

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

December 8, 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 access the video conferencing website with
instructions available on www.twia.org.

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|--|-------------------|
| 1. Call to Order | <i>5 minutes</i> |
| A. Welcoming Remarks – <i>Chandra Franklin Womack</i> | |
| B. Anti-Trust Statement and Conflict of Interest Disclosure – <i>Counsel</i> | |
| C. Meeting Format Information – <i>Kristina Donley</i> | |
| 2. Introduction of New Board Member – <i>Chandra Franklin Womack</i> | <i>5 minutes</i> |
| 3. Consideration and Action to: | |
| Approve the Minutes from Prior Board of Directors’ Meetings | <i>5 minutes</i> |
| – <i>Chandra Franklin Womack*</i> | |
| 4. TWIA Operational Highlights – <i>John Polak</i> | <i>5 minutes</i> |
| 5. Financial | <i>20 minutes</i> |
| Consideration and Possible Action on the Following Financial Topics: | |
| A. Report of the Secretary/Treasurer – <i>Corise Morrison*</i> | |
| 1. Income Statement | |
| 2. Management Discussion and Analysis | |
| B. Financial Statement Review by Staff – <i>Jerry Fadden</i> | |
| 1. Income Statement and Expense Statement | |
| 2. Balance Sheet | |
| 3. Cash & Short-Term Investments | |
| 4. Cash Flow Statement | |
| 5. Historical Data | |
| 6. Public Comment | <i>30 minutes</i> |
| 7. Presentation by Willis Towers Watson Regarding the Rate and Model Analysis – <i>WTW Representative</i> | <i>30 minutes</i> |
| 8. Presentation and Review of TWIA Actuarial and Underwriting Committee Meeting Rate Recommendations – <i>Debbie King*</i> | <i>20 minutes</i> |
| 9. Actuarial – <i>Jerry Fadden</i> | <i>20 minutes</i> |
| Consideration and Possible Action on the Following Actuarial Topics: | |
| A. Reserve Adequacy | |
| B. Policy Count/Exposures | |
| C. Maximum Liability Limits Filing - Update | |

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| 10. Internal Audit – <i>Bruce Zaret - Weaver</i> | 20 minutes |
| Consideration and Possible Action on the Following Audit Topics: | |
| A. Internal Audit Status Report | |
| B. Risk Assessment and Audit Plan | |
| 11. Underwriting – <i>Denise Larzalere</i> | 10 minutes |
| Consideration and Possible Action on the Following Underwriting Topics: | |
| A. Operational Review Update | |
| 12. Claims | 20 minutes |
| Consideration and Possible Action on the Following Claims Topics: | |
| A. Claims Operations – Overview – <i>Dave Williams</i> | |
| B. Claims Litigation – <i>David Durden</i> | |
| 13. TWIA Operations | 60 minutes |
| Consideration and Possible Action on the Following Operations Topics: | |
| A. IT Systems Update – <i>Camron Malik</i> | |
| B. Depopulation – <i>Denise Larzalere</i> | |
| C. Plan of Operation – <i>David Durden</i> | |
| D. Communications Update – <i>Jennifer Armstrong</i> | |
| E. Review and Approval of 2021 Budget – <i>John Polak*</i> | |
| 14. Closed Session (Board Only) | 60 minutes |
| A. Personnel Issues | |
| B. Legal Advice | |
| 15. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors* | 5 minutes |
| 16. Committees – <i>Chandra Franklin Womack</i> | 5 minutes |
| 17. Future Meetings – <i>John Polak</i> | 5 minutes |
| <ul style="list-style-type: none"> • February 23, 2021 – Webinar • May 18, 2021 – Webinar • August 2021 – TBD | |
| 18. Adjourn | |

Estimated Total Length of Meeting	5 hours 25 minutes
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*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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3. 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

August 4, 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.	JD Lester, VP of Human Resources	TWIA
8.	Amy Koehl, Executive Assistant	TWIA
9.	Kristina Donley, Sr. Instructional Designer	TWIA
10.	Camron Malik, Chief Information Officer	TWIA
11.	Mike Perkins, Association Counsel	Perkins Law Group PLLC
12.	Katie Porter, Association Counsel	Perkins Law Group PLLC

The Following Guests were Present:

1.	Clark Thomson	Calhoun, Thomson + Matza
2.	Alexandra Cary	Insurance Institute for Business and Home Safety
3.	Gina Hardy	North Carolina Joint Underwriting Association
4.	Julie Shiyou-Woodward	Smart Home America
5.	Lisa Sukow	Willis Towers Watson
6.	Jarrett Cabell	Willis Towers Watson
7.	Bruce Zaret	Weaver

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

1. Matt Abel	20. Alicia Gerte	39. Anne O'Ryan
2. Shauna Allen	21. Jane Gimler	40. Rick Ott
3. Bill Allen	22. Robert Hamer	41. Bob Paulison
4. Pat Avery	23. Stuart Harbour	42. Shane Saum
5. Marianne Baker	24. Jarrett Hill	43. Kenisha Schuster
6. Lynn Blumenfeld	25. Todd Hunter	44. Mark Silva
7. Shirley Bowler	26. Dennis Isaacs	45. Anna Stafford
8. Ryan Brannan	27. Fred Jackson	46. Bill Stockley
9. Cari Christman	28. John Larue	47. Fred Strauss
10. Paul Cleveland	29. Amy Lee	48. Shelly Stuart
11. Joe Coury	30. Clarisse Lilley	49. Roxanne Swierc
12. Chris Cruthird	31. Lee Loftis	50. Aaron Taylor
13. Sarah Edstrom	32. Marti Luparello	51. Manuel Villarreal
14. Regan Ellmer	33. Laura Machado	52. Rachel Wang
15. Tammy Embrey	34. Rehm Maham	53. Cindy Watkins
16. Angela Fang	35. Alice McCoy	54. Mark Wendland
17. Lauren Flemming	36. Mayes Middleton	55. Gaye White
18. Beaman Floyd	37. Jerry Mohn	56. Amy Wills
19. Henry Freudenburg	38. Nelda Olivo	57. Alan Wilson
		58. Joe Woods

1. Call to Order: Ms. Franklin Womack called the meeting to order at 9:01 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. Approval of Minutes: The minutes from the May 12, 2020 meeting in Austin, Texas were reviewed. Mr. Garrett moved to approve the minutes as presented. Ms. Morrison seconded the motion. The motion passed.
3. Public Comment: Public comment was offered by Rep. Mayes Middleton, Allen Wilson, Tammy Embray, Rep. Todd Hunter and Pat Avery.
4. TWIA Operational Highlights: Mr. Polak reported the Association secured \$4.2 billion in total funding for the 2020 hurricane season. More than 1,000 policies were depopulated in round 4 (2019-2020) of the Assumption Reinsurance Depopulation program. The Association's program for issuing Certificates of Compliance (WPI-8C) was transferred to TDI by the June 1 deadline. The 2020 annual report card and Catastrophe Incident Response Plan were submitted to legislature and insurance commissioner as required on June 1. Nearly 1,000 adjuster resources were trained virtually in the claims department's annual hurricane preparedness and adjuster certification conference. The Association remains below plan for Q2 2020 operating expenses. The Association is on

track to complete objectives for all strategic initiatives in 2020. Turnaround time and quality standards were exceeded on underwriting and claim service levels. The Association remains below plan on litigated claims and complaints in Q2 2020.

5. 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 \$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.

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 marketing in effect this renewal season. Additional information on the 2020 reinsurance program is included in the board material

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.

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.

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.

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 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 was attributed to the lower maintenance tax rate in 2020 of 0.274% versus 0.303% in 2019 which was used in the budget.

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 expectation 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 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. 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.

- C. 2020 Hurricane Season Funding: 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 in 100 catastrophe year. Mr. Gerik commented that coverage was purchased to a 1 in 100-year event, but nothing was purchased over that. Mr. Fadden said it did not go above a 1 in 100-year event because it would be an assessment to member companies.
- D. Investment of Trust Fund Balances (Sec.2210.4521): Mr. Garrett moved that based on Association staff analysis and recommendation, the TWIA 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. Mr. Gerik seconded the motion. The motion passed.
- E. 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. Mr. Gerik moved that the TWIA 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 for the 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. Ms. Neblett asked that a caveat be added to the motion asking staff to conduct an RFP in 2021. Mr. Gerik said he was fine with that addition to the motion. Ms. Morrison seconded the motion. The motion passed.

6. Public Comment: This item was moved to later in the agenda.

7. Actuarial:

A. Reserve Adequacy: 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 \$1.7 billion. This variability arises from the assumptions made regarding the adequacy of case reserves for 790 open claims, the potential impact of future reopening 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 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. 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 and 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 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. Statutory Maximum Limits of Liability: Mr. Fadden reviewed 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. Ms. Neblett moved to approve the limits. She asked when was the last time the numbers changed. Mr. Fadden said it has been a number of years since TDI approved an increase for limits. Staff has submitted increases, but they have been denied. Mr. Garrett seconded the motion. The motion passed.
- C. Required 2020 Annual Rate Filing: Ms. Neblett moved to meet the statutory requirement and follow the recommendation of the TWIA Actuarial and Underwriting Committee and file a 0% rate hike for residential and commercial policies. Ms. Gonzalez seconded the motion. Mr. Gerik said he didn't feel it was right to postpone. Absent the Willis Towers Watson report, he doesn't think they can make an informed decision, but he does want to address this after the report is completed. Ms. Morrison asked Mr. Gerik if he wanted to hold an interim meeting before the December board meeting. Mr. Gerik said it was at the pleasure of the board but if the committee has a recommendation, he wouldn't want to wait until December. Mr. Schrader said there was no basis for 0%. He said the board has a statutory imperative to file an adequate rate. Mr. Gerik asked Ms. Neblett if she would amend her motion to note an interim meeting will be held to discuss the rate once the Willis Towers Watson report is completed and the committee get a chance to discuss it and prepare a recommendation to the board. Ms. Gonzalez seconded the amended motion.

A roll call vote was conducted.

Georgia Neblett: Yes

Mike Gerik: Yes

Corise Morrison: Yes

Karen Guard: Yes

Tony Schrader: Yes

Peggy Gonzalez: Yes

Tim Garrett: Yes

Chandra Franklin – Womack: Yes

The motion passed.

- 8. Presentation by Willis Towers Watson: Ms. King started by recapping the activities of the TWIA Actuarial and Underwriting Committee. The members wanted to give Willis Towers Watson sufficient time to complete the review. Their recommendation is to file a 0% rate change for the required August filing. When Willis Towers Watson finishes the

review, the committee will meet again, and the committee will vote on a rate change at that time. Lisa Sukow provided a status update.

At this time, public comment on the rate filing was offered. Mr. Perkins was asked to review the statutory deadline for rate submission. Paul Cleveland gave public comment.

9. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret reported his team is working on audits concerning accounts receivable, underwriting, reinsurance, database administration, depopulation and claims processing. Upcoming audits include financial close and reporting, risk assessment, disaster recovery, facilities and services, communications, legal and compliance/legislative and model audit rule documentation update.

10. Underwriting:

- A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. The department is surpassing this standard with over 97% of all transactions 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 and service quality scores continue to meet expectations. Staff continues to experience increased phone call volume and unpredictability following the transition to teleworking. Staffing has been increased at the call center and modified workflows in order to maintain acceptable service levels. Service observation (listening to phone calls and scoring them) is a standard procedure. The departments calibrate calls and have agreed upon Association-wide telephone service standards. 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 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 than through the standard process via agents.

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. In addition to implementing process and form updates, an amendment to the Plan of Operations will be filed.

After through 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. For the period of April 1, 2020 to May 31, 2020 (when the program ended), staff received 2,582 applications (WPI-3s). The average turnaround time for April and May is approximately six days with reroof being the number one reason (37% of certificates). Two engineering firms represent approximately one fifth (20%) of all applications during the responsive period.

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.

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

11. Claims:

- A. Claims Operations: Mr. Williams reported there were 963 new claims that came out of Hurricane Hanna. There are 130 closed claims. Mr. Gerik asked Mr. Williams if he was seeing any slab claims as a result of Hanna. Mr. Williams said he hasn't seen any total losses. Mr. Gerik asked when will staff know the financial impact to TWIA from Hanna. Ms. Morrison asked if there has been a COVID-19 impact with Hanna. Mr. Williams said he figured COVID would be an issue during hurricane season.
- B. Claims Litigation: Mr. Durden reported there were seven new suits for the second quarter of 2020 and 23 closed suits. There are 23 new claims with letters of representation and 66 are closed for the second quarter of 2020. Currently the law firm of Daly and Black holds the vast majority of these suits.

12. TWIA Operations:

- A. Presentation by Insurance Institute for Business and Home Safety: Alex Cary from the Insurance Institute for Business and Home Safety, Gina Hardy from the North Carolina Joint Underwriting Association and Julie Shiyou-Woodward from Smart Home America gave a presentation.
- B. Receive and Act on Recommendations from Legislative and External Affairs Committee Regarding Recommendations to Legislature and Biennial Report to Legislature: The TWIA Legislative and External Affairs Committee met four times during the course of the year. A draft document was put together that lays out the potential recommendations required as part of the biennial report. Ms.

Morrison moved to adopt the report as presented. Ms. Neblett seconded the motion. The motion was amended to include legislative language regarding fortified homes. The motion passed. Staff will put together language asking the legislature to provide statutory ability for TWIA to develop this program and seek funding.

- C. IT Systems Update: Mr. Malik reported 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 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.

- D. Depopulation: Ms. Larzalere stated that on June 1, the fourth round of depopulation was completed, and 1,003 policies went to the participating carriers. Ms. Franklin Womack wondered if there is any data that the IBHS fortified homes are falling out of the wind pool.
- E. Communications Update: In Q2, engagement with legislative offices has continued to be limited as legislators focused on COVID-19's continued impact on the state. Staff has 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. Those 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).

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.

Due to the COVID-19 pandemic, and to ensure the safety of Association resources and stakeholders, coastal outreach has been suspended.

Media attention to TWIA was relatively low during Q2 2020 and exceptionally low at the beginning of the quarter.

At the request of the TWIA Legislative and External Affairs Committee at their May 7 meeting, staff convened the Agent Advisory Group in early June to discuss several items being considered by the LEA Committee for inclusion in the Association's 2020 biennial report to the 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.

13. Closed Session: The meeting went into closed session at 12:25 pm. The meeting went back into open session at 1:13 pm.
14. 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.
15. Committees: There was nothing to discuss.
16. Future Meetings:
 - December 8, 2020 – Webinar
 - February 2021 – TBD
 - May 2021 – TBD
17. Adjourn: The meeting adjourned at 1:16 p.m.

Prepared by: Amy Koehl
Executive Assistant

Approved by: Chandra Franklin Womack
TWIA Chair

Approved by: Georgia Neblett
TWIA Vice Chair

4. TWIA Operational Highlights

2020 TWIA Enterprise Scorecard

Reporting YTD as of September 30, 2020



	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	7.6%		9.2%	-1.6%	
Net Gain From Operations ¹	\$4.5 M		\$19.9 M	-\$15.4 M	
Enterprise Projects	91%		90%	1%	
Policy Administration	99%		90%	9%	
Claims Handling	98%		90%	8%	
Litigated Claims	0.00%		0.50%	-0.50%	
Complaints	39		42	-3	

Reference Data

Policies In-Force	186,313
Exposures In-Force	\$55.3 billion
Written Premiums YTD	\$294.9 million
Claims Received YTD	9,399
Losses Incurred YTD*	\$52.0 million

* Excludes IBNR

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

Key Quarterly Activities

- Responded to four major storm events during the 2020 hurricane season and continued to maintain low claim response times and high customer survey scores.
- Developed an agent task force to discuss best practices for condominium association and unit owner policies and claims.
- Submitted the 2020 Biennial Report to legislators in September in advance of the December 31 due date.
- Remain below plan for Q3 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 Q3 2020.

5. Financial

5A. Report of the Secretary/Treasurer

5A1. Income Statement

5A2. Management Discussion and Analysis

1	TEXAS WINDSTORM INSURANCE ASSOCIATION	1
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Texas Windstorm Insurance Association
Management's Discussion and Analysis of Financial Results for the
Nine Months Ended September 30, 2020

Direct Written Premium:

- Year-to-date direct written premiums totaled \$294.9 million, which is \$3.3 million (1.1%) less than the comparable prior year period of \$298.2 million. Direct written premium was \$14.2 million (5.1%) higher than the budgeted \$280.7 million.
- The policy count at September 30, 2020 of 186,313 was 7,513 (4.2%) higher than the budgeted number of 178,800. The policy count reflects a decrease of 2,890 policies from December 31, 2019 (189,203) 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 ceded premiums written associated with the \$2.1 billion in coverage was \$107.5 million compared to a budgeted cost of \$93.1 million.
- Monthly ceded earned premium of \$17.9 million will exceed the monthly budgeted amount of \$15.5 million through the end of November.

Direct Premiums Earned:

- Year-to-date direct premiums earned totaled \$276.5 million compared to \$287.6 million for the same period last year (a decline of \$11.1 million or 3.9%).
- Direct premium earned was \$6.9 million higher than the budget of \$269.6 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. In connection with the transfer of the 1,003 policies on June 1, 2020, TWIA transferred cash equal to the unearned premium on these policies totaling \$794,951.

Loss and Loss Adjustment Expense Incurred:

- Direct losses and LAE incurred for the nine months ended September 30, 2020 totaled \$72.7 million, including estimated ultimate losses for Hurricane Hanna of \$16.0 million and Hurricane Laura of \$36.9 million. Total incurred losses were \$15.2 million above the budget of \$57.5 million. Hurricane Hanna made landfall on July 25, 2020 and Hurricane Laura on September 27, 2020 thus the incurred loss estimates are based on limited reported claim information. Hurricane Delta which struck near Creole, Louisiana on October 9, 2020, brought 2,627 TWIA claims within the first week after landfall. Estimated losses related to Delta will be included in fourth quarter results.
- TWIA reported an incurred loss & LAE ratio of 26.3% compared to the budgeted 21.3% as a result of the recent Hurricanes, slightly offset by 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 \$21.0 million were below budget by \$3.7 million (14.9%).
- The favorable variance of \$3.7 million is attributable to savings in: 1) training (\$187,000); 2) IT Consulting \$675,000; 3) hardware and software expenses (\$228,000); 4) Personnel expenses in Accounting and Human Resources (\$205,000); 5) surveys and inspections (\$166,000); 6) travel and postage (\$319,000) and 7) the initial capitalization of Project Elevate costs of \$2.5 million.
- In accordance with Statutory Accounting Principles and Association Policy, TWIA capitalizes certain external costs associated with large software development projects. Costs incurred after the planning stage are capitalized as a non-admitted asset, rather than being expensed. The costs are ultimately amortized over a five- year period beginning after the software is ready for use. The 2020 Budget assumed that external software costs would be expensed, pending confirmation of the accounting treatment and uncertainty around the start date of the development phase. The 2021 Budget will include the capitalization of software development costs associated with Project Elevate. The Association is under budget \$2.5 million due to this capitalization and \$1.2 million due to direct expense savings year to date.
- The year-to date operating expense ratio of 7.6% is below the budgeted ratio of 9.2%, and prior year's ratio of 7.7%. The YTD actual expense ratio without capitalization of software development costs is 8.5%.

Commission Expense and Premium Taxes:

- Commission expense of \$47.1 million was above budget by \$2.2 million as Direct Written premium exceeded budget.
- Total Premium taxes of \$5.5 million were slightly above budget by \$9,000.

Other Income (Expense):

- Gross investment income for the nine months ended September 30, 2020 totaled \$1.5 million which was \$4.0 million less than the budgeted amount of \$5.5 million. Investment income continues to lag budget expectations due to near zero investment yields associated with the recent pandemic event.
- Interest expense on Class 1 bonds was 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 in June to renew the \$500 million line of credit with JP Morgan Chase Bank and Bank of America. The monthly commitment fee of \$333,333 (80 basis points) is accrued each month while the commitment remains in place.

Net Income

- Net income for the nine months ended September 30, 2020 was \$43.5 million compared to the budgeted amount of \$61.5 million. Prior year-to-date net income of \$21.7 million was adversely impacted by a \$90.0 million reserve adjustment for Hurricane Harvey.

Surplus/(Deficit):

- The deficit as of September 30, 2020 improved to a negative \$144.2 million compared to a negative \$183.8 million at December 31, 2019. The deficit includes a reduction of \$3.9 million in 2020 due to the increase in non-admitted assets, which consists primarily of prepaid expenses for premium tax, Guidewire software, Eagleview (Inspections) and Expert Panel.

5B. Financial Statement Review by Staff

5B1. Income Statement and
Expense Statement

5B2. Balance Sheet

5B3. Cash & Short-Term Investments

5B4. Cash Flow Statement

5B5. Historical Data

	TEXAS WINDSTORM INSURANCE ASSOCIATION			
	Statutory Income Statement (000's omitted)			
	for the nine months ended September 30,			
	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019
Premiums Written:				
Direct	\$ 294,881	\$ 280,660	\$ 14,221	\$ 298,199
Ceded	(107,452)	(93,109)	(14,342)	(90,224)
Ceded - Depopulation	(740)	(1,415)	674	(1,456)
Net	186,689	186,136	553	206,519
Premiums Earned:				
Direct	\$ 276,510	\$ 269,574	\$ 6,936	\$ 287,595
Ceded	(71,634)	(62,072)	(9,562)	(60,149)
Ceded - Depopulation	(740)	(1,415)	674	(1,456)
Net	204,136	206,087	(1,952)	225,990
Deductions:				
Direct Losses and LAE Incurred	72,706	57,476	15,230	24,993
Direct Losses and LAE Incurred - Harvey	-	-	-	90,000
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(116)	(478)	362	(118)
Operating Expenses	21,042	24,730	(3,688)	22,192
Commission Expense	47,149	44,905	2,244	47,675
Ceding commissions / brokerage	(3,523)	(2,402)	(1,121)	(2,569)
Ceding commissions / brokerage - Depopulation	(178)	(340)	162	(349)
Premium / Maintenance Tax	5,537	5,528	9	5,686
Total Deductions	142,618	129,420	13,198	187,510
Net Underwriting Gain or (Loss)	61,518	76,667	(15,149)	38,480
Other Income or (Expense):				
Gross Investment Income	1,495	5,542	(4,047)	7,020
CRTF Funds Received	-	-	-	-
Member Assessment Income	-	-	-	-
Interest Expense on Debt	(17,313)	(18,600)	1,287	(21,772)
Debt Issuance/Maintenance & Other Investment Expenses	(2,239)	(2,063)	(177)	(2,055)
Other	-	-	-	43
Total Other Income or (Expense)	(18,057)	(15,120)	(2,936)	(16,764)
Net Income (Loss)	\$ 43,461	\$ 61,547	\$ (18,085)	\$ 21,716
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(183,792)	(183,792)	-	(277,864)
Net Income (Loss)	43,461	61,547	(18,085)	21,716
Change in Provision for Reinsurance	-	-	-	-
Change in nonadmitted assets - Other	(3,858)	(1,259)	(2,599)	(1,541)
Other	-	-	-	-
Statutory Fund Cost	-	-	-	(21,354)
Ending Surplus (Deficit)	\$ (144,188)	\$ (123,504)	\$ (20,684)	\$ (279,043)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	26.3%	21.3%	5.0%	8.7%
Hurricane Harvey	0.0%	0.0%	0.0%	31.3%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	26.3%	21.3%	5.0%	40.0%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	(0.1%)	17.9%
Non Acquisition	7.6%	9.2%	(1.6%)	7.7%
UW Expense Ratio	25.5%	27.1%	(1.7%)	25.6%
Combined Ratio	51.8%	48.5%	3.3%	65.6%
Net:				
Loss & LAE Ratio:				
Non Hurricane	35.6%	27.7%	7.9%	11.0%
Hurricane Harvey	0.0%	0.0%	0.0%	39.8%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	35.6%	27.7%	7.9%	50.8%
UW Expense Ratio:				
Acquisition	23.1%	22.7%	0.4%	21.9%
Non Acquisition	10.3%	12.0%	(1.7%)	9.8%
UW Expense Ratio	33.4%	34.7%	(1.3%)	31.7%
Combined Ratio	68.9%	62.3%	6.6%	82.5%

1	TEXAS WINDSTORM INSURANCE ASSOCIATION					1
2	Statutory Expense Report (000's omitted)					2
3	for the nine months ended September 30,					3
4						4
5	Description	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019	5
6	Personnel Expenses					6
7	Salaries & Wages - Permanent	\$ 8,866	\$ 9,285	\$ (418)	\$ 8,596	7
8	Contractor & Temporary Help	8,087	6,409	1,678	11,210	8
9	Payroll Taxes	660	745	(85)	640	9
10	Employee Benefits	3,292	3,238	54	3,278	10
11	Recruiting, Training & Other	101	271	(171)	215	11
12	Subtotal	21,006	19,949	1,057	23,939	12
13						13
14	Professional & Consulting Services					14
15	Legal	377	467	(90)	474	15
16	Accounting & Auditing	297	207	91	315	16
17	Information Technology	2,346	3,809	(1,463)	2,043	17
18	Actuarial Services	176	196	(20)	(20)	18
19	Ombudsman Program	127	114	13	132	19
20	Surveys & Inspections	985	1,151	(166)	1,163	20
21	Disaster Recovery Services	341	132	209	198	21
22	Other Services (1)	3,411	2,956	455	2,874	22
23	Subtotal	8,060	9,031	(971)	7,179	23
24						24
25	Hardware/Software Purchases & Licensing	2,351	2,516	(165)	2,331	25
26	Rental & Maintenance - Office/Equipment	976	1,015	(39)	956	26
27	Travel Expenses	57	255	(197)	154	27
28	Postage, Telephone and Express	694	918	(224)	722	28
29	Capital Management Expenses	13	18	(5)	1,846	29
30	Depreciation	21	21	(0)	12	30
31	Other Operating Expenses	848	815	33	803	31
32	Total Operating Expenses	\$ 34,026	\$ 34,537	\$ (511)	\$ 37,941	32
33						33
34	Capitalization of Fixed Assets	(2,513)	-	(2,513)	-	34
35	Reimbursement of Depop Servicing Expense	(60)	(88)	28	(89)	35
36	Allocation To ULAE	(10,183)	(9,491)	(691)	(13,606)	36
37	Allocation To Investing & Other Expense	(228)	(227)	(1)	(2,055)	37
38	Net Operating Expense - UW Operations	\$ 21,042	\$ 24,730	\$ (3,688)	\$ 22,192	38

(1) Summary Details for Other Services:

<u>VENDOR</u>	<u>Amount</u>	<u>Department</u>
Accenture	\$ 1,626	Expert Panel
Marshall & Swift/Boeckh	\$ 251	Underwriting
Call Center Expense	\$ 739	Claims & Underwriting
ISO Services Inc	\$ 119	Claims
Xactware User Fees	\$ 129	Claims
EagleView Technologies Inc	\$ 71	Claims
LogicGate Inc	\$ 44	Legal & Compliance
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
Lighthouse	\$ 15	Legal & Compliance
Iron Mountain Records Management	\$ 10	Operations
*Other Outside Services - Vendors below \$10K	\$ 246	Various departments
Total Other Services	\$ 3,411	

1	TEXAS WINDSTORM INSURANCE ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		<u>September-20</u>	<u>December-19</u>	5
6	Admitted Assets			6
7	Cash and short term investments:			7
8	Unrestricted	\$ 427,067	\$ 432,595	8
9	Restricted - Funds Held at TTSTC	\$ 66,163	\$ 82,016	9
10	Restricted - Funds Held at TTSTC (Non Admitted)	-	-	10
11	Total cash and short term investments	493,230	514,611	11
12	Premiums receivable & other	1,670	1,499	12
13	Assessment receivable	0	90,000	13
14	Amounts recoverable from reinsurers	799	7	14
15	Total admitted assets	<u><u>\$ 495,699</u></u>	<u><u>\$ 606,117</u></u>	15
16				16
17	Liabilities, Surplus and other funds			17
18	Liabilities:			18
19	Loss and Loss adjustment expenses	\$ 156,812	\$ 169,130	19
20	Underwriting expenses payable	12,748	9,962	20
21	Unearned premiums, net of ceded unearned premiums	168,049	185,495	21
22	Ceded reinsurance funds payable	50,663	22,560	22
23	Principal Outstanding on Class 1 Pre Event Bonds	227,200	318,600	23
24	Interest Payable on Class 1 Pre Event Bonds	4,686	13,142	24
25	Provision for reinsurance	-	-	25
26	Other payables	19,729	18,378	26
27	Statutory fund payable	-	52,641	27
28	Total liabilities	<u><u>639,888</u></u>	<u><u>789,909</u></u>	28
29				29
30	Surplus and others funds			30
31	Unassigned surplus	(144,188)	(183,792)	31
32	Total liabilities, surplus and other funds	<u><u>\$ 495,699</u></u>	<u><u>\$ 606,117</u></u>	32
33				33
34				34
35	Balance in CRTF	<u><u>\$ 178,361</u></u>	<u><u>\$ 122,496</u></u>	35
36				36
37	Balance in CRTF including Statutory fund payable	<u><u>\$ 178,361</u></u>	<u><u>\$ 175,137</u></u>	37

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments (\$ in 000's)
September 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
							< 40%	Superior or Strong	> 10%	> \$25B	
Balances as of 9/30/20:											
Bank of America, Operating	162	166,660	166,822	165,522	77	0.19%	39%	Superior	13.5%	\$197	No
BlackRock Liquidity Funds (1)	0	66,971	66,971	55,323	(1)	(0.01%)	16%	N/A	N/A	N/A	N/A
Citibank	3	17,185	17,188	60,551	12	0.08%	4%	Superior	13.9%	\$140	No
JP Morgan Chase	10,858	0	10,858				3%	Superior	15.6%	\$226	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	165,227	165,227	143,199	27	0.07%	39%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0				0%	Superior	13.7%	\$149	No
Total of all financial institutions	11,023	416,044	427,067	424,594	115	0.11%	100%				
Balances as of 6/30/20:											
Bank of America, Operating	162	151,268	151,431	159,131	85	0.21%	35%	Superior	12.3%	\$192	No
BlackRock Liquidity Funds (1)	0	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	0	70,810				16%	Superior	13.4%	\$205	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	90,191	90,191	148,743	52	0.14%	21%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0				0%	Superior	12.6%	\$147	No
Total of all financial institutions	70,975	367,040	438,015	428,329	194	0.18%	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 June 30, 2020. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.											

1	TEXAS WINDSTORM INSURANCE ASSOCIATION	1
2	Statement of Cash Flows (000's omitted)	2
3	for the nine months ended September 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 \$ 216,801 \$ 213,451 \$ 3,350	8
9	Losses and loss adjustment expense paid (85,700) (97,005) 11,305	9
10	Underwriting expenses paid (69,773) (73,036) 3,263	10
11	CRTF funds received - - -	11
12	Member assessment received 90,000 90,000 -	12
13	Other (878) (213) (665)	13
14	Net cash provided by operating activities 150,450 133,197 17,253	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 (27,790) (22,805) (4,984)	21
22	Net cash provided by investing activities (27,790) (22,805) (4,984)	22
23	Cash flows from financing activities:	23
24	Borrowed funds - - -	24
25	Borrowed funds repaid (91,400) (54,000) (37,400)	25
26	Net cash provided by financing activities (91,400) (54,000) (37,400)	26
27		27
28	Net increase (decrease) in cash and short-term investments (21,381) (43,875) 22,493	28
29	Cash and short-term investments, Beginning 514,611 514,611 -	29
30	Cash and short-term investments, Ending \$ 493,230 \$ 470,737 \$ 22,493	30
31		31

	TEXAS WINDSTORM INSURANCE ASSOCIATION												
	HISTORICAL DATA												
	1971 - 2020												
	(\$ with 000's omitted)												
	GROSS						NET						
	LIABILITY IN		RATE		WRITTEN		UNDERWRITING		UNDERWRITING				
	FORCE	POLICY	CHANGES		PREMIUMS	LOSS &	EARNED	LOSS &	EXPENSES	UNDERWRITING	CRTF BALANCE		
	END OF PERIOD	COUNT	RESID	COMML		LAE INCURRED	PREMIUMS	LAE INCURRED	INCURRED	GAIN (LOSS)	END OF PERIOD		
1	1971	\$ 278,710	13,415		\$ 2,393	\$ 92	\$ 868	\$ 92	\$ 385	\$ 391			1
2	1972	739,983	33,577		4,138	214	3,468	214	849	2,405			2
3	1973	1,017,048	45,743		4,286	1,427	4,288	1,427	1,099	1,763			3
4	1974	1,064,772	45,901		4,512	452	4,378	452	1,106	2,819			4
5	1975	1,169,763	46,365		6,036	592	5,263	592	1,417	3,254			5
6	1976	1,387,252	48,747		8,130	231	6,953	231	1,878	4,844			6
7	1977	1,616,220	51,382		9,922	203	9,080	203	2,258	6,619			7
8	1978	1,633,521	48,820		10,523	296	10,249	296	2,329	7,624			8
9	1979	1,816,410	46,128		11,045	2,370	11,039	2,370	2,178	6,490			9
10	1980	1,936,388	43,613		9,675	14,217	10,245	14,217	2,079	(6,051)			10
11	1981	2,105,244	42,495		9,137	2,715	9,313	2,715	2,097	4,501			11
12	1982	2,285,594	51,034		8,641	982	9,106	982	2,095	6,029			12
13	1983	2,165,231	44,894		6,900	157,112	7,585	157,112	1,937	(151,463)			13
14	1984	3,178,079	51,311		9,450	1,294	7,989	1,294	2,493	4,202			14
15	1985	4,061,660	57,181		18,232	1,510	3,534	1,510	3,638	(1,614)			15
16	1986	4,510,378	60,028		20,987	1,202	5,229	1,202	3,997	30			16
17	1987	4,401,486	57,976		20,532	2,555	4,931	2,555	4,091	(1,715)			17
18	1988	4,266,615	56,773	-5.4%	-15.0%	19,061	3,551	2,509	4,066	(3,024)			18
19	1989	4,236,600	55,401	-	-	18,066	5,330	14,176	4,037	(12,883)			19
20	1990	4,248,611	56,155	3.1%	-2.1%	18,244	16,761	1,590	4,171	11,000			20
21	1991	4,346,209	54,145	25.0%	-2.0%	20,504	7,167	1,783	4,343	1,042			21
22	1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	4,014	1,321	4,220	(1,527)			22
23	1993	6,500,165	56,921	30.0%	-	19,377	123,515	4,778	5,161	113,576			23
24	1994	7,645,176	63,348	-	-	26,545	25,692	1,572	6,982	17,138	124,847		24
25	1995	8,828,140	69,807	25.0%	-	32,419	29,016	4,033	8,119	16,864	151,284		25
26	1996	10,001,843	72,977	-	-	40,359	37,153	1,484	10,627	25,042	179,020		26
27	1997	10,907,937	75,361	-	-	42,463	41,045	4,133	11,038	25,874	216,896		27
28	1998	11,633,935	77,261	0.2%	-3.0%	44,411	28,256	27,235	12,181	(11,160)	238,221		28
29	1999	11,972,502	75,947	-9.4%	-	44,581	28,702	11,320	11,524	5,858	250,403		29
30	2000	12,052,604	73,815	8.7%	9.0%	48,012	28,470	7,937	11,681	8,852	268,563		30
31	2001	13,249,407	77,022	18.5%	4.0%	54,631	31,112	8,011	12,936	10,165	280,063		31
32	2002	16,003,048	85,668	-	5.0%	72,968	44,516	32,359	16,584	(4,427)	303,185		32
33	2003	18,824,457	96,420	-	10.0%	87,987	51,702	24,955	19,682	7,065	305,599		33
34	2004	20,796,656	103,503	9.6%	10.0%	102,384	52,230	6,115	21,911	24,204	308,729		34
35	2005	23,263,934	109,693	-	10.0%	113,928	65,438	178,370	25,277	(138,209)	311,508		35
36	2006	38,313,022	143,999	3.1%	13.4%	196,833	85,467	5,188	37,138	43,141	361,823		36
37	2007	58,641,546	216,008	4.2%	3.7%	315,139	135,843	17,985	51,768	66,090	388,542		37
38	2008	58,585,060	215,537	8.2%	5.4%	331,049	(138,560)	1,117,123	53,759	(1,309,442)	-		38
39	2009	61,700,891	230,545	12.3%	15.6%	382,342	389,600	(183,974)	87,899	485,675	-		39
40	2010	67,452,357	242,664	-	-	385,550	351,730	252,685	85,598	13,447	76,334		40
41	2011	71,083,333	255,945	5.0%	5.0%	403,748	321,781	202,539	81,665	37,577	146,650		41
42	2012	74,186,949	266,726	5.0%	5.0%	443,480	321,122	401,873	93,583	(174,334)	178,902		42
43	2013	76,921,369	270,814	5.0%	5.0%	472,739	295,130	30,975	100,524	163,631	186,184		43
44	2014	78,763,302	275,626	5.0%	5.0%	494,036	367,555	(13,994)	109,189	272,360	216,813		44
45	2015	78,551,742	272,219	5.0%	5.0%	503,824	377,594	178,886	114,973	83,736	487,170		45
46	2016	73,393,573	254,346	5.0%	5.0%	487,354	370,404	38,625	109,756	222,023	587,860		46
47	2017	65,023,810	231,567	-	-	423,074	347,354	1,475,302	97,878	(1,225,826)	1,220		47
48	2018	58,041,760	202,208	5.0%	5.0%	395,552	301,515	175,998	96,399	29,118	5,986		48
49	2019	55,189,815	189,203	-	-	372,017	287,477	113,398	92,415	81,664	122,496		49
50	2020	55,257,562	186,313	-	-	294,881	204,136	72,590	70,027	61,518	178,361		50
51	TOTAL					6,883,592	5,877,897	4,755,337	4,406,343	1,513,037	(1,164,044)		51
52													52
53													53
54													54
55													55
56													56
57													57
58													58
59													59
60													60
61													61
62													62
63													63

*2020 data through 09/30/20.

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		175,137		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		50,828		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)		318,600		47

7. Presentation by Willis Towers Watson Regarding the Rate and Model Analysis

8. Presentation and Review of TWIA Actuarial and Underwriting Committee Meeting Recommendations

There is no exhibit for this topic

9. Actuarial

9A. Reserve Adequacy



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: October 19, 2020

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of September 30, 2020

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

Hurricane Hanna made landfall on July 25, 2020 at Padre Island, Texas as a Category 1 hurricane. With 1,507 Hanna related claims reported to the Association as of November 17, the ultimate loss and expense estimate for Hanna is around \$16 million. Hurricane Laura made landfall on August 26 near Cameron, Louisiana as a Category 4 hurricane. As of November 17, 2020, 4,281 Laura related claims were reported to the Association and the total incurred loss and expense is estimated at \$36.9 million. Hurricane Delta made landfall near Creole, Louisiana on October 9, 2020 as a Category 2 hurricane, which brought 3,691 claims to the association as of November 17. Loss and Expense related to Hurricane Delta is estimated at \$34 million, which is not included in Q3 financials.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.67 billion to \$1.71 billion. I have observed consistent favorable loss and expense development since first quarter of 2020, but due to uncertainties surrounding disputed claims, 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 659 open claims, the outcome of disputed claims and the potential impact of future re-openings of closed claims as of September 30, 2020. 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 September 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 September 30, 2020, TWIA carried \$156.9 million in total gross loss and loss adjustment expense reserves with \$72K 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, Laura, Hanna 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: October 26, 2020

TO: Jerry Fadden, Chief Financial Officer

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

As of September 30, 2020, ultimate loss and loss adjustment expenses related to Hurricane Harvey were estimated to be in the range of \$1.67 to \$1.71 billion.

Estimated Ultimate Loss & LAE from Harvey	Low Estimate	High Estimate
Paid Losses and Allocated Loss Adjustment Expenses	1,496,049,503	1,496,049,503
Paid Unallocated Loss Adjustment Expenses	107,997,646	107,997,646
Loss and Allocated Loss Adjustment Expense Case Reserves	38,069,127	38,069,127
Incurred But Not Reported Reserve	23,755,879	71,267,637
Estimated Ultimate Loss & LAE from Hurricane	1,665,872,155	1,713,383,913
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 659 open claims, the potential impact of future re-openings of closed claims as of September 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 a reasonable estimate of the expected cost of Harvey based on all the information known as of September 30, 2020.

XL

9B. Policy Count/Exposures

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



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	9/30/19	9/30/20	Actual	Percentage	9/30/19	9/30/20	Actual	Percentage	9/30/19	9/30/20	Actual	Percentage
Aransas	5,078	5,202	124	2.40%	1,684,291,885	1,732,469,016	\$48,177,131	2.90%	9,935,526	10,186,924	\$251,398	2.50%
Brazoria	31,395	29,254	-2,141	-6.80%	9,177,155,557	8,583,961,574	-\$593,193,983	-6.50%	45,254,739	42,492,742	-\$2,761,997	-6.10%
Calhoun	3,549	3,550	1	0.00%	936,045,736	955,645,449	\$19,599,713	2.10%	5,800,773	5,830,244	\$29,471	0.50%
Cameron	11,299	10,080	-1,219	-10.80%	3,064,301,008	2,904,215,576	-\$160,085,432	-5.20%	16,147,181	15,371,400	-\$775,781	-4.80%
Chambers	4,128	3,885	-243	-5.90%	1,327,050,947	1,293,589,272	-\$33,461,675	-2.50%	6,351,708	6,154,726	-\$196,982	-3.10%
Galveston	57,565	58,076	511	0.90%	19,042,933,780	19,515,639,983	\$472,706,203	2.50%	104,258,858	106,445,966	\$2,187,108	2.10%
Harris	3,358	3,414	56	1.70%	1,009,302,668	1,048,882,613	\$39,579,945	3.90%	3,721,311	3,849,371	\$128,060	3.40%
Jefferson	25,257	24,651	-606	-2.40%	5,872,929,954	5,750,894,986	-\$122,034,968	-2.10%	33,412,773	32,746,663	-\$666,110	-2.00%
Kenedy	16	19	3	18.80%	6,300,341	6,863,326	\$562,985	8.90%	39,815	43,695	\$3,880	9.70%
Kleberg	835	767	-68	-8.10%	184,805,346	172,426,140	-\$12,379,206	-6.70%	1,052,775	997,465	-\$55,310	-5.30%
Matagorda	4,315	4,228	-87	-2.00%	1,085,186,708	1,080,953,478	-\$4,233,230	-0.40%	5,988,614	5,876,706	-\$111,908	-1.90%
Nueces	38,145	36,825	-1,320	-3.50%	10,652,578,285	10,489,081,240	-\$163,497,045	-1.50%	56,451,992	55,476,107	-\$975,885	-1.70%
Refugio	334	329	-5	-1.50%	92,195,523	91,787,540	-\$407,983	-0.40%	646,937	627,900	-\$19,037	-2.90%
San Patricio	5,949	5,687	-262	-4.40%	1,599,283,094	1,546,179,924	-\$53,103,170	-3.30%	8,543,915	8,206,293	-\$337,622	-4.00%
Willacy	357	346	-11	-3.10%	86,392,945	84,971,865	-\$1,421,080	-1.60%	596,060	578,663	-\$17,397	-2.90%
Total	191,580	186,313	-5,267	-2.70%	55,820,753,777	55,257,561,982	-\$563,191,795	-1.00%	298,202,977	294,884,865	-\$3,318,112	-1.10%

Texas Windstorm Insurance Association

Quarterly Liability Report

As of September 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	121	350	262	606	951,900	1,822,452	216,056,998	4,932,180	321	613
Manufactured Home	26	96	26	98	29,446	124,823	5,562,582	0	107	108
Residential	1,572	4,061	1,651	4,272	3,222,618	8,239,649	1,510,849,436	125,967,431	4,774	5,021
Total	1,719	4,507	1,939	4,976	4,203,964	10,186,924	1,732,469,016	130,899,611	5,202	5,742
Brazoria										
Commercial	222	657	355	1,028	1,126,597	3,612,574	378,287,692	7,834,339	704	1,122
Manufactured Home	47	132	47	132	76,205	208,214	10,132,950	0	156	157
Residential	8,660	23,477	8,874	24,101	14,567,163	38,671,954	8,195,540,932	1,053,686,373	28,394	29,171
SUM:	8,929	24,266	9,276	25,261	15,769,965	42,492,742	8,583,961,574	1,061,520,712	29,254	30,450
Calhoun										
Commercial	69	157	153	310	434,435	956,219	101,869,449	2,068,295	183	369
Manufactured Home	24	61	25	62	29,477	83,497	3,929,234	0	70	71
Residential	1,119	2,765	1,227	3,066	1,955,144	4,790,528	849,846,766	70,407,103	3,297	3,646
SUM:	1,212	2,983	1,405	3,438	2,419,056	5,830,244	955,645,449	72,475,398	3,550	4,086
Cameron										
Commercial	232	623	401	1,184	1,477,589	6,350,126	1,042,200,802	6,314,795	606	1,208
Manufactured Home	24	48	24	48	23,767	48,852	2,296,344	0	53	53
Residential	2,929	7,932	3,010	8,081	3,433,711	8,972,422	1,859,718,430	192,979,756	9,421	9,627
SUM:	3,185	8,603	3,435	9,313	4,935,067	15,371,400	2,904,215,576	199,294,551	10,080	10,888

Texas Windstorm Insurance Association

Quarterly Liability Report

As of September 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
Chambers										
Commercial	43	87	58	116	216,681	418,637	44,885,538	617,900	88	133
Manufactured Home	11	20	11	20	8,688	15,532	1,466,447	0	25	25
Residential	1,166	3,163	1,220	3,301	2,149,028	5,720,557	1,247,237,287	163,496,612	3,772	3,951
SUM:	1,220	3,270	1,289	3,437	2,374,397	6,154,726	1,293,589,272	164,114,511	3,885	4,109
Galveston										
Commercial	666	1,734	1,040	2,893	5,703,845	18,914,372	2,269,891,611	48,256,254	1,837	3,335
Manufactured Home	97	180	98	182	92,510	203,373	10,045,298	0	206	208
Residential	17,702	46,925	18,232	48,532	33,297,855	87,328,221	17,235,703,074	1,912,417,305	56,033	58,038
SUM:	18,465	48,839	19,370	51,607	39,094,210	106,445,966	19,515,639,983	1,960,673,559	58,076	61,581
Harris										
Commercial	19	48	40	85	151,465	327,369	35,886,576	491,130	55	97
Manufactured Home	2	4	2	4	2,670	3,383	135,300	0	4	4
Residential	1,071	2,761	1,088	2,839	1,357,215	3,518,619	1,012,860,737	130,950,135	3,355	3,431
SUM:	1,092	2,813	1,130	2,928	1,511,350	3,849,371	1,048,882,613	131,441,265	3,414	3,532
Jefferson										
Commercial	231	573	378	838	1,153,888	2,668,855	279,580,634	9,416,490	637	956
Manufactured Home	8	26	8	26	14,880	48,663	2,137,000	0	30	30
Residential	7,669	20,346	7,829	20,796	11,489,605	30,029,145	5,469,177,352	690,444,000	23,984	24,525
SUM:	7,908	20,945	8,215	21,660	12,658,373	32,746,663	5,750,894,986	699,860,489	24,651	25,511

Texas Windstorm Insurance Association

Quarterly Liability Report

As of September 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
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	9	17	10	27	10,917	30,403	6,168,885	35,600	18	32
SUM:	9	18	10	32	10,917	43,695	6,863,326	35,600	19	37
Kleberg										
Commercial	9	34	13	54	39,127	126,231	12,829,737	550,800	36	58
Manufactured Home	0	2	0	2	0	3,613	144,500	0	2	2
Residential	236	615	255	650	328,488	867,621	159,451,903	16,585,944	729	766
SUM:	245	651	268	706	367,615	997,465	172,426,140	17,136,744	767	826
Matagorda										
Commercial	55	142	76	231	222,738	643,076	75,284,290	1,911,585	166	265
Manufactured Home	6	17	6	17	8,825	25,288	1,406,907	0	21	21
Residential	1,339	3,487	1,376	3,616	1,943,011	5,208,342	1,004,262,281	101,606,228	4,041	4,184
SUM:	1,400	3,646	1,458	3,864	2,174,574	5,876,706	1,080,953,478	103,517,813	4,228	4,470
Nueces										
Commercial	653	1,668	1,065	2,890	3,634,442	10,145,096	1,430,765,295	37,061,139	1,745	3,245
Manufactured Home	10	22	10	22	13,793	31,741	1,209,000	0	23	23
Residential	10,797	29,469	11,060	30,445	17,089,048	45,299,270	9,057,106,945	1,009,478,603	35,057	36,146
SUM:	11,460	31,159	12,135	33,357	20,737,283	55,476,107	10,489,081,240	1,046,539,742	36,825	39,414

Texas Windstorm Insurance Association

Quarterly Liability Report

As of September 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	10	29	23	53	130,620	184,044	19,134,583	0	32	59
Manufactured Home	5	16	6	19	9,578	27,614	1,251,304	0	17	20
Residential	87	245	99	279	160,160	416,242	71,401,653	6,971,662	280	315
SUM:	102	290	128	351	300,358	627,900	91,787,540	6,971,662	329	394
San Patricio										
Commercial	74	229	95	368	214,624	919,926	102,393,227	3,373,155	235	403
Manufactured Home	7	25	7	25	9,016	39,866	1,719,156	0	27	27
Residential	1,594	4,556	1,647	4,738	2,567,365	7,246,501	1,442,067,541	169,172,634	5,425	5,621
SUM:	1,675	4,810	1,749	5,131	2,791,005	8,206,293	1,546,179,924	172,545,789	5,687	6,051
Willacy										
Commercial	15	27	20	41	82,657	118,504	13,976,615	98,550	32	60
Manufactured Home	0	4	0	4	0	5,200	208,000	0	4	4
Residential	119	279	132	300	206,885	454,959	70,787,250	5,131,255	310	328
SUM:	134	310	152	345	289,542	578,663	84,971,865	5,229,805	346	392
Total All Counties										
Commercial	2,419	6,359	3,979	10,702	15,540,608	47,220,773	6,023,737,488	122,926,611	6,678	11,928
Manufactured Home	267	653	270	661	318,855	869,659	41,644,022	0	745	753
Residential	56,069	150,098	57,710	155,043	93,778,213	246,794,433	49,192,180,472	5,649,330,641	178,890	184,802
SUM:	58,755	157,110	61,959	166,406	109,637,676	294,884,865	55,257,561,982	5,772,257,252	186,313	197,483

9C. Maximum Liability Limits Filing - Update

There is no exhibit for this topic

10. Internal Audit

10A. Internal Audit Status Report

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: December 8, 2020

SUBJECT: Status of Internal Audit Activities

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

➤ **Current Activities:**

Activity Description	Status
Internal Audit Risk Assessment and Updated Internal Audit Plan	Update and plan complete – submitted for Board discussion
Depopulation	Report issued
Office Facilities	Report issued
Database Security, Administration and Recovery	Report in process
Claims Processing	Report issued
Financial Close and Reporting	Report in process
Reinsurance	Report in process
Model Audit Rule	Fieldwork in process
Legal & Compliance	Fieldwork in process

➤ **Upcoming Audits and Activities:**

Activity Description	Timing
Communications & Legislative Implementation	December 2020
Confirm 2021 Audit Schedule	December 2020
Disaster Recovery	December 2020

➤ **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

10B. Risk Assessment and Audit Plan



Texas Windstorm Insurance Association Risk Assessment and Internal Audit Plan Update

December 8, 2020



Risk Assessment Process

- ✓ **Purpose:** The accompanying risk assessment has been completed for the purpose of developing an internal audit plan. This risk assessment, therefore, is not an enterprise wide risk assessment, which may consider other risk characteristics.
- ✓ Risk Assessments:
 - Are required by professional internal audit standards
 - Allows internal audit to focus its resources on the areas of greatest risk
 - Results in a comprehensive internal audit plan that identifies the specific areas of internal audit focus over a period of time
 - The frequency of internal audits performed is based on the risk assessed, risk trends and other qualitative factors

Risk Assessment Update Process



- Reviewed results of prior risk assessments as benchmark criteria for the update
 - Received input from the Executive Leadership Team
 - Reviewed financial risks, process documentation, and strategic initiatives
 - Considered industry best practices
-
- Evaluated inherent risk of probability and impact
 - Considered current and anticipated business changes
 - For key operating areas, evaluated financial/transaction significance and risk trends
 - Considerations included the current control environment: staffing, policies, culture, anticipated changes in the environment
 - Assessed the degree of legal/regulatory compliance requirements
-
- Summarized risk ratings by business process area
 - Developed internal audit plan for 2021, 2022 and 2023 to monitor and mitigate process risks

Weaver observed the following organizational culture characteristics while developing the Risk Assessment and Audit Plan:

- ✓ Tone-at-the-top fosters strong control-focused culture
- ✓ Management thoughtfully discussed the risk assessments with Weaver for each business process area
- ✓ Policyholder communications – the Association is proactive in outreach to Texas communities about coverage and protecting property from loss
- ✓ Prior audits indicate internal controls are effective:
 - 2020 audits include: Underwriting, Depopulation, Reinsurance, Claims, Facilities and Services, Financial Close and Reporting, and Database and Application Administration processes
 - Financial statements are audited annually by a third-party

Risk Assessment Definitions

Risks were evaluated based on inherent versus residual risk

Inherent Risk: The natural risk (exposure) in the significant activities of the organization ***without consideration of internal controls*** or other actions that mitigate risk.

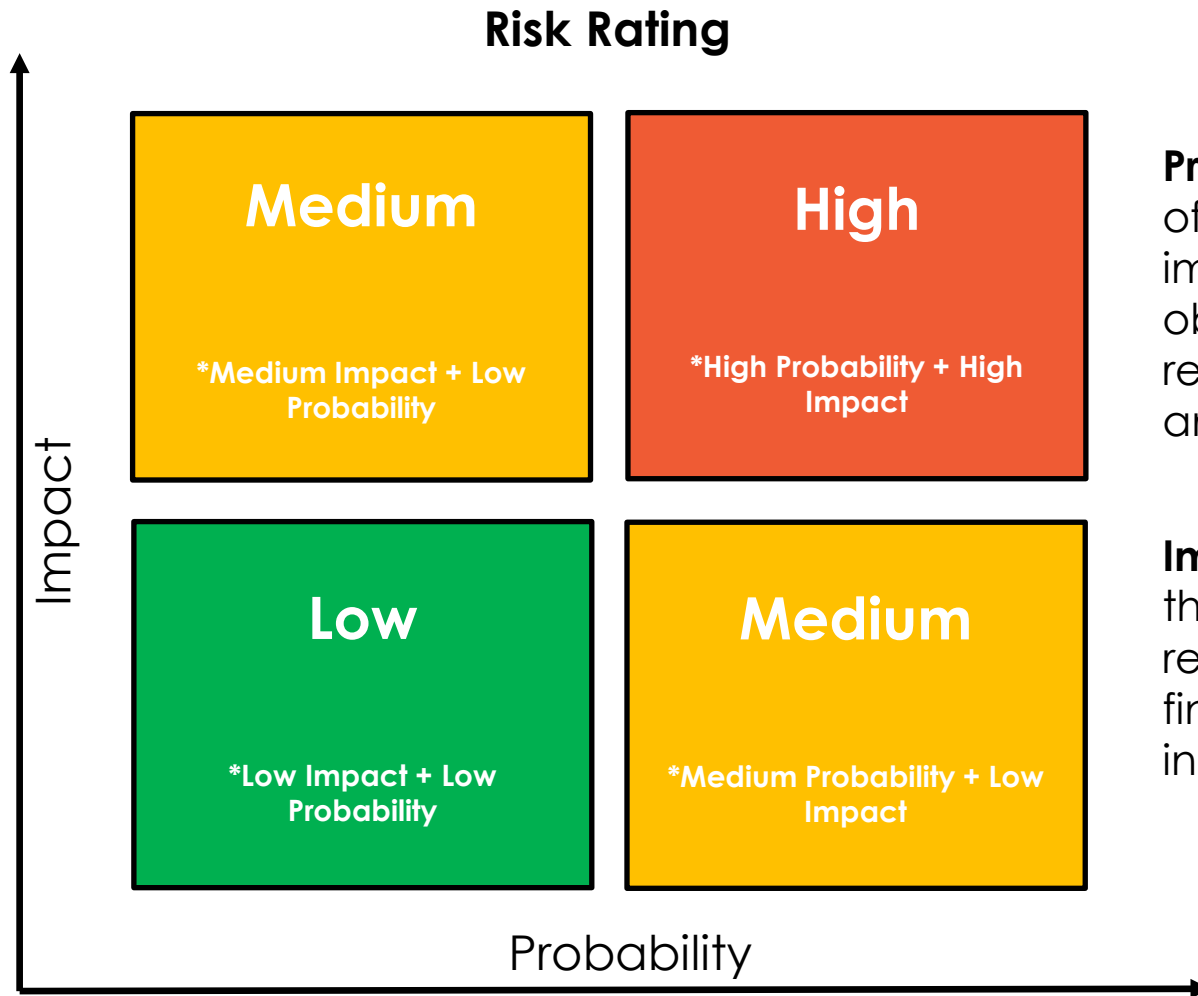


Vs.



*The Inherent Risk Assessment was used in developing the proposed areas of the internal audit plan. The plan is subject to review and approval of the Board.

Risk Rating (Probability & Impact)



Probability – The likelihood of an event occurring that impacts achieving the objectives over financial reporting, compliance and/or operations.

Impact – The consequence the event has on operations, reputation, compliance, financial reporting and information technology.

*High risk areas are more likely to be included in the 3 year audit plan.

Risk Assessment Results

2020 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Information Security	<ul style="list-style-type: none"> • Mobile Security / BYOD • Logical Access (Database, OS, Application) • Physical Access • Cybersecurity 	High	High	High	Increasing	Risk is trending higher due to the velocity and evolution of cyber threats.
Claims Processing	<ul style="list-style-type: none"> • Intake/FNOL Process • Triage/Assign Claim • Investigate Claim • Evaluate Claim • Resolve Claim • Recover Damages • Compliance (Legislative & TDI Regulations) • Litigation/Disputed Claims • Quality Assurance • Vendor Management 	High	High	High	Stable	Claims must be responded to and processed in accordance TDI regulatory guidelines and are subject to TWIA policy manual guidelines. There is a heavy dependency on system application for claims processing and settlement. There is also a dependency on third-party adjusters in the event of a named storm or hurricane, whereby these resources may not be available should more than one whether even occur in the Gulf or Atlantic seaboard. Overall risk remains high with a stable trend.
Reinsurance	<ul style="list-style-type: none"> • Execution of Agreements • Billing and Recoverables • Risk Transfer • Reinsurer Management (credit risk monitoring) 	Moderate	High	High	Increasing	Risk trending higher due to hardening market and decline in reinsurance capacity for catastrophic risks.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2020 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Database and Application Administration	<ul style="list-style-type: none"> • Database Administration • Application Management • Systems Administration • Report Administration • Software Licensing and Usage 	High	High	High	Stable	Risk is stable due to the reliability of data reporting tools for business operations and strategic planning.
Communications	<ul style="list-style-type: none"> • Legislative Affairs • Agent Communications • Branding (Reputation Management) • Internal Communications and Coordination • Organizational Change Management • Digital Media • Media Relations • Community Outreach • Website Updates • Implementation of Legislative Changes 	Moderate	High	High	Stable	Communication requirements are demanding, though processes are stable and adequately meet demands of stakeholders. The department is well staffed and its functions and responsibilities are well defined.
Actuarial (Pricing and Reserving)	<ul style="list-style-type: none"> • Rate Adequacy • Case Reserving • Data Capture and Accuracy • IBNR Estimation • Premium Rate Changes • Reporting and Analytics 	Moderate	Moderate	High	Stable	Overall risk trend is stable. Reserves have heavy reliance on data accuracy and assumptions used in determining final estimates. Also, there are pricing challenges and complexities in deriving assumptions used in the reserve estimation processes.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2020 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Legal & Compliance	<ul style="list-style-type: none"> • Complaint Process (Administrative Code) • Contracts Management Process (New or Renewal) • Conflict Disclosures / Ethics Process • 3rd Party (Vendor, Policy Holder) Fraud Reporting Process • Records Retention Process • Public Information / Open Records • E-discovery • Association Policy Management • Filings (Policy Forms & Endorsements, TDI, non-financial statement) • Sanctions Checking Process- FCPA/OFAC Compliance • Vendor Management Process (Including Due Diligence) 	Moderate	Moderate	High	Stable	Risk is stable due to meeting legal and compliance demands is not over burdensome and the department is adequately staffed.
Underwriting	<ul style="list-style-type: none"> • Application & Quoting Process • Policy Issuance Process (includes Billing) • Agent Registration • Policy Eligibility Determination Process • Fraud Reporting Process • Inspection Process • Agent Commissions • Agency mergers • Risk Evaluation and Pricing Process • QA/Audit Process • Policyholder/Agent Complaint Process • Appeal Process 	High	Moderate	Moderate	Stable	Overall policy counts are trending lower along with written premium, though not significantly. Depopulation contributes to this trend. Underwriting and quoting processes are stable, though system application enhancements are in process to gain further efficiencies which increases the direction of the risk.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2020 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Executive Management, Management Planning and Reporting	<ul style="list-style-type: none"> • Plan of Operation • Operational Planning and Reporting • Board Reporting • Strategic Planning and Execution • CAT (Operations) and Business Continuity Planning • Disaster Recovery Planning (IT) • Pandemic • Talent Retention • Customer Communications and Service Delivery • Succession Planning 	Moderate	Moderate	Moderate	Increasing	Higher risk trend due to impending changes to the Plan of Operation, difficulty retaining top talent due to strong job market and planning for succession for the existing strong management team.
Financial Close and Reporting	<ul style="list-style-type: none"> • Period End Closing Process • Expense Allocation • Statutory Financial Statement Preparation • GASB Compliance • TDI / Statutory Data Calls • General Ledger Recording and Maintenance • Account Reconciliations • Fixed Assets • Escheatment/Unclaimed Property • Debt Arrangements • Revenue Recognition 	Moderate	Moderate	Moderate	Stable	Though changes have occurred with accounting staff, key accounting management personnel remain in place and stable. There have been no significant changes in accounting standards. The department is adequately staffed to perform required controls.
Accounts Payable and Expense Processing	<ul style="list-style-type: none"> • Vendor Management (Set-up & Payments) • Accounts Payable Processing (Invoice Routing and Approval) • Check Disbursements • Expense Coding • Employee Expense Reimbursement • Company Credit Card Processing • One Time Payments via Company Credit Cards 	Moderate	Moderate	Moderate	Stable	Vendor management software has been implemented to centralize controls over contract monitoring. No other significant changes to processes or systems. Also, no other internal and/or external factors currently exist that impact the risk trend.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2020 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Application Development	<ul style="list-style-type: none"> System Development Life Cycle Project Management Office / Life Cycle 	Moderate	Moderate	Moderate	Stable	Updated management software is used to make revisions to systems and applications over core business functions. Risk trend is stable.
Information Technology Services	<ul style="list-style-type: none"> Network Security/Operations (including Monitoring, Tools, Data Security) Help Desk Change Management Website Maintenance Hardware Management IT Vendor Management 	Moderate	Moderate	Moderate	Stable	Risk remains stable given the information technology environment, including age of existing software and hardware.
Depopulation	<ul style="list-style-type: none"> Voluntary Depopulation Assumption Reinsurance Journal Entries to Remove Underwriting Activity 	High	Moderate	Low	Decreasing	The Depopulation requirements and associated risks are relatively static, except for potential Legislative changes which may impact Depopulation in the future. Current trend remains stable.
Human Resources Administration	<ul style="list-style-type: none"> Recruiting/Selection Benefits Management Compensation Management Onboard/Offboarding Termination Process Complaints, Grievances, and Disputes (Employment) Privacy and Employee Compliance 	Low	Low	Moderate	Increasing	Currently, there is a high demand for experienced talent coupled with low supply of qualified candidates. This has created a very competitive retention landscape. This environment creates more challenges in employee retention coupled with increased compensation cost.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Trend ¹
		2016	2019	2020		
Payroll	<ul style="list-style-type: none"> • Timekeeping and Approval • Payroll Adjustments (Manual) • Payroll Process and Disbursement • Payroll Taxes • Compliance Reporting • Distributions & Voluntary Deductions 	Low	Low	Low	Stable	New Applications are in place coupled with more automated and integrated platforms in ADP. Also, no other internal and/or external risk factors exist that impact risk trend. The number of employees is stable with relatively low turnover.
Facilities and Services	<ul style="list-style-type: none"> • Building Access & Physical Security • Mail and Routing • Facilities Maintenance • Events/Training Management • Premises Insurance (COVID) 	Low	Low	Moderate	Stable	The Association is proactive in updating policies to address internal and external risk factors, including new CDC guideline that address pandemic related exposures. Risk trend has stabilized while the overall risk level is increased due to potential exposure to illness, as is the case with most office environments.
Cash Management	<ul style="list-style-type: none"> • Banking General • Lockbox • Credit Cards • Wire Transfers • Void Stop Payments • Positive Pay • Cash Forecasting • Bank Account Reconciliation • Cash and Cash Equivalent Investments Management • Funding Stack Execution 	Low	Low	Moderate	Stable	New bank and collection processes further strengthen existing internal controls. Balances can change significantly due to weather related events. The current risk environment is stable.
Taxes	<ul style="list-style-type: none"> • Premium Taxes • Tax Preparation and Compliance 	Low	Low	Low	Stable	No changes in system applications, processes, regulations or personnel. The overall risk environment remains stable.
Accounts Receivable	<ul style="list-style-type: none"> • Billing • Collections and Deposits • Customer Account Maintenance • Past Due A/R, Non-admitted and write-offs • Refunds • System Reconciliation 	Low	Low	Low	Stable	Receivable balances are trending down, which is reflected in the written premium trend. No other internal and/or external factors currently exist that impact the risk trend.

¹ Risk trend includes both internal and external factors.

Audit Plan 2021-2023

- The proposed **audit plan has been** developed using results of the Risk Assessment and considered:
 - Audit frequency was determined based on:
 - Risk trend
 - Results of past audits
 - Changes in the control environment
 - New software applications
 - Other qualitative factors



Proposed Three Year Audit Plan

Process Area	2020 Inherent Risk Rating	2018	2019	2020	2021	2022	2023
Information Security	High	x			x		
Claims Processing	High		x	x		x	
Reinsurance	High			x		x	
Database and Application Administration	High			x			x
Communications	High	x		x		x	
Actuarial (Pricing and Reserving)	High	x			x		
Legal & Compliance	High	x		x			x
Underwriting	Moderate	x		x			x
Plan Of Operation	Moderate				x		
Depopulation	Moderate			x		x	
Business Continuity of Operations	Moderate		x			x	
Governance	Moderate				x		
Financial Close and Reporting	Moderate			x			
Disaster Recovery	Moderate			x			
Accounts Payable and Expense Processing	Moderate		x				x
Application Development	Moderate	x				x	
Information Technology Services	Moderate					x	
Vendor Management	Moderate		x		x		
Human Resources Administration	Moderate		x				x
Facilities and Services	Moderate			x			x
Cash Management	Moderate	x			x		
Fraud Risk Assessment	Low				x		x
Taxes	Low				x		
Accounts Receivable	Low		x				x
Payroll	Low		x				x

Discussion



11. Underwriting

11A. Operational Review Update



MEMORANDUM

DATE: November 24, 2020
TO: John Polak, General Manager
FROM: Denise Larzalere, Vice President Underwriting
RE: Update on Underwriting Operational Highlights

Third 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 98% of all transactions processed within 10 days. Over 80% of new business and 94% of renewals were 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. Due to the COVID-19 health crisis, we have suspended interior inspections and are following recommended and required health guidelines to complete exterior inspections as needed.

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 beginning with March 1, 2020 effective dates. Early



numbers indicate a substantial percentage of renewals were paid from the policyholder or mortgage company directly to TWIA (62% as of October), 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, we implemented a new process with appropriate form changes and communications in October.
- ii. In addition to implementing process and form updates, an amendment to the Plan of Operations will be filed.

c. Change Detection Reports and leveraging technology and machine learning to review our book of business

- i. Over the past year we have been working with our vendor EagleView to leverage some new information/processes that are now available.
- ii. We have incorporated Change Detection Reports in our underwriting processes to electronically review structures for eligibility and insurability in advance of every renewal.

d. Implementation of a new Payment Lockbox

- i. Partly prompted by the pandemic, we implemented a new payment lockbox so that payments can now be applied in most cases the day they are received. This increases the customer experience and reduces operating costs.

III. Agency Compliance Audits:

a. Audits were performed on 20 agents (200 policies) in the third quarter to verify compliance with the declination of coverage and flood insurance requirements. All 20 agents responded.

- i. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage.
- ii. One of the policies/properties selected for review required flood insurance and was compliant.
- iii. All 20 agents have an active property and casualty insurance license.

12. Claims and Litigation

12A. Claims Operations

TWIA Claims Operations 2020

TWIA Claims - 2020 Results (through Q3)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.3	2.9	<3	-0.1	-3%
Inspect Property to Receipt by TWIA	3.4	2.1	<8	-5.9	-74%
Total Cycle Time FNOL to Payment	N/A	9.8	<12	-2.2	-14%
TDI Complaint Ratio					
2019	0.60% - 40 complaints from 6,704 new claims				
2020	0.13% - 12 complaints from 9,399 new claims				

Year	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Actual Volume	312	197	205	340	955	561	1,245	2,776	2,808
Actuarial Projected	599	418	418	1,379	1,379	409	400	400	574
Median Staffing	417	417	417	417	417	417	417	417	417
Open Inventory	1,656	1,596	1,526	1,256	1,661	1,243	1,958	5,078	6,379

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	9,399

12B. Litigation Report



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Litigation Tracking Activity

Litigation Quarter Summary Third Quarter 2020

3rd Quarter 2020	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	July	3	0	22
	Aug	3	0	16
	Sept	4	0	13
		10	0	51

3rd Quarter 2020	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	July	11	0	32
	Aug	10	0	29
	Sept	6	0	22
		27	0	83



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Claims Litigation September 2020

Sep-20	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	8	0	0	8
	HB3	420	4	(13)	411
	TOTAL	428	4	(13)	419

Sep-20	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	245	6	(22)	(4)	225
	TOTAL	245	6	(22)	(4)	225

Sep-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	364	42	170	30	606	3	2	22	3	30	636
TOTAL	366	48	170	30	614	3	2	22	3	30	644	



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Sep-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County													
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Willacy	Grand Total
	80	20	9	25	2	77	15	145	4	171	8	49	1	606

Sep-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Daly & Black	284
	Furlow Law Firm	36
	Carrigan & Anderson	35
	Scott Law	25
	Baker Law	25
	Brent Coon & Associates	17
	Omar Ochoa Law Firm	17
	Chad T. Wilson	10
	Lane Law Firm	10
	Hodge Law Firm	7
	Buzbee Law Firm	6
	Remaining 74 firms	134
	TOTAL	606

13. TWIA Operations

13A. IT Systems Update



MEMORANDUM

DATE: December 7, 2020

TO: John Polak, General Manager

FROM: Camron Malik, CIO / VP IT

RE: TWIA Information Technology status

The TWIA Elevate program continues to make progress with the Policy, Billing, Enterprise Data Warehouse, Portals and Data Migration projects in the Construction phase of the lifecycle, where active development is ongoing. The Claims project will enter Construction phase within the next couple of weeks. The teams are making excellent progress and are focused on maintaining their velocity. The Elevate program is the effort to move off multiple legacy systems to a single instance platform based on common hardware and core applications.

The Legislative Implementation Program (LIP) with support for installments and credit cards was successfully deployed on November 18th.

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 continues to support remote work with excellent quality. All technology support and projects are on-track.

13B. Depopulation

There is no exhibit for this topic

13C. Plan of Operation



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

DATE: November 18, 2020

TO: John Polak
General Manager

FROM: David Durden
Vice President, Legal and Compliance

RE: Plan of Operation

In September 2020, the Texas Department of Insurance invited TWIA staff to participate in a project to revise and update the TWIA Plan of Operation (Plan). TWIA staff and outside counsel are meeting regularly with TDI staff and conducting a comprehensive review of the Plan. The goal is to streamline the Plan as much as possible, incorporate provisions necessitated by changes to statutes governing TWIA and make the Plan easier to navigate and understand. As part of this process the working group's review includes consideration of the changes recommended by the TWIA Board of Directors in its filing submitted May 2016.

The revision project contemplates a two-phase approach to the adoption of the Plan of Operation. We are working on both phases concurrently.

The first phase consists of reorganizing the Plan of Operation, publishing a table of contents and requesting comments from the public on the reorganization. The project is in the middle of the first phase. TDI published the revised table of contents in October and has requested that interested parties provide comments no later than December 15, 2020. A copy of the request for informal comments and the reorganized table of contents are enclosed.

The second phase of the revision project consists of rewriting, streamlining and updating the contents of the Plan. The working group is currently reviewing and revising each section of the Plan. Once this review and revision process is complete the working group will incorporate comments received on the table of contents as deemed appropriate and then publish the revised Plan for informal comment.



I anticipate that once the revisions are substantially developed, we will need to discuss the revisions at a future Board meeting. My expectation is that the project will not be completed earlier than the third quarter of 2021. I will continue to keep you apprised of all developments regarding the project.

13D. Communications Update

MEMORANDUM

DATE: November 18, 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) Engagement with legislative offices increased in Q3 2020 over Q2. While offices continue to be primarily focused on issues pertaining to the COVID-19 pandemic and related economic conditions, they have begun to increase the range of topics on which they are prepared to communicate as the 87th Legislative Session approaches. Going into the last quarter of 2020, we plan to meet virtually with several legislative offices to discuss the recommendations in the Association's 2020 Biennial Report.

In late July, TWIA Board Chair Chandra Franklin Womack, John Polak, David Durden, and I met with Senators Larry Taylor and Juan "Chuy" Hinojosa and Chairman Todd Hunter and their staff members to discuss TWIA's annual rate filing decision. We agreed to regularly meet with this "legislative working group" to discuss TWIA's funding and rates and potential legislative solutions in advance of the upcoming session. The legislators communicated their interest in moving forward productively with TWIA on the issue of rates, and we will be ensuring they are kept informed on any related activities. We have had three virtual meetings with them to date as part of these discussions.

We continue to keep interested legislators informed about our rate adequacy evaluations and rate-setting process, including the work done by Willis Towers Watson and have provided them with information on the Association's response to the multiple storms impacting the coast this hurricane season.

Exhibits listing the legislative and regulatory meetings attended in Q3 2020 and details of those meetings are enclosed with this summary.

- b) Based on discussions with multiple legislative offices, we can confirm that the two Legislative Oversight Boards tasked with studying TWIA in the interim between legislative sessions will defer their work due to the COVID-19 crisis. However, pre-filing of legislation for the upcoming session opened on November 9, and we have already seen a few bills filed that would affect TWIA if enacted.

Based on legislation filed so far and our discussions with the working group and other offices, there is legislative interest for some kind of statewide risk sharing in regard to residual windstorm insurance. Proposals in this area include extending TWIA coverage to fire and tornado risks in

other parts of the state, a merger of TWIA and TFPA, and/or a statewide surcharge to replace TWIA's public security funding layer. It is too early to predict what proposals, if any, will gain enough support to be enacted or how much attention TWIA-related issues will receive. While rates and funding remain key issues for coastal legislators, legislative bandwidth used on other priorities may preclude progress on TWIA-related legislation.

- c) Rep. Dade Phelan, whose district includes a small portion of Jefferson County, is likely to be elected Speaker of the House for the upcoming session. We met with Rep. Phelan's staff in early November to brief them on our progress on claims arising from Hurricanes Laura and Delta. Also of note, former Insurance Commissioner Julia Rathgeber is expected to serve as Speaker Phelan's chief of staff.
- d) From July 1 through September 30, 2020, we received and responded to 17 legislative, one regulatory (one from TDI on behalf of agent Cathy Newsom), and 11 coastal/industry stakeholder inquiries (five from the Insurance Council of Texas, two from Independent Insurance Agents of Texas, one from Galveston Insurance Associates, one from Focused Advocacy (a lobbyist group), one from Texas Farm Bureau Insurance, and one from Borden Insurance).
- e) 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 implement all the remaining legislative provisions enacted in 86th legislative session. *Updated exhibits on the implementation of the specific provisions of House Bill 1900 and Senate Bill 615 are enclosed.*
- b) Q3 Communications & Legislative Affairs (CLA) activities in support of the implementation of legislative provisions include the following:
 - i. In support of changes to TWIA's Assumption Reinsurance Depopulation Program, CLA made updates to the TWIA website, including an amended timeline for the program based on the changes required by Senate Bill 615. CLA also drafted communications for agents and insurance carriers to help them understand the legislative changes to the process.
 - ii. CLA continued to support the implementation of credit card and installment payments by:
 - 1. Creating stakeholder communications and training plans and sending communications to agents and employees to make them aware of the upcoming changes to policyholder payments, including online and installment payments.
 - 2. Meeting with ACI, TWIA's online payments vendor, along with the project team to give them requirements for the online payment site.
 - 3. Reviewing the new online payment website and customer notifications to ensure adherence to Association branding and messaging.

4. Designing a new online payments landing page (www.twia.org/payments) with information on the upcoming changes required by legislation and all agent and policyholder payment options, including a convenient link to the secure third-party payment portal.
- c) CLA responded to requests for information on legislative implementation from the following stakeholders between September and October 2020. *Our responses are enclosed.*
- i. House Insurance Committee
 - ii. State Auditor's Office
 - iii. Texas Sunset Commission

III. Hurricane Preparedness & Coastal Outreach

- a) We experienced multiple storms during Q3 2020 that necessitated various communications to our stakeholders both before and after the events. As in-person coastal outreach remains suspended due to the COVID-19 pandemic, we have relied more heavily on the use of digital channels to keep stakeholders informed about how to prepare for and what to do following a storm. This has allowed us to reevaluate and refine our approach to stakeholder storm communications and helped us put in place a template for communications that we can replicate for future storms.
- i. After Hurricane Hanna made landfall in late July, and before Hurricane Marco in August, we communicated to agents encouraging them to prepare before a hurricane by verifying policyholder contact information in Policy Center, confirming insured property information, and reviewing coverages with their clients. The specific calls to action to confirm certain property information were based on Agent Advisory Group (AAG) feedback received prior to the hurricane season.
 - ii. Throughout the 2020 hurricane season, we continually updated agents about the status of moratoriums issued in response to the storms based on another recommendation provided by the AAG following Hurricane Harvey.
 - iii. In early August, we launched a dedicated Hurricane Laura claims webpage (www.twia.org/laura) to provide claimants information specific to the storm. It was rebranded in September to www.twia.org/2020storms, following Tropical Storm Beta, to be more inclusive of the multiple storm events impacting the Texas coast.
- b) Because of the COVID-19 pandemic, we continue to focus additional effort on connecting with our policyholders through social media. To increase engagement and help drive traffic to our website, we have updated the type of content we are posting on Facebook. We also shared our first posts on Nextdoor, a community-centered social media platform that allows us to potentially reach more than 250,000 residents in our coverage area. We are conducting a campaign on this platform to raise awareness about how policyholders can make the most of their TWIA policy.

IV. Media Relations

- a) Media coverage in Q3 2020 continued to be lower in volume and less negative than for the same period for the last two years. Factors contributing to this include a less severe hurricane season and reduced media activity by legislators and other stakeholders on the annual rate consideration process. Outside factors such as COVID-19 and the national election may also play a role in decreased media attention on the Association.
 - i. Media coverage during this period – in order of prevalence – was focused on:
 - 1. Hurricanes and hurricane preparedness: Coverage of TWIA’s response to this season’s storm events was generally neutral to positive and often included TWIA messaging on how policyholders should file claims.
 - 2. Rates: Coverage of the rate considerations process was more neutral than last year. This is attributed to more regular TWIA media outreach on this issue and reduced media outreach activity on this issue by legislators and other stakeholders.
 - 3. Funding/reinsurance: There was a small amount of negative coverage in the insurance trade press on the expense of TWIA’s 2020 reinsurance program.
- b) Media outreach during the quarter was primarily focused on meetings of the Board and Actuarial & Underwriting Committee, along with outreach on the claims process for those impacted by storms.
- c) The overall sentiment of TWIA coverage during this quarter was 79.5% positive/neutral and 20.5% negative. This compares to 53% positive/neutral in Q3 2019.

V. Agent Advisory Group

- a) At the request of the AAG at their July 16 meeting, TWIA staff developed a task force of agents to discuss best practices for condominium association and unit owner policies and claims. In early October, staff from the Underwriting, Claims, and Legal & Compliance departments met with the agents to discuss their questions about condominium policy coverage and pain points with the claims handling process.
 - i. Based on these discussions, staff identified several short- and long-term solutions to address the questions and concerns brought up by the AAG members, including creating additional informational materials for agents and condominium policyholders, potential policy form revisions to clarify coverage, Underwriting team refresher training on condominium policies, and the ability for agents to request consultation on condominium policies from staff subject matter experts. The AAG supported these solutions, and we will be working to implement them over the next year.
- b) The AAG met on October 13 for their Q4 2020 meeting. The topics discussed at the meeting included the premium payment changes being implemented as required by Senate Bill 615, the Association’s response to multiple storm events during the 2020 hurricane season, and



noteworthy Underwriting updates about changes impacting agents. During the meeting we also discussed the following:

- i. **2020 Biennial Report:** Staff provided the AAG members with a copy of the Association's 2020 report. The AAG members commended the Board on the report and were appreciative of the level of involvement they were able to have related to the legislative recommendations being considered by the Board.
- ii. **Credit Card Payments:** Staff provided updates about the various premium payment changes being implemented this year as a result of legislative changes and answered some of the questions about credit card payments the AAG members had from the July meeting when information about this topic was initially introduced to the group.



Q3 2020 Legislative & Regulatory Meetings

Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
July 2020			
Texas Department of Insurance (TDI)	TDI Consumer Protection Staff	Staff representing Claims, Underwriting, Legal & Compliance, and Communications & Legislative Affairs	Conducted virtual presentations between late June and early July on TWIA's operations, focused on those areas, including Underwriting and Claims operations, mostly likely to generate questions or complaints in the event of a major storm.
Sen. Larry Taylor, Cari Christman, Sen. Juan "Chuy" Hinojosa, Luis Moreno, Rep. Todd Hunter, Angie Flores		Chandra Franklin Womack, John Polak, David Durden, and Jennifer Armstrong	Met to discuss annual rate filing consideration process and provide an update on the actions of the Actuarial and Underwriting Committee.
Attending: <ul style="list-style-type: none"> • Rep. Joe Deshotel • Jesse Sifuentez, Speaker Dennis Bonnen • Sergio Cavazos, Rep. Eddie Lucio, III • Lauren Fleming, Lt. Governor Dan Patrick • Shane Saum, Rep. Geanie Morrison • W. Dennis Isaacs, Golden Triangle Business Roundtable • Jerry Alvarez, Unaffiliated 		David Durden, Jennifer Armstrong, Denise Larzalere, Jerry Fadden, Jim Murphy, and 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 and updates on our Q2 operational activities.
August 2020			
Texas Department of Insurance (TDI)	TDI Consumer Protection Staff	Staff representing Legal & Compliance and Communications & Legislative Affairs	Met with TDI staff the day after Hurricane Laura to coordinate information sharing and issue resolution management for this storm and other potential storms during the 2020 hurricane season.
September 2020			
Texas Department of Insurance (TDI)	TDI Staff	David Durden, Jennifer Armstrong, and David Williams	Met with TDI staff to discuss potential claim deadline extensions in response to recent storms.
Rep. Eddie Lucio, III	Sergio Cavazos	David Durden and Jennifer Armstrong	Met to discuss 2014 bond disclosure, storm response and updates, and the



Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
			status of the legislative oversight board studies.
Rep. Abel Herrero	Miguel Liscano	David Durden, Jennifer Armstrong, and Anna Stafford	Met to discuss the TWIA Actuarial and Underwriting Committee meeting, the WTW report, storm response and updates, and the status of the legislative oversight board studies.
Senate Business & Commerce Committee	Mattie Heith	David Durden, Jennifer Armstrong, and Anna Stafford	Met to discuss the TWIA Actuarial and Underwriting Committee meeting, the WTW report, 2014 bond disclosure, storm response and updates, and the status of the legislative oversight board studies.
Rep. Ed Thompson	Molly Wilson	David Durden, Jennifer Armstrong, and Anna Stafford	Met to discuss the TWIA Actuarial and Underwriting Committee meeting, the WTW report, storm response and updates, and the status of the legislative oversight board studies.
Sen. Larry Taylor, Cari Christman, Sen. Juan “Chuy” Hinojosa, Luis Moreno, Rep. Todd Hunter, and Angie Flores		Chandra Franklin Womack, John Polak, David Durden, and Jennifer Armstrong	Met to discuss TWIA’s use and collection of secondary risk characteristics and WTW’s report.
Rep. J. M. Lozano	Matt Lamon	David Durden, Jennifer Armstrong, and Anna Stafford	Met to discuss the TWIA Actuarial and Underwriting Committee meeting, the WTW report, storm response and updates, and the status of the legislative oversight board studies.
Rep. Greg Bonnen	Justin Till	Jennifer Armstrong and Anna Stafford	Met to discuss the TWIA Actuarial and Underwriting Committee meeting, the WTW report, storm response and updates, and the status of the legislative oversight board studies.
Rep. Mayes Middleton	Andrew Harrell	David Durden, Jennifer Armstrong, Jim Murphy, and Anna Stafford	Provided a general TWIA overview, including funding and rates, and discussed the Actuarial and Underwriting Committee meeting and WTW report.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
Texas Department of Insurance (TDI)	TDI Staff	David Durden, Jennifer Armstrong, and David Williams	Met with TDI staff to continue discussion of claim deadline extensions in response to recent storms.



Q3 2020 Legislative & Regulatory Meeting Summaries

July 2020

- TWIA Board Chair Chandra Franklin Womack and John Polak, David Durden, and Jennifer Armstrong met virtually with Senators Larry Taylor and Juan “Chuy” Hinojosa and Chairman Todd Hunter in late July to discuss the annual rate filing consideration process. We provided an update on the actions of the Actuarial & Underwriting Committee and what TWIA staff has been doing to support their efforts throughout this process. Coastal legislators communicated their interest in moving forward productively with TWIA on the issue of rates, and we will be ensuring they are kept informed on any related activities.
- Members of TWIA’s Executive Leadership Team held our routine quarterly legislative briefing ahead of the August Board meeting for legislative staffers. The discussion focused on those Board meeting agenda items likely to be of interest to the Legislature as well as updates on our Q2 2020 operational activities. Rep. Joe Deshotel also attended and provided brief comments at the start of the discussion against a potential TWIA rate increase.

August 2020

- Communications & Legislative Affairs and Legal & Compliance staff met with TDI’s consumer affairs staff the day after Hurricane Laura to coordinate information sharing and issue resolution following this storm and potential future storms during the 2020 hurricane season. We updated TDI on where they and consumers could be directed to find information about TWIA’s storm response and claim filing instructions. We plan to work together to more quickly resolve any frequent questions or stakeholder issues that arise following a major storm event.

September 2020

- David Durden, Jennifer Armstrong, and Dave Williams met with the Texas Department of Insurance (TDI) at the beginning of September to discuss the potential need to extend claim deadlines for policyholders impacted by Hurricane Laura. Legislation passed by the 86th Legislature allows the Commissioner of Insurance to extend policyholder deadlines for good cause at his discretion. While policyholders with replacement cost value coverage have up to 545 days to submit their proof of repairs to the Association to recoup the recoverable depreciation on their claim and preserve their appraisal deadline, policyholders with actual cash value coverage only have 60 days to request appraisal unless the deadline is extended. During the meeting, we agreed to a temporary hold on requesting an extension, so we could observe the volume and types of claims received from the storm. TDI proactively requested information on policyholders with actual cash value and increased cost of construction coverage who had filed claims for Hurricanes Hanna and Laura, so they could act more quickly if an extension was requested. After reviewing and following up with policyholders who filed claims for Hurricanes Hanna and Laura, we determined that there is currently no need to request an extension of the claim deadlines.



- David Durden and Jennifer Armstrong met with Sergio Cavazos, Legislative Director and House Insurance Committee Clerk for Rep. Eddie Lucio, III (Cameron County), to cover a number of operational updates, including our response and claim updates related to Hurricanes Hanna and Laura. Mr. Cavazos reported that Rep. Lucio, III had been approached by agents concerned about the length of the policy moratorium for Hurricane Laura, and we explained the policy moratorium requirements as well as the unique circumstances that resulted in the prolonged moratorium for the storm. We also went over the high-level points from WTW's report and information about the upcoming Actuarial & Underwriting Committee meeting. We explained WTW's report results in rate inadequacy for the Association in the double-digits. Mr. Cavazos mentioned that his office had been approached by members of the insurance industry who were interested in proposing a bill that would replace TWIA's debt funding layers with funding obtained through a statewide surcharge. He agreed to provide us with any additional information or draft legislative language he received related to this idea.
- David Durden, Anna Stafford, and Jennifer Armstrong met with Miguel Liscano, Senior Policy Analyst for Rep. Abel Herrero (Nueces County), prior to the Actuarial & Underwriting Committee meeting to provide information about the meeting and the information included in WTW's report. Mr. Liscano had questions about the possible actions of the Committee and how the scheduling of an interim Board meeting would work if it were to occur. We also provided him with an update on TWIA's response to Hurricanes Hanna and Laura and asked about any information needs Rep. Herrero had. Mr. Liscano commented that he wasn't aware of any current needs, but Rep. Herrero's focus remains on ensuring TWIA can be responsive to our policyholders and able to deliver service to policyholders efficiently and cost-effectively.
- David Durden, Anna Stafford, and Jennifer Armstrong met with Senate Business & Commerce Committee Clerk Mattie Heith to provide updates on the WTW report and hurricane response updates. The Business & Commerce Committee is chaired by Sen. Kelly Hancock, (Dallas and Tarrant Counties) who is also the Co-Chair of both legislative oversight boards tasked with studying TWIA. Ms. Heith informed us that the Senate is awaiting guidance from leadership about how to move forward with hearings and requests for information during the COVID-19 pandemic, and in this environment, it is likely the merger and funding studies authorized by House Bill 1900 would need to be deferred. Ms. Heith agreed to let us know if anything changed related to the studies.
- David Durden, Anna Stafford, and Jennifer Armstrong met with Molly Wilson, Chief of Staff for Rep. Ed Thompson (Brazoria County), to provide an update on the upcoming Actuarial & Underwriting Committee meeting and the information included in WTW's report as well as hurricane response updates.
- Board Chair Chandra Womack, John Polak, David Durden, and Jennifer Armstrong met for the second time with Sen. Juan "Chuy" Hinojosa (Nueces County), Sen. Larry Taylor (Galveston County), Rep. Todd Hunter (Nueces County), and their legislative staff prior to the September 22 Actuarial & Underwriting Committee meeting. In the meeting, the legislators recommended that TWIA defer any further consideration of a rate increase this year and to work cooperatively with them in the months leading up to and during the upcoming session to discuss potential legislative solutions.



- David Durden, Anna Stafford, and Jennifer Armstrong met with Matt Lamon, Chief of Staff for Rep. J.M. Lozano (Kleberg and San Patricio Counties), the day after the Actuarial & Underwriting Committee meeting. We provided him with an update on the outcome of the meeting as well as the information included in WTW's report. We also provided updates on Hurricanes Hanna and Laura and Tropical Storm Beta which had recently made landfall Monday of that week. Rep. Lozano is Chair of the House Environmental Regulation Committee, and Mr. Lamon commented the Committee is finding it challenging to move forward with their business due to the pandemic. He agreed due to these challenges the studies of TWIA are likely to be deferred due to other legislative priorities.
- Anna Stafford and Jennifer Armstrong met with Justin Till, Chief of Staff for Dr. Greg Bonnen (Galveston County), to discuss the outcome of the Actuarial & Underwriting Committee meeting and WTW report. In our discussions about WTW's report recommendations, Mr. Till noted that Dr. Bonnen is interested in looking at strategies that take a big picture approach to TWIA's funding challenges. For example, Dr. Bonnen is interested in legislative changes that would serve to lower TWIA's loss obligations by strengthening building code standards to increase the resiliency of coastal properties. We mentioned that our Biennial Report included a recommendation on Fortified Home construction which may be of interest to him. Mr. Till reiterated what we had heard from other legislative offices about the studies of TWIA being deferred until after the upcoming legislative session due to COVID-19. He asked if we had seen any impact on premium payments due to the pandemic. We informed him about the payment leniency program put into place for policyholders impacted by the pandemic and explained that due to the need to implement the program quickly, we hadn't included reporting functionality in the updates to our system.
- David Durden, Anna Stafford, and Jennifer Armstrong met with Andrew Herrell, Legislative Director for Rep. Middleton, to provide information about the Association's funding structure, rate filing process, and the most recent events related to the WTW report and the Actuarial & Underwriting Committee. Based on a constituent inquiry related to a mortgage company issue, Mr. Herrell also brought up TWIA's policy moratorium process and asked us to explain how it works related to storm events and issuing policies. As Rep. Middleton has mentioned his concerns about the inadequacy of virtual meetings for public comment related to rate increases, citing Texans' widespread inaccessibility to broadband internet, we let Mr. Herrell know members of the public are able to speak at TWIA Board and Committee meetings using a touchtone phone. Mr. Herrell explained that Rep. Middleton feels strongly about the public's ability to weigh in on important issues in person rather than virtually and this extends to other entities besides TWIA.
- David Durden, Jennifer Armstrong, and Dave Williams met with TDI again on September 30 to provide updated claim counts for Hurricanes Hanna and Laura and inform them that we'd be holding off on requesting any extensions of the claim deadlines, but would revisit with them if factors arose, such as contractor and supply shortages, necessitating extensions focused on claims with actual cash value coverage. We also discussed changes made in the claims process as a result of lessons learned from Harvey.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Legislative Implementation Program

Provision Status as of November 18, 2020

House Bill 1900			
Legislative Change	Effective Date	TWIA Status	TDI Status
Use of Premiums <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. 	June 10, 2019	In Compliance	N/A
Emergency Board Meeting for Planned Member Company Assessment <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 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. The Commissioner of Insurance approved the assessment on January 10, 2020. 	June 10, 2019	In Compliance	N/A
ITV Determination <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. 	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
Certificates of Compliance for Completed Improvements <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"> TDI has assumed responsibility for the issuance of Certificates of Compliance for completed improvements as of June 1, 2020. 	June 1, 2020	In Compliance	Transition Complete

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



Legislative Implementation Program

Provision Status as of November 18, 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 and received and acknowledged receipt of a training manual. 			
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 began accepting premium payments from policyholders by credit card and in installments on November 19, 2020 prior to the January 1, 2020 deadline. 	January 1, 2021	In Compliance	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 8, 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"> TDI has assumed responsibility for the issuance of Certificates of Compliance for completed improvements as of 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 and 2020 rate adequacy analyses 14 days ahead of the August Board meetings at which the required annual rate filings were 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 went into effect. 	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 17, 2020. The new rules will apply to the fifth round of the program, which is now underway. TDI approved TWIA's amendments to the program on September 23, 2020. 	March 31, 2020	In Compliance	TDI Rules Approved



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Texas Windstorm Insurance Association

House Insurance Committee Request for Information

Jennifer Armstrong
Vice President, Communications &
Legislative Affairs
September 8, 2020



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Texas Windstorm Insurance Association Interim Charges

House Bill 1900 Implementation Status

The 86th Legislature, Regular Session passed two major bills impacting TWIA's operations—Senate Bill 615 (TWIA's Sunset Bill) 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 provisions of House Bill 1900 and the Association's actions and progress in implementing them.

Underwriting and Policy Administration

Insurance to Value Determination

Effective Date: January 1, 2020

Determination of replacement cost value at the time of policy issuance.

- 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

Effective Date: June 1, 2020

Transfer of the WPI-8-C process to TDI with additional modifications designed to strengthen oversight over the process.

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

Claims Handling and Deadlines

Claim Deadline Extensions

Effective Date: September 1, 2019

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.

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

Replacement Cost Coverage Claims

Effective Date: January 1, 2020

Modifications to deadlines and processes related to the payment of replacement cost coverage claims.

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

Transparency

Rate Adequacy Analysis

Effective Date: June 10, 2019

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.

- TWIA posted its 2019 and 2020 rate adequacy analyses by the required deadlines ahead of the August Board meetings at which the required annual rate filings were considered. Public comments on the Association's rate adequacy analyses have been accepted in writing and in person at all applicable meetings of the Board of Directors since the law passed.



Funding

Emergency Board Meeting for Planned Member Company Assessment **Effective Date: June 10, 2019**

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.

- 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.

Member Company Purchase of Reinsurance

Effective Date: June 10, 2019

New requirement that TWIA assess member companies for any purchase of reinsurance above the 1-in-100-year funding requirement.

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

Use of Premiums

Effective Date: June 10, 2019

New requirement clarifying TWIA's use of premiums and reserves for the payment of storm losses.

- 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.

Legislative Oversight Boards

Funding Study

Due: November 15, 2020

Creates the Legislative Funding and Funding Structure Oversight Board to submit a report by November 15, 2020.

- TWIA is prepared to assist the Legislative Oversight Board in its deliberations and has worked with the Legislative & External Affairs Committee of the TWIA Board of Directors to include information on the Association's funding and possible funding solutions for consideration by the Legislature in its 2020 Biennial Report.

Merger Study

Due: January 1, 2021

Requires the Windstorm Legislative Oversight Board to evaluate a merger of TWIA and TFPA and submit a report by January 1, 2020.

- TWIA is prepared to assist the Legislative Oversight Board in its deliberations.

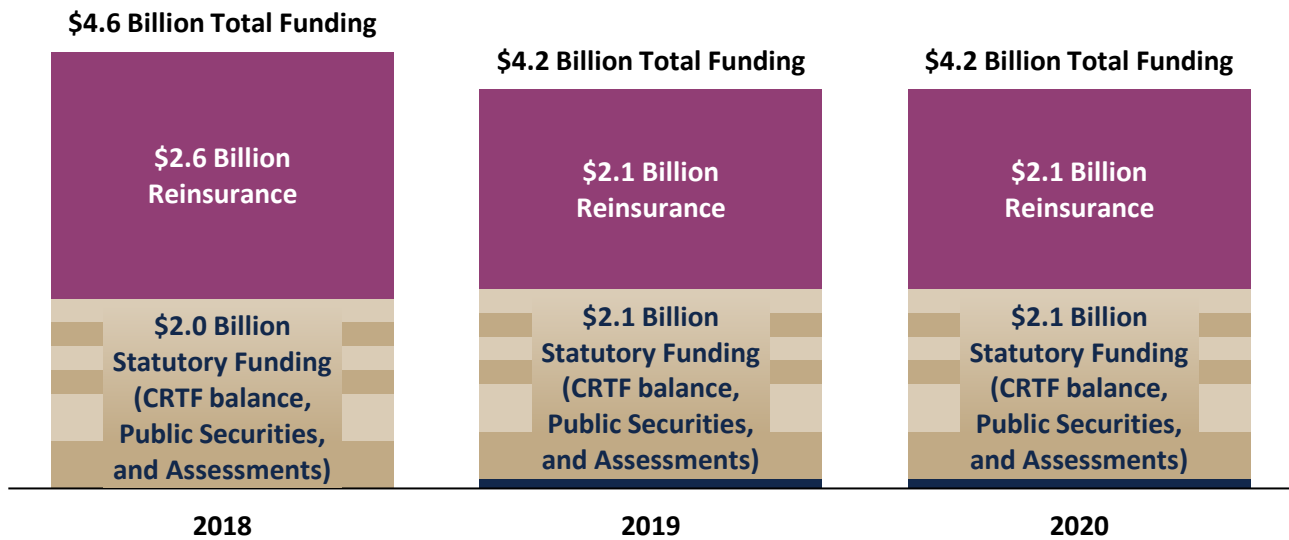
Texas Department of Insurance Rulemaking and Plan of Operation Updates

Senate Bill 615 authorizes TWIA to propose to the Texas Department of Insurance rules (TDI) that govern TWIA's core operations and requires TDI to begin its review process within 30 days. To date, TWIA has not proposed any rules to TDI. TWIA's Plan of Operation is in [Texas Administrative Code](#), Title 28, Chapter 5, Subchapter E. TWIA and TDI are developing plans to review previously filed revisions to the Plan of Operation and additional revisions necessitated by legislation enacted by the 86th Texas Legislature.



2020 Hurricane Season Funding and Purchase of Reinsurance

TWIA has secured a total of \$4.2 billion in funding for the 2020 hurricane season. This is equal to the minimum funding level required by Texas Insurance Code, Section 2210.453. No reinsurance was purchased in excess of the minimum required funding level. The total reinsurance in place for 2020 is \$2.1 billion, which is unchanged from 2019 and less than 2018 as shown in the funding comparison below:



TWIA filed for a 0% change in its annual rate filings in both 2019 and 2020.

2020 Hurricane Season Response

TWIA's preparation for the 2020 hurricane season has been shaped by the COVID-19 pandemic.

- Recognizing the impact of the pandemic on our coastal communities, we introduced social distancing and safety protocols to our claim handling process, which included issuing guidelines field adjusters must follow to ensure the safety of policyholders and themselves during claims inspections.
- The Association is also offering no-contact and low-contact options for claim processing using existing technology, including allowing policyholders to virtually document internal damage to their property without the need for an adjuster to enter the home.

So far during the 2020 hurricane season, TWIA has responded to two storm events—Hurricanes Hanna and Laura. Neither was as significant as Hurricane Harvey in terms of claim volume or expense.

Hurricane Hanna Update

- TWIA's CAT Plan was activated and TWIA ceased issuing new business and increased coverage requests the morning of Saturday, July 25 in response to Hurricane Hanna.
- The storm made landfall in an area 15 miles north of Port Mansfield.
- The policy moratorium was subsequently lifted the morning of Sunday, July 26 as it no longer posed a threat to property in TWIA's coverage area.
- Based on the storm's intensity and track, claim volume has been minimal. As of August 31, 2020, TWIA has received 1,358 claims from the storm and made \$3.9 million in claim payments.
- The initial estimate of ultimate loss for the storm is \$18 million. This estimate is based on the windspeeds reported for the storm in the coverage area, TWIA's policies in force in the impacted areas, and initial ground reporting and field adjuster reports. The estimate is subject to significant variability as we receive more claim information.

Hurricane Hanna Claim Information¹

	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	1,358	112	1,188	4	54
Closed Claims	467	38	373	2	54
% Closed Claims	34.4%	33.9%	31.4%	50.0%	100.0%
Paid to Policyholders	\$3,933,964	\$392,486	\$3,530,660	\$10,817	–
Avg. # Days: FNOL² to Pay	11.9	21.8	11.3	14.1	–
TDI Complaints	1				
Complaint Ratio	0.074%				

¹ As of September 1, 2020

² FNOL - First Notice of Loss



Hurricane Hanna Claims by County

County	New Claims	Closed Claims	Paid to Policyholders	Average Paid
Aransas	19	10	\$89	\$89
Brazoria	32	17	\$38,179	\$3,182
Calhoun	5	3	\$2,808	\$1,404
Cameron	390	102	\$1,017,357	\$5,244
Chambers	1	1	–	–
Galveston	22	10	\$15,630	\$2,605
Harris	2	1	\$4,395	\$4,395
Jefferson	3	1	\$3,913	\$3,913
Kenedy	8	1	\$122,860	\$24,572
Kleburg	49	10	\$282,494	\$8,071
Matagorda	7	3	\$14,568	\$4,856
Nueces	562	225	\$891,364	\$5,036
Refugio	1	0	–	–
San Patricio	36	12	\$67,981	\$6,798
Willacy	167	17	\$1,472,324	\$10,084
No Policy	54	54	–	–
Total	1,358	467	\$3,933,964	\$6,634

Hurricane Laura Update

- TWIA activated our CAT Plan in response to the developing Tropical Depression 14 (future Hurricane Marco) and Tropical Storm Laura on Friday, August 21.
- TWIA ceased issuing new business and increased coverage requests in response to Hurricane Marco's development on Sunday, August 23 and continued once Laura was upgraded to a Hurricane on Tuesday, August 25.
- While Hurricane Marco quickly lost strength before reaching the Texas coast, Hurricane Laura ultimately strengthened to a Category 4 hurricane before making landfall near the border of Texas and Louisiana.
- The Association had been preparing for a significant claim generating event along the lines of 25,000-30,000 claims based on the projected storm path and policy counts, however, the storm's track ultimately shifted eastward toward Louisiana in the early hours of Thursday, August 27, largely sparing TWIA's coverage area.
- The policy moratorium for Hurricane Laura remained in effect until 12:01 a.m. on Saturday, August 29 when it was determined the storm no longer posed a threat to property in the Association's coverage area.
- As of September 7, 2020, TWIA has received 3,210 claims from the storm and made \$1.19 million in claim payments. The vast majority of claims are from Jefferson County.



- The Association has not yet developed an estimate of ultimate loss and loss adjustment expense for Hurricane Laura, as we await the receipt of more complete claim reports.

Hurricane Laura Claim Information³

	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	3,210	54	3,154	2	0
Closed Claims	64	0	64	0	0
% Closed Claims	2.0%	–	2.0%	–	–
Paid to Policyholders	\$1,189,401	–	\$1,189,401	–	–
Avg. # Days: FNOL ⁴ to Pay	7.5	–	7.5	–	–
TDI Complaints	0				
Complaint Ratio	0.000%				

Hurricane Laura Claims by County

County	New Claims	Closed Claims	Paid to Policyholders	Average Paid
Aransas	–	–	–	–
Brazoria	2	1	–	–
Calhoun	–	–	–	–
Cameron	5	0	–	–
Chambers	3	1	–	–
Galveston	21	5	–	–
Harris	–	–	–	–
Jefferson	3,178	57	\$1,189,401	\$5,456
Kenedy	–	–	–	–
Kleburg	–	–	–	–
Matagorda	–	–	–	–
Nueces	1	0	–	–
Refugio	–	–	–	–
San Patricio	–	–	–	–
Willacy	–	–	–	–
No Policy	–	–	–	–
Total	3,210	64	\$1,189,401	\$5,456

³ As of September 7, 2020

**Sunset Advisory Commission Recommendations
Texas Windstorm Insurance Association**

We will be reviewing the following Sunset recommendations:

Implementation Status of Sunset Advisory Commission Management Actions				
Texas Windstorm Insurance Association				
Issue Number	Management Action	Implementation Status	Implementation Date Or Expected Implementation Date	Comments
2.4	Direct TWIA to establish and submit to the commissioner of insurance separate insurance agent commission rates for new applications and automatic renewals, but only after TWIA has implemented Recommendations 2.1, 2.2, 2.3, and 2.5.	Incomplete / Ongoing	After January 1, 2021	TWIA has implemented two of the dependent recommendations (2.1 and 2.5) and is in the process of implementing the remaining two (2.2 and 2.3) by the statutory deadline of 1/1/2021. Staff intends to collect agent feedback and data on the utilization of the new payment methods by policyholders for a reasonable period following implementation to make a report to the Board regarding the efficacy of the four new processes. This data will be necessary for the Board of Directors to make an informed recommendation to the Commissioner regarding separate commission rates for new and renewal business.
2.5	Direct TWIA to directly bill customers for premiums for automatic renewal by January 1, 2020.	Fully Implemented	January 1, 2020	TWIA implemented Recommendation 2.5 on January 1, 2020. The direct bill option applied to policy renewal offer packages mailed on January 1, 2020.
3.3	Direct TWIA to track and report more comprehensive information regarding claims handling performance.	Substantially Implemented	November 22, 2019	TWIA has implemented more comprehensive information to track and report claim handling performance, including claim status, payments, and disputes, and continues to refine this reporting in response to claim generating events.

3.4	Direct TWIA to develop a post-hurricane communication plan with more input from stakeholders.	Substantially Implemented	July 1, 2021	<p>TWIA is in various stages of completion of several efforts to gather and integrate stakeholder input into our catastrophe response communications plan, including: improving the clarity and readability of claims process communications, creating a policyholder experience group, adding additional offline advertising to reach policyholders in impacted areas, and incorporating feedback from stakeholders regarding our response to hurricanes during the 2020 and prior storm seasons.</p>
3.5	Direct TWIA to fully implement a risk-based approach to monitoring insurance adjusters.	Fully Implemented	May 31, 2019	<p>TWIA developed and implemented a quality assurance process to monitor insurance adjusters which is documented in the Association's Catastrophe Incident Response Plan.</p>
New Recommendation	Direct TWIA to make the assumptions used and results of anticipated loss modeling available on its website and in the board materials before consideration of any rate changes or purchases of reinsurance.	Substantially Implemented	July 22, 2019	<p>TWIA first made the model assumptions and results related to rate analysis available on our website and provided it to the Board of Directors on July 22, 2019, two weeks ahead of the Board's August meeting in which it considered the Association's annual rate filing. Updated information for the Board's 2020 rate filing decision was posted on TWIA's website on July 21, 2020.</p> <p>The assumptions and model results underlying our reinsurance purchase were included in the Board materials posted on the website immediately before the February 2020 Board meeting. The Association will continue to provide this information in Board materials and plans to post it to the website in advance of the annual reinsurance purchase on a going forward basis beginning in 2021.</p>

Implementation Status and definitions:

- Fully Implemented: Successful development and use of a process, system, or policy to implement a management action.
- Substantially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a management action.
- Incomplete/Ongoing: Ongoing development of a process, system, or policy to address a management action.
- Not Implemented: Lack of a formal process, system, or policy to address a management action.

Implementation Chart
Texas Windstorm Insurance Association

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 5, Line 24 to Page 6, Line 24; Page 7, Lines 15–16, Page 7, Line 21 to Page 8, Line 8; Page 15, Lines 8–10	2.1	Require TWIA to automatically offer policy renewal unless new information is necessary, starting January 1, 2020.	<p>Complete: TWIA implemented Recommendation 2.1 on January 1, 2020. The direct bill option applied to residential and commercial policy renewal offer packages mailed to policyholders beginning January 1, 2020. A sample policy packet is linked below.</p> <p>Documentation: TWIA Agent Bulletins: 3/11/20 <u>Happening Now: New Renewals Process</u> 12/13/19 <u>Resources We are Mailing Directly to Your TWIA Clients</u> 11/27/19 <u>Please Read: Two Changes Coming Soon for TWIA Policyholders and Agents</u> 11/26/19 <u>Register Now: Agent Webinar on New TWIA Policy Renewal Process</u></p> <p>Policyholder Documents: <u>Renewal Postcard</u> <u>Residential Renewal Policy Packet</u></p>

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 6, Line 26; Page 7, Lines 11–12; Page 8, Lines 15–19; Page 15, Lines 11–13	2.2; Modified by Legislature	Authorize and require TWIA to accept installment premium payments by January 1, 2021.	<p>In Progress: TWIA is on track to begin accepting premium payments in installments by the January 1, 2021 effective date of this provision. Initially, TWIA will offer policyholders a two-pay installment option which will allow the policyholder to make an initial payment of 50% of the annual premium to issue or renew the policy and pay the remaining 50% due within 120 days. Installment payments may be made directly by the policyholder by check, credit card, debit card, and by eCheck (electronic payment drawing from the policyholder's bank account). The agent can also submit the down payment on the policyholder's behalf via check or eCheck. For installment payments made by credit or debit card, the vendor applies a 2-3% fee for the premium payment as is typical in the credit card industry. This fee will be paid directly to the vendor by the policyholder. A communications and training plan is in place to educate agents in assisting their clients with the new payment options. TWIA will also evaluate additional installment payment options for future implementation based on input from stakeholders.</p> <p>Documentation: TWIA Agent Bulletin: 10/23/20 <u>Coming in November: Policyholder Online Payments</u> 11/2/20 <u>REGISTER NOW: Agent Webinar on TWIA Payment Options</u></p>

Implementation Chart
Texas Windstorm Insurance Association

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 8, Lines 9–14	2.3; Modified by Legislature	Authorize and require TWIA to accept credit card payments and give TWIA explicit authority to recoup credit card processing fees through a surcharge on customers that use this payment option. Takes effect January 1, 2021.	<p>In Progress: TWIA is on track to begin accepting payments by credit card using a third-party credit card processing firm. Policyholders will be able to pay by credit card, debit card, or eCheck (electronic payment drawing from the policyholder's bank account.) As is typical in the credit card industry, the vendor applies a 2-3% fee for the premium payment depending on what payment method is used and whether the policy is residential or commercial. This fee will be paid directly to the vendor by the policyholder. TWIA is on track to implement this provision by the January 1, 2021 effective date. A communications and training plan is in place to educate agents in assisting their clients with the new payment options.</p> <p>Documentation: TWIA Agent Bulletin: 10/23/20 <u>Coming in November: Policyholder Online Payments</u> 11/2/20 <u>REGISTER NOW: Agent Webinar on TWIA Payment Options</u></p>

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 8, Line 26 to Page 9, Line 15; Page 12, Lines 19–25 Page 13, Lines 1–11	3.1	Authorize TWIA to issue supplemental payments and requires TWIA provide information about the process for supplemental payments to policyholders.	<p>Complete: The Texas Department of Insurance (TDI) approved the addition of a conspicuous notice on the availability of supplemental payments and changes to TWIA’s policy forms on April 8, 2020. TWIA has also revised the Association’s claim notices to include information about supplemental payments which were put into use by the July 1, 2020 effective date.</p> <p>Documentation: TWIA Agent Bulletin: 4/14/20 <u>Coming Soon: More Visibility for TWIA’s Supplemental Payment Process</u> 4/8/20 <u>TDI Approval Order</u></p> <p>Link to rules, 28 TAC §5.4204 and amendments to 28 TAC §§5.4203, 5.4211, 5.4222, and 5.4241: <u>https://www.tdi.texas.gov/rules/2019/documents/20196173.pdf</u></p> <p>Related Documents: <u>TWIA Commercial Policy</u> (Page 8) <u>TWIA Residential Policy</u> (Page 7) <u>TWIA Claim Notices</u> (Page 4)</p>

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 9, Lines 18–27; Page 15, Lines 21–27	3.2	Require TWIA to assess the replacement cost of a property only at the time TWIA issues or renews the policy.	<p>Complete: New policy contracts reflecting this change were approved by TDI and went into use for policies effective on January 1, 2020.</p> <p>Documentation: TWIA Agent Bulletins: 1/24/20 <u>Two Big Changes Are Finally Here!</u> 10/22/19 <u>Register Today for Agent Webinar</u> 10/10/19 <u>Selected for Special Webinar</u> 9/24/19 <u>Policy Conditions – Loss Settlement Changes are Coming!</u></p> <p>Related Documents: <u>Notice of New TWIA Policy Contract January 2020</u> <u>TWIA 802 Endorsement</u> <u>TWIA 804 Endorsement</u></p>

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 13, Line 16 to Page 14, Line 9	4.1	<p>Amend statute to make the Assumption Reinsurance Depopulation Program more efficient by:</p> <ul style="list-style-type: none"> • Ensuring insurance companies and insurance agents are not required to make decisions during hurricane season • Allowing for opt-out periods of less than 60 days for policyholders • Allowing the reinsurance agreement to include an offer commencement date other than December 1 <p>As already required by statute, the commissioner of insurance would adopt rules to ensure the procedures for the program reflect these new statutory requirements.</p>	<p>Complete: TDI adopted the rules to implement this change on January 22, 2020. The new rules apply to the fifth round of the program which is underway. TWIA's initial filing of amendments to the program to comply with the statutory and rule changes was submitted on June 5, 2020. The filing was subsequently amended, and the revised program was approved by TDI on September 23, 2020.</p> <p>Documentation: TWIA Web Post: 10/21/20 Assumption Reinsurance Depopulation Program Round 5 Has Started</p> <p>Link to rules, 28 TAC §5.4307: https://www.tdi.texas.gov/rules/2019/documents/20206196.pdf#2020-6196</p> <p>Related Documents: 9/23/20 TDI Amended Program Approval Letter Amended Assumption Reinsurance Depopulation Program</p>

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 10, Lines 8–9 and 16–18; Page 11, Lines 1–11	5.1	Transfer the issuance of WPI-8-Cs from TWIA to TDI and explicitly authorize TDI to deny an application if requirements are not met.	<p>Complete: TWIA completed the transfer of administration of the program to TDI by the June 1, 2020 deadline. TDI now issues all Certificates of Compliance, both for ongoing (WPI-8) and completed (WPI-8E) improvements. TWIA has communicated the change in agent bulletins and on its website (https://www.twia.org/windstorm-certification/) and continues to answer questions and provide requested information about WPI-8-Cs issued during the period the Association administered the program for completed construction.</p> <p>Documentation: TWIA Agent Bulletins: 3/13/20 Upcoming Changes to the Windstorm Certification Process 5/26/20 Next Monday: Changes to the Windstorm Certification Program</p> <p>TWIA Webpage: https://www.twia.org/windstorm-certification/</p> <p>Link to rules, 28 TAC §§5.4603, 5.4604, 5.4606, 5.4609, 5.4640, 5.4642: https://www.tdi.texas.gov/rules/2020/documents/20206486.pdf</p>
Page 10, Lines 22–27	Added by Legislature	Modify the ability to obtain a WPI-8-C based on design alone by requiring affirmation by a licensed professional engineer that the building was constructed in accordance with the design.	No action necessary – TDI has relabeled Certificates of Compliance for completed improvements WPI-8Es. The term WPI-8-C is only applicable to Certificates of Compliance issued by TWIA from January 1, 2017 to May 31, 2020.
Page 1, Line 21 to Page 2, Line 10	6.1	Authorize TWIA to formally propose rules to the Texas Department of Insurance.	No action necessary - TWIA has not proposed any rules to TDI to date.

**Implementation Chart
Texas Windstorm Insurance Association**

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 4, Lines 8–9	Added by Legislature	Specify board members receive training on other laws applicable to TWIA.	Complete: TWIA developed a training program in 2019 to provide TWIA Board members with information on the laws applicable to the Association. The program consisted of an in-person training in 2019 and receipt and acknowledgement of a training manual.
Page 3, Line 16 to Page 4, Line 18; Page 15, Lines 1–7	6.2	Apply the standard across-the-board requirement related to board member training and require each TWIA board member to attest to both receiving and reviewing the training manual.	Complete: All current TWIA Board members have completed the required training to be able to participate in Board meetings and received and acknowledged receipt of a training manual. Documentation: 2019 TWIA Board Training Manual
Page 2, Line 13 to Page 3, Line 13; Page 15, Lines 1–7	6.3	Apply standard across-the-board requirements related to public membership.	No action necessary – TWIA Board members are appointed by the Commissioner of Insurance.
Page 4, Line 21, to Page 5, Line 21	6.4	Require TWIA board members and members of TWIA’s Underwriting and Actuarial Subcommittee to publicly disclose specific conflicts of interest.	Complete: TWIA has implemented a procedure by which TWIA Board and Committee members report potential conflicts of interest to TWIA’s legal counsel and those conflicts are disclosed at the beginning of each meeting.
Page 14, Lines 10–11	6.5	Eliminate the duplicative Bimonthly Report Card reporting requirement and continue TWIA’s two other required reports.	Complete: TWIA no longer produces a Bimonthly Report Card and continues to produce an Annual Report Card and Biennial Report as required by Texas Insurance Code Chapter 2210. All past Bimonthly and Annual Report Cards are available on TWIA’s website at https://www.twia.org/about-us/#financials-reports .
Page 1, Lines 11–18	Continue Sunset review	Require TWIA to undergo another Sunset review in 12 years and maintain the language in TWIA's current sunset provision specifying TWIA is not subject to abolishment and must pay for the cost of the review.	No action necessary

Implementation Chart
Texas Windstorm Insurance Association

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 11, Line 22 to Page 12, Line 16; Page 16, Line 13–15	Added by commission and Legislature	Require TWIA’s rate adequacy analysis be made available online for public comment before a board vote on rates and require information to be posted for 14 days rather than seven. Require TWIA to make any proposed rate filings publicly available on its website for at least one week before the board of directors votes on a proposed rate filing, and require TWIA to accept public comment on the proposal at a board meeting before voting on that matter.	<p>Complete: TWIA posted its 2019 and 2020 rate adequacy analyses by the required deadlines ahead of the August Board meetings at which the required annual rate filings were considered. The Association has facilitated public comment on the rate adequacy analyses through written public comment in advance and orally during all applicable meetings of the Board of Directors and voluntarily at its Committee meetings since the law passed.</p> <p>Documentation: <u>2019 and 2020 Rate Adequacy Analyses</u></p>
Page 12, Lines 4–12	Added by Legislature	Specify the content and format of hurricane model data provided to the public.	<p>Complete: TWIA’s 2019 and 2020 rate adequacy analyses include hurricane model data “with the same content and in the same format that is customarily provided to the association by hurricane modelers; and the department by the Association; and in a searchable electronic format that allows for efficient analysis and is sufficiently detailed to allow the historical experience in this state to be compared to results produced by the model.”</p> <p>Documentation: 2020 Hurricane Model Data: <u>Hurricane Model Input Assumptions</u> <u>County Loss AIR 2020</u> <u>AIR Event File 2020</u> <u>County Loss RMS 2020</u> <u>RMS Event File 2020</u> <u>Comparison of Hurricane Frequency for AIR vs. RMS vs. NOAA</u> <u>TWIA Catastrophe Modeling Results on Exposure as of 11/30/2019</u></p>

Implementation Chart
Texas Windstorm Insurance Association

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 14, Lines 22–24	Added by Legislature	Extend the deadline for the commissioner of insurance to adopt rules related to the bill’s provisions about the assumption reinsurance depopulation program to March 31, 2020.	No action necessary. TDI adopted rules regarding the assumption reinsurance depopulation program on January 22, 2020.
Page 14, Lines 25–27	Added by Legislature	Extend the deadline for the commissioner of insurance to adopt rules related to the bill’s provisions about supplemental payments to June 1, 2020.	No action necessary.
Page 16, Lines 1–6	Added by Legislature	Specify that the bill’s provisions about certificates of compliance on completed structures do not apply to certificates issued before June 1, 2020 in relation to establishing insurability.	<p>Complete: Responsibility for this function transferred to TDI successfully on June 1, 2020. TWIA has communicated the change in agent bulletins and on its website (https://www.twia.org/windstorm-certification/) and continues to answer questions and provide requested information about WPI-8-Cs issued during the period the Association administered the program for completed construction.</p> <p>Documentation: TWIA Agent Bulletins: 3/13/20 Upcoming Changes to the Windstorm Certification Process 5/26/20 Next Monday: Changes to the Windstorm Certification Program</p>
Page 16, Lines 7–12	Added by Legislature	Specify that the bill’s provisions related to the application process for certificates of compliance on completed structures take effect on June 1, 2020.	No action necessary – Applicable to TDI’s administration of the program.
Page 15, Lines 14–20; Page 16, Lines 16–23	Added by Legislature	Extend the deadline to July 1, 2020 for the commissioner of insurance to adopt rules related to the bill’s provisions about supplemental payments.	No action necessary
Page 11, Lines 12–14	Added by Legislature	Clarify that engineers cannot be held liable for the construction of a building or improvement to a building that they certified as meeting windstorm code.	No action necessary – Applicable to TDI’s administration of the program.
Page 11, Lines 15–19	Added by Legislature	Specify that TDI may only submit complaints about an engineer to the Texas Board of Professional Engineers for issues relating to the practice of engineering	No action necessary – Applicable to TDI’s administration of the program.

Implementation Chart
Texas Windstorm Insurance Association

[S.B. 615 by Buckingham \(Paddie\)](#)

[Staff Report with Final Results](#)

Bill Reference	Recommendation Number	Bill Provision	Implementation Status
Page 15, Lines 11–13	Added by Legislature	Extend to January 1, 2021 the deadline for TWIA to accept installment and credit card payments.	No action necessary – TWIA is on track to begin accepting premium payments in installments and by credit card by the January 1, 2021 effective date of this provision.

13E. Review and Approval of 2021 Budget



**Texas Windstorm Insurance Association
Proposed 2021 Operating Budget**

The proposed annual budget for 2021 for the Texas Windstorm Insurance Association (the “2021 Budget”) is provided below for consideration by the Board of Directors. Table 1 presents the 2021 Budget, the 2020 Forecast and the 2020 Budget with comparisons. A summary of the results and underlying assumptions begins on page 4.

Table 1
TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)

	A	B	C	D	E	
	For the twelve months ended December 31,			B2021 vs	B2021 vs	
	Forecast - 2020	Budget - 2020	Budget - 2021	B2020	F2020	
Premiums Written:						
1 Direct	\$367,273	\$348,587	\$372,252	\$23,665	\$4,979	1
2 Ceded	(106,002)	(93,109)	(114,813)	(21,704)	(8,812)	2
3 Ceded - Depopulation	(740)	(1,705)	0	1,705	740	3
4 Net	260,532	253,772	257,439	3,666	(3,093)	4
Premiums Earned:						
5 Direct	\$369,082	\$357,748	\$369,475	\$11,727	\$393	5
6 Ceded	(106,002)	(93,109)	(114,813)	(21,704)	(8,812)	6
7 Ceded - Depopulation	(740)	(1,705)	0	1,705	740	7
8 Net	262,340	262,934	254,662	(8,272)	(7,679)	8
Deductions:						
10 Losses and LAE Incurred	111,770	61,885	62,987	1,102	(48,784)	10
11 Losses and LAE Incurred - Harvey	(0)	0	0	-	0	11
12 Ceded Losses and LAE Incurred - Depopulation	(141)	(491)	0	491	141	12
13 Operating Expenses	28,910	32,496	31,313	(1,183)	2,402	13
14 Commission Expense	58,757	55,774	59,560	3,786	803	14
15 Ceding commissions / brokerage	(3,523)	(2,402)	(3,690)	(1,288)	(167)	15
16 Ceding commissions / brokerage - Depopulation	(178)	(409)	0	409	178	16
17 Premium / Maintenance Tax	6,993	6,866	6,924	58	(70)	17
18 Total Deductions	202,590	153,719	157,093	3,374	(45,497)	18
19 Net Underwriting Gain or (Loss)	59,750	109,215	97,568	(11,646)	37,819	19
Other Income or (Expense):						
21 Gross Investment Income and Other	(1,673)	4,729	(2,849)	(7,577)	(1,175)	21
22 CRTF Funds Received	0	0	0	-	-	22
23 Member Assessment Income	0	0	0	-	-	23
24 Interest Expense on Debt	(21,999)	(24,057)	(16,673)	7,384	5,325	24
25 Total Other Income or (Expense)	(23,672)	(19,328)	(19,522)	(194)	4,150	25
26 Net Income (Loss)	\$36,078	\$89,886	\$78,047	(\$11,840)	\$41,969	26
27						27
28						28

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Table 2 presents a reconciliation of beginning and ending surplus and key ratios for the relevant periods.

Table 2
Surplus and Key Operating Ratios
(\$ in 000's)

	A	B	C	D	E	
	For the twelve months ended		December 31,	B2021 vs	B2021 vs	
	Forecast - 2020	Budget - 2020	Budget - 2021	B2020	F2020	
Surplus (Deficit) Account:						
1 Beginning Surplus (Deficit)	(183,792)	(183,792)	(151,487)	32,305	32,305	1
2 Net Income (Loss)	36,078	89,886	78,047	(11,840)	41,969	2
3 Principal Funded on Class 1 Bonds (net)	0	0	0	-	-	3
4 Change in nonadmitted assets - Other	(3,773)	(0)	(8,222)	(8,222)	(4,449)	4
5 Other	0	0	0	-	-	5
6 Statutory Fund Cost	0	(42,968)	(27,847)	15,121	(27,847)	6
7 Ending Surplus (Deficit)	<u>(\$151,487)</u>	<u>(\$136,873)</u>	<u>(\$109,508)</u>	<u>\$27,365</u>	<u>\$41,978</u>	7
8						8
9 Key Operating Ratios:						9
10 Direct:						10
11 Loss & LAE Ratio	30.3%	17.3%	17.0%	-0.3%	-13.2%	11
12 UW Expense Ratio:						12
13 Acquisition	17.9%	18.0%	17.9%	-0.1%	0.0%	13
14 Non Acquisition	7.8%	9.1%	8.5%	-0.6%	0.6%	14
15 UW Expense Ratio	<u>25.7%</u>	<u>27.1%</u>	<u>26.3%</u>	<u>-0.7%</u>	<u>0.6%</u>	15
16 Direct Combined Ratio	<u>56.0%</u>	<u>44.4%</u>	<u>43.4%</u>	<u>-1.0%</u>	<u>-12.6%</u>	16
17						17
18 Ending Balance in CRTF	179,590	229,993	185,191	(44,803)	5,601	18

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Texas Windstorm Insurance Association Proposed 2021 Annual Budget

The proposed annual budget for 2021 for the Texas Windstorm Insurance Association (the “2021 Budget”) is provided below for consideration by the Board of Directors.

Summary

- The 2021 Budget projects an increase in direct written premiums to **\$372.3 million**, representing a \$5.0 million increase over 2020 Forecasted direct written premium of \$367.3 Million. No policies are budgeted to be transferred in 2021 through the Assumption Reinsurance/Depopulation Program based on legislative changes to the depop timetable.
- Earned Premium is projected to increase to **\$369.5 million** in 2021 compared with the projected earned of \$369.1 million in 2020, an increase of \$393,000.
- Net Income is budgeted to equal **\$78.0 million** compared to \$36.1 million forecasted for 2020.
- The 2021 Budget projects a contribution based on “net gains from operations” in 2021 of **\$27.8 million** (to be funded in Q1 2022). No contribution to the CRTF is anticipated for 2020 due to a high level of incurred losses resulting from Hurricanes Hanna, Laura and Delta.
- Reinsurance costs are budgeted at **\$114.8 million** in 2021. This compares to the \$106.0 million cost in 2020.
 - The 2021 Budget assumes that the 1:100 PML is approximately **\$4.2 billion**, consistent with 2020.
 - Depending on the Board’s determination of the 1:100 PML and the amount of coverage placed in 2021, TWIA may seek a member assessment in 2021 to cover the cost of any reinsurance placed above the designated 1:100 PML. Such a member assessment would be recorded as Other Income. The 2021 Budget does not include any such member assessment.
 - The increase is based on the replacement of maturing 2018 cat bonds with new cat bonds at current market prices and a modest increase in traditional reinsurance pricing.
- The 2020 Budget includes loss and LAE assumptions for non-hurricane losses only. No provision is made for any hurricane losses. In addition, the 2021 Budget assumes that TWIA does not experience any adverse development on loss reserves established at December 31, 2020, including with respect to Hurricanes Harvey, Hanna, Laura and Delta.
 - The projected 2021 annual loss and loss adjustment expense ratio is set at **17.0%**.
- Reported Underwriting Expenses (after the capitalization of external software development costs) are budgeted at **\$31.3 million** compared with forecasted 2020 underwriting expenses of \$28.9 million.
 - The increase in underwriting expenses is largely due to increases in Project Elevate costs not subject to capitalization, growth in expenses to support recent legislative initiatives (including credit card payments and installment payment plans) and the full year impact of 2020 additions to staff.
 - This memo will focus on budgeted operating expenses before the impact of capitalization to avoid any distortion from the capitalization policy.

Key Assumptions

The 2021 Budget relies on the following key assumptions:

- Rate changes: **no rate increases** are budgeted for 2021.
- The number of policies in force is projected to decline from a projected 185,132 policies at year end 2020 to **183,677** at year end 2021, a reduction of 1,455 policies (a **0.8%** decrease).
- Average limit per policy: increases by 2.2%
- Debt service: no optional redemptions occur in 2021. Principal and interest paid as scheduled.
- Employee merit increases: **2.5%**.
- Operating expenses: based on departmental budgets. Assumes Project ELEVATE remains on track.
- Software capitalization: Consistent with statutory accounting principles, approximately **\$8.4 million** of external software development costs associated with Project Elevate are capitalized. Accumulated capitalized costs will begin to be amortized beginning in 2022 with launch of the system.
- Commission rate: **16.0%**
- Premium taxes, licenses and other fees: **1.86%**
- Investment yields: **0.05%**
- \$500 million line of credit: renewed at June 1, 2021 with same commitment and inception fees as 2020.

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The following section provides a more detailed analysis of the key elements of the 2021 Budget, including components of Operating Expenses and other financial statement categories.

Operating Expenses

- **Table 3** below provides a reconciliation between the Total Operating Expenses incurred by TWIA for both Associations and the Net Underwriting Expenses reported on the TWIA Income statement.
- This memo will focus on **line 7 of Table 3** representing the Gross Underwriting Expenses before the capitalization of software development costs ("Gross Underwriting Expenses") to avoid any distortion from the capitalization of these costs.
- Budgeted 2021 Total Operating Expenses for both Associations at **\$66.4 million** reflects a modest increase over the Forecasted 2020 total of \$65.4 million. As substantial internal resources are directed towards Project Elevate and away from the systems implementation at Texas FAIR Plan, the reimbursement of expenses from TFPA declines from \$17.9 million to **\$14.6 million**, with a commensurate increase in TWIA Gross Operating Expenses (**line 3 of Table 3**)
- TWIA Gross Underwriting Expenses before Capitalization are budgeted to increase from a forecast of \$33.0 million in 2020 to **\$39.7 million** in the 2021 Budget: a \$6.7 million increase (**line 7 of Table 3**).

Table 3
Reconciliation of Expenses
2021 Budget vs. 2020 Forecast Comparisons
(000's)

A	Total Operating Expenses			
	Budget 2021	Forecast 2020	B2021 vs F2020	
1 Total Operating Expenses - Both Associations	66,440	65,442	998	1
2 Allocation to TFPA ¹	(14,621)	(17,903)	3,282	2
3 TWIA Gross Operating Expenses	51,820	47,540	4,280	3
4 Depopulation Expense ²	(23)	(70)	47	4
5 Claims Expenses (ULAE) ³	(11,786)	(14,214)	2,428	5
6 Investment Expenses	(315)	(306)	(9)	6
7 TWIA Gross Underwriting Expenses Before Capitalization	39,695	32,950	6,746	7
8 Capitalized Expenses ⁴	(8,383)	(4,039)	(4,344)	8
9 TWIA Net Underwriting Expenses⁵	31,313	28,910	2,402	9

(1) Reflects reimbursement by TFPA for expenses incurred by TWIA on behalf of TFPA or charged directly to TFPA pursuant to a management services agreement.

(2) Servicing fee received from participating depop carriers as an offset to TWIA expenses.

(3) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses which are provided for in loss reserves. Consist of Claims Dept. expenses and a portion of IT and Legal.

(4) Reflects the capitalization of external software development costs incurred in connection with Project Elevate pursuant to Statutory Accounting Principles. These capitalized costs will begin to be amortized beginning with the launch of the system.

(5) Underwriting Expense, net of allocations to ULAE, investment expense and net of any capitalized expenses. Reported as Operating Expenses in income statement.

- Most of the **\$6.7 million** increase in Gross Underwriting Expenses is due to increases in Personnel Expenses (**\$2.85 million**) and increases in Professional Services (**\$2.96 million**).
- The increase in budgeted expenses for Personnel, Professional Services and Hardware/Software over the 2020 forecast reflects the reallocation of internal resources and the acquisition of additional IT contractors, consultants, and technology/software during the development phase of Project Elevate.
- **Table 4** below shows a comparison of Gross Underwriting Expenses by major category.

Table 4
Gross Underwriting Expenses by Category
(\$'s in 000's)

	A	B	C	
	Budget	Forecast	B2021 vs.	
1 Description	2021	2020	F2020	1
2 Personnel Costs	21,114	18,263	2,851	2
3 Professional Services	12,341	9,383	2,958	3
4 HW/SW & Licensing	3,370	2,746	624	4
5 Rental & Maintenance	1,031	1,022	9	5
6 Travel Expenses	189	118	71	6
7 Postage, Tele & Express	715	706	9	7
8 Capital Management Expense	0	0	0	8
9 Other Operating Expense	937	713	224	9
10 Gross Underwriting Expenses	39,695	32,950	6,746	10

Personnel Costs

- **Table 5** presents the elements of personnel costs in the 2021 Budget compared to the 2020 Forecast.

Table 5
Personnel Costs
2021 Budget vs. 2020 Forecast Comparisons
(000's)

	A	B	C	D	
		Personnel Costs			
		Budget	Forecast	B2021 vs.	
1		2021	2020	F2020	1
2 Salaries & Wages - Permanent		10,977	9,982	995	2
3 Contractor & Temporary Help		5,194	3,820	1,374	3
4 Sub-total		16,171	13,803	2,368	4
5 Payroll Taxes		838	705	132	5
6 Employee Benefits		3,761	3,562	198	6
7 Recruiting, Training & Other		344	192	152	7
8 Personnel Costs, Gross		21,114	18,263	2,851	8

- The 2021 budgeted year-end authorized **headcount of 224** reflects a reduction of 7 positions compared to the 2020 budget of 231 authorized positions as of December 31, 2020.
- The total number of TWIA employees is projected to be 218 as of year-end 2020 compared to the 2020 Budget of 231. **Table 6** shows a summary of actual, forecasted and budgeted headcount.

Table 6
Headcount Analysis - FTEs and Contractors

	A	B	C	D	E	F	
	Actual 8/31/2020	Forecast 12/31/2020	Authorized Budget 2020	Authorized Budget 2021	B2021 vs F2020	B2021 vs B2020	
1 FTE	214	218	231	224	6	(7)	1
2 Contractors	30	74	34	43	(31)	9	2
3 Combined	244	292	265	267	(25)	2	3

- The **\$2.85M** increase in TWIA *Personnel Costs* is driven by employees that are dedicated to Project ELEVATE during the 2021 development period that previously worked on completing the FAIR Plan Guidewire upgrade.
- In addition, Contractor and Temporary Help expenses are budgeted to increase \$1.4 million due to IT contractors required for Project ELEVATE.
- While the 2021 Budget calls for a reduction in budgeted full-time positions compared to the 2020 Budget, \$488 thousand of the \$995 thousand increase in TWIA salary expense is due to an increase in the salary allocations towards TWIA and away from TFPA (73.8% in 2021 vs 70.4% in 2020). See **Table 7** below.

Table 7
Impact of Changes in Salaries and Salary Allocations
(000's)

	A	B	C	D	E	
	Combined TWIA and TFPA	TWIA	TFPA	% TWIA	% TFPA	
1 2021 Budget	14,876	10,977	3,899	73.8%	26.2%	1
2 2020 Forecast	14,189	9,982	4,207	70.4%	29.6%	2
3 Increase/(Decrease)	686	995	(308)	3.4%	-3.4%	3
Impact of Change in Allocations ¹		488	(488)			
Impact of Change in Salaries ²		506	180			
		995	(308)			

(1) 2020 Budget combined salaries X change in allocations

(2) Change in salaries X new allocations

- The remaining \$506 thousand increase includes a 2.5% merit increase (applied to 2020 year-end salary levels then allocated 73.8% to TWIA, net of LAE allocation) plus the full year impact of 2020 staff additions.

Contractors and Temporary Help

- The **\$1.4 million** increase in contractors and temporary help is largely driven by additional contractors in IT and Underwriting associated with Project Elevate and expected increases in call volume (agent services) to support the launch of credit cards and installment plans.

Professional Services

- *Professional Services* are budgeted to increase \$2.96 million from \$9.4 million to **\$12.3 million** due to additional IT consulting fees associated with the Guidewire implementation offset partially by reductions in Actuarial consulting fees. Details of Professional & Consulting Services are provided in **Table 8**.
- Within the *Professional Services* expense category, *Other Services* includes our outside call center, MSB licenses, Eagleview aerial photo services and Expert Panel costs. Expert Panel is budgeted at **\$2.2 million** in 2021 compared to the forecasted \$2.1 million in 2020.

Table 8
Professional & Consulting Services
2021 Budget vs. 2020 Forecast
(000's)

		Professional & Consulting Services			
		Budget	Forecast	B2021 vs	
		2021	2020	F2020	
1	Professional & Consulting Services				1
2	Legal	505	392	114	2
3	Accounting & Auditing	273	344	(71)	3
4	Information Technology	6,162	3,262	2,900	4
5	Actuarial Services	290	326	(36)	5
6	Ombudsman Program	125	127	(2)	6
7	Surveys & Inspections	1,353	1,381	(28)	7
8	Disaster Recovery Services	325	499	(174)	8
9	Other Services	3,307	3,051	257	9
10	Total	12,341	9,383	2,958	10

Commission Expense

- Current commission rates (16.0%) and premium tax rates (1.86%) are consistent with prior years and applied to Direct Written Premium.
- Commission expense is budgeted to increase to **\$59.6 million** in 2021 from the 2020 forecast of \$58.7 million. Premium tax declines slightly to **\$6.92 million** in the 2021 budget from \$6.99 million forecasted in 2020.

Other Income (Expense)

- Gross investment income, net of investment expenses in 2021 is forecasted at **negative \$2.8 million** as investment income (assuming current yields of 0.05% continue) are offset by bank fees, commitment, and issuance fees on the \$500 million line of credit.
- *Other income/(expense)* includes interest expense of **\$16.7 million** on the Series 2014 bonds and fees and expenses in connection with the anticipated renewal of the \$500 million line of credit.
- The 2021 Budget recognizes the interest savings from the early redemption of \$45 million of the existing Series 2014 bonds that occurred in May 2020. To the extent that TWIA makes additional

redemptions of outstanding principal, the interest savings will be reflected as a variance to the budget.

Net Income

- The 2021 budget assumptions result in net income of **\$78.0 million** before the contribution to the CRTF.

CRTF Contribution

- Based on the 2021 Budget, TWIA would accrue a **\$27.8 million** liability for the annual CRTF contribution in 2021, which would be funded in early 2022. The contribution is calculated based on net income of \$78.0 million less principal payments of \$50.2 million.
- Based on 2020 projected results, the Association does not anticipate accruing a contribution to the CRTF for 2020 due to the impacts of Hurricane Hanna, Laura and Delta.

Surplus/(Deficit)

- The forecasted deficit at December 31, 2020 is \$151.5 million.
- Based on net income of \$78.0 million and an accrual of the CRTF contribution of \$27.8 million in 2021, the deficit is projected to decrease to **\$109.5 million** at December 31, 2021.

17. Future Meetings

February 23, 2021 – Webinar

May 18, 2021 – Webinar

August 2021 – TBD