TEXAS WINDSTORM INSURANCE ASSOCIATION

Media Briefing Book

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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 to Texans 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 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 September 30, 2021, TWIA policies in-force numbered 191,572 with insured building and contents coverage totaling $58.4 billion. 2020 written premiums were $369.6 million.

Funding

Since 1971, TWIA has taken in approximately $7 billion in premiums and returned more than $5.9 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.

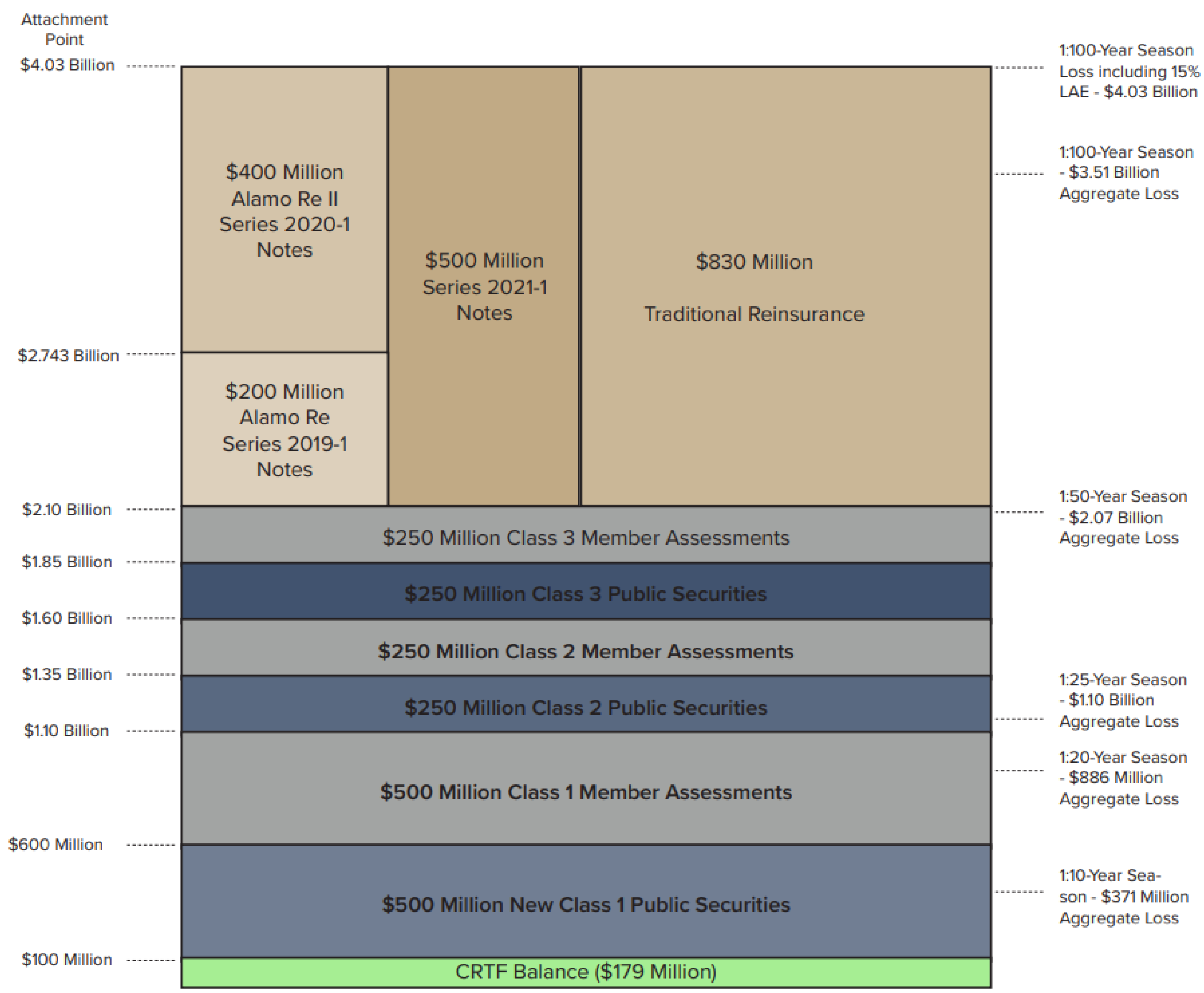
All classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. The Association is prohibited by statute from paying policyholder excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent 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.

The Association is prohibited by statute from paying policyholder excess losses from a catastrophe year with premium and other revenue in subsequent years. Texas Insurance Code also 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.

2021 Hurricane Season Funding

TWIA's 2021 reinsurance program, effective June 1, 2021 to May 31, 2022, provides access to $4.03 billion in total funding, an amount in excess of the statutory minimum funding. The funding program includes $830 million of traditional reinsurance and $1.1 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 2021 hurricane season:



Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/20.

TWIA Fast Facts[1]

2020 TWIA Premiums	$369.6 Million		
TWIA Policies In Force	191,572		
TWIA Total Insured Value	$58.4 Billion		
TWIA Registered Agents	7,370		
Employees + Contractors	213 + 21		
Operating Cost as a % of Premium	8% TWIA	12% Texas	36% Plans[2]
9th Largest Allied Lines Writer in the US[3]			
2nd Largest Property Insurance Plan in the US[4]			

[1] Data as of 09/30/2021
[2] Average of all 36 US Property Insurance Plans as of 12/31/2019
[3] Based on 2019 NAIC Market Share Report (includes TWIA and Texas FAIR Plan Association as one group)
[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.

2021 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

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- 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 to 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

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- 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 23 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, 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 more than 100,000claims in 30 days.

Ongoing Improvements

Since 2011, TWIA has continuously improved the CAT Plan. The 2021 CAT Plan continues to address stakeholder feedback received from Hurricane Harvey and other storms and includes plans for responding during a 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 are conducted and consistently show a high level of Association readiness. A Multi-Year Strategic Testing and Exercise Plan (MYSTEP) is in place to guide future testing, training, and exercises.

Highlights

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- 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. 74% of all appraisal requests to date have been resolved without requiring the policyholder to proceed with the formal appraisal process.

Highlights

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- 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 90% of disputed HB 3 claims involve a request for appraisal

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

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- Approximately 4% of all HB 3 claims involve a dispute
- Approximately 90% 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 0.42% of all HB 3 claims involve a lawsuit

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 sixty-day period or have their policy automatically assumed by the carrier. Agents and policyholders may not make depopulation decisions during a hurricane season.

TWIA is currently in Round 5 (2021-2022) of the Assumption program with one participating carrier. Agents received policy offers on April 1, approving 210 to move to the next phase of the program. Policyholders received these offers on December 1 after hurricane season ended on November 30. They have until January 31, 2022, to elect to opt-out of the program or be transferred to the participating carrier on March 1, 2022. The first five rounds of the program are outlined below:

Assumption Reinsurance Depopulation Program					
Program Year	2016-17	2017-18	2018-19	2019-20	2021-22
Participating Carriers	4	3	2	2	1
Carrier Selections	102,171	109,356	75,039	64,380	32,318
Agent-Approved Offers	18,047	3,091	3,967	1,866	210
Policies Assumed	11,164	1,634	2,080	1,002	TBD

Highlights

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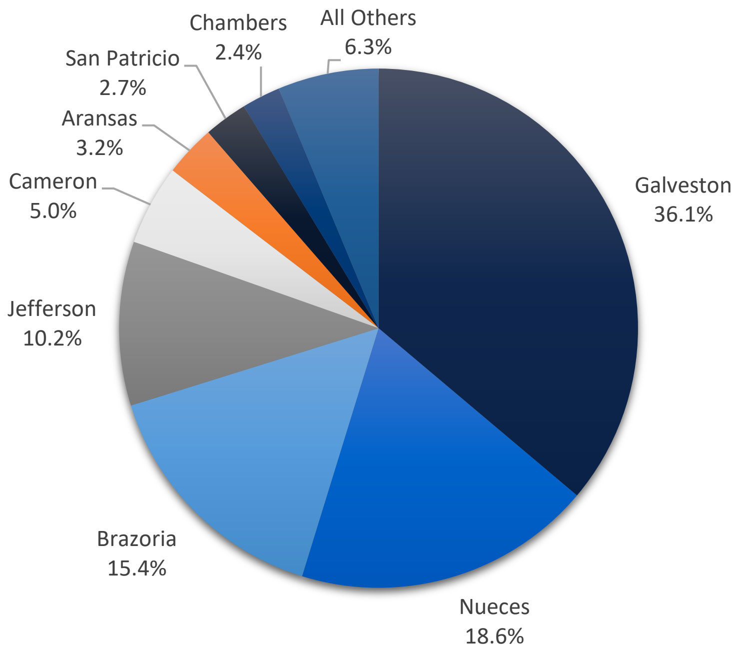
- Depopulation involves helping TWIA policyholders find coverage in the private insurance market
- TWIA has two depopulation programs: Voluntary Market and Assumption Reinsurance
- Participation in any depopulation program is strictly voluntary
- TWIA has facilitated the transfer of more than 20,000 policies into the private market since 2016
- 15 carriers have been granted access to the Voluntary Program
- 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 9/30/2021



County	Insured Limits*	Percentage
Galveston	$21,252,796,064	36.4%
Nueces	$10,868,341,616	18.6%
Brazoria	$8,992,305,451	15.4%
Jefferson	$5,907,161,903	10.1%
Cameron	$2,917,709,412	5.0%
Aransas	$1,882,440,389	3.2%
San Patricio	$1,582,704,480	2.7%
Chambers	$1,389,548,370	2.4%
Matagorda	$1,148,152,313	2.0%
Harris	$1,121,350,011	1.9%
Calhoun	$1,026,507,738	1.8%
Kleberg	$166,600,692	0.3%
Refugio	$93,985,258	0.2%
Willacy	$87,358,790	0.1%
Kenedy	$3,318,141	0.0%
All Counties	**$58,440,280,628**	**100.0%**

*Insured limits include building and contents.

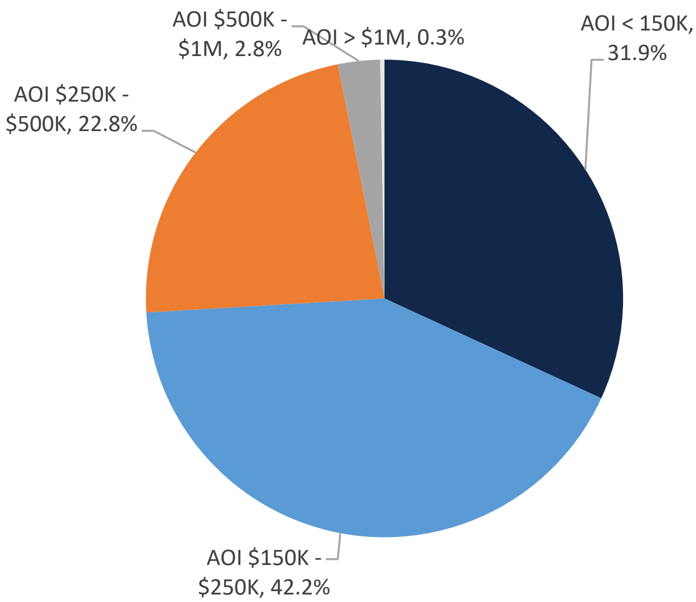
Highlights

- Total limits insured by TWIA as of 09/30/2021 are approximately $58.4 billion
- More than 50% of TWIA's exposures are in Galveston and Nueces counties
- Brazoria (15.4%), Jefferson (10.1%), and Cameron (5.0%) counties are the next largest areas of exposure

Distribution by Amount of Insurance

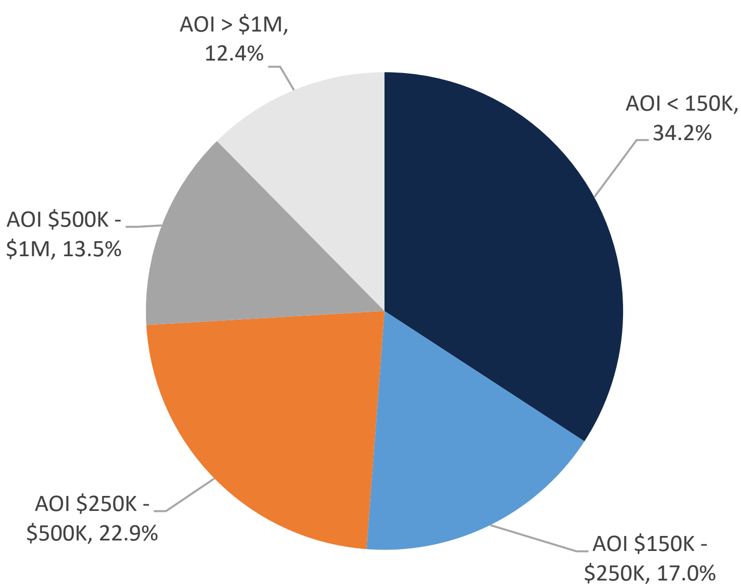
Distribution by Amount of Insurance (AOI) for Residential Structures

as of 09/30/2021



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

as of 09/30/2021



Highlights

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- TWIA insures 179,899 residential structures with an average amount of insurance of $213,771
- 96.9% of residential structures have limits less than $500,000
- Only 527 (0.3%) residential structures have limits greater than $1 million
- TWIA insures 10,580 non-residential (commercial and governmental) structures with an average amount of insurance of $533,118
- Only 1,311 (12.4%) 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

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- 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 member company assessments
- Up to $250 million in Class 2 public securities
- Up to $250 million in Class 2 member company assessments
- Up to $250 million in Class 3 public securities
- Up to $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. 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.

TWIA is prohibited from paying excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years. Texas Insurance Code also requires 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 companies.

Highlights

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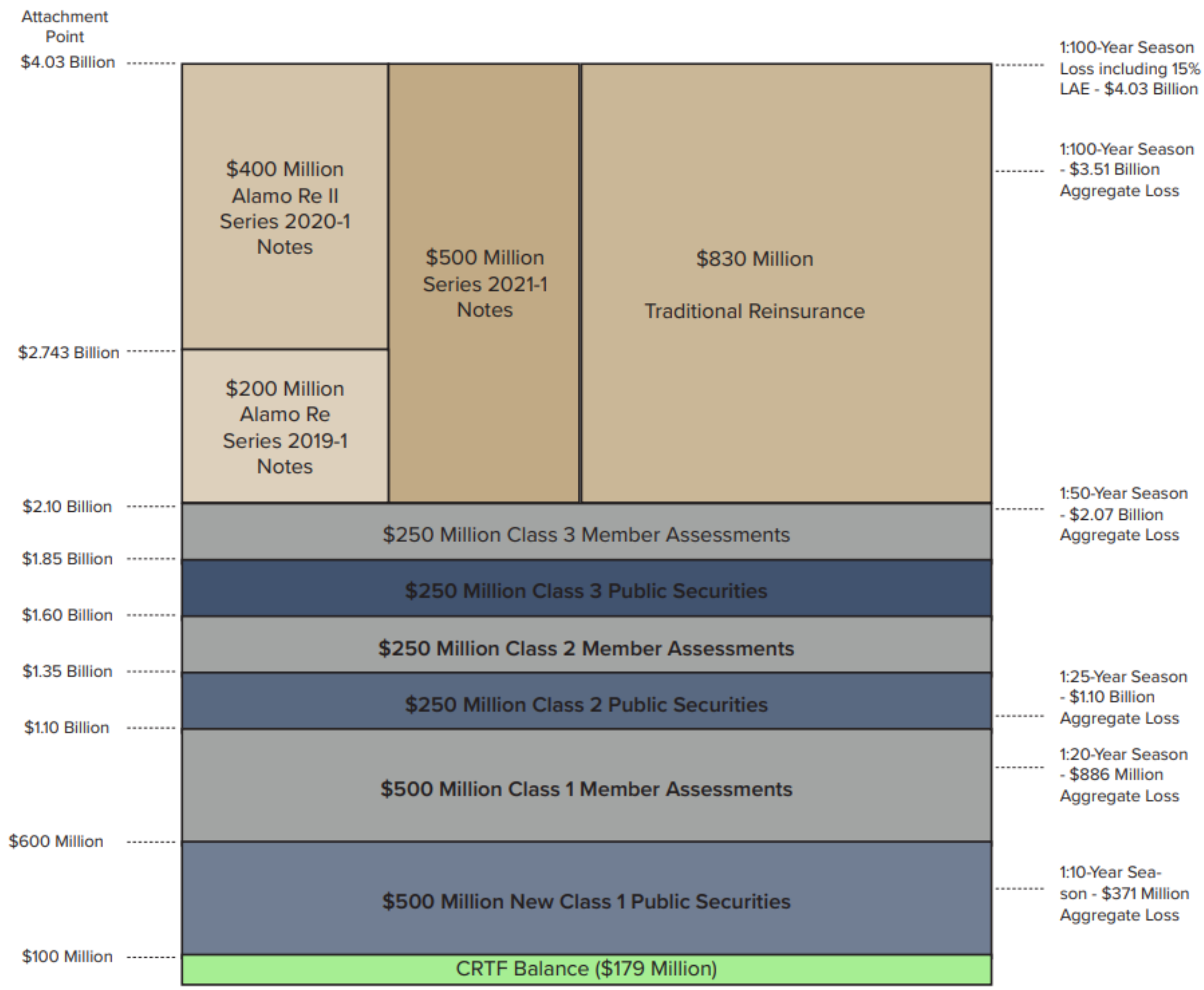
- TWIA has access to $4.03 billion for the 2021 hurricane season
- The total balance of the CRTF is $179 million
- Funding consists of premiums, the CRTF, public securities, company assessments, and reinsurance
- Statute prohibits TWIA from paying policyholder losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years
- Class 1 public securities can be issued pre-event or post-event by statute
- Reinsurance purchased above the minimum required funding level is repaid by member company assessments

2021 Hurricane Season Funding

TWIA's 2021 catastrophe funding program, effective June 1, 2021 to May 31, 2022, provides access to $4.03 billion in total funding, an amount which meets the statutory minimum funding requirement. The reinsurance program includes $830 million of traditional reinsurance and $1.1 billion in new and previously outstanding 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 would be covered under the same reinsurance program. TWIA did not contribute to the Catastrophe Reserve Trust Fund (CRTF) from net gains from operations in 2020, primarily reflecting losses from the active hurricane season. The current CRTF balance is $179 million.

TWIA's funding for the 2021 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 11/30/20.

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 2019, 2020, and 2021 by Alamo Re, a special purpose insurer, will reimburse TWIA for $1.1 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 is 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

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- 2021-22 catastrophe bonds provide $1.1 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

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.

In May 2020, TWIA used $45 million of its 2019 net earnings to partially redeem the Series 2014 Bonds. Due to 2020 hurricane activity, no net earnings were available to further reduce the outstanding balance. It is approximately $177 million as of September 30, 2021.

Current Loss Payments

TWIA has secured a $500 million line of credit for the past three hurricane seasons (2018-2020) 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 2021 hurricane season, effective June 1, 2021.

Highlights

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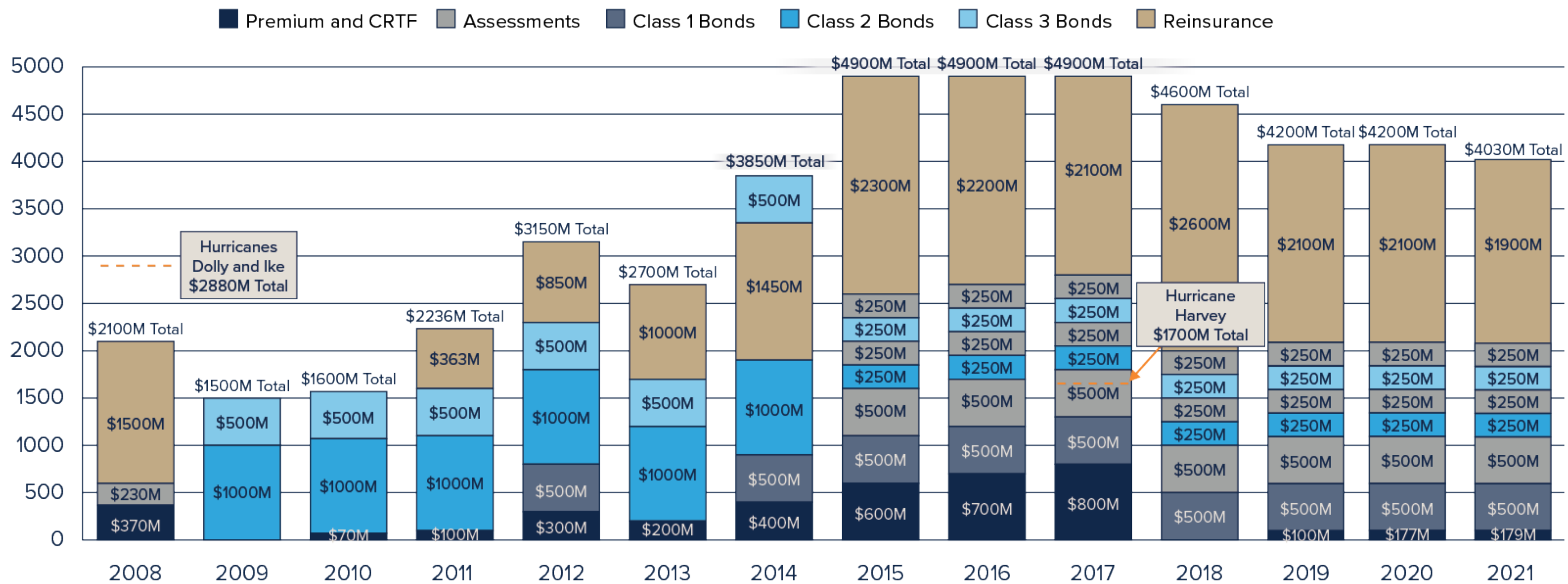
- Public securities (or bonds) represent money borrowed from investors that is repaid over time
- Class 1 bonds are repaid with TWIA premiums and, if necessary, policyholder surcharges
- $500 million in Class 1 public securities were issued in 2014 to provide immediate claims-paying capacity
- The 2014 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
- Outstanding balance of $177 million as of September 30, 2021

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 includes deposits totaling $177 million in the CRTF

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

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. Recent legislative changes require the Board to vote by a two-thirds majority to submit a rate increase for an annual or non-annual filing. All rate increase filings are subject to review and 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 2021 actuarial analysis found the Association's rates to be inadequate by 39% for residential policies and 46% 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

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- 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
- 2021 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 39% and 46%, respectively

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. Recent legislative changes require the Board to vote by a two-thirds majority to submit a rate increase for an annual or non-annual filing. All rate increase filings are subject to review and 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 2021 actuarial analysis found the Association's rates to be inadequate by 39% for residential policies and 46% for commercial policies. Current TWIA rates are uniform throughout the 14 first tier coastal counties.

Recent Rate Changes

In 2022, TWIA's rates will increase for the first time since 2018. The TWIA Board voted 5 to 3 to direct staff to file a 5% rate increase with TDI for both residential and commercial policies at its August 2021 meeting. The rate filing was submitted to TDI on August 6. The Board reconsidered the filing at its December 2021 meeting at the request of coastal legislators and voted 5 to 3 to maintain the rate increase. It will go into effect for policies issued or renewed on or after January 1, 2022.

Highlights

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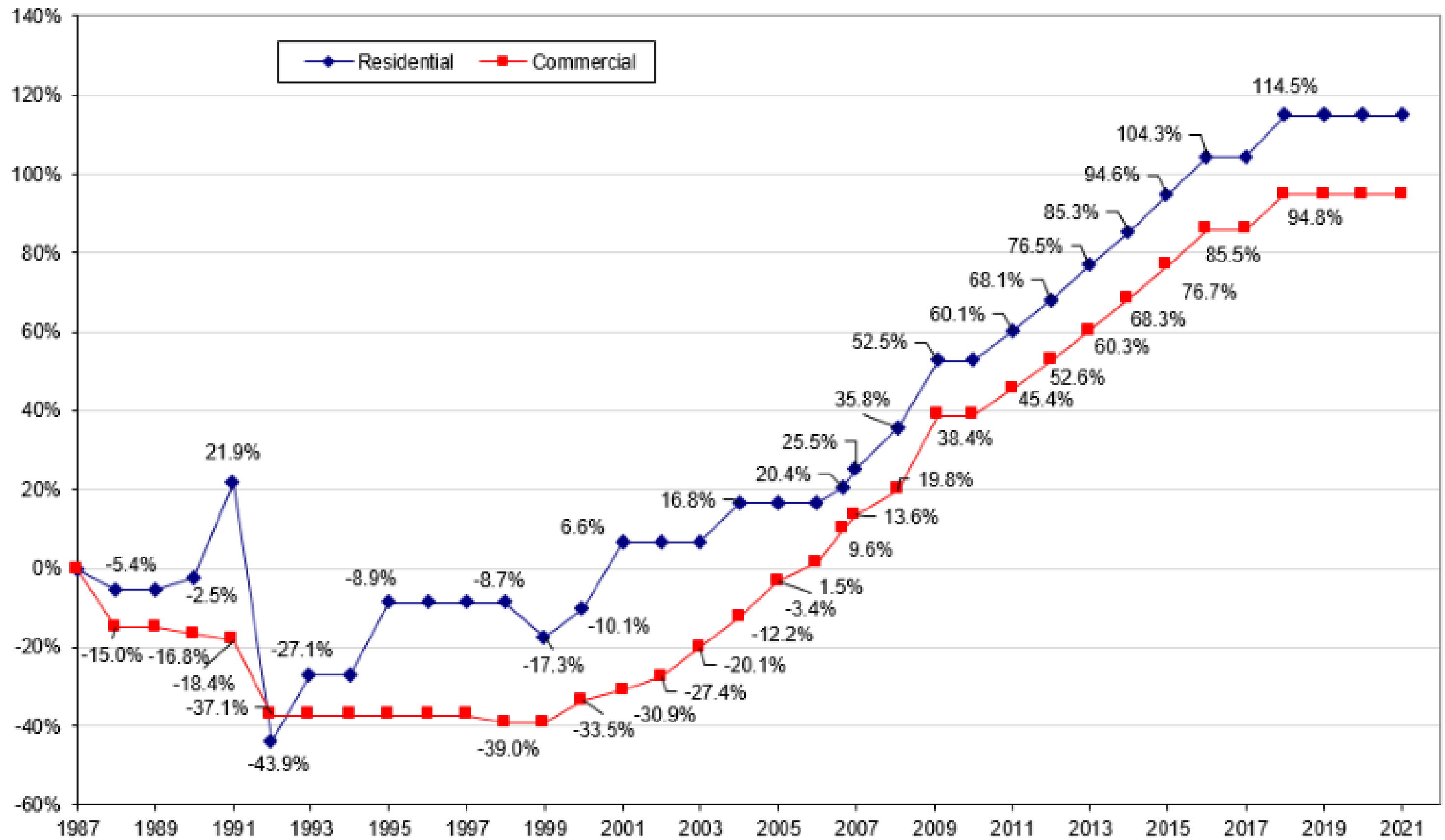
- TWIA Rates must be filed with TDI annually by August 15
- The amount of a rate filing is set by the TWIA Board of Directors
- TWIA's rate adequacy analysis must be posted to its website 14 days prior to the Board's vote on a rate filing
- All filings for a rate increase are subject to review and approval by the Commissioner of Insurance
- 2021 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 39% and 46%, respectively

TWIA Historical Rate Exhibit (1988-2021)

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%
2021	0.0%	0.0%
Cumulative Change	114.5%	94.8%
Annual Average	2.3%	2.0%

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

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

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- 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