

Texas Windstorm Insurance Association

2025 Budget Overview to
Board of Directors
November 13, 2024



TWIA Budget – New or Notable Items for 2025

- **Hurricane Beryl** - Ultimate Loss and Loss Adjustment Expense estimate for Hurricane Beryl is \$455 million as of September 30, 2024. This amount is roughly equivalent to the current balance in the Catastrophe Reserve Trust Fund (“CRTF”).
- **Non-Hurricane Losses** - Severe Convective Storms from January through June, and other non hurricane losses totaled \$172 million for the nine months ended September 30, 2024, more than double the \$81.6 million anticipated in the 2024 budget.
- **Private Market Contraction** – Continued growth in policy counts, exposures and premiums (2025 written premium projection of \$ 779 million).
- **Cloud Migration** – Migration to cloud platform of Guidewire Policy, Billing, and Claims Center is projected to be completed in Q2 2025.
- **Claims Contractor Resources**- Budget includes approximately \$24.6 million in 2025 for contractors to assist policyholders with TWIA claims related to Hurricane Beryl.
- **Reinsurance** – Higher costs projected due to anticipated need for additional limit due to increased exposures and depletion of the Catastrophe Reserve Trust Fund to pay losses and loss adjustment expenses from Hurricane Beryl.

TWIA 2025 Budget – Key Assumptions

The 2025 Budget includes the following assumptions:

- Rate change: No change in rates is reflected in the 2025 budget.
- Policy Counts, exposures and premiums have increased steadily since February 2021 and this growth is anticipated to continue due to on going contraction in coverage offered by the private market.
- Policies in force are projected to increase from the forecast of 271,964 policies on December 31, 2024, to 284,975 at year end 2025, an increase of 13,011 policies or 4.8%.
- Depopulation was not factored in the 2025 projections or 2025 budget due to immateriality and the absence of carriers registered to participate in the most recent depopulation program.
- Loss and loss adjustment expense ratios used are based on actuarial review and correspond to the non-hurricane loss ratios included in the annual rate indications.
- Losses and loss adjustment expenses attributable to future hurricanes are not included in the budget.
- 2024 Forecast is comprised of the January to July 2024 actuals plus August to December 2024 projections.

TWIA 2025 Budget – Key Assumptions (cont)

- Commissions: Budgeted at \$124.7 million using current rate of 16.0% for new and renewal policies.
- Premium and maintenance taxes, licenses and other fees budgeted at 1.83% (\$14.2 M).
- Investment yields: Yield rates are projected to decline. The Federal Open Market Committee is expected to steadily lower interest rates as inflation nears target levels.
- \$500 million line of credit: assumed to be renewed on June 1, 2025, with same late December cancellation date, inception fees (\$500K) and commitment fees at 42.5 basis points.
- Employee merit increases are budgeted at 3.5% (\$491K).
- Operating expenses are based on detailed zero-based departmental budgets.

TWIA 2025 Proposed Budget - Income Statement (In 000s)

	For the twelve months ended December 31,				B2025 vs B2024	B2025 vs F2024
	Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025		
Premiums Written:						
1 Direct	\$753,482	\$815,861	(\$62,379)	\$779,482	(\$36,379)	\$26,000
Premiums Earned:						
2 Direct	\$707,794	\$743,860	(\$36,066)	\$779,233	\$35,372	\$71,438
3 Ceded	(397,069)	(298,000)	(99,069)	(\$485,000)	(187,000)	(87,931)
4 Net	310,725	445,860	(135,135)	294,233	(151,628)	(16,493)
Deductions:						
6 Losses and LAE Incurred	662,663	97,803	564,860	98,401	598	(564,262)
7 Operating Expenses	38,147	40,243	(2,096)	40,611	368	2,464
8 Commission Expense	120,465	130,538	(10,072)	124,717	(5,821)	4,252
9 Ceding commissions / brokerage	(10,503)	(13,340)	2,837	(12,125)	1,215	(1,622)
10 Premium / Maintenance Tax	13,382	14,889	(1,508)	14,226	(664)	844
11 Total Deductions	824,154	270,133	554,021	265,830	(4,303)	(558,325)
12 Net Underwriting Gain or (Loss)	(513,429)	175,727	(689,156)	28,403	(147,324)	541,832
Other Income or (Expense):						
14 Gross Investment Income	22,361	24,237	(1,876)	18,321	(5,915)	(4,040)
15 Line of Credit Fees and Other Investment Expenses	(1,913)	(2,065)	152	(2,018)	47	(105)
16 Interest Expense on Debt	0	0	0	0	0	0
17 Premium Charge Offs/Write Offs	0	0	0	0	0	0
18 Other Income (Expense)	0	0	0	0	0	0
19 Total Other Income or (Expense)	20,448	22,172	(1,724)	16,303	(5,869)	(4,145)
20 Net Income (Loss)	(\$492,981)	\$197,899	(\$690,880)	\$44,706	(\$153,193)	\$537,687

Direct Written Premiums projected to grow by \$26.0 million (3.4%) from \$753.5 million in 2024 to \$779.5 million in 2025.

Ceded Premiums for 2024/25 reinsurance were \$389.9M at purchase date. For 2025, the current estimate is \$485.0 million.

Investment income reflects lower yields projected for 2025 as the Fed believes inflation risk is now under control.

Detailed schedules for key line items are provided on subsequent slides.

TWIA 2025 Budgeted Surplus and Key Ratios (In 000s)

		A	B	C	D	E	F	
		For the twelve months ended December 31,						
		Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025	B2025 vs B2024	B2025 vs F2024	
1	Surplus (Deficit) Account:							1
2	Beginning Surplus (Deficit)	45,853	42,057	3,796	(442,604)	(484,661)	(488,457)	2
3	Net Income (Loss)	(492,981)	197,899	(690,880)	44,706	(153,193)	537,687	3
4	Change in Provision for Reinsurance	0	0	0	0	-	-	4
5	Change in Non-Admitted Assets	4,524	3,349	1,175	3,349	0	(1,175)	5
6	Statutory Fund Cost	(0)	(197,899)	197,899	423,294	621,193	423,294	6
7	Ending Surplus (Deficit)	(\$442,604)	\$45,406	(\$488,009)	\$28,745	(\$16,661)	\$471,349	7
8								8
9	Key Operating Ratios:							9
10	Direct:							10
11	Loss & LAE Ratio	93.6%	13.1%	80.5%	12.6%	(0.5%)	(81.0%)	11
12	UW Expense Ratio:							12
13	Acquisition	17.8%	17.8%	(0.1%)	17.8%	0.0%	0.1%	13
14	Non Acquisition	5.4%	5.4%	(0.0%)	5.2%	(0.2%)	(0.2%)	14
15	UW Expense Ratio	23.2%	23.2%	(0.1%)	23.0%	(0.2%)	(0.1%)	15
16	Direct Combined Ratio	116.8%	36.4%	80.4%	35.7%	(0.7%)	(81.1%)	16
17								17
18	Ending Balance in CRTF	466,175	461,329	4,846	10,032	(451,296)	(456,143)	18

Note: Forecast reflects January to July 2024 actuals and August to December forecasts.

The 2025 projected statutory fund cost for 2025 reflects withdrawal of \$468 million from the CRTF and accrued deposit of 2025 net income of \$44.7 million.

Proposed 2025 Budget Expense Summary (Gross and Net) In 000s

	A	B	C	D	E	F	G	
	For the twelve months ended December 31,					B2025 vs B2024	B2025 vs F2024	
		Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025	Inc (Dec)	Inc (Dec)	
1	Personnel Expenses	54,112	27,358	26,754	55,883	28,525	1,771	1
2	Professional & Consulting Services	12,670	13,103	(433)	10,043	(3,060)	(2,627)	2
3	Hardware/Software Purchases & Licensing	4,150	4,047	103	6,654	2,608	2,504	3
4	Rental & Maintenance - Office/Equipment	1,032	1,060	(28)	1,093	33	61	4
5	Travel Expenses	196	203	(7)	288	86	93	5
6	Postage, Telephone and Express	1,654	1,420	234	1,550	130	(104)	6
7	Capital Management Expenses	0	0	0	0	0	0	7
8	Depreciation	3,096	3,096	(0)	3,086	(9)	(9)	8
9	All Other Operating Expenses	1,901	1,657	244	2,221	565	321	9
10	Gross Operating Expenses	78,810	51,943	26,867	80,819	28,876	2,010	10
11	Less: Adjustments/Allocations							11
12	Capitalization of Fixed Assets	0	0	0	0	0	0	12
13	Reimbursement of Depopulation Servicing Expense	(0)	0	(0)	0	0	0	13
14	Allocation To ULAE	(40,594)	(11,604)	(28,990)	(40,159)	(28,555)	435	14
15	Allocation To Investing	(68)	(96)	28	(49)	47	19	15
16	Total Adjustments/Allocations	(40,662)	(11,700)	(28,962)	(40,208)	(28,508)	454	16
17								17
18	Net Operating Expense - UW Operations	38,147	40,243	(2,096)	40,611	368	2,464	18

* Increase in personnel expenses in 2024 and 2025 is primarily attributable to Contractors utilized to settle Claims from Hurricane Beryl.

Premium Projections

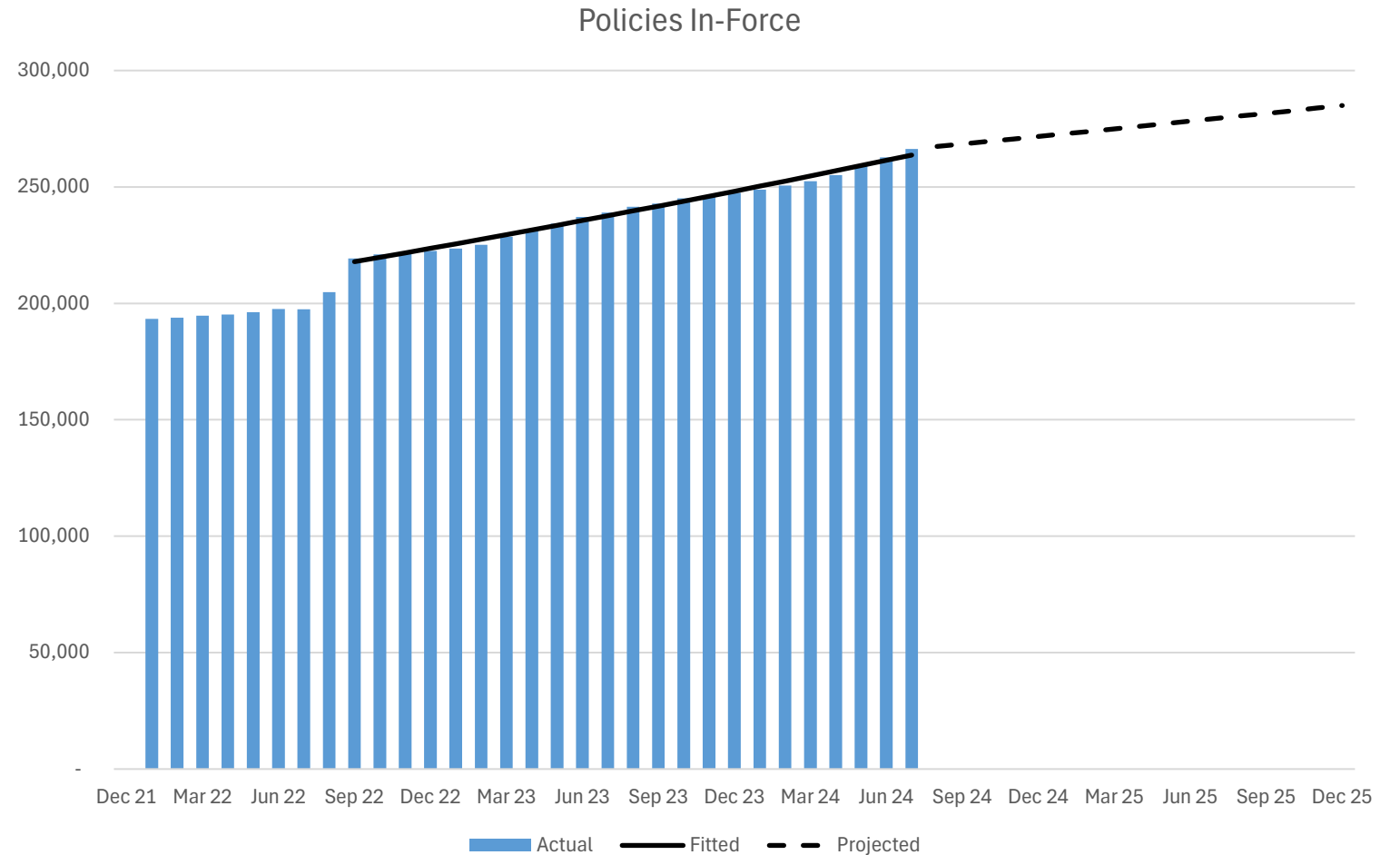
Premium Budget – Policies In Force

Policies in Force

- Dec 2022 – 222,480 (Actual)
- Dec 2023 – 247,537 (Actual)
- Dec 2024 – 271,964 (Projected)
- Dec 2025 - 284,975 (Projected)

2025 Budget – PIF at 12/31/2025

Residential	274,809
Manufactured	2,072
Commercial	<u>8,093</u>
Total	284,975
% Annual growth	4.8%



TWIA Historical and Projected Policies In Force

10

	A	B	C	D	E	F	G	H	I	J	
	Policies in Force at December 31,										
								Forecast		% Change	
1	Class of Business	2018	2019	2020	2021	2022	2023	2024	Budget 2025	B2025 vs F2024	1
2	Commercial	7,827	7,063	6,467	6,818	7,721	8,438	8,578	8,093	-5.7%	2
3	Manufactured Home	724	694	742	913	999	1,184	1,604	2,072	29.2%	3
4	Residential	193,657	181,446	177,681	185,271	213,760	237,915	261,782	274,809	5.0%	4
5	Total	202,208	189,203	184,890	193,002	222,480	247,537	271,964	284,975	4.8%	5
6	% Change	-10.9%	-6.4%	-2.3%	4.4%	15.3%	11.3%	9.9%	4.8%		6

Premium Budget – Direct Liability In Force (Exposures)

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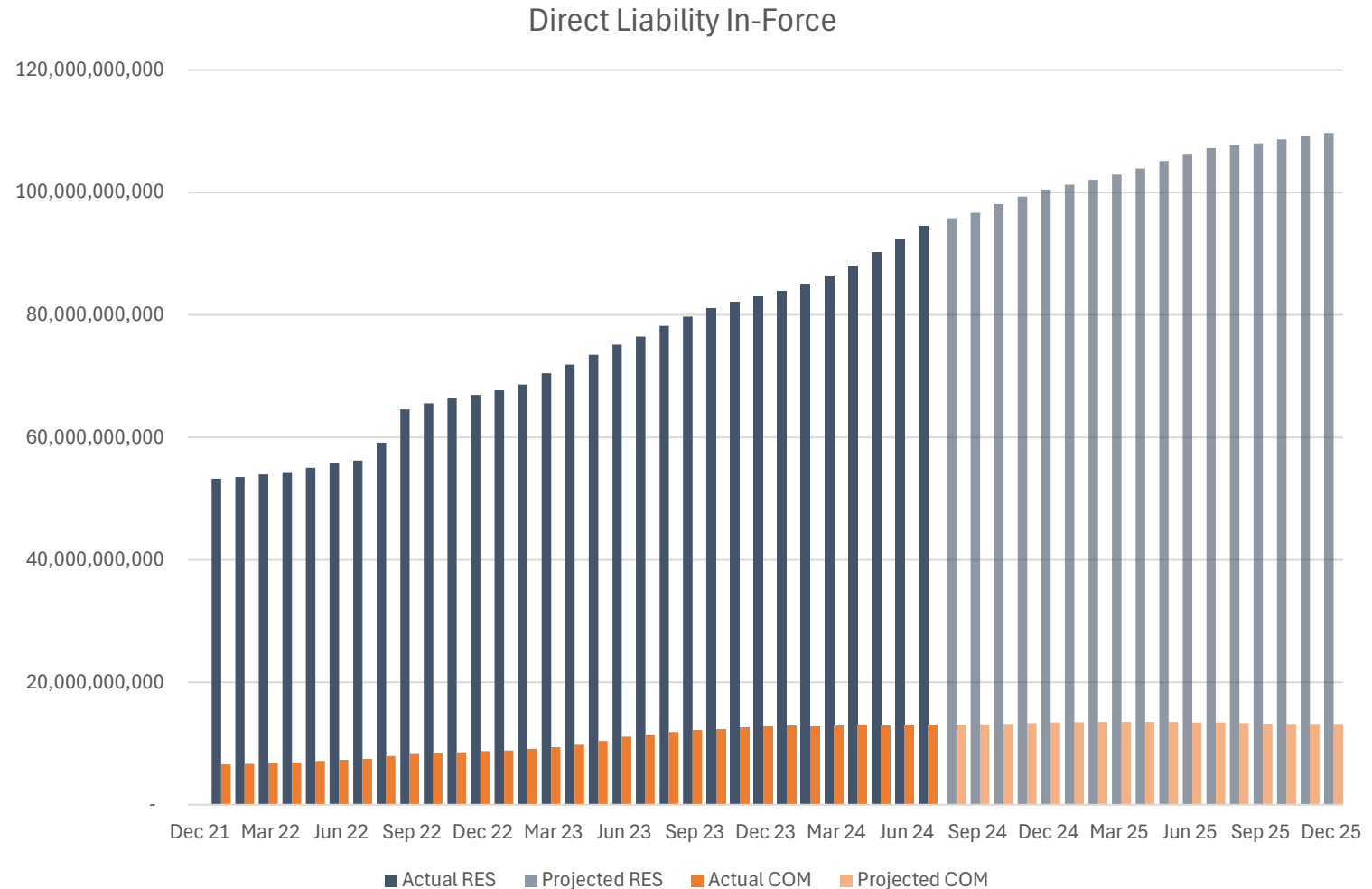
Total Direct Liability in Force (In 000s)

- Dec 2021 – \$59,543,596
- Dec 2022 – \$75,698,532
- Dec 2023 – \$95,679,158
- Dec 2024 – \$113,892,848 (Projected)
- Dec 2025 - \$122,890,076

2025 Budget – Exposures at 12/31/2025

(In 000s)

Residential	\$109,553,793
Manufactured	162,391
Commercial	<u>13,173,892</u>
Total	\$122,890,076
% Annual growth	7.9%



TWIA Historical and Projected Exposures In Force

12

	A	B	C	D	E	F	G	H	I	J	
	Exposures in Force at December 31, (In 000s)										
1	Class of Business	2018	2019	2020	2021	2022	2023	Forecast 2024	Budget 2025	% Change B2025 vs F2024	1
2	Commercial	6,245,277	5,940,483	5,891,209	6,505,687	8,755,833	12,706,103	13,419,150	13,173,892	-1.8%	2
3	Manufactured Home	38,978	37,989	41,337	53,242	64,908	83,346	120,791	162,391	34.4%	3
4	Residential	51,973,107	49,516,512	49,077,092	52,984,667	66,877,791	82,889,710	100,352,907	109,553,793	9.2%	4
5	Total	58,257,362	55,494,985	55,009,638	59,543,596	75,698,532	95,679,158	113,892,848	122,890,076	7.9%	5
6	% Change	-10.9%	-4.7%	-0.9%	8.2%	27.1%	26.4%	19.0%	7.9%		6

Premium Budget – Written Premium

Direct Written Premium

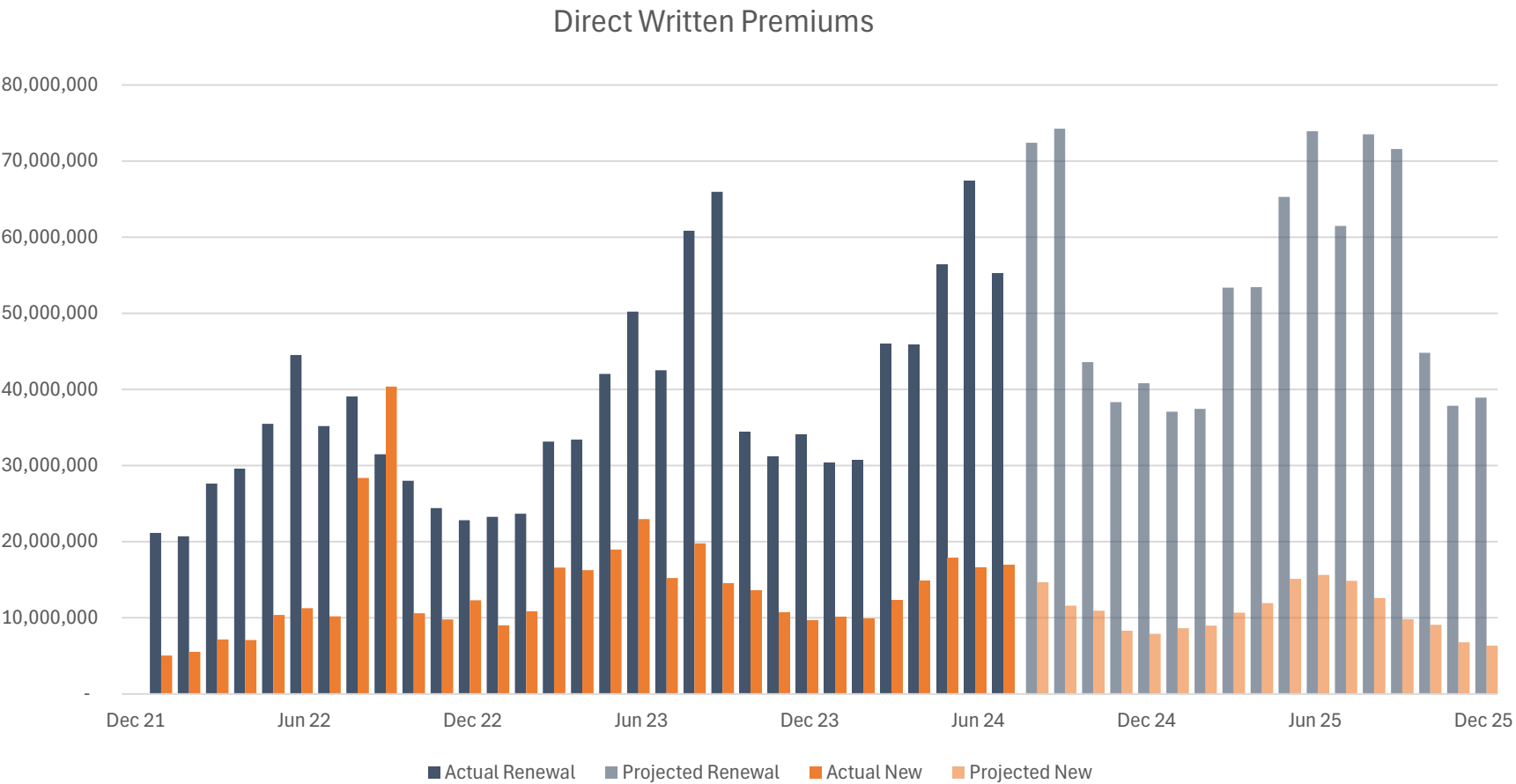
2021 - \$395,103,401

2022 - \$518,299,032

2023 - \$653,094,559

2024 - \$753,481,440 Projected

2025 - \$779,481,926



REINSURANCE

Reinsurance

Reinsurance Components	2024 Reinsurance Amounts	2025 Reinsurance Projection
100 Year Probable Maximum Loss (PML)	\$6,500,000,000	\$7,800,000,000
Total Funded by Catastrophe Reserve Trust Fund (CRTF)	\$450,000,000	\$5,000,000
Total Statutory Funding by Debt and Assessments	\$2,000,000,000	\$2,000,000,000
Total Reinsurance Limit Purchased	\$4,050,000,000	\$5,795,000,000
Total Gross Estimated Reinsurance Premium	\$397,069,000	\$485,000,000

The 2025 Projected Probable Maximum Loss includes 20% exposure growth and assumes no change in the 2024 methodology.

EXPENSES

Expense Categories

TWIA budgets and tracks expenses in four primary categories:

Personnel Expenses

- Salary & Wages
- Contractors/Temp Help
- Payroll Taxes
- Employee Benefits
- Recruiting/Training/Other

EDP Equipment & Software

- Hardware
- Software Purchases and Licensing

Professional Services

- Legal
- Accounting & Auditing
- Information Technology
- Actuarial
- Surveys & Inspections
- Other Services

Other Operating Expenses

- Rent
- Maintenance
- Office Equipment
- Postage
- Telephone
- Shipping
- Bureaus and Associations (ISO, PIPSO, etc.)
- Printing and Supplies
- Dues and Subscriptions
- Insurance
- Media and Advertising
- Service Charges (Bank Fees)
- Depreciation

Reconciliation of Expenses

2025 Budget vs. 2024 Forecast Comparisons

(In 000s)

		Total Operating Expenses			
		Budget 2025	Forecast 2024	B2025 vs F2024	
1	Total Operating Expenses - Both Associations	109,989	106,094	3,895	1
2	Allocation to TFPA (1)	29,169	27,284	1,885	2
3	TWIA Gross Operating Expenses	80,819	78,810	2,010	3
4	Depopulation Expense	0	(0)	0	4
5	Claims Expenses (ULAE) (2)	(40,159)	(40,594)	435	5
6	Investment Expenses	(49)	(68)	19	6
7	TWIA Gross Underwriting Expenses Before Capitalization	40,611	38,147	2,464	7
8	Capitalized Expenses	0	0	0	8
9	TWIA Net Underwriting Expenses (3)	40,611	38,147	2,464	9

(1) Reflects TFPA expenses incurred by TWIA on behalf of TFPA or charged directly to TFPA pursuant to a management services agreement.

(2) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses which are provided for in loss reserves, consists of Claims Dept. expenses and a portion of IT, Legal, Operations & Corporate.

(3) Underwriting Expense, net of allocations to ULAE, investment expense and capitalized expenses. Reported as Operating Expenses on the income statement.

Reconciliation of Expenses

2025 Budget vs. 2024 Budget Comparisons

(In 000s)

<i>A</i>		<i>B</i>	<i>C</i>	<i>D</i>	
		Total Operating Expenses			
		Budget FY2025	Budget 2024	B2025 vs B2024	
1	Total Operating Expenses - Both Associations	109,989	73,318	36,671	1
2	Allocation to TFPA (1)	29,169	21,375	7,795	2
3	TWIA Gross Operating Expenses	80,819	51,943	28,876	3
4	Depopulation Expense	0	0	0	4
5	Claims Expenses (ULAE) (2)	(40,159)	(11,604)	(28,555)	5
6	Investment Expenses	(49)	(96)	47	6
7	TWIA Gross Underwriting Expenses Before Capitalization	40,611	40,243	368	7
8	Capitalized Expenses	0	0	0	8
9	TWIA Net Underwriting Expenses (3)	40,611	40,243	368	9

- (1) Reflects TFPA expenses incurred by TWIA on behalf of TFPA or charged directly to TFPA pursuant to a management services agreement.
- (2) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses which are provided for in loss reserves, consists of Claims Dept. expenses and a portion of IT, Legal, Operations & Corporate.
- (3) Underwriting Expense, net of allocations to ULAE, investment expense and capitalized expenses. Reported as Operating Expenses on the income statement.

Texas Windstorm All Expenses Summary (In 000s)

	A	B	C	D	E	F	G	H	I
	For the twelve months ended December 31,				Budget FY2025	B2025 vs B2024		B2025 vs F2024	
	Forecast 2024	Budget FY2024	Variance 2024			\$	%	\$	%
	Personnel Expenses								
1	Salaries & Wages - Permanent	14,927	16,974	(2,047)	17,322	348	2%	2,395	16%
2	Contractor & Temporary Help	33,437	3,824	29,613	31,808	27,985	732%	(1,628)	-5%
3	Payroll Taxes	1,085	1,221	(136)	1,223	2	0%	138	13%
4	Employee Benefits	4,341	4,900	(560)	5,052	152	3%	711	16%
5	Recruiting, Training & Other	323	439	(116)	478	39	9%	155	48%
6	Subtotal	54,112	27,358	26,754	55,883	28,525	104%	1,771	3%
7									
8	Professional & Consulting Services								
9	Legal	497	485	12	500	15	3%	3	1%
10	Accounting & Auditing	242	253	(11)	273	20	8%	31	13%
11	Information Technology	4,880	5,574	(694)	2,827	(2,747)	-49%	(2,053)	-42%
12	Actuarial Services	72	69	3	89	20	29%	17	24%
13	Ombudsman Program	112	130	(18)	131	1	1%	19	17%
14	Surveys & Inspections	1,403	1,356	47	551	(804)	-59%	(851)	-61%
15	Disaster Recovery Services	4	8	(3)	7	(1)	-17%	2	50%
16	Other Services	5,460	5,229	231	5,665	437	8%	205	4%
17	Subtotal	12,670	13,103	(433)	10,043	(3,060)	-23%	(2,627)	-21%
18									
19	Hardware/Software Purchases & Licensing	4,150	4,047	103	6,654	2,608	64%	2,504	60%
20	Rental & Maintenance - Office/Equipment	1,032	1,060	(28)	1,093	33	3%	61	6%
21	Travel Expenses	196	203	(7)	288	86	42%	93	47%
22	Postage, Telephone and Express	1,654	1,420	234	1,550	130	9%	(104)	-6%
23	Capital Management Expenses	0	0	0	0	0	0%	0	0%
24	Depreciation	3,096	3,096	(0)	3,086	(9)	0%	(9)	0%
25	All Other Operating Expenses	1,901	1,657	244	2,221	565	34%	321	17%
26									
27	Total Operating Expenses	78,810	51,943	26,867	80,819	28,876	56%	2,010	3%
28									
29	Capitalization of Fixed Assets	0	0	0	0	0	0%	0	0%
30	Reimbursement of Depopulation Servicing Ex	(0)	0	(0)	0	0	0%	0	-100%
31	Allocation To ULAE	(40,594)	(11,604)	(28,990)	(40,159)	(28,555)	246%	435	-1%
32	Allocation To Investing	(68)	(96)	28	(49)	47	-49%	19	-27%
33	Net Operating Expense - UW Operation:	38,147	40,243	(2,096)	40,611	368	1%	2,464	6%

Increase in Salaries and Wages is attributable to the additional full-time employees in the Accounting, Underwriting and Claims departments and proposed merit increase of 3.5% or \$491K. Variance is explained in detail in the Personnel section of the discussion.

Contractor & temporary help increase is attributable to claims examiners primarily related to Hurricane Beryl.

The significant decrease in IT Consulting is caused by the completion of the Guidewire Migration project in 2Q 2025.

The decrease in Surveys and inspections is due to the change in our aerial image provider.

The increase in Hardware and Software is attributable to Guidewire Licensing fees.

The higher unallocated loss adjustment expenses primarily reflects the contractor costs related to Hurricane Beryl.

Historical Operating Expenses by Category

	A	B	C	D	E	F	G	H	I	
	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2024 Budget	2025 Budget	
1 TOTAL ALL DEPTS										1
2 Personnel Costs	\$53,401,035	\$30,889,084	\$31,214,130	\$32,646,892	\$27,790,653	\$24,360,273	\$54,111,705	\$27,358,188	\$55,882,981	2
3 Professional Services	10,148,994	8,805,315	10,868,403	12,251,132	9,619,727	10,422,569	12,669,618	13,103,081	10,042,611	3
4 Hardware & Software Licensing	3,003,507	2,997,898	3,095,779	3,368,723	3,776,425	3,311,192	4,150,017	4,046,797	6,654,499	4
5 Rental & Maintenance - Office/Equipment	1,351,117	1,296,079	1,267,426	1,246,376	1,483,711	974,567	1,032,003	1,059,620	1,092,792	5
6 Travel Expenses	317,375	251,104	57,881	35,829	121,695	139,121	195,543	202,630	288,401	6
7 Postage, Telephone and Express	1,072,486	975,547	907,156	902,172	1,028,753	1,304,287	1,653,985	1,420,113	1,550,196	7
8 Capital Management Expenses	2,261,920	2,112,784	17,388	15,660	6,326	0	0	0	0	8
9 Other Operating Expenses	2,229,831	1,183,133	1,152,218	1,327,630	3,762,845	4,647,677	4,996,750	4,752,626	5,307,914	9
10										10
11 GROSS OPERATING EXPENSES	73,786,265	48,510,942	48,580,382	51,794,415	47,590,134	45,159,685	78,809,621	51,943,053	80,819,393	11
12										12
13 Capitalization of Fixed Assets	0	0	(4,577,587)	(8,927,371)	(1,699,371)	0	0	0	0	13
14 Reimbursement of Depop Servicing Exp	(248,371)	(120,463)	(76,065)	(15,863)	(8,137)	(3,724)	(87)	0	0	14
15 Allocation To ULAE	(42,799,315)	(16,886,693)	(15,224,675)	(14,752,216)	(12,100,915)	(10,790,272)	(40,594,337)	(11,604,121)	(40,159,224)	15
16 Allocation To Investing & Other Exp	(2,457,477)	(2,386,866)	(301,264)	(273,379)	(262,325)	(97,638)	(67,928)	(96,000)	(49,250)	16
17 Net Operating Expense	\$28,281,102	\$29,116,920	\$28,400,791	\$27,825,586	\$33,519,385	\$34,268,050	\$38,147,270	\$40,242,932	\$40,610,919	17

Note: Other Operating Expenses (Line 9) includes depreciation of capitalized assets.

Comparative Personnel Costs – 2025 Budget to 2024 Budget

(000's)					
<i>A</i>		<i>B</i>	<i>C</i>	<i>D</i>	
		Personnel Costs			
		Budget 2025	Budget 2024	B2025 vs B2024	
1					1
2	Salaries & Wages - Permanent	17,322	16,974	348	2
3	Contractor & Temporary Help	31,808	3,824	27,985	3
4	Sub-total	49,130	20,798	28,333	4
5	Payroll Taxes	1,223	1,221	2	5
6	Employee Benefits	5,052	4,900	152	6
7	Recruiting, Training & Other	478	439	39	7
8	Personnel Costs, Gross	55,883	27,358	28,525	8
9	<i>Less:</i>				9
10	Capitalized Amount	0	0	0	10
11	ULAE Allocation	(35,688)	(7,751)	(27,937)	11
12	Investment Expense Allocation	0	0	0	12
13	Personnel Costs, Net	20,195	19,607	587	13

Employee Benefits – TWIA

Description	for the 12 months ended December 31,				Budget 2025 vs Forecast 2024	Budget 2025 vs Budget 2024
	Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025		
1 Total Salary & Wages	14,926,785	16,973,846	(2,047,061)	17,321,805	2,395,020	347,959
2						
3 Pension Plan	1,072,665	1,237,031	(164,366)	1,354,983	282,318	117,952
4 401 K Plan	838,722	916,962	(78,240)	932,064	93,341	15,102
5 Insurance & Related:						0
6 Medical	2,174,032	2,465,290	(291,259)	2,466,978	292,946	1,687
7 Dental	117,454	136,285	(18,831)	150,905	33,451	14,620
8 Life, LTD & AD&D	108,163	113,560	(5,397)	115,573	7,410	2,014
9 All Other (1)	29,547	31,249	(1,702)	31,439	1,892	190
10 Total Insurance & Related	2,429,196	2,746,383	(317,188)	2,764,895	335,699	18,512
11						
12 Total All Benefit Costs	4,340,582	4,900,376	(559,794)	5,051,941	711,359	151,565

(1) All Other Benefits include Vision, LTD, EAP, HSA fees, FSA fees, Extended Leave Admin fees

Benefits % to Salaries 29.1% 28.9% 29.2%

Increase in Employee Benefits resulted from slightly higher contracted rates for Medical Insurance (3%), and a budgeted increase in participants.

Slight increase in pension expense is attributable to lower interest rates used to value liabilities and annual expense. Estimates provided by Towers Watson actuaries.

The increase in All Other Employee Benefits expense is primarily due to the anticipated increase in the number of enrolled employees.

Consolidated Headcount Summary – TWIA/TFPA

24

	A	B	C	D	E	F	
	Actual 7/31/2024	Forecast 12/31/2024	Authorized Budget 12/31/2024	Proposed Budget 12/31/2025	B2025 vs F2024	B2025 vs B2024	
1 FTE	230	246	257	265	19	8	1
2 Contractors	420	263	16	99	(164)	83	2
3 Total	650	509	273	364	(145)	91	3

Note: Headcount is as of end of the period

Professional & Consulting Services

2025 Budget vs. 2024 Forecast vs. 2024 Budget Comparisons (000's)

	A	B	C	D	E	F	
	Forecast 2024	Budget 2024	Variance 2024	Budget 2025	Variance B25 vs F24	Variance B25 vs B24	
1 Professional & Consulting Services							1
2 Legal	497	485	12	500	3	15	2
3 Accounting & Auditing	242	253	(11)	273	31	20	3
4 Information Technology	4,880	5,574	(694)	2,827	(2,053)	(2,747)	4
5 Actuarial Services	72	69	3	89	17	20	5
6 Ombudsman Program	112	130	(18)	131	19	1	6
7 Surveys & Inspections	1,403	1,356	47	551	(851)	(804)	7
8 Disaster Recovery Services	4	8	(3)	7	2	(1)	8
9 Other Services	5,460	5,229	231	5,665	205	437	9
10 Total Gross	12,670	13,103	(433)	10,043	(2,627)	(3,060)	10
11 Less:							11
12 Capitalized Amount	0	0	0	0	0	0	12
13 ULAE Allocation	(1,514)	(1,677)	163	(1,348)	167	329	13
14 Investment Expense Allocation	0	0	0	0	0	0	14
15 Professional Services, Net	11,155	11,426	(271)	8,695	(2,460)	(2,731)	15

The decrease in IT Consulting expense in the 2025 budget is attributed to the completion of the Guidewire migration to the cloud and reduction of consulting services provided by Zensar Technologies and Guidewire.

The decrease in Surveys and inspections is due to the change in our aerial image provider.

Other Services includes expert panel, AON modeling and Xactware fees.

TWIA Professional Services Top 10 Vendors

			A	B	C	D	E	F	
	Department/s	Vendor	2024 Forecast	2024 Budget	Variance 2024	2025 Budget	Variance B2025 vs B2024	Variance B2025 vs F2024	
1	Expert Panel, Corporate	Accenture, LLP	\$ 2,068,333	2,068,333	(0)	2,076,667	8,333	\$ 8,333	1
2	Information Technology	Cynosure, Inc. dba Zensar Technologies	3,750,715	3,844,100	(93,385)	1,316,406	(2,527,694)	(2,434,309)	2
3	Actuary	AON Re, Inc.	600,000	600,000	0	600,000	0	0	3
4	Underwriting	Clear Point Claims, LLC.	438,472	544,000	(105,528)	585,672	41,672	147,200	4
5	Underwriting, Claims	Vexcel Data Program/ Nearmap	0	0	0	531,700	531,700	531,700	5
6	Expert Panel, Actuary	Risk Management Solutions, Inc.	486,441	289,228	197,213	423,333	134,105	(63,108)	6
7	Information Technology	Guidewire Software, Inc.	306,769	990,293	(683,523)	405,830	(584,463)	99,061	7
8	Information Technology	Stratus Technology Services, LLC.	367,760	273,000	94,760	384,215	111,215	16,455	8
9	Claims	Xactware Solutions, Inc.	359,324	293,069	66,255	365,606	72,537	6,282	9
10	Underwriting	Marshall & Swift/Boeckh, LLC. (CoreLogic)	321,331	333,018	(11,687)	289,500	(43,518)	(31,831)	10
11	Various departments	Other Vendors remaining	3,970,474	3,868,039	47,184	3,063,682	(804,357)	(906,792)	11
12		Tota Professional Services	\$ 12,669,618	\$ 13,103,081	\$ (488,713)	\$ 10,042,611	\$ (3,060,469)	\$ (2,627,007)	12

- Reduction in IT Consulting services for Cynosure/Zensar Technologies and Guidewire Software Inc. are primarily related to the completion of the Guidewire cloud migration project in 2025.
- Vexcel Data Program / Nearmap replaces EagleView as the provider of aerial images for both underwriting and claims. Reduction in cost from \$1.5 million combined versus \$643K in 2025.

Hardware and Software

2025 Budget vs. 2024 Forecast vs. 2024 Budget Comparisons (000's)

	A	B	C	D	E	F	
	Forecast 2024	Budget FY2024	Variance 2024	Budget 2025	Variance B25 vs F24	Variance B25 vs B24	
1 Hardware and Software							1
2 Hardware	197	178	19	213	16	35	2
3 Software	3,953	3,869	85	6,441	2,488	2,573	3
4 Total Gross	4,150	4,047	103	6,654	2,504	2,608	4
5 Less:							5
6 Capitalized Amount	0	0	0	0	0	0	6
7 ULAE Allocation	(797)	(769)	(28)	(1,282)	(486)	(514)	7
8 Investment Expense Allocation	0	0	0	0	0	0	8
9 Hardware & Software, Net	3,354	3,278	75	5,372	2,019	2,094	9

All Other Expenses Details (In 000s)

Description	for the 12 months ended December 31,				Variance	
	Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025	B25 vs F24	B25 vs B24
Office Rent	931	960	(29)	983	52	23
Utilities expense	0	0	0	0	0	0
Equipment/Storage Rental	14	17	(4)	12	(2)	(6)
Office Relocation Expense	0	0	0	0	0	0
Repair & Maintenance	88	82	6	98	10	16
Other Office & Equip Expense	0	0	0	0	0	0
Total Rental & Maintenance	1,032	1,060	(28)	1,093	61	33
Board meetings	83	89	(7)	105	23	16
Storm Related	0	0	0	0	0	0
Workshops	5	4	1	1	(4)	(3)
Other Travel	108	110	(2)	182	74	72
Total Travel Expenses	196	203	(7)	288	93	86
Postage/Courier	1,115	1,069	45	1,202	87	132
Telephone	539	351	189	348	(191)	(2)
Total Postage, Tele & Express	1,654	1,420	234	1,550	(104)	130
Line of Credit Fees	0	0	0	0	0	0
Investment Expense - TTSTC Fees	0	0	0	0	0	0
Total Capital Mgt Expenses	0	0	0	0	0	0
Boards, Bureaus & Assoc	291	262	29	288	(3)	26
Printing & Supplies	602	531	71	716	114	185
Dues & Subscriptions	102	114	(12)	165	63	51
Insurance	228	286	(58)	217	(12)	(69)
Media and Advertising	52	41	11	34	(18)	(7)
Depreciation & Amortization	3,096	3,096	(0)	3,086	(9)	(9)
Write-offs	0	0	0	0	0	0
Bank Charges	593	379	214	764	172	385
Other Expenses	33	43	(10)	37	4	(6)
Total Other Operating Exp	4,997	4,753	244	5,308	311	555
Total All Other Expenses	7,878	7,435	443	8,239	361	804

Telephone expense is anticipated to decrease as claims volume is planned to return to more normal levels.

Increase in Bank Charges in 2025 budget is due to higher volume of bank activity along with lower interest rates.

TWIA 2025 Proposed Budget - Income Statement (In 000s)

		A	B	C	D	E	F	
		For the twelve months ended December 31,				B2025 vs B2024	B2025 vs F2024	
		Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025			
1	Premiums Written:							
	Direct	\$753,482	\$815,861	(\$62,379)	\$779,482	(\$36,379)	\$26,000	1
2	Premiums Earned:							2
3	Direct	\$707,794	\$743,860	(\$36,066)	\$779,233	\$35,372	\$71,438	3
4	Ceded	(397,069)	(298,000)	(99,069)	(\$485,000)	(187,000)	(87,931)	4
5	Net	310,725	445,860	(135,135)	294,233	(151,628)	(16,493)	5
6	Deductions:							6
7	Losses and LAE Incurred	662,663	97,803	564,860	98,401	598	(564,262)	7
8	Operating Expenses	38,147	40,243	(2,096)	40,611	368	2,464	8
9	Commission Expense	120,465	130,538	(10,072)	124,717	(5,821)	4,252	9
10	Ceding commissions / brokerage	(10,503)	(13,340)	2,837	(12,125)	1,215	(1,622)	10
11	Premium / Maintenance Tax	13,382	14,889	(1,508)	14,226	(664)	844	11
12	Total Deductions	824,154	270,133	554,021	265,830	(4,303)	(558,325)	12
13	Net Underwriting Gain or (Loss)	(513,429)	175,727	(689,156)	28,403	(147,324)	541,832	13
14	Other Income or (Expense):							14
15	Gross Investment Income	22,361	24,237	(1,876)	18,321	(5,915)	(4,040)	15
16	Line of Credit Fees and Other Investment Expenses	(1,913)	(2,065)	152	(2,018)	47	(105)	16
17	Interest Expense on Debt	0	0	0	0	0	0	17
18	Premium Charge Offs/Write Offs	0	0	0	0	0	0	18
19	Other Income (Expense)	0	0	0	0	0	0	19
20	Total Other Income or (Expense)	20,448	22,172	(1,724)	16,303	(5,869)	(4,145)	20
21								21
22	Net Income (Loss)	(\$492,981)	\$197,899	(\$690,880)	\$44,706	(\$153,193)	\$537,687	22
23								23

Wrap Up: Questions?



November 2024

TWIA Board of Directors Training

About this Training

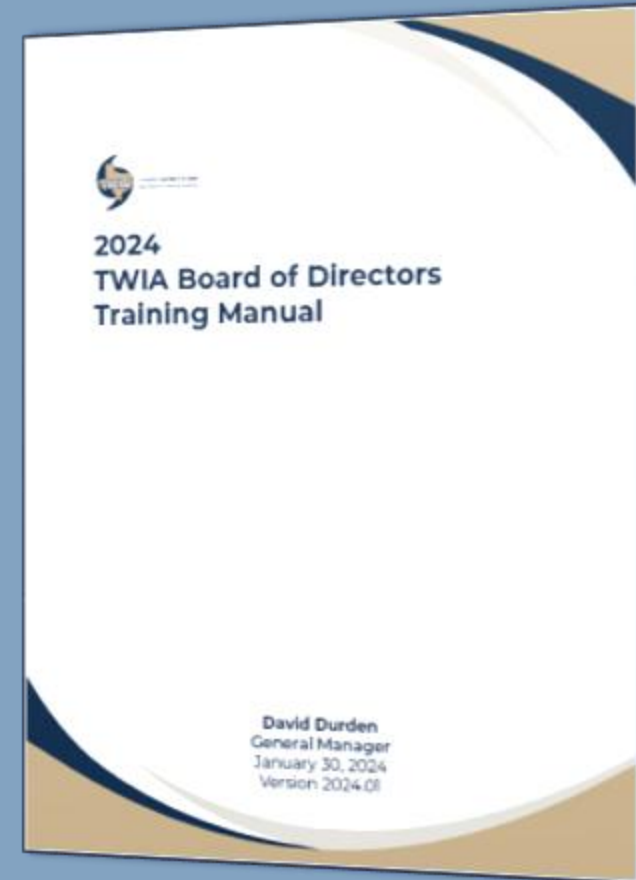
Texas Insurance Code Sec. 2210.1031 directs the Association to provide training to TWIA Board members with information regarding:

- 1) The law governing the operation of the Association;
- 2) The programs, functions, rules, and budget of the Association;
- 3) The scope of and limitations on the rulemaking authority of the Board of Directors;
- 4) The results of the most recent formal audit of the Association;
- 5) The requirements of:
 - a) laws relating to open meetings, public information, administrative procedure, and conflict of interest disclosure; and
 - b) other laws applicable to the Board of Directors in performing the Board's duties; and
- 6) Any applicable ethics policies adopted by the Association or the Texas Ethics Commission.



- The information in this training is covered in greater detail in the ***TWIA Board of Directors Training Manual***.
- Each section on ***Programs, Rules, and Budget of the Association*** highlights:
 - Governing Law;
 - Board Responsibility;
 - TDI Responsibility.
- ***Functions of the Association*** details the function of each department within the Association.
- Appendices include current details on TWIA activities, reports, and policies.
- Each Board member must acknowledge in writing that they have received and reviewed the Manual to participate in Board meetings.

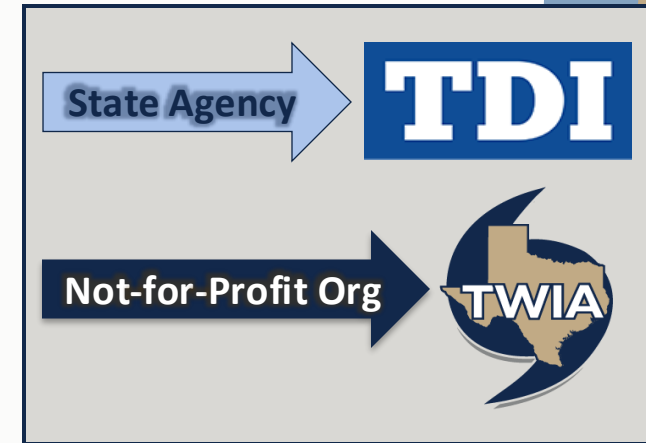
TWIA Board Training Manual



TWIA Overview

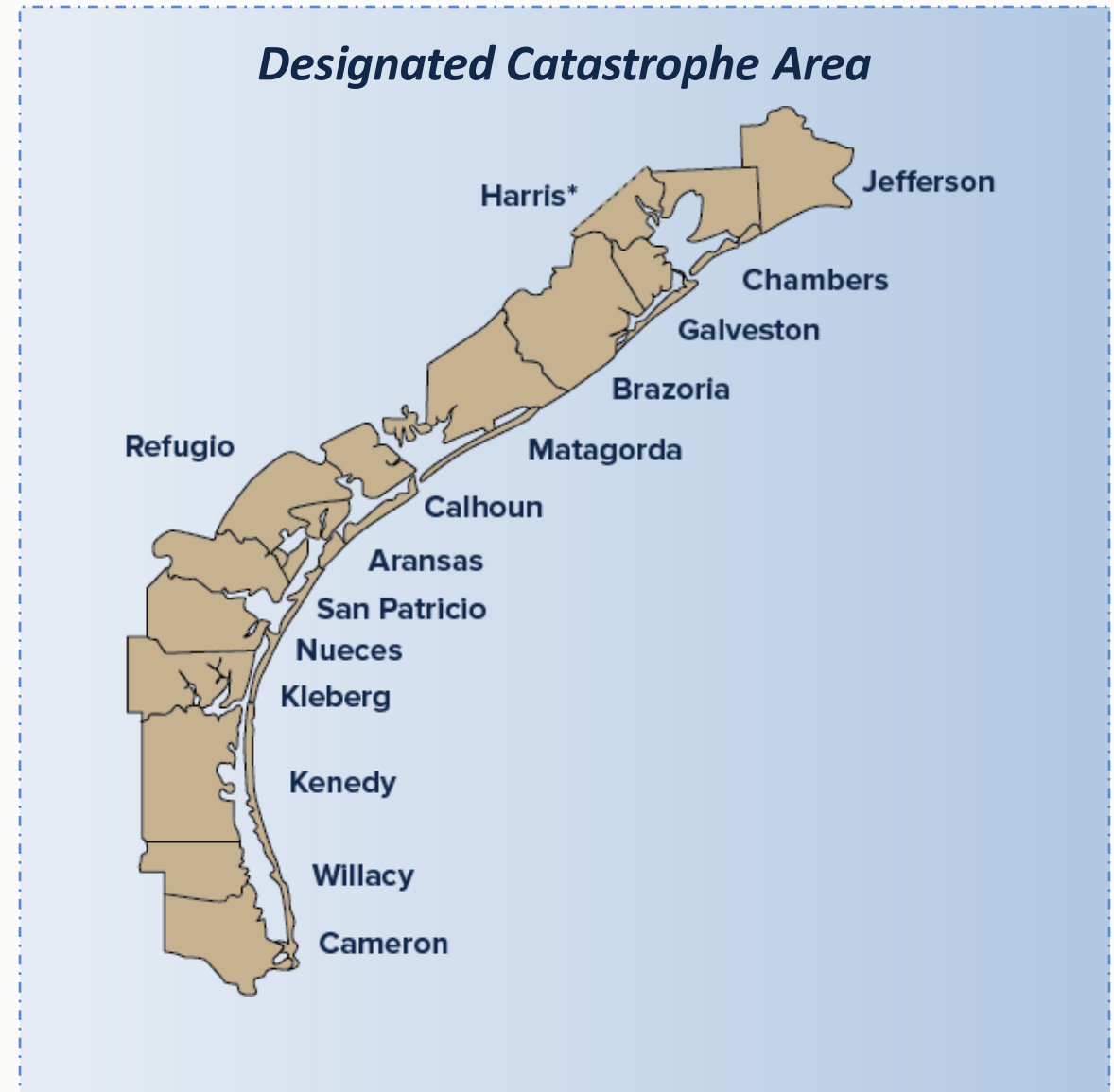
What is TWIA?

- Established by Texas Legislature in 1971
 - In response to market constrictions on Texas coast after several hurricanes
 - TWIA's governing statute is Texas Insurance Code, Chapter 2210
 - Regulated by the Texas Department of Insurance (TDI)
- Residual Market Insurer – Market of Last Resort
 - Provide adequate market for wind and hail insurance on the Texas coast
 - Do not compete with the private insurance market
 - Provide coverage to those unable to obtain it in the private market
 - All property insurers authorized to write property insurance in Texas are members of TWIA
- Operate as a Not-for-Profit Insurance Company
 - Collect premiums, issue policies, pay claims
 - Annually deposit net gains into Catastrophe Reserve Trust Fund (CRTF)
 - Do not receive Texas General Revenue Funds
 - Not a State Agency



Statutory Eligibility Requirements

1. Properties must be **located in the area designated by the Commissioner of Insurance**
 - Includes the 14 first-tier coastal counties and a portion of Harris County east of Hwy. 146
2. Applicants must have been **denied coverage** by at least 1 private market insurer that writes windstorm insurance in the first-tier counties
3. Policyholders may be required to purchase **flood insurance**
4. Properties must comply with certain **windstorm building code** requirements
5. Properties must be in an **insurable condition**

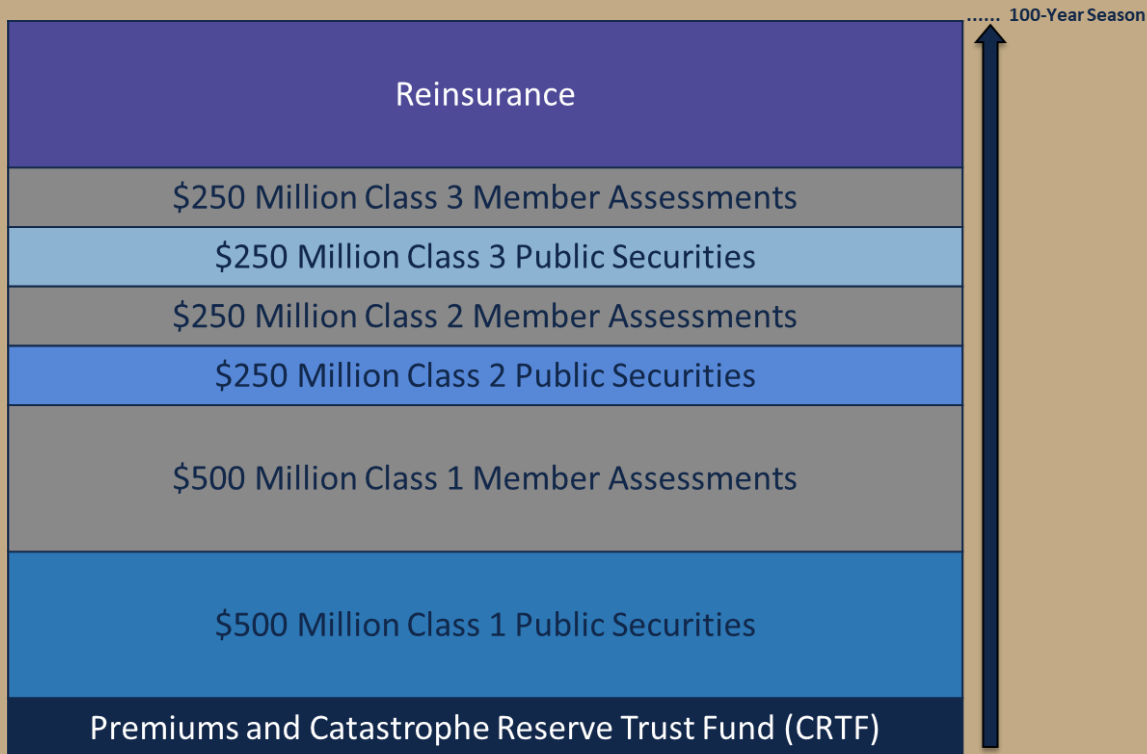


How We Work with Insurance Agents

- **TWIA does not employ or contract with insurance agents.**
 - Any TDI-licensed property and casualty insurance agent may register with TWIA.
- **Agents submit policy applications to TWIA for their clients.**
 - Agents represent the policyholder in policy transactions and are expected to handle policyholders' coverage questions and policy changes.
- **Agent commissions:**
 - 16% commission on residential and commercial policies
 - 12% commission on manufactured home policies



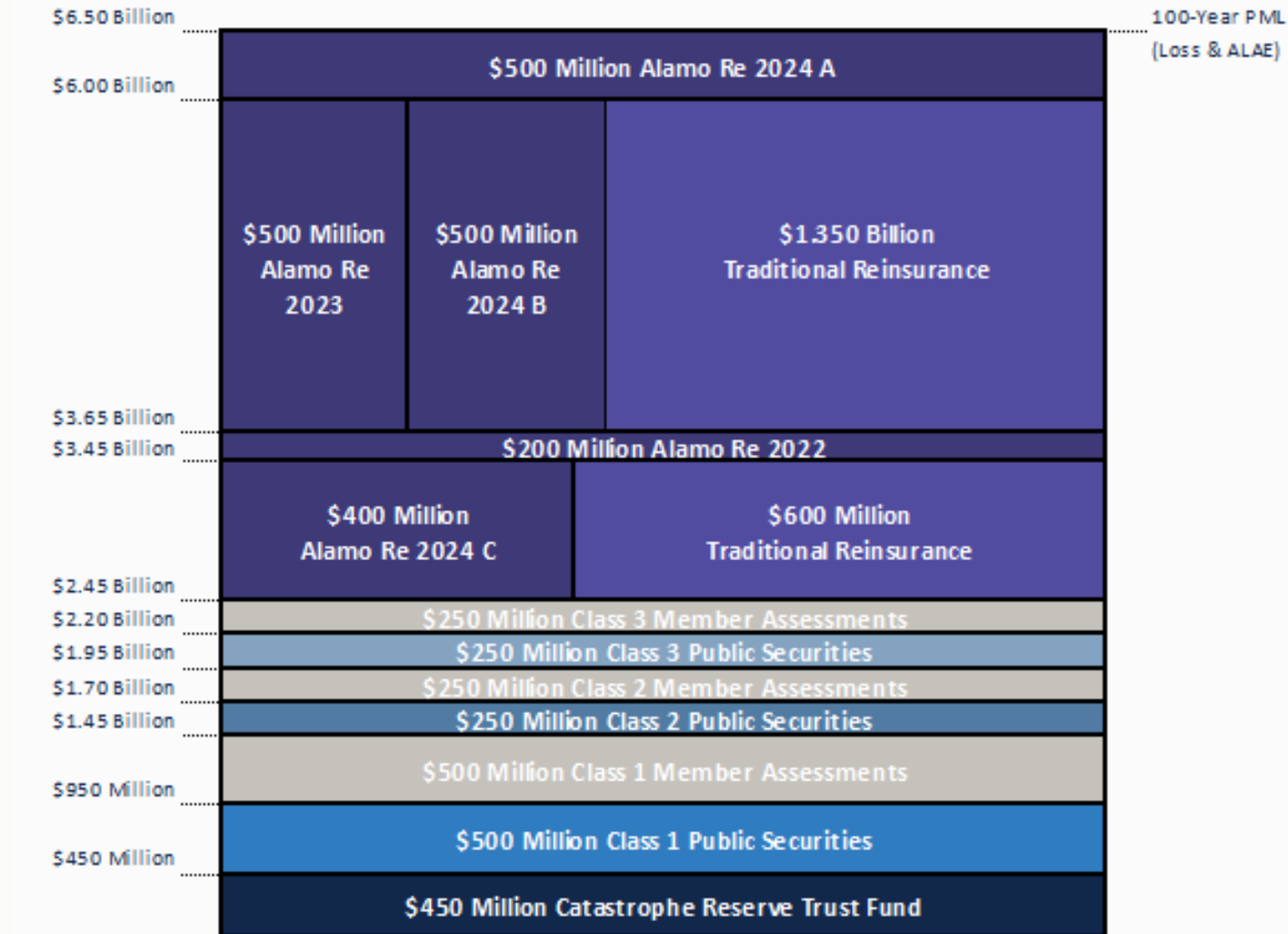
Statutory Funding Structure



Payment of Excess Losses

- TWIA's funding structure provides the sources of funds to pay catastrophic losses from a single storm season.
- Total annual funding must equal, at a minimum, the probable maximum loss (PML) for the Association for a catastrophe year with a probability of one in 100.
- Statutory funding sources and order:
 - *Policyholder premiums and the CRTF balance*
 - *\$2 billion of alternating layers of classes of public securities (bonds) and member company assessments*
 - Public securities:
 - Backed by TWIA revenue, not obligations of the state
 - Repaid by TWIA premiums and policyholder/coastal property surcharges
 - *Reinsurance or Alternative Risk Financing*
 - Reinsurance purchased using policyholder premiums and must be in an amount sufficient to meet the minimum required funding level
 - Member companies may be assessed for reinsurance purchased above the minimum required funding level of a 100-year storm season

2024 Hurricane Season Funding



TWIA Rates

- By law, TWIA rates must be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer
- TWIA must make an annual rate filing with TDI by August 15 each year
- All filings for a rate increase are subject to approval or disapproval by the Insurance Commissioner
- TWIA's rates are inadequate by 38% for residential policies and 45% for commercial policies
- 10% rate increase approved to be filed by TWIA Board at August 6 meeting

Amount of all rate filings set by the TWIA Board

- 2/3 Board vote required to file a rate increase
- No rate increase if there is a Board vacancy for 60 or more days
- Rate adequacy analyses considered by Board must be posted to TWIA's website 14 days prior to Board's rate filing vote
- Public comment must be accepted prior to Board's vote
 - TWIA also accepts written public comments

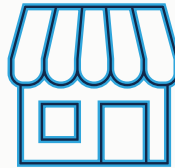
Maximum Liability Limits

- TWIA must file proposed changes to policy coverage limits with TDI by September 30 each year
- The current maximum limits are:



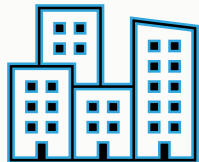
**Dwellings and individually
owned townhouses:**

\$1,773,000



**Commercial structures and
associated contents:**

\$4,424,000



**Contents of an apartment,
condominium, or townhouse:**

\$374,000

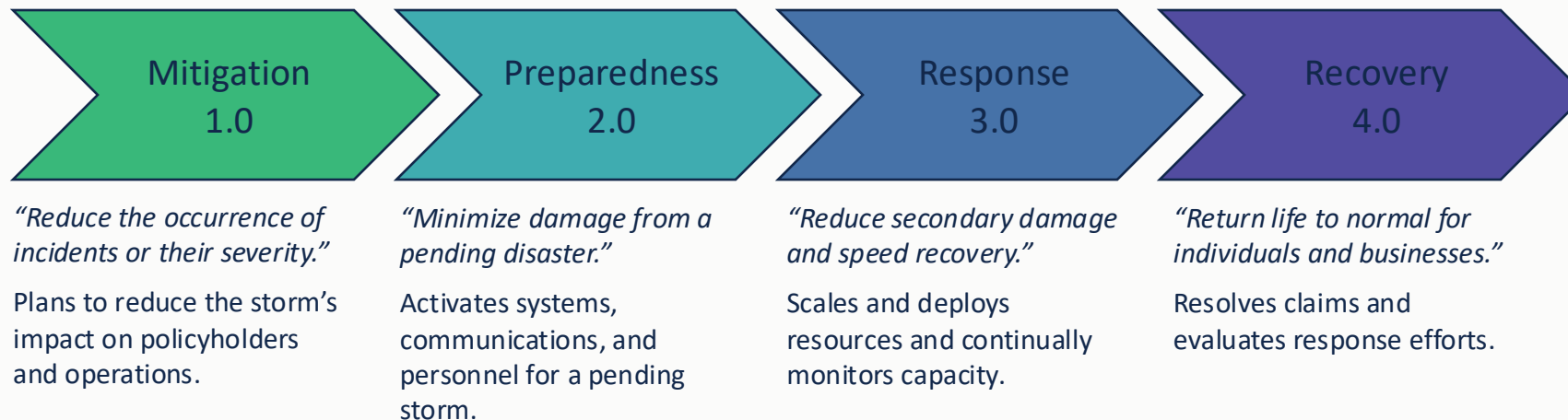


Manufactured homes:

\$116,700

Catastrophe Incident Response Plan

- TWIA's Catastrophe (CAT) Incident Response Plan is a continuously improved document describing the activities the Association will conduct in preparation for and in response to a catastrophic incident.
- The Association is required by statute to submit the CAT Plan to the legislature on June 1 each year, outlining how TWIA will respond to the following storm scenarios: a 1% probability event (1 in 100 year), a 2% probability event (1 in 50 year), and a 4% probability event (1 in 25 year).
- The CAT Plan is guided by principles and best practices used by FEMA and other response organizations.
- The structure is based on the four phases of a response:



Depopulation Programs

- **TWIA has two depopulation programs to help policyholders find coverage in the private insurance market**
- **Voluntary Market Depopulation Program**
 - Allows participating insurers to make offers on TWIA policies one at a time at policy renewal
 - 4,536 Policies Bound through the Voluntary Program
- **Assumption Reinsurance Depopulation Program**
 - Allows participating insurers to assume large numbers of TWIA policies at one time (program repeats annually)
 - Completed 6 program rounds from 2016 to 2023, resulting in the takeout of more than 16,000 policies
 - No Rounds 7 or 8 because of lack of insurer interest in the program

Assumption Reinsurance Depopulation Program						
Program Year	2016-2017	2017-2018	2018-2019	2019-2020	2021-2022	2022-2023
Participating Carriers	4	3	2	2	1	1
Policies Selected by Carrier	102,171	109,356	75,039	64,380	32,318	31,959
Agent-Approved Offers	18,047	3,091	3,552	1,866	210	79
Policies Assumed	11,164	1,634	2,093	1,009	125	57

Your Role as a TWIA Board Member



TWIA Board Composition

Composed of nine unpaid, volunteer members appointed by the Commissioner of Insurance:

- Three members representing the insurance industry who actively write and renew windstorm and hail insurance in the first-tier coastal counties
- Three members who reside in the first tier coastal counties
- Three members who reside more than 100 miles inland from the Texas coastline

- The Board is “**responsible and accountable to the commissioner**”
- Board members **must have demonstrated experience** in insurance, general business, or actuarial principles sufficient to make the success of the Association probable
- Members of the Board **serve three-year staggered terms** not to exceed a consecutive period of nine years

Objectives of the Board

Texas Insurance Code, Chapter 2210 sets forth the primary objectives of the Board which ensure the Board and TWIA:

1. Operate in accordance with this chapter [Chapter 2210], 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.



Chapter 2210 requires TWIA to submit an Annual Report to the Texas Legislature and Insurance Commissioner on June 1 evaluating the extent to which the Board met its objectives in the preceding year.

Board Officers

- The Board is required by the Plan of Operation to elect from among its members a Chair, a Vice Chair, and a Secretary-Treasurer
- The **Executive Committee of the Board** is composed of these officers; the Board may choose to add a fourth non-officer member to the committee
 - The Executive Committee exercises powers delegated by the TWIA Board in the management of the Association
 - The Executive Committee customarily meets only to carry out specific tasks assigned by the full Board

Other Board Committees

- Committees may include Board and non-Board member representatives
- The **Actuarial & Underwriting Committee** makes recommendations to the Board on rate filings, reinsurance needs, premium credits, and related issues
 - Customarily meets to consider TWIA's annual catastrophe funding needs and prior to the August Board meeting to consider TWIA's annual mandatory rate filing
- The **Legislative & External Affairs Committee** customarily meets in the summer of even-numbered years to develop legislative recommendations to the Board for a Biennial Report to the Texas Legislature

Standards of Conduct

- Board members must disclose on a form submitted to TWIA any financial or personal relationships that constitute potential conflicts of interest.
- Board members may not accept or solicit gifts or services that might tend to influence a person in the discharge of duties related to TWIA.
- Board members may not invest, accept employment, or engage in business activities that might constitute a conflict of interest or otherwise jeopardize confidential information acquired through the member's role with TWIA.
- Board members who violate these statutes are subject to any applicable civil or criminal penalties.
- Board members may not appoint, employ, or contract with family members for TWIA business.



Appendix B
Annual Relationship Disclosure

The Association Ethics Policy requires the disclosure of certain relationships. This disclosure is required at the time of onboarding and annually thereafter. This disclosure should be updated when you become aware of any relationship requiring disclosure. At minimum, all individuals subject to this Policy must complete this form and submit the form to the Compliance Department annually.

Please read the list below and confirm whether you have relationships to disclose:

1. any previous, current, or future business or personal relationship between you or any member of your family and any third party who has, had, or may have a financial interest in the operations of the Association;

Appendix C
Gift Disclosure Form

Return completed forms to the Compliance Department in person or via compliance@twia.org.

Association Employee Name: _____
Date: _____

Accepting Gifts of \$50 or Less

Gift (services, entertainment, favors, mementos, awards, food, or other items of value) of \$50 or less in value, not to exceed \$250 per vendor per calendar year per recipient, may be accepted and must be disclosed. Note that gifts of \$50 or less in value that are rejected do not need to be disclosed.

Date: _____
Gift Description: _____
Approximate Value: _____
Name of Individual(s) Providing Gift: _____
Entity Associated with Individual(s): _____

Rejecting and Disclosing Gifts Exceeding \$50 or of Monetary Value

Gifts of more than \$50 must be rejected; additionally, the following must be rejected and disclosed: any gifts presented to you that are more than \$50 in value, and any gift of any value in the form of cash, checks, loans, gift cards or negotiable instruments.

Date: _____
Gift Description: _____
Approximate Value: _____
Name of Individual(s) Providing Gift: _____
Entity Associated with Individual(s): _____

Pg 20 Ethics Policy
Effective: 6/1/21

Conflicts of Interest

- Texas Insurance Code, Chapter 2210 requires Board members to disclose potential conflicts publicly in open meetings or on the agenda for closed session items.
- Public representative (non-industry) board members and their spouses:
 - may not be employed in the property and casualty insurance business;
 - may not receive money from the Association other than claim payments;
 - may not receive money from a TWIA policyholder with respect to that policyholder's claim;
 - may not own more than 10 percent of a business engaged in the above.



Rulemaking Authority & Plan of Operation

- TWIA's Plan of Operation, an administrative rule, is codified in Chapter 28 of the Texas Administrative Code.
- The Board may recommend changes to the Plan of Operation, and the Association may propose rules for the Insurance Commissioner to adopt.
- Chapter 2210 addresses the Board's rulemaking authority:
 - "With the advice of the board the commissioner by rule shall adopt the plan of operation to provide Texas windstorm and hail insurance in a catastrophe area."
 - The Board may recommend changes to the Plan of Operation. The changes may be presented at a periodic hearing conducted by TDI for that purpose or at a hearing relating to property and casualty insurance rates.
 - The Association is authorized to propose rules for adoption by the Commissioner.
 - The Commissioner must initiate a rulemaking proceeding no later than 30 days after receiving the proposed rule.
 - The Association can request a public hearing in connection with a proposed rule.

Open Records

- TWIA is subject to the Texas Public Information Act.
- Information collected, assembled, or maintained by or for TWIA is generally public unless it is exempted from disclosure by law.
- TWIA receives requests for public information, which are processed by staff in accordance with the Act.
- If the information requested is or may be subject to an exemption from disclosure, counsel is consulted regarding how best to proceed.
- Written communications by Board members concerning TWIA issues are subject to disclosure.

Open Meetings

- The Board holds regular quarterly meetings to conduct its routine business; interim meetings are held as needed.
- TWIA Board and committee meetings are open to the public (except Executive Sessions) and subject to notice requirements regarding meeting time, place and subject matter to be considered under Chapter 2210 and the Texas Open Meetings Act.
 - Meetings are required to be broadcast live over the internet.
 - Statute permits teleconference meetings.
 - TWIA meetings are conducted in compliance with the association's anti-trust policy.

Rights and...

- Each TWIA Board member has the right to access TWIA management personnel, books, records, and facilities.
- Each Board member has access to Board meeting minutes for the purpose of information and the right of objection if a Board member does not believe the minutes properly reflect what transpired at the meeting.
- All Board members will be given notice of Board meetings and can request that any issue of concern be placed on the agenda.
- Each Board member has the right to dissent and to have their dissent be heard.

Duties

- Corporate directors have common law duties of loyalty and care.
- TWIA's statute does not expressly mention these duties by name, but it does provide for specific standards of conduct that effectively codify the duties in statute.
- The primary objectives in statute (see "Objectives of the Board") create duties that are equivalent to the common law duty of care.
- The duty of care has been summarized by the American Bar Association's Nonprofit Organizations Committee as requiring directors to:
"Act in a reasonable and informed manner when participating in the board's decisions and its oversight of the organization's management."
- This duty generally requires each board member to attend meetings, review materials provided by staff, exercise independent judgment, and ask questions or request further information as needed regarding the organization.

Limitations on Liability, Indemnity Rights, and Insurance

- Specific provisions of Chapter 2210 and the Plan of Operation limit the liability of TWIA Board members and provide broad indemnification.
- There are exceptions to this protection in circumstances involving bad faith, intentional misconduct, or gross negligence.
- TWIA has insurance to protect Board members in the event the Association fails to provide the required indemnity protection.

Suggestions* to Avoid Fiduciary Duty Breach Problems:

- Purchase directors and officers liability insurance (TWIA has this coverage)
- Regularly attend Board meetings
- Review information provided by TWIA staff and consultants
- Actively participate in Board meetings by asking questions and deliberating with other Board members
- Seek advice of consultants and committees

*Adapted from the Guidebook for Directors of Nonprofit Corporations, Third Edition, Chapter 2: Duties and Rights of Nonprofit Corporation Directors.

Functions of the Association

TWIA's Leadership Structure



Accounting & Finance

Department Functions

Accounting & Reporting
Accounts Receivable
Accounts Payable
Payroll Processing
Budgeting
Risk Management
Treasury Management

Board Reporting

Monthly Budget-to-Actuals Reports
Quarterly Board Financial Schedules
Annual Financial Budget
Quarterly & Annual Statutory Statements
Receipt of Unqualified Opinion on Annual Independent CPA Audit



Stuart Harbour, Chief Financial Officer

Actuarial & Enterprise Analytics

Department Functions

- Catastrophe Modeling
- Rate Adequacy Analysis
- Reserve Adequacy
- Member Company Percentage of Participation
- Risk Analysis

Board Reporting

- Catastrophe Modeling Output
- Reinsurance Programs Placement
- Rate Adequacy & Annual Filing
- Loss Reserve Adequacy
- Annual Statement of Actuarial Opinion
- Maximum Limits of Liability Review
- Policy Counts & Exposures



*Jim Murphy, Chief Actuary &
Vice President of Enterprise Analytics*



TEXAS WINDSTORM
INSURANCE ASSOCIATION

Claims

Department Functions

Daily Claims Operations
Catastrophe Claims Operations
Continuity of Operations (COOP)
Business Continuity Planning (BCP)

Board Reporting

Key Claims Performance Metrics
Historical Claim Volume
Claim Severity
Disputed Claims
Storm Reporting



Dave Williams, Vice President of Claims

Information Technology

Department Functions

- Program Management
- Software/Product Development
- Systems & Production Support
- IT Infrastructure Services
- Data Governance & Reporting
- Quality Assurance
- IT Architecture & Strategy
- Cyber Security

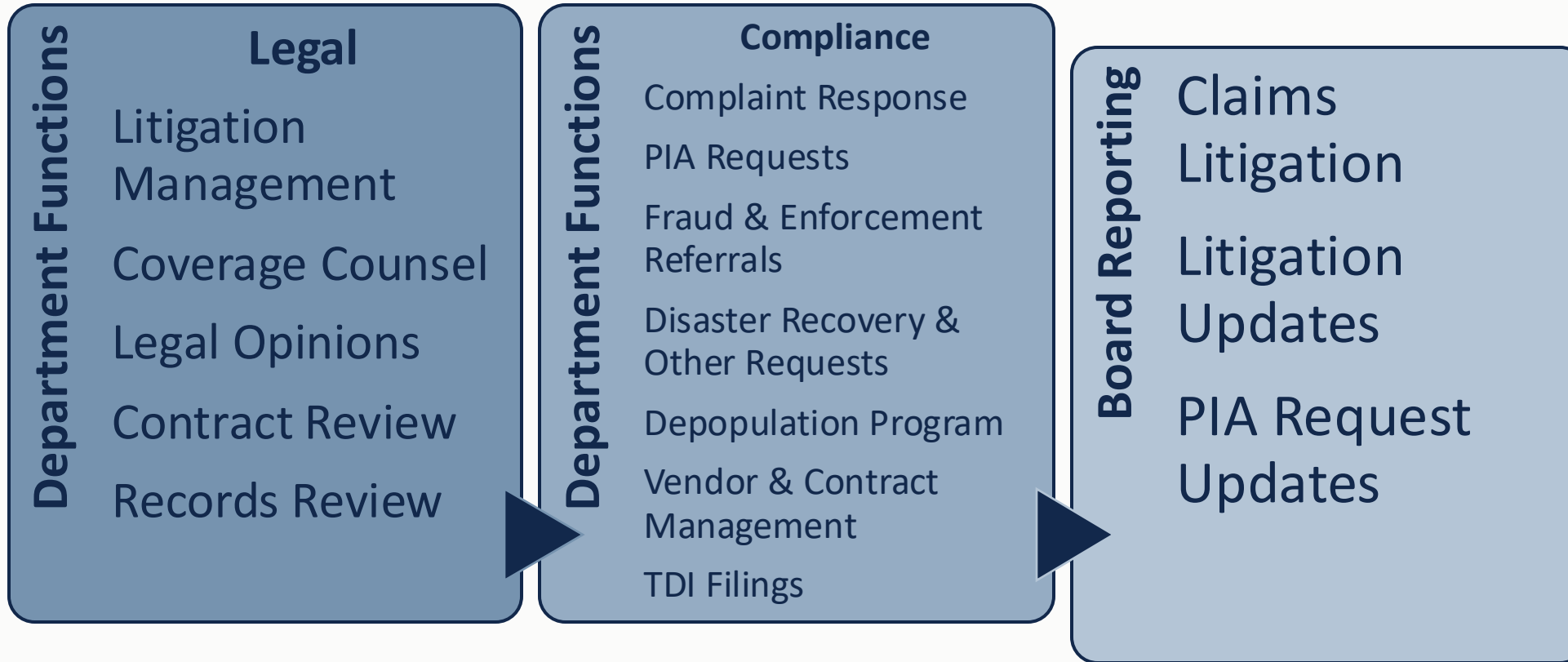
Board Reporting

- Quarterly IT Project Updates
- Infrastructure Services & Cyber Security Updates



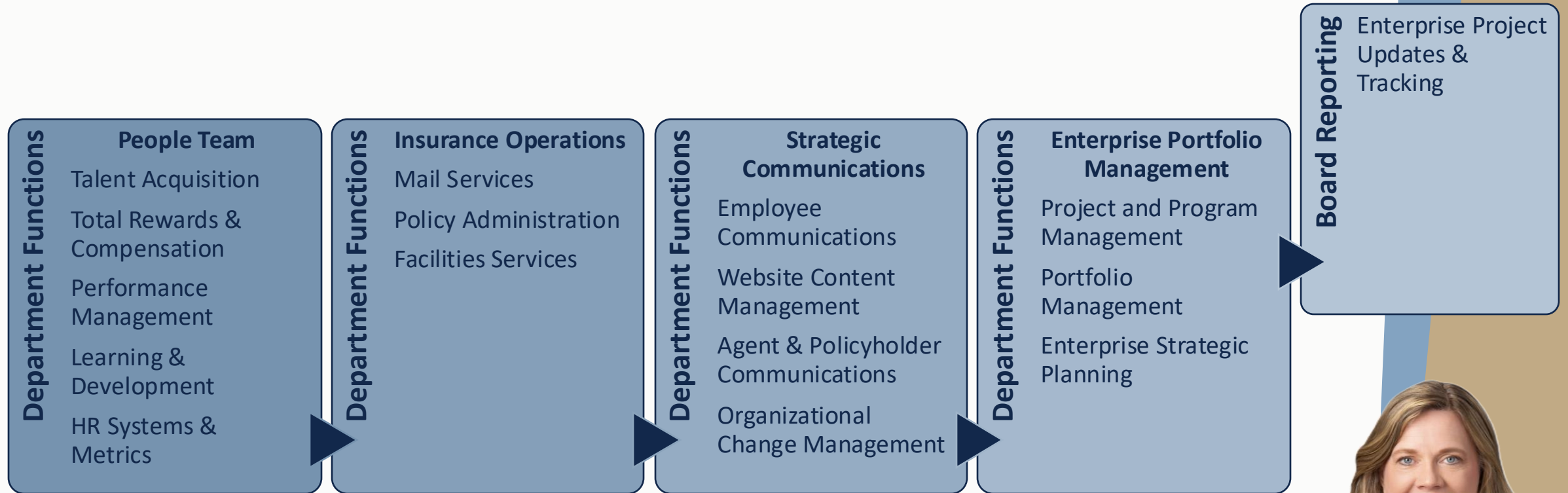
Michael Eleftheriadis, Interim Vice President of Information Technology

Legal & Compliance



Jessica Crass, Vice President of Legal & Compliance

People & Business Operations



*Michelle Friesenhahn, Vice President of
People & Business Operations*

Underwriting

Department Functions

- Policy Application Processing & Issuance
- Policy Services
- Policyholder Support
- Agent Training & Support
- Agent Compliance

Board Reporting

- Policy Transaction Metrics
- Customer Service Metrics
- Agency Compliance



Michael Ledwik, Vice President of Underwriting

Internal Audit

Department Functions

Risk Identification
and Assessment

Independent and
Objective
Assurance

Consulting Services

Audit Association
Operations

Board Reporting

Status of Internal
Audit Activities

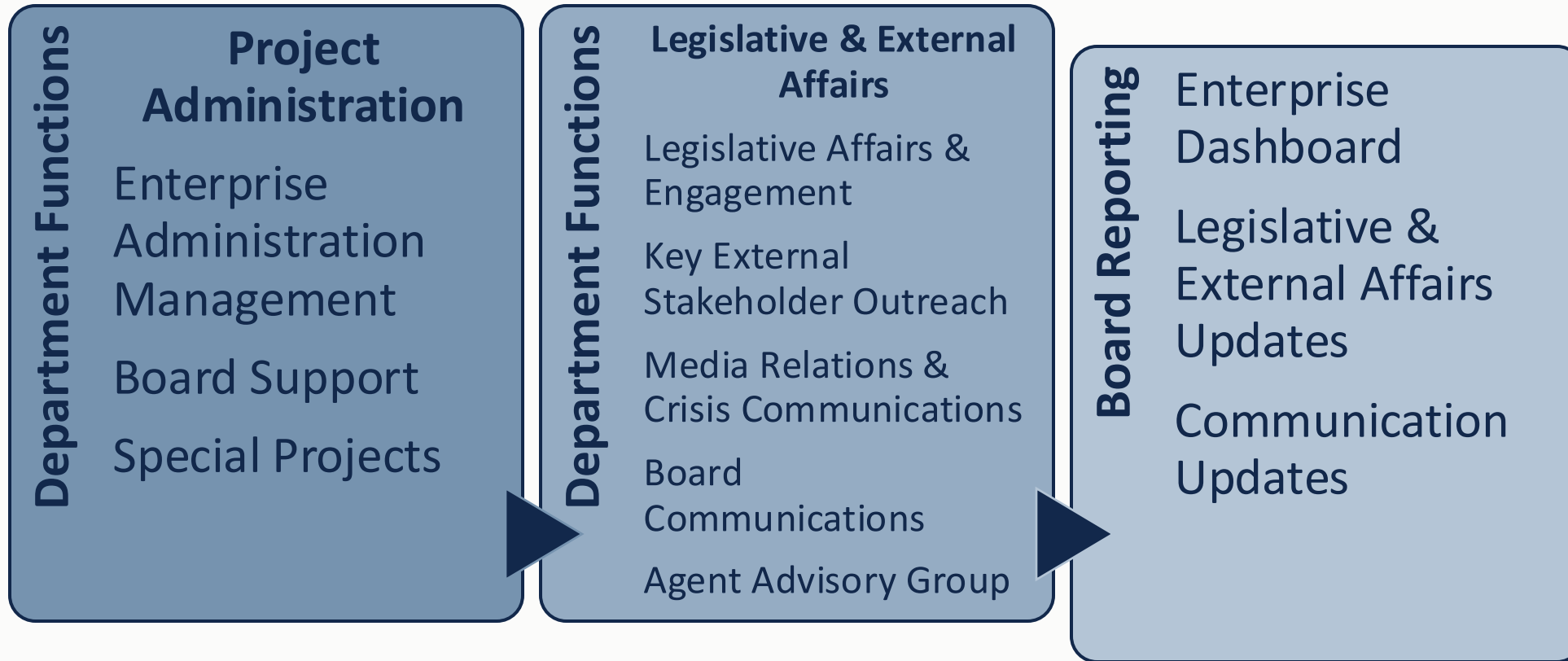
Annual Audit Plan

Reports on Audits
and Consulting
Procedures



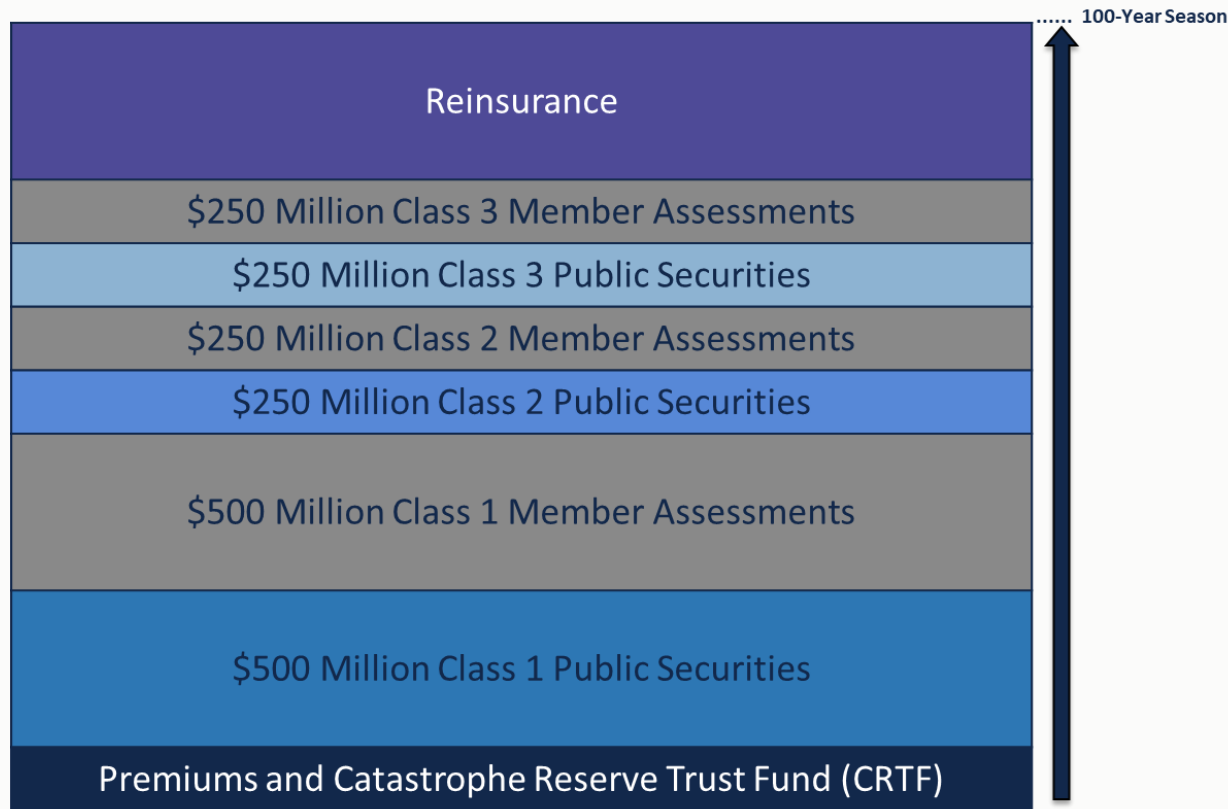
Dan Graves, Weaver and Tidwell

Executive



David Durden, General Manager

Board Meeting Activities & Issues



First Quarter Meeting

- The Board is asked to approve the funding budget for the upcoming hurricane season, including authorizing the purchase of a proposed amount of reinsurance coverage sufficient to achieve the Association's minimum required level of funding and expected loss adjustment expense.
- The Board may direct the Actuarial & Underwriting Committee to meet and make a funding recommendation before the Board makes its funding decision.

Independent Financial Audit

TWIA engages an independent public accounting firm to conduct an audit of its annual financial statements.

The Board is asked to acknowledge review of the audit and accept the report produced by the audit firm.

Most recent audit results by Calhoun, Thompson + Matza, LLP:

"[A]ccounting 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... statutory financial statements."



Second Quarter Meeting

Investment Plan Review

- The Board reviews the adequacy and implementation of the Association's investment plan in the Statement of Investment Objectives and Guidelines.
- The Board is asked to acknowledge the review and may accept or modify staff's recommended investment plan.

Line of Credit for Public Securities

- Staff seeks the Board's approval annually to secure a \$500 million line of credit to provide immediate funding for the payment of catastrophic losses as a less expensive alternative to the issuance of pre-event bonds.

Third Quarter Meeting

- **Annual Rate Filing:** The Board makes its annual rate filing decision ahead of the August 15 statutory deadline.
 - The Board will receive a rate filing recommendation from the Actuarial & Underwriting Committee, which meets before the third quarter meeting.
- **Maximum Limits of Liability Filing:** The Board reviews and takes action on staff analysis proposing inflation adjustments to the maximum liability limits under a windstorm and hail policy.
- **Annual Appointment of Independent Financial Auditor:** The Board is asked to approve the appointment of an independent public accounting firm recommended by staff to audit the company's annual financial statements.
- **Annual Investment of Excess Trust Fund Balances:** The Association is required to inform the Comptroller of Public Accounts of a balance sufficient to meet the CRTF's cash flow requirements in the case of a catastrophe.
 - The Board is asked to determine whether the current CRTF balance meets these requirements and approve a communication to the Comptroller of this determination.

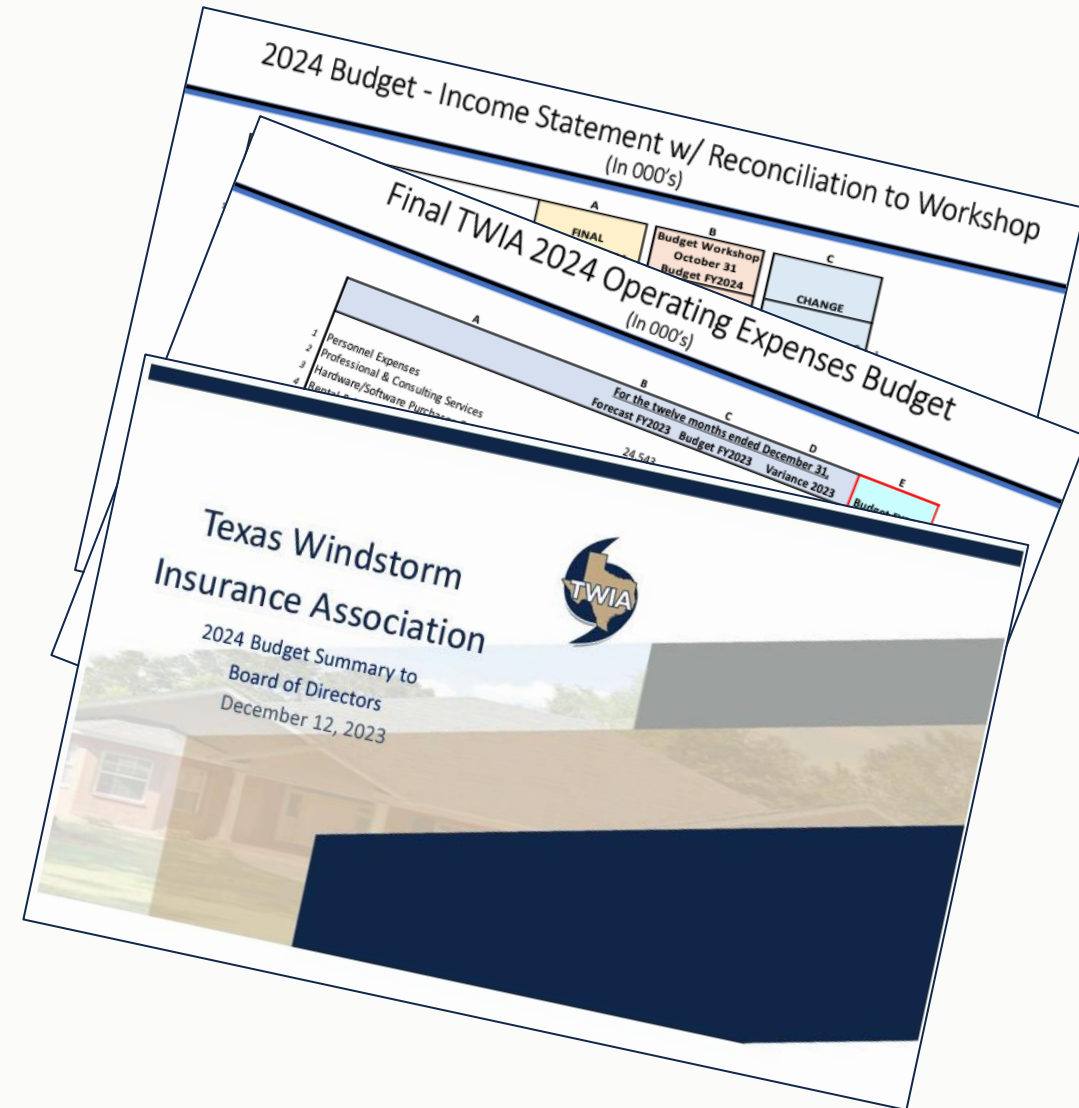
Fourth Quarter Meeting

Budget Approval and Financial Operations:

- The Board is presented with a proposed annual budget for the Association for approval.
- The Board typically holds an interim meeting to receive a budget preview and provide initial guidance to staff ahead of the fourth quarter meeting.

General Manager and Annual Evaluation of Association Management:

- Historically, the Board selects the General Manager, who hires subordinate staff and oversees day-to-day Association operations.
- The Board completes an annual evaluation of the General Manager at the fourth quarter meeting.



Other Board Meeting Topics

Biennial Report to the Legislature:

- TWIA is required by law to submit a report recommending legislative changes every two years before the convening of each regular Legislative Session.
- The Board customarily directs its Legislative & External Affairs committee to deliberate and identify potential legislative recommendations for the Board's approval to satisfy this statutory requirement.

Reinsurance Broker and Catastrophe Modeling Vendor:

- Legislation enacted in 2021 prohibits the Association from receiving catastrophe modeling services from its reinsurance broker.
- TWIA currently uses Gallagher Re as its reinsurance broker and Aon to provide catastrophe modeling services.
- TWIA issues an RFP approximately every five years for these services and provides submissions to the Board for review and selection.

Other Board Meeting Topics

Potential Catastrophe Funding Issues:

- **Public Security Issuance & Member Company Assessments:** Staff may need to seek the Board's approval to request the issuance of public securities and/or the assessment of member companies to pay catastrophic losses.
- **Policyholder and Contingent Surcharges:** Staff may need to seek the Board's approval to surcharge TWIA policyholders and/or coastal policyholders to repay issued public securities used for the payment of catastrophic losses.

Interim Meetings

The Board may choose to hold interim (non-quarterly) meetings at any time with sufficient notice.

Past interim meetings include:

- A workshop to review TWIA's rates, rate-making process, and ideas for improving TWIA's rate adequacy
- Annual meetings to preview staff's proposed budget
- Updates from the Association's reinsurance broker related to the Board's reinsurance purchase decision
- A briefing on the impact of insurance carrier insolvencies on TWIA
- Selection of the new General Manager

Other Reporting to the Board

Association staff provide monthly and ad hoc reporting to the Board via email on a variety of operational activities, including:

- Follow-up on Board meeting action items
- Legislative and regulatory activities
- Major projects and initiatives
- Response to storm events
- Monthly operational metrics

Staff also sends the Board weekly emails summarizing and providing full copies of articles that mention the Association or that may be of interest to the Board.



Monthly TWIA Board Update: September 2024

Greetings:

Please find an update on TWIA's latest activities with operational metrics covering the most recently available data from August 2024.

TWIA Board of Directors Meeting Action Items & Updates

TDI Consideration of TWIA Rate Filing

As we **shared with you last month**, TDI held public meetings on TWIA's rate filing this week in Galveston and Corpus Christi. I attended both meetings. Comments from elected officials and members of the public who attended the meetings were similar to those given at the August TWIA Board meeting. Chandra Franklin Womack provided public comment at the Galveston meeting. We expect to receive approval or disapproval of the rate filing by October 15 as required by statute.

Maximum Limits of Liability Filing

TDI will hold a hearing on TWIA's maximum limits of liability filing on Monday, September 30. Jessica Crass, Vice President of Legal & Compliance, will attend the hearing. The **filing is available on TDI's website**.

Storm Updates

TWIA implemented a policy moratorium on the morning of Wednesday, September 25, due to Hurricane Helene's presence in the Gulf of Mexico. The moratorium was lifted at 12:01 a.m. the following day.

TWIA continues to receive claims from Hurricane Beryl at a slower pace. Here is the latest **Hurricane Beryl Storm Report** with data updated as of today, September 27.

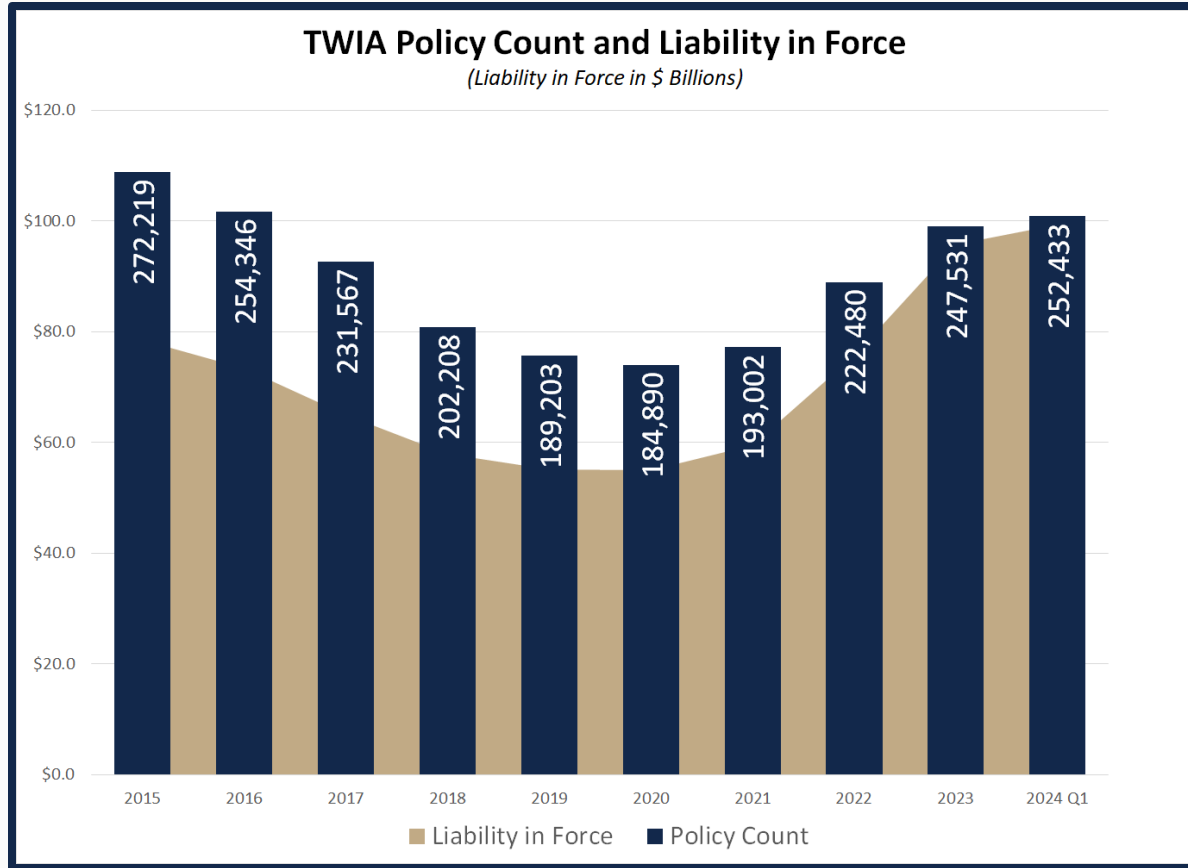
- 30,876 total TWIA claims to date.
- \$245.1 million paid indemnity; \$389.8 million total incurred.
- \$13,043 average claim payment.

The Association's actuarial team has updated our TWIA ultimate loss and loss adjustment expense estimate for Beryl to \$425 million.

Current & Upcoming Issues

TWIA Fast Facts

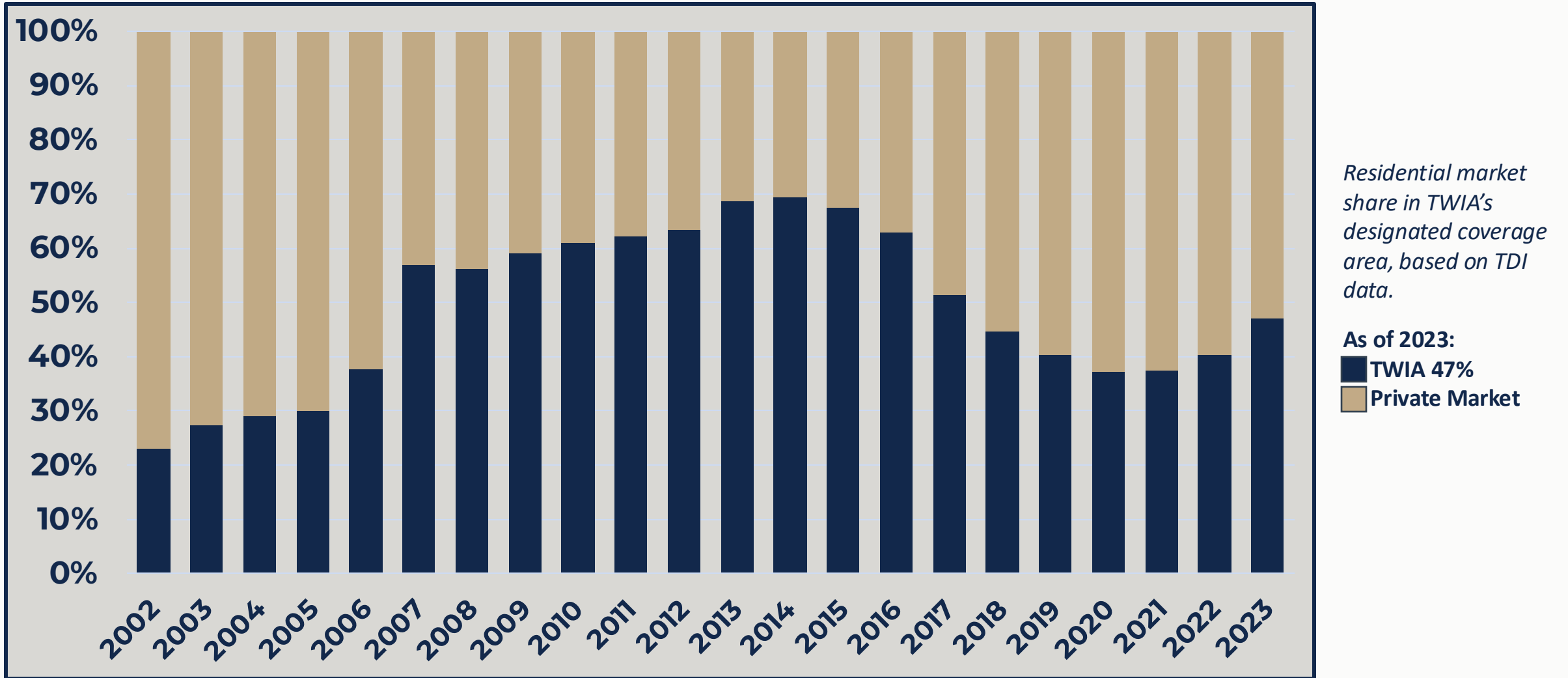
- As of September 30, 2024, TWIA insures 269,152 coastal properties.
- TWIA's total insured value is approximately \$110.7 billion (insured building and contents coverage).
- TWIA expects to collect more than \$758 million in premiums in 2024.
- The Association currently has 231 employees and 324 contractors.
- Comparing operating costs as a % of premium:
TWIA: 5.8% | TX Private Market: 11% | 36 Residual Market Plans: 36%
- TWIA is the largest residential allied lines writer and has the 2nd most policies in force of the 36 residual market plans behind Citizens of Florida.



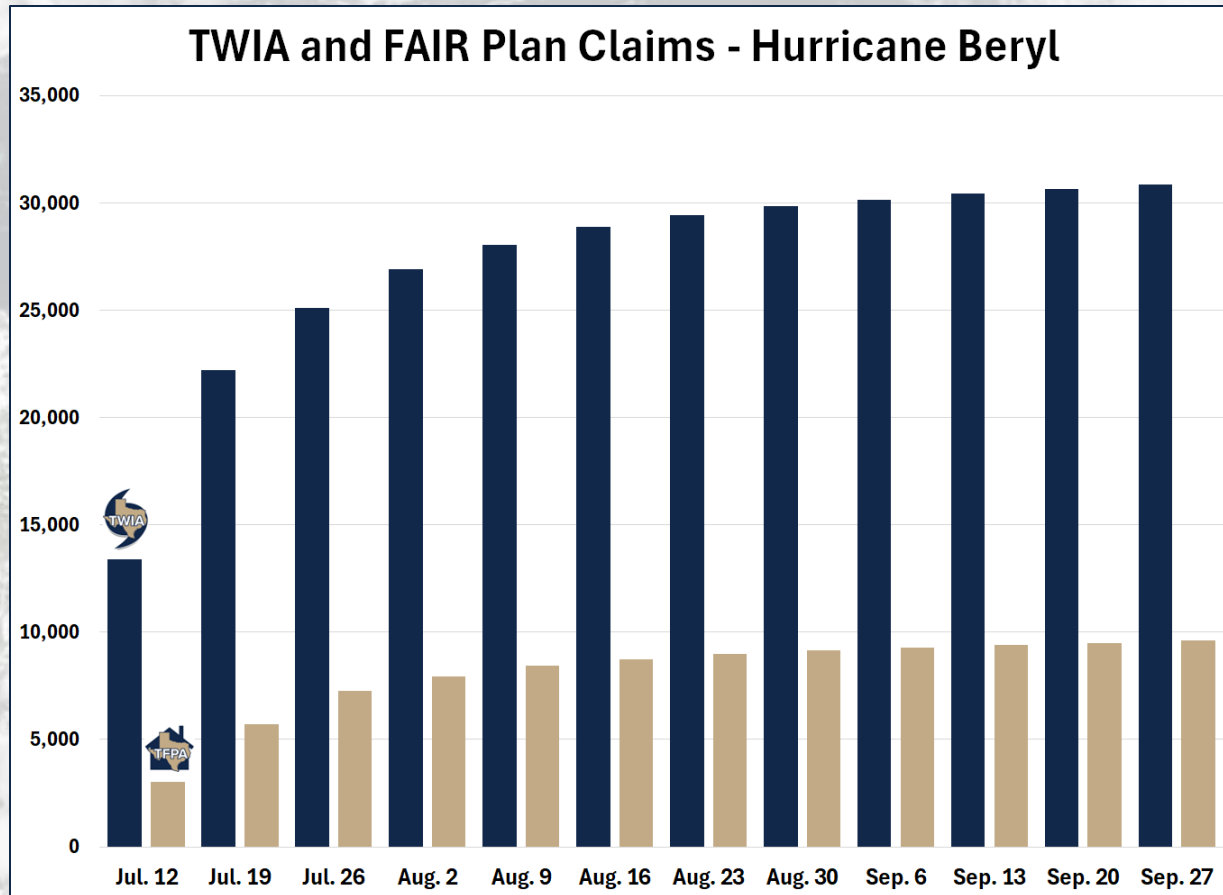
Policy Count & Exposure Growth

- TWIA's policy count began rising in 2021 for the first time since 2014, suggesting private market coverage is becoming more difficult to obtain.
- TWIA added 25,000 policies from 2022-2023 with exposures increasing by approximately 27%.

Market Share: TWIA vs. Private Market

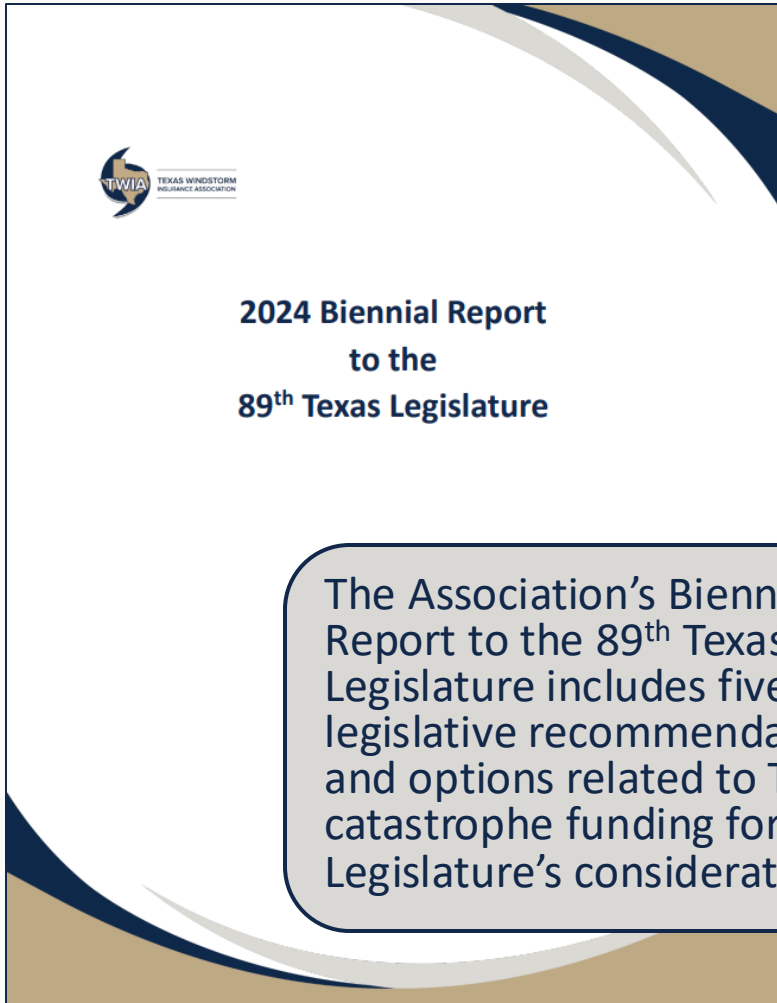


Hurricane Beryl



- TWIA activated the Association's CAT Plan in response to Hurricane Beryl, which impacted the Texas coast July 7-9.
- Brazoria, Galveston, and Matagorda Counties received the most TWIA claims from the storm.
- As of November 1, TWIA has received 31,468 claims and made \$275.4 M in claim payments.
- TWIA expects to use all of the available amount in the Catastrophe Reserve Trust Fund to cover losses from Hurricane Beryl.

Biennial Report to the 89th Texas Legislature



2024 Biennial Report to the 89th Texas Legislature

The Association's Biennial Report to the 89th Texas Legislature includes five legislative recommendations and options related to TWIA catastrophe funding for the Legislature's consideration.

Topic	Description
Multidistrict Litigation	Eliminate or make optional TIC Section 2210.575(e) requiring actions against the Association be presided over by a judge appointed by the judicial panel on multidistrict litigation.
Premiums Used to Pay Losses	Revise TIC Section 2210.071 prohibiting the use of current year premiums to pay losses occurring in prior years.
FORTIFIED Home Construction	Consider the feasibility and possible public funding of FORTIFIED home construction and other mitigation programs.
Premium & Maintenance Tax	Exempt TWIA from premium and maintenance taxes.
Premium Financing	Prohibit the use of premium financing for the payment of premiums.
Public Security Funding	Provides options to address concerns with the issuance of public securities in TWIA's funding structure.
Reinsurance Funding	Provides options to reduce the Association's reliance on reinsurance.



- **The 89th Legislative, Regular Session will convene on January 14, 2025.**
- During the legislative session, TWIA staff, including the General Manager:
 - Meet with key legislative offices to provide information about the Association and the Board's Biennial Report recommendations
 - Provide requested information on filed bills related to the Association
 - Attend and participate, as requested, in Committee hearings

TWIA staff closely track, summarize, and analyze legislation filed related to the Association.

The Board will receive regular communications about the status of bills filed in the legislative session. and TWIA's implementation of law changes passed by the Legislature.

Legislative Committees

- The **Senate Business & Commerce Committee** (11 members) and **House Insurance Committee** (9 members) have historically had jurisdiction over insurance-related legislation.
 - TWIA staff meet with and respond to inquiries from the Committee members during and in the interim between sessions.
 - The Committees may ask TWIA representatives to testify before or act as a resource about Association operations, relevant legislation, and interim charges.
- The Lt. Governor assigned interim charges on insurance affordability to the Senate Business & Commerce Committee.
- The Speaker tasked the **House State Affairs Committee** with evaluating insurance affordability and TWIA funding in the interim.



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