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**Texas Windstorm  
Insurance Association**

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# Bimonthly HB 3 Report Card

Reporting Period: September –  
October 2014

**John W. Polak, CPCU**

**December 1, 2014**

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To: Georgia R. Neblett, Chairman  
Richard Clifton Craig, Vice-Chairman  
Michael Gerik, Secretary/Treasurer  
Steven Lawrence Elbert  
William David Franklin, Sr.  
Lyndell Haigood  
Ron Lawson  
Michael O'Malley  
Eugene Seaman  
Edward James Sherlock

**Re: *Bi-monthly Interim Report - Section 2210.107(b)***

Dear Board Members,

House Bill 3 became effective on September 28, 2011, and pursuant to Tex. Ins. Code, Section 2210.107(b), please find the bi-monthly interim report evaluating the extent to which the Texas Windstorm Insurance Association has met the objectives described by Section 2210.107(a), Texas Insurance Code for the two-month period preceding the date of the report (September and October 2014).

These interim report cards are provided every 60 days as required by statute and culminate in an Annual Report Card issued each June.

The initial report cards established the standards of performance for the Association to be reported against in subsequent report cards. Additional standards have been and will continue to be added as appropriate and as approved by the Board of Directors. Each interim report card serves as a snapshot in time of Association compliance with the standards associated with each of the objectives.

The Association believes it is in full material compliance with all current standards of performance outlined in each of the following sections. This is the sixteenth interim report card to be issued by TWIA since the enactment of House Bill 3.

Should you have any questions, please feel free to contact me at (512) 899-4949.

Sincerely,



John W. Polak, CPCU  
General Manager

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## About This Report

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In 2011, the 82nd Texas Legislature, 1st Called Special Session, passed House Bill 3 (HB 3), modifying various aspects of the operations of the Texas Windstorm Insurance Association (TWIA or Association). Amendments to Tex. Ins. Code, Section 2210.107 directed TWIA to report bi-monthly to the TWIA Board of Directors (Board) and report annually to the Commissioner, the Legislative Oversight Board, the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives the extent to which TWIA met the objectives in Section 2210.107(a).

The primary objectives of the Board of Directors are to ensure that the Board and TWIA:

- (1) Operate in accordance with this chapter, the plan of operation, and commissioner rules;
- (2) Comply with sound insurance principles;
- (3) Meet all standards imposed under this chapter;
- (4) Establish a code of conduct and performance standards for Association employees and persons with which the Association contracts; and
- (5) 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.

This Report Card satisfies these reporting requirements and illustrates the measures and improvements taken to meet the objectives. The Report Card presents this information by referencing applicable sections of the TWIA governing statute in order of appearance.

## Introduction

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Since 2011, TWIA has taken numerous steps to improve corporate governance and the overall operations of the Association. These steps include introducing a new management team, improving overall funding, and enhancing the underwriting and claims services. All of these improvements ensure that TWIA meets the needs and exceeds the expectations of its primary stakeholders. Recent audits completed by the Texas Department of Insurance (TDI) and an independent consulting firm reported no significant findings, confirming the vast improvement in operations. TWIA continues to identify areas for improvement in processes and procedures to ensure that the Association complies with applicable statutes, regulatory guidelines, and industry best practices.

### Background

In 2008, Hurricanes Dolly and Ike together resulted in more than 100,000 claims and almost \$3 billion in losses. Partly because of this increased activity, TDI conducted several examinations of TWIA operations between 2008 and 2011 and noted several areas of concern related to TWIA's corporate governance and overall operations. As a result of these observations and concerns regarding claim handling, TDI placed the Association under Administrative Oversight in February 2011, and the Texas Legislature passed House Bill 3 shortly thereafter; these events necessitated numerous changes to TWIA operations. The Board of Directors hired John W. Polak in April 2011 to implement the changes necessary for the Association to comply with applicable regulations and best practices.

HB 3 significantly changed TWIA's residential and commercial policy forms, claims handling procedures, and judicial remedies for policyholders. It called for increased transparency, requiring TWIA to broadcast all Board meetings live and to report on compliance with the Insurance Code and Plan of Operations bimonthly to the Board of Directors, and it specifically mandated that TWIA be subject to the Public Information Act, Government Code Chapter 552. HB 3 also required TDI to create an ombudsman program, funded by TWIA, to inform and educate policyholders about the claims process, as well as an expert panel to provide a methodology for determining the extent of damage resulting from wind versus flood or surge.

### Post-HB 3 Improvements

At the time of Hurricanes Dolly and Ike in 2008, only four members of TWIA's executive leadership team had prior insurance carrier experience outside of TWIA. TWIA was a very small company for most of its existence, and many of its former managers lacked the requisite skills and experience to perform effectively after the Association experienced significant growth and a large influx of claims. Today, following the replacement of almost all of TWIA's executive team, leadership has significantly more experience, including experience with large

carriers other than TWIA. Moreover, the new management team brings to TWIA a broader range of experience and a greater focus on accountability than ever before and has established new processes and standards consistent with industry best practices.

The new management team has addressed legislative changes, improved operational efficiency, created cultural transformation within the Association, and increased management controls and accountability. The Association now employs extensive controls and detailed financial and operational metrics to measure and evaluate the performance of every level of the Association, from the organization as a whole to individual departments to individual employees. All operational areas have documented their procedures, and TWIA has greatly increased the level of transparency and communication among all levels of the Association and with outside stakeholders.

In addition to addressing the Association's immediate deficiencies through tactical initiatives, the management team has committed to refocusing the organizational culture from task-based behavior to results-oriented accountability. Leadership recognizes that the Association must be a continuously improving organization, and the management team persistently seeks ways to enhance the organization's effectiveness. Most recently, in 2014, the Association established the Internal Audit department to bring systematic and disciplined independent evaluation of management's control environment. Internal Audit evaluates the adequacy and effectiveness of the Association's governance, risk management, and internal processes, as well as the quality of performance in carrying out assigned responsibilities to achieve stated goals and objectives. The Association adopted an Internal Audit Charter and staff has implemented policies and procedures governing Internal Audit and Internal Controls. Further, Internal Audit assists management and the Board in the effective discharge of their duties by furnishing them with analyses, appraisals, and recommendations concerning the activities reviewed. The Director of Internal Audit reports directly to the Board and demonstrates the Association's commitment to transparency, accountability, and continuous improvement.

The TWIA Claims Department has instituted sweeping changes over the last few years and continues to boost its operational capabilities. The claims management team has developed a detailed catastrophe plan, created a robust vendor management program, improved communications with policyholders, adjusters, and agents, and increased the speed and accuracy of claims handling via updated technology and quality control measures. These changes have resulted in a verified, quantifiable improvement in customer service. TWIA Claims has implemented a customer survey program, with excellent results, and many key performance metrics for objective measurement of the claims handling process. These metrics include:

- average number of days from receipt of claim by TWIA to inspection of the property;

- average number of days from inspection to receipt by TWIA of the independent adjuster's report;
- average number of days from receipt of the adjuster's report to payment;
- TDI complaints as a percentage of claims received;
- disputed HB 3 claims as a percentage of claims received;
- field adjuster overall performance rating;
- field adjuster reinspection score;
- call center abandonment rate;
- quality assurance scores for inside claims examiners; and
- customer survey scores.

Similarly, the TWIA Underwriting Department has made substantial operational changes to increase the efficiency and effectiveness of the underwriting process. The department divides the work between residential and commercial lines and further divides the residential underwriting work by transaction complexity. A newly created Support Services function facilitates procedural improvements, automation support, training, quality assurance, agent audits, and fraud investigations. Key performance metrics are monitored and reported in a monthly scorecard, including:

- percentage of transactions completed within 14 days of receipt;
- agent and policyholder survey scores;
- budget conformity and cost per transaction; and
- quality assurance scores.

At an enterprise level, financial metrics are key measures of performance. The \$183 million deficit recorded in 2012 was eliminated by December 2013, three months earlier than projected. Through October 31, 2014, TWIA has exceeded projected contributions to the Catastrophe Reserve Trust Fund (CRTF) by \$69 million. These accomplishments are based in part on staff's successful budget conformity: TWIA-controllable expenses have been at or below budget each year from 2011 to 2013 and through October 31, 2014. Expenses compare favorably with both the insurance industry as a whole and other state residual market plans. Of the 37 property insurance plans in the U.S., TWIA is the second largest, yet maintains the third lowest cost per policy.

Through diligent efforts, staff has achieved several notable milestones concerning the Association's funding for the 2014 storm season, including:

- Issuing \$500 million in Class 1 public securities to provide immediate claims-paying capacity after a storm, and
- Issuing the Association's first catastrophe bond as part of the overall reinsurance



program, diversifying and expanding total claims-paying capacity.

## Audit Results

In addition to the key performance indicators used to measure success internally, TWIA's operational improvements have been independently verified by external auditors. TWIA has undergone 16 independent audits and examinations in recent years with varying areas of concentration. Audits have focused on claims handling, underwriting, internal controls, IT systems and security, financial examinations, and actuarial rate reviews.

TWIA has developed and diligently implemented corrective measures and created action plans to track and report the Association's progress in addressing all audit or exam recommendations. TWIA has addressed 100% of the recommendations outlined in the completed audits performed by TDI (2009-2011), Robert E. Nolan, Deloitte & Touche, LLP, and the State Auditor's Office, and in the Operations Improvement Plan, a document assembled to track the progress of recommendations and improvements arising from the Administrative Oversight process. The KPMG audit of IT controls outlined 11 areas of primary concern caused by faults in existing controls or potential vulnerabilities. The Association has completed 100% of the corrective actions for these areas.

Most recently, TDI and Milliman completed audits of the Association's financial condition and internal controls, and the claims and underwriting functions, respectively. TWIA received both final reports, which indicate excellent results with no significant negative findings. The TWIA Underwriting and Claims Departments have prepared action plans, provided them to TDI, and are actively working to address all recommendations.

The initiatives TWIA management has implemented since 2011 demonstrate a culture of continuous improvement and accountability, and better position TWIA to fulfill its mission of *efficiently providing essential property insurance products and services for eligible Texas policyholders when no one else will*. Recent audit findings support this:

- The State Auditor's Office August 2012 report confirms that TWIA has improved its claims processing and has implemented controls to produce accurate financial statements, ensure accountability of Association funds, and adequately support and authorize non-claims-related expenditures.
- In March 2014, TDI amended the terms of Administrative Oversight, citing "TWIA's operational improvements" as a factor in its decision.
- Milliman's September 2014 Underwriting report indicates that "under recent new management the Department appears to be committed to more efficient, customer/agent friendly process design and execution." It further states that auditors

“believe that current Underwriting management has made extensive progress in improving underwriting effectiveness and service during the interim period in which significant changes in automation are being planned.”

- Milliman describes TWIA’s claims organization as “well-staffed and well-managed with good controls, procedures, and practices in place to ensure compliance with state law, TWIA’s requirements, and sound industry claims handling practices.” The report also indicates that the Quality Assurance & Training program, Vendor Management function, and Catastrophe Plan are comprehensive and effectively implemented.

The exhibit on the following page summarizes recent accomplishments of the Association across four areas: Financial, Operational Efficiency, Management Controls & Accountability, and Communications & Transparency.

## Financial

- Eliminated the 2012 \$183M deficit by December 2013 – 3 months earlier than projected
- Secured \$3.85B in total available funding for the 2014 hurricane season – over \$1B more than the total projected cost of Ike and the best funding scenario since 2008
- Issued \$500M in Class 1 public securities to provide immediate claims-paying capacity after a storm and additional protection to coastal residents with no impact on rates
- Issued the Association’s first catastrophe bond as part of the overall reinsurance program, diversifying and expanding claims-paying capacity
- Exceeded projections for CRTF contributions by \$69M 2014 YTD
- Performed below budget on controllable expenses YTD 2014 – a repeat of budgetary achievements from 2011-2013
- Maintained the 3<sup>rd</sup> lowest cost per policy in 2013 of the 37 U.S. fair plans and wind pools despite being the 2<sup>nd</sup> largest plan nationwide

## Communications & Transparency

- Developed comprehensive multi-faceted communication plan to engage all stakeholder groups on multiple levels
- Established Agent Advisory Group to facilitate communications with agents on major initiatives
- Implemented an outreach program to educate and inform stakeholders about TWIA mission, operations and value; Initiated educational presentation program to inform TDI and Legislative offices about TWIA operations, programs, mission and values
- Developed depopulation process based on extensive input from committee of diverse stakeholders, which includes a data repository and portal access for carriers to offer TWIA policyholders voluntary alternatives
- Instituted employee meetings to convey organizational mission and expectations and increase commitment to new policy implementation; annual employee survey to measure engagement and employee satisfaction; employee recognition program created based on feedback

## Management, Controls & Accountability

- Received positive results from TDI audit and independent audit of Underwriting and Claims operations in October 2014; surfaced no material weaknesses or issues in operational or financial controls
- Applied extensive metrics throughout the organization to objectively measure and manage performance
- Instituted comprehensive performance management program incorporating the development of goals and competencies, quarterly and annual reviews to ensure consistency in performance and outcome-focused accountability, and credible, objective criteria to align merit pay with performance
- Created Internal Audit function to focus on Enterprise Risk Management; completed Risk Assessment and Audit Plans for Board review
- Established process to review key policy and procedural manuals to ensure each document is reviewed annually, approved by management, and communicated properly to all employees, as well as to ensure version control necessary for auditing and incident management

## Operational Efficiency

- Enhanced the Catastrophe Plan; successfully tested the Plan on an enterprise basis; presented the Plan to TDI, legislative staff, and coastal constituents; and received positive feedback from stakeholders
- Developed training programs for managers and employees to foster a learning and continuously improving organization, including the Association’s first extensive new hire orientation program, online business skills training, and instructor-led training.
- Completed successful restructuring of Policy Center project
- Implemented risk visualization program to increase efficiency of the inspection process and the volume and accuracy of underwriting data
- Reduced claims cycle time from 30+ days in 2011 to fewer than 8 in 2014; reduced complaint frequency from 1 in every 129 claims in 2013 to 1 in every 191 YTD 2014
- Reduced costs and cycle times and increased efficiency by reengineering workflows and implementing new staffing models for policy administration, print services and mail operations

## Insurable Property

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Section 2210.004 defines insurable property for the purposes of eligibility for TWIA insurance as a structure located in the catastrophe area, built or repaired in compliance with appropriate building code specifications, and determined to be in an insurable condition. TWIA implemented several initiatives—including a segmented business model, risk visualization strategy, and a quality assurance and training program—in 2013 and 2014 to guarantee properties insured by the Association meet this definition.

### Business Segmentation

The Underwriting Department's leadership was reorganized in 2014 into functional areas to increase the efficiency of the underwriting process and improve management controls. Before the reorganization, all work was distributed on a first-in/first-out basis. Today, work assignments are segmented between residential and commercial lines with residential transactions further divided by work complexity. Segmentation ensures greater accuracy in underwriting decisions, matching work complexity to underwriter skill. A Support Services function facilitates procedural improvements, automation support, training, quality assurance, and agent audits to continuously improve the decision-making process.

### Risk Visualization

Risk visualization combines technology with imagery and data to enhance communication along the risk management cycle and is a key component of TWIA's transformation from compliance-based underwriting to risk-based underwriting. Risk visualization creates a more efficient underwriting inspection process, providing TWIA underwriters with a greater volume of accurate information earlier in the underwriting process.

In May 2014, TWIA contracted with EagleView Technologies to provide aerial imagery for the Association's coverage territory using fixed wing aircraft and specialized photographic image processing technology. Risk visualization and EagleView's risk management reports are integral elements of TWIA's use of third-party data and provide the most accurate information available to our customers to assist them with their insurance purchase decisions.

TWIA compares the information received from EagleView with the information submitted in new business applications, the Marshall & Swift/Boeckh (MSB) replacement cost calculations, any associated physical property inspections, and other data sources. The most common discrepancy is a difference in the square footage of the primary structure. Other common issues are differences in the age of the structure, unrepaired damages, missing or incorrect identification of multiple structures on a single property, and identification of structures requiring Windstorm Inspection Certificates (WPI-8's). Initially, TWIA is using this technology when reviewing new coverage applications. Underwriters inform agents of any discrepancies

and work with agents and policyholders to resolve them. The result is more appropriate and accurate coverage for policyholders. More accurate information ultimately reduces rework for both agents and TWIA, while streamlining the renewal process. In addition, the use of risk visualization is intended to reduce or eliminate confusion or surprises, such as when a policyholder files a claim only to find he or she did not purchase appropriate coverage.

Overall, risk visualization creates a more efficient underwriting inspection. The program provides the following benefits applicable to coverage and eligibility:

- (1) Improved assessments of property insurability and assistance in determining adequacy of insurance and accurate premium for each risk;
- (2) Increased total number of properties inspected annually while lowering the average cost on a per policy basis;
- (3) Efficient use of inspection dollars by more effectively identifying properties requiring onsite inspection;
- (4) Identification of unrepaired damage and potential building code non-compliance; and
- (5) Identification of other underwriting concerns related to the general condition of the structure.

This program is being carried out in collaboration with Claims and uses resources from across the organization. Additional benefits of the program include reduced opportunities for fraud; a positive impact on downstream claims loss costs; and improved processing times. The Claims Department also uses the high-resolution photos and roof measurements in the Claims process. A sample risk management report is included in [Appendix A](#).

## Quality Assurance & Training

The reorganization of Underwriting also includes developments and improvements in Quality Assurance and Training (QA&T), a function of the Shared Services segment. The purposes of the QA&T function are to ensure that department processes and procedures are properly documented, to verify that underwriters are adhering to procedures and thus making correct eligibility decisions, and to identify training opportunities and areas for additional improvement. Every month, each underwriter receives a QA report evaluating his/her performance across six areas related to transaction processing and customer experience. The report includes production data (e.g. type and volume of work processed) as well as metrics pertaining to customer experience, accuracy, and thoroughness. The QA goal for 2014 is to achieve a 90% QA score for the entire department by year end. To date, the QA score exceeds expectations at 94.6%.

## Rulemaking Authority

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Section 2210.008 gives the Commissioner of Insurance authority to issue any orders necessary to implement Section 2210. On June 23, 2014, TDI filed amendments to rules [5.4200](#) and [5.4202](#) which pertain to the one-year claim filing deadline for policyholders outlined in sections 2210.205 and 2210.543. The proposed amendments are meant to make the deadline extension process easier to understand. Public comments on the proposal were due September 3, 2014.

No other new rules or amendments were proposed or adopted regarding TWIA operations during this reporting period.

## Depopulation

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Pursuant to Sections 2210.009 and 2210.053(b) of the Texas Insurance Code, which require TDI to develop incentive programs to encourage authorized insurers to write insurance voluntarily to minimize the use of the Association as a means to obtain insurance, TWIA, in conjunction with TDI, is developing two initiatives: a Voluntary Coastal Windstorm Insurance Portal (VCWIP or the Portal) and a formal Depopulation Process. The goal of these programs is to assist TWIA policyholders in obtaining coverage from the private insurance market. In this way, TWIA policyholders may be able to access more comprehensive coverage and may be able to find coverage at a lower premium.

### **Voluntary Coastal Windstorm Insurance Portal**

A key element in TWIA's depopulation program is the Voluntary Coastal Windstorm Insurance Portal, which provides access to an online clearinghouse of insurance data. In August 2013, TWIA staff presented to the Board a Clearinghouse Feasibility Study which examined various alternatives to encourage authorized insurers to voluntarily write business that is currently with TWIA. The study recommended the creation of an online facility through which insurers could obtain detailed information about current TWIA policies. Insurers can use the data to identify policies that meet their underwriting standards and that may be written in the voluntary market. The Board formed a sub-committee and assembled a working group of stakeholders to review and evaluate the proposed portal. After several meetings of the working group and the subcommittee, the TWIA Board approved the Portal at their May 21, 2014 meeting.

By making key insurance data available to private market insurance companies willing to write policies in the designated catastrophe area, the Portal will result in additional insurance options for TWIA policyholders. Acceptance of any offers received is completely voluntary. TWIA updated its privacy policy to allow for the release of certain non-public information

through the Portal, while also allowing policyholders the opportunity to opt out and limit the disclosure of their information. The new privacy notice was mailed to all policyholders and the opt-out period concluded.

The Portal became available to TWIA member companies on Monday, November 10, 2014. Staff developed and implemented a plan to ensure effective and appropriate communications to each stakeholder group. Before activating the Portal, staff issued an agent bulletin containing VCWIP highlights, details of the Association's depopulation efforts and a detailed summary of the process (including steps TWIA member companies must take to access the Portal), a description of the agents' role related to handling potential offers of coverage for their clients, and copies of the updated privacy forms. The TWIA Agent Advisory Group (AAG) provided feedback about the process and communication plan prior to implementation. At this time, one member company has applied for access to the Portal.

## Depopulation Process

Late in 2013, TWIA was approached by an insurer offering to assume, or "take out," over 40,000 TWIA policies. Since then, TWIA has been made aware of other insurers who may want to take out policies in a similar fashion. This type of transaction has been used effectively in Florida and Louisiana to minimize the use of those states' residual markets. To ensure objectivity and transparency, TWIA began developing a formal depopulation process to detail the requirements and procedures for these and similar proposals. TWIA continues to work with TDI to develop a process.

## Standards of Conduct

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### Ethics & Conflicts of Interest Policy

TWIA developed and implemented a comprehensive Ethics & Conflict of Interest Policy ("Ethics Policy") in February 2011. The policy was later revised in September 2011 and April 2012 to incorporate changes mandated by HB 3 and to further define prohibited employment relationships. The Ethics Policy uses the statutory language of Sections 2210.012 and 2210.013 and states that a member of the TWIA Board of Directors, employee or contactor shall not:

- (1) Accept or solicit any gift, favor, or service that might reasonably tend to influence the member or employee in the discharge of duties related to the operation or business of the association or that the member or employee knows or should know is being offered with the intent to influence the member's or employee's conduct related to the operation or business of the association;
  
- (2) Accept other employment or engage in a business or professional activity that the member or employee might reasonably expect would require or induce the member or

employee to disclose confidential information acquired by reason of the member's or employee's position with the association;

- (3) Accept other employment or compensation that could reasonably be expected to impair the member's or employee's independence of judgment in the performance of the member's or employee's duties related to the operation or business of the association;
- (4) Make personal investments that could reasonably be expected to create a substantial conflict between the member's or employee's private interest and the interest of the association; or
- (5) Intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the member's or employee's powers related to the operation or business of the association or having performed, in favor of another, the member's or employee's duties related to the operation or business of the association.

Section 2210.015, enacted in 2011, prohibits certain contracts and employment relationships. Specifically, the Association is prohibited from contracting with or employing individuals related to a Board member or current employee within the second degree of affinity or the third-degree of consanguinity. The revised Ethics Policy mirrors the Insurance Code provisions to ensure adherence to both the letter and spirit of the law, as well as to avoid even the appearance of improprieties.

## **Ethics Training & Initiatives**

TWIA leadership understands the importance of creating and maintaining a standard of conduct that is above reproach. In the fourth quarter of 2013, senior leadership completed strategic planning exercises to update the Association's mission, vision and 2014 objectives. One of these statements describes the Association's vision to "be a steward of the public trust and hold ourselves to a high standard of ethics." TWIA implemented the following initiatives to promote this vision, support a comprehensive Ethics Policy, and create a culture that stresses ethical behavior from the top down:

- (1) The Association has previously conducted annual stand-alone Ethics training for existing employees as well as training for new employees and contractors. In the last half of 2013, the TWIA Compliance and Human Resource teams developed TWIA 101, a comprehensive orientation program for new employees, including an hour-long ethics module. TWIA 101 includes relevant discussion of ethics and conflicts of interest, and the Association's policy and requirements. After completion, employees are able to:
  - a. Define ethics and conflicts of interest
  - b. Understand how to deal with conflicts of interest



- c. Recognize the significance of the appearance of impropriety
- d. Understand how ethics impacts the organization
- e. Understand the TWIA/TFPA Ethics & Conflicts of Interest Policy
- f. Know what types of relationships are prohibited and what types must be disclosed
- g. Understand what gifts can be accepted, how to reject a gift, and how to complete the appropriate forms

The training was completed for all existing employees in March 2014 and all new employees and contractors in May and August of 2014. Quarterly sessions are currently scheduled for November for new employees and contractors retained in the fourth quarter of 2014. The Association will continue to have annual Ethics refresher training for all employees.

- (2) Since 2011, all Board members, employees, and contractors have been required to complete an Annual Certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms.
- (3) At the onset of employment or at first discovery, certain business and personal relationships must be disclosed. Extra controls were implemented in the Claims Department in 2012 to ensure that Claims Examiners did not issue payments to former employers.
- (4) All employees and contractors must file gift disclosures for the acceptance of permissible gifts as well as the rejection of prohibited gifts. Gift disclosures are tracked in a database and monitored to ensure compliance with limits outlined in the Ethics Policy.
- (5) The Ethics Policy is easily accessible to all employees and contractors via a desktop shortcut automatically installed on each PC on the network, as well as a shared central repository dedicated exclusively to housing the Association's policy and procedural documents.
- (6) The Association developed a database to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.
- (7) Ethics & Compliance training was incorporated into field adjuster training beginning in February 2012, and it continues to be a central theme of this training.

## Fraud Reporting

Section 2210.012 also mandates that “a board member or employee of the association who reasonably suspects that a fraudulent insurance act has been or is about to be committed by any board member or employee of the association shall, not later than the 30th day after discovering the conduct, report the conduct and identity of the person engaging in the conduct to the department and may report the conduct and the identity of the person engaging in the conduct to another authorized governmental agency. The department shall forward a report received under this subsection to the authorized governmental agency in accordance with Chapter 701.”

TWIA has implemented the following initiatives to ensure compliance with applicable Insurance Code provisions.

### Special Investigations Unit/Fraud Abatement

In August 2012, TWIA implemented a Claims Special Investigation program using an experienced investigation firm, Veracity Research Company Investigations. The program includes mandatory and recommended Special Investigations Unit (“SIU”) referral guidelines based on industry standards and best practices. Implementation kicked off with 5 modules of in-depth training for Claims personnel regarding insurance fraud and fraud indicators. TWIA’s SIU program tracks referral rates, results and reports made to the Texas Department of Insurance Fraud Intake Unit. Generally, wind and hail claims do not generate the number of SIU referrals and fraud reports as policies with coverage for perils like fire, theft, vandalism, etc. The following chart illustrates the sharp increase in fraud investigations and reports since 2010, evidencing TWIA’s increased focus on and responsibility related to fraud abatement and reporting. After TWIA retained Veracity Research in 2012, reporting levels moderated, reflecting a more sophisticated assessment by the vendor of the “reasonable suspicion of fraud” standard.

Reports Filed	12/31/10	12/31/11	12/31/12	12/31/13	10/31/14
TDI Fraud	6	32	35	15	17
TDI Enforcement	5	7	24	9	2

To ensure that TWIA stays abreast of current trends and information regarding insurance fraud, key personnel attend the Texas Department of Insurance Annual Fraud Conference. Additionally, key personnel from TWIA and from TDI’s Fraud and Enforcement Units meet periodically to discuss ongoing cases, trends and issues. TWIA has expanded the SIU and fraud abatement program to underwriting functions as well. VRC conducted training for all underwriters in April 2014. Mandatory referral criteria and fraud reporting procedures have been developed and implemented.

### **Whistleblower Policy**

As part of TWIA's comprehensive Ethics Policy and commitment to creating an environment in which unethical behavior can be reported and properly addressed, TWIA created an anonymous Whistleblower Policy in February 2011. TWIA contracts with a third-party vendor to provide anonymous hotline reporting of fraud or ethics violations. Monthly reports are transmitted by the vendor to the Association's General Counsel, Compliance Director, and General Manager. To date, we have received zero reports of ethics violations.

## **Annual Statement**

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Section 2210.054 requires TWIA to file annually with TDI and the State Auditor's Office a financial statement summarizing the transactions, conditions, operations, and affairs of the Association during the preceding year.

The statutory balance sheet shows the financial position of TWIA at the end of 2013 compared with October 31, 2014. The statutory income statement shows a comparison between YTD actual and budgeted revenues and expenses.

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>		
<b>Statutory Balance Sheet (000's omitted)</b>		
	<b>October-14</b>	<b>December-13</b>
<b>Admitted Assets</b>		
Cash and short term investments:		
Unrestricted	\$ 638,045	\$ 439,193
Restricted - Funds Held at TTSTC	497,215	-
Total cash and short term investments	1,135,260	439,193
Premiums receivable & other	1,132	1,039
Amounts recoverable from reinsurers	-	-
<b>Total admitted assets</b>	<b>\$ 1,136,391</b>	<b>\$ 440,231</b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	\$ 110,254	\$ 132,959
Underwriting expenses payable	11,619	10,366
Unearned premiums, net of ceded unearned premiums	244,927	234,739
Ceded reinsurance premiums payable	48,552	24,745
Principal Outstanding on Class 1 Pre Event Bonds	500,000	-
Interest Payable on Class 1 Pre Event Bonds	3,331	-
Provision for reinsurance	-	-
Other payables	21,737	14,592
Statutory fund payable	195,971	22,830
<b>Total liabilities</b>	<b>1,136,391</b>	<b>440,231</b>
<b>Surplus and others funds</b>		
Unassigned surplus (deficit)	-	-
<b>Total liabilities, surplus and other funds</b>	<b>\$ 1,136,391</b>	<b>\$ 440,231</b>
<b>Balance in CRTF</b>	<b>\$ 215,644</b>	<b>\$ 186,183</b>

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>				
<b>Statutory Income Statement (000's omitted)</b>				
<b>for the ten months ended October 31,</b>				
	<b>Actuals - 2014</b>	<b>Budget - 2014</b>	<b>Variance - 2014</b>	<b>Actuals - 2013</b>
<b>Premiums Written:</b>				
Direct	\$ 431,947	\$ 440,763	\$ (8,816)	\$ 415,618
Ceded	(117,268)	(113,933)	(3,335)	(118,244)
Net	314,679	326,830	(12,151)	297,374
<b>Premiums Earned:</b>				
Direct	\$ 401,352	\$ 403,936	\$ (2,584)	\$ 378,173
Ceded	(96,861)	(94,945)	(1,916)	(144,296)
Net	304,491	308,991	(4,500)	233,876
<b>Deductions:</b>				
Direct Losses and LAE Incurred	11,921	76,662	(64,741)	99,068
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	(60,000)
Ceded Losses and LAE Incurred	0	0	0	(27,000)
Operating Expenses	22,476	22,647	(171)	18,557
Commission Expense	69,090	70,522	(1,432)	66,488
Ceding commissions / brokerage	(6,024)	(8,614)	2,590	(8,676)
Premium / Maintenance Tax	8,503	8,552	(49)	7,929
Total Deductions	105,967	169,769	(63,802)	96,365
<b>Net Underwriting Gain or (Loss)</b>	<b>198,524</b>	<b>139,222</b>	<b>59,302</b>	<b>137,512</b>
<b>Other Income or (Expense):</b>				
Gross Investment Income	870	1,260	(390)	900
Interest Expense on Debt	(3,331)	(11,680)	8,349	0
Debt Issuance & Other Investment Expenses	(7,071)	(1,670)	(5,401)	(99)
Sales Tax Refund and Other Income (Expense)	6,850	0	6,850	28
Total Other Income or (Expense)	(2,682)	(12,090)	9,408	829
<b>Net Income (Loss)</b>	<b>\$ 195,842</b>	<b>\$ 127,132</b>	<b>\$ 68,710</b>	<b>\$ 138,340</b>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	0	0	0	(182,979)
Net Income (Loss)	195,842	127,132	68,710	138,340
Change in Provision for Reinsurance	0	0	0	11,018
Change in nonadmitted assets & deferred taxes	129	33	96	(515)
Other	0	0	0	0
Statutory Fund Cost	(195,971)	(127,165)	(68,806)	0
Ending Surplus (Deficit)	\$ -	\$ -	\$ -	\$ (34,136)
<b>Key Operating Ratios:</b>				
<b>Direct:</b>				
Loss & LAE Ratio	3.0%	19.0%	-16.0%	10.3%
<b>UW Expense Ratio:</b>				
Acquisition	17.9%	17.9%	0.0%	17.9%
Non Acquisition	5.6%	5.6%	0.0%	4.9%
UW Expense Ratio	23.5%	23.5%	0.0%	22.8%
Combined Ratio	26.5%	42.5%	-16.0%	33.1%
<b>Net:</b>				
Loss & LAE Ratio	3.9%	24.8%	-20.9%	5.2%
<b>UW Expense Ratio:</b>				
Acquisition	21.9%	21.1%	0.8%	24.6%
Non Acquisition	7.4%	7.3%	0.1%	7.9%
UW Expense Ratio	29.3%	28.5%	0.8%	32.5%
Combined Ratio	33.2%	53.3%	-20.1%	37.7%

## Examination of Association

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Section 2210.057 states that the Association is subject to examination by TDI pursuant to Sections 401.051, 401.052, 401.054-401.062, 401.151, 401.152, 401.155, and 401.156 and Subchapter A, Chapter 86. Accordingly, TDI began a financial audit of the Association in November 2013. TWIA received the final report in October 2014 which revealed no material deficiencies or issues with operational or financial controls.

## State Auditor's Office Examination

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Section 2210.058 states "the association is subject to audit by the state auditor and shall pay the costs incurred by the state auditor in performing an audit under this section."

The State Auditor's Office (SAO) concluded in their August 1, 2012 final report that "the Texas Windstorm Insurance Association (Association) has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure accountability for Association funds, and adequately support and authorize non-claims-related expenditures." The SAO Report identified 13 observations and recommendations which resulted in 15 corrective measures. Implementation of these measures is 100% complete with the exception of one IT-related item scheduled for implementation with Policy Center.

Additionally, TWIA was required to submit status reports to the State Auditor's Office. TWIA has submitted all reports requested by SAO, including the status of the IT implementation on 11/30/2012, 5/31/2013, 11/29/2013, and 5/30/2014, as well as the status of the Association-wide implementation plan on 2/1/2013. The SAO has advised that no further reporting is required.

## Catastrophe Funding

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Subchapter B-1 of Chapter 2210 (Sections 2210.071 – 2210.075) describes the different sources of funding available to pay TWIA losses. Those sources are, in order:

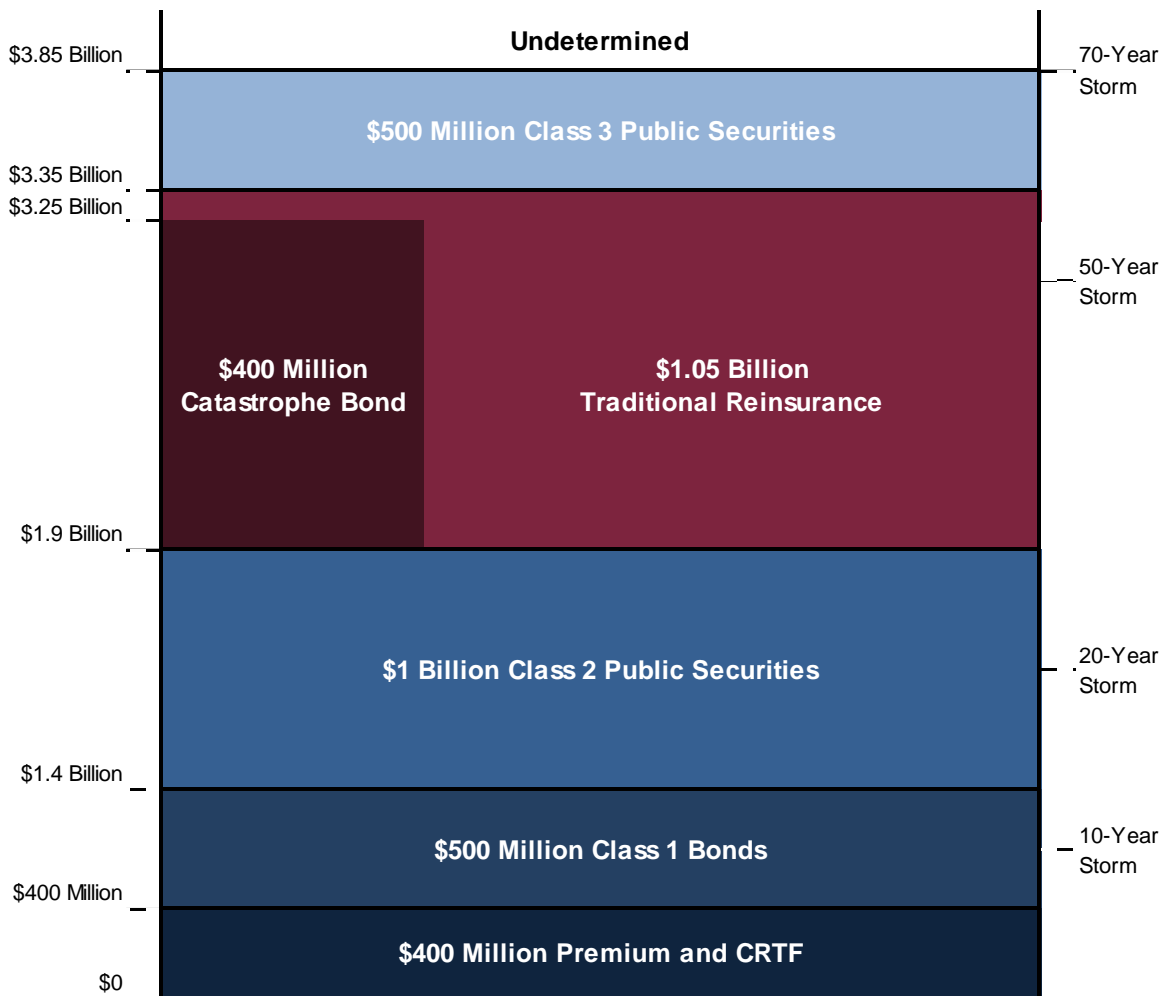
- TWIA premiums and other revenue
- Available reserves and amounts in the Catastrophe Reserve Trust Fund ("CRTF")
- Up to \$1 billion in Class 1 public securities, to be repaid by TWIA premiums
- Up to \$1 billion in Class 2 public securities, to be repaid by surcharges on coastal property policies and assessments of TWIA member companies
- Up to \$500 million in Class 3 public securities, to be repaid by assessments of TWIA member companies

Additionally, reinsurance may be purchased in addition to or in concert with the trust fund and public securities.

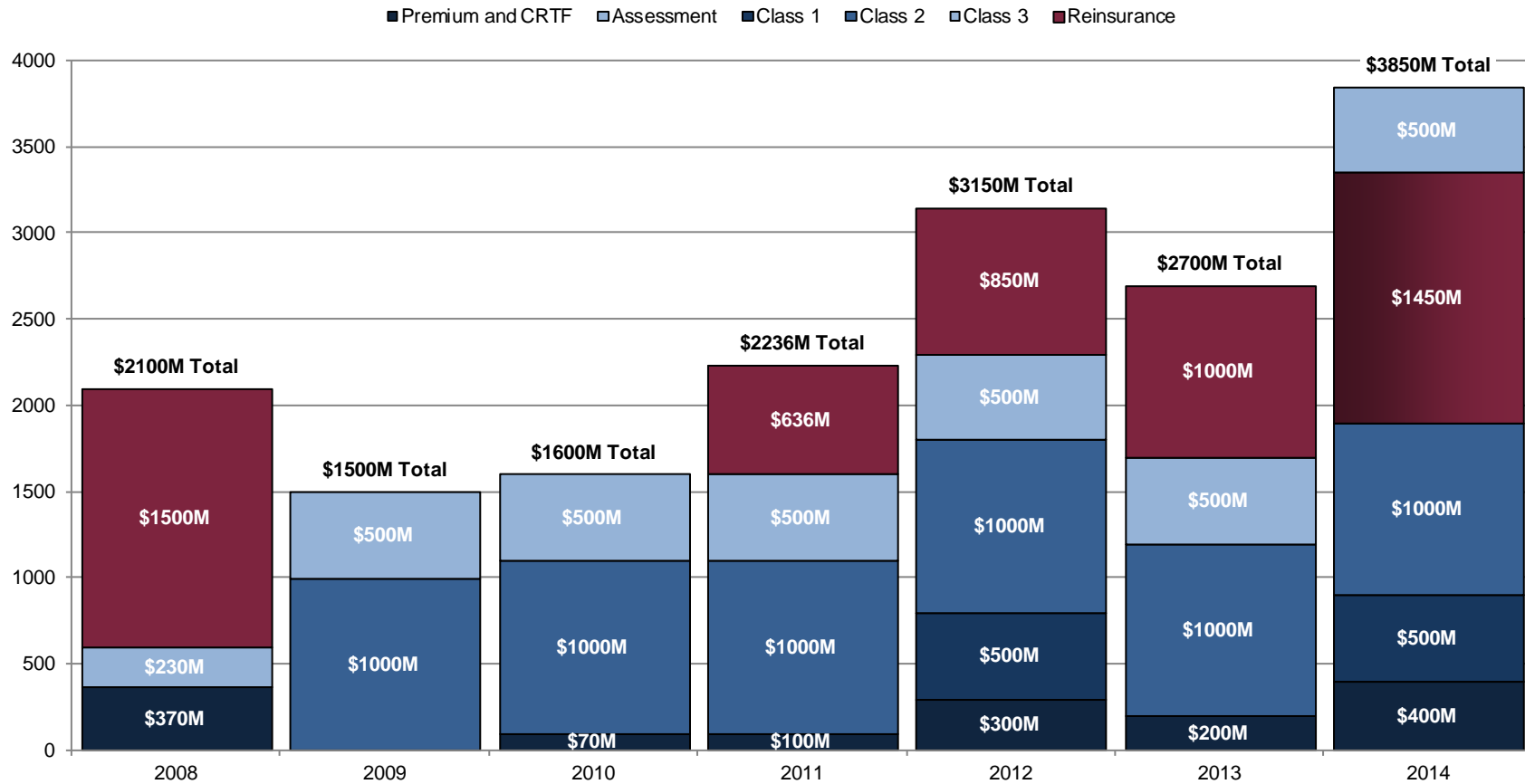
TWIA successfully worked with the Texas Public Finance Authority (“TPFA”) and TDI to issue \$500 million in pre-event Class 1 public securities. These pre-event securities provide instant liquidity (claims-paying ability) and increased total 2014 funding from \$3.35 to \$3.85 billion.

TWIA renewed its catastrophe reinsurance program in June. The program provides \$1.45 billion in funding for TWIA losses above a negotiated attachment point of \$1.9 billion, extending the total funding of the Association.

Total projected funding for the 2014 hurricane season with the Class 1 pre-event public securities is illustrated by the following chart:



TWIA continues to add to the CRTF and employ all available tools to improve our funding each year. The total funding of \$3.85 billion would be sufficient to fund over 98.6% of all modeled catastrophe events, including a storm scenario similar to Hurricanes Dolly and Ike, and is greater than any previous year’s funding since 2008, as shown in the exhibit below.



Notes: 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.  
 Funding for 2012 includes \$500 Million Class 1 Public Securities (BAN).  
 Funding for 2014 shown with \$500 Million in pre-event Class 1 Public Securities.



## Board Composition

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Under Section 2210.102, the Board of Directors is composed of ten members (9 voting members and 1 non-voting member) appointed by the commissioner to include four public members from tier one counties, four members who must be representatives of the insurance industry, one member from a non-seacoast county, and one licensed engineer.

Insurers who are members of the Association shall nominate, from among those members, persons to fill any vacancy in the four seats reserved for representatives of the insurance industry. The Board shall solicit nominations from the member insurers and submit the nominations to the commissioner. The nominee slate submitted to the commissioner must include at least three more names than the number of vacancies. The commissioner shall appoint insurance industry representatives from the nominee slate.

All Board positions are currently filled. The membership of the Board of Directors is:

<b>Name</b>	<b>Position</b>
Richard Clifton Craig, <i>Vice Chairman</i>	Public Member from Non-Seacoast Territory
Steven Lawrence Elbert	Public Member & Agent from Tier 1 County
William David Franklin, Sr.	Non-voting Member, Licensed Engineer
Lyndell Haigood	Member of the Insurance Industry
Michael Gerik, <i>Secretary/Treasurer</i>	Member of the Insurance Industry
Ron Lawson	Member of the Insurance Industry
Georgia R. Neblett, <i>Chairman</i>	Public Member from Tier 1 County
Michael O'Malley	Member of the Insurance Industry
Gene Seaman	Public Member from Tier 1 County
Edward James Sherlock III	Public Member & Agent from Tier 1 County

## Open Meetings Act

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Section 2210.105 requires that, except for an emergency meeting, the Association shall notify TDI not later than the 11th day before the date of a meeting of the Board of Directors or of the members of the Association, and, not later than the seventh day before the date of a meeting of the Board of Directors, post notice of the meeting on TWIA's and TDI's websites. Section 2210.105 requires, except for a closed meeting authorized by Subchapter D, Chapter 551, Government Code (Texas Open Meetings Act), a meeting of the Board of Directors or of the members of the Association to be open to the commissioner or the commissioner's designated representative and the public. Section 2210.105 requires that TWIA broadcast live on its website all meetings of the Board of Directors, other than closed meetings and maintain on its Internet website an archive of meetings of the Board of Directors. A recording of a meeting must be maintained in the archive on the website up to the second anniversary of the broadcast. Section 2210.108 provides that, except as specifically provided by Chapter 2210 or

another law, TWIA is subject to Chapter 551 Texas Government Code, the Texas Open Meetings Act.

The Association continues to meet the requirements of the Open Meetings Act by complying with posting requirements for meetings of the Board of Directors and its subcommittees, as well as live broadcasting of meetings and archival of those meetings for later viewing on our website. The following table lists the meetings conducted during this reporting period as well as upcoming meetings:

September 15, 2014	Legislative & External Affairs Committee Meeting
October 23, 2014	Legislative & External Affairs Committee Meeting
November 17, 2014	Underwriting & Actuarial Committee Meeting
December 2, 2014	Legislative & External Affairs Committee Meeting
December 9, 2014	Quarterly Board of Directors Meeting

All meetings and teleconferences of the Board of Directors and its sub-committees are broadcast live. Broadcasts and archived meetings are available for viewing on TWIA's website ([www.twia.org](http://www.twia.org)).

## Public Information Act

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Section 2210.108 provides that, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 552 Texas Government Code, the Texas Public Information Act (“the Act”). TWIA receives and responds to requests in accordance with the Act. The following table shows the number of requests received, withdrawn, and referred to the Office of the Attorney General (OAG) for a decision under the Act for 2011, 2012, 2013, and year to date 2014.

	As of 12/31			As of Month End										2014
	2011	2012	2013	1/31	2/28	3/31	4/30	5/31	6/30	7/31	8/30	9/30	10/31	YTD
<b>Total Requests Received</b>	108	182	162	12	23	13	21	12	15	14	9	16	8	143
<b>Number of Requests Withdrawn</b>	7	16	14	1	0	2	5	1	1	1	0	2	2	15
<b>Number of OAG Rulings Requested</b>	10	20	26	4	0	3	1	1	0	0	0	0	1	10
<b>% of Requests sent to OAG</b>	9.3%	11%	16%	33%	0%	23%	5%	8%	0%	0%	0%	0%	13%	7%

As illustrated in the table above, requests increased 68.5% from 2011 to 2012 and decreased 11% from 2012 to 2013. Based on the volume of requests received in the first ten months of 2014, public information requests are on pace for 6% annual growth. Increased media attention, litigation activity, and public interest have contributed to the increase in the number of requests received over the past several years.

## Plan of Operation

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Sections 2210.151 - 2210.153 provide that, with the assistance of the Board of Directors, the Commissioner of Insurance by administrative rule will adopt a plan of operation to provide windstorm and hail insurance in the catastrophe areas. The Plan of Operation must include:

- (1) A plan for the equitable assessment of the members of the association to defray losses and expenses;

- (2) Underwriting standards;
- (3) Procedures for accepting and ceding reinsurance;
- (4) Procedures for obtaining and repaying amounts under any financial instruments authorized under this chapter;
- (5) Procedures for determining the amount of insurance to be provided to specific risks;
- (6) Time limits and procedures for processing applications for insurance; and
- (7) Other provisions as considered necessary by the department to implement the purposes of this chapter.
- (8) The plan of operation may provide for liability limits for an insured structure and for the corporeal movable property located in the structure.

The Plan of Operation is found in the Texas Administrative Code, Title 28, Chapter 5, Subchapter E. TWIA, with assistance from TDI, is undertaking a comprehensive review and update of the Plan of Operation. The revised Plan will be more concise and easier to use. Staff will present the revised Plan to the Board of Directors at the quarterly meeting in December.

## Insurance Coverage

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### Coverage Requirements

Sections 2210.201-2210.203 describe TWIA coverage and eligibility requirements. Specifically, the Association shall make insurance available to each applicant in the catastrophe area whose property is insurable property but who, after diligent efforts, is unable to obtain property insurance through the voluntary market. Flood insurance coverage is required by law, if available, for specific high-hazard zones. Section 2210.202(b)(2) further requires a statement that the agent acting on behalf of the applicant possesses proof of the inability to obtain substantially equivalent insurance coverage for the perils of windstorm and hail from the private market, as well as proof of flood insurance coverage or unavailability of that coverage.

In 2013, the Underwriting Department began developing an Agency Audit program to verify compliance with the declination and flood insurance requirements. TWIA's agent auditor will review a sample of in-force policies from randomly selected agents and request proof of the required declination from a voluntary market insurer and flood insurance, if applicable. Staff developed and implemented a plan to test the audit procedures on a small sample of agents and will evaluate results by year's end. Staff reviewed the plan with TDI, the TWIA Agent Advisory Group, and the Independent Insurance Agents of Texas before conducting a pilot program. Staff anticipates implementing the program with all agents in 1Q 2015 after presenting the agent

feedback and test results for group discussion at the quarterly AAG meeting in December and after a similar review with TDI in Q1 2015.

## Issuance of Policies

Under Section 2210.203, if the Association determines that the property for which an application for initial insurance coverage is made is insurable property, the Association, on payment of the premium, shall direct the issuance of an insurance policy as provided by the plan of operation. A policy is issued for a one-year term and may be renewed annually on application for renewal as long as the property continues to be insurable property. Below are charts illustrating the number of policies currently in-force, the direct liability associated with those policies, and premiums written year-to-date:

### *POLICIES IN-FORCE*

Policy Type	As of 10/31/13	As of 10/31/14	Change from Prior Year
Mobile Home	929	959	3.23%
Residential	256,702	261,755	1.97%
Commercial	13,532	12,589	-6.97%
<b>Totals</b>	<b>271,163</b>	<b>275,303</b>	<b>1.53%</b>

### DIRECT LIABILITY

Policy Type	As of 10/31/13	As of 10/31/14	Change from Prior Year
Mobile Home	\$44,839,413	\$47,525,496	5.99%
Residential	\$63,929,504,531	\$67,131,732,488	5.01%
Commercial	\$12,938,663,872	\$11,490,440,326	-11.19%
<b>Totals</b>	<b>\$76,913,007,817</b>	<b>\$78,669,698,311</b>	<b>2.28%</b>

### *WRITTEN PREMIUMS (YTD)*

Policy Type	As of 10/31/13	As of 10/31/14	Change from Prior Year
Mobile Home	\$994,219	\$1,052,663	5.88%
Residential	\$314,400,256	\$338,865,586	7.78%
Commercial	\$99,792,314	\$91,857,715	-7.95%
<b>Totals</b>	<b>\$415,186,789</b>	<b>\$431,775,964</b>	<b>4.00%</b>

## Compliance with Building Codes

Sections 2210.251, 2210.258 - 2210.260 set forth the building code and inspection requirements for eligibility in the Texas Windstorm Insurance Association and provide for

limited exceptions. In accordance with these sections, TWIA requires a certificate of compliance (WPI-8) issued by the Texas Department of Insurance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. A noncompliant residential structure insured by the Association under the approval process regulations in effect on September 1, 2009 is subject to an annual premium surcharge of 15% of the policy premium. These surcharges are deposited directly into the Catastrophe Reserve Trust Fund. The following tables show the number of TWIA policies in-force as of October 31, 2014 under the various compliance standards and the total surcharge amounts deposited into the CRTF each year, through October 31, 2014:

<b>Compliance Standard</b>	<b>Policies In-Force</b>	<b>Year</b>	<b>Surcharges</b>
Certificate of Compliance (WPI-8)	235,736	2011	\$6,675,047
WPI-8 Waiver	39,567	2012	\$7,408,157
		2013	\$7,233,546
		2014	\$6,613,141

The 83rd Texas Legislature enacted Senate Bill 1702, which amended the surcharge program for noncompliant structures and repealed the Alternative Eligibility Program. The bill also requires structures insured by the Association on or after December 31, 2015 to comply with the applicable windstorm building code standards.

## Rates

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Pursuant to Section 2210.352, not later than August 15 of each year, the Association shall file with TDI a proposed manual rate for all types and classes of risks written by the Association. On August 14, 2014, TWIA submitted a uniform 5% rate increase. Under 2210.352(a-1), TWIA may file and use a 5% rate increase without approval by the Commissioner of Insurance. The rate increase will be effective on January 1, 2015.

In its August 2014 rate filing, TWIA had indicated rate needs as follows:

Rate Component	TWIA Rate Indications	
	Residential	Commercial
(1) Non-Hurricane Loss & LAE Ratio	12.0%	6.9%
(2) Hurricane Loss & LAE Ratio		
Experience	43.0%	47.4%
Modeled	53.2%	51.3%
Combined	48.1%	49.4%
(3) Net Cost of Reinsurance	15.4%	15.4%
(4) Other Fixed Expenses	4.8%	4.8%
Total Indicated Loss & LAE Ratio	80.3%	76.5%
(5) Contribution to CRTF	20.0%	20.0%
(6) Other Variable Expenses	18.1%	18.1%
Variable Permissible LLAE Ratio	61.9%	61.9%
Indicated Rate Change	+30%	+24%
Filed Rate Change	+5%	+5%
Remaining Indicated Rate Change	+24%	+18%

- Notes:**
- (1) Residential ratio based on industry losses over last 10+ years  
Commercial ratio based on TWIA losses over last 10+ years
  - (2) Combined ratio selected giving equal weight to experience and modeled losses  
Experience projected using long-term historical frequency and industry experience  
Model results projected using long-term frequency
  - (3) Based on the net cost of reinsurance after accounting for potential recoveries
  - (4) Includes general operating expenses of the Association
  - (5) Selected to generate increased contributions to the CRTF
  - (6) Includes commissions, taxes, licenses, and fees

## Catastrophe Plan

Section 2210.455 requires the Association, not later than June 1 of each year, to submit to the commissioner, the legislative oversight board, the governor, the lieutenant governor, and the speaker of the house of representatives a catastrophe plan covering the period beginning on the date the plan is submitted and ending on the following May 31. As required, TWIA submitted the 2014 Annual Report Card, including the Catastrophe Plan, on June 1, 2014. The report is available on TWIA's website ([www.twia.org](http://www.twia.org)).

The level of detail in TWIA's current catastrophe event planning has dramatically increased

over that of 2008 and prior years. Prior to 2012, leadership prepared only a conceptual outline which was updated infrequently and lacked detailed information about available resources and ability to scale for larger events. TWIA is constantly improving the Association's claims resource capacity and ability to respond promptly and effectively to catastrophic claims situations. Claims leadership conducts frequent catastrophe planning meetings to update the CAT Plan with information about these improvements and with knowledge gained from real and modeled events. The result is a dynamic document that provides detailed information regarding:

- roles and responsibilities for Claims and all other TWIA departments;
- information regarding available resources;
- details about scalability for larger events including pre- and post-event loss projection and staffing modeling tools; and
- operational guidelines and directives for TWIA's response to a catastrophe.

TWIA has implemented communications initiatives to educate stakeholders about TWIA's capabilities and planned response before, during and after a storm. Claims, additionally, continues to meet with Office of Emergency Management officials in various coastal counties to solicit feedback to improve catastrophe response coordination. Staff has presented the CAT Plan to the Commissioner of Insurance and other TDI and Legislative staff.

## Testing

TWIA has activated the CAT Plan six times since January 1, 2012 for localized wind and hail events and has updated the plan based on information gathered from these events. TWIA also tested the CAT Plan in an enterprise-wide table top exercise in June 2014. Each department presented a response to a formulated storm scenario based on the roles and responsibilities outlined in the Plan. Results showed a high level of enterprise readiness, with no significant negative findings. The CAT Plan will be tested annually.

## TWIA Claims Performance Metrics

TWIA's commitment to planning and proficiently executing the plan is evidenced by quality assurance (QA) scores and policyholder satisfaction levels. Policyholders can access TWIA's Customer Care Survey (CCS), launched in April 2012, via TWIA's website or by using their smartphones to scan QR codes on payment letters. QA scores are the result of quality assurance evaluations of claim files. Analysts conduct monthly reviews of each Claims Examiner's files, evaluating the file for regulatory compliance and to ensure accurate coverage analysis, loss investigation, loss valuation, and reserving. The following exhibit illustrates the improvements that management has implemented in both claims handling and policyholder customer service.



	Quarterly Summary				Monthly Summary			YTD
Metric	1Q-14	2Q-14	3Q-14	4Q-14	8/14	9/14	10/14	2014
QA Score	95%	93%	89%	94%	83%	92%	94%	93%
CCS Score	4.84	4.51	4.54	4.50	4.53	4.52	4.50	4.61

The Customer Care Surveys exceed internal Association standards for the reporting period. While the QA score for August reflects a review of claims—largely handled in July—with slower cycle times, the QA scores for September and October exceed internal standards.

## Key Performance Indicators

The Key Performance Indicators listed in the chart below measure the total number of days from receipt of a claim, or First Notice of Loss, to when TWIA issues payment (cycle time), as well as Complaint Ratio, which represents the percentage of TDI complaints to claims filed.

	Quarterly Summary				Monthly Summary			
	1Q-14	2Q-14	3Q-14	4Q-14	8/14	9/14	10/14	2014
Cycle Time	6.9	8	8.8	6.1	6.9	6.7	6.1	7.4
TDI Complaints	3	2	4	4	3	0	4	13
Complaint Ratio	0.43%	0.26%	0.53%	1.56%	2.21%	0.00%	1.56%	0.52%

## Limits of Liability

Under Subchapter K of Chapter 2210 (Sections 2210.501 – 2210.504), TWIA is required to propose inflation adjustments to the maximum liability limits under a windstorm and hail policy. On September 17, 2014, TWIA made a filing with TDI to increase its maximum liability limits for 2015 based on increased construction costs as reflected in the BOECKH Index. On November 14, 2014, the Commissioner of Insurance issued an order disapproving the filing and, as a result, maximum limits for 2015 will remain the same as the current 2014 limits. The Commissioner’s order cited cumulative increases in TWIA maximum limits since 2005 as compared to cumulative increases in construction costs over that same time period.

The current and indicated maximum limits are:

	Current 2014	Indicated 2015
Dwellings and individually owned townhouses	\$1,773,000	\$1,853,000
Contents of an apartment, condominium, or townhouse	\$374,000	\$390,000
Commercial structures and associated contents	\$4,424,000	\$4,606,000

## Certain Appeals and Other Actions

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### Appeals

Under the previous law, an insured could dispute a claim decision by filing an appeal with the Commissioner of Insurance and presenting the dispute to the State Office of Administrative Hearings (“SOAH”). Section 2210.551 now limits the availability of appeals through the SOAH process to those persons or entities that have been aggrieved by an act, ruling, or decision of the Association that is not related to the payment of, the amount of, or the denial of a claim. As a result, all correspondence to insureds communicating a claims decision includes revised language to reflect rights and responsibilities as provided under current law.

### Voluntary Arbitration & Certain Coverage and Claims Disputes

Section 2210.554 allows TWIA to offer an “Arbitration Endorsement” to its policyholders in a form to be prescribed by the Commissioner of Insurance. If a policyholder elects to include this endorsement in his or her policy, the insured will be required to submit any dispute involving an act, ruling, or decision of the Association relating to the payment of, the amount of, or the denial of the claim to a binding arbitration process under rules established by the Commissioner of Insurance. The Association will begin offering the endorsement once the form, rules, and procedures have been adopted.

### Claims: Settlement and Dispute Resolution

HB 3 made significant changes to both the process by which insureds can dispute TWIA’s decision relating to the payment of, the amount of, or the denial of claims, and the remedies available to insureds. First, Section 2210.014 made Insurance Code Chapters 541 (bad faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims. Second, Section 2210.572(c) made the Deceptive Trade Practices Act inapplicable to TWIA. These were three of the main causes of action asserted by insureds who sued TWIA alleging claims were underpaid or settled in bad faith. The new provisions of Chapter 2210, Subchapter L-1, now provide the process for claims decisions, payments and disputes.

The TWIA Claims Department has trained all Claims personnel on the new claim-handling procedures and deadlines included in HB 3 and revised the claims decision letters to provide clear explanations of the portions of claims that the Association has accepted or denied in full or in part, as required by Section 2210.573(d). In addition, claims decision letters now include instructions for disputing accepted or denied claims and provide forms that insureds can use to begin the dispute resolution process, as required by Section 2210.573(e)-(g).

Below is a table of data (current as of October 31, 2014) regarding claims subject to the HB 3 dispute resolutions.

Disputed HB 3 Claims							
Dispute Frequency			Type of Dispute*				
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Suits	LORs – Not in Appraisal**	Mediation	TDI & Other Complaints
14,996	177	1%	87	16	27	11	14

\* A single disputed claim may have more than one type of dispute.

\*\*Letter of Representation

The table above represents information for all HB 3 claims filed since inception of HB 3 in late 2011. Dispute frequency tracks the total number of HB 3 claims, the number of claims in which the policyholder is disputing the claims disposition for any reason, and the ratio of disputed claims to total claims.

## Appraisal and Rulemaking

All disputes regarding claims that are accepted by the Association must be submitted to an appraisal process pursuant to Section 2210.574. The Department adopted rules to govern this appraisal process.

## Ombudsman Funding and Program

Section 2210.582 directed TDI to establish an Ombudsman Program to assist TWIA policyholders in understanding and navigating the claims process. TDI established the Coastal Outreach and Assistance Services Team (“COAST”) Program and adopted rules relating to its function on March 19, 2012. Even before the formal adoption of the rules (28 TAC §5.4201), TWIA revised its claims correspondence to inform insureds about the program and provide contact information in English and Spanish. TWIA fully funds the COAST program based on the budget provided by TDI each March.

Communications staff has cultivated a strong relationship with TDI’s TWIA Ombudsman, a position created by HB 3. TWIA continues to work closely with the Ombudsman to implement and develop an outreach program to promote policyholder education in the coastal areas. As part of this outreach, staff members attend and conduct presentations at a variety of events, most of which are hosted by area chambers of commerce and other local organizations. Presentations have focused on internal changes at TWIA, eligibility and coverage issues, WPI-8s and surcharges, what to expect from the claims process, and important changes resulting from HB 3.

Ultimately the program will include targeted strategies for a variety of objectives in the coastal areas. Staff is developing templates for three different outreach engagement formats, including:

presentations to deploy to affected areas post-storm, such as those conducted in Santa Fe and Hitchcock in 2013; educational presentations aimed at informing consumers of important coverage, eligibility and claims information before issues arise; and networking events during which staff conduct presentations to smaller community groups as a means of identifying community needs and organizing larger educational events. To date, TWIA has coordinated a number of successful events, including the following: post-event meetings with Santa Fe and Hitchcock Chambers of Commerce; the Hitchcock Chamber of Commerce-sponsored Community Forum: Brainstorming the Hail Storm; educational presentations to community groups in Ingleside, Corpus, Aransas Pass, and Portland; a Q&A regarding TWIA Claims, Eligibility & Coverage and Funding issues hosted by the Rockport Chamber; the Coastal Bend Hurricane Conference in Robstown in May 2014; an open house forum in Mont Belvieu; an outreach effort in July 2014 in Galveston encompassing events coordinated with the City of La Marque Chamber, Independent Insurance Agents of Texas (IIAT), and the Galveston Board of Realtors; and FEMA Flood Risk and Insurance open houses and agent workshops in San Patricio and Aransas Counties in November 2014.

## Annual Evaluation of Association Management

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The fifth objective outlined in 2210.107(a) is to establish, and adhere to the 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.

Beginning January 1, 2012, TWIA's annual budget has been based upon department level budgets for which department management and their staffs are held accountable. To reflect that accountability as well as to establish objective, measurable standards appropriate to each employee's responsibilities, the Association established individual performance standards for each position within the organization. The 2014 budget was reviewed and approved by the Board at its December 10, 2013 meeting.

The Finance Department has prepared budget conformity reports at the department level to monitor performance beginning with 2012 first quarter results. Under the current management team, TWIA has consistently performed at or below budget for controllable expenses in nearly every area since 2012.

TWIA staff is evaluated against a set of performance standards, including objective performance measures based upon their departments and their individual roles within their departments. Each department head is accountable for his or her individual budget, so the individual performance measures comprise a portion of the standard of performance against which department heads are evaluated. Employees within each department have objective measures against which to evaluate performance. Performance evaluation documents reflect

these areas of accountability.

The Association has established risk management objectives in the form of business continuity planning, catastrophe response planning, reinsurance, and other funding mechanisms to effectively manage the financial and human resources of the organization in meeting its established purpose.

# Appendix A: Sample Risk Management Report



**Property Risk Management Report**

Brownsville, TX 78521
September 30, 2013



**REPORT DETAILS**

Report: 2445807

Policy:

Renoval Date: N/A

Date of Photo: 2/5/2013

Geocode:

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**BUILDING SUMMARY**

Year Built: 1935

Number of Stories: 1


Estimated Living Area: 1,263 sq. ft.

Garage (None): 0 sq. ft.

**REPORT CONTENTS**

- Report Images ..... 2
- Living Area Diagram ..... 3
- Outbuilding Diagram ..... 6
- Structural & Property Observations ..... 7

**PREPARED FOR:**  
TWIA, UW Pilot




**Property Risk Management Report**

Brownsville, TX 78521
September 30, 2013


**REPORT IMAGES**

The following aerial images show different angles of this structure for your reference. Additional images may have been used in the creation of this report and not included in this final document.

Report #: 2445807  
Geocode: 21.9011930,  
-97.4623790



North View



South View

Brownsville, TX 78521

September 30, 2013

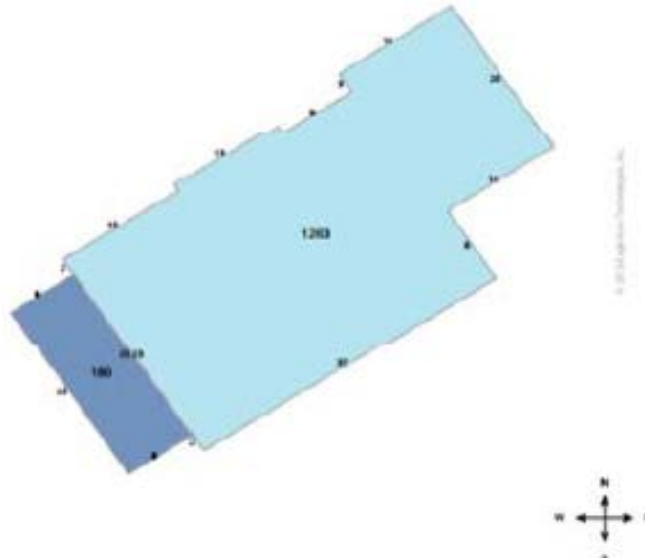
## LIVING AREA DIAGRAM

Report #: 7445807  
GeoCode: 25.9081130,  
-97.4871346

Total Estimated Living Area: 1,263 sq. ft.  
Number of Stories: 1

First Floor

- Living Area
- Garage
- Porch
- Deck
- Patio
- Footprint



Brownsville, TX 78521

September 30, 2013

## STRUCTURAL & PROPERTY OBSERVATIONS

Report #: 7445807  
GeoCode:

CONFIDENCE RATING: ■ ■ ■ ■

- 4 - Very High: Straightforward construction, often single story, easily-defined garage, quality images.
- 3 - High: Potential for minor discrepancies, like vaulted ceilings on two stories home, or minor tree coverage.
- 2 - Medium: Very complex construction with multiple stories, often contained with poor or incomplete image sets.
- 1 - Low: Very poor or incomplete images.

### STRUCTURAL OBSERVATIONS

Year Built:	1935
Number of Stories:	1
Number of Family Structure:	Single Family
Structure Footprint:	1,443 sq. ft.
Corners:	8
Estimated Total Living Area:	1,263 sq. ft.
Garage Area:	0 sq. ft.
Garage Type:	None
Deck Area:	0 sq. ft.
Patio Area:	0 sq. ft.
Porch Area:	180 sq. ft.
Estimated Roof Pitch:	1-5
Roof Shape:	Gable
Number of Chimneys:	0
Outbuilding Count:	1
Outbuilding Total Area:	125 sq. ft.
Basement Area:	N/A
Finished Basement Area:	N/A
Basement Type:	N/A
Basement Description:	N/A

### PROPERTY OBSERVATIONS

EagleView Roof Report:	No
EagleView Wall Report:	No
Dist. to Commercial Exposure:	153 ft.
Distance to Steep Slope:	0 ft.
Distance to Water Hazard:	0 ft.
Distance to Vegetation:	0 ft.
Type of Vegetation:	None
Swimming Pool/Hot Tub:	No
Trampoline:	No
Slope on Property:	No
Cross-Sell Identification:	None
Owner Occupied:	N/A