

January/February

2013

Interim Report Card



April 1, 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).

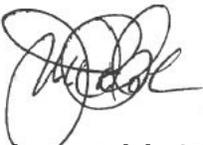
These interim report cards will be provided every 60 days as required by statute and will culminate in an Annual Report Card issued each June.

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 ninth 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, 1st Called Special Session, passed House Bill 3 (“HB 3”), modifying various aspects of the operations of the Texas Windstorm Insurance Association (“TWIA” or “Association”). Amendments to Tex. Ins. Code, Section 2210.107 directed TWIA to report bi-monthly to the TWIA board of directors (“Board of Directors” or “Board”) the extent to which TWIA has met the objectives in Section 2210.107(a)¹. 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.

¹ 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 broadcasts 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 statutes 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 to be open to the commissioner or the commissioner's designated representative and the public. Section 2210.105 requires that TWIA broadcast live on its Internet website, all meetings of the Board of Directors, other than closed meetings, and maintain on its Internet website an archive of meetings of the board of directors. A recording of a meeting must be maintained in the archive on the website up to the second anniversary of the broadcast. Section 2210.108 provides, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 551 Texas Government Code, the Texas Open Meetings Act.

The Association 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 February 19, 2013 in Austin. The meeting was broadcast live and is currently archived for viewing on TWIA's website (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 2010, 2011, 2012, and year to date 2013.

Description	2010	2011	2012	2013
Total Requests Received	74	108	182	63
Number of Requests Withdrawn	2	7	16	5
Number of Requests Sent to OAG	16	10	20	6

As illustrated in the table above, requests increased 45.9% from 2010 to 2011 and an additional 68.5% from 2011 to 2012. Through the first two months of 2013 public information requests are on pace for 100% annual growth. Increased media attention, litigation activity, and public interest have contributed to the increase in the number of requests received over the past several years.

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. The second is due May 31, 2013.

On February 1, 2013, a report was filed with the SAO regarding the implementation status of all Association initiatives.

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 \$378,557 and \$412,868 into the CRTF, in January and February 2013, respectively. The balance of the CRTF at February 28, 2013 was \$ 179,711,631.59.

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:

Policy Type	As of 2/29/2012	As of 2/28/2013	Change	Change %
Mobile Home	806	888	82	10.2%
Residential	243,524	252,766	9,242	3.8%
Commercial	13,294	13,153	-141	-1.1%
Totals	257,624	266,807	9,183	3.6%

Direct Liability:

Policy Type	As of 2/29/2012	As of 2/28/2013	Change	Change %
Mobile Home	\$37,395,868	\$41,835,632	\$4,439,764	11.9%
Residential	58,811,546,485	61,712,526,541	2,900,980,056	4.9%
Commercial	12,788,923,771	12,804,848,955	15,925,184	0.1%
Totals	71,637,866,124	74,559,211,128	2,921,345,004	4.1%

Written Premium:

Policy Type	As of 2/29/2012	As of 2/28/2013	Change	Change %
Mobile Home	\$95,083	\$114,687	\$19,604	20.6%
Residential	39,568,461	42,114,439	2,545,978	6.4%
Commercial	16,133,721	16,067,267	-66,454	-0.4%
Totals	55,797,265	58,296,393	2,499,128	4.5%

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 a 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. An implementation strategy is in place and this functionality will be incorporated into an update following the initial implementation of Policy Center in December 2013.

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

House Bill 3 Implementation
Actions from January 1 – February 28, 2013

1/31/2013	Post on the TWIA website any compensation that exceeds \$100,000 in a calendar year paid to a vendor, independent contractor, or TWIA employee	2210.061	<input checked="" type="checkbox"/>
-----------	--	----------	-------------------------------------

TWIA has met all reporting requirements outlined in HB 3 since its passage.

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.

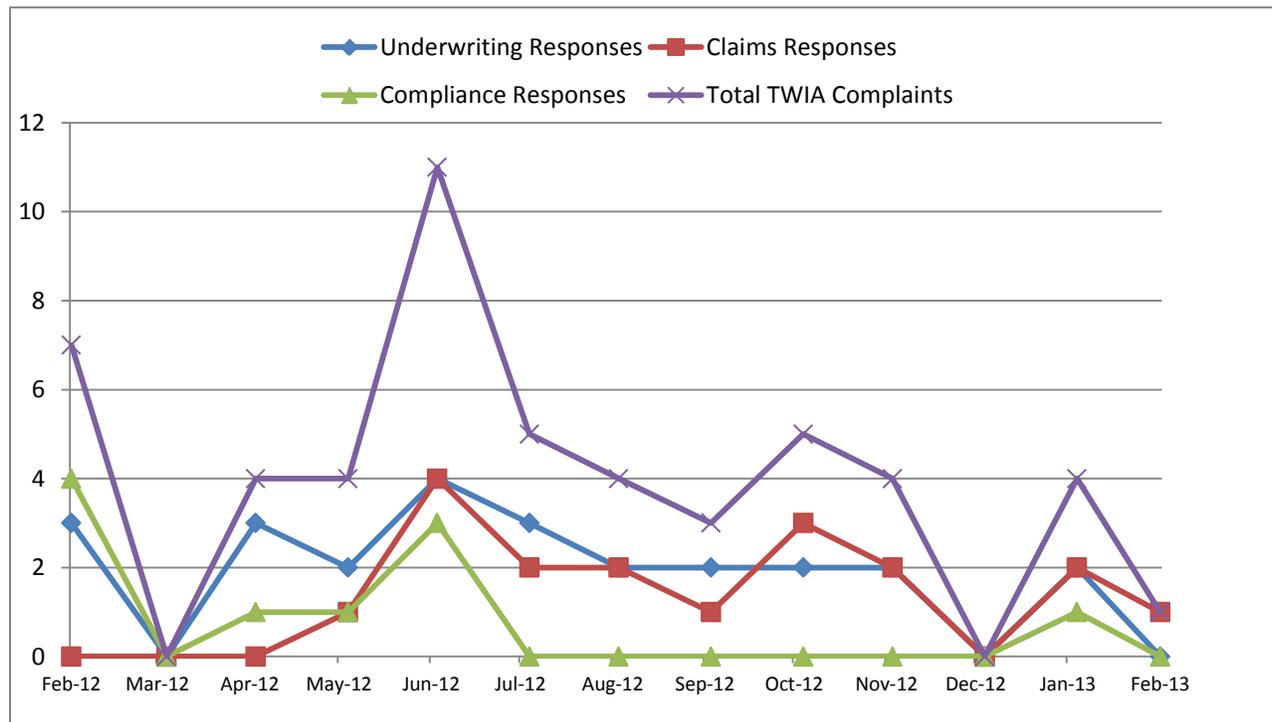
Complaint Statistics

New Complaint Volume

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.

	Feb-12	Mar-12	Apr-12	May-12	June-12	July-12	Aug-12	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
Underwriting Responses	3	8	6	8	7	6	8	9	14	6	7	6	3
Claims Responses	2	2	4	2	4	3	3	3	9	1	3	2	0
Compliance Responses	4	5	2	10	2	7	2	1	5	0	0	1	3
Total TWIA Complaints	9	15	12	20	13	16	13	13	28	7	10	9	6



Department Assigned for Response	Complaint Average Days Open - February
Underwriting	6.3
Claims	-
Compliance	15
Total TWIA	10.6

All complaint responses to date meet the 10-day statutory and company compliance guidelines for initial responses.

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.

TDI Complaint Statistics for TWIA

	Dec 31, 2011		Dec 31, 2012		Mar 15, 2013
Confirmed Complaints:	7		10		1
Complaint Ratio/Index	Ratio	Index	Ratio	Index	
	.0029	.4065	.0039	.8300	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.

Complaints attributed to underwriting actions

The following table lists the number of complaints resulting from an underwriting decision or action.

	Feb-12	Mar-12	Apr-12	May-12	June-12	July-12	Aug-12	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
TDI	0	3	1	4	0	4	4	5	6	4	1	3	2
Legislative	0	0	0	0	0	0	0	0	0	0	0	0	0
Policyholder	1	3	0	1	0	0	1	2	4	1	2	2	3
Total	1	6	1	5	0	4	5	7	10	5	3	5	5

COMPLAINT REASONS	YTD 12/30/11	YTD 12/31/12	YTD 2/28/13
PREMIUMS & RATING	10	7	3
CANCELLATION	35	28	5
DELAYS	2	4	-
SURCHARGE	-	1	-
COMPANY UNDERWRITING	4	-	-
REFUSAL TO INSURE	2	-	-
NONRENEWAL	2	-	-
MISCELLANEOUS	8	12	2

Complaints attributed to claims handling

The following table lists the number of complaints resulting from a claims decision or action.

	Feb-12	Mar-12	Apr-12	May-12	June-12	July-12	Aug-12	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
TDI	1	2	1	4	4	0	3	1	9	0	1	2	0
Legislative	0	0	0	0	0	0	0	0	0	0	0	0	0
Policyholder	3	2	5	1	1	6	0	1	2	1	2	1	0
Total	4	4	6	5	5	6	3	2	11	1	3	3	0

COMPLAINT REASONS	YTD 12/30/11	YTD 12/31/12	2/28/13
ADJUSTER HANDLING	-	4	-
CLAIMS PROCEDURE	8	-	-
DELAYS	1	6	-
DENIAL OF CLAIM	12	14	1
FRAUD	-	1	-
MISCELLANEOUS	10	4	-
MOLD	-	1	-
POST CLAIM UNDERWRITING	-	6	-
UNSATISFACTORY SETTLEMENTS	50	17	2

Complaints attributed to policyholder service issues

The following table lists the number of complaints resulting from policyholder service issues (i.e. payments not credited, policy delivery, coverage question, premium notice/billing, etc.)

	Feb-12	Mar-12	Apr-12	May-12	June-12	July-12	Aug-12	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
TDI	1	2	2	0	0	0	0	1	0	0	0	0	0
Legislative	0	0	0	1	0	1	0	0	0	0	0	0	0
Policyholder	2	0	0	3	1	3	0	0	1	0	1	0	0
Total	3	2	2	4	1	4	0	1	1	0	1	0	0

Complaints attributable to agent handling

The following table lists the number of complaints resulting from marketing & sales issues. Since TWIA does not actively compete in the market, this classification is reserved for complaints stemming from agent handling and is utilized in order to distinguish between those complaints resulting from TWIA's decisions versus complaints resulting from action by independent agents.

	Feb-12	Mar-12	Apr-12	May-12	June-12	July-12	Aug-12	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
TDI	1	3	3	5	7	1	4	2	6	1	3	1	1
Legislative	0	0	0	0	0	1	0	0	0	0	0	0	0
Policyholder	0	0	0	1	0	0	1	1	0	0	0	0	0
Total	1	3	3	6	7	2	5	3	6	1	0	0	1

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.

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

	12/31/2011	12/31/2012	YTD 2/28/13
Reports Filed with TDI Fraud	32	35	2
Reports Filed with TDI Enforcement	7	24	1

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 they have received a term sheet for a \$500 million BAN for 2013. Preparation is also underway for the renewal of the catastrophe reinsurance program. Both of these items are on the agenda for discussion at the next Board of Directors meeting.

Financials

TEXAS WINDSTORM INSURANCE ASSOCIATION		
Statutory Balance Sheet (000's omitted)		
	February-13	December-12
Admitted Assets		
Cash and short term investments	\$ 459,024	\$ 427,855
Premiums receivable & other	777	491
Amounts recoverable from reinsurers	-	291
Total admitted assets	\$ 459,801	\$ 428,636
Liabilities, Surplus and other funds		
Liabilities:		
Loss and Loss adjustment expenses	\$ 378,427	\$ 378,717
Underwriting expenses payable	10,374	9,328
Unearned premiums, net of ceded unearned premiums	177,838	173,461
Ceded reinsurance premiums payable	25,338	25,449
Bonds & Interest Payable - Bond Anticipation Notes	-	-
Provision for reinsurance	11,018	11,018
Other payables	19,236	13,644
Statutory fund payable	-	-
Total liabilities	622,231	611,615
Surplus and others funds		
Unassigned surplus (deficit)	(162,429)	(182,979)
Total liabilities, surplus and other funds	\$ 459,801	\$ 428,636
Balance in CRTF	\$ 179,712	\$ 178,902

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
	for the two months ended February 28,			
	Actuals - 2013	Budget - 2013	Variance - 2013	Actuals - 2012
Premiums Written:				
Direct	\$ 57,651	\$ 58,639	\$ (988)	\$ 53,684
Ceded	0	0	0	0
Net	57,651	58,639	(988)	53,684
Premiums Earned:				
Direct	\$ 71,341	\$ 72,541	\$ (1,200)	\$ 68,078
Ceded	(18,068)	(18,000)	(68)	(18,062)
Net	53,274	54,541	(1,267)	50,016
Deductions:				
Direct Losses and LAE Incurred	17,122	17,410	(288)	8,850
Ceded Losses and LAE Incurred	0	0	0	0
Operating Expenses	4,335	5,498	(1,163)	4,080
Commission Expense	9,248	9,382	(134)	8,637
Ceding commissions / brokerage	0	0	0	0
Premium / Maintenance Tax	1,109	1,143	(34)	1,092
Total Deductions	31,814	33,433	(1,619)	22,659
Net Underwriting Gain or (Loss)	21,460	21,108	352	27,357
Other Income or (Expense):				
Gross Investment Income	212	190	22	48
Interest Expense on BAN	0	(1,042)	1,042	0
BAN Issuance & Other Investment Expenses	(6)	(30)	24	0
Other Income (Expense)	6	0	6	(122)
Loss on Defeasance of BAN	0	0	0	0
Total Other Income or (Expense)	213	(882)	1,095	(74)
Net Income (Loss)	\$ 21,673	\$ 20,226	\$ 1,447	\$ 27,283
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(182,979)	0	(182,979)	0
Net Income (Loss)	21,673	20,226	1,447	27,283
Change in Provision for Reinsurance	0	0	0	0
Change in nonadmitted assets & deferred taxes	(1,123)	(840)	(283)	(850)
Other	0	0	0	0
Statutory Fund Cost	0	(19,386)	19,386	(26,432)
Ending Surplus (Deficit)	\$ (162,429)	\$ -	\$ (162,429)	\$ 0
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio	24.0%	24.0%	0.0%	13.0%
UW Expense Ratio:				
Acquisition	18.0%	17.9%	0.0%	18.1%
Non Acquisition	6.1%	7.6%	-1.5%	6.0%
UW Expense Ratio	24.0%	25.5%	-1.5%	24.1%
Combined Ratio	48.0%	49.5%	-1.5%	37.1%
Net:				
Loss & LAE Ratio	32.1%	31.9%	0.2%	17.7%
UW Expense Ratio:				
Acquisition	21.8%	21.3%	0.4%	21.5%
Non Acquisition	8.1%	10.1%	-1.9%	8.2%
UW Expense Ratio	29.9%	31.4%	-1.5%	29.7%
Combined Ratio	62.0%	63.4%	-1.3%	47.4%

TEXAS WINDSTORM INSURANCE ASSOCIATION			
Statement of Cash Flows (000's omitted)			
	for the two months ended February 28,		
	Actuals - 2013	Budget - 2013	Variance - 2013
Cash flows from operating activities:			
Premiums collected, net of reinsurance	\$ 63,157	\$ 57,735	\$ 5,422
Losses and loss adjustment expense paid (1)	(17,120)	(25,966)	8,846
Underwriting expenses paid	(15,012)	(15,094)	82
Other	6	-	6
Net cash provided by operating activities	31,030	16,675	14,356
Cash flows from nonoperating activities:			
Statutory fund paid	-	-	-
Other	(8)	-	(8)
Net cash provided by nonoperating activities	(8)	-	(8)
Cash flows from investing activities:			
Sales and maturities of investments	-	-	-
Net investment income	147	(4,882)	5,029
Net cash provided by investing activities	147	(4,882)	5,029
Cash flows from financing activities:			
Borrowed funds	-	-	-
Borrowed funds repaid	-	(500,000)	500,000
Net cash provided by financing activities	-	(500,000)	500,000
Net increase (decrease) in cash and short-term investments	31,169	(488,207)	519,377
Cash and short-term investments, Beginning	427,855	928,059	(500,204)
Cash and short-term investments, Ending	\$ 459,024	\$ 439,852	\$ 19,172
(1) Ike Loss/Lae payments	\$ (8,874)	\$ (14,652)	\$ 5,778

Claims Handling

The Claims department continues to receive positive feedback from claimants via the customer satisfaction survey process. The current overall survey score is 4.6 out of 5. The comments received include:

- “I would like to let you 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 [my claim].”
- “I was very pleased from the start to the end. Chad Falcon, the adjuster, was wise and professional beyond his years...”

- “Linda Jones was very professional and helpful throughout the claims process...”

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.

Key Performance Indicators

February	
Number of Claims Received	692
Number of Claims Closed With Payment	607
Number of Claims Closed Without Payment	12
Average Number of Days From FNOL* to Inspect Property	2.3
Average Number of Days From Inspect Property to Receipt by TWIA	2.1
Average Number of Days From Receipt by TWIA to Payment	7.0
Number of TDI Complaints	0
Number of TDI Complaints as a Percentage of Total Claims Received	0.00%

*First Notice of Loss

February Results:

- The Average Number of Days FNOL to Inspect Property decreased from 3.3 to 2.3
- The Average Number of Days from Inspect Property to Receipt by TWIA decreased from 2.9 to 2.1
- The Average Number of Days from Receipt by TWIA to Payment decreased from 8.1 to 7
- Total cycle time decreased by 2.9 days (20%) from 14.3 to 11.4 days

Year-to-Date	
Number of Claims Received	1,192
Number of Claims Closed With Payment	884
Number of Claims Closed Without Payment	22
Average Number of Days From FNOL to Inspect Property	2.8
Average Number of Days From Inspect Property to Receipt by TWIA	2.5
Average Number of Days From Receipt by TWIA to Payment	7.5
Number of TDI Complaints	2
Number of TDI Complaints as a Percentage of Total Claims Received	0.0016%

YTD Results:

- FNOL to Inspect Property dropped from 3.3 to 2.8
- Days from inspect to receipt dropped from 2.9 to 2.5
- Days from receipt to payment dropped 8.1 to 7.5
- Total cycle time decreased by 1.5 days (10.5%) from 14.3 to 12.8 days despite higher than projected new claim volume

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, 2012, 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 was 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.

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 reflect 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 in 2012 were in the Professional Services area, which was 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.