



**Texas Windstorm
Insurance Association**

Bimonthly HB 3 Report Card

January – February 2015

John W. Polak, CPCU

April 1, 2015

April 1, 2015

Re: Bimonthly Interim Report - Section 2210.107(b)

Dear Board Members,

House Bill 3 became effective on September 28, 2011, modifying various aspects of the operations of the Texas Windstorm Insurance Association (TWIA or the Association). Pursuant to Texas Insurance Code Section 2210.107(b), please find the bimonthly interim report evaluating the extent to which TWIA has met the objectives described therein for the two-month period preceding the date of the report (January and February 2015). These interim report cards are provided every 60 days as required by statute and culminate in an Annual Report Card issued each June.

The primary objectives of the Board 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.

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. The Report Card is organized into the following sections: (1) [Report Summary](#); (2) [State of the Association](#); and (3) [Appendices](#). The Report Summary highlights TWIA's actions within the reporting period to comply in all areas of finances, operations, and governance. The State of the Association provides the bigger picture of the Association's transformation since 2011 and its current state of affairs. Finally, the Appendices (beginning with the [Statutory Index](#)) expound upon each required area of compliance, in order of the statutory reference to which the subject matter relates.

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 eighteenth 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

Table of Contents

Report Summary	4
State of the Association.....	8
Statutory Index	19
Appendix A: Biennial Report	20
Appendix B: Insurable Property and Coverage Requirements	20
Appendix B, Exhibit 1: Sample Risk Management Report.....	24
Appendix C: Rulemaking Authority	26
Appendix D: Depopulation	26
Appendix E: Standards of Conduct.....	27
Appendix F: Annual Statement.....	30
Appendix G: Examination of Association.....	34
Appendix H: State Auditor’s Office Examination	34
Appendix I: Catastrophe Funding.....	34
Appendix J: Board Composition	35
Appendix K: Open Meetings Act.....	35
Appendix L: Public Information Act.....	36
Appendix M: Plan of Operation.....	36
Appendix N: Policy Issuance.....	37
Appendix O: Compliance with Building Codes	38
Appendix P: Rates	39
Appendix Q: Catastrophe Plan	40
Appendix R: Limits of Liability	41
Appendix S: Certain Appeals and Other Actions.....	41
Appendix T: Annual Evaluation of Association Management.....	44

Report Summary

The Texas Windstorm Insurance Association is in full material compliance with all current standards of performance outlined in this report. TWIA's success in meeting these objectives is demonstrated across three primary categories: Financial Health, Operations, and Governance & Reporting. Highlights of TWIA's compliance relating to these categories in the reporting period are summarized below and expounded upon in the related [Appendices](#). The [Statutory Index](#) provides a full list of relevant statutory references, the correlating Appendix and subject matter.

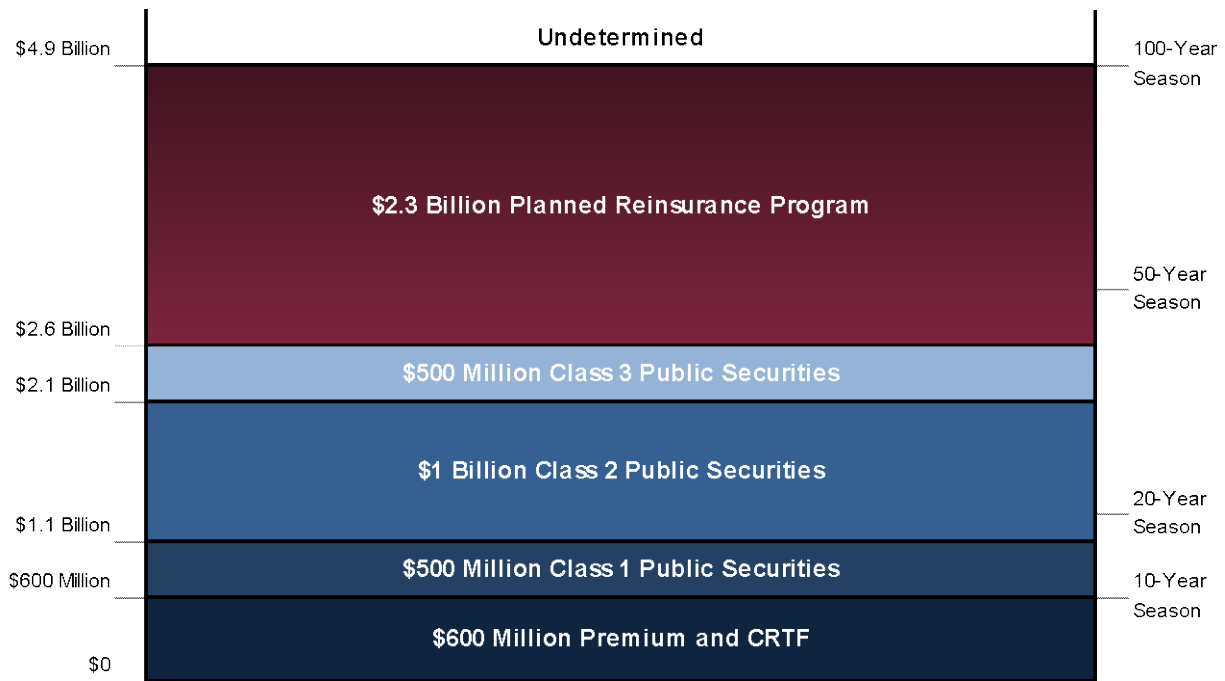
Financial Health

Catastrophe Funding

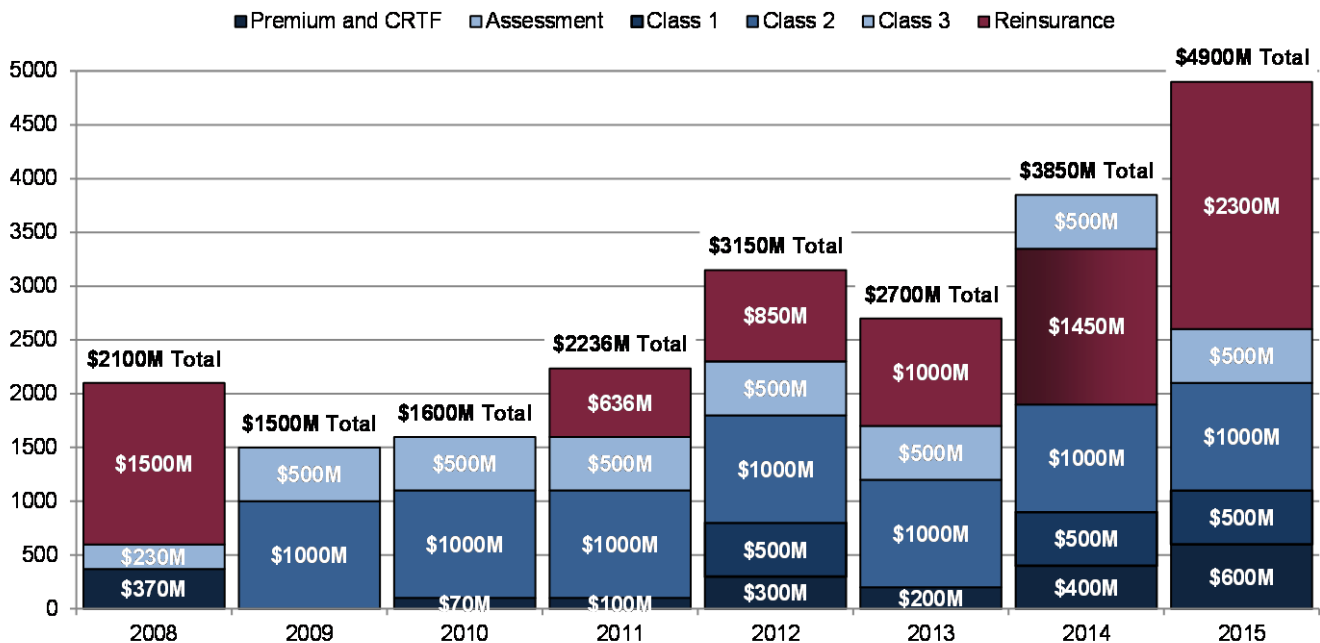
TWIA contributed over \$260 million to the Catastrophe Reserve Trust Fund (CRTF) as a result of 2014 operations, bringing the CRTF total to over \$480 million for the 2015 storm season. An additional \$150 million is projected to be available for the 2015 hurricane season from current year's premiums.

In February, the TWIA Board directed staff to purchase catastrophe reinsurance in an amount sufficient to reach total projected funding of \$4.9 billion, the 100-year PML. This amount is sufficient to cover 99% of all possible storm seasons, is almost \$2 billion more than the combined costs of Hurricanes Dolly and Ike, and is greater than any previous year's funding since 2009. The 2015 reinsurance program will be effective June 1, 2015 and will provide coverage on an aggregate basis, meaning multiple hurricane events will be covered in aggregate under the reinsurance.

TWIA's projected funding for the 2015 hurricane season of \$4.9 billion is illustrated by the chart below, followed by a historical comparison of funding levels:



Storm frequencies based on modeled losses using TWIA exposures as of 12/15/14



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 and 2015 shown with \$500 Million in pre-event Class 1 Public Securities.

Operations

Catastrophe Planning

Claims staff is currently in the process of coordinating across the enterprise to update the CAT Plan in line with each department's current business practices and needs. The revisions will be complete and published in the Association's Annual Report Card on June 1.

Depopulation

Following TWIA's late 2014 launch of the Voluntary Coastal Windstorm Insurance Portal (VCWIP or the Depopulation Portal) one participating carrier, United Property & Casualty (UPC), recently announced their plan to extend offers to almost 60,000 TWIA policyholders. UPC is required to report any offers made; staff will monitor and report on the status of these and any other depopulation efforts associated with the Depopulation Portal.

In addition to the Depopulation Portal, legislation was proposed during the reporting period for consideration by the 84th Texas Legislature regarding a formal depopulation process.

Underwriting Quality Assurance & Training

Based on data through February 2015, the Underwriting Department's QA score, which indicates production data, customer experience, accuracy, and thoroughness, exceeds expectations at 98.1%.

Claims Performance Metrics

The Claims department continues to exhibit quality claims handling and policyholder customer service under solid management, as demonstrated in the exhibit below.

Metric	Quarterly Summary				Monthly Summary			2015 YTD
	2Q-14	3Q-14	4Q-14	1Q-15	12/14	1/15	2/15	
QA Score	93%	90%	93%	M	93%	M	M	M
CCS Score	4.51	4.53	4.46	5.00	4.44	5.00	5.00	5.00
Cycle Time	8	8.9	6.3	6.4	7.3	6.8	5.9	6.4
TDI Complaints	2	4	4	3	0	3	0	3
Complaint Ratio	0.26%	0.53%	0.64%	0.66%	0.00%	1.22%	0.00%	0.66%

QA has revised the auditing process to allow for more in-depth, qualitative review. January and February were considered calibration and benchmarking months; "M" indicates Meets Expectations. Additionally, the Key Performance Indicators included above 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.

All TDI complaints are reviewed by senior Claims leadership. Trends were identified when the number of TDI complaints grew to exceed plan in the third quarter of 2014. Following corrective action, complaints have decreased and there were no new complaints in February. We expect the favorable trend to continue in 2015.

Plan of Operation

Staff completed the first phase of revisions to the Plan of Operation in late 2014, making the Plan more concise and easier to use, and presented an update to the Board of Directors at the quarterly meeting in February. TWIA continues its comprehensive review and update, and the Board of Directors will consider the proposed Plan revisions in detail at their next meeting.

Reporting and Governance

Standards of Conduct: Ethics, Fraud Reporting, and Whistleblower Policy

TWIA continues to monitor, train, and report on ethics issues and fraud-reporting standards. No instances of suspected fraud or ethics violations were filed during the reporting period.

Staff began the annual review of the ethics policy to ensure it best reflects the Association's ethical culture, characterized by both transparency and continuous improvement. Staff aims to make the policy more user-friendly while clearly communicating its expectations for ethical behavior from the top down.

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:

January 29, 2015	Underwriting & Actuarial Committee Meeting
February 3, 2015	Quarterly Board of Directors Meeting
May 19, 2015	Quarterly Board of Directors Meeting
August 4, 2015	Quarterly Board of Directors Meeting

Public Information Act

The Association received 26 new Public Information Act requests in the reporting period. Four of the requests received in this period were from the Mostyn Law Firm.

Biennial Report

As previously reported, on December 30, 2014, TWIA submitted its [Biennial Report](#) to certain members of the Texas Legislature. In the reporting period, some of the recommendations for legislative changes contained within the report were introduced as proposed legislation in the 84th Texas Legislative Session. Staff continues to prepare informational materials, meet with legislative staff to act as a resource, and monitor the status of relevant bills.

State of the Association

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 providing better service to its policyholders by 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.

History and Regulatory Changes

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 examinations of TWIA operations between 2008 and 2011 and noted several areas of concern related to TWIA's past corporate governance and operations, including accounting procedures and financial statements, internal controls, record-keeping, communications with the Board of Directors, and claims procedures. An independent audit commissioned in 2010 evaluated procedures related to claims, premiums, expenditures, financial reporting, information systems, business continuity, and internal controls. The independent auditors reported weaknesses in the claims assignment and quality assurance processes, as well as in the Association's conditions for selecting, contracting with, and evaluating the performance of claims adjusting firms. As a result of these observations and public concerns regarding claim handling, TDI placed the Association under Administrative Oversight in February 2011 and the Texas Legislature passed House Bill 3 (HB 3) shortly thereafter. These events necessitated numerous changes to TWIA operations. The Board of Directors hired John W. Polak to replace the former General Manager in April 2011 and 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 complete this bimonthly report on compliance with the Insurance Code and Plan of Operation, 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.

After the passage of HB 3 in 2011, TWIA developed an implementation plan to address all

required changes. One hundred percent of required changes have been addressed, with simplified renewals incorporated into the implementation of TWIA's new policy administration system. The Association has divided the HB 3 simplified renewal mandate into two phases.

The initial phase focuses on simplifying the renewal application process for agents by enabling online submission of renewal applications and corresponding payments. When the new policy administration system is implemented in the second quarter of 2015, agents will be able to make changes to renewals electronically, automatically calculate applicable premium differences, and submit payments electronically by electronic funds transfer (EFT) or a policyholder E-check. Renewal applications submitted by agents will be eligible to auto-issue immediately after submission if all primary eligibility criteria are met.

The second phase focuses on simplifying the renewal process for policyholders. The process entails invoicing the consumer and allowing them to submit payment directly to TWIA if no coverage changes are needed. The Association plans to build technical requirements to develop the application and processes necessary to implement the changes following the initial release of the policy administration system.

Post-HB 3 Improvements

Leadership

Today, following the replacement of almost all of TWIA's previous executive team, leadership has significantly more experience, including extensive involvement with large carriers other than TWIA. The new executive leadership team brings to TWIA a broader range of skills and experience with nearly 150 years of cumulative carrier experience, 90% with national carriers. The TWIA Board of Directors and management have a greater focus on accountability than ever before, and have established new processes and standards consistent with industry best practices.

Accountability

Current leadership recognizes that the Association must be a continuously improving organization, and the management team persistently seeks ways to enhance the organization's effectiveness. The Association now employs extensive controls and detailed financial and operational metrics to measure and evaluate the performance at 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.

Prior to 2013, the Association's priorities were driven by events that occurred well before the arrival of the current management team. As a result, management was more focused on addressing specific issues than a forward-looking strategy. By addressing these tactical

concerns, the TWIA Board of Directors and management created the opportunity to transform the culture from task-based behavior to results-oriented accountability and the underlying operations through strategic, enterprise-wide initiatives. To that end, the Association completed the first formal strategic planning process in 2013 and further enhanced the process in 2014. Strategic planning is essential for the organization to continue progressing to meet the evolving needs of its policyholders and other stakeholders. As a result of the 2013 and 2014 planning, leadership has articulated not only a clear mission and vision to guide the organization as a whole, but also a set of shared values to guide employee actions and strategic goals to guide operations and services.

TWIA's mission is to efficiently provide essential property insurance products and services for eligible Texas policyholders when no one else will, accompanied by a vision to be respected and trusted by stakeholders. In carrying out our purpose, TWIA facilitates commerce in the coastal counties by enabling real estate sales and residential and commercial property mortgages. TWIA embraces the following values in support of its mission:

- Provide quality service to our policyholders
- Value the interests of a broad spectrum of stakeholders
- Ensure the financial sustainability of the enterprise
- Operate efficiently in order to achieve the best use of policyholder funds
- Be a steward of the public trust and hold ourselves to a high standard of ethics
- Objectively measure performance and be accountable for results
- Not intentionally compete with the voluntary market

Through the planning process, leadership has established the strategic goals listed below. Each year, the executive leadership team sets annual objectives, deadlines, and metrics to make further progress toward these goals in the following year.

1. Secure sufficient funding to pay claims and other financial obligations
2. Drive operational efficiency throughout the enterprise
3. Build a culture of continuous improvement, service and accountability
4. Operate transparently through open communication with stakeholders
5. Attract, develop and retain talented people

Organizational Structure

Current leadership has completely restructured the organization. In 2008, the TWIA Claims Department employed only five permanent managers and claims examiners. That staffing model was not sufficiently scalable, either for acquiring adequate numbers of contractors or for properly training them, during a catastrophe. Available resources were severely tested as the claim volume went from a modest 10 to 15 claims per day to over 92,000 claims in a twelve-month period. With approximately 80,000 of those claims filed within the first 30 days, internal and external staffing resources were strained. Since then, TWIA has designed a new

infrastructure able to support claims operations during both catastrophe and non-catastrophe years. The structure now includes a permanent workforce of approximately 50 managers, examiners, and clerical employees supplemented by a flexible, trained, and pre-certified contingent workforce that varies based on claim volume. If claim volume warrants additional staff, the core workforce is able to quickly and effectively onboard well-prepared contract workers. Management has also combined and cross-trained the TWIA and Texas FAIR Plan Association (TFPA) Claims Departments to increase operational efficiency and leverage resources. If TWIA claim volume is low, resources are shifted to TFPA claims and vice versa. Employees are also cross-trained to assist in other departments if claim volume is low for both Associations.

TWIA is a completely different organization today, with nearly all of the 2008 organizational structure replaced, streamlined, or otherwise transformed. TWIA has reorganized the Underwriting, IT, Accounting, Legal, and Compliance Departments to increase managerial controls, operational efficiency, and accountability; and has established new departments to address the needs that resulted from the recent improvements. 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. 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.

In addition, TWIA created a Communications Department to ensure open and transparent communications with all stakeholder groups. TWIA has diverse stakeholders, and leadership values the interests of all. To that end, the Association has developed a multi-faceted communications strategy to engage each stakeholder group on multiple levels; an outreach program to educate and inform stakeholders about TWIA's mission, operations, and values; and an Agent Advisory Group to solicit input from the agent community and facilitate discussion about TWIA initiatives.

Goals for 2015 include redesigning the TWIA website to be more user-friendly; hiring a government relations liaison dedicated to legislative communications; and establishing the frequent, consistent internal communications necessary for continued cultural transformation.

Operational Improvements

Claims

The TWIA Claims Department has instituted sweeping changes over the last few years and

continues to enhance its operational capabilities. Hurricanes Dolly and Ike revealed shortcomings in prior procedures, including vendor management, catastrophe planning, quality assurance, and training, as well as with the level of managerial oversight present at that time. The current Claims management team has addressed all of these areas and developed a detailed Catastrophe Plan; created a robust vendor management program; improved communications with policyholders, adjusters and agents; and increased speed and accuracy of claims handling via updated technology and quality control measures. The following list summarizes the Claims Department's accomplishments in these areas.

- Enhanced the Association's Catastrophe Plan from a simple outline to an extensive, enterprise-wide plan. Enterprise-wide testing is conducted annually; no significant findings were made in 2014. Management has met with Galveston, Nueces, and Jefferson County emergency management officials and is meeting with officials from the remaining coastal counties prior to the 2015 storm season to review the catastrophe plan, coordinate response efforts, and solicit feedback.
- Standardized the selection process for independent adjusting firms, issuing RFQs in 2011 and 2013. Current contracts require a firm to pay TWIA if it is unable to deliver the number of contractually-promised adjusters in the event of a storm. The 2014 adjuster commitments totaled 6,626 TWIA-certified adjusters.
- Segmented the claim assignment process to ensure that claims are processed by staff with the appropriate experience levels and skills; claims are assigned to examiners based on line of business and claim complexity.
- Established objective performance standards and an in-depth quality assurance process to ensure that independent adjusters, inside examiners, and managers are evaluating claims promptly and accurately; results are reported to senior leadership and the Board of Directors monthly.
- Developed separate Residential and Commercial Property Damage Evaluation Guidelines to provide uniform guidance to independent adjusters regarding TWIA standards of claim handling, customer service, communication, and professionalism.
- Created a reinspection program that requires 10% or more of all claims to be reinspected by a more experienced adjuster to ensure quality standards are met; the process includes an interview with policyholders regarding the adjuster's performance, thoroughness, and professionalism.
- Required all adjusting firms to use the same estimating software (Xactimate) and implemented the associated workflow management technology (XactAnalysis), thus allowing management to monitor cycle times, price changes within estimates, and other adjuster performance metrics.

- Created instructor-led adjuster training programs and online training options for both adjusters and examiners; certification of training is required annually.
- Established mandatory 10-hour-per-quarter training requirements for inside examiners and instituted a professional designation program for employees to obtain their Associate in Claims designations from the industry's leading educational solution
- Implemented a team approach for claims with numerous buildings to ensure prompt and accurate investigations; teams are led by highly experienced executive general adjusters that coordinate a team of general adjusters and liaise with TWIA, the policyholder and their agent.

These changes have resulted in a verified, quantifiable improvement in customer service. TWIA Claims has implemented key performance metrics to objectively measure all claims-handling processes, including a customer survey program with excellent results. 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.

Underwriting

Beginning in late 2013, the current Underwriting management team implemented significant operational changes to increase the efficiency and effectiveness of the underwriting process. Key accomplishments are outlined below.

- Simplified workflows in 2014 to eliminate seasonal backlogs and prevent them from occurring in the future.
- Reorganized workflows to assign work to underwriters based on line of business (residential or commercial); residential work is further divided by transaction complexity, ensuring that policy transactions are processed by underwriters with the appropriate experience levels and skills.
- Shifted from a compliance-oriented underwriting model to a risk-based model to ensure consistent decisions across the department and greater operational efficiency.

- Established performance standards and a quality assurance process to ensure that underwriters are adhering to underwriting rules and performance standards; results are reported to senior leadership and the Board of Directors monthly.
- Created a Support Services function to facilitate procedural improvements, automation support, training, quality assurance, agent audits, and fraud investigations.
- Created a dedicated vendor manager and agent services function to improve the department's vendor and agent relationships through communication, training, and quality assurance programs.
- Implemented risk visualization — a more efficient underwriting inspection process that improves assessments of insurability and premium adequacy, increasing the number of annual property inspections, lowering the average cost on a per policy basis, and providing underwriters with a greater volume of accurate data earlier in the underwriting process.
- Established required training hours for each underwriter (40 hours per year) to ensure continuous learning and a professional workforce; offered online training for agents.
- Created an agent audit function to verify agents' compliance with statutory eligibility requirements such as licensing, voluntary market declinations, and flood insurance requirements for certain areas.
- Restructured policy administration system project and incorporated an implementation plan to comply with the HB 3 requirement to simplify the renewal process for agents and policyholders.

The Association monitors the following key underwriting performance metrics and reports on them to leadership and the Board of Directors in a monthly scorecard:

- policy issuance cycle times;
- agent and policyholder survey scores;
- budget conformity and underwriting expense per policy;
- residential policies auto-issued and auto-renewed; and
- quality assurance scores.

Other Areas

Claims and underwriting are the primary operation centers of an insurance company, but they have not been the only areas of focus for operational improvements. Numerous initiatives in other areas have contributed to meeting strategic goals as well as addressing weaknesses noted in past audits. Key accomplishments are summarized below.

- Implemented policies and procedures to ensure proper controls of Association

activities, including purchasing and contract management, public information, and complaint handling.

- Developed policies for ethics, conflicts of interest, and fraud reporting to foster a culture of ethical awareness, responsibility, and accountability.
- Established a policy management program to ensure each policy 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.
- Reduced legal costs and reliance on outside counsel by hiring in-house attorneys; insourcing E-Discovery and matter management functions; and implementing legal invoice review procedures.
- Increased timekeeping and leave balance accuracy and minimized potential FLSA liability exposure by implementing an integrated HR Information System with electronic time and attendance tracking and automated leave approval.
- Implemented a comprehensive performance management program that incorporates developing goals and competencies; conducting quarterly and annual reviews to ensure consistency in performance and outcome-focused accountability; and providing credible, objective criteria to align merit pay with performance.
- Developed training programs for managers and employees to foster a learning and continuously improving organization; this training includes the Association's first extensive new hire orientation program, online business skills training, and instructor-led training.
- Increased quality of new hires by implementing enterprise-wide recruitment and selection programs to effectively acquire and manage talent.
- Reduced costs and cycle times and increased efficiency by reengineering workflows and implementing new staffing models for print services and mail operations.

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. TWIA exceeded projected contributions to the Catastrophe Reserve Trust Fund (CRTF) by \$91 million as a result of 2014 operations. The CRTF, along with premiums, is the first source from which funds are drawn to pay claims in the event of a catastrophe. 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 2014. Expenses compare favorably with both the insurance industry as a whole and other state residual market plans. Of the 36 property insurance plans in the U.S., TWIA maintains the third lowest cost per premium.

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

- contributing over \$260 million to the CRTF as a result of 2014 operations, bringing the CRTF total to over \$475 million for the 2015 storm season;
- 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 and consistently verified by external auditors in 2014.

Since 2008, TWIA has undergone more than a dozen independent audits and examinations 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, the State Auditor's Office, KPMG, as well as the action items in the Operations Improvement Plan (a document assembled to track progress of recommendations and improvements arising from the Administrative Oversight process).

In 2014, TDI and Milliman completed audits of the Association's financial condition and internal controls, and the claims and underwriting functions, respectively. TWIA has received both final reports, which indicate excellent results and no negative findings. The TWIA Underwriting and Claims Departments have prepared action plans, provided them to TDI, and are actively working to implement improvement recommendations.

Through the initiatives implemented since 2011, TWIA management has replaced the previous culture with one dedicated to continuous improvement and accountability, better positioning TWIA to fulfill its mission. Excerpts from recent audit reports are included below:

- 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.
- In March 2014, TDI amended the terms of Administrative Oversight, citing “TWIA’s operational improvements” as a factor in its decision to reduce the scope of oversight.
- The State Auditor's Office August 2012 report states that TWIA “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. In addition, the Association’s accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners’ standards.”

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

Financial

- Contributed over \$260 million to the CRTF as a result of 2014 operations, bringing the balance to over \$475 million for the 2015 storm season
- Secured the highest level of funding for the 2014 hurricane season since 2009, with up to \$3.85 billion in total funds available to pay claims – over \$1 billion more than the total projected cost of Ike
- Issued \$500M in pre-event Class 1 public securities to provide immediate claims-paying capacity after a storm and additional protection to coastal residents, with no associated impact on rates
- Issued the Association’s first catastrophe bond as part of the overall reinsurance program, diversifying and expanding claims-paying capacity
- Performed below budget on controllable expenses for the fourth consecutive year
- Maintained the 3rd lowest cost as a percentage of premium in 2013 of the 36 U.S. FAIR plans and wind pools, despite being the 2nd largest plan nationwide

Communications & Transparency

- Began new website development to provide stakeholders with a better web experience and easier access to information
- Implemented quarterly Agent Advisory Group meetings to improve communications with agents and solicit input for process improvements
- Created an Agent Services team to serve as a help desk for agents during the implementation of Policy Center
- Increased frequency of coastal outreach events to educate communities about TWIA’s mission, vision, and operations
- Scheduled TDI quarterly outreach presentations for the 2nd year
- Developing Legislative and Media briefing materials to provide timely, accurate information
- Developed depopulation process based on extensive input from a diverse stakeholder committee to provide policy data to carriers in order to offer TWIA policyholders voluntary alternatives

Management, Controls & Accountability

- Received positive results from TDI audit and independent audit of Underwriting and Claims operations in October 2014, with no material weaknesses or issues found in operational or financial controls
- Addressed 100% of HB 3 required changes in TWIA operations
- Developed extensive controls and detailed financial and operational metrics to measure and evaluate performance at every level in the Association
- Implemented policyholder and agent satisfaction surveys with increasingly positive results
- Instituted comprehensive performance management program to ensure outcome-focused accountability and credible, objective criteria to align compensation with performance
- Hired an internal auditor to report to the Board and facilitate informed governance through independent validation of the Association’s compliance and risk management practices

Operational Efficiency

- Enhanced the Catastrophe Plan, which includes contracted vendor commitments for up to 6,626 field adjusters and 745 desk examiners – sufficient to handle claim volume associated with a 100-year event
- Simplified underwriting workflows to eliminate seasonal backlogs and prevent them from occurring in the future
- Developed training programs to promote a learning and continuously improving organization, including the first extensive new hire orientation, online business skills training, and manager-specific skills training
- Completed initial development of Policy Center and implemented a systematic approach to manage and communicate the change to stakeholders
- Reduced claims cycle time from 30+ days in 2011 to fewer than 8 in 2014; less than half the industry average
- Implemented risk visualization – a more efficient underwriting inspection process that improves assessments of insurability and premium accuracy

Statutory Index

The Association has provided supplemental information regarding each of the relevant provisions of Chapter 2210 of the Texas Insurance Code, and the Association's compliance therewith, as follows:

Statutory Reference	Appendix	Subject Matter
2210.0025	Appendix A	Biennial Report
2210.004, 2210.201-302	Appendix B	Insurable Property and Coverage Requirements
2210.008	Appendix C	Rulemaking Authority
2210.009, 2210.053(b)	Appendix D	Depopulation
2210.012 & 2210.013, 2210.015	Appendix E	Standards of Conduct
2210.054	Appendix F	Annual Statement
2210.057	Appendix G	Examination of Association
2210.058	Appendix H	State Auditor's Office Examination
2210.071-075	Appendix I	Catastrophe Funding
2210.102	Appendix J	Board Composition
2210.105, 2210.108	Appendix K	Open Meetings Act
2210.108	Appendix L	Public Information Act
2210.15-153	Appendix M	Plan of Operation
2210.203	Appendix N	Policy Issuance
2210.251, 2210.258-260	Appendix O	Compliance with Building Codes
2210.352	Appendix P	Rates

Statutory Reference	Appendix	Subject Matter
2210.455	Appendix Q	Catastrophe Plan
2210.501-504	Appendix R	Limits of Liability
2210.551	Appendix S	Certain Appeals and Other Actions
2210.014, 2210.572(c), 573	Appendix S, Section 3	Claims: Settlement and Dispute Resolution
2210.574	Appendix S, Section 4	Appraisal and Rulemaking
2210.582	Appendix S, Section 5	Ombudsman Funding and Program
2210.107(a)	Appendix T	Annual Evaluation of Association Management

Appendix A: Biennial Report

Texas Insurance Code Section 2210.0025 requires the Board to submit a biennial report regarding the operations of the Association on or before December 31 of each even-numbered year to the Commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission. On December 30, 2014, TWIA submitted its [Biennial Report](#) to the Commissioner and Legislature as required. The report included recommendations for legislative changes developed by the Legislative and External Affairs Committee and approved by the Board at its December 9, 2014 meeting, along with reasons for the changes and a summary of the Association's accomplishments and operations. Some of the recommended changes have been introduced as proposed legislation in the 84th Session.

Appendix B: Insurable Property and Coverage Requirements

Texas Insurance Code 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 as determined by additional criteria specified by the Association in the TWIA Plan of Operation.

Texas Insurance Code 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 and 2014, TWIA implemented several initiatives, including a segmented business model, risk visualization strategy, a quality assurance and training program, and an agent audit process to ensure properties insured by the Association meet these requirements.

Business Segmentation

The Underwriting Department's leadership reorganized in 2014 into functional areas to increase the efficiency of the underwriting process and improve management controls.

A Policy Services function manages policy transactions including issuance, renewals, changes, and cancellations. Work assignments are segmented between residential and commercial lines with transactions further divided by complexity. Segmentation matches work complexity to underwriter skill and promotes greater accuracy in underwriting decisions.

A Support Services function facilitates procedural improvements, automation support, training, quality assurance, and agent audits to continuously improve the decision-making process.

An Agent and Vendor Services function is responsible for managing agent and vendor relationships to ensure the consistent delivery of information to these stakeholders including workflows and procedures, training, and quality assurance metrics.

Risk Visualization Program

Risk visualization is the systematic effort of using information to create an enhanced data model of a property, augmenting the quality of risk communication along the entire risk management lifecycle. The use of risk visualization creates a more efficient underwriting process and reduces risk, creating value for policyholders, agents and the Association by incorporating multiple data sources with an emphasis on data quality and data velocity. Our goal is to provide TWIA policyholders and their agents with reliable information on which to base their insurance purchase decisions.

To this end, the Underwriting Department is reviewing the entire property inspection program including the use of digital imagery, publicly available data, and physical inspections. In May of 2014, TWIA partnered with EagleView Technologies to provide aerial imagery for the

Association's coverage territory using fixed wing aircraft and specialized photographic image processing technology. The imagery is updated annually and integrated with patented oblique measurement technology and third-party data, producing detailed and accurate property specific reports.

TWIA compares the information received from EagleView with the information submitted in new business applications, the Marshall & Swift/Boeckh (MSB) replacement cost calculations, associated physical property inspections and other data sources. TWIA is using this technology when reviewing all new coverage applications, a portion of renewals, and some existing policies. Underwriters inform agents of any discrepancies and work with agents and policyholders to resolve them.

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).

The risk visualization 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;
- (5) Identification of other underwriting concerns related to the general condition of the structure;
- (6) Streamlining of the renewal process;
- (7) Reduced rework for both agents and TWIA;
- (8) Reduced confusion and surprises, such as when a policyholder files a claim only to find he or she did not purchase appropriate coverage; and
- (9) Reduced opportunities for fraud.

This program is being carried out in collaboration with Claims and uses resources from across the organization. The Claims Department also uses information developed during the underwriting process along with the high-resolution photos and roof measurements in the Claims process. A sample risk management report is included as Appendix B, Exhibit 1.

Quality Assurance & Training

The purposes of the Quality Assurance and Training (QA&T) function are to ensure that

department processes and procedures are properly documented, to verify underwriters are adhering to procedures and 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 goal for 2015 is to achieve a 95% QA score for the entire department. Based on data through February 2015, the QA score exceeds expectations at 98.1%.

Agent Audit Process

The Underwriting Department's Support Services function developed an agent audit process, as required by rule 5.4902 of the Texas Administrative Code, to verify agent compliance with the Association's declination and flood insurance requirements. Staff developed and implemented a plan to test the audit procedures on a small sample of agents and reviewed the plan with the TDI, the TWIA Agent Advisory Group, and the Independent Insurance Agents of Texas before conducting a pilot program in the fourth quarter of 2014. Based on the AAG's feedback, staff incorporated revisions to the program and provided status updates to the TDI, AAG, IIAT and Legislative Offices.

TWIA is required to submit a proposal to amend the Plan of Operation to establish a procedure for suspending the acceptance of new or renewal insurance applications from an agent if the Association determines that the agent failed to comply with the declination and flood requirements. The proposal will also include a procedure for an agent to obtain a review of the suspension. Approval of the final audit program will be sought from TDI in the second quarter of 2015, along with the proposed amendment to the Plan of Operation.

Following review by the TDI and the issuance of an announcement to all registered agents, TWIA anticipates starting a regular audit cycle. Each quarter, TWIA's agent auditor will review a sample of in-force policies from randomly selected agents and requests proof of the required declination from a voluntary market insurer and flood insurance, if applicable.

Appendix B, Exhibit 1: 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: _____

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, UV Pilot




Property Risk Management Report

Brownsville, TX 78521
September 30, 2013


REPORT IMAGES

Report #: 2445807
 Geocode: 21.9011930,
-97.4612790

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.



North View



South View



Property Risk Management Report

Brownsville, TX 78521

September 30, 2013

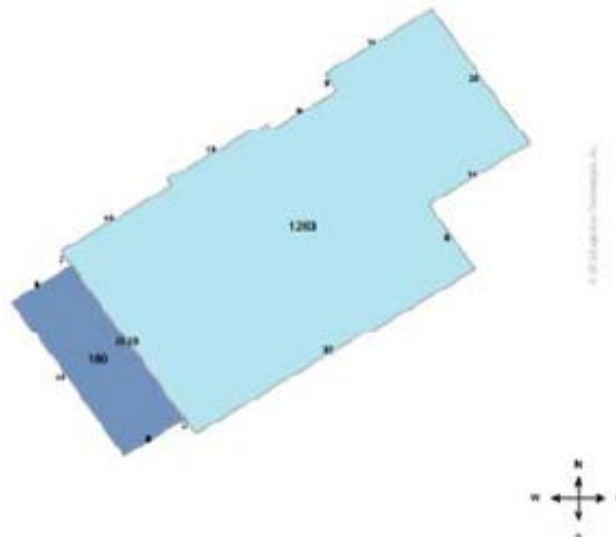
LIVING AREA DIAGRAM

Report #: 7445807
Geocode: 25.9082130,
-97.4621346

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

First Floor

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



Property Risk Management Report

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 combined 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

For more information, please see our [Disclaimer of Terms](#).

Appendix C: Rulemaking Authority

Texas Insurance Code Section 2210.008 gives the Commissioner of Insurance authority to issue any orders necessary to implement Section 2210. No new rules or amendments were proposed or adopted regarding TWIA operations during this reporting period.

Appendix D: Depopulation

Pursuant to Sections 2210.009 and 2210.053(b) of the Texas Insurance Code, TDI is required 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, has implemented a Voluntary Coastal Wind Insurance Portal (VCWIP or the Portal) and is researching a formal depopulation process. The goal of these programs is to assist TWIA policyholders in obtaining coverage from the private insurance market.

Voluntary Coastal Wind Insurance Portal

A key element in TWIA's depopulation program is the Voluntary Coastal Wind Insurance Portal, which provides access to an online data repository 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 clearinghouse concept. 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 online data repository 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 in the third quarter of 2014.

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, six member companies have applied for and received 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 and included two recommendations to the Legislature in its [Biennial Report](#) addressing the depopulation process. Legislation has been proposed for consideration by the 84th Texas Legislature regarding a formal depopulation process.

Appendix E: Standards of Conduct

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 the subsequent quarterly sessions. The Association will continue to have annual Ethics refresher training for all employees as well as sessions for new employees and contractors each quarter.

- (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 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 system 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 initiatives outlined below 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 referrals 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 a sharp increase in fraud investigations and reports from 2010, evidencing TWIA’s increased focus and responsibility on 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	12/31/14	2015 YTD
TDI Fraud	6	32	35	15	19	0
TDI Enforcement	5	7	24	9	2	0

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.

Appendix F: Annual Statement

Texas Insurance Code 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. 2014 Annual Statements were filed on February 27, in advance of the March 1 deadline. Excerpts are provided on the following pages.

STATEMENT OF INCOME

	1	2
	Current Year	Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	367,555,397	295,130,305
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	(25,826,201)	12,468,895
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	11,832,299	(8,493,551)
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	109,189,296	100,524,118
5. Aggregate write-ins for underwriting deductions	262,719,244	22,830,145
6. Total underwriting deductions (Lines 2 through 5)	357,914,638	127,329,607
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	9,640,759	167,800,698
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	(15,841,220)	929,082
10. Net realized capital gains (losses) less capital gains tax of \$ 0 (Exhibit of Capital Gains (Losses))		
11. Net investment gain (loss) (Lines 9 + 10)	(15,841,220)	929,082
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 0)		
13. Finance and service charges not included in premiums		
14. Aggregate write-ins for miscellaneous income	7,986,533	2,177,068
15. Total other income (Lines 12 through 14)	7,986,533	2,177,068
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	1,786,072	170,906,848
17. Dividends to policyholders		
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	1,786,072	170,906,848
19. Federal and foreign income taxes incurred	6,938,511	
20. Net income (Line 18 minus Line 19) (to Line 22)	(5,152,439)	170,906,848
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		(182,979,043)
22. Net income (from Line 20)	(5,152,439)	170,906,848
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 0		
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax		
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	8,090,330	70,757
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		11,017,874
29. Change in surplus notes		
30. Surplus (contributed to) withdrawn from protected cells		
31. Cumulative effect of changes in accounting principles		
32. Capital changes:		
32.1 Paid in		
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in		
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders		
36. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	(2,937,891)	983,564
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)		182,979,043
39. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 38) (Page 3, Line 37)		

DETAILS OF WRITE-IN LINES		
0501. Statutory fund expense	262,719,244	22,830,145
0502.		
0503.		
0598. Summary of remaining write-ins for Line 05 from overflow page		
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)	262,719,244	22,830,145
1401. Sales tax refund	7,715,774	2,147,712
1402. Other income (loss)	270,759	29,356
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	7,986,533	2,177,068
3701. Additional minimum pension liability		1,760,466
3702. Pension unassigned funds - unrecognized losses	(2,937,891)	(776,902)
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	(2,937,891)	983,564

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)				
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 641,585,007, Schedule E - Part 1), cash equivalents (\$ 503,772,725, Schedule E - Part 2), and short-term investments (\$ 0, Schedule DA)	1,145,357,732		1,145,357,732	439,192,975
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives (Schedule DB)				
8. Other invested assets (Schedule BA)				
9. Receivables for securities				
10. Securities lending reinvested collateral assets (Schedule DL)				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	1,145,357,732		1,145,357,732	439,192,975
13. Title plants less \$ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	37,855		37,855	13,154
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	332,370	122,635	209,735	296,311
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
15.3 Accrued retrospective premiums				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon	53,230,537	53,230,537		
18.2 Net deferred tax asset				
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software	7,898,810	7,898,810		
21. Furniture and equipment, including health care delivery assets (\$ 0)	1,582,345	1,582,345		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates	715,489		715,489	729,048
24. Health care (\$ 0) and other amounts receivable				
25. Aggregate write-ins for other-than-invested assets	674,540	511,944	162,596	
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	1,209,829,678	63,346,271	1,146,483,407	440,231,488
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	1,209,829,678	63,346,271	1,146,483,407	440,231,488

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. Prepaid assets	400,063	400,063		
2502. Accounts receivable write-in	162,596		162,596	
2503. Security deposit - lease	111,881	111,881		
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	674,540	511,944	162,596	

NONE

LIABILITIES, SURPLUS AND OTHER FUNDS

	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 35, Column 8)	58,756,130	111,636,395
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)		
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	12,552,703	21,322,660
4. Commissions payable, contingent commissions and other similar charges	5,775,005	5,247,066
5. Other expenses (excluding taxes, licenses and fees)	2,616,833	2,909,433
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	1,900,017	2,209,112
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money \$ 500,000,000 and interest thereon \$ 9,779,467	509,779,467	
9. Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 0 and including warranty reserves of \$ 0 and accrued accident and health experience rating refunds including \$ 0 for medical loss ratio rebate per the Public Health Service Act)	244,726,450	234,739,308
10. Advance premium	6,328,872	5,446,062
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)	27,376,869	24,745,455
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated	5,868,615	4,577,052
16. Provision for reinsurance (including \$ 0 certified) (Schedule F, Part 8)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates		
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes \$ 0 and interest thereon \$ 0		
25. Aggregate write-ins for liabilities	270,802,446	27,398,945
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	1,146,483,407	440,231,488
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	1,146,483,407	440,231,488
29. Aggregate write-ins for special surplus funds		
30. Common capital stock		
31. Preferred capital stock		
32. Aggregate write-ins for other-than-special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus		
35. Unassigned funds (surplus)		
36. Less treasury stock, at cost:		
36.1 0 shares common (value included in Line 30 \$ 0)		
36.2 0 shares preferred (value included in Line 31 \$ 0)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)		
38. Totals (Page 2, Line 28, Col. 3)	1,146,483,407	440,231,488

DETAILS OF WRITE-IN LINES		
2501. Statutory fund payable	262,719,243	22,830,145
2502. Pension benefits liability	3,714,793	776,902
2503. Escheat funds	2,590,517	2,139,028
2598. Summary of remaining write-ins for Line 25 from overflow page	1,777,893	1,652,870
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	270,802,446	27,398,945
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page	NONE	
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page	NONE	
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

Appendix G: Examination of Association

Texas Insurance Code 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.

Appendix H: State Auditor's Office Examination

Texas Insurance Code 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, 11/29/13, 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.

Appendix I: Catastrophe Funding

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. Information regarding TWIA’s current funding program is found in the [Report Summary](#).

Appendix J: Board Composition

Under Texas Insurance Code 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:

Name	Position
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

Appendix K: Open Meetings Act

Texas Insurance Code 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, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 551 Texas Government Code, the Texas Open Meetings Act.

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).

Appendix L: Public Information Act

Texas Insurance Code 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 through February 2015.

	Historical				2014				Feb 2015	2015 YTD
	2011	2012	2013	2014	Q1 2014	Q2 2014	Q3 2014	Q4 2014		
Total Requests Received	108	182	162	161	48	48	41	24	12	26
Number of Requests Withdrawn	7	16	14	17	3	7	3	4	1	1
Number of OAG Rulings Requested	10	20	26	10	7	2	0	1	0	1
% of Requests sent to OAG	9%	11%	16%	6%	15%	4%	0%	4%	0%	4%

As illustrated in the table above, requests increased 68.5% from 2011 to 2012, decreased 11% from 2012 to 2013, and remained steady from 2013 to 2014. Increased media attention, litigation activity, and public interest have contributed to the overall increase in the number of requests received over the past several years.

Appendix M: Plan of Operation

Texas Insurance Code 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 completed the first phase of revisions to the Plan in late 2014 and presented an update to the Board of Directors at the quarterly meeting in February. Revisions to date included removing redundancies, reorganizing, clarifying certain language, improving overall readability, and incorporating statutory changes.

Appendix N: Policy Issuance

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 2/28/14	As of 2/28/15	Change from Prior Year
Mobile Home	947	974	2.85%
Residential	256,526	262,318	2.26%
Commercial	13,014	12,421	-4.56%
Totals	270,487	275,713	1.93%

DIRECT LIABILITY

Policy Type	As of 2/28/14	As of 2/28/15	Change from Prior Year
Mobile Home	\$46,148,509	\$48,653,532	5.43%
Residential	\$64,509,440,477	\$67,823,234,452	5.14%
Commercial	\$12,335,789,890	\$11,404,837,623	-7.55%
Totals	\$76,891,378,876	\$79,276,725,608	3.10%

WRITTEN PREMIUMS (YTD)

Policy Type	As of 2/28/14	As of 2/28/15	Change from Prior Year
Mobile Home	\$111,411	\$151,080	35.61%
Residential	\$45,129,418	\$49,118,604	8.84%
Commercial	\$12,921,171	\$16,508,800	27.77%
Totals	\$58,162,000	\$65,778,484	13.10%

Appendix O: Compliance with Building Codes

Texas Insurance Code 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 February 28, 2015 under the various compliance standards and the total surcharge amounts deposited into the CRTF each year, through February 28, 2015:

Compliance Standard	Policies In-Force	Year	Surcharges
Certificate of Compliance (WPI-8)	235,577	2011	\$6,675,047
WPI-8 Waiver	40,136	2012	\$7,408,157
		2013	\$7,233,546
		2014	\$7,773,258
		2015	\$974,262

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. Legislation has been proposed for consideration by the 84th Texas Legislature that would extend this program.

Appendix P: Rates

Pursuant to Texas Insurance Code 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 became 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		

Appendix Q: Catastrophe Plan

Texas Insurance Code 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.

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 continue to 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 Claims Performance exhibit in the Report Summary illustrates the improvements that management has implemented in both claims handling and policyholder customer service.

Appendix R: Limits of Liability

Under Texas Insurance Code 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 remain the same as the 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 prior maximum limits are:

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

Appendix S: Certain Appeals and Other Actions

Section 1. Appeals

Under the previous law, an insured could dispute a claim decision by filing an appeal with the Commissioner and presenting the dispute to the State Office of Administrative Hearings (“SOAH”). Texas Insurance Code 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.

Section 2. Voluntary Arbitration & Certain Coverage and Claims Disputes

Texas Insurance Code 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.

Section 3. 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 (as of February 28, 2015) regarding claims subject to the HB 3 dispute resolutions.

HB 3 Claims Tracker						
Dispute Frequency			HB 3 Disputed Claims			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
15,786	162	1.03%	126	55	15	22

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

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

Section 4. 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.

Section 5. 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, many 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; FEMA Flood Risk and Insurance open houses and agent workshops in San Patricio and Aransas Counties in November 2014; and coastal community outreach meetings in Nueces County in December 2014 and Jefferson County in February 2015 with TWIA Claims staff and local emergency management resources.

Appendix T: Annual Evaluation of Association Management

The fifth objective outlined in Texas Insurance Code Section 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 and to establish objective standards appropriate to each employee, the Association established individual performance standards for each position. The 2015 budget was reviewed and approved by the Board at its December 9, 2014, 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. 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.