

December 6, 2023

Re: Agent Commission Study Report

Dear TWIA Board:

The AAG met with TWIA staff and ITS on November 9th. You have a slide in your presentation from staff that summarizes our feedback from that meeting which was:

--Changes to commercial policy commissions should not be considered as the time study only included residential policy transactions and commercial policies will no longer go through an automatic renewal process in 2024 due to legislative changes.

--Agents continue to experience significant additional work compared to other carriers they do business with because of TWIA's unique eligibility requirements (i.e., WPI-8's, flood insurance, declinations, etc.) and mandated legislative changes.

--While TWIA's direct renewal process for residential policies creates some efficiencies, it is appropriate and responsible for agents to review and requalify policy renewals with their clients annually due to the inherent risks associated with TWIA policies.

On November 27th we received the final version of the TWIA and ITS presentation and would like to highlight the following information:

--The scope of the ITS project only accounted for residential TWIA new business, renewals, and policy changes. Other areas such as billing were not addressed. Regarding the three areas studied ITS concluded that "TWIA's processes and systems are comparable to other insurance carriers."

--In addition to the work that is comparable, "TWIA specific requirements can be simple, but they can also be complicated and time-consuming". Examples are WPI-8's, flood zone determinations and declinations.

--On page 5 of TWIA staff's presentation it shows the Private Market Commission Rates which average 14.8%.

Texas Insurance Code 2210.203 states that the TWIA commission structure must be fair and reasonable, taking into consideration the amount of work performed by an agent in submitting an application to the association and the prevailing commission structure in the private windstorm market.

Combining the information from both presentations paints a clear picture which aligns with the statute; the work agents have when writing new and renewal business with TWIA is comparable to other insurance carriers and the average commission for doing so is 14.8%. When placing and servicing business with TWIA agents are also tasked with doing extra work on top of that which is comparable to other insurance carriers, justifying the additional 1.2% in commission.

The current commission rate of 16% for placing and servicing new and renewal residential and commercial business with TWIA is fair and justified and we ask that it remain the same.

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December 8, 2023

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Dear TWIA Board of Directors,

I trust this correspondence finds you well. I am writing to express my profound concern and disappointment regarding the recent proposal to reduce commission rates for agents affiliated with the Texas Windstorm Insurance Association (TWIA). The potential reduction from the current 16% to 10% represents a significant 37% decrease in annual income for agents, prompting me to address critical concerns that merit reconsideration for the mutual benefit of both agents and TWIA.

I understand that you have received correspondence from Representative Mary Ann Perez (House District 144) and Representative Ed Thompson (House District 29), including two attachments: 1. TWIA Board packet, August 2, 2022, and 2. Letter & testimony from the Independent Insurance Agents of Texas on August 8, 2023. These documents, reflecting research conducted by both your staff and the Independent Insurance Agents of Texas, affirm that the current 16% commission on new and renewal business is fair and appropriate compared to similar products.

Points to Consider:

1. Liabilities at the Agent Level:

- Despite TWIA's shift to a direct billing system, agents remain exposed to primary liability concerns, necessitating a comprehensive renewal process with checks and balances.
- Agents are responsible for tracking renewals, securing replacement cost estimates, and engaging with insured parties and mortgage/escrow accounts for premium collection—a legal obligation.
- Potential risks include lawsuits for unpaid premiums, failure to collect escrowed premiums, and improper notifications at the agency level.
- The new system introduces additional complexities, such as assisting customers with the TWIA Portal, contributing to an increased risk of Errors & Omissions claims, with a minimum \$5,000 deductible per occurrence.

2. Operational Impact on Agencies:

- Agencies, including mine, allocate substantial resources to track and collect TWIA renewal premiums, involving the hiring, training, and payment of employees to navigate the intricate processes associated with new and renewal TWIA policies.
- A reduction in commission rates would adversely impact agency revenue, potentially leading to operational challenges and the prospect of layoffs, particularly affecting employees who are primary income providers for their households.

3. Customer Service Impacts after a Catastrophic Event:

- During Hurricane Ike, my agency, along with 75% of Galveston Island, was impacted. A Catastrophe Plan ensured operational continuity, but the aftermath required significant investments in essential resources.
- Agencies rely on renewal commissions to fund payroll during such challenging times as new policies are not able to be sold, demonstrating the importance of maintaining financial stability for agents who are dedicated to serving their customers.

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- Agents play a crucial role as liaisons between customers and companies, providing communication on coverage, deductibles, and claims details, contributing to an ongoing educational process for policyholders.
4. **Alternative Solutions for TWIA Solvency:**
- Consider alternative measures to address TWIA's financial challenges, such as implementing higher minimum deductibles, in line with practices adopted by many home insurance companies in Tier 2 Gulf Coast counties.
 - Propose measures like a minimum 2% Windstorm & Hail and a 3% Named Tropical Cyclone and Hurricane Deductible, while disallowing Indirect Loss Coverage and/or ACV Roof Replacement on homes with roofs 15 years or older.
 - These alternative measures can positively impact TWIA's solvency without jeopardizing the livelihoods of agents.
5. **Real-life Impact on Small Businesses:**
- As a small business owner in Galveston, TX, with five employees, a 37% commission cut on TWIA policies would be devastating to agency revenue and the financial stability of my employees.
 - The current 16% commission adequately compensates my staff for the effort required to service TWIA policies.
6. **Commission Reduction is Not a Viable Solution:**
- Proposing a reduction in commission rates effectively requests agents to perform the same workload for less compensation.
 - Such a reduction would likely lead to a deterioration of the agency force, exposing TWIA to additional legal liabilities.

Conclusion:

I sincerely hope the TWIA Advisory Commission thoroughly considers the economic and real-life impact of the proposed commission reduction. Maintaining the current commission rate is essential for the financial stability of agencies and the well-being of their employees.

Thank you for your time and consideration. I anticipate a constructive resolution that ensures the continued success of both TWIA and its affiliated agents.

Sincerely,

Sean O'Donohoe
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