Meeting of Board of Directors
Texas Windstorm Insurance Association
Teleconference
May 7, 2019
Hyatt Regency Austin
208 Barton Springs Road
Austin, Texas 78704
9:00 a.m.

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

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

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

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

4. Public Comment — *15 minutes*

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

6. Financial — *20 minutes*
   Consideration and Possible Action on the Following Financial Topics:
   A. Report of the Secretary/Treasurer – *Debbie King**
      1. Income Statement
      2. Management Discussion and Analysis
   B. Financial Statement Review by Staff – *Jerry Fadden*
      1. Income Statement and Expense Statement
      2. Balance Sheet
      3. Cash & Short-Term Investments
      4. Cash Flow Statement
      5. Historical Data
   C. Investment Plan Review – *Jerry Fadden**
   D. Funding – *Jerry Fadden*
      1. 2019-2020 Funding Including Bank Line of Credit*
   E. Financial Audit by Calhoun, Thomson + Matza – *Clark Thomson*
      1. Audit Wrap-Up Reports
      2. Statutory Report*
      3. GASB*
      4. Internal Control Letter

7. Actuarial – *Jerry Fadden* *10 minutes*
   Consideration and Possible Action on the Following Audit Topics:
   A. Reserve Adequacy
   B. Policy Count/Exposures

8. Internal Audit – *Bruce Zaret – Weaver* *20 minutes*
   Consideration and Possible Action on the Following Actuarial Topics:
   A. Internal Audit Status & Update
   B. Risk Assessment Report

9. Underwriting – *Jessica Crass* *10 minutes*
   A. Operational Review Update

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

11. TWIA Operations *20 minutes*
   Consideration and Possible Action on the Following Operations Topics:
   A. IT Systems Update – *Camron Malik*
   B. TDI Examination Report Review – *John Polak**
   C. Sunset Bill Review – *John Polak*
   D. Depopulation – *Jessica Crass*
   E. Communications Update – *Jennifer Armstrong*

Lunch break, 11:00 *30 minutes*

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

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

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

15. Future Meetings – *Josh Fields* *5 minutes*
   - August 6, 2019 – Tremont House, Galveston
   - December – TBD

16. Adjourn

Estimated Total Length of Meeting 4 hours 00 minutes

*Indicates item on which general manager believes the board of directors is likely to take action. However, the board of directors may take action regarding any item on this agenda.

1. Anti-Trust Statement

ANTI-TRUST COMPLIANCE STATEMENT

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

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

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

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

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

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

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

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

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

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

3. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association

Board of Directors Meeting
Marriott South Hotel
4415 South IH 35
Austin, Texas 78744

February 5, 2019

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

The following Board members were present, representing:

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

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

1.	John Polak, General Manager	TWIA
2.	Jerry Fadden, Chief Financial Officer	TWIA
3.	Dave Williams, VP Claims	TWIA
4.	David Durden, VP Legal	TWIA
5.	Denise Larzalere, VP Underwriting	TWIA
6.	Amy Koehl, Executive Assistant	TWIA
7.	Mike Perkins, Association Counsel	Perkins Law Group PLLC

The following were also present:

Joe Woods	APCIA
Linda Von Quintus	Auto Club Company Mutual
Richard Meister	Bank of America/Merrill Lynch
Clark Thomson	Calhoun, Thomson + Matza
George Taylor	F.B. Taylor Insurance
Tad Delk	Guy Carpenter
Tyler Thomas	Guy Carpenter
Joan Polak	Guest

Marilyn Schrader	Guest
Fred Strauss	Holborn Corporation
Matt Stillwell	ICT
Lee Loftis	IIAT
Anne O'Ryan	Interinsurance Exchange
Kyle Cottrell	JP Morgan Chase
Craig Fegley	JP Morgan Chase
Tim Peterson	JP Morgan Chase
Jonna Kay Hamilton	Nationwide
Beaman Floyd	TCAIS
Marianne Baker	TDI
David Muckerheide	TDI
Marti Luparello	Texas Farm Bureau Insurance
John Miletti	Travelers
Jessica Davidson	TWIA
Brett Nabors	Weaver
Bruce Zaret	Weaver
Brant Chandler	Wellington Insurance Group
Allen Cashin	Willis Re
Alicia Gerte	Willis Re

2. Introductions: Meeting attendees introduced themselves.

3. Approval of Minutes: The minutes from the December 11, 2018 meeting in Corpus Christi, Texas were reviewed. Mrs. Neblett moved to approve the minutes as presented. Mr. Shofner seconded the motion. The motion passed.

4. Public Comment: There was no public comment.

5. TWIA Operational Highlights: Mr. Polak reported the Association received approval from agents on nearly 4,000 policy offers in the 2018-2019 Assumption Reinsurance Depopulation Program, resulting in 3,552 policy offers being sent to policyholders (after accounting for cancellations and expirations) in December 2018. Operating expenses fell slightly below plan and the net gain from operations was well above plan in Q4 2018. The Association met objectives for all strategic initiatives in 2018. Turnaround time and quality standards were exceeded on underwriting and claim service levels in Q4 2018. The Association remains below plan in Q4 2018 on litigated claims.

6. Financial:
   A. Report of the Secretary/Treasurer: Ms. King reviewed the Treasurer's Report. Mr. Shofner moved to approve the report. Mrs. Neblett seconded the motion. The motion passed.
   B. Financial Statement Review by Staff: TWIA's financial results as of the twelve months ended December 31, 2018 reflect net income of $283.7 million. These results include the benefit of $281.8 million in member assessment income, partially offset by a prior year increase in Hurricane Harvey loss reserves of $164 million. Direct written premiums were $395.6 million, and the net underwriting gain was $29.1 million for the year.

Year to date December 2018 direct written premium, gross direct written premiums of $395.6 million reflect a decrease of 6.5% from December 2017 due to continued policy and exposure declines as well as the depopulation of 1,600 policies on June 1, 2018, partially offset by a 5% rate increase effective January 1, 2018 for new and renewal business.

Direct premiums earned decreased to $409.9 million compared to $451.3 million in the same period last year. The change is reflective of lower direct written premiums in 2018.

Reinsurance costs, including premiums on traditional reinsurance and cat bonds, totaled $106.5 million, reflecting a favorable $2.0 million adjustment based on lower actual exposure levels (TIV) at October 31, 2018 compared to projected levels.

Through December 31, 2018, non-catastrophe direct loss and loss adjustment expense incurred was $11.7 million, as a result of favorable prior and current accident year development, compared to $42.6 million as of December 31, 2017. The estimate of ultimate loss and loss adjustment expense for Hurricane Harvey remained at $1.61 billion as of December 2018.

Operating expenses increased from $26.7 million as of December 2017 to $28.2 million as of December 2018. Implementation of equipment and data analysis infrastructure necessary to be ready to activate the expert panel's methodology in settling residential slab claims in specific flood zones was finalized in the last quarter of 2017. Expert panel expenses incurred in 2018 total $4.5 million, compared with $1.5 million in 2017.

Premium and maintenance taxes decreased from $8.2 million in 2017 to $7.5 million in 2018 due to the decrease in direct written premiums in 2018.

Gross investment income for 2018 at $7.4 million is higher than the $6.6 million level earned in 2017 as lower invested cash balances were offset by increased investment yields. Interest expense is $32.3 million for 2018 and $35.3 million for 2017. Debt issuance and other investment expense increased to $2.5 million for $172 thousand due to arrangement fees and commitment fees of $2.2 million on the $500 million committed line of credit entered into in August 2018.

An initial assessment request of $175 million was billed to member companies on June 7, 2018. A second assessment of $106.8 million was billed on August 29, 2018. As of September 30, 2018, $281.8 million of assessment payments have been received.

Effective December 1, 2018, TWIA began ceding earned premium on the third round of the Assumption Reinsurance Depopulation Program. During this period, premiums are ceded on an "earned basis" to the participating carriers, with ongoing adjustments to the extent that selected policyholders' "opt out" of the depopulation program and choose to remain with TWIA. At the end of December 2018, TWIA had ceded $0.5 million of earned premium associated with 3,916 policies selected to be transferred to two participating carriers.

Results for 2018 were also impacted by round 2 of the Assumption Reinsurance Program. The quota share reinsurance agreements were effective December 1, 2017 with three participating carriers. As of December 2018, ceded earned premiums for this round were $1.8 million inception to date, with $1.3 million ceded during 2018.

To date, a total of $23 million of in force premium and 12,856 policies have been transferred to participating carriers through first two rounds of the Assumption Reinsurance Program. Based on estimated policyholder opt-outs, 2,381 policies representing $4.2 million of in force premium are projected to be transferred on June 1, 2019 to the participating carriers.

Subject to the conclusion of its year-end audit, TWIA has accrued statutory fund expense of $110.6 million, reflecting the amount it expects to contribute to the CRTF based on 2018. This contribution will be made in the first quarter of 2019.

The deficit was reduced by $182.4 million in 2018 to a $279 million as a result of net income of $287.1 million before CRTF accruals, a $110.6 million accrual for the CRTF payment and a $9.3 million change in non-admitted assets.

Ms. King asked about the expense statement. There is a relatively large line item for professional consulting that fell under other services. Do the expert panel costs fall under this item? She asked if that category could be broken out more in the future.

7. Actuarial:
   A. Reserve Adequacy: TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of December 31, 2018.

      The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is $1.61 billion, remaining the same as the previous review. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61 billion. This variability arises from the assumptions made regarding the adequacy of case reserves for 1,900 open claims, the potential impact of future re-openings of closed claims as of December 31, 2018 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. Potential future new claims are not expected to be a significant factor that would contribute to the variability.

      The ultimate estimate for Harvey was outlined in the Statement of Harvey Ultimate Estimate.

As of December 31, 2018, TWIA carried $200.9 million total gross loss and loss adjustment reserves with $78,258 of the total gross ceded to depopulation carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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

B. Policy Count/Exposures: There has been a decline of close to 11% year over year in policy count/exposures. Mrs. Neblett asked if the Association still has funds for Ike. Mr. Fadden said they are in the outstanding reserves. She asked that it be included in future reports.

C. 2019 Funding, Reinsurance and Line of Credit: Mr. Fadden introduced Tad Delk from Guy Carpenter to go over a presentation included in the meeting materials. The market has been very favorable year over year. The second season cover will expire May of this year. A class of catastrophe bonds is expiring and won't be in place for the 2019 season. Policy counts and exposure results are down at the gross level. The modeling results aren't down as much. Mr. Gerik said there was a big difference between RMS and AIR. Why is RMS lower and AIR is higher? Mr. Delk said the portfolio is highly concentrated. If TWIA had a more diverse portfolio, the distribution of losses is more predictable and less volatile. Building risks and building codes also play into it. Mr. Fadden said the two models are relatively consistent in terms of the meteorological aspect. Where they differ is damageability. AIR has a more pessimistic view. Mr. Gerik said he was trying ask that TWIA has two models that give two different results, but the Association has to buy to 1 in 100. He thinks the philosophy is to take a blended model of the two. He asked if that was correct and if that is what the board wants to do. Mr. Fadden said staff picks the average of the two in that there is a fair amount of uncertainty generally predicting hurricanes. Staff doesn't know that one is better than the other.

Mrs. Neblett said TWIA has seen two significant storms. How do the models address that the book has been in a large part rebuilt to higher standards than prior to the events? There is a significant portion of the book in Galveston and Corpus Christi. Mr. Delk said those factors are taken into account.

After further discussion, Mr. Shofner moved to accept option two, 100 year assuming 15% LAE with a $4.2 billion limit. Mrs. Neblett seconded the motion. Mr. Fields asked Mr. Perkins if the motion presented was appropriate. Mr. Perkins said he thought so but would doublecheck during the discussion. Mr. Gerik said he was struggling between option two or three and he keeps coming back to option three. Option three continues existing claims paying capacity in the past so he leans to option three. Ms. King said she is seeing a disconnect. TWIA is shrinking a lot. There are 202,000 policies in force. In the modeling, it is working with 218,000 policies and she wants to make sure the decrease is being captured. She asked why there was a disconnect on policy amounts. Mr. Delk said Guy Carpenter uses forward point detection. They have to take what is available at the time. Sometimes the projection is based on assumed data. Mr. Gerik said these are models, not exact science. He's never seen a model that has produced a higher result than the actual result. He thinks the board is buying too low. TWIA's exposures are the most exposed. Ms. King said she hears that and its great in a perfect world, but the reality is that there has to be three issues of bonds to get to the reinsurance attachment point. There are costs to pay to get that reinsurance. Cash needs to be kept on hand for financial wellbeing. Mr. Kesner said he has a dilemma about option two or three. Option two is labeled minimize coverage. He doesn't like that word. Would option two not maintain current levels versus option three. Mr. Delk said the difference is one makes an assumption on the model plus LAE. Option three pays less attention to modeling. Option two is a consistent view of modeling results.

Mr. Perkins said he consulted with the motion maker and seconder to make sure that the language is consistent with the motion. He read the motion as follows:

The Board hereby authorizes and directs Association staff to work with TWIA's reinsurance broker Guy Carpenter to secure reinsurance coverage (in the form of a combination of traditional reinsurance and catastrophe bonds) in an aggregate total claim paying capacity of at least $4.2 billion based on attachment point of $2.1 billion. Staff may purchase additional coverage beyond $4.2 billion if the total ceded premium amount does not exceed the budgeted amount of $86 million. Mr. Shofner and Mrs. Neblett said they agreed with the motion as presented by Mr. Perkins.

A roll call vote was held.

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

The motion passed.

8. <u>Internal Audit</u>:
   A. <u>Internal Audit Status & Update</u>: Mr. Zaret reported that the legal and compliance audit report has been finalized and ready for board review. The accounting staff

has updated documentation for the model audit rule. Internal audit will schedule review of the update in second quarter 2019. The pricing and reserving audit report was drafted and is in review by management. The underwriting and agency audit report is in drafting stage. Cash management and communications audit fieldwork is complete and in the review stage. Upcoming audits include application development and vendor management. Mrs. Neblett asked if the board members will receive a written recap of the audit. Mr. Zaret said they would.

B. IT Security Audit (Closed Session): This item was covered in closed session.

9. Underwriting:

A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goals are to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. This standard is being surpassed with over 95% processed within 10 days. Quality assurance results on underwriting decisions continue to exceed established goals. Telephone service response time continues to meet and exceed expectations. Service quality scores have been in the meet's category. Service observation (listening to phone calls and scoring them) is now standard procedure and as an Association, the departments are calibrating calls and have agreed upon standards for telephone service.

Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

TWIA Certificate of Compliance on Completed Improvements (WPI-8-Cs) status shows for the period of January 1, 2018 thru December 31, 2018, staff has received 16,199 applications (WPI-3) with an average turnaround time of less than three days. Reroof is the number one reason for certificates (60% of certificates). In 2017, a total of 4,422 WPI-8-Cs were issued with two engineering firms representing approximately 30% of applications. The confirmation of application review completed for applications received was sent to 91 engineers. Only two issues were discovered but both were non-substantive errors where the engineer transposed his license number. Underwriting has hired a temporary contractor to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

Agency Compliance audits were performed on 20 agents (200 policies) in the fourth quarter to verify compliance with the declination of coverage and flood insurance requirements. None of the policies/properties selected for review required flood insurance.

All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage. Staff also reviewed the 200 auto-issued policies to confirm a copy of a WPI-8 had been provided where required. The review identified 23 policies requiring a WPI-8 that did not have the proper documentation uploaded by the agent. These have been referred to underwriting for research and follow up. All 20 agents have an active property and casualty insurance license.

10. Claims:
    A. Claims Operations: There are now 1,771 open Harvey claims. Projected claim volume for 2018 was 9,017. Actual claim volume was 7,242 or 1,775 (20%) lower than projected. Mrs. Neblett asked about appraisal awards. She asked for a spreadsheet that shows appraisal outcome with initial amount and final amount paid. Ms. King asked for an update on the policyholder who gave public comment at the December board meeting. An update was sent out separately but will be sent out again. Staff has encouraged her to pursue appraisal.
    B. Claims Litigation: Mr. Durden reported there were 42 new claims in suit with one pre-HB3 suit closed and nine HB3 suits closed. For the fourth quarter, 168 claims with LOR's were received and 120 were closed. The Daly & Black firm holds the majority of the suits. Staff has begun negotiations with Daly & Black to see if any of the suits can be resolved.

11. TWIA Operations:
    A. IT Systems Update: The TWIA program is on track to start inception in February with development scheduled to start in May. The TFPA program was successfully deployed in October 2018 and is now in production support mode. The development for renewals is complete and the code is going through quality assurance testing. The next phase is user acceptance testing. The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments. Mr. Gerik asked about the renewal process. Mr. Polak said TWIA was on target to offer installment payments in the third quarter of 202. However, this requires a legislative change. Direct billing doesn't require a legislative change, but installment billing does. The renewal process requires some adjustment due to the statute. Milliman is working on updating the territorial rating. There are plans to present the results at the next meeting. Staff will provide updates on the renewal process, territorial rating direct billing and installment payments.
    B. Depopulation: At this time, 4,000 policies have identified. They have until June to make the final determination. In past years, the attrition rate is high.
    C. Sunset Review: Staff was told by the Sunset Committee that TWIA received the most favorable review they have ever given. TWIA has had 61 audits since 2010.
    D. TDI Draft Examination Report: Staff has received the draft reports for the 2017 TDI financial examination of TWIA. There are no findings and no financial adjustments indicated in this report. Staff will be providing TDI with some minor corrections to the draft report and will provide the TWIA Board of Directors with the final version when received.
    E. Communications Update: The department continues to act as a resource to state legislators and regulatory officials, providing operational updates and responding to constituent inquiries. In Q4 2018, staff continued its participation in strategic outreach activities on the coast. The percentage of negative media mentions (28%) related to TWIA in Q4 2018, decreased by almost half of what it was in the previous quarter (54%), while positive and neutral mentions increased to 72%.

12. Closed Session: The meeting went into closed session at 11:22 am. The meeting opened at 11:38 am.

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

14. Committees: There was nothing to consider.

15. Future meetings:
    - May 7, 2019 – Hyatt Regency – Austin
    - August 6, 2019 – Tremont House - Galveston

16. Adjourn: The meeting adjourned at 11:38 p.m.

Prepared by: Amy Koehl Executive Assistant	Approved by: Joshua Fields TWIA Chairman
	Approved by: Bryan Shofner TWIA Vice Chairman

5. TWIA Operational Highlights

2019 TWIA Enterprise Scorecard

Reporting YTD as of March 31, 2019

TEXAS WINDSTORM INSURANCE ASSOCIATION

	YTD	Trend	Goal	Δ	Performance
Operating Expenses	7.1%		8.8%	-1.7%	
Net Gain From Operations	$62.0 M		$56.0 M	$6.0 M	
Enterprise Projects	97%		90%	7%	
Policy Administration	99%		90%	9%	
Claims Handling	100%		90%	10%	
Disputed Claims	1.20%		1.6%	-0.40%	
Litigated Claims	0.10%		0.50%	-0.40%	
Complaints	22		20	2	

Reference Data

Policies In-Force	197,722
Exposures In-Force	$57.1 billion
Written Premiums YTD	$74.8 million
Claims Received YTD[1]	1,208
Losses Incurred YTD[2]	$30.8 million

[1] Excludes IBNR

Quarterly Key Accomplishments

- Deposited $111 M into the CRTF as a result of the 2018 net gain from operations.
- Operating expenses are below plan and the net gain from operations was above plan in Q1 2019.
- On track to achieve Association objectives for all strategic initiatives in Q1 2019.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels in Q1 2019.
- Remain below plan in Q1 2019 on disputed and litigated claims.

6. Financial

6A. Report of the Secretary/Treasurer

6A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement
for the three months ended March 31,
(000's omitted)

	2019	2018
Direct Premiums Written	$ 74,777	$ 83,518
Premiums Earned:		
Direct Premiums Earned	$ 96,663	$ 104,044
Ceded Reinsurance Premiums	-	-
Ceded Reinsurance Premiums - Depopulation	(1,220)	(967)
Net Premiums Earned	95,443	103,076
Deductions:		
Direct Losses and LAE Incurred	3,887	(2,607)
Direct Losses and LAE Incurred - Harvey	-	164,000
Direct Losses and LAE Incurred - Ike & Dolly	-	-
Ceded Losses and LAE Incurred - Depopulation	(33)	232
Operating Expenses	6,881	8,392
Commission Expense	11,955	13,364
Ceding commissions / brokerage	-	-
Ceding commissions / brokerage - Depopulation	(293)	(232)
Premium / Maintenance Tax	1,435	1,629
Total Deductions	23,831	184,777
Net Underwriting Gain or (Loss)	71,612	(81,701)
Other Income or (Expense):		
Gross Investment Income	2,703	1,172
CRTF Funds Received	-	-
Member Assessment Income	-	-
Interest Expense on Class 1 Bonds	(7,600)	(8,551)
Debt Issuance & Other Investment Expenses	(94)	(20)
Other Income (Expense)	43	1
Total Other Income or (Expense)	(4,949)	(7,398)
Net Income (Loss)	$ 66,663	$ (89,099)
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	$ (277,864)	$ -
Net Income (Loss)	66,663	(89,099)
Change in Provision for Reinsurance	-	-
Principal Funded on Class 1 Bonds (net)	-	-
Change in nonadmitted assets - Other	(4,635)	(6,495)
Statutory Fund Cost	-	-
Ending Surplus (Deficit)	$ (215,836)	$ (95,595)

6A2. Management Discussion and Analysis

Texas Windstorm Insurance Association
Management Discussion and Analysis
March 31, 2019

TWIA's financial results as of the three months ended March 31, 2019 reflect net income of $66.7 million. Direct written premiums were $74.8 million and the net underwriting gain was $71.6 million for the quarter.

Direct Written Premium: Year to date March 2019 gross direct written premiums of $74.8 million reflect a decrease of 10.5% from March 2018 due to continued policy and exposure declines as well as the depopulation of 1,600 policies on June 1, 2018.

Direct Premiums Earned: Direct premiums earned decreased to $96.7 million compared to $104 million in the same period last year. The change is reflective of lower direct written premiums in 2019.

Reinsurance Costs: Reinsurance costs will be zero for the first five months of the year until the inception of the new program.

Loss and Loss Adjustment Expense Incurred: Through March 31, 2019 non-catastrophe direct loss and loss adjustment expense incurred was $3.9 million, as a result of favorable prior and current accident year development. The estimate of ultimate loss and loss adjustment expense for Hurricane Harvey remained at $1.61 billion as of December 2018.

Operating Expenses: Operating expenses decreased from $8.4 million as of March 2018 to $6.9 million as of March 2019 mainly due to lower than expected spending on certain Information Technology projects during the first quarter.

Commission Expense and Premium Taxes: Commission expense and premium taxes decreased from $15 million in March 2018 to $13.4 million in March 2019 due to the decrease in direct written premiums in 2019.

Other Income (Expense): Gross investment income for March 2019 at $2.7 million was more than double compared to $1.2 million earned in March 2018 due to increased investment yields. Interest expense decreased from $8.6 million in March 2018 to $7.6 million in March 2019. Debt Issuance & Other Investment Expense increased to $94 thousand from $20 thousand due to arrangement fees and commitment fees of $2.2 million on the $500 million committed line of credit entered into in August 2018.

Assumption Reinsurance Depopulation: Effective December 1, 2018 TWIA began ceding earned premium on the third round of the Assumption Reinsurance Depopulation Program. During this period premiums are ceded on an "earned basis" to the participating carriers, with ongoing adjustments to the extent that selected policyholders' "opt-out" of the depop program and choose to remain with TWIA. At the first quarter of 2019, TWIA had ceded $1.2 million of earned premium associated with 3,916 policies selected to be transferred to two participating carriers.

First quarter of 2019 results were also impacted by Round 2 of the Assumption Reinsurance program. The Quota Share Reinsurance Agreements were effective December 1, 2017 with three participating carriers. As of March 2019, ceded earned premiums for this round were still at $1.8 million inception to date, with $1.3 million ceded during 2018.

To date, a total of $23.0 million of inforce premium and 12,856 policies have been transferred to participating carriers through first two rounds of the Assumption Reinsurance Program. Based on estimated policyholder opt-outs, 2,381 policies representing $4.2 million of inforce premium are projected to be transferred on June 1, 2019 to the participating carriers.

CRTF Contribution: The 2018 $110.6 million CRTF contribution was paid during the quarter. The accrual for current year's CRTF will not begin unless/until accident year earnings exceed scheduled principal payments later in the year.

Surplus: The deficit was reduced from $277.9 million in 2018 to a $215.8 million as a result of net income of $66.7 million & change in non-admitted assets of $4.6million

6B. Financial Statement Review by Staff

6B1. Income Statement and Expense Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)
for the three months ended March 31,

	Actuals - 2019	Budget - 2019	Variance - 2019	Actuals - 2018
Premiums Written:				
Direct	$ 74,777	$ 74,949	$ (172)	$ 83,518
Ceded	0	0	0	0
Ceded - Depopulation	(1,220)	(1,038)	(183)	(967)
Net	73,557	73,911	(355)	82,551
Premiums Earned:				
Direct	$ 96,663	$ 94,962	$ 1,701	$ 104,044
Ceded	0	0	0	0
Ceded - Depopulation	(1,220)	(1,038)	(183)	(967)
Net	95,443	93,924	1,519	103,076
Deductions:				
Direct Losses and LAE Incurred	3,887	6,647	(2,760)	(2,607)
Direct Losses and LAE Incurred - Harvey	0	0	0	164,000
Direct Losses and LAE Incurred - Ike & Dolly	0	0	0	0
Ceded Losses and LAE Incurred	0	0	0	0
Ceded Losses and LAE Incurred - Depopulation	(33)	(67)	34	232
Operating Expenses	6,881	8,331	(1,450)	8,392
Commission Expense	11,955	11,992	(37)	13,364
Ceding commissions / brokerage	0	0	0	0
Ceding commissions / brokerage - Depopulation	(293)	(249)	(44)	(232)
Premium / Maintenance Tax	1,435	1,477	(42)	1,629
Total Deductions	23,831	28,130	(4,300)	184,777
Net Underwriting Gain or (Loss)	71,612	65,794	5,818	(81,701)
Other Income or (Expense):				
Gross Investment Income	2,703	2,027	676	1,172
CRTF Funds Received	0	0	0	0
Member Assessment Income	0	0	0	0
Interest Expense on Debt	(7,600)	(7,600)	0	(8,551)
Debt Issuance/Maintenance & Other Investment Expenses	(94)	(45)	(49)	(20)
Other Income (Expense)	43	0	43	1
Total Other Income or (Expense)	(4,949)	(5,618)	669	(7,398)
Net Income (Loss)	$ 66,663	$ 60,176	$ 6,488	$ (89,099)
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(277,864)	(277,864)	0	0
Net Income (Loss)	66,663	60,176	6,488	(89,099)
Change in Provision for Reinsurance	0	0	0	0
Principal Funded on Class 1 Bonds (net)	0	0	0	0
Change in nonadmitted assets - Income Tax Rec	0	0	0	0
Change in nonadmitted assets - Other	(4,635)	(4,132)	(504)	(6,495)
Other	0	0	0	0
Statutory Fund Cost	0	0	0	0
Ending Surplus (Deficit)	$ (215,836)	$ (221,820)	$ 5,984	$ (95,595)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	4.0%	7.0%	-3.0%	-2.5%
Hurricane Harvey	0.0%	0.0%	0.0%	157.6%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	4.0%	7.0%	-3.0%	155.1%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	-0.1%	18.0%
Non Acquisition	7.1%	8.8%	-1.7%	8.1%
UW Expense Ratio	25.0%	26.7%	-1.7%	26.0%
Combined Ratio	29.0%	33.7%	-4.7%	181.1%
Net:				
Loss & LAE Ratio:				
Non Hurricane	4.0%	7.0%	-3.0%	-2.3%
Hurricane Harvey	0.0%	0.0%	0.0%	159.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	4.0%	7.0%	-3.0%	156.8%
UW Expense Ratio:				
Acquisition	17.7%	17.9%	-0.1%	17.7%
Non Acquisition	7.2%	8.9%	-1.7%	8.1%
UW Expense Ratio	25.0%	26.8%	-1.8%	25.9%
Combined Ratio	29.0%	33.8%	-4.8%	182.7%

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)
for the three months ended March 31,

	Description	Actuals - 2019	Budget - 2019	Variance - 2019	Actuals - 2018	
6	Personnel Expenses					6
7	Salaries & Wages - Permanent	2,824	2,733	91	964	7
8	Contractor & Temporary Help	3,708	5,332	(1,624)	4,006	8
9	Payroll Taxes	234	251	(18)	105	9
10	Employee Benefits	1,092	979	113	349	10
11	Recruiting, Training & Other	47	117	(70)	16	11
12	Subtotal	7,905	9,412	(1,507)	5,440	12
13						13
14	Professional & Consulting Services					14
15	Legal	163	198	(35)	75	15
16	Accounting & Auditing	61	78	(17)	(32)	16
17	Information Technology	594	1,763	(1,169)	4	17
18	Actuarial Services	35	35	0	0	18
19	Omsbudsman Program	125	111	14	0	19
20	Surveys & Inspections	405	415	(10)	128	20
21	Disaster Recovery Services	24	28	(4)	4	21
22	Other Services (1)	943	1,081	(139)	1,211	22
23	Subtotal	2,351	3,710	(1,360)	1,390	23
24						24
25	Hardware/Software Purchases & Licensing	756	745	12	327	25
26	Rental & Maintenance - Office/Equipment	315	367	(52)	111	26
27	Travel Expenses	44	88	(44)	13	27
28	Postage, Telephone and Express	151	168	(18)	100	28
29	Capital Management Expenses	15	13	2	9	29
30	Depreciation	0	0	0	0	30
31	Other Operating Expenses	298	332	(34)	132	31
32	Total Operating Expenses	11,834	14,835	(3,001)	7,522	32
33						33
34	Capitalization of Fixed Assets	0	0	0	0	34
35	Reimbursement of Depop Servicing Expense	(19)	(20)	1	(45)	35
36	Allocation To ULAE	(4,840)	(6,451)	1,611	(4,754)	36
37	Allocation To Investing & Other Expense	(94)	(13)	(81)	(9)	37
38	Net Operating Expense - UW Operations	6,881	8,351	(1,470)	2,715	38

(1) Summary Details for Other Services:

Expert Panel	$	410,730
Call Center Expense		57,934
Xactware User Fees		2,604
*Other Outside Services		471,298
	$	942,566

***Other Outside Services**

Underwriting	194,714
Claims	169,805
Human Resources	43,801
Communications & Legislative Affairs	34,770
Corporate	12,674
Operations	8,063
Financial Reporting	6,732
Legal	740
	471,298

6B2. Balance Sheet

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

	March-19	December-18
Admitted Assets		
Cash and short term investments:		
Unrestricted	$ 430,547	$ 563,554
Restricted - Funds Held at TTSTC	$ 97,958	$ 92,574
Restricted - Funds Held at TTSTC (Non Admitted)	-	-
Total cash and short term investments	528,506	656,127
Premiums receivable & other	1,776	1,707
Assessment receivable	-	-
Amounts recoverable from reinsurers	12	4
Total admitted assets	**$ 530,293**	**$ 657,839**
Liabilities, Surplus and other funds		
Liabilities:		
Loss and Loss adjustment expenses	$ 166,569	$ 200,780
Underwriting expenses payable	9,965	9,822
Unearned premiums, net of ceded unearned premiums	173,164	195,050
Ceded reinsurance funds payable	1,315	20,572
Principal Outstanding on Class 1 Pre Event Bonds	368,500	368,500
Interest Payable on Class 1 Pre Event Bonds	7,600	15,201
Provision for reinsurance	-	-
Other payables	19,016	15,189
Statutory fund payable	-	110,590
Total liabilities	**746,129**	**935,703**
Surplus and others funds		
Unassigned surplus	(215,836)	(277,864)
Total liabilities, surplus and other funds	**$ 530,293**	**$ 657,839**
Balance in CRTF	**$ 117,347**	**$ 5,986**
Balance in CRTF including Statutory fund payable	**$ 117,347**	**$ 116,576**

6B3. Cash & Short Term Investments

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments ($ in 000's)
March 31, 2019

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Blended Rate of Interest Bearing Investments	Investment Duration of Interest Bearing Investments (in months)	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
						< 40%	**Superior or Strong**	**> 10%**	**> $25B**	**> .2% of N.A. Reg Capital**
Balances as of 3/31/19:										
Bank of America	153	145,033	145,186	1.26%	0.0	34%	Superior	12.5%	$150	No
BlackRock Liquidity Funds (1)	0	49,807	49,807	1.65%	0.0	12%	N/A	N/A	N/A	N/A
Citibank	6	46,424	46,430	1.75%	0.0	11%	Superior	12.7%	$129	No
JP Morgan Chase	51,521	0	51,521	0.00%	0.0	12%	Superior	13.8%	$187	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	137,604	137,604	2.35%	0.0	32%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	0	0.00%	0.0	0%	Superior	12.4%	$142	No
Total of all financial institutions	**51,680**	**378,867**	**430,547**	**1.77%**	**0.0**	**100%**				
Balances as of 12/31/18:										
Bank of America	153	188,842	188,994	1.26%	0.0	34%	Superior	12.2%	$147	No
BlackRock Liquidity Funds (1)	0	91,854	91,854	1.46%	0.0	16%	N/A	N/A	N/A	N/A
Citibank	7	46,243	46,250	1.50%	0.0	8%	Superior	12.7%	$129	No
JP Morgan Chase	39,364	0	39,364	0.00%	0.0	7%	Superior	13.9%	$189	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	197,092	197,092	2.04%	0.0	35%	N/A	N/A	N/A	N/A
Wells Fargo	0	0	-	0.00%	0.00	0%	Superior	12.0%	$141	No
Total of all financial institutions	**39,523**	**524,030**	**563,554**	**0.00%**	**-**	**100%**				

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

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of December 31, 2018. Rates, ratios and regulatory capital are comparable and consistent with year end National Associatio (N.A.) results.

6B4. Cash Flow Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statement of Cash Flows (000's omitted)
for the three months ended March 31,

	Actuals - 2019	Budget - 2019	Variance - 2019
Cash flows from operating activities:			
Premiums collected, net of reinsurance	$ 57,699	$ 56,944	$ 755
Losses and loss adjustment expense paid	(38,072)	(37,184)	(888)
Underwriting expenses paid	(22,542)	(25,570)	3,027
CRTF funds received	0	0	0
Member assessment received	0	0	0
Other	(33)	(521)	488
Net cash provided by operating activities	(2,947)	(6,330)	3,382
Cash flows from nonoperating activities:			
Statutory fund paid	(110,590)	(112,142)	1,552
Other	0	0	0
Net cash provided by nonoperating activities	(110,590)	(112,142)	1,552
Cash flows from investing activities:			
Sales and maturities of investments	0	0	0
Net investment income	(14,084)	(13,219)	(866)
Net cash provided by investing activities	(14,084)	(13,219)	(866)
Cash flows from financing activities:			
Borrowed funds	0	0	0
Borrowed funds repaid	0	0	0
Net cash provided by financing activities	0	0	0
Net increase (decrease) in cash and short-term investments	(127,622)	(131,690)	4,068
Cash and short-term investments, Beginning	656,127	608,731	47,396
Cash and short-term investments, Ending	$ 528,506	$ 477,041	$ 51,465

6B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1971 - 2019
($ with 000's omitted)

	GROSS						NET				
YEAR	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES RESID	RATE CHANGES COMML	WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)	CRTF BALANCE END OF PERIOD
1971	$ 278,710	13,415			$ 2,393	$ 92	$ 868	$ 92	$ 385	$ 391	
1972	739,983	33,577			4,138	214	3,468	214	849	2,405	
1973	1,017,048	45,743			4,286	1,427	4,288	1,427	1,099	1,763	
1974	1,064,772	45,901			4,512	452	4,378	452	1,106	2,819	
1975	1,169,763	46,365			6,036	592	5,263	592	1,417	3,254	
1976	1,387,252	48,747			8,130	231	6,953	231	1,878	4,844	
1977	1,616,220	51,382			9,922	203	9,080	203	2,258	6,619	
1978	1,633,521	48,820			10,523	296	10,249	296	2,329	7,624	
1979	1,816,410	46,128			11,045	2,370	11,039	2,370	2,178	6,490	
1980	1,936,388	43,613			9,675	14,217	10,245	14,217	2,079	(6,051)	
1981	2,105,244	42,495			9,137	2,715	9,313	2,715	2,097	4,501	
1982	2,285,594	51,034			8,641	982	9,106	982	2,095	6,029	
1983	2,165,231	44,894			6,900	157,112	7,585	157,112	1,937	(151,463)	
1984	3,178,079	51,311			9,450	1,294	7,989	1,294	2,493	4,202	
1985	4,061,660	57,181			18,232	1,510	3,534	1,510	3,638	(1,614)	
1986	4,510,378	60,028			20,987	1,202	5,229	1,202	3,997	30	
1987	4,401,486	57,976			20,532	2,555	4,931	2,555	4,091	(1,715)	
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509	3,551	2,509	4,066	(3,024)	
1989	4,236,600	55,401	-	-	18,066	14,176	5,330	14,176	4,037	(12,883)	
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590	16,761	1,590	4,171	11,000	
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783	7,167	1,783	4,343	1,042	
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321	4,014	1,321	4,220	(1,527)	
1993	6,500,165	56,921	30.0%	-	19,377	4,778	123,515	4,778	5,161	113,576	
1994	7,645,176	63,348	-	-	26,545	1,572	25,692	1,572	6,982	17,138	124,847
1995	8,828,140	69,807	25.0%	-	32,419	4,033	29,016	4,033	8,119	16,864	151,284
1996	10,001,843	72,977	-	-	40,359	1,484	37,153	1,484	10,627	25,042	179,020
1997	10,907,937	75,361	-	-	42,463	4,133	41,045	4,133	11,038	25,874	216,896
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235	28,256	27,235	12,181	(11,160)	238,221
1999	11,972,502	75,947	-9.4%	-	44,581	11,320	28,702	11,320	11,524	5,858	250,403
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937	28,470	7,937	11,681	8,852	268,563
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011	31,112	8,011	12,936	10,165	280,063
2002	16,003,048	85,668	-	5.0%	72,968	32,359	44,516	32,359	16,584	(4,427)	303,185
2003	18,824,457	96,420	-	10.0%	87,987	24,955	51,702	24,955	19,682	7,065	305,599
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115	52,230	6,115	21,911	24,204	308,729
2005	23,263,934	109,693	-	10.0%	113,928	178,370	65,438	178,370	25,277	(138,209)	311,508
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188	85,467	5,188	37,138	43,141	361,823
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985	135,843	17,985	51,768	66,090	388,542
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123	(138,560)	1,117,123	53,759	(1,309,442)	-
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)	389,600	(183,974)	87,899	485,675	-
2010	67,452,357	242,664	-	-	385,550	555,025	351,730	252,685	85,598	13,447	76,334
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539	321,781	202,539	81,665	37,577	146,650
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873	321,122	401,873	93,583	(174,334)	178,902
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975	295,130	3,975	100,524	190,631	186,184
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718	301,515	175,998	96,399	29,118	5,986
2019	57,063,852	197,722	-	-	74,777	3,887	95,443	3,853	19,977	71,612	117,347
TOTAL					**6,291,471**	**5,695,565**	**4,359,167**	**4,197,209**	**1,370,572**	**(1,208,614)**	

*2019 data through 3/31/19.

6C. Investment Plan Review

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: April 19, 2019

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **TWIA Investment Plan Review**

Annually, the TWIA board of directors reviews the adequacy and implementation of the association's investment plan as reflected in the Statement of Investment Objectives and Guidelines. This document does not cover investments in the CRTF or the assets held by the Texas Treasury Safekeeping Trust Company representing the proceeds of the Series 2014 Bonds.

The primary focus of the Investment Plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association.

On a quarterly basis, TWIA reviews the following criteria to monitor our counterparty relationships:

- Bank ratings and credit ratings from Moody or Standard and Poor's must meet 'AAA'. 'AA', or 'A' ratings defined as "superior or strong" in credit ratings.
- Tier 1 Capital Ratio must be above a 10% ratio.
- The National Association Regulatory Capital must be in excess of $25 Billion.
- Total investment in any one financial institution will not exceed .2% of the National Association's regulatory capital.
- Total investment in any one financial institution will not exceed 40% of TWIA's total portfolio.

On the next page, you will find an evaluation of financial institutions based on our criteria.

At this time, we are not recommending any changes to the investment plan. However, we will be seeking a resolution at the May 7, 2019 board meeting regarding board review of the adequacy of the current investment plan, copy attached, and board review of the implementation of the plan. Suggested wording of such resolution is as follows:

> The Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives

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and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time.

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

EVALUATION OF COUNTERPARTY RELATIONSHIPS AS OF 12/31/2018				
Financial Institution	**N.A. Bank Credit Rating (as of 12/31/18)**	**N.A. Tier 1 Capital Ratio (as of 12/31/18)**	**N.A. Regulatory Capital (as of 12/31/18)**	**Holding Level Market Capitalization ($ in Billions as of 12/31/18)**
Wells Fargo	Superior	12.36%	$143	$215
Chase	Superior	13.89%	$187	$368
Bank of America	Superior	12.54%	$150	$287
Citigroup / Citibank	Superior	12.70%	$129	$161

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TEXAS WINDSTORM INSURANCE ASSOCIATION

STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

I. Overview

The purpose of this statement is to provide clear objectives and guidelines for the investing and management of assets with Texas Windstorm Insurance Association (TWIA).

TWIA was created by Texas Legislature in 1971. TWIA's controlling statute is currently codified as chapter 2210 of the Texas Insurance Code. The purpose of TWIA is to provide a method whereby adequate windstorm and hail insurance may be obtained in certain areas designated by the Commissioner of Insurance located in the gulf coast region of the State of Texas.

II. Investment Objectives

The investment objectives enable TWIA to manage funds with the primary focus of asset preservation and liquidity, as well as securing maximum total return through the application of the investment policy set forth below. This policy must comply with all restrictions on investments in accordance with the Texas Insurance Code, the Plan of Operation of the Association and any other applicable requirements. While maximizing yield is important, the Association will consider the safety of the principal and liquidity the foremost objective.

III. Permissible Asset Types

TWIA's Plan of Operation, which is a Texas Department of Insurance rule, requires all funds collected by the Association that are not otherwise required to be expended as provided in the Plan of Operation, to be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and / or invested in items pursuant to Texas Insurance Code, chapter 2210. (See Appendix A).

1. Checking, savings accounts, and Money Markey Demand Accounts in Financial Institutions that meet the counterparty requirements outlined below in section IV of this document.

2. US Treasury Notes not to exceed 12 months, unless otherwise approved by the board of directors.

3. Money Market Fund Accounts with a maximum duration of 1 year or less, unless otherwise approved by the board of directors. Account must invest exclusively in US bonds backed by the full faith and credit of the US government.

4. Other investments proposed by the board of directors and approved by the Commissioner.

IV. Diversification and Evaluation of counterparty relationships:

The Association should evaluate bank financial performance, bank ranking and credit ratings from Moody or Standard & Poor's to assess the investment risk. All financial institutions ratings must meet 'AAA', 'AA', or 'A' ratings defined as "strong or superior" in credit ratings.

The Association must also evaluate the bank's capital strength through Tier 1 Capital Ratios. The Association's criterion is that the Tier 1 Capital Ratio must be above 10% for the Association to invest with such institution.

The Association should evaluate the total capital of all banks on a quarterly basis. National Association (N.A.) Regulatory Capital must be in excess of $25B.

Total investment in any one financial institution should not exceed .2% of the of the National Association's regulatory capital. Total investments in any one financial institution should not exceed 40% of TWIA's total portfolio.

The Association should perform the above evaluation quarterly and / or annual basis as information is available. To the extent certain information is not available quarterly at the N.A. level; the Association should review the Tier 1 Capital Ratio and Market Capitalization at the bank holding level.

V. Monitoring, Evaluation and Compliance

TWIA's management will review the investment policy on an annual basis and make recommendations, if necessary to the board of directors at that time. It is the responsibility of TWIA management to report to the board of directors all cash and investment balances, interest rates and diversification ratios on a quarterly basis.

Appendix to TWIA's Statement of Investment Objectives and Guidelines

I. Definitions related to the guidelines

a. Tier 1 Capital Ratio also knows as Capital Adequacy is the amount of capital a bank or other financial institution has to hold as required by its financial regulator. These requirements are put into place to ensure that institution do not take on excess leverage and become insolvent.

A firm must have a Tier 1 capital ratio of 6% or greater, and not pay any dividends or distributions that would affect its capital, to be classified as well capitalized according to the Federal Deposit Insurance Corporation (FDIC).
Formula = (Total Equity – Revaluation Reserves) / Risk Based Assets

b. Market Capitalization is the total value of the issued shares of a publicly traded company; it is equal to the share price times the shares outstanding. This allows investment community to determine a company's size, as opposed to sales or total asset figures.
Formula = stock price X total number of shares outstanding.

Appendix to TWIA's Statement of Investment Objectives and Guidelines (Continued)

II. Permissible Assets as defined by the Plan of Operation:

All funds collected by the Association which are not otherwise required to be expended as provided in the Plan of Operation, may be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and / or may be invested only in the following:

a. Interest bearing time deposits or certificates of deposit in any bank or banks doing business in the State of Texas and / or:

b. In treasury notes of the government of the United States of America; and / or

c. Money market funds which invest exclusively in the bonds or to the evidence of indebtedness of the United States of America or any of its agencies when such obligations are guaranteed as to principal and interest by the Unites States of America; except however:

   i. such money market funds may make loans to or purchases of the described bonds and other evidence of indebtedness from a solvent bank or securities broker, registered under the Securities Act of 1934, under an agreement (commonly called a "repurchase agreement") which provides for the purchase by the money market fund of the type of securities described and which agreement matures in 90 days or less and provides for the repurchase by such entity of the same or similar securities purchased by the money market fund, provided that the total market value of such securities shall equal or exceed the amount of such loan or repurchase when it is made; and

   ii. such loan collateral or securities purchased from any one bank or securities broker may not exceed the greater of 5.0% of the assets of the money market fund or 5.0% of the amount of capital, surplus, or individual profits of such bank or securities broker; and/or

d. In such other investments as may be proposed by the board of directors and approved by the Commissioner. The board of directors shall determine what portion of such funds shall be retained in a checking account or accounts and what portion of such reserve shall be invested in the investments listed in this subparagraph, as well as which specific investments, if any, shall be made.

6D. Funding

6D1. 2019-2020 Funding Including Bank Line of Credit

MEMORANDUM

DATE: April 19, 2019

TO: John Polak, General Manager

FROM: Jerry Fadden

RE: TWIA Board Discussion – 7D-1 Funding 2019-2010

TOPICS FOR DISCUSSION

1. Hurricane Harvey – Sources of Funding as of March 31, 2019

2. TWIA Risk Management
    a. Cat Modeling Overview
    b. Statutory minimum requirements
    c. Loss Adjustment Expenses

3. Actual 2018 and Projected 2019 Funding Structure
    a. Series 2017-1 and Series 2018-1 Cat Bonds
    b. Series 2019-1 Projected Cat Bonds
    c. Traditional Reinsurance - $1.1M p.o. $2.1B xs $2.1B

4. JP Morgan/BAML Line of Credit

5. Series 2014 Pre-Event Bonds

TWIA
Hurricane Harvey Sources of Funding

Funding Sources:	**as of 3/31/2019**	
TWIA Reserves/YTD Payable to CRTF	$96.3	
TWIA 2017 Earnings Post Harvey (8/1/17-12/31/17)	39.5	
Catastrophe Reserve Trust Fund (CRTF)	743.2	
Class 1 Bond Proceeds	449.2	
Member Assessments ($175.0 and $106.8)	281.8	
Total Projected Funding Sources	$1,610.0	
Funding Uses:		
Estimated Ultimate Loss and Loss Adjustment Expenses	$1,610.0	(a)

Paid Claims	**as of 3/31/2019**
Loss	$1,245.9
ALAE	134.7
ULAE	94.7
Total Payments	$1,475.2
Remaining Funding as of March 31, 2019	$134.8

Footnotes

(a) Bases on current estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey as of March 31, 2019.

6E. Financial Audit by Calhoun, Thomson + Matza

6E1. Audit Wrap-Up Reports

Texas Windstorm Insurance Association

December 31, 2018

Audit Wrap Up

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

April 17, 2019

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On July 13, 2018, we presented an overview of our plan for the audit of the financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2018, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Calhoun, Thomson & Matza, LLP

Discussion Outline

Status of Our Audit

Audit of Financial Statements

We have completed our audit of the financial statements as of and for the year ended December 31, 2018. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our engagement letter
- We issued an unmodified opinion on the financial statements on April 17, 2019.
- Our responsibility for other information in documents containing the Association's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

Results of Our Audit

Accounting Practices, Policies, Estimates, and Financial Statement Disclosures

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and financial statement disclosures:

The Association's significant accounting practices and policies are included within the financial statements. These accounting practices and policies are appropriate, comply with accounting principles generally accepted in the United States of America, were consistently applied, and are adequately described within the summary of significant accounting policies in the financial statements.

- A summary of recently issued accounting pronouncements is included in the summary of significant accounting policies in the financial statements.
- There were no changes in significant accounting policies and practices during 2018.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the summary of significant accounting policies in the financial statements.

Significant accounting estimates include:
Loss and Loss Adjustment Expense Reserves
Pension Benefit Obligation

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2018.

Corrected and Uncorrected Misstatements

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Required Communications

Matters Required To Be Reported to Those Charged with Governance

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association:

Requirement	*Discussion Points*
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Auditor's judgment about the quality of the Association's accounting policies, estimates and financial statement disclosures	In accordance with applicable auditing standards, a discussion was held with regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and financial statement disclosures.
Critical accounting policies and practices	Refer to the Accounting Practices, Policies, Estimates, and Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
Adoption of a change in accounting principle	In April of 2018, the Governmental Accounting Standards Board ("GASB") issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.
	In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

Required Communications

	In March of 2017, the GASB issued Statement No. 85, Omnibus 2017. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.
	In March of 2016, the GASB issued Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Association has implemented GASB Statement No. 82 effective January 1, 2017.
	In June of 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.
	In June of 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	There were no material corrected misstatements brought to the attention of management by the auditor.
Unrecorded misstatements, other than those the auditor believes to be trivial	There were no unrecorded misstatements brought to the attention of management by the auditor.

Required Communications

Requirement	***Discussion Points***
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's financial statements or to our auditor's report.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Significant findings and issues arising during the audit in connection with the Association's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter dated July 13, 2018 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.

Texas Windstorm Insurance Association

December 31, 2018

Audit Wrap Up

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

April 17, 2019

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the statutory financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On July 13, 2018, we presented an overview of our plan for the audit of the statutory financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2018, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, statutory financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Calhoun, Thomson & Matza, LLP

Discussion Outline

Status of Our Audit

Audit of Statutory Financial Statements

We have completed our audit of the statutory financial statements as of and for the year ended December 31, 2018. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the statutory financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the statutory financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our engagement letter.
- We issued an unmodified opinion on the statutory financial statements on April 17, 2019.
- Our responsibility for other information in documents containing the Association's audited statutory financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the statutory financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

Results of Our Audit

Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and statutory financial statement disclosures:

The Association's significant accounting practices and policies are those included within the statutory financial statements. These accounting practices and policies are appropriate, comply with accounting practices prescribed or permitted by the Texas Department of Insurance, and industry practice, were consistently applied, and are adequately described within the Summary of Significant Accounting Policies of the statutory financial statements.

- There were no changes in significant accounting policies and practices during 2018.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the Summary of Significant Accounting Policies of the statutory financial statements.

Significant accounting estimates include:
Loss and Loss Adjustment Expense Reserves
Pension Benefit Obligation

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2018.

Corrected and Uncorrected Misstatements

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting

In planning and performing our audit of the statutory financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's statutory financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the statutory financial statements, we noted no material weaknesses.

Required Communications

Matters Required To Be Reported to Those Charged with Governance

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association.

Requirement	*Discussion Points*
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Auditor's judgment about the quality of the Association's accounting policies, estimates and statutory financial statement disclosures	In accordance with applicable auditing standards, a discussion was held with regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and statutory financial statement disclosures.
Critical accounting policies and practices	Refer to the Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
Adoption of a change in accounting principle	There were no situations involving the adoption of or a change in accounting principles where the application of alternative statutory accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the Association's statutory financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	There were no material corrected misstatements brought to the attention of management by the auditor.
Unrecorded misstatements, other than those the auditor believes to be trivial	There were no unrecorded misstatements brought to the attention of management by the auditor.

Required Communications

Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's statutory financial statements or to our auditor's report.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Significant findings and issues arising during the audit in connection with the Association's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the statutory financial statements from achieving fair presentation.
Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of statutory accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated July 13, 2018 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.

6E2. Statutory Report

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2018 and 2017

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2018 and 2017

Texas Windstorm Insurance Association

Contents

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401

www.ctmllp.com

Accountants' Letter of Qualifications

Board of Directors
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2018 and 2017, and have issued our report thereon dated April 17, 2019. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Texas State Board of Public Accountancy.

b. The engagement partner, who is a certified public accountant, has 25 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Texas Department of Insurance and that the Insurance Commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2018, but not longer than seven years. After notification to the Association, we will make the workpapers available for review by the Texas Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Texas Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Texas Department of Insurance.

e. The engagement partner has served in that capacity with respect to the Association since 2018, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Texas Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Calhoun, Thomson & Matza, LLP

April 17, 2019

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

We have audited the accompanying statutory statements of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association") as of December 31, 2018 and 2017 and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described more fully in the Summary of Significant Accounting Policies, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the differences between statutory accounting principles and accounting principles generally accepted in the United States of America identified above, as of December 31, 2018 and 2017 other assets were lower by approximately $8.9 million and $18.4 million, respectively. The differences identified above reduced total net position as of December 31, 2018 and 2017 by approximately $10.1 million and $21.2 million, respectively. The effects on change in net position for the years ended December 31, 2018 and 2017 were immaterial.

Opinion

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Texas Windstorm Insurance Association as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Texas Windstorm Insurance Association at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in the Summary of Significant Accounting Policies – "Basis of Accounting".

Emphasis of Matters

As of December 31, 2018, the Association had approximately $64 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, the Association is prohibited from maintaining a surplus by virtue of its funding obligations to the Catastrophe Reserve Trust Fund ("CRTF); any net gain from operations must be paid to the CRTF. As of the December 31, 2018, the balance in the CRTF was approximately $6.0 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association.

In accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place all these public securities and the sufficiency of that amount to cover future losses will depend upon market conditions and the financial and operating results of the Association.

Ultimate loss projections for Hurricane Harvey were estimated to be $1.61 billion by the Association's appointed actuary as of December 31, 2018. If the ultimate loss projection changes in the future it could have a material adverse effect on the financial condition of the Association.

Supplemental Information

Our audits of the statutory financial statements were conducted for the purpose of forming an opinion on those statements as a whole. The accompanying supplementary information is presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Cohn, Thomas & Matza, LLP

April 17, 2019

Texas Windstorm Insurance Association

Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds

(Amounts in Thousands)

December 31,		**2018**		2017
Admitted Assets				
Cash and cash equivalents	$	**656,127**	$	646,074
Other assets		**1,712**		1,880
	$	**657,839**	$	647,954
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	$	**200,780**	$	414,734
Borrowed money – bonds and interest payable		**383,701**		431,702
Underwriting expenses payable		**9,822**		15,278
Unearned premiums		**195,050**		209,453
Ceded reinsurance premiums payable, net of ceding commissions		**20,172**		20,603
Funds held by company under reinsurance treaties		**400**		369
Statutory fund payable		**110,590**		-
Other liabilities		**15,188**		17,205
Total liabilities		**935,703**		1,109,344
Commitments and contingencies (Notes 8, 9, 10, 13, 15 and 16)				
Surplus and other funds:				
Unassigned deficit		**(277,864)**		(461,390)
	$	**657,839**	$	647,954

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statistical Statements of Income

(Amounts in Thousands)

Years ended December 31,		2018		2017
Underwriting income:				
Premiums earned	$	**409,954**	$	451,347
Premiums ceded		**(108,439)**		(103,993)
Net premiums earned		**301,515**		347,354
Deductions:				
Losses and loss expenses incurred		**175,998**		1,475,302
Underwriting expenses incurred		**96,399**		97,876
Total underwriting deductions		**272,397**		1,573,178
Net underwriting gain (loss)		**29,118**		(1,225,824)
Investment loss:				
Net investment loss		**(27,331)**		(28,886)
Other income:				
Statutory fund income		**-**		743,213
Assessment income		**281,820**		-
Other income		**52**		55
Total other income		**281,872**		743,268
Net income (loss) before statutory fund cost and federal income tax expense		**283,659**		(511,442)
Statutory fund cost		**110,590**		-
Net income (loss) before federal income tax expense		**173,069**		(511,442)
Federal income taxes incurred		**-**		-
Net income (loss)	$	**173,069**	$	(511,442)

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Changes In Surplus and Other Funds

(Amounts in Thousands)

		Unassigned Deficit
Balance at January 1, 2017	$	-
Net loss		(511,442)
Change in nonadmitted assets		50,760
Other		(708)
Balance at December 31, 2017		(461,390)
Net income		173,069
Change in nonadmitted assets		9,282
Other		1,175
Balance at December 31, 2018	$	(277,864)

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,	**2018**	2017
Cash from operations:		
Premiums collected, net of reinsurance	**$ 294,900**	$ 301,710
Net investment loss	**(29,059)**	(29,510)
Miscellaneous income	**279,673**	743,268
Benefit and loss related payments	**(307,283)**	(951,292)
Commissions, expenses paid and aggregate write-ins for deductions	**(183,022)**	(402,819)
Net cash from operations	**55,209**	(338,643)
Cash from financing and miscellaneous sources:		
Borrowed funds	**(48,002)**	(44,950)
Other cash provided	**2,846**	59,137
Net cash from financing and miscellaneous sources	**(45,156)**	14,187
Net change in cash and cash equivalents	**10,053**	(324,456)
Cash and cash equivalents, beginning of year	**646,074**	970,530
Cash and cash equivalents, end of year	**$ 656,127**	$ 646,074

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Nature of Business
Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

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

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association'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 counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage, accompanied by the full annual premium, may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- 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 by TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, TDI inspectors or TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately $4,600,000 in funding was secured for the 2018 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,600,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2018 hurricane season is, in order;

- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $2,600,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

(Amounts in Thousands)

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Reinsurance Depopulation Program ("Assumption Program") in 2016 and continued the Assumption Program through 2018. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 3,967 and 3,091 policies were identified for assumption during 2018 and 2017, respectfully. Policyholders have until May 31, 2019 of the subsequent year to opt out of the 2018 Assumption Program.

Basis of Accounting

The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to all insurance companies domiciled in the State of Texas and the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual. Permitted statutory practices include practices not prescribed but allowed by the Texas Department of Insurance.

Reconciliations of net income (loss) and policyholders' deficit between the amounts reported in the accompanying financial statements (Texas basis) and NAIC statutory accounting practices ("SAP") follow:

Years ended December 31,		**2018**		2017
Net income (loss), Texas basis	**$**	**173,069**	$	(511,442)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		-
Net income (loss), NAIC SAP basis	**$**	**173,069**	$	(511,442)

December 31,		**2018**		2017
Statutory deficit, Texas basis	**$**	**(277,864)**	$	(461,390)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**(92,574)**		(279,711)
Policyholders' deficit, NAIC SAP basis	**$**	**(370,438)**	$	(741,101)

TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds (the "Bonds") as of December 31, 2018 and 2017, respectively:

- $0 and $188,637 held in the program fund to pay catastrophic losses
- $92,574 and $91,074 held in the obligation revenue fund for repayment of the Bonds.

The restrictions are primarily due to debt service reserves and use of proceeds only when a large hurricane event occurs. The permitted practice will last the life of the Bonds or until rescinded by TDI at an earlier date.

Significant differences between statutory accounting practices and accounting principles generally accepted in the United States of America ("GAAP"), as they relate to the Association include the following:

a) Certain assets designated as "non-admitted assets" are charged directly against surplus rather than capitalized and charged to income as used. These include certain member assessments, fixed assets, prepaid expenses and other assets.

b) Unearned premiums and loss and loss adjustment expense ("LAE") reserves are presented net of related reinsurance rather than on a gross basis as required under GAAP.

c) The statements of cash flows represent cash balances and cash equivalents with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

Use of Significant Estimates

The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the Texas Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reverse Repurchase Agreements

Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

Furniture, Equipment and Depreciation

Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years. Amounts have been non-admitted.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2018, the statute of limitations remains open for the 2012 to 2018 tax years. No further federal income tax impact is expected in the future.

Premiums
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums earned are taken into income over the periods covered by the policies whereas the related acquisition costs are expensed when incurred. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. Unearned premiums, net of deductions for reinsurance, are computed on a pro-rata basis over the term of the policies.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

Loss and Loss Adjustment Expense Reserves
Loss and LAE reserves are based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance
In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

Fair Value Measurements
Statement of Statutory Accounting Principles ("SSAP") No. 100R, Fair Value, requires disclosures of the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value. SSAP No. 100R excludes obligations for pension benefits, substantively extinguished debt, insurance contracts, lease contracts, warranty obligations and rights, investments accounted for under the equity method and equity instruments issued by the entity. Accordingly, the aggregate fair value amounts presented herein do not necessarily represent the underlying value of the Association; similarly, care should be exercised in deriving conclusions about the Association's business or financial condition based on the fair value information presented herein.

The following methods and assumptions were used by the Association to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash: The carrying values approximate fair value.

Cash equivalents: Valued at the Net Asset Value ("NAV") of units held by the Association at year end.

The Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.

- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

(Amounts in Thousands)

1. **Cash and Cash Equivalents**

Cash and cash equivalents are as follows:

December 31,		**2018**		2017
Cash	$	**274,607**	$	179,687
Cash equivalents		**381,520**		466,387
	$	**656,127**	$	646,074

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 13). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $92,574 and $279,711 as of December 31, 2018 and 2017, respectively. The admitted value of reverse repurchase agreements was approximately $92,574 and $279,711 as of December 31, 2018 and 2017, respectively, and is included in cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

The Association has not pledged any of its assets as collateral as of December 31, 2018 and 2017.

Repurchase agreements were Tri-Party during the years ended 2018 and 2017.

Original (flow) & residual maturity

Fourth Quarter 2018

	Minimum	Maximum	Average Daily Balance	Ending Balance
Overnight	$ 72,039	$ 92,574	$ 84,427	$ 92,574

Fourth Quarter 2017

	Minimum	Maximum	Average Daily Balance	Ending Balance
Overnight	$ 259,194	$ 539,465	$ 409,885	$ 279,711

(Amounts in Thousands)

Securities acquired under repurchase agreements - sale

Fourth Quarter 2018	Minimum	Maximum	Average Daily Balance	Ending Balance
BACV	$ -	$ -	$ -	$ 92,574
Nonadmitted – subset of BACV	-	-	-	-
Fair value	$ 72,039	$ 92,574	$ 84,427	$ 92,574

Book/Adjusting Carrying Value ("BACV")

Fourth Quarter 2017	Minimum	Maximum	Average Daily Balance	Ending Balance
BACV	$ -	$ -	$ -	$ 279,111
Nonadmitted – subset of BACV	-	-	-	-
Fair value	$ 259,194	$ 539,465	$ 409,885	$ 279,111

Securities acquired under repurchase agreements – sale by NAIC designation

December 31, 2018	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 92,574	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	92,574	-	-	-	-	-	-
Total assets – BACV	-	92,574	-	-	-	-	-	-
Total assets - FV	$ -	$ 92,574	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2017	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 279,711	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	279,711	-	-	-	-	-	-
Total assets – BACV	-	279,711	-	-	-	-	-	-
Total assets - FV	$ -	$ 279,711	$ -	$ -	$ -	$ -	$ -	$ -

(Amounts in Thousands)

Proceeds Provided - Sale

Fourth Quarter 2018								
		Minimum		Maximum		Average Daily Balance		Ending Balance
Cash	$	72,039	$	92,574	$	84,427	$	92,574
Securities (FV)		-		-		-		-
Securities (BACV)		-		-		-		-
Nonadmitted subset	$	-	$	-	$	-	$	-

Fourth Quarter 2017								
		Minimum		Maximum		Average Daily Balance		Ending Balance
Cash	$	259,194	$	539,465	$	409,885	$	279,111
Securities (FV)		-		-		-		-
Securities (BACV)		-		-		-		-
Nonadmitted subset	$	-	$	-	$	-	$	-

Recognized forward resale commitment

Fourth Quarter 2018								
		Minimum		Maximum		Average Daily Balance		Ending Balance
Recognized forward resale commitment	$	72,039	$	92,574	$	84,427	$	92,574

Fourth Quarter 2017								
		Minimum		Maximum		Average Daily Balance		Ending Balance
Recognized forward resale commitment	$	259,194	$	539,465	$	409,885	$	279,711

(Amounts in Thousands)

2. Restricted Assets

Restricted assets summarized by restricted asset category. Certain assets below included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 13). These assets are invested in overnight reverse repurchase agreements. The other restricted assets category consists of minimum maturity time deposit investments.

	Gross (Admitted & Nonadmitted) Restricted								Current Year		
	Current Year									Percentage	
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
Subject to reverse repurchase	$ 92,574	$ -	$ -	$ -	$ 92,574	$ 279,711	$ (187,137)	$ -	$ 92,574	13.98%	14.07%
Other restricted assets	-	-	-	-	-	933	(933)	-	-	-	-
Total restricted assets	$ 92,574	$ -	$ -	$ -	$ 92,574	$ 280,644	$ (188,070)	$ -	$ 92,574	13.98%	14.07%

	Gross (Admitted & Nonadmitted) Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Restricted Asset Category	Total General Account (G/A)	G/A Supporting Protected Cell Account Activity (a)	Total Protected Cell Account Restricted Assets	Protected Cell Account Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Non-Admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Minimum Maturity Time Deposits	$ -	$ -	$ -	$ -	$ -	$ 933	$ (933)	$ -	-	-
Total other restricted assets	$ -	$ -	$ -	$ -	$ -	$ 933	$ (933)	$ -	-	-

(Amounts in Thousands)

3. Furniture and Equipment

Furniture and equipment consist of the following:

December 31,		**2018**		2017
Furniture and equipment	$	**470**	$	400
Electronic data processing equipment and software		**10,466**		10,466
Leasehold improvements		**1,858**		1,858
		12,794		12,724
Less: accumulated depreciation		**(12,016)**		(10,950)
		778		1,774
Less: non-admitted furniture and equipment		**(778)**		(1,774)
	$	**-**	$	-

Depreciation and amortization expense was approximately $1,066 and $2,883 for the years ended December 31, 2018 and 2017, respectively.

4. Reinsurance

During 2018 and 2017, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,000,000, subject to a limit of liability to the Reinsurer of $2,600,000. In 2017, the Association purchased a second season cover for $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of $12,805 were 100% earned during the year ended December 31, 2018 and is included in premiums ceded in the statutory statements of income.

(Amounts in Thousands)

Effective June 1, 2017, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,800,000, subject to a limit of liability to the Reinsurer of $2,100,000. The Association also purchased a second season cover for $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of $9,054 were recorded as prepaid reinsurance and non-admitted as of December 31, 2017.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (See Note 14)

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus as of December 31, 2018 as a result of the Assumption Program. The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus as of December 31, 2017 as a result of the Assumption Program.

Name of reinsurer		**2018**		2017
Maison Insurance Company	$	**2**	$	26
Woodlands Insurance Company		**5**		50
United Property & Casualty Insurance Company		**15**		33
Weston Insurance Company		**-**		64
Total	$	**22**	$	173

(Amounts in Thousands)

The effect of reinsurance on premiums written and earned for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,552**	**$ 409,954**	$ 423,074	$ 451,347
Excess of loss ceded premium	**(106,546)**	**(106,546)**	(94,909)	(94,909)
Depopulation ceded premium	**(1,893)**	**(1,893)**	(9,084)	(9,084)
Net	**$ 287,113**	**$ 301,515**	$ 319,081	$ 347,354

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 14).

As of December 31, 2018 and 2017, the Association had reinsurance recoverables of $5 and $17, respectively, of paid losses and LAE as a result of the Assumption Program and is included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds.

5. Ceded Reinsurance Premiums Payable

Ceded reinsurance premiums payable are reported net of reinsurance ceding commissions receivable as follows:

December 31,	**2018**	2017
Ceded reinsurance premiums payable	**$ 21,016**	$ 21,426
Reinsurance ceding commissions receivable	**(844)**	(823)
	$ 20,172	$ 20,603

6. Unearned Premiums

Unearned premiums are reported net of ceded unearned premiums as follows:

December 31,	**2018**	2017
Gross unearned premiums	**$ 195,050**	$ 209,453
Ceded unearned premiums	**-**	-
	$ 195,050	$ 209,453

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been $0 as of December 31, 2018 and 2017.

(Amounts in Thousands)

7. Loss and Loss Adjustment Expenses

Activity in the liability for unpaid losses and LAE is summarized as follows:

December 31,	2018	2017
Beginning balance	$ 415,213	$ 53,502
Reinsurance recoverable	479	43
Beginning net balance	414,734	53,459
Incurred related to:		
Current loss year	19,442	1,484,926
Prior loss years	156,556	(9,624)
Losses and loss adjustment expense incurred	175,998	1,475,302
Paid related to:		
Current loss year	(14,070)	(1,102,892)
Prior loss years	(375,882)	(11,135)
Paid losses and loss adjustment expense	(389,952)	(1,114,027)
Ending net balance	200,780	414,734
Reinsurance recoverable	78	479
Ending balance	$ 200,858	$ 415,213

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statements of income. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statutory statements of income of approximately $175,998 reflect approximately $156,556 unfavorable development of prior year estimates, primarily due to unfavorable development of Hurricane Harvey ultimate loss and LAE in accident year 2017 as a greater number and severity of supplemental payments on reopened claims occurring in 2018. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. During August 2017, the Association was impacted by Hurricane Harvey. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,610,000. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2018 and 2017 make a reasonable provision for the Association's claim liabilities.

8. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2018 and 2017, statutory fund costs were approximately $110,590 and $0, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. TDI's directive required the Association to determine its net gain from operations based on accident-year incurred losses, rather than calendar year reported losses. At the end of calendar year 2018, the Association shall use the net gain from operations based on accident-year incurred losses of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although the $110,590 will not be presented as an asset in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law.

For the years ended December 31, 2018 and 2017, the CRTF held $5,986 and $1,220, respectively.

During 2017, the Association received $743,213 from the CRTF for use in paying Hurricane Harvey claims. Funds were made available to the Association upon approval by the TDI Commissioner.

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,610,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the TDI Commissioner on May 25, 2018 for $175,000 and a second Class 1 member assessment was approved on August 20, 2018 for $106,820 of which $279,621 has been collected as of December 31, 2018. One insurance group has disputed their participation of the assessment totaling $2,199, which has been non-admitted as of December 31, 2018. Any uncollected assessment can be reallocated to other carriers if the dispute is resolved in favor of this group. Further assessments will be made as needed as Hurricane Harvey paid loss development matures. As of December 31, 2018 and 2017, the deficit of the Association is $277,864 and $461,390, respectively.

(Amounts in Thousands)

9. **Employee Benefit Plans**

Defined Benefit Plan. The Association has a defined pension benefit plan (the "Plan"), which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the Plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2018 and 2017, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

The following sets forth a summary of projected benefit obligations, plan assets, funded status, benefit costs and assumptions of the defined pension benefit plan as follows:

December 31,		**2018**		2017
Change in Projected Benefit Obligations (PBO) (Underfunded):				
Benefit obligation at beginning of year	$	**23,457**	$	19,618
Service cost		**1,969**		1,496
Interest cost		**884**		830
Actuarial (gain) loss		**(2,795)**		2,019
Benefits paid		**(578)**		(506)
Projected benefit obligation at end of year		**22,937**		23,457
Change in Plan Assets:				
Fair value of plan assets at beginning of year		**15,598**		12,711
Actual return on plan assets		**(1,029)**		1,799
Employer contributions		**2,180**		1,594
Benefits paid		**(578)**		(506)
Fair value of plan assets at end of year		**16,171**		15,598
Funded status	$	**(6,766)**	$	(7,859)

(Amounts in Thousands)

December 31,		**2018**		2017
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	$	-	$	-
Total assets (non-admitted)		-		-
Liabilities recognized:				
Accrued benefit costs		**2,890**		2,808
Liability for pension benefits		**3,876**		5,051
Total liabilities recognized		**6,766**		7,859
Unrecognized liabilities as a component of net periodic benefit cost		-		-
Funded status	$	**(6,766)**	$	(7,859)
Accumulated benefit obligation	$	**20,319**	$	20,968

Years ended December 31,		**2018**		2017
Components of Net Periodic Benefit Costs:				
Service costs	$	**1,969**	$	1,496
Interest costs		**884**		830
Expected return on plan assets		**(900)**		(728)
Loss amortization		**265**		196
Prior service cost		**44**		44
Total net periodic benefit cost	$	**2,262**	$	1,838

(Amounts in Thousands)

Years ended December 31,		**2018**		2017
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost – prior year	$	**5,051**	$	4,342
Net transition asset or obligation recognized		**-**		-
Net prior service cost or credit arising during the period		**-**		-
Net prior service cost recognized		**(44)**		(44)
Net (gain) loss arising during the period		**(866)**		949
Net gain recognized		**(265)**		(196)
Items not yet recognized as a component of net periodic cost – current year	$	**3,876**	$	5,051

Years ended December 31,		**2018**		2017
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Amortization of net transition asset or obligation	$	**-**	$	-
Amortization of net prior service cost		**44**		44
Amortization of net loss	$	**120**	$	213

Years ended December 31,		**2018**		2017
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	$	**-**	$	-
Net prior service cost		**356**		400
Net loss	$	**3,520**	$	4,651

(Amounts in Thousands)

Pension Assumptions:

December 31,	**2018**	2017
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**3.75%**	4.25%
Rate of compensation increase	**2.50%**	2.50%
Expected long-term rate of return of plan assets	**5.50%**	5.50%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**4.50%**	3.75%
Rate of compensation increase	**2.50%**	2.50%

The amount of accumulated benefit obligation for the defined benefit pension Plan was approximately \$20,319 and \$20,968 as of December 31, 2018 and 2017, respectively.

Measurement Date

A measurement date of December 31, 2018 was used to determine the above.

Asset Allocation

The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

December 31,	**2018**	2017
Equity securities	**31.8%**	37.3%
Debt securities	**61.2%**	57.0%
Real estate	**5.1%**	4.9%
Other	**1.9%**	0.8%
	100.0%	100.0%

(Amounts in Thousands)

The investment policy of the Plan is to maximize the total return of the fund while maintaining a strong emphasis on preservation of capital. The total portfolio is expected to be less volatile than the market the vast majority of the time. The Plan assets are invested in a mix of equity and fixed income investments subject to target allocation ranges. The target allocation is to increase the percentage of fixed income investments depending on market conditions. Remaining funds not invested in the categories above are to be invested in short-term cash equivalents such as money market funds.

The long-term rate of return represents the expected average rate of return on the Plan assets based on the expected long-term asset allocation of the Plan. Several factors are considered, including historical market index returns, expectations of future returns in each asset classes, and the potential to outperform market index returns.

Future Payments

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years ending December 31,		Amount
2019	$	643
2020		698
2021		771
2022		862
2023		957
2024 and thereafter		6,339

Planned Contributions

The Association expects to make contributions of $2,360 during 2019.

(Amounts in Thousands)

Fair value measurements of Plan assets as of December 31, 2018 and 2017:

	Fair Value Measurements at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 192	$ -	$ 192
Large cap equity	3,308	-	-	3,308
Small cap equity	478	-	-	478
Mid cap equity	1,054	-	-	1,054
International equity	-	1,464	-	1,464
Realty fund	-	1,059	-	1,059
Fixed income	-	8,614	-	8,614
Limited partnerships	-	-	2	2
Total plan assets	$ 4,840	$ 11,329	$ 2	$ 16,171

	Fair Value Measurements at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 76	$ -	$ 76
Large cap equity	3,575	-	-	3,575
Small cap equity	562	-	-	562
Mid cap equity	1,170	-	-	1,170
International equity	-	1,591	-	1,591
Realty fund	-	966		966
Fixed income	-	7,652	-	7,652
Limited partnerships	-	-	6	6
Total plan assets	$ 5,307	$ 10,285	$ 6	$ 15,598

(Amounts in Thousands)

Defined Contribution Plan. The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed approximately $819 and $741 for the years ended December 31, 2018 and 2017, respectively.

10. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2018:

Years ending December 31,		Amount
2019	$	1,009
2020		1,036
2021		1,062
2022		1,088
2023 and thereafter		-
	$	4,195

Rental expense under the non-cancelable operating lease was approximately $1,453 and $1,395 for the years ended December 31, 2018 and 2017, respectively.

11. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the 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.

12. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2018 and 2017 the Association paid expenses for TFPA under its management contract and was reimbursed $13,787 and $14,034, respectively. As of December 31, 2018 and 2017, the Association incurred or paid expenses for which it has not been reimbursed of $1,029 and $1,427, respectively, on behalf of TFPA. These amounts are included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

13. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Bonds on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $368,500 and $414,600 principle balance was outstanding as of December 31, 2018 and 2017, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds. The bonds mature July 1, 2024 and can be called by the Issuer beginning July 1, 2019. The Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the Debt Service and related accounts held by the TTSTC.

There are various general and special covenants. The primary covenant, which exists as long as there are outstanding Class 1 Public Securities and Administrative Expenses are incurred, states that in the event the Association's Projected Net Coverage Revenues are less than 1.25 times the Obligations due in the next calendar year and 1.25 times the estimated amount of Administrative Expenses due in the next calendar year, the Association will undertake a plan of action or actions necessary to meet the required Projected Net Coverage Revenues. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the Operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the Net Premiums and Other Revenue held for the benefit of the Bondholders. The deposit account control agreement is activated upon default of certain debt covenants. As of December 31, 2018 and 2017, the Association is not in violation of these or any of the other various covenants.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption.

As of December 31, 2018, and 2017, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as an investment expense and was \$32,303 and \$35,354 for the years ended December 31, 2018 and 2017, respectively, and is included in net investment loss in the statutory statements of income. Interest expense of \$34,205 and \$36,504 was paid for the years ended December 31, 2018 and 2017, respectively. Interest payable was \$15,201 and \$17,102 as of December 31, 2018 and 2017, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2018 is as follows:

Description	Bonds Outstanding January 1, 2018	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2018
Bonds	**$ 414,600**	**$ -**	**$ 46,100**	**$ 368,500**

Changes in borrowed money - bonds payable for the year ended December 31, 2017 is as follows:

Description	Bonds Outstanding January 1, 2017	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2017
Bonds	$ 458,400	$ -	$ 43,800	$ 414,600

The aggregate maturities for the next five years and thereafter is as follows:

Years Ended December 31,	Amount
2019	$ 49,900
2020	54,000
2021	58,500
2022	63,300
2023	68,600
2024	74,200
On Demand	-
	$ 368,500

14. Depopulation

Effective December 1, 2018, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year three of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies will automatically transfer to participating companies on June 1, 2019. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 will be settled at the end of the treaty period, June 1, 2019.

Effective December 1, 2017, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year two of the Assumption Program. 3,091 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 2,789 policies remaining as of December 31, 2017. Policies automatically transferred to participating companies on June 1, 2018. Policyholders could elect to remain with the Association by opting out of the Assumption Program by May 31, 2018. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with three private market insurance companies effective December 1, 2017. Funds held by the Association under the Assumption Program as of December 31, 2017 was settled at the end of the treaty period, June 1, 2018.

As of December 31, 2018 and 2017, funds held by company under reinsurance treaties was $400 and $369, respectively, and is included in the statutory statements of admitted assets, liabilities, surplus and other funds.

During 2018 and 2017, the Association recognized ceded written premiums of $1,893 and $9,084, respectively, as a result of the Assumption Program.

15. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

16. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $64,000,000 and $72,000,000 of insurance exposure as of December 31, 2018 and 2017, respectively.

(Amounts in Thousands)

17. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		2018		2017
Prepaid reinsurance	$	-	$	9,054
Prepaid expenses and receivables		1,255		2,686
Member assessment receivable		2,199		-
Furniture and equipment		778		1,774
Total nonadmitted assets	$	4,232	$	13,514

18. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash and cash equivalents are the only financial instruments held by the Association in which carrying value and fair value are the same. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV.

Fair Value Measurements at December 31, 2018 Using:

		Aggregate Fair Value		Net Asset Value		Admitted Assets		Level 1		Level 2		Level 3
Cash	$	274,607	$	-	$	274,607	$	274,607	$	-	$	-
Cash equivalents*		-		381,520		381,520		-		-		-
	$	274,607	$	381,520	$	656,127	$	274,607	$	-	$	-

Fair Value Measurements at December 31, 2017 Using:

		Aggregate Fair Value		Net Asset Value		Admitted Assets		Level 1		Level 2		Level 3
Cash	$	179,687	$	-	$	179,687	$	179,687	$	-	$	-
Cash equivalents*		-		466,387		466,387		-		-		-
	$	179,687	$	466,387	$	646,074	$	179,687	$	-	$	-

* In accordance with SSAP 100R, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the line items presented in the statutory statements of admitted assets, liabilities, surplus and other funds.

19. Reconciliation with Annual Statement

There were no differences between the 2018 annual statement and 2017 annual statement as filed with the Texas Department of Insurance and the 2018 and 2017 audited statutory financial statements.

20. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2018, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 17, 2019, the date the statutory financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2018
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Bonds:				
U.S. Treasury securities	$ -	-	$ -	-
U.S. Government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. Government agencies	-	-	-	-
Issued by U.S. Government-sponsored agencies	-	-	-	-
Non-U.S. government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
State, territories and possessions general obligations	-	-	-	-
Political subdivisions of states, territories and possessions political subdivisions general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	-	-	-	-
Issued or guaranteed by FNMA and FHLMC	-	-	-	-
All other	-	-	-	-
CMO's and REMIC's:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	-	-	-	-
Issued by non U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies	-	-	-	-
All other	-	-	-	-
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	-	-	-	-
Unaffiliated non-U.S. securities (including Canada)	-	-	-	-
Affiliated securities	-	-	-	-

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2018
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Equity interests:				
Investments in mutual funds	-	-	-	-
Preferred stocks:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Publicly trade equity securities (excluding preferred stocks):				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity securities:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity interests including tangible personal property under lease:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans:				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Real estate investments:				
Property occupied by the company	-	-	-	-
Property held for production of income	-	-	-	-
Property held for sale	-	-	-	-
Contract loans	-	-	-	-
Receivables for securities	-	-	-	-
Cash, cash equivalents, and short-term investments	656,127	100	656,127	100
Other invested assets	-	-	-	-
Total invested assets	$ 656,127	100	$ 656,127	100

**Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual.*

*** The Association has no securities lending reinvested collateral at December 31, 2018.*

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories

December 31, 2018

(Amounts in Thousands)

1)	Reporting entity's total admitted assets as reported in the accompanying financial statements.	$	657,839

Questions 2 through 19 are not applicable.

20) Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1st Qtr	2nd Qtr	3rd Qtr
Reverse repurchase agreements	$ 92,574	14.07%	$ 195,385	$ 114,849	$ 72,026

Questions 21 through 23 are not applicable.

See accompanying independent auditors' report on supplemental information.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES[ ] NO [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. N/A

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year–end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES[X] NO [ ]

See accompanying independent auditors' report on supplemental information.

(Amounts in Thousands)

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? YES[X] NO [ ]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contacts on the balance sheet and statement income.

Financial Impact – Section A	As Reported	Interrogatory 9 Reinsurance Effect	Restated Without Interrogatory 9 Reinsurance
Assets – Line 1			
Assets	$ 657,839	$ 4	$ 657,835
Liabilities	935,703	20,493	915,210
Deficit as regards to policyholders	(277,864)	(20,489)	(257,375)
Income before taxes	$ 173,069	$ (106,018)	$ 279,087

See accompanying independent auditors' report on supplemental information.

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,000,000, subject to a limit of liability to the Reinsurer of $2,600,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies: however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association, together with the Texas Department of Insurance, evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The contract is being reported pursuant to Interrogatory 9.1.

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

The Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance companies.

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES [ ] NO [X]

See accompanying independent auditors' report on supplemental information.

9.5	If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.	N/A

See accompanying independent auditors' report on supplemental information.

6E3. GASB

Texas Windstorm Insurance Association

Financial Statements and Supplementary Information
For the Years Ended December 31, 2018 and 2017

Calhoun, Thomson + Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Financial Statements and Supplementary Information

For the Years Ended December 31, 2018 and 2017

Texas Windstorm Insurance Association

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Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

Independent Auditors' Report

Governing Board
Texas Windstorm Insurance Association
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Windstorm Insurance Association as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in the Summary of Significant Accounting Policies, the financial statements present only the Association and do not purport to, and do not, fairly present the financial position of the State of Texas, the changes in its financial position, or, where applicable, its cash flows for the years ended 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

As of December 31, 2018, the Association had approximately $64 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, the Association is prohibited from maintaining a surplus by virtue of its funding obligations to the Catastrophe Reserve Trust Fund ("CRTF"); any net gain from operations must be paid to the CRTF. As of December 31, 2018, the balance in the CRTF was approximately $6.0 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

In accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses will depend on market conditions and the financial and operating results of the Association. Our opinion is not modified with respect to these matters.

Ultimate loss projections for Hurricane Harvey were estimated to be $1.61 billion by the Association's appointed actuary as of December 31, 2018. If the ultimate loss projection changes in the future it could have a material adverse impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 6 to 14, schedules of changes in net pension liability and related ratios, on page 46, and schedules of employer contributions on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cohn, Thomas & Matzo, LLP

April 17, 2019

Our discussion and analysis of the financial performance of Texas Windstorm Insurance Association (the "Association") provides an overview of the Association's financial activities for the years ended December 31, 2018 and 2017. Please read this information in conjunction with the Association's financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Association is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

(Amounts in Thousands)

Financial Summary

A summary of the statements of net position for the Association is presented below:

December 31,		2018		2017
Cash and cash equivalents	$	**656,127**	$	646,074
Capital assets		**2,834**		4,517
Other assets		**5,244**		14,099
Total assets		**664,205**		664,690
Deferred outflows of resources		**2,557**		1,635
	$	**666,762**	$	666,325
Other liabilities	$	**550,471**	$	673,730
Borrowed money – bonds and interest payable		**383,701**		431,702
Total liabilities		**934,172**		1,105,432
Deferred inflows of resources		**336**		1,125
Total liabilities and deferred inflows of resources		**934,508**		1,106,557
Net position:				
Investment in capital assets		**2,834**		4,517
Unrestricted		**(270,580)**		(444,749)
Total net position		**(267,746)**		(440,232)
	$	**666,762**	$	666,325

(Amounts in Thousands)

A summary of the statements of revenues, expenses, and changes in net position for the Association is presented below:

Years ended December 31,		**2018**		2017
Operating revenues:				
Net premiums earned	$	**301,515**	$	347,354
Operating expenses:				
Losses and loss adjustment expenses		**175,998**		1,475,302
Underwriting expenses		**96,982**		96,492
Total expenses		**272,980**		1,571,794
Operating income (loss)		**28,535**		(1,224,440)
Non-operating revenue		**143,951**		714,382
Increase (decrease) in net position before federal income tax expense		**172,486**		(510,058)
Federal income tax expense		**-**		-
Change in net position		**172,486**		(510,058)
Net position at beginning of year		**(440,232)**		69,826
Net position at end of year	$	**(267,746)**	$	(440,232)

ANALYSIS OF FINANCIAL POSITION

Assets

The Association maintains cash and cash equivalents at banks consisting of cash, certificates of deposit and money market mutual funds. Cash equivalents are recorded at net asset value, which approximates fair value. As of December 31, 2018 cash and cash equivalents increased $10,053 from December 31, 2017. The increase was primarily attributable to moderate positive cash flow during 2018. As of December 31, 2017 cash and cash equivalents decreased $383,616 from December 31, 2016. The decrease from 2016 to 2017 was primarily attributable payments related to Hurricane Harvey claims.

Liabilities

The statutory fund payable account was $110,590 and $0 as of December 31, 2018 and 2017, respectively. These funds are payable to the CRTF, held by the Texas Department of Insurance. The increase is related to favorable financial results during 2018.

Loss and loss adjustment expense ("LAE") reserves are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Loss and LAE reserves are not discounted. A review of the reserves is conducted quarterly by management to evaluate the accuracy of the determination of the loss and LAE reserves and to observe adherence to corporate policy.

The reserve for losses and LAE is based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims.

The December 31, 2018 direct loss and LAE reserves decreased $214,355 from 2017. This decrease in reserves was the result of no significant storm activity during 2018 and continued settlement of prior year claims from 2017 storm activity. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2018 and 2017 make a reasonable provision for the Association's claim liabilities.

The December 31, 2017 direct loss and LAE reserves increased $361,711 from 2016. This increase in reserves was the result of reserves remaining from the Hurricane Harvey event during 2017.

Borrowed money – bonds and interest payable

Bonds consist of $500,000 in Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds"), as permitted by Texas Statute. The Bonds fully mature by 2024. The principle balance of Bonds outstanding as of

December 31, 2018 and 2017 was $368,500 and $414,600, respectively. Total interest payable as of December 31, 2018 and 2017 was $15,201 and $17,102, respectively.

Capital and Surplus

The net statutory gain from operations of the Association must be transferred to the CRTF following the close of each business year. Under the statutory agreement with the Texas Department of Insurance ("TDI"), monies in the CRTF are to be used for purposes directly related to funding the payment of insured losses from windstorm and hail catastrophe losses in excess of premium and other revenue of the Association in a catastrophe year.

During 2018 and 2017, the Association paid $0 and $147,015 to the CRTF representing the 2017 and 2016 net capital and surplus. The Association accrued $110,590 and $0 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2018 and 2017, respectively.

During 2017, the Association received $743,213 from the CRTF for use in paying Hurricane Harvey claims. Funds were made available to the Association upon approval by the TDI Commissioner.

Reinsurance

During 2018 and 2017, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,000,000, subject to a limit of liability to the Reinsurer of $2,600,000. In 2017, the Association purchased a second season cover of $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of $12,805 were 100% earned during the year ended December 31, 2018 and is included in premiums ceded in the statements of revenues, expenses and changes in net position.

Effective June 1, 2017, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the

(Amounts in Thousands)

Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,800,000, subject to a limit of liability to the Reinsurer of $2,100,000. The Association also purchased a second season cover of $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. All reinsurance premiums related to the second season cover was recorded as prepaid reinsurance as of December 31, 2017 and included in other assets in the statements of net position.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Reinsurance Depopulation Program ("Assumption Program") (see Note 11).

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect on premiums written and earned for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,552**	**$ 409,954**	$ 423,074	$ 451,347
Excess of loss ceded premium	**(106,546)**	**(106,546)**	(94,909)	(94,909)
Depopulation ceded premium	**(1,893)**	**(1,893)**	(9,084)	(9,084)
Net	**$ 287,113**	**$ 301,515**	$ 319,081	$ 347,354

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 11).

Unearned premiums are reported as follows:

December 31,	**2018**	2017
Gross unearned premiums	**$ 195,050**	$ 209,453
Ceded unearned premiums	**-**	-
	$ 195,050	$ 209,453

(Amounts in Thousands)

Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2018.

The minimum aggregate rental commitments are as follows:

Years Ending December 31,		Amount
2019	$	1,009
2020		1,036
2021		1,062
2022		1,088
2023 and thereafter		-
	$	4,195

Rental expense under the non-cancelable operating lease was approximately $1,453 and $1,395 for the years ended December 31, 2018 and 2017, respectively.

Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the 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.

Depopulation

Effective December 1, 2018, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year two of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies will automatically transfer to participating companies on June 1, 2019. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 will be settled at the end of the treaty period, June 1, 2019.

Effective December 1, 2017, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year two of the Assumption Program. 3,091 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 2,789 policies remaining as of December 31, 2017. Policies automatically transferred to participating companies on June 1, 2018. Policyholders could elect to remain with the Association by opting out of the Assumption Program by May 31, 2018. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with three private market insurance companies effective December 1, 2017. Funds held by the Association under the Assumption Program as of December 31, 2017 was settled at the end of the treaty period, June 1, 2018.

As of December 31, 2018 and 2017, funds held by company under reinsurance treaties was $400 and $369, respectively, and is included in the statements of net position. During 2018 and 2017, the Association recognized ceded written premiums of $1,893 and $9,084, respectively, as a result of the Assumption Program.

Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2018 and 2017 the Association paid expenses for TFPA under its management contract and was reimbursed $13,787 and $14,034, respectively. As of December 31, 2018 and 2017, the Association incurred or paid expenses for which it has not been reimbursed of $1,029 and $1,427, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

RESULTS OF OPERATIONS

Revenues

Direct written premium was $395,552 and $423,074 for the years ended December 31, 2018 and 2017 respectively. The 7% decrease from 2017 to 2018 was the result of a decrease in policy count and depopulation efforts during 2018 and 2017. Direct written premium was $423,074 and $487,354 for the years ended December 31, 2017, and 2016, respectively. The 13% decrease from 2016 to 2017 was the result of a decrease in policy count and depopulation efforts in 2017 and 2016.

Net earned premium was $301,515 and $347,354 for the years ended December 31, 2018 and 2017, respectively. The 13% decrease from 2017 to 2018 was a result of a decrease in policy count and depopulation efforts during 2018 and 2017. Net earned premium was $347,354 and $370,404 for the years ended December 31, 2017, and 2016, respectively. The 6% decrease from 2016 to 2017 was a result of a decrease in policy count and depopulation efforts during 2017 and 2016.

Net investment income was $7,429 and $6,639 for the years ended December 31, 2018 and 2017, respectively. In 2018, the increase in investment income reflects an improved rate environment with consistent cash and cash equivalent balances. Net investment income was $6,639 and $3,279 for the years ended December 31, 2017 and 2016, respectively. In 2017, the increase in investment income reflects a greatly improved rate environment related to the Association's holdings.

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,610,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the TDI Commissioner on May 25, 2018 for $175,000 and a second Class 1 member assessment was approved on August 20, 2018 for $106,820 of which $279,621 has been collected as of December 31, 2018. One insurance group has disputed their participation of the assessment totaling $2,199. Any uncollected assessment can be reallocated to other carriers if the dispute is resolved in favor of this group. Further assessments will be made as needed as Hurricane Harvey paid loss development matures.

Net Loss and Loss Adjustment Expenses

Net loss and LAE was $175,998 and $1,475,302 for the years ended December 31, 2018 and 2017, respectively. In 2018, the primary driver of the decrease in net loss and LAE is due to modest storm activity in 2018. Net loss and LAE was $1,475,302 and $38,625 for the years ended December 31, 2017, and 2016, respectively. In 2017, the primary driver of the increase in net loss and LAE is due to the impact of Hurricane Harvey.

Underwriting Expenses

Underwriting expenses was $96,982 and $96,492 for the years ended December 31, 2018 and 2017, respectively. Underwriting expenses increased in 2018 approximately 1% while direct written premium decreased approximately 7%. Reductions in commission and premium were offset by costs associated with system implementations and for increased expert panel implementation costs. Underwriting expenses was $96,492 and $108,812 for the years ended December 31, 2017, and 2016, respectively. Underwriting expenses were down in 2017 approximately 11% and comparable to premium reductions during 2017.

Texas Windstorm Insurance Association

Statements of Net Position
(Amounts in Thousands)

December 31,		**2018**		2017
Assets and deferred outflows of resources				
Assets				
Cash and cash equivalents	$	**656,127**	$	646,074
Capital assets, net		**2,834**		4,517
Other assets		**5,244**		14,099
Total assets		**664,205**		664,690
Deferred outflows of resources related to pensions				
Net differences between projected and actual earnings on plan investments		**904**		-
Differences between expected and actual experience		**235**		143
Changes of assumptions		**1,418**		1,492
Total deferred outflows of resources		**2,557**		1,635
	$	**666,762**	$	666,325

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Net Position
(Amounts in Thousands)
(Continued)

December 31,		2018		2017
Liabilities, deferred inflows of resources and net position				
Liabilities				
Losses and loss adjustment expense reserves	$	**200,858**	$	415,213
Unearned premiums		**195,050**		209,453
Ceded reinsurance premiums payable, net of ceding commissions		**20,172**		20,603
Funds held by company under reinsurance treaties		**400**		369
Borrowed money – bonds and interest payable		**383,701**		431,702
Statutory fund payable		**110,590**		-
Other liabilities		**23,401**		28,092
Total liabilities		**934,172**		1,105,432
Deferred inflows of resources related to pensions				
Net differences between projected and actual earnings on plan investments		**-**		705
Differences between expected and actual experience		**252**		322
Changes in assumptions		**84**		98
Total deferred inflows of resources		**336**		1,125
Total liabilities and deferred inflows of resources		**934,508**		1,106,557
Net position				
Investment in capital assets		**2,834**		4,517
Unrestricted		**(270,580)**		(444,749)
Total net position		**(267,746)**		(440,232)
	$	**666,762**	$	666,325

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Revenues, Expenses and Changes in Net Position
(Amounts in Thousands)

Years ended December 31,		2018		2017
Operating revenues				
Premiums earned	$	**409,954**	$	451,347
Premiums ceded		**(108,439)**		(103,993)
Total operating revenues		**301,515**		347,354
Operating expenses				
Losses and loss adjustment expenses		**175,998**		1,475,302
Underwriting expenses		**96,982**		96,492
Total operating expenses		**272,980**		1,571,794
Operating income (loss)		**28,535**		(1,224,440)
Nonoperating revenues and (expenses)				
Net investment income earned		**5,014**		6,639
Interest expense		**(32,303)**		(35,354)
Bond issuance and maintenance costs		**(42)**		(172)
Assessment income		**281,820**		-
Statutory fund (costs) income		**(110,590)**		743,213
Other income		**52**		56
Total nonoperating revenues		**143,951**		714,382
Increase (decrease) in net position before federal income tax expense		**172,486**		(510,058)
Federal income tax expense		**-**		-
Change in net position		**172,486**		(510,058)
Net position:				
Net position, beginning of year		**(440,232)**		69,826
Change in net position		**172,486**		(510,058)
Net position, end of year	$	**(267,746)**	$	(440,232)

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,		**2018**		2017
Cash flows from operating activities:				
Premiums collected, net of reinsurance	**$**	**283,815**	$	310,197
Losses and loss adjustment expense paid		**(389,940)**		(1,114,044)
Underwriting expenses paid		**(90,361)**		(102,265)
Receivable from affiliate		**398**		(166)
Net cash used in operating activities		**(196,088)**		(906,278)
Cash flows from noncapital financing activities:				
Bond principal paid		**(46,100)**		(43,800)
Financing costs paid		**(2,548)**		(280)
Bond interest paid		**(34,204)**		(36,504)
Statutory fund paid		**-**		(147,015)
Statutory fund received		**-**		743,213
Assessment income received		**281,820**		-
Other		**52**		56
Net cash provided by noncapital financing activities		**199,020**		515,670
Cash flows from capital and related financing activities:				
Capital assets		**(70)**		-
Net cash used in capital and related financing activities		**(70)**		-
Cash flows from investing activities:				
Net investment income		**7,191**		6,992
Net cash provided by investing activities		**7,191**		6,992
Net increase (decrease) in cash and cash equivalents		**10,053**		(383,616)
Cash and cash equivalents, beginning of year		**646,074**		1,029,690
Cash and cash equivalents, end of year	**$**	**656,127**	$	646,074

See accompanying summary of significant accounting policies and notes to financial statements.

Statements of Cash Flows
(Amounts in Thousands)
(Continued)

Years ended December 31,		2018		2017
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	$	**28,535**	$	(1,224,440)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation and amortization		**1,753**		1,878
Changes in assets and liabilities:				
Losses and loss adjustment expense reserves		**(214,355)**		361,711
Unearned premiums		**(14,403)**		(28,272)
Ceded reinsurance premiums payable		**(431)**		(6,894)
Other liabilities		**(5,357)**		1,011
Other assets		**8,170**		(11,272)
Net cash used in operating activities	$	**(196,088)**	$	(906,278)

See accompanying summary of significant accounting policies and notes to financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

Organization

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

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association'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 counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage, accompanied by the full annual premium, may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- 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 by TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, TDI inspectors or TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately $4,600,000 in funding was secured for the 2018 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,600,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2018 hurricane season is, in order:

- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $2,600,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2018. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 3,967 and 3,091 policies were identified for assumption during 2018 and 2017, respectively. Policyholders have until May 31, 2019 of the subsequent year to opt out of the Assumption Program.

Basis of Accounting
While the Association is an instrumentality of the State of Texas, the State of Texas General Fund is not liable for the Associations claims, losses, or other liabilities. However, the Association meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The Association is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Association uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

In April of 2018, the Governmental Accounting Standards Board ("GASB") issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In March of 2017, the GASB issued Statement No. 85, Omnibus 2017. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

In March of 2016, the GASB issued Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Association has implemented GASB Statement No. 82 effective January 1, 2017.

In June of 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

In June of 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

Use of Significant Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.

Cash Equivalents
For the purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents, which include money market mutual funds, are recorded at Net Asset Value ("NAV"), which approximates fair value.

Reverse Repurchase Agreements
Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

Capital Assets
The Association has invested funds in electronic data processing equipment and software, in addition to furniture and equipment and is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2018, the statute of limitations remains open for the 2012 to 2018 tax years. No further federal income tax impact is expected in the future.

Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly from the primary activity of the Association. For the Association, these revenues are primarily the premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer claims.

All revenue not meeting the definition of operating revenue and expenses are reported as nonoperating revenues and expenses. Significant or major components of nonoperating revenues and expenses include interest expense, assessment income, statutory fund costs, and statutory fund income and are included in the statements of revenues, expenses and changes in net position.

Premiums
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies. All premium rates charged by the Association must be approved by the Texas Department of Insurance Commissioner.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statements of net position.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statements of net position.

Policy Acquisition Costs
Acquisition costs consisting of commissions and premium taxes, vary with and are primarily related to the issuance of new and renewal insurance policies. Acquisition costs are expensed as incurred.

Losses and Loss Adjustment Expenses
Loss and LAE reserves are based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance
In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

Long-Lived Assets – Impairment and Disposal
The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

(Amounts in Thousands)

1. **Cash and Cash Equivalents**
Cash and cash equivalents are as follows:

December 31,		**2018**		2017
Cash	$	**274,607**	$	179,687
Cash equivalents		**381,520**		466,387
	$	**656,127**	$	646,074

Reverse Repurchase Agreements
The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 9). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S. Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $92,574 and $279,711 as of December 31, 2018 and 2017, respectively, and is included in cash equivalents in the statements of net position.

The Association has not pledged any of its assets as collateral as of December 31, 2018 and 2017.

Reverse Repurchase Agreement

Fair Value as of December 31,		**2018**		2017
Open	$	**-**	$	-
30 days or less		**92,574**		279,711
31 to 60 days		**-**		-
61 to 90 days		**-**		-
Greater than 90 days		**-**		-
Securities received		**-**		-
	$	**92,574**	$	279,711

(Amounts in Thousands)

2. **Capital assets**

Capital assets consist of the following:

December 31,		2018		2017
Furniture and fixtures	$	**470**	$	400
Electronic data processing equipment and software		**10,466**		10,466
Leasehold improvements		**1,858**		1,858
		12,794		12,724
Less: accumulated depreciation		**(9,960)**		(8,207)
	$	**2,834**	$	4,517

Depreciation and amortization expense was $1,753 and $1,878 for the years ended December 31, 2018 and 2017, respectively.

3. **Reinsurance**

During 2018 and 2017, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,000,000, subject to a limit of liability to the Reinsurer of $2,600,000. In 2017, the Association purchased a second season cover of $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of $12,805 were 100% earned during the year ended December 31, 2018 and is included in premiums ceded in the statements of revenues, expenses and changes in net position.

(Amounts in Thousands)

Effective June 1, 2017, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,800,000, subject to a limit of liability to the Reinsurer of $2,100,000. The Association also purchased a second season cover of $800,000 in excess of $2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of $9,054 have been recorded as prepaid reinsurance as of December 31, 2017 and included in other assets in the statements of net position.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (see Note 11).

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect of reinsurance on premiums written and earned for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,552**	**$ 409,954**	$ 423,074	$ 451,347
Excess of loss ceded premium	**(106,546)**	**(106,546)**	(94,909)	(94,909)
Depopulation ceded premium	**(1,893)**	**(1,893)**	(9,084)	(9,084)
Net	**$ 287,113**	**$ 301,515**	$ 319,081	$ 347,354

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 11).

As of December 31, 2018 and 2017, the Association had reinsurance recoverables of $5 and $17, respectively, of paid losses and LAE as a result of the Assumption Program and is included in other assets in the statements of net position.

(Amounts in Thousands)

4. Ceded Reinsurance Premiums Payable

Ceded Reinsurance premiums payable are reported net of reinsurance ceding commissions receivable as follows:

December 31,		**2018**		2017
Ceded reinsurance premiums payable	**$**	**21,016**	$	21,426
Reinsurance ceding commissions receivable		**(844)**		(823)
	$	**20,172**	$	20,603

5. Unearned Premiums

Unearned premiums are reported as follows:

December 31,		**2018**		2017
Gross unearned premiums	**$**	**195,050**	$	209,453
Ceded unearned premiums		**-**		-
	$	**195,050**	$	209,453

(Amounts in Thousands)

6. Losses and Loss Adjustment Expense Reserves

Activity in the liability for unpaid losses and LAE is summarized as follows:

December 31,		**2018**		2017
Beginning balance	$	**415,213**	$	53,502
Reinsurance recoverable		**479**		43
Beginning net balance		**414,734**		53,459
Incurred related to:				
Current loss year		**19,442**		1,484,926
Prior loss years		**156,556**		(9,624)
Losses and loss adjustment expense incurred		**175,998**		1,475,302
Paid related to:				
Current loss year		**(14,070)**		(1,102,892)
Prior loss years		**(375,882)**		(11,135)
Paid losses and loss adjustment expense		**(389,952)**		(1,114,027)
Ending net balance		**200,780**		414,734
Reinsurance recoverable		**78**		479
Ending balance	$	**200,858**	$	415,213

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statements of revenues, expenses and changes in net position. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statements of revenues, expenses and changes in net position of approximately $175,998 reflect approximately $156,556 unfavorable development of prior year estimates, primarily due to unfavorable development of Hurricane Harvey ultimate loss and LAE in accident year 2017 as a greater number and severity of supplemental payments on reopened claims occurring in 2018. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. During August 2017, the Association was impacted by Hurricane Harvey. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,610,000. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2018 and 2017 make a reasonable provision for the Association's claim liabilities.

7. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the 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.

8. Service Contract with Texas FAIR Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2018 and 2017 the Association paid expenses for TFPA under its management contract and was reimbursed $13,787 and $14,034, respectively. As of December 31, 2018 and 2017, the Association incurred or paid expenses for which it has not been reimbursed of $1,029 and $1,427, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

9. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued Bonds on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $368,500 and $414,600 principle balance was outstanding as of December 31, 2018 and 2017, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position. The bonds mature July 1, 2024 and can be called by the Issuer beginning July 1, 2019. The Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made on January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the Debt Service and related accounts held by the TTSTC.

There are various general and special covenants. The primary covenant, which exists as long as there are outstanding Class 1 Public Securities and Administrative Expenses are incurred, states that in the event the Association's Projected Net Coverage Revenues are less than 1.25 times the Obligations due in the next calendar year and 1.25 times the estimated amount of Administrative Expenses due in the next calendar year the Association will undertake a plan of action or actions necessary to meet the required Projected Net Coverage Revenues. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the Operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the Net Premiums and Other Revenue held for the benefit of the Bondholders. The deposit account control agreement is activated upon default of certain debt covenants. As of December 31, 2018 and 2017, the Association is not in violation of these or any of the other various covenants.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption.

As of December 31, 2018 and 2017, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as a non-operating expense and was \$32,303 and \$35,354 for the years ended December 31, 2018 and 2017, respectively, and is included in the statements of revenues, expenses and changes in net position. Interest expense of \$34,205 and \$36,504 was paid for the years ended December 31, 2018 and 2017, respectively. Interest payable was \$15,201 and \$17,102 as of December 31, 2018 and 2017, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2018 is as follows:

Description	Bonds Outstanding January 1, 2018	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2018
Taxable Series 2014	**$ 414,600**	**$ -**	**$ 46,100**	**$ 368,500**

Changes in borrowed money - bonds payable for the year ended December 31, 2017 is as follows:

Description	Bonds Outstanding January 1, 2017	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2017
Taxable Series 2014	$ 458,400	$ -	$ 43,800	$ 414,600

The aggregate maturities for the next five years and thereafter is as follows:

Years Ended December 31,	Amount
2019	$ 49,900
2020	54,000
2021	58,500
2022	63,300
2023	68,600
2024	74,200
On Demand	-
	$ 368,500

10. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the statutory net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2018 and 2017, statutory fund costs were $110,590 and $0, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. TDI's directive required the Association to determine its net gain from operations based on accident-year incurred losses, rather than calendar year reported losses. At the end of calendar year 2018, the Association shall use the net gain from operations based on accident-year incurred losses of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law.

For the years ended December 31, 2018 and 2017, the CRTF held $5,986 and $1,220, respectively.

During 2017, the Association received $743,213 from the CRTF for use in paying Hurricane Harvey claims. Funds were made available to the Association upon approval by the TDI Commissioner.

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and loss adjustment expenses from Hurricane Harvey are estimated to be approximately $1,610,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the TDI Commissioner on May 25, 2018 for $175,000 and a second Class 1 member assessment was approved on August 20, 2018 for $106,820 of which $279,621 has been collected as of December 31, 2018. One insurance group has disputed their participation of the assessment totaling $2,199. Any uncollected assessment can be reallocated to other carriers if the dispute is resolved in favor of this group. Further assessments will be made as needed as Hurricane Harvey paid loss development matures. As of December 31, 2018 and 2017, the net negative position of the Association is $267,746 and $440,232, respectively.

11. Depopulation

Effective December 1, 2018, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year three of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies will automatically transfer to participating companies on June 1, 2019. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 will be settled at the end of the treaty period, June 1, 2019.

Effective December 1, 2017, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year two of the Assumption Program. 3,091 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 2,789 policies remaining as of December 31, 2017. Policies automatically transferred to participating companies on June 1, 2018. Policyholders could elect to remain with the Association by opting out of the Assumption Program by May 31, 2018. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with three private market insurance companies effective December 1, 2017. Funds held by the Association under the Assumption Program as of December 31, 2017 was settled at the end of the treaty period, June 1, 2018.

As of December 31, 2018 and 2017, funds held by company under reinsurance treaties was $400 and $369, respectively, and is included in the statements of net position.

During 2018 and 2017, the Association recognized ceded written premiums of $1,893 and $9,084, respectively, as a result of the Assumption Program.

(Amounts in Thousands)

12. Employee Benefit Plans

Defined Benefit Plan

Plan Description. The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) (the "Plan") which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The PPIO is an agent multi-employer defined benefit pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations (c/o Greenberg Traurig, LLP). The authority to establish and amend the benefit provisions of the plans that participate in the multiple-employer pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations is assigned to the respective employer entities. For the Association, that authority rests with the Association's Board of Directors. The Named Fiduciaries of The Pension Plan for Insurance Organizations issue publicly available information about the Plan that is prepared to comply with the Employee Retirement Income Security Act of 1974 (ERISA). That information may be obtained from the plan administrator, The Named Fiduciaries of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP, 200 Park Avenue, 20th Floor, New York, NY 10166.

Covered employees are the only class of employees covered under the pension plan and are employees who have completed 1,000 hours of service within a 12-month consecutive period. The benefits are paid based on specific events and in the form of a monthly benefit payment. A lump sum benefit is payable if its present value of the monthly benefit is less than $20,000. The key elements of the pension formula consist of a percentage of average earnings multiplied by years and months of service. There are no automatic post-employment benefit changes or automatic cost of living adjustments affecting benefit payments.

Employees covered by benefit terms: At December 31, 2018 and 2017, the following employees were covered by the benefit terms:

December 31,	**2018**	2017
Inactive employees or beneficiaries currently receiving benefits	**46**	39
Inactive employees entitled to but not yet receiving benefits	**53**	47
Active employees	**223**	227
Total	**322**	313

Contributions. PPIO members are not required to contribute to the Plan. The Association is required to contribute at an actuarially determined rate: the current rate is 14.45 percent and 12.50 percent of annual covered payroll for the years 2018 and 2017, respectively. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

(Amounts in Thousands)

Net Pension Liability

The Association's net pension liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial assumptions. The total pension liability in the December 31, 2018 and 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

December 31,	**2018**	2017
Inflation	**3.00%**	3.00%
Salary increases	**2.50%**	2.50%
Investment rate of return	**5.50%**	5.50%

As of December 31, 2018, mortality rates were based on the RP-2014 mortality tables with the MP-2018 mortality improvement scale applied on a generational basis. As of December 31, 2017, the RP-2014 mortality tables with the MP-2017 mortality improvement scale applied on a generational basis.

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 2.5% and 2.7% during 2018 and 2017, respectively. The overall 20-year geometric median portfolio real return is 2.4% and 2.6% during 2018 and 2017, respectively. The overall 20-year geometric 75th percentile portfolio real return is 3.4% and 3.6% during 2018 and 2017, respectively. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 3.0%. The expected returns above assume passive investing and do not include any premium for active management.

(Amounts in Thousands)

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2018 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	19.1%	4.36%
Mid cap U.S. equity	6.3%	4.36%
Small cap U.S. equity	3.3%	3.97%
Real estate	4.9%	2.99%
International equity	8.6%	4.36%
Fixed income	57.0%	0.41%
Cash	0.8%	0.36%
Total	100.0%	

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2017 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	21.5%	4.37%
Mid cap U.S. equity	7.1%	4.37%
Small cap U.S. equity	4.0%	3.99%
International equity	10.0%	4.37%
Fixed income	57.1%	0.74%
Cash	0.3%	0.23%
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 5.50 percent during 2018 and 2017. Willis Towers Watson used their firm's proprietary capital market assumptions as of January 2018 for the various asset classes, and applied those to the asset allocation of the PPIO as of January 1, 2018 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There are no non-employer contributing entities and there are no employee contributions.

(Amounts in Thousands)

Changes in Net Pension Liability. The Association's changes in net pension liability for the years ended December 31, 2018 and 2017 were as follows:

		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) – (b)
Balance, January 1, 2018	**$**	**19,065**	**$**	**15,597**	**$**	**3,468**
Changes for the year:						
Service cost		**1,378**		**-**		**1,378**
Interest		**1,109**		**-**		**1,109**
Demographic losses		**133**		**-**		**133**
Contributions - employer		**-**		**2,180**		**(2,180)**
Net investment loss		**-**		**(959)**		**959**
Assumption changes		**221**		**-**		**221**
Benefit payments		**(578)**		**(578)**		**-**
Administrative expenses		**-**		**(69)**		**69**
Balance, December 31, 2018	**$**	**21,328**	**$**	**16,171**	**$**	**5,157**

		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) – (b)
Balance, January 1, 2017	$	17,655	$	12,711	$	4,944
Changes for the year:						
Service cost		1,116		-		1,116
Interest		1,018		-		1,018
Demographic gains		(105)		-		(105)
Contributions - employer		-		1,594		(1,594)
Net investment income		-		1,870		(1,870)
Assumption changes		(113)		-		(113)
Benefit payments		(506)		(506)		-
Administrative expenses		-		(72)		72
Balance, December 31, 2017	$	19,065	$	15,597	$	3,468

(Amounts in Thousands)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Association as of December 31, 2018 and 2017 calculated using the discount rate of 5.50 percent, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50 percent) or 1-percentage-point higher (6.50 percent) than the current rate:

December 31, 2018	1% Increase (6.50%)	Current Discount Rate (5.50%)	1% Decrease (4.50%)
Net pension liability	**$ 2,337**	**$ 5,157**	**$ 8,659**

December 31, 2017	1% Increase (6.50%)	Current Discount Rate (5.50%)	1% Decrease (4.50%)
Net pension liability	$ 946	$ 3,468	$ 6,601

Pension Plan Fiduciary Net Position: The pension plan's basic financial statements can be obtained from the Plan Administrator located at: The Managing Fiduciary of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP; 200 Park Avenue, 20th Floor; New York, NY 10166.

(Amounts in Thousands)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension: For the years ended December 31, 2018 and 2017, the Association recognized pension expense of $2,157 and $1,458, respectively. During December 31, 2018 and 2017, the Association allocated pension expense of $870 and $661, respectively, to TFPA. Net pension expense included in underwriting expenses in the statements of revenues, expenses and changes in net position was $1,287 and $797 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ **235**	$ **252**
Changes in assumptions	**1,418**	**84**
Net difference between projected and actual earnings on plans investments	**904**	**-**
Total	$ **2,557**	$ **336**

December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 143	$ 322
Changes in assumptions	1,492	98
Net difference between projected and actual earnings on plans investments	-	705
Total	$ 1,635	$ 1,125

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31,	Amount
2019	$ 529
2020	360
2021	394
2022	592
2023	217
Thereafter	129
	$ 2,221

(Amounts in Thousands)

Defined Contribution Plan:
The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed $819 and $741 for the years ended December 31, 2018 and 2017, respectively.

13. Lease Commitments
The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2018.

Years ending December 31,		Amount
2019	$	1,009
2020		1,036
2021		1,062
2022		1,088
2023 and thereafter		-
	$	4,195

Rental expense under the non-cancelable operating lease was approximately $1,453 and $1,395 for the years ended December 31, 2018 and 2017, respectively.

14. Commitments and Contingencies
The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

15. Concentration of Credit Risk
The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $64,000,000 and $72,000,000 of insurance exposure as of December 31, 2018 and 2017, respectively.

16. **Fair Value Measurements**

GASB Statement No. 72, Fair Value Measurement and Application, ("GASB Statement No. 72") requires the Association to make estimates of the fair value for financial assets and financial liabilities based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Association's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Fair values are based on inputs using quoted prices (unadjusted) for identical assets or liabilities in active markets that a can be accessed on the measurement date.
- Level 2 – Fair values are based on inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Fair values are based on unobservable inputs for an asset or liability.

The Association's financial assets measured at estimated fair value on a recurring basis included cash at December 31, 2018 and 2017 as follows:

- Cash of $274,607 and $179,687, respectively, is valued using quoted market prices (Level 1 inputs).

In accordance with GASB Statement No. 72, cash equivalents that were measured at NAV have not been classified in the fair value hierarchy. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV. The Association's financial assets measured at NAV included cash equivalents at December 31, 2018 and 2017 as follows:

- Cash equivalents of $381,520 and $466,387, respectively, are valued using NAV per share of $1.

The Association has no financial liabilities measured at estimated fair value on a recurring basis.

Required Supplementary Information

Texas Windstorm Insurance Association

Schedules of Changes in Net Pension Liability and Related Ratios
(Amounts in Thousands)

December 31,	2018	2017	2016	2015	2014	2013
Total pension liability:						
Service cost	$ **1,378**	$ 1,116	$ 1,043	$ 880	$ 812	$ 867
Interest	**1,109**	1,018	951	848	716	673
Plan amendments	**-**	-	-	398	-	-
Demographic (gains) losses	**133**	(105)	58	146	(455)	1
Assumption changes	**221**	(113)	1,046	481	728	-
Benefit payments	**(578)**	(506)	(511)	(428)	(360)	(276)
Net change in total pension liability	**2,263**	1,410	2,587	2,325	1,441	1,265
Total pension liability – beginning	**19,065**	17,655	15,068	12,743	11,302	10,037
Total pension liability – ending	$ **21,328**	$ 19,065	$ 17,655	$ 15,068	$ 12,743	$ 11,302
Plan fiduciary net position:						
Contributions – employer	$ **2,180**	$ 1,594	$ 1,024	$ 931	$ 1,034	$ 1,034
Net investment income (loss)	**(959)**	1,870	869	(134)	759	1,076
Benefit payments	**(578)**	(506)	(511)	(428)	(360)	(276)
Administrative expenses	**(69)**	(72)	(75)	(53)	(55)	(49)
Net change in plan fiduciary net position	**574**	2,886	1,307	316	1,378	1,785
Plan fiduciary net position – beginning	**15,597**	12,711	11,404	11,088	9,710	7,925
Plan fiduciary net position – ending	$ **16,171**	$ 15,597	$ 12,711	$ 11,404	$ 11,088	$ 9,710
Net pension liability - ending	$ **5,157**	$ 3,468	$ 4,944	$ 3,664	$ 1,655	$ 1,592
Plan fiduciary net position as a percentage of the total pension liability	**75.82%**	81.81%	72.00%	75.68%	87.01%	85.91%
Covered payroll	$ **15,086**	$ 12,747	$ 13,214	$ 13,847	$ 13,365	$ 12,359
Net pension liability as a percentage of covered payroll	**34.18%**	27.21%	37.41%	26.46%	12.38%	12.88%

See accompanying independent auditors' report.

Texas Windstorm Insurance Association

Schedules of Employer Contributions
(Amounts in Thousands)

Date		Actuarial Determined Contribution		Contributions in Relation to Actuarially Determined Contribution		Contribution Deficiency (Excess)		Covered Payroll	Contributions as a % of Covered Payroll
2018	$	2,180	$	2,180	$	-	$	15,086	14.45%
2017	$	1,594	$	1,594	$	-	$	12,747	12.50%
2016	$	1,024	$	1,024	$	-	$	13,214	7.75%
2015	$	931	$	931	$	-	$	13,847	6.72%
2014	$	1,034	$	1,034	$	-	$	13,365	7.74%
2013	$	1,034	$	1,034	$	-	$	12,359	8.37%

See accompanying independent auditors' report.

6E4. Internal Control Letter

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

April 17, 2019

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

In planning and performing our audit of the financial statements of Texas Windstorm Insurance Association, (the "Association") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the board of directors, and for filing with the Texas Department of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

Calhoun, Thomson & Matza, LLP

7. Actuarial

7A. Reserve Adequacy

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: April 16, 2019

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of March 31, 2019

TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2019.

The ultimate estimate of loss and loss adjustment expenses for Hurricane Harvey is $1.61 billion, remaining the same as the previous review. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61B. This variability arises from the assumptions we made regarding the adequacy of case reserves for 1,612 open claims, the potential impact of future re-openings of closed claims as of March 31, 2019 and the outcome of disputed claims. About 854 of the 1,612 open claims are in some stage of litigation. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. Potential future new claims are not expected to be a factor in the variability. The Actuarial team will continue to monitor current case reserve adequacy, future re-openings and current & future litigation to ensure all outstanding obligations are properly reserved.

As of March 31, 2019, TWIA carried $166.7 million in total gross loss and loss adjustment expense reserves with $85,000 of the total gross ceded to De-pop carriers. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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

The complete actuarial analysis is available on request.

XL

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Xiuyu Li, ACAS, MAAA
Senior Actuary

MEMORANDUM

DATE: April 17, 2019

TO: Jerry Fadden, Chief Financial Officer

RE: Estimate of Ultimate Losses for Hurricane Harvey

As of March 31, 2019 ultimate losses and expense related to Hurricane Harvey were estimated to be $1.61 billion, remaining the same as the previous estimate reviewed at December 31, 2018.

Following table outlines the details:

Estimated Ultimate Loss	Harvey
Paid Losses and Allocated Loss Adjustment Expenses	1,380,535,425
Loss and Allocated Loss Adjustment Expense Case Reserves	72,504,555
Paid Unallocated Loss Adjustment Expenses	94,679,529
Incurred but Not Reported Reserve	62,287,717
Estimated Ultimate Loss & LAE from Hurricane	1,610,007,226
Selected Ultimate Loss & LAE from Hurricane	1,610,000,000

The estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to its unique nature and is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Harvey may differ substantially from the indicated $1.61B due to variability arising from the assumptions we made regarding the adequacy of case reserves for 1,612 open claims, the potential impact of future re-openings of closed claims as of March 31, 2019 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those subject to litigation. The selected ultimate loss and loss adjustment expense is $1.61B which is a reasonable estimate of the expected cost of Harvey based on all the information known as of March 31, 2019.

XL

7B. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of March 31, 2019

County	Policies In-Force 3/31/18	Policies In-Force 3/31/19	PIF Growth Actual	PIF Growth Percentage	Exposure In-Force 3/31/18	Exposure In-Force 3/31/19	Exposure Growth Actual	Exposure Growth Percentage	YTD Written Premium 3/31/18	YTD Written Premium 3/31/19	Premium Growth Actual	Premium Growth Percentage
Aransas	5,998	5,222	-776	-12.9%	2,016,094,326	1,748,886,980	-$267,207,346	-13.3%	2,479,862	2,284,081	-$195,781	-7.9%
Brazoria	38,126	33,344	-4,782	-12.5%	11,070,439,165	9,690,335,161	-$1,380,104,004	-12.5%	14,187,790	12,321,352	-$1,866,438	-13.2%
Calhoun	3,780	3,543	-237	-6.3%	977,015,441	924,392,768	-$52,622,673	-5.4%	1,392,967	1,320,825	-$72,142	-5.2%
Cameron	14,581	12,275	-2,306	-15.8%	3,714,698,187	3,230,803,373	-$483,894,814	-13.0%	5,674,979	5,341,693	-$333,286	-5.9%
Chambers	4,875	4,204	-671	-13.8%	1,569,274,503	1,354,059,364	-$215,215,139	-13.7%	1,895,351	1,727,546	-$167,805	-8.9%
Galveston	62,941	58,285	-4,656	-7.4%	20,536,465,257	19,105,345,062	-$1,431,120,195	-7.0%	27,476,239	25,413,996	-$2,062,243	-7.5%
Harris	3,540	3,349	-191	-5.4%	1,047,412,604	996,111,642	-$51,300,962	-4.9%	895,630	856,147	-$39,483	-4.4%
Jefferson	29,949	26,135	-3,814	-12.7%	7,013,839,000	6,069,373,842	-$944,465,158	-13.5%	9,253,784	7,977,836	-$1,275,948	-13.8%
Kenedy	19	15	-4	-21.1%	6,915,341	6,234,341	-$681,000	-9.8%	18,597	18,072	-$525	-2.8%
Kleberg	1,047	889	-158	-15.1%	252,001,041	192,611,506	-$59,389,535	-23.6%	316,965	243,987	-$72,978	-23.0%
Matagorda	4,955	4,518	-437	-8.8%	1,229,325,612	1,123,673,835	-$105,651,777	-8.6%	1,741,499	1,475,981	-$265,518	-15.2%
Nueces	43,743	38,998	-4,745	-10.8%	12,151,875,436	10,764,376,376	-$1,387,499,060	-11.4%	15,272,373	13,320,671	-$1,951,702	-12.8%
Refugio	373	339	-34	-9.1%	94,185,838	90,568,874	-$3,616,964	-3.8%	160,879	122,996	-$37,883	-23.5%
San Patricio	7,405	6,217	-1,188	-16.0%	2,020,678,964	1,675,149,035	-$345,529,929	-17.1%	2,667,371	2,260,640	-$406,731	-15.2%
Willacy	438	389	-49	-11.2%	104,038,573	91,929,768	-$12,108,805	-11.6%	89,445	91,831	$2,386	2.7%
Total	221,770	197,722	-24,048	10.8%	63,804,259,288	57,063,851,927	-$6,740,407,361	-10.6%	83,523,731	74,777,654	-$8,746,077	-10.5%

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2019

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Aransas										
Commercial	110	110	145	145	299,337	299,337	253,433,725	5,418,055	381	720
Manufactured Home	24	24	25	25	34,914	34,914	5,003,510	0	97	98
Residential	947	947	989	989	1,949,830	1,949,830	1,490,449,745	125,953,986	4,744	4,989
Total	1,081	1,081	1,159	1,159	2,284,081	2,284,081	1,748,886,980	131,372,041	5,222	5,807
Brazoria										
Commercial	213	213	366	366	1,320,689	1,320,689	463,414,849	10,385,985	915	1,461
Manufactured Home	34	34	34	34	54,145	54,145	9,350,755	0	148	148
Residential	6,651	6,651	6,827	6,827	10,946,518	10,946,518	9,217,569,557	1,186,831,476	32,281	33,211
SUM:	6,898	6,898	7,227	7,227	12,321,352	12,321,352	9,690,335,161	1,197,217,461	33,344	34,820
Calhoun										
Commercial	54	54	99	99	262,627	262,627	111,335,842	1,752,150	208	405
Manufactured Home	11	11	11	11	16,958	16,958	3,824,723	0	68	69
Residential	590	590	713	713	1,041,240	1,041,240	809,232,203	66,817,217	3,267	3,619
SUM:	655	655	823	823	1,320,825	1,320,825	924,392,768	68,569,367	3,543	4,093
Cameron										
Commercial	189	189	379	379	2,849,785	2,849,785	1,049,358,440	5,615,990	644	1,366
Manufactured Home	7	7	7	7	8,626	8,626	2,296,444	0	55	55
Residential	2,241	2,241	2,277	2,277	2,483,282	2,483,282	2,179,148,489	235,494,410	11,576	11,826
SUM:	2,437	2,437	2,663	2,663	5,341,693	5,341,693	3,230,803,373	241,110,400	12,275	13,247

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2019

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Chambers										
Commercial	19	19	23	23	127,153	127,153	54,461,522	520,900	107	168
Manufactured Home	3	3	3	3	3,625	3,625	2,325,600	0	80	80
Residential	894	894	926	926	1,596,768	1,596,768	1,297,272,242	170,233,160	4,017	4,209
SUM:	916	916	952	952	1,727,546	1,727,546	1,354,059,364	170,754,060	4,204	4,457
Galveston										
Commercial	419	419	686	686	4,323,380	4,323,380	2,215,656,746	47,454,429	1,924	3,485
Manufactured Home	32	32	33	33	44,985	44,985	9,034,629	0	161	163
Residential	11,537	11,537	12,023	12,023	21,045,631	21,045,631	16,880,653,687	1,904,511,266	56,200	58,299
SUM:	11,988	11,988	12,742	12,742	25,413,996	25,413,996	19,105,345,062	1,951,965,695	58,285	61,947
Harris										
Commercial	12	12	17	17	70,474	70,474	42,031,939	779,730	65	111
Manufactured Home	0	0	0	0	0	0	135,300	0	4	4
Residential	615	615	634	634	785,673	785,673	953,944,403	121,388,399	3,280	3,365
SUM:	627	627	651	651	856,147	856,147	996,111,642	122,168,129	3,349	3,480
Jefferson										
Commercial	185	185	253	253	819,398	819,398	351,084,662	10,860,980	802	1,197
Manufactured Home	5	5	5	5	8,200	8,200	1,951,740	0	27	27
Residential	4,875	4,875	5,007	5,007	7,150,238	7,150,238	5,716,337,440	717,399,598	25,306	26,001
SUM:	5,065	5,065	5,265	5,265	7,977,836	7,977,836	6,069,373,842	728,260,578	26,135	27,225

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2019

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Kenedy										
Commercial	1	1	5	5	12,438	12,438	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	1	1	4	4	5,634	5,634	5,539,900	35,200	14	28
SUM:	2	2	9	9	18,072	18,072	6,234,341	35,200	15	33
Kleberg										
Commercial	8	8	14	14	17,596	17,596	15,469,069	460,800	43	68
Manufactured Home	0	0	0	0	0	0	84,000	0	1	1
Residential	160	160	162	162	226,391	226,391	177,058,437	18,381,300	845	884
SUM:	168	168	176	176	243,987	243,987	192,611,506	18,842,100	889	953
Matagorda										
Commercial	38	38	56	56	129,799	129,799	88,315,470	2,099,985	191	314
Manufactured Home	2	2	2	2	2,725	2,725	1,064,297	0	17	18
Residential	868	868	906	906	1,343,457	1,343,457	1,034,294,068	105,632,814	4,310	4,460
SUM:	908	908	964	964	1,475,981	1,475,981	1,123,673,835	107,732,799	4,518	4,792
Nueces										
Commercial	448	448	730	730	2,162,534	2,162,534	1,434,016,025	41,531,774	1,955	3,498
Manufactured Home	1	1	1	1	1,500	1,500	980,500	0	20	20
Residential	7,464	7,464	7,756	7,756	11,156,637	11,156,637	9,329,379,851	1,048,695,602	37,023	38,324
SUM:	7,913	7,913	8,487	8,487	13,320,671	13,320,671	10,764,376,376	1,090,227,375	38,998	41,842

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2019

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Refugio										
Commercial	10	10	17	17	24,449	24,449	20,511,189	45,000	37	65
Manufactured Home	3	3	3	3	5,440	5,440	785,300	0	11	14
Residential	61	61	66	66	93,107	93,107	69,272,385	6,979,088	291	318
SUM:	74	74	86	86	122,996	122,996	90,568,874	7,024,088	339	397
San Patricio										
Commercial	84	84	129	129	326,323	326,323	121,843,910	2,813,491	278	469
Manufactured Home	5	5	5	5	8,575	8,575	1,788,203	0	27	27
Residential	1,208	1,208	1,289	1,289	1,925,742	1,925,742	1,551,516,922	180,429,177	5,912	6,223
SUM:	1,297	1,297	1,423	1,423	2,260,640	2,260,640	1,675,149,035	183,242,668	6,217	6,719
Willacy										
Commercial	7	7	16	16	21,367	21,367	14,208,597	128,550	30	59
Manufactured Home	1	1	1	1	1,000	1,000	208,000	0	4	4
Residential	58	58	63	63	69,464	69,464	77,513,171	5,717,307	355	382
SUM:	66	66	80	80	91,831	91,831	91,929,768	5,845,857	389	445
Total All Counties										
Commercial	1,797	1,797	2,935	2,935	12,767,349	12,767,349	6,235,836,426	129,867,818	7,581	13,391
Manufactured Home	128	128	130	130	190,693	190,693	38,833,001	0	720	728
Residential	38,170	38,170	39,642	39,642	61,819,612	61,819,612	50,789,182,500	5,894,499,999	189,421	196,138
SUM:	40,095	40,095	42,707	42,707	74,777,654	74,777,654	57,063,851,927	6,024,367,817	197,722	210,257

8. Internal Audit

8A. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: May 7, 2019

SUBJECT: Status of Internal Audit Activities

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

- **Current Activities:**
  - *2019 Risk Assessment and Three Year Audit Plan:*
    - Risk Assessment presented separately. An updated three-year audit plan is below.
  - *Model Audit Rule:*
    - Update on track for second quarter 2019.
  - *Legal and Compliance Audit - complete*
  - *Pricing and Reserving Audit - complete*
  - *Underwriting and Agency Audit - complete*
  - *Cash Management Audit - complete*
  - *Communications Audit - complete*
  - *Upcoming Audits:*
    - Payroll
    - Model Audit Rule Update
    - Vendor Management
- **ELT meetings:**
  - Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association
Rolling Three-Year Audit Plan (2019-2021)

2019

Process Area	Risk Rating
Risk Assessment	N/A
Model Audit Rule (light)	N/A
Claims Processing	High
Database and Application Administration	High
Vendor Management	High
BCP/Continuity of Operations (COOP)	Moderate
Accounts Payable and Expense Processing	Moderate
Human Resources Administration	Low
Accounts Receivable *Including Agent Commissions*	Low
Payroll	Low

2020

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Disaster Recovery	High
Information Security	High
Communications	High
Legal & Compliance	Moderate
Underwriting	Moderate
Depopulation	Moderate
Financial Close and Reporting	Moderate
Reinsurance	Moderate
Facilities and Services	Low

2021

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Risk Assessment	N/A
Application Development	Moderate
Information Technology Services	Moderate
Actuarial	Moderate
Executive Management, Management Planning & Reporting	Moderate
Taxes	Low
Cash Management	Low

8B. Risk Assessment Report

Texas Windstorm Insurance Association Risk Assessment Presentation

May 7, 2019

Table of Contents

Risk Assessment Process

- Reviewed results of prior risk assessment conducted in 2016
- Updated list of significant processes and activities
- Scored process areas by rating probability of an event occurring and impact should event occur
- Confirmed risk-rankings with Management

Risk Assessment Definitions

weaver
Assurance • Tax • Advisory

Risk Categories were evaluated to include the following

- **Operations:** The risk of loss arising from inadequate or failed internal/external processes, people, and systems.
- **Legal and Compliance:** The risk that TWIA's operations and ability to execute strategic objectives could be impacted by regulatory/legislative action and/or changes, such new rules and requirements implemented by TDI.
- **Financial (Internal/External):** Accuracy of financial reporting, financial sustainability and safeguarding of financial assets
- **Informational Technology:** The risk of loss due to internal or external influences on information technology operations or systems.

Risk Assessment Definitions

Risks were evaluated based on inherent versus residual risk

- **Inherent Risk:** The natural risk (exposure) in the significant activities of the organization ***without consideration of internal controls*** or other actions that mitigate risk.

- **Residual Risk:** The risk that remains after controls are taken into account (the net risk or risk after controls).

The Inherent Risk Assessment was used in developing the proposed areas of the internal audit plan. The plan is subject to review and approval of the Board.

Risk Rating Definitions

A scale from 1-5 (1- lowest, 5 – highest) was used to assess the Probability and Impact of the risk categories.

Score	Probability *(Rated 1-5)*	Impact *(Rated 1-5)*
1	Very Remote (<10% Chance)	Low
2	Somewhat Likely (>10% - <50% Chance)	Below Average
3	Likely (>50% - <70% Chance)	Moderate
4	Probable (>70% - <90% Chance)	Above Average
5	Highly Probable (>90% Chance)	High

- **Probability** – The likelihood of an event occurring that impacts achieving the objectives over financial reporting, compliance and/or operations.
- **Impact** - The consequence the event has on operations, reputation, compliance, financial reporting and information technology.

Risk Assessment Results – TWIA Inherent/Natural Risk

weaver
Assurance • Tax • Advisory

2019 Risk Assessment					
Significant Activities	100% p	100% I	Total	2019 Risk Rating	2016 Risk Rating
Claims Processing	4.08	4.91	4.49	High	High
Information Security	3.62	4.67	4.14	High	High
Database and Application Administration	3.09	4.36	3.73	High	High
Communications	3.31	4.14	3.73	High	Moderate
Underwriting	2.73	4.06	3.39	Moderate	High
Depopulation	3.10	3.83	3.46	Moderate	High
Executive Management, Management Planning and Reporting	2.91	3.78	3.35	Moderate	Moderate
Actuarial (Pricing and Reserving)	2.87	3.79	3.33	Moderate	Moderate
Financial Close and Reporting	3.15	3.42	3.28	Moderate	Moderate
Reinsurance	2.79	3.70	3.24	Moderate	Moderate
Legal & Compliance	2.76	3.70	3.23	Moderate	Moderate
Accounts Payable and Expense Processing	3.98	2.24	3.11	Moderate	Moderate
Application Development	2.98	3.15	3.06	Moderate	Moderate
Information Technology Services	2.42	2.84	2.63	Moderate	Moderate
Payroll	2.03	2.06	2.05	Low	Low
Cash Management	2.15	1.88	2.01	Low	Low
Taxes	2.08	1.88	1.98	Low	Low
Accounts Receivable	1.83	2.13	1.98	Low	Low
Human Resources Administration	1.67	2.06	1.86	Low	Low
Facilities and Services	1.91	1.60	1.76	Low	Low

Top 10 Risks

Risk Response Plan

Risks are mitigated through internal controls and evaluated independently. Past audit findings have been addressed. Below is an example of risk responses:

RANKING	PROCESS AREA	RISK RESPONSES
1	Claims Processing	• Formal Claims policies are in place and updated annually • Controls are in place over claims validity, fraud, disbursements and settlements • Disaster recovery and business continuity planning is in place
2	Information Security	• IT security systems are updated regularly • Software access is properly restricted • A response policy is established for managing the changing IT security environment

Risk Response Observations

Weaver observed the following organizational culture characteristics while developing the Risk Assessment and Audit Plan:

- ✓ Tone-at-the-top fosters strong control-focused culture
- ✓ Management thoughtfully discussed the risk assessments with Weaver for each business process
- ✓ Policyholder communications - finding solutions to enhance proactive outreach and experience
- ✓ Prior audits indicate internal controls are effective:
  - Underwriting, Communications, Actuarial, Legal & Compliance, Cash Management and Information Security processes were audited in 2018
  - Financial statements are audited annually by a third-party

Audit Plan Development

- A proposed **audit plan** was developed using results of the Risk Assessment and considered:
  - Process area risk rating
  - Judgment on audit procedures and best practices

- The audit plan will be executed with **Model Audit Rule** documentation requirements

Proposed Three Year Audit Plan

2019

Process Area	Risk Rating
Risk Assessment	N/A
Model Audit Rule (light)	N/A
Claims Processing	High
Database and Application Administration	High
Vendor Management	High
BCP/Continuity of Operations (COOP)	Moderate
Accounts Payable and Expense Processing	Moderate
Human Resources Administration	Low
Accounts Receivable *Including Agent Commissions*	Low
Payroll	Low

2020

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Disaster Recovery	High
Information Security	High
Communications	High
Legal & Compliance	Moderate
Underwriting	Moderate
Depopulation	Moderate
Financial Close and Reporting	Moderate
Reinsurance	Moderate
Facilities and Services	Low

2021

Process Area	Risk Rating
Model Audit Rule (light)	N/A
Risk Assessment	N/A
Application Development	Moderate
Information Technology Services	Moderate
Actuarial	Moderate
Executive Management, Management Planning & Reporting	Moderate
Taxes	Low
Cash Management	Low

Questions?

9. Underwriting
9A. Operational Review Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: April 18, 2019

TO: John Polak, General Manager

FROM: Denise Larzalere, Vice President Underwriting

RE: Update on Underwriting Operational Highlights

First Quarter 2019 Highlights

I. Service Results:

a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 95% processed within 10 days.

b. Quality Assurance Results on underwriting decisions continue to exceed established goals.

c. Telephone service response time continues to meet and exceed expectations. Service Quality scores have been in the meets category. Service observation (listening to phone calls and scoring them) is now standard procedure and as an Association the departments are calibrating calls and have agreed upon service standards for telephone service.

d. Underwriting is operating below budget, largely due to reduced headcount and managing the inspection budget.

II. Underwriting Activities of Note:

a. TWIA Certificate of Compliance on Completed Improvements (WPI-8-Cs) status:

i. See Attachment A containing the numbers (totals and by quarter) since program inception;

ii. for the period of January 1, 2019 – March 31, 2019 we received 2,984 applications (WPI-3s);

iii. average turnaround time is less than four days;

iv. reroof is the number one reason (52% of certificates);

v. two engineer firms represent approximately 20% of applications;

vi. The Confirmation of Application review completed for applications (WPI-3s) received (Dec-Feb) was sent to 83 engineers. No substantive issues were discovered.

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

III. Agency Compliance Audits:

a. Audits were performed on 20 agents (200 policies) in the first quarter to verify compliance with the declination of coverage and flood insurance requirements. None of the policies/properties selected for review required flood insurance.

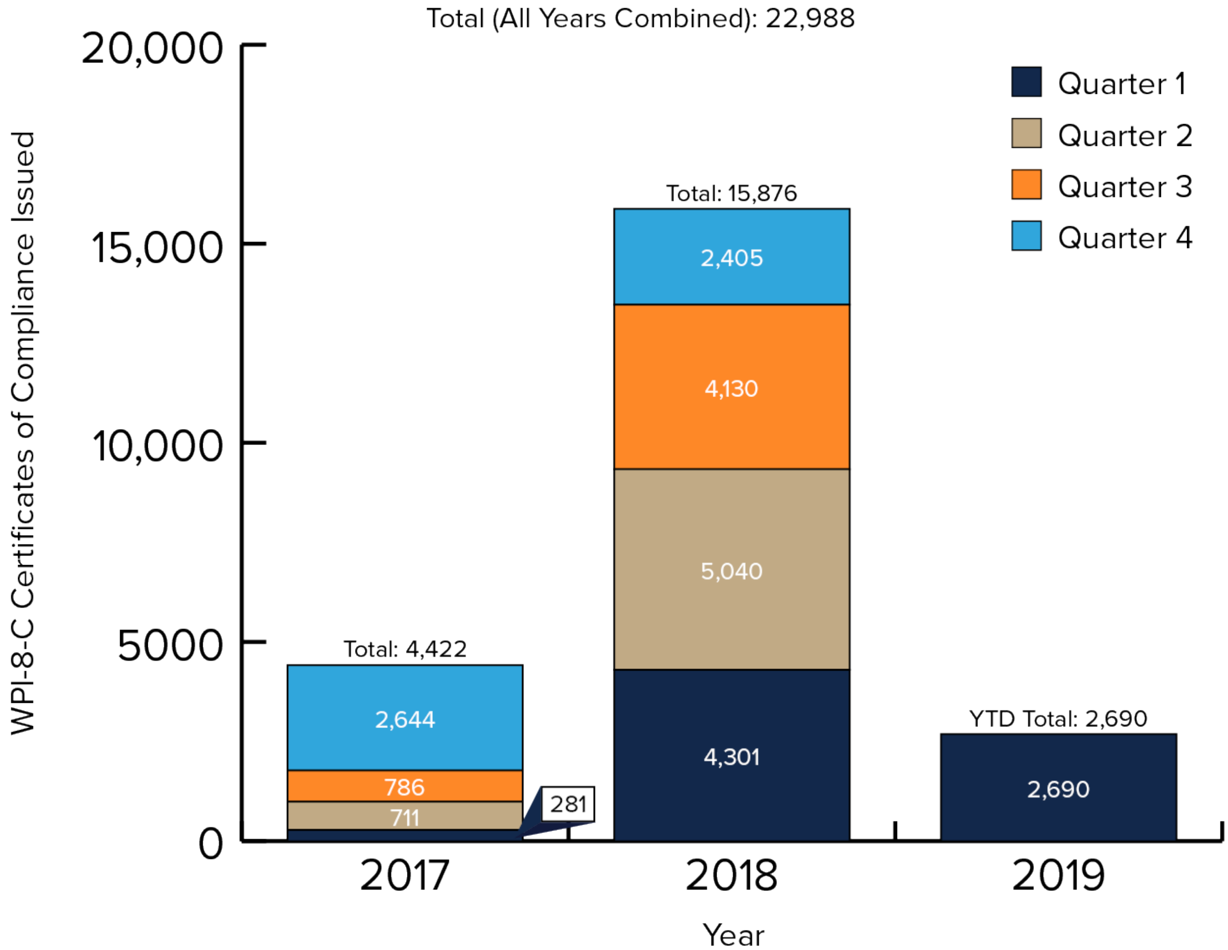
i. All 20 agents (and 200 policies) were compliant with the requirement for proof of declination of coverage.

ii. We also reviewed the 200 auto-issued policies to confirm a copy of a WPI-8 had been provided where required. The review identified 13 policies requiring a WPI-8 that did not have the proper documentation uploaded by the agent. These have been referred to underwriting for research and follow-up.

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

Attachment A

Windstorm Certificates of Compliance on Completed Improvements



10. Claims
10A. Claims Operations

TWIA Claims Operations 2019

Hurricane Harvey

Harvey Claims Storm Report	TWIA				
	082517 Harvey				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	**76,635**	2,668	68,465	342	5,160
Closed Claims	**75,032**	2,463	67,069	340	5,160
Open Inventory	**1,603**	205	1,396	2	0
RCC	**0**	-	-	-	-
% Closed	**97.9%**	92.3%	98.0%	99.4%	100%
Closed With Payment	**46,805**	1,498	45,047	260	-
% Closed With Payment	**61.1%**	56.2%	65.8%	76.0%	-
Closed Without Payment	**28,227**	965	22,022	80	5,160
% Closed Without Payment	**36.8%**	36.2%	32.2%	23.4%	100%
Open With Payment	**1,429**	177	1,250	2	-
% Open With Payment	**1.9%**	6.6%	1.8%	0.6%	-
Open Without Payment	**174**	28	146	-	0
% Open Without Payment	**0.2%**	1.1%	0.2%	-	0%
Paid Indemnity	**$ 1,246,827,855**	$ 353,247,867	$ 889,689,767	$ 3,890,222	$ -
Paid Expense	**$ 135,037,066**	$ 21,808,148	$ 112,671,831	$ 554,402	$ 2,685
Average Paid	**$ 25,865**	$ 210,894	$ 19,229	$ 14,848	-
Avg # Days - FNOL to Inspect	**8.9**	9.9	8.9	9.3	
Avg # Days - Inspect to TWIA	**6.8**	12.3	6.6	6.6	-
Avg # Days - TWIA to Payment	**39.1**	53.7	38.5	36.8	-
Avg # Days - FNOL to Payment	**50.7**	73.2	50.1	52.4	-
TDI Claims Complaints	**284**	12	272	0	0
# TDI Complaints as a % of All Claims	**0.371%**	0.450%	0.397%	-	-

(1) Data current as of: 04/04/2019

(2) Data from daily claims system extracts

(3) Does not include IBNR

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

TWIA Harvey Claim Counts by County

County	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TWIA TOTAL
August 2017 Total	10,648	4,836	2,545	5,337	4,145	1,521	1,186	418	224	252	287	8	14	2,197	33,618
September Total	12,749	5,269	6,376	1,590	2,344	2,124	1,194	503	563	284	112	18	8	2,544	35,678
October Total	894	532	654	86	136	241	102	47	55	25	11	6	7	190	2,986
November Total	354	207	203	37	52	84	40	21	18	16	2	1	6	70	1,111
December Total	210	129	82	13	23	52	21	6	5	10	1	5	3	31	591
January Total	204	85	67	26	16	32	13	11	5	8	1	2	3	21	494
February Total	200	78	48	5	19	41	12	4	1	12	1			20	441
March Total	191	73	42	5	13	36	13	4	7	8		1	1	12	406
April Total	120	52	30	7	9	25	11	7	5	5			1	11	283
May Total	100	58	22	11	7	19	1	8	6			1		9	242
June Total	95	30	18	5	4	14	6	1	3	2	1	3		6	188
July Total	95	33	15	3	4	15	2		5	1		1		5	179
August Total	125	38	22	12	8	20	9	2	3	6				36	281
September Total	13	7	6	3		2			2					4	37
October Total	11	9	2	2		4	1			1					30
November Total	3	4	3			1				2					13
December Total	2	4	3			3		1						1	14
January Total	8	4	2	1	1	2								1	19
February Total	5	2	2	1		1								1	12
March Total	5	1			1	1	1							1	10
April Total	1	1													2
TWIA TOTAL	Nueces	Galveston	Jefferson	Aransas	San Patricio	Brazoria	Calhoun	Chambers	Matagorda	Harris	Refugio	Kleberg	Cameron	Unverified or NPIF	TOTAL
	26,033	**11,452**	**10,142**	**7,144**	**6,782**	**4,238**	**2,612**	**1,033**	**902**	**632**	**416**	**46**	**43**	**5,160**	**76,635**

TWIA Closed Harvey Claims	Count	%
1. Closed with payment - Full Acceptance[1]	34,614	46%
2. Closed with payment - Partial Acceptance[2]	8,948	12%
3. Closed without payment - Depopulation[3]	1,506	2%
4. Closed without payment - Under Deductible[4]	14,521	19%
5. Closed without payment - Coverage Excluded[5]	4,164	6%
6. Closed without payment - No Policy in Force[6]	3,306	4%
7. Closed without payment - Opened in Error[7]	5,584	7%
8. Closed without payment - Not Pursued[8]	2,389	3%
9. Closed - Pending Reason Code[9]	0	0%
10. Total Closed[10]	**75,032**	**100%**

Row Data Descriptions:

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

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

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

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

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

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

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

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

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

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

Hurricane Harvey Disputed Claims

TWIA - Harvey Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,633	4,109	5.36%	3,909	1,000	323

TWIA - Harvey Claims With Appraisal Invoked						
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
Appraisals	Active Appraisals	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
3,909	290	328	594	1,730	557	410
	7%	8%	15%	44%	14%	10%

TWIA - Harvey Claims With Notice of Intent or Lawsuit				
Total NoI / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
1,323	1,000	217	323	4

- "Dispute Frequency" tracks number of HB3 claims and the number and percentage of all HB3 claims where the policyholder is disputing the claim disposition for any reason.
- A single disputed claim may have more than one "type of dispute."
- Data as of 3/31/19

2019 TWIA Claims Operations

TWIA Claims - 2019 Results (year-to-date)					
Key Cycle Times (In days)	**Industry Average, TX**	**TWIA**	**TWIA Plan**	**Variance to Plan**	**% Variance to Plan**
FNOL to Inspect Property	4.5	2.4	<3	-0.6	-20%
Inspect Property to Receipt by TWIA	3.7	1.9	<8	-6.1	-76%
Receipt by TWIA to Payment	N/A	3.4	<5	-1.6	-32%
Total Cycle Time FNOL to Payment	N/A	7.7	<16	-8.3	-52%
TDI Complaint Ratio					
2018	2.60% - 188 complaints from 7,242 new claims				
2019	1.66% - 20 complaints from 1,208 new claims				

Year	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Actual Volume	3,350	1,315	819	757	633	658	594	524	898	693	582	668	438	562	235	520	468	517
Actuarial Projected	444	437	437	557	503	708	2,464	2,543	5,391	396	297	287	296	562	296	390	316	502
Median Staffing	554	554	554	390	390	390	390	390	390	390	390	390	390	390	390	273	273	273
Open Inventory	12,858	5,105	4,921	5,036	4,526	4,526	4,250	4,360	4,234	3,809	3,657	3,264	3,264	2,834	2,474	2,182	1,999	2,034

2019 New Claim Volume

- Projected new claim volume was 1,505
- New claim volume was 1,208 or 297 (20%) lower than projected

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	1,208

TWIA Hurricane Events	
Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,633

2019 Disputed Claims

TWIA - 2019 Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
1,208	14	1.16%	13	1	1

TWIA - 2019 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
13	7	1	0	4	1	0
	54%	8%	38%			

TWIA - 2019 Claims With Notice of Intent or Lawsuit Served				
Total NoI / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
2	1	0	1	0

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

10B. Claims Litigation

TEXAS WINDSTORM INSURANCE ASSOCIATION

TWIA Litigation Tracking Activity

Litigation Quarter Summary

First Quarter 2019

1st Quarter 2019	Summary of TWIA Claims in Suit						
		New		Settled		Closed	
		Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	Jan	0	6	0	0	0	3
	Feb	0	4	0	0	0	2
	Mar	0	6	0	0	0	8
		0	**16**	**0**	**0**	**0**	**13**

1st Quarter 2019	Summary of TWIA Claims with LORs						
		New		Settled		Closed	
		Pre-HB3	HB3	Pre-HB3	HB3	Pre-HB3	HB3
	Jan	0	69	0	0	0	34
	Feb	0	32	0	0	0	36
	Mar	0	49	0	0	0	24
		0	**150**	**0**	**0**	**0**	**94**

TEXAS WINDSTORM INSURANCE ASSOCIATION

TWIA Claims Litigation
March 2018

TWIA Claims in Suit (Mar-19)

Category	Beginning Inventory	New	Closed	Ending Inventory
Pre-HB3	10	0	0	10
HB3	366	6	(8)	364
TOTAL	376	6	(8)	374

TWIA Claims with LORs (Mar-19)

Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
Pre-HB3	0	0	0	0	0
HB3	636	49	(24)	(5)	656
TOTAL	636	49	(24)	(5)	656

TWIA Claims with Suits/LORs: Detail of Ending Inventory (Mar-19)

Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
	Suits		LORs			Suits		LORs			
	Res	Comm	Res	Comm	Total	Res	Comm	Res	Comm	Total	
Pre-HB3	2	8	0	0	10	0	0	0	0	0	10
HB3	330	34	563	93	1,020	0	0	0	0	0	1,020
TOTAL	332	42	563	93	1,030	0	0	0	0	0	1,030

TEXAS WINDSTORM INSURANCE ASSOCIATION

Mar-19

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

Firm	Brazoria	Chambers	Galveston	Jefferson	Nueces	Total
Buzbee		3	5			8
Hodge Law Firm			1			1
Mostyn				1		1
TOTAL	0	3	6	1	0	10

Mar-19

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

Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Grand Total
109	30	12	7	4	115	12	301	4	330	11	85	1,020

TEXAS WINDSTORM INSURANCE ASSOCIATION

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

Mar-19

Firm	#
Daly & Black	323
Furlow Law Firm	187
Scott	92
Baker Law	52
Carrigan & Anderson	26
KRW	21
Brent Coon & Associates	19
Hodge Law Firm	14
Voss Law Firm	14
Arguello Law Firm	13
Lee Murphy Law	13
Remaining 102 firms	246
TOTAL	1,020

11. TWIA Operations
11A. IT Systems Updates

TEXAS WINDSTORM INSURANCE ASSOCIATION

TEXAS FAIR PLAN ASSOCIATION

MEMORANDUM

DATE: May 6, 2019

TO: John Polak, General Manager

FROM: Camron Malik, CIO / VP IT

RE: Information Technology status

The TWIA program is in the inception phase where business and system requirements are being formulated and documented and planning for the effort is underway. Some new features the program is expected to deliver are installment billing, support for credit cards, new self-service portals for agents and policyholders to access functionality over the internet and updated Guidewire Policy and Billing applications.

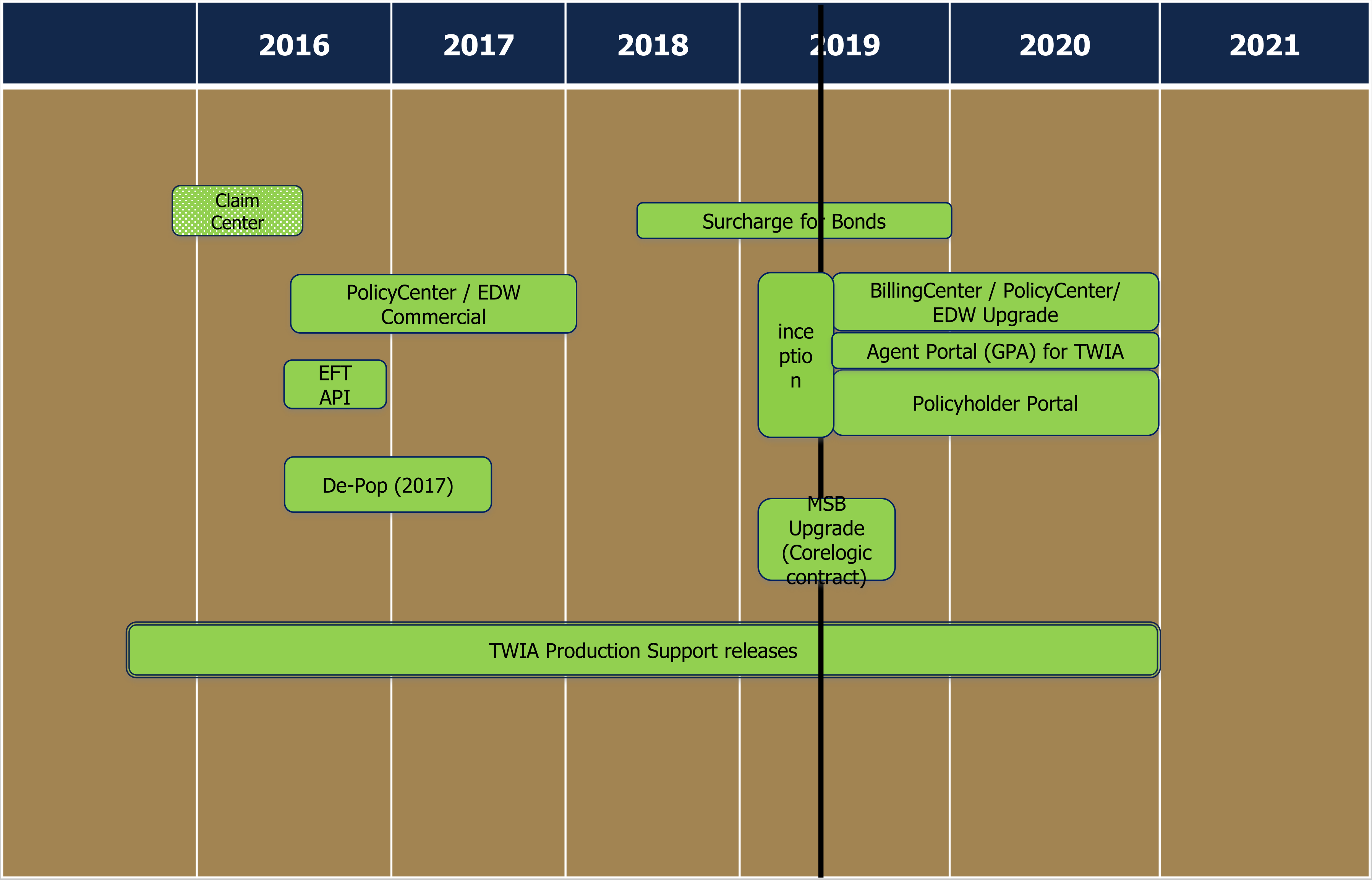
The TFPA implementation is now in production support mode. The project to move renewing policies off the legacy CGI platform to the new Guidewire system completed Quality Assurance and User Acceptance Testing and went live on April 15th. The policies will migrate off the legacy CGI platform on to the new Guidewire system daily over the course of the next 14 months.

We expect to see improvements in maintenance costs and improved resource flexibility as we move off disparate legacy systems to a single instance platform based on common hardware and core applications.

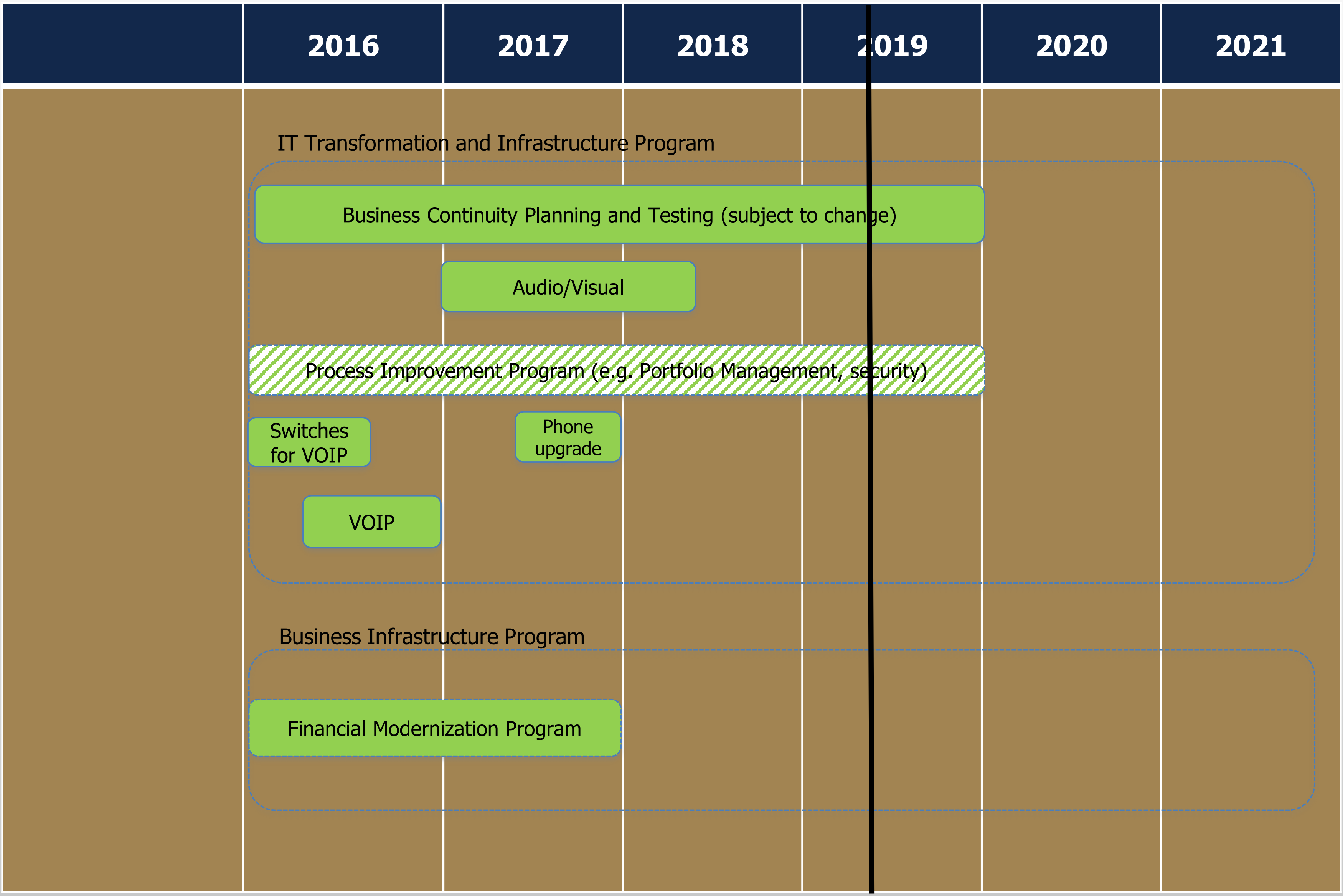
The Surcharge for Bonds and MSB projects are in the Construction phase and on track.

The production support and infrastructure for both TWIA and TFPA are being supported well by the IT teams and all commitments are on track.

TWIA IT Roadmap Projects



TWIA IT Infrastructure Projects



11B. TDI Examination Report Review

MEMORANDUM

DATE: April 19, 2019

TO: John Polak, General Manager

FROM: Jerry Fadden

RE: TDI Examinations of TWIA

The Texas Department of Insurance (TDI) has provided the final examination report for their Financial Examination of Texas Windstorm Insurance Association as of December 31, 2017. As previously discussed there were no significant findings in the examination. The adopted report is attached. In addition, I have attached the final report of the TDI market conduct examination of TWIA's claims handling activities.

TDI rules require that the minutes of the meeting at which the adopted examination report is considered include a statement that each member of the Board of Directors has reviewed the adopted examination report. In that regard, copies of the two reports will be included along with this memorandum in the Board material for their consideration at the May 7, 2019 meeting.

JF

Texas Department of Insurance

EXAMINATION REPORT

TEXAS WINDSTORM INSURANCE ASSOCIATION

AUSTIN, TEXAS

As of December 31, 2017

STATE OF Texas §

COUNTY OF Travis §

Winona Lewis, being first duly sworn upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance of the State of Texas;

That an examination was made of the affairs of Texas Windstorm Insurance Association, Austin, Texas, covering the period of January 1, 2013 through December 31, 2017.

That the following pages numbered one to twelve, consecutively, constitute the report thereon to the Commissioner of Insurance of the State of Texas;

That the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Winona Lewis

Winona Lewis, CFE
Examiner-in-Charge

Subscribed and sworn to before me this 11th day of February, 2019.

Ruby A. Cortez
(Signature)

Ruby A. Cortez Notary Public
(Print Name)

in and for the State of Texas

My commission expires 02-21-2021

NOTARY PUBLIC STATE OF TEXAS
RUBY A CORTEZ
NOTARY PUBLIC
ID# 13102130-2
State of Texas
Comm. Exp. 02-21-2021
NOTARY WITHOUT BOND

TABLE OF CONTENTS

Austin, Texas
January 24, 2019

Honorable Kent C. Sullivan
Commissioner of Insurance
Texas Department of Insurance
State of Texas
Austin, Texas

Pursuant to instructions and in accordance with Section 2210.057 of the Texas Insurance Code (Code), an examination was made of

TEXAS WINDSTORM INSURANCE ASSOCIATION

hereinafter referred to as the "Association," with its statutory home and administrative offices located at 5700 South Mopac Expressway, Austin, Texas, as of December 31, 2017.

SCOPE OF EXAMINATION

The Texas Department of Insurance (Department) performed a financial examination of the Association. The last examination covered the period of January 1, 2009 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017.

This examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risk of the Association and evaluate system controls and procedures used to mitigate those risks. This examination also included identification and evaluation of significant risks that could cause the Association's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles permitted or prescribed by the State of Texas. The examination does not attest to the fair presentation of the financial statements included herein. Any adjustments identified during the course of the examination were documented separately following the Association' financial statements.

A concurrent examination of Texas Fair Plan Association (Fair Plan) was also performed.

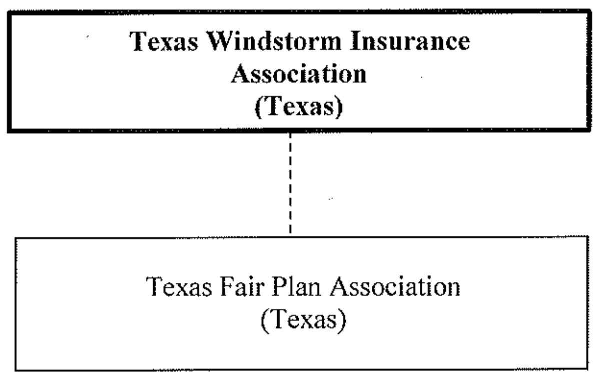
Work completed by the Association's independent auditor supporting its 2017 audit of the Association was accepted to support conclusions in certain areas of the examination. In particular, reviews related to the control environment, consideration of fraud, investments, premiums, losses, reinsurance, and reserve activities were utilized.

DESCRIPTION OF ASSOCIATION

The Association was established on April 29, 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. Membership in the Association consisted of all insurers authorized to transact property insurance in the State of Texas, except companies that were excluded by law. Operations of the Association were conducted under the provisions of Chapter 2210 of the Code. The Association was intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory.

AFFILIATED COMPANIES

The following organizational chart was as of December 31, 2017:



The dashed line represents control through a service agreement and common management. The Association and Fair Plan were governed by an independent board of directors and governing committee, respectively.

Transactions with Affiliates

Effective December 10, 2002, the Association entered into a service agreement with Fair Plan. Under the terms of the agreement, the Association provided services which were necessary to operate and manage Fair Plan on a daily basis. The Association was reimbursed monthly for direct expenses incurred at cost in the performance of its contractual obligations to Fair Plan. The agreement was approved under Commissioner's Order No. 02-1093, dated October 23, 2002. Effective April 7, 2005, the Association amended the agreement to state that the agreement would remain in effect for a five year period beginning on June 30, 2003. The amendment was reviewed and signed by the Commissioner. Effective April 1, 2009, the Association amended the agreement to be perpetual in length and terminated by either party with 90 days written notice and upon the payment of all fees and/or reimbursements due under the agreement.

MANAGEMENT AND CONTROL

The board of directors was comprised of nine voting members appointed by the Commissioner of Insurance. The composition of the nine member board of directors must adhere to Section 2210.102 of the Code as follows:

- Three members representing the insurance industry who actively write and renew windstorm and hail insurance in the first tier coastal counties.

- Three members must, as of the date of the appointment, reside in the first tier coastal counties and one of these members must be a licensed property and casualty agent.
- Three members residing in an area of this state that is located more than 100 miles from the Texas coastline.

The board of directors and officers serving the Association, as of the examination date, were as follows:

Directors	Representing
Debbie King	Industry member
Michael Frank Gerik	Industry member
Blair E. Crossan	Industry member
Georgia Rutherford Neblett	Coastal first tier member
Chandra Womack	Coastal first tier member
Joshua Fields	Coastal first member and agent
R. Scott Kesner	Non-seacoast member
Tony Schrader	Non-seacoast member
Bryan Shofner	Non-seacoast member

Officers	
David Patrick Durden	Acting General Manager
Joshua Fields	Chairman of the Board
Bryan Shofner	Vice Chairman of the Board
Debbie King	Secretary and Treasurer of the Board

The day-to-day operations of the Association were the responsibility of David Patrick Durden, the Association's Acting General Manager, as well as the following individuals:

Jerome Fadden	Chief Financial Officer
Xiuyu Li	Senior Actuary
David Patrick Durden	Vice President – Legal and Compliance
David Scott Williams	Vice President – Claims
Denise Ingerson Larzalere	Vice President – Underwriting
Juanita Deloris Lester	Vice President – HR and Administration
Jennifer Taylor Armstrong	Vice President – Communications and Legislative Affairs
Cameron Malik	Vice President – Information Systems

CORPORATE RECORDS

Minutes of the board of directors' meetings reflected adequate approval and support of the Association's transactions. The board of directors' meeting minutes reflected that each member reviewed and adopted the previous examination report as required by 28 TAC § 7.83(h). Minutes of the board of directors' meetings reflected a determination of the trust fund balance in accordance with Section 2210.4521(b) and Section 221.452(a) of the Code. After determination of sufficient balance, the board provided notice of the sufficient balance to the comptroller.

TERRITORY AND PLAN OF OPERATION

In accordance with Chapter 2210 of the Code, the Association wrote hail and windstorm insurance in the following counties:

First Tier

Aransas	Cameron	Harris (partial)*	Kleberg	Refugio
Brazoria	Chambers	Jefferson	Matagorda	San Patricio
Calhoun	Galveston	Kenedy	Nueces	Willacy

*Harris County located east of Highway 146 or inside the communities of La Porte, Morgan's Point, Pasadena, Seabrook, and Shoreacres.

Policies were written by any agent licensed by the Department to write personal and commercial property coverages. All of the policies issued were one-year term policies with premium paid at inception.

The largest net aggregate amount insured on any one risk was $4,424,000, as of the examination date.

GROWTH OF ASSOCIATION

Comparative financial data, as reported in the Association's financial statements, was as follows:

Year	Net Admitted Assets	Surplus as Regards Policyholder	Gross Premiums Written	Net Income (Loss)
2013	$ 440,231,488	$ 0	$ 472,739,474	$ 170,906,848
2014	1,146,483,407	0	494,036,010	(5,152,439)
2015	993,093,861	0	503,824,316	(38,899,025)
2016	972,707,900	0	487,353,537	40,455,062
2017	647,953,929	(461,390,162)	423,074,138	(511,441,935)

Net admitted assets increased from 2013 to 2014 due to the issuance of pre-event bonds and overall net gain from operations during 2014. The 2014 net gain from operations was paid into the Trust Fund in 2015 as required by Section 2210.452 (c) of the Code.

The net loss in 2015 was due to the Association's receipt of a tax refund from the IRS that previously was reflected as a non-admitted asset. When the funds were received, the non-admitted asset was reduced to $0. Changes in non-admitted assets do not flow through net income. The Association recorded a liability for $92.7 million for net gain from operations that included the tax refund with the corresponding income statement amount reflected in "Aggregate Write-Ins from Underwriting Deductions".

Net admitted assets decreased from 2016 to 2017 due to the utilization of proceeds from the 2014 bond issuance to assist with the payment of claims from Hurricane Harvey.

The decrease in policyholder surplus in 2017 from 2016 and the net loss in 2017 was due to claim settlement activity from Hurricane Harvey.

REINSURANCE

The Association utilized both a Catastrophe Reserve Trust Fund (Trust Fund) and reinsurance to reduce the exposure of risk.

Catastrophe Reserve Trust Fund

Effective December 31, 1993, the Trust Fund was established in accordance with Section 2210.452 of the Code. At the end of each calendar year, the Association must use the net gain from operations, including all premium and other revenue in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses to make payments to the Trust Fund and/or to procure reinsurance. During 2017, $743.2 million from the Trust Fund was used to pay claims associated with Hurricane Harvey, leaving a balance of $1.2 million as of December 31, 2017.

All money, including investment income, deposited in the Trust Fund constitutes state funds until disbursed as provided by Chapter 2210 of the Code and rules established by the Commissioner of Insurance. The Comptroller acts as custodian of the Trust Fund.

Assumed

The Association did not assume any risk through reinsurance during the period under examination.

Ceded

Effective June 1, 2017, the Association entered into a property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized subscribing reinsurers. Under the terms of the agreement, the Association was indemnified in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, inforce at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurers were liable in the aggregate in respect of losses occurring during the term of this contract of 100 percent of the ultimate net loss in excess of an initial ultimate net loss of $2.8 billion, subject to a limit of liability to the reinsurer of $2.1 billion.

Effective June 1, 2017, the Association entered into a second property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized subscribing reinsurers. Under the terms of the agreement, the Association was indemnified in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurers were liable in the aggregate in respect of losses occurring during the term of this contract of 100 percent of the ultimate net loss in excess of an initial ultimate net loss of $0.8 billion, in excess of $2.0 billion. This reinsurance coverage was purchased to ensure that if an event occurred in 2017 and the Trust Fund was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018.

The Association utilized Guy Carpenter & Company, Inc., Texas, a licensed reinsurance intermediary under Section 4152.051(a) of the Code, to place reinsurance.

Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allowed private insurance companies interested in writing on the Texas coast to assume a portion of the Association's book of business as of a point in time. The Association implemented the Assumption Reinsurance Depopulation Program in 2016. The program required participating insurers to work through agents to identify policies that would receive assumption offers. The following were depopulation programs in effect as of December 31, 2017:

Effective December 1, 2017, the Association entered into a quota share agreement with United Property and Casualty Insurance Company (United Property), Texas. Under the terms of the agreement, 100 percent of the net liabilities associated with certain policies that were identified in the reinsurance agreement were ceded to United Property. The Association received a ceding commission equal to 24 percent of all premiums ceded.

Effective December 1, 2017, the Association entered into a quota share agreement with Safepoint Insurance Company (Safepoint), Texas. Under the terms of the agreement, 100 percent of the net liabilities associated with certain policies that were identified the reinsurance agreement were ceded to Safepoint. The Association received a ceding commission equal to 24 percent of all premiums ceded.

Effective December 1, 2017, the Association entered into a quota share agreement with Weston Insurance Company (Weston), Texas. Under the terms of the agreement, 100 percent of the net liabilities associated certain policies that were identified the reinsurance agreement were ceded to Weston. The Association received a ceding commission equal to 24 percent of all premiums ceded.

ACCOUNTS AND RECORDS

The Association's books and records were maintained using Microsoft Dynamics Great Plains (Great Plains), purchased from Microsoft. The hardware infrastructure was a Microsoft Windows Server-based local area network using Microsoft SQL (Structured Query Language) database management software.

The Association outsourced its payroll expenses to ADP (Automatic Data Processing, Inc.); other expenses were processed using Microsoft Excel and Microsoft Dynamics. GP. A combination of internally-developed and externally-purchased software applications were used for processing premium, claims and underwriting activities.

The Association's Data Warehouse, internally-developed using SAP; Policy Center; Claims Center; and Billing Center, purchased from Guidewire Software, Inc.

The Association did not use any significant software applications to process its investment transactions, reinsurance activities or catastrophe readiness.

Disaster recovery facilities were outsourced to zColo by Zayo in Waco, Texas.

The Association's 2017 general ledger amounts were reconciled to the annual statement.

FINANCIAL STATEMENTS

The financial statements consist of a balance sheet and a statement of income with a capital and surplus account showing the Association's financial condition as filed by the Association with the Department for the period ending December 31, 2017.

BALANCE SHEET
December 31, 2017

Assets

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	$ 646,074,191	$	$ 646,074,191
Investment income due and accrued	260,608		260,608
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	218,108	127,934	90,174
Reinsurance:			
Amounts recoverable from reinsurers	17,332		17,332
Electronic data processing equipment and software	872,291	872,291	
Furniture and equipment, including health care delivery assets	901,383	901,383	
Receivables from parent, subsidiaries and affiliates	1,426,589		1,426,589
Aggregate write-ins for other than invested assets:			
Prepaid Reinsurance	9,054,052	9,054,052	
Prepaid Assets	2,446,746	2,446,746	
Security deposit - lease	111,861	111,861	
Amounts receivable - premium finance	66,870		66,870
Due from depop carriers - assumption	18,165		18,165
Total Assets	$ 661,468,196	$ 13,514,267	$ 647,953,929

BALANCE SHEET
December 31, 2017
(Continued)

Liabilities, Surplus and Other Funds

Losses		$ 358,214,371
Loss adjustment expenses		56,519,895
Commissions payable, contingent commissions and other similar charges		4,011,037
Other expenses		10,450,434
Taxes, licenses and fees		816,051
Borrowed money and interest thereon		431,702,250
Unearned premiums		209,452,528
Advance premium		7,058,606
Ceded reinsurance premiums payable (net of ceding commissions)		20,603,408
Funds held by company under reinsurance treaties		368,530
Remittances and items not allocated		2,754,266
Aggregate write-ins for liabilities:		
Pension benefits liability		5,051,041
Escheat funds		874,457
Lease incentive obligation		629,226
Deferred rent liability		545,304
Surcharge payable		292,687
Total Liabilities		$ 1,109,344,091
Unassigned funds (surplus)	$ (461,390,162)	
Total surplus		(461,390,162)
Surplus as regards policyholders		$ (461,390,162)
Total Liabilities, Surplus and Other Funds		$ 647,953,929

STATEMENT OF INCOME
For the Period January 1, 2017 Through December 31, 2017

Underwriting Income	
Premiums earned	$ 347,354,358
Deductions:	
Losses incurred	$ 1,266,241,617
Loss adjustment expenses incurred	209,060,546
Other underwriting expenses incurred	97,876,127
Total underwriting deductions	$ 1,573,178,290
Net underwriting gain or (loss)	$ (1,225,823,932)
Investment Income	
Net investment income earned	$ (28,886,165)
Net investment gain or (loss)	$ (28,886,165)
Other Income	
Aggregate write-ins for miscellaneous income	$ 743,268,162
Total other income	$ 743,268,162
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ (511,441,935)
Net Income	$ (511,441,935)

STATEMENT OF INCOME
For the Period January 1, 2017 Through December 31, 2017
(Continued)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016	$ 0
Gains and (Losses) in Surplus	
Net income	$ (511,441,935)
Change in nonadmitted assets	50,760,192
Aggregate write-ins for gains and losses in surplus	(708,419)
Change in surplus as regards policyholders for the year	$ (461,390,162)
Surplus as Regards Policyholders December 31, 2017	$ (461,390,162)

CONCLUSION

Based on this examination, the Association had unassigned surplus of $(461,390,162) as of December 31, 2017.

The Association did not have a minimum surplus requirement pursuant to Chapter 2210 of the Code.

In addition to the undersigned, Kenna Schievelbein, CFE; and information systems examiner, Michelle Kelly, AFE, CISA participated in this examination. Walt Richards completed the actuarial portion of this examination.

Respectfully submitted,

Winona Lewis

Winona Lewis, CFE
Examiner-in-Charge

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: April 25, 2019

TO: John Polak

General Manager

FROM: David Durden, Vice President DD

Legal and Compliance

RE: TDI Exam Report on TWIA Claims Processes and Procedures

Attached for distribution to the Board of Directors is the Texas Department of Insurance FINAL Examination Report on the Texas Windstorm Insurance Association's claims practices as of April 1, 2018. The examination reviewed the Association's claims processing, oversight of adjusters and the quality assurance process.

The report includes two recommendations. The first recommendation is that the Association create a comprehensive claims manual. The second recommendation is that the Association confirm that adjusters are properly licensed before executing the contract. The Association addressed the issues and recommendations contained in the report in your response letter dated August 27, 2018.

The transmittal letter submitted with the FINAL audit report requires the Board of Directors of the Association to review the report and that the Board's meeting minutes reflect that each Board member reviewed the report. For this reason, I am requesting that the examination report and the Association's response be included in the meeting materials for the May 2019 Board of Directors' meeting.

Please let me know if you have any questions or would like any additional information.

Texas Department of Insurance

EXAMINATION REPORT

TEXAS WINDSTORM INSURANCE ASSOCIATION

AUSTIN, TEXAS

As of April 1, 2018

STATE OF Texas §

COUNTY OF Travis §

Ventura E. De La Rosa being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance of the State of Texas;

That an examination was made of the affairs of Texas Windstorm Insurance Association, Austin, Texas, covering property damage claims caused by Hurricane Harvey on-site at the Association's office;

That the following pages numbered one to eight, consecutively, constitute the report thereon to the Commissioner of Insurance of the State of Texas;

That the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

Ventura E. De La Rosa, CIE, CPCU, MCM
Examiner-in-Charge

Subscribed and sworn to before me this 20th day of August, 2018.

(Signature)

Ruby A. Cortez Notary Public
(Print Name)

in and for the State of Texas

My commission expires 02-21-2021

RUBY A CORTEZ
NOTARY PUBLIC
ID# 13102130-2
State of Texas
Comm. Exp. 02-21-2021
NOTARY WITHOUT BOND

Table of Contents

Austin, Texas
August 20, 2018

Honorable Kent Sullivan
Commissioner of Insurance
State of Texas
Austin, Texas

Commissioner:

Pursuant to instructions and in accordance with Texas Insurance Code (TIC) §2210.057, an examination, which included a claims practice audit authorized in TIC §2210.059, was made of the conduct, performance, and practices of the

TEXAS WINDSTORM INSURANCE ASSOCIATION

referred to as the "Association," with its home office located at 5700 South MoPac Expressway, Austin, Texas.

SCOPE OF EXAMINATION

The Texas Department of Insurance (TDI) conducted the review of property damage claims caused by Hurricane Harvey on-site at the Association's office.

The examination included reviews of the Association's policies and procedures related to claims processing, the oversight of adjusters; and the quality assurance process. A sample of claim files were reviewed to determine adherence to the policies and procedures and compliance with Insurance Code provisions. Report comments reflect findings identified during the review of sampled claim files only and may not have identified all compliance issues. The absence of comment in this report does not mean that the Association complied with a statute or rule provision. The examination did not evaluate the readability or comprehension of the Association's communications to insureds.

CLAIMS REVIEW

The primary purpose of the claims review was to assess compliance with TIC, Chapter 2210, Subchapter L-1 and Title 28, Texas Administrative Code (28 TAC), Chapter 5, Subchapter E as it relates to Hurricane Harvey claims. The claims review included a review of the Association's notice of disposition for sampled claims to determine compliance with TIC §2210.573(d). The reviewed notices indicated whether each claim was accepted "in full," accepted "in part," or denied "in full."

TDI initially reviewed 169 claims selected using a random sampling technique from the populations as of October 27, 2017, indicated below:

Type of Claim	Population	Sample
Claims with Appraisal Requests	179	70
Claims with Complaints	52	34
Claims Closed Without Payment	2,869	15

Claims with Appraisal Requests

The 70 claims with appraisal requests selected were reviewed for compliance with TIC Chapter 2210, Subchapter L-1, and 28 TAC, Chapter 5, Subchapter E, §§5.4211 to 5.4222 related to claims handling and the appraisal process. The Association's policies and procedures were also used during this review. The following findings were noted during the review:

- For 12 claims, the Association did not issue the payment within 10 days after accepting the claim as required by TIC §2210.5731. For these claims, the Association issued the payment on average 14.8 days after accepting the claim, with the latest being 20 days.

- For four claims, the supplemental notice of disposition provided by the Association did not include the amount of loss the Association will pay and the time limit to request appraisal as required by TIC §2210.573(e) and applied to supplemental notices by the Association's policies and procedures.

- For one claim, the notice of disposition provided by the Association did not include the amount of loss the Association will pay and the time limit to request appraisal as required by TIC §2210.573(e).

- For one claim, the Association sent the notice of disposition 81 days after receiving the claim, exceeding the 60 day time frame established by TIC §2210.573(d).

- For one claim, the Association requested information 31 days after receiving the claim, exceeding the 30 day time frame established by TIC §2210.573(b). A claim disposition notice was provided and the claim was paid timely in accordance with TIC §2210.5731.

Under TIC §2210.574(b), claimants may invoke appraisal in accordance with the terms of the Association policy not later than the 60th day after the date the claimant receives the notice described by TIC §2210.573(d)(1) or (2). On September 21, 2017, under TIC §2210.205(b), TDI extended the deadline to demand appraisal from 60 days to 120 days through Commissioner's Bulletin No. B-0033-17. On April 18, 2018, TDI further extended the deadline to demand appraisal from 120 days to 180 days through Commissioner's Bulletin No. B-0007-18.

Review of claims where appraisal was invoked revealed that 66 of the claims were resolved using an informal re-inspection or supplemental payment process. Statute does not specifically provide for the re-inspection or supplemental payment process that the Association has offered to insureds, but this process does allow claim value disputes to be resolved without incurring the cost of the appraisal process. If the claim is not resolved through the re-inspection or supplemental payment process, the insured's right to appraisal is preserved by invoking appraisal prior to agreeing to the informal processes.

The remaining four claims were handled using the appraisal process. Three of the claims settled with additional amounts owed to the insured by the Association including $170,928 for one claim. The fourth is still pending conclusion of the appraisal process.

Claims with Complaints

The 34 claims with complaints selected were reviewed for compliance with TIC Chapter 2210, Subchapter L-1 related to claims handling. The Association's policies and procedures were also used during this review. The following findings were noted during the review:

- For four claims, the Association did not provide notice of disposition within 60 days of receiving the claim as required by TIC §2210.573(d). In two instances, the Association sent the notice of disposition 62 and 71 days after receiving the claim. In one instance, because of this examination, the Association sent the notice of disposition 207 days after receiving the claim even though payment was issued 54 days after receiving the claim. In this instance, the claimant was contacted via phone to give notice of payment on the same day the payment was made. In the last instance, 58 days after receiving the claim, the Association notified the insured via email, that payment would be made. Such a notice does not comply with TIC §2210.573(d), which requires the notice be in writing.

- For three claims, the Association did not request additional information within 30 days after receiving the claim as required by TIC §2210.573(b). The Association requested information on average 40.6 days after receiving the claim. Claims disposition notices were provided and the claims were paid timely in accordance with TIC §2210.5731.

- For two claims, the Association did not provide the supplemental notice of disposition within 60 days of receiving the supplemental payment request. In one instance, the Association sent the supplemental notice of disposition 74 days after receiving the supplemental payment request. In the other instance, the Association did not send the supplemental notice of disposition at all. The Association contacted the claimant via phone 36 days after receiving the claim to let them know payment was going to be made, which occurred the same day. The Association's guidelines only specify that the supplemental payment request must be handled timely. At minimum this should meet the 60 day timeframe established by TIC §2210.573(d).

- For three claims, the notice of disposition provided by the Association did not include the amount of loss the Association would pay or the time limit to request appraisal as required by TIC §2210.573(e).

- For two claims, the Association did not issue the payment within 10 days after accepting the claim as required by TIC §2210.5731. The Association issued these payments 11 and 28 days after accepting the claim.

- For one claim, the supplemental notice of disposition provided by the Association did not include the amount of loss the Association will pay and the time limit to request appraisal as required by TIC §2210.573(e) and applied to supplemental notices by the Association's policies and procedures.

Claims Closed Without Payment

The 15 claims closed without payment selected were reviewed for compliance with TIC Chapter 2210, Subchapter L-1 related to claims handling. The Association's policies and procedures were also used during this review. The following findings were noted during the review:

- For two claims, the Association did not provide notice of disposition within 60 days of receiving the claim as required by TIC §2210.573(d). In both instances, the Association did not send any notice of disposition but instead notified the claimants via phone that payment would not be made.

In one instance, the claimant was made aware 51 days after the Association received the claim and the other instance the claimant was made aware 64 days after the Association received the claim.

ADDITIONAL CLAIMS REVIEW

TDI reviewed an additional 50 claims with appraisal requests received as of April 1, 2018. The specific claims were selected using a random sampling technique from the populations indicated below and excluded those claims selected during the initial review:

Type of Claim	Population	Sample
Claims with Appraisal Requests	559	50

Claims with Appraisal Requests

The 50 additional claims with appraisal requests selected were reviewed for compliance with TIC Chapter 2210, Subchapter L-1, and 28 TAC, Chapter 5, Subchapter E, §§5.4211 to 5.4222 related to claims handling and the appraisal process. The Association's policies and procedures were also used during this review. The following findings were noted during the review:

- For four claims, the Association did not provide notice of disposition within 60 days of receiving the claim as required by TIC §2210.573(d). The Association sent these notices 61, 71, 81 and 168 days after receiving the claim. The notice of disposition sent 71 days after receiving the claim superseded an original notice that was sent within 60 days which included an incorrect loss amount.

- For two claims, the Association did not provide the supplemental notice of disposition within 60 days of receiving the supplemental payment request. The Association sent the notices on day 66 and 98 after receipt. The Association's guidelines only specify that the supplemental payment request must be handled timely. At minimum this should meet the 60 day timeframe established by TIC §2210.573(d).

- For two claims, the Association did not issue the claim payment within 10 days after accepting the claim as required by TIC §2210.5731. The Association issued these payments 13 and 43 days after accepting the claim.

Review of the additional claims where appraisal was invoked revealed that 44 of the claims were resolved using an informal re-inspection or supplemental payment process. As noted previously, statute does not specifically provide for the re-inspection or supplemental payment process that the Association has offered to insureds, but this process does allow claim value disputes to be resolved without incurring the cost of the appraisal process. If the claim is not resolved through the re-inspection or supplemental payment process, the insured's right to appraisal is preserved by invoking appraisal prior to agreeing to the informal processes.

The remaining six claims were handled using the appraisal process. Two of the claims settled with additional amounts owed to the insured by the Association including $207,189 for one claim. The other four are still pending conclusion of the appraisal process.

OVERSIGHT OF ADJUSTERS

TDI reviewed the status of field adjuster and claims examiner licenses for adjusters involved with the 169 claims selected. The selected claims involved 150 field adjusters and 108 claims examiners. The following findings were noted during the review:

- Three field adjusters were not licensed as required by TIC §4101.051 at the time the claim was adjudicated.

- One claim examiner was not licensed as required by TIC §4101.051 at the time the claim was adjudicated.

TDI reviewed the license status for the 24 adjusting firms utilized by the Association to oversee claim adjustment. Eight adjusting firms, all of which were contracted with the Association before Hurricane Harvey made landfall, were not licensed as required by TIC §4101.051 at the time claim was adjudicated. Six of these eight had no license while two had inactive licenses for failing to renew their license. The Association continues to use three of the adjusting firms which were licensed in 2018, and no longer assigns claims to the other five adjusting firms.

BEST PRACTICES AND OTHER OBSERVATIONS

Claims Procedures

A review of policies and procedures provided by the Association revealed that some claims requirements in TIC, Chapter 2210, Subchapter L-1 and 28 TAC, Chapter 5, Subchapter E, were addressed in various ways and locations, including several one to three page claims processing guidelines, an electronic Desk Examiner Certification Training, and template letters. However, the Association does not have a comprehensive claims procedure manual that explains all claims requirements and processes. Generally, it is common for insurance companies to have a claims manual that details the Company's policies and procedures as well as statutory and rule requirements for the adjudication of claims.

Notice of Disposition Provided by Field Adjuster

In 12 of the 16 claims where the Association did not issue the payment within 10 days after accepting the claim as required by TIC §2210.5731, the notice of disposition was issued by the field adjuster. Typically, the Association's in-house claim adjusters issued the notice of disposition. There appears to be an issue with late claim payments when the field adjuster issues the notice of disposition rather than the Association's claims examiner.

The Managed Claim Model (MCM) program allowed field adjusters to contact the insured, inspect the property, and issue the notice of disposition, if the claim was for a residential property with a gross loss of less than $20,000. The claims examiner would review the notice of disposition and accompanied documents and issue payment to the claimant. The Association suspended the MCM program on October 19, 2017.

Large Supplemental Payments

During the review of claims, TDI noted that the Association issued a number of large supplemental payments. Out of 154 total paid claims reviewed 44, or 29%, had supplemental payments that exceeded the total amount initially paid on the claim. The breakdown of large supplemental payments are as follows:

- 18 out of 70 claims with appraisal requests received on or before October 27, 2017.
- 12 out of 34 claims with complaints made.
- 14 out of 50 claims with appraisal requests received on or before April 1, 2018.

Re-Inspection Instead of Appraisal

In claims where the insured invoked appraisal on or before October 27, 2017, but agreed to a re-inspection instead of immediately starting the appraisal process, there were 16 instances out of 44 where the re-inspection process was not resolved within 60 days.

For paid claims with appraisal requests made on or before April 1, 2018, there were eight instances out of 22 where the re-inspection process was not resolved within 60 days.

Quality Assurance Audit Reviews

The Association conducted a series of audits of different aspects of claim files to ensure compliance with statutes and rules and the Association's policies and procedures. The audits included a review of the handling of claims files including, but not limited to, a review of disposition notices, a review of completed estimates, and a review of completed re-inspections. TDI reviewed the quality assurance audit reports the Association has issued and supporting documentation specific to Hurricane Harvey claims.

The Association was able to identify trends across multiple individuals and firms. There were instances where individual adjusters or firms did not fully understand the Association's policies and procedures. There were instances where errors and mistakes noted were due to unclear communication, rules, and or guidelines implemented by the Association. Some of the audits resulted in revised guidelines, procedures, and reiterations of the Association's current policies and procedures.

SUMMARY OF FINDINGS AND ISSUES AND RECOMMENDATIONS

Of 154 total paid claims reviewed, 44, or 29%, had supplemental payments that exceeded the total amount initially paid on the claim. The Association stated that a majority of the large supplemental payments (26 of the 44) resulted from engaging specialists, such as building consultants or engineers, to review the damage to the property. Other causes of the large supplemental payments include receiving additional information from insureds regarding the cost to repair the covered damage or the damage included for payment (7), conducting a re-inspection by a non-specialist field adjuster (4), correcting coverage exclusions or damage exclusions in the initial claim adjustment (5), receiving appraisal awards (2).

In 24, or 36%, of 66 instances in which the insured invoked appraisal but agreed to a re-inspection, the Association did not complete the re-inspection within 60 days, which is the amount of time established in the Insurance Code for accepting or rejecting a claim.

In 16 instances, the Association did not issue the claim payment within 10 days after accepting the claim as required by TIC §2210.5731. In 12 of these instances, the field adjuster issued the notice of disposition rather than the claim examiner. The Association suspended the MCM program, which allowed the field adjuster to issue the notice of disposition in certain situations, on October 19, 2017.

In 16 instances, the Association did not provide the original or supplemental notice of disposition within 60 days of receiving the claim as required by TIC §2210.573(d) and the Association's policies and procedures, respectively.

In nine instances, the original or supplemental notice of disposition provided by the Association did not include the amount of loss the Association would pay or the time limit to request appraisal as required by TIC §2210.573(e).

In four instances, the Association did not request additional information within 30 days after receiving the claim as required by TIC §2210.573(b).

The Association, through quality assurance audits, identified instances where individual adjusters or firms did not fully understand the Association's policies and procedures as well as instances where errors and mistakes noted were due to unclear communication, rules, and or guidelines implemented by the Association. Although the Association has modified guidelines and procedures and has reinforced procedures that were not being followed, it has not compiled all of the policies and procedures into a comprehensive manual for claims handling.

Recommendation: The Association should create a comprehensive claim manual for Association staff and adjusters to use. This manual should address statutory and rule requirements as well as the Association's policies and procedures, including supplemental claims, supplemental payments, re-inspections and the use of specialists to inspect properties for damage.

Four field adjusters, three claim examiners and eight adjusting firms were not licensed at the time a claim was adjudicated as required by TIC §4101.051. The Association contracted with these adjusting firms before Hurricane Harvey made landfall.

Recommendation: When contracting with adjusting firms, the Association should require and confirm that the adjusting firms have proper licensure before executing the contract. Additionally, the Association should work to improve their adjuster oversight process to ensure that both claim examiners and field adjusters maintain appropriate licensure.

ACKNOWLEDGMENT

The courtesy and cooperation extended to the examiner during the course of the examination by the officers and staff of the Association is acknowledged.

Respectfully submitted,

Ventura E. De La Rosa, CIE, CPCU, MCM
Examiner-in-Charge

TEXAS WINDSTORM
INSURANCE ASSOCIATION

August 27, 2018

Matthew Tarpley, MPAff, MCM
Market Conduct Manager - Assistant Chief Examiner
Financial Examinations
Mail Code 103-FE
Texas Department of Insurance
PO Box 149104
Austin TX 78714-9104

Dear Mr. Tarpley,

Thank you for providing a copy of your FINAL report regarding the examination of the Texas Windstorm Insurance Association's (TWIA) handling of claims resulting from Hurricane Harvey. As you are aware, TWIA received 76,000 claims resulting from Hurricane Harvey. This is more than one-third of TWIA's insured population. As of the date of this letter, our TDI complaint ratio is .265% and our disputed claims ratio is 4.7% of total claims filed. TWIA has paid nearly $1.2B in policyholder claims and 75% of that amount ($893 million) was paid within 100 days of the storm.

As noted in the report, the pool of claims selected for the audit were those where the policyholder had expressed some dissatisfaction with the handling of their claim, i.e. filed a complaint or engaged the dispute resolution process and those where the policyholder did not receive a payment from TWIA. In the Association's view, the selection process resulted in a non-representative sample of claims and this fact should be clearly explained in the report.

The report notes instances in which TWIA did not request additional information within 30 days of receiving the claim. It is important to note that the claims handling process routinely requires requests for information more than 30 days into the claim because supplemental information must be provided to support ongoing payments associated with the claim. The requests for additional information did not delay our disposition of the claim and as noted in the report, those claims were paid timely.

The report notes instances in which TWIA did not meet applicable deadlines. These generally involved relatively small delays. The Association emphasizes operational efficiency and stresses the need to meet timelines required by rules and laws. We strive to meet all deadlines all the time. In the instances cited in the report regarding supplemental payments, the rules and statutes do not establish a time period for payment.

The supplemental payment process was developed by TWIA to provide a means for policyholders to address issues that arise on a claim after the Association's initial determination of payment. TWIA's goal

TEXAS WINDSTORM INSURANCE ASSOCIATION

is to resolve the claim completely without requiring the policyholder to incur the expenses associated with the appraisal process. This process was successfully employed to ensure policyholders were adequately compensated for the damages resulting from Hurricane Harvey.

The report noted that in some of the claims reviewed the supplemental payment exceeded the original claims settlement amount. The Association believes this demonstrates the benefits to policyholders of TWIA developing this process. In many cases the review resulting from the supplemental payment process will cause the adjuster to agree that damaged property should be replaced rather than repaired. Though this results in a much higher payment, it ensures that the policyholder's loss is addressed appropriately and completely.

Even with the absence of a specific requirement for these processes, the Association seeks to handle supplemental issues arising on a claim thoroughly and promptly. We remain committed to continuous improvement and attach our "lessons learned" paper which we trust TDI will find responsive on this point.

The report includes a finding regarding the adjusting firms used by the Association. In accordance with our Catastrophe Response Plan, TWIA projected the number of claims that would be generated from Hurricane Harvey (66,000 claims) and determined the number of adjusters that would be required to handle those claims. TWIA hired more than 1500 insurance claim adjusters by the time Hurricane Harvey made landfall. We accessed these adjusters in accordance with our existing contracts with insurance adjusting firms.

The report describes a few of the adjusters and adjusting firms as "not licensed" at the time the claim was adjudicated. The numbers cited in the report are higher than those indicated by our review of the files, however, we believe it is important to observe that all adjusters employed by TWIA were licensed in their home/domicile/resident state and possessed the qualifications to adjust claims. TWIA's agreements with the adjusting firms require them to comply with all laws and regulations, however, some of the adjusting firms advised TWIA that they were unaware of the requirement that the adjusting firm was required to be licensed. Those firms obtained the Texas license promptly after being notified of the requirement by TWIA. The Association will explicitly incorporate this specific requirement into our contracting process and ensure that claim adjusters and adjusting firms maintain appropriate licensure.

The report recommends the Association create a comprehensive claim manual for Association staff and adjusters. TWIA's claim staff are guided by an extensive set of procedures developed for each of the processes associated with the handling of a claim. Those procedures include and are not limited to guidelines pertaining to claims disposition, supplemental payment, supplemental claims and re-inspections. The Association will implement the recommendation to consolidate these procedures into a comprehensive claims manual.

TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA appreciates the thoroughness of the claims audit and the recommendations for how we can improve our processes. We also thank you for the opportunity to provide this response to the report. We do not intend to formally appeal the report and are not requesting a hearing. We do respectfully request that any person to whom TDI provides a copy of the final report also be provided with a copy of this correspondence so that the reader can understand the Association's views and position on the issues raised in the report.

Thank you again for your consideration.

Sincerely,

John Polak, CPCU
General Manager

Texas Windstorm Insurance Association

cc: Ignatius Wheeler
Chief Examiner
Financial Examinations
Mail Code 103-FE
Texas Department of Insurance
P O Box 149104
Austin TX 78714-9104

Hurricane Harvey – Lessons Learned

- **Successes**
  - Experienced Professional Staff
  - Effective CAT Plan
  - Call Centers
  - On-line Claims Center
  - Reports & Performance Metrics
  - Relationships with OEM/Law Enforcement
  - On-Scene Claims Centers & Workshops
- **Improvements**
  - Updated Policyholder Guides
  - Supplemental Payment Process
  - Telephone Skills QA Program
  - Post-storm Education
  - "Clerk of The Works"

11C. Sunset Bill Review

There is no exhibit for this topic

11D. Depopulation

There is no exhibit for this topic

11E. Communications Update

MEMORANDUM

DATE: April 19, 2019

TO: TWIA Board of Directors

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

RE: Communications & Legislative Affairs Operational Highlights

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I. Legislative & Regulatory Affairs

a) We are actively monitoring legislation related to the Association and meeting with key legislative offices to answer questions related to our operations.
   i. We provide feedback as needed on how proposed legislation would impact our operations.
   ii. We have been pleased with the level of engagement we have received from Legislative offices and their receptiveness to our comments on the various bills filed this session.
   iii. A list of the legislative meetings and hearings we attended in Q1 2019 is included with this summary.

b) From January 1 through March 31, 2019, we received and responded to 22 legislative inquiries.

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

II. Agent Advisory Group (AAG)

a) The Q1 AAG meeting occurred on January 30, 2019 and was focused on routine operational updates, discussion on the Sunset Advisory Commission's report and recommendations and the TWIA Board's legislative recommendations.

III. Media Relations

a) We are actively monitoring news coverage of the Association in the media and continue to notice a declining trend in negative media mentions of TWIA in Q1 2019.

b) We continue to respond to media inquiries, pursuing our strategic relationship-building, and encouraging reporters to seek TWIA's input on stories in which we are a focus.

c) We are re-evaluating our media relations strategy for Q2 2019.

Q1 2019 Legislative & Regulatory Affairs Activities

Legislative Meetings

Legislative Office	Purpose
JANUARY 2019	
Speaker Dennis Bonnen	Sunset Advisory Staff Report and 2019 Legislative Recommendations
Sen. Larry Taylor	Funding and 2019 Legislative Recommendations
Rep. J.M. Lozano	2019 Legislative Recommendations
Rep. Todd Hunter	2019 Legislative Recommendations
Representatives from the offices of: Sen. Lois Kolkhorst, Sen. Larry Taylor, Speaker Dennis Bonnen, Rep. Sarah Davis, Rep. Greg Bonnen, Sen. Kelly Hancock, and the Governor's Office	Q4 2018 Board Meeting Materials Briefing
FEBRUARY 2019	
Rep. Ed Thompson	2019 Legislative Recommendations
Sen. Lois Kolkhorst	2019 Legislative Recommendations
Rep. Abel Herrero	2019 Legislative Recommendations
Rep. Eddie Lucio, III	2019 Legislative Recommendations
House Insurance and Senate Business & Commerce Committees including representatives from the offices of: Sen. John Whitmire, Rep. Dennis Paul, Rep. Eddie Lucio III, Rep. Greg Bonnen, and Sen. Kelly Hancock	TWIA Informational Briefing and 2019 Legislative Recommendations
Rep. Jon Rosenthal	TWIA Operational Overview
Rep. Greg Bonnen	Funding and Depopulation Program
Rep. Dennis Paul	Windstorm Certification Requirements
MARCH 2019	
Rep. Mayes Middleton	TWIA overview and funding structure
Rep. Eddie Lucio, III	Sunset bills for TWIA and Association-related House bills
Sen. Kelly Hancock	Sunset bills for TWIA and Association-related Senate bills
Rep. Greg Bonnen	Association-related House bills
Rep. Eddie Lucio III	House Bill 2686 related to TWIA claim denials
Rep. Tom Oliverson	House Bill 2686 and Senate Bill 615 (Sunset bill)
Rep. Dennis Paul	House Bill 2439 (2015 session) and WPI-8-C Program

Legislative Hearings

Date	Committee	Testimony	Bill Type/Purpose
1/9/2019	Sunset Advisory Commission	None	Sunset Advisory Commission Decisions on Staff Recommendations
2/12/2019	House Insurance Committee	John Polak	Informational meeting on funding and operations
2/26/2019	House Insurance Committee	John Polak	Informational meeting on funding and operations
3/19/2019	House Insurance Committee	Jennifer Armstrong	**HB 1900 (Rep. Bonnen)** – Related to determining replacement cost **HB 1902 (Rep. Bonnen)** – Related to TWIA's maximum liability limits **HB 1940 (Chairman Lucio III)** – Related to surplus lines carriers providing wind and hail coverage **HB 1944 (Chairman Lucio III)** – Related to TWIA claim deadlines **HB 2686 (Chairman Lucio III)** – Related to denial of TWIA claims
3/19/2019	Senate Business & Commerce Committee	John Polak (as a resource)	**SB 615 (Buckingham)** - Sunset Bill for TWIA

15. Future Meetings
August 6, 2019 – Tremont House – Galveston
December 2019 – TBD