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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# TWIA Bimonthly Report Card January-February 2017

**Jennifer T. Armstrong**  
Vice President, Communications & Legislative Affairs

**March 31, 2017**



March 31, 2017

**Re: Bimonthly Report Card – 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 report card evaluating the extent to which TWIA has met the objectives described therein for the two-month period preceding the date of the report (January and February 2017). 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, as set forth in Chapter 2210 of the Texas Insurance Code, 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 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.

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 includes the [State of the Association](#), a detailed narrative of the Association's transformation since 2011, and a [Statutory Compliance](#) section detailing each required area of compliance in order of the statutory reference. The Association is in full material compliance with all current standards of performance outlined in this report. This is the twenty-seventh 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) 637-4031.

Sincerely,

Jennifer T. Armstrong  
Vice President, Communications & Legislative Affairs



# Table of Contents

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State of the Association .....	4
Statutory Compliance Sections .....	16
Section A: Biennial Report .....	17
Section B: Insurable Property and Coverage Requirements .....	17
Section C: Rulemaking Authority.....	19
Section D: Depopulation .....	19
Section E: Standards of Conduct.....	21
Section F: Annual Statement.....	24
Section G: Examination of Association .....	26
Section H: Catastrophe Funding .....	26
Section I: Board of Directors .....	29
Section J: Open Meetings Act.....	29
Section K: Public Information Act.....	30
Section L: Plan of Operation.....	31
Section M: Policy Issuance .....	31
Section N: Compliance with Building Codes.....	32
Section O: Rates.....	33
Section P: Catastrophe Plan .....	34
Section Q: Limits of Liability.....	36
Section R: Certain Appeals and Other Actions .....	36
Section S: Ombudsman Funding and Program .....	37
Section T: Annual Evaluation of Association Management .....	39



## State of the Association

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On April 8, 2016, TDI released the Association from Administrative Oversight. This concluded a five year transformation that began in 2011 when TDI placed TWIA under Administrative Oversight following legislative and regulatory concerns about the Association's operations and financial condition. 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. Audits completed by TDI and an independent consulting firm in the last few years have reported no significant negative 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 now addressed all required changes, including a simplified renewals process, which was incorporated into the implementation of TWIA's new policy administration system, Policy Center, in 2015. The Association divided the HB 3 simplified renewal mandate into two phases.

The initial phase, simplifying 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 immediately issues 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 at a future date.

## **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 has brought a broader range of skills and experience to TWIA 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 and Strategic Planning*

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. 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.

In 2013, 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 continues to refine the process annually.

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 annual strategic 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:

*Service and Respect*

Provide quality service to our policyholders and respect the interest of a broad spectrum of stakeholders.

*Efficiency and Stability*

Be good stewards of the public trust by ensuring financial stability and operating efficiently.

*Integrity and Accountability*

Operate with integrity by holding ourselves to a high standard of ethics and being accountable for performance

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 collaborative culture of continuous improvement, service, and accountability
4. Operate transparently through consistent communication with stakeholders
5. Maintain a workforce with the right talent to meet organizational needs

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, which did not allow TWIA to acquire an adequate number of contractors or properly train them during a catastrophe. Available resources were severely tested when the claim volume went from a modest 10 to 15 claims per day to over 92,000 claims in a 12-month period, 80,000 of which were filed in the first 30 days. Today, TWIA has a new infrastructure capable of supporting claims operations during both catastrophe and non-catastrophe years. The department 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 and can be quickly and effectively deployed if volume warrants additional staff. This staffing model follows industry best practices and comprises one of the largest dedicated catastrophe 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.

TWIA has also reorganized the Underwriting, IT, Accounting, and Legal and Compliance Departments to increase managerial controls, operational efficiency, and accountability.

In 2014, the Association established an internal audit function to bring systematic and disciplined independent evaluation of management's control environment. The internal audit function 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, the internal audit function 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 internal audit function 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 in 2015 to ensure open and transparent communications with all stakeholder groups. In order to better understand the interests of all of our diverse stakeholders, 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 and user-friendly website in May 2015.

## Operational Improvements

### *Financial*

Financial metrics are key measures of performance at an enterprise level. The \$183 million deficit recorded in 2012 was eliminated by December 2013, three months earlier than originally projected. TWIA exceeded projected contributions to the Catastrophe Reserve Trust Fund (CRTF) by \$91 million as a result of 2014 operations. 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 2016. Of the 36 property insurance plans in the United States, TWIA maintains the third-lowest operating expense as a percentage of premiums.

Through diligent efforts, staff has achieved several notable financial 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 and \$93 million as a result of 2015 operations despite the second largest storm season since Ike, bringing the balance to more than \$588 million,
- projecting a contribution to the CRTF of \$147 million as a result of 2016 operations, resulting in a projected balance of \$740 million – the highest in the history of the CRTF,
- issuing \$500 million in pre-event Class 1 public securities in 2014 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.

### *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. Highlights include:

- implementing a more modern policy administration system in May 2015, providing numerous benefits to agents and insureds including:
  - More payment and agent self-service options
  - Automated, rules-based determination of eligibility





- Approximately 90% of new applications and renewals are issued immediately, dramatically reducing the average time for an agent to receive a policy
- reorganizing the Underwriting department to more effectively manage workflows, reducing seasonal backlogs
- incorporating risk visualization into the inspection process, using aerial imagery and third-party data to more efficiently assess insurability, rate more accurately, and increase the total number of property views while reducing the cost per inspection on a per policy basis
- installing a dedicated billing system consistent with industry best practices
- streamlining document production, sorting, and mailing processes, reducing the time and costs associated with both incoming and outgoing mail

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

- Budget conformity and underwriting expense per policy
- Policy issuance cycle times
- Residential policies auto-issued and auto-renewed
- Quality assurance scores

### *Claims*

The TWIA Claims Department has instituted sweeping changes over the last few years and continues to meet or exceed performance metrics and identify ways to enhance its operational capabilities.

In July 2016, TWIA implemented a new claims administration system, Claims Center. The new system is expected to speed up and improve the claims handling process and provide policyholders, agents and TWIA with better ways to communicate and share more accurate information about a claim. As of February 28, 2017, TWIA has entered 3,259 new claims into Claims Center.

Claims Center provides policyholders and agents with online and mobile access to:

- Report new claims
- View important claim documents and correspondence
- Access messages shared between policyholders and TWIA claims examiners
- Track the progress of a claim, including payment status and details
- Directly contact the TWIA staff working on a claim with the ability to send and receive messages and documents



TWIA ended 2015 with 18,889 new claims due to major storms in the spring and late October. It is the second-highest level of new claims compared to the past 12 years, as illustrated in the charts below. 2016 claim volume was more consistent with historical averages at 8,393 claims, and 2017 claim volume through February 28, 2017 is slightly above plan at 1,149 new claims.

Year	Number of Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	1,149

Hurricane	Number of Claims
Rita (2005)	11,583
Dolly (2008)	8,374
Ike (2008)	93,046

### *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.

- 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 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.

## 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, most recently 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 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 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. All of the findings and recommendations have been addressed or completed as of November 12, 2015.

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. The ultimate evidence of this cultural shift being TWIA's release from TDI Administrative Oversight in 2016.

Excerpts from 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.”

## **84<sup>th</sup> Texas Legislative, Regular Session**

The 84<sup>th</sup> Texas Legislative, Regular Session resulted in the passage of a number of bills in 2015 with a range of impacts on TWIA and the insurance industry. Senate Bill (SB) 900 had the most significant impact on the Association’s operations, including changes to TWIA’s funding structure and board composition and a requirement for TWIA to administer depopulation programs to encourage the transfer of Association policies to private market insurers through the voluntary market or assumption reinsurance. House Bill (HB) 2439, a second notable bill passed in 2015, amended several sections of the Texas Windstorm Insurance Act relating to building code inspection and certification requirements. Summaries of each bill are provided in the following sections.

### ***Senate Bill 900***

SB 900 is a comprehensive bill with several components. All requirements of the bill have been implemented. The primary components are outlined below.

- SB 900 requires changes in the loss funding structure, including provisions relating to reinsurance, requiring TWIA to fund, at a minimum, a 100-year storm season. 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.

- SB 900 requires changes in the Board composition to a 3-3-3 industry/coastal/inland structure from a 4-4-1 industry/coastal/inland structure.
- SB 900 allows for assumption reinsurance agreements between the Association and private 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 may stay with TWIA if they desire. TDI published final rules on the depopulation program, which took effect December 22, 2015.
- SB 900 authorizes TWIA to issue a policy for temporary coverage (up to 30 days) if a TDI-approved inspection verification form or other inspection form adopted by TDI has been issued for a structure before the WPI-8 is secured.
- SB 900 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 Association improvements in the last few years, it is difficult to envision a scenario in which a third-party management company overseeing TWIA would be necessary.

### *House Bill 2439*

House Bill (HB) 2439 changed the windstorm inspection process by creating two ways to certify that a structure complies with the applicable windstorm building code, required for insurability through TWIA. One significant change is the addition of new Section 2210.2515 in Chapter 2210, titled "Issuance of Certificates of Compliance." This section authorizes a person to apply to TWIA for a certificate of compliance for a completed improvement if a licensed engineer designed the improvement, affixed the engineer's seal to the design, and submits an affirmation of compliance to TWIA, or the licensed engineer completes a sealed post-construction evaluation report that confirms compliance with the applicable building code.

The law provides that TWIA shall issue a Certificate of Compliance (WPI-8-C) once the professional engineer provides the required information. Section 2210.2515 also provides that if TDI cannot issue a Certificate of Compliance (WPI-8) on an ongoing improvement because TDI has not received all of the information and fees TDI requires, a person may apply for a certificate of compliance from TWIA.



The bill went into effect on September 1, 2015 and applies to policies delivered, issued for delivery, or renewed on or after January 1, 2017. TDI issued the final rules for HB 2439 on January 3, 2017, and TWIA immediately implemented a process to accept applications for and issue Certificates of Compliance (WPI-8-C) for completed improvements.

The exhibit below provides an overview of the most significant accomplishments of the Association during the reporting period across four areas: Financial; Accountability; Communications & Transparency; and Operational Efficiency.

# TWIA Key Accomplishments

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## Financial

- Projected \$147 million contribution to the CRTF as a result of 2016 operations
- Secured \$4.9 billion in funding for 2016 – greater than 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
- Secured \$350 million in second-season funding to protect against additional costs the year following a catastrophe
- Maintained the 3rd lowest cost as a percentage of premium of the 36 U.S. FAIR plans and wind pools in 2015
- Controllable expenses below budget for the 6th straight year

## Communications & Transparency

- Launched TWIA.org to deliver a more user-friendly experience and provide analytics to refine communication strategies
- Created Agent Advisory Group and Agent Technical Group to provide input into process changes; resulted in improved communications and engagement with agent community
- Formed an Agent Services team to assist agents with technical support
- Restructured to create a new Communications and Legislative Affairs function, adding strategic focus to stakeholder outreach efforts
- Created a robust training program for new Board members
- Developed Legislative and Media briefing materials to provide timely, accurate, and relevant information about Association operations
- Completed second biennial employee survey to measure engagement and employee satisfaction with positive results
- Developed depopulation programs to offer TWIA policyholders alternatives in the voluntary market, resulting in over 18,000 offers presented to TWIA policyholders.

## Accountability

- Addressed all recommendations resulting from prior external audits
- Continue to develop new, and improve upon existing, controls and detailed financial and operational metrics to measure and evaluate performance at every level in the Association
- Maintain comprehensive performance management that cultivates a results-based and accountable culture by aligning compensation with performance.
- Continue to develop internal audit (IA) program, including the IA Charter, and Internal Audit and Control Policies.
- Established policy management program that reduced risk exposure by instituting an annual policy review and internal communication process.

## Operational Efficiency

- Enhanced the Catastrophe Plan secured commitments for over 6,000 adjusters – enough to handle the claim volume of a 100-year event; retested components with positive results.
- Tested CAT Response capacity via 2015 spring storm event that generated upwards of 18,000 claims.
- Implemented Claims Center, which provides increased automation, improved data management, and better insight into claims for all stakeholders.
- Consolidated underwriting functions of TWIA and TFPA into a single operation to optimize efficiency and eliminate redundancies.
- Developed extensive new hire orientation, online business training, and manager-specific skills to promote a continuously learning and improving organization.
- Implemented cloud-based Office 365 reducing costs, improving disaster recovery, and providing more robust access.



## Statutory Compliance Sections

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

Statutory Reference	Section	Subject Matter
2210.0025	Section A	Biennial Report
2210.004, 2210.201-302	Section B	Insurable Property and Coverage Requirements
2210.008	Section C	Rulemaking Authority
2210.701-2210.705	Section D	Depopulation
2210.012 & 2210.013, 2210.015	Section E	Standards of Conduct
2210.054	Section F	Annual Statement
2210.057, 2210.058	Section G	Examination of Association
2210.071-075	Section H	Catastrophe Funding
2210.102	Section I	Board Composition
2210.105, 2210.108	Section J	Open Meetings Act
2210.108	Section K	Public Information Act
2210.15-153	Section L	Plan of Operation
2210.203	Section M	Policy Issuance
2210.251-2210.259	Section N	Compliance with Building Codes
2210.352	Section O	Rates
2210.455	Section P	Catastrophe Plan
2210.501-504	Section Q	Limits of Liability
2210.551	Section R, Part 1 & 2	Certain Appeals and Other Actions
2210.014, 2210.572(c), 573	Section R, Part 3	Claims: Settlement and Dispute Resolution
2210.574	Section R, Part 4	Appraisal and Rulemaking
2210.582	Section S	Ombudsman Funding and Program
2210.107(a)	Section T	Annual Evaluation of Association Management





## Section A: Biennial Report

Texas Insurance Code Section 2210.0025 requires the Board to submit a biennial report regarding the operations of the Association on or before December 31 of each even-numbered year. The Association submitted its **Biennial Report** on December 30, 2016 to the Commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission. The report includes recommendations for legislative changes developed by the Board's Legislative and External Affairs Committee and approved by the Board at its December 6, 2016 meeting as well as the reason for the proposed changes and a summary of the Association's accomplishments and operations since the prior legislative session.

## Section B: Insurable Property and Coverage Requirements

Texas Insurance Code Section 2210.004 defines insurable property for the purposes of eligibility for TWIA insurance as a structure located in the catastrophe area, built or repaired in compliance with appropriate building code specifications, and 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 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.

### Risk Visualization Program

In May 2014, TWIA partnered with EagleView Technologies to provide aerial imagery for the Association's coverage territory. The high-resolution imagery captured on annual flyovers provides the claims and underwriting departments with the ability to visually inspect a property through a web-based solution, and, combined with a patented technology for remote 3D aerial roof measurements and third-party data, provides the Association with information which can be used in risk data verification.

TWIA's risk visualization program provides the following benefits applicable to coverage and eligibility:



- Improved assessment of property insurability and assistance in determining adequacy of insurance-to-value for each risk
- Increase the total number of properties inspected annually while lowering the average cost on a per policy basis
- Efficient use of inspection dollars by effectively identifying properties requiring onsite inspection
- Identification of unrepaired damage and other underwriting concerns related to the general condition of the structure
- Reduced opportunities for fraud

## Quality Assurance and 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 from January 1, 2017 through February 28, 2017, the QA scores for both lines exceed the department's goal to achieve a 95% QA score with Residential at 97.4% and Commercial at 99.2%.

## Agent Compliance Program

As required by Rule 5.4902 of Title 28 of the Texas Administrative Code, an agent audit process was developed and implemented in 2015 to verify agent compliance with the Association's declination and flood insurance requirements. A proposed amendment to the Plan of Operation to establish a procedure for suspending the acceptance of new or renewal insurance applications from an agent if the Association determines that the agent failed to comply with TAC sections §5.4902, §5.4903 and §5.4904 was approved by the Board of Directors on April 5, 2016. The proposed amendment also includes a procedure for an agent to obtain a review of the suspension. The amendment is currently under review by TDI.

## Policy Administration System

TWIA implemented a more modern policy administration system, Policy Center, in May 2015. All residential policies have been converted to Policy Center as of August 2016. Commercial and Manufactured Home policies are planned to be incorporated into the system starting in Q4 of 2017.



Approximately 90% of new applications and renewals are issued immediately, dramatically reducing the average time for an agent to receive a policy.

## **Section C: Rulemaking Authority**

Texas Insurance Code Section 2210.008 provides the Commissioner of Insurance general rulemaking authority to issue any orders necessary to implement Section 2210. There were no new rules proposed or adopted during the reporting period.

## **Section D: Depopulation**

SB 900 authorized TWIA to create two new depopulation programs: a Voluntary Market Depopulation Program and an Assumption Reinsurance Depopulation Program. Pursuant to the newly passed Subchapter O of Chapter 2210 (Sections 2210.701-2210.705), TWIA is required to administer a depopulation program that encourages the transfer of Association policies to insurers through the voluntary market or assumption reinsurance. TDI rules governing these programs were published and effective December 22, 2015. TDI formally approved the Voluntary Market Depopulation Program effective March 31, 2016 and the Assumption Reinsurance Depopulation Program effective July 14, 2016.

Detailed descriptions of both programs and an update on their status are outlined below.

### **Voluntary Market Depopulation Program**

The Voluntary Market Depopulation Program functions similarly to TWIA's prior depopulation program, the Voluntary Coastal Windstorm Insurance Portal. Participating insurers must file rates with and have forms approved by TDI and sign a Nondisclosure and Terms of Use Agreement (NDA) to obtain electronic access to TWIA policyholder data. Participating insurers must approach the agent of record to make offers of coverage at least 60 days prior to policy renewal. Acceptance of any offers is strictly voluntary, and no changes will take place unless the agent and policyholder affirmatively accept the participating carrier's offer. Participating insurers may make offers of coverage at any time throughout the year.

### **Assumption Reinsurance Depopulation Program**

The Assumption Reinsurance Depopulation Program allows for assumption reinsurance agreements between TWIA and participating insurers to facilitate depopulation, allowing large numbers of TWIA policyholders to obtain coverage from private market insurance companies interested in writing on the Texas coast. This type of transaction, often called a "takeout," has been used effectively in Florida and Louisiana to minimize the use of those states' residual markets. Under the program, interested insurers must file rates with and have forms approved by TDI and sign an NDA in order to review and select the TWIA policies they are interested in taking out. In contrast to the Voluntary Market Depopulation



Program, participating insurers are also subject to financial stress testing. Participating insurers must offer comparable coverage and premiums to the TWIA policy and must offer at least three renewals under these comparable terms to any policy taken out as part of the program.

Agents have the opportunity to approve or reject any offers made by participating insurers through TWIA's depopulation website. Policyholders have the ability to opt out of the depopulation process, and any policyholders who do not opt out will automatically have their TWIA policies assumed, or transferred, by the participating insurer. This program will repeat annually.

## **Depopulation Programs Status**

TWIA filed the 2017-2018 Assumption Reinsurance Depopulation Program with TDI on March 10, 2017. The Voluntary Market Depopulation Program filing is being prepared and will be submitted to TDI for approval in April.

The 2016 Assumption Reinsurance Depopulation Program is in the policyholder period during which policyholders may choose to opt out of the program after having received notification of an offer from TWIA and a participating company. Policyholders who choose not to opt out will have their policy automatically assumed by the participating company on June 1, 2017. A total of 2,147 policyholders have opted out through February 28, 2017, choosing to remain with TWIA. After removing the opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), 14,165 policies remain in the program.

TWIA has begun providing bordereau reports to participating companies as part of the quota share reinsurance agreements with each company. Through February 28, 2017, the four participating companies have accrued a total of \$4.7 million under the reinsurance agreements – \$6.5 million in earned premium less approximately \$1.8 million in ceding commissions and paid losses. Amounts payable to the participating companies will be remitted in June, after the reinsurance period has ended.

Weston Insurance Company and State National Insurance Company have both been approved to participate in the Voluntary Program, and United Property and Casualty is currently in the process of obtaining approval.

## **Section E: Standards of Conduct**

### **Business Ethics and Conflicts of Interest Policy**

TWIA developed and implemented a comprehensive Business 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 was updated again in February 2016 as part of our normal policy review cycle. The revisions were approved by the TWIA Board and Texas FAIR Plan Governing Committee at their respective February quarterly meetings. The Policy was updated to reflect improvements in Association operations, internal controls, and culture; to address normal business practices; and to modernize and simplify the format and readability of the Policy. The Ethics Policy reflects the statutory standards of Sections 2210.012 and 2210.013 and states that a member of the TWIA Board of Directors or employee shall not:

- (1) Accept or solicit any gift, favor, or service that could, by reasonableness standards, tend to influence the person in the performance or nonperformance of his or her job duties and/or that the person knows or should know is being offered to influence the person's actions;
- (2) Accept other employment or engage in any activity that the person might reasonably expect would require or induce the person to disclose confidential information the person gained through his or her responsibilities or position within the Associations;
- (3) Accept other employment or compensation that could reasonably be expected to impair the person's independent judgment in the performance of his or her job;
- (4) Make personal investments that could reasonably be expected to create a substantial conflict between the person's private interest and the interest of the Associations; or
- (5) Intentionally or knowingly solicit, accept, or agree to accept any benefit, financial or otherwise, for exercising the person's authority or performing the person's job duties in favor of another.

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 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 and 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 training for new employees and contractors. Legal and Compliance staff teach quarterly TWIA 101 sessions for new employees and conduct regular sessions for new 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 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

TWIA 101 was completed for all existing employees in March 2014. All Board members, employees, and contractors are required to complete an Annual Certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms. Additionally, all TWIA employees attended a Rights and Responsibilities training in the second quarter of 2016 that reviewed the updated Ethics Policy and other related employee policies.

- (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 certain 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 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 same 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. Increased claim activity in 2015 contributed to a significant rise in referrals last year.

Reports Filed	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	2017 YTD
<b>TDI Fraud</b>	6	32	35	15	19	48	55	4
<b>TDI Enforcement</b>	5	7	24	9	2	9	2	0

### *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.

## Section F: Annual Statement

Texas Insurance Code Section 2210.054 requires TWIA to file annually with TDI and the State Auditor's Office a financial statement summarizing the transactions, conditions, operations, and affairs of the Association during the preceding year. The statutory balance sheet shows the financial position of TWIA in February 2016 compared to February 2017. The statutory income statement shows a comparison between the actual and budgeted revenues and expenses.

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>		
<b>Statutory Balance Sheet (000's omitted)</b>		
	<b>February-17</b>	<b>December-16</b>
<b>Admitted Assets</b>		
Cash and short term investments:		
Unrestricted	\$ 503,214	\$ 493,888
Restricted - Funds Held at TTSTC	531,313	535,802
Restricted - Funds Held at TTSTC (Non Admitted)	(66,836)	(59,160)
Total cash and short term investments	967,692	970,530
Premiums receivable & other	1,748	2,178
Amounts recoverable from reinsurers	-	-
<b>Total admitted assets</b>	<b>\$ 969,440</b>	<b>\$ 972,708</b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	52,077	53,459
Underwriting expenses payable	11,587	10,281
Unearned premiums, net of ceded unearned premiums	215,878	237,726
Ceded reinsurance funds payable	18,010	29,316
Principal Outstanding on Class 1 Pre Event Bonds	458,400	458,400
Interest Payable on Class 1 Pre Event Bonds	6,084	18,252
Provision for reinsurance	-	-
Other payables	20,555	18,260
Statutory fund payable	186,848	147,015
<b>Total liabilities</b>	<b>969,440</b>	<b>972,708</b>
<b>Surplus and others funds</b>		
Unassigned surplus	-	-
<b>Total liabilities, surplus and other funds</b>	<b>\$ 969,440</b>	<b>\$ 972,708</b>
<b>Balance in CRTF</b>	<b>\$ 588,959</b>	<b>\$ 587,860</b>
<b>Balance in CRTF including Statutory fund payable</b>	<b>\$ 775,807</b>	<b>\$ 734,875</b>





TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
	for the two months ended February 28,			
	Actuals - 2017	Budget - 2017	Variance - 2017	Actuals - 2016
<b>Premiums Written:</b>				
Direct	\$ 56,059	\$ 62,083	\$ (6,024)	\$ 62,710
Ceded	-	-	-	(0)
Ceded - Depopulation	(4,123)	(4,608)	485	-
Net	51,936	57,475	(5,539)	62,709
<b>Premiums Earned:</b>				
Direct	\$ 77,906	\$ 79,435	\$ (1,529)	\$ 82,205
Ceded	-	-	-	-
Ceded - Depopulation	(4,123)	(4,608)	485	-
Net	73,783	74,827	(1,043)	82,205
<b>Deductions:</b>				
Direct Losses and LAE Incurred	5,843	5,957	(114)	7,152
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(230)	(323)	92	-
Operating Expenses	3,686	3,901	(215)	3,584
Commission Expense	8,971	9,933	(962)	10,035
Ceding commissions / brokerage	-	-	-	-
Ceding commissions / brokerage - Depopulation	(989)	(1,106)	117	-
Premium / Maintenance Tax	1,115	1,223	(108)	1,233
Total Deductions	18,395	19,586	(1,190)	22,004
<b>Net Underwriting Gain or (Loss)</b>	<b>55,388</b>	<b>55,241</b>	<b>147</b>	<b>60,201</b>
<b>Other Income or (Expense):</b>				
Gross Investment Income	859	517	342	405
Interest Expense on Class 1 Bonds	(6,084)	(6,084)	-	(6,448)
Debt Issuance & Other Investment Expenses	(25)	(25)	(0)	(51)
Other Income (Expense)	0	-	0	0
Total Other Income or (Expense)	(5,250)	(5,592)	342	(6,094)
<b>Net Income Before Income Taxes</b>	<b>50,138</b>	<b>49,649</b>	<b>489</b>	<b>54,107</b>
Federal Income Tax Expense (Benefit)	-	-	-	-
<b>Net Income (Loss)</b>	<b>\$ 50,138</b>	<b>\$ 49,649</b>	<b>\$ 489</b>	<b>\$ 54,107</b>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	-	-	-	-
Net Income (Loss)	50,138	49,649	489	54,107
Change in Provision for Reinsurance	-	-	-	-
Principal Funded on Class 1 Bonds (net)	(7,675)	(7,559)	(116)	(7,145)
Change in nonadmitted assets - Income Tax Rec	-	-	-	-
Change in nonadmitted assets - Other	(2,630)	(2,635)	5	(1,924)
Other	-	-	-	-
Statutory Fund Cost	(39,833)	(39,456)	(378)	(45,038)
Ending Surplus (Deficit)	\$ -	\$ -	\$ (0)	\$ -
<b>Key Operating Ratios:</b>				
Direct:				
Loss & LAE Ratio	7.5%	7.5%	0.0%	8.7%
UW Expense Ratio:				
Acquisition	18.0%	18.0%	0.0%	18.0%
Non Acquisition	4.7%	4.9%	-0.2%	4.4%
UW Expense Ratio	22.7%	22.9%	-0.2%	22.3%
Combined Ratio	30.2%	30.4%	-0.2%	31.0%
Net:				
Loss & LAE Ratio	7.6%	7.5%	0.1%	8.7%
UW Expense Ratio:				
Acquisition	17.7%	17.6%	0.1%	17.7%
Non Acquisition	5.0%	5.2%	-0.2%	4.4%
UW Expense Ratio	22.7%	22.8%	-0.1%	22.1%
Combined Ratio	30.3%	30.3%	0.0%	30.8%



## Section G: Examination of Association

### Examination by the Texas Department of Insurance

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. The last TDI examination was completed in October 2014, which revealed no material deficiencies or issues with operational or financial controls. All recommendations have been addressed.

### Examination by the State Auditor's Office

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 most recent audit by the State Auditor's Office (SAO) was completed in August 2012 and concluded 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 and there are no outstanding action items or reporting requirements.

## Section H: Catastrophe Funding

Effective September 1, 2015, Senate Bill (SB) 900, passed by the 84<sup>th</sup> Legislature, revised TWIA funding sources, providing a combination of public securities and company assessments and requiring total funding in an amount at least equal to the 100-year Probable Maximum Loss (PML), sufficient to cover 99% of all possible storm seasons.

Prior to the enactment of SB 900, the Board of Directors had approved TWIA to secure funding of \$4.9 billion for the 2015 hurricane season – equal to the 100-year PML, almost \$2 billion more than the combined costs of Hurricanes Dolly and Ike, and significantly greater than any previous year's funding since 2009.

Due to a reduction in TWIA exposures and minor changes in the hurricane models, the 100-year PML for 2016 decreased to \$4.7 billion. The 2016 reinsurance program, effective June 1, 2016 to May 31, 2017, provided \$4.9 billion in total aggregate funding, sufficient for over 99% of all possible storm seasons and in excess of the statutory minimum funding. The reinsurance program provided coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program. The



2016 program also included catastrophe bonds, originally issued in 2014 and 2015, with staggered expirations in order to provide multi-year stability, diversification, and expanded claims-paying capacity.

TWIA has already begun planning its funding for the 2017 hurricane season. Preliminary estimates for the 100-year PML for 2017 are between \$4.3 and \$4.4 billion, taking into account the potential impact of TWIA's depopulation programs. The Board at its March 21, 2017 interim meeting directed staff to place \$4.9 billion in total funding for the 2017 hurricane season.

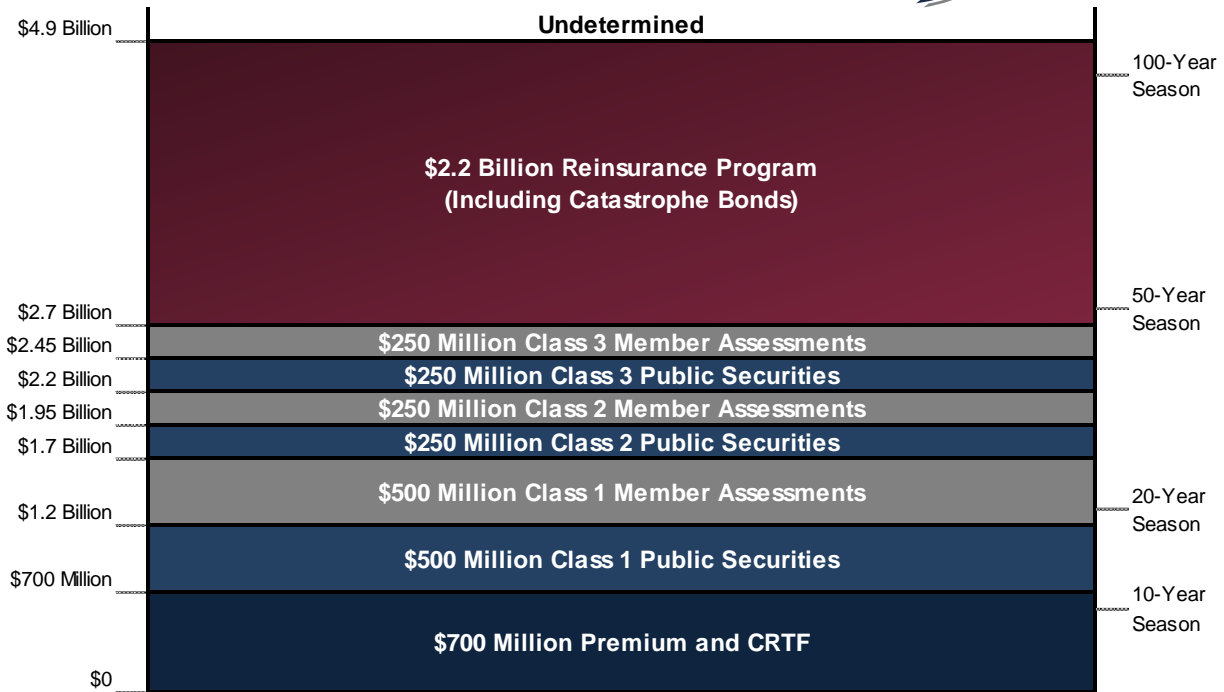
The structure of TWIA's funding for 2017 will be finalized in May, in advance of the June 1 start of hurricane season. With a projected record-balance of over \$740 million in the CRTF, including a contribution of \$147 million from 2016 operations, TWIA continues to be well-positioned to meet or exceed its funding requirements.

Subchapter B-1 of Chapter 2210 (Sections 2210.071 – 2210.075), as amended by SB 900, describes the different sources of funding available to pay TWIA losses. Those sources are, in order:

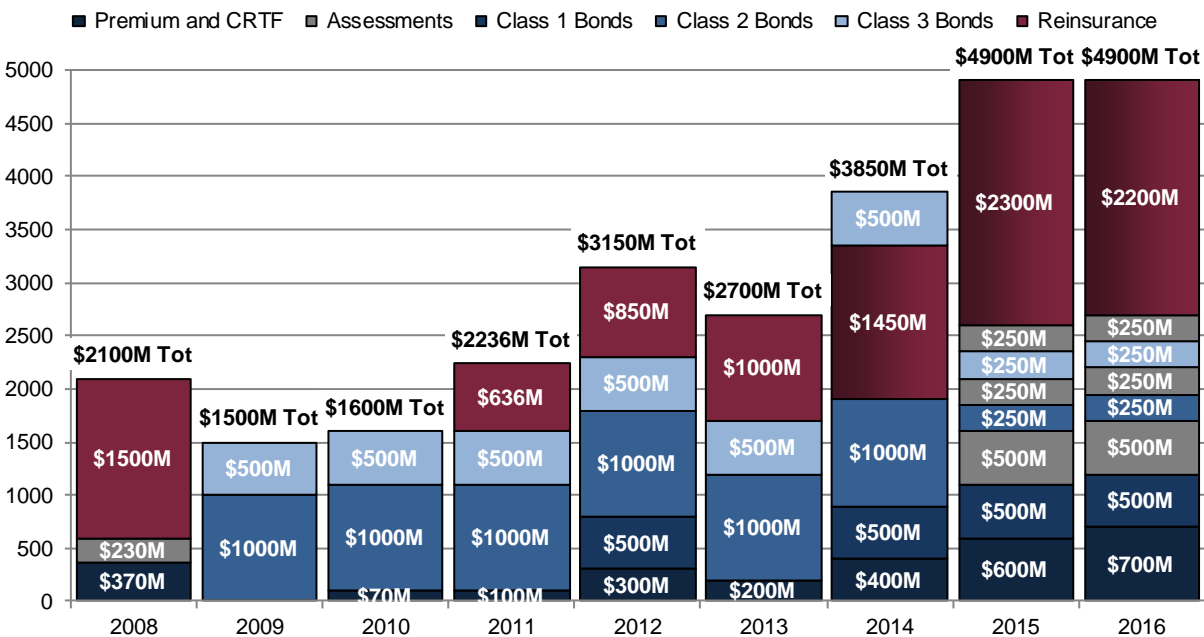
- TWIA premiums and other revenue
- Available reserves and amounts in the CRTF
- Up to \$500 million in Class 1 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to \$500 million in Class 1 assessments on TWIA member companies
- Up to \$250 million in Class 2 public 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

All Classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. 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 2016 hurricane season 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 12/31/15



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, 2014-2016 includes \$500 million pre-event Class 1 Public Securities. Funding for 2015-16 incorporate bond repayments that differ from prior years.



## Section I: Board Composition

SB 900, signed into law on June 16, 2015, changed the composition of the Board of Directors, as described in Texas Insurance Code Section 2210.102. Under SB 900, the Board consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. 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.

New board members were appointed by the Commissioner of Insurance on October 1, 2015. The current membership of the TWIA Board of Directors is as follows:

Name	Position
<b>Blair Crossan</b>	Insurance Industry Representative
<b>Joshua Fields</b>	First Tier Coastal Representative
<b>Chandra Franklin</b>	First Tier Coastal Representative
<b>Michael Gerik</b>	Insurance Industry Representative
<b>R. Scott Kesner</b>	Non-Seacoast Territory Representative
<b>Debbie King</b>	Insurance Industry Representative
<b>Georgia Neblett</b>	First Tier Coastal Representative
<b>Tony Schrader</b>	Non-Seacoast Territory Representative
<b>Bryan Shofner</b>	Non-Seacoast Territory Representative

## Section J: Open Meetings Act

Texas Insurance Code Section 2210.105 requires that, except for an emergency meeting, the Association shall notify TDI not later than the 11th day before the date of a meeting of the Board of Directors or of the members of the Association, and, not later than the seventh day before the date of a meeting of the Board of Directors, post notice of the meeting on TWIA's and TDI's websites. Section 2210.105 requires, except for a closed meeting authorized by Subchapter D, Chapter 551, Government Code (Texas Open Meetings Act), a meeting of the Board of Directors or of the members of the Association to be open to the Commissioner or the Commissioner's designated representative and the public. Section 2210.105 requires that TWIA broadcast live on its website all meetings of the Board of Directors, other than closed meetings, and maintain on its Internet website an archive of meetings of the Board of Directors. A recording of a meeting must be maintained in the archive on the website up to the second anniversary of the broadcast. Section 2210.108 provides that, 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 the [Association website](#). The following table lists the meetings conducted during the reporting period as well as upcoming meetings:

Date	Meeting
February 7, 2017	Quarterly Board of Directors Meeting
March 21, 2017	Interim Board of Directors Meeting

## Section K: 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 February 28, 2017.

	2011	2012	2013	2014	2015	2016	Jan 2017	Feb 2017
<b>Total Requests</b>	108	182	162	161	89	41	5	4
<b>Total Withdrawn Requests</b>	7	16	14	17	9	7	0	2
<b>Total OAG Rulings Requested</b>	10	20	26	10	3	6	0	1
<b>% Requests sent to OAG</b>	9%	11%	16%	6%	3%	15%	0%	25%

As illustrated in the table above, requests increased 68.5% from 2011 to 2012, decreased 11% from 2012 to 2013, remained steady from 2013 to 2014, decreased by 44.7% from 2014 to 2015, and decreased another 54% from 2015 to 2016. In addition to the decrease in overall requests, there was a decrease in the number of requests by plaintiff's law firms in the past year: 27 in 2014, 25 in 2015, and six in 2016. Prior increases in the total number of inquiries may be attributed to negative media attention and a lack of readily-accessible information provided for external stakeholders. These issues have improved as the Association sees more positive and neutral reporting in the media and as the Association's website and external communications efforts have dramatically improved and increased in 2015 and 2016.



## Section L: 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 in the Texas Administrative Code, Title 28, Chapter 5, Subchapter E.

In 2014, TWIA staff and counsel conducted a comprehensive review of the Plan of Operation to improve readability and eliminate any redundant or unnecessary provisions. TWIA staff and counsel proposed revisions to the Plan to accomplish those objectives. Initial revisions included removing redundancies, reorganizing, improving clarity and overall readability, and incorporating statutory changes through the 84<sup>th</sup> Legislative Session. Additional changes included adding a section that provides a process for suspending an agent's license if the agent fails to maintain documentation concerning a policyholder's eligibility and adding language to accommodate installment payments. The Board of Directors approved the proposed revisions at their meeting on April 5, 2016. The amended Plan of Operation was filed on May 6, 2016 and is currently under consideration by TDI.

## Section M: 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 February 28, 2017:

### Policies In-Force

Policy Type	As of 2/29/16	As of 2/28/17	Change from Prior Year
Mobile Home	928	842	-9.3%
Residential	257,496	240,622	-6.6%
Commercial	11,405	9,990	-12.4%
<b>Totals</b>	<b>269,829</b>	<b>251,454</b>	<b>-6.8%</b>

### Direct Liability

Policy Type	As of 2/29/16	As of 2/28/17	Change from Prior Year
Mobile Home	48,145,820	44,029,247	-8.6%
Residential	68,001,788,338	64,103,335,690	-5.7%
Commercial	10,012,656,364	8,340,608,681	-16.7%
<b>Totals</b>	<b>78,062,590,522</b>	<b>72,487,973,618</b>	<b>-7.1%</b>

### Written Premiums (YTD)

Policy Type	As of 2/29/16	As of 2/28/17	Change from Prior Year
Mobile Home	150,796	131,710	-12.7%
Residential	47,837,397	44,366,038	-7.3%
Commercial	14,721,410	11,560,881	-21.5%
<b>Totals</b>	<b>62,709,603</b>	<b>56,058,629</b>	<b>-10.6%</b>

## Section N: Compliance with Building Codes

Subchapter F of Chapter 2210 (Sections 2210.251-2210.259) 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 or WPI-8-C) for all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. TDI issues Certificates of Compliance (WPI-8) for ongoing improvements to structures. House Bill 2439 passed by the 84<sup>th</sup> Texas Legislature changed the windstorm certification process and required TWIA to implement a program to issue Certificates of Compliance (WPI-8-C) for completed improvements. The new law applies to a TWIA policy delivered, issued for delivery, or renewed on or after January 1, 2017. The Association implemented a process for receiving applications for and issuing Certificates of Compliance (WPI-8-C) for completed improvements by January 1, 2017. As of February 28, 2017, TWIA has issued 87 Certificates of Compliance (WPI-8-C).

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 under the various compliance standards and the total surcharge amounts deposited into the CRTF each year, as well as the amount contributed in 2017 as of February 28:

Compliance Standard	Policies In-Force	Year	Surcharges
Certificate of Compliance	221,067	2011	\$6,675,047
WPI-8 Waiver	30,387	2012	\$7,408,157
		2013	\$7,233,546
		2014	\$7,773,258
		2015	\$7,458,898
		2016	\$6,632,947
		2017	\$695,605

The 83<sup>rd</sup> 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 enacted 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 took effect immediately.

## Section O: 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. The TWIA Board of Directors voted to file for a 0% change in rates at the August 2, 2016 board meeting. The filing was made with TDI on August 15, 2016.



Current indicated rate needs are as follows:

Rate Component		TWIA Rate Indications	
		Residential	Commercial
(1)	Non-Hurricane Loss & LAE Ratio	13.9%	8.7%
(2)	Hurricane Loss & LAE Ratio		
	Experience	38.5%	42.3%
	Modeled	47.3%	47.6%
	Combined	42.9%	45.0%
(3)	Net Cost of Reinsurance	15.8%	15.8%
(4)	Other Fixed Expenses	5.3%	5.3%
	Total Indicated Loss & LAE Ratio	77.9%	74.8%
(5)	Contribution to CRTF	20.0%	20.0%
(6)	Other Variable Expenses	18.0%	18.0%
	Variable Permissible LLAE Ratio	62.0%	62.0%
	Indicated Rate Change	+26%	+21%
<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; includes repayment of outstanding Class 1 Public Securities (6) Includes commissions, taxes, licenses, and fees		

## Section P: 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 2016 TWIA Catastrophe (CAT) Incident Response Plan was included with the [2016 Annual Report Card](#), published on June 1.

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 enterprise-wide catastrophe planning meetings to update the CAT Plan with information about these improvements and



with knowledge gained from real and modeled events. The 2016 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 continues to meet with Office of Emergency Management officials in various coastal counties. These outreach efforts have given the Association the opportunity to identify areas of improvement related to communication with coastal emergency management offices and deployment of staff in response to incidents. Staff presented the CAT Plan to the Commissioner of Insurance and other TDI and legislative staff in 2014, 2015, and 2016.

## Testing and Activation

TWIA has activated the CAT Plan ten 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. 14,706 claims were opened as a result of storms in April, May, and June 2015. The CAT Plan was also activated in October 2015 in response to post-tropical storm Patricia and storms on Halloween weekend. 1,544 claims from these events were filed with TWIA. The Claims Department maintained low cycle times from receipt of claim to payment, high staff performance, and positive customer satisfaction ratings throughout 2015 despite the high claim volume.

The CAT Plan was not activated in 2016 due to more favorable weather. On February 14, 2017, the CAT Plan was activated in response to severe thunderstorms and multiple tornados touching down in several counties in the coverage area. Less than 300 claims were filed as a result of the storms, resulting in the CAT Plan activation being used as an opportunity to test the plan and serve policyholders impacted by the storms.



TWIA first tested the CAT Plan in an enterprise-wide simulation in June 2014. Results showed a high level of enterprise readiness, with no significant negative findings. Continued testing of the Association’s CAT response capabilities occurred in November 2015 with the successful completion of a demonstration of the Mobile Claims Center, TWIA’s portable office for providing services after an incident. The two activations of the CAT Plan in 2015 also allowed the Claims Department 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 to update plan objectives and for testing, training, and exercises.

## Section Q: Limits of Liability

Under Texas Insurance Code Subchapter K of Chapter 2210 (Sections 2210.501 – 2210.504), TWIA is required to propose inflation adjustments to the maximum liability limits under a windstorm and hail policy. The TWIA Board of Directors voted to file for no change in its maximum liability limits at the August 2, 2016 board meeting, based on slight decreases in construction costs. The Commissioner of Insurance approved TWIA’s filing on December 2, 2016.

The current maximum limits are:

	2017
Dwellings and individually owned townhouses	\$1,773,000
Contents of an apartment, condominium, or townhouse	\$374,000
Commercial structures and associated contents	\$4,424,000

## Section R: Certain Appeal and Other Actions

### Part 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.



## Part 2. Voluntary Arbitration & Certain Coverages and Claim Disputes

Texas Insurance Code Section 2210.554 allows TWIA to offer an “Arbitration Endorsement” to its policyholders on a policy 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.

## Part 3. Claims: Settlement and Dispute Resolution

HB 3 made significant changes to both the process by which insureds can dispute TWIA’s decision relating to the payment of, the amount of, or the denial of claims, and the remedies available to insureds. First, Section 2210.014 made Insurance Code Chapters 541 (Bad Faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims. Second, Section 2210.572(c) made the Deceptive Trade Practices Act inapplicable to TWIA. These were three of the main causes of action asserted by insureds who sued TWIA, alleging claims were underpaid or settled in bad faith. The new provisions of Chapter 2210, Subchapter L-1, now provide the process for claims decisions, payments, and disputes.

The TWIA Claims Department has trained all Claims personnel on the new claim-handling procedures and deadlines included in HB 3 and revised the claims decision letters to provide clear explanations of the portions of claims that the Association has accepted or denied, in full or in part, as required by Section 2210.573(d). In addition, claims decision letters now include instructions for disputing accepted or denied claims and provide forms that insureds can use to begin the dispute resolution process, as required by Section 2210.573(e)-(g).

Below is a table of data (as of February 28, 2017) regarding claims subject to the HB 3 dispute resolution process. The table 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.

Disputed Claims Tracker*						
Dispute Frequency			Disputed Claims			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
43,363	467	1.08%	301	192	56	102

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



## Part 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 S: 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, windstorm certification requirements and exceptions, what to expect from the claims process, and important changes resulting from legislation.

Ultimately, the program will include targeted strategies for a variety of objectives in the coastal areas.

In 2016, TWIA participated in the following events:

- TWIA staff met with key agency and realtor stakeholders and OEM and ISD stakeholders in Galveston and Friendswood in February 2017,
- TWIA and TDI staff jointly presented on Certificates of Compliance (WPI-8s and WPI-8-Cs) at the Structural Insulated Panel Association's annual conference in February 2017, and
- TWIA and TDI staff jointly presented on Certificates of Compliance (WPI-8s and WPI-8-Cs) to Corpus Christi and Port Aransas area builders and contractors at the Coastal Bend Home Builders Association in March 2017.

## Section T: Annual Evaluation of Association Management

The fifth objective outlined in Texas Insurance Code Section 2210.107(a) is to establish, and adhere to the terms of, an annual evaluation of Association management necessary to achieve the statutory purpose,



Board objectives, and any performance or enterprise risk management objectives established by the Board.

Beginning January 1, 2012, TWIA's annual budget has been based upon department-level budgets for which department management and their staffs are held accountable. To reflect that accountability and to establish objective standards appropriate to each employee, the Association established individual performance standards for each position. The 2016 budget was reviewed and approved by the Board of Directors at its December 8, 2015 meeting, and the 2017 budget was reviewed and approved by the Board of Directors at its December 6, 2016 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 are 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.