CRTF & Current Year Earnings	6,541	6,117	424	12,232

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Income Statement (000's omitted)**  
**Forecast By Year**

	2017 Actual	2018 Budget	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Premiums Written:</b>						
Direct	423,074	405,876	396,530	392,799	407,603	424,115
Ceded	(94,909)	(139,385)	(108,654)	(104,500)	(103,917)	(103,450)
Ceded - Depopulation	(9,084)	(3,086)	(1,890)	(2,981)	(2,385)	(1,908)
Net	319,081	263,405	285,985	285,318	301,301	318,757
<b>Premiums Earned:</b>						
Direct	451,347	411,341	407,638	394,400	401,197	416,896
Ceded	(94,909)	(139,385)	(108,654)	(104,500)	(103,917)	(103,450)
Ceded - Depopulation	(9,084)	(3,086)	(1,890)	(2,981)	(2,385)	(1,908)
Net	347,354	268,870	297,093	286,919	294,895	311,538
<b>Deductions:</b>						
Direct Losses and LAE Incurred	42,618	70,595	12,625	67,830	68,472	71,068
Direct Losses and LAE Incurred - Large Storms	1,446,000	0	164,000	0	0	0
Direct Losses and LAE Incurred - Ike & Dolly	(11,757)	0	0	0	0	0
Ceded Losses and LAE Incurred - Depopulation	(1,559)	(873)	223	(884)	(707)	(566)
Operating Expenses	26,748	31,372	30,870	28,896	29,388	30,540
Depopulation Servicing	(521)	(374)	(256)	(233)	(236)	(189)
Commission Expense	67,661	64,939	63,438	62,847	65,217	67,859
Ceding commissions / brokerage	(2,074)	(3,860)	(2,458)	(2,894)	(2,878)	(2,865)
Ceding commissions / brokerage - Depopulation	(2,180)	(741)	(454)	(716)	(572)	(458)
Premium / Maintenance Tax	8,242	7,996	7,774	7,737	8,031	8,355
Total Deductions	1,573,179	169,055	275,762	162,584	166,715	173,745
<b>Net Underwriting Gain or (Loss)</b>	(1,225,824)	99,815	21,332	124,334	128,180	137,793
<b>Other Income or (Expense):</b>						
Gross Investment Income	6,640	5,633	5,943	7,736	8,557	9,410
CRTF Funds Received	743,213	0	0	0	0	0
Member Assessment Income	0	0	281,855	0	0	0
Interest Expense on Class 1 Bonds	(35,354)	(32,303)	(32,303)	(28,343)	(24,057)	(19,416)
Debt Issuance & Other Investment Expenses	(172)	(196)	(2,463)	(2,852)	(2,852)	(2,724)
Sales Tax Refund and Other	55	0	50	0	0	0
Total Other Income or (Expense)	714,382	(26,866)	253,082	(23,459)	(18,352)	(12,731)
<b>Net Income Before Income Taxes</b>	(511,442)	72,949	274,414	100,875	109,828	125,062
Federal Income Tax Expense (Benefit)	0	0	0	0	0	0
<b>Net Income (Loss)</b>	(511,442)	72,949	274,414	100,875	109,828	125,062
<b>Surplus (Deficit) Account:</b>						
Beginning Surplus (Deficit)	0	(461,390)	(461,390)	(174,916)	(74,040)	(0)
Net Income (Loss)	(511,442)	72,949	274,414	100,875	109,828	125,062
Principal Funded on Class 1 Bonds (net)	59,160	0	0	0	0	0
Change in nonadmitted assets - Other	(8,400)	10,110	12,061	(0)	(0)	(0)
Other	(708)	0	0	0	0	0
Statutory Fund Cost	(0)	0	0	0	(35,788)	(125,062)
Ending Surplus (Deficit)	(461,390)	(378,331)	(174,916)	(74,040)	(0)	(0)
<b>Key Operating Ratios:</b>						
Direct:						
Loss & LAE Ratio	327.2%	17.2%	43.3%	17.2%	17.1%	17.0%
UW Expense Ratio:						
Acquisition	17.9%	18.0%	18.0%	18.0%	18.0%	18.0%
Non Acquisition	5.8%	7.5%	7.5%	7.3%	7.3%	7.3%
UW Expense Ratio	23.8%	25.5%	25.5%	25.2%	25.2%	25.3%
Combined Ratio	351.0%	42.7%	68.8%	42.4%	42.3%	42.3%
<b>Premium Assumptions:</b>						
Written Premium % Change	-13.2%	-4.1%	-6.3%	-0.9%	3.8%	4.1%
Earned Premium % Change	-9.1%	-8.9%	-10.6%	-2.2%	1.7%	3.9%
Annualized Rate Change	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Policy Count % Change	-10.7%	-7.9%	-9.3%	-6.2%	-2.4%	-2.2%
Exposures % Change	-12.7%	-6.1%	-7.2%	-5.3%	-1.1%	-0.9%
Policy Count - End of Year	227,012	208,965	205,858	192,995	188,311	184,256
Exposures - End of Year (in 000's)	64,047,931	60,119,492	59,435,746	56,276,597	55,635,757	55,137,773
Assumption Reinsurance Policies	11,221	2,835	1,642	3,005	2,289	1,744
<b>CRTF Balance At End of Period</b>	1,220	6,117	6,541	12,504	18,720	61,224
<b>CRTF Balance At End of Period &amp; Current Year Earnings</b>	1,220	6,117	6,541	12,504	54,508	186,286

## 7D. Hurricane Harvey and Member Assessment Update

**TWIA**  
**Hurricane Harvey Sources of Funding**  
**Projected Industry Assessments**



	<b>May 7, 2018 Board Presentation</b>	<b>July 30, 2018 Board Presentation</b>
<b>Funding Sources:</b>		
TWIA Reserves/YTD Payable to CRTF	\$ 96,300,000	\$ 96,300,000
Catastrophe Reserve Trust Fund (CRTF)	743,212,952	743,212,952
Class 1 Bond Proceeds	449,172,270	449,172,270
TWIA 2017 Earnings Post Harvey (8/1/17-12/31/17)	-	39,495,000 (a)
Sub-total:	<u>1,288,685,222</u>	<u>1,328,180,222</u>
<b>Initial Member Assessment</b>	175,000,000	175,000,000
<b>Remaining Member Assessment</b>	<b>146,314,778</b>	<b>106,819,778</b> (a)
Total Projected Funding Sources	<u>\$ 1,610,000,000</u>	<u>\$ 1,610,000,000</u>
<b>Funding Uses:</b>		
Estimated Ultimate Loss and Loss Adjustment Expenses	<u>\$ 1,610,000,000</u>	<u>\$ 1,610,000,000</u> (b)
<b>Paid Claims</b>	<b>as of 3/31/18</b>	<b>as of 6/30/2018</b>
Loss	\$ 1,052,099,174	1,133,216,755
ALAE	112,514,074	122,258,099
ULAE	65,614,449	75,054,190
Total Payments	<u>\$ 1,230,227,697</u>	<u>\$ 1,330,529,044</u>

**Footnotes**

(a) Reflects TDI direction that "the full amount of 2017 earnings should be included in the "premium and other revenue" amount disclosed in any additional requests TWIA may make to TDI for approval of additional Class 1 member assessments. Requests that do not include the full amount of 2017 earnings will not be approved."

(b) Bases on current estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey as of March 31, 2018 and June 30, 2018, respectively.

Texas Windstorm Insurance Association  
Cash Flow Analysis - Hurricane Harvey



	2017	2018				2019				2020
	Full year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Full year
Association Earnings (Excluding Harvey)	135,760									
Hurricane Harvey Funding Sources:										
Loss/LAE Payments	(1,075,606)	(154,621)	(100,301)	(72,697)	(51,203)	(29,941)	(40,525)	(24,150)	(20,125)	(40,829)
Payable to CRTF - Earnings 1/1 - 12/31/2017	135,760	-	-	-	-	-	-	-	-	-
CRTF Disbursement	743,213	-	-	-	-	-	-	-	-	-
Class 1 Bond Proceeds	260,000	88,000	101,172	-	-	-	-	-	-	-
Member Assessment #1	-	-	85,162	89,838	-	-	-	-	-	-
Member Assessment #2	-	-	-	-	106,855	-	-	-	-	-
Member Assessment #3	-	-	-	-	-	-	-	-	-	-
	63,366	(66,621)	86,033	17,141	55,652	(29,941)	(40,525)	(24,150)	(20,125)	(40,829)
Hurricane Harvey ITD Basis:										
Loss/LAE Payments	(1,075,606)	(1,230,228)	(1,330,529)	(1,403,226)	(1,454,429)	(1,484,370)	(1,524,896)	(1,549,046)	(1,569,171)	(1,610,000)
Payable to CRTF - Earnings 1/1 - 12/31/2017	135,760	135,760	135,760	135,760	135,760	135,760	135,760	135,760	135,760	135,760
CRTF Disbursement	743,213	743,213	743,213	743,213	743,213	743,213	743,213	743,213	743,213	743,213
Class 1 Bond Proceeds	260,000	348,000	449,172	449,172	449,172	449,172	449,172	449,172	449,172	449,172
Member Assessment #1	-	-	85,162	175,000	175,000	175,000	175,000	175,000	175,000	175,000
Member Assessment #2	-	-	-	-	106,855	106,855	106,855	106,855	106,855	106,855
Member Assessment #3	-	-	-	-	-	-	-	-	-	-
	63,366	(3,255)	82,777	99,918	155,570	125,629	85,104	60,954	40,829	(0)
Hurricane Harvey ITD Paid as a % of Ultimate	66.8%	76.4%	82.6%	87.2%	90.3%	92.2%	94.7%	96.2%	97.5%	100.0%

## 7E. 2018 Storm Season Funding



---

**MEMORANDUM**

---

DATE: July 13, 2018  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **2018 TWIA Funding**

---

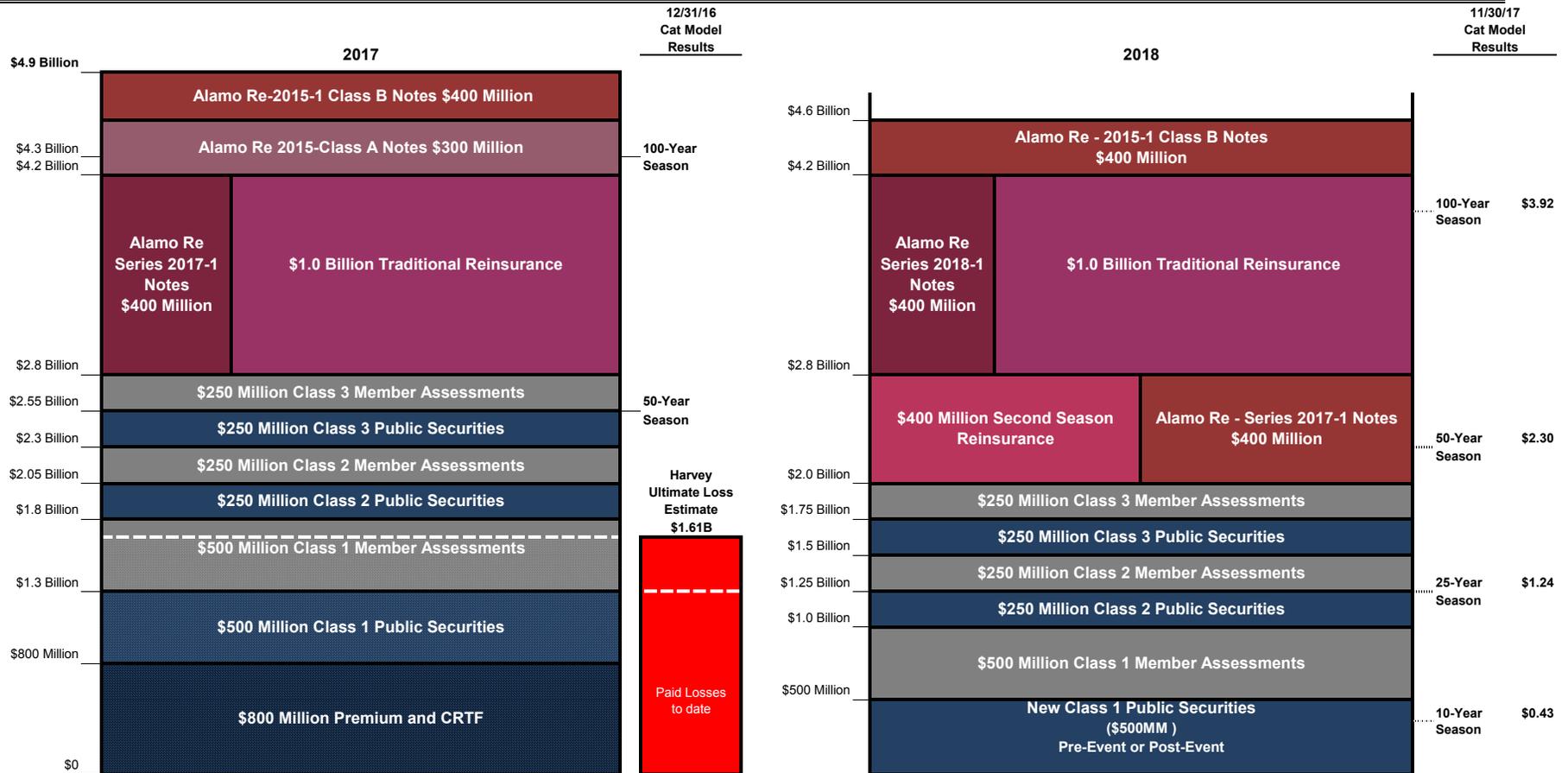
As directed by the TWIA Board of Directors at its February 6 and May 8, 2018 meetings, TWIA staff and Guy Carpenter, its reinsurance broker, completed the placement of \$2.6 billion in reinsurance for the 2018 hurricane season. The 2018 reinsurance program includes:

- \$400 million of three-year catastrophe bonds (the 2017-B catastrophe bonds), issued in 2017, which were reset to provide coverage for aggregate losses in excess of \$2.0 billion and provide 50% of the \$800 million layer in excess of \$2.0 billion.
- A \$400 million “Second Season” reinsurance contract purchased in 2017 and effective June 1, 2018 based on the 2017 drawdown of the CRTF to fund Hurricane Harvey losses. This contract was paid for in 2017 and the premium recorded as a prepaid asset at 12/31/17. It will be recognized as ceded premium in the 2018 income statement.
- A combination of \$1.0 billion in traditional reinsurance coverage and \$400 million in newly issued catastrophe bonds (Series 2018-A catastrophe bonds), providing an aggregate of \$1.4 billion in excess of \$2.8 billion. The traditional reinsurance has a one-year term, and the catastrophe bonds mature in three years.
- \$400 million of catastrophe bonds issued in 2015, which were reset to attach at \$4.2 billion, providing total funding to \$4.6 billion.

At \$4.6 billion in total funding, the 2018 funding structure provides an additional \$300 million of coverage above the minimum/target \$4.3 billion coverage level set by the Board. The total cost of the program, including the recognition of the Second Season cover purchased in 2017 is \$106.2 million, under the \$110.0 million maximum cost set by the Board.

Please let me know if you have any questions or would like to discuss this matter.

JF



Notes: Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 12/31/16 for 2017 season and as of 11/30/17 for 2018 season.  
 Reflects revised Hurricane Harvey ultimate loss estimate of \$1.61 billion as of 3/31/18. The actual ultimate costs of Hurricane Harvey may differ substantially from the indicated \$1.61B

## 7F. Credit Facility



## MEMORANDUM

---

DATE: July 13, 2018  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **TWIA \$500 Million Credit Facility**

---

As you know the Association has the authority to pay losses with the proceeds of private financing arrangements. Under Chapter 2210 and the administrative rules applicable to the Association (28 Texas Administrative Code, Chapter 5, Subchapter E), the Association may enter into private financing arrangements payable from (i) net premium and other revenue not required for the payment of Class 1, Class 2 or Class 3 Public Securities, (ii) reinsurance proceeds, (iii) the proceeds of a private financing arrangement, (iv) the proceeds of any class of Public Securities issued under Chapter 2210 of the Texas Insurance Code, or (v) any other Association asset.

In the first quarter of 2018 TWIA conducted a process to solicit proposals from various financial institutions with respect to providing a bank line of credit, or an alternative short-term funding mechanism, (the "Liquidity Facility") for the 2018 storm season in the amount of \$250 million or more to provide immediate liquidity to fund claim payments upon the occurrence of a Catastrophic Event. This need was created by the depletion of the Catastrophe Reserve Trust Fund (CRTF) as a result of Hurricane Harvey. Although this structure would be considered a Financial Arrangement and not deemed a Public Security under the Act, it is the intent of TWIA that, if TWIA draws on the Liquidity Facility to fund claims from a Catastrophic Event, the Liquidity Facility would be refinanced through the issuance of post-event Class 1 Public Securities.

Hilltop Securities, Inc. was retained by TWIA to assist in the evaluation of proposals and the negotiation with participating financial institutions. TWIA received competitive proposals from two JPMorgan Chase (JPMC) and BankofAmerica/Merrill Lynch (BAML) through this process. JPMC was ultimately selected as lead manager based on the overall cost and terms of their proposal. In particular, while JPMC provided a one-year term, they offered the option to cancel the facility following the hurricane season with no penalty. This provided TWIA with the liquidity access required during the hurricane season, while not paying commitment fees for the full year.

A summary of indicative terms and conditions:



Borrower	Texas Windstorm Insurance Association (“TWIA” or the “Borrower”)	
Lead arranger:	JPMorgan Chase Bank, N.A.	
Administrative agent:	JPMorgan Chase Bank, N.A.	
Facility	Total Senior Credit Facility:	Up to \$500 million
	JPM Revolving Line of Credit (“R/C”) Commitment:	Up to \$400 million
	To be syndicated at Borrower’s direction:	Up to \$100 million
Purpose	To finance the short term liquidity needs of the Borrower to pay insurance claims in the event of a natural disaster from a windstorm or hailstorm.	
Collateral	First perfected security interest in all member insurer assessments now or hereafter assessed, collected and/or otherwise received by the Borrower.	
Tenor:	Facility will have a final maturity date of May 31, 2019, with a one (1) year term out option subject to the ultimate consent of the Bank(s).	
Commitment Fee	40 bps	
Pricing grid:	Tenor of Funding: Rate < 150 days: LIBOR +145 bps >= 150 days: LIBOR +275 bps	
Structuring fee:	\$100,000 payable at closing to JPM only and conditioned upon the bank group being limited to one other bank.	
Upfront fee:	20.0 bps on Total Senior Credit Facility commitments at closing, allocated on a pro rata basis to all participant banks.	
Annual admin fee:	None	
Legal Fees:	Estimated range of \$75k-150k subject to change depending on amount of negotiation and any unforeseen additional legal work required; does not include Borrower’s counsel fees.	
Termination option:	May be exercised by TWIA on either of the following dates: December 28, 2018 and March 31, 2019 at no penalty.	



- Conditions Precedent
- Completion and delivery of satisfactory legal documentation including satisfactory opinions of counsel.
  - Evidence that (i) the 100 year plan is in place upon the closing date as well as that (ii) TWIA shall begin necessary steps to draft documents funding a post-event bond transaction.
  - For each advance, the Bank shall receive documentation demonstrating that the amount of claims being made under policies issued by the Borrower exceeds the aggregate amount of TWIA’s available liquid funds including without limitation, all amounts available under any and all deposit accounts, savings accounts and securities or other investments now or hereafter maintained by TWIA.
  - Advances shall not exceed the amount by which the aggregate amount of claims exceeds the aggregate amount of liquid assets.
- Mandatory Prepayment
- After the occurrence of a natural windstorm or hailstorm, Class I Public Securities must be issued to prepay any fundings on the R/C.
  - In the event and on each occasion that TWIA receives any proceeds of any Public Securities or Member Assessments at any time, TWIA shall immediately prepay the R/C in an aggregate amount equal to the lesser of (i) 100% of such public securities proceeds or Member Assessments or (ii) the aggregate amount of the loans then outstanding.
  - After the occurrence of a natural windstorm or hailstorm disaster, and in the event Public Securities are not issued, TWIA will levy assessments on its member insurers, subject to applicable legal requirements, in an amount sufficient to cover and repay in full the aggregate amount of loans (including, without limitation, accrued interest on such loans) to be advanced to TWIA in accordance with the other provisions of the agreement.

Based on the terms outlined above, the upfront and undrawn costs associated with the facility are as follows:

Structuring fee	\$100,000
Upfront fee	1,000,000
Bank Legal fees <sup>1</sup>	\$75,000 - \$150,000
Total	\$1,175,000 - 1,250,000

---

(1) Does not include TWIA counsel or BAML Counsel.



Assuming the facility is terminated at the December 29, 2018 optional termination date, the 2018 commitment fees would approximate \$833K (based on \$167K per month for 5 months, Aug. through December).

We are in the process of negotiating final terms and loan documentation. In connection with the transaction the banks will require various officer certificates, legal opinions and Board resolutions. TWIA staff will provide proposed Board resolutions prior to the July 31, 2018 Board meeting as soon as they are available.

JF

## 7G. Investment Trust Fund Balances



---

## MEMORANDUM

---

DATE: July 13, 2018  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **Investment of Trust Fund Balances (Sec. 2210.4521)**

---

SB 900 added a requirement as follows regarding the Catastrophe Reserve Trust Fund (CRTF):

Sec. 2210.4521. INVESTMENT OF TRUST FUND BALANCES.

(a) The comptroller shall invest in accordance with the investment standard described by Section 404.024(j), Government Code, the portion of the trust fund balance that exceeds the amount of the sufficient balance determined under Subsection (b). The comptroller's investment of that portion of the balance is not subject to any other limitation or other requirement provided by Section 404.024, Government Code.

(b) At least once each 12-month period, the board of directors shall determine a balance for the trust fund that the board considers to be sufficient to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

TWIA Board of Directors reviewed this provision as required in 2017 at the August Board of Directors Meeting.

This statutory provision requires the Comptroller to invest **excess** CRTF funds in a less restrictive manner using a "prudent investor" standard and it requires the TWIA board to provide an annual notification to the Comptroller regarding the excess funds/sufficient balance amount in the CRTF. The CRTF Balance is approximately \$3.395M as of June 30, 2018. The CRTF is utilized for funding losses and expenses in excess of current year premiums and other revenue. Since there is a reasonable possibility that all of the funds in the CRTF may be required to be utilized in the event of a catastrophic event, TWIA staff believes that all the funds in the CRTF are necessary to meet the potential cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). Thus there are **no excess funds** in the CRTF at this time to be invested by the Comptroller under the prudent investor standard set forth in Chapter 424 of the Government Code.



Suggested resolution language for the TWIA board of directors' use at the July 30, 2018 meeting in Galveston is as follows:

**Resolved, that based on association staff analysis and recommendation the Board of Directors hereby determines that at this time the entire balance of the Catastrophe Reserve Trust Fund is required to be kept available to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a) of the Texas Insurance Code. Thus staff is directed to notify the Texas Comptroller's Office that the fund balance does not exceed the sufficient balance as defined in statute.**

Please let me know if you have any questions or would like to discuss this matter.

7H. Selection of Auditors/Accountants for 2018  
and Authorization of Non-Audit Services



## MEMORANDUM

---

DATE: July 13, 2018  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **Selection of Auditors/Accountants for 2018 and Authorization of Non-Audit Services**

---

Each year the association retains an accounting firm to conduct an audit of the association's financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2013, Calhoun Thomson + Matza (CTM) was selected to continue in their role as the association's independent auditor. I have attach the Statutory and GASB engagement letters from CTM for use in connection with the audit of the association's 2017 financial statements. Counsel has reviewed the letters and reports that they are the same as last year with no changes in terms or fee amounts. Staff recommends to the Board of Directors that the engagements be approved and the letters executed. Staff also requests authority to use CTM as needed over the coming year for help with tax related non-audit services. Resolution language follows.

**The Board of Directors of the association acting as the audit committee authorizes and directs that the firm of Calhoun, Thomson + Matza be engaged to conduct the upcoming annual audits of the association's financial statements on the terms set forth in the Statutory and GASB engagement letters included in the board book. The staff of the association is further authorized to engage CTM to provide permitted tax related non-audit services during the coming year as needed.**

Please let me know if you have any questions or would like to discuss this matter.

## 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: July 31, 2018

SUBJECT: Status of Internal Audit Activities

---

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

➤ **Current Activities:**

- *Information Security Audit:*
  - The scope of our internal audit includes an evaluation of the Association's Information Security policies and procedures; specifically the processes to develop, maintain, and protect the security and availability of the Association's systems and data.
  - Report is in the final review.
  
- *Legal and Compliance Audit:*
  - The scope includes reviewing procedures in place for appropriate risk coverage in relation to state regulations as well as TWIA policies.
  - Fieldwork is in final stages.
  
- *Model Audit Rule:*
  - Accounting Staff is working through documentation to confirm process workflows. Targeted for completion in third/fourth quarter.
  
- *Upcoming Audits:*
  - Application Development
  - Pricing and Reserving
  - Underwriting & Agency
  - Communications
  - Cash Management

➤ **Sunset Advisory Commission:**

- Assisted with documentation preparation and kick-off meeting.

➤ **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. Actuarial  
9A. Reserve Adequacy



## MEMORANDUM

---

REVIEW DATE: July 12, 2018

TO: Jerry Fadden, Chief Financial Officer  
FROM: Xiuyu Li, Senior Actuary  
RE: Reserve Adequacy as of June 30, 2018

---

TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of June 30, 2018.

The analysis indicates a \$1 million decrease in ultimate non-hurricane loss and expense in prior years due to favorable loss development.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is \$1.61B, remaining the same from 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 potential impact of future reopenings of closed claims, 3,789 open claims, and unreported claims as of June 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. The ultimate estimate for Harvey was outlined in Statement of Harvey Ultimate Estimate.

As of June 30, 2018, TWIA carried \$315.7million in total gross loss and loss adjustment reserves with \$0.15 million of the total gross ceded to De-popped carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserve.

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

## 9B. Hurricane Harvey Ultimate Loss Estimate



**Xiuyu Li, ACAS, MAAA**  
**Senior Actuary**

**MEMORANDUM**

**DATE:** July 16, 2018  
**TO:** Jerry Fadden, Chief Financial Officer  
**RE:** **Estimate of Ultimate Losses for Hurricane Harvey**

As of July 12, 2018 ultimate losses and expense related to Hurricane Harvey were estimated to be \$1.61 billion, remaining the same from previous estimate reviewed at April 22, 2018.

Following table outlines the details:

Estimated Ultimate Loss from Hurricane Harvey	
Paid Losses and Allocated Loss Adjustment Expenses	\$1,255,474,854
Loss and Allocated Loss Adjustment Expense Case Reserves	\$ 63,412,357
Paid Unallocated Loss Adjustment Expenses	\$ 75,054,190
Incurred but Not Reported Expenses	\$ 215,868,838
<hr/>	
Estimated Ultimate Loss &LAE from Hurricane Ike	\$ 1,609,810,239
Selected Ultimate Loss &LAE from Hurricane Ike	\$ 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 potential impact of future reopening of closed claims, 3,789 open claims, and unreported claims as of June 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. \$1.61B is, however, our best estimate of the expected cost of Harvey based on all the information known as of July 12, 2018.

XL

## 9C. Annual Rate Filing

**Texas Windstorm Insurance Association**  
**Residential Property - Wind & Hail**  
**Rate Level Review**  
**Summary of Impact of Rate Changes**

		<b>Rate Increase</b>							
		<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>32.3%</b>
<b>Expenses as a % of Premium</b>									
A	Indicated Loss & LAE - Hurricane	46.2%	44.0%	42.0%	40.1%	38.5%	36.9%	35.5%	34.9%
B	Indicated Loss & LAE - Non-Hurricane	15.4%	14.7%	14.0%	13.4%	12.8%	12.3%	11.8%	11.6%
C=A+B	Total Loss & LAE	61.6%	58.6%	56.0%	53.5%	51.3%	49.2%	47.3%	46.5%
Fixed Expenses									
D	General Fixed Expense	5.7%	5.4%	5.2%	5.0%	4.8%	4.6%	4.4%	4.3%
E	Reinsurance	16.0%	15.2%	14.5%	13.9%	13.3%	12.8%	12.3%	12.1%
F	Outstanding Class 1 Public Security Repayment	18.6%	17.7%	16.9%	16.2%	15.5%	14.9%	14.3%	14.1%
G=D+E+F	Total Fixed Expenses	40.3%	38.4%	36.6%	35.0%	33.6%	32.2%	31.0%	30.5%
H=C+G	Loss + LAE plus Fixed Expenses	101.9%	97.0%	92.6%	88.6%	84.9%	81.5%	78.3%	77.0%
I	Variable Expenses (Commissions + Premium Taxes)	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
J	CRTF Contribution & UW Contingency & Uncertainty	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
K=I+J	Total Variable	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
L=H+K	Total Fixed and Variable	124.9%	120.0%	115.6%	111.6%	107.9%	104.5%	101.3%	100.0%
M=1-K	Permitted LLAE ratio (1- Total Variable %)	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%
N=(H/M-1)	Indicated Rate Change	32.3%	26.0%	20.2%	15.0%	10.2%	5.8%	1.7%	0.0%

**Texas Windstorm Insurance Association  
Commercial Property - Wind & Hail  
Rate Level Review  
Summary of Impact of Rate Changes**

		<b>Rate Increase</b>							
		<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>37.3%</b>
<b>Expenses as a % of Premium</b>									
A	Indicated Loss & LAE - Hurricane	56.3%	53.6%	51.2%	49.0%	46.9%	45.0%	43.3%	41.0%
B	Indicated Loss & LAE - Non-Hurricane	9.1%	8.7%	8.3%	7.9%	7.6%	7.3%	7.0%	6.6%
C=A+B	Total Loss & LAE	65.4%	62.3%	59.5%	56.9%	54.5%	52.3%	50.3%	47.6%
Fixed Expenses									
D	General Fixed Expense	5.7%	5.4%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%
E	Reinsurance	16.0%	15.2%	14.5%	13.9%	13.3%	12.8%	12.3%	11.7%
F	Outstanding Class 1 Public Security Repayment	18.6%	17.7%	16.9%	16.2%	15.5%	14.9%	14.3%	13.5%
G=D+E+F	Total Fixed Expenses	40.3%	38.4%	36.6%	35.0%	33.6%	32.2%	31.0%	29.4%
H=C+G	Loss + LAE plus Fixed Expenses	105.7%	100.7%	96.1%	91.9%	88.1%	84.6%	81.3%	77.0%
I	Variable Expenses (Commissions + Premium Taxes)	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
J	CRTF Contribution & UW Contingency & Uncertainty	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
K=I+J	Total Variable	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
L=H+K	Total Fixed and Variable	128.7%	123.7%	119.1%	114.9%	111.1%	107.6%	104.3%	100.0%
M=1-K	Permitted LLAE ratio (1- Total Variable %)	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%
N=(H/M-1)	Indicated Rate Change	37.3%	30.7%	24.8%	19.4%	14.4%	9.8%	5.6%	0.0%

## 9D. Statutory Limits of Liability



## MEMORANDUM

DATE: July 13, 2018  
TO: John Polak, General Manager  
CC: Jerry Fadden, Chief Financial Office  
FROM: Xiuyu Li, Actuary  
RE: 2018 Statutory Limits of Liability

Attached is a spreadsheet showing the detailed calculations to revise the limits of liability used by the Texas Windstorm Insurance Association as of June 30, 2018. As prescribed by Texas Insurance Code Section 2210.502(a), the liability limits are to be adjusted based on changes in the Boeckh Index. The attached exhibits incorporate the Boeckh cost changes for Corpus Christi and Houston averaged together. Supporting documentation is also attached.

To compute the proper changes, the TWIA book of business has been profiled by construction type as of June 30, 2018 for each of the categories needing adjustment as follows:

	Current 2018	Indicated 2019	\$ Change	% Change
Dwellings and individually owned townhouses	\$1,773,000	\$1,847,000	74,000	4.2%
Contents of an apartment, condominium, or townhouse	\$374,000	\$391,000	17,000	4.5%
Commercial structures and associated contents	\$4,424,000	\$4,595,000	171,000	3.9%

The limit of liability for governmental buildings and corporeal movable property shall be indexed and adjusted as provided for commercial structures and associated contents, per Texas Insurance Code Section 2210.502(d).

The filing will be made with the Texas Department of Insurance as required by statute and as directed by the TWIA Board of Directors at its July 31, 2018 meeting.

XL



**Texas Windstorm Insurance Association**  
**Proposed Limits of Liability**  
**To Be Effective January 1, 2019**  
 Impact on Exposures In-Force as of 6/30/18



Statutory Limits of Liability

	Current	Proposed	Increase
Dwelling	1,773,000	1,847,000	74,000
Contents	374,000	391,000	17,000
Non-Dwelling	4,424,000	4,595,000	171,000

	Risks at Statutory Limits	<u>Exposure</u> Current	Proposed	Increase
Dwelling	93	164,889,000	171,771,000	6,882,000
Contents	45	16,830,000	17,595,000	765,000
Non-Dwelling	130	575,120,000	597,350,000	22,230,000
Total	268	756,839,000	786,716,000	29,877,000
Total TWIA Exposure				61,188,170,844
% Increase in TWIA Exposure				0.05%

<b>MS/B BUILDING COST INDEX NUMBERS</b>		<b>MSB</b>					<b>May- June 2017</b>				
		<b>RESIDENCES</b>		<b>APARTMENTS, HOTEL and OFFICE BUILDING</b>			<b>COMMERCIAL and FACTORY BUILDINGS</b>				
<b>LOCATION</b>	<b>Frame</b>	<b>Brick</b>	<b>Brick Wood</b>	<b>Brick Conc.</b>	<b>Brick Steel</b>	<b>Frame</b>	<b>Steel</b>	<b>Brick Wood</b>	<b>Brick Steel</b>	<b>Brick Conc.</b>	
<b>SOUTH CAROLINA</b>											
CHARLESTON	2705.0	2778.3	2309.6	2363.2	2410.8	2331.3	2551.2	2541.0	2746.5	2532.0	
COLUMBIA	2585.0	2554.5	2180.9	2229.7	2256.5	2300.8	2468.3	2318.8	2601.7	2384.0	
GREENVILLE	2301.9	2350.5	2163.5	2208.1	2130.6	2196.0	2305.3	2356.6	2408.2	2285.9	
<b>SOUTH DAKOTA</b>											
PIERRE	2337.9	2592.3	2607.7	2666.6	2443.3	2353.9	2440.9	2670.1	2726.0	2738.2	
RAPID CITY	2325.4	2599.3	2606.5	2692.7	2516.5	2369.9	2465.0	2696.2	2772.5	2716.2	
SIoux FALLS	2344.2	2473.9	2482.0	2626.6	2662.2	2437.7	2613.8	2624.1	3115.0	2756.5	
<b>TENNESSEE</b>											
CHATTANOOGA	2294.9	2412.2	2321.0	2422.5	2283.4	2311.7	2564.8	2465.7	2727.0	2575.7	
KNOXVILLE	2121.9	2271.5	2201.3	2412.6	2316.7	2277.0	2486.6	2315.1	2688.9	2582.7	
MEMPHIS	2253.6	2334.7	2270.1	2418.7	2493.2	2302.9	2555.8	2444.5	2825.4	2555.9	
NASHVILLE	2457.8	2508.0	2459.5	2526.9	2650.2	2442.4	2728.7	2582.3	3079.7	2653.9	
<b>TEXAS</b>											
ABILENE	2286.4	2422.8	2239.0	2231.5	2249.0	2295.9	2258.4	2507.2	2487.7	2364.1	
AMARILLO	2298.7	2397.4	2279.9	2260.8	2264.7	2292.9	2297.7	2516.7	2533.0	2312.0	
AUSTIN	2384.8	2492.1	2436.2	2402.7	2476.1	2471.8	2513.1	2649.7	2714.6	2474.0	
CORPUS CHRISTI	2295.5	2345.4	2377.5	2348.6	2318.8	2441.1	2399.2	2556.4	2527.9	2249.4	
DALLAS	2384.1	2513.4	2470.6	2487.6	2502.6	2441.1	2411.3	2695.0	2742.5	2605.2	
EL PASO	2239.0	2293.9	2351.0	2290.5	2351.5	2326.5	2413.6	2505.6	2537.9	2279.0	
FORT WORTH	2363.5	2498.5	2444.1	2459.9	2501.9	2428.6	2418.3	2601.3	2796.9	2557.6	
HOUSTON	2420.3	2545.0	2487.4	2629.8	2564.0	2617.0	2598.4	2659.4	2902.8	2660.0	
LONGVIEW	2430.2	2467.5	2452.6	2466.7	2521.4	2520.7	2542.2	2690.3	2787.4	2560.3	
LUBBOCK	2203.1	2297.0	2280.9	2337.0	2356.1	2280.4	2329.2	2457.0	2538.2	2292.7	
ODESSA	2259.5	2399.6	2326.5	2312.2	2345.3	2406.5	2479.5	2542.6	2598.5	2299.6	
SAN ANTONIO	2308.9	2442.9	2416.4	2375.6	2319.2	2453.7	2488.7	2509.7	2613.6	2434.0	
WACO	2326.9	2414.1	2297.8	2309.3	2333.4	2282.9	2402.7	2466.4	2615.3	2341.6	
WICHITA FALLS	2482.0	2621.1	2371.6	2325.1	2316.1	2398.2	2340.8	2512.7	2585.1	2383.6	
<b>UTAH</b>											
SALT LAKE CITY	2655.5	2876.1	2588.2	2804.0	2671.2	2560.5	2672.1	2703.0	3258.9	2922.9	
<b>VERMONT</b>											
BURLINGTON	2748.3	2834.7	2870.6	2958.0	2905.7	2815.4	2882.1	3098.2	3278.4	3072.0	
MONTPELIER	2784.7	2883.7	2923.2	3000.1	2915.0	2838.6	2902.9	3129.8	3305.5	3131.4	

<b>MS/B BUILDING COST INDEX NUMBERS</b>		<b>MSB</b>					<b>May - June 2018</b>				
		<b>RESIDENCES</b>		<b>APARTMENTS, HOTEL and OFFICE BUILDING</b>			<b>COMMERCIAL and FACTORY BUILDINGS</b>				
<b>LOCATION</b>	<b>Frame</b>	<b>Brick</b>	<b>Brick Wood</b>	<b>Brick Conc.</b>	<b>Brick Steel</b>	<b>Frame</b>	<b>Steel</b>	<b>Brick Wood</b>	<b>Brick Steel</b>	<b>Brick Conc.</b>	
<b>SOUTH CAROLINA</b>											
CHARLESTON	2789.7	2859.7	2367.7	2456.7	2516.2	2440.4	2662.7	2665.1	2821.1	2608.4	
COLUMBIA	2684.0	2660.5	2262.1	2329.1	2399.2	2393.9	2573.3	2422.2	2712.1	2465.8	
GREENVILLE	2387.9	2450.5	2233.0	2297.5	2234.6	2289.4	2393.9	2449.5	2468.7	2350.2	
<b>SOUTH DAKOTA</b>											
PIERRE	2447.1	2713.4	2729.3	2785.4	2585.4	2471.1	2565.1	2817.0	2819.4	2815.2	
RAPID CITY	2455.7	2750.3	2757.7	2840.8	2663.0	2502.8	2605.9	2864.3	2873.3	2806.4	
SIOUX FALLS	2480.2	2620.3	2628.5	2779.1	2808.5	2602.4	2762.9	2798.4	3171.3	2890.6	
<b>TENNESSEE</b>											
CHATTANOOGA	2418.7	2522.3	2431.4	2560.7	2442.3	2460.7	2746.1	2645.3	2845.2	2674.4	
KNOXVILLE	2221.0	2363.4	2290.2	2507.8	2475.6	2388.1	2607.9	2442.4	2797.5	2642.2	
MEMPHIS	2349.5	2419.7	2350.1	2524.0	2622.4	2410.4	2680.4	2589.1	2910.4	2627.8	
NASHVILLE	2527.0	2568.5	2511.2	2603.2	2781.9	2523.8	2827.7	2676.1	3172.0	2704.4	
<b>TEXAS</b>											
ABILENE	2397.8	2528.4	2343.3	2333.3	2374.9	2417.5	2382.7	2655.5	2545.2	2423.5	
AMARILLO	2391.7	2474.9	2372.1	2368.7	2422.4	2409.5	2428.8	2649.8	2645.5	2403.2	
AUSTIN	2481.8	2624.7	2540.3	2513.0	2618.0	2572.3	2630.9	2779.6	2810.8	2544.0	
CORPUS CHRISTI	2395.2	2466.9	2485.5	2445.8	2443.6	2527.2	2501.0	2670.2	2606.4	2308.1	
DALLAS	2502.8	2636.0	2585.7	2621.7	2640.3	2577.9	2538.9	2845.9	2839.3	2726.6	
EL PASO	2327.1	2372.5	2422.0	2394.7	2478.0	2449.3	2526.1	2627.3	2629.9	2375.7	
FORT WORTH	2479.1	2620.8	2561.0	2590.5	2634.8	2560.0	2534.1	2744.7	2887.4	2658.8	
HOUSTON	2517.8	2663.7	2590.2	2747.0	2707.5	2714.9	2722.0	2772.3	3031.7	2745.8	
LONGVIEW	2459.4	2519.6	2474.6	2526.3	2587.5	2573.9	2583.0	2741.6	2826.4	2598.7	
LUBBOCK	2303.5	2423.3	2380.1	2443.4	2485.5	2370.1	2423.3	2566.2	2596.5	2347.8	
ODESSA	2329.9	2504.1	2408.4	2400.7	2454.5	2469.3	2564.1	2632.0	2679.0	2357.1	
SAN ANTONIO	2395.0	2572.2	2506.5	2474.2	2444.0	2558.1	2602.2	2632.0	2686.8	2492.6	
WACO	2438.5	2542.6	2403.2	2424.9	2474.6	2392.3	2520.4	2592.4	2718.9	2429.6	
WICHITA FALLS	2605.6	2748.9	2487.1	2438.5	2460.4	2537.8	2474.6	2658.8	2663.1	2458.1	
<b>UTAH</b>											
SALT LAKE CITY	2837.1	3043.0	2764.9	2975.5	2868.3	2741.5	2869.3	2925.5	3437.6	3046.9	
<b>VERMONT</b>											
BURLINGTON	2828.7	2903.2	2945.7	3047.6	3041.6	2889.2	2972.3	3201.6	3367.6	3146.1	
MONTPELIER	2872.0	2968.3	2999.9	3103.5	3060.7	2927.7	3011.9	3240.9	3419.1	3207.2	

## 9E. Policy Count/Exposures

**Texas Windstorm Insurance Association**  
**Statistical Report**  
As of June 30, 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>	
	6/30/17	6/30/18	Actual	Percentage	6/30/17	6/30/18	Actual	Percentage	6/30/17	6/30/18	Actual	Percentage
Aransas	6,526	5,784	-742	-11.40	2,195,961,928	1,905,677,625	-\$290,284,303	-13.20	7,453,411	6,462,305	-\$991,106	-13.30
Brazoria	40,998	36,469	-4,529	-11.00	11,945,388,794	10,583,168,543	-\$1,362,220,251	-11.40	35,498,971	32,623,330	-\$2,875,641	-8.10
Calhoun	3,894	3,709	-185	-4.80	1,004,906,719	966,571,384	-\$38,335,335	-3.80	3,616,413	3,581,356	-\$35,057	-1.00
Cameron	16,234	13,526	-2,708	-16.70	4,089,029,900	3,451,714,327	-\$637,315,573	-15.60	13,796,824	12,099,857	-\$1,696,967	-12.30
Chambers	5,117	4,639	-478	-9.30	1,662,185,657	1,484,392,000	-\$177,793,657	-10.70	4,612,682	4,159,332	-\$453,350	-9.80
Galveston	66,207	61,063	-5,144	-7.80	21,527,175,629	19,895,596,443	-\$1,631,579,186	-7.60	71,963,621	68,916,635	-\$3,046,986	-4.20
Harris	3,666	3,448	-218	-5.90	1,082,489,628	1,019,011,293	-\$63,478,335	-5.90	2,449,328	2,316,331	-\$132,997	-5.40
Jefferson	32,017	28,751	-3,266	-10.20	7,511,541,886	6,692,768,658	-\$818,773,228	-10.90	25,189,326	23,224,068	-\$1,965,258	-7.80
Kenedy	19	18	-1	-5.30	6,900,341	6,643,341	-\$257,000	-3.70	34,706	33,464	-\$1,242	-3.60
Kleberg	1,076	1,005	-71	-6.60	257,696,567	243,814,773	-\$13,881,794	-5.40	814,949	769,880	-\$45,069	-5.50
Matagorda	5,111	4,807	-304	-5.90	1,275,869,294	1,189,573,978	-\$86,295,316	-6.80	4,373,549	4,186,054	-\$187,495	-4.30
Nueces	45,418	42,247	-3,171	-7.00	12,697,106,464	11,722,114,304	-\$974,992,160	-7.70	40,364,129	38,765,408	-\$1,598,721	-4.00
Refugio	396	360	-36	-9.10	94,383,827	90,131,221	-\$4,252,606	-4.50	365,075	344,351	-\$20,724	-5.70
San Patricio	7,707	7,040	-667	-8.70	2,123,448,446	1,920,514,607	-\$202,933,839	-9.60	6,854,532	6,422,242	-\$432,290	-6.30
Willacy	475	412	-63	-13.30	108,019,181	96,033,164	-\$11,986,017	-11.10	382,570	360,886	-\$21,684	-5.70
<b>Total</b>	<b>234,861</b>	<b>213,278</b>	<b>-21,583</b>	<b>-9.19</b>	<b>67,582,104,261</b>	<b>61,267,725,661</b>	<b>-\$6,314,378,600</b>	<b>-9.34</b>	<b>217,770,086</b>	<b>204,265,499</b>	<b>-\$13,504,587</b>	<b>-6.20</b>

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 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
<b>Aransas</b>										
Commercial	222	363	362	562	779,631	1,124,631	241,765,779	5,711,680	419	770
Manufactured Home	47	65	47	66	56,760	79,385	4,971,947	0	101	102
Residential	1,561	2,620	1,635	2,749	3,146,052	5,258,289	1,658,939,899	142,690,281	5,264	5,548
<b>Total</b>	<b>1,830</b>	<b>3,048</b>	<b>2,044</b>	<b>3,377</b>	<b>3,982,443</b>	<b>6,462,305</b>	<b>1,905,677,625</b>	<b>148,401,961</b>	<b>5,784</b>	<b>6,420</b>
<b>Brazoria</b>										
Commercial	364	641	548	1,038	1,657,298	3,485,724	531,381,416	13,202,060	1,020	1,612
Manufactured Home	50	85	50	85	71,947	121,616	9,113,832	0	147	147
Residential	10,257	17,791	10,569	18,308	16,706,295	29,015,990	10,042,673,295	1,294,359,954	35,302	36,288
<b>SUM:</b>	<b>10,671</b>	<b>18,517</b>	<b>11,167</b>	<b>19,431</b>	<b>18,435,540</b>	<b>32,623,330</b>	<b>10,583,168,543</b>	<b>1,307,562,014</b>	<b>36,469</b>	<b>38,047</b>
<b>Calhoun</b>										
Commercial	75	136	103	201	415,935	647,577	119,046,540	1,843,375	221	419
Manufactured Home	26	39	26	39	41,900	60,851	3,743,134	0	69	69
Residential	1,035	1,678	1,106	1,876	1,730,554	2,872,928	843,781,710	70,383,362	3,419	3,768
<b>SUM:</b>	<b>1,136</b>	<b>1,853</b>	<b>1,235</b>	<b>2,116</b>	<b>2,188,389</b>	<b>3,581,356</b>	<b>966,571,384</b>	<b>72,226,737</b>	<b>3,709</b>	<b>4,256</b>
<b>Cameron</b>										
Commercial	235	457	502	891	2,245,824	5,033,670	1,071,611,897	6,620,930	717	1,428
Manufactured Home	21	31	21	31	17,631	30,822	2,344,184	0	56	56
Residential	3,898	6,537	3,971	6,666	4,161,423	7,035,365	2,377,758,246	263,438,409	12,753	13,044
<b>SUM:</b>	<b>4,154</b>	<b>7,025</b>	<b>4,494</b>	<b>7,588</b>	<b>6,424,878</b>	<b>12,099,857</b>	<b>3,451,714,327</b>	<b>270,059,339</b>	<b>13,526</b>	<b>14,528</b>

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 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
<b>Chambers</b>										
Commercial	31	52	49	78	88,680	213,896	57,499,286	645,550	112	179
Manufactured Home	29	36	29	36	18,028	25,950	2,585,600	0	85	85
Residential	1,215	2,212	1,272	2,303	2,157,273	3,919,486	1,424,307,114	186,681,957	4,442	4,642
SUM:	1,275	2,300	1,350	2,417	2,263,981	4,159,332	1,484,392,000	187,327,507	4,639	4,906
<b>Galveston</b>										
Commercial	729	1,213	1,328	2,273	8,919,768	14,053,687	2,339,242,637	61,246,024	2,039	3,835
Manufactured Home	50	98	50	99	66,559	134,120	9,435,099	0	167	169
Residential	17,431	29,677	18,040	30,770	32,454,069	54,728,828	17,546,918,707	1,991,646,424	58,857	61,019
SUM:	18,210	30,988	19,418	33,142	41,440,396	68,916,635	19,895,596,443	2,052,892,448	61,063	65,023
<b>Harris</b>										
Commercial	27	40	47	61	172,318	263,101	50,209,111	1,165,890	73	120
Manufactured Home	2	2	2	2	713	713	175,300	0	5	5
Residential	997	1,637	1,022	1,680	1,247,670	2,052,517	968,626,882	122,487,937	3,370	3,463
SUM:	1,026	1,679	1,071	1,743	1,420,701	2,316,331	1,019,011,293	123,653,827	3,448	3,588
<b>Jefferson</b>										
Commercial	296	526	414	736	1,294,781	2,334,246	409,559,114	12,663,740	883	1,304
Manufactured Home	16	20	16	20	30,759	37,424	1,953,240	0	28	28
Residential	8,766	14,364	8,987	14,737	12,646,852	20,852,398	6,281,256,304	787,983,365	27,840	28,571
SUM:	9,078	14,910	9,417	15,493	13,972,392	23,224,068	6,692,768,658	800,647,105	28,751	29,903

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of June 30, 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
<b>Kenedy</b>										
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	5	7	10	15	14,867	21,026	5,948,900	35,200	17	31
SUM:	5	8	10	20	14,867	33,464	6,643,341	35,200	18	36
<b>Kleberg</b>										
Commercial	29	42	44	62	91,750	133,699	47,710,271	550,800	58	94
Manufactured Home	1	1	1	1	1,289	1,289	84,000	0	1	1
Residential	263	461	268	471	359,876	634,892	196,020,502	20,275,215	946	983
SUM:	293	504	313	534	452,915	769,880	243,814,773	20,826,015	1,005	1,078
<b>Matagorda</b>										
Commercial	73	124	142	241	392,433	637,337	93,649,716	2,104,485	214	352
Manufactured Home	4	10	5	11	3,075	8,687	1,255,097	0	21	23
Residential	1,395	2,326	1,446	2,455	2,049,047	3,540,030	1,094,669,165	112,065,197	4,572	4,766
SUM:	1,472	2,460	1,593	2,707	2,444,555	4,186,054	1,189,573,978	114,169,682	4,807	5,141
<b>Nueces</b>										
Commercial	758	1,298	1,352	2,239	4,747,403	7,489,288	1,590,980,374	49,494,515	2,114	3,856
Manufactured Home	10	12	10	12	12,713	13,584	973,100	0	22	22
Residential	12,393	20,714	12,931	21,594	18,732,919	31,262,536	10,130,160,830	1,135,403,407	40,111	41,557
SUM:	13,161	22,024	14,293	23,845	23,493,035	38,765,408	11,722,114,304	1,184,897,922	42,247	45,435

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 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
<b>Refugio</b>										
Commercial	14	26	18	37	47,761	91,776	12,878,758	45,000	37	58
Manufactured Home	5	6	7	8	8,923	10,177	641,253	0	9	12
Residential	94	168	107	187	126,788	242,398	76,611,210	7,745,005	314	347
SUM:	113	200	132	232	183,472	344,351	90,131,221	7,790,005	360	417
<b>San Patricio</b>										
Commercial	130	224	217	370	521,994	928,804	150,032,969	3,335,476	320	568
Manufactured Home	15	22	15	22	27,918	34,992	1,833,973	0	27	27
Residential	1,973	3,395	2,085	3,570	3,204,959	5,458,446	1,768,647,665	206,322,816	6,693	7,024
SUM:	2,118	3,641	2,317	3,962	3,754,871	6,422,242	1,920,514,607	209,658,292	7,040	7,619
<b>Willacy</b>										
Commercial	8	16	8	24	50,854	69,509	15,186,057	128,550	33	61
Manufactured Home	3	4	3	4	4,200	5,200	208,000	0	4	4
Residential	131	193	140	207	216,387	286,177	80,639,107	6,095,742	375	400
SUM:	142	213	151	235	271,441	360,886	96,033,164	6,224,292	412	465
<b>Total All Counties</b>										
Commercial	2,991	5,159	5,134	8,818	21,426,430	36,519,383	6,731,448,366	158,758,075	8,261	14,661
Manufactured Home	279	431	282	436	362,415	564,810	39,317,759	0	742	750
Residential	61,414	103,780	63,589	107,588	98,955,031	167,181,306	54,496,959,536	6,347,614,271	204,275	211,451
SUM:	64,684	109,370	69,005	116,842	120,743,876	204,265,499	61,267,725,661	6,506,372,346	213,278	226,862

10. Underwriting  
10A. Operational Review Update



---

## MEMORANDUM

---

DATE: July 11, 2018  
TO: John Polak, General Manager  
FROM: Denise Larzalere, Vice-President-Underwriting  
RE: Update on Underwriting Operational Highlights

---

### Second 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 beating that with over 95% processed within 10 days.
  - b. Quality Assurance Results on underwriting decisions continues to exceed established goals.
  - c. Telephone service response time continues to be in the meeting and exceeding categories. Service observation (listening to phone calls and scoring them) is now standard procedure and in 2018, the underwriters will have a quality score included as part of performance evaluations.
  - 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 (WPI-8-C's) status:
    - i. For the period of April 1-June 30, 2018 we have received 4999 applications (WPI-3);
    - ii. 4683 WPI-8-C's were issued;
    - iii. average turnaround time is 3.1 days;
    - iv. reroof is the number one reason (76% of certificates)
    - v. in 2017 a total of 4422 WPI-8-C's were issued
    - vi. YTD 2018 a total of 9,396 WPI-8C's have been issued;



- vii. The Confirmation of Application review completed for applications (WPI-3's) received from 74 engineers in the first quarter of 2018 produced four responses - two requested mailing address corrections, the other two confirming the application information provided in our letters.

III. Agency Compliance Audits:

- a. Audits were performed on 20 agents (200 properties) to verify compliance with the declination of coverage and flood insurance requirements. Four policies/properties selected for review required flood insurance.
  - i. Agents provided the required declinations on all policies reviewed.
  - ii. Proof of coverage was not provided for one of the four policies requiring flood insurance. The agency and insured were notified of the requirement for flood insurance before renewal could be offered.
- b. All 20 agents have an active property and casualty insurance license.

11. Claims  
11A. Claims Operations

# TWIA Claims Operations

Harvey Claims Storm Report	TWIA				
	082517 Harvey				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	76,056	2,649	67,953	341	5,113
Closed Claims	72,319	2,358	64,514	336	5,111
Open Inventory	3,737	291	3,439	5	2
% Closed	95.1%	89.0%	94.9%	98.5%	99.96%
Closed With Payment	44,545	1,409	42,880	256	-
% Closed With Payment	58.6%	53.2%	63.1%	75.1%	-
Closed Without Payment	27,774	949	21,634	80	5,111
% Closed Without Payment	36.5%	35.8%	31.8%	23.5%	99.96%
Open With Payment	3,225	248	2,972	5	-
% Open With Payment	4.2%	9.4%	4.4%	1.5%	-
Open Without Payment	512	43	467	-	2
% Open Without Payment	0.7%	1.6%	0.7%	-	0.04%
Paid Indemnity	\$ 1,135,616,698	\$ 310,623,022	\$ 821,145,605	\$ 3,848,071	\$ -
Paid Expense	\$ 122,740,497	\$ 18,310,593	\$ 103,894,155	\$ 535,749	\$ -
Average Paid	\$ 23,787	\$ 187,461	\$ 17,920	\$ 14,744	-
Avg # Days - FNOL to Inspect	9.0	9.9	8.9	9.3	-
Avg # Days - Inspect to TWIA	6.8	12.3	6.6	6.6	-
Avg # Days - TWIA to Payment	28.0	36.5	27.7	31.4	-
Avg # Days - FNOL to Payment	40.4	56.4	39.8	47.1	-
TDI Claims Complaints	184	0	184	0	0
# TDI Complaints as a % of All Claims	0.242%	-	0.271%	-	-

(1) Data current as of: 07/05/2018

(2) Data from daily claims system extracts

(3) Does not include IBNR

(4) Dates of Loss for Harvey: 08/25 - 09/01/2017

## TWIA Harvey Claim Counts by County

County	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Cameron	Kleberg	Unverified or NPIF	TWIA TOTAL
August Total	10,648	4,836	2,545	5,338	4,144	1,521	1,186	418	224	252	287	14	8	2,197	33,618
September Total	12,748	5,268	6,375	1,589	2,344	2,125	1,194	503	563	284	112	8	18	2,544	35,675
October Total	894	532	654	85	136	240	102	47	55	25	11	7	6	191	2,985
November Total	354	207	203	37	52	84	40	21	18	16	2	6	1	70	1,111
December Total	210	129	82	13	23	52	21	6	5	10	1	3	5	31	591
January Total	204	84	67	25	16	32	13	11	5	8	1	3	2	21	492
February Total	200	77	48	5	19	41	12	4	1	12	1			20	440
March Total	191	73	42	5	13	36	13	4	7	8		1	1	12	406
April Total	119	52	30	7	9	25	11	7	5	5		1		11	282
May Total	100	58	22	11	7	19	1	8	6				1	9	242
June Total	92	31	18	5	4	14	5	1	3	2	1		3	6	185
July Total	15	5	4			2			1					2	29
<b>TWIA TOTAL</b>	<b>25,775</b>	<b>11,352</b>	<b>10,090</b>	<b>7,120</b>	<b>6,767</b>	<b>4,191</b>	<b>2,598</b>	<b>1,030</b>	<b>893</b>	<b>622</b>	<b>416</b>	<b>43</b>	<b>45</b>	<b>5,114</b>	<b>76,056</b>

TWIA Closed Harvey Claims		Count	%
1. Closed with payment - Full Acceptance <sup>1</sup>		33,631	47%
2. Closed with payment - Partial Acceptance <sup>2</sup>		7,767	11%
3. Closed without payment - Depopulation <sup>3</sup>		1,493	2%
4. Closed without payment - Under Deductible <sup>4</sup>		14,514	20%
5. Closed without payment - Coverage Excluded <sup>5</sup>		3,843	5%
6. Closed without payment - No Policy in Force <sup>6</sup>		3,268	5%
7. Closed without payment - Opened in Error <sup>7</sup>		5,436	8%
8. Closed without payment - Not Pursued <sup>8</sup>		2,367	3%
9. Closed - Pending Reason Code <sup>9</sup>		0	0%
<b>10. Total Closed<sup>10</sup></b>		<b>72,319</b>	<b>100%</b>
<b>Row Data Descriptions:</b>			
<b>1. Closed with payment - Full Acceptance:</b> Claim as presented by policyholder is fully accepted by TWIA, subject to policy provisions, conditions and deductible.			
<b>2. Closed with payment - Partial Acceptance:</b> Claim as presented by policyholder is partially accepted & partially denied by TWIA, subject to policy provisions, conditions and deductible.			
<b>3. Closed without payment - Depopulation:</b> Claims submitted for a policy with a depopulation carrier. No TWIA policy in force.			
<b>4. Closed without payment - Under Deductible:</b> Only includes fully or partially accepted claims for covered repair/replacement costs of damaged property where covered loss amount is below policy deductible.			
<b>5. Closed without payment - Coverage Excluded:</b> Claim as submitted is not covered due to application of one or more policy exclusions. This represents a full denial of the claim.			
<b>6. Closed without payment - No Policy In Force:</b> Claimant does not have an in-force policy with TWIA for the date of loss.			
<b>7. Closed without payment - Opened in Error:</b> Claim was opened by mistake by TWIA, Policyholder, or Agent. Typically involves a duplicate filed claim.			
<b>8. Closed without payment - Not Pursued:</b> Before coverage determination is made, claimant advises TWIA they do not want to pursue their claim further.			
<b>9. Closed - Pending Reason Code:</b> Closing reason code not selected. These will be assigned codes by 9/29/17 or sooner.			
<b>10. Total Closed:</b> Sum of all closed TWIA hurricane Harvey claims.			

# Hurricane Harvey Disputed Claims

Hurricane Harvey Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,056	3,260	4.29%	3,118	584	124

- “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.”

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
3,118	274	54	1,801	728	143	118
	9%	2%	58%	23%	5%	4%

Harvey Claims With Notice of Intent or Lawsuit Served				
Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
708	584	62	124	0

Disputed claim data as of 7/5/18

# 2018 TWIA Claims Operations (through June)

TWIA Claims - 2018 Results (through June)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	4.7	3.3	<3	0.3	10%
Inspect Property to Receipt by TWIA	3.4	2.3	<8	-5.7	-71%
Receipt by TWIA to Payment	N/A	5.8	<5	0.8	16%
Total Cycle Time FNOL to Payment	N/A	11.4	<16	-4.6	-29%
<b>TDI Complaint Ratio</b>					
2017	0.13% - 103 complaints from 80,257 new claims				
2018	2.41% - 98 complaints from 4,064 new claims				

Year	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Actual Volume	614	535	723	679	687	796	433	33,997	36,256	3,350	1,315	819	757	633	658	594	524	898
Actuarial Projected	550	557	574	1,679	2,167	1,115	729	547	466	444	437	437	557	503	708	2,464	2,543	5,391
Median Staffing	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554
Open Inventory	517	394	646	539	520	464	376	32,978	45,679	12,858	5,105	4,921	5,036	4,526	4,526	4,250	4,360	4,234

## 2018 New Claim Volume

- Projected new claim volume was 12,166
- New claim volume was 4,064 or 8,102 (67%) 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	4,064
TWIA Hurricane Events	
Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,056

### 2018 Disputed Claims

2018 Disputed Claims						
Dispute Frequency			Type of Dispute			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
4,064	87	2.14%	80	16	0	5

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
80	8	0	59	12	1	0
	10%	0%	90%			

- “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.”

# Hurricane Harvey – Lessons Learned

---

- **Successes**

- Experienced Professional Staff
- Effective CAT Plan
- Call Centers
- On-line Claims Center
- Reports & Performance Metrics
- Relationships with OEM/Law Enforcement
- On-Scene Claims Centers & Workshops

- **Improvements**

- Updated Policyholder Guides
- Supplemental Payment Process
- Telephone Skills QA Program
- Post-storm Education
- “Clerk of The Works”

## 11B. Claims Litigation



# TWIA Litigation Tracking Activity

---

## Litigation Quarter Summary Second Quarter 2018

2nd Quarter 2018	Summary of TWIA Claims In Suit					
	New		Settled		Closed	
	Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
Apr	0	16	0	0	0	0
May	0	36	0	0	0	0
Jun	0	63	0	0	4	11
	0	115	0	0	4	11

2nd Quarter 2018	Summary of TWIA Claims With LORs					
	New		Settled		Closed	
	Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
Apr	0	85	0	1	0	20
May	0	113	0	2	0	21
Jun	0	98	0	0	0	48
	0	296	0	3	0	89



## TWIA Claims Litigation

June 2018

Jun-18	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	16	0	(4)	12
	HB3	169	63	(11)	221
	TOTAL	185	63	(15)	233

Jun-18	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	596	98	(50)	(60)	584
	TOTAL	596	98	(50)	(60)	584

Jun-18	TWIA Claims with Suits/LORs: Detail of Ending Inventory											
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs		Total	Suits		LORs		Total	
		Res.	Comm.	Res.	Comm.		Res.	Comm.	Res.	Comm.		
Pre-HB3	3	9	0	0	12	0	0	0	0	0	12	
HB3	195	19	514	67	795	6	1	3	0	10	805	
TOTAL	198	28	514	67	807	6	1	3	0	10	817	



Jun-18	TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County						
	Firm	Brazoria	Chambers	Galveston	Jefferson	Nueces	Total
	Buzbee		3	6			9
	Hodge Law Firm			1			1
	Mostyn			1	1		2
TOTAL	0	3	8	1	0	12	

Jun-18	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County												
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Grand Total
	83	29	7	19	5	88	7	211	1	257	8	80	795



<b>TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm</b>	
<b>Firm</b>	<b>#</b>
Daly & Black	208
Furlow Law Firm	96
Scott	70
Carrigan & Anderson	30
KRW	27
Baker Law	25
Voss Law Firm	22
Arguello	18
Lee Murphy	16
Crowell & Kucera	14
Lindsay, Lindsay, & Parsons	13
Remaining 113 firms	256
<b>TOTAL</b>	<b>795</b>

12. TWIA Operations  
12A. IT Systems Update



## MEMORANDUM

---

DATE: July 30, 2018  
TO: John Polak, General Manager  
FROM: Camron Malik, CIO / VP IT  
RE: Information Technology status

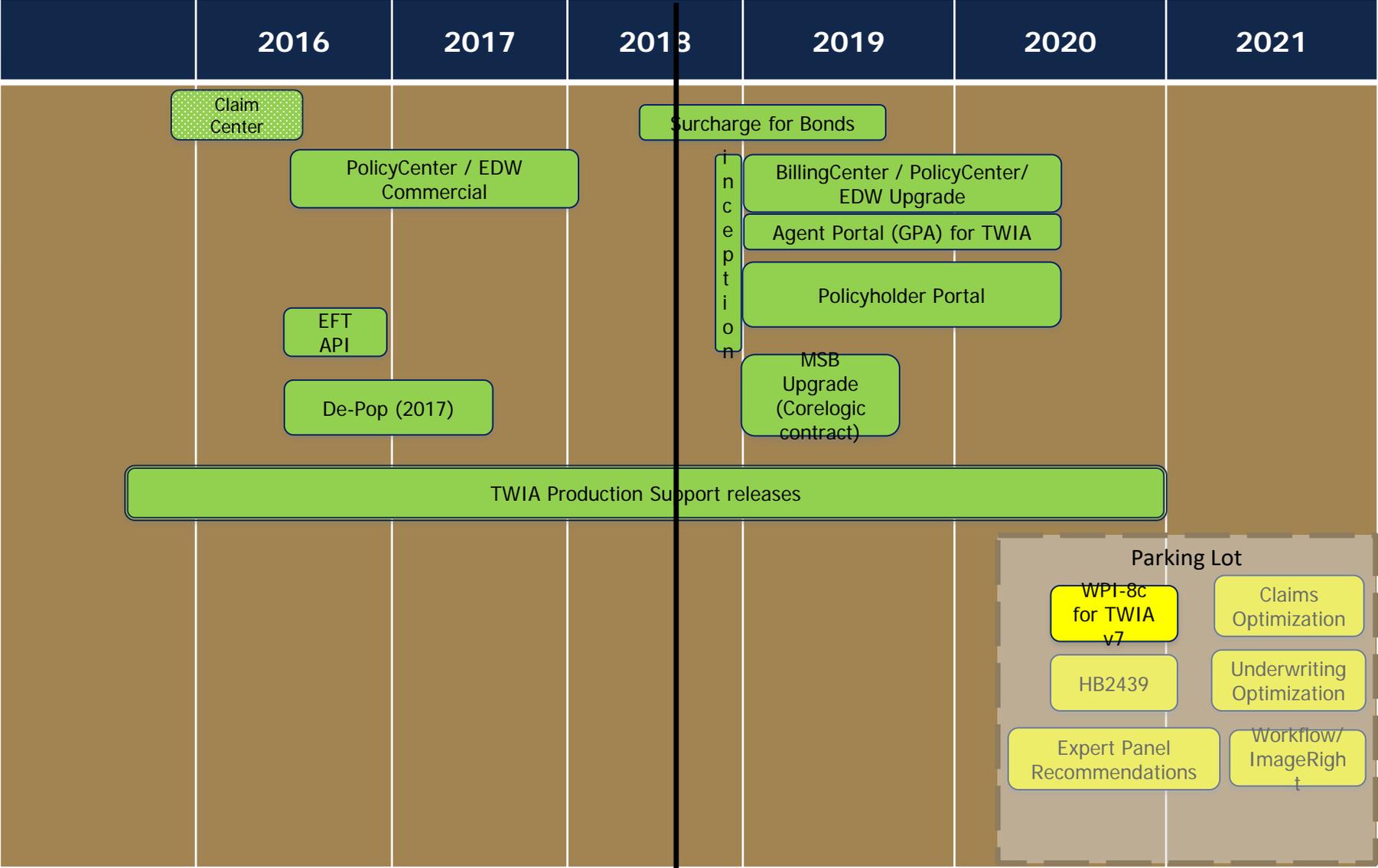
---

The IT department is focused on delivering to all roadmap and departmental projects. The budget is under control and the expenses for both Associations continue to be below projections.

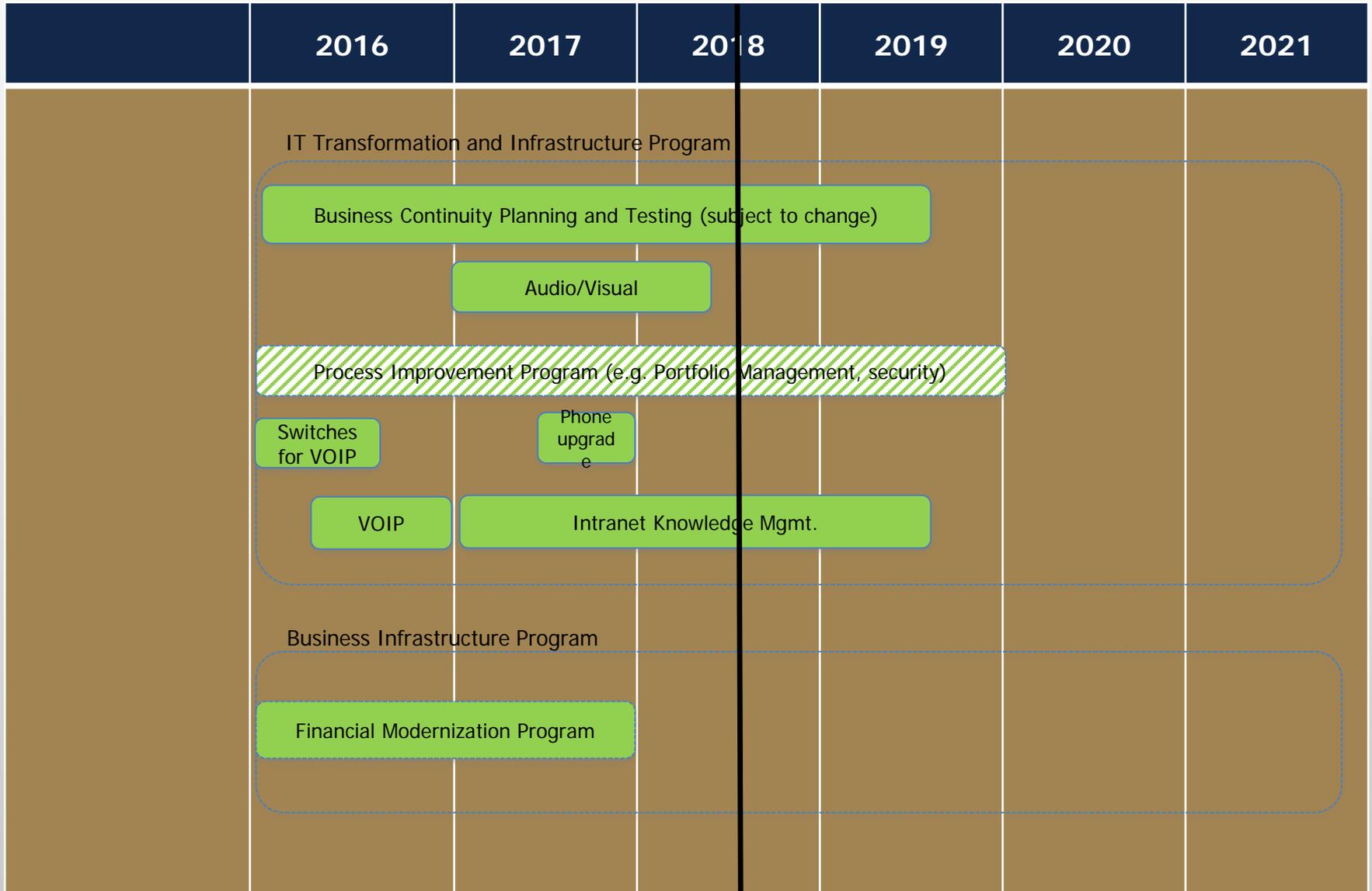
The Production Support and Infrastructure teams continues to meet all ongoing commitments.

The TFPA program is currently in User Acceptance Testing, with the team focused on quality. Additionally, the deployment planning effort continues with the transition team working on a detailed plan for the Go Live weekend. The exact deployment date will be set once the User Acceptance Testing is complete and the detailed deployment plan is finalized.

# TWIA IT Roadmap Projects



# TWIA IT Infrastructure Projects



## 12B. Depopulation

There is no exhibit for this topic

## 12C. TWIA Expert Panel

There is no exhibit for this topic

## 12D. Communications Update



## MEMORANDUM

---

DATE: July 13, 2018  
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, local officials and community leaders providing operational updates and responding to constituent inquiries:
  - Held a Board meeting materials briefing for interested legislative staff in May 2018.
  - Conducted Capitol visits to meet with the legislative offices of Sen. Joan Huffman (Brazoria Co.) and Rep. Tom Oliverson (Harris Co./House Insurance Committee) to provide an overview of TWIA's history and operations.
  - Participated in a discussion about TWIA operations and funding with TDI and Tier 1 coastal Legislators, including Rep. Wayne Faircloth (Chambers/Galveston Co.), Rep. Dennis Paul (Harris Co.), and Rep. Ed Thompson (Brazoria Co.) as well as members of their staff; Senator Larry Taylor's (Galveston Co.) Chief of Staff attended by phone.
- b) Received and responded to 40 legislative inquiries and 30 inquiries from regulatory agencies and trade associations from April 1 through June 30, 2018.
- c) We continue to provide claims and operational email updates to the Board, TDI and Legislative staff weekly and as needed.

### II. Hurricane Preparedness & Coastal Outreach

- a) Our annual Hurricane Preparedness campaign leads up to and lasts for the duration of hurricane season. In addition to educational outreach and hurricane preparedness communications, we participate in a robust schedule of events and agent visits during this time. We participated in 12 agent training, disaster recovery, and preparedness events in Q2 2018, bringing the total events year-to-date to 24. Additional events scheduled throughout the summer.
- b) We hosted two additional Claims Assistance Workshops for policyholders with Hurricane Harvey claims in Rockport and Port Aransas in June 2018. These are expected to be the last Claims Assistance Workshops specifically for Hurricane Harvey claims due to steadily declining attendance at the events.

### III. Media Relations

- a) In Q2 2018, we had 264 media mentions<sup>1</sup>. The majority of our coverage is positive and neutral at 77%, while negative coverage is at 23%.
- b) We responded to 19 media inquiries from April 1 to June 30, 2018, the majority related to requests for information about Hurricane Harvey claims and 2018 hurricane season funding.
- c) We completed an interview with reporter Jessica Savage of KRIS Channel 6 News in April 2018 related to our response to Hurricane Harvey. The interview was included in a series of investigative segments the news outlet produced on Hurricane Harvey. Overall, the segments, which aired between late May and early June 2018, provide a fair and balanced tone, which we link to our continued media relations efforts.

### IV. Agent Advisory Group (AAG) Updates

- a) Convened the Q2 AAG meeting on May 30, 2018, providing a number of routine operational updates. We are working with the AAG Chair, Garry Kaufman of Galveston Insurance Associates, to ensure information presented and discussed at the meetings continues to be relevant to the group. The Q3 AAG meeting will occur on September 4, 2018.
- b) Three AAG members terms expired on June 30, 2018 with Travis McDavid of GSM Insurors being nominated and reappointed to the group until 2021; the other terms for two corporate carrier representatives required no nominations for reappointment.

### V. Change Management

- a) We continue to improve our change management program at the Association. Our ultimate goal is to reach a maturity level in the program where our ability to effectively manage change is an organizational competency. Our Q1 and Q2 2018 activities have focused on training and reinforcing the need for proactive planning to ensure internal and external stakeholders experience a successful path to change. Since 2017, we have conducted change management training for all employees, including managers, executives, and front-line staff.
  - In 2017, we completed change management training for approximately 60 employees, and to date in 2018, we have completed training for an additional 152 employees.
  - We facilitated three training sessions in June 2018 for front-line staff in how to successfully manage change.

---

<sup>1</sup> Media mentions include articles picked up and posted by multiple outlets, thus the actual number of unique articles with mentions about the Association may be less than the reported total.



- b) We completed a change management maturity audit in early June and used that information to update our overall change management strategy for the Association.

**VI. Annual Report Card**

- a) Completed a refresh of the statutorily-required Annual Report Card, published annually with the Catastrophe Incident Response Plan on June 1.
- b) The redesigned report includes:
  - A new look and feel, incorporating a more modern format and color palette and the use of graphics and visuals to support and call out notable information.
  - A new State of the Association narrative focused on the Association's response to Hurricane Harvey from pre-storm preparations to our continued outreach efforts to support policyholders with their claims.
  - A reorganized Statutory Compliance section which categorizes information more intuitively and groups similar statutory sections together.
  - More contextual information about TWIA's funding and operations and, where needed, simplified, easier to understand information throughout the report.

## 16. Future Meetings

December 11, 2018 – Omni Hotel – Corpus Christi

February 2019 – TBD

May 2019 – TBD