

September/October

2013

# Interim Report Card



**John W. Polak, CPCU**  
General Manager

**November 30, 2013**

November 30, 2013

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

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

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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 ("Interim Report Card") evaluating the extent to which the Texas Windstorm Insurance Association ("TWIA" or "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 2013).

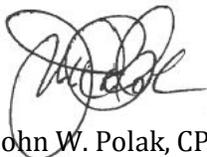
These interim report cards will be provided every 60 days as required by statute and will culminate in an Annual Report Card issued each June.

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 with respect to 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 eleventh 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 ("HB3"), modifying various aspects of the operations of the Texas Windstorm Insurance Association ("TWIA"). Amendments to Tex. Ins. Code, Section 2210.107 directed TWIA to report bi-monthly to the TWIA Board of Directors and report annually ("Report Card") to the commissioner, the legislative oversight board, the governor, the lieutenant governor, and the speaker of the house of representatives to the extent that 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 has been developed to satisfy 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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In 2008, the combination of Hurricanes Dolly and Ike resulted in over 100,000 claims and an estimated \$3 billion in losses. Concerns over claims handling led to TWIA being placed under Administrative Oversight by TDI and the passage of HB3 in 2011.

HB3 required numerous changes to TWIA operations. Among the improvements are new residential and commercial policy forms, more transparency via additional information on the TWIA website and live broadcasts of TWIA meetings, the funding of an ombudsman program, and the implementation of new claims handling procedures.

Additionally, TWIA has undergone more than ten audits and examinations in recent years with varying areas of concentration, including three examinations by the Texas Department of Insurance (TDI); two by Deloitte & Touche, LLP; and audits performed by Robert E. Nolan, KPMG, the State Auditor's Office, and Alvarez & Marsal. The Association has diligently developed and implemented corrective measures and created action plans to track and report the Association's progress in addressing the recommendations of each review. TWIA has addressed 100% of the non-IT related recommendations of all TDI audits, the Nolan Report, The Deloitte Audit, the Operations Improvement Plan, and the State Auditor's Office. The KPMG audit of IT controls outlined 11 areas of primary concern due to faults of existing controls or potential vulnerabilities. The Association has completed 100% of the corrective actions for these areas. Only one IT related recommendation in the SAO report is pending at this time and implementation is scheduled concurrently with the new Policy Center in 2014. Additionally, TWIA has identified areas of improvement outside of audit observations and continuously improves processes and procedures necessary to bring the Association into compliance with statutory guidelines and industry best-practices.

A new management team is now in place with a broader range of experience and a focus on accountability. In 2008, there were four members of senior management whose only insurance carrier experience was with TWIA, which was a very small company for most of their tenure. Today, not only does TWIA have significantly greater insurance carrier experience within its senior management ranks, but a greater portion of that experience is with larger carriers outside of TWIA. This bodes well for the future of the Association as it has not only greater depth of experience but a far greater breadth of experience in terms of skills and sophistication.

The new management team has successfully implemented initiatives to address legislative changes, improve operational efficiency, create cultural transformation within the Association, and increase management controls and accountability. TWIA now has

extensive controls and detailed financial and operational metrics in place to measure and evaluate the performance of every level of the Association, from the organization as a whole to individual departments and each individual employee. There are documented procedures and practices in place in all operational areas, and TWIA has greatly increased the level of transparency and communication between all levels of the Association and with outside stakeholders. The management team has begun a process of continuously refocusing the culture from task-based behavior to outcome-focused accountability.

The TWIA Claims Department has experienced the most significant improvements. The new claims management team has developed a detailed catastrophe plan; improved communications with policyholders, adjusters, and agents; and ensured faster and more accurate claims handling using more modern technology and quality control measures. These changes have resulted in a measurable improvement in customer service. TWIA Claims has implemented an ongoing customer survey program with very positive results. Additionally, Claims has implemented a number of key performance metrics to provide an objective measure of the claims handling process, including:

- average number of days from receipt of claim to inspection,
- average number of days from inspection to receipt of report by TWIA, and
- average number of days from receipt of report to payment.

In addition, TWIA-controllable expenses were below budget in 2011 and 2012 and are projected to be below budget in 2013. TWIA expenses compare favorably both to the insurance industry as a whole and to other state residual market plans.

The State Auditor's Office completed an audit of TWIA in 2012. Their final report recognized 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.

# 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 subsequently revised in September 2011 and April 2012, to incorporate changes mandated by House Bill 3 and to further describe prohibited employment relationships.

TWIA continues to monitor employees and vendors for compliance with the code of conduct. The Compliance Department has consolidated the tracking mechanisms for the annual ethics certification, required relationship and gift disclosures, and other required compliance training for all employees and contractors into a comprehensive database.

## 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 (SIU)/Fraud Abatement

TWIA Claims continues to work closely with the SIU vendor, Veracity Research, to refine referral requirements, training programs, SIU reporting, and fraud abatement processes.

The following chart illustrates a sharp increase in fraud investigations and reports between 2010 and 2012, evidencing TWIA’s increased focus and responsibility on fraud abatement and reporting. With the utilization of Veracity Research, reporting levels have 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	10/31/13
TDI Fraud	6	32	35	12
TDI Enforcement	5	7	24	9

TWIA is currently in the process of expanding the SIU and fraud abatement program to the Association's underwriting functions as well.

To ensure 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 with TWIA and TDI's Fraud and Enforcement Units meet quarterly to discuss ongoing cases, trends, and issues.

### **Whistleblower Policy**

As part of TWIA's comprehensive Ethics Policy and commitment to creating a culture where unethical behavior is 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 no reports.

## **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 action items resulting from the SAO audit are 100% complete with the exception of one remaining IT related finding scheduled for implementation concurrently with TWIA's new Policy Center in 2014.

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 due by 11/30/2012, 5/31/2013, and 11/30/2013; as well as the status of the Association-wide implementation plan on 2/1/2013.

## **Financial Statement**

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Section 2210.054 requires TWIA to file annually with the Department and the State Auditor's Office a financial statement summarizing the transactions, conditions, operations,

and affairs of the Association during the preceding year.

In addition to complying with the Annual Statement requirements, TWIA also submits monthly statements to the Texas Department of Insurance and the Board of Directors. The following charts illustrate TWIA's most recent balance sheet and statutory income statement. The statutory balance sheet shows the financial position of TWIA at October 31, 2013 compared to December 31, 2012. 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-13</b>	<b>December-12</b>
<b>Admitted Assets</b>		
Cash and short term investments	\$ 411,067	\$ 427,855
Premiums receivable & other	1,391	491
Amounts recoverable from reinsurers	27,000	291
<b>Total admitted assets</b>	<b>\$ 439,458</b>	<b>\$ 428,636</b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	\$ 147,719	\$ 378,717
Underwriting expenses payable	11,702	9,328
Unearned premiums, net of ceded unearned premiums	236,958	173,461
Ceded reinsurance premiums payable	56,556	25,449
Principal & Interest Payable - Debt	-	-
Provision for reinsurance	-	11,018
Other payables	20,658	13,644
Statutory fund payable	-	-
<b>Total liabilities</b>	<b>473,594</b>	<b>611,615</b>
<b>Surplus and others funds</b>		
Unassigned surplus (deficit)	(34,136)	(182,979)
<b>Total liabilities, surplus and other funds</b>	<b>\$ 439,458</b>	<b>\$ 428,636</b>
<b>Balance in CRTF</b>	<b>\$ 185,042</b>	<b>\$ 178,902</b>

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

	for the ten months ended October 31,			
	Actuals - 2013	Budget - 2013	Variance - 2013	Actuals - 2012
<b>Premiums Written:</b>				
Direct	\$ 415,618	\$ 425,022	\$ (9,404)	\$ 390,316
Ceded	(118,244)	(115,000)	(3,244)	(108,000)
Net	297,374	310,022	(12,648)	282,316
<b>Premiums Earned:</b>				
Direct	\$ 378,173	\$ 386,068	\$ (7,895)	\$ 355,452
Ceded	(144,296)	(140,833)	(3,463)	(90,156)
Net	233,876	245,235	(11,358)	265,296
<b>Deductions:</b>				
Direct Losses and LAE Incurred	99,068	65,563	33,505	80,524
Direct Losses and LAE Incurred - Ike & Dolly	(60,000)	0	(60,000)	130,000
Ceded Losses and LAE Incurred	(27,000)	0	(27,000)	0
Operating Expenses	18,557	21,122	(2,565)	19,735
Commission Expense	66,488	68,004	(1,516)	62,456
Ceding commissions / brokerage	(8,676)	(8,700)	24	(8,193)
Premium/ Maintenance Tax	7,929	8,284	(355)	7,584
Total Deductions	96,365	154,272	(57,907)	292,105
<b>Net Underwriting Gain or (Loss)</b>	<b>137,512</b>	<b>90,963</b>	<b>46,549</b>	<b>(26,809)</b>
<b>Other Income or (Expense):</b>				
Gross Investment Income	900	950	(50)	744
Interest Expense on BAN	0	(6,042)	6,042	(1,895)
BAN Issuance & Other Investment Expenses	(99)	(800)	701	(1,734)
Other Income (Expense)	28	0	28	(65)
Loss on Defeasance of BAN	0	0	0	0
Total Other Income or (Expense)	829	(5,892)	6,721	(2,950)
<b>Net Income (Loss)</b>	<b>\$ 138,340</b>	<b>\$ 85,071</b>	<b>\$ 53,270</b>	<b>\$ (29,759)</b>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(182,979)	0	(182,979)	0
Net Income (Loss)	138,340	85,071	53,270	(29,759)
Change in Provision for Reinsurance	11,018	12,263	(1,245)	2,792
Change in nonadmitted assets & deferred taxes	(515)	(1,988)	1,473	(3,729)
Other	0	0	0	0
Statutory Fund Cost	0	(95,346)	95,346	0
Ending Surplus (Deficit)	<b>\$ (34,136)</b>	<b>\$ -</b>	<b>\$ (34,136)</b>	<b>\$ (30,696)</b>
<b>Key Operating Ratios:</b>				
Direct:				
Loss & LAE Ratio	10.3%	17.0%	-6.7%	59.2%
UW Expense Ratio:				
Acquisition	17.9%	17.9%	0.0%	17.9%
Non Acquisition	4.9%	5.5%	-0.6%	5.6%
UW Expense Ratio	22.8%	23.4%	-0.6%	23.5%
Combined Ratio	33.1%	40.4%	-7.3%	82.7%
Net:				
Loss & LAE Ratio	5.2%	26.7%	-21.6%	79.4%
UW Expense Ratio:				
Acquisition	24.6%	23.9%	0.7%	21.5%
Non Acquisition	7.9%	8.6%	-0.7%	7.4%
UW Expense Ratio	32.5%	32.5%	0.0%	28.9%
Combined Ratio	37.7%	59.2%	-21.5%	108.3%

## 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.

One Board position is currently vacant. Alice Gannon, Secretary/Treasurer, resigned her position in August. TWIA staff received three nominees for the Commissioner's consideration. The current membership of the Board of Directors is:

<b>Name</b>	<b>Position</b>
Richard Clifton Craig	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
Michael Gerik, <i>Chairman</i>	Member of the Insurance Industry
Ron Lawson	Member of the Insurance Industry
Georgia R. Neblett, <i>Vice 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

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Section 2210.105 requires that, except for an emergency meeting, the Association shall notify the Department 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 Internet 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, 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 has met the requirements of the Texas Open Meetings Act by complying with posting requirements for meetings of the Board of Directors and its subcommittees. Pursuant to Chapter 2210.105, meetings are broadcast live and archived for later viewing on our website ([www.twia.org](http://www.twia.org)). There were no meetings held during this reporting period. The next scheduled meeting is the quarterly meeting of the Board of Directors on December 10, 2013.

## Primary Board Objectives Reports

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Section 2210.107 requires the Association to report every two months to its Board of Directors and annually to the Governor, Lt. Governor, Legislature and TDI the extent to which the Association met the objectives outlined in the About This Report section. TWIA continues to comply with these requirements, most recently with the submission of the May 31 Annual Report Card, the September 30 Interim Report Card, and the November 30 Interim Report Card.

## 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 2010, 2011, 2012, and year to date 2013.

Requests	Prior Years			2013 as of 10/31				
	2010	2011	2012	Q1	Q2	Q3	Q4	YTD
Total Received	74	108	182	66	38	30	11	145
Withdrawn	2	7	16	7	1	5	0	13
OAG Rulings Requested	16	10	20	17	2	4	2	25
% of Requests sent to OAG	22%	9%	11%	26%	5%	13%	18%	17%

As illustrated in the table above, requests increased 46% from 2010 to 2011 and nearly 70% from 2011 to 2012. Increased media attention, litigation activity, and public interest contributed to the increase in the number of requests received over the past several years, especially in the first half of 2013. However, TWIA has seen a significant decrease since the first quarter.

## Issuance of Policies

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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 10/31/12	As of 10/31/13	Change from Prior Year
Mobile Home	882	929	5.3%
Residential	253,923	256,702	1.1%
Commercial	13,459	13,532	0.5%
Totals	268,264	271,163	1.1%

### *DIRECT LIABILITY*

Policy Type	As of 10/31/12	As of 10/31/13	Change from Prior Year
Mobile Home	\$41,327,145	\$44,839,413	8.5%
Residential	\$61,610,757,162	\$63,929,504,531	3.8%
Commercial	\$12,938,536,486	\$12,938,663,872	0.0%
Totals	\$74,590,620,793	\$76,913,007,817	3.1%

### *WRITTEN PREMIUMS (YTD)*

Policy Type	As of 10/31/12	As of 10/31/13	Change from Prior Year
Mobile Home	\$923,424	\$994,219	7.7%
Residential	\$294,517,541	\$314,400,256	6.8%

Commercial	\$96,858,431	\$99,792,314	3.0%
Totals	\$392,299,395	\$415,186,789	5.8%

## Compliance with Building Codes

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Sections 2210.251 and 2210.258-260 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 that has been approved for insurability 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.

Prior to the passage of Senate Bill 1702 (SB1702), a residential structure that had not been certified might still be insured if the Department issued an alternative certification (WPI-12) after an inspector determined that at least one qualifying structural building component is in compliance with applicable building code standards.

The 83rd Texas Legislature enacted SB1702 on June 14, 2013, which amends the surcharge program for non-compliant structures and repeals 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.

The following tables show the number of TWIA policies in force as of October 31, 2013 under the various compliance standards and the total surcharge amounts deposited into the CRTF each year, through October 31, 2013:

<u>Compliance Standard</u>	<u>Policies In-Force</u>	<u>Year</u>	<u>Surcharges</u>
Certificate of Compliance (WPI-8)	230,878	2011	\$6,675,047
Approval Process	28,040	2012	\$7,408,157
Alternative Certification	12,245	2013	\$6,095,015

## Catastrophe Funding

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Sections 2210.071 – 2210.075 describe the different sources of funding available to pay TWIA losses. Those sources are, in order:

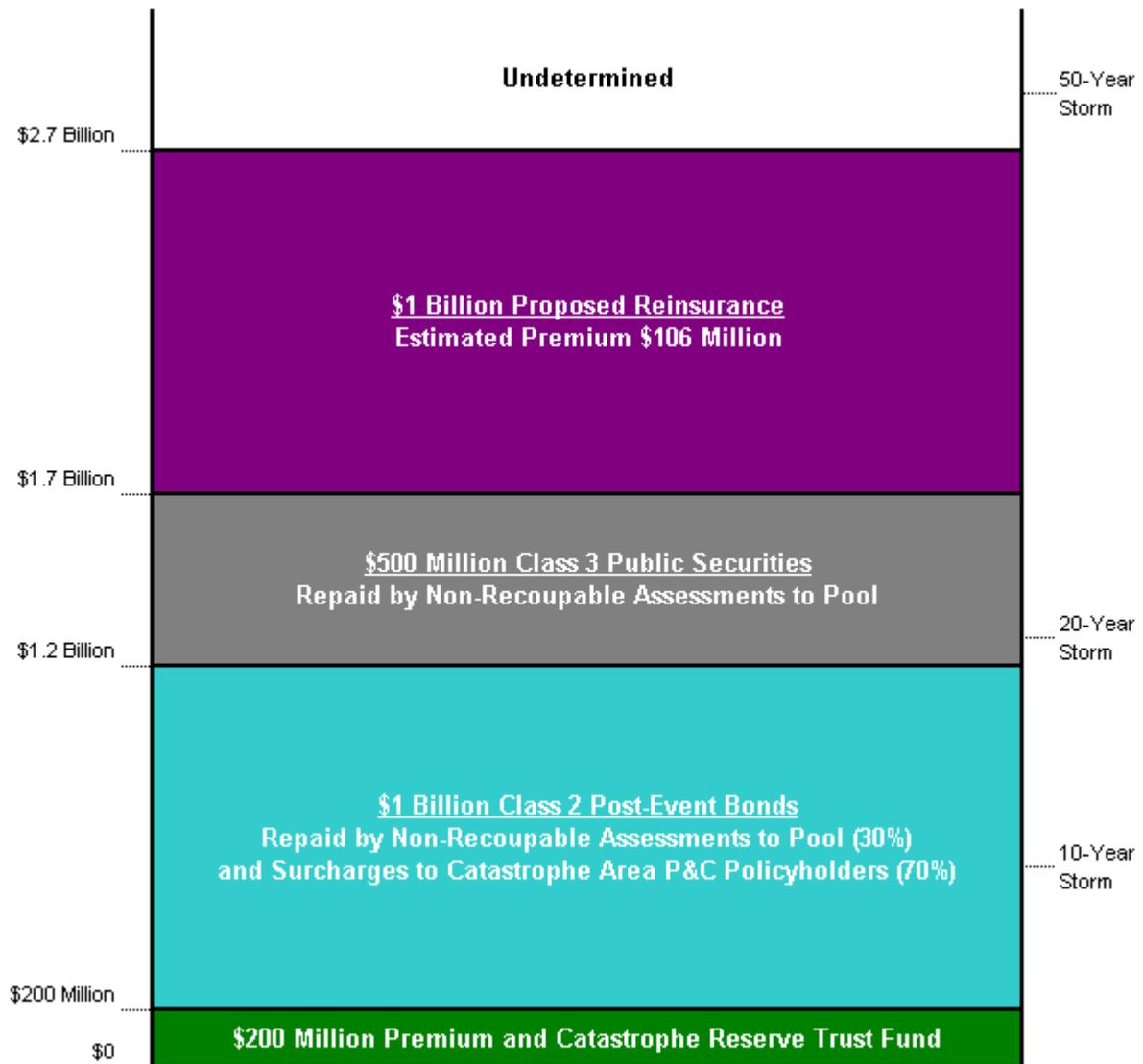
- TWIA premiums and other revenue
- Available reserves and amounts in the Catastrophe Reserve Trust Fund (“CRTF”)
- Up to \$1 billion in Class 1 public securities, to be repaid by TWIA premiums
- Up to \$1 billion in Class 2 public securities, to be repaid by surcharges on coastal property policies and 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 is continuing to work with Commissioner Rathgeber and TDI staff on funding and liquidity options that might be available to TWIA.

TWIA successfully placed its reinsurance renewal effective June 1 in the amount of \$1B with an attachment point of \$1.7B, for a total of \$2.7B of coverage. Additionally, TWIA secured an option to purchase \$1.25B at the same cost with an attachment point of \$2.2B, for a total of \$3.45B by August 15. Due to the disapproval of the BAN, TWIA did not exercise this option. To facilitate renewal negotiations, TWIA has an additional option to rewrite the policy effective January 1, 2014. This would place the renewal outside of both storm season and the Legislative session. The decision to exercise this option will be made closer to the January 1 deadline.

Total funding for the 2013 hurricane season is illustrated by the following chart:



## Catastrophe Plan

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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.

The catastrophe plan must describe the manner in which TWIA will, during the period covered by the plan, evaluate losses and process claims after windstorms with a four, two, and one percent chance of occurring.

The catastrophe plan must include a description of how losses under Association policies will be paid, and how claims under Association policies will be administered and adjusted, during the period covered by the plan. The catastrophe plan submitted under this Section is for informational purposes only and does not bind the Association to a particular course of action.

TWIA's catastrophe plan is a living document continually updated with information learned from real and modeled events with the goal of constantly improving the Association's capacity and ability to respond promptly and effectively to catastrophic claims situations. The level of detail in TWIA's current catastrophe event planning has exponentially increased over that of 2008 and prior years. Prior to Ike, leadership provided only a high level review. The catastrophe plan was updated infrequently and lacked detailed information about available resources and ability to scale for larger events. The current Claims leadership team conducts annual catastrophe planning meetings to achieve the goal of continuous improvement. The result is a dynamic document designed to provide detailed information regarding:

- roles and responsibilities for claims and other departments;
- information regarding available resources;
- details for 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.

A complete copy of the 2013 TWIA catastrophe plan was included in the Annual Report Card submitted May 31, 2013.

TWIA has activated the catastrophe plan six times since January 1, 2012 for localized wind and hail events. Leadership's commitment to planning and the proficient execution of that plan is evidenced by TWIA policyholder satisfaction levels. TWIA's Customer Care Survey

was initially implemented in April 2012. In June 2012, TWIA began including scan codes on payment letters that link policyholders to the Customer Care Survey, as well as posting a link on the Association’s website. The following exhibits illustrate policyholders’ positive reactions to the improvements management has implemented.

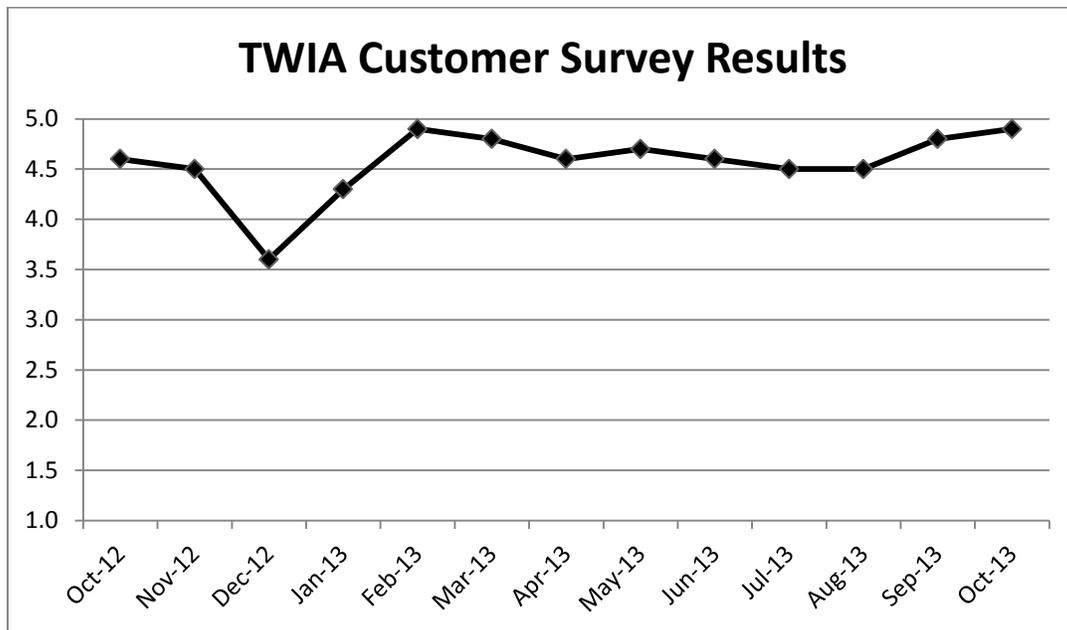
## TWIA Customer Survey Scores

### AVERAGE SCORE BY QUESTION

Customer Survey Questions	TWIA Score (Scale 1-5)
Reporting my claim to TWIA was easy	4.7
A TWIA employee explained the claims process to me	4.7
The TWIA adjuster who came to my home was professional, courteous, and helped me with my claim	4.6
The outcome of my claim was clearly explained to me	4.6
I am satisfied with the overall handling of my claim to TWIA	4.6
<b>Average Overall Score</b>	<b>4.6</b>

### AVERAGE SCORE BY MONTH

Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
4.6	4.5	3.6	4.3	4.9	4.8	4.6	4.7	4.6	4.5	4.5	4.8	4.9



## Key Performance Indicators

<b>TWIA Residential Claims- October 2013 - YTD</b>	
Number of Claims Received	9,707
Number of Claims Closed With Payment	6,729
Number of Claims Closed Without Payment	2,527
Average Number of Days From FNOL to Inspect Property	2.6
Average Number of Days From Inspect Property to Receipt by TWIA	2.9
Average Number of Days From Receipt by TWIA to Payment	6.9
Number of TDI Complaints	21
Number of TDI Complaints as a Percentage of Total Claims Received	0.22%

<b>TWIA Commercial Claims- October 2013 - YTD</b>	
Number of Claims Received	243
Number of Claims Closed With Payment	132
Number of Claims Closed Without Payment	89
Average Number of Days From FNOL to Inspect Property	2.8
Average Number of Days From Inspect Property to Receipt by TWIA	4.5
Average Number of Days From Receipt by TWIA to Payment	17.4
Number of TDI Complaints	0
Number of TDI Complaints as a Percentage of Total Claims Received	0.00%

## Limits of Liability

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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. At the August 13 quarterly meeting of the Board of Directors, proposed adjustments to the maximum limits were approved as follows:

	Current 2013	Proposed 2014
Dwellings and individually owned townhouses	\$1,773,000	\$1,816,000
Contents of an apartment, condominium, or townhouse	\$374,000	\$383,000
Commercial structures and associated contents	\$4,424,000	\$4,514,000

A filing to increase the limits of liability was made September 30 and a public hearing was held October 30, 2013. The Texas Department of Insurance denied the request to increase the maximum liability limits. The Commissioner's Order cited the cumulative increases in TWIA limits since January 1, 2005 in concluding that the filed increases in limits were not necessary at this time.

## Certain Appeals and Other Actions

### Claims: Settlement and Dispute Resolution

HB 3 made significant changes to both the process by which insureds can dispute the decisions of the Association relating to the payment of, the amount of, or the denial of a claim, and the remedies available to the insured. First, Section 2210.014 made Insurance Code Chapters 541 (bad faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims, and Section 2210.572(c) made the Deceptive Trades & 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. Instead, new provisions of Chapter 2210, Subchapter L-1, provide the process for claims decisions, payments, and disputes.

All claims personnel have been trained on the new claim-handling procedures and deadlines included in HB 3. Claims decision letters have been revised to provide clear notifications of the portions of a claim the Association has accepted or denied in full or in part, as required by Section 2210.573(d). Claims decision letters also include brief descriptions of the procedures to dispute 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 listing data, as of October 31, 2013, regarding claims subject to the HB 3 dispute resolutions.

Disputed Claims							
Dispute Frequency			Type of Dispute				
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Suits	LORs (not in Appraisal)	Mediation	TDI & Other Complaints
12194	96	.79%	52	7	13	3	21

Appraisals					
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped		
Appraisals	Appraisal In Process	Appraisal Award	Settled with Supplement	Withdrawn	Ineligible*
52	19	14	13	3	3

## Appraisal and Rule-Making

All disputes regarding a claim that is 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. TWIA continues to work with TDI to implement the rules regarding the appraisal process.

## Ombudsman Funding and Program

Section 2210.582 directed the Department of Insurance to establish an Ombudsman Program to assist TWIA policyholders in understanding and navigating the claims process. The Department 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, at 28 TAC §5.4201, TWIA revised its claims correspondence to advise insureds of the program and provide contact information in English and Spanish. TWIA fully funds the COAST program based on the budget provided by the Department each March.

TWIA has established a positive working relationship with the Ombudsman. Through cooperative efforts, we have been able to answer policyholder questions before concerns are escalated to the Department’s complaint division, and to assist in education efforts promoted by the COAST Team.

## Compliance with the Plan of Operation

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The Plan of Operation is a series of administrative rules found in the Texas Administrative Code, Title 28, Chapter 5, Subchapter E. Administrative rules must be proposed by an agency (TDI in this case) and adopted pursuant to statute. There were no rules adopted in the period covered by this report that are material to TWIA operations.

## Annual Evaluation of Association Management

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The fifth objective outlined in 2210.107(a) is to 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.

Beginning January 1, 2012, TWIA's annual budget has been based upon department level budgets for which department management and their staffs are accountable. Individual performance standards have been established for each position within the organization. These standards reflect accountability as well as objective metrics appropriate to the individual employee's responsibilities. The 2014 budget will be presented to the Board at its December 10, 2013 meeting.

The Finance Department has prepared budget conformance 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. Controllable expenses through October 31, 2013 are both below budget and below the comparable period in 2012.

TWIA staff is evaluated against a set of performance standards, including objective performance measures based upon their department and their individual role within their department. Each department head is accountable for his or her individual budgets, and these measures comprise a portion of the standard of performance against which they are evaluated on an annual basis. Staff within each department has similar, although not identical, objective measures against which to evaluate performance. Performance Evaluation documents reflect these areas of accountability.

Risk Management Objectives have been established in the form of Business Continuity planning, Catastrophe Claims planning, Reinsurance, and other funding mechanisms to effectively manage the financial and human resources of the organization in meeting its established purpose.