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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# Actuarial & Underwriting Committee

Proposed Underwriting Changes

July 21, 2021

# Overview of Proposed Changes

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- **TWIA has made and will be making several filings with TDI representing potential changes to its underwriting processes**
- **These changes may be classified as rate filings by TDI, but do not result in overall changes in TWIA rates**
- **All filings were posted to the TWIA website on June 30, 2021**

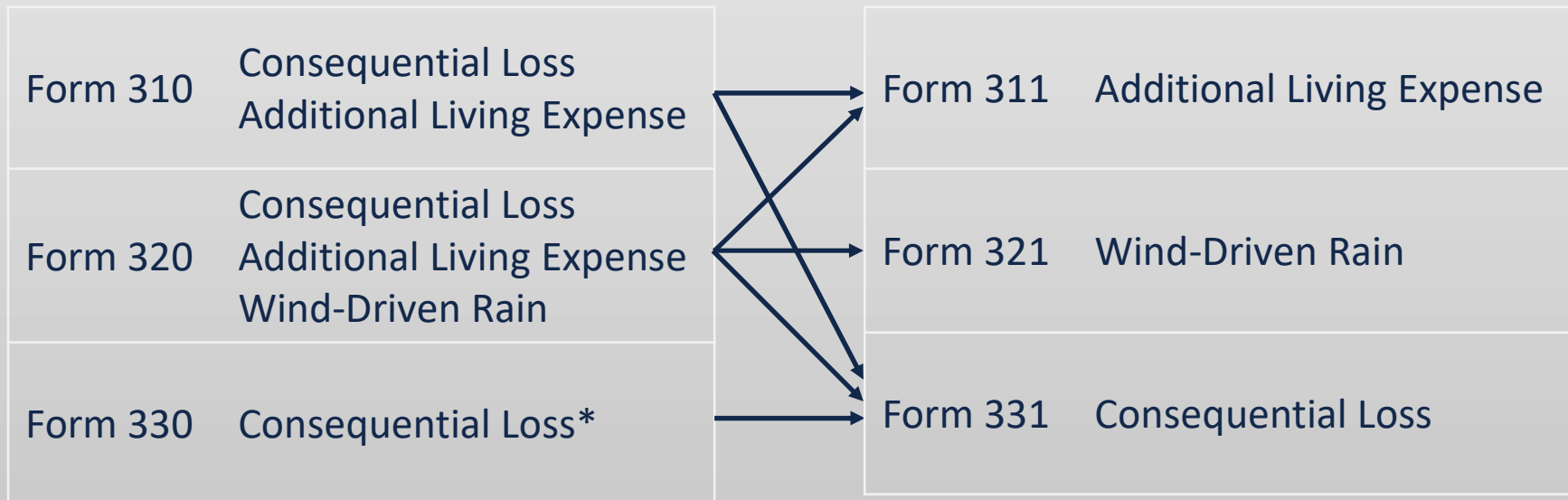
# Appurtenant Structures Endorsement

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- **TWIA residential policy currently provides extension of up to 10% of the primary dwelling limit to other structures**
- **This is not additional coverage and reduces the amount of coverage available on the primary dwelling**
- **Proposed optional endorsement would provide specified, additional coverage without a separate deductible**
- **Coverage provided at blanket rate**
  - Policies with separately scheduled and rated items may see premium differences with endorsement
  - UW will work with agents and provide option to write items on separate policies for no change in premium

# Indirect Loss Endorsements

- **Current endorsements provide one or more different coverages**
- **Proposed endorsements will provide a single coverage**
- **No change in rates or premiums**



# Rate Manual

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- **TWIA will be filing a comprehensive update to its rate manual**
- **Proposed updates include:**
  - Overall formatting and structure
  - Updates to business processes
  - Updates to rate-related information
- **No new or modified rates are being introduced**



## MEMORANDUM

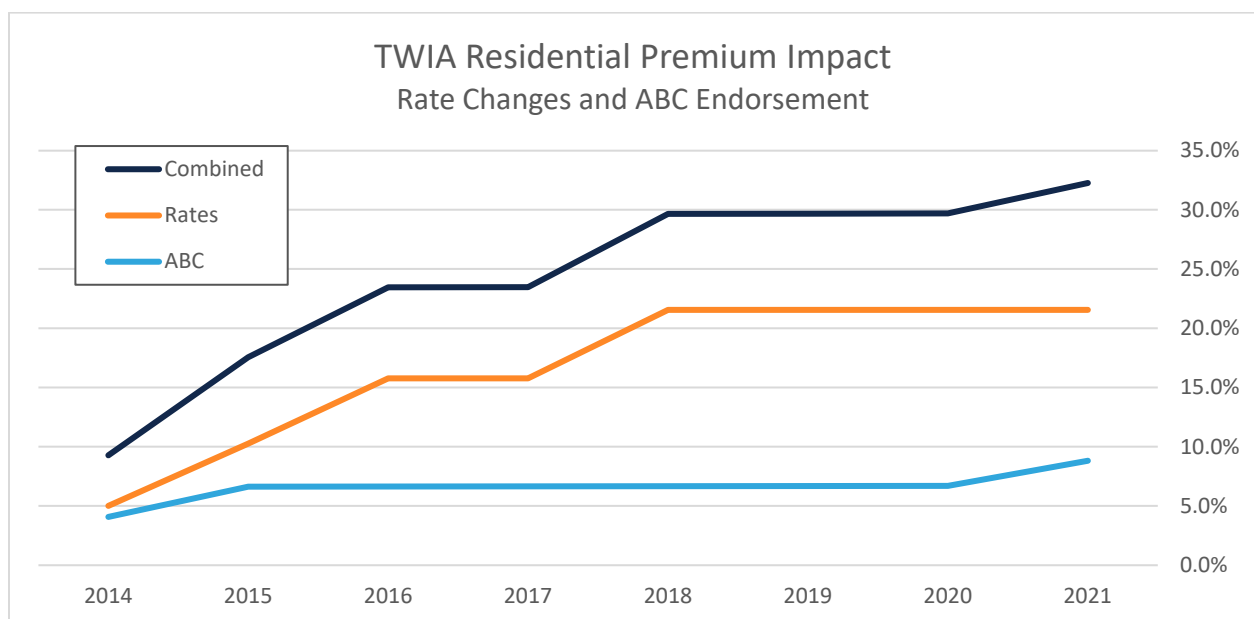
DATE: July 9, 2021  
TO: John Polak, General Manager  
FROM: James Murphy, Assistant Vice President – Analytics & Special Projects  
RE: Supplemental Information Requested by Actuarial & Underwriting Committee

Following please find supplemental information requested by members of the TWIA Actuarial & Underwriting Committee, for reference at its July 21, 2021 meeting:

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**Item 1: How much have the premiums for representative seaward and inland homes increased over the last 10 years considering both rate increases and ABC endorsements?**

Data is readily available for the last eight years. Over that timeframe, the cumulative impacts of residential rate increases and ABC endorsements are 21.6% and 8.8%, respectively. The combined cumulative impact is 32.3%.

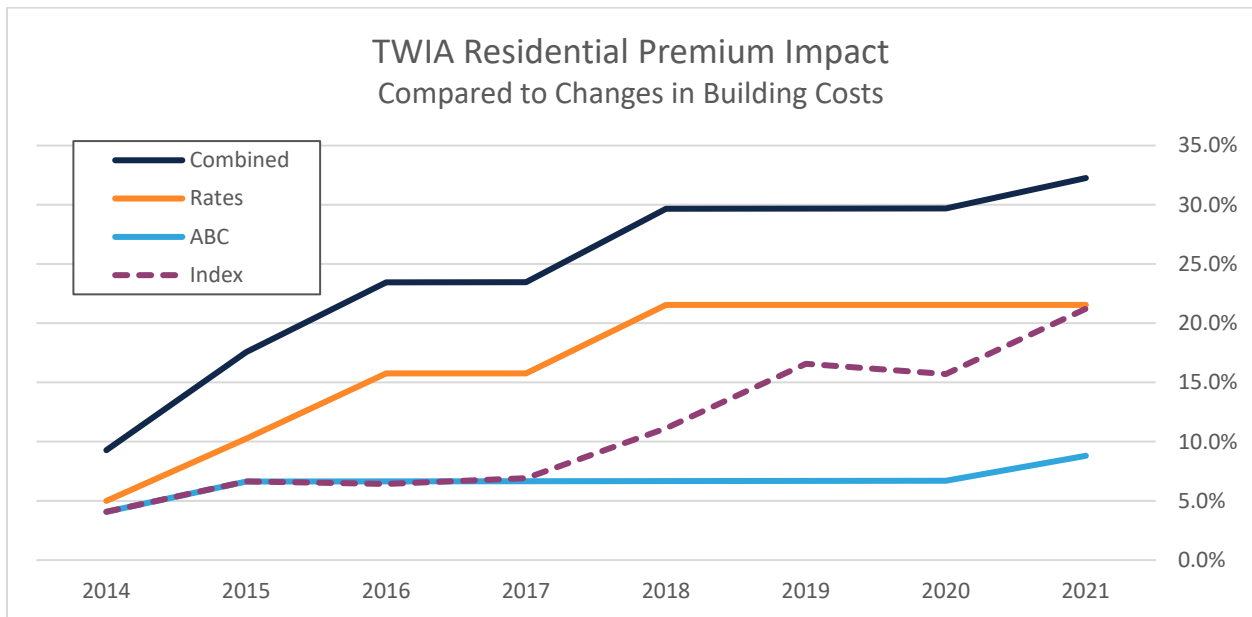


TWIA residential rates increased by 5% in four of the eight years shown and did not change in the remaining four years. The ABC endorsement factors used to automatically increase policy limits at renewal were held flat from 2018 through 2020 to minimize premium impacts to TWIA policyholders after Hurricane Harvey. In 2021, TWIA is implementing factors that represent a two-year average of building cost changes.

Rate changes apply uniformly to all policies regardless of seaward or inland location. ABC endorsement factors apply based on the first three digits of the location ZIP code.

**Item 2: How do these increases compare to increases in building costs over the same period?**

Building costs have increased 21.2% from 2013 to 2021, as provided to TWIA by Marshall & Swift/BOECKH.



Building costs shown have been indexed to 2013 costs.

**Item 3: For both seaward and inland representative homes, what are the hurricane model indicated premium rate discounts and/or reductions in hurricane deductibles for adding various types of opening protection such as hurricane fabric, plywood, metal shutters, etc.**

**Same for adding roof to wall hurricane straps, reinforced roof and any other mitigation measures.**



The catastrophe models provide loss costs for modeled exposures under a variety of scenarios. The inclusion of secondary modifiers can increase or decrease the resulting loss costs, however the models do not indicate premium discounts or changes in coverage such as deductible reductions.

Following are the potential impacts of the various secondary modifiers, as provided by Willis Towers Watson in their September 4, 2020 report to the TWIA Actuarial & Underwriting Committee:

Figure 8

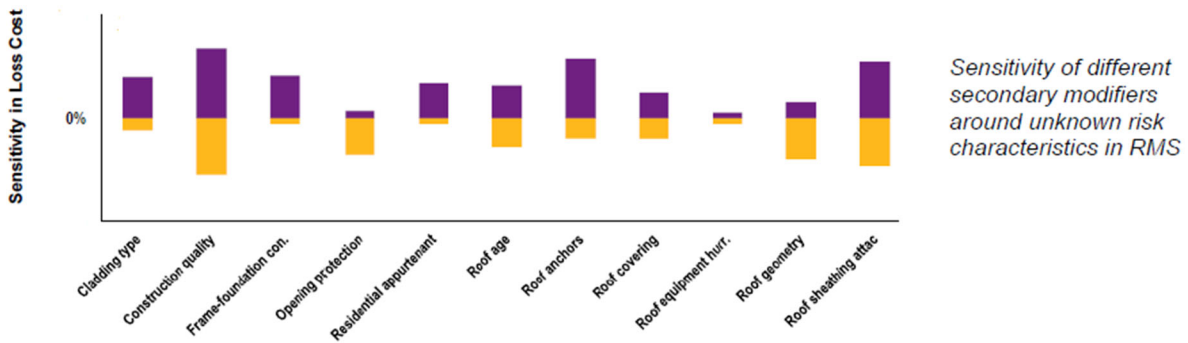
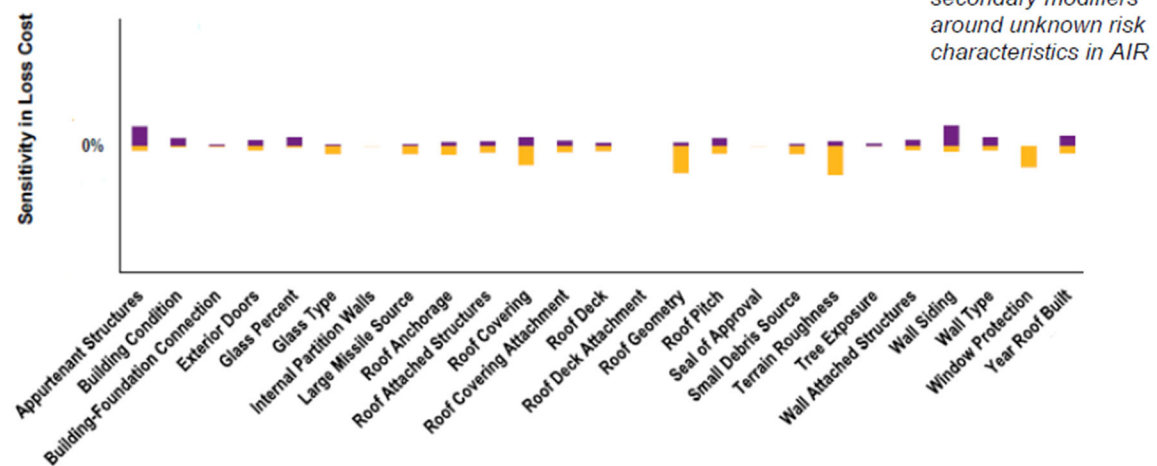


Figure 9



RMS accepts fewer overall modifiers than AIR, but with larger relative impacts. Each model has multiple possible values that can be assigned for each variable that often reference specific engineering standards, building codes, or other technical requirements.

As an example, for opening protection the RMS model has multiple possible values based on whether doors and/or glazed openings (windows) are designed for pressure and/or various sized missiles (wind-





borne debris) or whether any coverings are compliant with specific engineering requirements. The AIR model utilizes four separate variables for exterior doors (door type and whether they are reinforced for pressure), glass percentage, glass type (annealed, tempered, etc.), and window protection (engineered or non-engineered shutters).

The number of possible combinations for these and other mitigation types makes a complete listing of the impacts of each extremely complex.

#### **Item 4: 10 year history of rate indications, filed rate actions, and TWIA premium**

Following are calendar year written premiums, the indicated rate change produced by TWIA actuarial staff, and the rate change implemented (on January 1 of the subsequent year) for each of the last ten years, separately by class of business:

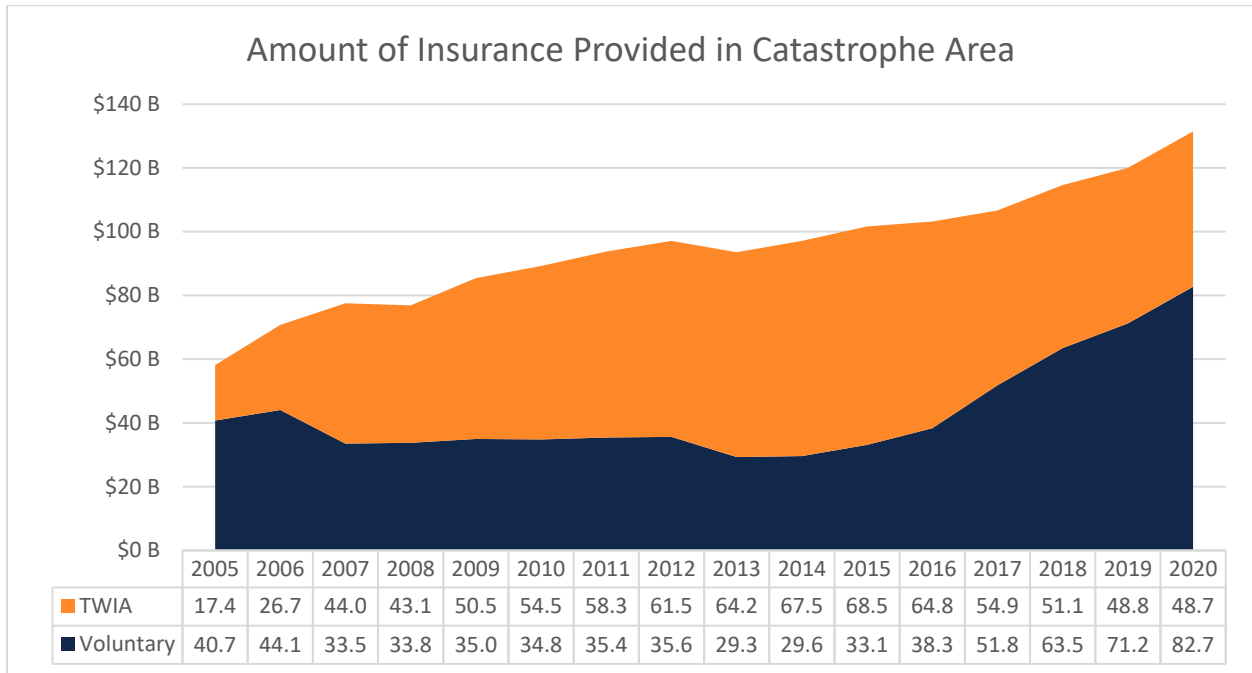
Year	Residential			Commercial		
	Premium	Indicated	Implemented	Premium	Indicated	Implemented
2011	\$307.5 M	28%	5%	\$100.0 M	35%	5%
2012	\$335.8 M	28%	5%	\$110.5 M	35%	5%
2013	\$360.8 M	32%	5%	\$112.9 M	29%	5%
2014	\$389.3 M	30%	5%	\$104.6 M	24%	5%
2015	\$408.0 M	26%	5%	\$98.7 M	21%	5%
2016	\$399.1 M	26%	0%	\$88.3 M	21%	0%
2017	\$352.4 M	30%	5%	\$70.7 M	28%	5%
2018	\$331.7 M	33%	0%	\$65.7 M	37%	0%
2019	\$314.9 M	42%	0%	\$59.1 M	50%	0%
2020	\$310.3 M	44%	0%	\$60.3 M	49%	0%

#### **Item 5: Chart comparing industry premium in TX compared to TWIA over time**

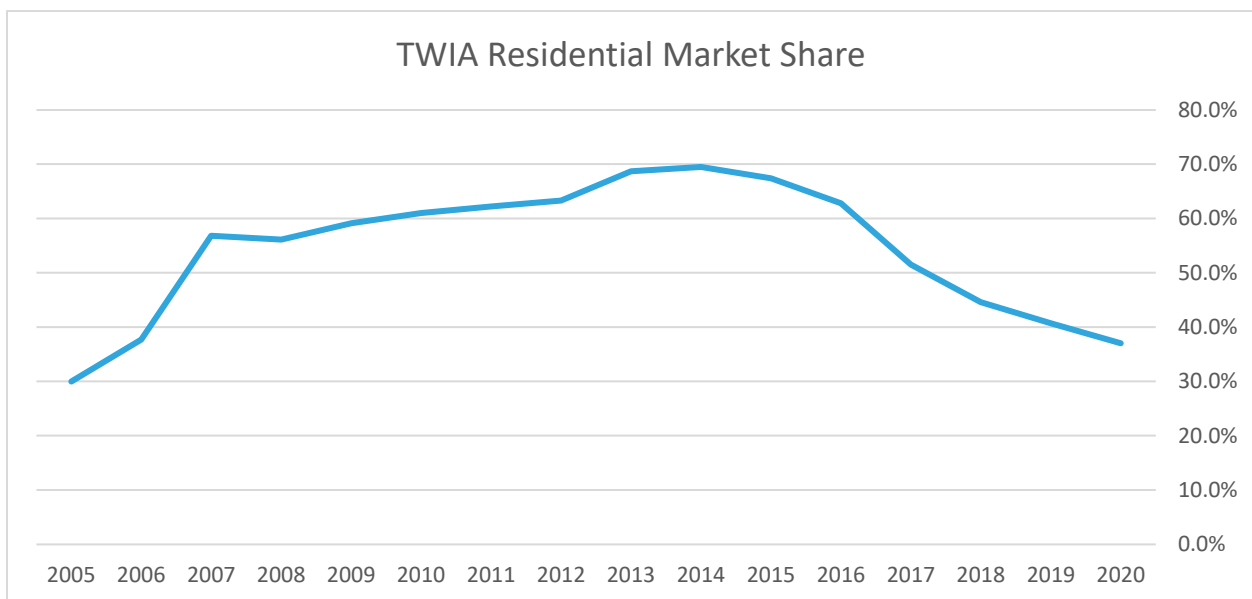
Historically, few voluntary industry companies have offered single-peril wind policies comparable to the coverage provided by TWIA. This makes meaningful premium comparisons difficult. The Texas



Department of Insurance provides TWIA with comparisons of the total amount of residential insurance provided by TWIA and the voluntary market in the catastrophe area, as shown on the following chart:



TWIA market share has increased and decreased over the same time period as shown on the following:





**Item 6: Available history of TWIA premium, reinsurance premium paid, loss & LAE paid, commissions paid, other expenses paid, any other costs paid, and reinsurance recoverables received.**

Following is the requested information for each year 2008-2020 (all amounts are in \$ millions). 2008 is the only year for which reinsurance recoverables were received.

Year	Written Premium	Reinsurance Premium	Loss & LAE Incurred	Commission	General Expense	Taxes	Debt Service	Reinsurance Recovered
2008	331.0	184.1	2,587.1	52.9	9.3	6.1	-	1,497.0
2009	380.8	-	(486.3)	61.1	20.8	7.1	-	-
2010	380.3	-	555.0	60.8	17.1	7.6	-	-
2011	407.5	100.0	202.5	65.6	17.3	7.9	-	-
2012	446.3	100.2	401.9	70.9	22.2	8.6	-	-
2013	473.7	106.0	31.0	75.6	24.1	9.3	-	-
2014	494.0	111.2	(14.0)	79.0	26.5	9.6	-	-
2015	506.7	123.4	178.9	80.6	27.8	9.8	-	-
2016	487.4	121.3	38.7	78.0	26.4	9.6	80.3	-
2017	423.1	105.0	1,476.9	67.7	26.4	8.3	80.3	-
2018	397.4	106.2	175.7	63.3	30.7	7.6	80.5	-
2019	374.0	87.9	113.5	59.5	31.5	7.0	80.3	-
2020	370.6	102.1	118.7	59.1	31.6	6.9	117.2	-

Debt service for 2020 includes the partial early redemption of outstanding bonds.