

November/December

2012

# Interim Report Card



January 31, 2013

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

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

---

House Bill 3 became effective on September 28, 2011, and pursuant to Tex. Ins. Code, Section 2210.107(b), please find the bi-monthly interim report ("Interim Report Card") evaluating the extent to which the Texas Windstorm Insurance Association ("TWIA" or "Association") has met the objectives described by Section 2210.107(a), Texas Insurance Code for the two-month period preceding the date of the report (November and December 2012).

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

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

The Association believes it is in full material compliance with all current standards of performance outlined in each of the following sections. This is the eighth 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

## About This Report

---

In 2011, the 82nd Texas Legislature, 1<sup>st</sup> Called Special Session, passed House Bill 3 (“HB 3”), modifying various aspects of the operations of the Texas Windstorm Insurance Association (“TWIA”). Amendments to Tex. Ins. Code, Section 2210.107 directed TWIA to report bi-monthly to the TWIA board of directors the extent to which TWIA has met the objectives in Section 2210.107(a)<sup>1</sup>. This interim report card has been developed to satisfy these reporting requirements.

The primary objectives of the board of directors are to ensure that the board and TWIA:

- (1) operate in accordance with this chapter, the plan of operation, and commissioner rules;
- (2) comply with sound insurance principles;
- (3) meet all standards imposed under Chapter 2210;
- (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.

---

<sup>1</sup> Statutory references are to the Texas Insurance Code unless otherwise stated.

## Executive Summary

---

In 2008, the combination of Hurricanes Dolly and Ike resulted in over 100,000 claims and an estimated \$2.9 billion in losses. Concerns over claims handling led to TWIA being placed under Administrative Oversight by TDI and the passage of HB 3 in 2011.

The management team has prepared this Interim Report Card in accordance with Section 2210.107. This report contains an update on TWIA's operations and procedures, including implementation of HB 3 and the extent to which TWIA complies with the primary objectives of the Board of Directors stated above.

HB 3 required numerous changes to TWIA operations. Among the improvements are new residential and commercial policy forms, more transparency via additional information on the TWIA website and live broadcast of TWIA meetings, the funding of an ombudsman program, and the implementation of new claims handling procedures.

TWIA has made other substantial changes to its operations to address regulatory concerns and to operate in a more efficient and cost-effective manner. A formal Operations Improvement Plan was created in 2011 specifically to address items identified by TDI. All items are complete or nearing completion. New management is in place, with a broader range of experience and a focus on accountability. Comprehensive TWIA policies and procedures have been implemented to provide better operational and financial controls and to provide better communication to all stakeholders. TWIA controllable expenses were below budget in 2011 and 2012. TWIA expenses compare favorably both to the insurance industry as a whole and to other state residual market plans.

In particular, the TWIA claims department has seen significant improvements. The new claims management has developed a detailed catastrophe plan; improved communications with policyholders, adjusters, and agents; and has ensured faster and more accurate claims handling using more modern technology and quality control measures. Litigated claims continue to make up a substantial portion of claims expenditures. A review of all legal expenses is ongoing, and an independent firm has been hired to oversee litigation activity related to Hurricane Ike. These changes have resulted in a measurable improvement in customer service. TWIA has conducted policyholder surveys after recent events with very positive results. Excerpts from survey responses can be found in the Claims Handling section of this report.

The State Auditor's Office completed an audit of TWIA in 2012. The final report recognized that TWIA has improved its claims processing and has controls in place to produce accurate financial statements, ensure accountability of Association funds, and adequately support and authorize non-claims-related expenditures. TWIA developed a detailed

implementation plan to address the audit recommendations, with most now complete.

To continue the improvement of the operation of the Association, the TWIA Board of Directors recommended several changes to existing statute that could benefit TWIA policyholders and the state of Texas. The recommendations, which were included in TWIA's Biennial Report to the Texas Legislature, address TWIA funding to strengthen its ability to respond to a major catastrophe, TWIA's role as the market of last resort and how it can better serve that purpose, the enforcement and enhancement of building codes to protect property along the coast, and depopulation to improve the overall health of the insurance market in the state of Texas.

## Objective One

### Operate in Accordance with Chapter 2210, the TWIA Plan of Operation, and Commissioner Rules

---

This objective encompasses all the statutory requirements in TWIA's enabling statute, Chapter 2210, all the administrative rules in its plan of operation under Title 28 Texas Administrative Code, Chapter 5, Subchapter E, and other administrative rules adopted by the commissioner of insurance applicable to TWIA.

## Compliance under Chapter 2210

### Texas Open Meetings Act

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

The Association continues to meet the requirements of the Open Meetings Act by complying with posting requirements for meetings of the board of directors and its subcommittees, as well as live broadcasting of meetings and archival of those meetings for later viewing on our website. Most recently, the quarterly meeting of the Board of Directors was held on December 4, 2012 in Corpus Christi; and, the legislative and external affairs committee met in Austin on November 29, 2012. Both meetings were broadcast live and are currently archived for viewing on TWIA's website ([www.twia.org](http://www.twia.org)).

### Public Information Act

Section 2210.108 provides, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 552 Texas Government Code, the Texas Public Information Act

("the Act"). TWIA receives and responds to requests in accordance with the Act. The following table shows the number of requests received, withdrawn, or referred to the Office of the Attorney General (OAG) for a decision under the Act for 2011 and 2012

Description	2011	2012	Change
Total Requests Received	108	182	+74
Number of Requests Withdrawn	7	16	+9
Number of Requests Sent to OAG	10	20	+10

As illustrated by the table, TWIA has seen a 69% increase in requests from 2011 to 2012. Increased media attention and public interest has contributed to the increase in the number of requests received.

#### State Auditor's Office

Section 2210.058 states that the Association is subject to audit by the state auditor. The State Auditor's Office (SAO) concluded in their August 1, 2012 final report:

*"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."*

As of December 31, 2012, Claims, Finance and the Legal & Compliance Departments have completed 100% of the initiatives developed to address the SAO findings related to each area.

Information and Technology Department initiatives combine the SAO findings and the detailed KPMG audit from earlier this year. All security-related initiatives are complete and the remaining initiatives are included in the roll out of the long-planned system improvements to be complete by the end of 2013. On November 30, 2012, TWIA provided SAO with the first of two required 6-month status reports regarding implementation of significant IT recommendations.

#### Surcharge for Noncompliant Structures

Section 2210.259 allows an annual fifteen percent premium surcharge to be assessed on a policy covering a noncompliant residential structure that has been approved for insurability under the approval process. Surcharges collected must be deposited in the catastrophe reserve trust fund ("CRTF"). TWIA deposited \$574,754 and \$407,051 into the

CRTF, in November and December 2012, respectively. The balance of the CRTF at year end was \$ 178,902,441.98.

### Policies in Force

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

### Policies in Force:

<b>Policy Type</b>	<b>As of 12/31/11</b>	<b>As of 12/31/12</b>	<b>Change</b>	<b>Change %</b>
Mobile Home	795	883	88	11.07%
Residential	241,736	252,661	10,925	4.52%
Commercial	13,414	13,182	-232	-1.73%
<b>Totals</b>	<b>255,945</b>	<b>266,726</b>	<b>10,781</b>	<b>4.21%</b>

### Direct Liability:

<b>Policy Type</b>	<b>As of 12/31/11</b>	<b>As of 12/31/12</b>	<b>Change \$</b>	<b>Change %</b>
Mobile Home	36,652,019	41,098,461	4,446,442	12.13%
Residential	58,288,965,145	61,474,619,202	3,185,654,057	5.47%
Commercial	12,757,716,010	12,671,231,724	-86,484,286	-0.68%
<b>Totals</b>	<b>71,083,333,174</b>	<b>74,186,949,387</b>	<b>3,103,616,213</b>	<b>4.37%</b>

### Written Premium:

<b>Policy Type</b>	<b>As of 12/31/11</b>	<b>As of 12/31/12</b>	<b>Change \$</b>	<b>Change %</b>
Mobile Home	944,390	1,063,515	119,125	12.61%
Residential	306,543,174	334,708,937	28,165,763	9.19%
Commercial	100,019,400	110,529,960	10,510,560	10.51%
<b>Totals</b>	<b>407,506,964</b>	<b>446,302,411</b>	<b>38,795,447</b>	<b>9.52%</b>

### Implementation of House Bill 3

TWIA has substantially implemented the legislative changes required by HB 3. The only outstanding item for TWIA is the development of simplified renewal process that allows for the acceptance of an application for renewal coverage, and payment of premiums, from an agent or insured person as created under Section 2210.202(b). There is no established deadline under HB 3; however, this item will be complete with the implementation of TWIA's Policy Center initiative in 2013.

TWIA has met all reporting requirements outlined in HB 3 since its passage. The final requirement of 2013 was the Biennium Report to the legislature relating to legislative recommendations and required studies. The TWIA Legislative & External Affairs committee prepared a report with their recommendations for the Board of Directors' consideration. The Board approved the recommendations during the December 4, 2012 quarterly meeting and the final Biennium report was sent to legislative offices December 28, 2012.

The following actions have been taken since the last Report Card:

#### **House Bill 3 Implementation** **Actions from November 1 - December 31, 2012**

11/30/12	TWIA issues bi-monthly report card to board of directors on meeting the five primary board objectives (Report Card) for September-October 2012 timeframe.	2210.107	<input checked="" type="checkbox"/>
12/28/12	Board submits its Biennium Report to the commissioner, legislative committees, and the Sunset Advisory Commission, a written report relating to the operations of the association during the preceding biennium. The report must include: (1) any proposed changes in the laws relating to regulation of the association and a statement of the reasons for the changes; and (2) any information regarding association operations or procedures that is requested by the department to be addressed in the report.	2210.0025	<input checked="" type="checkbox"/>
12/28/12	The Biennium Report will contain the results of a joint study between TWIA and TDI regarding the efficiency and effectiveness of a single adjuster program, and will include a study by TDI regarding the feasibility of TWIA writing policies directly.	HB 3, Section 61.	<input checked="" type="checkbox"/>

## Compliance with Rules and Other Statutes

### Written Complaint Procedures

Under Section 542.005, TWIA is required to maintain a record of complaints. TWIA also maintains a complaint log in compliance with Title 28 Texas Administrative Code, Section 21.2504. Summaries of the complaints are listed below.

### Complaint Statistics

#### Total Complaints

This section illustrates the total number of complaints received by TWIA on a monthly basis along with the number of complaints to which each department responded.

<b>2011</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
Underwriting	4	3	4	7	5	7	5	8	3	3	8	10	67
Claims	3	9	17	4	9	7	6	4	7	7	7	1	81
Compliance	0	0	0	0	0	0	0	0	0	1	0	0	1
<b>Total</b>	<b>7</b>	<b>12</b>	<b>21</b>	<b>11</b>	<b>14</b>	<b>14</b>	<b>11</b>	<b>12</b>	<b>10</b>	<b>11</b>	<b>15</b>	<b>11</b>	<b>149</b>
<b>2012</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
Underwriting	10	3	8	6	8	7	6	8	9	14	6	7	92
Claims	3	2	2	4	2	4	3	3	3	9	1	3	39
Compliance	3	4	5	2	10	2	7	2	1	5	0	0	41
<b>Total TWIA</b>	<b>16</b>	<b>9</b>	<b>15</b>	<b>12</b>	<b>20</b>	<b>13</b>	<b>16</b>	<b>13</b>	<b>13</b>	<b>28</b>	<b>7</b>	<b>10</b>	<b>172</b>

- Average days open for TWIA complaints in 2012 is 9 days and as of December 31, 2012, there were no complaints pending resolution.

The following tables detail the number of complaints by reason and source. “TDI” and “Legislative” complaints refer to those received by TDI and legislative offices and subsequently referred to TWIA for resolution. “Policyholder” complaints refer to those received directly from the complainant.

#### Complaints attributed to underwriting actions

<b>2011</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
TDI	3	3	4	6	5	7	4	8	1	2	4	6	53
Legislative	1	0	0	0	0	0	1	0	1	0	0	0	3
Policyholder	0	0	0	1	0	0	0	0	1	2	2	1	7
<b>Total</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>8</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>7</b>	<b>63</b>
<b>2012</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
TDI	5	0	3	1	4	0	4	4	5	6	4	1	37
Legislative	0	0	0	0	0	0	0	0	0	0	0	0	0
Policyholder	0	1	3	0	1	0	0	1	2	4	1	2	15
<b>Total</b>	<b>5</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>0</b>	<b>4</b>	<b>5</b>	<b>7</b>	<b>10</b>	<b>5</b>	<b>3</b>	<b>52</b>

- Average days open pending resolution is 7 days for complaints resulting from an underwriting action or decision.
- The most frequent reason for underwriting complaints is policy cancellation.

Complaints attributed to claims handling

2011	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
TDI	1	5	4	2	5	5	4	2	4	3	4	0	39
Legislative	2	2	2	0	0	1	1	0	1	0	2	0	11
Policyholder	0	2	11	2	4	1	1	2	2	4	1	1	31
Total	3	9	17	4	9	7	6	4	7	7	7	1	81
2011	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
TDI	1	1	2	1	4	4	0	3	1	9	0	1	27
Legislative	0	0	0	0	0	0	0	0	0	0	0	0	0
Policyholder	2	3	2	5	1	1	6	0	1	2	1	2	26
Total	3	4	4	6	5	5	6	3	2	11	1	3	53

- Average days open pending resolution is 12 days for complaints resulting from claims handling issues. Resolution does not refer to the initial response time, but rather the time between receipt of the complaint and the final disposition.
- The most frequent reason for claims complaints is unsatisfactory settlement offers.

Claim handling complaints by storm name

Storm Name	Claims Filed in 2012	Complaints Filed in 2012	% of Complaints to Claims
2012 Corpus	2265	9	0.4%
Brazoria 2012	1462	5	0.3%
Dolly	6	1	16.7%
Ike	94	20	21.3%
LaMarque 2012	1137	3	0.3%
Portland 2012	456	0	0.0%
Robstown 2011	426	15	3.5%
Unnamed Weather Events	2761	10	0.4%

Complaints attributed to policyholder service issues

Policyholder service is a category of complaint reason in the NAIC Uniform complaint coding utilized by TWIA as of November 2011. Policyholder service pertains to issues with premium refunds, policy delivery, and payment credit for example.

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
TDI	0	1	2	2	0	0	0	0	1	0	0	0	6
Legislative	1	0	0	0	1	0	1	0	0	0	0	0	3
Policyholder	1	2	0	0	3	1	3	0	0	1	0	1	12
Total	2	3	2	2	4	1	4	0	1	1	0	1	21

### Complaints attributable to agent handling

Complaints coded as agent handling fall under the category of Marketing & Sales. These complaints are generally sent by TDI for an accounting of the transactions on the policy so they may address the issues with the agent. This code was first utilized in November 2011 and more frequently in 2012 with the transition from the TDI coding mechanism to the NAIC uniform codes. The new code is used to differentiate between complaints resulting from a TWIA underwriting decision and complaints resulting from agent actions on a TWIA policy.

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
TDI	5	1	3	3	5	7	1	4	2	6	1	3	38
Legislative	0	0	0	0	0	0	1	0	0	0	0	0	1
Policyholder	0	0	0	0	1	0	0	1	1	0	0	0	3
Total	5	1	3	3	6	7	2	5	3	6	1	0	42

### TDI Complaint Statistics

The following table includes complaint statistics published by the Texas Department of Insurance. TWIA's complaint ration and index are well below industry averages.

	December 31, 2011		December 31, 2012	
Confirmed Complaints	7		11	
	<b>Ratio</b>	<b>Index</b>	<b>Ratio</b>	<b>Index</b>
Complaint Ratio/Index	.0029	.4065	.0000	N/A

**Confirmed Complaints:** the number of confirmed complaints closed against the company for the line of insurance and year indicated. A complaint is confirmed if the department receives information indicating that a company committed any violation of an applicable state insurance law or regulation, a federal requirement the department has authority to enforce or the term or condition of an insurance policy or certificate. A complaint is also confirmed if the complaint and company's response, considered together, suggest that the company was in error or that the complainant had a valid reason for the complaint.

**Complaint Ratios:** the ratio, expressed as a percentage, is the number of closed confirmed complaints divided by the number of policies the company had in force for the line of insurance and year indicated.

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

### Compliance Reporting

Pursuant to Section 701.051, not later than the 30th day after the date TWIA makes the determination or reasonably suspects that a fraudulent insurance act has been or is about to be committed in this state, TWIA:

(1) shall report the information in writing to the insurance fraud unit of the department, in the format prescribed by the fraud unit or by the National Association of Insurance Commissioners; and

(2) may also report the information to another authorized governmental agency.

Under Section 101.301, when TWIA is investigating or adjusting a loss or claim, TWIA shall immediately report to the department an insurance policy or contract that has been entered into by an insurer that is not authorized to transact the insurance in this state. For example, this may include the actions of an individual acting as an unlicensed public insurance adjuster or unlicensed agent when they perform certain acts regulated by the Insurance Code or administrative rules. The following compliance complaints have been filed by TWIA with TDI through October of this year.

### Fraud and Enforcement Reporting to TDI

	<b>YTD 12/31/2011</b>	<b>YTD 12/31/2012</b>
Reports Filed with TDI Fraud	32	35
Reports Filed with TDI Enforcement	7	24

With the creation of a Compliance Department and implementation of a Special Investigation Unit (SIU), TWIA is committed to identifying and reporting fraudulent claims and underwriting activities. The numbers of referrals TWIA has made to TDI and law enforcement in both 2011 and 2012 represent significant increases over prior years.

## Objective 2

### Comply with Sound Insurance Principles

---

#### **Catastrophe Funding**

TWIA staff has continued to work with representatives from the Texas Public Finance Authority (TPFA) and TDI on the issuance of public securities, including the Bond Anticipation Note (BAN). The BAN issued in 2012 has been defeased (paid off) with the remaining debt and interest paid and all associated liabilities and assets removed from TWIA financial statements.

TPFA has communicated to TWIA that, while they are actively exploring all available options, Class 1 securities, including the BAN, may not be marketable in 2013 due to the inability to obtain an investment-grade rating by any of the three major ratings agencies. Possible changes to the TWIA funding structure to address this and other funding concerns were included in the recommendations contained in the TWIA Biennial Report to the Texas Legislature.

#### **Quarterly Reserve Review**

TWIA reserves as of December 31, 2012 are currently being reviewed. Reserves are being reviewed both by TWIA actuarial staff and an independent actuarial firm. Based on the information available at this time, management's best estimate for Hurricane Ike losses is \$2.57 billion. This is an increase of \$40 million from the previous estimate of \$2.53 billion. The estimate may increase further due to continued litigation activity in excess of projections. More comprehensive results will be available for discussion at the February 19, 2013 quarterly meeting of the Board of Directors. Hurricane Dolly remains at \$305 million. TWIA currently holds in reserves approximately \$190 million and \$6.5 million respectively for these two events.

#### **Financials**

Year-end financials are currently being prepared and will be provided to the Board of Directors prior to the February Board Meeting.

## Claims Handling

The Claims department continues to receive positive feedback from claimants via the customer satisfaction survey process. The current overall survey score is 4.4 out of 5. The comments received include:

- “I would like to let your all know how helpful your agency was in assisting me with this. Specifically, Randy Hanks, Claims Examiner. I am a widow, and was getting somewhat pushed around by a roofer I wanted an estimate from. I called Randy for his advice and he went above and beyond to direct me on how to obtain estimates, certification needed on that roof, etc. etc. You have a good, caring employee that reflects your good name. Thank you.”
- “Martha & Ann made the process so easy when I contact them, and I was very surprised how quickly the claim work was initiated, correspondence was quick, and the amount of time we received payment was amazing!”
- “Everyone that I contacted was professional, had substantial knowledge and was proficient. They always provided whatever assistance that was required”

The positive customer survey results are a direct result of new claims department management and staff, new metrics, new tools and the process improvement initiatives that have been implemented. Detailed policies, procedures, performance standards, and associated metrics are fully implemented. Each month, the claims department produces detailed reports using these metrics to evaluate performance in several areas ranging from compliance with policies and procedures, customer service, productivity, performance of vendors, and litigation.

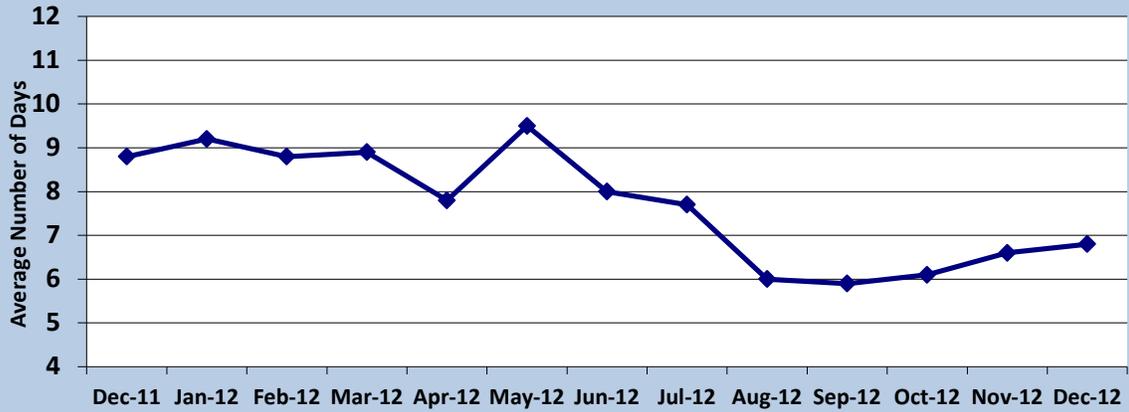
## TWIA - PRODUCTION REPORT



Date	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Beginning Inventory	3,006	2,961	2,866	2,726	2,726	3,770	3,485	3,098	2,887	2,494	2,657	2,756	2,818
New Claims	287	474	325	380	1,938	2,137	762	610	387	352	389	303	347
Closed	332	569	465	380	894	2,422	1,149	821	780	734	1,046	746	772
Ending Inventory	2,961	2,866	2,726	2,726	3,770	3,485	3,098	2,887	2,494	2,657	2,756	2,818	3,008
Closing Percentage	102%	103%	105%	100%	72%	108%	112%	107%	116%	94%	96%	98%	94%

- The graph shows ending open claim inventory trend
- For the third month in a row, re-opened claims (615) prevented ending inventory from going down vs. prior month
- Many of the re-opened claims were tied to new Ike litigation filings
- Re-opened claims are expected to decrease and the trend toward higher open inventories to reverse through Q1 2013
- Year over year ending inventory increased 47 claims (1.6%) due to a combination of new claim volume and reopen rates tied to Ike litigation activity

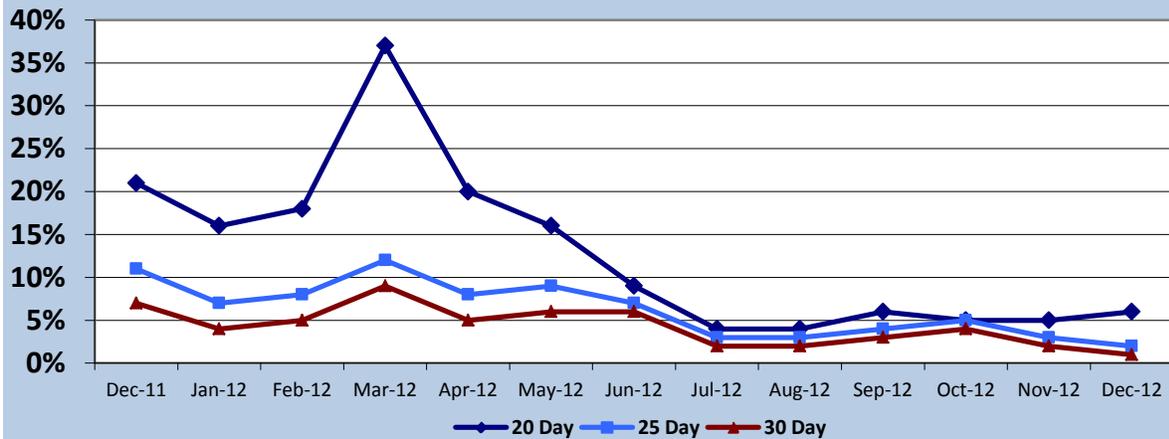
### TWIA - FIELD INDEPENDENT ADJUSTER (IA) CYCLE TIME PERFORMANCE



Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
8.8	9.2	8.8	8.9	7.8	9.5	8.0	7.7	6	5.9	6.1	6.6	6.8

- Cycle time is the average number of days between assignment of the claim to the field adjuster and receipt of the estimate/first report by TWIA
- Despite some concerns over potential loss of field adjusting resources to the hurricane Sandy effort performance in this area was still very good
- Trend is slowly moving upward which warrants ongoing monitoring to ensure high service levels

### TWIA - PERCENTAGE OF CLAIMS OPEN WITH NO INDEMNITY PAYMENT



Days	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
20	21%	16%	18%	37%	20%	16%	9%	4%	4%	6%	5%	5%	6%
25	11%	7%	8%	12%	8%	9%	7%	3%	3%	4%	5%	3%	2%
30	7%	4%	5%	9%	5%	6%	6%	2%	2%	3%	4%	2%	1%

- This metric is designed to evaluate TWIA’s ability to timely issue initial indemnity payments
- The industry standard is to have no more than 10% of claims open more than 30 days with no indemnity payment
- In looking at performance over the last 13 months (12/11 - 12/12), TWIA was below the 10% or less goal for the 30 day standard every month
- March-June we saw increased new claims tied to multiple spring storms. In comparing performance against the 25 day metric over the last 13 months, with the exception of two months, 12/11 and 3/13, TWIA was under 10% for this much tougher standard
- In every month since June 2012 TWIA has exceeded the 10% goal for the much tougher 20 day standard
- Overall, comparing performance over the last 13 months against the industry 30 day standard TWIA is well below the benchmark in all months, indicating a very good job of timely investigating, evaluating, and paying TWIA claims

## Objective 3

### Meet All Standards Imposed under Chapter 2210

---

#### **Rate Adequacy**

Pursuant to Section 2210.352, not later than August 15 of each year, the association shall file with the Texas Department of Insurance a proposed manual rate for all types and classes of risks written by the association. On August 15, TWIA submitted a uniform 5% rate increase. Under 2210.352, TWIA may file and use a 5% rate increase without approval by the commissioner of insurance. The rate increase will be effective on January 1, 2013.

## Objective 4

### Establish a Code of Conduct and Performance Standards for Association Employees and Persons with which the Association Contracts

---

TWIA continues to monitor employees and persons with association contracts for compliance with the code of conduct and performance standards. Quarterly Ethics and Conflicts of Interest training for new employees was completed November 30, 2012.

## Objective 5

### Establish, and Adhere to Terms of Annual Evaluation of Association Management Necessary to Achieve the Statutory Purpose, Board Objectives, and any Performance or Enterprise Risk Management Objectives Established by the Board

---

Beginning January 1, 2012, TWIA's annual budget has been based upon department level budgets for which department management and their staffs are accountable. Individual performance standards have been established for each position within the organization that reflects that accountability as well as objective measurable standards appropriate to the individual employee's responsibilities. The 2013 budget was reviewed and approved by the board at its December 4, 2012 meeting.

Beginning in 2012 the Finance department has prepared budget conformance reports at the department level to monitor performance beginning with first quarter results. Under the current management team, TWIA has consistently performed below budget for controllable expenses in nearly every area. The principal adverse variances are in the Professional Services area, which is over budget due to unbudgeted expenses associated

with Alvarez & Marsal (A&M), Merlinos & Associates and some legal expenses incurred at the direction of TDI and costs associated with the Bond Anticipation Note (BAN). Looking at 2013, TWIA is planning for gross operating expenses to decrease by \$8 Million and Net Operating Expense to remain fairly flat in spite of projected growth in policy count.

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

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

The results and standards presented in this interim annual report card reflect TWIA's Budget Plan, TWIA's Operations Improvement Plan, statutory changes enacted by HB3, and the TWIA Legislation Implementation Plan, which was developed by TWIA in cooperative meetings with the Texas Department of Insurance. Underlying documents contained in the Operations Improvement Plan such as the Business Continuity and Catastrophe Claims Plan also contribute to the standards and results reported in the annual report card.