TEXAS WINDSTORM INSURANCE ASSOCIATION

Media Briefing Book

Updated: 11/3/2020

Contact Information

Mailing Address:
P.O. Box 99090
Austin, TX 78709-9090

Phone: 800.788.8247

Media Inquiries
mediarelations@twia.org
512.505.2299

Table of Contents

TWIA Overview

History and Purpose

The Texas Windstorm Insurance Association (TWIA or Association) was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. TWIA is governed by Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

TWIA serves as a residual insurer of last resort and as such is not a direct competitor in the private market. TWIA's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes all the first-tier coastal counties and a portion of Harris County (second tier).

TWIA operates as an insurance company by issuing policies, collecting premiums, and paying losses. TWIA is composed of all property insurers authorized to engage in the business of property insurance in Texas other than insurers prevented by law from writing on a statewide basis the coverages available through the Association. TWIA is required by law to transfer its net gain from operations each year into the Catastrophe Reserve Trust Fund (CRTF), an account maintained by the Texas Comptroller dedicated to the payment of future TWIA catastrophe losses.

Mission and Vision

TWIA's mission is to provide essential property insurance products and services to eligible Texas policyholders when no one else will. Accompanied by a vision to be respected and trusted by our stakeholders, TWIA's mission, vision, and values are the foundation upon which the Association is built. 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.

Vision

To be respected and trusted by our stakeholders.

Service & Respect

We are committed to serving as a reliable, credible, and respectful provider

Efficiency & Stability

We are financially stable and can be counted on to fulfill our obligations

Integrity & Accountability

We are an ethical organization that is accountable to those we serve

Coverage and Eligibility

TWIA policies provide coverage for wind and hail losses only. No other perils are covered by TWIA policies. Applications for coverage, accompanied by full or partial payment of the annual premium, may be submitted to TWIA through an agent properly licensed through the Texas Department of Insurance (TDI).

To be eligible for a TWIA policy, applicants and properties must meet certain criteria defined by the Texas Legislature. The criteria include:

- Applicants must have been denied coverage by at least one insurer in the private market,
- Properties must be located in the designated catastrophe area,
- Properties must be certified as having been built to applicable building codes,
- Properties located in specified flood zones (V zones) that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage, and
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Coverage Area

TWIA policies provide coverage for residential and commercial property located within the area designated by the Commissioner of Insurance. The specific counties are Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy. When the property is located inside the city limits and east of Highway 146, the following portions of Harris County are also included: La Porte, Morgan's Point, Pasadena, Seabrook, and Shoreacres.

Building Codes & Certificates of Compliance (WPI-8, WPI-8-C, or WPI-8-E)

Texas Insurance Code (Chapter 2210) outlines the building code and inspection requirements for TWIA eligibility and provide for limited exceptions. In accordance with these sections, TWIA requires a Certificate of Compliance (WPI-8, WPI-8-C, or WPI-8-E) on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. TDI administers the Windstorm Inspections Program and issues all Certificates of Compliance (WPI-8 and WPI-8-E) for ongoing and completed improvements. Property owners can contact TDI before beginning construction in order to have a TDI appointed qualified inspector inspect their property and certify that it is fully compliant with the applicable windstorm building code.

Legislation passed in 2015 authorized TWIA to issue Certificates of Compliance (WPI-8-C) for completed improvements starting January 1, 2017. Legislation passed in 2019 transferred this responsibility to TDI beginning June 1, 2020. TDI administers the Windstorm Inspection Program and now issues all Certificates of Compliance. WPI-8-Cs issued by TWIA remain valid.

Insurability Guidelines

Properties must be in an insurable condition to be eligible for TWIA coverage (i.e. in good repair with no unrepaired damage or hazardous conditions). TWIA regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Current TWIA Statistics

As of June 30, 2020, TWIA policies in-force numbered 185,474 with insured building and contents coverage totaling $54.7 billion. 2019 written premiums were $372 million.

Funding

Since 1971, TWIA has taken in approximately $6.6 billion in premiums and returned more than $5.8 billion to policyholders in claim payments and claim expenses. Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. TWIA's current funding structure is, in order:

- TWIA premiums and amounts in the CRTF
- $500 million in Class 1 public securities
- $500 million in Class 1 member company assessments
- $250 million in Class 2 public securities
- $250 million in Class 2 member company assessments
- $250 million in Class 3 public securities
- $250 million in Class 3 member company assessments
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season.

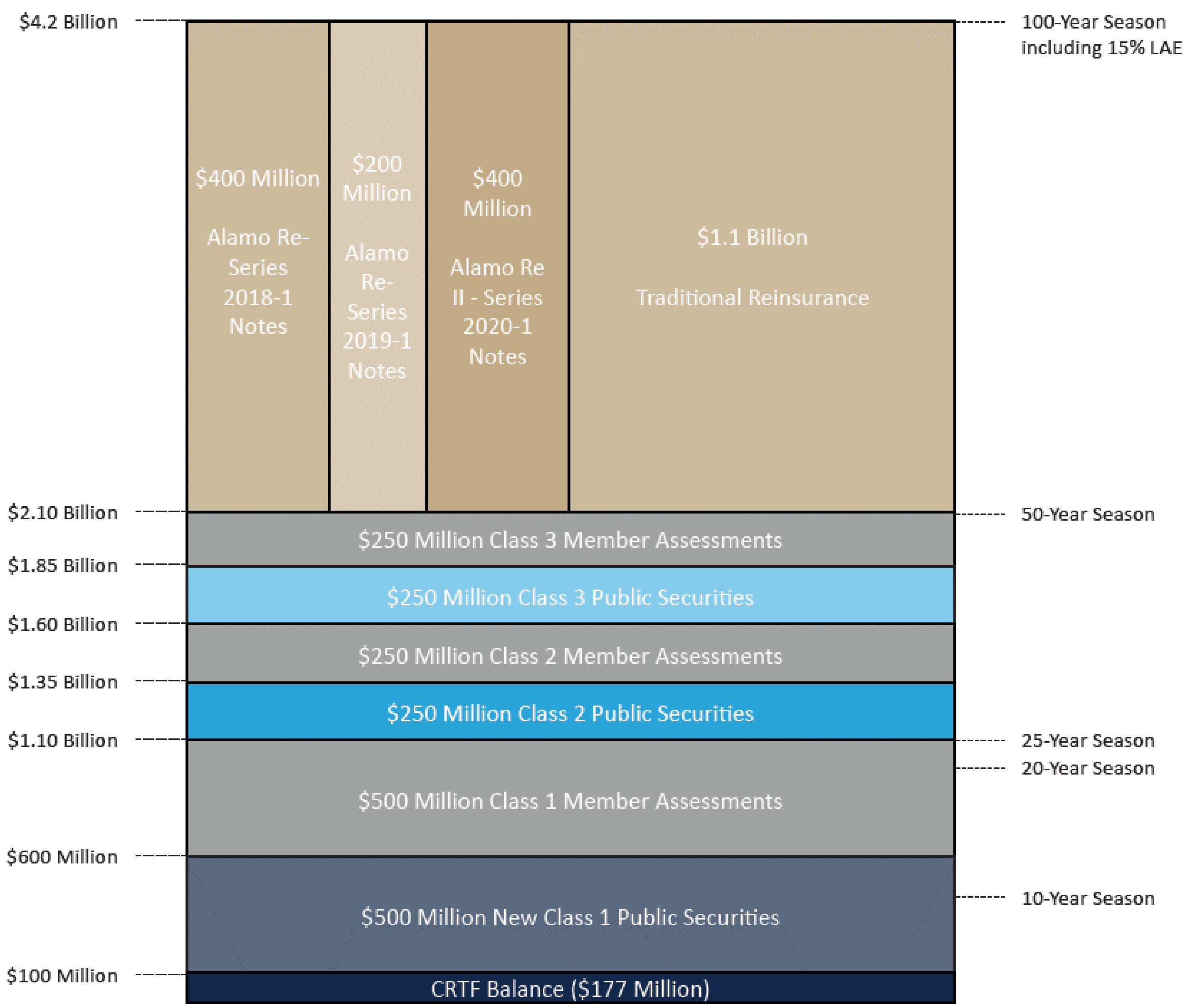
All classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. The Association is prohibited by statute from paying policyholder excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years. Class 1, 2, and 3 public securities are repaid by TWIA premiums and, if premiums and all other revenues are not sufficient, surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto insurance policies that insure property and automobiles located in the catastrophe area.

House Bill 1900 (86th Legislature) requires that TWIA's purchase of reinsurance above its minimum required funding level (1 in 100 probable maximum loss) be paid for by an assessment on member insurers of the Association.

2020 Hurricane Season Funding

TWIA's 2020 reinsurance program, effective June 1, 2020 to May 31, 2021, provides access to $4.2 billion in total funding, an amount in excess of the statutory minimum funding. The funding program includes $1.1 billion of traditional reinsurance and $1 billion in catastrophe bonds placed atop the $2.1 billion of total statutory funding sources. The traditional reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events in a single season would be covered under the same reinsurance program.

The following chart depicts TWIA's funding for the 2020 hurricane season:



TWIA Fast Facts[1]

2019 TWIA Premiums	$372.0 Million		
TWIA Policies In-Force	185,474		
TWIA Total Insured Value	$54.7 Billion		
TWIA Registered Agents	7,220		
Employees + Contractors	214 + 53		
Operating Cost as a % of Premium	8% TWIA	13% Texas	36% Plans[2]
8th Largest Allied Lines Writer in the US[3]			
2nd Largest Property Insurance Plan in the US[4]			

[1] Data as of 06/30/2020
[2] Average of all 36 US Property Insurance Plans
[3] Based on 2018 NAIC Market Share Report
[4] Among the 36 US Property Insurance Plans

Board of Directors

Composition

TWIA is governed by a Board of Directors appointed by the Commissioner of Insurance. The Board consists of 3 public members residing in the first tier coastal counties and representing certain regions of the catastrophe area, 3 non-coastal representatives residing more than 100 miles from the coast, and 3 industry representatives actively writing and renewing windstorm and hail insurance in the first tier coastal counties. All Board members must have experience in insurance, general business or actuarial principles. Senate Bill 615, enacted by the 86th Texas Legislature requires coastal and inland members representing the general public, and their spouses, to meet certain financial conflicts of interest provisions.

2020 Board Members

Name	Member Representation
Chandra Franklin-Womack, *Chair*	First Tier Coastal Representative
Georgia R. Neblett, *Vice Chair*	First Tier Coastal Representative
Corise Morrison, *Secretary/Treasurer*	Insurance Industry Representative
Tim Garrett	Non-Seacoast Territory Representative
Michael Gerik	Insurance Industry Representative
Peggy Gonzalez	First Tier Coastal Representative
Karen Guard	Insurance Industry Representative
Tony Schrader	Non-Seacoast Territory Representative
Ron Walenta	Non-Seacoast Territory Representative

Primary Objectives

Texas Insurance Code Chapter 2210 outlines the Board's objectives: comply with Chapter 2210, the plan of operation, and commissioner rules and sound insurance principles; establish a code of conduct and performance standards; and, 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.

Highlights

• • •

- All Board members are unpaid volunteers appointed by the Commissioner of Insurance
- Board composition includes representation of coastal and inland residents, insurance agents, and insurance companies
- The Board conducts public meetings at least quarterly to discuss administration of the Association
- All Board meetings and teleconferences are open to the public and broadcast live at www.TWIA.org
- Archived recordings of all meetings are available on the Association's website for two years

Building Code Incentives

Background

To be eligible for TWIA coverage, Texas law requires buildings to meet applicable windstorm codes as evidenced by a Certificate of Compliance (WPI-8, WPI-8-E, or WPI-8-C). The Texas Department of Insurance (TDI) administers the Windstorm Inspection Program and issues all Certificates of Compliance (WPI-8 and WPI-8-E). Legislation passed in 2015 authorized TWIA to issue Certificates of Compliance (WPI-8-C) for completed improvements starting January 1, 2017. Legislation passed in 2019 transferred this responsibility TDI beginning June 1, 2020. WPI-8-Cs issued by TWIA remain valid.

TWIA Incentives for Residential Properties

Building code credits are available for properties that meet or exceed recent building codes. Retrofit credits are available to homes built prior to September 1, 1998 that are retrofitted with exterior opening protections that meet current windborne debris construction standards.

Structures that do not meet applicable windstorm codes are ineligible for coverage with TWIA except in limited cases. In these limited cases, a premium surcharge is applied to the windstorm policy covering the non-compliant structure.

Other States' Retrofitting Programs

Other states have passed legislation providing incentives for homeowners to retrofit their homes to make them more resistant to wind damage:

- Alabama passed legislation in 2011 designed to be administered through the Alabama Department of Insurance. Residents are allowed to deduct up to 50% of the cost of retrofitting property from their state income taxes, up to $3,000.
- Mississippi requires a 25% or more owner contribution to the retrofit costs. As of January 2013, five insurers including the Mississippi Windstorm Underwriting Association have filed windstorm mitigation discount plans with the Mississippi Department of Insurance.

Both programs are limited in their geographic focus to certain counties.

Highlights

• • •

- Windstorm building code requirements apply to new construction as well as alterations, additions, and certain repairs
- TDI administers the Windstorm Inspection Program and issues all Certificates of Compliance (WPI-8 and WPI-8-E)
- Premium discounts are available for property that meets or exceeds windstorm building codes
- Without the proper Certificates of Compliance, a property may not be eligible for TWIA coverage except in limited circumstances
- Retrofits may assist policyholders in obtaining voluntary market coverage

Catastrophe Response

Background

TWIA's Catastrophe (CAT) Incident Response Plan is a dynamic document detailing the roles and responsibilities of each department in response to an incident. The CAT Plan has been activated 14 times since January 2012. High customer satisfaction survey scores and low claims cycle times demonstrate the success of TWIA's responses in each instance. The use of a corrective action program drives continuous improvement to the CAT Plan and helps to build a culture of readiness throughout the Association.

Key Elements

Key elements of the plan include the identification of roles and responsibilities for all TWIA departments, details about scalability to the size of an incident, operational guidelines and directives for TWIA's response to a catastrophe, and a corrective action program incorporating after-action reporting and improvement planning processes. The plan addresses TWIA's communication of claim filing instructions, contact information, mobile and remote facility locations, and updates on TWIA's response to stakeholders. Finally, the CAT Plan outlines the steps necessary to secure funding to pay all covered claims.

TWIA uses a resource scalability model to determine—before a storm makes landfall—how many adjusters, customer care representatives, quality analysts, inspectors, and examiners will be needed to handle the projected claim volume from an incident. Contracts to secure the number of field adjusters needed for each modeled storm scenario include performance standard requirements and liquidated damage provisions for failure to meet the resource commitments. TWIA also has a dedicated call center with scalable capacity to intake at least 150,000 claims in 30 days.

Ongoing Improvements

Since 2011, TWIA has continuously improved the CAT Plan. The 2020 CAT Plan continues to address stakeholder feedback received from Hurricane Harvey and incorporates plans for responding during the COVID-19 pandemic. Built into the Association's annual CAT Plan review process is a Corrective Action Program (CAP) which is designed to identify gaps and deficiencies in planning. Annual enterprise-wide tests of the CAT Plan have been conducted since 2014 and consistently showed a high level of Association readiness and no significant negative findings. A Multi-Year Strategic Testing and Exercise Plan (MYSTEP) has been developed for the next three years to guide future testing, training, and exercises.

Highlights

• • •

- Detailed, proactive, enterprise-wide planning
- Defined roles and responsibilities for all departments
- Increased scalability, including call center, staffing, and other resource models
- Regular testing, training, and exercises
- Metrics evaluating performance in real time
- Multiple options for claim reporting

Claims Appraisal

Definition

The 82nd Texas Legislature, 1st Called Special Session, enacted House Bill 3 (HB 3) to address issues related to the operation of TWIA. HB 3 became effective on September 28, 2011 and applies to TWIA policies issued or renewed on or after November 27, 2011. Under HB 3, appraisal is the means for resolving any dispute over the accepted portion of a covered loss. Working within the HB 3 appraisal process, the policyholder and TWIA each select an individual appraiser to determine the amount of loss. If the appraisers cannot agree on the amount of the loss, a competent and independent umpire will be selected by the appraisers. These three individuals comprise the Appraisal Panel. An agreement by any two of these three participants will determine the amount of the loss.

Important Terms

If the policyholder disputes the amount TWIA has accepted for their claim, either fully or partially, the policyholder may request appraisal. TWIA must receive the request no later than 60 days from the date the policyholder receives notice of claim acceptance. The deadline may be extended in certain circumstances.

HB 1900, enacted by the 86th Texas Legislature, formalizes the handling of replacement cost coverage claims, allowing 545 days for a policyholder to provide proof of repairs to recoup the recoverable depreciation on their replacement cost claim while preserving the policyholder's ability to request appraisal on the claim. After receiving TWIA's payment of their replacement cost claim, policyholders have 30 days to request appraisal should they disagree with the payment amount. These changes apply to policies issued or renewed on or after January 1, 2020.

Appraisal only addresses those items of damage for which coverage was accepted. The appraisal decision will be final and binding when signed and dated by two members of the Appraisal Panel. All costs and expenses for appraisal are shared equally by TWIA and the policyholder, including costs for both appraisers and the umpire, if an umpire was engaged.

Key Elements

If the policyholder notifies TWIA of a request for appraisal, TWIA contacts them in an attempt to resolve the dispute and to limit any expenses they may incur due to the appraisal process. 73% of all appraisal requests to date have been resolved without requiring the policyholder to proceed with the formal appraisal process.

Highlights

- State law requires disputes over the accepted portion of a TWIA claim to be resolved through an appraisal process
- All costs and expenses associated with the appraisal process are shared equally between the policyholder and TWIA
- Policyholders generally have 60 days from the date they receive notice of their accepted claim to request appraisal
- Approximately 4% of all HB 3 claims involve a dispute
- Approximately 91% of disputed HB 3 claims involve a request for appraisal

Claims Center

Background

TWIA implemented a new claims administration system in July 2016 to deliver on the Associations' strategic goals and organizational values to provide quality service to customers, operate efficiently, and always look for opportunities for continuous improvement. Claims Center is a modern web-based platform and is part of the Guidewire suite of products that TWIA currently uses for billing and policy administration.

System Benefits

Claims Center serves TWIA agents, policyholders, and employees by offering the following advantages:

- Allows policyholders and agents to file a claim online from their computer or mobile device.
- Assigns claims automatically to claims examiners and field adjusters with the correct experience based on claim severity.
- Allows for bulk assignment of claims by geographic location, enabling field adjusters to focus on a smaller operating radius and respond more efficiently to claims.
- Provides 24/7 access to more detailed claim information as well as the ability to easily communicate with assigned TWIA staff and transmit and receive claim documents.
- Promotes improved claim handling efficiency and productivity for TWIA employees, leading to less time spent on administrative tasks and more time focused on addressing policyholder needs.
- Improves TWIA's ability to scale-up in response to a catastrophic event.

Claim Filing Process

For fastest service, policyholders can file their claim online at any time by visiting twia.org/claimscenter. New users of the systems must register in order to access and use Claims Center. They can also call TWIA's 24/7 call center or call their agent.

Highlights

- Allows for improved claim reporting for policyholders and agents
- Automates internal claim workflows and the assignment of resources to a claim
- Promotes real-time collaboration between TWIA and policyholders and agents
- Improves TWIA's ability to scale-up for events

Claims Dispute Resolution

Background

The 82nd Texas Legislature, 1st Called Special Session, enacted House Bill (HB) 3 to address issues related to the operation of TWIA. HB 3 became effective on September 28, 2011 and applies to TWIA policies issued or renewed on or after November 27, 2011. HB 3 outlines judicial remedies available to policyholders, including appraisal for disputes arising over the amount of damages and Alternative Dispute Resolution (ADR) for disputes regarding coverage of damages.

Key Elements

If the policyholder disputes the amount of loss TWIA accepts for a claim, either partially or fully, the policyholder must work with TWIA to resolve any disputes or request appraisal. The policyholder has 60 days after receiving notification of the claim decision to notify TWIA of a request for appraisal. HB 1900, enacted by the 86th Texas Legislature, helps to preserve the policyholder's ability to request appraisal on their replacement cost coverage claim. Policyholders have 545 days to provide proof of repairs to recoup the recoverable depreciation on their replacement cost coverage claim and 30 days to request appraisal after receiving TWIA's replacement cost payment. These changes apply to policies issued or renewed on or after January 1, 2020.

If the policyholder disputes TWIA's decision to partially or fully deny coverage for a claim, they must provide notification they intend to bring suit against TWIA. The policyholder has two years after receipt of a claim decision to notify TWIA of a coverage dispute by filing the Intent to Bring Action form provided to them at the time of the coverage decision. As a prerequisite to filing suit, TWIA has the option of requiring them to submit the dispute to Alternative Dispute Resolution. Mediation is the primary form of dispute resolution utilized by TWIA. All costs and expenses of appraisal and mediation are shared equally by both parties.

Preventing Disputed Claims

While HB 3 altered the methodology and timeframes by which disputed claims are handled, TWIA remains committed to preventing unnecessary disputes and litigation through the use of quality assurance programs and feedback from customer satisfaction surveys, continued focus on improving communication with policyholders, and management's regular review of potential and reported disputed claims.

Highlights

• • •

- Approximately 4% of all HB 3 claims involve a dispute
- Approximately 91% of all disputed HB 3 claims involve a request for appraisal
- The policyholder has 60 days after a claims decision to request appraisal
- HB 3 does not eliminate the policyholder's right to file a lawsuit
- The policyholder has two years after a claims decision to file an Intent to File Action (litigation) form
- Only 0.47% of all HB 3 claims involve a lawsuit

TWIA Claims Performance[1]

Key Cycle Times (days)	Industry Avg. – TX	TWIA	TWIA Plan	Variance	% Variance
FNOL to Inspect Property[2]	4.4	2.7	<3	-0.3	-10%
Inspect Property to Receipt by TWIA	3.5	2.1	<8	-5.9	-74%
Total Cycle Time FNOL to Payment	N/A	8.6	<12	-3.4	-21%

Complaint Ratio[3]	
2015	0.11% - 20 complaints from 18,889 new claims
2016	0.14% - 12 complaints from 8,393 new claims
2017	0.13% - 103 complaints from 80,257 new claims
2018	2.60% - 188 complaints from 7,242 new claims
2019	0.60% - 40 complaints from 6,704 new claims
2020	0.16% - 4 complaints from 2,570 new claims

[1] Data as of June 30, 2020

[2] FNOL is the first notice of loss.

[3] TDI complaints to total claims filed.

Claims Operations

Mission

The TWIA Claims Department seeks to provide quality claim services by:

- providing a positive claim experience to customers in their time of need;
- continuously evaluating performance and adherence to Department values; and
- ensuring consistency and responsibility with entrusted financial resources.

Organizational Structure

The Claims workforce is divided into residential and commercial teams to achieve workflow efficiencies. Claims are further segmented based on complexity in order to ensure that the right resource with the appropriate experience and skill set is matched to each claim. The Department consists of approximately 50 full-time employees, supplemented with contractors as necessary after storm events. This allows TWIA to balance operational efficiency and responsiveness after a catastrophe.

Process

Policyholders have multiple options to report claims, including an online Claims Center for policyholders and a 24/7 call center with scalable resources capable of processing at least 150,000 calls in 30 days. TWIA's claims administration system, Claims Center, helps expedite the claims handling process. The system also provides policyholders, agents, and TWIA with better ways to communicate and share more accurate information about a claim.

Accountability

Performance metrics and scorecards are used to measure efficiency and to drive continuous improvement in service quality for internal claims examiners and field adjusters. TWIA's commitment to policyholder service is demonstrated by consistently high Quality Assurance and customer satisfaction survey scores. Customer surveys also assist in better understanding policyholder's needs and concerns and allow staff to address any issues promptly.

Highlights

• • •

- TWIA offers multiple ways to report claims, including a 24/7 call center and the new on-line and mobile-friendly Claims Center
- The Claims Department has access to scalable resources in the event of a catastrophe
- Operational scorecards are used to drive claims quality and performance
- Claim and policy data is leveraged to drive the claim process and identify trends
- Community outreach programs inform and educate policyholders about the claim process
- A special investigation unit (SIU) helps protect policyholders from fraud

Depopulation

Background

Legislation passed in 2015 authorized TWIA to develop depopulation programs to assist TWIA policyholders in obtaining coverage from the private insurance market and to reduce its exposure following a period of policy growth between 2005-2015. Under TWIA's depopulation programs, participating insurers must file rates with and have forms approved by the Texas Department of Insurance (TDI) and sign Nondisclosure and Participation Agreements (NDA) to obtain electronic access to TWIA policyholder data.

Voluntary Market Depopulation Program

Approved insurers participating in the Voluntary Market Depopulation Program must approach the agent of record for a policy 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 insurer's offer. Participating insurers may make offers of coverage at any time throughout the year.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program is, with notable exceptions, modeled after take-out programs in Florida and Louisiana. Interested carriers must be reviewed by TDI and TWIA to identify the policies they would like to assume. Agents review and approve or reject any offers from the carriers. Policyholders who receive offers must take action to remain with the Association within a six-month period or have their policy automatically assumed by the carrier.

Legislative changes enacted by the 86th Texas Legislature modified the Assumption program, eliminating any requirement for agents or policyholders to make depopulation decisions during hurricane season and reducing the policyholder opt-out period to no more than 60 days. TWIA recently completed Round 4 (2019-2020) of the Assumption program with two participating carriers. The new legislative changes will apply to Round 5 of the program beginning at the end of 2020.

The chart below provides an overview of the first four rounds of the program that have occurred since it was authorized in 2015:

Assumption Reinsurance Depopulation Program				
Program Year	2016-17	2017-18	2018-19	2019-20
Participating Carriers	4	3	2	2
Policies Selected by Carrier	102,171	109,356	75,039	64,380
Agent-Approved Offers	18,047	3,091	3,552	1,866
Policies Assumed as of June 1	11,164	1,634	2,080	1,003

Highlights

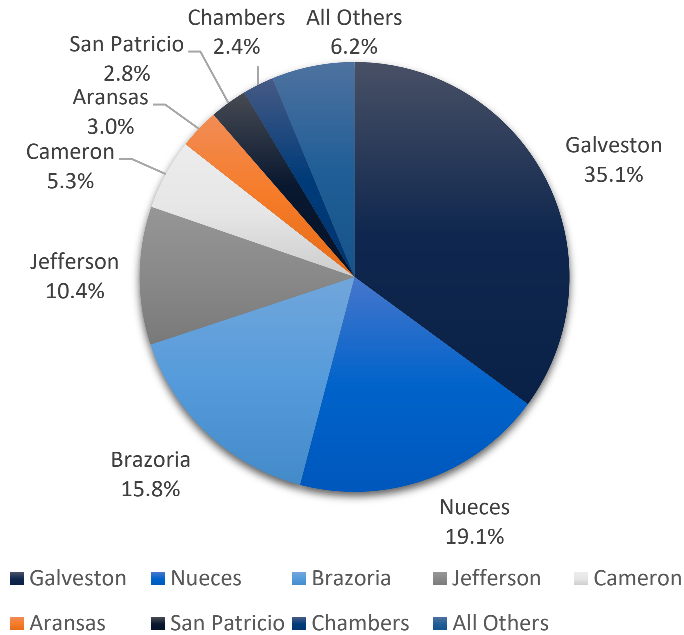
• • •

- Depopulation involves helping TWIA policyholders find coverage in the private insurance market
- TWIA has two depopulation programs: Voluntary Market and Assumption Reinsurance
- Participation in any depopulation program is strictly voluntary
- TWIA has facilitated the transfer of more than 20,000 policies into the private market since 2016
- 15 carriers have been granted access to the Voluntary Program; one is actively participating
- New laws for the Assumption program reduce the policyholder opt-out period to no more than 60 days and prohibit agent and policyholder decisions during hurricane season

Distribution by County

Distribution of Insured Limits by County

as of 06/30/2020



County	Insured Limits*	Percentage
Galveston	$19,189,972,287	35.08%
Nueces	$10,404,112,598	19.02%
Brazoria	$8,653,159,816	15.82%
Jefferson	$5,678,232,669	10.38%
Cameron	$2,904,980,367	5.31%
Aransas	$1,652,593,481	3.02%
San Patricio	$1,532,146,698	2.80%
Chambers	$1,286,448,830	2.35%
Matagorda	$1,076,755,407	1.97%
Harris	$1,034,546,008	1.89%
Calhoun	$938,717,466	1.72%
Kleberg	$173,459,613	0.32%
Refugio	$92,451,505	0.17%
Willacy	$84,889,641	0.16%
Kenedy	$6,436,341	0.01%
All Counties	**$54,708,902,727**	**100.00%**

*Insured limits include building and contents.

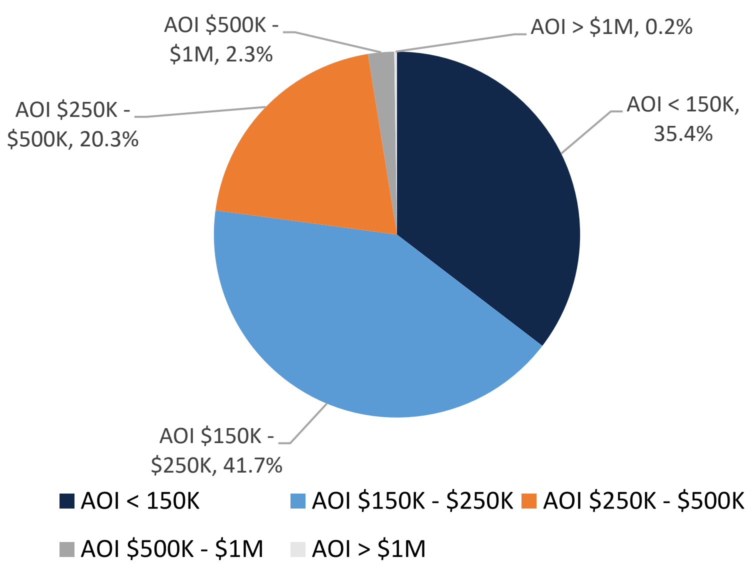
Highlights

- Total limits insured by TWIA as of 6/30/2020 are approximately $54.7 billion
- More than 50% of TWIA's exposures are in Galveston and Nueces counties
- Brazoria (15.8%), Jefferson (10.4%), and Cameron (5.3%) counties are the next largest areas of exposure

Distribution by Amount of Insurance

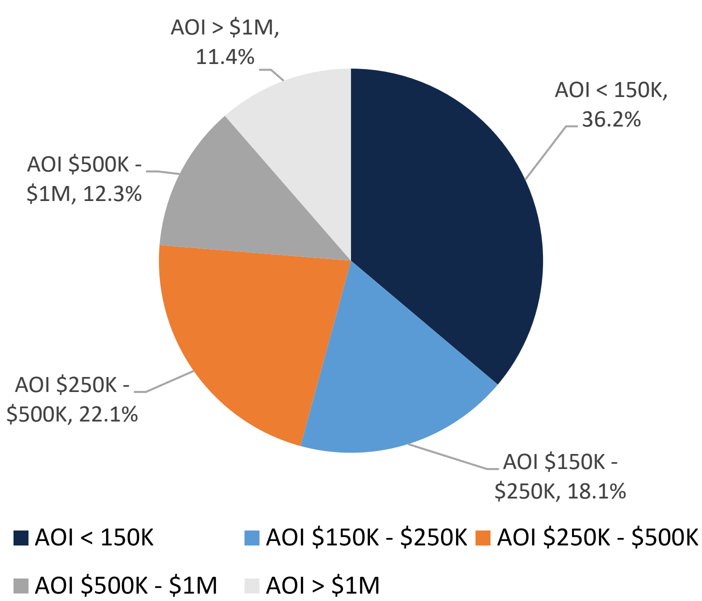
Distribution by Amount of Insurance (AOI) for Residential Structures

as of 06/30/2020



Distribution by Amount of Insurance (AOI) for Non-Residential Structures

as of 06/30/2020



Highlights

• • •

- TWIA insures 176,560 residential structures with an average amount of insurance of $203,063
- 97.5% of residential structures have limits less than $500,000
- Only 424 (0.2%) residential structures have limits greater than $1 million
- TWIA insures 10,345 non-residential (commercial and governmental) structures with an average amount of insurance of $502,255
- Only 1,179 (11.4%) non-residential structures have limits greater than $1 million

Eligibility for TWIA Coverage

Background

To obtain or continue windstorm and hail coverage through the Texas Windstorm Insurance Association (TWIA), property must meet certain requirements established by the Texas Legislature. These requirements are outlined in Texas Insurance Code Chapter 2210.

Requirements

In order to be eligible for a TWIA policy, applicants and properties must meet the following criteria:

- Properties must be located in the area designated by the Commissioner of Insurance, which currently includes all 14 first-tier coastal counties (Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy) and parts of Harris County east of Highway 146;
- Applicants must have been denied coverage by at least one insurer authorized to engage in the business of and writing windstorm and hail coverage in the designated area;
- Properties must be certified by the Texas Department of Insurance (WPI-8/WPI-8-E) or TWIA (WPI-8-C) as having been built to applicable building codes, with limited exceptions;
- Properties located in flood zones V, VE, or V1-30 that were constructed, altered, remodeled, or enlarged on or after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage; and
- Properties must meet all other Association underwriting requirements, including maintaining the structure in an insurable condition – in good repair, with no unrepaired damage or hazardous conditions.

TWIA regularly inspects properties as part of its underwriting process to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property. Properties may be inspected physically by a vendor or remotely with high-quality aerial imagery and risk management reports. Policies may be reevaluated at any time to ensure continued compliance with all eligibility requirements.

Highlights

• • •

- Eligibility requirements are set out in Texas Insurance Code Chapter 2210.
- Properties must be located in the catastrophe area designated by the Commissioner of Insurance.
- Applicants must have received a declination from at least one authorized carrier.
- Structures built, altered, remodeled, enlarged, repaired or to which additions are made on or after January 1, 1988, with some exceptions, must obtain a Certificate of Compliance.
- Properties located in a V flood zone must have flood insurance.
- Properties must meet all other Association underwriting requirements.

Funding

Authority & Legislation

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. TWIA's funding sources, as outlined in statute, provide a combination of public securities and member company assessments and requires total funding in an amount not less than the probable maximum loss for the Association for a catastrophe year with a probability of one in 100.

The different sources of funding available to pay TWIA losses are, in order:

- TWIA premiums and other revenue
- Available reserves and amounts in the Catastrophe Reserve Trust Fund (CRTF)
- Up to $500 million in Class 1 public securities
- Up to $500 million in Class 1 assessments on TWIA member companies
- Up to $250 million in Class 2 public securities
- Up to $250 million in Class 2 assessments on TWIA member companies
- Up to $250 million in Class 3 public securities
- 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 1, 2, and 3 public securities are repaid by TWIA premiums and surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto policies.

Legislative changes enacted in 2019 clarified how TWIA can use its funding sources to repay losses. House Bill 1900 prohibits TWIA from paying excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years. The bill also requires TWIA's purchase of reinsurance above its minimum required funding level to be paid for by an assessment on member companies.

Highlights

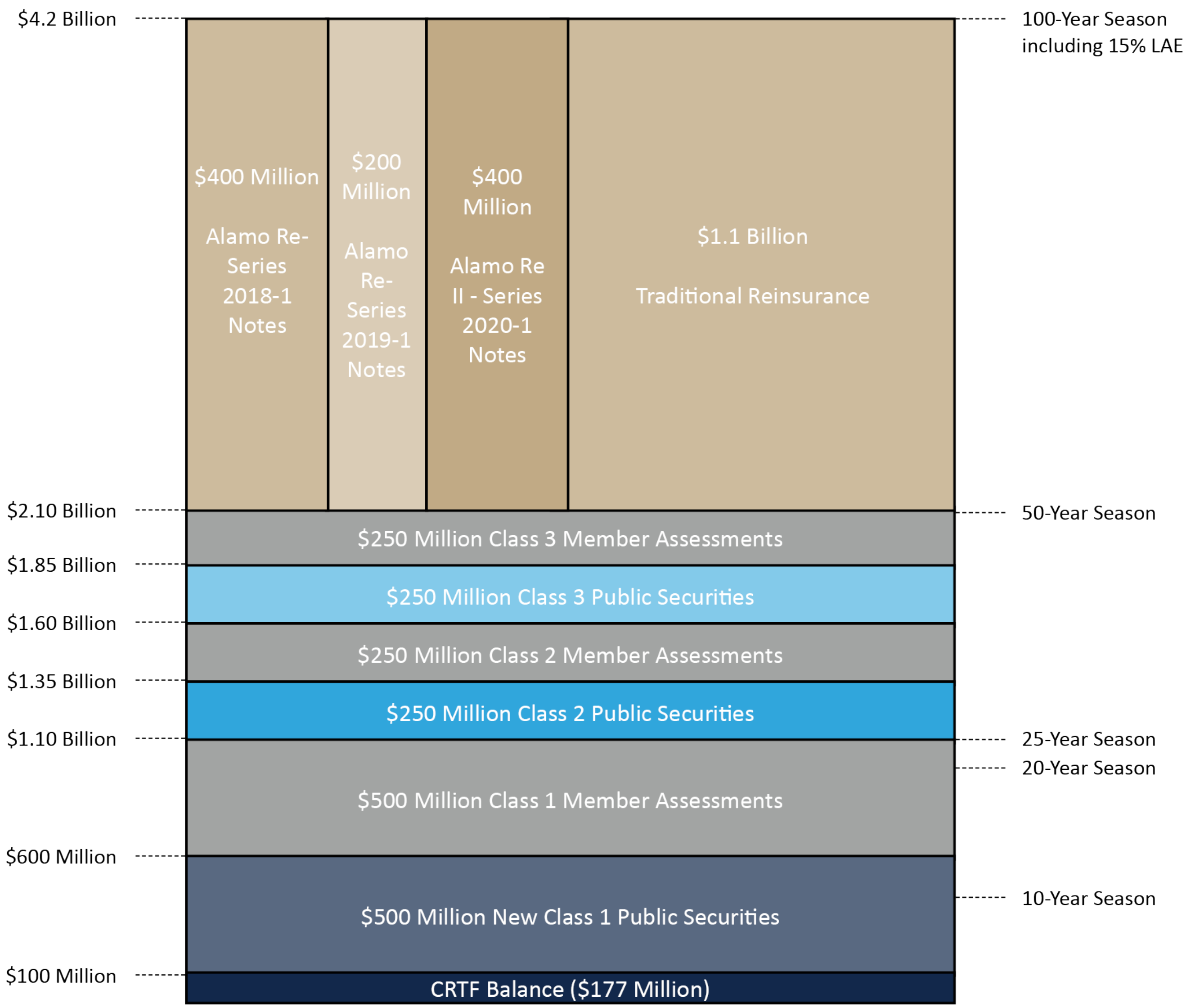
• • •

- Funding of $4.2 billion is available for the 2020 hurricane season
- Funding consists of premiums, the CRTF, public securities, company assessments, and reinsurance
- Statute prohibits TWIA from paying policyholder losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years
- Reinsurance purchased above the minimum required funding level shall be repaid from member companies assessments
- Class 1 public securities can be issued pre-event or post-event by statute
- TWIA contributed $52.6 million to the CRTF as a result of 2019 net earnings, bringing the total CRTF balance to $177 million

2020 Hurricane Season Funding

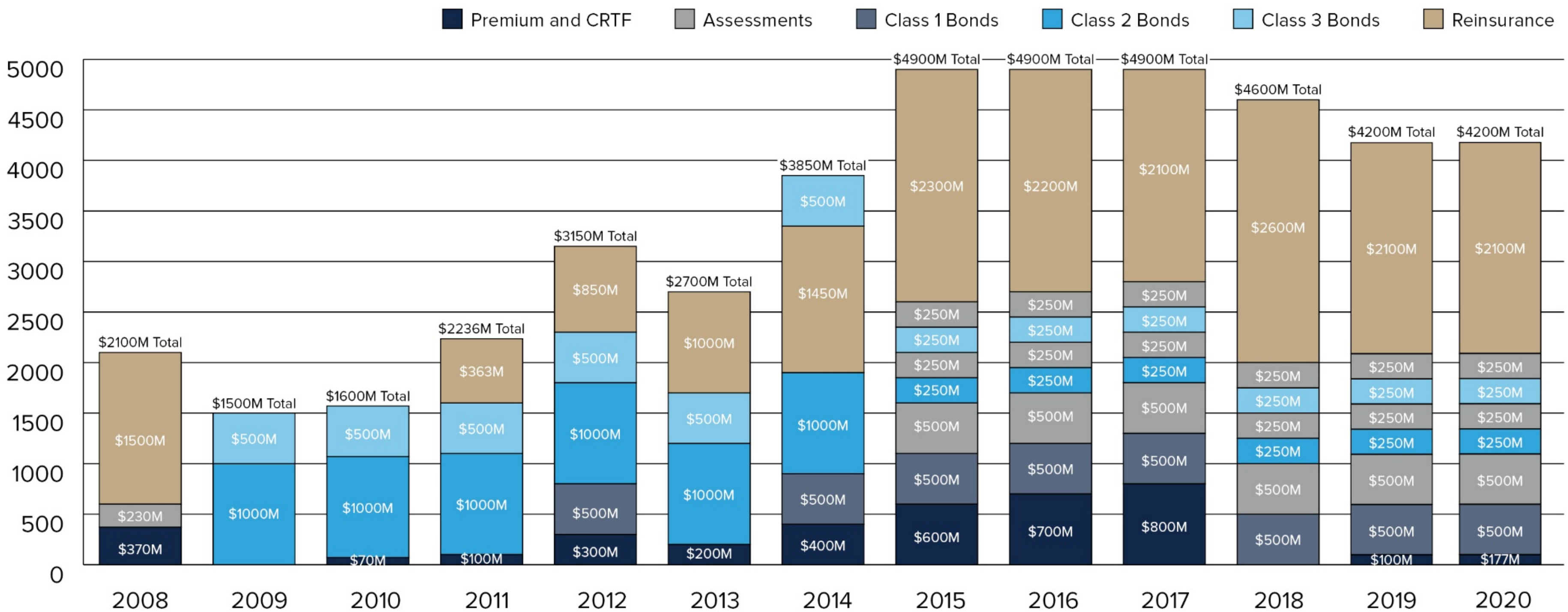
TWIA's 2020 catastrophe funding program, effective June 1, 2020 to May 31, 2021, provides access to $4.2 billion in total funding, an amount in excess of the statutory minimum funding. The funding program includes $1.1 billion of traditional reinsurance and $1.0 billion in new and previously outstanding catastrophe bonds placed atop the $2.1 billion of total statutory funding sources. The traditional reinsurance program has a one-year term and provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program. The 2020 program also includes a contribution of $52.6 million to the CRTF from 2019 net gains from operations. The current CRTF balance is $177 million.

TWIA's funding for the 2020 hurricane season is illustrated by the chart below.



Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/18.

Historical Funding Comparison



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; 2012, 2014-2015 include $500 Million pre-event Class 1 Public Securities

Funding for 2015 shown as of September 1, 2015, incorporating SB 900

Funding for 2015-2016 incorporate bond funding sources that differ from prior years

Funding for 2018 was impacted by the depletion of the CRTF to pay losses from Hurricane Harvey

Funding for 2019 includes approximately $100 Million in the CRTF from 2018 net gains from operations

Funding for 2020 is effective June 1, 2020 – May 31, 2021

Class 1 Public Securities

Statutory Authority

Texas Insurance Code Chapter 2210 authorizes the issuance of up to $500 million in Class 1 public securities per catastrophe year to finance the payment of insured losses. The public securities may be issued either before (pre-event) or after (post-event) a storm event. TWIA's funding structure provides for the use of Class 1 public securities to pay storm losses after exhausting its reserves and the Catastrophe Reserve Trust Fund (CRTF) and before using the other sources of funding outlined in statute. These other sources include alternating layers of TWIA member company assessments and Class 2 and 3 public securities and purchased reinsurance.

In the event storm losses exceed TWIA reserves and the CRTF, the TWIA Board of Directors must direct the Association to request approval from the Commissioner of Insurance and the Texas Public Finance Authority (TPFA) to issue Class 1 public securities in an amount necessary for the payment of the storm losses.

2014 Pre-Event Bonds

In 2014, TWIA received approval to issue $500 million in Class 1 pre-event bonds ("Series 2014 Bonds") to provide funds for the payment of future storm losses. The bonds were issued by TPFA on behalf of TWIA on September 30, 2014 and had a 10-year term for repayment and an interest rate of 8.25%. TWIA utilized $449.2 million of the bond proceeds to pay storm losses and related expenses from Hurricane Harvey; $51 million was retained for debt reserve funds.

The TWIA Board authorized staff at its February 2020 meeting to seek the approval of the Commissioner of Insurance to expend $45 million of the Association's 2019 net earnings to partially redeem the Series 2014 Bonds. The Commissioner of Insurance approved TWIA's request and TWIA staff worked with TPFA to execute this transaction, which was completed in May 2020.

Current Loss Payments

TWIA has secured a $500 million line of credit for the past two hurricane seasons (2018 and 2019) to provide immediate funding for the payment of catastrophic losses as a less expensive alternative to the issuance of pre-event bonds. If the line of credit is needed for the immediate payment of storm losses, it would be repaid from the proceeds of newly issued Class 1 post-event bonds. TWIA secured a new line of credit for the 2020 hurricane season, effective June 1, 2020.

Highlights

• • •

- Public securities (or bonds) represent money borrowed from investors that is repaid over time
- Class 1 bonds are repaid with TWIA premiums and, if necessary, policyholder surcharges
- $500 million in Class 1 public securities were issued in 2014 to provide immediate claims-paying capacity
- The 2014 bonds have a 10-year term and 8.25% interest rate
- $449.2 million of the 2014 bond proceeds were used to pay Hurricane Harvey (2017) losses

Catastrophe Bonds

Definition

A catastrophe bond is a form of collateralized reinsurance in which one or more investors provide the funding for the reinsurance amount in exchange for risk-based interest payments. Unlike traditional reinsurance in which the reinsurer contractually promises to pay a certain amount in the event of a defined loss, collateralized reinsurance requires that the reinsurer deposit that amount into an account that is accessed by the reinsured at the time of loss. This requirement is designed to eliminate credit risk and ensure the reinsurance proceeds are available at the time of loss.

Coverage

The catastrophe bond reinsurance issued in 2018, 2019, and 2020 by Alamo Re, a special purpose insurer, will reimburse TWIA for $1.0 billion in actual, aggregate losses. These losses could be the result of one or multiple catastrophic events in a year. The attachment points and premium costs of the catastrophe bonds may be adjusted each year to reflect changes in TWIA's funding requirements and the expected losses of its insurance portfolio. Losses are reimbursed to TWIA on an indemnity basis, which means that the reinsurance pays actual losses as they are incurred by TWIA, rather than basing the payments on a formula or some other criteria. This is the same basis as TWIA's traditional reinsurance.

Structure

The structure of TWIA's catastrophe bonds are different from traditional reinsurance in that the reinsurer, Alamo Re, is a special purpose reinsurer that only insures specific losses for TWIA. Alamo Re raises the collateral by selling bonds to investors and depositing those funds in trust accounts. TWIA is entitled to receive the proceeds from the trust accounts in the event of a qualifying loss. In the absence of a loss, the proceeds are returned to investors at the end of the bond's term.

Highlights

• • •

- 2020-21 catastrophe bonds provide $1.0 billion in coverage
- 100% collateralized with U.S. Treasury money market funds
- Staggered 3-year terms
- Adjustable coverage each year
- Supplements but does not replace traditional reinsurance
- Provides coverage consistent with traditional reinsurance
- Diversifies and expands claims-paying capacity
- More cost-effective for overall reinsurance program

Hurricane Harvey Response

Catastrophe Response

Hurricane Harvey struck the Texas coast on August 25, 2017. TWIA activated its Catastrophe (CAT) Incident Response Plan on August 22, allowing the Association to scale-up claims handling resources to meet the influx of the anticipated 60,000+ claims. TWIA staff deployed to the Coastal Bend within days of the storm to establish mobile claims sites in Rockport, Corpus Christi, and Port Aransas. In their first three weeks, more than 10,000 TWIA policyholders were served at the sites and assisted with claim reporting and advance claim payments. The sites remained open through 2017 and slightly beyond, transitioning to Claims Support Centers in September 2017 to provide ongoing support for policyholder claims; the Corpus Christi and Port Aransas sites closed permanently in December 2017 and the Rockport site closed in February 2018.

Claim Handling Activity

TWIA received almost 40,000 claims within the first seven days after Hurricane Harvey. As of June 30, 2020, TWIA has received 76,707 claims from the storm and made a total of $1.34 billion in claim payments. TWIA has closed nearly 99% of all claims. Claims complaint and dispute ratios are approximately 0.4% and 5.6%, respectively.

TWIA Funding and Ultimate Losses from Harvey

TWIA secured $4.9 billion in total funding for the 2017-2018 hurricane season. The estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is $1.7 billion, based on claims data as of March 31, 2020. In 2017, TWIA used the available $743.2 million from the Catastrophe Reserve Trust Fund (CRTF) and $136.7 million from premiums and other revenues from 2017 operations for the payment of Hurricane Harvey claims and expenses. TWIA also withdrew $449.2 million of the available $500 million from the Class 1 Pre-event Bonds issued in 2014; the remaining $51 million was retained for debt reserve funds.

In 2018, the Association sought and received approval to assess member companies up to $282 million due to losses from Hurricane Harvey. Due to an increase in the ultimate loss estimate for Hurricane Harvey from $1.61 billion to $1.7 billion, TWIA received approval to assess member companies an additional $90 million in January 2020. TWIA continues to revisit Hurricane Harvey claims data on a quarterly basis to assess the ultimate loss amount and provide revisions as necessary.

Highlights

• • •

- Deployed TWIA staff to the Coastal Bend within days of the storm
- Processed approximately 40,000 claims within seven days of Harvey's landfall
- Served more than 10,000 policyholders at mobile claims sites within the first three weeks of the storm
- Received more than 76,707 claims from Harvey with more than $1.34 billion in claim payments made
- Ultimate losses from Harvey are estimated to be $1.7 billion

Internal Audit

Background

Since 2008, TWIA has diligently responded to a wide variety of external audits and addressed 100% of the resulting recommendations. The organization now has a much stronger compliance framework along with greatly improved documentation and controls over key processes. TWIA created an internal audit function to ensure internal controls mitigating risk are sustained on an ongoing basis and provide the capability to continuously test and evaluate the adequacy of controls. TWIA's internal audit function also provides an independent assessment to help TWIA best manage current and emerging risks.

Internal audit and other independent audits are an integral part of TWIA's corporate governance framework and risk management processes. These independent audits and assessments help ensure risk is identified and managed and internal controls are properly designed and operating effectively. TWIA is currently using a consulting firm who reports directly to the TWIA Board of Directors, consistent with industry best practices.

Roles and Responsibilities

The internal audit function's responsibilities are defined by the Board as part of their oversight role. Internal audit's role is not to replace independent external audits but to supplement them and to inform and assist the Board in fulfilling its governance responsibilities.

Primary Objectives

The scope of the internal audit function encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Association's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities. To that end, the internal audit function provides annual internal audit plans to the Board for its review and approval as well as audit reports with recommendations to further strengthen the control environment and assist the Board in fulfilling their governance responsibilities.

Highlights

• • •

- Internal audit's mission is the ongoing evaluation of risk to the Association and the effectiveness of the controls in place to mitigate and or manage that risk
- Reports directly to the Board of Directors providing information to assist them in fulfilling their governance responsibilities
- Submits annual internal audit plans to Board for review and approval
- Provides audit reports and recommendations to the Board
- Supplements independent external audits

TWIA Key Accomplishments

Financial

- Secured $4.2 billion in total aggregate funding for the 2020 hurricane season.
- Maintained the 3rd lowest cost as a percentage of premium of the 36 U.S. FAIR plans and wind pools in 2019.
- Kept controllable expenses below budget for the 9th straight year.
- Used 2019 net earnings to contribute $52.6 million to the Catastrophe Reserve Trust Fund (CRTF) and pay $45 million toward the early redemption of the Series 2014 bonds used for the payment of Hurricane Harvey claims.
- Facilitated the transfer of more than 20,000 Association policies into the private market through depopulation programs developed in 2016.

Communications & Transparency

- Redesigned TWIA's website, implementing website best practices and incorporating stakeholder feedback to optimize the site for property owners and agents.
- Launched a "Changes at TWIA" webpage to summarize the new laws affecting TWIA's programs, policies, and operations.
- Convened quarterly meetings of the Agent Advisory Group for five years and held 12 Agent Technical Group events, resulting in increased engagement with the agent community and an improved working relationship with agents.
- Formed an Agent Services team to assist agents and provide technical support.
- Created a Communications and Legislative Affairs Department, adding strategic focus to stakeholder outreach efforts and increasing engagement with Legislative, media, and other key external stakeholders.
- Participated in virtual events with multiple coastal organizations during the COVID-19 pandemic to continue the Association's strategy for agent and coastal community relationship building.

Accountability

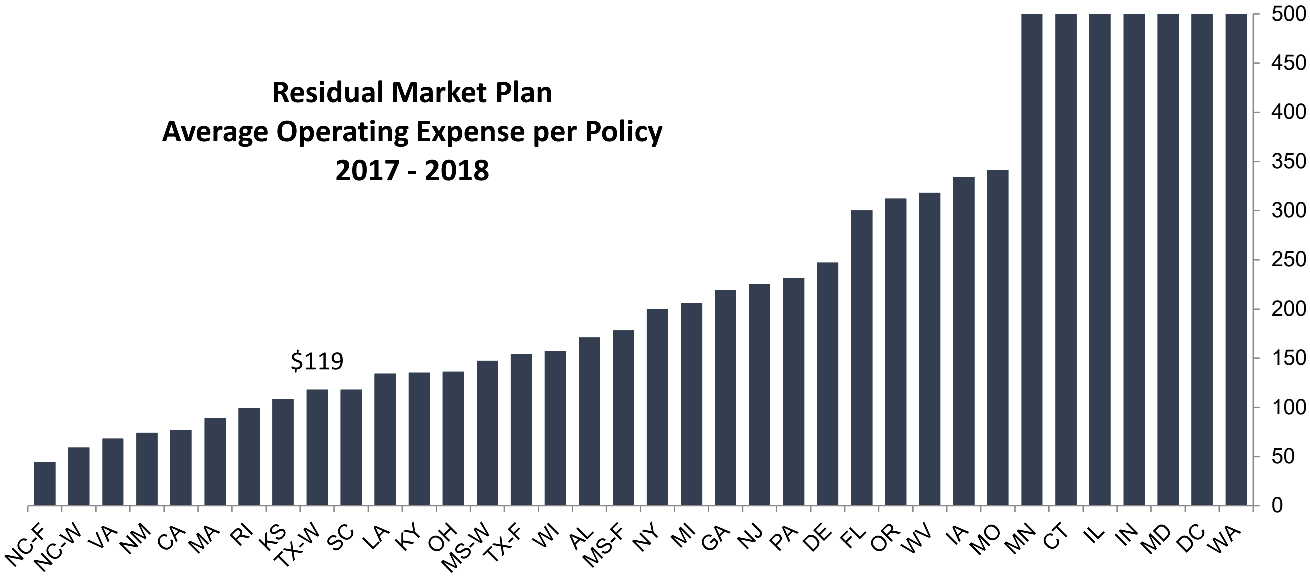
- Developed a Legislative Implementation Program to successfully and timely incorporate the new laws established by the 86th Legislature into the Association's operations.
- Continued to improve upon existing controls and report detailed financial and operational metrics to evaluate performance at every level in the Association.
- Maintained a comprehensive performance management program that cultivates a results-based and accountable culture by aligning compensation with performance.
- Developed an internal audit (IA) program, including an IA Charter and IA and Control Policies.
- Established a policy management program designed to reduce risk exposure by instituting an annual policy review and internal communication process.

Operational Efficiency & Customer Service

- Implemented new policy renewal and replacement cost determination processes by the required legislative deadlines and trained more than 1,200 agents on the new processes between Q4 2019 and Q1 2020.
- Conducted an initiative to improve phone service standards involving the reorganization of internal personnel, optimizing the Association's enterprise-wide voice system, establishing Association-wide performance standards, and engaging an external call center to better match callers with the appropriate resource while reducing wait times.
- Responded swiftly to the COVID-19 pandemic, shifting the majority of staff to telework and implementing a payment leniency program for policyholders.
- Implemented Claims Center to providing increased automation, improved data management, and better insight into claims.
- Developed an extensive new hire orientation, online business training, and manager-specific skills to promote a continuously learning and improving organization.

Key Operational Statistics

Policy Administration



- Since 1971, TWIA has taken in nearly $6.8 billion in premiums and returned approximately $5.8 billion to policyholders in claim payments and claim expenses.
- TWIA issued approximately 200,000 policies in 2019 with annual premiums of nearly $400 million.
- There are 36 residual market plans nationwide – 34 use internal staff to manage daily operations.
- TWIA is the second largest plan and had the ninth-lowest operating expense per policy at $119 in 2017 and 2018.
- In 2019, TWIA's operating expense as a percentage of earned premium was 7.6% compared to an average of 13% for Texas carriers.

Management and Financial Results

- TWIA's management team has over 200 years of combined insurance industry experience, including experience with national carriers, Texas-domiciled carriers, other residual markets, and the Texas Department of Insurance.
- TWIA controllable expenses have been below budget for nine consecutive years.
- Audits performed by the Texas Department of Insurance and independent external auditors in 2014 and 2019 found no material weaknesses or issues in operational or financial controls.
- The State Auditor's Office found that the Association's controls produce accurate financial information and help ensure accountability for funds.
- The Association secured approximately $4.2 billion in funding for the 2019 hurricane season; an amount in excess of the statutory minimum funding.

- TWIA is contributing $52.7 million to the Catastrophe Reserve Trust Fund (CRTF) from 2019 net earnings, bringing the total amount in the CRTF to $177 million.
- Since 2016, TWIA has facilitated the transfer of more than 19,000 policies into the voluntary market through the Voluntary Market and Assumption Reinsurance Depopulation programs.

Claims Performance

- Activated the Catastrophe Plan four times during the 2020 hurricane season in response to Hurricanes Hanna, Laura, and Delta and Tropical Storm Beta. Collectively, the four storms have generated over 9,000 claims.
    - Despite higher new claim volume than projected, maintained low claims cycle times of <10 days from First Notice of Loss to claim payment and low claims complaint and dispute ratios of 0.004% and 0.002% respectively.
- Updated the Claims Department's quality assurance program, adding additional "risk-based" controls for managing field adjuster resources and complex claims as recommended by the Sunset Advisory Commission.
- Developed additional claims reports for tracking claims throughout the claim lifecycle as recommended by Sunset review.
- Implemented a claims authority control system in February 2020 to streamline the process for issuing claim payments of $25,000 to $100,000, reducing the time to distribute claim payments to policyholders by up to four days.

Process and System Improvements

- Continue to enhance agent and policyholder payment and self-service options through the Association's policy and claims administration systems.
- Improved and maintained turnaround times on all renewal policy and new business submissions, endorsements, and policy cancellations transactions, with more than 95% of transactions processed within 10 days.
- Reorganized the Underwriting department to effectively manage workflows, reducing seasonal backlogs.
- Regularized Association-wide telephone service standards with enterprise calibration and optimized the Association's voice system to provide scalability, efficiently route callers to the appropriate resources, and reduce caller wait times.
- Incorporated risk visualization into the property inspection process, using aerial imagery and third-party data to more efficiently assess insurability, rate more accurately, and increase the number of inspections while reducing the cost per inspection on a per policy basis.
- Installed a dedicated billing system consistent with industry best practices.
- In-sourced document production to better integrate with our other internal processes, reducing the time and costs associated with both incoming and outgoing mail.

Policy Center

Background

TWIA implemented a new policy administration system, Policy Center (PC), in May 2015. PC is a web-based system that simplifies policy transaction processes for agents and increases internal efficiencies through policy automation. Agents may electronically submit all transactions including new business, policy change requests, renewals, and cancellations, streamlining communication between agents and underwriters. PC also auto-issues policies that meet all primary eligibility criteria immediately on receipt of payment. TWIA is in the process of planning the next phase of improvements to our core systems, adding agent and policyholder portals to provide more self-service options.

System Benefits

PC's flexible design and support for processes and communication channels allows TWIA to be more responsive and has improved productivity and reduced the time of uncertainty for agents and policyholders. Chief among PC's benefits is faster policy issuance. The system gives TWIA the ability to automatically process policy payments, issue policies, and generate billing statements and policy packages without underwriter intervention. As of September 30, 2020, approximately 90% of new and renewal policies are issued immediately, dramatically reducing the average time for an agent to receive a policy. Overall, more than 95% of new and renewal residential and commercial policy applications are completed by TWIA in less than 10 days.

How Policy Center Benefits Agents and Policyholders

- Faster policy application processing time and online delivery of policies to agents
- More payment and agent self-service options
- Allows agents to easily upload and access documents associated with a policy file at any time

How Policy Center Benefits TWIA

- Automated determination of eligibility
- Immediate auto-issuance of policy applications
- Eliminated annual backlog of transactions through increased automation
- Better reporting tools

Highlights

• • •

- Allows for immediate auto-issuance of policies
- More than 95% of all submitted policy transactions are auto issued
- Allows for more payment options, including EFT, direct payment, eChecks or physical check/money order
- Creates less paper handling for agents and policyholders
- Document storage features allow agents to view and reprint documents generated for the policy
- Utilizes aerial and Multiple Listing Service (MLS) property listing photos to assist with valuations

TWIA Rates

Overview

TWIA rates are a factor in determining the amount of premium charged to each TWIA policyholder. Adequate rates help ensure TWIA can meet its financial obligations. TWIA is required to make an annual rate filing with the Texas Department of Insurance (TDI) by August 15 of each year. The amount of the rate filing is set by the TWIA Board of Directors who consider the Association's current rate needs along with feedback from key stakeholders. Rate filings are subject to review and approval by the Commissioner of Insurance. A rate filing of 5% or less is considered approved after filing with TDI. A rate filing above this amount is subject to approval by the Commissioner of Insurance.

TWIA calculates its premiums based on a number of different rating factors, including amount of insurance requested, construction type, deductible amount, and optional added coverages. Premiums may change annually based on changes in coverage, such as the amount of insurance provided by the policy. Premium credits may be available for items certified as being built to recent windstorm building codes. TWIA does not use credit scoring or territorial rating.

Rate Adequacy

State law requires TWIA rates be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. When determining TWIA's current indicated rate needs, actuarial staff consider actual and modeled windstorm losses, operational expenses, repayment of any outstanding bonds, and a reasonable provision for contribution to the Catastrophe Reserve Trust Fund. TWIA's 2020 actuarial analysis found the Association's rates to be inadequate by 44% for residential policies and 49% for commercial policies. Current TWIA rates are uniform throughout the 14 first tier coastal counties.

Recent Rate Changes

TWIA's Board is mindful of insurance costs on policyholders and has chosen to propose a series of smaller rate changes over the years to achieve rate adequacy. With the exception of 0% rate changes in 2017, 2019, and 2020, TWIA rates have increased 5% each year since 2011; a cumulative increase of 40.7%. Most recently, the TWIA Board voted not to increase rates for 2020 at their December 2019 quarterly meeting. The Board also directed staff to develop a request for proposals to engage an independent actuarial firm to review TWIA's rate analysis and use of hurricane modeling prior to the August 2020 rate filing.

Highlights

• • •

- TWIA Rates must be filed with TDI annually by August 15
- The amount of a rate filing is set by the TWIA Board of Directors
- TWIA's rate adequacy analysis must be posted to its website 14 days prior to the Board's vote on a rate filing
- Rate filings may be subject to review and approval by the Commissioner of Insurance
- 2020 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 44% and 49%, respectively
- With the exception of 0% rate changes in 2017, 2019, and 2020, TWIA rates have increased 5% each year since 2011; a cumulative increase of 40.7%

TWIA Ratemaking Process

Statutory Requirements

Association rates are required to be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. TWIA's rates must consider past and projected Association losses, operating expenses, and sound actuarial principles. TWIA is required to make an annual rate filing with the Texas Department of Insurance (TDI) on or before August 15 of each year. The amount of the rate filing is set by the TWIA Board of Directors who consider the Association's current indicated rate needs and feedback from key stakeholders. Rate filings are subject to review and approval by the Commissioner of Insurance. A rate filing of 5% or less is considered approved after filing with TDI. A rate filing above this amount is subject to approval by the Commissioner of Insurance.

Rate Adequacy Analysis

In preparation for TWIA's annual rate filing, TWIA actuarial staff conducts a rate adequacy analysis using standard actuarial industry methodologies. The analysis compares TWIA's current rate level to the expected costs for providing property insurance for the upcoming year. As windstorm and hail event frequency and severity are difficult to predict from year to year, the actual costs of providing property coverage for a specific year may differ substantially from the indicated required rate level. The analysis includes factors for actual and modeled windstorm losses, operational expenses, reinsurance costs, repayment of any outstanding bonds, and a reasonable provision for contribution to the Catastrophe Reserve Trust Fund (CRTF). TWIA's 2020 actuarial analysis found the Association's rates to be inadequate by 44% for residential policies and 49% for commercial policies.

Relationship between Ratemaking and Funding

TWIA's ratemaking process focuses on rate adequacy and is separate and distinct from the Association's annual process for securing sufficient available funding for potential catastrophic weather losses. TWIA's funding structure provides the sources of funds to pay claims in a single storm season. In contrast, adequate rates provide for sufficient revenue to support TWIA's funding structure and to satisfy its financial obligations over a long period of time, including replenishing the CRTF and the payment of debt service for any pre- and post-event public securities issued to fund catastrophe losses.

Highlights

• • •

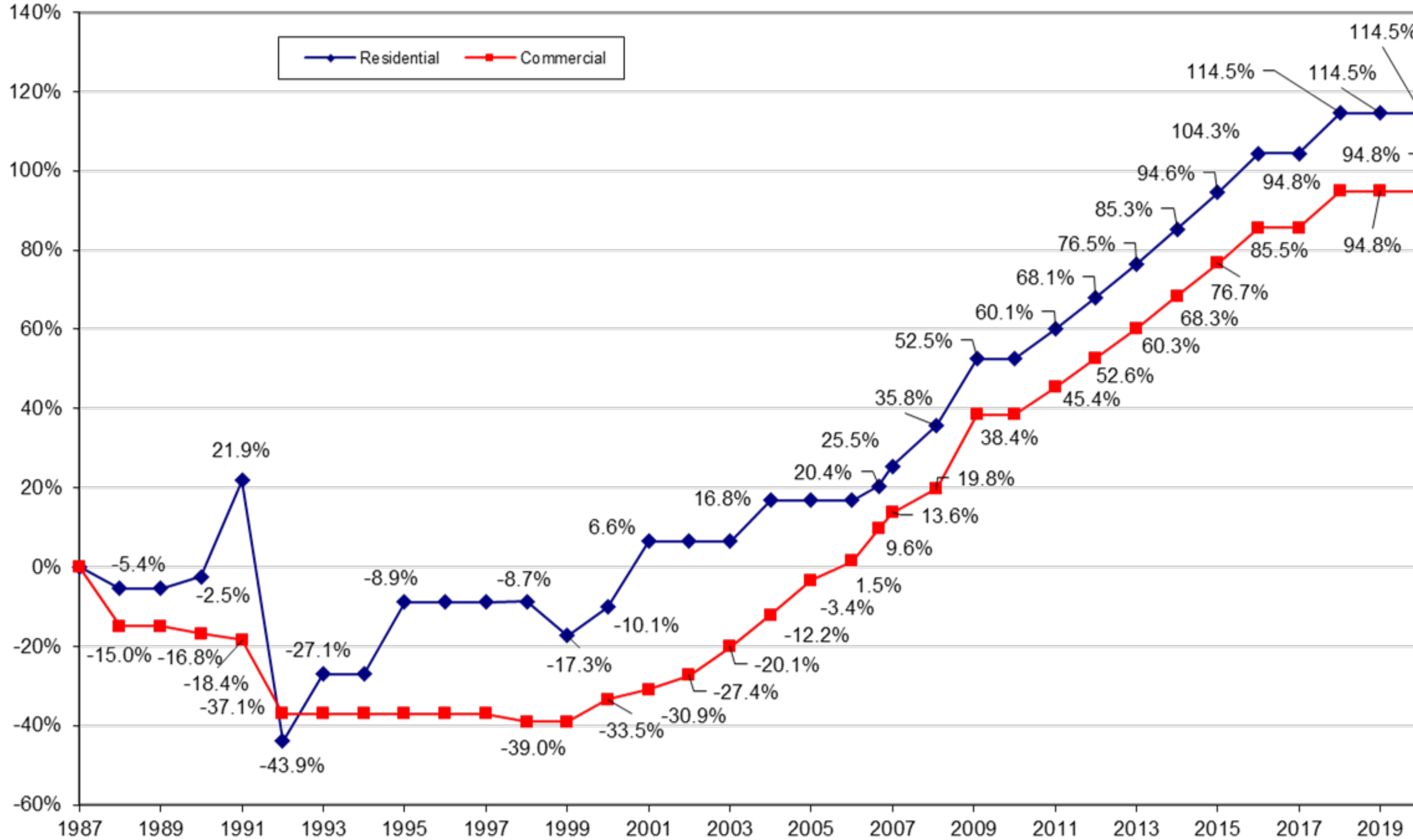
- TWIA's rates must be reasonable, adequate, non-discriminatory, and non-confiscatory as to any class of insurer
- TWIA's actuarial methodology employs standard industry modeling to simulate 10,000 probable storm events
- Adequate rates provide sustainability for the Association's funding structure over time
- In contrast, TWIA's funding structure only provides the sources and amounts for a single storm season
- 2020 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 44% and 49%, respectively

TWIA Historical Rate Exhibit (1988-2020)

History of Rate Changes

Year	Residential	Commercial
1988	-5.4%	-15.0%
1989	0.0%	0.0%
1990	3.1%	-2.1%
1991	25.0%	-2.0%
1992	-54.0%	-22.9%
1993	30.0%	0.0%
1994	0.0%	0.0%
1995	25.0%	0.0%
1996	0.0%	0.0%
1997	0.0%	0.0%
1998	0.2%	-3.0%
1999	-9.4%	0.0%
2000	8.7%	9.0%
2001	18.5%	4.0%
2002	0.0%	5.0%
2003	0.0%	10.0%
2004	9.6%	10.0%
2005	0.0%	10.0%
2006	0.0%	5.0%
2006 (Sep)	3.1%	8.0%
2007	4.2%	3.7%
2008 (Feb)	8.2%	5.4%
2009 (Feb)	12.3%	15.6%
2010	0.0%	0.0%
2011	5.0%	5.0%
2012	5.0%	5.0%
2013	5.0%	5.0%
2014	5.0%	5.0%
2015	5.0%	5.0%
2016	5.0%	5.0%
2017	0.0%	0.0%
2018	5.0%	5.0%
2019	0.0%	0.0%
2020	0.0%	0.0%
Cumulative Change	114.5%	94.8%
Annual Average	2.4%	2.1%

Cumulative Rate Changes



Notes

1992 – Elimination of 400% beach/25% inland surcharges

1993 – Addition of 30% to residential benchmark rates

2002 – Separation of residential rates from benchmark rates

Residual Market Plans

Plan Administration

Most residual market plans perform all the operational functions of insurance companies: underwriting, issuing, and servicing policies; performing administrative functions; and evaluating and paying policyholder claims. Plans perform these functions using either permanent internal staff or by employing a servicing carrier model. In a servicing carrier model, the plan enters into an agreement with one or more third-party administrators (TPAs) to perform some or all of the operational functions. The TPA charges a fee for services, is reimbursed for all paid losses, and receives allowances for loss adjustment expenses. An administrative agent is necessary to verify the reports and dispense funds to the TPA.

History

From 1968-1971, nearly 30 plans were established in the U.S., all using TPAs. The plans succeeded in providing essential insurance coverage where it was otherwise unavailable but were extremely costly and recorded operating losses in most years. Under federal regulation at the time, the plans came under a great deal of criticism when compared to the California plan, which utilized an internal staffing model and incurred significantly lower expenses. Subsequently, the majority of plans converted from TPAs to internal staffing models. Most recently, Kentucky, Oregon, and New Mexico, some of the last few plans utilizing a TPA, converted to internal staff models with positive results.

Today

TPAs are used today on a very limited basis with only two plans that outsource policy administration. Since their beginnings in the early 1970's, none of the residual market plans have engaged a TPA for the total management of all operations.

Other Common Plan Characteristics

Funding is largely similar among residual market plans. Policy surcharges and company assessments (used either directly or to repay bonds) and reinsurance are the most common means of funding. Board composition and underwriting guidelines are also similar.

Highlights

• • •

- 34 of the 36 plans use internal staff to manage daily operations
- TWIA is the second largest residual market nationwide
- In 2019, TWIA operational costs were the third lowest at 7.6% of premiums
- The average cost of the top ten plans in other states is almost 40% higher, at 11.6% of premiums
- The average operational cost among all 36 U.S. property insurance plans nationwide is 36% of premiums
- Most plans rely on similar sources of funding

Risk Visualization

Overview

The goal of risk visualization is to provide TWIA policyholders and their agents with the most reliable information on which to base their insurance purchase decisions, as well as the most accurate and expedient claim payments possible.

Risk visualization technology combines 3D aerial imagery with advanced measurement techniques and third-party data to produce detailed and accurate property-specific risk management reports. This technology provides accurate structural diagrams and measurements; facilitates address validation and geo-coding; and integrates diverse sources of data to improve eligibility decisions, pricing accuracy, and claims handling procedures.

How the Technology is Used at TWIA

Risk visualization technology creates a more efficient underwriting inspection process by providing TWIA underwriters with a greater volume of accurate information earlier in the underwriting process than was previously available. Underwriters use this technology to:

- help property owners and their agents validate information provided on new or renewal applications for coverage,
- confirm eligibility under TWIA's underwriting guidelines,
- identify changes made to any covered property, and
- help establish the replacement cost of structures and pricing for the desired coverages.

TWIA's claims department uses this technology to assist with insurance-to-value calculations when claims are filed and to identify pre-loss property conditions and damages unrelated to a claimed loss.

Results for Policyholders, Agents, and TWIA

By using this technology during the review of all new coverage applications, potential discrepancies are identified, discussed with the agent and policyholder, and, where agreed upon, quickly corrected. The result is more appropriate and accurate coverage for the policyholder.

Highlights

• • •

- Increases the total number of properties inspected annually while lowering the average cost per policy
- Maximizes the efficient use of budgeted inspection dollars by more effectively identifying properties requiring on-site inspection
- Improves assessments of property insurability and assists in determining adequacy of coverage and accuracy of premium for each risk
- Allows for more accurate coverage decisions in claims
- Reduces opportunities for fraud

Windstorm Certification Requirements

Background

The Texas Insurance Code Chapter 2210, states that TWIA may not insure a structure unless it complies with the applicable building code standards in effect on the date the construction, alteration, remodeling, enlargement, repair of, or addition to the structure begins. A structure must have a Certificate of Compliance (WPI-8, WPI-8-E, or WPI-8-C) which certifies that the structure meets the windstorm building code requirements. Without a Certificate of Compliance, TWIA lacks evidence the structure conforms to the applicable building code, and it may be considered uninsurable and ineligible for coverage with TWIA, with limited exceptions.

Legislation passed in 2015 authorized TWIA to issue Certificates of Compliance (WPI-8-C) for completed improvements starting January 1, 2017. Legislation passed in 2019 transferred this responsibility to the Texas Department of Insurance (TDI) beginning June 1, 2020. TDI administers the Windstorm Inspection Program and now issues all Certificates of Compliance. WPI-8-Cs issued by TWIA remain valid.

Obtaining a Certificate of Compliance (WPI-8 or WPI-8-E)

Ongoing Improvements

To obtain a WPI-8 for an ongoing improvement, a property owner should notify TDI prior to beginning repairs or construction. Inspections of ongoing improvements may be performed by a TDI appointed qualified inspector. Some types of repairs may be minor or involve only a small portion of the structure and do not require a WPI-8. TDI's website provides a list of repairs that do not require an inspection.

Completed Improvements

A person lacking a WPI-8 for a completed improvement may apply to TDI for a WPI-8-E. A TDI-appointed qualified inspector or Texas-licensed engineer may certify compliance with the applicable windstorm building code. The inspector or engineer will need to submit certain information to TDI about the completed improvement for TDI to issue the Certificate of Compliance (WPI-8-E).

Exceptions to the Windstorm Certification Requirements

Texas law identifies some exceptions for structures lacking a Certificate of Compliance. Properties with construction from 1988 to June 9, 2009 that are not certified may still be eligible and are subject to a 15% premium surcharge. Applicants who are non-renewed or cancelled by their private market insurer on or after June 9, 2009, and whose structure is missing a required Certificate of Compliance for construction after that date, may be eligible with a premium based on 110% of the rate charged by the voluntary market for windstorm and hail coverage.

Highlights

• • •

- TDI administers the Windstorm Inspection Program and issues all Certificates of Compliance (WPI-8 and WPI-8-E)
- TWIA issued Certificates of Compliance for completed improvements (WPI-8-C) from January 1, 2017 to May 31, 2020
- All new structures, alterations, or repairs to existing structures must have Certificates of Compliance, with limited exceptions
- TDI resources:
  tdi.texas.gov/wind
  (800) 248-6032
  windstorm@tdi.texas.gov
- TWIA resources:
  twia.org/windstorm-certification
  (800) 231-5360
  agentservices@twia.org