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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# TWIA Bimonthly Report Card January – February 2018

**Jennifer T. Armstrong**  
Vice President, Communications & Legislative Affairs

**April 2, 2018**



April 2, 2018

**Re: Bimonthly Report Card – Section 2210.107(b)**

Dear Board Members,

Pursuant to Texas Insurance Code Section 2210.107(b), please find the bimonthly report card evaluating the extent to which TWIA has met the objectives described therein for the two-month period preceding the date of the report (January and February 2018). These interim report cards are provided every 60 days as required by statute and culminate in an Annual Report Card issued each June.

The primary objectives of the Board, as set forth in Chapter 2210 of the Texas Insurance Code, are to ensure that the Board and TWIA: (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 the 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.

The initial report cards established the standards of performance for the Association to be reported against in subsequent report cards. Additional standards have been and will continue to be added as appropriate and as approved by the Board of Directors. The report includes the [State of the Association](#), describing the Association's operational improvements and activities, and a [Statutory Compliance](#) section detailing each required area of compliance in order of the statutory reference. The Association is in full material compliance with all current standards of performance outlined in this report. This is the thirty-second interim report card to be issued by TWIA since the enactment of House Bill 3.

Should you have any questions, please feel free to contact me at (512) 637-4031.

Sincerely,

Jennifer T. Armstrong  
Vice President, Communications & Legislative Affairs



# Table of Contents

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State of the Association .....	4
Statutory Compliance Sections .....	12
Section A: Biennial Report .....	13
Section B: Insurable Property and Coverage Requirements .....	13
Section C: Rulemaking Authority.....	15
Section D: Depopulation .....	15
Section E: Standards of Conduct.....	16
Section F: Annual Statement.....	20
Section G: Examination of Association .....	22
Section H: Catastrophe Funding .....	22
Section I: Board of Directors .....	25
Section J: Open Meetings Act.....	25
Section K: Public Information Act.....	26
Section L: Plan of Operation.....	26
Section M: Policy Issuance .....	27
Section N: Compliance with Building Codes.....	28
Section O: Rates.....	29
Section P: Catastrophe Plan .....	30
Section Q: Limits of Liability.....	33
Section R: Certain Appeals and Other Actions .....	34
Section S: Ombudsman Funding and Program .....	35
Section T: Annual Evaluation of Association Management .....	36



## State of the Association

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On April 8, 2016, TDI released TWIA from Administrative Oversight. This marked the end of a five-year systematic overhaul of the Association that began in 2011 after TDI placed TWIA under Administrative Oversight due to management and claim handling concerns. During those five years, TWIA made improvements in every area – from corporate governance to the Association’s daily operations. However, TWIA’s release from Administrative Oversight does not mean our improvement is complete.

The Association’s improvements over the past 14 months combined with those made during the five years under Administrative Oversight, lead to only one conclusion: We are a new TWIA. This TWIA is sufficiently funded, provides quality service to its policyholders, complies with applicable statutes, regulatory guidelines, and industry best practices, and is ready to respond to its coverage communities when they need us most.

### Recent Legislative Changes & Implementation

A number of bills passed during the 84<sup>th</sup> Legislative Session in 2015 impacted TWIA’s work in 2016 and beyond. Senate Bill (SB) 900 had the most significant impact on the Association’s operations, including changes to TWIA’s funding structure, board composition, and a requirement for TWIA to administer depopulation programs that encourage the transfer of Association policies to private market insurers through the voluntary market or assumption reinsurance. TDI specifically cited SB 900 in its letter releasing TWIA from Administrative Oversight, noting that the provision allowing the Commissioner to contract with an administrator to manage the Association eliminated the need for it.

House Bill (HB) 2439, a second notable bill passed in 2015, amended several sections of the Texas Windstorm Insurance Act relating to coastal building code inspection and windstorm certification requirements. More details about each bill are provided in the following sections.

#### *Senate Bill 900*

SB 900 is a comprehensive bill with multiple components. Since its passage in 2015, TWIA has worked closely with TDI to implement the requirements of the legislation, which include provisions that have enhanced the Association’s funding and depopulation efforts and led to a governing body that better represents the needs of coastal Texans. The primary components of SB 900 are outlined below.

- SB 900 requires changes in the loss funding structure, including provisions relating to reinsurance, requiring TWIA to fund, at a minimum, a 100-year storm season. The bill requires this level of funding every year from the following sources: TWIA premiums and the CRTF, a combination of



\$1 billion in company assessments and \$1 billion in bonds repaid first by TWIA policyholders and by all coastal policyholders, if necessary, and sufficient reinsurance or other risk financing to achieve the 100-year storm season.

- SB 900 requires changes in the Board composition to a 3-3-3 industry/coastal/inland structure from a 4-4-1 industry/coastal/inland structure.
- SB 900 allows for assumption reinsurance agreements between the Association and private insurers to facilitate depopulation, allowing large numbers of TWIA policyholders to obtain coverage from private insurance companies interested in writing on the Texas coast. Policyholders are guaranteed comparable rates and coverages for the first year and the option to renew for at least three years. They will maintain their ability to choose their own agent, and may stay with TWIA, if they desire.
- SB 900 authorizes TWIA to issue a policy for temporary coverage (up to 30 days) if a TDI-approved inspection verification form, or other inspection form adopted by TDI, has been issued for a structure before the WPI-8 is secured.
- SB 900 allows the Commissioner to contract with an administrator (MGA or TPA) to manage the Association and administer the plan of operation if it is in the best interest of policyholders and the public. In light of the many Association improvements in the last few years, it is difficult to envision a scenario in which a third-party management company overseeing TWIA would be necessary.

### *House Bill 2439*

House Bill (HB) 2439 changed the windstorm inspection process by creating two ways to certify that a structure complies with the applicable windstorm building code, required for insurability through TWIA. One significant change is the addition of new Section 2210.2515 in Chapter 2210, titled “Issuance of Certificates of Compliance.” This section authorizes a person to apply to TWIA for a certificate of compliance for a completed improvement if a licensed engineer designed the improvement, affixed the engineer’s seal to the design, and submits an affirmation of compliance to TWIA, or the licensed engineer completes a sealed post-construction evaluation report that confirms compliance with the applicable building code.

The law provides that TWIA shall issue a Certificate of Compliance (WPI-8-C) once the professional engineer provides the required information. Section 2210.2515 also provides that if TDI cannot issue a Certificate of Compliance (WPI-8) on an ongoing improvement because TDI has not received all of the information and fees TDI requires, a person may apply for a certificate of compliance from TWIA.



The bill went into effect on September 1, 2015 and applies to policies delivered, issued for delivery, or renewed on or after January 1, 2017. TDI issued the final rules for HB 2439 on January 3, 2017, and TWIA immediately implemented a process to accept applications for and issue Certificates of Compliance (WPI-8-C) for completed improvements.

## **A Commitment to Continuous Improvement**

TWIA's current executive leadership team brings with them a commitment to continuous improvement born out of nearly 150 years of combined insurance industry experience. The Association employs extensive controls and detailed financial and operational metrics to measure and evaluate performance at every level of the Association. All operational areas have documented their procedures, and TWIA has greatly increased the level of transparency and communication among all levels of the Association and with external stakeholders.

The TWIA Board of Directors and management fosters an Association culture that is focused on results-oriented accountability with strategic, enterprise-wide initiatives. The Association implemented formal strategic planning in 2013 that resulted in leadership's articulation of a clear mission and vision to guide the organization, a set of shared values to guide employee actions, and strategic goals to guide operations and services. Executive leadership continues to engage in strategic planning annually to drive the Association closer to exemplifying the mission and vision, and values in everything that is done.

### ***Exemplifying Our Mission, Vision, and Values***

TWIA's mission is to efficiently provide essential property insurance products and services to eligible Texas properties when no one else will. Accompanied by a vision to be respected and trusted by our stakeholders, TWIA's mission, vision, and values are the foundation upon which the Association is built. In carrying out this purpose, TWIA facilitates commerce in the coastal counties by enabling real estate sales and residential and commercial property mortgages and by providing a means to rebuild and recover after a catastrophic event.

TWIA embodies the following values in support of its mission:

#### ***Service and Respect***

We are committed to serving as a reliable, credible, and respectful provider

#### ***Efficiency and Stability***

We are financially stable and can be counted on to fulfill our obligations

#### ***Integrity and Accountability***

We are an ethical organization that is accountable to those we serve



The Association's leadership has established the following strategic goals:

1. Secure sufficient funding to pay claims and other financial obligations
2. Drive operational efficiency throughout the enterprise
3. Build a collaborative culture of continuous improvement, service, and accountability
4. Operate transparently through consistent communication with stakeholders
5. Maintain a workforce with the right talent to meet organizational needs

Each year, the executive leadership team sets annual objectives, deadlines, and metrics to make further progress toward these goals in the following year.

## Organizational Improvements & Accomplishments

All of TWIA's departments are organized to maximize managerial controls, operational efficiency, and accountability. The Claims and Underwriting Departments have implemented substantial improvements in the last few years to increase the efficiency and effectiveness of the underwriting and claims handling processes. Other departments, including Accounting, IT, and Legal and Compliance have also undergone positive structural changes. The following sections describe these changes in more detail and the resulting accomplishments from these efforts.

### *Underwriting*

Underwriting management has successfully implemented several new systems and initiatives in recent years to automate and improve its underwriting, policy issuance and billing processes, allowing policies to be issued more quickly and at a lower administrative cost. Highlights include:

- implementing a more modern policy administration system, Policy Center, providing numerous benefits to agents and insureds including:
  - More payment and agent self-service options
  - Automated, rules-based determination of eligibility
  - Approximately 90% of new applications and renewals are issued immediately, dramatically reducing the average time for an agent to receive a policy
- incorporating risk visualization into the inspection process, using aerial imagery and third-party data to more efficiently assess insurability, rate more accurately, and increase the total number of property views while reducing the cost per inspection on a per policy basis
- installing a dedicated billing system consistent with industry best practices
- streamlining document production, sorting, and mailing processes, reducing the time and costs associated with both incoming and outgoing mail

The Association monitors the following key underwriting performance metrics to measure the efficacy of those changes and reports on them to leadership in a monthly scorecard:

- Budget conformity and underwriting expense per policy
- Policy issuance cycle times
- Residential policies auto-issued and auto-renewed
- Quality assurance scores

### *Claims*

The Claims Department has experienced considerable changes over the years. TWIA's current infrastructure is capable of supporting claims operations during both catastrophe and non-catastrophe years. The department now includes a permanent workforce of approximately 50 managers, examiners, and clerical employees supplemented by a flexible, trained, and pre-certified contingent workforce that varies based on claim volume and can be quickly and effectively deployed if volume warrants additional staff. This staffing model follows industry best practices and includes one of the largest dedicated catastrophe teams in the industry.

The Claims Department continues to identify ways to enhance its operational capabilities. In July 2016, TWIA implemented a new claims administration system, Claims Center. The system is designed to speed up and improve the claims handling process and provide policyholders, agents and TWIA with better ways to communicate and share more accurate information about a claim.

Claims Center provides policyholders and agents with online and mobile access to:

- Report new claims
- View important claim documents and correspondence
- Access messages shared between policyholders and TWIA claims examiners
- Track the progress of a claim, including payment status and details
- Directly contact the TWIA staff working on a claim with the ability to send and receive messages and documents

TWIA ended 2017 with 80,257 new claims, largely attributable to Hurricane Harvey which made landfall on August 25, 2017. Claims from Harvey are still being filed with 74,914 claims filed through February 28, 2018. This is the second-highest level of new claims filed in the Association's history after Hurricane Ike in 2008. TWIA experienced the third-highest level of new claims in 2015 due to major storms in the spring and late October.

Historical TWIA Claim Volume for the past 14 years is reported in the chart below. 2018 claims include new claims filed for Hurricane Harvey and approximately 460 non-Harvey claims filed through the



reporting period (as of February 28, 2018). Hurricane Harvey claims included in the TWIA Hurricane Events chart are also as of February 28, 2018.

Historical TWIA Claim Volume	
Year	Number of 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	1,390

TWIA Hurricane Events	
Hurricane	Number of Claims
Rita – 2005	11,583
Dolly – 2008	8,374
Ike – 2008	93,046
Harvey – 2017	74,914

### *Financial*

Financial metrics are key measures of performance at an enterprise level. TWIA's recent financial accomplishments are based in part on staff's successful budget conformity. Not only have TWIA-controllable expenses been at or below budget for six years straight, but of the 36 property insurance plans in the United States, TWIA maintains the third-lowest operating expense as a percentage of premium.

Through diligent efforts, staff has achieved several notable financial milestones concerning the Association's funding, including:

- contributing \$262.7 million to the CRTF as a result of 2014 operations and \$93 million as a result of 2015 operations despite the second largest storm season since Ike, bringing the balance to more than \$588 million in 2016;



- contributing \$147 million to the CRTF of as a result of 2016 operations, resulting in a balance of \$737 million for the 2017 hurricane season – the highest in the history of the CRTF;
- issuing \$500 million in pre-event Class 1 public securities in 2014 to provide immediate claims-paying capacity after a storm and additional protection to coastal policyholders and residents, with no associated impact on rates; and
- issuing the Association’s first catastrophe bonds, an aggregate amount of \$1.1 billion, as part of the overall reinsurance programs in 2014 and 2015, providing multi-year stability and further diversifying and expanding the Association’s claims-paying capacity.

### *Other Areas*

Claims and Underwriting are the primary operation centers of an insurance company, but they have not been the only areas of focus for operational improvements. In 2014, the Association established an internal audit function to bring systematic and disciplined independent evaluation of management’s control environment. The internal audit function evaluates the adequacy and effectiveness of the Association’s governance, risk management, and internal processes, as well as the quality of performance in achieving stated goals and objectives. Further, the internal audit function assists management and the Board in the effective discharge of their duties by furnishing them with analyses, appraisals, and recommendations concerning the activities reviewed. The internal audit function reports directly to the Board and demonstrates the Association’s commitment to transparency, accountability, and continuous improvement.

TWIA also created a Communications & Legislative Affairs Department in 2015 to ensure open and transparent communications with all stakeholder groups. In order to better understand the interests of all of our diverse stakeholders, the Association has developed a multi-faceted communications strategy to engage each stakeholder group on multiple levels; an outreach program to educate and inform stakeholders about TWIA’s mission, operations, and values; and an Agent Advisory Group to solicit input from the agent community and facilitate discussion about TWIA initiatives. Communications also launched a redesigned website in March 2018 which implements website best practices and is optimized for property owners, agents, and anyone interested in learning more about TWIA.

Numerous initiatives in other areas have contributed to meeting strategic goals as well as addressing operational weaknesses noted in past audits. Key accomplishments from the last few years are summarized below.



- Established a policy management program to ensure policies are reviewed annually, approved by management, and communicated properly to all employees, as well as to ensure version control necessary for auditing and incident management.
- Reduced legal costs and reliance on outside counsel by hiring in-house attorneys; insourcing e-discovery and matter management functions; and implementing legal review procedures.
- Implemented a comprehensive performance management program that incorporates developing goals and competencies; conducting quarterly and annual reviews to ensure consistency in performance and outcome-focused accountability; and providing credible, objective criteria to align merit pay with performance.
- Developed training programs for managers and employees to foster a learning and continuously improving organization; this training includes the Association's first extensive new hire orientation program, online business skills training, and instructor-led training.
- Increased quality of new hires by implementing enterprise-wide recruitment and selection programs to effectively acquire and manage talent.
- Reduced costs and cycle times and increased efficiency by reengineering workflows and implementing new staffing models for print services and mail operations.



## Statutory Compliance Sections

The Texas Windstorm Insurance Association is in full material compliance with all current standards of performance outlined in this report. TWIA’s success in meeting these objectives is described in the following statutory sections. The Association has provided supplemental information regarding each of the relevant provisions of Chapter 2210 of the Texas Insurance Code, and the Association’s compliance therewith, as follows:

Statutory Reference	Section	Subject Matter
2210.0025	Section A	Biennial Report
2210.004, 2210.201-302	Section B	Insurable Property and Coverage Requirements
2210.008	Section C	Rulemaking Authority
2210.701-2210.705	Section D	Depopulation
2210.012 & 2210.013, 2210.015	Section E	Standards of Conduct
2210.054	Section F	Annual Statement
2210.057, 2210.058	Section G	Examination of Association
2210.071-075	Section H	Catastrophe Funding
2210.102	Section I	Board Composition
2210.105, 2210.108	Section J	Open Meetings Act
2210.108	Section K	Public Information Act
2210.15-153	Section L	Plan of Operation
2210.203	Section M	Policy Issuance
2210.251-2210.259	Section N	Compliance with Building Codes
2210.352	Section O	Rates
2210.455	Section P	Catastrophe Plan
2210.501-504	Section Q	Limits of Liability
2210.551	Section R, Part 1 & 2	Certain Appeals and Other Actions
2210.014, 2210.572(c), 573	Section R, Part 3	Claims: Settlement and Dispute Resolution
2210.574	Section R, Part 4	Appraisal and Rulemaking
2210.582	Section S	Ombudsman Funding and Program
2210.107(a)	Section T	Annual Evaluation of Association Management



## Section A: Biennial Report

Texas Insurance Code Section 2210.0025 requires the Board to submit a biennial report regarding the operations of the Association on or before December 31 of each even-numbered year. The Association submitted its **Biennial Report** on December 30, 2016 to the Commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission. The report includes recommendations for legislative changes developed by the Board's Legislative and External Affairs Committee and approved by the Board at its December 6, 2016 meeting as well as the reason for the proposed changes and a summary of the Association's accomplishments and operations since the prior legislative session.

## Section B: Insurable Property and Coverage Requirements

Texas Insurance Code Section 2210.004 defines insurable property for the purposes of eligibility for TWIA insurance as a structure located in the catastrophe area, built or repaired in compliance with appropriate building code specifications, and confirmed to be in an insurable condition as determined by additional criteria specified by the Association in the TWIA Plan of Operation.

Texas Insurance Code Sections 2210.201-2210.203 describe TWIA coverage and eligibility requirements. Specifically, the Association shall make insurance available to each applicant in the catastrophe area whose property is insurable property but who, after diligent efforts, is unable to obtain property insurance through the voluntary market. Flood insurance coverage is required by law, if available, for specific high-hazard zones. Section 2210.202(b)(2) further requires a statement that the agent acting on behalf of the applicant possesses proof of the inability to obtain substantially equivalent insurance coverage for the perils of windstorm and hail from the private market, as well as proof of flood insurance coverage or unavailability of that coverage.

Since 2013, TWIA has implemented several initiatives, including a risk visualization strategy, a quality assurance and training program, an agent audit process, and a new policy administration system to ensure properties insured by the Association meet these requirements.

### Risk Visualization Program

In May 2014, TWIA partnered with EagleView Technologies to provide aerial imagery for the Association's coverage territory. The high-resolution imagery captured on annual flyovers provides the claims and underwriting departments with the ability to visually inspect a property through a web-based solution, and, combined with a patented technology for remote 3D aerial roof measurements and third-party data, provides the Association with information which can be used in risk data verification.

TWIA's risk visualization program provides the following benefits applicable to coverage and eligibility:



- Improved assessment of property insurability and assistance in determining adequacy of insurance-to-value for each risk
- Increase the total number of properties inspected annually while lowering the average cost on a per policy basis
- Efficient use of inspection dollars by effectively identifying properties requiring onsite inspection
- Identification of unrepaired damage and other underwriting concerns related to the general condition of the structure
- Reduced opportunities for fraud

### **Quality Assurance and Training**

The Quality Assurance and Training (QA&T) function was implemented in the Underwriting Department to ensure that department processes and procedures are properly documented, to verify underwriters are adhering to procedures and making correct eligibility decisions, and to identify training opportunities and areas for additional improvement. Every month, each underwriter receives a QA report evaluating his/her performance across six areas related to transaction processing and customer experience. The report includes production data (e.g. type and volume of work processed) as well as metrics pertaining to customer experience, accuracy, and thoroughness. QA scores are split between Residential and Commercial lines. Based on data from January 1, 2018 through February 28, 2018, the QA scores for both lines exceed the department's goal to achieve a 95% QA score with Residential at 99.6% and Commercial at 99.5%.

### **Agent Compliance Program**

As required by Rule 5.4902 of Title 28 of the Texas Administrative Code, an agent audit process was developed and implemented in 2015 to verify agent compliance with the Association's declination and flood insurance requirements. A proposed amendment to the Plan of Operation to establish a procedure for suspending the acceptance of new or renewal insurance applications from an agent if the Association determines that the agent failed to comply with TAC sections §5.4902, §5.4903 and §5.4904 was approved by the Board of Directors on April 5, 2016. The proposed amendment also includes a procedure for an agent to obtain a review of the suspension. The amendment is currently under review by TDI.

### **Policy Administration System**

TWIA implemented a more modern policy administration system, Policy Center, in May 2015. All residential policies have been converted to Policy Center as of August 2016. Commercial and



Manufactured policies were integrated into Policy Center in February 2018. Approximately 90% of new applications and renewals are issued immediately.

## **Section C: Rulemaking Authority**

Texas Insurance Code Section 2210.008 provides the Commissioner of Insurance general rulemaking authority to issue any orders necessary to implement Section 2210. No new rules were proposed or adopted during the reporting period.

## **Section D: Depopulation**

SB 900 authorized TWIA to create two new depopulation programs: a Voluntary Market Depopulation Program and an Assumption Reinsurance Depopulation Program. Pursuant to Subchapter O of Chapter 2210 (Sections 2210.701-2210.705), TWIA is required to administer a depopulation program that encourages the transfer of Association policies to insurers through the voluntary market or assumption reinsurance. TDI rules governing these programs were published and effective December 22, 2015.

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

### **Voluntary Market Depopulation Program**

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

### **Assumption Reinsurance Depopulation Program**

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



comparable coverage and premiums to the TWIA policy and must offer at least three renewals under these comparable terms to any policy taken out as part of the program.

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

## **Depopulation Programs Status**

TWIA continues to administer the ongoing Voluntary Market Depopulation Program approved last year with updates approved by TDI on September 6, 2017. As of February 28, 2018, State National Insurance Company reported 450 policies bound in the Voluntary program, Weston Insurance reported 1,813 policies bound, and United Property and Casualty reported 71 policies bound, totaling 2,334 policies for the three participating carriers.

TWIA continues to handle policy changes for the assumed policies depopulated in the first round of the Assumption Reinsurance Depopulation Program effective June 1, 2017, until they renew on participating carriers' policy forms. The four participating carriers from round one of the Assumption Program are Maison Insurance Company, United Property & Casualty Insurance Company, Weston Insurance Company, and The Woodlands Insurance Company. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), 4,186 policies remain in round one of the program.

The second round of the Assumption Program began in August 2017, with three participating carriers—Safepoint Insurance Company, United Property and Casualty Insurance Company, and Weston Insurance Company. The participating carriers selected 109,356 policies for assumption with some overlap among the carriers' selections. Agents had from September 1 until October 31 to review and select offers. Agents selected 3,091 offers to progress to the next phase of the program, and offers to policyholders (with copies to agents) were sent out on December 1, 2017. Policyholders have until May 31, 2018 to let their agent know they wish to opt-out of the program and remain with TWIA or move to the new carrier.

## **Section E: Standards of Conduct**

### **Business Ethics and Conflicts of Interest Policy**

TWIA developed and implemented a comprehensive Business Ethics & Conflict of Interest Policy ("Ethics Policy") in February 2011. The policy was later revised in September 2011 and April 2012 to incorporate changes mandated by HB 3 and to further define prohibited employment relationships. The Ethics Policy was updated again in February 2016 as part of our normal policy review cycle. The revisions were



approved by the TWIA Board and Texas FAIR Plan Governing Committee at their respective February quarterly meetings. The Policy was updated to reflect improvements in Association operations, internal controls, and culture; to address normal business practices; and to modernize and simplify the format and readability of the Policy. The Ethics Policy reflects the statutory standards of Sections 2210.012 and 2210.013 and states that a member of the TWIA Board of Directors or employee shall not:

- (1) Accept or solicit any gift, favor, or service that could, by reasonable standards, tend to influence the person in the performance or nonperformance of his or her job duties and/or that the person knows or should know is being offered to influence the person's actions;
- (2) Accept other employment or engage in any activity that the person might reasonably expect would require or induce the person to disclose confidential information the person gained through his or her responsibilities or position within the Associations;
- (3) Accept other employment or compensation that could reasonably be expected to impair the person's independent judgment in the performance of his or her job;
- (4) Make personal investments that could reasonably be expected to create a substantial conflict between the person's private interest and the interest of the Associations; or
- (5) Intentionally or knowingly solicit, accept, or agree to accept any benefit, financial or otherwise, for exercising the person's authority or performing the person's job duties in favor of another.

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

## **Ethics Training and Initiatives**

TWIA leadership understands the importance of creating and maintaining a standard of conduct that is above reproach. In the fourth quarter of 2013, senior leadership completed strategic planning exercises to update the Association's mission, vision, and 2014 objectives. One of these statements describes the Association's values to "be a steward of the public trust and hold ourselves to a high standard of ethics." TWIA implemented the following initiatives to promote this vision, support a comprehensive Ethics Policy, and create a culture that stresses ethical behavior from the top down:

- (1) The Association conducts stand-alone ethics training for existing employees as well as separate training for new employees and contractors. Legal and Compliance staff teach quarterly TWIA 101 sessions for new employees and conduct regular sessions for new contractors. TWIA 101 is a



comprehensive orientation program for new employees and includes, among other topics, an hour-long ethics module. After completion, employees can:

- a. Define ethics and conflicts of interest
- b. Understand how to deal with conflicts of interest
- c. Recognize the significance of the appearance of impropriety
- d. Understand how ethics impacts the organization
- e. Understand the TWIA/TFPA Ethics Policy
- f. Know what types of relationships are prohibited and what types must be disclosed
- g. Understand what gifts can be accepted, how to reject a gift, and how to complete the appropriate forms

TWIA 101 was completed for all existing employees in March 2014. All Board members, employees, and contractors are required to complete an Annual Certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms. Additionally, all TWIA employees attended a Rights and Responsibilities training in the second quarter of 2016 that reviewed the updated Ethics Policy and other related employee policies.

- (2) At the onset of employment or at first discovery, certain business and personal relationships must be disclosed. Extra controls were implemented in the Claims Department in 2012 to ensure Claims Examiners did not issue payments to former employers. Claims conducts regular audits to verify compliance within the department.
- (3) All employees and contractors must file gift disclosures for the acceptance of permissible gifts as well as the rejection of certain prohibited gifts. Gift disclosures are tracked and monitored to ensure compliance with limits outlined in the Ethics Policy.
- (4) The Ethics Policy is easily accessible to all employees and contractors via a desktop shortcut installed on each PC on the network, as well as a shared central repository dedicated exclusively to housing the Association's policy and procedural documents.
- (5) The Association developed a system to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.
- (6) Ethics & Compliance training was incorporated into field adjuster training beginning in February 2012, and it continues to be a central theme of this training.

## **Fraud Reporting**

Section 2210.012 also mandates that "a board member or employee of the association who reasonably suspects that a fraudulent insurance act has been or is about to be committed by any board member or employee of the association shall, not later than the 30th day after discovering the conduct, report the



conduct and identity of the person engaging in the conduct to the department and may report the conduct and the identity of the person engaging in the conduct to another authorized governmental agency. The department shall forward a report received under this subsection to the authorized governmental agency in accordance with Chapter 701.”

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

### *Special Investigations Unit/Fraud Abatement*

In August 2012, TWIA implemented a Claims Special Investigation program using an experienced investigation firm, Veracity Research Company Investigations. The program includes mandatory and recommended Special Investigations Unit (SIU) referral guidelines based on industry standards and best practices. Implementation kicked off with five modules of in-depth training for Claims personnel regarding insurance fraud and fraud indicators. TWIA’s SIU program tracks referral rates, results, and reports made to the Texas Department of Insurance Fraud Intake Unit. Generally, wind and hail claims do not generate the same number of SIU referrals and fraud reports as policies with coverage for perils like fire, theft, vandalism, etc. The following chart illustrates a sharp increase in fraud investigations and reports from 2010, evidencing TWIA’s increased focus and responsibility on fraud abatement and reporting. After TWIA retained Veracity Research in 2012, reporting levels moderated, reflecting a more sophisticated assessment by the vendor of the “reasonable suspicion of fraud” standard. Increased claim activity in 2015 and 2016 has contributed to the rise in referrals for those years.

Reports Filed	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	2018 YTD
<b>TDI Fraud</b>	6	32	35	15	19	48	55	40	10
<b>TDI Enforcement</b>	5	7	24	9	2	9	2	3	0

### *Whistleblower Policy*

As part of TWIA’s comprehensive Ethics Policy and commitment to creating an environment in which unethical behavior can be reported and properly addressed, TWIA created an anonymous Whistleblower Policy in February 2011. TWIA contracts with a third-party vendor to provide anonymous hotline reporting of fraud or ethics violations. Monthly reports are transmitted by the vendor to the Association’s General Counsel, Vice President of Legal & Compliance, and General Manager. To date, we have received zero reports of ethics violations.



## Section F: Annual Statement

Texas Insurance Code Section 2210.054 requires TWIA to file annually with TDI and the State Auditor's Office a financial statement summarizing the transactions, conditions, operations, and affairs of the Association during the preceding year. The statutory balance sheet shows the financial position of TWIA in December 2017 compared to February 2018. The statutory income statement shows a comparison between the actual and budgeted revenues and expenses.

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>		
<b>Statutory Balance Sheet (000's omitted)</b>		
	<b>February-18</b>	<b>December-17</b>
<b>Admitted Assets</b>		
Cash and short term investments:		
Unrestricted	\$ 357,967	\$ 366,363
Restricted - Funds Held at TTSTC	188,479	279,711
Total cash and short term investments	546,447	646,074
Premiums receivable & other	1,430	1,862
Amounts recoverable from reinsurers	23	17
<b>Total admitted assets</b>	<b>\$ 547,899</b>	<b>\$ 647,954</b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	311,895	414,734
Underwriting expenses payable	13,015	15,278
Unearned premiums, net of ceded unearned premiums	193,173	209,453
Ceded reinsurance funds payable	9,783	20,972
Principal Outstanding on Class 1 Pre Event Bonds	414,600	414,600
Interest Payable on Class 1 Pre Event Bonds	5,701	17,102
Other payables	19,588	17,206
Statutory fund payable	-	-
<b>Total liabilities</b>	<b>967,754</b>	<b>1,109,344</b>
<b>Surplus and others funds</b>		
Unassigned surplus (deficit)	(419,855)	(461,390)
<b>Total liabilities, surplus and other funds</b>	<b>\$ 547,899</b>	<b>\$ 647,954</b>
<b>Balance in CRTF</b>	<b>\$ 1,806</b>	<b>\$ 1,220</b>
<b>Balance in CRTF including Statutory fund payable</b>	<b>\$ 1,806</b>	<b>\$ 1,220</b>



TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
	for the two months ended February 28,			
	Actuals - 2018	Budget - 2018	Variance - 2018	Actuals - 2017
<b>Premiums Written:</b>				
Direct	\$ 52,117	\$ 52,600	\$ (483)	\$ 56,059
Ceded	-	-	-	-
Ceded - Depopulation	(827)	(1,001)	173	(4,123)
Net	51,290	51,599	(310)	51,936
<b>Premiums Earned:</b>				
Direct	\$ 68,397	\$ 67,478	\$ 919	\$ 77,906
Ceded	-	-	-	-
Ceded - Depopulation	(827)	(1,001)	173	(4,123)
Net	67,570	66,477	1,092	73,783
<b>Deductions:</b>				
Direct Losses and LAE Incurred	5,130	5,061	69	5,843
Direct Losses and LAE Incurred - Harvey	-	-	-	-
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(15)	(70)	55	(230)
Operating Expenses	5,161	5,661	(500)	3,686
Depopulation Servicing	(80)	(80)	(1)	-
Commission Expense	8,341	8,416	(75)	8,971
Ceding commissions / brokerage	-	-	-	-
Ceding commissions / brokerage - Depopulation	(199)	(240)	42	(989)
Premium / Maintenance Tax	1,027	1,036	(9)	1,115
Total Deductions	19,365	19,784	(420)	18,395
<b>Net Underwriting Gain or (Loss)</b>	<b>48,205</b>	<b>46,693</b>	<b>1,512</b>	<b>55,388</b>
<b>Other Income or (Expense):</b>				
Gross Investment Income	724	933	(209)	859
Interest Expense on Class 1 Bonds	(5,701)	(5,701)	0	(6,084)
Debt Issuance/Maintenance & Other Investment Expenses	(16)	(25)	9	(25)
Other Income (Expense)	1	-	1	0
Total Other Income or (Expense)	(4,992)	(4,793)	(199)	(5,250)
<b>Net Income Before Income Taxes</b>	<b>43,214</b>	<b>41,901</b>	<b>1,313</b>	<b>50,138</b>
Federal Income Tax Expense (Benefit)	-	-	-	-
<b>Net Income (Loss)</b>	<b>\$ 43,214</b>	<b>\$ 41,901</b>	<b>\$ 1,313</b>	<b>\$ 50,138</b>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(461,390)	(461,390)	-	-
Net Income (Loss)	43,214	41,901	1,313	50,138
Principal Funded on Class 1 Bonds (net)	-	-	-	(7,675)
Change in nonadmitted assets - Other	(1,679)	(2,629)	950	(2,630)
Statutory Fund Cost	-	-	-	(39,833)
Ending Surplus (Deficit)	\$ (419,855)	\$ (422,118)	\$ 2,263	\$ -
<b>Key Operating Ratios:</b>				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	7.5%	7.5%	0.0%	7.5%
Hurricane Harvey	0.0%	0.0%	0.0%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	7.5%	7.5%	0.0%	7.5%
UW Expense Ratio:				
Acquisition	18.0%	18.0%	0.0%	18.0%
Non Acquisition	7.4%	8.3%	-0.8%	4.7%
UW Expense Ratio	25.4%	26.2%	-0.8%	22.7%
Combined Ratio	32.9%	33.7%	-0.8%	30.2%
Net:				
Loss & LAE Ratio:				
Non Hurricane	7.6%	7.5%	0.1%	7.6%
Hurricane Harvey	0.0%	0.0%	0.0%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	7.6%	7.5%	0.1%	7.6%
UW Expense Ratio:				
Acquisition	17.7%	18.0%	-0.3%	17.7%
Non Acquisition	7.5%	8.4%	-0.9%	5.0%
UW Expense Ratio	25.3%	26.4%	-1.1%	22.7%
Combined Ratio	32.8%	33.9%	-1.1%	30.3%

Note: Beginning Budgeted Deficit Adjusted To Actual for Comparative Purposes



## Section G: Examination of Association

### Examination by the Texas Department of Insurance

Texas Insurance Code Section 2210.057 states that the Association is subject to examination by TDI pursuant to Sections 401.051, 401.052, 401.054-401.062, 401.151, 401.152, 401.155, and 401.156 and Subchapter A, Chapter 86. TDI is currently conducting an examination of TWIA's claims practices, which began on November 7, 2017. We have been providing information as requested and no concerns have been presented to date. TDI will also conduct a financial examination of the Association in 2018 as required by statute every five years. The examination will cover TWIA's financial processes and controls since the previous examination in 2014 through December 31, 2017.

### Examination by the State Auditor's Office

Texas Insurance Code Section 2210.058 states "the association is subject to audit by the state auditor and shall pay the costs incurred by the state auditor in performing an audit under this section." The most recent audit by the State Auditor's Office (SAO) was completed in August 2012 and concluded that "the Texas Windstorm Insurance Association (Association) has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure accountability for Association funds, and adequately support and authorize non-claims-related expenditures." The SAO Report identified 13 observations and recommendations which resulted in 15 corrective measures. Implementation of these measures is 100% complete and there are no outstanding action items or reporting requirements.

## Section H: Catastrophe Funding

Senate Bill (SB) 900, passed by the 84<sup>th</sup> Legislature, revised TWIA funding sources, providing a combination of public securities and company assessments and requiring total funding in an amount at least equal to the 100-year Probable Maximum Loss (PML), sufficient to cover 99% of all possible storm seasons.

Subchapter B-1 of Chapter 2210 (Sections 2210.071 – 2210.075), as amended by SB 900, describes the different sources of funding available to pay TWIA losses. Those sources are, in order:

- TWIA premiums and other revenue
- Available reserves and amounts in the CRTF
- Up to \$500 million in Class 1 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to \$500 million in Class 1 assessments on TWIA member companies
- Up to \$250 million in Class 2 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies



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

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

### **2017 Hurricane Season Funding**

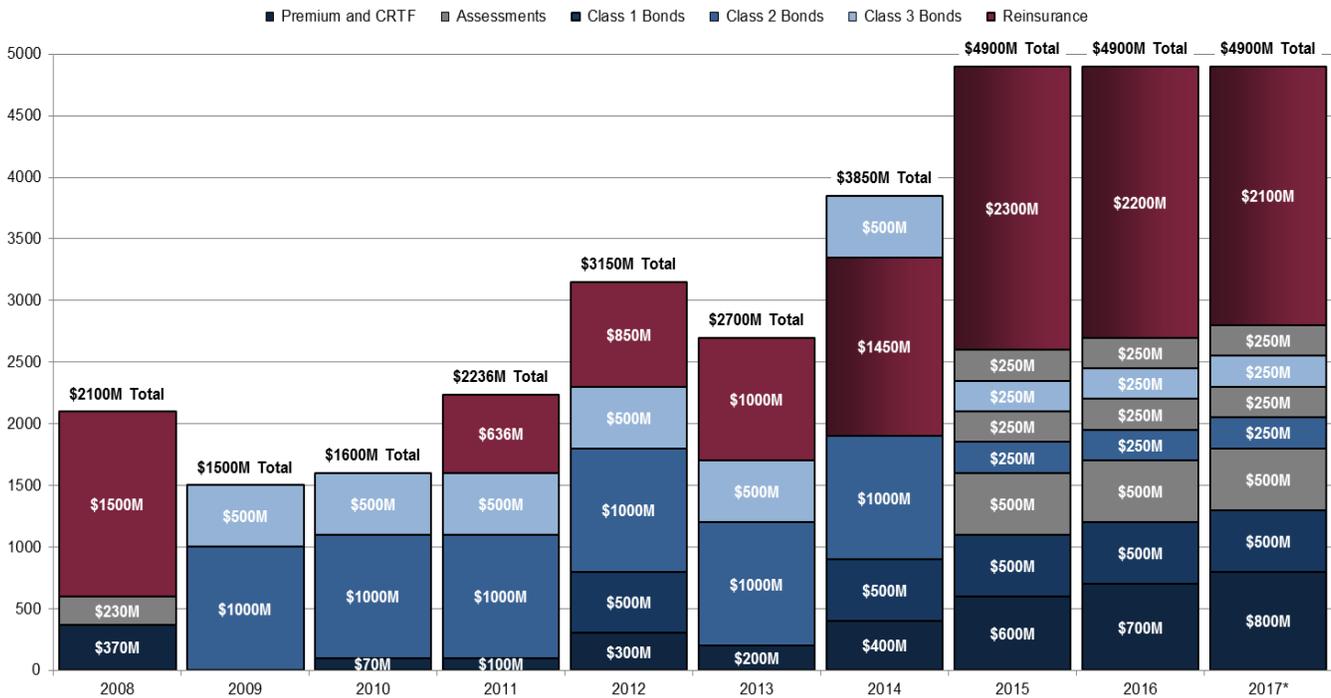
TWIA's 2017 reinsurance program, effective June 1, 2017 to May 31, 2018, provides \$4.9 billion in total aggregate funding, sufficient for over 99% of all possible storm seasons and in excess of the statutory minimum funding. The reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program. The 2017 program also includes catastrophe bonds, an aggregate amount of \$1.1 billion, originally issued in 2014 and 2015, with staggered expirations in order to provide multi-year stability, diversification, and expanded claims-paying capacity.

Due to a reduction in TWIA exposures (including the projected impact of TWIA's depopulation programs) and minor changes in the hurricane models, the 100-year PML for 2017 decreased to \$4.3 billion from \$4.7 billion in 2016. With a record-balance of \$737 million in the CRTF, including a contribution of \$147 million from 2016 operations, TWIA has been well-positioned to meet funding requirements for the 2017 hurricane season.

TWIA's funding for the 2017 hurricane season is illustrated by the chart below and followed by a historical comparison of funding levels.



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



Funding for 2008 shown as it existed for Hurricane Ike, post-Hurricane Dolly; unlimited additional funding available via reimbursable assessments. Funding for 2009-2011, 2013 assumes \$0 Class 1 Public Securities issuable. Funding for 2012, 2014-2016 includes \$500 million pre-event Class 1 Public Securities. Funding for 2015-16 incorporate bond repayments that differ from prior years. Funding for 2017 based on terms authorized by TWIA Board of Directors.



## Section I: Board Composition

SB 900, signed into law on June 16, 2015, changed the composition of the Board of Directors, as described in Texas Insurance Code Section 2210.102. Under SB 900, the Board consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in first tier coastal counties, three public members residing in the first-tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

New board members were appointed by the Commissioner of Insurance on October 1, 2015. The current membership of the TWIA Board of Directors is as follows:

Name	Position
<b>Blair Crossan</b>	Insurance Industry Representative
<b>Joshua Fields</b>	First Tier Coastal Representative
<b>Chandra Franklin-Womack</b>	First Tier Coastal Representative
<b>Michael Gerik</b>	Insurance Industry Representative
<b>R. Scott Kesner</b>	Non-Seacoast Territory Representative
<b>Debbie King</b>	Insurance Industry Representative
<b>Georgia Neblett</b>	First Tier Coastal Representative
<b>Tony Schrader</b>	Non-Seacoast Territory Representative
<b>Bryan Shofner</b>	Non-Seacoast Territory Representative

## Section J: Open Meetings Act

Texas Insurance Code Section 2210.105 requires that, except for an emergency meeting, the Association shall notify TDI not later than the 11th day before the date of a meeting of the Board of Directors or of the members of the Association, and, not later than the seventh day before the date of a meeting of the Board of Directors, post notice of the meeting on TWIA's and TDI's websites. Section 2210.105 requires, except for a closed meeting authorized by Subchapter D, Chapter 551, Government Code (Texas Open Meetings Act), a meeting of the Board of Directors or of the members of the Association to be open to the Commissioner or the Commissioner's designated representative and the public. Section 2210.105 requires that TWIA broadcast live on its website all meetings of the Board of Directors, other than closed meetings, and maintain on its Internet website an archive of meetings of the Board of Directors. A recording of a meeting must be maintained in the archive on the website up to the second anniversary of the broadcast. Section 2210.108 provides that, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 551 Texas Government Code, the Texas Open Meetings Act.

The Association continues to meet the requirements of the Open Meetings Act by complying with posting requirements for meetings of the Board of Directors and its subcommittees, as well as live broadcasting



of meetings and archival of those meetings for later viewing on the [Association website](#). The following table lists the meetings conducted during the reporting period as well as upcoming meetings:

Date	Meeting
February 6, 2018	Quarterly Board of Directors Meeting
May 8, 2018	Quarterly Board of Directors Meeting
July 31, 2018	Quarterly Board of Directors Meeting

## Section K: Public Information Act

Texas Insurance Code Section 2210.108 provides that, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 552 Texas Government Code, the Texas Public Information Act. TWIA receives and responds to requests in accordance with the Act. The following table shows the number of requests received, withdrawn, and referred to the Office of the Attorney General (OAG) for a decision under the Act from 2012 through February 28, 2018. The Association received 6 new Public Information Act requests in the January-February 2018 reporting period. All requests were handled in accordance with applicable statutes and timeframes.

	2012	2013	2014	2015	2016	2017	Jan-18	Feb-18
<i>Total Requests</i>	182	162	161	89	41	42	3	3
<i>Total Withdrawn Requests</i>	16	14	17	9	7	7	0	1
<i>Total OAG Rulings Requested</i>	20	26	10	3	6	10	0	0
<i>% Requests sent to OAG</i>	11%	16%	6%	3%	15%	24%	0%	0%

## Section L: Plan of Operation

Texas Insurance Code Sections 2210.151 - 2210.153 provide that, with the assistance of the Board of Directors, the Commissioner of Insurance by administrative rule will adopt a plan of operation to provide windstorm and hail insurance in the catastrophe areas. The Plan of Operation must include:

- (1) A plan for the equitable assessment of the members of the association to defray losses and expenses;
- (2) Underwriting standards;
- (3) Procedures for accepting and ceding reinsurance;
- (4) Procedures for obtaining and repaying amounts under any financial instruments authorized under



this chapter;

- (5) Procedures for determining the amount of insurance to be provided to specific risks;
- (6) Time limits and procedures for processing applications for insurance; and
- (7) Other provisions as considered necessary by the department to implement the purposes of this chapter.
- (8) The plan of operation may provide for liability limits for an insured structure and for the corporeal movable property located in the structure.

The Plan of Operation is in the Texas Administrative Code, Title 28, Chapter 5, Subchapter E.

In 2014, TWIA staff and counsel conducted a comprehensive review of the Plan of Operation to improve readability and eliminate any redundant or unnecessary provisions. TWIA staff and counsel proposed revisions to the Plan to accomplish those objectives. Initial revisions included removing redundancies, reorganizing, improving clarity and overall readability, and incorporating statutory changes through the 84<sup>th</sup> Legislative Session. Additional changes included adding a section that provides a process for suspending an agent’s license if the agent fails to maintain documentation concerning a policyholder’s eligibility and adding language to accommodate installment payments. The Board of Directors approved the proposed revisions at their meeting on April 5, 2016. The amended Plan of Operation was filed on May 6, 2016 and is currently under consideration by TDI.

## Section M: Policy Issuance

Under Section 2210.203, if the Association determines that the property for which an application for initial insurance coverage is made is insurable property, the Association, on payment of the premium, shall direct the issuance of an insurance policy as provided by the Plan of Operation. A policy is issued for a one-year term and may be renewed annually on application for renewal as long as the property continues to be insurable property. Below are charts illustrating the number of policies currently in-force, the direct liability associated with those policies, and premiums written through February 28, 2018:

### Policies In-Force

Policy Type	As of 2/28/17	As of 2/28/18	Change from Prior Year
Mobile Home	842	751	-10.81%
Residential	240,622	214,953	-10.67%
Commercial	9,990	8,398	-15.94%
<b>Totals</b>	<b>251,454</b>	<b>224,102</b>	<b>-10.88%</b>



## Direct Liability

Policy Type	As of 2/28/18	As of 2/28/18	Change from Prior Year
Mobile Home	44,029,247	39,428,077	-10.45%
Residential	64,103,335,690	57,258,739,000	-10.68%
Commercial	8,340,608,681	7,113,242,481	-14.72%
<b>Totals</b>	<b>72,487,973,618</b>	<b>64,411,409,558</b>	<b>-11.14%</b>

## Written Premiums (YTD)

Policy Type	As of 2/28/17	As of 2/28/18	Change from Prior Year
Mobile Home	131,710	126,608	-3.87%
Residential	44,366,138	41,176,626	-7.19%
Commercial	11,560,881	10,813,886	-6.46%
<b>Totals</b>	<b>56,058,729</b>	<b>52,117,120</b>	<b>-7.03%</b>

## Section N: Compliance with Building Codes

Subchapter F of Chapter 2210 (Sections 2210.251-2210.259) set forth the building code and inspection requirements for eligibility in the Texas Windstorm Insurance Association and provide for limited exceptions. In accordance with these sections, TWIA requires a Certificate of Compliance (WPI-8 or WPI-8-C) for all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. TDI issues Certificates of Compliance (WPI-8) for ongoing improvements to structures. House Bill 2439 passed by the 84<sup>th</sup> Texas Legislature changed the windstorm certification process and required TWIA to implement a program to issue Certificates of Compliance (WPI-8-C) for completed improvements. The new law applies to a TWIA policy delivered, issued for delivery, or renewed on or after January 1, 2017. The Association implemented a process for receiving applications for and issuing Certificates of Compliance (WPI-8-C) for completed improvements by January 1, 2017. Since the start of the program through February 28, 2018, TWIA has issued 25,491 Certificates of Compliance (WPI-8-C).

A noncompliant residential structure insured by the Association under the approval process regulations in effect on September 1, 2009 is subject to an annual premium surcharge of 15% of the policy premium. These surcharges are deposited directly into the CRTF. The following table shows the number of TWIA policies in-force on the WPI-8 waiver surcharge program and the total surcharge amounts deposited into the CRTF each year as of February 28, 2018:



Compliance Standard	Policies In-Force	Year	Surcharges
WPI-8 Waiver	25,491	2011	\$6,675,047
		2012	\$7,408,157
		2013	\$7,233,546
		2014	\$7,773,258
		2015	\$7,458,898
		2016	\$6,632,947
		2017	\$5,628,485
		2018	\$583,265

The 83<sup>rd</sup> Texas Legislature enacted Senate Bill 1702, which amended the surcharge program for noncompliant structures and repealed the Alternative Eligibility Program. The bill also required structures insured by the Association on or after December 31, 2015, to comply with the applicable windstorm building code standards. Senate Bill 498 was enacted by the 84<sup>th</sup> Texas Legislature to indefinitely extend the WPI-8 waiver surcharge program, which allows non-compliant structures to be insured with TWIA for a 15% surcharge. The bill was signed into law by the Governor on May 28, 2015 and took effect immediately.

## Section O: Rates

Pursuant to Texas Insurance Code Section 2210.352, not later than August 15 of each year, the Association shall file with TDI a proposed manual rate for all types and classes of risks written by the Association. At its August 1, 2017 meeting, the Board approved a 5% annual rate increase. TWIA submitted a uniform 5% rate increase on August 14, 2017. Under 2210.352(a-1), TWIA may file and use a 5% rate increase without prior approval by the Commissioner of Insurance.

Current indicated rate needs are as follows:



Rate Component		TWIA Rate Indications	
		Residential	Commercial
(1)	Non-Hurricane Loss & LAE Ratio	14.5%	9.8%
(2)	Hurricane Loss & LAE Ratio		
	Experience	38.3%	45.0%
	Modeled	49.2%	49.2%
	Combined	43.8%	47.1%
(3)	Net Cost of Reinsurance	17.0%	17.0%
(4)	Other Fixed Expenses	5.4%	5.4%
	Total Indicated Loss & LAE Ratio	80.7%	79.3%
(5)	Contribution to CRTF	20.0%	20.0%
(6)	Other Variable Expenses	18.0%	18.0%
	Variable Permissible LLAE Ratio	62.0%	62.0%
	Indicated Rate Change	+30%	+28%
Notes:	(1) Residential ratio based on industry losses over last 10+ years Commercial ratio based on TWIA losses over last 10+ years (2) Combined ratio selected giving equal weight to experience and modeled losses Experience projected using long-term historical frequency and industry experience Model results projected using long-term frequency (3) Based on the net cost of reinsurance after accounting for potential recoveries (4) Includes general operating expenses of the Association (5) Selected to generate increased contributions to the CRTF; includes repayment of outstanding Class 1 Public Securities (6) Includes commissions, taxes, licenses, and fees		

## Section P: Catastrophe Plan

Texas Insurance Code Section 2210.455 requires the Association, not later than June 1 of each year, to submit to the Commissioner, the Legislative Oversight Board, the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives a catastrophe plan covering the period beginning on the date the plan is submitted and ending on the following May 31. The 2017 TWIA Catastrophe (CAT) Incident Response Plan is included with this [2017 Annual Report Card](#), published on June 1.

TWIA is constantly improving the Association's claims resource capacity and ability to respond promptly and effectively to catastrophic claims situations. Claims leadership conducts frequent enterprise-wide catastrophe planning meetings to update the CAT Plan with information about these improvements and with knowledge gained from real and modeled events. The 2017 version of the CAT Plan remains a streamlined, dynamic document that provides detailed information regarding:



- roles and responsibilities for Claims and all other TWIA departments
- information regarding available resources
- details about scalability for larger events, including pre- and post-event loss projection and staffing modeling tools
- operational guidelines and directives for TWIA's response to a catastrophe that align with emergency incident response best practices
- a corrective action program incorporating after-action reporting and improvement planning processes
- requirements for testing, training, and exercises to ensure continuous planning improvement

TWIA has implemented communications initiatives to educate stakeholders about TWIA's capabilities and planned response before, during, and after a storm. Claims continues to meet with Office of Emergency Management officials in various coastal counties. These outreach efforts have given the Association the opportunity to identify areas of improvement related to communication with coastal emergency management offices and deployment of staff in response to incidents. Staff presented the CAT Plan to the Commissioner of Insurance and other TDI and legislative staff in 2014, 2015, 2016, and 2017.

In April 2017, TWIA implemented a staff field adjuster program in the Harris and Galveston County areas, placing two new staff adjusters on the scene in these high claim volume areas. The staff adjusters are able to work more closely with policyholders to inspect their properties and resolve their claims, which helps to increase service levels and reduce the expenses associated with outsourcing this work to independent field adjusters. In the event of a major storm, the staff adjusters can help to supervise field resources deployed in response to the storm. The Association may add additional staff field adjusters depending on the success of the program and based on needs associated with increased claim volume in the area.

## Testing and Activation

TWIA has activated the CAT Plan eleven times since January 1, 2012 for localized wind and hail events and has updated the plan based on information gathered from these events. In April 2015, the CAT Plan was activated in response to a prolonged period of severe weather, resulting in the most non-hurricane claims in Association history. 14,706 claims were opened as a result of storms in April, May, and June 2015. The CAT Plan was also activated in October 2015 in response to post-tropical storm Patricia and storms on Halloween weekend. 1,544 claims from these events were filed with TWIA. The Claims Department maintained low cycle times from receipt of claim to payment, high staff performance, and positive customer satisfaction ratings throughout 2015 despite the high claim volume.

The CAT Plan was not activated in 2016 due to more favorable weather. On February 14, 2017, the CAT Plan was activated in response to severe thunderstorms and multiple tornados touching down in several counties in the coverage area. Less than 300 claims were filed as a result of the storms, resulting in the



CAT Plan activation being used as an opportunity to test the plan and serve policyholders impacted by the storms.

TWIA first tested the CAT Plan in an enterprise-wide simulation in June 2014. Results showed a high level of enterprise readiness, with no significant negative findings. Continued testing of the Association's CAT response capabilities occurred in November 2015 with the successful completion of a demonstration of the Mobile Claims Center, TWIA's portable office for providing services after an incident. The two activations of the CAT Plan in 2015 also allowed the Claims Department to create and incorporate after action reports into an improvement plan which has helped determine the need for additional testing, training, and exercises going forward.

TWIA conducted an additional exercise using the Mobile Claims Center in February 2017 to determine if findings from prior exercises were documented and properly addressed. This entailed a full simulation of the Mobile Claims Center that included actors serving as policyholders who went through the process of reporting a claim, obtaining a claim payment, and addressing their claim status. Findings demonstrated TWIA's improvement in most areas, but also identified issues to address. These were submitted in an after-action report to TWIA's Corrective Action Program team and included in an improvement plan.

In April 2017, TWIA participated in a FEMA Virtual Table Top Hurricane Exercise with several public and private organizations around the United States. The exercise revealed a high level of Association preparedness to respond to a storm event and an ability to operate successfully under a structured Incident Command System. It also showed the detail and functionality of TWIA's CAT Plan and the Association's overall readiness compared to other participating organizations in the exercise. The CAT Plan will continue to be evaluated annually to determine the need to update plan objectives and for testing, training, and exercises.

## **Hurricane Harvey**

Hurricane Harvey struck the Texas coast on August 25, 2017. The CAT Plan was activated on August 22 based on weather projections to ensure preparedness for response and deployment activities. This also allowed the Association to scale up resources for a 1-in-25-year event as outlined in the CAT Plan. A total of 1,230 independent adjusters, 291 claim examiners, 23 quality analysts, 18 support personnel, 26 re-inspectors, and 220 call center resources were added to TWIA's existing staff resources in anticipation of claim volume from the storm.

The Association received almost 40,000 claims within the first seven days after Hurricane Harvey (August 25-September 1, 2017). As of February 28, 2018, TWIA has received 74,914 claims from the storm and made a total of \$1,012,472,333 in claim payments. The Association has closed approximately 94.4% of all



claims (or 70,701); claims are continuing to be filed daily. The average time it takes to close a claim from First Notice of Loss to payment is 36.7 days.

After the storm made landfall and it was deemed safe to travel to the coast, TWIA staff began deploying to the Coastal Bend to locate sites suitable for Mobile Claims Centers (MCCs). In total, 64 staff and contractors deployed to three locations—Corpus Christi, Rockport, and Port Aransas—and set-up MMCs where policyholders were able to get immediate assistance with claim filing and advance payments for food spoilage and Additional Living Expenses (ALE). In the first month of operations, the MCCs helped more than 10,000 policyholders in the Coastal Bend region.

All three MCCs transitioned to Claims Support Centers (CSCs) at the end of September to provide ongoing support for policyholder claims. The Corpus Christi and Port Aransas CSCs closed at the end of December 2017 and the Rockport site closed in February 2018. In addition to helping policyholders at our claims centers, staff have participated in and presented at outreach events in coastal communities to provide in person policyholder support. The Association has also distributed information through multiple channels to provide guidance on the TWIA claims process, including establishing a ‘Claims Resources’ hub on TWIA’s website, posting information on social media, and reaching out to Chambers of Commerce and churches in affected areas to ensure their members were aware of available TWIA claims resources and information.

## Section Q: Limits of Liability

Under Texas Insurance Code Subchapter K of Chapter 2210 (Sections 2210.501 – 2210.504), TWIA is required to propose inflation adjustments to the maximum liability limits under a windstorm and hail policy. The TWIA Board of Directors voted to increase the maximum liability limits at the August 1, 2017 Board meeting, and TWIA filed the request with TDI on August 15. The Commissioner of Insurance disapproved TWIA’s filing to change the maximum liability limits in October 2017. They will remain the same for 2018.

The current maximum limits are:

	2017
Dwellings and individually owned townhouses	\$1,773,000
Contents of an apartment, condominium, or townhouse	\$374,000
Commercial structures and associated contents	\$4,424,000



## **Section R: Certain Appeals and Other Actions**

### **Part 1. Appeals**

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

### **Part 2. Voluntary Arbitration & Certain Coverages and Claim Disputes**

Texas Insurance Code Section 2210.554 allows TWIA to offer an “Arbitration Endorsement” to its policyholders on a policy form to be prescribed by the Commissioner of Insurance. If a policyholder elects to include this endorsement in his or her policy, the insured will be required to submit any dispute involving an act, ruling, or decision of the Association relating to the payment of, the amount of, or the denial of the claim to a binding arbitration process under rules established by the Commissioner of Insurance.

### **Part 3. Claims: Settlement and Dispute Resolution**

HB 3 made significant changes to both the process by which insureds can dispute TWIA’s decision relating to the payment of, the amount of, or the denial of claims, and the remedies available to insureds. First, Section 2210.014 made Insurance Code Chapters 541 (Bad Faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims. Second, Section 2210.572(c) made the Deceptive Trade Practices Act inapplicable to TWIA. These were three of the main causes of action asserted by insureds who sued TWIA, alleging claims were underpaid or settled in bad faith. The new provisions of Chapter 2210, Subchapter L-1, now provide the process for claims decisions, payments, and disputes.

The TWIA Claims Department has trained all Claims personnel on the new claim-handling procedures and deadlines included in HB 3 and revised the claims decision letters to provide clear explanations of the portions of claims that the Association has accepted or denied, in full or in part, as required by Section 2210.573(d). In addition, claims decision letters now include instructions for disputing accepted or denied claims and provide forms that insureds can use to begin the dispute resolution process, as required by Section 2210.573(e)-(g).



Below is a table of data (as of March 2, 2018) regarding 2018 year-to-date disputed claims and Hurricane Harvey disputed claims subject to the HB 3 dispute resolution process. Dispute frequency tracks the total number of HB 3 claims and the number and percentage of HB 3 claims in which the policyholder is disputing the claims disposition for any reason.

<b>2018 Disputed Claims Tracker*</b>						
Dispute Frequency			Type of Dispute			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
1,390	3	0.22%	3	0	0	0

\* A single disputed claim can have more than one type of dispute.

<b>Hurricane Harvey Disputed Claims Tracker*</b>						
Dispute Frequency			Type of Dispute			
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Mediation	Suits
74,914	1,385	1.85%	1,289	251	0	14

\* A single disputed claim can have more than one type of dispute.

#### **Part 4. Appraisal and Rulemaking**

All disputes regarding claims that are accepted by the Association must be submitted to an appraisal process pursuant to Section 2210.574. The Department adopted rules to govern this appraisal process.

#### **Section S: Ombudsman Funding and Program**

Section 2210.582 directed TDI to establish an Ombudsman Program to assist TWIA policyholders in understanding and navigating the claims process. TDI established the Coastal Outreach and Assistance Services Team (COAST) Program and adopted rules relating to its function on March 19, 2012. Even before the formal adoption of the rules (28 TAC §5.4201), TWIA revised its claims correspondence to inform insureds about the program and provide contact information in English and Spanish. TWIA fully funds the COAST program based on the budget provided by TDI each March.

Communications staff has cultivated a strong relationship with TDI's TWIA Ombudsman, a position created by HB 3. TWIA continues to work closely with the Ombudsman to implement and develop an outreach program to promote policyholder education in the coastal areas. As part of this outreach, staff members attend and conduct presentations at a variety of events, many hosted by area chambers of commerce and other local organizations. Presentations have focused on internal changes at TWIA,



eligibility and coverage issues, windstorm certification requirements and exceptions, what to expect from the claims process, and important changes resulting from legislation.

During the reporting period, TWIA participated in the following events:

- TWIA staff participated in the Ingleside Townhall in January 2018,
- TWIA held Townhall events for policyholders in Port Aransas and Rockport in January 2018, and
- TWIA held Claims Assistance Workshops in Portland and Rockport in February 2018.

## **Section T: Annual Evaluation of Association Management**

The fifth objective outlined in Texas Insurance Code Section 2210.107(a) is to establish, and adhere to the 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.

Beginning January 1, 2012, TWIA's annual budget has been based upon department-level budgets for which department management and their staffs are held accountable. To reflect that accountability and to establish objective standards appropriate to each employee, the Association established individual performance standards for each position. The 2018 budget was reviewed and approved by the Board of Directors at its December 12, 2017 meeting.

The Finance Department has prepared budget conformity reports at the department level to monitor performance beginning with 2012 first quarter results. Under the current management team, TWIA has consistently performed at or below budget for controllable expenses in nearly every area since 2012.

TWIA staff are evaluated against a set of performance standards, including objective performance measures based upon their departments and their individual roles. Each department head is accountable for his or her individual budget, so the individual performance measures comprise a portion of the standard of performance against which department heads are evaluated. Employees within each department have objective measures against which to evaluate performance. Performance evaluation documents reflect these areas of accountability.

The Association has established risk management objectives in the form of business continuity planning, catastrophe response planning, reinsurance, and other funding mechanisms to effectively manage the financial and human resources of the organization in meeting its established purpose.