TEXAS WINDSTORM
INSURANCE ASSOCIATION

Media Briefing Book

Updated: 8/9/2016

Contact Information:

Mailing Address:
P.O. Box 99090
Austin, TX 78709-9090

Phone: 800.788.8247

Media Inquiries:
mediarelations@TWIA.org
512-505-2299

Jennifer Armstrong
Vice President
Communications & Legislative Affairs

TEXAS WINDSTORM INSURANCE ASSOCIATION

Table of Contents

TWIA Overview

History and Purpose

The Texas Windstorm Insurance Association (TWIA) was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. TWIA is governed by Chapter 2210 of the Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

TWIA is a residual insurer of last resort and as such is not a direct competitor in the private market. TWIA's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier and a portion of Harris County (second tier).

TWIA operates as an insurance company by issuing policies, collecting premiums, and paying losses. TWIA is required by law to transfer its net gain from operations each year into the Catastrophe Reserve Trust Fund (CRTF), an account maintained by the Texas Comptroller dedicated to the payment of future TWIA catastrophe losses.

Mission and Vision

TWIA's mission is to efficiently provide essential property insurance products and services for eligible Texas policyholders when no one else will. Our vision is to be respected and trusted by our stakeholders.

TWIA's core values are the foundation of the Association's operations, decisions, and actions.

- Provide quality service to our policyholders
- Respect the interests of a broad spectrum of stakeholders
- Ensure the financial sustainability of the enterprise
- Operate efficiently in order to achieve the best use of policyholder funds
- Be a steward of the public trust and hold ourselves to a high standard of ethics

Coverage and Eligibility

TWIA policies provide coverage only for wind and hail losses. No other perils are covered by TWIA policies. Applications for coverage, accompanied by the full annual premium, may be submitted to TWIA through any agent properly licensed through the Texas Department of Insurance (TDI).
In order to be eligible for a TWIA policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- Applicants must have been denied coverage by at least one insurer in the private market
- Properties must be located in the designated catastrophe area
- Properties must be certified by TDI as having been built to applicable building codes, with limited exceptions
- Properties located in specified flood zones (V zones) that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation

Coverage Area

TWIA policies provide coverage for residential and commercial property located within the area designated by the Commissioner of Insurance. This area currently includes all 14 first tier coastal counties and parts of Harris County east of Highway 146. The specific counties are Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy. When the property is located inside the city limits and east of Highway 146, the following portions of Harris County are also included: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

Building Codes & Certificates of Compliance (WPI-8)

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.260 outline the building code and inspection requirements for eligibility in TWIA and provide for limited exceptions. In accordance with these sections, TWIA requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, TDI inspectors or TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Insurability Guidelines

Properties must be in an insurable condition to be eligible for TWIA coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. TWIA regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Current TWIA Statistics

As of June 30, 2016, TWIA policies in-force numbered 264,115, with insured building and contents coverage totaling $76.3 billion. 2016 written premiums are projected to be $507 million.

Funding

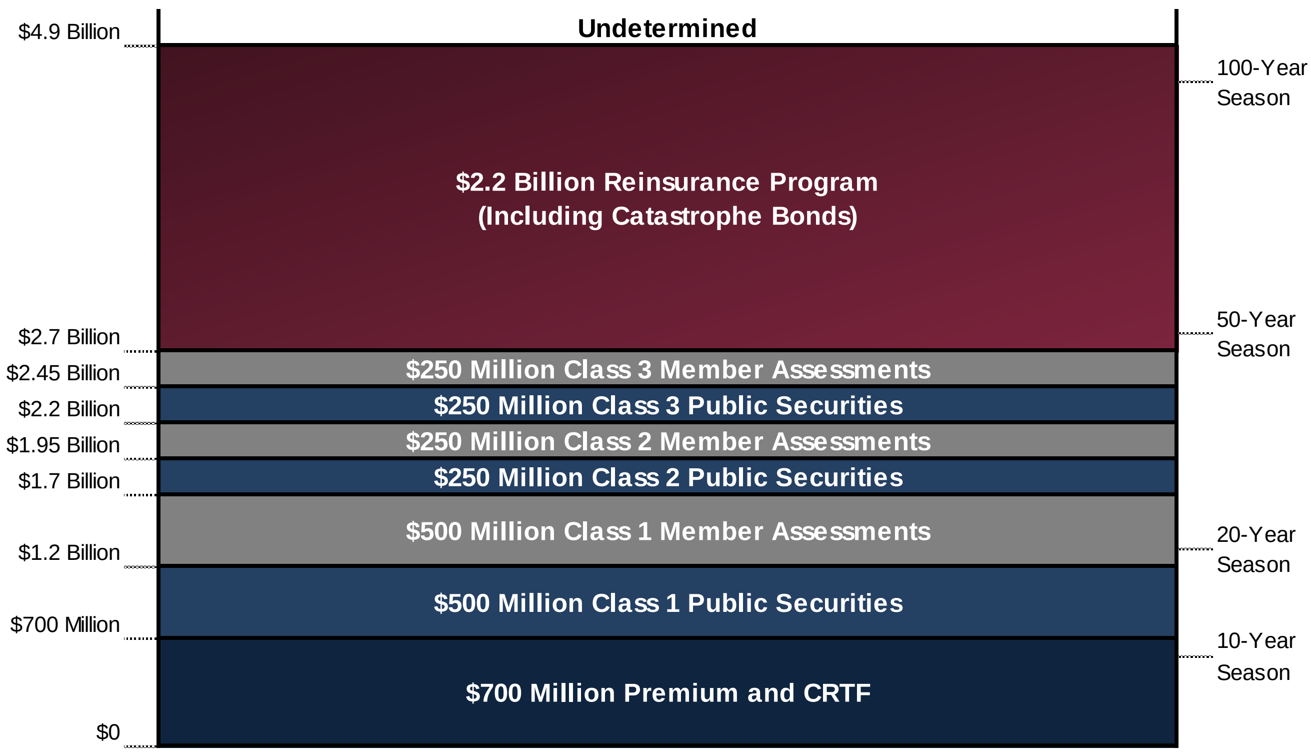
SB 900, passed by the 84th Texas Legislature, took effect September 1, 2015 and changed TWIA's funding structure. TWIA's new funding structure is, in order:

- TWIA premiums and amounts in the CRTF

- $500 million in pre-event Class 1 public securities
- $500 million in Class 1 company assessments
- $250 million in Class 2 public securities
- $250 million in Class 2 company assessments
- $250 million in Class 3 public securities
- $250 million in Class 3 company assessments
- Sufficient reinsurance, including both traditional reinsurance and catastrophe bonds, so that total funding is at least equal to a hurricane season with a 1% probability.

Class 1, 2, and 3 public securities will be repaid by TWIA premiums and surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

TWIA's funding for the 2016 hurricane season is illustrated by the chart below. **Total funding of $4.9 billion is sufficient to fund claims associated with over 99% of all modeled hurricane seasons, or a 100-year season.**



Storm frequencies based on modeled losses using TWIA exposures as of 12/31/15

TWIA Fast Facts

2015 TWIA Premiums	$504 Million		
TWIA Policies In-Force	264,115		
TWIA Total Insured Value	$76.3 Billion		
2015 TFPA Premiums	$133 Million		
TFPA Policies In-Force	129,244		
TFPA Total Insured Value	$21.4 Billion		
TWIA + TFPA Registered Agents	6,774 + 11,097*		
Employees + Contractors	214 + 67		
Operating Cost as a % of Premium	5% TWIA	12% Texas	30% Plans
7th Largest Allied Lines Writer in the US			
3rd Lowest Operating Cost as a % of Premium			
2nd Largest Property Insurance Plan in the US			

Data as of 6/30/2016

Among 36 US Property Insurance Plans

*Some agents may be eligible and registered for both TWIA and TFPA

Board of Directors

Composition

TWIA is governed by a Board of Directors appointed by the Commissioner of Insurance. The Board consists of 3 public members residing in the first tier coastal counties and representing certain regions of the catastrophe area, 3 non-coastal representatives residing more than 100 miles from the coast, and 3 industry representatives actively writing and renewing windstorm and hail insurance in the first tier coastal counties. All Board members must have experience in insurance, general business or actuarial principles. Board composition changed effective October 1, 2015 as a result of the passage of SB 900 by the 84th Texas Legislature.

2016 Board Members

Name	Member Representation
Georgia R. Neblett, *Chairman*	First Tier Coastal Representative
Joshua Fields, *Vice Chairman*	First Tier Coastal Representative
Blair Crossan	Insurance Industry Representative
Chandra Franklin	First Tier Coastal Representative
Michael Gerik	Insurance Industry Representative
R. Scott Kesner	Non-Seacoast Territory Representative
Debbie King, *Secretary-Treasurer*	Insurance Industry Representative
Tony Schrader	Non-Seacoast Territory Representative
Bryan Shofner	Non-Seacoast Territory Representative

Primary Objectives

Texas Insurance Code Chapter 2210 outlines the Board's objectives: comply with Chapter 2210, the plan of operation, and commissioner rules and sound insurance principles; establish a code of conduct and performance standards; and, establish, and adhere to terms of an annual evaluation of Association management necessary to achieve the statutory purpose, Board objectives, and any performance or enterprise risk management objectives established by the Board.

Highlights

• • •

- Board composition includes representation of coastal and inland residents, insurance agents, and insurance companies.
- All Board members are unpaid volunteers appointed by the Commissioner of Insurance.
- The Board conducts public meetings at least quarterly to discuss administration of the Association.
- All Board meetings and teleconferences are open to the public and broadcast live at www.TWIA.org.
- Archived recordings of all meetings are available on the Association's website for two years.

Building Code Incentives

Background

To be eligible for TWIA coverage, Texas law requires buildings to meet applicable windstorm codes as evidenced by a certificate of compliance (WPI-8) issued by the Texas Department of Insurance. To obtain a WPI-8, TDI inspectors or TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

TWIA Incentives for Residential Properties

Building code credits are available for properties that meet or exceed recent building codes. Retrofit credits are available to homes built prior to September 1, 1998 that are retro-fitted with exterior opening protections that meet current windborne debris construction standards.

Structures that do not meet applicable windstorm codes are ineligible for coverage with TWIA except in limited cases. In these limited cases, a premium surcharge is applied to the windstorm policy covering the non-compliant structure.

Other States' Retrofitting Programs

Other states have passed legislation providing incentives for homeowners to retrofit their homes to make them more resistant to wind damage:

- Alabama passed legislation in 2011 designed to be administered through the Alabama Department of Insurance. Residents are allowed to deduct up to 50% of the cost of retrofitting property from their state income taxes, up to $3,000.

- Mississippi requires a 25% or more owner contribution to the retrofit costs. As of January 2013, five insurers including the Mississippi Windstorm Underwriting Association have filed windstorm mitigation discount plans with the Department of Insurance.

Both programs are limited in their geographic focus to certain counties.

Highlights

• • •

- Windstorm building code requirements apply to new construction as well as alterations, additions, and certain repairs

- Premium discounts are available for property that meets or exceeds windstorm building codes

- Without the proper certificates of compliance, a property may not be eligible for TWIA coverage except in limited circumstances

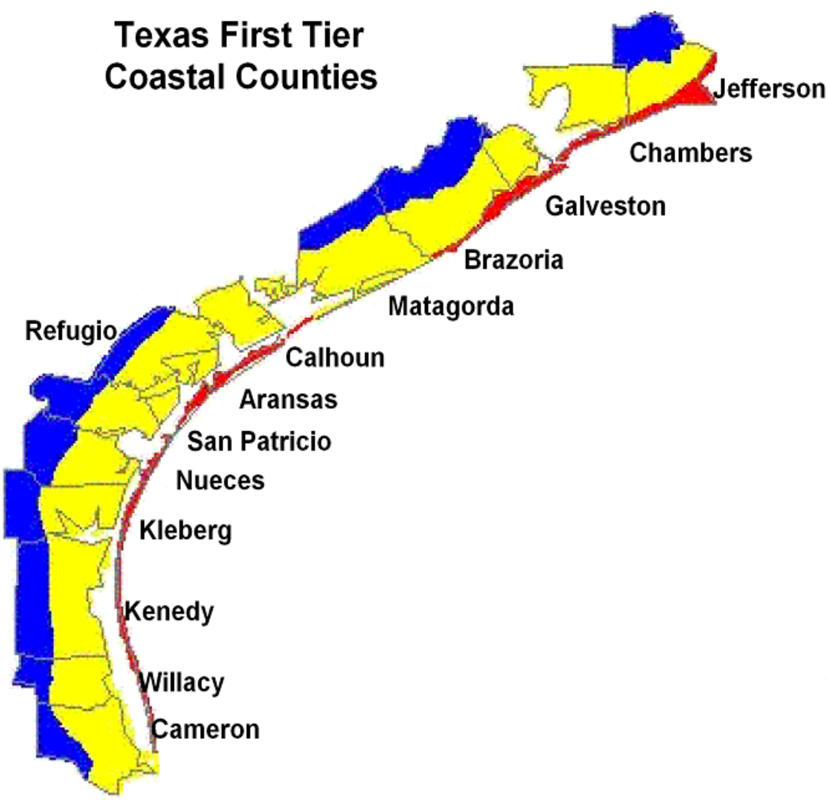
- Retrofits may assist policyholders in obtaining voluntary market coverage

Building Code Requirements

Background

To be eligible for TWIA coverage, properties constructed after January 1, 1988 must be certified as having been built in compliance with the applicable building code in effect when any construction or repairs took place, with limited exceptions.

Within the TWIA coverage area there are three different building code standards, varying generally by distance to the coast. The three standards are Seaward (red), Inland I (yellow), and Inland II (blue).



The Seaward construction standard is the strongest and is currently designed to withstand gusts of up to 130 mph. The current Inland I standard is designed to withstand gusts of up to 120 mph and the current Inland II standard is designed to withstand gusts of up to 110 mph. The relative strength of building codes has increased over the years since the first certifications were required in 1988.

Highlights

• • •

- Windstorm building code requirements apply to new construction as well as alterations, additions, and certain repairs
- WPI-8 certificates of compliance, issued by TDI, are required to demonstrate compliance with building codes
- Different standards apply to different areas within the TWIA coverage area

Catastrophe Response

Background

TWIA's Catastrophe (CAT) Incident Response Plan is a dynamic document detailing the roles and responsibilities of each department in response to an incident. The CAT Plan has been successfully activated nine times since 1/1/2012. High customer satisfaction survey scores and low claims cycle times demonstrate the success of TWIA's responses in each instance. Continuous improvements to the CAT Plan help increase TWIA's resource capacity and ability to respond promptly and effectively to the needs of policyholders.

Key Elements

Key elements of the plan include the identification of roles and responsibilities for all TWIA departments, details about scalability to the size of an incident, operational guidelines and directives for TWIA's response to a catastrophe, and a corrective action program incorporating after-action reporting and improvement planning processes. TWIA uses a resource scalability model to determine—before a storm makes landfall—how many adjusters, customer care representatives, quality analysts, inspectors, and examiners will be needed to handle the projected claim volume. TWIA also has a dedicated call center with scalable capacity to intake at least 150,000 claims in 30 days. The plan accounts for communication of claim-filing instructions, TWIA contact information, mobile, remote office locations, and updates regarding TWIA's response to all stakeholders. Finally, the CAT Plan addresses the steps necessary to secure funding to pay all covered claims.

Ongoing Improvements

Since 2011, TWIA has continuously improved the CAT Plan. The 2016 CAT Plan update includes contributions from all departments developed from an after action report that prompted the creation of new objectives and the streamlining of current ones. TWIA has secured contracts and dedicated commitments for over 6,600 field adjusters. Contracts include performance standards and liquidated damage provisions for failure to meet the resource commitments. An enterprise-wide test in 2014 showed a high level of Association readiness and no significant negative findings. The Association continued to test its response capabilities in November 2015 by completing a test of the Mobile Claims Center, a portable office for providing services after an incident.

Highlights

• • •

- Detailed, proactive, enterprise-wide planning
- Defined roles and responsibilities for all departments
- Increased scalability, including call center, staffing, and other resource models
- Continued testing, training, and exercises
- Metrics evaluating performance in real time
- Multiple options for claim reporting
- Rapid response from claim reporting to payment

Claims Appraisal

Definition

The 82nd Texas Legislature, 1st Called Special Session, enacted House Bill 3 (HB 3) to address issues related to the operation of TWIA. HB 3 became effective on September 28, 2011, and applies to TWIA policies issued or renewed on or after November 27, 2011. Under HB 3, appraisal is the means for resolving any dispute over the accepted portion of a covered loss. Working within the HB 3 appraisal process, the policyholder and TWIA each select an individual appraiser to determine the amount of loss. If the appraisers cannot agree on the amount of the loss, a competent and independent umpire will be selected by the appraisers. These three individuals comprise the Appraisal Panel. An agreement by any two of these three participants will determine the amount of the loss.

Important Terms

If the policyholder disputes the amount TWIA has accepted for their claim, either fully or partially, the policyholder must request appraisal. TWIA must receive the request no later than 60 days from the date the policyholder receives notice of claim acceptance. The deadline may be extended 30 more days if requested within 15 days after the initial 60 days. If this deadline is not met, the policyholder waives the right to contest the accepted portion of the claim. It is important to note, the policyholder can only request appraisal on those items of damage for which coverage was accepted. The appraisal decision will be final and binding when signed and dated by two members of the Appraisal Panel. All costs and expenses for appraisal are shared equally by TWIA and the policyholder, including costs for both appraisers and the umpire.

Key Elements

If the policyholder notifies TWIA of a request for appraisal, TWIA contacts them in an attempt to resolve the dispute and to limit any expenses they may incur due to the appraisal process. 64% of all appraisal requests to date have been resolved without any additional cost to the policyholder.

Highlights

• • •

- The policyholder has 60 days after the claim decision to request appraisal
- Only items where coverage has been accepted are eligible for appraisal
- All costs and expenses associated with the appraisal process are shared equally between the policyholder and TWIA
- Less than 1% of HB 3 claims involve a dispute
- Approximately 67% of disputed HB 3 claims involve a request for appraisal

Claims Dispute Resolution

Background

The 82nd Texas Legislature, 1st Called Special Session, enacted House Bill 3 (HB 3) to address issues related to the operation of TWIA. HB 3 became effective on September 28, 2011, and applies to TWIA policies issued or renewed on or after November 27, 2011. HB 3 outlines judicial remedies available to policyholders, including appraisal for disputes arising over the amount of damages and Alternative Dispute Resolution (ADR) for disputes regarding coverage of damages.

Key Elements

If the policyholder disputes the amount of loss TWIA accepts for a claim, either partially or fully, the policyholder must work with TWIA to resolve any disputes or request appraisal. The policyholder has 60 days after receiving notification of the claim decision to notify TWIA of a request for appraisal. The deadline may be extended 30 more days if requested within 15 days after the initial 60 days.

If the policyholder disputes TWIA's decision to partially or fully deny coverage for a claim, they must provide notification they intend to bring suit against TWIA. The policyholder has two years after receipt of a claim decision to notify TWIA of a coverage dispute by filing the Intent to Bring Action form provided to them at the time of the coverage decision. As a prerequisite to filing suit, TWIA has the option of requiring them to submit the dispute to Alternative Dispute Resolution. Mediation is the primary form of dispute resolution utilized by TWIA. All costs and expenses of appraisal and mediation are shared equally by both parties.

Preventing Disputed Claims

While HB 3 altered the methodology and timeframes by which disputed claims are handled, TWIA remains committed to preventing unnecessary disputes and litigation through the use of quality assurance programs and feedback from customer satisfaction surveys, continued focus on improving communication with policyholders, and management's regular review of potential and reported disputed claims.

Highlights

• • •

- Less than 1% of HB 3 claims involve a dispute
- Approximately 67% of disputed HB 3 claims involve a request for appraisal
- Only 0.2% of HB 3 claims involve a lawsuit
- The policyholder has 60 days after a claims decision to request appraisal
- HB 3 does not eliminate the policyholder's right to file a lawsuit
- The policyholder has 2 years after a claims decision to file an Intent to File Action (litigation) form

TWIA Claims Results

Key Cycle Times (days)	Industry Avg. – TX	TWIA	TWIA Plan	Variance	% Variance
FNOL to Inspect Property[1]	5.6	3.1	<3	-0.1	-3%
Inspect Property to Receipt by TWIA	3.7	1.7	<8	-6.3	-79%
Receipt by TWIA to Payment	N/A	6.0	<5	1.0	20%
Total Cycle Time FNOL to Payment	N/A	10.3	<16	-5.2	-33%

Complaint Ratio[2]	
2013	0.22% - 20 complaints from 9,502 new claims
2014	0.45% - 13 complaints from 2,858 new claims
2015	0.11% - 20 complaints from 18,889 new claims
2016	0.10% - 4 complaints from 6,055 new claims

Complaint Data: Industry Comparison[3]

Rank	NAIC#	Company	2014 TDI Index	Premiums $ (millions)	Market Share %
1	43419	**State Farm Lloyds**	1.2244	1,920.4	25.58
2	21695	**Texas Farmers Insurance**	.9745	662.2	8.1
3	26530	**Allstate Texas Lloyd's**	1.2494	418.1	5.37
4	11120	**USAA Texas Lloyd's**	.3248	388.5	4.99
5	25941	**USAA [Homeowner]**	.4748	310.5	3.99
19	11543	**TFPA**	1.1494	92.9	1.19
N/A	30040	**TWIA**	.3748	494	N/A

[1] FNOL is the first notice of loss.

[2] TDI complaints to total claims filed.

[3] Source: www.tdi.gov

The complaint index indicates how a company's ratio of the number of complaints to the number of policyholders compares to the average for all insurers. The index is calculated by dividing the company's percentage of complaints for a specific line of insurance by the company's percentage of the policies in force for the same line of insurance. The average index is 1.00. A number less than 1 indicates fewer complaints than average; a number greater than 1 indicates more complaints than average.

Claims Operations

Mission

The TWIA Claims Department seeks to provide quality claim services by: providing a positive claim experience to customers in their time of need, continuously evaluating performance and adherence to Department values, and ensuring consistency and responsibility with entrusted financial resources.

Organizational Structure

The Claims workforce is divided into residential and commercial teams to achieve workflow efficiencies. Claims are further distributed based on complexity in order to ensure that the right resource with the appropriate experience and skill set is matched to each claim. The Department consists of approximately 50 full-time employees supplemented with contractors as necessary after storm events. This allows TWIA to balance operational efficiency and responsiveness after a catastrophe.

Process

Policyholders have multiple options to report claims, including a 24/7 call center with scalable resources capable of processing at least 150,000 calls in 30 days. In July 2016, TWIA implemented a new claims administration system, Claims Center. The new system is expected to speed up and improve the claims handling process and provide policyholders, agents and TWIA with better ways to communicate and share more accurate information about a claim.

Accountability

Performance metrics and scorecards are used to measure effectiveness and efficiency and to drive continual improvements in service quality and performance for employees and field adjusters at the team and individual level. TWIA's commitment to policyholder service is demonstrated by consistently high Quality Assurance and customer satisfaction survey scores. Customer surveys also assist in better understanding customers' needs and concerns and allow staff to address any issues promptly.

Highlights

• • •

- Multiple ways to report claims, including a 24/7 call center and the new on-line and mobile Claims Center
- Scalable resources
- Scorecards used to drive quality and performance
- Claim and policy data is leveraged to drive claim process and identify trends
- Community outreach programs inform and educate policyholders about the claim process
- Special investigation unit helps protect policyholders from fraud

Depopulation

Background

TWIA policy growth was relatively stable from 1971 - 2005, when multiple hurricanes along the Gulf Coast prompted the voluntary market to reevaluate exposures in coastal areas, including Texas. TWIA policies doubled between 2005 and 2007. Since 2008, TWIA has grown at a more moderate 3.5% annual rate. As authorized by SB 900, TWIA has developed depopulation programs to assist TWIA policyholders in obtaining coverage from the private insurance market and reduce the number of its insured properties and exposure.

Voluntary Market Depopulation Program

The Voluntary Market Depopulation Program replaces TWIA's initial depopulation program, the Voluntary Coastal Windstorm Insurance Portal and functions in a similar manner. Participating carriers receive access to TWIA policyholder data after signing a Non-Disclosure and Terms of Use Agreement and will approach the agent of record to make offers of coverage. Acceptance of any offers is strictly voluntary and no changes will take place unless the agent and policyholder affirmatively accept the participating carrier's offer. The Voluntary Market Depopulation Program has been approved by the Texas Department of Insurance effective March 31, 2016. Since the program's launch, 12 carriers have been granted access to the program.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program is similar to the successful take-out programs in Florida and Louisiana. Under the program, interested carriers will be accepted by TDI and will select the TWIA policies they are interested in taking out. Agents will have the opportunity to review and approve or reject any offers, and policyholders will have the ability to opt out of the depopulation process. Any policyholders that do not opt out will automatically have their TWIA policy assumed by the participating carrier. The Assumption Reinsurance Depopulation Program has been approved by the Texas Department of Insurance effective July 14, 2016, with the first policies assumed by carriers effective June 1, 2017.

Highlights

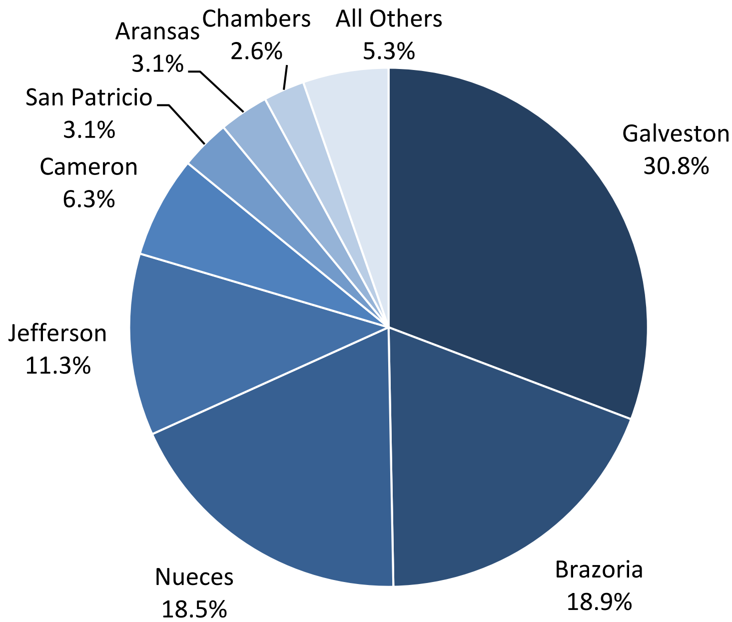
• • •

- Depopulation involves helping TWIA policyholders find coverage in the private insurance market
- Participation in any depopulation programs is strictly voluntary
- Recent legislation has authorized the creation of depopulation programs similar to those successfully utilized by other states' residual markets

Distribution by County

Distribution of Insured Limits by County

Evaluated as of 6/30/16



County	Insured Limits*	Percentage
Galveston	$23,456,805,803	30.8%
Brazoria	14,444,798,735	18.9%
Nueces	14,138,894,409	18.5%
Jefferson	8,642,840,729	11.3%
Cameron	4,821,127,681	6.3%
San Patricio	2,370,465,884	3.1%
Aransas	2,355,802,896	3.1%
Chambers	1,954,603,063	2.6%
Matagorda	1,326,961,313	1.7%
Harris	1,155,907,019	1.5%
Calhoun	1,054,980,301	1.4%
Kleberg	297,056,022	0.4%
Willacy	127,476,459	0.2%
Refugio	98,198,641	0.1%
Kenedy	7,056,051	0.0%
All Counties	**$76,252,975,006**	**100.0%**

*Insured limits include building and contents.

Highlights

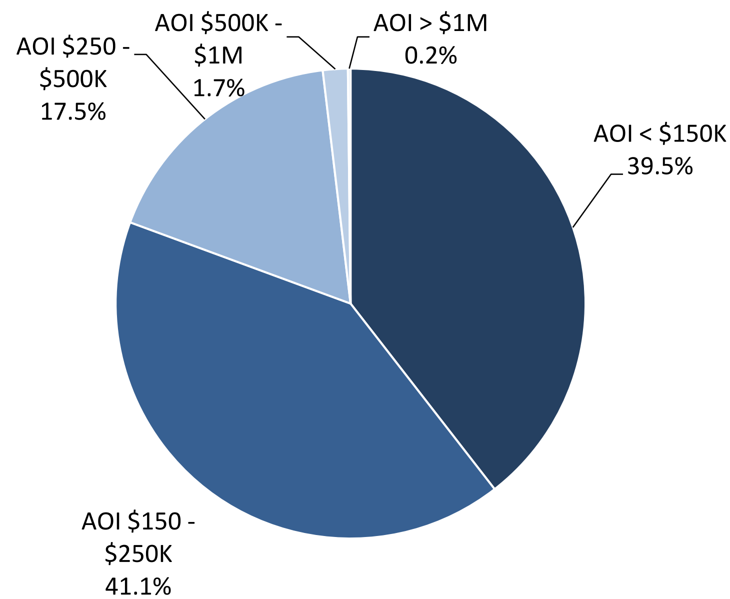
• • •

- Total limits insured by TWIA as of 6/30/16 are $76.3 billion
- 49.7% of exposures are located in Galveston and Brazoria counties
- Nueces (18.5%), Jefferson (11.3%), and Cameron (6.3%) are the next largest areas of exposure

Distribution of Limits

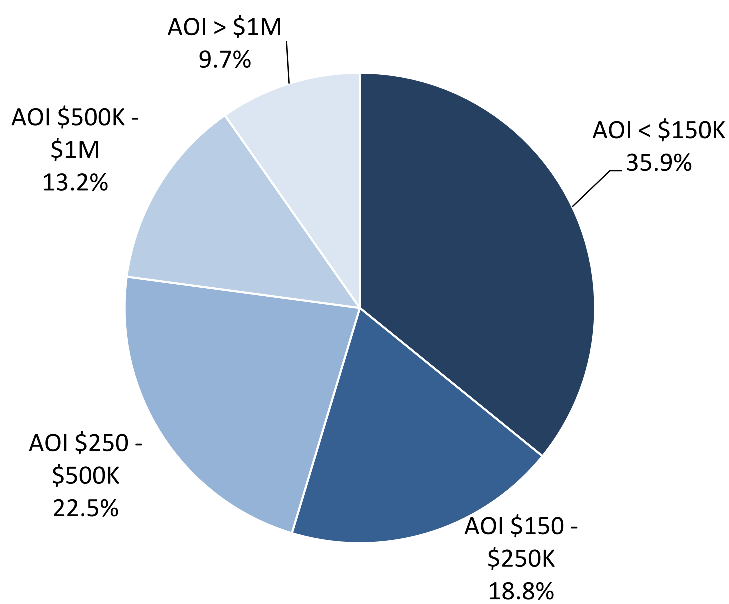
Distribution by Amount of Insurance (AOI) for Residential Structures

as of 6/30/16



Distribution by Amount of Insurance (AOI) for Non-Residential Structures

as of 6/30/16



Highlights

• • •

- TWIA insures 250,464 residential structures with an average amount of insurance of $192,000
- 98.1% of residential structures have limits less than $500,000
- Only 451 (0.2%) residential structures have limits greater than $1 million
- TWIA insures 18,092 non-residential (commercial and governmental) structures with an average amount of insurance of $457,000
- Only 1,759 (9.7%) non-residential structures have limits greater than $1 million

Eligibility for TWIA Coverage

Background

To obtain or continue windstorm and hail coverage through the Texas Windstorm Insurance Association (TWIA), property must meet certain requirements established by the Texas Legislature. These requirements are outlined in Texas Insurance Code Chapter 2210.

Requirements

In order to be eligible for a TWIA policy, applicants and properties must meet the following criteria:

- Properties must be located in the area designated by the Commissioner of Insurance, which currently includes all 14 first-tier coastal counties (Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy) and parts of Harris County east of Highway 146;
- Applicants must have been denied coverage by at least one insurer authorized to write windstorm and hail coverage in the designated area;
- Properties must be certified by the Texas Department of Insurance as having been built to applicable building codes, with limited exceptions;
- Properties located in flood zones V, VE, or V1-30 that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage; and
- Properties must meet all other Association underwriting requirements, including maintaining the structure in an insurable condition – in good repair, with no unrepaired damage or hazardous conditions.

TWIA regularly inspects properties as part of its underwriting process to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property. Properties may be inspected physically by a vendor or remotely with high-quality aerial imagery and risk management reports. Policies may be reevaluated at any time to ensure continued compliance with all eligibility requirements.

Highlights

• • •

- Eligibility requirements are set out in Texas Insurance Code Chapter 2210
- Properties must be located in the area designated by the Commissioner of Insurance
- Applicants must have received a declination from at least one other carrier
- Structures built, altered and/or repaired on or after January 1, 1988, with some exceptions, must obtain a WPI-8
- Properties located in a V flood zone must have flood insurance
- Properties must meet all other Association underwriting requirements

Funding

Authority & Legislation

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. Prior to 2009, the Association funded losses through premiums and potentially unlimited assessments on insurance companies. HB 4409, enacted in 2009, significantly changed Association funding, providing for the issuance of up to $2.5 billion in Class 1, 2, and 3 public securities. SB 900, effective September 1, 2015, further modifies the sources of funding and requires overall funding to cover at least a 100-year season.

2016 Funding under SB 900

For 2016, TWIA has secured funding of $4.9 billion through a combination of $700 million in premiums and CRTF; $1 billion in Class 1, 2, and 3 public securities; $1 billion in insurance company assessments; and $2.2 billion in reinsurance. This is equal to the highest level of funding since 2009, *sufficient to fund claims associated with over 99% of all modeled hurricane seasons – a 100-year season, or a storm or series of storms with a 1% or less chance of occurring.*

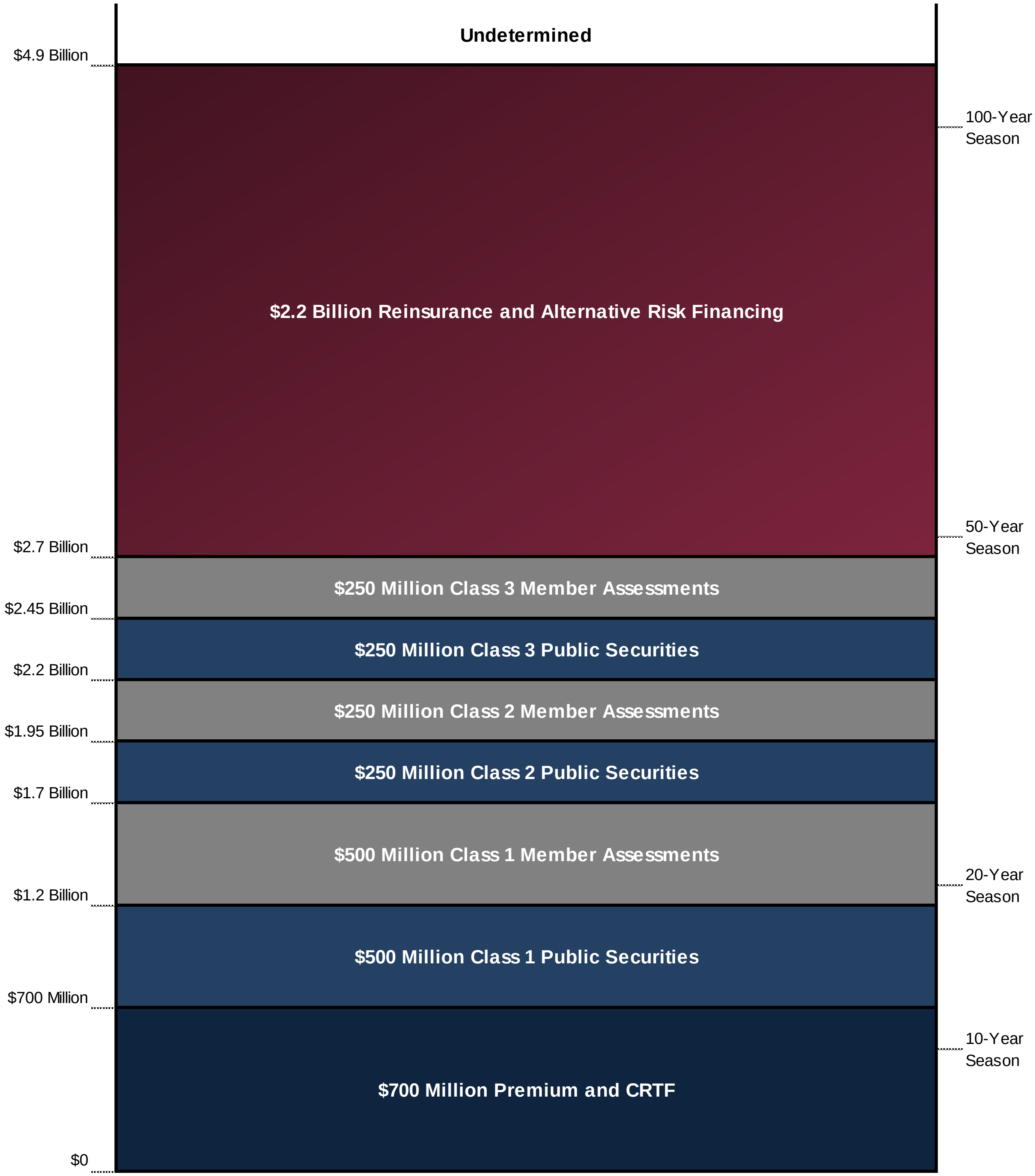
Under SB 900, Class 1, 2, and 3 public securities are repaid from TWIA premiums and surcharges on TWIA policyholders. If necessary for issuance, Class 2 and 3 securities may also be repaid from surcharges on coastal policyholders.

Highlights

• • •

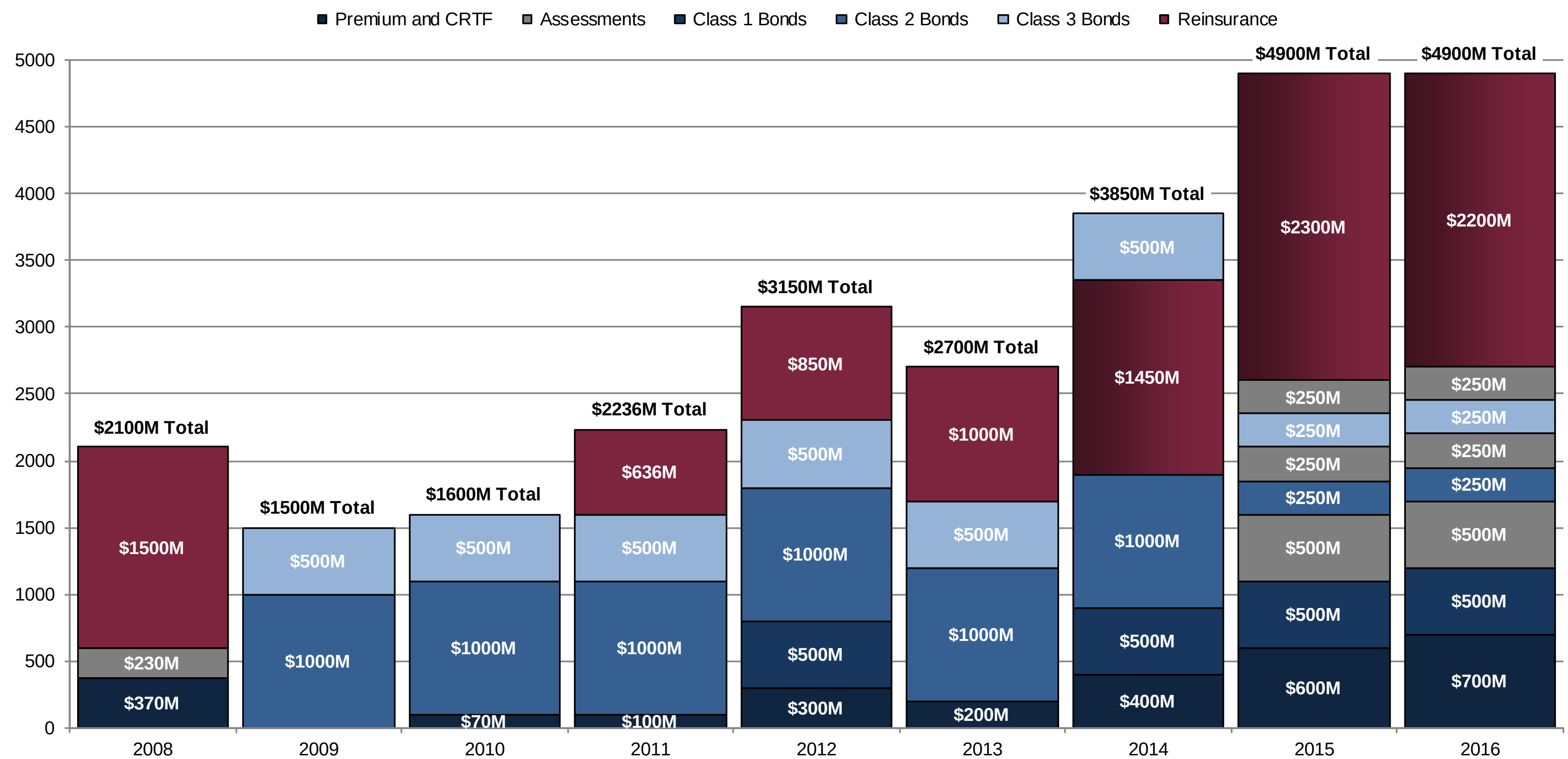
- Funding consists of premiums, the CRTF, public securities, company assessments, and reinsurance
- Funding of $4.9 billion for 2016 hurricane season
- Funding is highest since Hurricane Ike and sufficient to fund over 99% of all modeled hurricane seasons
- No assessments or surcharges will be required until after TWIA losses exceed $1.2 billion
- Class 1 public securities can be issued pre-event or post-event by statute
- TWIA issued pre-event Class 1 bonds in 2012 and 2014

Funding for 2016



Storm frequencies based on modeled losses using TWIA exposures as of 12/31/15

Historical Funding Comparison



Funding for 2008 shown as it existed for Hurricane Ike, post-Hurricane Dolly; unlimited additional funding available via reimbursable assessments
Funding for 2009-2011, 2013 assumes $0 Class 1 Public Securities issuable; 2012, 2014-2015 include $500 Million pre-event Class 1 Public Securities
Funding for 2015 shown as of September 1, 2015, incorporating SB 900
Funding for 2015-2016 incorporate bond repayments that differ from prior years

Catastrophe Bonds

Definition

A catastrophe bond is a form of collateralized reinsurance in which one or more investors provide the funding for the reinsurance amount in exchange for risk-based interest payments. Unlike traditional reinsurance in which the reinsurer contractually promises to pay a certain amount in the event of a defined loss, collateralized reinsurance requires that the reinsurer deposit that amount into an account that is accessed by the reinsured at the time of loss. This requirement is designed to eliminate credit risk and ensure the reinsurance proceeds are available at the time of loss.

Coverage

The catastrophe bond reinsurance issued in 2014 and 2015 by Alamo Re will reimburse TWIA for $1.1 billion in actual, aggregate losses. These losses could be the result of one or multiple catastrophic events in a year. The structure of the bonds will adjust each year through 2018 to accommodate changes in available funding such as the balance in the Catastrophe Reserve Trust Fund, bond availability, or any applicable legislative changes. Losses are reimbursed to TWIA on an indemnity basis, which means that the reinsurance pays actual losses as they are incurred by TWIA, rather than basing the payments on a formula or some other criteria. This is the same basis as TWIA's traditional reinsurance. Additional catastrophe bonds may be issued in the future as part of TWIA's overall reinsurance program.

Structure

The structure of the TWIA catastrophe bonds are different from traditional reinsurance in that the reinsurer, Alamo Re, is a special purpose reinsurer that only insures specific losses for TWIA. Alamo Re raises the collateral by selling shares in the bonds to investors and depositing those funds in trust accounts. TWIA receives the proceeds from the trust accounts in the event of a qualifying loss. In the absence of a loss, the proceeds are returned to investors at the end of the bond terms.

Highlights

• • •

- 2014-15 catastrophe bonds provide $1.1 billion in coverage
- 100% collateralized
- Staggered 3-year terms
- Adjustable coverage each year
- Supplements but does not replace traditional reinsurance
- Provides coverage consistent with traditional reinsurance
- Diversifies and expands claims-paying capacity
- More cost-effective for overall reinsurance program

Class 1 Pre-Event Bonds

Authority

Texas Insurance Code Chapter 2210 authorizes the issuance of up to $500 million in Class 1 public securities either before or after a storm event resulting in insured losses to TWIA. Following approvals by the TWIA Board, the Texas Department of Insurance, and the Board of Directors of the Texas Public Finance Authority, Class 1 pre-event bonds were issued by the Texas Public Finance Authority on behalf of TWIA on September 30, 2014. SB 900, effective September 1, 2015, incorporates the existing pre-event bonds into the revised funding structure.

Important Terms

Bonds were issued in the amount of $500 million, with annual principal payments over a 10-year period, and will be repaid with TWIA premiums. The interest rate is approximately 8%. Bank of America Merrill Lynch was the lead underwriter. Underwriter fees and issuance costs related to the securities were approximately 1.45% of the total issuance amount. Bonds may be terminated early at no additional cost beginning in 2019. Bonds may be terminated earlier but there would be an interest penalty associated with any termination prior to 2019. The penalty is estimated to be between $30 and $110 million depending on the year terminated.

Benefits

The Class 1 pre-event bonds utilize the funding provided by statute. The bonds provide both immediate funds for payment of claims as well as additional total funding. The 10-year term provides multi-year funding for TWIA. Issuance of pre-event securities develops a track record for TWIA in the bond marketplace and could result in more availability for additional public security issuance.

Highlights

• • •

- $500 million issued in 2014
- Provide immediate claims-paying capacity
- Provide additional total funding
- 8% interest rate, approximately
- 10-year term
- Class 1 bonds repaid with TWIA premiums

Insurance Operations

Operational Costs

TWIA issues almost 300,000 policies each year with premiums of approximately $500 million. TWIA's costs associated with policy issuance, billing, and other operations of the Association are only 5% of the premiums collected. This is less than half the average cost for other insurance companies in Texas (12.5%).

Process and System Improvements

TWIA has successfully implemented several new systems and initiatives in recent years to automate and improve its underwriting, policy issuance, and billing processes, allowing policies to be issued more quickly and at a lower administrative cost. Highlights include:

- Installing a dedicated billing system consistent with industry best practices
- In-sourcing document production to better integrate with our other internal processes, reducing the time and costs associated with both incoming and outgoing mail
- Reorganizing the Underwriting department to more effectively manage workflows, reducing seasonal backlogs
- Incorporating risk visualization into the inspection process, using aerial imagery and third-party data to more efficiently assess insurability, rate more accurately, and increase the total number of property inspections while reducing the cost per inspection on a per policy basis
- TWIA implemented a new, more modern policy administration system on May 6, 2015, providing numerous benefits to agents and insureds including:
  - More payment and agent self-service options
  - Automated, rules-based determination of eligibility
  - 90% of new applications and 88% of renewals are issued immediately, dramatically reducing the average time for an agent to receive a policy

Highlights

• • •

- TWIA operational costs only 5% of premium
- Agent surveys rate TWIA policy service highly
- Internal quality assurance scores of 98% YTD
- New processes and procedures have increased operational efficiency
- New policy administration system implemented May 6, 2015
- New system will further reduce policy issuance cycle times
- Emphasis on improved service to agents and policyholders
- Significant increases in training and development of staff

Internal Audit

Background

Since 2008, TWIA has diligently responded to a wide variety of external audits and addressed 100% of the resulting recommendations. The organization now has a much stronger compliance framework along with greatly improved documentation and controls over key processes. Recent external audits by the State Auditor's Office, the Texas Department of Insurance, and an independent consultant firm (Milliman) acknowledge that operational controls have improved. No material weaknesses were found in the most recent audits by TDI and Milliman.

TWIA created an internal audit function in order to help ensure that these efforts are sustained on an ongoing basis, to provide the capability to continuously test and evaluate the adequacy of our controls, and to provide an independent assessment to help TWIA best manage its risk. TWIA is currently using a consulting firm who reports directly to the TWIA Board of Directors, consistent with industry best practices.

Roles and Responsibilities

The internal audit function's responsibilities are defined by the Board as part of their oversight role. Internal audit's role is not to replace independent external audits but to supplement them and to inform and assist the Board in fulfilling its governance responsibilities.

Primary Objectives

The scope of internal audit function encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Association's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities. To that end, Internal Audit provides annual audit plans to the Board for its review and approval as well as audit reports with recommendations.

Highlights

• • •

- Internal Audit reports directly to the Board of Directors providing information to assist them in fulfilling their governance responsibilities
- Internal Audit's mission is the ongoing evaluation of risk to the Association and the effectiveness of the controls in place to mitigate and or manage that risk
- Submits annual Internal Audit plans to Board for review and approval
- Provides audit reports and recommendations to the Board
- Does not replace independent external audits

TWIA Key Accomplishments

Financial

- Securing approximately $4.9 billion in funding for 2016 – greater than a 100-year season – continuing the trend of progressively higher funding levels each year since 2009 and over $2B more than the total cost of Ike
- Maintained the 3rd lowest cost as a percentage of premium of the 36 U.S. FAIR plans and wind pools in 2014
- Performed below budget on controllable expenses for the 5th straight year

Communications & Transparency

- Launched new TWIA.org website that dramatically improves the user experience and provides analytics to refine communication strategies
- Created Agent Advisory Group and Agent Technical Working Group to provide input into process changes; resulted in improved communications and engagement with agent community
- Formed an Agent Services team to assist agents with technical support
- Restructured to create a new Communications and Legislative Affairs function, adding strategic focus to stakeholder outreach efforts
- Created a robust training program for new Board members
- Developed Legislative and Media briefing materials to provide timely, accurate, and relevant information about Association operations
- Completed second biennial employee survey to measure engagement and employee satisfaction with positive results
- Developed depopulation process to offer TWIA policyholders alternatives in the voluntary market, resulting in 60,000 offers from one carrier and approximately 4,400 policies taken out of TWIA

Accountability

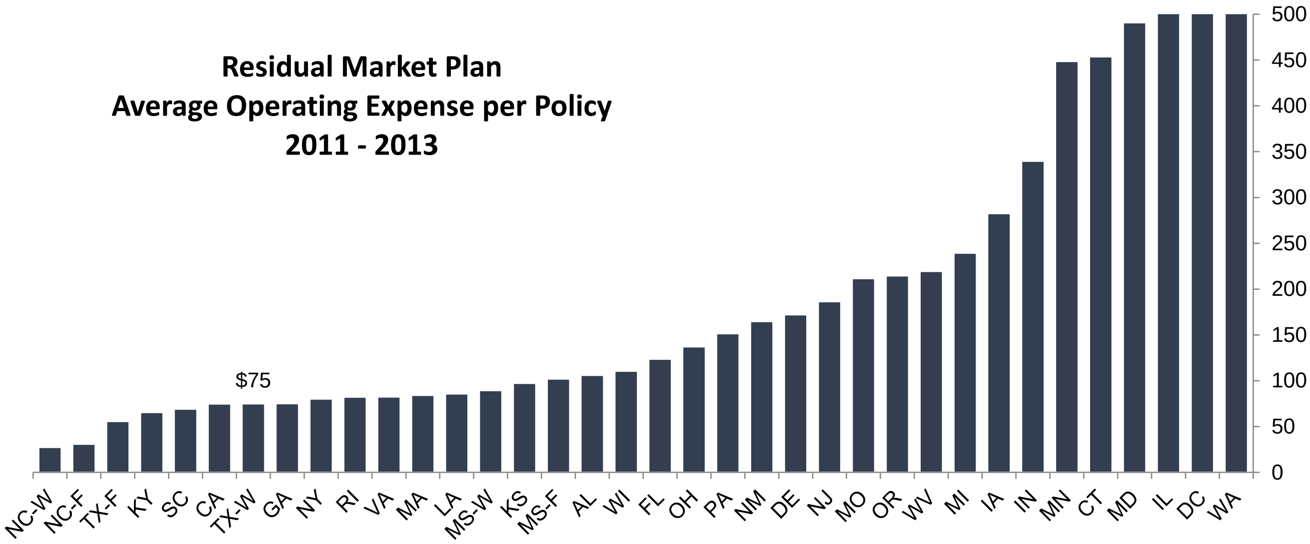
- Addressed all recommendations resulting from prior external audits
- Continued to develop new and improve existing controls and detailed financial and operational metrics to measure and evaluate performance at every level in the Association
- Maintained comprehensive performance management program to ensure outcome-focused accountability and credible, objective criteria to align compensation with performance
- Continued to develop internal audit (IA), including the IA Charter, and Internal Audit and Control Policies and Procedural documents; created an enterprise risk register and internal audit plan
- Established policy management program reducing risk exposure by ensuring all policies are audited annually and communicated to employees

Operational Efficiency

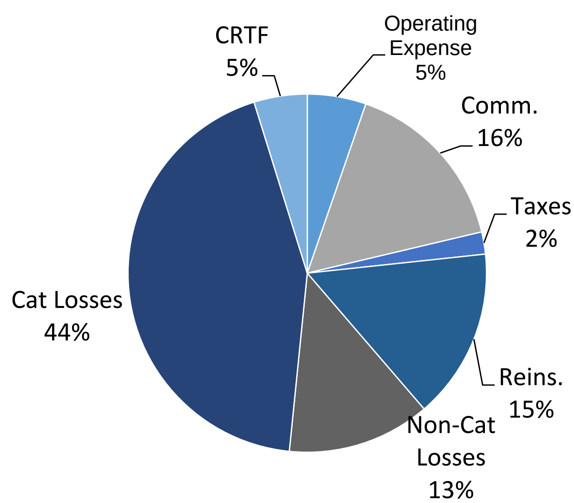
- Enhanced the Catastrophe Plan secured commitments for over 6,000 adjusters – enough to handle the claim volume of a 100-year event; retested components with positive results
- Handled spring storm claims while maintaining favorable cycle times and high customer survey scores
- Implemented the initial release of Policy Center, resulting in immediate issuance of approximately 90% of new business and renewal policies
- Consolidated underwriting functions of TWIA and TFPA into a single operation to optimize efficiency and eliminate redundancies
- Developed extensive new hire orientation, online business training, and manager-specific skills to promote a continuously learning and improving organization
- Implemented cloud-based Office 365 reducing costs, improving disaster recovery, and providing more robust access

Key Operational Statistics

Policy Administration



- There are 36 residual market plans nationwide – 34 use internal staff to manage daily operations
- TWIA is the second largest plan and is tied for sixth-lowest operating expense per policy at $75
- TWIA has the third-lowest operating expense as a percentage of premium at 5%
- Average expense for all other plans is approximately 30% of premium
- Industry average for Texas carriers is over 12% of premium



Management Results

- TWIA controllable expenses have been below budget for four consecutive years
- Audits performed by the Texas Department of Insurance and independent external auditors in 2014 confirmed the effectiveness of operational improvements and found no material weaknesses or issues in operational or financial controls
- TWIA's management team has over 150 years of combined insurance industry experience, including experience with national carriers, Texas-domiciled carriers, and other residual markets, as well as with the Texas Department of Insurance

Key Operational Statistics

Financial

- TWIA contributed over $350 million to the CRTF from 2014 and 2015 operations
- TWIA currently has $1.2 billion in funds immediately available after a storm to pay claims
- Secured approximately $4.9 billion in funding for 2016 – greater than a 100-year season – continuing the trend of progressively higher funding levels each year since 2009
- Issued $500 million in pre-event Class 1 public securities to provide immediate claims-paying capacity after a storm and additional protection to coastal residents, with no associated impact on rates
- Issued the Association's first catastrophe bonds as part of the overall reinsurance program, diversifying and expanding claims-paying capacity
- The State Auditor's Office has found that the Association's controls produce accurate financial information and help ensure accountability for funds

Claims Performance

- Reduced claims cycle time from 30+ days in 2011 to 10.3 in 2016, which is less than half of the industry average
- Activated the Catastrophe Plan in April/May 2015 following a prolonged period of severe weather along the Texas coast which resulted in the highest number of claims in Association history, second only to Hurricane Ike; maintained claims cycle times and adjuster performance that compared favorably to industry standards
- Activated the Catastrophe Plan again in October 2015 following two consecutive weekends of storms on the Texas coast; continues to maintain favorable claims cycle times and adjuster performance
- Improvements in claim handling processes and HB 3 have enabled 99% of claims to be resolved without dispute
- TWIA adjusters complete inspections and submit reports within approximately 5.1 days of the date the claim is filed, slightly more than half of the Texas industry average for adjusters (8.1 days)

Policyholder Service

- TWIA receives complaints on 0.1% of claims – better than the industry average and second only to USAA among the top five Texas homeowners carriers
- TWIA continues to receive positive customer survey results from policyholders after a claim, averaging 4.46 out of 5 YTD in 2016.
- TWIA implemented a new, more modern policy administration system on May 6, 2015, providing additional efficiency and automation of policy administration.

TWIA Rates

Overview

TWIA rates determine the amount of premium charged to each TWIA policyholder. Adequate rates help ensure TWIA can meet its financial obligations. Rates are set by the TWIA Board of Directors and subject to review by the Texas Department of Insurance (TDI). Premiums are calculated based on standard rating factors, including amount of insurance, type of construction, deductible amount, and any optional additional coverages. TWIA does not use credit scoring or territorial rating. Premium credits are available for items certified as being built to recent windstorm building codes.

For 2017, there will be no change in the rates charged for residential and commercial policies. Premiums may change based on changes

Statutory Requirements

Texas Insurance Code Chapter 2210 requires that TWIA rates be reasonable, adequate, and not unfairly discriminatory. Rates include factors for actual and modeled windstorm losses, operational expenses, repayment of any outstanding bonds, and a reasonable provision for contribution to the Catastrophe Reserve Trust Fund. The statute requires rates to be filed annually with the TDI.

Rate Adequacy

Based on a 2016 actuarial analysis, TWIA rates would need to increase by approximately 24% overall in order to be actuarially adequate. Current TWIA rates are uniform throughout the 14 first tier coastal counties. Because rates do not vary based on geographical factors, such as distance from the coast, rates may be actuarially adequate in some areas.

Recent Rate Changes

TWIA rates increased 5% each year since 2011 through 2016, a cumulative increase of 34% over the six-year period. This is consistent with the TWIA Board's strategy to achieve rate adequacy through a series of smaller rate increases, minimizing the amount of increase affecting policyholders in any one year.

Highlights

• • •

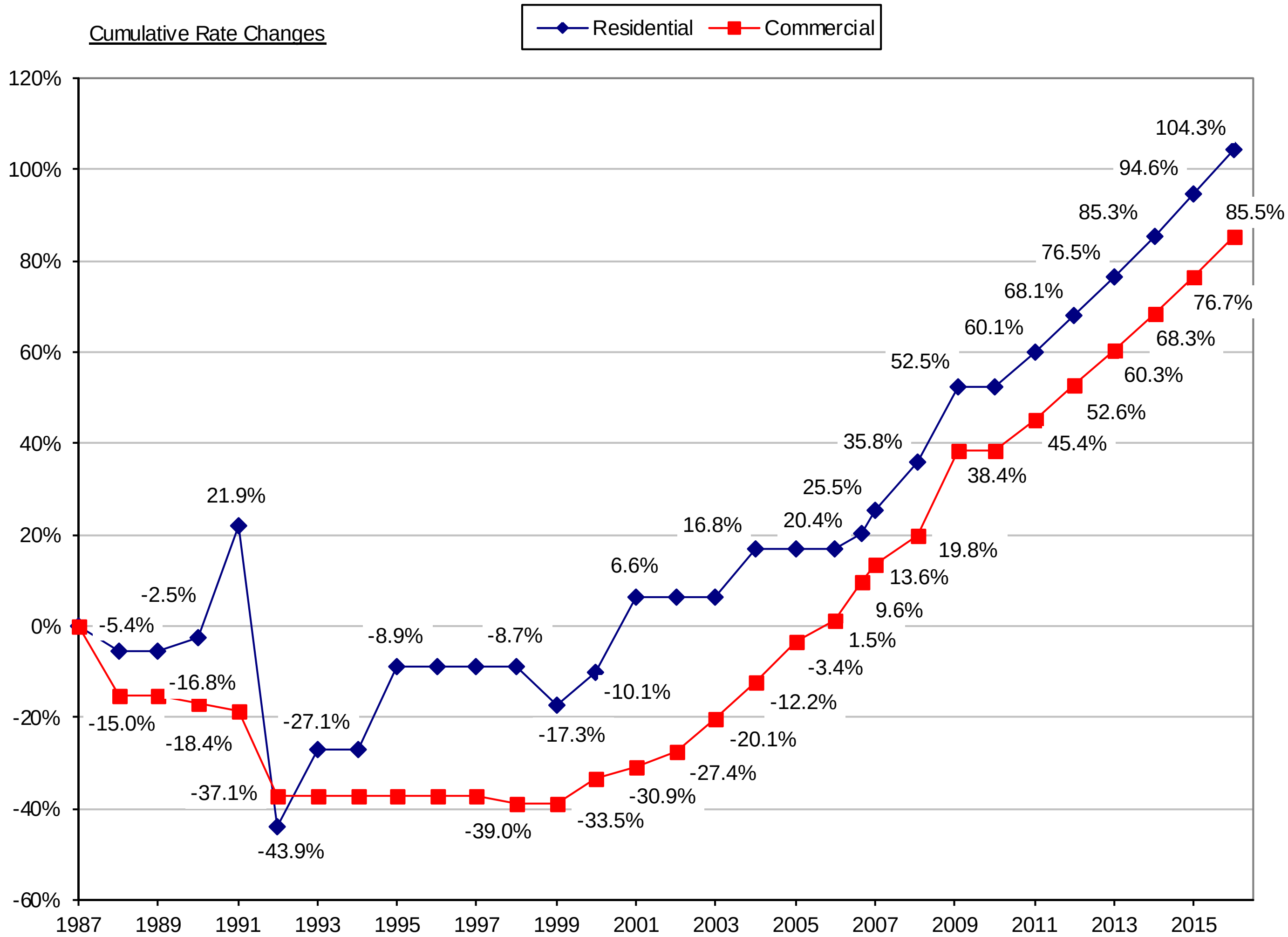
- Rates will remain unchanged in 2017
- Rates are filed annually
- TWIA rates are set by the TWIA Board and reviewed by TDI
- Rates are filed annually
- Rates increased 5% each year from 2011 - 2016
- The TWIA Board voted for no change in rates for 2017 on August 2, 2016policies

TWIA Historical Rate Exhibit

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%
Cumulative Change	104.3%	85.5%
Annual Average	2.5%	2.2%

Cumulative 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

Residual Market Plans

Plan Administration

Most residual market plans perform all the operational functions of insurance companies: underwriting, issuing, and servicing policies; performing administrative functions; and evaluating and paying policyholder claims. Plans perform these functions using either permanent internal staff or by employing a servicing carrier model. In a servicing carrier model, the plan enters into an agreement with one or more third-party administrators (TPAs) to perform some or all of the operational functions. The TPA charges a fee for services, is reimbursed for all paid losses, and receives allowances for loss adjustment expenses. An administrative agent is necessary to verify the reports and dispense funds to the TPA.

History

From 1968-1971, nearly 30 plans were established in the U.S., all using TPAs. The plans succeeded in providing essential insurance coverage where it was otherwise unavailable but were extremely costly and recorded operating losses in most years. Under federal regulation at the time, the plans came under a great deal of criticism when compared to the California plan, which utilized an internal staffing model and incurred significantly lower expenses. Subsequently, the majority of plans converted from TPAs to internal staffing models. Most recently, Kentucky, Oregon, and New Mexico, some of the last few plans utilizing a TPA, converted to internal staff models with positive results.

Today

TPAs are used today on a very limited basis with only two plans that outsource policy administration; one with fewer than 70 policies. Since their beginnings in the early 1970's, none of the residual market plans have engaged a TPA for the total management of all operations.

Other Common Plan Characteristics

Funding is largely similar among residual market plans. Policy surcharges and company assessments (used either directly or to repay bonds) and reinsurance are the most common means of funding. Board composition and underwriting guidelines are also similar.

Highlights

• • •

- 34 of the 36 plans use internal staff to manage daily operations
- TWIA is the second largest residual market nationwide
- TWIA operational costs are the third lowest at 5% of premiums
- The average cost of the top ten plans in other states is almost 50% higher, at 7.3% of premiums
- The average operational cost among all plans nationwide is almost 30% of premiums
- Most plans rely on similar sources of funding

Risk Visualization

Overview

The goal of risk visualization is to provide TWIA policyholders and their agents with the most reliable information on which to base their insurance purchase decisions, as well as the most accurate and expedient claim payments possible.

Risk visualization technology combines aerial imagery with advanced measurement techniques and third-party data to produce detailed and accurate property-specific risk management reports. This technology provides accurate structural diagrams and measurements; facilitates address validation and geo-coding; and integrates diverse sources of data to improve eligibility decisions, pricing accuracy, and claims handling procedures.

How the Technology is Used at TWIA

Risk visualization technology creates a more efficient underwriting inspection process by providing TWIA underwriters with a greater volume of accurate information earlier in the underwriting process than was previously available. Underwriters use this technology to help property owners and their agents validate information provided on new applications for coverage, confirm eligibility under TWIA's underwriting guidelines, and help establish the replacement cost of structures and pricing for the desired coverages.

TWIA's claims department uses this technology to assist with insurance to value calculations when claims are filed and to identify pre-loss property conditions and damages unrelated to a claimed loss.

Results for Policyholders, Agents, and TWIA

By using this technology during the review of all new coverage applications, potential discrepancies are identified, discussed with the agent and policyholder, and, where agreed upon, quickly corrected. The result is more appropriate and accurate coverage for the policyholder.

Highlights

• • •

- Increases the total number of properties inspected annually while lowering the average cost per policy
- Maximizes the efficient use of budgeted inspection dollars by more effectively identifying properties requiring on-site inspection
- Improves assessments of property insurability and assists in determining adequacy of coverage and accuracy of premium for each risk
- Allows for more accurate coverage decisions in claims

WPI-8 Requirements

Background

In order to be eligible for coverage through the Texas Windstorm Insurance Association (TWIA), Texas Insurance Code Chapter 2210 states that any building constructed, altered, or repaired on or after January 1, 1988 must meet the windstorm building code construction requirements for its area. Compliance with these requirements is demonstrated by obtaining a Certificate of Compliance (WPI-8) from the Texas Department of Insurance (TDI). Without a WPI-8, TWIA lacks evidence the structure conforms to the applicable building code, and the structure may be considered uninsurable and ineligible for coverage with TWIA.

Obtaining a Certificate of Compliance (WPI-8)

To obtain a WPI-8, repair or construction must be inspected to certify that it is fully compliant with the windstorm building code. Inspections may be performed by a TDI inspector or licensed professional engineer approved by TDI. Homeowners should notify TDI to begin the WPI-8 process before beginning construction or repairs. Some types of repairs may be minor or involve only a small portion of the structure and do not require a WPI-8. The TDI website provides a list of repairs that do not require an inspection. For more information, visit www.tdi.texas.gov/wind.

Exceptions to the WPI-8 Requirement

Texas law identifies several exceptions for structures lacking WPI-8s. Properties with construction from 1988 to June 19, 2009 that are not certified may still be eligible with a 15% surcharge.

Applicants who are non-renewed or cancelled by their private market insurer on or after June 19, 2009, and whose structure is missing a required WPI-8 for construction after that date, may be eligible with a premium based on 110% of the voluntary market rate.

SB 498, passed by the 84th Legislature, makes permanent these exceptions to the WPI-8 requirement.

Highlights

- TDI administers the Windstorm Inspection Program, utilizes an approved list of engineers for inspections, and issues WPI-8s
- All new structures, alterations, or repairs to existing structures must have WPI-8s, with limited exceptions
- Homeowners should notify TDI to begin the WPI-8 process before beginning construction or repairs
- SB 498 removes expiration from WPI-8 waiver program
- See TDI's website for more resources: tdi.texas.gov/wind/