

Meeting of Board of Directors
Texas Windstorm Insurance Association
Teleconference
August 6, 2019
Tremont House
2300 Ship's Mechanic Row
Galveston, Texas 77550
9:00 a.m.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

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

1. Call to Order – Reminder of the Anti-Trust Statement *5 minutes*
– *Josh Fields*
2. Introductions – *Josh Fields* *5 minutes*
3. Election of Officers - *Josh Fields**
4. Consideration and Action to:
Approve the Minutes from Prior Board of Directors' Meetings *5 minutes*
– *Board Chair**
5. Public Comment *15 minutes*
6. TWIA Operational Highlights – *John Polak* *5 minutes*
7. Financial *20 minutes*
Consideration and Possible Action on the Following Financial Topics:
 - A. Report of the Secretary/Treasurer – *Secretary/Treasurer**
 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
 - C. 2019 Hurricane Season Funding – *Jerry Fadden*
 - D. Refinancing of 2014 Public Securities – *Jerry Fadden*
 - E. Investment of Trust Fund Balances (Sec. 2210.4521) – *Jerry Fadden**
 - F. Selection of Auditors/Accountants for 2019 and Authorization of Non-Audit Services – *Jerry Fadden**

8. Actuarial – <i>Jerry Fadden</i> Consideration and Possible Action on the Following Actuarial Topics: A. Reserve Adequacy/Harvey Ultimate Loss Estimate B. Statutory Maximum Limits of Liability* C. Policy Count/Exposures D. 2019 Annual Rate Filing, Including Public Comment*	80 minutes
9. Internal Audit – <i>Bruce Zaret – Weaver</i> Consideration and Possible Action on the Following Audit Topics: A. Internal Audit Status & Update B. Updated Risk Assessment Scoring	5 minutes
10. Underwriting – <i>Jessica Crass</i> A. Operational Review Update	10 minutes
11. Claims Consideration and Possible Action on the Following Claims Topics: A. Claims Operations – Overview – <i>Dave Williams</i> B. Claims Litigation – <i>David Durden</i>	20 minutes
12. TWIA Operations Consideration and Possible Action on the Following Operations Topics: A. IT Systems Update – <i>John Polak</i> B. Depopulation – <i>Jessica Crass</i> C. TDI Examination Report Review – <i>John Polak</i> D. Communications Update – <i>Jennifer Armstrong</i>	30 minutes
Lunch break, 12:00	30 minutes
13. Closed Session (Board Only) A. Personnel Issues B. Legal Advice	60 minutes
14. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors*	5 minutes
15. Committees – <i>Board Chair</i>	5 minutes
16. Future Meetings – <i>John Polak</i> <ul style="list-style-type: none"> December 10, 2019 – Omni Hotel, Corpus Christi February 2020 – TBD May 2020 – TBD 	5 minutes
17. Adjourn	
Estimated Total Length of Meeting	5 hours 5 minutes

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

1. Anti-Trust Statement

ANTI-TRUST COMPLIANCE STATEMENT

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

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

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

Texas Windstorm Insurance Association

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

TWIA Anti-Trust Compliance Statement

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

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

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

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4. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association

Board of Directors Meeting

Marriott South Hotel

4415 South IH 35

Austin, Texas 78744

May 7, 2019

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

The following Board members were present, representing:

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

Absent: Bryan Shofner - 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. | Jessica Crass, Senior Manager
Underwriting | TWIA |
| 6. | Jennifer Armstrong, VP Communications
and Legislative Affairs | TWIA |
| 7. | Amy Koehl, Executive Assistant | TWIA |
| 8. | Mike Perkins, Association Counsel | Perkins Law Group PLLC |

The following were also present:

Brandon Walker	Bank of America/Merrill Lynch
Clark Thomson	Calhoun, Thomson + Matza
Scott Weiss	Calhoun, Thomson + Matza
George Taylor	F.B. Taylor Insurance
Tad Delk	Guy Carpenter
Carlos Garcia	Guy Carpenter
Charles Angell	Guest
Joan Polak	Guest

Fred Strauss	Holborn Corporation
Matt Stillwell	ICT
Craig Fegley	JP Morgan Chase
Tim Peterson	JP Morgan Chase
Eleanor Kitzman	My Strong Home
Jonna Kay Hamilton	Nationwide
Kimberly Donovan	OPIC
Marianne Baker	TDI
Kenisha Schuster	TDI
Marti Luparello	Texas Farm Bureau Insurance
Jessica Davidson	TWIA
Allen Fulkerson	TWIA
Camron Malik	TWIA
Bech Bruun	UBS
Tony Gonzalez	UPC
Victoria Rodriguez	UPC
Corise Morrison	USAA
Bruce Zaret	Weaver
Brant Chandler	Wellington Insurance Group
Allen Cashin	Willis Re
Alicia Gerte	Willis Re

2. Introductions: Meeting attendees introduced themselves.
3. Approval of Minutes: The minutes from the February 5, 2019 meeting in Austin, Texas were reviewed. Ms. Neblett moved to approve the minutes as presented. Ms. Guard seconded the motion. The motion passed.
4. Public Comment: There was no public comment.
5. TWIA Operational Highlights: Mr. Polak reported \$111 million was deposited into the CRTF as a result of the 2018 net gain from operations. Operating expenses are below plan and the net gain from operations was above plan in Q1 2019. The Association is on track to achieve objectives for all strategic initiatives in Q1 2019. It exceeded turnaround time and quality standards on underwriting and claim service levels in Q1 2019 and remains below plan in Q1 2019 on disputed and litigated claims.
6. Financial:
 - A. Report of the Secretary/Treasurer: Ms. King reviewed the Treasurer's Report. Ms. Neblett moved to approve the report. Ms. Guard seconded the motion. The motion passed.
 - B. Financial Statement Review by Staff: TWIA's financial results as of the three months ended March 31, 2019 reflect net income of \$66.7 million. Direct written premiums were \$74.8 million, and the net underwriting gain was \$71.6 million for the quarter.

Year to date March 2019 gross direct written premiums of \$74.8 million reflect a decrease of 10.5% from March 2018 due to continued policy and exposure declines as well as the depopulation of 1,600 policies on June 1, 2018.

Direct premiums earned decreased to \$96.7 million compared to \$104 million in the same period last year. The change is reflective of lower direct written premiums in 2019. Reinsurance costs will be zero for the first five months of the year until the inception of the new program.

Through March 31, 2019, non-catastrophe direct loss and loss adjustment expense incurred was \$3.9 million, as a result of favorable prior and current accident year development. The estimate of ultimate loss and loss adjustment expense for Hurricane Harvey remained at \$1.61 billion as of December 2018.

Operating expenses decreased from \$8.4 million as of March 2018 to \$6.9 million as of March 2019 mainly due to lower than expected spending on certain IT projects during the first quarter.

Commission expense and premium taxes decreased from \$15 million in March 2018 to \$13.4 million in March 2019 due to the decrease in direct written premiums in 2019.

Gross investment income for the three months ended March 2019 at \$2.7 million was more than double compared to \$1.2 million earned through March 2018 due to increased investment yields. Interest expense decreased from \$8.6 million in March 2018 to \$7.6 million in March 2019. Debt issuance and other investment expense increased to \$94 thousand from \$20 thousand due to arrangement fees and commitment fees of \$2.2 million on the \$500 million committed line of credit entered into in August 2018.

Effective December 1, 2018, TWIA began ceding earned premium on the third round of the Assumption Reinsurance Depopulation Program. During this period, premiums are ceded on an “earned basis” to the participating carriers, with ongoing adjustments to the extent that selected policyholders “opt out” of the depopulation program and choose to remain with TWIA. At the first quarter of 2019, TWIA had ceded \$1.2 million of earned premium associated with 3,916 policies selected to be transferred to two participating carriers.

First quarter of 2019 results were also impacted by round 2 of the Assumption Reinsurance Program. The quota share reinsurance agreements were effective December 1, 2017 with three participating carriers. As of March 2019, ceded earned premiums for this round were still at \$1.8 million inception to date with \$1.3 million ceded during 2018.

To date, a total of \$23 million of in force premium and 12,856 policies have been transferred to participating carriers through the first two rounds of the Assumption Reinsurance Program. Based on estimated policyholder opt-outs, 2,381 policies

representing \$4.2 million of in force premium are projected to be transferred on June 1, 2019 to the participating carriers.

The 2018 \$110.6 million CRTF contribution was paid during the quarter. The accrual for current year's CRTF will not begin unless/until accident year earnings exceed scheduled principal payments later in the year.

The deficit was reduced from \$227.9 million in 2018 to a \$215.8 million as a result of net income of \$66.7 million and change in non-admitted assets of \$4.6 million.

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

The primary focus of the Investment Plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association.

At this time, staff is not recommending any changes to the investment plan. However, staff will seek a resolution at the meeting regarding board review of the adequacy of the current investment plan and board review of the implementation of the plan.

Ms. Neblett moved that the Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time. Ms. Guard seconded the motion. The motion passed.

- D. Funding: Mr. Fadden pointed the board members to a document in the meeting materials covered Harvey sources of funding. In the recent past, the board has secured a \$500 million line of credit from JP Morgan Chase. It provided a line of credit to be used in the event of a catastrophe wherein those funds would be used to immediately pay claims while pursuing the issuance of Class 1 securities. The proceeds of the Class 1 debt securities would pay the loan. He also covered TWIA risk management, actual 2018 and projected 2019 funding structure and the series 2014 pre-event bonds. Mr. Gerik brought up the expense issue with the Association having to purchase each model. That is a good-sized expense. Ms. King said there is the option to do the modeling by an outside firm. Most good-sized companies can do modeling in house. Ms. Franklin-Womack moved to adopt the resolution presented for the approval of the JP Morgan Chase line of credit. The full text will be attached to the minutes document. Ms. Guard seconded the motion. The motion passed.
- E. Financial Audit by Calhoun, Thomson + Matza: Mr. Thomson reviewed the audit reports. There were no significant findings. Ms. Neblett moved that the board accepts the audit reports of the Association's independent audit firm and

acknowledges review of the reports by each member of the board. Ms. King seconded the motion. The motion passed.

7. Actuarial:

- A. Reserve Adequacy: Mr. Fadden reported actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2019.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is \$1.61 billion, remaining the same as the previous review. The actual ultimate costs of Harvey may differ substantially from the indicated \$1.61 billion. This variability arises from the assumption made regarding the adequacy of case reserves for 1,612 open claims, the potential impact of future re-openings of closed claims as of March 31, 2019 and the outcome of disputed claims. About 854 of the 1,612 open claims are in some stage of litigation. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. Potential future new claims are not expected to be a factor in the variability. The actuarial team will continue to monitor current case reserve adequacy, future re-openings and current and future litigation to ensure all outstanding obligations are properly reserved.

As of March 31, 2019, TWIA carried \$166.7 million in total gross loss and loss adjustment expense reserves with \$85,000 of the total gross ceded to depopulation carriers. 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: Exposures are down 11% year over year.

8. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret reported the legal and compliance, pricing and reserving, underwriting and agency, cash management and communications audits are complete. Upcoming audits include payroll, Model Audit Rule and vendor management.
- B. Risk Assessment Report: Mr. Zaret reviewed the risk assessment report. Mr. Gerik asked about the risk assessment results concerning reinsurance. It is listed as a moderate risk. Mr. Gerik thinks it needs to be a high risk. If the Association can't collect from reinsurers, how can claims be paid. Mr. Zaret said he doesn't think the Association has ever had a problem with reinsurers. Mr. Gerik said there could be market conditions that affect the reinsurance market in the future. It needs to be a high risk and continually monitored at that level. Mr. Polak said

the reinsurance is spread out among 100 reinsurers. That mitigates some of the risk. Mr. Zaret said it is a vulnerability and could change at a moment's notice. Mr. Gerik said as a board of directors, members need to say reinsurance is a risk and it isn't a guarantee. It is driven by a market and there are a lot of moving parts that can play a part. Mr. Zaret said he would revisit this with management and discuss a bit more. He will also revisit the scoring on inherit/natural risk document with management and possibly reissue the document.

9. Underwriting:

- A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. That is being surpassed with over 95% processed within 10 days. Quality assurance results on underwriting decisions continue to exceed established goals.

Telephone service response time continues to meet and exceed expectations. Service quality scores have been in the meets category. Service observation (listening to calls and scoring them) is now standard procedure and as an Association, the departments are calibrating calls and have agreed upon service standards for telephone service.

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

For the period of January 1, 2019 – March 31, 2019, staff received 2,984 applications (WPI-3s). The average turnaround time is less than four days and reroof is the number one reason for applications. Two engineering firms represent approximately 20% of the applications. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

Ms. Neblett asked of all the WPI-8-C's, how many are TWIA policy holders and how many are not. Ms. Crass said the last time it was investigated, about half were issued to non-policyholders. Mr. Fields said it looks like that is trending down as Harvey moves further away.

10. Claims:

- A. Claims Operations: Since the last meeting, 35 new claims were opened and 307 were closed. Currently, 98% of the Harvey claims are closed. There are less than 1500 open Harvey claims. Projected new claim volume was 1,505. Actual new claim volume was 1,208 or 20% lower than projected.
- B. Claims Litigation: First quarter TWIA claims in suit number 16 and 13 were closed. There are 150 TWIA claims with LOR's for the first quarter. Ninety-four were closed. The Daly & Black firm holds 323 of the suits with Furrow Law Firm holding 187.

11. TWIA Operations:

- A. IT Systems Update: The TWIA program is in the inception phase where business and system requirements are being formulated and documented and planning for the effort is underway. Some new features the program is expected to deliver are installment billing, support for credit cards, new self-service portals for agents and policyholders to access functionality over the internet and updated Guidewire policy and billing applications.

The TFPA implementation is now in production support mode. The project to move renewing policies off the legacy CGI platform to the new Guidewire system completed quality assurance and user acceptance testing and went live on April 15th. The policies will migrate off the legacy CGI platform on to the new Guidewire system daily over the course of the next 14 months.

Staff expects to see improvements in maintenance costs and improved resource flexibility in the move off disparate legacy systems to a single instance platform based on common hardware and core applications.

The surcharge for bonds and MSB projects are in the construction phase and on track. The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments are on track.

- B. TDI Examination Report Review: The Texas Department of Insurance (TDI) has provided the final examination report for their financial examination of Texas Windstorm Insurance Association as of December 31, 2017. As previously discussed, there were no significant findings in the examination. Mr. Fields asked about the 70 claims that were reviewed. Were they random claims or were they claims with some sort of issue? Mr. Durden said it was the latter. Ms. Guard moved that the board accepts the examination report of the Texas Department of Insurance and acknowledges review of the report by each member of the board. Mr. Gerik seconded the motion. Ms. King asked for clarification on the supplemental payments process. She's reading that there is no formal process, is that correct? Mr. Durden it is an informal process, there is no statutory authorization. That is an item the Sunset Commission recommended, that the statute specifically authorize it. The motion passed.
- C. Sunset Bill Review: The Sunset Committee came to some fair and sound conclusions. They covered several items the board members have discussed in the past. There is some clean up work to do on extensions and time frames.
- D. Depopulation: The Association continues to administer the Assumption Reinsurance Depopulation Program. It is currently in its third round. June 1 is the assumption date for the round. There are just under 4,000 agent approved offers for this round. After the opt out period, there are roughly 2,500 to be transferred to the assuming carriers on June 1.
- E. Communications Update: Ms. Armstrong and her staff are actively monitoring legislation related to the Association and meeting with key legislative offices to answer questions related to TWIA operations. From January 1 through March 31, 2019, staff received and responded to 22 legislative inquiries. Staff continues to provide recurring claims and operational email updates to the board, TDI and legislative staff.

The Q1 AAG meeting occurred on January 30, 2019 and was focused on routine operational updates, discussion on the Sunset Advisory Commission's report and recommendations and the TWIA Board of Directors legislative recommendations.

12. Closed Session: There was no closed session
13. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There were no items to consider.
14. Committees: There was nothing to consider.
15. Future meetings:
 - August 6, 2019 – Tremont House – Galveston
 - December 2019 – TBD
16. Adjourn: The meeting adjourned at 10:44 p.m.

Prepared by: Amy Koehl
Executive Assistant

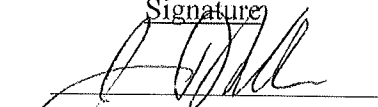
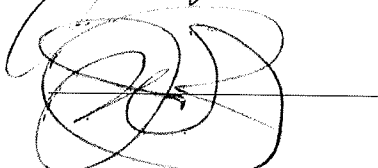
Approved by: Joshua Fields
TWIA Chairman

Approved by: Bryan Shofner
TWIA Vice Chairman

OFFICER'S CERTIFICATE

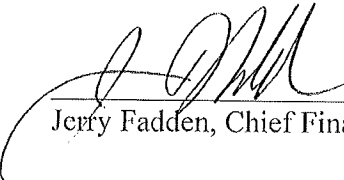
The undersigned does hereby certify, in their capacity as the Chief Financial Officer of TEXAS WINDSTORM INSURANCE ASSOCIATION (the "Association"), an association created by the legislature of the State of Texas under Chapter 2210, Texas Insurance Code, as amended, that they are familiar with the facts certified herein and are authorized to execute this Certificate for and on behalf of the Association. The undersigned further certifies as follows:

1. The following named individuals are duly appointed and qualified officers of the Association and hold the offices set forth opposite their names, and the signatures set opposite their names are their genuine signatures:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Jerry Fadden	Chief Financial Officer	
John Polak	General Manager	

2. Attached hereto as Exhibit A is a true, correct, and complete copy of the resolutions adopted by the Board of Directors of the Association, authorizing and approving the execution, delivery, and performance of certain Credit Agreement dated as of July 1, 2019, by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent, and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (the "Credit Agreement") and the other Loan Documents (as defined in the Credit Agreement) to which the Association is a party and the consummation of the transactions contemplated thereby. The foregoing resolutions have not been amended, modified, revoked, or rescinded, and are in full force and effect as of the date hereof. No other further action on behalf of the Association is necessary or appropriate to authorize the execution, delivery, and performance of the obligations of the Association under the Credit Agreement or the Loan Documents to which it is a party or the transactions contemplated thereby.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name by order of the Board of Directors thereof effective as of July 1, 2019.



Jerry Fadden, Chief Financial Officer

I do hereby certify that I am the duly appointed and acting General Manager of the Association and that Jerry Fadden is the duly appointed and acting Chief Financial Officer of the Association.



John Polak, General Manager

ATTACHMENTS:

EXHIBIT A – Resolutions

EXHIBIT A

Resolutions

See Attached

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

May 7, 2019

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

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

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver (i) to JPMorgan Chase Bank, N.A., in its capacity as a Lender, a promissory note in the original principal amount of \$400,000,000 and (ii) to Bank of America, N.A., a promissory note in the original principal amount of \$100,000,000 ((i) and (ii), collectively, the "Notes");

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

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

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

RESOLVED, FURTHER, that in order to induce the Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the Administrative Agent and the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

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

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

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

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

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

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

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

Executed and effective as of the date first written above.

Authorized Officer of the Association:

By: _____

(Signature)

Its: _____

(Printed Name and Title)

6. TWIA Operational Highlights

2019 TWIA Enterprise Scorecard

Reporting YTD as of June 30, 2019



	YTD	Trend	Goal	Δ	Performance
Operating Expenses	7.3%	→	9.9%	-2.6%	
Net Gain From Operations	\$10.0 M	↘	\$53.0 M	-\$43.0 M	
Enterprise Projects	90%	→	90%	0%	
Policy Administration	99%	→	90%	9%	
Claims Handling	100%	→	90%	10%	
Disputed Claims	1.90%	↗	1.6%	0.30%	
Litigated Claims	0.10%	→	0.50%	-0.40%	
Complaints	35	→	75	-40	

Reference Data

Policies In-Force	193,502
Exposures In-Force	\$56.1 billion
Written Premiums YTD	\$190.7 million
Claims Received YTD	3,579
Losses Incurred YTD ¹	\$56.0 million

¹ Excludes IBNR

Quarterly Key Accomplishments

- Secured \$4.2 billion in total funding for the 2019 hurricane season.
- Depopulated approximately 2,100 policies as a result of the 2018-2019 Assumption Reinsurance Depopulation Program.
- Kept operating expenses below plan in Q2 2019.
- Reprioritized some strategic initiatives in Q2 2019 to meet legislative implementation requirements.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q2 2019.
- Remain well below plan in Q2 2019 on litigated claims and complaints.

7. Financial

7A. Report of the Secretary/Treasurer

7A1. Income Statement

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

	2019	2018
Direct Premiums Written	<u>\$ 190,706</u>	<u>\$ 204,261</u>
Premiums Earned:		
Direct Premiums Earned	\$ 192,533	\$ 207,240
Ceded Reinsurance Premiums	(15,037)	(18,109)
Ceded Reinsurance Premiums - Depopulation	<u>(1,456)</u>	<u>(1,364)</u>
Net Premiums Earned	<u>176,040</u>	<u>187,766</u>
Deductions:		
Direct Losses and LAE Incurred	16,685	2,266
Direct Losses and LAE Incurred - Harvey	90,000	164,000
Direct Losses and LAE Incurred - Ike & Dolly	0	-
Ceded Losses and LAE Incurred - Depopulation	(127)	247
Operating Expenses	13,986	16,109
Commission Expense	30,468	32,673
Ceding commissions / brokerage	(2,569)	(2,458)
Ceding commissions / brokerage - Depopulation	(349)	(327)
Premium / Maintenance Tax	<u>3,641</u>	<u>3,985</u>
Total Deductions	<u>151,734</u>	<u>216,494</u>
Net Underwriting Gain or (Loss)	<u>24,305</u>	<u>(28,728)</u>
Other Income or (Expense):		
Gross Investment Income	5,049	2,622
CRTF Funds Received	-	-
Member Assessment Income	-	175,000
Interest Expense on Class 1 Bonds	(15,201)	(17,102)
Debt Issuance & Other Investment Expenses	(1,425)	(99)
Other Income (Expense)	<u>43</u>	<u>50</u>
Total Other Income or (Expense)	<u>(11,534)</u>	<u>160,471</u>
Net Income (Loss)	<u>\$ 12,771</u>	<u>\$ 131,743</u>
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	\$ (277,864)	\$ (461,390)
Net Income (Loss)	12,771	131,743
Change in Provision for Reinsurance	(1,816)	(2,686)
Principal Funded on Class 1 Bonds (net)	-	-
Change in nonadmitted assets - Other	(976)	10,631
Statutory Fund Cost	-	-
Ending Surplus (Deficit)	<u>\$ (267,885)</u>	<u>\$ (321,702)</u>

7A2. Management Discussion and Analysis

**Texas Windstorm Insurance Association
Management Discussion and Analysis
June 30, 2019**

TWIA's financial results for the six months ended June 2019 reflect net income of **\$12.8 million**, compared to a budget of **\$56.6 million**.

Direct Written Premium: Year to date June 2019 gross direct written premiums of **\$190.7 million** reflect a decrease of \$13.6 million (6.6%) from the reported **\$204.3 million** for June last year (2018) due to continued policy and exposure declines as well as the depopulation of 1,600 policies on June 1, 2018 and 2,080 on June 1, 2019. Direct Written Premium was **\$8.7 million** better than the budgeted **\$182.0 million**.

Direct Premiums Earned: Direct premiums earned decreased to **\$192.5 million** compared to **\$207.2 million** in the same period last year. Direct premium earned was **\$4.4 million** better than budget of **\$188.1 million**.

Ceded Depop Premium: There was **\$1.46 million** premium ceded for year to date though June.

Reinsurance Costs: Year to date ceded premium written is **\$90.2 million**, reflecting the gross costs of the 2019-2020 reinsurance program before commissions. On a net basis after discounted brokerage and expenses, the cost was **\$87.7 million**, compared to the budget of **\$86.0 million**. This amount will be earned over the next 6 months; **\$15.0 million** of ceded earned premium was recorded in June.

Loss and Loss Adjustment Expense Incurred: The year to date non-hurricane direct loss and loss adjustment expense (LAE) incurred of **\$16.7 million** reflects the actuarial analysis as of the second quarter. This reflects a relatively benign coastal spring storm season such that the non-hurricane loss ratio was **8.7%** compared to the budgeted **28.8%**. The year to date incurred losses for Hurricane Harvey reflects a **\$90.0 million** revision to the actuarial estimate of ultimate loss and loss adjustment expense bringing the ultimate to **\$1.7 billion** from **\$1.61 billion**. This adjustment is based on adverse development of case reserves experienced in the 2nd quarter and the exhaustion of the initial reserve established for unallocated loss adjustment expense.

Operating Expenses: The total operating expenses for six months of **\$14.0 million** are below budget by **\$4.7 million or 25.1%**. The variance is mostly attributed to IT projects which have not materialized as of this date.

Commission Expense and Premium Taxes: Commission expense (**\$30.5 million**) and premium taxes (**\$3.6 million**) were below budget by **\$1.4 million or 4.3%**.

Other Income (Expense): Gross investment income for YTD June was **\$5.0 million**, compared to the budget of **\$4.1 million**, reflecting an improved rate environment. Interest expense on Class 1 bonds was as budgeted at **\$15.2 million**.

CRTF Contribution: The accrual for the CRTF will not begin unless/until accident year earnings exceed scheduled principal payments later in the year.

Surplus: The ending deficit was **\$267.9 million**, compared to **\$277.9 million** at Dec. 31, 2018.

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

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
for the six months ended June 30,				
	Actuals - 2019	Budget - 2019	Variance - 2019	Actuals - 2018
Premiums Written:				
Direct	\$ 190,706	\$ 182,019	\$ 8,687	\$ 204,261
Ceded	(90,224)	(86,000)	(4,224)	(108,654)
Ceded - Depopulation	(1,456)	(1,741)	285	(1,364)
Net	99,027	94,278	4,749	94,242
Premiums Earned:				
Direct	\$ 192,533	\$ 188,135	\$ 4,398	\$ 207,240
Ceded	(15,037)	(14,333)	(704)	(18,109)
Ceded - Depopulation	(1,456)	(1,741)	285	(1,364)
Net	176,040	172,061	3,979	187,766
Deductions:				
Direct Losses and LAE Incurred	16,685	54,172	(37,487)	2,266
Direct Losses and LAE Incurred - Harvey	90,000	0	90,000	164,000
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	0
Ceded Losses and LAE Incurred	0	0	0	0
Ceded Losses and LAE Incurred - Depopulation	(127)	(577)	451	247
Operating Expenses	13,986	18,687	(4,701)	16,109
Commission Expense	30,468	29,124	1,344	32,673
Ceding commissions / brokerage	(2,569)	(1,946)	(623)	(2,458)
Ceding commissions / brokerage - Depopulation	(349)	(418)	68	(327)
Premium / Maintenance Tax	3,641	3,587	54	3,985
Total Deductions	151,734	102,629	49,105	216,494
Net Underwriting Gain or (Loss)	24,305	69,432	(45,126)	(28,728)
Other Income or (Expense):				
Gross Investment Income	5,049	4,102	947	2,622
CRTF Funds Received	0	0	0	0
Member Assessment Income	0	0	0	175,000
Interest Expense on Debt	(15,201)	(15,201)	0	(17,102)
Debt Issuance/Maintenance & Other Investment Expenses	(1,425)	(1,757)	332	(99)
Other Income (Expense)	43	0	43	50
Total Other Income or (Expense)	(11,534)	(12,855)	1,321	160,471
Net Income (Loss)	\$ 12,771	\$ 56,576	\$ (43,805)	\$ 131,743
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(277,864)	(277,864)	0	(461,390)
Net Income (Loss)	12,771	56,576	(43,805)	131,743
Change in Provision for Reinsurance	(1,816)	(2,000)	184	(2,686)
Principal Funded on Class 1 Bonds (net)	0	0	0	0
Change in nonadmitted assets - Income Tax Rec	0	0	0	0
Change in nonadmitted assets - Other	(976)	(1,508)	532	10,631
Other	0	0	0	0
Statutory Fund Cost	0	0	0	0
Ending Surplus (Deficit)	\$ (267,885)	\$ (224,796)	\$ (43,089)	\$ (321,702)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	8.7%	28.8%	-20.1%	1.1%
Hurricane Harvey	46.7%	0.0%	46.7%	79.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	55.4%	28.8%	26.6%	80.2%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	-0.1%	17.9%
Non Acquisition	7.3%	9.9%	-2.7%	7.8%
UW Expense Ratio	25.1%	27.9%	-2.8%	25.7%
Combined Ratio	80.6%	56.7%	23.9%	105.9%
Net:				
Loss & LAE Ratio:				
Non Hurricane	9.4%	31.1%	-21.7%	1.3%
Hurricane Harvey	51.1%	0.0%	51.1%	87.3%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	60.5%	31.1%	29.4%	88.7%
UW Expense Ratio:				
Acquisition	19.2%	19.2%	0.0%	19.2%
Non Acquisition	7.9%	10.9%	-2.9%	8.6%
UW Expense Ratio	27.1%	30.1%	-3.0%	27.8%
Combined Ratio	87.7%	61.2%	26.4%	116.5%

1	TEXAS WINDSTORM INSURANCE ASSOCIATION				1
2	Statutory Expense Report (000's omitted)				2
3	for the six months ended June 30,				3
4					4
5	Description	Actuals - 2019	Budget - 2019	Variance - 2019	Actuals - 2018
6	Personnel Expenses				
7	Salaries & Wages - Permanent	5,677	5,815	(138)	5,292
8	Contractor & Temporary Help	7,601	11,246	(3,646)	22,392
9	Payroll Taxes	437	486	(49)	421
10	Employee Benefits	2,193	2,048	144	2,065
11	Recruiting, Training & Other	98	248	(151)	152
12	Subtotal	16,005	19,843	(3,839)	30,323
13					
14	Professional & Consulting Services				
15	Legal	286	1,622	(1,337)	408
16	Accounting & Auditing	160	162	(2)	137
17	Information Technology	1,079	3,203	(2,123)	33
18	Actuarial Services	(23)	35	(58)	31
19	Ombudsman Program	125	111	14	119
20	Surveys & Inspections	794	965	(170)	942
21	Disaster Recovery Services	60	80	(20)	40
22	Other Services	1,824	2,671	(847)	5,406
23	Subtotal	4,305	8,849	(4,543)	7,116
24					
25	Hardware/Software Purchases & Licensing	1,652	1,654	(2)	1,574
26	Rental & Maintenance - Office/Equipment	623	724	(102)	682
27	Travel Expenses	81	186	(106)	150
28	Postage, Telephone and Express	350	498	(148)	444
29	Capital Management Expenses	1,281	193	1,088	84
30	Depreciation	5	0	5	889
31	Other Operating Expenses	547	563	(15)	640
32	Total Operating Expenses	24,848	32,511	(7,663)	41,901
33					
34	Capitalization of Fixed Assets	0	0	0	0
35	Reimbursement of Depop Servicing Expense	(45)	(52)	7	(176)
36	Allocation To ULAE	(9,392)	(13,578)	4,186	(25,517)
37	Allocation To Investing & Other Expense	(1,425)	(193)	(1,232)	(99)
38	Net Operating Expense - UW Operations	13,986	18,687	(4,701)	16,109

(1) Summary Details for Other Services:

Expert Panel	\$	1,026,764
Call Center Expense		155,530
Xactware User Fees		6,502
*Other Outside Services		634,988
Total Other Services	\$	1,823,784

***Other Outside Services**

Underwriting	194,725
Claims	270,045
Human Resources	89,491
Communications & Legislative Affairs	36,106
Corporate	12,674
Operations	18,775
Accounting	12,432
Legal	740
Total	634,988

7B2. Balance Sheet

1	TEXAS WINDSTORM INSURANCE ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		June-19	December-18	5
6	Admitted Assets			6
7	Cash and short term investments:			7
8	Unrestricted	\$ 457,659	\$ 563,554	8
9	Restricted - Funds Held at TTSTC	\$ 106,359	\$ 92,574	9
10	Restricted - Funds Held at TTSTC (Non Admitted)	-	-	10
11	Total cash and short term investments	564,018	656,127	11
12	Premiums receivable & other	1,874	1,707	12
13	Assessment receivable	-	-	13
14	Amounts recoverable from reinsurers	39	4	14
15	Total admitted assets	\$ 565,931	\$ 657,839	15
16				16
17	Liabilities, Surplus and other funds			17
18	Liabilities:			18
19	Loss and Loss adjustment expenses	\$ 232,917	\$ 200,780	19
20	Underwriting expenses payable	14,811	9,822	20
21	Unearned premiums, net of ceded unearned premiums	118,037	195,050	21
22	Ceded reinsurance funds payable	63,204	20,572	22
23	Principal Outstanding on Class 1 Pre Event Bonds	368,500	368,500	23
24	Interest Payable on Class 1 Pre Event Bonds	15,201	15,201	24
25	Provision for reinsurance	1,816	-	25
26	Other payables	19,330	15,189	26
27	Statutory fund payable	-	110,590	27
28	Total liabilities	833,816	935,703	28
29				29
30	Surplus and others funds			30
31	Unassigned surplus	(267,885)	(277,864)	31
32	Total liabilities, surplus and other funds	\$ 565,931	\$ 657,839	32
33				33
34				34
35	Balance in CRTF	\$ 119,145	\$ 5,986	35
36				36
37	Balance in CRTF including Statutory fund payable	\$ 119,145	\$ 116,576	37

7B3. Cash & Short Term Investments

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments (\$ in 000's)
June 30, 2019

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Blended Rate of Interest Bearing Investments	Investment Duration of Interest Bearing Investments (in months)	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
						< 40%	Superior or Strong	> 10%	> \$25B	> .2% of N.A. Reg Capital
Balances as of 6/30/19:										
Bank of America	153	144,998	145,150	1.26%	0.0	32%	Superior	12.6%	\$152	No
BlackRock Liquidity Funds (1)	0	107,561	107,561	2.31%	0.0	24%	N/A	N/A	N/A	N/A
Citibank	6	46,627	46,633	1.75%	0.0	10%	Superior	12.7%	\$130	No
JP Morgan Chase	19,824	0	19,824	0.00%	0.0	4%	Superior	14.0%	\$190	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	138,492	138,492	2.22%	0.0	30%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0	0.00%	0.0	0%	Superior	12.7%	\$145	No
Total of all financial institutions	19,982	437,677	457,659	1.75%	0.0	100%				
Balances as of 12/31/18:										
Bank of America	153	188,842	188,994	1.26%	0.0	34%	Superior	12.2%	\$147	No
BlackRock Liquidity Funds (1)	0	91,854	91,854	1.46%	0.0	16%	N/A	N/A	N/A	N/A
Citibank	7	46,243	46,250	1.50%	0.0	8%	Superior	12.7%	\$129	No
JP Morgan Chase	39,364	0	39,364	0.00%	0.0	7%	Superior	13.9%	\$189	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	197,092	197,092	2.04%	0.0	35%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	-	0.00%	0.00	0%	Superior	12.0%	\$141	No
Total of all financial institutions	39,523	524,030	563,554	0.00%	-	100%				

(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.

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

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of March 31, 2019. 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 six months ended June 30,	3
4		4
5	Actuals - 2019 Budget - 2019 Variance - 2019	5
6		6
7	Cash flows from operating activities:	7
8	Premiums collected, net of reinsurance \$ 146,319 \$ 128,272 \$ 18,047	8
9	Losses and loss adjustment expense paid (74,455) (92,839) 18,385	9
10	Underwriting expenses paid (39,638) (48,005) 8,367	10
11	CRTF funds received 0 0 0	11
12	Member assessment received 0 0 0	12
13	Other (779) (270) (509)	13
14	Net cash provided by operating activities 31,448 (12,842) 44,289	14
15	Cash flows from nonoperating activities:	15
16	Statutory fund paid (110,590) (112,142) 1,552	16
17	Other 0 0 0	17
18	Net cash provided by nonoperating activities (110,590) (112,142) 1,552	18
19	Cash flows from investing activities:	19
20	Sales and maturities of investments 0 0 0	20
21	Net investment income (12,967) (12,855) (111)	21
22	Net cash provided by investing activities (12,967) (12,855) (111)	22
23	Cash flows from financing activities:	23
24	Borrowed funds 0 0 0	24
25	Borrowed funds repaid 0 0 0	25
26	Net cash provided by financing activities 0 0 0	26
27		27
28	Net increase (decrease) in cash and short-term investments (92,109) (137,839) 45,730	28
29	Cash and short-term investments, Beginning 656,127 608,731 47,396	29
30	Cash and short-term investments, Ending \$ 564,018 \$ 470,892 \$ 93,126	30
31		31

7B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION													
HISTORICAL DATA													
1971 - 2019													
(\$ with 000's omitted)													
GROSS							NET						
LIABILITY IN		RATE		WRITTEN			LOSS &		UNDERWRITING				
YEAR	FORCE	POLICY	CHANGES	COMML	PREMIUMS	LOSS &	EARNED	LOSS &	EXPENSES	UNDERWRITING	CRTF BALANCE		
	END OF PERIOD	COUNT	RESID			LAE INCURRED	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	56,113,158	193,502	-	-	190,706	106,685	176,040	106,558	45,176	24,305	119,145		
TOTAL					6,407,400	5,798,363	4,439,764	4,326,913	1,395,771	(1,282,921)			
*2019 data through 6/30/19.													

7C. 2019 Hurricane Season Funding



MEMORANDUM

DATE: July 19, 2019
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **2019 TWIA Funding**

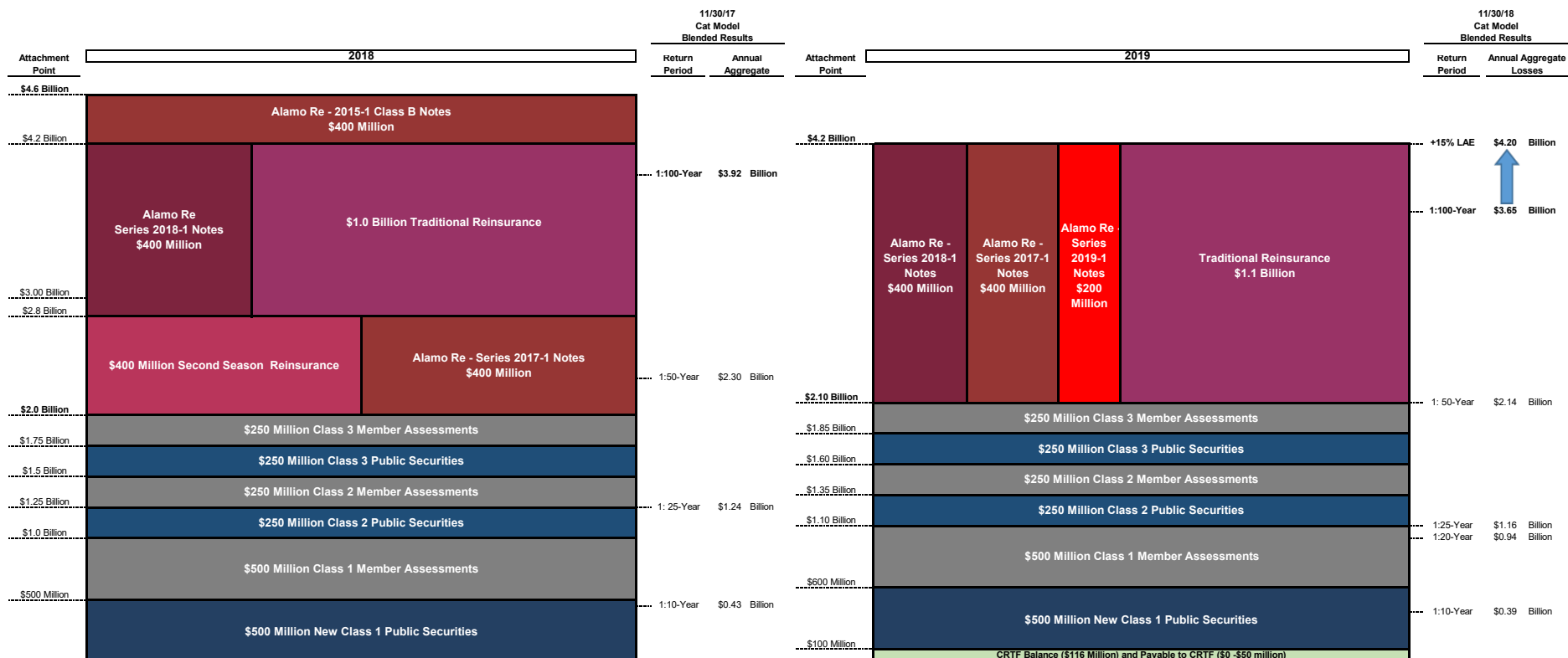
As directed by the TWIA Board of Directors at its February 5th and May 7th 2019 meetings, TWIA staff, Guy Carpenter, its reinsurance broker, and Guy Carpenter Securities, as placement agent, completed the placement of \$2.1 billion in traditional reinsurance and catastrophe bonds for the 2019 hurricane season. The 2019 reinsurance program includes the following components.

- The \$400 million of three-year catastrophe bonds (the 2017-B catastrophe bonds), issued in 2017, and the \$400 million of Series 2018 Catastrophe bond were reset to provide coverage for aggregate losses on a pro rata basis in excess of \$2.1 billion.
- New three-year catastrophe bonds (Series 2019 Bonds) in the principal amount of \$200 million were issued in late May 2019. These bonds also provide coverage for aggregate losses on a pro rata basis in excess of \$2.1 billion
- \$1.1 billion in traditional reinsurance coverage attaching at \$2.1 billion was placed with over 50 well-rated carriers (A- or better). The traditional reinsurance is on an aggregate basis and has a one-year term.

At \$4.2 billion in total funding, **the 2019 funding structure provides *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*** as prescribed by Sec. 2210.453. The total net cost of the program is \$87.7 million, slightly over the \$86 million target, but well under the \$106.2 million spent on the 2018 program.

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

JF



Notes:

Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/18 for the 2019 season.
2019 Cat model return periods based average of AIR v6 and RMS v18 gross aggregate loss estimates, including hurricane and severe convection storms ("SCS"), including demand surge, but excluding storm surge. Hurricane losses are based on the near-term (Warm Sea Surface Temperature) event set.



MEMORANDUM

DATE: July 13, 2019
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **Renewal of TWIA \$500 Million Credit Facility**

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

On July 1, 2019 TWIA closed on a new \$500 million bank line of credit to provide for liquidity in the event of a catastrophic event. JPMorgan Chase (JPM) again served as the Administrative Agent and Bank of America/ Merrill Lynch (BAML) as a co-lender. It is the intent of TWIA that, if TWIA draws on the liquidity facility to fund claims from a catastrophic event, the facility would be repaid from the proceeds of new post-event Class 1 Public Securities.

The arrangement, which makes the credit available through May 31, 2020, with JPM and BAML included an upfront fee of 10 basis points (reduced from 20 bps in 2018) and a 40 bps commitment fee on the unused portion of the commitment. The agreement provides for an early termination option on December 29, 2019 and March 27, 2020 at no penalty. This provision allows TWIA to avoid paying commitment fees following the end of the hurricane season.

Among the conditions precedent for borrowing under the line of credit is that "the Administrative Agent shall have received evidence that the Borrower has requested the approvals and consents from the TDI Commissioner necessary for the TPFA to issue Public Securities and/or for the Borrower to levy assessments on its member insurers in an amount sufficient to fully pay all outstanding Loans under the Agreement".

JF

7D. Refinancing of 2014 Public Securities



MEMORANDUM

DATE: July 25, 2019
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: **Refinancing of 2014 Public Securities**

On June 13, 2019 TWIA staff submitted a request to the Commissioner of Insurance for the issuance of Class 1 Public Securities by the Texas Public Finance Authority (TPFA) to issue new public securities on behalf of TWIA to refinance the outstanding Series 2014 Bonds. On July 3, 2019 the Commissioner approved TWIA's request for TPFA to issue public securities, conditioned on:

- An interest rate not to exceed 7.5%; and
- A term not to exceed five years.

TWIA staff promptly conveyed this information to the TPFA staff after which the Board of Directors of TPFA approved a resolution at its July 11, 2019 meeting authorizing TPFA staff to proceed with the proposed transaction. In addition, the Board of TPFA approved the selection of a syndicate of underwriters and other service providers, including bond counsel and disclosure counsel. TWIA staff and its outside counsel are engaged in discussion with the Attorney General's office with respect to certain structural issues in connection with the new public securities. The working group is actively engaged in the process with the goal of completing the transaction in the 4th quarter of 2019.

JF

7E. Investment of Trust Fund Balances



MEMORANDUM

DATE: July 10, 2019
TO: John Polak, General Manager
FROM: Jerry Fadden, Chief Financial Officer
RE: Investment of Trust Fund Balances (Sec. 2210.4521)

SB 900 added the following requirement regarding the Catastrophe Reserve Trust Fund (CRTF):

Sec. 2210.4521. INVESTMENT OF TRUST FUND BALANCES.

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

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

2210.452(a). [Emphasis added] After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

TWIA Board of Directors last reviewed this provision as required in 2018 at the August Board of Directors Meeting.

This statutory provision requires the Comptroller to invest excess CRTF funds in a less restrictive manner using a “prudent investor” standard and it requires the TWIA board to provide an annual notification to the Comptroller regarding the excess funds/sufficient balance amount in the CRTF. The CRTF Balance is approximately \$119.1M as of June 30, 2019. The CRTF is utilized for funding losses and expenses in excess of current year premiums and other revenue. Since there is a reasonable possibility that all of the funds in the CRTF may be required to be utilized in the event of a catastrophic event, TWIA staff believes that all the funds in the CRTF are necessary to meet the potential cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). Thus there are **no excess funds** in the CRTF at this time to be invested by the Comptroller under the prudent investor standard set forth in Chapter 404 of the Government Code.



Suggested resolution language for the TWIA board of directors' use at the August 6, 2019 meeting in Galveston is as follows:

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

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

Jerry Fadden

7F. Selection of Auditors/Accountants for 2019 and
Authorization of Non-Audit Services



MEMORANDUM

DATE: July 19, 2019

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **Selection of Auditors/Accountants for 2019 and Authorization of Non-Audit Services**

Each year the Association retains an accounting firm to conduct an audit of the Association's financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2013, Calhoun Thomson + Matza (CTM) was selected to continue in their role as the Association's independent auditor. I have attach the Statutory and GASB engagement letters from CTM for use in connection with the audit of the Association's 2019 financial statements. Counsel has reviewed the letters and reports that they are the same as last year with no changes in terms or fee amounts. Staff recommends to the Board of Directors that the engagements be approved and the letters executed. Staff also requests authority to use CTM as needed over the coming year for help with permitted tax related non-audit services and specific non-audit services in connection with the issuance of catastrophe bonds during the coming year as needed. Resolution language follows.

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

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

Agreement to provide services

July 17, 2019

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
5700 S. Mopac Expressway
Building A
Austin, Texas 78749

Dear Mr. Fields:

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

Statutory Audit

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statutory statement of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2019 and the related statutory statements of income, changes in surplus and other funds, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of the Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding the Association's assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

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

- Summary Investment Schedule as of December 31, 2019.
- Supplemental Investment Risk Interrogatories as of December 31, 2019.
- Reinsurance Interrogatories as of December 31, 2019.

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

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

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

We will design our audit, in accordance with auditing standards generally accepted in the United States of America, to obtain reasonable assurance about whether the statutory financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the statutory financial statements and, therefore, will not include a detailed check of all of the Association's transactions for

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

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

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

Responsibility to Communicate with the Audit Committee

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

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

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

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

E-mail Communication

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

Ownership of Working Papers

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

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insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

Reproduction of Audit Report

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

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

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

Review of Documents for Sale of Securities

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

Management Representations and Indemnification

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

Availability of Records and Personnel

The Association agrees that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will

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have the full cooperation of, and unrestricted access to, the Association's personnel during the course of the engagement.

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

Assistance by the Association's Personnel and Internet Access

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

Other Services

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

Independence

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

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

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audit committee pre-approves any services that we or other independent auditors are asked to perform.

Dispute Resolution Procedure

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

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

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

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

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of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

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

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

Fees

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

Our hourly rates are as follows:

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

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

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

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

Miscellaneous

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

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

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

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

Assignability

This Agreement is nonassignable.

Entire Agreement

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

Amendment and Modification

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

Public Information

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


Confidential Information and Subpoenas

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law ("Confidential Information") and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course of performing services under this Agreement without the prior written consent of TWIA.

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This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM's performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party's use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,


Acknowledged:

By _____
Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee

Date _____

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

Agreement to provide services

July 17, 2019

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
Texas Windstorm Insurance Association
5700 S. Mopac Expressway
Building A
Austin, Texas 78749

Dear Mr. Fields:

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

Audit

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statement of net position of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2019 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of your Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding Association assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

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

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

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

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

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

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

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
July 17, 2019
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internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

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

Responsibility to Communicate with the Audit Committee

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

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

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

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

E-mail Communication

In connection with this engagement, we may communicate with you or others via email. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that emails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of email, including any punitive,

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee

July 17, 2019

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consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

Ownership of Working Papers

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

Reproduction of Audit Report

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

Posting of Audit Report and Financial Statements on Your Web Site

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

Review of Documents for Sale of Securities

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

Management Representations and Indemnification

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

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
July 17, 2019
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Availability of Records and Personnel

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

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

Assistance by Your Personnel and Internet Access

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

Other Services

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

Independence

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

Dispute Resolution Procedure

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

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
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respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

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

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

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

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

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee

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

Fees

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

Our hourly rates are as follows:

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

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

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

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

Miscellaneous

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

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

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee
July 17, 2019
Page 8

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

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

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

Very truly yours,

Cohn, Therman & Matza, LLP

Acknowledged:

By _____

Mr. Joshua Fields, Chairman of the Board of Directors/Audit Committee

Date _____

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

8. Actuarial

8A. Reserve Adequacy/Harvey Ultimate Loss Estimate



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: July 17, 2019

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of June 30, 2019

The TWIA actuarial staff has completed a review of the Texas Windstorm Insurance Association's loss and loss adjustment expense reserves as of June 30, 2019.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.62 billion to \$1.72 billion. TWIA has selected to book the Hurricane Harvey ultimate loss and loss adjustment expense at \$1.7 billion, toward the high end of the range. 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 1,422 open claims, the potential impact of future re-openings of closed claims as of June 30, 2019 and the outcome of disputed claims. Even though TWIA has booked and funded Harvey at a relatively conservative level, 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. Potential future new claims are not expected to be a factor in the variability. The Actuarial team will continue to monitor current case reserve adequacy, current and future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of June 30, 2019, TWIA carried \$233 million in total gross loss and loss adjustment expense reserves with \$94,046 of the total gross ceded to depopulation carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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

The complete actuarial analysis is available on request.

8B. Statutory Maximum Limits of Liability



MEMORANDUM

DATE: July 25, 2019
TO: John Polak, General Manager
CC: Jerry Fadden, Chief Financial Officer
FROM: Xiuyu Li, Actuary
RE: 2019 Statutory Limits of Liability

Attached is a spreadsheet showing the detailed calculations to revise the limits of liability used by the Texas Windstorm Insurance Association as of June 30, 2019. As prescribed by Texas Insurance Code Section 2210.502(a), the liability limits are to be adjusted based on changes in the Boeckh Index. The attached exhibits incorporate the Boeckh cost changes for Corpus Christi and Houston averaged together. Supporting documentation is also attached.

To compute the proper changes, the TWIA book of business has been profiled by construction type as of June 30, 2019 for each of the categories needing adjustment as follows:

	Current 2019	Indicated 2020	\$ Change	% Change
Dwellings and individually owned townhouses	\$1,773,000	\$1,809,000	36,000	2.0%
Contents of an apartment, condominium, or townhouse	\$374,000	\$381,000	7,000	1.9%
Commercial structures and associated contents	\$4,424,000	\$4,519,000	95,000	2.1%

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

The filing will be made with the Texas Department of Insurance as required by statute and as directed by the TWIA Board of Directors at its August 6, 2019 meeting.

XL

Texas Windstorm Insurance Association
Proposed Limits of Liability
To Be Effective January 1, 2020
Impact on Exposures In-Force as of 6/30/19



Statutory Limits of Liability

	Current	Proposed	Increase
Dwelling	1,773,000	1,809,000	36,000
Contents	374,000	381,000	7,000
Non-Dwelling	4,424,000	4,519,000	95,000

	Risks at Statutory Limits	<u>Exposure</u> Current	Proposed	Increase
Dwelling	5	8,865,000	9,045,000	180,000
Contents	121	45,254,000	46,101,000	847,000
Non-Dwelling	118	522,032,000	533,242,000	11,210,000
Total	244	576,151,000	588,388,000	12,237,000
Total TWIA Exposure				56,113,157,617
% Increase in TWIA Exposure				0.02%

Texas Windstorm Insurance Association
Calculation of Indicated Limits of Liability
To Be Effective January 1, 2020
Using Marshall & Swift / Boeckh Building Cost Index Numbers



Type of Construction	Ratio of Total TWIA Business	Boeckh Index as of May/June 2018			Boeckh Index as of May/June 2019		
		Corpus Christi	Houston	Average	Corpus Christi	Houston	Average
<u>Dwelling, including individually owned townhouse unit, & associated corporeal movable property</u>							
Frame	97.91%	2395.2	2517.8	2456.5	2454.3	2559.7	2507.0
Brick	2.09%	2466.9	2663.7	2565.3	2530.7	2689.7	2610.2
Weighted Average Factor				2458.8			2509.2
Indicated Change							2.0%
Current Limit							1,773,000
Indicated Limit of Liability							1,809,000
<hr/>							
<u>Individually-owned corporeal movable property located in an owner-occupied apartment, residential condominium, or townhouse unit</u>							
Frame	53.72%	2395.2	2517.8	2456.5	2454.3	2559.7	2507.0
Brick	46.28%	2466.9	2663.7	2565.3	2530.7	2689.7	2610.2
Weighted Average Factor				2506.9			2554.8
Indicated Change							1.9%
Current Limit							374,000
Indicated Limit of Liability							381,000
<hr/>							
<u>Structure other than a dwelling or public building and the corporeal movable property located in that structure</u>							
Apartments - Brick, Wood	13.88%	2485.5	2590.2	2537.9	2549.4	2628.3	2588.9
Apartments - Brick, Concrete	2.36%	2445.8	2747.0	2596.4	2486.9	2770.7	2628.8
Apartments - Brick, Steel	10.06%	2443.6	2707.5	2575.6	2472.1	2832.4	2652.3
Commercial - Frame	26.31%	2527.2	2714.9	2621.1	2595.5	2757.5	2676.5
Commercial - Steel	0.00%	2501.0	2722.0	2611.5	2560.7	2783.8	2672.3
Commercial - Brick, Wood	1.28%	2670.2	2772.3	2721.3	2704.1	2795.9	2750.0
Commercial - Brick, Steel	20.64%	2606.4	3031.7	2819.1	2629.5	3184.8	2907.2
Commercial - Brick, Concrete	25.47%	2308.1	2745.8	2527.0	2344.9	2767.4	2556.2
Weighted Average Factor				2622.5			2678.7
Indicated Change							2.1%
Current Limit							4,424,000
Indicated Limit of Liability							4,519,000

8C. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of June 30, 2019



County	<u>Policies In-Force</u>		<u>PIF Growth</u>		<u>Exposure In-Force</u>		<u>Exposure Growth</u>		<u>YTD Written Premium</u>		<u>Premium Growth</u>	
	6/30/18	6/30/19	Actual	Percentage	6/30/18	6/30/19	Actual	Percentage	6/30/18	6/30/19	Actual	Percentage
Aransas	5,783	5,063	-720	-12.5%	1,905,564,625	1,664,462,655	-\$241,101,970	-12.7%	6,462,305	6,012,341	-\$449,964	-7.0%
Brazoria	36,468	32,119	-4,349	-11.9%	10,582,538,043	9,351,360,427	-\$1,231,177,616	-11.6%	32,623,330	28,848,990	-\$3,774,340	-11.6%
Calhoun	3,710	3,515	-195	-5.3%	966,596,384	924,319,390	-\$42,276,994	-4.4%	3,581,456	3,445,301	-\$136,155	-3.8%
Cameron	13,526	11,576	-1,950	-14.4%	3,451,714,327	3,095,399,476	-\$356,314,851	-10.3%	12,099,857	10,964,307	-\$1,135,550	-9.4%
Chambers	4,639	4,158	-481	-10.4%	1,484,392,000	1,338,809,236	-\$145,582,764	-9.8%	4,159,332	3,945,563	-\$213,769	-5.1%
Galveston	61,064	57,658	-3,406	-5.6%	19,896,226,943	18,977,057,137	-\$919,169,806	-4.6%	68,916,635	66,763,524	-\$2,153,111	-3.1%
Harris	3,448	3,371	-77	-2.2%	1,019,011,293	1,005,526,105	-\$13,485,188	-1.3%	2,316,331	2,287,756	-\$28,575	-1.2%
Jefferson	28,750	25,544	-3,206	-11.2%	6,692,743,658	5,942,776,706	-\$749,966,952	-11.2%	23,223,968	21,043,119	-\$2,180,849	-9.4%
Kenedy	18	16	-2	-11.1%	6,643,341	6,292,341	-\$351,000	-5.3%	33,464	30,962	-\$2,502	-7.5%
Kleberg	1,005	853	-152	-15.1%	243,814,773	187,798,370	-\$56,016,403	-23.0%	769,880	689,885	-\$79,995	-10.4%
Matagorda	4,807	4,384	-423	-8.8%	1,189,573,978	1,096,675,509	-\$92,898,469	-7.8%	4,186,054	3,780,119	-\$405,935	-9.7%
Nueces	42,248	38,474	-3,774	-8.9%	11,722,139,304	10,714,710,687	-\$1,007,428,617	-8.6%	38,766,294	36,550,522	-\$2,215,772	-5.7%
Refugio	360	333	-27	-7.5%	90,131,221	90,334,420	\$203,199	0.2%	344,351	341,123	-\$3,228	-0.9%
San Patricio	7,040	6,074	-966	-13.7%	1,920,602,607	1,632,518,195	-\$288,084,412	-15.0%	6,421,356	5,694,723	-\$726,633	-11.3%
Willacy	412	364	-48	-11.7%	96,033,164	85,116,963	-\$10,916,201	-11.4%	360,886	309,904	-\$50,982	-14.1%
Total	213,278	193,502	-19,776	-9.3%	61,267,725,661	56,113,157,617	-\$5,154,568,044	-8.4%	204,265,499	190,708,139	-\$13,557,360	-6.6%

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2019



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Aransas										
Commercial	156	266	263	408	741,316	1,040,653	218,400,106	4,855,015	371	641
Manufactured Home	45	69	45	70	52,373	87,287	5,240,510	0	102	103
Residential	1,444	2,391	1,543	2,533	2,934,571	4,884,401	1,440,822,039	120,621,267	4,590	4,849
Total	1,645	2,726	1,851	3,011	3,728,260	6,012,341	1,664,462,655	125,476,282	5,063	5,593
Brazoria										
Commercial	280	493	400	768	1,326,191	2,646,880	434,258,941	9,474,975	861	1,364
Manufactured Home	44	78	44	78	64,507	118,652	9,141,790	0	145	145
Residential	9,289	15,940	9,584	16,411	15,136,940	26,083,458	8,907,959,696	1,145,030,052	31,113	32,012
SUM:	9,613	16,511	10,028	17,257	16,527,638	28,848,990	9,351,360,427	1,154,505,027	32,119	33,521
Calhoun										
Commercial	67	121	95	194	338,127	600,754	108,957,285	1,641,150	213	411
Manufactured Home	24	35	24	35	34,758	51,716	3,741,923	0	67	68
Residential	1,033	1,623	1,105	1,818	1,751,591	2,792,831	811,620,182	66,677,966	3,235	3,587
SUM:	1,124	1,779	1,224	2,047	2,124,476	3,445,301	924,319,390	68,319,116	3,515	4,066
Cameron										
Commercial	233	422	459	840	2,003,600	4,853,385	1,029,502,187	5,676,290	627	1,247
Manufactured Home	17	24	17	24	14,725	23,351	2,137,444	0	50	50
Residential	3,351	5,592	3,394	5,671	3,604,289	6,087,571	2,063,759,845	221,857,758	10,899	11,131
SUM:	3,601	6,038	3,870	6,535	5,622,614	10,964,307	3,095,399,476	227,534,048	11,576	12,428

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2019



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Chambers										
Commercial	30	49	45	68	117,586	244,739	55,291,420	570,550	111	171
Manufactured Home	27	30	27	30	14,050	17,675	2,166,500	0	78	78
Residential	1,169	2,063	1,219	2,145	2,086,381	3,683,149	1,281,351,316	168,478,592	3,969	4,158
SUM:	1,226	2,142	1,291	2,243	2,218,017	3,945,563	1,338,809,236	169,049,142	4,158	4,407
Galveston										
Commercial	711	1,130	1,266	1,954	9,120,980	13,444,360	2,220,505,555	45,463,559	1,942	3,456
Manufactured Home	52	84	52	85	68,376	113,361	9,126,029	0	162	164
Residential	17,344	28,881	17,946	29,975	32,160,172	53,205,803	16,747,425,553	1,879,831,033	55,554	57,626
SUM:	18,107	30,095	19,264	32,014	41,349,528	66,763,524	18,977,057,137	1,925,294,592	57,658	61,246
Harris										
Commercial	22	34	40	57	115,473	185,947	36,487,006	555,630	61	104
Manufactured Home	2	2	2	2	713	713	135,300	0	4	4
Residential	1,042	1,657	1,072	1,706	1,315,423	2,101,096	968,903,799	123,543,531	3,306	3,389
SUM:	1,066	1,693	1,114	1,765	1,431,609	2,287,756	1,005,526,105	124,099,161	3,371	3,497
Jefferson										
Commercial	240	425	332	586	1,083,842	1,903,240	330,267,144	10,929,500	763	1,122
Manufactured Home	9	14	9	14	19,259	27,459	1,538,700	0	20	20
Residential	8,153	13,028	8,353	13,360	11,962,182	19,112,420	5,610,970,862	704,341,402	24,761	25,430
SUM:	8,402	13,467	8,694	13,960	13,065,283	21,043,119	5,942,776,706	715,270,902	25,544	26,572

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2019



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Kenedy										
Commercial	0	1	0	5	0	12,438	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	5	6	11	15	12,890	18,524	5,597,900	35,400	15	29
SUM:	5	7	11	20	12,890	30,962	6,292,341	35,400	16	34
Kleberg										
Commercial	18	26	34	48	71,610	89,206	13,194,577	460,800	36	61
Manufactured Home	2	2	2	2	3,613	3,613	144,500	0	2	2
Residential	245	405	263	425	370,675	597,066	174,459,293	18,163,407	815	855
SUM:	265	433	299	475	445,898	689,885	187,798,370	18,624,207	853	918
Matagorda										
Commercial	68	106	131	187	390,925	520,724	86,842,257	2,135,985	184	297
Manufactured Home	6	8	6	8	7,547	10,272	1,179,907	0	19	19
Residential	1,322	2,190	1,378	2,284	1,905,666	3,249,123	1,008,653,345	102,319,910	4,181	4,330
SUM:	1,396	2,304	1,515	2,479	2,304,138	3,780,119	1,096,675,509	104,455,895	4,384	4,646
Nueces										
Commercial	683	1,131	1,207	1,938	4,711,557	6,874,091	1,407,026,753	40,668,214	1,884	3,405
Manufactured Home	9	10	9	10	12,043	13,543	929,300	0	19	19
Residential	11,964	19,428	12,515	20,274	18,506,251	29,662,888	9,306,754,634	1,042,584,257	36,571	37,905
SUM:	12,656	20,569	13,731	22,222	23,229,851	36,550,522	10,714,710,687	1,083,252,471	38,474	41,329

Texas Windstorm Insurance Association

Quarterly Liability Report

As of June 30, 2019



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
Refugio										
Commercial	18	28	24	42	87,303	111,752	23,438,977	80,820	39	69
Manufactured Home	5	8	7	10	8,923	14,363	785,300	0	11	14
Residential	89	150	103	169	121,901	215,008	66,110,143	6,625,563	283	311
SUM:	112	186	134	221	218,127	341,123	90,334,420	6,706,383	333	394
San Patricio										
Commercial	88	172	153	283	422,411	748,734	112,832,769	2,780,491	254	438
Manufactured Home	11	16	11	16	21,491	30,066	1,788,203	0	27	27
Residential	1,888	3,096	1,958	3,247	2,990,181	4,915,923	1,517,897,223	176,077,985	5,793	6,069
SUM:	1,987	3,284	2,122	3,546	3,434,083	5,694,723	1,632,518,195	178,858,476	6,074	6,534
Willacy										
Commercial	6	13	6	22	21,464	42,831	11,619,973	30,000	29	58
Manufactured Home	3	4	3	4	4,200	5,200	208,000	0	4	4
Residential	109	167	118	181	192,409	261,873	73,288,990	5,368,459	331	357
SUM:	118	184	127	207	218,073	309,904	85,116,963	5,398,459	364	419
Total All Counties										
Commercial	2,620	4,417	4,455	7,400	20,552,385	33,319,734	6,089,319,391	125,322,979	7,376	12,849
Manufactured Home	256	384	258	388	326,578	517,271	38,263,406	0	710	717
Residential	58,447	96,617	60,562	100,214	95,051,522	156,871,134	49,985,574,820	5,781,556,582	185,416	192,038
SUM:	61,323	101,418	65,275	108,002	115,930,485	190,708,139	56,113,157,617	5,906,879,560	193,502	205,604

8D. 2019 Annual Rate Filing, Including Public Comment



TEXAS WINDSTORM
INSURANCE ASSOCIATION



TWIA Board of Directors

Rate Adequacy Analysis

August 6, 2019

Contents

- **Actuarial Principles**
- **Statutory Language**
- **Rate Filings**
- **Overview of Rate Adequacy Analysis**
- **Impact of Alternative Rate Changes**
- **Appendix – Historical Rate Adequacy Analysis Summary**

Actuarial Principles

Casualty Actuarial Society Statement of Principles

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

Statutory Language

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

Rate Filings

Annual Rate Filing

- Rates must be filed by August 15 each year
- Rates that increase by 5% or less overall are deemed approved
- Rates that increase by more than 5% but not more than 10% are deemed approved unless disapproved by October 15
- Rates may not increase or decrease by more than 10% without specific findings by TDI

Additional Rate Filings

- Additional rate filings can be made at any time
- Rates are deemed approved unless disapproved within 30 days

Other Rating Structures

- **Base Premium**
 - Amount of insurance, construction class, commercial class code
- **Optional Coverages**
 - Deductibles, endorsements
- **Credits and Surcharges**
 - Building code credits
 - WPI-8 waiver

Overview of Rate Adequacy Analysis

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

$$\text{Indicated Rate} = \frac{\text{Change Factor} \times (\text{Loss \& LAE Ratio} + \text{Fixed Expense Ratio})}{(1.0 - \text{Variable Expense Ratio} - \text{Target UW Profit})}$$

Overview of Rate Adequacy Analysis

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

Historical Rate Changes

Since 1988

- Cumulative increase of over 100%
- Average annual increase of 2.4%

Since 2006

- Cumulative increase of over 80%
- Average annual increase of 4.8%

Year	Residential	Commercial
2007	+ 4.2%	+ 3.7%
2008	+ 8.2%	+ 5.4%
2009	+ 12.3%	+ 15.6%
2010	0.0%	0.0%
2011	+ 5.0%	+ 5.0%
2012	+ 5.0%	+ 5.0%
2013	+ 5.0%	+ 5.0%
2014	+ 5.0%	+ 5.0%
2015	+ 5.0%	+ 5.0%
2016	+ 5.0%	+ 5.0%
2017	+ 0.0%	+0.0%
2018	+5.0%	+5.0%
2019	0.0%	0.0%

Historical Rate Changes

History of Rate Changes

Year	Residential	Commercial
1988	-5.4%	-15.0%
1989	0.0%	0.0%
1990	3.1%	-2.1%
1991	25.0%	-2.0%
1992	-54.0%	-22.9%
1993	30.0%	0.0%
1994	0.0%	0.0%
1995	25.0%	0.0%
1996	0.0%	0.0%
1997	0.0%	0.0%
1998	0.2%	-3.0%
1999	-9.4%	0.0%
2000	8.7%	9.0%
2001	18.5%	4.0%
2002	0.0%	5.0%
2003	0.0%	10.0%
2004	9.6%	10.0%
2005	0.0%	10.0%
2006	0.0%	5.0%
2006 (Sep)	3.1%	8.0%
2007	4.2%	3.7%
2008 (Feb)	8.2%	5.4%
2009 (Feb)	12.3%	15.6%
2010	0.0%	0.0%
2011	5.0%	5.0%
2012	5.0%	5.0%
2013	5.0%	5.0%
2014	5.0%	5.0%
2015	5.0%	5.0%
2016	5.0%	5.0%
2017	0.0%	0.0%
2018	5.0%	5.0%
2019	0.0%	0.0%

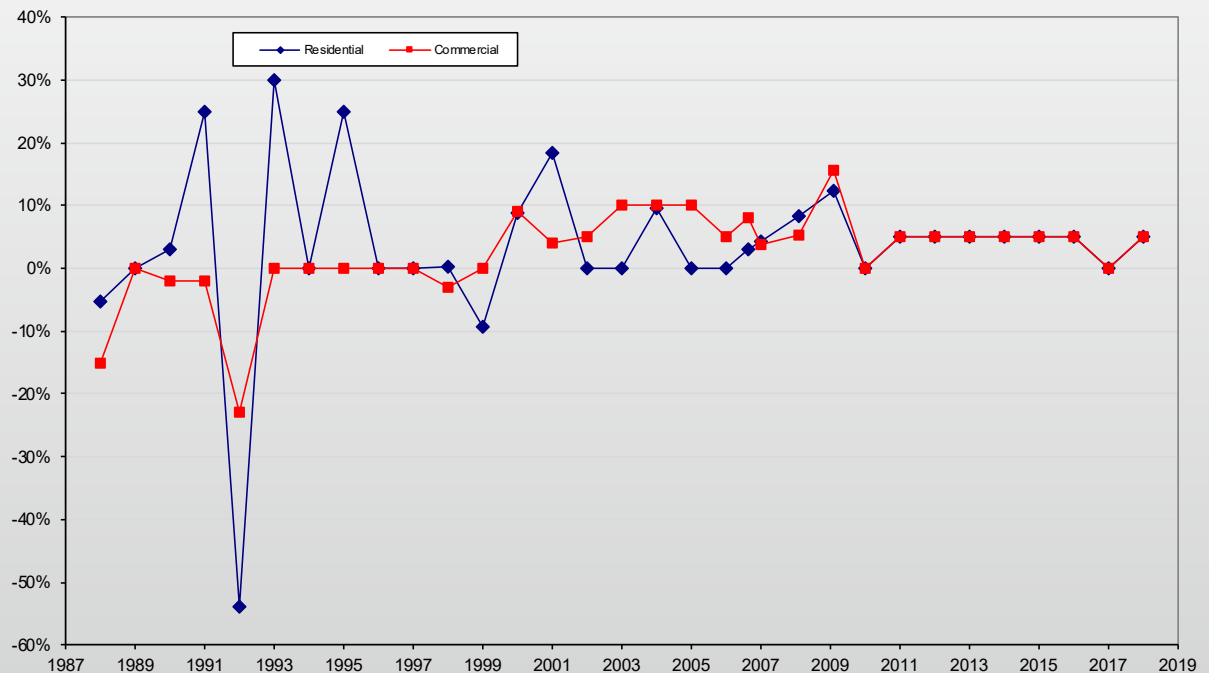
Since 1988

Cumulative Change	114.5%	94.8%
Annual Average	2.4%	2.1%

Since 2006

Cumulative Change	83.7%	101.6%
Annual Average	4.8%	5.5%

Incremental Rate Changes



Notes

- 1992 - Elimination of 400% beach / 25% inland surcharges
- 1993 - Addition of 30% to residential benchmark rates
- 2002 - Separation of residential rates from benchmark rates

Rate Adequacy Conclusions

Rate Element	Residential		Commercial	
	2018 Review	2019 Review	2018 Review	2019 Review
<div></div> (1) Non-Hurricane Provision	15.4%	14.2%	9.1%	9.3%
Hurricane Provision				
<div></div> (2) Experience	41.5%	42.2%	55.1%	56.9%
<div></div> (3) Modeled	50.8%	51.9%	57.5%	59.7%
<div></div> (4) Combined	46.2%	47.1%	56.3%	58.3%
Fixed Expenses				
<div></div> (5) Operating	5.7%	6.2%	5.7%	6.2%
<div></div> (6) Reinsurance	16.0%	16.6%	16.0%	16.6%
<div></div> (7) Outstanding Class I Bond Repayment	18.6%	25.1%	18.6%	25.1%
	40.3%	47.9%	40.3%	47.9%
Total Hurricane and Non-Hurricane LR plus Fixed	101.8%	109.1%	105.7%	115.5%
Variable Expenses				
<div></div> (8) Commission	16.0%	16.0%	16.0%	16.0%
<div></div> (9) Taxes and Fees	2.0%	2.0%	2.0%	2.0%
<div></div> (10) Funding Contribution	5.0%	5.0%	5.0%	5.0%
Total Variable Expenses	23.0%	23.0%	23.0%	23.0%
<div></div> (11) Overall Rate Indication	32.3%	41.7%	37.3%	50.0%

Impact of Alternative Rate Increases - Residential

Rate Element	Residential Rate Increases							
	0.0%	2.5%	5.0%	7.5%	10.0%	12.5%	15.0% ...	41.7%
(1) Non-Hurricane Provision	14.2%	13.9%	13.5%	13.2%	12.9%	12.6%	12.3%	10.0%
Hurricane Provision								
(2) Experience	42.2%	41.2%	40.2%	39.3%	38.4%	37.5%	36.7%	29.8%
(3) Modeled	51.9%	50.6%	49.4%	48.3%	47.2%	46.1%	45.1%	36.6%
(4) Combined	47.1%	45.9%	44.8%	43.8%	42.8%	41.8%	40.9%	33.2%
Fixed Expenses								
(5) Operating	6.2%	6.0%	5.9%	5.8%	5.6%	5.5%	5.4%	4.4%
(6) Reinsurance	16.6%	16.2%	15.8%	15.4%	15.1%	14.7%	14.4%	11.7%
(7) Outstanding Class I Bond Repayment	25.1%	24.5%	23.9%	23.3%	22.8%	22.3%	21.8%	17.7%
	47.9%	46.7%	45.6%	44.6%	43.5%	42.6%	41.6%	33.8%
Total Hurricane and Non-Hurricane LR plus Fixed	109.1%	106.5%	103.9%	101.5%	99.2%	97.0%	94.9%	77.0%
Variable Expenses								
(8) Commission	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
(9) Taxes and Fees	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
(10) Funding Contribution	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Variable Expenses	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
(11) Overall Rate Indication	41.7%	38.3%	35.0%	31.9%	28.9%	26.0%	23.3%	0.0%

Impact of Alternative Rate Increases - Commercial

Rate Element	Commercial Rate Increase							
	0.0%	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%	50.0%
■ (1) Non-Hurricane Provision	9.3%	9.1%	8.9%	8.7%	8.5%	8.3%	8.1%	6.2%
Hurricane Provision								
■ (2) Experience	56.9%	55.5%	54.2%	52.9%	51.7%	50.6%	49.5%	37.9%
■ (3) Modeled	59.7%	58.2%	56.9%	55.5%	54.3%	53.1%	51.9%	39.8%
■ (4) Combined	58.3%	56.9%	55.5%	54.2%	53.0%	51.8%	50.7%	38.9%
Fixed Expenses								
■ (5) Operating	6.2%	6.0%	5.9%	5.8%	5.6%	5.5%	5.4%	4.1%
■ (6) Reinsurance	16.6%	16.2%	15.8%	15.4%	15.1%	14.7%	14.4%	11.1%
■ (7) Outstanding Class I Bond Repayment	25.1%	24.5%	23.9%	23.3%	22.8%	22.3%	21.8%	16.7%
	47.9%	46.7%	45.6%	44.6%	43.5%	42.6%	41.6%	31.9%
Total Hurricane and Non-Hurricane LR plus Fixed	115.5%	112.7%	110.0%	107.4%	105.0%	102.7%	100.4%	77.0%
Variable Expenses								
■ (8) Commission	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
■ (9) Taxes and Fees	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
■ (10) Funding Contribution & Contingency	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Variable Expenses	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
■ (11) Overall Rate Indication	50.0%	38.3%	35.0%	31.9%	28.9%	26.0%	23.3%	0.0%

9. Internal Audit

9A. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: August 6, 2019

SUBJECT: Status of Internal Audit Activities

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

➤ **Current Activities:**

- *2019 Risk Assessment:*
 - Risk Assessment was revised in July with respect to the Reinsurance activity. An updated Risk Assessment Summary is attached.
- *Model Audit Rule – Fieldwork complete*
- *Accounts Payable & Expense Processing Audit – Fieldwork complete*
- *Human Resources Audit – Fieldwork complete*
- *Vendor Management Audit – Fieldwork complete*
- *Payroll Audit - Reporting*
- *Business Continuity Plan/Continuity of Operations Audit – In Process*
- *Database & Application Administration Audit –In Process*
- *Upcoming Audits:*
 - Accounts Receivables
 - Claims

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

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

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

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

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

9B. Updated Risk Assessment Scoring

Texas Windstorm Insurance Association

2019 Risk Assessment Update

2019 Risk Assessment Summary Revision As of 07/16/2019					
	100%	100%	Total	2019	2016
SIGNIFICANT ACTIVITIES	p	l		Risk Rating	Risk Rating
Claims Processing	4.08	4.91	4.49	High	High
Information Security	3.62	4.67	4.14	High	High
Reinsurance	3.14	4.39	3.79	High	Moderate
Database and Application Administration	3.09	4.36	3.73	High	High
Communications	3.31	4.14	3.73	High	Moderate
Underwriting	2.73	4.06	3.39	Moderate	High
Depopulation	3.10	3.83	3.46	Moderate	High
Executive Management, Management Planning and Reporting	2.91	3.78	3.35	Moderate	Moderate
Actuarial (Pricing and Reserving)	2.87	3.79	3.33	Moderate	Moderate
Financial Close and Reporting	3.15	3.42	3.28	Moderate	Moderate
Legal & Compliance	2.76	3.70	3.23	Moderate	Moderate
Accounts Payable and Expense Processing	3.98	2.24	3.11	Moderate	Moderate
Application Development	2.98	3.15	3.06	Moderate	Moderate
Information Technology Services	2.42	2.84	2.63	Moderate	Moderate
Payroll	2.03	2.06	2.05	Low	Low
Cash Management	2.15	1.88	2.01	Low	Low
Taxes	2.08	1.88	1.98	Low	Low
Accounts Receivable	1.83	2.13	1.98	Low	Low
Human Resources Administration	1.67	2.06	1.86	Low	Low
Facilities and Services	1.91	1.60	1.76	Low	Low

This risk assessment has been updated for additional reinsurance.

10. Underwriting

10A. Operational Review Update



MEMORANDUM

DATE: July 16, 2019
TO: John Polak, General Manager
FROM: Denise Larzalere, Vice President Underwriting
RE: Update on Underwriting Operational Highlights

Second Quarter 2019 Highlights

- I. Service Results:
 - a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 95% processed within 10 days. Over 80% of new business and renewals are processed within 1 day.
 - b. Quality assurance results on underwriting decisions continue to exceed established goals.
 - c. Telephone service response time continues to meet and exceed expectations. Service quality scores have been in the meets category. Service observation (listening to phone calls and scoring them) is now standard procedure and as an Association the departments are calibrating calls and have agreed upon standards for telephone service.
 - d. Underwriting is operating below budget, largely due to managing headcount and the inspection budget.
- II. Underwriting Activities of Note:
 - a. TWIA Certificate of Compliance on Completed Improvements (WPI-8-Cs) status:
 - i. See Attachment A containing the numbers (totals and by quarter) since program inception;
 - ii. For the period of April 1, 2019 – June 30, 2019 we received 2,679 applications (WPI-3s);
 - iii. Average turnaround time is four days;
 - iv. Reroof is the number one reason (55% of certificates);
 - v. Two engineer firms represent approximately one third (33%) of all applications;

- vi. The Confirmation of Application review completed for applications (WPI-3s) received in the first quarter was sent to 92 engineers. One engineer responded to let us know that a portion of the list of properties for which applications were submitted in his name were submitted without his knowledge. It was determined that the subject applications should be considered invalid and therefore withdrawn. TWIA reached out to impacted policyholders and reported the issue to TDI.
- vii. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

III. Agency Compliance Audits:

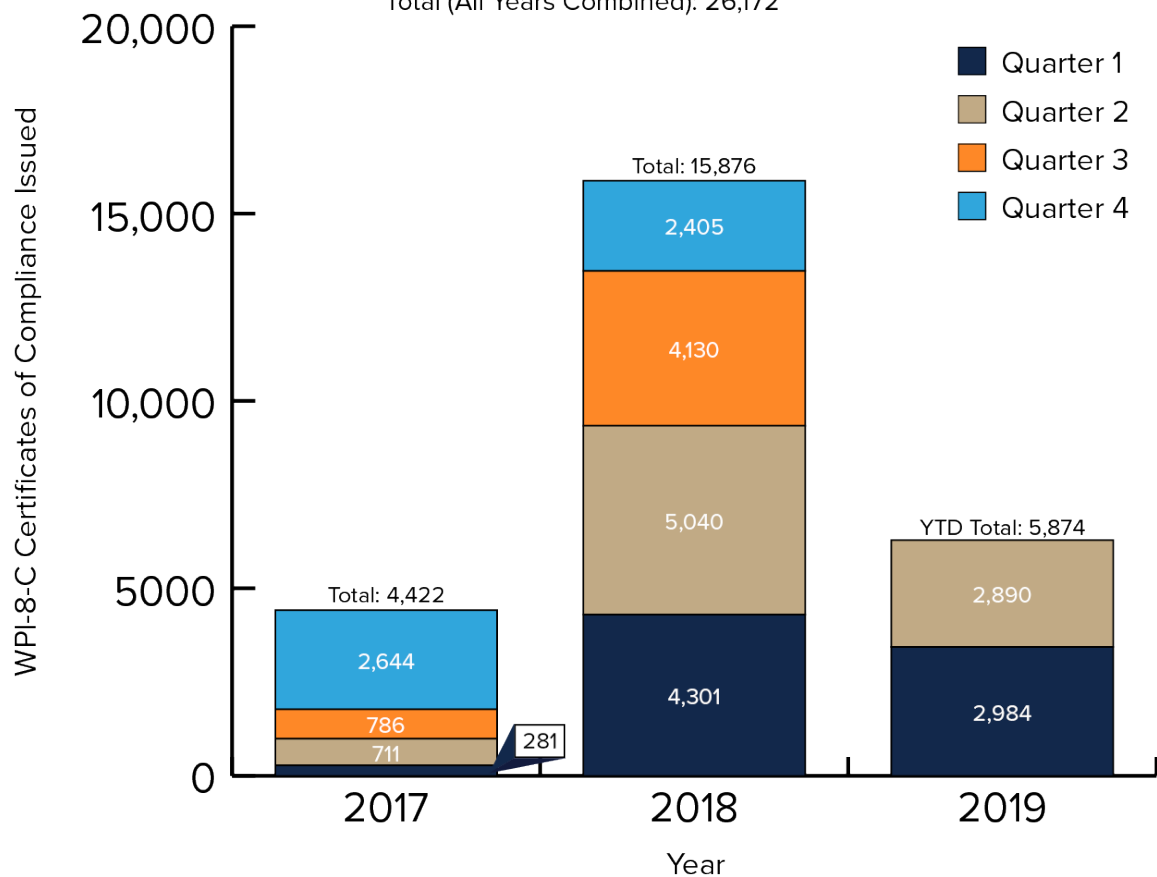
- a. Audits were performed on 20 agents (200 policies) in the second quarter to verify compliance with the declination of coverage and flood insurance requirements. Only one of the policies/properties selected for review required flood insurance.
 - i. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage.
 - ii. The one policy requiring flood insurance was not compliant as the insured did not have flood insurance. TWIA advised the agency about the flood insurance requirement. Underwriting issued a notice of non-renewal to the insured allowing the insured more than two months to comply.
 - iii. We also reviewed the 197 policies that were auto-issued to confirm a copy of a WPI-8 had been provided where required. The review identified 24 policies requiring a WPI-8 that did not have the proper documentation uploaded by the agent. These have been referred to underwriting for research and follow-up.
- b. All 20 agents have an active property and casualty insurance license.



Attachment A

Windstorm Certificates of Compliance on Completed Improvements

Total (All Years Combined): 26,172



11. Claims

11A. Claims Operations

TWIA Claims Operations 2019

Hurricane Harvey

Harvey Claims Storm Report	TWIA				
	082517 Harvey				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	76,665	2,669	68,494	342	5,160
Closed Claims	75,252	2,478	67,275	340	5,159
Open Inventory	1,413	191	1,219	2	1
RCC	0	-	-	-	-
% Closed	98.2%	92.8%	98.2%	99.4%	99.98%
Closed With Payment	47,009	1,513	45,236	260	-
% Closed With Payment	61.3%	56.7%	66.0%	76.0%	-
Closed Without Payment	28,243	965	22,039	80	5,159
% Closed Without Payment	36.8%	36.2%	32.2%	23.4%	99.98%
Open With Payment	1,256	165	1,089	2	-
% Open With Payment	1.6%	6.2%	1.6%	0.6%	-
Open Without Payment	157	26	130	-	1
% Open Without Payment	0.2%	1.0%	0.2%	-	0.02%
Paid Indemnity	\$ 1,268,496,683	\$363,638,781	\$ 900,967,680	\$ 3,890,222	\$ -
Paid Expense	\$ 137,393,995	\$ 22,450,920	\$ 114,385,589	\$ 554,801	\$ 2,685
Outstanding Indemnity	\$ 55,542,330	\$ 28,327,201	\$ 27,185,129	\$ 30,000	\$ -
Outstanding Expense	\$ 13,869,469	\$ 3,117,780	\$ 10,705,423	\$ 46,266	\$ -
Total Incurred	\$ 1,475,302,476	\$417,534,682	\$ 1,053,243,821	\$ 4,521,289	\$ 2,685
Average Paid	\$ 26,298	\$ 216,710	\$ 19,461	\$ 14,848	-
Avg # Days - FNOL to Inspect	8.9	9.9	8.9	9.3	-
Avg # Days - Inspect to TWIA	6.8	12.3	6.6	6.6	-
Avg # Days - TWIA to Payment	39.1	53.7	38.5	36.8	-
Avg # Days - FNOL to Payment	50.7	73.2	50.1	52.4	-
TDI Claims Complaints	293	12	281	0	0
# TDI Complaints as a % of All Claims	0.382%	0.450%	0.410%	-	-

(1) Data current as of 7/05/2019

(2) Data from daily claims system extracts

(3) Does not include IBNR

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

TWIA Harvey Claim Counts by County

County	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TWIA TOTAL
August 2017 Total	10,648	4,836	2,545	5,337	4,145	1,521	1,186	418	224	252	287	8	14	2,197	33,618
September Total	12,749	5,269	6,377	1,590	2,344	2,124	1,194	503	563	284	112	18	8	2,544	35,679
October Total	894	532	654	86	136	241	102	47	55	25	11	6	7	190	2,986
November Total	354	207	203	37	52	84	40	21	18	16	2	1	6	70	1,111
December Total	210	129	82	13	23	52	21	6	5	10	1	5	3	31	591
January Total	204	85	67	26	16	32	13	11	5	8	1	2	3	21	494
February Total	200	78	48	5	19	41	12	4	1	12	1			20	441
March Total	191	73	42	5	13	36	13	4	7	8		1	1	12	406
April Total	120	52	30	7	9	25	11	7	5	5			1	11	283
May Total	100	58	22	11	7	19	1	8	6			1		9	242
June Total	95	30	18	5	4	14	6	1	3	2	1	3		6	188
July Total	95	33	15	3	4	15	2		5	1		1		5	179
August Total	125	38	22	12	8	20	9	2	3	6				36	281
September Total	13	7	6	3		2			2					4	37
October Total	11	9	2	2		4	1			1					30
November Total	3	4	3			1				2					13
December Total	2	4	3			3		1						1	14
January Total	8	4	2	1	1	2								1	19
February Total	5	2	2	1		1								1	12
March Total	5	1			1	1	1							1	10
April Total	3	3	2	1		2		1							12
May Total	6	6													12
June Total	3	2					1								6
July Total	1														1
TWIA TOTAL	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TOTAL
	26,045	11,462	10,145	7,145	6,782	4,240	2,613	1,034	902	632	416	46	43	5,160	76,665

TWIA Closed Harvey Claims	Count	%
1. Closed with payment - Full Acceptance ¹	34,679	46%
2. Closed with payment - Partial Acceptance ²	9,071	12%
3. Closed without payment - Depopulation ³	1,506	2%
4. Closed without payment - Under Deductible ⁴	14,501	19%
5. Closed without payment - Coverage Excluded ⁵	4,202	6%
6. Closed without payment - No Policy in Force ⁶	3,305	4%
7. Closed without payment - Opened in Error ⁷	5,599	7%
8. Closed without payment - Not Pursued ⁸	2,389	3%
9. Closed - Pending Reason Code ⁹	0	0%
10. Total Closed¹⁰	75,252	100%
Row Data Descriptions:		
1. Closed with payment - Full Acceptance: Claim as presented by policyholder is fully accepted by TWIA, subject to policy provisions, conditions and deductible.		
2. Closed with payment - Partial Acceptance: Claim as presented by policyholder is partially accepted & partially denied by TWIA, subject to policy provisions, conditions and deductible.		
3. Closed without payment - Depopulation: Claims submitted for a policy with a depopulation carrier. No TWIA policy in force.		
4. Closed without payment - Under Deductible: Only includes fully or partially accepted claims for covered repair/replacement costs of damaged property where covered loss amount is below policy deductible.		
5. Closed without payment - Coverage Excluded: Claim as submitted is not covered due to application of one or more policy exclusions. This represents a full denial of the claim.		
6. Closed without payment - No Policy In Force: Claimant does not have an in-force policy with TWIA for the date of loss.		
7. Closed without payment - Opened in Error: Claim was opened by mistake by TWIA, Policyholder, or Agent. Typically involves a duplicate filed claim.		
8. Closed without payment - Not Pursued: Before coverage determination is made, claimant advises TWIA they do not want to pursue their claim further.		
9. Closed - Pending Reason Code: Closing reason code not selected. These will be assigned codes by 9/29/17 or sooner.		
10. Total Closed: Sum of all closed TWIA hurricane Harvey claims.		

Hurricane Harvey Disputed Claims

TWIA - Harvey Disputed Claims

Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,664	4,173	5.44%	3,973	1,035	350

TWIA - Harvey Claims With Appraisal Invoked

Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
Appraisals	Active Appraisals	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
3,973	329	449	438	1,776	567	414
	8%	11%	11%	45%	14%	10%

TWIA - Harvey Claims With Notice of Intent or Lawsuit

Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
1,385	1,035	279	350	9

- “Dispute Frequency” tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one “type of dispute.”
- Data as of 6/30/19

2019 TWIA Claims Operations

TWIA Claims - 2019 Results (year-to-date)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	4.7	2.9	<3	-0.1	-3%
Inspect Property to Receipt by TWIA	3.4	2.3	<8	-5.7	-71%
Receipt by TWIA to Payment	N/A	4.2	<5	-0.8	-16%
Total Cycle Time FNOL to Payment	N/A	9.4	<16	-6.6	-41%
TDI Complaint Ratio					
2018	2.60% - 188 complaints from 7,242 new claims				
2019	0.84% - 30 complaints from 3,579 new claims				

Year	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Actual Volume	757	633	658	594	524	898	693	582	668	438	562	235	520	468	517	416	1,366	589
Actuarial Projected	557	503	708	2,464	2,543	5,391	396	297	287	296	562	296	390	316	502	2,493	2,564	266
Median Staffing	390	390	390	390	390	390	390	390	390	390	390	390	273	273	273	273	273	273
Open Inventory	5,036	4,526	4,526	4,250	4,360	4,234	3,809	3,657	3,264	3,264	2,834	2,474	2,182	1,999	2,034	1,962	2,250	2,004

2019 New Claim Volume

- Projected new claim volume was 6,828
- New claim volume was 3,579 or 3,249 (48%) lower than projected

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	3,579

TWIA Hurricane Events	
Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,664

TWIA - 2019 Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
3,579	69	1.93%	62	7	1

TWIA - 2019 Disputed Claims With Appraisal Invoked						
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
HB3 Appraisals	Appraisal In Process	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
62	2	2	35	17	3	3
	3%	3%	94%			

TWIA - 2019 Claims With Notice of Intent or Lawsuit Served				
Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
8	7	0	1	0

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

11B. Claims Litigation



TWIA Litigation Tracking Activity

Litigation Quarter Summary Second Quarter 2019

2nd Quarter 2019	Summary of TWIA Claims in Suit					
	New		Settled		Closed	
	Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	Apr	0	8	0	0	7
May	0	7	0	0	0	0
Jun	0	18	0	0	0	6
	0	33	0	0	0	13

2nd Quarter 2019	Summary of TWIA Claims with LORs*					
	New		Settled		Closed	
	Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	Apr	0	24	0	0	33
May	0	27	0	0	0	33
Jun	0	39	0	0	0	55
	0	90	0	0	0	121

*LORs – Letters of Representation. A letter from an attorney advising that the attorney is representing the policyholder/claimant.



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Claims Litigation June 2019

Jun-19	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	10	0	0	10
	HB3	372	18	(6)	384
	TOTAL	382	18	(6)	394

Jun-19	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	627	39	(55)	(17)	594
	TOTAL	627	39	(55)	(17)	594

Jun-19	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	8	0	0	10	0	0	0	0	0	10
	HB3	345	39	508	86	978	0	0	0	0	0	978
	TOTAL	347	47	508	86	988	0	0	0	0	0	988



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Jun-19	TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County						
	Firm	Brazoria	Chambers	Galveston	Jefferson	Nueces	Total
	Buzbee		3	5			8
	Hodge Law Firm			1			1
	Mostyn				1		1
	TOTAL	0	3	6	1	0	10

Jun-19	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County												
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Grand Total
	119	25	13	6	6	115	10	293	4	306	10	81	988

Jun-19	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Daly & Black	313
	Furlow Law Firm	171
	Scott	89
	Baker Law	63
	Carrigan & Anderson	26
	KRW	19
	Brent Coon & Associates	19
	Hodge Law Firm	15
	Lindsay, Lindsay & Parsons	12
	Crowell & Kucera	12
	Merlin Law Group	12
	Remaining 98 firms	237
	TOTAL	988

12. TWIA Operations

12A. IT Systems Update



MEMORANDUM

DATE: August 5, 2019
TO: John Polak, General Manager
FROM: Camron Malik, CIO / VP IT
RE: Information Technology status

The Inception phase of the TWIA program concluded and the Elaboration phase is set to start where the requirements and program plan will be fully defined. Once the changes are implemented we expect to see improvements in maintenance costs and improved resource flexibility as we move off disparate legacy systems to a single instance platform based on common hardware and core applications.

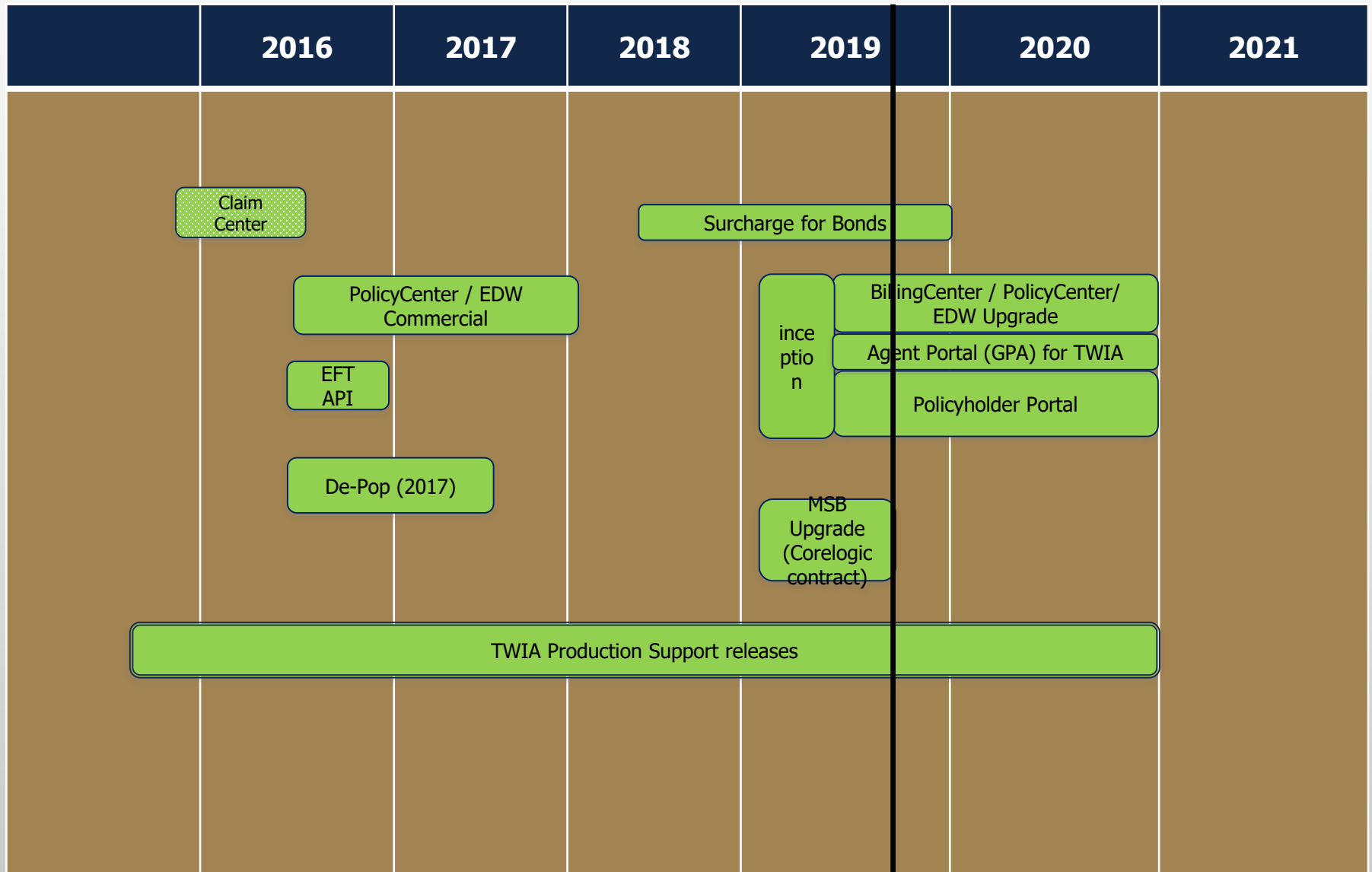
The recent legislative session mandated changes for TWIA which need to be implemented on a shorter timeline and detailed planning for support of various features is underway.

The TFPA implementation is now in production support mode with policies successfully migrating off the legacy CGI platform on to the new Guidewire system daily.

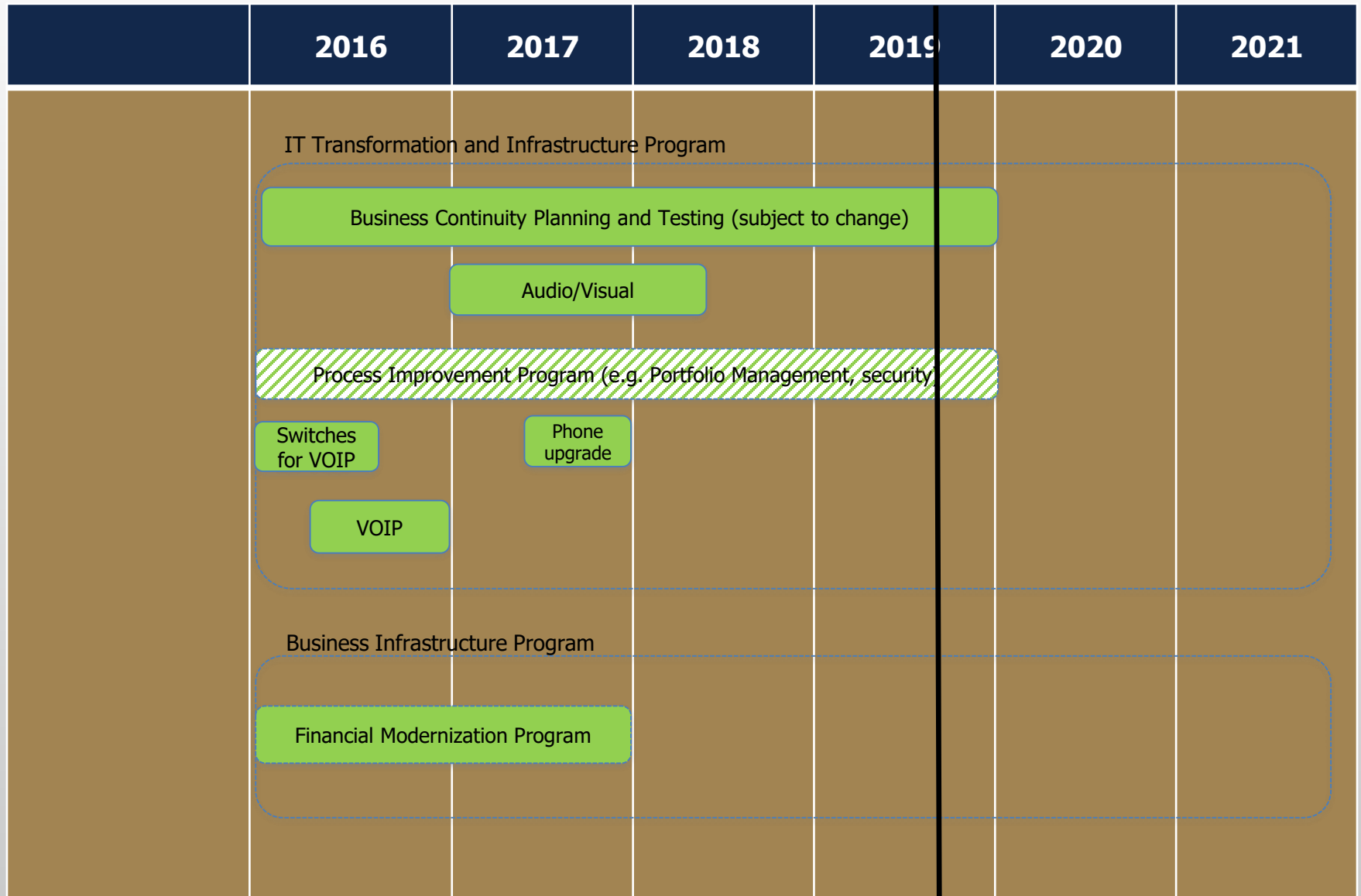
The Surcharge for Bonds and Marshall & Swift/Boeckh (MSB) projects are in the Construction phase and on track.

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

TWIA IT Roadmap Projects



TWIA IT Infrastructure Projects



12B. Depopulation


There is no exhibit for this topic

12C. TDI Examination Report Review



TEXAS WINDSTORM
INSURANCE ASSOCIATION

MEMORANDUM

DATE: July 19, 2019
TO: John Polak
General Manager
FROM: David Durden, Vice President 
Legal and Compliance
RE: TDI Exam Report on TWIA Claims Processes and Procedures

Attached for distribution to the Board of Directors is the Texas Department of Insurance (TDI) FINAL Examination Report on the Texas Windstorm Insurance Association's claims practices as of October 31, 2018. This examination was a follow-up to TDI's examination of claims practices as of April 1, 2018, which the Board of Directors reviewed at their meeting held May 7, 2019.

The follow-up examination focused on claims that were denied or closed without payment or had supplemental payment or supplemental claim requests that were denied or closed without payment. The report includes two recommendations.

The first recommendation is that the Association should develop a procedure to help ensure it handles notices of dissatisfaction and what constitutes an appraisal request the same to ensure insureds are given equitable access to appraisal. The second recommendation is that the Association should include pertinent claims settlement and dispute resolution requirements from the Texas Insurance Code and the Texas Administrative Code in the Claim Manual Documentation. The Association has addressed the issues and recommendations contained in the report as explained in your response letter to TDI dated July 5, 2019.

The transmittal letter submitted with the FINAL audit report requires the Board of Directors of the Association to review the report and that the Board's meeting minutes reflect that each Board member reviewed the report. For this reason, I am requesting that the examination report and the Association's response be included in the meeting materials for the August 2019, Board of Directors' meeting.

Please let me know if you have any questions or would like any additional information.

Texas Department of Insurance



EXAMINATION REPORT

TEXAS WINDSTORM INSURANCE COMPANY

AUSTIN, TEXAS

As of October 31, 2018

STATE OF Texas §

COUNTY OF Dallas §

Ventura E. De La Rosa being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance of the State of Texas;

That an examination was made of the affairs of Texas Windstorm Insurance Association, Austin, Texas, covering property damage claims caused by Hurricane Harvey on-site at the Association's office;

That the following pages numbered one to six, consecutively, constitute the report thereon to the Commissioner of Insurance of the State of Texas;

That the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

N-122RTH

Ventura E. De La Rosa, CIE, CPCU, MCM
Examiner-in-Charge

Subscribed and sworn to before me this 17 day of June, 2019.

Denise Fechner

(Signature)

Denise Fechner

(Print Name)

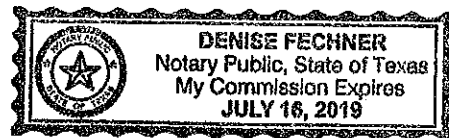
Notary Public

in and for the State of

Texas

My commission expires

7/16/19



Notary without Bond

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Austin, Texas
June 19, 2019

Honorable Kent Sullivan
Commissioner of Insurance
State of Texas
Austin, Texas

Commissioner:

Pursuant to instructions and in accordance with Texas Insurance Code (TIC) §2210.057, an examination, which included a claims practice audit authorized in TIC §2210.059, was made of the conduct, performance, and practices of the

TEXAS WINDSTORM INSURANCE ASSOCIATION

referred to as the "Association," with its home office located at 5700 South MoPac Expressway, Austin, Texas.

SCOPE OF EXAMINATION

The Texas Department of Insurance (TDI) conducted the review of property damage claims caused by Hurricane Harvey on-site at the Association's office.

TDI reviewed a sample of claim files to determine adherence to the Association's policies and procedures and compliance with Insurance Code provisions. Report comments reflect findings identified during the review of sampled claim files only and may not have identified all compliance issues. The absence of comment in this report does not mean that the Association complied with a statute or rule provision. The examination did not evaluate the readability or comprehension of the Association's communications to insureds.

The Department conducted a previous review of property damage claims caused by Hurricane Harvey, which concluded on August 20, 2018. This report only details new issues identified during this review. There are issues previously identified that still exist. Those issues are briefly noted in this report. The reader should review the previous report in conjunction with this report.

CLAIMS REVIEW

The primary purpose of the claims review was to assess compliance with TIC, Chapter 2210, Subchapter L-1 and Title 28, Texas Administrative Code (28 TAC), Chapter 5, Subchapter E as it relates to Hurricane Harvey claims. The claims review included a review of the Association's notice of disposition for sampled claims to determine compliance with TIC §2210.573(d). The reviewed notices indicated whether each claim was accepted "in full," accepted "in part," or denied "in full."

TDI reviewed 114 claims selected using a random sampling technique from a total population of 484 claims as of October 31, 2018, as indicated below:

<u>Claims Payment Requests</u>	<u>Population</u>	<u>Sample</u>
Claims with Complaints	14	14
Claims payment requests for additional living expenses that were denied/closed without pay	85	25
Claims payment requests for an additional claims element or component not previously claimed and addressed in a notice of disposition that were denied/ closed without pay on or after August 1, 2018	88	25
Claims payment requests that were denied/closed without pay because the request was received after the appraisal deadline	297	50

Claims with complaints

TDI reviewed all 14 claims with complaints to determine compliance with TIC Chapter 2210, Subchapter L-1 related to claims handling. The Association's policies and procedures were also used during this review.

For one claim, the Association sent the notice of disposition 266 days after receiving the claim, exceeding the 60-day time frame required by TIC §2210.573(d).

Claims payment requests for additional living expenses that were denied/closed without pay

TDI reviewed 25 sampled claims payment requests for additional living expenses that were denied/closed without pay to determine compliance with TIC Chapter 2210, Subchapter L-1 related to claims handling. The Association's policies and procedures were also used during this review.

For three claims, the Association sent the notice of disposition 483 days, 490 days, and 492 days after receiving the claim for additional living expenses, exceeding the 60-day time frame established by TIC §2210.573(d). All three notices were sent as a result of this claims review. The other associated claims such as dwelling and personal property were handled in accordance with TIC Chapter 2210, Subchapter L-1.

The Association required the insured request additional living expenses not later than the first anniversary of the date on which the damage to property that is the basis of the claim occurred as required by TIC §2210.205. The Association denied coverage for additional living expenses when insureds requested payments after the first anniversary of the date on which the damage to property that is the basis of the claim occurred.

Claims payment requests for an additional claims element or component not previously claimed and addressed in a notice of disposition that were denied/closed without pay on or after August 1, 2018

TDI reviewed 25 sampled claims payment requests for an additional claims element or component not previously claimed and addressed in a notice of disposition that were denied/closed without pay on or after August 1, 2018 to determine compliance with TIC Chapter 2210, Subchapter L-1 related to claims handling. The Association's policies and procedures were also used during this review.

For one claim, the Association did not provide the supplemental notice of disposition within 60 days of receiving the supplemental payment request. In one instance, the Association sent the supplemental notice of disposition 181 days after receiving the supplemental payment request. There is no statutory language

that addresses supplemental requests; the Association's guidelines only specify that the supplemental payment request must be handled timely. At minimum, this should meet the 60-day timeframe established by TIC §2210.573(d).

Claims payment requests that were denied/closed without pay because the request was received after the appraisal deadline

TDI reviewed 50 sampled claims payment requests that were denied/closed without pay because the request was received after the appraisal deadline selected were reviewed for compliance with TIC Chapter 2210, Subchapter L-1, and 28 TAC §§5.4211 to 5.4222 related to claims handling and the appraisal process. The Association's policies and procedures were also used during this review.

For four claims, the Association did not issue the payment within 10 days after accepting the claim as required by TIC §2210.5731. For these claims, the Association issued the payment on average 16 days after accepting the claim, with the latest being 20 days.

Under TIC §2210.574(b), claimants may invoke appraisal in accordance with the terms of the Association policy not later than the 60th day after the date the claimant receives the notice described by TIC §2210.573(d)(1) or (2). On September 21, 2017, under TIC §2210.581(a), TDI extended the deadline to demand appraisal from 60 days to 120 days through Commissioner's Bulletin No. B-0033-17. On April 18, 2018, TDI further extended the deadline to demand appraisal from 120 days to 180 days through Commissioner's Bulletin No. B-0007-18.

Although stated in the Association's guideline, *Claims Processing Guidelines - Supplemental Handling*, that all denials of appraisal requests must be approved by the vice president of claims, there were no appraisal denials approved by the vice president of claims in the sample of claims reviewed. Instead, the Association stated, "The Vice President of Claims is copied on the notice of all potentially untimely disputes and if questions existed, requests were discussed by the Vice President of Claims with the respective Senior Manager over the corresponding Claims Examiner. Approval of the request was delegated to a Senior Claims Manager." The Association further stated that delegation of duties is common during the claim process including instances where duties are delegated to other management. This delegation of duties was not addressed in the Association's provided guidelines, *Claims Processing Guidelines - Supplemental Handling*.

OVERSIGHT OF ADJUSTERS

TDI reviewed the adjuster licensing status of field adjusters and claims examiners involved with the 114 sampled claims to determine compliance with TIC §4101.051. The sampled claims involved 106 field adjusters and 78 claims examiners, and all were properly licensed at the time they adjudicated the claim.

The previous review identified eight adjusting firms that were not licensed as required by TIC §4101.051. The Association terminated its relationship with five firms and the remaining three firms have since been licensed.

BEST PRACTICES AND OTHER OBSERVATIONS

Claims Procedures

The previous review identified that the Association did not have a comprehensive claim manual. During this review the Association provided a document titled, *Claims Manual Documentation*. The document included information about some of the internal processes included in claims handling, such as recording

first notice of losses, inputting information into the Association's system, and handling supplemental payment requests.

However, the document did not include much of the information regarding the claims settlement and dispute resolution processes prescribed by TIC Chapter 2210, Subchapter L-1, and 28 TAC §§5.4211 to 5.4222.

Notice of Disposition Provided by Field Adjuster

For all four claims where the Association did not issue the payment within 10 days after accepting the claim as required by TIC §2210.5731, the notice of disposition was issued by the field adjuster rather than the Association's claims examiner. This issue was noted in the previous review.

Appraisal Notification

The Association includes an appraisal form with notices of disposition to provide a method for insureds to request an appraisal when insureds want to dispute the amount of claims payments. The Association does not require insureds complete the appraisal form to request appraisal. However, the Association states insureds must specifically request an appraisal. The Association stated it does not consider any of the following an appraisal request for accepted claims: concerns, disputes, dissatisfactions, or requests for additional payment.

In several instances, insureds relayed verbal and written dissatisfaction regarding the payment for an accepted claim. The Association handled some dissatisfactions as appraisal requests but did not treat others as appraisal requests. Although the Association confirmed the insured's concern or dispute for payment to be an appraisal request, not every insured was presented with the same equitable option that they could handle their concern or disputes of payment through the appraisal process.

SUMMARY OF FINDINGS AND ISSUES AND RECOMMENDATIONS

Appraisal Notification

The Association includes an appraisal form with its notices of disposition but does not require insureds to complete the form to request appraisal. The Association does require insureds specifically request an appraisal and does not consider concerns, disputes, dissatisfactions, or requests for additional payment as an appraisal request.

In several instances, insureds relayed verbal and written dissatisfaction regarding the payment for an accepted claim. The Association handled some of these dissatisfactions as appraisal requests but not others.

Recommendation: The Association should develop a procedure to help ensure it handles notices of dissatisfaction and what constitutes an appraisal request the same to ensure insured are given equitable access to appraisal.

Claims Procedures

The Association provided a document titled, *Claims Manual Documentation*. The document did not include much of the information regarding the claims settlement and dispute resolution processes prescribed by TIC Chapter 2210, Subchapter L-1, and 28 TAC §§5.4211 to 5.4222.

Recommendation: The Association should include pertinent claims settlement and dispute resolution requirements from the Texas Insurance Code and Texas Administrative Code in the *Claims Manual Documentation*.

ACKNOWLEDGMENT

The courtesy and cooperation extended to the examiner during the examination by the officers and staff of the Association is acknowledged.

Respectfully submitted,

N-DZRIH

Ventura E. De La Rosa, CIE, CPCU, MCM
Examiner-in-Charge



July 5, 2019

Matthew Tarpley, MPAff, MCM
Market Conduct Manager - Assistant Chief Examiner
Financial Examinations
Mail Code 103-FE
Texas Department of Insurance
PO Box 149104
Austin TX 78714-9104

Examination of the Texas Windstorm Insurance Association as of October 31, 2018

Dear Mr. Tarpley,

Thank you providing a copy of your FINAL report (Report) regarding the examination of the Texas Windstorm Insurance Association's (TWIA's or Association's) handling of claims resulting from Hurricane Harvey, as of October 31, 2018. This examination was a follow-up to your examination of TWIA's claims practices as of April 1, 2018 and focused on claims with complaints and certain claims payment requests that were denied or closed without payment.

The report contains two recommendations for which you have requested our response and identification of the corrective action we will take to address those issues. The recommendations in the examination report are:

1. The Association should develop a procedure to help ensure it handles notices of dissatisfaction and what constitutes an appraisal request the same to ensure insureds are given equitable access to appraisal.
2. The Association should include pertinent claims settlement and dispute resolution requirements from the Texas Insurance Code and Texas Administrative Code in the *Claims Manual Documentation*.

Regarding item 1 above, the Association has implemented a process to ensure insureds are given equitable access to appraisal. As soon as the initial assessments of the damage resulting from Hurricane Harvey were received, TWIA realized policyholders would need more time to complete repairs. In addition to making sure claim disposition letters included information and guidance about supplemental payments and the disputed claim processes, TWIA also requested extensions to the appraisal deadlines from the Texas Department of Insurance (TDI) on two different occasions and sent letters to all



Hurricane Harvey claimants reminding them of the appraisal process and changes to the deadlines for requesting appraisal.

In order to ensure our policyholders' right to request appraisal was preserved when the policyholder disputed covered damages or expressed dissatisfaction with TWIA's adjustment of the claim, in April 2018, the Association began requesting that insureds request appraisal and ask TWIA to suspend the appraisal process before conducting any discussion of supplementary payments. The Association agreed to abate the appraisal process at the insured's request. This process ensures that all insureds who are potentially seeking any supplemental payments on their claim are securing their right to appraisal as provided by law and the policy and it ensures that all policyholders are given equitable access to appraisal.

Regarding item 2 above, the claims examiners that handle appraisal requests are specifically trained on the claims settlement and dispute resolution requirements in the Insurance Code and Texas Administrative Code. The Claims Manual includes the timelines for requesting appraisal as prescribed by Chapter 2210, Subchapter L-1, Texas Insurance Code. The Claims Manual also includes the requirement mentioned in response to item 1 above that any discussion of supplemental payments should have a request for appraisal prior to TWIA beginning the discussion to ensure the insured's rights under the policy are preserved.

TWIA currently segments all appraisal requests and active appraisals for specialized review and handling. The Association uses a small group of specifically trained examiners for these claims. These examiners are trained on and familiar with the requirements and process prescribed by Chapter 2210, Subchapter L-1, Texas Insurance Code and Sections 5.4211 to 5.4222 of Title 28, Texas Administrative Code by TWIA Senior Claims management and TWIA's Legal & Compliance Department. Additionally, copies of Chapter 2210, Subchapter L-1, Texas Insurance Code and the pertinent Sections of 5.4211 to 5.4222 of Title 28, Texas Administrative Code are made available to those same examiners.

Thank you for the opportunity to provide information regarding the actions TWIA has taken and will take to address the issues identified in the Report. If you have any questions or need any additional information please contact me or David Durden, Vice President of Legal and Compliance at 512.505.2255 or ddurden@twia.org.

Sincerely,

A handwritten signature in black ink, appearing to read "John Polak", written over a circular stamp or seal.

John Polak, CPCU
General Manager
Texas Windstorm Insurance Association



cc: Ignatius Wheeler
Chief Examiner
Financial Examinations
Mail Code 103-FE
Texas Department of Insurance
P O Box 149104
Austin TX 78714-9104

12D. Communications Update



MEMORANDUM

DATE: July 19, 2019
TO: TWIA Board of Directors
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs
RE: Communications & Legislative Affairs Operational Highlights

I. Legislative & Regulatory Affairs

- a) The 86th Legislative Session concluded on May 27, 2019. Legislators passed a portfolio of bills impacting the Association this session, which are included in the following exhibit with this summary.
- b) Staff has begun the process of planning implementation of these legislative changes into our daily operations and systems. Our initial efforts have included:
 - i. An analysis of the bill provisions in coordination with Legal & Compliance to determine the scope of and effective dates of the required changes;
 - ii. Cross-departmental workshops with Executive Leadership and key contributors to review the bill provisions and establish next steps in the implementation process;
 - iii. Establishment of a change management program to promote awareness of the changes among TWIA staff and stakeholders and to help with successful adoption of the changes through training and customer support; and
 - iv. Planned meeting with TDI in Q3 2019 to discuss the changes and rulemaking process.
- c) We continued our engagement with Legislators and their staff throughout the rest of the legislative session; a list of the legislative meetings and hearings attended in Q2 2019 is included with this summary.
- d) From April 1 through June 30, 2019, we received and responded to 25 legislative and 10 regulatory inquiries.
- e) We continue to provide recurring claims and operational email updates to the Board, TDI and Legislative staff.

II. Media Relations

- a) Coverage of TWIA was on average 80% positive or neutral in Q2 2019, which can be attributed to a combination of proactive media relations activities and coverage of TWIA-related litigation that reflected satisfactory outcomes in certain cases.
- b) TWIA responded to 13 media inquiries in Q2 2019, which were mostly focused on TWIA's funding for the 2019 hurricane season and the outcome of the May 24 Board meeting.
- c) CLA is in the process of finalizing an updated Media Relations Strategy to cover the remainder of 2019 and 2020, which will focus on more proactive and productive media engagement. This includes a more robust use of communications plans, strategic messaging, and media alerts,

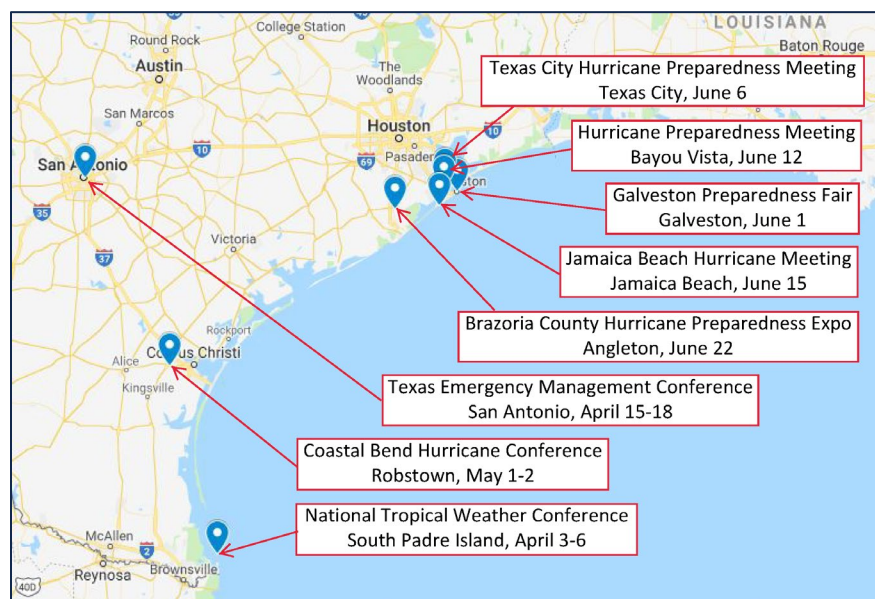


allowing for more timely and effective messaging to our stakeholders across communications channels. We have already begun implementing these tactics with positive results.

- i. CLA sent media alerts to announce the May 24 Board meeting and the Board's decision to withdraw the August 2018 rate filing.
- ii. A media alert was also sent to key outlets on our accomplishments from the 86th Legislative session, resulting in two positive articles and mentions of the information in two neutral articles by Insurance Journal.

III. Hurricane Preparedness & Coastal Outreach

- a) April marked the beginning of our hurricane preparedness outreach season, and, during Q2 2019, we participated in a total of 8 outreach events:



- b) We have found that our participation in smaller community events has been most impactful for our outreach strategy, allowing us to better connect with TWIA policyholders and coastal agents and to build positive relationships. We plan to prioritize participation in these types of events as we plan our future outreach efforts.
- c) At several events in May and June, we gathered public feedback about TWIA through a survey. We were pleased to find that overall public sentiment of TWIA was positive or neutral, with only seven of the 84 surveys submitted indicating a negative opinion of TWIA.

IV. Agent Advisory Group (AAG)

- a) The Q2 AAG meeting occurred on April 8, 2019 and was focused on routine operational updates and a discussion on the progress of legislation related to the Association filed during the 86th Legislative Session.
- b) The Q3 AAG meeting was held on July 11, 2019 and was focused on the outcome of the 86th Legislative Session, funding for the 2019 hurricane season, and Underwriting Department and depopulation program updates.

86th Legislature, Regular Session: Passed Legislation Impacting the Association & Industry

Bill	Author(s)	Association	Summary
SUNSET & OMNIBUS BILLS			
<u>SB 615</u>	Buckingham et al (Sunset Commission)	TWIA	<p>Relating to the operations and functions of the Texas Windstorm Insurance Association, mandating the following changes:</p> <ul style="list-style-type: none"> • Establishes new TWIA Board member requirements, such as nepotism and conflicts of interest provisions and mandatory annual Board training • Allows TWIA to propose rules for adoption by the Texas Department of Insurance (TDI) • Requires the posting of the Association's rate adequacy analysis on www.twia.org and public comment on it prior to a vote of the Board on a proposed rate filing • Repeals the requirement to submit a Bimonthly Report Card • Makes the Association subject to another Sunset Review in 2031 • Determines replacement cost coverage at policy issuance instead of at the time of loss • Requires the Association to establish a process for automatic renewal of a policy • Makes modifications simplifying the Assumption Reinsurance Depopulation Program • Moves the issuance of WPI-8-Cs to TDI with some modifications • Authorizes the Association's supplemental payment process • Requires the Association to accept installment and credit card payments
<u>HB 1900</u>	Bonnen, G. (Tier 1, Galveston)	TWIA	<p>Relating to certain operations and functions of the Texas Windstorm Insurance Association, mandating the following changes:</p> <ul style="list-style-type: none"> • Places restrictions on TWIA's use of premiums and reserves to pay storm losses and expenses • Requires an emergency Board meeting to notify member companies of the need for an assessment • Requires member companies to pay for TWIA's reinsurance above the 1:100 funding requirement • Determines replacement cost coverage at policy issuance • Moves the issuance of WPI-8-Cs to TDI and adds engineer oversight measures and penalties

Bill	Author(s)	Association	Summary
			<ul style="list-style-type: none"> Requires the posting of a rate adequacy analysis and public comment on it prior to a vote of the Board on a proposed rate filing Modifies handling and deadlines related to replacement cost coverage claims Mirrors HB 1944's claim extension provisions Authorizes legislative studies on TWIA's funding and funding structure and a consolidation of TWIA and TFPA.
POLICY COVERAGE & INFORMATION			
<u>HB 1554</u>	Smithee (LOB Member, Amarillo)	Industry	Allows an insurer to provide auto or residential property policyholders a policy or endorsement document in a language other than English, which states the English version of the document controls in the event of a dispute or complaint.
<u>HB 1555</u>	Smithee (LOB Member, Amarillo)	Industry	Establishes that a document used by an auto or residential property insurer to summarize a policy or endorsement is not part of the policy or endorsement; does not modify the provisions of the insurance policy it summarizes; and is not admissible as evidence of the coverage provided by the insurance policy it summarizes.
<u>HB 1902</u>	Bonnen, G. (Tier 1, Galveston)	TWIA	Makes a maximum liability limit filing by the Association considered approved by the Commissioner unless disapproved/modified no later than 30 days following receipt of the filing; provides that 30 days after the date the filing is disapproved or modified, and after notice and hearing, the Commissioner shall approve, disapprove, or modify the proposed adjustment to the maximum liability limits.
<u>HB 1940</u>	Lucio III (Chair HIC, Tier 1, Cameron)	Industry	Allows an eligible surplus lines insurer to provide wind and hail insurance in the designated catastrophe area.
<u>SB 442</u>	Hancock (Chair SB&C, Tarrant)	Industry	Requires written disclosure that a policy does not cover flood damage on a form to be prescribed by the Commissioner.

Bill	Author(s)	Association	Summary
CLAIM HANDLING & DEADLINES			
<u>HB 1944</u>	Lucio III (Chair HIC, Tier 1, Cameron)	TWIA	Authorizes the Commissioner to extend TWIA claim-handling deadlines by up to a maximum of 120 days on a per storm basis and grants the Commissioner the authority to set the length of TWIA policyholder claim deadlines at his discretion.
<u>HB 2102</u>	Capriglione (Tarrant)	Industry	Requires TDI to create a consumer education program on property insurance deductibles; prohibits and creates an offense for a contractor who attempts to absorb or pay a deductible on behalf of a client; allows an insurer to deny a replacement cost claim until the insurer receives proof of payment of any deductible.
<u>HB 2103</u>	Capriglione (Tarrant)	Industry	Prohibits a contractor from acting as a public insurance adjuster or advertising to adjust claims for any property for which they are the contractor or may provide contracting services.
<u>HB 2659</u>	Paul (Tier 1, Harris)	Industry	Allows a licensed adjuster to use a name different from the name under which the license holder is currently licensed if the name is used under a valid assumed name certificate as provided by Chapter 71, Business & Commerce Code.
WINDSTORM CERTIFICATION			
<u>HB 1523</u>	Nevárez (Sunset Commission)	TWIA	Updates the current statute related to the issuance of certificates of compliance for completed and ongoing improvements with the name of the newly consolidated Texas Board of Professional Engineers and Land Surveyors.
OPEN GOVERNMENT			
<u>HB 3175</u>	Deshotel (Tier 1, Jefferson)	TWIA	Requires governmental bodies to maintain the confidentiality of personally identifiable information of individuals or households applying for state or federal disaster recovery funds.
<u>SB 494</u>	Huffman (Tier 1, Brazoria)	TWIA	Reduces posting requirements for agenda items/meetings called as a result of an emergency or urgent public necessity, in our case natural disasters; temporarily suspends the open meetings laws for governmental bodies impacted by a catastrophe.



Q2 2019 Legislative & Regulatory Affairs Activities

Legislative Meetings

Legislative Office	Purpose
APRIL 2019	
Rep. Chris Paddie	TWIA Sunset Bill
Sen. Dawn Buckingham	TWIA Sunset Bill
Rep. Eddie Lucio, III	House Bill 2686 related to TWIA claim denials
Governor's Office	TWIA Funding and rate filing suspension
Sen. Chuy Hinojosa	TWIA Sunset Bill and Senate Bills
Rep. Julie Johnson	TWIA Sunset Bill and House Bills
Rep. Sarah Davis	TWIA Sunset Bill and House Bills
Sen. Judith Zaffirini	TWIA Sunset Bill and Senate Bills
Rep. Dade Phelan	TWIA Sunset Bill and House Bills
Rep. Chris Turner	TWIA Sunset Bill and House Bills
Sen. Larry Taylor and Rep. Greg Bonnen	Senate Bill 2305 and House Bill 1900 on changes to the WPI-8-C program and ITV
MAY 2019	
Rep. Geanie Morrison, Rep. Greg Bonnen, Sen. Larry Taylor, Speaker Dennis Bonnen	Q1 2019 Board Materials Briefing
Rep. Todd Hunter	TWIA bills and House Bill 4534
Senate Business & Commerce Committee	Various TWIA bills going through the Senate Business & Commerce Committee
Senate Business & Commerce Committee	House Bill 4534 on changes to TWIA's funding
TDI, Texas Association of Builders, Sen. Larry Taylor, and Sunset Advisory Commission Staff	Senate Bill 2305 on changes to the WPI-8-C program
Rep. Eddie Lucio, III	HB 4534 on changes to TWIA's funding
Sen. Larry Taylor	HB 4534 on changes to TWIA's funding
Rep. Todd Hunter	Funding and Rates



Legislative Hearings

Date	Committee	Testimony	Bill Type/Purpose
4/2/2019	Senate Business & Commerce Committee	None	Resource witness on SB 1036 and SB 2305
4/9/2019	House Insurance Committee	None	Resource witness on several TWIA Rate Bills, Funding (HB 3038), Board Composition, (HB 3633), Flood Coverage Requirements (HB 3123), TFPA Claim Disputes (HB 1897)
4/16/2019	House Insurance Committee	None	Resource witness on TWIA Sunset Bill and HB 4534 (Funding)
4/23/2019	House Insurance Committee	None	Resource witness on SB 2305 (WPI-8-Cs)
5/16/2019	Senate Business & Commerce Committee	None	Resource witness on HB 4534

16. Future Meetings

December 10, 2019 – Omni Hotel – Corpus Christi

February 2020 – TBD

May 2020 – TBD