



Xiuyu Li, ACAS, MAAA
Senior Actuary
Manager of Actuarial Analysis

April 29, 2021

Mrs. J'ne Elizabeth Byckovski
Chief Actuary
Texas Department of Insurance
333 Guadalupe Street
Austin, TX 78714-9104

RE: Texas Windstorm Insurance Association Annual Rate Filing

Dear J'ne:

Section 2210.351 of the Texas Insurance Code states that the Texas Windstorm Insurance Association shall file with the Department a proposed manual rate for all types and classes of risks written by the Association. This filing is made pursuant to Section 2210.351 and fulfills all of the requirements of that section.

TWIA is proposing a new, optional endorsement to provide separate and additional coverage for other structures as an alternative to the current policy provision, which will also remain in place when the optional endorsement is not selected. If selected by an agent at application, the endorsement will enable the agent to select an additional amount of coverage for other structures in the aggregate, in increments of ten percentage points, up to fifty percent of the total limit for Coverage A. Once the endorsement is approved and implemented, about 2,317 (1% of current in-force book) dwelling residential outbuildings and other non-primary risk items, which are currently scheduled and rated individually, will have the option of providing coverage through use of the other structure endorsement or writing a separate policy. The overall impact on premium written by the Association is expected to be 0. The expected impact on premium of an individual policy varies, predominately in the range of -10% to 10%.

If you or your staff have any questions or comments, please contact Jerry Fadden or me.

Respectfully,

A handwritten signature in black ink, appearing to read 'Xiuyu Li', is written over a light blue horizontal line.

Xiuyu Li

Texas Windstorm Insurance Association

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Rate Development Overview & Proposed Rates for Other Structures

Session I - Background

The Association currently offers coverage against windstorm and hail losses for appurtenant structures via a provision in its Residential Dwelling Policy. The policy limits the liability for other structures to 10% of the Coverage A (Dwelling) limit of liability and specifies that this is not additional coverage nor does it increase the Coverage A (Dwelling) limit of liability. There are related limitations spelled out in the policy (e.g., the Association does not cover certain items unless they are specifically listed on the declarations page, and it does not cover structures used for commercial purposes). From under-writing perspective, there are potential drawbacks to this framework, including the risk of a policyholder being underinsured in the event of a total loss, and the difficulty in specifically valuing each “other structure.”

In order to mitigate these issues, TWIA is proposing a new, **optional** endorsement to provide separate and additional coverage for other structures as an alternative to the current policy provision, which will also remain in place when the optional endorsement is not selected. If selected by an agent at application, the endorsement will enable the agent to select an additional amount of coverage for other structures in the aggregate, in increments of ten percentage points, up to fifty percent of the total limit for Coverage A. The endorsement brings visibility to this coverage for other structures that may mitigate potential confusion and frustration that arises when policyholders under the current framework encounter a large loss.

Session II - Covered Risk Items Descriptions

Once the endorsement is approved and implemented, dwelling residential outbuildings and other non-primary risk items, which are currently scheduled and rated individually, are expected to be covered by the other structure coverage through the endorsement. The following table illustrates the risk items likely to be covered by the endorsement form.

Class Description	Number of items in-force as of Feb, 2021
Dwelling residential Outbuildings	1,903
Farm & Ranch Dwelling Outbuilding (Excluding "Barn" Type Structures)	10
All Other Residential Structure Items	404
Total	2,317

Session III - Data and Data Adjustments

The rates, defined as premiums per \$1,000 limits, are derived from premium and limit data for the subject risk items as described in session II, which were written during 2018, 2019, and 2020.

TWIA's current rates took effect on January 1, 2018, premiums written during 2018 – 2020 are naturally at TWIA's present rates. Premium for any risk items with a policy term less than 12 months due to cancellations is restated to reflect the full-term (12 months) premium.

Session VI- Analysis and Rate Development

	Territory 8,9,10	Territory 1	All Territories
(1) Total Building Limits of Other Structures (PY2018-2020)	325,893,383	6,561,162	332,454,545
(2) Other Structure Risk Count (PY2018-2020)	7,111	108	7,219
(3) Total Premium at Present Rates Adjusted to full term (PY2018-2020)	2,324,226	34,936	2,359,162
(4) Indicated Premium Rate per \$1,000	7.13	5.32	
(5) Credibility Standard (risk count)	1082	1082	
(6) Credibility Factor	1	0.316	
(7) Complement of Credibility	NA	4.49	
(8) Credibility Weighted Premium Rate per \$1,000	7.13	4.75	
(9) In-force premium of Other Structures as of Feb 2021	767,074	10,257	777,331
(10) In-force premium of Other Structures as of Feb 2021 at Credibility Weighted Premium Rate	783,032	9,581	792,613
(11) Off-Balance Factor to Premium Level on Feb 2021			0.981
(12) Selected Premium Rate per \$1,000	6.99	4.66	

Notes:

(1) - (3) TWIA data

(4) = (3)/(1)*1000

(6) = $\min(1, \sqrt{(2)/(5)})$

(7) Selected as 0.629*Territory 8,9,10 credibility weighted premium rate; 0.629 is ratio of rates in Territory 1 to rates in Territory 8

(8) = ((4)*(6) + (7)*[1-(6)])*1000

(9) TWIA Data

(10)=(9) is re-stated at (8)

(11) = All Territories (9) / All Territories (10)

(12) = (8)*(11)

Session V - Rates

Additional coverage for residential other structures may be provided at the per \$1,000 rate in the table shown below, regardless of deductible. The additional coverage is subject to a minimum of 10% of coverage A and a maximum of 50% of coverage A.

Coverage % of Coverage A	Territory 1	Territory 8,9,10
Min 10% to Max 50%	4.66	6.99

Session VI – Premium Impacts

The overall impact on premium written by the Association is expected to be 0. The expected impact on premium of an individual policy varies, which is illustrated by the following table.

Change as % of Primary Dwelling Premium	% Distribution
-50% to -40.01%	0.00%
-40% to -30.01%	0.00%
-30% to -20.01%	0.00%
-20% to -10.01%	0.01%
-10% to 0%	0.70%
No Change	98.82%
0% to 10%	0.39%
10.01% to 20%	0.07%
20.01% to 30%	0.01%
30.01% to 40%	0.00%
40.01% to 55%	0.00%
Total	100%

Exhibit A – Rate Filing Checklist**Company name:** _____**Company NAIC number:** _____**Line:** _____

All rate filings – The following items are required in filings except short track filings and filings for insurers that qualify for reduced filing requirements under 28 Texas Administrative Code (TAC) Chapter 5, Subchapter M, Division 9

- ☐ Transmittal information
- ☐ Rates, supplementary rating information, and fees
- ☐ Filing memorandum
- ☐ Rate filing checklist (Exhibit A)
- ☐ Rate change information (Exhibit C)
- ☐ SERFF rate data
- ☐ Loss cost information for reference filings (Exhibit G)
- ☐ Actuarial memorandum
- ☐ Actuarial support
 - ☐ Rate indications (overall, coverage, form, or peril)
 - ☐ Relativity analysis (territory, driver class, etc.)
 - ☐ Other actuarial support
- ☐ Policyholder impact information (for owner-occupied homeowners and personal automobile)
- ☐ Average rate change by county (Exhibit County, for owner-occupied homeowners)
- ☐ Historical premium and loss information (Exhibit D)
- ☐ Expense information, including disallowed expense adjustment (Exhibit E, all lines except workers' compensation and mortgage guaranty)
- ☐ Expense information (Exhibit F, for mortgage guaranty and workers' compensation)
- ☐ Profit provision information (Exhibit L)
- ☐ Certification (Exhibit MG, for mortgage guaranty)
- ☐ Workers' compensation information (Exhibit WC)
- ☐ Support for use of credit scoring (28 TAC Section 5.9941, CS Exhibit)
- ☐ Support for territory rating (28 TAC Section 5.9960, Territory Exhibits)

Company name: _____

Company NAIC number: _____

Line: _____

Short track filings – The following items are required if the filing qualifies as a short track filing, in which limited information is needed to determine compliance with Texas statutes and rules. 28 TAC Section 5.9331(b)(4).

- ☐ Transmittal information
- ☐ Rates, supplementary rating information, and fees
- ☐ Filing memorandum
- ☐ Rate filing checklist (Exhibit A)
- ☐ Rate change information (Exhibit C)
- ☐ SERFF rate data
- ☐ Side-by-side comparison or a mark up, if applicable

Division 9 rate filings – The following items are required in a filing for insurers that qualify for reduced filing requirements under 28 TAC Chapter 6, Subchapter M, Division 9.

- ☐ Transmittal information
- ☐ Certification (EC-1, residential property)
- ☐ Certification (EC-2, personal automobile)
- ☐ Rates, supplementary rating information, and fees
- ☐ Filing memorandum
- ☐ Rate filing checklist (Exhibit A)
- ☐ Rate change information (Exhibit C)
- ☐ SERFF rate data
- ☐ Loss cost information for reference filings (Exhibit G)
- ☐ Policyholder impact information (for owner-occupied homeowners and personal automobile)
- ☐ Average rate change by county (Exhibit County, for owner-occupied homeowners)

Division 10 additional requirements for certain county mutual insurers – The following item is required in addition to those for all rate filings for county mutual insurers described by Texas Insurance Code Sections 912.056(d) and (e).

- ☐ Additional Information for Certain County Mutuals (Exhibit CM)