Biennial Report to the 86th Texas Legislature

December 21, 2018

TEXAS WINDSTORM INSURANCE ASSOCIATION

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December 21, 2018

The Honorable Greg Abbott, Governor

The Honorable Dan Patrick, Lt. Governor

The Honorable Dennis Bonnen, Speaker of the House

Members of the Sunset Advisory Commission

Members of the Senate Business & Commerce Committee

The Honorable Kent Sullivan, Commissioner of Insurance

Members of the House Insurance Committee

Dear Governors, Speaker, Committee Members, and Commissioner,

In accordance with Texas Insurance Code 2210.0025, I am pleased to submit the Biennial Report of the Texas Windstorm Insurance Association (TWIA) on behalf of its Board of Directors. This report chronicles TWIA's performance over the past two years, including our review by the Sunset Commission. It also summarizes our proposed legislative changes for your consideration ahead of the 86th Legislative Session.

Established by the Legislature in 1971, TWIA is a nonprofit insurance organization that provides coastal Texans access to wind and hail property insurance when declined by open market insurance companies. Without TWIA, many property owners in the 14 Texas coastal counties would be unable to fully insure their homes, buy and sell property, or operate commercial businesses.

Today, TWIA is a more efficient and more policyholder-focused organization than ever before in its 47 years of service. We are driven to continuously improve by the knowledge that what we do impacts the lives of our policyholders and the economic welfare of the Texas coastal region. It is this driving force that prepared us for Hurricane Harvey in 2017. While TWIA's response to Harvey was swift and comprehensive, we have identified opportunities for further improvement that will shape the way we respond to future storms. We are encouraged by the fact that the Sunset Commission identified areas of improvement that mirror our own assessments.

Tested by Harvey and reviewed by the Sunset Commission, TWIA enters 2019 with confidence in the purpose of our mission and resolute to continue our improvements.

Thank you for the opportunity to provide this information for your consideration. Should you have any questions or need additional information, please do not hesitate to contact me at (512) 899-4949 or Jennifer Armstrong, Vice President of Communications & Legislative Affairs at (512) 637-4031.

Sincerely,

John W. Polak, CPCU
General Manager
Texas Windstorm Insurance Association

Contents

Introduction

Established by the Legislature in 1971, TWIA is a nonprofit insurance organization that provides coastal Texans access to wind and hail property insurance when declined by open market insurance companies. Without TWIA, many property owners in the 14 Texas coastal counties would be unable to fully insure their homes, buy and sell property, or operate commercial businesses.

In the 47 years TWIA has been in operation, it has taken in approximately $6.1 billion in policy premiums and returned more than $5.6 billion to its policyholders in claim payments and claim expenses. Currently, TWIA provides insurance from Jefferson to Cameron County via more than 205,000 policies.

TWIA is a more efficient and more policyholder-focused organization today than ever before. We are driven to continuously improve by the knowledge that what we do impacts the lives of our policyholders and the economic welfare of the Texas coastal region. It is this driving force that prepared us to respond to Hurricane Harvey in August 2017.

Since our last Biennial Report, TWIA has accomplished many of its goals, but none as important as being there for policyholders when they needed us most after Hurricane Harvey hit the Coastal Bend. In the 14 months after Harvey, we issued more than $1.2 billion in payments to our policyholders on more than 76,000 claims.

The following information highlights TWIA's Hurricane Harvey response as well as 2017 and 2018 key accomplishments.

Hurricane Harvey

Overview

August 22, 2017:
TWIA activated the CAT Plan

August 24, 2017:
TWIA officially issued a policy application moratorium at 12:30 p.m.

August 25, 2017:
Hurricane Harvey struck the Texas coast over Port Aransas and Rockport-Fulton as a Category 4 storm with wind gusts up to 140 mph.

August 28, 2017:
TWIA issued their first claim payments less than 72 hours after Hurricane Harvey landfall.

Hurricane Harvey struck the Texas coast on Friday, August 25, 2017, as a Category 4 storm. This was the first time in nearly a decade TWIA and our policyholders were impacted by a major hurricane — one which became the second-costliest[1] to hit the U.S. (after Hurricane Katrina) and resulted in the second highest level of new claims in the Association's history (after Hurricane Ike).

1 Sullivan, Brian K. "Hurricane Harvey Was Second Most Expensive Storm in U.S. History." Bloomberg, 25 Jan. 2018, www.bloomberg.com

Response

Established mobile claims centers in Rockport, Corpus Christi, and Port Aransas

Opened mobile claims centers within 72 hours of Harvey landfall, serving more than 10,000 policyholders in the first three weeks and issuing directly to policyholders a total of $11.6 million in emergency claim payments. Mobile claims centers were located in Rockport, Corpus Christi, and Port Aransas.

TWIA quickly identified locations for mobile claims centers where policyholders impacted by the storm could get in-person claim filing support and, in many cases, emergency claim payments. TWIA staff coordinated with Coastal Bend emergency management and city officials to secure and set-up our remote operations. As we awaited entry to the coast, TWIA onboarded nearly 2,000 claims resources, including more than 1,200 field adjusters, 350 desk examiners, 220 customer service representatives, and additional Quality Assurance, Support and Re-inspection assets to handle the increasing claim volume.

By August 30, the first mobile claims sites were established in Rockport and Corpus Christi, and a third site was established in Port Aransas on September 4. In total, 64 staff and contractors deployed to the three locations. In the first three weeks, the three mobile claims centers served more than 10,000 TWIA policyholders and made advance claim payments in excess of $11 million dollars.

Within the first seven days after the storm made landfall, nearly 40,000 claims were received.

Claims Handling

Within 7 days after the storm

Nearly 40,000 claims were received between August 25-September 1, 2017.

Within 45 days after the storm

TWIA had inspected more than 64,000 properties or 92% of the more than 69,000 claims received at that time.

Within 75 days after the storm

Approximately 90% of the more than 72,000 claims received had been processed and closed.

Within 100 days after the storm

TWIA had issued payments in excess of $863 million and closed over 93% of the reported claims.

Claims filed in Rockport and Port Aransas from Hurricane Harvey amount to 100% of policies-in-force in both cities.

76 thousand
claims received for Hurricane Harvey

$1.19 billion
in claim payments

average claim payments for policyholders

$18,652 in residential claims

$197,232 in commercial claims

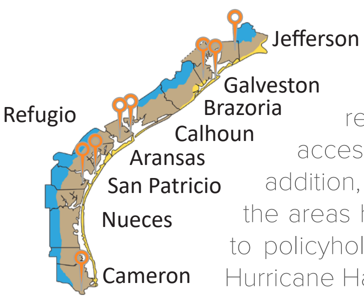
0.33%
Claims complaint ratios
as a percentage of all claims received

5.12%
Claims dispute ratios
as a percentage of all claims received

By following our CAT Plan and claims handling guidelines, leveraging five years of CAT response exercises, and using our web-based Claims Center, TWIA was able to swiftly scale up claims handling resources in the immediate days following Hurricane Harvey. TWIA issued our first claim payments less than 72 hours after Hurricane Harvey landfall.

As of October 31, 2018, TWIA has received more than 76,500 claims and issued more than $1.19 billion dollars in claim payments. Approximately 97% of all claims have been processed and closed with average claim payments for policyholders with residential claims at $18,652 and commercial claims at $197,232. Claims complaint and dispute ratios as a percentage of all claims received for Hurricane Harvey remain low at approximately 0.33% and 5.12%, respectively.

Communications and Coastal Outreach



Attended and contributed to numerous Harvey-recovery events on the coast to improve policyholders' access to information and assist with the claims process. In addition, hosted half a dozen Claims Assistance Workshops in the areas hardest hit by the storm, providing in-person support to policyholders and answering coverage questions related to Hurricane Harvey claims.

Deployed a digital claims resource center to help Harvey-affected policyholders and agents more easily navigate the claims process.

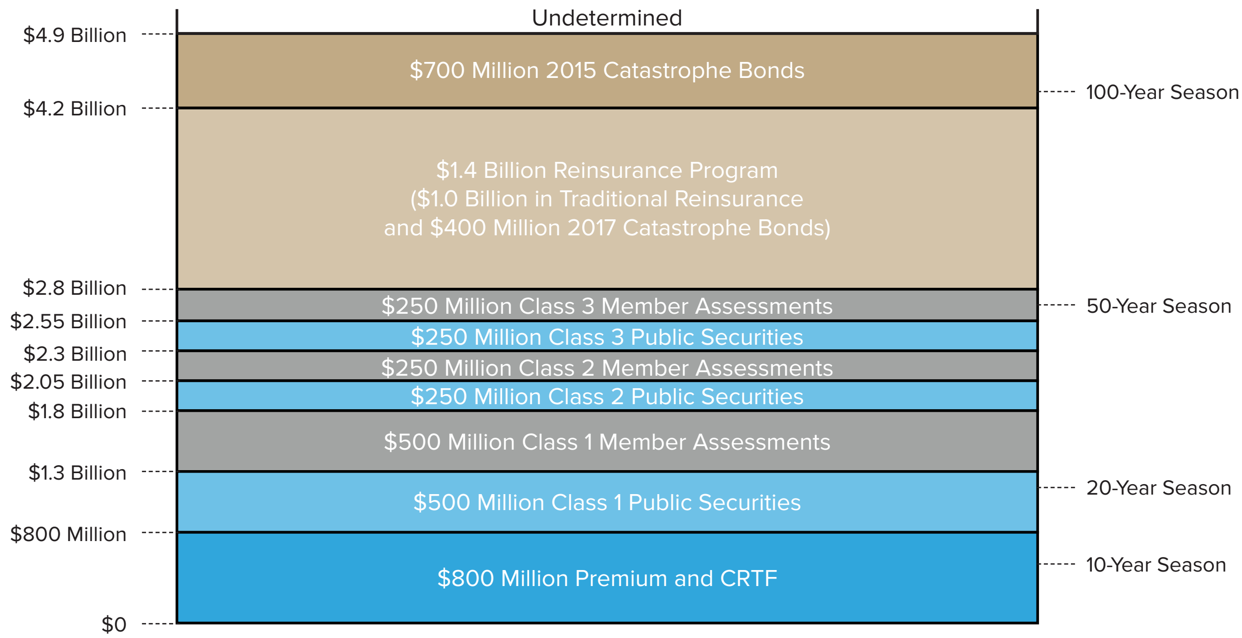
A little over a week following the storm, TWIA began participating in a variety of disaster recovery and coastal outreach events. From September 5 through the end of 2017, we participated in nearly 20 events along with Texas Legislators and representatives from FEMA and other local, state, and federal entities charged with disaster recovery and aid. Following the closure of our mobile claims centers at the end of 2017 and late February 2018, we continued to maintain our presence in the Coastal Bend by hosting informational townhall-style events in Port Aransas and Rockport. These events transitioned into Claims Assistance Workshops, which provided policyholders an opportunity to discuss their Harvey claims one-on-one with a TWIA claims representative. A total of six Claims Assistance Workshops were held between February and July 2018 in Portland, Port Aransas, and Rockport.

Ultimate Losses from Harvey and Funding

TWIA's current estimate of ultimate loss and loss adjustment expenses (LAE) for Hurricane Harvey is $1.61 billion, based on data as of September 30, 2018.

For the 2017 hurricane season, TWIA secured $4.9 billion in total aggregate funding, sufficient to fund claims associated with over 99% of all modeled hurricane seasons, or a 125-year storm season. The 2017 program included catastrophe bonds, an aggregate amount of $1.1 billion, originally issued in 2014 and 2015, with staggered expirations to provide multi-year stability, diversification, and expanded claims-paying capacity. At the start of the season, TWIA also had a record balance of $737 million in the Catastrophe Reserve Trust Fund (CRTF), including a contribution of $147 million from 2016 operations.

TWIA's funding for the 2017 hurricane season is illustrated by the chart on the following page:



Storm frequencies based on modeled losses using TWIA exposures as of 12/31/16

Following Hurricane Harvey, TWIA's initial estimate of ultimate loss and loss adjustment expense (LAE) for the storm was $1.13 billion based on data as of October 2017. At the end of 2017, with more claim data and claim handling experience, TWIA revised the ultimate loss estimate for Hurricane Harvey to $1.45 billion. The most significant factor in the decision to change the ultimate loss estimate was the increase in number of claims closed and the average severity (loss and LAE) of the claims compared to the initial estimates. TWIA's current estimate of ultimate loss and LAE for Hurricane Harvey is $1.61 billion, based on data as of September 30, 2018. This was primarily due to the volume of supplemental payments and payments made on reopened claims in the first quarter of 2018. TWIA continues to revisit Hurricane Harvey claims data on a quarterly basis to assess the ultimate loss amount and provide revisions as necessary.

For the payment of claims from Hurricane Harvey, TWIA has utilized $743.2 million available from the CRTF as well as $136.7 million of the net earnings from 2017 operations. TWIA also withdrew approximately $448 million of the total $500 million from the Class 1 Pre-event Bonds issued in 2014. The remaining $51 million of the bond proceeds must be retained for debt reserve funds.

In May 2018, TWIA's Board authorized staff to seek approval from the Texas Department of Insurance (TDI) for a $175 million member company assessment resulting from losses and expenses caused by Hurricane Harvey. TDI approved TWIA's assessment, and invoices were issued in May 2018. TWIA's Board authorized staff to seek approval for an additional member company assessment in the amount of $107 million at the July 31, 2018 Board meeting. TDI approved the additional member company assessment, and invoices were issued in August 2018. To date, TWIA has received a total of $279.6 million in member company assessments.

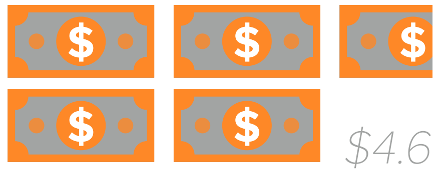
Key Accomplishments

Financial Performance

- Kept controllable expenses[2] below budget for the seventh straight year and maintained the second-lowest cost as a percentage of premium of the 36 U.S. FAIR plans and wind pools.

$4.9 Billion

secured in total aggregate funding for the 2017 hurricane season, an amount in excess of the statutory minimum funding



$4.6 Billion

secured in total aggregate funding for the 2018 hurricane season, an amount in excess of the statutory minimum funding

- Brought the Catastrophe Reserve Trust Fund (CRTF) to its highest balance since inception with $737 million available for the 2017 hurricane season.

Increased Automation and Operational Efficiency

- Implemented a new enterprise-wide, scalable voice communication system in 2017 that improved efficiency and delivers a higher level of service to policyholders and agents.
- Ensured Association CAT Plan activation preparedness for the past four years through annual testing, training, and exercises focused on all elements of the CAT Plan.
- Integrated commercial and manufactured home policies into Policy Center in 2018, completing the implementation of a modern policy administration system.
- Responded to North Carolina Insurance Underwriting Association's request for claim response assistance and guidance after Hurricane Florence, which hit North Carolina on August 31, 2018.

In 2017 and 2018 TWIA executed:

3 CAT Plan Tests & 3 CAT Plan Activations

2 Excludes Expert Panel Costs

Expanded Policyholder Resources

- Deployed a redesign of TWIA's website, implementing current website best practices and incorporating stakeholder feedback to optimize the site for property owners, agents, and the general public.

Implemented a new learning management system to provide more efficient and cost-effective online staff training.

- Pre-Harvey, TWIA partnered with coastal community organizations in more than 20 hurricane preparedness outreach events as part of our strategic relationship-building with agents and coastal communities.

Depopulation

- Developed depopulation programs offering TWIA policyholders windstorm insurance alternatives in the private market.
- Transferred 11,000 policies to four participating carriers in the first round (2016-2017) and 1,600 policies to three participating carriers in the second round (2017-2018) of the Assumption Reinsurance Depopulation Program.
- Received 75,039 policy offers from the two participating carriers in the 2018-2019 Assumption Reinsurance Depopulation Program, resulting in nearly 4,000 agent-approved offers sent to policyholders.

12,600

Depopulated policies transferred to participating private market carriers for the first and second rounds of the Assumption Reinsurance Depopulation program

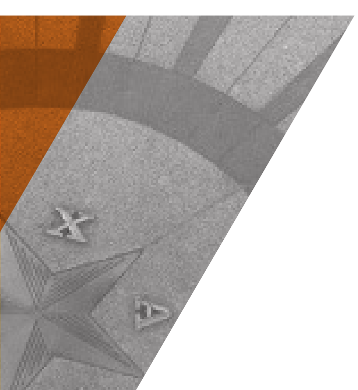
The 2018-2019 Assumption Reinsurance Depopulation Program resulted in:

more than
75,000
offers from two participating carriers

&

nearly
4,000
agent-approved offers extended to policyholders

Legislative Recommendations



Legislative Recommendations

The recommendations approved by the TWIA Board of Directors at the December 11, 2018 quarterly meeting are included in the table below. Supporting detail for each recommendation may be found in the following sections and the proposed legislation language associated with each recommendation is included in Appendix B.

#	Focus Area	Proposed Recommendation	Description
1	Consumers	Replacement Cost Coverage	Allow the type of coverage, replacement cost coverage vs. actual cash value coverage, to be determined and fixed at the time of policy issuance and not at the time of claim adjustment, as current law provides.
2	Consumers	Installment Payments	Modify statute to expressly permit installment payments.
3	Consumers	Contractor Licensing	Require licensing for contractors working in Texas.
4	Claims	Claims Deadlines	Refine the definition of "claim" for alignment with the claim-filing deadline and provide separate claims handling deadlines for hail storms and hurricanes.
5	Claims	Expert Panel	Eliminate Expert Panel
6	Enhanced Mitigation	WPI-8-C Certificates of Compliance	Eliminate the requirement for TWIA to issue Certificates of Compliance for completed improvements.
7	Enhanced Mitigation	WPI-8s for All Coastal Construction	Consider legislative changes to require Certificates of Compliance (WPI-8s) for all construction in the designated catastrophe area.
8	Funding	Reinsurance Purchase and Placement	Modify statute to address second season funding options, flexibility in reinsurance placement and funding options in excess of 1:100 season
9	Funding	Policyholder Surcharge Cap and Additional Funding Mechanisms	Provide for a reasonable cap on TWIA-only policyholder surcharges if needed for the issuance of public securities (with corresponding express statutory authority for the drop down of other funding layers) and provide additional non-premium, non-reinsurance funding mechanisms.
10	Funding	CRTF Contributions Separate from Premiums	Allow for a CRTF contribution surcharge to be applied to TWIA policies separate from the premium calculation, thus avoiding the burdens of premium taxes and commissions on these revenue amounts.
11	Efficiency	Bimonthly Report	Eliminate the requirement to report bimonthly to the Board of Directors.
12	Efficiency	Nepotism	Amend section that prohibits employing relatives of TWIA employees and Board members.

Summary of Proposed Recommendations

The following sections provide a summary of each recommendation and the related issues.

Focus Area: Consumers

Recommendation 1: Replacement Cost Coverage

Allow the type of coverage, replacement cost coverage vs. actual cash value coverage, to be determined and fixed at the time of policy issuance and not at the time of claim adjustment, as current law provides.

Summary

This recommendation was included in the 2016 Biennial Report and introduced as legislation by Senator Taylor (SB 1512) and Representative Faircloth (HB 3510) during the 2017 legislative session.

The statute currently stipulates that replacement cost coverage for residential policies is determined at the time of loss, based on insurance to value of at least 80%. This creates uncertainty for policyholders and may result in policyholders receiving less coverage at the time of loss than anticipated.

The sample language in Appendix B amends sections 2210.207(c) and 2210.207(d) to state that the insurance to value calculation will be determined at the time of policy issuance. It mirrors the language introduced in Senator Taylor and Representative Faircloth's bills.

Determining the replacement cost at the time of policy issuance provides more certainty, reduces confusion and provides a broader range of clear choices for the policyholder. TWIA's Agent Advisory Group has expressed support for making this change under certain conditions. The Sunset Advisory Commission Staff Report also includes a similar recommendation.

Recommendation 2: Installment Payments

Modify statute to expressly permit installment payments.

Summary

The Board previously directed TWIA to evaluate the feasibility of collecting premiums in installments. Currently, statute requires TWIA to collect the premium upfront before a policy can be issued. The sample language included in Appendix B expressly allows TWIA to collect either the full premium or the first premium installment when issuing the policy.

Recommendation 3: Contractor Licensing

Enact legislation that requires licensing for contractors working in Texas.

Summary

Licensing contractors can help protect consumers, particularly after a storm event when communities may be more vulnerable. Licensing can help prevent fly-by-night contractors and can add consumer protections for contractor wrongdoing.

Possible solutions include:

1. Enact or amend existing legislation to require licensing or registration for out of state contractors.
2. Enact or amend existing legislation to require contractors working in the state of Texas to be licensed by the State unless they are licensed within a political subdivision of the state of Texas that has licensing requirements.

Focus Area: Claims

Recommendation 4: Claims Deadlines

Refine the definition of a "claim" for alignment with the claim-filing deadline and provide separate claims handling deadlines for hail storms and hurricanes.

Summary

Statute defines a "claim" as "a request for payment under an association policy."

The claim filing deadline in the statute states that the policyholder must file the claim with TWIA "not later than the first anniversary of the date on which the damage to property that is the basis of the claim occurs." The Association interprets this section to mean the one-year deadline to report a claim applies to not only the first notice of loss but the specific damages being claimed as well.

As a practical matter, many policyholders first report their loss in very generic terms (i.e.: "Hurricane Harvey" or "wind damage"). The precise nature of the claim is then determined through the initial adjustment and into the supplemental claim process. There is ambiguity created when the policyholder files a generic "claim" within the one-year deadline but brings forward specific damage to the property not previously addressed by the adjustment after the one-year anniversary. If previously unreported damages can be claimed beyond the one-year deadline, a policyholder could extend their claim for years while prejudicing TWIA's rights due to the potential for multiple intervening events and spoliation of evidence over time.

The following examples illustrate the two most common scenarios that create coverage ambiguities:

- A policyholder reports that a loss has occurred but provides little or no damage details. TWIA inspects and adjusts the claim within 60 days and issues a disposition letter. More than one year after the storm event, the policyholder or their representative notifies TWIA they are claiming additional or new damage that was not previously claimed, is unknown to TWIA, and was not addressed in the disposition letter.
- A second possible scenario is like the one described above but occurs during the appraisal or litigation process during which the policyholder's representatives claim new and previously unaddressed damage, only after the request for appraisal or litigation activity has occurred.

The proposed solution amends the definition of "claim" to "a request for payment under an Association policy *specifically identifying the damage to property that is the basis of the claim* [emphasis added]." This would clarify the policyholder's obligation to present all aspects of the claim to TWIA within the prescribed deadline, which furthers the statutory purpose of the deadline and reduces confusion to the policyholder and TWIA.

The current statute also *imposes* the following deadlines on TWIA and policyholders:

- TWIA has 60 days after the claim is filed or after the date TWIA receives information requested to accept or reject a claim.
- Policyholders have 60 days to request appraisal (Commissioner has authority to grant extensions).

The existing deadlines in statute are appropriate for hail claims but do not account for external factors that come into play during hurricane events, such as contractor shortages and the ensuing lengthy repair timeframes.

Contractor shortages may occur after a major event as seen in the Coastal Bend after Harvey. These shortages result in lengthy repair timeframes for the policyholder which in turn impacts the timing of policyholder requests for supplemental payments. The proposed changes to statute would account for such shortages:

1. Extend TWIA's deadline to accept or reject a claim from 60 days to 90 days for residential and manufactured home policy claims and 120 days for commercial policy claims.
2. Extend policyholder deadline to request appraisal from 60 days after the disposition to 240 days (18 months) from the date the damage occurred.

Recommendation 5: Expert Panel

Eliminate the statutory and regulatory requirements to use the claims settlement guidelines developed by the Expert Panel.

Summary

Statute and rules require the Association to use recommendations provided by a panel of experts in determining the extent to which a loss was damaged because of wind, waves, tidal surges, or rising water.

As required by Commissioner rules, TWIA implemented the claims settlement guidelines developed by the Expert Panel on June 1, 2018. The exhibit on the following page summarizes the costs associated with the implementation of the Expert Panel as well as maintenance, event, and termination fees. The total number of policies that could be affected by the Expert Panel is approximately 9,000.

TWIA Expert Panel Costs	
Year 1 - October 30, 2017 through June 1, 2018	
Components	**Fee (Breakdown)**
PMO, Accenture Module Design & Development on AIP	$1,457,635
RMS Internal Project Management	$285,085
HWIND Hazard	$182,455
Surge Hazard	$855,256
Wind Data Vendors	$961,892
Surge Data Vendors	$205,261
Property Data Augmentation	$570,170
Total	$4,517,754

TWIA Expert Panel Costs	
Fee Breakdown - Maintenance - Four Year Total	
Components	**Fee (Breakdown)**
Accenture Module Maintenance	$2,874,029
RMS Internal Project Management	$187,129
HWIND Hazard	$66,832
HWIND License Fee	$1,002,476
Surge Hazard	$374,257
Surge License Fee	$1,002,476
Wind Data Vendors	$1,210,577
Surge Data Vendors	$481,188
Property Data Augmentation	TBD
Total	$7,198,964

TWIA Expert Panel Costs	
Five Year Total	
Term	**Fees**
Year 1 - October 2017 -June 1, 2018	$4,517,754
Year 2 - May 2018 - April 2019	$1,642,920
Year 3 - May 2019 - April 2020	$1,749,746
Year 4 - May 2020 - April 2021	$1,840,739
Year 5 - May 2021 - April 2022	$1,962,559
Total	$11,713,718

Per Event Fees
$645,000

Termination for Convenience Fees	
Break Date	**Break Fees**
October 2017 - April 2018	$685,503
May 2018 - April 2019	$758,829
May 2019 - April 2020	$2,435,603
May 2020 - April 2021	$1,554,375
May 2021 - April 2022	$889,048

Focus Area: Enhanced Mitigation Measures

Recommendation 6: WPI-8-C Certificates of Compliance

Eliminate the requirement for TWIA to issue Certificates of Compliance for completed improvements.

Summary

The statute prohibits TWIA from insuring a structure unless the construction complies with applicable building code standards. A Certificate of Compliance (WPI-8 or WPI-8-C) certifies that the structure meets the windstorm building code requirements. Without a Certificate of Compliance, TWIA lacks evidence that the structure is compliant, and the structure may be considered uninsurable and ineligible for coverage with TWIA.

House Bill 2439, 85th Legislature, Regular Session, amended the windstorm certification process to provide a second path to obtain a Certificate of Compliance. Historically, TDI has administered the Windstorm Inspection Program and issued all Certificates of Compliance whether inspected by TDI or an approved engineer. Presently, TDI continues to issue Certificates of Compliance (WPI-8) for ongoing improvements only. The law now authorizes a second process for obtaining a Certificate of Compliance by requiring TWIA to issue Certificates of Compliance (WPI-8-C) for completed improvements.

The Sunset Advisory Commission Staff Report states "TWIA is ill suited to ensure windstorm code compliance, as TWIA is not a regulatory state agency. Additionally, the existing process at TWIA for property owners to get a certificate is insufficient to account for any construction errors and potentially exposes TWIA to additional liability when insuring properties."

Under the law, any engineer licensed by the Texas Board of Professional Engineers may apply to TWIA for a Certificate of Compliance for a completed improvement if the engineer:

- Has designed the improvement, has affixed the engineer's seal on the design, and submits to TWIA on a form prescribed by the Texas Department of Insurance an affirmation of compliance with the applicable building code under the plan of operation; or
- Completes a sealed post-construction evaluation report that confirms compliance with the applicable building code under the plan of operation.

There are several concerns associated with this new process, including:

- The statute authorizing TWIA to issue Certificates of Compliance does not specify that the Texas licensed professional engineer is accountable to any authority with respect to the completeness or accuracy of the information provided to TWIA.
- TWIA does not have the authority to rescind an improperly issued certificate or to prohibit an engineer from applying for a Certificate of Compliance even if the engineer's appointment to act as a qualified inspector for TDI has been revoked or denied.
- TWIA does not have the expertise or authority to provide oversight of engineers. TWIA does not have the expertise to assess or clarify building construction codes and requirements.
- The new TWIA process of processing applications for, and issuing, Certificates of Compliance is arguably outside of and not in furtherance of its purpose to provide an adequate wind and hail market in coastal territories because applicants for certificates are not limited to those seeking coverage from TWIA.

- The process potentially undermines the enforcement of building codes due to an absence of authority to require independent evaluation.

TWIA began issuing certificates on policies effective January 1, 2017. The initial costs to develop the program were approximately $250,000. The table below shows the number of WPI-8-Cs TWIA issued in 2017 and 2018 YTD.

	2017	2018 YTD	Total	Cost per Certifiate (Annualized)	Projected Annual Cost 2018
Applications Received	4,904	14,819	19,723	-	-
Certificates Issued	4,422	14,555	18,977	$14	$244,205

Data as of 10/31/2018

The sample legislative language in Appendix B allows engineers to continue to operate in a manner consistent with the existing law but TWIA is removed from the process and TDI issues certificates for both ongoing and completed improvements. The proposed language also requires engineers to inspect the improvement and certify that the improvement meets the building code rather than the design of the improvement only.

Recommendation 7: WPI-8s for All Coastal Construction

Require Certificates of Compliance (WPI-8s) for all construction in the designated catastrophe area.

Summary

Stronger building codes in the designated catastrophe area benefit all coastal residents and property owners, not just TWIA policyholders. Building codes have been shown to reduce and in many cases prevent losses due to catastrophic wind. Reducing the magnitude of property losses on the coast would reduce TWIA's probable maximum losses, provide incentives for the private market to write along the coast and depopulate TWIA, eventually eliminate the need for additional eligibility requirements provided by statute, and ultimately protect consumers.

In the designated catastrophe area, there are windstorm resistant building codes that apply to TWIA applicants and policyholders. Some municipalities have voluntarily adopted the windstorm resistant codes, however, in many areas, including unincorporated areas, there is no standard building code unless you are applying for coverage with TWIA.

Ensuring that all construction and repair of structures in the designated catastrophe area complies with the windstorm resistant building codes can be accomplished by linking compliance with the building code to the building permitting process. This can be achieved by requiring the person seeking the building permit to also submit information assuring that the building project will be inspected and built to the windstorm resistant building code. Such an approach would not require municipalities and counties to hire additional inspection staff and code enforcement staff because the builder or owner would be responsible for engaging a qualified inspector as currently recognized in the Insurance Code.

A qualified inspector includes:

- a person determined by TDI to be qualified because of training or experience to perform building inspection;

- a licensed professional engineer; and
- an inspector who is certified by the International Code Council, the Building Officials and Code Administrators International, Inc., the International Conference of Building Officials or the Southern Building Code Congress International, Inc. and meets other requirements specified in the Insurance Code.

The benefits of this approach include:

- Reducing confusion by having a consistent building code throughout the seacoast territory.
- Increasing protection for all coastal residents and property owners, not just TWIA policyholders.
- Providing additional incentives for the private market to write more on the coast by creating more resilient structures.
- Reducing potential policyholder surcharges and providing additional opportunities for TWIA to offer premium discounts.
- Broadening the use of the windstorm resistant building code without burdening municipalities and counties with additional costs to inspect to and enforce the code.

Below is a summary of the pros and cons associated with this recommendation:

Pros	Cons
Stronger building codes reduce/prevent catastrophic losses	Not essential to our mission or operations
Less severe losses reduce TWIA's PML	Requires extensive stakeholder input and staff resources to collect that input
Provides incentive for the private market to write more coastal business	Complicated by existing city/county relationships relative to building codes
Protects consumers	Costs to municipalities dependent on selected solution
Eventual elimination of additional eligibility requirements	

Focus Area: Funding

For all funding recommendations, we request making the effective date for any legislative changes no earlier than January 1, 2020, to ensure no unintended impacts on our reinsurance negotiations for the 2019 catastrophe season.

Recommendation 8: Reinsurance Purchase and Placement

Allow greater flexibility in the use and placement of reinsurance within TWIA's overall funding structure.

Summary

Section 2210.453(b) of the Texas Insurance Code provides the following:

> The association shall maintain total available loss 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. If necessary,

> the required funding level shall be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter.

Chapter 2210 requires TWIA's funding sources to be utilized in the following order:

- TWIA premiums and other revenues,
- amounts in the Catastrophe Reserve Trust Fund (CRTF),
- $2 billion in public securities and member company assessments, and
- sufficient reinsurance for total funding equal to at least the 100-year storm season.

Should an event such as Harvey occur that requires the use of the current year's premiums, the CRTF, and any pre-event Class 1 public securities – these sources would be exhausted in year one and unavailable the year following an event. To comply with the 100-year requirement, TWIA will be required to purchase additional reinsurance in year two. The cost of reinsurance itself fluctuates because of catastrophic events and market conditions worldwide, creating the potential for substantial increases in TWIA reinsurance premiums after a major catastrophe, even if TWIA does not directly sustain any losses or make any claims under its own reinsurance. The potential for additional reinsurance purchase along with the potential for an increase in the cost of reinsurance could put a strain on TWIA's resources, preventing the Association from complying with existing debt covenants. In 2018, following Hurricane Harvey, market conditions were favorable and as a result so were our reinsurance costs; however, we do know that companies that penetrated reinsurance layers did incur higher reinsurance costs in 2018.

The statute also requires TWIA to place its reinsurance above all other available funding. This prevents the Association from using reinsurance to protect these other sources of funding. By allowing reinsurance at various levels within its funding, TWIA could preserve a portion of the Catastrophe Reserve Trust Fund (CRTF) in smaller events and could reduce the likelihood of surcharges on TWIA and coastal policyholders.

The proposed solution provides an opportunity to place the reinsurance elsewhere in the funding stack as well as the option for the Board to choose not to have funding for a 100-year storm if the costs and availability are not in the best interests of the Association.

Recommendation 9: Policyholder Surcharge Cap and Additional Funding Mechanisms

Provide for a reasonable cap on TWIA-only policyholder surcharges if needed for the issuance of public securities (including express authority for other funding to drop down if surcharge limits prevent the issuance of public securities) and consider adopting additional non-premium, non-reinsurance hurricane loss funding mechanisms to improve TWIA finances to the point where the Association can pay claims greater than a 100-year season.

Summary

Statute provides the following sources of funding:

- TWIA premiums and other revenues,
- amounts in the Catastrophe Reserve Trust Fund,
- $2 billion in public securities and member company assessments, and
- any reinsurance purchased.

The Association is required to have total annual funding equal to at least a 100-year storm season. Based on the Association's current exposures, a 100-year storm season equates to approximately $4 billion.

To continue improving the financial sustainability of the Association, this recommendation includes potential options for funding to amounts greater than the required 1:100 storm season. This would provide additional certainty for policyholders and agents, bond investors, legislators, and the insurance market throughout the state of Texas.

Currently, the only option available to secure funding beyond a 100-year season is the purchase of additional reinsurance or other similar risk transfer mechanisms. This reduces the amount of premiums available to be transferred to the CRTF. Additional funding available to fund losses beyond a 100-year season would allow for increased deposits into the CRTF, which in turn would reduce the amount and cost of reinsurance required to meet the 100-year minimum funding level.

A review of other states' residual markets reveals that other states' statutory funding mechanisms do not cap the amount of funding available to their plans. For example, Florida's property residual market is authorized to sell as many bonds as it needs without any explicit limit (however, the Florida plan does have some practical limits to its financing, such as limits on the amount of the policy surcharges it can charge as a bond repayment revenue stream, bond market appetite, interest rates, etc.).

One potential method for increasing TWIA's available financing is to authorize the sale of Class 4 public securities to fund any TWIA losses above the existing funding sources. The Legislature would have to determine a suitable revenue source to fund such bonds. The proposed language in Appendix B relies on a statewide policy surcharge as the revenue source for discussion purposes.

Statute also provides for TWIA policyholder surcharges for the payment of future Class 1, 2, or 3 public securities if premiums and other revenues are not sufficient. Other states with similar funding cap policyholder surcharges per year and/or cumulatively.

The sample language proposes adding additional sections (2210.0743, 2210.6133 and 2210.6135) to the statute to address a cap on policyholder surcharges as well as an additional class of public securities.

Recommendation 10: CRTF Contributions Separate from Premiums

Allow for a CRTF contribution surcharge to be applied to TWIA policies separate from the premium calculation.

Summary

TWIA is required to transfer any net gains from its operations into the Catastrophe Reserve Trust Fund (CRTF) each year. In accordance with statute, TWIA includes a provision for contribution to the CRTF in its rate calculations. Because this provision is a part of TWIA's written premiums, it is reduced by approximately 18% because of premium taxes and agent commissions. If TWIA could apply a provision for CRTF contribution to its policies separate from the policy premium, the full amount of the provision would be available for transfer to the CRTF Fund. A separate provision could allow for more frequent transfers to the CRTF and would provide greater transparency to TWIA policyholders. The overall requirement to transfer net gains from operations to the CRTF would still apply.

Any reduction in premium because of a separate CRTF provision would need to consider TWIA's existing debt covenants related to the outstanding Class 1 pre-event public securities issued in 2014.

Focus Area: Efficiency

Recommendation 11: Bimonthly Report

Eliminate the requirement to report bimonthly to the Board of Directors evaluating the extent to which the Association met the primary Board objectives.

Summary

The statute requires the Association to evaluate and report on the extent to which it has met the objectives outlined therein. Interim report cards are published every two months to the Board of Directors and an Annual Report is distributed every year on June 1 to the Governor, Lieutenant Governor, the Windstorm Insurance Legislative Oversight Board, the Speaker of the House of Representatives, and the Commissioner of Insurance.

At the time this requirement was created, changes to the Association's operations and financial condition were frequent enough that a bimonthly reporting frequency was appropriate; however, in recent years, there is very little operationally that changes in such a short amount of time. Additionally, the Board now receives monthly reports (daily or weekly during a storm) making much of the information in the bimonthly report cards redundant.

The Sunset Advisory Commission Staff Report recommends elimination of the Bimonthly Report as well.

Recommendation 12: Nepotism

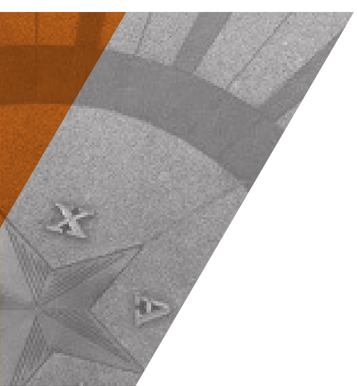
Eliminate the constraint that TWIA cannot hire individuals related to Association employees.

Summary

Statute prohibits the Association from hiring individuals related to other Association employees with a degree of relationship described in Texas Government Code Section 573.002. This provision is more stringent than common provisions addressing this issue as it prohibits employing related individuals even if they are not in the same chain of command. The prohibition has required the Association to terminate the employment of employees who were performing well and limits the available talent pool by denying employment to potential candidates who were otherwise qualified for the position.

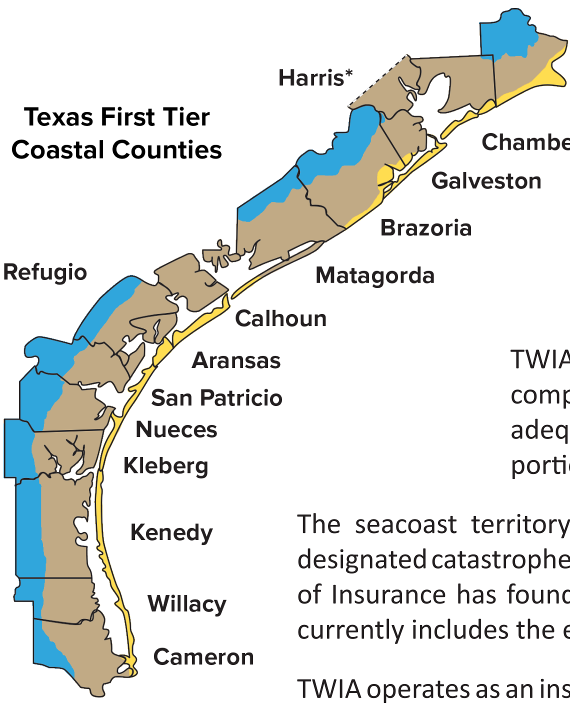
Appendix A:

TWIA History and Operations



Appendix A: TWIA History and Operations

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 is 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 the entire first tier and a portion of Harris County (second tier).

TWIA operates as an insurance company by issuing policies, collecting premiums, and paying losses. 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 efficiently provide essential property insurance products and services to eligible Texas properties 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.

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

Board Composition

Texas Insurance Code Section 2210.102 describes the composition of the TWIA Board of Directors. Senate Bill 900, passed by the 84th Legislature, Regular Session in 2015, changed the composition of the Board to nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in first-tier coastal counties, three public members residing in the first-tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the members from the first tier coastal counties must also be a licensed property and casualty agent who is not a captive agent.

Prior to the passage of Senate Bill 900, the Board was composed of ten members (nine voting members and one non-voting member) appointed by the Commissioner to include four public members from tier one counties, four members who were representatives of the insurance industry, one member from a non-seacoast county, and one licensed engineer.

The current TWIA Board of Directors is as follows:

Name	Position
Joshua Fields	First Tier Coastal Representative
Chandra Franklin-Womack	First Tier Coastal Representative
Michael Gerik	Insurance Industry Representative
Karen Guard	Insurance Industry Representative
R. Scott Kesner	Non-Seacoast Territory Representative
Debbie King	Insurance Industry Representative
Georgia Neblett	First Tier Coastal Representative
Tony Schrader	Non-Seacoast Territory Representative
Bryan Shofner	Non-Seacoast Territory Representative

Coverage and Eligibility Requirements

TWIA policies provide coverage for wind and hail losses only. No other perils are covered by TWIA policies. Applications for coverage, accompanied by the full 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. Texas Insurance Code Section 2210.004 defines insurable property for the purposes of eligibility for TWIA insurance:

- 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, with limited exceptions
- 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
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation

TWIA has implemented several initiatives to ensure properties insured by the Association meet these requirements, including a risk visualization strategy, a quality assurance and training program, agent audit processes, and a more modern policy administration system. At the core of these initiatives is a focus on operational efficiency in TWIA's underwriting methods, allowing the Association to process policy applications more quickly and with fewer staff resources required.

As of October 31, 2018, more than 93% of policies are consistently issued within 10 days.

Service and product delivery improvements can largely be attributed to TWIA's implementation of a new residential policy administration system and billing system in 2015, and a new commercial policy administration system in early 2018. Prior to replacing our core systems, TWIA only accepted policy applications via U.S. mail, required paper checks from agents for premium payments, and manually processed every single application and check. This resulted in the issuance of approximately 50% of policies within 14 days of receipt of the application, a turnaround time which still required substantial reliance on employees working overtime. The improvement of TWIA's core systems allows for 100% of policy applications, including new business, renewals, and policy changes, to be received electronically from the agent. Policy payments may also be received electronically from the agent, premium financiers, and policyholders. As of October 31, 2018, more than 93% of policies are consistently issued within 10 days.

Policy Issuance

Under Texas Insurance Code Section Chapter 2210.203, if the Association determines that the property for which an application for initial insurance coverage is made is insurable property, the Association, on payment of the premium, shall direct the issuance of an insurance policy as provided by the Plan of Operation. A policy is issued for a one-year term and may be renewed annually on application for renewal if the property continues to be insurable property.

TWIA issues approximately 210,000 policies each year with annual premiums of more than $420 million. Since 2014, TWIA has seen a gradual decline in written premiums correlated with policy and exposure decline. This can be attributed to increasing interest from the private insurance market in providing wind and hail coverage in the designated catastrophe area.

On the following page are charts illustrating the number of TWIA policies currently in-force, the direct liability associated with those policies, and premiums written through October 31, 2018 as compared to the previous year:

Policies In-Force

Policy Type	As of 10/31/17	As of 10/31/18	Change from Prior Year
Manufactured Home	782	730	-6.65%
Residential	220,291	196,975	-10.58%
Commercial	8,869	8,108	-8.58%
Totals	**229,942**	**205,813**	**-10.49%**

Direct Liability

Policy Type	As of 10/31/17	As of 10/31/18	Change from Prior Year
Manufactured Home	41,172,885	39,300,168	-4.55%
Residential	58,550,053,604	52,638,065,261	-10.10%
Commercial	7,361,906,067	6,536,055,223	-11.22%
Totals	**65,953,132,556**	**59,213,420,652**	**-10.22%**

Written Premiums (YTD)

Policy Type	As of 10/31/17	As of 10/31/18	Change from Prior Year
Manufactured Home	939,234	914,071	-2.68%
Residential	308,377,763	289,711,878	-6.05%
Commercial	63,105,911	58,471,871	-7.34%
Totals	**372,422,908**	**349,097,820**	**-6.26%**

Building Codes and Certificates of Compliance (WPI-8 or WPI-8-C)

Texas Insurance Code Sections 2210.251,2210.252, 2210.258 and2210.259 outline 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 or WPI-8-C) 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 Certificates of Compliance (WPI-8) for ongoing improvements to structures. 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.

House Bill 2439 passed by the 84th Texas Legislature changed the windstorm certification process and required TWIA to implement a program to issue Certificates of Compliance (WPI-8-C) for completed improvements. The law applies to a TWIA policy delivered, issued for delivery, or renewed on or after January 1, 2017. A person seeking certification for a completed improvement must have a Texas- licensed engineer certify compliance with the applicable windstorm building code. The engineer must submit required information to TWIA in order for TWIA to issue the Certificate of Compliance (WPI-8-C).

As of October 31, 2018, TWIA has issued 14,555 Certificates of Compliance (WPI-8-C) this year with a turnaround time of three days from application receipt to certificate issuance.

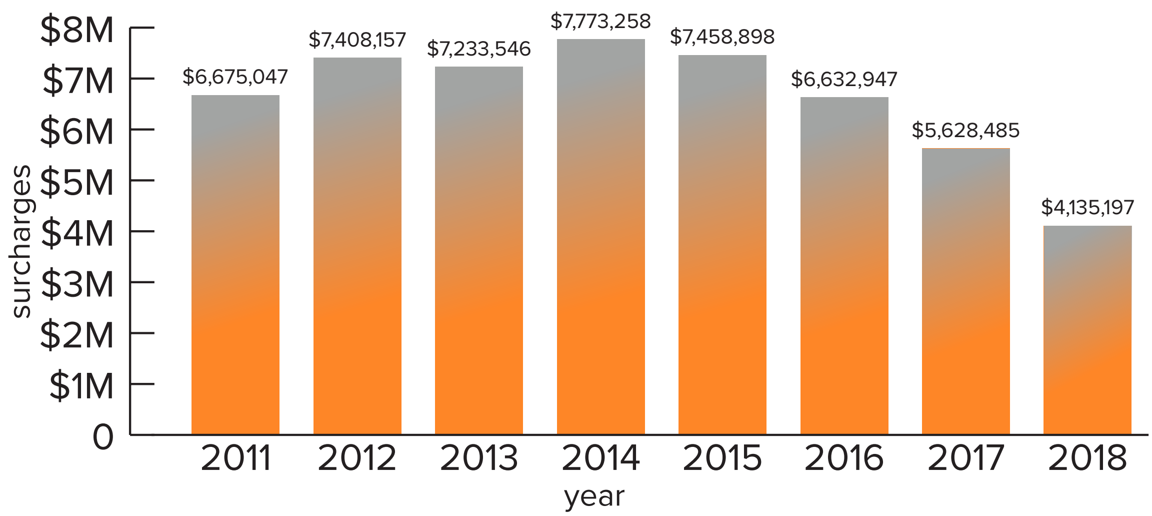
Windstorm Certification Program

	2017	2018 as of (10/31)	Total
WPI-8-C Applications Received (WPI-3 Form)	4,904	14,819	19,723*
WPI-8-C Certificates of Compliance Issued	4,422	14,555	18,977

* WPI-8-C applications received are more than certificates issued as some applications may be rejected due to incorrect or incomplete information. In these cases, the submitter is notified and asked to resubmit a corrected application.

Texas Insurance Code Section 2210.259 provides some exceptions for structures lacking WPI-8s. 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. These surcharges are deposited directly into the CRTF. As of October 31, 2018, there are 21,996 policies in-force on the WPI-8 waiver surcharge program.

The following table shows the total surcharge amounts deposited into the CRTF each year since 2011 through October 31, 2018:



Rates

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 TWIA's annual 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 may be subject to review and approval by the Commissioner of Insurance.

Texas Insurance Code Section 2210.355 requires that TWIA rates be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. TWIA actuarial staff conducts an annual rate adequacy analysis using standard actuarial industry methodologies to compare TWIA's current rate level to the expected costs for providing property insurance coverage for the upcoming year. The actual costs of providing property coverage for a specific year may differ substantially from the indicated required rate level since the windstorm and hail events covered by TWIA are inherently unpredictable from year to year. The analysis includes factors for actual historical and modeled windstorm losses, operational expenses, reinsurance costs and anticipated reinsurance recoveries, projected debt service, and a reasonable provision for contingencies. The actuarial review of TWIA's rate adequacy completed in July 2018 concluded that residential and commercial rates were inadequate by 32.2% and 37.3%, respectively.

TWIA rates have increased 5% each year from 2011 through 2016, remained unchanged in 2017, and increased 5% in 2018; a cumulative increase of 40.7% over the eight-year period.

Effective Date	2011	2012	2013	2014	2015	2016	2017	2018	2019
Residential	5%	5%	5%	5%	5%	5%	0%	5%	10% Filed
Commercial	5%	5%	5%	5%	5%	5%	0%	5%	10% Filed

The TWIA Board of Directors voted to propose a 10% rate increase for 2019 at the July 31, 2018 Board meeting. The Commissioner's decision on the rate increase was suspended by Governor Greg Abbott until after the 2019 legislative session, giving the Legislature more time to consider TWIA's rate adequacy and in consideration of policyholder recovery from Hurricane Harvey.

Maximum Limits of Liability

Under Texas Insurance Code Sections 2210.501-2210.504, TWIA is required to propose to TDI by September 30 each year, inflation adjustments to the maximum liability limits under a windstorm and hail policy based on changes in a prescribed construction cost index. A change to the maximum liability limits has not occurred since November 2011, and currently, only a very small portion of structures insured by TWIA have limits greater than $1 million (only 0.2% of residential structures and 10.3% of non-residential structures).

Most recently, the TWIA Board of Directors voted to file an increase to the maximum liability limits for 2019 based on the changes in the prescribed construction cost index. The filing was disapproved by the Commissioner of Insurance in October 2018.

TWIA's current maximum liability limits, last revised in 2011, are as follows:

Dwellings and individually owned townhouses:

$1,773,000

Contents of an apartment, condominium, or townhouse:

$374,000

Commercial structures and associated contents:

$4,424,000

Catastrophe (CAT) Incident Response Plan

Texas Insurance Code Section 2210.455 requires the Association, not later than June 1 of each year, to submit to the Commissioner of Insurance and members of the Legislature a catastrophe plan covering the period beginning on the date the plan is submitted and ending on the following May 31. 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 2018 Catastrophe (CAT) Incident Response Plan is included with TWIA's Annual Report Card, published on June 1, 2018. It focuses on lessons learned from the Association's response to Hurricane Harvey, which made landfall on August 25, 2017. Hurricane Harvey affected nearly 40% of TWIA's coverage area and tested all facets of the Association's 2017 CAT Plan in effect at the time the storm hit the Texas coast.

Built into the Association's annual CAT Plan review process is a Corrective Action Program (CAP) which staff use to identify gaps and deficiencies in the previous year's CAT Plan. This information is used to create

After Action Reports (AARs) which involve the development of improvements and methods for replicating successes. Following Hurricane Harvey, TWIA gathered feedback from a variety of stakeholders impacted by TWIA's response to the storm, including policyholders, agents, and Association employees, to identify successes and areas for improvement in the CAT Plan.

The 2018 CAT Plan addresses much of this feedback with a focus on the following improvements:

- Enhancements to the Association's Claims Examiner onboarding process to ensure a more efficient and effective claim handling process.
- Improvements to our Field Adjuster training program, which is conducted annually.
- Increased capacity of our core technology and systems to enable handling of high volume claim events.
- More detailed and informative communications for policyholders and agents throughout the year to help prepare them before and give them the tools to succeed after a major event.
- Increased coordination with municipalities and response organizations to support recovery efforts.

Replicating our successes is another key component of the 2018 CAT Plan:

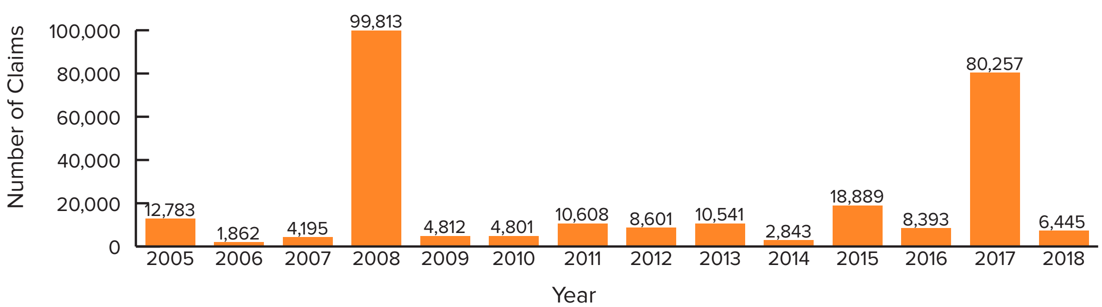
- TWIA is constantly improving the Association's claims resource capabilities and our ability to respond to an event promptly and effectively. The utilization of our resource scalability and loss projection models ensured a fast and efficient response in the weeks after Hurricane Harvey, and Claims leadership continues to meet to devise a plan for replicating and enhancing the initial scaling process for an event.
- One of our primary objectives for the 2017 CAT Plan was the ability to quickly scale up internal and vendor resources for more efficient claims processing. By the time Harvey made landfall on August 25, TWIA had onboarded nearly 2,000 claims resources, consisting of field adjusters, desk examiners, quality analysts, support personnel, re-inspectors, and call center resources. Contracts in place with multiple vendors ensured these resources were committed to TWIA, even while another major hurricane was moving towards Florida. To capitalize on the success of our scalability and onboarding efforts for 2017, the 2018 CAT Plan includes additional training and preparation to ensure resources are well-equipped to process claims accurately and efficiently.
- TWIA implemented a new claims administration system, Claims Center, in July 2016. The system is designed to speed up and improve the claims handling process and provide policyholders, agents, and TWIA with better ways to communicate and share more accurate information about a claim. Hurricane Harvey was the first opportunity to use Claims Center for a major event, allowing for an increased capability to scale up and handle the large volume of claims reported for the storm. The system also helped us identify data gathering and reporting enhancements needed to more effectively analyze and share information about claims filed. These enhancements and other improvements to our core technology and systems are a priority for future hurricane seasons.
- Our field operations are supported by our relationships with Offices of Emergency Management (OEM) and public officials in our coverage area. These relationships helped secure locations for three mobile claims centers established shortly after Harvey made landfall and allowed us to locate venues for and publicize townhall events and Claims Assistance Workshops for policyholders in the most affected areas. We are continuing to build on OEM and public official relationships throughout the coverage area. This includes formalizing an annual program for meeting with and planning for response to catastrophic events with Emergency Managers and key local, city, and state officials.

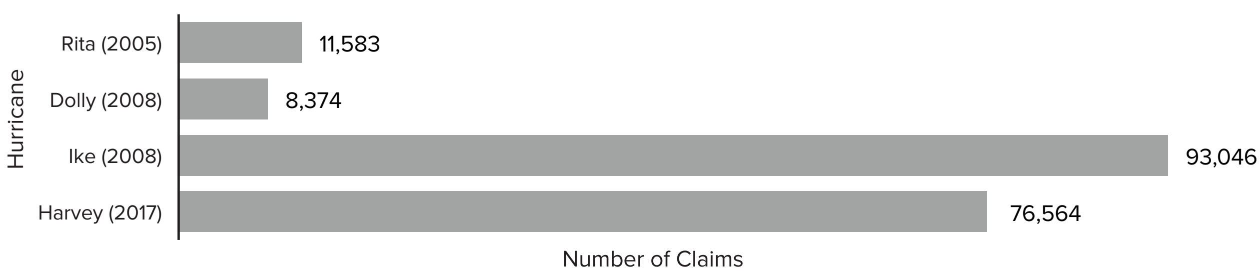
CAT Plan Testing and Activation

TWIA has activated the CAT Plan 12 times since January 1, 2012, for localized wind and hail events and has updated the plan based on information gathered from these events. TWIA activated the CAT Plan on August 22, 2017, due to Hurricane Harvey, resulting in the second-highest level of new claims filed in the Association's history after Hurricane Ike in 2008. Most recently, the CAT Plan was activated on September 11, 2018, in response to the developments of two systems threatening TWIA's coverage area. The CAT Plan was de-activated a week later after the storms were no longer viable threats to the Texas coast.

To prepare for CAT Plan activation, the Association has conducted annual testing, training, and exercises for the past four years, focusing on all elements of the CAT Plan. The Association first tested the CAT Plan in an enterprise-wide simulation in June 2014. Training specific to staff deployments, claims processes and procedures, cross-departmental communication, and technology has improved readiness throughout the organization. A testing strategy was developed in 2018 with initiatives planned for 2019 focusing on implementing training related to the lessons learned from Hurricane Harvey.

TWIA ended 2017 with 80,257 new claims, largely attributable to Hurricane Harvey. Although, the one-year deadline to file a claim from Hurricane Harvey has passed, the Association continues to receive claims from the storm with 76,564 claims filed through October 31, 2018. Historical TWIA claim volume for the past 14 years is reported in the chart below. 2018 claims include new claims filed for both Hurricane Harvey and non-Harvey claims through the reporting period (as of October 31, 2018).





Claims Settlement and Dispute Resolution

Appeals

Under previous law, a policyholder could dispute a claim decision by filing an appeal with the Commissioner and presenting the dispute to the State Office of Administrative Hearings (SOAH). Texas Insurance Code Section 2210.551 limits the availability of appeals through the SOAH process to those persons or entities that have been aggrieved by an act, ruling, or decision of the Association that is not related to the payment of, the amount of, or the denial of a claim. As a result, all correspondence to insureds communicating a claims decision includes revised language to reflect rights and responsibilities as provided under current law.

Claims: Settlement and Dispute Resolution

House Bill 3,enacted by the 82nd Legislature, (First Called Session), made significant changes to both the process by which insureds can dispute TWIA's decision relating to the payment of, the amount of, or the denial of claims. First, Section 2210.014 made Insurance Code Chapters 541 (Bad Faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims. Second, Section 2210.572(c) made the Deceptive Trade Practices Act inapplicable to TWIA. These were three of the main causes of action asserted by insureds who sued TWIA, alleging claims were underpaid or settled in bad faith.

The new provisions of Chapter 2210, Subchapter L-1, now provide the process for claims decisions, payments, and disputes. All disputes regarding the amount paid for claims that are accepted by the Association must be submitted to an appraisal process pursuant to Section 2210.574. If TWIA denies coverage for a claim in full or in part, Section 2210.575 allows policyholders up to two years to provide notification of their intent to bring suit against the Association. TWIA has the option to require the policyholder to submit the dispute to Alternative Dispute Resolution with mediation as the primary form of dispute resolution used by the Association. All costs and expenses of appraisal and mediation are shared equally by both parties.

Below are tables with data as of October 31, 2018, regarding 2018 year-to-date disputed claims and Hurricane Harvey disputed claims (all disputes and those with appraisal invoked). Dispute frequency tracks the total number of claims filed with the Association and the number and percentage of claims in which the policyholder is disputing the claims disposition for any reason.

2018 Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
6,445	251	3.89%	225	57	18

TWIA Hurricane Harvey Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,564	3,921	5.12%	3,734	818	291

Hurricane Harvey Claims with Appraisal Invoked						
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
Appraisals	Active Appraisals	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
3,734	309	141	829	1,470	471	514
	8%	4%	22%	39%	13%	14%

Catastrophe Funding

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 company assessments and require 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.

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

- TWIA premiums and other revenue
- Available reserves and amounts in the CRTF
- Up to $500 million in Class 1 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $500 million in Class 1 assessments on TWIA member companies
- Up to $250 million in Class 2 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $250 million in Class 2 assessments on TWIA member companies
- Up to $250 million in Class 3 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $250 million in Class 3 assessments on TWIA member companies
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season

All Classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto policies.

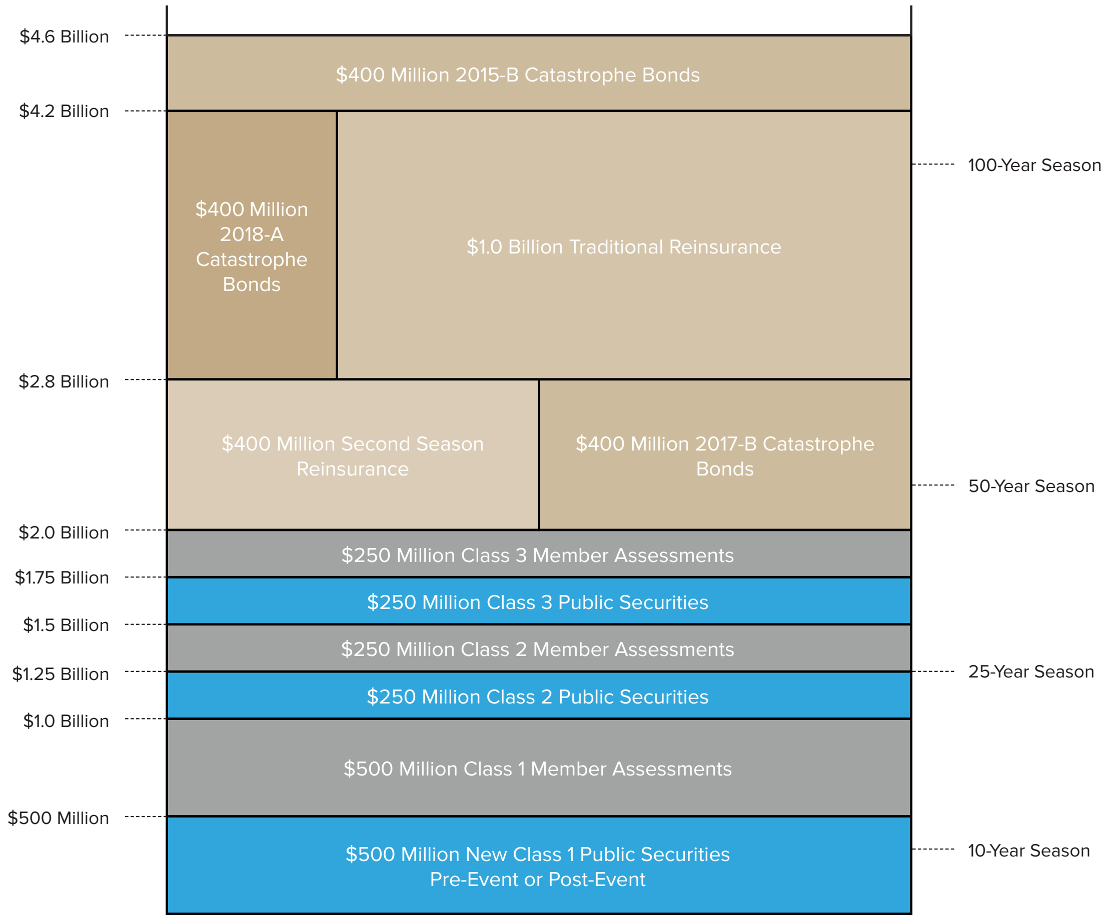
2018 Hurricane Season Funding

TWIA's 2018 reinsurance program, effective June 1, 2018 to May 31, 2019, provides $4.6 billion in total aggregate funding sources, an amount in excess of the statutory minimum funding. TWIA's funding sources includes the purchase of reinsurance, relying on a combination of traditional reinsurance contracts and privately placed catastrophe bonds. The traditional reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program.

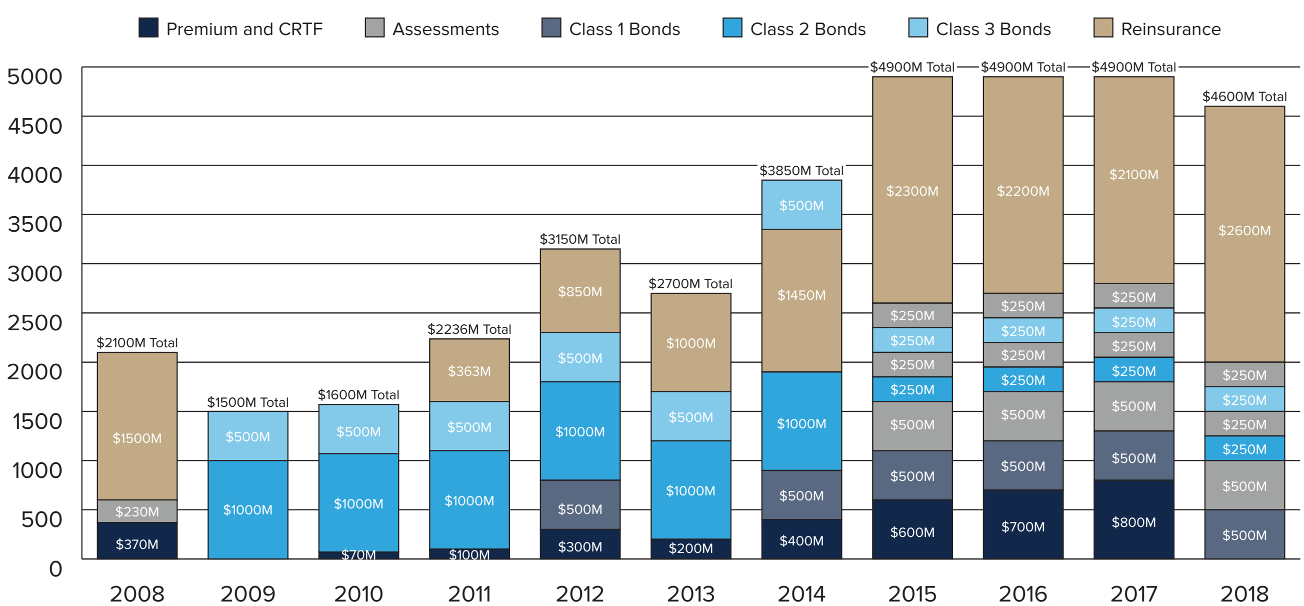
The 2018 reinsurance program includes:

- $400 million of three-year catastrophe bonds (the 2017-B catastrophe bonds), issued in 2017, which provide coverage for aggregate losses in excess of $2.0 billion and provide 50% of the $800 million layer in excess of $2.0 billion.
- A $400 million "Second Season" reinsurance contract purchased in 2017, which became effective June 1, 2018, based on the 2017 drawdown of the CRTF to fund Hurricane Harvey losses.
- A combination of $1.0 billion in traditional reinsurance coverage and $400 million in newly issued catastrophe bonds (Series 2018-A catastrophe bonds), providing an aggregate of $1.4 billion in excess of $2.8 billion. The traditional reinsurance has a one-year term, and the catastrophe bonds mature in three years.
- $400 million of catastrophe bonds issued in 2015, which attach at $4.2 billion, providing total funding to $4.6 billion.

TWIA's funding for the 2018 hurricane season is illustrated by the chart below and followed by a historical comparison of funding levels since 2008. The funding available for the 2018 hurricane season is impacted by the depletion of the CRTF in 2017, and the drawdown of funds from the proceeds of the Series 2014 Bonds.



Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/17 for 2018 season.



Depopulation

Pursuant to Subchapter O of Chapter 2210 (Sections 2210.701-2210.705), TWIA is required to administer a depopulation program that encourages the transfer of Association policies to insurers through the voluntary market or assumption reinsurance. TDI rules governing these programs were published and effective December 22, 2015. TDI formally approved the Voluntary Market Depopulation Program effective March 31, 2016 with updates approved on September 6, 2017. The initial round of the Assumption Reinsurance Depopulation Program was approved by TDI effective July 14, 2016, and the program was updated and approved on April 12, 2017.

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

Voluntary Market Depopulation Program

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

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program allows for assumption reinsurance agreements between TWIA and participating insurers to facilitate depopulation, allowing large numbers of TWIA policyholders to obtain coverage from private market insurance companies interested in writing on the Texas coast. This type of transaction, often called a "takeout," has been used effectively in Florida and Louisiana to minimize the use of those states' residual markets. Under the program, interested insurers must file rates with and have forms approved by TDI and sign an NDA and Participation Agreement in order to review and select the TWIA policies they are interested in taking out. In contrast to the Voluntary Market Depopulation Program, participating insurers are also subject to financial stress testing. Participating insurers must offer comparable coverage and premiums to the TWIA policy and must offer at least three renewals under these comparable terms to any policy taken out as part of the program.

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

Depopulation Programs Status

Voluntary Market Depopulation Program

As of October 31, 2018, four participating carriers—State National Insurance Company, Weston Insurance, USAA Casualty Insurance Company, and United Property and Casualty—have reported a total of 4,063 policies bound through the Voluntary Market Depopulation Program. There are three remaining actively participating carriers in the Voluntary Program. State National Insurance Company has reported 1,642 policies bound through the program, Weston Insurance Company has reported 2,184 policies bound, and USAA Casualty Insurance Company has reported 83 policies bound through the program. United Property and Casualty previously received approval to participate and reported 71 policies bound before electing to discontinue participation in the program.

Assumption Reinsurance Depopulation Program

Round One (2016-2017)

Four carriers participated in Round 1 of the Assumption Program: Maison Insurance Company, The Woodlands Insurance Company, Weston Insurance Company, and United Property & Casualty Insurance Company. The assumption of policies by the four participating carriers was effective June 1, 2017. TWIA handled policy changes for the assumed policies until they renewed on assumption carriers' policy forms. As of the reporting period, all Round 1 policies have now renewed with the assuming carriers.

Round Two (2017-2018)

Three carriers are participating in Round 2 of the Assumption Program: SafePoint Insurance Company, Weston Insurance Company, and United Property & Casualty Insurance Company. The assumption of policies became effective June 1, 2018, with 1,634 policies transferring to the three participating carriers. TWIA handles policy changes for the assumed policies in Round 2 of the program until they renew on assumption carriers' policy forms. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 939 policies remain on TWIA paper from Round 2.

Round Three (2018-2019)

Two carriers are participating in Round 3 of the Assumption Program: Weston Insurance Company and Safepoint Insurance Company. In August 2018, the carriers submitted their lists of policies selected for offers through the program, totaling 75,039 unique policy offers. During the Agent Period of Round 3 of the program (September 1, 2018 through October 31, 2018), agents approved offers on 3,967 policies. Policyholders will receive notice of the offers beginning December 1, 2018, and have until May 31, 2019, to elect to remain with TWIA or have their policy transferred to the assuming carrier effective June 1, 2019.

The chart below provides an overview of Rounds 1 through 3 of the Assumption Reinsurance Depopulation Program:

Assumption Reinsurance Depopulation Program			
Program Year	2016-2017	2017-2018	2018-2019
Participating Carriers	4	3	2
Policies Selected by Carrier	102,171	109,356	75,039
Agent-Approved Offers	18,047	3,091	3,967
Policies Assumed as of June 1	11,164	1,634*	TBD

*Currently pending final financial analysis and TDI review

"Repopulation"

TWIA also monitors the number of policyholders that were depopulated from TWIA through the Assumption Reinsurance and Voluntary Market Depopulation Programs. Some policies returned to TWIA for wind and hail insurance after being assumed or insured by one of the participating carriers. As of October 31, 2018, we have identified 227 policies that have returned to TWIA as new business; 204 through the Assumption Program and 23 through the Voluntary Program.

Standards of Conduct

Business Ethics and Conflicts of Interest Policy

TWIA first developed and implemented a comprehensive Business Ethics and Conflict of Interest Policy ("Ethics Policy") in February 2011. The policy has since undergone revisions in 2011, 2012, and 2016 to incorporate legislative changes and modernize, simplify, and clarify aspects of the Policy. Pursuant to Texas Insurance Code Sections 2210.012 and 2210.013, the Ethics Policy states that a member of the TWIA Board of Directors or an employee shall not:

3. Accept or solicit any gift, favor, or service that could, by reasonable standards, tend to influence the person in the performance or nonperformance of his or her job duties and/or that the person knows or should know is being offered to influence the person's actions;

4. Accept other employment or engage in any activity that the person might reasonably expect would require or induce the person to disclose confidential information the person gained through his or her responsibilities or position within the Association;

5. Accept other employment or compensation that could reasonably be expected to impair the person's independent judgment in the performance of his or her job;

6. Make personal investments that could reasonably be expected to create a substantial conflict between the person's private interest and the interest of the Association; or

7. Intentionally or knowingly solicit, accept, or agree to accept any benefit, financial or otherwise, for exercising the person's authority or performing the person's job duties in favor of another.

Section 2210.015, enacted in 2011, prohibits certain contracts and employment relationships. Specifically, the Association is prohibited from contracting with or employing individuals related to a Board member or current employee within the second degree of affinity or the third degree of consanguinity. The Ethics Policy mirrors the Insurance Code provisions to ensure adherence to both the letter and spirit of the law, as well as to avoid even the appearance of improprieties.

Ethics Training and Initiatives

TWIA has implemented various initiatives to promote ethics and accountability, support a comprehensive Ethics Policy, and create a culture that stresses ethical behavior from the top down, including:

- Stand-alone ethics training for onboarding employees and contractors.

- Annual certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms for all Board members, employees, and contractors.

- Required disclosure of certain business and personal relationships at the onset of employment or at first discovery.

- Required filing of gift disclosures for the acceptance of permissible gifts as well as the rejection of certain prohibited gifts by all employees and contractors.

- Easy access to the Ethics Policy for all employees and contractors via a PC desktop link and the Association's shared computer drive for all policy and procedural documents.

- The Association developed a system to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.

- Ethics and Compliance training was incorporated into field adjuster training beginning in February 2012, and it continues to be a central theme of this training.

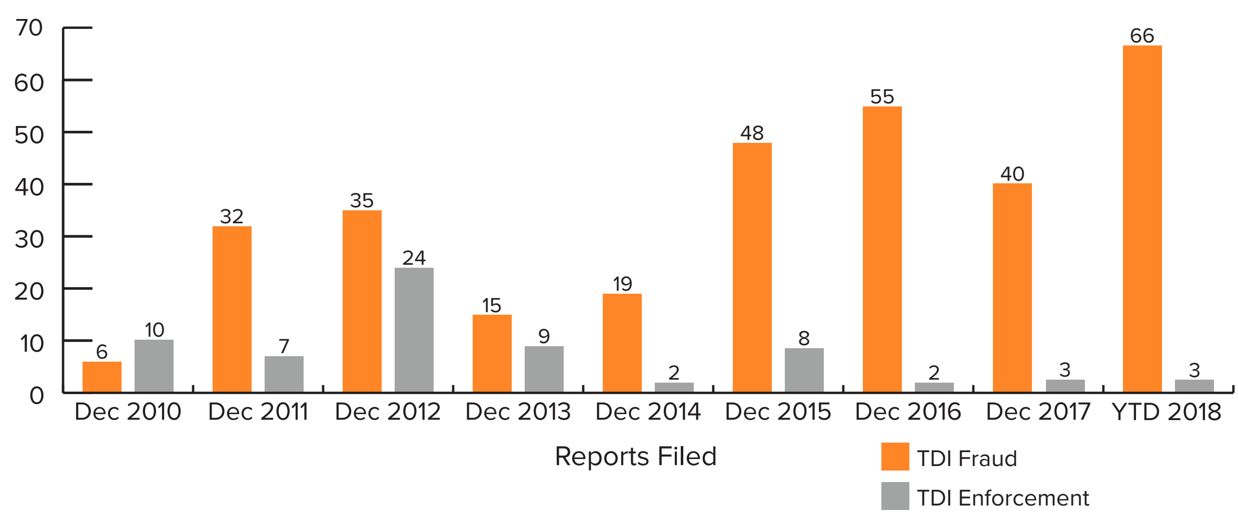
Fraud Reporting

Section 2210.012 also mandates that "a board member or employee of the association who reasonably suspects that a fraudulent insurance act has been or is about to be committed by any board member or employee of the association shall, not later than the 30th day after discovering the conduct, report the conduct and identity of the person engaging in the conduct to the department and may report the conduct and the identity of the person engaging in the conduct to another authorized governmental agency. The department shall forward a report received under this subsection to the authorized governmental agency in accordance with Chapter 701."

TWIA has implemented the initiatives outlined below to ensure compliance with applicable Insurance Code provisions:

Special Investigations Unit/Fraud Abatement

TWIA's Claims Special Investigation program uses an experienced investigation firm, Veracity Research Company Investigations (VRC). The program includes mandatory and recommended Special Investigations Unit (SIU) referral guidelines based on industry standards and best practices. TWIA's SIU program tracks referral rates, results, and reports made to TDI's Fraud Intake Unit. Generally, wind and hail claims do not generate the same number of SIU referrals and fraud reports as policies with coverage for perils like fire, theft, vandalism, etc. The following chart illustrates a sharp increase in fraud investigations and reports from 2010, evidencing TWIA's increased focus and responsibility on fraud abatement and reporting. After TWIA retained the services of VRC in 2012, reporting levels moderated, reflecting a more sophisticated assessment by the vendor of the "reasonable suspicion of fraud" standard. We have seen an increase in the number of referrals made this year so far as a result of Hurricane Harvey.



Whistleblower Policy

TWIA contracts with a third-party vendor to provide anonymous hotline reporting of fraud or ethics violations. Monthly reports are transmitted by the vendor to the Association's General Counsel, Vice President of Legal & Compliance, and General Manager. No reports of ethics violations have been received to date.

Policyholder Service

TDI COAST and Ombudsman Program

TWIA is in compliance with Section 2210.582 to establish an Ombudsman Program to assist TWIA policyholders in understanding and navigating the claims process. TDI established the Coastal Outreach and Assistance Services Team (COAST) Program and adopted rules relating to its function in 2012. Even before the formal adoption of the rules (28 TAC §5.4201), TWIA revised its claims correspondence to inform insureds about the program and provide contact information in English and Spanish. Information about the Ombudsman program may also be found on TWIA's website. TWIA fully funds the COAST program based on the budget provided by TDI each March.

TWIA staff has worked closely with TDI's TWIA Ombudsman for more than six years, cultivating a network of relationships that allows our outreach program to promote awareness of TWIA's unique operations and claims process. As part of this outreach, staff members attend and conduct presentations at a variety of events, many hosted by area chambers of commerce and other local organizations. Presentations have focused on internal changes at TWIA, eligibility and coverage issues, windstorm certification requirements and exceptions, what to expect from the claims process, and important changes resulting from legislation.

In the past two years, TWIA has participated in the following outreach events:

2018 Outreach Events		
January	29	Ingleside Townhall
	30	TWIA Port Aransas Townhall
	31	TWIA Rockport-Fulton Townhall
February	27	TWIA Portland Claims Assistance Workshop
	28	TWIA Rockport Claims Assistance Workshop
March	7	United Corpus Christi Chamber of Commerce Business Update "Hurricane Harvey... Six Months Later."
	26-29	National Hurricane Conference
April	11	TWIA Rockport Claims Assistance Workshop
	12	TWIA Port Aransas Claims Assistance Workshop
May	2-3	Coastal Bend Hurricane Conference
	7	Hurricane Hunter Awareness Tour
	15-18	Texas Disaster and Emergency Management Conference
	16	Galveston Hurricane Preparedness Fair
June	6	TWIA Rockport Claims Assistance Workshop
	7	TWIA Port Aransas Claims Assistance Workshop
	16	Corpus Christi Storm Expo
	23	Brazoria County Hurricane Preparedness Exposition
July	12-13	Mid-Year Property and Casualty Insurance Symposium
	24	GAR Insurance Roundtable Discussion
September	11	San Patricio All Hazards Expo
October	25	Galveston Agent Office Visits
December	13	Aransas County Resiliency Workshop

2017 Outreach Events		
January		Agent Focus group for feedback about the prioritization of Policy Center enhancements
February	8-9	TWIA staff met with key agency and realtor stakeholder and OEM and ISD Stakeholder
	21	Structural Insulated Panel Association (SIPA) Conference
March	9	Coastal Bend Builders Association
April	3	Drone Consortium
	17	National Hurricane Conference
May	3	Coastal Bend Hurricane Conference
	5	GAR Insurance Roundtable Conference
	11	Friendswood Hurricane Preparedness Meeting
	13	League City Blowout
	15	Texas Disaster and Emergency Management conference
	20	Galveston Hurricane Preparedness Fair
	25	Del Mar Emergency Preparedness: Hurricanes! Workshop
June	3	Extreme Weather Ready Expo
	14	Ingleside Chamber of Commerce June Luncheon
	21	Hitchcock Chamber of Commerce Hurricane Preparedness Meeting
	28	League City Legislative Coffee
July	8	Brazoria County Hurricane Preparedness Exposition
September	7	QA at the Post-Hurricane Townhall
	19	QA at the Community QA (Giggity's Restaurant) with Chairman Hunter
	20	Rockport Chamber of Commerce Networking Event
	22	QA at the Northern Brazoria County Disaster Survivor Assistance Information Sessions
	28	Rockport Fulton Chamber of Commerce After-Hours Business Mixer
	29	QA at Port Aransas Townhall
October	5	QA at Community QA (Giggity's Restaurant) with Chairman Hunter
	10	Harvey Assistance Fair
	11	Rockport Chamber of Commerce Recovery Rally
	18	QA at the Bayside Townhall
	22	QA at the Telephone Townhall
	23	Recovery Fair
November	14	United Corpus Christi Chamber's Coastal Bend Delegation Forum on Hurricane Harvey
	28	QA at the Telephone Townhall
December	7	Aransas County Long Term Recovery Team Meeting with Local Officials and Senator Kolkhorst
	13	City of Rockport Mayors and Local Building Officials

Hurricane Preparedness Campaign

Each year, prior to hurricane season, TWIA launches a Hurricane Preparedness Campaign to raise awareness about the value and core principals of being prepared for weather emergencies. The campaign offers empowering information for our policyholders, educators, students, families located in our coverage area, Association employees, coastal community leaders, and influencers. TWIA's Hurricane Preparedness Campaign includes three main components:

- Educational Outreach: In May 2018, TWIA kicked off the 25th year of our annual Hurricane Preparedness Teacher Toolkits, targeting elementary school classrooms. Teachers of third, fourth, and fifth grade students in the TWIA coverage area are annually provided with hurricane preparedness materials to distribute to their students prior to each hurricane season. The purpose of these toolkits is to help students learn how hurricane preparedness can protect them, their families, and their homes. They include information sheets, fun activities, and, for the fourth year in a row, our annual Hurricane Safety Squad mascot naming contest. Teachers are encouraged to send feedback about the toolkit materials, so we can ensure the information remains engaging and relevant to the students and families in their communities.

- Community Outreach: In addition to our educational outreach efforts, TWIA representatives engage in community outreach opportunities in coordination with and at the request of coastal legislators and city officials, real estate agents, and public information officers to provide claims and operational updates and to address coverage and preparedness information. This year, TWIA also partnered with the Federal Alliance for Safe Homes (FLASH) "Hurricane Strong" campaign to support their initiatives and help TWIA's Hurricane Preparedness Campaign gain national exposure. FLASH's Hurricane Strong campaign is a national hurricane resilience initiative designed to save lives and homes through collaborations with leading organizations in the disaster safety movement. FLASH's online platform is engaging and active, allowing TWIA to share like-minded messaging through our social media channels.

- Digital Outreach: TWIA uses print and digital ads and social media as efficient tools for advising policyholders on how to be better prepared for a hurricane and what to do in the event of a loss. The Association's social media platforms promote the importance of hurricane safety, having insurance, reviewing policy coverages, and meeting with insurance agents on an annual basis.

Complaint Ratios and Policyholder Service Tracking

TWIA's low TDI complaint ratios and high Customer Care Survey scores are evidence of our focus on policyholder service. Our department leaders regularly review the information and feedback received through these channels to identify causes and areas where training may be needed.

TWIA tracks two types of TDI complaint ratios: overall complaint ratios[3] and claims complaint ratios.[4] Texas Insurance Code Section 542.005 requires insurers to maintain a log of written complaints[5] received in the preceding three years as well as provide information in response to complaints received by TDI.

In the preceding three years (2015 through 2017), TWIA maintained average overall and claims complaint ratios of 0.01% and 0.013%, respectively.

3 Overall Complaint Ratio: Total confirmed TDI complaints in a year divided by the number of policies in force in the year.
4 Claims Complaint Ratio: Total TDI claims complaints received in a year divided by the total claims filed in that year.
5 Texas Administrative Code (TAC) Rule §21.2504 defines a complaint as written correspondence, unsolicited by the insurer, primarily expressing a grievance regarding coverage offered or coverage issued.

Year	Total Complaints	Total Complaint Ratio	Total Claims Complaints	Total Claims	Claims Complaint Ratio
2015	35	.0019%	20	18.889	0.011%
2016	30	0.016%	12	8,393	0.014%
2017	120	0.01%	103	80,257	0.013%
2018 (as of 10/31)	178	N/A	159	6,445	2.47%

In 2018, following Hurricane Harvey, TWIA experienced an increase in the claims complaint ratio. This is due to TDI claims complaints being received in 2018 for Hurricane Harvey claims from 2017. Regardless of year, TWIA's claims complaint ratio (as of October 31, 2018) remains low at 2.47%. The claims complaint ratio for Hurricane Harvey claims is also very low at 0.33%.

TWIA also tracks Customer Care Survey scores first implemented in 2012, the Customer Care Survey allows policyholders to rate claim service on a scale of 1-5, with 5 being the highest. Prior to Hurricane Harvey, the average annual score was 4.49. In 2018, as more policyholders completed surveys to voice concerns about their Harvey claim handling experience, scores have averaged around 2.87 (as of October 31, 2018). However, in the last two quarters of 2018 (July, October 31), survey scores have begun to climb back to the normal averages experienced in the last six years.

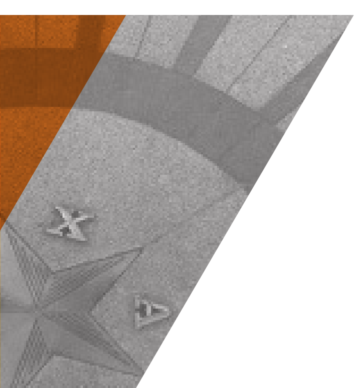
Agent Advisory Group

TWIA established an Agent Advisory Group (AAG) in 2014 to offer a forum for the exchange of information and improve relations with the Association's agency stakeholders. The AAG is a workgroup, consisting of nine agents appointed by the TWIA General Manager, who work with Association staff to foster open and transparent communication, and:

- Facilitate effective communications between TWIA staff, agents, and policyholders;
- Develop a clear understanding of agent and policyholder perspectives on mutually important issues;
- Provide agents with advance notice of major initiatives affecting agents and policyholders and opportunities to discuss before, during, and after implementation;
- Create a forum to gather representative agent input to assist TWIA staff in making fully informed decisions as well as program modifications to enhance mutual success; and
- Solicit ideas that can help TWIA staff fulfill its mission to policyholders as cost effectively as possible.

AAG members constitute a representative cross-section of the TWIA agent community, including agency size, type, and geographic location. AAG participation is voluntary and unpaid.

Appendix B:
Sample Legislative Language



Appendix B: Sample Legislative Language

The following sections contain sample language for only the recommendations that contemplate modifications to Chapter 2210.

Focus Area: Consumers

Recommendation 1: Replacement Cost Coverage

Allow the type of coverage, replacement cost coverage vs. actual cash value coverage, to be determined and fixed at the time of policy issuance and not at the time of claim adjustment, as current law provides.

Sample Legislative Language

Sec. 2210.207. WINDSTORM AND HAIL INSURANCE: REPLACEMENT COST COVERAGE.

(a) In this section, "roof covering" means:

(1) the roofing material exposed to the weather;

(2) the underlayments applied for moisture protection; and

(3) all flashings required in the replacement of a roof covering.

(b) Subject to any applicable deductibles and the limits for the coverage purchased by the insured, a windstorm and hail insurance policy issued by the association may include replacement cost coverage for one- and two-family dwellings, including outbuildings, as provided under the dwelling extension coverage in the policy.

(c) If, on the effective date of an association policy ~~at the time of loss~~, the total amount of insurance applicable to a dwelling is equal to 80 percent or more of the full replacement cost of the dwelling or equal to the maximum amount of insurance otherwise available through the association, coverage applicable to the dwelling under the policy is extended to include the full cost of repair or replacement, without a deduction for depreciation.

(d) If, on the effective date of an association policy ~~at the time of loss~~, the total amount of insurance applicable to a dwelling is equal to less than 80 percent of the full replacement cost of the dwelling and less than the maximum amount of insurance available through the association, liability for loss under the policy may not exceed the replacement cost of the part of the dwelling that is damaged or destroyed, less depreciation.

Recommendation 2: Installment Payments

Modify statute to expressly permit installment payments.

Sample Legislative Language

Sec. 2210.203. ISSUANCE OF COVERAGE; TERM; RENEWAL. (a) If the association determines that the property for which an application for initial or renewal insurance coverage is made is insurable property, the association, on payment of either the full premium or the initial premium installment, at the association's discretion, shall direct the issuance of an insurance policy as provided by the plan of operation.

Focus Area: Claims

Recommendation 4: Claims Deadlines

Refine the definition of "claim" for alignment with the claim-filing deadline and provide different claims handling deadlines for hail storms and hurricanes.

Sample Legislative Language

Sec. 2210.571. DEFINITIONS. In this subchapter:

(1) "Association policy" means a windstorm and hail insurance policy issued by the association.

(2) "Claim" means a written request for payment under an association policy specifically identifying the damage to property that is the basis of the claim. The term also includes any other claim against the association, or an agent or representative of the association, relating to an insured loss, under any theory or cause of action of any kind, regardless of the theory under which the claim is asserted, the cause of action brought, or the type of damages sought. Nothing in this subchapter prohibits the association from adjusting a loss before a claim as herein defined has been made.

Sec. 2210.573. FILING OF CLAIM; CLAIM PROCESSING. (a) Subject to Section 2210.205(b), an insured must file a claim under an association policy not later than the first anniversary of the date on which the damage to property that is the basis of the claim occurs. If the claim is for damage resulting from a weather-related catastrophe or major natural disaster as defined by the commissioner, an insured must identify all damage to property that is the subject of the claim not later than 18 months from the date on which the damage to property that is the basis of the claim occurs.

(b) The claimant may submit written materials, comments, documents, records, and other information to the association relating to the claim. If the claimant fails to submit information in the claimant's possession that is necessary for the association to determine whether to accept or reject a claim, the association may, not later than the 30th day after the date the claim is filed, request in writing the necessary information from the claimant.

(c) The association shall, on request, provide a claimant reasonable access to all information relevant to the determination of the association concerning the claim. The claimant may copy the information at the claimant's own cost or may request the association to provide a copy of all or part of the information to the claimant. The association may charge a claimant the actual cost incurred by the association in providing a copy of information under this section, excluding any amount for labor involved in making any information or copy of information available to a claimant.

(d) Unless the applicable 60-day period described by this subsection is extended by the commissioner under Section 2210.581 or by Section 2210.5811, not later than the later of the 60th day after the date the association receives a claim or the 60th day after the date the association receives information requested under Subsection (b), the association shall provide the claimant, in writing, notification that:

(1) the association has accepted coverage for the claim in full;

(2) the association has accepted coverage for the claim in part and has denied coverage for the claim in part; or

(3) the association has denied coverage for the claim in full.

Sec. 2210.574. DISPUTES CONCERNING AMOUNT OF ACCEPTED COVERAGE.

(a) If the association accepts coverage for a claim in full and a claimant disputes only the amount of loss the association will pay for the claim, or if the association accepts coverage for a claim in part and a claimant disputes the amount of loss the association will pay for the accepted portion of the claim, the claimant may request from the association a detailed summary of the manner in which the association determined the amount of loss the association will pay.

b) If a claimant disputes the amount of loss the association will pay for a claim or a portion of a claim, the claimant, not later than ~~the~~ 18 months from the date on which the damage to the property that is the basis of the claim occurs ~~60th day after the date the claimant receives the notice described by Section 2210.573(d)(1) or (2)~~, may demand appraisal in accordance with the terms of the association policy.

~~(c) If a claimant, on a showing of good cause and not later than the 15th day after the expiration of the 60-day period described by~~

~~Subsection (b), requests in writing that the 60-day period be extended, the association may grant an additional 30-day period in which the claimant may demand appraisal.~~

Sec. 2210.581. COMMISSIONER EXTENSION OF DEADLINES.

(a) Subject to Subsection (b), the commissioner, on a showing of good cause, may by rule extend any deadline established under this subchapter.

(b) With reference to claims filed during a particular catastrophe year, the extension of deadlines under Subsection (a) may not exceed 120 days in the aggregate.

(c) For the purposes of Subsection (a), "good cause" includes military deployment.

Sec. 2210.5811. EXTENSION OF DEADLINES FOR CERTAIN WINDSTORMS. (a) Any deadline established under Section 2210.573(d) or Section 2210.574(b) is extended as described in Subsection (b) in the event loss to insured property is caused by a windstorm designated as a hurricane by the United States Weather Bureau. (b) Deadlines established under Section 2210.573(d) are extended by 30 days for residential properties and 60 days for commercial properties.

Recommendation 5: Expert Panel

Eliminate the requirement to use the Expert Panel.

Sample Legislative Language

~~Sec. 2210.578. EXPERT PANEL.~~

~~(a) The commissioner shall appoint a panel of experts to advise the association concerning the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges. The panel shall consist of a number of experts to be decided by the commissioner. The commissioner shall appoint one member of the panel to serve as the presiding officer of the panel.~~

~~(b) Members of the panel must have professional expertise in, and be knowledgeable concerning, the geography and meteorology of the Texas seacoast territory, as well as the scientific basis for determining the extent to which damage to property is caused by wind, waves, tidal surges, or rising waters not caused by waves or surges.~~

~~(c) The panel shall meet at the request of the commissioner or the call of the presiding officer of the panel.~~

~~(d) The panel shall investigate, collect, and evaluate the information necessary to provide recommendations under Subsection (e). The cost and expense incurred by the panel associated with the work of the panel under this section shall be paid or reimbursed by the association.~~

~~(e) At the request of the commissioner, the panel shall recommend to the commissioner methods or models for determining the extent to which a loss to insurable property may be or was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges for geographic areas or regions designated by the commissioner.~~

~~(f) After consideration of the recommendations made by the panel under Subsection (e), the commissioner shall publish guidelines that the association will use to settle claims.~~

~~(g) A member of the panel is not individually liable for an act or failure to act in the performance of the official duties in connection with the individual's work on the panel.~~

~~(h) In any review of a claim under this subchapter, and in any action brought against the association under Section 2210.575, the guidelines published by the commissioner under Subsection (f) govern the claim and are presumed to be accurate and correct, unless clear and convincing evidence supports a deviation from the guidelines.~~

Focus Area: Enhanced Mitigation Measures

Recommendation 6: WPI-8-C Certificates of Compliance

Eliminate the requirement for TWIA to issue Certificates of Compliance for completed improvements.

Sample Legislative Language

Sec. 2210.2515. ISSUANCE OF CERTIFICATES OF COMPLIANCE.

(a) In this section:

(1) "Completed improvement" means:

(A) an improvement in which the original transfer of title from the builder to the initial owner of the improvement has occurred; or

(B) if a transfer under Paragraph (A) is not contemplated, an improvement that is substantially completed.

(2) "Improvement" means the construction of or repair, alteration, remodeling, or enlargement of a structure to which the plan of operation applies.

(3) "Ongoing improvement" means:

(A) an improvement in which the original transfer of title from the builder to the initial owner of the improvement has not occurred; or

(B) if a transfer under Paragraph (A) is not contemplated, an improvement that is not substantially completed.

(b) A person shall provide written notice on a form prescribed by and submitted to the department of the person's intent to construct, repair, alter, remodel, or enlarge a structure for which the person is seeking coverage under this chapter before the person begins to construct, repair, alter, remodel, or enlarge the structure.

(c) A person may apply to the ~~association~~ department on a form prescribed by the department for a certificate of compliance for a completed improvement. Except as provided by Subsection (e) ~~The~~ the ~~association~~ department shall issue a certificate of compliance for a completed improvement if a professional engineer licensed by the Texas Board of Professional Engineers inspects the completed improvement in accordance with commissioner rule and affirms that the improvement:

(1) conforms to a design of the improvement that has a seal affixed by a professional engineer licensed by the Texas Board of Engineers and complies with the applicable building code under the plan of operation ~~has designed the improvement, has affixed the engineer's seal on the design, and submits to the association on a form prescribed by the department an affirmation of compliance with the applicable building code under the plan of operation~~; or, if no design was submitted,

(2) complies with the applicable building code under the plan of operation. -

(d) A person may apply to the department on a form prescribed by the department for a certificate of compliance for an ongoing improvement. Except as provided by Subsection (e), the department shall issue a certificate of compliance for an ongoing improvement if a qualified inspector under Section 2210.254 inspects the ongoing improvement in accordance with commissioner rule and affirms that the improvement:

(1) conforms to a design of the improvement that has a seal affixed by a professional engineer licensed by the Texas Board of Professional Engineers and complies with the applicable building code under the plan of operation; or

(2) complies with the applicable building code under the plan of operation.

(e) Except as otherwise provided by this subchapter, the department may not issue a certificate of compliance under Subsection (c) or (d) if within six months after the date of the final inspection of the structure that is the subject of the application, the department has not received:

(1) fully completed forms prescribed by the department demonstrating that the improvement satisfies the requirements under Subsection (c) (1) or (2) or (d)(1) or (2) as applicable; and

(2) payment in full of all inspection fees, including fees for prior department inspections, owed to the department.

(f) ~~If the department determines not to issue a certificate of compliance under Subsection (e), a person may apply for a certificate of compliance under Subsection (c).~~

(g) The department may enter into contracts as necessary to implement this section.

(h) The department may charge a reasonable fee to cover the cost of making building requirements and inspection standards available to the public. The department shall charge a reasonable fee for each inspection of each structure under this section in an amount set by the commissioner.

Optional transition language:

This law becomes effective January 1, 2020, and applies to applications for certificates of compliance for completed improvements constructed on or after 2016. Applications for certificates of compliance for completed improvements constructed before 2016 are governed by the law in effect on December 31, 2019.

Focus Area: Funding

Recommendation 8: Reinsurance Purchase and Placement

Allow greater flexibility in the use and placement of reinsurance within TWIA's overall funding structure.

Sample Legislative Language

Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS.

(a) The association may purchase reinsurance or use alternative risk financing mechanisms or both as necessary.

(b) The association shall maintain total available loss 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 unless the board of directors determines that the cost and availability of loss funding mechanisms required to maintain the funding required by this subsection is not in the best interests of the association. ~~If necessary, the~~ The required funding level ~~shall~~ may be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter.

~~(c) The attachment point for reinsurance purchased under this section may not be less than the aggregate amount of all funding available to the association under Subchapter B-1.~~

Suggested transition language:

This law becomes effective January 1, 2020.

Recommendation 9: Policyholder Surcharge Cap and Additional Funding Mechanisms

Provide for a reasonable cap on TWIA-only policyholder surcharges if needed for the issuance of public securities (including express authority for other funding to drop down if surcharge limits prevent the issuance of public securities) and consider adopting additional non-premium, non-reinsurance hurricane loss funding mechanisms to improve TWIA finances to the point where the Association can pay claims greater than a 100-year season.

Sample Legislative Language

Sec. 2210.0743. PAYMENT FROM CLASS 4 PUBLIC SECURITIES.

(a) Losses in a catastrophe year not paid under Sections 2210.0715, 2210.072, 2210.0725, 2210.073, 2210.074,2210.0741 and 2210.0742 shall be paid as provided by this section from Class 4 public securities authorized to be issued in accordance with Subchapter M on or after the date of any occurrence or series of occurrences that results in insured losses. Public securities issued under this section must be paid within a period not to exceed 10 years and may be paid sooner if the board of directors elects to do so and the commissioner approves.

(b) Public securities described by Subsection (a):

(1) shall be issued as necessary in a principal amount not to exceed $2.5 billion per catastrophe year, in the aggregate, whether for a single occurrence or a series of occurrences; and

(2) subject to the maximum described by Subdivision (1), may be issued, in one or more issuances or tranches, during the calendar year in which the occurrence or series of occurrences occurs or, if the public securities cannot reasonably be issued in that year, during the following calendar year.

(c) If the losses are paid with public securities described by this section, the public securities shall be paid in the manner prescribed by Subchapter M.

Sec. 2210.6133. PREMIUM SURCHARGE LIMIT. The total amount of all premium surcharges under Sections 2210.612, 2210.613, 2210.6131 and 2210.6135 shall not exceed twenty percent of the premium applicable to any policy on which surcharges are assessed on a cumulative basis.

Sec. 2210.6135. PAYMENT OF CLASS 4 PUBLIC SECURITIES. (a) The association shall pay Class 4 public securities issued under Section 2210.0743 from:

(1) net premium and other revenue; and

(2) if net premium and other revenue are not sufficient to pay the securities, a statewide premium surcharge collected in accordance with this section.

(b) On approval of the commissioner, the association and each insurer that provides insurance in this state shall assess, as provided by this section, a premium surcharge to each policyholder of a policy described by Subsection (c). The premium surcharge must be set in an amount sufficient to pay, for the duration of the issued public securities, all debt service not already covered by available funds and all related expenses on the public securities.

(c) The premium surcharge under this section shall be assessed on all policyholders of policies that cover insured property that is located in this state including automobiles principally garaged in this state. The premium surcharge shall be assessed on each Texas windstorm and hail insurance policy and each property and casualty policy, including an automobile insurance policy issued for automobiles and other property located in this state. A premium surcharge under Subsection (b) applies to:

(1) all polices written under the following lines of insurance:

(A) fire and allied lines;

(B) farm and ranch owners;

(C) residential property insurance; and

(D) private passenger automobile liability and physical damage insurance; and

(E) commercial automobile liability and physical damage insurance; and

(2) the property insurance portion of a commercial multiple peril insurance policy.

(d) A premium surcharge under this section is a separate charge in addition to the premiums collected and is not subject to premium tax or commissions. Failure by a policyholder to pay the surcharge constitutes failure to pay premium for purposes of policy cancellation.

Suggested transition language:

This law becomes effective January 1, 2020.

Additional Conforming Amendments

Add definitions of "Class 4 public securities" and "Class 4 public securities trust fund" to 2210.602 Definitions

Add "Class 4" reference to 2210.604, Issuance of Public Securities Authorized

Add "2210.6135","Class 4" and "Class 4 public security trust fund" references to Section 2210.609 Repayment of Association's Public Security Obligations

Add "2210.6135" reference to Section 2210.610, Public Security Payments

Add "2210.6135" reference to Section 2210.611, Excess Revenue Collections and Investment Earnings

Add "Class 4" reference to 2210.614, Refinancing Public Securities

Recommendation 10: CRTF Contributions Separate from Premiums

Allow for a CRTF contribution surcharge to be applied to TWIA policies separate from the premium calculation.

Sample Legislative Language

Sec. 2210.3551. SEPARATE PROVISION FOR CONTRIBUTION TO THE CATASTROPHE RESERVE TRUST FUND.

(a) On approval by the commissioner, the association may assess, as provided by this section, a provision for contribution to the catastrophe reserve trust fund.

(b) The provision under this section shall be assessed on all policyholders of association policies issued under this chapter.

(c) A provision under this section shall be deposited in the catastrophe reserve trust fund, is a separate nonrefundable charge in addition to the premiums collected, and is not subject to premium tax or commissions. Failure to pay the provision by a policyholder constitutes failure to pay premium for purposes of policy cancellation.

Suggested transition language:

This law becomes effective January 1, 2020.

Focus Area: Efficiency

Recommendation 11: Bimonthly Report

Eliminate the requirement to report bimonthly to the Board of Directors evaluating the extent to which the Association met the primary Board objectives.

Sample Legislative Language

Sec. 2210.107. PRIMARY BOARD OBJECTIVES; REPORT.

(a) The primary objectives of the board of directors are to ensure that the board and the association:

(1) operate in accordance with this chapter, the plan of operation, and commissioner rules;

(2) comply with sound insurance principles;

(3) meet all standards imposed under this chapter;

(4) establish a code of conduct and performance standards for association employees and persons with which the association contracts; and

(5) establish, and adhere to 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.

(b) ~~Every two months, the general manager of the association shall submit to the board a report evaluating the extent to which the association met the objectives described by Subsection (a) in the two-month period immediately preceding the date of the report.~~

(b) ~~(c)~~ Not later than June 1 of each year, the association shall submit to the commissioner, the legislative oversight board established under Subchapter N, the governor, the lieutenant governor, and the speaker of the house of representatives a report evaluating the extent to which the board met the objectives described by Subsection (a) in the 12-month period immediately preceding the date of the report.

Recommendation 12: Nepotism

Eliminate the constraint that TWIA cannot hire individuals related to Association employees.

Sample Legislative Language

~~Sec. 2210.013. CERTAIN EMPLOYMENT AND CONTRACTS PROHIBITED. A member of the board of directors or an employee of the association may not appoint or employ, or contract with, the following individuals for the provision of goods or services in connection with the operation or business of the association, if the individual to be appointed or~~

~~employed, or with whom a contract is to be entered into, is to be directly or indirectly compensated from funds of the association:~~

~~(1) an individual related to the member or employee within a degree of relationship described by Section 573.002, Government Code; or~~

~~(2) an individual related to any member of the board of directors or employee of the association within a degree of relationship described by Section 573.002, Government Code.~~