

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

March 23, 2021

Webinar

9:00 a.m.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

Interested parties can listen to the meeting live by going to [www.twia.org](http://www.twia.org).  
Go to “About Us/Board Meetings” and access the video conferencing website with  
instructions available on [www.twia.org](http://www.twia.org).

\*Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action.  
However, the board may deliberate, consider and/or take action with respect to any item  
that appears on this agenda.

1. Call to Order 5 minutes
  - A. Welcoming Remarks – *Chandra Franklin Womack*
  - B. Anti-Trust Statement and Conflict of Interest Disclosure – *Counsel*
  - C. Meeting Format Information – *Kristina Donley*
2. Introductions – *Chandra Franklin Womack* 5 minutes
3. Approve the Minutes from Prior Board of Directors’ Meetings 5 minutes  
– *Chandra Franklin Womack\**
4. Election of Officers – *Chandra Franklin Womack\**
5. Public Comment 30 minutes
6. TWIA Operational Highlights – *John Polak* 5 minutes
7. Financial 15 minutes
  - A. Report of the Secretary/Treasurer – *Corise Morrison\**
    1. Income Statement
    2. Management Discussion and Analysis
  - B. Financial Statement Review by Staff – *Jerry Fadden*
    1. Income Statement and Expense Statement
    2. Balance Sheet
    3. Cash & Short-Term Investments
    4. Cash Flow Statement
    5. Historical Data
    6. Debt Covenants
    7. 2020 Catastrophe Year CRTF Contribution
8. Actuarial 60 minutes
  - A. Reserve Adequacy
  - B. Policy Count/Exposures
  - C. Appointment of Actuary and Qualification Documentation\*
  - D. December 2020 Rate Filing Review and Consideration and/or  
Board Action Regarding Resubmission of December 2020 Rate Filing  
or the Submission of a New Rate Filing\*

- E. Review of Catastrophe Model Results and Determination of 1:100 PML\*
  - F. Discussion of Reinsurance Alternatives\*
  - G. 2021 Funding\* – *Guy Carpenter and Company, LLC and Jerry Fadden*
9. Internal Audit – *Bruce Zaret – Weaver* 15 minutes
    - A. Internal Audit Status & Update
    - B. IT Audit – Database and Application Administration
    - C. IT Security Audit
  10. Underwriting – *Denise Larzalere* 10 minutes
    - A. Operational Review Update
    - B. Depopulation
  11. Claims 20 minutes
    - A. Claims Operations – Overview – *Dave Williams*
    - B. Claims Litigation – *David Durden*
  12. TWIA Operations 30 minutes
    - A. IT Systems Update – *John Polak*
    - B. Communications Update – *Jennifer Armstrong*
    - C. Performance Evaluation of General Manager – *Chandra Franklin Womack\** 30 minutes
  13. Closed Session (**Board Only**) 60 minutes
    - A. Personnel Issues
    - B. Legal Advice
    - C. IT Security Audit
  14. Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors\* 5 minutes
  15. Committees – *Chandra Franklin Womack* 5 minutes
  16. Future Meetings – *John Polak* 5 minutes
    - May 18, 2021 – Webinar
    - August 3, 2021 – Webinar
    - December 7, 2021 - Webinar
  17. Adjourn

Estimated Total Length of Meeting

5 hours 05 minutes

\*\* 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.

### **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

### 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

**December 8, 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.	Corise Morrison (Secretary/Treasurer)	Industry Representative
4.	Mike Gerik	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
9.	Ron Walenta	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.	Jim Murphy, Director of Special Projects	TWIA
9.	Amy Koehl, Executive Assistant	TWIA
10.	Kristina Donley, Sr. Instructional Designer	TWIA
11.	Camron Malik, Chief Information Officer	TWIA
12.	Mike Perkins, Association Counsel	Perkins Law Group PLLC
13.	Katie Porter, Association Counsel	Perkins Law Group PLLC

#### The Following Guests were Present:

1.	Allen Cashin	Willis Towers Watson
2.	Alicia Gerte	Willis Towers Watson
3.	Prasad Gunturi	Willis Towers Watson
4.	Lisa Sukow	Willis Towers Watson
5.	Jarrett Cabell	Willis Towers Watson
6.	Bruce Zaret	Weaver

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

- |                        |                              |
|------------------------|------------------------------|
| 1. Opeyemi Adebayo     | 33. Jeff Jones               |
| 2. Andrew Alexander    | 34. Christina Kaeini         |
| 3. Lee Ann Alexander   | 35. John LaRue               |
| 4. Steve Alexander     | 36. Xiuyu Li                 |
| 5. Bill Allen          | 37. Clarisse Lilley          |
| 6. Marianne Baker      | 38. Lee Loftis               |
| 7. Sally Bakko         | 39. Rep. J.M. Lozano         |
| 8. Luke Bellsnyder     | 40. Marti Luparello          |
| 9. Jeff Bernsen        | 41. Laura Machado            |
| 10. Albert Betts       | 42. Joe McComb               |
| 11. Lynn Blumenfeld    | 43. Rep. Mayes Middleton     |
| 12. Shirley Bowler     | 44. Jerry Mohn               |
| 13. William Brannan    | 45. David Muckerheide        |
| 14. Lee Branum         | 46. Anne O'Ryan              |
| 15. Mary Branum        | 47. Marie Robb               |
| 16. Brent Chesney      | 48. Joel Romo                |
| 17. Ron Davis, Jr.     | 49. A. Rusty                 |
| 18. Tad Delk           | 50. Shane Saum               |
| 19. Rachel Ernst       | 51. Kenisha Schuster         |
| 20. Adrianna Escamilla | 52. Patrícia Shipton         |
| 21. Angela Fang        | 53. Greg Smith               |
| 22. Henry Freudenburg  | 54. Thomas Tagliabue         |
| 23. William Goldston   | 55. Terrilyn Tarlton-Shannon |
| 24. Stuart Harbour     | 56. Aaron Taylor             |
| 25. Jeanine Heffernan  | 57. Manuel Villarreal        |
| 26. Wendy Herman       | 58. Jim Wade                 |
| 27. Rep. Abel Herrero  | 59. Rachel Wang              |
| 28. Jarrett Hill       | 60. Gaye White               |
| 29. Rep. Juan Hinojosa | 61. Karlton Williams         |
| 30. Wes Hoskins        | 62. Joe Woods                |
| 31. Rep. Todd Hunter   | 63. Charles Zahn, Jr.        |
| 32. Dennis Isaacs      | 64. Robert Zamora            |

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. Ms. Donley reviewed the housekeeping items.
2. Introduction of New Board Member: Ms. Franklin Womack introduced the new board member, Ron Walenta. He is a non-seacoast territory representative.



3. Approval of Minutes: The minutes from the August 4, 2020 meeting were reviewed. Ms. Neblett moved to approve the minutes as presented. Mr. Gerik seconded the motion. The motion passed.
4. TWIA Operational Highlights: Mr. Polak reported the Association responded to four major storm events during the 2020 hurricane season and continued to maintain low claim response times and high customer survey scores. An agent task force was developed to discuss best practices for condominium association and unit owner policies and claims. The 2020 biennial report was submitted to legislators in September in advance of the December 31 due date. The Association remains below plan for Q3 2020 operating expenses. The Association is on track to complete objectives for all strategic initiatives in 2020. Underwriting and claims service levels exceeded turnaround time and quality standards. The Association remains below plan on litigated claims and complaints in Q3 2020.
5. Financial:
  - A. Report of the Secretary/Treasurer: Ms. Morrison reviewed the Treasurer's Report. Ms. Morrison moved to approve the report. Mr. Walenta seconded the motion. The motion passed.
  - B. Financial Statement Review by Staff: Year to date direct written premiums through September 30 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 \$4.2 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.

The TWIA 2020 reinsurance program incepted 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.

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.

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.

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.

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 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.

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 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. 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.

6. Public Comment: Public comment was offered by Rep. Mayes Middleton, Rep. Juan Hinojosa, Rep. J.M. Lozano, Rep. Abel Herrero, Rep. Todd Hunter, Charles Zahn, Jr., Brent Chesney, Greg Smith, Sally Bakko, Marie Robb, Mary Branum and Lynn Blumenfeld.
7. Presentation and Review of TWIA Actuarial and Underwriting Committee Meeting Rate Recommendations: Ms. King went into the details of the TWIA Actuarial and Underwriting Committee meeting that took place December 1. The committee voted to offer no recommendation to the board on a rate increase and allow the board to review the Willis Towers Watson report. Guy Carpenter was directed to replicate the model work that Willis provided, and the output was almost identical. Ms. Neblett said it was the additional data instead of going with the industry standard that solidified the report's outcome. Mr. Polak clarified what staff was getting from Eagleview and from the WPI-8 databases.
8. Presentation by Willis Towers Watson Regarding the Rate and Model Analysis: Members of the Willis Towers Watson staff reviewed their presentation. Ms. Neblett said she would like to look at homes that were rebuilt or repaired to capture their data. Ms. Guard asked how many of the secondary modifiers staff will review to secure data. Mr. Fadden said staff is looking at large data vendors in other areas that might be able to develop a systematic way to secure this data. Ms. Morrison said she thinks staff should look to other third-party providers that can gather better characteristics or refine what is already in hand to improve data quality. Ms. Neblett said the secondary modifiers could be presented at the next Agent Advisory Group meeting to see which could be easily provided and which could be cumbersome and report back to the board.

Ms. Franklin Womack asked what staff would recommend as far as reinsurance goes. Mr. Fadden said he would recommend the 50/50 blend on the models. Ms. Morrison said rate has been an ongoing issue for some time. She said she appreciated the efforts of the TWIA Actuarial and Underwriting Committee and the TWIA Board of Directors on this issue. She said she is concerned and wants to make sure the Association is sound

financially. She thinks the board needs to consider a 5% rate increase to move toward financial soundness for the organization. She moved to accept the Willis Towers Watson report as presented as well as pursue a +5% rate indication for both residential and commercial policies. Mr. Walenta seconded the motion. Ms. Franklin Womack said there have been significant decreases on the secondary indicators and she thinks they will go down further. She would like to give the legislature the opportunity to make changes in the next session and it is too early to go for a rate increase. She said the legislature asked for a deferral on rate increases until they can address these issues. Ms. Morrison said there is plenty of time for legislators to work on the issues but 5% will help TWIA move toward financial soundness.

A roll call vote was conducted.

Ron Walenta – Yes

Karen Guard – Yes

Tony Schrader – Yes

Corise Morrison – Yes

Peggy Gonzalez – Yes

Tim Garrett – Mr. Garret was away from his computer when the vote was taken.

Mike Gerik – Yes

Georgia Neblett – No

Chandra Franklin Womack – No

The motion passed. Mr. Gerik asked what date the increase would be effective. Mr. Fadden said it would be suggested the effective date would likely be not later than July 1 but not before April 1. Ms. Morrison moved that the rate filing be effective as early as April 1 or thereafter pending following all the appropriate requirements TWIA must follow for the rate change. Mr. Gerik seconded the motion. The motion passed with Ms. Franklin Womack and Ms. Neblett voting no.

#### 9. Actuarial:

- A. Reserve Adequacy: TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of September 30, 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 25 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. The senior actuary has 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 \$1.7 billion. This variability arises from the assumptions 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 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 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 the opinion of the senior actuary, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

- B. Policy Count/Exposures: Policy counts are down year over year. The rate of policy count decline has slowed over the years.
- C. Maximum Liability Limits Filing – Update : The board was presented with the results of the application of the Boeckh index for building repair and replacement cost. The latest result showed a zero percent change in those costs. As such, a filing was made with TDI for zero change in the maximum liability limits.

#### 10. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret offered an update on the rolling three-year internal audit plan.

- B. Risk Assessment and Audit Plan: Mr. Zaret reviewed the risk assessment plan and the results.

11. Underwriting:

- A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is surpassing this standard with over 98% of all transactions processed within 10 days. Over 80% of new business and 94% of renewals were 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 increased at the call center and workflows were modified in order to maintain acceptable service levels. Service observation (listening to phone calls and scoring them) is standard procedure. The departments calibrate calls and 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. Due to the COVID-19 health crisis, interior inspections have been suspended and recommended and required health guidelines to complete exterior inspections and being followed as needed.

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.

Following the TWIA Board of Director's approval of an update to the acceptable mailing methods outlined in the Texas Administrative Code, staff implemented a new process with appropriate form changes and communications in October. In addition to implementing process and form updates, an amendment to the Plan of Operations will be filed.

Over the past year, staff has been working with Eagleview to leverage some new information/processes that are now available. Change detection reports have been incorporated in the underwriting processes to electronically review structures for eligibility and insurability in advance of every renewal. Partly prompted by the pandemic, a new lockbox payment was implemented so

payments can now be applied in most cases the day they are received. This increases the customer experience and reduces operating costs.

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

## 12. Claims:

- A. Claims Operations: As of December 1, 2020, there were 76,712 claims for Harvey, of which 613 are still open. For the 2020 hurricane season (Hanna, Laura and Delta combined) there were 9,558 new claims. Of those claims, 7,226 are open. First notice of loss to property inspection averaged 2.9 days. The total cycle time from first notice of loss to payment was 9.8 days. Mr. Walenta commended the TWIA claims department for their speed in handling claims.
- B. Claims Litigation: For the third quarter of 2020, there were 10 new TWIA claims in suit and 51 were closed. There were 27 new TWIA claims with letters of representation and 83 were closed. The beginning inventory of TWIA claims in suit for the quarter was 428. The ending inventory was 419. Currently the Daly & Black law firm holds the majority of the suits.

## 13. TWIA Operations:

- A. IT Systems Update: The TWIA Elevate program continues to make progress with the policy, billing, enterprise data warehouse, portals and data migration projects in the construction phases of the life cycle, where active development is ongoing. The claims project will enter the construction phase within the next few 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, with support for installments and credit cards was successfully deployed on November 18<sup>th</sup>.

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.

- B. Depopulation: In June, the fourth round of depopulation took place. Policies were assumed by two carriers, Safe Point and Weston, in the amount of 1,003. There will be no policies assumed in 2021 but it will be started again in 2022. Ms. Morrison asked if staff tracks policies that leave, do they come back. Ms.

Larzalere said it is difficult to track accurately but it seems there are very few policies that come back to TWIA. Ms. Morrison asked how long TWIA has participated in the program. Ms. Larzalere said the first depopulation of policies took place in 2017. At that time, 11,000 policies left. Ms. Morrison suggested when the program hits the five-year mark, she would like to see the status of the program and how many policies have left and the number that returned.

- C. 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. Staff is 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.

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. Mr. Durden anticipates that once the revisions are substantially developed, staff will need to discuss the revisions at a future board meeting. His expectation is that the project will not be completed earlier than the third quarter of 2021.

- D. Communications Update: 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 87<sup>th</sup> Legislative Session approaches.

Based on discussions with multiple legislative offices, staff 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.

The Association is on track to implement all the remaining legislative provisions enacted in the 86<sup>th</sup> Legislative Session.



Media coverage in Q3 2020 continued to be lower in volume and less negative than for the same period for the last two years.

- E. Review and Approval of 2021: Mr. Polak reviewed the budget for 2021. Ms. Neblett asked if there was an intention to not pay down the debt but to carry it over. Mr. Polak said there is some criteria to follow but the Association does not have enough funds to pay down the debt requirements. Ms. Neblett asked about releasing revenue to apply to the debt. Mr. Polak said it wouldn't be applied until 2022. Mr. Walenta moved to approve the budget. Mr. Gerik seconded the motion. The motion passed.

14. Closed Session: There was no closed session.

15. 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.

16. Committees: There was nothing to discuss.

17. Future Meetings:

- February 23, 2021 – Webinar
- May 18, 2021 – Webinar
- August 2021 – TBD

18. Adjourn: The meeting adjourned at 1:08 p.m.

---

Prepared by: Amy Koehl  
Executive Assistant

---

Approved by: Chandra Franklin Womack  
TWIA Chair









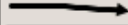





---

Approved by: Georgia Neblett  
TWIA Vice Chair

## 6. TWIA Operational Highlights

# 2020 TWIA Enterprise Scorecard

Reporting YTD as of December 31, 2020

	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	7.6%		9.1%	-1.5%	
Net Gain From Operations <sup>1</sup>	-\$17.4 M		\$35.9 M	-\$53.3 M	
Enterprise Projects	80%		90%	-10%	
Policy Administration	99%		90%	9%	
Claims Handling	97%		90%	7%	
Litigated Claims	0.03%		0.50%	-0.47%	
Complaints	54		74	-20	

## Reference Data

Policies In-Force	184,890
Exposures In-Force	\$55.0 billion
Written Premiums YTD	\$369.6 million
Claims Received YTD	14,432
Losses Incurred YTD <sup>2</sup>	\$76.3 million

<sup>2</sup> Excludes IBNR

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

## Key Quarterly Activities

- Completed implementation of all changes mandated by the 86th Texas Legislature with the launch of the new premium payment options.
- Trained approximately 1,200 agents virtually over a two-week time period on the new premium payment processes.
- Met with nearly a dozen legislative offices to provide information on the legislative recommendations and public policy issues outlined in the Association's 2020 Biennial Report.
- Recouped \$1.49 million in catastrophe bond expenses by taking advantage of an incentive program.
- Remain below plan for Q4 2020 operating expenses.
- Exceeded turnaround time and quality standards on Underwriting and Claims service levels.
- Remain well below plan on litigated claims and complaints in Q4 2020.

## 7. Financial

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

#### 7A1. Income Statement

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

## 7A2. Management Discussion and Analysis

**Texas Windstorm Insurance Association  
Management's Discussion and Analysis of Financial Results for the  
Twelve Months Ended December 31, 2020**

**Direct Written Premium:**

- Direct written premiums for calendar year 2020 totaled \$369.6 million, which is \$2.4 million (0.6%) less than 2019 premiums of \$372.0 million. Direct written premium was \$21.0 million (6.0%) higher than the budgeted \$348.6 million.
- Policies in force at December 31, 2020 of 184,890 was 8,190 (4.6%) higher than the budgeted number of 176,700. The policy count reflects a decrease of 4,313 policies from December 31, 2019 (189,203) including 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 \$106.9 million compared to a budgeted cost of \$93.1 million. The Association received \$1.45 million in November from the Monetary Authority of Singapore for reimbursement of certain fees associated with the issuance of \$400 million in Catastrophe Bonds. The reimbursement was recorded as a reduction in ceded written and ceded earned premium.
- December 2020 Year-to-Date ceded earned premium of \$106.9 million exceeded the budgeted amount of \$93.1 million by \$13.8 million or 14.8%.

**Direct Premiums Earned:**

- Direct premiums earned in 2020 totaled \$369.2 million compared to \$381.6 million for the same period last year (a decline of \$12.4 million or 3.2%).
- Direct premium earned was \$11.4 million higher than the budget of \$357.7 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 twelve months ended December 31, 2020 totaled \$118.7 million which was \$56.8 million above the budgeted \$61.9 million. The total includes estimated ultimate losses for Hurricane Hanna of \$16.0 million, Hurricane Laura of \$36.9 million and Hurricane Delta of \$39.2 million. Hurricane Hanna made landfall on July 25, 2020, Hurricane Laura on September 27, 2020 and Hurricane Delta on October 9, 2020 thus the loss estimates are subject to positive or negative revisions as claims develop over time.
- TWIA reported a direct loss & LAE ratio of 32.1% compared to the budgeted 17.3% 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:**

- Operating expenses for the year ended December 31, 2020 of \$28.4 million were below budget by \$4.1 million (12.6%).
- In accordance with Statutory Accounting Principles and Association Policy, TWIA capitalizes certain costs associated with large software development projects. External costs incurred during the Project Elevate development stage are capitalized as a non-admitted asset, rather than expensed. The costs are ultimately amortized over a five-year period beginning when the software is placed into 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 includes the capitalization of software development costs associated with Project Elevate.
- Operating expenses for 2020 were under budget by \$4.1 million due to the capitalization of Project Elevate. If capitalization had not occurred, operating expenses for 2020 would have been under budget by \$88,000. Notable items under budget include training (\$197,000), hardware and software (\$254,000), travel (\$216,000) and inspections (\$200,000). Expenses above budget include IT and Underwriting salaries for Elevate and legislative initiatives (\$504,000), actuarial consulting fees and model licenses for the Willis Towers Watson rate review (\$120,000) and COVID related expenses for outsourced printing and mail production (\$296,000).
- The year-to-date operating expense ratio of 7.7% is below the budgeted ratio of 9.1%, and slightly above the prior year's ratio of 7.6%.

**Commission Expense and Premium Taxes:**

- Commission expense of \$59.1 million was above budget by \$3.3 million as Direct Written premium exceeded budget.
- Total Premium taxes of \$6.9 million were slightly under budget by \$3,000 due to a decline in rates (maintenance and OPIC) below budgeted levels.

**Other Income (Expense):**

- Gross investment income for the twelve months ended December 31, 2020 totaled \$1.6 million which was \$5.8 million less than the budgeted amount of \$7.3 million. Investment income fell short of budget expectations due to near zero short term investment yields associated with the recent pandemic event.
- Interest expense on Class 1 bonds was below budget by \$2.1 million 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) was accrued each month while the commitment remained in place. TWIA cancelled the line of credit agreement on 12/28/2020, the first date allowed by the agreement without penalty.



### **Net Income**

- Net income for the twelve months ended December 31, 2020 was \$28.8 million compared to the budgeted amount of \$89.9 million. This shortfall can be attributed to losses and loss adjustment expense from the three large 2020 hurricanes and lower than expected investment yields. Prior year-to-date (2019) net income of \$149.6 million was due primarily to mild spring storms and no 2019 hurricanes impacting TWIA policyholders and slightly higher than budgeted earned premiums.
- While the Association reported 2020 net income of \$28.8 million, no CRTF payment has been accrued as the calculation of the CRTF contribution is based on ‘net gain from operations’, which reflects net income less principal payments paid on the outstanding Series 2014 Bonds (\$46.4 million).

### **Surplus/(Deficit):**

- The deficit as of December 31, 2020 improved to a negative \$160.5 million compared to a negative \$183.8 million at December 31, 2019. The deficit includes a reduction of \$4.4 million in 2020 due to the increase in non-admitted assets, which consists primarily of Project Elevate capitalized costs and prepaid expenses for Expert Panel, Insurance and Eagleview (Inspections).

\*\*\*\*\*

## 7B. Financial Statement Review by Staff

### 7B1. Income Statement and Expense Statement

1	TEXAS WINDSTORM INSURANCE ASSOCIATION					1
2	Statutory Income Statement (000's omitted)					2
3	for the twelve months ended December 31,					3
4						4
5		Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019	5
6						6
7	<b>Premiums Written:</b>					7
8	Direct	\$ 369,600	\$ 348,587	\$ 21,014	\$ 372,017	8
9	Ceded	(106,865)	(93,109)	(13,756)	(92,403)	9
10	Ceded - Depopulation	(740)	(1,705)	965	(1,691)	10
11	Net	261,995	253,772	8,223	277,922	11
12						12
13	<b>Premiums Earned:</b>					13
14	Direct	\$ 369,179	\$ 357,748	\$ 11,431	\$ 381,571	14
15	Ceded	(106,865)	(93,109)	(13,756)	(92,403)	15
16	Ceded - Depopulation	(740)	(1,705)	965	(1,691)	16
17	Net	261,574	262,934	(1,360)	287,477	17
18						18
19	<b>Deductions:</b>					19
20	Direct Losses and LAE Incurred	118,669	61,885	56,784	23,513	20
21	Direct Losses and LAE Incurred - Harvey	-	-	-	90,000	21
22	Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-	22
23	Ceded Losses and LAE Incurred - Depopulation	(199)	(491)	292	(115)	23
24	Operating Expenses	28,401	32,496	(4,095)	29,117	24
25	Commission Expense	59,103	55,774	3,329	59,475	25
26	Ceding commissions / brokerage	(3,595)	(2,402)	(1,193)	(2,754)	26
27	Ceding commissions / brokerage - Depopulation	(178)	(409)	232	(406)	27
28	Premium / Maintenance Tax	6,863	6,866	(3)	6,982	28
29	Total Deductions	209,064	153,719	55,345	205,812	29
30						30
31	<b>Net Underwriting Gain or (Loss)</b>	52,510	109,215	(56,705)	81,665	31
32						32
33	<b>Other Income or (Expense):</b>					33
34	Gross Investment Income	1,571	7,331	(5,760)	8,613	34
35	CRTF Funds Received	-	-	-	-	35
36	Member Assessment Income	-	-	-	90,000	36
37	Interest Expense on Debt	(21,999)	(24,057)	2,058	(28,343)	37
38	Debt Issuance/Maintenance & Other Investment Expenses	(3,265)	(2,602)	(663)	(2,387)	38
39	Other	-	-	-	43	39
40	Total Other Income or (Expense)	(23,693)	(19,328)	(4,365)	67,925	40
41						41
42						42
43	<b>Net Income (Loss)</b>	\$ 28,817	\$ 89,886	\$ (61,070)	\$ 149,590	43
44						44
45	<b>Surplus (Deficit) Account:</b>					45
46	Beginning Surplus (Deficit)	(183,792)	(183,792)	-	(277,864)	46
47	Net Income (Loss)	28,817	89,886	(61,070)	149,590	47
48	Change in Provision for Reinsurance	-	-	-	-	48
49	Change in nonadmitted assets - Other	(4,430)	(0)	(4,430)	135	49
50	Other	(1,046)	-	(1,046)	(3,012)	50
51	Statutory Fund Cost	-	(42,968)	42,968	(52,641)	51
52	Ending Surplus (Deficit)	\$ (160,451)	\$ (136,873)	\$ (23,578)	\$ (183,792)	52
53						53
54	<b>Key Operating Ratios:</b>					54
55	Direct:					55
56	Loss & LAE Ratio:					56
57	Non Hurricane	32.1%	17.3%	14.8%	6.2%	57
58	Hurricane Harvey	0.0%	0.0%	0.0%	23.6%	58
59	Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%	59
60	Loss & LAE Ratio	32.1%	17.3%	14.8%	29.7%	60
61	UW Expense Ratio:					61
62	Acquisition	17.8%	18.0%	(0.1%)	17.9%	62
63	Non Acquisition	7.7%	9.1%	(1.4%)	7.6%	63
64	UW Expense Ratio	25.5%	27.1%	(1.5%)	25.5%	64
65						65
66	Combined Ratio	57.7%	44.4%	13.3%	55.2%	66
67						67
68	Net:					68
69	Loss & LAE Ratio:					69
70	Non Hurricane	45.3%	23.3%	21.9%	8.1%	70
71	Hurricane Harvey	0.0%	0.0%	0.0%	31.3%	71
72	Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%	72
73	Loss & LAE Ratio	45.3%	23.3%	21.9%	39.4%	73
74	UW Expense Ratio:					74
75	Acquisition	23.8%	23.5%	0.4%	22.7%	75
76	Non Acquisition	10.9%	12.4%	(1.5%)	10.1%	76
77	UW Expense Ratio	34.7%	35.8%	(1.1%)	32.8%	77
78						78
79	Combined Ratio	80.0%	59.2%	20.8%	72.2%	79

TEXAS WINDSTORM INSURANCE ASSOCIATION					
Statutory Expense Report (000's omitted)					
for the twelve months ended December 31,					
Description	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019	
Personnel Expenses					
Salaries & Wages - Permanent	\$ 12,599	\$ 12,332	\$ 268	\$ 11,648	
Contractor & Temporary Help	12,921	8,069	4,852	13,860	
Payroll Taxes	885	957	(73)	840	
Employee Benefits	4,632	4,331	301	4,146	
Recruiting, Training & Other	178	365	(187)	395	
Subtotal	31,214	26,054	5,160	30,889	
Professional & Consulting Services					
Legal	518	610	(92)	629	
Accounting & Auditing	366	272	94	356	
Information Technology	3,600	5,057	(1,457)	2,443	
Actuarial Services	315	196	119	(20)	
Ombudsman Program	127	114	13	132	
Surveys & Inspections	1,326	1,526	(200)	1,527	
Disaster Recovery Services	442	157	285	234	
Other Services (see note 1)	4,174	3,630	543	3,505	
Subtotal	10,868	11,562	(694)	8,805	
Hardware/Software Purchases & Licensing	3,096	3,273	(178)	2,998	
Rental & Maintenance - Office/Equipment	1,267	1,368	(101)	1,296	
Travel Expenses	58	335	(278)	251	
Postage, Telephone and Express	907	1,145	(238)	976	
Capital Management Expenses	17	24	(7)	2,113	
Depreciation	28	28	(0)	19	
Other Operating Expenses	1,124	1,164	(40)	1,164	
Total Operating Expenses	\$ 48,580	\$ 44,954	\$ 3,626	\$ 48,511	
Capitalization of Fixed Assets	(4,578)	-	(4,578)	-	
Reimbursement of Depop Servicing Expense	(76)	(117)	41	(120)	
Allocation To ULAE	(15,225)	(12,033)	(3,191)	(16,887)	
Allocation To Investing & Other Expense	(301)	(308)	7	(2,387)	
Net Operating Expense - UW Operations	\$ 28,401	\$ 32,496	\$ (4,095)	\$ 29,117	

(1) Summary Details for Other Services:

VENDOR	Amount	Department
Accenture	\$ 1,884,908	Expert Panel
Call Center Expense	\$ 665,202	Claims & Underwriting
Xactware	\$ 426,777	Claims
Marshall & Swift/Boeckh	\$ 251,123	Underwriting
EagleView Technologies Inc	\$ 218,161	Claims
Risk Management Solutions	\$ 201,000	Expert Panel
ISO Services Inc	\$ 118,952	Claims
ADP Inc	\$ 66,417	Human Resources
Scan Mailboxes Solutions LLC	\$ 48,856	Operations
LogicGate Inc	\$ 43,875	Legal & Compliance
Cornerstone OnDemand Inc	\$ 34,938	Human Resources
Spatial Key	\$ 30,245	Claims
ThriveFuel LLC	\$ 24,450	Communications & LA
Iron Mountain Records Management	\$ 20,631	Operations
*Other Outside Services below \$20K	\$ 138,361	Various departments
<b>Total Other Services</b>	<b>\$ 4,173,893</b>	

## 7B2. Balance Sheet

1	TEXAS WINDSTORM INSURANCE ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		<u>December-20</u>	<u>December-19</u>	5
6	<b>Admitted Assets</b>			6
7	Cash and short term investments:			7
8	Unrestricted	\$ 398,270	\$ 432,595	8
9	Restricted - Funds Held at TTSTC	83,406	82,016	9
10	Restricted - Funds Held at TTSTC (Non Admitted)	-	-	10
11	Total cash and short term investments	481,676	514,611	11
12	Premiums receivable & other	2,452	1,499	12
13	Assessment receivable	-	90,000	13
14	Amounts recoverable from reinsurers	66	7	14
15	<b>Total admitted assets</b>	<u><u>\$ 484,193</u></u>	<u><u>\$ 606,117</u></u>	15
16				16
17	<b>Liabilities, Surplus and other funds</b>			17
18	<b>Liabilities:</b>			18
19	Loss and Loss adjustment expenses	\$ 164,315	\$ 169,130	19
20	Underwriting expenses payable	11,038	9,962	20
21	Unearned premiums, net of ceded unearned premiums	185,917	185,495	21
22	Ceded reinsurance premiums payable	25,908	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	9,372	13,142	24
25	Provision for reinsurance	-	-	25
26	Other payables	20,894	18,378	26
27	Statutory fund payable	-	52,641	27
28	<b>Total liabilities</b>	<u><u>644,644</u></u>	<u><u>789,909</u></u>	28
29				29
30	<b>Surplus and others funds</b>			30
31	Unassigned surplus	(160,451)	(183,792)	31
32	<b>Total liabilities, surplus and other funds</b>	<u><u>\$ 484,193</u></u>	<u><u>\$ 606,117</u></u>	32
33				33
34				34
35	<b>Balance in CRTF</b>	<u><u>\$ 179,174</u></u>	<u><u>\$ 122,496</u></u>	35
36				36
37	<b>Balance in CRTF including Statutory fund payable</b>	<u><u>\$ 179,174</u></u>	<u><u>\$ 175,137</u></u>	37

## 7B3. Cash & Short-Term Investments

Texas Windstorm Insurance Association  
Unrestricted Cash and Short Term Investments (\$ in 000's)  
December 31, 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	
<b>Balances as of 12/31/2020:</b>											
Bank of America, Operating	162	150,274	150,436	156,982	71	0.18%	38%	Superior	13.5%	\$197	No
BlackRock Liquidity Funds (1)	0	51,628	51,628	48,232	1	0.01%	13%	N/A	N/A	N/A	N/A
Citibank	202	16,986	17,188	17,033	0	0.01%	4%	Superior	13.9%	\$140	No
JP Morgan Chase	28,795	0	28,795				7%	Superior	15.6%	\$226	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	150,223	150,223	158,591	7	0.02%	38%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0				0%	Superior	13.7%	\$149	No
<b>Total of all financial institutions</b>	<b>29,159</b>	<b>369,111</b>	<b>398,270</b>	<b>380,838</b>	<b>79</b>	<b>0.08%</b>	<b>100%</b>				
<b>Balances as of 9/30/2020:</b>											
Bank of America, Operating	162	166,660	166,822	165,522	77	0.19%	39%	Superior	12.3%	\$192	No
BlackRock Liquidity Funds (1)	0	66,971	66,971	55,323	2	0.01%	16%	N/A	N/A	N/A	N/A
Citibank	3	17,185	17,188	60,551	12	0.08%	4%	Superior	12.9%	\$137	No
JP Morgan Chase	10,858	0	10,858				3%	Superior	13.4%	\$205	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	165,227	165,227	143,199	17	0.05%	39%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0				0%	Superior	12.6%	\$147	No
<b>Total of all financial institutions</b>	<b>11,023</b>	<b>416,044</b>	<b>427,067</b>	<b>424,594</b>	<b>107</b>	<b>0.10%</b>	<b>100%</b>				
(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.											
(2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.											
(3) Balances in non-interest bearing accounts have increased to reduce bank charges as rates for earnings credits have generally exceeded yields on short-term investments.											
Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of September 30, 2020. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.											



## 7B4. Cash Flow Statement

1	TEXAS WINDSTORM INSURANCE ASSOCIATION	1
2	Statement of Cash Flows (000's omitted)	2
3	for the twelve months ended December 31,	3
4		4
5	Actuals - 2020    Budget - 2020    Variance - 2020	5
6		6
7	<b>Cash flows from operating activities:</b>	7
8	Premiums collected, net of reinsurance    \$    264,819    \$    253,830    \$    10,989	8
9	Losses and loss adjustment expense paid    (123,344)    (114,820)    (8,524)	9
10	Underwriting expenses paid    (92,499)    (92,540)    40	10
11	CRTF funds received    -    -    -	11
12	Member assessment received    90,000    90,000    -	12
13	Other    872    6    865	13
14	Net cash provided by operating activities    139,847    136,477    3,370	14
15	<b>Cash flows from nonoperating activities:</b>	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	<b>Cash flows from investing activities:</b>	19
20	Sales and maturities of investments    -    -    -	20
21	Net investment income    (28,741)    (21,556)    (7,185)	21
22	Net cash provided by investing activities    (28,741)    (21,556)    (7,185)	22
23	<b>Cash flows from financing activities:</b>	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    (32,935)    (39,345)    6,410	28
29	Cash and short-term investments, Beginning    514,611    514,611    -	29
30	Cash and short-term investments, Ending    \$    481,676    \$    475,266    \$    6,410	30
31		31

## 7B5. Historical Data

	TEXAS WINDSTORM INSURANCE ASSOCIATION											
	HISTORICAL DATA											
	1971 - 2020											
	(\$ with 000's omitted)											
	GROSS							NET				
	LIABILITY IN		RATE		WRITTEN		LOSS &	UNDERWRITING		UNDERWRITING	CRTF BALANCE	
	FORCE	POLICY	CHANGES		PREMIUMS	LAE	INCURRED	EARNED	LOSS &	EXPENSES		
YEAR	END OF PERIOD	COUNT	RESID	COMML				PREMIUMS	LAE INCURRED	INCURRED	GAIN (LOSS)	END OF PERIOD
1971	\$ 278,710	13,415			\$ 2,393	\$ 92		\$ 868	\$ 92	\$ 385	\$ 391	
1972	739,983	33,577			4,138	214		3,468	214	849	2,405	
1973	1,017,048	45,743			4,286	1,427		4,288	1,427	1,099	1,763	
1974	1,064,772	45,901			4,512	452		4,378	452	1,106	2,819	
1975	1,169,763	46,365			6,036	592		5,263	592	1,417	3,254	
1976	1,387,252	48,747			8,130	231		6,953	231	1,878	4,844	
1977	1,616,220	51,382			9,922	203		9,080	203	2,258	6,619	
1978	1,633,521	48,820			10,523	296		10,249	296	2,329	7,624	
1979	1,816,410	46,128			11,045	2,370		11,039	2,370	2,178	6,490	
1980	1,936,388	43,613			9,675	14,217		10,245	14,217	2,079	(6,051)	
1981	2,105,244	42,495			9,137	2,715		9,313	2,715	2,097	4,501	
1982	2,285,594	51,034			8,641	982		9,106	982	2,095	6,029	
1983	2,165,231	44,894			6,900	157,112		7,585	157,112	1,937	(151,463)	
1984	3,178,079	51,311			9,450	1,294		7,989	1,294	2,493	4,202	
1985	4,061,660	57,181			18,232	1,510		3,534	1,510	3,638	(1,614)	
1986	4,510,378	60,028			20,987	1,202		5,229	1,202	3,997	30	
1987	4,401,486	57,976			20,532	2,555		4,931	2,555	4,091	(1,715)	
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509		3,551	2,509	4,066	(3,024)	
1989	4,236,600	55,401	-	-	18,066	14,176		5,330	14,176	4,037	(12,883)	
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590		16,761	1,590	4,171	11,000	
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783		7,167	1,783	4,343	1,042	
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321		4,014	1,321	4,220	(1,527)	
1993	6,500,165	56,921	30.0%	-	19,377	4,778		123,515	4,778	5,161	113,576	
1994	7,645,176	63,348	-	-	26,545	1,572		25,692	1,572	6,982	17,138	124,847
1995	8,828,140	69,807	25.0%	-	32,419	4,033		29,016	4,033	8,119	16,864	151,284
1996	10,001,843	72,977	-	-	40,359	1,484		37,153	1,484	10,627	25,042	179,020
1997	10,907,937	75,361	-	-	42,463	4,133		41,045	4,133	11,038	25,874	216,896
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235		28,256	27,235	12,181	(11,160)	238,221
1999	11,972,502	75,947	-9.4%	-	44,581	11,320		28,702	11,320	11,524	5,858	250,403
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937		28,470	7,937	11,681	8,852	268,563
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011		31,112	8,011	12,936	10,165	280,063
2002	16,003,048	85,668	-	5.0%	72,968	32,359		44,516	32,359	16,584	(4,427)	303,185
2003	18,824,457	96,420	-	10.0%	87,987	24,955		51,702	24,955	19,682	7,065	305,599
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115		52,230	6,115	21,911	24,204	308,729
2005	23,263,934	109,693	-	10.0%	113,928	178,370		65,438	178,370	25,277	(138,209)	311,508
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188		85,467	5,188	37,138	43,141	361,823
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985		135,843	17,985	51,768	66,090	388,542
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123		(138,560)	1,117,123	53,759	(1,309,442)	-
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)		389,600	(183,974)	87,899	485,675	-
2010	67,452,357	242,664	-	-	385,550	555,025		351,730	252,685	85,598	13,447	76,334
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539		321,781	202,539	81,665	37,577	146,650
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873		321,122	401,873	93,583	(174,334)	178,902
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975		295,130	30,975	100,524	163,631	186,184
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)		367,555	(13,994)	109,189	272,360	216,813
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886		377,594	178,886	114,973	83,736	487,170
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669		370,404	38,625	109,756	222,023	587,860
2017	65,023,810	231,567	-	-	423,074	1,476,861		347,354	1,475,302	97,878	(1,225,826)	1,220
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718		301,515	175,998	96,399	29,118	5,986
2019	55,189,815	189,203	-	-	372,017	113,513		287,477	113,398	92,415	81,664	122,496
2020	55,009,638	184,890	-	-	369,600	118,669		261,574	118,470	90,594	52,510	179,174
TOTAL*					6,958,311	5,923,860		4,812,775	4,452,223	1,533,604	(1,173,052)	

\*2020 data through 12/31/2020.

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**HISTORICAL DATA**  
**1997 - 2020 (24 Years)**  
**(\$ with 000's omitted)**



1	<b>Premium and Other Revenues</b>				1
2	<b>Direct Earned Premium</b>		<b>6,405,440</b>		2
3	Investment Income /Other		79,646		3
4	<b>Premium and Other Revenues</b>		<b>6,485,086</b>		4
5					5
6	<b>Expenditures</b>				6
7	Reinsurance Premiums/Commissions		(1,862,359)	28.7%	7
8	Losses		(1,507,215)	23.2%	8
9	Funded into CRTF	A	(1,035,034)	16.0%	9
10	Agents Commissions		(1,052,893)	16.2%	10
11	Operating Expenses		(489,080)	7.5%	11
12	Class 1 Bond Interest/LOC Expenses		(225,886)	3.5%	12
13	Early Redemption withholdings from 2019		-	0.0%	13
14	Repayment of Class 1 Bonds	B	(272,800)	4.2%	14
15	Other/Adjustments		(28,868)	0.4%	15
16	Federal Taxes		(10,951)	0.2%	16
17	<b>Total TWIA Expenditures</b>		<b>(6,485,086)</b>	100.0%	17
18					18
19	<b>Net</b>		-	-	19
20					20
21					21
22					22
23	<b>Payment of Losses:</b>				23
24	Reinsurers	D	1,498,634	}	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	1,507,215		28
29	<b>Total Losses</b>		<b>5,703,148</b>	<b>5,703,148</b>	29
30			-		30
31					31
32	<b>CRTF Summary</b>				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		212,614		36
37	Ending Balance		<u>179,174</u>		37
38					38
39	<b>Class 1 Debt Summary</b>				39
40	Proceeds of Offering		500,000		40
41	Payment of Losses	F	(449,172)		41
42	Net Proceeds Remaining - Debt Service Reserve Funds		<u>50,828</u>		42
43					43
44	<b>Class 1 Principal Outstanding</b>				44
45	Original Principal Amount		500,000		45
46	Principal Payments	B	(272,800)		46
47	Remaining Outstanding (12/31/20)		<u>227,200</u>		47

## 7B6. Debt Covenants



## MEMORANDUM

---

DATE: February 4, 2021

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **Series 2014 Bonds – Net Coverage Revenue test**

---

Pursuant to the terms of the Series 2014 Bonds, the Association has certain reporting obligations. These include a quarterly certification that Net Coverage Revenues, as defined, are in excess of the Obligations and Administrative Expenses of the bonds equaling at least: (a) 110% of the most recent actual 4 quarter period; and (b) 125 % of the projected succeeding four calendar quarters.

Based on projected premiums and losses for the 4 quarters ending December 31, 2021, the prospective coverage ratio for the upcoming four calendar quarters (ending 12/31/21) is 140% or 15 percentage points above the required forward looking ratio of 125%. The projections assume there are no unusual losses in 2021.

In May 2020 the Association completed a voluntary early redemption of \$45 million principal of the 2014 Class 1 bonds and paid \$1.3 million interest associated with the redeemed securities. The impact of this redemption of principal will result in an average annual savings of approximately \$2.4 million in interest over the remaining term of the bonds. While optional, the \$46.3 million paid to redeem these securities was required to be included as a debt obligation in the preceding 4 quarters covenant calculation and as a result, including factors described below, the debt coverage ratio for the period ending December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110%. This result includes the early redemption amounts and losses from 2020 hurricanes Hanna, Laura and Delta as described below. The impact of the optional redemption on the debt service coverage ratios has been communicated to the Series 2014 bond holders and the Texas Public Finance Authority as required by the bond documents.

In addition, while TWIA's 2020 financial results included losses from Hurricane Hanna, Laura, and Delta, none of these events is considered a "Catastrophic Event" as defined in our statutes and bond documents. A "Catastrophic Event" is defined as an occurrence or a series of occurrences that occurs in a Catastrophe Area resulting in Losses and Operating Expenses of the Association in excess of Premium and Other Revenue of the Association. "Catastrophic Losses" means losses resulting from a "Catastrophic Event", and "Non-Catastrophic Losses" means Losses not resulting from a Catastrophic Event. Therefore, the 2020 Hurricane Events are not considered "catastrophic events" and associated losses are not considered "catastrophic losses" for the purpose of the Actual Net Coverage Revenue calculations and consequently are included with "non-catastrophic losses" for the December 31, 2020 certification.



As a result of the inclusion of the optional redemption and the impact of the 2020 hurricanes, TWIA's Actual Net Coverage Revenue was below the 110% threshold for the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2020. Pursuant to the bond documents, if either the Actual Net Coverage Revenue test or the Projected Net Coverage Revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to TPFA "the action or actions (including but not limited to rate changes, Reinsurance Costs adjustments, and other fiscal steps) necessary to meet" the requirements in the future. TWIA staff conveyed to TPFA in its 3<sup>rd</sup> quarter report that, absent any new developments, the passage of time will allow for the ratios to come back into compliance and that no further actions are necessary in order to meet the coverage requirements.

Future periods are forecasted to produce sufficient Projected Net Coverage Revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time (as shown below).

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Net Coverage / Debt Service Coverage				
for the twelve months ended,				
	12/31/2017	12/31/2018	12/31/2019	12/31/2020
<b>ACTUAL PRIOR 4 QUARTERS ENDING:</b>				
Direct Premiums Earned	\$ 451,347	\$ 409,954	\$ 381,571	\$ 369,179
Other Revenues	6,695	7,481	8,655	1,571
Net Premium and Other Revenues (1)	458,042	417,435	390,226	370,750
Non-Catastrophic Losses and Loss Adjustment Expenses	42,618	11,718	23,513	118,669
All other Expenses	200,310	207,279	187,943	200,870
Total All Expenses	242,928	218,996	211,456	319,539
<b>Total Actual Net Coverage Revenues</b>	<b>215,114</b>	<b>198,439</b>	<b>178,771</b>	<b>51,211</b>
<b>Actual Obligations and Admin Expenses</b>	<b>80,405</b>	<b>80,330</b>	<b>80,322</b>	<b>117,189</b>
<b>Actual Net Coverage %</b>	<b>268%</b>	<b>247%</b>	<b>223%</b>	<b>44%</b>
<b>Maximum Annual Debt Service (2)</b>	<b>\$ 80,381</b>	<b>\$ 80,381</b>	<b>\$ 80,381</b>	<b>\$ 69,015</b>
<b>Debt Service Coverage (1)/(2)</b>	<b>5.7</b>	<b>5.2</b>	<b>4.9</b>	<b>5.4</b>





EXHIBIT A

TEXAS WINDSTORM INSURANCE ASSOCIATION Net Coverage Revenues Calculation (000's omitted) Actual Results Through December 31, 2020				
	Preceding 4 Qtrs Ended Dec-20		Succeeding 4 Qtrs Ending Dec-21	
1 Direct Premiums Written	369,600		375,158	See note 2
2				
3 Direct Premiums Earned	369,179		372,346	See note 2
4 Other Revenues	1,571		208	
5 <b>Net Premium and Other Revenue</b>	<b>370,750</b>		<b>372,554</b>	
6				
7 Non-Catastrophic Losses and Loss Adjustment Expenses (LAE)	118,669	See note 3	63,477	See note 3
8 Agent Commission Expense	59,103		60,025	See note 4
9 Taxes, Licenses & Fees	6,863		6,978	See note 5
10 Other Underwriting Expenses	28,401		31,313	See note 6
11 Catastrophe Reinsurance Costs (Premium net of Ceding Commission)	103,270		111,123	See note 7
12 Reinsurance Costs - Depop Quota Share (Premium, less ceding commission, less loss/LAE)	363		0	
13 Other Financial Arrangements (Credit facility closing fees & administration fees)	2,870		2,876	
14 <b>Total All Expenses</b>	<b>319,539</b>		<b>275,792</b>	
15				
16 <b>Net Coverage Revenues (1)</b>	<b>51,211</b>		<b>96,761</b>	
17				
18 Principal	91,400	See note 8	50,200	
19 Interest	25,769	See note 8	18,744	
20 Administrative Expenses	20		20	
21 <b>Obligations and Administrative Expenses (2)</b>	<b>117,189</b>		<b>68,964</b>	
22 Applicable Covenant %	110%		125%	
23 <b>Covenanted Coverage Revenues (3)</b>	<b>128,908</b>		<b>86,205</b>	
24				
25 <b>Net Coverage Revenues Over (Under) Covenanted Coverage Revenues - (1) minus (3)</b>	<b>(77,697)</b>		<b>10,556</b>	
26				
27 <b>Net Coverage Revenues Divided By Obligations &amp; Administrative Expenses (1) / (2)</b>	<b>44%</b>		<b>140%</b>	

Key Assumptions/Notes:

- 1 Policies in Force at 12/31/2020 declined 2.3% from prior year levels.
- 2 Actual and forecasted premiums reflect a 0% Rate Change effective 1/1/2020 and no rate change in the forecast period.
- 3 Losses & Loss Adjustment Expenses: The forecasted 2021 loss and LAE ratios are based on TWIA Actuarial staff assumptions. The preceding 4 quarters include \$16 million, \$36.9 million and \$39.2 million in ultimate losses and loss adjustment expenses from Hurricane Hanna, Hurricane Laura and Hurricane Delta, respectively. While these events were each named hurricanes, the incurred losses and loss adjustment expenses are not considered catastrophic as losses and expenses are less than premium and other revenues.
- 4 Agent Commission Expense is calculated at 16% of Premiums Written
- 5 Taxes, Licenses & Fees are calculated at 1.86% of Premiums Written for 2021.
- 6 Other Underwriting Expenses are based on the 2021 forecast.
- 7 Reinsurance costs for succeeding 4 quarters are based on the 2021 budget.
- 8 Includes \$45 million principal and \$1.3 million interest associated with the partial redemption on May 11, 2020.
- 9 Depopulation Program activities resulted in a decrease in policy count of 1,003 for policies taken out via the Assumption Reinsurance Program effective 6/1/2020. The 2021 program is in hiatus due to a restructuring of the program.
- 10 Other Financial Arrangements represents administrative costs associated with the \$500 million credit facility which was renewed on June 1, 2020.

## 7B7. 2020 Catastrophe Year CRTF Contribution



## MEMORANDUM

---

DATE: February 3, 2021  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **2020 Catastrophe Reserve Trust Fund (CRTF) Contribution Calculation**

---

Sec. 2210.452 (c) provides at the end of each calendar year or policy year, the Association shall use the **net gain from operations of the association**, including all premium and other revenue of the association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses, to make payments to the trust fund, procure reinsurance, or use alternative risk financing mechanisms.

The calculation of net gain from operations for the calendar year 2020 is shown below. As displayed in the exhibit and supporting schedule, while TWIA recorded net income of \$28.8 million in 2020, the net gain from operations includes a deduction for principal payments on our outstanding bonds, which eliminated any gain available to contribute to the trust.

**TEXAS WINDSTORM INSURANCE ASSOCIATION**

**Basis for CRTF Expense Calculation**

	<b>for the twelve months ended December 31, 2020</b>			
	<b>Statutory</b>	<b>Adjustment</b>	<b>Adjusted</b>	
<b>6 Premiums Earned:</b>				
7 Direct Earned	\$ 369,179,093	\$ -	\$ 369,179,093	
8 Ceded Earned	107,605,102	106,864,703	740,399	(a)
9 Net Earned	261,573,991	(106,864,703)	368,438,694	
<b>11 Deductions:</b>				
12 Net Loss and LAE Incurred	118,469,985	-	118,469,985	(b)
13 Other Underwriting Expenses Incurred	90,594,242	(3,594,958)	94,189,200	(a)
14 Statutory Fund Expense	-	-	-	
15 Total Deductions	209,064,227	(3,594,958)	212,659,185	
<b>17 Net Underwriting Income (Loss)</b>	52,509,764	(103,269,745)	155,779,509	
<b>19 Other Income or (Expense):</b>				
20 Net investment income earned	(23,692,958)	(25,246,520)	1,553,562	(c)
21 Member Assessment Income	-	-	-	(d)
22 Other income	-	-	-	
23 Total Other Income or (Expense)	(23,692,958)	(25,246,520)	1,553,562	
<b>25 Net Income (Loss)</b>	\$ 28,816,806	\$ (128,516,265)	\$ 157,333,071	

**Note: The above calculation reconciles the statutory income statement to an adjusted net income removing funding and catastrophe related items.**

**Adjustments:**

- (a) Adjustment to remove 2020 excess of loss catastrophe reinsurance ceded premium/expense.
- (b) Exclusion of prior year "catastrophe" incurred loss and loss adjustment expense, \$0 through December 2020.
- (c) Removal of investment expense - Bond interest \$22.0 million, Line of Credit Fees \$2.9 million, Bond Issuance Expense \$0.1 million, and Bank Service Fees of \$0.3 million.
- (d) Remove member assessment income related to prior catastrophe year, \$0 as of December 2020.

**Calculation of Statutory Fund Expense**

	<b>December 31, 2020</b>
<b>41 Income:</b>	
42 Net Earned Premium	\$ 368,438,694
43 Other Revenue	1,553,562
44 Distributions from Public Trust Funds	-
45 Income	369,992,256
<b>47 Expenses:</b>	
48 Net Incurred Losses	118,469,985
49 Operating Expenses	94,189,200
50 Expenses	212,659,185
<b>52 Adjusted Net Income (Loss)</b>	\$ 157,333,071
<b>54 Adjustments to Adjusted Net Income (Loss)</b>	
55 Reinsurance Premium/Expense XOL	\$ 103,269,745
56 Current Year Financial Obligations	3,153,540
57 Current Year Net Premium Payment Obligations	68,398,625
58 Current Year Public Security Admin Expense	94,355
59 CRTF Adjustments	174,916,265
<b>61 Excess / (Deficit)</b>	\$ (17,583,194)

**(e) Debt Service required payments to bondholders for 2020**

## 8. Actuarial

### 8A. Reserve Adequacy



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

## MEMORANDUM

---

REVIEW DATE: January 26, 2020

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of December 31, 2020

---

The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of December 31, 2020.

Hurricane Hanna made landfall on July 25, 2020 at Padre Island, Texas as a Category 1 hurricane. With 1,547 Hanna related claims reported to the Association as of January 25, 2021, 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 January 25, 2021, 4,291 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 3,940 claims to the association as of January 25, 2021. Loss and Expense related to Hurricane Delta is estimated at \$39.2 million.

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 586 open claims, the outcome of disputed claims and the potential impact of future re-openings of closed claims as of December 31, 2020. Even though TWIA has recorded the estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey 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 December 31, 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 December 31, 2020, TWIA carried \$164.4 million in total gross loss and loss adjustment expense reserves with \$86K 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 Hurricane IKE, Harvey, Delta, 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.

## 8B. Policy Count/Exposures



**Texas Windstorm Insurance Association**  
**Statistical Report**  
As of December 31, 2020



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	12/31/19	12/31/20	Actual	Percentage	12/31/19	12/31/20	Actual	Percentage	12/31/19	12/31/20	Actual	Percentage
Aransas	5,046	5,155	109	2.20%	1,671,441,466	1,727,721,412	\$56,279,946	3.40%	12,212,831	12,472,008	\$259,177	2.10%
Brazoria	30,825	28,941	-1,884	-6.10%	9,018,475,001	8,507,986,098	-\$510,488,903	-5.70%	56,800,972	53,458,264	-\$3,342,708	-5.90%
Calhoun	3,546	3,545	-1	0.00%	937,742,918	963,932,344	\$26,189,426	2.80%	7,234,418	7,297,840	\$63,422	0.90%
Cameron	10,930	9,949	-981	-9.00%	2,847,861,781	2,845,748,671	-\$2,113,110	-0.10%	19,639,280	20,569,093	\$929,813	4.70%
Chambers	4,031	3,861	-170	-4.20%	1,306,040,008	1,293,728,553	-\$12,311,455	-0.90%	7,903,514	7,698,368	-\$205,146	-2.60%
Galveston	57,284	58,099	815	1.40%	19,000,146,174	19,579,406,022	\$579,259,848	3.00%	130,950,573	133,713,715	\$2,763,142	2.10%
Harris	3,371	3,417	46	1.40%	1,018,771,609	1,054,146,885	\$35,375,276	3.50%	4,742,946	4,899,132	\$156,186	3.30%
Jefferson	24,803	24,270	-533	-2.10%	5,788,879,115	5,685,660,279	-\$103,218,836	-1.80%	40,940,155	40,041,731	-\$898,424	-2.20%
Kenedy	16	18	2	12.50%	6,302,341	6,743,326	\$440,985	7.00%	41,817	45,402	\$3,585	8.60%
Kleberg	817	751	-66	-8.10%	183,944,537	169,188,157	-\$14,756,380	-8.00%	1,332,281	1,230,141	-\$102,140	-7.70%
Matagorda	4,256	4,215	-41	-1.00%	1,075,209,079	1,080,329,467	\$5,120,388	0.50%	7,384,376	7,276,583	-\$107,793	-1.50%
Nueces	37,721	36,411	-1,310	-3.50%	10,576,788,666	10,393,842,268	-\$182,946,398	-1.70%	70,721,066	69,235,481	-\$1,485,585	-2.10%
Refugio	332	327	-5	-1.50%	93,019,109	94,205,120	\$1,186,011	1.30%	755,479	769,342	\$13,863	1.80%
San Patricio	5,873	5,587	-286	-4.90%	1,579,349,360	1,521,169,011	-\$58,180,349	-3.70%	10,675,301	10,226,177	-\$449,124	-4.20%
Willacy	352	344	-8	-2.30%	85,843,383	85,830,685	-\$12,698	0.00%	688,050	670,879	-\$17,171	-2.50%
<b>Total</b>	<b>189,203</b>	<b>184,890</b>	<b>-4,313</b>	<b>-2.30%</b>	<b>55,189,814,547</b>	<b>55,009,638,298</b>	<b>-\$180,176,249</b>	<b>-0.30%</b>	<b>372,023,059</b>	<b>369,604,156</b>	<b>-\$2,418,903</b>	<b>-0.70%</b>

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of December 31, 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
<b>Aransas</b>										
Commercial	73	423	119	726	322,700	2,145,152	212,857,741	5,218,530	301	582
Manufactured Home	15	111	15	113	15,524	140,347	5,484,582	0	106	107
Residential	954	5,015	1,011	5,285	1,946,860	10,186,509	1,509,379,089	125,314,997	4,748	4,996
Total	1,042	5,549	1,145	6,124	2,285,084	12,472,008	1,727,721,412	130,533,527	5,155	5,685
<b>Brazoria</b>										
Commercial	158	815	208	1,237	597,014	4,209,588	371,906,939	7,500,739	679	1,088
Manufactured Home	26	158	27	159	40,339	248,553	9,966,950	0	154	155
Residential	6,074	29,551	6,231	30,333	10,328,169	49,000,123	8,126,112,209	1,044,734,874	28,108	28,851
SUM:	6,258	30,524	6,466	31,729	10,965,522	53,458,264	8,507,986,098	1,052,235,613	28,941	30,094
<b>Calhoun</b>										
Commercial	45	202	93	403	315,079	1,271,298	103,734,441	2,142,595	180	364
Manufactured Home	10	71	10	72	15,137	98,634	3,977,234	0	71	72
Residential	639	3,404	699	3,768	1,137,380	5,927,908	856,220,669	71,373,014	3,294	3,644
SUM:	694	3,677	802	4,243	1,467,596	7,297,840	963,932,344	73,515,609	3,545	4,080
<b>Cameron</b>										
Commercial	161	784	318	1,503	3,040,802	9,390,928	1,010,168,185	6,575,995	617	1,203
Manufactured Home	6	54	6	54	6,791	55,643	2,219,944	0	52	52
Residential	1,915	9,847	1,968	10,050	2,150,100	11,122,522	1,833,360,542	188,785,111	9,280	9,474
SUM:	2,082	10,685	2,292	11,607	5,197,693	20,569,093	2,845,748,671	195,361,106	9,949	10,729

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of December 31, 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
<b>Chambers</b>										
Commercial	16	103	36	152	104,755	523,392	43,764,418	517,900	86	132
Manufactured Home	8	28	8	28	15,154	30,686	1,466,447	0	25	25
Residential	783	3,946	830	4,131	1,423,733	7,144,290	1,248,497,688	163,770,270	3,750	3,930
SUM:	807	4,077	874	4,311	1,543,642	7,698,368	1,293,728,553	164,288,170	3,861	4,087
<b>Galveston</b>										
Commercial	406	2,140	764	3,666	4,864,752	23,779,124	2,244,843,250	48,863,120	1,803	3,269
Manufactured Home	37	217	37	219	51,226	254,599	10,298,118	0	211	213
Residential	11,906	58,831	12,337	60,877	22,351,771	109,679,992	17,324,264,654	1,921,267,408	56,085	58,033
SUM:	12,349	61,188	13,138	64,762	27,267,749	133,713,715	19,579,406,022	1,970,130,528	58,099	61,515
<b>Harris</b>										
Commercial	11	59	17	102	113,221	440,590	34,848,574	480,630	55	98
Manufactured Home	0	4	0	4	0	3,383	135,300	0	4	4
Residential	732	3,493	745	3,584	936,540	4,455,159	1,019,163,011	132,117,954	3,358	3,435
SUM:	743	3,556	762	3,690	1,049,761	4,899,132	1,054,146,885	132,598,584	3,417	3,537
<b>Jefferson</b>										
Commercial	126	699	190	1,028	501,364	3,170,219	266,839,886	8,813,630	615	924
Manufactured Home	2	28	2	28	2,102	50,765	1,980,500	0	27	27
Residential	4,487	24,833	4,588	25,388	6,791,602	36,820,747	5,416,839,893	685,402,625	23,628	24,145
SUM:	4,615	25,560	4,780	26,444	7,295,068	40,041,731	5,685,660,279	694,216,255	24,270	25,096

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of December 31, 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
<b>Kenedy</b>										
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	2	19	6	33	1,707	32,110	6,048,885	35,600	17	31
SUM:	2	20	6	38	1,707	45,402	6,743,326	35,600	18	36
<b>Kleberg</b>										
Commercial	9	43	11	65	30,163	156,394	12,521,346	415,800	34	56
Manufactured Home	0	2	0	2	0	3,613	144,500	0	2	2
Residential	152	767	156	806	202,513	1,070,134	156,522,311	16,140,278	715	748
SUM:	161	812	167	873	232,676	1,230,141	169,188,157	16,556,078	751	806
<b>Matagorda</b>										
Commercial	41	183	49	280	196,398	839,474	73,946,338	1,905,585	158	255
Manufactured Home	3	20	3	20	6,201	31,489	1,322,907	0	20	20
Residential	791	4,278	814	4,431	1,197,278	6,405,620	1,005,060,222	101,672,108	4,037	4,179
SUM:	835	4,481	866	4,731	1,399,877	7,276,583	1,080,329,467	103,577,693	4,215	4,454
<b>Nueces</b>										
Commercial	440	2,108	761	3,654	2,632,541	12,777,637	1,381,769,647	36,652,424	1,655	3,120
Manufactured Home	4	26	4	26	3,286	35,027	1,188,900	0	22	22
Residential	7,020	36,490	7,184	37,631	11,122,249	56,422,817	9,010,883,721	1,005,714,026	34,734	35,817
SUM:	7,464	38,624	7,949	41,311	13,758,076	69,235,481	10,393,842,268	1,042,366,450	36,411	38,959

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of December 31, 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
<b>Refugio</b>										
Commercial	6	35	12	65	60,890	244,934	20,359,135	90,000	29	57
Manufactured Home	2	18	2	21	1,043	28,657	1,123,004	0	16	19
Residential	50	295	51	330	79,509	495,751	72,722,981	7,092,171	282	317
SUM:	58	348	65	416	141,442	769,342	94,205,120	7,182,171	327	393
<b>San Patricio</b>										
Commercial	66	295	109	477	229,121	1,149,047	100,116,979	3,343,155	225	390
Manufactured Home	3	28	3	28	3,935	43,801	1,763,156	0	27	27
Residential	1,104	5,659	1,122	5,859	1,788,126	9,033,329	1,419,288,876	167,320,594	5,335	5,530
SUM:	1,173	5,982	1,234	6,364	2,021,182	10,226,177	1,521,169,011	170,663,749	5,587	5,947
<b>Willacy</b>										
Commercial	7	34	25	66	7,990	126,494	12,837,525	98,550	29	56
Manufactured Home	1	5	1	5	1,440	6,640	265,590	0	5	5
Residential	52	331	55	355	82,786	537,745	72,727,570	5,224,175	310	331
SUM:	60	370	81	426	92,216	670,879	85,830,685	5,322,725	344	392
<b>Total All Counties</b>										
Commercial	1,565	7,924	2,712	13,429	13,016,790	60,237,563	5,891,208,845	122,618,653	6,467	11,599
Manufactured Home	117	770	118	779	162,178	1,031,837	41,337,132	0	742	750
Residential	36,661	186,759	37,797	192,861	61,540,323	308,334,756	49,077,092,321	5,635,965,204	177,681	183,461
SUM:	38,343	195,453	40,627	207,069	74,719,291	369,604,156	55,009,638,298	5,758,583,856	184,890	195,810

## 8C. Appointment of Actuary and Qualification Documentation



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

## MEMORANDUM

---

REVIEW DATE: January 26, 2021

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: Appointed Actuary Qualification Documentation

---

Xiuyu Li was appointed as the Qualified Actuary for the Texas Windstorm Insurance Association in December 2017. She joined TWIA in February 2013 and has 16 years of experience in the P/C insurance industry across multiple lines of business, including homeowners, commercial property, commercial automobile, and workers' compensation coverages. Xiuyu leads a variety of actuarial engagements for TWIA, primarily focused on reserving, rate making, risk transfer and analysis. Prior to joining TWIA, she worked as a predictive modeler at Travelers focused on general linear modeling applied in advanced rate making.

Xiuyu updates her knowledge through continuing education through a combination of industry conferences, on-line courses, TWIA conferences, seminars and self-study. Relevant areas include pricing, reserving, Cat modeling/model validation, reinsurance, impacts of statutory changes on TWIA rates/reserves/funding, and professionalism related to preparing Statements of Actuarial Opinion. She plans to obtain, for calendar year 2021, sufficient continuing education credits to meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States as promulgated by the American Academy of Actuaries. A detailed log of her continuing education is available upon request.

### **Education and Certifications required in annual statement instructions**

- Xiuyu received a Master's Degree in Statistics/Actuarial Science in 2004 from the University of Texas.
- Xiuyu is an Associate of the CAS (ACAS) and her basic education includes credit for Exam 6 – Regulation and Financial Reporting (United States) and Exam 7 –Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management; She is a Member of the American Academy of Actuaries since 2015, thus meeting the requirements for basic education, Accepted Actuarial Designation and membership in a professional actuarial organization described in the Annual Statement Instructions.
- Xiuyu is an active CAS College Liaison



Mrs. Li's experience, basic education, continuing education and professional society membership described on this page illustrate that she meets the requirements for a qualified actuary as set forth in the NAIC Annual Statement Instructions.



8D. December 2020 Rate Filing Review and  
Consideration and/or Board Action  
Regarding Resubmission of  
December 2020 Rate Filing or the  
Submission of a New Rate Filing

There is no exhibit for this topic

## 8E. Review of Catastrophe Model Results and Determination of 1:100 PML

There is no exhibit for this topic

## 8F. Discussion of Reinsurance Alternatives

There is no exhibit for this topic

## 8G. 2021 Funding



---

MEMORANDUM

---

DATE: February 4, 2021  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **2021 Funding - Reinsurance**

---

The Association is required by statute to maintain *total available loss funding* in an amount not less than the Association's probable maximum loss for a catastrophe year with a one-in-100-year probability. In 2019, the Texas Legislature enacted statutory changes that require the Association to assess its member insurers to pay for any reinsurance it purchases **in excess of** the Association's 1:100 statutory minimum funding level. Member assessments to pay for this excess reinsurance are distinct from member assessments to pay losses and would not affect the Association's ability to assess member companies for excess losses incurred.

For reference, the resolutions regarding reinsurance passed by the TWIA board at its February 18, 2020 meeting are set forth below:

1. The Board agrees to continue to use the average of the results from the two catastrophe models presented as a reference point for making its reinsurance purchase decision.
2. The Board agrees that model results based on near term assumptions are preferable to long term.
3. The Board agrees that the words, "total available loss funding" in statute contemplate inclusion of loss adjustment expenses in determining the probable maximum loss for the association for a catastrophe year with a probability of one in one hundred.
4. The Board agrees based on the foregoing and the information presented that for catastrophe year 2020 the one in one hundred probable maximum loss amount is \$4.2 billion.
5. The Board directs the association's reinsurance broker to pursue placement of the reinsurance program for the 2020-2021 reinsurance contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of \$2.1 billion excess of \$2.1 billion on the most favorable terms that can be achieved in the market.
6. Staff is authorized and directed to submit these resolutions and supporting information to the Texas Department of Insurance for any review or approval that may be required by the Commissioner of Insurance under law.





When the Board determined the one-in-100 probable maximum loss for the 2020 year at its February 2020 meeting, the relevant TDI rules were in draft form only. They have since been adopted. The adopted rules require the Association to discuss determining its one-in-100-year probable maximum loss for the year at the Association's first regular board meeting each year. Following the discussion at this meeting, the Association must determine its one-in-100-year probable maximum loss for the year and disclose it to the Commissioner not later than April 1. The Association must disclose its method for determining its one-in-100-year probable maximum loss at the same time. The determination and information must be disclosed each year, regardless of whether the Association requests a reinsurance assessment. (See Rule §5.4160 attached.)

Neither the statute nor TDI's rule guidance specify how the Association must determine its one-in-100-year probable maximum loss. However, the rule describes the information that must be included in regard to the methodology used to determine the one-in-100-year probable maximum loss.

Staff has developed a template form, set forth below, based on the board's resolutions from last February to assist the board in formulating resolutions for adoption at the February 23, 2021 meeting.

1. The Board agrees to average the results from the two catastrophe models presented as a reference point for making its reinsurance purchase decision using the following weighting: AIR \_\_\_\_%; and RMS \_\_\_\_%.
2. The Board agrees that model results based on [near] [long] term assumptions are preferable.
3. The Board agrees that the words, "total available loss funding" in statute [contemplate] - [do not contemplate] inclusion of loss adjustment expenses in determining the probable maximum loss for the association for a catastrophe year with a probability of one in one hundred.
4. The Board agrees based on the foregoing and the information presented that for catastrophe year 2021 the one in one hundred probable maximum loss amount is \$\_\_\_\_\_ billion.
5. The Board directs the association's reinsurance broker to pursue placement of the reinsurance program for the 2021-2022 reinsurance contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of \$\_\_\_\_\_ billion excess of \$\_\_\_\_\_ billion on the most favorable terms that can be achieved in the market.
6. Staff is authorized and directed to submit these resolutions and supporting information to the Texas Department of Insurance for any review or approval that may be required by the Commissioner of Insurance under law.

Statute provides that the cost of reinsurance purchased or alternative financing mechanisms used in excess of the minimum funding level required shall be paid by assessments on member companies. If the board wishes to direct staff to make such a purchase, it needs to take action at the February 23, 2021 meeting in order for the purchase to be made timely and for applicable notice requirements to be met.



## Annual Timetable

Timing	Action
At the Association's first regular board meeting (February)	<p>The association must discuss with the Board its methodology for determining its one-in-100-year probable maximum loss for the calendar year.</p> <p>The association must determine its one-in-100-year probable maximum loss for the calendar year</p> <p>In discussing its methodology, the Association must provide the information described in §5.4160(d) and make that information available to its members and the public.</p>
After the first regular board meeting but not later than April 1	The Association must disclose to the Commissioner its one-in-100-year probable maximum loss for the calendar year and the Association's method for determining that probable maximum loss.
No later than the second regular board meeting (May)	<p>If the Association elects to purchase coverage for reinsurance or alternative risk transfer mechanisms in excess of the one-in-100-year probable maximum loss, then the Association must also obtain a quote for coverage that provides funding equal to the one in 100-year probable maximum loss.</p> <p>The Association must provide each of the following to its board and make this information available to its members and the public:</p> <ul style="list-style-type: none"> <li>(1) the reinsurance or alternative risk transfer mechanism premium quote for coverage that provides funding equal to the one in 100-year probable maximum loss.</li> <li>(2) the total deposit premiums for all reinsurance or alternative risk transfer mechanism coverage for the year.</li> </ul> <p>If, at the time of the second regular board meeting of the calendar year, deposit premiums described above are not known, then the Association must provide its best estimate of those premiums to the board and make the estimate available to its members.</p>
Following disclosure to the Commissioner of the one-in-100-year probable maximum loss	The department (TDI) will post one-in- 100-year probable maximum loss for the calendar year and the Association's method for determining that probable maximum loss on its website.



As soon as the Association knows the deposit premiums (June)	As soon as the Association knows the deposit premiums described in subsection (g) of this section, the Association must provide them to the board and make them available to its members.
Within a reasonable time after it knows its total reinsurance costs for that calendar year	If the Association must assess its members under Insurance Code §2210.453(d)(1) then the Association must request the Commissioner's approval within a reasonable time after it knows its total reinsurance costs for that calendar year.
By the later of either: (A) 120 days after the date the Association receives the [member premium data that TDI provides under §5.4162(f) for that year; or (B) December 1 of that year.	The Association must issue the assessment.
Within 30 days of receipt of notice of assessment.	Each member must remit to the Association payment in full of its assessed amount of any assessment levied by the Association within 30 days of receipt of notice of assessment.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK



Exhibit 1

**Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS.**

- (a) The Association may purchase reinsurance or use alternative risk financing mechanisms or both as necessary.
- (b) The Association shall maintain total available loss funding in an amount not less than the probable maximum loss for the Association for a catastrophe year with a probability of one in 100. If necessary, the required funding level shall be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter.
- (c) The attachment point for reinsurance purchased under this section may not be less than the aggregate amount of all funding available to the Association under Subchapter B-1.
- (d) The cost of the reinsurance purchased or alternative financing mechanisms used under this section in excess of the minimum funding level required by Subsection (b) shall be paid by assessments as provided by this subsection. The Association, with the approval of the commissioner, shall notify each member of the Association of the amount of the member's assessment under this subsection. The proportion of the cost to each insurer under this subsection shall be determined in the manner used to determine each insurer's participation in the Association for the year under Section 2210.052.
- (e) A member of the Association may not recoup an assessment paid under Subsection (d) through a premium surcharge or tax credit.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

Exhibit 2

**Information Required to be Disclosed to the Commissioner pursuant to §5.4160(d)**

In disclosing its method for determining its one-in-100-year probable maximum loss, the association must include:

- (1) the hurricane model or models it relied on, including the model vendors, the model names, and the versions of each model;
- (2) the in-force date and the total amount of direct exposures in force for the policy data used as the input for each hurricane model the association relied on;
- (3) all user-selected hurricane model input assumptions used with each hurricane model the association relied on;
- (4) the one-in-100-year probable maximum loss model output produced by each hurricane model the association relied on;
- (5) if the association relied on more than one hurricane model, the methodology the association used to blend or average the hurricane model outputs, including all weighting factors used; and
- (6) any adjustments the association or another party made to the one-in-100-year probable maximum loss model outputs or the blended or averaged output, including any adjustments to include loss adjustment expenses.



Exhibit 3

**Texas Administrative Code**

<u>TITLE 28</u>	INSURANCE
<u>PART 1</u>	TEXAS DEPARTMENT OF INSURANCE
<u>CHAPTER 5</u>	PROPERTY AND CASUALTY INSURANCE
<u>SUBCHAPTER E</u>	TEXAS WINDSTORM INSURANCE ASSOCIATION
<u>DIVISION 3</u>	LOSS FUNDING, INCLUDING CATASTROPHE RESERVE TRUST FUND, FINANCING ARRANGEMENTS, AND PUBLIC SECURITIES
<b>RULE §5.4160</b>	<b>Member Assessments to Pay for Reinsurance in Excess of the Association's Statutory Minimum Funding Level</b>

---

(a) The association, with the Commissioner's approval, must assess members as provided by Insurance Code §2210.453(d) to pay for the cost of any reinsurance coverage or alternative risk transfer mechanisms it purchases in excess of the statutory minimum funding level. If, in a calendar year, the association must assess its members under Insurance Code §2210.453(d),

(1) then the association must request the Commissioner's approval within a reasonable time after it knows its total reinsurance costs for that calendar year; and

(2) must issue the assessment by the later of either:

(A) 120 days after the date the association receives the data that TDI provides under §5.4162(f) of this title for that year; or

(B) December 1 of that year.

(b) At the first regular board meeting in each calendar year, but before April 1, the association must discuss with the board its methodology for determining its one-in-100-year probable maximum loss for the calendar year. In discussing its methodology, the association must provide the information described in subsection (d) of this section and make that information available to its members and the public.

(c) After the board meeting described in subsection (b) of this section, but not later than April 1 of each year, the association must disclose to the Commissioner its one-in-100-year probable maximum loss for the calendar year and the association's method for determining that probable maximum loss.

(d) In disclosing its method for determining its one-in-100-year probable maximum loss, the association must include:

(1) the hurricane model or models it relied on, including the model vendors, the model names, and the versions of each model;

(2) the in-force date and the total amount of direct exposures in force for the policy data used as the input for each hurricane model the association relied on;

(3) all user-selected hurricane model input assumptions used with each hurricane model the association relied on;

(4) the one-in-100-year probable maximum loss model output produced by each hurricane model the association relied on;

(5) if the association relied on more than one hurricane model, the methodology the association used to blend or average the hurricane model outputs, including all weighting factors used; and

(6) any adjustments the association or another party made to the one-in-100-year probable maximum loss model outputs or the blended or averaged output, including any adjustments to include loss adjustment expenses.

(e) The department will post the information disclosed under subsections (c) and (d) of this section on its website.

(f) If, in a year, the association elects to purchase coverage for reinsurance or alternative risk transfer mechanisms in excess of the one-in-100-year probable maximum loss, then the association must also obtain a quote for coverage that provides funding equal to the one in 100-year probable maximum loss. The premium quote must assume the minimum required attachment point described in Insurance Code §2210.453(c).

(g) No later than the second regular board meeting of the calendar year, the association must provide each of the following to its board and make this information available to its members and the public:

(1) the reinsurance or alternative risk transfer mechanism premium quote required under subsection (f) of this section; and

(2) the total deposit premiums for all reinsurance or alternative risk transfer mechanism coverage for the year.

(h) If, at the time of the second regular board meeting of the calendar year, deposit premiums described in subsection (g) of this section are not known, then the association must provide its best estimate of those premiums to the board and make the estimate available to its members. As soon as the association knows the deposit premiums described in subsection (g) of this section, the association must provide them to the board and make them available to its members.

(i) In its request to the Commissioner to approve an assessment under Insurance Code §2210.453(d), the association must submit the following information:

(1) the portion of the association's reinsurance premium that provides coverage for losses or loss adjustment expenses above the association's one-in-100-year probable maximum loss; and

(2) the methodology the association used to calculate the amount described in paragraph (1) of this subsection.

(j) This section and §§5.4161 - 5.4167 of this title (relating to Member Assessments Other than for Reinsurance in Excess of the Association's Statutory Minimum Funding Level; Amount of Assessment; Notice of Assessment; Payment of Assessment; Failure to Pay Assessment; Contest After Payment of Assessment; and Inability to Pay Assessment by Reason of Insolvency, respectively) are a part of the association's plan of operation and will control over any conflicting provision in §5.4001 of this title (relating to Plan of Operation).



(k) Sections 5.4162 - 5.4167 of this title apply both to member assessments under this section and under §5.4161 of this title.

---

**Source Note:** The provisions of this §5.4160 adopted to be effective January 6, 2021, 46 TexReg 162



# Texas Windstorm Insurance Association 2021 Reinsurance Planning

Meeting of the Board of Directors – February 23, 2021

# 2021 Reinsurance Planning

- 1 | TWIA Reinsurance Planning And Key Considerations**
- 2 | Historical Perspective – Premium, Exposure Losses, Funding**
- 3 | Risk Management Discussion – Catastrophe Modeling, Data & Risk Perspectives**
- 4 | Reinsurance and Funding Discussion – Questions, Decisions and Next Steps**
- 5 | State Of The Market Highlights**

# TWIA Reinsurance Planning

## Key Considerations

- TWIA Exposure Summary
  - Policies; (\$370M of written premium; 196k policies)
  - Exposures; (\$60.1B exposed limit; \$66.3B of insured values)
- Internal Funding Considerations
  - TWIA GWP Premium in 2020 (~\$370M)
  - Catastrophe Reserve Trust Fund; (~\$180M)
  - Pre/Post Event Debt; (~\$1,000M; gross\*)
- External Funding Considerations
  - Member Company Assessments; (~\$1,000M)
  - Reinsurance up to 100 year – (Cost borne by TWIA)
  - Reinsurance in excess of 100 year – (Cost borne by Member Companies)
- Claims in Excess of Reinsurance – No defined funding

\*Pre/Post Event Debt funding is subject to Issuance Expenses and Amortization Costs. These costs meaningfully reduce total claims paying capacity derived from these tranches.

# TWIA Reinsurance Planning

## Texas Administrative & Insurance Code (Extracts only)

- Texas Insurance Code Sec. 2210.453 (Extracts only)

(b) The association shall maintain total available loss funding in an amount not less than the probable maximum loss for the association for a **catastrophe year with a probability of one in 100....**

(d) The cost of the reinsurance purchased or alternative financing mechanisms used under this section in excess of the minimum funding level required by Subsection (b) shall be paid by assessments as provided by this subsection...

- Texas Administrative Code RULE § 5.4102 Definitions (Extracts only)

(31) Losses--Amounts paid or expected to be paid on association insurance policy claims, **including adjustment expenses**, litigation expenses, other claims expenses, and other amounts that are incurred in resolving a claim for indemnification under an association insurance policy.

- Texas Administrative Code RULE § 5.4160 (Extracts only)

(b) At the first regular board meeting in each calendar year, but before April 1, the association must **discuss with the board its methodology for determining its one-in-100-year probable maximum loss** for the calendar year....

(c) After the board meeting described in subsection (b) of this section, but not later than April 1 of each year, the association must disclose to the Commissioner its one-in-100-year probable maximum loss for the calendar year and the association's method for determining that probable maximum loss.

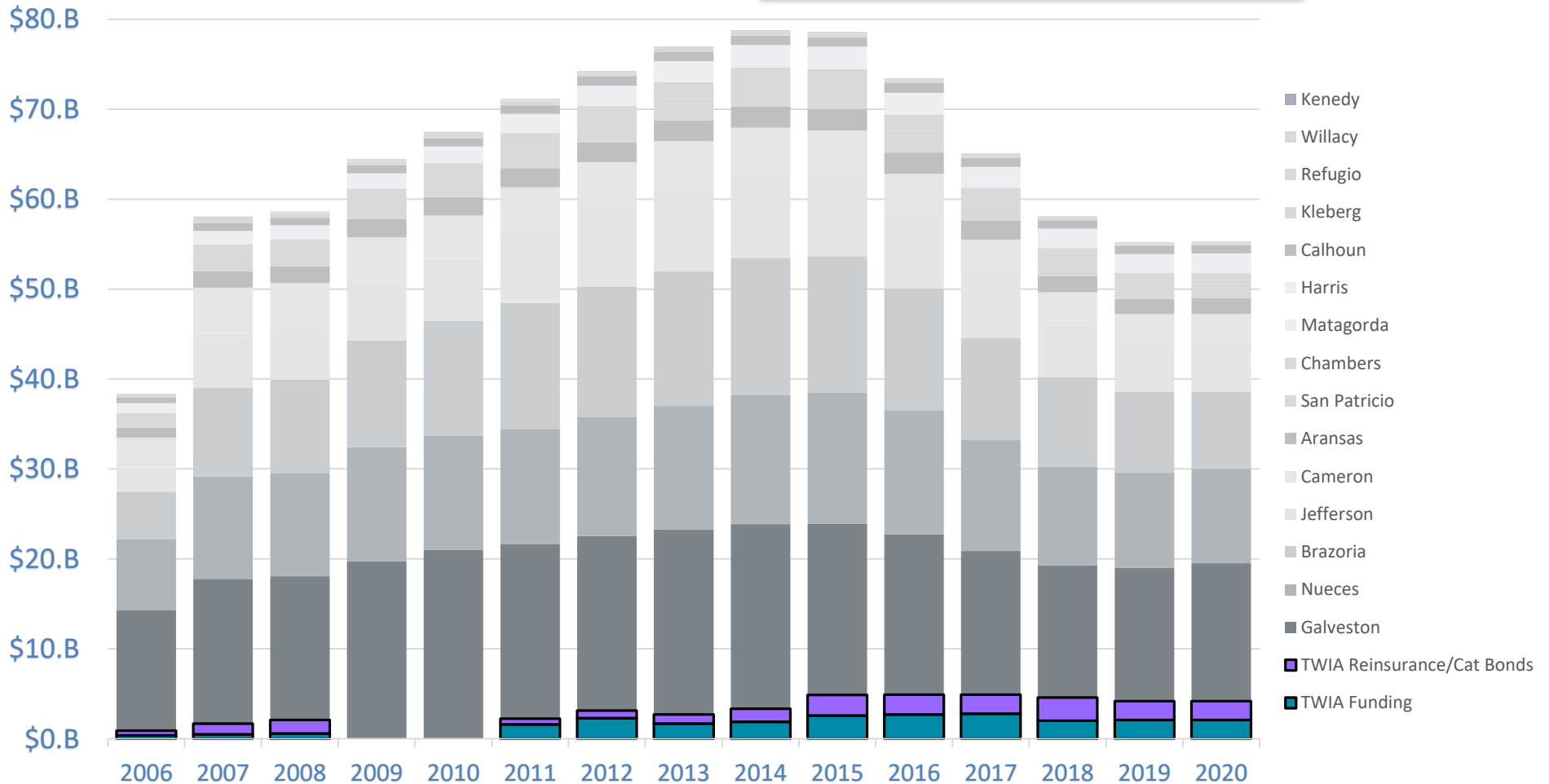
(d) In disclosing its method for determining its one-in-100-year probable maximum loss, the association must include:

- (1) the **hurricane model or models** it relied on, including the model vendors, the model names, and the versions of each model;
- (2) the **in-force date** and the **total amount of direct exposures** in force for the policy data used as the input for each hurricane model the association relied on;
- (3) all **user-selected hurricane model input assumptions** used with each hurricane model the association relied on;
- (4) the **one-in-100-year probable maximum loss model output** produced by each hurricane model the association relied on;
- (5) if the association relied on more than one hurricane model, the methodology the association **used to blend or average** the hurricane model outputs, including all weighting factors used; and
- (6) **any adjustments** the association or another party made to the one-in-100-year probable maximum loss model outputs or the blended or averaged output, including any **adjustments to include loss adjustment expenses**.

# TWIA Exposure and Risk Management Perspective

## Catastrophe Funding Independent of Catastrophe Modeling

*Total Claims Paying Resources ~\$4B*  
*Largest Single County Exposure ~\$20B*  
*Total Coastal Exposure ~ \$55B*



# TWIA Invited Comment on Independent Rate Report\*

## Guy Carpenter's Role is that of Risk Management not Rate Making

When managing to a 100-yr PML (or any other target return period), the focus should not be on a Cat event of a specific category or hurricanes that make landfall only in an area with the most concentration. Rather, the risk management approach should be a holistic one that considers a range of all possible events of different characteristics, size and path which could lead to loss level around the target 100-yr return period (plus any additional non-modeled loss like LAE).

Due to the infrequent nature of hurricane events, using company experience to manage or price for risk would have leave out the potential for losses in many regions, most noticeably in the concentrated Nueces region. Catastrophe models address this weakness by combining historical disaster information with current demographic, building, scientific and insurance data to determine the potential cost of catastrophes. Models are not perfect, but they are continually improving and are industry standard for use in hurricane rate filings and reinsurance purchases.

The impact of the WTW recommendation highlighted in grey is approximately \$466M less reinsurance limit purchased, which reduces TWIA's reinsurance spend by approximately \$16.8M based on our market pricing assumptions for 2021. This results in a reduction of total reinsurance expenses as a % of premium from 18.7% to 16.1%. A reduction in reinsurance cost is a direct decrease to the fixed expenses found in Indication Exhibit 11.

WTW recommends that TWIA continue to utilize a multi-model approach; however, adjust the weighting from 50%/50% RMS/AIR to the below:

- Gross Modeled Hurricane Loss Ratio - 75%/25% RMS/AIR
- Reinsurance Limit and PML determination - 75%/25% RMS/AIR
- Modeled loss cost to reinsurance layer within rate filing - 50%/50% RMS/AIR
  - This figure is used for the allocation of reinsurance cost, an amount determined by the reinsurance market. Since TWIA cannot control how a 3<sup>rd</sup> party reinsurer prices the reinsurance program, we believe a 50%/50% weight is a prudent long-term approach for this metric.

We believe the RMS model is a better fit for TWIA's Texas Tier I portfolio given its geographic and risk profile. For the purpose of rate filing and the 1-100 PML determination, we believe TWIA should continue to take into consideration AIR's view of risk, albeit with less weight. Although based on sound science and methodologies, there is still a high degree of uncertainty in modeled loss results from both models. Incorporating multiple views in risk management decision reduces uncertainties due to potential model change and provides a hedge against any potential unknown factors not considered in our analysis. Our recommendation is only valid when used in conjunction with our recommended use of long-term rates for hurricane modeling.

\*Source: [www.twia.org](http://www.twia.org); Residential and Commercial Rate Level Indications, September 4, 2020

Guy Carpenter **agrees** that the risk management approach should be a holistic one.

Guy Carpenter **agrees** that company experience and history are insufficient. Models are explicitly/intentionally used to provide insights beyond the scope of limited underlying data. We also **agree** they are an industry standard for rate filings and reinsurance purchasing.

Guy Carpenter **agrees** that TWIA could reduce the reinsurance spend by purchasing less reinsurance. However, we **disagree** that this is an effective Risk Management strategy for TWIA. Absorbing more volatility is not the way most insurance company address funding challenges, claims paying constraints and/or rate inadequacy.

Guy Carpenter **disagrees** that one model has proven superior to the other in quantifying TWIA's risk.

The reason (historically) that TWIA has selected a blended view is to give equal weight to the research, analytics, science, expert opinion, and refinement that underpin two independent methodologies, as developed over decades.

While TWIA can take a view of it's portfolio of risk in any way it chooses, we have **no reason to believe that one model is now more accurate than the other** when evaluating TWIA's portfolio. Certainly not in a way that supports meaningfully reducing TWIA's ability to pay claims.

# Hurricane Model Observations

- **Model Differences:** TWIA has considered a multiple model approach for at least 20 years. Model differences are readily identifiable and have been reviewed with TWIA at length historically. ***There is no persuasive evidence to suggest that one model is more accurate than the other.***
- **Primary and Secondary Modifiers:** We request and review all exposure data with TWIA prior to every modeling analysis. All risk characteristics and data assumptions are incorporated as and when available, reviewed & confirmed by TWIA. While it is best practice to include all available information, ***a higher number of secondary risk characteristics does not necessarily make the results more accurate.***
- **Frequency Assumptions:** ***Neither models' assumptions are outside the range of reasonableness.*** Both are widely used in Texas and in all other catastrophe prone areas.
  - “Near Term” – TWIA considers the near term perspective relative to coverage; Reinsurance Limit provides funding over a relatively short period of time, i.e. events occurring in the next treaty year.
  - “Long Term” – TWIA considers the long term perspective relative to the cost of coverage; Reinsurance Premium distributes annual volatility over a relatively long period of time;
- **Correlation to PCS Losses:** we review “model-to-actual” losses before, during and after every historical event. ***Both models have meaningfully underestimated TWIA's actual experience*** in its largest losses.

***With no persuasive evidence that one model is more suitable than another, our recommendation from a Risk Management perspective is that TWIA maintain an equal blend of both models when determining its 1-100yr exposure***



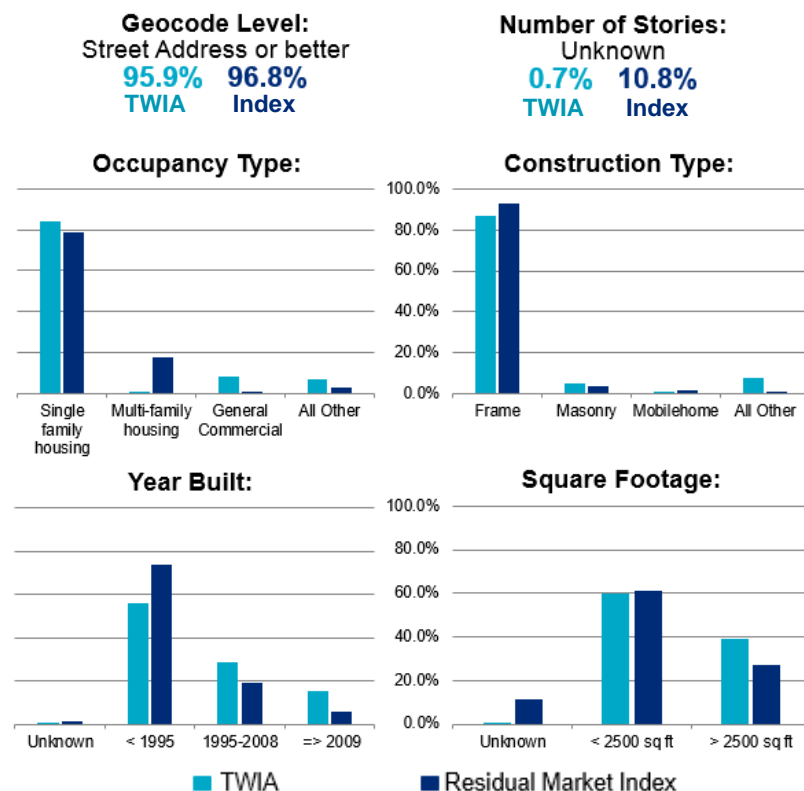
# Catastrophe Modeling – Primary and Secondary Modifiers

## TWIA & Peer Group (12 Wind Exposed Residual Markets)

**Primary modifiers** are required data fields in catastrophe models. These attributes have the largest impact to modeling results, and the more accurately they are reported, the more accurate the modeling result will be.

**Secondary modifiers** include another layer of information about a particular property and they also contribute to a more accurate modeling result. These attributes are not required by catastrophe models but they should be included in catastrophe modeling data when possible.

### Primary Modifiers



### Secondary Modifiers

Modifier	TWIA Captured	TWIA Not Captured	# of Res Mkts that capture & average %
Construction Quality	30.4%	69.6%	2 – 0.25%
Roof Covering	92.4%	7.6%	3 – 90.5%
Roof Age	97.1%	2.9%	4 – 90.6%
Roof Geometry	40.1%	59.9%	3 – 33.8%
Roof Anchor	0.0%	100.0%	1 – 1.5%
Cladding	49.7%	50.3%	5 – 40.8%
Opening Protection	19.3%	80.7%	3 – 0.6%

None of the residual markets included in the index capture the following secondary modifiers: roof equipment hurricane bracing, basement, commercial appurtenant structures, residential appurtenant structures, roof sheathing attachment, frame-foundation connection, ground-level equipment, and flashing and coping quality.



# 2021 Planning Exposure & Catastrophe Modeling Summary

			2020 Planning	2021 Planning
<b>TWIA Exposure @ 11/30</b>		Policy Count	201,719	196,129
		Exposed Value <sup>(1)</sup>	\$66.7B	\$66.3B
		Exposed Limit <sup>(1)</sup>	\$61.3B	\$60.7B
		Projected TIV at 10/31	\$58.9B	\$58.9B
<b>1-100 Year</b>	<b>Long Term<sup>(2)</sup></b>	RMS	\$2.91B	\$2.74B
		AIR	\$4.11B	\$3.98B
		Average (Loss Only) <sup>(3)</sup>	\$3.51B	\$3.36B
		Average (Loss & LAE) <sup>(4)</sup>	\$4.04B	\$3.86B
	<b>Near Term<sup>(2)</sup></b>	RMS	\$2.89B	\$2.71B
		AIR	\$4.38B	\$4.30B
		Average (Loss Only) <sup>(3)</sup>	\$3.63B	\$3.51B
		Average (Loss & LAE) <sup>(4)</sup>	\$4.18B	\$4.03B

(1) Values and Limits are used within the models in order to evaluate damage as well as coverage.

(2) "Long Term" reflects RMS Long Term and AIR Standard Event rates. "Near Term" reflects RMS Medium Term and AIR WSST Rates

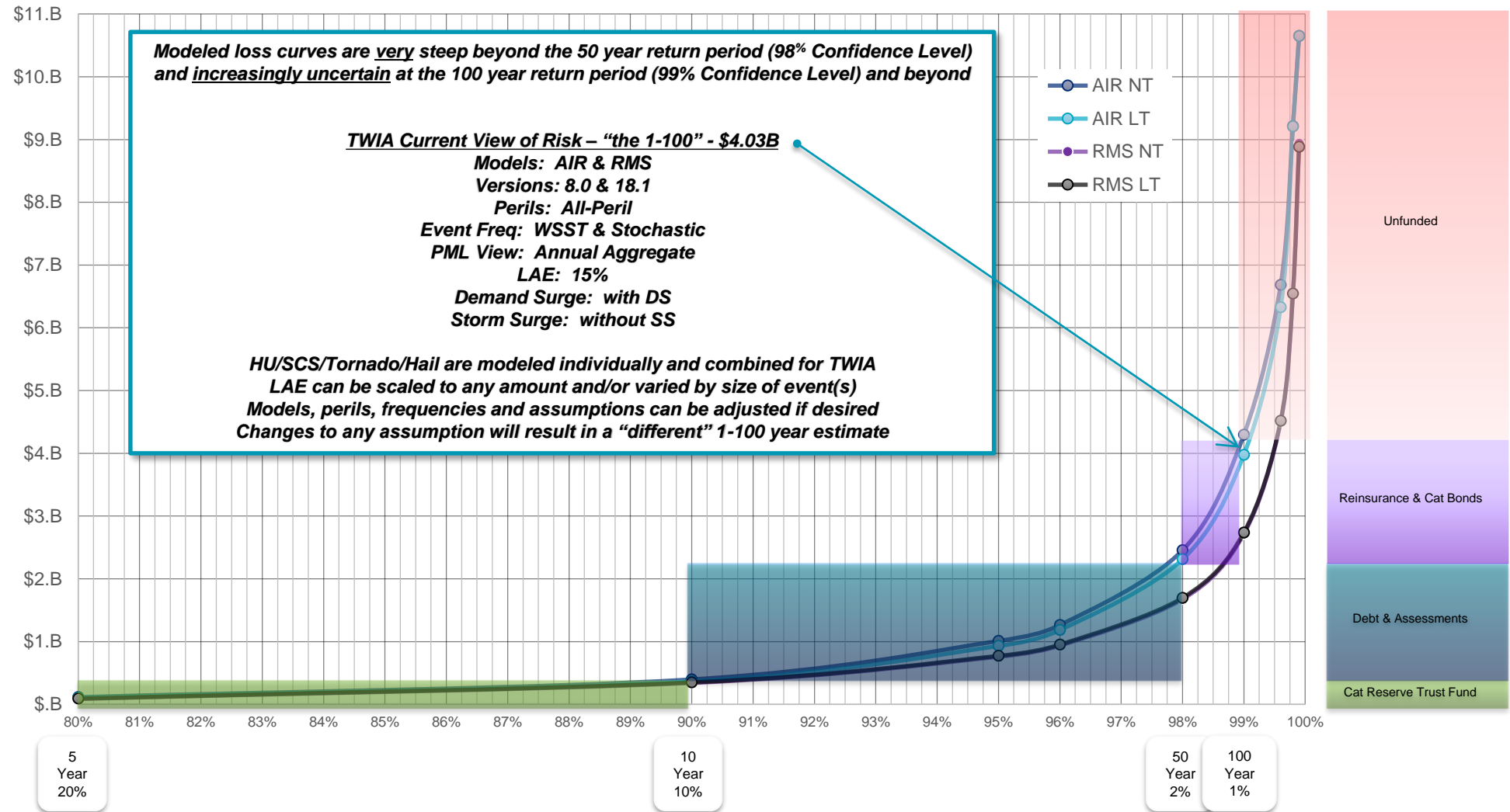
(3) All-peril, aggregate losses, with demand surge, ex-storm surge, 0% LAE

(4) includes 15% LAE which can be adjusted/factored as desired

**Board Approved Methodology  
@ 50/50 model weighting**

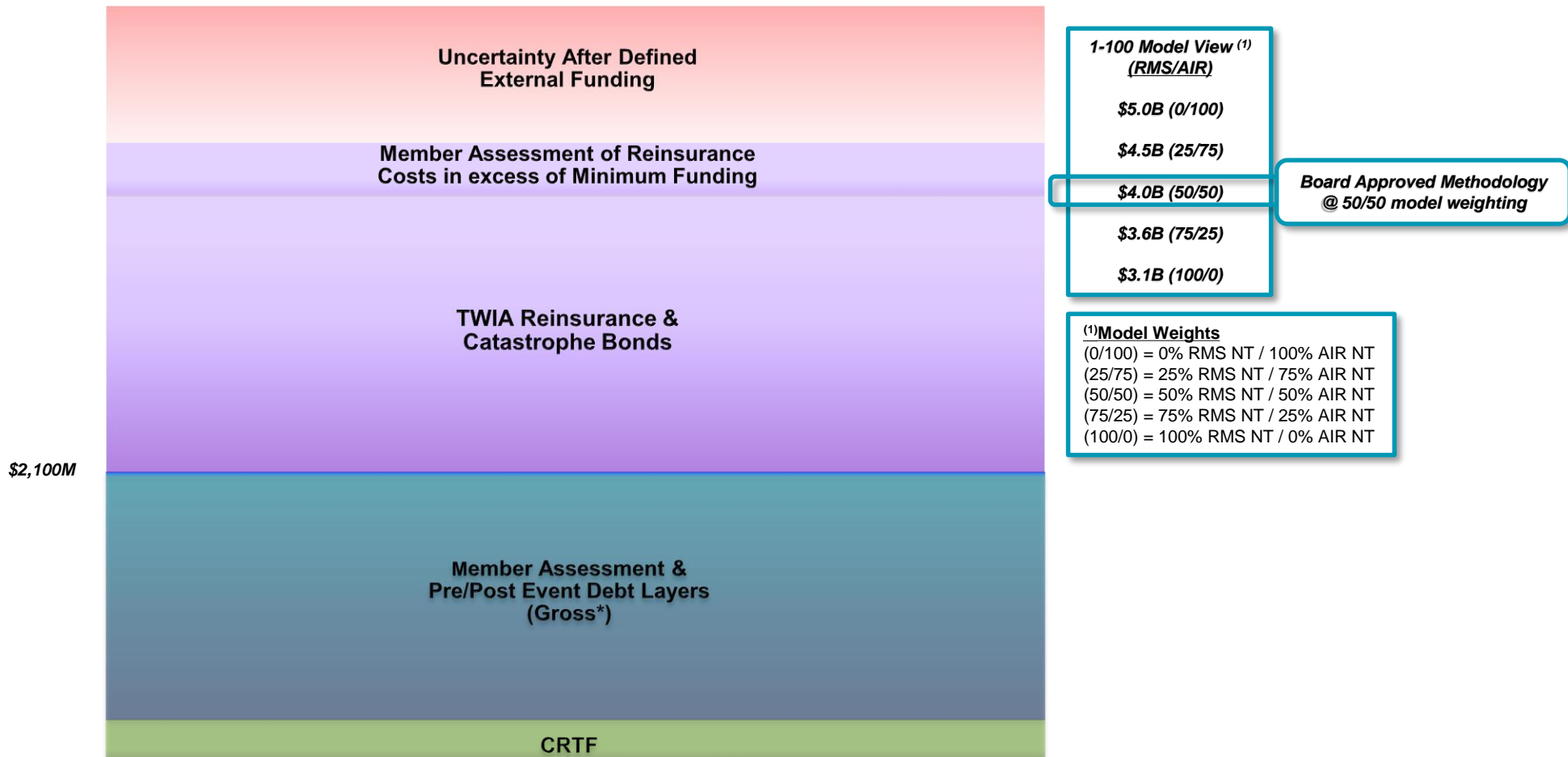
# 2021 Planning

## Catastrophe Modeling Summary & Current Claims Paying Capacity



# 2021 Funding Chart

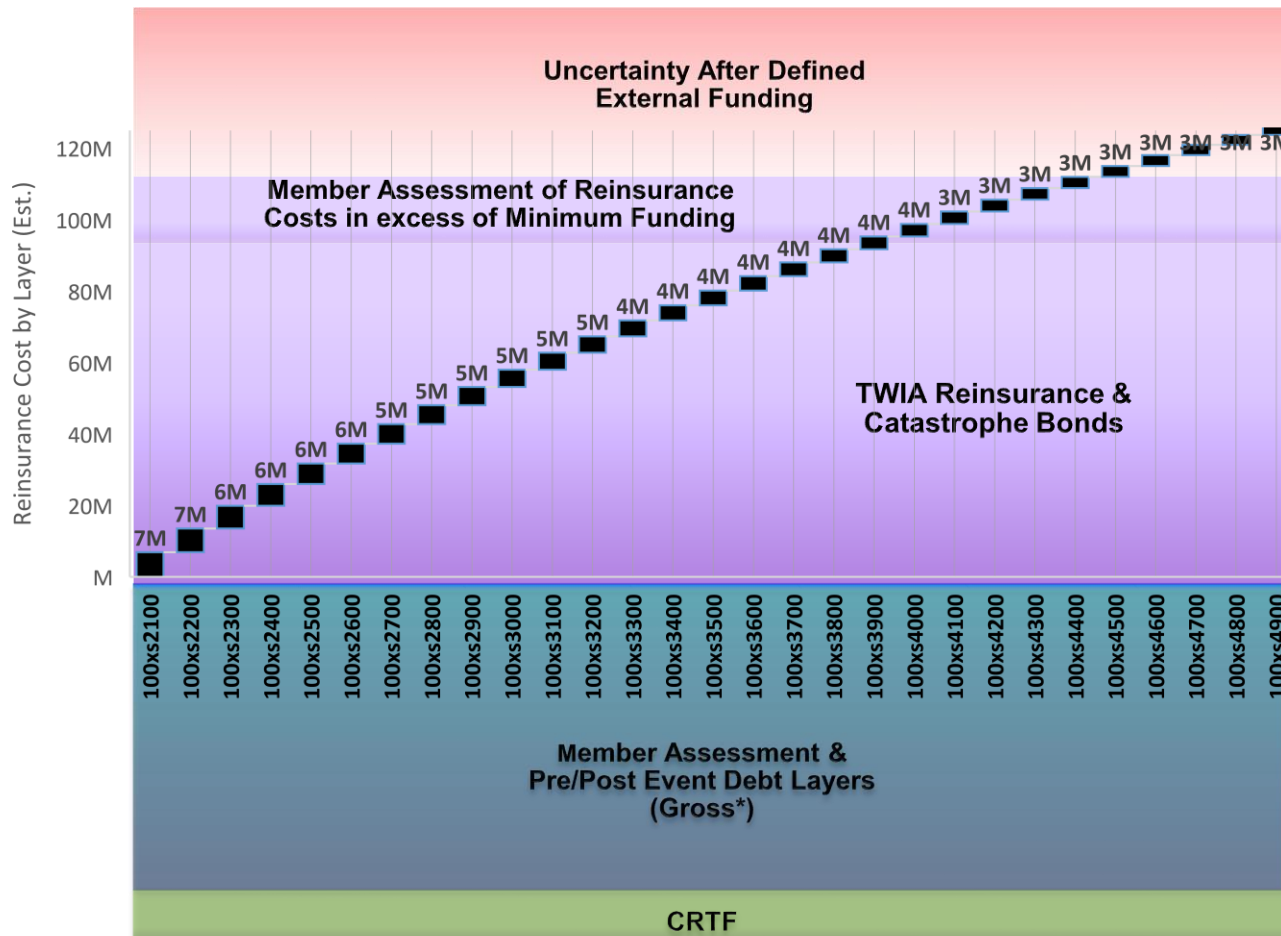
## CRTF; Member Assessment; Pre/Post Event Debt; & Reinsurance



\*Pre/Post Event Debt funding of \$1,000M subject to Issuance Expenses and Amortization Costs. These costs meaningfully reduce total claims paying capacity derived from these tranches.  
CRTF Balance approximately \$180M

# 2021 Reinsurance Premium Forecast

## Incremental Reinsurance Cost (Est.)



### 1-100 Model View (RMS/AIR)

\$5.0B (0/100)

\$4.5B (25/75)

**\$4.0B (50/50)**

\$3.6B (75/25)

\$3.1B (100/0)

### Estimated Reinsurance Cost xs Underlying Funding

\$2,900M xs \$2,100M = \$126.5M

\$2,400M xs \$2,100M = \$112.0M

**\$1,900M xs \$2,100M = \$95.3M**

\$1,500M xs \$2,100M = \$80.2M

\$1,000M xs \$2,100M = \$58.1M

*\*Estimated pricing to provide TWIA Board of Directors guidance on estimated cost, structure and layering alternatives. Consider a range of +/- 5% against the overall pricing curve with potential variation by layer at this granular level.*

*Final Costs will reflect current market conditions, reinsurance and cat bond quotations, final structure and capacity requirements, changes in exposure and/or experience prior to placement, and other market based factors.*

# State of the Market

## 1/1/2021 US Property Cat Aggregate Overview

### Pricing

- Non-loss impacted programs risk adjusted flat to +15%
- Loss-impacted programs +20-50%
- Pricing for Aggregate covers continues to be heavily dependent on individual program experience

### Capacity

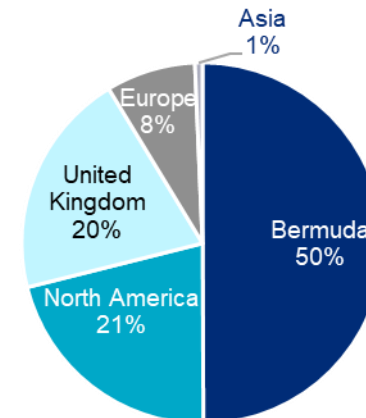
- Overall declining market appetite for catastrophe aggregate, especially for programs where long-term profitability has been a challenge
- Capacity available for long-term purchasers of aggregate products; reluctance from reinsurers to support new programs
- Less interest from new market entrants for this product compared to traditional occurrence covers



### Terms and Conditions

- Retention increases or structure changes required on some loss-impacted programs, along with rate increases
- Increased market pushback on features such as franchise deductible
- No consensus on Communicable Disease wordings

Authorized Capacity  
by Reinsurer Domicile



*Catastrophe Aggregate pricing and capacity driven by long-term profitability*



**GC SECURITIES**

# Disclosure

Securities or investments, as applicable are offered in the US through GC Securities, a division of MMC Securities LLC. ("MMCS"), a US registered broker-dealer and member FINRA/NFA/SIPC. Main office: 1166 Avenue of the Americas, New York, NY 10036. Phone: 212.345.5000. Securities or investments, as applicable are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd., which is authorized and regulated by the Financial Services Authority. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities LLC, MMC Securities (Europe) Ltd., and Guy Carpenter, LLC are affiliates owned by Marsh & McLennan Companies ("MMC"). Reinsurance intermediary services are offered through Guy Carpenter & Company, LLC.

This information was prepared by MMCS and/or Guy Carpenter & Company, LLC. ("Guy Carpenter" or "GC"), the reinsurance brokerage arm of MMC. All statistical tables, charts, graphs or other illustrations contained herein were prepared by MMCS or GC unless otherwise noted. Results from simulations and projections are for illustrative purposes only and are based on certain assumptions. Therefore the recipient should not place undue reliance on these results. Past performance does not guarantee future results.

Neither MMCS nor GC is a legal, tax or accounting adviser and makes no representation as to the accuracy or completeness of any data or information gathered or prepared by MMCS or GC hereunder. Your company should therefore consult with its own tax, accounting, legal or other advisers and make its own independent analysis and investigation of the proposed transaction, as well as the financial and tax consequences thereof, the creditworthiness of the parties involved and all other matters relating to the transaction, prior to its own independent decision whether or not to enter into any agreements in connection with any transaction.

This document contains indicative terms for discussion purposes only. MMCS and GC give no assurance that any transaction will be consummated on the basis of these indicative terms and no specific issuer is obligated to issue any security or instrument on such indicative terms. This presentation does not constitute an offer to sell or any solicitation of any offer to buy or sell any security or instrument or to enter into any transaction on such indicative terms. An investment in insurance linked securities is speculative, involves a high degree of risk and should be considered only by institutional investors who can bear the economic risks of their investments and who can afford to sustain the loss of their investments. Noteholders may lose all or a portion of their investment. Institutional investors should thoroughly consider the information contained herein.

This document is not intended to provide the sole basis for any evaluation by you of any transaction, security or instrument described herein and you agree that the merits or suitability of any such transaction, security or instrument to your particular situation will be independently determined by you including consideration of the legal, tax, accounting, regulatory financial and other related aspects thereof. Opinions and estimates constitute MMCS's and/or GC's judgment and are subject to change without notice. In particular, neither MMCS nor GC owes duty to you (except as required by the rules of the Securities and Exchange Commission, Financial Industry Regulatory Authority, Financial Services Authority, and/or any other regulatory body having proper jurisdiction) to exercise any judgment on your behalf as to the merits or suitability of any transaction, security or instrument. The information contained herein is provided to you on a strictly confidential basis and you agree that it may not be copied, reproduced or otherwise distributed by you (other than to your professional advisers) without our prior written consent.

This material provides general and conceptual information about certain financial strategies, and does not discuss or refer to any specific securities or other financial product. This presentation is not intended as marketing, solicitation or offering any security or other financial product in Japan. This material is intended only for sponsors, financial intuitions and qualified investors.

MMCS and/or GC may have an independent business relationship with any companies described herein.

Trademarks and service marks are the property of their respective owners.

The source of information for any charts, graphs, or illustrations in this document is GC Securities Proprietary Database 2020, unless otherwise indicated.

## 9. Internal Audit

### 9A. Internal Audit Status & Update



# MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: February 23, 2021

SUBJECT: Status of Internal Audit Activities

---

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

➤ **Current Activities:**

Activity Description	Status
Claims Processing	Report issued
Reinsurance	Report issued
Database and Application Administration	Report issued
Financial Close and Reporting	Report issued
Model Audit Rule	Fieldwork complete – comments communicated
Legal & Compliance	Fieldwork complete – report in process
Communications & Legislative Implementation	Fieldwork complete – report in process
Disaster Recovery	Fieldwork complete – report in process

➤ **Upcoming Audits and Activities:**

Activity Description	Timing
Governance Audit	1 <sup>st</sup> and 2 <sup>nd</sup> Quarter
Cash Management	1 <sup>st</sup> and 2 <sup>nd</sup> Quarter

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

## Texas Windstorm Insurance Association

### Internal Audit Plan – Lookback (2018-2020) and Prospective (2021-2023)

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			x
Disaster Recovery	Moderate			x			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

## 9B. IT Audit – Database and Application Administration

There is no exhibit for this topic

## 9C. IT Security Audit

This item will be covered in closed session

## 10. Underwriting

### 10A. Operational Review Update



## MEMORANDUM

---

DATE: February 3, 2021  
TO: John Polak, General Manager  
FROM: Denise Larzalere, Vice President Underwriting  
RE: Update on Underwriting Operational Highlights

---

### **Fourth 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 better utilizing virtual and aerial inspections.

II. Underwriting Activities of Note:

- a. Legislative Implementation Program:
  - i. Installments

- 1. The permanent program to allow policyholders to pay in installments launched in November. It allows policyholders to pay in two installments. Additional options are planned for implementation next year.





2. Due to the recent implementation date, there is not yet sufficient data to report on policyholders' uptake of the installment plan.
  - ii. Policyholder Online Payments
    1. TWIA launched the ability for policyholders to pay premium online directly to TWIA in November 2020.
      - a. During December, less than 2.0% of premium payments were made via credit and debit cards.
      - b. Approximately 3% of payments were received from the policyholder via electronic check.
  - b. New Renewal Process
    - i. Last year TWIA began issuing renewal offers directly to policyholders along with a way to pay their renewals directly.
    - ii. In the fourth quarter, over 60% of renewals were processed with a direct payment from policyholder or the mortgage company.
    - iii. We continue to evaluate modifications to the process to make it easier for agents to make any adjustments to the policy coverages prior to the renewal offer being sent.
  - c. New Lockbox Process
    - i. This initiative was launched in October 2020 to increase the speed in which payments are posted to accounts.
    - ii. In December, approximately 18% of payments were received via the lockbox with a 1-day turnaround.
    - iii. Our goal is to continually increase the electronic and outsourced payment processing since it is the fastest way for policyholders to pay their premium, the fastest for processing, and requires less follow up by the agent. In December over 52% of all premiums deposited were done so via automated or outsourced means (lockbox).
- III. Agency Compliance Audits:
- a. Audits were performed on 20 agents (200 policies) in the fourth quarter to verify compliance with the declination of coverage and flood insurance requirements. All 20 agents responded.



- i. 18 of the 20 agents (and 187 policies) were compliant with the requirement for proof of declination of coverage. Staff are working with the 2 remaining agencies to bring them into compliance.
- ii. One of the policies/properties selected for review required flood insurance, and staff are working with the agent to bring the property into compliance.
- iii. All 20 agents have an active property and casualty insurance license.

## 10B. Depopulation



TEXAS WINDSTORM  
INSURANCE ASSOCIATION



# Depopulation Programs

February 2021

## DEPOPULATION STATUS

### Depopulation Programs Summary

#### Assumption Reinsurance Depopulation Program

Program Year	2016-2017	2017-2018	2018-2019	2019-2020	2020-2022
Participating Carriers	4	3	2	2	1*
Policies Selected by Carriers	102,171	109,356	75,039	64,380	TBD
Agent-Approved Offers	18,047	3,091	3,967	1,866	TBD
Policies Assumed as of June 1	11,164	1,634	2,080	1,003	TBD

\*Pending commissioner approval

Carrier	2016-2017	2017-2018	2018-2019	2019-2020	2020-2022
Maison Insurance Company	Y	N	N	N	N
SafePoint Insurance Company	N	Y	Y	Y	Y
United Property & Casualty	Y	Y	N	N	N
Weston Insurance Company	Y	Y	Y	Y	N
The Woodlands Insurance Company	Y	N	N	N	N

#### Voluntary Market Depopulation Program

<b>Policies Bound Through Program, Month End February 2021</b>
--

4,536
-------

### Assumption Reinsurance Depopulation Program

#### Round 4: Status

The assumption of policies became effective June 1, 2020, with 1,003 policies transferring to the two participating carriers. TWIA will handle policy changes for the assumed policies until they renew on assumption carriers' policy forms. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 519 policies remain on TWIA paper from Round 4.

#### Round 5: Status

Commissioner's Order 2018-5528 was issued September 23, 2020, approving amendments to the Assumption Reinsurance Depopulation Program that reflect changes made during the 86th Texas legislative session. TWIA has initiated Round 5 of the Assumption Program and will continue in accordance with the newly approved process and timeline. Two carriers, Weston Insurance Company and SafePoint Insurance Company, have submitted applications to participate in Round 5 of the Assumption Program. TDI's review of the companies' participation and Orders regarding the companies' participation are pending.

## **Voluntary Market Depopulation Program**

Four participating carriers have reported a total of 4,536 policies bound through the Voluntary Market Depopulation Program. The one current participating carrier in the Voluntary Program is Weston Insurance Company, who reported 2,506 policies bound as of October 31, 2020. State National Insurance Company, United Property and Casualty (UPC), and USAA Casualty Insurance Company also previously received approval to participate. UPC reported 71 policies bound before electing to discontinue participation, while State National and USAA reported 1,876 and 83 policies bound, respectively, before becoming inactive in the program. There has been no activity in the program since November 2019.

## 11. Claims

### 11A. Claims Operations – Overview

## TWIA Claims Operations 2020

TWIA Claims - 2020 Results (complete year)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.5	3.2	<3	0.2	7%
Inspect Property to Receipt by TWIA	3.6	2.2	<8	-5.8	-73%
Total Cycle Time FNOL to Payment	N/A	10.8	<12	-1.2	-8%
<b>TDI Complaint Ratio</b>					
2019	0.60% - 40 complaints from 6,704 new claims				
2020	0.13% - 19 complaints from 14,432 new claims				

Year	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Totals
Actual Volume	312	197	205	340	955	561	1,245	2,776	2,808	4,020	531	482	14,432
Actuarial Projected	599	418	418	1,379	1,379	409	400	400	574	562	273	273	7,084
Median Staffing	417	417	417	417	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	9,609	9,294	8,822	8,822

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	14,432

TWIA Harvey	As of 12/1/20	As of 1/7/21	Change	% Change
Claims	76,712	76,713	1	0.00%
Open	613	586	-27	-4.4%
Closed	76,099	76,127	28	0.0%
% Closed	99.2%	99.2%	0.0%	0.0%
Paid Indemnity	\$1,354,153,843	\$1,354,992,071	\$838,228	0.1%
Paid Expense	\$147,037,515	\$147,289,855	\$252,340	0.2%
Active Appraisals	38	33	-5	-13.2%



# TWIA & TFPA Claims January 2021 CAT Claim Report

## 2020 Hurricane Season

(Data for all storms through 1/12/21. \*Due to low Beta new claim volume no detailed CAT reports provided)

Hanna, Laura, Delta Combined	TWIA	TFPA*
New Claims	9,748	457
Open Claims	6,481	
Closed Claims	3,267	
Paid Indemnity	\$36,782,378	\$2,787,528
Paid Expense	\$8,893,366	
Total Paid	\$45,675,744	
TDI Complaints	6	
ACV Claims	9,535	
RCV Claims	3,805	
Supplemental Claims	277	
Contents Claims	1,091	
ALE Claims	41	
ICC Claims	11	

### Comments:

- Information here and on following pages for Claim types, Avg. days to payment, and claim cycle times provide for new regulatory requirements and Sunset claims reporting recommendations.
- **ACV** - Actual Cash Value (initial claim type opened). TWIA has up to 60 days to make initial claim decision.
- **RCV** - Replacement Cost Value. Where claim remains open, ACV claim type converts to RCV claim type after initial payment if policyholder has purchased replacement cost coverage. Policyholder has minimum of 545 days after initial claim decision to claim full replacement cost.
- **Supplemental Claims** - claims with additional damage reported after TWIA has made an initial claim decision
- **Contents claims** - personal or business property.
- **ALE** - Additional Living Expense.
- **ICC** - Increased Cost of Construction (code upgrade coverage). Policyholder has up to two years after date of loss to claim ICC coverage.

Beta (9/20)*	TWIA	TFPA
New Claims	233	132
Paid Indemnity	\$493,831	\$256,007

Hanna (7/25)	TWIA	TFPA *
New Claims	1,538	86
Open Claims	741	
Closed Claims	797	
Paid Indemnity	\$7,451,702	\$322,025
Paid Expense	\$2,640,384	
Total Paid	\$10,092,086	
Avg. Paid Indemnity	\$10,437	
Avg. Days FNOL to Close	39	
TDI Complaints	2	
ACV Claims	1,420	
Avg. Days FNOL to ACV Payment	20.1	
RCV Claims	583	
Avg. Days ACV Payment to RCV Payment	19.3	
Supplemental Claims	34	
Supplemental Claims Cycle Time (days)	39.2	
Contents Claims	164	
Contents Claims Cycle Time (days)	27	
ALE Claims	9	
ALE Claims Cycle Time (days)	41	
ICC Claims	3	
ICC Claims Cycle Time (days)	97	

Hurricane Hanna - All Claims Report		TWIA Hanna																
		TWIA Total	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kenedy	Kleberg	Matagorda	Nueces	Refugio	San Patricio	Willacy	No Policy
1	All Claims	1,538	20	36	5	470	0	26	3	5	8	54	9	628	2	41	172	59
2	Open ACV Claims (Cost to Repair and Replace - Phase 1)	306	8	6	1	92	0	6	0	1	0	6	2	154	1	12	17	0
3	Open RCC & Supplement Payment Claims (Replacement Cost) (Phase 2)	414	0	3	0	166	0	6	1	1	5	24	3	101	0	7	97	0
4	Open Supplemental Claim Reserves	18	0	0	0	3	0	0	0	0	1	1	0	4	0	0	9	0
5	Closed Claims	797	12	27	3	208	0	14	2	3	2	23	4	368	1	22	49	59
6	% Closed	52%	60%	75%	60%	44%	-	54%	67%	60%	25%	43%	44%	59%	50%	54%	28%	100%
7	Closed With Payment	265	1	10	1	81	-	1	0	0	1	12	1	110	0	5	42	0
8	% Closed With Payment	17%	5.0%	27.8%	20.0%	17.2%	-	3.8%	0.0%	0.0%	12.5%	22.2%	11.1%	17.5%	0.0%	12.2%	24.4%	0.0%
9	Closed Without Payment	532	11	17	2	127	-	13	2	3	1	11	3	258	1	17	7	59
10	% Closed Without Payment	35%	55%	47%	40%	27%	-	50%	67%	60%	13%	20%	33%	41%	50%	41%	4%	100%
11	Open With Payment	449	0	2	2	170	0	6	1	1	6	27	3	111	0	7	113	0
12	% Open With Payment	29%	0%	6%	40%	36%	-	23%	33%	20%	75%	50%	33%	18%	0%	17%	66%	0%
13	Open Without Payment	292	8	7	0	92	0	6	0	1	0	4	2	149	1	12	10	0
14	% Open Without Payment	19%	40%	19%	0%	20%	-	23%	0%	20%	0%	7%	22%	24%	50%	29%	6%	0%
15	Total Paid Indemnity	\$ 7,451,702	\$ 89	\$45,831	\$10,016	\$2,262,221	\$ -	\$27,508	\$4,395	\$ 3,913	\$269,167	\$350,573	\$ 20,525	\$1,976,746	\$ -	\$ 86,069	\$2,394,648	\$ -
16	Total Paid Expense	\$ 2,640,384	\$50,391	\$22,984	\$ 2,849	\$1,194,231	\$ -	\$18,074	\$1,236	\$3,174	\$ 34,515	\$ 61,610	\$ 5,352	\$ 888,346	\$1,841	\$ 38,147	\$ 317,634	\$ -
17	Total Outstanding Indemnity	\$ 1,478,241	\$ 3,600	\$ 1,471	\$ 2,607	\$ 400,003	\$ -	\$ 6,239	\$ 776	\$1,193	\$108,618	\$ 50,138	\$ 4,916	\$ 388,148	\$ 100	\$ 7,885	\$ 502,546	\$ -
18	Total Outstanding Expense	\$ 108,204	\$12,656	\$ 685	\$ -	\$ 13,257	\$ -	\$ -	\$ -	\$ -	\$ 575	\$ 575	\$ -	\$ 65,386	\$ -	\$ 406	\$ 14,664	\$ -
19	Total Incurred	\$ 11,678,530	\$66,735	\$70,971	\$15,472	\$3,869,712	\$ -	\$51,821	\$6,407	\$8,280	\$412,876	\$462,896	\$ 30,792	\$3,318,627	\$1,941	\$132,507	\$3,229,492	\$ -
20	Average Paid	\$ 10,281	\$ 89	\$ 3,819	\$ 3,339	\$ 9,013	\$ -	\$ 3,930	\$4,395	\$ 3,913	\$ 38,452	\$ 8,989	\$ 5,131	\$ 8,945	\$ -	\$ 7,172	\$ 15,449	\$ -
21	TDI Complaints	2	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0
22	# TDI Complaints as a % of All Claims	0.130%	0%	3%	0%	0%	-	0.0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%

TWIA Closed Claims by Reason Code	Count	%
1. Closed with payment - Full Acceptance <sup>1</sup>	191	24%
2. Closed with payment - Partial Acceptance <sup>2</sup>	86	11%
3. Closed without payment - Depopulation <sup>3</sup>	4	1%
4. Closed without payment - Under Deductible <sup>4</sup>	209	26%
5. Closed without payment - Coverage Excluded <sup>5</sup>	190	24%
6. Closed without payment - No Policy in Force <sup>6</sup>	48	6%
7. Closed without payment - Opened in Error <sup>7</sup>	29	4%
8. Closed without payment - Not Pursued <sup>8</sup>	40	5%
9. Closed - Pending Reason Code <sup>9</sup>	0	0%
10. Total Closed <sup>10</sup>	797	100%

Row Data Descriptions:

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

Laura (8/26)	TWIA	TFPA*
New Claims	4,285	303
Open Claims	2,732	
Closed Claims	1,553	
Paid Indemnity	\$14,558,784	\$2,364,558
Paid Expense	\$3,254,727	
Total Paid	\$17,813,511	
Avg. Paid Indemnity	\$5,868	
Avg. Days FNOL to Close	56	
TDI Complaints	2	
ACV Claims	4,214	
Avg. Days FNOL to ACV Payment	21.3	
RCV Claims	1,681	
Avg. Days ACV Payment to RCV Payment	35.7	
Supplemental Claims	136	
Supplemental Claims Cycle Time (days)	11.9	
Contents Claims	656	
Contents Claims Cycle Time (days)	21	
ALE Claims	21	
ALE Claims Cycle Time (days)	37	
ICC Claims	6	
ICC Claims Cycle Time (days)	81	

Hurricane Laura - All Claims Report		TWIA Laura																
		TWIA Total	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kenedy	Kleberg	Matagorda	Nueces	Refugio	San Patricio	Willacy	No Policy
1	All Claims	4,285	0	10	0	6	7	50	1	4,207	0	0	2	2	0	0	0	0
2	Open ACV Claims (Cost to Repair and Replace - Phase 1)	1,667	0	8	0	3	1	16	0	1,638	0	0	1	0	0	0	0	0
3	Open RCC & Supplement Payment Claims (Replacement Cost) (Phase 2)	1,290	0	1	0	0	1	7	0	1,280	0	0	0	1	0	0	0	0
4	Open Supplemental Claim Reserves	84	0	0	0	0	0	0	0	84	0	0	0	0	0	0	0	0
5	Closed Claims	1,553	0	4	0	2	5	30	1	1,510	0	0	0	1	0	0	0	0
6	% Closed	36%	-	40%	-	33%	71%	60%	100%	36%	-	-	0%	50%	-	-	-	-
7	Closed With Payment	770	0	1	0	0	0	2	0	767	0	0	0	0	0	0	0	0
8	% Closed With Payment	18%	-	10.0%	-	0.0%	0.0%	4.0%	0.0%	18.2%	-	-	0.0%	0.0%	-	-	-	-
9	Closed Without Payment	783	0	3	0	2	5	28	1	743	0	0	0	1	0	0	0	0
10	% Closed Without Payment	18%	-	30%	-	33%	71%	56%	100%	18%	-	-	0%	50%	-	-	-	-
11	Open With Payment	1,714	0	3	0	1	1	6	0	1,703	0	0	0	0	0	0	0	0
12	% Open With Payment	40%	-	30%	-	17%	14%	12%	0%	40%	-	-	0%	0%	-	-	-	-
13	Open Without Payment	1,018	0	3	0	3	1	14	0	994	0	0	2	1	0	0	0	0
14	% Open Without Payment	24%	-	30%	-	50%	14%	28%	0%	24%	-	-	100%	50%	-	-	-	-
15	Total Paid Indemnity	\$ 14,558,784	\$ -	\$ 3,233	\$ -	\$ 454	\$ 15,218	\$ 54,369	\$ -	\$ 14,485,511	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Total Paid Expense	\$ 3,254,727	\$ -	\$ 5,059	\$ -	\$ 2,827	\$ 3,178	\$ 41,338	\$ 470	\$ 3,200,421	\$ -	\$ -	\$ 940	\$ 492	\$ -	\$ -	\$ -	\$ -
17	Total Outstanding Indemnity	\$ 2,889,202	\$ -	\$ 2,881	\$ -	\$ 12,646	\$ 2,708	\$ 13,799	\$ -	\$ 2,849,967	\$ -	\$ -	\$ 7,100	\$ 100	\$ -	\$ -	\$ -	\$ -
18	Total Outstanding Expense	\$ 90,084	\$ -	\$ 310	\$ -	\$ 1,692	\$ -	\$ -	\$ -	\$ 86,323	\$ -	\$ -	\$ 1,760	\$ -	\$ -	\$ -	\$ -	\$ -
19	Total Incurred	\$ 20,792,798	\$ -	\$ 11,484	\$ -	\$ 17,619	\$ 21,104	\$ 109,507	\$ 470	\$ 20,622,222	\$ -	\$ -	\$ 9,800	\$ 592	\$ -	\$ -	\$ -	\$ -
20	Average Paid	\$ 5,632	\$ -	\$ 808	\$ -	\$ 454	\$ 15,218	\$ 6,796	\$ -	\$ 5,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	TDI Complaints	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0
22	# TDI Complaints as a % of All Claims	0.047%	-	0%	-	0%	0%	0.0%	0%	0%	-	-	0%	0%	-	-	-	-

TWIA Closed Claims by Reason Code	Count	%
1. Closed with payment - Full Acceptance <sup>1</sup>	467	30%
2. Closed with payment - Partial Acceptance <sup>2</sup>	349	22%
3. Closed without payment - Depopulation <sup>3</sup>	5	0%
4. Closed without payment - Under Deductible <sup>4</sup>	315	20%
5. Closed without payment - Coverage Excluded <sup>5</sup>	208	13%
6. Closed without payment - No Policy in Force <sup>6</sup>	2	0%
7. Closed without payment - Opened in Error <sup>7</sup>	66	4%
8. Closed without payment - Not Pursued <sup>8</sup>	141	9%
9. Closed - Pending Reason Code <sup>9</sup>	0	0%
10. Total Closed <sup>10</sup>	1,553	100%

Row Data Descriptions:

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

Delta (10/9)	TWIA	TFPA *
New Claims	3,925	68
Open Claims	3,008	
Closed Claims	917	
Paid Indemnity	\$14,771,892	\$100,945
Paid Expense	\$2,998,255	
Total Paid	\$17,770,147	
Avg. Paid Indemnity	\$5,890	
Avg. Days FNOL to Close	44	
TDI Complaints	2	
ACV Claims	3,901	
Avg. Days FNOL to ACV Payment	18	
RCV Claims	1,541	
Avg. Days ACV Payment to RCV Payment	50.3	
Supplemental Claims	107	
Supplemental Claims Cycle Time (days)	28	
Contents Claims	271	
Contents Claims Cycle Time (days)	19	
ALE Claims	11	
ALE Claims Cycle Time (days)	26	
ICC Claims	2	
ICC Claims Cycle Time (days)	39	

Hurricane Delta - All Claims Report		TWIA Delta																
		TWIA Total	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kenedy	Kleberg	Matagorda	Nueces	Refugio	San Patricio	Willacy	No Policy
1	All Claims	3,925	0	14	1	1	12	168	6	3,721	0	0	0	2	0	0	0	0
2	Open ACV Claims (Cost to Repair and Replace - Phase 1)	1,613	0	6	1	0	8	76	3	1,517	0	0	1	1	0	0	0	0
3	Open RCC & Supplement Payment Claims (Replacement Cost) (Phase 2)	1,313	0	3	0	0	2	34	2	1,272	0	0	0	0	0	0	0	0
4	Open Supplemental Claim Reserves	83	0	0	0	0	0	2	0	81	0	0	0	0	0	0	0	0
5	Closed Claims	917	0	5	1	0	2	56	1	851	0	0	0	1	0	0	0	0
6	% Closed	23%	-	36%	100%	0%	17%	33%	17%	23%	-	-	-	50%	-	-	-	-
7	Closed With Payment	471	0	0	0	0	0	24	0	447	0	0	0	0	0	0	0	0
8	% Closed With Payment	12%	-	0.0%	0.0%	0.0%	0.0%	14.3%	0.0%	12.0%	-	-	-	0.0%	-	-	-	-
9	Closed Without Payment	446	0	5	0	1	2	32	1	404	0	0	0	1	0	0	0	0
10	% Closed Without Payment	11%	-	36%	0%	100%	17%	19%	17%	11%	-	-	-	50%	-	-	-	-
11	Open With Payment	2,038	0	5	0	0	2	44	3	1,984	0	0	0	0	0	0	0	0
12	% Open With Payment	52%	-	36%	0%	0%	17%	26%	50%	53%	-	-	-	0%	-	-	-	-
13	Open Without Payment	970	0	4	1	0	8	68	2	886	0	0	0	1	0	0	0	0
14	% Open Without Payment	25%	-	29%	100%	0%	67%	40%	33%	24%	-	-	-	50%	-	-	-	-
15	Total Paid Indemnity	\$ 14,771,892	\$ -	\$ 23,275	\$ -	\$ -	\$ 2,543	\$ 714,904	\$ 15,380	\$ 14,015,791	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Total Paid Expense	\$ 2,998,255	\$ -	\$ 8,125	\$ 563	\$ 481	\$ 5,716	\$ 138,894	\$ 7,086	\$ 2,836,920	\$ -	\$ -	\$ -	\$ 470	\$ -	\$ -	\$ -	\$ -
17	Total Outstanding Indemnity	\$ 2,957,264	\$ -	\$ 7,737	\$ 100	\$ -	\$ 9,316	\$ 123,207	\$ 3,158	\$ 2,814,747	\$ -	\$ -	\$ -	\$ 3,000	\$ -	\$ -	\$ -	\$ -
18	Total Outstanding Expense	\$ 151,957	\$ -	\$ -	\$ -	\$ -	\$ 575	\$ 22,940	\$ -	\$ 127,867	\$ -	\$ -	\$ -	\$ 575	\$ -	\$ -	\$ -	\$ -
19	Total Incurred	\$ 20,879,369	\$ -	\$ 39,137	\$ 663	\$ 481	\$ 14,150	\$ 999,944	\$ 25,624	\$ 19,795,325	\$ -	\$ -	\$ -	\$ 4,045	\$ -	\$ -	\$ -	\$ -
20	Average Paid	\$ 5,890	\$ -	\$ 4,655	\$ -	\$ -	\$ 1,271	\$ 10,513	\$ 5,127	\$ 5,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	TDI Complaints	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0
22	# TDI Complaints as a % of All Claims	0.051%	-	0%	0%	0%	0%	0.0%	0%	0.05%	-	-	-	0%	-	-	-	-

TWIA Closed Claims by Reason Code	Count	%
1. Closed with payment - Full Acceptance <sup>1</sup>	321	35%
2. Closed with payment - Partial Acceptance <sup>2</sup>	181	20%
3. Closed without payment - Depopulation <sup>3</sup>	2	0%
4. Closed without payment - Under Deductible <sup>4</sup>	137	15%
5. Closed without payment - Coverage Excluded <sup>5</sup>	186	20%
6. Closed without payment - No Policy in Force <sup>6</sup>	3	0%
7. Closed without payment - Opened in Error <sup>7</sup>	31	3%
8. Closed without payment - Not Pursued <sup>8</sup>	56	6%
9. Closed - Pending Reason Code <sup>9</sup>	0	0%
10. Total Closed <sup>10</sup>	917	100%

Row Data Descriptions:

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

## 11B. Claims Litigation



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

## TWIA Litigation Tracking Activity

---

### Litigation Quarter Summary Fourth Quarter 2020

4th Quarter 2020	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	Oct	1	0	8
	Nov	0	0	11
	Dec	4	0	9
		5	0	28

4th Quarter 2020	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	Oct	34	0	21
	Nov	61	0	30
	Dec	55	0	24
		150	0	75



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

## TWIA Claims Litigation December 2020

Dec-20	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	8	0	0	8
	HB3	393	4	(9)	388
	TOTAL	401	4	(9)	396

Dec-20	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	268	55	(24)	(4)	295
	TOTAL	268	55	(24)	(4)	295

Dec-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	346	37	246	29	658	3	2	18	2	25	683
	TOTAL	348	43	246	29	666	3	2	18	2	25	691



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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

Dec-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County														
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kenedy	Matagorda	Nueces	Refugio	San Patricio	Willacy	Grand Total
	69	19	9	23	4	81	13	235	1	4	157	6	42	3	666

Dec-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Daly & Black	272
	Furlow Law Firm	62
	Baker Law	47
	Carrigan & Anderson	36
	Scott Law	31
	Omar Ochoa Law Firm	17
	Brent Coon & Associates	15
	Chad T. Wilson	10
	Lane Law Firm	10
	Hodge Law Firm	10
	Lundquist Law Firm	9
	Remaining 72 firms	147
	TOTAL	666



## 12. TWIA Operations

### 12A. IT Systems Update



## MEMORANDUM

---

DATE: February 10, 2020  
TO: John Polak, General Manager  
FROM: Camron Malik, CIO / VP IT  
RE: TWIA Information Technology status

---

All component projects of the TWIA Elevate program are underway including Policy, Billing, Enterprise Data Warehouse, Portals, Data Migration and Claims which are all in the Construction phase of the lifecycle. The teams are making good 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.

We have kicked off the technology portion of the New Normal program, which will accommodate a flexible workforce capable of working seamlessly on-site or remotely. The New Normal program comprises 4 major work threads. These are People, Change Management, Space management and Technology and Infrastructure. All work threads have started and are progressing well.

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.

## 12B. Communications Update

## MEMORANDUM

---

DATE: February 3, 2021  
TO: TWIA Board of Directors  
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs  
RE: Communications & Legislative Affairs Operational Highlights

---

### I. Legislative & Regulatory Affairs

- a) In Q4 2020, we met with several key legislative offices to provide information on the legislative recommendations and public policy issues outlined in the Association's Biennial Report to the 87<sup>th</sup> Texas Legislature. Completing and providing the Biennial Report to the legislature in September, prior to the December 31 due date, gave us the advantage of introducing the Board's recommendations and information in advance of legislative session. As a result, several legislative offices volunteered to submit our legislative language to the Texas Legislative Council (TLC), which drafts bills for legislators in a form suitable for consideration by the House or Senate. Additionally, there is interest by at least one legislator, Rep. J.M. Lozano (San Patricio County), in carrying TWIA's recommendation to authorize a premium payment grace period. Rep. Eddie Lucio III's (Cameron County) chief of staff, Sergio Cavazos, submitted our draft bill language for four of the recommendations to TLC in early November, which will streamline the process for any legislative office that is interested in filing these bills. We are currently waiting for TLC to return their drafts of these bills to Rep. Lucio's office.
- b) In October and November, Board Chair Chandra Franklin Womack, John Polak, David Durden, and I met with Sen. Juan "Chuy" Hinojosa (Nueces County), Sen. Larry Taylor (Galveston County), Rep. Todd Hunter (Nueces County) and their legislative staffs to continue discussions about the Association's rates and funding. The legislators were particularly interested in Willis Towers Watson's (WTW) report and presentation at the Actuarial & Underwriting Committee meeting related to TWIA's use of secondary modifiers for which we provided them additional information after the meeting.
- c) As this hurricane season disproportionately impacted areas in and around Jefferson County, we reached out to Texas legislators representing the impacted areas to provide updates about the Association's response to the storm and any potential claim concerns from their constituents. David Durden, Anna Stafford, and I were able to meet with Lauren Lumsden, Rep. Dade Phelan's (Jefferson County) legislative director, at the beginning of November. We also contacted Rep. Joe Deshotel's (Jefferson County) and Sen. Brandon Creighton's (Chambers, Galveston, Harris, and Jefferson Counties) legislative staff about their interest in a meeting.

*Exhibits listing all the legislative and regulatory meetings attended in Q4 2020 and descriptions of those meetings are enclosed with this summary.*

- d) Once again, the Speaker of the Texas House of Representatives is a Tier 1 coastal legislator. Rep. Dade Phelan was elected Speaker of the House following the opening of the 87<sup>th</sup> legislative session on January 12, 2021. Bill filing for the session began on November 9, 2020, and three bills related to TWIA were filed prior to the start of the session:
- i. Rep. Ken King, who represents a portion of the Texas Panhandle, filed House Bill 429 which proposes requiring TWIA to offer tornado and wildfire insurance statewide to those unable to obtain it in the private market. He filed an identical bill in the 86<sup>th</sup> legislative session, but it did not progress past a referral to the House Insurance Committee. We have reached out to Rep. King to get more information about the concerns he hopes to address in his bill and provide him with information about the Texas FAIR Plan Association.
  - ii. Rep. Joe Deshotel (Jefferson County) has filed bills in several past sessions that propose legalizing casinos in coastal counties and using the gambling proceeds obtained through those casinos to help fund TWIA. While we have not seen these bills progress in prior sessions, there is increased interest this session from the casino industry in legalizing gambling in Texas. This session, Rep. Deshotel's casino bill is House Bill 477.
  - iii. Rep. Mayes Middleton (Galveston County) filed House Bill 769 in early December. The bill includes several provisions impacting TWIA's operations, including a proposal to relocate Association headquarters to a Tier 1 or 2 county, prohibiting the Board from voting on a rate filing if there are vacancies on the Board, and several changes to the Association's funding requirements and sources. As Rep. Middleton's bill proposes some significant changes, we met with his Legislative Director, Andrew Herrell, to discuss the intent of the bill in early February. We were able to gain clarity on Rep. Middleton's goals and offer items for consideration that may help efficiently operationalize the bill, if passed.
  - iv. From October 1 through December 31, 2020, we received and responded to 15 legislative and two coastal/industry stakeholder inquiries (both from Galveston Insurance Associates).
- e) We continue to provide recurring operational email updates to the Board, the Texas Department of Insurance (TDI), legislative staff, and coastal elected officials and stakeholders.

## II. Legislative Implementation Program

- a) The Association has effectively completed implementation of all the legislative provisions enacted by the 86<sup>th</sup> Texas Legislature in 2019. *Updated exhibits on the implementation of the specific provisions of House Bill 1900 and Senate Bill 615 are enclosed.*
- i. Staff for the Texas Sunset Commission indicated in a recent report to the Commission that the provisions of Senate Bill 615 regarding the Board Training Manual were partially implemented. Specifically, Sunset staff believes that the Manual did not provide sufficient information on "the scope of and limitations on the rulemaking authority of the board of directors." As the Commissioner of Insurance is the only individual with rulemaking

authority for the Association, we believed that we were in full compliance with the Board training provisions. However, we have updated the Training Manual to address Sunset staff's concerns and will be sending the revised manual out to you for acknowledgement.

- ii. The Claims Department completed the implementation of one of the last requirements of Senate Bill 615 far in advance of the June 1, 2021 effective date. It requires TWIA to send appraisal and supplemental payment deadline reminders to policyholders who have filed claims on policies with actual cash value coverage. This process complies with the Sunset Commission's recommendations and TDI rules.
- b) Q4 Communications & Legislative Affairs (CLA) activities in support of the implementation of the legislative provisions include the following:
- i. In support of legislative changes made to TWIA's Assumption Reinsurance Depopulation Program, CLA alerted potential interested carriers via email and on TWIA's website about the program's amended round five timeline, which was approved by TDI in October. CLA also added new resources to the Association's website, including a new visual timeline of the program and information updates to help carriers understand the new process and deadlines.
  - ii. CLA supported the implementation of the new credit card and installment payment options by:
    - Informing policyholders about the new payments options and establishing a landing page for access to an online self-service portal.
    - Educating agents and employees about the new direct online and installment payment processes to prepare them to assist policyholders.
    - Monitoring policyholder and agent feedback and adjusting communications in response to frequently asked questions.
    - Developing messaging across all communication platforms to present plain language information about premium payment options.
    - Planning to encourage higher adoption of online payment methods over the next two years and as we implement ELEVATE in an effort to positively impact cost savings.

### **III. Hurricane Preparedness & Coastal Outreach**

- a) In early October Hurricane Delta made landfall, necessitating various communications to our stakeholders before and after the storm, including policy moratorium information, website, and social media updates.
- b) As in-person coastal outreach remains suspended due to the COVID-19 pandemic, we participated in the following outreach events virtually in Q4 2020:

- i. In October, staff gave a hurricane preparedness presentation for a live broadcast session of the virtual National Tropical Weather Conference, a professional conference for broadcast meteorologists and broadcast meteorology students.
- ii. In December, staff attended a virtual meeting with the Texas Sea Grant coordinators who run the Texas A&M Community Resilience Collaborative. The meeting identified collaboration opportunities and resulted in the Texas Sea Grant's invitation to join the ongoing Texas Insurance Stakeholders Working Group. TWIA staff has participated in the Texas Insurance Stakeholders Working Group since early-2020 with FEMA, the National Flood Insurance Program, Insurance Council of Texas, and TDI.

#### **IV. Media Relations**

- a) Media coverage in Q4 2020 was driven by stories on the Board's decision to file for an increase in rates, with 76% of media mentions in the quarter coming in December, both before and after the December 8 meeting. Just over half of mentions were of negative sentiment and 86% of all stories in the quarter were on rates.
- b) TWIA sent six media alerts in the quarter, most of which were on the rate consideration process. The only media outreach on another topic was early in the quarter, on the landfall of Hurricane Delta.
- c) Association staff responded to 14 media inquiries in December, the most recorded in a single month since Hurricane Harvey (September 2017).

#### **V. Agent Advisory Group**

- a) The AAG met on January 26 for their first quarterly meeting of 2021. The topics included an update on 2020 storm claims and a number of Underwriting updates related to our project to upgrade Policy Center, the new premium payment methods and payment mailing methods, and the changes to the Assumption Reinsurance Depopulation program due to legislation passed in 2019.
- b) As requested by members of the Board, we also asked for the AAG's feedback about agents' access to and use of the secondary modifiers used by the AIR and RMS catastrophe models. The AAG's general feedback was that they are not currently collecting this type of information for other carriers with any regularity nor do they have the knowledge to identify many of the secondary modifiers on their own when submitting a policy to TWIA for coverage. Some of the AAG members have used third-party vendors to obtain data about their clients' properties and suggested that using third-party vendors directly would be more effective than requesting this information from agents. They also commented that windstorm certification information, such as WPI-8s, are a great resource for this information and some carriers are also asking for this type of information for non-TWIA policies.



## Q4 2020 Legislative & Regulatory Meetings

Legislative / Regulatory Office	Staff Member	TWIA Staff	Purpose
<b>October 2020</b>			
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>Sen. Larry Taylor</li> <li>Sen. Juan "Chuy" Hinojosa</li> <li>Rep. Todd Hunter</li> <li>Cari Christman</li> <li>Angie Flores</li> <li>Luis Moreno</li> </ul>		<b>Chandra Franklin Womack, John Polak, David Durden &amp; Jennifer Armstrong</b>	Met with legislators and staff to discuss the Association's rates and funding and issues raised by Willis Towers Watson (WTW) at the Actuarial and Underwriting Committee meeting related to TWIA's use of secondary modifiers.
<b>November 2020</b>			
Rep. Dade Phelan	Lauren Lumsden	<b>Jennifer Armstrong, David Durden &amp; Anna Stafford</b>	Met with staff to provide information on the Association's hurricane season activity, focusing on the storms that impacted a portion of the legislator's district, which is Jefferson County.
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>Sen. Larry Taylor</li> <li>Sen. Juan "Chuy" Hinojosa</li> <li>Rep. Todd Hunter</li> <li>Cari Christman</li> <li>Angie Flores</li> <li>Luis Moreno</li> </ul>		<b>Chandra Franklin Womack, John Polak, Jennifer Armstrong &amp; David Durden</b>	Met with legislators and staff to discuss the Willis Towers Watson report prepared for the Actuarial & Underwriting Committee.
Rep. Geanie Morrison	Shane Saum	<b>Jennifer Armstrong &amp; David Durden</b>	Met with staff to discuss the 2020 Biennial Report recommendations.
<b>December 2020</b>			
<b>Attending Staff:</b> <ul style="list-style-type: none"> <li>Scot Kibbe, Gov. Greg Abbott</li> <li>Lauren Fleming, Lt. Gov. Dan Patrick</li> <li>Lauren Lumsden, Rep. Dade Phelan,</li> <li>Mattie Heith, Senate Business &amp; Commerce Committee</li> <li>Cari Christman, Sen. Larry Taylor</li> <li>Alex Gamez, Rep. Todd Hunter</li> <li>Shane Saum, Rep. Geanie Morrison</li> <li>Molly Wilson, Rep. Ed Thompson</li> <li>Cindie Gonzales, Rep. Abel Herrero</li> <li>Bobby Joe Dale, Rep. Sarah Davis</li> </ul>		<b>David Durden, Jennifer Armstrong, Denise Larzalere, Dave Williams, Jerry Fadden &amp; Anna Stafford</b>	Invited legislative staff from the Governor's, Lt. Governor's, and Speaker's offices and coastal and committee offices to the Q3 2020 TWIA Board Meeting Materials Briefing, focusing on those agenda items of expected interest to staff and legislators: new Board members, TWIA's response to the COVID-19 pandemic, 2020 hurricane season funding, the RFP for actuarial services, the status of legislative implementation.





Legislative / Regulatory Office	Staff Member	TWIA Staff	Purpose
Sen. Larry Taylor	Cari Christman	Jennifer Armstrong, David Durden & Jim Murphy	Met with staff to discuss WTW's report prepared for the Actuarial & Underwriting Committee and the firm's recommendation to use secondary modifiers in TWIA's hurricane models.
Rep. JM Lozano	Matt Lamon	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Rep. Eddie Lucio III	Sergio Cavazos	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Rep. Dade Phelan	Laura Lumsden	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Sen. Kelly Hancock	Mattie Heith	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Governor Greg Abbott	Scot Kibbe	Jennifer Armstrong & David Durden	Met with staff to discuss WTW's report prepared for the Actuarial & Underwriting Committee and the issue of Association rates.
Governor Greg Abbott	Scot Kibbe	Jennifer Armstrong & David Durden	Met with staff to provide a TWIA operational overview.
Rep. Abel Herrero	Jesus Moreno	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Rep. Ed Thompson	Molly Wilson	Jennifer Armstrong & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Rep. Mayes Middleton	Andrew Harrell	Jennifer Armstrong & Anna Stafford	Met with staff to discuss the 2020 Biennial Report recommendations.
Sen. Lois Kolkhorst	Grant McLoughlin	Jennifer Armstrong & Anna Stafford	Met with staff to provide a TWIA operational overview and discuss the 2020 Biennial Report recommendations.



## Legislative Implementation Program

*Provision Status as of February 3, 2021*

Senate Bill 615			
Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Sunset Review</b>	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>			
<b>Proposal of Rules</b>	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"> <li>• TWIA has not proposed any rules to TDI to date.</li> </ul>			
<b>Board of Directors Eligibility Requirements</b>	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"> <li>• Board members are appointed by the Commissioner of Insurance.</li> <li>• 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.</li> </ul>			
<b>Board Training</b>	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"> <li>• 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.</li> <li>• At the request of Sunset Commission staff, the training manual has been updated with additional information on TDI's rulemaking process.</li> </ul>			
<b>Board Disclosures</b>	September 1, 2019	In Compliance	N/A
<i>Sec. 5. Requires TWIA Board and Actuarial &amp; 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"> <li>• 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.</li> </ul>			
<b>Policy Renewals</b>	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"> <li>• The first renewal offer packages were mailed to TWIA policyholders beginning January 1, 2020 for policies effective March 1, 2020.</li> </ul>			

## Senate Bill 615

Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Policy Payments</b> <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"> <li>TWIA began accepting premium payments from policyholders by credit card and in installments on November 19, 2020 prior to the January 1, 2020 deadline.</li> </ul>	January 1, 2021	In Compliance	N/A
<b>Supplemental Payments</b> <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"> <li>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.</li> </ul>	July 1, 2020	In Compliance	TDI Rules Approved
<b>ITV Determination</b> <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"> <li>TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.</li> </ul>	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
<b>Certificates of Compliance for Completed Improvements</b> <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"> <li>TDI has assumed responsibility for the issuance of Certificates of Compliance for completed improvements as of June 1, 2020.</li> </ul>	June 1, 2020	In Compliance	Transition Complete
<b>Rate Adequacy Analysis</b> <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"> <li>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.</li> <li>TDI rejected TWIA's most recent rate filing because a third party's rate adequacy analysis was posted for less than 14 days.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>Assumption Reinsurance Depopulation Program</b> <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"> <li>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.</li> <li>TDI approved TWIA's amendments to the program on September 23, 2020.</li> </ul>	March 31, 2020	In Compliance	TDI Rules Approved



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

## Legislative Implementation Program

*Provision Status as of February 3, 2021*

House Bill 1900			
Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Use of Premiums</b>	June 10, 2019	In Compliance	N/A
<i>Sec. 1, 2. Requires TWIA pay for excess losses from funding sources, including the Catastrophe Reserve Trust Fund (CRTF), available before or accrued during the catastrophe year in which the losses occurred.</i>			
<ul style="list-style-type: none"><li>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.</li><li>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.</li></ul>			
<b>Emergency Board Meeting for Planned Member Company Assessment</b>	June 10, 2019	In Compliance	N/A
<i>Sec. 3. Requires the TWIA Board of Directors to call an emergency meeting for the purpose of notifying member insurers if TWIA estimates its ultimate financial losses arising from a storm may require a member insurer assessment.</i>			
<ul style="list-style-type: none"><li>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.</li></ul>			
<b>ITV Determination</b>	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
<i>Sec. 4, 15. Changes TWIA's determination of whether a claim will be paid at replacement cost value or actual cash value to the time of policy issuance rather than at the time a claim is filed.</i>			
<ul style="list-style-type: none"><li>TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.</li></ul>			
<b>Certificates of Compliance for Completed Improvements</b>	June 1, 2020	In Compliance	Transition Complete
<i>Sec. 5, 6, 12, 13, 14. Transfers TWIA's program for the issuance of Certificates of Compliance for completed improvements to TDI with some modifications to the oversight and requirements of the program.</i>			
<ul style="list-style-type: none"><li>TDI has assumed responsibility for the issuance of Certificates of Compliance for completed improvements as of June 1, 2020.</li></ul>			

## House Bill 1900

Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Rate Adequacy Analysis</b> <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"> <li>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.</li> <li>TDI rejected TWIA's most recent rate filing because a third party's rate adequacy analysis was posted for less than 14 days.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>Member Company Purchase of Reinsurance</b> <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"> <li>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.</li> </ul>	June 10, 2019	In Compliance	TDI Rules Adopted
<b>Replacement Cost Coverage Claims</b> <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"> <li>TWIA's claim notices include language as required to comply with this provision and policy forms are updated to reflect the law changes.</li> </ul>	January 1, 2020	In Compliance	Policy Forms Approved; TDI Rules Adopted
<b>Claim Deadline Extensions</b> <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"> <li>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.</li> </ul>	September 1, 2019	In Compliance	TDI Rules Adopted
<b>Funding Study</b> <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"> <li>TWIA is prepared to assist the Legislative Oversight Board in its deliberations.</li> </ul>	November 15, 2020	N/A	N/A
<b>Merger Study</b> <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"> <li>TWIA is prepared to assist the Legislative Oversight Board in its deliberations.</li> </ul>	January 1, 2021	N/A	N/A

## 12C. Performance Evaluation of General Manager

There is no exhibit for this topic

## 16. Future Meeting

May 18, 2021 – Webinar

August 3, 2021 – Webinar

December 7, 2021 – Webinar