Meeting of Board of Directors
Texas Windstorm Insurance Association
Teleconference
December 11, 2018
Omni Hotel
900 North Shoreline Blvd.
Corpus Christi, TX 78401
9:00 a.m.

Interested parties can listen to the meeting live by going to www.twia.org.
Go to "About Us/Board Meetings" and click on the audio link.

1. Call to Order – Reminder of the Anti-Trust Statement – *Josh Fields* — *5 minutes*

2. Introductions – *Josh Fields* — *5 minutes*

3. Consideration and Action to:
   Approve the Minutes from Prior Board of Directors' Meetings – *Josh Fields** — *5 minutes*

4. Public Comment — *15 minutes*

5. TWIA Operational Highlights – *John Polak* — *5 minutes*

6. Financial — *20 minutes*
   Consideration and Possible Action on the Following Financial Topics:
   A. Report of the Secretary/Treasurer – *Debbie King**
      1. Income Statement
      2. Management Discussion and Analysis
   B. Financial Statement Review by Staff – *Jerry Fadden*
      1. Income Statement and Expense Statement
      2. Balance Sheet
      3. Cash & Short-Term Investments
      4. Cash Flow Statement
      5. Historical Data

7. Internal Audit – *Bruce Zaret - Weaver* — *10 minutes*
   Consideration and Possible Action on the Following Audit Topics:
   A. Internal Audit Status Report
   B. IT Security Audit (Closed Session)

8. Actuarial – *Jerry Fadden* — *20 minutes*
   Consideration and Possible Action on the Following Actuarial Topics:
   A. Reserve Adequacy
   B. Policy Count/Exposures
   C. Status of Required Filings

9. Underwriting – *Denise Larzalere* *10 minutes*
   A. Operational Review Update

10. Claims *20 minutes*
    Consideration and Possible Action on the Following Claims Topics:
    A. Claims Operations – Overview – *Dave Williams*
    B. Claims Litigation – *David Durden*

11. TWIA Operations *60 minutes*
    Consideration and Possible Action on the Following Operations Topics:
    A. Receive and Act on Recommendations from Legislative and External Affairs Committee Regarding Recommendations to Legislature and Biennial Report to Legislature – *John Polak**
    B. IT Systems Update – *John Polak*
    C. Depopulation – *John Polak*
    D. TWIA Expert Panel – *Dave Williams*
    E. Sunset Review – *John Polak*
    F. Communications Update – *Jennifer Armstrong*
    G. Review and Approval of 2019 Budget – *John Polak**

Lunch break, 11:00 *30 minutes*

12. Closed Session **(Board Only)** *60 minutes*
    A. Personnel Issues
    B. Legal Advice

13. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors* *5 minutes*

14. Committees – *Josh Fields* *5 minutes*

15. Future Meetings – *John Polak* *5 minutes*
    - February 5, 2019 – Marriott South – Austin
    - May 7, 2019 – Hyatt Regency – Austin
    - August 6, 2019 – Tremont House – Galveston

16. Adjourn

Estimated Total Length of Meeting 4 hours 45 minutes

*Indicates item on which General Manager believes the Board of Directors may take action.

1. Anti-Trust Statement

ANTI-TRUST COMPLIANCE STATEMENT

The Board of Directors of TWIA is committed to strict compliance with federal and state anti-trust laws. The anti-trust laws are designed to promote free and open competition and to penalize any activities that unreasonably lessen business rivalry. Members of the Board of Directors of TWIA may freely discuss and agree upon agenda items relating to their responsibilities as Directors including such topics as coordinating efforts regarding state or federal legislation, discussion of TWIA policy on legislative issues and methods of legislative lobbying including grass-roots lobbying, public relations, testimony before legislative committees and meetings with state and federal legislators and regulators.

Because TWIA meetings bring together competitors, any unauthorized discussion of topics prohibited by the anti-trust laws such as agreements between competitors on prices and rates, agreements to boycott third parties or agreements to divide markets or even individual insureds could lead to an inference that such an illegal agreement among participants to the discussion was in fact reached. Accordingly, the following guidelines apply to any meeting or other activity conducted under the auspices of TWIA:

- Someone on the TWIA staff shall be present at all times during meetings of the TWIA Board of Directors or other official activities such as meetings of various TWIA committees unless such meetings are for the purpose of discussing personnel matters;

- At any such meetings or official activities, there shall be no discussion of voluntary market rates, prices, discounts or other terms and conditions of sale without the General Manager or the General Counsel being present;

- There shall be no discussion of the areas in which TWIA Board members and their respective member companies will compete for the products and services that they will offer; and

- There shall be no discussion of any agreement or understanding to boycott a third party or to deal with a third party only on certain terms.

Without the prior authorization of TWIA's General Manager or its General Counsel, there shall be no discussion of agreements to deal exclusively with certain parties, requirements that purchasers of particular products or services must purchase other products or services, standard-setting, certification, statistical reporting, or codes of ethics and other self-regulatory activities.

- Only TWIA staff shall keep minutes of TWIA meetings and will immediately terminate any discussion that may violate these guidelines.

- At TWIA meetings, TWIA company representatives should adhere to the written agenda and outside of TWIA meetings should scrupulously avoid discussion of any topic that might violate these guidelines.

Severe civil and criminal penalties, including fines and imprisonment, can result from violations of the anti-trust laws. Whenever in doubt about how to apply these guidelines, the directors, members, officers and guests of TWIA should consult its General Manager and General Counsel and proceed in a conservative manner in order to avoid any actual, or apparent, violation of antitrust guidelines.

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3. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association

Board of Directors Meeting
Tremont House
2300 Ship's Mechanic Row
Galveston, Texas 77550

July 31, 2018

1. Call to Order: Mr. Fields called the meeting to order at 9:00 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel.

The following Board members were present, representing:

1.	Joshua Fields (Chairman)	First Tier Coastal Representative
2.	Chandra Franklin Womack (via teleconference)	First Tier Coastal Representative
3.	Georgia Neblett	First Tier Coastal Representative
4.	Mike Gerik	Industry Representative
5.	Debbie King (Secretary/Treasurer)	Industry Representative
6.	Karen Guard	Industry Representative
7.	Tony Schrader	Non-Seacoast Territory Representative
8.	Bryan Shofner (Vice Chairman)	Non-Seacoast Territory Representative
9.	R. Scott Kesner	Non-Seacoast Territory Representative

The following TWIA staff, counsel, and agents were present:

1.	John Polak, General Manager	TWIA
2.	Jerry Fadden, Chief Financial Officer	TWIA
3.	Dave Williams, VP Claims	TWIA
4.	David Durden, VP Legal	TWIA
5.	Denise Larzalere, VP Underwriting	TWIA
6.	Jennifer Armstrong, VP Communications and Legislative Affairs	TWIA
7.	Amy Koehl, Executive Assistant	TWIA
8.	Mike Perkins, Association Counsel	Sneed, Vine & Perry, PC

The following were also present:

Linda Tomlin	AAA Texas
Anne O'Ryan	Auto Club Co. Mutual
Dalton Smith	Bank of America/Merrill Lynch
Sally Bakko	City of Galveston
Clark Thomson	Calhoun, Thomson + Matza
Tad Delk	Guy Carpenter
Tyler Thomas	Guy Carpenter

Henry Freudenburg	Coastal Windstorm Insurance Coalition
Craig Eiland	Guest
Gigi Heffernan	Guest
Kathy Marines	Guest
Marilyn Schrader	Guest
Joan Polak	Guest
Fred Strauss	Holborn Corporation
Matt Stillwell	ICT
Terrilyn Tarlton-Shannon	Insurance Junction
Craig Fegley	JP Morgan Chase
Victor Pierson	Moody Bank
Sarah King	Sen. Larry Taylor's Office
Fay Picard	State Rep. Dr. Greg Bonnen's Office
Lauren Ames	Sunset Advisory Commission
Carissa Nash	Sunset Advisory Commission
Steven Ogle	Sunset Advisory Commission
Abby Pfoffer	Sunset Advisory Commission
Beaman Floyd	TCAIS
Marianne Baker	TDI
Corise Morrison	TFPA –Industry Member
Jessica Davidson	TWIA
Xiuyu Li	TWIA
Bret Nabors	Weaver
Brian Thomas	Weaver
Bruce Zaret	Weaver
Brant Chandler	Wellington Insurance
Keith Willis	Weston Insurance
Michael Cryer	Weston Insurance

2. Introduction of New Board Member: Mr. Fields introduced new board member Karen Guard, Industry Representative.

3. Introductions: Meeting attendees introduced themselves. Mr. Fields congratulated Mr. Gerik on his award from the Insurance Council of Texas.

4. Approval of Minutes: The minutes from the May 8, 2018 meeting in Austin, Texas were reviewed. Ms. Neblett moved to approve the minutes as presented. Mr. Shofner seconded the motion. The motion passed.

5. Public Comment: Representative Wayne Faircloth and Sally Bacco offered public comment.

6. TWIA Operational Highlights: Mr. Polak reviewed the enterprise scorecard. The Association secured $4.6 billion in total funding for the 2018 hurricane season. It depopulated slightly more than 1,600 policies as a result of the 2017-2018 Assumption Reinsurance Depopulation Program. It exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q2 2018. The Association will remain

below plan in Q2 2018 on litigated claims and complaints as a percentage of claims received at 0.12% and 0.2%, respectively.

7. Financial:
   A. Report of the Secretary/Treasurer: Ms. King reviewed the Treasurer's Report. Ms. Neblett moved to approve the report. Mr. Kesner seconded the motion. The motion passed.
   B. Financial Statement Review by Staff: TWIA's results as of June 30, 2018 show net income of $131.7 million, including the benefit of $175.0 million in member assessment income. Direct written premiums were $204.3 million, and the net underwriting loss was $28.7 million for the six months ended June 2018. Year to date June 2018 direct written premiums show a decrease of 6% from June 2017 due to continued policy and exposure decline as well as the depopulation of approximately 12,600 policies (11,000 policies on June 1, 2017 and 1,600 policies on June 1, 2018). Direct premiums earned decreased to $207.2 million compared to $233.1 million in the same period last year. The change is reflective of lower written premiums in the last quarter of 2017 and the first half of 2018.

      Assumption Reinsurance Depopulation:

      Round 1: The Quota Share Reinsurance Agreements were effective December 1, 2016 with four participating carriers. As of June 2018, ceded earned premiums for this round were $11.0 million inception to date.

      Participating insurers assumed approximately 11,000 policies on June 1, 2017 and resulted in a decrease of approximately 9.1 million in direct written premiums. All policy changes and policies with renewal effective dates from June 1 to July 31, 2017 will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

      Round 2: The Quota Share Reinsurance Agreements were effective December 1, 2017 with three participating carriers. As of June 2018, ceded earned premiums for this round were $1.8 million inception to date.

      Participating insurers assumed approximately 1,600 policies on June 1, 2018 and resulted in a decrease of approximately $1.4 million in direct written premiums. All policy changes and policies with renewal effective dates from June 1 to July 31, 2018 will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

      Loss and loss adjustment expense incurred through June 30, 2018 for non-catastrophe direct loss and loss adjustment expense incurred by $2.3 million, as a result of favorable prior and current accident year development, compared to $28.9 million as of June 30, 2017.

      The ultimate loss and loss adjustment expenses for Hurricane Ike are $2.591 billion and $327.2 million for Hurricane Dolly as of June 2018, no change from December 2017.

The ultimate losses and loss adjustment expenses for Hurricane Harvey are $1.610 billion as of June 2018, an increase of $164 million from December 2017.

Operating expenses increased from $12.77 million as of June 2017 to $16.29 million as of June 2018. Implementation of the expert panel's methodology in settling residential slab claims in specific flood zones began in the last quarter of 2017. Implementation expenses incurred in 2018 total $3.25 million.

Commission expense and premium taxes decreased from the prior year and is attributable to the decrease in direct written premiums for 2018.
Gross investment income is lower due to the decrease in invested cash balances.
Interest expense is $17.1 million for 2018 and $17.1 million for 2017.

An initial member company assessment request of $175.0 million was approved by Commissioner Sullivan on May 25, 2018, followed by the mailing of assessment notices to member companies on June 7, 2018. As of June 30, 2018, $85.16 million of assessment payments have been received.

C. <u>Financial Forecast</u>: Mr. Fadden updated the financial forecast for the year end 2018 with a comparison to the 2018 budget approved in December 2017. There are several critical assumptions included for 2018 and 2019:

Premium Changes

a. Policy/Exposure Changes
   i. 2018 – 9.3% policy decline and 7.2% exposure decline for the full year 2018 compared to 2017, including the actual impact of the June 1, 2018 assumed reinsurance depopulation transfer.
   ii. 2019 – 6.2% policy decline and 5.3% exposure decline over 208, including forecasted 2019 depopulation impact (3K policies).
b. Rate – The 2018 forecast contains 5% change in rates consistent with the board's decision in 2017. The 2019 forecast is a 0% rate change, pending board deliberations.
c. Depopulation – The current assumption is that approximately $6M of annualized premium will be selected for the depopulation assumption in June 2019 and the corresponding quota share reinsurance in December 2018. (Note: staff believes this is a conservative assumption and will be firmed up after the carrier period ends in late August and the agent period ends in late October.)

Reinsurance – Assumes that the reinsurance program expense in 2019 will be consistent with 2018. While attachment points for the program may be lower due to projected exposure decline, the 2019 forecast assumes the board will spend an amount consistent with 2018.

Projected Losses and Loss Adjustment Expenses

a. 2018 Non-Cat – Assumes an approximate loss and loss adjustment expense ratio of 3% which includes the favorable results from the first six months of 2018 and the budgeted ratio for the remaining six months.
b. 2019 – Forecast included a 17.3% loss and LAE ratio, consistent with the 2018 ratio.

Underwriting Expenses

a. 2018 Remainder – Actual to date have been lower than planned, primarily due to timing. It is anticipated that the year-end expenses will be close to the 2018 budget.

2019 – Assumed slight improvement in non-acquisition expense ratio to 7.3% compared to forecasted 2018-year end ratio of 7.5%.

The current forecast of the income statement indicates a reduction in the deficit balance to $175M at the end of 2018 and $79M at the end of 2019. The deficit is currently projected to be eliminated in late 2020.

Ms. Neblett asked if reinsurance costs will remain the same in 2019 as it was in 2018. Mr. Fadden said that was the assumption in the forecast. The amount of reinsurance to purchase will be something for the board to consider.

D. <u>Hurricane Harvey and Member Assessment</u>: Mr. Fadden said staff is maintaining the ultimate Hurricane Harvey losses as $1.6 billion. That will be reviewed quarterly but it is unchanged from the results the board saw at the May meeting. Mr. Fadden provided an update on the member assessment and the member assessment proposed by staff for this meeting. Mr. Fields said Ike and Dolly occurred around the same time. Did TWIA treat the earnings the same way. Mr. Fadden said he couldn’t comment on that as he wasn’t with the Association at that time. Mr. Perkins said the statute has changed significantly since Dolly and Ike struck and TWIA has a much different funding structure today. Mr. Gerik asked how long it took after sending the notification to members to get the funding. Mr. Fadden said statute stated TWIA needed to be paid in 30 days. Payment patterns may have been influenced by quarter end, but all the funds were received by the end of the 30 days. Ms. Neblett moved to direct staff to make all the necessary filings with the commissioner of insurance to issue a class 1-member assessment in the amount of $106, 819,778 in addition to the $175 million assessment previously issued for a total $281,819,778. Upon receipt of approval from the commissioner, to collect the assessment from member companies as provided by chapter 2210 of the Texas Insurance Code and the Association’s plan of operation. Mr. Shofner seconded the motion. The motion passed.

E. <u>2018 Storm Season Funding</u>: As directed, by the TWIA Board of Directors at its February 6 and May 8, 2018 meetings, TWIA staff and Guy Carpenter, its reinsurance broker, completed the placement of $2.6 billion in reinsurance for the 2018 hurricane season. The 2018 reinsurance program includes:

- $400 million of three-year catastrophe bonds (the 2017-B catastrophe bonds), issued in 2017, which were reset to 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 and effective June 1, 2018 based on the 2017 drawdown of the CRTF to fund Hurricane Harvey losses. This contract was paid for in 2017 and the premium recorded as a prepaid asset at 12/31/17. It will be recognized as ceded premium in the 2018 income statement.
- 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 were reset to attach at $4.2 billion, providing total funding to $4.6 billion.

At $4.6 billion in total funding, the 2018 funding structure provides an additional $300 million of coverage above the minimum/target $4.3 billion coverage level set by the board. The total cost of the program, including the recognition of the second season cover purchased in 2017 is $106.2 million, under the $110.0 million maximum cost set by the board.

F. Credit Facility: Mr. Fadden said the Association has the authority to pay losses with the proceeds of private financing arrangements. Under Chapter 2210 and the administrative rules applicable to the Association (28 Texas Administrative Code, Chapter 5, Subchapter E), the Association may enter into private financing arrangements payable from (i) net premium and other revenue not required for the payment of Class 1, Class 2 or Class 3 Public Securities, (ii) reinsurance proceeds, (iii) the proceeds of a private financing arrangement, (iv) the proceeds of any class of Public Securities issued under Chapter 2210 of the Texas Insurance Code or (v) any other Association asset.

In the first quarter of 2018, TWIA conducted a process to solicit proposals from various financial institutions with respect to providing a bank line of credit or an alternative short-term funding mechanism (the "Liquidity Facility") for the 2018 storm season in the amount of $250 million or more to provide immediate liquidity to fund claim payments upon the occurrence of a catastrophic event. This need was created by the depletion of the Catastrophe Reserve Trust Fund (CRTF) as a result of Hurricane Harvey. Although this structure would be considered a financial arrangement and not deemed a public security under the act, it is the intent of TWIA that, if TWIA draws on the Liquidity Facility to fund claims from a catastrophic event, the Liquidity Facility would be refinanced through the issuance of post-event Class 1 Public Securities.

Hilltop Securities, Inc. was retained by TWIA to assist in the evaluation of proposals and the negotiation with participating financial institutions. TWIA received competitive proposals from two financial institutions, JP Morgan Chase (JPMC) and Bank of America/Merrill Lynch (BAML) through this process. JPMC was ultimately selected as lead manager based on the overall cost and terms of their proposal. In particular, while JPMC provided a one-year term, they offered the option to cancel the facility following the hurricane season with no penalty. This provided TWIA with the liquidity access required during the hurricane season, while not paying commitment fees for the full year.

Assuming the facility is terminated the December 29, 2018 optional termination date, the 2018 commitment fees would approximate $833K (based on $167K per month for five months: August through December). Mr. Gerik moved to approve the credit facility through the adoption of the resolutions attached as Exhibit A. Mr. Kesner seconded the motion. Mr. Gerik asked Mr. Fadden to review the costs to the Association and are they in the financial forecasts. Mr. Fadden said they are embedded in the forecast. He reviewed the itemization for the upfront costs and they are between $1,175,000 - $1,250,000 and this does not include Association legal costs. In addition, there will be a commitment fee. The motion passed.

G. Investment Trust Fund Balances: SB 900 added a requirement as follows regarding the Catastrophe Reserve Trust Fund (CRTF):

Sec. 2210.4521. INVESTMENT OF TRUST FUND BALANCES.
(a) The comptroller shall invest in accordance with the investment standard described by Section 404.024(j), Government Code, the portion of the trust fund balance that exceeds the amount of the sufficient balance determined under Subsection (b). The comptroller's investment of that portion of the balance is not subject to any other limitation or other requirement provided by Section 404.024, Government Code.
(b) At least once each 12-month period, the board of directors shall determine a balance for the trust fund that the board considers to be sufficient to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

TWIA Board of Directors reviewed this provision as required in 2017 at the August Board of Directors Meeting.

This statutory provision requires the Comptroller to invest excess CRTF funds in a less restrictive manner using a "prudent investor" standard and it requires the TWIA board to provide an annual notification to the Comptroller regarding the excess funds/sufficient balance amount in the CRTF. The CRTF Balance is approximately $3.395M as of June 30, 2018. The CRTF is utilized for funding losses and expenses in excess of current year premiums and other revenue. Since there is a reasonable possibility that all of the funds in the CRTF may be required to be utilized in the event of a catastrophic event, TWIA staff believes that all the funds in the CRTF are necessary to meet the potential cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). Thus, there are no excess funds in the CRTF at this time to be invested by the Comptroller under the prudent investor standard set forth in Chapter 424 of the Government Code.

Ms. Neblett moved that based on Association staff analysis and recommendation the board of directors hereby determines that at this time the entire balance of the Catastrophe Reserve Trust Fund is required to be kept available to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a) of the Texas Insurance Code. Thus, staff is directed to notify the Texas Comptroller's Office that the fund balance does not exceed the sufficient balance as defined in statute. Ms. Franklin-Womack seconded the motion. The motion passed.

H. Selection of Auditors/Accountants for 2018 and Authorization of Non-Audit Services: Each year the Association retains an accounting firm to conduct an audit of the Association's financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2013, Calhoun Thomson + Matza (CTM) was selected to continue in their role as the Association's independent auditor. Mr. Shofner moved that the board of direction of the Association, acting as the audit committee, authorizes and directs that the firm of Calhoun, Thomson + Matza be engaged to conduct the upcoming annual audits of the Association's financial statements on the terms set forth in the Statutory and GASB engagement letters included in the board materials. The staff of the Association is further authorized to engage CTM to provide permitted tax related non-audit services during the coming year as needed. Ms. King seconded the motion. The motion passed.

8. Internal Audit:
   A. Internal Audit Status & Update: Mr. Zaret offered an update on internal audit activities. His associates are currently working on three audits: information security, legal and compliance and the model audit rule. Upcoming audits include application development, pricing and reserving, underwriting and agency, communications and cash management.
   B. Review of IT Security Audit (Closed Session): This item was covered in the closed session.

9. Actuarial:
   A. Reserve Adequacy: TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of June 30, 2018. The analysis indicates a $1 million decrease in ultimate non-hurricane loss and expense in prior years due to favorable loss development.

   The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is $1.61 billion, remaining the same from previous review. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61 billion. This variability arises from the assumptions we made regarding the potential impact of future reopening's of closed claims, 3,789 open claims and unreported claims as of June 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. The ultimate estimate for Harvey was outlined in the Statement of Harvey Estimate.

   As of June 30, 2018, TWIA carried $315.7 million in total gross loss and loss adjustment reserves with $0.15 million of the total gross ceded to depopulation carriers. Collectability risk has been reviewed and found to be immaterial relative to the total gross reserve.

It is the opinion of the Association's senior actuary that the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

B. <u>Hurricane Harvey Ultimate Loss Estimate:</u> As of July 12, 2018, ultimate losses and expense related to Hurricane Harvey were estimated to be $1.61 billion, remaining the same from previous estimates reviewed on April 22, 2018. The estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to its unique nature and is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61 billion due to variability arising from the assumptions made regarding the potential impact of future reopening of closed claims, 3,789 open claims and unreported claims as of June 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. However, $1.61 billion is the best estimate of the expected cost of Harvey based on all the information know as of July 12, 2018.

C. <u>Annual Rate Filing:</u> Mr. Fadden reviewed some of the Association financial information and reported the TWIA Actuarial and Underwriting Committee recommended a rate increase of 10%. Mr. Shofner observed that TWIA rates seem more inadequate than one would expect given the recendt rate increases and stated that he would like to understand why the inadequacy continues with the rate increases. Mr. Fadden said that last year TWIA had a 26% rate inadequacy. The experience in Harvey was worse than the prior assumption of the severity of a storm. Mr. Gerik said TWIA's losses and expenses are exceeding the revenue it generates and that as long as that situation continues, rates will remain inadequate. Ms. King reviewed the TWIA Actuarial and Underwriting Committee meeting outcome and discussion. The rate indications have gone up and TWIA is in a debt repayment cycle. The Association isn't putting away for the future like it used to and this is a reality that must be dealt with.

Ms. Neblett asked what percentage of the current policies renew in January. Ms. Larzalere said June through August is the highest renewal period. Ms. Neblett moved for a 0% rate increase and said an increase could be filed at any time to get a better handle on where the Association is. Mr. Kesner seconded the motion.

A roll call vote was taken.

Mike Gerik – No
Karen Guard – No
Bryan Shofner – No
Debbie King – No
Tony Schrader – No

Scott Kesner – Yes
Georgia Neblett – Yes
Josh Fields – Yes
Chandra Franklin-Womack – Yes

The motion failed.

Mr. Gerik moved to file for a 10% rate increase for residential and commercial polices effective January 1 for both new and renewal policies for 2019. Mr. Schrader seconded the motion.

A roll call vote was taken.

Mike Gerik – Yes
Karen Guard – Yes
Bryan Shofner – Yes
Debbie King – Yes
Scott Kesner – No
Georgia Neblett – No
Josh Fields – No
Chandra Franklin-Womack: No

The motion passed.

Mr. Gerik acknowledged that this was a difficult decision for the board, but he still doesn't believe TWIA is out of harm's way. He would like to see the board evaluate alternatives. TWIA doesn't have time to do things differently. He wants staff to look at a variety of alternatives and it needs to be done now so that when the board meets next August to discuss rates, it can see some changes. He wants to explore territorial rating. He wants to offer installment payments. He would like staff to look at efficiencies in renewals. Mr. Gerik concluded by saying he would like consensus from the board to agree to explore these options.

D. Statutory Limits of Liability: Mr. Fadden pointed board members to a document showing the detailed calculations to revise the limits of liability used by the Texas Windstorm Insurance Association as of June 30, 2018. As prescribed by Texas Insurance Code Section 2210.502(a), the liability limits are to be adjusted based on changes in the Boeckh Index. Dwellings and individually owned townhouses will change by 4.2%, contents of an apartment, condominium or townhouse will change by 4.5% and commercial structures and associated contents will change by 3.9%. Ms. Neblett moved to approve the change. Mr. Kesner seconded the motion. The motion passed.

E. Policy Count/Exposures: Mr. Fadden reported policy counts are down year over year.

10. Underwriting:

A. Operational Review Update: Ms. Larzalere reported that underwriting continues to have consistent turnaround time on all transactions. Their goal is to issue 90%

of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is exceeding the standard with over 95% processed within 10 days. Quality assurance results on underwriting decisions continues to exceed established goals. Telephone service response time continues to be in the meeting and exceeding categories. Service observation (listening to phone calls and scoring them) is now standard procedure and in 2018, the underwriters will have a quality score included as part of performance evaluations. Underwriting is operating below budget. Largely due to reduced headcount and managing the inspection budget.

For the period of April 1 - June 30, 2018, staff has received 4,999 applications and 4,683 WPI-8-C's were issued. The average turnaround time is 3.1 days. Reroofing is the number one reason for application. A total of 4422 WPI-8-C's were issued in 2017. Year to date, a total of 9,396 WPI-8-C's have been issued. The confirmation of application review completed for applications (WPI-3's) received from 74 engineers in the first quarter of 2018 produced four responses, two requested mailing address corrections, the other two confirming the application information provided in letters.

Agency compliance audits were performed on 20 agents (200 properties) to verify compliance with the declination of coverage and flood insurance requirements. Four policies/properties selected for review required flood insurance. Agents provided the required declinations on all policies reviewed. Proof of coverage was not provided for one of the four policies requiring flood insurance. The agency and insured were notified of the requirement for flood insurance before renewal could be offered. All 20 agents have an active property and casualty insurance license.

11. Claims:

A. Claims Operations: Mr. Williams reported that as of the Friday before the meeting, it had been 83 days since the board last met. TWIA has closed 1,046 claims since then. The percentage of closed claims is just over 95%. Currently, 3,340 claims are open. Only a little over 400 are open without payment. Disputed claims are at 4.29% of total claims. Mr. Williams reviewed the lessons learned from Harvey. Ms. Neblett thinks the $1.6 billion estimate of damage is low. She wondered how many of the closed claims will reopen. She thinks TWIA has done an excellent job. She hopes staff is tracking problem contractors and they won't be part of TWIA in the future. Mr. Williams said concerns about tariffs could be valid. Mr. Fields said one of the things that wasn't on the lessons learned list was personnel from contracted firms. It seems when claims go sideways, they seem to originate from a contractor that doesn't have a good grasp of coverage. Mr. Williams said the supply and demand for adjusters isn't getting better. Ms. Neblett asked what the role of the expert panel played in the storm. Mr. Williams said the expert panel was formed to examine slab claims and there weren't any in Harvey. Ms. Neblett asked what the expert panel was going to cost for the upcoming year. Mr. Williams did not know off the top of his head.

B. Claims Litigation: Mr. Durden reported 115 new suits came in during the second quarter. Four pre-HB3 suits were closed and 11 HB3 were also closed. For the second quarter, 296 Letters of Representation came in and 89 suits were closed.

12. TWIA Operations:
   A. IT System Update: By May 2019, TWIA will be off the CGI platform completely. TWIA will be on the new platform for residential and commercial as well as manufactured homes. As we prepare the budget for 2019, there are some upgrades for the system.
   B. Depopulation: Mr. Polak said the depopulation process has slowed down quite a bit. Two carriers are currently participating.
   C. TWIA Expert Panel: The hardware, software and report generation tools are complete. The guidelines for TWIA personnel who are going to use the system are complete as well, including the letters going to policyholders. Everything was ready to go in May.
   D. Communications Update: Ms. Armstrong stated TWIA continues to act as a resource to state legislators, local officials and community leaders providing operational updates and responding to constituent inquiries. Staff has received and responded to 40 legislative inquiries and 30 inquiries from regulatory agencies and trade associations from April 1 through June 30, 2018.

      The hurricane preparedness campaign and coastal outreach continues. In Q2, 2018, 264 media mentions were recorded. The majority of TWIA coverage is positive and neutral at 77%, while negative coverage is at 23%. The Agent Advisory Group continues to meet regularly. Staff continues to improve the change management program at the Association.

      Staff completed a refresh of the statutorily-required Annual Report Card, published annually with the Catastrophe Incident Response Plan on June 1.

13. Closed Session: The meeting went into closed session at 12:04 pm. The meeting opened at 12:45 pm.

14. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There were no items to consider.

15. Committees:
   A. Election of Officers: Ms. Franklin-Womack moved that the current executive committee continue to serve in their current roles. Ms. Neblett seconded the motion. The motion passed.

16. Future meetings:
   - December 11, 2018 – Omni Hotel – Corpus Christi
   - February 2019 – TBD
   - May 2019 – TBD

17. Adjourn: The meeting adjourned at 12:47 p.m.

Prepared by: Amy Koehl
Executive Assistant

Approved by: Joshua Fields
TWIA Chairman

Approved by: Bryan Shofner
TWIA Vice Chairman

RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
TEXAS WINDSTORM INSURANCE ASSOCIATION

July 31, 2018

The undersigned authorized representative of the TEXAS WINDSTORM INSURANCE ASSOCIATION (the "Association") hereby certifies that the following resolutions were adopted at a public meeting of the Association's board of directors (the "Board") lawfully held and noticed, effective as of the date hereof:

RESOLVED, that in order to provide the Association with liquidity to facilitate payment by the Association of claims to its policyholders and related expenses, the Association may enter into a Credit Agreement (the "Credit Agreement") by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (the "Administrative Agent"), and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (each a "Lender" and, collectively the "Lenders");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver (i) to JPMorgan Chase Bank, N.A., in its capacity as a Lender, a promissory note in the original principal amount of $400,000,000 and (ii) to Bank of America, N.A., a promissory note in the original principal amount of $100,000,000 ((i) and (ii), collectively, the "Notes");

RESOLVED, FURTHER, to secure repayment of the Association's payment and performance obligations under the Credit Agreement and the Notes the Association may execute and deliver to the Administrative Agent, a Financing and Pledge Agreement (the "Pledge Agreement");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Administrative Agent a Blocked Account Control Agreement (the "Blocked Account Agreement", together with the Credit Agreement, the Notes, and the Pledge Agreements, collectively, the "Credit Documents");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Notes shall bear interest on the unpaid principal balance thereof at the rate or rates provided for in the Credit Agreement (said interest rate(s) to never exceed the maximum amount of interest permitted under applicable law, including without limitation, Chapter 1204 of the Texas Government Code), with accrued interest on the Notes being due and payable on the Interest Payment Dates (as defined in the Credit Agreement), and with the outstanding principal balance of the Notes being finally due and payable on the Maturity Date (as defined in the Credit Agreement);

RESOLVED, FURTHER, that in order to induce the Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the Administrative Agent and the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

RESOLVED, FURTHER, that the chief financial officer and/or the general manager of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association to negotiate the specific terms of, and to execute and deliver to the Agent and the Lenders, the Credit Documents and such other instruments as Agent and Lenders may reasonably require in their discretion in connection with the Credit Agreement (the "Ancillary Documents") and to take such other action in the consummation and/or administration of the renewal and extension of Credit Documents and the Ancillary Documents as such officer(s) shall deem to be necessary or desirable, and any and all acts heretofore taken by the above-described officer(s) to such end are hereby expressly ratified and confirmed as the acts and deeds of the Association;

RESOLVED, FURTHER, that the Credit Documents and the Ancillary Documents shall be in form and substance satisfactory to the Agent and the Lenders and in form and substance approved by the above-described officer(s) executing the same on behalf of the Association, his or her approval of each such instrument to be conclusively evidenced by the execution thereof by such officer(s);

RESOLVED, FURTHER, that such officer(s) of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association and without further authorization of the Board, to negotiate and agree to on terms acceptable to such officer(s) any and all further renewals, extensions, modifications and/or amendments, but not any additional increases, to the credit extended to the Association pursuant to the Credit Agreement, and to execute and deliver to the Agent and the Lenders such documents as the Agents and the Lenders shall require to evidence any such renewal, extension, modification or amendment, but not any additional increase, and to take such other action in the consummation of the transactions therein contemplated as the officer(s) acting shall deem to be necessary or desirable; and

RESOLVED, FURTHER, that any and all documents, agreements, certificates, opinions, letters, financing statements, consents, schedules and other instruments and writings executed and delivered on behalf of the Association in connection with the foregoing resolutions by the above-named representative of the Association shall be deemed to be the act of the Association and shall be in all respects binding against the Association.

RESOLVED, FURTHER, that the Board has determined it to be in the best interest of the Association for the Association to enter into, execute and deliver the Credit Documents and to enter into, execute and deliver any Ancillary Documents required in connection with the Credit Agreement.

RESOLVED, FURTHER, that the execution and delivery of and performance under the Credit Documents and the Ancillary Documents, and other actions contemplated herein, can reasonably be expected to benefit the Association, directly or indirectly.

RESOLVED, FURTHER, that any and all acts, transactions or agreements undertaken by the officers of the Association for and on behalf and in the name of the Association, prior to the adoption of the foregoing resolutions, in connection with any of the foregoing matters including but not limited to, negotiation of the terms and/or execution and delivery of the Credit Documents and the Ancillary Documents be, and they are hereby, ratified, confirmed and approved in all respects for all purposes.

Executed and effective as of the date first written above.

Authorized Officer of the Association:

By: ____________________________
(Signature)

Its: ____________________________|
(Printed Name and Title)

5. TWIA Operational Highlights

2018 Enterprise Scorecard

Reporting YTD as of September 30, 2018

Reference Data

Policies In-Force	207,661
Exposures In-Force	$59.7 billion
Written Premiums YTD	$319.4 million
Claims Received YTD	6,007
Losses Incurred YTD*	$257 million

*Excludes IBNR

	YTD	Trend	Goal	Δ	Performance
Operating Expenses	7.2%		7.9%	-0.8%	
Net Gain From Operations	$254.9 M		$58.1 M	$196.8 M	
Enterprise Projects	90%		90%	0%	
Policy Administration	97%		90%	7%	
Claims Handling*	95%		90%	5%	
Disputed Claims	3.6%		2.0%	1.6%	
Litigated Claims	0.25%		0.50%	-0.25%	
Complaints	169		175	-6	

*Includes Harvey and non-Harvey claims received YTD as of September 30, 2018

TWIA Key Accomplishments

- Received 75,039 policy offers from the two participating carriers in the 2018-2019 Assumption Reinsurance Depopulation Program.
- Remain on track to meet Association objectives for all strategic initiative in 2018.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q3 2018.
- Remain below plan in Q3 2018 on litigated claims and complaints.

Hurricane Harvey Claims and Funding

Data for all reported Harvey claims (August 25, 2017-September 30, 2018)

76,532
Hurricane Harvey claims received

$1.18 billion
paid in Hurricane Harvey claims

42.3 days
The average claims cycle time from First Notice of Loss to payment

0.3% ratio
232 total TDI claims complaints

5.0% ratio
3,825 total disputed claims

$1.61 B Ultimate loss and loss adjustment expenses (LAE) from Hurricane Harvey as of September 30, 2018.

$136.7 M Available cash utilized to pay Harvey loss and LAE through the end of 2017
- Consists of $96.3 million net income through July 31, 2017 and $40.4 million net income, excluding Harvey expenses, through year end 2017.
- TWIA begun accumulating funds from 2018 operations starting January 1, 2018.

$743.2 M Funds available, and received, from the Catastrophe Reserve Trust Fund (CRTF) in 2017
- The CRTF will be rebuilt through net gains from future operations.

$448 M Amount withdrawn from Class 1 Pre-Event Bonds issued in 2014 and used in 2017
- The remaining $51 million has been retained for debt reserve funds.

$282 M Total member company assessment approved by TDI and invoiced in 2018
- TWIA's initial member company assessment in the amount of $175 million, was approved by TDI and invoiced in June 2018.
- An additional member company assessment in the amount of $107 million was by approved TDI and invoiced in August 2018.
- $3 million remains uncollected as of September 30, 2018.

6. Financial

6A. Report of the Secretary/Treasurer

6A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement
for the nine months ended September 30,
(000's omitted)

	2018	2017
Direct Premiums Written	$ 319,359	$ 341,295
Premiums Earned:		
Direct Premiums Earned	$ 309,500	$ 343,338
Ceded Reinsurance Premiums	(72,436)	(63,793)
Ceded Reinsurance Premiums - Depopulation	(1,364)	(8,599)
Net Premiums Earned	235,699	270,946
Deductions:		
Direct Losses and LAE Incurred	7,536	43,212
Direct Losses and LAE Incurred - Harvey	164,000	1,132,000
Direct Losses and LAE Incurred - Ike & Dolly	-	(2,757)
Ceded Losses and LAE Incurred - Depopulation	261	(1,401)
Operating Expenses	22,132	18,620
Commission Expense	51,076	54,596
Ceding commissions / brokerage	(2,458)	(2,126)
Ceding commissions / brokerage - Depopulation	(327)	(2,064)
Premium / Maintenance Tax	6,223	6,717
Total Deductions	248,442	1,246,798
Net Underwriting Gain or (Loss)	(12,743)	(975,852)
Other Income or (Expense):		
Gross Investment Income	4,700	5,129
CRTF Funds Received	-	370,700
Member Assessment Income	281,820	0
Interest Expense on Class 1 Bonds	(24,703)	(26,803)
Debt Issuance & Other Investment Expenses	(1,852)	(145)
Other Income (Expense)	51	32
Total Other Income or (Expense)	260,016	348,913
Net Income (Loss)	$ 247,274	$ (626,939)
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	$ (461,390)	$ -
Net Income (Loss)	247,274	(626,939)
Change in Provision for Reinsurance	-	-
Principal Funded on Class 1 Bonds (net)	-	(36,314)
Change in nonadmitted assets - Other	7,650	(5,194)
Statutory Fund Cost	(65,830)	-
Ending Surplus (Deficit)	$ (272,296)	$ (668,447)

6A2. Management Discussion and Analysis

Texas Windstorm Insurance Association
Management Discussion and Analysis
September 30, 2018

TWIA's results as of September 30, 2018 show net income of $247.3 million, including the benefit of $281.8 million in member assessment income. Direct written premiums were $319.4 million and the net underwriting loss was $12.7 million for the nine months ended September 2018.

<u>Direct Written Premium:</u> Year to date September 2018 written premiums show a decrease of 6.8% from September 2017, due to continued policy and exposure decline as well as the depopulation of 1,600 policies on June 1, 2018.

<u>Direct Premiums Earned:</u> Direct premiums earned decreased to $309.5 million compared to $343.3 million in the same period last year. The change is reflective of lower written premiums in 2018.

<u>Assumption Reinsurance Depopulation:</u>

- Round 1: The Quota Share Reinsurance Agreements were effective December 1, 2016 with four participating carriers. As of September 2018, ceded earned premiums for this round were $11.0 million inception to date.

  Participating insurers assumed approximately 11,000 policies on June 1, 2017 and resulted in a decrease of approximately $9.1 million in direct written premiums. All policy changes and policies with renewal effective dates from June 1 to July 31, 2017, will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

- Round 2: The Quota Share Reinsurance Agreements were effective December 1, 2017 with three participating carriers. As of September 2018, ceded earned premiums for this round were $1.8 million inception to date.

  Participating insurers assumed approximately 1,600 policies on June 1, 2018 and resulted in a decrease of approximately $1.4 million in direct written premiums. All policy changes and policies with renewal effective dates from June 1 to July 31, 2018, will continue to be administered by TWIA through the expiration of the policy on TWIA forms.

<u>Loss and Loss Adjustment Expense Incurred:</u> Through September 30, 2018 non-catastrophe direct loss and loss adjustment expense incurred was $7.5 million, as a

result of favorable prior and current accident year development, compared to $43.2 million as of September 30, 2017.

The ultimate losses and loss adjustment expenses for Hurricane Harvey are $1.610 billion as of September 2018, an increase of $164 million from December 2017.

Operating Expenses: Operating expenses increased from $18.6 million as of September 2017 to $22.1 million as of September 2018. Implementation of the expert panel's methodology in settling residential slab claims in specific flood zones began in the last quarter of 2017. Implementation expenses incurred in 2018 total $3.25 million.

Commission Expense and Premium Taxes: Decrease from prior year is attributable to the decrease in direct written premiums for 2018.

Other Income (Expense): Gross investment income is lower due to the decrease in invested cash balances. Interest expense is $24.7 million for 2018 and $26.8 million for 2017.

Member Company Assessments: An initial assessment request of $175.0 million was approved by Commissioner Sullivan on May 25, 2018, followed by the mailing of assessment notices to member companies on June 7, 2018. A second assessment of 106.8 million was approved by Commissioner Sullivan on August 20, 2018, with assessment notices mailed on August 29, 2018. As of September 30, 2018, $281.8 million of assessment payments have been received.

6B. Financial Statement Review by Staff
6B1. Income Statement and Expense Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)
for the nine months ended September 30,

	Actuals - 2018	Budget - 2018	Variance - 2018	Actuals - 2017
Premiums Written:				
Direct	$ 319,359	$ 327,647	$ (8,288)	$ 341,295
Ceded	(108,654)	(139,385)	30,730	(95,689)
Ceded - Depopulation	(1,364)	(2,561)	1,196	(8,599)
Net	209,340	185,702	23,639	237,007
Premiums Earned:				
Direct	$ 309,500	$ 308,839	$ 661	$ 343,338
Ceded	(72,436)	(92,924)	20,488	(63,793)
Ceded - Depopulation	(1,364)	(2,561)	1,196	(8,599)
Net	235,699	213,354	22,345	270,946
Deductions:				
Direct Losses and LAE Incurred	7,536	65,470	(57,934)	43,212
Direct Losses and LAE Incurred - Harvey	164,000	0	164,000	1,132,000
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	(2,757)
Ceded Losses and LAE Incurred - Depopulation	261	(849)	1,110	(1,401)
Operating Expenses	22,132	24,433	(2,301)	18,620
Commission Expense	51,076	52,423	(1,347)	54,596
Ceding commissions / brokerage	(2,458)	(3,860)	1,402	(2,126)
Ceding commissions / brokerage - Depopulation	(327)	(615)	287	(2,064)
Premium / Maintenance Tax	6,223	6,455	(232)	6,717
Total Deductions	248,442	143,457	104,985	1,246,798
Net Underwriting Gain or (Loss)	(12,743)	69,897	(82,640)	(975,852)
Other Income or (Expense):				
Gross Investment Income	4,700	4,254	446	5,129
Member Assessment Income	281,820	0	281,820	0
Interest Expense on Debt	(24,703)	(24,703)	0	(26,803)
Debt Issuance/Maintenance & Other Investment Expenses	(1,852)	(155)	(1,698)	(145)
Other Income (Expense)	51	0	51	32
Total Other Income or (Expense)	260,016	(20,603)	280,620	348,913
Net Income (Loss)	$ 247,274	$ 49,294	$ 197,980	$ (626,939)
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(461,390)	(461,390)	0	0
Net Income (Loss)	247,274	49,294	197,980	(626,939)
Change in Provision for Reinsurance	0	0	0	0
Principal Funded on Class 1 Bonds (net)	0	0	0	(36,314)
Change in nonadmitted assets - Other	7,650	8,795	(1,145)	(5,194)
Statutory Fund Cost	(65,830)	0	(65,830)	0
Ending Surplus (Deficit)	$ (272,296)	$ (403,301)	$ 131,005	$ (668,447)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	2.4%	21.2%	-18.8%	12.6%
Hurricane Harvey	53.0%	0.0%	53.0%	329.7%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	-0.8%
Loss & LAE Ratio	55.4%	21.2%	34.2%	341.5%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	0.0%	18.0%
Non Acquisition	7.2%	7.9%	-0.8%	5.4%
UW Expense Ratio	25.1%	25.9%	-0.8%	23.4%
Combined Ratio	80.5%	47.1%	33.4%	364.9%
Net:				
Loss & LAE Ratio:				
Non Hurricane	3.3%	30.3%	-27.0%	15.4%
Hurricane Harvey	69.6%	0.0%	69.6%	417.8%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	-1.0%
Loss & LAE Ratio	72.9%	30.3%	42.6%	432.2%
UW Expense Ratio:				
Acquisition	22.5%	24.7%	-2.1%	21.3%
Non Acquisition	9.4%	11.5%	-2.1%	6.9%
UW Expense Ratio	31.9%	36.1%	-4.2%	28.2%
Combined Ratio	104.8%	66.4%	38.4%	460.4%

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)
for the nine months ended September 30,

Description	Actuals - 2018	Budget - 2018	Variance - 2018	Actuals - 2017
Personnel Expenses				
Salaries & Wages - Permanent	7,908	8,983	(1,075)	8,273
Contractor & Temporary Help	31,311	31,204	108	9,617
Payroll Taxes	605	727	(122)	627
Employee Benefits	3,124	2,891	233	2,603
Recruiting, Training & Other	178	360	(181)	250
Subtotal	43,126	44,164	(1,038)	21,370
Professional & Consulting Services				
Legal	585	441	144	357
Accounting & Auditing	141	206	(66)	224
Information Technology	101	636	(535)	50
Actuarial Services	31	29	2	22
Omsbudsman Program	111	114	(3)	113
Surveys & Inspections	1,425	1,621	(196)	1,577
Disaster Recovery Services	82	79	3	50
Other Services	6,193	6,209	(16)	7,855
Subtotal	8,669	9,335	(666)	10,248
Hardware/Software Purchases & Licensing	2,439	2,565	(126)	2,435
Rental & Maintenance - Office/Equipment	1,005	1,000	5	923
Travel Expenses	227	286	(59)	218
Postage, Telephone and Express	876	849	27	790
Capital Management Expenses	1,749	155	1,594	145
Depreciation	889	898	(9)	2,029
Other Operating Expenses	872	793	79	757
Total Operating Expenses	59,852	60,046	(194)	38,914
Capitalization of Fixed Assets	0	(50)	50	0
Reimbursement of Depop Servicing Expense	(220)	(303)	83	0
Allocation To ULAE	(35,648)	(35,105)	(543)	(19,804)
Allocation To Investing & Other Expense	(1,852)	(155)	(1,698)	(145)
Net Operating Expense - UW Operations	22,132	24,433	(2,301)	18,965

6B2. Balance Sheet

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Balance Sheet (000's omitted)

	September-18	December-17
Admitted Assets		
Cash and short term investments:		
Unrestricted	$ 603,551	$ 366,363
Restricted - Funds Held at TTSTC	$ 72,026	$ 279,711
Restricted - Funds Held at TTSTC (Non Admitted)	-	-
Total cash and short term investments	675,577	646,074
Premiums receivable & other	1,441	1,862
Assessment receivable	3,457	-
Amounts recoverable from reinsurers	8	17
Total admitted assets	**$ 680,482**	**$ 647,954**
Liabilities, Surplus and other funds		
Liabilities:		
Loss and Loss adjustment expenses	$ 252,997	$ 414,734
Underwriting expenses payable	12,000	15,278
Unearned premiums, net of ceded unearned premiums	183,094	209,453
Ceded reinsurance funds payable	44,377	20,972
Principal Outstanding on Class 1 Pre Event Bonds	368,500	414,600
Interest Payable on Class 1 Pre Event Bonds	7,600	17,102
Provision for reinsurance	-	-
Other payables	18,380	17,206
Statutory fund payable	65,830	-
Total liabilities	**952,778**	**1,109,344**
Surplus and others funds		
Unassigned surplus	(272,296)	(461,390)
Total liabilities, surplus and other funds	**$ 680,482**	**$ 647,954**
Balance in CRTF	**$ 4,937**	**$ 1,220**
Balance in CRTF including Statutory fund payable	**$ 70,767**	**$ 1,220**

6B3. Cash & Short Term Investments

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments ($ in 000's)
September 30, 2018

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Blended Rate of Interest Bearing Investments	Investment Duration of Interest Bearing Investments (in months)	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
						< 40%	**Superior or Strong**	**> 10%**	**> $25B**	**> .2% of N.A. Reg Capital**
Balances as of 9/30/18:										
Bank of America	153	220,836	220,989	1.26%	0.0	37%	Superior	12.2%	$147	No
BlackRock Liquidity Funds (1)	0	86,522	86,522	1.46%	0.0	14%	N/A	N/A	N/A	N/A
Citibank	8	46,069	46,077	1.50%	0.0	8%	Superior	12.7%	$129	No
JP Morgan Chase	38,888	0	38,888	0.00%	0.0	6%	Superior	13.9%	$189	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	211,076	211,076	2.04%	0.0	35%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0	0.00%	0.0	0%	Superior	12.0%	$141	No
Total of all financial institutions	**39,048**	**564,503**	**603,551**	**1.60%**	**0.0**	**100%**				
Balances as of 12/31/17:										
Bank of America	26,560	0	26,560	0.00%	0.0	7%	Superior	12.7%	$150	No
BlackRock Liquidity Funds (1)	0	186,676	186,676	0.65%	0.0	51%	N/A	N/A	N/A	N/A
Citibank	5	933	937	0.80%	0.7	0%	Superior	12.6%	$126	No
JP Morgan Chase	136,976	0	136,976	0.00%	0.0	37%	Superior	13.9%	$178	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	0	-	0.00%	0.0	0%	N/A	N/A	N/A	N/A
Wells Fargo	63	15,150	15,213	1.05%	1.0	4%	Superior	10.8%	$127	No
Total of all financial institutions	**163,604**	**202,759**	**366,363**	**0.68%**	**0.6**	**100%**				

(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.
(2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of June 30th. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

6B4. Cash Flow Statement

1	**TEXAS WINDSTORM INSURANCE ASSOCIATION**				1
2	**Statement of Cash Flows (000's omitted)**				2
3	**for the nine months ended September 30,**				3
4					4
5		**Actuals - 2018**	**Budget - 2018**	**Variance - 2018**	5
6					6
7	**Cash flows from operating activities:**				7
8	Premiums collected, net of reinsurance	$ 243,685	$ 225,836	$ 17,849	8
9	Losses and loss adjustment expense paid	(333,524)	(157,118)	(176,405)	9
10	Underwriting expenses paid	(76,906)	(69,243)	(7,663)	10
	CRTF funds received	0	0	0	
11	Member assessment received	276,164	0	276,164	11
12	Other	(843)	(397)	(446)	12
13	Net cash provided by operating activities	108,576	(922)	109,499	13
14	**Cash flows from nonoperating activities:**				14
15	Statutory fund paid	0	0	0	15
16	Other	0	0	0	16
17	Net cash provided by nonoperating activities	0	0	0	17
18	**Cash flows from investing activities:**				18
19	Sales and maturities of investments	0	0	0	19
20	Net investment income	(32,973)	(30,105)	(2,868)	20
21	Net cash provided by investing activities	(32,973)	(30,105)	(2,868)	21
22	**Cash flows from financing activities:**				22
23	Borrowed funds	0	0	0	23
24	Borrowed funds repaid	(46,100)	(46,100)	0	24
25	Net cash provided by financing activities	(46,100)	(46,100)	0	25
26					26
27	Net increase (decrease) in cash and short-term investments	29,503	(77,127)	106,630	27
28	Cash and short-term investments, Beginning	646,074	723,560	(77,485)	28
29	Cash and short-term investments, Ending	$ 675,577	$ 646,432	$ 29,145	29
30					30

6B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1971 - 2018
($ with 000's omitted)

	GROSS						NET				
YEAR	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES RESID	RATE CHANGES COMML	WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)	CRTF BALANCE END OF PERIOD
1971	$ 278,710	13,415			$ 2,393	$ 92	$ 868	$ 92	$ 385	$ 391	
1972	739,983	33,577			4,138	214	3,468	214	849	2,405	
1973	1,017,048	45,743			4,286	1,427	4,288	1,427	1,099	1,763	
1974	1,064,772	45,901			4,512	452	4,378	452	1,106	2,819	
1975	1,169,763	46,365			6,036	592	5,263	592	1,417	3,254	
1976	1,387,252	48,747			8,130	231	6,953	231	1,878	4,844	
1977	1,616,220	51,382			9,922	203	9,080	203	2,258	6,619	
1978	1,633,521	48,820			10,523	296	10,249	296	2,329	7,624	
1979	1,816,410	46,128			11,045	2,370	11,039	2,370	2,178	6,490	
1980	1,936,388	43,613			9,675	14,217	10,245	14,217	2,079	(6,051)	
1981	2,105,244	42,495			9,137	2,715	9,313	2,715	2,097	4,501	
1982	2,285,594	51,034			8,641	982	9,106	982	2,095	6,029	
1983	2,165,231	44,894			6,900	157,112	7,585	157,112	1,937	(151,463)	
1984	3,178,079	51,311			9,450	1,294	7,989	1,294	2,493	4,202	
1985	4,061,660	57,181			18,232	1,510	3,534	1,510	3,638	(1,614)	
1986	4,510,378	60,028			20,987	1,202	5,229	1,202	3,997	30	
1987	4,401,486	57,976			20,532	2,555	4,931	2,555	4,091	(1,715)	
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509	3,551	2,509	4,066	(3,024)	
1989	4,236,600	55,401	-	-	18,066	14,176	5,330	14,176	4,037	(12,883)	
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590	16,761	1,590	4,171	11,000	
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783	7,167	1,783	4,343	1,042	
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321	4,014	1,321	4,220	(1,527)	
1993	6,500,165	56,921	30.0%	-	19,377	4,778	123,515	4,778	5,161	113,576	
1994	7,645,176	63,348	-	-	26,545	1,572	25,692	1,572	6,982	17,138	124,847
1995	8,828,140	69,807	25.0%	-	32,419	4,033	29,016	4,033	8,119	16,864	151,284
1996	10,001,843	72,977	-	-	40,359	1,484	37,153	1,484	10,627	25,042	179,020
1997	10,907,937	75,361	-	-	42,463	4,133	41,045	4,133	11,038	25,874	216,896
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235	28,256	27,235	12,181	(11,160)	238,221
1999	11,972,502	75,947	-9.4%	-	44,581	11,320	28,702	11,320	11,524	5,858	250,403
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937	28,470	7,937	11,681	8,852	268,563
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011	31,112	8,011	12,936	10,165	280,063
2002	16,003,048	85,668	-	5.0%	72,968	32,359	44,516	32,359	16,584	(4,427)	303,185
2003	18,824,457	96,420	-	10.0%	87,987	24,955	51,702	24,955	19,682	7,065	305,599
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115	52,230	6,115	21,911	24,204	308,729
2005	23,263,934	109,693	-	10.0%	113,928	178,370	65,438	178,370	25,277	(138,209)	311,508
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188	85,467	5,188	37,138	43,141	361,823
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985	135,843	17,985	51,768	66,090	388,542
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123	(138,560)	1,117,123	53,759	(1,309,442)	-
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)	389,600	(183,974)	87,899	485,675	-
2010	67,452,357	242,664	-	-	385,550	555,025	351,730	252,685	85,598	13,447	76,334
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539	321,781	202,539	81,665	37,577	146,650
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873	321,122	401,873	93,583	(174,334)	178,902
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975	295,130	3,975	100,524	190,631	186,184
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220
2018	59,716,197	220,950	5.0%	5.0%	319,366	171,536	235,699	171,796	76,646	(12,743)	4,937
TOTAL					**6,140,508**	**5,687,496**	**4,197,908**	**4,189,154**	**1,330,842**	**(1,322,087)**	

*2018 data through 9/30/18.

7. Internal Audit

7A. Internal Audit Status Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: December 11, 2018

SUBJECT: Status of Internal Audit Activities

The following is our internal audit update representing current and planned activities:

- **Current Activities:**
    - *Information Security Audit:*
        - Fieldwork is complete for the follow up Information Security Audit. Report is in the drafting process and results will be discussed in closed session.
    - *Legal and Compliance Audit:*
        - All fieldwork is complete
        - Report is in final review stage followed by report issuance in early December.
    - *Model Audit Rule:*
        - Accounting Staff has updated documentation. Internal Audit will schedule review of update in second quarter 2019.
    - *Pricing and Reserving Audit:*
        - Fieldwork is complete and audit is in final review stage.
    - *Underwriting and Agency Audit:*
        - Fieldwork complete and audit is in initial review.
    - *Cash Management Audit:*
        - Fieldwork in process.
    - *Upcoming Audits:*
        - Application Development
        - Communications
        - Vendor Management
- **ELT meetings:**
    - Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association
Three-Year Audit Plan (2017-2019)

2017

Process Area	Risk Rating
Model Audit Rule (documentation)	N/A
Information Security	High
Claims Processing	High

2018

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Application Development	Moderate
Underwriting & Agency	High
Actuarial (Pricing and Reserving)	Moderate
Legal, Compliance, & Depopulation	High
Communications	Moderate
Cash Management (Investments)	Low

2019

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Database and Application Administration	High
Information Technology Services	Moderate
Human Resources Administration	Low
Accounts Payable and Expense Processing	Moderate
Payroll	Low
Accounts Receivable *Including Agent Commissions*	Low
Facilities and Services	Low

7B. IT Security Audit

This Item Will Be Covered in Closed Session

8. Actuarial

8A. Reserve Adequacy

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: November 15, 2018

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of September 30, 2018

TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of September 30, 2018.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is $1.61B, remaining the same from previous review. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61B. This variability arises from the assumptions we made regarding the potential impact of future reopenings of closed claims, 2,800 open claims, and unreported claims as of September 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. The ultimate estimate for Harvey was outlined in Statement of Harvey Ultimate Estimate.

As of September 30, 2018, TWIA carried $253.1million in total gross loss and loss adjustment reserves with $0.1 million of the total gross ceded to De-popped carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserve.

In my opinion, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles, and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

The complete actuarial analysis is available on request.

XL

Texas Windstorm Insurance Association

Xiuyu Li, ACAS, MAAA
Senior Actuary

MEMORANDUM

DATE: November 15, 2018

TO: Jerry Fadden, Chief Financial Officer

RE: Estimate of Ultimate Losses for Hurricane Harvey

As of September 30, 2018 ultimate losses and expense related to Hurricane Harvey were estimated to be $1.61 billion, remaining the same from previous estimate reviewed at July 12, 2018.

Following table outlines the details:

Estimated Ultimate Loss from Hurricane Harvey	
Paid Losses and Allocated Loss Adjustment Expenses	$1,308,200,371
Loss and Allocated Loss Adjustment Expense Case Reserves	$ 73,157,721
Paid Unallocated Loss Adjustment Expenses	$ 84,378,123
Incurred but Not Reported Expenses	$ 143,017,328
Estimated Ultimate Loss &LAE from Hurricane Ike	$ 1,608,753,543
Selected Ultimate Loss &LAE from Hurricane Ike	$ 1,610,000,000

The estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to its unique nature and is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61B due to variability arising from the assumptions we made regarding the potential impact of future reopening of closed claims, 2,800 open claims, and unreported claims as of September 30, 2018. Potential litigation is also a significant factor that can contribute to the variability. $1.61B is, however, our best estimate of the expected cost of Harvey based on all the information known as of September 30, 2018.

XL

8B. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of September 30, 2018

County	Policies In-Force 9/30/17	Policies In-Force 9/30/18	PIF Growth Actual	PIF Growth Percentage	Exposure In-Force 9/30/17	Exposure In-Force 9/30/18	Exposure Growth Actual	Exposure Growth Percentage	YTD Written Premium 9/30/17	YTD Written Premium 9/30/18	Premium Growth Actual	Premium Growth Percentage
Aransas	6,431	5,589	-842	-13.10	2,157,636,399	1,880,642,593	-$276,993,806	-12.80	12,075,549	10,856,883	-$1,218,666	-10.10
Brazoria	40,027	35,282	-4,745	-11.90	11,660,683,755	10,245,464,142	-$1,415,219,613	-12.10	55,303,514	50,587,923	-$4,715,591	-8.50
Calhoun	3,897	3,665	-232	-6.00	1,006,646,777	951,907,427	-$54,739,350	-5.40	5,978,338	5,905,591	-$72,747	-1.20
Cameron	15,721	13,034	-2,687	-17.10	3,967,558,510	3,372,197,855	-$595,360,655	-15.00	20,414,175	18,057,387	-$2,356,788	-11.50
Chambers	5,079	4,442	-637	-12.50	1,650,037,358	1,426,789,526	-$223,247,832	-13.50	7,518,291	6,705,001	-$813,290	-10.80
Galveston	65,153	60,050	-5,103	-7.80	21,147,958,472	19,622,677,957	-$1,525,280,515	-7.20	111,928,935	108,193,666	-$3,735,269	-3.30
Harris	3,666	3,419	-247	-6.70	1,081,640,067	1,008,318,306	-$73,321,761	-6.80	3,985,993	3,771,841	-$214,152	-5.40
Jefferson	31,458	27,883	-3,575	-11.40	7,362,071,127	6,478,738,298	-$883,332,829	-12.00	40,158,199	36,612,062	-$3,546,137	-8.80
Kenedy	19	17	-2	-10.50	6,909,341	6,632,341	-$277,000	-4.00	44,539	42,940	-$1,599	-3.60
Kleberg	1,080	960	-120	-11.10	256,905,444	205,431,534	-$51,473,910	-20.00	1,601,294	1,206,381	-$394,913	-24.70
Matagorda	5,103	4,705	-398	-7.80	1,260,534,300	1,165,159,565	-$95,374,735	-7.60	6,871,074	6,544,751	-$326,323	-4.70
Nueces	45,376	41,122	-4,254	-9.40	12,510,401,882	11,345,204,543	-$1,165,197,339	-9.30	63,550,522	60,034,679	-$3,515,843	-5.50
Refugio	395	369	-26	-6.60	93,381,932	97,103,676	$3,721,744	4.00	599,239	639,865	$40,626	6.80
San Patricio	7,694	6,719	-975	-12.70	2,107,645,303	1,815,567,785	-$292,077,518	-13.90	10,622,917	9,568,800	-$1,054,117	-9.90
Willacy	468	405	-63	-13.50	107,894,494	94,361,121	-$13,533,373	-12.50	672,255	638,251	-$34,004	-5.10
Total	231,567	207,661	-23,906	-10.32	66,377,905,161	59,716,196,668	-$6,661,708,493	-10.04	341,324,834	319,366,021	-$21,958,813	-6.43

Texas Windstorm Insurance Association
Quarterly Liability Report
As of September 30, 2018

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Aransas										
Commercial	184	547	379	950	1,239,558	2,364,189	283,289,398	6,289,440	441	838
Manufactured Home	20	85	20	86	22,862	102,247	4,902,447	0	97	98
Residential	1,496	4,116	1,591	4,343	3,132,158	8,390,447	1,592,450,748	136,004,360	5,051	5,339
Total	1,700	4,748	1,990	5,379	4,394,578	10,856,883	1,880,642,593	142,293,800	5,589	6,275
Brazoria										
Commercial	326	967	514	1,559	1,432,251	4,917,975	507,589,734	11,925,680	994	1,564
Manufactured Home	54	139	54	139	82,488	204,104	9,449,014	0	152	152
Residential	9,868	27,659	10,152	28,465	16,449,854	45,465,844	9,728,425,394	1,253,340,484	34,136	35,111
SUM:	10,248	28,765	10,720	30,163	17,964,593	50,587,923	10,245,464,142	1,265,266,164	35,282	36,827
Calhoun										
Commercial	77	213	166	367	393,137	1,040,714	111,098,007	1,755,415	217	414
Manufactured Home	24	63	25	64	27,971	88,822	3,883,134	0	69	70
Residential	1,108	2,787	1,215	3,094	1,903,027	4,776,055	836,926,286	69,801,274	3,379	3,728
SUM:	1,209	3,063	1,406	3,525	2,324,135	5,905,591	951,907,427	71,556,689	3,665	4,212
Cameron										
Commercial	252	709	454	1,346	1,840,643	6,874,313	1,076,876,884	6,680,900	705	1,428
Manufactured Home	22	53	22	53	21,942	52,764	2,368,084	0	57	57
Residential	3,580	10,117	3,690	10,357	4,094,945	11,130,310	2,292,952,887	251,827,555	12,272	12,548
SUM:	3,854	10,879	4,166	11,756	5,957,530	18,057,387	3,372,197,855	258,508,455	13,034	14,033

Texas Windstorm Insurance Association
Quarterly Liability Report
As of September 30, 2018

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Chambers										
Commercial	48	100	69	147	230,199	444,095	57,022,368	520,900	111	175
Manufactured Home	41	77	41	77	22,469	48,419	2,345,600	0	80	80
Residential	1,242	3,454	1,312	3,615	2,293,001	6,212,487	1,367,421,558	179,018,332	4,251	4,452
SUM:	1,331	3,631	1,422	3,839	2,545,669	6,705,001	1,426,789,526	179,539,232	4,442	4,707
Galveston										
Commercial	705	1,918	1,092	3,380	6,297,410	20,351,097	2,332,454,446	59,077,054	2,025	3,805
Manufactured Home	56	154	57	156	73,224	207,344	9,584,099	0	171	173
Residential	17,591	47,268	18,188	48,978	32,906,397	87,635,225	17,280,639,412	1,956,630,500	57,854	59,989
SUM:	18,352	49,340	19,337	52,514	39,277,031	108,193,666	19,622,677,957	2,015,707,554	60,050	63,967
Harris										
Commercial	20	60	40	101	127,591	390,692	42,638,973	968,730	67	109
Manufactured Home	2	4	2	4	2,670	3,383	135,300	0	4	4
Residential	1,076	2,713	1,103	2,784	1,325,249	3,377,766	965,544,033	122,452,325	3,348	3,445
SUM:	1,098	2,777	1,145	2,889	1,455,510	3,771,841	1,008,318,306	123,421,055	3,419	3,558
Jefferson										
Commercial	311	837	456	1,193	1,314,997	3,649,243	392,647,662	11,769,800	874	1,277
Manufactured Home	7	27	7	27	11,065	48,489	1,981,740	0	28	28
Residential	8,040	22,403	8,275	23,012	12,062,032	32,914,330	6,084,108,896	762,821,602	26,981	27,693
SUM:	8,358	23,267	8,738	24,232	13,388,094	36,612,062	6,478,738,298	774,591,402	27,883	28,998

Texas Windstorm Insurance Association
Quarterly Liability Report
As of September 30, 2018

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Kenedy										
Commercial	0	1	0	5	0	12,438	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	7	14	8	24	9,476	30,502	5,937,900	35,200	16	30
SUM:	7	15	8	29	9,476	42,940	6,632,341	35,200	17	35
Kleberg										
Commercial	6	48	10	72	38,947	172,646	15,109,637	550,800	47	72
Manufactured Home	0	1	0	1	0	1,289	84,000	0	1	1
Residential	280	741	312	783	397,554	1,032,446	190,237,897	19,638,116	912	958
SUM:	286	790	322	856	436,501	1,206,381	205,431,534	20,188,916	960	1,031
Matagorda										
Commercial	66	190	95	336	296,653	933,990	92,202,010	2,099,985	208	341
Manufactured Home	6	16	6	17	8,826	17,513	1,149,297	0	19	21
Residential	1,388	3,714	1,434	3,889	2,053,218	5,593,248	1,071,808,258	109,459,250	4,478	4,670
SUM:	1,460	3,920	1,535	4,242	2,358,697	6,544,751	1,165,159,565	111,559,235	4,705	5,032
Nueces										
Commercial	750	2,049	1,158	3,406	3,560,497	11,050,671	1,515,452,714	45,464,324	2,135	3,746
Manufactured Home	7	19	7	19	10,651	24,235	1,003,500	0	21	21
Residential	11,375	32,089	11,761	33,365	17,698,738	48,961,274	9,828,954,329	1,101,729,775	38,967	40,358
SUM:	12,132	34,157	12,926	36,790	21,269,886	60,036,180	11,345,410,543	1,147,194,099	41,123	44,125

Texas Windstorm Insurance Association
Quarterly Liability Report
As of September 30, 2018

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Refugio										
Commercial	19	45	32	69	123,906	215,682	21,072,987	45,000	44	71
Manufactured Home	1	7	2	10	1,600	11,777	641,253	0	9	12
Residential	107	275	115	302	170,008	412,406	75,389,436	7,609,428	316	349
SUM:	127	327	149	381	295,514	639,865	97,103,676	7,654,428	369	432
San Patricio										
Commercial	107	330	147	516	287,504	1,215,422	138,385,585	3,289,841	308	532
Manufactured Home	8	30	8	30	9,003	43,995	1,849,973	0	28	28
Residential	1,769	5,164	1,877	5,448	2,849,436	8,307,882	1,675,126,227	195,307,202	6,382	6,699
SUM:	1,884	5,524	2,032	5,994	3,145,943	9,567,299	1,815,361,785	198,597,043	6,718	7,259
Willacy										
Commercial	13	29	18	42	61,162	130,671	14,093,257	128,550	30	58
Manufactured Home	0	4	0	4	0	5,200	208,000	0	4	4
Residential	134	327	147	354	216,203	502,380	80,059,864	5,980,961	371	397
SUM:	147	360	165	400	277,365	638,251	94,361,121	6,109,511	405	459
Total All Counties										
Commercial	2,884	8,043	4,630	13,489	17,244,455	53,763,838	6,600,628,102	150,566,419	8,207	14,435
Manufactured Home	248	679	251	687	294,771	859,581	39,585,441	0	740	749
Residential	59,061	162,841	61,180	168,813	97,561,296	264,742,602	53,075,983,125	6,171,656,364	198,714	205,766
SUM:	62,193	171,563	66,061	182,989	115,100,522	319,366,021	59,716,196,668	6,322,222,783	207,661	220,950

8C. Status of Required Filings

There is no exhibit for this topic

9. Underwriting
9A. Operational Review Update

MEMORANDUM

DATE: November 2018

TO: John Polak, General Manager

FROM: Denise Larzalere, Vice President Underwriting

RE: Update on Underwriting Operational Highlights

Third Quarter 2018 Highlights

I. Service Results:

a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 95% processed within 10 days.
b. Quality Assurance Results on underwriting decisions continues to exceed established goals.
c. Telephone service response time continues to meet and exceed expectations. Service Quality scores have been in the meets category. Service observation (listening to phone calls and scoring them) is now standard procedure and as an Association the departments are calibrating calls and have agreed upon service standards for telephone service.
d. Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

II. Underwriting Activities of Note:

a. TWIA Certificate of Compliance on Completed Improvements (WPI-8-Cs) status:
   i. For the period of January 1, 2018 – September 30, 2018 we have received 13,675 applications (WPI-3);
   ii. average turnaround time is less than three days;
   iii. reroof is the number one reason (47% of certificates);
   iv. in 2017 a total of 4,422 WPI-8-Cs were issued;
   v. The Confirmation of Application review completed for applications (WPI-3s) received (June-August) was sent to 64 engineers. Only two issues were discovered: a non-substantive error where the engineer transposed his license

number, and an issue that was referred to the TDI Fraud unit. On September 5,2018, the TDI Fraud unit reported they viewed this as an administrative matter rather than a criminal matter but are still evaluating. We have not received any further updates.

vi. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

III. Agency Compliance Audits:

a. Audits were performed on 20 agents (200 policies) in the 3rd quarter to verify compliance with the declination of coverage and flood insurance requirements. Two of the policies/properties selected for review required flood insurance.

  i. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage.

  ii. One of the two policies requiring flood insurance did not meet the requirement for coverage equal to 90% of the TWIA coverage amount. The agency/insured amended the coverage amount to comply.

b. All 20 agents have an active property and casualty insurance license.

10. Claims

10A. Claims Operations

TWIA Claims Operations

Hurricane Harvey

Harvey Claims Storm Report	TWIA				
	082517 Harvey				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	76,568	2,666	68,404	342	5,156
Closed Claims	74,222	2,429	66,301	339	5,153
Open Inventory	2,346	237	2,103	3	3
RCC	0	-	-	-	-
% Closed	96.9%	91.1%	96.9%	99.1%	99.94%
Closed With Payment	46,067	1,469	44,339	259	-
% Closed With Payment	60.2%	55.1%	64.8%	75.7%	-
Closed Without Payment	28,155	960	21,962	80	5,153
% Closed Without Payment	36.8%	36.0%	32.1%	23.4%	99.94%
Open With Payment	2,063	199	1,861	3	-
% Open With Payment	2.7%	7.5%	2.7%	0.9%	-
Open Without Payment	283	38	242	-	3
% Open Without Payment	0.4%	1.4%	0.4%	-	0.06%
Paid Indemnity	$ 1,197,235,832	$ 329,363,826	$ 863,981,784	$ 3,890,222	$ -
Paid Expense	$ 130,692,991	$ 20,628,800	$ 109,509,819	$ 552,711	$ 1,662
Average Paid	$ 24,890	$ 197,460	$ 18,713	$ 14,848	-
Avg # Days - FNOL to Inspect	8.9	9.9	8.9	9.3	
Avg # Days - Inspect to TWIA	6.8	12.3	6.6	6.6	-
Avg # Days - TWIA to Payment	36.1	49.8	35.7	38.1	-
Avg # Days - FNOL to Payment	48.1	69.3	47.3	53.8	-
TDI Claims Complaints	252	7	245	0	0
# TDI Complaints as a % of All Claims	0.329%	0.263%	0.358%	-	-

(1) Data current as of: 11/08/2018

(2) Data from daily claims system extracts

(3) Does not include IBNR

(4) Dates of Loss for Harvey: 08/25 - 09/01/2017

TWIA Harvey Claim Counts by County

County	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TWIA TOTAL
August 2017 Total	10,648	4,836	2,545	5,337	4,145	1,521	1,186	418	224	252	287	8	14	2,197	33,618
September Total	12,749	5,269	6,375	1,590	2,344	2,124	1,194	503	563	284	112	18	8	2,544	35,677
October Total	894	532	654	86	136	241	102	47	55	25	11	6	7	190	2,986
November Total	354	207	203	37	52	84	40	21	18	16	2	1	6	70	1,111
December Total	210	129	82	13	23	52	21	6	5	10	1	5	3	31	591
January Total	205	84	67	26	16	32	13	11	5	8	1	2	3	21	494
February Total	200	78	48	5	19	41	12	4	1	12	1			20	441
March Total	191	73	42	5	13	36	13	4	7	8		1	1	12	406
April Total	120	52	30	7	9	25	11	7	5	5			1	11	283
May Total	100	58	22	11	7	19	1	8	6			1		9	242
June Total	95	30	18	5	4	14	6	1	3	2	1	3		6	188
July Total	95	33	15	3	4	15	2		5	1		1		5	179
August Total	125	38	22	12	8	20	9	2	3	6				36	281
September Total	13	7	6	3		2			2					4	37
October Total	11	9	2	2		4	1			1					30
November Total	1	1	1			1									4
TWIA TOTAL	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TOTAL
	26,011	11,436	10,132	7,142	6,780	4,231	2,611	1,032	902	630	416	46	43	5,156	76,568

TWIA Closed Harvey Claims	Count	%
1. Closed with payment - Full Acceptance[1]	34,258	46%
2. Closed with payment - Partial Acceptance[2]	8,542	12%
3. Closed without payment - Depopulation[3]	1,505	2%
4. Closed without payment - Under Deductible[4]	14,553	20%
5. Closed without payment - Coverage Excluded[5]	4,106	6%
6. Closed without payment - No Policy in Force[6]	3,301	4%
7. Closed without payment - Opened in Error[7]	5,566	7%
8. Closed without payment - Not Pursued[8]	2,391	3%
9. Closed - Pending Reason Code[9]	0	0%
10. Total Closed[10]	**74,222**	**100%**

Row Data Descriptions:

1. Closed with payment - Full Acceptance: Claim as presented by policyholder is fully accepted by TWIA, subject to policy provisions, conditions and deductible.

2. Closed with payment - Partial Acceptance: Claim as presented by policyholder is partially accepted & partially denied by TWIA, subject to policy provisions, conditions and deductible.

3. Closed without payment - Depopulation: Claims submitted for a policy with a depopulation carrier. No TWIA policy in force.

4. Closed without payment - Under Deductible: Only includes fully or partially accepted claims for covered repair/replacement costs of damaged property where covered loss amount is below policy deductible.

5. Closed without payment - Coverage Excluded: Claim as submitted is not covered due to application of one or more policy exclusions. This represents a full denial of the claim.

6. Closed without payment - No Policy In Force: Claimant does not have an in-force policy with TWIA for the date of loss.

7. Close without payment - Opened in Error: Claim was opened by mistake by TWIA, Policyholder, or Agent. Typically involves a duplicate filed claim.

8. Closed without payment - Not Pursued: Before coverage determination is made, claimant advises TWIA they do not want to pursue their claim further.

9. Closed - Pending Reason Code: Closing reason code not selected. These will be assigned codes by 9/29/17 or sooner.

10. Total Closed: Sum of all closed TWIA hurricane Harvey claims.

Hurricane Harvey Disputed Claims

TWIA Hurricane Harvey Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,568	3,922	5.12%	3,734	819	297

TWIA 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	307	142	810	1,511	483	481
	8%	4%	22%	40%	13%	13%

TWIA Harvey Claims With Notice of Intent or Lawsuit				
Total NoI / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
1116	819	152	297	0

*data as of 11/08/18

- "Dispute Frequency" tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one "type of dispute."

2018 TWIA Claims Operations (through September)

TWIA Claims - 2018 Results (through September)					
Key Cycle Times (In days)	**Industry Average, TX**	**TWIA**	**TWIA Plan**	**Variance to Plan**	**% Variance to Plan**
FNOL to Inspect Property	4.8	3.1	<3	0.1	3%
Inspect Property to Receipt by TWIA	3.5	2.2	<8	-5.8	-73%
Receipt by TWIA to Payment	N/A	6.3	<5	1.3	26%
Total Cycle Time FNOL to Payment	N/A	11.6	<16	-4.4	-28%
TDI Complaint Ratio					
2017	0.13% - 103 complaints from 80,257 new claims				
2018	2.51% - 151 complaints from 6,007 new claims				

Year	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Actual Volume	679	687	796	433	33,997	36,256	3,350	1,315	819	757	633	658	594	524	898	693	582	668
Actuarial Projected	1,679	2,167	1,115	729	547	466	444	437	437	557	503	708	2,464	2,543	5,391	396	297	287
Median Staffing	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554	554
Open Inventory	539	520	464	376	32,978	45,679	12,858	5,105	4,921	5,036	4,526	4,526	4,250	4,360	4,234	3,809	3,657	3,264

2018 New Claim Volume

- Projected new claim volume was 13,146
- New claim volume was 6,007 or 7,139 (54%) lower than projected

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	6,007

TWIA Hurricane Events	
Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,540

2018 Disputed Claims

TWIA - 2018 Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
6,007	217	3.61%	195	46	15

TWIA - 2018 Disputed Claims With Appraisal Invoked						
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
HB3 Appraisals	Appraisal In Process	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
195	5	0	56	95	21	18
	3%	0%	97%			

- “Dispute Frequency” tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one “type of dispute.”

10B. Claims Litigation

TEXAS WINDSTORM INSURANCE ASSOCIATION

TWIA Litigation Tracking Activity

Litigation Quarter Summary

Third Quarter 2018

3rd Quarter 2018	Summary of TWIA Claims in Suit						
		New		Settled		Closed	
		Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	July	0	52	0	0	0	7
	Aug	0	46	0	0	0	0
	Sept	0	17	0	0	1	1
		0	**115**	**0**	**0**	**1**	**8**

3rd Quarter 2018	Summary of TWIA Claims with LORs						
		New		Settled		Closed	
		Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	July	0	93	0	0	0	34
	Aug	0	90	0	0	0	29
	Sept	0	41	0	0	0	26
		0	**224**	**0**	**0**	**0**	**89**

TEXAS WINDSTORM INSURANCE ASSOCIATION

TWIA Claims Litigation
September 2018

Sep-18	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	12	0	(1)	11
	HB3	312	17	(1)	328
	TOTAL	324	17	(2)	339

Sep-18	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	604	41	(26)	(17)	602
	TOTAL	604	41	(26)	(17)	602

Sep-18	TWIA Claims with Suits/LORs: Detail of Ending Inventory											
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs			Suits		LORs			
		Res	Comm	Res	Comm	Total	Res	Comm	Res	Comm	Total	
	Pre-HB3	3	8	0	0	11	0	0	0	0	0	11
	HB3	303	25	526	75	929	0	0	1	0	1	930
	TOTAL	306	33	526	75	940	0	0	1	0	1	941

TEXAS WINDSTORM INSURANCE ASSOCIATION

Sep-18

TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County

Firm	Brazoria	Chambers	Galveston	Jefferson	Nueces	Total
Buzbee		3	5			8
Hodge Law Firm			1			1
Mostyn			1	1		2
TOTAL	0	3	7	1	0	11

Sep-18

TWIA Active HB3 Claims with Suits/LORs: Breakdown by County

Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Grand Total
89	34	10	19	3	100	12	266	3	299	9	86	930

Sep-18

TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm

Firm	#
Daly & Black	286
Furlow Law Firm	125
Scott	90
Baker Law	33
Carrigan & Anderson	33
KRW	25
Arguello	21
Lindsay, Lindsay, & Parsons	17
Voss Law Firm	16
Hodge Law Firm	15
Crowell & Kucera	14
Remaining 104 firms	255
TOTAL	930

11. TWIA Operations

11A. Receive and Act on Recommendations from Legislative and External Affairs Committee Regarding Recommendations to Legislature and Biennial Report to Legislature

MEMORANDUM

DATE: December 11, 2018

TO: TWIA Board of Directors and John W. Polak, General Manager

FROM: Jennifer Armstrong, VP Communications & Legislative Affairs

RE: Legislative Recommendations for the 2018 Biennial Report

Texas Insurance Code, Section 2210.0025 requires the Texas Windstorm Insurance Association Board of Directors to submit to the Commissioner of Insurance, the Senate Committee on Business and Commerce, the House Committee on Insurance, and the Sunset Advisory Commission a written report relating to the operations of the Association during the preceding biennium. The report must include:

1. Any proposed changes in the law relating to regulation of the Association and a statement of the reasons for the changes; and
2. Any information regarding Association operations or procedures that is requested by the department to be addressed in the report.

At the Board's request, the Legislative and External Affairs (LEA) Committee met to deliberate and identify potential legislative recommendations to satisfy TWIA's statutory requirement outlined above. The recommendations the LEA Committee is proposing for the Board's consideration are listed on pages 2-3 of this memo, followed by detailed summaries and proposed statutory language in Appendices A and B, respectively. Sample legislative language is included only for those recommendations that require a change to TWIA's governing statute.

Staff will draft the 2018 Biennial Report to the Legislature to include the recommendations approved by the TWIA Board of Directors, the required statement of reasons for the changes, and a summary of the Association's accomplishments and operations.

#	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-8C 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 & 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 & 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.

Appendix A: 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 "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 Jun 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 Augumentation	$570,170
Total	$4,517,754

TWIA Expert Panel Costs	
Fee Breakdown - Maintenance - 4 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 Augumentation	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-8C 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.
- The Association 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 Certificate (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.

These 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

Recommendation 8: Reinsurance Purchase & 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 & 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 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 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, <u>on the effective date of an association policy</u> ~~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, <u>on the effective date of an association policy</u> ~~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-8C 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 (c), 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 & 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.~~

Recommendation 9: Policyholder Surcharge Cap & 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.

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.

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.~~

11B. IT Systems Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

TEXAS FAIR PLAN ASSOCIATION

MEMORANDUM

DATE: December 10, 2018

TO: John Polak, General Manager

FROM: Camron Malik, CIO / VP IT

RE: Information Technology status

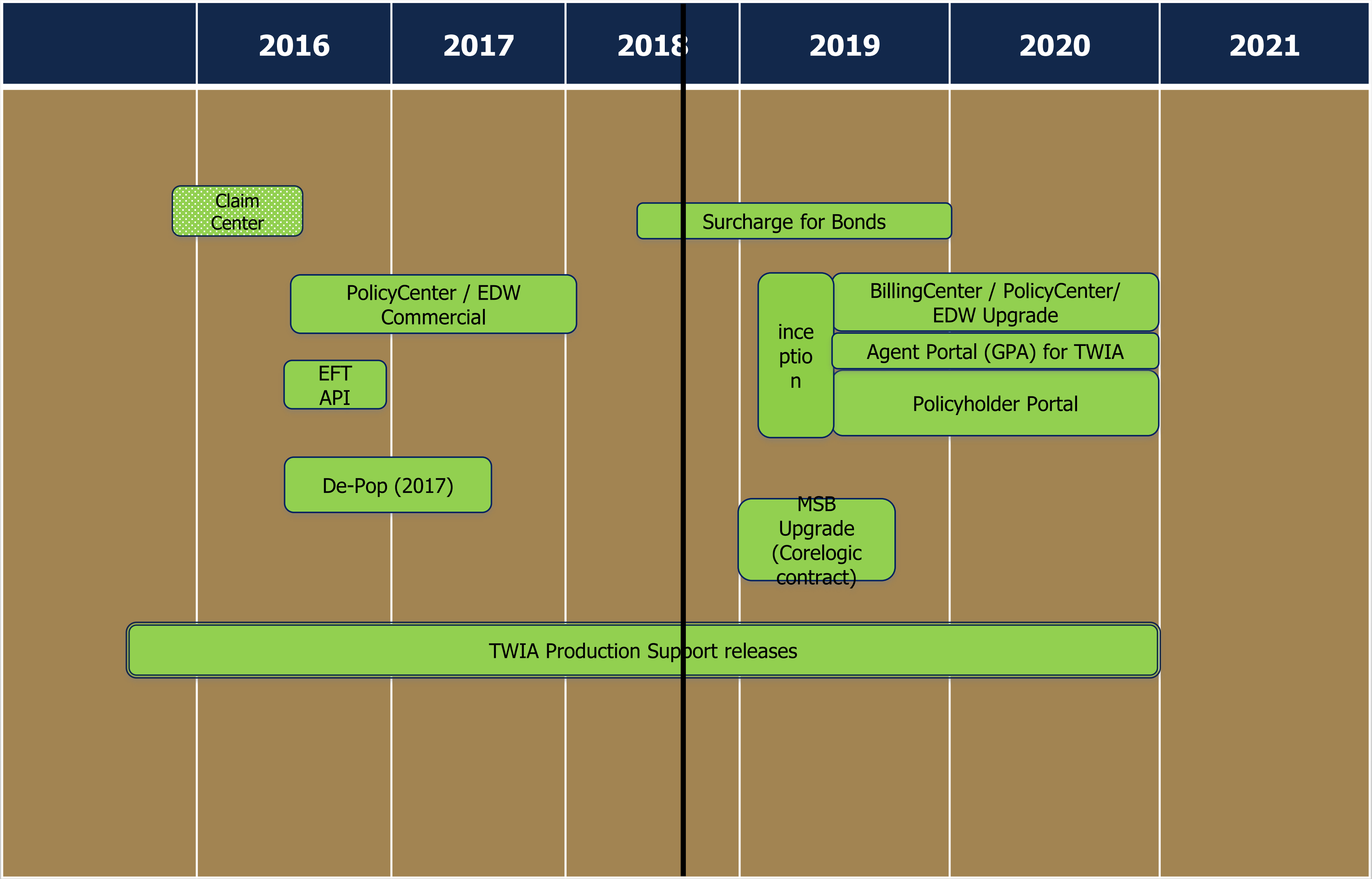
The IT department delivered on all roadmap and departmental projects. The yearly budget is under control and the expenses for both Associations are below projections.

The TFPA program was successfully deployed over the weekend of October 19th. The program consisted of PolicyCenter, BillingCenter, ClaimCenter, Enterprise Data Warehouse and Portals for Agents and Claims portal for Policyholders. The system continues to function in a robust manner and is now in production support mode.

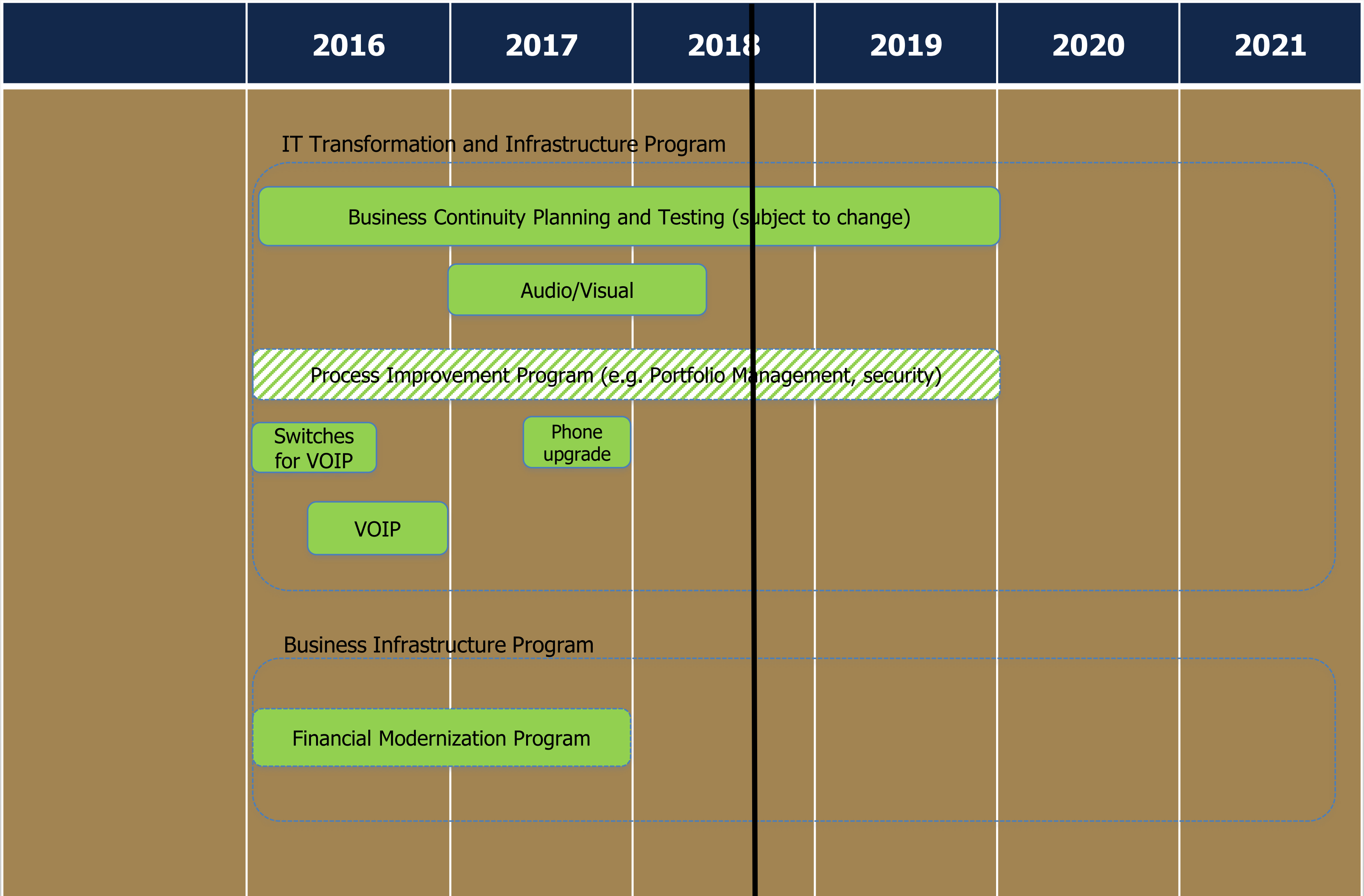
There were several major IT audits in 2018, including the internal audits by Weaver and the TDI financial audit.

The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments were met for 2018, including projects, audits and support for hurricane Harvey.

TWIA IT Roadmap Projects



TWIA IT Infrastructure Projects



2019 Major TWIA Initiatives

- **Guidewire PolicyCenter***
- **Guidewire BillingCenter***
- **Guidewire EDW***
- **Agent Portal***
- **Policy holder self-service***
- **MSB upgrade**
- **Surcharge for bonds**

***Dependency on Statute Changes**

Benefits of Implementing/Upgrading systems and Single Instance

- **Better service to policyholders and agents**
  - Process efficiency for business. e.g. single/similar processes
- **Reduced training overhead**
  - Single interface to applications, similar workflows
- **Reduced operational costs of single instance**
  - Fewer resources (people, hardware, software)
- **Reduced recurring upgrade costs**
  - Single upgrade covers both associations
  - TWIA PolicyCenter, BillingCenter now in Extended Support period with additional costs.
- **New self-service portal for policyholders**
  - Improved service for policyholders, including installments, self-pay
- **New agent portal**
  - Improved service for agents and legacy portal must be retired

2016-2019 Operating Expenses

2016 Actual	2017 Actual	2018 Projected (inc Jan – Sep actual)	2019 Projected*
$ 5,951,805	$ 3,919,580	$3,540,503	$8,894,293

*2019 includes projected expenses for maintaining current implementation, other TWIA projects and implementation/upgrade of single instance PolicyCenter and BillingCenter, Enterprise Data Warehouse, new Agent Portal and new Policyholder self-service.

The initial estimate for the TWIA upgrade/implementation of single instance PolicyCenter and BillingCenter, Enterprise Data Warehouse, new agent portal and new Policyholder self-service is $12M over a 2 year period with $5.5M in 2019 and $6.5M in 2020. The estimate is subject to change once we do an inception.

11C. Depopulation

There is no exhibit for this topic

11D. TWIA Expert Panel

There is no exhibit for this topic

11E. Sunset Review

TWIA TEXAS WINDSTORM INSURANCE ASSOCIATION

Response to the Sunset Advisory Commission's Staff Report (Summary)

November 2018

John W. Polak, CPCU
General Manager

Issue 1 TWIA's Competing Statutory Mandates Leave Its Sustainability in Question.

Response to Recommended Changes in Statute

1.1 Continue TWIA as an insurer of last resort.

TWIA agrees with this recommendation

Requiring TWIA to transfer any policy that receives an offer through the depopulation program must account for the contractual rights of agents and insurers and the financial obligations and commitments of TWIA.

1.2 Continue TWIA as an insurance company reliant primarily on premium funding.

- Require TWIA to recommend and the Texas Department of Insurance to approve actuarially sound rates within five years

  Response: TWIA does not have any objection to this recommendation.

- Direct TWIA and the Texas Department of Insurance to adopt an investment plan for the Catastrophe Reserve Trust Fund

  Response: TWIA does not believe this recommendation would be beneficial because of TWIA's overriding need for liquidity.

- Amend TWIA's statute to allow TWIA to purchase reinsurance to protect a portion of its Catastrophe Reserve Trust Fund, in line with the operations of many private insurance companies.

  Response: TWIA agrees with this recommendation.

- Direct the Texas Department of Insurance to reduce TWIA's commission rates paid to insurance agents to align TWIA's commission rates with the commission rates paid by the Texas FAIR Plan.

  Response: TWIA is neutral on this recommendation. TWIA is comfortable with the current statutory structure under which final authority to set commissions rests with the Commissioner of Insurance.

- Remove requirements in statute that TWIA not compete with private industry and that TWIA function only as an insurer of last resort.

Response: TWIA is neutral on this recommendation.

- Abolish the depopulation programs required in statute and the declination requirement to qualify for coverage, effectively allowing TWIA to increase its revenue pool.

  Response: We agree with this recommendation and support continued voluntary depopulation efforts. The Association believes the declination requirement is valuable and tends to encourage the placement of risks in the voluntary market.

Issue 2 Inefficient Renewal Requirements and Payment Policies Increase Costs for Policyholders.

Response to Recommended Changes in Statute

2.1 Require TWIA to automatically offer policy renewal unless new information is necessary.

TWIA agrees with this recommendation.

2.2 Authorize TWIA to accept installment premium payments.

TWIA agrees with this recommendation.

2.3 Authorize TWIA to accept credit card payments.

TWIA agrees with this recommendation

Response to Recommended Management Actions

2.4 Establish separate insurance agent commission rates for new applications and automatic renewals.

TWIA agrees that the Board of Directors can consider the feasibility of recommending the commissioner establish commission rates for new applications and automatic renewals once the statute is amended to allow automatic renewals.

2.5 Direct TWIA to directly bill customers for premiums for automatic renewal.

TWIA agrees with this recommendation.

Issue 3 Despite Improvements in Claims Handling, TWIA's Hurricane Harvey Response Highlights Difficulties for Policyholders.

Response to Recommended Changes in Statute

3.1 Authorize TWIA to issue supplemental payments.

TWIA agrees with this recommendation.

3.2 Require TWIA to assess the replacement cost of a property only at the time TWIA issues or renews the policy.

TWIA agrees with this recommendation.

Response to Recommended Management Actions

3.3 Direct TWIA to track and report more comprehensive information regarding claims handling performance.

TWIA agrees with this recommendation.

3.4 Direct TWIA to develop a post hurricane communication plan with more input from stakeholders.

TWIA agrees with this recommendation.

3.5 Direct TWIA to fully implement a risk-based approach to monitoring insurance adjusters.

TWIA agrees with this recommendation though we will need more clarity on the improvements Sunset staff is recommending.

Issue 4 TWIA's Assumption Reinsurance Depopulation Program Is Unnecessarily Complicated and Inefficient.

Response to Recommended Changes in Statute

4.1 Eliminate the Assumption Reinsurance Depopulation Program.

TWIA recognizes that this is a matter of legislative public policy and is neutral on this recommendation.

Issue 5 TWIA's Process for Issuing Windstorm Certificates of Compliance Is Duplicative and Poses Risks to Public Safety.

Response to Recommended Changes in Statute

5.1 Transfer the issuance of WPI-8-Cs from TWIA to TDI.

TWIA agrees with this recommendation. TWIA suggests that if adopted, the statutory change include a period of transition to move the program from TWIA to TDI.

5.2 Remove the ability to obtain a WPI-8-C based on design alone.

TWIA agrees with this recommendation.

Issue 6 TWIA Lacks Certain Good Government Standards That Would Enhance Responsiveness, Transparency and Accountability.

Response to Recommended Changes in Statute

6.1 Authorize TWIA to formally propose rules to the Texas Department of Insurance

TWIA agrees with this recommendation

6.2 Apply the standard across-the-board requirement related to board member training.

TWIA does not believe it is necessary to codify what is already standard operating procedure as additional Insurance Code text.

6.3 Apply standard across-the-board requirements related to public membership.

TWIA does not agree with this recommendation. We understand the issue Sunset staff is seeking to address however the recommendation is too broad and would prohibit stakeholders with valuable perspectives from serving on the Board of Directors.

6.4 Require TWIA board members to publicly disclose specific conflicts of interest.

TWIA disagrees with this recommendation. TWIA has a rigorous ethics and conflict of interest policy and requires board members to make annual certifications and disclose relevant conflict information.

6.5 Eliminate the duplicative *Bimonthly Report Card* reporting requirement and continue TWIA's two other required reports.

TWIA agrees with this recommendation.

Sunset Advisory Commission

Staff Report

on

Texas Windstorm Insurance Association

List of Commenters*

Name	Title	Organization	City	
Doug Slape	Chief Deputy Commissioner	Texas Department of Insurance	Austin	
Garry Kaufman	Galveston Insurance Associates	Texas Windstorm Insurance Association Agents Advisory Group		Wally Goodman, Borden Insurance; Chris Graham, Shepard Walton King; Travis McDavid, GSM Insurors; Shameka Robinson, USAA; Scot Babineaux, Farmers Insurance; Clyde Neal, Neal Insurance Agency; Greg Gardner, State Farm
Julie Greenwell	Realtor		Galveston	
Kelli Untermeyer	Broker Associate	Cobb Real Estate	Crystal Beach	
Beaman Floyd	Executive Director	Texas Coalition for Affordable Insurance Solutions	Austin	
Wendell Odorizzi	Realtor	Galveston Association of Realtors	Galveston	

*As of December 3, 2018

Name	Title	Organization	City
John Moran	Realtor Associate	Joe Tramonte Realty Inc.	Galveston
Andrea Sunseri	Realtor Associate	Galveston Association of Realtors	Galveston
Debbra A. MacNeil	President 2018	Brazoria County Board of Realtors	
Lee Loftis	Government Affairs Director	Independent Insurance Agents of Texas	Austin
Kaye Beneke	Executive Director	Texas Association of Public Insurance Adjusters	Austin
Fred C. Bosse	Vice President, Southwest Region	American Insurance Association	Austin

*As of December 3, 2018

11F. Communications Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: November 16, 2018

TO: TWIA Board of Directors

FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs

RE: Communications & Legislative Affairs Operational Highlights

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I. Legislative & Regulatory Affairs

a) We continue to act as a resource to state legislators and local officials and community leaders, providing operational updates and responding to constituent inquiries:
   - Held a Board meeting materials briefing for interested legislative staff in July 2018.
   - Completed separate presentations for legislative staff and TDI staff on the 2018 Annual Report and CAT Plan in August 2018.
   - Conducted a briefing on the Allegro North Condominiums claim for legislative offices with unit owner/board member constituents in August 2018.
   - Provided an overview on TWIA history and operations for the Senate Business & Commerce Committee Clerk (Committee Chair Kelly Hancock, Dist. 9 – Dallas/Tarrant) in August 2018.
   - Met with Sen. Donna Campbell's (Dist. 25) District Office Manager, Kelly Follis, in New Braunfels to provide a TWIA overview and discuss certain Hurricane Harvey claims in September 2018.
   - Testified at the House Committee on Land & Resource Management hearing in October 2018, providing verbal testimony related to the proposed 2019 rate increase.

b) We received and responded to 62 legislative inquiries and 37 inquiries from regulatory agencies and trade associations from July 1 through September 30, 2018.

c) We continue to provide recurring claims and operational email updates to the Board, TDI and Legislative staff.

II. Hurricane Preparedness & Coastal Outreach

a) Our annual Hurricane Preparedness campaign, extending from April through November, is nearing its end. During Q3 2018, we participated in two coastal outreach events:
   - In July 2018, we presented at the Galveston Association of Realtors Insurance Roundtable to provide information about TWIA coverage and eligibility requirements.

- In September 2018, we participated in the San Patricio County All Hazards Expo, focused on disaster recovery and emergency preparedness.

b) As part of our ongoing coastal outreach program, we participated in a total of 27 events from January 1 through September 30, 2018 and met with key stakeholders in the coverage area to discuss TWIA-related matters.

III. Media Relations

a) In Q3 2018, we had 324 media mentions[1]. A higher percentage of negative mentions (54%) in Q3 can be attributed to coverage of TWIA's proposed rate increase for 2019, which included opposition to the proposed rate increase from coastal residents and public officials. Positive and neutral media mentions amounted to 46% of the coverage.

b) We responded to 24 media inquiries from July 1 to September 30, 2018, the majority related to TWIA's proposed rate increase and requests for claims data from Hurricane Harvey. We were also interviewed by three media outlets in Q3 2018:

- We provided more information about TWIA's use of building consultants to determine accurate claim estimates in an interview with KHOU 11 News in July 2018.
- We provided contextual information about TWIA's rate-making process and the decision to propose a 10% rate increase for 2019 in light of TWIA's rate inadequacy in an interview with KRIS 6 News in August 2018.
- We provided information about the need for policyholders to file their Hurricane Harvey claim by the one-year deadline to KRTH News Radio 740 in August 2018.

IV. Agent Advisory Group (AAG) Updates

a) We convened the Q3 AAG meeting on October 4, 2018, providing operational updates and information about the Sunset Commission's review of TWIA and how we are preparing for the upcoming legislative session in 2019. The next AAG meeting will occur in January 2018.

b) Agent Greg Gardner was newly appointed to the group in October 2018. He will take over representation for State Farm from the previous representative, Darryl Harris. His term expires in June 2021.

[1] Media mentions include articles picked up and posted by multiple outlets, thus the actual number of unique articles with mentions about the Association may be less than the reported total.

V. Change Management

a) We continue to mature our change management program at the Association by focusing on training and communications that help internal and external stakeholders successfully adopt new systems and processes, proactively plan for potential issues, and achieve operational efficiency.

- To date, in 2018, we have completed change management training for 180 employees; in 2017, we trained 61.
- Saved over $126,000 in operational training expenses by moving from a vendor to using in-house resources to train employees on change management.
- Of employees surveyed, 96% felt the training was valuable and the vast majority responded that it was highly effective.
- For every major Association project in 2018, we conducted impact analysis reports to more fully understand the size and impact of changes on impacted employees and transition better;
- Formal change strategies, communication plans, training plans, and multi-department change management teams have been used as tools to more effectively and efficiently manage Association transitions.
- We have begun to regularly conduct surveys of agents and interview agents and agency staff to gather insights on stakeholder experience with changes for the improvement of training and communications.

11G. Review and Approval of 2019 Budget

MEMORANDUM

DATE: November 16, 2018

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **TWIA 2019 Budget Summary**

The attached budget represents the culmination of the TWIA 2018 Planning Process. This document is designed to be a qualitative overview of the 2019 Financial Budget. Detailed assumptions and results are included in the following Exhibit.

Budget Summary

The 2019 Budget is heavily impacted by (a) the assumption that policy counts will continue to decline, (b) the absence of a rate increase in 2019, (c) significant ongoing loss adjustment expenses associated with the remaining outstanding Hurricane Harvey claims, and (d) significant contractor and professional fees associated with the implementation of the Guidewire system in TWIA to replace the legacy CGI system.

TWIA Policies in Force, including residential and commercial policies are expected to decline from a forecast 200,958 at year end 2018 to 178,519 at the end of 2019. With the assumption that no rate increase will be in effect for 2019, direct written premium is projected to decline from forecasted full year 2018 of $391.0 million to $348.6 million. Net earned premium is projected to decline from $297.3 million in 2018 to $265.0 million in 2019, despite a projected reduction in reinsurance costs of $8.0 million

Budgeted loss and loss adjustment expense are based on expected loss ratios that take into consideration average spring storm activity. The budget assumes no adverse development from Hurricane Harvey loss reserves and no new hurricanes in 2019.

Gross operating expenses are expected to be lower in 2019 than 2018 due to a substantial reduction in the level of contractors and temporary help required for Hurricane Harvey claims handling. Net Operating Expenses are projected to increase from $30.2 million to $35.9 million primarily as a result of the TWIA core system implementation that commences in 2019, non-claim related legal expenses associated with TWIA funding initiatives.

TWIA is projected to show net underwriting gain in 2019 of $107.8 million, which is above the 2018 Budgeted net underwriting gain of $99.8 million.

Based on a directive from TDI regarding the interpretation of relevant rules and statutes, TWIA is projecting a contribution to the CRTF of $112.1 million based on 2018 forecasted results which will be paid in March 2019. TDI's directive requires the Association to determine its net gain from operations based on accident-year incurred losses, rather than calendar year reported losses. Based on the 2019 budgeted financial results, TWIA anticipates a $36.4 million payable to the CRTF by year end 2019.

Based on budgeted net income and the associated contribution to the CRTF, the budget results in a $48.0 million improvement in the deficit from negative $287.0 million at December 31, 2018 to negative 239.0 million at December 31, 2019.

Additional information and detail is available in the Assumption Exhibit attached.

Please let me know if you have any questions or would like to discuss this matter.

MEMORANDUM

DATE: November 15, 2018

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **TWIA 2019 Budget Summary – Detailed Assumptions and Results**

The attached budget results from the TWIA 2018 Planning Process. This document is intended to provide detailed assumptions and input underlying the 2019 Financial Budget.

Revenue Planning Key Assumptions & Results

- Projected policy in force is expected to decline from 200,958 policies at December 31, 2018 to 178,519 at December 31, 2019.
  - Approximately 2,400 policies are expected to be depopulated after the policyholder opt out period ends and another 20,000 policies are planned to decrease through attrition.
- There is currently no rate change effective for 2019 due the postponement of the Commissioner's decision on the 2018 rate filing.
- Direct exposures are expected to decrease from \$57 billion at December 31, 2018 to \$52 billion as of December 31, 2019.
- Direct written premium is expected to be \$349 million for 2019 which is an 11% decline from 2018.
- Direct earned premium is expected to be \$367 million for 2019 which is a 9% decline from 2018.

Loss & LAE Key Assumptions & Results

- The direct loss & loss adjustment expense ratio assumed for 2019 is 17%.
- The 10 year average loss & LAE ratio, excluding hurricanes, from 2008 to 2017 is approximately 14.1%. The 2019 ratio was selected higher to give more weight to the results of recent years which had higher storms in the 1st and 2nd quarters.

Reinsurance

- Wind/hail exposure purchases
  - Reinsurance is expected to be placed in both the traditional and catastrophe bond markets for the 2019 storm season.
  - The 2019 reinsurance premiums ceded have been projected to decrease \$8 million over the 2018 forecast due to projected decrease in the aggregate required coverage by approximately 10%. Ceding Commission / brokerage is projected at \$2.3 million and is consistent with the ceded written premium.
- Depopulation reinsurance – Round 3
  - TWIA will be entering into a 100% quota share reinsurance agreement with the depopulation carriers effective December 1, 2018 on an earned premium basis.
  - The treaty is expected to be in place until the underlying policies are novated on June 1, 2019.

    - The premiums will be held by TWIA net of ceded losses and loss adjustment expenses paid as well as a 24% ceding commission. These funds will be remitted to the depopulation carriers in June of 2019 followed by monthly true-ups for losses and LAE to be paid and ceded after June 1, 2019.

<u>Acquisition Expenses</u>

- Commission expense is projected at 16% and is consistent with the rate for 2018.
- Premium tax expense is projected at 1.97% consistent with 2018.

<u>Operating Expenses</u>

- These expenses are built using both a bottom up approach and a top down approach. Each department head is responsible for building their budget from the bottom up and reviewed with executive management. Executive management provided guidance regarding certain assumptions to be used, such as base compensation changes, inflation etc.
- Key operational expense analysis is as follows:
    - Personnel Costs – $37.8 million – below the 2018 forecast of $53 million.
        - The 2019 budget reflects $16.7M in costs associated with contractors and temporary help to continue the Hurricane Harvey claims response.
        - The Association continues to try to effectively and economically balance the need of permanent staff versus the utilization of contractors and temporary help.
    - Professional Services - $14.1 million – which is higher than the 2018 Forecast of $10.3 million and the 2018 Budget of $11.1M.
        - Approximately $5.2 million of the increase is associated with the implementation of the Guidewire system in TWIA
        - Approximately $1.3 million is associated with legal and other advisory costs associated with the renewal of the line of credit and the potential refinancing of the Series 2014 bonds.
    - Hardware & Software Purchases & Licensing - $3.4 million – very close to the 2018 budgeted and forecasted amounts.
    - Rental & Maintenance - $1.4 million – very close to the 2018 budgeted and forecasted amounts.
    - Travel Expenses - $375 thousand – down slightly from the 2018 budgeted amount due to less expensed associated with the catastrophe deployment and community outreach.
    - Postage & Telephone - $1.0 million – very close to the 2018 budgeted amount.
    - Capital Management Expenses - $1.2 million –commitment fees associated with the $500 million line of credit established in 2018 as well as modest maintenance costs associated with the 2014 Pre Event Class 1 Bond Issuance and
    - Other Operating Expenses - $1.1 million – very close to the 2018 budgeted and forecasted amounts.

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)

		for the twelve months ended December 31,				
		Forecast - 2018	Budget - 2018	Variance - 2018	Budget - 2019	
	Premiums Written:					
1	Direct	$ 390,979	$ 405,876	$ (14,897)	$ 348,634	1
2	Ceded	(108,654)	(139,385)	30,730	(100,000)	2
3	Ceded - Depopulation	(1,722)	(3,086)	1,365	(2,170)	3
4	Net	280,603	263,405	17,198	246,464	4
5	**Premiums Earned:**					5
6	Direct	$ 408,250	$ 411,341	$ (3,091)	$ 367,141	6
7	Ceded	(108,654)	(139,385)	30,730	(100,000)	7
8	Ceded - Depopulation	(1,722)	(3,086)	1,365	(2,170)	8
9	Net	297,873	268,870	29,004	264,971	9
10	**Deductions:**					10
11	Losses and LAE Incurred	12,473	70,595	(58,122)	61,945	11
12	Losses and LAE Incurred - Harvey	164,000	0	164,000	0	12
13	Ceded Losses and LAE Incurred - Depopulation	244	(873)	1,117	(592)	13
14	Operating Expenses	30,241	30,998	(758)	35,919	14
15	Commission Expense	62,535	64,939	(2,404)	55,782	15
16	Ceding commissions / brokerage	(2,458)	(3,860)	1,402	(2,262)	16
17	Ceding commissions / brokerage - Depopulation	(413)	(741)	327	(521)	17
18	Premium / Maintenance Tax	7,634	7,996	(362)	6,870	18
19	Total Deductions	274,256	169,055	105,201	157,141	19
20	**Net Underwriting Gain or (Loss)**	23,617	99,815	(76,198)	107,830	20
21	**Other Income or (Expense):**					21
22	Gross Investment Income and Other	4,478	5,437	(959)	4,929	22
23	CRTF Funds Received	0	0	0	0	23
24	Member Assessment Income	281,820	0	281,820	0	24
25	Interest Expense on Debt	(32,303)	(32,303)	0	(28,343)	25
26	Total Other Income or (Expense)	253,995	(26,866)	280,861	(23,414)	26
27						27
28	**Net Income (Loss)**	$ 277,612	$ 72,949	$ 204,663	$ 84,416	28
29						29
30	**Surplus (Deficit) Account:**					30
31	Beginning Surplus (Deficit)	(461,390)	(461,390)	(0)	(287,017)	31
32	Net Income (Loss)	277,612	72,949	204,663	84,416	32
33	Principal Funded on Class 1 Bonds (net)	0	0	0	0	33
34	Change in nonadmitted assets - Other	8,903	10,110	(1,207)	(0)	34
36	Statutory Fund Cost	(112,142)	0	(112,142)	(36,440)	36
37	Ending Surplus (Deficit)	$ (287,017)	$ (378,331)	$ 91,314	$ (239,041)	37
38						38
39	**Key Operating Ratios:**					39
40	Direct:					40
41	Loss & LAE Ratio	43.2%	17.2%	26.1%	16.9%	41
42	UW Expense Ratio:					42
43	Acquisition	17.9%	18.0%	0.0%	18.0%	43
44	Non Acquisition	7.4%	7.5%	-0.1%	9.8%	44
45	UW Expense Ratio	25.4%	25.5%	-0.2%	27.8%	45
46	**Direct Combined Ratio**	68.6%	42.7%	25.9%	44.6%	46
47						47
48	**Net Combined Ratio**	85.2%	63.3%	21.9%	60.6%	48
49						49
50	Ending Balance in CRTF	6,090	6,117	(27)	124,164	50

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)

	for the twelve months ended December 31,			
	Forecast - 2018	**Budget - 2018**	**Variance - 2018**	**Budget - 2019**
Personnel Expenses				
Salaries & Wages - Permanent	10,438	11,978	(1,541)	12,067
Contractor & Temporary Help	37,740	36,655	1,085	20,130
Payroll Taxes	787	938	(151)	938
Employee Benefits	3,728	3,873	(145)	4,241
Recruiting, Training & Other	367	469	(102)	476
Subtotal	53,061	53,914	(853)	37,853
Professional & Consulting Services				
Legal	729	584	144	1,985
Accounting & Auditing	216	274	(59)	273
Information Technology	429	1,096	(667)	5,669
Actuarial Services	151	29	122	35
Ombudsman Program	111	114	(3)	111
Surveys & Inspections	1,849	2,028	(179)	1,854
Disaster Recovery Services	108	105	3	169
Other Services	6,754	6,893	(139)	4,011
Subtotal	10,347	11,125	(778)	14,107
Hardware/Software Purchases & Licensing	3,050	3,238	(188)	3,486
Rental & Maintenance - Office/Equipment	1,374	1,338	36	1,398
Travel Expenses	340	394	(54)	376
Postage, Telephone and Express	1,092	1,006	86	1,010
Capital Management Expenses	2,272	196	2,076	1,224
Depreciation	889	902	(13)	0
Other Operating Expenses	1,222	1,100	122	1,061
Total Operating Expenses	73,647	73,212	434	60,516
Capitalization of Fixed Assets	0	(50)	50	0
Reimbursement of Depopulation Servicing Expenses	(247)	(374)	127	(161)
Allocation To ULAE	(42,460)	(41,594)	(866)	(23,211)
Allocation To Investing	(699)	(196)	(503)	(1,224)
Net Operating Expense - UW Operations	30,241	30,998	(758)	35,919

15. Future Meetings
February 5, 2019 – Marriott South – Austin
May 7, 2019 – Hyatt Regency – Austin
August 6, 2019 – Tremont House – Galveston