# Texas Windstorm Insurance Association Bimonthly Report Card

## July - August 2018

Jennifer T. Armstrong
Vice President, Communications & Legislative Affairs
October 1, 2018

# Contents

# About This Report

October 1, 2018

**Re: Texas Windstorm Insurance Association (TWIA) Bimonthly Report – Section 2210.107(b)**

Pursuant to Texas Insurance Code Section 2210.107(b), please find enclosed the bimonthly report card evaluating the extent to which the Association has met the objectives described therein for the two-month period preceding the date of the report (July and August 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 TWIA Board of Directors ("the Board"), as set forth in Chapter 2210 of the Texas Insurance Code, are to ensure 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: Hurricane Harvey, describing the Association's response to Hurricane Harvey and the impact the hurricane has had on Association operations and funding, and Statutory Compliance sections detailing required areas of compliance and operational changes during the reporting period.

The Association is in full material compliance with all current standards of performance outlined in this report. This is the thirty-third 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.

Jennifer T. Armstrong

Vice President, Communications & Legislative Affairs

Jennifer Armstrong

# The State of the Association: Hurricane Harvey

"Hurricane Harvey struck the Texas coast on Friday, August 25, 2017 as a Category 4 storm."

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

In the week leading up to Hurricane Harvey landfall, Association staff closely monitored the storm's evolution from tropical disturbance, to depression, to storm, and then to hurricane. TWIA staff began meeting daily to discuss our response plans and communicating with our stakeholders frequently via leadership calls, email, social media, and our website to ensure they were aware of our preparations.

TWIA activated the Catastrophic (CAT) Incident Response Plan on August 22, 2017, as weather projections indicated the storm would likely make landfall in our coverage area later in the week. Activating the CAT Plan triggers a multi-faceted, coordinated response to a storm. Within hours of activation, we began staging internal and external resources for a 1-in-25-year event and preparing our staff for coastal deployment. By Wednesday, August 23, the National Weather Service had upgraded the storm to Tropical Storm Harvey with intensity models indicating the storm would become a Category 1 or 2 hurricane.

TWIA officially issued a policy application moratorium at 12:30 p.m. on Thursday, August 24, following the United States Weather Bureau's designation of the storm as Hurricane Harvey. The storm had already entered the boundaries of 80 degrees west longitude and 20 degrees north latitude prior to its upgrade to a Category 1 hurricane. Projected to make landfall near Corpus Christi, adjusted loss models indicated the storm could result in 35,000 to 50,000 claims. We quickly began scaling-up field adjuster and internal claims resources in response.

By Friday afternoon, on August 25, Hurricane Harvey was quickly intensifying into a projected Category 3 or 4 hurricane. Our CAT communications plan kicked into high gear and we began broadcasting TWIA claims reporting information via all available channels. By Friday evening, storm models had increased the number of claims likely to result from Hurricane Harvey to 66,000.

When Hurricane Harvey finally made landfall late Friday evening over Port Aransas and Rockport-Fulton, it did so as a Category 4 hurricane with wind gusts up to 140 mph. By midday Saturday, TWIA had already received 300 claims.

## Post-landfall Response

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

**August 22, 2017:**
TWIA activated the CAT Plan

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

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

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

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

representatives, and additional Quality Assurance, Support and Re-inspection assets to handle the increasing claim volume. We issued our first claim payments less than 72 hours after Hurricane Harvey landfall.

By Tuesday, August 29, just four days after the storm — and after officials deemed it safe to enter — claims management was on the ground in the Coastal Bend. TWIA teams deployed the next day and set up our mobile claims centers. The first sites were established in Rockport and Corpus Christi on August 30, and a third site was established in Port Aransas on September 4. In total, 64 staff and contractors deployed to the three locations. In the first three weeks, the three mobile claims centers served more than 10,000 TWIA policyholders and made advance claim payments in excess of $11 million dollars. Special consideration and priority were given to active members of the military, police, fire fighters and other first responders, and local officials and city employees at the mobile claims centers. This ensured these individuals could quickly file their claims and receive advance payments and return to the business of responding to their impacted communities.

In the first three weeks, the three mobile claims centers served more than **10,000** TWIA policyholders and made advance claim payments in excess of **$11 million** dollars.

TWIA's policy application moratorium was lifted on August 31 at 3:30 p.m. after General Manager John Polak deemed the storm to no longer be a threat to the catastrophe area. The Association continued to onboard additional field adjusters and desk examiners to handle the influx of claims. By mid-September, TWIA had more than 400 desk examiners processing claims and more than 25 quality assurance specialists reviewing files to ensure correct and full claim payments were made.

*As word spread of TWIA's presence, residents approached our SIU investigators to report suspected incidences of fraud.*

TWIA's fraud prevention team, the Special Investigation Unit or SIU, was also present in the Coastal Bend to educate TWIA policyholders about fraud and investigate reports of suspected fraud. The SIU team coordinated with local officials and law enforcement to help address fraud situations that arose in the first weeks after the storm, including instances of contractor price gouging and the impersonation of TWIA adjusters. In their first week of operations, the SIU's team of 19 investigators interacted with nearly 6,000 residents: more than 3,000 through the mobile claims centers, 1,600 through educational door-to-door visits, and 600 through specific fraud investigations. As word spread of TWIA's presence, residents approached our SIU investigators to report suspected incidences of fraud. TWIA, in turn, reported the information to local officials and TDI.

Even though the volume of visitors to our mobile claims centers began to decrease in September, we didn't think it was time to leave. TWIA leadership decided we should stay on the coast and transition the remote sites' mission from one of emergency claim filing and payment services to one of claims process support. We continued to serve our policyholders at the three remaining sites for several more months. The Corpus Christi and Port Aransas sites closed permanently at the end of December 2017 and the Rockport site closed in mid-February 2018.

## Claims Handling Operations

By following our CAT Plan and claims handling guidelines, leveraging five years of CAT response exercises, and using our web-based Claims Center, TWIA was able to swiftly scale up claims handling resources in the immediate days following Hurricane Harvey and work efficiently to inspect properties and make estimated claim payments. Nearly 40,000 claims were received within the first seven days after the storm made landfall (August 25-September 1, 2017).

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Within **7** days after the storm

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

Within **45** days after the storm

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

Within **75** days after the storm

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

Within **100** days after the storm

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

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

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As of August 31, 2018, TWIA has received nearly 76,500 claims and issued approximately $1.17 billion dollars in claim payments. Approximately 96% of all claims have been processed and closed with average claim payments for policyholders with residential claims at $18,252 and commercial claims at $193,824. Claims complaint and dispute ratios as a percentage of all claims received for Hurricane Harvey remain low at approximately 0.28% and 4.88%, respectively.

To provide policyholders as much time as possible to work toward a successful resolution of their claim and still preserve their right to dispute their claim payment amount, the Association requested TDI extend the appraisal deadline (appraisal is the formal process to dispute a claim payment amount). Normally, policyholders must request appraisal within 60 days after receiving their most recent notice of claim acceptance (partial or full) letter. TDI granted TWIA's request in late September 2017, providing policyholders with 120 days to request appraisal after their claim has been accepted. An additional 60-day extension was requested and granted in April 2018, providing policyholders with up to 180 days to request appraisal (certain commercial properties have 150 days). Each time an appraisal extension was granted, staff revised claim notification letters to reflect the new deadlines and widely disseminated communications about the extensions to stakeholders, including notifying policyholders with closed claims.

In accordance with TDI's plain-language campaign, TWIA also reviewed, revised, and aligned all claim notification letters, claims process documents, and other communications related to the claims process to make them easier to understand and more user-friendly. The revised documents are drastically improved with the removal of business jargon, more simplified sentence structure, and information that is easier to digest for the average reader.

**76 thousand** claims received for Hurricane Harvey

**$1.17 billion** in claim payments

**average claim payments for policyholders**

$18,252 in residential claims

$193,824 in commercial claims

**0.28% Claims complaint ratios** as a percentage of all claims received

**4.88% Claims dispute ratios** as a percentage of all claims received

# Communications & Coastal Outreach

Throughout our Hurricane Harvey response, TWIA's goal was to be transparent in our communication about our pre- and post-storm activities with our stakeholders, including insurance agents, our policyholders, the Board of Directors, the Texas Legislature, and media contacts.

The Association's social media accounts — both Twitter and Facebook — proved valuable communication channels leading up to and following Hurricane Harvey, allowing us to share methods for reporting a claim, the locations and hours of our mobile claims centers, and upcoming events in which TWIA and other disaster recovery entities were participating. Social media also allowed us to quickly respond to policyholder questions and concerns; within four months of Harvey, staff had personally assisted nearly 100 agents and policyholders through Facebook with their claims-related questions. Based on these questions as well as social media posts and comments about TWIA, we were able to identify common misconceptions to address on a larger scale and/or offer additional claims guidance.


agents and policyholders assisted through Facebook within four months

The plain-language and visually engaging claims information resources we created covered various aspects of the claim and recovery process, including what to expect after filing a claim, repairs requiring windstorm certification, how to handle temporary repairs after a storm, and claim dispute information. We also developed a pamphlet for field adjusters to leave with the policyholder following an inspection, which consolidates in one document important contact information, roles and responsibilities during the claim process, and what to expect during the next steps. In addition to being shared via email with agents, these guides were uploaded to our website, which was restructured in the wake of Hurricane Harvey to help agents and policyholders more easily file their claims and find information.

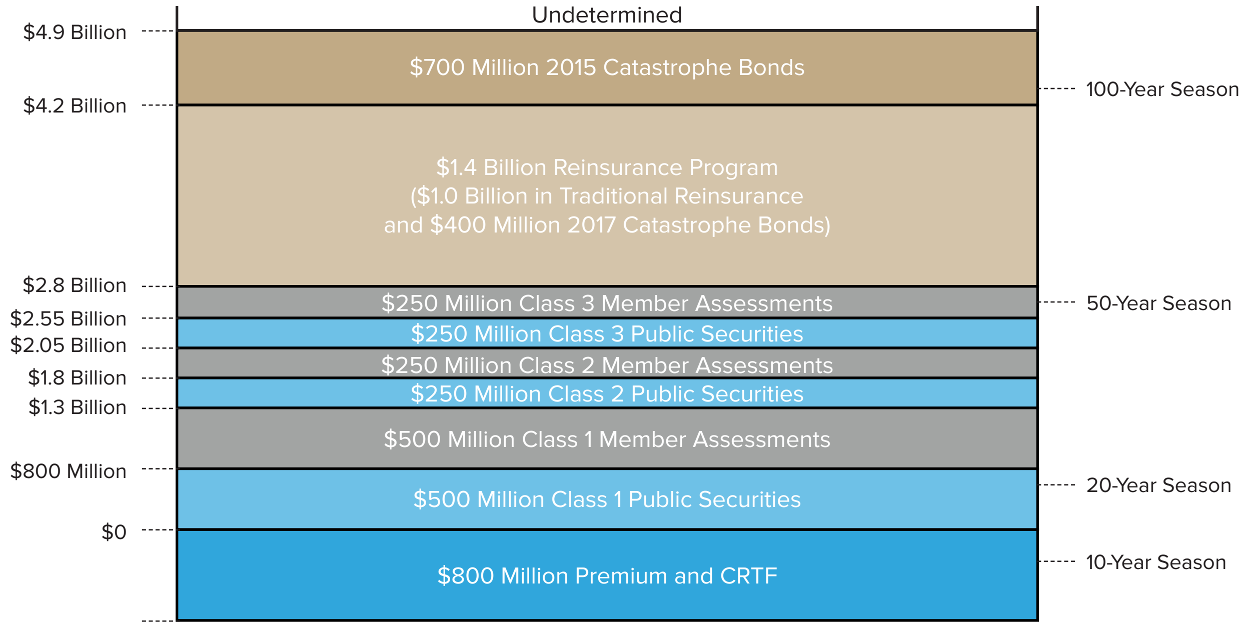
Our effort to get crucial information to our policyholders included outreach to media contacts in the areas hit hardest by the storm. We distributed media alerts about TWIA's mobile claim centers and the claim filing process, conducted interviews with media outlets, and responded to a high volume of media inquiries. We reached out to area Chambers of Commerce and churches in the cities of Port Aransas and Rockport shared information about our nearby mobile claims centers and the claims resources available to our policyholders.

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

# Ultimate Losses from Harvey and Funding

For the 2017 hurricane season, TWIA secured access to $4.9 billion in total aggregate funding, sufficient to fund claims associated with over 99% of all modeled hurricane seasons, or a 125-year storm season. The 2017 program included $1.0 billion in traditional reinsurance and catastrophe bonds in an aggregate amount of $1.1 billion issued in 2015 and 2017, with staggered expirations to provide multi-year stability, diversification, and expanded claims-paying capacity. At the start of the season, TWIA also had a record-balance of $737 million in the Catastrophe Reserve Trust Fund (CRTF), including a contribution of $147 million from 2016 operations.

TWIA's funding for the 2017 hurricane season is illustrated by the chart below:




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

Following Hurricane Harvey, TWIA's initial estimate of ultimate loss and loss adjustment expense (LAE) for the storm was $1.13 billion based on data as of October 2018. At the end of 2017, with more claim data and claim handling experience, TWIA revised the ultimate loss estimate for Hurricane Harvey to $1.45 billion. The most significant factor in the decision to change the ultimate loss estimate was the increase in number of claims closed and the average severity (loss and LAE) of the claims compared to the initial estimates. Based on data as of March 31, 2018, TWIA revised the ultimate loss and LAE for Hurricane Harvey to $1.61 billion. This was primarily due to the volume of supplemental payments and payments made on reopened claims in the first quarter of 2018. TWIA plans to revisit the claims data in the first quarter of 2018. TWIA plans to revisit the claims data on a quarterly basis to assess ultimate loss amount and will provide revisions as necessary.

For the payment of claims from Hurricane Harvey, TWIA has utilized $743.2 million available from the CRTF as well as $96.3 million of the earning from 2017 operations. TWIA has also withdrawn approximately $449 million of the total $500 million from the Class 1 Pre-event Bonds issued in 2014. The remaining $51 million of the bonds' proceeds must be retained for debt reserve funds.

In May 2018, TWIA's Board authorized staff to seek approval from TDI for a $175 million-member company assessment resulting from losses and expenses caused by Hurricane Harvey. TDI approved TWIA's assessment request in May 25, 2018, and assessment notices were issued to member companies in early June 2018. TWIA's Board authorized staff to seek approval for an additional member company assessment in the amount of $107 million at the July 31, 2018 TWIA Board meeting. TDI approved the additional member company assessment in August 2018. To date, TWIA has received nearly $174 million of the total amount requested in the first round of member company assessments and nearly $87 million in the second round.

While TWIA was well-prepared to respond to a catastrophic event in 2017, we have devoted considerable time, as we do annually, to evaluate the outcome of our response to Hurricane Harvey and identify opportunities for improvement and ways in which we can better serve our policyholders following future catastrophic events. These improvements and planned changes to our hurricane response have been folded into our 2018 Catastrophic (CAT) Incident Response Plan, information about which is included in the Claims Handling and Loss Funding Section of this Annual Report.

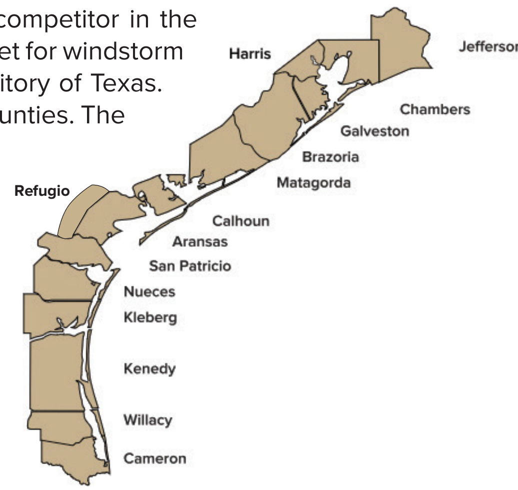
# Statutory Compliance Sections

# TWIA Overview

## History and Purpose

The Texas Windstorm Insurance Association (TWIA or Association) was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. TWIA is governed by Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

TWIA is a residual insurer of last resort and as such is not a direct competitor in the private market. TWIA's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier and a portion of Harris County (second tier).




TWIA operates as an insurance company by issuing policies, collecting premiums, and paying losses. TWIA is required by law to transfer its net gain from operations each year into the Catastrophe Reserve Trust Fund (CRTF), an account maintained by the Texas Comptroller dedicated to the payment of future TWIA catastrophe losses.

## Mission and Vision

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

TWIA embodies the following values in support of its mission:

**Service & Respect**

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

**Efficiency & Stability**

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

**Integrity & Accountability**

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

# Policies, Premiums, and Exposures

## Insurable Property and Coverage Requirements

In order to be eligible for a TWIA policy, applicants must meet certain criteria defined by the Texas Legislature. Texas Insurance Code Section 2210.004 defines insurable property for the purposes of eligibility for TWIA insurance:

- Applicants must have been denied coverage by at least one insurer in the private market
- Properties must be located in the designated catastrophe area
- Properties must be certified as having been built to applicable building codes, with limited exceptions
- Properties located in specified flood zones (V zones) that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation

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

At the core of these initiatives is a focus on operational efficiency in TWIA's underwriting methods.

### Operational Efficiency through Underwriting

The efficiency of TWIA's Underwriting Department is measured by reduced staffing resources combined with improved productivity and turnaround time for service. In 2014, TWIA's Underwriting Department (including underwriters, managers, and agent and shared services employees) operated with 33 full-time employees. Today, the Association operates with 30 full-time Underwriting employees (a 33% decrease in needed resources). Even with this staff reduction, service times are faster and more consistent.

Service and product delivery improvements can largely be attributed to TWIA's implementation of a new residential policy administration system and billing system in 2015, and a new commercial policy administration system in early 2018. Prior to replacing our core systems, TWIA only accepted policy applications via U.S. mail, required paper checks from agents for premium payments, and manually processed every single application and check. This resulted in the issuance of approximately 50% of policies within 14 days of receipt of the application, a turnaround time which still required substantial reliance on employees working overtime. The improvement of TWIA's core systems allows for 100% of policy applications, including new business, renewals, and policy changes, to be received electronically from the agent. Policy payments may also be received electronically from the agent, premium financiers, and policyholders. As of August 31, 2018, more than 95% of policies are consistently issued within 10 days year-round.

### Risk Visualization Program

TWIA partnered with EagleView Technologies over four years ago 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, and
- Reduced opportunities for fraud.

## Policy Issuance

Under Texas Insurance Code 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 if the property continues to be insurable property.

TWIA issues approximately 220,000 policies each year with annual premiums of more than $420 million. Since 2014, TWIA has seen a gradual decline in written premiums correlated with policy and exposure decline. This can be attributed to increasing interest from the private insurance market in providing wind and hail coverage in the designated catastrophe area.

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

**Policies In-Force**

| Policy Type | As of 8/31/17 | As of 8/31/18 | Change from Prior Year |
|---|---|---|---|
| Manufactured Home | 797 | 736 | -7.65% |
| Residential | 220,465 | 199,450 | -9.53% |
| Commercial | 9,022 | 8,253 | -8.52% |
| **Totals** | **230,284** | **208,439** | **-9.49%** |

**Direct Liability**

| Policy Type | As of 8/31/17 | As of 8/31/18 | Change from Prior Year |
|---|---|---|---|
| Manufactured Home | 41,982,752 | 3,917,441 | -6.69% |
| Residential | 58,601,949,850 | 53,264,810,350 | -9.11% |
| Commercial | 7,469,983,679 | 6,686,280,786 | -10.49% |
| **Totals** | **66,113,916,281** | **59,990,266,577** | **-9.26%** |

**Written Premiums (YTD)**

| Policy Type | As of 8/31/17 | As of 8/31/18 | Change from Prior Year |
|---|---|---|---|
| Mobile Home | 806,735 | 775,690 | -3.85% |
| Residential | 249,640,548 | 235,634,259 | -5.61% |
| Commercial | 352,972,373 | 349,198,866 | -7.12% |
| **Totals** | **303,419,656** | **284,608,815** | **-5.87%** |

# Building Code Compliance

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 84th Texas Legislature changed the windstorm certification process and required TWIA to implement a program to issue Certificates of Compliance (WPI-8-C) for completed improvements. The new law applies to a TWIA policy delivered, issued for delivery, or renewed on or after January 1, 2017.

As of August 31, 2018, TWIA has issued 12,238 Certificates of Compliance (WPI-8-C) total in 2018 with a turnaround time of two days from application receipt to certificate issuance.

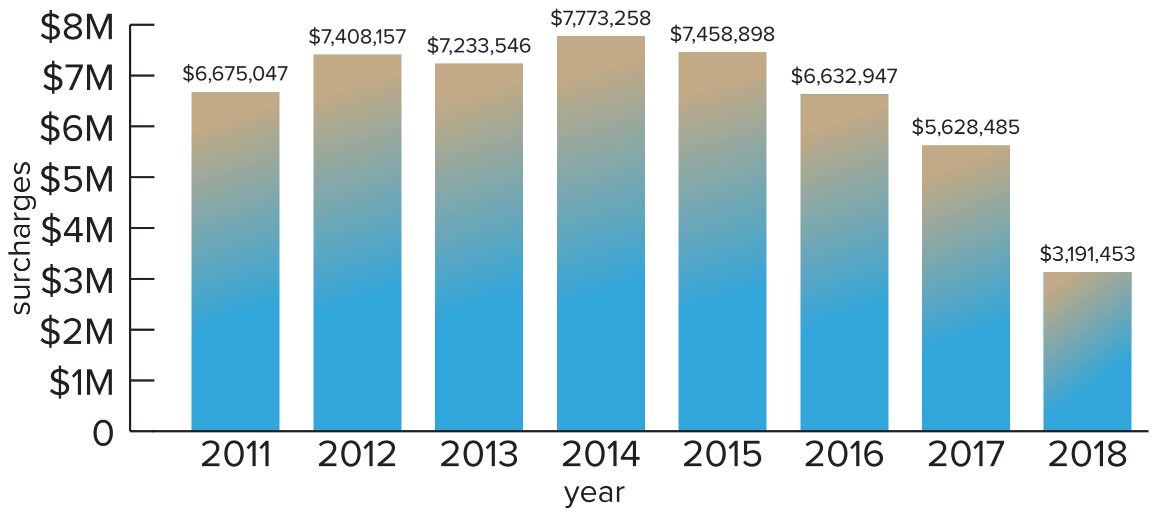
### Windstorm Certification Program

| | 2017 | 2018 YTD | Total |
|---|---|---|---|
| WPI-8-C Applications Received (WPI-3 Form) | 4,904 | 12,554 | 17,458[2] |
| WPI-8-C Certificates of Compliance Issued | 4,422 | 12,238 | 16,660 |

Texas Insurance Code Section 2210.259 provides some exceptions for structures lacking WPI-8s. Properties with construction from 1988 to June 9, 2009 that are not certified may still be eligible and are subject to a 15% premium surcharge. These surcharges are deposited directly into the CRTF. As of August 31, 2018, there are 21,966 policies in-force on the WPI-8 waiver surcharge program.

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

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




## 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." TWIA rates determine the amount of premium charged to each TWIA policyholder, and adequate rates help ensure TWIA meets its financial obligations. Rates are set by the TWIA Board of Directors and subject to review by the Commissioner of Insurance.

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

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

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

The TWIA Board of Directors voted to propose a 10% rate increase for 2019 at the July 31, 2018 Board meeting. The Commissioner of Insurance must approve or disapprove the proposed 10% rate increase by October 15, 2018, before it can go into effect in 2019. The Commissioner requested feedback from the public before making his decision with public comments due to TDI by October 1, 2018.

## 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. TWIA files annual updates to the maximum liability limits based on changes in construction cost indices.

The TWIA Board of Directors voted to increase the maximum liability limits at the July 31, 2018 meeting. TWIA filed a request with TDI on August 7, 2018 as required by statute. TWIA's request to increase the maximum liability limits is currently under review by TDI, and a public hearing will be held on October 8, 2018 related to the request.

The current maximum limits are:

Dwellings and individually owned townhouses:

Current 2018: Indicated 2019:

**$1,773,000 → $1,847,000**

Amount Changed: $74,000 - Percentage Changed: 4.2%

Contents of an apartment, condominium, or townhouse:

Current 2018: Indicated 2019:

**$374,000 → $391,000**

Amount Changed: $17,000 - Percentage Changed: 4.5%

Commercial structures and associated contents:

Current 2018: Indicated 2019:

**$4,424,000 → $4,595,000**

Amount Changed: $171,000 - Percentage Changed: 3.9%

# Financial Operations

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 August 2018. The statutory income statement shows a comparison between the actual and budgeted revenues and expenses.

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

| | August-18 | December-17 |
|---|---|---|
| **Admitted Assets** | | |
| Cash and short term investments: | | |
| Unrestricted | $ 514,406 | $ 366,363 |
| Restricted - Funds Held at TTSTC | 65,234 | 279,711 |
| Total cash and short term investments | 579,640 | 646,074 |
| Premiums receivable & other | 1,926 | 1,862 |
| Assessment receivable | 108,182 | 0 |
| Amounts recoverable from reinsurers | 19 | 17 |
| **Total admitted assets** | **$ 689,766** | **$ 647,954** |
| | | |
| **Liabilities, Surplus and other funds** | | |
| **Liabilities:** | | |
| Loss and Loss adjustment expenses | 269,778 | 414,734 |
| Underwriting expenses payable | 12,791 | 15,278 |
| Unearned premiums, net of ceded unearned premiums | 164,424 | 209,453 |
| Ceded reinsurance funds payable | 54,202 | 20,972 |
| Principal Outstanding on Class 1 Pre Event Bonds | 368,500 | 414,600 |
| Interest Payable on Class 1 Pre Event Bonds | 5,067 | 17,102 |
| Provision for reinsurance | 2,686 | 0 |
| Other payables | 23,640 | 17,206 |
| Statutory fund payable | 0 | 0 |
| **Total liabilities** | **901,087** | **1,109,344** |
| | | |
| **Surplus and others funds** | | |
| Unassigned surplus (deficit) | (211,322) | (461,390) |
| **Total liabilities, surplus and other funds** | **$ 689,766** | **$ 647,954** |
| | | |
| | | |
| **Balance in CRTF** | **$ 4,439** | **$ 1,220** |
| | | |
| **Balance in CRTF including Statutory fund payable** | **$ 4,439** | **$ 1,220** |

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

| # | | for the eight months ended August 31, Actuals - 2018 | Budget - 2018 | Variance - 2018 | Actuals - 2017 |
|---|---|---|---|---|---|
| 7 | **Premiums Written:** | | | | |
| 8 | Direct | $ 285,609 | $ 291,967 | $ (6,358) | $ 303,420 |
| 9 | Ceded | (108,654) | (139,385) | 30,730 | (108,689) |
| 10 | Ceded - Depopulation | (1,364) | (2,561) | 1,196 | (8,599) |
| 11 | Net | 175,590 | 150,022 | 25,568 | 186,131 |
| 13 | **Premiums Earned:** | | | | |
| 14 | Direct | $ 276,310 | $ 275,355 | $ 955 | $ 307,574 |
| 15 | Ceded | (54,327) | (69,693) | 15,366 | (54,344) |
| 16 | Ceded - Depopulation | (1,364) | (2,561) | 1,196 | (8,599) |
| 17 | Net | 220,618 | 203,101 | 17,517 | 244,630 |
| 19 | **Deductions:** | | | | |
| 20 | Direct Losses and LAE Incurred | 6,066 | 63,796 | (57,730) | 32,642 |
| 21 | Direct Losses and LAE Incurred - Harvey | 164,000 | 0 | 164,000 | 467,150 |
| 22 | Direct Losses and LAE Incurred - Ike & Dolly | 0 | 0 | 0 | (2,500) |
| 24 | Ceded Losses and LAE Incurred - Depopulation | 225 | (849) | 1,074 | (1,512) |
| 25 | Operating Expenses | 20,090 | 22,499 | (2,409) | 16,527 |
| 26 | Depopulation Servicing | (208) | (276) | 68 | (272) |
| 27 | Commission Expense | 45,683 | 46,714 | (1,031) | 48,537 |
| 28 | Ceding commissions / brokerage | (2,458) | (3,860) | 1,402 | (3,054) |
| 29 | Ceding commissions / brokerage - Depopulation | (327) | (615) | 287 | (2,064) |
| 30 | Premium / Maintenance Tax | 5,567 | 5,752 | (185) | 5,973 |
| 31 | Total Deductions | 238,638 | 133,161 | 105,476 | 561,428 |
| 33 | **Net Underwriting Gain or (Loss)** | (18,019) | 69,940 | (87,959) | (316,797) |
| 35 | **Other Income or (Expense):** | | | | |
| 36 | Gross Investment Income | 3,939 | 3,809 | 130 | 4,491 |
| 37 | CRTF Funds Received | 0 | 0 | 0 | 370,700 |
| 38 | Member Assessment Income | 281,820 | 0 | 281,820 | 0 |
| 39 | Interest Expense on Class 1 Bonds | (22,169) | (22,169) | 0 | (23,953) |
| 40 | Debt Issuance/Maintenance & Other Investment Expense | (1,648) | (132) | (1,516) | (137) |
| 41 | Other Income (Expense) | 51 | 0 | 51 | 32 |
| 42 | Total Other Income or (Expense) | 261,993 | (18,492) | 280,485 | 351,133 |
| 44 | **Net Income (Loss)** | $ 243,973 | $ 51,448 | $ 192,525 | $ 34,336 |
| 46 | **Surplus (Deficit) Account:** | | | | |
| 47 | Beginning Surplus (Deficit) | (461,390) | (461,390) | 0 | 0 |
| 48 | Net Income (Loss) | 243,973 | 51,448 | 192,525 | 34,336 |
| 49 | Change in Provision for Reinsurance | (2,686) | (2,000) | (686) | (1,373) |
| 50 | Principal Funded on Class 1 Bonds (net) | 0 | 0 | 0 | (32,055) |
| 51 | Change in nonadmitted assets - Other | 8,781 | 7,835 | 946 | (908) |
| 52 | Statutory Fund Cost | 0 | 0 | 0 | 0 |
| 53 | Ending Surplus (Deficit) | $ (211,322) | $ (404,107) | $ 192,785 | $ 0 |
| 55 | **Key Operating Ratios:** | | | | |
| 56 | Direct: | | | | |
| 57 | Loss & LAE Ratio: | | | | |
| 58 | Non Hurricane | 2.2% | 23.2% | -21.0% | 10.6% |
| 59 | Hurricane Harvey | 59.4% | 0.0% | 59.4% | 151.9% |
| 60 | Hurricanes Ike & Dolly | 0.0% | 0.0% | 0.0% | -0.8% |
| 61 | Loss & LAE Ratio | 61.5% | 23.2% | 38.4% | 161.7% |
| 62 | UW Expense Ratio: | | | | |
| 63 | Acquisition | 17.9% | 18.0% | 0.0% | 18.0% |
| 64 | Non Acquisition | 7.2% | 8.1% | -0.9% | 5.3% |
| 65 | UW Expense Ratio | 25.1% | 26.0% | -0.9% | 23.3% |
| 67 | Combined Ratio | 86.7% | 49.2% | 37.5% | 184.9% |
| 69 | Net: | | | | |
| 70 | Loss & LAE Ratio: | | | | |
| 71 | Non Hurricane | 2.9% | 31.0% | -28.1% | 12.7% |
| 72 | Hurricane Harvey | 74.3% | 0.0% | 74.3% | 191.0% |
| 73 | Hurricanes Ike & Dolly | 0.0% | 0.0% | 0.0% | -1.0% |
| 74 | Loss & LAE Ratio | 77.2% | 31.0% | 46.2% | 202.7% |
| 75 | UW Expense Ratio: | | | | |
| 76 | Acquisition | 21.6% | 23.2% | -1.6% | 21.2% |
| 77 | Non Acquisition | 9.0% | 10.9% | -1.9% | 6.6% |
| 78 | UW Expense Ratio | 30.6% | 34.2% | -3.6% | 27.9% |
| 80 | Combined Ratio | 107.8% | 65.2% | 42.6% | 230.5% |

82 **Note: Beginning Budgeted Deficit Adjusted To Actual for Comparative Purposes**

# Claims Handling and Loss Funding

## Catastrophe (CAT) Incident Response Plan

Texas Insurance Code Section 2210.455 requires the Association, not later than June 1 of each year, to submit to the Commissioner, 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 2018 Catastrophe (CAT) Incident Response Plan is included with TWIA's Annual Report Card, published on June 1, 2018.

The 2018 CAT Plan focuses on lessons learned from the Association's response to Hurricane Harvey, which made landfall on August 25, 2017. Hurricane Harvey affected nearly 40% of TWIA's coverage area and tested all facets of the Association's 2017 CAT Plan. Built into the Association's annual CAT Plan review process is a Corrective Action Program (CAP) which staff use to identify gaps and deficiencies in the previous year's CAT Plan. This information is used to create After Action Reports (AARs) which involve the development of improvements and methods for replicating successes. Following Hurricane Harvey, TWIA gathered feedback from a variety of stakeholders impacted by TWIA's response to the storm, including policyholders, agents, and Association employees, on what worked well and areas where the Association can improve. The 2018 CAT Plan addresses a majority of the individual pieces of feedback, or AARs, collected from these stakeholders.

The focus of the improvements to the 2018 CAT Plan include:

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

Replicating our successes is another key component of the 2018 CAT Plan. TWIA is constantly improving the Association's claims resource capabilities and our ability to respond to an event promptly and effectively. The utilization of our resource scalability and loss projection models ensured a fast and efficient response in the weeks after Hurricane Harvey, and Claims leadership continues to meet to devise a plan for replicating and enhancing the initial scaling process for an event.

One of our primary objectives for the 2017 CAT Plan was the ability to quickly scale up internal and vendor resources for more efficient claims processing. By the time Harvey made landfall on August 25, TWIA had hired an additional 1,800 staff resources, consisting of field adjusters, desk examiners, quality analysts, support personnel, re-inspectors, and call center resources. Contracts in place with multiple vendors ensured these resources were committed to TWIA, even while another major hurricane was moving towards Florida. To capitalize on the success of our scalability and onboarding efforts for 2017, the 2018 CAT Plan includes additional training and preparation to ensure resources are well-equipped to process claims accurately and efficiently.

TWIA implemented a new claims administration system, Claims Center, in July 2016. The system is designed to speed up and improve the claims handling process and provide policyholders, agents and TWIA with better ways to communicate and share more accurate information about a claim. Hurricane Harvey was the first opportunity to use Claims Center for a major event, allowing for an increased capability to scale up and handle the large volume of claims reported for the storm. The system also helped us identify data gathering and reporting enhancements needed to more effectively analyze and share information about claims filed.

These enhancements and other improvements to our core technology and systems are a priority for the 2018 hurricane season.

Our field operations are supported by our relationships with Offices of Emergency Management (OEM) and public officials in our coverage area. These relationships helped secure locations for three Mobile Claims Centers established shortly after Harvey made landfall and allowed us to locate venues for and publicize townhall events and Claims Assistance Workshops for policyholders in the most affected areas. For 2018, we are continuing to build on OEM and public official relationships throughout the coverage area. This includes formalizing an annual program for meeting with and planning for response to catastrophic events with Emergency Managers and key local, city, and state officials.

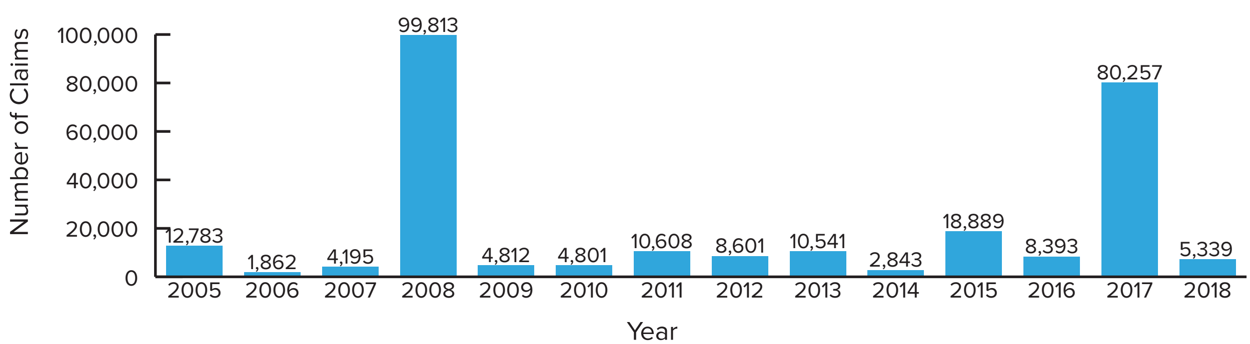
## CAT Plan Testing and Activation

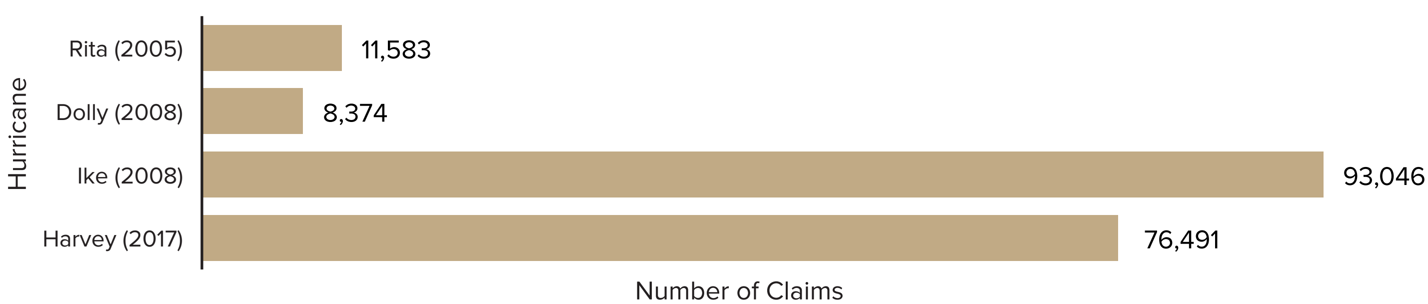
TWIA has activated the CAT Plan twelve times since January 1, 2012 for localized wind and hail events and has updated the plan based on information gathered from these events. In April 2015, the CAT Plan was activated in response to a prolonged period of severe weather, resulting in the most non-hurricane claims in Association history. A total of 14,706 claims were opened as a result of storms in April, May, and June 2015. The CAT Plan was also activated again in October 2015 in response to post-tropical storm Patricia and storms on Halloween weekend. More than 1,50044 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.

TWIA activated the CAT Plan on August 22, 2017, due to Hurricane Harvey, resulting in the second-highest level of new claims filed in the Association's history after Hurricane Ike in 2008. Most recently, the CAT Plan was activated on September 11, 2018, in response to the developments of two systems threatening TWIA's coverage area. The CAT Plan was de-activated a week later after the storms were no longer viable threats to the Texas coast.

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

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 76,491 claims filed through August 31, 2018. Historical TWIA Claim Volume for the past 14 years is reported in the chart below. 2018 claims include new claims filed for both Hurricane Harvey and non-Harvey claims filed through the reporting period (as of August 31, 2018).



# Expert Panel

Texas Insurance Code Section 2210.578 directed the Commissioner to appoint a panel of experts ("Expert Panel") to recommend methods or models to determine the extent to which a loss to a property was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges or water. The Commissioner must consider the Expert Panel's recommendations and prescribe guidelines TWIA must use to settle such claims. The Commissioner adopted the claim settlement guideline rules effective March 28, 2017, which require TWIA to put a process in place for applying the guidelines by June 1, 2018. The guidelines only apply to residential "slab" claims, or a claim defined as a residential structure for which nothing more remains than foundation elements, such as pilings, floor framing members, or concrete slab, and there is insufficient evidence to enable TWIA to determine the extent to which wind or water caused the loss. TWIA worked closely with the Expert Panel to implement the process for applying the claim settlement guidelines by the deadline as required by statute.

# Claims Settlement and Dispute Resolution

## Appeals

Under 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 limits the availability of appeals through the SOAH process to those persons or entities that have been aggrieved by an act, ruling, or decision of the Association that is not related to the payment of, the amount of, or the denial of a claim. As a result, all correspondence to insureds communicating a claims decision includes revised language to reflect rights and responsibilities as provided under current law.

## Claims: Settlement and Dispute Resolution

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. 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.

Below is a table of data (as of August 31, 2018) regarding 2018 year-to-date disputed claims and Hurricane Harvey disputed claims. Dispute frequency tracks the total number of claims filed with the Association and the number and percentage of claims in which the policyholder is disputing the claims disposition for any reason.

| 2018 Disputed Claims | | | | | | |
|---|---|---|---|---|---|---|
| Dispute Frequency | | | Type of Dispute | | | |
| Total Claims | Disputed Claims | % of Disputed Claims | Appraisals | Notice of Intent | Mediation | Suits |
| 5,339 | 179 | 3.35% | 162 | 38 | 38 | 13 |

| 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 |
| 162 | 4 | 0 | 94 | 42 | 8 | 14 |
| | 2% | 0% | 98% | | | |

# Catastrophe Funding

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. TWIA's funding sources, as outlined in statute, provide a combination of public securities and company assessments and require total funding in an amount not less than the probable maximum loss for the Association for a catastrophe year with a probability of one in 100.

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

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

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

## 2018 Hurricane Season Funding

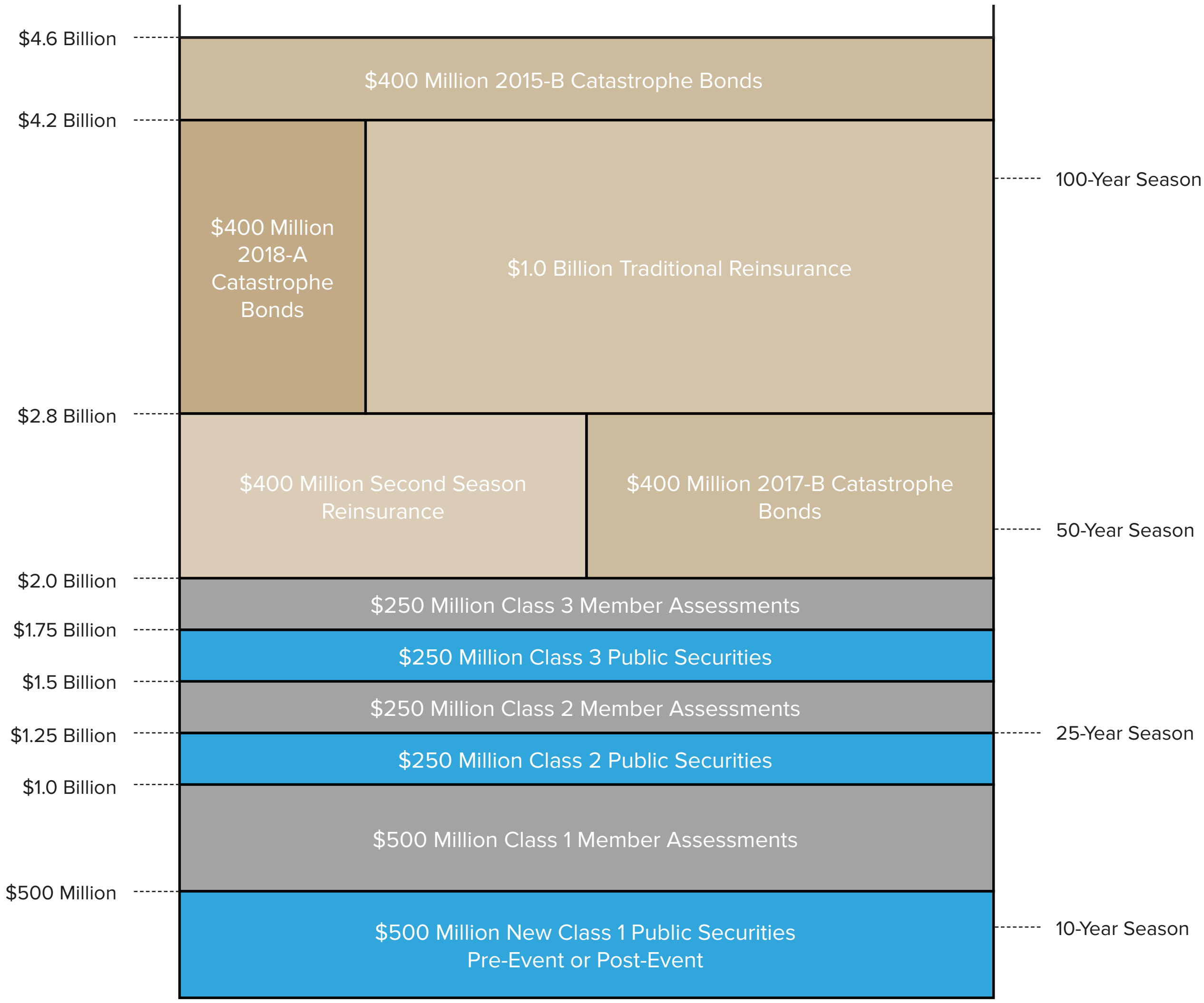
TWIA's 2018 reinsurance program, effective June 1, 2018 to May 31, 2019, provides $4.6 billion in total aggregate funding sources, an amount in excess of the statutory minimum funding. TWIA's funding sources includes the purchase of reinsurance, relying on a combination of traditional reinsurance contracts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

**$4.6 billion**
in total aggregate funding sources, an amount in excess of the statutory minimum funding, provided by TWIA's 2018 reinsurance program

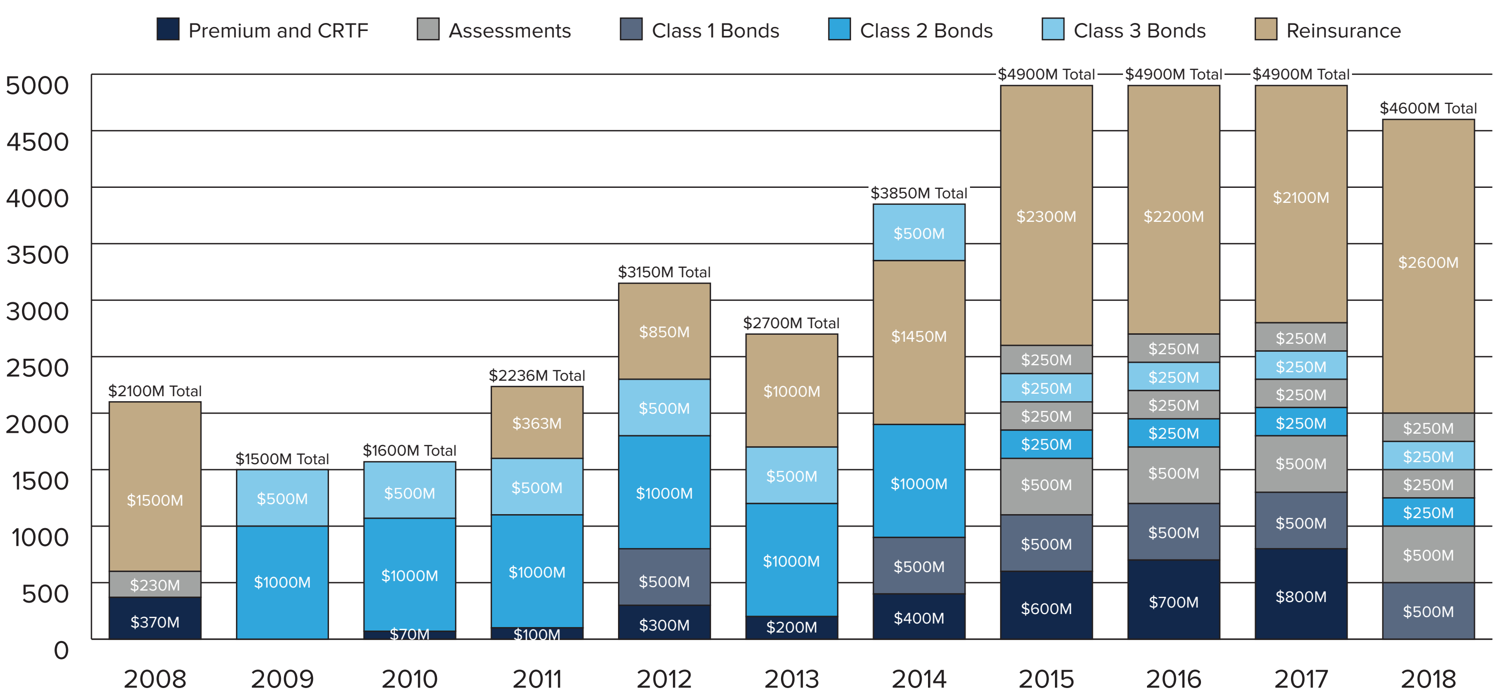
The 2018 reinsurance program includes:

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

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




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



# Governance

## Board Composition

Texas Insurance Code Section 2210.102 describes the composition of the TWIA Board of Directors. 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.

The current membership of the TWIA Board of Directors is as follows:

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

## Open Meetings and Open Records

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 |
| --- | --- |
| July 25, 2018 | Actuarial and Underwriting Committee Meeting |
| July 31, 2018 | Quarterly Board of Directors Meeting |
| August 30, 2018 | Legislative and External Affairs Committee Meeting |
| September 28, 2018 | Legislative and External Affairs Committee Meeting |
| December 11, 2018 | Quarterly Board of Directors Meeting |

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. Year-to-date through August 31, 2018, TWIA has received 35 public information requests.

## 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.

# Regulatory Compliance

## 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. The were no new rules proposed or adopted during the reporting period.

## Standards of Conduct

### Business Ethics and Conflicts of Interest Policy

TWIA first developed and implemented a comprehensive Business Ethics & Conflict of Interest Policy ("Ethics Policy") in February 2011. The policy has undergone revisions in 2011, 2012, and 2016 to incorporate legislative changes and modernize, simplify and clarify aspects of the Policy. Pursuant to Texas Insurance Code Sections 2210.012 and 2210.013, the Ethics Policy states that a member of the TWIA Board of Directors or 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 Association;
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 Association; 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.

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

- Stand-alone ethics training for onboarding  employees and contractors.
- Annual Certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms for all Board members, employees, and contractors.
- Required disclosure of certain business and personal relationships at the onset of employment or at first

discovery.

- Required filing of gift disclosures for the acceptance of permissible gifts as well as the rejection of certain prohibited gifts by all employees and contractors.
- Easy access to the Ethics Policy for all employees and contractors via a PC desktop link and the Association's shared computer drive for all policy and procedural documents.
- The Association developed a system to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.
- Ethics & Compliance training was incorporated into field adjuster training beginning in February 2012, and it continues to be a central theme of this training.

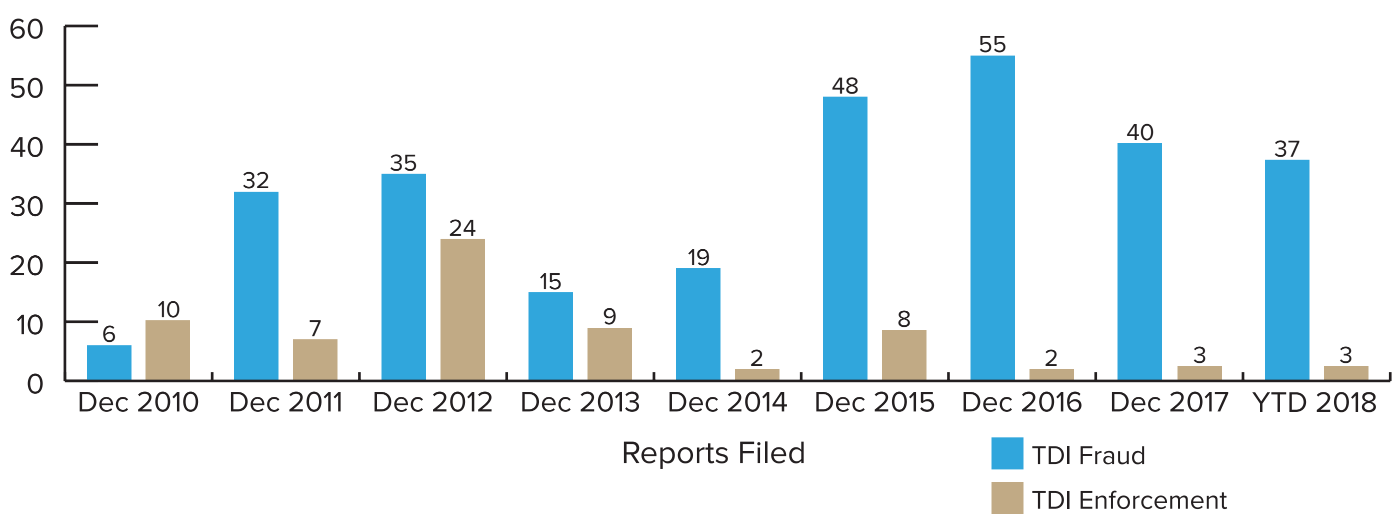
## Fraud Reporting

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

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

**Special Investigations Unit/Fraud Abatement**

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



### Whistleblower Policy

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

# Examination of the 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 is also conducting a financial examination of the Association which commenced in 2018. The examination covers TWIA's financial processes and controls since the previous examination in 2014 through December 31, 2017. The examination is in the early stages of the audit process, and we expect it to continue through 2018 and possibly into 2019.

## 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."

# 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:

- A plan for the equitable assessment of the members of the association to defray losses and expenses;
- Underwriting standards;
- Procedures for accepting and ceding reinsurance;
- Procedures for obtaining and repaying amounts under any financial instruments authorized under this chapter;
- Procedures for determining the amount of insurance to be provided to specific risks;
- Time limits and procedures for processing applications for insurance; and
- Other provisions as considered necessary by the department to implement the purposes of this chapter.
- 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 84th 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.

# Depopulation

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

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

## Voluntary Market Depopulation Program

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

## Assumption Reinsurance Depopulation Program

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

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

## Depopulation Programs Status

**Voluntary Mark Depopulation Program**

As of August 31, 2018, four participating carriers—State National Insurance Company, Weston Insurance, United Property and Casualty, and USAA Casualty Insurance Company—have reported a total of 3,568 policies bound through the Voluntary Market Depopulation Program. There are three remaining actively participating carriers in the Voluntary Program. State National Insurance Company has reported 1,300 policies bound through the program, and Weston Insurance Company has reported 2,137 policies bound through the program. United Property and Casualty previously received approval to participate and reported 71 policies bound before electing to discontinue participation in the program. On February 27, 2018, TDI approved USAA Casualty Insurance Company's participation in the Voluntary Market Depopulation Program. As of the reporting period, USAA has bound 60 policies through the program.

**Assumption Reinsurance Depopulation Program**

*Round One (2016-2017)*

Four carriers participated in Round 1 of the Assumption Program: Maison Insurance Company, The Woodlands Insurance Company, Weston Insurance Company, and United Property & Casualty Insurance Company. The assumption of policies by the four participating carriers was effective June 1, 2017. TWIA continues to handle policy changes for the assumed policies until they renew on assumption carriers' policy forms. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 2 policies remain in Round 1.

*Round Two (2017-2018)*

Three carriers are participating in Round 2 of the Assumption Program: SafePoint Insurance Company, Weston Insurance Company, and United Property & Casualty Insurance Company. The assumption of policies became effective June 1, 2018, with 1,634 policies transferring to the three participating carriers. TWIA will handle policy changes for the assumed policies until they renew on assumption carriers' policy forms. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 1,264 policies remain in Round 2.

*Round Three (2018-2019)*

Two carriers are participating in Round 3 of the Assumption Program: Weston Insurance Company and Safepoint Insurance Company. In August 2018, the carriers submitted their lists of policies selected for offers through the program, totaling 75,039 unique policy offers. The proposed offers are available for agents' review and selection on the TWIA depopulation website during the Agent Period of Round 3 from September 1, 2018 through October 31, 2018.

The chart below provides an overview of Rounds One and Two of the Assumption Reinsurance Depopulation Program:

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

*Total number of policies assumed after removing late-received opt-outs

**"Repopulation"**

TWIA also monitors the amount of policyholders that were depopulated from TWIA through the Assumption Reinsurance and Voluntary Market Depopulation Programs. Some policies returned to TWIA for wind and hail insurance after being assumed or insured by one of the participating carriers. As of August 31, 2018, we have identified 214 policies that have returned to TWIA as new business; 199 through the Assumption Program and 15 through the Voluntary Program.

## Ombudsman Funding and Program

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

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

As of August 31, 2018, TWIA participated in the following outreach events:

**2018**

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

# Hurricane Preparedness Campaign

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

TWIA's Hurricane Preparedness campaign includes three main components:

- Community Outreach: Materials from this year's Teacher Toolkits were sent to the Galveston County Chamber of Commerce for their annual Lemonade Days, which focus on teaching youth about entrepreneurship. In addition to our educational outreach efforts, TWIA representatives will be engaging in community outreach opportunities in coordination with and at the request of coastal legislators and city officials, real estate agents, and public information officers to provide claims and operational updates and to address coverage and preparedness information. We are also planning to participate in a number of hurricane preparedness events in the coverage area throughout the 2018 hurricane season to act as a resource for coverage and claims questions.
- This year, TWIA partnered with the Federal Alliance for Safe Homes (FLASH) "Hurricane Strong" campaign to support their initiatives and help TWIA's hurricane preparedness campaign gain national exposure. FLASH's Hurricane Strong campaign is a national hurricane resilience initiative designed to save lives and homes through collaborations with leading organizations in the disaster safety movement. FLASH's online platform is engaging and active, allowing TWIA to share like-minded messaging through our social media channels.
- Social Media Outreach: In addition to print and digital ads, social media has served as an efficient tool to advise policyholders on how to be better prepared for a hurricane. Our social media platforms promote the importance of hurricane safety, having insurance, reviewing policy coverages and meeting with insurance agents on an annual basis.

*As an essential element of hurricane preparedness and resiliency, TWIA's campaign specifically aims to ensure our policyholders understand the value in having the most appropriate insurance coverages to safeguard their future.*