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**Texas Windstorm  
Insurance Association**

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# Bimonthly HB 3 Report Card

May - June 2015

**John W. Polak, CPCU**

**July 31, 2015**

July 31, 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 (May and June 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 is in full material compliance with all current standards of performance outlined in this report. This is the nineteenth interim report card to be issued by TWIA since the enactment of House Bill 3.

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

Sincerely,



John W. Polak, CPCU  
General Manager

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## Report Summary

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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 detailed further in the related [Appendices](#). The [Statutory Index](#) provides a full list of relevant statutory references and the correlating Appendix and subject matter.

The 84<sup>th</sup> Texas Legislature passed a number of bills in 2015 impacting TWIA's funding, operations, and governance. Forthcoming changes to TWIA associated with that legislation are described in relevant Appendices and, briefly, at the end of this summary.

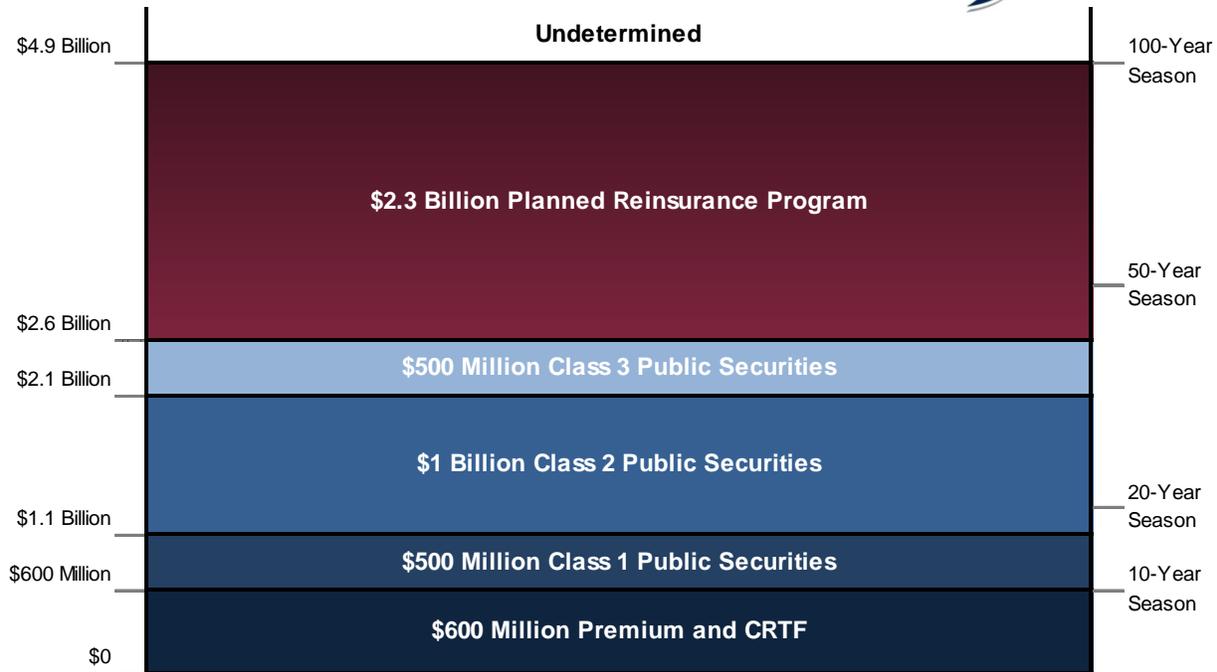
### **Financial Health**

#### **Catastrophe Funding**

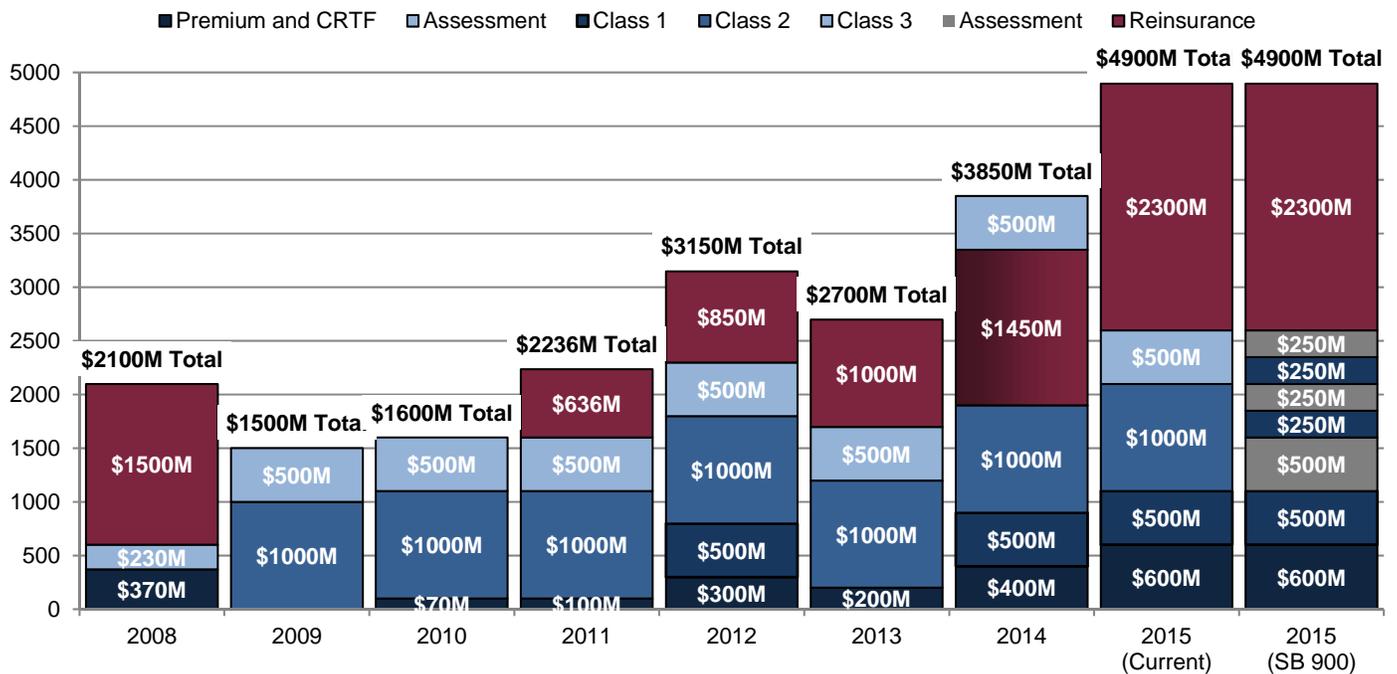
TWIA contributed \$262.7 million to the Catastrophe Reserve Trust Fund (CRTF) as a result of 2014 operations, bringing the CRTF total to over \$480 million for the 2015 storm season. An additional \$120 million is projected to be available for the 2015 hurricane season from the current year's premiums.

At its February meeting, the Board of Directors approved TWIA to secure funding of \$4.88 billion for the 2015 hurricane season, equal to the 100-year Probable Maximum Loss (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 was effective June 1, 2015 and provides coverage on an aggregate basis, meaning multiple hurricane events will be covered in aggregate under the reinsurance program.

TWIA's current funding for the 2015 hurricane season of \$4.88 billion is illustrated by the chart below and 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 completed updates and enhancements to the 2015 TWIA Catastrophe (CAT) Incident Response Plan in May. TWIA currently contracts with vendors committed to supplying field adjusters and desk examiners sufficient to handle claim volume associated with a 100-year event. The revised CAT Plan was included in the Association’s [2015 Annual Report Card](#) published on June 1.

In April 2015, the CAT Plan was activated in response to a prolonged period of severe weather, resulting in the most non-hurricane claims in Association history – second in claim volume only to Hurricane Ike. To date, over 12,000 new claims have been opened as a result of storms in April, May, and June 2015. The Claims Department continues to maintain cycle times and adjuster performance that compare favorably to industry standards.

### Depopulation

Following TWIA’s 2014 launch of the Voluntary Coastal Windstorm Insurance Portal (VCWIP or the Depopulation Portal), 14 companies have gained access to the Depopulation Portal. One participating carrier, United Property & Casualty Insurance Company (UPC), identified 58,000 policies through the Portal and began making offers of coverage earlier this year. UPC is providing regular reports of the offers of coverage made and accepted. As of June 30, they have 2,398 acceptances (499 TWIA policies have already moved to UPC and an additional 1,899 policies with future renewal dates have agreed to move to UPC at the time of policy renewal).

Additionally, the 84<sup>th</sup> Texas Legislature passed legislation regarding a formal depopulation process. TWIA is working with TDI to develop rules and a process for depopulation that will allow policies to be taken out in larger numbers rather than one offer at a time.

### Underwriting Quality Assurance (QA) & Training

Based on data through June 2015, the Underwriting Department’s QA scores, split between Residential and Commercial lines, which indicate production data, customer experience, accuracy, and thoroughness, exceed expectations at 97.4% for Residential and 98.6% for Commercial.

### 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
	3Q-14	4Q-14	1Q-15	2Q-15	4/15	5/15	6/15	
QA Score	90%	93%	90%	91%	88%	91%	93%	91%
CCS Score	4.53	4.46	4.87	4.63	4.77	4.56	4.57	4.75
Cycle Time	8.9	6.3	6.8	10.2	10.5	11.1	9.0	8.5
TDI Complaints	4	4	5	2	1	0	1	7
Complaint Ratio	0.53%	0.64%	0.36%	0.02%	0.02%	0.00%	0.04%	0.06%

Claims QA has revised the auditing process for staff to allow for a more in-depth, qualitative review. In the case of a catastrophe event, Claims QA employs a compliance-based checklist to ensure additional contractors follow consistent claim handling practices. June 2015 scores reflect the level of compliance with TWIA’s internal claim handling guidelines by new contractors brought on to work claims following spring storm events.

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 (i.e. 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. A favorable trend continues in 2015 with a TDI Claims complaint ratio of 0.06%.

**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. Revisions to date include removing redundancies, reorganizing, improving clarity and overall readability, and incorporating statutory changes through the 83<sup>rd</sup> Legislative Session. Staff is completing additional revisions to incorporate enactments by the 84th Texas Legislature, processes related to the Agent Audit Program, and provisions to allow for installment payments. The Board of Directors is expected to review staff’s revisions and, once approved, the proposed plan will be filed with the Texas Department of Insurance for approval.

**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 is reviewing 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. Revisions to the policy are expected to be completed by the first quarter of 2016.

**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 the Association website. The following table lists the meetings conducted during this reporting period as well as upcoming meetings:

May 19, 2015	Quarterly Board of Directors Meeting
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July 30, 2015	Actuarial/Underwriting Committee Meeting
August 4, 2015	Quarterly Board of Directors Meeting

### Public Information Act

The Association received 10 new Public Information Act requests in the reporting period. Two 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 the Texas Legislature. Some of the recommendations for legislative changes contained within the report were introduced as proposed legislation in the 84<sup>th</sup> Texas Legislative Session, and the Legislature adopted statutes regarding depopulation that were based on those included in the Biennial Report. Staff also prepared informational materials and served as a resource to Legislators and staff during session.

### 84<sup>th</sup> Texas Legislature

The 84th Texas Legislative, Regular Session, ended June 1, 2015. The Legislature passed a number of bills with a range of impacts on TWIA, TFPA, and the insurance industry, including Senate Bill (SB) 900, (Senator Larry Taylor), which has the most impact on the Association’s operations. TWIA is meeting with TDI and Legislators in Q3 to discuss the rulemaking process and operational considerations to comply with all legislation. Summaries of bills affecting TWIA operations and an overview of SB 900 are included below:

Bill	Author	Description	Last Action
<b>HB 2439</b>	Rep. Wayne Smith	Relating to inspections and other activities conducted by engineers in connection with the issuance of certain windstorm and hail insurance	Signed by Governor 6/19/15; Effective 9/1/15
<b>SB 498</b>	Sen. Larry Taylor	Relating to building code requirements for residential property insured by TWIA	Signed by Governor 5/28/15; Effective immediately
<b>SB 655</b>	Sen. Kevin Eltife	Relating to own risk and solvency assessment by insurers and insurance groups; providing a penalty	Signed by Governor 5/19/15; Effective immediately
<b>SB 900</b>	Sen. Larry Taylor	Relating to the operation of TWIA; comprehensive bill	Signed by Governor 6/16/15; Effective 9/1/15
<b>SB 956</b>	Sen. Kevin Eltife	Relating to the delivery of personal automobile and residential property insurance policies; adding provisions that may be subject to a criminal penalty.	Signed by Governor 5/29/15; Effective 9/1/15

SB 900, signed into law by Governor Greg Abbott on June 16, most significantly affects the Association’s operations. The bill, authored by Senator Larry Taylor, was amended in the House and passed by the Senate with a vote of 24 to 7 and the House with a vote of 97 to 44. The law becomes effective September 1, 2015.

A number of rules will be needed to clarify how the law will be implemented by TWIA and TDI.

The primary components of the bill are outlined below:

- Changes the loss funding structure including provisions relating to reinsurance, requiring TWIA to fund, at a minimum, a 100-year storm season, which TWIA has already accomplished. The bill requires this level of funding every year from the following sources: TWIA premiums and the CRTF, a combination of \$1 billion in company assessments and \$1 billion in bonds repaid first by TWIA policyholders and by all coastal policyholders if necessary, and sufficient reinsurance or other risk financing to achieve the 100-year storm season. The total amount of statutory funding is reduced by \$500M and the individual components have changed, relying less on bonds repaid by assessments and coastal policyholder surcharges and more on direct assessments of insurance companies and bonds repaid primarily by TWIA policyholders.
- Changes the board composition to a 3-3-3 industry/coastal/inland structure from a 4-4-1 industry/coastal/inland structure; new board members will be appointed effective October 1, 2015.
- Allows for assumption reinsurance agreements between the Association and private market insurers to facilitate depopulation, allowing large numbers of TWIA policyholders to obtain coverage from private insurance companies interested in writing on the Texas coast. Policyholders are guaranteed comparable rates and coverages for the first year and the option to renew for at least three years. They will maintain their ability to choose their own agent, and even to choose to stay with TWIA if they desire.
- Authorizes TWIA to issue a policy for temporary coverage (up to 30 days) if a TDI-approved inspection verification or other inspection form has been issued for a structure before the WPI-8 is secured.
- Allows the Commissioner to contract with an administrator (MGA or TPA) to manage the Association and administer the plan of operation if it is in the best interest of policyholders and the public. In light of the many improvements the Association has made in the last few years, it is difficult to envision a scenario in which a third-party management company overseeing TWIA would be necessary.

## State of the Association

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Since 2011, TWIA has taken numerous steps to improve corporate governance and the overall operations of the Association. These steps include introducing a new management team, improving overall funding, and 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 and concerns about TWIA's claims handling practices, 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 HB 3 in July 2011. 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, claim handling procedures, and affected the judicial remedies available 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 and dispute resolution and required the commissioner to appoint 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, TWIA developed an implementation plan to address all required changes. TWIA has addressed all required changes, with simplified renewals incorporated into the implementation of TWIA's new policy administration system, Policy Center, in 2015. The Association has divided the HB 3 simplified renewal mandate into two phases.

The initial phase to simplify the renewal application process for agents by enabling online submission of renewal applications and corresponding payments was accomplished in the second quarter of 2015 with the implementation of Policy Center. Agents can now make changes to renewals electronically, automatically calculate applicable premium differences, and submit payments electronically by electronic funds transfer (EFT) or a policyholder eCheck. Policy Center will immediately issue renewal policies for applications that meet all primary eligibility criteria and include payment.

The second phase focuses on simplifying the renewal process for policyholders. The process entails invoicing the policyholder and allowing the policyholder 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 within the policy administration system during the next year.

## **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 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 external 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 Association's culture from task-based behavior to results-oriented accountability with strategic, enterprise-wide initiatives. To that end, the Association completed the first formal strategic planning process in 2013, enhanced the process in 2014, and will continue to refine the process in 2015 and beyond.

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 a clear mission and vision to guide the organization as a whole, 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 this purpose, TWIA facilitates commerce in the coastal counties by enabling real estate sales and residential and commercial property mortgages and by providing a means to rebuild and recover after a catastrophic event. 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

The Association's leadership has established the following strategic goals:

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

Each year, the executive leadership team sets annual objectives, deadlines, and metrics to make further progress toward these goals in the following year.

### ***Organizational Structure***

Current leadership has completely restructured the organization, beginning with the Claims Department. In 2008, the TWIA Claims Department employed only five permanent managers and claims examiners. That staffing model did not allow TWIA to acquire an adequate number

of contractors or properly train 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 12-month period. With approximately 80,000 of those claims filed within the first 30 days, internal and external staffing resources were strained. Today, TWIA has a new infrastructure capable of supporting 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 deploy well-prepared contract workers. This staffing model follows industry best practices and comprises one of the largest, dedicated CAT teams in the industry. Management has also combined and cross-trained the TWIA and 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.

Not only has the Claims Department been dramatically transformed, but nearly all of the 2008 organizational structure has been replaced, streamlined, or otherwise improved. TWIA has reorganized the Underwriting, IT, Accounting, Legal and Compliance, and Communication Departments to increase managerial controls, operational efficiency, and accountability. 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 achieving 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.

TWIA also created a Communications & Legislative Affairs 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. Communications deployed a redesigned website in May 2015. The new website is more user-friendly and gathers user analytics that will enable the evaluation and improvement of communication strategies.

## Operational Improvements

### Claims

The TWIA Claims Department has instituted sweeping changes over the last few years and continues to enhance its operational capabilities. The current Claims management team has enhanced all claim handling processes, including workflows and procedures, catastrophe planning, quality assurance and training, and the level of managerial oversight. Further, the department developed a detailed Catastrophe (CAT) Incident Response Plan; created a robust vendor management program; improved communications with policyholders, adjusters and agents; and increased the speed and accuracy of claims handling via updated technology and quality control measures. The following list summarizes the Claims Department's accomplishments in these areas:

- Enhanced the Association's CAT Plan from a simple outline to an enterprise-wide plan. Enterprise-wide testing is conducted annually; no significant findings were made in 2014. The 2015 CAT Plan includes an after-action reporting and improvement planning process with requirements for testing, training, and exercises to ensure continuous improvement.
- Initiated meetings with emergency management officials in Galveston, Nueces, Jefferson, Chambers, and Harris Counties and have plans to meet with officials from the remaining coastal counties, as scheduling permits, to review the 2015 CAT 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 2015 adjuster commitments total over 6,000 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.
- Implemented a team approach for Commercial property 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.

- Created a field adjuster reinspection program that requires 10% or more of all claims to be reinspected 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 enabling management to monitor all aspects of the adjustment process, including 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 or Chartered Property & Casualty Underwriter designations from the industry's leading educational provider.

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 average speed of answer and call abandonment rate
- quality assurance scores for inside claims examiners
- customer survey scores

## **Underwriting**

Beginning in late 2013, the current Underwriting management team began implementing 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.

- Implemented Policy Center, a new policy administration system, allowing policies to be issued immediately on 91% of submitted new business applications and 83% of renewals, dramatically reducing the average time for an agent to receive a policy.
- 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.
- 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 an internal Support Services function to facilitate procedural improvements, automation support, training, quality assurance, agent audits, and fraud investigations.
- Created an Agent Services team to provide dedicated support to agents.
- 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, agents, and policyholders 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.
- Consolidated the TWIA and TFPA Underwriting Departments with a goal to become one seamless operation to better serve the needs of both Associations' 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
- 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 policies are 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 operating expense as a percentage of premiums.

Through diligent efforts, staff has achieved several notable milestones concerning the Association's funding for the 2015 storm season and beyond, including:

- contributing \$262.7 million to the CRTF as a result of 2014 operations, bringing the CRTF total to more than \$480 million for the 2015 storm season – the highest balance since the CRTF was established;
- issuing \$500 million in Class 1 public securities to provide immediate claims-paying capacity after a storm and additional protection to coastal policyholders and residents with no associated impact on rates; and
- issuing the Association's first catastrophe bonds as part of the overall reinsurance programs in 2014 and 2015, providing multi-year stability and further diversifying and expanding the Association's 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, and 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. The final reports 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 states that “under recent new management the [TWIA Underwriting] 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 and the frequency of required reporting.
- 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

- Secured approximately \$4.9 billion in funding for 2015 – equal to a 100-year season – continuing the trend of progressively higher funding levels each year since 2009 and over \$2B more than the total cost of Ike
- Contributed \$262.7M to the CRTF as a result of 2014 operations, bringing the balance to more than \$480M – the highest in the history of the CRTF
- Maintained the 3<sup>rd</sup> lowest cost as a percentage of premium of the 36 U.S. FAIR plans and wind pools in 2013, despite being the 2<sup>nd</sup> largest plan nationwide
- Issued \$500M in pre-event Class 1 public securities to provide immediate claims-paying capacity after a storm and additional protection to coastal residents over the next 10 years, with no associated impact on rates
- Issued the Association’s first catastrophe bonds as part of the overall reinsurance programs in 2014 and 2015, providing multi-year stability and further diversifying and expanding TWIA’s claims-paying capacity
- Performed below budget on controllable expenses for the 4<sup>th</sup> straight year

## Communications & Transparency

- Launched new TWIA.org website that dramatically improves the user experience and provide analytics to refine communication strategies
- Implemented quarterly Agent Advisory Group meetings to improve communications with agents and solicit input for process improvements
- Formed an Agent Services team initially to assist agents during the implementation of Policy Center and ultimately for all agent issues
- Restructured resources to create a new Communications and Legislative Affairs function, adding strategic focus to stakeholder outreach efforts, including increased frequency of legislative meetings and coastal outreach events to serve as a resource to stakeholders
- Developed Legislative and Media briefing materials to provide timely, accurate, and relevant information
- Developed depopulation process to provide policy data to carriers in an effort to offer TWIA policyholders voluntary alternatives, resulting in 58,000 offers from one participating carrier

## Management, Controls & Accountability

- Received positive results from TDI and independent audits in October 2014, with no material weaknesses 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
- Created an internal audit function to facilitate informed governance through independent validation of the Association’s compliance and risk management practices

## Operational Efficiency

- Enhanced the Catastrophe Plan and secured commitments for over 6,000 adjusters – enough to handle the claim volume of a 100-year event
- Activated CAT Plan for record number of spring storm claims and closed almost 90% to date while maintain favorable cycle times and positive customer survey scores
- Implemented the initial release of Policy Center resulting in immediate issuance of 91% of all new applications and 83% of renewals
- Consolidated underwriting functions of TWIA and TFPA into a single operational environment to optimize efficiency
- Developed training programs to promote a learning and continuously improving organization, including the first extensive new hire orientation, online business training, and manager-specific skills training programs
- 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

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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:

<b>Statutory Reference</b>	<b>Appendix</b>	<b>Subject Matter</b>
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

<b>Statutory Reference</b>	<b>Appendix</b>	<b>Subject Matter</b>
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

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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. TWIA submitted its [Biennial Report](#) on December 30, 2014 to the Commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission. The report included recommendations for legislative changes developed by the Board's Legislative and External Affairs Committee and approved by the Board at its December 9, 2014 meeting. The report also included the reasons for the changes and a summary of the Association's accomplishments and operations.

## Appendix B: Insurable Property and Coverage Requirements

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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 confirmed 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.

Since 2013, TWIA has implemented several initiatives, including a segmented business model, risk visualization strategy, a quality assurance and training program, an agent audit process, and a new policy administration system 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. TWIA's goal is to provide 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 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:

- Improved assessments of property insurability and assistance in determining adequacy of insurance and accurate premium for each risk
- Increased total number of properties inspected annually while lowering the average cost on a per policy basis
- Efficient use of inspection dollars by more effectively identifying properties requiring onsite inspection
- Identification of unrepaired damage and potential building code non-compliance
- Identification of other underwriting concerns related to the general condition of the structure
- Streamlining of the renewal process
- Reduced rework for both agents and TWIA
- Reduced confusion and surprises, such as when a policyholder files a claim only to find he or she did not purchase appropriate coverage
- 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 Quality Assurance and Training (QA&T) function was implemented in the Underwriting Department 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. QA scores are split between Residential and Commercial lines. Based on data through June 2015, the QA scores for both lines exceed the department's goal to achieve a 95% QA score (Residential is 97.4% and Commercial is 98.6%).

### **Agent Audit Process**

The Underwriting Department's Support Services function developed an agent audit process, as required by Rule 5.4902 of Title 28 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 TDI, the TWIA Agent Advisory Group (AAG), and the Independent Insurance Agents of Texas (IIAT) 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.

TDI rules are required to authorize TWIA 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 insurance requirements. The rules will also include a procedure for an agent to obtain a review of the suspension. TWIA is developing the language for a suspension process and anticipates completion of this in the third quarter of 2015.

Following TDI's review and an announcement to all registered agents, TWIA began regular audit cycles in 2015. Each quarter, TWIA's agent auditor reviews a sample of in-force policies from randomly selected agents and requests proof of the required declination from a voluntary market insurer and, if applicable, flood insurance.

# 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: \_\_\_\_\_

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**BUILDING SUMMARY**

Year Built: 1935

Number of Stories: 1

Estimated Living Area: 1,263 sq. ft.

Garage (None): 0 sq. ft.

**REPORT CONTENTS**

Report Images ..... 2

Living Area Diagram ..... 3

Outbuilding Diagram ..... 6

Structural & Property Observations ..... 7

**PREPARED FOR:**  
TWIA, UV Pilot



**Property Risk Management Report**

Brownsville, TX 78521
September 30, 2013

**REPORT IMAGES**

Report #: 2445807

Geocode: \_\_\_\_\_

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

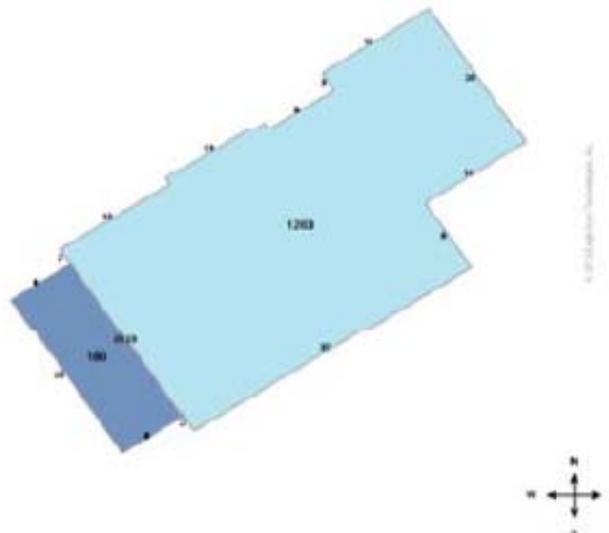
### LIVING AREA DIAGRAM

Report #: 7445807  
Geocode: 25,9051130,  
-87.4621346

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:	2-5
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

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Texas Insurance Code Section 2210.008 provides the Commissioner of Insurance general rulemaking authority to issue any orders necessary to implement Section 2210. On December 16, 2014, TDI adopted amendments to rules [5.4200](#) and [5.4202](#) which pertain to the one-year claim filing deadline for policyholders outlined in Sections 2210.205 and 2210.543. The amendments are meant to make the extension process easier to understand and went into effect on January 5, 2015.

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

## Appendix D: Depopulation

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Pursuant to Sections 2210.009 and 2210.053(b), 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, implemented a Voluntary Coastal Windstorm Insurance Portal (VCWIP or the Depopulation Portal). The Board recommended statutory changes in the Biennial Report to facilitate a depopulation program. The goal of these programs is to assist TWIA policyholders in obtaining coverage from the private insurance market.

### Voluntary Coastal Windstorm Insurance Portal

A key element in TWIA's depopulation program is the Voluntary Coastal Windstorm Insurance Portal, which provides access to an online 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. Private market insurers can use the data to identify policies that meet their underwriting standards and that they are willing to write. 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 Depopulation Portal at their May 21, 2014 meeting.

By making this insurance data available to private market insurance companies willing to write policies in the designated catastrophe area, the online data repository results 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 Depopulation 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 Depopulation Portal became available to TWIA member companies on November 10, 2014. Staff developed and implemented a plan to ensure effective and appropriate communications to each stakeholder group. Before activating the Depopulation 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 Depopulation 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 AAG provided feedback about the process and communication plan prior to implementation. At this time, 14 member companies have applied for and received access to the Depopulation Portal. The [list of member companies](#) with access to the Depopulation Portal can be found on the TWIA website. This information is updated monthly. One participating carrier, United Property & Casualty Insurance Company (UPC), began extending offers to almost 60,000 TWIA policyholders in March 2015.

## Depopulation Process

Late in 2013, TWIA was approached by UPC who offered 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. The Board recognized that legislation would be required for TWIA to adopt a similar process and included a recommendation to authorize assumptions in its Biennial Report to the Legislature. Senate Bill 900, signed into law by the Governor on June 16, 2015, updated the Texas Insurance Code to allow for assumption reinsurance agreements between the Association and private market insurers. TWIA will work with TDI to develop rules and a process for depopulation using assumption reinsurance.

## Appendix E: Standards of Conduct

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### Ethics & Conflicts of Interest Policy

TWIA developed and implemented a comprehensive Ethics & Conflict of Interest Policy ("Ethics Policy") in February 2011. The policy was later revised in September 2011 and April 2012 to incorporate changes mandated by HB 3 and to further define prohibited employment relationships. The Ethics Policy uses the statutory language of Sections 2210.012 and 2210.013 and states that a member of the TWIA Board of Directors, employee, or contractor 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 values 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 conducts annual stand-alone Ethics training for existing employees as well as separate trainings for new employees and contractors. Compliance and HR staff teach quarterly TWIA 101 sessions for new employees and contractors. TWIA 101 is a comprehensive orientation program for new employees and includes, among other topics, an hour-long ethics module. 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

After development, TWIA 101 was completed for all existing employees in March 2014. 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.

- (2) 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 Claims Examiners did not issue payments to former employers. Claims conducts regular audits to verify compliance within the department.
- (3) 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.
- (4) 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.
- (5) The Association developed a system to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.
- (6) 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 five modules of in-depth training for Claims personnel regarding insurance fraud and fraud indicators. TWIA’s SIU program tracks referral rates, results, and reports made to the Texas Department of Insurance Fraud Intake Unit. Generally, wind and hail claims do not generate the number of SIU referrals and fraud reports as policies with coverage for perils like fire, theft, vandalism, etc. The following chart illustrates 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
<b>TDI Fraud</b>	6	32	35	15	19	7
<b>TDI Enforcement</b>	5	7	24	9	2	4

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, Vice President of Legal & Compliance, and General Manager. To date, we have received zero reports of ethics violations.

**Appendix F: Annual Statement**

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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.

The statutory balance sheet shows the financial position of TWIA at the end of 2014 compared with June 30, 2015. The statutory income statement shows a comparison between 2015 actual and budgeted revenues and expenses.

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>		
<b>Statutory Balance Sheet (000's omitted)</b>		
	<b>June-15</b>	<b>December-14</b>
<b>Admitted Assets</b>		
Cash and short term investments:		
Unrestricted	\$ 399,766	\$ 641,585
Restricted - Funds Held at TTSTC	513,453	503,773
Total cash and short term investments	913,219	1,145,358
Premiums receivable & other	1,641	1,126
Amounts recoverable from reinsurers	-	-
<b>Total admitted assets</b>	<b>\$ 914,860</b>	<b>\$ 1,146,483</b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	\$ 96,896	\$ 71,309
Underwriting expenses payable	16,369	10,292
Unearned premiums, net of ceded unearned premiums	148,592	244,726
Ceded reinsurance premiums payable	88,330	27,377
Principal Outstanding on Class 1 Pre Event Bonds	500,000	500,000
Interest Payable on Class 1 Pre Event Bonds	19,344	9,779
Provision for reinsurance	4,982	-
Other payables	27,819	20,281
Statutory fund payable	12,528	262,719
<b>Total liabilities</b>	<b>914,860</b>	<b>1,146,483</b>
<b>Surplus and others funds</b>		
Unassigned surplus	-	-
<b>Total liabilities, surplus and other funds</b>	<b>\$ 914,860</b>	<b>\$ 1,146,483</b>
<b>Balance in CRTF</b>	<b>\$ 482,886</b>	<b>\$ 216,813</b>
<b>Balance in CRTF including Statutory fund payable</b>	<b>\$ 495,414</b>	<b>\$ 479,532</b>

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>				
<b>Statutory Income Statement (000's omitted)</b>				
<b>for the six months ended June 30,</b>				
	<b>Actuals - 2015</b>	<b>Budget - 2015</b>	<b>Variance - 2015</b>	<b>Actuals - 2014</b>
<b>Premiums Written:</b>				
Direct	\$ 257,402	\$ 264,475	\$ (7,073)	\$ 239,387
Ceded	(126,826)	(117,664)	(9,162)	(117,268)
Net	130,576	146,811	(16,235)	122,119
<b>Premiums Earned:</b>				
Direct	\$ 247,848	\$ 248,260	\$ (412)	\$ 235,924
Ceded	(21,138)	(19,611)	(1,527)	(14,577)
Net	226,711	228,649	(1,938)	221,347
<b>Deductions:</b>				
Direct Losses and LAE Incurred	131,802	65,097	66,705	4,855
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	0
Ceded Losses and LAE Incurred	0	0	0	0
Operating Expenses	14,191	15,840	(1,649)	13,239
Commission Expense	41,167	42,316	(1,149)	38,296
Ceding commissions / brokerage	(3,472)	(6,022)	2,550	(6,025)
Premium / Maintenance Tax	5,009	5,210	(201)	4,719
Total Deductions	188,697	122,441	66,256	55,085
<b>Net Underwriting Gain or (Loss)</b>	<b>38,014</b>	<b>106,208</b>	<b>(68,194)</b>	<b>166,263</b>
<b>Other Income or (Expense):</b>				
Gross Investment Income	528	490	38	517
Interest Expense on Class 1 Bonds	(19,344)	(19,344)	0	0
Debt Issuance & Other Investment Expenses	(76)	(239)	163	(564)
Sales Tax Refund and Other Income (Expense)	2	0	2	3,775
Total Other Income or (Expense)	(18,890)	(19,093)	203	3,728
<b>Net Income Before Income Taxes</b>	<b>19,124</b>	<b>87,115</b>	<b>(67,991)</b>	<b>169,991</b>
Federal Income Tax Expense (Benefit)	0	0	0	0
<b>Net Income (Loss)</b>	<b>\$ 19,124</b>	<b>\$ 87,115</b>	<b>\$ (67,991)</b>	<b>\$ 169,991</b>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	0	0	0	0
Net Income (Loss)	19,124	87,115	(67,991)	169,991
Change in Provision for Reinsurance	(4,982)	(6,500)	1,518	(6,533)
Change in nonadmitted assets - Income Tax Rec	0	0	0	0
Change in nonadmitted assets - Other	(1,614)	(1,078)	(536)	(1,016)
Other	0	0	0	0
Statutory Fund Cost	(12,528)	(79,537)	67,009	(162,442)
Ending Surplus (Deficit)	\$ -	\$ -	\$ -	\$ -
<b>Key Operating Ratios:</b>				
<b>Direct:</b>				
Loss & LAE Ratio	53.2%	26.2%	27.0%	2.1%
<b>UW Expense Ratio:</b>				
Acquisition	17.9%	18.0%	0.0%	18.0%
Non Acquisition	5.7%	6.4%	-0.7%	5.6%
UW Expense Ratio	23.7%	24.4%	-0.7%	23.6%
Combined Ratio	76.8%	50.6%	26.3%	25.6%
<b>Net:</b>				
Loss & LAE Ratio	58.1%	28.5%	29.7%	2.2%
<b>UW Expense Ratio:</b>				
Acquisition	19.4%	19.2%	0.3%	18.8%
Non Acquisition	6.3%	6.9%	-0.7%	6.0%
UW Expense Ratio	25.7%	26.1%	-0.4%	24.7%
Combined Ratio	83.8%	54.6%	29.3%	26.9%

## Appendix G: Examination of Association

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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

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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

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### Current 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](#).

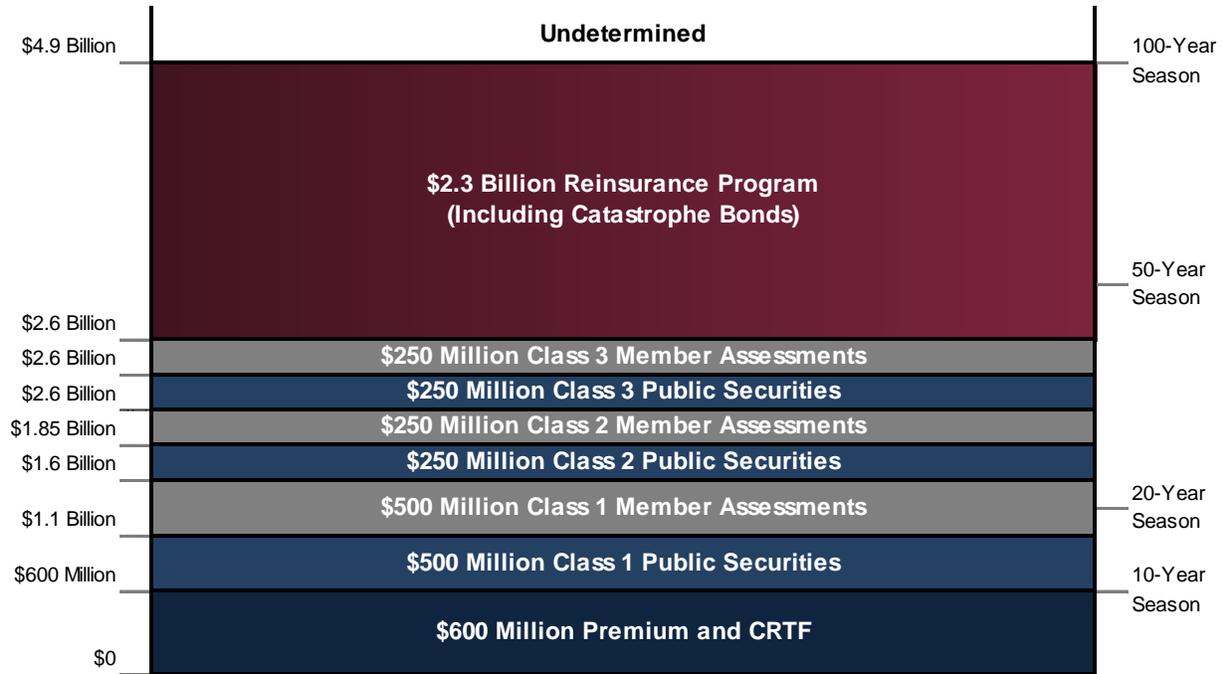
## **SB 900**

SB 900, signed into law on June 16, 2015, changes the sources of funding available to pay TWIA losses. It also requires total funding not less than the 100-year probable maximum loss for a hurricane season. The new sources are, in order:

- TWIA premiums and other revenue
- Available reserves and amounts in the CRTF
- Up to \$500 million in Class 1 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to \$500 million in Class 1 assessments on TWIA member companies
- Up to \$250 million in Class 2 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to \$250 million in Class 2 assessments on TWIA member companies
- Up to \$250 million in Class 3 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to \$250 million in Class 3 assessments on TWIA member companies
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season

Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property policies.

TWIA's funding for the 2015 hurricane season under SB 900 is illustrated by the chart below:



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

## Appendix J: Board Composition

### Current Composition

Under Texas Insurance Code Section 2210.102, the Board of Directors is composed of ten members (nine voting members and one 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 current 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

## SB 900 Composition

SB 900, signed into law on June 16, 2015, changes the composition of the board. With additional caveats, the public and industry representatives are each reduced from four to three, and the non-coastal representatives increase from one to three. The industry representatives must be actively writing and renewing windstorm and hail insurance in the first tier coastal counties; the public members must reside in the first tier coastal counties and represent certain regions of the catastrophe area; and the non-coastal representatives must be located more than 100 miles from the Texas coastline. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent. Under SB 900, new board members would be appointed by the Commissioner of Insurance on October 1, 2015. TDI issued a press release in June 2015 requesting applications for the TWIA Board of Directors in order to comply with the new composition needed. The application deadline is August 1, 2015.

## Appendix K: Open Meetings Act

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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](http://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. 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 from 2011 through June 2015.

	Historical				2014				June 2015	2015 YTD
	2011	2012	2013	2014	Q1 2014	Q2 2014	Q3 2014	Q4 2014		
<b>Total Requests Received</b>	108	182	162	161	48	48	41	24	3	68
<b>Number of Requests Withdrawn</b>	7	16	14	17	3	7	3	4	0	5
<b>Number of OAG Rulings Requested</b>	10	20	26	10	7	2	0	1	0	3
<b>% of Requests sent to OAG</b>	9%	11%	16%	6%	15%	4%	0%	4%	0.0%	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 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. Revisions to date included removing redundancies, reorganizing, clarifying certain language, improving overall readability, and incorporating statutory changes. Staff is completing additional revisions to incorporate enactments by the 84th Texas Legislature and processes related to the Agent Audit Program. The Board of Directors is expected to review staff’s revisions and, once approved, the proposed plan will be filed with the Texas Department of Insurance for approval.

## 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 through June 2015:

### POLICIES IN-FORCE

Policy Type	As of 6/30/14	As of 6/30/15	Change from Prior Year
Mobile Home	969	956	-1.3%
Residential	252,184	260,810	3.4%
Commercial	12,984	11,845	-8.8%
<b>Totals</b>	<b>266,137</b>	<b>273,611</b>	<b>2.8%</b>

### DIRECT LIABILITY

Policy Type	As of 6/30/14	As of 6/30/15	Change from Prior Year
Mobile Home	47,763,781	48,677,505	1.9%
Residential	64,183,083,896	68,114,298,042	6.1%
Commercial	12,067,174,722	10,765,942,592	-10.8%
<b>Totals</b>	<b>76,298,022,399</b>	<b>78,928,918,139</b>	<b>3.4%</b>

## WRITTEN PREMIUMS (YTD)

Policy Type	As of 6/30/14	As of 6/30/15	Change from Prior Year
Mobile Home	594,264	666,962	12.2%
Residential	181,964,907	201,139,576	10.5%
Commercial	55,578,867	55,182,296	-0.7%
<b>Totals</b>	<b>238,138,038</b>	<b>256,988,834</b>	<b>7.9%</b>

## 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 CRTF. The following tables show the number of TWIA policies in-force as of June 30, 2015 under the various compliance standards and the total surcharge amounts deposited into the CRTF each year, through June 2015:

Compliance Standard	Policies In-Force	Year	Surcharges
<b>Certificate of Compliance (WPI-8)</b>	234,479	2011	\$6,675,047
<b>WPI-8 Waiver</b>	39,132	2012	\$7,408,157
		2013	\$7,233,546
		2014	\$7,773,258
		2015	\$3,303,615

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 required structures insured by the Association on or after December 31, 2015, to comply with the applicable windstorm building code standards. Senate Bill 498 was proposed for consideration by the 84<sup>th</sup> Texas Legislature to indefinitely extend the WPI-8 waiver surcharge program which allows non-compliant structures to be insured with TWIA for a 15% surcharge. The bill was signed into law by the Governor on May 28, 2015 and is effective immediately.

## 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%
<b>Notes:</b>	(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. The 2015 TWIA Catastrophe (CAT) Incident Response Plan was included in the Association’s [2015 Annual Report Card](#) published on June 1.

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 2015 version of the CAT Plan is a streamlined, 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
- operational guidelines and directives for TWIA's response to a catastrophe that align with emergency incident response best practices
- a corrective action program incorporating after-action reporting and improvement planning processes
- requirements for testing, training, and exercises to ensure continuous planning improvement

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 & Activation

TWIA has activated the CAT Plan seven times since January 1, 2012 for localized wind and hail events and has updated the plan based on information gathered from these events. In April 2015, the CAT Plan was activated in response to a prolonged period of severe weather, resulting in the most non-hurricane claims in Association history (Previously, the first was the Robstown hail event of January 2011.). To date, over 12,000 new claims have been opened as a result of storms in April, May, and June 2015 with the following outcomes:

- Over 11,000 storm claims (91.4%) closed, with an average time from first notice of loss to claim payment of 14.6 days
- Continued high performance compared to industry benchmarks for field adjuster performance:
  - Average turn-around time from TWIA's assignment to field adjuster to return of adjuster estimate and report is 6.6 days
  - Average turn-around time from industry assignment to field adjuster to return of adjuster estimate and report is 13.2 days

- Responded to high volume of new claims efficiently and effectively without having to request extension of time limits from Commissioner of Insurance

TWIA 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 activation of the CAT Plan in 2015 will allow Claims to create and incorporate after-action reports into an improvement plan which will determine the need for additional testing, training, and exercises going forward. The CAT Plan will continue to be evaluated annually to determine the need for testing, training, and exercises.

### 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. Detailed information about Claims performance metrics can be found in the [Report Summary](#).

## Appendix R: Limits of Liability

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

## Appendix S: Certain Appeals and Other Actions

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### **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 June 30, 2015) regarding claims subject to the HB 3 dispute resolutions.

Disputed Claims Tracker*						
Dispute Frequency			Disputed Claims			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
27,749	209	0.75%	164	61	25	30

\* 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: 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 of Commerce, 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; coastal community outreach meetings in Nueces County in December 2014, Jefferson County in February 2015, and Chambers and Harris Counties in April 2015 with TWIA Claims staff and local emergency management resources; a Catastrophe Readiness seminar at the Coastal Bend Hurricane Conference in Robstown in May 2015; Prepare for Anything: Hurricanes presentation at Del Mar College in Nueces County for the small business community in May 2015; outreach events for the Beaumont Rotary Club and JS Edwards & Sherlock Agency clients in June 2015; and a public hurricane preparedness workshop in Kingsville in June 2015.

## Appendix T: Annual Evaluation of Association Management

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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.