

**Meeting of the Board of Directors
Texas Windstorm Insurance Association
Teleconference/Web Conference****

August 4, 2020

Webinar

9:00 a.m.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

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

1. Call to Order 5 minutes
 - A. Welcoming Remarks – *Chandra Franklin-Womack*
 - B. Anti-Trust Statement and Conflict of Interest Disclosure – *Counsel*
 - C. Meeting Format Information – *Kristina Donley*

2. Consideration and Action to: 5 minutes

Approve the Minutes from Prior Board of Directors Meeting
– *Chandra Franklin – Womack**

3. Public Comment 15 minutes

4. TWIA Operational Highlights – *John Polak* 5 minutes

5. Financial 20 minutes

Consideration and Possible Action on the Following Financial Topics:

 - A. Report of the Secretary/Treasurer – *Corise Morrison**
 1. Income Statement
 - B. Financial Statement Review by Staff – *Jerry Fadden*
 1. Management Discussion and Analysis
 2. Income Statement
 3. Expense Detail
 4. Balance Sheet
 5. Cash Flow Statement
 6. Cash & Short-Term Investments
 7. Historical Data
 8. Policy Count/Exposures
 - C. 2020 Hurricane Season Funding – *Jerry Fadden*
 - D. Investment of Trust Fund Balances (Sec. 2210.4521) – *Jerry Fadden**
 - E. Selection of Auditors/Accountants for 2020 and Authorization
of Non-Audit Services – *Jerry Fadden**

6. Public Comment 30 minutes

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| 7. Actuarial – <i>Jerry Fadden</i> | 30 minutes |
| Consideration and Possible Action on the Following Actuarial Topics: | |
| A. Reserve Adequacy | |
| B. Statutory Maximum Limits of Liability* | |
| C. Required 2020 Annual Rate Filing* | |
| 8. Presentation by Willis Towers Watson | 45 minutes |
| 9. Internal Audit – <i>Bruce Zaret – Weaver</i> | 5 minutes |
| Consideration and Possible Action on the Following Audit Topics: | |
| A. Internal Audit Status & Update | |
| 10. Underwriting – <i>Denise Larzalere</i> | 10 minutes |
| Consideration and Possible Action on the Following Underwriting Topics: | |
| A. Operational Review Update | |
| 11. Claims and Litigation | 20 minutes |
| Consideration and Possible Action on the Following Claims and Litigation Topics: | |
| A. Claims Operations – <i>Dave Williams</i> | |
| B. Litigation Report – <i>David Durden</i> | |
| 12. TWIA Operations | 90 minutes |
| Consideration and Possible Action on the Following Operations Topics: | |
| A. Presentation by Insurance Institute for Business and Home Safety
– <i>Julie Shiyou-Woodard & Alex Cary</i> | |
| B. Receive and Act on Recommendations from Legislative and External
Affairs Committee Regarding Recommendations to Legislature and
Biennial Report to Legislature – <i>John Polak*</i> | |
| C. IT Systems Update – <i>Camron Malik</i> | |
| D. Depopulation – <i>Denise Larzalere</i> | |
| E. Communications Update – <i>Jennifer Armstrong</i> | |
| 13. Closed Session (Board Only) | 60 minutes |
| A. Personnel Issues | |
| B. Legal Advice | |
| 14. Consideration of Issues Related to Matters Deliberated in Closed Session
That May Require Action, if any, of the Board of Directors* | 5 minutes |
| 15. Committees – <i>Chandra Franklin – Womack</i> | 5 minutes |
| 16. Future Meetings – <i>John Polak</i> | 5 minutes |
| • December 8, 2020 – Webinar | |
| • February 2021 – TBD | |
| • May 2021 – TBD | |

17. Adjourn

Estimated Total Length of Meeting

6 hours 05 minutes

*Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action.
However, the board may take action on any item that appears on this agenda.

** In accordance with Governor Abbott's directive suspending certain statutory provisions relating to open meetings and requiring certain actions of the boards of governmental bodies, this meeting may be conducted entirely by teleconference or web conference with no one gathered at a physical location.

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

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

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.

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2. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association

Board of Directors Meeting Teleconference/Web Conference

5700 South Mopac Expressway
Building A
Austin, TX 78749

May 12, 2020

The Following Board Members were Present:

1.	Chandra Franklin Womack (Chair)	First Tier Coastal Representative
2.	Georgia Neblett (Vice Chair)	First Tier Coastal Representative
3.	Mike Gerik	Industry Representative
4.	Corise Morrison (Secretary/Treasurer)	Industry Representative
5.	Karen Guard	Industry Representative
6.	Tony Schrader	Non-Seacoast Territory Representative
7.	Peggy Gonzalez	First Tier Coastal Representative
8.	Tim Garrett	Non-Seacoast Territory Representative

The Following TWIA Staff, Counsel, and Agents were Present:

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

The Association's Webinar Tool Attendance Report Indicates the Following Attendees Were Online:

1. Stephen Alexander	29. W. Dennis Isaacs
2. Bill Allen	30. Garry Kaufman
3. Marianne Baker	31. Xiuyu Li
4. Shirley Bowler	32. Clarisse Lilley
5. Ryan Brannan	33. Miguel Liscano
6. Emily Brown	34. Laura Machado
7. David Bull	35. Travis McDavid
8. Shelby Burns	36. Jerry Mohn
9. Marie Campbell	37. Tim Zawacki
10. Allen Cashin	38. David Muckerheide
11. Angie Cervantes	39. Jim Murphy
12. Cari Christman	40. Anne O'Ryan
13. Jessica Crass	41. Patty Otto

- | | |
|----------------------|----------------------|
| 14. Ginny Cross | 42. Daryl Parrish |
| 15. Tad Delk | 43. Elisabeth Ret |
| 16. Kimberly Donovan | 44. Patrick Rios |
| 17. Robert Ellis | 45. Shane Saum |
| 18. Rachel Ernst | 46. Kenisha Schuster |
| 18. Angela Fang | 47. Lisa Sukow |
| 20. Craig Fegley | 48. Tom Tagliabue |
| 21. Lauren Fleming | 49. Terrilyn Tarlton |
| 22. Beaman Floyd | 50. Tyler Thomas |
| 23. Allen Fulkerson | 51. Scott Weiss |
| 24. Carlos Garcia | 52. Gaye White |
| 25. Dan Halladay | 53. Michael Williams |
| 26. Stuart Harbour | 54. Glenda Witman |
| 27. Jill Hennessy | 55. Joe Woods |
| 28. Jarrett Hill | |

1. Call to Order: Ms. Franklin-Womack called the meeting to order at 9:03 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel. Mr. Perkins reviewed the conflict of interest disclosure concerning the board members. Kristina Donley reviewed the housekeeping items.
2. Introduction of New Board Members: Ms. Franklin – Womack welcomed new board members Peggy Gonzalez and Tim Garrett.
3. Approval of Minutes: The minutes from the February 18, 2020 meeting in Austin, Texas were reviewed. Ms. Neblett moved to approve the minutes as presented. Ms. Guard seconded the motion. The motion passed.
4. Public Comment: There was no one present on the webinar desiring to make public comment.
5. TWIA Operational Highlights: The Association paid \$45 million toward the redemption of the Series 2014 bonds used for the payment of Hurricane Harvey claims and contributed \$52.6 million to the Catastrophe Reserve Trust Fund (CRTF) from 2019 net earnings. Nearly 100% of Association staff has transitioned to remote operations while continuing to meet service level agreements and obligations. A temporary payment option was implemented providing payment leniency to support policyholders impacted by COVID-19. The Association remains below plan for Q1 2020 operating expenses. The Association is on track to complete objectives for all strategic initiatives in 2020. Underwriting and claim service levels are exceeding turnaround time and quality standards. Litigated claims and complaints remain below plan in Q1 2020.

6. Financial:

- A. Report of the Secretary/Treasurer: Ms. Morrison reviewed the Treasurer's Report. Ms. Morrison moved to approve the report. Ms. Neblett seconded the motion. The motion passed.
- B. Financial Statement Review by Staff: Year to date written premiums of \$74.6 million reflect a slight decrease of \$187,000 (0.3%) from the same period last year of \$74.8 million. The decrease resulted from year over year policy and exposure declines and the depopulation of 2,080 policies on June 1, 2019. Direct written premium was \$3.9 million higher than the budgeted \$70.7 million.

The March 2020 policy count of 187,189 was 731 policies lower than the February 2020 policy count primarily due to a decrease in renewals from residential and commercial policies. However, the policy count as of March 31, 2020 was 2,189 (1.2%) higher than the 2020 budgeted level.

Year to date direct premiums earned totaled \$92.3 million compared to \$96.7 million for the same period last year (a decline of \$4.3 million or 4.5%). Direct premium earned was \$1.9 million higher than the budget of \$90.4 million.

TWIA has ceded \$532,000 of depopulation premium through March 2020 from the policies selected in the latest round of the depopulation program effective December 1, 2019.

Direct losses and LAE incurred for the quarter ended March 31, 2020 totaled \$3.1 million, which was \$816,000 (21%) below the prior year level of \$3.9 million and \$4.2 million (57.6%) lower than the budget of \$7.2 million. Favorable loss development on non-Harvey claims accounted for roughly \$1 million of the current year favorable variance from plan with the remainder due to early spring storm activity that was less severe than anticipated in the budget. The reported non-hurricane loss ratio was 3.3% for the first quarter of 2020 compared to the 2020 budgeted first quarter of 8.0%, and the prior year first quarter reported 4.0%.

Year to date operating expenses of \$7.2 million were \$315,000 or 4.6% higher than prior year but below budget by \$954,000 (11.7%). The favorable variance to budget in 2020 is primarily related to timing of project contractors and consultants in IT and postage. TWIA headcount at March 31, 2020 was 213, down slightly from the 221 as of December 31, 2019.

Commission expense and premium taxes, totaling \$13.4 million were consistent with prior year amounts and above the 2020 budget by \$740,000 or 5.8% as direct written premium exceeded budget.

Gross investment income for the quarter totaled \$1.2 million, a decrease of \$1.5 million from the prior year income of \$2.7 million. The decline was due primarily

to lower yields on investments from Federal Reserve interest rate cuts and slightly lower average invested balances. Gross investment income for the current quarter was below budget by \$578,000. Investment income is expected to continue to lag budgeted amounts due to the expectations of an extended low interest rate environment in the near term. Interest expense on Class 1 bonds was on budget at \$6.6 million.

Net income for the three months ended March 31, 2020 totaled \$62.8 million, a decrease of \$3.9 million (5.8%) from prior year levels. Net income for the period was \$5.9 million higher than the budget of \$56.9 million.

The deficit as of March 31, 2020 was \$123.6 million compared to \$183.8 million at December 31, 2019. Net income for the period of \$62.8 million was partially offset by a temporary increase in non-admitted assets of \$2.6 million due primarily to a Guidewire license fee that was paid during the quarter and is non-admitted as a prepaid expense.

Ms. Neblett asked why the commission expense is up, but policy count is down. Mr. Fadden said commission income is driven by direct written premium and that reflects in an increase in premium over the budgeted amount. There was a modest increase from last year to this year. There can be adjustments for cancelled policies. Overall, it is essentially flat. There can be modifications on timing. Mr. Fadden will look into why commission expense is going up, but policy count is going down. Ms. Guard asked about the timing of IT expenses. She expressed concerns about the expense ratio creeping up.

- C. Investment Plan Review: Annually, the TWIA Board of Directors reviews the adequacy and implementation of the Association's investment plan as reflected in the Statement of Investment Objectives and Guidelines. This document does not cover investments in the CRTF, or the Assets held by the Texas Treasury Safekeeping Trust Company representing the proceeds and debt service payments of the Series 2014 bonds. 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.

At this time, staff is not recommending any changes to the investment plan. Ms. Neblett moved that the Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time. Mr. Garrett seconded the motion. The motion passed.

- D. Funding: Mr. Gerik moved to approve the funding resolution language that was provided in the meeting materials relating to the bank line of credit of the association. Mr. Garrett seconded the motion. The motion passed. It is attached as an exhibit to and made a part of these minutes.

- E. Financial Audit by Calhoun, Thomson + Matza: Mr. Thomson reviewed the audit results. Ms. Morrison moved to accept the reports as presented. Ms. Neblett seconded the motion. The motion passed.

7. Actuarial:

- A. Reserve Adequacy: Actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.66 billion to \$1.77 billion. TWIA has selected to continue to record the Hurricane Harvey ultimate loss and loss adjustment expense at \$1.7 billion. The actual ultimate costs of Harvey may differ substantially from the selected \$1.7 billion. This variability arises from the assumptions staff made regarding the adequacy of case reserves for 916 open claims, the potential impact of future reopening's of closed claims as of March 31, 2020 and the outcome of disputed claims. Even though TWIA has recorded the Hurricane Harvey estimate of ultimate loss and loss adjustment expenses at a level which is considered reasonable, there remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The actuarial team will continue to monitor current case reserve adequacy, current and future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of March 31, 2020, TWIA carried \$154 million in total gross loss and loss adjustment expense reserves with \$62K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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

- B. Policy Count/Exposures: Policy counts are down 5.3% year over year. Negative exposure growth is 3.4% year over year. Commercial policy count is also down.
- C. Status of RFP for Actuarial Services: Mr. Fadden explained that the second meeting of the TWIA Actuarial and Underwriting Committee has been postponed. Ms. Franklin-Womack said the meeting needs to proceed but the timing is off with the shelter in place provisions. Mr. Fadden thinks the meeting will be held virtually with the finalists conducting web presentations. Staff will move forward to reschedule the meeting as soon as possible.

8. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret reported his team is working on audits for vendor management analytics, business continuity/continuity of operations, accounts receivable, underwriting, reinsurance and data base and application administration. Upcoming audits include depopulation, financial close and reporting, information security, claims, disaster recovery and model audit rule.

9. Underwriting:

- A. Operational Review Update Including Procedures Related to Receipt of Premiums: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff has surpassed this standard with over 98% processed within 10 days. Over 80% of new business and renewals are processed within one day.

Quality assurance results on underwriting decisions continue to exceed established goals. Telephone service response times continue to meet and exceed expectations. Service quality scores have also been in the meet's expectations category. Service observation is a standard procedure. As an Association, the departments calibrate calls and have agreed upon service standards for telephone service.

Underwriting is operating below budget, largely due to managing headcount and maintaining a reduced number of physical inspections.

Underwriting continues to support implementation of required legislative updates. Last quarter saw the implementation of the new TWIA renewal process, which impacted policies effective beginning March 1, 2020. Early numbers indicate a substantial percentage of paid renewals were paid from the policyholder or mortgage company directly to TWIA (44% in March), with a lower lapse rate and earlier payment than through the standard process via agents.

For the period of January 1, 2020 to March 31, 2020, staff received 2,084 applications (WPI-3s) for Certificates of Compliance on Completed Improvements (WPI-8-Cs). The average turnaround time for the quarter is under six days and reroof is the number one reason for the applications. Two engineering firms represent one quarter of all applications. Staff continues to assist with telephone call regarding WPI-8-C status and to upload certificates into Policy Center.

Agency compliance audits were performed on 20 agents (200 policies) in the first quarter to verify compliance with the declination of coverage and flood insurance requirements. Two of the agents did not respond and this has been escalated to management. All 18 responsive agents, (180 policies) were compliant with the requirement for proof of declination of coverage. Eight of

the policies/properties selected for review required flood insurance and were compliant with this requirement. All 20 agents have an active property and casualty insurance license.

During a recent Agent Advisory Group (AAG) meeting, the agents asked that TWIA investigate changing the approved mailing methods for payments. The current Plan of Operation states that the application is effective on the date the payment is received by TWIA unless the payment was sent via registered or certified mail, USPS Express mail, regular mail hand-cancelled by USPS or other similar procedure approved by the TWIA Board of Directors.

The concern of the agents is with the new renewal process policyholders may not fully understand the mailing methods are very limited and specific. Staff is recommending updating the approved methods to include any traceable method.

Mr. Garrett moved that in accordance with statute and the Association's Plan of Operation, new, increased or renewal coverage is generally effective on the date the application and payment are received by the Association (or at a later date if specified or logically applied due to an impending renewal date).

Further resolved, in the event the applicant/policyholder/agent wishes coverage (or an increase in coverage) to be effective on the date of mailing, then the mailing date will be used if the application and payment are (i) actually received by the Association and (ii) sent using a traceable process that enables the Association to verify the actual date of delivery of the application and payment to the common carrier or US Postal Service.

Further resolved, the foregoing resolutions are subject to the limitation in the Plan of Operation of the Association that no new or increased coverage applications will be accepted on the day (beginning at 12:01 am) or after a windstorm designated as a hurricane by the United States Weather Bureau is in the Gulf of Mexico or within the boundaries of 80 degrees west and 20 degrees north latitude, as provided more fully in the Association's Plan of Operation. In that event, the proof of mailing must demonstrate that the delivery was made to the common carrier or the US Postal Service before such date for coverage to be effective at the time of mailing. Ms. Neblett seconded the motion. The motion passed.

10. Claims:

- A. Claims Operations: Four new Hurricane Harvey claims came in since the last board meeting in February and 172 claims were closed. The percentage closed is now at 99%. There are currently 838 open claims.

- B. Claims Litigation: There are 26 new TWIA claims in suit and 21 were closed in the first quarter. There were 52 new TWIA claims with letters of representation and 79 closed in the first quarter.

11. TWIA Operations:

- A. IT Systems Update: Mr. Malik provided a brief history of the TWIA Elevate program as well as its benefits and estimated project costs.
- B. Depopulation: Ms. Larzalere reported the fourth round of depopulation is going to begin. Companies will assume the policies on June 1. Two participating carriers chose 1800 policies. Other carriers have assumed 20,000 policies. There has been very minimal impact to the TWIA book of business.
- C. Communications Update: With the evolving COVID-19 crisis, much of the staff work in March focused on keeping legislators, agents and other external stakeholders informed about TWIA's response. In Q1 2020, staff maintained contact with key legislative offices to act as a resource on Association operational questions, the TWIA board and committee meetings held during the quarter and the Association's progress on implementing and complying with the new laws passed by the 86th legislature.

The volume of media coverage of TWIA declined significantly from the previous quarter, which had been dominated by the board's rate consideration process.

The Q2 2020 Agent Advisory Group meeting was held virtually on April 14 and focused on the status of the legislative implementation program, the Association's response to COVID-19 and operational updates on the 2020 hurricane season funding, underwriting activities and the depopulation program.

- 12. Closed Session: There was no closed session.

- 13. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There was nothing to consider.

- 14. Committees: Mr. Gerik reviewed the activities of the TWIA Legislative and External Affairs Committee meeting. The committee members have several items for consideration and have had discussion and feedback. They intend to meet in 30 days in order to have a full report for the board to consider in August.

15. Future meetings:

- A. Additional Items for Future Meetings: Mr. Polak asked whether any board member wanted to add any additional topics to the agenda for a future meeting. Mr. Gerik said he would like to see a representative speak at the next meeting regarding fortified roofs. Ms. Morrison would like to look at the full benefit plan. Ms. Morrison said it might be worthwhile to put together a committee on strategic direction. Mr. Perkins indicated that the executive committee could

review that issue if needed. Upcoming board meetings will take place on the following dates.

- August 4, 2020 – Tremont House – Galveston
- December 8, 2020 – Omni Hotel, Corpus Christi

16. Adjourn: The meeting adjourned at 11:29 p.m.

Prepared by: Amy Koehl
Executive Assistant

Approved by: Chandra Franklin-Womack
TWIA Chairman

Approved by: Georgia Neblett
TWIA Vice Chairman

**RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
TEXAS WINDSTORM INSURANCE ASSOCIATION**

May 12, 2020

The undersigned authorized representative of the TEXAS WINDSTORM INSURANCE ASSOCIATION (the “Association”) hereby certifies that the following resolutions were adopted at a public meeting of the Association’s board of directors (the “Board”) lawfully held and noticed, effective as of the date hereof:

RESOLVED, that in order to provide the Association with liquidity to facilitate payment by the Association of claims to its policyholders and related expenses, the Association may enter into a Credit Agreement (the “Credit Agreement”) by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (the “Administrative Agent”), and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (each a “Lender” and, collectively the “Lenders”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Lenders one or more promissory notes in the original aggregate principal amount of up to \$500,000,000 (collectively, the “Notes”);

RESOLVED, FURTHER, to secure repayment of the Association’s payment and performance obligations under the Credit Agreement and the Notes the Association may execute and deliver to the Administrative Agent, a Financing and Pledge Agreement (the “Pledge Agreement”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Administrative Agent a Blocked Account Control Agreement (the “Blocked Account Agreement”, together with the Credit Agreement, the Notes, and the Pledge Agreements, collectively, the “Credit Documents”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Notes shall bear interest on the unpaid principal balance thereof at the rate or rates provided for in the Credit Agreement (said interest rate(s) to never exceed the maximum amount of interest permitted under applicable law, including without limitation, Chapter 1204 of the Texas Government Code), with accrued interest on the Notes being due and payable on the Interest Payment Dates (as defined in the Credit Agreement), and with the outstanding principal balance of the Notes being finally due and payable on the Maturity Date (as defined in the Credit Agreement);

RESOLVED, FURTHER, that in order to induce the Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the Administrative Agent and

the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

RESOLVED, FURTHER, that the chief financial officer and/or the general manager of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association to negotiate the specific terms of, and to execute and deliver to the Agent and the Lenders, the Credit Documents and such other instruments as Agent and Lenders may reasonably require in their discretion in connection with the Credit Agreement (the "Ancillary Documents") and to take such other action in the consummation and/or administration of the renewal and extension of Credit Documents and the Ancillary Documents as such officer(s) shall deem to be necessary or desirable, and any and all acts heretofore taken by the above-described officer(s) to such end are hereby expressly ratified and confirmed as the acts and deeds of the Association;

RESOLVED, FURTHER, that the Credit Documents and the Ancillary Documents shall be in form and substance satisfactory to the Agent and the Lenders and in form and substance approved by the above-described officer(s) executing the same on behalf of the Association, his or her approval of each such instrument to be conclusively evidenced by the execution thereof by such officer(s);

RESOLVED, FURTHER, that such officer(s) of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association and without further authorization of the Board, to negotiate and agree to on terms acceptable to such officer(s) any and all further renewals, extensions, modifications and/or amendments, but not any additional increases, to the credit extended to the Association pursuant to the Credit Agreement, and to execute and deliver to the Agent and the Lenders such documents as the Agents and the Lenders shall require to evidence any such renewal, extension, modification or amendment, but not any additional increase, and to take such other action in the consummation of the transactions therein contemplated as the officer(s) acting shall deem to be necessary or desirable;

RESOLVED, FURTHER, that any and all documents, agreements, certificates, opinions, letters, financing statements, consents, schedules and other instruments and writings executed and delivered on behalf of the Association in connection with the foregoing resolutions by the above-named representative of the Association shall be deemed to be the act of the Association and shall be in all respects binding against the Association;

RESOLVED, FURTHER, that the Board has determined it to be in the best interest of the Association for the Association to enter into, execute and deliver the Credit Documents and to enter into, execute and deliver any Ancillary Documents required in connection with the Credit Agreement;

RESOLVED, FURTHER, that the execution and delivery of and performance under the Credit Documents and the Ancillary Documents, and other actions contemplated herein, can reasonably be expected to benefit the Association, directly or indirectly; and

RESOLVED, FURTHER, that any and all acts, transactions or agreements undertaken by the officers of the Association for and on behalf and in the name of the Association, prior to the adoption of the foregoing resolutions, in connection with any of the foregoing matters including but not limited to, negotiation of the terms and/or execution and delivery of the Credit Documents and the Ancillary Documents be, and they are hereby, ratified, confirmed and approved in all respects for all purposes.

Executed and effective as of the date first written above.

Authorized Officer of the Association:















By: _____
(Signature)

Its: _____
(Printed Name and Title)

4. TWIA Operational Highlights

2020 TWIA Enterprise Scorecard

Reporting YTD as of June 30, 2020

	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	8.1%		9.2%	-1.1%	
Net Gain From Operations ¹	\$64.7 M		\$27.1 M	\$37.6 M	
Enterprise Projects	94%		90%	4%	
Policy Administration	99%		90%	9%	
Claims Handling	100%		90%	10%	
Litigated Claims	0.00%		0.50%	-0.50%	
Complaints	18		20	-2	

Reference Data

Policies In-Force	185,474
Exposures In-Force	\$54.8 billion
Written Premiums YTD	\$185.2 million
Claims Received YTD	2,570
Losses Incurred YTD ²	\$21.4 million

² Excludes IBNR

¹ Net Gain from Operations equals YTD 2020 net income reduced by YTD monthly principal prepayments on public securities.

Key Quarterly Activities

- Secured \$4.2 billion in total funding for the 2020 hurricane season.
- Depopulated more than 1,000 policies in Round 4 (2019-2020) of the Assumption Reinsurance Depopulation program.
- Transferred the Association's program for issuing Certificates of Compliance (WPI-8C) for completed improvements to TDI by the June 1 deadline.
- Submitted the 2020 Annual Report Card and Catastrophe Incident Response Plan to the Legislature and Insurance Commissioner as required on June 1.
- Trained nearly 1,000 adjuster resources virtually in the Claims department's annual Hurricane Preparedness and Adjuster Certification Conference.
- Remain below plan for Q2 2020 operating expenses.
- On track to complete Association objectives for all strategic initiatives in 2020.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain below plan on litigated claims and complaints in Q2 2020.

5. Financial

5A. Report of the Secretary/Treasurer

5A1. Income Statement

1	TEXAS WINDSTORM INSURANCE ASSOCIATION	1
2	Statutory Income Statement - Treasurer's Report	2
3	for the six months ended June 30,	3
4	(000's omitted)	4
5		5
6		6
7		7
8		8
9	Direct Premiums Written	9
10		10
11	Premiums Earned:	11
12	Direct Premiums Earned	12
13	Ceded Reinsurance Premiums	13
14	Ceded Reinsurance Premiums - Depopulation	14
15	Net Premiums Earned	15
16		16
17	Deductions:	17
18	Direct Losses and LAE Incurred	18
19	Direct Losses and LAE Incurred - Harvey	19
20	Direct Losses and LAE Incurred - Ike & Dolly	20
21	Ceded Losses and LAE Incurred - Depopulation	21
22	Operating Expenses	22
23	Commission Expense	23
24	Ceding commissions / brokerage	24
25	Ceding commissions / brokerage - Depopulation	25
26	Premium / Maintenance Tax	26
27	Total Deductions	27
28		28
29	Net Underwriting Gain or (Loss)	29
30		30
31	Other Income or (Expense):	31
32	Gross Investment Income	32
33	CRTF Funds Received	33
34	Member Assessment Income	34
35	Interest Expense on Class 1 Bonds	35
36	Debt Issuance & Other Investment Expenses	36
37	Other Income (Expense)	37
38	Total Other Income or (Expense)	38
39		39
40	Net Income (Loss)	40
41		41
42	Surplus (Deficit) Account:	42
43	Beginning Surplus (Deficit)	43
44	Net Income (Loss)	44
45	Change in Provision for Reinsurance	45
46	Change in nonadmitted assets - Other	46
47	Other	47
48	Statutory Fund Cost	48
49	Ending Surplus (Deficit)	49

5B. Financial Statement Review by Staff

5B1. Management Discussion and Analysis

5B2. Income Statement

5B3. Expense Detail

5B4. Balance Sheet

5B5. Cash Flow Statement

5B6. Cash & Short-Term Investments

5B7. Historical Data

5B8. Policy Count/Exposures

**Texas Windstorm Insurance Association
Management's Discussion and Analysis of Financial Results for the
Six Months Ended June 30, 2020**

Direct Written Premium:

- Year-to-date direct written premiums of \$185.2 million is \$5.5 million (2.9%) less than the comparable prior year period of \$190.7 million. Direct written premium was \$7.1 million (4.0%) higher than the budgeted \$178.1 million.
- The policy count at June 30, 2020 of 185,474 was 4,574 (2.5%) higher than the budgeted number of 180,900. The policy count reflects a decrease of 3,729 policies from December 31, 2019 and the transfer through depopulation of 1,003 policies on June 1, 2020.

Reinsurance Costs

- The TWIA 2020 reinsurance program inceptioned on June 1, 2020. The gross cost associated with the \$2.1 billion in coverage was \$107.5 million compared to a budgeted cost of \$93.1 million. This reflects an overall rate-on-line (ROL) of 5.1% compared to the 4.3% ROL for the 2019 program.
- The increase in costs reflects the extremely challenging reinsurance market in effect this renewal season. Additional information on the 2020 reinsurance program is included in the Board material.

Direct Premiums Earned:

- Year-to-date direct premiums earned totaled \$183.8 million compared to \$192.5 million for the same period last year (a decline of \$8.7 million or 4.5%).
- Direct premium earned was \$3.4 million higher than the budget of \$180.4 million.

Ceded Depop Premium:

- TWIA ceded \$740,000 of premium in 2020 to participating carriers from the policies selected in the latest round of the depopulation program. TWIA transferred cash equal to the unearned premium on these policies as of May 31st totaling \$794,951.

Loss and Loss Adjustment Expense Incurred:

- Direct losses and LAE incurred for the period totaled \$17.4 million, compared with the budget of \$53.0 million.
- TWIA reported an incurred loss ratio of 9.5% compared to the budgeted 29.4% as a result of favorable spring storm activity.
- The ultimate loss and loss adjustment expense estimate for Hurricane Harvey remains unchanged at \$1.7 billion.

Operating Expenses:

- Year-to-date operating expenses of \$15.0 million were below budget by \$1.7 million (10.4%).
- The favorable variance is due primarily to savings in contractors, consultants, and hardware and software in IT associated with Project Elevate and lower than anticipated underwriting surveys/inspections and postage.

Commission Expense and Premium Taxes:

- Commission expense of \$29.6 million was above budget by \$1.1 million or 4% as Direct Written premium exceeded budget.
- Total Premium taxes of \$3.5 million were slightly below budget by \$27,000. This is attributed to the lower Maintenance tax rate in 2020 of 0.274% versus 0.303% in 2019 which was used in the budget.

Other Income (Expense):

- Gross investment income for the six-months ended June 30, 2020 totaled \$1.3 million which was \$2.4 million less than the budgeted amount of \$3.7 million.
- Investment income continues to lag budget expectations due to extremely low interest rates associated with the recent pandemic event.
- Interest expense on Class 1 bonds was slightly below budget due to the redemption of \$45 million of bond principal on May 11, 2020.
- Debt Issuance fees of \$500,000 (10 BPS) were paid to renew the \$500 million line of credit with JP Morgan Chase Bank and Bank of America. The June monthly commitment fee of 80 basis points was accrued totaling \$333,333.

Net Income

- Net income for the six months ended June 30, 2020 was \$91.1 million compared to the budgeted amount of \$54.1 million. Last year's net income of \$12.8 million was adversely impacted by a \$90.0 million reserve adjustment for Hurricane Harvey.

Surplus/(Deficit):

- The deficit as of June 30, 2020 improved to a negative \$96.3 million compared to a negative \$183.8 million at December 31, 2019.

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
for the six months ended June 30,				
	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019
Premiums Written:				
Direct	\$ 185,246	\$ 178,137	\$ 7,109	\$ 190,706
Ceded	(107,452)	(93,109)	(14,342)	(90,224)
Ceded - Depopulation	(740)	(1,415)	674	(1,456)
Net	77,054	83,614	(6,559)	99,027
Premiums Earned:				
Direct	\$ 183,813	\$ 180,443	\$ 3,370	\$ 192,533
Ceded	(17,909)	(15,518)	(2,391)	(15,037)
Ceded - Depopulation	(740)	(1,415)	674	(1,456)
Net	165,164	163,510	1,653	176,040
Deductions:				
Direct Losses and LAE Incurred	17,444	53,020	(35,576)	16,685
Direct Losses and LAE Incurred - Harvey	-	-	-	90,000
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(99)	(478)	378	(127)
Operating Expenses	14,952	16,686	(1,734)	13,986
Commission Expense	29,628	28,501	1,127	30,468
Ceding commissions / brokerage	(3,523)	(2,402)	(1,121)	(2,569)
Ceding commissions / brokerage - Depopulation	(178)	(340)	162	(349)
Premium / Maintenance Tax	3,482	3,509	(27)	3,641
Total Deductions	61,706	98,497	(36,791)	151,734
Net Underwriting Gain or (Loss)	103,458	65,014	38,444	24,305
Other Income or (Expense):				
Gross Investment Income	1,289	3,727	(2,438)	5,049
CRTF Funds Received	-	-	-	-
Member Assessment Income	-	-	-	-
Interest Expense on Debt	(12,585)	(13,142)	557	(15,201)
Debt Issuance/Maintenance & Other Investment Expenses	(1,097)	(1,507)	410	(1,425)
Other Income (Expense)	-	-	-	43
Total Other Income or (Expense)	(12,394)	(10,922)	(1,472)	(11,534)
Net Income (Loss)	\$ 91,064	\$ 54,092	\$ 36,972	\$ 12,771
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(183,792)	(183,792)	-	(277,864)
Net Income (Loss)	91,064	54,092	36,972	12,771
Change in Provision for Reinsurance	(2,918)	(2,000)	(918)	(1,816)
Change in nonadmitted assets - Other	(701)	(1,508)	807	(976)
Other	-	-	-	-
Statutory Fund Cost	-	-	-	-
Ending Surplus (Deficit)	\$ (96,346)	\$ (133,208)	\$ 36,862	\$ (267,885)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	9.5%	29.4%	-19.9%	8.7%
Hurricane Harvey	0.0%	0.0%	0.0%	46.7%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	9.5%	29.4%	-19.9%	55.4%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	-0.1%	17.9%
Non Acquisition	8.1%	9.2%	-1.1%	7.3%
UW Expense Ratio	26.0%	27.2%	-1.2%	25.1%
Combined Ratio	35.5%	56.6%	-21.1%	80.6%
Net:				
Loss & LAE Ratio:				
Non Hurricane	10.5%	32.1%	-21.6%	9.4%
Hurricane Harvey	0.0%	0.0%	0.0%	51.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	10.5%	32.1%	-21.6%	60.5%
UW Expense Ratio:				
Acquisition	20.0%	19.5%	0.5%	19.2%
Non Acquisition	9.1%	10.2%	-1.2%	7.9%
UW Expense Ratio	29.1%	29.7%	-0.6%	27.1%
Combined Ratio	39.6%	61.8%	-22.3%	87.7%

1	TEXAS WINDSTORM INSURANCE ASSOCIATION					1
2	Statutory Expense Report (000's omitted)					2
3	for the six months ended June 30,					3
4						4
5	Description	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019	5
6	Personnel Expenses					6
7	Salaries & Wages - Permanent	\$ 5,779	\$ 6,146	\$ (367)	\$ 5,677	7
8	Contractor & Temporary Help	3,562	4,528	(967)	7,601	8
9	Payroll Taxes	445	513	(68)	437	9
10	Employee Benefits	2,212	2,151	62	2,193	10
11	Recruiting, Training & Other	117	185	(68)	98	11
12	Subtotal	12,114	13,523	(1,409)	16,005	12
13						13
14	Professional & Consulting Services					14
15	Legal	204	310	(106)	286	15
16	Accounting & Auditing	163	163	(0)	160	16
17	Information Technology	1,256	2,508	(1,253)	1,079	17
18	Actuarial Services	34	36	(2)	(23)	18
19	Ombudsman Program	127	114	13	125	19
20	Surveys & Inspections	663	767	(104)	794	20
21	Disaster Recovery Services	195	69	126	60	21
22	Other Services (1)	2,019	2,219	(200)	1,824	22
23	Subtotal	4,660	6,186	(1,527)	4,305	23
24						24
25	Hardware/Software Purchases & Licensing	1,562	1,777	(214)	1,652	25
26	Rental & Maintenance - Office/Equipment	680	681	(1)	623	26
27	Travel Expenses	53	176	(124)	81	27
28	Postage, Telephone and Express	434	632	(198)	350	28
29	Capital Management Expenses	10	12	(2)	1,281	29
30	Depreciation	14	14	(0)	5	30
31	Other Operating Expenses	535	611	(76)	547	31
32	Total Operating Expenses	\$ 20,063	\$ 23,612	\$ (3,549)	\$ 24,848	32
33						33
34	Capitalization of Fixed Assets	-	-	-	-	34
35	Reimbursement of Depop Servicing Expense	(37)	(45)	8	(45)	35
36	Allocation To ULAE	(4,921)	(6,725)	1,804	(9,392)	36
37	Allocation To Investing & Other Expense	(153)	(156)	3	(1,425)	37
38	Net Operating Expense - UW Operations	\$ 14,952	\$ 16,686	\$ (1,734)	\$ 13,986	38

(1) Summary Details for Other Services:

<u>VENDOR</u>	<u>Amount</u>	<u>Department</u>
Accenture	\$ 1,091	Expert Panel
Marshall & Swift/Boeckh	\$ 251	Underwriting
Call Center Expense	\$ 211	Claims & Underwriting
ISO Services Inc	\$ 119	Claims
Xactware User Fees	\$ 66	Claims
EagleView Technologies Inc	\$ 71	Claims
Xactware weather reports	\$ 36	Claims
Cornerstone OnDemand	\$ 31	Human Resources
Property & Liability Resource Bureau	\$ 30	Claims
ADP	\$ 24	Human Resources
Scan Mailboxes Solutions LLC	\$ 20	Operations
McLean and Company	\$ 19	Human Resources
Iron Mountain Records Management	\$ 10	Operations
Salary.com LLC	\$ 8	Human Resources
Bradshaw & Bickerton PLLC	\$ 8	Human Resources
Akalia Interactive Inc	\$ 8	Communications & Legislative Affairs
Thomson Reuters (Tax Accting) Inc	\$ 7	Accounting
*Other Outside Services	\$ 8	Various departments
Total Other Services	\$ 2,019	

1	TEXAS WINDSTORM INSURANCE ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		June-20	December-19	5
6	Admitted Assets			6
7	Cash and short term investments:			7
8	Unrestricted	\$ 438,015	\$ 432,595	8
9	Restricted - Funds Held at TTSTC	\$ 109,607	\$ 82,016	9
10	Restricted - Funds Held at TTSTC (Non Admitted)	-	-	10
11	Total cash and short term investments	547,623	514,611	11
12	Premiums receivable & other	2,017	1,499	12
13	Assessment receivable	0	90,000	13
14	Amounts recoverable from reinsurers	96	7	14
15	Total admitted assets	\$ 549,736	\$ 606,117	15
16				16
17	Liabilities, Surplus and other funds			17
18	Liabilities:			18
19	Loss and Loss adjustment expenses	\$ 146,737	\$ 169,130	19
20	Underwriting expenses payable	13,701	9,962	20
21	Unearned premiums, net of ceded unearned premiums	97,386	185,495	21
22	Ceded reinsurance funds payable	75,553	22,560	22
23	Principal Outstanding on Class 1 Pre Event Bonds	273,600	318,600	23
24	Interest Payable on Class 1 Pre Event Bonds	12,627	13,142	24
25	Provision for reinsurance	2,918	-	25
26	Other payables	23,560	18,378	26
27	Statutory fund payable	-	52,641	27
28	Total liabilities	646,082	789,909	28
29				29
30	Surplus and others funds			30
31	Unassigned surplus	(96,346)	(183,792)	31
32	Total liabilities, surplus and other funds	\$ 549,736	\$ 606,117	32
33				33
34				34
35	Balance in CRTF	\$ 177,112	\$ 122,496	35
36				36
37	Balance in CRTF including Statutory fund payable	\$ 177,112	\$ 175,137	37

1	TEXAS WINDSTORM INSURANCE ASSOCIATION	1
2	Statement of Cash Flows (000's omitted)	2
3	for the six months ended June 30,	3
4		4
5	Actuals - 2020 Budget - 2020 Variance - 2020	5
6		6
7	Cash flows from operating activities:	7
8	Premiums collected, net of reinsurance \$ 135,486 \$ 138,235 \$ (2,749)	8
9	Losses and loss adjustment expense paid (39,826) (62,048) 22,222	9
10	Underwriting expenses paid (39,988) (44,871) 4,883	10
11	CRTF funds received - - -	11
12	Member assessment received 90,000 90,000 (0)	12
13	Other (821) (213) (608)	13
14	Net cash provided by operating activities 144,851 121,102 23,748	14
15	Cash flows from nonoperating activities:	15
16	Statutory fund paid (52,641) (100,266) 47,625	16
17	Other - - -	17
18	Net cash provided by nonoperating activities (52,641) (100,266) 47,625	18
19	Cash flows from investing activities:	19
20	Sales and maturities of investments - - -	20
21	Net investment income (14,198) (10,922) (3,276)	21
22	Net cash provided by investing activities (14,198) (10,922) (3,276)	22
23	Cash flows from financing activities:	23
24	Borrowed funds - - -	24
25	Borrowed funds repaid (45,000) - (45,000)	25
26	Net cash provided by financing activities (45,000) - (45,000)	26
27		27
28	Net increase (decrease) in cash and short-term investments 33,012 9,914 23,097	28
29	Cash and short-term investments, Beginning 514,611 514,611 -	29
30	Cash and short-term investments, Ending \$ 547,623 \$ 524,525 \$ 23,097	30
31		31

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments (\$ in 000's)
June 30, 2020

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Average Daily Balance for the Quarter	Investment Income during the Quarter	Average Annual Yield	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? > .2% of N.A. Reg Capital
Balances as of 6/30/20:							< 40%	Superior or Strong	> 10%	> \$25B	
Bank of America, Operating	162	151,268	151,431	159,131	85	0.21%	35%	Superior	12.3%	\$192	No
BlackRock Liquidity Funds (1)	-	13,407	13,407	46,439	24	0.20%	3%	N/A	N/A	N/A	N/A
Citibank	3	112,173	112,177	74,015	34	0.18%	26%	Superior	12.9%	\$137	No
JP Morgan Chase	70,810	-	70,810				16%	Superior	13.4%	\$205	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	-	90,191	90,191	148,743	52	0.14%	21%	N/A	N/A	N/A	N/A
Wells Fargo	-	-	-				0%	Superior	12.6%	\$147	No
Total of all financial institutions	70,975	367,040	438,015	428,329	194	0.18%	100%				
Balances as of 3/31/20:											
Bank of America, Operating	162	165,621	165,783	166,676	294	0.71%	36%	Superior	12.5%	\$155	No
BlackRock Liquidity Funds (1)	-	71,857	71,857	113,633	190	0.67%	15%	N/A	N/A	N/A	N/A
Citibank	4	47,140	47,144	47,058	138	1.17%	10%	Superior	13.0%	\$133	No
JP Morgan Chase	20,315	-	20,315				4%	Superior	14.2%	\$207	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	-	160,074	160,074	113,237	323	1.14%	34%	N/A	N/A	N/A	N/A
Wells Fargo	-	-	-				0%	Superior	12.6%	\$145	No
Total of all financial institutions	20,481	444,692	465,173	440,604	945	0.86%	100%				
(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 31, 2020. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.											

TEXAS WINDSTORM INSURANCE ASSOCIATION												
HISTORICAL DATA												
1971 - 2020												
(\$ with 000's omitted)												
YEAR	GROSS						NET				CRTF BALANCE END OF PERIOD	
	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES		WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING			
			RESID	COMML					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	30,975	100,524	163,631	186,184	
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813	
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170	
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860	
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220	
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718	301,515	175,998	96,399	29,118	5,986	
2019	55,189,815	189,203	-	-	372,017	113,513	287,477	113,398	92,415	81,664	122,496	
2020	54,708,903	185,474	-	-	185,246	17,444	165,164	17,344	44,362	103,458	177,112	
TOTAL					6,773,957	5,822,635	4,716,364	4,351,097	1,487,371	(1,122,104)		
*2020 data through 06/30/20.												

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1997 - 2019 (23 Years)
(\$ with 000's omitted)



1	Premium and Other Revenues				1
2	Direct Earned Premium		6,036,261		2
3	Investment Income /Other		78,376		3
4	Premium and Other Revenues		6,114,637		4
5					5
6	Expenditures				6
7	Reinsurance Premiums/Commissions		(1,758,527)	28.8%	7
8	Losses		(1,388,745)	22.7%	8
9	Funded into CRTF	A	(1,035,034)	16.9%	9
10	Agents Commissions		(993,790)	16.3%	10
11	Operating Expenses		(453,816)	7.4%	11
12	Class 1 Bond Interest/LOC Expenses		(200,923)	3.3%	12
13	Early Redemption withholdings from 2019		(45,000)	0.7%	13
14	Repayment of Class 1 Bonds	B	(181,400)	3.0%	14
15	Other/Adjustments		(46,451)	0.8%	15
16	Federal Taxes		(10,951)	0.2%	16
17	Total TWIA Expenditures		(6,114,637)	100.0%	17
18					18
19	Net		-	-	19
20					20
21					21
22					22
23	Payment of Losses:				23
24	Reinsurers	D	1,498,435	}	24
25	Industry (Member Assessments)	E	1,000,633		25
26	Proceeds of Class 1 Bonds	F	449,172		26
27	CRTF Distributions	G	1,247,494	}	27
28	TWIA Direct Loss Payments	C	1,388,745		28
29	Total Losses		5,584,479	5,584,479	29
30			-		30
31					31
32	CRTF Summary				32
33	Beginning Balance (12/31/1996)		179,020		33
34	Contributions	A	1,035,034		34
35	Payment of Losses	G	(1,247,494)		35
36	Interest and Surcharges		208,577		36
37	Ending Balance		<u>175,137</u>		37
38					38
39	Class 1 Debt Summary				39
40	Proceeds of Offering		500,000		40
41	Payment of Losses	F	(449,172)		41
42	Net Proceeds Remaining - Debt Service Reserve Funds		<u>50,828</u>		42
43					43
44	Class 1 Principal Outstanding				44
45	Original Principal Amount		500,000		45
46	Principal Payments	B	(181,400)		46
47	Remaining Outstanding (12/31/19)		<u>318,600</u>		47

Texas Windstorm Insurance Association
Statistical Report
As of June 30, 2020



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	6/30/19	6/30/20	Actual	Percentage	6/30/19	6/30/20	Actual	Percentage	6/30/19	6/30/20	Actual	Percentage
Aransas	5,062	5,071	9	0.20%	1,664,030,855	1,652,593,481	-\$11,437,374	-0.70%	6,009,955	5,982,960	-\$26,995	-0.40%
Brazoria	32,119	29,524	-2,595	-8.10%	9,351,360,427	8,653,159,816	-\$698,200,611	-7.50%	28,848,990	26,722,777	-\$2,126,213	-7.40%
Calhoun	3,515	3,512	-3	-0.10%	924,319,390	938,717,466	\$14,398,076	1.60%	3,445,301	3,411,188	-\$34,113	-1.00%
Cameron	11,576	10,277	-1,299	-11.20%	3,095,399,476	2,904,980,367	-\$190,419,109	-6.20%	10,964,307	10,436,333	-\$527,974	-4.80%
Chambers	4,159	3,893	-266	-6.40%	1,338,995,539	1,286,448,830	-\$52,546,709	-3.90%	3,947,052	3,780,329	-\$166,723	-4.20%
Galveston	57,657	57,433	-224	-0.40%	18,975,770,837	19,189,972,287	\$214,201,450	1.10%	66,763,524	67,351,756	\$588,232	0.90%
Harris	3,371	3,379	8	0.20%	1,005,526,105	1,034,546,008	\$29,019,903	2.90%	2,287,756	2,338,021	\$50,265	2.20%
Jefferson	25,543	24,311	-1,232	-4.80%	5,942,590,403	5,678,232,669	-\$264,357,734	-4.40%	21,041,630	20,088,290	-\$953,340	-4.50%
Kenedy	16	17	1	6.30%	6,292,341	6,436,341	\$144,000	2.30%	30,962	32,778	\$1,816	5.90%
Kleberg	853	777	-76	-8.90%	187,798,370	173,459,613	-\$14,338,757	-7.60%	689,885	629,850	-\$60,035	-8.70%
Matagorda	4,384	4,229	-155	-3.50%	1,096,675,509	1,076,755,407	-\$19,920,102	-1.80%	3,780,119	3,702,132	-\$77,987	-2.10%
Nueces	38,473	36,691	-1,782	-4.60%	10,714,275,087	10,404,112,598	-\$310,162,489	-2.90%	36,550,522	34,738,824	-\$1,811,698	-5.00%
Refugio	333	340	7	2.10%	90,334,420	92,451,505	\$2,117,085	2.30%	341,123	327,542	-\$13,581	-4.00%
San Patricio	6,075	5,676	-399	-6.60%	1,632,949,995	1,532,146,698	-\$100,803,297	-6.20%	5,697,109	5,415,288	-\$281,821	-4.90%
Willacy	364	344	-20	-5.50%	85,116,963	84,889,641	-\$227,322	-0.30%	309,904	289,121	-\$20,783	-6.70%
Total	193,500	185,474	-8,026	-4.10%	56,111,435,717	54,708,902,727	-\$1,402,532,990	-2.50%	190,708,139	185,247,189	-\$5,460,950	-2.90%

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2020



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Aransas										
Commercial	122	229	214	344	582,491	870,552	182,404,245	4,086,780	309	541
Manufactured Home	45	70	45	72	58,114	95,377	5,493,878	0	104	106
Residential	1,499	2,489	1,586	2,619	2,980,899	5,017,031	1,464,695,358	121,422,294	4,658	4,908
Total	1,666	2,788	1,845	3,035	3,621,504	5,982,960	1,652,593,481	125,509,074	5,071	5,555
Brazoria										
Commercial	246	435	356	672	1,241,285	2,485,977	384,599,548	7,723,764	732	1,158
Manufactured Home	51	85	51	85	77,604	132,009	9,885,577	0	152	153
Residential	8,711	14,817	8,972	15,224	13,952,333	24,104,791	8,258,674,691	1,062,042,680	28,640	29,422
SUM:	9,008	15,337	9,379	15,981	15,271,222	26,722,777	8,653,159,816	1,069,766,444	29,524	30,733
Calhoun										
Commercial	51	88	70	157	283,228	521,784	99,137,982	1,888,295	177	369
Manufactured Home	26	37	26	37	36,803	54,020	4,002,234	0	70	71
Residential	1,032	1,646	1,092	1,839	1,727,742	2,835,384	835,577,250	69,475,920	3,265	3,612
SUM:	1,109	1,771	1,188	2,033	2,047,773	3,411,188	938,717,466	71,364,215	3,512	4,052
Cameron										
Commercial	229	391	465	783	1,509,181	4,872,537	1,019,145,471	5,837,785	578	1,160
Manufactured Home	17	24	17	24	15,660	25,085	2,178,344	0	49	49
Residential	3,050	5,003	3,090	5,071	3,372,286	5,538,711	1,883,656,552	197,488,975	9,650	9,867
SUM:	3,296	5,418	3,572	5,878	4,897,127	10,436,333	2,904,980,367	203,326,760	10,277	11,076

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2020



Class of Business	<u>Policies Written</u>		<u>Risks Written</u>		<u>Premium Written</u>		<u>Liability at End of Quarter</u>		<u>In-Force at End of Quarter</u>	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Chambers										
Commercial	27	44	36	58	86,011	201,956	45,215,149	617,900	89	137
Manufactured Home	4	9	4	9	2,389	6,844	1,522,447	0	29	29
Residential	1,159	1,997	1,212	2,080	2,041,661	3,571,529	1,239,711,234	163,027,806	3,775	3,962
SUM:	1,190	2,050	1,252	2,147	2,130,061	3,780,329	1,286,448,830	163,645,705	3,893	4,128
Galveston										
Commercial	642	1,068	1,101	1,851	7,846,736	13,210,527	2,184,039,654	43,951,989	1,813	3,246
Manufactured Home	52	83	52	84	68,051	110,863	8,847,829	0	159	161
Residential	17,730	29,223	18,288	30,288	32,815,585	54,030,366	16,997,084,804	1,893,240,586	55,461	57,492
SUM:	18,424	30,374	19,441	32,223	40,730,372	67,351,756	19,189,972,287	1,937,192,575	57,433	60,899
Harris										
Commercial	21	29	37	45	107,135	175,904	33,755,829	431,130	54	95
Manufactured Home	2	2	2	2	713	713	135,300	0	4	4
Residential	1,059	1,690	1,104	1,751	1,341,548	2,161,404	1,000,654,879	128,852,412	3,321	3,414
SUM:	1,082	1,721	1,143	1,798	1,449,396	2,338,021	1,034,546,008	129,283,542	3,379	3,513
Jefferson										
Commercial	189	342	249	458	854,728	1,514,967	280,589,976	9,329,990	641	970
Manufactured Home	12	18	12	18	21,875	33,783	1,893,800	0	27	27
Residential	8,069	12,677	8,243	12,965	11,734,880	18,539,540	5,395,748,893	680,919,816	23,643	24,212
SUM:	8,270	13,037	8,504	13,441	12,611,483	20,088,290	5,678,232,669	690,249,806	24,311	25,209

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2020



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Kenedy										
Commercial	0	1	0	5	0	13,292	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	7	8	13	17	13,842	19,486	5,741,900	35,600	16	30
SUM:	7	9	13	22	13,842	32,778	6,436,341	35,600	17	35
Kleberg										
Commercial	19	25	33	41	78,733	87,104	13,245,727	550,800	37	59
Manufactured Home	2	2	2	2	3,613	3,613	144,500	0	2	2
Residential	235	379	249	395	330,753	539,133	160,069,386	17,017,496	738	774
SUM:	256	406	284	438	413,099	629,850	173,459,613	17,568,296	777	835
Matagorda										
Commercial	49	87	102	155	305,438	420,338	77,036,162	1,911,585	170	269
Manufactured Home	7	11	7	11	9,647	16,463	1,322,907	0	20	20
Residential	1,297	2,148	1,351	2,238	1,930,961	3,265,331	998,396,338	101,349,111	4,039	4,183
SUM:	1,353	2,246	1,460	2,404	2,246,046	3,702,132	1,076,755,407	103,260,696	4,229	4,472
Nueces										
Commercial	612	1,015	1,144	1,815	4,261,417	6,510,654	1,380,931,174	36,079,864	1,709	3,212
Manufactured Home	11	12	11	12	16,448	17,948	989,000	0	20	20
Residential	11,433	18,672	11,864	19,384	17,359,600	28,210,222	9,022,192,424	1,008,443,039	34,962	36,099
SUM:	12,056	19,699	13,019	21,211	21,637,465	34,738,824	10,404,112,598	1,044,522,903	36,691	39,331

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2020



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Refugio										
Commercial	14	19	17	30	52,969	53,424	18,823,355	0	30	57
Manufactured Home	8	11	10	13	12,596	18,036	1,016,200	0	14	17
Residential	90	158	106	180	138,364	256,082	72,611,950	7,327,438	296	327
SUM:	112	188	133	223	203,929	327,542	92,451,505	7,327,438	340	401
San Patricio										
Commercial	89	155	152	273	378,446	705,302	102,277,677	3,583,445	235	411
Manufactured Home	13	18	13	18	22,556	30,850	1,719,156	0	27	27
Residential	1,791	2,962	1,843	3,091	2,765,512	4,679,136	1,428,149,865	166,958,335	5,414	5,616
SUM:	1,893	3,135	2,008	3,382	3,166,514	5,415,288	1,532,146,698	170,541,780	5,676	6,054
Willacy										
Commercial	7	12	7	21	21,605	35,847	13,448,063	98,550	30	58
Manufactured Home	3	4	3	4	4,200	5,200	208,000	0	4	4
Residential	114	160	117	168	190,354	248,074	71,233,578	5,211,402	310	334
SUM:	124	176	127	193	216,159	289,121	84,889,641	5,309,952	344	396
Total All Counties										
Commercial	2,317	3,940	3,983	6,708	17,609,403	31,680,165	5,835,344,453	116,091,876	6,605	11,747
Manufactured Home	253	386	255	391	350,269	550,804	39,359,172	0	681	690
Residential	57,276	94,029	59,130	97,310	92,696,320	153,016,220	48,834,199,102	5,622,812,909	178,188	184,252
SUM:	59,846	98,355	63,368	104,409	110,655,992	185,247,189	54,708,902,727	5,738,904,785	185,474	196,689

5C. 2020 Hurricane Season Funding

TWIA 2020-2021 Reinsurance Program

The Texas Windstorm Insurance Association completed its reinsurance program for the 2020 hurricane season, securing \$2.1 billion of cover through a combination of traditional reinsurance and catastrophe bonds and bringing the Association's total funding for the season to \$4.2 billion as required by law to cover a 1:100 catastrophe year.

- The reinsurance program attaches at \$2.1 billion, after other sources of funding provided by statute have been expended. These sources include reserves of the Association, the Catastrophe Reserve Trust Fund (currently at \$177 million), and \$2 billion in alternating layers of public securities and assessments of member insurance companies.
- The 2020 program features a layer of traditional reinsurance providing \$1.1 billion of the \$2.1B of coverage in excess of an attachment point of \$2.1 billion.
- Sitting alongside the traditional reinsurance are three separate catastrophe bonds aggregating \$1.0 billion in coverage, including two outstanding bonds from previous years: \$400 million in coverage provided through the Alamo Re Series 2018 bonds and \$200 million from the Series 2019 bonds.
 - The balance of the catastrophe bonds includes \$400 million in coverage from a catastrophe bond issued through Alamo Re II Pte. Ltd Series, a special purpose reinsurance vehicle domiciled in Singapore.
 - Each catastrophe bond carries a three year-term beginning in the year of its respective issuance.
- The gross cost associated with the \$2.1 billion in coverage was \$107.5 million compared to a budgeted cost of \$93.1 million. This reflects an overall rate-on-line (ROL) of 5.1% compared to the 4.3% ROL for the 2019 program.
- Guy Carpenter acted as reinsurance broker for the renewal of the traditional reinsurance, while GC Securities and affiliates are serving as placement agent and advisor for the Series 2020-1 bonds.
- In addition to the \$4.2 billion in funding for the 2020 hurricane season, TWIA has also secured a \$500 million line of credit from J.P. Morgan and Bank of America. This is intended to provide immediate liquidity, if needed, as the Association accesses the statutory funding layers in the event of a catastrophic hurricane impacting its coverage area along the Texas Gulf coast.

- Key financial highlights with respect to the participants on the \$1.1 billion traditional reinsurance program are provided below:

A.M. Best Rating of Reinsurers

Rating	% of Total Placement	Sum of Total Line (\$)
A++	2%	21,999,600
A+	40%	440,478,602
A	51%	556,312,239
A-	7%	81,209,560
Grand Total	100%	1,100,000,000

- 93% of the TWIA Cat program is placed with reinsurers rated A or better by A.M. Best

Surplus Level of Reinsurers

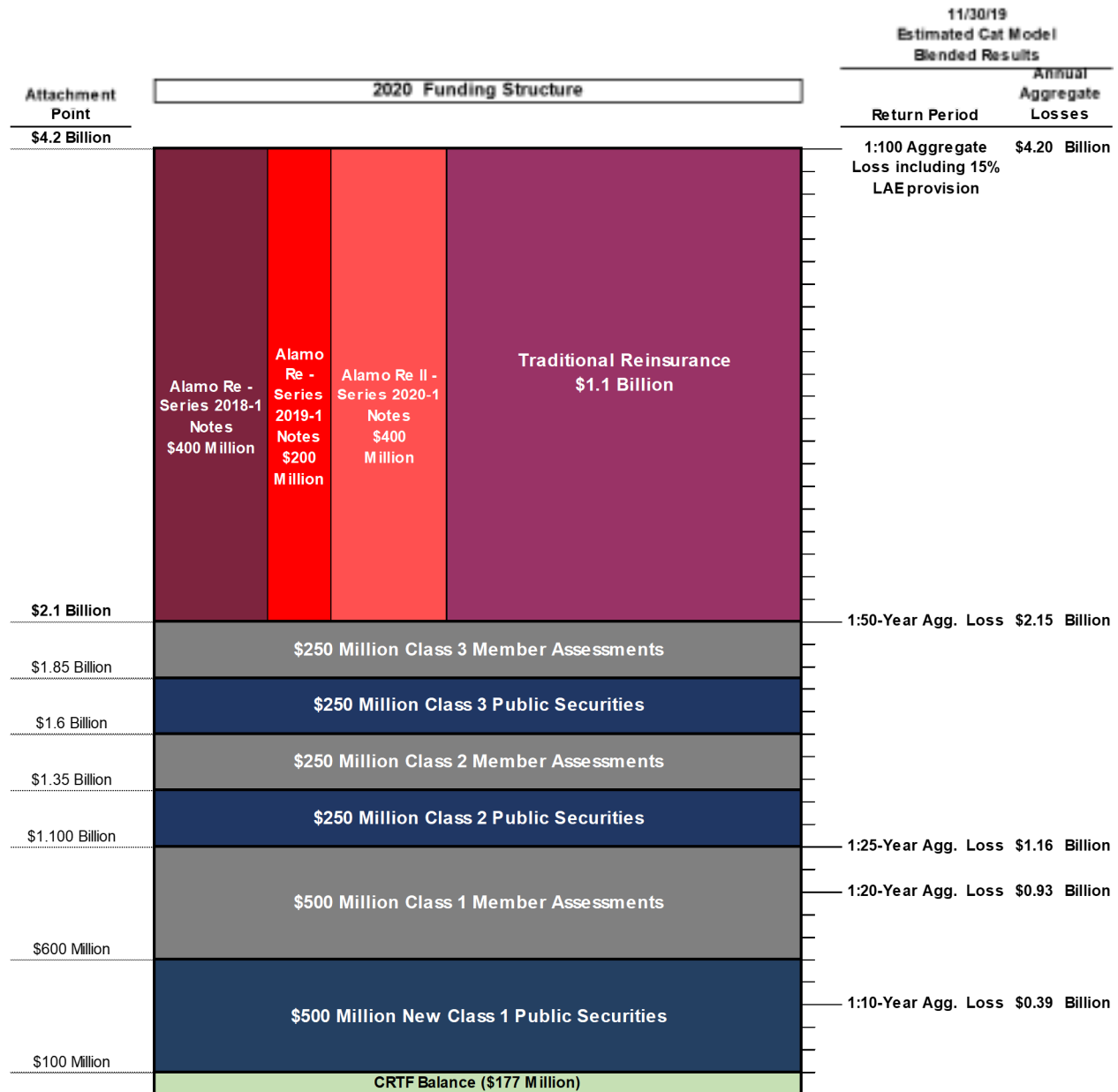
Surplus	% of Total Placement	Sum of Total Line (\$)
>\$10B	8%	89,499,600
\$5B - \$9.9B	3%	38,078,886
\$1B - \$4.9B	60%	664,247,426
Lloyd's backed	19%	212,334,612
<\$1B	9%	95,839,477
Grand Total	100%	1,100,000,000

- 91% of the program is placed with reinsurers with a policyholder's surplus in excess of \$1B

Geographic Domicile of Reinsurers

Country	% of Total Placement	Sum of Total Line (\$)
Bermuda	40%	437,047,227
USA	32%	356,539,399
Lloyd's (UK)	19%	212,334,612
Continental Europe	7%	79,379,204
Asia PAC	1%	14,699,559
Grand Total	100%	1,100,000,000

- 19% is placed with Lloyd's syndicates backed by the Lloyd's trust.
- 40% is placed with reinsurers domiciled in Bermuda.



Notes:

Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/19 for the 2020 season.
2020 Cat model return periods based average of AIR v7 and RMS v18.1 gross aggregate loss estimates, including hurricane and severe convection storms ("SCS"), including demand surge, but excluding storm surge. Hurricane losses are based on the near-term and Warm Sea Surface Temperature (WSST) event sets.

5D. Investment of Trust Fund Balances (Sec. 2210.4521)



MEMORANDUM

DATE: July 10, 2020
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **Investment of Trust Fund Balances (Sec. 2210.4521)**

SB 900 added the following requirement 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). [Emphasis added] After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

TWIA Board of Directors last reviewed this provision as required in 2019 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 \$177.1M as of June 30, 2020. 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 August 4, 2020 meeting 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.

Jerry Fadden

5E. Selection of Auditors/Accountants for
2020 and Authorization of
Non-Audit Services



MEMORANDUM

DATE: July 10, 2020
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **Selection of Auditors/Accountants for 2020 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 attached the Statutory and GASB engagement letters from CTM for use in connection with the audit of the association's 2020 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 assistance with certain tax related items and for non-audit services associated with the issuance of catastrophe bonds. 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 and certain non-audit services in connection with the issuance of catastrophe bonds during the coming year as needed.

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

Agreement to provide services

July 10, 2020

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
5700 S. Mopac Expressway
Building A
Austin, Texas 78749

Dear Ms. Franklin-Womack:

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services.

Statutory Audit

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statutory statement of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2020 and the related statutory statements of income, changes in surplus and other funds, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of the Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding the Association's assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the statutory financial statements, as listed below, which are presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law, will be subjected to the auditing procedures applied in our audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and our auditors' report will provide an opinion on it in relation to the statutory financial statements as a whole.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 2

- Summary Investment Schedule as of December 31, 2020.
- Supplemental Investment Risk Interrogatories as of December 31, 2020.
- Reinsurance Interrogatories as of December 31, 2020.

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the statutory financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Audit Committee meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the statutory financial statements, taken as a whole, are fairly presented based on accounting principles prescribed or permitted by the Texas Department of Insurance. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the statutory financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit, in accordance with auditing standards generally accepted in the United States of America, to obtain reasonable assurance about whether the

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 3

statutory financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the statutory financial statements and, therefore, will not include a detailed check of all of the Association's transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the statutory financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the statutory financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, statutory financial statement misstatements may be identified, either through our audit procedures or through communication by the Association's employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the statutory financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association's files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the statutory financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Clark Thomson has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's statutory financial statements.

Responsibility to Communicate with the Audit Committee

Although the objective of our audit of the statutory financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 4

extent they come to our attention.

We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

E-mail Communication

In connection with this engagement, we may communicate with you or others via e-mail transmission. As e-mails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that e-mails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, the Association agrees that we shall have no liability for any loss or damage from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

Ownership of Working Papers

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 5

Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

Reproduction of Audit Report

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

Posting of Audit Report and Statutory Financial Statements on Your Web Site

You agree that, if you plan to post an electronic version of the statutory financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the statutory financial statements and audit report on your Web site and the signed version of the statutory financial statements and audit report provided to management by CTM.

Review of Documents for Sale of Securities

The audited statutory financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

Management Representations and Indemnification

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from the Association's management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 6

Availability of Records and Personnel

The Association agrees that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, the Association's personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports and/or actuarial reports that the Association provides to us to support amounts or disclosures in the statutory financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

Assistance by the Association's Personnel and Internet Access

We also ask that the Association's personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to the Association's employees and/or customers should be provided to us. In addition, we ask that the Association provides high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to the Association.

Other Services

We are always available to meet with you or other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting the Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your director's meetings.

Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 7

Provisions of the National Association of Insurance Commissioners' Model Audit Rule also require the Association's audit committee to pre-approve all permissible non-attest services. We agree not to perform any services without audit committee pre-approval and you agree to implement appropriate policies and procedures to ensure that the audit committee pre-approves any services that we or other independent auditors are asked to perform.

Dispute Resolution Procedure

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law

rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

Fees

Our charges to the Association for the audit services described above will be \$75,000 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 9

Partner	\$225
Senior Manager	\$175
Senior Associate	\$130
Audit Associate	\$110

This engagement includes only those services specifically described in this letter; any additional services not specified herein will be agreed to in a separate letter. Reasonable costs and time spent in legal matters or proceedings arising from our engagement (other than litigation to which we are a party), such as subpoenas, testimony, or consultation involving private litigation or arbitration, or government regulatory inquiries at your request or by subpoena, will be billed to the Association separately and the Association agrees to pay the same.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

Miscellaneous

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws,

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 10

regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

Assignability

This Agreement is nonassignable.

Entire Agreement

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

Amendment and Modification

This Agreement may only be amended or modified by the mutual written agreement of the parties.

Public Information

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3) days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 11

Confidential Information and Subpoenas

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law ("Confidential Information") and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM's performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party's use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,


Acknowledged:

By _____

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date _____

(Please sign and return to us one copy; retain the other copy for your files)

Agreement to provide services

July 10, 2020

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
5700 S. Mopac Expressway
Building A
Austin, Texas 78749

Dear Ms. Franklin-Womack:

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services.

Audit

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statement of net position of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2020 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of your Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding Association assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the financial statements, as listed below, will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditors' report will not provide an opinion or any assurance on such supplementary information.

- Management's discussion and analysis
- Schedule of changes in net pension liability and related ratio's
- Schedule of employer contributions

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 2

information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Board of Directors meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the financial statements, taken as a whole, are fairly presented based on accounting principles generally accepted in the United States of America. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the financial statements and, therefore, will not include a detailed check of all of your Association’s transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, financial statement misstatements may be identified, either through our audit procedures or through communication by your employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association’s files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 3

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Clark Thomson has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's financial statements.

Responsibility to Communicate with the Audit Committee

Although the objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention.

We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

E-mail Communication

In connection with this engagement, we may communicate with you or others via email. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 4

ensure that emails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of email, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

Ownership of Working Papers

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

Reproduction of Audit Report

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

Posting of Audit Report and Financial Statements on Your Web Site

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit report provided to management by CTM. You also agree to indemnify CTM from any and all claims that may arise from any differences between the electronic and signed versions.

Review of Documents for Sale of Securities

The audited financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

Management Representations and Indemnification

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 5

such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

Availability of Records and Personnel

You agree that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, your personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports that you provide to us to support amounts or disclosures in the financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

Assistance by Your Personnel and Internet Access

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to Association employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

Other Services

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your directors' meetings.

Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

Dispute Resolution Procedure

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 6

parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 7

applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

Fees

Our charges to the Association for the audit services described above will be \$12,150 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Partner	\$225
Senior Manager	\$175
Senior Associate	\$130
Audit Associate	\$110

This engagement includes only those services specifically described in this Agreement; any additional services not specified herein will be agreed to in a separate letter. In the event you request us to, or we are required to, respond to a subpoena, court order, government regulatory inquiries, or other legal process against the Association or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs that we incur.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this Agreement, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

Miscellaneous

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 8

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

Assignability

This Agreement is nonassignable.

Entire Agreement

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

Amendment and Modification

This Agreement may only be amended or modified by the mutual written agreement of the parties.

Public Information

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3)

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
July 10, 2020
Page 9

days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

Confidential Information and Subpoenas

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law ("Confidential Information") and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM's performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party's use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,



Acknowledged:

By _____
Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date _____

(Please sign and return to us one copy; retain the other copy for your files)

7. Actuarial

7A. Reserve Adequacy



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: July 15, 2020

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of June 30, 2020

The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of June 30, 2020.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.67 billion to \$1.75 billion. TWIA actuarial staff has selected to continue to record the Hurricane Harvey ultimate loss and loss adjustment expense at \$1.7 billion. The actual ultimate costs of Harvey may differ substantially from the selected \$1.7B. This variability arises from the assumptions we made regarding the adequacy of case reserves for 790 open claims, the potential impact of future re-openings of closed claims as of June 30, 2020 and the outcome of disputed claims. Even though TWIA has recorded the Hurricane Harvey estimate of ultimate loss and loss adjustment expenses at a level which I consider reasonable, there remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. As of June 30, 2020 the Association still has a handful of Hurricane IKE related claims open and reasonably reserved. TWIA Actuarial staff will continue to monitor current case reserve adequacy, current & future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of June 30, 2020, TWIA carried \$146.8 million in total gross loss and loss adjustment expense reserves with \$71K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. The total gross loss and loss adjustment expense reserves include the reserves for IKE, Harvey and other outstanding claims. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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



The complete actuarial analysis is available on request.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Xiuyu Li, ACAS, MAAA
Senior Actuary

MEMORANDUM

DATE: July 15, 2020

TO: Jerry Fadden, Chief Financial Officer

RE: **Estimate of Ultimate Losses for Hurricane Harvey**

As of June 30, 2020, ultimate loss and loss adjustment expenses related to Hurricane Harvey were estimated to be in the range of \$1.67 to \$1.75 billion.

The following table outlines the details:

Estimated Ultimate Loss & LAE from Harvey	Low Estimate	High Estimate
Paid Losses and Allocated Loss Adjustment Expenses	1,481,871,116	1,481,871,116
Paid Unallocated Loss Adjustment Expenses	106,821,442	106,821,442
Loss and Allocated Loss Adjustment Expense Case Reserves	50,609,342	50,609,342
Incurred But Not Reported Reserve	30,355,337	115,350,283
Estimated Ultimate Loss & LAE from Hurricane	1,669,657,238	1,754,652,183
Selected Ultimate Loss & LAE from Hurricane	1,700,000,000	

The determination of an estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to the hurricane's unique nature. Consequently, such an estimate is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Hurricane Harvey may differ substantially from the selected \$1.7 billion estimate due to variability arising from the assumptions we made regarding the adequacy of case reserves for 790 open claims, the potential impact of future re-openings of closed claims as of June 30, 2020 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The selected estimate of ultimate loss and loss adjustment expenses is \$1.7B which is our best estimate of the expected cost of Harvey based on all the information known as of June 30, 2020.

XL

7B. Statutory Maximum Limits of Liability



MEMORANDUM

DATE: July 15, 2020
TO: John Polak, General Manager
CC: Jerry Fadden, Chief Financial Officer
FROM: Xiuyu Li, Actuary
RE: 2021 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, 2020. 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, 2020 for each of the categories needing adjustment as follows:

	Current 2020	Indicated 2021	Proposed \$ Change	Proposed % Change
Dwellings and individually owned townhouses	\$1,773,000	\$1,753,000	0	0%
Contents of an apartment, condominium, or townhouse	\$374,000	\$370,000	0	0%
Commercial structures and associated contents	\$4,424,000	\$4,390,000	0	0%

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 August 4, 2020 meeting.

XL

Texas Windstorm Insurance Association
Calculation of Indicated Limits of Liability
To Be Effective January 1, 2021
Using Marshall & Swift / Boeckh Building Cost Index Numbers



Type of Construction	Ratio of Total TWIA Business	Boeckh Index as of November/December 2018			Boeckh Index as of November/December 2019		
		Corpus Christi	Houston	Average	Corpus Christi	Houston	Average
<u>Dwelling, including individually owned townhouse unit, & associated corporeal movable property</u>							
Frame	97.76%	2476.9	2565.2	2521.1	2432.2	2554.5	2493.4
Brick	2.24%	2541.0	2706.1	2623.6	2515.5	2670.8	2593.2
Weighted Average Factor				2523.3			2495.6
Indicated Change							-1.1%
Current Limit							1,773,000
Indicated Limit of Liability							1,753,000
<u>Individually-owned corporeal movable property located in an owner-occupied apartment, residential condominium, or townhouse unit</u>							
Frame	54.53%	2476.9	2565.2	2521.1	2432.2	2554.5	2493.4
Brick	45.47%	2541.0	2706.1	2623.6	2515.5	2670.8	2593.2
Weighted Average Factor				2567.7			2538.7
Indicated Change							-1.1%
Current Limit							374,000
Indicated Limit of Liability							370,000
<u>Structure other than a dwelling or public building and the corporeal movable property located in that structure</u>							
Apartments - Brick, Wood	14.21%	2565.2	2628.7	2597.0	2526.5	2617.6	2572.1
Apartments - Brick, Concrete	2.44%	2512.1	2793.2	2652.7	2484.4	2770.7	2627.6
Apartments - Brick, Steel	10.95%	2524.9	2875.4	2700.2	2449.7	2781.6	2615.7
Commercial - Frame	25.64%	2606.0	2768.7	2687.4	2600.7	2771.2	2686.0
Commercial - Steel	0.00%	2586.6	2812.0	2699.3	2560.7	2783.8	2672.3
Commercial - Brick, Wood	1.12%	2739.8	2824.3	2782.1	2696.0	2798.7	2747.4
Commercial - Brick, Steel	21.44%	2653.5	3200.9	2927.2	2637.2	3149.8	2893.5
Commercial - Brick, Concrete	24.20%	2359.1	2770.2	2564.7	2351.9	2784.0	2568.0
Weighted Average Factor				2697.9			2677.3
Indicated Change							-0.8%
Current Limit							4,424,000
Indicated Limit of Liability							4,390,000

Texas Windstorm Insurance Association
Proposed Limits of Liability
To Be Effective January 1, 2021
Impact on Exposures In-Force as of 6/30/20



Statutory Limits of Liability

	Current	Proposed	Increase
Dwelling	1,773,000	1,773,000	0
Contents	374,000	374,000	0
Non-Dwelling	4,424,000	4,424,000	0

	Risks at Statutory Limits	<u>Exposure</u> Current	Proposed	Increase
Dwelling	2	3,546,000	3,546,000	0
Contents	51	19,074,000	19,074,000	0
Non-Dwelling	130	575,120,000	575,120,000	0
Total	183	597,740,000	597,740,000	0
Total TWIA Exposure				54,708,902,727
% Increase in TWIA Exposure				0.00%

7C. Required 2020 Annual Rate Filing



TEXAS WINDSTORM
INSURANCE ASSOCIATION



Actuarial & Underwriting Committee

TWIA Actuarial Department – 2020 Rate Indications

July 21, 2020

Contents

- **Actuarial Principles**
- **Statutory Language**
- **Overview of Rate Adequacy Analysis**
- **Impact of Alternative Rate Changes**

Actuarial Principles

Casualty Actuarial Society Statement of Principles

1. A rate is an estimate of the expected value of future costs
2. A rate provides for all costs associated with the transfer of risk
3. A rate provides for the costs associated with an individual risk transfer
4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer

Statutory Language

- The association shall function in such a manner as to not be a direct competitor in the private market
- Rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer

Overview of Rate Adequacy Analysis

- The Loss and LAE Ratio include a provision for:
 - Hurricane losses
 - Non-Hurricane Losses
- Fixed Expense Ratio includes:
 - General operating expenses
 - The net cost of reinsurance (total premiums less expected average annual recoveries)
 - Debt service outstanding pre-event Class 1 Public securities
 - Note: Previously considered part of provision for contribution to CRTF . Now that proceeds of Series 2014 Bonds have been used for Hurricane Harvey, debt service is considered a fixed expense
- Variable Expense includes:
 - Commissions, taxes, licenses and fees.
 - Provisions for CRTF and contingencies

Overview of Rate Adequacy Analysis

- **The Association employs the “Loss Ratio Method” to determine rate level indications.**
 - This approach compares the estimated percentage of each premium dollar needed to cover future losses, loss adjustment expense and other fixed expenses for a prospective accident year to the amount of each premium dollar that is available to pay for such costs (referred to as the permissible loss ratio).
 - This relationship is defined as:

Indicated Rate

$$\text{Change Factor} = \frac{(\text{Loss \& LAE Ratio} + \text{Fixed Expense Ratio})}{(1 - \text{Variable Expense Ratio} - \text{Target UW Profit})}$$

Rate Adequacy Analysis

Rate Element	Residential				Commercial			
	2018 Review	2019 Review	2020 Review	2020 vs. 2019	2018 Review	2019 Review	2020 Review	2020 vs. 2019
Non-Hurricane Loss Provision	15.4%	14.2%	14.6%	0.4%	9.1%	9.3%	9.0%	-0.3%
Hurricane Loss Provision								
Experience	41.5%	42.7%	42.5%	-0.2%	55.1%	56.9%	54.3%	-2.6%
Modeled	50.8%	51.9%	55.1%	3.2%	57.5%	59.7%	62.1%	2.4%
Combined	46.2%	47.3%	48.8%	1.5%	56.3%	58.3%	58.2%	-0.1%
Fixed Expenses								
Operating	5.7%	6.2%	8.5%	2.3%	5.7%	6.2%	8.5%	2.3%
Reinsurance	16.0%	16.6%	19.5%	2.9%	16.0%	16.6%	19.5%	2.9%
Outstanding Class 1 Bond Debt Service	18.6%	25.1%	19.7%	-5.4%	18.6%	25.1%	19.7%	-5.4%
Total	40.3%	47.9%	47.7%	-0.1%	40.3%	47.9%	47.7%	-0.1%
Total Loss Provision plus Fixed Expenses	101.9%	109.4%	111.1%	1.8%	105.7%	115.5%	114.9%	-0.5%
Variable Expenses								
Commissions	16.0%	16.0%	16.0%	0.0%	16.0%	16.0%	16.0%	0.0%
Taxes and Fees	2.0%	2.0%	1.9%	-0.1%	2.0%	2.0%	1.9%	-0.1%
CRTF Funding & Contingencies	5.0%	5.0%	5.0%	0.0%	5.0%	5.0%	5.0%	0.0%
Total Variable Expenses	23.0%	23.0%	22.9%	-0.1%	23.0%	23.0%	22.9%	-0.1%
Permissible Loss & LAE Ratio (1-B)	77.0%	77.0%	77.1%	0.1%	77.0%	77.0%	77.1%	0.1%
Rate Indication (A/C -1)	32.3%	42.1%	44.0%	1.9%	37.3%	50.0%	49.0%	-1.0%

Impact of Alternative Rate Increases - Residential

	2020	Residential Rate Increase - Illustrative							Indicated
Rate Element	0.0%	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%	44.0%	
Non-Hurricane Loss Provision	14.6%	14.2%	13.9%	13.6%	13.3%	13.0%	12.7%	10.1%	
Hurricane Loss Provision									
Experience	42.5%	41.5%	40.5%	39.5%	38.6%	37.8%	37.0%	29.5%	
Modeled	55.1%	53.8%	52.5%	51.3%	50.1%	49.0%	47.9%	38.3%	
Combined	48.8%	47.6%	46.5%	45.4%	44.4%	43.4%	42.4%	33.9%	
Fixed Expenses									
Operating	8.5%	8.3%	8.1%	7.9%	7.7%	7.6%	7.4%	5.9%	
Reinsurance	19.5%	19.1%	18.6%	18.2%	17.8%	17.4%	17.0%	13.6%	
Outstanding Class 1 Bond Debt Service	19.7%	19.2%	18.8%	18.3%	17.9%	17.5%	17.1%	13.7%	
Total	47.7%	46.6%	45.5%	44.4%	43.4%	42.4%	41.5%	33.2%	
Total Loss Provision plus Fixed Expenses	111.1%	108.4%	105.9%	103.4%	101.0%	98.8%	96.6%	77.2%	
Variable Expenses									
Commissions	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	
Taxes and Fees	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	
CRTF Funding & Contingencies	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Total Variable Expenses	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	
Rate Indication	44.0%	41.0%	37.0%	34.0%	31.0%	28.0%	25.0%	0.0%	

Impact of Alternative Rate Increases - Commercial

Rate Element	2020	Commercial Rate Increase - Illustrative							Indicated
	0.0%	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%		49.0%
Non-Hurricane Loss Provision	9.0%	8.8%	8.6%	8.4%	8.2%	8.0%	7.8%		6.0%
Hurricane Loss Provision									
Experience	54.3%	53.0%	51.7%	50.5%	49.4%	48.3%	47.2%		36.4%
Modeled	62.1%	60.6%	59.1%	57.8%	56.5%	55.2%	54.0%		41.7%
Combined	58.2%	56.8%	55.4%	54.1%	52.9%	51.7%	50.6%		39.1%
Fixed Expenses									
Operating	8.5%	8.3%	8.1%	7.9%	7.7%	7.6%	7.4%		5.7%
Reinsurance	19.5%	19.1%	18.6%	18.2%	17.8%	17.4%	17.0%		13.1%
Outstanding Class 1 Bond Debt Service	19.7%	19.2%	18.8%	18.3%	17.9%	17.5%	17.1%		13.2%
Total	47.7%	46.6%	45.5%	44.4%	43.4%	42.4%	41.5%		32.0%
Total Loss Provision plus Fixed Expenses	114.9%	112.1%	109.5%	106.9%	104.5%	102.2%	100.0%		77.1%
Variable Expenses									
Commissions	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%		16.0%
Taxes and Fees	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%		1.9%
CRTF Funding & Contingencies	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		5.0%
Total Variable Expenses	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%		22.9%
Rate Indication	49.0%	45.0%	42.0%	39.0%	36.0%	33.0%	30.0%		0.0%

Questions

8. Presentation by Willis Towers Watson

There is no exhibit for this topic

9. Internal Audit

9A. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: August 4, 2020

SUBJECT: Status of Internal Audit Activities

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

➤ **Current Activities:**

Activity Description	Status
Accounts Receivable Audit	Report to be issued in July
Underwriting Audit	Report to be issued in July
Reinsurance Audit	Fieldwork in process
Database Administration	Fieldwork complete - workpapers being reviewed and report being drafted
Depopulation	Fieldwork in process
Claims Processing	Fieldwork in process

➤ **Upcoming Audits:**

Activity Description	Timing
Financial Close and Reporting	Scheduled modified and will occur in 3 th quarter
Risk Assessment Update	To be scheduled – targeted 3 rd quarter
Disaster Recovery	Scope being discussed, timing is to be determined
Facilities and Services	Scheduled for 3 rd quarter
Communications	Scheduled modified and will occur in 4 th quarter
Legal and Compliance/Legislative	Scheduled for 3 rd /4 th quarter
Model Audit Rule Documentation Update	Scheduled for 3 rd /4 th quarter

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association Rolling Three-Year Internal Audit Plan (2019-2021)

2019	
Process Area	Risk Rating
Risk Assessment	N/A
Model Audit Rule (light)	N/A
Claims Processing	High
Database and Application Administration	High
Vendor Management	High
BCP/Continuity of Operations (COOP)	Moderate
Accounts Payable and Expense Processing	Moderate
Human Resources Administration	Low
Accounts Receivable <i>Including Agent Commissions</i>	Low
Payroll	Low

2020	
Process Area	Risk Rating
Model Audit Rule (light)	N/A
Information Security	High
Reinsurance	High
Disaster Recovery	High
Communications	High
Legislative Action Implementation	High
Legal & Compliance	Moderate
Underwriting	Moderate
Depopulation	Moderate
Financial Close and Reporting	Moderate
Facilities and Services	Low

2021	
Process Area	Risk Rating
Model Audit Rule (light)	N/A
Risk Assessment	N/A
Application Development	Moderate
Information Technology Services	Moderate
Actuarial	Moderate
Executive Management, Management Planning & Reporting	Moderate
Taxes	Low
Cash Management	Low

10. Underwriting

10A. Operational Review Update



MEMORANDUM

DATE: July 15, 2020
TO: John Polak, General Manager
FROM: Denise Larzalere, Vice President Underwriting
RE: Update on Underwriting Operational Highlights

Second Quarter 2020 Highlights

I. Service Results:

- a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 97% of all transactions processed within 10 days. Over 80% of new business and renewals are processed within 1 day.
- b. Quality Assurance results on underwriting decisions continue to exceed established goals.
- c. Telephone service response times and service quality scores continue to meet expectations. We continue to experience increased phone call volume increase and unpredictability following the transition to teleworking. We have increased staffing at the call center and modified workflows in order to maintain acceptable service levels. Service observation (listening to phone calls and scoring them) is standard procedure. The departments calibrate calls and have agreed upon Association-wide telephone service standards.
- d. Underwriting is operating below budget, largely due to managing headcount and maintaining a reduced number of physical inspections.

II. Underwriting Activities of Note:

- a. Legislative Implementation Program:
 - i. Underwriting continues to support implementation of required legislative updates. Last quarter saw the implementation of the new TWIA renewal process, which impacted policies effective beginning March 1, 2020. Early numbers indicate a substantial percentage of renewals were paid from the policyholder or mortgage company directly to TWIA (44% in March and 55% in June), with a lower



lapse rate and earlier payment receipt than through the standard process via agents.

b. Mailing Methods Update

- i. Following the Board's approval of an update to the acceptable mailing methods outlined in the Texas Administrative Code, a working group has been formed to begin implementation and communication.
- ii. In addition to implementing process and form updates, an amendment to the Plan of Operations will be filed.

c. TWIA Certificates of Compliance on Completed Improvements (WPI-8-Cs) status:

- i. After thorough communication and change management, TWIA's issuance of windstorm certificates of compliance ended on May 31, 2020. Beginning June 1, all certificates are now issued by TDI. Underwriting continues to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.
- ii. For the period of April 1, 2020 to May 31, 2020 (when the program ended), we received 2,582 applications (WPI-3s);
- iii. Average turnaround time for April and May is approximately six days;
- iv. Reroof is the number one reason (37% of certificates);
- v. Two engineer firms represent approximately one fifth (20%) of all applications during the responsive period.

III. Agency Compliance Audits:

- a. Audits were performed on 20 agents (200 policies) in the first quarter to verify compliance with the declination of coverage and flood insurance requirements. Four of the agents did not respond, and this has been escalated to management. Two additional agents have requested an extension to respond due to the current public health crisis.

- i. All 14 responsive agents (and 140 policies) were compliant with the requirement for proof of declination of coverage.
- ii. None of the policies/properties selected for review required flood insurance.
- iii. All 20 agents have an active property and casualty insurance license.

11. Claims and Litigation

11A. Claims Operations

TWIA Claims Operations 2020

TWIA Claims - 2020 Results (through Q2)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	4.9	2.7	<3	-0.3	-10%
Inspect Property to Receipt by TWIA	3.2	2.1	<8	-5.9	-74%
Total Cycle Time FNOL to Payment	N/A	8.6	<12	-3.4	-21%
TDI Complaint Ratio					
2019	0.60% - 40 complaints from 6,704 new claims				
2020	0.16% - 4 complaints from 2,570 new claims				

Year	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Actual Volume	416	1,366	589	358	357	1,223	707	289	191	312	197	205	340	955	561
Actuarial Projected	2,493	2,564	266	274	272	262	270	261	269	599	418	418	1,379	1,379	409
Median Staffing	273	273	273	273	273	273	273	273	273	417	417	417	417	417	417
Open Inventory	1,962	2,250	2,004	1,806	1,791	2,405	1,833	1,654	1,580	1,656	1,596	1,526	1,256	1,661	1,243

Comments: 39 (1.5%) claims with supplements, 16 (.06%) disputed, 7 (.027%) active appraisals.

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	6,704
2020	2,750

Hurricane Harvey

TWIA Harvey	As of 3/31/20	As of 6/30/20	Change	% Change
Claims	76,698	76,707	9	0.01%
Open	903	791	-112	-12.4%
Closed	75,795	75,916	121	0.2%
% Closed	98.80%	99.00%	0.2%	0.2%
Paid Indemnity	\$1,326,712,699	\$1,337,209,647	\$10,496,948	0.8%
Paid Expense	\$143,702,660	\$145,127,350	\$1,424,690	1.0%
Active Appraisals	99	52	-47	-47.5%

TWIA Hurricane Events	
Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,707

11B. Litigation Report



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Litigation Tracking Activity

Litigation Quarter Summary Second Quarter 2020

2nd Quarter 2020	Summary of TWIA Claims in Suit			
		New	Settled	Closed
		HB3	HB3	HB3
	Apr	2	0	13
	May	5	0	6
	Jun	0	0	4
	Total	7	0	23

2nd Quarter 2020	Summary of TWIA Claims with LORs			
		New	Settled	Closed
		HB3	HB3	HB3
	Apr	8	0	38
	May	6	0	8
	Jun	9	0	20
	Total	23	0	66



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Claims Litigation June 2020

Jun-20	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	8	0	0	8
	HB3	456	0	(4)	452
	TOTAL	464	0	(4)	460

Jun-20	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	300	9	(20)	0	289
	TOTAL	300	9	(20)	0	289

Jun-20	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			Suits		LORs			
		Res	Comm	Res	Comm	Total	Res	Comm	Res	Comm		Total
	Pre-HB3	2	6	0	0	8	0	0	0	0	0	8
	HB3	395	50	207	40	692	3	4	35	7	49	741
TOTAL	397	56	207	40	700	3	4	35	7	49	749	



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Jun-20	TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County				
	Firm	Chambers	Galveston	Jefferson	Total
	Buzbee	2	4	0	6
	Hodge Law Firm	0	1	0	1
	Mostyn	0	0	1	1
	TOTAL	2	5	1	8

Jun-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County													Grand Total
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Willacy	
	90	20	9	20	4	97	14	186	4	195	9	51	1	700

Jun-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Daly & Black	300
	Scott Law	51
	Carrigan & Anderson	39
	Furlow Law Firm	37
	Baker Law	31
	Brent Coon & Associates	18
	Omar Ochoa Law Firm	15
	Lane Law Firm	10
	Hodge Law Firm	10
	Lindsay, Lindsay & Parsons	10
	Lundquist Law Firm	8
	Remaining 85 firms	171
	TOTAL	700

12. TWIA Operations

12A. Presentation by Insurance Institute for Business and Home Safety

There is no exhibit for this topic

12B. Receive and Act on Recommendations
from Legislative and External Affairs
Committee Regarding Recommendations to
Legislature and Biennial Report to
Legislature



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Draft Biennial Report to the 87th Texas Legislature, Regular Session

Legislative and External Affairs (LEA) Committee
Proposal to the
TWIA Board of Directors



[Submission Date to Legislature]

The Honorable Greg Abbott, Governor
The Honorable Dan Patrick, Lt. Governor
The Honorable Dennis Bonnen, Speaker of the House
Members of the Sunset Advisory Commission
Members of the Senate Business & Commerce Committee
The Honorable Kent Sullivan, Commissioner of Insurance
Members of the House Insurance Committee

Dear Governors, Speaker, Committee Members, and Commissioner,

In accordance with Texas Insurance Code §2210.0025, I submit the Biennial Report of the Texas Windstorm Insurance Association (TWIA or Association) on behalf of its Board of Directors. The enclosed report summarizes the recent changes implemented as a result of legislation passed by the 86th Legislature, Regular Session and proposed legislative changes for your consideration ahead of the 87th Legislative Session.

Established by the Legislature in 1971, TWIA is a nonprofit insurance organization that provides coastal Texans access to wind and hail property insurance when declined by voluntary market insurance companies. Without TWIA, many property owners in the 14 Texas coastal counties would be unable to adequately insure their homes, freely buy and sell property, or soundly operate commercial businesses.

TWIA is a more efficient and more policyholder-focused organization than in the past. We are driven to continuously improve by the knowledge that what we do impacts the lives of our policyholders and the economic welfare of the Texas coastal region. This past year TWIA focused on the implementation of laws passed by the 86th Legislature. A summary of the implementation of new processes and procedures can be found in the enclosed report.

TWIA policyholders and other stakeholders benefit from the continued collaboration among the Legislature, the Texas Department of Insurance (TDI), and TWIA to identify, enact and implement laws and rule changes that allow TWIA to fulfill its mission. Thank you for the opportunity to provide this information for your consideration.

Should you have any questions or need additional information, please do not hesitate to contact David Durden, Vice President of Legal at (512) 505-2255 or Jennifer Armstrong, Vice President of Communications & Legislative Affairs at (512) 637-4031.

Sincerely,

John W. Polak, CPCU
General Manager



Legislative Implementation

The Texas Sunset Commission completed its review of the Association and issued recommendations in November 2018. The 86th Legislature responded by enacting legislative changes in two major bills—Senate Bill 615 and House Bill 1900. TWIA launched an enterprise-wide program to ensure that all aspects of the new laws are implemented on or before their respective statutory deadlines.

The following information describes the key legislation impacting TWIA passed by the 86th Legislature and the Association's actions and progress in implementing the specific provisions.

Underwriting and Policy Administration:

Requirement to allow for premium installment payments and the acceptance of credit card payments. (Senate Bill 615)

- TWIA is on track to begin accepting premium payments from policyholders by credit card and in installments as required on or before January 1, 2021.

Development of a process for auto renewal of policies. (Senate Bill 615)

- The first renewal offer packages were mailed to TWIA policyholders beginning January 1, 2020 for policies effective March 1, 2020.

Determination of replacement cost value at the time of policy issuance. (Senate Bill 615 & House Bill 1900)

- TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.

Transfer of the WPI-8-C process to TDI with additional modifications designed to strengthen oversight over the process. (Senate Bill 615 & House Bill 1900)

- TDI has assumed responsibility for the issuance of Certificates of Compliance for completed improvements as of June 1, 2020.

Claims Handling and Deadlines:

Authorization of TWIA's existing supplemental payments process. (Senate Bill 615)

- TDI approved the required policy form changes on April 9, 2020; revisions to TWIA's claim notices have been completed and put into use as required by the law on or before July 1, 2020.

Authorization for the Insurance Commissioner to extend TWIA policyholder claim-handling deadlines at his discretion and extend the claim-handling deadlines applicable to TWIA to a maximum of 120 days. (House Bill 1900)

- While the Commissioner has not yet had a need to extend claim-handling deadlines under this provision, we are fully prepared should he do so in the future.

Modifications to deadlines and processes related to the payment of replacement cost coverage claims. (House Bill 1900)

- TWIA's claim notices include language as required to comply with this provision and policy forms are updated to reflect the law changes.



Funding:

New requirement to call an emergency meeting of the TWIA Board for the purpose of notifying member companies of the need for an assessment to pay storm losses. (House Bill 1900)

- TWIA announced a third potential member insurer assessment at its August 2019 meeting and the Board of Directors approved submitting a request to the Commissioner of Insurance for a \$90 million member insurer assessment for losses from Hurricane Harvey at its December 2019 meeting.

New requirement that TWIA assess member companies for the purchase of reinsurance above the 1-in-100- year funding requirement. (House Bill 1900)

- The TWIA Board purchased reinsurance equal to the 1-in-100 probably maximum loss for the 2020 hurricane season, therefore no member assessment is necessary.

New requirement clarifying TWIA's use of premiums and reserves for the payment of storm losses. (House Bill 1900)

- Since this provision went into effect, the Texas coast has not experienced a storm requiring any expenditures on claims beyond that which TWIA can cover with current-year premiums.

Association Governance and Reporting:

New standards for the TWIA Board, including training and additional transparency and conflicts of interest measures. (Senate Bill 615)

- All current TWIA Board members have completed training and TWIA has implemented a procedure by which TWIA Board and Committee members report potential conflicts to TWIA's legal counsel and those conflicts are disclosed at the beginning of each meeting.

New requirement to make Association rate adequacy analyses, with specific format requirements, publicly available on TWIA.org at least 14 days before a vote of the board on a proposed rate filing. Also requires TWIA to accept public comment prior to the TWIA Board's vote on a proposed rate filing. (Senate Bill 615 & House Bill 1900)

- TWIA posted its 2020 rate adequacy analysis on July 21, 2020 ahead of the August 4 Board meeting at which its required annual rate filing will be considered. Public comments on the Association's rate adequacy analysis have been accepted in writing and in person at all applicable meetings of the Board of Directors since the law passed.

Discontinuation of the Association's Bimonthly Report Card. (Senate Bill 615)

- The final Bimonthly Report Card was published August 1, 2019.

Regulatory:

Authorization for TWIA to propose rules for adoption by the Texas Department of Insurance (TDI) and to request a public hearing in connection with a rule. (Senate Bill 615)

- To date, TWIA has not proposed rules for adoption by TDI under this provision.

New requirement that TDI change the Assumption Reinsurance Depopulation Program rules to eliminate the requirement for agents or policyholders to act on offers made during hurricane season and decreasing the policyholder decision period on offers to no more than 60 days. (Senate Bill 615)

- TDI adopted the rules to implement this change on January 22, 2020. The new rules will apply to the fifth round of the program which is expected to occur at the end of 2020. TWIA is developing a revised timeline in accordance with the changes to the statute and rule.



Proposed Legislative Changes

The table below summarizes five proposed legislative changes. Supporting detail for each proposed change may be found in the following sections. The supporting detail contains endnotes which have been used to denote references to specific statutes and administrative rules. The endnotes can be found on page 8.

Item #	Topic	Description/Alternative	Page #
1	Authorize Agent Requirements & Performance Standards	Revise TWIA's statute to enable TWIA to mirror the Texas FAIR Plan Association (TFPA) producer requirements and performance standards.	Page 5
2	Authorize Premium Payment Grace Period	Revise TWIA's statute to allow for TWIA to have a grace period to accept premium payments rather than requiring full or partial payment before the effective date.	Page 6
3	Eliminate Expert Panel	Modify statute and regulations to eliminate TIC Section 2210.578 requiring the use of an Expert Panel after the Association's contract to implement the requirements ends in April 2022.	Page 6-7
4	Exclude Commercial Risks from Automatic Renewal Process	Revise TWIA's statute to exclude commercial risks from the automatic renewal process.	Page 7
5	Fortified Homes	Unspecified; pending presentation to the TWIA Board	Page 8



Proposed Legislative Changes

1 Agent Requirements & Performance Standards

Issue: Currently TWIA does not have express authority to limit an agent's ability to transact business with the Association in the event of audit noncompliance or other inappropriate acts in connection with agents' work on behalf of their clients.

- Any Texas-licensed property insurance agent may submit applications to TWIA.¹
- Agents are not appointed by TWIA nor do they contract with TWIA.
- TWIA is required by its Plan of Operation to audit agents' compliance with certain TWIA eligibility requirements but does not have express authority in statute or rule to take any action in response to agent noncompliance.²
- In contrast, statute governing the Texas FAIR Plan Association (TFPA) provides broad guidance for a Plan of Operation and the Plan explicitly directs TFPA to maintain producer requirements and performance standards and authorizes their enforcement.³

Proposed Change: Revise TWIA's statute to enable TWIA to mirror the TFPA producer requirements and performance standards.

- Provide TWIA specific authority to enact producer requirements and restrict agents' ability to submit applications to the Association when standards aren't met.
- TWIA would have clear authority to take appropriate action to limit agents' Association activities in response to audit noncompliance and/or other inappropriate acts or failure to act.
- Agents would continue to represent only the policyholder and would not become agents of the Association.
- Holding agents accountable to specific standards would increase agents' Association knowledge, improve operational efficiency and customer service, and help ensure policyholders' best interests are served.
- This recommendation received support from TWIA's Agent Advisory Group and would have no material fiscal impact on TWIA's operations.



2 Premium Payment Grace Period

Issue: Chapter 2210 in conjunction with the Plan of Operation requires TWIA to collect partial or full payment of the premium *prior* to the effective date in order to renew without a lapse in coverage.

- If a premium payment is sent by regular mail, TWIA must use the date payment is received by the Association to determine the effective date of the policy, unless payment is sent by one of the approved mailing methods outlined in the Plan of Operation.
- TWIA recently implemented a new automatic renewal process as a result of legislation passed by the 86th Legislature, Regular Session.
- As renewal offers are now mailed directly to policyholders and mortgagees for the first time, some agents have expressed concerns that policyholders' lack of familiarity with the approved mailing methods may result in lapses in coverage due to unforeseen and unavoidable circumstances that delay mail delivery until after the effective date.

Proposed Change: Provide express statutory authority to allow TWIA the option of offering a grace period for premium payments to mitigate lapses in coverage.

- Texas FAIR Plan and many other insurers in the standard market offer grace periods.
- This recommendation has support from TWIA's Agent Advisory Group.

3 Expert Panel

Issue: The Expert Panel's recommendations are costly to implement and applicable to less than 5% of policies.

- Statute requires the Association to utilize guidelines adopted by the Insurance Commissioner that are based on recommendations provided by a panel of experts ("Expert Panel") to determine the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, or rising water not caused by waves or surges or water (also known as "slab" claims).⁴
- TWIA implemented the Expert Panel recommendations as adopted by the Commissioner on June 1, 2018, engaging in a contract with vendors needed to implement the recommendations.
- TWIA's costs to comply with the Expert Panel's recommendations and the Insurance Commissioner rules, as of January 31, 2020, totaled \$9,430,292.
- TWIA expects to spend an additional \$3.8 million to maintain the program prior to the April



2022 expiration of the Association's contract.

- The Association estimates that the annual rate to maintain the program after the contract expires in 2022 will be approximately \$500,000 to \$1 million.
- As the Association continues to experience declining policy count, eliminating the costs associated with maintaining the program presents the Association with an opportunity for preserving policyholder premiums.
- TWIA would incur a \$1,554,375 penalty if its current contract is cancelled on or after May 2020 or a \$889,048 penalty if canceled during or after May 2021.
- A complete table of costs is included in Appendix A.

Proposed Change: Modify statute and regulations to eliminate the requirements to use the Expert Panel's recommendations and guidelines adopted by the Commissioner in April 2022 when the Association's contract with the vendors needed to implement the requirements ends.

- If the Legislature would prefer TWIA to retain and use the Expert Panel's recommendations, consider transferring the costs to the Texas Department of Insurance.
- In the absence of a statutory requirement to use the Expert Panel's methodology to handle and resolve "slab" claims, the Association will employ the methods commonly used by the insurance industry in addition to hiring engineers and weather experts who can help the Association assess the nature of the damage to a property.

4 Exclude Commercial Risks from Automatic Renewal Process

Issue: Commercial policy underwriting can be complex, and it may not be in policyholders' best interest to renew commercial policies directly with TWIA through the automatic renewal process.

- TWIA recently implemented a new automatic renewal process for all policies as a result of legislation passed by the 86th Legislature, Regular Session.
- If there are no changes in coverage, residential and commercial policyholders can remit payment directly to TWIA and renew their policy without agent involvement.

Proposed Change: Eliminate the option for commercial risks to automatically renew.

- Due to the complexities of commercial properties and the more dynamic nature of property and coverage needs, commercial policyholder needs may be better served by a traditional, non-automatic renewal process that requires the assistance of an agent.
- TWIA's Agent Advisory Group supports this recommendation.



5 Fortified Home Construction

Issue: TWIA does not have any programs associated with Fortified Home construction.

- The LEA Committee wished to consider a proposed change related to Fortified Home construction.
- The discussion was tabled pending a presentation by the Institute for Business and Home Safety (IBHS) scheduled to occur at the August meeting of the TWIA Board of Directors.

Proposed Change: A specific proposal has not yet been formulated. This is a placeholder should the Board wish to consider one upon completion of the IBHS presentation.

The appendix includes the relevant statutory language related to the following citations:

¹ Texas Insurance Code (TIC) Section 2210.202 (b)

² Texas Administrative Code (TAC), Chapter 28 Section 5.4902 (d)

³ TIC Section 2211.054, the contents of TFPA's Plan of Operation, and 28 TAC 5.9913 (d).

⁴ TIC Section 2210.578



Public Policy Considerations

The TWIA Board of Directors believes that modifications are necessary to improve the Association's ratemaking process and the Association's funding structure. While the calculation of an indicated actuarial rate is a technical exercise, the ultimate decision of what rates should be charged to coastal policyholders has increasingly become a public policy decision due to affordability and availability concerns raised by coastal policyholders and officials. Additionally, the Association's funding, funding structure, and financial sustainability are also matters of public policy and are most appropriately undertaken by the Texas Legislature in coordination with the Legislative Funding and Funding Structure Oversight Board (LOB) created by House Bill 1900 (86th Legislature, Regular Session).

The LOB is tasked with completing a study of the Association's current funding and funding structure and developing recommended changes for consideration by the full Legislature. In support of the LOB's charge, the Board of Directors has provided information about the challenges with the existing funding structure and a list of possible alternatives to the Legislature as well as information on the Association's funding methodology and history. Similarly, the following pages also contain information regarding the challenges of the existing ratemaking process and several options the Legislature might consider to address those challenges. The Appendices include an overview of the funding structure and its individual components as well as stakeholder suggestions for funding changes.



TWIA Ratemaking

Issue: The current ratemaking process makes it difficult to meet the statutory requirements that “rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer” while balancing stakeholder concerns regarding affordability of Association premiums.

- The 2019 TWIA rate adequacy analysis indicated that its residential and commercial rates were 41.7% and 50% below adequacy, respectively. In response to recent questions on actuarial methodology, the TWIA Actuarial & Underwriting Committee recently selected an actuarial consulting firm to perform an independent analysis of TWIA rate adequacy.
- Inadequate rates may jeopardize TWIA’s ability to issue public securities to fund catastrophic losses, or repay the debt once issued.
- The Association’s annual, statutorily required rate filing process has come under considerable public and political pressure since Hurricane Harvey and there have been no rate increases approved by the TWIA Board in three of the last four years.

Proposed Change: Review the TWIA ratemaking process and modify the statute as necessary to address these concerns. Some alternatives to the current process identified by TWIA include:

- Requiring that rate inadequacy be addressed through a “glidepath” approach consisting of a series of smaller rate increases over time;
- Holding an administrative hearing before an Administrative Law Judge who would submit a rate change proposal to the Commissioner of Insurance; and/or
- Creating a separate rating bureau or similar entity to assess TWIA’s rate adequacy and propose or implement rate changes.

Additional information on possible implementation of these alternatives is presented below.

Historical information on how TWIA has approached the process of rate filings over time is included in Appendix C.

**Glidepath Approach:**

- This approach would involve smaller, incremental annual rate increases intended to move toward rate adequacy while avoiding larger, sudden rate increases. Since there are a number of variables impacting rate adequacy, including storm frequency and severity, inflation impacts, etc. the glidepath approach may not close the gap depending upon the nature of these and would require an annual evaluation by the Board.

Administrative Hearing:

- Another approach to consider is requiring a hearing through the State Office of Administrative Hearings (SOAH) to set rates. The hearing would be before an Administrative Law Judge (ALJ) who would submit a rate change proposal to the Commissioner.
- SOAH hearings are currently used when certain TWIA actions are appealed by policyholders and/or member insurers.
- Interested parties would be allowed to provide written and oral comments, as well as empirical evidence, at the ALJ hearing. TWIA would provide data, which would include staff's rate adequacy analysis, to the ALJ for consideration.
- The statute should include a timeline for required actions. The Commissioner's Order setting the rates would be based on acceptance or modification of the ALJ's proposal.
- There is likely a fiscal note to the State with this approach.

Rating Bureau:

- A third possible change to the current process would be to create an independent rating bureau or other entity, similar to what some other states have established.
- The bureau would analyze rate need and set rates for the Association independently.
- This would limit TWIA's role to providing statistical data such as catastrophe modeling results and loss and expense information.

As an example, the North Carolina Rating Bureau sets rates for several types of insurance in North Carolina, including property, auto, and workers compensation. Texas could implement a similar model specifically focused on TWIA rates.

The NCRB enabling statute can be found at:

https://www.ncleg.net/enactedlegislation/statutes/pdf/byarticle/chapter_58/article_36.pdf.

It provides a methodology for ratemaking; requirements for filing proposed rates with the Department of Insurance; and a process for Department approval or disapproval, including public inspection, comment, and hearing.



Funding

Issue: Current statute provides funding for TWIA losses and expenses in excess of its premium and other revenue up to a set amount and includes the requirement that TWIA secure funding for a catastrophe year with a probability of one in 100 through the purchase of reinsurance with an attachment point in excess of all statutory funding sources. The Association has identified several challenges associated with the current funding structure:

- **Public securities may not be fully marketable or funded sufficiently quickly.**
 1. Proceeds issued after a catastrophic event may not be available for up to six months after a catastrophic event, potentially delaying claim payments.
 2. Not all proceeds are available to pay claims due to reserve accounts required by bond investors.
 3. Securities may not be able to be issued in their full, authorized amount due to general financial market conditions or the uncertain financial condition of TWIA and the economic conditions on the Texas coast following a major hurricane.
- **The current structure imposes a financial burden on TWIA and its current and future policyholders in the years following a catastrophic event.**
 1. A depleted CRTF would require TWIA to purchase more reinsurance to meet the minimum funding requirement, increasing costs after an event.
 2. Reinsurance itself will most likely be more expensive after an event.
 3. TWIA policyholders may not be able to afford policy surcharges that may be required to repay multiple Class 1 issuances.
- **There is no statutory provision for funding in excess of the 100-year minimum funding level (plus any additional reinsurance funded through member company assessments).**

Proposed Change: Modifications to improve the Association's funding, funding structure, and financial sustainability are matters of public policy to be undertaken by the Legislature in coordination with the Legislative Funding and Funding Structure Oversight Board (LOB) created by House Bill 1900 (86th Legislature, Regular Session). The LOB is tasked with completing a study of the Association's current funding and funding structure and developing recommended changes for consideration by the full Legislature.

TWIA has included additional information on the challenges noted above and possible alternatives for consideration, individually or in combination, below.

Public securities may not be fully marketable or funded quickly enough

Challenge 1: Proceeds issued after a catastrophic event may not be available for up to six months after a catastrophic event, potentially delaying claim payments.

Most sources of funding are available to pay claims within days or weeks after a catastrophic event. Post-event public securities, however, may take up to six months after an event to become available to pay claims, due to the lengthy process of issuing this type of debt. At up to \$1 billion, this represents a significant portion of TWIA's overall funding.

TWIA has addressed this concern by purchasing a line of credit, which allows TWIA to borrow against public security proceeds during the issuance process. The line of credit has become increasingly expensive and this quick source of cash to pay claims may not be reliable in the long-term.

Possible Alternatives:

- Allow TWIA to collect from its policyholders a CRTF surcharge separate from premiums to fund the CRTF directly.
- Authorize a statewide policy surcharge to build the CRTF to a minimum level.
Building the CRTF balance reduces the likelihood that public securities will be necessary to fund claims and allows TWIA to deposit more of its premiums in the CRTF due to reduced reinsurance costs.
- Reorder TWIA funding to place post-event securities "higher up".
- Provide a temporary source of funds that could be used to pay claims until proceeds from public securities become available.

Challenge 2: Not all proceeds are available to pay claims due to reserve accounts required by bond investors.

A portion of the proceeds from public securities is not available to pay claims. Investors require various reserve accounts to ensure the Association's ability to repay the debt, and these accounts must be funded directly from bond proceeds. Reserve amounts and issuance costs both reduce the total amount available to pay claims, resulting in a potential funding shortfall.

Possible Alternatives:

- Provide additional funding from assessments or other sources to fund any difference between the \$1 billion of authorized public security issuances and the actual amounts available to pay claims.

- Authorize issuance of public securities in amounts over \$1 billion such that the net amount available to pay claims is \$1 billion.
- Allow flexibility in the attachment point of reinsurance to address the potential gap created by issuance costs and/or debt reserve amounts.

Challenge 3: Public securities may not be able to be issued in their full, authorized amount due to TWIA's financial condition or general financial market conditions.

In general, the issuance of debt is subject to the availability of capital in the financial markets and the creditworthiness of the borrower. For TWIA specifically, this means that general market conditions may restrict the amount of public securities that can be issued as part of the Association's funding. Being authorized in statute to issue up to \$1 billion in public securities does not guarantee that the financial market will be willing to provide those funds.

In addition to general market conditions, the perceived ability of TWIA to repay any debt is a significant factor in both the amount of debt that can be obtained and the cost of that debt, in terms of the interest rate charged. Existing debt service obligations from previous catastrophe years, the collectability of TWIA and coastal policyholder surcharges, and the uncertainty of future legislative or regulatory changes are all concerns that have previously been raised by investors. These concerns impact the interest rates charged to TWIA and could possibly limit the amount of public securities that could be issued.

Possible Alternatives:

- Allow for the issuance of public securities guaranteed by the State of Texas.
- Allow for the issuance of public securities on a tax-exempt basis for investors.
- Allow TWIA to account for the balance in the CRTF as surplus.

Each of these would increase the marketability, and potentially reduce the cost, of public securities.

- Provide additional funding from assessments or other sources to fund any difference between the \$1 billion of public securities authorized and the actual amounts issued.

Financial burden on TWIA and its policyholders following a catastrophic event

Challenge 1: A depleted CRTF requires TWIA to purchase more reinsurance to meet the minimum funding requirement, increasing costs after an event.

Hurricane Harvey resulted in an ultimate loss estimate of \$1.71 billion, which completely depleted the \$737 million in the CRTF. Current statute requires the Association to exhaust the CRTF before using any other funding sources.

As the Association must provide for funding to a 1-in-100-year event each year, a smaller amount in the CRTF requires TWIA to purchase additional reinsurance to meet the minimum funding requirement. Reinsurance also attaches at a lower level because of the diminished CRTF, making the cost of reinsurance more expensive.

Possible Alternatives:

- Allow TWIA to charge its policyholders a CRTF surcharge separate from premiums.
- Authorize a statewide policy surcharge to build the CRTF to a minimum level.
- Allow flexibility in the minimum required funding level after a catastrophic event to reduce the amount of reinsurance required to be purchased.

Challenge 2: Reinsurance itself will most likely be more expensive after an event.

In years following a significant storm, the Association can also expect the price of reinsurance to be higher than normal due to a reaction from the market, further straining available premium revenue.

Possible Alternatives: Each of the alternatives above also addresses this challenge.

Challenge 3: TWIA policyholders may not be able to support repayment of multiple Class 1 issuances.

Hurricane Harvey also required TWIA to use the amounts available from the \$500 million in pre-event public securities issued in 2014. TWIA's premiums earned in subsequent years must be shared among paying the principal and interest on the outstanding bonds, Association operating expenses (including payment of routine non-catastrophe claims), and reinsurance costs. This leaves little left over for deposit into the CRTF.

Another catastrophe year requiring the issuance of Class 1 public securities could require TWIA policyholder surcharges of over 20% to repay the additional bonds.

Possible Alternatives:

- In addition to the alternatives above, allow a contingent source of funding for Class 1 public securities similar to existing sources for Class 2 and Class 3 public securities.
- Provide a cumulative maximum amount of public securities to be repaid by TWIA premiums and policyholder surcharges at any one time.
- Revise the existing bond repayment surcharge on TWIA policies to apply at renewal, rather than during the policy term.

Funding in excess of the 100-year minimum funding level

Challenge: There is no statutory provision for funding in excess of the 100-year minimum funding level (plus any additional reinsurance paid through company assessments).

Every year the TWIA Board of Directors determines how much reinsurance to buy for the upcoming storm season. If an event or series of events results in losses in excess of the total amount of funding secured by the Association, there is currently no statutory provision prescribing a source of revenue to pay the excess losses.

Possible Alternatives:

- Allow for additional funding from existing sources if necessary.
- Identify additional sources of funding for losses in excess of the 100-year funding level.



Other Topics Considered

The following items were considered by the LEA Committee and Board but are not recommended for inclusion in the Biennial Report at this time.

#	Topic	Description/Alternative
1	Low Volume Agency Business	TWIA incurs additional expense working with agents with small policy counts; these agents require significantly more maintenance and training.
2	Limit Eligible Commercial Risks	Limit TWIA eligibility for some complex commercial structures
3	Named Peril Policy	Allow the Association to offer a named peril policy (Texas HO-A) for residential properties in the designated coverage area.
4	Reorder Funding Sources	Reorder the funding sources by putting Class 1 member assessments before the issuance of Class 1 public securities and Class 2 and 3 member assessments before their companion Class 2 and 3 public securities.
5	Excess Funding	Develop a Terrorism Risk Insurance Act-like system to ensure adequate funding in the event of catastrophic losses that exceed TWIA's funding stack.
6	Member Company Purchase of Public Securities	Obligate member companies to purchase Class 2 and Class 3 debt in advance of public issuance as a liquidity bridge (with public market takeout, if available) or for member companies to purchase and hold in order to reduce the risk of limited market access following a catastrophe and to reduce TWIA's funding costs.
7	Small Business Premium Financing	Require state government or local municipalities to fund the difference between actual premium rates and adequate rates for wind and hail coverage for low income residents, "critical" small businesses, and institutions.
8	Association Employment	Modify statute to align the Association's hiring practices with those outlined in Texas Government Code, Chapter 573.



Appendix A: Expert Panel Costs

TWIA Expert Panel Costs	
Year 1 - October 30, 2017 through Jun 1, 2018	
Components	Fee (Breakdown)
PMO, Accenture Module Design & Development on AIP	\$1,457,635
RMS Internal Project Management	\$285,085
HWIND Hazard	\$182,455
Surge Hazard	\$855,256
Wind Data Vendors	\$961,892
Surge Data Vendors	\$205,261
Property Data Augumentation	\$570,170
Total	\$4,517,754
TWIA Expert Panel Costs	
Fee Breakdown - Maintenance - 4 year Total	
Components	Fee (Breakdown)
Accenture Module Maintenance	\$2,874,029
RMS Internal Project Management	\$187,129
HWIND Hazard	\$66,832
HWIND License Fee	\$1,002,476
Surge Hazard	\$374,257
Surge License Fee	\$1,002,476
Wind Data Vendors	\$1,210,577
Surge Data Vendors	\$481,188
Property Data Augumentation	TBD
Total	\$7,198,964
TWIA Expert Panel Costs	
Five Year Total	
Term	Fees
Year 1 - October 2017 - June 1, 2018	\$4,517,754
Year 2 - May 2018 - April 2019	\$1,642,920
Year 3 - May 2019 - April 2020	\$1,749,746
Year 4 - May 2020 - April 2021	\$1,840,739
Year 5 - May 2021 - April 2022	\$1,962,559
Total	\$11,713,718
Per Event Fees	
\$645,000	
Termination for Convenience Fees	
Break Date	Break Fees
October 2017 - April 2018	\$685,503
May 2018 - April 2019	\$758,829
May 2019 - April 2020	\$2,435,603
May 2020 - April 2021	\$1,554,375
May 2021 - April 2022	\$889,048

Appendix B: Statutory References

¹**Texas Insurance Code (TIC) Section 2210.202 (b)**

Sec. 2210.202. APPLICATION FOR COVERAGE; DECLINATION REQUIREMENT. (a) A person who has an insurable interest in insurable property may apply to the association for insurance coverage provided under the plan of operation and an inspection of the property, subject to any rules established by the board of directors and approved by the commissioner. The association shall make insurance available to each applicant in the catastrophe area whose property is insurable property but who, after diligent efforts, is unable to obtain property insurance through the voluntary market, as evidenced by one declination from an insurer authorized to engage in the business of, and writing, property insurance providing windstorm and hail coverage in the first tier coastal counties. For purposes of this section, "declination" has the meaning assigned by the plan of operation and shall include a refusal to offer coverage for the perils of windstorm and hail and the inability to obtain substantially equivalent insurance coverage for the perils of windstorm and hail. Notwithstanding Section 2210.203(c), evidence of one declination every three calendar years is required before renewal of an association policy.

(b) A property and casualty agent must submit an application for initial insurance coverage on behalf of the applicant on forms prescribed by the association. An application for initial coverage must contain:

- (1) a statement as to whether the applicant has submitted or will submit the required premium payment from personal funds or, if not, to whom a balance is or will be due; and
- (2) a statement that the agent acting on behalf of the applicant possesses proof of the declination described by Subsection (a) and proof of flood insurance coverage or unavailability of that coverage as described by Section 2210.203(a-1).

²**Texas Administrative Code (TAC), Chapter 28 Section 5.4902 (d)**

Rule §5.4902 (d) The Association shall implement an agent audit procedure to verify that agents possess and maintain proof of the declination and flood insurance as required under §5.4903 of this division and, if applicable, §5.4904 of this division.

³**TIC Section 2211.054, the contents of TFPA's Plan of Operation, and 28 TAC 5.9913 (d).**

Sec. 2211.054. CONTENTS OF PLAN OF OPERATION. The plan of operation must:



- (1) provide for a nonprofit association to issue residential property insurance under this chapter and distribute the losses and expenses in writing that insurance in this state;
- (2) provide that all insurers that write residential property insurance shall participate in the association in accordance with Sections 2211.101(b) and (c);
- (3) provide that a participating insurer is entitled to receive credit in accordance with Section 2211.101(d);
- (4) provide for the immediate binding of eligible risks;
- (5) provide for the use of premium installment payment plans, adequate marketing, and service facilities;
- (6) provide for the establishment of reasonable service standards;
- (7) provide procedures for efficient, economical, fair, and nondiscriminatory administration of the association;
- (8) provide procedures for determining the net level of participation required for each insurer in the association;
- (9) provide for the use of deductibles and other underwriting devices;
- (10) provide for assessment of all members in amounts sufficient to operate the association;
- (11) establish maximum limits of liability to be placed through the program;
- (12) establish commissions to be paid to the insurance agents submitting applications;
- (13) provide that the association issue policies in the association's own name;
- (14) provide reasonable underwriting standards for determining insurability of a risk;
- (15) provide procedures for the association to assume and cede reinsurance; and
- (16) provide any other procedure or operational matter the governing committee or the commissioner considers necessary.

Rule §5.9913 (d) The Association shall establish minimum requirements and performance standards for agents who submit applications to the Association or renew business in the Association. These requirements and standards shall be designed to ensure the efficient transmission of applications, forms, notices, and money from the agent to the Association and visa versa, ensure the efficient operation of the Association, and the efficient and convenient servicing of applicants and policyholders. The Association may require that agents demonstrate and certify compliance with these requirements and standards. The Association shall have the power to bar an agent from submitting new applications to or renewing business in the Association if the agent refuses to

demonstrate and certify compliance with these requirements and standards or the agent violates any of these requirements or standards. Such minimum requirements and performance standards shall be binding upon any agent as a condition of such agent's request for an inspection, submission of an application, receipt of commissions from the Association, or other act in connection with the Association. The Association may contract with agents who meet the Association's standards and may limit applications to the Association to those agents. The Association shall not be required to appoint agents.

⁴TIC Section 2210.578

Sec. 2210.578. EXPERT PANEL. (a) The commissioner shall appoint a panel of experts to advise the association concerning the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges. The panel shall consist of a number of experts to be decided by the commissioner. The commissioner shall appoint one member of the panel to serve as the presiding officer of the panel.

(b) Members of the panel must have professional expertise in, and be knowledgeable concerning, the geography and meteorology of the Texas seacoast territory, as well as the scientific basis for determining the extent to which damage to property is caused by wind, waves, tidal surges, or rising waters not caused by waves or surges.

(c) The panel shall meet at the request of the commissioner or the call of the presiding officer of the panel.

(d) The panel shall investigate, collect, and evaluate the information necessary to provide recommendations under Subsection (e). The cost and expense incurred by the panel associated with the work of the panel under this section shall be paid or reimbursed by the association.

(e) At the request of the commissioner, the panel shall recommend to the commissioner methods or models for determining the extent to which a loss to insurable property may be or was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges for geographic areas or regions designated by the commissioner.

(f) After consideration of the recommendations made by the panel under Subsection (e), the commissioner shall publish guidelines that the association will use to settle claims.

(g) A member of the panel is not individually liable for an act or failure to act in the performance of the official duties in connection with the individual's work on the panel.

(h) In any review of a claim under this subchapter, and in any action brought against the association under Section 2210.575, the guidelines published by the commissioner under Subsection (f) govern the claim and are presumed to be accurate and correct, unless clear and convincing evidence supports a deviation from the guidelines.



Appendix C: Historical TWIA Ratemaking

Below is an outline of the various processes by which TWIA rates have been set in the past.

I. **TWIA filed rates with State Board of Insurance/Department of Insurance**

- a. TWIA Board of Directors filed rates with the State Board of Insurance (SBI). SBI could approve, modify or disapprove the filed rates. Rates were deemed approved if not modified or disapproved within 30 days of filing.
 - i. Secondary requirement that rates could not be more than the maximum rates set by the Board for similar risks or classes of risks
 - ii. Commissioner could request additional information from TWIA
 - iii. Commissioner required to have a hearing on the rate filing before acting on the filing

II. **State Board of Insurance promulgated rates for the insurance industry and TWIA was based off the promulgated rate.**

- Process was used for commercial and non-commercial. TWIA Board of Directors did not make a rate filing but provided experience to be used in the rate hearings
- a. State Board of Insurance set a benchmark rate and TWIA's rate could not exceed rate set by Board for **non-commercial** lines or the manual rate promulgated by the Board.
 - b. State Board of Insurance promulgated a rate for commercial risks.

III. **TWIA Board of Directors required to make an annual rate filing no later than August 1 of each year for commercial risks.**

- a. Filings were submitted to the Commissioner of Insurance.
- b. The Commissioner could approve disapprove or modify the filing.
- c. Rate change limited to 15%.

IV. **Annual Rate Filing – Current Process**

- a. Must be submitted no later than August 15 for all types and classes of risks written by TWIA.
- b. Association may use the rate if the rate change
 - i. does not exceed 5%,
 - ii. does not increase the rate for an individual rating class by 10%, and
 - iii. is filed not later than 30 days before the date of use
- c. If the rate change does not meet the criteria of IV., B.
 - i. Commissioner shall provide interested parties opportunity to review the filing and provide comments
 - ii. Commissioner shall approve or disapprove the filing not later than October 15

otherwise the filing is considered approved

- iii. Commissioner does not have express authority to modify the filing submitted by TWIA
- iv. A rate change is limited to 10% average rate change and 15% for an individual rate class.

V. Other Rate Filings – Current Process

- a. Rate change must be filed with the Commissioner for approval
- b. Commissioner must approve or disapprove as soon as reasonably possible
- c. A filing not disapproved on or before the 30th day of filing is considered approved
- d. TWIA may use the filed rate if the rate:
 - i. does not exceed 5%,
 - ii. does not increase the rate for an individual rating class by 10%, and
 - iii. is filed not later than 30 days before the date of use, and
 - iv. the commissioner has not disapproved the filing

Commissioner does not have express authority to modify the filing submitted by TWIA

Appendix D: Funding Overview

Funding Overview and Recent Legislative Changes

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. Prior to 2009, the Association funded losses through premiums and potentially unlimited assessments on insurance companies. House Bill 4409, enacted in 2009, significantly changed Association funding, providing for the issuance of up to \$2.5 billion in Class 1, 2, and 3 public securities.

Senate Bill 900 (84th Legislature, Regular Session), effective September 1, 2015, further modified the sources of funding and requires overall funding to cover at least a 100-year season, a storm or series of storms with a 1% or less chance of occurring. TWIA's current funding structure is, in order:

- TWIA premiums and amounts in the CRTF
- \$500 million in Class 1 public securities
- \$500 million in Class 1 member company assessments
- \$250 million in Class 2 public securities
- \$250 million in Class 2 member company assessments
- \$250 million in Class 3 public securities
- \$250 million in Class 3 member company assessments
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season.

Under Senate Bill 900, all Classes of public securities are intended to be backed solely by TWIA revenues and are not obligations of the State of Texas. Class 1, 2, and 3 public securities are repaid by TWIA premiums and surcharges on TWIA policies. However, Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto policies if premiums and TWIA policy surcharges are insufficient.

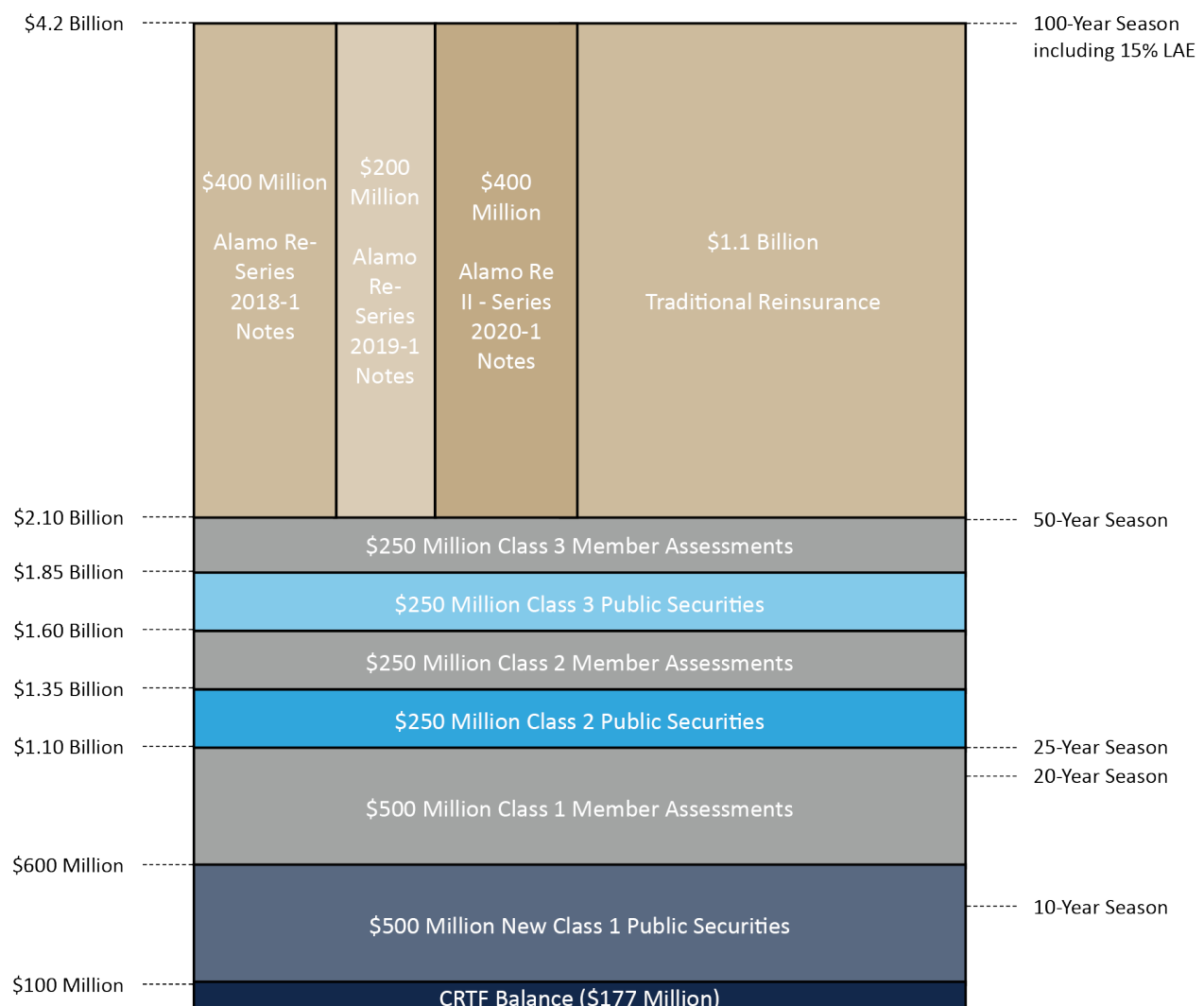
Most recently, House Bill 1900, effective June 10, 2019, clarified how TWIA can use its funding sources to repay losses. House Bill 1900 prohibits TWIA from paying excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years. The bill also requires TWIA's purchase of reinsurance above its minimum required funding level to be paid for by an assessment on member companies.



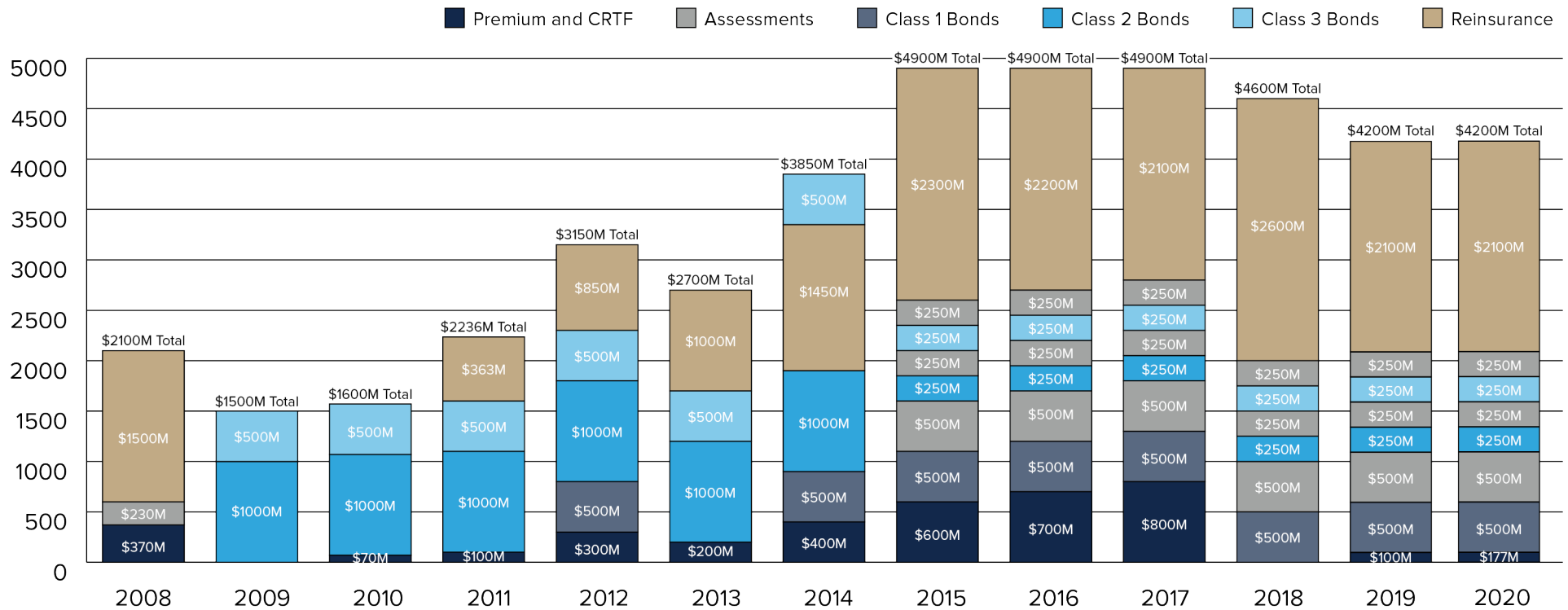
2020 Hurricane Season Funding

TWIA's 2020 catastrophe funding program, effective June 1, 2020 to May 31, 2021, provides access to \$4.2 billion in total funding. The funding program includes \$1.1 billion of traditional reinsurance and \$1.0 billion in new and previously outstanding catastrophe bonds placed atop the \$2.1 billion of funds on hand and total statutory funding sources. The traditional reinsurance program has a one-year term and provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program. The 2020 program also includes a contribution of \$52.6 million to the CRTF from 2019 net gains from operations. The current CRTF balance is \$177 million.

TWIA's funding for the 2020 hurricane season is illustrated by the chart below followed by historical funding for the past 13 years:



Historical Funding (2008-2020)



2008 Funding for Hurricane Ike and post-Hurricane Dolly; unlimited additional funding available via reimbursable assessments

2009-2011 & 2013 Funding assumes \$0 Class 1 Public Securities issuable

2012 & 2014-2015 Funding includes \$500 Million pre-event Class 1 Public Securities

2015 Funding incorporates the changes from Senate Bill 900

2015-2016 Funding incorporates bond funding sources that differ from prior years

2018 Funding was impacted by the depletion of the CRTF to pay losses from Hurricane Harvey (2017)

2019 Funding includes approximately \$100 Million in the CRTF from 2018 net gains from operations

2020 Funding is effective June 1, 2020 – May 31, 2021

Association Funding Sources

TWIA funding has historically been provided from the following general sources, each with differing benefits and challenges:

TWIA Premiums

The premiums paid by TWIA policyholders in the current year are always the first source of funding for both catastrophe and non-catastrophe claims. The other sources of funding are only utilized if a catastrophe or series of catastrophes results in losses and expenses in excess of premium and other revenue.

Premiums paid by TWIA policyholders are immediately available to pay claims and are a guaranteed source of funds but are limited in amount to those premiums collected in the current year.

Catastrophe Reserve Trust Fund (CRTF)

In most years, TWIA premiums are greater than losses and expenses. Every year, TWIA transfers all remaining premiums into the Catastrophe Reserve Trust Fund (CRTF), a separate account administered by the Comptroller on behalf of TDI. Certain TWIA policy surcharges are also transferred to the CRTF. In this regard, the CRTF represents premiums and surcharges paid by TWIA policyholders in prior years. Funds in the CRTF may only be used for purposes directly related to the funding of insured losses, as described in statute.

Like current year premiums, the CRTF is available immediately after an event and is a guaranteed source of funds. As the entire balance of the CRTF may be used after a catastrophic event, the amount available in any given year is limited to the premiums and surcharges transferred since the most recent catastrophic event.

Public Securities

The Texas Public Finance Authority is authorized to issue up to \$1 billion in public securities to fund TWIA losses. There are three different classes of securities available, each in differing amounts and with different sources of repayment. Public securities are effectively a means for TWIA to borrow funds from the financial market to pay losses and to repay those funds over a maximum of 14 years through premiums and surcharges on TWIA policies and, if necessary, all property and auto policies in the catastrophe area. Class 1 public securities may be issued either pre- or post-event; Class 2 and 3 securities may only be issued post-event.

The process of issuing public securities is lengthy and expensive. Proceeds from public securities may not be available to pay claims until months after an event. Additionally, the ultimate availability of securities is dependent on general financial market conditions, which are highly variable.

Member Company Assessments

TWIA has the authority to assess its member companies, comprising all insurance companies authorized to write property insurance in Texas with limited exceptions, up to \$1 billion to fund losses. These assessments are levied by the TWIA Board of Directors with approval by TDI and may not be directly recouped by companies through premium surcharges or tax credits. In practice, companies generally include a provision for potential assessments in their rates.

Assessments are due from companies 30 days after receipt of the notice of assessment and are limited to amounts specified in statute. Payment of assessments is enforced by TDI, and there have, historically, been very few uncollected assessments. The ultimate source of assessment funds are the premiums paid statewide by insurance company policyholders, to the extent companies have included this potential expense in their rates.

Reinsurance

Reinsurance is a form of insurance purchased by insurance companies from specialized reinsurance companies. TWIA may purchase catastrophe reinsurance to cover its losses and expenses after a catastrophic event. The costs associated with reinsurance can be significant. Reinsurance in an amount in excess of other funding sources, up to the estimated amount of a catastrophe with a probability of one-in-100, is purchased directly by TWIA. Any additional reinsurance purchased beyond the minimum funding level is paid by assessments to member companies.

TWIA also utilizes catastrophe bonds as an additional source of funding. These function identically to traditional reinsurance, except the reinsurance is offered by capital market investors on a collateralized basis, rather than by reinsurance companies. This allows TWIA to more effectively manage the cost of reinsurance and mitigate any credit risk associated with reinsurance companies being unable to pay.

Funds from reinsurance and catastrophe bonds are available immediately after a qualifying event, as determined contractually.

12C. IT Systems Update



MEMORANDUM

DATE: July 15, 2020
TO: John Polak, General Manager
FROM: Camron Malik, CIO / VP IT
RE: TWIA Information Technology status

The IT department supported the move to a remote work model due to the COVID-19 pandemic and has been successful in keeping the organization working smoothly. All technology support and projects are on-track.

The TWIA Elevate program is underway with the Policy, Billing, Enterprise Data Warehouse and Portals projects in the Construction phase of the lifecycle, where active development is ongoing. The Claims and Data Migration projects will kick off later this year. The teams are making excellent progress and are focused on maintaining their velocity. The Elevate program is the effort to move off disparate legacy systems to a single instance platform based on common hardware and core applications.

The Legislative Implementation Program (LIP) is making good progress and the projects, including support for credit cards and installments, are on track.

The Systems Development/Production Support releases continue with their monthly cadence, delivering various defect fixes and features for the business with quality and timeliness. The Infrastructure and Operations team successfully transitioned the staff to remote work and continues to provide outstanding service.

12D. Depopulation

There is no exhibit for this topic

12E. Communications Update

MEMORANDUM

DATE: July 15, 2020
TO: TWIA Board of Directors
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs
RE: Communications & Legislative Affairs Operational Highlights

I. Legislative & Regulatory Affairs

- a) In Q2 2020, our engagement with legislative offices has continued to be limited as legislators focused on COVID-19's continued impact on the state. We have checked in periodically with the offices of the House Insurance Committee and Senate Business and Commerce Committee Chairs to proactively ask about their Association-related information needs. These offices have shared that there is no indication yet of when they might move forward with the studies, authorized by House Bill 1900, of TWIA's funding and funding structure and the potential merger of TWIA and TFPA by the respective Legislative Oversight Boards (LOB). Staff plans to provide information on these issues when the LOBs are ready to commence their studies.

As directed by the Legislative & External Affairs (LEA) Committee, we are preparing information on TWIA's funding structure and the challenges associated with it and our ratemaking process to include in the 2020 Biennial Report to the Legislature, and we expect this information will be able to serve dual purpose for the funding study.

Exhibits listing the legislative and regulatory meetings attended in Q2 2020 and details of those meetings are enclosed with this summary. Other pertinent communications with legislators are outlined below.

April 2020

- In the process of rescheduling the LEA and Actuarial & Underwriting Committee meetings which had been temporarily put on hold due to the pandemic, we reached out to Representative Todd Hunter to ensure the timing and our plans for facilitating public comment virtually were acceptable approaches to him. We have continued to check in with him during this time of remote operations to ensure he is aware of Board and Committee meetings and other Association activities. We have also scheduled a meeting with Representative Hunter, Senator Larry Taylor, and Senator Juan "Chuy" Hinojosa for July 22 to discuss how to move forward productively on the issue of rates.

May 2020

- Representative Mayes Middleton sent a letter to the Association addressed to the Board chair requesting that TWIA fully reopen our office to return to pre-COVID-19 service levels. After reviewing our post-pandemic operational metrics, we worked with Chair Chandra Franklin Womack to draft a response to Representative Middleton. We also

checked in with other key legislative offices about the concerns outlined in the letter, and did not receive any concerns about the request or our response.

June 2020

- We spoke with Jarrett Hill, Policy Analyst for the Senate Business & Commerce Committee (chaired by Senator Kelly Hancock), on multiple occasions in June regarding concerns raised by a vendor with whom we did not renew our contract for internal claims examiner services. The vendor's concerns resulted in questions from Senator Hancock about our contract processes for claims resources and our ability to have sufficient resources for a future hurricane. These questions have been addressed, and we have had no further requests for information about this matter from Mr. Hill or Senator Hancock.
- b) From April 1 through June 30, 2020, we received and responded to 22 legislative, seven regulatory (TDI, OPIC, and the Better Business Bureau), and 10 coastal/industry stakeholder inquiries (four from USAA, two from the Coastal Windstorm Insurance Coalition, one from Focused Advocacy (a lobbyist group), one from a State Farm agent, one from Galveston Insurance Associates, and one from the Insurance Council of Texas).
- c) We continue to provide recurring operational email updates to the Board, TDI, legislative staff, and coastal elected officials and stakeholders.

II. Legislative Implementation Program

- a) The Association is on track to finish implementation of the small number of remaining legislative provisions enacted in last year's session of the Legislature. *Updated exhibits on the implementation of the specific provisions of House Bill 1900 and Senate Bill 615 are enclosed.*

Second quarter Communications & Legislative Affairs (CLA) activities in support of the implementation of legislative provisions include the following:

- i. We continue to support the roll out of changes to our operational processes as a result of the legislative changes with informational agent communications. In Q2 2020, TWIA sent multiple agent bulletins advising of the changes to our processes for the issuance of windstorm certifications for completed improvements, the new policy renewal process, and policy form changes which added a conspicuous notice on the availability of supplemental payments.
- ii. In support of TWIA's implementation of new policy language on supplemental claims and disputes about the amount of a covered loss, CLA drafted:
 - 1. A Frequently Asked Questions (FAQ) reference document explaining the claim process and including supplemental payment information with associated deadlines for distribution to policyholders and agents.
 - 2. Updated talking points for Agent Services to facilitate responding to calls from affected policyholders and their agents.

- iii. CLA continues to help identify and mitigate risks in connection with the implementation of credit card and installment payment provisions. During Q2 2020, CLA supported the refinement of the requirements for these projects with a focus on ensuring the new processes are accompanied by easy-to-understand communications for stakeholders.
- iv. In support of the transfer of the WPI-8-C program from TWIA to TDI as directed by Senate Bill 615, CLA launched a robust web-based and traditional communications campaign to educate policyholders and agents on how to handle WPI-8-C applications going forward.

III. Hurricane Preparedness & Coastal Outreach

- a) Due to the COVID-19 pandemic, and to ensure the safety of Association resources and stakeholders, coastal outreach has been suspended. In the absence of in person outreach, we have focused on reaching out to stakeholders through digital channels to provide them with relevant hurricane preparedness information ahead of any potential storms.
 - i. During National Hurricane Preparedness Week (May 3-9), we participated in a National Weather Service initiative by posting TWIA preparedness tips on social media throughout the week, leveraging the national campaign to increase awareness among property owners in TWIA's service area.
 - ii. Also, in May, we sent agents a bulletin encouraging them to verify policyholders' contact information in Policy Center and to ask their clients to sign up for Claims Center to facilitate quicker claim filing. We also sent agents a bulletin about TWIA's hurricane binding exception in June.
 - iii. In partnership with Claims staff, in late June, we presented hurricane preparedness information to area businesses participating in an online summit hosted by the Galveston Economic Development Program.
- b) In response to the COVID-19 pandemic, municipalities across the coast have cancelled their in-person hurricane preparedness events. To ensure we can still directly connect with our policyholders, this year we are focusing additional effort on our social media outreach. We are launching a new partnership with Nextdoor, a community-centered social media platform that will allow us to connect with over 250,000 residents of our coverage area.

IV. Media Relations

- a) Media attention on TWIA was relatively low during Q2 2020, and exceptionally low at the beginning of the quarter. During Q2 of the previous two years, TWIA garnered a higher level of coverage connected to Hurricane Harvey recovery (2018) and TWIA-related activities of the Legislature (2019).
 - i. Mid and late quarter coverage this year – in order of prevalence – was focused on:
 - TWIA's reinsurance / CAT bond purchase (mostly neutral),
 - hurricane preparedness (neutral to positive), and

- the selection process for outside actuarial services (neutral to slightly negative).
- b) Media outreach during the quarter was primarily focused on the May meeting of the Board and meetings of the Actuarial & Underwriting Committee regarding the actuarial services vendor selection. Other activities included:
 - ii. Trade-media reporters interested in TWIA's CAT bond purchase being sent targeted information on the Association's reinsurance program from the TWIA Annual Report, published June 1.
 - iii. The distribution of a press release, in June, with tips to help policyholders prepare for hurricanes. Its publication was timed to coincide with the landfall of Tropical Storm Cristobal. Press release content was also featured on the TWIA website.
- c) The overall sentiment of TWIA coverage during this quarter was 90% positive/neutral and 10 percent negative.

V. Agent Advisory Group

- a) At the request of the LEA Committee at their May 7 meeting, we convened the Agent Advisory Group (AAG) in early June to discuss several items being considered by the LEA Committee for inclusion in the Association's 2020 Biennial Report to the 87th Legislature. The feedback collected from the AAG at the June meeting was provided to the Committee for their consideration at their second meeting on June 12.
 - i. TWIA staff also requested and obtained AAG feedback by email on additional items and/or elements of the items being considered by the LEA Committee for their June meeting.
- b) The AAG met on July 16 for their Q3 2020 meeting. All members were present. The topics discussed at the meeting included an update on the status of the items being considered by the LEA Committee, progress and updates on the implementation of legislative changes from the 86th legislative session, an overview of TWIA's endorsements and process for handling condominium claims, and routine updates on Underwriting operations and the depopulation programs.
 - i. The group expressed their appreciation for being asked to provide feedback on the items the LEA Committee has been considering. They offered that having an agent presence on the Committee would be helpful.
 - ii. **Credit Card Payments:** Staff provided an overview of the planned process for being able to accept credit card payments, a legislative change due January 1, 2021. Staff reviewed the project approach for implementation in the short-term and solicited feedback from the AAG on the approach and any pain points or communications needs that may arise for agents and policyholders. Staff also reviewed the enhancements to the process and



system that are contemplated following the initial release that will occur on 1/1/2021 or prior.

Staff will return to the AAG at its next meeting with a matrix that outlines how credit card payments will be processed for new and renewal business in different scenarios, including storm mode.

- iii. **Condominium Claims:** The AAG requested that staff provide information at the Q3 2020 meeting on the handling of condominium claims, both for unit owners and condominium associations. Staff acknowledged that condominium claims can be complex and challenging to resolve, especially in situations where TWIA does not insure both the condominium association and their respective unit owners. Lessons learned from Hurricane Harvey have resulted in TWIA making improvements to the process for handling these claims, but, ultimately, educating condominium policyholders and their agents about the claims process prior to a storm is likely the best way to mitigate issues.

The AAG agreed with this assessment and asked to create a task force made up of AAG members and their staff that could get a better understanding of and discuss best practices for condominium claim handling. Staff agreed with this idea. Staff also pointed out that legislative changes providing more flexibility related to the claim deadlines will likely address some of the concerns experienced by unit owners in a future storm. There are also communications and materials being developed for condominium claims that will help to educate unit owners and condominium associations about the claims process to better set their expectations.



Q2 2020 Legislative & Regulatory Meetings

Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
April 2020			
Rep. Eddie Lucio, III	Sergio Cavazos	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss TWIA's response to COVID-19, the June LEA Committee meeting, and the status of the funding and merger studies.
Senate Business & Commerce Committee	Jarrett Hill and Mattie Heith	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an overview of TWIA operations, review legislative changes, and discuss issues related to the interim funding study.
Rep. Todd Hunter & Sen. Juan "Chuy" Hinojosa	N/A	Jennifer Armstrong & David Durden	Spoke by phone with Rep. Hunter to discuss timing and plans for the initial June Legislative and External Affairs Committee meeting.
May 2020			
Attending Staff: <ul style="list-style-type: none"> Jesse Sifuentez, Speaker Dennis Bonnen, Jarrett Hill and Mattie Heith, Senate Business & Commerce Committee Alec Mendoza, Sen. Jose Menendez Alex Gamez, Rep. Todd Hunter Shane Saum, Rep. Geanie Morrison Bobby Joe Dale, Rep. Sarah Davis 		David Durden, Jennifer Armstrong, Denise Larzalere, Dave Williams, Jerry Fadden & Anna Stafford	Invited legislative staff from the Governor's, Lt. Governor's, and Speaker's offices and coastal and committee offices to the Q2 2020 TWIA Board Meeting Materials Briefing, focusing on those agenda items of expected interest to staff: new Board members, TWIA's response to the COVID-19 pandemic, 2020 hurricane season funding, the RFP for actuarial services, the status of legislative implementation.
June 2020			
Sen. Charles Schwertner	Sydney Cerza	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to conduct an introductory presentation on TWIA operations, funding, and legislative changes.
Rep. Eddie Lucio, III	Sergio Cavazos	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an update on TWIA's operational activities and the status of the funding and merger studies.
Texas Department of Insurance (TDI)	TDI Consumer Protection Staff	Staff representing Claims, Underwriting, Legal	Conducted virtual presentations between late June and early July on TWIA's operations, focused on those areas,



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
		& Compliance, and Communications & Legislative Affairs	including Underwriting and Claims operations, mostly likely to generate questions or complaints in the event of a major storm.

Q2 2020 Legislative & Regulatory Meeting Summaries

April 2020

- David Durden, Jennifer Armstrong, and Anna Stafford met with Sergio Cavazos, House Insurance Committee Clerk and Legislative Director for Representative Eddie Lucio, III, to discuss TWIA's response to COVID-19, including planned changes to the Association's claims handling process to accommodate virtual inspections and social distancing requirements. We also reported on Association activities impacted by the pandemic such as the delay and rescheduling of certain Committee meetings of the Board and an influx of calls from agents seeking assistance as they too dealt with the transition to remote work. At the time, he anticipated news about the funding and merger studies authorized by House Bill 1900 to be provided in early summer.
- David Durden, Jennifer Armstrong, and Anna Stafford met with new Senate Business & Commerce Committee Clerk, Mattie Heith, and Committee Policy Analyst, Jarrett Hill, to provide an overview of TWIA operations. We reviewed the recent legislative changes and discussed issues they anticipate will arise from the funding study, including agent commissions, reinsurance, and the cost of relying on debt for funding.

May 2020

- We held the first virtual briefing for legislative staffers to provide them with information about the agenda and action items for the May TWIA Board meeting. *Legislative offices in attendance at the briefing are listed in the table above.*

June 2020

- David Durden, Jennifer Armstrong, and Anna Stafford met virtually with Senator Charles Schwertner's Senior Policy Analyst, Sydney Cerza, to conduct a presentation on TWIA operations, funding, and legislative changes. Senator Schwertner was appointed by Lt. Governor Dan Patrick to the LOB conducting the TWIA funding study.
- David Durden, Jennifer Armstrong, and Anna Stafford met with Sergio Cavazos, House Insurance Committee Clerk and Legislative Director for Representative Eddie Lucio, III, by phone to provide an update on TWIA's operational activities. Mr. Cavazos commented that the Capitol has been repeatedly closed to the Legislature and their staff for deep cleaning due to individuals infected with COVID-19 entering the building. He reported that the Legislature has been unable to schedule hearings on any interim matters due to the closures and the ongoing impact of the pandemic.
- TDI invited Association staff to deliver virtual presentations on TWIA's operations to their Consumer Protection staff responsible for customer service and complaints. At the end of June/beginning of July, we provided a general TWIA overview focusing on those areas of operations that are likely to generate



TEXAS WINDSTORM
INSURANCE ASSOCIATION

questions or complaints. In the first two weeks of July, we will present on Underwriting and Claims operations. These presentations are particularly timely in providing TDI staff with useful information about TWIA ahead of any potential storms that occur this hurricane season. At our TWIA overview trainings last week, we were provided with positive feedback about the trainings and received good questions from TDI staff about various aspects of Association operations.



Legislative Implementation Program

Provision Status as of July 15, 2020

Senate Bill 615			
Legislative Change	Effective Date	TWIA Status	TDI Status
Sunset Review	2031	N/A	N/A
<i>Sec. 1. TWIA is subject to review under the Texas Sunset Act and shall be next reviewed during the period in which state agencies abolished in 2031 are reviewed.</i>			
Proposal of Rules	September 1, 2019	In Compliance	In Compliance
<i>Sec. 2. Authorizes TWIA to propose to the Texas Department of Insurance rules that govern TWIA's core operations and requires TDI to begin its review process within 30 days.</i>			
<ul style="list-style-type: none"> • TWIA has not proposed any rules to TDI to date. 			
Board of Directors Eligibility Requirements	September 1, 2019	In Compliance	In Compliance
<i>Sec. 3. Restricts individuals (or their spouses) with certain interests in the property and casualty insurance business or certain relationships with TWIA from serving on the TWIA Board of Directors.</i>			
<ul style="list-style-type: none"> • Board members are appointed by the Commissioner of Insurance. • A member serving on the Board immediately before the effective date of this bill may continue to serve on the Board for the remainder of the term to which the member was appointed. 			
Board Training	January 1, 2020	In Compliance	N/A
<i>Sec. 4. Requires TWIA to develop a formal training program for the Board of Directors. Board members cannot vote, deliberate, or be counted as a member in attendance at meetings until they have completed the required training and annually acknowledge receipt of a training manual provided by the Association.</i>			
<ul style="list-style-type: none"> • All current TWIA Board members have completed the required training to be able to participate in Board meetings. 			
Board Disclosures	September 1, 2019	In Compliance	N/A
<i>Sec. 5. Requires TWIA Board and Actuarial & Underwriting Committee members to disclose any potential conflicts of interest related to a vote or discussion prior to a vote.</i>			
<ul style="list-style-type: none"> • TWIA has implemented a procedure by which TWIA Board and Committee members report potential conflicts to TWIA's legal counsel and those conflicts are disclosed at the beginning of each meeting. 			
Policy Renewals	January 1, 2020	In Compliance	N/A
<i>Sec. 6, 8. Streamlines the policy renewal process, allowing TWIA to offer policy renewals to and accept premium payment directly from policyholders.</i>			
<ul style="list-style-type: none"> • The first renewal offer packages were mailed to TWIA policyholders beginning January 1, 2020 for policies effective March 1, 2020. 			

Senate Bill 615

Legislative Change	Effective Date	TWIA Status	TDI Status
Policy Payments <i>Sec. 8. Requires TWIA accept payment of premiums by credit card and provide policyholders the option to pay premiums in installments.</i> <ul style="list-style-type: none"> TWIA will begin accepting premium payments from policyholders by credit card and in installments as required on or before January 1, 2021. 	January 1, 2021	On Schedule	N/A
Supplemental Payments <i>Sec. 9, 14, 15. Formalizes TWIA's supplemental payments process and requires TWIA policies to contain a conspicuous notice about the availability of supplemental payments, the supplemental payment process, and associated deadlines.</i> <ul style="list-style-type: none"> TDI approved the required policy form changes on April 9, 2020; revisions to TWIA's claim notices have been completed and put into use as required by the law on or before July 1, 2020. 	July 1, 2020	In Compliance	TDI Rules Approved
ITV Determination <i>Sec. 10. Changes TWIA's determination of whether a claim will be paid at replacement cost value or actual cash value to the time of policy issuance rather than at the claim is filed.</i> <ul style="list-style-type: none"> TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020. 	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
Certificates of Compliance for Completed Improvements <i>Sec. 11, 12. Transfers TWIA's program for the issuance of Certificates of Compliance for completed improvements to TDI with some modifications to the oversight and requirements of the program.</i> <ul style="list-style-type: none"> TWIA completed the transfer of administration of the program to TDI on schedule June 1, 2020. 	June 1, 2020	In Compliance	Transition Complete
Rate Adequacy Analysis <i>Sec. 13. Requires TWIA to make a rate adequacy analysis publicly available on TWIA.org 14 days before its Board of Directors votes on a proposed rate filing submission and requires public comment on the rate adequacy analysis be received at a public meeting of the Board of Directors prior to their vote on a proposed rate filing submission.</i> <ul style="list-style-type: none"> TWIA posted its 2019 rate adequacy analysis on July 22, 2019 ahead of the August 6 Board meeting at which its required annual rate filing was considered. Public comments on the Association's rate adequacy analysis have been accepted in writing and in person at all applicable meetings of the Board of Directors and its Actuarial and Underwriting Committee since the law passed. 	June 10, 2019	In Compliance	N/A
Assumption Reinsurance Depopulation Program <i>Sec. 16. Requires TDI to change the rules for TWIA's assumption reinsurance depopulation program to eliminate any requirement for agents or policyholders to make depopulation decisions during hurricane season and reduces the policyholder opt-out period to no more than 60 days.</i> <ul style="list-style-type: none"> TDI adopted the rules to implement this change on January 22, 2020. The new rules will apply to the fifth round of the program which is expected to occur at the end of 2020. TWIA filed amendments to the program with TDI on June 5, 2020. 	March 31, 2020	In Compliance	TDI Rules Approved



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Legislative Implementation Program

Provision Status as of July 15, 2020

House Bill 1900			
Legislative Change	Effective Date	TWIA Status	TDI Status
Use of Premiums	June 10, 2019	In Compliance	N/A
<i>Sec. 1, 2. Requires TWIA pay for excess losses from funding sources, including the Catastrophe Reserve Trust Fund (CRTF), available before or accrued during the catastrophe year in which the losses occurred.</i>			
<ul style="list-style-type: none">• Since this provision went into effect, the Texas coast has not experienced a storm requiring any expenditures on claims beyond that which TWIA can cover with current-year premiums.• Losses and loss adjustment expense from Hurricane Harvey were paid from premiums earned in 2017 and before, the CRTF, Class 1 public securities, and member company assessments.			
Emergency Board Meeting for Planned Member Company Assessment	June 10, 2019	In Compliance	N/A
<i>Sec. 3. Requires the TWIA Board of Directors to call an emergency meeting for the purpose of notifying member insurers if TWIA estimates its ultimate financial losses arising from a storm may require a member insurer assessment.</i>			
<ul style="list-style-type: none">• TWIA announced a third potential member insurer assessment at its August meeting and approved submitting a request to the Commissioner of Insurance for a \$90 million member insurer assessment for losses from Hurricane Harvey at its December meeting.• The Commissioner of Insurance approved the member insurer assessment on January 10, 2020, and TWIA is in the process of completing collection of the member insurers' assessment payments.			
ITV Determination	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
<i>Sec. 4, 15. Changes TWIA's determination of whether a claim will be paid at replacement cost value or actual cash value to the time of policy issuance rather than at the time a claim is filed.</i>			
<ul style="list-style-type: none">• TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.			
Certificates of Compliance for Completed Improvements	June 1, 2020	In Compliance	Transition Complete
<i>Sec. 5, 6, 12, 13, 14. Transfers TWIA's program for the issuance of Certificates of Compliance for completed improvements to TDI with some modifications to the oversight and requirements of the program.</i>			
<ul style="list-style-type: none">• TWIA completed the transfer of administration of the program to TDI on schedule on June 1, 2020.			

House Bill 1900

Legislative Change	Effective Date	TWIA Status	TDI Status
Rate Adequacy Analysis <i>Sec. 7. Requires TWIA to make a rate adequacy analysis publicly available on TWIA.org 14 days before its Board of Directors votes on a proposed rate filing submission and requires public comment on the rate adequacy analysis be received at a public meeting of the Board of Directors prior to their vote on a proposed rate filing submission.</i> <ul style="list-style-type: none"> TWIA will post the 2020 rate adequacy analysis as required by law two weeks prior to the August 4 Board meeting at which the required annual rate filing will be considered. Public comments on the Association's rate adequacy analysis have been accepted in writing and at all applicable meetings of the Board of Directors and its Committees since the law passed. 	June 10, 2019	In Compliance	N/A
Member Company Purchase of Reinsurance <i>Sec. 8. Requires that TWIA's purchase of reinsurance above its minimum required funding level (1-in-100 probable maximum loss) be paid for by an assessment on member insurers of the Association.</i> <ul style="list-style-type: none"> TWIA is awaiting TDI's adoption of the rules related to this law change. Based on the Board's setting of the 1-in-100 probable maximum loss for the 2020 hurricane season, we do not expect to assess member insurers for the Association's purchase of reinsurance coverage this season. 	June 10, 2019	In Compliance	Informal Draft Rules Published
Replacement Cost Coverage Claims <i>Sec. 9. Formalizes the handling of replacement cost coverage claims, allowing 545 days for a policyholder to provide proof of repairs to recoup the recoverable depreciation on their claim while preserving the policyholder's ability to request appraisal on the claim.</i> <ul style="list-style-type: none"> TWIA's claim notices include language as required to comply with this provision and policy forms are updated to reflect the law changes. 	January 1, 2020	In Compliance	Policy Forms Approved; TDI Rules Adopted
Claim Deadline Extensions <i>Sec. 10. Authorizes the Commissioner of Insurance, with good cause, to extend policyholder deadlines related to TWIA claims by any amount of time at his discretion and to extend claim deadlines applicable to TWIA by up to an additional 120 days.</i> <ul style="list-style-type: none"> TWIA has established an internal process to determine when to request that the Commissioner of Insurance extend deadlines under this provision. 	September 1, 2019	In Compliance	TDI Rules Adopted
Funding Study <i>Sec. 11. Creates the Legislative Funding and Funding Structure Oversight Board to submit a report by November 15, 2020.</i> <ul style="list-style-type: none"> TWIA is prepared to assist the Legislative Oversight Board in its deliberations. 	November 15, 2020	N/A	N/A
Merger Study <i>Sec. 14. Requires the Windstorm Legislative Oversight Board to evaluate a merger of TWIA and TFPA and submit a report by January 1, 2020.</i> <ul style="list-style-type: none"> TWIA is prepared to assist the Legislative Oversight Board in its deliberations. 	January 1, 2021	N/A	N/A

There is no exhibit for this topic

16. Future Meetings

December 8, 2020 – Webinar

February 2021 – TBD

May 2021 – TBD