



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Texas Windstorm Insurance Association Bimonthly Report Card

May - June 2019

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Vice President, Communications & Legislative Affairs
August 1, 2019

Contents

About This Report	4
State of the Association	5
Hurricane Harvey Response	5
Sunset Review Process	6
86th Texas Legislature, Regular Session	8
Operational and Financial Key Accomplishments	9
Leveraging TWIA's Accomplishments for Future Optimization	10
TWIA Overview & Statutory Compliance	11
TWIA Overview	12
History and Purpose	12
Mission and Vision	12
Board Composition	13
Policies, Premiums, and Exposures	14
Coverage and Eligibility Requirements	14
Policy Issuance	15
Building Codes and Certificates of Compliance	16
Financial Operations	18
Annual and Statutory Statement	18
Rates	20
Maximum Limits of Liability	20
Claims Handling and Loss Funding	21
Catastrophe (CAT) Incident Response Plan	21
Claims Settlement and Dispute Resolution	22
Catastrophe Funding	24
Regulatory Compliance	26
TDI Proposed and Adopted Rules	26
Standards of Conduct	26
Open Meetings and Open Records	28
Examination of the Association	30
Policyholder Service	31
TDI COAST and Ombudsman Program	31
Hurricane Preparedness Campaign	31

About This Report

August 1, 2019

Re: Texas Windstorm Insurance Association (TWIA) Interim Report – Repealed Section 2210.107(b)

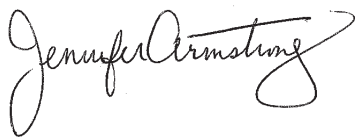
Pursuant to Texas Insurance Code Section 2210.107(b), please find enclosed TWIA's Bimonthly Report Card evaluating the extent to which the Association has met the objectives described therein in the two-month period preceding the date of this report (May and June 2019).

The primary objectives of the TWIA Board of Directors ("the Board"), as set forth in Chapter 2210 of the Texas Insurance Code, are to ensure the Board and TWIA: (1) operate in accordance with this chapter, the Plan of Operation, and Commissioner rules; (2) comply with sound insurance principles; (3) meet all standards imposed under this chapter; (4) establish a code of conduct and performance standards for Association employees and persons with which the Association contracts; and (5) establish, and adhere to the terms of, an annual evaluation of Association management necessary to achieve the statutory purpose, Board objectives, and any performance or enterprise risk management objectives established by the Board.

The initial report cards established the standards of performance for the Association to be reported against in subsequent report cards. Additional standards have been added as appropriate and as approved by the Board of Directors. The Bimonthly Report is organized into two sections: The State of the Association, a narrative describing TWIA's activities and accomplishments from June 1, 2018 to May 31, 2019, and a Statutory Compliance section detailing required areas of compliance and operational changes during the reporting period. The Association is in full material compliance with all current standards of performance outlined in this report.

Senate Bill (SB) 615 passed by the 86th Legislature, Regular Session, repealed TWIA's Bimonthly Report Card requirement effective September 1, 2019. This is the thirty-sixth and final interim report card to be issued by TWIA since the enactment of House Bill (HB) 3.

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



Jennifer T. Armstrong

Vice President, Communications & Legislative Affairs

State of the Association

The Texas Windstorm Insurance Association's (TWIA) mission is to provide coastal Texas property owners access to wind and hail insurance when standard insurers will not. Without the coverage TWIA provides, many property owners in the 14 Texas coastal counties would be without the level of coverage necessary to protect their homes, buy and sell properties, or operate commercial businesses. Providing this essential insurance to Texans has been our charge by the Legislature since our creation nearly a half century ago.

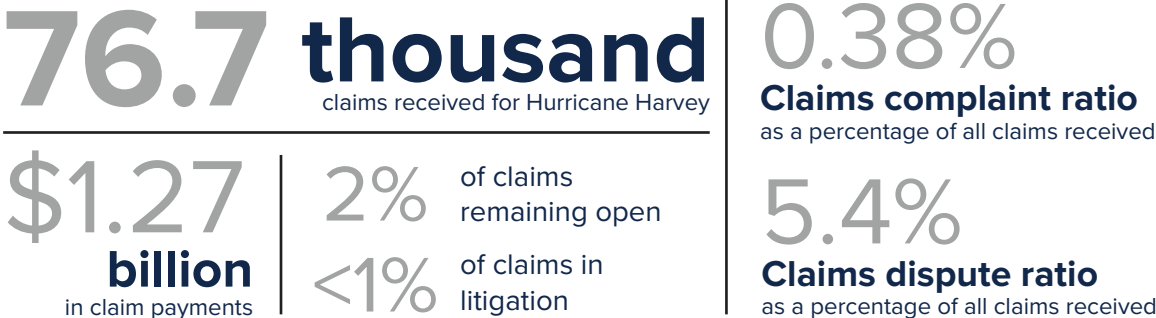
As we enter the 2019 Atlantic Hurricane Season, TWIA is funded at \$4.2 billion and ready to optimize its operations to be more efficient and more effective in the service we provide our policyholders. We will achieve this optimization by continuing to modernize our systems, improving our policyholder communication, and implementing policy changes passed by the 86th Texas Legislature.

The State of the Association section highlights the successes of TWIA's enterprise-wide improvements post-Hurricane Harvey, the favorable outcome of our Sunset Review process, and the potential that lies within the mandates passed by the 86th Texas Legislature.

Hurricane Harvey Response

The Association's response to Hurricane Harvey goes beyond our statutory obligations; it is a symbol of our shared promise to be there for our policyholders when they need us most. It has been less than two years since Hurricane Harvey struck the Texas coast. In that time, TWIA has worked diligently to respond to our policyholders and finalize their claims from the storm. As of June 30, 2019, only 2% of claims remain open out of the more than 76,660 claims received from Hurricane Harvey, and TWIA has issued a total of \$1.27 billion in claim payments to policyholders. Thanks in part to claim dispute reforms made in 2011 by HB 3 and the Association's own efforts to revamp our claim handling operations over the last decade, claims complaint and dispute ratios from Hurricane Harvey remain extremely low at 0.38% and 5.4% of claims. In contrast, TWIA's claim dispute ratio from Hurricane Ike was more than 11% with the disputes largely composed of lawsuits; lawsuits from Hurricane Harvey amount to less than 1% of claims.

For the 2017 hurricane season, TWIA had access to \$4.9 billion with a record amount in the Catastrophe Reserve Trust Fund (CRTF) of \$737 million. This amount has proven to be sufficient to meet our policyholders needs from Hurricane Harvey. TWIA's estimate of ultimate loss and loss adjustment expense from Hurricane Harvey was increased from \$1.61 billion to \$1.7 billion, based on data as of June 30, 2019. The increase is a result of adverse loss development in the second quarter of 2019 and includes additional allocation for loss adjustment expenses. TWIA continues to revisit Hurricane Harvey claims data on a quarterly basis to assess the ultimate loss amount and provide revisions as necessary.



Hurricane Harvey presented the first true test of TWIA's ability to respond to a major storm event in nearly a decade. We are proud of how we responded to policyholders; we also know opportunities exist to

make further improvements to our catastrophe planning process and stakeholder outreach and education initiatives. Based on our experience with Hurricane Harvey and stakeholder feedback collected following the storm, we have implemented or are in the process of making a number of reforms to the Association's Annual Catastrophe Plan (see page 33 for more information) to ensure we are fulfilling our responsibility to our policyholders following a catastrophic event. One of our most prominent stakeholder events of the year, the TWIA Resiliency Workshops for Local Businesses, was held in the Galveston area this summer to help commercial policyholders be more prepared before and after a storm hits the coast. We will be exploring a number of other policyholder outreach initiatives in the future to ensure that those who utilize our claim handling process are better informed on how we can most effectively meet their needs.

Sunset Review Process

TWIA was subject to a review by the Sunset Advisory Commission in 2019. While TWIA is not subject to abolishment under the Texas Sunset Act, the evaluation process by Sunset Commission staff is designed to determine the continuing need for the Association's services and ensure we are good stewards of policyholder funds. During the last year and a half, TWIA worked closely with Sunset Staff to provide them with information about who we are and how we operate. The Sunset review process, which included a detailed self-evaluation report, in-person meetings with and presentations to Sunset staff, and our fulfillment of myriad informational inquiries, resulted in a thorough and thoughtful [Sunset Advisory Commission Staff Report](#) on the Association.

The report identified six main issues related to TWIA's operations, which were accompanied by recommendations to increase the effectiveness and efficiency of TWIA's operations, improve TWIA's customer service, decrease costs to policyholders, and help ensure TWIA can respond more quickly to legislative changes. Issue 1, focused on TWIA's competing statutory mandates – first, to provide insurance to those who cannot purchase it elsewhere and second, to rely primarily on premiums and the issuance of debt – was the only issue identified in the report with two opposing resolutions.

While we were generally supportive of the Sunset Commission's staff recommendations, [our response](#) to their report underscored our belief in our ability to both provide an adequate market for windstorm and hail insurance on the coast and meet our financial commitments to coastal policyholders. However, we agree that opportunities exist to improve and strengthen our funding structure to ensure TWIA can quickly and sufficiently pay policyholder claims in the case of successive storm events.

Following the Sunset Commission's public hearing on the Staff Report at the end of 2018, Sunset Commission members adopted all the report's recommendations with some proposed modifications. Issue 1 was not voted on by the Sunset Commission and instead referred to the Texas Legislature for its consideration as a public policy matter.

The following exhibit includes the issues and recommendations included in the Sunset Commission Staff Report and summarizes the modifications to the recommendations adopted by the Sunset Commission members.

Exhibit 1: Sunset Staff Report Issues & Recommendations for TWIA

Issues	Type	Recommendations	Outcome
Issue 1: TWIA's Competing Statutory Mandates Leave Its Sustainability in Question.	●	Continue TWIA as an insurer of last resort.	Not adopted: Referred to 86th Texas Legislature to consider as a public policy matter.
		Continue TWIA as an insurance company reliant primarily on premium funding.	
Issue 2: Inefficient Renewal Requirements and Payment Policies Increase Costs for Policyholders.	●	Require TWIA to automatically offer policy renewal unless new information is necessary.	Adopted with no modifications to the recommendation.
	●	Authorize TWIA to accept installment premium payments and credit card payments.	Adopted with modifications requiring installment premium and credit card payments and giving TWIA explicit authority to recoup credit card processing fees; Directing TWIA to submit separate agent commission rates after the other recommendations in Issue 2 have been implemented; Direct bill must be made available to policyholders by January 1, 2020.
	●	Establish separate insurance agent commission rates for new applications and automatic renewals.	
	●	Direct TWIA to directly bill customers for premiums for automatic renewals.	
Issue 3: Despite Improvements in Claims Handling, TWIA's Hurricane Harvey Response Highlights Difficulties for Policyholders.	●	Authorize TWIA to issue supplemental payments.	Adopted with no modifications to the recommendations.
	●	Require TWIA to assess the replacement cost of a property only at the time TWIA issues or renews the policy.	
	●	Direct TWIA to rack and report more comprehensive information regarding claims handling performance.	
	●	Direct TWIA to develop a post-hurricane communication plan with more input from stakeholders.	
	●	Direct TWIA to fully implement a risk-based approach to monitoring insurance adjusters.	
Issue 4: TWIA's Assumption Reinsurance Depopulation Program Is Unnecessarily Complicated and Inefficient.	●	Eliminate the Assumption Reinsurance Depopulation Program.	Adopted with modifications aimed at making the program more efficient.
Issue 5: TWIA's Process for Issuing Windstorm Certificates of Compliance Is Duplicative and Poses Risks to Public Safety.	●	Transfer the issuance of WPI-8-Cs from TWIA to the TDI.	Adopted with no modifications to the recommendations.
	●	Remove the ability to obtain a WPI-8-C based on design alone.	
Issue 6: TWIA Lacks Certain Good Government Standards That Would Enhance Responsiveness, Transparency, and Accountability.	●	Authorize TWIA to formally propose rules to TDI.	Adopted with no modifications to the recommendations.
	●	Apply standard across-the-board requirements related to public membership.	
	●	Eliminate the duplicative Bimonthly Report Card reporting requirement	
	●	Apply the standard across-the-board requirement related to board member training.	Adopted with modifications requiring TWIA Board members to attest to receiving and reviewing the training manual; Requiring the Underwriting and Actuarial Subcommittee of the TWIA Board to also publicly disclose conflicts of interest.
	●	Require TWIA board members to publicly disclose specific conflicts of interest.	

- **Statutory:** Legislation is required to enact the recommendation.
- **Management Action - Nonstatutory:** May be implemented without legislation.

New Recommendations Adopted by the Sunset Commission	Require TWIA to undergo another Sunset review in 12 years.
	Requires TWIA to make proposed rate filings publicly available on our website for at least a week before the Board's vote on a proposed rate filing and accept public comments prior to the Board's vote on a proposed rate filing.
	Requires TWIA to post the assumptions used and results of anticipated loss modeling on our website and in board materials before consideration of rate changes or reinsurance purchases.

86th Texas Legislature, Regular Session

TWIA anticipated that the 86th Legislature would be actively engaged in developing better tools to help the Association serve our policyholders. This session was the first time that Texas lawmakers had met since Hurricane Harvey in 2017, and at the end of 2018, Governor Abbott suspended the Insurance Commissioner’s consideration of TWIA’s 2018 rate filing in order to give the Legislature the opportunity to propose financial reforms. It was also the first time a Legislature was presented with a report on TWIA from the Sunset Advisory Commission.

With these considerations in mind, and in preparation for the session, TWIA’s Board of Directors developed 12 proposed legislative recommendations, which were included in our December 2018 [Biennial Report to the 86th Texas Legislature](#).

Throughout the session, TWIA leadership and staff met proactively with key legislators to discuss the Board’s recommendations and act as a resource on operational questions and the Sunset Review process. This outreach, supported by the Association’s continuous operational improvements and successful response to Hurricane Harvey, resulted in a more productive relationship between TWIA and the state’s elected leadership.

While the Sunset bill was the main focus for TWIA reform throughout the session, there were more than two dozen bills filed during the session that proposed various changes to the Association or attempted to address how the state shares the risk of natural disasters. By the conclusion of the 86th Session, the Legislature had passed a portfolio of bills that improved TWIA’s ability to effectively serve our policyholders and established forums for further study and reform (see Exhibit 2: Legislation Impacting TWIA Passed by the 86th Legislature). The Association has begun implementing these legislative changes and strengthening our ability to be there for our coastal communities when disasters happen.

Exhibit 2: Legislation Impacting TWIA Passed by the 86th Legislature

Bill	Caption
Senate Bill 615 (the Sunset bill for TWIA)	Relating to the operations and functions of the Texas Windstorm Insurance Association and the sunset review date for and programs administered by the association; authorizing a fee.
House Bill 1900	Relating to certain operations and functions of the Texas Windstorm Insurance Association and studies relating to the Texas Windstorm Insurance Association and the Fair Access to Insurance Requirements Plan; authorizing a penalty; authorizing an assessment.
House Bill 1902	Relating to maximum liability limits for windstorm and hail insurance coverage provided through the Texas Windstorm Insurance Association.
House Bill 1944	Relating to extension of deadlines for claims and related settlement and dispute resolution under the Texas Windstorm Insurance Association Act.

Association Governance and Reporting:

- New standards for the TWIA Board, including training and additional transparency and conflicts of interest measures. (SB 615)
- New requirement to make Association rate adequacy analyses, with specific format requirements, publicly available on TWIA.org at least 14 days before a vote of the board on a proposed rate filing and requires TWIA to accept public comment prior to the TWIA Board’s vote on a proposed rate filing. (SB 615 & HB 1900)
- Discontinuation of the Association’s Bimonthly Report Card. (SB 615)

Underwriting and Policy Administration:

- Development of a process for auto renewal of policies and the requirement to allow for premium installment payments and the acceptance of credit card payments. (SB 615)
- Determination of replacement cost value at the time of policy issuance. (SB 615 & HB 1900)

- The transfer of the WPI-8-C process to the Texas Department of Insurance (TDI) with additional modifications designed to strengthen oversight over the process. (SB 615 & HB 1900)

Claims Handling and Deadlines:

- Authorization of TWIA's existing supplemental payments process. (SB 615)
- Authorization for the Insurance Commissioner to extend TWIA policyholder claim-handling deadlines at his discretion and extend the claim-handling deadlines applicable to TWIA to a maximum of 120 days. (HB 1944)
- Modifications to deadlines and processes related to the payment of replacement cost coverage claims. (HB 1900)

Funding:

- New requirement to call an emergency meeting of the TWIA Board for the purpose of notifying member companies of the need for an assessment to pay storm losses. (HB 1900)
- New requirement that TWIA assess member companies for the purchase of reinsurance above the 1-in-100-year funding requirement. (HB 1900)
- New requirement clarifying TWIA's use of premiums and reserves for the payment of storm losses. (HB 1900)

Regulatory:

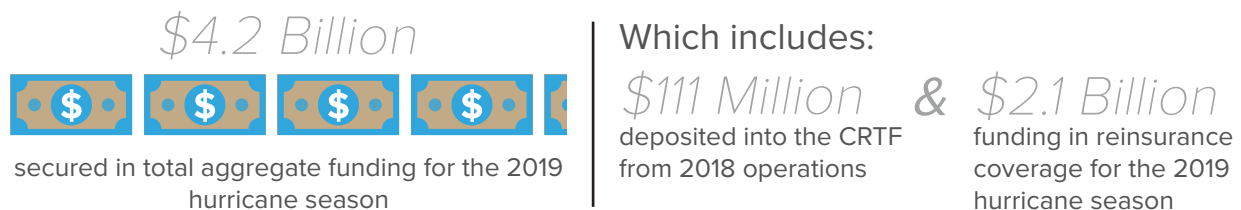
- Authorization for TWIA to propose rules for adoption by TDI and to request a public hearing in connection with a rule. (SB 615)
- New requirement that TDI change the Assumption Reinsurance Depopulation Program rules to eliminate the requirement for agents or policyholders to take action on offers made during hurricane season and decreasing the policyholder decision period on offers to no more than 60 days. (SB 615)
- New requirement making maximum liability limit filings by TWIA considered approved unless the Insurance Commissioner modifies or disapproves the filing within 30 days of receipt. (HB 1902)

Additional Study:

- Authorization for the windstorm legislative oversight board to conduct a study to evaluate a merger of TWIA and Texas FAIR Plan Association. (HB 1900)
- Creation of a legislative oversight board to analyze TWIA's current funding and funding structure and make recommendations for changes. (HB 1900)

Operational and Financial Key Accomplishments

TWIA begins the 2019 hurricane season prepared to respond to our policyholders when they need us most. This year, we have secured access to \$4.2 billion in total aggregate funding, an amount slightly in excess of our statutory minimum funding requirement. It includes our deposit of \$111 million into the CRTF as a result of 2018 operations and \$2.1 billion in reinsurance.



As TWIA's policy count decreases in response to a more robust private insurance market on the coast, we are ever-mindful of our responsibility to be good stewards of policyholder funds. For the eighth straight

year, we have kept our controllable expenses below budget and continue to maintain the third lowest cost as a percentage of premium out of the 36 U.S. FAIR plans and wind pools.



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We continue to maintain a coastal presence with frequent trips to the coverage area to engage with our stakeholders. From June 1, 2018 to May 31, 2019, we took part in more than a dozen outreach events to facilitate agent and policyholder awareness of our eligibility requirements, policy coverage, and how to be prepared in the event of a hurricane. We also create opportunities to meet and partner with emergency management personnel on the coast to ensure we are proactively coordinating our response efforts in advance of a catastrophic event.



over a dozen outreach events attended to facilitate agent and policyholder awareness

In addition to a robust catastrophe planning program, TWIA also utilizes a business continuity and disaster recovery program to ensure the Association is able to resume operations quickly in case our own facilities or personnel are impacted by a catastrophic event. At the beginning of 2019, staff took part in a tabletop exercise to test our business continuity plan, allowing us to identify gaps and areas of needed improvement in the program.

On June 1, 2019, TWIA facilitated the transfer of more than 2,000 policies into the voluntary insurance market through the third round (2018-2019) of our Assumption Reinsurance Depopulation Program. We are currently in round four of the program (2019-2020).

75,000

Policy offers from the two participating carriers in round three (2018-2019) of the program.

4,000

Agent-approved offers extended to policyholders at the end of 2018 through round three of the program.

2,080

Depopulated policies transferred to the three participating carriers in the second round (2017-2018) of the Assumption Reinsurance Depopulation Program.

Leveraging TWIA's Accomplishments for Future Optimization

Based on the accomplishments of the previous year, TWIA is prepared to integrate lessons learned from the experience of Hurricane Harvey, implement the reforms embodied in the Sunset Review process and enacted by the 86th Legislature, and continue our commitment to good stewardship of the funds entrusted to us. As always, our priority is to ensure that we meet the requirements enshrined in statute and maintain our capacity to be there for our policyholders when they turn to us in the wake of a catastrophe.

TWIA Overview & Statutory Compliance



TWIA Overview

History and Purpose

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

TWIA is a residual insurer of last resort and as such is not a direct competitor in the private market. TWIA's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas.

The seacoast territory includes 14 first-tier and 14 second-tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first-tier and a portion of Harris County (second-tier).

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



Mission and Vision

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

TWIA embodies the following values in support of its mission:



Board Composition

Texas Insurance Code Section 2210.102 describes the composition of the TWIA Board of Directors. The statute provides that the Board shall consist of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in first tier coastal counties, three public members residing in the first-tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

The current TWIA Board of Directors is as follows:

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

SB 615 amended Section 2210 Subchapter C related to the Association Board of Directors. The legislation includes provisions related to the member composition of the Board, Board training requirements, and Board disclosures and conflicts of interest, including:

1. Establishing that a person may not be appointed to the Board in a spot reserved for an inland or coastal representative, if the person or the person's spouse manages, is employed by or owns more than 10% interest in a company that:
 - Operates in the property & casualty insurance industry in Texas;
 - Receives money from the Association other than claim payments; or
 - Receives money from Association policyholders with respect to the policyholders' claims.
2. Mandating that a person may not be appointed to the Board in a spot reserved for an inland or coastal representative if the person or the person's spouse receives a substantial amount of tangible goods, services or money from the Association, excluding claim payments or authorized board compensation for travel.
3. Requiring a Board member to complete training related to their role in order to vote, deliberate, or be counted as a member in attendance at a Board meeting and that the Association create a training manual, which must be sent to and acknowledged by the Board members annually;
4. Requiring Board members and Underwriting and Actuarial Committee Members to publicly disclose potential conflicts related to a particular vote or discussion prior to the discussion or vote at a Board meeting.

Policies, Premiums, and Exposures

Coverage and Eligibility Requirements

TWIA policies provide coverage for wind and hail losses only. No other perils are covered by TWIA policies. Applications for coverage, accompanied by the full annual premium, may be submitted to TWIA through an agent properly licensed through TDI.

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

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

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

Operational Efficiency through Underwriting

The efficiency of TWIA's Underwriting Department is measured by managing staffing resources combined with improved productivity and turnaround time for service. In 2014, TWIA's Underwriting Department (including underwriters, managers, and agent auditors and shared services employees) operated with 49 full-time employees. Today, the Association operates with 35 full-time Underwriting employees (a 29% decrease in needed resources). Even with this staff reduction, service times are faster and more consistent.

As of June 30, 2019, more than 95% of policies are consistently issued within 10 days.

Underwriting continues to provide excellent service and product delivery due to a combination of factors, including implementation of a new residential policy administration system and billing system in 2015, a new commercial policy administration system in early 2018, and updated training and quality assurance programs. Prior to replacing our core systems, TWIA only accepted policy applications via U.S. mail, required paper checks from agents for premium payments, and manually processed every single application and check. This resulted in the issuance of approximately 50% of policies within 14 days of receipt of the application, a turnaround time which still required substantial reliance on employees working overtime. The improvement of TWIA's core systems allows for 100% of policy applications, including new business, renewals, and policy changes, to be received electronically from the agent. Policy payments may also be received electronically from the agent, premium financiers, and policyholders via their agents. As of

June 30, 2019, more than 95% of policies are consistently issued within 10 days year-round. TWIA is in the process of planning the next phase of improvements to our core systems, adding agent and policyholder portals to enable more efficient self-service.

Risk Visualization Program

TWIA partnered with a third party over four years ago to provide aerial imagery for the Association's coverage territory. The high-resolution imagery — combined with patented technology for 3D aerial roof measurements — captured on annual flyovers allows the Claims and Underwriting Departments to remotely inspect a property to determine the accuracy of rating information, discover unrepaired damage, or identify any conditions that may affect the insurability of a property. As part of the renewal underwriting process, TWIA receives a report from the third-party vendor that identifies changes made to any covered property, so Underwriting may better target inspections.

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

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

Post-Hurricane Harvey Underwriting

In the wake of any major storm, it takes time for communities and property owners to rebuild; Hurricane Harvey was no exception. Following the storm, TWIA focused on balancing our standards for eligibility and insurability, while working with policyholders as they restored their properties. The Underwriting Department's process for renewing policies on properties damaged by Hurricane Harvey involved evaluating claim data to identify those likely to have the most severe damage and separated these findings into three tiers based on severity: 1) where the policy limits were paid, 2) where covered damage amounted to \$10,000 or more, and 3) for covered damage under \$10,000. Underwriting then contacted the policyholder's agent to determine the next steps regarding the policy. As the two-year mark approaches, TWIA remains committed to supporting policyholders and agents as they begin to look beyond recovery from Hurricane Harvey to preparing for the next storm impacting the Texas coast. This means ensuring policies with damaged property from Hurricane Harvey are repaired and remain eligible by obtaining the appropriate Certificates of Compliance (WPI-8 or 8-C) and policy coverages.

Policy Issuance

Under Texas Insurance Code Section Chapter 2210.203, if the Association determines that the property for which an application for initial insurance coverage is made is insurable property, the Association, on payment of the premium, shall direct the issuance of an insurance policy as provided by the Association's Plan of Operation. A policy is issued for a one-year term and may be renewed annually on application for renewal if the property continues to be insurable property.

TWIA's policy count reached an all-time high in 2014 with more than 275,000 policies issued by the Association. Since 2015, TWIA has seen a gradual decline in policy count and written premiums, attributed to increasing interest from the private insurance market in providing wind and hail coverage in the designated catastrophe area. Today, TWIA insures nearly 200,000 policies.

Below are charts illustrating the number of TWIA policies currently in-force, the direct liability associated with those policies, and premiums written through June 30, 2019, as compared to the previous year:

Policies In-Force

Policy Type	As of 6/30/18	As of 6/30/19	Change from Prior Year
Manufactured Home	742	710	-4.31%
Residential	204,275	185,416	-9.23%
Commercial	8,261	7,376	-10.71%
Totals	213,278	193,502	-9.27%

Direct Liability

Policy Type	As of 6/30/18	As of 6/30/19	Change from Prior Year
Manufactured Home	\$39,317,759	\$38,263,406	-2.68%
Residential	\$54,496,959,536	\$49,985,574,820	-8.28%
Commercial	\$6,731,448,366	\$6,089,319,391	-9.54%
Totals	\$61,267,725,661	\$56,113,157,617	-8.41%

Written Premiums (YTD)

Policy Type	As of 6/30/18	As of 6/30/19	Change from Prior Year
Mobile Home	\$564,810	\$517,271	-8.42%
Residential	\$167,181,306	\$156,871,134	-6.17%
Commercial	\$36,519,383	\$33,319,734	-8.76%
Totals	\$204,265,499	\$190,708,139	-6.64%

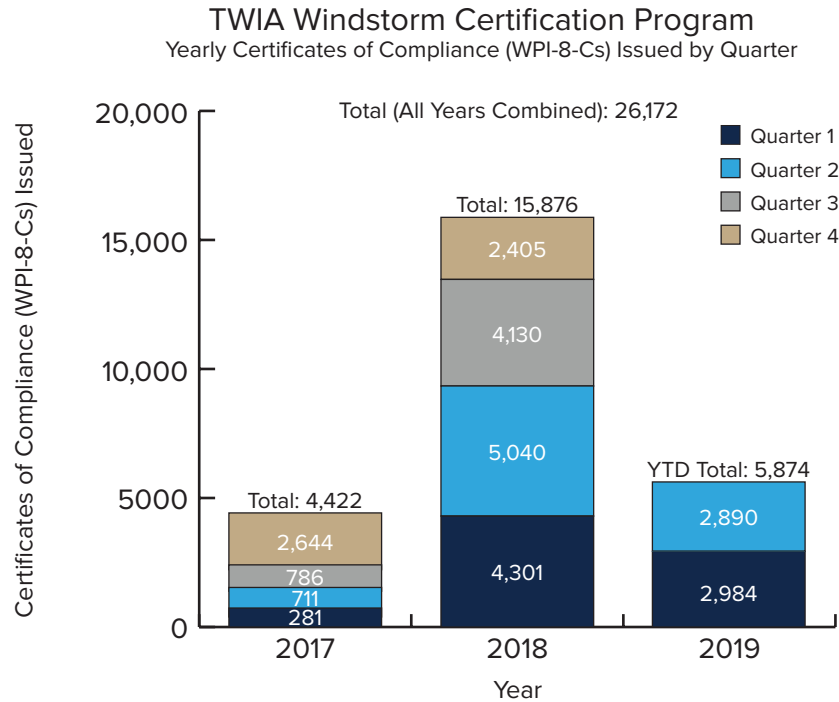
Building Codes and Certificates of Compliance

Subchapter F of Chapter 2210 (Sections 2210.251-2210.259) outlines the building code and inspection requirements for TWIA eligibility and provides for limited exceptions. In accordance with these sections, TWIA requires a Certificate of Compliance (WPI-8 or WPI-8-C) for all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. TDI administers the Windstorm Inspections Program and issues Certificates of Compliance (WPI-8) for ongoing improvements to structures. Property owners can contact TDI before beginning construction in order to have a TDI-appointed qualified inspector inspect their property and certify that it is fully compliant with the applicable windstorm building code.

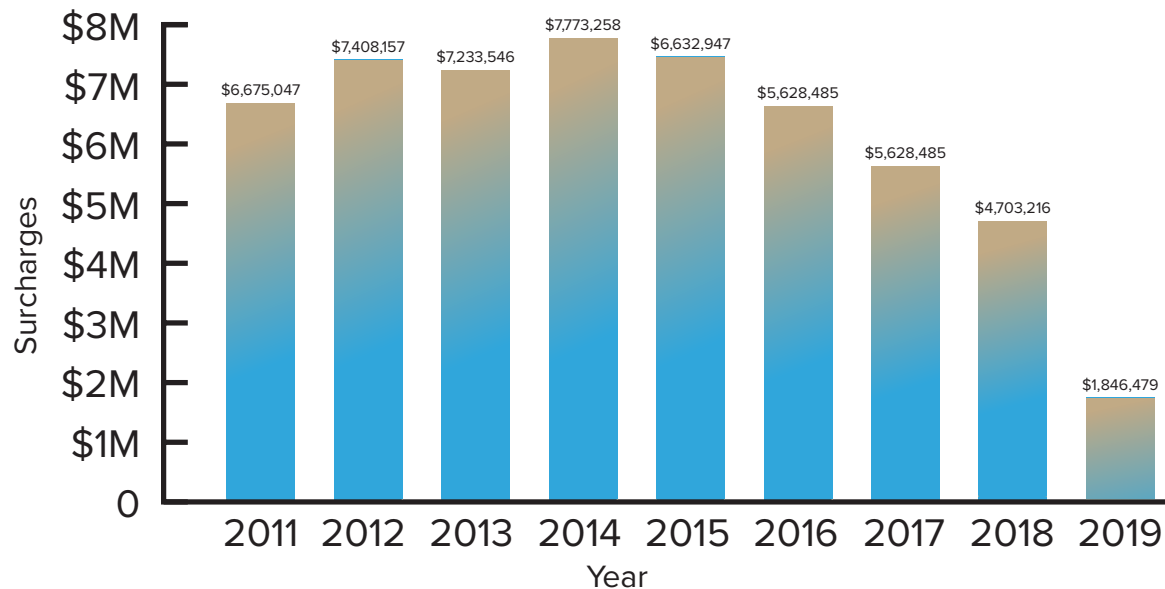
HB 2439 passed by the 84th Texas Legislature changed the windstorm certification process to provide two paths for obtaining a certificate. This required TWIA to implement a program to issue Certificates of Compliance (WPI-8-C) for completed improvements. The law applies to a TWIA policy delivered, issued for delivery, or renewed on or after January 1, 2017. A person seeking certification for a completed improvement must have a Texas-licensed engineer certify compliance with the applicable windstorm building code. The engineer must submit required information to TWIA in order for TWIA to issue the Certificate of Compliance (WPI-8-C).

SB 615 and HB 1900, passed by the 86th Texas Legislature, moved the responsibility for issuing Certificates of Compliance (WPI-8-C) for completed improvements back to TDI with some modifications improving accountability for and oversight over the process. The effective date of these legislative changes is June 1, 2020. TWIA will continue processing applications received through May 30, 2020.

As of June 30, 2019, TWIA has issued 5,874 Certificates of Compliance (WPI-8-C) total in 2019, with an average turnaround time of four days from application receipt to certificate issuance. The historical chart below includes the total number of WPI-8-C applications issued since the program began on January 1, 2017:



Texas law identifies some exceptions for structures lacking windstorm certificates of compliance. Properties with construction from 1988 to June 9, 2009 that are not certified may still be eligible and are subject to a 15% premium surcharge. These surcharges are deposited directly into the CRTF. As of June 30, 2019, there are 19,112 policies in-force on the WPI-8 waiver surcharge program. The following table shows the total surcharge amounts deposited into the CRTF each year since 2011 through June 30, 2019:



Financial Operations

Annual and Statutory Statement

Texas Insurance Code Section 2210.054 requires TWIA to file annually with TDI and the State Auditor's Office a financial statement summarizing the transactions, conditions, operations, and affairs of the Association during the preceding year. The [2018 Annual Statement](#) was filed on February 27, 2019.

The below statutory balance sheet shows the financial position of TWIA in June 2019 compared to December 2018. The statutory income statement shows a comparison between the actual and budgeted revenues and expenses, as of June 30, 2019 and June 30, 2018 respectively.

Financial Statements

TEXAS WINDSTORM INSURANCE ASSOCIATION			
Statutory Balance Sheet (000's omitted)			
	June-19	December-18	
Admitted Assets			
Cash and short term investments:			
Unrestricted	\$ 457,659	\$ 563,554	
Restricted - Funds Held at TTSTC	106,359	92,574	
Restricted - Funds Held at TTSTC (Non Admitted)	-	-	
Total cash and short term investments	564,018	656,127	
Premiums receivable & other	1,874	1,707	
Amounts recoverable from reinsurers	39	4	
Total admitted assets	\$ 565,931	\$ 657,839	
Liabilities, Surplus and other funds			
Liabilities:			
Loss and Loss adjustment expenses	232,917	200,780	
Underwriting expenses payable	14,811	9,822	
Unearned premiums, net of ceded unearned premiums	118,037	195,050	
Ceded reinsurance funds payable	63,204	20,572	
Principal Outstanding on Class 1 Pre Event Bonds	368,500	368,500	
Interest Payable on Class 1 Pre Event Bonds	15,201	15,201	
Provision for reinsurance	1,816	-	
Other payables	19,330	15,189	
Statutory fund payable	-	110,590	
Total liabilities	833,816	935,703	
Surplus and others funds			
Unassigned surplus (deficit)	(267,885)	(277,864)	
Total liabilities, surplus and other funds	\$ 565,931	\$ 657,839	
Balance in CRTF	\$ 119,145	\$ 5,986	
Balance in CRTF including Statutory fund payable	\$ 119,145	\$ 116,576	

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
for the six months ended June 30,				
	Actuals - 2019	Budget - 2019	Variance - 2019	Actuals - 2018
Premiums Written:				
Direct	\$ 190,706	\$ 182,019	\$ 8,687	\$ 204,261
Ceded	(90,224)	(86,000)	(4,224)	(108,654)
Ceded - Depopulation	(1,456)	(1,741)	285	(1,364)
Net	99,027	94,278	4,749	94,242
Premiums Earned:				
Direct	\$ 192,533	\$ 188,135	\$ 4,398	\$ 207,240
Ceded	(15,037)	(14,333)	(704)	(18,109)
Ceded - Depopulation	(1,456)	(1,741)	285	(1,364)
Net	176,040	172,061	3,979	187,766
Deductions:				
Direct Losses and LAE Incurred	16,685	54,172	(37,487)	2,266
Direct Losses and LAE Incurred - Harvey	90,000	-	90,000	164,000
Direct Losses and LAE Incurred - Ike & Dolly	0	-	0	-
Ceded Losses and LAE Incurred - Depopulation	(127)	(577)	451	247
Operating Expenses	14,031	18,740	(4,709)	16,285
Depopulation Servicing	(45)	(52)	7	(176)
Commission Expense	30,468	29,124	1,344	32,673
Ceding commissions / brokerage	(2,569)	(1,946)	(623)	(2,458)
Ceding commissions / brokerage - Depopulation	(349)	(418)	68	(327)
Premium / Maintenance Tax	3,641	3,587	54	3,985
Total Deductions	151,734	102,629	49,105	216,494
Net Underwriting Gain or (Loss)	24,305	69,432	(45,126)	(28,728)
Other Income or (Expense):				
Gross Investment Income	5,049	4,102	947	2,622
Member Assessment Income	-	-	-	175,000
Interest Expense on Class 1 Bonds	(15,201)	(15,201)	0	(17,102)
Debt Issuance/Maintenance & Other Investment Expenses	(1,425)	(1,757)	332	(99)
Other Income (Expense)	43	-	43	50
Total Other Income or (Expense)	(11,534)	(12,855)	1,321	160,471
Net Income Before Income Taxes	12,771	56,576	(43,805)	131,743
Federal Income Tax Expense (Benefit)	-	-	-	-
Net Income (Loss)	\$ 12,771	\$ 56,576	\$ (43,805)	\$ 131,743
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(277,864)	(277,864)	-	(461,390)
Net Income (Loss)	12,771	56,576	(43,805)	131,743
Change in Provision for Reinsurance	(1,816)	(2,000)	184	(2,686)
Change in nonadmitted assets - Other	(976)	(1,508)	532	10,631
Statutory Fund Cost	-	-	-	-
Ending Surplus (Deficit)	\$ (267,885)	\$ (224,796)	\$ (43,089)	\$ (321,702)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	8.7%	28.8%	-20.1%	1.1%
Hurricane Harvey	46.7%	0.0%	46.7%	79.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	55.4%	28.8%	26.6%	80.2%
UW Expense Ratio:				
Acquisition	17.9%	18.0%	-0.1%	17.9%
Non Acquisition	7.3%	9.9%	-2.7%	7.8%
UW Expense Ratio	25.1%	27.9%	-2.8%	25.7%
Combined Ratio	80.6%	56.7%	23.9%	105.9%
Net:				
Loss & LAE Ratio:				
Non Hurricane	9.4%	31.1%	-21.7%	1.3%
Hurricane Harvey	51.1%	0.0%	51.1%	87.3%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	60.5%	31.1%	29.4%	88.7%
UW Expense Ratio:				
Acquisition	19.2%	19.2%	0.0%	19.2%
Non Acquisition	7.9%	10.9%	-2.9%	8.6%
UW Expense Ratio	27.1%	30.1%	-3.0%	27.8%
Combined Ratio	87.7%	61.2%	26.4%	116.5%

Note: Beginning Budgeted Deficit Adjusted To Actual for Comparative Purposes

Rates

TWIA rates are a factor in determining the amount of premium charged to each TWIA policyholder. Adequate rates help ensure TWIA can meet its financial obligations. TWIA is required to make an annual rate filing with the TDI by August 15 of each year. The amount of TWIA's annual rate filing is determined by the TWIA Board of Directors who consider the Association's current indicated rate needs and feedback from stakeholders. Rate filings may be subject to review and approval by the Commissioner of Insurance.

Texas Insurance Code Section 2210.355 requires that TWIA rates be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. TWIA actuarial staff conducts an annual rate adequacy analysis using standard actuarial industry methodologies to compare TWIA's current rate level to the expected costs for providing property insurance coverage for the upcoming year. The actual costs of providing property coverage for a specific year may differ substantially from the indicated required rate level since the windstorm and hail events covered by TWIA are inherently unpredictable from year to year. The analysis includes factors for actual historical and modeled windstorm losses, operational expenses, reinsurance costs and anticipated reinsurance recoveries, projected debt service, and a reasonable provision for contingencies. The actuarial review of TWIA's rate adequacy completed in July 2019 concluded that residential and commercial rates were inadequate by 41.7% and 50.0%, respectively.

Legislative changes enacted by SB 615 and HB 1900 in 2019 require TWIA's rate adequacy analysis to be posted on TWIA's website at least 14 days before the Board meets to vote on a proposed rate filing and mandate a period for public comment on the rate adequacy analysis at a public meeting of the Board prior to their vote on the proposed rate filing.

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

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

The TWIA Board of Directors voted to propose a 10% rate increase for 2019 at the July 31, 2018 Board meeting. The Commissioner's decision on the rate increase was suspended by Governor Greg Abbott until after the 2019 legislative session, giving the Legislature more time to consider TWIA's rate adequacy and in consideration of policyholder recovery from Hurricane Harvey. On May 24, 2019, the TWIA Board voted unanimously to withdraw this rate filing, leaving premium rates unchanged in 2019.

The TWIA Board of Directors will meet on August 6, 2019 and is expected to take action regarding the Association's annual rate filing at this meeting.

Maximum Limits of Liability

Under Texas Insurance Code Subchapter K of Chapter 2210 (Sections 2210.501 – 2210.504), TWIA is required to propose inflation adjustments to the maximum liability limits under a windstorm and hail policy. TWIA files annual updates to the maximum liability limits based on changes in construction cost indices.

The TWIA Board of Directors will consider a proposed filing to adjust the maximum liability limits at its August 6, 2019 meeting.

The current maximum limits are:

Dwellings and individually owned townhouses:

\$1,773,000

Contents of an apartment, condominium, or townhouse:

\$374,000

Commercial structures and associated contents:

\$4,424,000

Claims Handling and Loss Funding

Catastrophe (CAT) Incident Response Plan

Texas Insurance Code Section 2210.455 requires the Association, not later than June 1 of each year, to submit to the Commissioner, the Legislative Oversight Board, the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives a catastrophe plan covering the period beginning on the date the plan is submitted and ending on the following May 31. TWIA's [2019 Catastrophe \(CAT\) Incident Response Plan](#) is included with TWIA's Annual Report, published on May 31, 2019.

The 2019 CAT Plan continues to address stakeholder feedback received from Hurricane Harvey. Built into the Association's annual CAT Plan review process is a Corrective Action Program (CAP) which is designed to identify gaps and deficiencies in the previous year's CAT Plan. This information is used to create After Action Reports (AARs) which involve the development of improvements and methods for replicating successes.

The focus of the improvements to the 2019 CAT Plan include:

- A refreshed training plan for employees and contractors deployed to our mobile claims centers, allowing for increased efficiency and improved communication when responding to policyholders following a major storm event.
- Enhancements to our internal systems to support the mass-onboarding of claims personnel and customer service representatives.
- Implementing a risk-based approach to our quality assurance processes to better assess high-risk claims, improve claims handling performance and communication with stakeholders, and ensure proper management of expert resources.
- Supplementary instructional documents for claims personnel to ensure completion of CAT Plan action items.

Replicating our successes is another key component of the 2019 CAT Plan:

- TWIA is constantly improving the Association's claims resource capabilities and our ability to respond to an event promptly, efficiently, and effectively. The utilization of our resource scalability and loss projection models ensured a fast and efficient response in the weeks after Hurricane Harvey, and Claims leadership continues to meet to devise plans for replicating and enhancing the initial scaling process for an event. The resource scalability model has been updated based on the number of policies in force, current technology, and the Association's experience after Hurricane Harvey.
- TWIA implemented a claims administration system, Claims Center, in July 2016. The system is designed to speed up and improve the claims handling process and provide policyholders, agents and TWIA with better ways to communicate and share more accurate information about a claim. Ongoing improvements look to enhance the Associations' ability to report and share information about claims filed.
- Our field operations are supported by our relationships with Offices of Emergency Management (OEM) and public officials in our coverage area. We continue to meet with city, county, and state Emergency Management personnel to socialize plans and to find ways to better coordinate after an event.

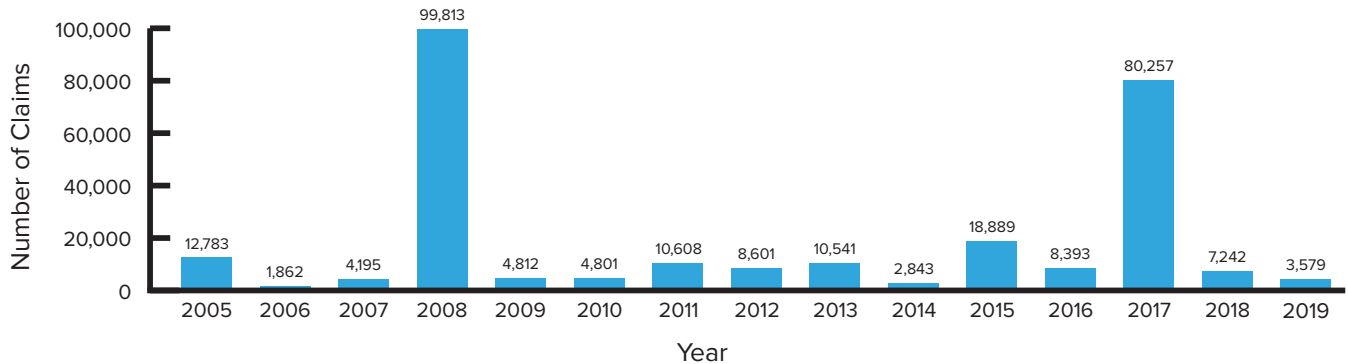
CAT Plan Testing and Activation

TWIA has activated the CAT Plan 12 times since January 1, 2012 for localized wind and hail events and has updated the plan based on information gathered from these events. TWIA activated the CAT Plan on August 22, 2017, due to Hurricane Harvey, resulting in the second-highest level of new claims filed in the Association’s history after Hurricane Ike in 2008. Most recently, the CAT Plan was activated on September 11, 2018, in response to the developments of two systems threatening TWIA’s coverage area. The CAT Plan was de-activated a week later after the storms were no longer viable threats to the Texas coast.

To prepare for CAT Plan activation, the Association has conducted annual testing, training, and exercises for the past five years, focusing on all elements of the CAT Plan and response. The Association first tested the CAT Plan in an enterprise-wide simulation in June 2014. Testing, training, and exercises have since been developed for staff deployments, claims processes and procedures, cross-departmental communication, and technology to improve overall readiness throughout the organization. To support this and to ensure continuous improvement, the Association developed a three-year strategic testing, training, and exercise plan from 2019 to 2021.

Although the one-year deadline to file a claim from Hurricane Harvey has passed, TWIA continues to receive claims from the storm with 76,664 claims filed through June 30, 2019. TWIA has received 1,624 claims as of June 30, 2019. 2019 claims include new claims filed for both Hurricane Harvey and non-Harvey claims filed since the beginning of the year.

Historical TWIA Claim Volume for the past 14 years and YTD 2019 is reported in the chart below.



Claims Settlement and Dispute Resolution

Appeals

Under previous law, an insured could dispute a claim decision by filing an appeal with the Commissioner and presenting the dispute to the State Office of Administrative Hearings (SOAH). Texas Insurance Code Section 2210.551 limits the availability of appeals through the SOAH process to those persons or entities

that have been aggrieved by an act, ruling, or decision of the Association that is not related to the payment of, the amount of, or the denial of a claim. As a result, all correspondence to policyholders communicating a claims decision includes revised language to reflect rights and responsibilities as provided under current law.

Claims: Settlement and Dispute Resolution

HB 3, enacted in 2011, made significant changes to the process by which insureds can dispute TWIA's decision relating to the payment of, the amount of, or the denial of claims, and the remedies available to insureds. First, Section 2210.014 made Insurance Code Chapters 541 (Bad Faith) and 542 (Prompt Pay Act) inapplicable to TWIA claims. Second, Section 2210.572(c) made the Deceptive Trade Practices Act inapplicable to TWIA. These were three of the main causes of action asserted by insureds who sued TWIA, alleging claims were underpaid or settled in bad faith.

The provisions of Chapter 2210, Subchapter L-1, changed the process for claims decisions, payments, and disputes. All disputes regarding the amounts paid for claims that are accepted by the Association must be submitted to an appraisal process. If TWIA denies coverage for a claim in full or in part, Section 2210.575 allows policyholders up to two years to provide notification of their intent to bring suit against the Association. TWIA has the option to require the policyholder to submit the dispute to Alternative Dispute Resolution with mediation as the primary form of dispute resolution used by the Association. All costs and expenses of appraisal and mediation are shared equally by both parties.

Below is a table of data (as of June 30, 2019) regarding 2019 year-to-date disputed claims and Hurricane Harvey disputed claims. Dispute frequency tracks the total number of claims filed with the Association and the number and percentage of claims in which the policyholder is disputing the claims disposition for any reason.

2019 Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
3,579	69	1.93%	62	7	1

Hurricane Harvey Disputed Claims					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,664	4,173	5.44%	3,973	1,035	350

Hurricane 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
3,973	329	449	438	1,776	567	414
	8%	11%	11%	45%	14%	10%

Catastrophe Funding

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

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

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

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

2019 Hurricane Season Funding

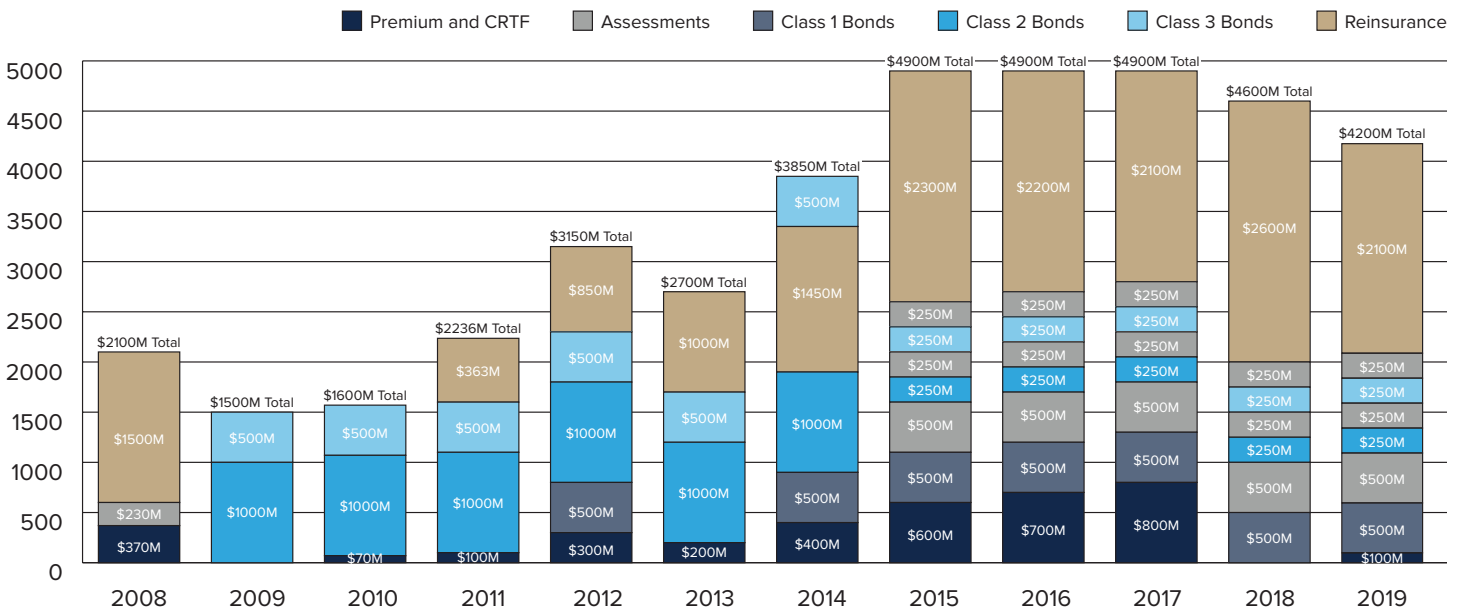
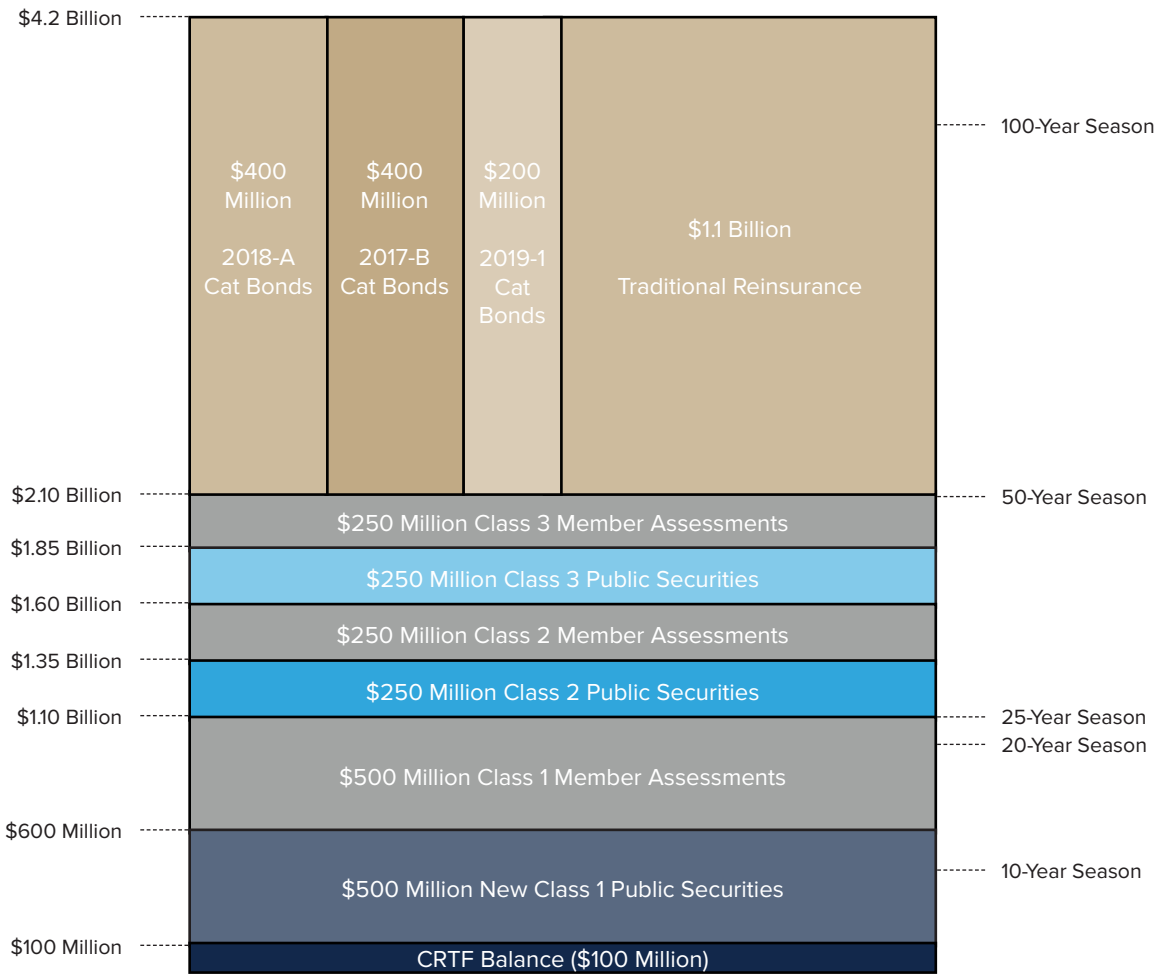
TWIA's 2019 reinsurance program, effective June 1, 2019 to May 31, 2020, provides \$4.2 billion in total aggregate funding sources, an amount in excess of the statutory minimum funding. TWIA's funding sources includes the purchase of reinsurance, relying on a combination of traditional reinsurance contracts and privately placed catastrophe bonds. The traditional reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program.

The 2019 reinsurance program includes:

- \$400 million of three-year catastrophe bonds (2017-B Catastrophe Bonds), issued in 2017, and
- \$400 million of three-year catastrophe bonds (2018-A Catastrophe Bonds), issued in 2018, which provide coverage for aggregate losses in excess of \$2.1 billion.
- A combination of \$1.1 billion in traditional reinsurance coverage and \$200 million in newly issued catastrophe bonds (Series 2019), providing an aggregate of \$1.3 billion in excess of \$2.1 billion. The traditional reinsurance has a one-year term, and the catastrophe bonds mature in three years.
- All reinsurance contracts and catastrophe bonds provide pro-rata coverage for \$2.1 billion in excess of \$2.1 billion within the funding stack.

TWIA's funding for the 2019 hurricane season is illustrated by the chart below and followed by a historical comparison of funding levels since 2008.





Regulatory Compliance

TDI Proposed and Adopted Rules

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

Standards of Conduct

Business Ethics and Conflicts of Interest Policy

TWIA first developed and implemented a comprehensive Business Ethics and Conflict of Interest Policy (“Ethics Policy”) in February 2011. The policy has since undergone revisions in 2011, 2012, 2016, and 2019 to incorporate legislative changes and modernize, simplify, and clarify aspects of the Policy. Pursuant to Texas Insurance Code Sections 2210.012 and 2210.013, the Ethics Policy states that a member of the TWIA Board of Directors or an employee shall not:

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

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

TWIA leadership understands the importance of creating and maintaining a standard of conduct that is above reproach.

Ethics Training and Initiatives

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

- Stand-alone ethics training for onboarding employees and contractors.
- Annual certification acknowledging review of the Ethics Policy and agreeing to adhere to its terms for all Board members, employees, and contractors.

- Required disclosure of certain business and personal relationships at the onset of employment or at first discovery.
- Required filing of gift disclosures for the acceptance of permissible gifts as well as the rejection of certain prohibited gifts by all employees and contractors.
- Easy access to the Ethics Policy for all employees and contractors via a PC desktop link and the Association's shared computer drive for all policy and procedural documents.
- Development of a system to record and monitor required certifications and training, such as the Annual Ethics Certification, gift disclosures, and training classes.
- Incorporation of ethics and compliance training into field adjuster training beginning in February 2012.

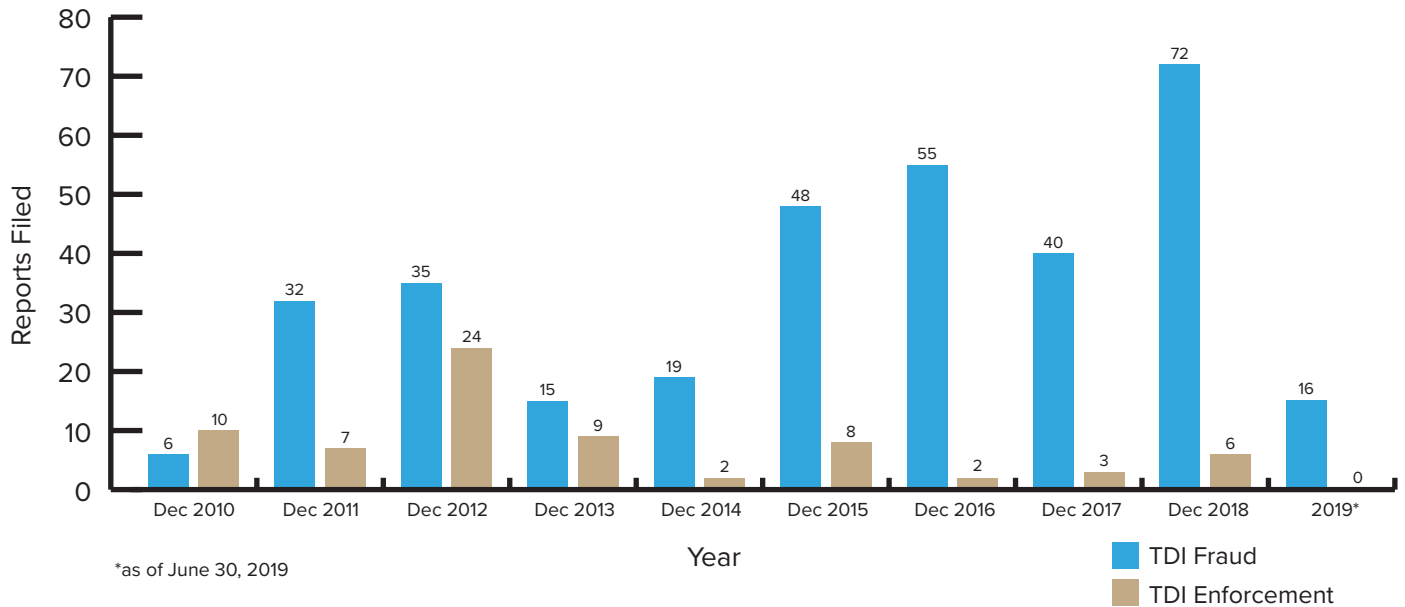
Fraud Reporting

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

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

Special Investigations Unit/Fraud Abatement

TWIA's Claims Special Investigation program uses an experienced investigation firm, Veracity Research Company Investigations (VRC). The program includes mandatory and recommended Special Investigations Unit (SIU) referral guidelines based on industry standards and best practices. TWIA's SIU program tracks referral rates, results, and reports made to TDI's Fraud Intake Unit. Generally, wind and hail claims do not generate the same number of SIU referrals and fraud reports as policies with coverage for perils like fire, theft, vandalism, etc. The following chart illustrates a sharp increase in fraud investigations and reports since 2010, evidencing TWIA's increased focus and responsibility on fraud abatement and reporting. After TWIA retained the services of VRC in 2012, reporting levels moderated, reflecting a more sophisticated assessment by the vendor of the “reasonable suspicion of fraud” standard. We have seen a decline in the number of referrals made this year in comparison to the high-volume of referrals raised in 2018 from Hurricane Harvey.



Whistleblower Policy

TWIA contracts with a third-party vendor to provide anonymous hotline reporting of fraud or ethics violations. Monthly reports are transmitted by the vendor to the Association’s General Counsel, Vice President of Legal & Compliance, and General Manager.

Open Meetings and Open Records

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

The Association continues to meet the requirements of the Open Meetings Act by complying with posting requirements for meetings of the Board of Directors and its subcommittees, as well as live broadcasting of meetings and archiving of those meetings for later viewing on the [Association website](#).

Texas Insurance Code Section 2210.108 also provides that, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 552 Texas Government Code, the Texas Public Information Act. TWIA receives and responds to requests in accordance with the Act. From June 1, 2018 through June 30, 2019), TWIA has received 39 open records requests.

Depopulation

Pursuant to Subchapter O of Chapter 2210 (Sections 2210.701-2210.705), TWIA is required to administer a depopulation program that encourages the transfer of Association policies to insurers through the

voluntary market or assumption reinsurance. SB 615 amends Section 2210.705, effective September 1, 2019, to provide that rules regarding the transfer of policies through the Assumption Reinsurance Depopulation Program may not require an insurer, agent or policyholder to take action or make a decision on or after June 1 or before December 1 in any year. TDI rules incorporating these legislative changes are due on March 30, 2020, and expected to impact round five of the program.

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

Voluntary Market Depopulation Program

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

Assumption Reinsurance Depopulation Program

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

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

Depopulation Programs Status

Voluntary Market Depopulation Program

As of June 30, 2019, four carriers have reported a total of 4,439 policies bound through the Voluntary Market Depopulation Program. There is one actively participating carrier in the Voluntary Program — Weston Insurance Company has reported 2,409 policies bound. United Property and Casualty (UPC), USAA Casualty Insurance Company (USAA), and State National Insurance Company also previously received approval to participate. UPC reported 71 policies bound, USAA reported 1,876 policies bound, and State National reported 83 bound policies bound before electing to discontinue participation in the program.

Assumption Reinsurance Depopulation Program

More than 11,000 policies were transferred to four participating carriers in Round 1 (2016-2017) of the Assumption Program. Participating carriers accrued a total of \$8.9 million in written premiums under the assumption agreement. In Round 2 (2017-2018), three participating carriers assumed 1,634 policies and accrued \$1.5 million in written premiums. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 116 policies remain on TWIA paper from Round 2 of the Assumption Program.

Two carriers are participating in Round 3 (2018-2019) of the Assumption Program: Weston Insurance Company and Safepoint Insurance Company. In August 2018, the carriers submitted their lists of policies selected for offers through the program, totaling 75,039 unique policy offers. Agents had from September 1, 2018 through October 31, 2018 to review and select the proposed offers on TWIA’s depopulation website. Agents selected 3,967 offers to progress to the policyholder phase of the program, beginning December 1, 2018.

Offer letters were sent by TWIA and the participating carriers to the selected policyholders in early December 2018. Policyholders had until May 31, 2019 to elect to remain with TWIA or take no action to be transferred to the assuming carrier effective June 1, 2019. On June 1, 2019, 2,080 policies were transferred to the assuming carriers.

The chart below provides an overview of Rounds 1 through 3 of the Assumption Reinsurance Depopulation Program:

Assumption Reinsurance Depopulation Program			
Program Year	2016-2017	2017-2018	2018-2019
Participating Carriers	4	3	2
Policies Selected by Carrier	102,171	109,356	75,039
Agent-Approved Offers	18,047	3,091	3,967
Policies Assumed as of June 1	11,164	1,634	2,080

“Repopulation”

TWIA uses policyholder name and address to approximately identify returning risks, or those policyholders and/or properties that were depopulated from TWIA through the Assumption Reinsurance and Voluntary Market Depopulation Programs but came back (“repopulated”) to TWIA for wind and hail insurance. As of June 30, 2019, we have identified 211 policies that have returned to TWIA as new business; 201 through the Assumption Program and 10 through the Voluntary Program.

Examination of the Association

Examination by the Texas Department of Insurance

Texas Insurance Code Section 2210.057 states that the Association is subject to examination by TDI pursuant to Sections 401.051, 401.052, 401.054-401.062, 401.151, 401.152, 401.155, and 401.156 and Subchapter A, Chapter 86. TDI initiated an audit of TWIA’s claims practices on November 7, 2017 to review denied or closed property insurance claims filed after Hurricane Harvey. TDI submitted their final report to TWIA in August 2018, which included two recommendations to support the Association’s claims practices: (1) the creation of a comprehensive claims manual for use by Association staff and adjusters and (2) implementing measures to ensure the Association confirms adjusting firms have proper licensure before executing a contract. An additional examination of TWIA’s claims practices involving supplemental payments and supplemental claims commenced in November 2018 and is currently ongoing.

TDI commenced a financial examination of the Association in 2018 covering TWIA’s financial processes and controls since the previous examination in 2014 through December 31, 2017. TDI provided their final report to TWIA in February 2019. There are no findings and no financial adjustments indicated in the final report.

Policyholder Service

TDI COAST and Ombudsman Program

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

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

During the reporting period (May 1, 2019 to June 30, 2019), TWIA has participated in the following outreach events:

MAY	May 1-2, 2019: 2019 Coastal Bend Hurricane Conference, Robstown, TX
	May 16, 2019: Friendswood Hurricane Town Meeting, Friendswood, TX
	May 21, 2019: Hurricane Town Meeting, Morgans Point, TX
JUNE	June 1, 2019: Galveston Hurricane Town Hall, Galveston, TX
	June 5, 2019: Clear Lake Shore Hurricane Preparedness Meeting, Kemah, TX
	June 6, 2019: Texas City Hurricane Preparedness Town Hall, Texas City, TX
	June 12, 2019: Bayou Vista Hurricane Preparedness Meeting, Bayou Vista, TX
	June 15, 2019: Jamaica Beach Hurricane Town Meeting, Jamaica Beach, TX
	June 22, 2019: Brazoria County Hurricane Exposition, Angleton, TX

Hurricane Preparedness Campaign

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

- **Educational Outreach:** First created in 1993, our annual Hurricane Preparedness Teacher Toolkits target elementary schools in the TWIA coverage area. Teachers of third, fourth, and fifth grade classrooms are provided with hurricane preparedness materials to distribute to their students. The purpose of these toolkits is to help students learn how hurricane preparedness can protect them, their families, and their homes. They include information sheets, fun activities, and a contest. Teachers are encouraged to send feedback about the toolkit materials, so we can ensure the information remains engaging and relevant to the students and families in their communities. In 2019,

toolkits will be provided at the beginning of the 2019-2020 school year to coincide with the peak of hurricane season.

- **Community Outreach:** TWIA representatives engage in community outreach opportunities in coordination with and at the request of coastal legislators and city and county officials, real estate agents, and public information officers to provide claims and operational updates and explain coverage and preparedness options. In addition to providing stakeholders with valuable information, outreach efforts help build community-level relationships and create a shared understanding of TWIA's contributory role in a catastrophe response.
- **Print and Digital Outreach:** TWIA uses print and digital ads and social media as efficient tools for advising policyholders on how to be better prepared for a hurricane and what to do in the event of a loss. Our social media platforms promote the importance of hurricane safety, having insurance, reviewing policy coverages, and meeting with insurance agents on an annual basis.

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

Hurricane Safety Squad mascots used in the 2015-2019 Hurricane Preparedness Teacher Toolkits.

